

Coronavirus paving the way for higher inflation in Bangladesh?

TASNEEM RAIHAN

THE novel coronavirus has significantly affected and altered the economic courses of countries around the world, be it developing or developed. It is fair to say that even advanced economies such as the US are grappling with economic challenges that coronavirus has posed. Therefore, it is not unexpected that developing nations such as Bangladesh, India, and Pakistan will also bear the brunt of the pandemic in terms of some form of economic crisis. While it is too early to predict exactly how the economy of Bangladesh is going to react to the challenges, it is important that the policymakers remain cognisant of the key issues so that they can take necessary steps to pre-empt any steep nosedive of the economy.

On July 24, 2020, I came across a news article published in the Bangla daily *Prothom Alo*, which mentioned that recently there has been an increase in the premature withdrawal of National Savings Schemes (NSS). It can easily be surmised that many savers, faced with declines in their incomes due to the pandemic, have felt pressured to withdraw their savings with the NSS forgoing the promised higher interest rate. According to the news article, between July 2019 and May 2020 the Directorate of National Savings Bangladesh (DNSB) had issued national savings certificates (NSC) worth Tk 57,805 crore. During the same period, NSC holders sold off NSCs worth Tk 46,794 crore. This basically means that the net value of NSCs sold in the eleven-month period was Tk 11,011 crore. According to the same news article, the trend in NSC transactions in the past three months has been even more worrisome. For instance, in April 2020, the net value of NSCs sold was Tk (-) 354 crore. In other

words, more NSCs were withdrawn than were issued by the DNSB in April. This speaks volumes about the adverse impact of the current pandemic on the economy of Bangladesh and indicates a further decline in the net value of NSCs sold at least in the short run.

Given the above scenario, the first question that we should ask is, is there a reason to worry? If yes, why? Naturally, the next question is what can be done to minimise the worry. To answer the first question, we first need to understand how the government

budget proposed for the FY 2020-2021, the target net borrowing from the NSS has been set at Tk 20,000 crore. However, as mentioned previously, between July 2019 and May 2020 the DNSB sold NSCs of net value Tk 11,011 crore. There is a clear gap of around Tk 9,000 crore between the target amount and the actual amount available. Given the recent trend in the NSC market, it will be overly optimistic to assume that the premature withdrawals of NSCs will lose pace anytime soon. On the other hand, businesses, in general,

limited sources of finance that has the potential to lead the government to uncharted waters.

Coming to the first question: is there a reason to worry? The short answer is yes. If the government sticks to the expenditures proposed in the budget while facing budget financing challenges as described above, it may resort to borrowing money from Bangladesh Bank. In order to meet the borrowing demand of the government, Bangladesh Bank may then consider “printing” more money. This is the main reason for worry. As it is an already established fact, printing more money to finance government expenditures is a highly risky business as it can lead to an increase in inflation which can quickly go out of hand and result in hyperinflation. Zimbabwe in late 2000 is a case in point. Moreover, reportedly, Bangladesh Bank has recently announced a policy to increase money supply in the market. To this end, Bangladesh Bank has cut down both repo and reverse repo rates. As a result, commercial banks can borrow money from Bangladesh Bank at a rate lower than before. This is expected to increase commercial banks’ liquidity which in turn can lead to an increase in the inflation rate. It should be noted here that the inflation rate in Bangladesh as of June, 2020, according to Bangladesh Bureau of Statistics is 5.65 percent which has increased by 17 percentage points in the last one year.

A natural question that can come to the reader’s mind is, what is the inflation risk like in the developed countries which have been implementing mammoth stimulus packages? The example of the US will probably suffice here to answer this question. The US has been enjoying exceptionally low inflation rates for several decades now, thanks to the Volcker Disinflation Policies in late

1970s and early in 1980s. Therefore, increasing money supply has not had a big impact on the inflation rate in the US. However, a word of caution should be added here. The US will find itself in dire straits if the inflation rate shoots up for unforeseen reasons as the target fed rate is already too low (between 0-0.25 percent) to be manipulated to affect the money market. This, however, is a different topic and deserves a separate discussion.

Now that we have an answer to the first question, an avid reader will be disappointed if I wrap up without answering the second question. Unfortunately, the answer to the second question is much more difficult and depends on many factors and information on the latest dynamics of the economy. But one thing should be clear, there is no single policy that can be implemented to minimise the worry. Rather, there has to be a combination of carefully designed policies. As a starting point, the government may consider revising the areas of its expenditures and prioritise some areas where more resources should be directed to have the most beneficial impact on people’s lives. Another method which has proven to be a very effective anti-inflationary tool is bolstering the credibility of the central bank. If Bangladesh Bank can credibly show its anti-inflationary commitment, inflation can be kept within reasonable bounds through keeping in check people’s inflationary expectations. After all, most if not all economic agents are rational human beings who do foresee the future more or less correctly.

