BANGLADESH ECONOMY: MACROECONOMIC PERFORMANCE*

I. INTRODUCTION:

The Bangladesh economy has experienced both macro-economic stability and robust economic growth following the transition to a democratic rule in the early of 1990s. In the backdrop of the deep macro-economic crisis of the late 1980s, a series of stabilization measures were introduced in the Bangladesh economy which largely restored macro-economic stability in the early 1990s. Subsequently, the Bangladesh economy registered an average GDP growth rate of 4.8 per cent in the 1990s, which was one full percentage point higher than that recorded in the previous decade (i.e. 3.8 per cent) (Bhattacharya: 2002). Despite of such impressive growth throughout the decade, the per capita income of Bangladesh at the beginning of the new decade was not only the lowest among the South Asian countries, but also below the average per capita income of the least-developed countries (LDCs). Within the decade of the 1990s, the second half demonstrated an even more impressive growth performance (5.2 per cent, FY96-00) in comparison with the first half (4.4 per cent for FY91-95). However, the per capita growth rate of 4-5 per cent is impressive by LDC and even developing country standards.

Indicator	FY91-00	FY91-95	FY96-00	FY01-04	FY05*	FY06*
GDP Average Growth Rate (per cent)	4.8	4.4	5.2	5.1	6.0	6.5

Notes: * indicates PRSP Projections
Source: Computed from CPD-IRBD Database and BBS Data

The macroeconomic developments in Bangladesh since the beginning of the 1990s, until middle of the decade, were characterized by a record-low rate of inflation, an unprecedented build-up of external reserves and an improved resource position of the government. These developments have been interpreted in part as evidence of successful macroeconomic stabilisation, but also in part as symptoms of economic stagnation. The changes in the macroeconomic trends in the early 1990s came in the wake of a transition to a democratic rule along with the launching of a comprehensive programme of market-oriented liberalizing policy reforms. After that period there was a evident in a build-up of inflationary pressures, a deterioration in the government's budgetary balances and a rapid draw-down on foreign exchange reserves. (Mahmud: 1997)

Since the beginning of the new decade after 1990s, the Bangladesh Economy was facing possibly the most severe exigency after the macroeconomic crisis of the late 1980s. The

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enormous achievements of the 1990s have fallen under threat because of the twin shocks emanating from large fiscal deficit and deteriorating balance of payment position that have exposed the entrenched vulnerabilities of the Bangladesh. It appeared that both the pillars of success of the macro-economy, *viz.* stability and growth, were in peril. But the pressure has been accentuated by a benign neglect in undertaking necessary reform measures to improve the competitiveness of the economy. However, the obtaining situation has been aggravated further by a confluence of external factors ranging from global recession and practices of discriminatory trade preferences to terrorist attacks in the USA on September 11, 2001 (Bhattacharaya 2003).

II. GROWTH, SAVINGS AND INVESTMENT:

II.1 Growth

The Bangladesh Economy has experienced acceleration during the 1990s in comparison to the 1980s. The economic growth of Bangladesh has routinely registered 4 per cent plus growth in the 1990s (Figure 1). In the 1990s, the growth momentum was higher during the second half of the decade in comparison to the first half: average growth rates were 4.4 per cent (FY91-95) and 5.2 per cent (FY96-00).

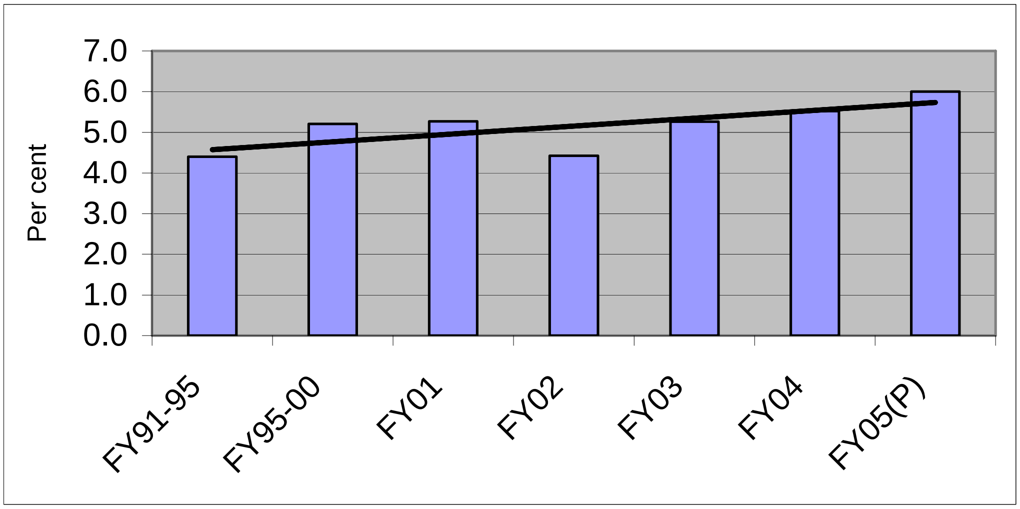


Figure 1: Trend in GDP Growth (FY91-FY05)

According to the BBS, the Bangladesh economy posted a growth of 5.5 per cent during FY04 as against 5.3 per cent in FY03 and 4.4 per cent in FY02. And I-PRSP projections indicate that GDP growth rate will grow at 6.0 per cent in FY05 and reach to 6.5 per cent in FY06.

II.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 per cent from FY01-FY04 (Table 1).

TABLE 1

Trends in Incremental Contribution of Sectors in GDP Growth

	FY91-95	FY96-00	FY01-04
Agriculture Sector	20.46	18.05	9.50
Industrial Sector	25.91	33.92	35.54
Manufacturing Sector	20.26	20.09	18.35
Service Sector	45.73	42.26	54.67

Source: Computed from CPD-IRBD Database and BBS (Various Issues)

II.3 Skewed Structural Transformation

The ongoing structural transformation of the Bangladesh economy is charaterised by the falling share of the Agriculture sector with marginal increase of the manufacturing in the backdrop of increasing contribution of the service sector. In FY01-04, the real economic sector accounted for 39.3 per cent of the GDP; the said proportion was 40.98 per cent for the period of FY91-95 and 41.25 per cent in FY96-00. This suggests that in spite of improved growth, the evolution of the Bangladesh's economy remains biased against modern, industrial transformation having concomitant implications for sustained growth and equitable income distribution

II.4 Income Distribution

In spite of improved growth throughout the 1990s, income distribution deteriorated during this period coupled with slow pace of poverty alleviation. The per capita income of Bangladesh at the beginning of this decade was not only the lowest among the South Asian countries, but also below the average per capita income of the least-developed countries (LDCs). Whatsoever, a per capita growth rate of 4-5 per cent is impressive by LDC and even developing country standards, particularly if it can be sustained.

Bangladesh attained notable progress in income-poverty reduction since the beginning of the 1990s. Population below absolute poverty line (by HCR-DCI method) declined from 47.5 per cent in FY92 to 44.33 per cent in FY00[1]. More importantly, the incremental growth had an anti-poor bias, which resulted in deterioration in income distribution. For example, between FY92 and FY00, national income attributable to the poorest 10 per cent of the population declined further from a miniscule proportion of 2.58 per cent to 1.84 per cent. Conversely, the control on the national income by the richest 10 per cent of the population increased from 29.23 per cent to 40.72 per cent. In other words, the income differential between the poorest and the richest increased from about 15.50 times to more than 22 times during the second half of the 1990s.

TABLE 2

Trends in Poverty and Inequality in the Nineties

	1991/92	1995-96	2000
Head-Count Ratio-Direct Calorie Intake (HCR-DCI) Method	47.5	47.5	44.33
Poverty Gap	17.2	14.4	12.9
Gini Coefficient	0.388	0.432	0.472
National Income to the poorest 10 per cent of Population	2.58	2.24	1.84
National Income to the richest 10 per cent of Population	29.23	34.68	40.72

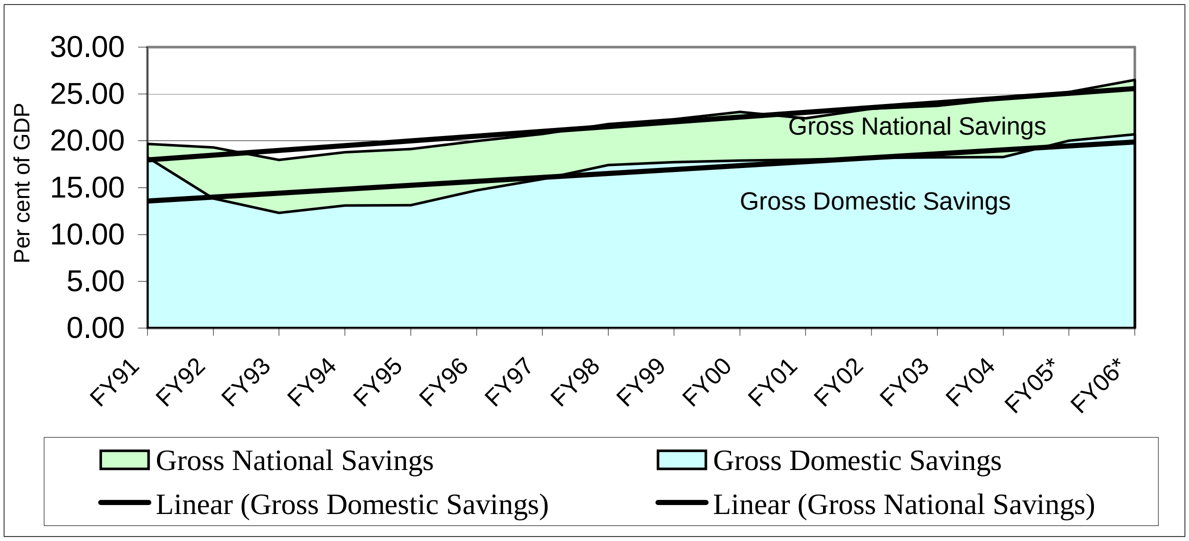
Source: Household Expenditure Survey (HES) (1995-96, 2000), I-PRSP (2003)

There is no evidence, which can suggest that this trend has been reversed during the last couple of years.

