

Current economic situation in Bangladesh: Areas of concerns and what needs to be done

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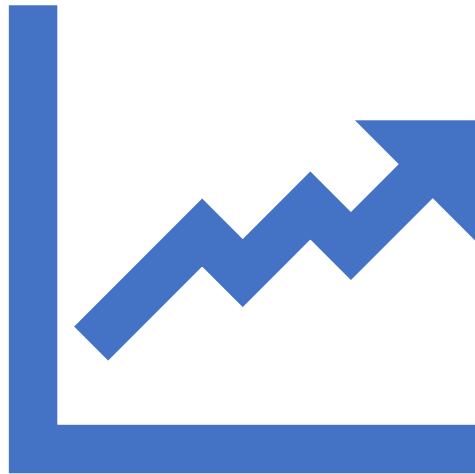
Professor of Economics, University of Dhaka

17 November 2022

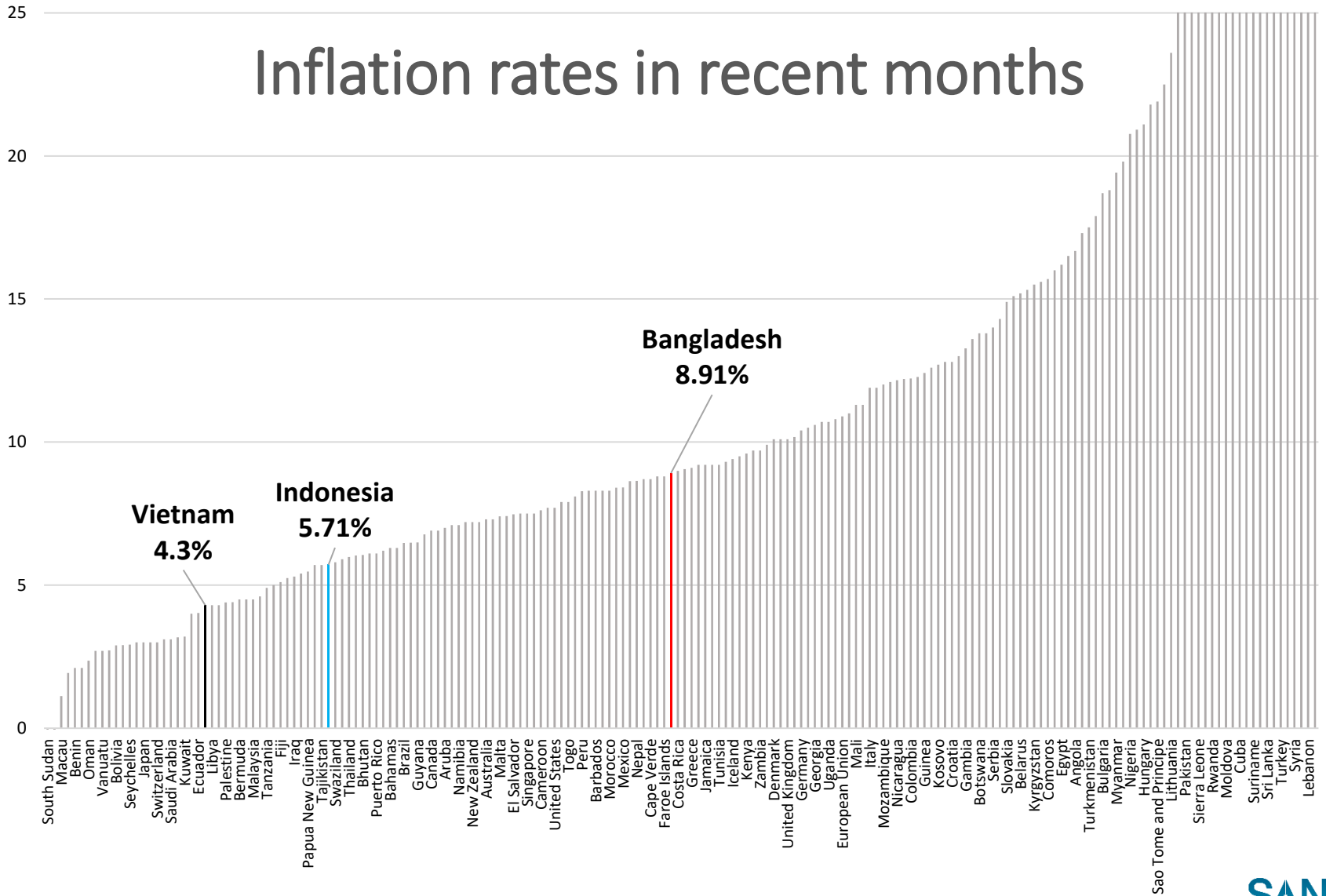
Introduction

- Bangladesh's impressive economic growth performance over the past decades.
- Achievement in macroeconomic stability.
- Important achievements in social sector too.
- The country reached lower-middle-income status in 2015 and is set to graduate out of the LDC status by 2026.
- However, the economy is now under a lot of stress due to the current global and domestic situation.

