

Recent Trends in Agriculture, Industry, and Service Sectors

Bangladesh Economic Update

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Acknowledgement

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1. INTRODUCTION

The current issue of Bangladesh Economic Update represents the trends in real sector of the economy of Bangladesh. The Issue cautions that lower growth in agriculture, underperformance in medium and large scale manufacturing industries coupled with greater product and market concentration of export, and slow expansion of service sector may hinder the achievement of 7 percent growth target. The rate of growth in agriculture declined to 3.04 percent in FY 2014-15 from 4.37 percent in FY 2013-14, representing 1.33 percentage points decrease. The rate of growth in agriculture came down from 5.24 percent in fiscal year FY 2009-2010 to 5.13 percent, and then to 3.11 percent and 2.17 percent in FY2010-2011, FY2011- 2012 and FY2012-2013 respectively. This declining trend in growth of agriculture sector can largely be attributed to gradual loss of cultivable land, lack of invention, adoption and dissemination of new technology, and lack of sufficient support for agricultural research and training in the country. The average rate of growth in manufacturing sector was 1.44 percent. The rate of growth was 10.01 percent in FY 2010-11, 9.96 percent in FY 2011-12, 10.31 percent in FY 2012-13, 8.77 percent in FY 2013-14, and 10.32 percent in FY 2014-15. This falling trend of growth in manufacturing sector can be ascribed to the unavailability of infrastructural facilities, recent hiccups in garment sector, constraints originating from limited size of the domestic market, instability in property rights, and missing of institutions.

2. AGRICULTURE

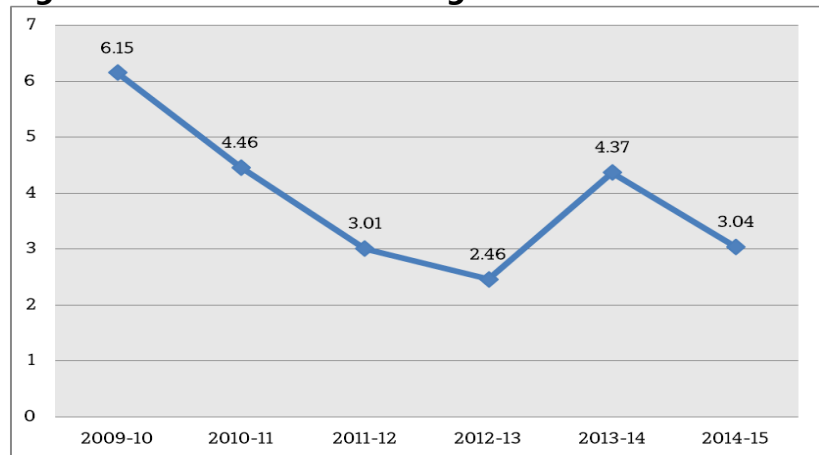
Ensuring food security for the vast population of Bangladesh is directly associated with the agricultural development in the country. The governments of Bangladesh have therefore been giving priorities to agricultural development with a view to ensuring food and nutritional security, poverty alleviation, and

increased generation of employment. Whereas a profitable, sustainable, and environment-friendly agricultural system is required to achieve these objectives, agriculture in the country faces by a number of challenges every year. These challenges include population growth, climatic hazards, loss of arable land, lack of quality seeds, food habit of people (about 90 percent is rice based), inadequate credit support to the farmers, unfair pricing, insufficient investment in agricultural research and agricultural mismanagement in terms of irrigation, use of fertiliser and pesticides. The majority are small and marginal farmers who are endowed with poor financial resources and cannot afford high cost of frontier technology.

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A declining trend in the growth of agricultural sector has recently been noticed, which, in turn, contributed to decelerating growth in GDP in the country. Though there was an increasing trend in growth in agriculture from 1990 to 2010, since the FY2010-11 the rate of growth has been falling. The rate of growth in agriculture declined to 3.04 percent in FY 2014-15 from 4.37 percent in FY 2013-14, representing 1.33 percentage points decrease. The rate of growth in agriculture was 5.24 percent in FY2009- 10, whereas in FY2010-11, FY2011-12 and FY2012-13 the rate was 5.13 percent, 3.11 percent and 2.17 percent respectively. This falling growth in agriculture has been causing the share of agriculture in GDP to decline over the recent years. For instance, in FY2009-10, the share of agriculture in GDP was 20.29 percent, whereas in FY2010-11, FY2011-12 and FY2012-13 the share was 20.01 percent, 19.42 percent and 18.70 percent respectively. As a result of this declining contribution of agriculture to national income, the growth of GDP in the country has also been found decelerating. If the current trend persists, the agricultural growth rate might reach as low as 2.09 percent in FY 2013-14.

