



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

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ECONOMIC LETTER OF BANGLADESH

A LETTER FROM

THE ECONOMIC DEPARTMENT

OF THE EMBASSY OF FRANCE IN DHAKA

N° 5 – July-August 2023

Editorial

After the summer break, the bilateral relationship will reach a new height with the visit of the President of the French Republic scheduled on 10th and 11th September. Last presidential visit to Bangladesh took place in 1990.

The bilateral trade relationship has gone a long way since early 1990s. Total trade between Bangladesh and France soared from 210M€ to 4.9 billion€ today, with France being the fifth country for Bangladeshi exports. French companies are now involved in various sectors including engineering, energy, aerospace and water sectors, working on some flagship projects.

The Economic Department is thrilled to see a growing interest from both sides to enhance business, in particular to build on French technology and know-how in order to support the move from Digital Bangladesh to Smart Bangladesh. The upcoming visit of the French President Emmanuel Macron, will be the occasion to concretize some projects and boost further economic relations.

Future events will be organized soon in France and in Bangladesh to follow-up on this visit and to engage further with the private and the public sector.

Happy reading!

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A. FRANCE-BANGLADESH NEWS

Bastille Day reception

For the first time since 2019, the Embassy of France in Bangladesh had the opportunity to celebrate Bastille Day within the Franco-German Embassy in Baridhara. We had the honor to welcome H.E. Dipu Moni, Education Minister.

At this occasion, the Ambassador of France reminded that France-Bangladesh trade relation is thriving and reached an unprecedented level at 5 billion euros last year. She also stressed that Bangladeshi companies are more and more eager to import French equipment and know-how and that, in this regard, France is keen to engage more in Bangladesh, in particular in energy, ICT and defence sectors.

B. FRESH NEWS FROM BANGLADESH

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

----- FOREIGN AID -----

Asian Development Bank approves USD 300 million to support vocational training

The "Skills for Industry Competitiveness and Innovation program" aims to enhance the skills of 220,000 people in the use of new technologies for professional purposes in at least ten priority industries, in particular to support the diversification of the Bangladeshi economy. The sectors particularly targeted are RMG (intelligent textiles, digitalization),

Louis Dreyfus opens an office in Bangladesh

The French Louis-Dreyfus Company (LDC) has recently announced the creation of a subsidiary in Bangladesh: Louis Dreyfus Company Bangladesh Pte Ltd. LDC is looking to strengthen its grains and oilseeds business, while it is already one of the leading importers of cotton, a market worth USD 4 billion in 2021-22 to supply the RMG industry with raw materials.



automotive (especially electric vehicles), electronics and pharmaceuticals.

The program will focus on better partnerships between industry and academia, training for women, green technologies and employability for small and medium-sized enterprises. It will also improve the training of expatriates, as the share of unskilled workers going abroad has risen from 28% in 2019 to 79% in 2022.

Sri Lanka repays USD 50 million under a currency swap agreement signed in 2021

On May 25, 2021, Bangladesh Bank entered into a currency swap agreement with the Central Bank of Sri Lanka for USD 200 million. At that time, Bangladesh's foreign exchange reserves stood at USD 44 billion (30 billion today).

While the agreement provided for repayment within 9 months, this deadline has been extended three times, until September 2023. The first repayment of USD 50 million was made

on August 17, with the other two tranches due to be repaid by the end of the year (USD 100 million on August 30 and USD 50 million in September). The interest rate is LIBOR + 1.5%.

ENERGY

Delivery of first uranium shipment for Rooppur nuclear power plant scheduled for September

In early August 2023, Atomstroyexport and Bangladesh signed the uranium procurement contract for the under construction Rooppur nuclear power plant. The nuclear fuel will soon be delivered by air to Dhaka airport, marking the transition of the nuclear power plant from "under construction" to "nuclear installation" status. This first delivery is scheduled for September.

According to data from the Implementation Monitoring and Evaluation Division (IMED), the Rooppur nuclear power plant project (two VVER-1200 reactors) was 60% complete as of July 2023. The authorities are therefore maintaining the original schedule, with the first unit to be delivered in 2024 and the second in 2025.

In its Power System Master Plan (PSMP) 2018, Bangladesh envisions the construction of 3 to 4 new reactors by 2041, depending on future electricity demand.

Danish consortium proposes USD 1.3 bn offshore wind project

The Danish investment fund Copenhagen Infrastructure Partners (CIP) and the Danish company Copenhagen Offshore Partners (COP), in partnership with Summit Group (Bangladesh-Singapore group), have submitted a proposal to the Government of Bangladesh to build an offshore wind farm off the Bay of Bengal. The project, with a capacity of 500MW, would represent an investment of 1.3 billion USD.