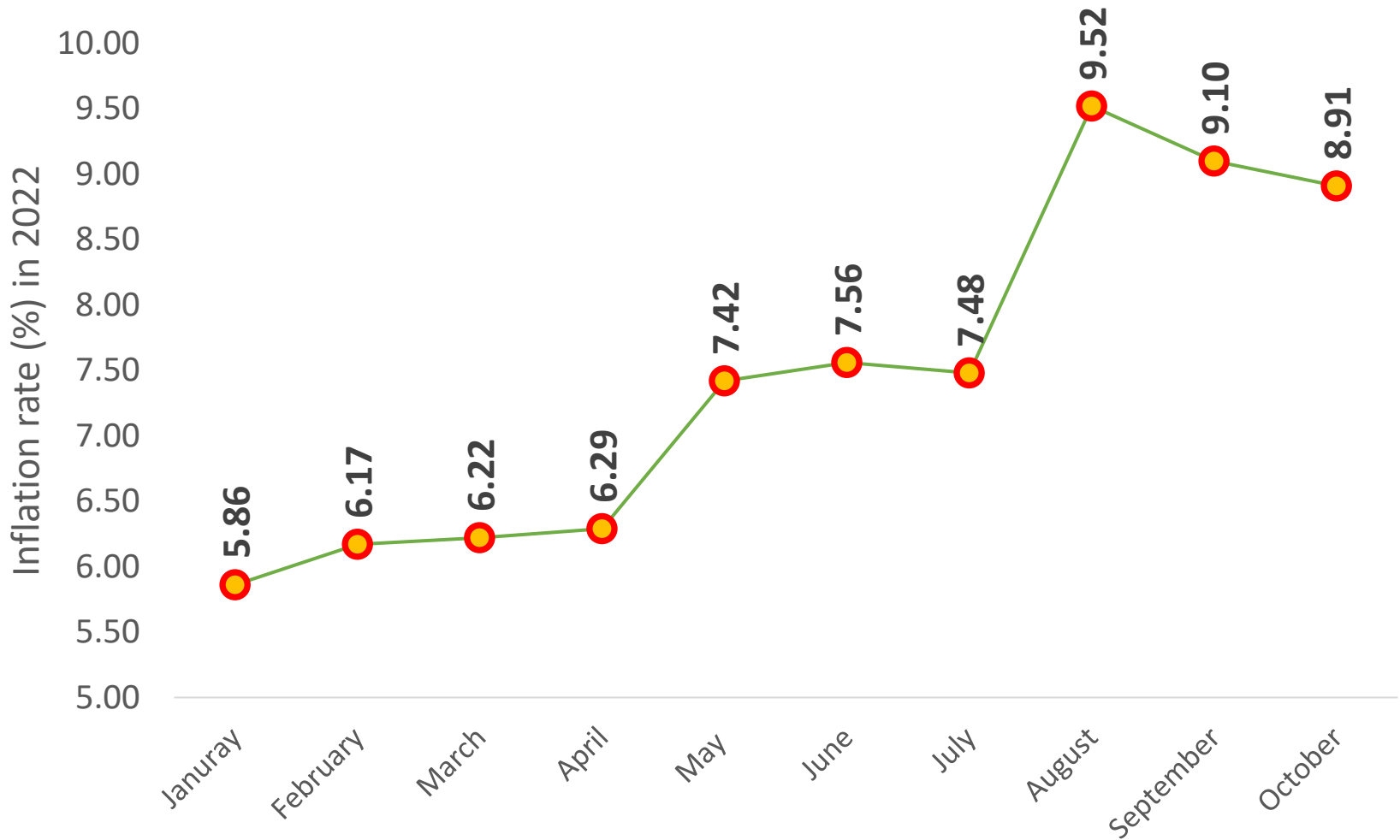
Inflationary pressure and food security



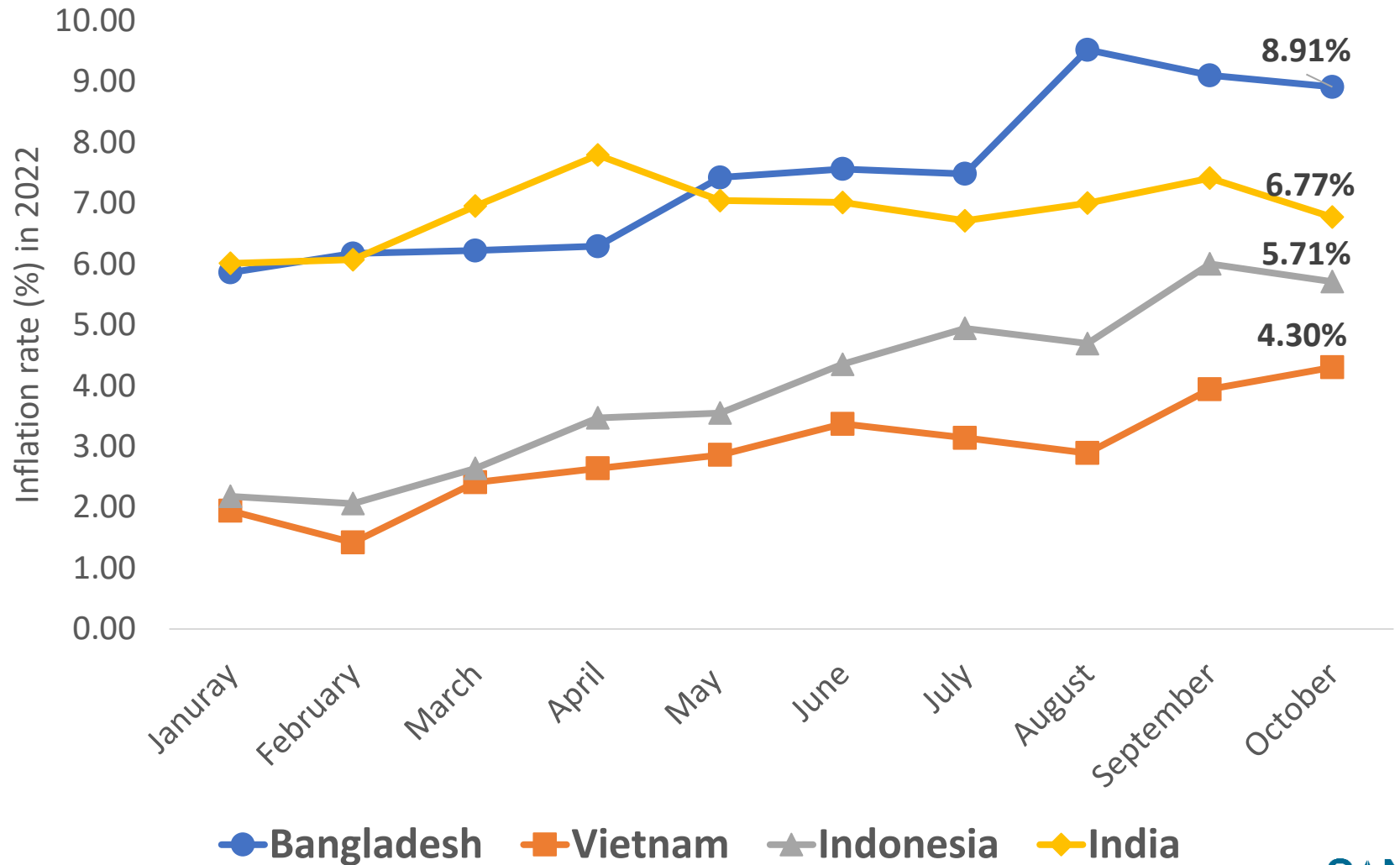
Inflation rates in recent months



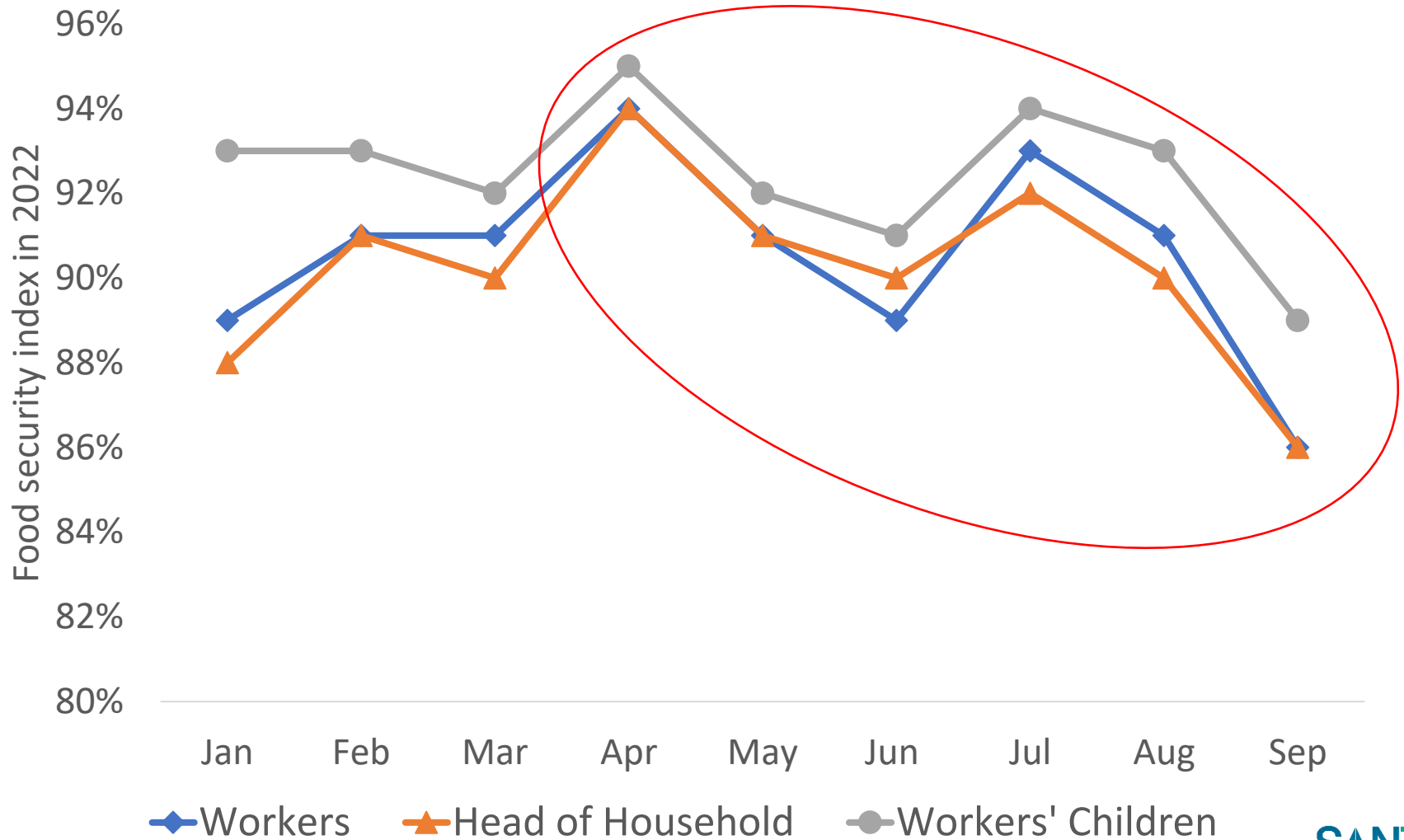
Inflationary pressure since January



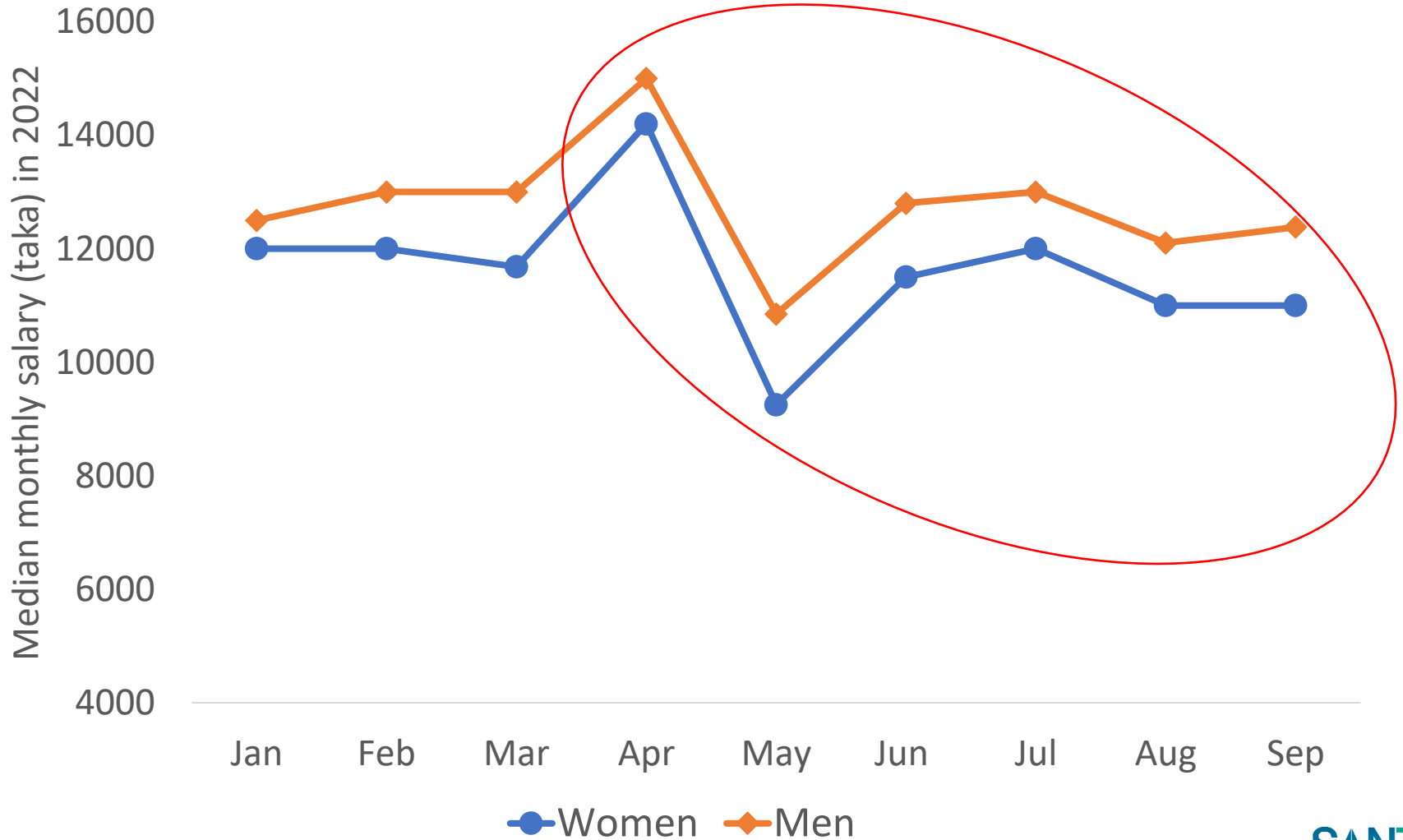
Comparative Inflation rates



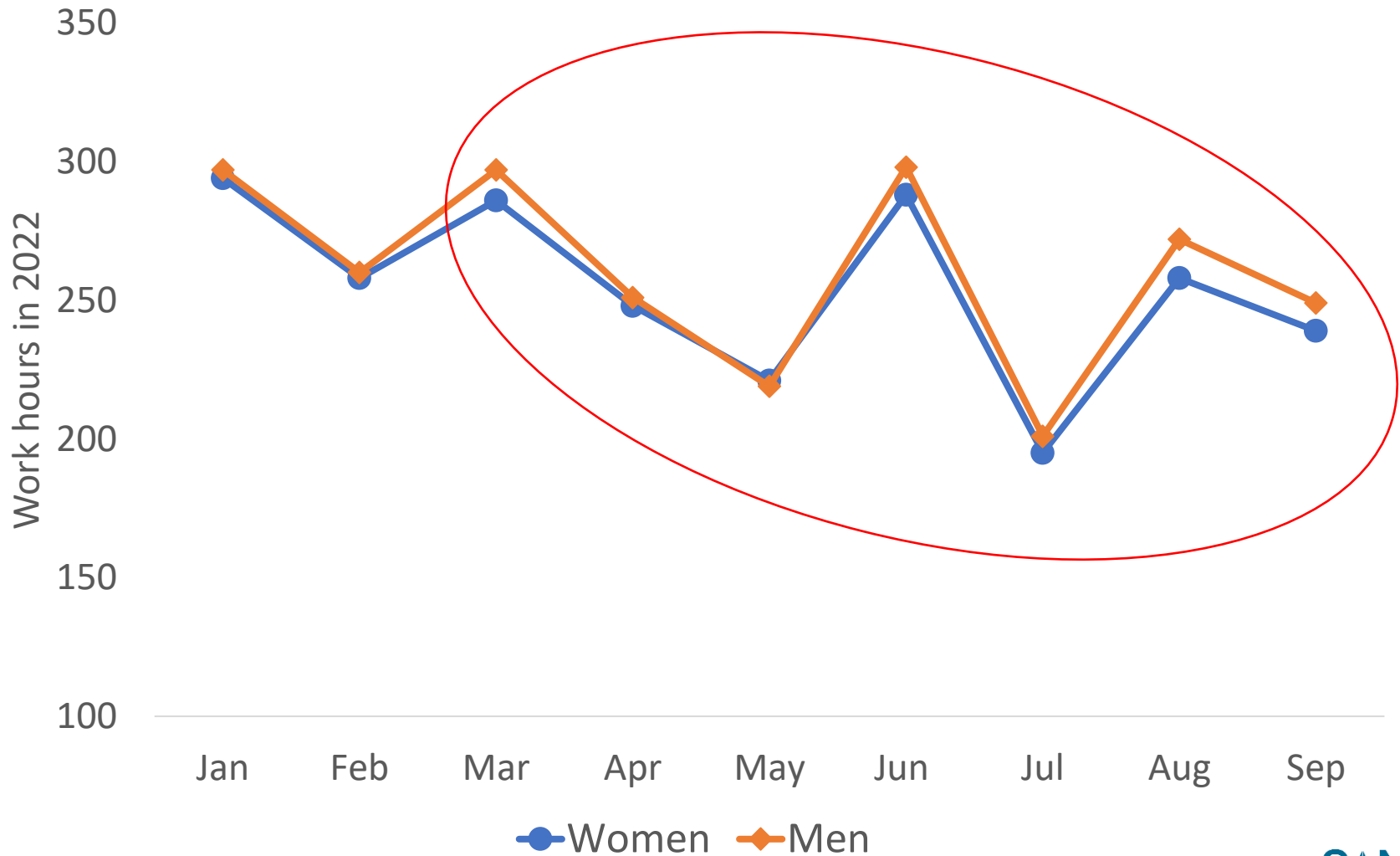
Food security of RMG workers and family in 2022



Median monthly salary of RMG workers (taka) in 2022



Median monthly work hours of RMG workers in 2022



Four reasons behind inflationary pressure

Escalated world prices
of food, fuel and
other commodities:
Imported inflation

Domestic production
shortage

Anomalies in
domestic market and
supply side issues

Currency depreciation

Question:
Underestimation of inflation?
BBS still uses 2004-05
weights to calculate inflation

Food security: Four critical issues

Supply

- Estimation of food availability

Demand

- Population size and pattern, and estimation of demand

Crisis

- Famine and food shortage

Access

- Entitlement to food

How to ensure food security?

Four-pronged strategies

Boosting

- Agricultural production

Facilitating

- Import

Monitoring

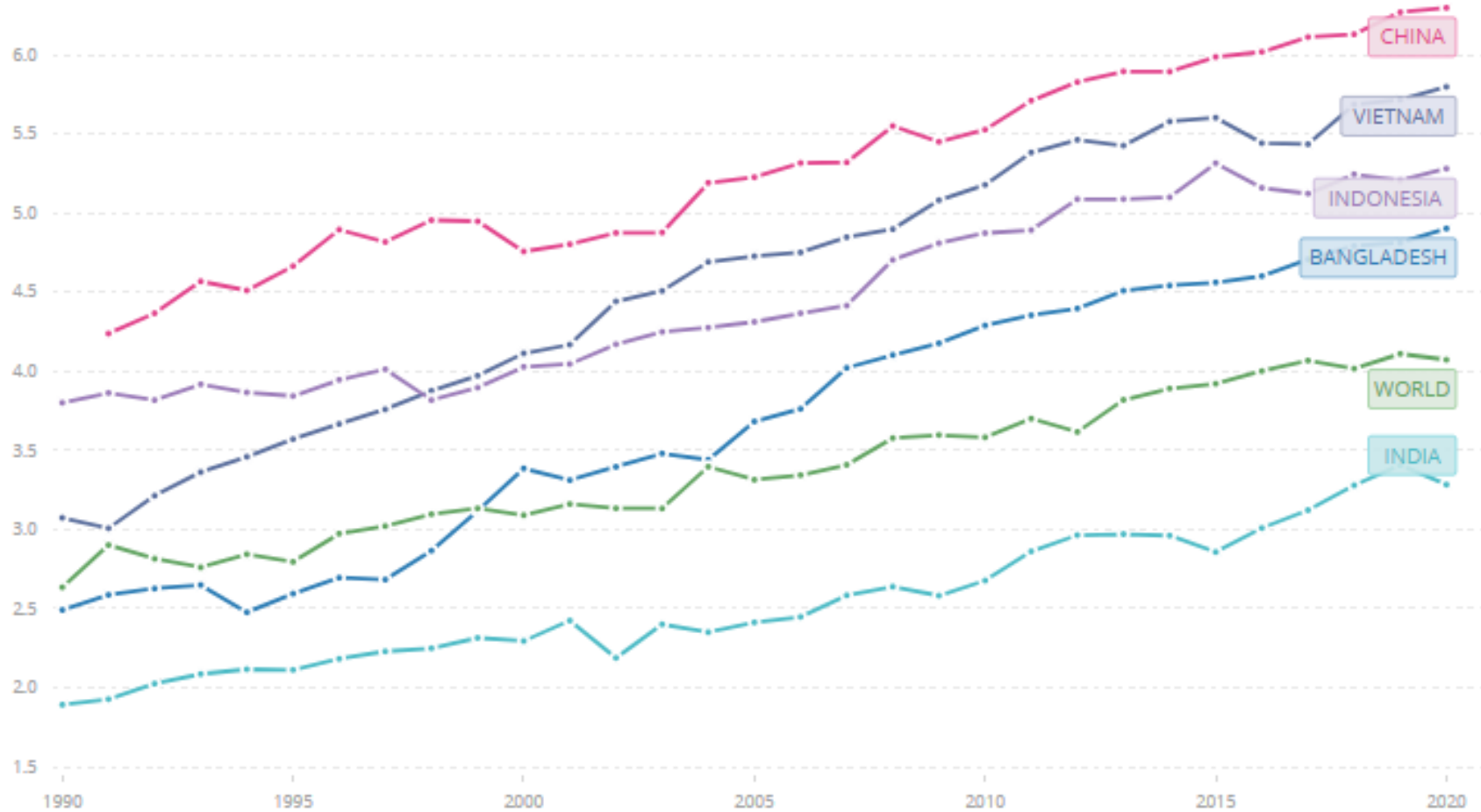
- Market

Expanding

- Social protection

Cereal yield (MT per hectare)

