Quarterly Update on the Major Economic Trends in Bangladesh

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SPAC Briefing Note 03

Quarterly Update on the Major Economic Trends in Bangladesh

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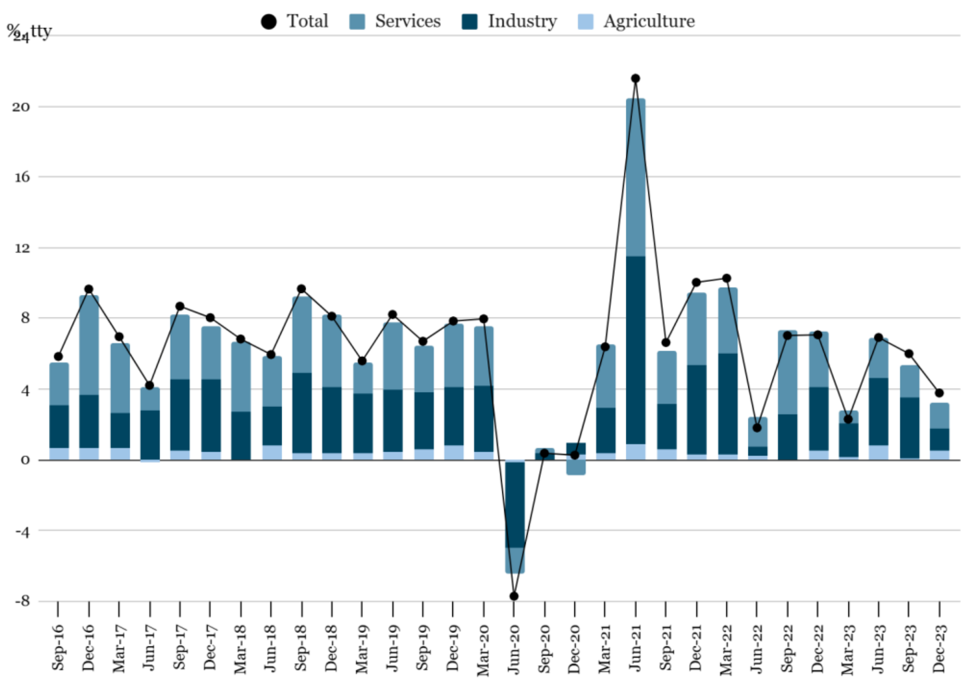
Bangladesh's economy has faced significant challenges in the early months of 2024. Economic growth has decelerated, particularly in the export sector, while inflation has remained high. Policy adjustments are being made to address inflation and stabilise the external sector, but careful consideration is required to prevent a potential sharp downturn later in 2024. The country's policymakers are tasked with delicately balancing these complex economic factors.

Economic Activities

The economic growth slowed sharply in the second half of 2023 (Chart 1). The services sector remained weak throughout the year, while the industry sector failed to sustain its mid-year turnaround.

Chart 1: Real GDP Growth (Through the year)



Source: CEIC, 2024a

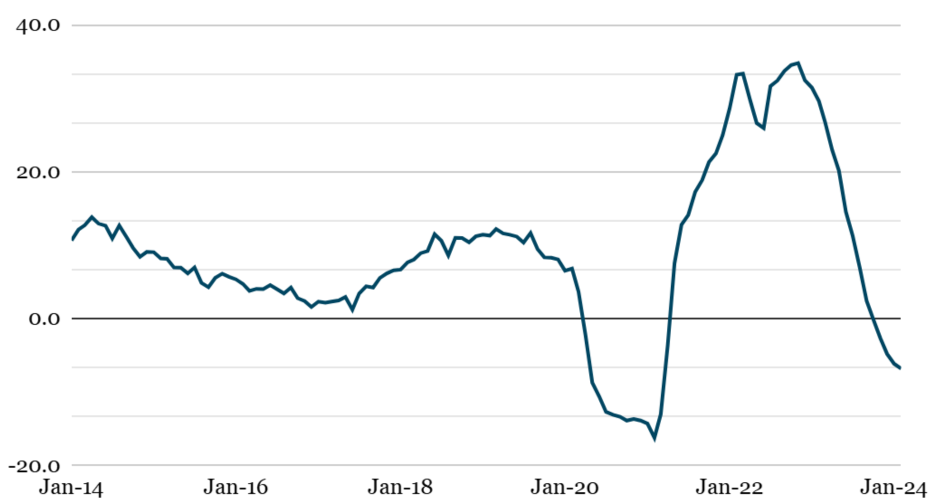
According to industrial production growth (Chart 2), the industry sector's weakening has continued into the spring of 2024. This series is a strong correlate of GDP growth. If the historical relationships between the two indicators have been maintained, economic growth may have slowed further in 2024.

