

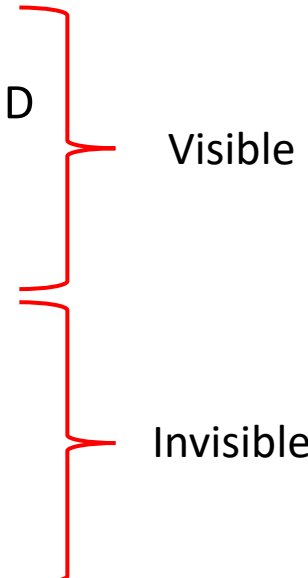
Shocks and Shields Sustaining Development in a Turbulent Time

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Nature of the turbulent time

- Supply side shocks
 - Nature, Length, and Depth of the shocks
 - Problems
 - Macroeconomic crisis
 - Falling growth rate; Obstructed recovery from COVID
 - Inflationary pressure
 - Balance of payment
 - Debt burden
 - Social impact
 - Poverty
 - Inequality
 - Labour market
 - Problems in achieving larger development goals
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- Visible
- Invisible

Three aspects of economic resilience



Recover: The ability to recover quickly from a shock



Withstand: The ability to withstand a shock



Avoid: The ability to avoid the shock altogether

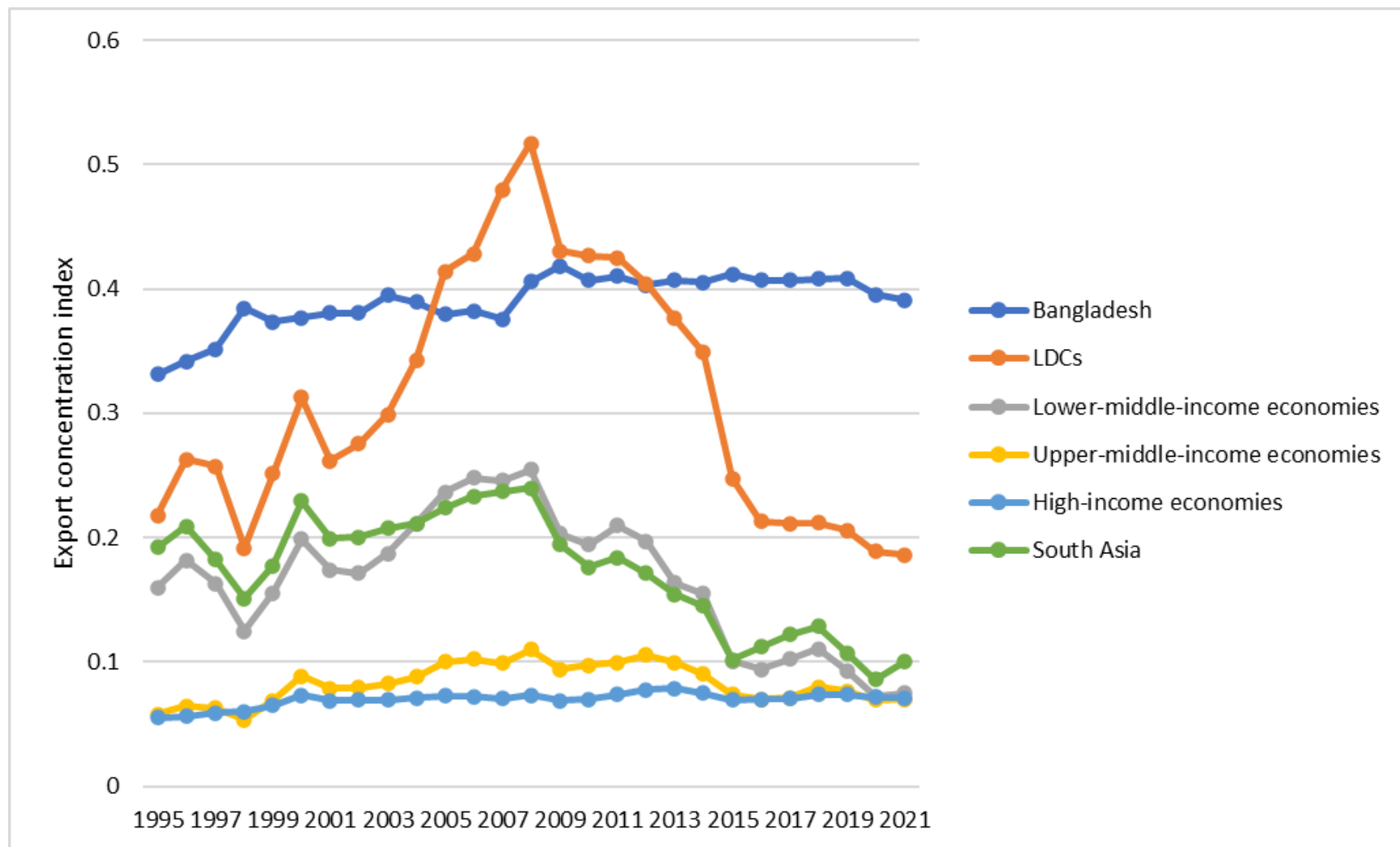
How to build economic resilience?

