Determinants of Growth in Bangladesh: An Economic Analysis.
Shah Mohammad Hamza Anwar*

Abstract

Economic growth is a foremost factor in determining the well-being of the people in a country. The present study is concerned with the determinants of GDP growth rate and its recent performance in the Bangladesh economy. As the most densely populated country in the world, Bangladesh is facing the problems of illiteracy, malnutrition, unavailability of medical facilities etc. Analyzing the determinants and macro – performance related growth, the study reveals that - Bangladesh is doing much better in some sectors, but the proper balance between sectors is required for achieving positive goals. Bangladesh has recently achieved success in a significant growth rate of GDP. But, the problem also remains that the growth rate of GDP is dominated by agriculture while production is weak. Among the influential factors of GDP, Inflation, exchange rate, population growth, savings ratio, investment ratio, corruption, political instability, labour force, unemployment, productivity growth, labour utilization etc. are found as dominant. The analysis suggests that inflation and budget deficit seemed to have a negative relation to real GDP growth rate and GDP per capita growth rate whereas GDP growth is significantly and positively related to investment (% of GDP). Besides the variables, there are also some quantitative and qualitative factors those affect the growth prospects of Bangladesh. When it comes to measure the sources of growth and draw economic policy conclusions, the present study will be helpful in getting an overall view of current problems and prospects of growth performance in Bangladesh.

Introduction

The economic development of Bangladesh has been hindered by the addition of newer problems to existing ones since the independence. The country has failed to achieve the cherished goals of development due to a dearth of resources, political unrest, and lack of good governance as well as widespread corruption in all levels of society. Bangladesh has been struggling with low growth rate along with poor production, high population growth rate, less competitiveness in the trade market etc. Agriculture has been the main economic sector with an employment of currently 75% of the populations’ professions but contribution towards GDP is only 22% (Alam 2009). They have examined the probable underpinning reasons causing agriculture as a less productive industry. Between 1991 and 2000, as much as US$10 billion of GDP was added, with GDP growing by 60 percent in real terms. The growth rate averaged about 5 percent per year, and with the reduction in the population growth rate, this translated into average GDP growth of 3 percent per capita (Temple, 2002). Again, poverty declined by an average of 1.1 percentage points a year between 1991-92 and 2000, while average per capita GDP grew by 3 percent a year. 2015 is the target year for the Millennium Development Goal for cutting the 1990 poverty rate in half. Various analyses suggest that if Bangladesh is to meet this target, it will need to raise its GDP growth rate to over 7 percent per annum on a sustained basis (Bangladesh Development Series, 1999). The broad objectives of the present study are – to find the determinants of GDP growth rate and

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to suggest policy to improve the growth performance of the country.

Human capital is one of the most effective means of reducing poverty and encouraging sustainable development. Yet, women in developing countries usually receive less education than men mainly for poverty. Gender inequality in education has a direct impact on economic growth through lowering the average quality of human capital. Using a panel regression methodology, it was found that human capital has a significant and positive impact on GDP, confirming the results of earlier studies. In addition, economic growth is indirectly affected through the impact of gender inequality on investment and population growth (Klasen, 1999, Andreossi-O’Callaghan 2002). Most economic models explaining growth rates use labour supply, physical capital investment, and increases in technology as explanatory variables. However, these models are not complete in predicting the actual growth rates of individual countries (Nicholas, 2002). Various obstacles were found such as conflict, corruption and high fiscal deficits in some countries of South Asia which has achieved impressive economic growth and poverty reduction in the past decade, mainly for economic reforms in the 1990s. If this growth accelerates to 10 percent a year, the region could see single-digit poverty rates by 2015 (Devarajan and Nabi, 2006; Vijayaraghavan and Ward, 2002, Lim, 2002). Productivity growth is the most important determinant of long-run potential output growth in Europe. Another determinant of growth, which can play an important role in fostering growth in Europe, is labour utilization, which is the hours, work per head of total population (Papademos, 2004). Bangladesh’s economic growth rate will have to be raised by an average of at least two percent a year if the country is to achieve its poverty reduction objectives. If the pattern of growth can be made more pro-poor, Bangladesh will get a greater poverty reduction impact from the growth that it achieves (Temple 2002). A strong domestic sector with more jobs and a larger market and an improved overall investment environment will provide a more stable source of income and will sustain Bangladesh’s economic growth (Mahmud, 2003). Patterns of growth, especially in terms of developments in employment and labour markets that take place as a result of growth, play an important role in producing varying results regarding poverty reduction and growth (Islam, 2004). Information on the dynamics of major macroeconomic variables during July-December 2005 were analysed to trace and track the movements of key macro economic performance indicators. The report makes a number of suggestions to address the policy challenges emanating from rising inflation, high interest rate, dwindling reserves and deteriorating balance of payment (Bhattacharya, 2006).

