

World Investor Week (WIW-2020)

Programme on

**Investor Protection: Impact of Covid-19 on Business and  
Related Disclosures**

Organised by

***Bangladesh Securities and Exchange Commission (BSEC)***

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**Bangladesh Economy in Transition**

***A Journey of Dual Graduation and Post-Covid Challenges of  
Investment Mobilisation***

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October 5, 2020

**Section I. Introduction: Bangladesh Development Narrative- A  
Transformational Journey of Dual Graduation**

**Section II. The Road Ahead: Emerging Scenario and Attendant Challenges**

**Section III. Addressing the Challenges of Dual Graduation: The Urgency of  
a Well-functioning Capital Market**

**Concluding Remarks**

# Section I. Introduction: Bangladesh Development Narrative- A Transformational Journey of Dual Graduation

- Bangladesh's distinctive development journey
  - Bangladesh: A challenging beginning as 'The Test Case for Development'
  - An impressive Journey of Dual Graduation
    - LMIC Graduation
    - LDC Graduation
- Challenges in Going Forward
  - *Middle Income Graduation:*
    - Avoiding the middle income trap
  - *LDC Graduation:*
    - Smooth Graduation
    - Graduation with Momentum
    - Sustainable Graduation
- The increasing role of investment mobilisation in addressing the challenges of dual graduation

# Section I. Introduction: Bangladesh Development Narrative- A Transformational Journey of Dual Graduation

- *Selected Stylised Facts: Progress in terms of key indicators*

Year	FY1991	FY2001	FY2011	FY2020
Indicators				
GDP (in billion PPP\$) <sup>1</sup>	94.50	184.00	395.68	861.0 (347.0)
GDP growth (in percentage over preceding year) <sup>2</sup>	3.49 <sup>1</sup>	5.08	6.46	5.24 <sup>p</sup> (8.1 %) <sup>d</sup>
Per capita GNI per annum (in PPP\$) <sup>2</sup>	—	427.92	927.97	5098.0 (2064.0)
Population below poverty line (in percentage) <sup>2</sup>	58.8 <sup>a</sup>	48.9 <sup>b</sup>	31.5 <sup>c</sup>	20.5
Share of agriculture (as percentage of GDP) <sup>1</sup>	31.68	21.85	16.81	13.0
Foodgrains production (in million metric tons) <sup>2</sup>	19.32 <sup>b</sup>	26.76	34.51	39.0
Export earnings (in billion USD) <sup>3</sup>	1.72	6.47	22.93	33.7 (40.5) <sup>e</sup>
Remittance earnings (in billion USD) <sup>4</sup>	0.76	1.88	11.65	18.2
Export earnings as percentage of import payments <sup>5</sup>	49.48	69.28	68.12	62.29
External debt servicing (as percentage of export and remittance earnings) <sup>6</sup>	23.63	10.69	5.31	4.0
Export of Goods and Remittance: ODA	1.1	1.4:1	19.8:1	11.5:1
Degree of Openness of Bangladesh Economy (as per cent of GDP)	13.5	16.8	44.0	23.6 (30.8) <sup>e</sup>

Note: <sup>a</sup> Data for 1991-92; <sup>b</sup> Data for 2000; <sup>c</sup> Data for 2010; <sup>d</sup> GDP Growth for FY 2018-19; <sup>e</sup> FY 2019; <sup>p</sup> Provisional

Source: <sup>1</sup>World Development Indicators (WDI), World Bank; <sup>2</sup>Bangladesh Bureau of Statistics (BBS); <sup>3</sup>Export Promotion Bureau (EPB); <sup>4</sup>Bangladesh Economic Review; <sup>5</sup>Calculated from EPB and Bangladesh Bank data;

<sup>6</sup>Calculated from Economic Relations Division (ERD), EPB and Bangladesh Economic Review data.