Chart 2: Industrial production in manufacturing, percentage through the year, 12-month moving average

Source: CEIC, 2024b

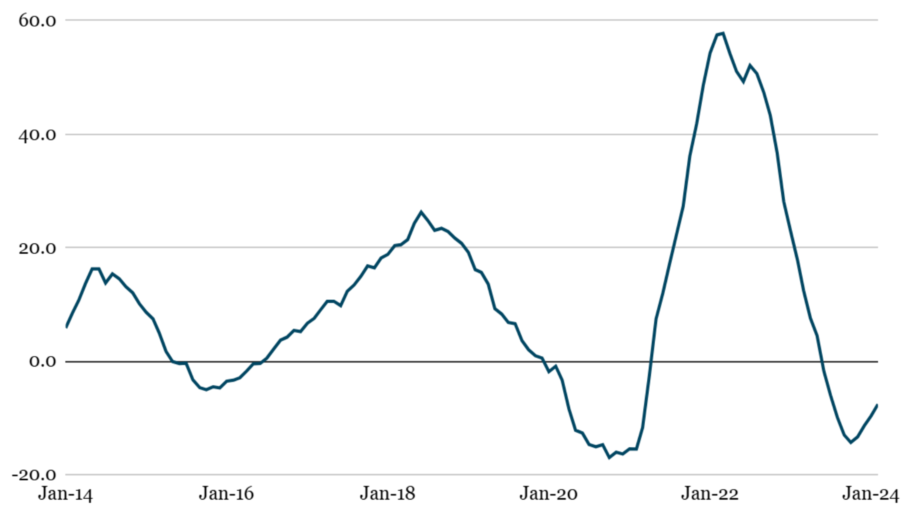
Exports experienced a significant slowdown in 2023 and were continuing to decrease in early 2024, as shown in Chart 3. This indicates that one of the country's key economic drivers has not been performing well for some time. On the other hand, imports have been on a downward trend for almost a year (Chart 4), largely due to various restrictions. This suggests that net exports may have positively contributed to growth in the latter part of 2023. Nevertheless, the decline in exports significantly dampens the overall economic outlook.

Chart 3: Exports, percentage through the year, 12-month moving average



Source: CEIC, 2024c

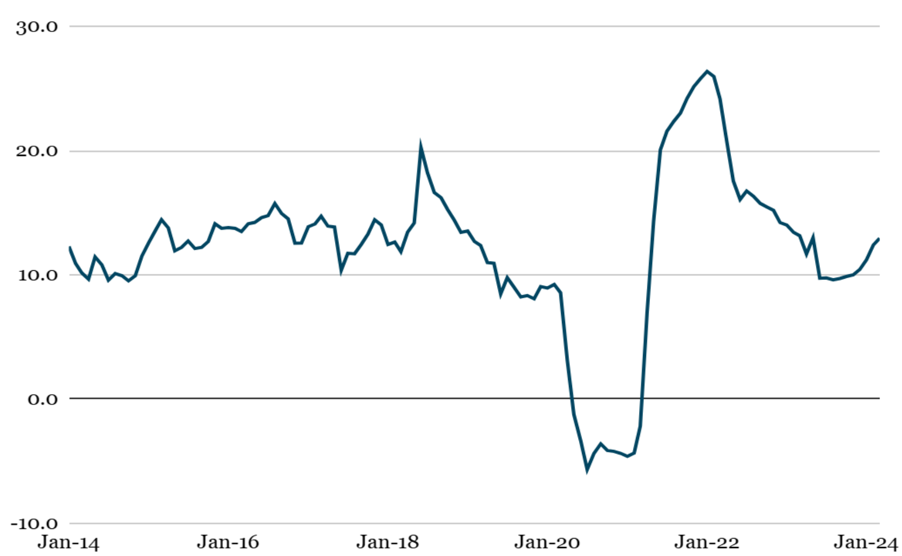
Chart 4: Imports, percentage through the year, 12-month moving average



