



BANGLADESH A VIBRANT ECONOMY



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Executive Summary

BANGLADESH'S UNEQUIVOCAL position for peace, harmony and regional stability together with the determined policy for economic cooperation and development through international as well as regional trade have helped the country achieve and retain this impressive economic status. Despite all odds at the nation remains resilient and continued on with its economic growth trajectory, recording an impressive GDP growth rate in 2016. On the whole, the size of the economy grew larger as the garment industry expanded at a rapid pace, expansion in the export industry and the foreign exchange reserves mark record increase.

Garment exports, the backbone of Bangladesh's industrial sector, accounted for more than 80 per cent of total exports while the sector continues to grow. Other key sectors include pharmaceuticals, ceramics, leather goods, and electronics and light and medium industries. It is also a major emerging destination of global IT outsourcing and a globally acknowledged builder of ocean-going vessels. The growth has been nurtured and sustained by adoption of newer technologies keeping pace with outside world. In Bangladesh, a strong middle class is gradually forming which according to some estimates is close to 18 per cent of the population or about 30 million. Higher income level among the common people led to a growth in the domestic demand which was is a key driver of economic activity.

Maintaining past growth performance is absolutely crucial, but is predicted to become increasingly challenging over the medium term. Steady monetary policy management and fiscal discipline have delivered the macroeconomic stability that allowed the economy to benefit from a favorable external demand, high investments and low commodity prices. The result has been strong output growth, falling inflation, moderate public debt, and a rebuilding of external resilience. This solid economic performance is set to continue this fiscal year, with output growth projected to remain close to current levels and inflation broadly in line with Bangladesh Bank's target.

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Overcoming all obstacles and barriers Bangladesh is now on the highway of development. Bangladesh is now a universal model of development. Bangladesh is one the fast growing economies and the World Bank is projecting Bangladesh's success in rapid reduction of poverty.

HONORABLE PRIME MINISTER OF BANGLADESH

SHEIKH HASINA

Introduction

AS AN EMERGING trading nation, Bangladesh sustained the global growth momentum while its economy remained resilient and vibrant amidst various political disturbance or natural disasters. The growth performance has remained stable, while maintaining a strong demand for commodities in the international market, boosting export growth and attracting an increasing volume of foreign investment. The relative stability in the national growth is also attributable to the fact that the country managed to implement effective countercyclical, fiscal and monetary measures.

Bangladesh has come a long way, being labeled a role model for fighting poverty, empowering women and disaster management from earning the title of a 'basket case' after liberation war in 1971 that lefts its economy ravaged. From being an agrarian economy in the 1970s, the country has now flourished with export-oriented industrialization. It is now the second largest exporter of ready-made garments in the world with over 50 percent of the Gross Domestic Product (GDP) generated through the service sector.

The nation has made commendable progress over the past 40 years in achieving food security despite frequent natural disasters and population growth. Bangladesh's agricultural sector has benefited from a sound and consistent policy framework backed up by substantial public investments in technology, rural infrastructure and human capital. It had also met most targets of the Millennium Development Goals (MDGs) in the areas of health and education and shown commendable progress in the Sustainable Development Goals (SDG).

Bangladesh has become an example of growth, progress and development for the emerging economies. With a continued average economic growth of over 6 per cent during the last 10 years and despite various challenges faced as a developing country, Bangladesh now proudly stands as an emerging trade and investment destination in South Asia. The steady growth in export business, hard-working labour force and committed entrepreneurs supported by the pro-business, pro-investment policies are leading Bangladesh towards the line of global business competency.

The present government under the visionary leadership of Prime Minister Sheikh Hasina has adopted a long-term perspective plan and has been working hard to transform Bangladesh into a knowledge based middle-income economy by 2021. Bangladesh aspires to become a developed country by 2041 and thus realise the dream of the Father of the Nation Bangabandhu Sheikh Mujibur Rahman to build a *Sonar Bangla* or Golden Bengal.

BANGLADESH is one of the most promising economies in its region. Though rated as a lower middle-income nation by international actors, it has all the potential to make it big. With a booming population of more than 160 million, it offers a great market to the region and beyond in terms of investment, productivity and consumption. Today, the size of its economy is to the tune of \$180 billion, with a per capita income of \$1,286 as of the year 2016 estimates. Moreover, its competitive index ranks the South Asian country at 107 among the comity of nations.

Russia, China, Japan and the European Union pumped in billions of dollars, and have projects on ground on a turnkey basis in the fields of oil and gas, power generation and communications among others. Nonetheless, during the last 10 years multilateral institutions such as the Asian Development Bank, the World Bank and the International Monetary Fund (IMF) have upped their aid, indicating their confidence in the economy.

