Whither Macroeconomic Stability

A Pre-Budget Analysis of Major Economic Challenges

Bangladesh Economic Update
April 2018

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1. Introduction

The current pre-budget issue of 'Bangladesh Economic Update' identifies major economic challenges threatening macroeconomic stability in the coming years. The Update presents a thorough scrutiny of the challenges that the economy has been undergoing during FY 2017-18 and should take into consideration while declaring the budget for FY 2018-19. The Update, however, also presents a critical analysis of the trends of selected economic indicators with respect to overarching policy issues that must be taken account of before setting off for the formulation of national budget 2018-19. The Update cautions the authority against the ongoing disappointing state of different macroeconomic indicators and calls for far-sighted actions toward formulating FY 2018-19 budget.

In identifying the major economic challenges as regards the national budget 2018-19, the Update first notes that overrunning government spending with continual shortfall in revenue collection is creating further pressure on the fiscal balance. Second, the declining output and employment growth in industry sector out of the poor extent of technology catching-up and absence of diversification along with persistent unsatisfactory growth in agriculture is slowing down the pace of development. Third, declining export and sluggish growth of remittance inflow along with high import payment is contributing to increased pressure on the balance of payment and a large depreciation of the local currency. Fourth, the private sector investment remains while public investment lacks quality resulting in cost escalation in projects. In addition, upsurge in illicit capital outflows is barring capital formation in the economy while persistent looting in the banking sector is ravaging the stability of financial sector. Fifth, the slowing down of poverty reduction and the widening inequality along with upsurge in inflation is threatening the sustainability of the economic progress. Sixth, upsurge in youth unemployment is taking its toll on the economy by limiting its capacity to capitalize on once-in-a-lifetime demographic dividend. Finally, quality lacked education and skill development facilities along with inadequate government spending on social sector including health is limiting human capital development in the economy.

In view of the current economic structure of Bangladesh, allocation of resources must be channelled efficiently into the productive sectors in order for the economy to get higher returns in terms of expanded productive capacity and resultant increased gross domestic product (GDP). Despite commendable progress in achieving growth in GDP, it is considered that the country has been missing the opportunities to capitalize on its resources and potentials to embark upon rising as a middle-income country by 2021. In recent years, the low implementation status of the national budgets has, however, further accentuated the lack of political will induced shortfall in achieving targeted rate of economic growth in the country.

2. Major Economic Challenges

The economy of Bangladesh is beset with numerous setbacks in its way forward. However, the major economic challenges are identified as follows.

2.1 Overrunning Government Spending and Poor Infrastructure: The economy is seeing increase in government spending, with a huge amount of its expenditure meeting non-development purposes, mainly interest repayment. The current fiscal year sees an expenditure of Tk. 37920 crore in interest repayment up by Tk. 4000 crore from that of the previous fiscal year. In addition to this, the allocation for a huge number of nonproductive projects by the government eyeing the nearing national parliamentary election has taken government spending to an alarming level in the current year while the collection of revenue is going to see huge shortfall. In the first half of the current fiscal year, the National Board of Revenue (NBR) managed to collect only 35 percent of the total targeted revenue. On the other hand, the economy lacks adequate physical infrastructure affecting the utilization and enhancement of the productive capacity. Furthermore, cost of infrastructure projects is outstandingly high in the country. For instance, Bangladesh spends Tk. 59 crore (proposed) to build one kilometer of 4-lane highways whereas China and India spend Tk. 13 crore and Tk. 10 crore respectively. A recent evaluation of World Bank has claimed that building infrastructure in Bangladesh is the costliest in the world that implies the prevailing inefficiency and poor management in this sector.

2.2 Decelerating Growth in Agriculture and Industry: The agriculture of Bangladesh shows unsatisfactory rate of growth. It accounted an average growth of about 3.46 percent. In addition, the sector is experiencing continuous decline of growth in output and of employment for the last couple of years. On the other hand, industry sector is showing low growth and, in some cases, recorded negative growth for years. Industrial growth has hovered between 10 and 11 per cent between 2015 and 2017 (BER, 2017). It is also showing a slowing growth of employment opportunities. Bangladesh Bureau of Statistics (2017) shows that the share of industrial jobs out of the total employment dropped from 23 per cent to 20.4 per cent between fiscal years 2013 and 2017. In addition, the manufacturing sector is lagging far behind technological advancement as is shown by the catching up of high-end technology in the sector.

2.3 Declining Export and Sluggish Growth of Remittance Inflow: Export is showing a downtrend in the current fiscal year. Export earnings declined from USD 3.64 billion in August to USD 3.05 billion in March that represents 1.38 percent less year-on-year as well. On the other hand, overall remittance inflow is showing weak growth following a downtrend. In the year 2017, remittance inflow was 0.53 percent lower than that of 2016 standing six-year low. Remittance inflow, however, grew in the last few months of the year as the local currency depreciated significantly against the dollar but still failed to offset the decline in the most months to lift the full-year earnings above the amount in year 2016.

2.4 Growing Capital Flight and Stagnant Private Investment: Growing capital flight has been contributing to inadequate capital formation and stagnant investment in the private sector. Highest estimates by the Global Financial Integrity suggest that during the period of 2005 to 2014, illicit capital outflow amounted to USD 7.5 billion every year on average. On the other hand, private sector investment remains stagnant in around 22 percent of the Gross Domestic Product (GDP) for a decade.

2.5 Plundering in Banking Sector: Banking industry, in recent days, has appeared as the most trouble-hit sector in the economy of Bangladesh. Banking sector has been undergoing problems such as nonperforming loan, loan default, malpractice etc. for long. In recent years huge increase in defaulted loan coupled with serious liquidity crisis has led to instability in the sector. At the end of 2017 total defaulted loan in the banking sector stood at Tk. 74303 crore, representing 9.31 percent of the gross loan, up from Tk. 62172 crore a year earlier. It is appalling that Tk. 12131 crore has added to defaults in 2017 alone. When the amount of written-off loan is added, defaulted loan stands Tk.119303 crore. In addition to this, at the end of 2017 capital shortfall in banks stood at Tk. 19467 crore up from Tk. 15304 crore in 2016.

2.6 Quality-lacked Education System and Inadequate Government Provision of Health Care: Education in Bangladesh is facing question over its quality as it is not creating expected human capital. Of the educated segment of population, 39 percent are unemployed whereas the economy has to hire high-paid worker from abroad. As of the 'Global Human Capital Report 2017' published by World Economic Forum, Bangladesh ranked 111th out of 130 countries. In 2014, Asian Development Bank showed that Bangladesh stood 27th among 28 Asian countries in the Knowledge-based Economic Development Index. In this circumstance, the share of education sector as percentage of GDP has dropped to 11.28 percent in budget 2017-18 from 14.39 percent in budget 2016-17. On the other hand, contribution of government in the health expenditure has been dropped in recent years due to a large increase in health expenditure as well as low budget allocation for health sector. According to 'Bangladesh National Health Accounts 1997-2015', individual bore 67 percent of the health expenditure in 2015 up from 63 percent from in 2012. A research in 2014 revealed that 4 percent people are falling in poverty in meeting their health expenditure.

2.7 Growing Unemployment: The number of unemployed people has reached an alarming level and keeps increasing every year due to declining employment opportunity coupled with entrance of huge number of people in workforce. Labour Force Survey 2016-17 of the Bangladesh Bureau of Statistics (BBS) shows that the number of the unemployed stood at 2.68

million, up from 2.59 million a year earlier, while 1.46 million remained underemployed. The real scenario of unemployment in Bangladesh is shown by the prevalence of NEET (Not in Education, Employment or Training). The number of people not in education, employment or training rose to 48.28 million in 2016-17, representing 44.25 percent of the people who are able and ready to work, from 46.6 million in 2015-16 (BBS, 2017). The International Labor Organization (2016) reports that around 40 per cent of the young people aged between 15 and 24 years in Bangladesh are not in education, employment or training (NEET) putting the country in the third-worst position in Asia Pacific region.

2.8 High Inflation: High inflationary pressure is lowering the capacity to consume and save, affecting the growth in capital formation and investment. In current fiscal year, the economy has witnessed high inflation on the back of food inflation triggered by the flood in several regions in the country. In recent months, inflation has fallen slightly but still suffering the limited income people very much. Inflation rate was 5.57 percent in July, 2017 while the target was 5.5 percent in the budget for FY 2017-18. It rose to 5.76 percent in January-March, 2018, up from 5.28 percent in the October-December, 2017. Inflation came down slightly to 5.68 percent in March which was higher than the same month a year ago when it was 5.39 percent.

2.9 Slowing Down of Poverty Reduction and Widening of Inequality: The economy has seen a reduction in poverty but at a slowing rate over the years. According to the Household Income and Expenditure Survey (HIES) 2016, yearly average rate of poverty reduction has dropped from 1.7 percent, between 2005 and 2010, to 1.2 percent, between 2010 and 2016. Moreover, there is significant regional disparity in the incidence of poverty. On the other hand, inequality has widened. The country's income Gini Index increased to 0.483 in 2016 from 0.458 in 2010 (HIES, 2016) while world’s average Gini index stood 0.371 in 2013 and South Asia saw an average index of 0.362 in the same period. As per the Palma Ratio, the top 10 per cent of the households enjoy around 38.16 per cent of the national resources in 2016 against 24.61 per cent six years back. At the same time, the share of the lower 10 per cent of the population in national resources dropped to only 1.01 per cent in 2016 from 2.00 per cent in 2010.

