

## Bangladesh's Current Economic Challenges

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## Outline

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- Introduction: Coping with global financial crisis
- Status of Bangladesh Economy in South Asia
- Impact of Financial Crisis: Recent Macroeconomic Developments
- Current Economic Challenges
- Bangladesh's Progress Towards MDGs
- Policy response by the Government of Bangladesh (GoB) and Bangladesh Bank (BB)
- Concluding Remarks...

## Introduction: Coping with global financial crisis

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- Countries that weathered the global financial crisis and economic downturn well did so because of:
  - Limited exposure and vulnerability of the financial sector to toxic assets and flighty speculative inflows from the global markets;
  - Domestic demand holding up well, helped by timely fiscal intervention in support.
  - Resilience of the population in tiding over crises, natural or man-made.

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## Introduction..(Cont'd)

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- Bangladesh scores well on all the above counts, and has consequently come out of the crisis in a position of strength, with real GDP growth modestly impacted.
- The financial sector was free of contagion from toxic assets of the global market, stock and net outflow of foreign private investment from the capital market were modest.
- Domestic demand remained unimpaired, well supported by growing inflows of workers remittances, and extended social safety payment network.
- The people of Bangladesh have contributed to progress in the face of repeated natural calamities and occasional political turmoil; the spirit of the war of liberation in 1971 remaining a potent cohesive force uniting the nation as a homogenous entity.

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## Introduction

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- The Bangladesh economy entered FY10 in a position of strength, notwithstanding some pretty tough global circumstances.
- Development initiatives of the government and the civil society, coupled with prudent macroeconomic management have yielded sustained real output growth averaging around 6% annually, with moderate inflation and steady gains in poverty reduction.
- With limited external exposure, the financial sector in Bangladesh has weathered the recent global financial turmoil in good shape, and is supporting the real sector in maintaining growth and investment momentum.

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## Introduction..(Cont'd)

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- The government's annual budgets and BB's monetary policies adopted adequate support and stimulus measures for upholding domestic demand.
- Fiscal stimulus from government's annual budgets included:
  - assistance to export sectors hurt by demand weakness in markets abroad;
  - increased input subsidies for agricultural output;
  - outlays for extended social safety network to uphold domestic demand;
  - increased public expenditure in development projects and so on.

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## Introduction..(Cont'd)

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- Monetary measures adopted by BB included accommodative stance to facilitate easy access to finance for productive activities and a focused thrust on promoting financial inclusion in productive sectors inadequately served by the financial markets, including agriculture and SMEs.
- Adequate attention was paid also to improve the institutional arrangements for remittance of funds by Bangladeshi workers abroad to their families at home.

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## Introduction..(Cont'd)

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- Consequent to the timely and appropriate measures adopted by the authorities, the Bangladesh economy has weathered the recent global financial turmoil and economic slowdown with only mild impact on output and export growth.
- Real GDP of Bangladesh increased by 5.9% in FY 09 against 6.2% in FY 08, with 10.3% growth in exports and 22.4% growth in remittances.
- Foreign exchange reserve is more than USD 10 billion (a record).
- Domestic demand held up well with good domestic crop output reduced demand for food grain imports.

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## Introduction..(Cont'd)

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- New investment activities slowed down somewhat in the backdrop of global slowdown, causing decline in capital goods imports.
- However, growth in inflows from exports and workers' remittances, coupled with reduced imports kept the financial markets very liquid in FY 09.
- Unlike most other capital markets in the region, the stock markets in Bangladesh faced only modest net FDI outflow and correspondingly moderate downturns in the market indices.

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## Introduction..(Cont'd)

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- Export shipments have suffered some decline more recently in H1 FY 10, with about 7% year on year decline during July-November 2009.
- There are indications however that the decline will be short lived. Order books of exporters in the apparel sector are reportedly full.
- There are some anecdotal reports of global retailing chains asking for delivery of apparels export consignments to their outlets in fast growing South East Asia including Japan and China, against initially for North American and European markets where demand recovery was slower than expected.
- Opening of fresh LCs for imports of inputs by the apparel sector are on increasing trend. Opening of LCs for inputs of capital goods have lately on rising trend, indicating restoration in new investment momentum.

