BANGLADESH

GDP growth continued to recover in fiscal 2022, buoyed by strong external demand. Inflation edged up and the current account deficit widened. Growth will slow markedly this year in line with worsening global economic conditions following the Russian invasion of Ukraine but will likely edge up next year on recovering growth in trade partners. Inflation will increase sharply this year but moderate next year. Education reform is critical to improve productivity, diversify industry, and sustain high growth.

Economic Performance

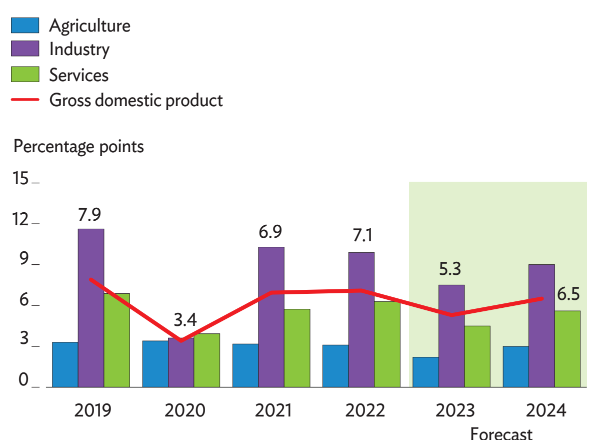
GDP growth edged up to 7.1% in fiscal year 2022 (FY2022, ended 30 June 2022). This was marginally higher than 6.9% in the previous year and driven by services (Figure 2.15.1). Growth in services accelerated from 5.7% in FY2021 to 6.3% in FY2022 with strong contributions from wholesale and retail trade, transport, real estate, education, finance, and accommodation. In contrast, growth in industry decelerated from 10.3% to 9.9% with lower manufacturing output from micro, small, and medium-sized enterprises and contraction in mining and quarrying. Agriculture was marginally down as sector growth slowed from 3.2% to 3.1%.

On the demand side, increased external demand contributed to growth. Exports and imports alike grew strongly as major overseas markets reopened with the waning of the pandemic. Private consumption growth eased slightly under higher inflation. Growth in public consumption also slowed as the government reduced its dependence on high-cost borrowing through national savings certificates. Public investment rose, however, on the expedited implementation of large infrastructure projects, which notably saw the opening of the Padma Bridge. Private investment also increased, as reflected in higher imports of industrial raw materials and capital goods and in solid growth in private sector credit.

Inflation edged up from 5.6% in FY2021 to average 6.2% in FY2022. This mainly reflected higher global commodity prices, especially for energy, caused by supply disruption following the Russian invasion of Ukraine (Figure 2.15.2). Local currency depreciation against the US dollar also fueled inflation. Monthly nonfood inflation accelerated in the first half and food inflation in the second. High import costs induced the government to raise energy prices.

Figure 2.15.1 GDP Growth by Sector

The economy recovered before slowing in FY2023.



GDP = gross domestic product.

Note: Years are fiscal years ending on 30 June of that year.

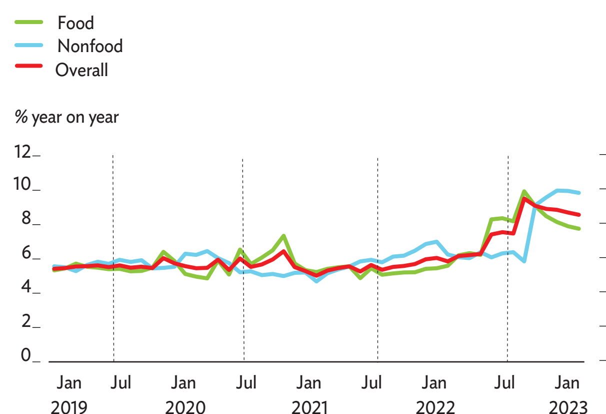
Sources: Bangladesh Bureau of Statistics; Asian Development Bank estimates.

Broad money growth slowed from 13.6% in FY2021 to 9.4% in FY2022. This came as net foreign assets fell significantly below a monetary program target of

This chapter was written by Soon Chan Hong, Barun K. Dey, and Mahbub Rabbani of the Bangladesh Resident Mission, ADB, Dhaka.