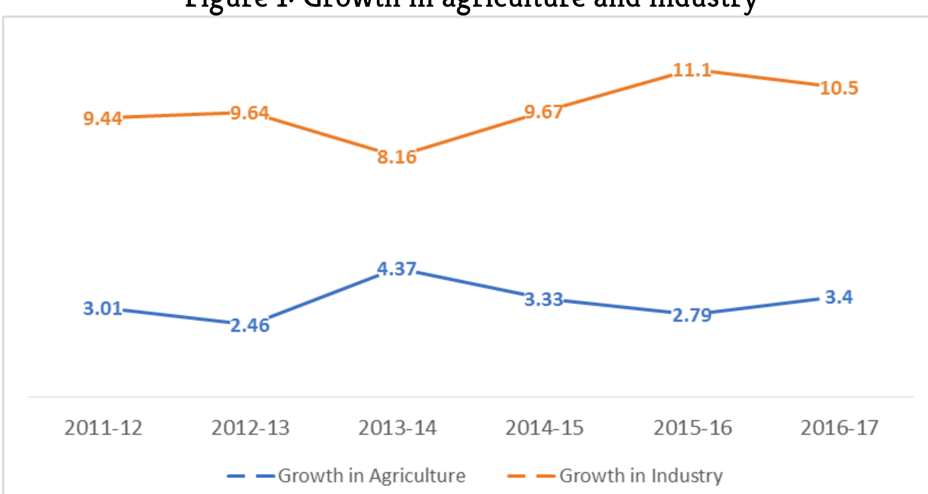
2.10 Growing External Deficit and Depreciation of Local Currency: The current account balance of the country is undergoing pressure from a large imbalance between import and export. During the July-December period of FY 2017-18, import experienced 25.78 percent rise while export saw a moderate 7.15 per cent growth, thus widening the trade deficit. It has resulted in the rise of current-account deficit to USD 4.76 billion from a small deficit of USD0.54 billion in the corresponding period of the previous fiscal. On the other hand, in the backdrop of increased trade deficit, the local currency has been significantly depreciated in recent months posing threat to the macroeconomic stability in the long run. Taka saw a depreciation by 5.0 per cent against dollar in 2017. The large scale depreciation has added to the extent of an unprecedented risk- alarming volume of private commercial borrowing from foreign sources. The amount of foreign loan received by business people nearly trebled between 2013 and 2017 and stood Tk 1100 crore emerging as a grave concern for national economy while building up pressure on foreign currency reserve.

3. Overview of the Current Economic Scenario

3.1 Real Economy

It is supposed that the macroeconomic policy framework has not succeeded to boost the agriculture and the industry sectors to their potential marked by the decelerating growth in agriculture has been on the decline of late. Although there was an increasing trend in growth in agriculture from 1990 to 2010, the rate of growth has been falling since the FY 2010-11. The rate of growth in agriculture was 3.01 percent in FY2011-12, whereas in FY 2012-13, FY 2013-14, FY 2014-15, FY 2015-16 and FY 2016-17 the rate was 2.46 percent, 4.37 percent, 3.33 percent, 2.79 percent and 3.4 percent respectively. This falling growth in agriculture has been causing the share of agriculture in GDP to decline over the recent years. For instance, in FY2010-11, the share of agriculture in GDP was 18.01 percent, whereas in FY2011-12, FY2012-13, FY2013-14, FY 2014-15, and FY 2015-16 the share was 17.38 percent, 16.78 percent, 16.50 percent, 16.00 percent, and 15.33 percent respectively. The rate of growth in industrial sector has been falling as well. Whereas in FY 2010-11, the rate of growth in manufacturing sector was 10.01 percent, the rate came down to 9.96 percent in FY 2011-12 and 9.64 percent in FY 2012-13 and again fell to 8.16 percent in FY 2013-14. It rose to 9.67 percent in FY 2014-15 and further increased in 2015-16 reaching 11.09 percent. But in FY 2016-17 it again fell down to 10.5 percent. As a result, the share of industrial sector in GDP is increasing at a decelerated rate.

Figure 1: Growth in agriculture and industry



Source: Ministry of Finance 2017

In FY 2010-11, the share of industrial sector in GDP was 9.02 percent, while in FY2012-13, FY2013-14, FY 2014-15 and FY 2015-16 the rate became 29.00 percent, 29.55 percent, 30.42 percent, and 31.28 percent respectively.

Bangladesh is lagging behind in technological catching up in the manufacturing sector representing low productivity and growth in the sector. Share of technology in total manufactured export manifest the poor condition of technological advance in Bangladesh and calls for more policy initiatives in this area.

In 2015, Bangladesh exported .299 percent high technology manufactured goods of total manufactured export which was 7.518 percent for India, 42.8 percent for Malaysia and 21.44 percent for Thailand. Bangladesh had its highest share of 1.15 percent in 2007. Then it amounted to .179 in 2010, .175 in 2011, .448 in 2012, .267 in 2013 and .299 in 2015 showing minuscule growth in the share of high-end technology export in total manufactured export.

Figure 2: Share of high-end technology export in total manufactured export

	2010	2011	2012	2013	2014	2015
Bangladesh	0.179	0.175	0.448	0.267		0.299
India	7.181	6.871	6.632	8.074	8.586	7.518
Malaysia	44.52	43.39	43.71	43.57	43.87	42.8
Thailand	24.02	20.74	20.45	20.09	20.43	21.44

Source: World Bank, 2016

Providing adequate infrastructure facilities, fostering innovation and rendering necessary policy support is must for the sector to enhance its capacity to catch up and capitalize on high-end technology in order to sustain economic growth.

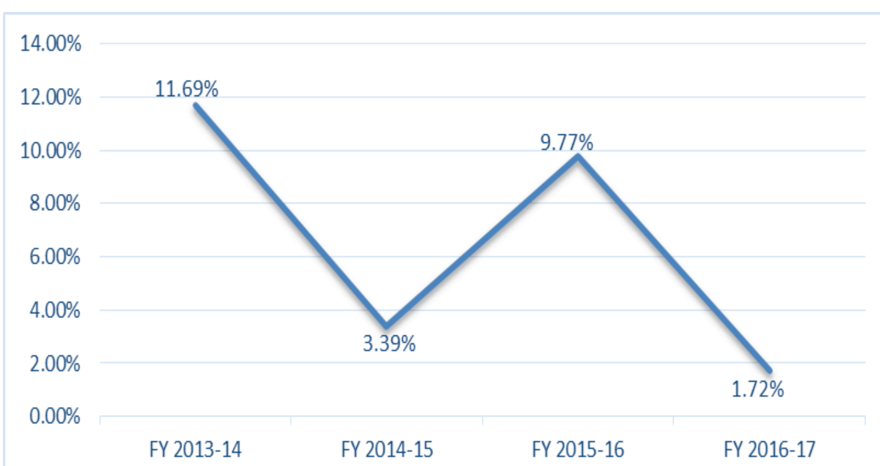
3.2 Export Earnings and Remittance Inflow

Following the suspension of generalized system of preferences (GSP) facility for Bangladesh in 2013 by the USA export growth considerably declined from 11.69 percent in FY 2013-14 to 3.39 percent in FY 2014-15. Despite the increase to 9.77 percent in FY 2015-16, export growth plunged to 1.72 percent in FY 2016-17.

Growth in total export earnings exhibit a significant decline by 8.08 percentage points in FY 2016-17 compared to FY 2015-16. Rate of growth in export earning stood at 9.77 percent in FY 2015-16, whereas at the end of June 2017, export growth declined to 1.69 percent for the last fiscal year resulting in a shortfall in the year's target (USD 37000 million) by USD 2165 million. Merchandise export in June 2017 decreased by USD 0.024 billion or 0.80 percent to USD 3.04 billion from USD 3.07 billion in May 2017 according to EPB data, that was 16.52 percent lower than the target of 3.65 billion for the said month. However, total merchandise export during July-January 2016-17 increased by USD 0.84 billion or 4.36 percent to USD 20.11 billion compared to USD 19.27 billion during July-January 2015-16. Actual performance of merchandise export shipments during July-January 2016-17 was 4.43 percent lower than the target of USD 21.04 billion.

Export earnings declined by 3.49 percent in July 2016 compared to the corresponding month of 2015. Total export shipment stood at USD 2534.31 million in July 2016 compared to USD 2625.93 million July 2015. However, total export declined by 29.46 percent in July 2016 compared to June 2016 when export earnings stood at USD 3592.97 million.

