




Emerging Markets Spotlight

No. 8, 10th September 2015

Bangladesh – Glass half empty? We say half full!

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

Economic situation

Real growth	
Private consum. (y-o-y)	
Inflation rate	

An impressive long-term upswing

With economic growth running at a consistently high level (around 6% p.a.) for many years, Bangladesh now aims to make the transition to an advanced emerging economy. Growth is driven by investment and also private consumption (partly supported by remittances). Inflation has fallen recently but at 6.2% remains above the central bank's target.




Growth financing

Public debt / GDP	
Current account balance / GDP	
External debt / GDP	

Budget and trade balance running sustainable deficits

The budget deficit and public debt are moderate. The trade deficit is more than made up for by remittances, while the current account balance is in positive territory. External debt is low and falling. But despite these relatively good figures, the country is exposed to some risks and in need of reform. For example, tax revenues and infrastructure spending are inadequate.




Growth resources

Investment ratio	
Manufacturing contribution	
Labour market participation	

Good use of production factors allows structural change

Despite difficult economic conditions, the investment ratio has steadily increased. At just under 75%, labour market participation is considerably higher than in emerging markets, with Bangladesh's women playing a particularly important role. Without their contribution, the textile industry could not have achieved such strong growth (structural change). Here too, though, it is not all good news.






Economic relations with Germany

German share in goods exports	
German share in goods imports	
FDI inflows from Germany	

Germany is an important export market for Bangladesh

Germany is Bangladesh's second most important export market after the USA (with textiles accounting for over 90% of deliveries to Germany) but on the import side Germany is merely one of the "other countries". The modest flow of inward investment (not only from Germany) shows that Bangladesh is still far from being an advanced emerging economy.

Legend (for detailed explanation of methodology see p. 4)

	very good		good		neutral		weak		very weak
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Investment climate: assessment by our local experts

Bangladesh's strengths include long-lasting, substantial GDP growth and strong consumer demand with a large internal market. The country's economic policy is essentially market-oriented. Extensive reforms are needed nevertheless. The infrastructure is inadequate, there is a lack of skilled labour, the government does not fulfil all its responsibilities owing to a shortage of funds and business conditions are problematic in many respects.

Continued on p. 2

Focus: progress in the healthcare sector but reforms are still needed

Healthcare in Bangladesh has improved considerably over many years. Together with advances in family planning, this has led to an easing of population growth. This not only improves the quality of life for individuals, it also has positive macroeconomic effects. Healthier people are more productive and a lower birth rate allows more women to participate in the economy. However, conditions in the health sector remain unsatisfactory and many reforms are needed. The public healthcare system requires financial support but also needs to improve the quality of service provision.

Continued on p. 2

Investment climate: assessment by our local experts

Bangladesh is on a long-term development path that few would have expected. When Bangladesh became independent in 1971, its development prospects were poor: minimal natural resources and human capital, no industrial base, constantly threatened by natural disasters. Since then, its population has grown strongly (see below). However, in the last fifteen years the country's GDP, per capita income and therefore purchasing power have risen significantly. Bangladesh has just left the group of low-income countries according to the standard statistical classification and is now considered a "lower middle income country". Private consumption and investment are based partly on remittances from the nearly nine million Bangladeshis who work overseas; these transfers account for around 10% of GDP. Low labour costs have enabled the country to significantly increase production and exports of textiles, with local value added considerably higher than in other countries' textile industries. Other fast-growing sectors are currently energy, healthcare and consumer goods, among others.

Bangladesh's strengths include an essentially market-oriented economy, particularly in the areas of monetary, currency and external trade policy. Investors and suppliers also benefit to some extent from the fact that Bangladesh has not yet attracted much attention as a location or as a market and is thus exposed to less competitive pressure than elsewhere.

