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AN ANALYSIS OF MACROECONOMIC TRENDS IN BANGLADESH

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Abstract: The present study is an effort to investigate the macroeconomic trends in Bangladesh. The study is based on secondary data which were collected from different sources. The study found that the growth pattern of Bangladesh economy has been relatively strong during the 1990s and 2000s showing considerable improvement over the previous two decades. During last five years Bangladesh has managed to achieve a continued growth of GDP above 6%. The satisfactory growth in export-import, FDI inflow, domestic and national savings, continued flow of remittance, favorable current account balance have stabilized the economy of Bangladesh. However, the country is facing inflationary pressure in last several years despite governments strive to control inflation through combined fiscal, monetary and other supportive policies. Domestic and national savings were 20.31 and 30.21 percent of GDP, respectively, in FY 2007- 08. The rates of domestic and national savings have become 19.18 and 29.78 percent of GDP in FY 2009-10 due to the effect of financial crisis. The study also found total FDI inflow in Bangladesh is gradually increasing. A significant number of people are employed in abroad and they contribute in the economy through sending remittance. In all these counts, the economy of Bangladesh has registered significant positive changes over the last few years.

Keywords: *Macroeconomics, Performance Scenario, Bangladesh.*

1. Introduction

Bangladesh economy has made significant improvement in macroeconomic performance over the last two decades. Acceleration of economic growth, gradual decline in budget deficit, high rate of import and export growth, steady rise of foreign currency reserve at a stationary level are some of the major achievement that Bangladesh attained during the past few years until fiscal year 2011-2012. During last five years continued performance of the different sectors of the economy have lead to attainment of GDP growth above 6% per annum. Despite global economic recession beginning in 2008-09, Bangladesh has been managing its economy surprisingly well and maintaining its growth performance. Over time, there has been structural transformation of the economy with a shift from predominantly agriculture based economy towards an industry led and service oriented economy. The contribution of agriculture sector to GDP was more than 50% in early 1970's but declined gradually to 20% in 2009-2010, while the contribution of industry sector increase from 8% to 30% of GDP during the same period of time. Bangladesh economy has been increasingly integrated with the global economy over the recent past years through trade, inflow of remittance, inflow of FDI and portfolio investment.

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Macroeconomic performance of Bangladesh is also satisfactory when considered in the context of market-oriented liberalizing policy reforms (Mahmud, 2010). By looking at the trends in fiscal, external and investment-savings balances, it is seen that despite falling inflows of foreign aid, Bangladesh achieved macroeconomic stabilization and an acceleration of economic growth in the 1990s. For consolidating the transition from stabilization to growth, improvements were taken place in the areas such as revenue mobilization, the efficiency of the financial system and the overall investment environment. As in most other countries, sustained economic growth in Bangladesh has been accompanied by a structural transformation with a declining share of agriculture, in spite of positive agricultural GDP growth (ESC, 2012). The objective of this paper is to analyze the recent macroeconomic trends in Bangladesh with respect to changes in some key macroeconomic variables since 2001.

2. Methodology

The paper is based on secondary data which were collected from Bangladesh Economic Review (BER), Statistical yearbook of Bangladesh, Yearbook of Agricultural Statistics and several articles. After that, collected data were classified, tabulated and analyzed in accordance of the objective set for the study. Both tabular and graphical techniques were used to show the trends and changes in agriculture sectors of Bangladesh.

3.1 Growth Performance

The growth performance of Bangladesh economy had been relatively strong during the 1990s showing considerable improvement over the previous decade. During the 1990s Bangladesh growth floated around 5 per cent per year with average growth rate 4.4% per year during FY 1991-95 and 5.2% during FY 1996-2000. The GDP growth rate was 5.0-6.5 percent during

2001-08 and it was 6.19 percent in FY 2007-08. In last five years until FY 2011-12 average growth rate is above 6% per year. Gross domestic product at current price and rate of growth in different years in Bangladesh economy is shown in Table 1. It is seen that since FY 2005-06, Bangladesh economy has been achieving growth rate above 6%.

Table 1: Growth Performance (Billion Tk.)

Years	GDP at Current Price	Real GDP Growth (%)
2001-02	2717.00	5.27
2002-03	3005.80	5.26
2003-04	3329.71	6.27
2004-05	3707.00	5.96
2005-06	4157.29	6.63
2006-07	4724.79	6.43
2007-08	5458.21	6.19
2008-09	6149.48	5.88
2009-10	6905.70	6.01
2010-11	7874.95	6.71
2011-12	9147.84	6.32

Source: Bangladesh Bank and Bangladesh Bureau of Statistics.

