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# Is the Taka rightly valued?

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**L**IKE any other commodity price, the price of a currency is also determined in the marketplace. Commodity has a value because it has utility, anyone consuming it receives satisfaction. Likewise, currency also has a value, as it commands a purchasing power, that is, it can buy some other commodity or service. Anything that can be held in account and has a value is termed an asset. In this sense, there are a host of assets, including currency, available to the holders.

Any commodity can be overpriced and underpriced or wrongly priced depending on market structure and discrepancies in the demand and supply at a given point of time. The same is also true in the case of a currency. Currency is used as an asset or a medium of exchange but not used in consumption. Different countries have different currencies and some countries have them in the same name also. For example, more than a dozen countries have named their currencies after the US dollar.

But, the exchange rates or the values of these dollars are not the same. Canadian dollar at one stage was just half the value of US dollar. All the currencies in the world go up and down in value over time, some gain, some lose. If a currency loses in value or declines in exchange rate we call that currency depreciated, the opposite will be known as appreciation.

Currency values are determined in the marketplace through free movement of demand and supply. If a currency can buy more goods and service over time, there will be a good reason for its appreciation against other currencies. The ultimate determination of a currency's value is its purchasing power. The local issuer or the country's central bank which issues the currency in the form of legal ten-

ders tries to keep the value of the currency it issues. All the central banks of the world do the same. But in spite of that, currencies move against each other. The main reason is again either erosion in or appreciation of the purchasing power of the currency.

It is not always true that all the central banks of the world allow their currencies to be traded freely in the market place, rather trading and uses of the currencies are strictly controlled and constrained by the central banks. Only the reserve currencies like the US dollars are allowed to be exchanged freely in the market place. There were two methods of exchange rate determination. One, the old one, was the fixed exchange rate regime, which meant for a time currency value

includes also that by the central bank. A currency to be on a free-float also needs to be freely convertible. It also means that citizen can exchange the local currency against the foreign currencies freely and they are allowed to hold the assets in them also. This will also mean, they will be allowed to move their assets from one country to another freely. This type of characteristics of a currency normally are seen among the reserve currencies like US dollar, Euro, Yen and some others which are declared by their issuers as the convertible currencies. 'Taka' was never declared a fully convertible currency, it was declared only partially convertible. It is convertible in the current account only but not in the capital account. It means, if any-

reasons, hardly any currency remains rightly valued for a long time; at times the US dollar also is overvalued even against currencies of its major trading partners. If the currencies of the world are also considered as assets, then they may remain overvalued or undervalued against each other depending on the demand for and supply of them at a point of time. Indian currency Rupee lost more than one third of its value in recent months against US dollar not because Rupee lost the purchasing power that much at the home market but suddenly there was a huge rise in demand for US dollar by the investors who earlier invested in Indian assets, particularly in its stock market. Just in the opposite way Indian currency gained much in value when a few years back a huge foreign direct investment took place in the Indian economy.

Bangladesh used to fix the external value of its currency by an in-house exercise in the Bangladesh Bank before the floatation declared in the middle of the 2003. That value or rate was known as the 'real effective exchange rate'. Before 2003, Bangladesh Bank fixed the exchange rate through revaluation or devaluation from time to time.

Now, it is said that market is determining the external value or exchange rate of the taka. Here again, the Bangladesh Bank, being the lone and only account holder of foreign exchange in the economy, keeps a careful eye on the exchange rate. If for some reason, which the Bangladesh Bank thinks not real or temporary, the value moves in an undesirable way Bangladesh Bank comes in and tries to restore the 'true' and 'fair' value of the taka in the exchange market.

After the floatation in the middle of the 2003, Taka remained steady against major foreign currencies including the US dollar. But it started losing value since June of 2005 and fell

from 1 \$=Tk 62 Tk. to 1 \$=Tk 68, a depreciation of up to 8 percent, in the following three months. Till now Taka sustained that exchange rate. But there is a pressure from the exports lobbies, especially, from garment exporters for devaluation, though the policymakers hard withstood it up till now.

Increasing remittance flow and absence of mismatch between export and import are the main reasons for taka remaining steady. Bangladesh's overall trade account remained surplus when remittance flows are also taken into account. Also, Bangladesh did not receive that much of FDI, especially, of the short term nature, in the last one decade or so and did not face sudden withdrawal of that which helped Bangladesh to keep its currency stable against other currencies.

Bangladesh in this period also pursued a prudent monetary policy which was neither expansionary, nor contractionary but the one that is based on needs. That contained inflation and by extension the erosion in the value of Taka. A currency does not remain overvalued or undervalued for a long time, ultimately it moves to its right valuation. As the Bangladesh currency has held its value to its present level for the last three years, we can say that, by and large, it is rightly valued.

Any action to shift it from its present value will, in my opinion, distort the market and will favour the interest of one group of people at the cost of that of the other group in the economy.

Bangladesh Bank should watch the exchange rate closely and, if need be, it can influence the rate, but whatever it does, it must come up with an explanation.

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was to remain fixed against other currencies, the other, relatively newer one, was the so called market driven one or what is now known as the floating exchange rate regime. There are some variations again in the floating regime. Bangladesh currency 'taka' was put on to a floating exchange rate regime since July 2003, but it was never on a free-float in its true sense. A currency can be said to be on a free float in a true sense when its value is not determined, or even not influenced, by any external force which

one wants to take his income by converting into foreign exchange he is not allowed to do so unless he is a foreigner or he can show proof that he has earned the money abroad. Bangladeshi investors were increasingly facing problems when they wanted to take out their incomes in foreign currencies, even for setting up their foreign business offices.

In this situation it is very hard to tell whether Bangladesh currency is overvalued or undervalued, or rightly valued. Of course, for many other