1. Broad-based economic growth
2. Macroeconomic management (revenue mobilization, budget deficit, financial sector, balance of payment, etc.)
3. Strengthening the social sector (health, education)
4. Strengthening institutions

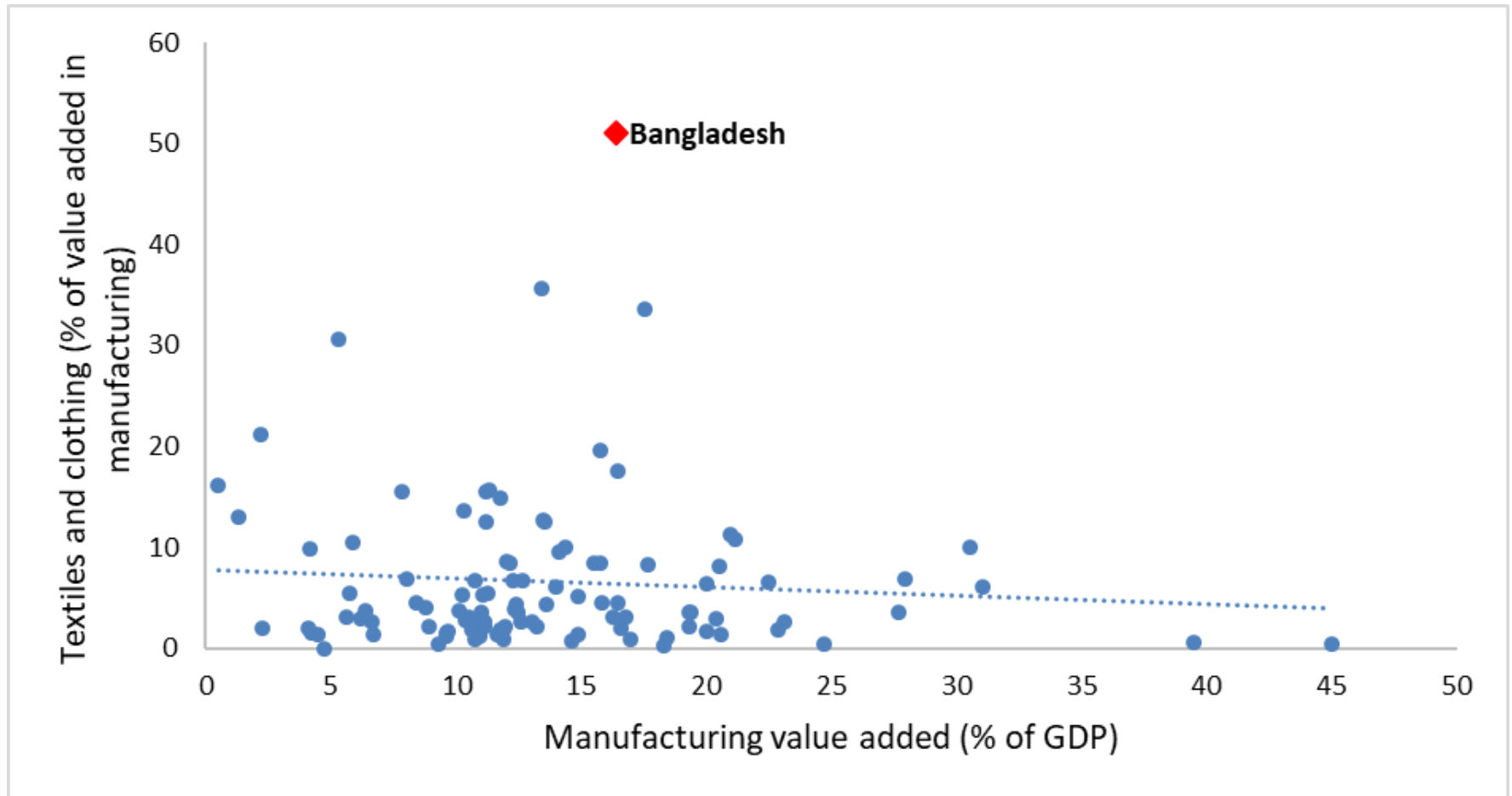
1. Economic growth

- Economic growth performance of Bangladesh is encouraging.
- Questions remain on the
 - drivers of growth (RMG exports and remittances have been the major drivers for long)
 - quality of growth (in terms of reduction in Poverty and Inequality and promoting Employment. I call it PIE).
- Challenges of finding new drivers of growth
 - Potentials of SEZ and Mega-infrastructure projects. However, much of these potentials depend on timely and cost-effective implementation.
- Challenges of economic and export diversification. Need for broad-based industrial policies.

