



**MINISTÈRE  
DE L'ÉCONOMIE,  
DES FINANCES  
ET DE LA RELANCE**

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Direction générale du Trésor



# ECONOMIC LETTER OF BANGLADESH

A LETTER FROM THE ECONOMIC DEPARTMENT

OF THE EMBASSY OF FRANCE IN DHAKA

N° 1 – Mars 2023

## Editorial

As Ramadan is in full swing, I am happy to inaugurate the first Economic Letter of Bangladesh from the Economic Department, Embassy of France to Bangladesh. This document aims at sharing some updates regarding France-Bangladesh bilateral relationship for business, trade and investments, some updates about Bangladesh economy and at disseminating some studies done by the Economic department that could be of interest for those of you that are active contributors to make France-Bangladesh ties stronger.

March has been an active month, with a delegation of MEDEF international, event from the France-Bangladesh CCI and the Aviation Summit 2023, first of its kind in Bangladesh, organized by the Ministry of Civil Aviation and Tourism with France, the UK and Airbus.

Around 30 French companies have an office in Bangladesh, and many more are active to contribute to the development of the country. This is a significant number, that I hope will grow in the near future. In this regard, the Embassy will gradually implement new initiatives like regular business breakfasts and economic lectures, as a way to make the French business community more vibrant.

To conclude, I would like to stress that, just like for any new initiative, the Economic Department will be more than happy to hear feedbacks from the readers and receive contributions.

I wish you a happy Ramadan,

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## A. FRANCE-BANGLADESH NEWS

### Bangladesh Business Summit

On March 11, 12 and 13, a delegation led by MEDEF International attended the Bangladesh Business Summit 2023 organized for the 50th anniversary of the Federation of Bangladesh Chambers of Commerce (FBCCI).



On this occasion, the French business delegation attended the opening ceremony with the Prime Minister, various roundtables and networking events. Companies such as CMA-CGM, Archetype Group, Egis Group and Naval Group were part of the delegation and took the opportunity to continue the discussions with their present and future partners in Bangladesh. The delegation, led by Pierre-Jean Malgouyres, President of the France-Bangladesh Council at MEDEF International, also had the opportunity to meet officials from other business organizations (FBCCI, Dhaka CCI, CCI France-Bangladesh) in order to strengthen the collaboration between our two countries.

### Mission of Regional Economic Dept.

Between 27 and 29 March, the Head of Regional Economic Department for South Asia, Embassy of France in India Mr. Benoit Gauthier visited Bangladesh. The purpose of the mission was to

assess the economic situation of the country, in the context of the IMF program, as well as to explore potential projects eligible to French Treasury grants and loans.

He had the occasion to meet officials from Bangladesh Bank and Ministry of Finance, representatives of World Bank, IMF and Asian Development Bank and some French companies.

### CCIFB General Assembly & iftar

The France-Bangladesh Chamber of Commerce and Industry organized its 25th General Assembly in Dhaka on March 30, 2023, in order to review the activities carried out in 2022 and to discuss the prospects for the coming months with its 146 members.

On this occasion, the President of the Chamber, Mr. Shafquat Matin, presented the annual report of the chamber. 2022 was marked by the resumption of face-to-face events after the COVID period, including the celebration of 50 years of diplomatic relations between France and Bangladesh in the presence of H.E. Dr. A.K. Abdul Momen, Minister of Foreign Affairs of the People's Republic of Bangladesh.



The CCIFB is planning many networking events in 2023 and is developing a catalogue of services for French companies interested in Bangladesh (market research, mission organization, etc.).

## Aviation Summit 2023

Bangladesh held its first-ever aviation summit in March, with support from France, the UK and Airbus, to advance its ambition to become an aviation hub. On this occasion, the Minister of State for Civil Aviation and the CEO of Biman Airlines, the national carrier, showed their interest in acquiring Airbus aircrafts. The Biman fleet currently consists of 5 Dash and 16 Boeing aircrafts.

Remi Maillard, president & managing director of Airbus India and South Asia was present at the summit.



In January 2023, privately owned US-Bangla Airlines announced it would add two Airbus A330s as part of its plan to increase flight frequency on international routes. These two A330-200s will arrive in the summer to serve Saudi Arabia (Jeddah, Riyadh, Dammam).