Methodology

To collect data on the determinants of growth rate of Bangladesh, the growth-influencing factors are identified from reviewing literature, based on the past performance and changes in the global economy. Various websites, articles, working papers and related journals are used for collecting data. Papers of the CPD, IMF, World Bank, ADB, BBS, Bangladesh Economic Review and other available related sources and literature are reviewed and followed in this study. The collected data are analysed and condensed systematically by using various statistical and economic tools. Simple statistical techniques and multivariate analysis is discussed to arrange
the quantitative data. The qualitative factors influencing growth has also been discussed to identify the problems and prospects of growth situation. In this study, the aim is to assess the impact on economic growth of Bangladesh. First, real GDP per capita in current prices and in national currency and then, log of GDP growth rate (%) is taken as dependent variables. To know the effect of other quantitative determinants on the growth rate, the following regressions are run:

\[
GDP_C = X_1 + X_2 \text{I-GDP} + X_3 \text{I-CPI} + X_4 \text{B-D GDP}
\]  

(i)

\[
\log GDP = X_5 + X_6 \text{I-GDP} + X_7 \text{I-CPI} + X_8 \text{B-D GDP}
\]  

(ii)

Here, the independent variables are:

- \text{I-GDP} = Investment (% of GDP)
- \text{I-CPI} = Inflation, consumer prices (annual %)
- \text{B-D GDP} = Budget deficit (% of GDP)

Then, individual regressions are run to observe the impact more clearly:

\[
\log GDP = X_9 + X_{10} \text{I-GDP}
\]  

(iii)

\[
\log GDP = X_{11} + X_{12} \text{I-CPI}
\]  

(iv)

\[
\log GDP = X_{13} + X_{14} \text{B-D GDP}
\]  

(v)

\[
GDP_C = X_{15} + X_{16} \text{I-GDP}
\]  

(vi)

\[
GDP_C = X_{17} + X_{18} \text{I-CPI}
\]  

(vii)

\[
GDP_C = X_{19} + X_{20} \text{B-D GDP}
\]  

(viii)

Discussion and Findings

During the nineties, the country has completed a major stabilization program which has reduced inflation as well as fiscal and current account deficits and established a healthy foreign exchange reserve position with low and sustainable debt-service liabilities. In the second half of the 1990s annual economic growth level was maintained at an average of 5.1% (below the originally targeted 7%), and inflation at a single-digit rate. Per capita income levels still remain distressingly low at around US$1 per day (ADB, 2005). According to a World Bank estimate, Bangladesh has the 47th largest economy in the world in terms of GNP based on the purchasing power parity method of valuation, and the 55th largest in terms of nominal GNP in U.S. Dollars (BILS, 2003). Bangladesh ranked as the 47th largest economy in the world in 2010, among the Next Eleven or N-11 of Goldman Sachs and D-8 economies, with a gross domestic product of US$269.3 billion (IMF, 2010).

Major Sectors Influencing Growth in Bangladesh Economy

Agriculture

Bangladesh is an agricultural country. The total cultivable area is around 24 million acres and there are a little more than 14.5 million cultivators. Around 21% of GDP comes from the Agriculture Sector (BBS, 2009). Narrow crop base, traditional technology, low productivity, low land-labour ratio, inequitable distribution of income and mass poverty are the characteristics of her agriculture. Jute, Tea, frozen shrimp, fish, leather goods and handicrafts are also major exportable commodities. Agriculture, to a large degree based on subsistence farming, is still the most
important sector with a share in the GDP of 20.60% and around 63% of the total labour force (BBS 2009).