Source: CEIC, 2024d

Tax revenue is another correlate of economic growth. Tax revenue growth has been slower than pre-pandemic growth rates (Chart 5), which is not surprising because import taxes would have declined in line with falling imports. If the historical relationship between tax revenue and GDP growth have held, economic growth may have been soft in early 2024.

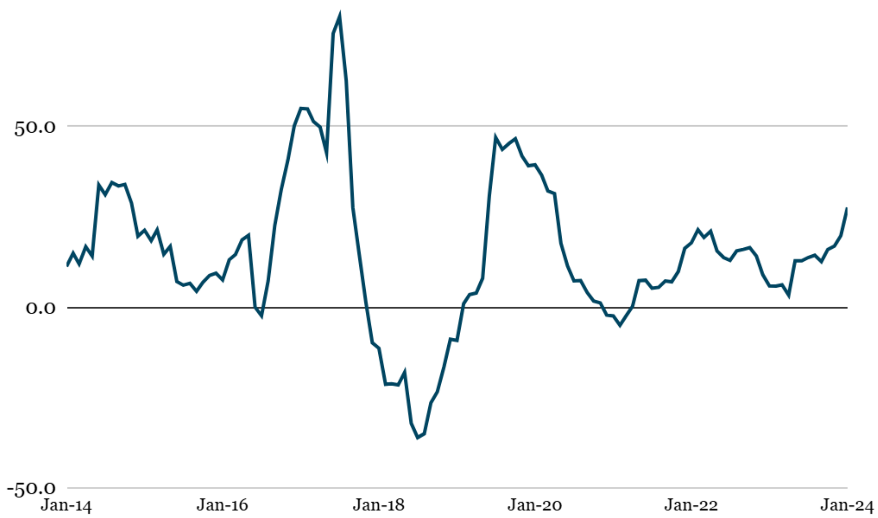
Chart 5: Tax revenue, percentage through the year, 12-month moving average



Source: CEIC, 2024e

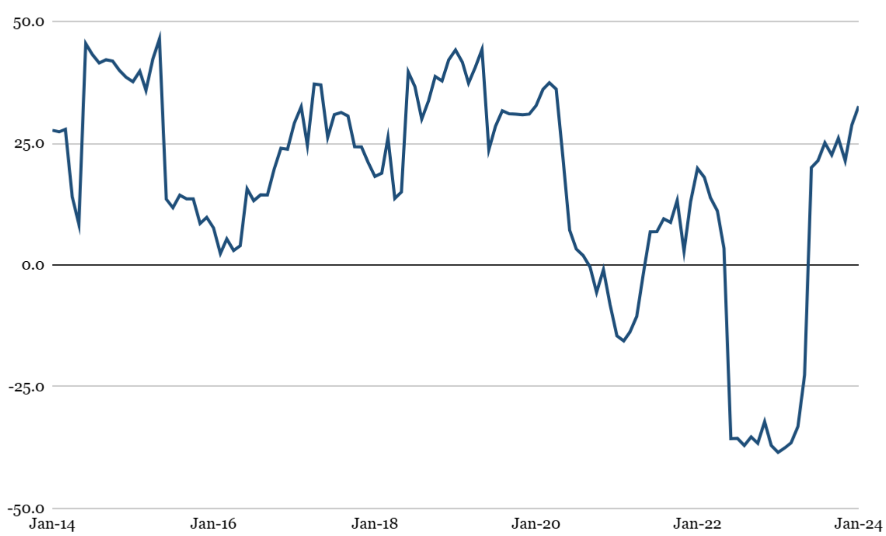
Turning to the other side of the public finance ledger, both non-development and development expenditures grew in the first half of the 2024-25 fiscal year (Charts 6 and 7), shaking off the severe austerity of the previous year. That is, public demand is likely to have been contributing to economic growth, particularly in the months leading up to the election.

