

# Contribution of Service Sector on GDP in Bangladesh from 1971 to 2020

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**Abstract:** The Bangladesh economy is dominated by the service sector. According to Bangladesh Economic Review (2008), Bangladesh's major service sub-sectors contain wholesale and retail, transportation, storage and communications, real estate, rental, commercial and community activities etc. This paper is based on the secondary data. In this paper I have tried to present the trend of contribution to GDP of the service sector in Bangladesh from 1971 to 2020. According to the latest data of Statista 2020, the contribution of agriculture, industry and service sector to the country's GDP are respectively 13.07%, 28.54% and 52.56% in 2018. But in the 1971-1980 decade there were different situations. That time the contribution of agriculture, industry and service sector to the country's GDP were respectively 44%, 11% and 45% (Source: World Bank). Although the service sector is the largest contributor to the country's earnings, agriculture is the largest contributor to Bangladesh's employment. About 40% of the population work in agriculture, 39% population work in service and about 20% population work in the industry sector. (World Bank, 29 September 2019). In this paper I have also examined the growth rate of the service sector and the contribution of the sub-sector of the service sector to GDP in Bangladesh. The growth rate of the service sector is almost steady from 5.43% in 2000-01 to 6.80 in 2018-19. All the sub sectors of service have increased from 1995-96 to 2017-18 except Real Estate, Renting and Business Activity which have decreased.

**Keywords:** Bangladesh; Base year of Calculating GDP; GDP; Service sector.

## 1. INTRODUCTION

The economy of Bangladesh is composed of three main sectors. These are agriculture, industry and service. Bangladesh Bureau of Statistics (BBS) measures the country's economic size taking into account 15 sectors. At present the Bangladesh economy is dominated by the service sector. According to Bangladesh Economic Review (2008), Bangladesh's major service sub-sectors contain wholesale and retail, transportation, storage and communications, real estate, rental, commercial and community activities etc. In this paper I have tried to present the trend of contribution of the service sector to Gross Domestic Product GDP in Bangladesh from 1971 to 2020. Although the service sector is the largest contributor to the country's earnings, agriculture is the largest contributor to Bangladesh's employment. About 40% of the population work in agriculture, 39% population work in service and about 20% population work in the industry sector. (World Bank, 29 September 2019). Service sector is the engine of economic growth. So, the contribution of the service sector to GDP is very important.

### ***1.1. BASE YEAR OF CALCULATING GDP IN BANGLADESH***

The first publication of BSS is titled "Twenty Years of National Accounting of Bangladesh" published in July 1993, covered data for the period 1972-73 through 1991-92 and used 1984-85 as base year for constant price estimates. The second one is Sources and Methods of National Accounts published in FY 2000 for documenting the revision and rebasing of national accounts from 1984-85 to 1995-96 (Bangladesh National Accounts Statistics, 2014). Abul Kalam Azad, the director of national accounting wing (NAW) under BBS told a new base year for calculating the GDP effective from July 2020 and expected to raise the size of the economy by 10%. Under rebasing procedure, the fiscal year 2015-16 (FY '16) will be the new base year replacing the existing FY 2005-06. Bangladesh did it in 2013 by replacing the FY 1995-96 as base year. That time the economy expanded by around 12%. So, the base years of Bangladesh are 1984-85, 1995-96, 2005-06 and 2015-16 respectively first, second, third and fourth.

## 1.2. 3 MAIN SECTORS IN BANGLADESH

The economy of Bangladesh is composed of three main sectors. These are

- i) Agriculture,
- ii) Industry and
- iii) Service.

## 1.3. THERE ARE 15 SUB-SECTORS WHICH IS USED TO CALCULATE GDP IN BANGLADESH

The agriculture sector is the extraction of raw materials. The manufacturing industry takes raw materials and combines them to produce a higher value added finished product. The service sector is concerned with the intangible aspect of offering services to consumers. The main three sectors of Bangladesh were divided into 15 sub-sectors. Bangladesh Bureau of Statistics (BBS) measures the country's economic size taking into account 15 sectors which are mentioned in **Table 1**.

