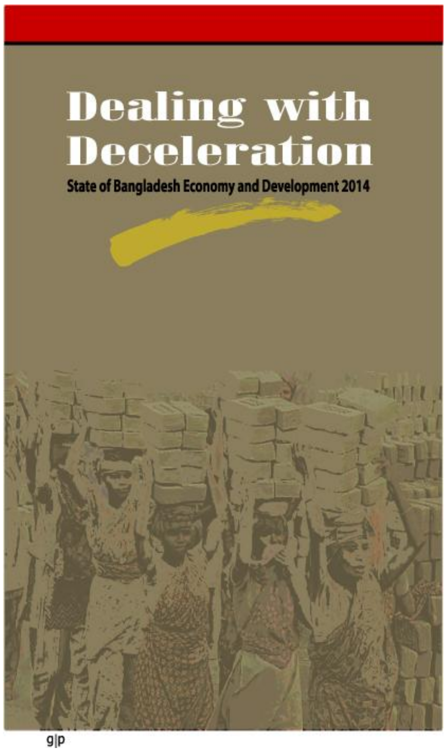
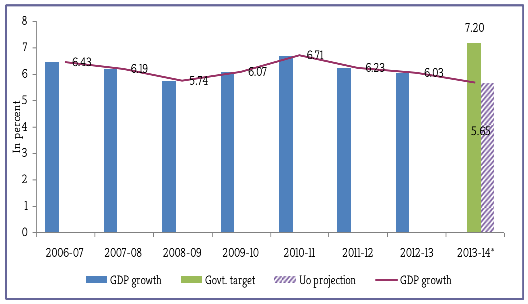
Dealing with Deceleration

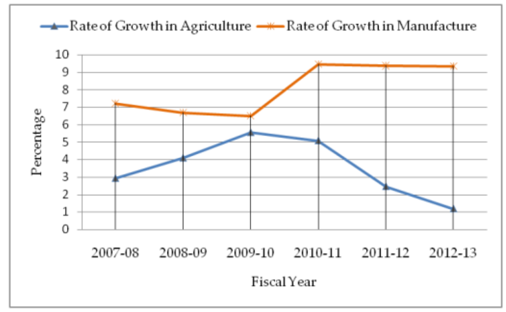
State of Bangladesh Economy and Development 2013-2014



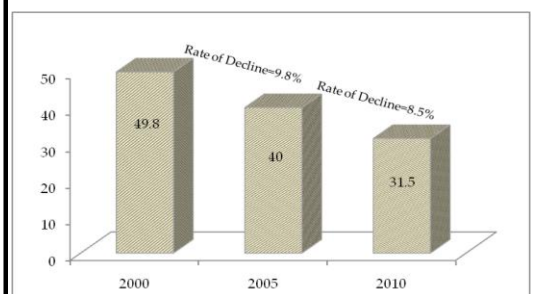
Deceleration in the growth of GDP



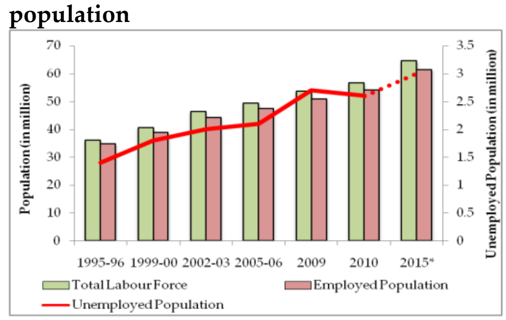
Declining growth in agriculture and manufacturing



Decelerated decline in the incidence of poverty



Increasing number of unemployed population



Source: Unnayan Onneshan, *Dealing with Deceleration: State of Bangladesh Economy and Development 2013-2014*

The Unnayan Onneshan, an independent multidisciplinary think-tank, in its annual review of the economy and development calls for prudent management of the economy as the economic growth in the current fiscal year is likely to experience a decelerating rate for the third time in a row from those of the preceding years.

The Unnayan Onneshan cautions in its pre-national budget publication, *"Dealing with Deceleration: State of Bangladesh Economy and Development 2013-14"* that the management of an economy is contingent upon the efficacy of macroeconomic policies in preventing fluctuations in output and employment and if the current expedient regimes continue the deceleration could not be averted.

The current annual number, which has scrutinised the major macroeconomic indicators of growth and development, finds that short-sightedness in fiscal management and inappropriate contractionary monetary policies led to stagnation in investment, causing disarrays and weak performance in the real economy, including agriculture, manufacturing and external sector.

The research organisation also points out that there has been decelerated decline in the incidence of poverty, coupled with increased number of unemployed, particularly youth and educated and decreasing allocation of budget and poor status of ADP implementation in the social sectors.

The Unnayan Onneshan also observes an increasing gap between the target and the achievement of revenue collection in the FY 2013-14, indicating a squeezed capacity of the government to invest in much needed infrastructure.

The rate of growth in the GDP has declined from 6.71 percent in FY 2010-11 to 6.23 percent in FY 2011-12 and then to 6.03 percent in FY 2012-13, which is projected to fall below the decadal average of 6.0 percent in FY 2013-14.

The rate of savings and investment to the GDP has remained stagnant over the years and the gap between savings and investment has assumed an increasing trend lately, suggesting that the government's macroeconomic strategies fall short of converting the savings into investment and holding back the possibility of the capital flight, says the Unnayan Onneshan (UO). In the FY 2011-12, the gap between savings and investment was calculated as 2.64 percent of GDP, whereas the gap reached 2.67 percent of GDP in the FY 2012-2013.

