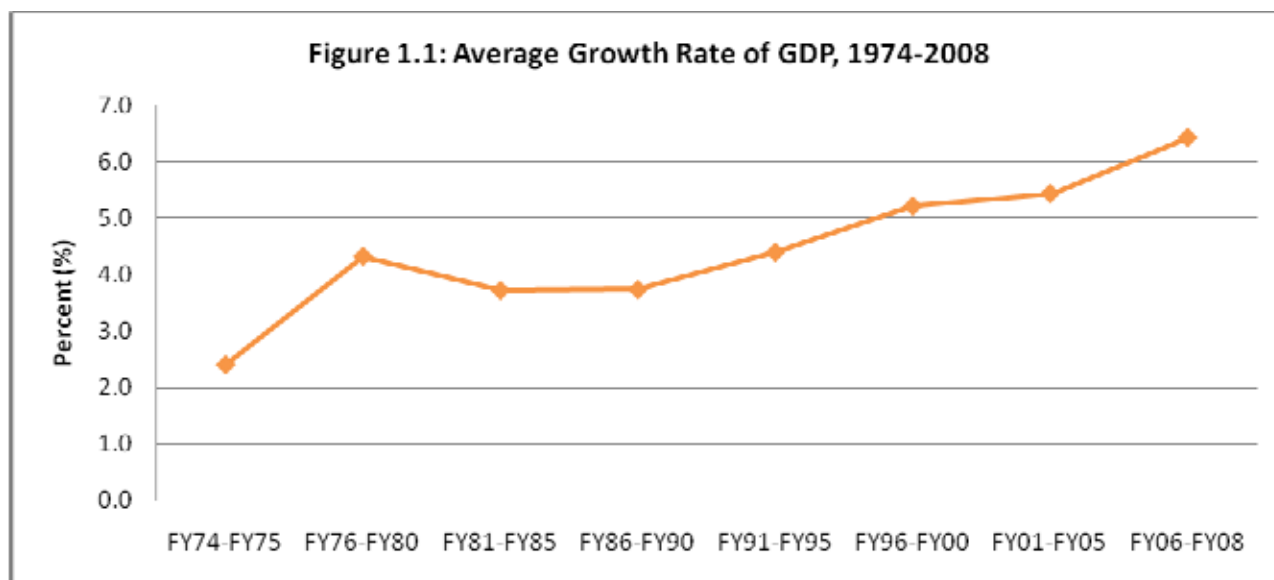


Bangladesh Economy: Recent Macroeconomic Trend

1.0 Real Sector

1.1 Average Growth Rate of GDP (Based on 5-Year Average)



Note: For FY74-FY75: 2-year average and for FY06-FY08: 3-year average growth

Figure 1.1 shows five-year intertemporal GDP growth path of Bangladesh. It is observed that:

- During the first decade after independence average GDP growth more or less remained below 4%. Since the late eighties it started moving upward.
- In the nineties it grew at an average rate of 5%; between fiscal year 2001-2005 the economy posted an average growth rate of 5.4%.
- During the period 2006-2008, it grew at an average rate of 6.4%.

For details please see Appendix 1.1 and Appendix 1.2

Commonly held belief is that Bangladesh could reach even a higher growth trajectory provided the growth constraints be kept to a minimum. The major constraints include:

- poor governance
- rampant corruption
- infrastructural bottlenecks (electricity, energy shortage, poor sea and airport management, crowded roads)
- underdeveloped financial markets,
- inefficient bureaucracy
- failure to attract FDI