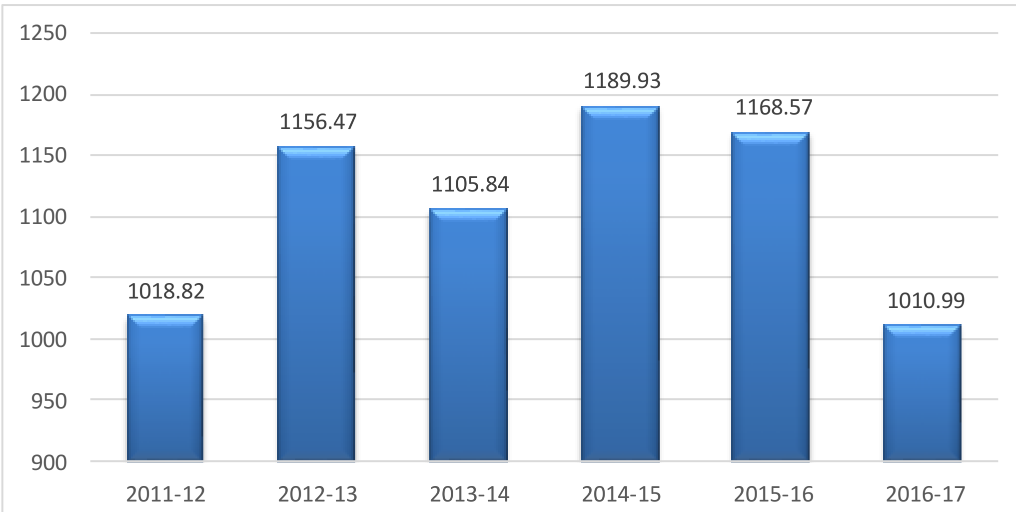
Figure 3: Export growth



Source: Bangladesh Bank, 2018a

Failure to restore the GSP facility may further hinder the country's export. In addition, non-diversification of export markets and lack of export competitive products may pose serious challenge to the performance of external sector. On the other hand, remittance receipts decreased by 16.03 percent during the July-April period of FY 2016-17 and stood at USD 10287.23 million compared to USD 12250.83 million in the corresponding period of the previous fiscal year. On year-on-year basis, remittance receipts also decreased by 8.27 percent in April 2017 compared to April 2016.

Figure 4: Trend in remittance (in billion Taka)



Source: Bangladesh Bank, 2018b

Though, most of the months in FY 2017-18 saw growth in remittance inflow on year-on-year basis due to local currency depreciation against the dollar but still failed to offset the decline in the most months to lift the full-year earnings above the amount in year 2016. 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.

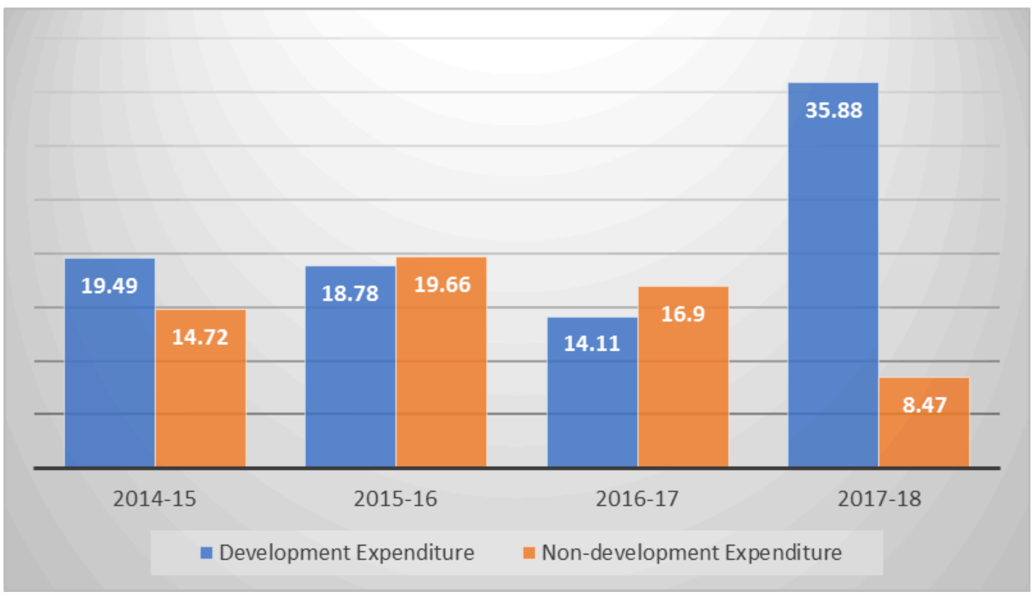
3.3 Fiscal Balance

With increased expenditure, the public sector is failing to mobilize adequate resources proving its weakness in the fiscal management. Public expenditure, specially; non-development expenditure, has soared significantly in recent years enlarging pressure on fiscal balance. In addition, higher non-development expenditure compared to development spending is making the economy characterized with growth depending largely on consumption.

While increase in allocation for development expenditure was higher than that in the allocation for non-development expenditure in FY 2014-15, the situation has reversed in the following fiscal years. Non-development expenditure increased from Tk. 134449 crore in FY 2013-14 to Tk. 154241 in FY 2014-15, Tk. 184559 crore in FY 2015-16, Tk. 215744 crore in FY 2016-17 and Tk. 234013 crore in FY 2017-18 representing 14.72 percent, 19.66 percent, 17 percent and 8.48 percent increase in FY 2014-15, FY 2015-15, FY 2016-17 and FY 2017-18 respectively.

Meanwhile, development expenditure increased from Tk. 72275 crore in FY 2013-14 to Tk. 86345 in FY 2014-15, Tk. 102559 crore in FY 2015-16, Tk. 117027 crore in FY 2016-17 and Tk. 1,59,013 crore in FY 2017-18 representing 19.47 percent, 18.67 percent, 14.11 percent and 35.88 percent increase in FY 2014-15, FY 2015-15, FY 2016-17, and FY 2017-18 respectively.

Figure 5: Trend in government expenditure



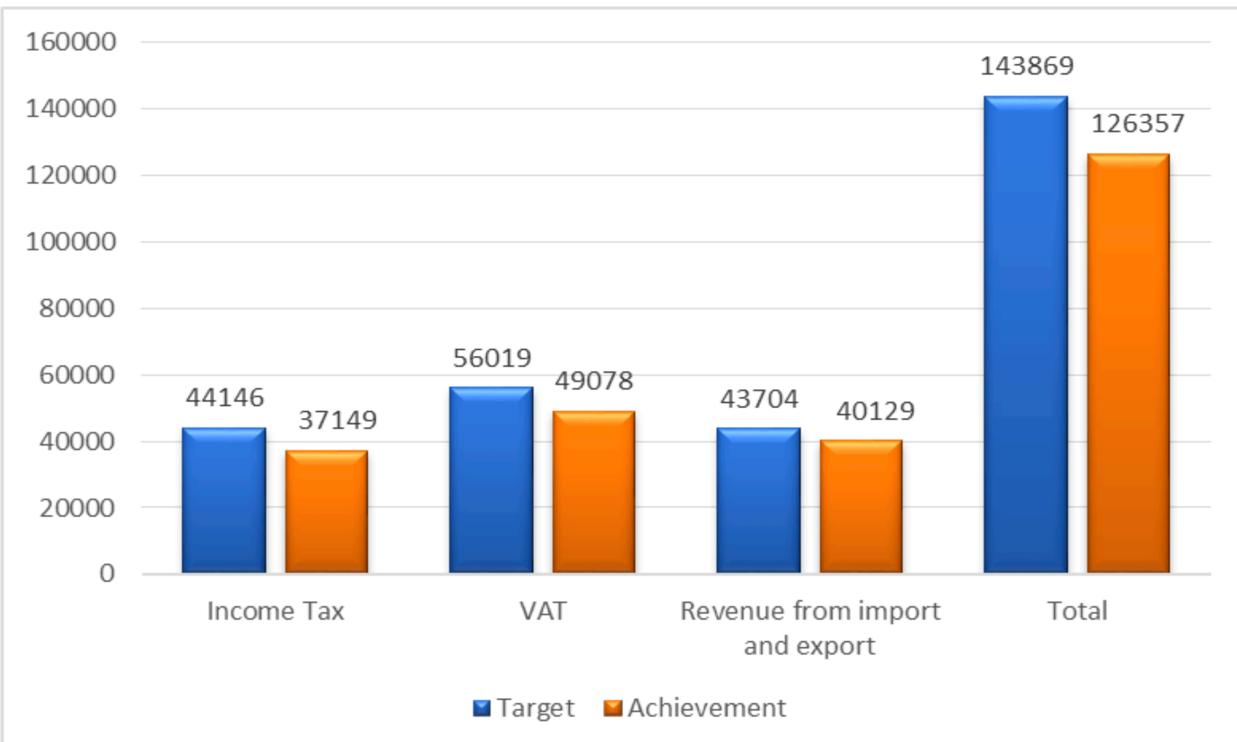
Source: Ministry of Finance, 2017

The highest allocation in non-development expenditure usually goes to interest payment to both domestic and foreign sources. In FY 2015-16, total expenditure on interest payment was estimated to be the highest that amounted to Tk. 351 billion.

In FY 2014-15, the total expenditure on interest payment stood at Tk. 298 billion and total expenditure on interest payment increased by 17.8 percent in FY 2015-16. In FY 2016-17, total expenditure on interest payment was estimated to be Tk. 39,951 crore of which Domestic Interest Payment was Tk. 38,240 crore and Foreign Interest was Tk. 1,711 crore. In FY 2017-18 the total expenditure on interest payment is estimated to be Tk. 41,457 of which Domestic Interest Payment is Tk. 39,511 crore and Foreign Interest is Tk. 1,946 crore.

