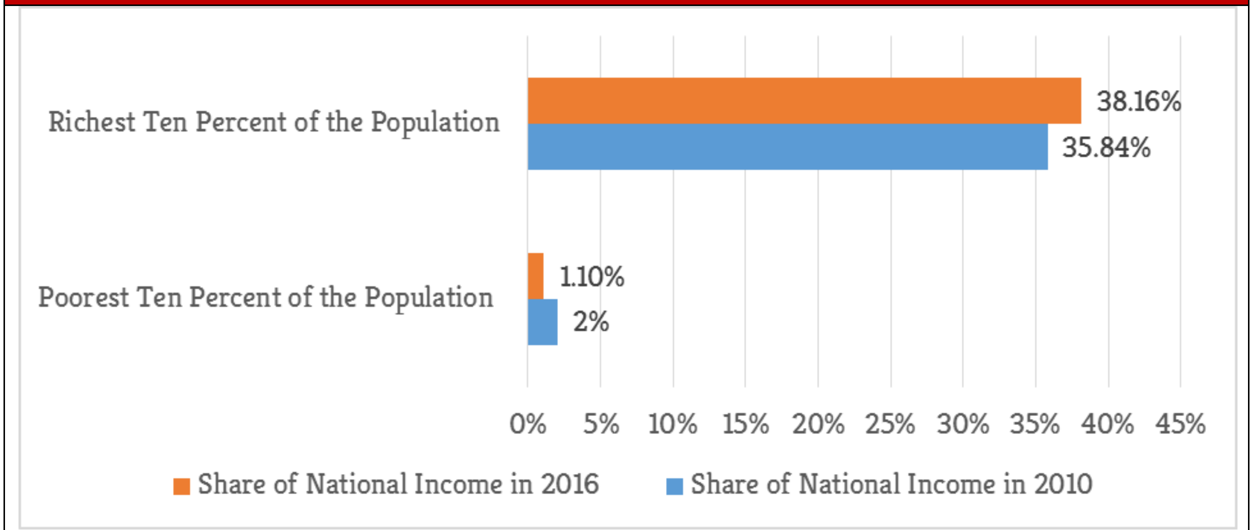
Growth Narrative and the State of Living Standard of the Masses
Year-end Assessment of Bangladesh Economy
Bangladesh Economic Update, December 2017

Rising Income Inequalty amid Accelerated Economic Growth



Source: Unnayan Onneshan, *Growth Narrative and the State of Living Standard of the Masses: Year-end Assessment of Bangladesh Economy*, December 2017.

The Unnayan Onneshan (UO), an independent multidisciplinary think tank, in its year-end assessment of the economy reveals that the growth narrative contrasts living standard of the masses.

The Issue identifies the medium-term macroeconomic challenges in the forms of inequality of opportunities, arrested productive capacity, ineffectual macroeconomic policy framework and resultant growth hiding in shadows looming 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 reduced welfare gap and expanded productive capacity," observes the last issue of the UO's monthly Bangladesh Economic Update.

Farsighted choice of macroeconomic policy regimes is critical to transporting the benefits of accelerated growth to the masses. In order to make the policies generate intended outcomes, particular emphasis must, however, be placed on checking institutional fragility and thus enabling the underprivileged to avail themselves of more economic opportunities.

Referring to the unequal distribution of national income, the UO uncovers the façade of reported growth in gross domestic product (GDP). The average rate of more than six percent growth in GDP in the last five years has not succeeded to bring benefits for the low-income people, as demonstrated by reduced rate of poverty alleviation and increased Gini coefficient.

The annual average reduction in incidence of poverty has declined of late according to the preliminary report on the Household Income and Expenditure Survey (HIES) 2016. Annual average reduction in overall poverty as measured by upper poverty line fell to 1.2 percentage points in 2010-2016 from 1.7 percentage points in 2005-10 while the rate of reduction in extreme poverty as measured by lower poverty line declined to 0.8 from 1.5 percentage points.

Increase in Gini coefficient of income distribution to its highest ever level of 0.483 in 2016 signals the ominous state of rising income inequality in the country. The poorest 10 percent of the household population receives 1.01 percent of the total national income in 2016 compared to 2 percent in 2010, whereas the richest 10 percent of the population owns 38.16 percent of the national income in 2016 compared to 35.84 percent in 2010.

Pertaining to reduced pace of job creation in recent years, the UO referring to the World Bank evinces that annual rate of growth in employment was 3.1 percent during the period between 2003 and 2010, whereas employment growth declined to 1.8 percent per annum during the period between 2011 and 2016, questioning the effectiveness of accelerated economic growth.

Taking account of the increasing trend in inflation rate, the research organization finds that the twelve month average general inflation has been on the rise since May 2017. Average general inflation edged up to 5.59 percent in October 2017 while the average food inflation also increased to 6.89 percent. However, average non-food inflation decreased to 3.65 percent in October 2017 from 3.81 percent in September 2017.

Given the decline in average per capita per day calorie intake by 5 percent from 2318 kilo calorie in 2010 to 2210 kilo calorie in 2016, such increase in price in the commodity market coupled with reduced production of food grains, decline in real wage, and lack of employment opportunities is likely to further hamper people's standard of living on the one hand and threaten overall food security in the country on the other, comments the research organization.

