CPD
Dialogue Brief

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Recent Challenges Facing the Bangladesh Economy

ABOUT THE EVENT

In recent months, Bangladesh's macroeconomic situation has moved out of the comfort zone. The macroeconomic stability has considerably deteriorated owing to challenges from both domestic and external fronts. In this connection, it must be acknowledged that a significant number of other countries are going through similar challenges—both as a consequence of the COVID-19 pandemic and due to the aftershocks of the Russia-Ukraine conflict.

Against this backdrop, the Centre for Policy Dialogue (CPD) organised a media briefing and sector-based discussion titled Recent Challenges Facing the Bangladesh Economy on 24 July 2022. The event was organised under CPD's flagship programme "Independent Review of Bangladesh's Development (IRBD)". *Dr Fahmida Khatun*, Executive Director of CPD, gave her welcome remarks at the session and delivered the keynote presentation. *Dr Khondaker Golam Moazzem*, Research Director of CPD, moderated the discussion. *Mr Muntaseer Kamal*, Research fellow, CPD, *Mr Syed Yusuf Saadat*, Research Fellow, CPD, and *Ms Helen Mashiyat Preoty*, Research Associate, CPD, contributed to CPD's presentation.

KEYNOTE PRESENTATION

> Short-term measures alone would not be able to address the current concerns properly

Fahmida Khatun

The macroeconomic crisis is affecting four critical areas of current policy discourse. These include: (i) inflation, (ii) public finance management, (iii) external sector, and (iv) power and energy sector.

The headline inflation rate reached 7.56 per cent in June 2022 which is the highest in nine years. However, this official statistic is not reflective of the ground realities as the price of almost every food item is increasing at a higher rate than the food inflation rate published. There is also a need to update the inflation calculation methodology in order to make it more representative of the current consumption patterns. Additionally, the protection of people with lower income should get prioritised given the disproportionate adverse impact of rising inflation on their lives and livelihoods. In order to contain the soaring inflation, money supply has to be controlled through increasing lending rate. The monetary policy should be made more effective through a market-determined interest rate regime. Also, the poor households should be provided with additional support. Finally, micro and small businesses should be provided stimulus since most of them could not access the credit support provided during the pandemic period.

For public finance management, the growth in revenue mobilisation surpassed the annual growth target during the first nine months of FY2021–22. Over the same period, public expenditure growth was substantially below its annual growth target. As a consequence, the government had a budget surplus (excluding grants) during the first nine months of FY2021–22 which is not desirable in the present context. The already introduced austerity measures such as stoppage in vehicle purchase by government entities, reduction in foreign travels by government employees, stoppage in providing honorarium for attending meetings, pause in the implementation of C-category Annual Development Programme (ADP) projects (i.e., low priority projects) and reduction in expenditure (by 20–25 per cent) owing to fuel and electricity by government agencies should be continued. Subsidy on fuel, power and agriculture should be continued for the next few months taking cognisance of the fact that any hike in the administered prices will have adverse impact on inflation. Tax evasion and illicit financial flow on account of trade-based money laundering should be restrained by all means in order to generate resources for the priority sectors.

Despite a robust growth in export earnings, current account deficit reached a whopping USD 17.2 billion at the end of May FY2021–22 owing to higher import growth and negative growth in remittance inflow. Forex reserve plummeted to USD 42.2 billion in May FY2021–22 from USD 46.4 billion in June FY2020–21. This further decreased to USD 39.8 billion in early July FY2022–23—equivalent to about 4.3 months' import payments. The existing question as regards the accuracy of accounting practices associated with the estimation of forex reserve was also reiterated. Although the recent measures by the Bangladesh Bank such as halving the dollar holding limit (net open position or NOP) of banks, monetising 50 per cent of dollar holdings in Export Retention Quota (ERQ), halving the deposit limit as ERQ, and transferring foreign exchange funds of offshore banking units to domestic banking units are indeed positive moves, yet these will not dent much in the problem.

Measures to be taken

In the short term, tightening the imports should be the main strategy. Priority should be given to the import of essential commodities and inputs for production. Given the current situation, trade misinvoicing should be restrained at any cost. Also, there is an urgent need to revisit various incentives prevalent in the external sector.