Thousand



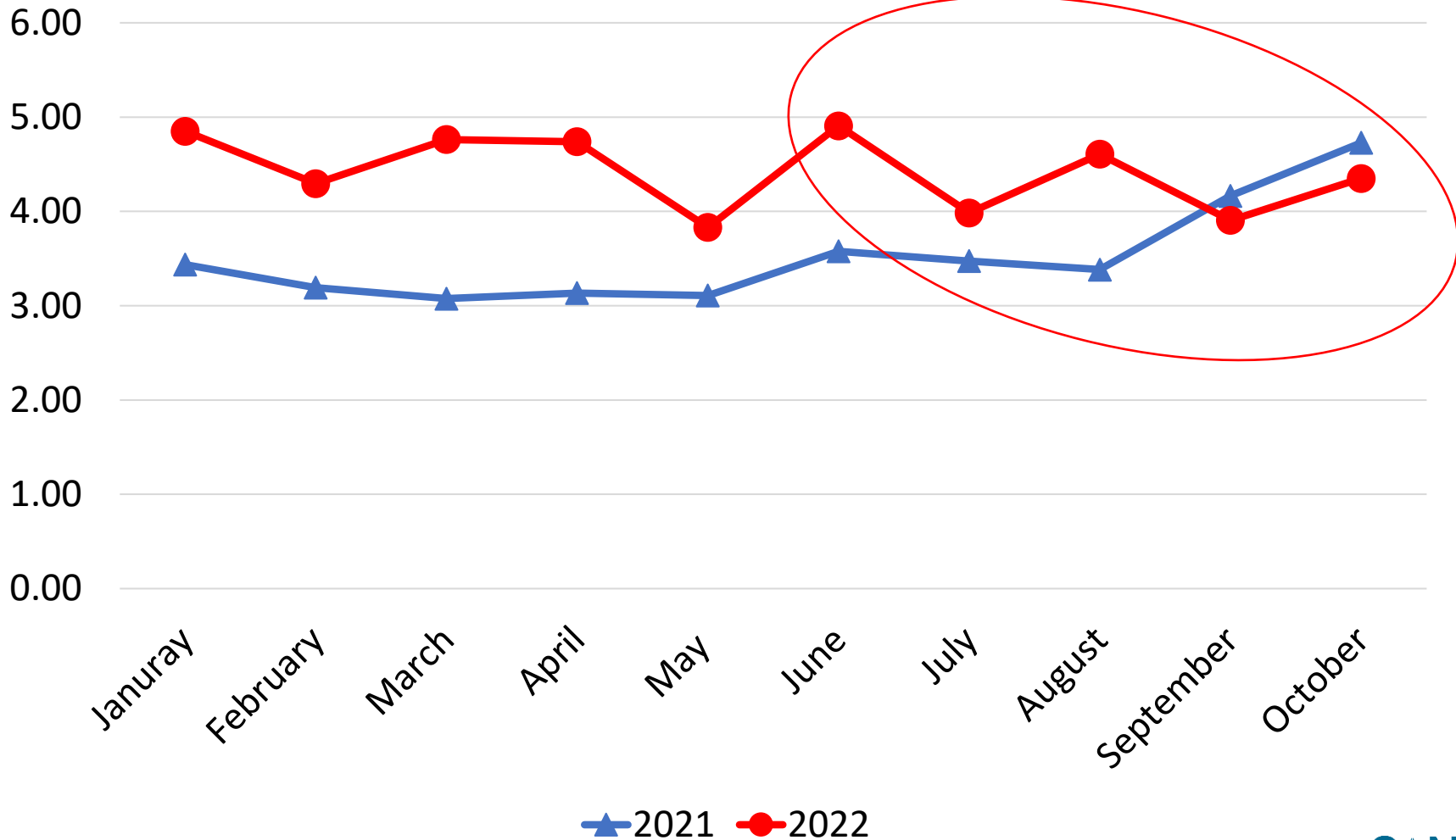
Foreign reserve and external sector

Current Account Balance

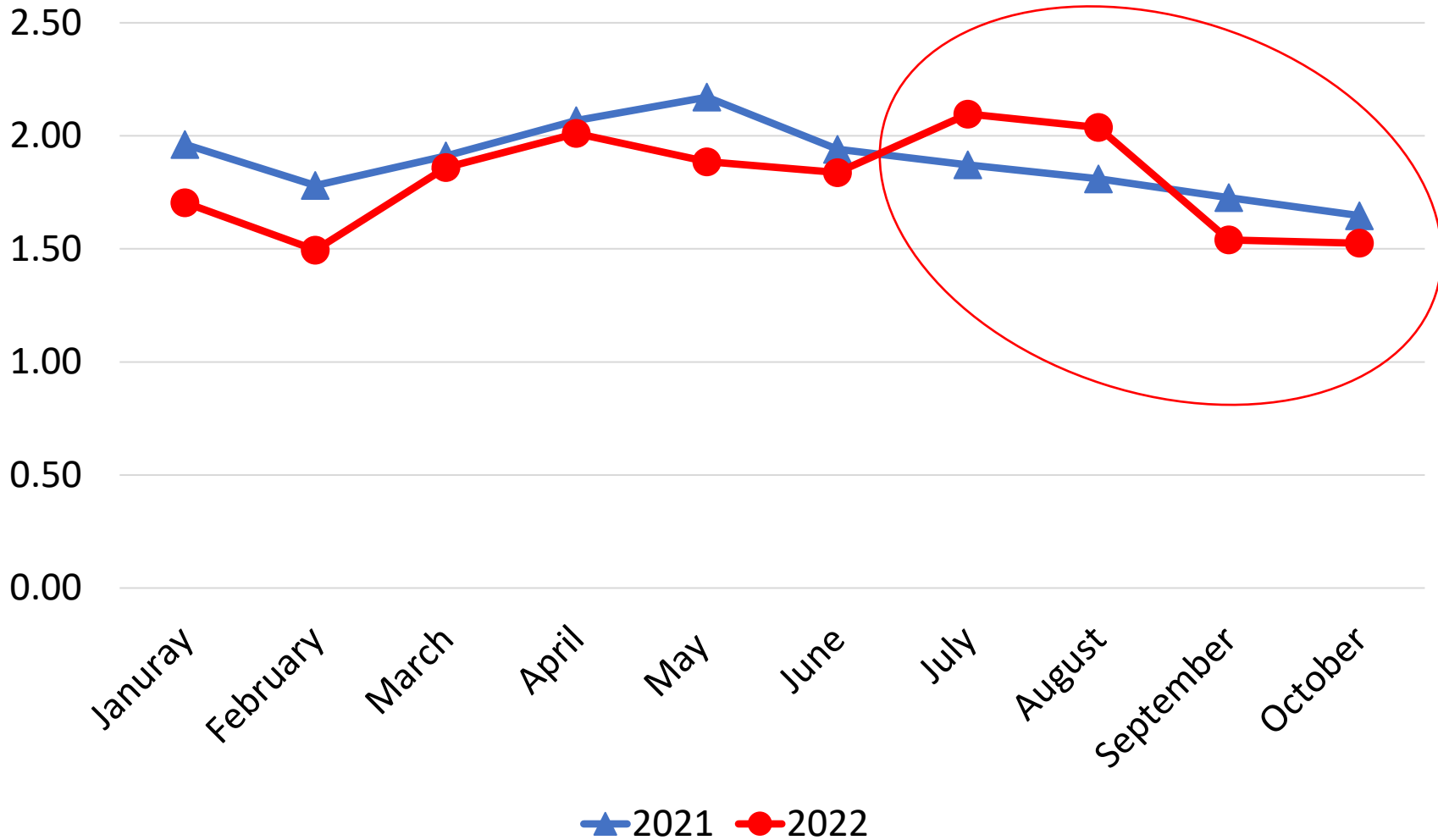
	July-September (Million US\$)	
	2021-22	2022-23
Balance in trade in goods	-6775	-7548
Services balance	-606	-1100
Remittances	5408	5673
Other balance (primary income, other secondary income)	-572	-635
Current Account Balance	-2545	-3610

Source: Bangladesh Bank

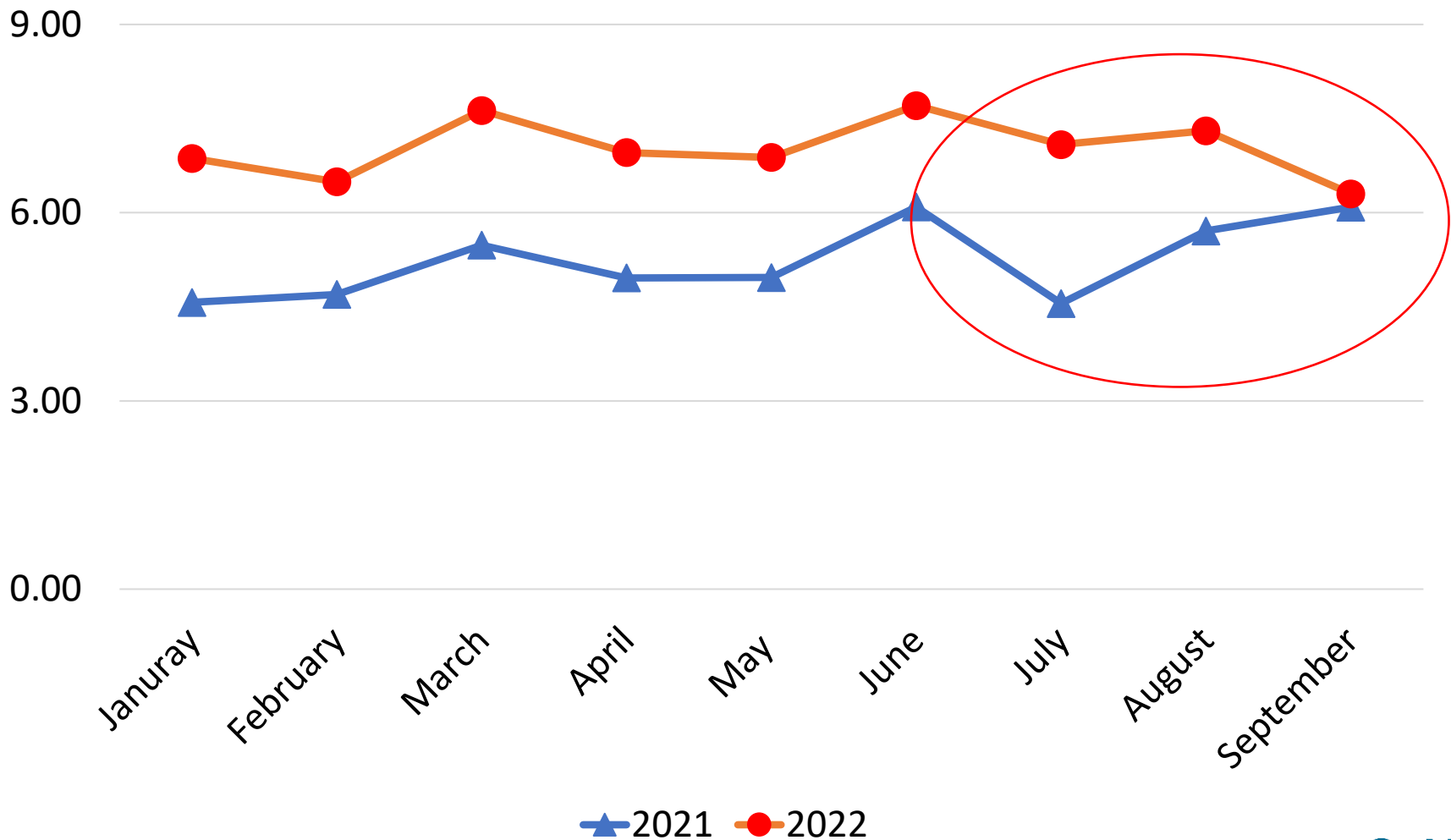
Export (billion US\$)



Remittances (billion US\$)



Imports (billion US\$)



Opening and settlement of import LCs

October, 2022)

Monetary Policy Department, Bangladesh Bank

a. Item-wise fresh opening and settlement of import LCs[#]

(USD in million)

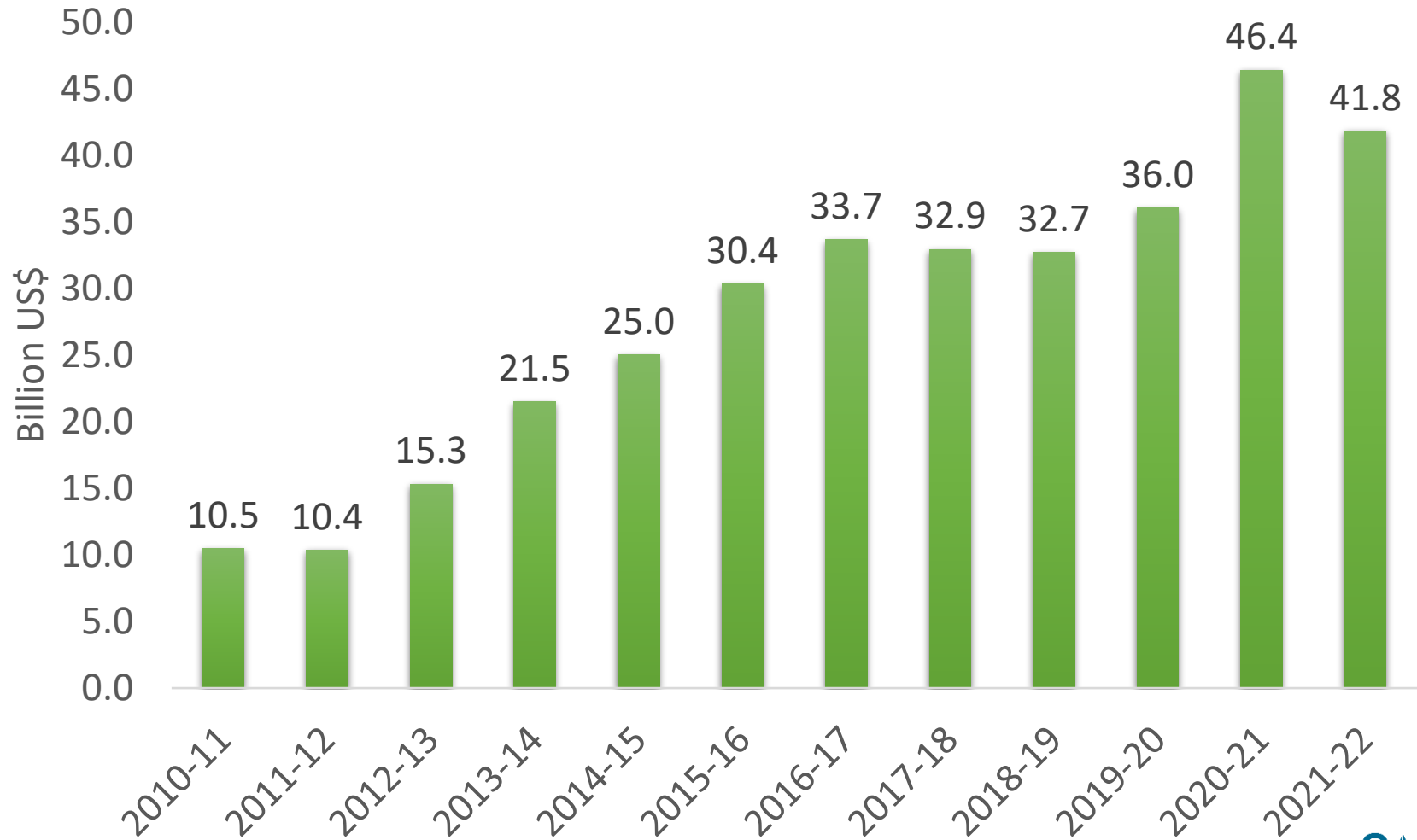
Items	July-September of FY23		July-September of FY22		% changes in July-September of FY23 over July-September of FY22	
	Opening	Settlement	Opening	Settlement	Opening	Settlement
A. Consumer goods	2588.00	1992.50	2475.07	1999.72	4.56	-0.36
B. Intermediate goods	1494.50	1559.28	1749.13	1518.60	-14.56	2.68
C. Industrial raw materials	6386.89	8230.81	7475.75	6483.00	-14.57	26.96
D. Capital machinery	606.89	1457.33	1771.26	926.25	-65.74	57.34
E. Machinery for misc. inds.	737.42	899.34	1031.97	909.67	-28.54	-1.14
F. Petroleum & petro.prodts.	2633.63	2971.47	1744.30	1404.93	50.99	111.50
G. Others	4133.59	5342.48	4074.89	3820.71	1.44	39.83
Total	18580.92	22453.21	20322.36	17062.88	-8.57	31.59
of which back to back	2376.40	2917.94	3236.26	2570.61	-26.57	13.51

Source: Foreign Exchange Operations Department (FEOD), Bangladesh Bank.

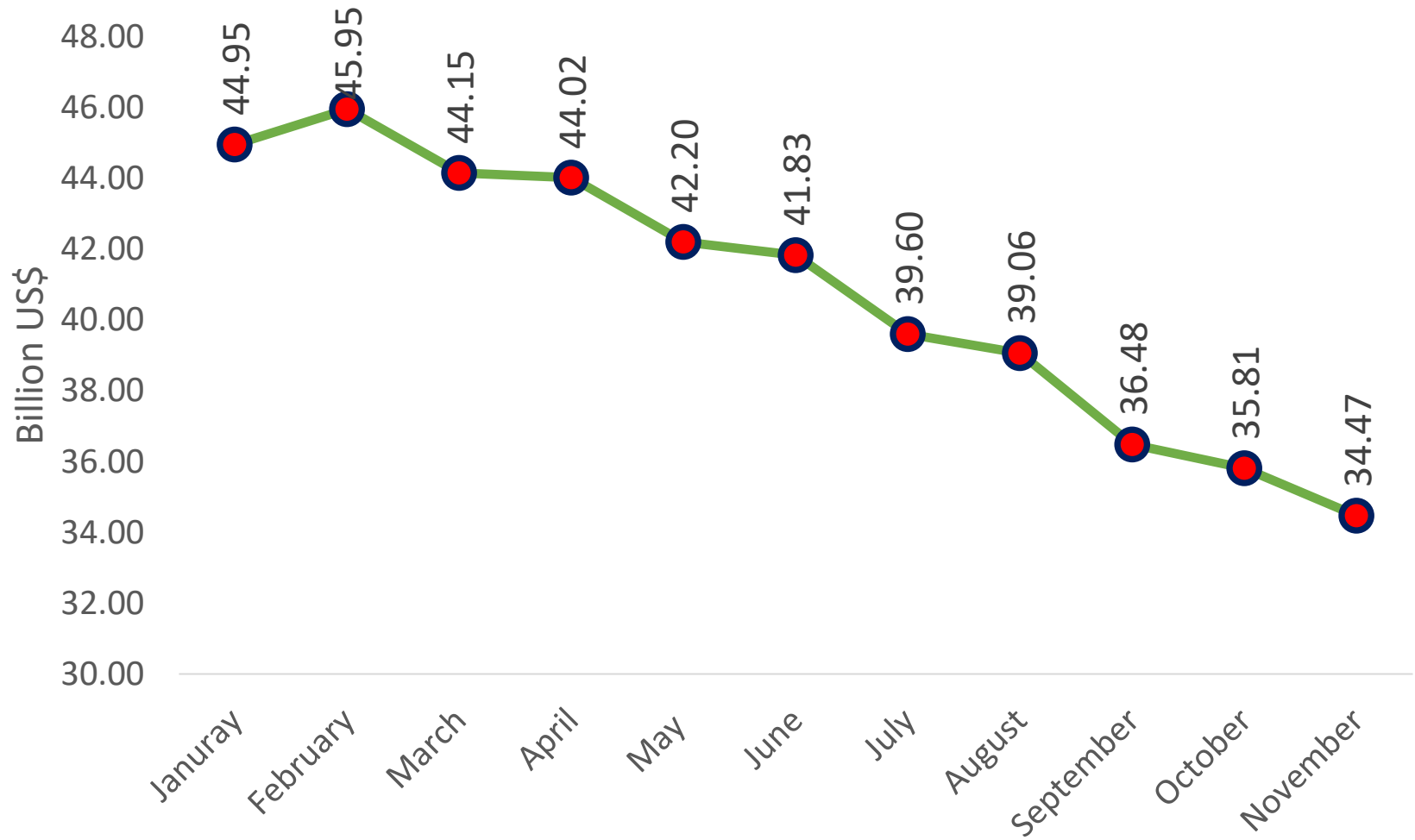
P = Provisional; Opening = 'Fresh opening of import LCs' and Settlement = 'Settlement of import

[#]Data downloaded from Online Import Monitoring System on 23.10.2022.

