



Bangladesh 2013: Assessing Economic Implications of the Present Political Shocks

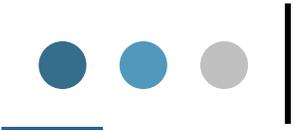
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CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H

a c i v i l s o c i e t y t h i n k t a n k



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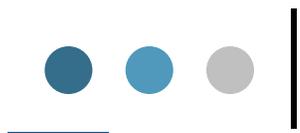
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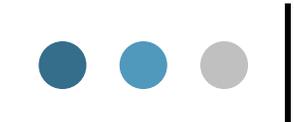
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This presentation reports the initial results of a study which is being done under the CPD programme titled “Independent Review of Bangladesh’s Development (IRBD)”

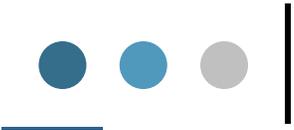


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5. *Assessing Implications of Political Shocks*
6. *Results of a CGE Modelling Exercise*
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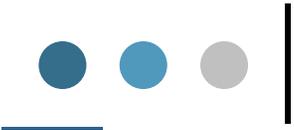
1. Backdrop

- In connection with a number of entrenched political conflicts, Bangladesh is currently experiencing a series of Hartals which is imparting serious shocks to the economy.
- Hartal, originally a Gujarati expression, was popularized by Mahatma Gandhi in the 1920s and 1930s when the national leader institutionalized the term by categorizing a series of anti-British movement under the given name 'Hartal'.
- In the 21st century, Bangladesh still continues the legacy of 'Hartal', which has become a "constitutionally recognized political method for articulating any political demand" (Banglapedia).
- Protests (desents) are not a new phenomenon, by any standards, in the Bengal society. Looking back, it is evident that protests have been there from the time of the *Zamindars*.
- On the positive marker, the politics of 'Hartal' played an influential role in the war of liberation in 1971. On the other hand, 'Hartal' became a recurrent phenomenon the years following the liberation war, where 'Hartal' has been used by each and every political party to express their demands in the form of economic agitation.
- Whatever the *raison-d-etre* for the imposition of 'Hartal' may be, the fact of 'Hartal' being economically harmful at multiple levels cannot be ignored.



1. Backdrop

- Due to the ongoing political agitations often manifested through violent and series of Hartals – concerns are being raised about their economic consequences
- CPD on 05 January 2013 argued that “It appears that, the government has settled ... with moderated economic growth, investment and employment prospects. Regrettably, even this modest ambition could come under serious challenge in view of the looming uncertainties in the political front.”
(http://www.cpd.org.bd/downloads/IRBD_FY13_FirstReading.pdf)
- Mr. David Cowen, the outgoing **IMF** mission chief for Bangladesh, and Mr. Rodrigo Cubero, the incoming IMF mission chief in Bangladesh on 02 April 2013, made the following statement: “... Unrest in recent months is affecting economic activity, with real GDP growth now expected to moderate to below 6 percent in fiscal year (FY) 2013...”
(<http://www.imf.org/external/np/sec/pr/2013/pr13101.htm>)



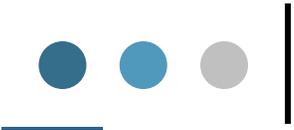
1. Backdrop

- The recent *Asian Development Outlook (ADO) 2013* highlighted that “Political instability in the run-up to elections is a risk.” (<http://www.adb.org/sites/default/files/ado2013-bangladesh.pdf>)
- According to *Moody's* (on 11 April 2013).... ” While official statistics are unavailable, the increased frequency of strikes with their more common occurrences of violence, are detrimental to Bangladesh’s economic stability.” (<http://www.thedailystar.net/beta2/news/increasing-strikes-credit-negative-moodys/>)
- Most recently the Finance Minister in a pre-budget meeting apprehended that, “We may not reach the targeted GDP growth...we shall not be able to reach the growth rate of 7.2 percent and also the export and import growths.” (http://www.newstoday.com.bd/index.php?option=details&news_id=2341719&date=2013-04-08)



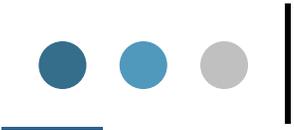
The Double Jeopardy

- The present analysis identifies a “double jeopardy” for the Bangladesh economy given the on-going violent political agitation
 - Slowdown in investment and economic growth
 - Political shocks on economy leading to further slowdown
- All these may not only compel Bangladesh to miss out on the emerging global opportunities, but also experience weakening of the attained socio-economic achievements.
- In this context, the paper seeks to assess and improve the current state of knowledge regarding the implications of political shocks to the Bangladesh economy. To that end, it reviews the relevant international literature, identifies the distinguishing feature of the Hartal phenomenon, conceptualizes the shock transmission channels to the economy and estimates the economic loss from Hartals deploying a CGE model. The paper concludes by providing a perspective regarding solution to the root problem.



2. *International Literature*

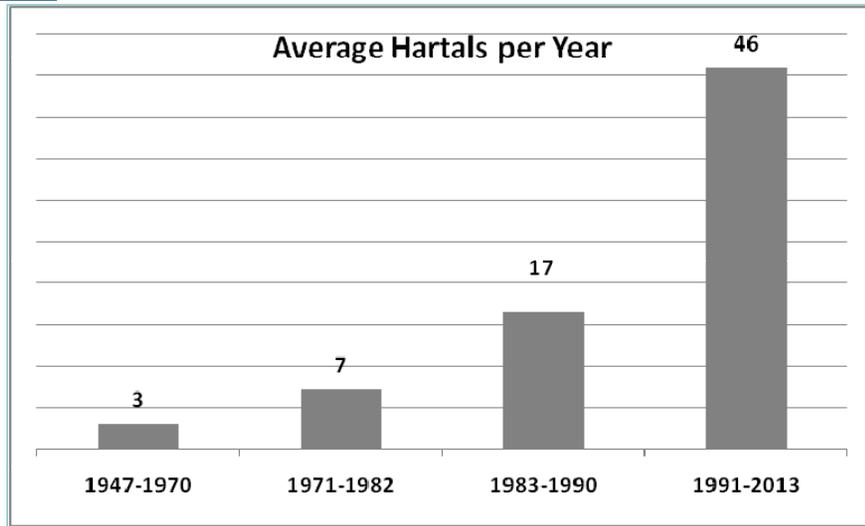
- Using econometric techniques (data on 119 countries for the period of 1970-1995), Ali (2001) finds that
 - the effect of political instability on economic growth is ambiguous
 - the instability of political regimes entails no significant impact on the accumulation of capital
 - policy uncertainty has a more significant impact on growth in comparison to instability of economic policies
- Aisen and Veiga (2011), in a study of 169 countries and using 5-year periods from 1960 to 2004, find that escalated levels of political instability are associated with lower levels of GDP growth rates.
- Alesina et al. (1996) concluded that countries having a high tendency of government collapse are significantly associated with lower growth rates than otherwise.
- Exploring four dimensions of political instability, namely, “mass civil protest”, “politically motivated aggression”, “instability within the political regime” and “instability of the political regime”, Pin (2006) show that different dimensions of political instability affects economic growth in a different facet (in a study of 98 countries in the 1984-2003 period).



2. *International Literature*

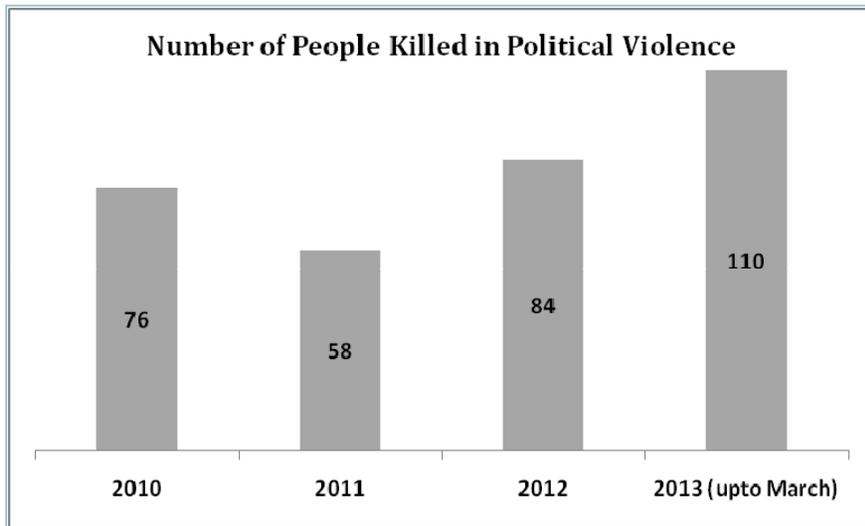
- Domestic conflicts often push countries into a “fragile” state.
 - Fragile and conflict countries do not have the ability to develop mutually constructive relations within their societies and often face a weak capacity to undertake governance functions (OECD 2012) .
 - These countries are more vulnerable to internal and external shocks, and in turn they face instability.
- Considering the Arab Spring which swept across the Middle East and North African (MENA) region, a very recent study by Khandelwal and Roitman (2013) analyzed different macroeconomic indicators of selected 11 countries of the MENA region.
 - The authors reached the conclusion that political instability caused a sharp deterioration in macroeconomic outcomes. Political instability coincided with a large decline in output and real GDP growth rates in the MENA region.
 - Whatever the fall of the actual growth rates, it is the case that output generally remains below potential for 4 years after the initial drop, taking around 5 years to recuperate.
 - The scenario can also be depicted in the case of unemployment rates, taking between 4 to 5 years to reach back to the pre-crisis level.

