



## Formulaire CH@WORLD: A754

Swiss Representation in: Dhaka	
Country: Bangladesh	Last updated: November 2017

512.0- FHC/COL

# Annual Economic Report Fiscal Year 2016-2017

## Executive Summary

*Despite various challenges the Bangladeshi economy fared relatively well during the reporting period, i.e. fiscal year July 2016-June 2017 (FY17). GDP posted an impressive 7%+ growth for two consecutive years. Despite some disquieting trends, a number of macroeconomic indicators such as the growth in revenue generation and the inflow of Foreign Direct Investment performed favourably. The economic priorities of the current government ahead of the upcoming national elections are primarily twofold: 1. Investment in physical infrastructure to attract foreign direct investment; 2. expansion of foreign trade (export volume). While the European Union and the USA remain major economic (export and investment) partners of Bangladesh, the Government of Bangladesh (GoB) is intensifying its economic relations with the Asian countries, including China, Japan and India. GoB welcomes and encourages Swiss investors to invest in the country. Nevertheless, Swiss companies operating in Bangladesh often face constraints. Despite the impediments, Swiss companies are continuing to expand their investment portfolio (over \$50 million Swiss FDI in BD in the last two fiscal years) and bilateral trade is increasing rapidly (more than doubled since 2010). That said, bilateral economic potentials are still largely untapped.*

## 1. Economic problems and issues

Despite some troubling economic trends, recurring flooding and concerns over the deteriorated security situation, the overall **economic performance** of the country in FY17 remained **largely favourable**. A number of macroeconomic indicators continued to show **positive signs** during this period on the back of prevailing macroeconomic stability and prudent fiscal policy. For example, revenue collection increased by 19%<sup>1</sup> in FY17 surpassing the target. **GDP** registered an all-time high growth at 7.24% (it was 7.1% in FY16). According to the UNCTAD report, the annual inflow of **Foreign Direct Investment** (FDI) increased by 4.40% in 2016 to a net amount of \$2.33 billion<sup>2</sup> (highest single year FDI inflow). However, a number of macroeconomic indicators showed signs of vulnerability. **Remittances inflow**, a major source of foreign exchange, had been the lowest in FY17 at \$12.77<sup>3</sup> billion compared to recent years (it was \$14.9 billion and \$15.3 billion respectively in FY16 and FY17). Export growth lost quite a bit of steam during FY17 due to weaker demand for apparel products in the global market raking in \$34.83 billion with only 1.69% year on year growth (as opposed to over 9% growth recorded in FY16). However, the industry insiders project that the export sector would pick up the pace again in FY18.

<sup>1</sup> <http://www.thedailystar.net/business/revenue-growth-hits-5-year-high-1439455>

<sup>2</sup> [http://unctad.org/sections/dite\\_dir/docs/wir2017/wir17\\_fs\\_bd\\_en.pdf](http://unctad.org/sections/dite_dir/docs/wir2017/wir17_fs_bd_en.pdf)

<sup>3</sup> <https://www.bb.org.bd/econdata/wageremittance.php#>

In general the **business and investment climate** in Bangladesh remains positive. The absence of street agitation and political unrest during the reporting period has contributed positively towards the growth in the manufacturing (10.22%) and services (6.69%) sectors. Agricultural growth slowed down a bit on the back of crop losses due to successive flooding in the last fiscal year. Against various odds, Bangladesh remained the second largest **apparel exporter** in the world, after China. The apparel sector contributes to over 80% of the total export earnings of the country and a total number of 4.4 million workers are employed in this sector. A number of major physical **infrastructure development projects** (e.g. road and bridges, power plants, economic zones) were being implemented encouraging potential investors. While the overall economic reform agenda lacked implementation due to weak political will and capacity, a number of punctual reform initiatives were taken up during the reporting period to attract investors (e.g. revamping the Bangladesh Investment Development Authority).

