

The IMF says the era of cheap money is over

FARID BAKHT

AFTER engineering a reduction in interest rates in 2004, an IMF mission suddenly announced a change in policy in 2005. Apparently, inflation is rising and therefore we need to raise interest rates to combat this. There have been justifiable complaints that they have not done much analysis. The IMF presence here is rather small for such an influential organisation. They rely on a small office deep in the heart of the central bank, Bangladesh Bank, for data and have an extremely close relationship with the Ministry of Finance. Moreover, they can rely on second-hand figures from their sister organisation, the World Bank. The announcement has resulted in howls of protest by an unusually united group of business associations. They have examined the conditions on the ground and conclude that instead of going up, interest rates should actually go down! The gap between the IMF/Bank and the captains of industry could not be wider.

The view from the North
The IMF representative is merely relaying the call from Washington,

London, and Frankfurt that the era of cheap money is over, everywhere. Money has been available at next to zero percent interest (and in real terms, actually negative) in the US and Japan, to stave off deflation, following the collapse of the dot-com boom at the turn of the century. Now they realise that this policy has created unsustainable booms in the price of real estate throughout the

Interest rates will reduce economic growth if big business cuts back. This will increase unemployment. Less new businesses will sprout up. All sectors will suffer. However, inflation will not necessarily decline because a Third World economy such as ours will not respond to interest rates hikes as a sophisticated First World economy can.

North. American consumers are up to their eyeballs in debt, spending as if there was no tomorrow. Since they no longer save, millions of consumers are making a one-way bet that their houses and condominiums will always be worth more in the future. This sorry state of affairs will one day come to an end. Still, consumers do not seem to

have got the message, so interest rates are being raised to encourage them to do so. This works because as interest rates rise, the mortgage repayments (debt) also go up, dampening down price increases. Thus consumers should feel less secure and restrain their spending on TVs, cars, furniture etc. If they do so, then the inflation rate comes

down. **What has this got to do with us?** You may have noticed that we are discussing the rich countries. What has this got to do with Bangladesh? Good question. We are not at that stage of the cycle where we would need to raise interest rates. Our money cannot be

termed "cheap" at rates of between 12 to 14 percent! It is shocking to see the handicap our businesses have to face compared to their regional competitors. Interest rates are almost double those of India, nearly triple that of Pakistan, and more than four times higher than in Sri Lanka.

The business groups have correctly pointed out that the IMF and its partners recently insisted on fuel, oil, and gas prices going up. This is seriously inflationary as transportation and power generation costs rise, as does the cost of irrigation. They also point out that currency depreciation raises the costs of imports. Unfortunately, some of their own associates, such as the BGMEA, have always pressed for a weaker taka, in the misguided belief that it will raise exports!

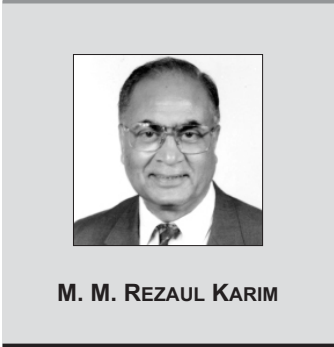
Extortion at every stage of the production cycle raises costs, i.e. inflation. We cannot imagine "mastans" reducing their "take" on the basis of the level of interest rates.

The poor bloody infantry
The majority of people are poor and spend the bulk of their money on food, i.e. basic staples, such as rice. This most crucial commodity has risen by 22 percent in the last twelve months. Does the IMF suggest that raising interest rates will reduce the price of rice? Of course not. Our food distribution system is plagued by bottlenecks, bribery, kickbacks, and disincen-tives to our farmers to produce. Truck drivers tell us they have to pay up several times on their way to market. These costs are reflected in the final price to consumers.

Interest rates will reduce economic growth if big business cuts back. This will increase unemployment. Less new businesses will sprout up. All sectors will suffer. However, inflation will not necessarily decline because a Third World economy such as ours will not respond to interest rates hikes as a sophisticated First World economy can. We have structural bottle-necks and rigged local markets that do not play by the rules.

What will big business do now? I notice the politicians are remarkably silent on such an important matter.

Indo-Pakistan dialogue raises hope



M. M. REZAUL KARIM

PRESIDENT Pervez Musharraf's recent visit to India is another successful landmark in the current road map for improving relations between the two countries. The process started effectively by Prime Minister Atal Behari Vajpayee in January 2004 during the Saarc Summit in Islamabad by his unexpected call on President Musharraf in Islamabad. The successor Congress-led government of India continued with this policy and demonstrated a positive attitude. Then came the visit of the Pakistani President to New Delhi. All these developments have created an atmosphere of confidence building and generated an amount of hope among the peace loving peoples of the region and beyond.

Agreements were made in some specific areas. The ostensible determination of the two sides to remove obstacles to progress in promoting their common objectives was regarded as a veritable precursor to further success and constitutes an important milestone on their road to success. The two adversaries showed much wisdom and pragmatism by addressing those issues, to start with, which were possible to solve without much acrimony, instead of trying to hold the bull by the horn and risk a debate.

