



Bangladesh: Economic Challenges, Policies & Prospects

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Structure

1. Socio-Economic Trends and Key Outcomes
2. Policy Insights from Recent Macro Challenges
3. Current / Anticipated Challenges and Prospects





1. Socio-Economic Trends and Key Outcomes

Key Macro Metrics – Changes Over the Past Decade

These indicators are key to the sovereign rating of BB-/Baa3, which is 2nd in South Asia

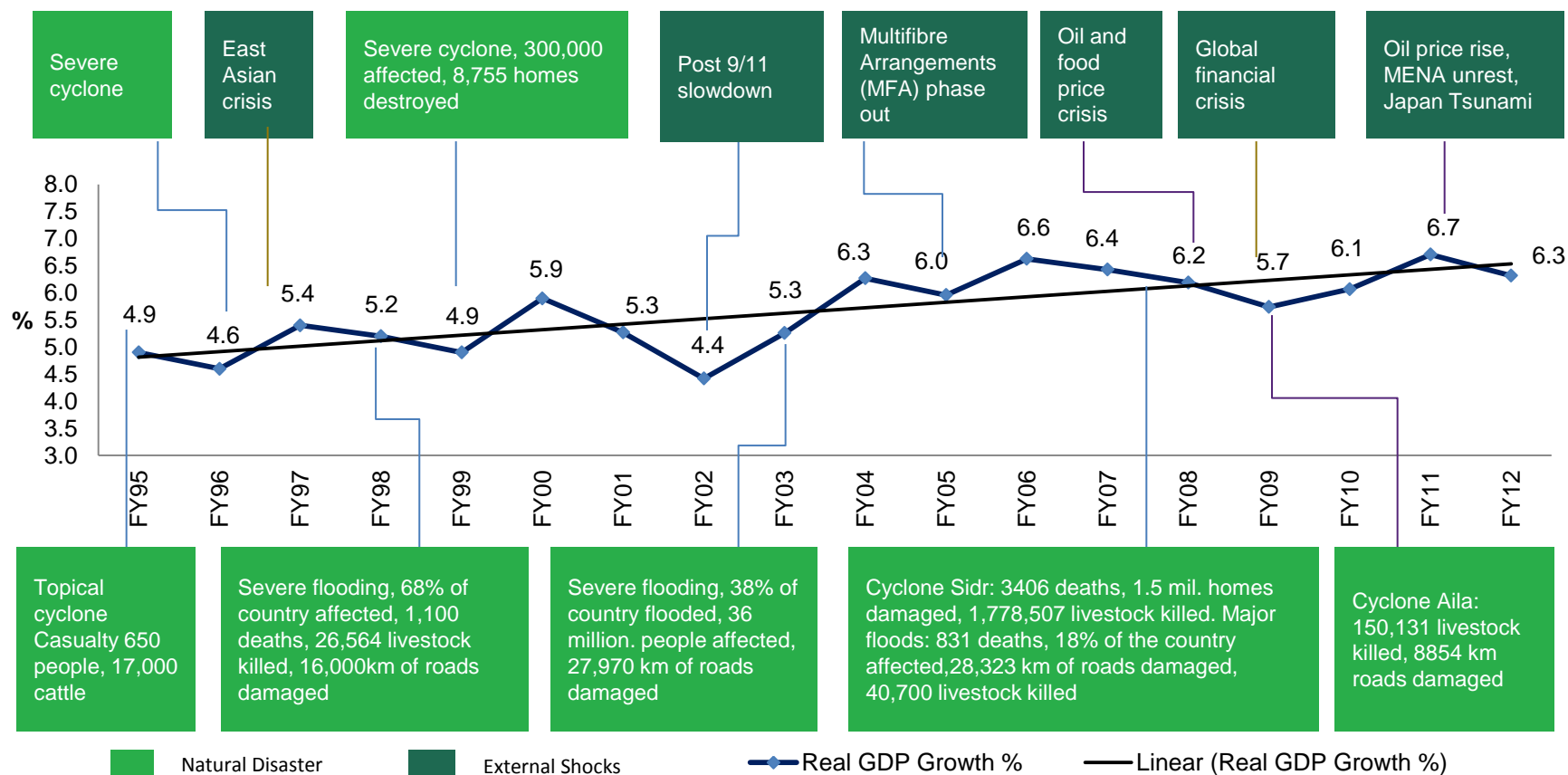
	FY2000	FY2012	FY2000 – FY2012
GDP (USDbn)	47.1	115.6	↑ 245%
GNI Per Capita Income (USD)	377	838	↑ 222%
International Reserves (USDbn)	1.6	10.34	↑ 646%
Private Sector Credit/GDP (%)	21.3	44.6	↑ 23.3
External Govt. Debt / CAR (%)	173.9	52.2	↓ 121.7
Government Debt / GDP (%)	46.4	37.2	↓ 9.2
Budget Deficit excl. grants (%)	-6.1	-4.5	↓ 1.6
Investment / GDP (%)	23.0	26.5	↑ 3.5



Note – Bangladesh fiscal year runs from July to June
Source: Bangladesh Bank

GDP Growth: Steady Despite a Variety of External Shocks

Bangladesh has maintained consistent growth despite the global financial crisis, numerous political upheavals, and natural disasters. Bangladesh has achieved high growth without the boom-bust cyclicality or volatility of many peer nations

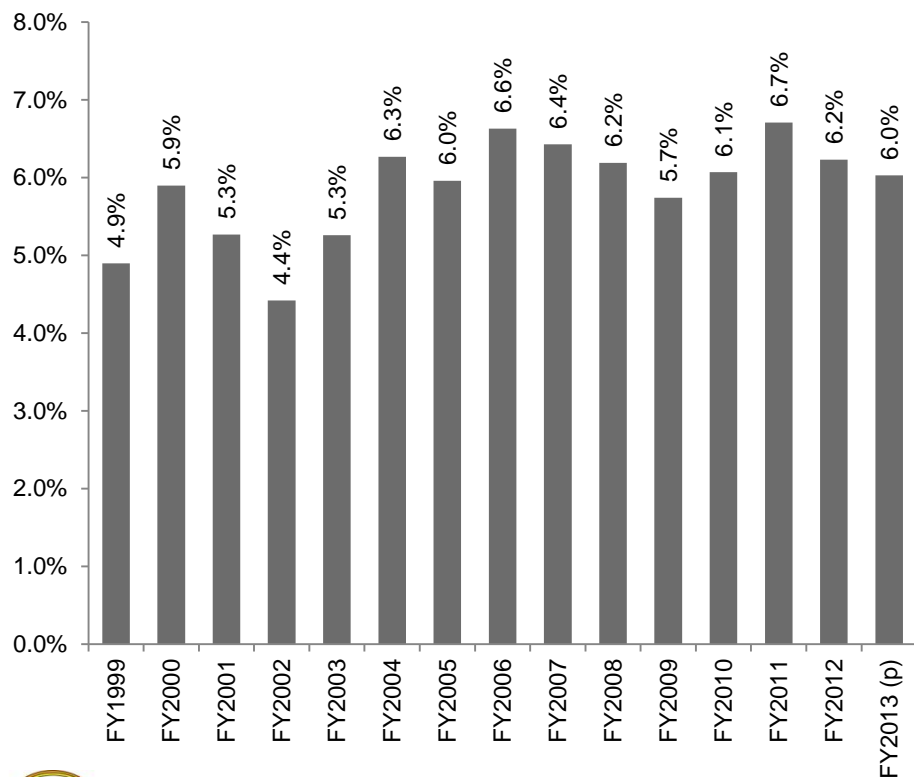


Robust Growth Pushing Per Capita Incomes Higher

Current GNI per capita of around \$900 - middle income threshold is currently \$1025

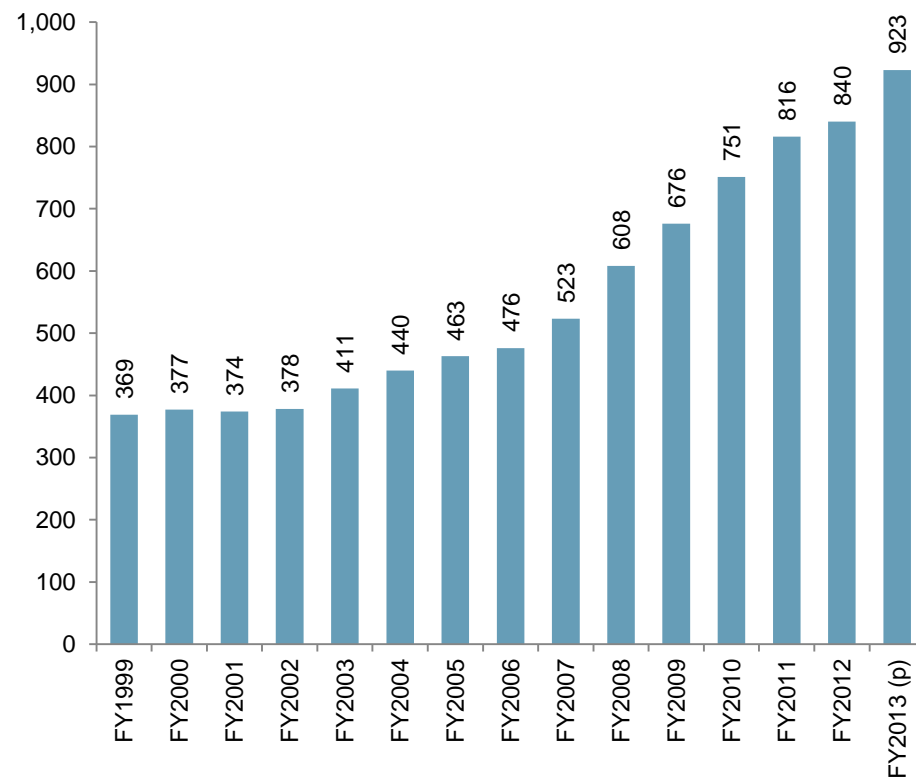
Sustained, robust growth on an accelerating path

Real GDP Growth Y-o-Y (%)



Steady rise in per capita income bodes well for future economic growth

GNI Per Capita (USD)