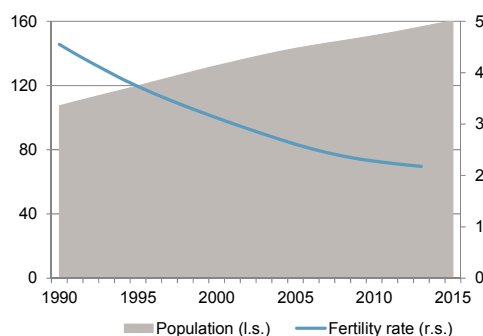
The economic policy framework nevertheless needs to be improved. Despite the positive points mentioned above, there are still many structural obstacles to growth. Income levels are low compared with neighbouring countries, infrastructure deficits (particularly in energy and transport) and a lack of skilled manpower put pressure on the economy and local living conditions are unattractive. The government is largely responsible for the infrastructure deficits, having insufficient resources to deal with the problem (a narrow funding base and weak tax administration). Bangladesh scores poorly on governance indicators (business conditions, corruption, competitiveness). The current government is regarded as workable and legal but not wholly legitimised (the opposition boycotted the last elections). The country generally suffers from a vaguely negative image abroad. Not least of the concerns is the heavy dependence on textile exports (70%), which makes the Bangladesh economy vulnerable to competition from other countries. The collapse of a factory building in 2013 tragically demonstrated the often poor working conditions.

Based on an interview conducted with Dr Herbert Baumgartner (DEG Bangkok Office Director) on 6th August 2015. ■

Focus: progress in the healthcare sector also pays off economically but many reforms are still needed

Population pressure. Bangladesh is currently home to around 160 million people, occupying a geographical area only 40% of Germany's size. The population has grown by half since 1990. Happily, however, population pressure is significantly decreasing: population growth has fallen dramatically from 2.5% p.a. in 1990 to only 1.2% now and the average number of births (fertility rate) has dropped from 4.6 to 2.2 (Figure 1).

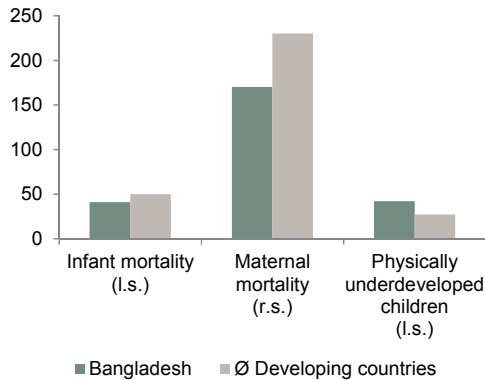
Figure 1: Population (millions) and fertility rate (children per woman)



Sources: World Bank, UN.

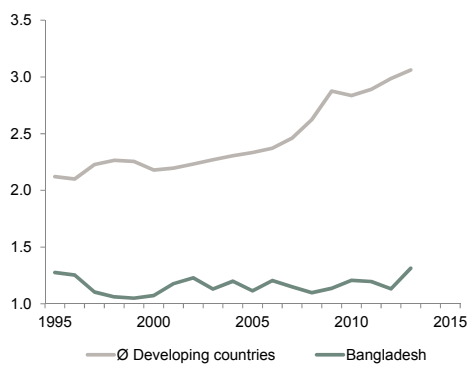
Close connection between population growth and healthcare situation. Key healthcare indicators have improved dramatically in Bangladesh over the past 25 years. Life expectancy has risen from 60 to 71 years, while infant mortality and maternal mortality (deaths due to complications during pregnancy and birth) have decreased significantly. Scores on these two indicators are better than the average for all developing countries (Figure 2) and are even on a par with those of advanced emerging economies. Other indicators for Bangladesh have also improved but are still relatively unfavourable (proportion of children who are physically underdeveloped due to malnutrition, availability of healthcare staff and hospital beds). Overall, the progress outlined above has alleviated the pressure on people to use children to support

Figure 2: Infant and maternal mortality (per 1,000 and 10,000 births respectively) and proportion of physically underdeveloped children (in percent of all children)



Source: World Bank, own calculations.

Figure 3: Government spending on healthcare (in percent of GDP)



Source: World Bank.

them in old age or sickness. Surveys also show that the use of contraceptives has increased, which suggests greater self-determination in family planning.