This news comes just two months after the Ministry of Energy signed a contract with an international consortium to study the potential of offshore wind power, with funding from the Asian Development Bank.

INFRASTRUCTURE

Several infrastructure inaugurations planned before the general election

Bangladesh plans to inaugurate a series of infrastructures before the next general elections scheduled early 2024.

On September 2, the Dhaka Elevated Expressway will open on a first section between the international airport and the Farmgate district. Launched in October 2018, work on this 46.73 km highway will eventually connect the airport in the north to the Dhaka-Chittagong expressway in the south in just 20 minutes (compared with sometimes several hours today). The work is being carried out by Italian Thai Development Public Company Limited (ITDPCL, Thailand) as part of a public-private partnership involving a 25-year concession to amortize the cost of the infrastructure (EUR 750 million) and maintenance. The project was financed by the EXIM Bank of China and the Industrial and Commercial Bank of China (ICBC), while two Chinese companies share a 49% stake in the consortium with ITDPCL.

On October 7, Dhaka International Airport's third terminal will be partially opened. The full opening will take place at the end of 2024. This expansion project will increase annual capacity to 20 million passengers and 500,000 tonnes of freight, compared with the current 8 million passengers and 200,000 tonnes. The total budget is around USD 2.5 billion, largely financed by JICA. The modernization of the air traffic management system is being carried out by Thales.

On October 20, the Prime Minister will officially inaugurate the extension of the Dhaka metro line between Agargaon and Motijheel. While the Dhaka Mass Transit Company Limited has been partially operating the section between Uttara and Agargaon since the end of 2022, the line will now be completed and will comprise 16 stations over 20 km. JICA has financed part of this project, the total cost of which is estimated at USD 2.5 billion. Work on an additional line (MRT-5) will be inaugurated on September 16.

Finally, on October 28, the Bangabandhu tunnel will be inaugurated in Chittagong, the country's second-largest city. Excavation for the construction of the tunnel under the Karnaphuli River began in February 2019. Out of a total cost of Tk 104 billion (EUR 890 million), the Exim Bank of China has financed Tk 60 billion. The project will improve the link between the city and the airport, and reduce congestion on the two existing bridges. China Communication Construction Company Ltd is in charge of the works.

A Turkish company selected for a rail electrification study

Bangladesh Railway has signed a consultancy contract with the Turkish company TÜMAŞ to carry out a feasibility study for electrical traction equipment (catenary, substation) on the sections between Narayanganj-Dhaka-Chittagong and Tongi-Joydevpur. The project includes detailed design.

Following this study, Bangladesh Railway plans to implement two projects to convert the eastern and western zones. Until now, Bangladesh has only been equipped with diesel locomotives, bought from several suppliers such as Progress Rail (USA) and Hyundai Rotem (Korea).

Locomotive renewal will be a major challenge for Bangladesh Railway. At present, around 300 locomotives are in service in Bangladesh (two-thirds metric gauge, the rest broad gauge), but of these, almost 120 have already exceeded their service life.

Inauguration of South Asia's largest wastewater treatment plant

The Prime Minister inaugurated the Dasherbandi wastewater treatment plant in Dhaka. The plant has a capacity to treat 500 million litres of wastewater per day, for 5 million of the capital's inhabitants (a quarter of the wastewater generated daily). Started in 2018, the project was financed by the Exim Bank of China (\$273 million) and the government (\$141 million). The plant built by Hydro China Corporation will also produce 45 tonnes of

waste that can be used as raw materials for cement.

The plant was built as part of DWASA's 2011-2035 master plan to build five wastewater treatment plants to treat 100% of Dhaka's wastewater. It is only the city's second plant, along with the Pagla plant, which is currently being upgraded with funding from the World Bank (USD 170 million) and the AIIB (USD 170 million).

----- MACROECONOMICS -----

The current account deficit decreased sharply to USD 3.3 bn in 2022-23. Financial account in negative territory.

Bangladesh's trade deficit reached USD 17.2 bn in the 2022-23 fiscal year ending last June, down sharply on 2021-22, when it stood at USD 33.3 bn due to rising imports, mainly as a result of higher prices in the context of the war in Ukraine and the devaluation of the taka. Since August 2022, Bangladesh has imposed restrictions on imports, which have helped reduce the bill by 16% to 69.5 billion USD. As a result, the current account deficit has been reduced to USD 3.3 bn from over USD 18.6 bn a year earlier.

On the other hand, the financial account will move from a surplus of USD 15.5 bn in 2021-22 to a deficit of USD 2.1 bn in 2022-23, due to a decline in other investments, notably trade credits, whose flow was negative over the first 7 months of 2022-23.