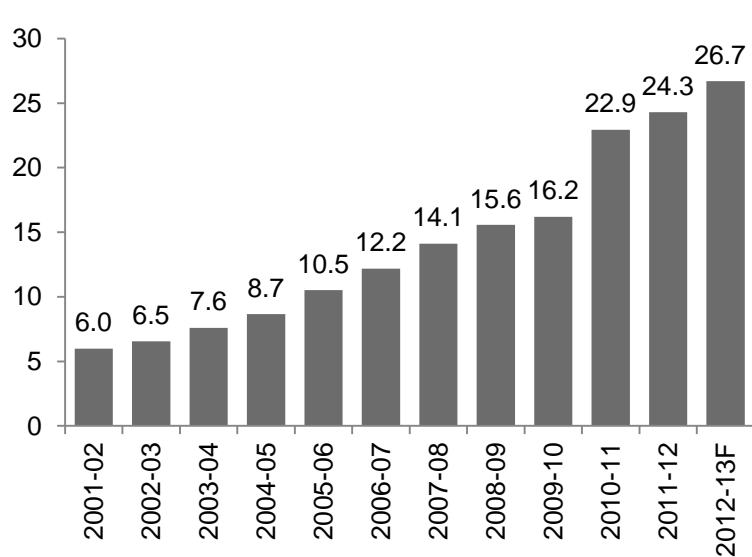


Note: (p) indicates provisional data
Source: Bangladesh Bank

Impressive Export Growth though Heavily Concentrated

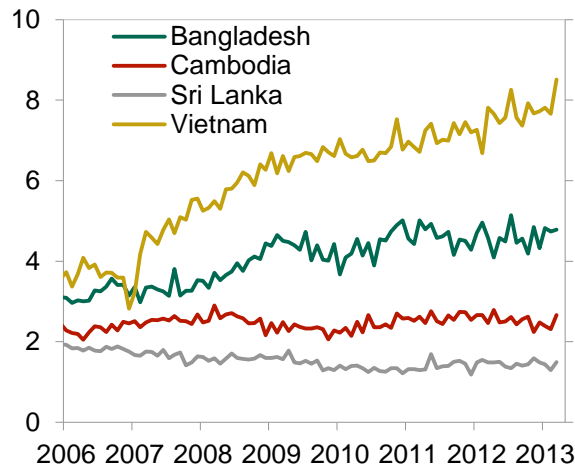
- The “ready made garments” (“RMG”) sector dominates, comprising over 75% of total exports.
- Other exports are growing, including pharmaceuticals, jute, leather products, IT/outsourcing, and shipbuilding
- Dealing with labor issues are key to further growth (see later slides), and Bangladesh’s high degree of export concentration remains a concern
- Steady share in US market and growing share in EU

Bangladesh exports have more than quadrupled over the past decade (US \$ billion)



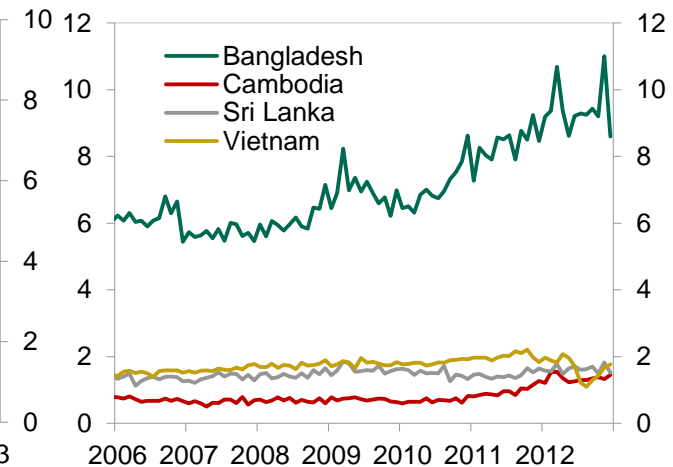
Shares in U.S. Garment Market

Jan. 2006 - Mar. 2013 (%)



Shares in E.U. Garment Market

Jan. 2006 - Dec. 2012(%)

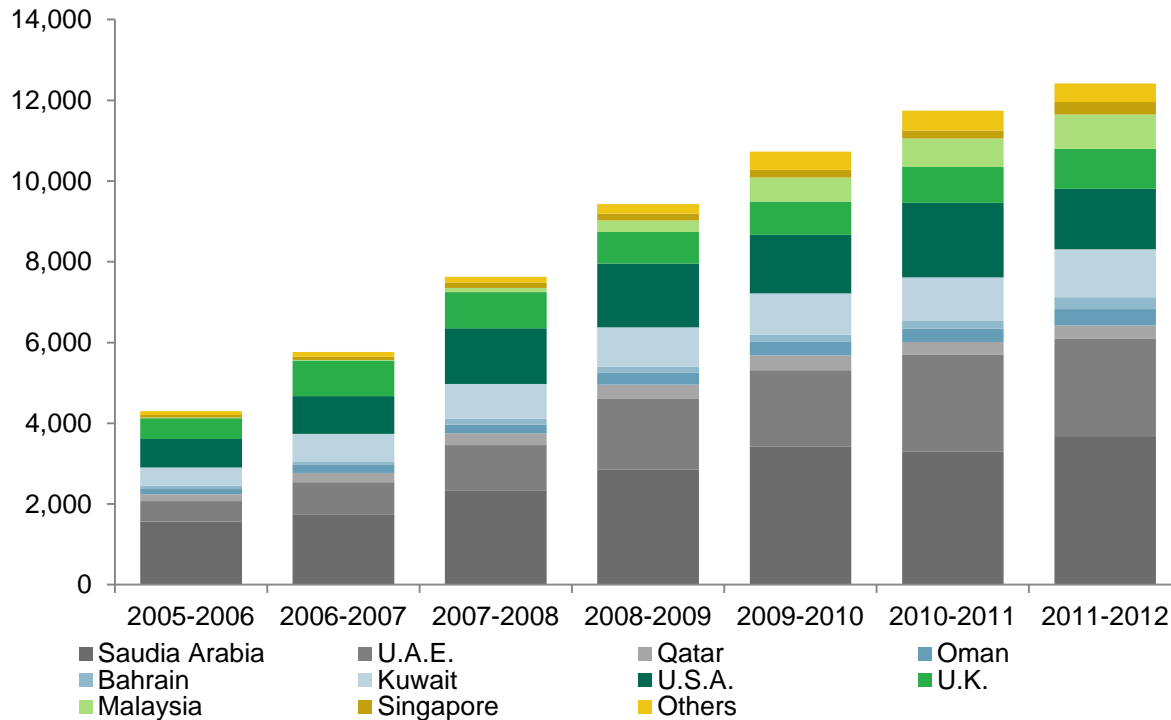


Growing and Geographically-Diverse Remittances

- Bangladesh attracts remittances from a diversified profile of countries
- Remittances have experienced 16% growth so far in FY13 with a growing number of migrants, and are an important part of Government's development strategy, with a number of bilateral country-level agreements

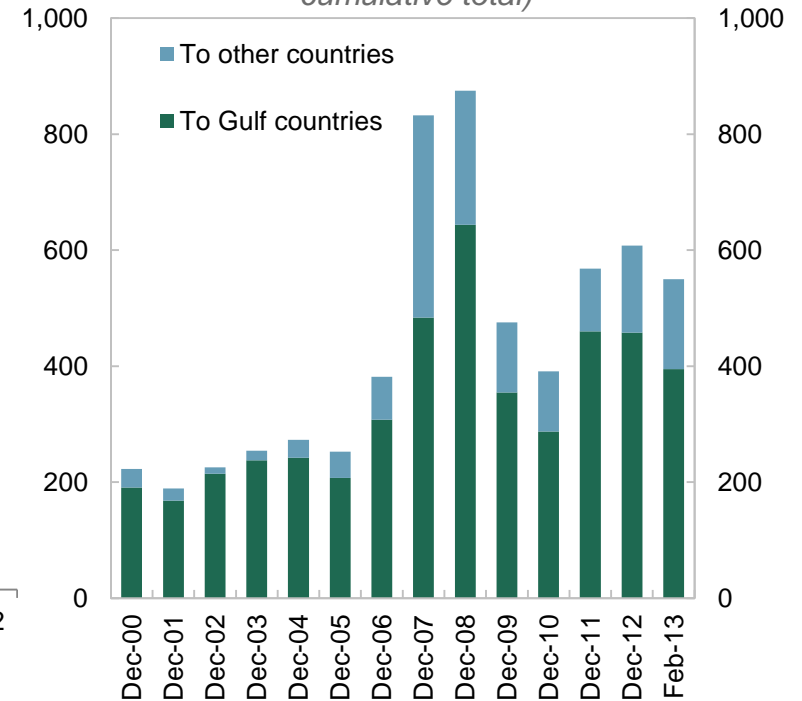
Breakdown of Remittances by Source Country

USD m



Workers Moving Abroad

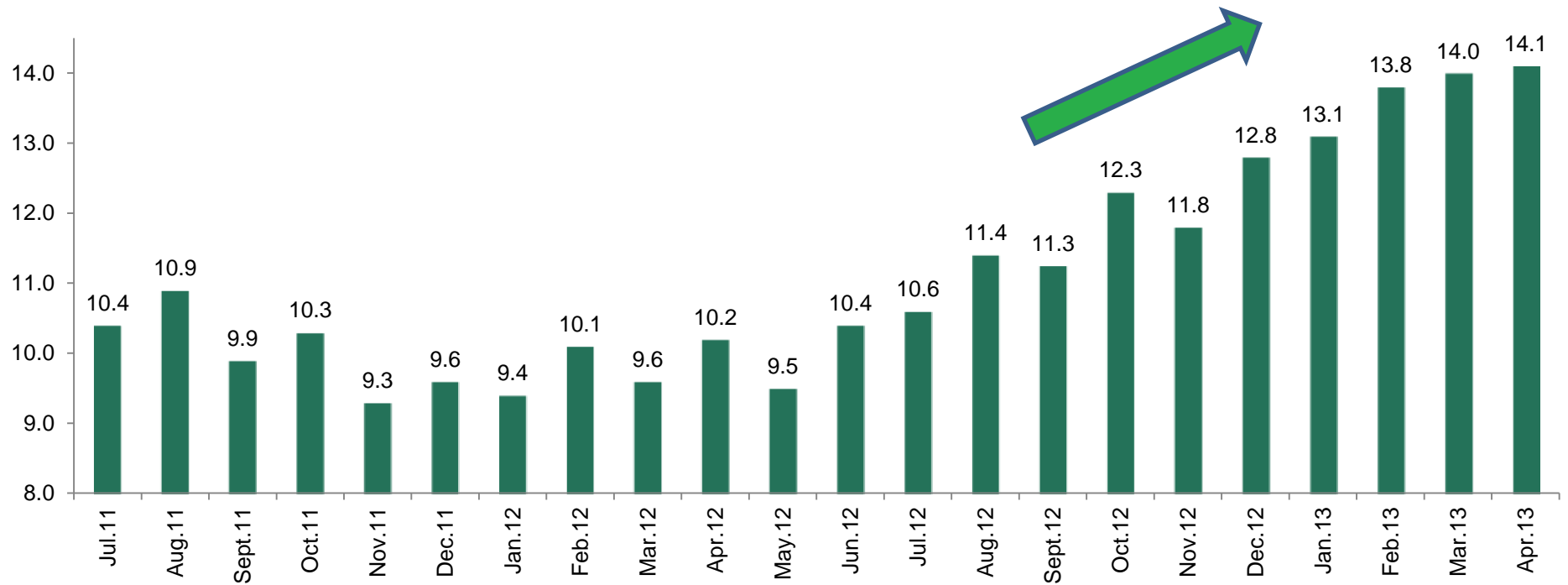
Dec. 2000–Feb. 2013 (In thousands, 12-month cumulative total)