The ongoing global energy crisis is likely to continue in the medium term. Higher energy price is also likely to continue in the global market in the coming months though it may recede to some extents. Bangladesh continues to spend a substantial amount of foreign currency for the import of crude and refined oil and liquefied natural gas (LNG). Due to the pressure of importing with limited available forex reserve, domestic energy supply and power generation have started to be curtailed. The government has already initiated country-wide load shedding and is planning to shut down petrol pumps one day per week and to control transport use. The burden of capacity payment has also emerged as an added tension since a significant part of the payment needs to be paid in foreign currency. In view of the limited availability of foreign currency and the need for energy import, the government may borrow from Islamic Development Bank, International Monetary Fund (IMF), World Bank and bilateral sources such as the Kingdom of Saudi Arabia (KSA), Kuwait and Qatar.

Dependence on imported LNG alone would be too burdensome and too uncertain to ensure uninterrupted gas supply for domestic industry and power sector. Hence, immediate measures for exploring gas fields are required. The government should invest more on renewable energy for energy diversification to overcome fossil-fuel based energy crisis.

On the whole, short-term measures alone would not be able to address the current concerns properly. In order to deal with the ongoing economic crisis, it is important to take both short- and medium-term measures. To this end, effective measures should be in place to ensure macroeconomic stability. These include—stable forex reserve, inflation management, enhanced revenue generation, ensuring electricity and gas supply for economic activities, and extended social safety net programmes.

MACROECONOMIC SITUATION

> Income inequality in our country has been steadily increasing which is a significant threat to social stability

A B Mirza Azizul Islam

Diagnosis of a problem is relatively easy; however, prescribing a solution is rather tricky. The problem with prescriptions is that actions which impact one indicator positively might impact another adversely. Therefore, policymakers need to understand the trade-offs and come up with ways to manage them.

The banking sector has become fragile in recent times. Due to the caps on interest rates, the flow of credit to the private sector has been limited. The private sector credit growth was 12.04 per cent from July 2021 to May 2022. However, the public-sector credit growth was over 27 per cent during the same period. In addition, the investment to GDP (gross domestic product) ratio, particularly that of the private sector, is still low in Bangladesh. Investment in the private sector mainly depends on bank finance since the capital market or the stock market has still not been able to play any significant role. The growth of the private sector credit is less than the target mentioned in the monetary policy statement issued by Bangladesh Bank. Therefore, the rationale behind setting interest caps comes into question.

Secondly, the growth in import payments has depleted the reserve quite substantially. Although the export earnings growth has increased, there has been a negative growth in remittance inflow in FY2021–22. It is necessary to give efforts to increase remittances which can help resolve the forex crisis. Even though several incentives are already provided, these are not generating the desired result. A medium-term plan is necessary to increase remittance inflows. Bangladesh must focus on diversifying the sources of remittance. Also, skills development of prospective overseas migrants has become crucial. The country can receive higher remittance by sending off skilled labour who are likely to get a higher salary. Only providing the incentive is not a long-term solution.

Thirdly, although the import payments have grown substantially in monetary value, it is unclear whether the rise is due to the increase in price or quantity. It is possible that the quantity has not grown much but may have decreased in many cases. Also, the price has increased in the international markets. In addition, in case of imports, there are uncertainties about the number of genuine imports and the proportion of over-invoicing in total imports. As has been observed, most money smuggled out of Bangladesh is smuggled through foreign trade, such as import over-invoicing and export under-invoicing. However, there are no new initiatives from the National Board of Revenue (NBR) or the government in this regard.

Fourthly, statistics on poverty line in Bangladesh has not been updated for quite a while. Although no updated official statistics is available, many recent studies by independent sources show that the number of people below the poverty line has increased from 20 per cent in 2019 to around 30 per cent recently. There are two ways to solve this problem; the first one is to create employment, and the second is to increase the allocation and coverage of the social safety net programmes while ensuring a fair distribution. However, job creation requires investment. For investment, the role of banking sector is crucial, especially for the investment by the private sector. Also, there have been several criticisms concerning social safety net programmes. For example, eligible people remain excluded from the safety net, and those who are ineligible receive the support. In addition, income inequality in our country has steadily been increasing. The present Gini coefficient is estimated to be around 0.49 which can be deemed a significant threat to social stability.

