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Mitigating the Dollar Crisis:

Policy Recommendations for the Near and Long Term

by Orpita Oysharja, Tawhid Ahmed Chowdhury & Sajid Amit

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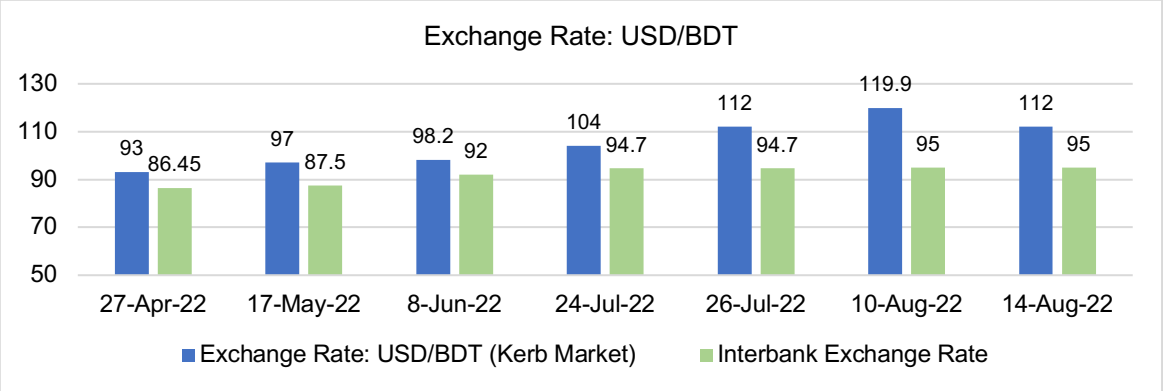
Table of Contents

1. Introduction

Over the last 3 months, the dollar price in Bangladesh has risen steeply. In fact, it reached a record BDT 119.9 (on the kerb market) on August 10, 2022.[1] Not unrelated to the depreciation of the taka, there is an ongoing energy crisis with rising fuel prices and power shortages. Bangladesh imports 34.5% of all its energy needs[2], and its total import bill for fuels and petroleum products was USD 8985.10 million in the year 2021, which was 25.5% of total imports.

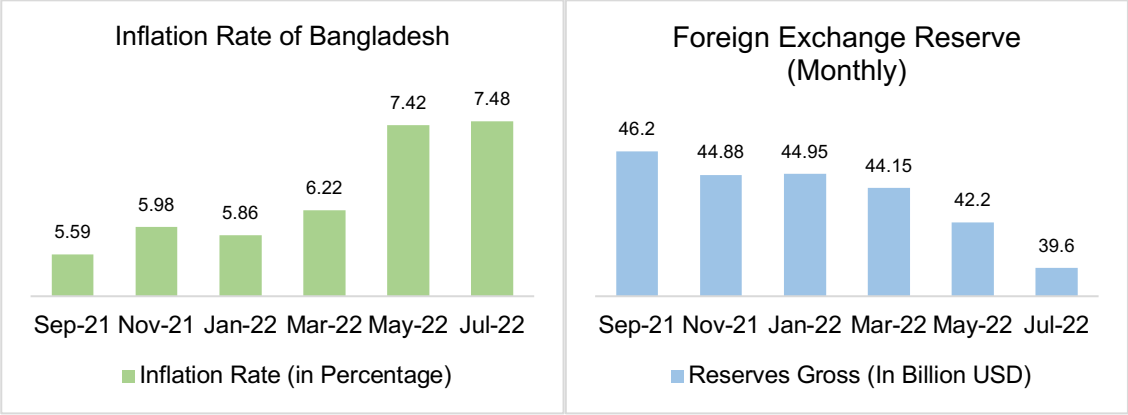
Figure 1: Interbank and Kerb Market Exchange Rates



Source: Bangladesh Bank & The Business Standard (TBS) Report

The rise in fuel prices has always been a driver of inflation for the country. In June 2022, Bangladesh's annual inflation rate reached 7.56%[3] with the food inflation reaching 8.37%.[4] This has triggered fears of a looming food security crisis in the country. In July, the foreign exchange reserves of Bangladesh Bank (BB) fell below USD 40 billion for the first time in two years,[5] reaching USD 39.04 on August 30.[6] It has been estimated that the current reserves can cover just up to 5 months of import expenditures.[7] The exports of the country also took a hard hit due to rising costs of production and the economic crises in the European and North American markets. In a preemptive effort to avoid a situation like Sri Lanka and Pakistan, Bangladesh sought out a USD 4.5 billion loan from the International Monetary fund (IMF) along with other smaller amounts from international financial institutions (IFIs). While the loans are under negotiation, the high rate of inflation, power shortages, volatile exchange rate, and quickly depleting foreign exchange reserves have created one of the worst economic crises the country has witnessed since the Global Financial Crisis in 2008.

Figure 2: Inflation Rate and Foreign Exchange Reserve of Bangladesh (Bimonthly)



Source: Bangladesh Bank

To tackle the crisis, the Government of Bangladesh (GoB) and BB have already undertaken a series of policy measures with some still in the pipeline. This paper aims to explain the causes of the dollar crisis, analyze the policy decisions made by the GoB and recommend a way forward to mitigate the situation. The paper also sheds light on the long-term policy measures that can help avert a similar crisis in the future.

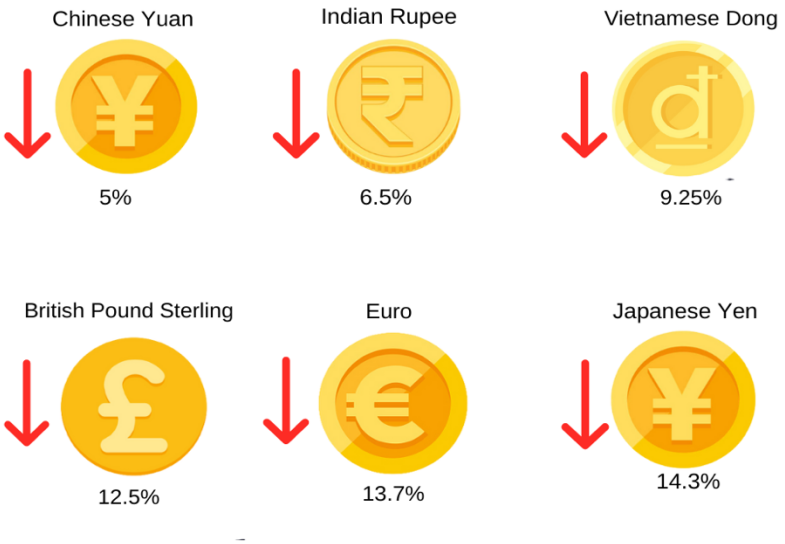
2. How We Got Here

Many economists are referring to this macroeconomic volatility as a balance of payment (BoP) crisis while the mainstream media prefers the term dollar crisis. Both refer to the effect of rising dollar prices as a result of supply shortage, which, in turn, is a result of a balance of payment deficit (greater imports than exports).

