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POINT ✵ COUNTERPOINT

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Key challenges for 2010 and beyond

Based on a review of 19 indicators comprising 100 observations, this article identifies key challenges for Bangladesh economy and suggest actions needed to increase private investment, revive exports, accelerate remittances, deal with the impact of inflationary tendency and entrance government's revenue collection and development expenditure.

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THE beginning of a new year provides an opportune occasion for an assessment of the achievements in the immediate past year. An objective assessment is also a prerequisite for formulating appropriate policy responses to deal with identified challenges.

Any objective assessment has to be anchored on measurable indicators. With this perspective in mind I have collated data on 19 indicators comprising 100 observations relating to some key sectors. These are financial sector, external sector, food situation, price scenario and government sector. These quantitative indicators form the basis for the comparison of the state of the economy in 2009 in relation to the corresponding periods of 2008. In Bangladesh there is a considerable lag in data availability. In consequence, most of the data for 2009 end in October. Data up to November 2009 are available for agricultural credit and remittances. Price scenario, food situation and annual development program (ADP) implementation data are available up to the end of the year.

Data on term lending end in September 2009. Most of the data are in terms of percentage changes over the corresponding periods of the preceding year; in some cases absolute values have been used.

A synoptic view of the indicators

Financial Sector: Private sector credit growth in 2009 remained substantially positive, but considerably lower than in 2008 excepting for the period July-October when the growth was 6.2 per cent in 2009 compared to 5.4 per cent in 2008. Term lending recorded a largely negative growth in the first (-13.8 per cent) and third (-22.6 per cent) quarters of 2009. In consequence, there has been an explosion of excess liquidity in the banking system, rising from Tk. 12,988 crores in the period April-June 2008 to Tk. 34,762 during the same period of 2009 and further to Tk. 35,111 crore during July-October period. However, the flow of agricultural credit remained buoyant, though the rates of growth in every period of (1st and 2nd quarters and July-November) of 2009 were well below those of 2008.

External sector: External sector indicators are notably depressing. Export growth rates were around 30 per cent in all the time period of 2008, but fell to 9.6 per cent in the first quarter of 2009, turned negative in the second quarter (-4.9 per cent) and during July-October (6.7 per cent). The story is similar for imports. In this case, growth rate exceeded 30 per cent in every period of 2008, but came down to -5.3 per cent, - 17.1 per cent and -15.0 per cent in the first and second quarters and July-October period of 2009. Even the imports of key items required for economic growth suffered drastic decline. As measured by LC settlement, import of intermediate goods, raw materials and capital machinery fell by 756.3 million dollars during July-October of 2009. Aid disbursement during January-October of 2009 amounted to $995.3 million, far less than $1669.8 million during the same period of 2008. Foreign exchange reserves of Bangladesh Bank increased dramatically, from $5.87 billion at the end of March 2008 to $10.34 billion at the end of November 2009 -- driven by the fall in imports as indicated above and also strong growth of remittances. However, the rates of growth of remittances were substantially less -- the average of the rates of growth of three periods (first and second quarters and July-November) was 19 per cent in 2009 compared to 40 per cent in 2008.

Food situation and price scenario: Food situation remained reasonably comfortable. Between January and December 2009, public distribution increased substantially to 17.8 lakh metric tons with the government stock at the end of December 2009 amounting to 11.2 lakh metric tons. The corresponding figures for 2008 were 16.2 lakh metric tons and 12.5 lakh metric tons.

Price scenario largely began in 2009 with some disconcerting signs recently. Point to point inflation rate reached 10.8 per cent in July 2008 and fell to 7.3 per cent in October of the same year. The rate maintained downward trend through July 2009, but started moving up since then reaching 6.7 per cent in October 2009 -- higher than 6.0 per cent in December 2008.

As regards some essential commodities, the prices of coarse rice in December 2009 nearly reached the level of December 2008; those of *atta* and soyabean oil remained considerably lower, but the prices of sugar and *masur dal* were substantially higher.