II.5 Savings

Bangladesh has one of the lowest domestic savings rates among the developing countries in general and South Asian countries in particulars. Bangladesh's domestic savings performance in the early 1990s was in fact paralleled the budgetary performance. The national savings rate was more or less stagnated in the first period of 1990s, which represents a reversal of the macroeconomic gains of that period. But the domestic savings rates were more remarkable in that period. In FY91, the domestic savings rate was 18.23 per cent of GDP which was much more higher than the average growth rate of the same period (14.12 per cent). The possible reasons responsible for that scenario were weakening efforts for mobilization of public sector resources and import liberalization, in the absence of a strengthening of domestic tax efforts after FY91.

[1] Poverty line for absolute poverty in 1983-84 & 1985-86 was estimated based on 2200 K cal person/day.



Notes: * indicates I-PRSP projections

Figure II: Trends in Savings Rate (FY91-FY06)

TABLE 3

Savings as per cent of GDP (FY91-06)

Savings as % of GDP	FY91-95	FY96-00	FY01-04	FY05*	FY06*
Gross National Savings	18.97	21.58	23.52	25.2	26.5
Gross Domestic Savings	14.12	16.72	18.16	20.0	20.7

Notes: * indicates I-PRSP Projections

Source: Computed from CPD-IRBD Database and Finance Division (2004)

The savings rate both domestic and national showed an increasing trend in the latter period of 1990s compared to its previous period, although it did not show any drastic change. The domestic savings rate is stagnated for last couple of years. In FY01 it was 18.00 per cent, stagnates at 18.27 per cent in FY04. On the other hand, the national savings rate also increased marginally from 22.41 per cent in FY01 to 22.49 per cent in FY04. The marginal increase of the latter is underpinned by increasing flow of foreign remittances from the expatriate Bangladeshi workers. The prolonged stagnation of the domestic savings may be largely explained by the deteriorating income distribution scenario in the Bangladesh economy as the poor who demonstrate higher propensity to save are being deprived of their proportionate share in incremental national income.

II.6 Investment

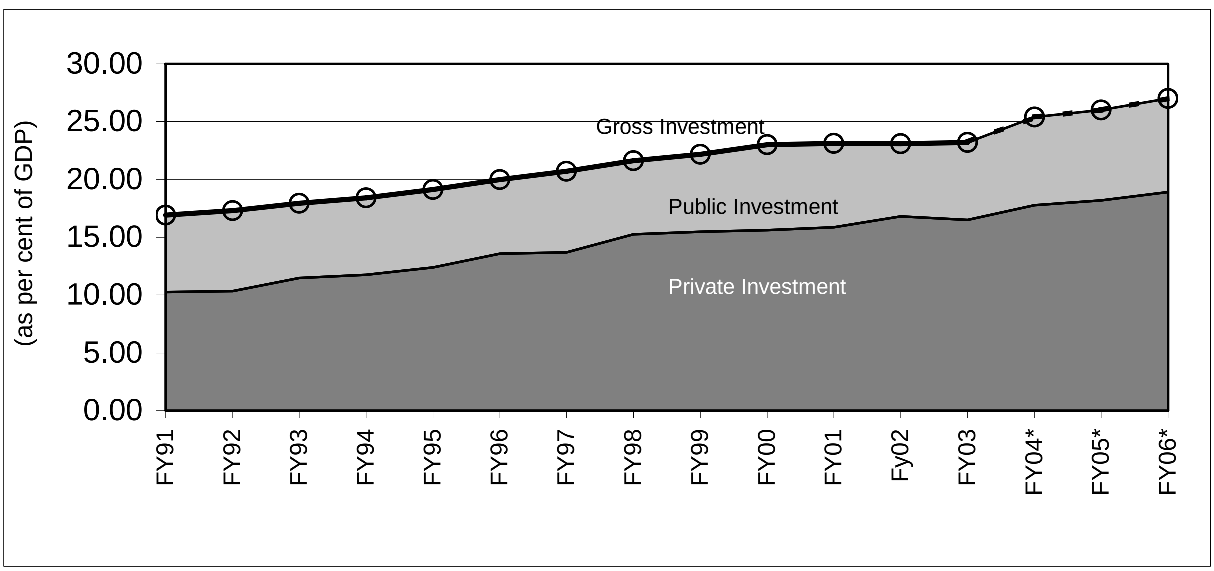
The official estimates show that the gross investment-GDP ratio increased steadily by more than 4 percentage points between FY91 and FY95. The import boom witnessed in this period can be perhaps attributed to a short-lived investment dynamism, coupled with large cuts in import duty rates undertaken as part of import liberalization programme.

TABLE 4
Investment as percentage of GDP (FY91-FY04)

	FY91-95	FY96-00	FY01-04	FY05*	FY06*
Gross Investment	17.94	21.51	23.31	26.00	27.00
Private Invesment	11.24	14.52	16.83	18.20	18.90
Public Investment	6.69	6.79	6.49	7.80	8.10

Notes: * indicates I-PRSP Projections
Source: Computed from CPD-IRBD Database and Finance Division (2004)

Gross investment as a share of GDP reached 23.02 in FY00 from 19.99 per cent in FY96, recording an average growth of about 21.51 per cent during the that period. In average, the public investment rate has increased marginally from 6.69 per cent during FY91-FY95 to 6.79 per cent during FY96-FY00. The time series data shows that a virtual stagnation was prevailing in the rate of private investment as it is hovering at an average less than 15 per cent of GDP during the period.



Note: * indicates I-PRSP projections

Figure III: Investment Trend (FY91-FY04)

The gross investment rate was 23.09 per cent and 23.58 per cent of GDP in FY01 and FY04, respectively, indicating a less than 0.50 per cent growth during this period. The public investment rate has declined from 7.25 per cent in FY01 to 6.12 per cent of GDP in FY04. The private investment rate private investment has increased from 15.86 per cent in FY01 to 17.47 per cent of GDP in FY04. However, data shows that private investment is more or less stagnated during the period. So, it is obvious that without the sustained increase of the public investment rate during the corresponding period, the gross investment scenario would had been much more depressing.

III. PUBLIC FINANCE

III.1 Revenue Receipts

Weaknesses in the domestic resource mobilization effort have emerged as one of the major structural constraints facing the Bangladesh economy in the 1990s. Though the share of revenue (tax and non-tax together) in the GDP has increased from 7.08 per cent in FY91 to 10.87 per cent in FY04, nonetheless one observes a plateauing of the revenue-GDP ratio since the mid-1990s (Figure IV). Thus the revenue receipts in Bangladesh, as a share of GDP, is still lower than many developing countries.

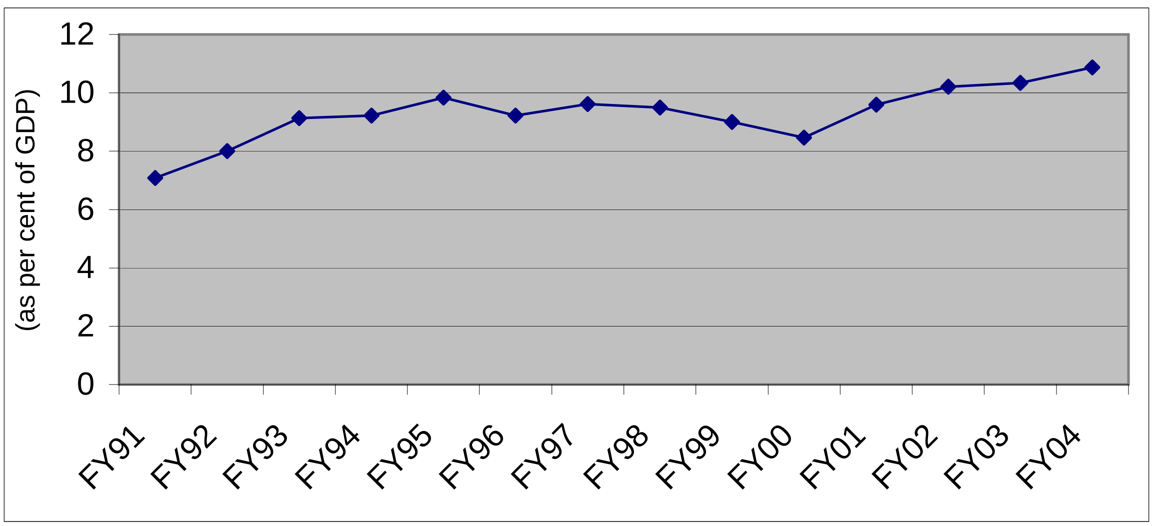


Figure IV: Total Revenue as per cent of GDP

After the success of the early 1990s in revenue earnings, the revenue mobilization process started to show signs of exhaustion. The success of the early 1990s was greatly triggered by the introduction of VAT. The VAT provided a bigger source of revenue compared to the taxes it replaced, mainly in respect of taxation of domestic production. The dip in the second half of 1990s was largely predicated by the devastating floods of 1998. Some recovery was observed in

FY01, when the total revenue collection recorded 9.60 per cent of GDP and increased to 10.87 per cent in FY04. Such a feat was possible thanks to spectacular success in meeting the revenue collection target by the NBR. The I-PRSP projections show that the total revenue as percentage of GDP will reach to 11.9 per cent in FY06.