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## Introduction..(Cont'd)

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- In FY 10, output of major rice crop (Aman) has been very satisfactory, with timely availability of financing and inputs under vigilant attention of BB and government.
- Weather conditions have remained benign for the next Boro rice crop and other crops including potatoes, with farmers responding robustly to price incentives in the market.
- With economic activities expected to gain further momentum in H2 FY10, the real GDP growth in FY 10 is expected to be around 6%, matching or slightly exceeding the FY 09 growth.

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## Challenges

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- Despite having impressive performance in recent years, Bangladesh economy face many challenges in moving out of the current LDC status.
- The challenges for the Bangladesh economy over the near and medium term include:
  - Extending infrastructure facilities (availability of power and gas, improvement in road/rail/waterway facilities for transport of capital goods, inputs and outputs) already severely deficient for current need;

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## Challenges..(Cont'd)

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- Promoting inclusiveness in development efforts, crucial in attaining/surpassing the MDG goals;
- Improving implementation of development expenditure (Annual Development Program);
- Developing and strengthening the capacity of the financial sector in mobilizing and developing internal and external savings in productive investments;
- Greater openness of domestic financial sector to global financial flows, correspondingly strengthened risk management and prudential regulation to minimize vulnerability to external turmoil. Closer multilateral/bilateral cooperation with regional neighbors can help substantially in reducing vulnerability.

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## Challenges..(Cont'd)

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- Other challenges include:
  - Human resource development (Education, Health, etc.);
  - Export diversification;
  - Productive use of growing workers' remittances;
  - Sustain agricultural growth and extend support to the Small and Medium Enterprises (SMEs);
  - Quick start of public-private partnership (PPP);
  - Sustain progress in poverty reduction.

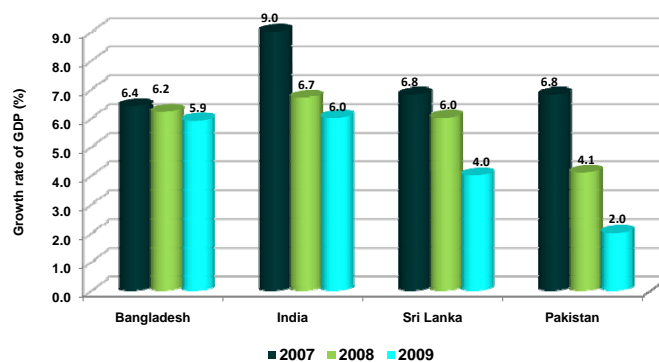
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## Where Do we Stand Now Relative to Our Neighbors?

- Macroeconomic fundamentals are one of the strongest.
- Strongest current account position.
- Moderate inflation.
- One of the strongest currency in recent months.
- Least affected by the current global economic crisis.
- Growth rate remains robust, though there is scope for further improvement.

