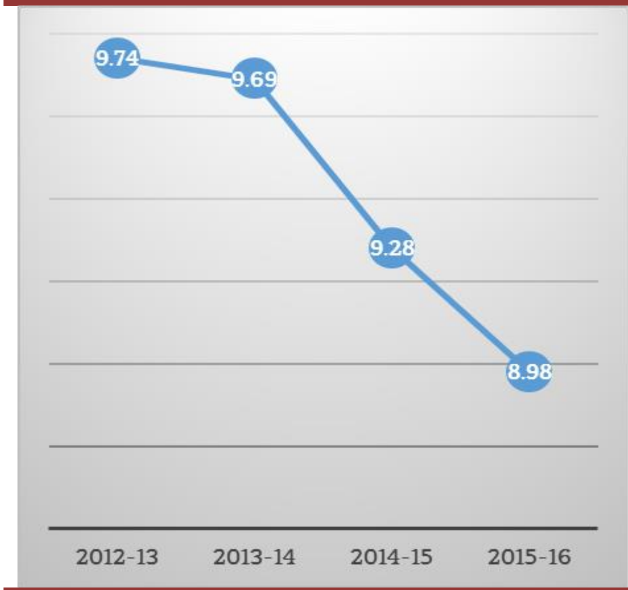
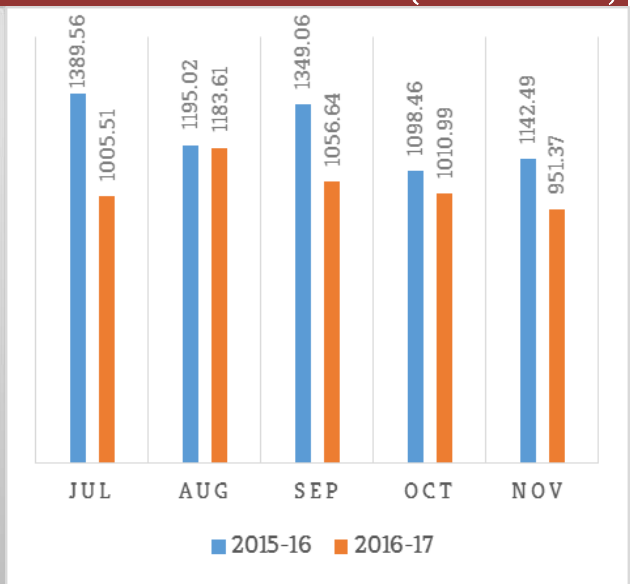
Medium-term Macroeconomic Challenges Loom Large
Year-end Assessment of Bangladesh Economy
Bangladesh Economic Update, December 2016

Trend in Tax-GDP Ratio



Trend in Inflow of Remittance (in million USD)



Source: Unnayan Onneshan, *Medium-term Macroeconomic Challenges Loom Large: Year-end Assessment of Bangladesh Economy*, December 2016.

The Unnayan Onneshan (UO), an independent multidisciplinary think tank, in its year-end assessment of the economy reveals that medium-term macroeconomic challenges in the forms of stagnation in ratio of private investment to gross domestic product, deceleration in rate of growth in collection of revenue, high concentration of single product in export basket and lower inflow of remittance, coupled with high youth unemployment loom large.

"The causes of elapsing prospects are more institutional. The gradual corrosion of institutions has constrained allocation of resources to channel efficiently into the productive sectors in order for the economy to get higher returns in terms of expanded productive capacity," observes the last issue of the UO's monthly Bangladesh Economic Update.

The Unnayan Onneshan notes that the stagnation in the ratio of private investment to gross domestic product (GDP) and ever increasing rise of capital flight, coupled with regulatory unpredictability in economic management have appeared to be the major challenge in the economy.

The think tank shows that private investment as percentage of GDP decreased by 0.04 percent on average since FY 2008-09. Private investment stood 21.87, 21.56, 22.14, 22.50, 21.75, 22.03, 22.07, and 21.78 percent of GDP in FY 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, and 2015-16 respectively.

Taking account of the increasing amount of illicit financial flow from Bangladesh (USD 5409 5921, 7225, and 9666 million in 2010, 2011, 2012, and 2013 respectively), the research organization warns that national savings, which have declined since FY 2012-13 (30.53 percent in FY 2012-13, 29.23 percent in FY 2013-14, 29.02 percent in FY 2014-15 and 30.08 percent in FY 2015-16) may further decline in current fiscal year, and the targets of increasing private investment is unlikely to be achieved.