**Table 1: At a glance 15 sub-sectors which is used to calculate GDP in Bangladesh**

|   |
|---|
| <p><b>1. Agriculture</b></p> <ol style="list-style-type: none"> <li>1. Agriculture and Forestry           <ol style="list-style-type: none"> <li>i) Crops and Horticulture</li> <li>ii) Animal Farming</li> <li>iii) Forest and Related Services</li> </ol> </li> <li>2. Fishing</li> </ol> <p><b>2. Industry</b></p> <ol style="list-style-type: none"> <li>3. Mining and Quarrying</li> <li>4. Manufacturing           <ol style="list-style-type: none"> <li>i) Large and Medium Scale</li> <li>ii) Small Scale</li> </ol> </li> <li>5. Electricity, Gas, Water Supply</li> <li>6. Construction</li> </ol> <p><b>3. Services</b></p> <ol style="list-style-type: none"> <li>7. Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles, Personal and Household Goods</li> <li>8. Hotels and Restaurants</li> <li>9. Transport, Storage and Communication</li> <li>10. Financial Intermediations</li> </ol> |
|---|

|   |
|---|
| <ol style="list-style-type: none"> <li>11. Real Estate, Renting and Business Activity</li> <li>12. Public Adm. and Defense</li> <li>13. Education</li> <li>14. Health and social work</li> <li>15. Community, social and Personal services</li> </ol> |
|---|

**Table 1** shows 15 sub-sectors which is used to calculate GDP in Bangladesh at a glance. Service sector includes wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods, hotels and restaurants, transport, storage and communication, financial intermediations, Real estate, tenting and business activity, Public administration and defense, education, health and social work, community, social and personal services.

## 2. OBJECTIVE OF THE STUDY

The principal objective of this study is to evaluate the contribution of the service sector. To accomplish this basic objective, following specific objectives which will be covered by this paper are given below.

1. To observe contribution of service sector on GDP in Bangladesh
2. To examine the contribution of sub-sectors of service sector on GDP in Bangladesh
3. To analyze the growth rate of service sector in Bangladesh

## 3. LITERATURE REVIEW

Yousuf *et al.* (2019) have examined the contribution of the service related sector in the economic growth of Bangladesh. They used the Gross domestic product (GDP) as a measure of economic growth for Bangladesh. They apply various econometric tools like as Unit Root test, Granger causality test, ARDL Bound test, Error correction model and Cointegration test to investigate the causal relationship and the intensity of the relationship between the service related sector and gross domestic product or economic growth. Granger causality test shows the presence of unidirectional granger causality from the service related sector to gross domestic product. The error correction term implies that the short-run disequilibrium is adjusted with the long-run at the

speed of 17 percent. Moreover, ARDL bound approach indicates the service related sector and gross domestic product growth are correlated both in short-run and long-run. The result shows that 1% expansion in the service-related sector will result in an increase of 0.64% gross domestic product or economic growth in the short-run and 0.75% of GDP in the long-run.

Austin Robinson (September 1973) discussed the economic prospects of Bangladesh. He described food grain requirements and supplies, industrial output, production of various crops, assumed sectoral rates of annual growth etc. In 1961, at the time of the last census, 85% of the actively occupied population was engaged in agriculture. Only 4-3% were then engaged in manufacturing and about 9% in services of different kinds.

Bangladesh National Accounts Statistics (Revised estimates from 1995-96 to 2012-13 with base year 2005-06, Statistics and Informatics Division, BBS), Ministry of Planning, August 2014 has shown the economic activities which reflect the overall performance of macroeconomic scenario of our economy, the effective way to measure the level of economic development and growth, the change in consumption, savings, investment, debts and wealth for the total economy.

Ismail et al (2012) analyzed the economy of Bangladesh and the impact of trade liberalization of the service sector as well as to provide the recommendations for development of the service sector. It has taken a sample of ten years' data of GDP from 2000-01 to 2009-10 for analyzing the comparison of the service sector with other sectors (industry and agriculture). The paper emphasizes for the development of the tourism sector, Software, transportation and financial service, education with quality, etc.

