



**MINISTÈRE
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ECONOMIC LETTER OF BANGLADESH

A LETTER FROM THE ECONOMIC DEPARTMENT

OF THE EMBASSY OF FRANCE IN DHAKA

N°6 – September-December 2023

Editorial

The France-Bangladesh relationship has experienced a new height in the last quarter of 2023, with the historical visit of French President Emmanuel Macron to Dhaka on 10th and 11th of September. Its density is reflected in the multiplicity of topics that have been discussed during these two days, including among others climate change, human rights, aerospace, digital and development.

The ambition of the roadmap aiming at deepening the strategic dimension of the partnership has temporarily put on hold the publication of this newsletter. But, fortunately, the team of the Economic Department is growing with an additional staff member from January, allowing to resume this monthly newsletter.

Indeed, this newsletter also aims at giving you some elements and updates on the state of the economy; in particular as Bangladesh is experiencing increasing challenges in the economy front, with various impacts on business activities: inflation, BDT-USD rate, availability of foreign currency, higher costs for borrowing, for freight, etc. The consequences of the global events (Ukraine-Russia war, Gaza) on Bangladesh are manifold, and the implementation of additional policies and reforms on the banking sector, the external position and the fiscal administration will be key to restore a positive trend. Today, economic forecasts are revised downward and growth for 2023-24 is estimated at 5.6% according to the UN and 6.0% for the IMF.

Happy reading!

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Julien Deur

Head of Economic Department

julien.deur@dgtresor.gouv.fr

A. FRANCE-BANGLADESH NEWS

Visit of the French President to Dhaka

See Part C below.

Visit to Chittagong in September

In mid-September, the head of Economic Department visited the port city of Chittagong. He attended meetings in offices of some French companies, like CMA-CGM, second shipping company in Bangladesh, and the lab of Bureau Veritas Group, one of the largest French investors in the country.



It was a great opportunity to discuss about how France can further support the development and the diversification of Chittagong's industrial base, together with the president of The Chittagong Chamber of Commerce & Industry and Mostafiz Uddin, CEO of Bangladesh Apparel Exchange.

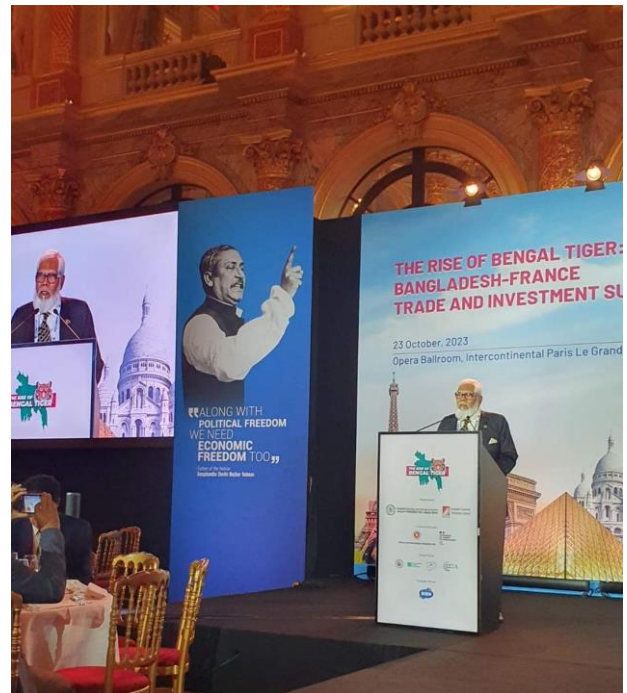
Inauguration of Thales office in Bangladesh

The Embassy organized an event for the inauguration of Thales office in Bangladesh at the Résidence de France on October 11th. Thales is active in Bangladesh through multiple flagship projects such as the supply of the telecommunication satellite Bangabandhu 1 and the upgradation of the Air Traffic

Management system at Dhaka international airport.

Bangladesh-France Trade and Investment Summit in Paris and Toulouse

The first Bangladesh-France Trade and Investment summit was held on October 23rd at Intercontinental LeGrand Paris, organized by Bangladesh Securities Exchange Commission (BSEC) and Bangladesh Investment Development Authority (BIDA). The delegation led by H.E. Salman F. Rahman, Hon'ble Advisor to Hon'ble Prime Minister had the opportunity to meet and exchange with French companies in specific sectors such as energy, IT, agriculture and infrastructure development. H.E. Hasan Mahmud, Minister of Information and Broadcasting was also present at the event. The Ambassador of France encouraged French companies to consider the dynamism and resilience of Bangladesh as well as to build on the visit of the French President to Dhaka early September.