The current crisis began with the Covid-19 pandemic that affected production and import-export-related activities across the world leading to high rates of inflation. As fears of a global recession rose, every economy in the world used stimulus packages or financial assistance to increase its money supply and boost production. The scenario began to improve by the end of 2021 but the Russia-Ukraine war disrupted the supply chains of oil, gas, fertilizers, chemicals, and various other agricultural commodities.[8] This induced further inflation across the world, particularly in the USA, reaching 8.5% in March 2022, the highest since 1981. To tackle inflation, the US Federal Reserve decided to raise interest rates luring investors from across the world. More than 50% of the rise in dollar value can be explained by the Fed's aggressive monetary policy. Besides, high energy prices have been hitting fuel importers, like most of Europe and the developing world

(including Bangladesh), harder than the USA since it is less reliant on oil and gas imports.[9] As a result, most currencies in the world started to lose their value against the dollar.

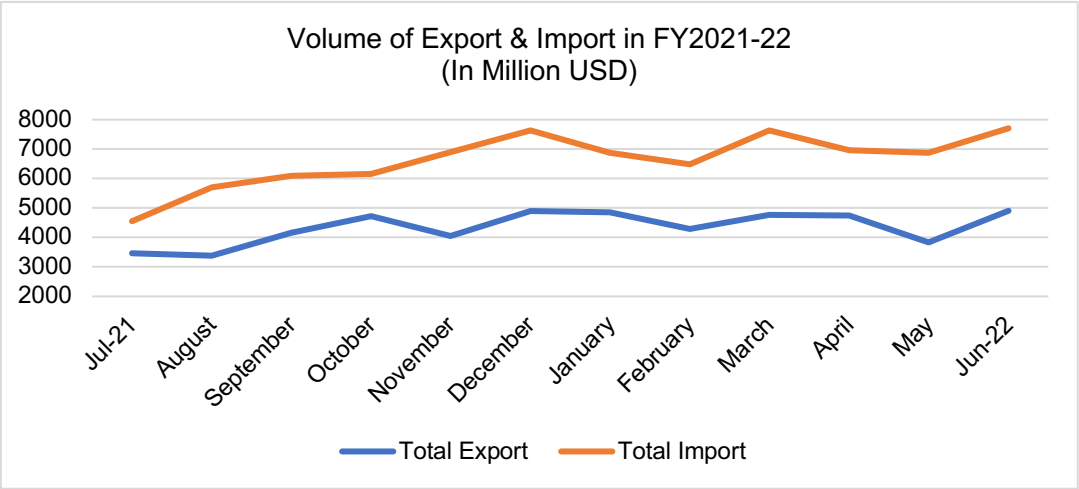
Figure 3: Depreciation of Global Currencies Against the US Dollar



Source: Reproduced from Business Inspection Report

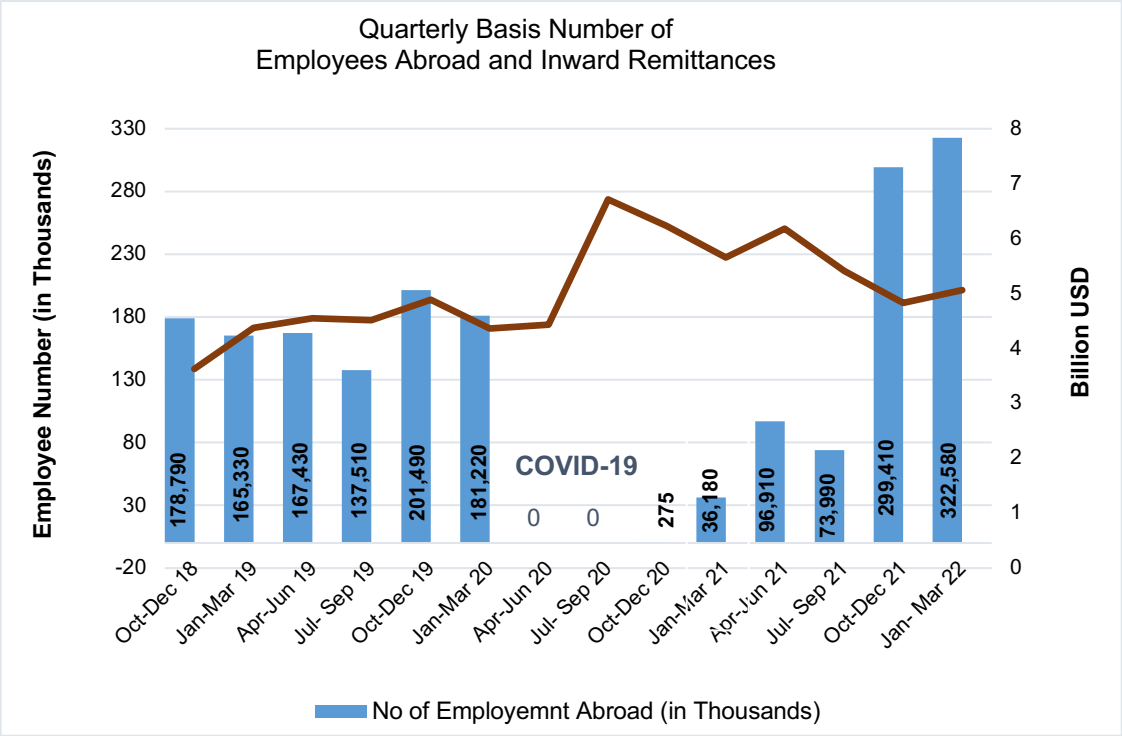
The rise in dollar value primarily affected Bangladesh's imports and exports. While imports became more expensive, exports should have ideally increased due to competitive prices. However, the rise in fuel prices increased the costs of production while the domestic inflation rates and contractionary monetary policies in North America and Europe slowed down the demand for most of Bangladesh's export items, resulting in decreased exports. Imports, on the other hand also increased in volume due to the GoB's post-Covid-19 stimulus package and the Import Policy Order 2021-24, which eased import regulation and increased access to duty-free imports.[10] Remittance flows into the country also decreased by 15% in FY22 compared to FY21.[11] Consequently, the fall in exports and rise in import payments led to higher demand for the dollar and a growing balance of payment deficit (with a historically high trade deficit of USD 33.25 billion in FY2021-22)[12] which had to be covered by foreign exchange reserves. Concurrently, a more expensive dollar and its shortage in the domestic market pushed BB to inject funds from the foreign exchange reserves into the market to stabilize the exchange rate.