Figure 1: Rate of Growth in Agriculture



Source: Ministry of Finance, 2015a

Recent declining trend of growth in agriculture can be attributed to a number of reasons. First, the post-green revolution period has not experienced any breakthrough as regards technological advancement in the country on the one hand, and the poor and marginal farmers who comprise the majority of total farm population cannot afford the high cost of using high input technologies in agriculture on the other. Second, despite higher cropping intensity, the declining trend in the availability of arable land causes the growth in agricultural sector to fall. Third, though the budget allocation in agriculture is increasing, the large portion of this allocation goes for meeting non-development expenditure every year leaving a meager amount for development spending, thus constraining development in the sector. For instance, 85 percent of total agriculture-related budget was allocated for meeting non-development expenditure in FY2009-10, 84 percent in FY2010-11 and 85 percent in FY2011-12. Therefore, in order to raise productivity and profitability, reduce instability, and increase efficiency in resource use, increase of the allocation on the development side is important.

3. INDUSTRY

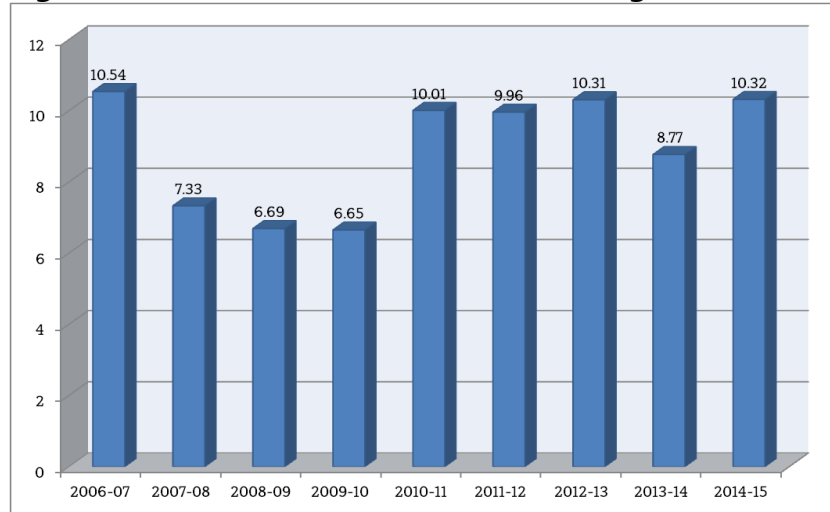
In spite of having been known as an agricultural economy, industry and service sectors together with

The service sector contributes more to GDP than industry, but in terms of growth rate, service sector always shows a lower and slower rate than industry or agriculture.

agriculture comprise the economy of Bangladesh. In Fiscal Year (FY) 1980-81, the contribution of agriculture, industry and service sectors to GDP was 33.7 percent, 17.31 percent and 49.62 percent respectively. In 1985-90, the share of agriculture decreases to 31.15 percent and the share of industry increases to 19.13, whereas service sector contributed 49.31 percent. After two decades, the scenario has changed a lot. In 2005-06, the share of agriculture, industry and service sectors in GDP was 29.23 percent, 21.04 percent and 49.73 percent respectively, whereas in FY 2000-01, the contribution of agriculture, industry and service sector stood at 25.03 percent, 26.20 percent and 48.77 percent respectively. In FY 2012-13, the share of agriculture, industry and service sector in GDP was 16.78 percent, 29.00 percent and 54.05 percent respectively, whereas the share stood at 16.33 percent, 29.61 percent and 54.05 percent respectively in FY 2013-14.