Steadily Growing Foreign Exchange Reserves

Reserves cover over four months of imports, and are expected to grow further

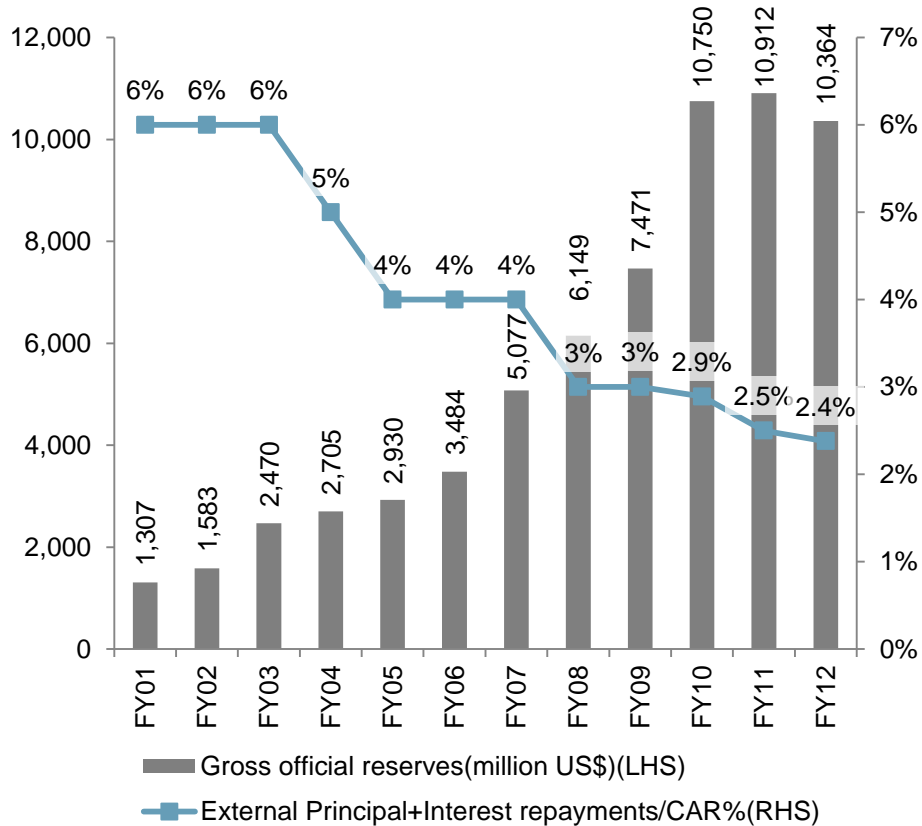
International Reserves (USD bn)



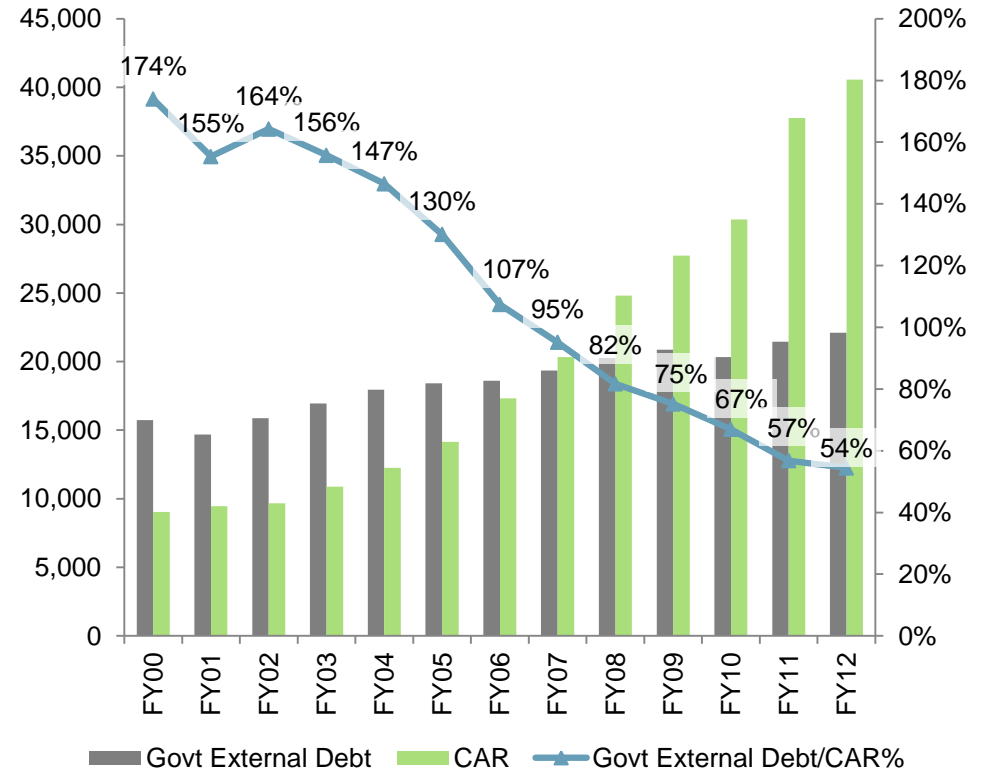
Source: Bangladesh Bank

Despite Non-Concessional Debt Increase, External Debt Remains Comfortably Serviced

Reserves have grown 735% since 2001 while debt servicing ratio has improved



Decade snapshot:
Debt growth of 40% vs. CAR growth of 235%

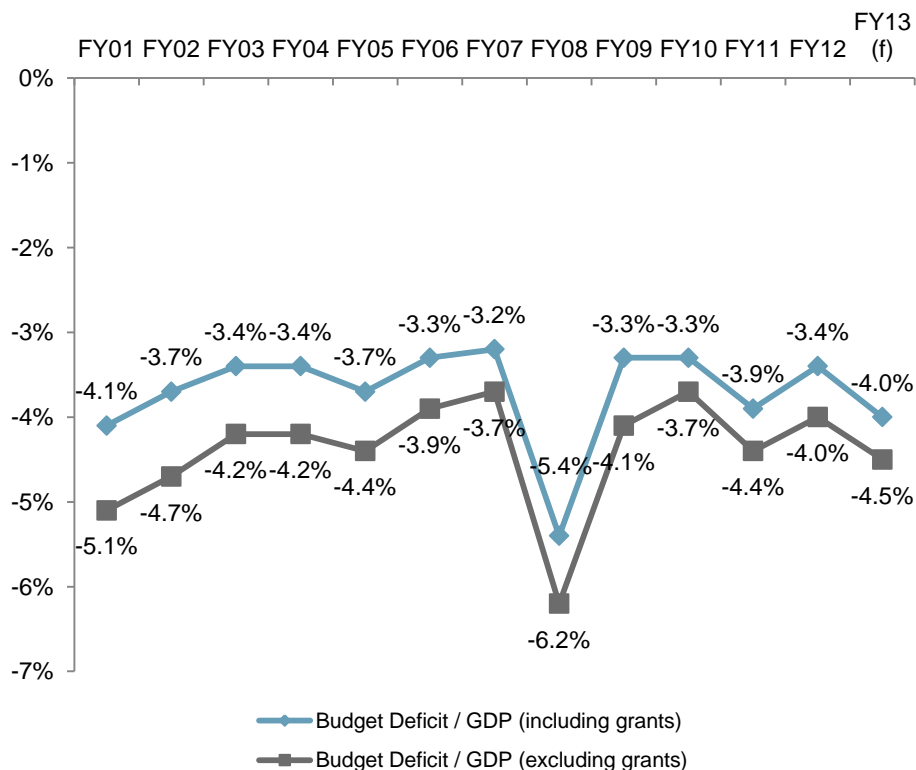


Prudent Fiscal Stance

Moderate deficits and higher revenue collections have resulted in lower government debt ratios. However ADP implementation rates typically fall short of targets and revenue collection has significant room for improvement

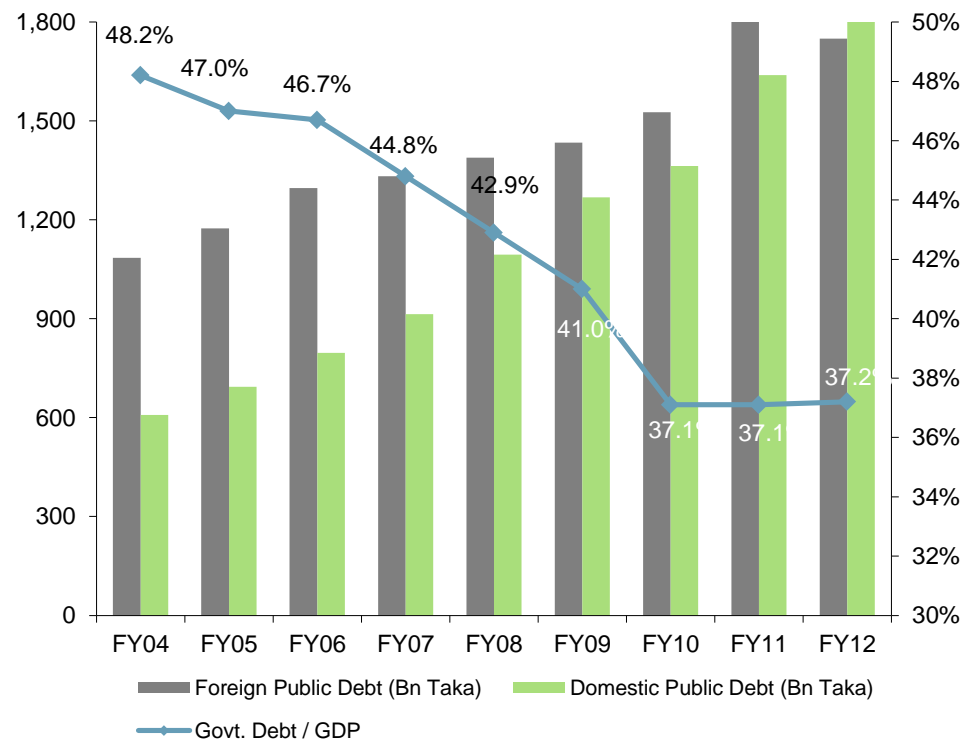
Fiscal balance remains steady

Fiscal Balance (% of GDP)