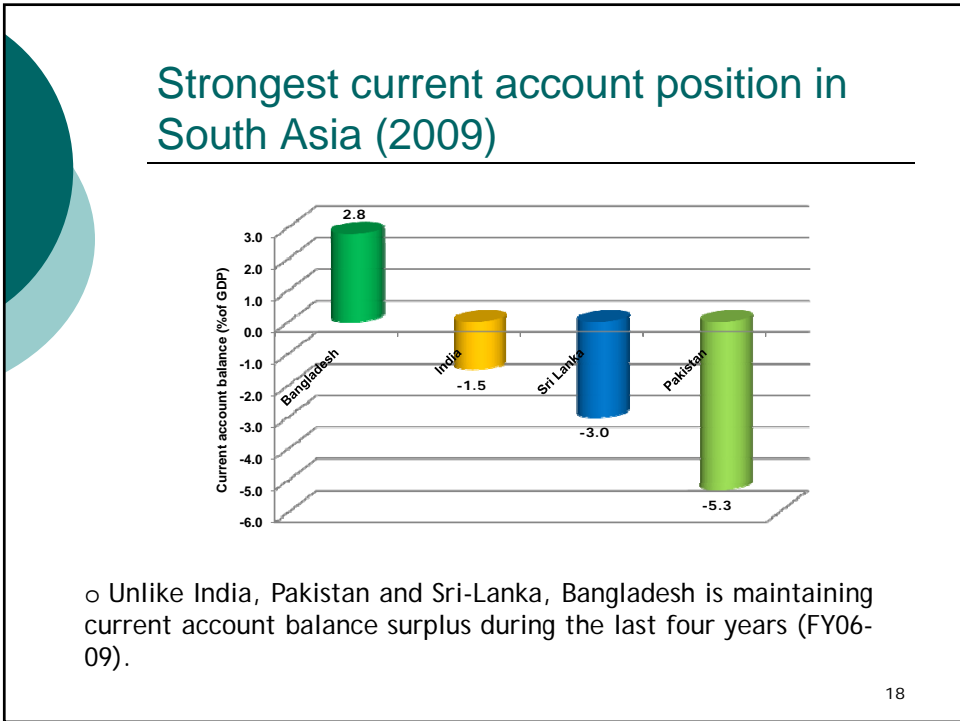
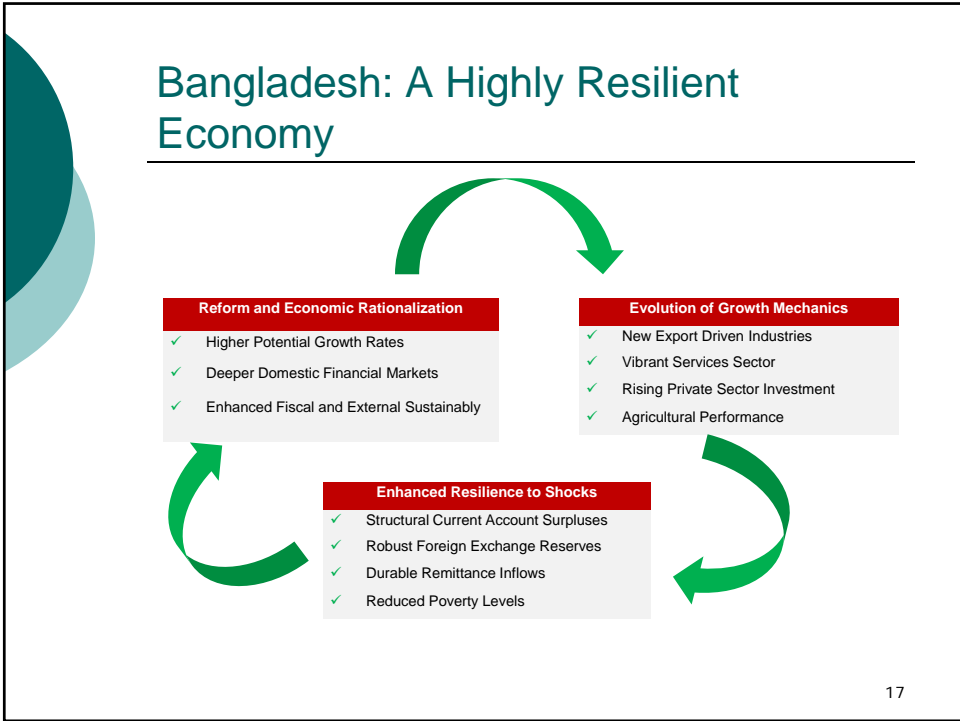
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## Resilient Economic Growth