The service sector contributes more to GDP than industry, but in terms of growth rate, service sector always shows a lower and slower rate than industry or agriculture. Industry grew at a snail's pace and the rate of growth in agriculture was insignificant. In 1980-81, the rate of growth in agriculture, industry and service sector was 3.31 percent, 5.13 percent and 3.55 percent respectively which stood at 2.23 percent, 54.57 percent and 3.28 percent respectively during 1990-91. In FY 2005-06, the rate of growth in industry reached the peak and was calculated at 9.80 percent, whereas the rate of growth in agriculture and service sectors was 5.50 percent and 6.60 percent respectively. The rate of growth in industry, agriculture and service sectors fell to 98.39 percent, 3.35 percent and 5.83 percent respectively in 2013-14.

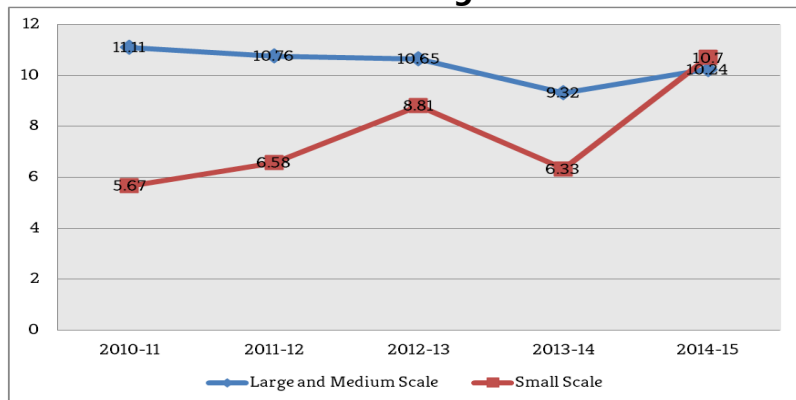
Figure 2: Rate of Growth in Manufacturing Industries



Source: Ministry of Finance, 2015a

Manufacturing is the leading subsector of industry which contributes most to GDP. During the FY 1990-95, the average contribution of manufacturing was 10.52 percent which reached more than 15 percent in FY 2000-01. Contribution of this sector to GDP has, however, increased at a slower rate of late and been calculated at 17.75 percent, 18.28 percent, 19.0 percent and 19.45 percent in FY 2010-11, FY 2011-12, FY 2012-13 and FY 2013-14 respectively, the rate of growth was 10.01 percent in FY 2010-11, 9.96 percent in FY 2011-12, 10.31 percent in FY 2012-13, 8.77 percent in FY 2013-14, and 10.32 percent in FY 2014-15. During the last four fiscal years the rate of growth in this sector did not reach the rate in FY 2010-11 when growth in large and medium scale manufacturing industries stood at 11.11 percent. The rate of growth in the large and medium manufacturing sector became 10.76 percent in FY 2011-12, 10.65 percent in FY 2012-13, 9.32 percent in FY 2013-14, and 10.24 percent in FY 2014-15,

Figure 3: Rate of Growth in Large and Medium Scale and Small Scale Manufacturing Industries

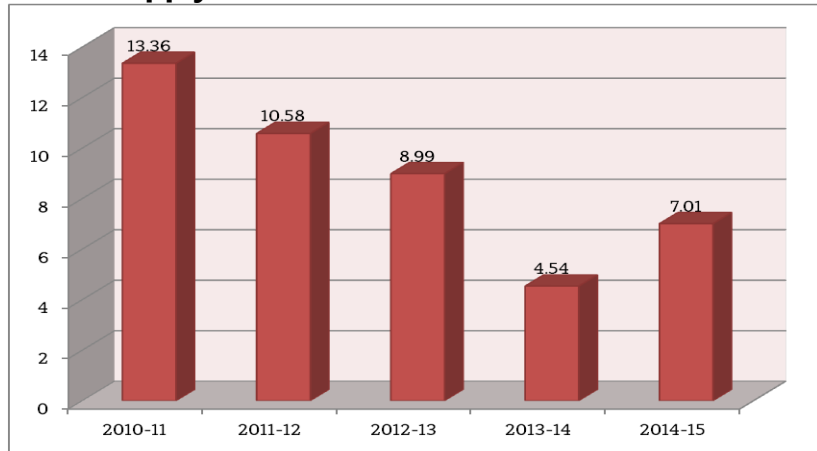


Source: Ministry of Finance, 2015a

The contribution of electricity, gas and water supply to GDP is negligible, although the subsector is considered to significantly facilitate the process of industrialisation.