Government Sector: The growth of revenue collection has slowed down. NBR tax revenue which accounts for about three-fourths of total revenue grew by 8.9 per cent and 14.0 per cent during January-June and July-October periods of 2009; the corresponding figures for 2008 were 29.8 per cent and 17.5 per cent. The implementation of ADP has received a boost; the absolute amount of expenditure during January-December 2009 was 16.4 per cent higher than in 2008.

Key challenges

Increasing private investment: Acceleration of economic growth is singularly important prerequisite for poverty reduction. If the growth rate is to be raised to 8 per cent by 2013, investment/GDP ratio has to increase to well over 30 per cent; the current ratio is about 24 per cent. Over 80 per cent of total investment is accounted for by the private sector. It will be noticed from the synoptic view that the indicators such as credit to the private sector, term lending, excess liquidity of the scheduled banks and import of intermediate goods, raw materials and capital machinery clearly point to slow-down of private investment.

In order to increase private investment, urgent attention has to be paid to:

- Addressing the prevailing shortage in supply of gas and electricity to industrial establishments,
- Ensuring peace and security in industrial areas and ports,
- Relieving transport bottlenecks,
- Pursuit of regulatory reforms to reduce the cost of doing business,
- Removing ambiguity in the Government's policy stance with regard to privatization and faster implementation of PPP projects.

Reviving export growth: The slow-down in export cannot be convincingly attributed to global recession. Our exports suffered negative growth during April-October period of 2009 when the economies of developed countries already started recovering. The United States economy, for example, grew by 5.7 per cent in the last quarter of 2009, following 2.2 per cent growth in the third quarter. It is also interesting to observe that even during July-September period of 2009 when RMG exports experienced sharp decline, the fall in value of both woven garments and knitwear was more or less the same as the fall in volume (about 10 per cent).

MIZANUR RAHMAN / GETTY IMAGES

Every *paisa* counts!

This raises two issues for closer close-examination: (i) whether reduction in price through subsidies would lead to enough increase in volume to increase foreign exchange earnings; (ii) whether the fall in volume is due to domestic production problems or external demand constraint. These issues are also of varying relevance to other export items. In the case of frozen food, compliance with phyto-sanitary and health standards is a major issue.

Among other issues that require urgent attention to revive export growth are:

- Solving all domestic production problems including those mentioned under the heading "increasing private investment,"
- Exploring new markets beyond European Union and the United States which are the principal destinations of our exports,
- Invigorated efforts to secure duty and quota free exports to the United States as well as to some advanced developing such as China, India and East/South-East Asian Countries,
- Product upgradation to take advantage of the recovery in developed economics,
- Diversification of the basket of export goods, including through enhanced FDI in the production of these goods.

Maintaining the momentum of remittances: As noted before, the growth of remittances in 2009 has been buoyant, though lower than in 2008. The challenges here relate, among others, to (i) solving the problems confronted by our workers in existing markets such as Saudi Arabia (the largest source of remittance) and Malaysia (ii) finding new markets (iii) upgrading and diversification of workers' skills.

Containing inflation: There has been an uptake of inflation in recent times. As I argued in an earlier paper, there is not a lot that the government can do to contain inflation in a small open economy. Nevertheless, efforts should be made to the extent possible to increase domestic production, ensure adequate imports and provide relief to the poor who are hardest hit by the rise in the prices of essential commodities. The measures already adopted in Bangladesh such as open market sale of food grains at subsidized prices, re-introduction of the Employment guarantee scheme initiated by the caretaker government, expansion of the wide variety of other social protection net schemes etc. have to be maintained and strengthened.

Government finances and expenditure: The Finance Minister recently announced quite justifiably that he would like to raise government expenditure/GDP ratio to 20 per cent. If the budget deficit has to be limited to a reasonable level of say, 5 per cent, revenue/GDP ratio has to reach 15 per cent. The current indications are that the target of 11.6 per cent proposed in FY 10 budget is unlikely to be met. Hence there is an urgent need for strengthening revenue collection efforts. The rate of implementation of ADP has been better than in the previous year. Nevertheless, it is very unlikely that the entire amount of Tk. 30,500 crore will be spent within the current fiscal year. Therefore, implementation efforts need to be invigorated further. At the same time, it has to be ensured that the quality of outputs expected from the development expenditure does not deteriorate.