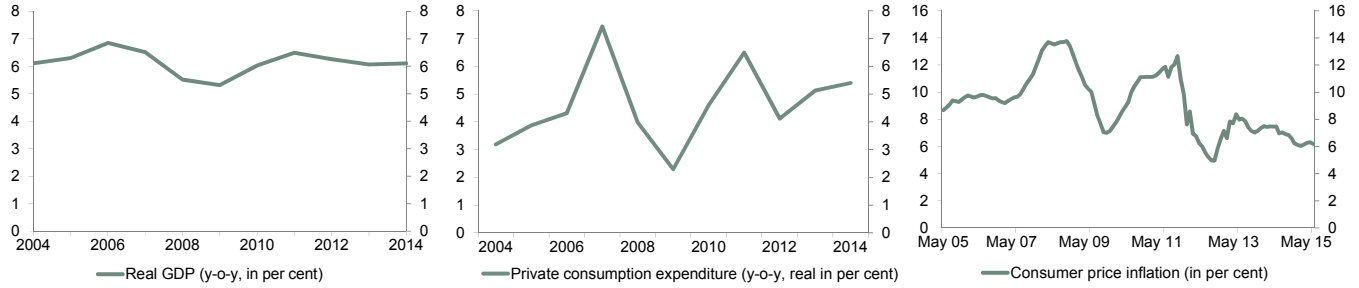
There is a clear link between healthcare and economic prosperity. Sickness reduces people’s ability to work and their productivity. Since Bangladesh still has no functioning system of health insurance, sickness often has fatal consequences, especially for the poor. When people become ill they can get into financial difficulty and may become less productive over the long term because of inadequate treatment. Against this background, the improvements achieved in healthcare have not only made the lives of individuals more bearable, they have also had economic benefits. Sixty percent of Bangladeshi women are in employment (average across all developing countries 53%, India only 29%). In particular, the falling birth rate has allowed more women to participate in the economy. Bangladesh is sometimes held as an example of the "demographic dividend" – growth in the labour force leads to more productive employment in a phase when the dependency ratio is declining. This is a subject of debate, however, given the continuing emigration of job-seekers (see above) and the large number of economic migrants.

Much has improved in the healthcare sector. There is a high level of self-financing among the general population. Major reforms are needed in public healthcare policy. To a greater extent than elsewhere, healthcare provision in Bangladesh is based on people’s own financial contributions. While the government’s healthcare budget has grown in absolute terms, it has stagnated relative to GDP (in contrast to the average situation across all developing countries, see Figure 3) and is therefore much too low. Another problem is the poor quality of public health services. Healthcare workers are poorly qualified, low paid and therefore insufficiently motivated and often absent, especially in remote regions. The operation and maintenance of medical equipment and buildings is inadequate. Budgets are managed centrally and therefore not focused on where they are needed. The government is working on these issues with donor support.

Germany is an important partner. Germany provides key support to Bangladesh through development cooperation, helping to improve conditions in various sectors. German exporters also enjoy a high reputation in Bangladesh. Medical products make up 4% of Germany’s total exports to Bangladesh, with a special focus on high-quality, technologically advanced equipment. ■