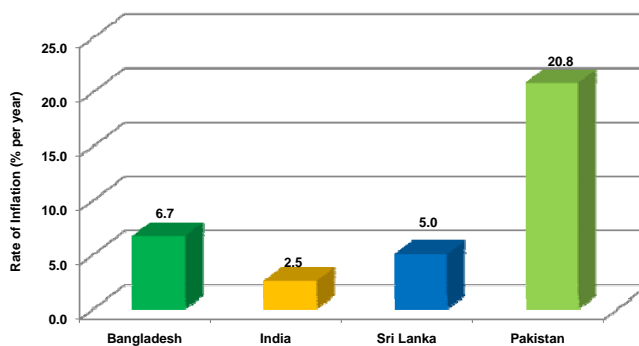


- Unlike the neighbors, the adverse impact of the global financial crisis on Bangladesh was mild.

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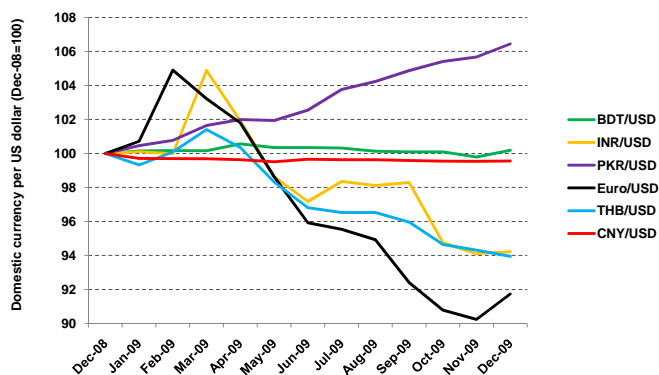
## Moderate inflation (2009)



oThe decline in international commodity and fuel prices combined with good domestic crop production kept inflation under control in Bangladesh.

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## Development in Nominal Exchange Rates



oBangladeshi Taka remained stable against US dollar while other currencies such as Indian Rupee, Thai Baht and Euro appreciated considerably.

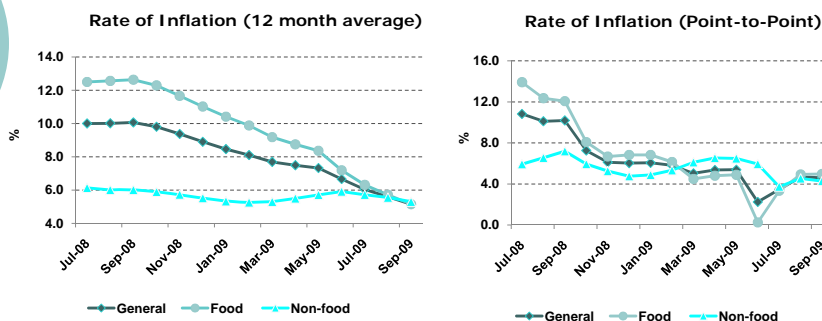
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## Impact of Crisis on Bangladesh: Recent Macroeconomic Developments

- Bangladesh economy has been mildly impacted by the financial crisis because of its limited and regulated openness to short term external capital flows.
- Economic growth has thus far been only mildly impacted.
- Remittance inflows from migrant Bangladeshi workers continued on uptrend.
- Foreign exchange reserve is more than USD 10 billion (a record).
- Low outflows for imports from the growing export receipts and workers' remittance inflows kept local financial markets awash with liquidity.

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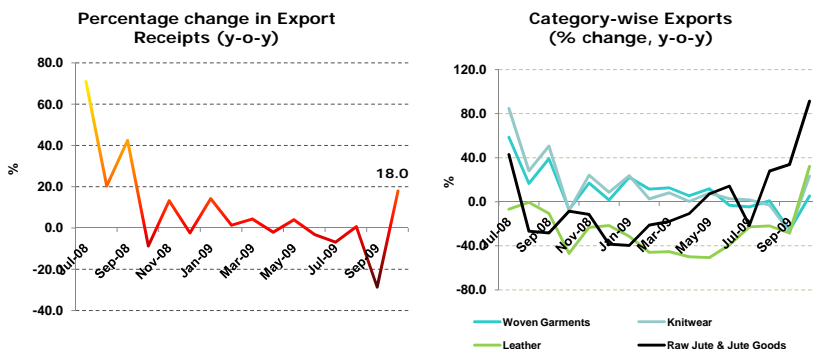
## Recent Macroeconomic Developments: Moderate Inflation In Recent Months



- Inflation (both food and non-food) is at target level.