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LITON RAHMAN / DRIK NEWS

Revival of export growth is in need of urgent attention.

CEPOLINA

Licence to drive, everywhere

A taxi driver has an iconic status, a signature presence, in any great city -- and Mumbai is one of the great urban centres of the modern world. It must sustain both aspects: it must belong to the world, and remain modern as well.

M.J. AKBAR

AN opposition talks (when it is not dumb). Government acts (when it is not indolent). A government is measured by what it does. The government of Maharashtra says that Mumbai belongs to every Indian, but decides that its 24,000 taxi licences belong only to a language-specific group. There is the usual fudge around the decision, typical of a government that wants to hunt with the Shiv Sena and run with the Bihari vote.

One wonders if each licensee will actually be driving the cab himself. Here is a much more likely scenario: mid-level businessmen ready to deal with the rough and ready side of Mumbai, in cahoots with politicians on both sides of the fence, will pick up the licences and then hire cab drivers at competitive wages.

Since eager Biharis -- that term includes people from Uttar Pradesh, signalling the cultural power of Bihar -- will be ready to work for lower wages than Mumbaikars, they will be eventually hired. It is a cheaper route to the status quo for both the politician and the businessmen; the first gets cheap votes and the second gets cheap labour.

There is something odd about the controversy. Common sense suggests that it is in any taxi driver's interest to pick up the local language: why would he want to lose business by ignorance of the passenger's language? A taxi driver does not need to be a literature doctorate; just needs to know enough language to be cordial and communicative. The whip-up is more about politics than jobs, which is why it is riddled with inconsistency.

Nationalism always falters against chauvinism, unless nationalism becomes chauvinist. Thus, the Shiv Sena or its antagonist offshoot headed by Raj Thackeray, will demand the return of an Akhand Bharat from the Khyber Pass to the Chittagong Hill Tracts, but deny an impoverished fellow-Indian marginal space in Mumbai.

The sharpest tweak to the Sena froth came not from its foes but from its friend, the BJP, which raised an interesting contradiction. How could the Sena, which opposed Article 370 for Jammu and Kashmir, demand protective restrictions for Mumbai? There was no answer, of course, because there isn't one.

My regret is that the question has not been asked more often. But it was a relief to witness all national parties taking on the Senas not only on Mumbai but also on their menacing and communal threats to Shah Rukh Khan. The BJP's support to Shah Rukh was important not only for the actor but also for the party. It was an opportunity for the BJP to move a step or two away from its image, and it did so.

Is it compulsory to hate Pakistan and Pakistanis in order to live in Mumbai? Is that the new oath you have to take before Bal Thackeray? Will the Senas send squads to drive the prime minister out of Delhi because he has agreed to restart talks with Pakistan?

There was a time when investment in conflict offered regular returns. The Senas have not understood a basic message from a series of humiliating electoral defeats: significant sections of the Indian electorate, and increasing numbers of the urban young, have decided that this is arid yield from a low-return idea. They understood something that seems to have escaped politicians at the apex: economic growth cannot co-exist with a culture of intimidation and violence. Indians have not fallen in love with their neighbour.

Emotion, in any case, is an unnecessary baggage. But war has never raised the living standards of men, unless you have notions of becoming an imperial ruling class, and that doesn't work anymore, thank heaven.

A taxi driver has an iconic status, a signature presence, in any great city -- and Mumbai is one of the great urban centres of the modern world. It must sustain both aspects: it must belong to the world, and remain modern as well.

A city either grows or decays; it cannot stay stagnant. Mumbai cannot grow by becoming isolationist, nor can Delhi, Kolkata, Bangalore or Chennai. Kolkata gave shelter and nourishment to the Sikh taxi driver without demanding he learn Bengali; but he did learn Bengali, and today his children have passed out from schools and got jobs.

That is what a great city does; it welcomes the forlorn and lifts them. Mumbai's extraordinary film industry is the most exciting meeting place of India; its skyscrapers were built with steel from Jamshedpur; its markets are full of food and goods from India and the globe. Mumbai does belong to Maharashtra, but it is also the present and future of India.

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