Chart 6: Non-development expenditure, percentage through the year, 12-month moving average



Source: CEIC, 2024f

Chart 7: Development expenditure, percentage through the year, 12-month moving average



Source: CEIC, 2024g

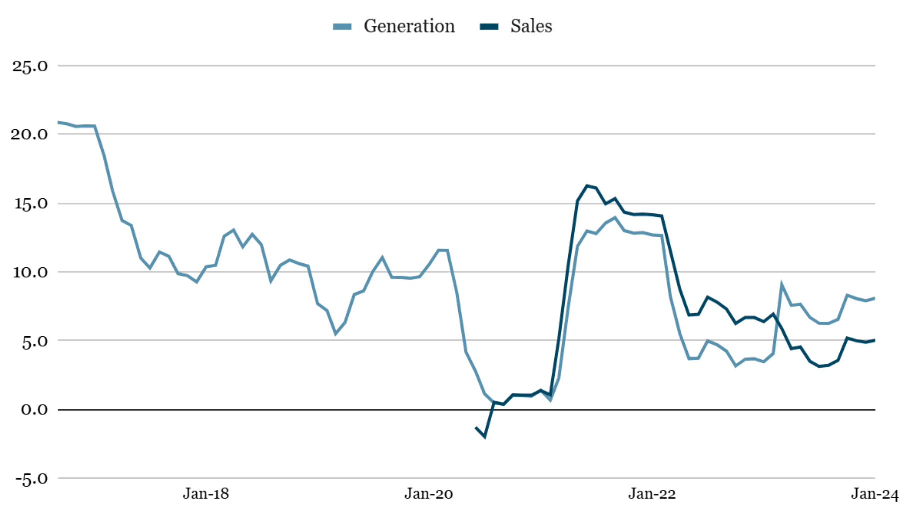
The private sector domestic demand lacks any clear sign of strength. The growth in credit to the private sector, often used as a proxy for private investment, has consistently slowed throughout 2023 and is still showing no sign of bottoming out (Chart 8). This indicates sustained weakness in the corporate sector.

Chart 8: Credit to the private sector growth, percentage through the year, 3-month moving average

Source: CEIC, 2024h

Electricity sale (and generation) is a widely used correlate of economic growth. While electricity generation growth staged a rebound in 2023 after a sluggish 2022 (possibly reflecting external sector problems), electricity sales appear to have weakened into the beginning of 2024 (Chart 9).

Chart 9: Electricity generation (net) and Sales (vol), percentage through the year, 12-month moving average