Bangladesh is the 44th largest economy and 32nd in terms of purchasing power parity and the second largest economy after India among SAARC countries. The country's economic progress has been considered laudable amidst the difficult socio-political circumstances. Despite years of political instability the country witnessed soaring exports and sustained consumption patterns.

The government's interest in human development has picked up in the last three decades, and budget allocations for health, education and infrastructure development are sizeable. Bank and services sector have a greater scope in economy, especially with the rise of the middle class. Bangladesh youth are known for their entrepreneur and scholarly skills, and open-heartedly welcome dissent. This has been one of the major factors for the opening up of economy to the outside world. However, progress on export development and market diversification remains slow.

Bangladeshis are gainfully employed in many of the modern economies, including the US, Canada, European Union and the Middle East. The expatriates have made a mark for themselves by their zealous hard work and commitment in many trades, especially the hospitality industry and domestic services. Remittances to the tune of \$15 billion are an inevitable source of strength that cushions trade deficits to a great extent.





THE GROSS DOMESTIC PRODUCT (BASED ON CURRENT PRICE) OF BANGLADESH IS NOW
\$227 BILLION.

7.2
 PERCENT
 GROWTH
 TARGET
 FOR
 2016-17
 FISCAL
 YEAR

TO GRADUATE TO A **MIDDLE
 INCOME COUNTRY BY 2021**

TO TRANSFORM INTO A
DEVELOPED COUNTRY BY 2041

- **36th out of 79 developing economies** in the Inclusive Development Index
- **Second (2nd) fastest growing major economy** of 2016 according to the IMF and among the top 12 developing countries of the world that achieved over 6% growth in 2016

The country has witnessed a consistent increase in GDP per capita for the past 8 years
5.74 in 2009 to 7.05 in 2016.

\$ 34.24 billion export income in FY 2015-16
 The highest ever in the history of the nation.

Bangladesh set to become 28th largest economy by 2030



Bangladesh among three countries responsible for "the quiet rise of South Asia"

Morgan Stanley



BANGLADESH RANKS 44TH
 in the world economy in terms of GDP by The World Bank and IMF

According to the World Bank, Bangladesh GDP is expected to be
\$322 billion by 2021



GOLDMAN SACHS
 HAD TERMED BANGLADESH'S ECONOMY AS
'THE MIRACLE OF EAST'

Goldman Sachs

BANGLADESH has a liberal investment policy that allows 100 percent foreign direct investment (FDI), which is unique at a time when economies are reverting back to protectionism. Bangladesh is a developing democratic polity on the Westminster model; secular, but not a theocratic state with a moderating influence. The current macroeconomic situation in the country is, by large, stable and characterized by consistently low inflation, manageable fiscal deficit and a low account deficit. This situation is an outcome of a mixture of prudent monetary and fiscal policies and the political commitments of the government of Bangladesh (GoB). This reflects the continued high growth of exports, increased flows of remittances and foreign investments along with a moderate growth in money supply as well as that of imports.

The current policies are designed to supplement private sectors with a liberal economic approach; and is gradually transforming into a service and technology oriented economy from a predominantly assembling and manufacturing one. Bangladesh now deemed an attractive investment destination in Asia and well on its way becoming joint venture and Direct Foreign Investment (DFI) for medium and large-scale industries and enterprises, including infrastructure building.

Government has also enacted laws enabling the private investors to set up private Export Processing Zones (EPZ). The units in private EPZ now enjoys facilities similar to those in government EPZs. The Private Power Generation Policy has also been formulated paving the way for private investment in power generation for which a new Electricity Act and a regulatory commission is on their way. Private investments in gas exploration, gas development, power generation and other mining & exploration activities are also underway.



4 Bangladesh Economic Progress



4.1 Foreign Direct Investment



Bangladesh is now the second largest Foreign Direct Investment (FDI) receiver among the South Asian countries reaching over \$2 billion in 2015-16 up from \$1.83 billion in the previous fiscal year. FDI in Bangladesh averaged \$ 930.00 million from 2002 until 2015, reaching an all-time high of \$ 1834.00 million in 2015 and from record low of \$ 276.00 million in 2004. This was stated in the World Investment Report 2016 released jointly by the United Nations Conference on Trade and Development and Board of Investment, Bangladesh. According to the report, FDI in labor-intensive manufacturing, inflows to Bangladesh jumped by 44 percent to \$2.23 billion or \$684 million higher compared to \$1.55 billion of 2014-15 fiscal year. This was described as an all-time high placing Bangladesh closely behind India that received the 10th largest FDI in the world of \$44 billion in 2015.