Figure 4: Exports and Imports of Bangladesh in FY22



Source: Bangladesh Bank

Figure 5: Number of Employees going abroad and Inward Remittance



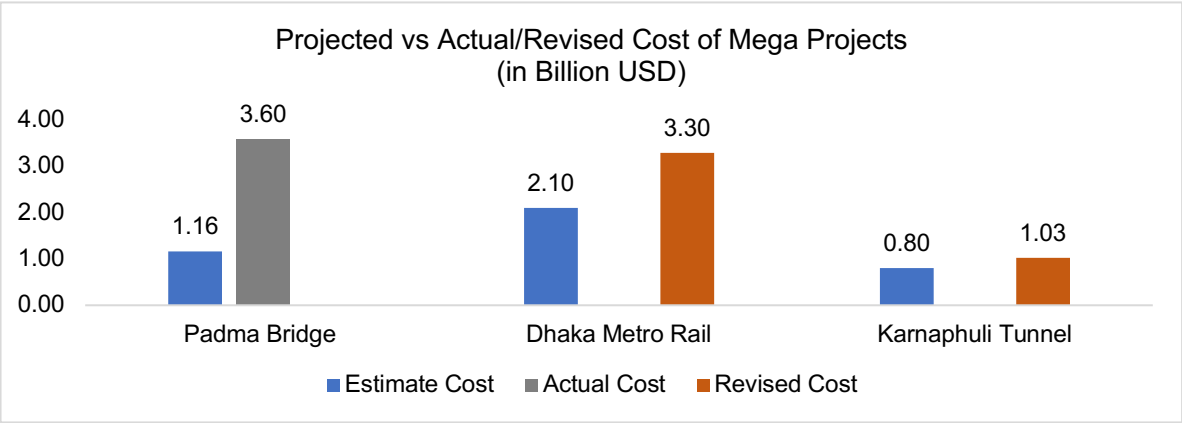
Source: Bangladesh Bank & Bureau of Manpower, Employment and Training, Bangladesh

A dwindling foreign exchange reserve means a loss of capacity for a country to deal with an economic crisis and Bangladesh is no exception.[13] Although the current crisis is the result of an external shock, the effect was exacerbated by some of the internal weaknesses of Bangladesh's economy. It is also argued that the high-cost infrastructure projects, widespread loan default in the banking sector, over-expenditure in the energy sector, misalignment of the exchange rate, capital flight, and low levels of FDI (Foreign Direct Investments) are some of the key reasons behind the dollar crisis.

Since 2009, the GoB has undertaken multiple mega-projects funded by loans from bilateral channels and IFIs. These projects include the Padma Bridge, the Rooppur Nuclear Power Plant, Dhaka Metro Rail, and Karnaphuli Tunnel among others. Most of these projects cost more than initially projected.[14] In 2017, the World Bank noted that the cost of road construction in Bangladesh was the highest in the world, largely due to overpricing of materials and long delays.[15] Such a trend of over-expenditure and the eventual high-cost loan servicing puts the country under extra pressure.

Source: Compiled from The Financial Express

Figure 6: Cost of Mega Projects in Bangladesh



Source: SouthAsiaSource, Atlantic Council

Moreover, infrastructure development in Bangladesh is yet to derive higher private sector investment and growth. The investment-to-GDP ratio has been falling over the last three years. According to the Bangladesh Bureau of Statistics (BBS), the investment-GDP ratio in FY2021 was 31.02%, which was 0.29% and 1.19% lower than FY2020 and FY2019, respectively. The public sector and private sector investments have moved in the opposite direction over the years with the resultant trend moving downwards. The public investment-GDP ratio for developing infrastructure and social services was 6.96% in FY19, rising to 7.29% in FY20 and 7.32% in FY21. On the other hand, the private investment-GDP ratio was 25.25% in FY19, falling to 24.02% in FY20 and 23.70% in FY21.[16] Although the GoB's investment is rising, its delay in megaproject completion is a big setback to reaping positive outcomes from private investments.[17]

The troubles of the banking sector are another issue that has contributed to the balance of payment crisis. In times of crisis, BB relies on local banks to buy dollars.[18] However, the banking system is continuously plagued by a high degree of non-performing loans[19] and challenges to corporate governance in the sector.[20] From 2020 to 2021, non-performing loans increased by 16.38% despite a relaxed loan classification policy. The total amount of non-performing loans stood at BDT 1032.74 billion as of 31 December 2021.[21] Between 2009 and 2018, an average of USD 8.27 billion was siphoned annually through the mis-invoicing of traded goods.[22] The extent of Swiss bank deposits by Bangladeshis in the past decade is indicative of capital flight. In 2021, such deposits grew by 55%, reaching USD 912 million (CHF 871.1 million).[23]

In addition to large amounts of capital flight, inefficiency and high amounts of subsidies in the annual budget also contributed to the current crisis. The energy sector is a prime example that incurs significant wastage of resources. The contractual obligations (capacity charge provisions) of the GoB towards the Quick Rental Power Plants (QRPPs), Rental Power Plants, and Independent Power Producers in the private sector force the government to pay these companies even when they do not provide any electricity.[24] In the past decade, twelve companies received USD 5.5 billion as capacity charges. On top of that, between 2010 and 2021, the power sector received huge subsidies.[25] The Power Development Board received USD 7.1 billion and the Bangladesh Petroleum Corporation received BDT 300.86 billion (approximately USD 3.5 billion) between 2010 and 2015, all while the prices of electricity and fuel hiked for consumers. Furthermore, the GoB has signed agreements with Indian energy company Adani which would require Bangladesh to pay USD 423.29 million annually and USD 11.01 billion over its lifetime of 25 years as capacity charge.[26] Consequently, the success of country-wide electricity coverage came at a great cost.