**Industry**

The relatively small manufacturing industries are largely tied up to the processing of domestic raw materials and are dependent on imported raw materials and intermediate goods. The small and cottage industries are also characterized by traditional technology, low labour productivity and work-sharing practices among family members. In the first 4 months of FY2006, output of medium and large scale manufacturing expanded by a strong 13.3% while the output of small scale manufacturing during the first quarter of FY2006 increased by 9.5% over the same periods of the preceding year (BBS, 2006). Gas and electricity production also showed steady uptrend. The number of garment industry has grown from about 300 in 1978 to 4000 in 2008. The garments industry now employs 2 million people, 80% of them are women. Though the spectacular growth, the garment industry today is Bangladesh’s top earner that covers 76% of total exports. Export earnings rose from $31 million in 1983 to $6.40 billion in 2008 (Finance Ministry, Bangladesh, 2005, The Financial Express January, 2008). Bangladesh has wide coastlines offering opportunity for rapid development and contribution to international shipbuilding industry. If Bangladesh can secure at least 4% of the surplus order by 2015, she can have yearly turnover of $2 billion which is 2-3% increase in her national GDP (Asia-Pacific Weeks, 2009).

**Services**

The service sector accounts for more than 50 per cent of GDP which is the combination of petty services, retail trading, personal, social and community services and several informal, activities. Such services have grown both in urban as well as in rural areas. Rapid growth in cell phone usage, the emergence of new private TV channel networks and expanding health care services will also contribute to the strong growth in services sector. The trend of structural transformation has been continuing. The positive trend of structural transformation of broad sectoral share in GDP has been shown in the table -1 and figure 1 and 2.

Table 1 Trend of structural transformation of broad sectoral share in GDP and growth rate at constant prices (Base year: 1995-96)

<table>
<thead>
<tr>
<th>Sector</th>
<th>79-80</th>
<th>84-85</th>
<th>89-90</th>
<th>94-95</th>
<th>99-00</th>
<th>04-05</th>
<th>05-06</th>
<th>07-08</th>
<th>08-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>33.21</td>
<td>31.46</td>
<td>29.52</td>
<td>26.02</td>
<td>25.58</td>
<td>21.91</td>
<td>21.8</td>
<td>20.83</td>
<td>20.60</td>
</tr>
<tr>
<td>Industry</td>
<td>17.08</td>
<td>18.70</td>
<td>20.78</td>
<td>24.28</td>
<td>25.70</td>
<td>28.44</td>
<td>29.03</td>
<td>29.70</td>
<td>29.73</td>
</tr>
<tr>
<td>Service</td>
<td>49.72</td>
<td>49.84</td>
<td>49.70</td>
<td>48.70</td>
<td>48.72</td>
<td>49.65</td>
<td>49.14</td>
<td>49.47</td>
<td>49.67</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Bangladesh Bureau of Statistics (BBS)
Though there is a trend of transformation of the share of agriculture and industry sector, at the same time the share of service sector remained stagnant for several years except minor variation year to year. So, the structural transformation of GDP of Bangladesh reflects the positive trend of industrialization.

**Influencing Factors of Economic Growth**

In the past decade, Bangladesh enjoyed a positive growth rate in GDP and other macro economic indicators. GDP growth is estimated at 6% in FY2010, which was 5.88% in the preceding year shown in table-2 and reflecting a steady increase in domestic and external demand. Growth in FY2006 will be underpinned by steady expansion in industry and services, aided by a strong recovery in agriculture. The table (2) also shows that, inflation never exceeded double digits except during 1984 and 1985. But the trends in budget deficit seem to have been substantially higher during the 1990s which may affect the containment of the price stability. The figure 3 shows GDP growth rate has been moderate. After a slight decline in during the early 1990s, the growth rate has mildly risen thereafter. The significant observation with respect to the economic performance of Bangladesh is the relatively fast growth in per capita GDP shown in the figure. Relative to overall GDP growth, per capita GDP has grown faster. The population growth, often neglected in growth analysis may have played a significant role. The population growth is declining from around 2.30 in 1980s to around 1.40 in 2000s. There are several externalities of such a demographic transition. One dimension has been that while overall GDP growth has
been modest, the per capita GDP growth rate has risen from 0.88 per cent in 1982s to nearly 4 per cent during 2000s and exceeded 5% after 2005 (Table 2). To put a stable, liberalized macroeconomic environment with export-oriented growth, free from policy induced biases, various economic reforms were taken in the country specifically focused on lowering the inflation rates and on restraining fiscal and current account deficits.