On the contrary, revenue collection has been continually missing the target over the years. Collection of tax revenue lags far behind the target set in the budget for FY 2017-18. Only 50.91 percent of the total target of National Board of Revenue (NBR) tax revenue has been collected during the first eight months of the current fiscal year. In FY 2017-18, the target of the collection of revenue was set at Tk. 248190 crore, whereas the actual amount of revenue collection has stood at Tk. 126357 crore during the first eight of the current fiscal year, representing only 50.91 percent of the target compared to 53.79 percent in the previous fiscal year.

Figure 6: Collection of revenue (July-Feb FY'18): target vs actual (in crore Tk)

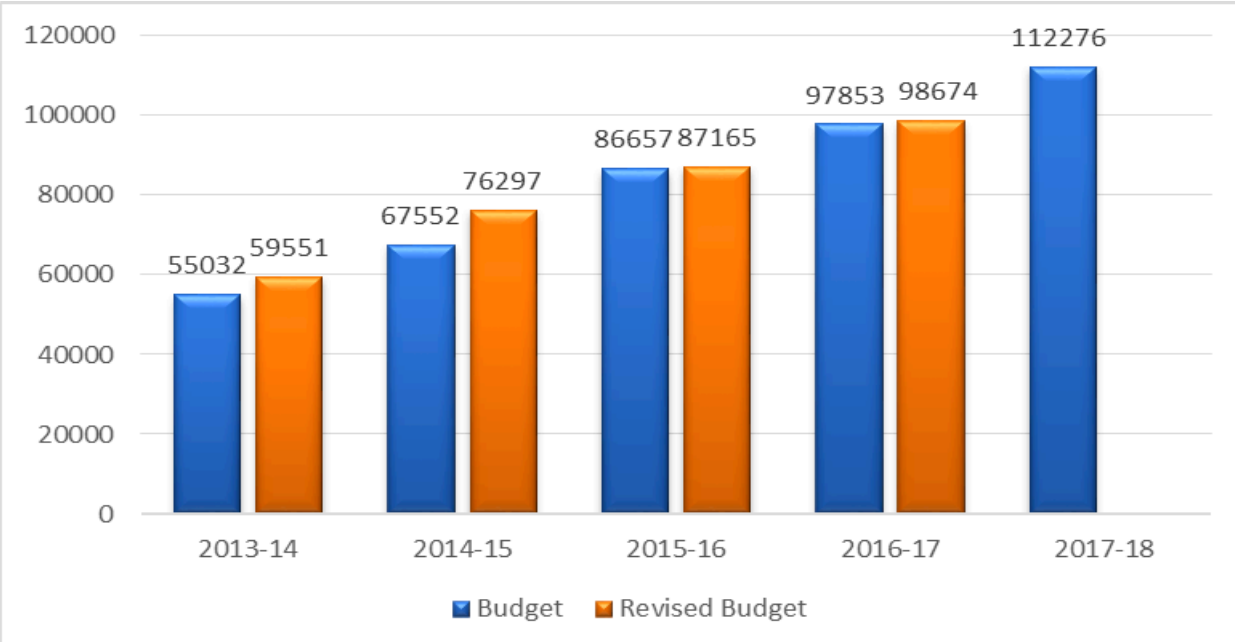


Source: National Board of Revenue, 2018

With persistent growth in govt. expenditure, absence of required growth in revenue has been contributing to the rising fiscal deficit. In FY 2017-18, overall budget deficit has been estimated at Tk. 112,276 crore (excluding grants), which is 5 percent of GDP. The overall budget deficit for

FY 2016-17 was estimated at Tk. 97,853 crore representing 4.9 percent of GDP while actual deficit in FY 2015-16 was Tk. 65,482 crore representing 3.8 percent of GDP.

Figure 7: Trends in fiscal deficit (in crore Tk.)



Source: Ministry of Finance, 2017b

Government expenditure is likely to see a sharp rise in the current year on the back of higher government spending ahead of the national parliamentary election, thus creating further pressure on the fiscal balance for FY 2017-18. Focusing on investing more to enhance productive capacity of the economy while ensuring efficiency together with raising government revenue through reforming the tax structure is necessary to ensure fiscal balance and to enhance the capacity of government to invest more in development projects.

3.4 Productive Capacity: Savings, Investment and Capital Formation

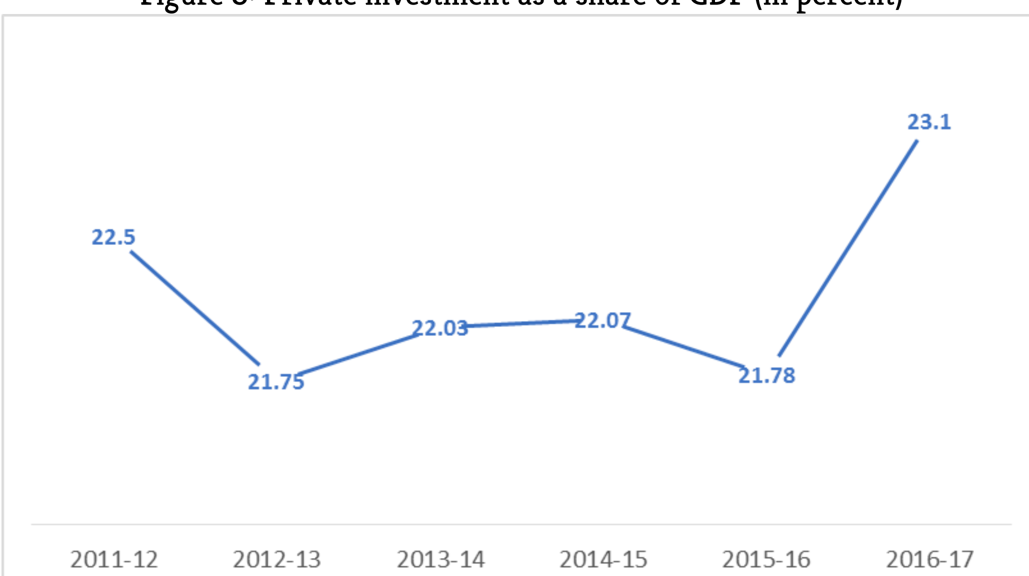
The rates of savings and investment to the GDP have remained stagnant over the years and the gap between savings and investment has assumed an increasing trend lately, suggesting that the macroeconomic strategies of government fall short of converting the savings into investment, resulting large amount of capital flight. The stagnation in the ratio of private investment to gross domestic product (GDP) and ever-increasing capital flight, coupled with regulatory unpredictability in economic management have appeared to pose serious challenge to overall economic performance. Total national savings stood at 29.23 percent of GDP in FY

2013-14, 29.02 percent in FY 2014-15, 30.08 percent in FY 2015-16, and 29.6 percent in FY 2016-17 warning that national output is likely to decline.

In the FY 2011-12, the gap between savings and investment was calculated as 1.6 percent of GDP, whereas the gap reached 2.14 percent, 0.65 percent, 0.13 percent, and 1.1 percent of GDP in the FY 2012-2013, FY 2013-14, FY 2014-15, and FY 2015-16 respectively. Under the Medium Term Macroeconomic Framework (MTMF) of 2017-18, the target of investment has been set at 34 percent of GDP comprising the private investment of 25.6 percent and the public investment of 8.5 percent by the FY 2017-18, and the domestic savings were projected to increase to 24.2 percent of GDP by the FY 2017-18 from the present 20.9 percent, whereas the national savings were projected to reach 33.3 percent of GDP by FY 2017-18 from the present 27.6 percent. These seem to be unachievable in the present circumstances of low savings and investment. Private investment has been remaining stagnant and has stood at 22.07 percent of GDP in FY 2014-15 and 21.78 percent in FY 2015-16, while increase in public investment from 6.82 percent in FY 2014-15 to 7.6 percent in FY 2015-16 has not succeed to create much needed crowding in of private investment.

