

Ailing economy of Bangladesh

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What's in today's article?

- **News Summary**

Why in News?

- According to an International Monetary Fund (IMF) press release, Bangladesh will receive economic assistance worth \$4.5 billion from the institution.
 - Last month, Bangladesh reached out to the IMF seeking help.
- This is a significant reversal for an economy that overtook India's in terms of per capita income in 2020 on the back of robust economic growth for the better part of the last two decades, and especially since 2017.

News Summary:

Ailing economy of Bangladesh

- Unlike many countries including India that saw their GDP contract in 2020 following the Covid-19 pandemic, the economy of Bangladesh actually grew during this period.
 - Its GDP grew by 3.4% in 2020, by 6.9% in 2021, and it is expected to grow by 7.2% in 2022.
- However, Bangladesh's problems lie elsewhere. Bangladesh's robust economic recovery from the pandemic has been interrupted by Russia's war in Ukraine.
 - This led to a sharp widening of the current account deficit, rapid decline of foreign exchange reserves, rising inflation and slowing growth.

How Ukraine war has impacted Bangladesh?

- Inflation spiked to uncomfortable levels as all kinds of commodities such as crude oil became costlier.
 - The inflation rate in November was 8.85% as against 5.98% in November 2021.
- Bangladesh's current account balance has gone deep into a deficit — both in absolute terms as well as a percentage of the GDP.
 - The current account balance looks at the gap between the money coming into a country on account of earnings via the export of goods and services and the money going out of the country via the import of goods and services.
 - Bangladesh has typically been hugely dependent on its export earnings which got hit due to slowdown in western economies.
- Bangladesh's currency, the Taka, weakened partly under the pressure of the surge in the US dollar and partly on account of the worsening current account deficit.
 - A weaker Taka further aggravated the inflationary spiral because all imports become costlier still.
- The weakness in the external front also resulted in Bangladesh's foreign exchange reserves getting depleted.
 - Last December, the forex reserves were valued at \$46,154 million.

IMF's monetary assistance

- IMF has provisionally agreed to provide a \$4.5bn support programme to Bangladesh.
- Overall, the IMF's assistance hopes to achieve the following goals:
 - Creating additional fiscal space through higher revenue mobilisation and rationalisation of expenditures.
 - This will allow the government to increase growth-enhancing spending as well as mitigate the impact on the vulnerable through higher social spending.
 - Containing inflation with increased exchange rate flexibility so that the country can buffer external shocks better.

- Strengthening the financial sector by enhancing governance and regulatory aspects.
- Boosting growth potential by creating a conducive environment to expand trade and foreign direct investment among other things.
- Strengthening institutions to create an enabling environment will help meet climate change objectives.

How Bangladesh's economic condition will impact India?

- Hit by the pandemic, the war in Ukraine, and the tightening monetary policy of the Federal Reserve, India's neighbouring economies, including Pakistan, Sri Lanka and Bangladesh, are now faced with soaring debt and high inflation.
- The weakening economy in these countries will have geopolitical consequences as well, given both India and China, as creditors and critical trade partners, would want to increase their strategic leverage.
- The weakened economies could soon become a battleground for the strong economies to settle their diplomatic scores and exercise their geopolitical might.
- Also, a serious disruption in the livelihoods and hopes of people of neighbouring countries might act as a fertile ground for terrorism to increase its presence.
- It will only add to India's geopolitical woes in its east where endemic violence and Chinese ingress continues to obstruct New Delhi's geo-economic aspirations.

Q1) What is conditionality in the IMF?

Conditionality covers the design of IMF-supported programs—that is, macroeconomic and structural policies—and the specific tools used to monitor progress toward goals outlined by the country in cooperation with the IMF

Q2) What is the GDP of Bangladesh?

The Gross Domestic Product (GDP) in Bangladesh was worth 416.26 billion US dollars in 2021, according to official data from the World Bank. The GDP value of Bangladesh represents 0.19 percent of the world economy.

Source: Bangladesh at 50: 'Basket case' to a rising economic star

Source: <https://vajiramandravi.com/current-affairs/ailing-economy-of-bangladesh/>

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