Finally, there are a number of challenges associated with Bangladesh's upcoming graduation from the least developed country (LDC) category. Bangladesh will lose duty free access to the European Union (EU) under the 'Everything but Arms' initiative. Although there is a chance to obtain the GSP+ (Generalised Scheme of Preferences Plus) facility, the associated conditions might prove to be difficult for Bangladesh to attain. Particularly, issues such as labour rights, trade union, and environmental compliance will require heightened attention. Also, the protection of intellectual property rights will become a challenge after LDC graduation.

BANKING SECTOR

> The biggest problem of the banking sector is the lack of good governance

Salehuddin Ahmed

There are numerous challenges in the banking sector. Our country's problems are specific, such as the current problems including inflation, foreign reserve, corruption, wastage, and money laundering. Now the global issues have added to the woes.

Bangladesh may be able to recover from the current macroeconomic situation using foreign exchange reserve, but the meso-level instruments like the market, the bank, the regulatory bodies in Bangladesh are extremely weak. Besides, work efficiency should be improved. At the micro level, often, local government lacks effective management tools, and citizen participation in the local governance is weak. Hence, overcoming current challenges would require a bottom-up approach as well.

Even though Sri Lanka has problems in the macro-level, its meso- and micro-level structures are very good. It has a good education sector and a skilled workforce. The main challenge for Sri Lanka was that it did not address its problems on time. Also, it had clan system in its governance. Bangladesh is having a similar symptom in many areas. The macroeconomic challenges can only be overcome if other pressing problems are addressed.

Being a large sector, banking sector is like the nerve of an economy where all business transactions are carried out. If severe weaknesses persist in this sector, such as corruption, mismanagement and non-compliance with norms, then it will be difficult for the economy to move forward. The contribution of the banking sector to our economy was good, especially in the 70s and 80s when provisioning policy and rescheduling were very impressive. These policies should have been revisited. Moreover, the biggest problem of the banking sector is the lack of good governance. Directors and the management of banks are also responsible for this. So, it may not be correct to say that it is the central bank's fault because the central bank is not solely responsible for managing the banks. There seems to be an understanding between the directors and the management at the top level. Another issue is that the decisions which are taken by the central bank are influenced by some vested interest groups. Therefore, the role of the central bank is not very strong.

Nowadays, the monetary policy statement is only being issued once a year. But in countries like India, the monetary policy statement is being issued four times a year and the monetary policy committee sits to review it once in every six weeks. It was necessary to reduce default loans and improve the ratio of broad money and reserve money before implementing capital account convertibility. The issue of private sector borrowing should be addressed, otherwise there will be pressure on foreign exchange.

As for foreign reserves, stabilising foreign reserves by selling bonds is not an effective measure. Similarly, fixing foreign exchange rate is also wrong and ineffective. But instead of selling, the central bank should have looked into the import content like value or volume of imports. Proper management of import, volume of import, payment of essential import commodities, containers that are entering our country, issue of over-invoicing or under-invoicing—all these should be monitored properly. It should be ensured that the increase in import should increase production as well. Bangladesh Bank has taken a good initiative by halving the dollar holding limit (NOP) of banks. ERQ was reduced, but it will create further problems if money is still there in foreign offshore accounts or Export Development Funds (EDF). Around USD 7 billion dollar is spent in EDF. The government has continuous liability. For instance, the government invested in the Payra Bridge. Besides, it gave money to Sri Lanka's central bank. All such funds are putting stress on foreign reserves.

In this context, banking sector's reform and establishment of good governance are the need of the hour. Bank directors should play a role here by being transparent and recovering the default loans. The more concessions are given on the default loans, the harder it will become to recover the loans. Loan rescheduling without proper monitoring and deferred loan repayment would create a liquidity crisis in the banking sector and discrimination against the business sector. Small entrepreneurs have been deprived of stimulus packages, loan rescheduling, and deferred repayment facilities. If such facilities and refinancing schemes were available for them, then we could reduce poverty in our country.