H. Plecher (Nov 18, 2020) has shown the share of economic sectors in the gross domestic product (GDP) in Bangladesh from 2009 to 2019. In 2019, the share of agriculture in Bangladesh's gross domestic product was 12.68 percent, industry contributed approximately 29.65 percent and the services sector contributed about 52.85 percent.

## 4. METHODOLOGY

In this study I used secondary data published in both printed and electronic sources of different

organizations of the Bangladesh government, local and international journals. This study was conducted in the months from November 2021 to January 2022. This study is descriptive, conceptual and depends on historical facts and figures. It is basically based on BBS's data, newspaper, journal and intellectual opinions of authors.

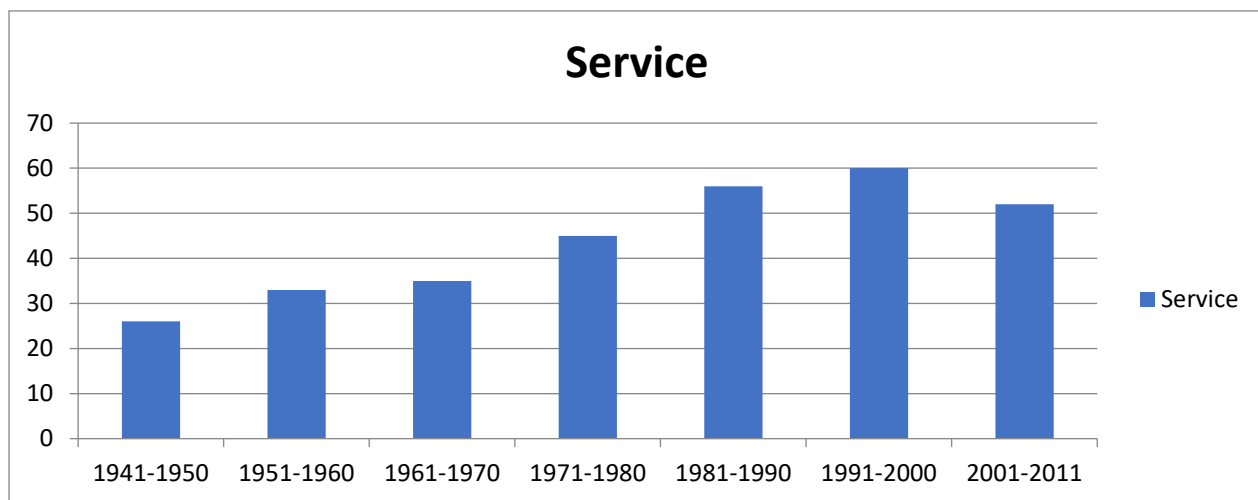
## 5. CONTRIBUTION OF SERVICE SECTOR ON GDP IN BANGLADESH

Gross domestic product (GDP) refers to the market value of all final goods and services produced within a country in a given period. The economy of Bangladesh is composed of three main sectors 1) Agriculture, 2) Industry and 3) Service. The Bangladesh economy is dominated by the service sector. According to the latest data of Statista 2020, the contribution of agriculture, industry and service sector to the country's GDP are respectively 13.07%, 28.54% and 52.56% in 2018 (Source: Statista 2020). But in the 1971-1980 decade there were different situations. That time the contribution of agriculture, industry and service sector to the country's GDP are respectively 44%, 11% and 45% (Source: World Bank).

**Table 2** and graph 1 show the share of service sector in the gross domestic product (GDP) from 1941-2011 according to decade. From table 2 (data is taken from World Bank data bank) the graph 1 is drawn. In the service sector the contribution to GDP was 26% in the 2001-2011 decade. Gradually it has increased over the decade and it has become 52% in the 2001-2011 decade. It is notable that in the 1991-2000 decade the contribution of service sector was 60% which was highest.