**Table 2 Growth and Stability**

<table>
<thead>
<tr>
<th>Years</th>
<th>GDP growth rate (%)</th>
<th>Inflation rate</th>
<th>Budget deficit</th>
<th>GDP per capita growth rate</th>
<th>Population growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>3.48</td>
<td>7.47</td>
<td>0.89</td>
<td>0.88</td>
<td>2.26</td>
</tr>
<tr>
<td>1983</td>
<td>4.68</td>
<td>7.67</td>
<td>2.26</td>
<td>2.03</td>
<td>2.27</td>
</tr>
<tr>
<td>1984</td>
<td>4.85</td>
<td>14.58</td>
<td>0.6</td>
<td>2.19</td>
<td>2.25</td>
</tr>
<tr>
<td>1985</td>
<td>3.93</td>
<td>11.07</td>
<td>-1.07</td>
<td>1.29</td>
<td>2.26</td>
</tr>
<tr>
<td>1986</td>
<td>4.34</td>
<td>9.81</td>
<td>-0.41</td>
<td>1.69</td>
<td>2.25</td>
</tr>
<tr>
<td>1987</td>
<td>4.18</td>
<td>9.87</td>
<td>-0.9</td>
<td>1.56</td>
<td>2.18</td>
</tr>
<tr>
<td>1988</td>
<td>2.89</td>
<td>7.41</td>
<td>-0.72</td>
<td>0.33</td>
<td>2.19</td>
</tr>
<tr>
<td>1989</td>
<td>2.52</td>
<td>6.05</td>
<td>-0.32</td>
<td>0.02</td>
<td>2.17</td>
</tr>
<tr>
<td>1990</td>
<td>6.63</td>
<td>6.13</td>
<td>-5.9</td>
<td>4.1</td>
<td>2.14</td>
</tr>
<tr>
<td>1991</td>
<td>3.34</td>
<td>6.36</td>
<td>-5.5</td>
<td>1.47</td>
<td>2.04</td>
</tr>
<tr>
<td>1992</td>
<td>5.04</td>
<td>3.63</td>
<td>-4.5</td>
<td>3.2</td>
<td>1.98</td>
</tr>
<tr>
<td>1993</td>
<td>4.57</td>
<td>3.01</td>
<td>-4.3</td>
<td>2.78</td>
<td>1.88</td>
</tr>
<tr>
<td>1994</td>
<td>4.08</td>
<td>5.31</td>
<td>-4.6</td>
<td>2.3</td>
<td>1.8</td>
</tr>
<tr>
<td>1995</td>
<td>4.93</td>
<td>8.52</td>
<td>-5.3</td>
<td>3.12</td>
<td>1.81</td>
</tr>
<tr>
<td>1996</td>
<td>4.62</td>
<td>4.06</td>
<td>-4.4</td>
<td>2.82</td>
<td>1.75</td>
</tr>
<tr>
<td>1997</td>
<td>5.39</td>
<td>5.21</td>
<td>-3.7</td>
<td>3.57</td>
<td>1.55</td>
</tr>
<tr>
<td>1998</td>
<td>5.23</td>
<td>8.29</td>
<td>-4.2</td>
<td>3.41</td>
<td>1.51</td>
</tr>
<tr>
<td>1999</td>
<td>4.87</td>
<td>6.23</td>
<td>-5.4</td>
<td>3.6</td>
<td>1.41</td>
</tr>
<tr>
<td>2000</td>
<td>5.94</td>
<td>2.38</td>
<td>-6.2</td>
<td>4.6</td>
<td>1.41</td>
</tr>
<tr>
<td>2001</td>
<td>5.3</td>
<td>1.94</td>
<td>-5</td>
<td>5.2</td>
<td>1.41</td>
</tr>
<tr>
<td>2002</td>
<td>4.4</td>
<td>2.79</td>
<td>-4.6</td>
<td>3.1</td>
<td>1.50</td>
</tr>
<tr>
<td>2003</td>
<td>5.3</td>
<td>4.38</td>
<td>-3.4</td>
<td>3.8</td>
<td>1.50</td>
</tr>
<tr>
<td>2004</td>
<td>6.3</td>
<td>5.83</td>
<td>-3.2</td>
<td>4.9</td>
<td>1.50</td>
</tr>
<tr>
<td>2005</td>
<td>5.6</td>
<td>6.5</td>
<td>-3.5</td>
<td>4.2</td>
<td>1.49</td>
</tr>
<tr>
<td>2006</td>
<td>6.63</td>
<td>7.5</td>
<td>-3.3</td>
<td>4.6</td>
<td>1.49</td>
</tr>
<tr>
<td>2007</td>
<td>6.43</td>
<td>7.22</td>
<td>-3.2</td>
<td>5.33</td>
<td>1.47</td>
</tr>
<tr>
<td>2008</td>
<td>6.19</td>
<td>9.93</td>
<td>-5.4</td>
<td>5.24</td>
<td>1.45</td>
</tr>
<tr>
<td>2009</td>
<td>5.88</td>
<td>6.66</td>
<td>-3.3</td>
<td>5.07</td>
<td>1.45</td>
</tr>
</tbody>
</table>

