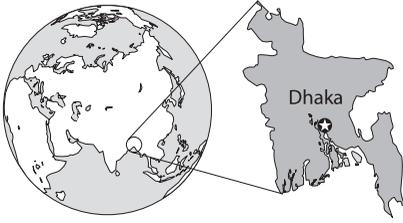


BANGLADESH



World Rank: **137**

Regional Rank: **29**

Economic Freedom Score



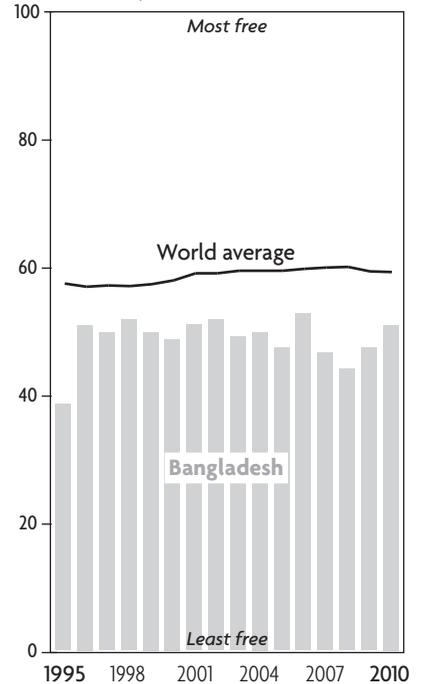
Bangladesh's economic freedom score is 51.1, making its economy the 137th freest in the 2010 *Index*. Its overall score is 3.6 points higher than last year, mainly reflecting improvements in trade freedom and investment freedom. Bangladesh is ranked 29th out of 41 countries in the Asia-Pacific region.

Bangladesh has enjoyed impressive economic growth of around 6 percent per year over the past five years, driven mainly by its limited but growing services and industrial sectors.

Structural and institutional weaknesses remain serious impediments to sustaining such high economic growth rates. Bangladesh's economy remains overly dependent on agriculture, which accounts for almost 20 percent of GDP and employs more than half of the labor force. State-owned enterprises (SOEs) are a significant presence in most productive sectors, including those that are usually dominated by the private sector in other economies. Further, the weak regulatory regime is often heavily politicized, and SOEs tend to crowd out private investment. Corruption, coupled with onerous bureaucracy, is still perceived as pervasive, and the underdeveloped financial sector impedes the growth of a more dynamic private sector, as does a haphazard and politicized approach to the rule of law.

BACKGROUND: After nearly two years of military-backed rule, the People's Republic of Bangladesh returned to democracy after successful elections in December 2008. The secular Awami League party won over two-thirds of the 300 parliamentary seats, returning Sheikh Hasina Wajed as prime minister, a post she had held from 1996–2001. Bangladesh is one of the world's poorest and most densely populated nations, and the majority of its people work in agriculture, though service industries now account for around half of GDP. The formal financial system remains weak, and inadequate infrastructure discourages investment. Weak institutions continue to undermine economic development and fuel corruption.

Country's Score Over Time



Quick Facts

Population: 160 million

GDP (PPP): \$213.5 billion

6.2% growth in 2008

6.2% 5-year compound annual growth

\$1,334 per capita

Unemployment: 4.2% (2006)

Inflation (CPI): 8.4%

FDI Inflow: \$1.1 billion

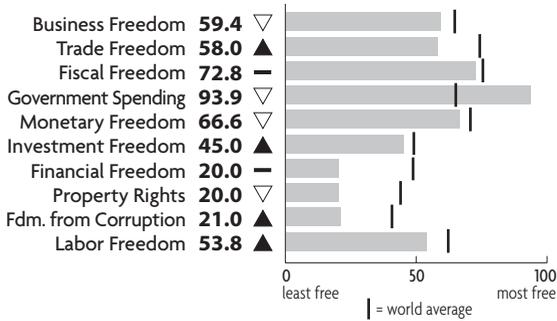
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

BANGLADESH'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 59.4

The overall freedom to start, operate, and close a business is limited by Bangladesh's regulatory environment. Starting a business takes an average of 44 days, compared to the world average of 35 days. Obtaining a business license requires less than the world average of 18 procedures.

