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# ECONOMIC LETTER OF BANGLADESH

A LETTER FROM

THE ECONOMIC DEPARTMENT

OF THE EMBASSY OF FRANCE IN DHAKA

N° 3 – May 2023

## Editorial

Following the IMF program approval in January 2023, Bangladesh starts getting the support of other bilateral and multilateral donors. According to the IMF, the financing gap is 2.2 billion USD in the fiscal year 2022-23 (FY23) and 2.6 billion USD, of which the IMF program covers 476 M USD for the current budget and is expected to cover 950 M USD next fiscal year (2 disbursements in November 2023 and May 2024).

During the visit of Prime Minister Sheikh Hasina in Washington D.C., Bangladesh signed with the World Bank deals worth 2.25 billion USD including 500 M USD of budget support. Asian Infrastructure Investment Bank (AIIB) and Asian Development Bank (ADB) are expected to cofinance a 800 M USD budget support while main bilateral donors like JICA or the French Development Agency (AFD) are likely to contribute as well to close the gap with concessional loans. The disbursements are linked to achievement of policy reforms in various areas like reforming the banking sector, increasing the tax-to-GDP ratio, improving public finance management, etc.

Despite the efforts, the US-based credit rating agency Moody's just downgraded on May 30<sup>th</sup> Bangladesh's ratings by one notch to B1 citing challenges on the external position and liquidity risks. Two days later, the Finance Minister presented the budget for 2023-24 that will aim at tackling the current situation, a budget that the June edition will cover for you.

Happy reading!

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## A. FRANCE-BANGLADESH NEWS

### Start of collaboration with DCCI

The Head of Economic Department, Embassy of France in Bangladesh visited the office of Dhaka Chamber of Commerce and Industry on Thursday 25<sup>th</sup> May to meet with DCCI Secretary General and Additional Executive Secretary in charge of International Affairs.



While multiple exchanges of invitations and discussions took place in the past, this meeting laid the ground for future long-term collaboration to enhance ties between businesses in France and in Bangladesh. The discussion included organizing events and delegations to and from Bangladesh.

### Alumni Night

The annual event gathering of France Alumni Network in Bangladesh took place this month at the *Résidence de France*. More and more Bangladeshi students are considering studying in France, not only for social sciences but also for degree in health, fashion, chemistry etc. Some attended business schools and have now leading positions in Bangladesh.

This alumni night was also the occasion for the French business community to connect with alumni and maybe find a strong asset for their company!

### Meeting with the Economic Reporters Forum

In order to engage more with the journalists on trade and investment-related topics, the Embassy met with the President and the Board of Directors of the Economic Reporters Forum (ERF) that gathers around 230 business journalists from Bangladesh.

Details regarding a future event in the margin of Bastille Day have been discussed.

### Visit of Runner Automobiles factory

Together with Bureau Veritas, the Economic Department visited the factory of Runner Automobiles located in Bhaluka. Opened in 2006, the plant has been gradually upgraded, from component manufacturing to assembling plant and today to a manufacturing facility. More recently, Runner invested to produce Electric Vehicles (two and three-wheelers and cars).



The company is exporting vehicles abroad since 2017 and is now contemplating to enter the French market. A significant milestone to come and an important contribution for the diversification of the economy.



## Visit of BPCL recycling factory

On May 21st, the Ambassador of France in Bangladesh visited the PET bottle recycling plant factory of Bangladesh Petrochemical Company Limited. The plant is turning used plastic bottles into recycled resin that can be reused in the industry to produce new bottles or PET-made textile fabrics. BPCL is capable of producing 10,500 metric tons of recycled PET resin per year. The Embassy will keep on organizing field visit in factories, next visits include the Gandharbapur water treatment plant being built by the French company SUEZ and a factory of Ananta Group.



## B. FRESH NEWS FROM BANGLADESH

*This section provides a brief overview of economic and business-related news from Bangladesh*

### ----- FOREIGN AID -----

JICA has disbursed nearly 261 billion JPY (approximately 1.8 billion USD) in 2022

In the Japanese fiscal year April 2022 - March 2023, JICA disbursed nearly JPY 261 bn (approx. USD 1.8 bn), a record just behind 2021-22 with JPY 264 bn. The Japanese donor has gradually stepped up its action in Bangladesh, with disbursements between JPY 34 and 61 billion over the 2012-2016 period, then between JPY 146 and 180 billion over the 2017-2020 period. Commitments are also following the same trend, reaching JPY 331 bn (USD 2.3 bn) in 2022-23.