Source: World Development Indicators (WDI) CD-ROM 2002,
World Bank, (2002) and Bangladesh Bureau of Statistics (BBS)
Regression Analysis

GDP growth rate and per capita GDP are influenced by investment ratio because of output growth. So, it may be a determinant of growth prospects in Bangladesh. Growth is also influenced by inflation and budget deficit as these are the major macroeconomic variables.

Table 3 OLS Estimators for GDP_C and Log_GD Determination (Period, 1982-2006)

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Dependent variable, Real per capita GDP (GDP_C)</th>
<th>Dependent variable Real GDP growth (of logarithms)(Log_GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-12160.161***</td>
<td>0.337 (2.450)</td>
</tr>
<tr>
<td>I-GDP</td>
<td>1302.586***</td>
<td>1.133E-02 (1.916)</td>
</tr>
<tr>
<td>I-CPI</td>
<td>171.353</td>
<td>1.134E-02 (1.333)</td>
</tr>
<tr>
<td>B-D GDP</td>
<td>-14.277 (-1.315)</td>
<td>-1.404E-02 (-0.044)</td>
</tr>
<tr>
<td>No. of observations</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>R2</td>
<td>0.837</td>
<td>0.353</td>
</tr>
<tr>
<td>Adjusted R2</td>
<td>0.812</td>
<td>0.256</td>
</tr>
<tr>
<td>F</td>
<td>34.212</td>
<td>3.641</td>
</tr>
</tbody>
</table>

*Coefficients are statistically significant at 5% level, ** at 1% level and *** at 0% level. ‘t’ ratios are in the parentheses.

Here, I-GDP = Investment (% of GDP)  B-D GDP = Budget deficit (% of GDP)
I-CPI = Inflation, consumer prices (annual %)
Linear form may be assumed among these variables and for easier application Ordinary Least Square (OLS) method can be applied to analyze the influencing factors of economic growth in Bangladesh. The dependent variable GDP per capita (GDP_C) is defined by adjusting population and Log_GDP is the logarithmic form of real GDP growth rate. First, the impact of investment, inflation and budget deficit is estimated together in a regression equation for each of the dependent variables. The regression results presented in the table 3, where real GDP growth (of logarithms) (Log_GDP) is dependent variable; the model is called the Log-Lin model or semi-log model because the regressand here appears in the logarithmic form. The slope coefficient measures the constant proportional or relative change in the dependent variable for a given absolute change in the value of regressors (here, I-GDP, I-CPI and B-D GDP). In the above regression, in case of GDP_C, the model is well explained by the explanatory variables. The R² is 0.837 and adjusted R² is 0.812. The constant term and the investment coefficients are highly significant and the coefficient of B-D GDP is negatively related to the dependent variable. On the other hand, no explanatory variables are significant to Log_GDP. Both the explanatory power, as well as the statistical significance of each of these individual variables, is extremely low in Log_GDP. The R² values are found to be staying at a lower level because of the omission of some relevant determinants like unemployment, balance of payment, exchange rate etc. The continuous data of unemployment is not calculated and not found. The F ratio always shows that the included determinants are significant.

