

B A N G L A D E S H

# THE NEXT ECONOMIC TIGER





Bangladesh:  
The Next Economic Tiger

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# Introduction

The last ten years has seen Bangladesh's economy transform from a low income least developed one to a lower-middle income and a developing nation. Poverty has declined dramatically as a result. Bangladesh entered into a new era of lower middle income country in 2018 and is to graduate from the list of Least Developed Country (LDC) by 2024. The nation, despite all odds, remained resilient and continued with immense efforts towards its economic growth trajectory. Bangladesh's achievement in different parameters of the Millennium Development Goals (MDG) has been praised by the global think tanks and investment banks. It now looks forward to becoming a developed nation by 2041.

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## Landmark Achievements

- Renowned investment bank Goldman Sachs and economist Jim O'Neill identify Bangladesh as **one of the Next Eleven (N11)**
- JP Morgan identified Bangladesh as one of the **Frontier Five (Frontier 5) countries** in 2007
- Since 1975 Bangladesh had the **Least Developed Country status**
- In 2015 Bangladesh recognized by World Bank as **Low-Middle Income Country**
- In 2018 United Nations has recognized Bangladesh as a **Developing Country**

In mid-2015, Bangladesh was elevated from the lower income status to the lower middle income one for the first time since its independence, meeting the World Bank and IMF's requirements comfortably. In 2018 - for the first time United Nations recognized Bangladesh as a Developing Country (DC). Bangladesh has met all criteria for graduating to a Developing Country from a Lower- middle Income country. In March 2018, Bangladesh reached another development milestone when the United Nations Committee

for Development Policy (CPD) gave a letter announcing Bangladesh's eligibility for graduation from a least developed country (LDC) to a developing country. According to the UN, Bangladesh has fulfilled all the eligibility requirements for this graduation and can seek official approval for this advancement, which could take place by 2024.

Bangladesh's economy has grown roughly 6 per cent annually since 1996 despite prolonged periods of political instability, poor infrastructure, endemic corruption, insufficient power supplies, and slow implementation of economic reforms. Although more than half of GDP is generated through the services sector, almost half of Bangladeshis are employed in the agriculture sector, with rice as the single-most-important product. Garment exports, the backbone of Bangladesh's industrial sector, accounted for more than 80% of total exports and were on track to again surpass \$36 billion in 2018. Steady export growth combined with remittances from overseas Bangladeshis - which totaled about \$15 billion in 2018 - are key contributors to Bangladesh's sustained economic growth and rising foreign exchange reserves. The poverty rate declined to 24.3 per cent from 31.5 per cent and extreme poverty rate reduced to 12.9 per cent from 17.6 per cent during the past decade.



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## Economic Growth

### GDP

**\$286.27** billion  
(nominal; 2018)

**\$758.17** billion  
(PPP; 2018)

### GDP rank

**42nd & 31st**  
in \*(PPP) - HSBC Global Research

### GDP growth

**7.86%**  
(FY2018)

**7.28%**  
(FY2017) \*(BBS)

\* Purchasing Power Parity(PPP)

\* Bangladesh Bureau of Statistics (BBS)

### GDP per capita

**\$1,751**  
(FY2018) \$4,600 (PPP)

Bangladesh's economic development in the last decade has been impressive to say the least. In the 21st century the average growth rate, has been 6.6 per cent and during the last couple of years it has been over 7 per cent. According to the provisional estimate of the Bangladesh Bureau of Statistics (BBS), the GDP growth rate has been 7.86 per cent in FY 2017-18, one of the highest in the world. Average GDP growth rate was 6.6 per cent while the developing economies' average GDP growth was 5.1 per cent. According to the International Monetary Fund, Bangladesh is now the 43rd largest economy in the world in terms of nominal GDP while its position is 32nd in terms of purchasing power parity. Bangladesh was also included in the list of top-ten fastest-growing economies in 2017. A projection by PriceWaterhouseCoopers says that Bangladesh will be the 28th largest economy by 2030 and 23rd largest by 2050. Bangladesh is predicted to be the biggest mover in the global gross domestic product rankings in 2030, becoming the 26th largest economy in the world from 42nd now, according to HSBC Global Research.