The main reason for this is the growing discrepancy between the export shipment value according to customs (Export Promotion Bureau data for 2022-23: USD 55.6 bn) and export receipts (Bangladesh Bank data for 2022-23: USD 43.5 bn). The level of exports not settled via the banking system thus reached USD 12 bn over one year, at a particularly high level that cannot be explained by the usual time lag or possible discounts alone. This abnormal discrepancy may be explained by a deliberately late repatriation to take advantage of more attractive future exchange rates, by an repatriation outside the banking system, or

even by late payments, particularly by RMG buyers that are facing a declining consumption in Europe and the United States.

Exports reach 55.5 billion USD in 2022-23, up 6.7%

According to data from the Export Promotion Bureau, exports for fiscal year 2022-23 grew by 6.7% year-on-year to USD 55.6 bn, slightly below the government's target of USD 58 bn. This growth was driven solely by good results in the RMG sector, which despite the global inflation achieved double-digit growth (+10.3%) and even slightly outperformed expectations at USD 47.0 bn. Diversification of customers (currently concentrated in Europe and North America) and products (essentially cotton-based) will be key to maintaining growth, while according to the BGMEA most factories are currently operating below capacity due to weaker demand.

This is not the case for all other categories, which only achieved between 50% and 85% of the export target. Far behind RMG, the main export products are leather (1.2 billion USD), home textiles (1.1 billion USD), jute (912 million USD) and agricultural products (843 million USD).

Asian Development Bank revises growth forecast for 2022-23 upwards to 6.0%.

In its periodic update of growth forecasts for Asia (Asian Development Outlook), the Asian Development Bank has revised growth for the fiscal year 2022-23 upwards. The April 2023 estimate of 5.3% has been revised to 6.0%, in line with the Bangladesh Bureau of Statistics estimate.

The Bank explains this better-than-expected result by better exports and lower imports. Supply was particularly stimulated by the government's proactive policy, while demand benefited from substantial public investment. The forecast for the current fiscal year 2023-24 remains unchanged at 6.5%.

BANKING

52 companies have applied to create a digital bank

52 entities applied to Bangladesh Bank for a license to operate a digital bank, far exceeding the expectations of the Central Bank, which approved the Digital Bank guideline in June 2023. Among the applicants are public and private banks, Mobile Financial Services providers and private companies.

According to this guideline, the digital bank will not be able to issue any physical means of payment, and will be limited to means such as virtual bank cards, QR codes, etc.

Bangladesh currently has 61 banks.

Letter of credit openings down 27% in 2022-23 compared with 2021-22

While a total of USD 94 bn worth letters of credit (LCs) were opened in fiscal 2021-22, this amount fell to USD 69 bn in 2022-23, a 27% year-on-year decline, and is back to its 2020-21 level (USD 67 bn).

Over the July-April period for which detailed data is available, the biggest drop in LC opening was for machinery imports (-50%), while the energy products category recorded a slight increase (+2%): the growth in LC opening for refined oil imports (+30%) and coal (+28%) was driven by rising world prices, particularly in the second half of 2022.

While the drop in machinery import projects may be due to a postponement of investments by manufacturers waiting for more favorable conditions (credit, inflation, exchange rates), the fall in credit openings for raw materials for industry (-32% over the first 3 quarters), particularly for the RMG sector, could signal an anticipated slowdown in production.

Other factors, such as the Central Bank's increased vigilance to prevent over- and under-invoicing, and falling prices, help to explain this decline.

ICT

The proportion of households with internet access at home reaches 38% by 2022, and 60% for mobile Internet

For the first time, the Bangladesh Bureau of Statistics (BBS) has carried out a survey on the level of access and use of telecommunications by households ("Survey on Access and Use of ICT at the Household and Individual Level" available on the BBS website).

In terms of phone penetration on the Bangladeshi market, while 97% of households have a cell phone, this percentage drops to 52% for smartphones on average in Bangladesh, and to 32% in the Rajshahi district. Nearly 22 million households (the average household is home to between 4 and 4.5 people) have at least one smartphone. Mobile Internet access is estimated at around 60% of households.

At the same time, only 9% of households own at least one computer, with major disparities between rural (3%) and urban (25%) areas. The proportion of households connected to internet at home reached 38% by 2022.

Finally, 62% have a TV.

Sharp drop in sales of locally assembled cell phones

According to data from the Bangladesh Telecommunications Regulatory Commission (BTRC), cell phone sales were halved in the first 5 months of the year compared with the same period in 2022.

Sales in January-May 2023 reached 8M units, of which 30% were 4G mobiles. Over the January-May 2022 period, sales had peaked at 16M handsets, with a slightly higher proportion of 4G-compatible smartphones (35%). This drop is said to be the result of inflation, price rise driven by the devaluation of the taka and the

VAT hike voted in the 2022-23 budget, which would have benefited the black market.

