Bangladesh’s macroeconomic challenges

Selim Raihan

There are six major macroeconomic challenges for the Bangladesh economy. First, accelerating economic growth and maintaining high economic growth over the coming years will remain a big challenge. Two major drivers of economic growth in Bangladesh have been, the ready-made garments exports and remittances. The dividends from these drivers of growth are likely to decline in the future. There is a need to find new drivers of growth through diversification of the economy and developing productive capacities. In these contexts, stimulating private investment in diversified economic sectors and ensuring efficient public investment remain uphill tasks.

Second, containing inflation is a critical challenge. Bangladesh has been able to avoid high inflationary pressure since 2011. The overall inflation rate has remained below 7%. In recent years, the inflation rate is less than 6%. However, there are three concerns with respect to the inflation situation in Bangladesh: (i) the overall inflation rate hides the sudden rise in food prices, especially the price of rice, which affects the poor people; (ii) as the overall inflation rate is a weighted sum of the food and non-food inflation, there are concerns that the non-food inflation in Bangladesh is underestimated due to inappropriate representation of the non-food items and their prices in the calculation of inflation rates; (iii) the overall low inflation rate at the national level may not reflect the true picture of the high inflationary pressure faced by different low-income groups as their consumption baskets and related prices are likely to be different from the national averages. Given these concerns, containing inflationary pressure for low-income people will remain a challenge for Bangladesh in the wake of further growth acceleration. Third, the management of the exchange rate is a crucial area of concern. Though, for long, Bangladesh has been able to maintain a relatively stable exchange rate regime, the exchange rate in recent times is alleged to be over-valued. In recent years, while Bangladesh’s major competitors in the global market, such as China, Vietnam, India, and Sri Lanka, have experienced significant depreciation of their currencies against US dollar, Bangladeshi taka remained quite stable. The analysis of the real effective exchange rate in Bangladesh also shows a misaligned exchange rate regime which, together with high tariff rates on imports, leads to significant anti-export bias. In other words, the current exchange rate and trade policies are not favorable for rapid export expansion in Bangladesh. However, one important point to note here that, while the importance of the correction of anti-export bias for export promotion and diversification cannot be undermined, such correction alone cannot by itself be sufficient to trigger ‘auto’ large supply response in terms of expanding export volumes and diversifying the export basket. A number of supply-side constraints, in terms of weak infrastructure, the high cost of capital, lack of access to credit, and lack of skilled human resources can prevent local producers from expanding exports, and the lack of an enabling business environment can strangle entrepreneurship and innovation. Therefore, the policy options and support measures for exports are much more difficult and involved than the mere correction of anti-export bias.

Fourth, the surged balance-of-payment deficit in recent years remains a big concern for the stability of the economy. Attracts a large-scale FDI, the economy has been witnessing high growth rate in imports, while the growth rates in exports and remittances have been subdued and unstable, which has led to widening trade deficit and current account deficit. Though the current volume of foreign reserve can meet the import demand of around five months, the volume of the foreign reserve has remained on a declining trend since the financial year of 2017. Given the projections of high import demand for construction and industrial raw materials in the coming days on the one hand and unstable global trading environment, thus creating uncertainties for both export and remittance growth, on the other hand, managing a stable balance-of-payment regime will remain a big challenge for the Bangladesh economy. One important lesson, Bangladesh can learn from the experiences of the successful countries from southeast Asia, is that attracting large scale foreign direct investment (FDI) can ease the pressure on balance-of-payment. Bangladesh is yet to be successful in attracting large-scale FDI. The amount of annual FDI inflow in recent years is only around 2.5 billion US$ while the country needs more than 10 billion US$ FDI annually to achieve many of its developmental goals. Therefore, enabling the environment for ensuring large-scale FDI remains a critical task ahead.