Bangladesh will be the  
28th largest economy by  
2030 and 23rd largest  
by 2050



Bangladesh is likely to  
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2030



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## Macroeconomic Indicators

*Some of Bangladesh's notable economic advancements in the last decade, starting from 2009, include:*



Over **7% Growth** for 3 Consecutive Years



Economic Growth (GDP) **rose to 7.8** in 2018



Public investment **rose to 8.2%** from 4.3% in 2009



Per capita income increased from US\$615 in 2008 to **US\$1,751** in 2018



Inflation declined from 9.1% in 2007 to **5.43%** in September 2018



Total Revenue-GDP ratio **rose to 11.17%** in 2017 from a low of 9.81 % from 2009



The size of budget grew from BDT999 billion in 2008 to **BDT4.64 trillion** (almost 5 times in 10 years)



Annual export income registered an increase from US\$15.6 billion to **US\$34.8 billion**. (more than doubled)



Annual import stood at **US\$47.0 billion** increasing from US\$22.5 billion



Forex reserve US\$10 billion in 2009, **US\$33 billion** in 2018; 441% increased in last 10 years



Total FDI inflow increased from \$961 million in 2009 to nearly **\$3 billion in 2018** (more than tripled)

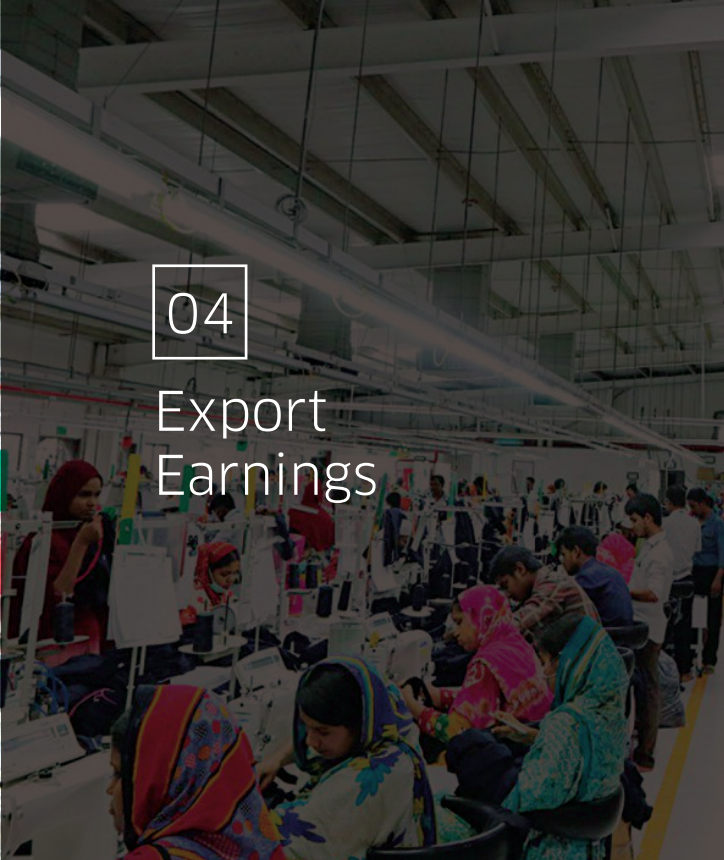


Remittance 2017-18 **\$15 billion**, \$7.9 billion 2007-08 (doubled)

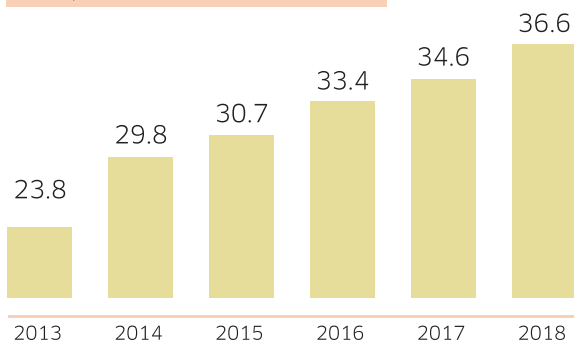


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## Export Earnings



Exports (USD billion)



Bangladesh's overall export earnings rose by about 5.8% to \$36.66 billion in FY 2017-18, as compared to \$34.65 billion in FY 2016-17 according to the Export Promotion Bureau (EPB). Of the total export earnings, the Ready Made Garments(RMG) sector - the largest foreign currency earner in the country - has amassed about \$30.60 billion—8.7% higher compared to the \$28.15 billion of the previous fiscal year. The total export earnings are close to the government's target of \$37 billion during FY2017-18. The government has set their export earnings target at \$40 billion in FY 2018-19 and \$50 billion by 2021.