Figure 2.15.2 Monthly Inflation

Inflation accelerated in 2022.

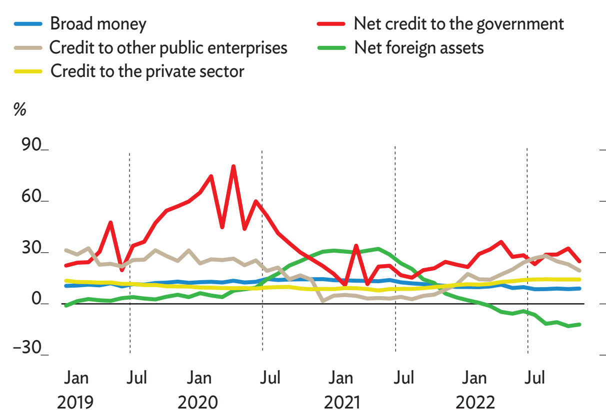


Source: Bangladesh Bank. 2022. Monthly Economic Trends. February.

15.0% (Figure 2.15.3). Growth in private sector credit accelerated from 8.4% in FY2021 to 13.7%, close to the targeted growth of 14.8%. Growth was spurred in part by a cap on interest rates imposed by the central bank. Growth in net credit to the public sector rose significantly from 19.3% in FY2021 to 27.7% as foreign credit inflow increased but still fell short of the 32.5% target. Interest rates remained controlled under accommodative monetary policy set by Bangladesh Bank, the central bank, which nevertheless raised the repo rate twice—by 25 basis points in May 2022 and by 50 points in June 2022 to reach 5.5%—to contain mounting inflationary pressure.

Figure 2.15.3 Monetary Indicators

Credit to the private sector accelerated in 2022.



Source: Bangladesh Bank. 2022. Major Economic Indicators: Monthly Update. December.

Fiscal policy remained expansionary to support economic recovery and mitigate the effects of the pandemic on the poor and vulnerable. Taxes collected by the National Board of Revenue—more than 87.0% of total revenue—grew by 11.5% in FY2022, mainly on increased value-added tax and supplementary duty collection. Despite this, growth in tax collection underperformed because of subdued customs duty and income tax collection. Government expenditure substantially increased from 9.5% growth in the preceding year to 13.3% on higher recurrent spending on subsidies, transfer payments, and pay and allowances, and as growth in development spending more than doubled from 5.6% to 12.6%. Total revenue equaled 8.5% of GDP, and spending 13.1%, which widened the fiscal deficit from 3.7% of GDP to 4.6%.

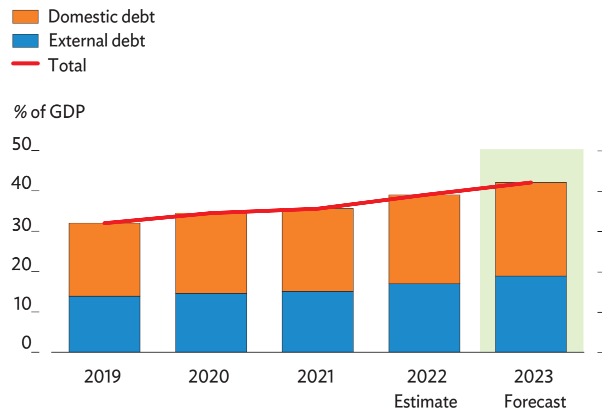
Bangladesh remains at a low risk of external and overall debt distress. The ratio of government debt to GDP increased from 35.6% in FY2021 to 39.0% in FY2022 (Figure 2.15.4). The government continues to rely largely on concessional external borrowing, especially to finance infrastructure projects, which raised external debt from 15.1% of GDP to 17.0%. Domestic debt increased from 20.5% of GDP to 22.0%, but with less reliance on the issuance of higher cost national savings certificates.

