

There Must be a Period for Transition towards Free Float of Taka

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 easy for conversion.
 Then comes the question of different definitions of convertibility — capital convertibility, current convertibility and trade account convertibility etc. It came from the position of balance of payment. Balance of payment is presented basically in three forms, one is trade account which saves deficit of trade account, another is service account, whether we have any deficit on it, and then the whole sheet is balanced through capital accounts. Balance of payment has to be balanced by all means. Whatever form it takes in the long run has to be balanced either by borrowing or

bank at the specified rate. Indirectly, it is regulating and that is what we call 'managed rate'.
 But I can assure you that the rate in the market will be freely determined and there will be no interference until we can see something unusual which may come only from the speculation and not a normal trade.
 Normal trade is not being made that way. There is the question of large imports. If somebody wants five million dollar at one stroke then two/three items on that can change the whole rate expectation. So Bangladesh Bank has to be there. Bangladesh Bank is providing so much money so that there is no sudden swap in the market. The central bank must play its own role for the smooth running of the fixation.
 What is the likelihood that

includes taking into account the capital account. But if you add 'current account' then it is full convertibility on current account.
Mahfuz Anam: Before we go for the second round of things we have three important speakers we have missed out. Two leaders from our business community, the FBCCI and DCCI, and of course the chairman of our own board Mr Azimur Rahman, Azim Bhai, would you like to start first?
Azimur Rahman: I have one question which I think could be discussed. Is it possible to have full convertibility including capital account on a managed rate?
Mahfuz Anam: Who would like to answer? Mr Venkiteramanan?
Venkiteramanan: I think what the deputy governor has

says that it is to be so there would not be any criticism. So I think this is a conscious decision which you took.
 One last point. It is about whether our currencies are really convertible. Just before we took a decision I sent a team to the Middle East. I asked them to pretend they were merchants from India, gold dealers and so on. They went and said they wanted to send a lot of gold from Middle East to India and they were welcomed. They gave some addresses and so on. They said you can fax the number in India how much do you want, 10 million dollar worth of gold? We will arrange for all the hawalla payments. The fax charges are to our account. So these people were the ones who were opposing me within my division. So when they came back they said, look this is the market. I said unfortunately we feel that our currencies are not convertible, but in actual fact conversion takes place in a very very large scale.
 So I think legitimising this and putting it on float is the way we can go towards a healthier management about currencies. The capital account convertibility is already there though we do not recognise it. The legitimate channels do not allow capital account convertibility. But in the illegitimate channels it is there. That is why there is such a large outflow of capital in many developing countries.
 So, in due course current account convertibility has to lead to capital account convertibility. But I think there are practical problems in doing that. I agree that politically it is very difficult to do both at the same time. And we have to be

and the money market or the capital market must also go hand in hand. If you continue to have this position, the commercial banks have the monopoly and the capital market does not expand as required and the benefit will not trickle down to the economy.
 We all endorse that floating rate would be the best and ideal situation where the government cannot be blamed for devaluing

Zahiruddin Khan: Yes. I think what is going to happen is that the people will have more confidence in the taka. They will know what it is worth in dollar or in yen. But one thing is not clear. Will all the foreign exchange be deposited or credited in the account of the central bank or will it remain with the individual banks?
 The commercial banks who have current account surplus in whatever currency they have should be allowed to transact internationally. They should either sell it or buy it. They should be able to convert it from one currency to another

respect of foreign investment. And if the foreign investors are interested or attracted to particular market, it is not only the trade account convertibility but also capital account convertibility. We are doing it because we have a huge fertiliser factory where the repatriation of full capital has been guaranteed. Is that capital account?
Zahiruddin Khan: That is capital account inward, but capital account outward is not allowed.
Mahfuz Anam: I think the outflow of a capital gain from sale of an equity made by a foreign investor is in a sense capital transaction. In India they have tended to treat it as a service account in order to facilitate the investors to invest, otherwise they would not have come in. I heard that India has raised about 300 million dollars, that is Indian companies have raised equity overseas.