1.2 Sectoral Contributions to GDP Growth (Based on 5-Year Average)

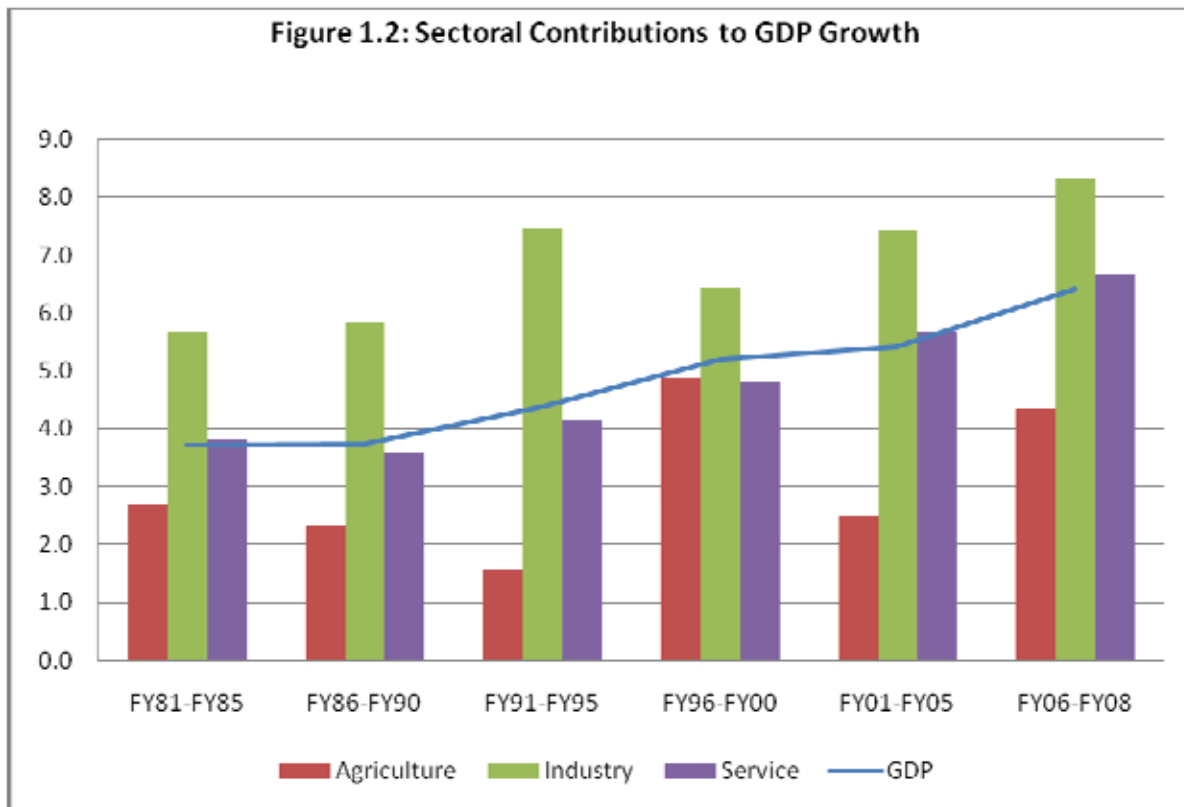


Figure 1.2 decomposes growth into sectoral growth. The key findings that emerge include:

- The growth in the agriculture sector showed decreasing trend during 1980-81 to 1994-95, but the sector grew almost at an average rate of 5% during 1995-96 to 1999-2000; fell to 2.5% average growth during 2000-01 to 2004-05 period but over the last three years it grew at average rate of 4.4%.
- The GDP growth was largely propelled by the industry sector which has exhibited average growth rates in excess of GDP growth over the entire period. Over the last three years, it grew at an average rate of 8.3%.
- Since the early nineties, growth in the service sector has been showing an increasing trend and over the last three years, it grew by 6.7% on average.
- The key to the growth of Bangladesh economy lies in more industrialisation with realising the fullest potentials of agricultural sector.

For details please see Appendix 1.3.