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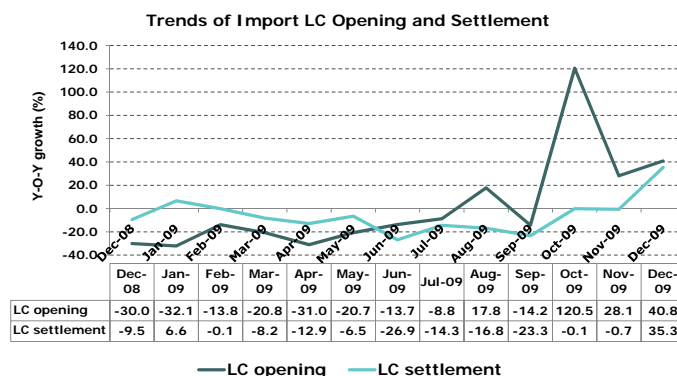
## Steady Recovery of Exports



o Exports initially affected by the crisis are rebounding now with positive growth of major export category- readymade garments (the major export item of the country).

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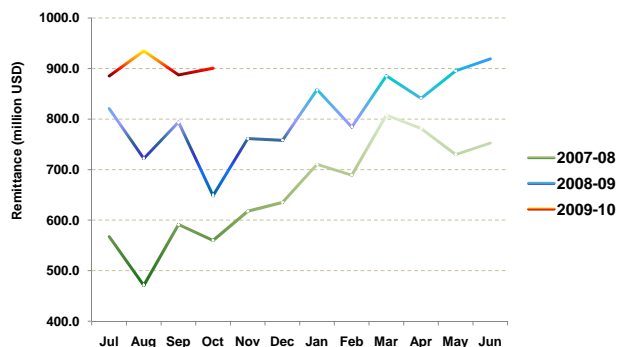
## Steady Recovery of imports



o Both LC opening and settlement registered remarkable positive growth in December 2009 (y-o-y) indicating robust pick up in economic activities in the coming months.

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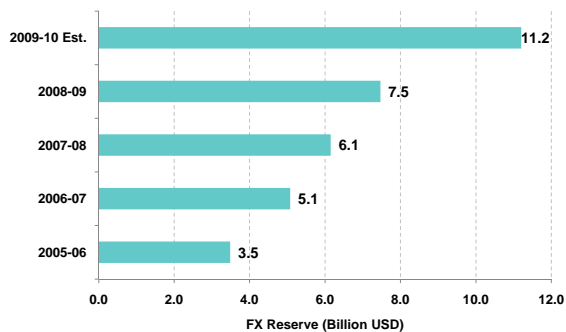
### Robust growth in Workers' Remittances



o Bangladesh is ranked among the top 10 remittance earning countries in the world. Even during the crisis period, growth in remittances has been buoyant.

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### Steady growth of Foreign Exchange Reserve

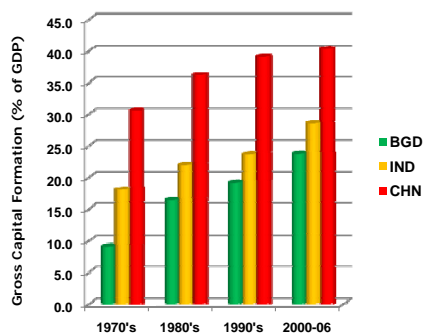


o FX reserve in Bangladesh is growing steadily backed by strong remittances and resilient exports. Recently FX reserve has crossed USD 10 billion and is projected to be around USD 11.2 billion at the end of FY 2009-10.

