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Abstract

Economy, Fiscal Sustainability and Recovery

Zahid Hussain

(Former Lead Economist, World Bank)

Covid-19 caused large and protracted disruptions to Bangladesh economy. GDP growth decelerated, reflecting slower growth in industry and services. Agriculture was resilient. Headline inflation remained stable, but food price volatility rose due to supply chain disruptions and temporary surges in hoarding. The pandemic reversed the country's steady trend of poverty reduction, at least temporarily, driven by widespread losses in employment and labor earnings in urban areas. Early evidence pointed to large effects on nutrition, food security and learning.

Macroeconomic stability stood its ground despite incipient pressure. External trade balance deteriorated but boom in remittances through formal channels and budget support from the development partners helped maintain accumulation of foreign exchange reserves. Fiscal management came under pressure as revenues declined but expenditure slowed as well. Consequently, public debt levels increased modestly by international standards.

Containment of the spread of the virus has set the economy back on a recovery path. Private consumption growth has picked up as have exports, but private investment rate is still depressed. International commodity price shocks have put external balance under pressure and increased the risk of cost push inflation. The threat of new variants; disrupted global supply chains; and lack of visible progress in reducing the cost of doing business will challenge the sustainability of growth moving forward.

Sustainable level of public debt obviates the need for major fiscal readjustments currently facing many emerging and low-income countries. Yet there are fiscal vulnerabilities, including low domestic resource mobilization, increased non-concessional external borrowing, rise in the ratio of public debt service-to-revenue and growing contingent liabilities. The level of uncertainty is additionally muddled in Bangladesh because of questions about the ability of the government to adjust if things go awry.