Economic Crisis of Bangladesh's RMG Sector Effect of Government Borrowing to Meet the Budget Deficit

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Abstract

The economic crisis in Bangladesh's real estate industry sector is a cause for concern as it is heavily affected by the government's borrowing to meet the budget deficit. The high level of debt has led to inflation and a decrease in consumer spending, which has harmed the real estate market. Developers are struggling to find buyers for their properties and are facing financial difficulties as a result. The government should consider implementing policies to address the budget deficit and reduce the burden on the real estate industry. This could include measures to increase revenue through tax reform and reducing government spending. Additionally, the government should also focus on providing incentives for investors to invest in the real estate market, such as tax breaks and subsidies. Overall, addressing the budget deficit and providing support to the real estate industry is crucial to ensuring the stability and growth of the economy. The majority of the government's revenue comes from taxes, VAT, and the domestic sale of bonds and certificates of deposit, making it one of the largest corporations in any nation's financial industry. There are three organizations through which governments may occasionally borrow money from other nations: the World Bank, the IMF, or LIBOR London Inter Bank. To close the budgetary gap, higher-rate borrowing will be necessary. Estimating income and expenses before making any purchases or placing anything on the market is the primary tenet of a budget.

Keywords: Economic, Government, Finance, RMG sector, Budget Deficit, Sustainable Development
1. Introduction

Many individuals mistakenly believe that the government controls all of the nation's resources, however, this is incorrect because the government is a national administration that acts on behalf of the entire nation. The government is in charge of the nation's development, as well as the nation's roads, bridges, schools, and medical facilities. As a result, the question of the government's operations and funding sources is brought up. Taxes on individuals, businesses, imports, and exports of products and services generate a sizable amount of revenue for the government. Despite being a massive undertaking, the government invested these sums in the growth of the nation. For this reason, before making any decisions, all decision-makers must ascertain how much money they will need to spend and how much money they have set aside in a budget. Many small firms make investments that don't produce a good return on investment (ROI), which causes the owner or the authority to lose money. Let's now examine the government's viewpoint, which contends that due to inflation, political and social unrest, worldwide pandemics, and other concerns, all initiatives are subpar and therefore do not produce a profit. Income and expenses can occasionally be out of balance when a government agency develops a budget, leaving a gap in the budget known as the budget deficit. The government's budget is divided into two parts: the revenue budget and the capital budget. Revenue expenditures and revenue receipts are the two types of revenue budgeting. Revenue receipts are tax money that does not result in any liabilities. Both tax and non-tax money are included in the revenue receipts. Corporate and individual income taxes, as well as service taxes like import and export levies, all contribute to tax revenue. Under the progressive tax system, wealthy individuals or businesses are forced to pay significant income taxes, while those with lower incomes are only compelled to pay the absolute minimum. When calculating tax rates, the income disparity between people and enterprises is taken into consideration. Every country tax luxury like cars, cigarettes, and petroleum products more heavily than it does necessities like food, clothing, and household goods. In addition to paying interest on debts it has taken out, the government also makes money from leasing out land, rivers, and bridges. Here are some examples of non-taxable income. Plan and non-plan revenue expenditures are the two categories of revenue expenditures. Service fees, such as low-cost goods for the country's low-income people, as well as the daily operational costs of government offices, are included in revenue expenditures. Revenue spending includes government activities for both development and other goals. For example, social services, export, foreign trade, and the expansion of the agricultural and industrial sectors all receive funding from the government.
2. Review of Relevant Literature