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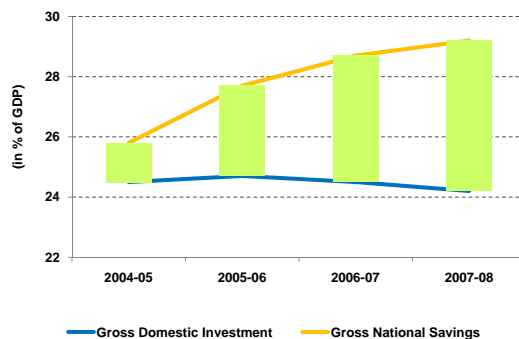
## Challenges Ahead: the way forward

- The major challenge for Bangladesh is to move out of the current LDC status in next few years and for that the nation requires much higher investment than it does at present.
- As seen from the figure, Bangladesh invests much less than its major comparators.



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## Challenge: Full Utilization of Savings



- Attaining GDP growth rate at around 8% over the medium term will require investment to grow at much higher rate than the present rate.

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## Challenge: Improving prevailing power and energy shortages

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- The deficiencies in power, gas, and basic infrastructure are the major supply-side bottlenecks for industry sector growth in Bangladesh.
- To sustain accelerated industrial growth, the government needs to urgently address shortages in power and gas supplies.
- To prevent irregular power and gas supplies from continuing to affect industrial production, investment in power and gas needs to be increased.
- In addition, investment is also needed to improve road conditions, port operations, and urban infrastructure and services to support industrial growth.

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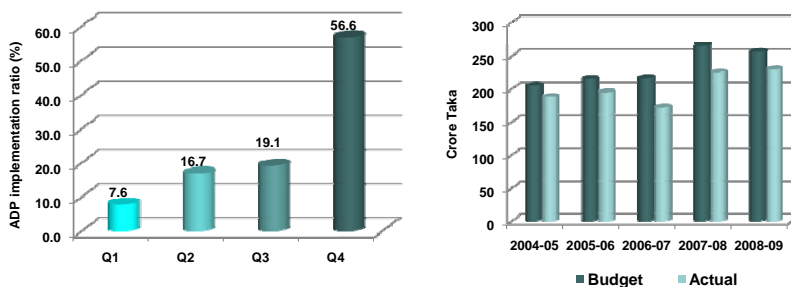
## Challenge: Quick Start of PPP

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- Significant acceleration of economic growth with rapid and sustainable poverty reduction will require substantial scaling up of infrastructure investment.
- According to the government estimates, released in June 2009, there is an investment gap of USD 28 billion from FY 10 until FY 14 to achieve an annual GDP growth rate of 8% by 2013.
- Therefore, the government has launched reforms to establish an enabling environment for Public-Private Partnerships (PPPs) to improve the regulatory regime and simplify procedures.
- If successfully implemented, PPPs would make an important contribution to economic growth and poverty reduction through investment in social infrastructure, transport, and power.

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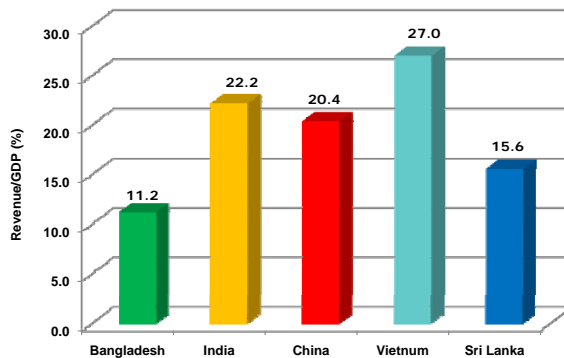
### Challenge: Improving Quality and Implementation of ADP



- One of the major challenges for Bangladesh is to improve the implementation of ADP (development expenditure). Almost in every year actual ADP fell short of the target.

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### Bangladesh has one of the lowest Revenue-GDP ratio (2009)



- Bangladesh needs to improve revenue collection to increase its capacity to spend more on development expenditure, widen social safety net and to boost medium term growth prospects.