TRADE FREEDOM — 58

Bangladesh's weighted average tariff rate was 11 percent in 2007. Import and export restrictions, numerous border taxes and fees, restrictive labeling requirements, burdensome import licensing rules, export subsidies and other support programs, government monopolies and state trading boards, complex and non-transparent government procurement, inefficient and corrupt customs administration, and weak enforcement of intellectual property rights also add to the cost of trade. Twenty points were deducted from Bangladesh's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 72.8

Bangladesh has a moderate income tax rate and a high corporate tax rate. The top income tax rate is 25 percent, and the top corporate tax rate is 45 percent. Other taxes include a value-added tax (VAT) and a tax on interest. The Administration Capacity and Taxpayer Services (TACTS) program, created to enhance transparency and to help authorities encourage tax compliance, has been implemented successfully. In the most recent year, overall tax revenue as a percentage of GDP was 8.4 percent.

GOVERNMENT SPENDING — 93.9

Total government expenditures, including consumption and transfer payments, are low. In the most recent year, government spending equaled 14.3 percent of GDP. Expenditures on social safety nets are increasing as a response to the global crisis.

MONETARY FREEDOM — 66.6

Inflation is accelerating, averaging 8.4 percent between 2006 and 2008. Subsidies and other government assistance to the agriculture sector have doubled since 2005. Fifteen points were deducted from Bangladesh's monetary freedom score to adjust for price-control measures that distort domestic prices for petroleum products, some pharmaceuticals, and goods produced in state-owned enterprises.

INVESTMENT FREEDOM — 45

Officially, foreign investment is welcomed, but certain sectors are restricted, and potential investors face a host of challenges: delays in project approvals, burdensome bureaucratic procedures, high levels of corruption, and uncertainty about contract and regulatory enforcement. The Foreign Investment Act of 1980 guarantees the right of repatriation of invested capital, profits, capital gains, post-tax dividends, and approved royalties and fees. Foreign firms are able to repatriate funds without much difficulty, provided the appropriate documentation is in order. In general, government laws and regulations and their implementation create rather than reduce distortions or impediments to investment.

FINANCIAL FREEDOM — 20

The financial sector is underdeveloped and provides a limited range of banking services. Bangladesh's state-owned commercial banks account for more than 30 percent of total banking system assets, undermining the sector's efficiency. Behind the high level of non-performing loans often stand weak financial supervision, fraudulent transactions, mismanagement, and political influence in lending practices. The financial system consists of the central Bangladesh Bank, four nationalized commercial banks, five government-owned specialized banks, 30 domestic private banks, 10 foreign banks, and 28 non-bank financial institutions. An extensive microfinance presence remains largely unsupervised. There are two stock exchanges, but market capitalization is low. There are controls and limits on transactions regarding money market instruments. Bangladesh has made modest progress in recent years in its banking sector. There has been noticeable credit and deposit growth as well as a reduction in non-performing loans, particularly those of state-owned commercial banks.

PROPERTY RIGHTS — 20

Bangladesh has a civil court system based on the British model. Although the constitution provides for an independent judiciary, the lower courts are considered to be part of the executive branch and suffer from serious corruption. Contract enforcement is weak, and dispute settlement is further hampered by shortcomings in accounting practices and real property registration.

FREEDOM FROM CORRUPTION — 21

Corruption is perceived as pervasive. Bangladesh ranks 147th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008, a slight improvement from 2007. Widespread and severe corruption among government officials and police, who engage in corrupt practices with impunity, facilitates trafficking in persons. Given that corruption blights all other economic freedoms, this is a key area for improvement.

LABOR FREEDOM — 53.8

Inflexible employment regulations hinder job creation and productivity growth. The non-salary cost of employing a worker is low, but dismissing a redundant employee can be difficult.