Timely action is important. During the financial crisis of 2008, Bangladesh Bank immediately tried to get money back from offshore accounts. Immediate measures were taken against the affected industries, such as shrimp and garments industries. However, in recent times, no adequate actions are being taken, except for increasing exports of RMG products. We need to diversify exports. Manpower export faces a number of challenges which need to be solved in order to increase remittance inflow.

Therefore, Bangladesh Bank should take strict actions to improve the banking sector norms in line with the international standards. The government should stop wasting tax money and stop money laundering. We need to engage the citizens of our country in the decision-making process to ensure transparency. People have the right to know information, so they should be provided with information. If this can be done, then we will be able to eliminate wastage and increase accountability. The government should take opinion from people while making decisions.

EXTERNAL SECTOR

> Government should take a zero-tolerance policy against capital flight through both over- and under-invoicing

Mustafizur Rahman

The crisis has been manifested in the external sector, but the origin of the problem lies in the economic management of the country. In the current context, especially in the external sector, exchange rate management, capital flight, trade deficit, and medium-term macroeconomic management are the four main issues that need to be monitored carefully and require measures accordingly.

First, exchange rate management has long been an issue for the country, with concerns raised in recent years that Bangladesh was losing its trade competitiveness. In recent times, Bangladeshi Taka has been devalued very quickly at a rate of 10 per cent, which has put a further strain on the economy. However, the devaluation should have been done gradually in order to maintain trade competitiveness. The current devaluation of money has also influenced the price spike in imported goods. For instance, a 20 per cent increase in international market price has become 33 per cent in the domestic market price. Such pressure would not have been felt if the devaluation of the currency was made gradually.

Second, capital flight has been one of the critical issues for Bangladesh over the years. This issue has been raised by experts at many events on a number of occasions. It is worth noting that 80 per cent of capital flight occurs through under-invoicing and over-invoicing. A number of studies have also pointed out that in the last 10 years, nearly USD 60 billion has flown out of the country. In such a case, adequate preventive measures were not taken. In recent times, the government has been trying to bring back money that has flown out of the country. However, as mentioned earlier on other occasions, this would not be beneficial on economic, political and ethical grounds.

Third, trade deficit has been worsening in recent times. If the current trend persists, the trade deficit in FY2021–22 would be USD 33 billion whereas the current account deficit would be USD 20 billion. To tackle the situation, the government should focus on attracting foreign direct investment (FDI) or foreign currency flow in the form of bigger loans. However, the FDI inflow into the country has not been satisfactory till now. For instance, the seventh five-year plan (7FYP) projected a net FDI inflow of USD 33 billion between 2015 and 2020. However, the actual net FDI inflow into the country was less than USD 10 billion in the same period. Besides, the 7FYP had projected that the revenue to GDP ratio would be 14 per cent, but the actual ratio was nearly 9 per cent. Another concerning issue is the export of the country, which seems to be in a better position. However, the nature of export is volume-driven, whereas the nature of import is more price-driven. The volume of the import remained the same but the price increased. As a result, the effects are visible in the price. Such a trade structure is not good for the economy, and has a negative impact on the overall economy.

Fourth, along with the continuation of the short-term measures rightly taken by the government, a number of medium-term measures are required in order to deal with the crisis in the external sector. For exchange rate management, the managed floating exchange rate has been converted to a free-floating exchange rate, which is a timely measure and it should be continued. Government should take a zero-tolerance policy against capital flight through both over- and under-invoicing. The government should also continue the discussion with development partners such as the IMF and the World Bank for the balance of payment (BoP) and budgetary support, and consider their advice and recommendations for tackling the crisis. The government should finalise the projection for debt servicing and consider the future challenges for foreign currency reserves. Along with other measures to tackle trade deficit, the government should also focus on increasing value retention. Efforts should be intensified to strengthen regional cooperation in terms of investment connectivity, transport connectivity, and trade connectivity. To tackle the crisis immediately, short-term cautionary measures should be continued. Government should also focus on using the forex reserve wisely.

POWER AND ENERGY SECTOR

> It is high time that we re-consider our plan regarding the dependence on imported gas

M Tamim

Not only the power sector but other sectors and the macroeconomics as a whole are being negatively affected by the present crisis. Commercial trade and the banking sector are related to each other. Once there was a scarcity of power plants in Bangladesh which led to regular load shedding. But after 2007–2008, the major limitation was the scarcity of primary fuel. The problem we are facing now is mainly due to the supply shortage of primary fuel and the usage of inappropriate primary fuel.

