

# Chapter-1

## Socio-economic analysis

### (i) GDP growth and structure

#### Economic growth

Despite a challenging global environment in recent years, Bangladesh has posted solid economic performance, with a moderate growth of 6.03 percent following 7.10 percent growth in FY2022. It maintained growth momentum with some slowdown in manufacturing and new investment activities. The real GDP grew by 6.03 percent in FY2023, which is 107 basis points lower than 7.10 percent growth recorded in FY2022. Measured at constant market price, the GDP of Bangladesh stood at BDT 32,180,309 million with per capita GDP is BDT 259,919. Year to year GDP at constant price is depicted below:

Year	GDP (BDT in million)	GDP growth rate (%)
2022-23 (p)	32,180,309	6.03
2021-22	30,351,496	7.10
2020-21	28,339,444	6.94
2019-20	26,500,649	3.45
2018-19	25,617,356	7.88

Source: Bangladesh Bureau of Statistics, FY2023 indicates provisional

Industry sector had the edged down growth from 9.86 percent of FY2022 to 8.16 percent in FY2023, supported by moderate growth exceeding 16 percent in exports. Power sub-sector output improved, while progress of gas sub-sector needs further attention. Service sector output growth edged down to 5.84 percent in FY2023 from preceding year's 6.26 percent. Agriculture sector output growth edged down from the FY2022 high of 3.05 percent to lower but still strong and above 2.61 percent growth in FY2023. Given the prevailing robust investment and growth momentum in the real economy, attaining the 7.50 percent real GDP growth targeted in the FY2024 national budget would not appear to very arduous, subject of course to internal and external environment remaining benign and stable, with major progress in easing of the power and gas supply shortage.

#### Agriculture sector and GDP

The agriculture sector exhibited a growth of 2.61 percent in FY2023 as against 3.05 percent growth in FY2022. The growth was aided by continued policy support from the Government, including subsidy on input prices, supply and distribution of key inputs, higher procurement

prices of outputs, access to credit, and better delivery of extension services. The growth in this sector was expedited by the higher growth in animal farming and forest and related services sub-sectors. Overall, output of food grains (Aus, Aman, Boro and Wheat) increased substantially. Favorable weather condition, higher disbursement of agricultural credit, better price incentive for the farmers, and Government's initiative to ensure timely delivery of inputs and other supportive services contributed to higher food grain production in the year. GDP contribution and growth rate of agricultural sector in constant price is follows:

Year	Contribution in GDP (%)	Growth rate (%)
2022-23 (p)	11.20	2.61
2021-22	11.61	3.05
2020-21	12.07	3.17
2019-20	12.52	3.42
2018-19	12.56	3.26

Source: Bangladesh Bureau of Statistics, FY2023 indicates provisional

#### Industrial sector and GDP

Industrial sector contributed 37.56 percent of GDP, growth rate edged down from 9.86 percent of FY2022 to 8.16 percent in FY2023. The growth in FY2023 was led by strong growth in mining and quarrying and power, gas and water supply and construction sub-sector. Directives from Bangladesh Bank to promote credit financing facilities to SMEs contributed to the maintenance of satisfactory industrial growth. The production of small scale manufacturing industry mostly depends on indigenous raw material and is generally immune to external shocks. Within this sub-sector food, beverage, tobacco, leather and apparel metal products, machinery, chemicals, rubber, plastic, basic metal industries, nonmetallic products, paper, printing, and publishing etc. showed substantial growth in FY2023. Contribution to GDP and growth rate of industrial sector at constant market price is depicted below:

Year	Contribution in GDP (%)	Growth rate (%)
2022-23 (p)	37.56	8.18
2021-22	36.92	9.86
2020-21	36.01	10.29
2019-20	34.94	3.61
2018-19	34.99	11.63

Source: Bangladesh Bureau of Statistics, FY2023 indicates provisional

### Service sector and GDP

The services sector contributed 51.24 percent of total GDP in FY2023. Within this, 5.99 percent growth increased by transportation and storage in the FY2023 from 5.75 percent in the FY2022; 5.89 percent growth increased by accommodation and food service activities in FY2023 from 5.37 percent in the FY2022; 5.42 percent growth increased by information and communication sector in the FY2023 from 4.79 percent in the FY2022; and 6.95 percent growth increased by public administration and defense sector in the FY2023 from 4.91 percent in the FY2022. Contribution to GDP and growth rate of service sector at constant market price is depicted below:

Year	Contribution in GDP (%)	Growth rate (%)
2022-23 (p)	51.24	5.84
2021-22	51.48	6.26
2020-21	51.92	5.73
2019-20	52.54	3.93
2018-19	52.45	6.88

Source: Bangladesh Bureau of Statistics, FY2023 indicates provisional

### (ii) Savings & investment analysis

#### Savings

Available data indicate that gross domestic savings (GDS) at current market prices grew by 26.02 percent in FY2023. The GDS as percentage of GDP increased from 25.22 percent in FY2022 to 26.02 percent in FY2023.

