

Economic growth acceleration: Potentials and policy imperatives

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Economic growth, usually measured by growth of gross domestic product (GDP), remains a dominant development objective. It is recognised that development is a multi-dimensional concept. It encompasses many other elements such as equitable distribution of the fruits of economic growth, elimination of poverty, maintenance of reasonable price stability, participation of all sections of the society in the growth process, and improvements in indicators of human development, particularly health and education. Nevertheless, policy makers and analysts attach a great deal of importance to the acceleration of GDP growth. In part, the underlying rationale is that growth usually exerts a positive impact on several other elements of development mentioned above. In this backdrop, the objectives of this article are to: (a) present a brief review of GDP growth of Bangladesh; (b) identify the factors which underlie the observed progress; and (c) suggest policy actions needed to strengthen the causative factors.

GROWTH PERFORMANCE

A country's growth performance can be evaluated in various ways. One way is to look at the change over time. Another is to examine how its performance compares with other countries, particularly neighbouring countries. Bangladesh has improved its performance in both of these criteria. The country's GDP growth averaged a mere 3.8% during 1980-

1985; rose to 5.9% during 2000-2010; and to 6.2 percent during 2011-2015 (Table 1). The country also improved its ranking slightly among the 12 countries listed in Table 1. During 2000-2010, six countries recorded higher growth than Bangladesh, whereas during 2011-2015, five recorded higher growth.

The implication is that Bangladesh has the potential of accelerating its growth rate further so as to reach the rates achieved by countries such as Cambodia, Laos, China, India, and Sri Lanka with growth rates of about or above 7%.

Factors underlying growth and related policy imperatives:

INVESTMENT

There is widespread consensus that investment is a key determinant of growth. This is illustrated by the experience of Bangladesh as well. The acceleration of growth noted earlier was accompanied by a rising share of investment in GDP. The share increased from 15% in 1985 to 29% in 2014. Among the countries with higher rates of growth, China, India and Laos had higher investment to GDP ratio. On the other hand, Cambodia and Sri Lanka could achieve higher growth with a somewhat lower level of investment (Table 2). Two policy messages emerge from these experiences. First, Bangladesh needs to increase its investment to GDP ratio. Second, productivity of investment has to be increased; the case of Cambodia is particularly relevant here.



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In the context of investment, a particularly worrisome development in recent years has been the stagnation of private sector investment. Private sector investment as proportion of GDP has remained stuck between 21-22% since FY 2009. Apparently the uptick in public sector investment has failed to crowd in private sector investment. This may be in part because public sector investment overwhelmingly consists of expenditure through

the annual development programme (ADP). The number of projects included in the ADP increases at an undesirable pace. This leads to a thinning out of resources across too many projects, most of which are not completed on schedule. As a result, the expected benefits are not realised. A recent review has shown that at the current level of allocation, out of 1,034 projects included in FY 2015's ADP, as many as 154 would take

between 6-10 years, 106 between 11-100 years, and 32 more than 100 years to complete.

Apart from inadequate allocation, another problem that afflicts public sector investment is that the allocated funds are not utilised. Every year, the original size of the ADP as provided in the budget is revised downward, and even then this lower size is not fully utilised.

CONTINUED ON PAGE 14



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