Rapid growth and moderate deficits have resulted in lower debt ratios

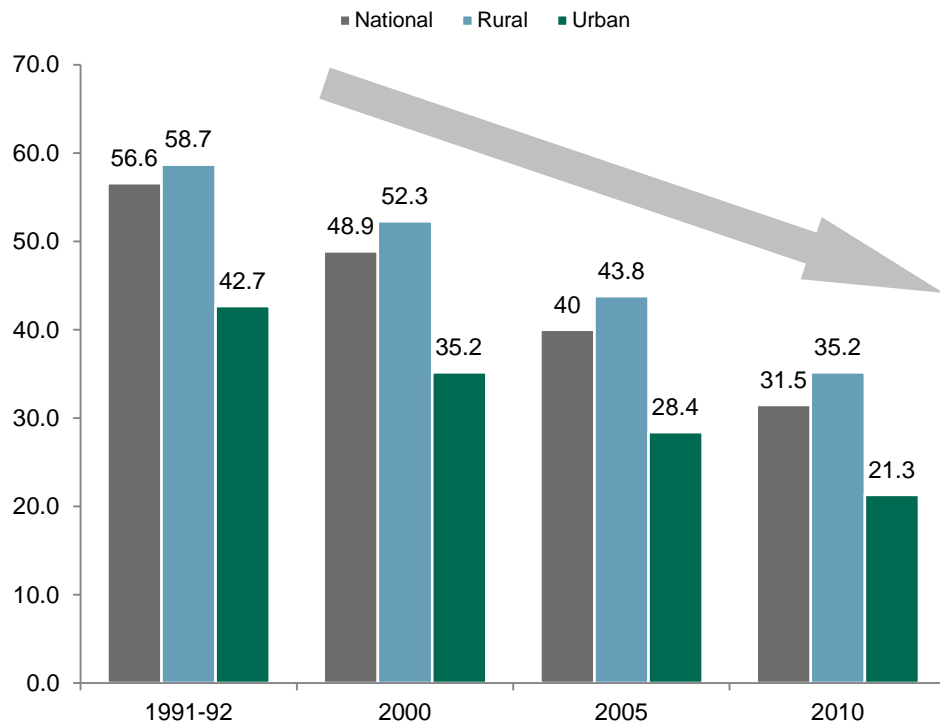
Public Debt (Taka bn) and Debt Ratios (% of GDP)



Significant Poverty Reduction Over Past Two Decades

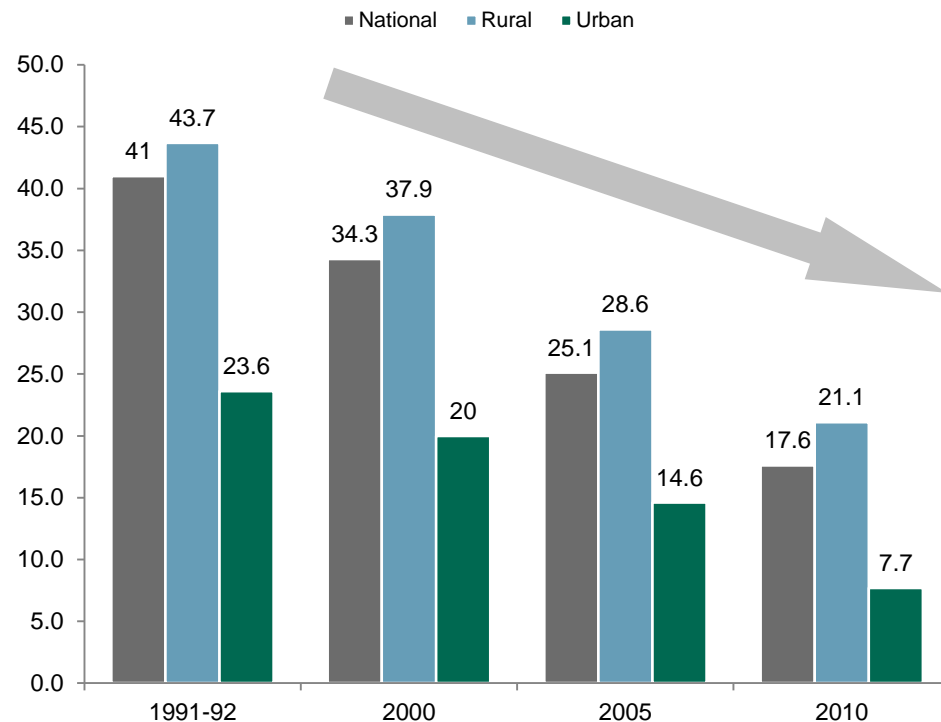
Large reductions in poverty witnessed in the past decades...

Population Below Upper Poverty Line (%)



... more still needs to be done, especially for the extreme poor

Population Below Lower Poverty Line (%)



- Population in poverty fell from 61.6 million in 2000 to 44.8 million in 2010
- Inequality measure has stayed constant (consumption Gini 0.33) over ten years, promoting social cohesion



Significant Gains in Social Indicators

	1991	2011 / Latest
Fertility rate, total (births per woman)	4.36	2.20
Mortality rate, infant (per 1,000 live births)	93.5	36.7
Life expectancy at birth, total (years)	59.99	68.94
Malnutrition prevalence, height for age (% of children under 5)	76.70	43.20
Literacy rate, adult total (% of people ages 15 and above)	35.32	56.78

- “Made in Bangladesh” innovations have contributed to these improvements e.g. micro-credit, non-formal education, oral rehydration therapy, low-cost birth mat (Economist Magazine May 2013)
- Longstanding Government-NGO partnership model with a relatively light touch regulatory framework



Many Social Indicators Better Than India's

“It is to huge credit of Bangladesh that despite the adversity of low income, it has been able to do so much so quickly”

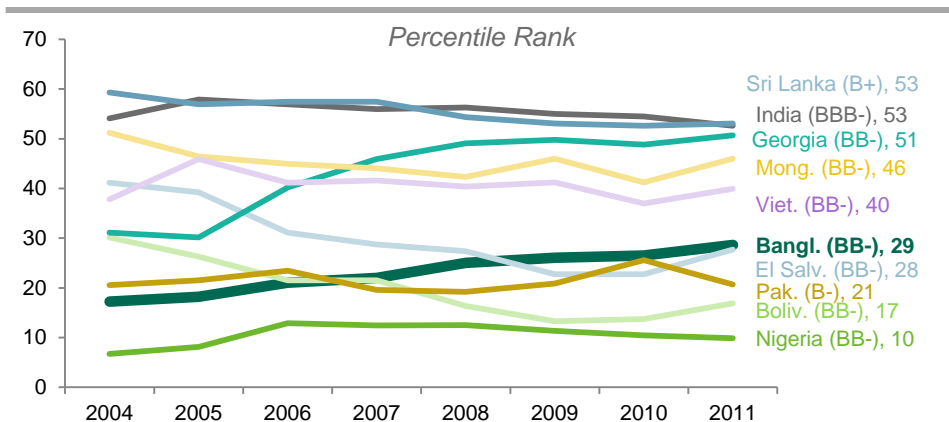
Nobel Laureate Amartya Sen

Social Indicators	Bangladesh	India
Life expectancy (years)	68.94	64.4
Proportion of underweight children (%)	41.3	43.5
Fertility rate	2.20	2.70
Mean years of schooling (years)	4.8	4.4
Under 5 mortality rate (per 1000)	52	66
Infant mortality (per 1000)	37	50
Immunization with DPT vaccine (%)	96	66

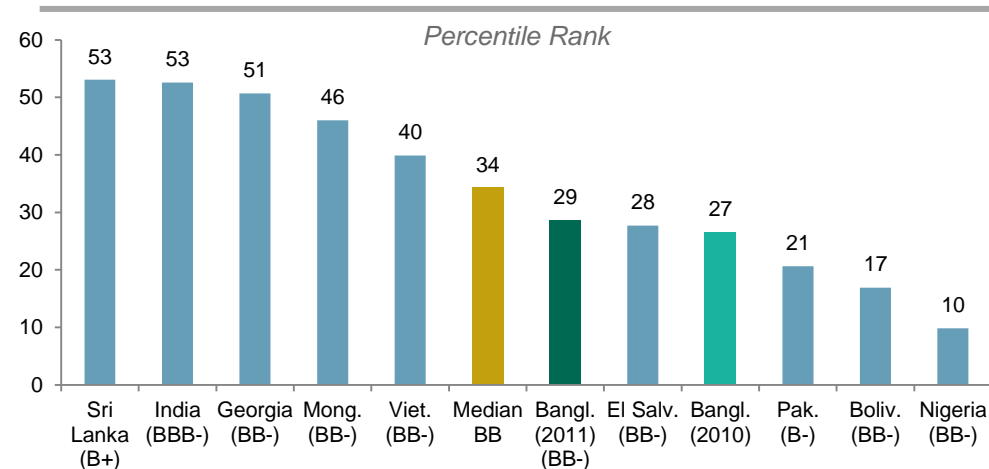


Despite challenging governance indicators

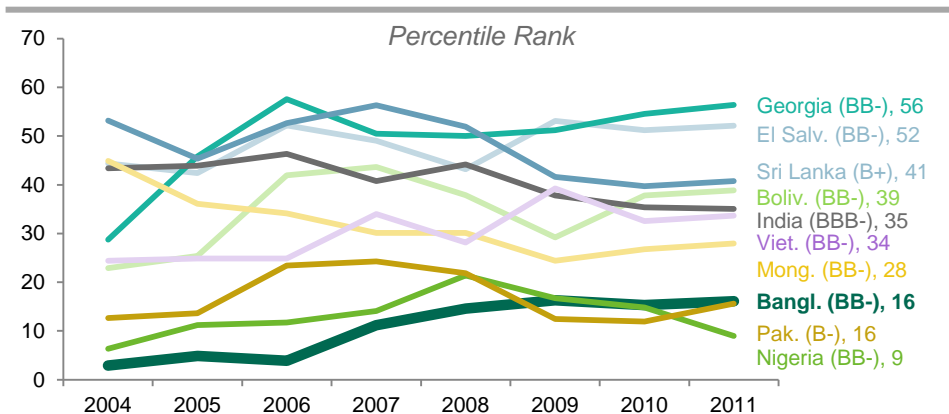
Rule of Law, 2004-2011



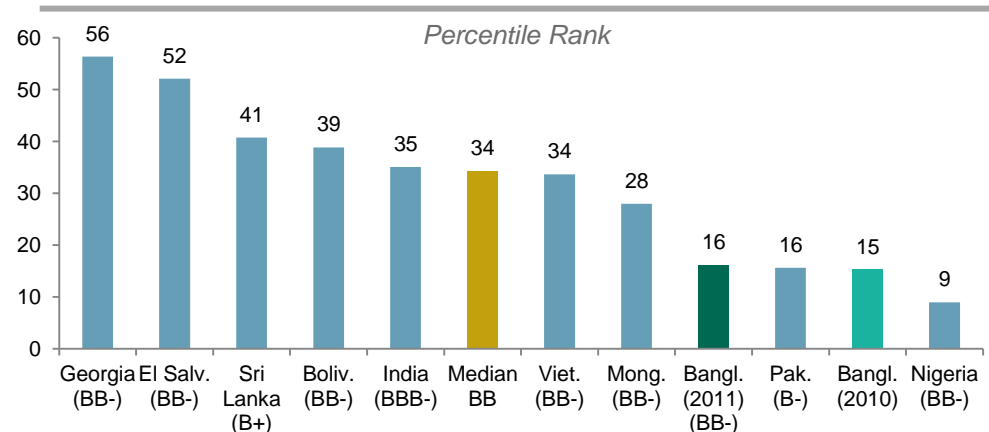
Rule of Law, 2011



Control of Corruption, 2004-2011



Control of Corruption, 2011



Note: "Median (BB)" is calculated by taking the median values for the nations in the "BB" range
 Source: World Bank