The government had to borrow money, which came with an interest fee that had to be paid back, to balance the budget gap. A loan taken by the government is referred to as borrowing in the budget sheet. To sell treasury bills or bonds, the government frequently borrows money as well. The interest rate of the current debt and the previous year's borrowing both have an impact on the government's borrowing fiscal deficit. It raises a new challenge because the government is attempting to raise tax income by increasing the tax on the country's daily essentials, according to the Corporate Finance Institute (2020, March 29). For instance, in Bangladesh, the cost of many necessities is rising daily while the average person's income is staying the same. As a result, many people's standard of living changes as the middle class moves into the upper low class and those in the lower classes struggle with the issue of poverty. According to Salehuddin Ahmed, a former governor of the Bangladesh Bank, the government borrows heavily for unnecessary projects, and as a result, huge sums of money are being sent to Bangladesh every day. If the government cancels all of these projects from the fiscal year budget, our nation's budget deficit and debt will be reduced. On the other hand, the government wants to use the desire to emulate a developed nation as an excuse to build a bridge and a flyover to create a good, simple, and comfortable communication system throughout our nation. The Bangladeshi government borrows money from banks to fund the budget deficit in the fiscal year 2021–2022 as a result of the development project. According to Hasan, M., the Dhaka Tribune, Bangladesh's budget deficit exceeds 35% of its entire 100% fiscal budget (2021, June 3). The government can obtain loans directly from private banks, bonds, and certificates of deposit like sanchayapatra in several instances. At first, glance, borrowing money from the government to close the budget gap may seem normal, but in the long run, it can result in several problems, such as government companies controlling a large portion of the stock in private companies at the same time that they were making crucial decisions and losing market control because some owners of private companies also owned land in the nation. Plans for greater borrowing imply that the government's debt will rise, resulting in a higher debt-to-GDP ratio, particularly in times of slow GDP growth. Off-budget borrowings are loans made by a public entity rather than the central bank at the central bank's request. However, because the loan technically does not belong to the central bank, it is excluded from the calculation of the national fiscal deficit. Administration lag is one of the reasons why the bulk of development projects in Bangladesh don't get finished on time: an authority figure's improper work. Due to the operational lag that results, the project is not completed on time and as it takes longer, more money is needed. There is a recognition gap as a result of the government's inability to appropriately assess the project's expenses and economic
problems. To use immoral methods of making money and distributing more money from the national development fund, politicians formulate policies that benefit the members of their party. Additionally, the government introduced a new policy for businesspeople or corporations like a lower tax rate, which sounds good but has a really bad impact because the corporate has a lot of money but the average person does not, so when the time comes, the majority of the money is taken from the average person to impose more take in the food production and living-wage product, creating a recession in the nation and one of the bad fiscal policies. The market's total demand and total supply are impacted by the growth in tax revenue.

When the price of the product is increasing the aggregate demand is atomic decreases and lack of demand in the market overall economic problem happening in the financial market the government face a problem if common people have more income and expend money than through tax the government can earn tax revenue, to fill up the gap government borrow money which is debt for the country and cover the government budget deficit.

It will have to fork over a considerable quantity of money to implement these measures. To raise enough money to cover all costs, it is crucial to pursue every funding option. Budgeting involves estimating income and expenses. Therefore, the budget is the most significant informational document that the government produces. Budget deficits increase GDP by causing increased output and income by enabling the government to put more money into the economy than it takes out. A greater budget deficit can result from a fiscal multiplier effect, which would boost private-sector investment. As a form of fiscal stimulus, increasing borrowing can aid the economy in avoiding a deflationary collapse. In addition to supply-side policies like corporate tax cuts, increasing investment in capital projects like bridges, development projects, flyovers, and power plans may promote long-term growth. Following an external economic shock, Keynesian economists advocate using fiscal policy to actively manage total demand, production confidence, and investment. If a liquidity trap develops, addressing the budget deficit may help resolve the problem more effectively than monetary policy. The national debt grows as a result of the government's budget deficit, which raises the cost of paying down debt. In the future, it might be necessary to raise taxes and cut vital government services. An increase in long-term interest rates could hold down private-sector investment. To convince citizens to lend the government the money it requires, the government may need to provide higher interest rates on its bonds. Higher cost-push and demand-pull inflation may be the result of an overheated economy brought on by excessive government borrowing. The likelihood that the state would go bankrupt rises as more government services and infrastructure are financed through borrowing. Despite falling bond yields, there has never been a link between a country's budget deficit and long-term
interest rates. Varied economists have different viewpoints on the debate between Keynesian and fiscally conservative economists. Since the fiscal multiplier is unknown, determining the impact of a deficit on GDP, output, and income is challenging.