Source: Bangladesh Export Promotion Bureau (EPB)

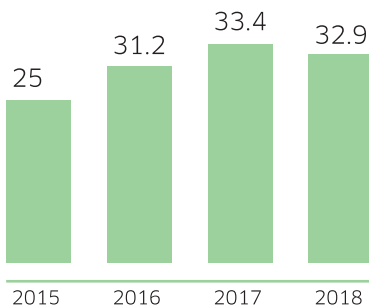




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## Forex Reserves

Forex Reserves (USD billion)



Foreign exchange reserves stood at US\$32.94 billion in fiscal year 2017-18, which was \$7.47 billion in fiscal year 2008-09. According to Bangladesh Bank (BB), current foreign exchange reserve is equivalent to an import liability of 6.41 months. The BB data also shows that the growth of the foreign exchange reserve was upward from fiscal 2008-09 onwards. Over the last 10 years, remittance flow into the country has increased 3.56 times, as result of a higher number of Bangladeshis working abroad after the government has taken various steps to send skilled workers abroad. The central bank and the government has also relaxed the process of sending money from abroad and provided policy support to the banks and exchange houses, for smooth services for remittance senders.

Source: Bangladesh Bank (BB)





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## Per Capita Income



Increase  
of **80%** in  
5 years

\$974



2013

\$1,751



2018

Per capita income in Bangladesh has grown by 8.7% to \$ 1,751 during the fiscal year 2017-18 from \$ \$1,610 in the last fi-scal year. According to the United Nations Conference on Trade and Development, Bangladesh's per capita income went up by 79% in 2018 from \$974 in 2013.

The Gross National Income (GNI) was \$2,343 million with a population of over 160 million.

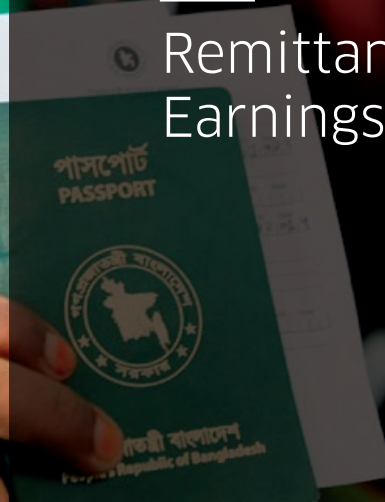
*Source: Bangladesh National Economic Council, Bangladesh Bureau of Statistics (BBS)*





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## Remittance Earnings



The expatriate Bangladeshi workers have sent home around \$14.98 billion in the 2017-18 fiscal year, which is 17% higher than the previous financial year. The amount of remittance rose due to the rise in oil prices in the global market and US dollar against taka in Bangladesh. Money sent by the non-resident Bangladeshis makes up about 12% of Bangladesh's GDP. According to the Bangladesh Bank, the expatriates remitted almost \$15 billion in the last fiscal year and \$12.77 billion in 2016-17. Meanwhile expatriate Bangladeshis sent home \$5.1 billion in July-October in the current FY2018-2019 against \$4.55 billion during the same period of last FY2017-2018.

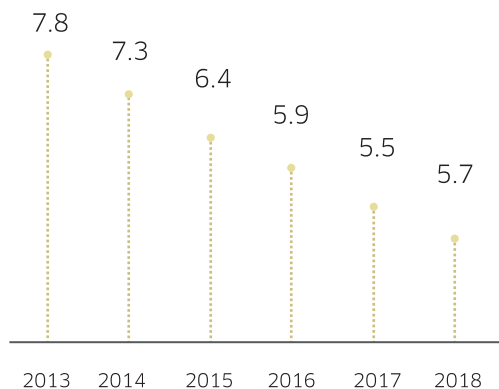
Source: Bangladesh Bank (BB)





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## Inflation



Bangladesh has maintained a consistently low inflation rate during the past decade. The average inflation rate in the past year from May 2017 to May 2018 was an impressive 5.78% and has remained well under 6% since. Although the rate is higher than the government's target of to 5.5% for FY 2017-18, the inflation rate has lowered to 5.48% to in August 2018.

### Credit Ratings

Bangladesh has continued to receive good credit ratings from top agencies. Credit rating reports of US-based Moody's Investors Service, Standard & Poor's (S&P) and Fitch Ratings have found Bangladesh's economy to be in a stable position,

and has previously projected similar outlook for Bangladesh in last several years. Standard & Poor's credit rating for Bangladesh stands at BB- with stable outlook. Moody's credit rating for Bangladesh was last set at Ba3 with stable outlook.

### Credit Ratings

The current account deficit hit \$9.78 billion in FY 2017-18 - up to from \$1.33 billion a year before. Imports increased by 25.23% to \$54.46 billion in FY 2017-18, as compared to \$43.49 billion in the July-June period of FY 2016-17. The deficit had grown due to the import of capital machinery and construction materials which was required for implementing numerous big infrastructure projects such as Padma bridge, Dhaka Mass Rapid Transit Development Project, Rooppur Nuclear Power Plant and Matarbari Power Plant. In addition, the import of food items, capital machinery and raw materials have also risen in recent period causing further dent on the overall country's import payment.

