BANGLADESH

Table 1	2020
Population, million	170.3
GDP, current US$ billion	324.2
GDP per capita, current US$	1903.7
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]	116.5
Life expectancy at birth, years[b]	72.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2018).

Following sharp GDP growth deceleration in FY20 due to the COVID-19 pandemic, the economy started recovering in the first half of FY21, as movement restrictions were lifted and international buyers reinstated export orders. Going forward, a gradual recovery is expected to continue, particularly if the government's COVID-19 recovery programs are implemented swiftly. Downside risks include new waves of COVID-19 infections that may dampen external demand for exports and Bangladesh's labor force overseas. With growth firming up, poverty is projected to decline marginally in FY21.

Key conditions and challenges

Bangladesh made rapid development progress over the past two decades, reaching lower-middle-income country status in 2015. Rapid GDP growth was supported by a demographic dividend, sound macroeconomic policies, and an acceleration in readymade garment (RMG) exports. Meanwhile, job creation and growing remittance inflows contributed to a sharp decline in poverty. However, from 2013 onward, the pace of job creation and poverty reduction slowed, even as GDP growth accelerated. Persistent structural weaknesses include low institutional capacity, highly concentrated exports, growing financial sector vulnerabilities, unbalanced urbanization, and slow improvements in the business environment. Bangladesh is also highly vulnerable to the effects of climate change.

The COVID-19 pandemic impacted the economy profoundly. A national shutdown from March to May 2020 resulted in severe supply-side disruptions in all sectors of the economy. On the demand side, losses in employment income dampened consumption growth, although remittance inflows provided some buffer. The government's COVID-19 stimulus program provided firms with access to working capital and low-cost loans to sustain operations and maintain employee wages in FY20 and FY21. From June onward, movement restrictions have been progressively lifted, and transit and workplace movement patterns returned to pre-pandemic levels by October. Officially recorded infections peaked in July 2020 and declined gradually in subsequent months.

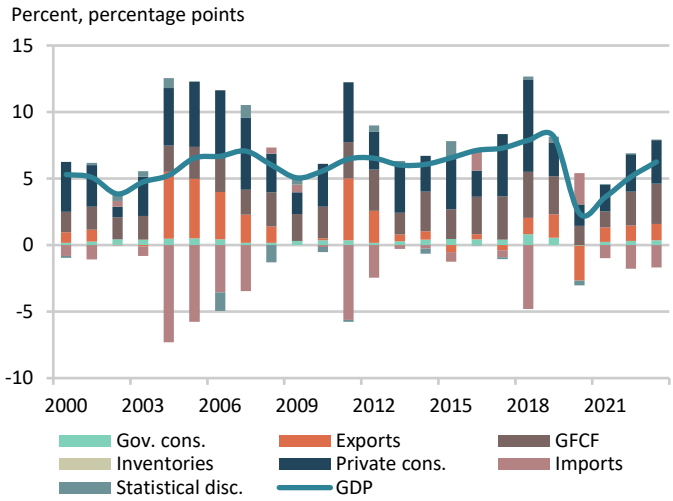
Downside risks to the outlook are likely to persist if new waves of COVID-19 re-emerge in Bangladesh or its trading partner countries. This could necessitate additional movement restrictions, dampen demand for RMG, and/or limit the outflow of migrant workers. Bangladesh's expected graduation from the UN's Least Developed Country status in coming years will present opportunities but also challenges, including the eventual loss of preferential access to advanced economy markets.

Recent developments

After a substantial deceleration in growth in FY20, early signs of recovery emerged in the first half of FY21 (July to December 2020). Following a 16.8 percent decline (y-o-y) in FY20, exports rebounded in the first half of FY21 as RMG export orders were reinstated. On the demand side, growth was primarily supported by private consumption, underpinned by a recovery in labor income and remittance inflows. However, a contraction in capital goods imports (-19.1 percent, y-o-y) suggests that private investment has not yet normalized.

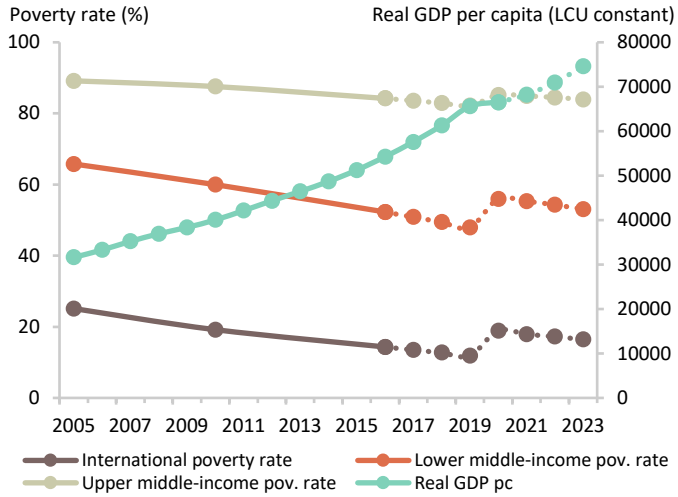
Inflation decelerated from 5.6 percent in FY20 to 5.3 percent by December 2020, as food and non-food prices moderated. Monetary policy was further eased in July

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



Sources: Bangladesh Bureau of Statistics (BBS) and World Bank staff.