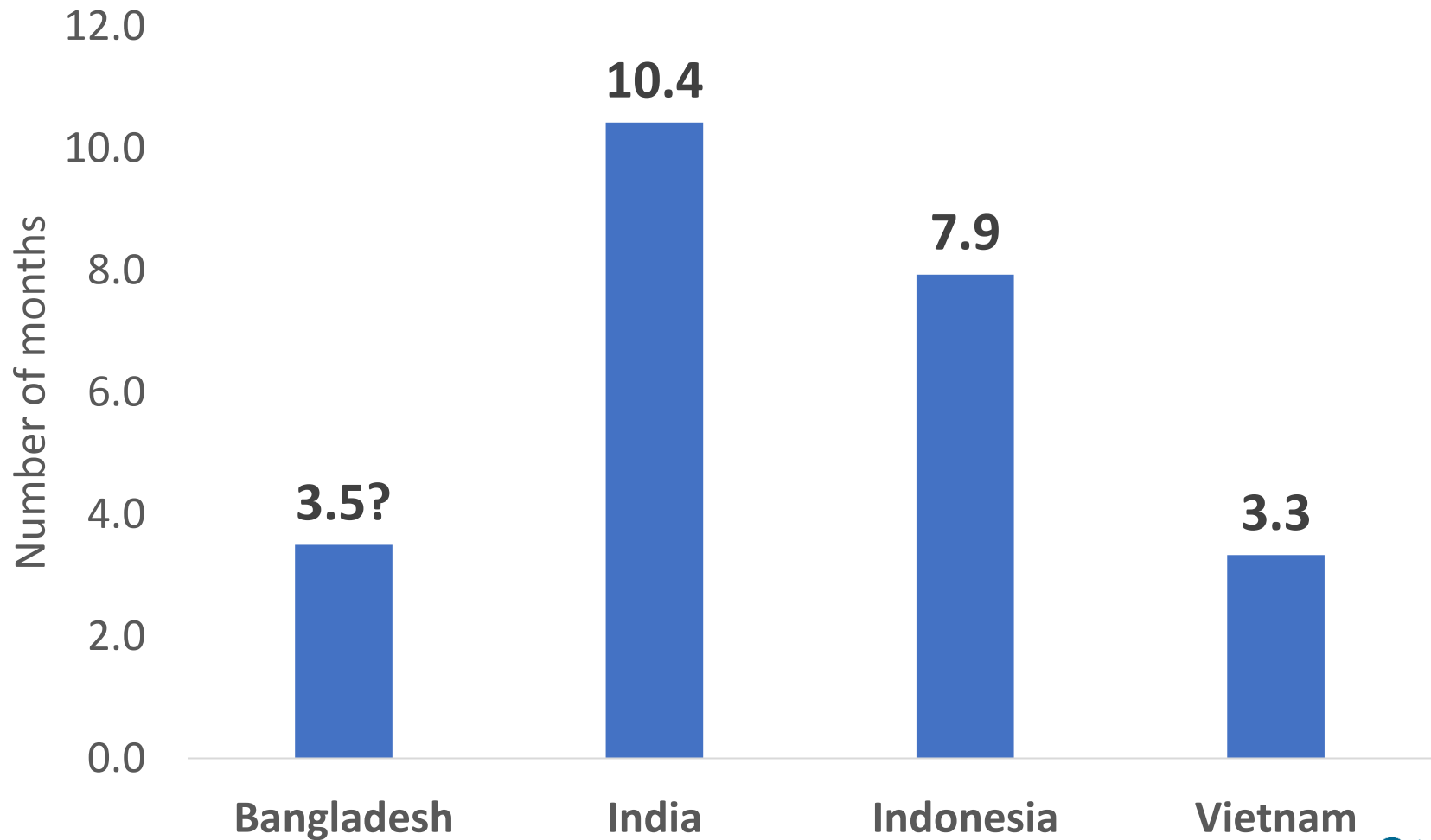
Comfortable foreign reserve until last year



Depleting foreign reserves in 2022



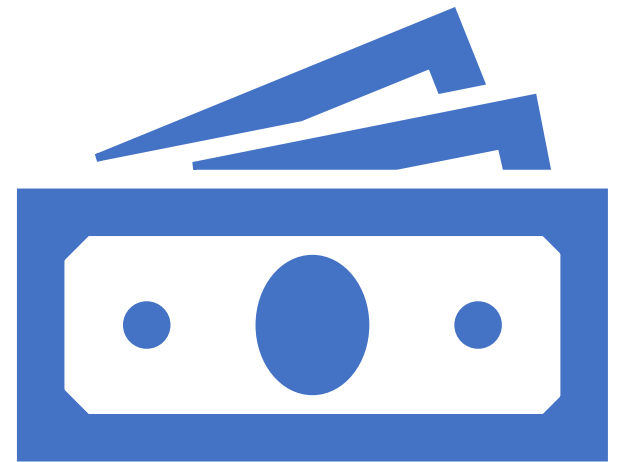
Recent foreign reserve to support month of import



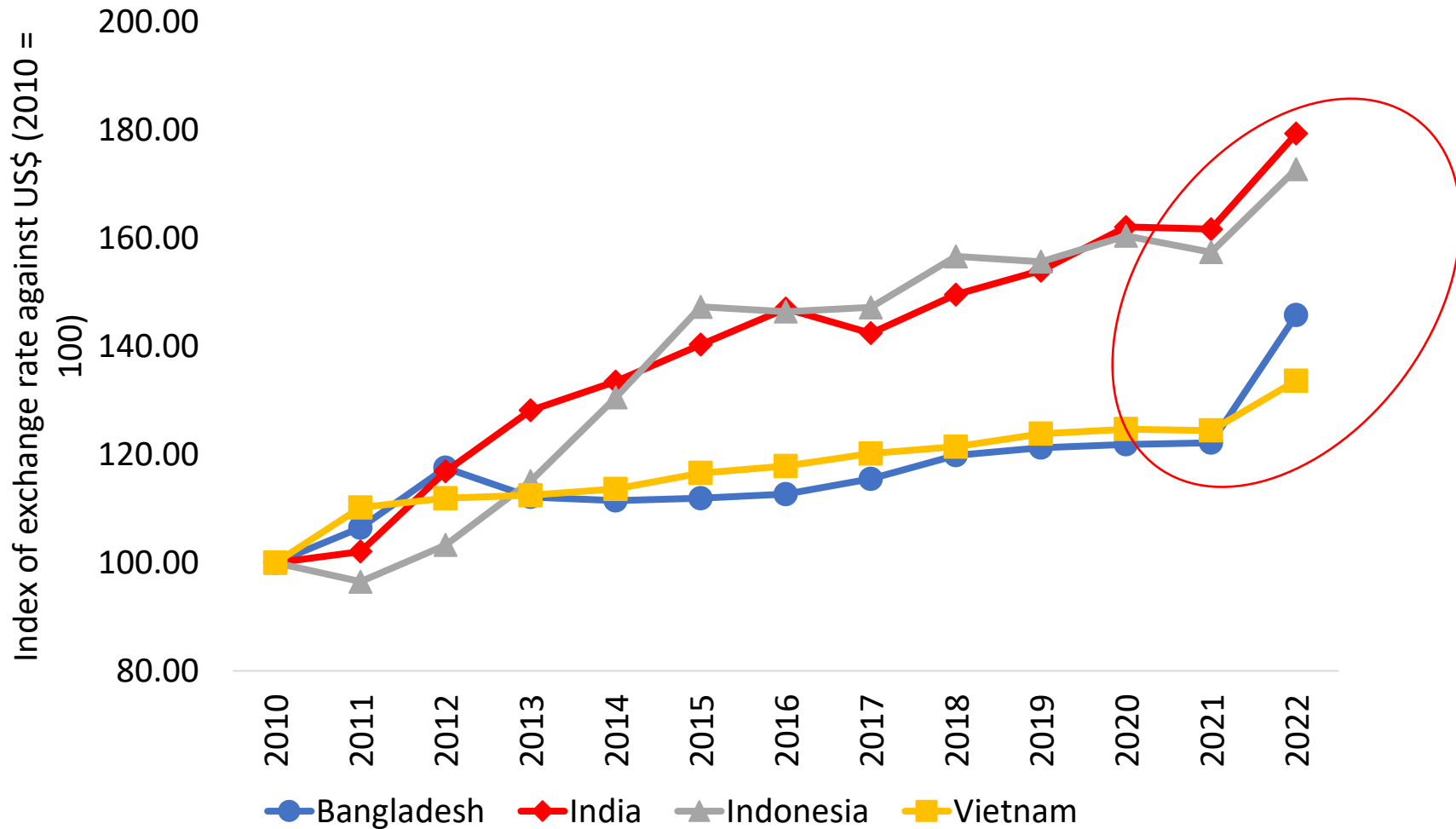
What needs to be done?

1. **Restraining import:** but it has growth implications
2. **Prospects of exports:** Interest rate hike in the west and looming recession in the west.
3. **Prospects of remittances:** Restrict hundi business
4. Management of **exchange rate**
5. Management of bank **interest rate**
6. Other components of BoP:
Especially **FDI**

Management of exchange rate



Movement of exchange rate



Data Source: World Bank and country sources

What went wrong with the management of exchange rate?

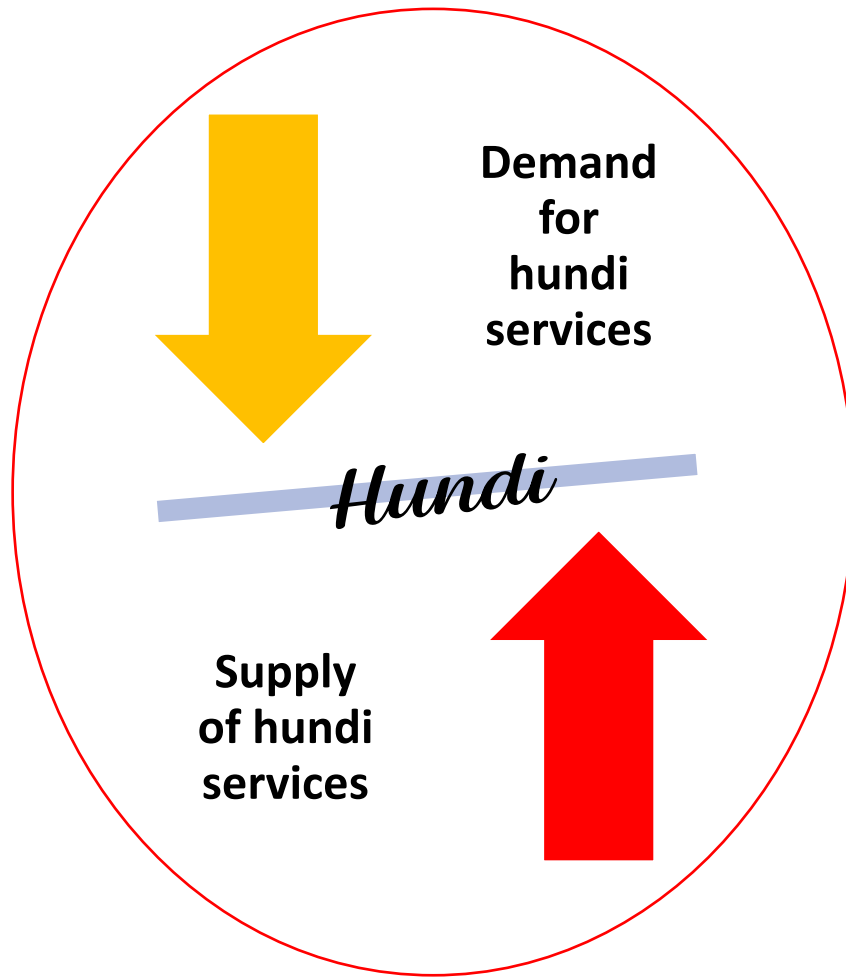
Pending adjustment

Slow adjustment

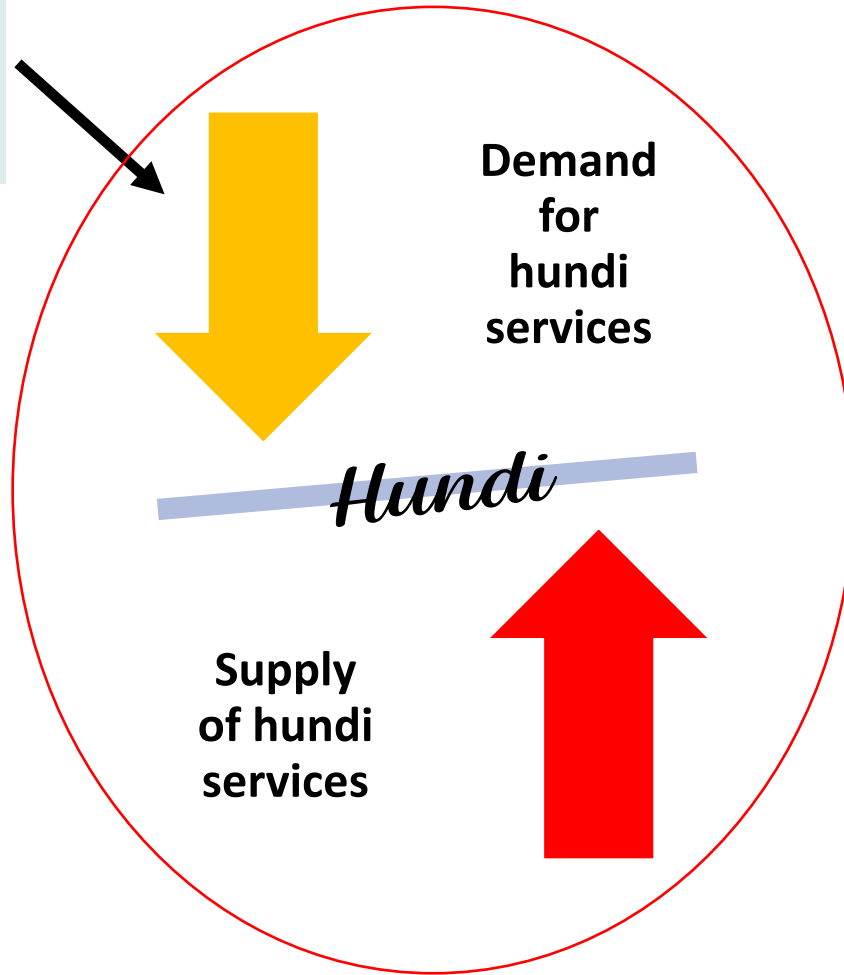
Improper adjustment

Multiple rates: Credibility trap

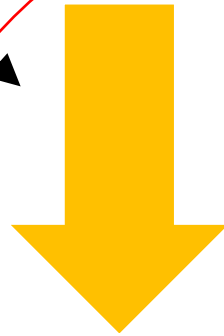
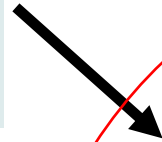
Hundi



Remitters in foreign countries



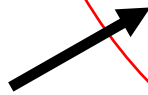
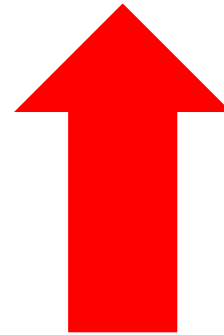
Remitters in foreign countries



Demand for hundi services

Hundi

Supply of hundi services

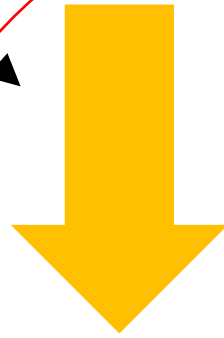
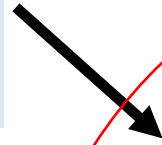


