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Annual Economic Report
Fiscal Year 2021 (July 2020 – June 2021)

Summary

In the reporting period, Bangladesh encountered two waves of the COVID-19 pandemic that brought along numerous socio-economic challenges. Thanks to stimulus support handed out to the industrial sector and several favourable internal and external factors, the country's fabled economic resilience endured. However, the recovery was rather muted on several fronts, including on foreign direct investment. Moreover, the impacts of the pandemic were more pronounced for the poor and the marginalized population. In the reporting period, Bangladesh was recommended to graduate from the LDC category in 2026. This achievement has generated a lot of jubilation in the government, coupled with apprehensions over the potential future loss of trade benefits. Bilateral trade registered a 3% growth last year and trade figures from 2021 are even more promising. Switzerland and Bangladesh discussed several key issues, including challenges for Swiss investors, during an interagency committee meeting hosted by the Ministry of Commerce in Dhaka in November last year.

Note:
- *The Bangladesh Financial Year is running from July to June (FY2021 = July 2020 – June 2021)*
- *Macroeconomic data on Bangladesh may contain significant error margins*

1. Economic issues

Context

2021 marked several milestones for Bangladesh, including the celebration of 50 years of independence and the recommendation for LDC graduation in 2026. However, the year has not been a swift sail the country. The COVID-19 pandemic and related restrictions kept threatening the economy as well as people's lives and livelihoods. The country's stellar 8%+ GDP growth projectile experienced in recent years took a nosedive to 3.5% in FY2020, the lowest performance since 1991. Many socio-economic trends and indicators showed signs of weakness and fragility. A slowdown in public expenditure, particularly in the health sector, amplified the negative impacts of the pandemic. Foreign direct investment remained subdued. Economic headwinds brought by the pandemic have disproportionately affected the poor, small businesses and the informal sector. A survey[1] conducted in Q3 of 2021 found that the number of new poor reached 32 million in the aftermath of the latest pandemic wave due to income and job loss, jeopardizing Bangladesh's decades of success in poverty alleviation.

On the bright side, several crucial macroeconomic sectors, including ready-made garment exports, remittance and revenue generation, showed strong signs of resilience and acted as a bulwark to cushion the economic hardship triggered by the pandemic. Economic activities are slowly but surely

[1] https://www.thedailystar.net/news/bangladesh/news/covid-19-creates-324cr-new-poor-2222316

regaining steam. For example, the GDP growth rate (provisional) for FY2021 has notched up to 5.5%. The World Bank and the ADB are optimistic about the country's continued recovery in the ongoing fiscal year. Nevertheless, as uncertainties over the pandemic persist and the global recovery stutters with rising energy costs and supply chain bottle necks, a shadow over this second largest South Asian economy (GDP $355 billion)[2] still looms large.

Key macroeconomic indicators

Overcoming the sloth experienced at the beginning of the pandemic, the export sector registered an impressive performance in FY2021. Backed by the recovery of the global clothing industry, the country's exports grew by 15% to $38.8 billion in the last fiscal year. The government now sets an ambitious goal to fetch $51 billion from exports in FY2022. Remittances by Bangladeshi wage earners living abroad, mainly in the Gulf countries, have hit a record high of $24.5 billion in FY2021, up from $18.2 billion in FY2020, as more and more expatriate Bangladeshis resorted to formal banking channels to send money home to support their families. These two sectors have not only contributed to the record swelling of the foreign currency reserve ($46 billion), they have also provided critical income to tens of millions of family members of the garment and migrant workers. Revenue generation is also salvaging its lost momentum, as the tax receipt increased by 19% to $30 billion in FY2021. During the reporting period, Bangladesh outpaced India in terms of both per capita income ($2'227) and per capita GDP (2'138). However, income inequality was exacerbated further by the onslaught of the pandemic. The inflation rate remained more or less stable at 5.6%, but higher food inflation disproportionally affected the low-income population. Recently, the government increased the diesel price by 23%, triggering protests and apprehensions of further price hike of essential goods and services. While there is no broad-based national survey conducted to assess the impact of the pandemic on the employment sector, an ILO assessment[3] indicates that the country's unemployment rate increased by 1.1% to 5.3% last year. The actual number is believed to be much higher, as the informal economy[4], which employs an overwhelming proportion of the labour force, was badly affected by the pandemic without adequate support measures.

