

State of the economy

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Symposium on
White Paper and Thereafter
Economic Management, Reforms and National Budget

Dhaka: Saturday, 18 January 2024

Secular growth decline

Dissecting the myth of the “fastest growing” economy

- ❑ Growth estimates based on the correlates averaged 4.2% annually during FY09-19, compared with 7% average reported officially
- ❑ Growth movements in opposite directions from FY14 onwards

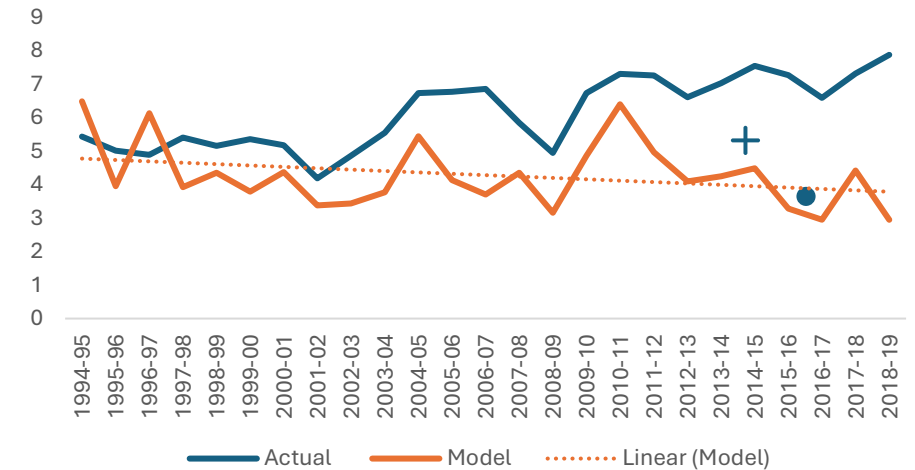
Roots of the secular decline

- ❑ Underinvestment, narrow export base, low human capital, resource misallocations (credit, capital, land, labor)
- ❑ Multi-pronged reforms (1990-2004) followed by erratic and regressive ones

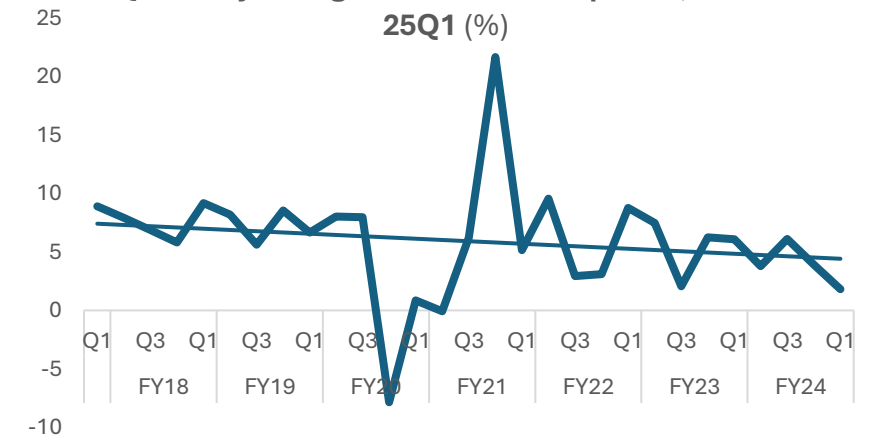
Recent trends in official data

- ❑ Post pandemic growth recession (1.8% in FY25 Q1)
- ❑ Global supply bottlenecks, misguided policies, accelerated capital flight, political uprising, floods

Corrected vs reported annual growth (%)