Venkiteramanan: Let me explain what we have done. There are two kinds of issues — Euro-convertibles and depository receipt issues. Euro-convertibles or debt instruments which can be converted to equity after specified period of time are denominated in dollars and these are cleared



Ashraf Ali

If we have surplus by remitting the amount, whatever the amount of imbalance is.
 Now we find that stages are there and trade convertibility can be made easily because it is more or less guided by trade policy. Trade policy has indicated a list of restricted items. There are prohibited items which cannot be brought. Now it has been reduced from 100 to 38 or so. There was a time when business or international trade had to be curbed because of scarcity of the foreign exchange.
 Now we have a comfortable position of foreign exchange and that is why the trade items are all liberalised. That way we do not have any restriction on it. Because apart from the restricted list any item can be imported. There is no restriction from the central bank as such. So that is what we call trade convertibility because one can pay for anything.
 Next is what we call current and current means trade plus service. If we separate it from trade we find service. On service account we have to make payment. There we have lot of restrictions. When there was scarcity of foreign exchange we first thought that we should meet the requirements on trade accounts. Those are the things that we need essentially. And service accounts can forego some of the services if necessary. It is separately represented in the balance account and separately treated.
 On current account we have practically made all liberalisation. So we can say that this is practically convertible. But then again we did not declare it yet. So that is what we are doing at the moment.
 But capital convertibility will definitely take some time. But it may not take so much time as many other countries are taking. But then again I have to tell you that it is a very important factor and if you go into point of no return you have no option but to suffer and continue to suffer until you can pick up internationally.
 You have to have the expertise, productivity and high technology and all these things. Otherwise, you go on draining your resources. It takes a long time. Our friend from Grindlays Bank has already said that Australia did only in 1984 although their currency on current account was floating for a long time, convertible for long time.
 Then question of distinction between convertibility and floating comes.
 As per definition of the IMF what we refer to as article 8, convertibility means if you can convert taka whatever other restrictions may be. But floating is a different thing. It refers to only fixation of the rate because under convertibility you can work even under fixed rate. I can say that 30 taka is equal to one dollar and that will continue.
 But floating means the market forces will determine the rate. And then market forces are so unpredictable. There will be some small volatility in the exchange rate. So the central bank will be there to influence it. This is an indication also that this is a rate we are going to trade on it.
 Although we will not interfere in the market, whatever they think better they will trade with. But once the central bank rate is given that means all authorised dealers will look to it. If the price is going too down they can sell it to the central bank at the specified rate. Similarly if the price is going very high for certain importer then through his bank he can borrow or he can purchase from the central

Speculators play a big part in destabilising exchange rates and it will be the responsibility of the Bangladesh Bank to counter that trend. However, speculation sometimes is helpful.

It is not normally depreciated, it is normally appreciated. Because with the expectation that we are going to do it, it is already in the market, everybody knows about it. We have started it about two years back. We are now coming up with the declaration. That means it takes a long time. Transition period is always there. So during this time the market has its own speculation. So they built up their balance in foreign currency.
 So there are so many speculations. It is likely that we have in the beginning appreciation of the currency. But again we have to see what is our trade

pointed out is perfectly feasible. Many countries have done it. In fact the IMF system itself recognises fixed exchange rates. It recognises float, managed rates and dirty floats. Quite a lot of things are recognised in the literature. Let me come to some of the Indian experience about which the honourable minister has also mentioned.
 The convertibility in India was done on the basis of the IMF definition, naturally subject to the items that can be imported or only those allowed under the import policy. Even in the United States things which cannot be imported under the policy cannot be im-

ported although it is fully convertible. As far as our experience goes, the floating was a better thing for us than fixing the rate.
 It is important to note that the central bank has to fix the rate everyday. And if as a result of certain factors it has to depreciate, it becomes very difficult. If the market determines the rate, then you can always say it is the market. It is an important reason for the central bankers to move away from fixing rate and giving it to the market.
 I understand the deputy governor's point that in the ini-



Amir-ul-Mulk

careful because destabilising speculation can result through capital account convertibility. I feel that the step which you are taking is a correct one. Timing is a decision which you have to take. I don't think you should push a particular date or a particular timing. I think this measure will be a great success.
Mahfuz Anam: Can we have the two speakers: Mr Mahbubur Rahman and Mr Wazullah and



