BANGLADESH

Table 1	2021
Population, million	166.3
GDP, current US$ billion	415.3
GDP per capita, current US$	2497.0
International poverty rate ($1.9)[a]	14.3
Lower middle-income poverty rate ($3.2)[a]	52.3
Upper middle-income poverty rate ($5.5)[a]	84.2
Gini index[a]	32.4
School enrollment, primary (% gross)[b]	119.6
Life expectancy at birth, years[b]	72.6
Total GHG Emissions (mtCO2e)	247.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

After decelerating to 3.4 percent in FY20, real GDP growth rebounded to 6.9 percent in FY21. While pandemic disruptions are waning, GDP growth is projected to decelerate moderately to 6.4 percent in FY22 with higher commodity prices. Poverty is expected to decline modestly. Downside risks include commodity price volatility, new waves of COVID-19, and worsening financial sector vulnerabilities. Addressing longstanding structural challenges could accelerate the post-COVID-19 recovery and support longer term development objectives.

Key conditions and challenges

GDP has grown rapidly over the past two decades, supported by a demographic dividend, sound macroeconomic policies, and an acceleration in readymade garment (RMG) exports. Job creation and remittance inflows contributed to a sharp decline in poverty. However, the pace of job creation and poverty reduction has slowed since 2013, even as GDP growth accelerated. Persistent structural weaknesses include low institutional capacity, highly concentrated exports, growing financial sector vulnerabilities, unbalanced urbanization, and a business climate that lags peer economies. Bangladesh is also highly vulnerable to the effects of climate change. After graduation from the UN's Least Developed Country status in 2026, Bangladesh will begin to lose preferential access to advanced economy markets.

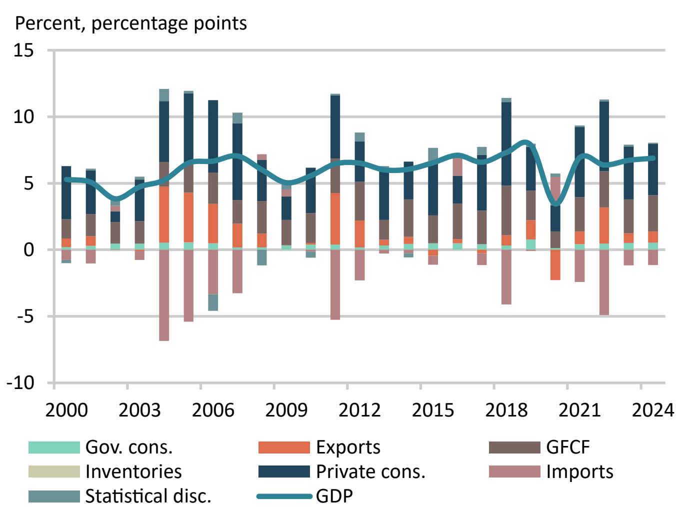
Bangladesh's economy performed well during the pandemic compared to peer countries. The lockdown negatively impacted the work status of approximately half the population. High frequency phone survey data collected in mid-2021 underscore the disproportionate impact of COVID-19 job losses on women. However, restrictions were progressively less stringent with each wave of COVID-19, including the omicron variant, and economic activity gradually recovered from an initial contraction. Bangladesh entered the pandemic with adequate buffers to mitigate the negative impacts of the pandemic, including relatively low debt. A stimulus program protected productive capacity in the manufacturing sector, while monetary policy was accommodative.

Downside risks to the outlook persist and external risks remain elevated. The war in the Ukraine may contribute to rising commodity prices (oil, natural gas, fertilizer, grains), which could increase the current account deficit. Fiscal expenditures on subsidies may rise, depending on the extent of price adjustments, which may also increase inflationary pressure. New waves of COVID-19 could necessitate additional movement restrictions, hampering domestic economic activity. Although not fully reflected in official data due to continued regulatory forbearance, the pandemic has deepened longstanding financial sector vulnerabilities, including high levels of non-performing loans (especially in state-owned banks) and weak capital buffers.

Recent developments

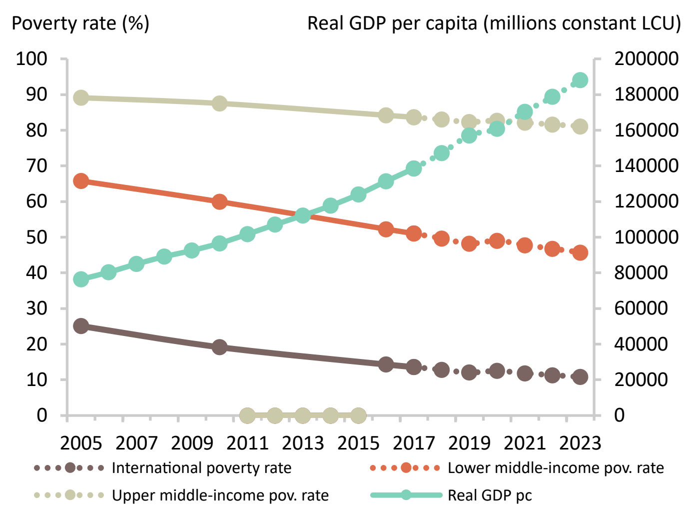
High frequency macroeconomic indicators point to a continued recovery in July-December 2021 (H1 FY22) as COVID-19 infections moderated and global economic growth accelerated. On the demand side, merchandise exports rose by 28.4 percent (y-o-y) in H1 FY22 as RMG exports rebounded strongly. Imports of consumer, capital, and intermediate goods rose by 52.4 percent over the same period, as the recovery accelerated. On the supply side, the industrial production index shows

FIGURE 1 Bangladesh / Real GDP growth and contributions to real GDP growth



Sources: Bangladesh Bureau of Statistics and World Bank staff estimates.