However, due to global financial crisis the growth for 2008-09 was slightly reduced to 5.88 percent. The growth performance has increased due mainly to increasing private sector investment from 10.27 percent in FY 1991 to 19.15 percent of GDP in FY 2008.

3.2 Sectoral Contribution to Incremental Growth

Analysis of the sectoral growth figures show that within the real economy sectors such as Industry demonstrated stronger growth during the first half of the 1990s as against the impressive performance of the Agriculture in the subsequent period. It should be noted that during the second half of the 1990s, the Agriculture and Industry emerged as the major source of GDP growth in comparison to more pronounced role of the Service Sector in the earlier half of the decade. But in the recent time Service Sector again dominates as the major source of GDP growth and accounted an average of more than 50 percent for the period FY01-FY05 and FY06-10 (Table 2). Although industry's contribution to GDP growth is increasing gradually, the contribution of manufacturing sector to this growth is decreasing in recent years.

Table 2: Trends in Incremental Contribution of Sectors in GDP Growth

	FY91-95	FY96-00	FY01-05	FY06-10
Agriculture Sector	20.46	18.05	9.50	8.92
Industrial Sector	25.91	33.92	35.54	36.42
Manufacturing Sector	20.26	20.09	18.35	18.05
Service Sector	45.73	42.26	54.67	54.66

Source: Bangladesh Bank and BBS (Various Years)

3.3 Consumer Price Index and Inflation

The movement of inflation indicates that inflation in Bangladesh varies proportionately with food prices. Higher food inflation obviously stimulates overall higher inflation. The situation of quick rise in international prices during 2006-2008 attributed to higher cost of domestic food production. The prices of fuel, seeds, fertilizers, labor wages, insecticides and transport cost went up. Moreover, in 2007, two consecutive floods and devastating cyclone 'Sidr' and activities of business syndication contributed to higher food inflation. The persistent oil price hike in the international markets impelled the government to increase its administered prices in the domestic market for seven times from May 2004 to July 2008. All the four major petroleum items have experienced around three fold increase in price from May 2004 to July 2008. This fuel price hike caused higher inflation in the domestic market.

Table 3: Consumer Price Index and Inflation (Base Year 1995-96=100)

Years	Consumer Price Index	Inflation (%)
2001-02	130.26	2.79
2002-03	135.97	4.38
2003-04	143.9	5.83
2004-05	153.23	6.48
2005-06	164.21	7.17
2006-07	176.06	7.22
2007-08	193.54	9.93
2008-09	206.43	6.66
2009-10	222.33	8.51
2010-11	240.75	8.28

Source: Bangladesh Bureau of Statistics

The annual average rate of inflation during FY 2001-2005 was 5.5-6.5 per cent. From the Table 3 it is found that in FY06 and FY07 the rates of inflation were 7.17 and 7.22 percent respectively and it stood at 9.93 percent in FY2007-08. The government purposely tried to control inflationary pressure through combined fiscal, monetary and other supportive policies consistent with the economic growth and prosperity of the country. The state of inflation of Bangladesh is shown graphically in below, where both consumer price index and inflation of Bangladesh are shown from the fiscal year 2001-02 to fiscal year 2008-09.

3.4 Labor Force Employment

Bangladesh is a country with huge labor force. Due to shortage of employment opportunity there remains unemployment at a higher rate along with disguised unemployment in different sectors. According to the Bangladesh Report on Monitoring of Employment Survey (MES) 2009, conducted by Bangladesh Bureau of Statistics (BBS) total labor force (above 15 years) is 53.7 million of which 51.0 million (male 38.5 million and female 12.5 million) are engaged in a range of professions, the highest 43.53 percent still being in agriculture. According to the Labor force survey (LFS) 2005-06 of Bangladesh Bureau of Statistics, the total number of labor force (above 15 years) is 47.4 million , of which male 36.1 million and female 11.3 million and agricultural sector employed the highest 38.1 percent .

Table 4: Labor Force Employment (in million)

Year	Employed Labor Force	Unemployed Labor Force
1995-96	34.8	1.3
1999-00	39.0	1.7
2002-03	44.3	2
2005-06	47.4	2.1
2009-10	51.0	2.7

Source: Bangladesh Bureau of Statistics.

According to MES 2009, it is observed that highest 39.22 percent of labour force is engaged in self-employment which was 41.98 percent in 2005-06. It may be noted that during the two survey periods, the number of self-employed labor force decreased by 2.76 percent. According to the MES 2009, 20.20 percent of labor force was engaged as daily laborers and 21.18 percent is engaged in home service activities without any wage, which according to the previous survey was 18.14 and 21.73 accordingly. However according to latest report full time employed workers has increased by 3.14 percent and stood at 17.06 percent.