Bangladesh's export concentration is HIGH



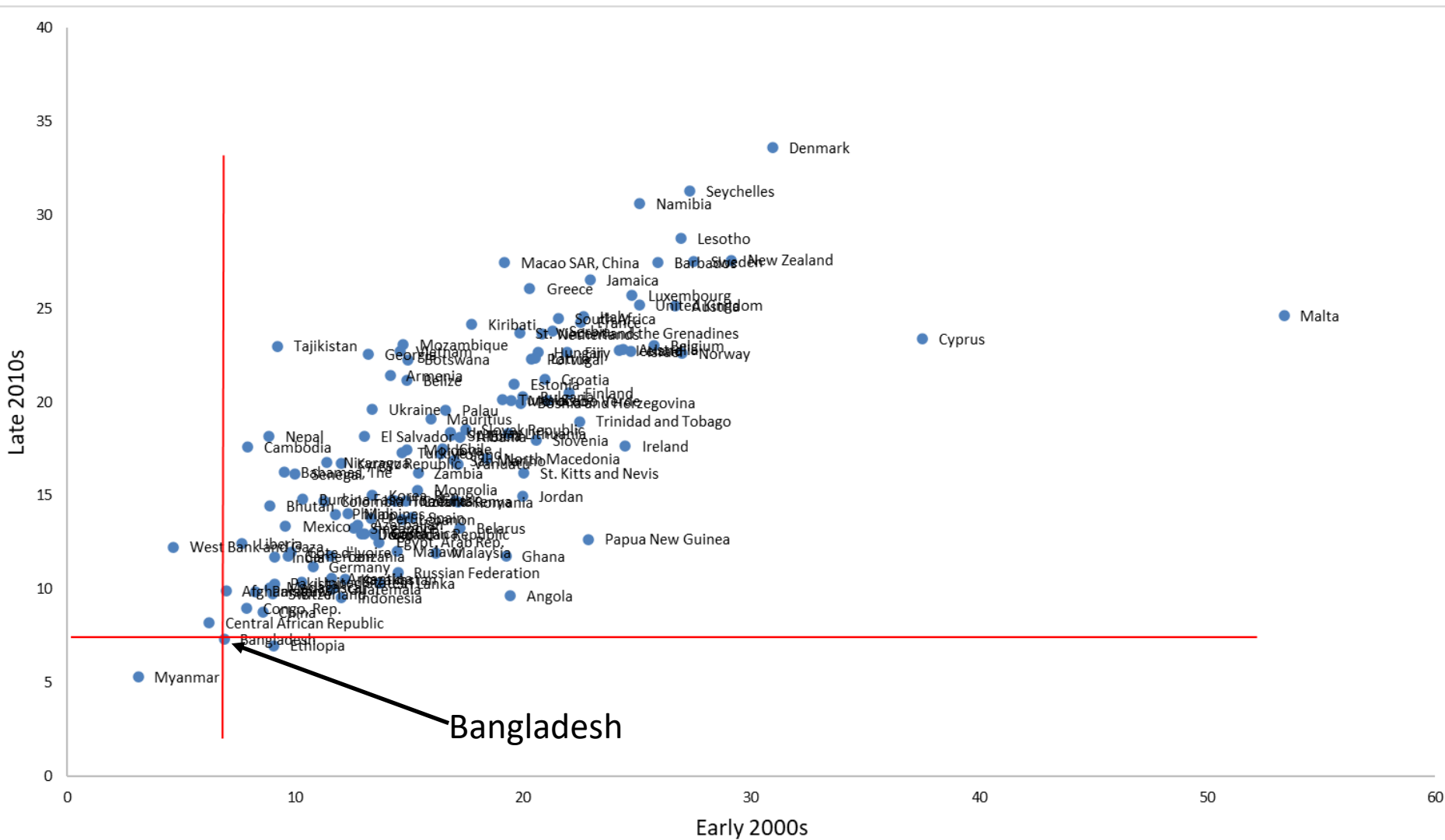
Bangladesh is a major outlier in RMG



2. Macroeconomic management

- Until the onset of the crisis, Bangladesh was successful in terms of managing budget deficit, current account deficit, inflationary pressure, exchange rate stability, and a growing forex reserve.
- Despite the macroeconomic success, the country is confronting several long-standing challenges undermining resilience:
 - Very low tax-GDP ratio
 - High degree of nonperforming loans and weak governance in the banking sector
 - Low level of foreign direct investment
 - Misalignment of exchange rate hurting export promotion and export diversification
 - A large amount of illicit outward money transfer encouraging hundi
 - High amount of subsidies in the annual budget, and inefficiency in budget implementation.