Bangladesh's "managed floating" exchange rate regime is another addition to the problem mix. The taka has been artificially kept higher value for years which has led to the loss of export competitiveness and remittance inflow through the banking channel.[27] The index of the real effective exchange rate was 100 in 2016, which rose to 115 by October 2020.[27] The kerb rate or street-market value that the brokers determine unofficially is often a reflection of the market value. On 9 May 2022, the bill for collection rate or the BC rate (assigned by BB for importers) was BDT 86.75 but importers had to buy dollars at BDT 95 to pay import bills. Banks were compelled to collect a high price for the dollar because the demand far exceeded the supply.[28] Similarly, on August 10, the kerb rate was BDT 119.9 while BB's interbank rate was set to BDT 95, the difference being a whopping BDT 25.

The country's overdependence on the ready-made garment (RMG) sector is also another reason why the dollar volatility has affected the country to such a degree. The RMG sector is heavily dependent on imports for raw materials and the export markets are primarily Europe and North America. With imports becoming more expensive and the export destinations suffering from recessionary fears, the cost of production of RMG products has risen while the demand has plunged. Besides, RMG exports face many tariff and non-tariff barriers such as not having GSP in the USA and free trade agreements of the USA and European countries with the competitor countries of Bangladesh.[29] Bangladesh has also failed to attract foreign direct investment (FDI) despite having steady economic growth. The rate of FDI inflow is just 1% of the GDP which is the lowest in Asia. The GoB has taken various steps in recent years to attract FDI but has experienced limited success. The country still lacks severely in the two most used global indicators, i.e., the Ease of Doing Business Index (EDB) by the World Bank Group and the Global Competitiveness Index (GCI) by the World Economic Forum.[30] Bangladesh ranked 168 out of 190 countries in the EDB Index in 2020 and scored 52.12 points out of 100 on the 2019 GCI.

3. Bangladesh's Response

To tackle the crisis, the GoB and BB have come up with a range of policy solutions within a three-pronged approach – demand side, supply side, and market control – as elaborated in Table 1. While majority of the policies are targeted to increase the supply of dollars in the domestic market, some are designed to reduce the demand and effectively implement the supply side policies by controlling the market.

Table 1: Bangladesh's Policy Response to the Dollar Crisis			
Category	**Policies**	**Changes**	**Impact**
Demand Side	Import Barriers	• 20% regulatory duty on around 135 products[31] • 25% cash margin on import letters of credit (LCs) of non-essential consumer goods[65] • Nonessential imports are discouraged	• Decrease in imports and dollar outflow • Rise in prices of imported goods • Banks refuse to open LCs for nonessential imports
Supply Side	Reduction of ERQ	• Encashment of 50% of the Exporters' Retention Quota (ERQ)[32] • Reduced retention limit of realized export proceeds from 15%, 60%, and 70% to 7.5%, 30%, and 35%, respectively • Restrictions on the transfer of export earnings of one bank to another bank • Effective till December 31, 2022	• Instant injection of USD 360 million into the foreign currency market (USD 720 million held in EQR accounts as of August 1, 2022)[32] • ERQ is generally used to settle payments for raw material imports • Exporters will have to borrow dollars to settle payments, increasing their cost of production • Borrowing dollars require permission from Bangladesh Bank which reduces the ease of doing business
	Ease of fund transfers	• Offshore banking units allowed to place up to 25% of the banks' total regulatory capital in domestic units for up to 6 months to settle import payments of capital machinery, industrial raw materials, and imports by the government[32] • Effective till December 31, 2022	• Encourage dollar influx into the domestic market
	Reduction of NOP limit	• Dollar holding limit of banks, i.e., the Net Open Position (NOP), reduced from 20% to 15% of regulatory capital[32] • Effective till December 31, 2022	• USD 569 million injected into the market
	Transfers from Forex Reserves	• USD sold from BB forex reserves to commercial banks to control the exchange rate which was $7.62 billion in FY22[6]	• Increased supply of dollars in the domestic market • Fast depletion of foreign exchange reserve

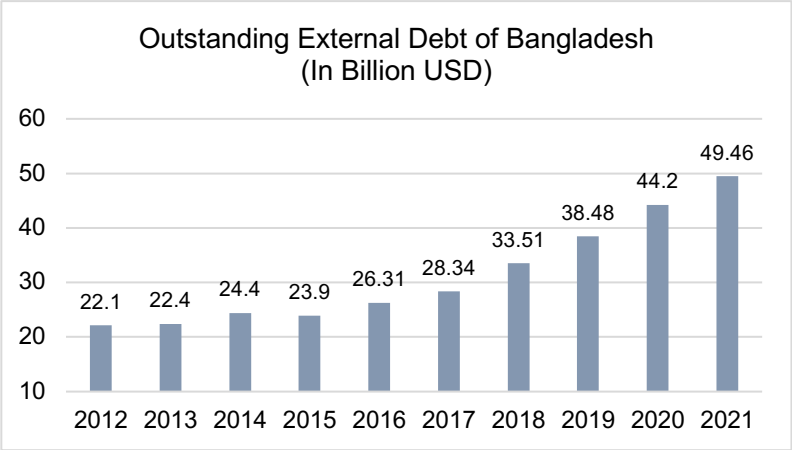
		• The forex reserve of BB was USD 39.04 billion on 30 August 2022 compared to USD 48.06 billion in August 2021[33]	
	Reduction in interest rate cap on raw-material import LCs	Maximum interest rate for short-term investment in foreign currency lowered from LIBOR plus 3.5% to LIBOR plus 3%	Enable RMG exporters to borrow money from the banks (for raw material imports) at a lower interest rate
Market Control	Cap on Exchange Rate Spread	Exchange rate spread (difference between dollar buying and selling rates) locked at BDT 1 for banks and at BDT 1.5 over the banks' selling rate for the foreign exchange companies	Curb the hike in dollar value in the kerb market
	Uniform Exchange Rate	Uniform foreign exchange rate for importers and exporters since May 2022[34]	• Adherence to a fixed exchange rate discourages the kerb market rate to increase • Effectiveness has been questioned
	Import Monitoring Framework[10]	• Banks required to report all types of foreign exchange transactions, including those of offshore banking operations • Mandatory submission of report to BB 24 hours before opening import LCs • Reporting required for transactions of USD 5 million and above excluding government imports	• Pressure of import LC payments declined in the past three months • State-owned banks focusing more on government import LC settlements
	Market Surveillance	• Increased market inspection by BB • Removal of treasury heads of 6 banks and show-cause notices against managing directors (MDs) on charges of making excessive profits from dollar trading[35] • Suspended operations of 5 money changers and show-cause notices against 42 others on various charges[36] • Ongoing investigation of the Bangladesh Financial Intelligence Unit (BFIU) to identify involvement of money changers in money laundering or hundi[1]	• Fear among unlicensed traders • Dollar shortage put an unofficial limit on the size of transactions by the authorized companies and banks • Banks more cautious about trading dollars • Dollar price in a downward trend due to increased inspection of BB • Dollar market comparatively more stable than before