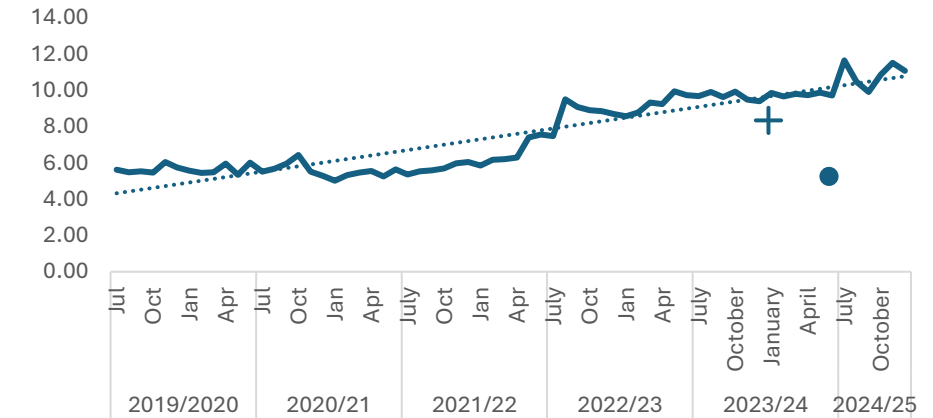
Quarterly GDP growth in 2015-16 prices, FY18-25Q1 (%)



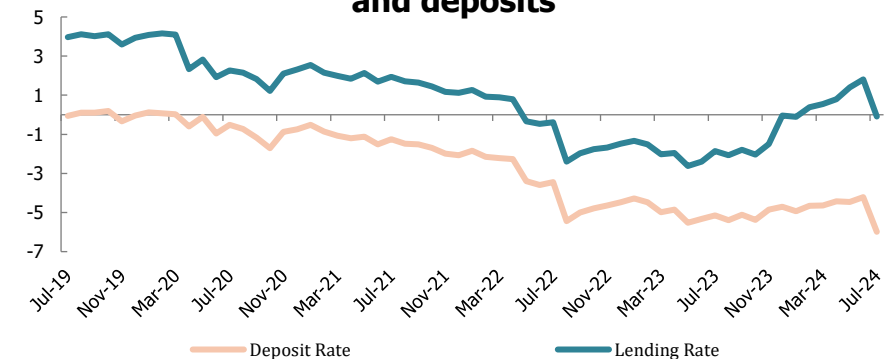
Inflation too high, too long

- ❑ Disconnect with global factors since 2022
- ❑ Exchange rate depreciation, administered price increases
- ❑ Forex shortage and import controls
- ❑ Extortion/collusion-price spiral ("syndicate" theory)
- ❑ Cheap money—negative real interest rates
- ❑ Increased budget deficit financed by printing money (FY23)
- ❑ Political disruptions, floods

Monthly (y-o-y) headline inflation (%)



Real interest rates on commercial lending and deposits



Source: World Bank, Bangladesh Development Update, October 2024

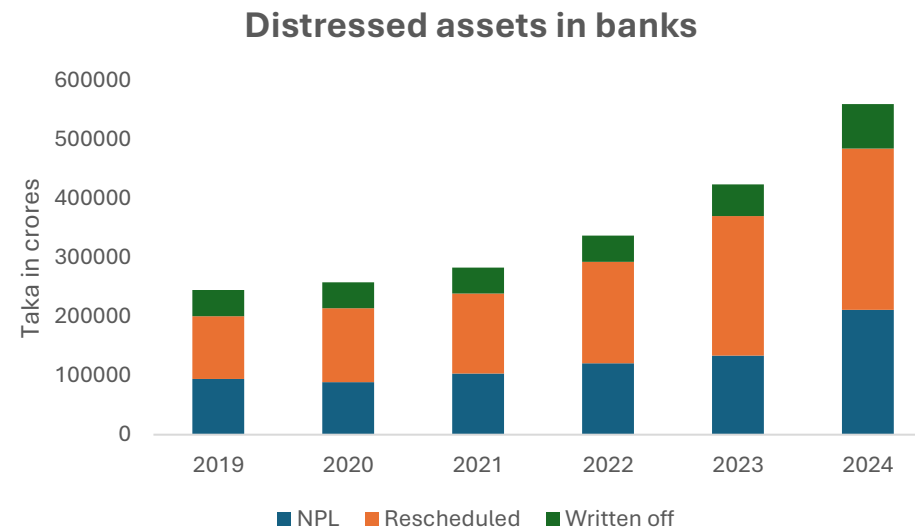
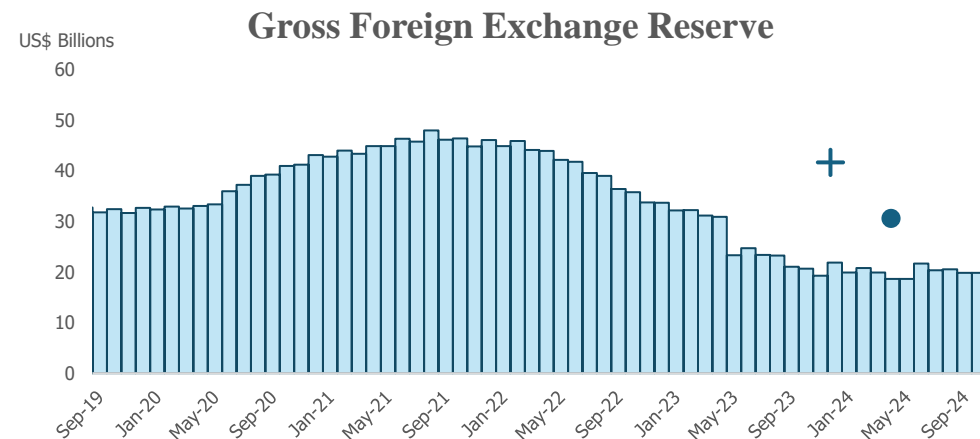
Depleted reserves and distressed banks