COVID-19 response and recovery

During the reporting period, the government resumed a five-pronged strategy to respond to the economic challenges emanating from the pandemic:

- Expanding the C-19 vaccination campaign to curb the transmission of the virus.
- Increasing government spending to stimulate economic activities and create jobs.
- Rolling out and in some cases replenishing stimulus packages to support businesses.
- Expanding the social safety net schemes.
- Increasing liquidity supply to stimulate the economy.

Although the country started its vaccination campaign relatively early in February this year, the drive came to a grinding halt in Q2, when India stopped exporting AstraZeneca vaccines. The situation improved over the summer months with vaccines commercially sourced from China and donations received through the COVAX facility. So far, only about 28% of the population has been fully vaccinated. The government announced the (overly) ambitious plan to double this rate by the end of January 2022. As a continuation of the government's expansionary policy, the annual national budget for FY2022 accepted by the Parliament in June this year allocates over $71 billion for annual spending, corresponding to 18% of the country's GDP. To support the (formal) economy, the government rolled out numerous stimulus packages (<$15 billion, ~4% of the GDP)[5], mostly as "easy" bank loans with subsidized interest payments, but less in the form of fiscal stimuli. The loans' distribution was not evenly spread out across the sectors and small enterprises often ended up with the short end of the stick. The government also reinforced social safety net programs (e.g. food aid,

[2] The government is in the process of readjusting the base year for calculating the GDP. This will increase the GDP size to $409 billion.
3 World Employment and Social Outlook: Trends 2021 (WESO Trends)
[4] https://www.ilo.org/dhaka/Areasofwork/informal-economy/lang--en/index.htm
[5] CPD

cash handouts) to help the poor cushion the impacts of the crisis. Concerns remain over the coverage, targeting and accessibility of these economic recovery measures. To finance these interventions, the government has shored up borrowing from international financial institutions and various donors, receiving around $6.8 billion in external loans in FY2021.[6]

Policy priorities and framework conditions

In December last year, the government finalized the 8th five-year plan (8FYP, covering FY2021-2025), focusing on rapid recovery from the C-19 crisis, accelerating GDP growth, employment generation, poverty reduction, and improving social protection. While ambiguities persist over the implementation modalities, the plan gains additional importance. This is the first of four FYPs the government will implement in order to achieve its Perspective Plan with the objective of becoming a high-income country by 2041. As the country is preparing for LDC graduation in 2026, the public and private sectors are keen to retain unfettered market access to main export destinations (especially the EU) after graduation. Discussions over market access and penetration therefore dominate policy considerations (see also chapter 2). Encouraged by its success in achieving most MDGs, Bangladesh remains politically committed to the Agenda 2030. The SDG goals are integrated into the 8FYP, but SDG implementation remains a complex, state-driven, top-down exercise.

Ease of doing business remains a chronic problem and the country slipped two notches to the 105th position in the global competitiveness ranking due to a weaker performance in most of the indicators of the Global Competitiveness Report 2019. In the 2020 Corruption Perception Index, Bangladesh's rank remains unchanged at the 146th spot (out of 180 countries). In the now discontinued Ease of Doing Business Index of the World Bank, the country ranked 168th (out of 190 countries) in 2020.