The **policy agenda** broadly focused on incentives to encourage investment and heightened security measures to maintain confidence of the investors and businesses. Energy crisis was identified as one of the main fundamental economic challenges by the policymakers. With regards to **fiscal policy**, the corporate tax threshold remained unchanged despite strong demands from the private sector for lowering taxes. The government postponed the implementation of the Value Added Tax and Supplementary Duty Act 2012 (introduction of a universal 15% VAT, instead of current multi-tiered VAT application) to July 2019 after huge pressure from the local private sector and its lobby. The postponement of the new VAT regime might put considerable and additional pressure on the pace of revenue generation. The **monetary policy** of the central bank focused on expanding private sector credit, in order to encourage domestic private investment which remained stagnant despite government efforts. Consequently, the monetary policy of Bangladesh remained broadly accommodative (e.g. cuts in bank interest rate).

Bangladesh witnessed a deadly resurgence of **violent extremism** in the country in FY17, which triggered a rigorous anti-militancy response by the state agencies. On the very first day of FY17 (01 July 2017), local militants loyal to ISIS stormed into an upscale restaurant in Dhaka's diplomatic zone killing 20 hostages, including 18 foreigners. Such unforeseen attack created considerable security concerns in the country. It promoted the government agencies to crackdown on the militant groups. Recent developments suggested that the security challenges did not have any immediate and major negative impacts on the country's business and investment prospects despite respective fears.

Business environment related **challenges** included corruption, bureaucratic hurdles, legal and policy related ambiguities and arbitrariness etc. Swiss companies, both SMEs and MNCs, were facing these challenges. Yet, Swiss and other business actors were also optimistic about the economic prospects. **New areas** of economic cooperation, such as energy and transportation, emerged where the Swiss companies were expanding collaboration with the government of Bangladesh.

## 2. International and regional economic agreements

### 2.1 Country's policy and priorities

Being a WTO member and an LDC, Bangladesh's priority was to continue receiving special and differential treatments, such as **Duty Free and Quota Free (DF-QF)** market access, as per the WTO Agreements. As of now, Bangladeshi products have been receiving DF-QF treatment in the European markets, including Switzerland. Under the auspices of the **EU-BD Business Climate Dialogue**, the two parties regularly had high level exchanges and policy discussions regarding improved business condition in Bangladesh for increased trade and investment. In this context, five important areas were being discussed, including import duties/custom/trade facilitation, licenses and investment in services sector, financial flows, tax regime and pharmaceuticals. Switzerland

shared the same objectives in its respective interaction with GoB. The EU also took a strong stance on the issue of **labour rights** in Bangladesh<sup>4</sup>. The EU strongly asked Bangladesh to amend the labour act in line with international standard. Currently, Bangladesh is engaged in dialogue with the US government, under the framework of a US-BD partnership dialogue, to win back the GSP privileges to the US market, which was suspended following the Rana Plaza tragedy in 2013. Citing security concerns, the UK, Australia and Germany suspended direct cargo flights from Dhaka in 2016. In a similar move, the EU also put Bangladesh on the list of high risk countries in June 2017 in terms of operating cargo services.

In the **regional** context, Bangladesh is party to a number of agreements<sup>5</sup>. Bangladesh was also an active player within a number of promising regional and sub-regional initiatives such as BIMSTEC and BCIM Economic Corridor. However, its exports to the regional countries remained low. In 2016, Bangladesh and India launched transshipment operations which allowed Indian consignments to be transported to the landlocked north-eastern Indian states through Bangladesh swiftly and economically.

Bangladesh has **bilateral** general trade agreements with around 45 countries. Bangladesh was also active in fostering economic relations with its Asian neighbours. During the reporting period, Bangladesh has intensified economic engagements with Japan, China and India. High Level visits took place vis-à-vis India and China in 2016-2017 which not only strengthened Bangladesh's bilateral, economic and strategic partnership with the two countries but also demonstrated the interest of the two regional powerhouses towards Bangladesh. Bangladesh has close energy cooperation with Japan, China and India. These three countries are increasingly becoming key investors in mega infrastructure projects in the country.