Since tax exemptions for this industry were voted in back in 2017-18, 15 assembly plants have been set up, creating nearly 15,000 jobs. Samsung, Vivo, Realme, Oppo and Nokia are among the companies assembling in Bangladesh for the local market.

RMG

In 2022, Bangladesh's market share in the RMG sector reached 22.2% in the EU and 7.9% worldwide.

Bangladesh has consolidated its position as the second largest importer of RMG to the European Union in 2022, with 22.9 billion USD of imported goods, or 22.2%, up 2.4 points in one year. China remains first with 30.1 billion USD, but its market share has fallen from 30.2% to 29.2% according to Eurostat data. Turkey is third (11.6%).

However, Bangladesh overtook China for the first time in terms of the quantity of garments exported to the European market.

According to data from the World Trade Organization, Bangladesh has also retained its second place on the world market, with a market share of 7.9%, well behind China at 31.7%, but still ahead of Vietnam at 6.1%, while Bangladesh and Vietnam were at the same level in 2018, 2019 and 2020. Bangladesh thus confirms its clear progression, from 2.5% market share in 2005 to 6.4% in 2021.

C. ZOOM ON THE IMF PROGRAM

A \$4.7 billion loan approved in January, followed by programs from other donors

On January 31, the IMF approved a \$4.7 billion program, including \$3.3 billion from the EFF/ECF facility and \$1.4 billion from RSF. This makes Bangladesh the first Asian country to benefit from the Resilience and Sustainability Facility, which is designed to help address longer-term challenges such as climate change. The IMF made a first unconditional disbursement of \$476 million in February.

IMF support opened the door to the approval of other budget support. The Ministry of Finance has requested a further \$4 billion from other donors such as the World Bank, the Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB) and JICA.

For instance, in June 2023 alone, Bangladesh received around USD 1.2 billion in budget support. The ADB and the AIIB have both approved and signed a "Sustainable Economic Recovery Programme" budget support project for a total of USD 800 million, following the IMF programme signed in January 2023. JICA also provided co-financing equivalent to USD 216 million.

A program based on criteria and policy reforms

The IMF program focuses on preserving macroeconomic stability, creating fiscal space, strengthening the financial sector, modernizing policy framework and greening the financial system. Each IMF program objectives is translated into policy objectives and/or some quantitative targets.

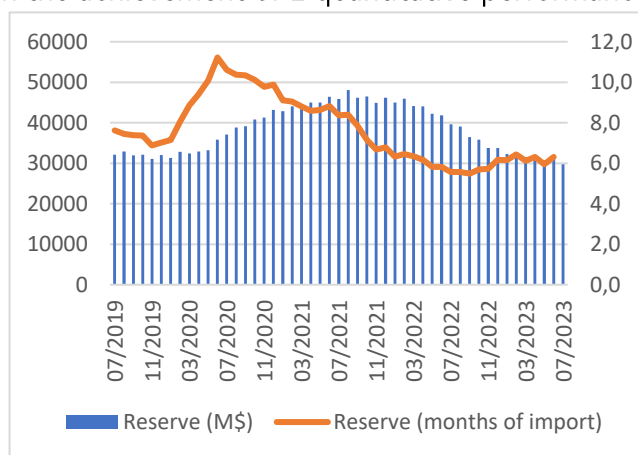
A first review in Fall 2023

The first review of the IMF program will be based on the achievement of 2 quantitative performance criteria, taking into account 8 structural benchmarks (policy reforms) and 4 indicative targets. This first review will be carried out in autumn 2023 (late September or early October), for a disbursement of SDR 352 million (around USD 475 million).

At June 30, net foreign exchange reserves (BPM6) stood at USD 20.22 billion, below the criterion of USD 24.46 billion. As stated by the IMF: "If a country misses a quantitative performance criteria condition, the IMF Executive Board may approve a waiver if it is satisfied that the program will still succeed". On the other hand, Bangladesh met the second criterion, which was based on the primary balance.

One of the 4 indicative targets was not met, and this concerned tax revenues. Tax collection was lower than expected (96% of target). It is estimated for 2022-23 at Tk 3,300 bn, compared with a target of Tk 3,450 bn in the IMF program. The other targets (social spending, government investment under the annual development program, etc.) were achieved.

The government has also carried out most of the required reforms, such as implementing a corridor for bank interest rates, using the BPM6 standard to calculate reserves, increasing tax revenues by 0.5% in the 2023-24 budget, and submitting an amendment to Parliament on banking sector. The adoption of a market-based exchange rate is partially achieved, as it is based on the rates recommended by the Bangladesh Foreign Exchange Dealers' Association.



Evolution of FOREX reserves. Source: BB

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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