TABLE 5

Revenue as percentage of GDP (FY91-FY04)

	FY91-95	FY96-00	FY01-04	FY05*	FY06*
Total revenue	8.65	9.16	10.26	11.13	11.9
Tax revenue	7.18	7.40	8.17	9.2	9.7
Non-tax revenue	1.87	1.76	2.09	2.1	2.1

Notes: * indicates I-PRSP Projections

Source: Computed from CPD-IRBD Database and Finance Division (2004)

III.2 Public Expenditure

Two distinctive phases in the trend of total public expenditure growth may be discerned in the Bangladesh economy during the 1990s. Public expenditures as a share of GDP experienced a rise in the early 1990s from the benchmark level of 12.91 per cent in FY91 and had hovered above 14 per cent during the mid-1990s. The said share once again started to increase in the second half of the 1990s, recording its peak in FY01 (14.8 per cent). And in FY04, public expenditure stagnates to 14.8 per cent of GDP and anticipates reaching 15.47 per cent in FY05. One important thing is to note that public expenditure-GDP ratio in Bangladesh remains quite low compare to other neighboring countries where the said share is around 20 per cent of GDP. For example, in India and Pakistan central government expenditure as a share of GDP (2002) are 30 per cent and 20 per cent respectively.

III.3 Revenue Expenditure

The revenue expenditures as a share of GDP had experienced a secular rise throughout the 1990s. But it has observed from the estimates that the average growth of revenue expenditure was lower during the first half of the 1990s compare to the second half. For instance, the revenue expenditure as a per cent of GDP was, on average, 6.7 per cent during the FY91-FY95 period, whereas the comparable figure for the next period (FY96-FY00) was 7.2 per cent. The said ratio was increased to 8.2 per cent on average for the last four fiscal years (FY01-FY04). According to the I-PRSP projections the revenue expenditure will increase by 8.4 percentage of GDP for the next two years.

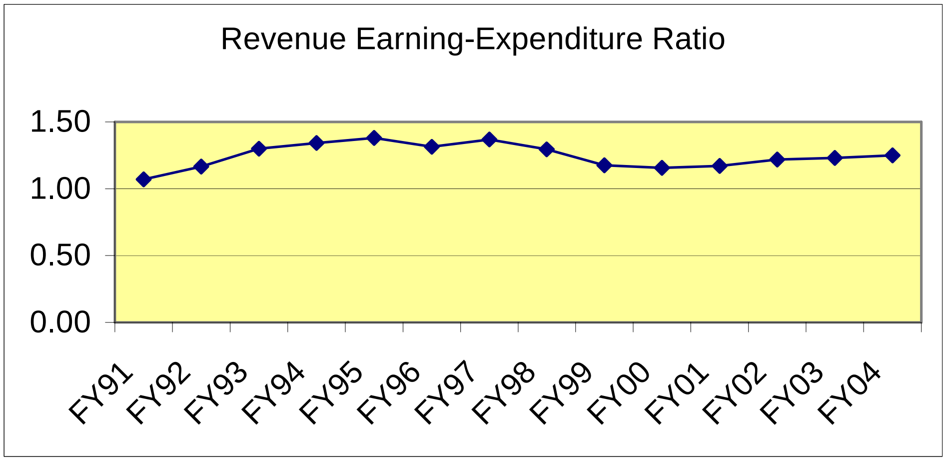
TABLE 6

Public Expenditure and Revenue Expenditure as percentage of GDP

(Per cent)

	FY91-95	FY96-00	FY01-04	FY05*	FY06**
Public Expenditure-GDP ratio	14.00	13.65	14.77	15.47	16.40
Revenue Expenditure-GDP ratio	6.7	7.2	8.2	8.4	8.4

Notes: * indicates I-PRSP Projections
Source: Computed from CPD-IRBD Database and Finance Division (2004)



III.4 Annual Development Programme (ADP)

The records of the Annual Development Programme (ADP) do not show any constancy between original, revised and actual ADP during the 1990s. In the first half of the 1990s revised allocations of ADP plunged the originally budgeted amount except FY 91 and FY95. The same scenario had observed in the first three years of the second half during 1990s. There was a tradition of increasing the size of the ADP during its revision for the three consecutive years since FY99. The ADP implementation (actual) has fallen short of the original as well as the revised targets showing the weak project implementation of ADP during the 1990s. The actual ADP size has raised steadily during the 1990s with the peak recorded in FY94 (37.1 per cent) followed by FY00 (23.7 per cent). A downward trend had observed in the ADP-GDP ratio during the 1990s showing, on average, 6.59 per cent for FY91-95 and 6.11 per cent for FY96-FY00. After 1990s the earlier trend was remaining for FY91-FY93 when the said ratio was 5.57 per cent.

TABLE 7

Annual Development Programme (FY91-FY03)

	FY91-95	FY96-00	FY01-03
Implementation as per cent of Original ADP	86.96	89.82	82.45
Implementation as per cent of Revised ADP	87.38	92.76	89.18
Annual Growth of Actual ADP	18.70	8.90	0.40
Actual ADP as per cent of GDP	6.59	6.11	5.57

Source: Computed from CPD-IRBD Database and Budget Summery Data

In the face of the increasing development needs of the country, Bangladesh remains an under-invested economy. The realised size of the ADP has stagnated in real term and has hovered between $3000 million and $2500 million during the last eight/nine years. The largest ever ADP was implemented in FY00 ($3033.5 million), followed by FY01 ($2850.0 million).

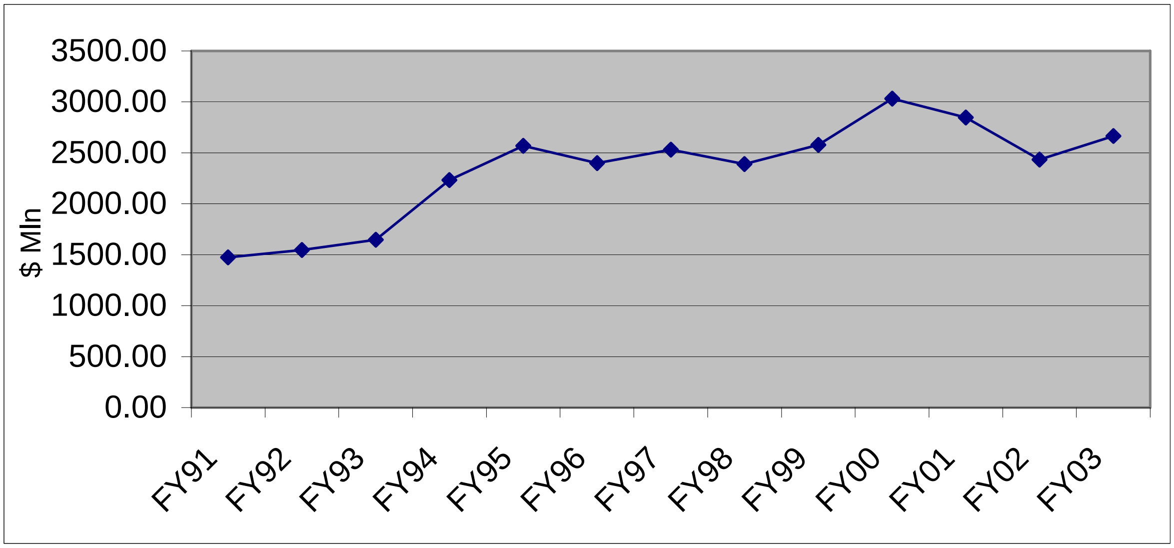


Figure V: Implemented Actual ADP

One of the key constructive trends in the public expenditure management throughout the 1990s relates to the decrease in dependence on foreign aid for financing the ADP. The realized share of the domestic contribution in ADP financing increased from about 13 per cent in FY91 to more than 50 per cent at the end of the decade- with the exception of the flood year FY99. It needs to be pointed out that the incremental share of domestic financing of the ADP was underwritten not only by the revenue surplus, but also by government borrowing form the banking system.

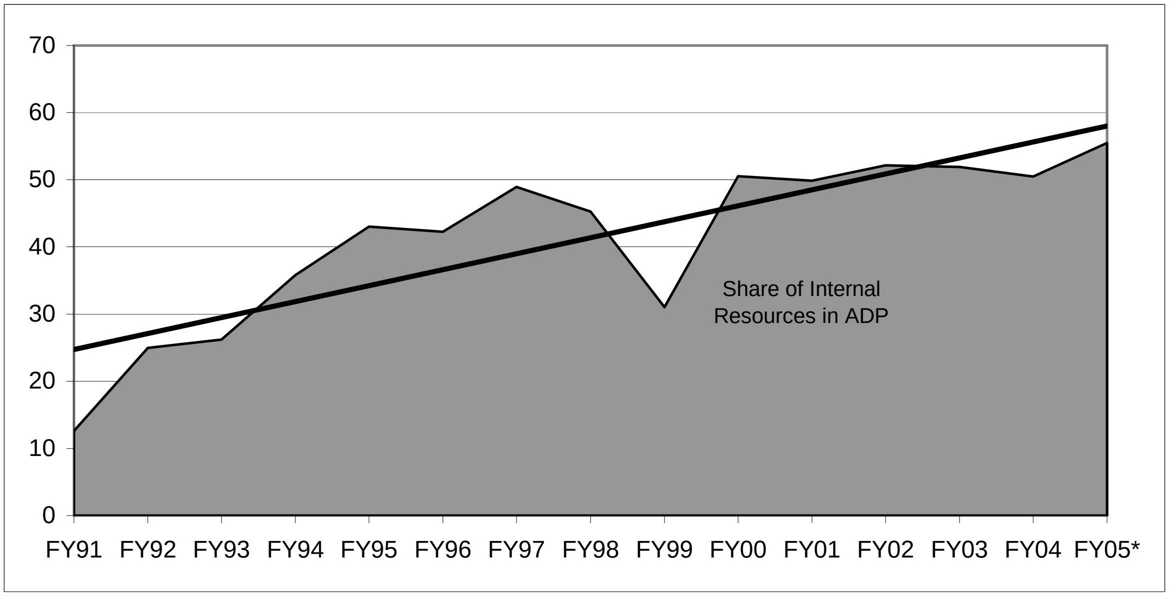


Figure VI: Share of Internal Resources in ADP (Revised) (FY91-FY05)*

III.5 Fiscal Deficit and Financing

A higher level of the budget deficit as percentage of GDP was observed in the early period of the 1990s, although the said share has decreased at the end of the period from 7.19 per cent in FY91 to 5.82 per cent in FY95. The share was decreased at less than 5 per cent for the first couple of years in the second half of 1990s. However, in the presence of increased demand on expenditures and lower than forecast revenue collection, largely because of flood related expenditures, the overall budget stood up at the end of the 1990s (e.g. 7.01 per cent of GDP in FY00). A marginal increase to 7.03 in the relative size of the fiscal deficit was observed in FY01. The share was restrained at less than 4.5 per cent during the next three consecutive years.