3. Bangladesh Experience



Source: Sangbadpatre Hartalchitra by Ajoy Dasgupta (2001); Ahmed, Imtiaz (2011); Odhikar; ASK and CPD

- Historical evidence shows that during the present democratic system initiated in 1991, the average number of Hartals per year has been more than three times higher (46 per year) compared to earlier regime

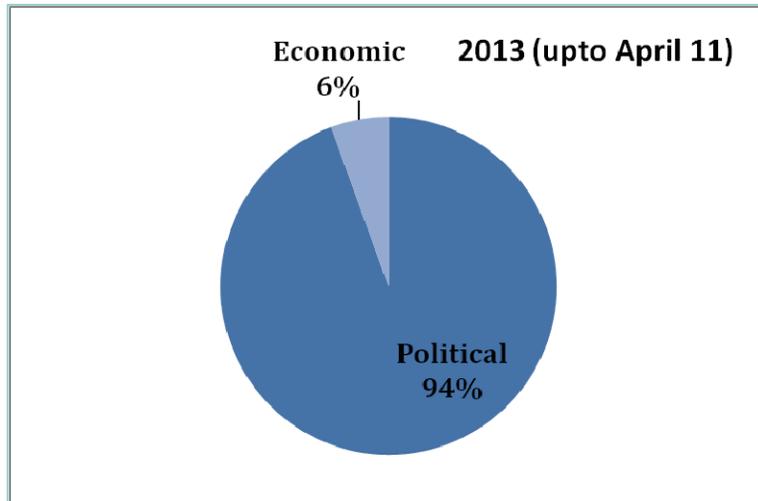
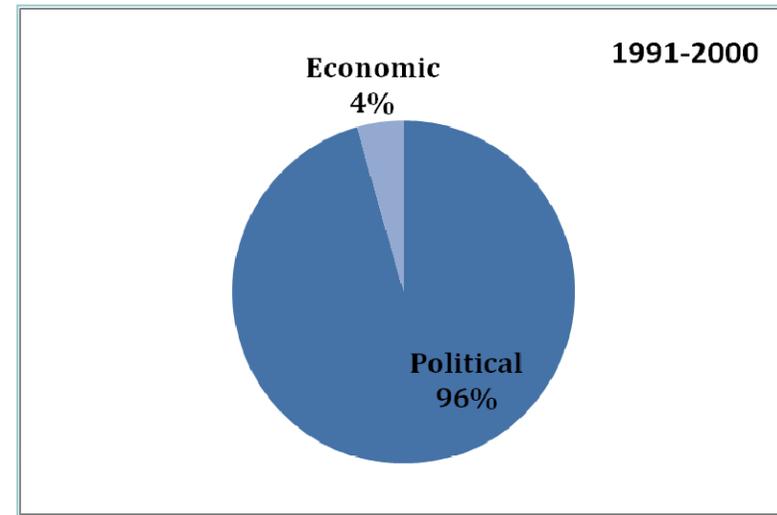
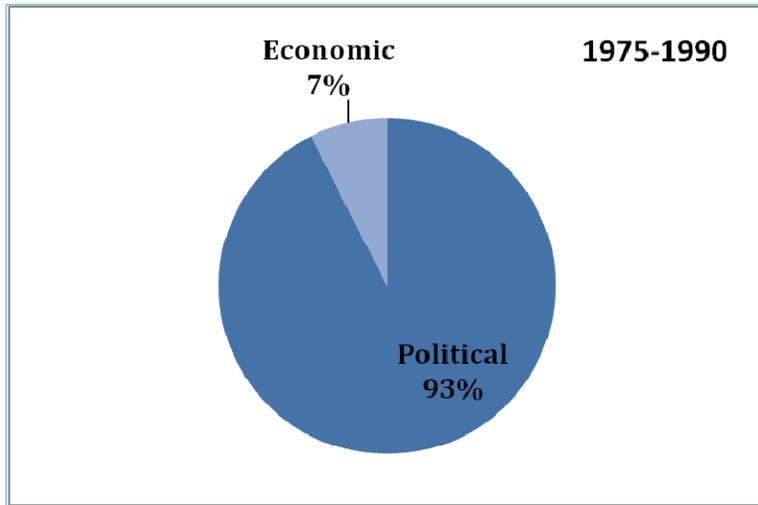


Source: ASK and CPD

- In the first three months of 2013, 110 people died in political violence which is more than that of for full 12 months of 2012.

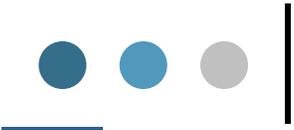


3. Bangladesh Experience



- Hartals have significant negative impact on economic performance; but Hartals are hardly called to pursue an economic cause.

Source: Sangbadpatre Hartalchitra by Ajoy Dasgupta; ASK and CPD



3. Bangladesh Experience

- **Eight** stylized facts about recent Hartal trends in the recent period (2013)
 1. Frequency (incidence) of Hartals have increased significantly
 2. Hartals are now being called even during the weekends
 3. Hartal, for an economic cause, has become more uncommon
 4. Hartal-opposing parties are also more active during the Hartal periods
 5. More decentralized Hartals have emerged, e.g. at District, Upazilla level
 6. New actors are entering as Hartal protagonists in addition to the traditional political actors
 7. Casualties and violence in Hartals have become more manifest
 8. Remarkable number of deaths of members of the law enforcing agencies in connection with Hartals



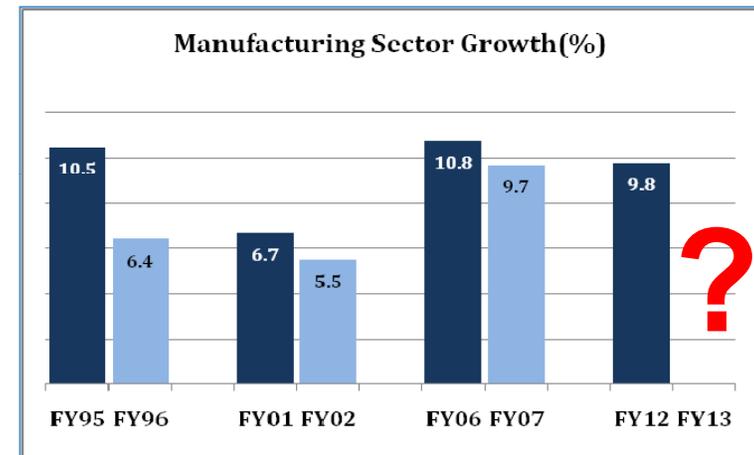
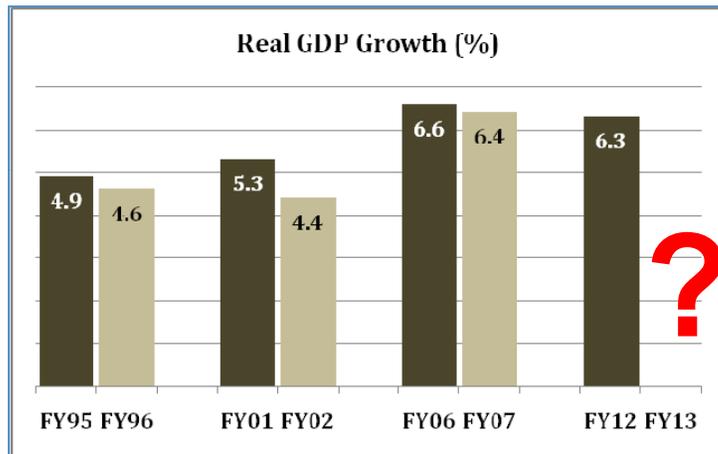
3. Bangladesh Experience