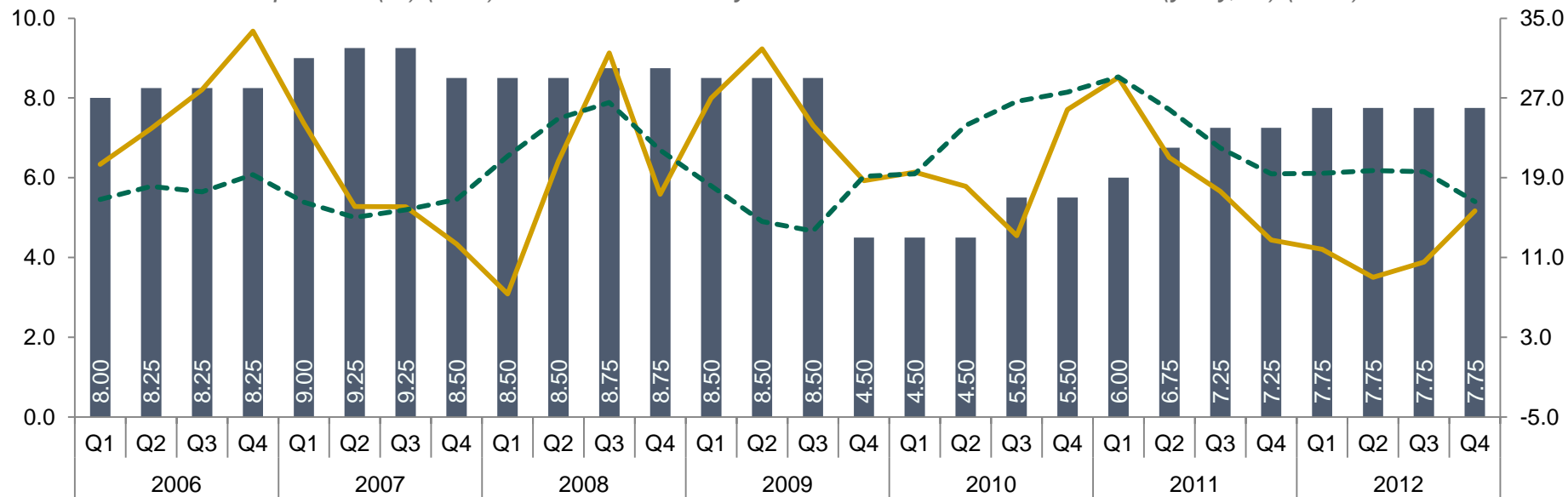


2. Policy Insights from Recent Macro Challenges

Responding to Growth and Inflation Risks Using Monetary Policy

- Monetary easing in late 2009 due to concerns over impact of global financial crisis – in retrospect perhaps an over-reaction
- Policy tightening began in late 2010 as inflation began to rise – rate rises gradual and then constant for 1 year
- Daily open market operations, monthly Monetary Policy Committee and twice-yearly consultations leading to Monetary Policy Statements

Repo Rate (%) (LHS) and Reserve Money and Private Sector Credit Growth (y-o-y, %) (RHS)



Policy Rate: Repo Rate (%)

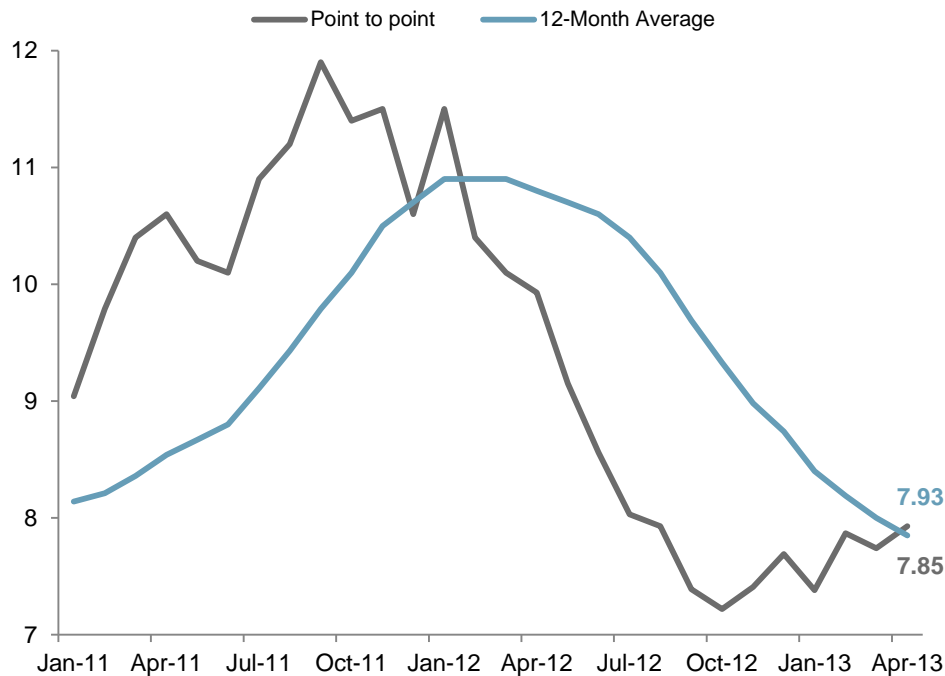
Reserve Money Growth [% y/y, RHS]

Private Sector Growth (EOP) [% y/y]

....with about one year lag effect on inflation

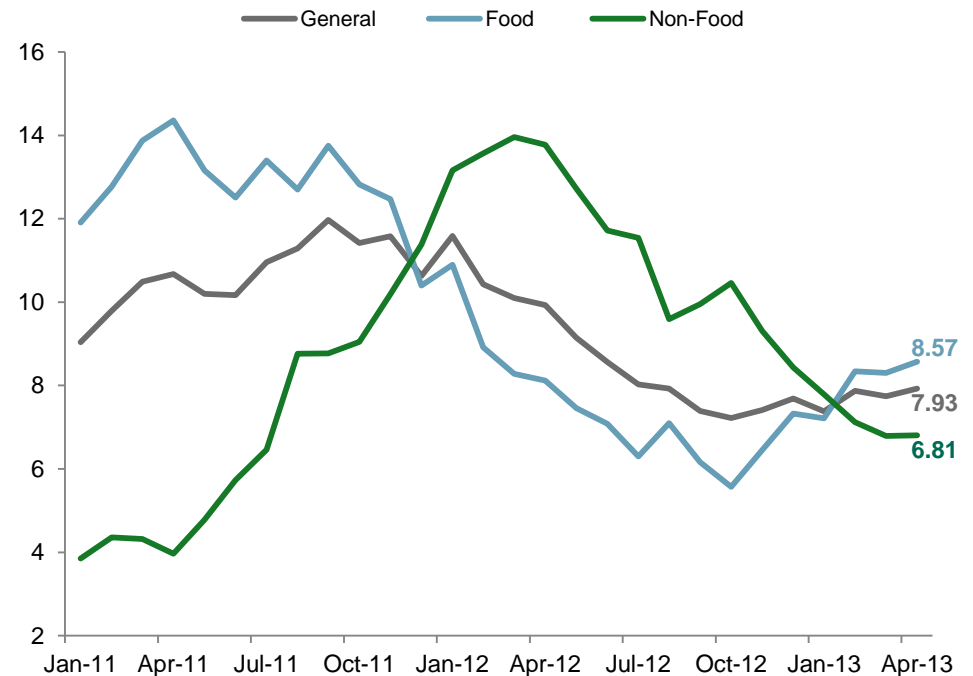
Declining average inflation in 2012

Inflation (Average vs. Point to Point) (%), 2011-13 YTD



... and remains well contained in 2013 YTD

Inflation (Point to Point) (%), 2011-13 YTD

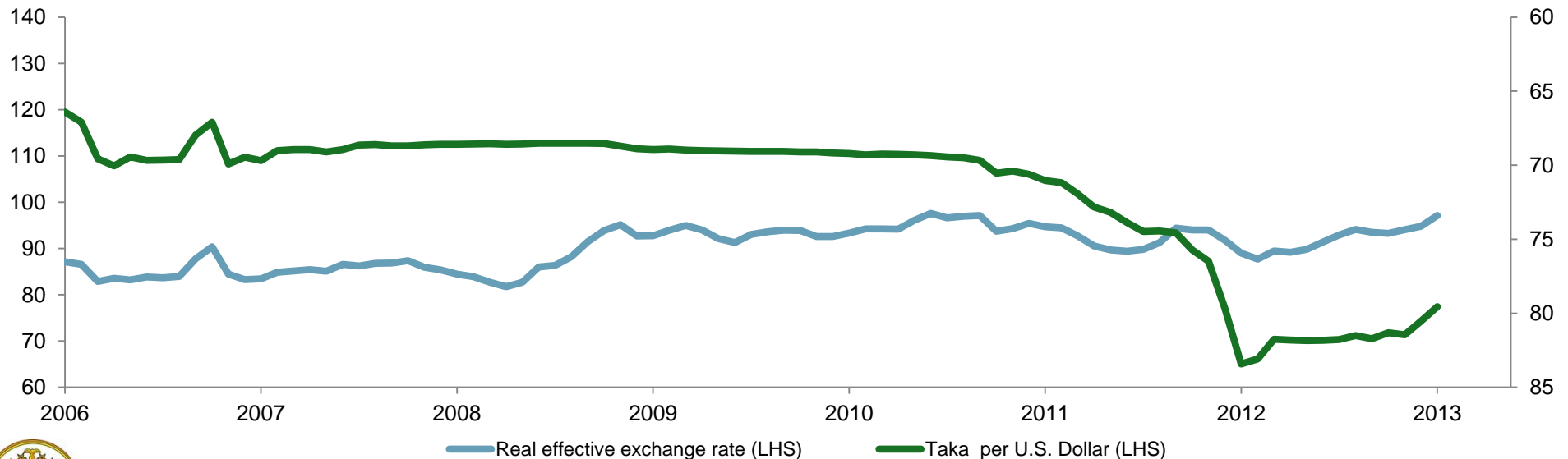


- Lesson learnt is to anticipate lag effect of policy and generally to 'steer gently'
- Usefulness of public consultations, media / think-tanks scrutiny on achievement of targets



Handling External Sector Pressures in Late 2011

- External pressures due to high oil imports for rental power plants
- Allowed Taka depreciation to avoid excessive reserve depletion; tightened monetary policy and found alternative financing sources for oil imports which then led to exchange rate stability
- Exchange rate intervention and reserve management decisions made by BB's technical team with input from Foreign Reserve Management committee which meets monthly
- Outside pressure groups are split between importers/consumers and exporters which is to BB's advantage!