TABLE 8
Budget Deficit and Financing

(In Billion Tk.)

Year	Budget Deficit				Financing Deficit (as per cent of GDP)	
	Target	Actual	Difference as per cent of target	Actual Budget Deficit as per cent of GDP	Net Domestic Financing	Net Foreign Financing
FY91	59.39	79.50	33.86	7.19	2.38	4.81
FY95	80.96	88.69	9.55	5.82	1.97	3.84
FY96	92.57	81.41	-12.06	4.89	1.68	3.21
FY00	120.27	166.08	38.09	7.01	3.28	3.73
FY01	168.61	178.22	5.70	7.03	3.51	3.52
FY02	149.07	118.25	-20.67	4.33	2.06	2.30
FY03	117.70	127.84	8.62	4.25	1.88	2.07
FY04	158.09	139.67	-11.65	4.20	1.80	2.40
FY05[a]	159.48	n.a.	n.a.	4.30	1.92	2.40

Notes: [a] Based on target figures
Source: Computed from CPD-IRBD Database and Budget Summary Data.

In the early 1990s the budget deficits were largely financed by foreign resources in the form Official Development Assistance (ODA). Thus in FY91, ODA financed 86% of the ADP and net foreign financing of budget deficit was 4.81 per cent of GDP. At the end of the first half during 1990s the said share decreased to 3.21 per cent. The incremental share of the budget deficit was mostly financed be the domestic sources and net foreign financing sequentially fell during the second half of the 1990s. The present estimates show that the share of domestic and foreign financing sources was 1.80 per cent and 2.40 per cent of GDP, respectively. According to the target figures, the share of domestic resources will be 1.92 per cent of GDP without any significant change in foreign resources in FY05.

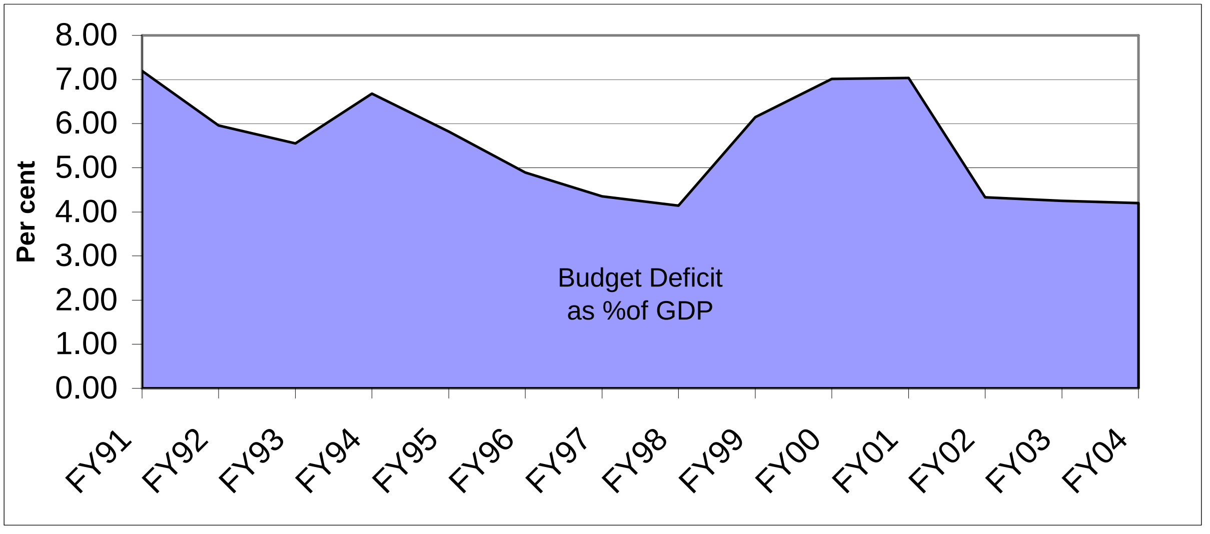


Figure VII: Budget Deficit (as per cent of GDP)

IV. MONETARY SECTOR

IV.1 Domestic Credit Expansion

Domestic credit expansion has been observed a rapid growth during the first half of 1990s with an average of 9.31 per cent (from 7.25 per cent in FY01 to 17.56 per cent in FY95) except 4.86 per cent growth rate recorded in FY94. It has been arrested after the mid-1990s and brought down to 13.64 per cent at the end of the second half of 1990s, although a 14.69 per cent growth rate has registered in that period which is much more higher than the first half. A moderate expansionary monetary policy was responsible for that higher average growth rate of aggregate credit during the later part of the 1990s. It is also essential to be noted that the growth rates of aggregate credit in the second half were consistently higher compare to the first half. Domestic credit expansion has once again picked up in FY01 registering a growth rate of 17.65 per cent and brought down drastically to 9.48 per cent in FY03 which decreased the average growth rate to 13.35 during FY01-FY03 compare to the previous period.

TABLE 9
Domestic Credit Expansion

(In billion Tk.)

Year	Government		Other Public		Private Sector		Total		Share of Private Sector in Total Credit
	Amount	Annual Growth Rate	Amount	Annual Growth Rate	Amount	Annual Growth Rate	Amount	Annual Growth Rate	
FY91-FY95	38.06	22.95	53.97	-1.72	205.23	10.89	297.27	9.31	68.82
FY96-FY00	99.24	26.42	59.60	4.82	406.93	13.77	565.77	14.69	72.02
FY01-FY03	189.68	9.42	72.87	5.96	681.02	15.40	943.57	13.35	72.02

Source: Computed from CPD-IRBD Database and Bangladesh Bank data

However, it is important to note that the annual growth rate of domestic credit expansion in the government sector had been systematically higher throughout the 1990s than that of the private sector. For example, the average rate of growth in the government sector during FY91-FY95 was 22.95 per cent as against about 10.89 per cent in the private sector. During the second half of 1990s, the respective rates were 26.52 per cent and 13.77 per cent correspondingly. The differential between the two sets of credit expansion rate shows an opposite picture after 1990s registering, on average, a growth rate of 9.42 per cent in the government sector and 15.40 per cent in the private sector respectively during FY01-FY03. A negative growth rate (5.46 per cent) in the government sector in FY03 was responsible for that remarkable change in the composition of domestic credit expansion. In spite of the differential rates of growth, the private sector is maintaining its major share in the total credit expansion, from 68.82 per cent, on average, during FY91-FY95 to 72.02 per cent during FY01-FY03.

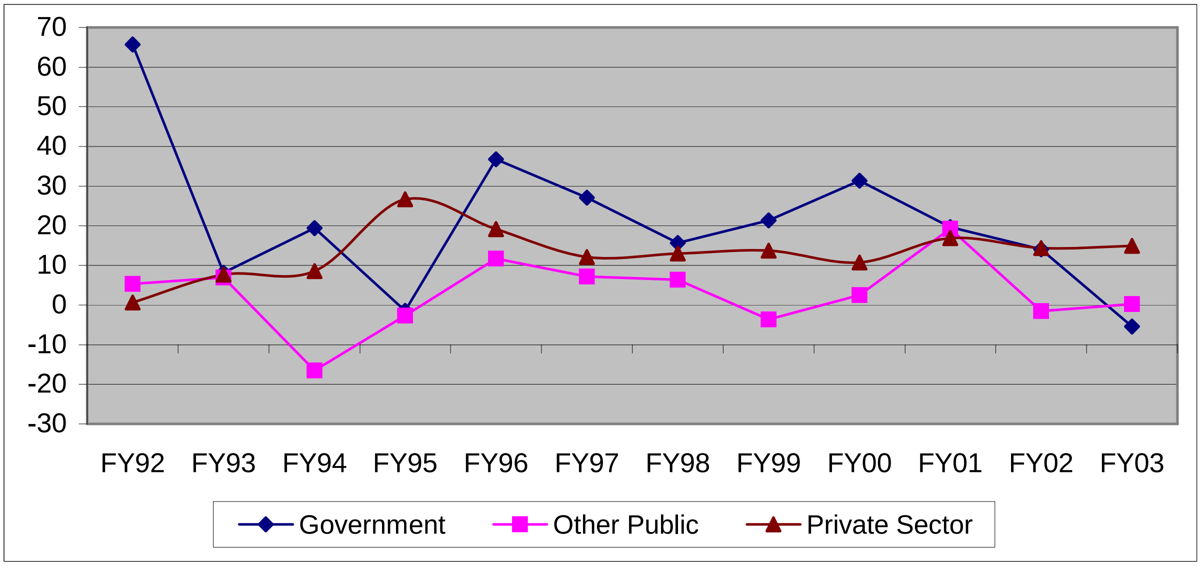


Figure VIII: Growth of Domestic credit

IV.2 Government Borrowing

A high intensity of domestic credit expansion in the government sector during 1990s resulted in a rising level of government borrowing from both the banking system and the public through the use of savings instruments. In the first half of the 1990s, on average, the total government borrowing was Tk. 52.44 billion which shows 21.38 per cent growth rate. The total government borrowing stood at Tk. 117.84 billion in the second half of the decade with an average growth rate of 24.80 per cent over the previous period.