Commitments mainly concerned the MRT-5 North metro line (JPY 133 billion), the Matarbari deep sea port (JPY 105 billion), the urban and industrial development of southern Chittagong (JPY 32 billion) and the improvement of the highway between Chittagong and Cox's Bazar. These last three projects are part of Japan's Bay of Bengal Industrial Growth Belt initiative, launched in 2014 and also known as the BIG-B Initiative.

Japan wishes to capitalize on Bangladesh's central geographical location in the Indo-Pacific, and is implementing this strategy on three pillars: trade (Matarbari port, industrial development), energy (Matarbari Coal Power plant, built with JICA funding of €2.9 billion) and transport on the Cox's Bazar-Chittagong-Dhaka axis.

The World Bank plans to invest USD 5 billion in the private sector over the next 5 years

Having committed USD 4.5 billion in short- and long-term financing over the past five years, the International Finance Corporation (IFC), the World Bank's private sector arm, has announced plans to commit an additional USD 5 billion over the next 5 years. The main interventions have been in the textile sector (export support, environmental best practices), food safety (cold chain), energy (1400 MW financed, support for solar power development) and financial institutions. As part of the response to the COVID-19 crisis, the IFC supported the ready-to-wear, telecommunications and finance sectors with USD 260 million in loans.

In May 2023, the IFC announced that it was investing USD 35 million in an automated rice mill plant with the Meghna Group conglomerate. The project aims to produce rice for food (350,000 tons/year), as well as edible oil, poultry feed and electricity from the waste.

50 years of partnership with the World Bank: USD

## 2.2 billion signed in Washington

Prime Minister Sheikh Hasina went to Washington to mark the fiftieth anniversary of the partnership between Bangladesh and the World Bank. On the sidelines of the ceremony, the agreements for 5 projects representing a total of 2.25 billion USD were signed. On average, the Bank's annual commitments amount to 1.5 billion USD in recent years.

Approved in June 2022, the largest project is the ACCESS initiative (USD 753 million), that aimed at improving regional trade between Bangladesh and its neighbors by reducing transport costs and transit times along regional corridors. It includes the construction of a highway between Sylhet (north-east) and the Indian border, the digitization of the Benapole, Bhomra and Burimari logistics centers (land ports) and the modernization of customs in Chittagong, which handles 90% of the trade.

A budget support of USD 500 million has also been signed. The Green, Resilient Inclusive Development program includes measures such as the implementation of a monthly diesel price adjustment mechanism, actions to strengthen the consideration of energy efficiency in construction, and support for the Delta Plan 2100.

The USD 500 million RIVER project, in line with the Delta Plan, will improve resilience and mobilize resources in the event of flooding in 14 regions covering 1.25 million people. USD 250 million will finance the activities of PKSf, a public institution specializing in microcredit. Lastly, USD 250 million has been earmarked for the BEST project, which aims to improve vehicle particulate emission controls, strengthen the capacity and governance of the Department of Environment, in charge of controls, and implement a public-private partnership for the treatment of electronic waste. This project is co-financed with the Agence Française de Développement (AFD), which is helping to set up a guarantee fund to mobilize the financial sector for projects to improve air quality.

## ENERGY

## More loadshedding due to the weather and the dollar shortage

Bangladesh is experiencing numerous loadshedding all over Bangladesh, a situation Bangladesh authorities hope to solve by mid-June.

On one side, the hot weather is pushing the daily demand up, from around 290.000 M KWh end of May 2022 to 345.000 M KWh at the same period this year. While the country's daily energy generation remains quite similar between 2022 and 2023, this higher demand is creating shortage of around 2500-3000 MW generation capacity.

That is because, on the other side, the authorities have taken steps to prevent further depletion of the foreign reserves, limiting imports of energy products like coal and natural gas. End of April, due bills for coal import amounted USD 390 M and such dues are hampering Bangladesh's ability to run its coal-fired power plants. The country had to shutdown the first unit of Payra plant (660MW) on May 25<sup>th</sup>, while Rampal plant (1329MW) remained idle for 3 weeks in April.

Loadshedding are heavily impacting businesses and factories, and is pushing up the use of costly diesel-run generators.

