Recent Trends in Agriculture, Industry, and Service Sectors

Bangladesh Economic Update

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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
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.
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
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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.
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,
The contribution of electricity, gas and water supply to GDP is negligible, although the subsector is considered to significantly facilitate the process of industrialisation. During 1990-2000, contribution of this subsector to GDP was 1.3 percent, whereas the contribution increased to 1.3 percent in FY 2010-11 and 1.46 in FY 2013-14. The subsector, however, experienced a rate of growth of 2.1 percent in FY 1997-98 and 7.68 percent in FY 2001-02, indicating an increase of 5.58 percentage points. An upsetting trend in the growth of electricity, gas and water supply as sectoral growth in GDP has been noticed. The rate of growth in the sector has been declining since FY 2010-11 except for an increase of 2.47 percentage points in FY 2014-15 compared to the previous fiscal year. The rate of growth in the supply of electricity, gas and water at constant market prices stood at 13.36 percent in FY 2010-11, 10.58 percent in FY 2011-12, 8.99 percent in FY 2012-13, 4.54 percent in FY 2013-14, and 7.01 percent in the FY 2014-15. Construction as an emerging subsector of industry grew by 4.5 percent in FY 1990-91 and 7 percent in FY 1997-98. Following the highest increase of 2.5 percentage points between FY 1990-91 and FY 1997-98, the rate of growth in the subsector stood at 7.21 percent, 6.95 percent, 8.42 percent, 8.04 percent and 8.56 percent in FY 2009-10, FY 2010-11, FY 2011-12, FY 1012-13 and FY 2013-14 respectively.
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.

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 FY2013-14 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 FY2011-12 percent then slightly increased to 11.59 in 2012-13 percent but in FY2013-14 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.
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 5: Quantum Index of Medium and Large Scale Manufacturing Industries

Source: Bangladesh Bureau of Statistics, 2016

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.
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.

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 loss 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**

![Chart showing 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. 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.**

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 Telecommunications 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...
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. 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.
Reference