Rapid forex reserve depletion since early 2022

- Global shocks--> BOP deficits
- Exchange rate policy mood swings (2021-23)
- Monetary and fiscal expansion

State of banking

- Size of distressed assets at end-June = 13.5 Dhaka metros; 22.5 Padma bridges (Tk 6,75,000 crores at end-June 2024)
- Safeguards don't guard—crony friendly regulations
- Capture by connected business groups



Rising public debt

Debt increased faster than national income

- Increased interest rate, budget deficit, and exchange rate
- Debt intensity below debt carrying capacity (IMF-WB assessment)
- Optimism bias in risk assessment

Erosion of debt servicing capacity

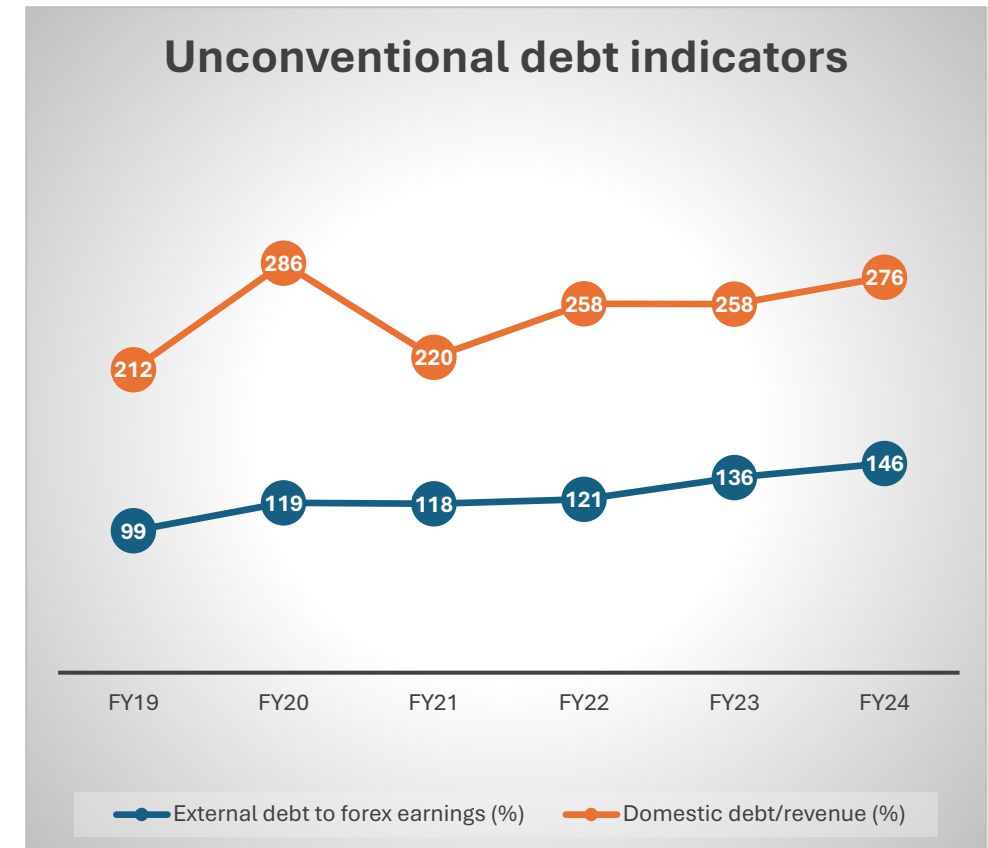
- Low revenue and forex earnings growth
- Unpaid bills of state-owned enterprises in energy, fertilizer and finance