## ExxonMobil in negotiations for a gas exploration project in the Bay of Bengal

To date, no offshore blocks have been exploited, due to contractual conditions previously considered too unfavorable. Back in 2016, the Bangladesh government took the initiative of updating the Model Production Sharing Contract (MPSC) to encourage international oil companies to participate in the next tender for oil and gas exploration in the country's offshore blocks. The consultant Wood Mackenzie supported the authorities in this process.

Consequently, ExxonMobil recently indicated its interest in exploring the 15 deep sea blocks (DS-08 to DS-22). It will take at least 8 years to start extracting this gas.

Bangladesh has been extracting onshore gas since 1955, notably through three subsidiaries of the state-owned company Petrobangla and,



since the early 2000s, through contracts with Chevron (one of the country's main investors), KrisEnergy (Singapore) and Niko Resources (Canada). But resources are dwindling fast. The country reached a production peak in 2015-16 and has since been stable at around 900-1,000 bcf. At this stage, the authorities expect the resource to be exhausted by the early 2030s, but discoveries made in 2022 could push back this date by a few years.

Against this backdrop of depleting onshore fields, delays in offshore exploration and strong economic growth coupled with high gas consumption, demand for LNG imports is set to grow. Bangladesh has already purchased several supplies on the spot market, part of which is supplied by TotalEnergies.

#### Offshore wind power potential study launched

The Ministry of Energy has just signed a contract with the Dutch company BLIX Consultancy, in a joint venture with CESI (Italy) and Synothech (Bangladesh), to study the potential of offshore wind power. The project, financed by the Asian Development Bank, will include a pre-feasibility study (identification of the 2 most suitable areas) and a detailed feasibility study for these 2 areas (grid connection, economic study, regulatory analysis, etc.).

The wind power sector is very underdeveloped in Bangladesh. Total generating capacity is just 2.9 MW, of which 2 MW is off-grid, according to the Sustainable & Renewable Energy Development Authority (SREDA). These are 3 infrastructures, built in 2006, 2008 and 2015, near Cox's Bazar (south-east). The potential could nevertheless be significant. The first report published on the subject dates from November 2018; written by experts from the American National Renewable Energy Laboratory, a laboratory of the US Department of Energy, it provides a better understanding of the potential for wind power in Bangladesh. More than 20,000 km<sup>2</sup> of land in the south of the country, close to the Bay of Bengal, would benefit from wind speeds averaging between 5.75 and 7.75 m/s at a height of 120 m.

#### 30MW of wind power connected to the grid, a first for the country

Bangladesh's first wind farm is to be connected to the electricity grid, adding 30MW of capacity compared with just 0.9MW (pilot project) to date. The project, led by Bangladeshi company US-DK Green Energy (BD) Ltd (part of the SQ Group), comprises a total capacity of 60MW, the second half of which should be operational by summer 2023. It represents an investment of USD120 M, part of which is being invested by China's state-owned State Power Investment Corporation. The agreement with the Bangladesh Power Development Board, signed almost ten years ago in 2014, specifies a purchase price of USD120/MWh.

The turbines are located in the Cox's Bazar area (south-east), where the wind energy potential is the greatest. US-DK Green Energy aims to double capacity to 120MW.

### ----- BANKING SECTOR -----

#### Non-performing loans (NPLs) reached Tk 1320 bn (EUR 11 bn) or 8.8% of outstanding loans

The January-March 2023 quarter saw an increase in NPLs of Tk 110 bn (around EUR 1 bn), taking the NPL rate from 8.3% to 8.8%. A loan is considered non-performing if a repayment instalment is more than 3 months overdue. The situation varies from bank to bank, with 19.9% of NPL for public banks and 4.9% for foreign banks. The data do not include rescheduled loans, whose statistics are not yet published in the central bank's annual report.

The increase is due in part to the end of various schemes put in place between 2020 and 2022 to ease the burden of reimbursements during the covid crisis on the one hand, and the war in Ukraine on the other.

In its recent report "Expanding Opportunities: Toward Inclusive Growth", the World Bank ranked Bangladesh second in South Asia for the situation of NPLs at 9.4% of outstanding loans, behind Sri Lanka (10.9%).

Banks are also experiencing weak deposit growth which, combined with rising NPLs, has led 8

banks (4 public and 4 private) to be under-provisioned against default risk. This shortfall amounts to Tk 201 bn.

The NPL situation is one of the pillars of the IMF program. The program calls for data on rescheduled loans to be published by June 2023, and for the NPL rate in public banks to be reduced to less than 10% and in private banks to 5% by 2026.