## B. FRESH NEWS FROM BANGLADESH

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

### ----- PROJECTS -----

#### The Ministry of Finance allocates Tk 160 billion for the construction of the second refinery

Eastern Refinery Limited (ERL), the state-owned refining company, will be able to move ahead for a second refinery for the country. The Ministry of Finance has allocated Tk 160 billion (€1.4 billion) in loans to ERL's parent company Bangladesh Petroleum Corporation (BPC) while BPC will self-finance the remaining Tk 70 billion. The design of this second refinery has been carried out by Technip. BPC is reportedly in discussion with the Chinese state-owned Wuhan Engineering Company.

The capacity of the first refinery is 1.5 million tons of crude oil, while the country's total demand is around 6.5 million tons. The construction of this second unit with a capacity of 3 million tons will reduce imports of refined oil, which weigh heavily on the balance of trade. In 2021-22, the country imported \$870 million of crude oil against \$6.4 billion of refined oil, respectively up +12% and +142% in one year.

#### Inauguration of an oil pipeline between India and Bangladesh

The *India-Bangladesh Friendship Pipeline (IBFPL)* was inaugurated by the Prime Ministers of India and Bangladesh on March 18, 2023. In February 2020, the Executive Committee of the National Economic Council (ECNEC) had validated the project to link the Numaligarh Refinery Ltd. in Siliguri (northern West Bengal, 5 km from the border) and the Parbatipur depot (northwestern Bangladesh). The 130 km pipeline will carry up to 250,000 tonnes of diesel per year for the first three years, with capacity eventually increasing

to 400,000 tonnes under a 15-year contract. The cost of this project is estimated at Tk 3.06 billion (€33 million), financed by the Indian line of credit. Only 22,000 tons were so far transported by rail from India to serve the northern regions of Bangladesh, the rest being transported by rail from the country's ports.

### The future third terminal of Dhaka airport will be managed under public-private partnership

With passenger numbers around 8-9 million before the pandemic, Dhaka's Hazrat Shahjalal International Airport is by far the largest airport in Bangladesh. An expansion project, with the construction of a third terminal, is underway for partial (October 2023) and then full (late 2024) operation. It will bring annual capacity to 20 million passengers and 500,000 tons of cargo, up from the current 8 million passengers and 200,000 tons. This €2.5 billion project financed in large part by JICA is being implemented by a consortium of Japanese companies.

The government of Bangladesh has just approved the principle of a public-private partnership for the management and maintenance of this future third terminal. The private partner has not yet been officially selected, but Japan has already positioned itself. Mitsubishi Corporation has expressed interest as early as 2021, while the subject was discussed during an official visit to Tokyo by the Ministry of Civil Aviation in November 2022. Other companies have also expressed interest, such as Swissport. With a few months to go before the terminal opens, the authorities may prefer to sign a service contract as a first step, to allow for PPP negotiations to take place.

### A Bangladeshi pharmaceutical company invests in a factory in Saudi Arabia

On the sidelines of the Bangladesh Business Summit 2023, the large Saudi delegation led by the Minister of Commerce made several announcements.

Beximco Pharmaceuticals, one of the largest companies in the pharmaceutical sector, has

announced a major investment to build a plant in Saudi Arabia with a Saudi partner. The human, technical and financial resources will come mainly from Bangladesh, with a production launch in 2024. In 2019, one of Beximco's competitors, Square Pharmaceuticals, had already invested \$12M abroad to set up a plant in Kenya to produce generics for the East African Community countries.

During the Bangladesh Business Summit, the Ministry of Shipping has also signed a memorandum of understanding with the Saudi company Red Sea Gateway Terminal (RSGT) for the management of the Patenga container terminal in the port of Chittagong. The terminal, built by the Bangladesh Army for nearly \$240m, was inaugurated on a trial basis in July 2022 and will eventually add three new piers with an annual capacity of 500,000 containers.

## ----- MACROECONOMICS -----

### Foreign exchange reserves at 6-year low, equivalent to 4 months of imports

Foreign exchange reserves reached \$31.1 billion in mid-March, after a new payment of \$1 billion through the Asian Clearing Union. This represents a 30% drop over one year, against a backdrop of depreciation of the taka against the dollar (+25% in one year) and a sharp rise in imports, as Bangladesh is highly dependent on imported energy products and raw materials for its textile and RMG industry.