- The political instability in Bangladesh, particularly in the run up to the national parliamentary election is not uncommon.
- In all previous three occasions, since 1990s, significant impacts can be observed while assessing a number of macroeconomic indicators:

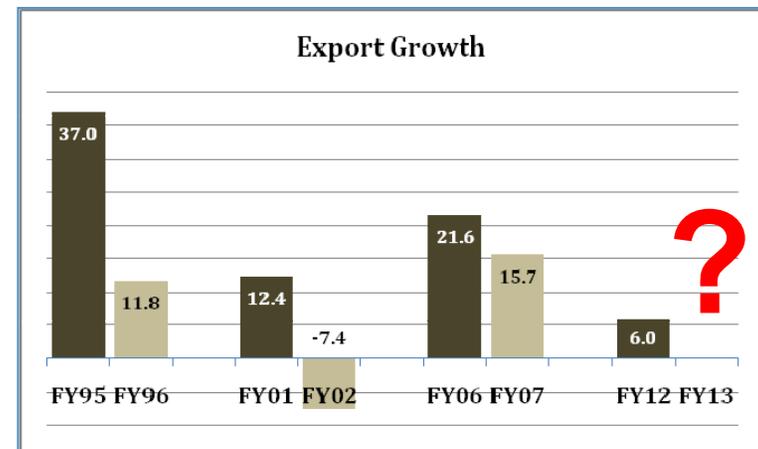
Macro	Domestic	External
Economic Growth	Revenue Collection	Export
Investment	ADP implementation	Import
Public Investment	Private Sector Credit	L/C Opening for Import
Savings	Call Money Rate	Foreign Aid Flow

3. Bangladesh Experience

- Historical experience suggests that in Bangladesh Hartals are more frequent during the last year of an elected government's tenure (FY96, FY02 and FY07).
- As a result that economic performance in final year tend to be depressed compared to its preceding year

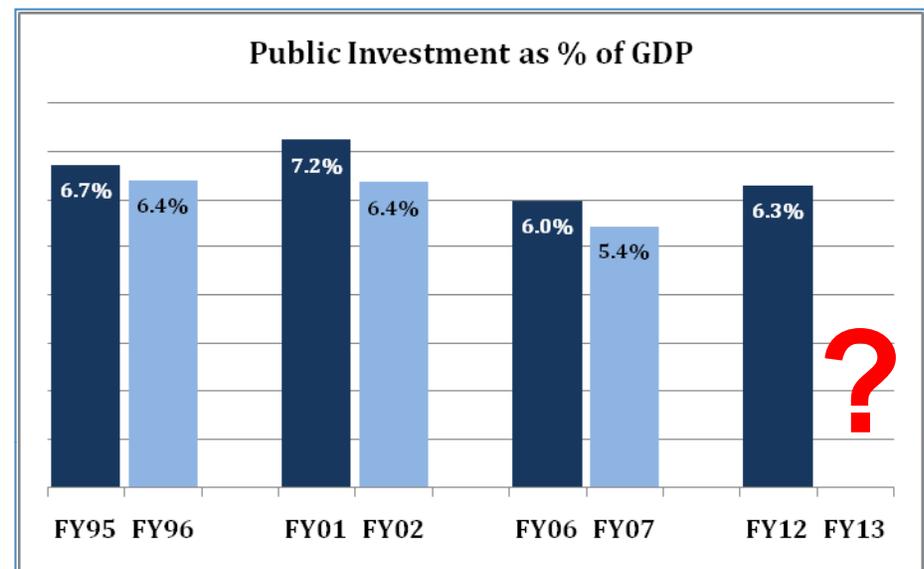
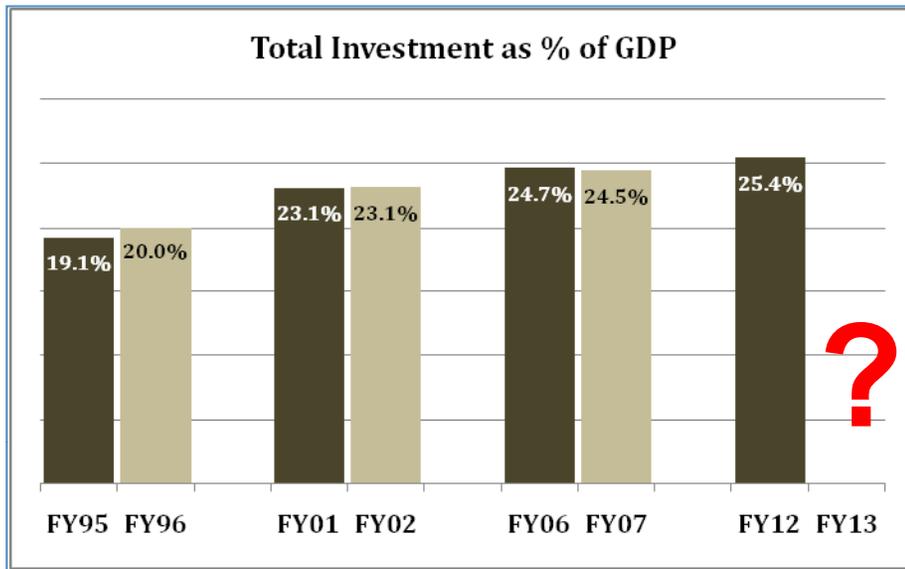


- Economic performance in terms of GDP growth, manufacturing sector growth and export in all three previous incidents argues in favour of the above statement.
- GDP growth rate fell in the range of 0.2-0.9 percentage points.





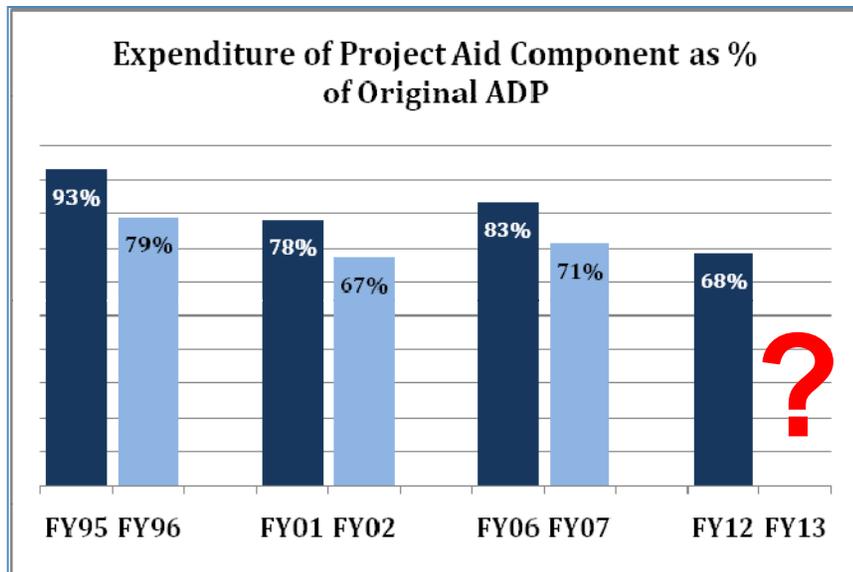
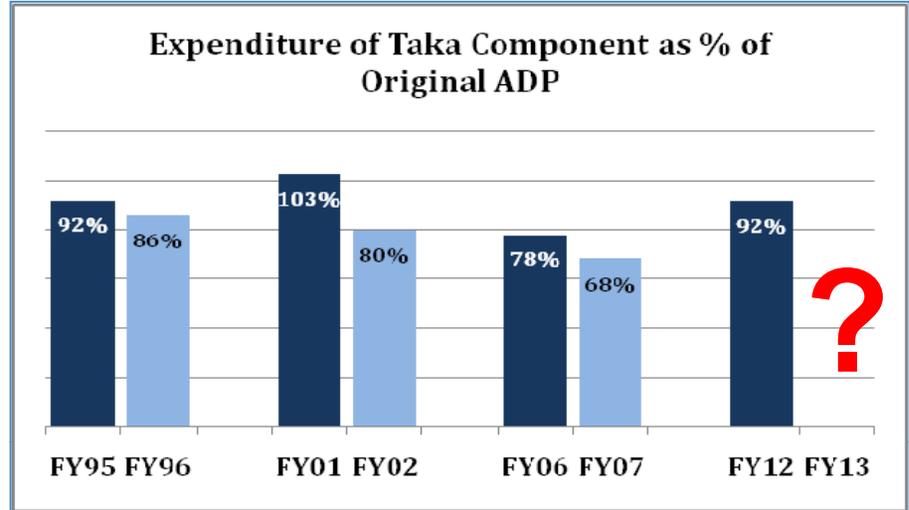
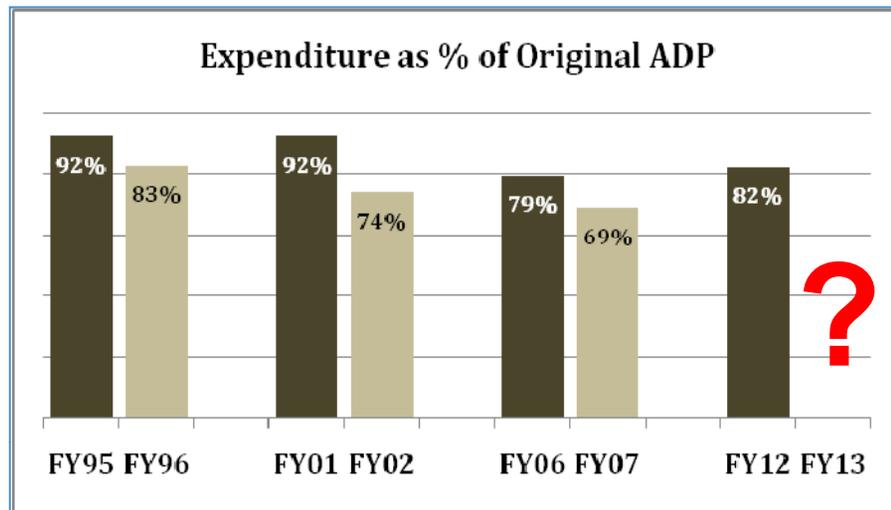
3. Bangladesh Experience