Dr Tasneem Raihan is a Bangladeshi-American financial economist who was involved in Bangladesh Bank’s SME Policy Update and designing the credit guarantee scheme for women-owned SMEs in Bangladesh while working at A2F Consulting, a US-based economic advisory firm.



People throng stores at the capital’s Karwan Bazar kitchen market on March 19, 2020 to buy daily essentials.

PHOTO: STAR

finances its expenditures. The two main sources of government finances are taxes (mostly income taxes and VAT in context of Bangladesh) and debt. One of the major sources of non-bank borrowing for the Bangladesh government is NSS. In the originally proposed budget for the FY 2019-2020, the target net borrowing from the NSS was set at Tk 27,000 crore. However, later it was revised downward to Tk 11,924. Interestingly, in the latest

are experiencing slowdowns due to the pandemic which implies that tax revenues that can be raised will not be able to meet the expectation of the proposed budget. The situation will exacerbate if the government finds it necessary to implement a stronger stimulus package to revitalise the economy. It is not a lack of intent on the part of the government to help the economy come out of a downturn or pre-empt an imminent crisis, rather

PROJECT ■ SYNDICATE

Whose India?

AWAKENING INDIA



SHASHI THAROOR

AS India prepares to celebrate the 73rd anniversary of its independence on August 15, a growing number of Indians are coming to believe that the battle to preserve the essence of the country born in 1947 is already lost. Many commentators have concluded that Prime Minister Narendra Modi’s government has already, in effect, inaugurated a “second republic” by upending the key assumptions of the first.

According to these despairing analysts, this “refounding” began on August 5, 2019, when Article 370 of the Constitution was abrogated and Jammu and Kashmir was stripped of its autonomy, and was completed in Ayodhya earlier this month, exactly one year later. There, in an hours-long grand ceremony televised to adoring millions, Modi performed a *bhoomi poojan* (worship of the Earth) and laid a 40-kilogramme (88 pounds) silver brick into the foundation of a future temple to the Hindu god Rama, on the site of the demolished Babri mosque.

Even before the construction of the temple had begun, this ceremony (and Modi’s participation in it) set the seal on the grand Hindutva project of Modi’s Bharatiya Janata Party (BJP). Many feared that India, which from its foundation has been a secular state, had turned a corner to becoming a Hindu Rashtra, a state of and for its Hindu majority.

From the moment of its electoral victory in 2014, Modi’s government embarked on its project of transforming the polity, consolidating its hold on the state machinery during its first term. Meanwhile, it sought to keep its supporters mobilised through re-conversion to the mother faith, vigilantism and lynching of non-Hindus for supposed transgressions against cows, and outrage over minority appeasement and the allegedly anti-national statements and actions of dissenters, ranging from students to secularists to Kashmiris to Pakistani terrorists.

With the groundwork laid, BJP’s bigger electoral victory of 2019 launched the next stage of the national project. It started with the criminalisation of the Muslim divorce practice known as triple *talaq* (an unmistakable warning shot across the bows of the Muslim community). It continued with the stripping of Jammu and Kashmir’s autonomy (a clear signal that constitutional assurances were also up for grabs and that federalism could be overridden) and the passage of the amendment to the Citizenship Act (a direct challenge to the secular, non-religious assumptions of the Constitution).

Next came the temple in Ayodhya, by which Modi’s government signalled that it was dismantling another relic of the first republic—inter-faith accommodation. As the political scientist Suhas Palshikar put it, “The Supreme Court ruling in the Ayodhya case, ordering that Muslims be given an ‘alternative’ site, formalised the peripheralization of the Muslims both spatially and politically, while the celebrations openly involving

state machinery underscore the officialization of the status of Hindu religion as the basis of the new republic.” If secularism, pluralism, and diversity had been the catechism of the first republic, the BJP’s Hindutva is the liturgy of the second.

The BJP has been able to do all this because it has the necessary legislative majority. But, as Palshikar points out, it has gone well beyond such formalities through “the transformation of the Indian state into a repository of repression” through “a politicised and poisonous administration—particularly in the case of the enforcement and investigation machineries.” Since 2014, the government has delegitimised dissent and criticism as hostile to the national interest, and every liberal thought and contrarian idea as undermining national pride and unity. The equation of opposition to the government—indeed, of liberal democracy itself—with “anti-national” behaviour has inevitably followed.

There has clearly been a failure on the part of India’s independent institutions—the judiciary, opposition political parties, the media, the Election Commission, and universities—to stanch the tide of militant majoritarianism. The Supreme Court’s Ayodhya judgment, condemning the destruction of the mosque but nonetheless awarding the disputed site to Hindus, was in many ways emblematic of the judiciary’s complicity in enabling this surrender.