The restrictions have helped limit imports and reduce the trade deficit, but the central bank continues to inject liquidity into the market to mitigate the large financial account deficit. Since July 2022, nearly \$10 billion has been injected.

According to the IMF's formula, net reserves, excluding illiquid assets, stand at about \$19 billion. To obtain the disbursement of the second tranche of the IMF program signed in January 2023, Bangladesh must reach \$24 billion in net reserves by June.

### Improvement in the trade balance, sharp deterioration in the financial balance

For the first seven months of the fiscal year (July-January), Bangladesh has seen a marked improvement in its trade balance. Exports have performed well (+10.0% compared to the same period in 2021-22), particularly in the ready-made garment sector (+14.3%), which continues to account for nearly 90% of the export basket. At the same time, imports contracted by 5.7% (in dollar terms). This decline is mainly due to import restrictions imposed by the government for nearly seven months, limiting the opening of letters of credit or imports of certain goods. These measures could have an impact on industrial production, which has also been affected by power cuts. Thus, the trade balance has improved, but remains negative, at -\$13.4 billion compared to -\$18.8 billion a year earlier. The good performance of remittances (+4.3%) will at the same time allow the current account deficit to be halved from -\$10.3 billion to -\$5.0 billion between July 2022 and January 2023. Remittances are not fully benefiting from the increase in departures abroad, probably because of the increased use of illegal remittances (*hundi*), which allow for better exchange rates. Where the problem lies is the very sharp deterioration of the financial balance. The financial account has fallen into negative territory at -\$1.2 billion compared to \$8.7 billion a year ago, due to a decline in other investments, notably trade credits, the flow of which was negative in the first seven months of 2022-23.

### Moody's adopts a negative outlook for Bangladesh's banking system

According to Moody's rating agency, the banking sector has deteriorated sufficiently over the last few months to downgrade the outlook from stable to negative. This decision comes 2 months after the downgrading of Social Islami Bank (from B2 to B3), the placing under watch for 7 other Bangladeshi banks (including BRAC Bank, Eastern Bank, The City Bank) and the placing under watch of the sovereign rating.

This new negative outlook is explained by a deteriorated macroeconomic context, particularly with regard to the decline in foreign

exchange reserves, which makes it more difficult to open letters of credit for imports, while the banking sector remains weakened by a high level of non-performing loans. Several indicators in the IMF program signed in January 2023 include banking reforms.

In the immediate term, this decision could contribute to higher interest rates for future foreign loans for Bangladeshi companies.

### ----- MONETARY POLICY -----

#### Central bank announces lifting of interest rate cap on loans in June

Since December 2018, the Central Bank has been practicing a fixed interest rate framework under the 9%-6% rule. This aims to oblige commercial banks to lend at a maximum rate of 9% while the remuneration of deposits should not exceed 6%. In line with the IMF's recommendations under the \$4.7 billion program signed in January 2023, the Bangladesh Bank has announced that it will lift the ceiling on interest rates on loans, which was previously set at 9%. The central bank is currently preparing a mechanism for calculating the reference rate, based on interbank rates (around 6% in March) and Treasury bond rates (around 8% for a one-year bond).

#### Central bank reduces the size of export dollar fund to increase net reserves

The Export Development Fund (EDF), a fund in dollar managed by the central bank to support imports by export industries, has not been considered sufficiently liquid by the IMF, which excludes it from the country's foreign exchange reserve calculations. EDF loans have a maturity of 180 days, but in practice many loans are not repaid on time.

In this context, Bangladesh has undertaken since January to reduce the size of EDF. As of March 19, the outstanding loans of the EDF stand at \$5.5 billion, down from \$7 billion in January. The size of EDF is expected to be further reduced in the next six months to \$2.5-3.5 billion. The central bank has set up a Tk 100bn (€900m) fund to maintain support for export industries.

At the same time, Bangladesh Bank has increased penalties for late repayment of EDF loans.