[The government borrowed more from the banking sector to offset lower-than-expected revenues.](#)

In April alone, the Bangladeshi government borrowed Tk 300 bn (EUR 2.5 bn) from the banking sector, compared with Tk 520 bn in the first nine months of the fiscal year. The government is mainly turning to the central bank, which provided 80% of the Tk 820 bn, with the risk of fuelling already high inflation.

This increased reliance on the banking sector to finance the state budget was due to lower-than-expected revenues, whereas the final months of the fiscal year traditionally see an increase in spending (notably on the annual development program). Over the first three quarters of 2022-23, tax collection reached only 60% of the target set in the budget, or 5.1% of GDP over nine months. As part of the IMF program, the government has committed to increasing tax revenues to 8.3% of GDP for the next budget presented to Parliament on June 1.

#### MISCELLANEOUS

[Universal pension pilot project to start in July](#)

In July, Bangladesh will launch a pilot program for a universal pension system, distinguishing between expatriates, private sector employees, people working in the informal sector and people on social welfare. This follows the passage in January of the Universal Pension Management Bill-2022 in the Parliament.

All Bangladeshi citizens between 18 and 50 will be able to join the pension system, and will only be able to draw their pension if they have contributed for at least 10 consecutive years.

They will then be entitled to a monthly pension from the age of 60. A National Pension Authority has been set up to manage the fund. Details of how contributions and pensions will be calculated are not yet known.

Today, the 3rd age group (65+) is estimated at 5.2% of the population, i.e. 8.6 million people, of whom barely 50% receive a pension (Old-Age Allowance), 10% receive a private pension and 7.3% receive a civil servant's pension (630,000). Over 30% receive no pension at all. Introduced in 1998, the old-age allowance is a minimum pension from which Bangladeshis can benefit, subject to age (from 65 for men and 62 for women) and income (less than Tk 3,000 a year). It amounts to Tk 500 (€5) per month, paid quarterly by the Department of Social Services, Ministry of Social Welfare. Civil servants benefit from a public pension system (around 5% of the total State budget), and most private employees contribute to a pension fund system.

[Foreign Direct Investment \(FDI\) up slightly to USD 3.5 bn by 2022, or 0.8% of GDP](#)

Statistics published by Bangladesh Bank put net FDI inflows at USD 3.5 bn for 2022, or 0.8% of GDP. The IMF forecasts 0.7% for 2022-23 and 1.0% for 2023-24.

According to World Bank data, FDI to Bangladesh in 2021 was just 0.4% of GDP, behind Pakistan (0.6%), Sri Lanka (0.7%) and India (1.4%). On average, the Least Developed Countries managed to attract 2.0% of GDP in foreign investment.

The government's objective, as set out in the 8th Five-Year Plan, is to reach 3% by fiscal year 2024-25. The previous plan already envisaged reaching 3% in 2018-19, but the government's various initiatives (special economic zones, BIDA's one-stop shop, etc.) are still struggling to bear fruit. The main sectors concerned are manufacturing at 35% (notably RMG, and to a lesser extent food processing and fertilizers), energy at 25% (electricity and gas production) and finance at 20%.

## C. A SNAPSHOT AT THE BANGLADESH ECONOMY

### Bangladesh to graduate from Least Developed Country (LDC) category in 2026

Bangladesh, with a GDP per capita of USD 2,734 (2022), obtained the United Nations' confirmation of its graduation from the LDC category in 2021, the year of its fiftieth anniversary of independence. This reclassification will be formalized in 2026, after an extended transition due to COVID-19. Its Human Development Index (0.661 in 2022) has experienced the fastest growth in recent time within the South Asia region, reaching the 129<sup>th</sup> position, ahead of India (132<sup>nd</sup>) and Pakistan (161<sup>st</sup>).