The series of load shedding caused in 2000 hampered the economic growth and made the life of the public miserable. The decision of establishing oil-based power plants was timely and appropriate. To ensure the speedy supply of electricity, oil-based power plants were the only solution. The title of those rental power plants indicated that those power plants will be in operation for three to a maximum of five years. The oil-based power plants were supposed to be phased out after a maximum of five years' period, but they are still in operation even after 12 years. These power plants are only providing 3500 MW in summer and 2500 MW in winter but are in operation 24/7. Our energy mix is dominated by oil (heavy fuel oil or HFO; high speed diesel or HSD) till date. This dependence is the actual problem.

The government is aware that dependence on oil-based power plants will cause risks. Then what were the options for primary fuel supply? In Bangladesh, domestically we have only a limited number of options for primary fuel—natural gas, coal and renewable energy. We mostly import petroleum oil to be used in the transportation sector, and we have no other choice but to rely on imports.

Protests against the investment by foreign companies started after 2000. As a result, Bangladesh stopped foreign investment and adopted "BAPEX only policy", but the domestic investment necessary for exploring gas was not initiated. Investment in gas exploration is very costly. None of the governments could take the financial risk. But if we were able to bring foreign investment through Production Sharing Contract (PSC) then the risk of loss would have been on the foreign companies, not on us.

Besides, we have two domestic sources of primary fuel in which we are self-sufficient but no government was confident enough to take the political risk to extract primary fuel from the domestic sources after 2000. Thus, we chose to accept import related risks.

Not a single pre-COVID forecast by any institution indicated that the price of primary fuel would skyrocket. So, it was expected that, with the economic growth, we can afford importing primary fuels. This assumption has visibly pushed us towards both price and supply risk of primary fuel.

Moreover, a few wrong decisions have been made. No effort made for domestic gas exploration in addition to imports is one of the mistakes. We are bound to import since energy or fuel is not unlimited. Hence, it was important to be familiar with the framework of energy import, and global energy import sourcing. Decisions of importing coal and LNG were right for that time. But the government should have simultaneously initiated gas exploration.

Additionally, Petrobangla was well aware that the domestic gas production in 2016 would decrease from its peak (2700 million cubic feet), but adequate initiatives were not taken to address the situation. It was possible to stabilise the production at that level for a long time by ensuring proper gas field management. The measures that Petrobangla is taking right now should have been taken back at that time. The pressure of the gas is also lowering with declining productivity. The existing 2300 million cubic feet gas will deplete to 2000 million cubic feet gas, and after the newly added gas, it will be more or less 2300 million cubic feet gas again. The total volume of gas produced will be the same. At any time, our domestic production may fall.

We are mostly dependent on Bibiyana Gas Field for natural gas. Out of the 2300 million cubic feet gas, 1000 million cubic feet gas is produced solely from Bibiyana Gas Field. A few days back, drilling of 6 gas wells was stopped as these started to produce sands. The gas supply from those wells was shut down for three days to separate sand from extracted gas. Due to this, the gas supply was disrupted throughout the country. This situation has made it obvious that, if some of the gas wells of Bibiyana Gas Field stop functioning, the supply of 200-300 million cubic feet gas will be stopped at once.

Looking into the global risk now, the LNG price hike was not predicted to this extent. Gas demand increased unexpectedly due to the post-COVID economic recovery. The price of gas on the spot market was high even before Russia attacked Ukraine. On 22 February 2022, the spot market price was USD 25/MMBtu. The Ukraine-Russia war started on 24 February 2022 which hiked the price further. Even if the war ends, Europe will not import from Russia only, because they have realised now the vulnerability of depending on a single source. So, Europe will explore all the other gas sources across the world. Hence, it is high time that we re-consider our plan regarding the dependence on imported gas, because we cannot be sure whether we will be able to sign a long-term agreement within the next 1-2 years even if we are financially capable. So, our options are limited right now.