TABLE 10
Average Net Government Borrowing

(In Billion Taka)

Source	FY91-FY95	FY96-FY00	FY01-FY03
Net Government Borrowing from Banking Sector	38.06	100.06	193.06
Growth Rate of Borrowing from Banking Sector	22.95	27.15	8.50
Net Non-Bank Borrowing of the Government from the Public	14.38	17.78	44.27
Growth Rate of Non-Bank Borrowing	22.80	27.29	11.12
Total Govt. Borrowing	52.44	117.84	237.33
Growth Rate of Total Borrowing	21.38	24.80	8.96

Source: Computed from CPD-IRBD Database and Bangladesh Bank data

An accelerated level of government borrowing from the Bangladesh Bank as well as from the scheduled bank subjected the macro-economic concerns since FY00. During this period one observes a change in the fiscal stance of the government as it moved away, partly, from borrowing from the banking system to raising of funds through sale of savings certificates to the public and treasury bonds to non-bank financial institutions.

The trend in the outstanding government borrowing from the banking sector has increased throughout 1990s registering from 2.0 per cent of GDP in FY91 to 6.2 per cent in FY00. At the end of FY03, there had been a net flow from the banking system (including both Bangladesh Bank and scheduled banks) to the government to the tune of Taka 190.6 billion. In FY03, the net decrease in government borrowing from the banking system amounted to about Tk.11 billion, which was 144.35 per cent less than the comparable, figure in FY02.The outstanding government borrowing from the banking sector, as share of GDP decreased to 6.3 per cent in FY03, while the comparable figure in FY02 was 7.4 per cent.

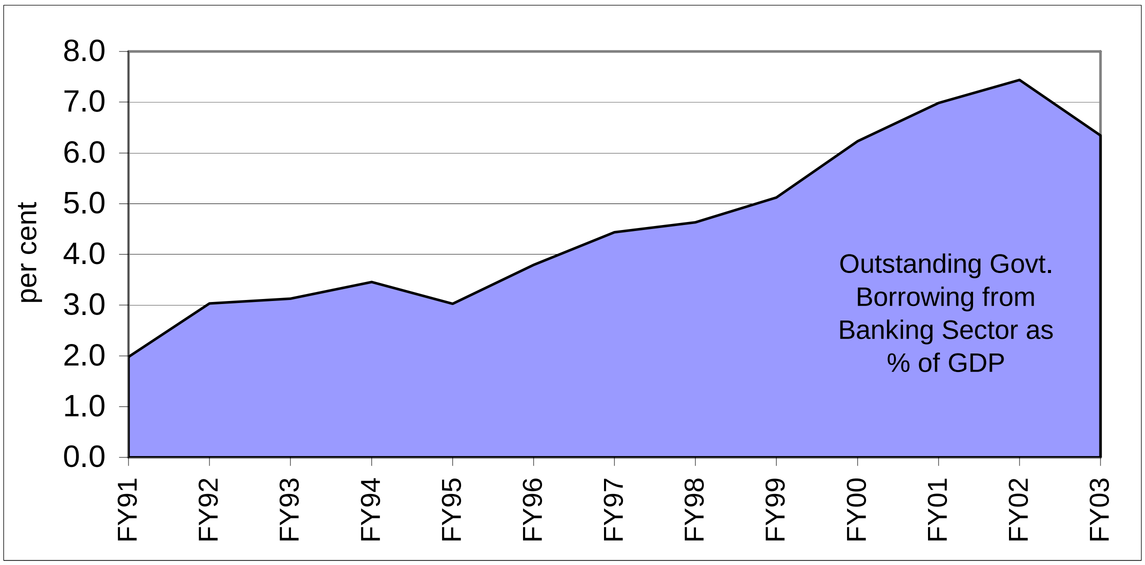


Figure IX: Outstanding Govt. Borrowing from Banking Sector as % of GDP

The government has lowered the interest rate in FY03 for savings certificates with the dual purpose of lowering cost of borrowing and channelling funds to the capital market. This also implies that the government's desire to push the small savers towards the capital market through decreasing the rate of assured return on public savings instruments has not as yet yielded its results.

IV.3 Agricultural Credit

One of the weak links of Bangladesh's rural economy is the flow of agricultural credit from institutional sources. Financial institutions have rather emerged as a guide for rural-urban resource transfers. Throughout the 1990s a little net inflow of resources from the rural areas had been observed as the annual disbursement figure exceed the corresponding recovery figure. For example, during FY91-FY95 and FY96-FY00 on average, such net outflows registered Tk. 13.6 billion and Tk. 2.63 billion respectively.

TABLE 11
Average Agricultural Credit Expansion

(In Billion Tk.)

Year	Disbursement		Actual Recovery	Net Flow
	Target	Actual		
FY91-FY95	15.82	9.88	6.25	1.36
FY96-FY00	27.91	21.99	19.35	2.63
FY01-FY03	31.11	30.89	32.16	-1.27

Source: Computed from CPD-IRBD Database and Bangladesh Bank data

After a long time, the government went for an extraordinary agricultural expansion with a view to both reviving rural economic activity and sustaining aggregate demand in the post-flood situation in FY99. As against a recovery of Tk. 19.2 billion, Tk. 30.2 billion was disbursed resulting in a net inflow of Tk. 11.03 billion of agricultural credit. That large amount of agricultural credit played a significant role in boosting the record *boro* crop of FY99, which played such an important part in helping the rural economy to recover from the effects of the floods. At the end of the 1990s and the beginning of the new decade, a net outflow of resources from rural areas was observed, registered, on average, Tk. (-) 1.27 billion during FY01-FY03.

IV.6 Inflation

A low rate of inflation is one of the cornerstones of macroeconomic stability of an economy. The country has experienced a moderate rate of inflation under double digit throughout the 1990s. At the first half of the 1990s, the national inflation rate (moving average) was, on average, 5.55 per cent, while the inflation rates for the abovementioned period for the urban and rural areas were 5.05 per cent and 5.71 per cent respectively. The average inflation rate in the latter half of the 1990s was somewhat high but under double-digit level. Even during the flood year (FY99) the national inflation rate did not rise to double-digit level. Although the rate remained under double-digit level, the inflation rate indicated an upward trend after FY97 just for two years. But the rising trend in inflation during FY99 was corrected during FY00 as the moving average rate came down to 3.41 per cent in June 2000 compare to 8.90 per cent in June 1999 because of a record *aman* harvest in FY00. As we observe that the average inflation rate for the said period was 5.70 per cent in the national level. For the rural and urban areas, the rates were 6.79 per cent and 6.11 per cent respectively. The increasing trend of inflation rate had been corrected since the beginning of new decade after 1990s. Such sustained low level of inflation was dictated by lower food grain prices ensured by successive good harvests. During the first three years of the new decade the average national inflation rate observed 3.03 per cent with very low level of food inflation rate at 2.38 per cent.

TABLE 12
Average Inflation Rate (Moving Average) (FY91-FY03)
(Base: FY86=100)

(Per cent)

Year	National			Rural			Urban		
	General	Food	Non-food	General	Food	Non-food	General	Food	Non-food
FY91-FY95	5.55	5.26	6.08	5.05	4.95	5.18	5.71	5.38	6.36
FY96-FY00	5.70	6.29	4.78	5.60	6.79	3.96	5.78	6.11	5.16
FY01-FY03	3.03	2.38	4.27	3.08	2.46	4.03	3.01	2.35	4.34

Source: CPD-IRBD Database and BBS data.

The recent trend in inflation rate (moving average) demonstrates an increasing trend. The inflation rate has increased from 2.36 per cent in the end June of FY02 to 5.14 per cent in the end June of FY03. Two disturbing features of the recent rise in the price level may be noted. *First*, the inflation rate during the period FY03 had been higher in the rural area in comparison to its urban counter part. *Second*, curiously, increase in food price during above mentioned period had been again higher in the rural area along with non-food price.

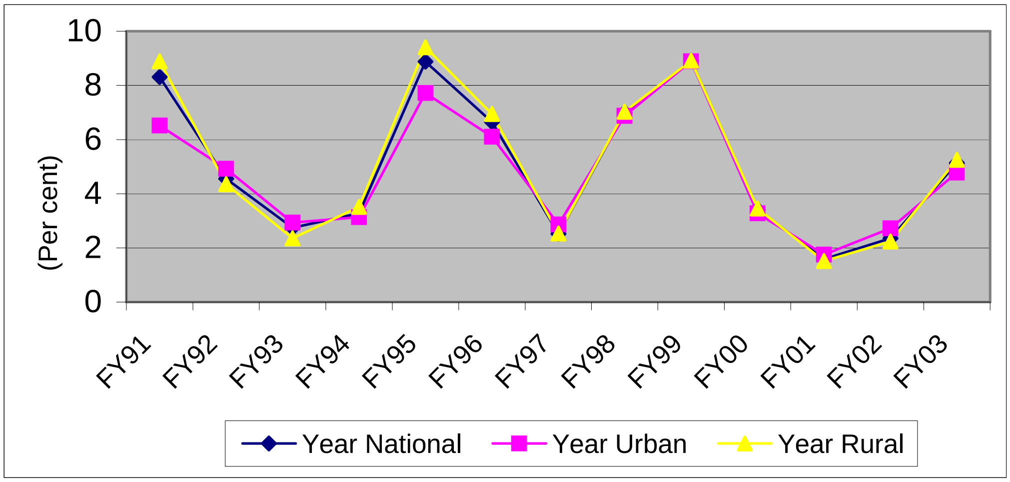


Figure X: Inflation Rate (FY91-FY03)

V. REAL ECONOMY

V.1 Agricultural Production

In spite of diminishing share in GDP, almost all the components of the agricultural sector have been demonstrating robust growth during the 1990s. The agricultural sector in general and the crop sector in particular still define the threshold performance of the Bangladesh economy. In the first half of the 1990s, the fisheries sub-sector had recorded the highest average growth of 7.78 per cent as against of 0.98 per cent average growth in the whole agriculture sector. A negative average growth rate (-) 0.34 per cent of the crop sector was responsible for that tiny growth in the agricultural sector during FY91-FY95. However, the agricultural sector received an excellent support from the sustained impressive growth of the crop sector during the second half of the 1990s. After the devastating shock imparted by the 1998 floods, the agricultural sector came back sharply and has maintained an outstanding growth performance through the consecutive record harvest of food grains. The sector has achieved an average growth rate of 3.88 per cent with the outstanding growth rate of 3.86 per cent in the crop sector during the second half. The fisheries sub-sector continued its highest performance (7.78 per cent on average) during that period. The agricultural sector continued to perform well in the first three years after 1990s although the average growth rate (2.83 per cent) during these years was lower compare to the second half of 1990s.

