Bangladesh Forecasts Strongest Growth Since 1980 as Unrest Eases

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Bangladesh forecast its economy will grow at the fastest pace in at least 34 years after the International Monetary Fund made further loan payouts citing greater calm following this year's elections.

Gross domestic product will expand 7.3 percent in the fiscal year starting July 1, Finance Minister Abul Maal Abdul Muhith said in his budget speech yesterday, compared with a revised 6.12 percent projection for this year. That would be the fastest pace in World Bank data going back to 1980 and the highest since Bangladesh was separated from Pakistan in 1971, according the Centre for Policy Dialogue, a Dhaka think tank.

"We have successfully mitigated the pre-election damages and the economy now is back to its robust best," Muhith said in the televised address in Dhaka. The budget deficit will be unchanged at 5 percent of GDP, he predicted.

Bangladesh lowered its current-year growth target from 7.2 percent after political unrest disrupted business and destroyed property. While a resurgence in violence is the main risk for the nation, failure to reach global safety standards could affect garment exports, which comprise about 80 percent of total outward shipments, the IMF said May 29.

"It will be a pleasant surprise if Bangladesh can achieve the 7.3 percent GDP growth," said Fahmida Khatun, head of research at the Centre for Policy Dialogue. "Investment and job creation are not picking up. These are the two main drivers of economic growth."

Textile Taxes

The IMF predicts 6.25 percent growth in Bangladesh's coming fiscal year. The Washington-based lender last month disbursed $140.9 million under a three-year $986 million facility approved in April

2012. That takes total payouts to $740.3 million.

Bangladesh will spend 2.5 trillion taka ($32.3 billion) in the next 12 months, of which 1.8 trillion taka will be funded by revenue, the budget documents show.

Taxes deducted on source will be reduced to 0.3 percent from 0.8 percent for garments shipped abroad and to 0.6 percent from 0.8 percent for all other exports.

Bangladesh has the world's second-largest garment industry that has grown over the last three decades to yield revenues of $20 billion a year from $12 million, mostly on the back of cheap workers. Substandard practices have resulted in the deaths of at least 2,000 people since 2005 at factories that supply to some of the world's biggest retailers including Wal-Mart Stores Inc. and Gap Inc.

Standard & Poor's affirmed Bangladesh's credit rating at BB- with a stable outlook on May 30, three levels below the lowest investment grade. Remittance inflows, competitive garment exports and strong donor commitment are countered by fiscal constraints and development needs, the company said.

Bangladesh's revenue profile is "one of the weakest among its peers," S&P said, with only 2 million registered tax payers and a tax-to-GDP ratio of 10.5 percent, it said.

"The main challenge for the government is how to generate income from tax," said Ahsan H. Mansur, executive director at the Policy Research Institute of Bangladesh. "The government should do whatever it takes to accelerate economic growth."

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