To assess the cause-effects of the macro fundamentals on growth, the following regressions are estimated (Table 4). Both GDP growth rate in logarithmic form as well as per capita GDP is taken as dependent variables, while the same set (as table 3) of independent variables are taken in separate regressions. What is remarkably observed from both of the tables is that, GDP growth is strongly related to investment-GDP ratio with a high R² and highly significant constant terms. Budget deficit and inflation coefficients are negatively related to GDP growth though not significantly in all cases. The analysis thus suggests that inflation and budget deficit seemed to have a negative relation to real GDP growth rate and

Table 4 OLS Estimators for EPW Determination for GDP_C and Log_GDP Determination by Individual Regression (Period, 1982-2006)

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Dependent variable, Real GDP growth (of logarithms) (Log_GDP)</th>
<th>Dependent variable, Real per capita GDP (GDP_C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.435*** (5.884)</td>
<td>-11135.01*** (-4.598)</td>
</tr>
<tr>
<td></td>
<td>0.706*** (13.726)</td>
<td>20221.92* (6.654)</td>
</tr>
<tr>
<td></td>
<td>0.600*** (19.803)</td>
<td>8189.21*** (4.912)</td>
</tr>
<tr>
<td>I-GDP</td>
<td>1.247E-02*** (3.227)</td>
<td>1323.73*** (10.449)</td>
</tr>
<tr>
<td>I-CPI</td>
<td>-6.218E-03 (-0.856)</td>
<td>-1045.72 (-2.439)</td>
</tr>
</tbody>
</table>
GDP per capita growth rate whereas GDP growth is significantly and positively related to investment (% of GDP). Besides the variables, there are also some quantitative and qualitative factors those affect the growth prospects of Bangladesh.

**Inflation and Exchange Rates**

Inflation is on an upward trend which has been caused by the depreciation of the domestic currency (Taka), an increase in food prices, public utilities, rise in international commodity prices and an increase in the domestic administered price of oil. So, the reason for such inflation is “cost push” rather than “demand pull”. Taka continues to depreciate due to rising demands for foreign exchange to pay for oil and other essential imports. Bangladesh should carefully analyze the trade off between growth and inflation, and the government should strive to keep the inflation at low levels to achieve stability. Over a period of more than a decade Bangladesh pursued a flexible exchange rate policy. Introducing the free floating exchange rate did not bring any significant instability in the economy so far. Rapid development of private sector with concomitant increased credit flow; much higher growth in import of capital machinery and primary goods due to devastating flood and oil price hike in international market were mainly responsible for the main reason of the adverse situation of exchange rate. Due to continued monitor and supervision by the central bank, the exchange rate remained quite stable.

**Table 5 Average rates of Foreign Exchange with US Dollar.**

|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|

Source: Statistics department, Bangladesh Bank.

**Population growth and problems**

According to the census 2001, density of population per square kilometer is 839, and the number is 901 by the ‘Vital Registration Survey, 2002’. The growth rate of population is 1.45 percent in 2009 compared to 2.06 percent back in 1991(Table 2).
Though the growth rate is relatively on the declining trend but total population is continuously increasing. It has produced enormous pressure on this small size of landscape. The most serious implication of population growth will be observed in the social sector. For instance, in 1995 teacher-student ratio was nearly 1:70. The government is committed to ensure universal primary education and improve teacher-student ratio to 1:50, it will require almost double the present level of resources to provide more teachers, class room facilities, equipment and institutions. In the health sector a serious demand for services exists for doctors, nurses, medicine, hospital care, and so on. At present, doctor - population ratio is 1:5506; hospital bed-population ratio is 1:3231 and per capita health expenditure is Tk.135 per annum. Increase in population will adversely affect both GDP and GNP growth per capita. Due to population growth momentum, number of working age population (15-59 years) is increasing rapidly (BBS 2003); Hence, the economy will have to create more job opportunities to employ its working age population to generate income. Population increase will have an obvious adverse impact on per capita food production and food availability for the growing population.