Hundiwala in foreign countries



Hundiwala or local agents of hundiwala in Bangladesh

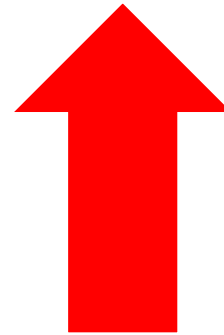
Remitters in foreign countries



Demand for hundi services

Hundi

Supply of hundi services



Remitters' families in Bangladesh



Giving taka equivalent to US\$



Hundiwala in foreign countries



Instructions

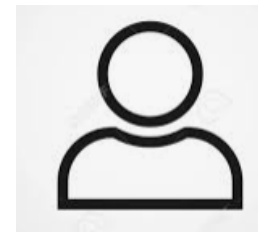


Hundiwala or local agents of hundiwala in Bangladesh

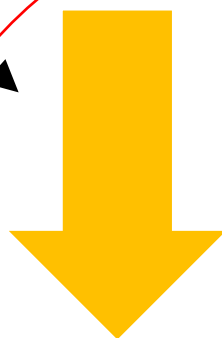
Remitters in foreign countries



Person in Bangladesh wants to transfer illicit money abroad



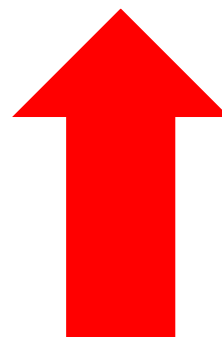
Demand for hundi services



Remitters' families in Bangladesh



Supply of hundi services



Giving taka equivalent to US\$



Hundiwala or local agents of hundiwala in Bangladesh



Hundiwala in foreign countries

Instructions

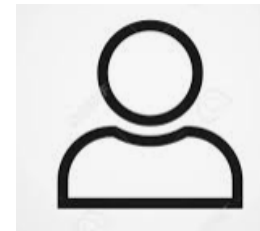


Hundi

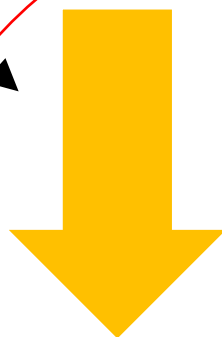
Remitters in foreign countries



Person in Bangladesh wants to transfer illicit money abroad



Demand for hundi services



Remitters' families in Bangladesh



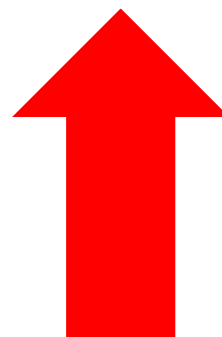
Giving Taka



Giving taka equivalent to US\$



Supply of hundi services



Hundiwala or local agents of hundiwala in Bangladesh

Instructions



Hundi

Giving US\$



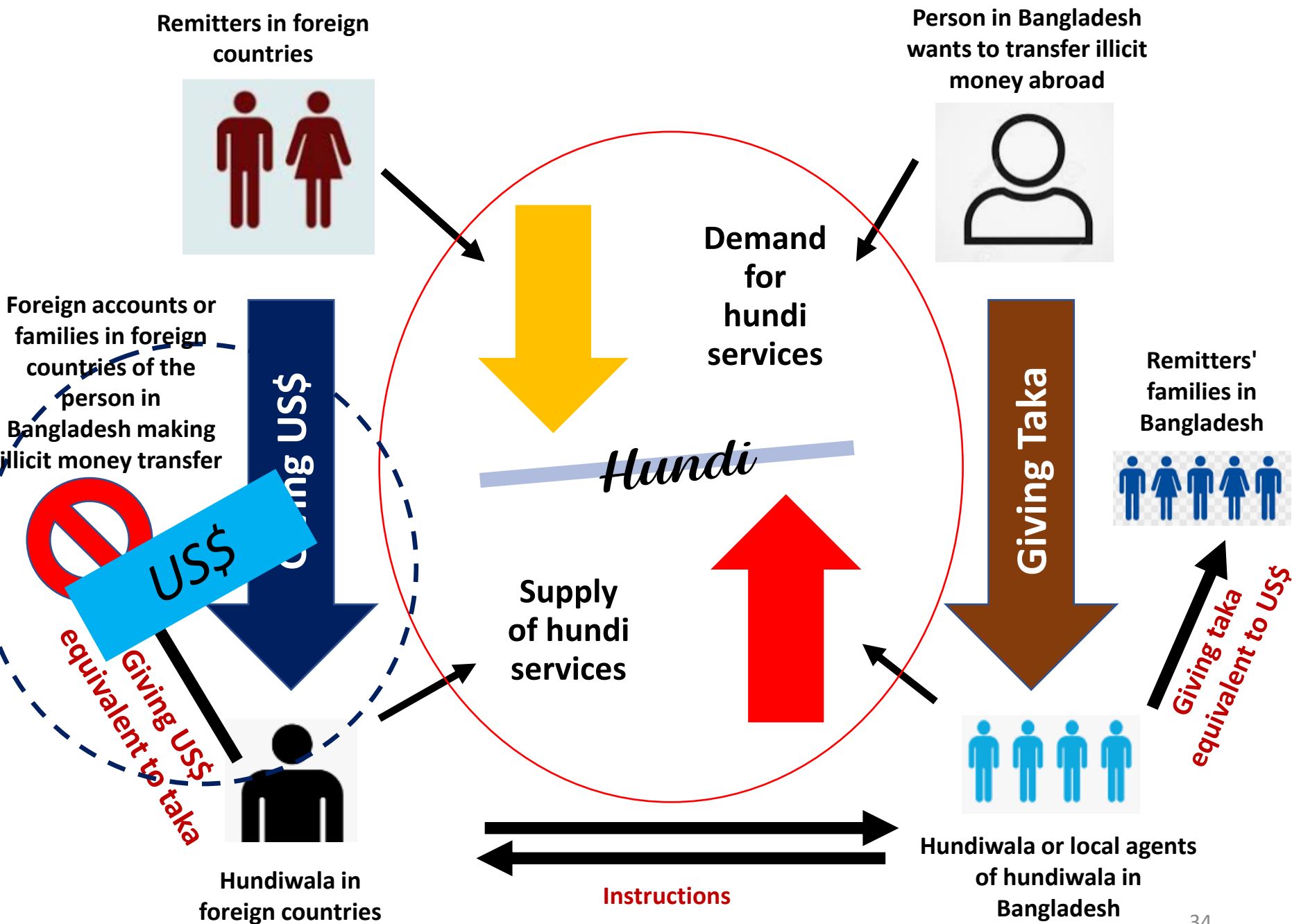
Hundiwala in foreign countries

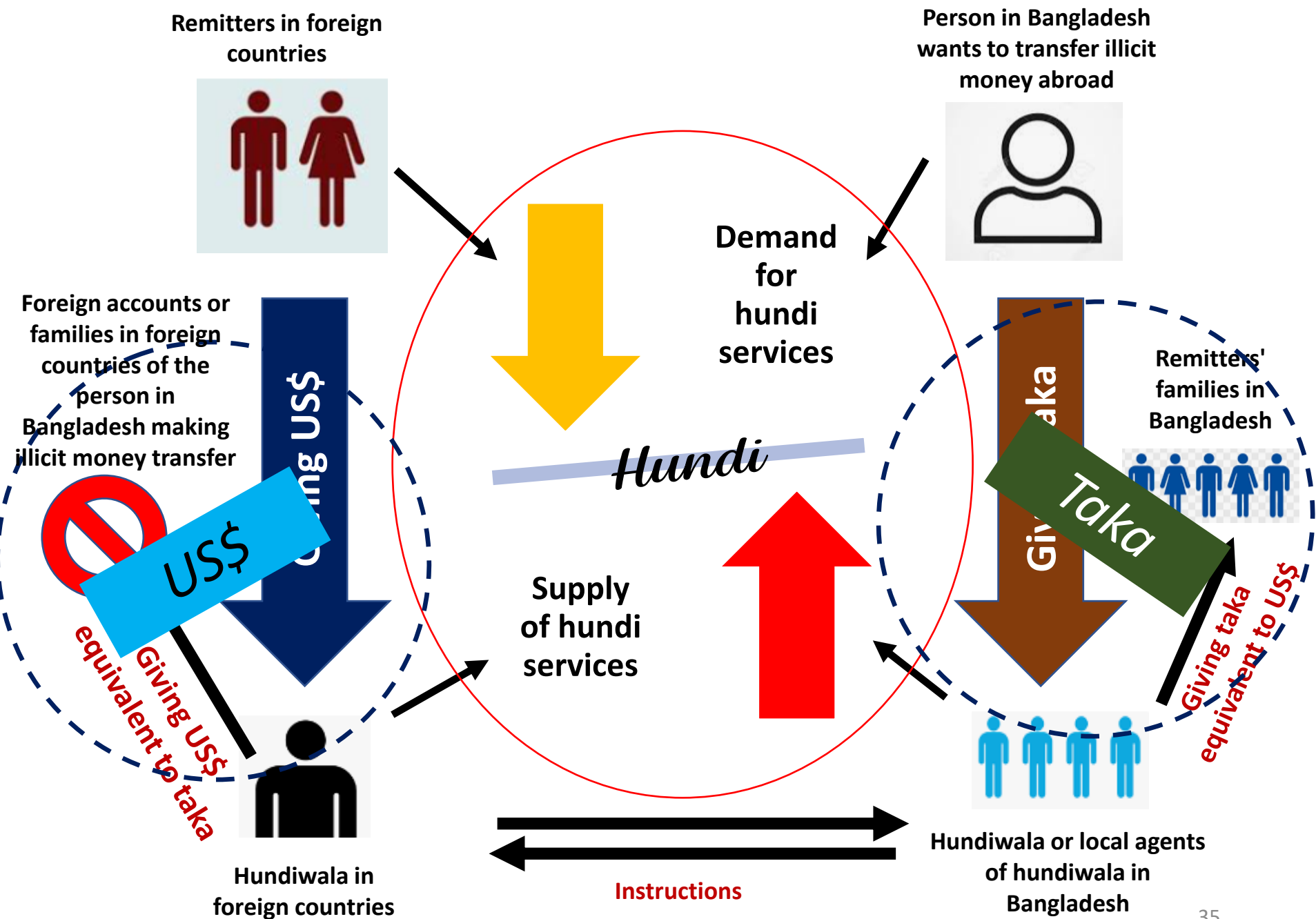


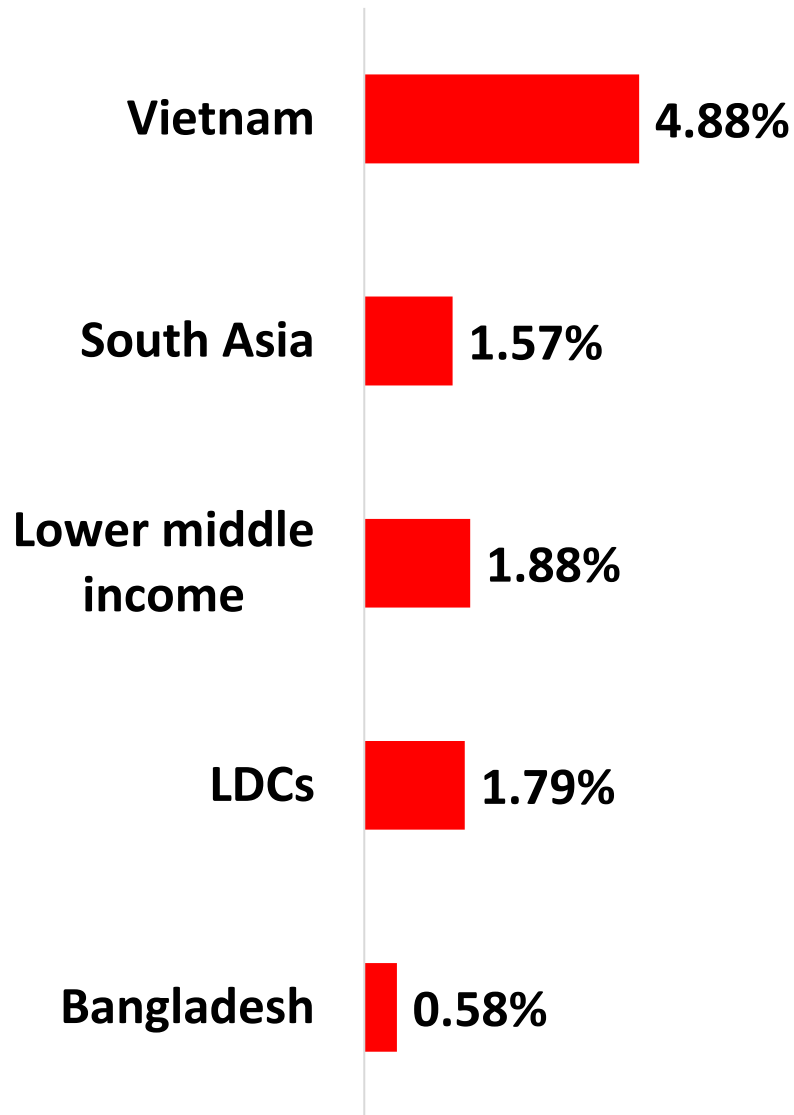
Foreign accounts or families in foreign countries of the person in Bangladesh making illicit money transfer



Giving US\$ equivalent to taka

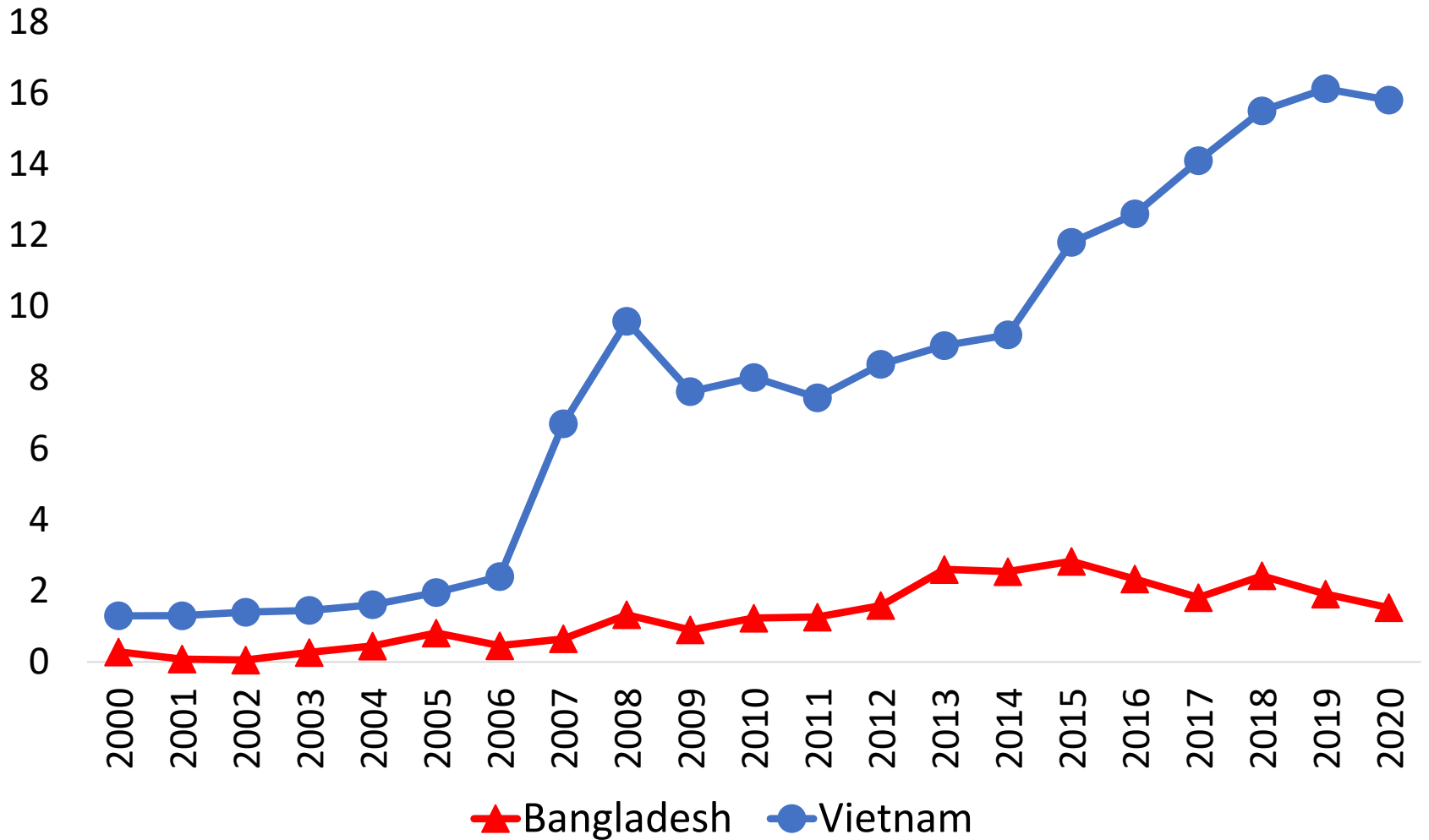




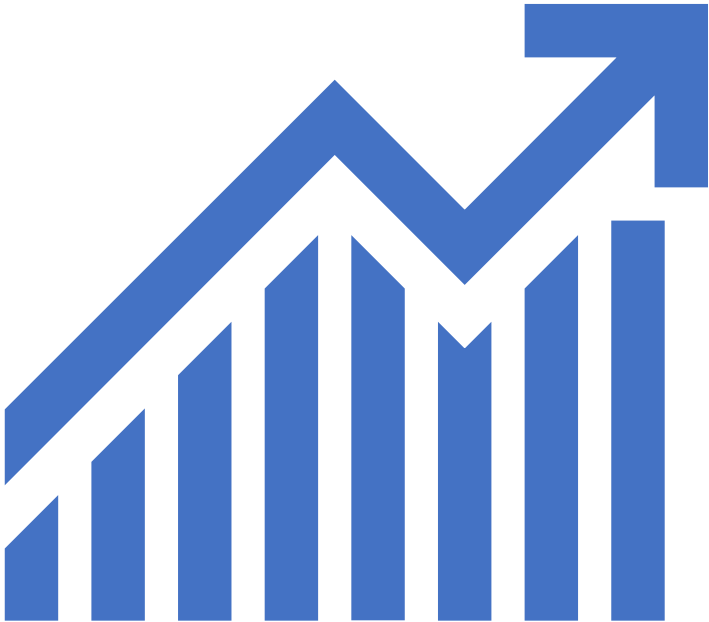


Very low
FDI in
Bangladesh
(FDI as % of
GDP)