- Concurrently, the public investment (as a share of GDP) also experienced the similar trend.
- Except for 95-96, overall investment stagnated during the election year when the political instability prevailed in the country.



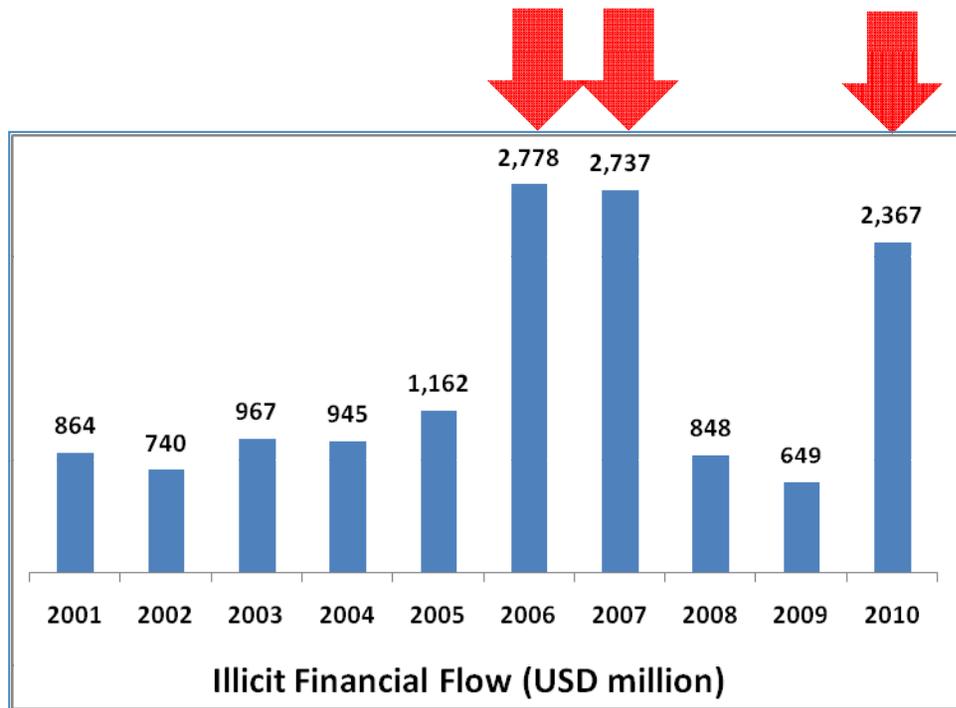
3. Bangladesh Experience



- It appears that ADP implementation in all election years were lower than their respective previous years.
- This is true for both Taka component and Project Aid component.



3. Bangladesh Experience

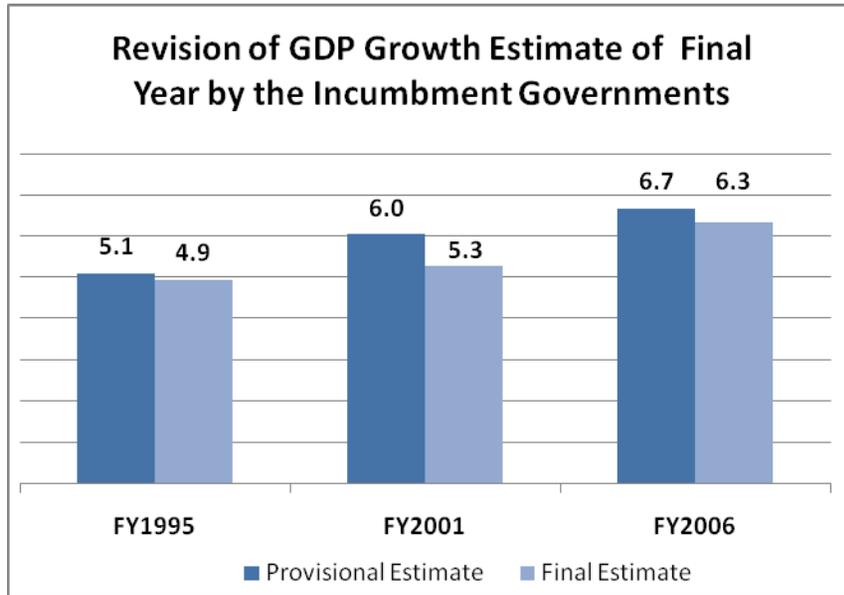


Source: Global Financial Integrity Report (2012)

- The recent estimates from Global Financial Integrity (GFI) showed that during the time of political transition, Bangladesh economy faced huge illicit financial outflow.
- In 2006 and 2007, on an average USD 2.7 billion illicit financial outflow took place.
- In 2010, the amount of illicit financial outflow was estimated to be USD 2.4 billion where as it was only 0.7 billion in 2009.