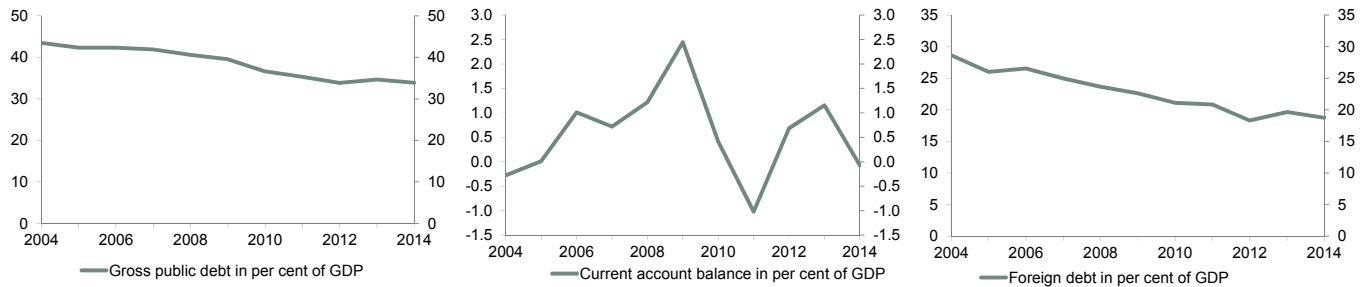
Overview of figures

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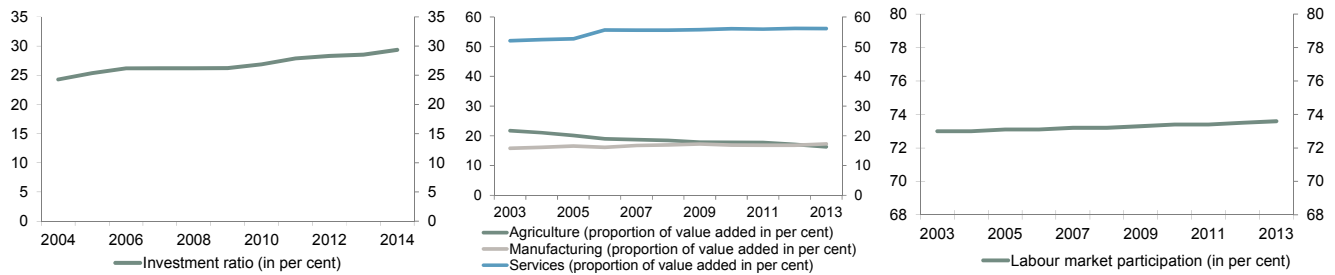
Source: Datastream; IMF, Worldbank, EIU, Bangladesh Bureau of Statistics; own calculations.

Growth financing



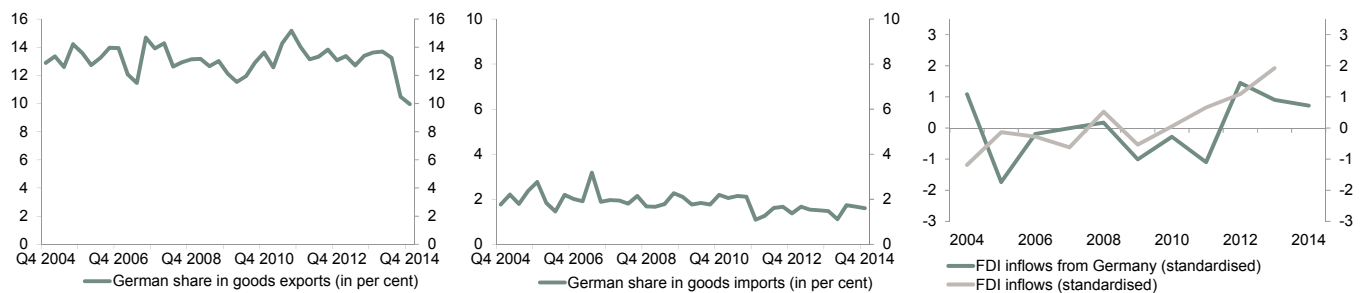
Source: Datastream; IMF, Worldbank; own calculations.

Growth resources



Source: Datastream; IMF, Worldbank.

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Source: Deutsche Bundesbank; Datastream; IMF; UNCTAD; own calculations.

Methodology

In the Emerging Markets Spotlight, a selected country is analysed based on various macroeconomic indicators. These indicators are grouped into four categories: economic situation, growth financing, growth resources and economic relations with Germany.

The indicators are used to compare the country's situation with its peers. The group comprises Brazil, China, India, Indonesia, Mexico, Russia, South Africa and Turkey. The comparison is based on a quintile ranking in five categories, which are labelled in different colours:



The country is assigned to a quintile of the country group for each indicator analysed. The best quintile may be different for each indicator. For example, higher growth rates are better, so here the upper quintile is coloured dark green, but higher debt rates are a negative factor, so here the upper quintile is coloured dark red.

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