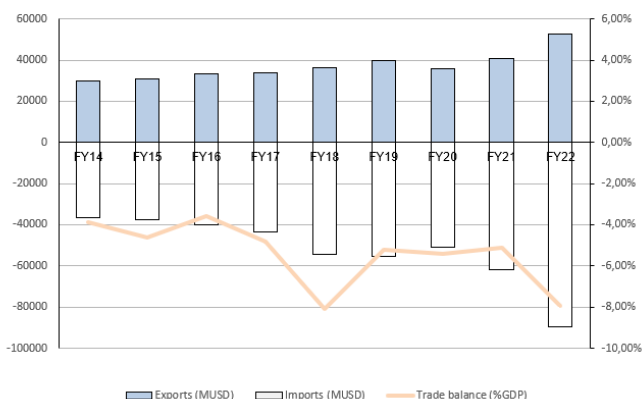
Bangladesh has enjoyed rapid growth in recent years, with an average growth rate of around 7% over the last decade. It is also the only South Asian country to have recorded positive growth at the time of COVID-19 (3.4% in 2020-21). IMF forecasts a high and stable growth of 6 to 7% over the next few years. As part of its ambitious Vision 2041 plan, Bangladesh aims to be reclassified as an upper-middle-income country by 2030, and as a high-income country by 2041.

The Bangladeshi economy is currently clearly affected by the inflationary context linked to the war in Ukraine. Historically successfully maintained below 6%, inflation peaked at 9.5% in September 2022, driven by rising energy prices.



### A structurally negative trade balance, eroding foreign exchange reserves

In 2022, in a context of falling expatriate remittances (-3.6% year-on-year - in dollars), rising imports (+USD 13bn y.o.y), insufficient exports growth (+USD 10bn) and a worsening exchange rate (Tk107 to USD 1 on the interbank markets in January 2023 versus Tk86 a year earlier), foreign exchange reserves fell sharply. After peaking at USD 48 billion in August 2021, they appear to be stabilizing at around USD 30 billion in last quarter of 2022-23, or USD 22 billion using the IMF's stricter methodology. This is equivalent to 3.6 months of imports. This situation has prompted Bangladesh to call on the IMF



for a USD 4.5 billion program. The sharp rise in imports (+€26bn to USD 76bn) is mainly due to higher imports of fertilizers (+200%), cotton (+60%) and energy products (+110%). The situation is deteriorating as a result of the international context, but the trade deficit is still structurally negative. Contained at around 5% of GDP in previous years, the trade deficit reached 8% in 2021-22. Bangladeshi companies are successful exporters, but exports are not diversified, with 85% of RMG and 5 countries only represent 60% of RMG exports.



Sectors previously identified as promising, such as leather or shrimp, are struggling to see their results take off, and heads are now turning to other sectors such as pharmaceuticals, ICT and agri-food.

#### FDI on the rise in recent years, but still low

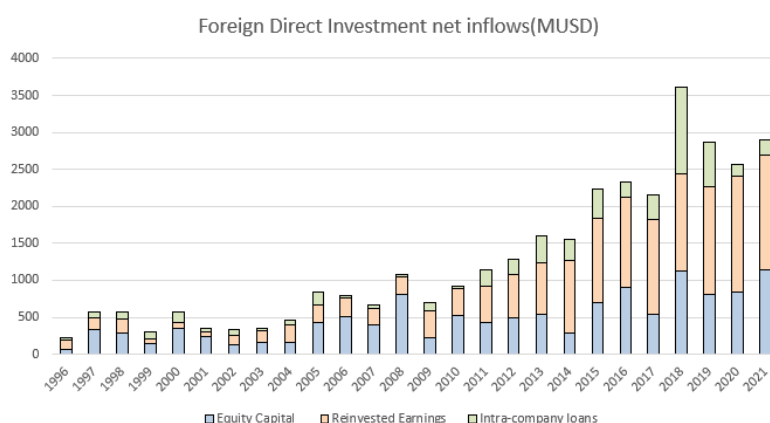
The stock of foreign direct investment (FDI) reached USD 20.5 bn at the end of June 2022, a slight increase of 2.8% compared to the same period the previous year. According to the central bank, net inflows reached USD 3.4 bn in 2021-22, a sharp increase (+37%) signalling a post-COVID recovery.

Since the early 2010s, Bangladesh has seen an acceleration in net FDI flows, which stood at just USD 700 million in 2009. The acceleration in net FDI flows is due in particular to the strong growth in Chinese FDI over the past few years. Nevertheless, the United States remains the leading investor (USD 4.2 billion), ahead of the United Kingdom (USD 2.4 billion).

#### "Vision 2041", an ambitious plan for the country

A few years ago, the Bangladeshi government approved its strategic development plan for the next twenty years. The timetable of the "Perspective Plan 2021-2041" sets targets aligned with the country's ambitions to become an upper-middle-income country by 2031, according to the World Bank's classification, and a developed country by 2041. Accelerating the annual pace of economic growth is therefore essential to keep pace with this ambition, which sets a per capita GDP target of USD 12,500 by 2041.