3. Bangladesh Experience



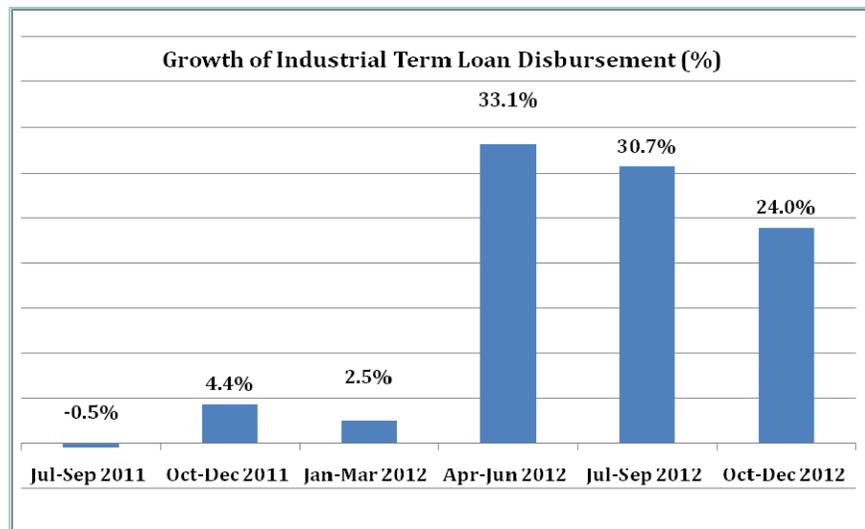
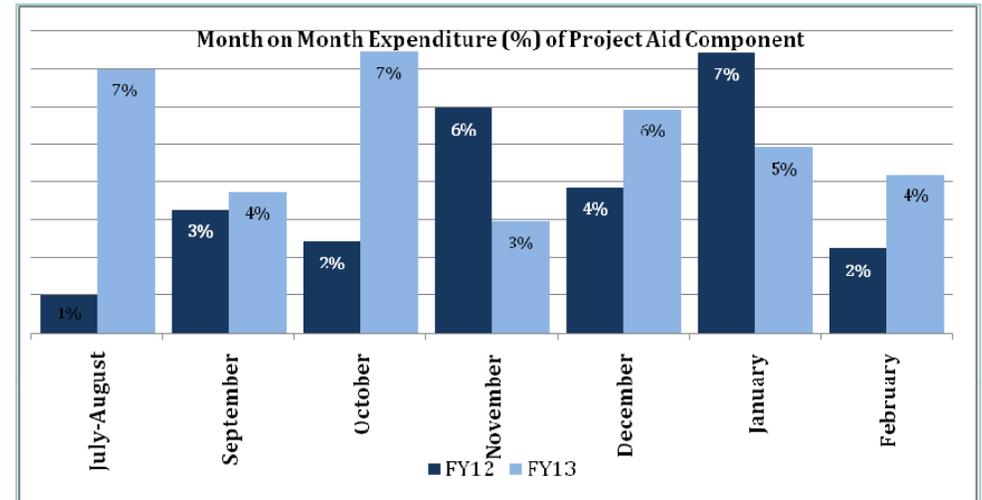
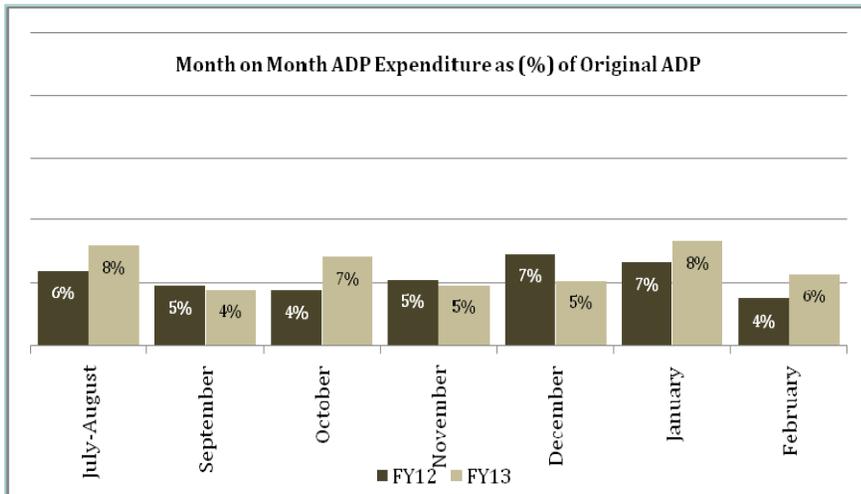
Reporter	Projected Growth (%)
Growth in FY2012	6.3
Target for FY2013	7.2
CPD, January 2013	<6.3
Bangladesh Bank, December 2012	6.1-6.4
World Bank, October 2012	<6.0
IMF, March 2013	5.8
ADB, April 2013	5.7

- Analysts explicitly agree that GDP growth rate in FY2013 will not meet its target (7.2%)
- The Finance Minister, however, is hopeful that it will be around 6.4%.
- Provisional GDP estimates by the incumbent government during the election year were later revised downward in all previous occasions (since 1990s).
- Will FY2013 be an exception?



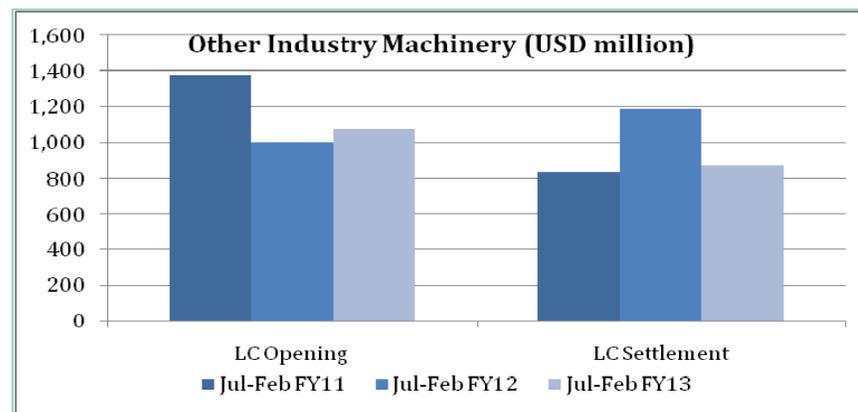
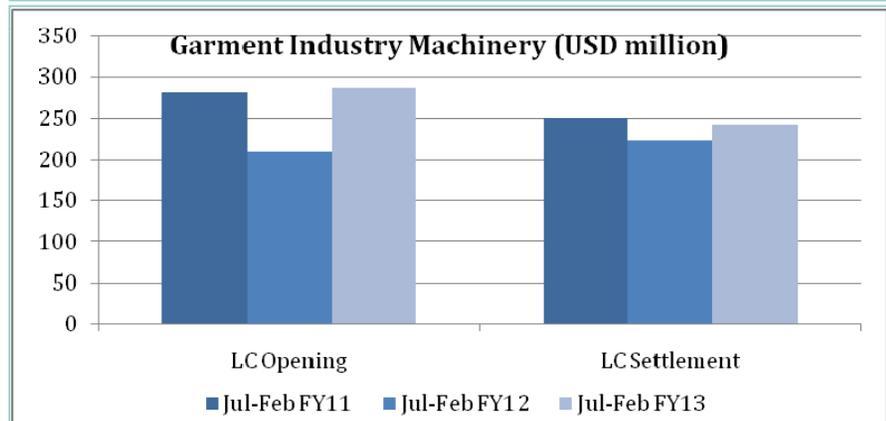
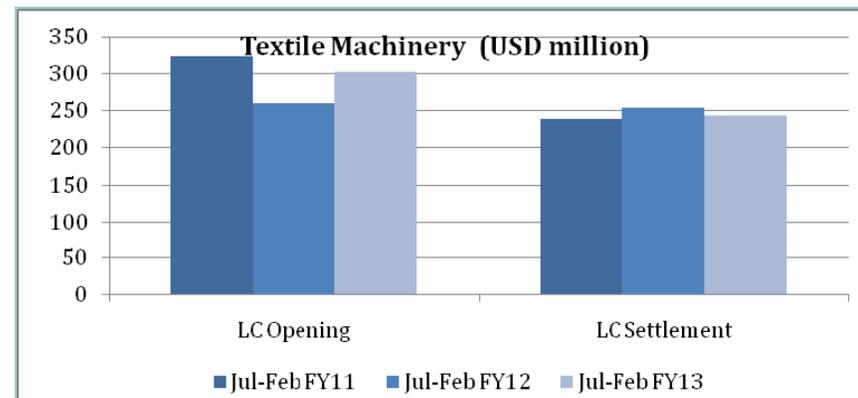
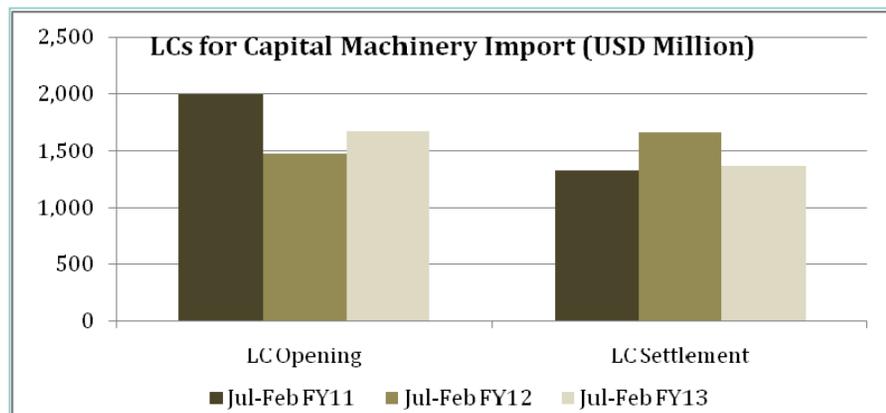
Investment

4. Current Growth-Investment Scenario



- ADP implementation in Jul-Feb was impressive (44% of allocation) compared to previous year (38%)
 - Accompanied by robust project aid off-take – where 36% was spent (26% in FY12)
- **But in case of private investment, one observes deceleration of term loan disbursement of growth rate.**

