Bangladesh’s economic freedom score is 55.1, making its economy the 128th freest in the 2018 Index. Its overall score has increased by 0.1 point, with improvements in the scores for judicial effectiveness and government integrity outpacing declines in property rights, trade freedom, and labor freedom. Bangladesh is ranked 29th among 43 countries in the Asia-Pacific region, and its overall score is below the regional and world averages.

Bangladesh’s economy has grown by approximately 6 percent annually for two decades despite prolonged political instability, poor infrastructure, endemic corruption, insufficient power supplies, and slow implementation of economic reforms. The fragile rule of law continues to undermine economic development. Corruption and marginal enforcement of property rights force workers and small businesses into the informal economy. Despite some streamlining of business regulations, entrepreneurial activity is also hampered by an uncertain regulatory environment and the absence of effective institutional support for private-sector development.

BACKGROUND: British partition of India in 1947 resulted in the creation of East Pakistan in the Muslim-majority eastern area of Bengal. With India’s support, the Awami League fought for autonomy and won independence for Bangladesh in 1971. Prime Minister Sheikh Hasina of the Awami League was reelected in 2014 in an election boycotted by the opposition Bangladesh Nationalist Party. After antigovernment demonstrations and deadly violence in 2015, the government jailed thousands of opposition members, prompting international criticism. Despite the violence, GDP growth has been robust. Garment exports, the backbone of Bangladesh’s industrial sector, accounted for more than 80 percent of total exports and surpassed $25 billion in 2016. Emigrant remittances account for as much as 8 percent of GDP.
Property laws are antiquated, record-keeping systems are poor, and property rights are enforced unevenly. The judiciary is not independent. Contract enforcement and dispute settlement are inefficient. Corruption and criminality, weak rule of law, limited bureaucratic transparency, and political polarisation have undermined government accountability. Anticorruption efforts are weakened by politicized enforcement and subversion of the judicial process.

The top income tax rate is 25 percent, and the top corporate tax rate is 45 percent. Other taxes include a value-added tax. The overall tax burden equals 8.8 percent of total domestic income. Over the past three years, government spending has amounted to 13.9 percent of total output (GDP), and budget deficits have averaged 3.4 percent of GDP. Public debt is equivalent to 33.1 percent of GDP.

Implementation of government efforts to create a better business environment has been slow. Obtaining electricity is becoming simpler but remains problematic. Enforcement of applicable labor law lacks consistency. Unions are heavily politicized, and labor-management relations remain adversarial. In 2017, the government increased rice subsidies and maintained price controls on food, energy, fuel, and agricultural production.

Trade is moderately important to Bangladesh’s economy; the combined value of exports and imports equals 38 percent of GDP. The average applied tariff rate is 11.9 percent. Nontariff barriers impede trade. Government openness to foreign investment is less than average. Amendments to the Bank Companies Act, intended to strengthen the central bank’s independence and reduce special treatment of the state-owned commercial banks, have been implemented.