As a result of these efforts, the dollar value has recently gone down in the kerb market but a few days of stability does not indicate the long-term conditions of the market. Bangladesh is an energy and food importer. And both the prices of fuel and fertilizers (agricultural input) have increased significantly since the Russia-Ukraine war broke out. In July, the GoB raised fuel prices by 50% to reduce the subsidy burden on the treasury and took other austerity measures including power rationing, cutting back on foreign travel by government officials, limiting the purchase of government vehicles, and ban on non-essential and luxury items. These measures have reduced short-term expenditure but have affected production and the domestic cost of living.[37]

Besides, the GoB has been trying to supplement the foreign exchange reserves with loans from IFIs. Negotiations are ongoing with the IMF for a USD 4.5 billion loan to be disbursed over the next three years.[14] The country has also cast a wider net seeking similar kinds of support (loan or aid) from the World Bank (USD 1b), the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), and Japan International Cooperation Agency (JICA).[38] It is expected that Bangladesh would receive USD 2.5-3 billion by June 2023 from multilateral lenders other than the IMF.[14]

However, such an influx of funds, although necessary at the moment, puts Bangladesh at risk of falling into a debt trap. Over the years, the country has accumulated foreign debt worth USD 90 billion on loans taken for large infrastructure projects while debt servicing has added an extra burden on the treasury.[37] Around USD 43 billion is owed to China, Japan, and Russia,[37] while budget support received from various IFIs between FY20 and FY22 amounted to USD 5.88 billion.[39] At the end of FY21, Bangladesh's outstanding external debt stood at USD 49.46 billion which was 13.9% of the GDP.[40] According to the Economic Relations Division (ERD) of the Ministry of Finance, Bangladesh’s external debt repayment will double in FY25 (at USD 4.02 billion) compared to FY22 (at USD 2.4 billion) due to the maturity of several large foreign loans.[41] The county’s overall debt servicing obligations are estimated to would grow further after FY26 as the repayment of non-concessional loans taken from China, Russia, and India will commence following their grace periods. In such circumstances, the new loans from various IFIs will only add to the estimated burden.

Figure 7: Outstanding External Debt of Bangladesh



Source: Bangladesh Bank

4. Our Recommendations

In order to steer away from the current crisis, the GoB needs to undertake some hard decisions. While it's important to stabilize the foreign exchange market, domestic inflation needs to be tackled at any cost given its socioeconomic and political repercussions. A developing country at heart, the majority of Bangladesh's population belongs to middle and lower-income groups who cannot tether through the inflation of food and necessary items. The current austerity measures are also putting an extra burden on these groups giving rise to workers' protests and market irregularities.

Contractionary Monetary Policy:

One of the most effective ways of controlling inflation is using the monetary policy. Over the last year, countries across the world have increased their interest rates as it influences several economic indicators including inflation, balance of payments, and exchange rate. However, the GoB has plans to increase the money supply in FY23 which will be counterproductive in reducing the inflation rate.[42] At present the real effective interest rate in Bangladesh is negative.[43] BB should consider increasing the interest rate and reducing the money supply to control demand-pull inflation. It will also induce a rise in treasury funds (via increased savings) enabling the GoB to tackle short-term expenditures. To balance the higher cost of financing for export-oriented industries and tackle the threat of layoffs in labor-intensive sectors, the GoB can take alternative measures like short-term tax holidays or industry-specific incentives while nudging underperforming businesses to increase efficiency. A higher interest rate would also prompt the

GoB to reconsider the viability of some of its high-cost projects and go forward with the ones that offer a positive return on investment. It would also fall in line with the IMF's common anti-inflationary prescription that may come packaged with its potential loan.[44]

Floating Exchange Rate:

The taka, in theory, is a free-floating currency but in reality, it is a pegged/managed floating one, also known as a "dirty float". In 2021, the real effective exchange rate (the weighted average of a country's currency in relation to a basket of other major currencies) of BDT to USD was 110 while the interbank rate set by the BB was between 84 and 86.[45] This over-valuation of the taka has hurt exports and remittances and affected the performance of the banking sector.[46] The ongoing economic crisis has exacerbated this pressure which now needs an effective outlet. Over the next several months, the BB should gradually move towards a floating exchange rate by periodically depreciating the taka. If the taka value plummets fast, it would also encourage remittance inflow through the formal banking channels reducing the incentives for hundi and other illegal transfers. July 2022 statistics have already shown a good picture since it marked the highest inflow of remittance in the past 14 months. The increase in imported raw material costs is already being cushioned by the interest rate cap on import LCs. However, since continued market surveillance is not sustainable in the longer run, moving towards a floating exchange rate would be the best possible option for the GoB and BB.

Contractionary Fiscal Policy:

The next option for the GoB is to raise corporate taxes to increase its fiscal capacity which will be necessary given the depreciation of the taka. Such a move might displease corporates and put excess pressure on businesses but the progressive structure of our taxation system enables the GoB to raise the rates at the upper end. The higher tax rates could be implemented for a transitionary period of 2 to 3 years enabling the government to absorb the current economic pressure and have an anti-inflationary impact on the economy. The GoB should also strengthen its tax collection strategies and clamp down on tax evaders, a process that is ongoing. But it would also mean tightening the taxation policy for not just the middle-income groups but also for large-scale tax evaders.[44] A strong antigraft policy could go hand-in-hand with the overhaul of the taxation strategy but it would depend solely on the effective implementation of the policies.

Invoicing in Multiple Currencies:

In terms of bilateral trade, China and India are the largest trading partners of Bangladesh. If the country had the option to make international trade settlements in RMB or INR instead of USD, it would significantly reduce the susceptibility to dollar-driven economic shocks. Currently, 99% of Bangladesh's total trade takes place through the US dollar. But if required, domestic banks can also make transactions in GBP (pound sterling), EUR (euro), JPY (Japanese yen), CAD (Canadian dollar), and RMB (the Chinese renminbi) as they are allowed to have clearing accounts with BB in these currencies. However, since Bangladesh incurs large trade deficits with both China and India, it would be difficult for the country to settle all payments in RMB and INR. At present, the best option is to settle partial import payments with export earnings in these currencies.[47] In the long run, Bangladesh can aim to enable direct conversion of BDT against RMB and INR through increased exports to China and India allowing a steady inflow of those currencies. Additionally, it is also critical to slowly get Bangladesh's exporters accustomed to engaging in multiple currency transactions (different currencies for raw material import settlements and export earnings) and learning to hedge exchange rate risk. Such a process can be initiated through pilot programs that can also address the regulatory challenges and difficulties in implementing the payment system (using financial derivatives like currency swaps). Currencies like the EUR can also be an immediate choice for experimentation since Bangladesh has significant amounts of transactions (for both imports and exports) with the European Union.