Export growth more than doubled from 12.4% in FY2021 to 33.4%, to reach $49.2 billion. The large increase reflected pent-up demand from major export destinations. Garment exports grew by 35.5%, bolstered by competitive prices, strong demand for knitwear and woven garments, and the diversion of export orders from other major exporters. Exports of leather and leather products also registered impressive gains, as did engineering products.

Import growth increased from 19.7% in FY2021 to 35.9%, to reach $82.5 billion. About a third of the rise came from higher imports of intermediates for the garment industry to meet sharply increased demand for exports, and from higher prices for them. Imports of pharmaceuticals, fertilizer, and intermediate goods for construction rose by a robust 63.5%, contributing about 40% of the import increase. Imports of capital goods rose by 26.3%, signifying strong business confidence. A substantial rise in edible oil and wheat imports reflected higher international prices caused by global supply chain disruption and protective measures imposed by some key exporters of edible oil and wheat.

Figure 2.15.4 Government Debt

Growth in debt accelerated in 2022.



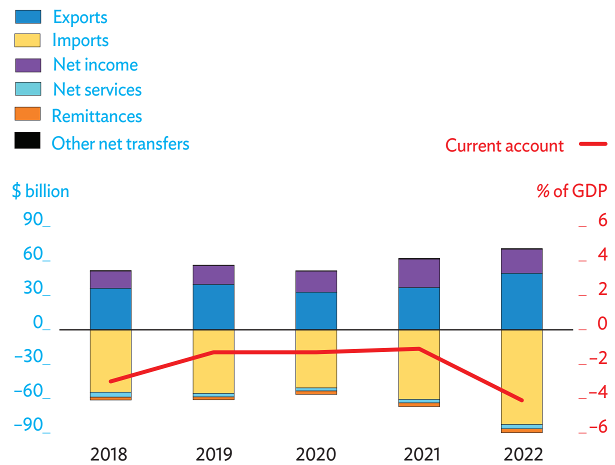
GDP = gross domestic product.
Note: Years are fiscal years ending on 30 June of that year.
Source: International Monetary Fund.

A deficit in the balance of payments sharply drew down official foreign exchange reserves in FY2022. The trade deficit widened to $33.2 billion, equal to 7.2% of GDP, as a $21.8 billion increase in imports far surpassed a $12.3 billion rise in exports. Remittances contracted by 15.1% from $24.8 billion in FY2021 to $21.0 billion, reflecting remitters' greater use of unofficial channels to avoid receiving a much lower official exchange rate. The higher trade deficit, lower remittances, and deficits in services and primary income widened the current account deficit to $18.7 billion, or 4.1% of GDP (Figure 2.15.5). The combined capital and financial account surplus, adjusted for errors and omissions, decreased to $13.3 billion, reflecting a large decline in the use of net trade credit. As the current account deficit significantly exceeded net financial inflow, gross foreign exchange reserves decreased by 9.8% to $41.8 billion, or cover for around 5 months of imports of goods and services (Figure 2.15.6).

The Bangladesh taka depreciated by 9.2% against the US dollar in FY2022 as demand for imports surged (Figure 2.15.7). The central bank sold $7.6 billion to commercial banks to curb excessive volatility. However, inflation differentials meant the taka appreciated by 0.5% in real effective terms in the year to June 2022.

Figure 2.15.5 Current Account Components

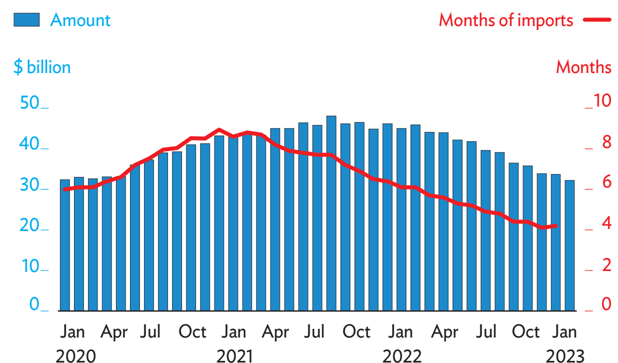
The current account deficit widened sharply in FY2022 on higher imports.



GDP = gross domestic product.
Note: Years are fiscal years ending on 30 June of that year.
Source: Bangladesh Bank.

