



Is Bangladesh economy really in a recession?

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THE long lines in front of Bangla Academy have become a tradition, and a way of expressing people's respect for our mother tongue. What is more surprising this year is the larger crowd, despite the introduction of tickets for the first time, and the record volume of purchases by book lovers despite high prices. Similar scenes were observed during the month-long Dhaka International Fair, and during the festivities associated with the beginning of spring (Pahela Falgun), the Pitha Utshab, Nobanno, and Valentine's Day. The mix of local and foreign cultures is also a healthy sign, and I certainly enjoyed seeing the general mood of enthusiasm and celebration.

I watched and read about these festive occasions in TV channels and print media, and I saw

talk shows where political commentators discussed the great depression that Bangladesh economy is currently passing through. The sight of people of all walks of life buying books and flowers in a festive mood, at a time when they are also facing record high prices for essential commodities, made me proud as a Bangladeshi. At the same time, as an economist, I wonder whether we are really in an economic recession or facing a deep “crisis of economic security.”

The main reason that this thought came to my mind is that, while we can not live without rice even if rice prices are at record levels, buying books in record numbers at record high prices certainly does not fall in the same category. Before the opening of the Ekushey Book Fair, there was a lot of concern among publishers, authors, and fair organisers about the impact of higher book prices arising from higher costs of paper and other printing materials. Despite their best efforts, publishers could not limit the price increases to less than 20-25 percent in most cases. The surprisingly high number of buyers and record volume of sales have brought smiles to the faces of publishers and writers, but book lovers also appear to be happy despite the high prices and the newly introduced entrance fee. The story with flowers is also similar; during the above mentioned festivities all types of flowers were selling at double the price of last year. Certainly, I have not heard of record sales in bookstores and flower shops in the midst of a recession anywhere in the world.

I wonder whether economists will laugh at me and ask how I could dare to make an impression about the overall economy based on evidence like record sales at the Ekushey book fair, in flower shops, at the Dhaka International Fair, and the record gatherings at Cox's Bazar beach and Nandan Water World? Critics will justifiably dismiss such a hypothesis on the ground that these limited observations could not serve as barometers for the overall economy. Certainly, they would be right. I have to look for proper economic indicators in support of the perceived recovery, if I want to be credible. Let's take a 360-degree view of the economy.

The first thing that comes to mind to explain the buoyant domestic demand is the surging inflow of workers' remittances, which are continuing to increase at 25 percent rate. At \$6 billion, remittances amounted to about 10 percent of Bangladesh GDP in 2006/07. At the current pace, the additional inflow of about \$1.5 billion (Tk 10.5 thousand crores) would contribute an extra 2 percentage points to our GNP.

Foreign demand for our goods, as measured by Bangladesh's exports, is also showing signs of a rapid recovery. Following a sharp contraction of garment exports recorded in July (exports declining by 23 percent over the corresponding month in 2006), a result of labour unrests that almost brought the sector to the brink of destruction, exports are rebounding strongly. In particular, the two major components of our exports, knitwear and woven garments, recovered strongly in the following months. Knitwear exports increased by 40 percent and woven garments by 26 percent in November 2007 over the corresponding month in 2006, and the outlook remains healthy.

Import growth, generally a solid indicator for domestic demand and activity, has soared at a robust pace of 17.5 percent, and is projected to accelerate further to reach \$21 billion in 2007/08. I admit that about one-fourth of the increase is attributable to higher payments associated with rice imports. Even after excluding rice, import growth would be robust as Letters of Credit (LC) openings for industrial raw materials increased by 28 percent during July-December 2007; in particular, LC openings for raw cotton went up by 32.5 percent in the same period. This strengthening of the economy has been appropriately reflected in higher than targeted receipts of duties and taxes collected by the National Board of Revenue (NBR). During the first seven months of the current fiscal year through January 2008, taxes collected by the NBR increased by 24.6 percent with no sign of softening as revenue growth in January was even higher at 27.4 percent.

The record volume of shipments passing through Chittagong seaport, and through land ports with India and Myanmar, have certainly created a transportation boom not seen before. Business is also booming in the area of passenger transportation by road and air. The recent launching of a fleet of luxury Mercedes Benz buses and three new domestic airlines, along with substantial expansion of operations by other domestic and foreign airlines, is a testimony to the ongoing boom in the transportation sector. Domestic private carriers have expanded their fleets by adding wide-body Boeing 747 aircraft, and announced plans to add several more wide-body aircraft to their fleet in the coming months in order to capitalise on this boom. Bangladesh continues to be one of the fastest growing countries in this area. Almost seven hundred thousand Bangladeshi workers left the country in 2007, and another 65,000 left in January 2008. More than 100,000 workers with work permits are awaiting flights, pointing to a healthy outlook for this sector in the coming months.

The ongoing boom in the telecom sector is even more phenomenal. Cell-phone subscriptions almost doubled to 34 million by end-2007. Land-phone lines operated by the private sector phone companies also more than doubled in 2007. Intensified competition has brought costs down significantly, enabling more and more families to gain access to the telecom network and contributing to productivity gains at all levels of economic activity.

All these positive developments appear to be manifestations of a broader economic expansion. Credit expansion by the banking system clearly supports this notion. The slowdown that was observed in the earlier months has given way to an accelerated pace of credit expansion across almost all sectors of the economy. In 2007, domestic credit expanded at a healthy rate of 15.6 percent. In particular, during July-December 2007, credit to the private sector increased by more than 11 percent, compared with 8.7 percent during the corresponding period in 2006. Particularly noteworthy is the 42 percent growth in industrial term loans during July-September 2007.

Data on the government's fiscal policy is not directly available. However, the fact that, despite the record growth in revenues and disbursement of foreign aid, the government's domestic borrowing is high indicates that fiscal spending must have also increased at a record pace, injecting positive stimulus into the economy. Fiscal policy had to be expansionary in view of the massive transfers through fuel and fertiliser subsidies, and other forms of direct transfers to the flood and Sidr affected people as part of relief and rehabilitation activities. A massive surge in foreign aid during July-December 2007, almost double the amount received during the corresponding period in the preceding year, helped sustain the expansionary expenditure policy. It is encouraging to note that net foreign aid (net of repayments) increased more than four-fold to almost \$500 million during this period.

Certainly, Bangladesh economy has passed through a soft patch. The massive drive against corruption, some ill-planned drives against people and companies for tax evasion, and the unintended consequences of interventions in the market to stabilise prices had contributed to an economic slowdown. The loss of agricultural crops, fisheries and livestock caused by the two rounds of flood and cyclone Sidr had certainly negatively impacted on the economy. The positive thing is that, supported by strong domestic demand, private sector economic activity is rebounding strongly. The impression of economic despair created by political commentators and many talk-show hosts is not borne out by facts and figures.