

## CHAPTER 6 BANGLADESH

**Introduction.** Despite prolonged political unrest, periodic social upheavals and rising lawlessness, the poverty-ridden Bangladesh economy is gradually moving in the right direction. But progress is slow due to poor governance. Stronger, more dynamic political leadership could make a big difference in speeding up long term economic growth.

**Dirt-Poor Economy.** At first glance, Bangladesh appears to be just another poor third world country.

- With a per capita income of \$380, the country is extremely poor.
- It has a 52% illiteracy rate.
- It's overcrowded, with a woefully inadequate infrastructure.
- But the negative stereotypes, while founded in reality, are a bit misleading and don't tell the whole story about Bangladesh.

**Progress.** Existing stereotypes fail to convey Bangladeshi progress over three decades.

- The country attained near self-sufficiency in food production in 2000.
- Micro-credits empowered women and triggered entrepreneurial success stories.
- In the 1990s, it achieved an average GDP growth rate of about 5%. GDP grew 4.7% in 2001.
- Inflation is a low 1.8% and population growth has slowed to below 1.6% a year.
- The government is also increasing its tax revenue. Dhaka's revenue rose by about 21% between July and October 2000, thanks to tougher enforcement of tax collection. This has reversed the deteriorating trend in revenue collection that had been prevalent in recent years.
- These are substantial achievements by any standards.
- And the country has great potential. It has virtual oceans of natural gas.

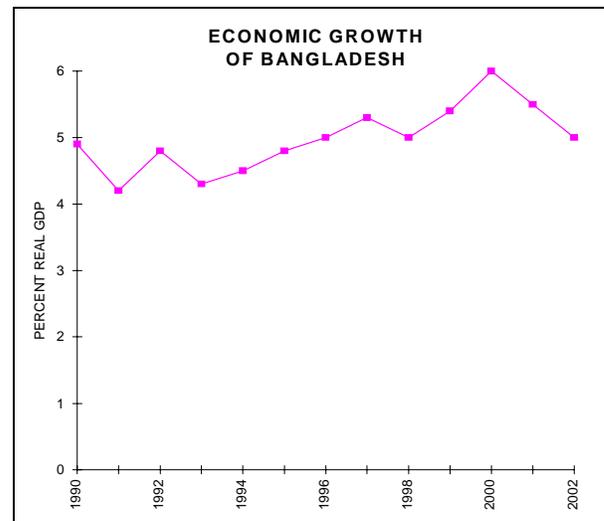
**Not Enough.** That said, the country could be doing a lot better. The problem is largely poor economic governance, with sloppy implementation of policy decisions.

Figure 6-A. Selected Historical Data

\$ Billions (or %)	'97	'98	'99	'00
Gross National Income	44.1	44.0	47.0	47.9
Purchasing Power	135.0	175.5	188.3	206.1
Real Growth (%)	5.3	5	5.4	6
Inflation (%)	5.1	8.5	6.4	2.3
Exports	4.3	5.0	5.2	5.5
To U.S.	1.8	1.9	2.1	2.5
Imports	7.0	7.3	7.8	8.1
From U.S.	0.3	0.3	0.3	0.3
FDI from U.S.	0.086	0.171	0.145	0.215
In U.S.	0.002	0.003	0.003	0.002
Cur Account /GDP %	-2.1	-1.1	-1.4	-1.6
Fiscal Balance /GDP %	-4.3	-4.1	-4.8	-6.1
External Debt /GDP %	34.6	35.9	37.1	..

Sources: IMF, World Bank, ADB, U.S. Commerce

Figure 6-B



- Economic policy focuses more on form than substance. So there's lots of rhetoric but little strategy formulation and action.
- As a result, the country's potential for achieving a higher growth rate has not been properly harnessed.

**Macroeconomic Mismanagement.** Macroeconomic management, which has historically been a strong point in Bangladesh, shows signs of deterioration.

- Indeed, the government's budget deficit increased from 4.8% of GDP in 1999 to 6% in 2001.
- Dhaka has been pumping up spending on public projects ahead of new general elections expected sometime this year.

- As a result, domestic financing of the budget increased to 3.3% of GDP in 2000 from less than 2.5% in 1999.

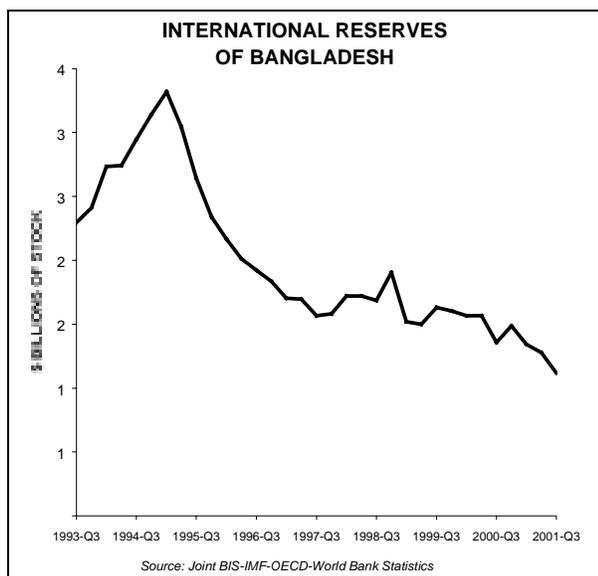
**Over-borrowing.** This was achieved by increasing the government's share of bank borrowing through the issuance of various public-savings instruments.

- Higher government borrowing, however, has not caused any "crowding out" of private credit.
- That's because broad money growth shot up by more than 19% during 2000 as the government printed more money to make up for its borrowings from the country's financial system.
- If this growth of the money supply persists, this action risks stoking inflation, although there's little evidence that this is happening so far. Inflation between January and September was only 2.7%.

**Good News: Exports.** On the external front, Bangladesh's exports in the same period shot up a healthy 27.2% year on year, led by garments, while imports rose by about 14%.

- Still, the country's foreign reserves declined below \$1.4B to less than two months of import cover as of mid-December. (See Figure 6-C.)
- In other words, domestic investors are getting jittery and opting for capital flight.

Figure 6-C



**Devaluation.** The currency was devalued 6% in August 2000 from 51 to 54 Taka per U.S. dollar, and reached 57 by the end of 2001.

**Higher Energy Prices.** The government has lately tried to get public utility prices right, despite the political unpopularity of the move.

- Natural gas prices have been increased by 15% and oil prices by 9%-20% in August.
- Bangladeshi officials say the exchange-rate adjustment, mounting budget pressures, and substantial leakage through smuggling of petroleum products to India makes these adjustments an immediate necessity.

### Outlook

Given current economic trends, Bangladesh will likely come up short in providing the economic governance needed for the country to achieve 7 % to 8% growth rates. Such high growth rates are needed if the country is ever to surge ahead and make a serious dent in poverty reduction.

- Government actions belie its investor-friendly words.
- Potential investors will likely see the country as an unattractive place to do business. As a result, desperately needed foreign direct investment will probably only trickle in.
- Sadly, the country's immense agricultural and natural gas resources will be ineffectively utilized.
- In short, despite some progress over the years, the current economic strategy shows no signs of establishing the economic conditions needed to be another Asian tiger.

### Conclusion

Bangladesh has made considerable economic progress over the years. Its self-sufficiency in food production is impressive. However, Bangladesh could do much better by attacking its foremost problem, poor economic governance. With better economic governance, Bangladesh could attract more investment and growth and make bigger dent in poverty reduction.