**Table 2: Contribution of service sector in Percentage over the Decade (1941-2011)**

| Year      | Service | Year      | Service |
|-----------|---------|-----------|---------|
| 1941-1950 | 26      | 1981-1990 | 56      |
| 1951-1960 | 33      | 1991-2000 | 60      |
| 1961-1970 | 35      | 2001-2011 | 52      |
| 1971-1980 | 45      |           |         |

**Graph 1: Contribution of service sector in Percentage over the Decade (1941-2011)****Table 3: Contribution of service sector on GDP over the year in Bangladesh (2008-2018)**

| Year | Services |
|------|----------|
| 2008 | 52.93    |
| 2009 | 53.32    |
| 2010 | 53.50    |
| 2011 | 53.05    |
| 2012 | 53.15    |
| 2013 | 53.39    |
| 2014 | 53.64    |
| 2015 | 53.71    |
| 2016 | 53.67    |
| 2017 | 53.48    |
| 2018 | 52.96    |

**Table 3** shows the share of service sectors in the gross domestic product (GDP) in Bangladesh over the year from 2008 to 2018. The trend of the contribution of service has remained almost the same on GDP from 2008 to 2018. We can see the contribution of the service sector was 53.71% in 2015, but it decreased and became 52.96% in 2018.

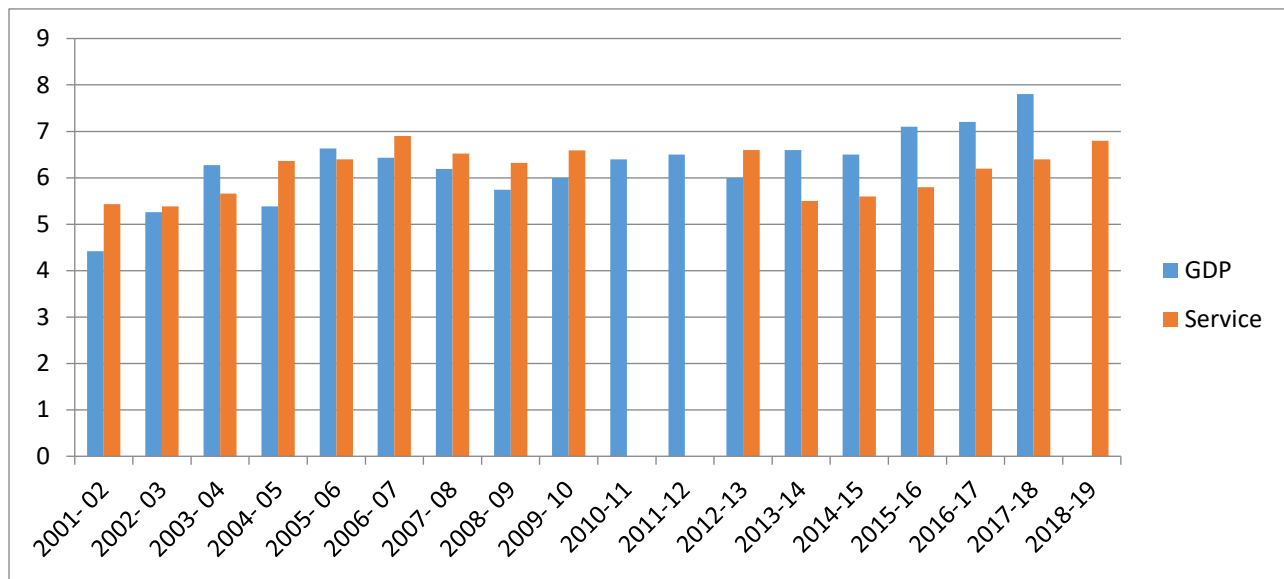
## 6. GROWTH RATE OF GDP AND SERVICE SECTOR IN BANGLADESH

**Table 4** and graph 2 show the growth rate of GDP and service sector in Bangladesh over the year from 2001 to 2019. From the table 4 (data is

taken from Bangladesh economic review, 2010 and Statista 2021) the graph 2 is drawn.