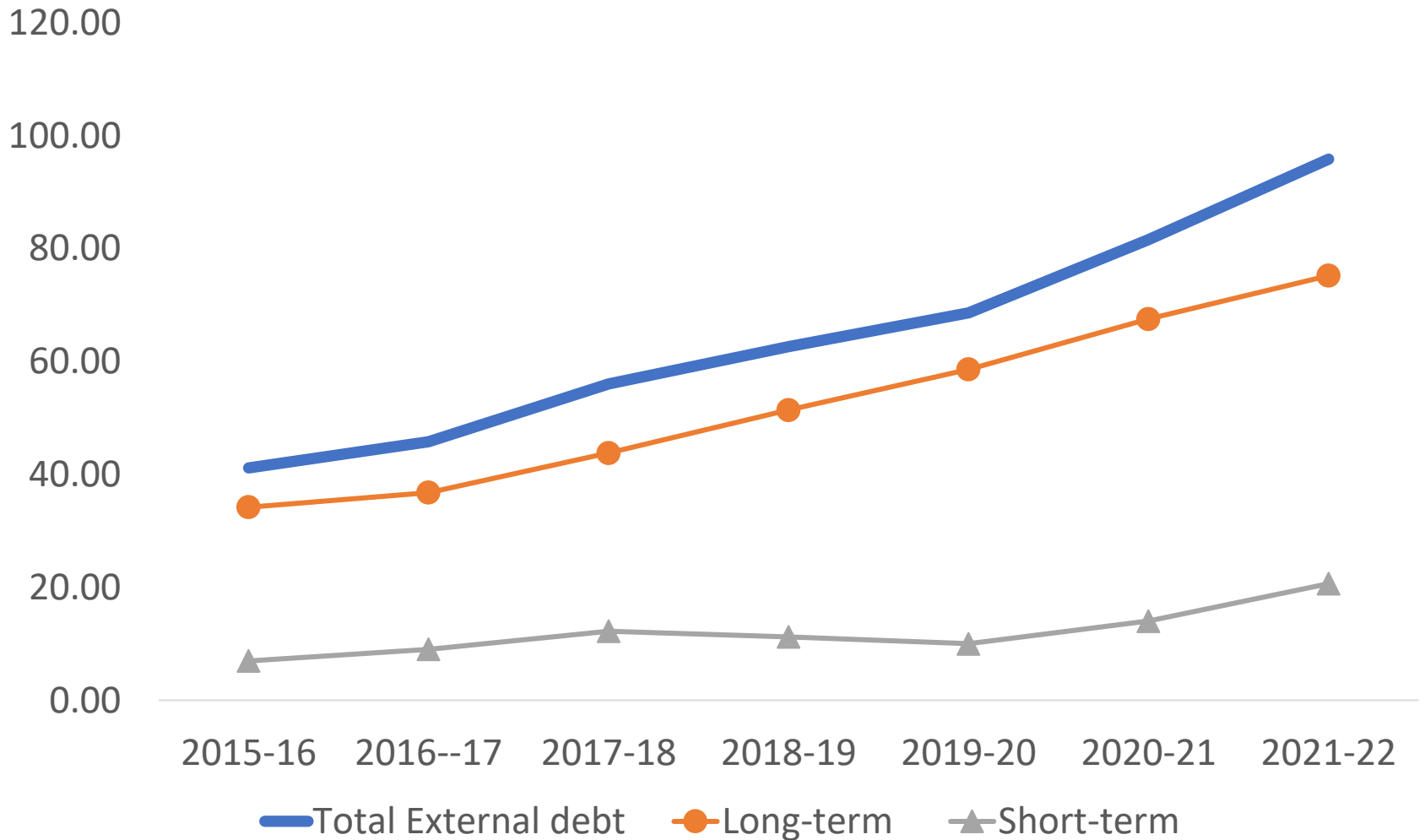
FDI (billion US\$)



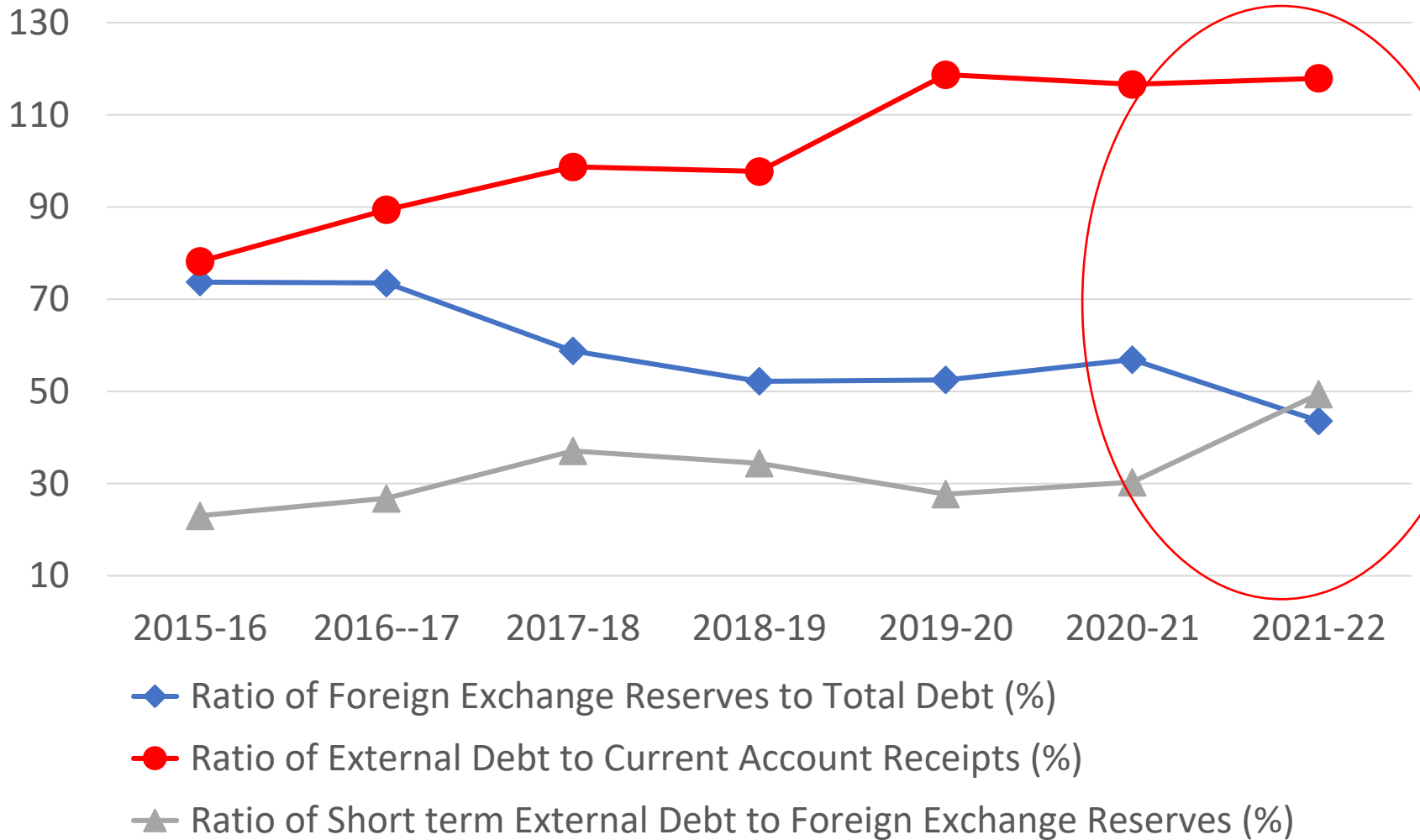
Debt situation



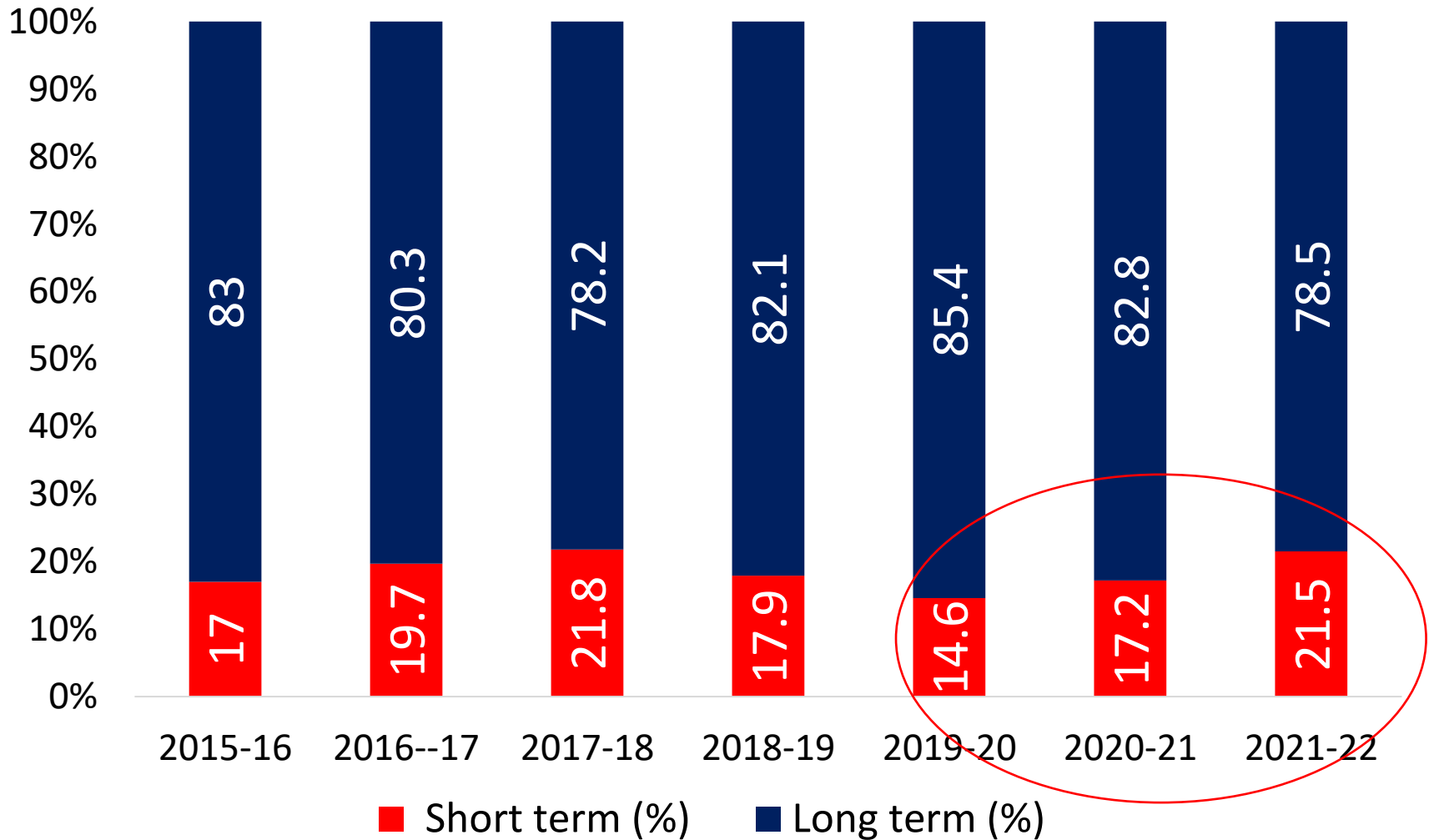
External debt (US\$ Billions)



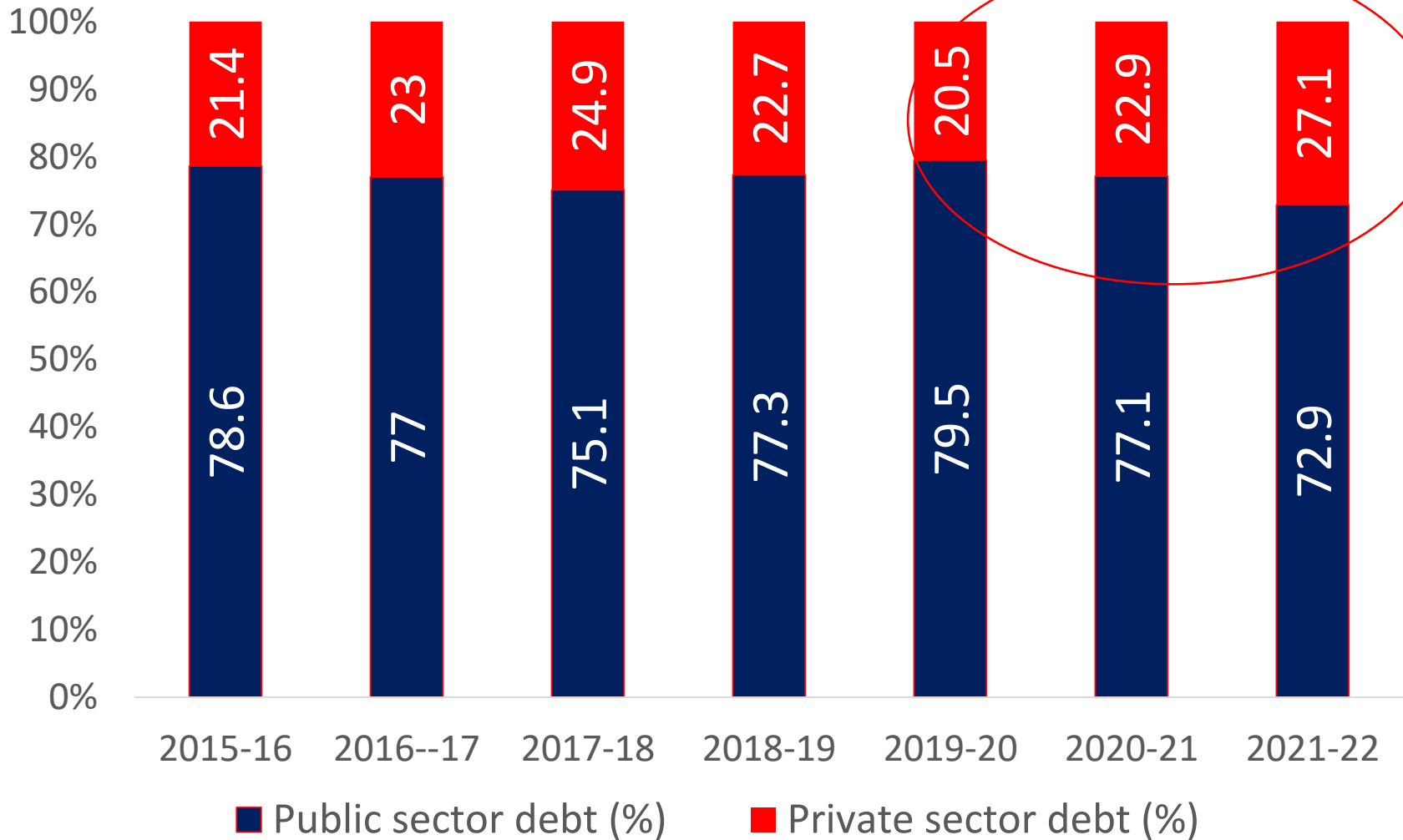
Debt dynamics (1)