In many other cases, the Court has obligingly declined to hear challenges to government actions (including on habeas corpus petitions, the constitutionality of the Article 370 abrogation, and the detention of

political leaders) or acquiesced in them (like the prolonged Internet cutoff in Kashmir) with scarcely a murmur. The opposition, while articulate, particularly on social media, has been widely, if not always fairly, derided for its tameness. It has also been divided—sometimes even within parties—on such vital issues as Kashmir and Ayodhya.

But the battle to define the Indian state is not yet over. Today, the ideals

A narrow-minded, sectarian India will never appeal to these alienated young people. Only an India that ensures full rights and dignity for all—the promise of liberal democracy—can do that.

Over the last six years, the votaries of Hindu nationalism have savoured the illusion of victory, but the struggle for India’s soul is still being waged. A divided India—the India of August 5—can never fulfil the promise of the united India of August 15. To succeed



Kashmiri protestors shout pro-freedom and anti-Indian slogans in Srinagar.

PHOTO: TAUSEEF MUSTAFA/AFP

of India’s founders are challenged not only by Modi and the BJP, who prefer their idea of India as a Hindu Rashtra to the diversity and pluralism enshrined in the constitution. They are also contested by stone-throwing youths in the streets of Srinagar, Jammu and Kashmir’s largest city, and rifle-wielding Maoists in the forests of Chhattisgarh.

in the twenty-first century, India must remain faithful to its founding values.

Shashi Tharoor, a former UN under-secretary-general and former Indian Minister of State for External Affairs and Minister of State for Human Resource Development, is an MP for the Indian National Congress.

Copyright: Project Syndicate, 2020.
www.project-syndicate.org
(Exclusive to The Daily Star)

QUOTABLE Quote



Czeslaw Milosz (1911-2004)

Polish American author, translator, critic, and diplomat.

In a room where people unanimously maintain a conspiracy of silence, one word of truth sounds like a pistol shot.

CROSSWORD BY THOMAS JOSEPH

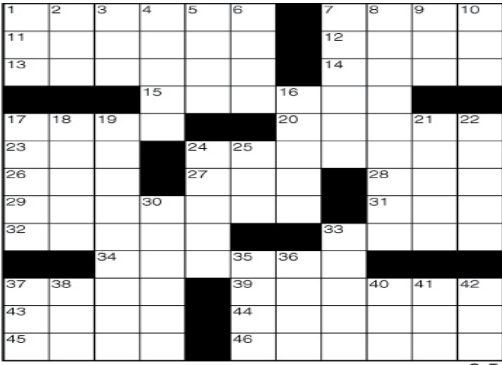
ACROSS

- 1 Start a journey
- 7 Imitated
- 11 Ignoring ethics
- 12 Quite uncommon
- 13 Change genetically
- 14 Yemen neighbor
- 15 Preparatory stage
- 17 Drunkards
- 20 Deplete
- 23 “Not – dare!”
- 24 Switzerland’s Lake of –
- 26 Cash dispenser
- 27 Bible boat
- 28 Groom’s promise
- 29 Kids’ shooters

DOWN

- 31 Sister, of sorts
- 32 Alacrity
- 33 Gets on
- 34 List of players
- 37 Commotion
- 39 Company firer
- 43 Put on the wall
- 44 Toy-filled target
- 45 Border
- 46 Theatrical
- 1 Frodo’s friend
- 2 Aussie bird
- 3 Youngster
- 4 Some exams
- 5 Destiny
- 6 Pooch pest
- 7 Incite
- 8 Spoiling rotten

- 9 Important time
- 10 Bear abode
- 16 Marsh residents
- 17 Bath bars
- 18 Leading
- 19 Meddling
- 21 Not called for
- 22 Lowly workers
- 24 Praises
- 25 Ornate planter
- 30 Friend of Jerry and Elaine
- 33 Game setting
- 35 Lights-out
- 37 That girl
- 38 Wee bit
- 40 Periodical, for short
- 41 Dined
- 42 Dissenting vote



YESTERDAY’S ANSWERS



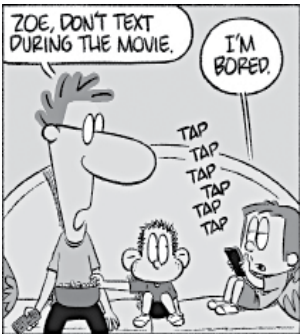
BEEBLE BAILEY



BY MORT WALKER



BABY BLUES



BY KIRKMAN & SCOTT



WRITE FOR US. SEND US YOUR OPINION PIECES TO dsopinion@gmail.com.