TABLE 13
Average Growth of Agricultural Output

(Per cent)

Year	Agricultural Sector	Crops	Forest	Livestock	Fisheries
FY91-FY95	0.98	-0.34	3.20	6.08	7.46
FY96-FY00	3.88	3.86	4.48	2.86	7.78
FY01-FY03	2.83	2.33	4.91	4.00	4.32

Source: Computed from CPD-IRBD Database and BBS Data

V.2 Industrial Production

During the early 1990s, the high growth in the manufacturing industries was accompanied by a rapid reduction in protection through the lowering of the import tariff. The industrial sector in the first half of the 1990s grew at an average annual rate 7.47 per cent which was largely possible for a robust growth in the manufacturing sector with on average growth rate 8.20 per cent. The robust performance of the manufacturing sector has decelerated during the second half of the 1990s recorded an average growth rate of 6.52 per cent. As a result, the growth of overall industry declined to 6.44 per cent, on average. The prolonged and devastating flood of 1998 was basis for the severe losses of the industrial sector at the end of the second half 1990s. For example, the overall industrial sector grew at annual rate of 4.90 per cent while the growth rate of the manufacturing sector was 3.19 per cent in FY99.

TABLE 14
Average Growth of Industrial Production
(Base = 1995/96)

(Per cent)

Year	Overall Industry	Mining and Quarrying	Manufacturing			Power, Gas, Water Supply	Construction
			Large and Medium	Small	Total		
FY91-FY95	7.47	5.79	8.41	7.69	8.20	6.52	6.27
FY96-FY00	6.44	5.59	5.49	5.87	5.59	4.43	8.01
FY01-FY04	7.12	7.05	6.26	7.39	6.58	7.79	8.42

Source: Computed from CPD-IRBD Database and BBS Data

The industrial sector has recovered gradually in the successive years after 1990s posting, on average, 7.12 per cent growth rate during FY01-FY04. The recovery was visible mainly in the large and medium scale industries as well as in small industries as 6.26 per cent and 7.39 per cent growth rate, on average, during FY01-FY04 against 5.49 per cent and 5.87 per cent during the second half of the 1990s.

V.3 Foreign Investment

As Table 14 suggests that Bangladesh received a net amount of $304.40 million as foreign investment (including foreign direct investment, portfolio investment and foreign investment in the EPZs) in the first half of the 1990s, of which, about $141.10 million (46.4 per cent) came as foreign direct investment (FDI) in the EPZ and $ 130.66 million (42.9 per cent) as portfolio investment. During the second half of the decade, a drastic change has observed in the composition of the total foreign investment as FDI played the key role in boosting the total inflow of foreign investment. Net flow of FDI sharply increased from $32.64 million during FY91-FY95 to $667.72 million in the second half, which is about 87 per cent in total inflow of foreign investment ($770.05 million). Portfolio investment recorded a net outflow of $ 157.57 million in that period while foreign investment in EPZ recorded a 84.2 per cent growth rate over the first half.

TABLE 15
Total Foreign Investment

(In Mln. US$)

Year	FDI			Portfolio Investment			Foreign Investment in EPZ (Net Inflow) [a]	Total Net Inflow of Foreign Investment
	Inflow	Outflow	Net Inflow	Inflow	Outflow	Net Inflow		
FY91-FY95	36.51	3.87	32.64	188.63	57.97	130.66	141.10	304.40
FY96-FY00	699.51	31.79	667.72	58.24	215.81	-157.57	259.90	770.05
FY01-FY03	334.49	3.61	330.98	8.39	12.71	-4.32	207.24	534.30

Notes: [a]Includes investments in joint-venture enterprises with local entrepreneurs
Source: Computed from CPD-IRBD Database, Bangladesh Bank Data and BEPZA.

During the first three years after 1990s Bangladesh witnessed a inflow of foreign investment of $534.30 million, of which $330.98 million (61.94 per cent) came as net inflow of FDI and another $207.24 million in the EPZ. It is expected that the figure may rise further in FY04 – but largely in the EPZs. However, the resurgence of the controversy regarding trade union rights in the EPZs, reflecting the concerns of Bangladesh’s largest export market, the USA, vis-a-vis the concerns of some of Bangladesh’s largest sources is investment in the EPZ, drawn from Japan and the Republic of Korea needs to be reserved without prejudice either to Bangladesh’s export or investment prospects.

VI. EXTERNAL SECTOR

VI.1 Import

Throughout the 1990s, Bangladesh's import sector registered an average growth rate of about 11 per cent. During the first half of the decade, liberalization policy taken by the governments for swelling imports gave support to the flow of inputs for export-oriented and domestic industries, and led to a surge in consumer and non-production related imports (Rahman: 2002). As a result, the total imports recorded an average growth rate of 14.53 per cent in the said period. Among the sub-sectors, the average growth rates of food grain, textile & dairy seeds and iron & steel were 39.17 per cent, 25.78 per cent and 23.04 per cent respectively. Imports of oil seeds showed a robust average growth of 127.55 per cent.

TABLE 16
Average Growth of Selected Imported Items (FY91-FY03)

(Per cent)

Items	FY91-FY95	FY96-FY00	FY01-FY03
Food Grain	39.17	20.32	12.88
Milk and Dairy Products	-10.30	9.11	3.43
Oil Seeds	127.55	5.66	-37.94
Edible Oil	16.18	4.82	0.29
Textile and Articles Thereof	25.78	2.76	11.51
Iron and Steel	23.04	16.72	23.79
Capital Goods	8.90	5.06	25.76
Others Including EPZ	15.58	13.69	17.79
Total Imports	14.53	7.63	16.84

Source: Various Issues of Economic Trends, Statistics Department, Bangladesh Bank

During the second half of 1990s, almost every imported items registered lower average growth compared to the previous period. Imports of food grain (20.32 per cent), oil seeds (5.66 per cent), textile and articles thereof (2.76 per cent) showed a drastic fall in the average growth rate. As a result, the average growth rate of total imports in the said period slowed down to 7.63 per cent.

The import growth arrested a positive tone during the first three fiscal years of the new decade after 1990s. The average import growth was 16.84 per cent which is the highest average growth rate among the three compared periods. This modest growth rate of imports has been achieved due to the robust growth of textile and articles thereof (11.51 per cent), iron and steel (23.79 per cent) and capital goods (25.76 per cent). The growth rate of oil seeds continued to decline registering average growth rate of (-) 37.94 per cent during this period.

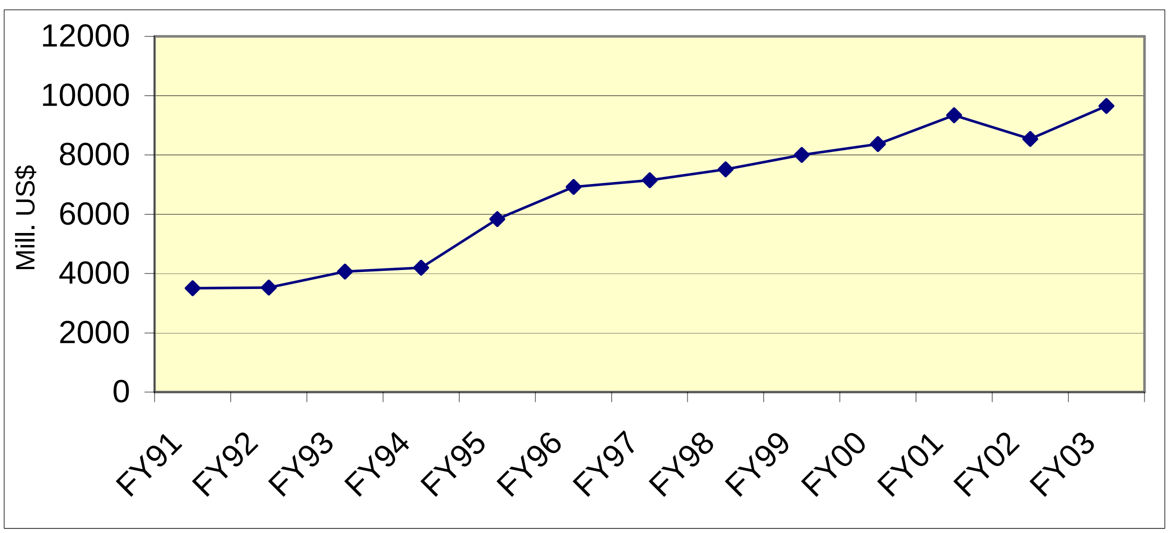


Figure XI: Total Imports (FY91-FY03)

VI.2 Exports

One of the major achievements of Bangladesh economy during the 1990s was the robust growth of exports, which put the country in the league of top 20 countries demonstrating fastest export expansion. At the same time, Bangladesh was in the process of graduating from a predominantly aid-dependent economy to a trading economy in this decade. Bangladesh's export sector registered an average growth rate of 14.53 per cent per annum throughout the 1990s.