Figure 2.15.6 Gross Foreign Exchange Reserves

Central bank reserves trended lower.



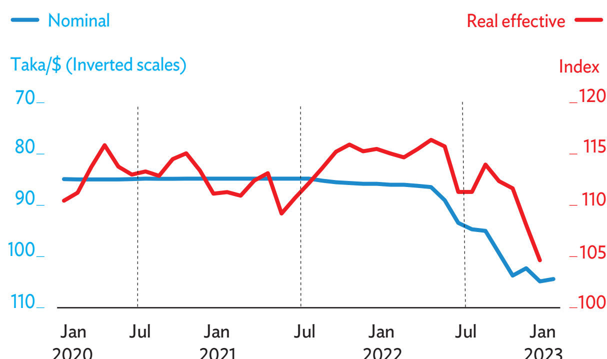
Source: Bangladesh Bank.

Economic Prospects

GDP growth is projected to slow to 5.3% in FY2023 and then edge back up to 6.5% in FY2024 (Table 2.15.1 and Figure 2.15.8). The marked downturn reflects global economic disruption caused by the Russian invasion of Ukraine. Private consumption growth is expected to slow further because of economic uncertainty caused by high inflation and growth in public consumption continues to slow with

Figure 2.15.7 Exchange Rates

Taka has markedly depreciated against the US dollar in 2022.



Source: Bangladesh Bank. 2023. Monthly Economic Trends. February.

Table 2.15.1 Selected Economic Indicators, %

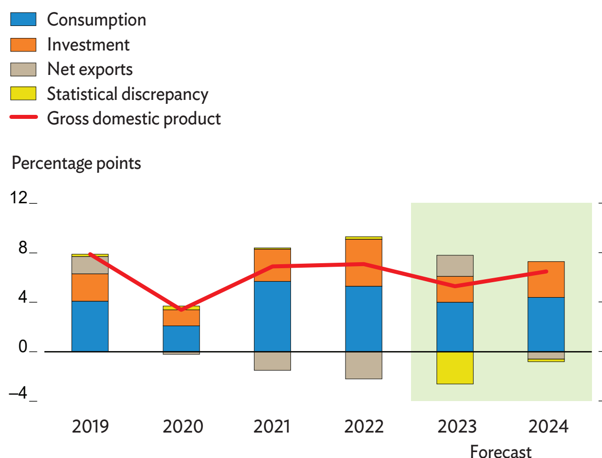
Growth slows in line with expected weaker global outlook.

	2021	2022	2023	2024
GDP growth	6.9	7.1	5.3	6.5
Inflation	5.6	6.2	8.7	6.6

GDP = gross domestic product.
Sources: Bangladesh Bureau of Statistics; Asian Development Bank estimates.

Figure 2.15.8 Demand-Side Contributions to Growth

Subdued consumption pulls down growth in 2023.



Note: Years are fiscal years ending on 30 June of that year.
Sources: Bangladesh Bureau of Statistics; ADB estimates.

government's austerity measures to curb inflation. Public investment will be affected by austerity measures that prioritize implementation of large investment projects due to lower revenue and declining foreign exchange reserves. Private investment is expected to be lower because of energy shortages and higher production costs. Net exports will add to growth as imports decline under restrictions and importers struggle to open letters of credit.

Bangladesh is taking proactive steps to respond to climate change and a dim global economic outlook. As a precautionary measure, it has embarked on IMF programs under the Resilience and Sustainability Facility, Extended Fund Facility, and Extended Credit Facility. The programs foster economic resilience and sustainable growth by providing resources and technical assistance to address immediate challenges such as current account imbalances and reserve losses; and longer-term structural issues in the economy including vulnerability to climate change.

On the supply side, setbacks mainly in industrial and services will slow GDP growth in FY2023. Growth in industry is projected to decelerate to 7.5% because of energy shortages and high inflation. Growth in services is similarly expected to decelerate to 4.5% as incomes and demand weaken, with knock-on effects hitting agriculture and industry. Floods, cyclones, and droughts are expected to slow growth in agriculture to 2.2%.