3. Methodology

This study's research methodology will combine qualitative and quantitative techniques. Secondary sources, including news stories, government reports, and published research papers, will be used to collect the data for this study to learn more about the real estate industry's economic problems in Bangladesh and the worrying consequences of government borrowing to close the budget gap, a thorough literature analysis will be done. The statistical analysis of data on Bangladesh's real estate market, including information on building activity, home prices, and government borrowing, will be used to gather quantitative data to find trends and patterns in the data, descriptive and inferential statistics will be used to examine this data. Interviews with specialists in Bangladesh's real estate and economic growth will be used to gather qualitative data in addition to the quantitative research. These professionals will shed light on the reasons behind the real estate crisis and the effects of government borrowing on the business to provide a deeper insight into the difficulties the sector is facing, the study will also use case studies of certain real estate projects in Bangladesh. These case studies will be used to demonstrate how government borrowing has affected the real estate market and to suggest potential crisis resolutions to provide a thorough knowledge of the economic crisis in Bangladesh's real estate business sector, this study will employ a variety of methodologies.

4. Data Analysis

The paper must identify public spending, taxes, deficits, and debt. Deficits are a flowing variable, which implies that when the government borrows money in a given year, the stock of accumulated deficits from the prior year is carried over to the debt for the current year. Revenue and expenditure are two factors that influence the government's budget. For instance, a balanced budget means that the amount spent by the government is equal to the amount collected in taxes. Additionally, the government lowers taxes when a recession is in effect to promote consumption and disposable income. In this instance, though, the government's spending is rising while tax collection is declining, increasing the nation's budget imbalance. In other words, the budget deficit is zero when tax collection equals government spending, and it is growing when the reverse is true. Real interest rates favour deficits that have been adjusted for inflation. The total deficit, including interest payments and changing debt, is the same. According to the calculation,
government spending will remain constant, taxes will decrease initially, and a subsequent increase in tax rates in Vedanta's future will make up the difference (2022, March 10).

Figure 1 displays the budget deficit from 1981 to 2017 as well as net domestic and international financing. Bangladesh's dependency on foreign investment was extremely low in 1981, but it gradually climbed until 2005. However, international finance is seeing a surge in 2017. In 1981, Bangladesh's government borrowed only 42.5 billion dollars, a rise of 415.67 billion dollars from 2018. However, according to Alam, M. M., Sadekin, M. N., Islam, R., and Moudud-Ul-Huq, S., government borrowing from the banking sector declined to 239.03 billion and increased to 199.17 billion from non-banking sources such as T-Bills, T-Bonds, certificates of deposit, public deposits, and so on (2021). In addition, Bangladesh's budget deficit is expanding annually as a result of the size of the nation's debts and the interest payments made on them. According to Bangladesh Economic Review, the country's government budget deficit in 1981 was less than $100 billion but is now more than $1100 billion (2005, 2018). Contrarily, the net domestic finance has increased from 2011 to 2017, from less than 200 billion in 2011 to more than 600 billion in 2017, which aids in the proper operation of the nation's economy. In my opinion, domestic funding is better than foreign loans because it enables common people to contribute to the development of the country while resulting in less debt. Even large economies like the United States, Canada, Mexico, Spain, Korea, New Zealand, Turkey, and France borrow money from their governments for large projects or development projects, but they can all repay the loans. The world debt is increasing, as shown in this
graph, from 200 trillion in 2011 to 335 trillion in 2020, according to data from the IIF, BIS, IMF, and national sources. Government borrowing should be risk-calculated to ensure that the amount borrowed will eventually be repaid with interest. One of the greatest ways to fix any problem is to exercise caution before issues emerge. For this reason, I've included some useful advice and ideas in the section below to address the issue of the government deficit. Capital budgets can be divided into two categories: capital receipts and capital expenditures. The receipts could lead to liability or a decrease in so-called capital revenues. Capital receipts happen when the government borrows money from the general public. In addition to central banks, commercial banks, and the issuance of Treasury Bills, governments can get loans from international organizations like the World Bank and foreign countries like the Chinese government to support significant projects like the Padma Bridge. To finance a sizable project for the future, the government also took out extra loans against post office accounts, National Savings Certificates, and provident funds. In addition to unplanned and planned capital expenditures, there are capital expenditures. Non-plan expenditures are general costs that the government bears on behalf of the nation's regular citizens, such as those associated with social service, economic development, and volunteerism.