# Section I. Introduction: Bangladesh Development Narrative- A Transformational Journey of Dual Graduation

## LDC Graduation

➤ Eligibility for LDC graduation

- Moving towards 2024 with increasing comfort zones

Graduation Thresholds: 2018 Triennial Review		
 Gross National Income (GNI) per capita	 Human Assets Index (HAI)	 Economic Vulnerability Index (EVI)
GNI per capita: \$1,230 or above Income-only: \$2,460 or above	66 or above	32 or below

## LDC Eligibility Scenario and Projected Values of GNI Per Capita, HAI and EVI

Indicators	2018		2021		2024	
	Threshold	Actual values	Threshold	Projected values	Threshold	Projected values
<b>GNI per capita (\$)</b>	1,230	1,274	1,245-1,270	1,730-1,780	1,345-1375	2,260-2,500
<b>HAI</b>	66 or above	73.2	66 or above	79.2	66 or above	86.3
<b>EVI</b>	32 or below	25.2	32 or below	24.8	32 or below	24.7

Source: Rahman and Bari in Bhattacharya (ed.), 2019.

# **Section I. Introduction: Bangladesh Development Narrative- A Transformational Journey of Dual Graduation**

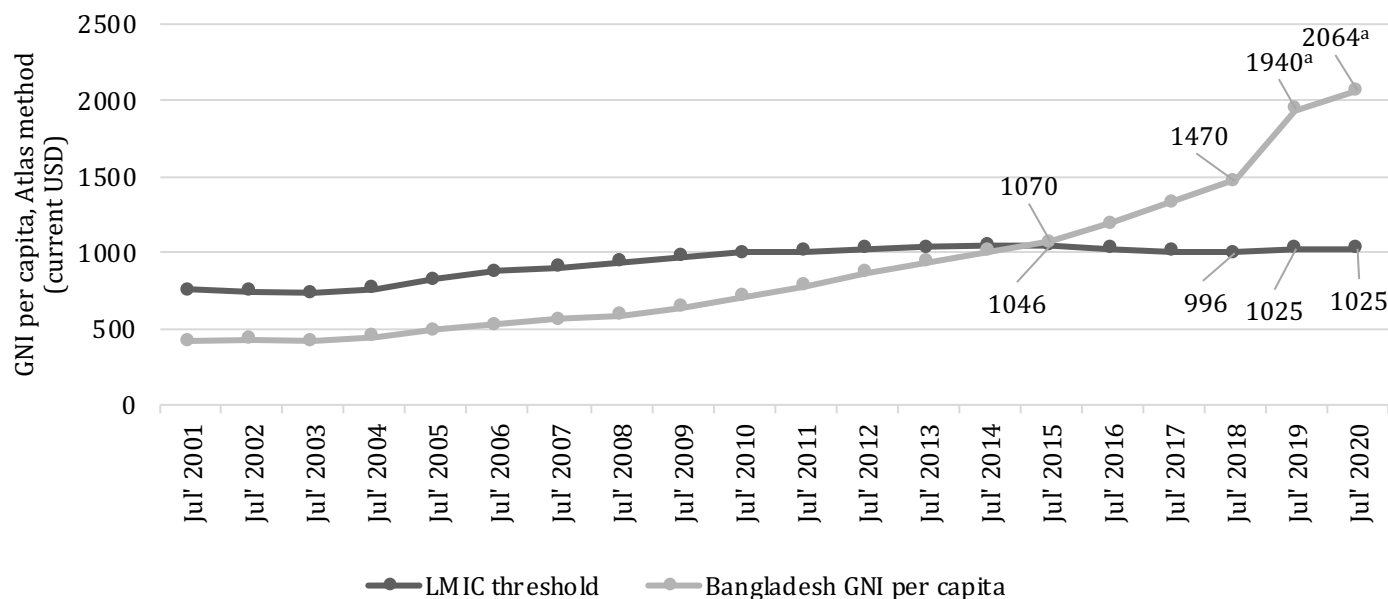
## ***Bangladesh's LDC Graduation***

- Of the 12 graduating LDCs Bangladesh is one of only two which has crossed the thresholds in terms of all three criteria in 2018
- Bangladesh's track record in terms of HAI and EVI indicates Bangladesh's achievements as regards critically important socio-economic parameters
- Will finally graduate, following two successive reviews, in 2024
- It is the first major LDC to graduate, so Bangladesh will be closely watched by the global community whether it can ensure smooth graduation, graduation with momentum and sustainable graduation