Low value for debt

- Due diligence deficit (Power: Rooppur, Roopsha; Transport: Karnaphuli Tunnel; Bus Rapid Transit)
- Corruption and mismanagement

Borrowed money (taka and \$) moved from creditors to cronies' accounts at home and abroad via ADP projects while subjecting current and future generations to indebtedness

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Recent policy measures

Conflicting measures to combat inflation

- Policy rate increase, restrained monetization, tax cuts on several essentials, import liberalization
- VAT, SD increases (100 products)
- Revenue mobilization, VAT rate unification, exemption reduction
- Coordination and communication failures?

Exchange rate regime: crawling or floating?

- Authorized Dealers allowed to buy and sell at “freely negotiated rates”; Spread= Tk 1 max ; nondiscriminatory spot rates for same trade on a given day
- AD required to report twice daily, display rates in website and digital boards; BB to post Reference Rates
- Gap between de-jure and de-facto policy: An undeclared cap at Tk 122/\$ (selling rate) still exists, inconsistent with the circular

Progress in banking reforms

- Reconstitution of distressed bank boards
- Liquidity support to protect depositors
- Tighter NPL recognition criteria from April 2025
- Reporting Ultimate Beneficiary Owners and Related Parties
- Cooking: Bank Resolution Act, Deposit Insurance Act, Asset Quality Review

Low hanging fruits plucked in energy and power

- The Quick Enhancement of Electricity and Energy Supply (Special Provisions) Act 2010 repealed
- Electricity and gas pricing power returned to BERC

Baseline assumptions

- Growth and stability in global economy
- A new political normal by mid 2026 leading to improved order in politics and markets by end 2026
- Current remittance boom, export recovery will taper, and investment recovery starts by end 2026
- Money will remain tight as long as inflation is high
- Economic policy and institutional reforms undertaken by the interim government will survive political change

Macroeconomic outlook				
	FY24	FY25	FY26	FY27
Growth (%)	5.8	4.0	4.5	5.0
Inflation (%)	9.7	10.0	7.0	6.0
% of GDP				
Gross Domestic Investments	31.0	30.0	30.2	30.7
Gross National Savings	31.9	31.0	30.8	31.0
Current Account Balance	0.9	1.0	0.6	0.3

A proposed FY26-27 Fiscal Envelope

	FY24	FY25	FY26	FY27
<i>Taka in billions</i>	<i>Actual</i>	<i>Projected</i>		
<i>Total revenues</i>	4090	4680	5420	5780
<i>Prog expenditures</i>	4972	5660	6460	6820
<i>Interest</i>	1148	1390	1550	1560
<i>Total expenditures</i>	6120	7050	8010	8380
<i>Overall balance</i>	-2029	-2370	-2590	-2600
<i>External, net</i>	746	866	904	909
<i>Domestic, net</i>	1283	1504	1686	1691
<i>Percentage of GDP</i>				
<i>Revenues</i>	8.1	8.1	8.4	8.9
<i>Total expenditures</i>	12.1	12.2	12.4	12.9
<i>Deficit</i>	4.0	4.1	4.0	4.0
<i>External finance</i>	1.5	1.5	1.4	1.4
<i>Domestic finance</i>	2.5	2.6	2.6	2.6

Reform imperatives

Cost of inaction is increasingly salient

Path forward will depend on:

- ❑ **Policies:** Monetary, exchange rate, fiscal, banking, energy, business regulation, international trade, taxation, public expenditures, education, health
- ❑ **Politics:** Political commitment to economic reforms critical for policy credibility
- ❑ **Nature:** Ability to cope with extreme weather events

Thank You



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Dissection of a Development Narrative