GDP growth is expected to edge up to 6.5% in FY2024. This reflects stronger demand for ready-made garments in the US and Europe as growth recovers and domestic energy costs ease. The contribution from private consumption is expected to be buoyed by higher remittances as more workers go abroad for jobs. Private investment is expected to rise as consumer and investor confidence improves. Higher implementation of development projects, including fast-track projects in the run-up to general elections, is expected to contribute to growth. On the supply side, agriculture growth is forecast to rise to 3.0% if normal weather prevails. Growth in industry is expected to accelerate to 9.0% with higher earnings from apparel and other exports in line with gradual improvement in global demand and continued government policy support. Growth in services is expected higher at 5.6% following trends in agriculture and industry.

Inflation is projected to accelerate to average 8.7% in FY2023 and then moderate in FY2024. Escalating inflation in FY2023 will derive from substantial upward adjustments to domestic electricity and fuel prices, rising domestic food prices, and pass-through from steep currency depreciation, with headline inflation having already increased from 7.5% in July 2022 to 8.6% in January 2023. Inflation is projected to moderate to 6.6% in FY2024 as global prices for oil and other commodities ease. Moreover, the authorities have taken steps to keep domestic food prices stable by boosting agricultural production.

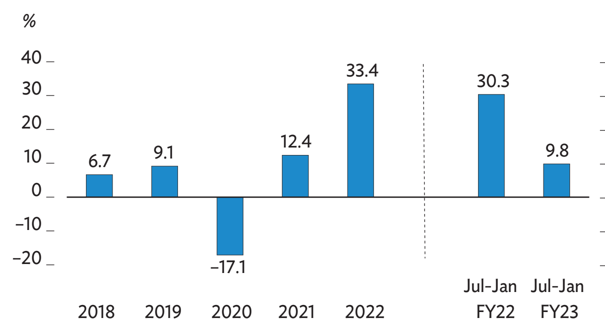
Monetary policy continues to be tilted toward tightening. The central bank increased its policy repo rate to 6% from January 2023 to restrain inflation, exchange rate pressures, and reserve outflow. At the same time, policies aim to support economic growth by ensuring adequate funding for productive pursuits that generate employment. To make policy more responsive, institutional changes aim to establish a market-based, flexible, and unified exchange rate regime by the end of FY2023. In the meantime, it has significantly increased margins on opening letters of credit to discourage imports of luxury goods.

Slow global growth forecasted for 2023 will hit exports. Export growth year on year decelerated significantly in the first 7 months of FY2023 from 30.3% a year earlier to 9.8% (Figure 2.15.9). Since most export growth in FY2022 occurred in the first half on a surge in global garment demand, slower export growth to date in FY2023 reflects a marked weakening of income and demand in major export destinations. On balance, export growth is projected to slow to 6.8% in FY2023, then recover somewhat in FY2024 to 8.2% as demand strengthens.

Imports are volatile in this trade-dependent economy. Imports contracted by 2.2% in the first half of FY2023, following a 54.5% expansion in the same period of FY2022. The decline largely reflected decreased imports of intermediates for the garment industry but also the downturn in economic growth, restrictions imposed to discourage nonessential imports, and a sharply depreciated currency. On balance, imports are forecast to contract by 5.0% in FY2023 but rebound to 5.5% expansion in FY2024 on improved export demand and domestic growth.

Figure 2.15.9 Exports Growth

Merchandise exports have slowed in FY2023 on lower demand in advanced economies.



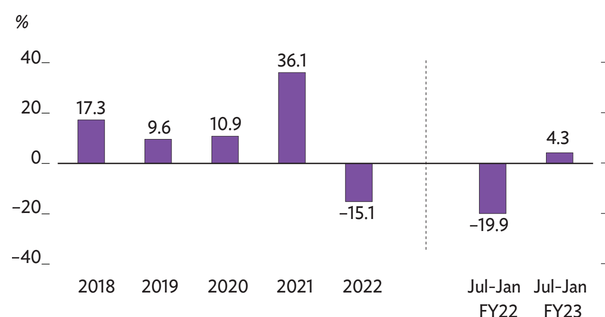
Note: Years are fiscal years ending on 30 June of that year.
Sources: Bangladesh Bank; and Export Promotion Bureau, Bangladesh.