Debt dynamics (2): Short term vs. long term



Debt dynamics (3): Public vs. private



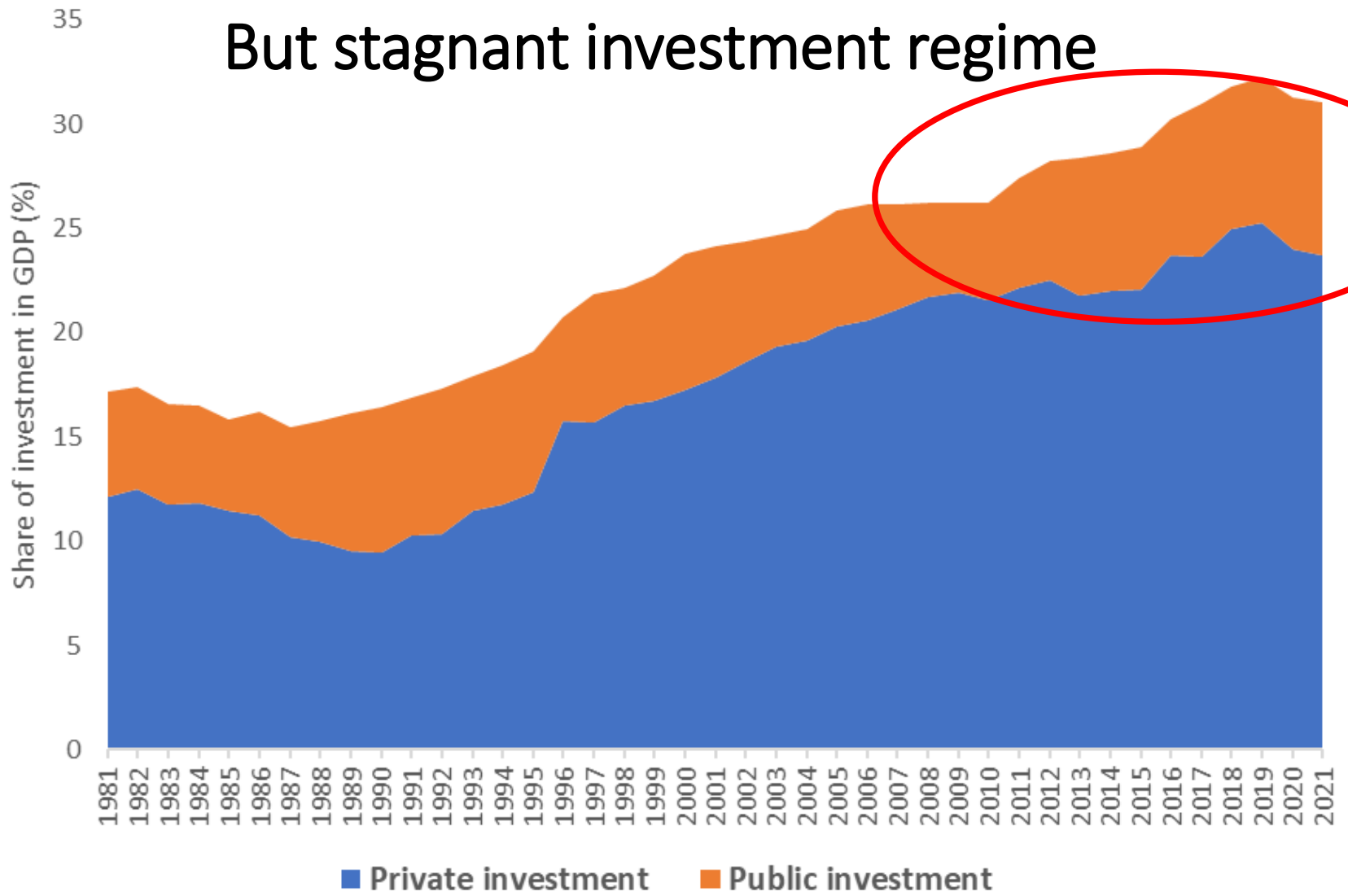
Inherent structural problems of the economy