Controlling Import Dependence for Essential Goods:

The current crisis has brought to attention that Bangladesh needs to reduce import dependence to improve its food security and energy capacity. Food imports account for approximately 9% of the total imports while oil and petroleum account for 11%. Bangladesh produces large quantities of rice each year and yet it needs to import rice and wheat (worth USD 176.1 million in FY21) along with essential items like edible oil (worth USD 186.8 million in FY21).[48] At present, the country exports vegetables and fisheries items but it should also focus on improving the production of staple items to hedge the risk of food insecurity. One particular measure could involve reducing the collateral requirement for farmers accessing Palli Sanchay Bank (PSB) loans. Interest rates could also be differentiated for essential and non-essential food products.

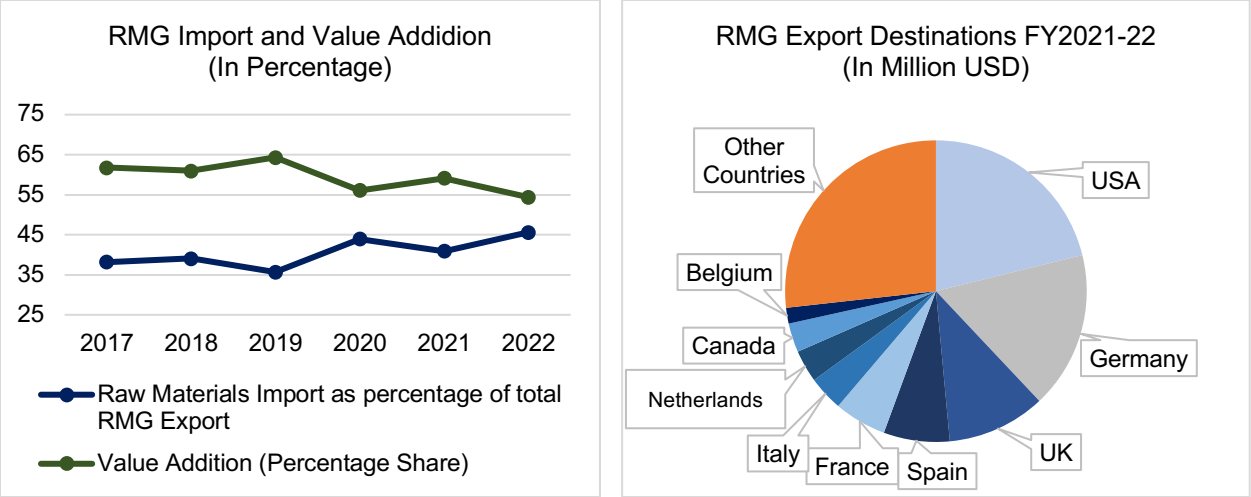
In terms of energy capacity, in the past 11 years, the trend has been inclined towards importing expensive LNG rather than exploring natural gas reserves. According to Bangladesh Oil, Gas and Mineral Corporation (Petrobangla), the country has gas reserves for 9 to 10 years, assuming consumption of around 1 trillion cubic feet (TCF) every year.[49] Out of the 29.9 TCF reserves in

our 28 discovered gas fields, 19.11 TCF has already been extracted. Since there is a race against time, Bangladesh should act fast by overhauling the existing wells to increase production while looking for new reserves. It should also focus on scaling up the utilization of green energy, particularly solar power, learning from the success stories of 6 million solar home systems.[50] At present, the country generates 3.5% of its total power capacity from renewable sources which fell short of its 10% target by 2020. In 2021, the power ministry announced a more ambitious goal to source 40% of Bangladesh's electricity from renewables (particularly solar) by 2041. The National Solar Energy Roadmap, developed in collaboration with the United Nations Development Programme (UNDP) in 2020, estimates that 6,000 MW of solar power can be generated by 2041 in a business-as-usual scenario, while more aggressive policies can push the capacity to 30,000 MW.[50] However, land scarcity remains a major obstacle, but it can be solved by reclaiming barren riverside areas and estuaries while utilizing farmlands for both agriculture and power generation.[50] In the coming decade, the GoB must consider having a more diverse energy basket prioritizing sustainability and self-sustenance equally.

Export Diversification:

Policymakers in Bangladesh have discussed export diversification for more than 20 years. In reality, Bangladesh's export revenue still relies on the RMG (85%) which is heavily dependent on raw-material imports (80%). Moreover, the RMG export markets are also narrow and constrained by tariff and non-tariff barriers.

Figure 8: RMG Raw Materials Import Volume, Net Value Addition, and Export Destinations



Source: Bangladesh Bank & Export Processing Bureau, Bangladesh

Challenges to Export Diversification:

- ⇒ Product Diversification
- ⇒ Market Diversification
- ⇒ Government red tape
- ⇒ Lack of focus on non-RMG products
- ⇒ Inadequate infrastructure
- ⇒ Poor logistics support
- ⇒ Electricity shortages
- ⇒ Capital shortages - large collateral prerequisites
- ⇒ Insufficient FDI
- ⇒ Lack of skilled workforce
- ⇒ Inadequate risks fund
- ⇒ Discriminating policies

Export diversification faces a myriad of challenges in Bangladesh as mentioned on the left.[51] The GoB has already taken some initiatives to address these issues but the implementation of the projects is lagging behind.[51] It is imperative that the GoB prioritizes the completion of such projects and take a holistic approach to facilitate export diversification.