**Investment Ratio as a Percentage of GDP**

Due to the creation of investment friendly environment generated through appropriate measures including the reduction of investment expenditure local and foreign investments have been rising and private sector investment is gradually increasing. The share of public sector in total investment is gradually decreasing and the contribution of private sector investment is increasing day by day (figure 4) during 1982 to 2009(Source: Ministry of Finance). Telecommunication is a promising sector and a key source of rising country’s investment over the last decade. The role of investment in public goods such as transport, infrastructure and basic health in bringing growth to rural areas is important for the country’s development. Besides, the government offers a variety of incentives for attracting foreign investments which include provision for setting up Export Processing Zones (EPZs) in the private sector, establishment of new EPZs, expansion of Dhaka EPZ, various facilities like tax holiday, rationalization of tariff structure, scope for 100% foreign equity and repatriation of profits etc.
Domestic and National Savings

In fiscal year 1993-94, the domestic and national savings as percentage of GDP were 13.1 and 18.79 percent respectively and gradually increased to 20.16 and 26.49 percent respectively in fiscal year 2004-05 and goes up to 28.8 in 2010 (Finance ministry, Bangladesh). From the example of East Asian high performing economies, it is found that they had to rise the domestic saving dramatically to attain rapid growth in the 1960s and 1970s and have sustained them through the 1990s. On the whole, the gross domestic savings of these countries remained close to 30 percent of GDP (World Bank, 1997). Bangladesh needs to mobilize saving to reach the goal of 25-30 percent savings ratio within the next decade or two. GDP growth rate may help to accelerate the savings rate by enabling households to acquire additional resources faster than additional consumption. Predictable real interest rate and taxation policy may also be successful to mobilize public savings.

Corruption and Political Instability

Corruption keeps Bangladesh from taking the next step when other countries in similar positions have been able to do so. Corruption, especially of large business owners and the government, is hampering the nation’s efforts both at economic growth and at functional democracy. Absence of good governance encourages corruption, yet political and administrative corruption spreads on a massive scale if the administrative systems are not properly developed. Nepotism is the granting of public office on the basis of family ties is also identified as a type of corruption. Corruption exists in high magnitude in various sectors like - Food for Education Program, Education sector, Health sector etc. Lack of accountability, discretionary power, lack of transparency, monopoly power, influence of powerful people and the menace of red tape etc. are the principal causes of corruption. Political instability and failure to establish a stable democratic political system is one of the major obstacles in achieving targeted growth rate. Electricity blackouts are running at record levels. Diesel prices are rising. Gasoline pumps are struggling to cope with demand. A report of the World Bank predicts that increasing political instability and flooding could slow down Bangladesh’s GDP growth this year.
Labour Force Employment, Labour Productivity growth and Labour Utilization

According to Bangladesh Labour Force Survey 2002-03 conducted by BBS, a labour force (above 15 years) of 4.43 crore (male 3.45 crore and female 0.98 crore) is engaged in a variety of professions, the highest (51.69%) still being in agriculture. Inequality is a serious problem for the country which tends to persist over time. About half of the population lives on less than one dollar a day. Persisting gap between the required and the actual rates of employment creation is a vital problem in a labor-surplus economy like Bangladesh. The direct employment creation through public works and other labor-based infrastructure development programs are pro-poor and provide rural growth. In case of labour productivity innovation, education, and technological diffusion have an important role to play. Labour utilization can be expressed in terms of different components like, hours worked per person employed, the share of employment in the labour force, the labour force participation rate (that is, the labour force as a share of the working age population), the share of the working age population in the total population etc. The share of employment in the labour force is related to the unemployment rate of a country.

The Virtuous Circle of Human Development and Growth

By Broad Sector in Bangladesh, LFS, 2002-03

Figure 5 Share of Employed Labour Force

Agriculture, 51.69
Industry, 13.56
Service, 34.75

Figure 6 Relations Between Human Development and Growth.
Bangladesh’s performance has been unsatisfactory in human development activities. Without substantially greater and more effective investments in raising the nation’s level of human development, the vicious circle of widespread poverty, excessive population growth, illiteracy, poor health and discrimination against women will become a social maelstrom.

**Unemployment**

The impact of unemployment on growth structure is alarming. The unemployment situation in Bangladesh is in deplorable state. 38 per cent of the 68.3 million strong labour forces in the country are either unemployed or underemployed (The New Nation, 2006). Unemployed persons are like parasites for their families and society. They do not engage in economic activities and do not make a contribution to its growth. So, they are the burden of an economy. The labour force in Bangladesh grew faster than the population and almost doubled between the year of independence and mid 1990s (Fifth Five Year Plan 97 – 02). A large-scale disguised unemployment exists in agriculture, large industries, offices and organizations, particularly in the public sector. Involuntary unemployment is predominant in Bangladesh. The main causes are - seasonal variations, industrial and technological change, labour market imbalance, business cycles, lack of resources etc.