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

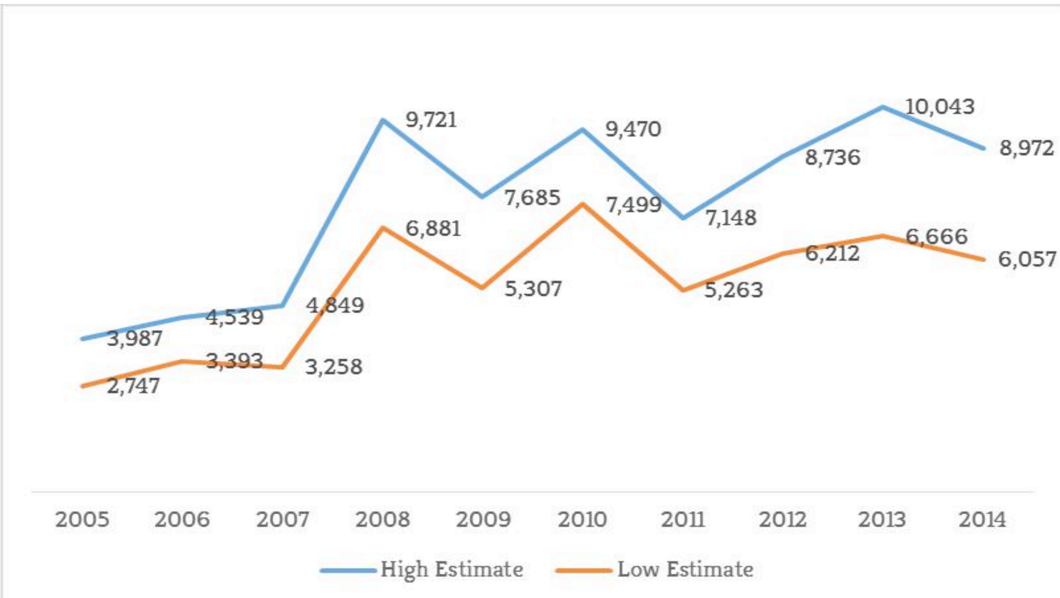
Figure 8: Private investment as a share of GDP (in percent)



Source: Ministry of Finance 2017

In addition, the lack of adequate capital formation due to large scale illicit capital outflows every year causes national savings and investment not to rise significantly. Highest estimates by the Global Financial Integrity suggest that during the period of 2005 to 2014, illicit capital outflow amounted to USD 7.5 billion every year on average. As the latest count shows that the amount of illicit capital outflow from Bangladesh was USD 9 billion in 2014.

Figure 8: Illicit capital outflows from Bangladesh



Source: Global Financial Integrity, 2017

In the year of the national parliamentary election, it is likely that both the state of private investment and incidence of capital flight will worsen. As we see in the table, the figure of capital flight in the years of two national parliamentary election- 2008 and 2013 showed a sharp rise compared to the previous years. In 2008 election year, capital flight marked a rise of 60 percent from the previous year while year 2013 showed a rise of 30 percent from the previous year. In addition to that, it is evident that private investment goes down in election year amid fear of political instability despite rise in public investment.

3.5 Poverty and Inequality

The decelerating rate of poverty reduction coupled with widening inequality has made the economic progress of the country subject to the question of quality and distribution while suspecting its sustainability. Though, the proportion of poor in the population declined between 2000 and 2016 a large number of people in Bangladesh are still living below the poverty line.

Moreover, the rate of reduction in poverty has been showing a downtrend. The incidence of poverty decreased from 49.8 percent in 2000 to 40 percent in 2005. In this period, poverty declined by 1.96 point on an average. The rate of poverty was 31.5 percent in 2010 marking an annual fall of 1.70 point on an average. In 2016, incidence of poverty fell to 24.3 percent showing an average reduction of 1.2 point per year.

Table 1: Incidence of poverty and inequality

Year	Rate of Poverty	Gini Coefficient
2000	48.9	0.451
2005	40	0.467
2010	31.5	0.458
2016	24.3	0.483

Source: Bangladesh Bureau of Statistics, 2016

Though economy of Bangladesh has been achieving commendable growth in the recent decades, it has failed to distribute the benefit of growth fairly among the citizens. Inequality; especially income inequality, has been rising over the years. Gini co-efficient is the most popular composite indicator that measures inequality. Gini co-efficient of income has increased from 0.451 to 0.483 at national level between 2000 and 2015 showing an average yearly growth of 0.47 percent. The Gini co-efficient of income has increased to 0.483 in 2015 from .458 in 2010 representing an increase of 5.5 percent during the period.

Bangladesh Bureau of Statistics (2016) shows that the rich-poor inequality in terms of wealth accumulation has been widening in the country. The poorest 5 percent had 0.78 percent of the national income in their possession in 2010 which dropped to 0.23 percent in 2015. By contrast, the richest 5 percent, who had 24.61 percent of the national income in 2010, enjoys a share of 27.89 percent in 2015. The report also shows that the income share of the bottom half of the population used to be 20.33 percent of the national income in 2010 but it has fallen to 19.24 percent in 2015 indicating that the income of people higher on the economic scale has increased since 2010. Particularly, the top 10 percent of the population now has income share of 38.16 percent in 2015 up from 35.84 percent in 2010. On the contrary, the share of the bottom 10 percent fell to 1.01 percent in 2015 from 2 percent in 2010.

Proper government interventions aiming to ensure equitable education and skill development facility, access to credit and adequate allocation for welfare programs are necessary to accelerate poverty reduction narrow down widespread inequality.

3.6 Unemployment

The economy of Bangladesh is missing the opportunity to capitalize its demographic dividend. While the GDP growth figure is impressive, the poor rate of quality job creation is characterizing it as jobless growth. The economy is presenting disconcerting job scenario with a huge number of people remaining out of work. Rate of unemployment in the country, particularly youth unemployment has reached an alarming level. According to the latest Labour Force Survey of the Bangladesh Bureau of Statistics (BBS), a total of 2.68 million remained unemployed in FY 2016-17 while it was 2.59 million in the previous fiscal year. In addition, 85 percent of jobs in Bangladesh are in informal sectors indicating the limiting institutional capacity of the economy to create adequate employment opportunities.

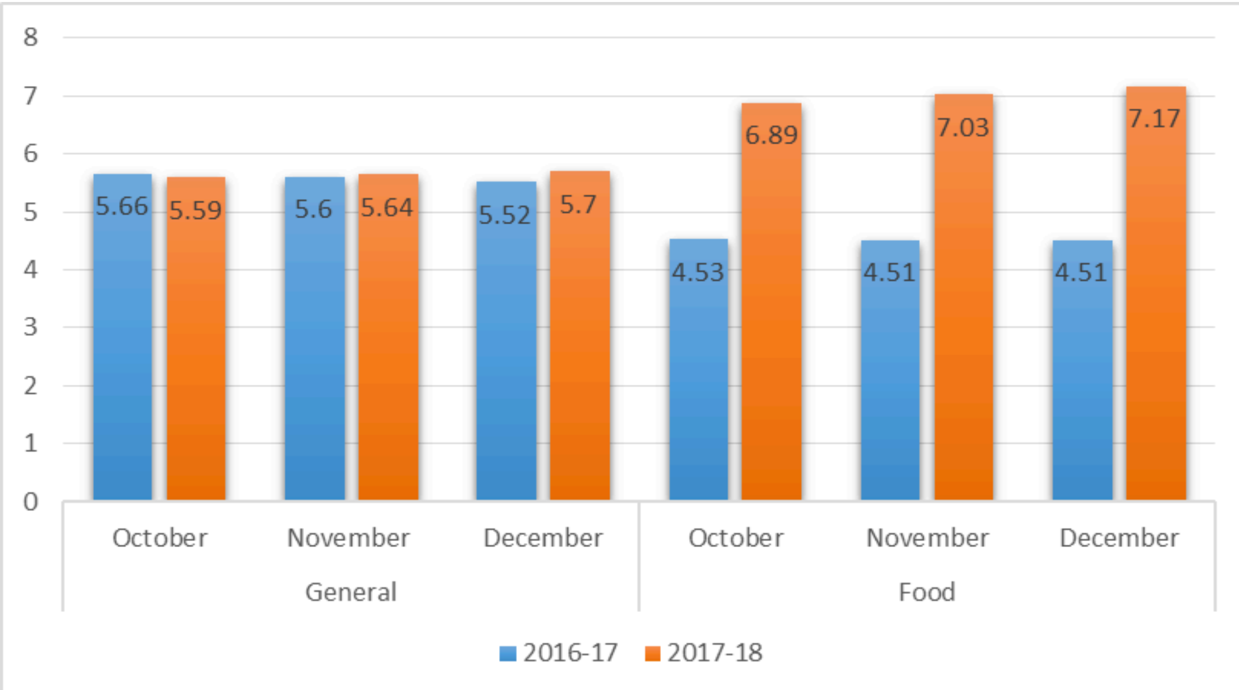
The size of the workforce stood at 6.35 crore in 2016-17 from 6.21 crore in the previous fiscal year. Between the years 2003 and 2016, the economy generated more than 1.15 million jobs per year on an average. The pace of job creation has fallen in recent years. The total employment grew by 3.1 per cent per annum between 2003 and 2010 while it grew by only 1.8 per cent per annum between the years 2011 and 2016. This problem is likely to aggravate since the major formal economic sectors shows little hope to move enough to absorb the huge number of people entering workforce every year.

The agriculture sector which employs the largest segment of the workforce is showing decline in both output and employment growth. In manufacturing especially, in the readymade garments sector, adoption of capital-intensive technology along with the uncertainty centering the implementation of Brexit and the likelihood of trade war between USA and China signals a fall in employment growth in the coming years. It is necessary to focus on ensuring quality education and skill development opportunities, access to credit, micro-financial stability and required technological advancement to boost the growth potential and create more, better and inclusive jobs.

3.7 Inflation

Inflation has risen alarmingly in the current fiscal year creating monumental pressure on the purchasing capacity of the limited income people, thus worsening their standard of living. Twelve-month average food and general inflation stood at 7.17 percent and 5.70 percent respectively in December 2017 compared to 4.51 percent and 5.52 percent in December 2016. On point-to-point basis, food and general inflation increased from 5.38 percent and 5.03 percent in December 2016 to 7.13 percent and 5.83 percent respectively in December 2017.