M A Taher

the currency and so on. If the exchange rate behave erratically at the initial stage or even at a later stage the export of the country will be affected. With the change of the situation our tariff policy or the fiscal policy has to be adjusted. If it is not adjusted then we are going to be affected in other ways.
 This is vital in the sense that we must change the exchange rate policy and the tariff policy and other economic reforms together. Having restrictions in different places, if you are not giving the necessary support, in that case your export is going to be affected heavily. We feel that when it is needed the tariff rates have to be restructured, reduced or increased as the case may be and to sustain the export-led growth, some form of subsidies has to be considered.
Mahfuz Anam: I would now like to give the floor to our Minister if he likes to tell us how he sees the bigger picture of this particular move on the economy.
Zahiruddin Khan: People like Mr Mahbubur Rahman or myself, in the past, used to sit in front of the governor of State Bank for certain remittances. This will no longer be required. I think this is a very big improvement. Taka or rupee was convertible from 1947 but it had to go through a certain process. Now we have cut down the process. We are not saying that we are completely deregulating it.
 What is our taka? It is a promissory note issued by the government. When you are pegging it on trade account you know exactly what the taka is worth on that day. People who want your shrimps, garments or jute are the ones who would want our taka through the medium of foreign exchange. So, your taka is not a piece of paper. It has intrinsic value to the extent what you are exporting, it has exchange value.

When I export, why can't I keep the entire money in foreign exchange to be able to convert the money into taka when I need it?

currency so that the overall foreign exchange reserve of the country is not left to any dangerous depreciation over certain currency or currencies.
 In you are pegging, are you moving away from the basket to one currency. If you have a basket situation then the banks cannot take advantage of the individual currencies fluctuating. In Hong Kong, the HK dollar is pegged to the US dollar, because their trade is done all in dollar terms. I believe that we will have to move towards the Hong Kong pattern.
 The exporters now feel that if they have a fixed rate, may be

in the current year. I would mention foreign portfolio investment in two parts.
 One is investment by Indian companies in equity markets abroad. That has been to the order of three million dollars last year. Now that is the floating equity outside and that is possible only because they are feeling confident that you are convertible on current account in the service area. Remittances are free, there is no question of hassle on remittances being sent.
 The second thing is that the portfolio investment in India is made more easily when you

What Bangladesh is trying to do is to go along with what is happening in the neighbouring countries. What is being done is part of macro-economic adjustment.

they will not have the advantage. But I think Hong Kong being more trade-oriented is doing more trade than manufacturing and it is pegged to the dollar because all trade terms are in dollar terms. We would like to know if you would continue with the basket pegging or dollar pegging. What is India doing?
Venkiteramanan: The first question is about foreign exchange reserve. An exporter is authorised in India to keep 15 per cent of his export earnings on his own account in his bank. And as far as the banks are concerned they are allowed to keep their balances either with the central bank or abroad. But it is not customary for them to keep it abroad to that extent because there are some operating limits imposed by the ministry.
 About reserve management, as a former central banker I would say in our current situation in developing countries we may not be able to allow banks to hold reserves abroad on a large scale. Even today parts of the reserves of the country, are held with the State Bank of India. For instance, we hold about 500 or 600 million dollars at the State Bank.
 We have listed out certain banks of the world and central banks of the world with whom we keep the reserves. Reserves

have convertibility on the service account. And foreign direct investments (FDI) become much more easy when they realise that they don't have any hassle in bringing in money, and taking it out. I think this is an important aspect to bear in mind when you are trying to attract foreign direct investment.
Salman Rahman: You were saying that because of the service account you are getting all investment, direct foreign investment. That has been our experience also. The moment the Bangladesh Bank has liberalised investment we have also seen substantial inflow of foreign capital. Any capital gain on it or any interest payment dividend on it is being allowed to be remitted also. Would these be defined as capital account transactions or current account transactions?
Venkiteramanan: Strictly speaking, when a person invests in equity in India, takes out the capital gains, it is partly a capital account transaction, technically, because he has brought in equity and taking it out. But we have allowed that.
Salman Rahman: But the IMF definition does not.
Venkiteramanan: The IMF definition doesn't mind your be-