This event was followed by another edition held in Toulouse on 25th October and focusing on civil aviation, space industry, tourism and agriculture. In parallel, many side-events were organized by companies such as Airbus, Thales and Thomson Broadcast.

France-Bangladesh Summit on Hydrology and Flood Forecasting

On November 8th, the French Ambassador gave a welcome address at the occasion of a bilateral summit on hydrology and flood forecasting organized in Dhaka by the French company Blue Water Intelligence (BWI). She lauded the success achieved in disaster risk reduction in the country and stressed the mobilization of the French ecosystem to support Bangladesh's goals in particular in strengthening the flood early-warning system. Recently, France seconded an expert in oceanography, Ms Tonia Capuano, to the Oceanographic Institute of Dhaka University.

BWI is a French company providing solutions for surveillance of continental freshwater and improvement of flood early-warning, using satellite data and machine learning.



Workshop with French RMG brands

A workshop was organized by the Embassy on December 4th to gather some French brands of RMG in order to discuss current and future challenges faced by the industry. The event has been the occasion to exchange views on the upcoming LDC graduation,

including on sustainability issues (renewable, water, safety, etc.) with a presentation of AFD activities in this regard, and on diversity with a presentation of Ze project that supports inclusion of transgender community and on CSR activities.

Mission of the South Asia Financial Counsellor

Ahead of the first review of the IMF program, the French South Asia Financial Counsellor David Karmouni, along with his deputy Sylvia Malinbaum visited Dhaka at the end of November. This mission allowed to have in-depth conversation with the Bangladeshi authorities as well as with the donors and the think tanks on a wide range of topics (external position, banking sector, fiscal revenues, etc.). France represents 4,2% of the quotas at the IMF (fifth largest country) and names an administrator at its Board.

"Make it Iconic. Choose France" campaign

On October 30th, the French president launch an international campaign titled "Make it Iconic. Choose France" which aimed to promote France globally, in particular its main strengths such as its economy, creativity, research, education and public health sector. Multiple activities have been organized to promote tourism, gastronomy, education as well as economy.

Indeed, France is the 7th largest world economic power and ranks 6th worldwide in R&D effort and this will be enhanced through the investment plan "France 2030" that includes 54 billion euros of investments. France is also an attractive country for foreign companies as, for the 4th year in a row, the country ranked 1st for Foreign Direct Investment in Europe.

B. FRESH NEWS FROM BANGLADESH

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

FOREIGN AID

IMF approves the second tranche of its program

Mid-December, the IMF Board approved the second tranche of its program for Bangladesh, enabling a disbursement of USD 689 million in December, including USD 221 million through the Resilience and Sustainability Facility.

This decision comes after the country had failed to meet two of the conditions set out in the program: the first concerned the level of net foreign exchange reserves, which should have reached USD 23.7 bn in June, but amounted to USD 19.5 bn; the second concerned tax collection, which stood at Tk 3,277 bn in 2022-23 against the target of Tk 3,456 bn.

Nevertheless, the Board of Directors considered that the implementation of the program was generally on track. It called for policies to be strengthened in the short term to reduce inflation and restore the country's external position, while protecting the most disadvantaged populations.

The growth projection for 2023-24 is still 6.0%, while gross foreign exchange reserves are expected to bottom out at USD 24.3 bn (2.8 months of imports) before recovering to USD 30.6 bn in 2024-25.

The next review will take place after May 1st 2024, based on the performance criteria achieved at the end of December 2023.

Bilateral and multilateral donors pledge USD 8 billion for mitigation and adaptation at COP28

At COP28 in Dubai, Bangladesh and a coalition of development partners announced the launch of the Bangladesh Climate and Development Platform (BCDP), to catalyze

investment for climate change mitigation and adaptation. The BCDP will be responsible for creating a list of climate projects, producing a financing strategy and mobilizing the private sector. On this occasion, the various donors recalled their various past and future commitments, for a total of 8 billion USD. These include, for example, the IMF's USD 1.4 billion RSF facility signed in January, and recent projects by the AIIB (USD 400 million), the European Investment Bank (USD 400 million) and the AFD (USD 300 million).