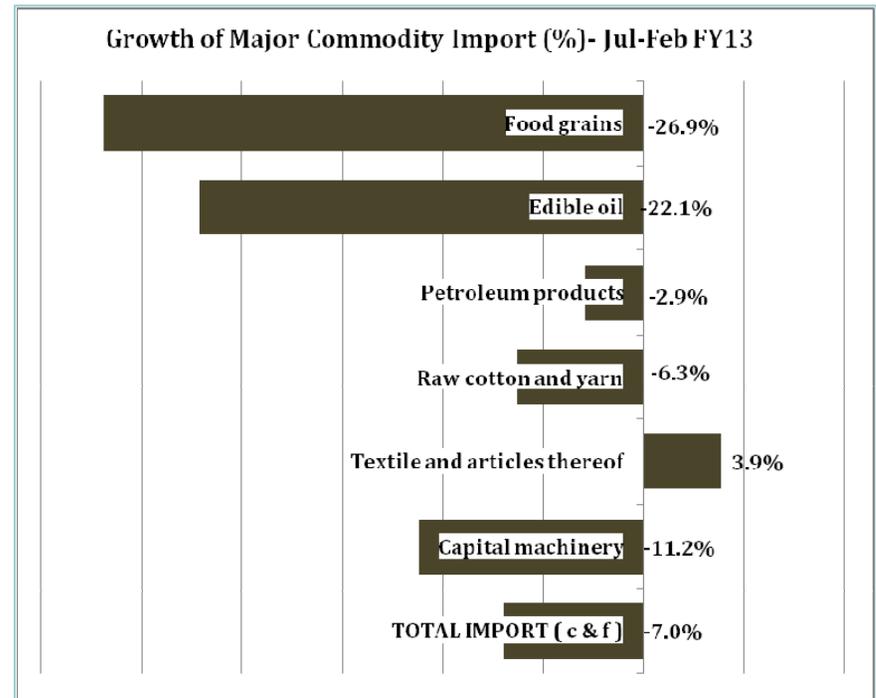
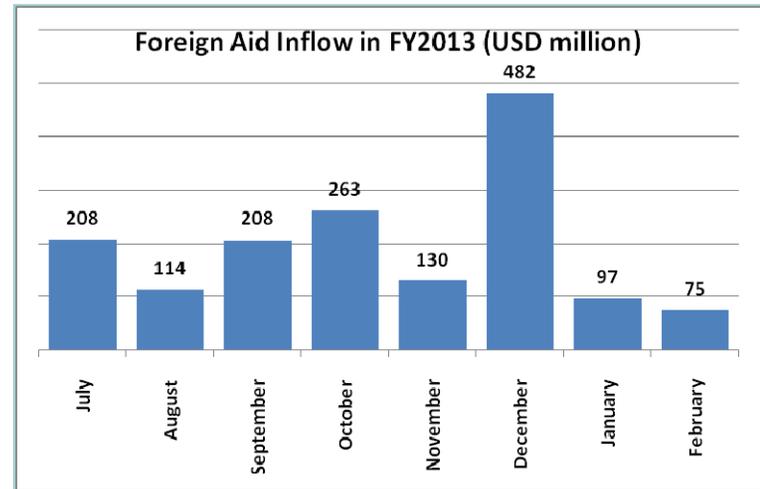
4. Current Growth-Investment Scenario



- Value of L/C opening of capital machinery import as a whole, and for textiles and garments in particular during the first eight months was higher than preceding year (2012), **but lower than 2011**
- **Curiously, L/C settlement figures in 2013 have been largely lower than 2012**

4. Current Growth-Investment Scenario

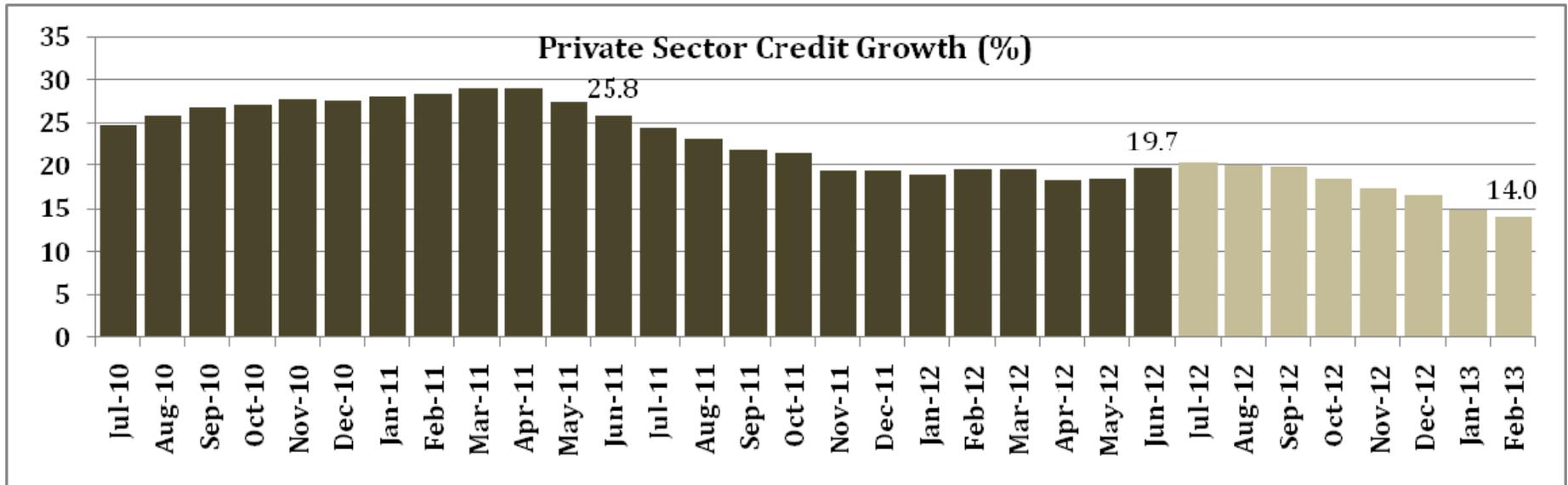
- **Regrettably, foreign aid disbursement during the last two months has declined**
- Can we apprehend that the pace of improvement in ADP implementation may face a setback in coming months?
- **Import of capital machinery in July-February of FY2013 was (-) 11.2% lower.**
 - This is higher than overall decline in import payments ((-) 7.0%)
- FDI inflow (net) during July-February was USD 950 million (863 million in FY2012) – on an average about USD 120 million in a month
 - **However, in February net FDI inflow was only USD 75 million**



4. Current Growth-Investment Scenario

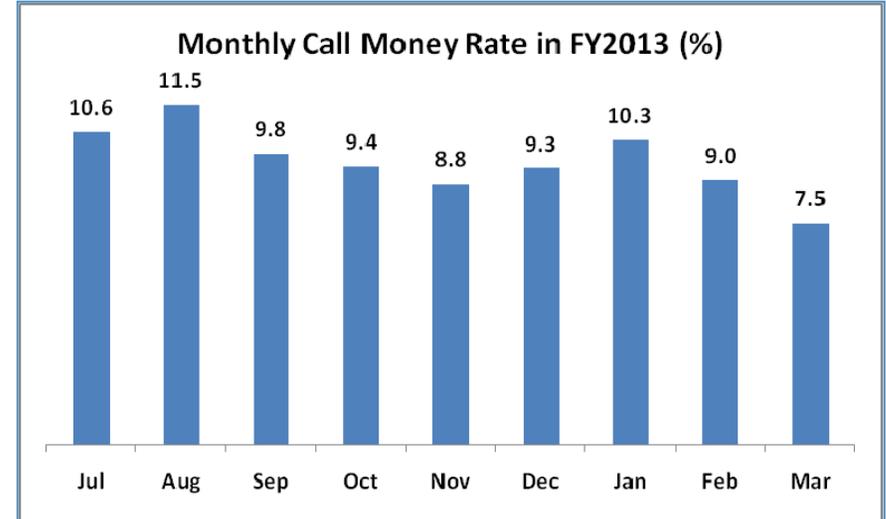
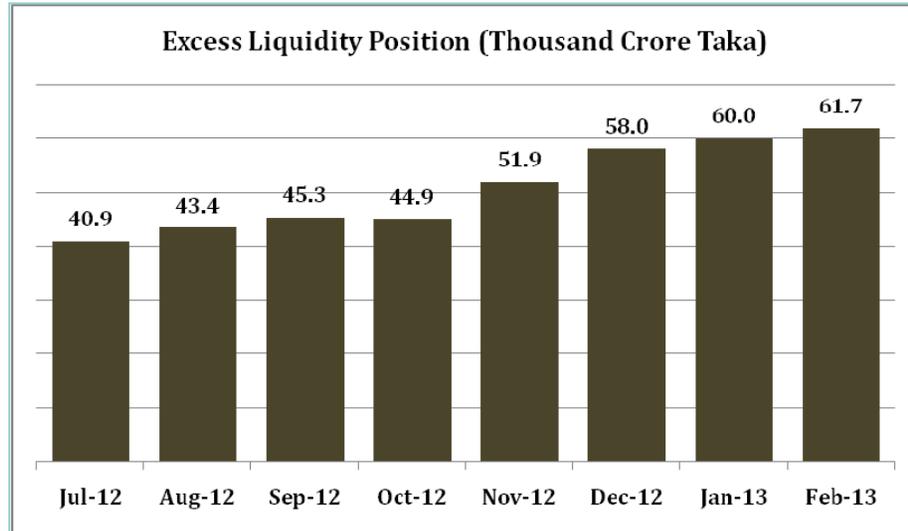
Investment

- **Growth of private sector credit has decelerated in recent months**
 - As of February 2013, growth of private sector credit stood at 14.0% - well below the MPS target for June 2013 (18.5%)
 - Indeed, this is the lowest monthly growth of private sector credit since September 2009.