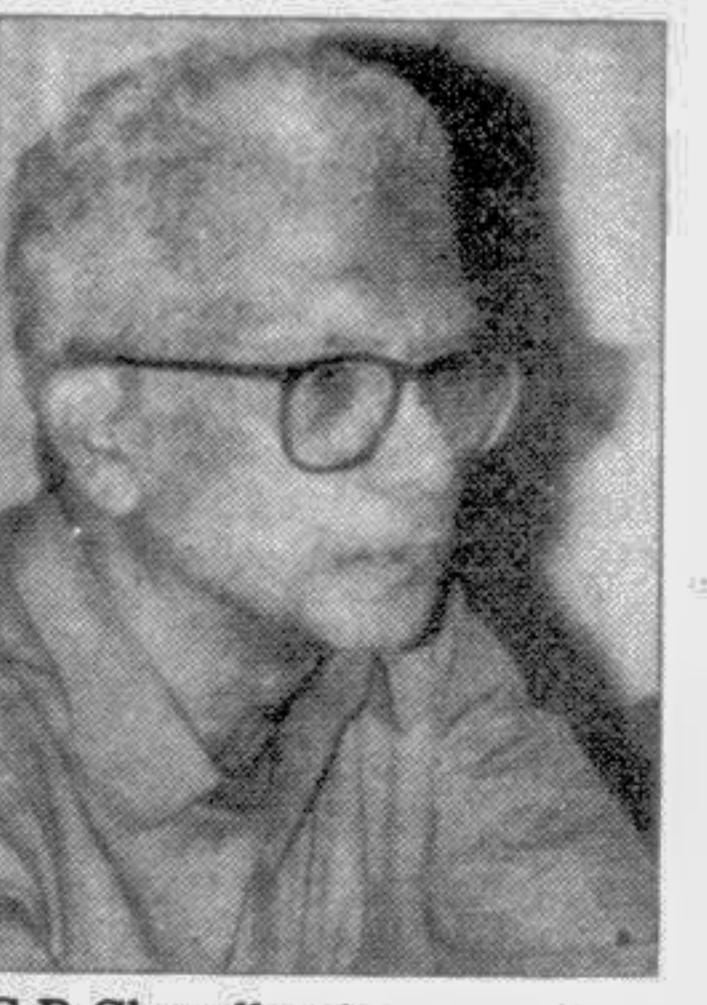
Mahbubur Rahman Khan

through either the London Stock Exchange or security commission of the United States. These have gone through due diligent search by international agencies. I mean international accounting companies, according to either General Accounting Practices of UK or United States.
 At present we have five companies which have gone through this process and in all, have raised not less than 300 million dollars. We are not insisting that all this money should come to our reserves. They can utilise it for repayment of prior liabilities or for their capital expenditure programme. These are of course subject to approval by our own CB, our own CC Analogue and the government of India. What it involves is that these companies getting into the international stock listing are also becoming much more transparent in their practices.
 I think it is good for the Indian Stock Market also. Now in the American depository receipt or global depository receipt what happens is the American investor invests in an Indian company in the form of depository receipt. He does not get a share in the Indian company, he gets a receipt. It is the custodian of the depository receipt namely either the Bank of New York or whoever is designated, is the holder of the equity.
 These foreign investors hold equity but they are not interested in the ownership. They are interested in the return. And there are transactions which take place between holders in the international market and they reflect the prices in the Indian stock market and they are quoted in the London Stock Exchange, they are quoted on the American Stock Exchange also wherever they are in the area formed.
Salman Rahman: These depository receipts, are these equities or debentures?
Venkiteramanan: These are actually an analogue of the holding of equity. Let me give an example of Glaxo. Glaxo issues equity in the United States. When Glaxo issues equity in United States, instead of the equity holder having to come to Glaxo for transfer documentation and so on these equity certificates are placed with the bank — the custodian. They will give them only a depository receipt. They become a proxy for the share certificates. So it can be equity or it can be convertible. We have done both. Convertibles means in the first phase it is debenture account.
Salman Rahman: What are the Indian companies reflecting in their balance sheets? In dollars as equity or converted into Indian rupees?
Venkiteramanan: They convert it into Indian rupees.
Salman Rahman: So, in other words the foreign investor

Taka convertibility will lead to growth in our export. It will add to our incentive for investment because investors will be able to repatriate their dividends and profit without any hindrance.