The World Bank and the Asian Development Bank have signed projects worth USD 1.1 billion and USD 1.0 billion respectively

In December, the two main multilateral donors each signed 5 projects with the Economic Relations Division (ERD), Ministry of Finance.

The Asian Development Bank has signed: a USD 200 million loan to install 650,000 smart gas meters; a USD 336 million loan to strengthen the pharmaceutical regulatory authorities and set up a vaccine production unit; a USD 90 million loan to develop water and sanitation infrastructure in the Chittagong Hill Tracts; a USD 100 million loan to improve science and IT programs in 3 universities; and a USD 300 million loan to strengthen the Dhaka - Northwest road corridor.

As for the World Bank, it has signed: a USD 210 million loan to improve early childhood development by providing financial and social support to mothers; a USD 300 million loan for secondary education; a USD 102 million loan for improved protection and navigability of the Jamuna River; a USD 200 million loan specifically targeting primary healthcare provision in urban areas and USD 300 million for the installation of gas meters in Dhaka and Sylhet.

European Investment Bank signed a program of EUR 350 million for renewables

The European Investment Bank (EIB) and the Economic Relations Division (ERD) signed a EUR 350 million loan on the sidelines of the Global

Gateway Forum in Brussels at the end of October. This loan will be accompanied by a European Union grant package of EUR 45 million for technical assistance and investment subsidies, and a further EUR 350 million in co-financing from other donors.

This would be the first flagship project under the Global Gateway program in Bangladesh. It should enable the implementation of several large-scale solar power plant projects, as Bangladesh aims to achieve 40% clean energy by 2041, and the share of renewables currently stands at around 3%.

This will be the EIB's largest project in Bangladesh. During the Covid-19 pandemic, the EIB signed a EUR 250 million budget support agreement.

ENERGY

RMG brands H&M and Bestseller announce investment in offshore wind energy

On the occasion of COP28, the Swedish H&M and Danish Bestseller clothing brands announced that they plan to invest in a 500 MW offshore wind power project in Bangladesh. The project is still at an early stage, and is being developed by Danish company Copenhagen Infrastructure Partners' and Bangladeshi company Summit Power. The project is valued at EUR 1.2 billion.

RMG brands are under increasing pressure to reduce their carbon footprint, and Bangladesh's carbon-intensive energy mix is a limiting factor. Renewable energies account for 2.7% of total installed capacity, including 1.8% solar and 0.9% hydro.

INFRASTRUCTURE

First version of master plan for Bay Terminal in Chittagong finalized

The government has selected two companies specializing in port operations, PSA (Singapore) and DP World (United Arab Emirates), to build and operate two of the project's three terminals under a public-private partnership.

The third terminal will be built by the Chittagong Port Authority.

The new terminal will considerably increase the port's capacity. The Bay Terminal will be able to accommodate 50 ships, as well as larger vessels. It should increase the port's capacity to 5 million twenty-foot equivalent containers per year, compared with 3.1 million at present.

Inauguration of a new port terminal in Chittagong

The Prime Minister has inaugurated during the last quarter of 2023 the Patenga terminal at the Port of Chittagong. Financed by the Chittagong Port Authority to the tune of nearly 100 million euros, the new terminal will add 3 new piers, increasing annual capacity by 500,000 containers. The cost of the infrastructure has been almost halved following the decision to switch the project to a PPP format, where an operator will bear the cost of equipment (cranes, etc.). This operator is expected to be the Saudi company Red Sea Gateway Terminal. In 2022, the port of Chittagong handled some 3.1 million containers, representing over 95% of the country's international traffic, far ahead of the ports of Mongla and Payra.

MACROECONOMICS

Fitch downgrades Bangladesh's BB- rating outlook from stable to negative

Fitch Ratings has reassessed Bangladesh's ability to meet its foreign currency debt obligations, raising the outlook from stable to negative. Fitch nevertheless confirms the country's BB-rating.

Fitch justifies this decision by the deterioration in the country's external position, accentuating its vulnerability to shocks, and by the deterioration in foreign exchange reserves, which donor support and reforms have so far failed to stem. Fitch estimates that reserves will continue to decline, reaching 2.6 months of imports by 2024-2025. Fitch also mentions low tax revenues, governance issues in the banking sector and the election context.