Gross National Savings (GNS) as percentage of GDP also increased from 29.35 percent in FY2022 to 30.22 percent in FY2023 resulting from higher inflow of net factor income (NFI) and net current transfer (NCT).

Year	Gross Domestic Savings		Gross National Savings	
	BDT in ml.	% of GDP	BDT in ml.	% of GDP
2022-23 (p)	11,552,264	26.02	13,413,266	30.22
2021-22	10,018,414	25.22	11,656,922	29.35
2020-21	8,946,130	25.34	10,870,784	30.79
2019-20	8,584,871	27.08	9,960,883	31.42
2018-19	7,934,736	26.88	9,190,234	31.14

Source: Bangladesh Bureau of Statistics, FY2023 indicates provisional

#### Investments:

Investment as percentage of GDP decreased at 31.25 percent in FY2023 which was 32.05 percent in FY2022. While the private sector component of investment decreased at 23.64 percent in

FY2023 from 24.52 percent in FY2022. The public sector component of investment, however, increased to 7.61 percent in FY2023 from 7.53 percent in FY2022 resulted apparently from higher implementation rate of ADP than that of last year.

Year	Investment as% of GDP	Private sector (%)	Public sector (%)
2022-23 (p)	31.25	23.64	7.61
2021-22	32.05	24.52	7.53
2020-21	31.02	23.70	7.32
2019-20	31.31	24.02	7.29
2018-19	32.21	25.25	6.96

Source: Bangladesh Bureau of Statistics, FY2023 indicates provisional

### (iii) Industrial contribution analysis

The Gross Domestic Product (GDP) growth is projected to be 6.03 percent in FY2023. This higher growth estimate is largely based on proposed higher public investment especially in the power and energy infrastructure and continued momentum in private sector investments. However, there are several downside risks such as uncertainty in the full implementation of ADP, tardy implementation in the projects of power sectors, delayed institutionalization of public private partnership (PPP), unmet expected improvement of efficiency of ports, upward inflationary pressure emanated from oil and food prices in the international and domestic market, and sluggishness and the downward trends of manpower export and remittance inflows. The presence of enhanced credit flows to the unproductive sectors including speculative in the share market added risk for the domestic economy. Industrial contribution to GDP and industrial sector growth rate of last 5 fiscal years at constant price is given as follows:

Year	Industrial contribution to GDP (BDT ml.)	Industrial contribution to GDP (%)	Industrial sector growth rate (%)
2022-23 (p)	11,665,256	37.56	8.18
2021-22	10,783,221	36.92	9.86
2020-21	9,815,808	36.01	10.29
2019-20	8,900,231	34.94	3.61
2018-19	8,590,037	34.99	11.63

Source: Bangladesh Bureau of Statistics, FY2023 indicates provisional

Import of investment equipments and other capital goods of last 5 fiscal years are as follows:

Year	Planted Machinery (BDT ml.)	Transport equipment (BDT ml.)	Other capital goods (BDT ml.)
2022-23 (p)	112.13	117.90	-
2021-22	110.66	114.12	-
2020-21	109.47	106.96	-
2019-20	107.80	105.09	-
2018-19	121.22 <sup>^^</sup>	118.15	-

Source: Bangladesh Bureau of Statistics, FY2023 indicates provisional

#### (iv) Fiscal analysis

From actual decline in FY2022, Government budgetary borrowing from the domestic banking system rose sharply by 52.81 percent in FY2023, characteristically exceeding rather than falling short of initial projections, despite healthy growth in revenue receipts. The main reason was the decline in external financing and non-bank borrowing through National Savings Scheme instruments, of which net sales plummeted with downward revision of profit rates.