Fifth, while the monetary policy by the Bangladesh Bank has been, in general, able to maintain a so-called stable ‘status quo’, it has failed to generate a big push for accelerating private investment. A number of banking sector and unstable global non-performing loans show a major institutional weakness of the financial sector and pose a threat to macroeconomic stability. The high cost of credit is a reflection of the inefficient banking system which discourages inclusive financing. Therefore, the challenge of the monetary policy is more of an institutional issue rather than any narrowly-focused effort to lowering of the interest rate. Finally, though the country has been able to maintain a stable fiscal deficit of around 5% of GDP over a long time period, in a regime of low tax-GDP ratio of around 10%, this has only been possible through keeping the vital social expenditures, like public expenditure on education, health and social protection, at very low levels. However, as the country aspires to achieve stiff development goals in the coming years, public spending on education, health and social protection has to be raised substantially. There is no denying that with such a low tax-GDP ratio many development aspirations will remain unrealized. Though the country has undertaken several reforms to improve tax collection, they have remained unsuccessful due to various institutional weaknesses and vested political patronage. The fiscal policy process thus needs a strong political commitment to simplifying tax systems, strengthening tax administration, and broadening the tax base under a wider reform agenda.

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Rethinking macroeconomic policy: from a neoliberal framework to a development perspective

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The economic parameters of the twin deficits hypothesis

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The effect of exchange rate on export of Bangladesh: A time series analysis

Zubayer Hossen and Farhan Khan

Impact of fiscal and monetary policies on budget deficit in Bangladesh

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Role of tertiary education on economic growth of Bangladesh: A time series analysis

Sayaqee Bajtra Bhal, M Ahamadul and Md. Nazmul Hossain

Does US federal funds rate affect other economies? evidence from Bangladesh

Towhidul Aman Mahmood and Sanaa Saba Khan

Bangladesh was safe from the global recession solely because of the large export revenue, Bangladesh was not highly dependent on the external borrowing, the USA is, therefore, a market of enormous potential for Bangladesh. However, when the US economy is in a state of recession, it must focus on how change in US interest rates affect Bangladesh economy. Mainly because, in a country like Bangladesh which is an emerging economy in the long run. Our hypothesis is, if there is a significant change in the US interest rate, it may have some run up impact of such rates. However, studies show that Bangladesh is not highly dependent on the export market solated because of the net balance sent by the labor force. There are possibilities of impact of this change in US interest rates on the economy as it impacts exchange rates in the developed as well as emerging economies in the world.

In the United States, the Federal Reserve (FRR) is the interest rate at which deposits at commercial banks (other than member banks) are paid. The Federal Reserve system is a central bank that regulates the money supply and banking system of the United States. The Federal Reserve is independent of the US government. It is a central government agency that is responsible for setting US monetary policy. The Federal Reserve is responsible for setting the interest rate, which is the rate at which banks lend money to each other. The Federal Reserve also sets the reserve requirements, which are the amount of money that banks must hold in reserve.

The Federal Reserve's main goal is to maintain price stability, which means keeping inflation low and stable. However, there are other important goals as well, such as promoting maximum employment, keeping low, stable interest rates, and maintaining stable financial institutions. The Federal Reserve uses a variety of tools to achieve these goals, including the setting of interest rates, buying and selling government securities, and setting reserve requirements for banks.

The Federal Reserve is made up of the Board of Governors and the 12 Reserve Banks. The Board of Governors is composed of seven members, who are appointed by the President of the United States and confirmed by the Senate. The Reserve Banks are the regional branches of the Federal Reserve System. Each Reserve Bank has a president and two vice presidents, who are appointed by the Board of Governors and confirmed by the Senate.

The Federal Reserve System is an independent agency of the US government. It is not part of the US Department of Treasury, and it is not subject to the oversight of the US government. The Federal Reserve is governed by a seven-member Board of Governors, which is appointed by the President of the United States and confirmed by the Senate.