1.3 Trend of Structural Transformation of Broad Sectoral Shares in GDP (at Constant Prices)

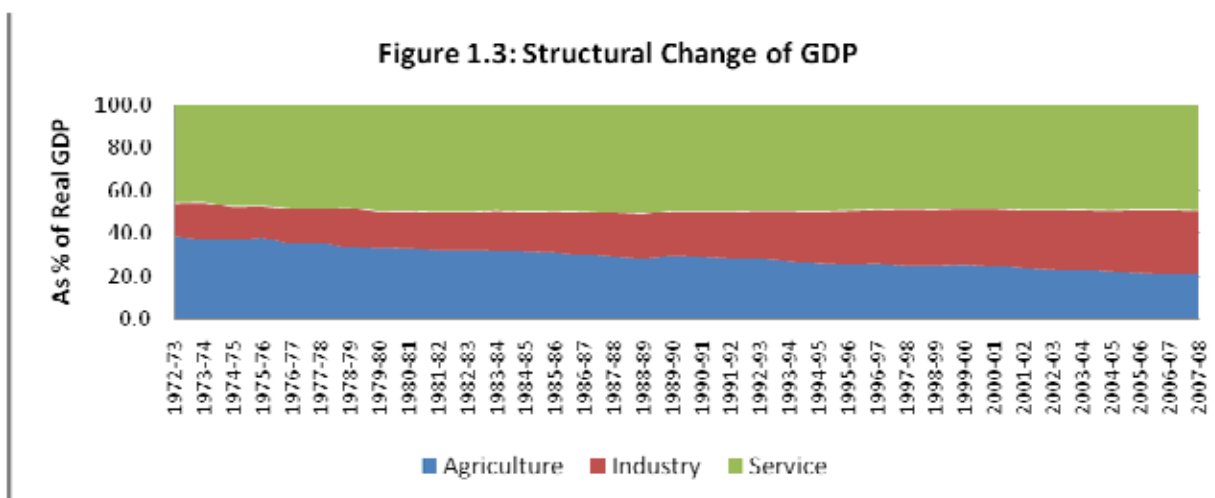


Figure 1.3 shows the structural transformation of Bangladesh economy. The key findings include:

- While in the early seventies, the share of the agriculture sector to GDP was more than 38%, it fell to 21% by 2007-08.
- In contrast, the share of the industry sector rose from only 15.5% in 1972-73 to around 30% in 2007-08.
- The largest sector of the economy is the service sector, representing about half of GDP. Its share has remained relatively stable over time, representing about 46% of GDP in the early seventies and has remained within the range of 48% to 50% since.
- There has been a considerable shift from agriculture sector to the industry sector.

Sectoral shares are based on the new GDP series. For details please see Appendix 1.4.

1.4 Consumption as Percent of GDP (Based on 5-Year Average)

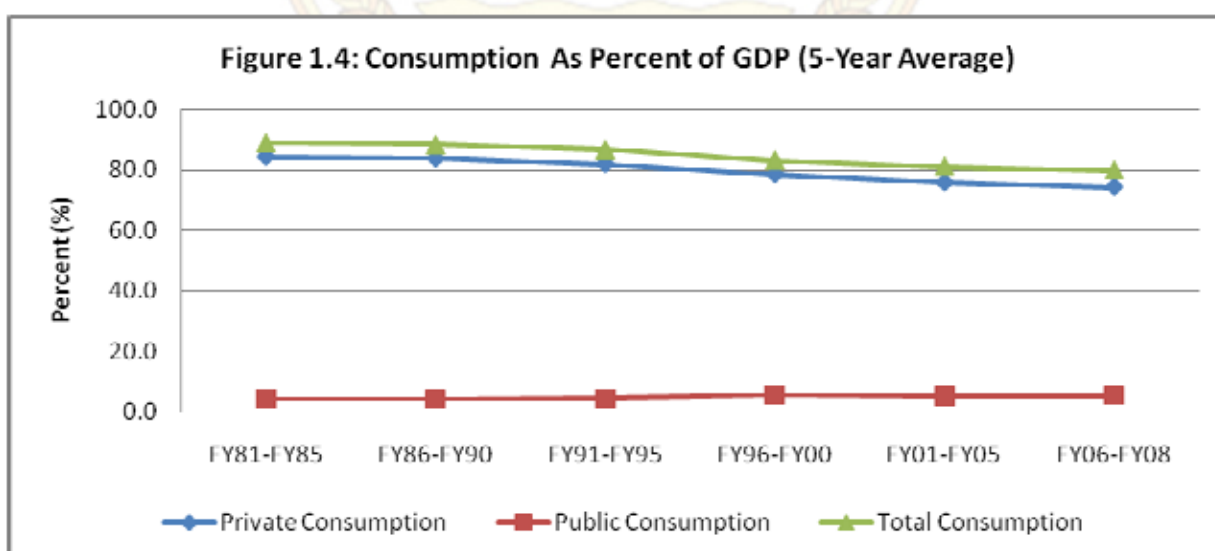


Figure 1.4 shows that:

- Total consumption as percent of GDP fell by 9 percentage points during 1980-81 to 2007-08.
- During this period, private consumption fell by 10 percentage points, while public consumption increased slightly above 1 percentage point (For details please see Appendix 1.5).

1.5 Investment as Percent of GDP (Based on 5-Year Average)

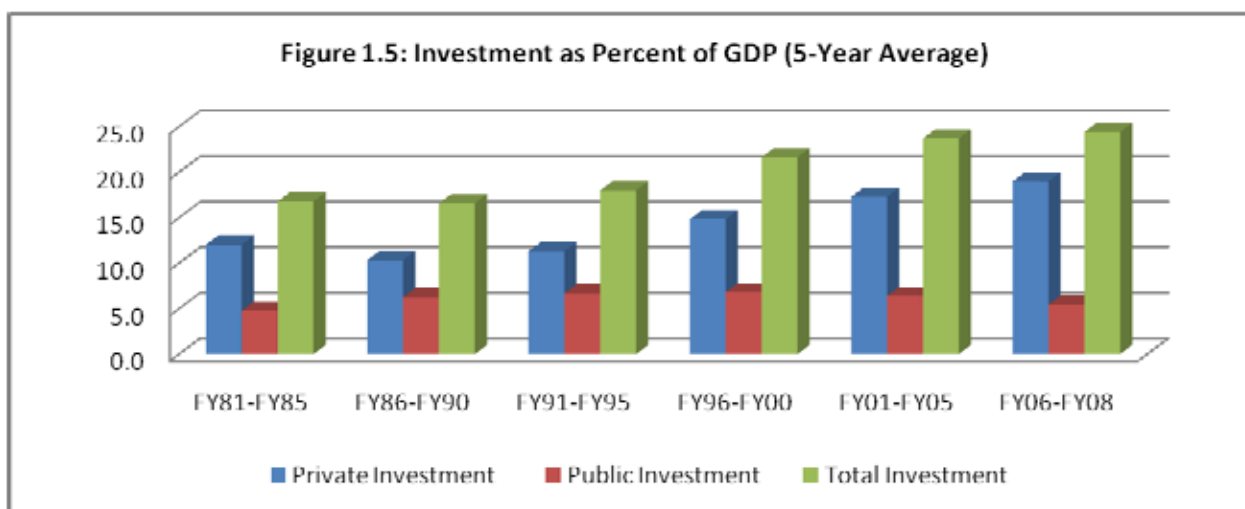


Figure 1.5 shows that:

- Investment remained stagnated during the eighties
- It started picking up from the early nineties backed by private investment while there was a declining trend in public investment.
- While the shift in investment is conducive for a private sector-led growth, public sector investment for infrastructure and human capital is critical for sustaining economic growth and putting Bangladesh economy on a higher growth path. To achieve double-digit growth, the investment-to-GDP ratio needs to be increased to about 30% of GDP.

For details please see Appendix 1.6.