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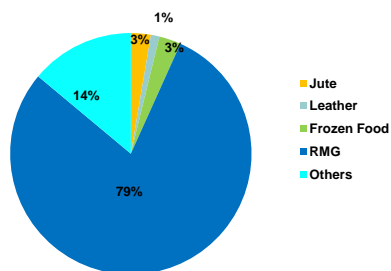
## Challenge: Export Diversification

o Bangladesh's exports are heavily concentrated on readymade exports (about 80%) and the major markets are the US and EU.

o Bangladesh needs to diversify its export basket to reduce vulnerability arising from external shocks.

o The country has high export potentials in batteries, jute twine, yarn, cordage and ropes, frozen fillets, cement, bricks and frozen fillets.

Composition of Exports



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## Challenge: Broadening Financial Inclusion

o Despite substantial bank branch expansion and emergence of Microfinance Institutions (MFIs), scant access to basic financial services still remains a source of deprivation in Bangladesh.

o About one-fifth to one-fourth of the population still live in extreme poverty; many of them not capable of undertaking micro-credit supported self-employment initiatives.

o The coverage of financial services is still incomplete with gaps both at the lowest end and at some patches up the income ladder.

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## Status of Financial Inclusion in Bangladesh

Year	Adult Population* (millions)	Population per bank branch (millions)	Number of bank deposit A/Cs (millions)	Deposit A/Cs as % of adult population	Number of members in MFIs (millions)	MFI members as % of adult population	Number of members in cooperatives (millions)	Cooperative members as % of adult population	Financial Inclusion** as % of adult population
1999	73.16	18669	27.30	37.32					
2000	75.16	18347	28.40	37.79					
2001	77.18	19886	30.10	39.00			7.65	9.91	
2002	79.59	20753	30.90	38.82			7.67	9.64	
2003	80.80	21406	31.30	38.73	14.63	18.11	7.57	9.37	66.21
2004	82.25	21443	31.60	38.42	14.40	17.51	7.76	9.43	65.36
2005	83.80	21420	33.10	39.50	18.82	22.46	7.92	9.45	71.41
2006	84.60	21171	34.50	40.78	22.89	26.95	8.03	9.45	77.33
2007	84.95	20920	35.70	42.02	20.83	24.52	8.22	9.68	76.22
2008	85.78	20566	37.60	43.83	20.90	24.36	8.44	9.84	78.04

Source: Scheduled Bank Statistics, Bangladesh Bank and Statistical Year Book of Bangladesh, BBS

\* Adult population is defined by BBS as population 15 years and above

\*\* Financial Inclusion is measured here as

**(No. of bank deposit A/Cs + No. of MFI members + No. of members in cooperatives)/Adult population\*100.**

Post offices and government savings bureaus not included as these offer no credit services

- About 25 percent of the adult population is still to be covered by deposit and other financial services from regulated institutions.

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## Challenge: Retaining Agriculture Growth

- Favorable climatic conditions along with broad based government support helped the agriculture sector attain robust growth during FY 2006-09 (except FY 08) in the 4.6-4.9% range.
- The production target for rice and wheat in FY 10 is 35.3 million tons, a 9.6% rise from actual production in FY 09.
- Attaining this target will require improving input supply arrangements, timely and adequate availability of agricultural credit, positive output price support, and favorable climatic conditions.

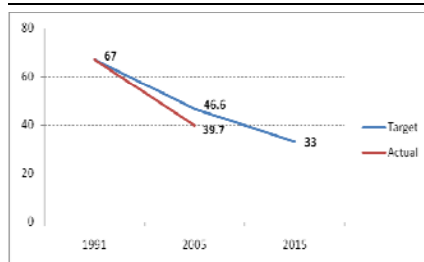
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## Bangladesh's Progress Towards MDGs

- Bangladesh made huge advances with regards to many of the goals - some goals will be reached ahead of schedule while a limited few have been achieved already.
- In order to fully achieve the target, the government must focus on remote areas of the country as well as segments of society which are marginalized and hard to reach.
- Government should give these sectors high priority to get these goals on track.

