

Bangladesh as an LMIC: What are the implications?

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The World Bank classified recently Bangladesh as a lower middle income country (LMIC), lifting it from a low income country (LIC). Every year in June, marking the end of its fiscal year, the World Bank classifies economies based on their annual per capita gross national income (GNI), calculated using the Atlas method. The GNI is an indicator of average economic well-being and measures the income generated by a country's citizens from both international and domestic activities.

For a particular country, calculating the GNI in US dollars presents a problem when comparing with other countries, as exchange rates fluctuate frequently due to differences in inflation. The Atlas method overcomes this by taking a three-year average of a country's exchange rate and adjusting for the difference between its inflation and that of other developing countries.

The table contains the four classification categories – low income country, lower middle income country, upper middle income country (UMIC) and high income country (HIC) – and relevant criteria used by the World Bank to determine a country's lending eligibility.

The LMIC group is currently diverse, consisting of 51 rapidly developing and competitive economies including South Asian neighbours – India, Pakistan and Sri Lanka – and Myanmar. Most of the LMICs are located in South and Southeast Asia, Africa, Eastern Europe and Latin America.

Bangladesh's per capita GNI in 2014 stood at US\$1,080 and as such, it was promoted as an LMIC. Bangladesh is one of the four countries to achieve this feat in 2014; the other three are

Kenya, Myanmar and Tajikistan.

Promoted as an LMIC, Bangladesh may need to gradually phase out its concessional loan eligibility from the World Bank Group. Yet, there is also a positive side as the country will be eligible for both concessional and non-concessional loans (a “blend country”), increasing total loan availability. In such a case, the average cost of borrowing will rise slightly but will nevertheless be significantly lower than market rates.

Bangladesh’s LMIC promotion coincided with an improvement in its position, from 6 to 5, in the overall country rating by the Organisation for Economic Cooperation and Development (OECD). Bangladesh is now ranked higher than most of her neighbours including Pakistan, Sri Lanka, Nepal and Myanmar and is second only to India. This promotion is also expected to ease the process for local entrepreneurs and banks in securing guarantees and letters of credit confirmations.

To progress as an LMIC, Bangladesh needs to be competitive with other rapidly developing economies in the group, especially India, Indonesia, the Philippines and Vietnam, and set a goal for advancing into the UMIC group in the not too distant future. Its economy needs to grow at least 8.0 per cent annually to achieve this by the early 2030s.

Several limiting factors have been identified; these are crucial to achieving an 8.0 per cent growth rate. Firstly, the investment-to-gross domestic product (GDP) ratio has to be lifted from existing 29 per cent to about 34 per cent to reach the 8.0 per cent growth mark. Private investment, stagnant at roughly 22 per cent, needs to lead the growth in investment, for which a business-friendly and transparent regulatory environment is essential.



Investment in human capital needs to be augmented as there is a significant mismatch between supply and demand with regard to quality and nature of skills. Productivity remains markedly lower than competing countries and the education sector has to undergo extensive reforms to improve the quality of human capital. Implementation of better production processes also needs to be fast-tracked by easing import of advanced technologies.

Bangladesh is at the frontline of climate change, which has redistributive and growth implications. It is imperative that the country adopts adequate preparatory and adaptive measures to tackle climate change.

Bangladesh's growth has also been hindered by insufficient supply of energy – in particular of gas to industry where output growth is being stymied. The energy sector is in dire need of further investment to keep up with surging demand by both households and industry. Failing to do so will surely drive up the cost of doing business.

As a small developing country, export-led growth is essential for Bangladesh. To ensure sustainability of export-led growth, Bangladesh has to move up the value chain. Bangladesh's contemporary export basket is highly concentrated, with RMG contributing some 80 per cent of exports. The exports' sector requires diversification into higher value-added goods to avoid declining comparative advantage due to wage increases.

A rise in inequality is observed in the Bangladesh economy as growth has not been equitable, resulting in a failure to generate adequate well-paid jobs. A functional social safety net and more “decent work” will help mitigate growing inequality.

The reclassification of Bangladesh as an LMIC is no doubt a significant milestone in the country's long journey on the path of economic development. It is hailed by all quarters as a boost for its image in the international arena.

While we celebrate this achievement, it is important to acknowledge that roughly one-quarter of the country's population (about 40 million) still remains poor. Besides, Bangladesh crossed the minimum threshold by a narrow margin to get promoted as an LMIC and sits at the bottom of that league.

Many challenges lie ahead with regard to Bangladesh's economic development despite its achievements. With prudent and targeted policies, the country may continue on its path of sustained economic progress and win acclaim internationally.