1.6. Savings as Percent of GDP (Based on 5-Year Average)

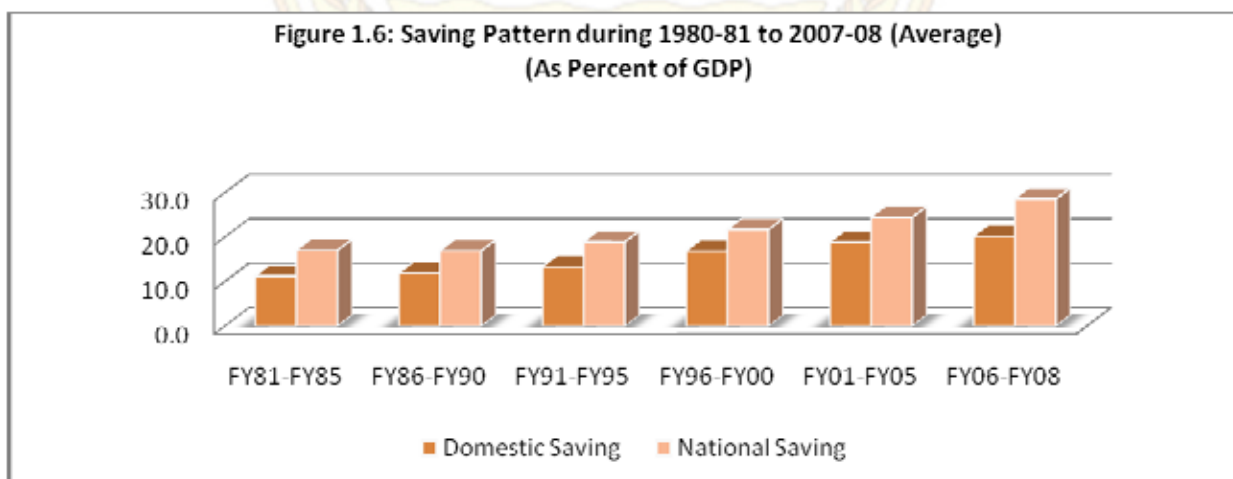


Figure 1.6 shows the savings patterns within the economy. The key findings include:

- From 1990 to 1995, the average domestic savings and national savings stood at 13.3% and 18.9% respectively; during the last three years the domestic savings grew to 20.2% and the national savings 28.6% on an average.
- The mobilisation of further domestic resources and transforming national savings into investible surpluses are critical for the growth of the economy.

(For details please see Appendix 1.7).