Bangladesh's tax-GDP ratio in global perspective

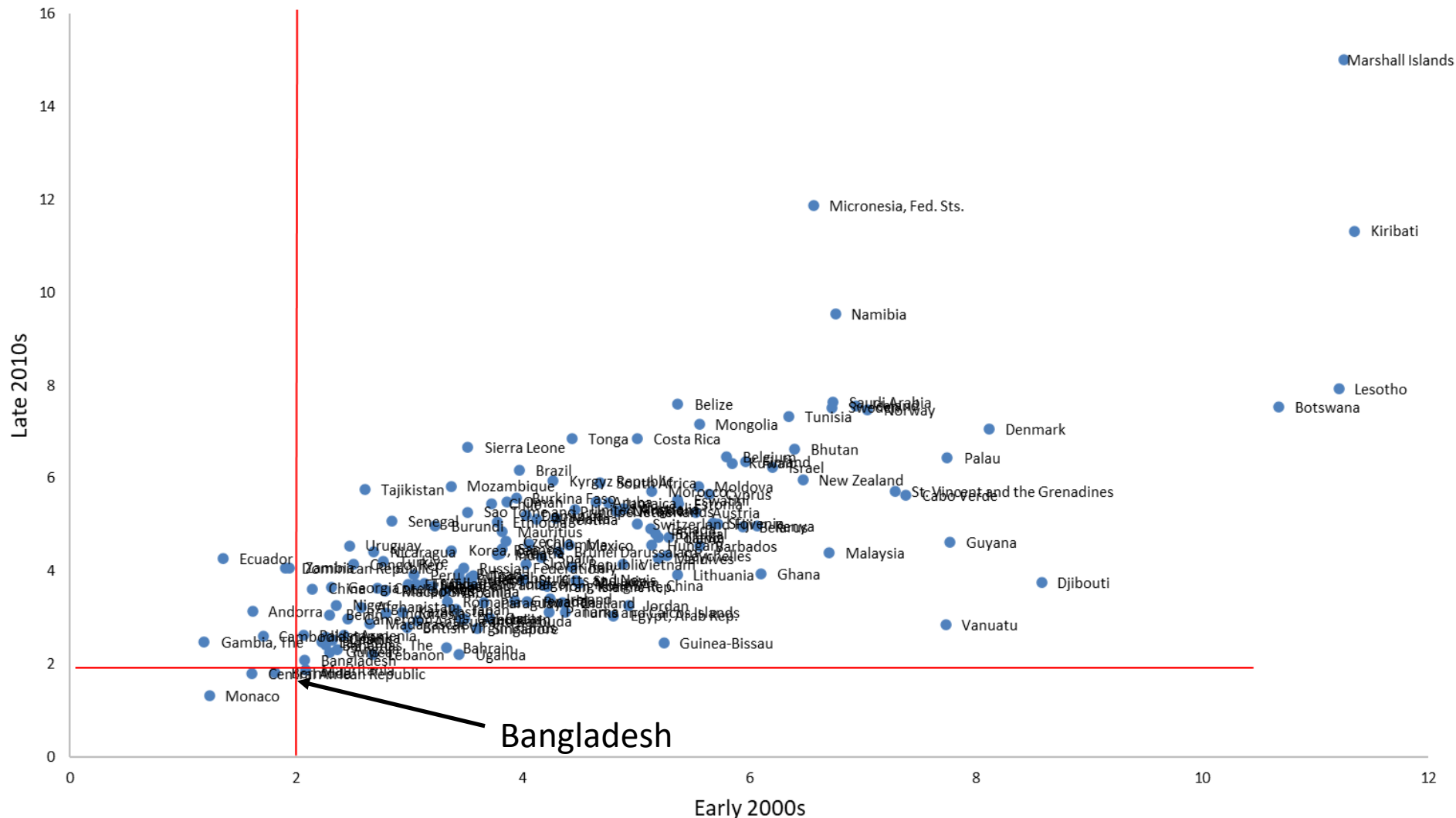


Data source: World Bank, WDI. 128 countries

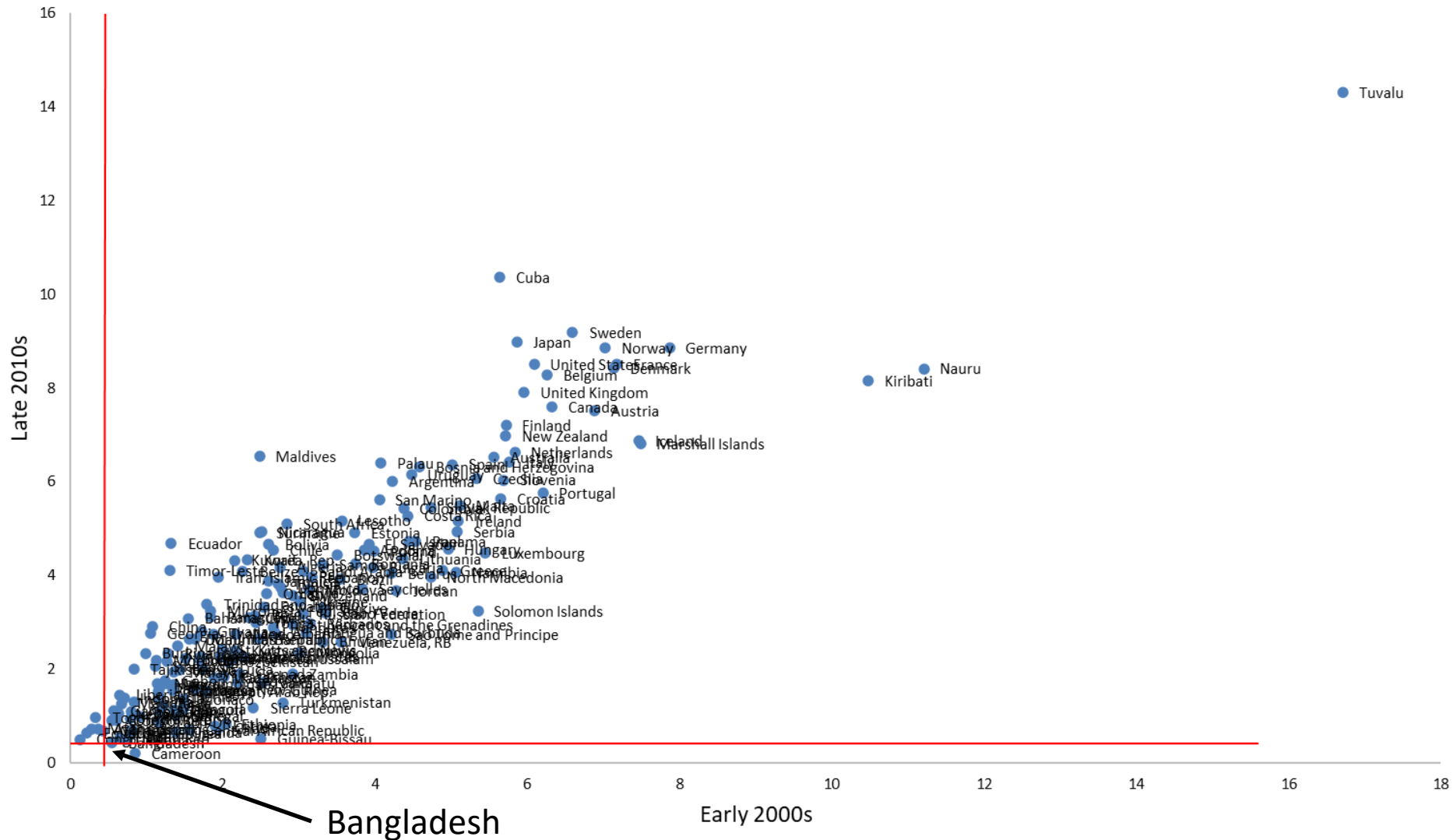
3. Social sector

- Significant improvements in child and maternal mortality, life expectancy, gross school enrolment and gender parity in primary education.
- But questions remain on the quality of education and healthcare to confront the emerging challenges.
 - Are we doing enough for reaping the benefits of demographic dividend?
- I raised the issue of policy paralysis related to public spending on education and health sector.
- The challenges of PIE are acute.

Public expenditure on education as % of GDP



Public expenditure on health as % of GDP



4. Institutions

- Weak formal institutions: Bureaucracy quality, control of corruption, rule of law, enforcement of property rights, etc. are under question
- Dominance of informal institutions
- Dominance of deals over rules
- The Bangladesh paradox – development even under weak formal institutions – doesn't seem to be helpful in building resilience.

There is, however, a consensus on the need for reform

- Reform in critical economic domains (taxation, financial sector, budget management, export diversification, trade policy, etc.).
- Reform in critical social domains (health, education, social safety net, labor market, etc.).
- The five-year plans of the government endorse the need for these reform.
- But why is then little progress?

Reform: Why little progress?

- Unclear about reform objectives and reform results
- Reform hurts some groups: Resistance
- Adjustment costs of reform: Who bears what?
- Ongoing reform discussion under the IMF loan:
 - “A stitch in time saves nine”
- Misalignment of the actors in terms of influence and interest:
 - Actors with high interest have little influence
 - Actors with high influence have little interest