



MINISTÈRE  
DE L'ÉCONOMIE,  
DES FINANCES  
ET DE LA SOUVERAINETÉ  
INDUSTRIELLE ET NUMÉRIQUE

Liberté  
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# ECONOMIC LETTER OF BANGLADESH

A LETTER FROM THE ECONOMIC DEPARTMENT  
OF THE EMBASSY OF FRANCE IN DHAKA

N°8 – March/April 2024

## A. FRANCE-BANGLADESH NEWS

### Call of French Ambassador to the Minister of Housing

On March 24th, the French Ambassador called on H.E. R.A.M. Obaidul Muktadir Chowdhury, Minister of Housing and Public works. At this occasion, the Minister briefed her on his recent visit to Paris where he represented Bangladesh at the first-ever Buildings and Climate Global Forum co-organized by France and the United Nations Environment Programme (UNEP). During this high-level event, France, Bangladesh along with 68 other countries signed the Chaillot Declaration which lays the ground for international cooperation with regard to decarbonisation and resilience of buildings.

### Celebrating 10 years of French Development Agency in Bangladesh

In April, the French Development Agency (AFD) Group celebrated 10 years in Bangladesh. Despite being the latest partner, its activities have tripled in only 5 years, focusing on poverty and climate resilience. On this occasion, H.E. Marie Masdupuy stated, "France is rebalancing climate financing towards adaptation."

She also reminded that, as announced by French President during his historical visit to Dhaka last September, AFD's activities in Bangladesh will remain at a high-intensity, in particular to channel the 1 billion EUR pledge to adaptation under the

Pact that will be endorsed this year by both leaders.



### Meeting with FBCCI Vice President

The Economic Department of the Embassy met on April 28<sup>th</sup> with the Senior Vice President of FBCCI, Md Amin Helaly and FBCCI Secretary General. Both parties agreed to strengthen business-to-business cooperation, taking advantage of upcoming high-level events in Paris and Dhaka.

FBCCI signed a MoU with MEDEF international, the international wing of French apex trade body, in 2021 during the visit of Honorable Prime Minister Sheikh Hasina to Paris.

## B. FRESH NEWS FROM BANGLADESH

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

### ----- MACRO -----

[Economic growth forecasts for 2024 range from 5.6% to 6.1%](#)

According to various international agencies, Bangladesh's GDP growth should be between 5.6% and 6.1% in FY24. The IMF anticipates the growth to be of around 5.7% for FY24 and 6.6% for FY25. For its part, the World Bank sees Bangladesh's real GDP slowing to 5.6% this year (5.7% for FY25), while the Asian Development Bank is more optimistic, with a year-on-year growth of 6.1% (6.6% for FY25).

These forecasts assume that inflation will remain high in 2024, at 9% according to the IMF (versus 9.3% last year), which will continue to weigh on private household consumption, energy shortages, rising interest rates and the persistence of fragilities in the financial sector, which will slow investment.

Bangladesh's GDP growth in FY23 was 5.8%.

[The IMF mission proposes approval of the third tranche of the program, for a payment of USD 1.15 billion](#)

To conclude the two-weeks mission in Bangladesh, the IMF declared having reached a staff-level agreement with the Bangladeshi authorities. This agreement paves the way to the disbursement of the third tranche of the program, which remained conditioned to the approval of the IMF Executive Board. This third tranche should grant a USD 668 million loan. At the request of the Bangladeshi government, it will finally be increased to USD 1 152 million.

In its press release, the IMF praised the Central Bank's reforms taken on the same day, while calling for further tightening of the monetary policy in case of persistent inflation or external pressures. The press release calls for steady efforts to increase fiscal revenue by 0.5 point of GDP in the next budget, and to reinforce governance in the banking sector.

According to the press, the IMF has also conceded to lower for a second time the net foreign exchange reserves target. For June 2024, the new target would be USD 14.76 billion, compared to the initial USD 20.11 billion.


### ----- BANKING -----

[On the last day of the IMF mission, the Central Bank announces several key measures](#)

While the IMF's second review mission came to a close on May 8th, the Bangladeshi Central Bank announced three new major decisions, some of which were eagerly waited for.

First of all, the Bangladesh Bank (BB) terminated the interest rate cap mechanism for commercial banks (known as SMART). The SMART has been introduced in the summer of 2023 to provide greater flexibility, replacing the cap previously imposed by the authorities since April 2020. Since May 8th, banks are able to set their own interest rates according to the market. The SMART mechanism, whose corridor was determined by the 6-month average of Treasury bills rate, slowed down the effectiveness of the credit channel and thus limited inflation.

Since several months now, inflation has remained stable at a high level. It stood at 9.81% in March 2024, according to the Bureau of Statistics. In this context, the BB has also decided to raise its exchange rate once again,



from 8.0% to 8.5%. The last increase, of 0.25 point, was in mid-January.