Dwelling on the investment and the growth linkage, the Unnayan Onneshan notes that the status of "incremental capital output ratio (ICOR)", which measures the ratio of investment to growth, has been deteriorating of late, implying the lower availability and productivity of investment. Given the ICOR remains constant at the previous year's level of 4.44, the rate of investment needs to be increased to 32.0 percent of GDP in order to achieve a six-percent rate of growth in GDP in the current fiscal year, says the UO. Achievement of the government's targeted growth of 7.2 percent in the current fiscal year requires the investment to be 38.21 per cent of the GDP, which is unlikely to be achieved.

Against the backdrop of increasing gap between the target and the actual collection of revenue, the government has experienced a deficit of Tk. 7968 crore, of which Tk. 5579 crore taka in income tax vis-à-vis the target set by the National Board of Revenue (NBR) during the period of July-March of the FY 2013-14, thereby indicating a larger deficit at the end of the fiscal year. In the FY 2012-13, the target of tax revenue collection was Tk. 116824 crore against the actual collection of Tk. 112746.3 crore.

The Unnayan Onneshan finds that the private sector credit growth has assumed a declining trend in the beginning of second half of the FY 2013-14, reflecting a worrying investment climate. In the months of January and February of the FY 2013-14, the private sector credit growth has been at 11.08 percent and 10.73 percent respectively compared to 14.83 percent and 13.96 percent during the corresponding months of the FY 2012-13.

As regards the real sector, the rate of growth in agriculture was 5.24 percent in FY 2009-10, whereas in the FY 2010-11, FY 2011-12 and FY 2012-13 the rate came down to 5.13 percent, 3.11 percent and 2.17 percent respectively. This falling growth in the sector has been causing the share of agriculture in GDP to decline over the recent years, detects the research organisation.

In the FY2009-10, the share of agriculture in GDP was 20.29 percent, whereas in the FY 2010-11, FY 2011-12 and FY 2012-13 the share fell to 20.01 percent, 19.42 percent and 18.70 percent respectively.

The UO notices that the rate of growth in the manufacturing sector has also been falling since the FY2 010-11. In the FY 2010-11, the rate of growth in the manufacturing sector was 9.45 percent, which is 2.95 percentage points higher than that in the FY 2009-10, whereas the rate decreased to 9.37 percent and 9.34 percent in the FY 2011-12 and FY 2012-13 respectively.

Referring to the infrastructure, the research notes that the cost of power supply has increased by 163 percent between the FY 2008-09 and FY 2012-13. In the FY 2008-09, generation of one unit power cost Tk. 2.55, whereas the cost became Tk. 6.7 in the FY 2012-13 for generating the same amount of power. During the FY 2013-14, another rise in the power tariff by 6.96 percent has since March, 2014.

As regards the external balance, a deceleration in the growth of export earnings coupled with declining growth in the export of readymade garments has been observed, signaling a disquieting state of the economy, notes the think-tank. The growth of total export came down to four percent in the FY 2012-13 from 12.4 percent in the FY 2011-12.

Export in Bangladesh is characterised by the concentration of productive capacity in readymade garments which constitute 80.6 percent of total export earnings in the FY 2012-13. Growth in the export of readymade garments also fell to 5.5 percent in the FY 2012-13 from 12.7 percent in the FY 2011-12, notices the UO.

The inflow of remittance has been increasing at a decelerated rate since the FY 2007-2008. The research organisation evinces that the inflow of remittance has fallen by 6.93 percent during the periods of July-February of the FY 2013-14 compared to the corresponding periods of the FY 2012-13.

The amount of total employed and unemployed people were 34.8 million and 1.4 million in 1995, whereas the amount increased to 54.5 million employed and 2.6 million unemployed people in 2010. "If the current trend continues, the number of unemployed population may reach 3.3 million by 2015 causing the opportunity of demographic dividend to remain missed and elusive", opines the UO.

The rate of decline in the incidence of poverty has decelerated lately and was 9.8 percent during 2000-2005 and 8.5 percent during 2005-2010. The incidence of poverty came down to 31.5 percent in 2010 from 49.8 percent in 2000 and 56.6 percent in 1991.

In the case of social sector, a reduction in the allocation for both the health and education sectors as percentage of total budget outlay has been noticed recently. In the FY 2013-14, the total allocation for the health sector constitutes only 4.3 percent of the total budget outlay compared to 4.9 percent in the FY 2012-13 and 5.4 percent in the FY 2011-12.

Along the same vein, the total allocation for the education sector constitutes only 5.92 percent of the total budget outlay in the FY 2013-14 compared to 6.02 percent in the FY 2012-13, 6.51 percent in the FY 2011-12 and 7.43 percent in the FY 2010-11. In addition, the UO finds that the status of ADP implementation in the education sector is also poor. Only 40 percent of the total ADP allocation in the sector has been implemented during the period of July-February of the FY 2013-14, implying that a large portion of the allocation will remain unutilised in the current fiscal year as well.

In order to get rid of the outlined bottlenecks in the economy, the Unnayan Onneshan calls for a strategy that generates increment in the productive capacity and provides avenues for the poor to obtain an increased share.