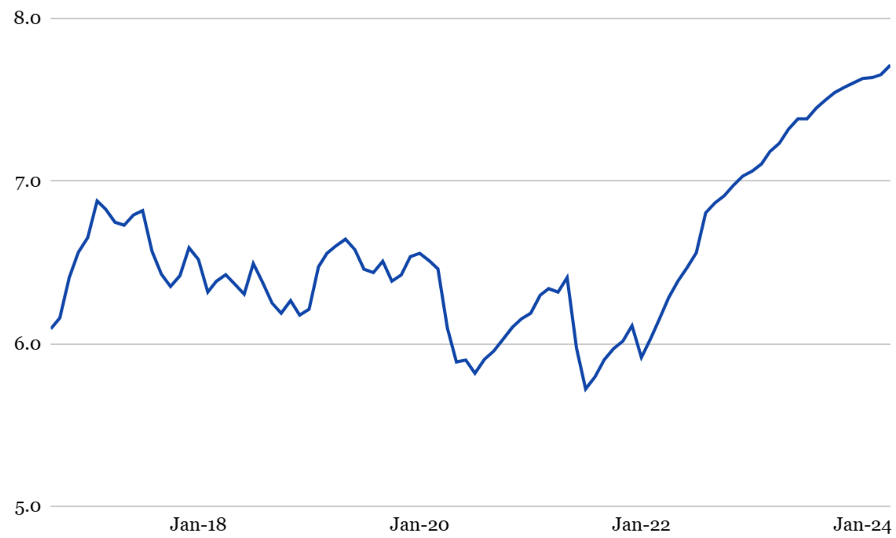


Source: CEIC, 2024i

Prices and Income

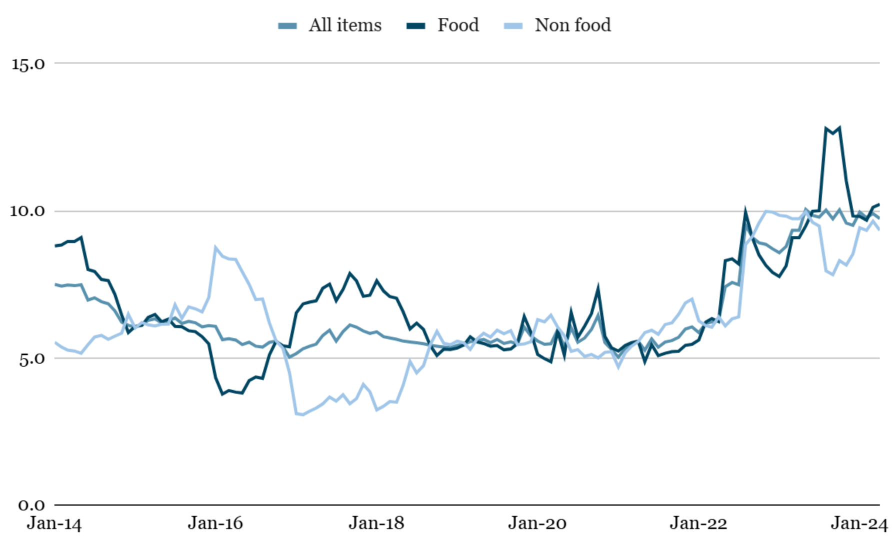
The picture is mixed when one considers indicators of prices and income. The wage rate index has grown strongly (Chart 10) but has failed to keep pace with inflation (Chart 11), suggesting an erosion of real income.

Chart 10: Wage rate index percentage through the year



Source: CEIC, 2024j

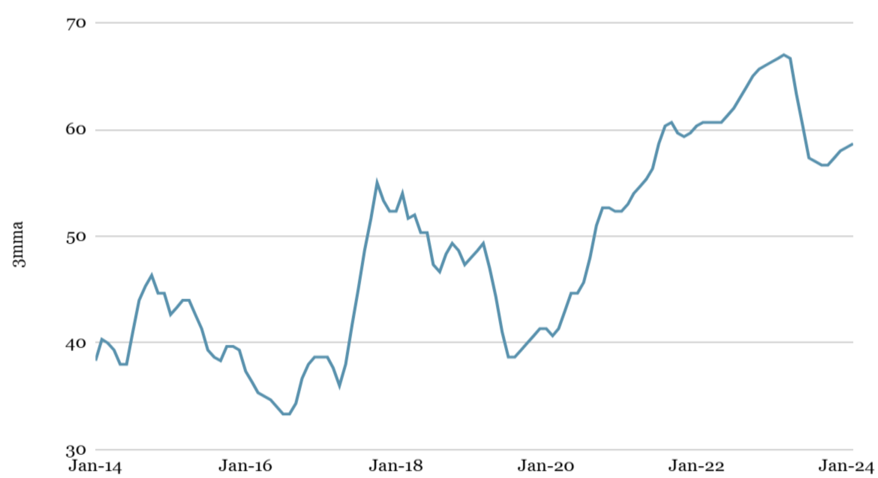
Chart 11: Inflation percentage through the year



Source: CEIC, 2024k

Food prices have eased somewhat, even though rice prices remain elevated compared with pre-pandemic levels (Chart 12).

