



MINISTÈRE
DE L'ÉCONOMIE,
DES FINANCES
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ECONOMIC LETTER OF BANGLADESH

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

N°7 – January - February 2024

A. FRANCE-BANGLADESH NEWS

[Courtesy call of French Ambassador to Honorable Prime Minister](#)

On 23rd January, HE Marie Masdupuy paid a courtesy call to Honorable Prime Minister to hand over the letter of the French President congratulating Sheikh Hasina for her re-election. At the occasion, the Ambassador referred to the recent visit of the French President to Dhaka in September 2023. Building on the experience of Bangladesh on adaptation, an Adaptation Pact will soon be endorsed by both countries to strengthen the bilateral cooperation on this sector.



Other various economic topics were discussed including blue economy, cybersecurity, energy transition as well as Airbus' projects with Biman Airlines and Bangladesh Satellite Company Limited.


[French climate ambassador in Dhaka to finalize the bilateral Adaptation Pact](#)

In February, a French delegation, led by Ambassador Stéphane Crouzat in charge of climate change negotiations, was in Dhaka to work on the Franco-Bangladeshi Adaptation Pact. During the French President's visit to Bangladesh in September 2023, both countries agreed to work on a bilateral pact to strengthen cooperation on Bangladesh's adaptation to climate change. Within this framework, France would commit 1 billion euros to support adaptation projects in Bangladesh and mobilize additional public and private funding.

In order to finalize the discussions on the Pact, the delegation, that also included representatives of the AFD, met different stakeholders from the government, academia, development partners, civil society and private sector.

[Courtesy call of French Ambassador to Honorable State Minister for Posts, Telecommunications and ICT](#)

On 5th February, HE Marie Masdupuy, met with Honorable State Minister for Posts, Telecommunications and ICT in his office.



The Ambassador highlighted the multi-faceted ongoing cooperation initiatives and the French contribution to build a Smart Bangladesh by 2041. It has been agreed to strengthen activities in cybersecurity, artificial intelligence and skill development among others.

Meeting with BEZA and NSDA

In January, the Economic Department held a meeting with Honorable Executive Chairman of National Skills Development Authority (NSDA) and with Hon'ble Executive Chairman of Bangladesh Economic Zones Authority (BEZA). The Embassy took this occasion to share with NSDA the interest of France to collaborate more on skills enhancement, in particular in aerospace, hospitality and IT sectors, as Bangladesh will have to diversify its economy and tackle future challenges like adaptation to climate change. The Economic Counsellor also appreciated the

efforts of BEZA in order to bring new foreign investments through the implementation of 100 economic zones all over the country.

30th anniversary of Servier in Bangladesh

On 23rd January, the pharmaceutical company Servier, represented by Mr. Bradley Lloyd, its Managing Director for Greater Chinese Area, South Asia and Australia, celebrated the 30th anniversary of its presence in Bangladesh, through a solid distribution partnership with Transcom Group led by Group CEO Ms. Simeen Rahman.

The economic counsellor of the French Embassy lauded the excellence of Servier, that also manufactures medicines locally with ACI Limited and Eskayef. France is strengthening the cooperation in the health sector, tackling both non-communicable diseases as well as climate-related diseases.

B. FRESH NEWS FROM BANGLADESH

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

----- ELECTIONS -----

Prime Minister Sheikh Hasina reappointed for fourth term after general election

Following the victory of Awami League in the January general elections, who secured 75% of the seats, the outgoing Prime Minister Sheikh Hasina has been reappointed Prime Minister. During the election campaign, the Awami League's program set a number of objectives for the next term, including: 1) simplification of

foreign investment regulations; 2) an increase in public revenue from 10% of GDP to 11.5% of GDP through an increase in income tax and VAT revenues, in line with the IMF program; 3) a reduction in the unemployment rate to 3% by 2028; 4) an acceleration of initiatives to reach 20% renewable energy in its energy mix by 2041; and 5) the creation of 12 new highways by 2041 to improve communication routes within the country.

Cabinet reshuffle includes new ministers in key positions

On January 11, the composition of Sheikh Hasina's new government was announced. On the economic front, the Ministry of Finance has been entrusted to Abul Hassan Mahmood Ali,



previously Minister of Foreign Affairs (2013-2018). The former Chairman of the Dhaka Stock Exchange, Ahasanul Islam Titu, becomes State Minister for Commerce. The Ministry of Industries remains under Nurul Majid Mahmud Humayun and Nasrul Hamid is reappointed as State Minister for Power, Energy and Mineral Resources. A new State Minister for Finance has also been nominated recently in the person of Waseqa Ayesha Khan, previously chairman of the Standing Committee on the Ministry of Power, Energy and Mineral Resources. Similarly, Salman F. Rahman is once again appointed Sheikh Hasina's advisor for private sector and investments, while the Prime Minister retains the portfolios of Defense, Energy, Employment, Culture, and Information.