Stronger External Balances But Concerns Over Import Slowdown

Items	FY11	FY12	July 2011- March 2012	July 2012- March 2013
Export (% change)	41.5	5.9	10.4	10.2
Import (% change)	41.8	5.5	11.2	-6.1 ^P
Remittances (% change)	6	10.2	10.7	16.7
FDI (in million USD)	768	995	863 ^[1]	950 ^[1]
Overall Balance (in million USD)	-655	494	-516 ^[1]	3,506 ^[1]
Forex Reserve (in million USD, end of period)	10,912	10,364	10,193	14,829 ^[2]
Exchange Rate (Tk./USD, end of period)	74.2	81.9	81.8	78.2

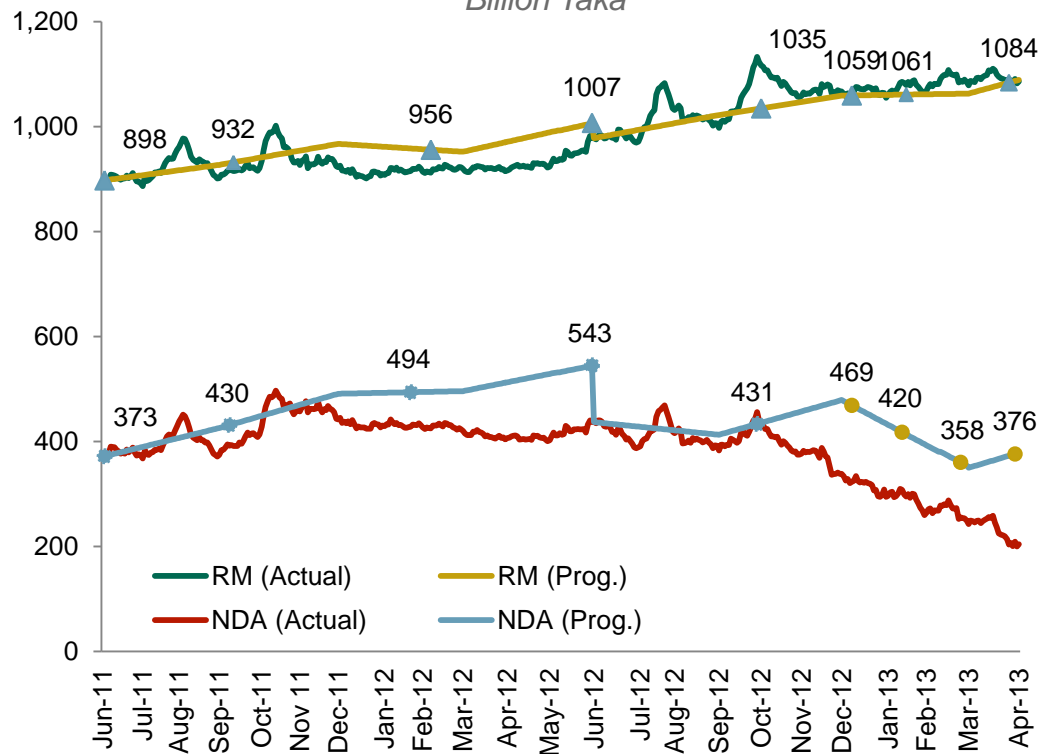
- **While overall balances have improved, leading to a reserve build-up the slowdown of imports is a concern as it includes negative growth in key manufacturing sector inputs.**
- **Given external sector position BB gradually relaxing various forex rules to selectively allow overseas investments and purchases**



Sterilizing Sharp Rise in Remittances in Monetary Program...

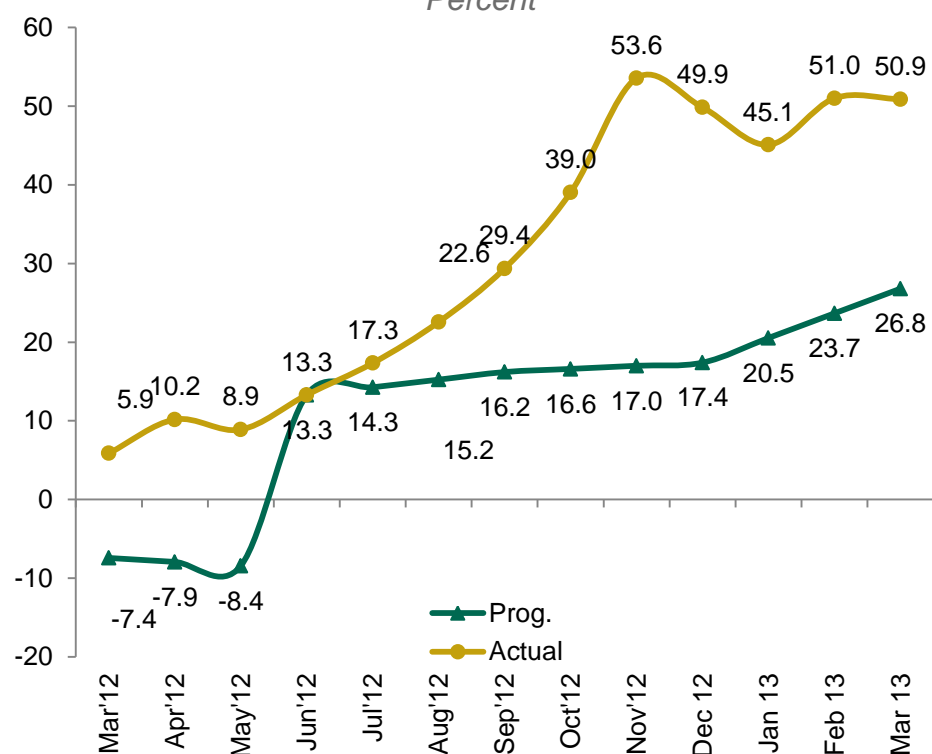
Reserve money & Net Domestic Assets: Program vs. Actual

Billion Taka



Net Foreign Assets

Percent



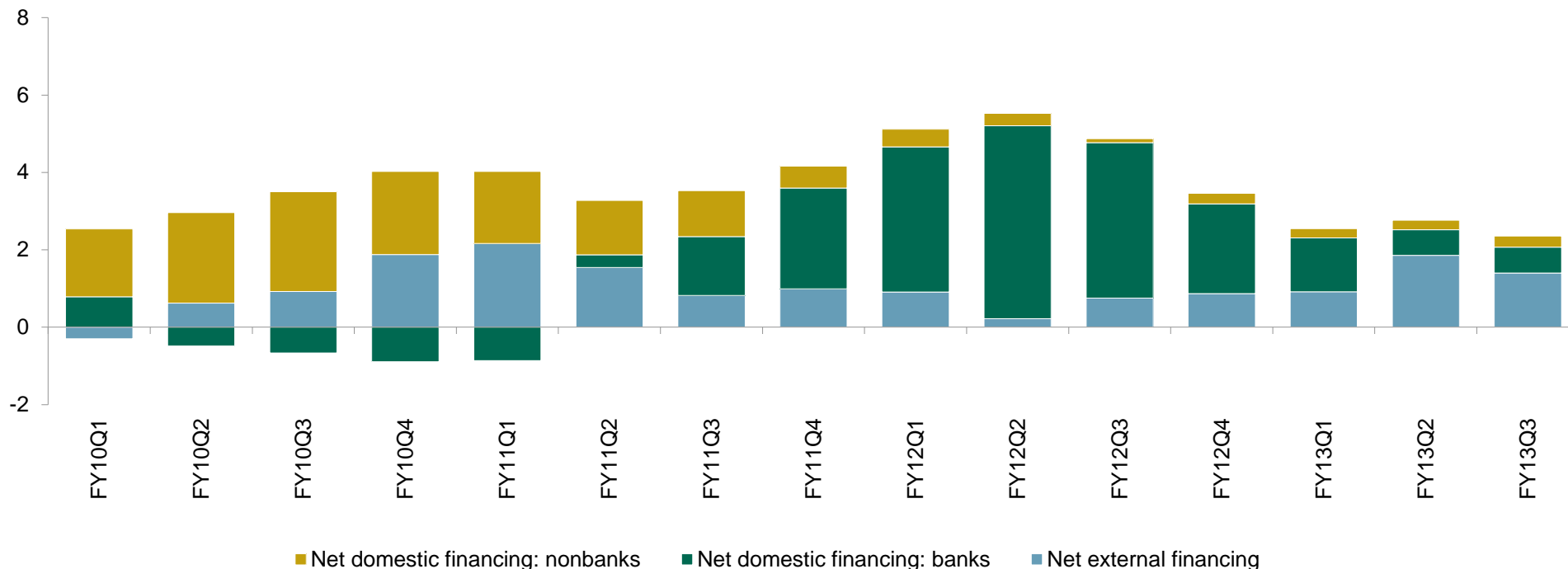
Sharp growth in remittances along with fall in imports led to higher than expected NFA growth



...Helped by Restrained Govt. Borrowing from Banking System

Central Government: Sources of Financing

% of GDP (12-month moving average)