1.7 Contributions to GDP (As Percent of GDP)

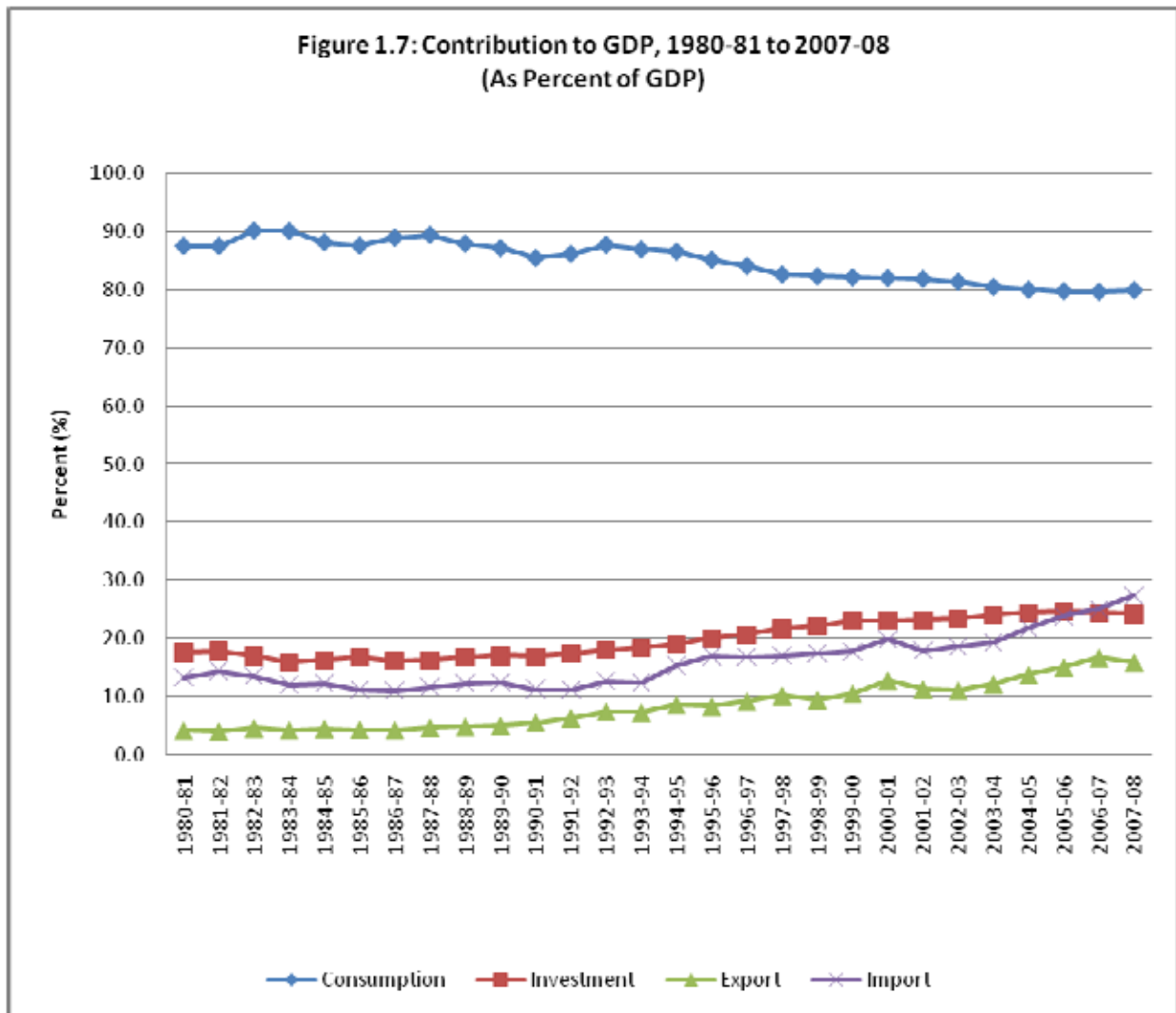


Figure 1.7 shows that:

- The largest component of GDP is consumption. Since 1980-81 there has been a secular decline of consumption as percent of GDP.
- In contrast, the share of investment went up from 17.6% in 1980-81 to 24.2% in 2007-08.
- Export as percent of GDP was 4.1% in 1980-19981 and it went up to 16.0 % in 2007-08.
- Likewise import as percent of GDP was 13.3% in 1980-81 and went up to 27.4% in 2007-08.

For details please see Appendix 1.8 and 1.9.