Remittances are a major source of foreign exchange earnings. Remittances increased by 4.3% in the first 7 months of FY2023, following a 19.9% contraction in the same period of FY2022 (Figure 2.15.10). The revival was driven by a sharply depreciated currency, a 2.5% cash incentive offered by the government to users of formal channels, and easier remittance transfer through newly allowed mobile financial services. Remittances are forecast to increase by 4.0% to $21.9 billion in FY2023, and then by 7.4% to $23.5 billion in FY2024 under a fully market-oriented exchange rate.

The current account deficit is projected to moderate. With a reduced trade deficit and rising remittances, the current account deficit is expected

Figure 2.15.10 Growth in Remittances

Currency depreciation boosts remittances recovery in FY2023.

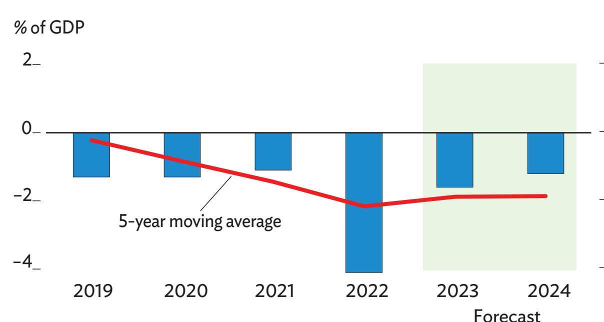


Note: Years are fiscal years ending on 30 June of that year.
Source: Bangladesh Bank.

to narrow to the equivalent of 1.6% of GDP in FY2023 (Figure 2.15.11). It is expected to narrow further to 1.2% in FY2024 with stronger growth in remittances and exports. Underpinning these projections are taka depreciation by 17.6% against the US dollar in the year to the end of January 2023 and the move to a flexible, market-based, and unified exchange rate regime by the end of FY2023.

Figure 2.15.11 Current Account Balance

The currennt account deficit is forecast to narrow on improvement in the trade deficit and remittances.



Note: Years are fiscal years ending on 30 June of that year.
Sources: Bangladesh Bank. 2022. *Annual Report 2021-2022*; ADB estimates.

Government's fiscal targets in the FY2023 budget may not be fully achieved. The FY2023 budget targets 11.3% growth in revenue to the equivalent of 9.7% of GDP, a 14.2% rise in public spending to 15.2% of GDP, and thus a 5.5% deficit. However, the National Board of Revenue reported revenue collected in the first half of FY2023 reaching only 33.6% of the target for the whole year. In light of this, revenue collection is expected to equal 8.8% of GDP. However, austerity measures will likely limit spending to 14.4% of GDP. With higher relative shortfall in revenue, fiscal deficit is expected to increase to 5.6% of GDP in FY2023, from 4.6% in FY2022. Continued revenue shortfalls underline the need for expediting tax reforms, as increasing the ratio of revenue to GDP will be critical to supporting much-needed spending on social and infrastructure development, and climate change priorities.

The outlook is subject to downside risks. A greater economic slowdown in major export destinations is a key risk. Another risk is heightened global political tensions that disrupt prices and supply chains for oil and other commodities. Any delay in reform to tax policy or administration could risk higher public debt. Extreme weather is a perennial risk.