ENERGY

Tender for oil and gas exploration in the Bay of Bengal

On March 10, Bangladesh will launch an international tender for oil and gas exploration in the Bay of Bengal. Bidders will have until September 2024 to submit their bids for the allocation of 24 offshore areas. The government hopes to finalize agreements with the companies concerned before the end of this year. ExxonMobil and Chevron have already expressed an interest.

The government's objective is to offset recent supply shortages and rising fossil fuel prices since the start of the Ukraine war.

Natural gas production at its lowest in 10 years

In 2023, onshore natural gas production in Bangladesh continued to fall, averaging 2090 million cubic feet per day, down around 22% compared to 2015 data. As a result, domestic production now represents only half of the country's needs.

Production seems to have reached its peak, reducing proven reserves which represent only a few years of production. The Ministry of Energy however announced the discovery of two new wells in May and again in November, although these remain limited in relation to the country's needs.

Under these conditions, and to meet growing demand, the government has given priority to imports of liquefied natural gas (LNG) in recent years. In particular, it plans to triple its LNG imports to 9 million tonnes per year by 2026.

At the same time, the government wants to launch the auction for the allocation of offshore plots, probably in the first half of 2024. ExxonMobil and Chevron have expressed interest.


Bangladesh reduces its dependence on oil for power generation, preferring gas - and above all coal

In 2023, the Bangladesh Power Development Board (BPDB) closed 6 private oil-fired power plants with a total capacity of 1,000 MW. As a result, oil has accounted for 20% of electricity production in 2023, compared with 30% in 2022. The government plans to reduce refined oil imports by 15% by 2024, to 6.5 million tonnes.

To meet the country's growing energy needs, the authorities have encouraged the development of coal-fired power plants. 4 new power plants were connected to the grid in 2023 for a total capacity of 3365 MW.

As a result, coal-fired power generation will reach 21 billion kWh in 2023, compared to less than 8 billion kWh in 2022. At the same time, the share of gas has risen from 51% to 55%.

Still, the country is unable to meet all demand, with a production deficit of 2.7 billion kWh, up 40%, leading to numerous power cuts and load shedding during the summer of 2023.



Authorities fear that a similar situation could occur during the summer of 2024.

----- AGRO-FOOD -----

Bangladesh compelled to import potatoes during harvest season

According to the FAO, Bangladesh is the world's 8th largest potato producer, with nearly 10 million tonnes produced each year. Production is on the increase, with slight gains in productivity, but above all with larger areas under cultivation. Because of post-harvest losses, production clearly exceeds consumption (around 7 Mt), while exports and processing remain anecdotal.

Against this backdrop, and with February being the peak of the harvest, Bangladesh was forced to authorize imports, due to higher prices (around 60 BDT/kg versus 30 BDT/kg normally) in the pre-Ramadan context generally conducive to higher consumption. The authorities have authorized the import of 34,000 tonnes of potatoes from India.

----- EXPORTS -----

Red Sea crisis could have major impact on Bangladeshi exports

Freight costs for the transport of goods from Bangladesh to Europe and the USA have reportedly risen by at least 40% due to surcharges imposed by shipping lines following the Houthi attacks in the Red Sea. The reorientation of ships towards the Cape of Good Hope extends journey times by around ten days, resulting in longer delivery times and the risk of container shortages.

For these reasons, several Bangladeshi exporters have already reported losing orders from customers who prefer to redirect their requests to producers less affected by the crisis. Bangladesh relies heavily on the Suez

Canal to ship nearly 70% of its RMG products to Europe and the United States.

----- BANKING -----

The Central bank steps up restrictive monetary policy to combat inflation

Bangladesh Bank has just announced its monetary policy for the second half of the 2023-24 fiscal year. In line with the decisions taken since May 2022, it aims to maintain the value of the taka and make access to credit more expensive in order to limit inflation, which has reached almost 10% (9.4% in December) against a target of 7.5%, even if this means limiting economic growth. The Governor reaffirmed that this restrictive policy will be maintained until inflation falls back to around 6%.