3.5 Value of Export

In Bangladesh trade is an engine of growth and development. The country has been pursuing export-led open and liberal economy since 1990s. It has reduced the coverage of quantitative restrictions and reduced the maximum tariff rate to 25 percent with only 5 tariff slabs including 0 slab. The export basket of Bangladesh was always dominated by either agricultural products like Jute, shrimp, tea or low value added non-traditional manufacturing items like readymade garments, knitwear, leather products etc. But over the years the number of items in the export basket has risen and the number of export

destinations has increased which has helped to raise the total export volume. For the last one and half decade readymade garments (RMG) has lead the export basket with a highest contribution of about 76% of total export earnings. Bangladesh export sector registered an average growth rate of 14.53% through the 1990's which increases to about 18% in 2006-2008 but due to recent crisis the overall export growth was 10.31% in 2008-2009.

Table 5: Value of Export (in million US dollar)

Years	Total Value of Export	Annual Change (%)
2002-03	5986	-7.44
2003-04	6548	9.39
2004-05	7603	16.10
2005-06	10526	21.63
2006-07	12178	15.69
2007-08	14111	15.87
2008-09	15565	10.61
2009-10	16200	4.07
2010-11	18700	15.43

Source: Export Promotion Bureau and Bangladesh Bank

The export earnings of Bangladesh stood at US$ 18700 million in FY 2010-11, which was US$ 14110.78 million in FY 2007-08. Export earnings increased mainly due to increases of export of knitwear and woven garments during the year. Analysis of composition of exports in FY09 by major categories reveals that the export earnings over the last fiscal year increased mainly for chemical products, handicrafts, knitwear, woven garments, footwear, and agricultural products. On the other hand, export earnings decreased in respect of leather, petroleum by-products, tea, ceramic products, jute goods, frozen food, engineering products, and raw jute.

3.6 Value of Import

Bangladesh import volume is heavily dominated by the basic consumer items and is influenced by the internal agricultural and industrial productivity. Bangladesh import sector registered an average growth rate of about 11%. The overall import situation of the country is shown in Table 6.

Table 6: Value of Import (in million US dollar)

Years	Total Value of Import	Annual Change (%)
2002-03	9658	13.1
2003-04	10903	12.9
2004-05	13147	20.6
2005-06	14746	12.2
2006-07	17157	16.4
2007-08	21629	26.1
2008-09	22507	4.1
2009-10	23738	5.5

Source: Bangladesh Bank.

The high growth rate was achieved due to more growth of textile, iron, steel, and capital goods. The total import payments (cif) amounted to US$ 22,507 million in FY 2008-09, which is 4.1 percent higher than the import payments of US$ 21,629 million in the previous year. Analysis of imports reveals that in FY 2008-09, the following commodities contributed to the overall growth of import payments: fertilizers, wheat, oil seeds, yarn, cotton, and Staple fiber. Imports in Bangladesh have declined in FY2008-2009 due mainly to two reasons: first, fall in international prices especially oil and food commodities; and second, decline in import volume. The growth in imports was only 4.1 percent in FY2009 in contrast with 26.1 percent growth in FY2008. The import of food grains has declined due to two consecutive good harvests of rice (the staple food) and some softening of domestic demand resulting from growth slowdown. Import growth in Bangladesh is shown in the following figure (Figure 2).

3.7 Balance of Payment

The balance of payment situation of Bangladesh has been improving over the years as deficit in the external balance of payment has reduced due mainly to growth export and remittance inflow. The condition of balance of payment of Bangladesh is shown in Table 7. The trade deficit of Bangladesh reduced by 15.0 percent during FY2008-09 compared to the deficit of 60.2 percent in FY 2007-08 thus trade balance recorded a deficit of US$ 4,708 million in FY 2008-09 as compared to the deficit of US$ 5,330 million in FY 2007-08.

Table 7: Balance of Payment (in million US dollar)

Years	Overall Balance
2001-02	408
2002-03	815
2003-04	171
2004-05	67
2005-06	365
2006-07	1493
2007-08	331
2008-09	2058

Source: Bangladesh Bank.