Finally, the BB enabled a very sharp devaluation of the taka against the dollar. Whereas the exchange rate was maintained at around 110-112 taka for a dollar since September 2023, even if this meant drawing on reserves, the Central Bank has introduced a crawling peg system (ie. the currency, set within a fixed exchange rate system, is allowed to fluctuate within a corridor). The BB decided to center this corridor at around 117 taka for a dollar, a devaluation of over 5%. This decision will incentivize the repatriation of foreign currency (expatriate remittances and exports income), make exports more attractive and discourage imports, contributing to ease the pressure on foreign reserves exchanges. Nonetheless, it will push inflation up, making essential imports (energy, consumables) more expensive.

#### Merger of two commercial banks, a first for the country

Bangladesh has 61 banks, including 43 local commercial banks, and the Central Bank recently announced its intention to initiate mergers and acquisitions across the banking system. At the beginning of March, a spokesman for Bangladesh Bank (BB) announced that the BB would make an initial assessment in December and take decisions accordingly. Since the adoption of the Bank Companies Act 2023, the central bank is now able to force mergers and acquisitions. The BB is expected to propose incentive measures in the near future, such as relaxing certain prudential ratios.

In this context, Bangladesh has just seen the first merger between two banks in its history. EXIM Bank and Padma Bank have agreed to merge, illustrating the authorities' desire to

merge so-called weak banks with more robust ones. The new bank will retain the EXIM Bank name.

Padma Bank is the result of the recapitalization of Farmers Bank, which went bankrupt in 2018. It was then rescued by the purchase of 60% of its shares by 5 public institutions following a decision by the Ministry of Finance, and renamed Padma Bank in January 2019. The bank's health has never really improved, with nearly 46% of non-performing loans (NPL) at the end of December 2023. EXIM Bank, which is 8 times larger in terms of loans and deposits, has a lower NPL ratio (3%).

#### Bangladesh loses over 700 million USD a year to offshore tax evasion

According to the World Bank in its Bangladesh Development Report 2024, illicit capital flows to offshore accounts are on the rise. Tax revenue losses, which include offshore tax evasion, are estimated at over USD 700 million, or 2.2% of Bangladesh's GDP, in 2020.


Most money laundering in Bangladesh takes place through misinvoicing in commercial transactions. According to the World Bank's latest Financial Integrity 2021 report, an average of around USD 3.6 billion a year was laundered out of the country through this process between 2009 and 2018. Bangladesh ranks 44th worldwide and 3rd in South Asia for illegal financial flows generated by false invoicing.

### ENERGY

#### 40MW import agreement with Nepal on the cart

On March 12, the Nepal Electricity Authority (NEA) and the Bangladesh Power Development Board (BPDB) reached an agreement on the price of electricity to be exported from Nepal through India. As a first step, Nepal is set to





export around 40 MW of electricity to Bangladesh.

In addition, the Bangladeshi government recently announced that it is ready to invest USD 1 billion in a hydropower project in Bhutan (Dorjilung Hydropower Project) with a total capacity of 1,125 MW. This project would involve trilateral cooperation with India, which would notably ensure the transit of electricity from Bhutan to Bangladesh. The three countries are currently working on finalizing an MoU. Bangladesh has also announced plans to eventually import between 6,000 and 9,000 MW of electricity from neighboring countries.

#### Bangladesh calls on Russia for a second nuclear power plant in Rooppur

In early April, Rosatom's Director General met the Honorable Prime Minister in Dhaka. According to press reports, the Prime Minister asked the Russian state agency to consider building a second nuclear power plant in Rooppur. This announcement comes just a few weeks after the Bangladeshi government confirmed that the project for a second power plant would also be built in Rooppur, where 2 units are currently under construction and already financed by Russia.

Indeed, two VVER-1200 reactors (1,200 MW each) are under construction at the Rooppur site, 140 kilometers west of Dhaka. A USD 11.38 billion Russian loan was signed with Bangladesh in 2016. Since the start of the war in Ukraine, the construction site has been experiencing financial and technical complications, but the authorities are keeping to the original schedule: first unit to be delivered in 2024 and the second in 2025.

#### 120 M USD mobilized from international lenders for a private solar plant

The Asian Development Bank (ADB) has announced that it has arranged the first foreign financing package for a solar project in Bangladesh. Paramount Textile PLC, a Bangladeshi textile company, will borrow USD 47 million from the ADB, USD 47 million from JICA and USD 28 million from ILX Fund, an Amsterdam-based fund specializing in impact projects in emerging countries.

This project comes at a time when Bangladesh is producing just 2% of its electricity from clean energies, against a target of 40% by 2041. While this project will mobilize private investment, an ongoing Global Gateway project is targeting public investment of up to 700 million USD in renewable energies.