2. International and regional economic agreements

2.1 Bangladesh's policy and priorities

In February 2021, Bangladesh met the eligibility criteria and received the UN Committee for Development Policy CDP's recommendation to graduate from the Least Developed Country (LDC) status in 2026[7]. Bangladesh will still benefit from wide-ranging duty-free and quota-free (DF-QF) market access during this preparatory phase, particularly to the EU (under the Everything But Arms scheme) and also to Switzerland (GSP). One of the main policy considerations for Dhaka now is to secure post-graduation market access. To this end, Bangladesh currently pursues several strategies:

1) Dhaka is currently lobbying in the WTO for further extending the transition period for preferential market access for graduating countries. To protect its growing pharmaceutical industry, Dhaka is also advocating for an extension of the TRIPS waiver.
2) Following a successful graduation in 2026 and the completion of a three-year grace period until 2029, the country risks losing DF-QF market access to the EU, potentially resulting in annual export losses worth over USD 5 billion.[8] Dhaka and Brussels explore options for including Bangladesh in the EU's GSP+ scheme – a prospect that became much more likely after the European Commission issued in September its legislative proposal for its post-2023 GSP, which eliminated thresholds that would previously have prevented Bangladesh from acceding this scheme. But GSP+ also requires addressing issues related to sustainable development, including human rights, governance and environmental protection. According to the EU Delegation, Dhaka has finalized an action plan to address these issues.
3) Bangladesh is exploring new markets and alternative trade arrangements, such as preferential or free trade agreements with countries in the region. Dhaka signed its maiden PTA with Bhutan in December last year. Talks are ongoing with Nepal. However, the PTA/ FTA discussions are likely to take time (e.g. signature of the FTA with Sri Lanka has been pending since 2017).

[6] https://www.tbsnews.net/economy/capita-external-debt-stands-292-302737
[7] https://www.un.org/development/desa/dpad/2021/graduation-of-bangladesh-lao-peoples-democratic-republic-and-nepal-from-the-ldc-category/
[8] https://www.wto.org/english/res_e/booksp_e/trade_impacts_of_ldc_graduation_insights.pdf

4) To reinforce economic momentum, the authorities are increasingly attempting to a) draw foreign investments into the country and b) promote different export sectors. Investment promotion agencies held in galore trade and investment roadshows in recent months in global financial centres, including Zurich and Geneva, to lure in foreign investments to its capital market and special economic zones. The government is also promoting selected export sectors, such as leather, ICT, pharmaceutical, engineering, etc., with different incentives to promote 'Made in Bangladesh'.

While Europe and North America remain the leading markets for Bangladesh's exports, the country is increasingly engaging with the regional economic powerhouses, mainly with China, India and Japan. In the regional context, Bangladesh remains a party to many economic agreements[9] and plays a comparatively active role in various regional and sub-regional initiatives such as BIMSTEC. However, these regional bodies are yet to deliver significant outcomes partly due to divergent interests and not so conducive economic structures of the member states[10]. In September this year, Bangladesh reportedly showed interest in joining the Regional Comprehensive Economic Partnership.

Last year, Bangladesh and India agreed on the modus operandi for the transshipment of goods. Once fully implemented, the transit arrangement will allow India to transport goods to and from its north-eastern states to the mainland through Bangladesh. In terms of sub-regional connectivity, involving India, Nepal and Bhutan, no major development was observed in the reporting period. The implementation of the Motor Vehicle Agreement between Bangladesh, India and Nepal remains pending. Bangladesh also continues to deepen political and economic ties with China, which is funding several critical infrastructure projects in the country. China has also emerged as the largest source for commercially purchased COVID-19 vaccines for Bangladesh, giving the former increased political latitude. Japan is also funding physical infrastructure projects, including the country's first metro-line in Dhaka.

2.2 Outlook for Switzerland (potential for discrimination)

Switzerland and Swiss companies in general enjoy a strong brand image in Bangladesh. The government welcomes and promotes foreign trade (mainly exports) and investments (mainly inward). Nevertheless, in practice, foreign companies often face challenges and discrimination.