1.8 Inflation

1.8.1 Trend in Inflation (Annual Percent Change)

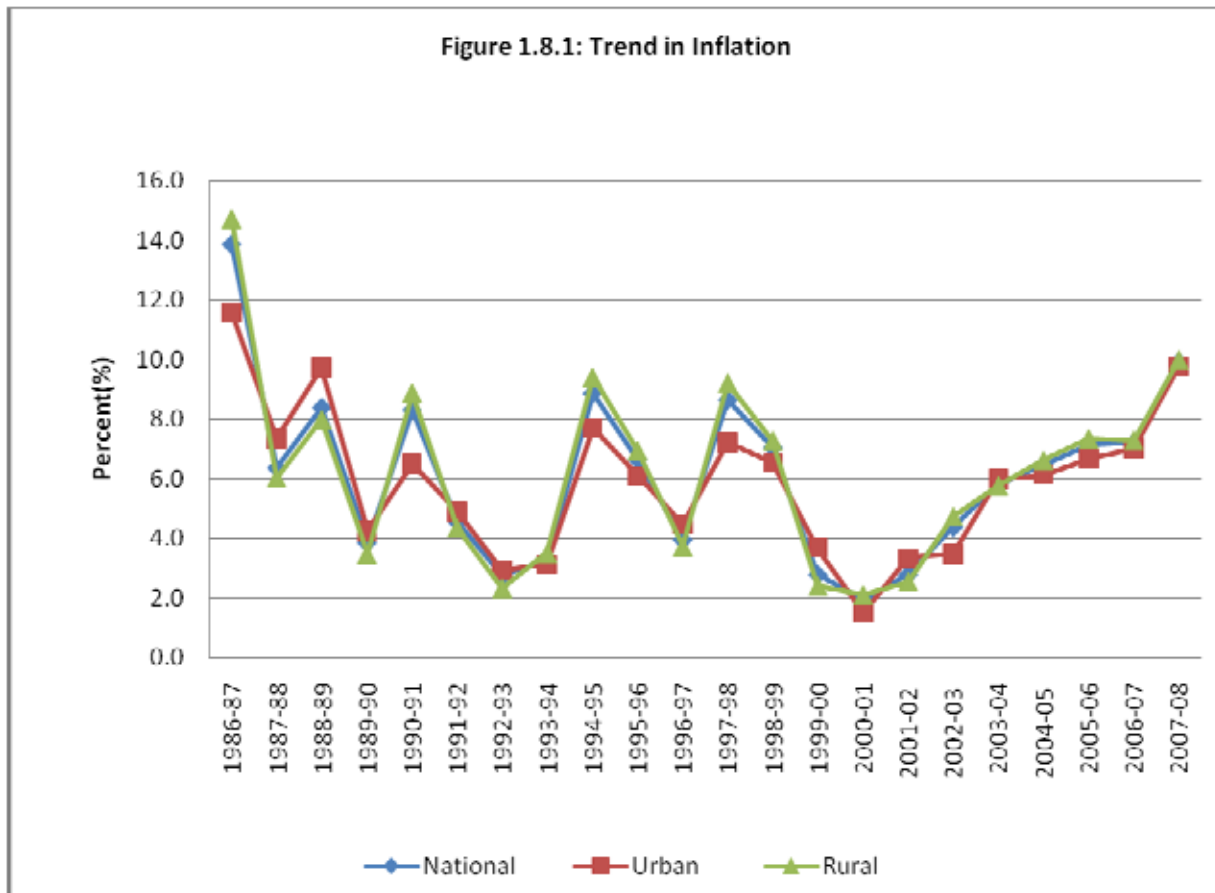


Figure 1.8.1 shows the historical trend of inflation in Bangladesh:

- Inflation fell dramatically in the late eighties inflation from the double-digit increases recorded in the mid 1980s. It dropped to single-digit year-over-year increases.
- In 1990-91, 1994-95, 1997-98 spikes in the trend line were above 8% which were driven by the natural calamities and supply shocks.
- In 2000-01, annual inflation rate came down to its lowest point of below 2%, mainly due to lower prices of food items, but has been on an upward path since then. In 2007-08, it again touched two-digit rate largely the result of rising international prices of fertilizers, fuel and foods, higher business cost due to corruption and malgovernance.