strength. This strength will show its impact in the long run. If we are capable, if we are producing, if we are raising our productivity per unit of labour, developing our industry or adopting policy, not only monetary policy, but fiscal policy and taxation policy, tariff etc, and adjust it properly, then and only then, it will be stable at an equilibrium point. But if we don't do this, definitely there will be small volatility here and there.

ported although it is fully convertible. As far as our experience goes, the floating was a better thing for us than fixing the rate.
 It is important to note that the central bank has to fix the rate everyday. And if as a result of certain factors it has to depreciate, it becomes very difficult. If the market determines the rate, then you can always say it is the market. It is an important reason for the central bankers to move away from fixing rate and giving it to the market.
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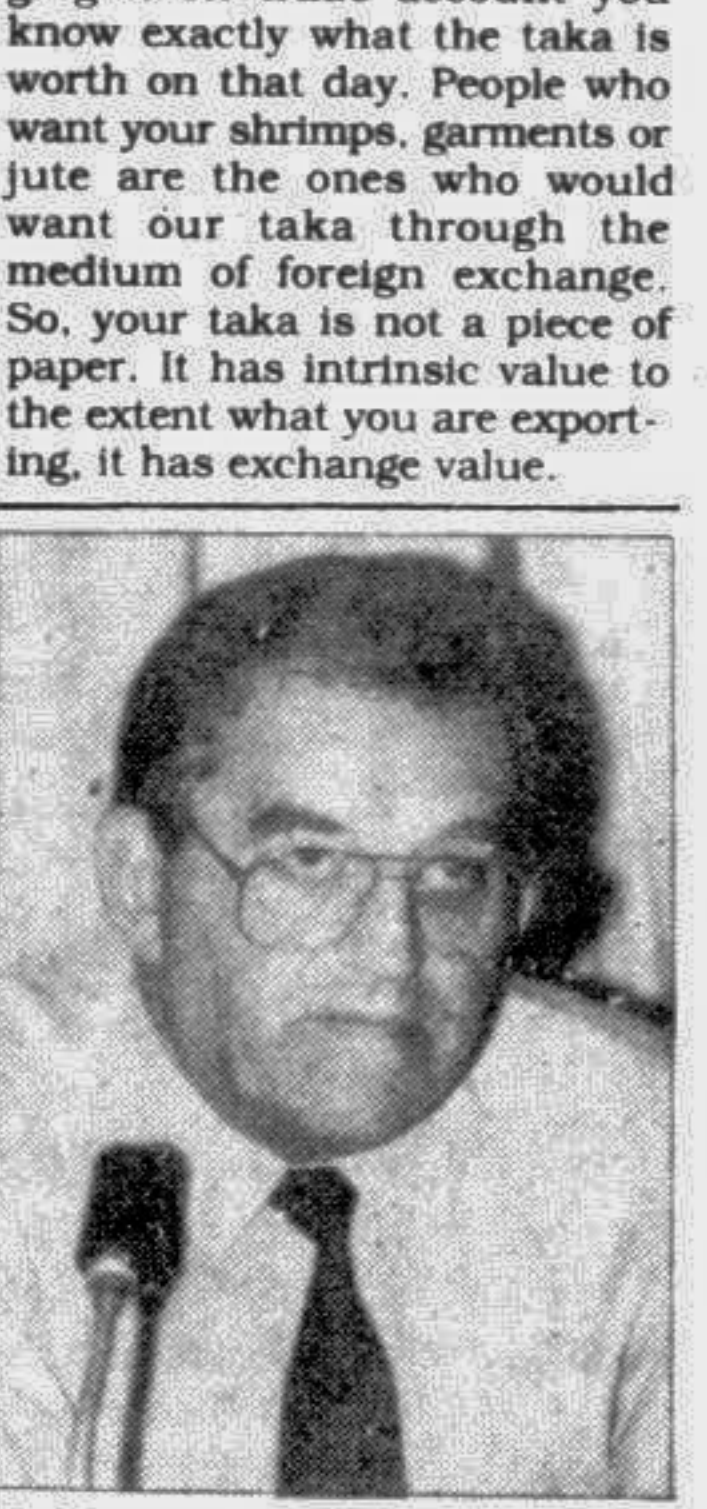
S B Chaudhuri