"The country's quest for self-reliance based upon domestic resource mobilization has been marred by the policy shift towards 'debt-financed-debt-trapped development financing.' The current year witnessed the same level of debt dependence due to failure in providing strategic direction in overhauling the domestic resource mobilization to expand and increase the tax base," notes the Unnayan Onneshan.

The think tank shows that the collection of total tax revenue as percentage of GDP has been declining since FY 2012-13. Total tax revenue as percentage of GDP stood at 9.74 percent, 9.69 percent, 9.28 percent, and 8.98 percent in FY 2012-13, FY 2013-14, FY 2014-15, and FY 2015-16 respectively.

The rate of growth in revenue mobilization has declined substantially from the level of the FY 2011-12. Actual mobilization of total revenue grew by 19.3 percent in FY 2011-12, whereas the rate of growth decline in the subsequent years and stood at 15.2 percent, 10.4 percent, 13.5 percent, and 13.8 percent in FY 2012-13, FY 2013-14, FY 2014-15, and FY 2015-16 respectively. Total collection of revenue during the first quarter (July – September) of the FY 2016-17 stood at Tk. 43539 crore against the target of Tk. 60688 crore, while the target of revenue mobilization for the whole fiscal year was set at Tk. 242752 crore.

Referring to the higher interest payment due to deficit financing induced increased government borrowing from both domestic and foreign sources, the UO shows that total interest payment increased by 4.87 percent during the first quarter of the current fiscal year compared to that in the corresponding period of the previous fiscal year.

Higher interest payments result in increasing non-development expenditure every year leaving the government unable to allocate adequately for financing for development in the country, adds the think tank.

Refereeing to a monumental rise in writing off of loans, meteoric rise in the default loans and nose-dive in risk and capital adequacy ratio, the Unnayan Onneshan observes that "the public in general has to pump their tax money to rescue the stripped nationalized commercial banks through recapitilsation due to loots in these banks."

Referring to the status of low Annual Development Program (ADP) implementation, the UO presumes that public investment has not been successful to create multiplier effect in the economy because of institutional inefficiency which results in poor quality of investment.

Against the target of Tk. 123346 crore as ADP expenditure in FY 2016-17, 19.13 percent (Tk. 23594 crore) of the total allocation was implemented during the first five months (July – November) of the current fiscal year, whereas implementation of ADP during the corresponding period of FY 2014-15 and FY 2015-16 the preceding fiscal year was 20 percent and 17 percent respectively, finds the think tank.

As a result of deterioration in the balance of all four components of current account – trade balance, services, primary income and secondary income, the current account balance declined substantially in July-October 2016 compared to the corresponding period of the previous fiscal year. The current account balance exhibited a surplus of 1241 million USD in July-October 2015, whereas it shows a deficit of 16 million USD in July-October 2016.

Declining trend is also observed in the inflow of workers' remittance in the first five months of FY 2016-17 compared to the corresponding period of the previous fiscal year. Inflow of workers' remittance declined by 15.65 percent to 5208.12 million USD in July-November 2016 from 6174.59 million USD in July-November 2015.

A large portion of expenditure on consumption, education and health in rural households is financed by remittance. Decrease in inflow of workers' remittance is therefore likely to exert an adverse impact on socioeconomic status of rural households, comments the UO.

Referring to Labour Force Survey data, the research organization finds that the number of unemployed population increased at an annual rate of 5.29 percent during the period of 2000-2010, and increased from 1.70 million in 2000 to 2.60 million in 2010 while 10.6 million people were day labourers who did not have job security.

Income inequality together with inequality in access to health and education, multidimensional poverty, and joblessness particularly among the youth as 9.1 percent of youth labor force (15-24 years) is unemployed is likely to undermine the development already achieved by the county, comments the UO.

In view of the present economic challenges, the research organization urges adoption of a medium-term strategy, encompassing employment enhancement actions, higher revenue collection through expanding the tax base, institutional reform in financial sector, increased private investment through recovering business confidence, effective harmonization of macroeconomic policies, and development of a functional social security system.