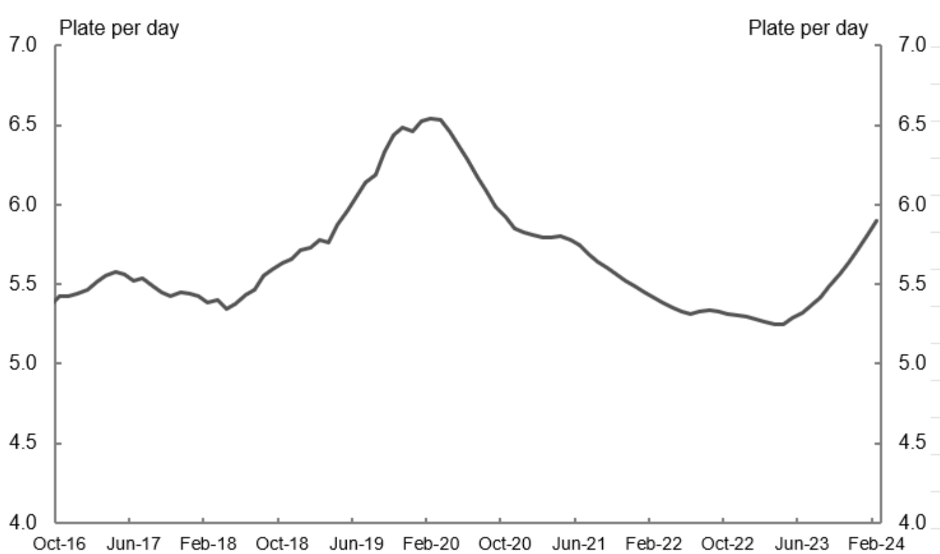
Chart 12: Coarse rice, taka/kg, 3-month moving average



Source: CEIC, 2024l

The Khichuri Indicator is a simple measure of the urban worker's living standard. It shows the number of plates of *khichuri*—rice, lentils, oil, and salt—one can buy on the daily wage of a skilled industrial worker. The recent recovery in this indicator augurs well for the economic outlook (Chart 13).

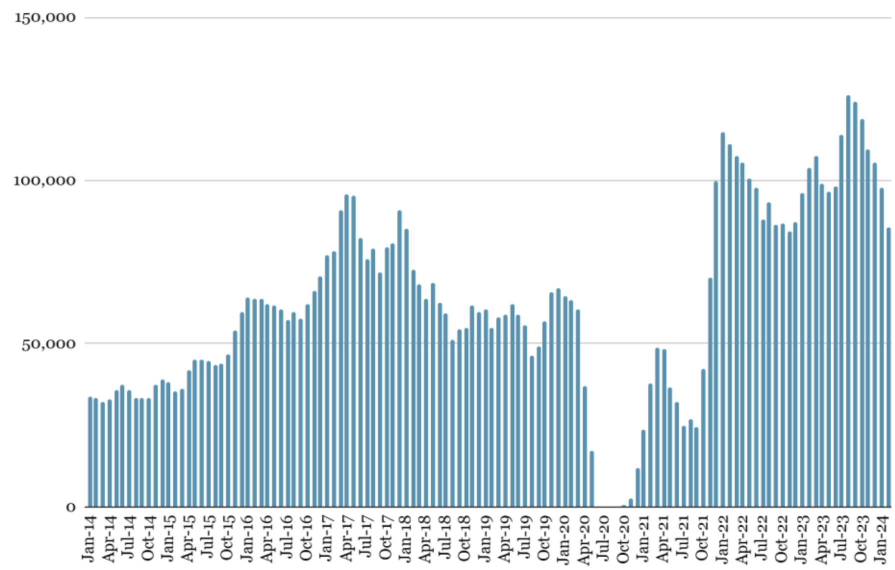
Chart 13: Khichuri Indicator, plates per day