In view of the arrested productive capacity, 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 pose serious challenge to overall economic performance.

The think tank shows that private investment as percentage of GDP has increased by less than one percent on average during the period between FY 2010-11 and FY 2016-17. Private investment as percentage of GDP stood at 22.50, 21.75, 22.03, 22.07, 22.99, and 23.01 percent in FY 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, and 2016-17 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 remained stagnant at 29-30 percent of GDP during the last decade since may further stagnate in the coming fiscal year. Consequentially, the target of increasing private investment is unlikely to be achieved.

Pointing out the underperformance in the real sector, the think tank comments that the macroeconomic policy framework has not succeeded to boost the agriculture, industry and service sectors to their potential. Growth in agriculture has been on the decline of late, while growth in industry and service sectors stagnates.

Agriculture sector grew by 5.50 percent in FY 2005-06, and subsequently declined to 4.46 percent in FY 2010-11 and 3.40 percent in FY 2016-17. Meanwhile, industrial growth remained stagnant at 9.80 percent in FY 2005-06, 9.02 percent in FY 2010-11, and 10.50 percent in FY 2016-17 while rate of growth in service sector was 6.60 percent, 6.22 percent and 6.50 percent during the corresponding years.

"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 UO notes that Bangladesh has the potential to increase the mobilization of its revenue up to 22 percent of gross domestic product (GDP) whereas the total revenue mobilization as percentage of GDP remained almost stagnant and stood at 11.65 percent, 11.66 percent, 10.78 percent, 10.26 percent, and 11.17 percent in FY 2012-13, FY 2013-14, FY 2014-15, FY 2015-16 and FY 2016-17 respectively.

According to the latest statistics, total collection of NBR tax revenue in the first four months of FY 2017-18 has stood at Tk. 58897.49 crore against the four months' target of Tk. 65458.58 crore, representing a 10.02 percent shortfall. Taking account of the recent trend, the research organization forecasts that the total collection of revenue may fall short of the target by Tk. 38900 crore in the end of the current fiscal year.

Since the FY 2012-13, collection of total tax revenue as percentage of GDP has been on the decline, although the ratio has slightly increased in FY 2016-17, finds the think tank. The tax-GDP ratio stood at 9.74 percent in FY 2012-13, which declined to 9.69 percent, 9.28 percent, and 8.98 percent in FY 2013-14, FY 2014-15, and FY 2015-16 respectively. However, the ratio rose at 9.79 percent in FY 2016-17.

For the period of July–October 2017, revenue target was set at Tk. 19575 crore for income and travel tax, Tk. 25331.01 crore for value added tax (VAT) at the local level, and Tk. 20552.57 crore for import and export tax, while the actual collections fall short by 13 percent, 9.55 percent, and 7.78 percent respectively.

Furthermore, the rate of growth in revenue collection has declined in recent years, averaging 13.96 percent in the last five fiscal years (FY 2012 – FY 2017) compared to 18.4 percent in the preceding five fiscal years (FY 2007 – FY 2012).

Referring to the higher interest payment due to deficit financing induced increased government borrowing from both domestic and foreign sources, the UO shows that almost one-fifth of the total non-development expenditure is allocated for interest payment, resulting in incapacity of the government to allocate more for resources for productive sectors.

In addition, 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."

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

Against the target of Tk. 164085 crore as ADP expenditure in FY 2017-18, 20.11 percent (Tk. 32997 crore) of the total allocation was implemented during the first five months (July – November) of the current fiscal year. Rapid implementation of ADP during final quarter of fiscal year, as seen in the previous years, raises the question of quality and effectiveness of public financing for development in the country, adds the research organization.

As a result of deterioration in the trade balance with a deficit of more than USD 2000 million compared to the previous fiscal year, the current account balance declined substantially in July-September 2017 compared to the corresponding period of the previous year. The current account balance exhibited a surplus of USD 539 million in the first quarter of FY 2016-17, whereas the balance experiences a deficit of USD 1791 million in the first quarter of FY 2017-18.

A declining trend is also observed in the inflow of workers' remittance on yearly basis. Inflow of workers' remittance increased by 7.65 percent to USD 15316.91 million in FY 2014-15, which subsequently declined by 2.52 percent to USD 14931.15 million in FY 2015-16 and by 14.48 percent to USD 12769.45 million in FY 2016-17.

Decline in the inflow of remittance coupled with recent inflationary pressure is likely to upset the rural economy since the remittance-recipient households in rural areas expend a significant portion of their income on consumption, health and education. Given the informal system for transferring money induced by gap in the rate of US Dollars in banks and curb market, it is imperative that a conducive atmosphere for higher inflow of remittance be maintained through effective regulatory measures and diplomatic negotiations, urges the Unnayan Onneshan.

In view of the present economic challenges, the research organization urges the adoption of a medium-term strategy, encompassing employment enhancement actions that foster equality of opportunity in the society, higher revenue collection through expanding the tax base, institutional reform in financial sector, increased private investment through improved business climate, and effective harmonization of macroeconomic policies.