Sources: Bangladesh Bureau of Statistics (BBS),  
Moody's Investors Service, Standard & Poor's  
(S&P), Fitch Ratings





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## Growing Middle Income Group

*Two million  
Bangladeshis become  
middle income or  
affluent every year*

*By 2025, the MAC  
group is expected to  
reach 34 million from  
12 million in 2017*

Bangladesh is emerging as one of the world's top destination for consumer products and its growth opportunities. Every year, 2 million Bangladeshis join the ranks of the middle income and affluent class (MAC). These consumers are highly optimistic; value name brands are technologically equipped.

A vast middle-class society has developed in the country during the last two decades when economic growth has averaged over 6.0 per cent a year and the service sector experienced a boom. This has been possible because of economic resilience which is a contribution of enterprising and hardworking people.

A study conducted by the Bangladesh Institute of Development Studies (BIDS) says one-fourth, or 25 per cent, of the total population will belong to the middle-class income category by 2025, due to greater access to education, finance and IT services, and private sector employment. At present, 20 per cent of the population belongs to the middle-income category.

Source: Boston Consulting Group (BCG), 2015 report  
"Bangladesh: the Surging Consumer Market Nobody  
Saw Coming"

## Declining Poverty

Bangladesh's rapid growth wouldn't be so exciting if it didn't reach the poor. A World Bank report<sup>1</sup> found that between 2005 and 2010, average incomes for the poorest 40% of households grew 0.5% faster than for the country as a whole. According to the Bangladesh Bureau of Statistics survey conducted between 2016 and 2017, the poverty rate in rural areas was 26.4 percent, while urban poverty was 18.9 percent. The current rate of extreme poverty is 12.9 percent, compared to 17.6 percent six years ago. The poverty rate in the 2010 survey was 31.5 percent. In rural areas, the poverty rate was 35.2 percent and in urban areas 21.3 percent. Poor people as percentage of population more than halved to 24.3 percent between 2000 and 2016. As a result of this inclusive growth, poverty rates have plummeted. In 1991, well over 40% of the population lived in extreme poverty. According to the World Bank, it was less than 14%, which means about 50 million fewer Bangladeshis are in extreme poverty as a result of the improving economy.

## Social Development for Economic Progress

Access to post-secondary education, especially English education, high salaried jobs in the private sector, digital connectivity, access to financial saving and credit instruments, access to international migration and initial land or flat ownership distinguish the middle class from the poor. According to a World Bank assessment, the phenomenal growing consumption by the group helped the country to achieve a 6.0 per cent plus growth in the last one decade.

A study on 'Faltering middle class aspirations in Bangladesh' observes that a growing number of Bangladeshis have been able to achieve a middle class consumer lifestyle over the years, driving the foreign direct investment (FDI) in the consumer goods market. Expansion in services such as retail, financial and public administration sectors, is also responsible for the growth of middle class. The sectors grew between 8.0 per

cent and 13 per cent compared to that of the growth primary sectors, leading to the creation of more jobs for the middle class.

The socio-economic changes that broadly explain the emergence of the middle class has in turn increased incomes, urbanisation, white-collar occupations, fuelling demand for consumer products and services. Government policies and the nature and level of spending have also otherwise influenced the pace of the middle class's creation. Commodities like house rent, cost of education and medical treatment and transport charges also saw a steady rise along with the growing number of MAC group. The growth of middle class and the literacy rate has been driven by human capital accumulation and property price appreciation.

### Sources:

- Bangladesh Bank
- Bangladesh Bureau of Statistics (BBS)
- World Bank - Global Economic Prospect 2018
- World Bank - BANGLADESH DEVELOPMENT UPDATE 2016
- HSBC Global Research 2017
- Boston Consulting Group (BCG), 2015 report "Bangladesh: the Surging Consumer Market Nobody Saw Coming"
- Bangladesh Export Promotion Bureau (EPB)
- Bangladesh National Economic Council

1. <http://documents.worldbank.org/curated/en/579721475673660627/pdf/108745WP-SAREC-PUBLIC-FinalBangladeshDevelopmentUpdateOctober.pdf>



## Conclusion

Bangladesh under the leadership of Prime Minister Sheikh Hasina has witnessed a significant economic uplift of the people from the capital to the grassroots level due to various pragmatic steps taken by the present government. The country has earmarked on a host of mega infrastructural projects to transform the future of the country and to change the course of national progress under the sixth and seventh 5-Year Plan set by the premier. Special emphasis is given on the application of digital technologies to realise Vision 2021 which has helped the nation achieve its middle income status well before the target date. The nation now looks forward to transforming its economic landscape, fostering further development to become a developed nation by 2041.

— BANGLADESH —  
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Published by Centre for Research and Information(CRI), December, 2018

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