The Federal Reserve System has six regional Reserve Banks, which are responsible for implementing the monetary policy set by the Board of Governors. The Reserve Banks are located in Atlanta, Boston, Chicago, New York, Philadelphia, and San Francisco. The Reserve Banks have a dual role as the agent of the federal government for the provision of central banking services and the lender of last resort for the banking system. The Reserve Banks also have a role in promoting the economic stability and the efficient functioning of the financial system.

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SANEM is a non-profit research organization registered with the Registrar of Joint Stock Companies and Firms in Bangladesh. Launched in January 2007 in Dhaka, it is a network of economists and policy makers in South Asia with a special emphasis on economic modeling. The organization seeks to produce objective, high quality, country- and South Asian region-specific policy and thematic research. SANEM contributes in governments’ policy-making by providing research supports both at individual and organizational capacities. SANEM has maintained strong research collaboration with global, regional and local think-tanks, research and development organizations, universities and individual researchers.

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SANEM Day 2019

South Asian Network on Economic Modeling (SANEM) organized a two-day long program titled “Short Course on Impact Evaluation” during January 9-10, 2019. The course was conducted by Mr. Moogdho Mahzab who is pursuing his PhD from University of Virginia, USA and also an associate of SANEM. Young researchers and academicians from different organizations participated in the training program. The training facilitated sessions on different techniques of impact evaluation. The participants learned about important economic techniques used in policy research design. Upon successful completion of the training, the participants were awarded with certificates by Dr. Selim Raihan, Executive Director of SANEM and Mr. Mahzab.

New recruitment and farewell of Research Associates at SANEM

The SANEM family, this month, welcomes Jonaed, Fahmida Haq Majumdar, Mir Ashrafun Nahar, Nurun Naher, and Nadeera Sultana as Research Associates. At the same time, the family bids farewell to Senior Research Associate Andilip Afroze, who is going to pursue her PhD in Labor Economics from Queensland University of Technology, Australia.

Short Course on Impact Evaluation

First SANEM Macroeconomics Workshop

South Asian Network on Economic Modeling (SANEM) organized a workshop entitled “First SANEM Macroeconomics Workshop” on January 19, 2019 at Hotel Lake Breeze, Gulshan, Dhaka. At the inaugural session, Dr. Selim Raihan, Executive Director of SANEM and Professor of Economics at the University of Dhaka started with his welcome remarks. Dr. Atiur Rahman, former Governor, Bangladesh Bank chaired the workshop while Professor Shamsul Alam, Member (Senior Secretary), General Economics Division, Bangladesh Planning Commission was present as the special guest. Dr. Iyanatul Islam, Adjunct Professor, Griffith Asia Institute, Griffith University and Former Branch Chief, ILO, Geneva was present as the keynote speaker, Dr. Rahman chaired both the technical sessions while Dr. Sayema Haque Bidisha, Professor of Economics at the University of Dhaka and Research Director of SANEM was the discussant in the first session. Dr. Bazlul Haque Khondker, Professor of Economics at the University of Dhaka and Chairman of SANEM co-chaired the second session. Along with the keynote paper, six research papers were presented in the workshop.

15th South Asian Economics Students’ Meet 2019 held in Colombo, Sri Lanka

Dr. Selim Raihan, Executive Director of South Asian Network on Economic Modeling (SANEM) attended the 15th South Asian Economics Students’ Meet (SAESM) 2019. During his visit to Colombo, he appeared in two panel discussion sessions titled “South Asia in Three Decades” and “South Asia Economic Focus” as a panelist. Both the panels were moderated by Ali Hasanain, Professor of Economics, Lahore University of Management Sciences. Dr. Martin Rama, Chief Economist for the South Asia region of the World Bank was the chief guest of the program. This year’s SAESM was held during January 21-26, 2019 and was organized by the Department of Economics, University of Colombo in association with SAESM India and SAESM Pakistan. This year, the theme was “Development in South Asia: Challenges and Opportunities”. The team Bangladesh won five best paper awards in their sub-themes.

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