Source: Author's calculation

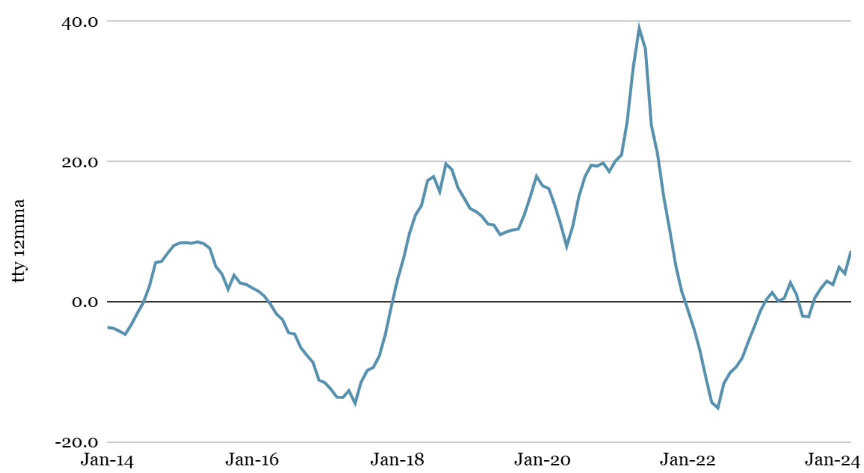
Another indicator boosting the economic outlook is the large number of Bangladeshis going overseas to work (Chart 14). To the extent that the labour markets in the destination countries are booming, the outflow of workers should result in a strong inflow of remittances. Formal remittances appear to have finally started to recover (Chart 15), which should put a floor on domestic consumption growth.

Chart 14: Number of workers going overseas (3-month moving average)



Source: CEIC, 2024m

Chart 15: Remittance, percentage through the year, 12-month moving average

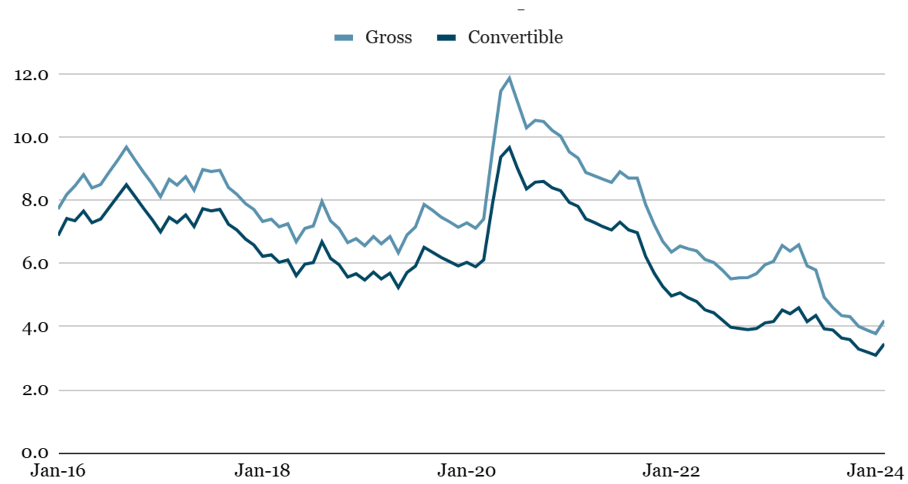


Source: CEIC, 2024n

Policy Settings

Draconian import restrictions did not prevent the taka from sliding in 2023, nor did they stem the bleeding of the stock of international reserves held by the Bangladesh Bank (Chart 16). Measured in terms of months of imports, reserves appear to remain in the 'safe zone' of above three months. However, this is because imports have been slammed with policy measures.