5. Discussion

The real estate industry sector in Bangladesh had an economic crisis brought on by many factors. One of the key causes was the nation's real estate market experiencing a bubble due to the industry's rapid growth. Low-interest rates and easy access to financing encouraged developers to construct more homes than there was a market for, which exacerbated the boom. The situation was also exacerbated by a lack of control and regulation by the government, which permitted construction without following zoning and planning regulations. The global economic recession of 2008 also harmed Bangladesh's real estate market because it decreased foreign investment and decreased demand for housing. These elements all worked together to bring about a crisis in Bangladesh's real estate market. The hostilities in Ukraine and Russia had little of an immediate impact on Bangladesh's real estate market. However, the continued political unrest and fighting between the two nations may have indirectly affected the sector due to the unpredictability of the world's economies and governments. For instance, the market for real estate in Bangladesh would be impacted if the conflict reduced foreign investment or commerce. Furthermore, if the battle heightened tensions between other nations and regions, it might obstruct international real estate deals or discourage foreign investors from investing in Bangladesh.
The hostilities in Ukraine and Russia may not have directly affected Bangladesh's real estate market, but depending on the general economic and political situation, they may have had indirect effects. Bangladesh's total economy was significantly impacted by the real estate industry's economic crisis. The crisis caused a fall in construction activity and property sales, which in turn caused a decline in economic growth. The real estate sector is a significant contributor to Bangladesh's GDP. In addition to harming employment, the crisis also resulted in job losses in the industry as a result of the drop-in construction activity. Due to this, there was an increase in unemployment and a decrease in household incomes, which made the situation worse. The crisis also led to a drop in the value of real estate holdings, which hurt many people's wealth and savings. This in turn caused consumer spending to drop and the economy's demand for products and services to diminish. Overall, Bangladesh's economy suffered as a result of the real estate industry's economic crisis, which also reduced consumer spending, jobs, and economic growth. The government and industry stakeholders took some actions to lessen the impact of the financial crisis on the real estate market. Public-Sector Stimulus Packages: To support firms and industries hit by the crisis and to help the economy recover, many governments throughout the world enacted stimulus plans. This includes measures like mortgage forbearance programs, mortgage modification programs, and rental assistance programs for the real estate industry. Interest rate reductions: To encourage lending and boost economic activity, many central banks, including those in the US, have decreased interest rates. As a result, borrowing money and purchasing a home became more affordable for consumers, which boosted the real estate industry. Tax incentives were also provided by the government to promote investment in the real estate market. For instance, the government in the United States provided tax incentives to those who bought new homes or renovated their old homes. Initiatives by the Industry: Industry participants also took action to lessen the impact of the financial crisis on the real estate industry. For instance, several real estate firms streamlined their operations by using cost-cutting strategies and embracing new technologies. Additionally, some businesses started providing buyers with more flexible payment choices, like rent-to-own and lease-to-own programs. Overall, the real estate sector was stabilized and kept from collapse during the economic crisis thanks to a mix of governmental actions and industry initiatives. To avoid future occurrences of the same problems, several lessons can be drawn from the economic crisis in Bangladesh's real estate sector. To make sure that developers are adhering to the appropriate rules and regulations, it is crucial to have adequate regulation and oversight in the real estate business. An economic crisis may result from oversupply and speculation, which might be avoided in this way.
The real estate sector must prioritize sustainable growth. This entails developing properties that are both socially and economically viable as well as environmentally beneficial. Before investing in the real estate sector, careful due diligence must be performed. This entails investigating the developer, the area, and the competitive landscape. To lower risk, it's critical to diversify investments in the real estate sector. This includes making investments in various real estate markets and types. To prevent fraud and corruption, the real estate sector must be transparent. This entails disclosing all pertinent property-related information and making sure that contracts are transparent and explicit. Similar to crises in other nations, Bangladesh's real estate market experienced an economic downturn. In the early 2000s, the industry expanded quickly as developers built numerous high-rise residential complexes and other commercial properties in the hopes of turning a quick profit. But eventually, the demand for these properties fell short of projections, resulting in an oversupply of unsold apartments and a dramatic decline in prices. This resulted in a crisis in the sector, which was exacerbated by rising interest rates and a recession in the general economy. The fact that the Bangladeshi government responded to the issue very quickly and forcefully sets it apart from crises of a similar nature in other nations.