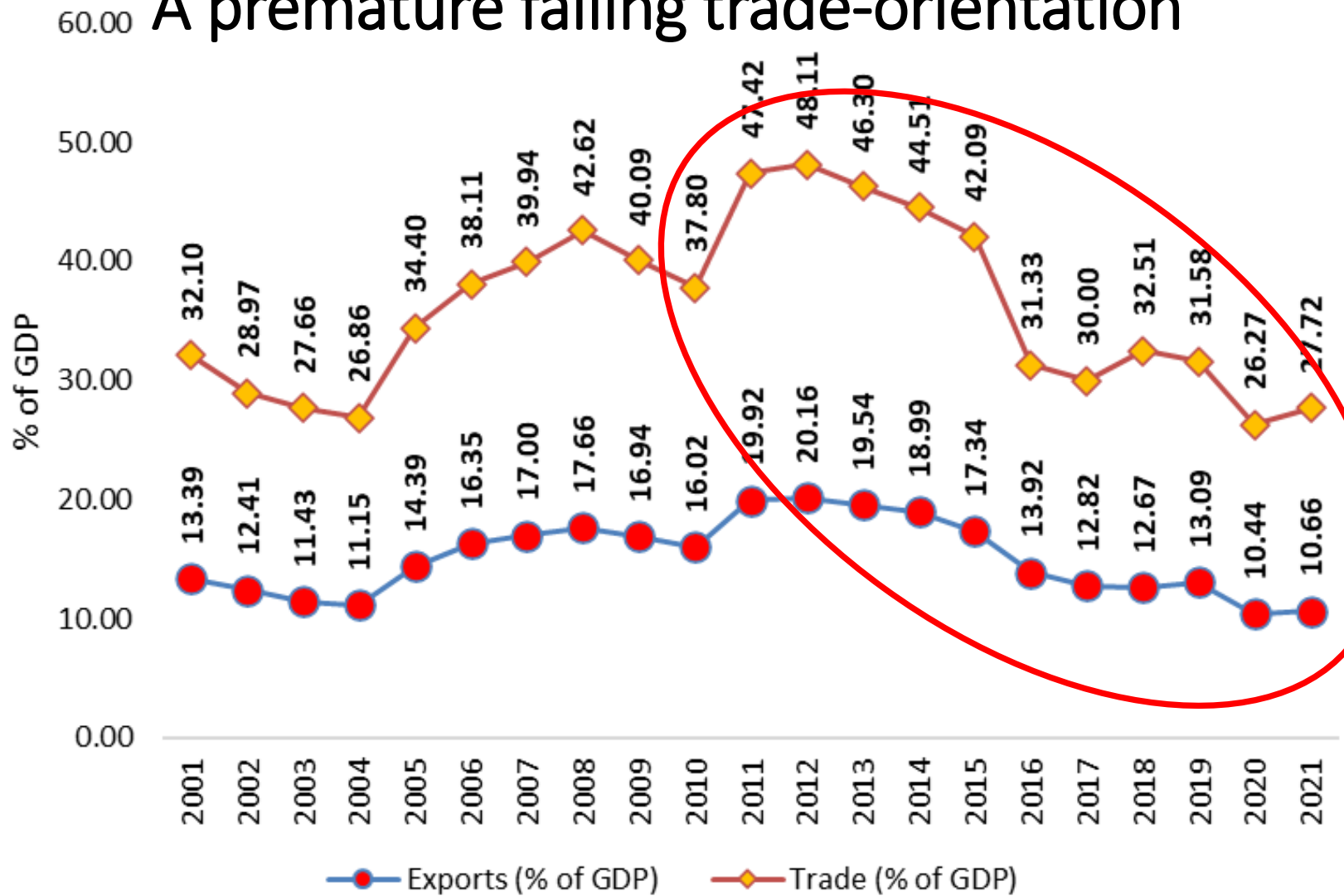
Success in economic growth



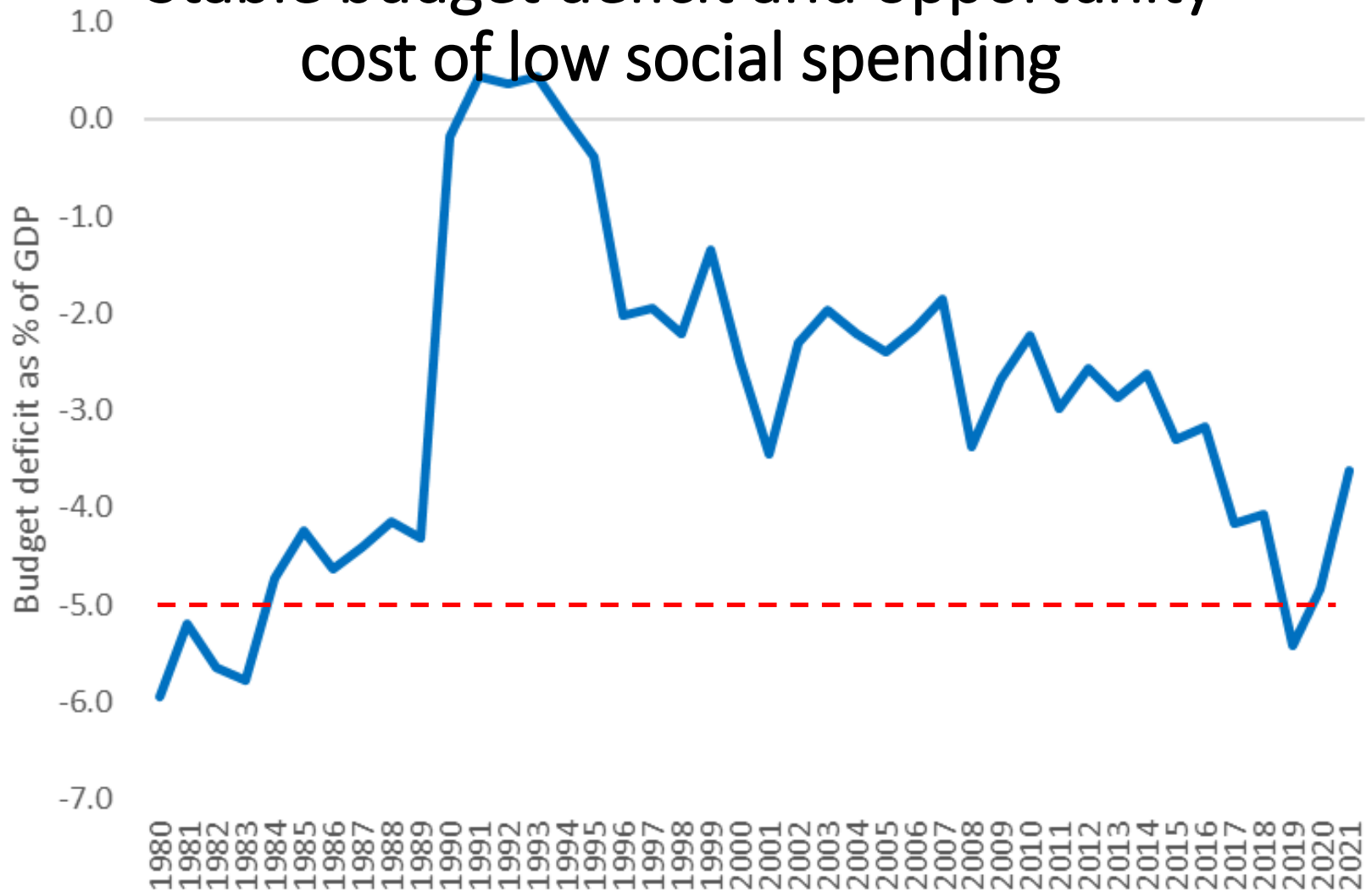
But stagnant investment regime



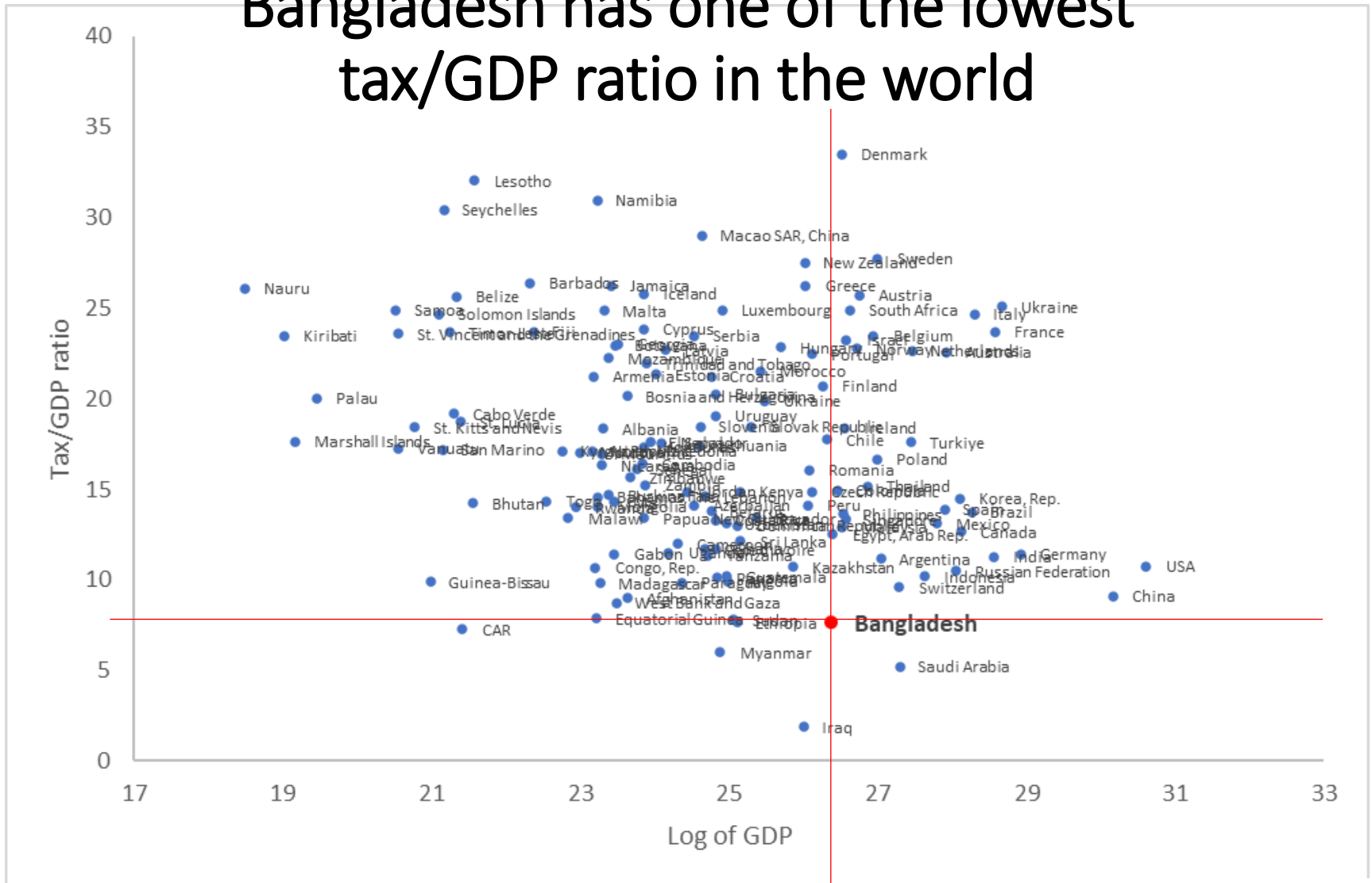
A premature falling trade-orientation



Stable budget deficit and opportunity cost of low social spending



Bangladesh has one of the lowest tax/GDP ratio in the world



Problems in the banking sector

Very high non-performing loan

Scams, Weak governance

Lack of autonomy of the central bank

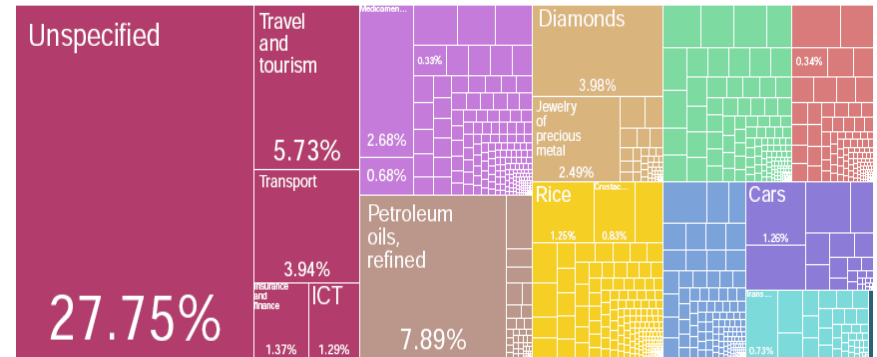
Ad hoc fixation of the interest rate

Highly concentrated export basket

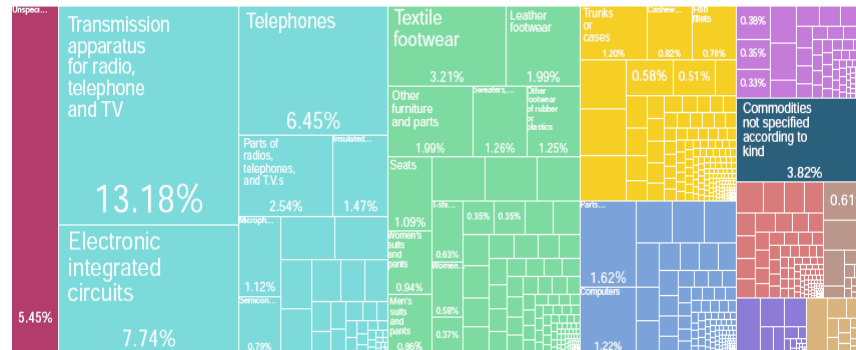
Bangladesh



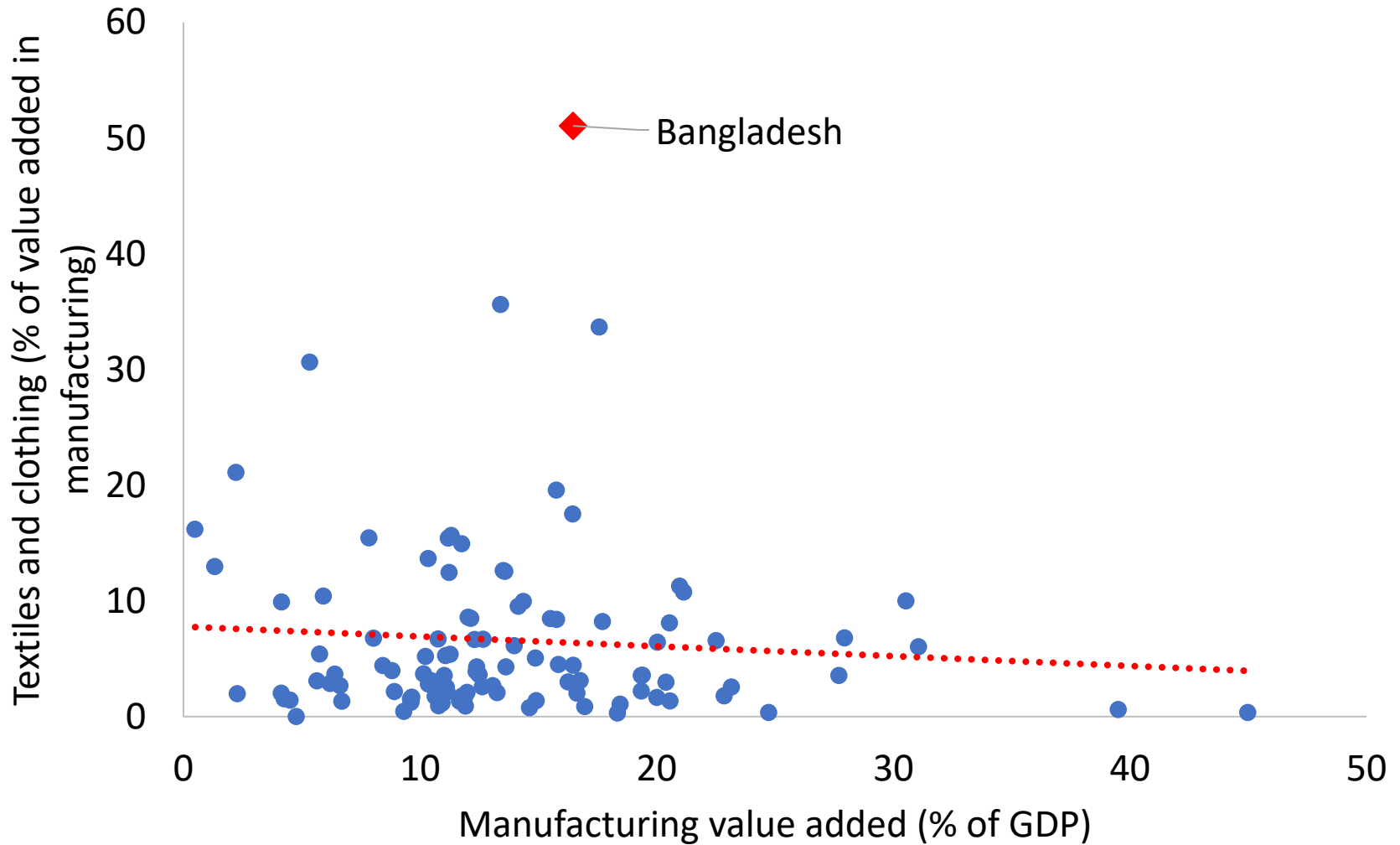
India



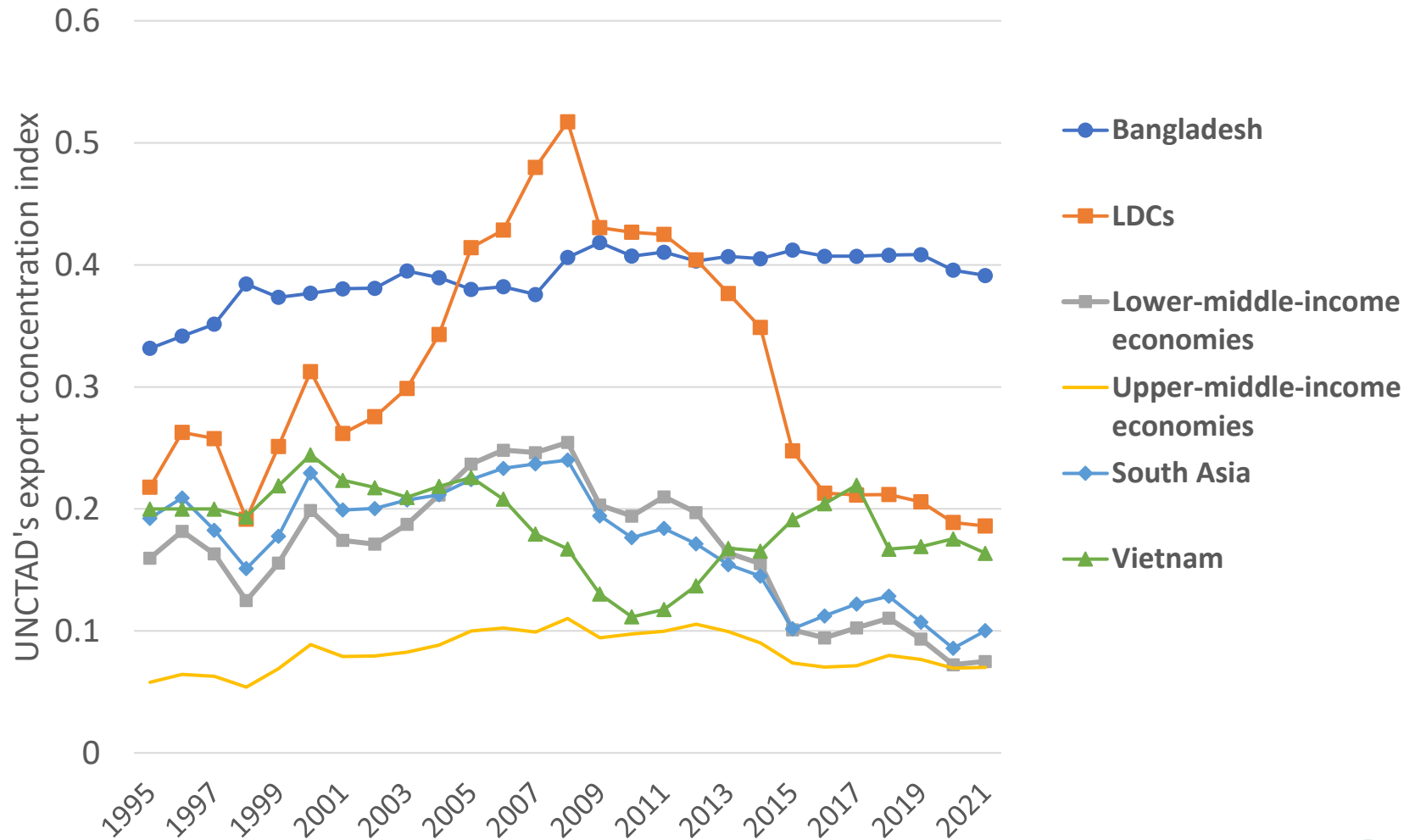
Vietnam



As RMG producer, Bangladesh is a major outlier!



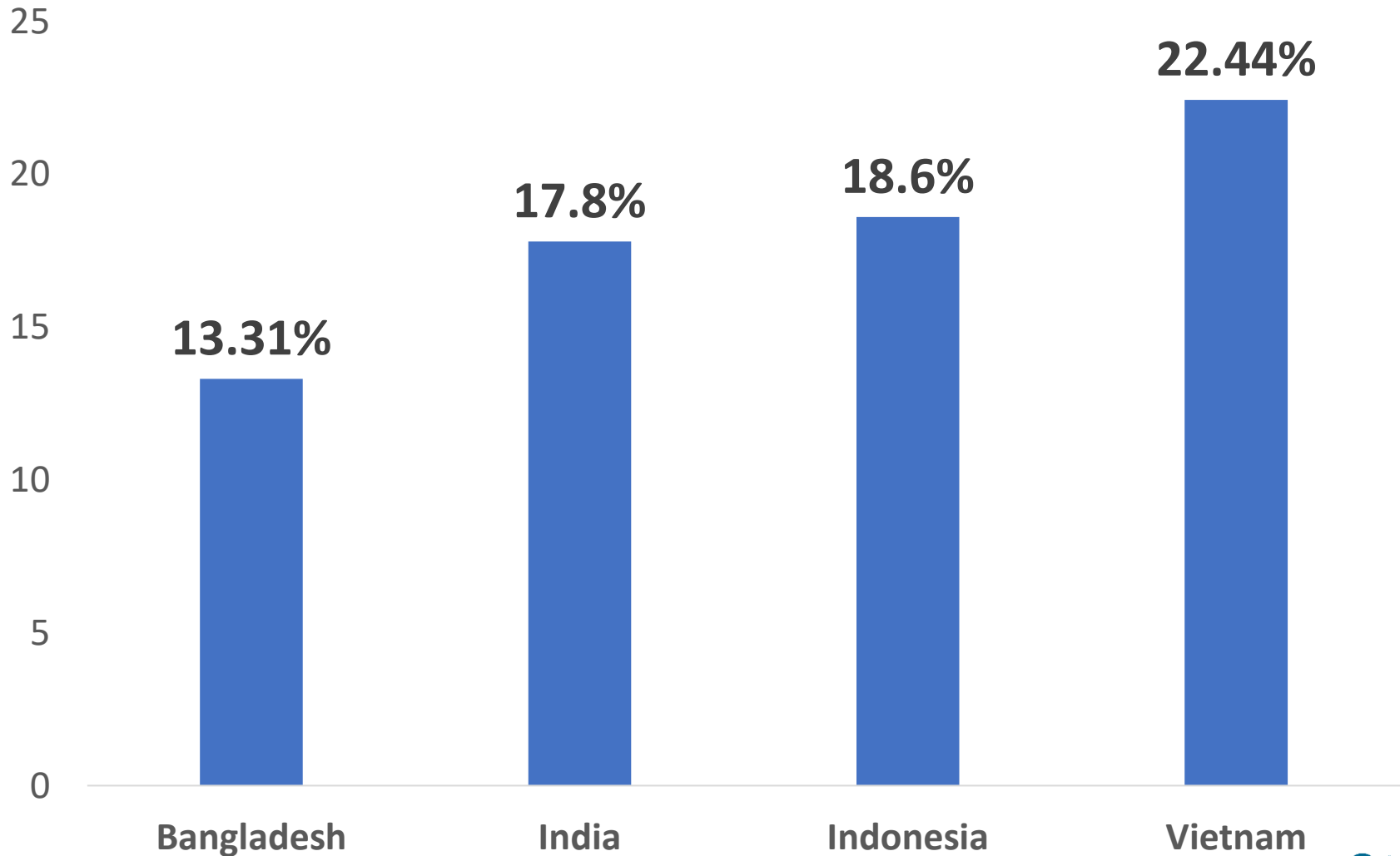
Bangladesh's export concentration is extra-ordinary!!



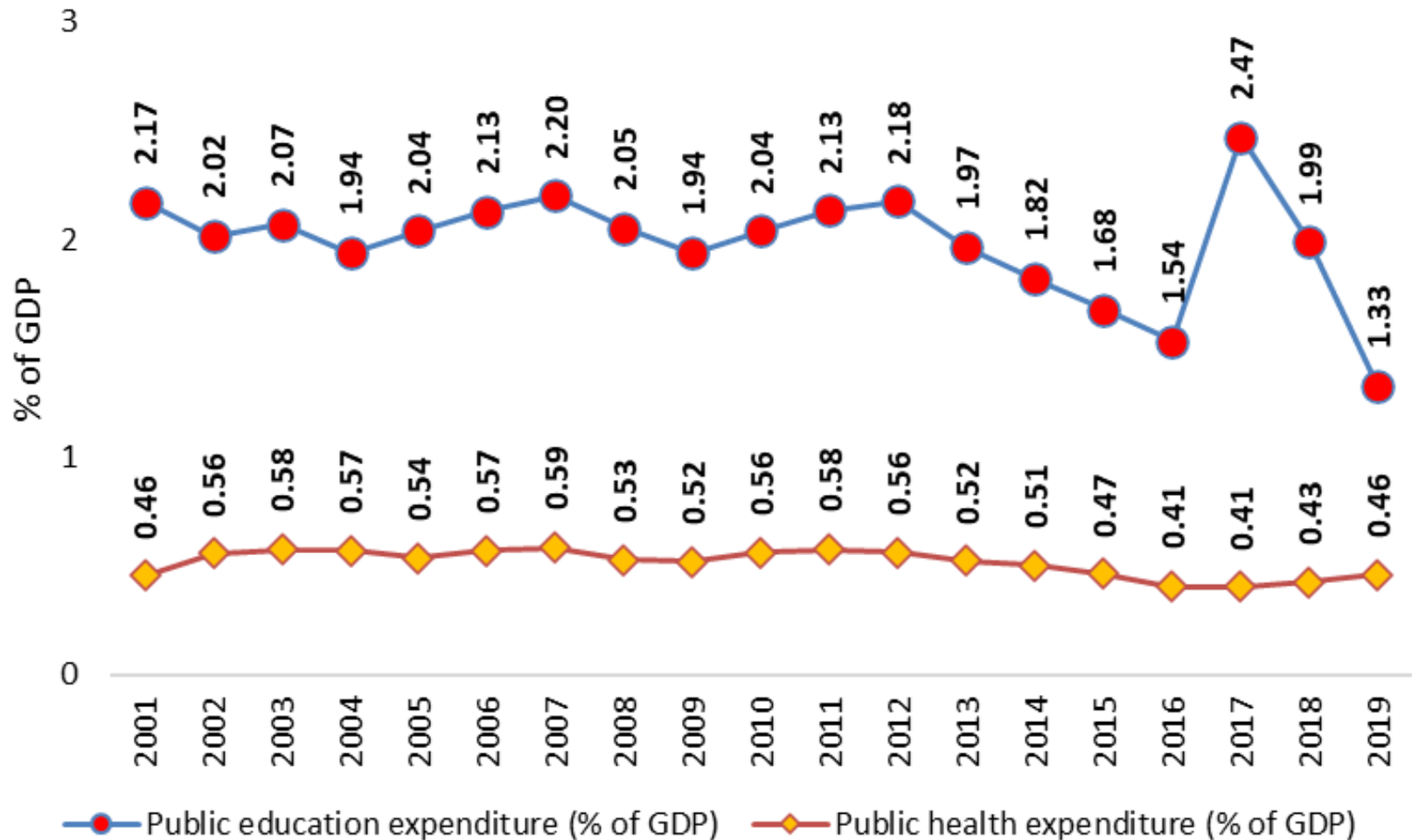
Other major challenges

- Critical problems of PIE (Poverty, Inequality, Employment)
- Problems of competitiveness and high cost of doing business
- Illicit money transfer
- Budget as percentage of GDP is still much lower than what should be given the size of the economy
- High amount of subsidies
- Weak capital market
- Management of foreign debts. Mega projects
- Electricity generation success and concerns

Size of government's annual budget as % of GDP



Policy paralysis in social sector spending



What have been the steps taken
so far by the government?

Responses from the government

1. Attempts to contain import: LCs opening declined
2. Exchange rate management: Inadequate
3. Social protection measures: Institutional challenges
4. Austerity measures: Fear of cut in social spending
5. The process of securing a loan from the IMF (US\$ 4.5 billion). Also, loans from ADB, World Bank (Conditionalities attached to the loans. But reform proposals are nothing new! 6th-8th FYP and PP talk about many of the reform measures)



What further
needs to be
done?

What further needs to be done?

Fiscal responsibility

Prudent debt management

Exchange rate management and supply side issues
(export diversification)

Interest rate management and banking sector
governance (banking sector reform)

Public spending on health, education

Dealing with subsidies

SEZ, FDI, Padma Plus

Need for coordination among policies and agencies

A high-level advisory panel of experts



Thank you!