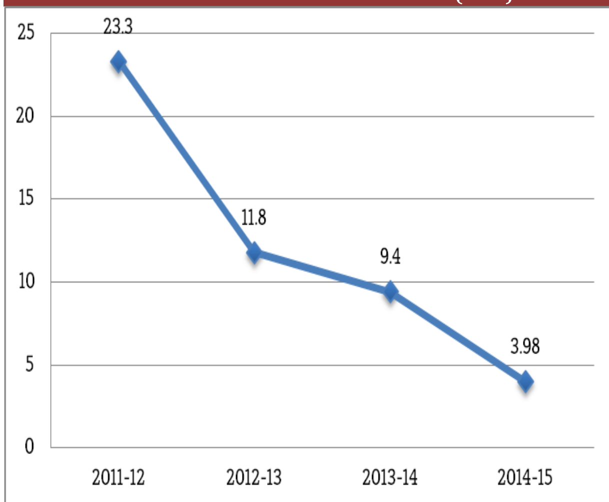
Bangladesh Economic Update

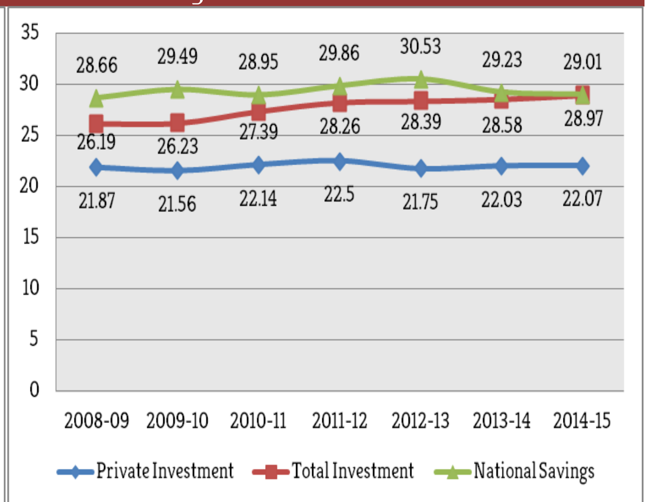
Half-yearly Assessment of Bangladesh Economy: Trends and Challenges

December 2015

Growth in Revenue Mobilization (in %)



Savings and Investment as % of GDP



Source: Unnayan Onneshan, *Half-yearly Assessment of Bangladesh Economy: Trends and Challenges*, December 2015.

The Unnayan Onneshan (UO), an independent multidisciplinary think tank, in its half yearly assessment of the economy for FY 2015-16 states that sluggish private investment, declining growth in revenue collection, and underperformance in external sector set inertia on the growth in gross domestic product (GDP).

In addition to unsatisfactory trends in these major macroeconomic indicators, improvement in three basic dimensions of development – long and healthy life, access to knowledge, and decent standard of living – has not moved upward compared to those of other developing nations, as reflected in the Human Development Report 2015.

The think tank in its December issue of the Bangladesh Economic Update also points out that that structural bottlenecks in the forms of income inequality together with inequality in access to health and education, multidimensional poverty, and joblessness particularly among the youth are likely to put additional pressures on the progress of the economy.

The Unnayan Onneshan exhibited that the private investment as percentage of GDP increased by only 0.27 percent on average since FY 2008-09. Private investment stood 21.87, 21.56, 22.14, 22.50, 21.75, 22.03, and 22.07 percent of GDP in FY 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, and 2014-15 respectively. The stagnation in private investment stems from absence of adequate infrastructure and business confidence due to political uncertainty.

Referring to the increasing amount of illicit financial flow from Bangladesh, the research organization warns that national savings, which have been declining since FY 2012-13, may further decline in current fiscal year, and the targets of increasing private investment to 24 percent and public investment to 7.8 percent are unlikely to be achieved. The national savings to GDP stood at 30.53 percent in FY 2012-13, 29.23 percent in FY 2013-14 and 29.01

percent in FY 2014-15. Illicit financial flows from Bangladesh have been estimated to the tunes of USD 5409 5921, 7225, and 9666 million in 2010, 2011, 2012, and 2013 respectively.

As regards the low Annual Development Programme (ADP) implementation, the Unnayan Onneshan suggests 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. 97000 crore as ADP expenditure in FY 2015-16, only 17 percent (Tk. 16320.62 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 the preceding fiscal year was 20 percent.

The research organization finds that the rate of growth in revenue mobilization has been on the decline since FY 2011-12. Actual mobilization of total revenue grew by 23.3 percent in FY 2011-12, whereas the rate of growth declined in the subsequent years and stood at 11.8 percent, 9.4 percent and 3.98 percent in FY 2012-13, FY 2013-14 and FY 2014-15 respectively.

Failure to sufficiently mobilize internal resources is likely to hinder financing for development, which will consequently pose serious challenge to the country's achievement of sustainable development goals (SDGs), comments the think tank.

According to the latest available statistics, total collection of revenue during the first five months (July – November) of the FY 2015-16 has stood at Tk. 544.08 billion against the total target of Tk. 2084.43 billion.

The rate of growth in collection of total tax revenue decreased by 3.8 percentage points during the period of July-September of FY 2015-16 compared to the corresponding period of FY 2014-15. In July-September of 2015-16, the rate of growth in total tax revenue has become 10.3 percent whereas the rate was 14.1 percent during the same period of the previous fiscal year.

Pointing to the economy's lagging behind in collecting revenue vis-à-vis other developing economies, the Unnayan Onneshan demonstrates that the average revenue mobilization as percentage of GDP during the last four years stood at 11.57 percent in Bangladesh compared to 19.4 percent in India, 18.9 percent in Nepal, 13.7 percent in Pakistan, and 13.4 percent in Sri Lanka.

Referring to the higher interest payment due to deficit financing induced government borrowing from both domestic and foreign sources, the UO shows that total interest payment increased by 11.18 percent during July'15 compared to that in July'14 whereas it decreased by 30.83 percent during July'14 compared to that in July'13.

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.

Referring to increasing deficit in trade balance, the think tank evinces that during July-October period of the FY 2015-16, trade deficit has stood at USD 1980 million. The total trade deficit increased significantly and stood at USD 9917 million in FY 2014-15 compared to that of USD 6794 million in FY 2013-14.

Export earnings declined by 0.13 percent in October 2015 compared to the preceding month (September 2015) and by 13.91 percent in September 2015 compared to the preceding month (August 2015). However, export earnings increased by 4.95 percent in July-October of 2015 compared to the corresponding period of the preceding year and stood at USD 10130.49 million, although export receipts fell short of the strategic target for July-October 2015 by 3.73 percent.

Based on the Quantum Index of Medium and Large Scale Manufacturing Industry, the research organization referring to unsatisfactory performance of manufacturing industry demonstrates that the general average index of industrial (medium and large scale manufacturing) production stands lower at 253.67 in July 2015 resulting in a decrease of 1.31 percent compared to that of July 2014.

In view of the present economic challenges, the research organization urges adoption of employment enhancing strategies, 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.