At present, Bangladesh is enjoying a comparative edge in the leather and seafood sectors.[52] Along with the apparel industry, a number of other industries now export more than USD 1 billion annually. In FY22, the home textile sector's exports increased to USD 1.62 billion[53] while jute and jute-related exports totaled USD 1.13 billion[53] despite the industry's negative growth. In the Bangladesh Export Policy 2021–24, the GoB has already identified 12 fields as High Priority Sectors.[54]

Table 2: High growth and special development sectors for Bangladesh

High Growth Sectors	Special Development Sectors
1. High Value Added RMG Products	1. Electric and Electronic Products
2. Man Made Fibre	2. Ceramic Products
3. Garments Accessories	3. Value Added frozen fish
4. Pharmaceuticals products	4. Printing and Packaging
5. Plastic Products	5. Rough Diamond and jewelry
6. Footwear and Leather Products	6. Paper and paper products
7. Jute Products	7. Rubber Products
8. Agro-products and Agro-processed products	8. Silk Products
	9. Handicrafts
9. Light Engineering Products	10. Handloom Products
10. Ship and Ocean-going fishing trawler	11. Photovoltaic Module
11. Furniture	12. Live and Processed Crab
12. Home Textile and terry towel	13. Toys
13. Luggage	14. Halal Fashion Products
14. Active Pharmaceuticals Ingredients	15. Recycled Products
	16. MPPE Products

Source: Export Promotion Bureau, Bangladesh

Of these industries, the ones with a high compound annual growth rate (CAGR) and social benefits should be prioritized. The agriculture and fisheries sectors tend to be essential in nature and would face less fluctuation in demand in the face of any crisis. Bicycle, jute, and jute-related products are sustainable in nature and have a positive socio-economic perception that can be used to promote their demand in the global market. Pharmaceutical exports can have a promising market in other developing countries and their demands remain relatively stable. The leather industry has high carbon and waste emissions but the demand for leather products in the fashion industry has remained strong particularly in the European market for decades through various socioeconomic crises. If Bangladeshi leather products can be positioned as high-end premium goods with high brand value, then the export basket can have a mixture of various types of goods for different market segments.

Increasing Foreign Direct Investment (FDI):

Restoring macroeconomic resilience is the precondition to improving the growth of FDI in a frontier economy like Bangladesh. Even though Bangladesh has the comparative advantage of low-cost labor, it could not attract a significant amount of FDI. IMF revealed that from 2010 to 2019 Bangladesh recorded around USD 20.5 billion net FDI inflow. In contrast, neighboring countries like Myanmar and the Philippines attracted USD 24.8 billion and USD 58.6 billion, respectively, while Malaysia (USD 106.9 billion), Indonesia (USD 194.2 billion), and India (USD 371.8 billion) recorded more than a hundred billion US dollars each.[55] According to data from the UN Conference on Trade and Development (UNCTAD), Bangladesh was unable to attract FDI even during the pandemic (2020), when FDI flows to developing countries in Asia climbed by 4% to USD 535 billion.[68] 2020 saw approximately USD 17 billion in investments from foreign investors in Vietnam, USD 64 billion in India, and around USD 18.58 billion in Indonesia. In contrast, Bangladesh received USD 2.56 billion, of which USD 1.6 billion was the result of reinvested earnings by the existing foreign companies.[56]

According to the GCI 2019, Bangladesh's competitiveness deteriorated across 10 of its 12 pillars, with major declines in the areas of infrastructure, macroeconomic stability, the labor market, and ICT adoption. The country was also outperformed by all other South Asian countries except Afghanistan in the EDB Index 2022.[57] The report elaborated that Bangladesh improved slightly in some indicators like starting a business, obtaining credit, and getting electricity but deteriorated in protecting minority investors, paying taxes, and trading across borders. The UNCTAD Productive Capacities Index (PCI) reported that although the country has achieved Least Developed Country (LDC) graduation, Bangladesh underperformed in 7 out of 8 elements in LDC

average productivity growth.[58] The high cost of doing business is also one of the prime causes of low FDI in the country. It takes 271 days on average in Bangladesh to transfer a property title, about 6 times longer than the 47-day average worldwide. It typically takes 1,442 days for a local first-instance court to resolve a business dispute, which is about three times longer than the 590-day average for Organization for Economic Cooperation and Development (OECD) high-income nations.[30] Existing foreign investors frequently lament the bureaucratic snarls in Bangladesh that make it difficult to conduct business and attain multiple licenses. Additionally, there are unreported expenses in the name of procedure, policy, law, and infrastructure that significantly impact the cost of doing business.

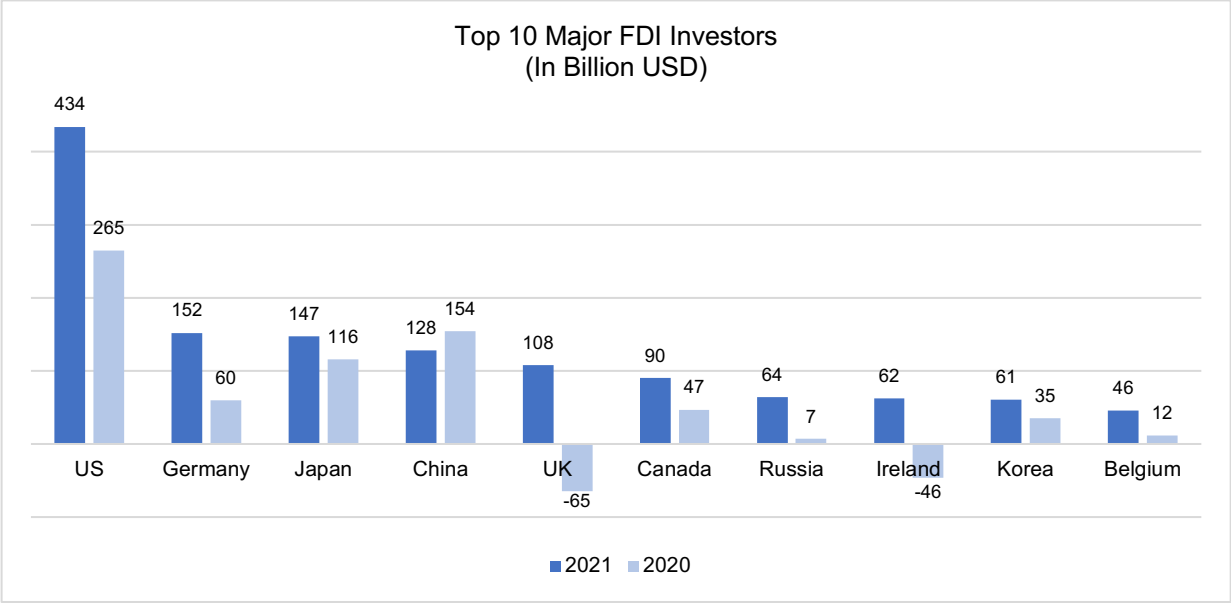
Bangladesh's FDI roadmap needs to successfully address the issues discussed and focus on competitiveness and sustainable regulatory reform. The GoB should spend more on digital architecture, a one-stop investment service center, training of human resources to facilitate technology transfer, motivating existing foreign investors to invest in backward and forward linkage industries, and enhanced participation in regional and global value chains. Priority must also be given to a vibrant equity bond market as it is beneficial both for the government and the private sector. Recently, an MOU has been signed by 5 public and private entities to trade treasury bonds in the secondary market which is a positive start towards the development of the bond market. To protect investors from exchange rate risk, currency overlay strategies should be properly tuned by BB.