TABLE 17

Average Growth of Selected Export Items (FY91-FY03)

(Per cent)

Items	FY91-FY95	FY96-FY00	FY01-FY03
Raw Jute	-6.48	0.53	6.40
Jute Goods	-0.40	-3.24	-6.23
Tea	-1.53	-6.42	-2.46
Leather	3.77	-0.24	9.49
Frozen Goods	18.80	3.03	-4.26
Handicraft	12.25	6.63	-9.26
Ready-made Garments	25.64	11.27	2.10
Knitwear	60.55	27.16	9.55
Chemical	50.92	-1.08	7.80
Others	74.36	17.14	19.31
Total	18.34	10.73	4.77

Source: Computed from CPD-IRBD Database and EPB Data

Table 16 indicates that the average growth rate of export (18.34 per cent) sector during the first half of the 1990s was much more higher comparing to the second half (10.73 per cent). Almost all export items experienced a robust average growth rate in the first half. More specifically, such a moderate growth rate of the export sector was possible due to the robust growth of frozen goods (18.80 per cent), ready-made garments (25.64 per cent), knitwear (60.55 per cent), chemical (50.92 per cent). During the second half of 1990s, the average growth rate of some of these items had drastically fallen. For example, a negative growth rate (1.08 per cent) registered in the chemical item and very lower growth rate in the frozen goods (3.03 per cent) and in the ready-made garments (11.27 per cent).

Most encouraging point of the beginning in the new decade (after 1990s) is positive and considerable growth rate (6.40 per cent) of raw jute items although the average growth rate have fallen to 4.77 per cent during the last three years. Again, very low growth rate of ready-made garments (2.10 per cent), knitwear (9.55 per cent) was observed in the said period.

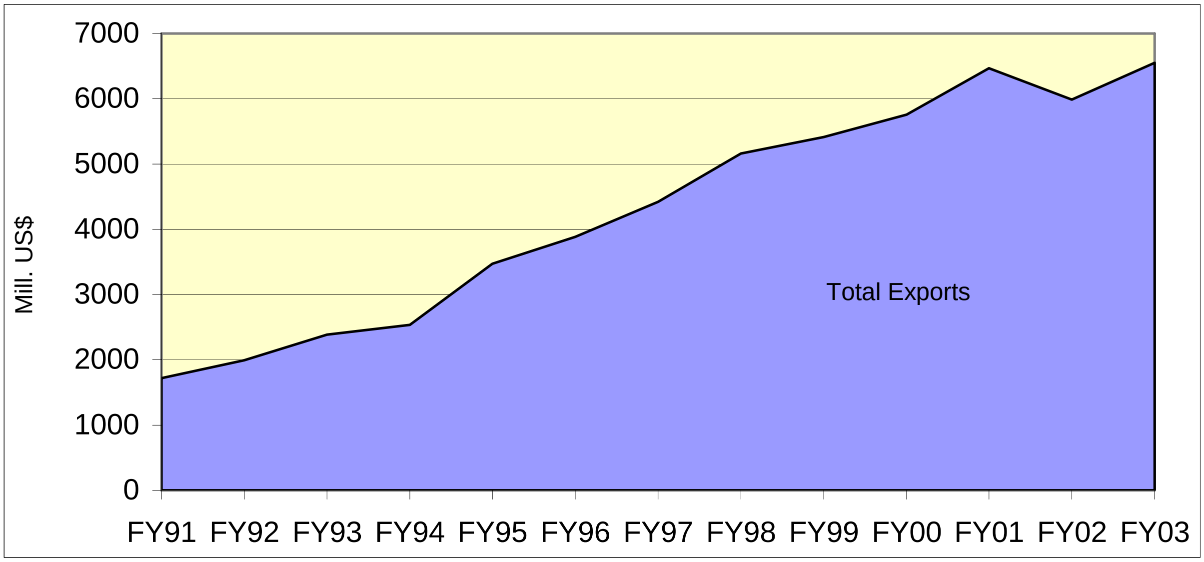


Figure XII: Total Exports (FY91-FY03)

VI.3 Foreign Remittances

The annual flow of remittances received from Bangladeshi migrant workers has been quite robust throughout the 1990s rising from US$ 764.0 million in FY1991 to US$ 1949.32 million by FY2000. At the beginning of the new decade after 1990s flow of remittances has been continuing its robust growth and reached to US$ 3367.0 million in FY04.

At the first half of the 1990s Bangladesh received a total US$ 4844.49 million as foreign remittances with an average growth rate of 9.62 per cent per annum. Likewise, the annual average growth rate of the number of persons going abroad was 18.48 in the said period.

TABLE 18

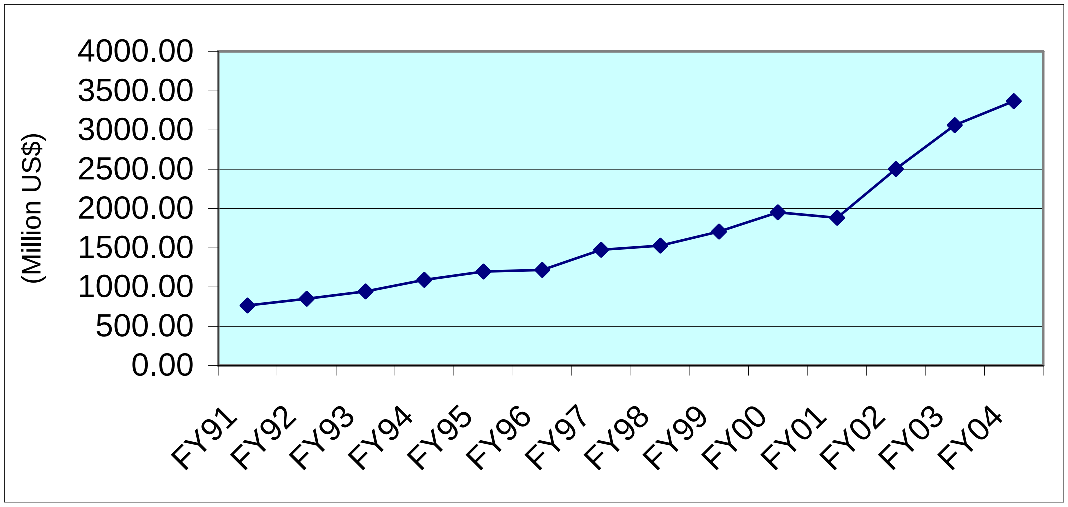
Foreign Remittance and Foreign Exchange Reserve

	FY91-FY95	FY96-FY00	FY01-FY04
Total Remittance (Mln US$)	4844.49	7872.95	10812.99
Annual Average Growth of Remittance	9.62	10.46	15.5
Total No. of Workers Abroad (000)	912	1170.00	890.00
Annual Average Growth Rate (per cent)	18.48	5.20	1.6
Average Forex Reserve (Mln US$)	2088.70	1724.40	2022.3
Annual Average Growth Rate	45.05	-11.07	17.3

Source: Economic Trends, Bangladesh Bank & Bangladesh Economic Survey, Ministry of Finance, GOB.

Throughout the latter half of 1990s, the increase in the number of persons going abroad was, on average, 5.20 per cent indicating a fall in the flow of Bangladeshi migrant workers. On the other hand, the annual average growth rate of remittances was 10.46 per cent with the total remittances US$ 7872.95 million, implying higher earning by Bangladeshi migrant workers during this period compare to the previous.

During the first four years (FY01-FY04) after 1990s, Bangladesh received US$ 10812.99 million, which was as high as 15.5 per cent more annually, on average, than the comparable figure for second half of the 1990s. However for the first time in recent history, there was a fall in remittances in FY01 with a negative growth of 3.4 per cent (Figure XII). In FY02, the country received the record inflow of more $2.5 billion registering a record annual growth of about 33 per cent since 1990.



Source: Economic Trends, Bangladesh Bank & Bangladesh Economic Survey, Ministry of Finance, GOB.

Figure XIII: Flow of Remittances (FY91-FY04)

VI.4 Foreign Aid

During the decade of the 1990s Bangladesh has undergone a historical structural transformation from being an aid dependent to a trade driven country as a consequence of a sharp rise in the importance of international trade relative to the flow of aid to the country. In 1990 export was 0.8 times that of aid disbursed; in the 2000 this has raised to 3.6 and it has reached to 4.13 in FY03.

TABLE 19
Foreign Aid and Debt Services (FY91-FY03)

(In Million US $)

Year	Foreign Aid			Debt Services		Outstanding External Debt[a] as on June	Total Foreign Currency Earnings[b]	Outstanding External Debt as per cent of GDP	Debt Servicing as per cent of Foreign Currency Earnings
	Commit-ment	Disburse-Ment	Pipeline	Principal	Interest				
FY91	1370	1733	5915	197	120	11934	2942	38.5	10.8
FY95	1612	1739	5915	314	154	15947	5490	41.8	8.5
FY96	1280	1444	6231	317	153	14454	5908	35.5	8.0
FY00	1475	1587	5980	447	172	15727	8560	33.4	7.2
FY01	2053	1369	5752	438	159	14677	9117	31.7	6.5
FY03	2179	1585	5450	452	156	16953	10441	32.6	5.8

Notes: [a] Excluding the IMF loan
[b] Total Foreign Currency Earnings = Total Export income + Annual Remittances

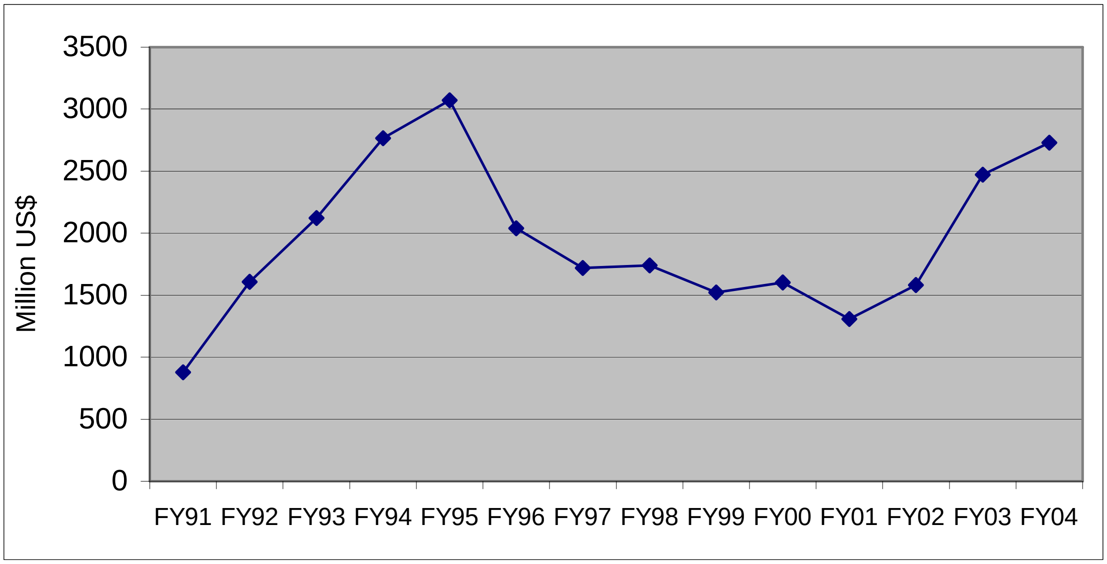
Source: Computed from CPD-IRBD Database and Data from Bangladesh Bank and BBS.