It is a fact that convertibility and fixation are two different things. Convertibility is essential for our economic development, our import and export, and international business. It is also essential to have the right price. Because price is the accurate signal for resource allocation. This price will indicate in what area these resources will be placed. So fixation or a floating is needed to make a sustained growth in the economy.
 We have used the word partial convertibility without really making much of the meaning. When you say full convertibility that means including capital account. Current account will be fully convertible. For any current account transactions you will get the foreign exchange. So, it is not partial convertibility. If you say partial convertibility then it should be under larger definition which

It is not only a question of whether I accept other peoples' currencies. Will others accept my currency or not is also a question. If Taka is not on 'float' then nobody is going to accept my currency.

tial stage you want to keep a certain guiding hand. But I think over a time we have found that if the market determines that for export enhancement you have to depress the rate. You are not able to do it because there is a macho of feeling about rates. There is a feeling that if you depreciate the currency you some how have lost your masculinity.
 That feeling is there in all countries including Britain and United States. I think the United States is also not devaluing. It is asking Japan to reveal. What is happening is that America devalues by asking Japan to reveal. So in relative terms it is devaluing. In effect Japan has enabled America to devalue very substantially and increased United States export comparatively.
 Let me go back to this point that floating is easier for a developing country with all the political complications associated with any devaluation. It is immediately criticised all over the media including the paper which is hosting us, saying that you have surrendered your sovereignty. But if the market

then the question, Mr Venkiteramanan will be with us for another half an hour.
Wajfulah: It is undoubtedly a good system if it prevails in an orderly way. Our Federation (FBCCI) Chief would like to explain it a little more.
Mahbubur Rahman: The purpose of convertibility of our currency may be on the suggestion or in line with the IMF guidelines. This is to achieve the external competitiveness of the economy and integration with the global economy and encourage growth and investment. As the Deputy Governor of the Bangladesh Bank has put it, we are now going into convertibility of the current account. Current account means trading account plus services.
 The trading account in Bangladesh has not been facing any difficulty from the late seventies up to now and we are not going to the Bangladesh Bank for any allocation. Neither do we require any permission. So what remain is the question of services. Services accounts for what? For remittance, for education, for visits or similar purposes.
 We do not understand how convertibility is going to have a tangible effect on the overall economy of the country. If we are really what convertibility to have real and tangible effect on the economy, then one step in an isolated manner, is not going to have any positive impact on the overall situation. There has to be a package of reforms and it must be introduced simultaneously. The convertibility should be in full.
 Number two, when foreign exchange regulations continue to stay, we are not going to benefit from such liberalisation. I feel that there has to be a concentrated approach on the total issue. And the convertibility