## 2.2 Outlook for Switzerland (potential for discrimination)

There was no direct discrimination against Swiss exporters and/or importers. However, **increasing pressure** from local businesses on politicians/ state agencies to exert pressure against multinational companies was observed. More information provided in chapter 6 and 7.

## 3. Foreign trade

### 3.1 Development and general outlook

The growth in **export** earnings plunged to a 15 year low in FY17. Exporters raked in \$34.83 billion<sup>6</sup> in 2016-17, with an increase of only 1.69% year-on-year, according to the Export Promotion Bureau (EPB) of Bangladesh. The earning was 5.85% less than the government's annual target of \$37 billion. Industry insiders blamed average price fall of products, ongoing structural reforms in the apparel industry, economic slowdown and sluggish demand in export destinations, devaluation of Euro and appreciation of BDT against US dollar, for the sluggish export growth. The statistics of the first months of current fiscal year (FY18) however suggested that export growth may bounce back if national and international conditions remain favourable.

Roughly half of Bangladesh's exports go to the **EU** market. The total trade volume between the EU and Bangladesh in 2016 stood at \$22.3 billion. Export to the EU suffered during FY17 when it grew only 3.49% percent year-on-year, while the growth was 11.66% percent in the year before. The **US** was also an important export destination for the Bangladeshi products. In 2016, trade between the two countries totalled at \$6.8 billion (\$100 million less than 2015). Apparel shipments to the US

<sup>4</sup> [https://eeas.europa.eu/headquarters/headquarters-homepage/28118/ilo-ilc-106-eu-statement-committee-application-standards-bangladesh-convention-n%C2%B0-87\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/28118/ilo-ilc-106-eu-statement-committee-application-standards-bangladesh-convention-n%C2%B0-87_en)

<sup>5</sup> 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

<sup>6</sup> <http://epb.portal.gov.bd/site/files/51916ae6-a9a3-462e-a6bd-9ef074d835af/Statistic-Data-2016-2017>

market declined by 7.47% in FY17. **China** and **India** were the largest import partners of Bangladesh. While exports to India did not pick up despite different initiatives taken by both the countries, Bangladesh's garment export to China increased in FY17 riding on duty-free trade privileges.

### 3.2 Bilateral trade

Bilateral trade between Switzerland and Bangladesh posted a **16% growth** in 2016 to \$597 million, compared to 2015. The trade balance is in Bangladesh's favour. Swiss imports from Bangladesh during this period stood at \$444 million registering an impressive 25% growth over 2015. Increased imports of apparel and leather products contributed to this growth. In 2016, the Swiss exports to Bangladesh stood at \$153 million sustaining a **negative growth** of 3.7%, mainly due to reduced and/or slow export of machinery and chemical products. The main Swiss export items were machinery, chemical and pharmaceutical products. The trade volume has more than doubled since 2010.

## 4. Direct investments

### 4.1 Development and general outlook

According to World Investment Report 2016 of the United Nations Conference on Trade and Development (UNCTAD), **FDI inflows** to Bangladesh rose by 4.38% to \$2.33 billion in 2016, which was \$2.23 billion in 2015. Top FDI receiving sectors were: telecommunication, Power, Gas and Textile. According to Bangladesh Bank, the central bank of the country, Bangladesh received \$2.45 billion<sup>7</sup> in FDI during FY17 (it was \$2 billion in FY16 and \$1.48 billion in FY14). Singapore (telecommunication and energy), UK (banking and food) and USA (power and energy) were the top investors in FY17. Economic observers attribute the FDI growth to the current **stable political situation**, sound macroeconomic management and increased investments made in infrastructure. While FDI receipt has slowly but steadily risen, potentials are still largely untapped.

What was promising in FY17 was that the share of equity investment as opposed to that of reinvestment has increased considerably compared to previous years. Still bureaucratic red tape and the absence of proper infrastructure (i.e. utility and energy supply, port facility etc.) are considered the **main impediments** for foreign investment. The government has taken up a number of **initiatives** such as the establishment of economic zones, reformation of investment authority, country promotion activities etc. to attract new investors.