In developing an FDI roadmap, Bangladesh cannot ignore the startup sector as it is a promising area of growth worldwide. With a focus on sectors like Fintech, Logistics & Mobility, and eCommerce, Bangladesh's Startup Ecosystem has expanded significantly over the past decade, raising over USD 800 million in funding, most of which (USD 165 million) was accomplished in 2021.[59] On the other hand, USD 42 billion was raised by Indian start-ups and more than USD 350 million was raised by Pakistani start-ups in the same year.[60] Industry insiders and analysts claim that fundraising has been significantly hampered by the perception of Bangladesh in the international community because most foreign investors are unaware of Bangladesh's potential beyond its cheap labor and products. Thus, the GoB should arrange more investment and start-up summits to showcase the potential of local entrepreneurs. Another problem that has constrained the ecosystem's development is a lack of reliable and well-structured local funding. In contrast, many local corporations and angels of India, Indonesia, and Pakistan play a vital role in supporting their start-ups for early development and future funding. Therefore, we need more

such investors who would also allow local entrepreneurs to raise additional funds outside of Bangladesh to expand their companies.

Besides improving the domestic investment climate, Bangladesh should also map potential investors worldwide as part of its FDI roadmap. Out of 10 major global sources of FDI, Japan, China, and South Korea together account for more than USD 336 billion.[61] Although a large volume of their funds goes into the industrial sector of the western countries, they also make significant investments in Asia. Since they have recently shown interest in the energy and financial sectors, bilateral agreements can be an effective mode of attracting FDI in those sectors.

Figure 9: Top 10 Major FDI Investors



Source: OECD International Direct Investment Statistics Database

Long-term FDI is therefore a lower-risk strategy to facilitate Bangladesh in structural transformation, leading to reductions in sovereign credit spreads and the value of debt denominated in foreign currencies, which also has an impact on the balance sheets and refinancing risks of private borrowers. In addition, the GoB along with the International Chamber of Commerce can play a great role in motivating the existing foreign investors to act as advocates to improve the investment climate of Bangladesh.

Boosting Remittance Inflows:

Remittance inflows are imperative for maintaining macroeconomic stability in Bangladesh. During the period of Covid-19, the global labor market was disturbed due to less economic activity which

had a significant impact on remittance inflows and the overseas labor market of Bangladesh. Although the situation has improved over time and expatriates have begun sending money, the amount of inbound remittance has declined in the last year.

Inward remittances of Bangladesh mainly come from gulf countries. In FY21, Saudi Arabia contributed the largest percentage of the total amount of remittances (23.09%), followed by the United States of America (13.97%), the United Arab Emirates (UAE) (9.85%), the United Kingdom (8.17%), Malaysia (8.08%), Kuwait (7.61%), and Oman (6.20%).[40] Despite offering increased incentives, remittance inflow into the country decreased by almost 15% and stood at USD 21.03 billion in FY22 compared to USD 24.77 billion in FY21.[62]

The fall in remittances has been blamed on the influx of sizable amounts of foreign currency through unofficial channels.[62] To stimulate the influx of remittances through authorized channels, BB implemented a 2.0% incentive on inbound remittances in FY20 which has been raised to 2.5% in 2022. Additionally, the requirement of proof of remitter's earnings on recipients exceeding USD 5,000 was also lifted.[62] Despite all of these efforts, the volume of inward transfers decreased in FY22.

Poverty reduction and the post-Covid-19 recovery will suffer if overall remittances keep falling through both formal and informal sources. Therefore, the fundamental structural issues preventing a higher remittance flow should be the core focus rather than just the immediate causes. Besides, concentration should be given to identifying new markets for migration. New markets, however, will need new skill sets. The GoB should develop long, medium, and short-term plans to train human resources and prepare them for the various demands of international employment markets. Vocational training should be customized to the eminent needs of overseas markets to increase remittance inflows over the course of a year. Girls with educational credentials up to the HSC can receive training aimed at labor sectors that demand women workers in addition to caregiver jobs that take around 6 months to a year for training. The GoB should establish more training centers to enhance the skills of potential expatriates. Measures should be taken to limit fraudulent migration networks, which have greatly expanded in recent times. Holding the middlemen accountable and bringing them to justice for scamming migrants with false promises is of utmost importance. Additionally, the cap on investments in NRB bonds, i.e., BDT 10 million,[63] should be removed. This would not only encourage remittance inflows but also more FDI. Similarly, the GoB should also review the different taxes and VAT levied on the bonds to make them more palatable to investors.[64]

5. Conclusion

The current dollar crisis in Bangladesh is a culmination of problems slowly brewing over a period of time. Although the inflationary pressure has been import-induced as a result of global post-Covid conditions and the Russia-Ukraine war, the internal weaknesses of the economy made it difficult to withstand the burden. Issues like non-performing loans in the banking sector, the managed floating exchange rate regime, over expenditure on mega projects and the power sector, and a tendency to apply quick fixes with imports continue to exacerbate the crisis.

The initiatives taken by the GoB to tackle the dollar crisis have so far been less than successful in achieving the desired results. Selling dollars from the forex reserves to fight the supply shortage has put Bangladesh at the risk of insolvency. The rising external debt and servicing costs also pose the threat of an imminent debt trap. In such a situation, when the country's real effective interest rate has already hit negative figures, contractionary monetary and fiscal policies are vital, along with a free-floating exchange rate regime, which can be slowly introduced in the medium term. The central bank should also start piloting invoicing in multiple currencies to reduce the demand pressure on the dollar. In addition, cumulative efforts to enhance export diversification, attract FDI, increase remittance inflows, and improve food security and energy capacity can help turn around the macroeconomic scenario of Bangladesh in the long run.

The growth that Bangladesh has enjoyed in the last decade shows the capability and resilience of the government to make change happen and the Padma Bridge is a symbol of that success. However, the country is at an economic crossroads post its LDC graduation. From here onwards, Bangladesh needs to make the tough calls with its long-term strategy in mind instead of focusing on quick fixes. And the dollar crisis presents that opportunity by being a blessing in disguise, nudging the country in the right direction.

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