The country's power, gas and petroleum sector have also received the highest FDI of \$574 million followed by textile and wearing with \$443 million, telecommunications with \$255 million and banking with \$310 million. In 2014, the FDI receipt of power, gas and petroleum sector was merely \$50 million in contrast. FDI in the textile and garments industries along with power remained solid and is expected to increase further in the near future. The top investing countries include USA, UK, Malaysia, Japan, Hong Kong, Singapore, Republic of Korea, France, India, Germany, China, in that order. Major oil companies e.g. Shell; UNOCAL, etc. have already invested.

4.2 Foreign Exchange Reserve

Bangladesh saw its foreign exchange reserves cross an all-time high in the nation's history crossing over \$32 billion in December 2016. This was \$31 billion in the previous fiscal year and averaged at around \$16 billion from 2008 until 2016, reaching a record low of \$7.47 billion in June of 2008. This means that the country's foreign exchange reserves have quadrupled since then. Bangladesh has come a long way from deferring its payments to the Asian Clearing Union (ACU) in 2001 for imports to avoid compromising the \$1 billion foreign exchange reserve to hitting an all-time high. The current reserves are enough to cover the country's imports for approximately nine months. Lower import of raw materials due to improved backward linkages, and less import of food for better local production helped cut import bills to boost the foreign reserves.



4.3 GDP Growth



With all economic indicators yielding positive outlook, the current fiscal year has registered an economic growth rate of 6.8 percent and is expected to reach 6.9 percent. After nearly a decade of registering 6 percent growth trap, the economy expanded more than 7 percent in last fiscal year and the gross domestic product (GDP) grew 7.11 percent, according to the Bangladesh Bureau of Statics (BBS). This was the highest ever record in the country's history. According to BBS, the total size of the GDP stood at \$1, 73,286 at the end of FY16 on June 30, 2016.

The per capita income in Bangladesh is expected to increase in 2017 by 11.39 percent to \$1,466 from \$1,316 in the previous fiscal year, according to the BBS. Bangladesh's per capita income was \$1,080 in 2014, higher than the Washington-based lender's set threshold of \$1,045. The Gross National Income (GNI) was Tk 18,314,994 million (\$2,343 million) in the previous fiscal year when the population was 159.9 million. Bangladesh was elevated from the low income status to lower middle income nation, meeting the World Bank's requirements comfortably. The development came against the backdrop of the country achieving higher per capital income amid a stable economic growth.

4.4 Export Earning

Riding on the back of higher shipments of garment items the country has seen a sharp rise in its export earnings registering 7.11 percent growth from 3.35 percent in the 2015 FY. Garment shipments, which typically account for 80 percent of the export earnings, brought home \$28.61 billion last year, up 7.89 percent year-on-year, according to data from the Export Promotion Bureau (EPB). According to a new World Bank report, Bangladesh can become an export powerhouse at the level of its East Asian neighbours by improving its business competitiveness and trade regime, which will help firms compete globally. In the first eight months (July-February) of 2016 FY, the country saw the export earnings rise by around 9 percent, over 2.35 percent more than the target, as the total exported products exceeded a whopping \$22.12 billion so far.

The country has seen a steady export growth, which is often considered to be a principal determinant of production and employment growth in an economy. It is argued that foreign currency made available through export earnings facilitates import of capital goods, which in turn increases production potential of an economy. The government has set an export target of \$ 37 billion for the current financial year with an export growth target of 8.06 percent. All the major export products saw terrific growth during this period, including readymade garments (RMG), which in the last fiscal, Bangladesh earned \$ 28.09 billion from exporting garment products against a target of \$27.37 billion.

The total export earnings, registered 4.36 percent growth to US\$ 20.11 billion during the first seven months of FY 2016-17 as compared to \$ 19.27 billion in the corresponding period of the last fiscal year. Earnings from exports of readymade garments (RMG) reached \$16.41 billion during the period, reflecting 4.14 per cent growth over that in the matching period of last fiscal. Among other major export items, earnings from leather and leather products rose by 12.18 per cent to \$ 743.77 million in the last July-January period compared to \$663.02 million in the same period of last fiscal. Jute and jute goods fetched \$563.98 million in the first seven months of this fiscal, reflecting 14.05 per cent rise over that in the matching period of last fiscal. Export receipts from frozen and live fish came to \$329.15 million and agricultural products increased by 1.91 per cent to \$308.14 million over the corresponding period of last fiscal. Furthermore, under the Seventh Five Year Plan 2016-2020, the government aims to increase export earnings of more than to more than \$54 billion.