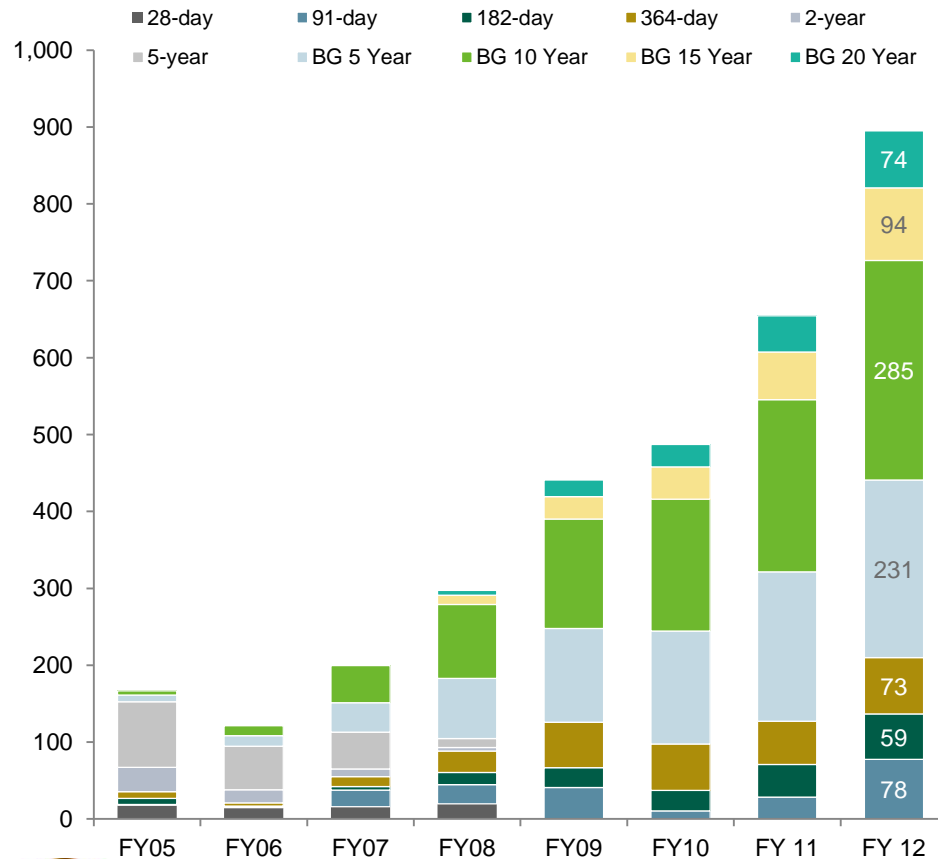
- **BB helped by lower government borrowing and higher external financing in FY13 but clear need for better cash-flow forecasting and sterilization instruments**
- **New initiatives to develop new debt instruments and mechanisms largely a result of this unanticipated NFA rise – ie necessity mother of invention...**



Domestic Debt Market Reforms Led by an 'understated' MOF/BB technical committee

Robust growth in bond market

Outstanding T-bill/bond Maturity Mix (BDT bn)



Structural reforms driven by a technical committee

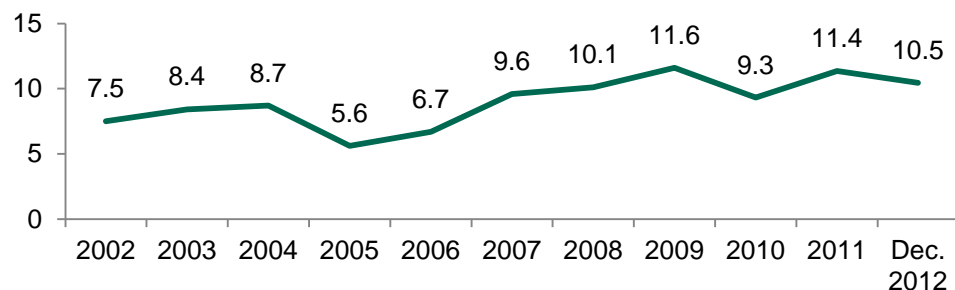
- Introduction of electronic/online bidding system for Treasury bills and bonds in 2012
- Abolition of lock-in period for foreign investors in Treasury bond market in early 2013
- April 2013 saw large US institutional investors purchasing 5 year T-bond on secondary market via the Dhaka branch of a foreign bank
- Key role of Cash and Debt Management Committee, chaired by Finance Secretary comprising Ministry of Finance and Bangladesh Bank officials in introducing these reforms
- Importance of 'Sr Assistant Secretary' in shaping policy directions and timing



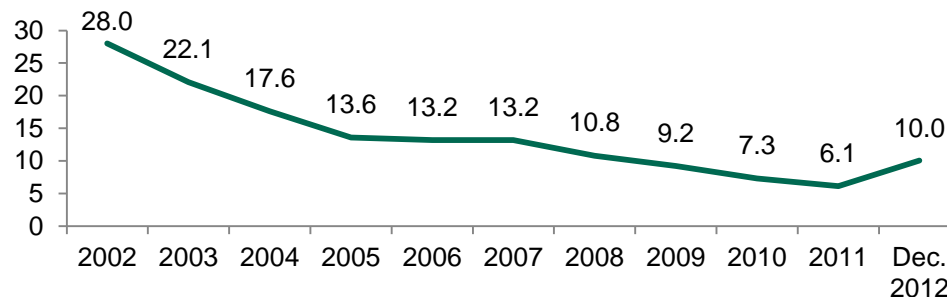
Financial Sector Stable, but Recent Trends Present New Challenges

Unusual increase in NPLs (and relative decrease in ROA & ROE) in 2012 was largely due to the implementation of new loan classification policy from Dec'2012 and a fraud in a branch of a state-owned bank

All Banks, Capital to RWA Ratio (%)

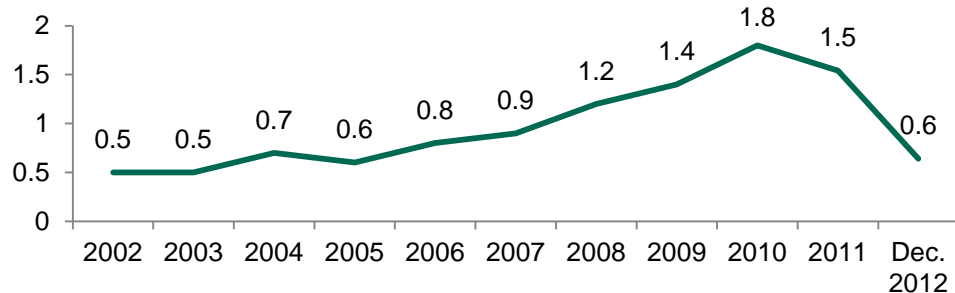


All Banks, Gross NPL Ratio (%)

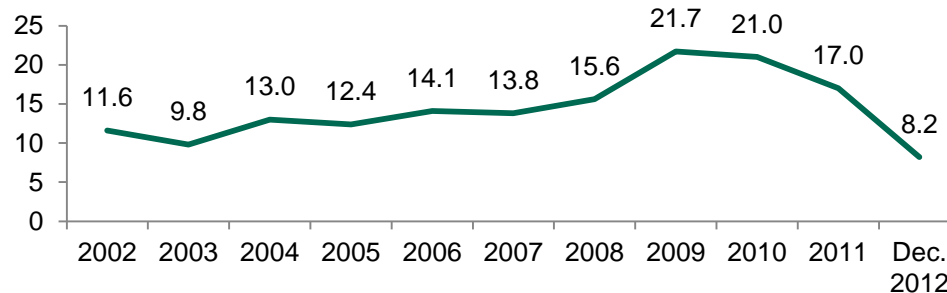


New loan classification / provisioning rules have affected profitability

All Banks, Return on Assets (%)



All Banks, Return on Equity (%)



*This has been calculated in line with Basel II guidelines where credit risk has been calculated more conservative with two new risk factors – (Market Risk and Operational Risk) added to the calculation of CRWA. Therefore CRWA show decrease in 2012 despite no overall fall in asset quality or capital
Source: Bangladesh Bank

Lessons from Addressing Financial Sector Challenges

- Lack of full BB autonomy over State Owned Banks key factor in recent deterioration in these banks and revised Bank Companies Act approved by Cabinet will provide BB with greater powers over SOCBs
- BB supervision capacity being strengthened (including via WB assistance) but capacity of ACC and law enforcement to deal with financial sector crimes also required
- New loan classification/provisioning guidelines introduced in FY13 in line with international best practices (two years ahead of IMF program timeline)
- Measures to increase access to information and public accountability are being stepped up with early signs of effectiveness
- Efforts to strengthen bank supervision include new e-dashboard which provides real-time information on bank transactions to Bangladesh Bank – useful to detect fraud
- BB Open Data Initiative e.g. quarterly MOU indicators with state-owned commercial banks, interest rates, spreads and economic data all on-line
- Bangladesh Bank's anonymous consumer surveys now double-check accuracy of reported data by banks



IMF program adds value to macro-management

- In April 2012, the IMF approved a three-year arrangement under the Extended Credit Facility (ECF) for an amount close to US \$1 billion; second review successfully completed May 2013
- IMF Program adds value by:
 - (i) Agreeing with GOB on specific monetary and fiscal targets which help discipline macro-management (e.g. NDA ceiling used to push back on many interest group demands for special refinancing windows; non-concessional loan ceiling helps prioritize projects)
 - (ii) setting a timeline, and accelerating, specific Government reform initiatives
 - (iii) acting as an additional argument to push back on and push for various ideas
 - (iv) quality of technical advice by DC and Dhaka based teams – counterparts value solid technical advice and follow-up
- Key to the relationship is IMF's low key 'backseat role', understanding the political-economy and time-consuming investment in building relationships/trust



Government macro-financial reforms – some supported by academic/technical experts and external agencies

Fiscal Measures

Tax Policy

- New VAT Law will boost revenue for investments
- Removal of tax concessions and exemptions in FY13 Finance Bill
- Automating Taxpayer Identification Number issuance will reduce transaction costs

Expenditure Policy

- Retail electricity and fuel prices adjustment to limit subsidy bill and ensure fiscal prudence

Public Financial Management

- Greater oversight by Parliamentary Standing Committee on use of public resources

Monetary and Financial Sector Measures

Monetary Policy and Operations

- Publicly disclosed monetary targets and greater transparency over monetary policy decisions / outcomes
- Development of market based yield curve and promoting secondary trading (attractive yields and simple process for foreign investment)

Banking Sector Supervision and Risk Management

- Bank Companies Act (BCA) amendments to strengthen tools for bank supervision
- Issuing best practice loan classification and provisioning standards

Capital Market Reforms

- Demutualization of stock exchanges imminent
- New SEC legislation to strengthen oversight





3. Current / Anticipated Challenges and Prospects

Selected Key Challenges Facing Bangladesh's Economy

- **Political strikes / demonstrations** and their impact on investor sentiment and growth (see next slide)
- **Labor issues** – Recent tragedies underscore the need for more stringent enforcement of standards related to worker welfare. Crucial for sustaining export growth and maximizing the demographic dividend (see next slide).
- **Infrastructure bottlenecks** – More progress and higher investment levels are necessary to reach the nation's true potential
- **Climate change** – While Bangladesh is strengthening its adaptation and mitigation efforts, climate change and natural disasters remain key areas of risk. Bangladesh will continue to work with development partners to minimize and mitigate the impacts of these critical problems



