

Bangladesh economy: Looking back and looking forward

DR. FAHMIDA KHATUN

THE year 2014 saw some stability in Bangladesh both economically and politically following the general elections in January. This phenomenon along with a couple of global developments has influenced the economic landscape of Bangladesh. The present write up provides a brief overview of some of the important features of Bangladesh economy during the bygone year and prospects and challenges for 2015.

MACROECONOMIC BRIEF:

During January-June 2014, the last half of fiscal year 2014, the growth engine exhibited slight progress whereby gross domestic product (GDP) rose from 6 percent in FY2013 to 6.1 percent in FY2014. The main impetus for higher growth was a rise in public investment that rose from 6.6 percent of GDP in FY 2013 to 7.3 percent in FY2014. However, due to prolonged political disruptions during the last part of calendar year 2013, private investment declined to 21.4 percent of GDP in FY2014 from 21.8 percent in the previous year. Private consumption, another important component of GDP, has declined by 1.5 percent due to lower remittance inflow. Export earnings increased at a higher rate than imports and export-GDP ratio increased in FY2014 while import-GDP ratio declined. National savings and domestic investment showed the same trend, that is, savings were much higher than domestic investment indicating lower utilisation capacity of the economy. In terms of sectoral contribution to growth, industry played the main role though the share of industry in GDP declined this year compared to last year. However, both agriculture and services have also buoyed the GDP growth with better performances.

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During July-November of FY2015 exports declined by 5.23 percent as the performance of major export items including ready-made garments (RMG) was disappointing. Such slow growth of exports implies that exports have to grow at a higher rate than the targeted 10 percent for FY2015. RMG exports achieved a negative growth during July-October 2015 against the target of 9.8 percent in FY2015. It is expected that in the coming month RMG exports will pick up with new orders placed

by international buyers. However, prices of RMG have declined due to low cotton prices and Rana Plaza incident. Remittances are the silver lining in the external sector. This is likely to boost domestic consumption. Implementation of Annual Development Programme (ADP) during July-September of FY2015 has been 8.7 percent of total allocation compared to 10.6 percent during the same period in FY2014. Net foreign direct investment (FDI) looks slightly brighter during July-

September of FY2015 compared to last fiscal year. However, net foreign aid has been significantly lower during July-September FY2015 than the same period in the previous year.

Though in June 2014 inflation rate came down to lower than 6 percent, the overall inflation during FY2014 went up to 7.5 percent against a target of 7 percent in the Monetary Policy Statement (MPS) of Bangladesh Bank announced in January 2014. High food inflation led to a higher

inflation. This was mainly due to disruption of food supply during the period of political turmoil. The MPS of June 2014 set 6.5 percent as the target inflation rate in FY2015. In October 2014, point to point inflation came down to 6.6 percent and average inflation also came down to 7.18 percent, mainly driven by low non-food inflation. Though domestic production, particularly that of rice influences output and price stability, inflation in Bangladesh is also largely determined by international prices since the country has to depend on a number of essential commodities including petroleum products. Hence lower prices of food and oil at the international market at present has been a prominent factor for low inflation rate.

Revenue mobilisation effort fell short of the target in FY2014 and continues to get slower during July-October of FY2015. The National Board of Revenue (NBR) targeted 24.2 percent growth in revenue collection against which the achieved growth is 15.9 percent during July-September of FY2015 implying that revenue collection effort by NBR has to grow by 26.4 percent during the remaining period of the fiscal year. Growth in revenue collection through income tax is set even at a higher rate, but the collection is only 15.3 percent during the aforesaid period against a target of 31.8 percent for FY2015. This again requires vigorous effort during the rest of the year to grow by 35.2 percent to cover the shortfall. The contribution of Value Added Tax (VAT), particularly from domestic sources is also not promising since there are loopholes for evasion. The new VAT and

Supplementary Duty Act 2012 aimed to make changes for a more comprehensive and user-friendly way of VAT collection was supposed to be effective from July 2015. However, in view of concerns expressed by a number of stakeholders its implementation has been delayed. The implementation of the new VAT Act of course will require capacity building and training of human resources so that tax can be collected more efficiently through increased automation.

FOLLOW UP OF RANA PLAZA INCIDENT:

The tragedy of Rana Plaza disaster due to the collapse of a building used as RMG factories has been attempted to be appeased through various measures that aim to improving safety standards of building and working condition and establishing worker rights in the RMG industry. A National Tripartite Plan of Action and other initiatives such as Alliance by buyers and retailers of North American countries and Bangladesh Accord comprising retailers and buyers of the European Union markets have been looking into fire and building safety and workers' safety. Bangladesh Accord inspected more than one thousand factories and found that there were improvements in terms of working conditions of factories from where they buy clothes. Less than 2 percent of the inspected factories were found to be risky and suggested to be closed temporarily. Alliance for Bangladesh Worker Safety and National Fire Protection Agency (NFPA) inspected all factories from where its members purchase clothes.