Figure 9: Rate of inflation at national level on point-to-point basis



Source: Bangladesh Bank, 2018b

General inflation rose to 5.76 percent in January-March, 2018 up from 5.28 percent in October-December 2017. Consumer Price Index (CPI) shows that rural inflation rose 5.72 percent in January-March, 2018 from 5.08 percent October-December 2017 while in urban areas, it increased from 5.65 percent to 5.83 percent in the said period. Though inflation came down slightly to 5.68 percent in March, 2018 from 5.72 percent in February and 5.88 percent in January, the figure was higher than the same month a year ago when it was 5.39 percent. The recent expansionary monetary policy of the Bangladesh Bank and depreciation of the taka against US dollar is likely to further heighten the inflationary risk.

3.8 Banking Sector Management

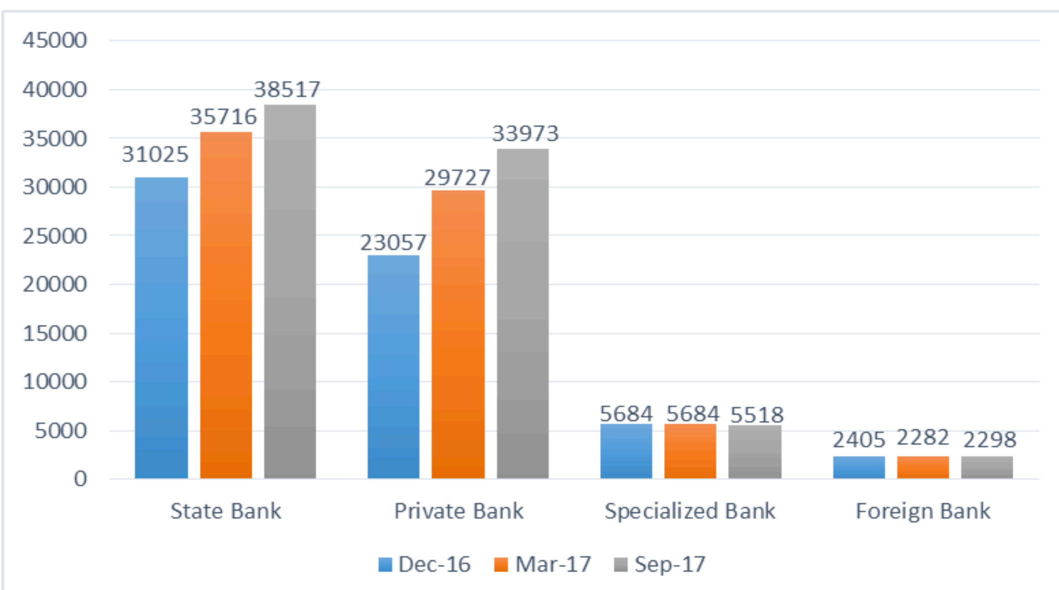
The recent crises in the banking sector, reflecting the poor risk management ability of the central bank, has made the financial sector in Bangladesh worst among the emerging Asian countries. The running crisis in the banking sector mainly due to increase in default loan reflects the institutional weakness of the financial system in the country. Recent consecutive heists in banking sector again shake the financial system as well as the economy. Continuous default loans, scams, and heist cause increased cost of fund and shortfall in capital in the banks.

This situation is more upsetting in the State Owned Commercial banks (SCBs) and Development Financial Institutions (DFIs) for which they face huge capital shortfall every fiscal year. Government recapitalizes the shortfall with taxpayer's money instead of correcting the faults of the institutions, which not only increases the burden on taxpayers but also causes a loss to the economy.

Bangladesh Bank data shows that as of September 2017, total defaulted loan stood at Tk. 80307 crore gone defaulted representing 10.67 percent of the total loan. This amount reach Tk. 125307 crore when adding the amount of written-off loan. This amount equals 13 percent of the Gross Domestic Product. In December 2016, defaulted loan was Tk. 62172 crore. Thus, the nine months of 2017 has seen a rise of Tk 18135 crore loan in default. In addition to this, Non-performing loan as a proportion of outstanding loan which was 7.2 per cent in 2010, reached 10.7 per cent in September 2017. These numbers, however, understate the magnitude of the problem because these exclude the amounts rescheduled or written off. As of September 2017, an amount of Tk 45000 crores was written off.

Of the defaulted loan six state-owned bank share Tk. 38517 crore with a default rate of 29.25 percent while domestic private banks share Tk. 33973 crore with default rate of 5.97, two specialized bank share Tk. 5518 crore with default rate of 23.79 percent and the foreign banks share Tk. 2298 crore with default rate of 7.89 percent.

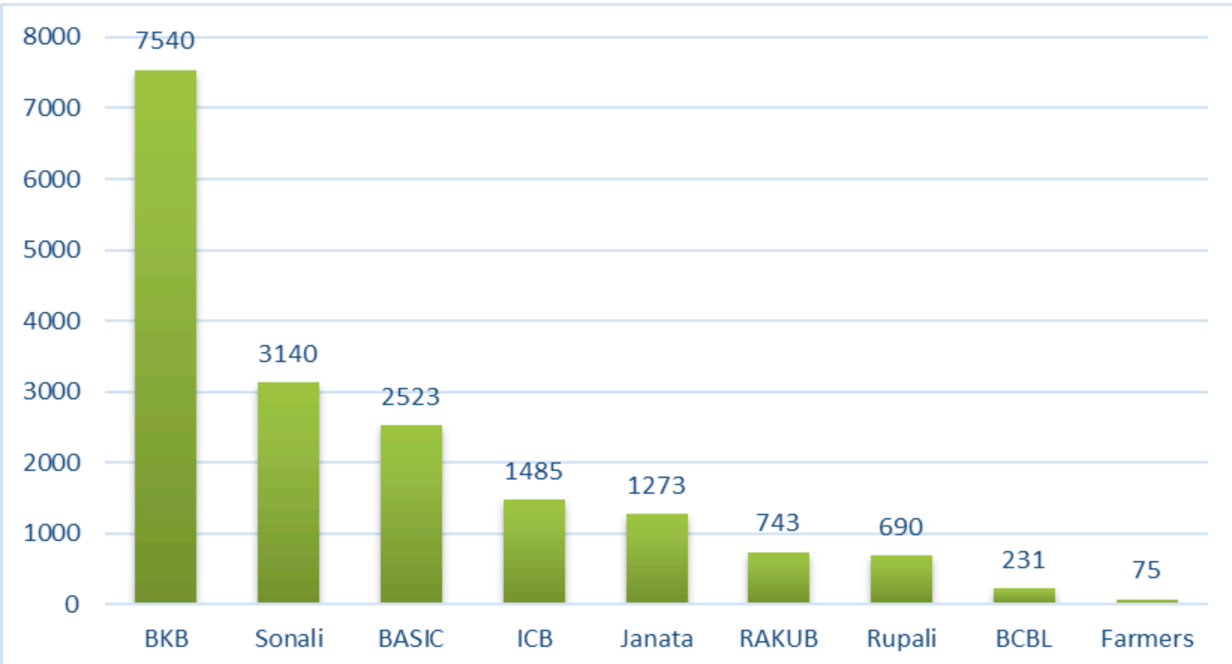
Figure 10: Loan default in banks (in crore Taka)



Source: Bangladesh Bank, 2018b

In the mentioned period, nine banks fell short of capital amounting near Tk. 19467 crore in total. Of them, the state-owned six banks have the lions' share of Tk. 17442 crore. In response to the problem of continual shortfall in capital in the state-owned banks the government has been recapitalizing them from budget for the last 10 years. Between FY2009-10 and FY 2017-18, the government allocated Tk. 16,550 crore for the purpose of recapitalizing the state lenders.

Figure 11: Capital shortfall in banks (in crore Taka)



Source: Bangladesh Bank, 2018b

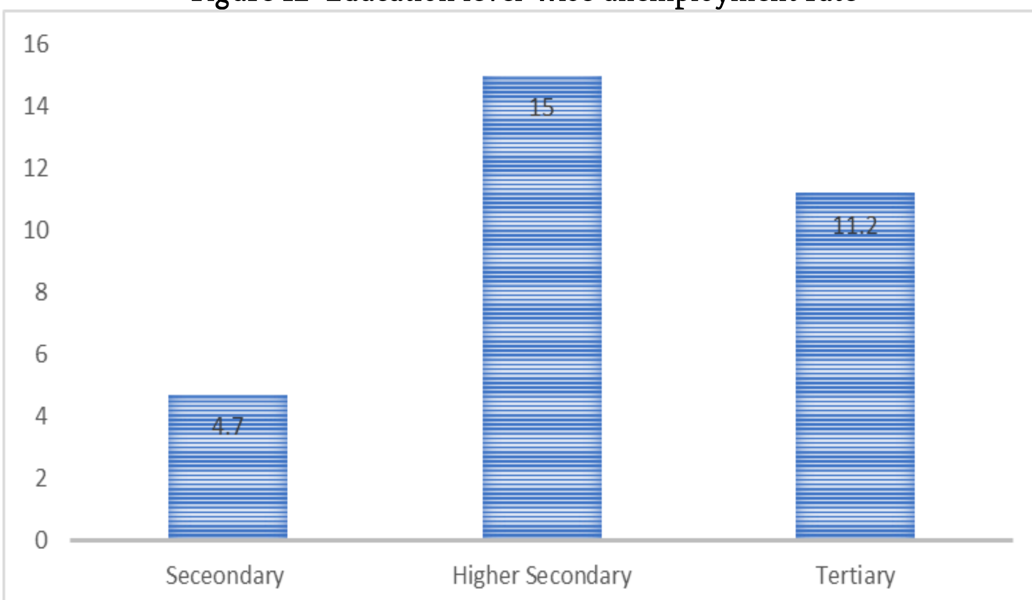
The recent decision to decrease the Cash Reserve Ratio from 6.5 to 5.5 per cent is feared to make the sector more problematic. In addition, the crisis is likely to become much worse in current year due to election-time economic behavior.