**Table 4: Growth Rate of GDP service sector**

| Year     | GDP  | Service |
|----------|------|---------|
| 2001- 02 | 4.42 | 5.43    |
| 2002- 03 | 5.26 | 5.38    |
| 2003- 04 | 6.27 | 5.66    |
| 2004- 05 | 5.38 | 6.36    |
| 2005- 06 | 6.63 | 6.40    |
| 2006- 07 | 6.43 | 6.90    |
| 2007- 08 | 6.19 | 6.52    |
| 2008- 09 | 5.74 | 6.32    |
| 2009- 10 | 6.00 | 6.59    |
| 2010-11  | 6.40 | -       |
| 2011-12  | 6.50 | -       |
| 2012-13  | 6.00 | 6.60    |
| 2013-14  | 6.60 | 5.50    |
| 2014-15  | 6.50 | 5.60    |
| 2015-16  | 7.10 | 5.80    |
| 2016-17  | 7.20 | 6.20    |
| 2017-18  | 7.80 | 6.40    |
| 2018-19  | 8.15 | 6.80    |

**Ghaph 2: Growth Rate of GDP and service sector**

### 6.1. GROWTH RATE OF GDP

The growth rates of GDP are 4.42%, 6.00%, and 8.15% in 2001-02, 2009-10 and 2018-19 respectively. From Table 4 we can see the growth rate of GDP has increased gradually. The growth rate of GDP is almost same as service sector in 2018-19.

### 6.2. GROWTH RATE OF SERVICE SECTORS

Service sector is important one. Service sector has the growing potential of economic growth and poverty alleviation in Bangladesh. From the comparative appearance of the sectors, it is found that service sector is sustainable in terms of growth and contribution to total GDP. The growth rate of service sector is almost steady from 5.43% in 2000-01 to 6.80 in 2018-19. The growth rate of service sectors are 5.43% in 2000-01 and 6.90% in 2006-07. But after 2006-07 the growth rate of service sectors has decreased until 2014-15. The growth rate of service sectors has increased from 2015-16 and recently it is 6.80 in 2018-19.

## 7. TREND OF SERVICE SECTOR'S CONTRIBUTION ON GDP

The service sector is the half of the total sector of the economy. All the sub sectors of service have increased from 1995-96 to 2017-18 except Real Estate, Renting and Business Activity which have

decreased. This paper has presented the trend of service sector's contribution on GDP in Table 5.

### 7.1. WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES, MOTORCYCLES AND PERSONAL AND HOUSEHOLD GOODS

Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods have increased from 13.12% in 1995-96 to 13.63% 1.53% in 2005-06, 13.40% in 2013-14 and 13.07% in 2017-18.

### 7.2. HOTELS AND RESTAURANTS

Hotels and restaurants have increased almost double from 0.51% in 1995-96 to 0.76% 1.53% in 2005-06, 1.01% in 2013-14 and % in 2017-18.

### 7.3. TRANSPORT, STORAGE AND COMMUNICATION

Transport, storage and communication have increased from 8.73% in 1995-96 to 10.46% 1.53% in 2005-06, 10.61% in 2013-14 and 1.00 % in 9.65 2017-18.

### 7.4. FINANCIAL INTERMEDIATIONS

Financial intermediations have increased from 1.58% in 1995-96 to 3.11% 1.53% in 2005-06, 3.85% in 2013-14 and 3.96 % in 2017-18.

**Table 5: Trend of sub-sector wise contribution on (GDP) of service at current price in Bangladesh**

| Sector                                     | Sub-sectors  | 1995<br>-96 | 2005<br>-06 | 2013<br>-14 | 2017<br>-18 |
|--|--|-------------|-------------|-------------|-------------|
| Services                                   | 1. Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles, Personal and Household Goods | 13.12       | 13.63       | 13.40       | 13.07       |
|  | 2. Hotels and Restaurants  | 0.51        | 0.76        | 1.01        | 1.00        |
|  | 3. Transport, Storage and Communication  | 8.73        | 10.16       | 10.61       | 9.65        |
|  | Land Transport   | 6.24        | 7.17        | 7.90        | 7.42        |
|  | Water transport  | 1.22        | 1.03        | 0.63        | 0.55        |
|  | Air transport  | 0.14        | 0.12        | 0.09        | 0.07        |
|  | Support transport services, storage  | 0.48        | 0.54        | 0.51        | 0.44        |
|  | Post and Tele communications   | 0.65        | 1.30        | 1.48        | 1.16        |
|  | 4. Financial Intermediations   | 1.58        | 3.11        | 3.85        | 3.96        |
|  | Monetary intermediation (Banks)  | 1.41        | 2.67        | 3.21        | 3.39        |
|  | Insurance  | 0.12        | 0.29        | 0.42        | 0.35        |
|  | Other financial intermediation   | 0.05        | 0.14        | 0.22        | 0.22        |
|  | 5. Real Estate, Renting and Business Activity  | 9.70        | 8.29        | 7.08        | 7.51        |
|  | 6. Public Administration and Defense   | 2.54        | 3.08        | 3.39        | 4.38        |
| 7. Education                               | 2.36   | 2.18        | 2.57        | 3.07        |             |
| 8. Health and social work                  | 2.08   | 2.03        | 2.09        | 2.08        |             |
| 9. Community, social and Personal services | 12.11  | 12.37       | 12.24       | 11.17       |             |