While overall budget deficits (5.1 and 5.2 percent of GDP for FY2023 and FY2024 respectively) are not particularly worrisome, there is room for rebalancing of the 6%-9% Treasury bill-bond composition planned for FY2024 borrowing. Secondary trading in Treasury bonds has not yet developed significantly in the local market, primary dealer banks required to take up Treasury bonds in primary auctions end up laden with high volumes of practically liquid assets. Treasury bill being short term (tenors up to one year) are much easier for banks to carry in their books as these are much more easily tradable in the secondary market; and with lower yield these are also a cheaper borrowing option for the Government. Secondly, the planned volume of FY2024 domestic non-bank borrowing is less than a third of the planned volume of bank borrowing; with modest further improvement of return rates on NSS instruments (over the recent rather marginal improvements on some of these) it should be possible to borrow more through higher sales of NSS instruments, easing the demand pressure on banks. The reduced demand pressure on banks will mean correspondingly lower borrowing cost (lower yield rate on T-bills/bonds in auctions) there may be no net increase in borrowing cost in such rebalancing of bank and non-bank Government borrowing.

Particulars	FY2021-22	FY2022-23	FY2023-24
	Actual	Revised	Budget
<b>Overall deficit (including grants)</b>	(181,224)	(224,244)	(257,885)
<b>Financing</b>			
Foreign borrowing (net)	65,021	83,819	102,490
Domestic borrowing	115,216	140,425	155,395
Borrowing from the banking system	75,533	115,425	132,395
Non-bank borrowing	39,683	25,000	23,000
National savings scheme (net)	20,260	20,000	18,000
Others	19,423	5,001	5,000

Source: Ministry of Finance

The contribution of SOEs is very important specially in power and gas, transport, communication and service sector. During FY 2017-18, the total operating revenue of all existing SOEs was Tk. 1,74,361.14 crore which was increased to Tk. 2,27,953.26 crore in FY 2021-22. However, considering factors factoring into the production cost, the amount of value addition in FY 2017-18 was Tk.19,375.24 crore which stood Tk. 22,788.68 crore in FY 2021-22. According to the revised estimation in FY 2021-22 the SOEs made a net profit of Tk. 4,808.55 crore. On the other hand, the SOEs that earned profit contributed Tk. 879.84 crore to the national exchequer during the same period. According to the estimation of Finance Division, the total Debt Service Liabilities (DSL) stood at Tk. 1,83,170.36 crore up to 28 February 2023 in FY 2022-23. Outstanding state owned commercial bank loan against 30 SOEs stood at Tk. 59,730.96 crore. Out of this, the classified loan stood at Tk. 184.76 crore. Though the operating profit on total assets of SOEs was 1.50% in FY 2017-18. This profit reached to 0.73% in FY 2021-22. The net profit on operating revenue was 0.75% in FY 2021-22. The rate of dividend on equity stood at 0.44% in FY 2021-22. Considering the turnover of assets, the efficiency of resource utilization during FY 2021-22 was increased in comparison with the level of efficiency in FY 2019-20.

#### (v) Foreign trade analysis

Trade is an integral part of the total developmental effort and national growth of all economies including Bangladesh. It particularly plays a central role in the development plan of Bangladesh where foreign exchange scarcity constitutes a critical bottleneck. Export trade can largely meet 'foreign exchange gap', and export growth would increase the import capacity of the country that, in turn, would increase industrialization, as well as overall economic activities.

Bangladesh's import needs are substantial, hence the need to rapidly increase exports is immediate. In order to finance the imports and also to reduce the country's dependence on foreign aid, the Government of Bangladesh has been trying to enhance foreign exchange earnings through planned and increased exports. However, the global trade scenario has exposed structural limitations of the Bangladesh economy, posing a variety of challenges for the country that has underdeveloped technology and a low capital base.

Despite structural limitations in the Bangladesh economy, the export sector performed well throughout the 1990s. The export growth rate of Bangladesh was higher than that of the world and the SAARC countries. However, the balance of trade of Bangladesh was always in deficit and the trade deficit with India is huge. The export share of primary commodities has decreased while that of manufactured commodities has increased over the years. The growth rate of manufactured commodities is better than that of primary commodities. The import share of principal primary commodities has declined while that of principal industrial and capital goods has slightly increased over the past years. The striking features of Bangladesh's exports are commodity and market concentration. To overcome the problem, there is no alternative but to diversify exports and improve quality.

### **Balance of Trade of Bangladesh**

The trade balance of Bangladesh is of great concern. It has always been in deficit over the decades. Recent statistics show that the trade deficit of the country was US\$ 33.25 billion in FY 2021-22, while it was US\$ 23.78 billion in FY 2020-21. Based on the data of Export Promotion Bureau, the balance of trade position for 10 years (2012/13- 2021/22), which is quite unsatisfactory. The trade deficit has been increasing over the years.