Policy Challenge—Preparing Better Education for the Next Generation

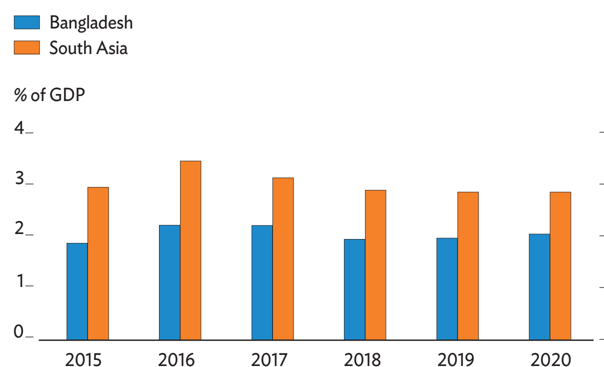
As Bangladesh graduates from least-developed-country status in 2026, it needs to reset its growth strategy. The country will lose the advantages of low-cost labor and preferential market access, perhaps making its traditional labor-intensive manufacturing industries less competitive. In addition, the ongoing Fourth Industrial Revolution may challenge the government's objective of generating 30 million jobs by 2030, as labor intensive industries are likely to be disrupted by robotics, automation, and machine learning. Bangladesh therefore needs structural transformation toward products and services with higher value addition to match its aspiration to become an upper-middle-income country by 2031. Government strategies need to emphasize job creation by promoting modern services and export-oriented manufactures and thus capitalizing on advances in digital technology and a skilled, technology-ready workforce. This requires investment in human capital by improving education quality and deepening skill development, which is recognized as critical to the country's development aspirations. To facilitate skill development, the National Skills Development Authority has been set up and authorized to set policy, strategy, and an action plan. Further, the government's Skills for Employment Investment Program aims to enhance the productivity and employability of young workers with industry-relevant skills across priority sectors.

Despite recent education achievements in Bangladesh, challenges remain in access, equity, and quality. The link between education and employment is weak. Bangladesh scored 0.46 on the World Bank's Human Capital Index in 2020, below the South Asian average of 0.48. Bangladesh spends less on education than the South Asian average (Figure 2.15.12). Skill shortages are evident, and industry lacks diversification. The country has a large

and young population, but workers are inadequately skilled. The working-age population aged 15–59 is expected to reach 119 million by 2026, but only 1.7% have received formal skill training. The skill ranking of Bangladesh in the Global Competitiveness Report in 2019 was a low 117 among 140 economies. Mismatch between skill supply and demand widened as the youth unemployment rate almost doubled from 6.4% in 2010 to 12.2% in 2019. Moreover, skill shortage and mismatch have driven socioeconomic inequality and relative expansion in the informal economy.

Figure 2.15.12 Government Expenditure on Education

Public investment in education remains inadequate compared with South Asia average.



Note: Years are fiscal years ending on 30 June of that year.
Source: World Bank. World Development Indicators database.

Public expenditure on technical and vocational education and training (TVET) is lower than in most other developing countries. Moreover, the quality and relevance of TVET courses fall short as only about 40% for TVET graduates find skilled jobs. Qualified teachers in modern and emerging technologies are in short supply. Bangladesh has about 50,000 teachers in government and nongovernment TVET institutions, but most of them lack at recruitment an advanced degree in technical education or industry work experience.

Lack of access to high-quality higher education remains a challenge. Tertiary education suffers a mismatch between the education offered and the education demanded by industry. An acute shortage of skilled middle managers usually leaves these positions to be filled by professionals from neighboring countries. Laboratories for engineering and technology education are often insufficient, outdated, and therefore unable to take up new technology. Students are granted little laboratory time for hands-on experience and practice, and laboratories are often poorly equipped and maintained. Programs are often similarly outdated, their teaching methods teacher-centric and theory-focused, and assessment largely by examination.

Skill development needs to match economic aspirations. A key imperative is to improve the quality of TVET by improving the quality of TVET institutes. Public expenditure on TVET needs to be substantially increased to underwrite such efforts. The courses offered need to be more relevant to job market needs, with collaboration between industry and academia playing a critical role in reform. Modernizing the curriculum so that courses meet world standards and are taught in facilities and laboratories with latest equipment is urgently needed to improve the quality of education.

Major reform will be required to address challenges in higher education. Improved education quality and relevance must be ensured by selecting university teachers for their strong academic credentials and by raising tertiary enrolment rates in science, technology, engineering, and mathematics. Capacity for research and innovation needs to be strengthened with adequate public funding, productive relationships between academia and industry, and digitized university education. Better university governance will be required. Public university funding needs to be expanded with more from both the government and private donors and by adopting the innovative financing methods used in upper-middle-income and high-income countries and by instituting a low-cost student loan program.