1.8.2 Trend in Food and Non-Food Inflation at National Level

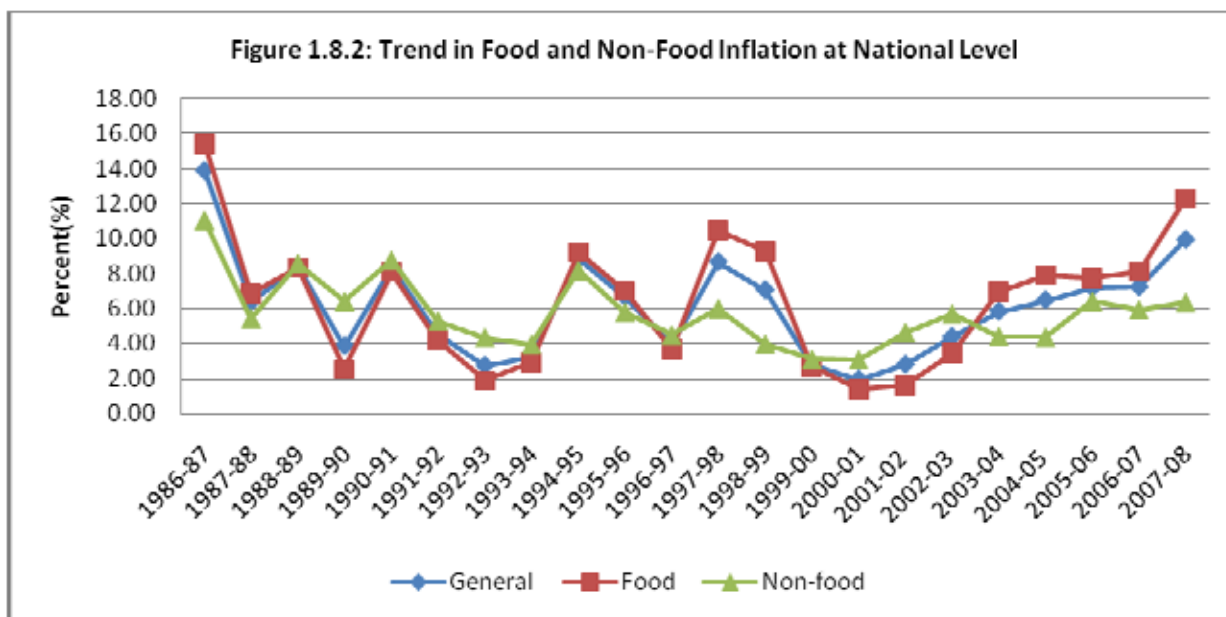


Figure 1.8.2 shows that:

- The inflation in Bangladesh is basically food price induced. The high rate of inflation is accompanied by higher food inflation than non-food inflation. The high inflation rate in 1997-98 is the result of the catastrophic country-wide flood which caused a heavy damage of agricultural production.

1.8.3 Monthly Rate of Inflation (Point-to-Point)

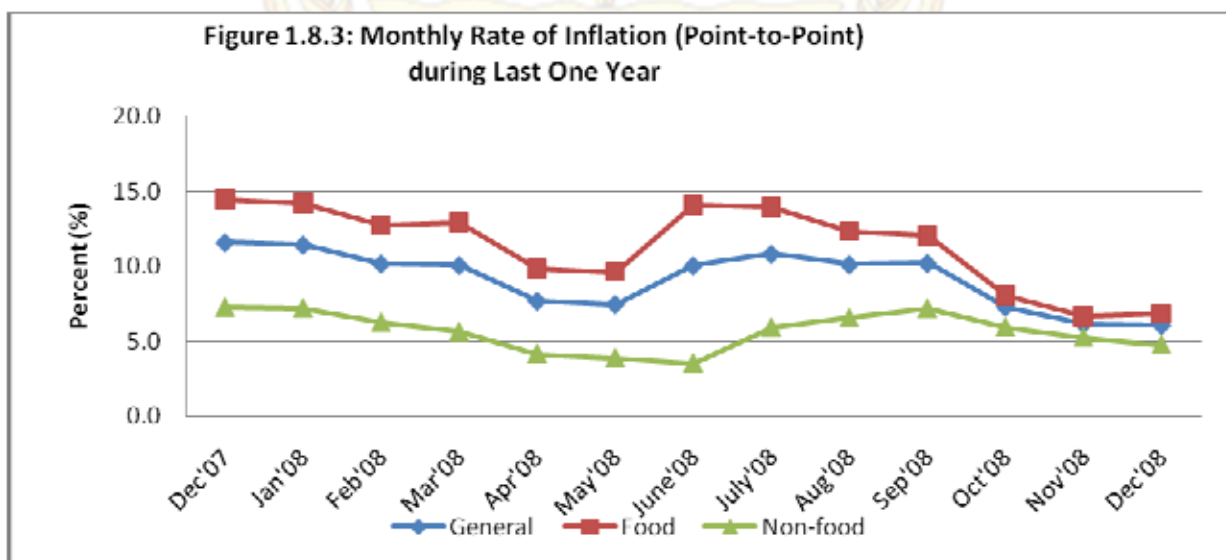


Figure 1.8.3 shows that:

- Although there was a spike in the inflation rate at the beginning of 2007-08, due to both food and non-food prices, it since fallen, primarily due to the fall in prices of food, fuel and fertilizers commodities in the international market.

For details please see Appendix 1.10 to 1.12.