### **(v) Financial and monetary system analysis**

In implementing monetary policy to regulate the growth of liquidity in the banking system and to moderate inflationary pressures, Bangladesh Bank auctioned off treasury bills (T-bills) of different maturities along with undertaking repo and reverse repo operations. Although the auction of 28-day T-bills has been suspended since July 2008, auctions of other T-bills were conducted regularly. The weighted average yield on 91-day T-bills reached 6.63 % in June 2023, significantly up from 5.94% in June 2022. The yields on 182-day T-bills rose to 7.01% from 6.44% and 364-day T-bills to 7.61% from 6.62% during the same period.

In FY2023, Bangladesh Bank raised the repo rates by 50 basis points to 6.00% for and the reverse repo rates was also raised by 25 basis points to 4.25%, to mop up excess liquidity in the banking system. The central bank was kept the CRR unchanged at 4.00% in 2023. Due to these monetary tightening measures, liquidity in the banking system BDT 2031 billion in 2022 decrease to BDT 1538 billion in 2023. To tighten liquidity, the central bank raised repo and reverse repo rate by 50 basis points and 25 basis point, to 6.00% and 4.25%, respectively.

The interbank call money rate rose since the beginning of FY2022, climbing to 36.12% in June 2023, which is an all-time high rate, with a pickup in private sector credit demand. The rate fell subsequently following Bangladesh Bank's intervention. On a weighted average basis, the rate was 6.18% in June 2023, higher than 1.63% in June 2022, reflecting strong credit demand in the market.

Following the past few years' trends, money and credit growth remained high in FY2023. Despite measures taken by the central bank for monetary contraction, growth in broad money (M2) rose to 11.5% in June 2023. Domestic credit rose 18.50% in June 2023. The high growth in private sector credit contributed to the higher than target M2 and domestic credit growth. The growth in net foreign assets dwindled by 13.28 percent (y-o-y) at the end of March 2023 compared to a decline of 4.72 percent at the end of the previous fiscal year, against a negative 21.24 percent programmed growth for March 2023. Despite the present course of events, the NFA growth is expected to remain above the target of negative 11.90 percent growth at the end of FY23. Growth of net credit to the Government remained high at 78.46% in June 2023 because of the sharp decline in the sale of national savings certificate and a shortfall in external financing.

Reserve money growth rose, reaching 14.00% in June 2023 from -0.30% in June 2022 in spite of the sharp fall in the net foreign assets growth. The higher growth in reserve money was caused by the rapid growth in the net domestic assets of Bangladesh Bank. The reserve money multiplier remained high at 4.82% in June 2023.

The half-yearly Monetary Policy Statement (MPS, July–December 2023) aims to continue the central bank's tighter monetary policy stance to rein in credit expansion to control inflation and preserve external sector balance. The MPS projects that year-on-year growth in M2 will slow to 11.50% in June 2023, and private sector credit to 14.10%. The MPS hopes that it will be possible to control credit flows into wasteful, unproductive, and high-risk sectors, while ensuring adequate



credit flows to productive sectors in manufacturing, agriculture, trade, and other services. Widening credit access for underserved productive sectors will be one of the major priorities under the current MPS. Regulating credit flows to unproductive sectors, and redirecting them to the more productive sectors will be a major challenge, requiring close monitoring by the central bank of commercial banks' credit operations. The MPS also indicates that Bangladesh Bank's intervention in the foreign exchange market will continue, to keep the markets operating smoothly without excessive volatility.

The weighted average lending rate rose to 7.29% in June 2023 from 7.09% in June 2022. The deposit rate also rose to 4.38% from 3.97%. Real average deposit rates stayed negative because of the high inflation rate. The interest rate spread narrowed to 2.91 percentage points in June 2023 from 3.12 percentage points in June 2022.

The disbursement of industrial-term lending stood at Tk 295.74 billion during Sep-Dec of FY2023, 57.54% higher than the corresponding period of FY2022, reflecting a pickup in industrial activities.

Disbursement of Cottage, Micro, Small and Medium Enterprise (CMSME) loans during October-December of FY23 increased 6.12 percent (y-o-y). It also increased 17.29 percent during October-December of FY23 compared to the immediate previous quarter. Outstanding of CMSME loans at the end of December of FY23 was 12.22 percent higher compared to the same month of the previous fiscal year. Outstanding CMSME loans was 19.54 percent of total outstanding loans at the end of December of FY23, which was lower than that of the same quarter of the preceding fiscal year.

The gross NPL ratio has been increasing since December 2020. It increased further at end-June 2022 compared to the position of end-December 2021 and stood at 9.48 percent. There was an upward trend with some minor fluctuation for the gross NPL ratio of FIs from December 2017 to June 2022. The ratio stood at 22.99 percent at end-June 2022 compared to 19.33 percent at end-December 2021 which is notably high for an industry involved with financial intermediation.