#### EXPORTS

#### Phasing out direct cash subsidies for export industries

A new roadmap implemented by Bangladesh's central bank plans to progressively phase out direct subsidies to exporters, ahead of the country's graduation from Least Developed Country category. The budget of the current fiscal year provides an allocation of BDT 112,250 million (around EUR 1 billion) for export incentives. Today, 43 export sectors benefit from these financial incentives, mostly in the form of cash grants, 70% of which goes to the RMG sector.

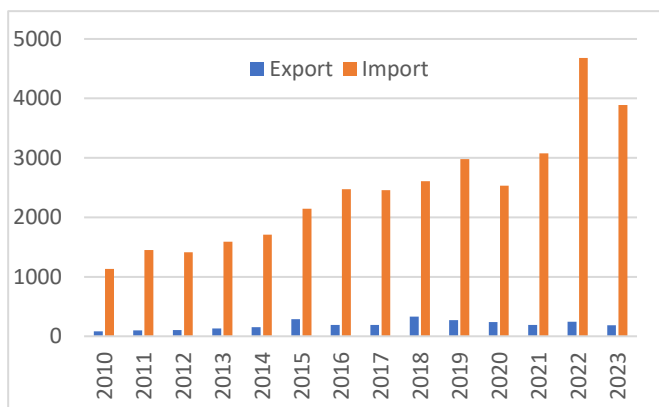
This gradual withdrawal stems from WTO rules on subsidies, which do not allow direct subsidies in the form of cash after graduation from the LDCs. In return, the government is planning a series of compensatory measures, such as a 5% to 10% rebate on electricity bills, financial exemptions on export licenses and loans for exporting companies investing in green energy.

## C. Bilateral Trade and Investment in 2023

*Despite a decline in French exports to Bangladesh in 2023 (-25% to 180 M EUR) and a structural trade deficit (-3.8 Bn EUR), the recent dynamism of the bilateral relationship opens up interesting short-term prospects in many sectors (aerospace, energy, environment, digital).*

### 1. France, 5<sup>th</sup> European supplier for Bangladesh, experiences a 25% fall of its exports

Trade between France and Bangladesh slowed down sharply in 2023, following a record year in 2022. According to French customs, French imports represented 3.89 Bn EUR (-17%), while exports remained particularly low at 183 M EUR (-25%).



Imports and exports from France over time (in M EUR). Source: French customs

The vast majority of products from Bangladesh continue to be RMG and other textile products, accounting for almost 94% of total imports, a high level that has remained stable over recent years. These products continue to benefit from duty-free access to the European Union under the "Everything But Arms" initiative, which the country enjoys as a Least Developed Country (LDC). The footwear sector, one of the avenues for diversifying the economic fabric, still accounts for a meagre 4% of exports.

The lower performance of Bangladeshi exports can be explained by a record year in 2022, which led French RMG brands to stock up in France, and by the slowdown in consumption in France against a backdrop of high inflation.

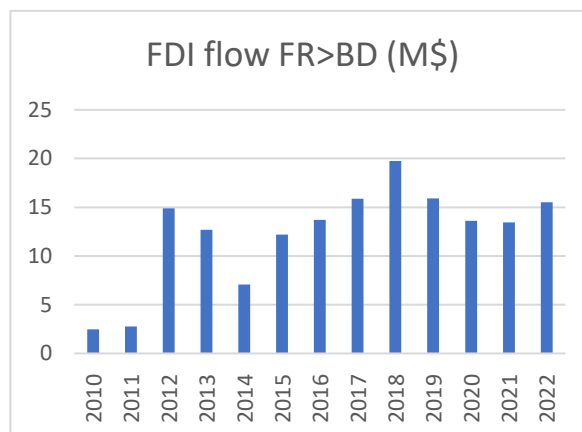
France remains Europe's fifth-largest supplier for Bangladesh, behind Germany (810 M EUR), Italy (555 M EUR), the Netherlands (344 M EUR) and Belgium (226 M EUR). For most of these countries, the main export item is machinery (317 M EUR for Italy and 310 M EUR for Germany), notably for the textile sector. In the case of France, machinery exports amount to just 35 million euros.

The main French export items are pharmaceutical products (15%), aerospace industry products (9%) and miscellaneous chemical products (9%), notably for the Bangladeshi RMG industry.

## 2. A stock of FDI that remains low in 2023

The stock of French FDI at June 2023 amounts to just 53 M USD, according to Bangladesh Bank data. This compares with 108 M USD for Germany, 326 M USD for Norway and 2,820 M USD for the UK. European and French investment is nevertheless particularly low, in a country that has a low FDI-GDP ratio.

French investments are concentrated in the service sector (notably Bureau Veritas, which owns 4 laboratories) and industry (TotalEnergies, Servier, Danone, Essilor).



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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