### **7.5. REAL ESTATE, RENTING AND BUSINESS ACTIVITY**

Real estate, renting and business activity have decreased from 9.70% in 1995-96 to 8.29% in 2005-06, 7.08% in 2013-14 and 7.51% in 2017-18.

### **7.6. PUBLIC ADMINISTRATION AND DEFENSE**

Public administration and defense has increased from 2.54% in 1995-96 to 3.08% in 2005-06, 3.39% in 2013-14 and 4.38% in 2017-18.

### **7.7. EDUCATION**

Education has increased from 2.36% in 1995-96 to 2.18% in 2005-06, 2.57% in 2013-14 and 3.07% in 2017-18.

### **7.8. HEALTH AND SOCIAL WORK**

Health and social work has increased from 2.08% in 1995-96 to 2.03% in 2005-06, 2.09% in 2013-14 and 2.08% in 2017-18.

### **7.9. COMMUNITY, SOCIAL AND PERSONAL SERVICES**

Community, social and personal services has increased from 12.11% in 1995-96 to 12.37% in 2005-06, 12.24% in 2013-14 and 11.17% in 2017-18.

## **8. RECOMMENDATION**

The contribution of the service sector is highest in developed countries and contribution of the agriculture sector is highest in underdeveloped countries. For Economic development we always think concerning industry and agriculture sectors rather service sectors. But I think priority should be given to the service sector. As the contribution of service sector is half of total GDP in Bangladesh. The major sector in the economy is service sector. So service sector occupies a major share of total economic sectors. As a result, importance of service is significant. All the sub sectors of service

have increased from 1995-96 to 2017-18 except Real Estate, Renting and Business Activity which have decreased. For economic development through service sector we should take the following steps.

- More trade liberalization of service sector
- Improve Real Estate, Renting and Business Activity

### **8.1. MORE TRADE LIBERALIZATION OF SERVICE SECTOR**

We need more trade liberalization for the higher growth of service sector to achieve economic growth. We have almost 60% labour force of our total population (BBS 2019). We have to use this huge labour force efficiently.

### **8.2. IMPROVE REAL ESTATE, RENTING AND BUSINESS ACTIVITY**

Real estate, renting and business activity are important sub-sector of service sector. We need to improve real estate, renting and business activity. Because the contribution of this sub-sector was 9.70% in 1995-96 and it has decreased. It has

become 7.51% in 2018-19. We have to take care of this sub-sector.

## **9. CONCLUSION**

This research article examines the share of service sector in GDP. Service sector is the engine of economic growth. For economic development we have to think about all sectors: agriculture, industry and the service sector. So, in conclusion I would like to emphasize the importance of the growth of the service sector to achieve economic development as the contribution of the service sector is high in developed countries. All the sub sectors of service have increased from 1995-96 to 2017-18 except Real Estate, Renting and Business Activity which have decreased. The growth rate of service sector is almost steady from 5.43% in 2000-01 to 6.80 in 2018-19. The growth rate of service sectors are 5.43% in 2000-01 and 6.90% in 2006-07. But after 2006-07 the growth rate of service sectors has decreased until 2014-15. The growth rate of service sectors has increased from 2015-16 and recently it is 6.80 in 2018-19. For economic development we should take the some steps to improve our service sector. These are more trade liberalization of service sector and improve Real Estate, Renting and Business Activity.

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