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## Goal 1: Eradicate Extreme Poverty and Hunger

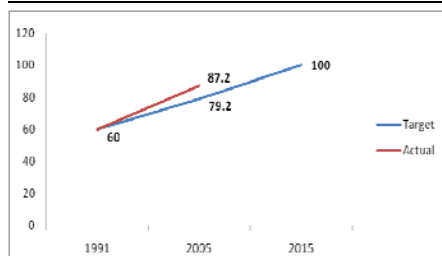


Base (1991)	Current Status (2005)	Target 2015	Status
67%	39.7%	33%	On Track

- Bangladesh has reduced the prevalence of underweight children under five years of age from 67% in 1991 to 39.7%.
- If the current trend continues, Bangladesh will achieve the target of reducing the prevalence of underweight children to 33% by 2010, five years before the 2015 deadline. Other targets in this goal area also on track.

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## Goal 2: Achieve Universal primary Education



Base (1991)	Current Status (2005)	Target 2015	Status
60%	87%	100%	On Track

- Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.
- Net Enrollment Ratio in primary education in Bangladesh has increased from 60% to 87.2%.
- If the trend continues, 100% net enrolment in primary education should be achieved by 2012.

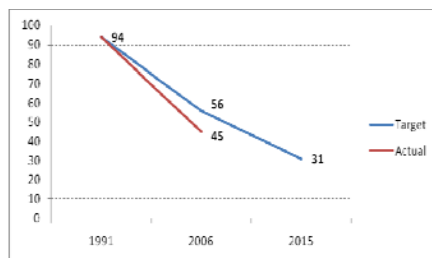
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## Goal 3: Promote Gender Equality and Empower Women

- Bangladesh has achieved the target of 50:50 in the ratio of girls to boys in both primary and secondary education.
- The ratio of women to men in tertiary education institutes (at 36:64) and the ratio of literate women to men between ages 20-24 (46:65 as of 2002) are two areas that need attention.

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## Goal 4: Reduce Child Mortality



Base (1991)	Current Status (2006)	Target 2015	Status
94	45	31	On Track

- Reduce by two thirds, between 1990 and 2015, the infant mortality rate.
- Infant mortality rate per thousand live births is at 45 per thousand, down from 94 per thousand in 1991.
- If Bangladesh can maintain this trend, target will be met before 2015. Other targets in this goal area are also on track.

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## Policy Response by GoB and BB

- Bangladesh government made ample allocations in the FY 09 and FY 10 national budgets to uphold domestic demand and to stimulate real sector investment. Some of these initiatives include:
  - Promoting women empowerment in SMEs and other productive activities.
  - Inclusion of crop insurance in the Food Policy agenda as a longer term measure towards mitigating risks in agricultural production.
  - Granting loans to rural poor for construction of their basic shelter housing, in a number of schemes titled Grihayan, Ashrayan, Returning Home, and One home-One farm.

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## Initiatives by BB

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- BB has kept open refinance lines for banks against their loans to Small and Medium Enterprises (SMEs).
- The Agricultural Credit Program announced by BB for FY 10 enjoins all banks to engage in lending for a comprehensive range of on- and off-farm rural economic activities.
- BB has introduced refinance line in FY 10 against bank loans to landless sharecroppers, for environment friendly investments in solar energy, biogas plants and effluent treatment plants.

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## Concluding Remarks

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- Attaining and where possible surpassing the MDGs will be key to graduation of Bangladesh out of her current LDC status.
- Therefore, broad-based, inclusive, socially and environmentally responsible economic growth is viewed by BB as the way forward in strengthening domestic demand with rapid reduction of poverty.
- Beside domestic resource mobilization and support by multilateral lending institutions, foreign private investment and a global trade regime supportive of rapid export growth will be important requisites in attaining and sustaining the high real output growth needed.

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