### 4.2 Bilateral investment

**Swiss investments in Bangladesh** are mainly concentrated in the following sectors: chemicals, pharmaceuticals, construction, technical services and food sectors in Bangladesh. Major Swiss multinational companies have been present in Bangladesh for a long time and are expanding their portfolio. According to Bangladesh Bank<sup>8</sup>, net Swiss investments inflow to Bangladesh during FY17 stood at \$21.69 million, down from \$29.90 million a year ago. According to the Bangladeshi statistics, the Swiss FDI stock in Bangladesh for the period between 2010 and 2016/17 stands at **\$100 million**. However, local data significantly differ with that of the Swiss National Bank. Food (\$13.93 million), chemical and pharmaceutical (\$2 million) sectors were the top recipients of Swiss investments last year. Swiss SMEs are regularly enquiring about the Bangladeshi market and some are trying to set foot in Bangladesh for investment purpose.

<sup>7</sup> <https://www.bb.org.bd/openpdf.php>

<sup>8</sup> *Ibid*

## 5. Trade, economic and tourism promotion “Country advertising”

### 5.1 Foreign economic promotion instruments

The third edition of the **political consultation** between Switzerland and Bangladesh took place in May 2017, where trade promotion issues and challenges facing the Swiss companies were discussed adequately. The government of Bangladesh has recently taken up some measures to address some of the issues (e.g. Ministry of Commerce convened a meeting to discuss the request of a Swiss multinational company to purchase shares held by GoB).

In close collaboration with **Switzerland Global Enterprise** (S-GE), the Embassy regularly provided support to the Swiss SMEs who showed interest in the Bangladeshi market. The Swiss Asian Chamber of Commerce (SACC) does not have any Bangladesh chapter yet. The Embassy took up initiatives and coordinated with the Bangladeshi Embassy in Geneva for setting up a Bangladesh chapter of SACC. In addition to this the Embassy also approached Swissmem during the reporting period for its increased engagement in Bangladesh.

The activities of Switzerland Bangladesh Chamber of Commerce and Industry remained limited, despite efforts taken up to revamp it. SBCCI is currently planning to hold a **trade fair** in Basel, Switzerland in May 2018 to promote trade and investment relations between the two countries.

### 5.2 The host country’s interest in Switzerland

The Government of Bangladesh regularly calls upon Swiss companies to investment in Bangladesh. During the political consultation in May 2017, Bangladesh suggested that Swiss companies could explore possibilities in the following sectors in Bangladesh: renewable energy, financial sector, IT, energy, frozen food, leather industry and pharmaceutical.

According to the latest report published by the Swiss National Bank, **deposits from Bangladesh** in the Swiss banks rose by about 20% year-on-year in 2016 to \$675 million from \$561 million in the previous year. In terms of volume of deposits, Bangladesh was in the third position among the South Asian countries, trailing Pakistan and India. Whenever the SNB report is published (in June), it creates a lot of uproar in the media, who negatively conclude that the deposits were ill-gotten money siphoned off by Bangladeshis to evade taxes. At the same time, the Swiss banking system gets criticized often based on inaccurate information. The Embassy reacted to the latest media uproar in June 2017 in close collaboration with head office by presenting an accurate picture of the Swiss banking system in official meetings which were also picked up and reported by the local media. In Bangladesh, Switzerland in general has a **good image as a financial location**. However, other regional financial centres, such as Singapore, continue to receive priority.

Despite the fact that the number of Bangladeshi tourists going abroad is growing rapidly, the Bangladeshi tourism market is still not ready for Switzerland. As it was mentioned in the last report as well, Switzerland can potentially become a destination for the Bangladeshi tourists belonging to higher income strata.