3. Foreign trade

3.1 Development and general outlook

Bangladesh's export growth plunged in FY2020. But export sectors strongly rebound in FY2021, growing by 15% to $38.8 billion. However, the total receipt was still lower than the pre-pandemic level ($40.5 billion) and missed the target set by the government at $50 billion. On the bright side, the performance of Q1 FY2022 keeps the exporters upbeat, despite the C-19 situation remaining unpredictable. Bangladesh's exports are still heavily reliant on the ready-made garments industry, which accounts for 81% of the country's total exports. Import payments stood at $54.4 billion in FY2020[11] (up from $48.7 billion in FY2020)

Around 40% of Bangladesh's exports (i.e. $15.5 billion in 2020) go to the EU single market. The total trade volume between the EU and Bangladesh in 2020 stood at $17.7 billion[12]. Total trade between Bangladesh and the US stood at $7.8 billion last year, with exports accounting for about 75% of that amount.[13] China and India have remained the country's largest import partners, with the trade balance heavily tilted in favour of Beijing and New Delhi (see also annex 3).

[9] Namely the South Asian Free Trade Area (SAFTA), Asia Pacific Trade Agreement (APTA), Framework Agreement on Bay of Bengal Initiatives for Multi-Sectoral Technical and Economic Cooperation- BIMSTEC FTA, Trade Preferential System among the OIC countries (TPS-OIC) and Developing-8 (D-8) Preferential Trading Arrangement

[10] KARIM, M. (2014). South Asian Regional Integration – Challenges and Prospects. Japanese Journal of Political Science, 15(2), 299-316.

[11] Bangladesh Bank statistics

[12] https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_bangladesh_en.pdf

[13] https://www.census.gov/foreign-trade/balance/c5380.html

3.2 Bilateral trade

Trade between Switzerland and Bangladesh has been increasing rapidly and has almost quadrupled since 2010. According to the Swiss customs authority, the bilateral trade volume stood at CHF 811 million last year, marking a 3% year-on-year growth. The trade balance is heavily tilted in Bangladesh's favour. Swiss exports (CHF 132 million; -17%) comprise mainly of textile machinery, chemical and pharmaceutical products. Bangladesh primarily (94%) exported apparel products. According to trade statistics available between January and October 2021, Swiss exports show signs of recovery, while Bangladeshi exports already surpass the pre-pandemic level.

4. Direct investments

4.1 Development and general outlook

The government in Dhaka is keen to attract foreign direct investment and while it keeps taking a flurry of initiatives to lure in foreign investors, it still shies away from relevant structural reforms. According to official data released by UNCTAD in July this year, foreign direct investment (FDI) into Bangladesh dropped by 11% to $2.56 billion in 2020.[14] The World Investment Report 2021 highlights that Bangladesh's FDI will take longer to recover due to weak existing investment commitments. It further mentions that foreign investment inflows are shifting away from large non-renewable energy and finance projects towards fintech, the pharmaceutical industry, liquefied natural gas plants and agribusiness, which the government is actively promoting.

The government in 2015 decided to set up 100 economic zones across the country by 2030 to attract local and foreign investments. As of today, 17 economic zones are partially operating. However, further improved business conditions, physical infrastructure, legal and regulatory certainty are required to draw more FDI.

4.2 Bilateral investments

Numerous Swiss companies are operating in Bangladesh, some with their own production facilities. Major Swiss investments are present in the construction, agro-food, pharmaceuticals, chemicals and services industries. According to information provided by the Bangladesh Bank to the Embassy of Switzerland, net Swiss FDI inflow to Bangladesh in FY2021 amounted to $46 million compared to $44.61 million a year ago. According to some Bangladeshi statistics, the Swiss FDI stock in Bangladesh since 2010 stands at $314 million. However, local data significantly differs from that of the Swiss National Bank, which provides a much lower figure. Neither of the figures matches with the information provided by Swiss companies (e.g. LafargeHolcim Bangladesh alone claims to have invested ~$500 million in the country).

5. Trade, economic and tourism promotion

5.1 Foreign economic promotion instruments

The Embassy maintains regular contact with Swiss investors in Bangladesh (e.g. through business roundtables and bilateral meetings) and promotes Swiss economic interests in the country. The Embassy also supported Swiss SMEs showing interest in the Bangladeshi market, often in collaboration with Switzerland Global Enterprise (S-GE). However, the number of such inquiries decreased in 2020-2021. With the Embassy's support, S-GE conducted a brand-recognition market study for a Swiss SME during the reporting period. The Switzerland-Bangladesh Chamber of Commerce and Industry (SBCCI) also undertook some trade and investment promotion initiatives and joined the Bangladesh Securities Exchange Commission in organizing two trade and investment promotion roadshows in Zurich and Geneva in September this year. Finally, the Swiss-Asian Chamber of Commerce opened a chapter for Bangladesh in 2021.