### ----- EMPLOYMENT -----

#### Increase in women's participation in the labour market

The female labor force participation rate in 2022 was 43% according to the Bangladesh Bureau of Statistics (BBS), a significant increase over five years (36%). According to International Labour Organization data, the proportions would be 37% (2021) and 33% (2016) respectively. This places Bangladesh among the leading countries in South Asia, ahead of India (23%), Pakistan and Sri Lanka (34%).

This rate masks very heterogeneous situations depending on the geographical area, level of education, age and sector of activity. The participation rate of women has increased significantly in rural areas, where it is over 50%. In fact, almost half of the women workers are engaged in agricultural work (agriculture, forestry, fisheries), a sector in which parity has been achieved. We should also note the increase in non-agricultural opportunities in rural areas (small-scale entrepreneurship) facilitated by the rise of micro-credit programs run by certain NGOs.

#### Decline in industrial employment, to the benefit of the agricultural and service sectors

While the industrial sector grew by 86% in value between 2017 and 2022, increasing from 33% to 37% of GDP, industrial employment fell by 300,000 people over the same period. In 2022, it represents only 17% of the total workforce compared to 20% five years ago.

Agriculture continues to be the largest source of employment in Bangladesh, growing from 41% of jobs in 2017 to 45% in 2022 according to the Labour Force Survey 2022, or nearly 7 million additional jobs. According to experts, a portion of these agricultural workers left the cities during

Covid-19 and did not return. Despite the increase in the number of workers, agriculture's share of the economy has continuously declined from 14.7 percent of GDP to 11.5 percent.

As a result, the Bangladeshi economy has only managed to create 800,000 jobs in urban areas over five years. Yet, nearly 10 million more people are of working age since 2017. This is mainly due to low job creation in the ready-made garment industry, which accounts for 80% of manufacturing employment.

### ----- ENVIRONNEMENT -----

#### Textile sector confirms its "greening", shipbreaking yards convert to it

For the past decade, the textile and RMG sectors have initiated a major inflection to reduce the impact of production on the environment. In 2020, Bangladesh became the country with the largest number of green textile factories in the world with 26 factories labeled "LEED platinum" by the American organization United States Green Building Council (USGBC). Today, there are 65 - and even 189 factories considering all categories. In addition, Green Textile Ltd. this week became the factory with the highest LEED score in the world. In the top 10, 9 are Bangladeshi. Still relatively anecdotal (there are more than 4,000 textile factories in the country), this greening seems to be confirmed with nearly 550 files being processed by USGBC.

In addition, two new shipbreaking yards, Kabir Ship Recycling Facilities (KRSM Group) and SN Corporation, have obtained the "green yard" label certifying compliance with the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships, bringing the number to three. According to the United Nations Conference on Trade and Development, Bangladesh recycled 8 million barrels in 2021, or 52% of the world's supply, mainly oil tankers (57% of the total volume).

## C. SOME INDICATORS

Brief comparison between Bangladesh, India and Pakistan with a set of indicators:

	Bangladesh	India	Pakistan
Population (M hab), 2022	169	1407	227
Population growth, 2022	1,1%	1,0%	2,0%
<b>Macroeconomics</b>			
GDP (USD bn), 2022	461	3469	376
GDP/capita (USD), 2022	2734	2466	1658
GDP growth, 2022	7,2%	6,8%	6,0%
FDI (%GDP), 2021 (1)	6,0	16,2	9,5
Inflation (%), 2022	6,1%	6,9%	12,1%
<b>Public finance</b>			
Public deficit (%GDP), 2022	-5,1	-9,9	-7,8
Public debt (%GDP), 2022	37,5	83,4	77,8
Public expenditures (%GDP), 2022 (2)	15,0	28,2	22,3
Fiscal pressure (%GDP), 2022 (2)	7,7	6,8	11,4
Country risk, 2022 (3)	C	C	D
<b>Trade</b>			
Trade balance (%GDP), 2021 (4)	-6,4	-2,0	-10,0
French exports to (M€), 2022 (5)	241	5938	487
French imports from (M€), 2022 (5)	4674	9108	1472
<b>Qualitative indicators</b>			
HDI, 2022 (6)	0,661 (129e)	0,633 (132e)	0,544 (161e)
Doing business (190 countries), 2020 (7)	168e	63e	108e

Source: IMF, UNCTAD (1), Heritage Foundation (2), Coface (3), World Bank (4&7), French Customs (5), UNDP (6)

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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