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Figure 4: Rate of Growth in Electricity, Gas and Water Supply



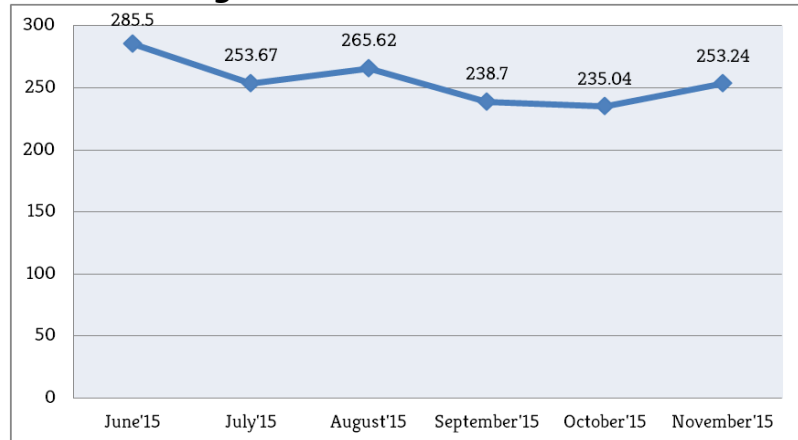
Source: Ministry of Finance, 2015a

3.1. Quantum Index of Industrial Production

The Quantum Index of Production (QIP) which is used for measuring the production performance of the manufacturing industries shows that for medium to large scale industries, the QIP increased to 228.43 in 2000-01 from 141.80 in 1992- 93, whereas the index stood at 157.89 and then reached 205.45 in FY2010-11 and FY 2013-14 respectively. Recent trend of QIP in figure six shows that QIP for medium to large scale is increasing but at a decreasing rate. In 2010-11 the growth rate in QIP was 16.95 percent which decreased to 10.79 in FY 2011-12 percent then slightly increased to 11.59 in 2012-13 percent but in FY 2013-14 it drastically decreases to 5.26 percent. Political unrest, lack of adequate energy and power, insufficient source of fund can be held responsible behind the decelerating growth rate in QIP for medium to large scale in recent years. In view of recent unsatisfactory trend in Quantum Index of Industrial Production (QIIP) for medium and large-scale manufacturing industries, it is found that in 2015 QIIP for manufacturing industries reached a peak at 285.50 in June'15, whereas the index declined in the following months and stood at 253.67 in July'15, 265.62 in August'15, 238.70 in September'15, 235.04 in October'15, and 253.24 in November'15.

Political unrest, lack of adequate energy and power, insufficient source of fund can be held responsible behind the decelerating growth rate in QIP for medium to large scale in recent years.

Figure 5: Quantum Index of Medium and Large Scale Manufacturing Industries



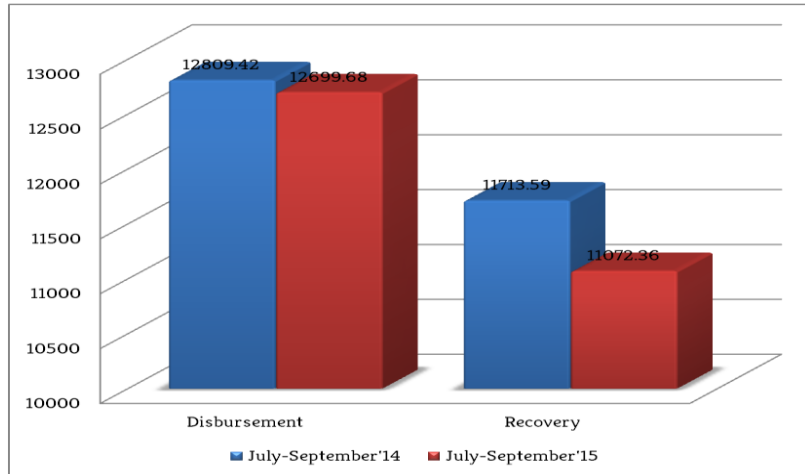
Source: Bangladesh Bureau of Statistics, 2016

The rate of growth in the industrial term loan has been experiencing an irregular movement with frequent negative trend.