To stabilize the industry, the government put in place many policies in 2011. These included stricter lending requirements for banks and financial incentives for developers to finish unfinished projects. These actions supported a turnaround in the industry and helped to reestablish market trust. Because of overbuilding and speculative activity, Bangladesh's real estate sector underwent an economic crisis, but the government's intervention lessened the impact of the crisis and aided in the country's recovery. The job situation and standard of living of professionals and workers in the business were significantly impacted by the economic crisis in Bangladesh's real estate sector.

The crisis led to numerous individuals and professionals losing their jobs or having their hours and compensation decreased. As many individuals relied on the revenue from these jobs to maintain themselves and their families, this had a knock-on effect on their families and communities. The building business, which was intimately related to the real estate market, suffered from the recession as well. Lack of finance caused several construction projects to be postponed or abandoned, which resulted in additional job losses and decreased pay for those working in the industry. The crisis also hurt the housing market, as there was less demand for new homes and less appreciation for the value of existing homes.

As a result, there was a worsening effect on industry employees' and professionals' livelihoods and employment as the demand for their services fell. The real estate sector's economic crisis in Bangladesh
had a considerable negative influence on industry workers' and professionals' employment and livelihoods, resulting in job losses, lower hours and pay, and a decline in demand for their services. The availability and affordability of homes for citizens were significantly impacted by the economic crisis in Bangladesh's real estate sector. The crisis caused the construction industry to slow down, which resulted in a decrease in the number of new housing units being produced. As a result, there was a housing shortage, especially in metropolitan areas, which made it more difficult for people to locate acceptable and cheap homes. In addition, the crisis led to a decline in real estate values, which made it more difficult for people to afford to house. Many people who could once afford to buy a home discovered that they could no longer do so and were forced to look for other options, such as renting or living with family members. The crisis also hurt the rental market because many people who couldn't afford to buy a home instead chose to rent. Rent prices rose as a result of the rise in demand for rental units. Having to pay higher rent costs to secure a home, making it much harder for people to obtain affordable accommodation.

6. Conclusion

The economic crisis in Bangladesh's real estate sector had a substantial influence on citizens' access to and affordability of housing, making it more difficult for them to find suitable and affordable housing options. The economic crisis in the real estate sector has had a severe influence on foreign investment in Bangladesh. This is a result of the fact that foreign investors are typically hesitant to invest in a market with shaky financial conditions. Additionally, the property value decline brought on by the real estate crisis has made it harder for foreign investors to realize a reasonable return on their assets. One of the main factors contributing to the economic crisis that is harming Bangladesh's real estate industry is the oversupply of homes. A spike in the building of new structures has resulted in an abundance of unsold houses on the market. Property prices have been under pressure to decline as a result, which has made it challenging for developers to turn a profit. Banks and other financial institutions have been less willing to lend money to developers and home buyers as a result of the economic crisis in the real estate sector, which has also resulted in a decrease in credit availability. This has made it more challenging for people to purchase or sell real estate, worsening the problem. Foreign investment in Bangladesh has been negatively impacted by the economic crisis in the real estate sector. It has decreased the market's allure to potential investors and made it harder for foreign investors to turn a profit. The economic crisis has had varying long-term consequences on the viability and expansion of Bangladesh's real estate sector. One way the crisis affected the business was by slowing down demand for residential and commercial real estate. Property values dropped as a result, and construction work decreased. However, the recession also
gave the industry a chance to restructure and concentrate on sustainability. Due to the housing crisis, there has been a shift toward more reasonably priced housing, necessitating the adoption of energy-efficient construction methods and materials. This aided in encouraging sustainability in the sector. The crisis also shifted attention to the creation of cheap homes, which aided in the industry's expansion. This was crucial in a nation with a sizable population and a rising housing shortage. In addition, while the economic downturn short-term hurt Bangladesh's real estate sector's viability and expansion, it also brought about long-term improvements.

References


