An Appraisal of the Current Economic Scenario of Bangladesh in Light of Volatile Global Economy and Sri Lanka's Experience

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Introduction

In recent years, Bangladesh has achieved remarkable economic progress in many areas despite multiple odds. There has been a sea change in the global image of Bangladesh in the last few decades. Once portrayed as the epitome of poverty and hunger, its gradual success with decent GDP growth turns her into a dynamic enterprise. The sound financial management, strong ready-made garment (RMG) exports, remittances, and macroeconomic stability have been key to bringing striking outcomes. The coronavirus pandemic that poses a major risk to the global economy has also had negative effects on Bangladesh's economy. In our experience, after a downturn during the pandemic, the country's financial status has been revamped and succeeded in some cases. Bangladesh managed a 5.24 percent growth in FY 2020-21 facing the adverse impact of pandemic lockdowns, and has achieved 7.25 percent GDP growth in the latest fiscal year, FY 2021-22.

However, the collective economic stability of Bangladesh has come under tremendous pressure recently due to the ongoing global economic and political instability. The recent global crisis following the Russia-Ukraine war impeded the country's course of economic recovery caused by the pandemic. The war raised the prices of food products, fuel, and raw materials to an exorbitant level in the international market. Bangladesh's economy also feels the impact of soaring prices as the country imports significant amounts of food grains, cooking oil, petroleum, and industrial raw materials. As import spending rose recently, the trade deficit is growing remarkably. The depleting trend of foreign reserves and foreign debt burden raise concern that the country may face the Sri Lanka like economic meltdown. Only good governance and fiscal prudence can protect Bangladesh from the threat of financial woes now experienced by Sri Lanka.

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The Economic Strength of Bangladesh

Bangladesh has been among the fastest-rising economies in the world over the last decade. Based on the macro-economic stability, Bangladesh's economy has advanced 271 times over the last five decades. The International Monetary Fund (IMF) has recently ranked Bangladesh as the 41st largest economy in the world in nominal terms of GDP in 2022. The economic resilience of the country during the pandemic years has also been globally acclaimed. The World Bank opined that "Despite the uncertainty created by COVID-19, the outlook for Bangladesh's economy is positive."

The recent government statistics reveal that Bangladesh's GDP size stands at $465 billion which is $51 billion higher compared to the last fiscal year. The per capita income of the people increased by 9 percent from the previous year and stood at $2824 in FY 2021-2022. At the end of this fiscal year, the forex reserve after a slight decrease stood at $41.82 billion. Despite the country facing new challenges of higher prices of commodities and trade deficit after the shock of the pandemic, the country's GDP projection is set to 7.5 percent for the current fiscal year. However, the World Bank estimated that Bangladesh's GDP would grow by 6.7 percent in FY 2021-22, while ADB projected the growth may touch 7.1 percent. On the other hand, the climbing rate of inflation is the prime concern which jumped over 6.5 percent overshooting the revised target of 5.7 percent in the just concluded fiscal year. The government planned to curb inflation gradually by 5.5 percent in the running fiscal year.

Comparison of Bangladesh and Sri Lanka Economies & Positions

The foundation of Bangladesh's economy is much stronger than the tourism-driven economy of Sri Lanka as it is run by mainly garment exports, remittance, and agriculture. Bangladesh's strengths lie in its relatively stable macro-economic indicators and the reality that the foreign debts of Bangladesh account for only about one-fifth of the country's GDP which is labeled as low by international comparison. The forex reserves of the two countries further endorse the predominance of Bangladesh over Sri Lanka. In 2000, the reserves of both countries stood at $1 billion, By June 2020, while Sri Lanka's forex reserves had been confined to $7.7 billion, Bangladesh's had reached $36 billion. In June 2022, Bangladesh's reserves with some downturn stood at $41.82 billion, while Sri Lanka's had plummeted to a record low at $1.9 billion. To boost the depleting forex reserve of the Island nation, Bangladesh provided the term of a $200 million loan under a currency swap deal in May 2021. This loan facility is now hanged in balance as Sri Lanka announced defaulting on its entire $51 billion foreign debts.

The primary reasons which led Sri Lanka to the ongoing economic crisis are the populist policies like shifting to organic farming by banning fertilizers resulted in declined food production and huge tax cuts have decreased revenue collection. The tourism sector in which the Sri Lankan economy survives most faced a serious downturn, dropping 90 percent of tourist income, following the pandemic crisis and terrorist attack on Easter Sunday in 2019. The ambitious government projects with huge investments brought less return rather than increased foreign debts. In contrast, Bangladesh has been careful to not continue the large budget deficits or undertake projects that do not have a high economic and social rate of return. At present, Bangladesh is able to meet up almost five months of import bills with current forex reserves, while Sri Lanka is struggling to purchase essential items like food, fuel, and medicine from the international market. In the midst of the worst financial crisis, Sri Lanka formally declared itself a bankrupt nation.