[14] https://unctad.org/press-material/investment-flows-structurally-weak-economies-remain-fragile-says-un-report-0

5.2 Bangladesh's interest in Switzerland

Switzerland, in general, enjoys an excellent image and a lot of goodwill in Bangladesh. Sheikh Mujibur Rahman (the independence leader and first PM of Bangladesh) expressed his vision to transform his country into "the Switzerland of the East" – a vision that is well known and keeps being repeated, also by senior government officials. This good reputational capital is an important asset for Swiss companies, as Bangladesh has a large middle class (approximately 30 million[15]) who are increasingly willing and able to spend more for better and quality products and known brands.

Almost all media outlets in Bangladesh reported widely, but compared to previous years somewhat more nuanced, on the "Annual banking statistics for 2020" published by the Swiss National Bank (SNB) on 17 June 2021. According to the latest statistics, the total liability of the Swiss banks to Bangladeshi customers (both institutional and private clients) decreased by 6.65% to CHF 562.9 million last year. However, deposits by individuals went up to CHF 32 million in 2020 from CHF 19.8 million a year ago, an increase of 62%, which made headlines across the country. This annual report traditionally generates controversial discussions in Bangladesh, where many suspect that the deposits originate from ill-gotten money siphoned off to evade taxes.

While the number of Bangladeshi tourists going abroad (primarily to the South and East Asian countries) grew rapidly in the years before the pandemic, interest in Switzerland is still modest (but growing among the middle and upper-middle-class strata).

[15] https://www.weforum.org/agenda/2019/10/bangladesh-is-booming/

Economic structure

	2012-2013	2020-2021*
Distribution of GDP		
Agriculture sector	18.7%	13.5%
Manufacturing sector	32%	35%
Services	49.3%	51.5%

Distribution of employment	n/a	2018**
Agriculture		40.6 %
Manufacturing sector		20.4 %
Services		39 %

Sources:

*Ministry of Finance (provisional data)
**Labour Force Survey conducted by Bangladesh Bureau of Statistics/ latest available data

Main economic data

	2019	2020	2021*
GDP (USDbn)	302.5	324	355
GDP per capita (USD)	1'855	1'969	2'138
Growth rate (% of GDP)	8.13%	3.51	5.47
Inflation rate (%)	5.59	5.65	5.56
Unemployment rate (%)	4.2	4.2	5.3
Fiscal deficit (% of GDP)	5	6	6.1
Current account balance (% of GDP)	-0.97	.3	-0.9
Total external debt (% of GDP)	14.5	14.7	22%
Debt-service ratio (% of exports)	12.8	Not available	Not available
Reserves (months of imports)	6.8	10	10

Sources:

- World Bank (https://data.worldbank.org/country/bangladesh)
- Bangladesh Bank (https://www.bb.org.bd/econdata/index.php)
- Economic Intelligence Unit Country Report
- IMF World Economic Outlook report

*Projected/ provisional data

Trade partners: 2020

Rank	Country	***Exports*** *from the host country (USD million)*	Share %	Rank	Country	***Imports*** *to the host country (USD million)*	Share %
1	USA	6974	18	1	China	12925	24
2	Germany	5953	12	2	India	8593	16
4	UK	3751	8	4	Singapore	2468	4.5
4	Spain	2343	5	4	USA	2268	4
5	France	1962	4	5	*Japan*	2001	3.6
6	Poland	1503	3	6	Indonesia	1845	3.3
7	Italy	1308	2.6	7	Brazil	1738	3
19	***Switzerland****	**(CHF) 679.7**	***1.5***	**…**	**Switzerland**	**(CHF) 131.9**	**...**
	Total	**38758**			**Total**	**54402**	

Source: Bangladesh Bank, Export Promotion Bureau of Bangladesh, Swiss Customs* (trade figures of Switzerland)