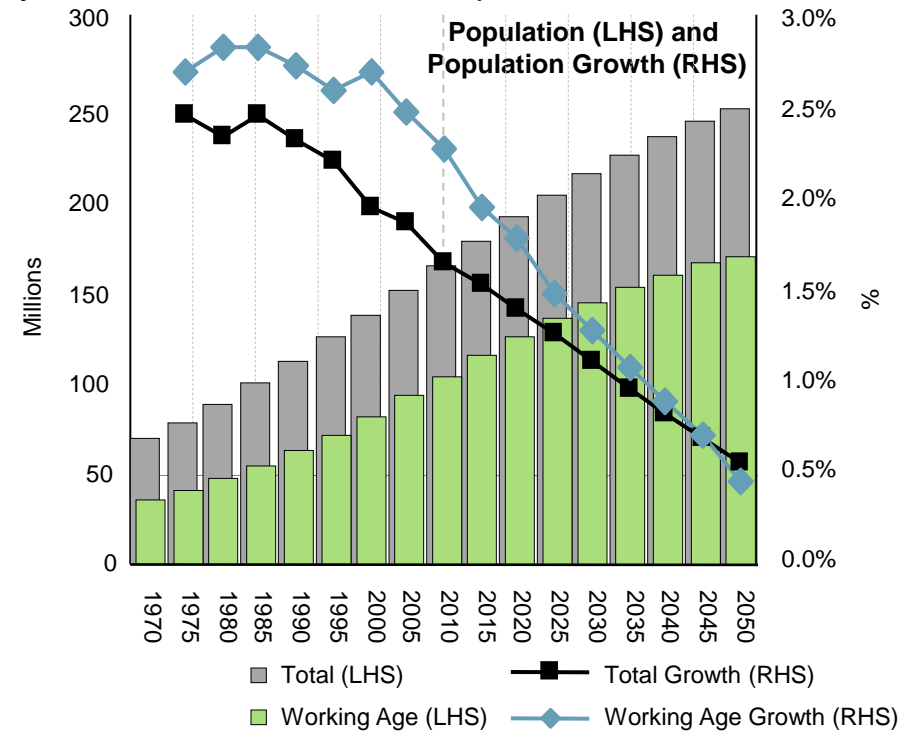
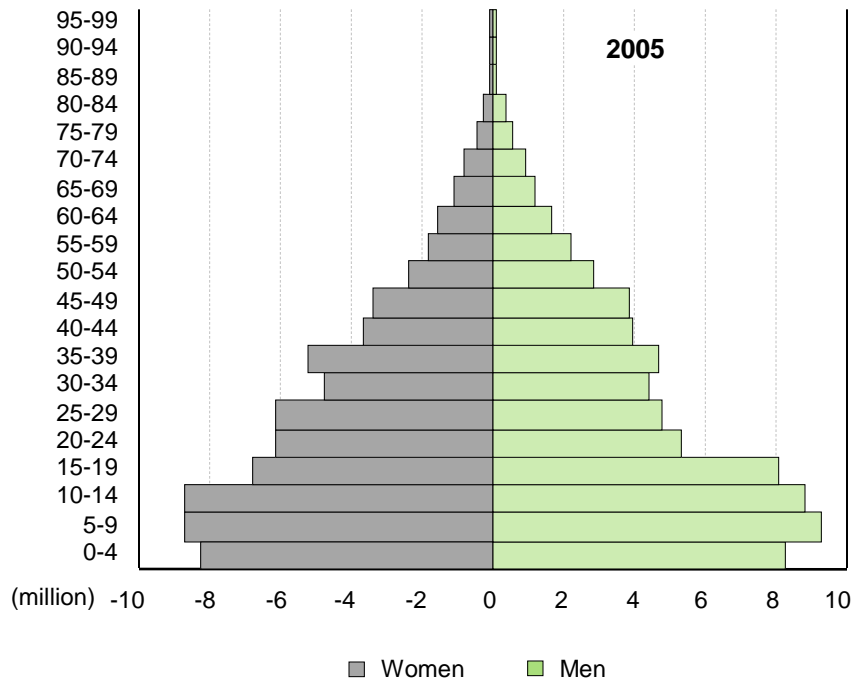
Uncertainty / Strikes in the Lead-up to Next Elections

- Political risk clearly exists similar to other emerging market countries – part of being a democracy.
- Recent strikes have led to supply disruptions, lower sales and 1% point decline in private investment
- As such GDP growth for FY13 at 6% is lower than 6.2% previous five year average
- Some positive indications for FY14 with capital machinery import L/C opening data (25% growth so far in FY13) though investor uncertainty likely to prevail until elections and hence keeping growth at last five year average will be a challenge
- Effectiveness of standard macro tools to stimulate economy becomes less effective during sustained political uncertainty while risks of loosening policy are high
- However history suggests these events will not affect medium term trajectory of higher growth given Bangladesh's underlying advantages



Bangladesh's Demographic Window of Opportunity Requires Strategic Management of Labor Force Issues

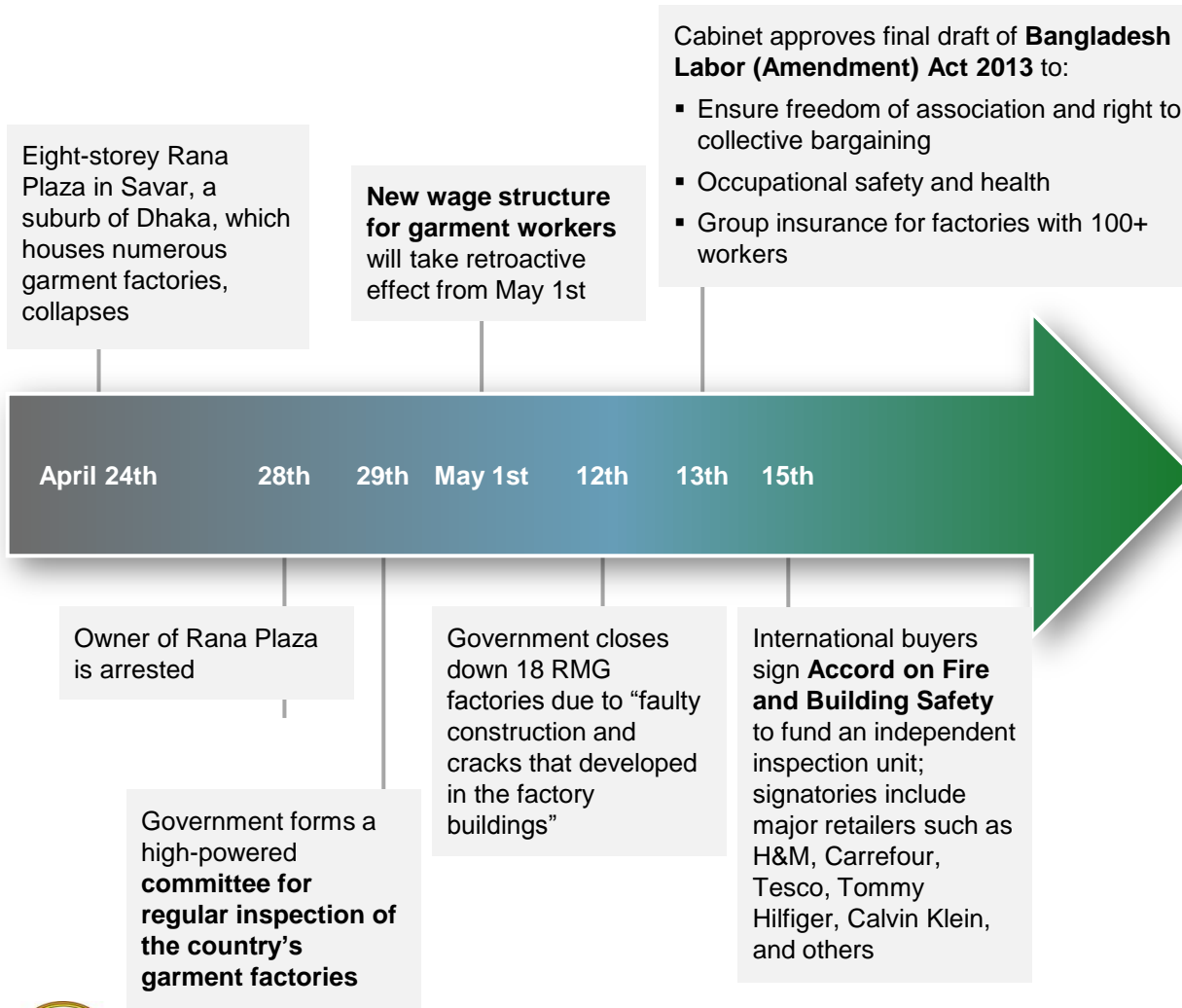
- While population growth is now 1.5 % per year, the working age population is growing at 2.5-2.8%
- Quicker growth in working age population presents an opportunity for more rapid development but also careful management of labor issues – wages, compliance with safety standards and skill development



- Demographic window also a challenge for which greater job-creating investments are needed
- Clearly overseas migration needs to be stepped up further to absorb labor force



Rana Plaza Tragedy – Timeline and Moving Ahead



New Measures Going Forward...

- Upgrade Department of the Chief Inspector of Factories and Establishments to a Directorate
- Annual budget allocation to enable the recruitment of a minimum of 800 inspectors
- Acquire land of collapsed Rana Plaza and rehabilitate families of the victims
- Strengthen due diligence performed by commercial banks before financing real estate construction and development
- Tripartite agreement between Government of Bangladesh, employers (Bangladesh Garment Manufacturers Export Association) and workers
- Assess structural building safety and fire safety of all active export oriented ready-made garment factories in Bangladesh
- Relocate unsafe factories to government-designated sites outside the city
- Skills and training program for workers who were seriously affected by Rana Plaza



Summary Messages

- Bangladesh has come a long way especially over the past decade - progress in socio-economic indicators has received global attention despite natural disasters, external shocks and governance challenges. This progress has not happened by accident:
 - There is significant common ground on development strategy which has withstood political transitions
 - Key decisions are delegated to the technical level and many new policy initiatives have stemmed from lower levels of the bureaucracy – appetite for experimentation and ‘learning by doing’
 - Ability to react to unforeseen events is well-recognized with respect to natural disaster management. It is also a key feature of macro-management in Bangladesh where there is an experienced cadre of professionals who are used to dealing with shocks and then using these to innovate new products.
 - Government has partnered with, and listened to the inputs of, the private sector, civil society and external partners in almost all aspects of development policy.



Summary messages (cont.)

- Investments in technology, access to information and public accountability are key to strengthening domestic institutions
- Lessons from IMF's role in macro-policy could be used to draw general lessons for development partner engagement in an environment of lower aid dependence
- While the Rana Plaza Tragedy poses short-term challenges, it is an opportunity to strengthen the industry and improve conditions for a growing labor force.
- A growing domestic middle class in a country with 160 million in a USD 115 billion economy presents significant business opportunities and the medium run growth path will withstand current domestic political tensions
- Investments in infrastructure, skills and mitigating the impact of climate change will accelerate the pace at which Bangladesh becomes a middle income country.