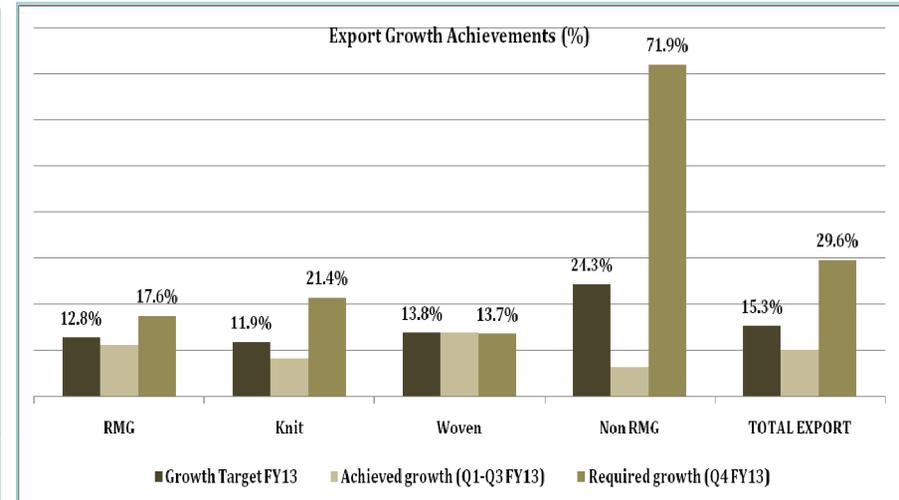
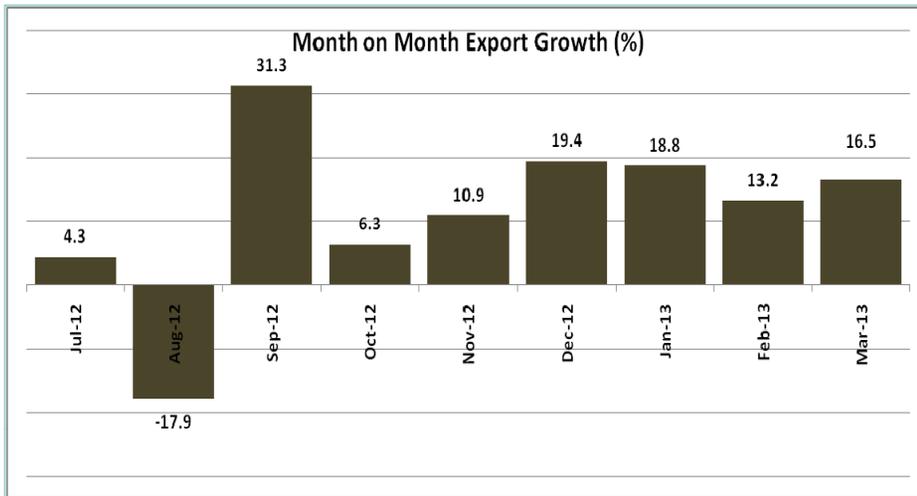


4. Current Growth-Investment Scenario

- Excess Liquidity in the banking system is on the rise since October.
 - In last eight months the excess liquidity increased by more than 50% - as it reached to Tk. 61.7 thousand crore
 - Indeed, 40% of total liquid assets are excess liquidity
- Call money rate in the recent months also declined
- In March 2013 the rate was 7.5% which was 10.6% in July 2012



4. Current Growth-Investment Scenario

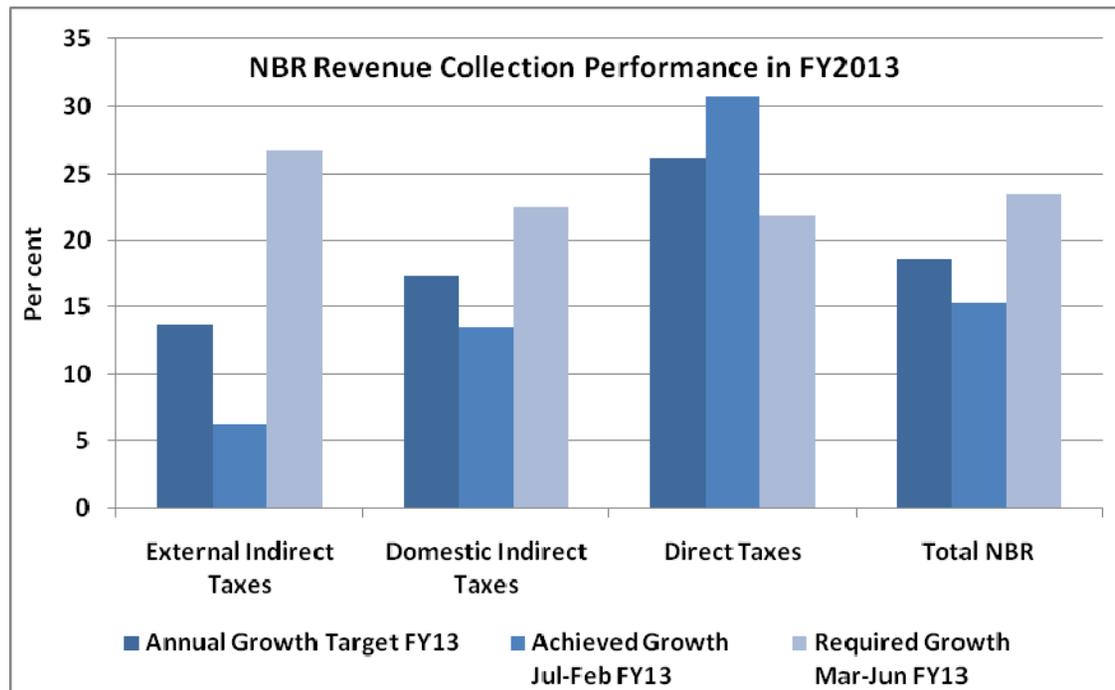


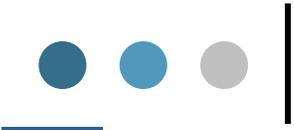
- Export performance over the past nine months of this fiscal year was way behind its target.
 - Hence, a 29.6% growth is required during the last quarter of FY2013
 - Given the global and domestic circumstances this performance of export can be termed impressive.
 - However, this performance of export was largely determined by “3-6 months old orders”. Weak demand since February 2013?

4. Current Growth-Investment Scenario

NBR's Revenue Mobilisation

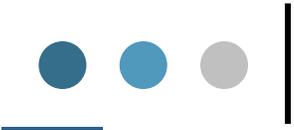
- Revenue collection of NBR in the first eight months were well below the target
 - Against a target of 18.6% the realized growth was 15.4%
- It is apprehended that the revenue collection shortfall in FY2013 could be about Tk. 3,000 crore





5. *Assessing Implications of Political Shocks*

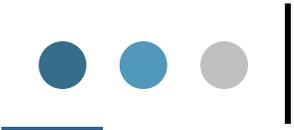
- Apparently, Hartals have significant adverse impacts on sectors such as transportation and the retail sector.
- Whereas, there are certain sectors in the economy which are perhaps less affected by Hartals (such as mining, agriculture and the energy sector).
- Whatsoever, extent of losses from Hartals varies in according to the nature of the every incidence
- There are a number of publicly available estimates which suggest that economic loss arising from Hartals is quite significant – however, most of these estimates have been found to be wanting in terms of estimation methodology deployed



5. Assessing Implications of Political Shocks

Source	Stated loss amount	Methodology	Timeframe
DCCI (2013)	Tk. 1600 crore (per day) USD 200 million (per day) 0.2% of GDP	Sector-wise surveys of the damage of Hartal have been calculated to reach to the estimate.	2013

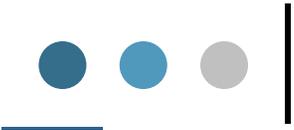
- It appears that the estimate did not consider “value added”, but the lost sales. So the estimate (as per this methodology) is on the high side?
- The sector perhaps ignored the fact that some part of economic activities do not have any significant impact due to Hartals or the output is adjusted during the later (non-Hartal) days - particularly given the availability of unused capacity



5. Assessing Implications of Political Shocks

Source	Stated loss amount	Methodology	Timeframe
UNDP (2005)	3 -4% of annual GDP 3-4 billion USD	Multiplying the number of Hartals by average GDP per working day to calculate annual GDP lost	1990s

- Economic loss per day was calculated by dividing the yearly GDP with number of working days (week days minus number of national holiday)
- The estimates ignore the fact that GDP is not generated by equal amounts each day
- GDP generated in holidays are ignored
- This would also imply that the entire GDP would be lost in each subsequent Hartal day; however, this is very unlikely as the effect of Hartals differs by sector and intensity
- The estimate (according to this methodology) is on the high side too?