3.9 State of Education and Health

Bangladesh is missing the opportunity to benefit from its demographic dividend by turning its huge number of youth into human capital, due to the faulty education system. The education system of Bangladesh is lacking the quality to produce necessary human capital. As of the 'Global Human Capital Report 2017' published by World Economic Forum, Bangladesh ranked 111th out of 130 countries. The other countries from South Asian region, in the report, other than Pakistan stand well ahead of Bangladesh with Sri Lanka ranking 70, Nepal ranking 98 and

India ranking 103. The report revealed that the human capital potential of Bangladesh is held back by insufficient educational enrolment rates and poor-quality primary schools. It focused on the fact that the countries' tertiary level education is specializing in a limited number of academic subjects leading to low levels of skill diversity among their university graduates. Unemployment rate among the relatively more educated labour force, particularly higher secondary and tertiary education, has been appeared disappointing. The recent Labor Force Survey by the BBS revealed that the educated unemployed account for 39 percent of the total unemployed in FY 2016-17. A 15 percent people with higher secondary education and 11 percent people with tertiary level education remains unemployed.

Figure 12: Education level-wise unemployment rate



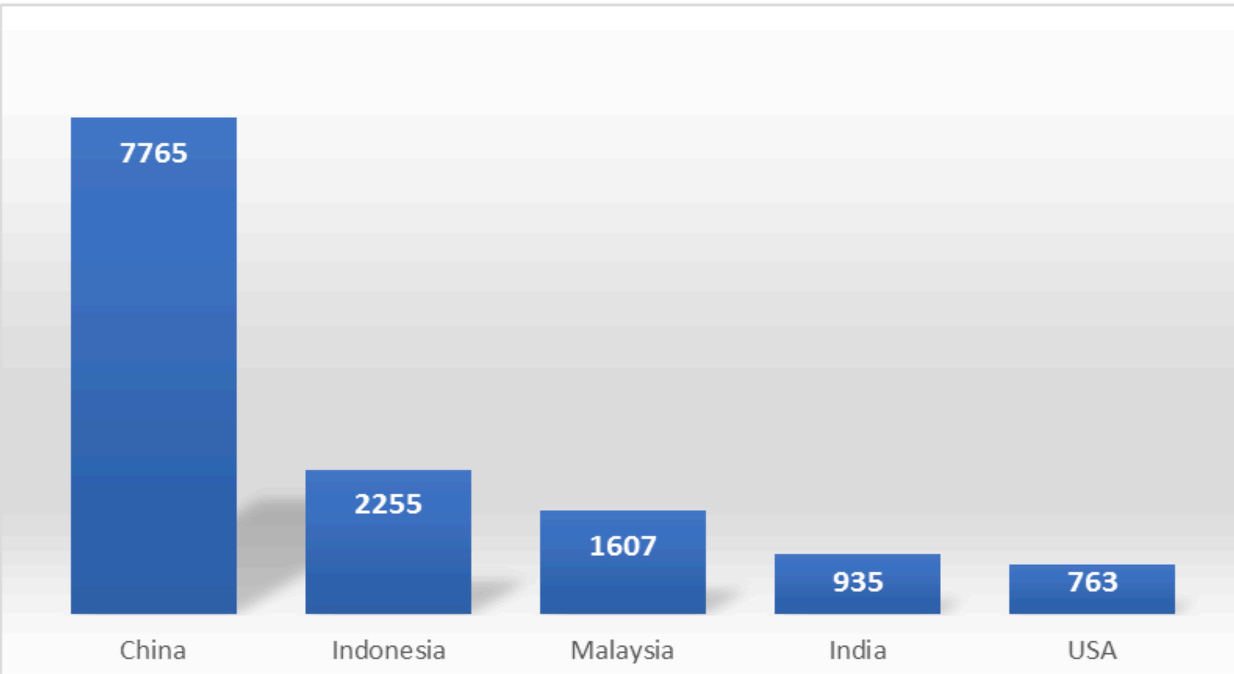
Source: Bangladesh Bureau of Statistics, 2017

In a recent study, World Bank observed that 70 percent of the graduates are remaining unemployed for two years after leaving their colleges while the rate is 40 percent for those who has completed technical education. The bank identified two reasons behind the scenario as lack in skills among the job seekers and limited employment opportunities. Lack of skill has been attributed to low quality of basic education and lack of modernized technical education.

The most glooming side of the story is Bangladesh has to hire worker from abroad amid the entrance of a huge number of graduates and post graduates in the labour force, due to unavailability, in the domestic workforce, of skilled people necessary for the job market. The official record says that around 85000 foreign citizens are working in the country while the figure is claimed to be much higher since many of the foreign workers remain unrecorded.

These huge number of people remit a significant amount of earning from the country every year. In a report, the US based organization Pew Research Centre has showed that foreign workers remit an amount equivalent to Tk. 16000 crore every year from Bangladesh through legal channel. A Finance Ministry source claimed that the Indian citizens working in Bangladesh remit alone Tk 32000 crore a year through the legal channel which, in reality, must be two times the amount mentioned.

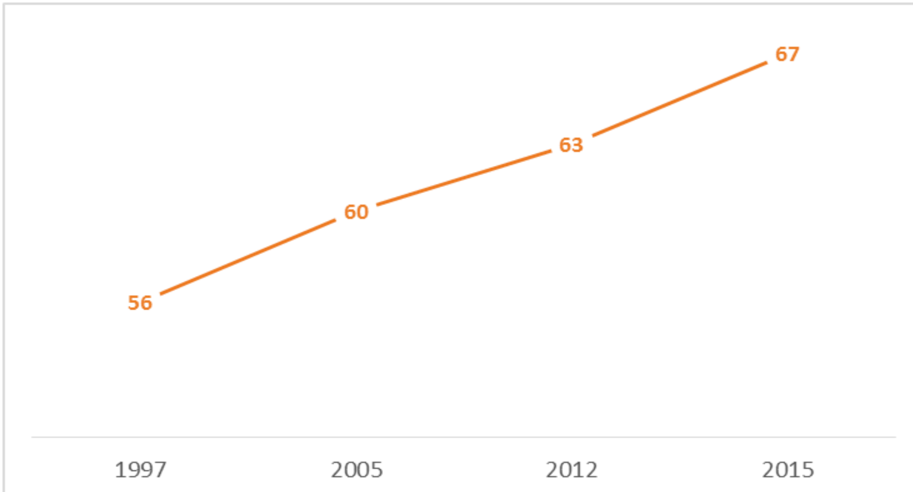
Figure 13: Remittance outflow from Bangladesh in 2016 (in crore Tk)



Source: Pew Research Center, 2017

On the other hand, the expenditure in health is rising with decreasing share of government in the expenditure. The alarmingly rising share of individual in health service cost is leading them to cut expenditure on other sectors lowering their standard of living. According to the Bangladesh National Health Accounts 1997-2015, per capita health expenditure of Bangladesh increased from USD 9 in 1997 to USD 37 in 2015. The accounts also show that the out-of-pocket health expenditure paid by individuals in Bangladesh rose to 67 percent the total medical costs up from 63 percent from in 2012. According to World Health Organization, the out-of-pocket percentage of Bangladesh is the highest in South and Southeast Asian region while it is 18 percent in the Maldives, 25 percent in Bhutan, 47 percent in Nepal, 56 percent in Pakistan, and 62 percent in India. The global average of out-of-pocket expenditure in health is 32 percent.