3.2. Industrial Term Loan

The rate of growth in the industrial term loan has been experiencing an irregular movement with frequent negative trend. The disbursement of industrial term loan stood at Tk. 9283.5 crore in the January-March quarter of the FY 2013- 14, which is the lowest amount during the last five quarters, whereas it was Tk. 10513.27 crore and Tk. 12684.66 crore in July-September and October-December quarters of the FY 2013-14 respectively. As a result, the rate of growth in the disbursement of the industrial term loan stood negative at 8.94 percent in the January-March quarter of the FY 2013- 14, compared to the positive rate of growth of 6.88 percent in the October-December quarter of the same fiscal year. The condition of the recovery of the industrial term loan has, however, been improving insignificantly since the last quarter of the FY 2012-13. However, during the first quarter of FY 2015-16, disbursement of industrial term loans decreased by 0.86 percent and stood at BDT 12699.68 crore compared to the corresponding period of the previous fiscal year. Meanwhile, recovery of industrial term loans also decreased by 5.47 percent during July-September of FY 2015-16 compared to the corresponding period of the previous fiscal year.

Figure 6: Disbursement and Recovery of Industrial Term Loans



Source: Bangladesh Bank, 2016

The disbursement of SME loans by banks and non-bank financial institutions in September 2015 are increased by 10.12 percent compared with the same month of last year.

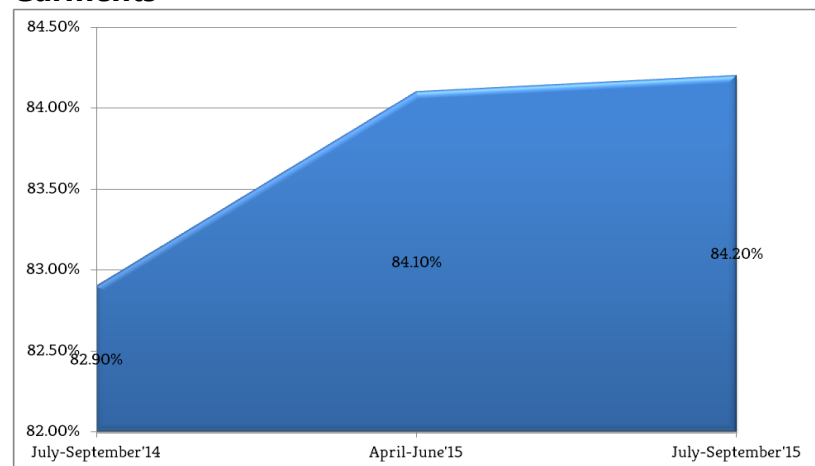
The disbursement of SME loans by banks and non-bank financial institutions in September 2015 are increased by 10.12 percent compared with the same month of last year. However, specialised banks experienced a negative growth of 91.46 percent at the end of September 2015 from its level in September 2014. However, it is mainly due to the exclusion of two banks from this category. SME loan The total loan given by state owned commercial banks, foreign banks, and non-bank financial institutions, except the specialised banks, increased to Tk. 493306 crore at the end of March 2014 from Tk. 455884.6 crore at the end of December 2013, although the SME loan as a percentage of total loans has decreased during the same period. The total SME loan decreased by Tk. 1301.4 crore between the period of December 2013 and March 2014 and was calculated at Tk. 114583.5 crore in March 2014. As a result, the rate of growth of SME loan has decreased from 6.71 percent in December 2013 to negative 1.12 percent in March 2014.

3.3. Product Concentration of Export

Industry moves ahead when different types of products are produced and economy doesn't depend on one or

two goods. Industry consists of four subsectors, although it is concentrating on manufacturing. As a share of GDP, the contribution of manufacturing was 19.45 percent where the mining and quarrying contributed 1.64 percent, electricity, gas and water supply contributed 1.46 percent, construction contributes 7.06 percent in 2013-14. The export of few goods like Readymade garments (RMG), frozen food, medicine etc. is polarising the industry and lack of diversification of product type may deteriorate the situation, if for any reason, one or two lose their market (like cancelation of Generalised System of Preferences (GSP) or any shock to the global economy).