FIGURE 2 Bangladesh / Actual and projected poverty rates and real GDP per capita



Sources: World Bank. Notes: see Table 2.

strong growth in manufacturing, while services growth was supported by a decline in COVID-19 movement restrictions. Modest agricultural growth was sustained, with no major flooding events.

Inflation rose to 6.1 percent in December 2021, driven by rising global commodity prices, and upward adjustments in administered prices of gas and diesel. Bangladesh Bank (BB) maintained its expansionary monetary policy stance since the beginning of the pandemic. Following a downward trend in FY21, private sector credit growth accelerated modestly to 11.1 percent (y-o-y) by January 2022 but remained below the 14.8 percent target set by the BB.

The current account deficit reached US$ 8.2 billion in H1 FY22, compared to a surplus of US$ 3.5 billion in the same period of FY21. The rising deficit was driven by a 55.4 percent increase in imports and a 20.9 percent decline in official remittance inflows, as the use of informal payment channels resumed with relaxation of international travel restrictions. The balance of payment deficit reached US$ 1.8 billion in H1 FY22, compared to a surplus of US$ 6.1 billion over the same period of FY21. The interbank exchange rate depreciated modestly to 86.0 BDT/US$ in January 2022. Foreign exchange reserves remained adequate at US$ 46.1 billion in December 2021, or 6.7 months of imports.

The estimated fiscal deficit moderated to 3.6 percent of GDP in FY21, as revenues outpaced expenditure growth. Tax revenues increased by 16.8 percent (y-o-y) in H1 FY22, primarily supported by trade-related taxes on rising imports. Estimated expenditure increased due to higher subsidy payments in the energy and agriculture sectors. Deficit financing from the banking sector increased, as the sale of National Savings Certificates (NSCs) declined due to stringent application of eligibility regulations and a reduction in NSC rates.

The COVID-19 pandemic has put the substantial poverty reduction gains of the past two decades at risk. After rising during the COVID-19 pandemic, estimated poverty declined to 11.9 percent in FY21, using the international poverty rate ($1.9 in 2011 PPP). A gradual reduction in poverty is projected to continue, reaching 11.3 percent in FY22.

Outlook

GDP growth is expected to decelerate modestly to 6.4 percent in FY22. While economic disruptions related to the COVID-19 pandemic are waning, a sharp increase in commodity prices and rising uncertainty in European export markets are expected to weigh on growth. Notwithstanding these challenges, GDP growth is expected to remain resilient in FY23, supported by a recovery in investment, and strong domestic demand. Inflation is projected to reach 6.2 percent in FY22, with a high degree of uncertainty in FY23 due to commodity price volatility. Official remittance inflows are expected to grow in FY23, as higher oil prices underpin demand for workers in the GCC. This, in turn, is likely to reduce the current account deficit.

The fiscal deficit is projected to remain within the government's 5.0 percent of GDP target. Gradual revenue growth will be supported by rising imports and modest policy reforms, expenditure growth will be led by infrastructure spending. To sustain GDP growth over the medium term, longstanding structural challenges must be addressed, including increasing domestic revenues, modernizing the tariff regime, resolving sector vulnerabilities, and improving the business climate.

TABLE 2 Bangladesh / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018/19	2019/20	2020/21	2021/22e	2022/23f	2023/24f
Real GDP growth, at constant market prices	7.9	3.4	6.9	6.4	6.7	6.9
Private Consumption	4.9	3.0	8.0	7.9	5.9	5.8
Government Consumption	13.4	2.0	6.9	7.7	8.3	8.8
Gross Fixed Capital Investment	6.9	3.9	8.1	8.4	7.7	8.1
Exports, Goods and Services	11.5	-17.5	9.2	25.5	5.8	6.8
Imports, Goods and Services	0.5	-11.4	15.3	28.8	5.7	5.6
Real GDP growth, at constant factor prices	8.0	3.8	7.0	6.4	6.7	6.9
Agriculture	3.3	3.4	3.2	3.2	3.5	3.6
Industry	11.6	3.6	10.3	10.4	10.2	9.9
Services	6.9	3.9	5.7	4.3	4.9	5.3
Inflation (Consumer Price Index)	5.5	5.6	5.6	6.2	6.0	5.8
Current Account Balance (% of GDP)	-1.3	-1.5	-1.1	-4.0	-3.5	-3.2
Net Foreign Direct Investment (% of GDP)	0.7	0.3	0.3	0.4	0.5	0.6
Fiscal Balance (% of GDP)	-4.7	-4.8	-3.6	-4.1	-4.0	-3.5
Debt (% of GDP)	28.5	31.7	32.1	32.8	33.2	33.1
Primary Balance (% of GDP)	-3.0	-2.9	-1.5	-2.1	-1.9	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	12.1	12.5	11.9	11.3	10.8	10.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	48.2	49.0	47.8	46.8	45.7	44.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	82.3	82.7	82.1	81.6	81.1	80.6
GHG emissions growth (mtCO2e)	5.8	2.5	3.1	3.8	4.1	4.2
Energy related GHG emissions (% of total)	40.6	41.4	42.3	43.7	45.1	46.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SAR-POV harmonization, using 2010-HIES and 2016-HIES.Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2010-2016) with pass-through = 1 based on GDP per capita in constant LCU.