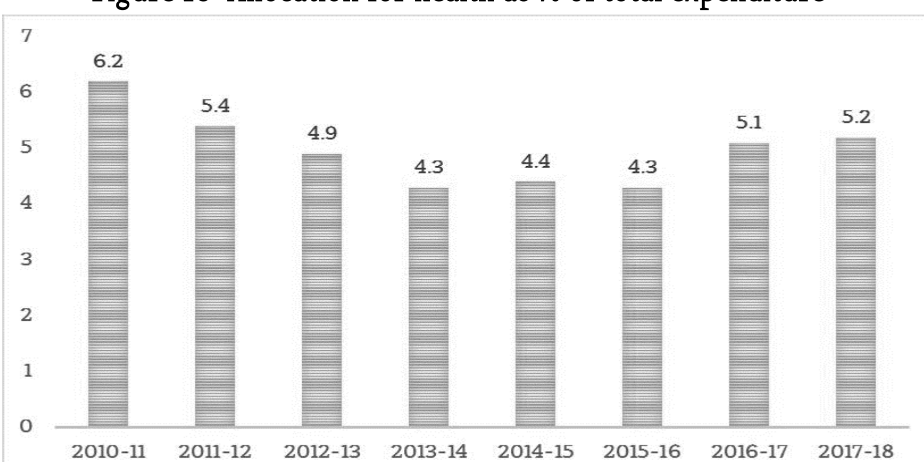
Figure 15: Trend of out-of-pocket health expenditure (%)



Source: World Health Organization, 2018

Although government funding in healthcare increased, its share in total healthcare expenditure kept on declining over the years. In 1997, the government share was 37 percent, which came down to 23 percent in 2015, shows the report. In FY 2013-14, the proposed budget allocation for health sector fell 4.3 percent from 6.2 percent in 2015-16. The allocation, however, started rebounding with an allocation of 5.1 percent in FY 2016-17. In FY 2017-18 budget, health sector received 5.2 percent of the total allocation. However, Bangladesh still spends only 3.0% of its GDP in health sector while government health expenditure in relation to GDP is only 0.69% placing Bangladesh among the countries spending least on health in South-East Asia region.

Figure 16: Allocation for health as % of total expenditure



Source: Ministry of Finance, 2017

This insufficient allocation for health in terms of percentage of GDP may pose challenge to providing adequate health facility to the population as the doctor-population, doctor-nurse, nurse-population ratios are still far away from acceptable levels. As a consequence, the provision of health services to society may remain inadequate.

3.10 External Balance

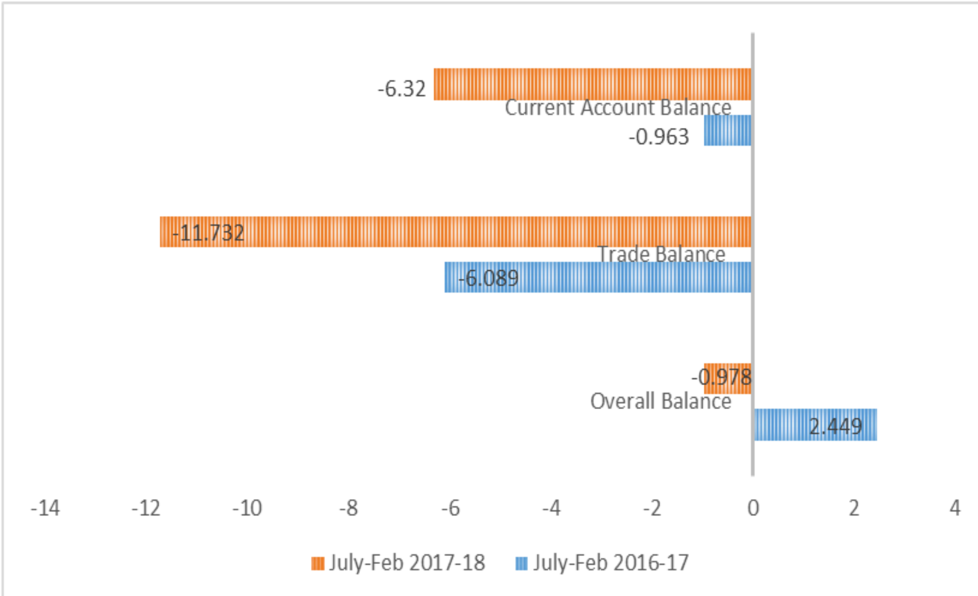
Deficit in the country's current account increased to USD 6.32 billion in in July-February of the current fiscal year 2017-2018, up from USD 963 million in the corresponding period of the previous fiscal year, on the back of sharp increase in import payments against moderate growths in export earnings and remittance inflow. Total import (freight on board) during the July-February of fiscal year 2017-18 increased to USD 35.82 billion while the figure was USD 28.379 billion in July-February in the previous fiscal year. Total export earning, on the other hand, rose by only 8.06 per cent to USD 24.08 billion in July-February of FY 2017-18 from USD 22.29 billion during the same period of FY 2016-17.

As a consequence, the total balance of payment undergoes a deficit of USD 978 million in July-February of FY 2017-18 compared to a surplus of USD 2449 million in July-February of FY 2016-17. Deficit in current account balance was USD 1480 million during FY 2016-17 compared to a surplus of USD 4262 million during the same period of the previous fiscal year. The annual current account balance turned negative in FY 2016-17 with USD 1.48 billion after registering its all-time high surplus at USD 4.26 billion in the previous fiscal year of 2015-16.

On the other hand, the country's trade deficit hit all-time high of USD 11.732 billion in July-February of FY 2017-18, rising by 92.67 per cent from USD 6.089 billion in the same period in the fiscal year 2016-17. Trade balance recorded a deficit of USD 9.5 billion during FY 2016-17 compared to the deficit of USD 6.5 billion during the previous fiscal year. Huge gap in import and export payment contributed to the record-high trade deficit. The country's import payments grew 26.22 per cent in the first eight months of the fiscal year 2017-2018 against that of the same period in the previous fiscal year.

Total import during the July-February of fiscal year 2017-18 increased to USD 35.82 billion while the figure was USD 28.379 billion in July-February in the previous fiscal year. Total export earning, on the other hand, rose by only 8.06 per cent to USD 24.08 billion in July-February of FY 2017-18 from USD 22.29 billion during the same period of FY 2016-17.

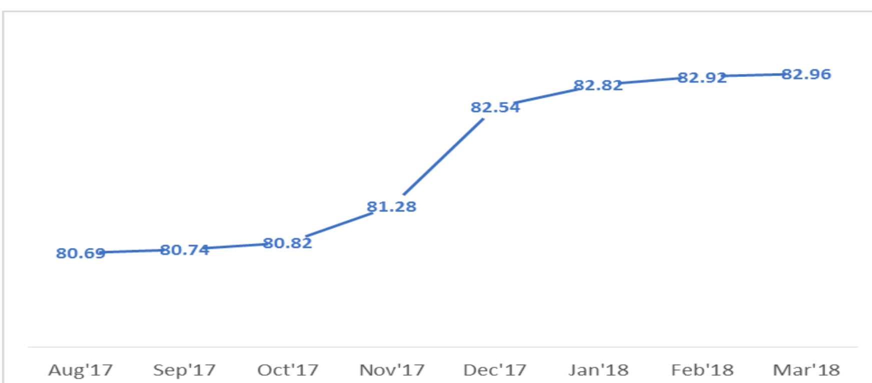
Figure 17: State of balance of payments (in billion USD)



Source: Bangladesh Bank, 2018b

Due to high deficit in current account and trade balance, the local currency taka has become weak against the US dollar in recent times. The value of local currency has been continuously going down. Average Taka per US Dollar rose to 82.96 in March 2018 showing an increase by 3.42 from the same month of the previous year. In August 2017, Taka 80.69 was equivalent to USD 1 which rose to Taka 80.74, Taka 80.82, Taka 81.28 and Taka 82.54 in September 2017, October 2017, November 2017 and December 2017 respectively. In March 2018, Taka per USD rose to 82.96 from 82.92 in February and 82.92 in January.

Figure 18: Taka (average) per US Dollar



Source: Bangladesh Bank, 2018a

The continuous depreciation of the local currency may further add to the high inflation worsening the current macroeconomic instability.

4. Conclusions

In order to get rid of the outlined bottlenecks, the country needs a medium-term strategy that will generate increment in the productive capacity and provide opportunity for the poor to obtain an increased share. The adoption of such a growth strategy requires a prudent economic management. It warrants harmonization of fiscal and monetary policy in order to stimulate the expansion of productive capacity and the fall in the rise of inflationary pressure.

A vigilant look into the falling investment demand is pressing since any further decline in the private investment is assumed to significantly slow down the pace of growth in the economy. The private domestic expenditure may be dampened, if a decline in expenditure happens. The growth of export as well as increased private investment should, therefore, be emphasized in order to escape further downturn in the economy.

Macroeconomic stimuli are required to be initiated in order to ensure pro-poor growth through generating employment opportunities in the economy. Besides, an increased allocation of resources and implementation of development programs in health and education sectors must be ensured, while the social safety net programs institutionalized into of a sustained system of social security.

The proposed actions in various macroeconomic plans and strategies are inadequate to bring fiscal discipline in the management of deficit, debt and subsidy one the one hand and to increase income in the absence of radical reforms in the tax system on the other. The regressive tax structure is ridden with low base, avoidance and evasion. There is huge missing of distributive justice, characterized by widening income, spatial and male-female inequalities, driven by jobless growth.

There is need for a pro-active state. As experienced in the recent past, policies that focus mainly on stabilization, but pay little attention to proper allocation and distribution is more likely to even fail in stabilization of the economy as well. Second, numerous un-coordinated seemingly less than effective programs relating to social safety nets need to shift its emphasis on social protection through innovation in social policies. Third, given the vulnerabilities existing in the external sector, breaking into the high-value global supply chain has become important to the country.

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