The central bank has once again raised its key rates. The repo rate, the rate at which commercial banks borrow from Bangladesh Bank, has risen from 7.75% to 8.00%. This is the 4th increase since the beginning of the fiscal year, taking the rate from 6% to 8% in six months. As a reminder, the key rate had only risen from 5% to 6% between May 2022 and June 2023. As a result, the central bank further reduced its private sector credit growth target from 11% to 10% for the current fiscal year, compared with 14% in 2022-23. A number of independent economists, however, continued to call for a more substantial increase in the policy rate.

Following on from the introduction of a corridor for bank and non-bank financial institution interest rates last June, the Central Bank has announced the forthcoming introduction of a corridor for the BDT-USD exchange rate (the so-called "crawling peg"), within which the exchange rate will be allowed to move within a certain range against a basket

of currencies. This measure will serve as a transition before the implementation of a floating rate, as requested in the IMF program.

The Central bank considers consolidation of banking sector

During the presentation of the new monetary policy, the Governor of the Central Bank mentioned the possibility of merging several banks considered weak. Indeed, since the amendment of the Bank Company Act, 2023, the Central Bank is able to force a merger in the event that a bank's management goes against the interests of depositors.

In addition, a committee has been set up by Bangladesh Bank and the Financial Institutions Division of the Ministry of Finance to make progress on the creation of a private vehicle to take over some of the banking sector's non-performing loans.

The Central Bank unveils its roadmap for reducing non-performing loans

At a stable level of around 940 billion BDT between 2018 and 2020, non-performing loans have risen sharply, reaching almost 1,550 billion BDT (13 billion EUR) in September 2023. This represents 10% of outstanding loans, with a fairly restrictive definition of non-performing loans.

In line with the IMF program, the Central Bank has just published its roadmap for reducing this rate to 8% of outstanding loans, with a target of 10% for public banks (versus 22% today) and 5% for private banks (versus 7%).

The roadmap comprises 17 actions, including for instance: the creation of a new department at the Central Bank ("write-off loans recovery unit"), the inclusion of debt recovery in the KPIs of the bank CEOs, a regulatory adaptation vis-à-vis the new Bank Company (Amendment) Act 2023, etc.

MACRO

Bangladesh's economy grew by 6.1% in the first quarter of 2023-24

According to the Bangladesh Bureau of Statistics (BBS), Bangladesh's GDP growth stood at 6.07% for the period July-September 2023. This is the first time that the BBS has published quarterly GDP figures, in line with IMF's requirements. The contribution of the various sectors is highly heterogeneous, ranging from +0.84% for agriculture, to +9.67% for industry and +3.96% for the service sector.


Growth for the previous quarter was 6.24%, and growth for fiscal year 2022-23 finally reached 5.78%, slightly below government estimates.

Reserves reached USD 17.2 billion on December 31, slightly below IMF target

Net foreign exchange reserves reached USD 17.20 bn at the end of 2023, below the IMF program target of USD 17.78 bn. The second review of the IMF program will take place after May 1st 2024, based on the performance criteria achieved by the end of December 2023. As a reminder, the level of foreign exchange reserves is one of the program's quantitative achievement criteria. If this criterion is not met, the IMF Board may approve a waiver to allow further disbursements.

In the first review, which took into account the level of reserves at June 2023, Bangladesh missed the target by more than USD 4 billion. Taking this situation into account, the IMF modified the reserve replenishment trajectory, reducing the December 2023 target from USD 26.8 bn to USD 17.8 bn.

In December, Bangladesh benefited from several budget supports from multilateral donors. In addition, remittances from expatriates rose slightly to 2.0 billion in the last



month of 2023, a slight increase (+3% in one month) that the Central Bank associates with a change in expatriate behavior, which usually bets on the taka - dollar rising, whereas the exchange rate has recently seen three successive falls from 110.5 taka to 109.5 taka per dollar.

The trade deficit has been reduced in the first half of the fiscal year

Between July and December 2023, Bangladesh's trade balance improved significantly, from a year-on-year deficit of 12.3 billion to 4.6 billion USD. While exports were stable compared to last year, rising from 25.8 billion to 26 billion USD, measures taken by the government and

the central bank helped reduce imports by almost 15%, from 38 billion to 33 billion USD. As a result, the country's current account also improved with a surplus of 1.9 billion USD for the first half of the fiscal year, compared with a deficit of 4.9 billion USD for the same period last year.

However, the financial account deficit reached 5.3 billion USD between July and December 2023. In the same period last year, the financial account showed a surplus of 144 million USD. This was mainly due to a fall in direct investment abroad (18 billion USD, or -27% year-on-year). Total repayments of foreign loans also exceeded the inflow of new foreign currency loans.