BANGLADESH'S
EXPORT EARNINGS ARE
EXPECTED TO CROSS
\$60 BILLION BY 2021



FY 2016-17
EXPORT TARGET OF
\$37 BILLION
EXPORT
GROWTH TARGET
OF **8.06%**



EXPORT EARNINGS -
\$14 BILLION IN 2009
TO
\$34 BILLION IN 2016

EXPORTS REGISTERED
7.11% GROWTH
IN **2016** TO
\$34.93 BILLION



4.5 Low Inflation

Bangladesh is now seeing the lowest inflation in a decade. General inflation, measured by the point to point variation in the Consumer Price Index (CPI), stood at 5.31 in February 2017. The general point-to-point inflation rate in February last year was 5.62 per cent and 5.4 per cent in July 2016.

The average year-to-year rate of inflation from March 2016 to February 2017 also declined to 5.41 per cent, which was 6.15 per cent from March 2015 to February 2016. Average inflation was 5.92 per cent in the previous financial year that ended in June 2016, the lowest in 12 years, largely due to a sharp drop in global commodity prices and good farm output. The government aims to hold inflation at 5.80 per cent this financial year.

Early this year, the central bank kept its key policy interest rates unchanged, citing overall macroeconomic stability and a steady inflation outlook. In January 2016, the central bank cut its key interest rate by half a percentage point, for the first time in nearly three years, as easing inflation gave it room to help spur economic growth.





4.6 Remittance

The remittance increased to a little over \$1 billion in January 2017 but dropped again in February. The amount of remittance Bangladesh received in February last year was more than \$1.13 billion. The amount received the same month this year is 17.6 percent less than that of last year's February. The remittance received in the first eight months (July-February) of the fiscal year also dropped by 17 percent. The expatriates remitted \$8.11 billion in the period this financial year, a drop from \$9.77 billion the same period in the last fiscal. In 2016, the expatriates sent home \$13.61 million in 2016, which is 11.16 percent less than \$15.32 billion of 2015. Bangladesh saw the downward trend in remittance for the first time in 2013. The expatriates sent \$13.83 billion that year, a 2.39 percent drop from 2012. The flow of remittance grew by 7.88 percent in 2014. The amount was \$14.92 billion that year. The remittance flow grew again in 2015; by 2.68 percent.

Although the number of Bangladeshis sent abroad for work from December 2015 to June 2016 was significant, but it could not help improve the remittance situation. The downward trend of remittance flow is largely due to the weakened economies due to falling oil prices in the Middle-Eastern countries where around 58 percent of the expatriates live and work. The devaluation of foreign currencies like British Pound, Euro, Malaysian Ringgit, Singapore Dollar to US Dollar have also contributed to the drop in remittance.

5 Regional Connectivity

Bangladesh's location gives it a unique geo-economic advantage that can be used for national economic growth. With the proposed concept of a "Bay of Bengal Growth Triangle" with its apex Chittagong port extending south-west to Calcutta, Madras and Colombo and the south-eastern arm extends through Yangon, to Thailand, to Penang with the third arm to Colombo, the region has captured attention of the investment world as a potential connective hub in Asia. Bangladesh is considered an entry port to the region, with potential to become a small scale version of Singapore, for the region covering Bangladesh, Nepal, Bhutan, eight north-east Indian states (of Assam, Meghalaya, Monipur, Imphal, Arunachal, Nagaland, Mizoram and Tripura) and resource-rich northern Myanmar, a land locked region. Bangladesh has poised to become a regional economic hub with a growing industries carrying out industrial scale assembling, manufacturing, trading and services. Bangladesh's geoeconomic location of is also a reflection of its rich history of being a nation of sea-farers, traders and suppliers. This is expected to help attract huge foreign direct investments into Bangladesh's manufacturing and infrastructure building, making it especially important since Bangladesh's mass manufacturing is the most competitive in South Asia, providing global companies both a look-west and a look-east option when it comes to markets. Also the country's location between South and South-East Asia can leverage that advantage for developing its trade and commerce, connectivity and infrastructure.



5.1 Padma Multipurpose Bridge

With more than 40 percent work already accomplished, the dream for the largest and the longest infrastructure undertaking in Bangladesh—Padma Multipurpose bridge—has started to appear as a distinct reality now. Completely a self-funded project worth \$3.65 billion, the bridge site is filled with labourers, workers and engineers who are toiling hard day and night to get it open for traffic by 2018. Capable of standing against floods and earthquakes, this mega project means a symbol of hope, height, pride and change of fate for around 30 million southern lives. This will be the first of its kind and will serve as a road connection from the Bay of Bengal all the way to the Himalayas.