In spite of the increase in the deficit recorded in the income and service accounts by 36.92 percent and 6.3 percent, respectively, and the increase in the flow of remittance by 19.10 percent in FY 2008-09, the surplus recorded the current account balance increased by 272.90 percent as compared to the previous year. The surplus recorded in the overall balance of payment stood at US$ 2,058 million during FY 2008-09. It was US$ 331 million in FY 2007-08. The balance of payments from FY2002-03 to FY2007-08 and trade balance and current account balance are shown in Table 7 above.

3.8 Average Exchange Rate

Bangladesh currency 'Taka' entered into floating exchange rate from May 31, 2003. At present, exchange rate is determined by the demand and supply of

the currency under the market-based floating system. From FY2007-08 taka started to appreciate against dollar and which was sustainable until the end of fiscal year because of growth supportive monetary policy and other measures along with adequate foreign currency receipts from export earnings and workers' remittance. In order to protect the competitiveness of export market Bangladesh Bank maintains the stability of exchange rate by purchasing foreign exchange at the market price from time to time with a view to mitigating the pressure of appreciation of taka on foreign exchange rate due to the increase in remittance sent by Bangladeshi expatriates and export along with sluggish import payment. The average exchange rate is shown in Table 8.

Table 8: Average Exchange Rate (Taka Per USD)

Years	Average Exchange Rate
2001-02	57.43
2002-03	57.9
2003-04	58.93
2004-05	61.39
2005-06	67.07
2006-07	69.03
2007-08	68.60
2008-09	68.80
2008-09	69.93
2009-10	70.27
2010-11	81.01
2011-12	79.81

Source: Bangladesh Bank

From the Table 8 it is observed that taka-dollar weighted average exchange rate stood at Tk.70.27 at the end of FY 2009-10 as compared to Tk.68.8 at the end of FY 2008-09. However, it is observed that relative volatilities of the exchange rate are very low for the period 2007-2010. However, sudden depreciation of taka was observed in the end of the year 2010-11 when exchange rate reached to 81.01 take per dollar although it has slightly reduced to 79.81 in 2011-2012. Bangladesh Bank has essentially kept the value of taka at a depreciated level. Sometimes there observed pressure in the taka-dollar exchange rate for the excess demand of foreign exchange due to increased import payment of agricultural inputs due to huge damage in agricultural sector caused by floods, cyclone and price hike of food grain and petroleum commodities in international market.

3.9 Foreign Exchange Reserve

Over the last few years foreign exchange reserve is increasing at a stable rate. Supported by increased export earnings and significant rise in remittance flows, foreign exchange reserve stood at US$ 5077 million at the end of June 2007 reflecting a growth of 42.27 percent as compared to US$ 3,484 million at the end of the same period of the preceding year. Foreign exchange reserve stood at US$ 6,149 million as on June 30, 2008, which was 21.11 percent higher than the amount as on June 30, 2007. The foreign exchange reserve stood at US$ 7,471 million as on June 30, 2009 which was 21.52 percent higher than the amount as on June 30, 2008. Foreign reserve has grown rapidly since 2010 and now the reserve is USD12.3 in 2012. The foreign exchange reserve over the last few years is shown in Table 9.

Table 9: Foreign Exchange Reserve (In million US dollar)

Years	Foreign Exchange Reserve
2001	1307
2002	1583
2003	2470
2004	2705
2005	2930
2006	3484
2007	507
2008	6149
2009	7471
2010	10117
2011	9645
2012	12340

Source: Bangladesh Bank.

3.10 Net FDI Flow

Though the government of Bangladesh has been taken several steps to set up institutions, infrastructure and required reform programs in capital market, board of investment and privatization commission to create a private investment-friendly environment, FDI record shows a underperforming scenario. Despite of availability of cheap labor, due to political unrest, power shortage and time lags in decision making in government sector the flow of FDI in Bangladesh is not so significant. In FY 2007-08, the total FDI in Bangladesh was US$ 768.7 million and in FY 2008-09, the amounts increased to US$ 900 million. The net FDI flow of Bangladesh over the last few years is shown in Table 10.

Table 10: Net FDI Flow in Bangladesh (In million US dollar)

Years	FDI Flow
2001-2002	393.8
2002-2003	179.2
2003-2004	284.1
2004-2005	803.8
2005-2006	744.6
2006-2007	792.8
2007-2008	768.7
2008-2009	900.5
2009-10	916.9
2010-11	1136.4

Source: Bangladesh Bank.