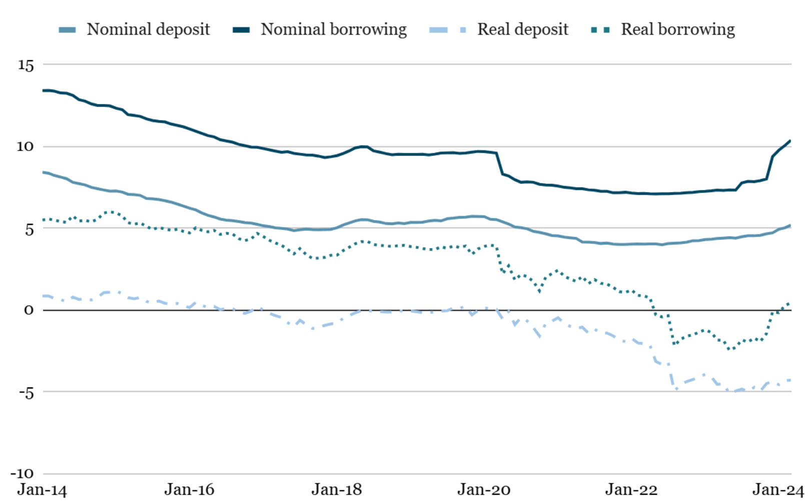
Chart 16: Reserves in months of imports, 3-month moving average



Source: CEIC, 2024o

The recent official depreciation of the taka or the 'crawling peg' has not yet shown its effects in the data. However, the new monetary policy has visibly impacted the interest rates (Chart 17).

Chart 17: Interest rates

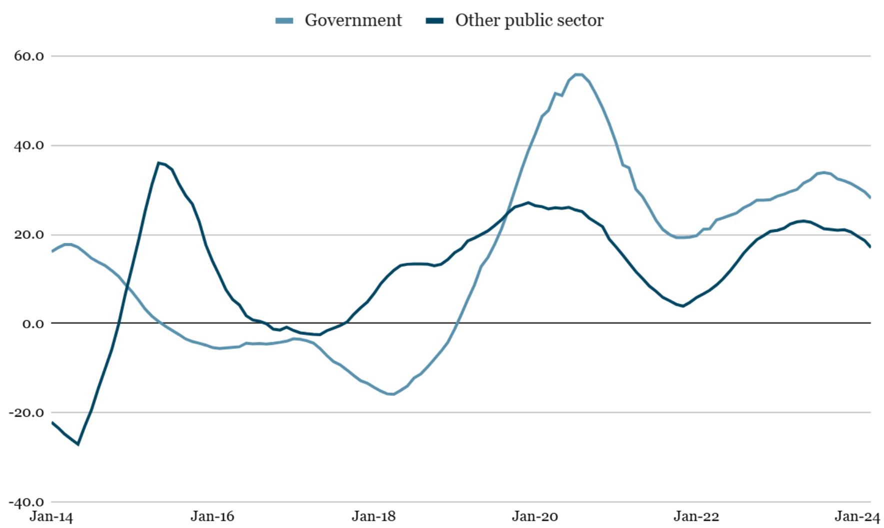


Source: CEIC, 2024h

Real borrowing rates have finally turned positive, although they are still significantly lower than the pre-pandemic levels. This suggests that while tight money may impact demand, further interest rate increases may be necessary to bring down inflation.

Meanwhile, public sector borrowing growth softened somewhat in the spring of 2024 (Chart 18) but remains much stronger than in the pre-pandemic period.

Chart 18: Credit to the public sector percentage through the year, 12-month moving average



Source: CEIC, 2024p

Concluding remarks

Macroeconomic policy settings are gradually becoming more appropriate for the inflationary environment, even though further tightening may be needed to bring inflation down and restore external sector stability. However, given the weakness in economic activities, particularly in the export sector, tighter macroeconomic policies could result in a sharper economic downturn in late 2024.

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