

## **Bangladesh is a development success story**

Following independence in 1971, Bangladesh was one of the poorest countries in the world. Fifty years later, the country is on the verge of graduating from the status of a Least Developed Country (LDC) in 2026. Success has been driven by a large domestic market, a demographic dividend, remittance flows, exports of readymade garments (RMG) and relatively stable macroeconomic conditions.

GDP per capita (current US\$) - a measure of economic progress - has climbed from US\$295 in 1990 to \$2,688 in 2022, placing Bangladesh above its neighbours India, Nepal and Pakistan. The proportion of the population living in extreme poverty, defined as surviving on less than \$2.15 a day, fell remarkably from 41.9% in 1991 to just over 13.5% in 2016. And the number of girls enrolled in primary school rose from 69% in 1990 to 94% in 2008.

## **In the last decade, this remarkable progress has slowed, and recent shocks to the global economy have also had an impact**

The rate of poverty reduction has slowed down since around 2000 and job growth has also reduced. The contribution of exports to GDP fell from a peak of 20% in 2012 to 13% before the global pandemic in 2019. COVID-19 caused growth to decelerate from 7.9% in 2019 to 3.4% in 2020 as global demand tightened. Inflation has remained persistently high since around mid-2022.

## **As Bangladesh leaves LDC status behind and aims to become an upper-middle income country, it will face a new set of challenges**

Higher levels of government revenues will be needed to deliver higher quality public services. The ratio of tax-to-GDP in Bangladesh (7.6% in 2021) is below the average for middle income countries (10.7%) and less than half of its neighbour Nepal (17.8%). The commitments taken under the IMF programme will help to improve this.

The threat of climate change poses an increasing risk to growth and resilience. Climate change is forecast to result in the loss of one third of the agricultural GDP in Bangladesh by 2050 and could lead to 13.3 million internal climate migrants. The need for investment in adaptation is high, particularly in the delta regions.

Greater export diversification and more foreign direct investment (FDI) would help the economy reach the goal of upper-middle income status. In 2021, textiles and footwear made up 93% of Bangladesh's goods exports, and FDI was equivalent to just 0.4% of GDP, compared to 4% in Vietnam. Diversification and FDI would increase resilience to global shocks, improve technology adoption and productivity, and provide an additional source of foreign currency earnings.

Improving the quality of education will also help to make the economy more productive and narrow the gap in human capital with other countries in the region.