There is a ray of hope as 60 MW wind-based power plant has been constructed in Cox's Bazar, and another 500 MW will be added. It would be great if we can generate a minimum of 1000 MW from solar now and 3000 MW in the next 3–4 years. However, renewable energy source cannot provide uninterrupted power supply needed for economic growth. Even in Europe, ensuring uninterrupted supply of renewable power was not possible. We need dense energy until there is a new technology. We have to do our best to increase power from renewable sources. The government should expedite the process of natural gas exploration and extract local coal to tackle the energy crisis. Finally, we can limit our electricity demand through energy conservation and energy efficiency. And for this, we need to focus on demand-side management as well.

CURRENT BUSINESS ENVIRONMENT

> There is a need for the smooth continuation of the exports, otherwise foreign currency earnings will fall

Mostofa Azad Chowdhury Babu

Business is related to everything that has been discussed so far, whether it is fuel or the banking sector. If business, trade, and industrial development do not function normally, then the country's macroeconomic management will be in danger, and the country will be in a vulnerable position. As of today, the government has already initiated a number of measures to ensure that the flow of business and trade remains normal. But in the post-COVID situation, there has been an increase in the country's imports. As the discussion stated, the quantity of the imports has not increased, rather the import value has increased. As a result, the foreign exchange reserve is under pressure.

Besides, the Ukraine-Russia conflict has created a situation which has led to the price hike of daily essentials. We have noticed since March that the price of soybean oil has increased. There is an upward pressure in terms of the price of wheat. The prices of all relevant food items have also increased. In today's presentation, the percentage increase in the prices of all these goods have been mentioned, and some prices have increased even by 50 per cent. the Federation of Bangladesh Chambers of Commerce & Industries (FBCCI) has been monitoring the market since March, and is working so that consumers can get daily essentials at affordable prices.

On 7 March 2022, FBCCI requested the government to withdraw the 10 per cent VAT on soybean oil which led to a fall in its price. By the end of June, price of soybean oil in the global market went up to USD 1900 per metric tonne which has now fallen to USD 1400 per metric tonne. The discussion between the Trade Commission of the Ministry of Commerce and FBCCI led to the decrease in the price of soybean oil. We are hopeful that the price of soybean oil will decline more in future. FBCCI is vigilant so that ordinary people can purchase necessary food items at reasonable price rates.

There are 2–3 per cent businessmen who are responsible for price hike, and we do not support them. We try to create awareness so that businesspeople do not engage in such activities. FBCCI is mostly involved in advocacy, and assists in policy delivery. It advises the government, but it is not a regulatory authority. Hence, we are unable to take any direct measures against these businesspeople. But we recommend the government to take steps against them.

The biggest crisis now is related to the export-oriented industry. Electricity is being rationed. Unfortunately, our factories were not developed in a planned manner. Beyond EPZ (export processing zones), special economic zone or BSCIC (Bangladesh Small and Cottage Industries Corporation) areas, factories have been built wherever and whenever there were opportunities. The government has announced that factories will not undergo load-shedding. But factories face power cuts since all the factories in Bangladesh are not set up in the industrialized zones. Compared to the frequency of load-shedding in Dhaka, areas outside Dhaka are suffering three times more.

The biggest issue is that when load-shedding is experienced by export-oriented industries, then those factories run on diesel generators which in turn cause them to purchase diesel. The government is trying to save diesel by shutting down diesel-powered power plants in an effort to keep forex reserves stable. But because of the usage of diesel-run generators by factory owners, production costs are increasing for businesses. Businesses will face losses and will not be able to pay back bank loans. Without using diesel-run generators, production will fall and companies might miss shipment dates for the purchase orders received. They may have to do an air cargo shipment which will also increase costs. On the other hand, failing to carry out the shipments will send a negative message to buyers and purchase orders will decrease in future.

In light of the efforts to stabilise the foreign exchange reserves, a fall in shipment and export will cause a fall in foreign currency earnings. The business sector will face dwindling export and falling remittance. There is a need for the smooth continuation of the exports, otherwise foreign currency earnings will fall and there will be additional pressure on foreign reserve. The government needs to think of new ways so that the export-oriented businesses can always operate smoothly.