**Economic structure**

	<b>2012-2013</b>	<b>2016-2017</b>
<b>Distribution of GDP</b>		
Agriculture sector	<b>18.7 %</b>	<b>14.79 %</b>
Manufacturing sector	<b>32 %</b>	<b>32.48 %</b>
Services	<b>49.3 %</b>	<b>52.73 %</b>

<b>Distribution of employment</b>		
Primary sector	<b>47.3 %</b>	<b>45 %</b>
Manufacturing sector	<b>12.3 %</b>	<b>16.8 %</b>
Services	<b>40.4 %</b>	<b>38.2 %</b>

Source:

- Bangladesh Economic Review Published by the Ministry of Finance of Bangladesh ([https://mof.gov.bd/en/index.php?option=com\\_content&view=article&id=403&Itemid=1](https://mof.gov.bd/en/index.php?option=com_content&view=article&id=403&Itemid=1))
- Labour Force Survey conducted by Bangladesh Bureau of Statistics (<http://www.bbs.gov.bd/site/page/23b9eb9e-160e-4407-a49f-5722bc57f528/Statistical-Pocketbook>)

**Main economic data**

	2015	2016	2017
<b>GDP (USDbn)</b>	<b>195.1</b>	<b>221.4</b>	<b>246.6</b>
<b>GDP per capita (USD at PPP)</b>	<b>3'336</b>	<b>3'580</b>	<b>3'871</b>
<b>Growth rate (% of GDP)</b>	<b>6.6%</b>	<b>7.1%</b>	<b>7.2%</b>
<b>Inflation rate (%)</b>	<b>6.25</b>	<b>5.53</b>	<b>5.9</b>
<b>Unemployment rate (%)</b>	<b>4.1</b>	<b>4.1</b>	<b>4</b>
<b>Fiscal deficit (% of GDP)</b>	<b>5</b>	<b>3.8</b>	<b>5</b>
<b>Current account balance (% of GDP)</b>	<b>1.6</b>	<b>0.6</b>	<b>-0.7</b>
<b>Total external debt (% of GDP)</b>	<b>12</b>	<b>12</b>	<b>Not available</b>
<b>Debt-service ratio (% of exports)</b>	<b>4</b>	<b>3</b>	<b>Not available</b>
<b>Reserves (months of imports)</b>	<b>8</b>	<b>9</b>	<b>9</b>

Source:

- World Bank (<https://data.worldbank.org/country/bangladesh>)
- IMF (<http://www.imf.org/external/datamapper/datasets/WEO>)
- Bangladesh Bank (<https://www.bb.org.bd/econdata/index.php>)
- Economic Intelligence Unit Country Report November 2017

## ANNEX 3

## Trade partners year: 2016-2017

Rank	Country	<i>Exports from the host country (USD million)</i>	Share	Rank	Country	<i>Imports to the host country (USD million)</i>	Share
1	USA	5846.64	16%	1	China	10193.8	23%
2	Germany	5475.73	15%	2	India	6146.2	14%
4	UK	3569.25	10%	4	Singapore	2447	5.6%
4	Spain	2024.59	5.8%	4	Japan	1735.2	4%
5	France	1892.55	5.4%	5	<i>South Korea</i>	1277.5	3%
6	Italy	1462.95		6	Brazil	1181.3	
7	Canada	1079.18		7	Indonesia	1150	
...	<i>Switzerland</i>	444	1.2%	...	Switzerland	153	0.3%
	<b>Total</b>	<b>34834</b>	<b>100 %</b>		<b>Total</b>	<b>43663</b>	<b>100 %</b>

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

18.05.2017

DEFINITIVE ERGEBNISSE

Eidgenössische Zollverwaltung EZV, Aussenhandelsstatistik, 3003 Bern  
TM103: Schweizerischer Aussenhandel nach Ländern und Kapiteln  
Periode: Januar bis Dezember 2016  
Land: 337 Bangladesch

\* = Veränderungsrate / Anteil nicht berechenbar  
\*\* = Veränderungsrate > 500.0 %  
Total 2: Ergebnisse inklusive Gold in Barren und anderen Edelmetallen, Münzen, Edel- und Schmucksteinen sowie Kunstgegenständen und Antiquitäten.