One must not forget that insistence of addressing the Kashmir dispute by Pervez Musharraf at the Agra Summit four years ago collapsed the peace process and brought the two countries to the brink of war the next year. The absence of reaction to the Indian Prime Minister's remarks about no change in the borders in Kashmir during the press conference following the last summit represented a welcome strategic move. A little success encourages further success and the momentum so generated is likely to lead the two sides closer to their cherished goal.

The decision to withdraw troops from the impassable blizzard-blasted Siachen terrain in Kashmir was viewed by political observers not merely as an exercise of moral boosting of troops and a cost-cutting operation of the governments, but an illustration worthy of emulation by the two nuclear countries about a possible reduction of deployment of massive troops and heavy war machines mounted on their long frontiers. This would not only improve the security situation

between Rajasthan of India and the Sindh province of Pakistan will also serve the same purpose of promotion of trade and popular contacts. The cricket diplomacy has proved to be a rightful method of attaining the desired goal. People and nations are elated at the outcome of these endeavours and repose their faith in speedy progress of this process.

The people of Bangladesh are, indeed, happy at these positive developments and ponder why they cannot develop such a process. No

CURRENTS AND CROSSCURRENTS

Already Dhaka-Kolkata and Dhaka-Agartala bus services have been introduced. As we know, the best and the easiest way to travel in the South Asian region is railway, an extensive network of which had already been built by the British all over the land. If Rajasthan and Sindh can be connected again by rail after 40 years, then why should we not re-open the traditional Kolkata-Dhaka rail-cum-steamer route, which has been lying dormant for the last 40 years.

but effect huge savings in military expenditures that could be better utilized for the benefit of the poor and the deprived of the two nations.

One may recall that the noble laureates for peace Mikhail Gorbachev and President Ronald Reagan made the epoch making decision in the late 80s to disband deployment of SRBM (short-range ballistic missiles) of the Nato and Warsaw Pact countries. Their main consideration was to evade the ever increasing danger of a nuclear warfare among nations facing one another in close proximity in a perennial state of preparedness or tension. One should always try to learn from history.

The method of establishing and promoting people to people contact and visiting one's kith and kin as a result of increasing frequency of travels by bus across the cease-fire line in Kashmir, along with allowing cargo trucks to ply, is a well-nigh measure of creating a congenial atmosphere, which is destined to pay good dividend in future. This applies to the proposal of introducing bus travel between Poonch in Indian Kashmir and Rawalkot on the Pakistani side and, finally, between the two major cities, Amritsar and Lahore. The decision of resumption of the rail route

doubt, the history of relations between the two countries is a checkered one, with ebbs and flows, from the days of the liberation war and its immediate aftermath when the relations were at the zenith. The lack of trust and prevalent suspicion between each other has stood in the way. This applies more between the Indian administration and the BNP-led government in Bangladesh. It is futile to blame one party or the other. Both have to share the responsibility for the failure. The sense of pragmatism exhibited by both India and Pakistan was the key to their success and should be a lesson to learn by both India and Bangladesh. The Bangladesh Nationalist Party nurtures an inherent suspicion of the Indian administration, irrespective of party affiliation, showing preference to the opposition Awami League to do real business with. In the interest of promoting good relations, Indian government should deal with both the major political parties in a non-discriminatory nature. The words to that effect needs to be substantiated by deeds.

The recent cancellation of the Saarc Summit by India hurt the ruling BNP government and may be construed as a setback to the pro-

motion of relations, despite protestations to the contrary. The Bangladesh government dismissed the perceived security threat during the aborted summit as unreal and found the cancellation of the summit helped Awami League by acceding to their demand. However, on the other hand, the great overture by the Tata Group to make massive investment in Bangladesh is viewed as a highly positive step in this matter. The most recent decision of the government of Bangladesh to allow, in principle, laying of gas pipeline through Bangladesh from Myanmar to India is another helpful development in this direction. For the people to people contact, one field has been heavily neglected and that is journalism. Frequent exchange of journalists would reduce cacophony of the media on both sides and help generate trust at the grass-root level. Border skirmishes may be controlled, given the will, by way of immediate meeting of commanders on both sides to settle matters amicably.

In addition to addressing the relatively less complicated issues like demarcation of six and a half kilometres of land boundary and exchange of already identified enclaves, one should make special efforts to boost up travel and trade between the two countries. Already Dhaka-Kolkata and Dhaka-Agartala bus services have been introduced. As we know, the best and the easiest way to travel in the South Asian region is railway, an extensive network of which had already been built by the British all over the land.

If Rajasthan and Sindh can be connected again by rail after 40 years, then why should we not re-open the traditional Kolkata-Dhaka rail-cum-steamer route, which has been lying dormant for the last 40 years. This route was built by the British over a century ago and is the shortest and time-tested route used by millions. This broad gauge railway can be re-opened by easily re-uniting the severed link at Darsana.

Furthermore, with the construction of the Jamuna bridge, traffic and goods can be transported directly between Kolkata and Joydevpur, which is on the outskirts of greater Dhaka. The cost benefit ratio of this venture would certainly be to our common advantage. Then what holds us from it? Our lethargy and lack of initiative, for sure. Will the authorities wake up?

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