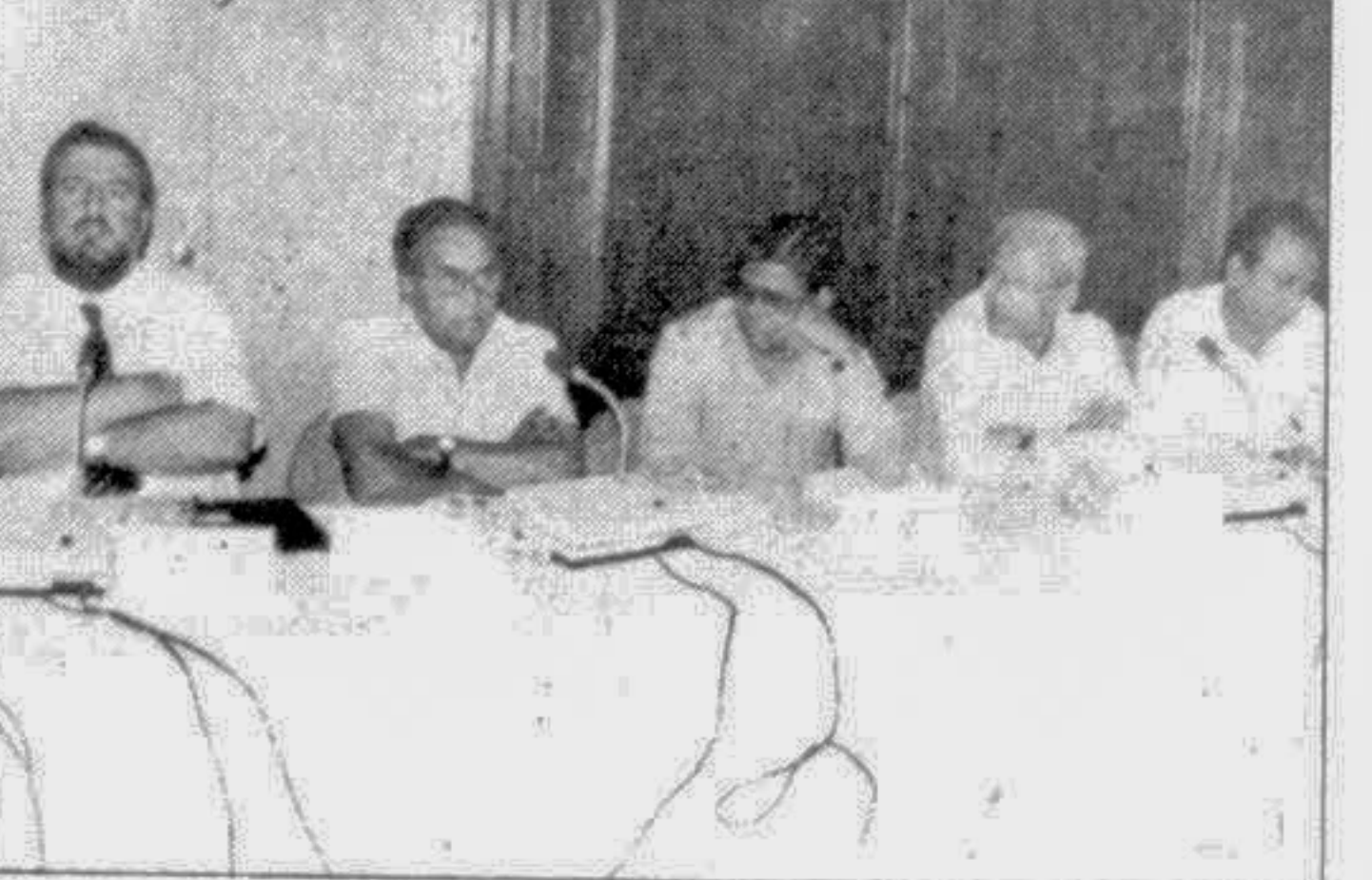
Robinson

Japan has been against convertibility in the sense that it intentionally kept its Yen undervalued by nearly 100 per cent for over a decade with a strategy to compete in the international market. From the export point of view convertibility is not going to be milk and honey. Hence the intervening role of the central bank, so that it doesn't allow the taka to become too strong. It is necessary. Even Japan has an intervening role. You cannot say that any country is allowing a complete float.
 Our currency has been floating. I think our reserve bank has done an excellent job by the slight adjustment of the currency over the years. But capital account convertibility is out of question. Because you know export and import imbalance is so high that you will have serious outflow of resources. Can you imagine even Japan had a more restrictive foreign exchange regime upto mid 70s. It was even more restrictive than the sub-continent. As far as Bangladesh is concerned we are deregulating the economy and it is essential that we deregulate our foreign exchange regime.
Mahfuz Anam: That point has been made.