Table 18 provides information about the foreign aid and debt services for three consecutive phases since FY91. Foreign aid commitment and disbursement in FY91 were $1715.2 million and $1663.4 million, respectively. At the end of the first half of 1990s (FY95), although commitment was 17.66 per cent higher than FY91, the growth rate of disbursement was very low (only 0.3 per cent). The beginning of the second half was more depressing for overall foreign aid situation. Both foreign aid commitment and disbursement showed a negative growth rate of 20.6 per cent and 17 per cent, respectively. But they bounced back with positive growth rate of 15.23 per cent and 9.9 per cent respectively at the end of the second half. The positive growth rate of commitments and disbursement has continued in FY03 when they were $2179 million and 1585 million respectively.

The total outstanding external debt of Bangladesh as of June 1995 was about $15.95 billion (41.8 per cent of GDP) which has decreased by 1.4 per cent at the end of the 1990s. In FY03 7.8 per cent higher total outstanding debt has observed compare to FY00.

VI.5 Foreign Exchange Reserve

The first half of the 1990s was the boost up period for the foreign exchange reserve. It started to climb from $880 million in FY91 and reached its peak in FY95 when reserves reached $3070 million which was equivalent to 6.3 months of imports. Since FY95 the foreign exchange reserve has gradually declined and descended to $1602 million at the end of the second half of 1990s (FY00). The fallen trend in the foreign exchange reserve of latter period of 1990s has continued in FY01 and registered a low record since 1990 of $1307 million. The foreign exchange reserve bounded back to $1.58 million at FY02 continuing its positive trend at the end of FY04 ($2730 million).



Source: Economic Trends, Bangladesh Bank & Bangladesh Economic Survey, Ministry of Finance, GOB

Figure XIV: Foreign Exchange Reserve (as of end June)

VI.6 Balance of Payments

Bangladesh's overall balance of payments (BOP) position demonstrated a positive trend between FY91-FY94. But in the middle of the 1990s, the BOP situation has reversed due to a significant increase in imports and the outflow for invisible payments. After that some improvements have been witnessing to the end of 1990s due to high export growth, modest import expansion, huge flow of workers remittances, reasonable flow of official transfer and steady net income from sale of services abroad (Bhattacharaya, 2003).

The current account balance have some diverse experienced throughout the 1990s. At the beginning of the decade (FY92), Bangladesh had a negative current account balance of (-) $118 million which has reached to (-) $1291 million in the beginning of the second half (FY96) due to a huge negative trade balance of (-) $3063 million arised from the large volume of imports from abroad. It is notable to mention that in FY96 Bangladesh observed the highest negative trade balance during the last one and half decade. The current account balance has witnessed some improvements by the end of 1990s and enjoyed, albeit small, positive balance of $2 million. On the other hand, in FY01, Bangladesh experienced a negative balance of (-) $1019 million in its current account. In FY03, the current account balance amounted to a positive sum of $328 million which facilitated the overall balance of payments to reach a positive amount of $815 million by the end of the said fiscal year.

TABLE 20

Balance of Payments Scenario of Bangladesh (FY91-FY03)

(In Million US$)

Source	1991-92	1994-95	1995-96	1999-00	2000-01	2002-03
Trade Balance	**-1532**	**-2361**	**-3063**	**-2641**	**-2011**	**-2207**
Export, fob (including EPZ)	1994	3473	3884	5762	6419	6492
Imports, cif (including EPZ)	-3526	-5834	-6947	-8403	-8130	-8699
Services (net)	**68**	**-89**	**-104**	**192**	**-915**	**-688**
Income (net)	**-89**	**-41**	**55**	**-221**	**-264**	**-195**
Current transfers	**1435**	**1827**	**1821**	**2672**	**2171**	**3418**
Worker's Remittances	848	1198	1217	1949	1882	3062
Current account balance	**-118**	**-664**	**-1291**	**2**	**-1019**	**328**
Capital account (net)	**357**	**489**	**331**	**283**	**432**	**392**
Financial account	**590**	**706**	**446**	**760**	**413**	**218**
Direct investment	4	6	7	194	174	92
Portfolio investment	6	61	-21	0	0	2
Other investment	580	639	460	566	239	124
Error and omissions	**-312**	**-79**	**-363**	**-720**	**-52**	**-123**
Overall Balance	**517**	**452**	**-877**	**325**	**-226**	**815**
Financing items	**-517**	**-452**	**877**	**-325**	**226**	**-408**

Source: Computed from CPD-IRBD Database and Bangladesh Bank Data

VII. CONCLUDING REMARKS

The macroeconomic developments in the first half of the 1990s were demonstrated the high degree of frailty of the economic stabilisaiton process in Bangladesh. Slippages in macroeconomic management, poor harvests and political unrest have combined to bring about deterioration in the macroeconomic balances.

MAJOR CONCLUSIONS

1. GDP Growth: The growth rate of late 90's (5.2%) was better than the early 90's (4.4%) despite the massive 1998 flood. And such a notable growth rate during the second half of 1990s placed Bangladesh among the top 20 performers in the developing countries and second in South Asia after India. A continuous GDP growth of 7-8% is needed to eradicate poverty.

2. Income Distribution: Although Bangladesh has remarkable success in poverty reduction, but the process of poverty alleviation is particularly slow with the deterioration of income distribution during this period Evidence suggests that situation may have worsen.

3. Savings: Throughout the 1990s and after that the domestic savings was almost stagnant. This stagnation of domestic savings rate can be largely explained by deteriorating income distribution scenario. As the poor who demonstrate higher propensity to save are being deprived of their proportionate share in incremental national income. Higher remittances send by the migrant workers was one of the major reasons for the movements of national savings.

4. Investment: Private investment was more or less stagnant since 1990 and a sustained increase in public investment is requisite for reaching to a higher gross investment in Bangladesh.

5. Revenue Receipts: Bangladesh still has one of the lowest revenue-GDP ratios among developing countries. In India and Pakistan, central government revenues as percentage of GDP (2002) are 20 percent and 17 percent respectively.

6. Public Expenditure: The total public expenditure as a share of GDP is still low in Bangladesh in comparison to other low-income countries. In India and Pakistan, central government expenditures as a share of GDP (2002) are 30 percent and 22 percent respectively.

7. Revenue Expenditure: Revenue expenditure is growing at a faster rate in comparison to revenue earning, thereby reducing the capacity of the government to finance development expenditure by the revenue surplus. Despite the government's policy objectives of enhancing the revenue surplus, the experience of last one and half decade show that the *Revenue Earning-Expenditure Ratio* has secularly declined during the second half of the 1990s.

8. ADP: The size of the ADP grew steadily during the 1990s with the peak recorded in FY00 (23.7 per cent). Although the overall size of the total public expenditure is quite low, but the composition and quality of the ADP project remain a matter of great concern. The three major issues are essential to note here: First, the ADP is routinely under-achieved in Bangladesh. Second, the prioratisation and selection of the included projects as well as the quality of the envisaged expenditure lines are fundamental, not the size of the ADP. Third, in the backdrop of weak implementation of the ADP whilst the revenue expenditures have systematically crossed the budget limit, the composition of public expenditures is assuming an unhealthy structural rigidity (Bhattacharya: 2003).

9. Fiscal Deficit: The deficit has been brought down sequentially during the first 3 years after 1990s. The fiscal deficit rise and fall in Bangladesh depends on foreign aid disbursement rather than some significant improvement in macroeconomic management. The changing compositions of the budget deficit in favour of domestic resources, particularly during the second half of the 1990s.

10. Domestic Credit Expansion: The growth of domestic credit in the government sector has been systematically higher than that of in the private sector throughout the 1990s, especially in the second half.

11. Inflation: A low rate of inflation had observed in Bangladesh throughout the 1990s. The inflation trends in Bangladesh in the late 1990s remained quite impressive by both developing and the Asian standards although the recent trend in the inflation rate does not seem so.

12. Agricultural Production: Agricultural sector experienced a robust growth during the 1990s, especially in the second half of the decade. A sustained impressive growth of the crop sector during the second half of the 1990s has supported Bangladesh economy so strongly.

13. Industrial Production: The second half of the 1990s was not known for the better performance in the industrial sector due to the devastating and prolonged flood in 1998. Rapid reduction in import tariff was one of the reasons for robust industrial growth in the early 1990s. On the other hand, quick recovery in the large, medium and small-scale industries after the flood-affected period helped the industrial sector for obtaining its recent lively growth.

14. Foreign Investment:

15. Import: An accelerated pace of global integration and the rising degree of openness of Bangladesh economy facilitated the imports to grow at about 11 per cent, on average, during the decade of the 1990s. Easy market access provided to foreign goods through substantial reduction in tariff rates is one of the fundamental reasons why the import of Bangladesh is constantly growing, even in the recent past.

16. Export: A robust growth rates of Bangladesh's export sector had observed throughout the 1990s, registered a real growth of more than 14 per cent per annum.

17. Foreign Remittances:

18. Foreign Aid: One of the achievements of Bangladesh economy in the decade of nineties was that Bangladesh has shown an indication to grow to be a trading economy from an aid-dependent economy.

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