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



Sources: World Bank. Notes: see Table 2.

2020. However, growing risk aversion among commercial banks, a cap on lending rates, and rising non-performing loans limited the transmission to lending rates. Private sector credit growth continued to decline, falling from a high of 13.3 percent (y-o-y) in December 2018 to just 8.4 percent (y-o-y) by the end of December 2020.

The current account moved into surplus in the first half of FY21, as the trade deficit declined due to lower imports and surging official remittance inflows. Possible reasons could be that overseas workers switched to formal payment systems as the traditional hundi system was disrupted by international travel restrictions, and/or, returning overseas workers repatriated accumulated savings. Foreign exchange reserves remained adequate at 8.6 months of goods and non-factor services imports in December 2020.

The fiscal deficit widened marginally to an estimated 6.0 percent of GDP in FY20, with a decline in revenue and slower expenditure growth, relative to FY19. Expenditure growth moderated due to the slow implementation of development projects in the context of COVID-19, while revenue collection declined as international trade and the domestic economy stalled. Bangladesh was at low risk of debt distress in a Debt Sustainability Assessment completed in May 2020. Preliminary data from the first four months of FY21 show further reductions in the growth of recurrent and development expenditure, and modest revenue growth.

Estimated poverty rose sharply in FY20 amidst substantial job and income losses. However, household surveys point to a gradual recovery in employment and earnings and a decline in poverty in the first half of FY21. Food security improved across the country, with the greatest increase in Chittagong.

Outlook

The economy is expected to continue to recover gradually. Given the significant uncertainty pertaining to both epidemiological and policy developments, real GDP growth for FY21 could range from 2.6 to 5.6 percent depending on the pace of the ongoing vaccination campaign, whether new restrictions to mobility are required and how quickly the world economy recovers. Over the medium term, growth is projected to stabilize within a 5 to 7 percent range as exports and consumption continue to recover, and investment rises, led by externally financed public infrastructure investments under the recently adopted 8th Five-Year Plan. The recent surge in official remittance inflows is unlikely to persist if (i) the net outflow of migrant workers slows in FY21 (as visa issuance in the Middle East declined during the pandemic) and (ii) the reliance on formal payment channels subside (as normal travel resumes). If weakness in revenue collections persist, the fiscal deficit is projected to remain at 6.0 percent of GDP in FY21, moderating over the medium term with tax reforms and expenditure prioritization. Sustaining the economic recovery and further reducing poverty will depend, inter alia, on the implementation of the government's COVID-19 response program, including credit programs in the banking sector.

Downside risks to the outlook may persist. Fiscal risks include weak domestic revenue growth (if tax reforms are delayed) and higher expenditure for COVID-19 vaccinations (if external financing is limited) and for supporting the Rohingya refugees (if donor fatigue sets in). In the financial sector, contingent liabilities from non-performing loans combined with weak capital buffers could necessitate recapitalizations (resulting in higher domestic government debt) and depress credit growth. External risks could also be elevated. While external demand for RMGs appears to be stabilizing, the recovery is fragile and could be vulnerable to new waves of COVID-19 infections. Demand for Bangladesh's overseas workforce in the Gulf region may also be impacted by the ongoing recession in that region, impairing future remittance inflows.

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

	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f	2022/23 f
Real GDP growth, at constant market prices	7.9	8.2	2.4	3.6	5.1	6.2
Private Consumption	11.0	3.9	2.6	3.2	4.5	5.3
Government Consumption	15.4	9.5	-0.9	4.3	5.4	6.5
Gross Fixed Capital Investment	10.5	8.4	4.3	3.6	7.4	8.6
Exports, Goods and Services	8.1	11.6	-16.8	8.4	8.6	8.9
Imports, Goods and Services	27.0	-0.2	-12.1	6.0	10.5	9.4
Real GDP growth, at constant factor prices	7.9	8.4	2.6	3.6	5.0	6.1
Agriculture	4.2	3.9	3.0	2.2	3.3	3.1
Industry	12.1	12.7	1.3	4.5	6.1	7.4
Services	6.4	6.8	3.4	3.3	4.8	6.0
Inflation (Consumer Price Index)	5.8	5.5	5.6	5.7	5.7	5.8
Current Account Balance (% of GDP)	-3.5	-1.5	-1.5	-0.5	-2.1	-2.4
Net Foreign Direct Investment (% of GDP)	0.6	0.9	0.4	0.3	0.5	0.6
Fiscal Balance (% of GDP)	-4.6	-5.4	-5.5	-6.0	-6.0	-5.9
Debt (% of GDP)	31.9	33.7	37.6	41.7	44.9	47.2
Primary Balance (% of GDP)	-2.8	-3.4	-3.2	-3.6	-3.4	-3.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	12.7	11.9	18.9	17.9	17.2	16.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	49.4	47.9	55.9	55.3	54.3	53.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	82.9	82.2	85.2	84.9	84.5	83.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Calculations based on SAR-POV harmonization, using 2010-HIES and 2016-HIES. Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021 to 2023.

(b) Projection using annualized elasticity (2010-2016) with pass-through = 1 based on GDP per capita in constant LCU.