The low level of debt - the debt-to-GDP ratio is projected at 37% by 2024-25, compared with a median of 52% for BB-rated countries - and low debt servicing nevertheless provide comfort. Fitch expects growth to remain robust at 6.5% in 2023-24, underpinned by private consumption, public spending, investment and the resilience of the ready-to-wear sector. In May 2023, Moody's downgraded Bangladesh's sovereign rating by one notch from Ba3 to B1, with a stable outlook.

Wage growth has remained below inflation for almost 2 years

Inflation eased slightly in November to 9.5%, thanks in particular to a drop in food inflation from 12.6% in October to 10.8% one month later. Nevertheless, the wage index for unskilled and low-skilled workers rose by just 7.7% year-on-year, representing a real change of -2.2%.

Wage growth has remained below inflation since the start of 2022, with labor incomes unable to keep pace with price rises driven upwards by the war in Ukraine.

Moreover, informality remains the norm in Bangladesh, with an informal employment rate of 84.9% in 2022, compared with 87.5% in 2010, according to data from the Bangladesh Bureau of Statistics. Informal workers have limited access to social transfers, which could help offset the relative decline in wages.

----- TRADE -----

The government postpones its project to join the Regional Comprehensive Economic Partnership free trade zone

Following an initial announcement by the Ministry of Commerce in 2021, in August 2023 Bangladesh announced its intention to apply for the Regional Comprehensive Economic Partnership (RCEP) free trade agreement. The RCEP comprises fifteen countries: the ten ASEAN members, China, Japan, Australia, South Korea and New Zealand. The government has finally announced that the country will not join

RCEP, or any other bloc, between now and the parliamentary elections in early January 2024. Bangladesh has a trade deficit in goods with RCEP to the tune of almost USD 34 billion. RCEP accounts for 48% of Bangladesh's imports, but only 9% of its exports.

Bangladesh is seeking to negotiate free trade agreements in preparation for its graduation from Least Developed Country status in 2026.

Periodic review of the Everything But Arms agreement by the European Commission

A high-level mission from the European Commission ended in Dhaka on November 16th. The purpose of the mission was to carry out a periodic review of the Everything But Arms (EBA) regime, of which Bangladesh is currently the main beneficiary. The review aims at ensuring that the country complies with the conditions of the EBA, in particular as regards human and labor rights in the context of the National Action Plan (NAP) on the Labour Sector (2021-2026) resulting from discussions at the 2019 EU-Bangladesh Joint Committee.

Between 2001, the year Bangladesh obtained the EBA, and 2021, Bangladeshi exports to the EU rose from \$2 billion to over \$23 billion, 90% of which was in the textile sector.

The delegation welcomed the progress made on worker safety issues, but pointed out the efforts required to implement the International Covenant on Civil and Political Rights, and the delays in implementing the NAP. See the [press release online](#).

Minimum wage in the textile industry raised to Tk 12,500 (EUR 106)

On November 7, following a process of branch negotiations, the Bangladesh Ministry of Labor announced a +56% increase in the minimum wage for unskilled workers in the RMG industry, raising it to 12,500 taka (around 106 EUR) from 8,000 taka since it was last raised in 2018. This compares with a five-year inflation rate of 43%. In April 2023, the Minimum Wage Board, led by the Ministry of Labor, announced the formation of a committee to carry out this review, made

up of representatives of RMG business leaders (through their association BGMEA), employee representatives and qualified individuals. Minimum wages in the textile sector must be reviewed at least every 5 years.

Following this announcement, a number of demonstrations took place.

With 4,000 factories, 4 million employees and almost 90% of the country's exports, the RMG sector is a major contributor to Bangladesh's economy.

BANKING

Non-performing loans reach 10.1% of outstandings, up 18% in three months

The Central Bank of Bangladesh has just published the statistics for non-performing loans to June 2023. These reached around BDT 1,550 bn, or 10.1% of loans, compared with 8.8% in March 2023.

The situation remains highly heterogeneous depending on the type of bank. In March 2023, the rate of non-performing loans reached 20.0% for public banks, but 6.0% for private banks and 4.9% for foreign banks.