Figure 7: Concentration of Export of Readymade Garments



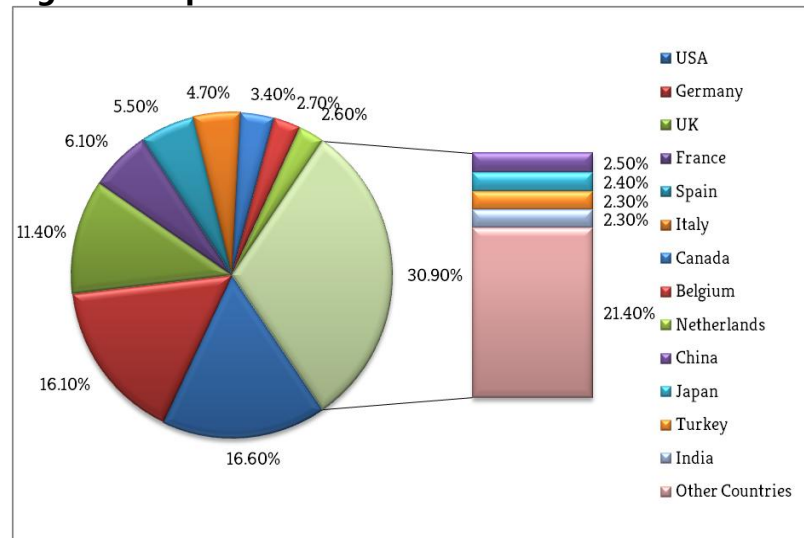
Source: Bangladesh Bank, 2016

Similarly, only six products contributed 86 percent of total manufactured export earnings. Out of these six products only garments contributed 81.4 percent in FY 2013-14. Readymade garments accounted for 84.2 percent of the total export earnings in July-September of 2015 compared to 82.9 percent in corresponding period of 2014. Lack of export diversification may pose serious threat to the economy's external balance.

3.4. Market Concentration

The industry is not only concentrating on product but also concentrating on market. The economy depends on some few countries like the USA and European countries particularly for exporting goods. In July-September, 2015 50.2 percent of total export earnings have come from four countries- USA, Germany, UK, France.

Figure 8: Export Market Concentration



Source: Bangladesh Bank, 2016

4. SERVICE SECTOR

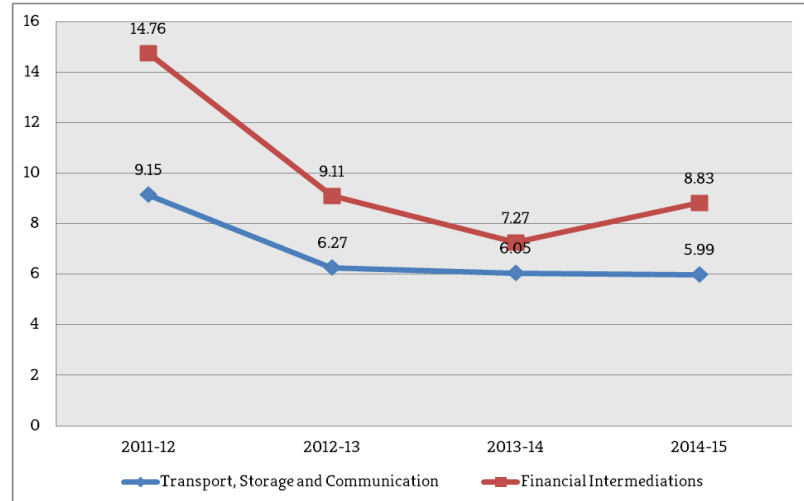
In regard to slow expansion the service sector, it is found that unsatisfactory trends in the rate of growth in transport, storage and communication and financial intermediations sectors.

In regard to slow expansion the service sector, it is found that unsatisfactory trends in the rate of growth in transport, storage and communication and financial intermediations sectors. The rate of growth in transport, storage and communication as sectoral growth in GDP has been on the decline since FY 2011-12. The rate of growth in the sector stood at 9.15 percent in FY 2011-12, 6.27 percent in FY 2012-13, 6.05 percent in FY 2013-14, and 5.99 percent in FY 2014-15.

In the same vein, rate of growth in financial intermediations at constant prices as sectoral growth in GDP has been declining since FY 2011-12 except for slight increase in FY 2014-15. Rate of growth in the sector stood at 14.76 percent in FY 2011-12, 9.11

percent in FY 2012-13, 7.27 percent in FY 2013-14, and 8.83 percent in FY 2014-15.

Figure 9: Rate of Growth in Transport, Storage and Communication, and Financial Intermediations Sectors.