Bilateral trade 2020

PROVISORISCHE ERGEBNISSE

Eidgenössische Zollverwaltung EZV, Aussenhandelstatistik, 3003 Bern
TN103: Schweizerischer Aussenhandel nach Ländern und Kapiteln 19.01.2021
Periode: Januar bis Dezember 2020
Land: 337 Bangladesch

* = Veraenderungsrate / Anteile nicht berechenbar
** = Veraenderungsrate > 999,9 %
Total 2: Ergebnisse inklusive Gold in Barren und anderen Edelmetallen, Münzen, Edel- und Schmucksteinen sowie Kunstgegenständen und Antiquitäten.

Total 2		Import in Mio. CHF				Export in Mio. CHF				Saldo in Mio. CHF	
		2019	2020	+/- %	Anteil	2019	2020	+/- %	Anteil	2019	2020
Total		612.13	679.50	11.0	100.0	174.33	131.90	-24.3	100.0	-437.80	-547.60
01 - 24	Landwirtschaftliche Produkte	2.74	2.56	-6.8	0.4	0.46	0.47	3.6	0.4	-2.28	-2.08
25 - 26	Mineralische Stoffe	0.00	0.00	-75.0	0.0	0.00	0.01	59.9	0.0	0.00	0.01
27	Energieträger	0.00	0.00	91.5	0.0	0.04	0.00	-95.3	0.0	0.04	0.00

For details: https://www.chatworld.eda.admin.ch/FTS/2020/tarifnummer/land_kapiteln/tn3bd.htm

Bilateral trade FY2021 (July 2020 – July 2021)

Source: EZV, accessed on 7.12.2021
Caption
* Percentage change/share/price not interpretable or not calculable
** Percentage change > 999.9 %
*** Provisional data
[1] Since 2002: including electricity, returned goods and goods for processing without change of ownership
[2] Since 2012 (imports): country of origin instead of country of production
[3] Since 2012: including gold and silver bullions as well as coins in the general total (total 2)
[4] Since 2013: electricity flows calculated according to a new method

Period [1,2,3,4]		**Import**			**Export**	
		Value (CHF)	**Value +/- %**		**Value (CHF)**	**Value +/- %**
July 2020		50'108'871	-0.8		16'449'514	-74.7
August 2020		54'367'098	13.9		7'948'422	21.3
September 2020		61'264'708	11.8		6'932'624	-13
October 2020		71'327'910	29		11'769'254	33.6
November 2020		62'161'065	15.5		7'954'663	11.7
December 2020		58'437'455	28.2		10'555'539	-36
January 2021* **		57'472'283	6.9		7'956'034	-21.5
February 2021* **		60'531'481	35.3		7'648'995	-12.7
March 2021* **		81'267'202	62.9		10'858'623	41.9
April 2021* **		83'411'414	76.6		12'770'617	159.4
May 2021* **		79'759'699	14		13'521'867	10.8
June 2021* **		88'018'877	55.8		10'836'146	-59.3
TOTAL July-June		**808'128'063**			**125'202'298**	

Main investing countries **Year: 2020-2021**

Rank	Country	Direct investments (USD, stock)	Share	Variation (stock)	Inflows over past year (USD)
1	The Netherlands	Not available	.. %	+/- ...%	358
2	UK	Not available	.. %	+/- ...%	344
4	USA	Not available	.. %	+/- ...%	240
4	Singapore	Not available	.. %	+/- ...%	240
5	Norway	Not available	.. %	+/- ...%	188
6	China	Not available	.. %	+/- ...%	155
7	Hong Kong	Not available	.. %	+/- ...%	151
8	India	Not available	.. %	+/- ...%	131
9	South Korea	Not available	.. %	+/- ...%	110
10	UAE	Not available	.. %	+/- ...%	60
…	EU	Not available	.. %	+/- ...%	636
16	*Switzerland*		.. %	+/- ...%	46.02
	Total		100 %	+/- ...%	

Source(s): Statistics provided by the Bangladesh Bank.