# Section I. Introduction: Bangladesh Development Narrative- A Transformational Journey of Dual Graduation

## *Bangladesh's Middle-Income Graduation*

**Trends of LMIC Thresholds and Bangladesh's Middle Income Journey**



Note: In current USD, according to the Atlas method. <sup>a</sup> Nominal GNI per capita

Source: World Bank.

# Section I. Introduction: Bangladesh Development Narrative- A Transformational Journey of Dual Graduation

- Bangladesh became eligible for graduation from LIC to LMIC in 2015 when the country's GNI per capita crossed the World Bank graduation threshold of 1045 USD (according to the Atlas method)
- The World Bank identifies four categories of countries which are identified primarily for purposes of operational lending activities, based on three year average GNI per capita, estimated according to the Atlas method. The thresholds are shifting numbers, estimated annually.
- The GNI per capita thresholds (atlas method 2019) are as follows:
  - for low income country (LIC): below USD 1025
  - for lower middle income country (LMIC) : between USD 1026 and 3,995
  - for upper middle income country : between USD 3996 and 12375
  - for developed country : USD 12,376 and above
- Bangladesh Perspective Plan (2021-2041) Vision 2041 Target: Bangladesh has set the aspiration of being an upper middle-income country by 2031 and a developed country by 2041
  - Required: an average GNI growth of 10 per cent per annum



# Section II. The Road Ahead: Emerging Scenario and Attendant Challenges

## *The Journey of dual transition: Key considerations*

- While the dual graduation testifies to Bangladesh's significant achievements in economic and social arena, six considerations need to be taken into cognisance in moving forward:
  - It should be kept in mind that the dual graduation refers to performance of the country according to selected indicators and sub-indicators. A country's readiness for graduation is assessed and measured only against those. Important indicators such as competitive strength, domestic resource mobilisation capacity, distribution and inequality, state of governance and accountability, and environmental sustainability, to name only a few, are not included among these criteria. However, these are critically important factors from the perspective of sustainable graduation and sustainable development
  - The two graduations will entail important implications in areas of market access and special and differential treatment enjoyed by Bangladesh as an LDC (originating from LDC graduation) and in terms of foreign borrowings (originating from the middle income graduation). A graduating country will need to be cognisant of these and be ready to address the associated challenges
  - One will have to keep in mind how indices such as HAI and EVI are calculated. Although weights are assigned to the various sub-indices, the HAI and EVI sub-indices conceal diverse level of attainment across the sub-indices

## Section II. The Road Ahead: Emerging Scenario and Attendant Challenges

- Higher debt and debt-servicing liability
  - Transition from grant to loan and concessional to non-concessional borrowings
  - From IDA-type to blended finance to non-concessional loan
  - Avoid debt trap
  - Diversify sources
  - The need to raise DRM capacity
  - Take advantage of Middle Income Graduation in global financial market
- Addressing the loss of ISMs
  - Loss of non-reciprocal and preferential market access (DF-QF-MA, TRIPS, TRIMS)
  - Bangladesh could lose USD 5.0 billion of exports (about 14.0 per cent of total exports)
  - Implications for export competitiveness
  - Attracting Foreign Investment, both direct and portfolio
  - Going for BFTAs and CEPA type RTAs
- Investment is going to play a critically important role in helping Bangladesh addressed the challenges of dual graduation