At the same time, the month of June saw a historically high increase in deposits (the second highest in Bangladesh's history), with an additional BDT 310 bn (EUR 2.7 bn) bringing total deposits to BDT 15,950 bn. This record is due in part to the Central Bank's monetary policy, record expatriate remittances and rising interest rates.

MISCELLANEOUS

Finalization of a master plan for the tourism sector

The Bangladesh Tourism Board (BTB) has just finalized a new master plan for the tourism

sector, which aims to attract 5.6 million foreign tourists a year by 2041, creating 22 million jobs. In 2019, the country welcomed just 1.7 million tourists, including 1.4 million from the Bangladeshi diaspora. Promoting tourism could bring in 5 billion USD a year by 2041.

This master plan will require USD 1.1 billion in public and private investment to develop 10 tourist zones, 5 of which are already at the feasibility study stage. It will need to be accompanied by additional government investment to develop infrastructure.

On October 7, the third terminal at Dhaka International Airport has been partially opened. 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.

Publication of the 2022 decennial census

The Bangladesh Bureau of Statistics has unveiled the final report of the "Population and Housing Census 2022". According to the report, the population reached 170 million in 2022, up from 150 million in 2011 during the previous decennial census. 68% of the population lives in rural areas, and half of the urban population lives in Dhaka, where the density is around 34,000 inhabitants/km² (20,000 for Paris). 34% of the population aged 10 and over is neither in employment nor training, with a very high variation between men (13%) and women (53%). The dependency ratio (children and elderly as a proportion of the working population aged 15-64) has fallen sharply in ten years, from 73% to 52%, signalling a strong demographic dividend.

C. ZOOM ON THE PRESIDENTIAL VISIT

Following his participation in the G20 summit in New Delhi, French President Emmanuel Macron visited Dhaka on September 10 and 11 for the first visit by a French president to Bangladesh since François Mitterrand in 1990. He was responding to an invitation from Prime Minister Sheikh Hasina shared during her visit to Paris in November 2021. His visit to Dhaka is in the continuation of a series of trips to countries in the Indo-Pacific region like Sri Lanka and Papua-New Guinea.

A joint communiqué, that lays the ground for future cooperation: A joint communiqué entitled "Partnership for Peace, Prosperity and People" was issued at the end of the visit. It reiterates the shared interest in "developing bilateral trade and exploring investment potential in the development of quality and resilient infrastructure in Bangladesh, particularly in the railway sector". Besides, it reiterates "the importance of continued cooperation on improving air traffic management at all Bangladeshi airports". The French company Thales is implementing the project of air traffic management system modernization project for Dhaka international airport.



France and Bangladesh have agreed to "cooperate in the fields of information and communication technologies and digital technology, including artificial intelligence". France will "work to identify technical assistance for Bangladesh to address cybersecurity threats".

10 A350s announced for national carrier Biman: At the press conference, the French President thanked the Prime Minister for her "choice of confidence for European aeronautics" and for Airbus' "commitment to these 10 A350". To formalize this partnership, a Bangladesh-United Kingdom communiqué was signed in London on May 5, on the occasion of Sheikh Hasina's visit for the coronation of Charles III, in the presence of the Minister-Counsellor of the French Embassy in London.

Airbus Defense and Space signs a letter of intent for an observation satellite system: Airbus Defense and Space and Bangladesh Satellite Company Limited (BSCL) have signed a letter of intent for an observation satellite system, as part of the Bangabandhu 2 program. This program will enable Bangladesh to benefit from their own sovereign observation system, and to develop its capabilities in the use of imagery in a wide range of fields (agriculture, natural disaster management, maritime surveillance, etc.). This signature is part of a bilateral cooperation in the space sector. Indeed, Bangladesh's first geostationary communications satellite, Bangabandhu-1, was produced in France by Thales Alenia Space and launched in 2018.

AFD signs a 200M USD loan for the urban development of secondary cities: On the occasion of the visit of the President of the Republic, the Agence Française de Développement (AFD) signed a financing agreement for a project worth around 184M EUR to promote urban development and strengthen governance in 88 secondary cities (rainwater evacuation, waste treatment and drinking water). The project will be carried out in co-financing with the Asian Development Bank.

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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Editor: Julien Deur

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julien.deur@dgtresor.gouv.fr

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