C. THE ECONOMIC IMPACTS OF CLIMATE CHANGE

Bangladesh is considered one of the countries most affected by climate change. Economic losses due to extreme weather events are currently estimated at 2% of Bangladesh's GDP per year. This trend is set to accelerate as climate change leads to more and more natural disasters. The agricultural sector, which employs half of the Bangladeshi workforce, is likely to lose a third of its production by 2050, notably due to rising sea levels. Increasing salinity levels in rivers and groundwater lead to major water shortages, affecting around 25% of the population. In addition, climate change goes hand in hand with increased economic inequality, mainly affecting disadvantaged populations, while the poverty rate could rise by almost 15% by 2030. Overall, Bangladesh could lose between 2% and 9% of its annual GDP by 2050 as a result of climate change. A national adaptation plan (2023-2050) has recently been put in place to address these structural vulnerabilities, with a total investment of 250 billion USD between today and 2050.

1. Bangladesh is already one of the countries most affected by climate change

Bangladesh is one of the world's most vulnerable countries when it comes to climate change. Over the period 2000-2019, it ranks 7th among the countries most affected by climate change, according to the Global Climate Risk Index 2021 published by Germanwatch.

The country is particularly threatened by floods, cyclones and droughts, as well as by rising sea levels that submerge the Bangladeshi coastline and increase land salinity. All in all, economic losses due to extreme climatic events are currently estimated at 2% of GDP per year.

The economic consequences of natural disasters are indeed significant in Bangladesh, particularly as the majority of the population lives in areas exposed to natural hazards. Tropical cyclones alone cost Bangladesh an average of USD 1 billion a year (0.7% of GDP), and it is estimated that in the event of severe flooding, GDP could fall by as much as 9%. These natural disasters particularly affect agriculture, which employs half of Bangladesh's workforce and accounts for 17% of its GDP, as well as aquaculture, which is estimated to have suffered losses of up to 140 million USD due to climate change between 2011 and 2020.

Environmental degradation in the country is also contributing to the effects of climate change. The annual cost of air pollution is now estimated at around 10% of GDP, while a third of deaths in Bangladesh are thought to be linked to poor air and water quality. It is estimated that the direct effects of climate change have already resulted in economic losses of 3.7 billion USD over the last 20 years.



Flood risks. Source: ADB

2. By 2050, Bangladesh's GDP could fall by as much as 9% a year

The costs of environmental degradation and natural disasters mentioned above are set to rise progressively as a result of climate change.

2.1. The agricultural sector is likely to be particularly hard hit, accompanied by major water shortages

It is estimated that around a third of agricultural GDP could be lost by 2050 due to rising sea levels, more frequent droughts and an increase in the number of extreme weather events. Cultivated land could shrink by 18% in southern Bangladesh and by 6.5% nationally by 2040, considering the trajectory of current GHG emissions. This situation could make the country even more dependent on foreign food imports, even though it is already the world's third largest importer.

According to the IPCC, rising sea levels are expected to significantly increase the salinity of rivers and groundwater by 2050, exacerbating shortages of drinking water and irrigation in the coastal areas of south-west Bangladesh. Some 25% of the population could be affected by water shortages, compared with 10% today. By 2050, more than 10 million people could be forced to move inland due to the increasing deterioration of the situation along Bangladesh's coasts (this number is estimated to be 30 million according to the government).

2.2. Economic inequalities risk being reinforced by the multiplication of natural disasters

The economic effects of climate change are expected to hit hardest on Bangladesh's poor, who depend on agriculture as a source of food and income. According to the Bangladesh Bureau of Statistics, average annual economic losses per household due to natural disasters between 2009 and 2014 amounted to 16% of average annual income for the poorest households and 3% for the richest households. An increase in the number of natural disasters, coupled with higher prices for agricultural products, could therefore help fuel economic inequality in the country. In particular, the IPCC estimates that the poverty rate could increase by 15% by 2030.

Finally, according to IPCC forecasts for 2022, Bangladesh could lose between 2% and 9% of its annual GDP by 2050 as a result of climate change.

To accommodate the effects of climate change, Bangladesh recently adopted its national adaptation plan for the period 2023-2050, which focuses in particular on reducing the vulnerability of its agriculture and strengthening the protection of its population against the risks associated with natural disasters. The plan calls for a total investment of USD 230 billion up to 2050, but implementation has been slow due to a lack of well-identified projects and sufficient funds.

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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