Source: Ministry of Finance, 2015a

According to the base year 2005-06, the provisional growth of all sectors within the broad service sector increased in FY 2014-15 compared to the preceding year. Simply, growth in the Post and Tele communications sub-sector of Transport, Storage & Communication sector and the Monetary Intermediation (Banks) sub-sector of Financial Intermediations sector were expected to diminish slightly during this period. According to the provisional data, the output of the wholesale and retail trade was expected to slide from 6.73 percent of the previous year to 6.59 percent in FY 2014-15. Growth in hotel and restaurant sector posted a growth of 6.85 percent up from 6.70 percent a year earlier. In transport, storage and communication sector the growth was estimated at 5.99 percent for FY 2014-15, which was 6.05 percent in FY 2013-14. All the subsectors of this sector registered higher growth compared to that of the previous fiscal year except the land transport and post and tele-communications sub-sectors. Specially, support transport services and storage sub-sector boosted up with an estimated growth of 4.56

percent of GDP from 2.59 percent a year earlier. Alongside, growth in land transport, water transport, air transport and post and telecommunications sub-sectors were 5.45 percent, 3.48 percent, 1.24 percent and 8.84 percent respectively. During FY 2014-15, financial intermediations showed the prospect of an estimated growth rate of 8.83 percent, which was 7.27 percent in FY 2013-14. The growth rate in the real estate, renting and business activities sector was provisionally estimated at 4.66 percent which was 4.25 percent in FY 2013-14. Among the other services sectors, the growth rate of public administration and defense, education, health and social works, community, social and personal service sector were expected to grow at the rate of 7.48 percent, 7.62 percent, 5.69 percent and 3.36 percent respectively in FY 2014-15.

In FY 2014-15, the share of overall service sector in GDP was 53.62 percent which stood slightly lower than 53.95 percent in the previous year.

In FY 2014-15, the share of overall service sector in GDP was 53.62 percent which stood slightly lower than 53.95 percent in the previous year. Within the broad service sector, the contribution of wholesale and retail trade sector (14.12%) was the highest in FY 2014-15 a slight increase than that of FY 2013-14. The second largest share within the sector was the transport, storage and communication sector comprising 11.44 percent in FY 2014-15, which was 11.49 percent a year earlier. The next largest share came from Community, Social and Personal services sector (9.53%), followed by Real Estate, Renting and Business activities (6.83%), Public Administration and Defense (3.42%), Financial Intermediations (3.41%), Education (2.28%), Health and Social Works (1.84%) and Hotel And Restaurants (0.75%) in FY 2014-15.

5. CONCLUSIONS

Recent deceleration in the growth of the economy can largely be attributed to the falling rate of growth in both agriculture and industrial sectors which together comprise half of the GDP in the country. This falling rate

As the economy is characterised by consumption-led expansion, a stimulation of domestic demand is needed in order to recover the increasing trend of growth in industrial sector.

of growth in agriculture and industrial sectors has further been aggravated by frequent power tariff hikes in recent periods due to government's purchase of power from oil-based rental power plants at much higher costs. Sector specific measures need to be taken in order to cause the present decreasing trend of growth in the economy to assume an increasing trend. In order to ensure food security through development of agriculture in Bangladesh, the invention, adoption and dissemination of 'new technology' must be ensured with a view to increasing production of diversified crops. Attention must be given at controlling the rice price within the accessible limit of the poor ensuring a fair price to farmers. In addition, agricultural credit disbursement, supply of fertiliser, increased development budget vis-à-vis non-development budget in agriculture, early weather warning system for farmers and 'environment friendly sustainable agriculture' must be emphasised with providing adequate support for agricultural research and training. As the economy is characterised by consumption-led expansion, a stimulation of domestic demand is needed in order to recover the increasing trend of growth in industrial sector. Diversification of growth should be endeavored through the acceleration of market and product diversifications. The growth of export must be emphasised as regards finding out new export market. Employment creation for the skilled and educated unemployed has to be prioritised. Management of industrial loan disbursement and collection and the provision of infrastructural facilities must be ensured in order to cause the industrial sector to grow rapidly and sustainably.

With the adoption of strategies particularly focusing on the expansion of productive capacity, it is advocated that prudent harmonisation of macroeconomic policies is required to foster agricultural growth, bolster industry, and expand service sector by creating adequate employment opportunities in the economy.

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