5. Assessing Implications of Political Shocks

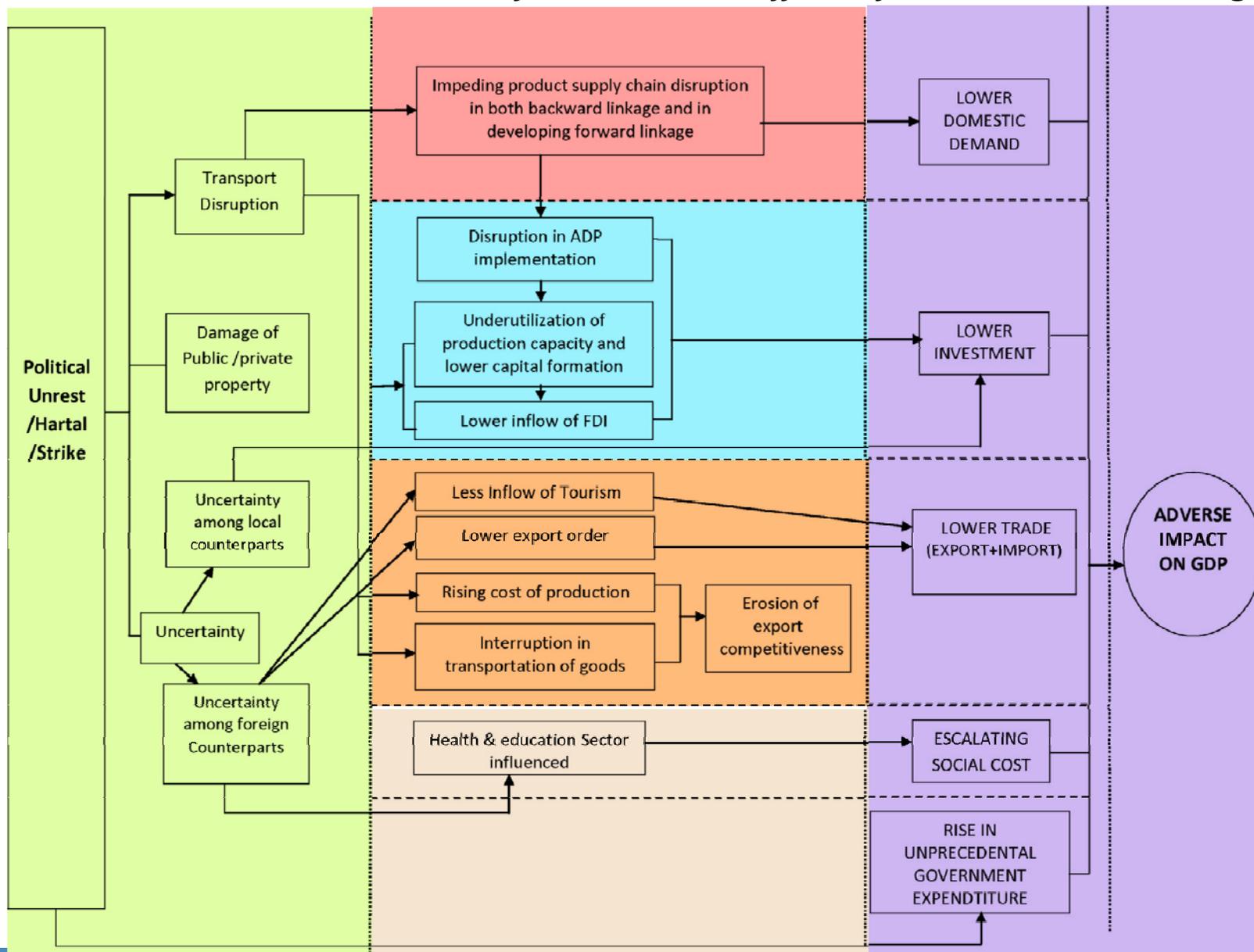
- There are a number of other estimates which has also tried to calculate the economic loss from Hartals – however methodologies used were not available.

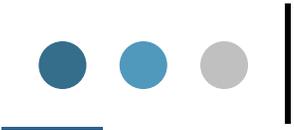
Source	Stated loss amount	Timeframe
World Bank, 2001	USD 50 million (per day)	1995-1999
BGMEA (2006)	Tk. 108 crore (per day for RMG sector) USD 14 million (per day for RMG sector)	2006
ICCB (2013) (Following UNDP 2005)	USD 200 million (per day)	Current scenario
FBCCI (2013)	Tk. 10,000 crore (per day) USD 1.3 billion (per day)	Current scenario

- According to the Economic Survey of Bangladesh approximately 50% of the GDP fabricating economy is not affected by the Hartal situation, and could be easily recuperated in the non-Hartal periods or during additional extended working hours.
- Indeed, it is not easy to make an accurate estimate of the economic loss arising from Hartals.

5. Assessing Implications of Political Shocks

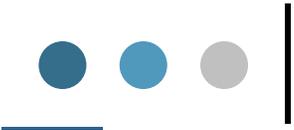
The Transmission Channels of the Economics Effects of Political Shocks in Bangladesh





5. Assessing Implications of Political Shocks

- The transmission channel portrayed above is based on the micro evidences of impact of Hartals on economic growth observed over the past 3-4 months
- Due to gravity of time the detail information and evidences were mentioned in detail



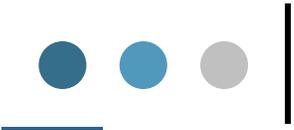
5. Assessing Implications of Political Shocks

- Along with the tangible economic costs, there are intangible losses too. For example, erosion of country's image.
- A number of international and bilateral agencies expressed their concerns which in effect will effect the image of the country in the long-run–
 - *UN Secretary-General Ban Ki-moon*
 - *Seven UNHRC Rapporteurs*
 - *USA*
 - *EU Parliament*
 - *EU Commission*
 - *UK Envoy*
 - *Japanese Government*
 - *Canadian Government*
 - *Human Rights Watch*
- **Bangladesh is once again in the global map for a wrong reason!**

6. Results of a CGE Modelling Exercise

- A major long term impact arising from is Hartals is found to be the loss of capital stock
- A CGE model exercise in Bangladesh context shows the economy-wide impact of decline in capital supply
- Shock: 1% decline in supply of capital (about 4,500 crore Taka)

Indicators	Outcome (% change from base year)	In Nominal Terms
GDP at market price	-0.9	-8,233 crore Taka (FY12) - 1.0 billion USD (FY12)
Exports	-2.4	-583 million USD (FY12)
Imports	-0.8	-284 million USD (FY12)
Household Consumption	-0.8	-5,487 crore Taka (FY12) - 694 million USD (FY12)
Government Deficit	7.1	2,280 crore Taka (FY12) 288 million USD (FY12)
Revenue Loss of the Government	-0.7	-796 crore Taka (FY12) - 101 million USD (FY12)
Employment of Labour	-0.9	-0.5 million(2010)
Fixed Investment	-0.1	-233 crore Taka (FY12) - 29 million USD (FY12)



7. Concluding Perspectives

- Given the adverse implications of the political shocks to the country's economy, two specific questions may be posed.
 1. **How to protect the economy from the political shocks within the current political parameters?**
 2. **How to resolve the root problem of the current political impasse to support the potential growth prospects of Bangladesh economy?**

Question One

How to protect the economy from the political shocks within the current political parameters?

- There are a number **adjustment measures** already deployed by both government and non-government agents
- One needs to recognize the fact that effective **policy space** in this context is extremely limited
- Indeed, macroeconomic policy instruments are inadequate as **Institutions** remain paralysed due to political agitations

Question Two

How to resolve the root problem of the current political impasse to support the potential growth prospects of Bangladesh economy?

- Immediate cessation of all **destructive and subversive activities** which are affecting lives, properties and growth potential
- Release of the **opposition political leaders** from jail to create an enabling environment for a dialogue
- Announcement of a **Road-map** along with a **Framework** towards holding of a free and fair election with participation of major-political parties



THANK YOU