By 2031, the extreme poverty rate should fall from 9.38% in 2020 to 2.55% of the population, inflation should remain below 5 annual points and economic growth should reach 9%. The goods export target has to be raised to USD 150 billion in 2031. The government is also aiming for free schooling up to age 12 and a literacy rate of 100% by 2031.



## D. FRANCE-BANGLADESH TRADE AND INVESTMENT IN 2022

Find attached to this economic letter a factsheet for 2022, to be printed and disseminated!

The French Treasury is present in more than 100 countries through its Economic Departments. To learn more about its missions and network: <https://www.tresor.economie.gouv.fr/Institutionnel/our-international-network>

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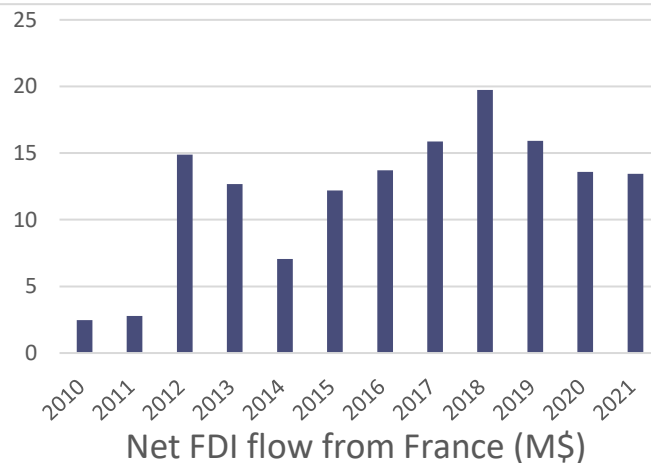


# FRANCE - BANGLADESH

## TRADE AND INVESTMENT

### FACTSHEET 2022

Bilateral Trade (M€)



The stock of French FDI to Bangladesh amounted to **119M\$** at the end of 2021 according to the Bangladesh Bank. Main investors are **TotalEnergies** that is involved in the LPG sector and **Bureau Veritas**, with multiple certification facilities across Bangladesh. The overall bilateral trade reached an all-time record of **4915M€** in 2022, boosted by a surge of RMG export to France (+52% in one year).

| France » Bangladesh (in k€) | 2022           |             |
|-----------------------------|----------------|-------------|
| <b>Total</b>                | <b>241 626</b> | <b>100%</b> |
| Engines and turbines        | 30 361         | 13%         |
| Textile machinery           | 20 147         | 8%          |
| Pharmaceutical products     | 18 731         | 8%          |
| Pesticides                  | 14 449         | 6%          |
| Other metallic materials    | 11 012         | 5%          |

| Bangladesh » France (in k€)  | 2022             |             |
|------------------------------|------------------|-------------|
| <b>Total</b>                 | <b>4 679 948</b> | <b>100%</b> |
| Garment items                | 4 269 614        | 91%         |
| Leather, luggage, footwear   | 224 524          | 5%          |
| Products of textile industry | 139 061          | 3%          |
| Fisheries and seafood        | 26 763           | 1%          |
| Toys                         | 20 937           | 0%          |

As of today, **28 French companies** have an office in the country most of them in the RMG (42%), logistics and shipping (17%) or engineering (17%) sectors and French companies are involved in flagship projects:

- **Thales** is currently working to update the Air Traffic Management in Dhaka International Airport, including an additional radar for the future third terminal
- The **JV Suez International and OTV-Veolia** is building the Gandharbpur water treatment plant to extract daily 500.000m3 in order to supply safe drinking water to 4.3 million people in Dhaka.
- **Thales Alenia Space** commissioned Bangabandhu Satellite-1, the first satellite of Bangladesh, in 2018
- Honorable Prime Minister Sheikh Hasina has expressed her wish to purchase a French-made observation satellite under the Bangabandhu-2 program. The offer from **Airbus Defence and Space** is meeting all the criteria and is supported at the highest level by the French government.
- A communique has been signed between United Kingdom and Bangladesh in London on May 5<sup>th</sup> 2023 to lay the ground for a comprehensive civil aviation partnership with **Airbus** including the acquisition of 10 A350 aircrafts from Biman Bangladesh, built at around 70% in France and UK.

Sources: French Customs, Bangladesh Bank, Embassy of France to Bangladesh

Interested to invest in France or to find a French partner? Contact us to move **FORWARD**  
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