## Section II. The Road Ahead: Emerging Scenario and Attendant Challenges

- A new role in the WTO
  - Three considerations in the WTO
  - Reaping the benefits enjoyed as an LDC in the run up to 2024
  - A package of support for graduating LDCs
  - Bangladesh's stance in the WTO as a future developing country (*the new issues in the WTO*)
- Renewed emphasis on regional cooperation
  - Market and product diversification
  - Integration with Southern Asian markets
  - Deepen connectivities
  - Regional production networks and RVCs
  - Regional integration as a strategy towards strengthened global integration

# Section III. Addressing the Challenges of Dual Graduation: The Urgency of a Well-functioning Capital Market

- Bangladesh's dual graduation testifies to our country's continuing success in terms of key indicators of economic performance and socio-economic development
- This gives us confidence and conviction that we will be able to continue the narrative as we take the next lap of our journey
- We should take advantage of the strengths that inform our graduation and chart our next lap of journey and strategise accordingly

## ***However, no progression is linear, no success is automatic***

- Adverse impacts of Covid pandemic on our economy has added new challenges:
  - Poverty, inequality, unemployment
  - Widening Poverty: From 20.0 per cent to 30-35 per cent of people below the poverty line (new poors)
  - Deepening Inequality: Gini coefficient: From 0.48 to 0.52
  - Unemployment: About 17 per cent of the labour force became unemployed (newly unemployed)
- Domestic resource mobilisation: Revenue and Tax-GDP ratios are dismally low: when nominal GDP growth is about 14 per cent, our revenue growth fails to rise correspondingly
- Investment-GDP ratio: 32.2 per cent (Public: 8 per cent , Private: 24.2 per cent)
- Bangladesh will need to mobilise significantly larger investment to address the challenges of post-Covid future

# Section III. Addressing the Challenges of Dual Graduation: The Urgency of a Well-functioning Capital Market

*Capital Market is a reflection of an economy and its potentials. Capital market development will need to be aligned with 8<sup>th</sup> FYP Targets and Vision 2041*

- A renewed effort by the BSEC towards a developed Capital Market aligned with aspirations of a Developing Middle Income Country
- Vision: A transition from overwhelmingly bank-based investment financing to capital market-based financing

*Phasing-Sequencing-Pacing will be important*

- Deepening and broadening of the Capital Market: New sources, New instruments
- Good governance and transparency through regulatory enforcement and greater digital interface
- Human Resource, Modern Technology and Prudential Management
- Enforcement of rules and regulations through more effective supervision and monitoring
- Greater coordination and cooperation with involved key stakeholders (BSEC; FRC; BB; NBR)
- Doing away with contradictory regulations and interpretative ambiguities
- Fiscal incentives aligned with appropriate monetary policy
- Raising financial literacy and the role of professional investment advisors
- Connecting GoB plans to attract FDI with Capital Market development
- Fiscal incentives and removal of anomalies and incentivising bond market: Amended Finance Act 2020

# **Section III. Addressing the Challenges of Dual Graduation: The Urgency of a Well-functioning Capital Market**

- Enhancing reliability of disclosure
- Streamlining the role of Merchant Banks
- Publicly available mandatory disclosure for informed decision-making by investors and disclosure of price sensitive information and critical buying practices
- Measures to deal with investor complaints (grievance redressal)
- Listed companies to open investor relations desk
- Interactive software at DSE: Transmitting real time signals to investors
- Incentivising greater use of mobile platforms by investors

# Concluding Remarks

- While Bangladesh can genuinely take pride in her achievements, going forward *will not be a linear progression* of the past trends
- The dual graduation will significantly change the future scenario of Bangladesh's twenty-first century journey. The ongoing Covid pandemic has accentuated the challenges Bangladesh will be facing in near term future
  - These will create new demands for better regulations and better governance
- Bangladesh's policymakers will need to design appropriate strategies, backed by the needed homework, if Bangladesh is to avoid *middle income trap* and if *LDC graduation is to be sustainable*, and the potential opportunities originating from the post-graduation status are to be fully realised
- A developing, middle income Bangladesh deserves a well-functioning capital market that secures the interests of attracting investment and safeguards the interests of investors
- We want BSEC to succeed on both counts

# Thank You