3.11 Investment and Saving

At the beginning of the 1990s the share of private investment in total investment was about 60 percent, which stood at 82.145 percent in FY 2009-10. Analysis of the investment data reveals that the contribution of public sector in total investment is gradually decreasing whilst the contribution of private sector investment is gradually increasing. The government has started to prepare and implement the short, medium and long term plans for the creation of an investment friendly environment and a competitive market system, adoption of innovative technology, and provision of infrastructural facilities that are able to attract entrepreneurs and expand domestic market. In FY 2001-02, the rate of total investment was 23.15 percent of GDP of which the shares of public and private sector were 6.37 percent and 16.78 percent respectively. The rate of national investment gradually picked up to 24.38 percent of GDP in FY 2009-10 where the contribution of private investment has rise over the period with a decline in public investment.

Table 11: National and Domestic Savings as Percentage of GDP

Years	Public Investment	Private Investment	National Savings	Domestic Savings
2001-02	6.37	16.78	23.44	18.21
2002-03	6.2	17.21	24.91	18.63
2003-04	6.19	17.83	25.42	19.53
2004-05	6.21	18.32	25.84	20.16
2005-06	6.0	18.65	27.71	20.35
2006-07	5.6	18.73	28.72	20.37
2007-08	4.95	19.25	30.21	20.31
2008-09	4.63	19.55	29.68	20.14
2009-10	4.65	19.74	29.78	19.81

Source: Bangladesh Economic Review-2010.

National savings has shown increasing trends over the years. In FY 2001-02 the domestic and national savings as percentage of GDP were 18.21 and 23.44 percent respectively. Domestic and national savings had reached to 20.31 and 30.21 percent of GDP respectively in FY 200-08. The rates of domestic and national savings have become 19.18 and 29.78 percent of GDP in FY 2009-10 due to the effect of recent financial crisis. National and domestic savings as percentage of GDP of Bangladesh over the last few years is shown in Table 11.

3.12 Overseas Employment and Remittance

As employment opportunity in the country is not so sound, overseas employment always an expected option to the unemployed people. A significant number of people are employed in abroad and they contribute in economy through sending remittance. Number of foreign employment is increasing gradually over the year. Most of the overseas employment is in Middle East and in some growing South East Asian countries. This overseas employment contributes a lot in easing the foreign currency need of the country in recent years. Most overseas employee is semi-skilled and less skilled and their employment depends on the economic wealth of these developed countries in which they are employed. Analyzing the statistics of the Bureau of Manpower Employment and Training (BMET), it is observed that about half of overseas workers that went abroad are less-skilled. Overseas employment and remittance of Bangladesh over the last few years is shown in Table 12.

Table 12: Overseas Employment and Remittance

Fiscal year	No. of Expatriates (000)	Remittances	
		Million USD	Million Tk.
1999-00	248	1949	98250
2000-01	213	1882	102660
2001-02	195	2501	143770
2002-03	251	3062	177300
2003-04	277	3372	198700
2004-05	250	3848	236470
2005-06	291	4802	322110
2006-07	564	5978	413040
2007-08	981	7915.7	542932
2008-09	875	9663.2	666765
2009-10	359	9191.2	635611

Source: Bangladesh Economic Review and Bangladesh Bank.

There is a significant change in the structure of expatriates classified by skill during the last few years. In 2000 the share of professional expatriates was 5 percent which become negligible in 2008. During the same period the share of skilled workers comes down to 33 percent from 45 percent. On the other side the share of less-skilled worker rose to 52 percent from 38 percent.

4. Conclusion

Bangladesh is a small country with huge population. In spite of its extreme efforts and growth prospects Bangladesh is yet to reach to the stream of the middle income countries and to improve effectively the quality of life of its people because of low income and poverty, structural weakness of the economy and lack of productive capacities for development. Against the back drop of several limitations, the growth pattern of Bangladesh economy has been relatively strong during the 1990s and 2000s showing considerable improvement over the previous two decades. The macroeconomic indicators analyzed above show that the economy of Bangladesh is gradually implying better performance over the last few years. The biggest challenge of the economy is to maintain high performing growth through increasing production, minimizing human poverty, stabilizing commodity prices, securing health and education for all, enhancing creativity and human capacity and tackling the adverse effects of climate change. With continued

economic growth Bangladesh Economy has established itself on solid foundation. During last five years continued growth has led to attainment of GDP growth above 6%. There is satisfactory growth in export-import, continued flow of remittance, favorable current account balance has stabilized the situation. Despite such performance Bangladesh has been adversely affected by financial crisis originated in the developed countries. Export was also affected by the global recession titled as US subprime crisis. This problem led to the shifting of orders for Bangladeshi garment industry to other countries. This was due to decline in the consumer expenditure in the countries with which Bangladesh trades. Exports of other sectors such as leather, handicraft etc has been adversely affected.

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