5.2 Deep Sea Port

The deep-sea port at Sonadia of Cox's Bazar will be implemented on a government-to-government basis. To this end, a ten-member committee, headed by the Prime Minister's Principal Secretary, was formed to evaluate the proposals, and its construction work will start soon. A techno-economic study was carried out by Pacific Consultants International of Japan to construct the deep-sea port.

The Payra Deep seaport is also undergoing implementation, as the government has signed a memorandum of understanding (MoU) with Belgian company Jan De Nul for an estimated \$2 billion capital dredging and maintenance dredging. The government has set short-term, mid-term and long-term goals for the port. In short-term, this year the government would facilitate outer anchoring of clinking, fertilizer and other bulk ships. In mid-term, the government would complete building a multipurpose and bulk terminal infrastructure by 2018 at a depth of 10-meter channel through dredging. By 2023, a full deep sea port facility of 16-meter channel will be operational.

The government is even in the process building a Coal Power Generation Company with its own deep sea port to facilitate import of coal. The project is expected to complement the Payra Deep Seaport.

BANGLADESH Bank has set the same targets for the January to June 2017 as it did for the July to December 2016 period. Domestic credit growth targets during the period were set at 16.4 percent and the private sector at 16.5 percent, while a target of 15.9 percent was set for public sector. As the government loans from banks for financing budget deficit came down significantly, paving the way for growth in private sector credit flow. The monetary policy also set a cautious tone on the possibility of a boom in the capital market. The monetary policy was prepared to give special importance to various sectors, including investment, Small and Medium Enterprise (SME) and idle money in the banking system, to help accelerate growth and investment.

Its stance will continue to remain prudent, and the authorities remain vigilant against upside risks to inflation. In addition, the broad money growth set at 15.5 percent is expected to keep inflation below 6 percent. The government had already set its growth targets at 7.2 percent, with hopes to limit inflation to 5.8 percent and is currently on track to hit the targets.

Fiscal deficit (excluding grants) in FY16 is estimated to have risen to 5.0 percent from 3.9 percent in FY15. The increase reflects mainly the increase in public sector wages. Public investment has increased and subsidies as a share of Gross Domestic Product (GDP) have come down, helped in part by a lower fuel subsidy. The fiscal deficit is projected to decline gradually over the medium term, as the planned implementation of the VAT Act is expected to boost budget revenues. The FY17 budget targets a deficit of 5.0 percent of GDP.

In the banking sector, financial stability continues to receive a high priority. Bank stress testing has now become a new supervisory tool, and regulatory authorities hold regular consultations with financial sector. Following the Bangladesh Bank's reserve heist, increased attention is being paid to improve cyber-security in the banking sector.

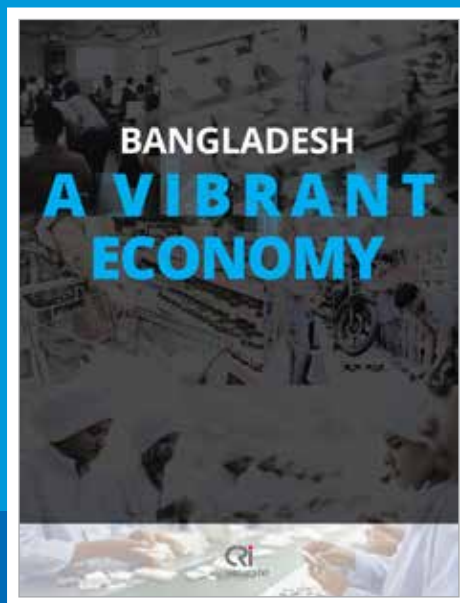


7 Conclusion

AS AN EMERGING trading nation, Bangladesh sustained the growth momentum during the post-crisis period, maintaining strong demand for commodities and boosting export growth in the rest of the world. The country's development story has earned the reputation in the international community as a hot spot for global investment. The role of the export industries has been fundamental in the national development process as they have been actively involved and exchanging cooperation with a vast range of countries, investor, development agencies and international financial companies from all over the world.

A significant array of reforms, deregulation and liberalization has been witnessed over the recent years with aims to further open up the economy and enhance the business friendly environment. Policies to aid the economic sector including financial reforms to address the globalization challenges, international competitiveness and productive efficiency have been established.

The government envisages the economy to grow at a faster pace and foster long-term sustainable development with the help of more effective policy coordination between monetary, exchange-rate and fiscal policies. Bangladesh now looks forward to further inclusive growth and a regulated regime with stringent approach towards reforms alongside sustained macro-economic management and political stability in the future.



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