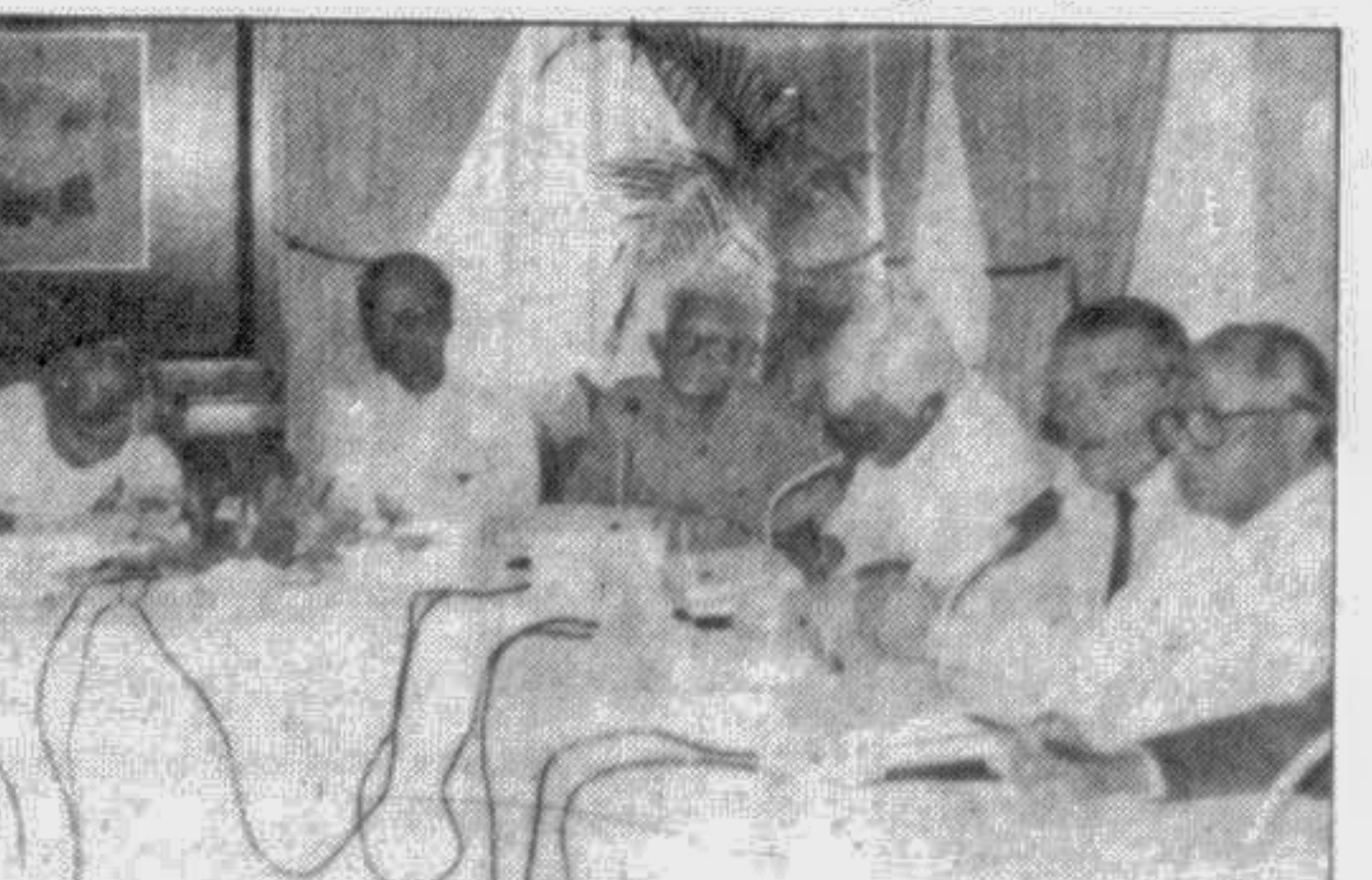
The agenda for convertibility should be sensitive to the prevailing economic and political conditions. It cannot be in isolation, nor can it occur overnight. Deregulation is already here and the market should learn to live with it.

are ultimately lent by developing countries to the central banks of the developed world. If you say that you have 2.2 billion dollars of reserves, what are you doing? You are really placing it with either Union Bank of Switzerland or the Federal Reserve or Bank of England. You don't really invest in securities. Your security is only the government.
 We do not want to allow our private banks, commercial banks to operate our reserves. Because that has been our general decision. But to the extent that we want to give them the flexibility, if they keep it to certain limits they are authorised as dealers to keep it.
 The other question is on

coming freer. We have allowed this limited capital account flexibility because that is the only way foreign institution investors would come and they are coming in a big way.
Mahbubur Rahman: There is the point. In that limited way the capital account is not given the opportunity, how are we going to visualise that the investment will be flowing in?
Venkiteramanan: Most countries which have allowed foreign portfolio investment have to do that, otherwise they won't come in.
C K Haider: We have guaranteed capital repatriation in



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