Fortunately, the present financial condition of Bangladesh is far better than Sri Lanka's and she is unlikely to fall into that debt trap in the foreseeable future. Most of the external debts are with bilateral or multilateral institutions such as the World Bank and are concessional or carry low-interest rates. The Sri Lankan case bears no comparison to Bangladesh in respect of the foreign debt. Historically, Bangladesh has maintained an external debt-GDP ratio of little over 20 percent, 18.1 percent in FY 2021-2022, while Sri Lanka's 40 percent above. Thus debt situation provides some relief for Bangladesh at least at the moment. Notwithstanding some increase in the debt for Bangladesh, it is still at a tolerable limit. According to IMF's DSA calculations "Bangladesh remains at low risk of external and overall debt distress."

Recent Issues that Raise Concern

Bangladesh, a victim of global circumstances, is now experiencing the negative impacts of recent international financial unease. Hence, the government is now facing a multitude of economic crises. The high price of fuel and other import items, and the heat of the Russia-Ukraine war are greatly affecting the country's economy in various way. The challenges Bangladesh faces now are bigger than that of the pandemic. Currently, the biggest challenge for the national economy is the high inflation and the balance of foreign payment deficit. Inflation has become a great cause of concern among the rising prices of essential commodities. In June 2022, the inflation rate peaked at 7.56 percent, the highest in the last nine years. The trade deficit rocketed to an all-time high of $32.90 billion at the end of the last fiscal year. A further increase to $36.70 billion is projected at the end of this fiscal year as the export earnings and remittances continue to fall below the overall import cost.

The prices of essential commodities began surging up, import spending rose, remittances have fallen, and reserves are under pressure due to the higher expending of dollars on imports. There has been an 11.38 percent loss in the value of the local currency (Taka) in a year, from June 2021 to June 2022. Thus, the balance of foreign transactions slipped to the highest deficit in the country's history. This month country's forex reserve stood at $36.67 billion, down from $46.15 billion in December last year.

The pressure of subsidy became another headache for the government. Currently, the government is providing excessive subsidies to halt the price of fuel, fertilizer, and electricity. In the FY 2022-2023 tk.82745 crores have been allocated for subsidy which is 23.8 percent higher than what was spent in the previous year. The soaring price of fuel and fertilizer in the global market is putting extra pressure on the current subsidy rate. The government is now in a dilemma. If they adjust the price, it will increase the inflation rate. The country will definitely face difficulties sustaining the fiscal balance if a large portion of national revenue is consumed by subsidies. The recent power crisis adds extra woes to commoners. Electricity generation dropped as the number of power plants shut down for the insufficient supply of fuel and gas. The government is now operating regular 1 to 2-hour power cuts to mitigate the deepening electricity crisis.

Like Sri Lanka, Bangladesh has also received massive foreign loans to implement some large projects, what critics call “white elephant” projects. In the current fiscal year, $2.78 billion would be paid against foreign loans, up from $2.45 billion last year. This burden will peak at $5.15 billion in FY 2029-2030. The growing debt burden puts extra pressure on the economy and causes concern for Bangladesh after the recent economic meltdown in Sri Lanka.

Measures Taken on Sri Lanka’s Experience

There is no denying the fact that the ongoing global financial crisis, particularly, Sri Lanka’s economic woes adds more worries for Bangladesh. A number of steps have been taken to curb spending and save forex reserves. The country has recently suspended foreign trips and training of government officials and halted some less important projects that require the import of construction materials from abroad. Regulatory taxes have been imposed to discourage the import of non-essential and luxury goods, while incentives have been increased to encourage remittance flow through government channels.

Recently the government has decided to take the $4.5 billion loan from the IMF to ease the pressure on forex reserves. The finance division is cautious about limiting the budget deficit to 5 percent by increasing the tax target and improving the efficiency in revenue management. The central bank has taken some measures to mobilize domestic resources. To ensure liquidity in the financial market, the policy interest rate and the Cash Reserve Requirement (CRR) have been reduced more than once, now the CRR is fixed at 4 percent. The interest rate on bank loans has been brought down to a single digit to achieve financial viability and create a business-friendly atmosphere for industries. Furthermore, the government is providing monetary support to small businesses and launching various stimulus packages to keep people employed despite the shocks. In addition, the Trading Corporation of Bangladesh (TCB) is offering essential commodities at subsidized prices to poor people to curb inflation rising.

Conclusion

The protracted nature of the Russia-Ukraine conflict depicts that there would be more volatility in the global market in near future. The high energy price and global supply chain disruption are likely to continue in the international market in the coming days. There is no sign of early recovery from this crisis. Therefore, to recover the budget deficit and to check the depleting trend of foreign reserves, Bangladesh requires financial resources among other needs. An important source of such finance is domestic resource mobilization by improving the taxation policy. Borrowing from international financial institutions like IDB, WB and IMF may help to boost foreign reserves. The central bank has to rigorously monitor import payments so that nonessential imports can be stopped. The government must start exploring gas to reduce foreign energy dependency. The more efficient and vigilant role of the central bank is imperative to ensure transparency in financial management and to prevent money laundering through over-invoicing. In the current circumstances, though there is no grave probability of an imminent economic crisis, only good governance, and prudent fiscal management can make reference of Sri Lanka irrelevant to Bangladesh.

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