	Import in Mio. CHF			Export in Mio. CHF			Saldo in Mio. CHF			
	2015	2016	±, %	Anteil	2015	2016	±, %	Anteil	2015	2016
Total	351.98	439.80	25.0	100.0	157.65	151.68	-3.7	100.0	-164.23	-287.84
01 - 24	6.65	4.43	-31.6	1.0	2.19	1.20	-46.1	0.8	-3.46	-3.22
25 - 26			*	*	0.01	0.01	13.6	0.0	0.01	0.01
27			*	*	0.01	0.00	-61.9	0.0	0.01	0.00
28 - 29	0.03	0.00	-98.9	0.0	6.55	8.34	27.5	5.5	6.52	8.34
30	0.03	0.00	-98.6	0.0	21.03	18.19	-9.0	12.6	21.05	18.19
31 - 32		0.00	*	0.0	10.57	8.23	-22.2	6.4	10.57	8.22
33 - 34	0.02	0.00	-88.1	0.0	1.69	2.35	48.3	1.5	1.66	2.35
35 - 38	0.00	0.00	-80.0	0.0	6.05	5.43	-10.2	3.6	6.05	5.43
39 - 40	0.13	0.17	28.9	0.0	0.48	0.61	27.3	0.4	0.36	0.44
41 - 43	1.06	1.88	77.7	0.4	0.00	0.00	-62.3	0.0	-1.06	-1.88
44 - 46	0.21	0.19	-7.8	0.0	0.04	0.04	0.6	0.0	-0.17	-0.18
47 - 49	0.02	0.07	260.6	0.0	0.06	0.14	186.1	0.1	0.03	0.07
50 - 63	332.13	414.12	24.7	84.2	0.49	0.60	2.5	0.3	-331.63	-413.62
64 - 67	10.35	15.48	49.6	3.5	0.00	0.00	-83.4	0.0	-10.34	-15.48
68 - 70	0.27	0.27	1.5	0.1	0.09	0.08	-4.6	0.1	-0.18	-0.19
71	0.01	0.00	-75.4	0.0	0.00	0.01	**	0.0	-0.01	0.01
72 - 83	0.43	1.44	231.4	0.3	1.08	1.60	46.7	1.1	0.65	0.16
84	0.04	0.03	-39.4	0.0	86.56	80.71	-6.8	53.1	86.51	80.08
85	0.01	0.12	**	0.0	6.54	11.66	26.4	7.9	6.53	11.84
86 - 89	0.38	0.55	54.7	0.1	1.88	2.23	19.6	1.5	1.51	1.68
90	0.13	0.08	-39.7	0.0	7.54	7.62	3.6	5.1	7.41	7.74
91	0.00	0.01	**	0.0	1.63	1.28	-23.3	0.8	1.63	1.27
92	0.00	0.00	**	0.0			*	*	0.00	0.00
93			*	*			*	*	0.00	0.00
94	0.66	0.79	19.8	0.2	0.03	0.00	-66.2	0.0	-0.68	-0.79
95 - 99	0.36	0.17	-52.7	0.0	0.11	0.13	13.8	0.1	-0.24	-0.04
97	0.00	0.00	35.0	0.0			*	*	0.00	0.00

## Main investing countries

year : 2016-2017

Rank	Country	Direct investments (USD, stock)	Share	Inflows in past year (USD)
1	Singapore	701.40 mio	28.5 %	164.96 mio
2	UK	313.87 mio	12.7 %	321.77 mio
4	USA	208.71 mio	8.5 %	456.10 mio
4	Norway	187.41 mio	7.6 %	113.25 mio
5	South Korea	178.50 mio	7.2 %	237.86 mio
6	Hong Kong	111.70 mio	4.5 %	155.82 mio
7	India	95.41 mio	3.8 %	102.54 mio
8	The Netherlands	90.04 mio	3.6 %	130.07 mio
9	China	68.58 mio	2.7 %	n/a
10	Thailand	58.69 mio	2.3 %	n/a
19	<i>Switzerland</i>	21.69 mio	0.8 %	29.90 mio
	Total	2454.81 mio	100 %	

Source(s): Bangladesh Bank <https://www.bb.org.bd/openpdf.php>