There should be an industrial bank where long-term loan facilities can be availed to run businesses. Moreover, village economies have flourishing businesses in jute, wheat, rice, corn, etc. However, they do not have trade licenses and do not have income tax forms or files. They are running businesses worth a lot of money, and the government is losing revenues. Hence, FBCCI has proposed that every sub-district should have a tax office and all tax processes should be automated. Automation is important and everyone should be brought under the tax net which will increase revenue. Otherwise, those who are tax-payers will have to bear the brunt. There are six crore people in the country paying holding tax, and more than four crore people in the upper class and upper middle class. So, they should come under the income tax net.

SOCIO-ECONOMIC SITUATION

> An iron triangle prevails in the country's economic governance for which the common people are suffering

Hossain Zillur Rahman

Several economic challenges have been accentuated lately. It is crucial to give the meso-economics and the microeconomics the same weight as the macroeconomics when making decisions. The issue of macroeconomic instability has already been discussed by other panellists. However, the changes that have taken place in the areas of meso-economics are equally significant. It should be noted that, although there has been a recovery from the initial shock of COVID-19, the recovery was sluggish. According to a study conducted by the Power and Participation Research Centre (PPRC) and BRAC Institute of Governance and Development (BIGD) in May 2022, the average income for low-income groups was found to be 15 per cent lower nationally, and the average income for low-income groups was found to be 25 per cent lower in urban areas compared to the pre-COVID levels. This indicates that the state of the meso-economy and related issues should be given greater importance.

Furthermore, the dialogue revolving around the micro-economy should focus more on economic inequality. In the framework of micro-economy, an economic injustice has surfaced. One of the inequalities facing the economy which should be discussed extensively is the financial burden and rationale for this burden. At this moment, there are three dimensions of the growing inequalities in Bangladesh.

The first dimension is the new poverty. According to the research conducted by PPRC-BIGD in May 2022, even after the recovery, nearly 30 million individuals have entered the group of the new poor. Due to inflation, 2 million people might have entered the new poor category during January–May 2022. According to the International Food Policy Research Institute (IFPRI), approximately 5 million people (or nearly twice as many) now fall under the category of new poor. This is an economic injustice.

The second dimension is the risk of reversal in the progress made in case of the Sustainable Development Goals (SDGs). The discourse, in general, predominantly focuses more on the issues related to macroeconomics; not enough importance is given to achieving the SDGs. Towards the path in achieving the SDGs, there has clearly been a reversal. There are three aspects of this reversal that have become more evident. Bangladesh was progressing in terms of household diet, but it is now observed that there has been a setback. People are now being forced to move back to a carb-based diet due to affordability issues. Another reversal is related to secondary education. The pace of dropouts in secondary level education has increased and this has long-term implications for the job market as well as other issues such as demographic dividend. Thirdly, it is observed that there has been a reversal in the improvements made in the housing sector, since around 10 per cent of the urban population was forced to move back to the rural areas during the last two years of the pandemic.

The third dimension includes the remunerative job crisis which is currently a pressing concern in Bangladesh. Youth unemployment is in a dire condition. Small and medium enterprises (SMEs) experience various structural disadvantages. It is not only difficult for the SMEs to gain access to credit, but it is also difficult for them to overcome institutional barriers. For instance, it is being said that rural areas are slowly gaining economic momentum, and thus, initiatives need to be taken to bring the people in these areas under the tax structure. Subsequently, initiatives should also be taken to reform the tax administration. Otherwise, it will create more economic inequalities and slow down the economic progress.

The current crisis has also highlighted the lack of efficiency at the grassroots level. Therefore, at this moment, it is imperative to not only address the current risks, but also to take steps to rectify these fault lines. When it comes to economic instability, it is important to perceive the discussion through two lenses—to avoid instability and simultaneously be progressive towards the ultimate aspirations of Bangladesh.

An "iron triangle" prevails in the country's economic governance, based on a connection between politicians, lobbyists, and bureaucrats. Unidimensional development philosophy of the government, policies on the basis of conflict of interest, and weak governance are three properties of the iron triangle. The common people are suffering due to poor governance. A big push is required to remove the triangle.

Bangladesh's resilience was once a matter of pride; however, it is time to stop taking it for granted. Therefore, it is important to discuss about the macroeconomic instability and at the same time take the necessary initiatives to step out of this iron triangle.

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ABOUT THE PROJECT

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