**Some Policy Choices in Achieving Economic Growth**

To face the emerging challenges, Bangladesh should broaden tax base and tap non-tax sources. To meet the challenges in the area of revenue expenditure she should freeze it in real terms, take no expenditure-enhancing populist decision, reduce government borrowing and constitute a public expenditure review committee. To overcome unemployment problems, government should create more job opportunities and should take initiative to run industries. Within the policy of
privatization, the government may take different steps towards creating jobs. To meet the challenges in the area of BOP, the GOB may design a short term management of external payments; enhance export and monitor import; take the benefit of foreign aid; encourage FDI and take fruitful steps to increase the flow of worker’s remittances to the country. Higher incentives and a sound banking system are important for increasing the inward flow of remittance from abroad. To meet the challenges of Fiscal Deficit, Bangladesh needs to keep public expenditure growth rate lower than the revenue receipt growth rate. There may be a fiscal deficit target which would be valid for a certain period. The system loss in the power system is mainly due to massive theft. Achieving Bangladesh’s economic potential will not be possible without a substantial improvement in how the nation is governed. Macroeconomic uncertainty clouds the investment horizon. To attract investment, the government should readjust the rate of interest and should create political atmosphere that will be favourable for domestic as well as foreign investment. In addition to macroeconomic stability, the investment climate includes factors such as adequate infrastructure, a sound financial system, a trade protection regime that encourages efficiency and export competitiveness, an effective regulatory framework, an environment free of bureaucratic harassment and corruption, and the rule of law. The quality of infrastructure is critical for competitiveness and productivity growth. Bangladesh needs to look beyond the RMG sector to diversify exports and create new growth vent. In Bangladesh, the considerable export potential in frozen food, pharmaceutical and ceramics needs to be exploited. Substantial growth impetus will also come from developing new urban areas for economic activity to overcome the growth retarding congestion of Dhaka. Deepening human capital, improving the quality of labour and increasing productivity growth is necessary. Literacy, years of education, increasing gender-neutral enrolment in and completion of primary schooling is a welcome development. Long-term plans should be lunched for reducing inequality. Improved delivery of public services (health, education, water, sanitation) will help moderate the impact of personal and regional inequality on growth and will contribute to the sustainability of economic growth. Proper dredging system, embankments etc. should be arranged properly for ensuring economic growth via rising farm productivity. Good governance to diminish terrorism and local government oriented development policy is an urgent requirement for the country. Government’s investment in skills training makes sense. Besides, the government should persuade financial institutions to extend loans on easy terms and conditions to overseas job seekers which they would be able to pay back after taking up employment abroad.

Conclusion

Bangladesh has recently achieved success in a significant growth rate of GDP. But, the problem also remains in the sectoral shares of GDP growth rate. The growth of the manufacturing sector is not satisfactory. If the government is not successful in creating a favourable investment climate and investment does not match the savings rate, then the ability to achieve the targeted level of GDP growth will remain in doubt. The generation of more rural off-farm economic activities, whether aimed at domestic or foreign markets must also be a part of growth strategy. According to
World Bank ‘02, to achieve a substantial reduction in unemployment & underemployment, Bangladesh needs to create over 50 million jobs in the next 25 years. Relatively high rates of inflation combined with high levels of unemployment may lower real wages. Investment climate issues, export competitiveness, the post MFA situation, infrastructure, financial sector, trade, governance, and tax administration and strategy for long-term growth and employment issues should be focused for achieving growth target. The huge population has to be converted into resource and valuable natural resources should be extracted and utilized wisely. While the challenges are enormous, the dynamism and potentiality that characterize Bangladesh today make the optimistic view that Bangladesh will achieve sustainable economic growth as well as be substantially free of poverty in near future. Since the world economy is under rapid changes, Bangladesh faces both risks and opportunities. Unless far-sighted strategies are adopted, sustainable economic growth with desired target rate is not possible.

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