

# Unanswered questions in MPS

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BA NGLADESH Bank (BB) issued Monetary Policy Statement (MPS) for the second half of the current fiscal year on January 30. This is the eleventh issue of MPS. I welcome the continuation of the practice primarily because such ex-ante announcements have the potential of providing a basis for expectations by various market actors. However, as in the past, the present MPS also leaves many questions unanswered. This article seeks to raise some of them with a view to drawing BB's attention in drafting future statements.

## Gap between targets and achievements in the recent past

The first set of questions relates to the effectiveness of MPS in fulfilling the targets relating to monetary aggregates. The following table illustrates wide divergence between the programmed targets and the

- If BB possesses the necessary instruments, why weren't those used?
- Does the divergence indicate monitoring and supervision failure on the part of BB?

## Appropriateness and likelihood of achieving January-June 2011 targets

In the above context, it may be recalled that in an earlier paper (DS September 14, 2010) I argued that conventional instruments available at the disposal of the central bank -- variations in cash reserve/statutory liquidity requirements and operations in treasury bonds -- cannot exert significant influence on money supply in presence of large excess liquidity typically maintained by commercial banks in Bangladesh. The divergences noted above provide eloquent credence to this view.

As on end December 2010, the scheduled banks had an excess liquidity of Tk.23,721 crores. This amount is considerably lower than

	Year-on-Year growth (percent)	
	June, 2010	
	Programmed	Actual
1. Net Foreign assets	27.9	41.3
2. Net domestic assets	13.1	18.8
> Domestic Credit	15.6	17.6
> Credit to the public sector	11.9	-5.2
> Credit to the private sector	16.7	24.2
3. Broad money	15.5	22.4
4. Reserve money	7.0	18.1

Sources: MPS, January-June 2010 and January-June 2011 issues

actual outturns.

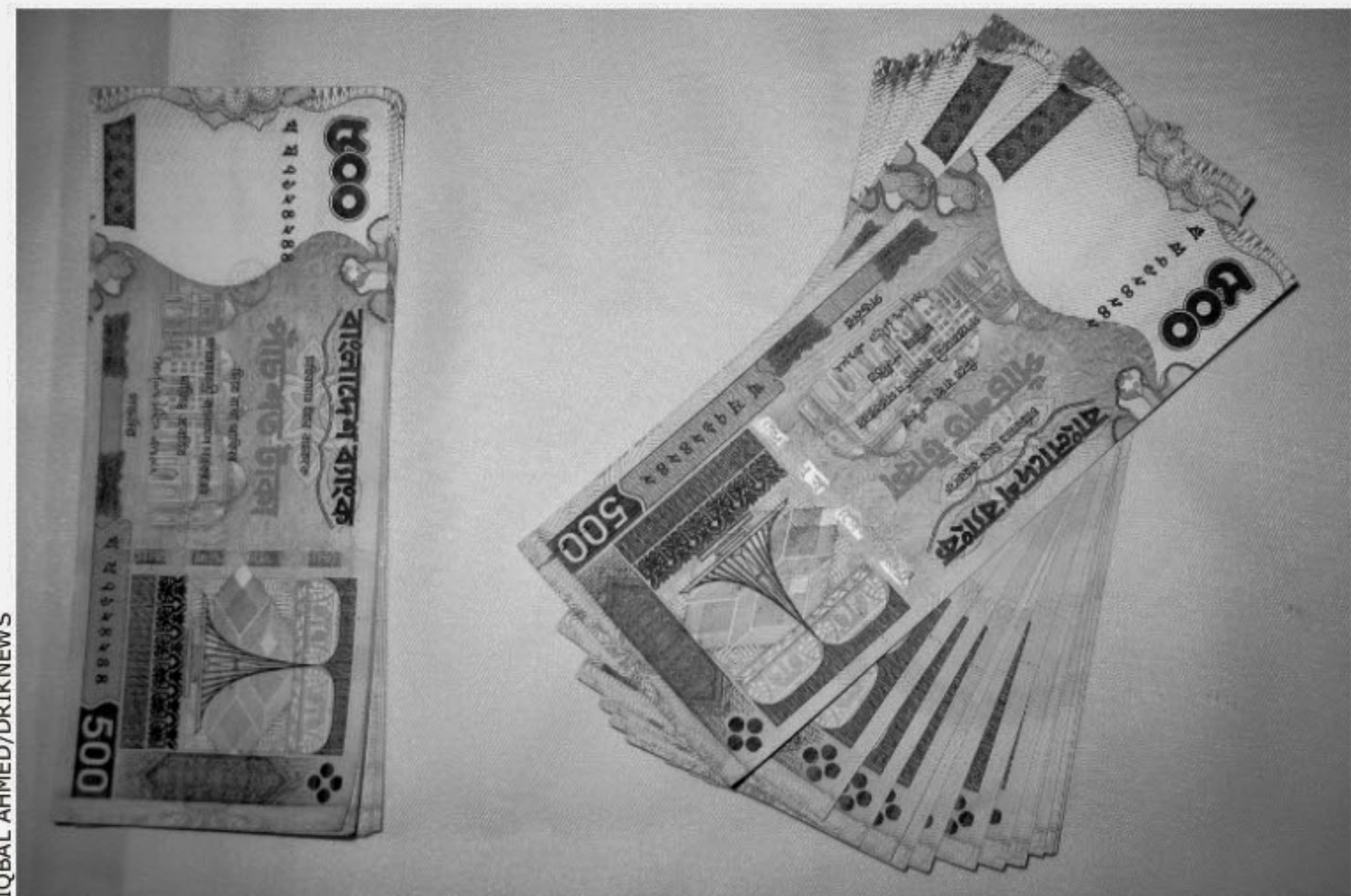
Of particular interest in the above table is the private sector credit component over which Bangladesh Bank, in principle, should be able to exercise the greatest control. Yet, this component has overshoot the programmed target by a very wide margin. MPS January-June 2011 provide no explanation for this unwelcome eventuality. The questions that arise in light of the above are the following:

- Was the divergence caused by lack of appropriate instruments at the disposal of BB?

on end-May 2010 when it was about Tk.31,000 crores, but large enough to frustrate BB's efforts to restrain the growth of monetary aggregates. Taking into consideration the continuing high level of excess liquidity and the dismal experience in the recent past, the pertinent questions are:

- How would Bangladesh Bank ensure that June 11 targets will be fulfilled?
- Has BB devised any new instruments to ensure convergence between the targets and actual outturns?

*Bangladesh Bank recently issued its eleventh monetary policy statement. A close analysis of the statement suggests that the monetary aggregates will diverge substantially from the programmed targets.*



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The above questions are particularly relevant because BB adopted a number of measures in the later part of 2010 to contain the growth of monetary aggregates with no perceptible impact. The measures included tightening of compliance surveillance on permitted ceiling of holding of capital market assets in June 2010, doubling of general provisioning requirement on bank loans against stocks and shares to 2% in October 2010, half percentage point increase in cash reserve requirement and statutory liquidity requirement from mid-May 2010 and one percentage point increase in BB's overnight repo and reverse repo interest rates. Yet, data on monetary aggregates for November 2010 fail to demonstrate desired results.

Year-on-Year growth in all the components of monetary aggregates (except credit to the public sector) as of November 2010 was way above the levels programmed for June 11 as announced in July-December 2010 MPS. Despite these developments, identical targets have been retained in January-June 2011 MPS. Hence the appropriate-

ness of targets is open to question.

## Objectivity of growth and inflation outlook

MPS January-June 2011 states "Bangladesh economy looks well poised to attain the 6.7% real GDP growth targeted by government for FY 11, and well on course for growth exceeding 7% in real terms in FY 12." The statement is based on assessment of positive overall external sector outlook, healthy agricultural output growth and continuing recovery in manufacturing output responding to robust domestic demand coupled with easing of power supply shortages as new rental plants start generation. The arguments are sensible prima facie, but there are serious caveats that BB seems to have ignored.

First, astounding export growth of 41% during July-December 2010 provides the basis for the assessment of external sector outlook. However, it should be remembered that what contributes to GDP is not exports per se, but the balance of exports minus imports. During July-November 2010, deficit in trade balance increased by nearly 40% compared to the same period of last

year, remittance growth turned negative, overall current account surplus fell drastically to \$563 million from \$1,674 million and there was a drastic reduction in aid disbursement as reflected in net foreign financing of government budget declining from Tk.6,832 crores to Tk.2,108 crores.

Second, the decrease in the index of small scale manufacturing output by over 9% does not portray a rosy picture. Third, any additional generation of electricity by quick rental plants has to be set off against likely fall in actual generation from the old plants because of breakdowns caused by poor maintenance and shortage of gas supply. Fourth, disincentive for new investments due to continuing suspension of new gas and electricity connections is unlikely to be alleviated during the remainder of the current fiscal year.

On balance, the expectation that the growth rate in the current fiscal year will exceed that of last year by nearly 1% is unlikely to materialise.

As regards inflation, MPS (January-June 2011) states: "Subject to current low non-food inflation not

being stoked up by demand shock from excessive credit expansion, the 12-month average domestic CPI inflation is still expected to keep easing down ... to a level around 7% by June 2011." BB rightly acknowledges that monetary policy actions will have little coverage on rising food prices. The notion that the upside of food price inflation in the remainder of the current fiscal year will be contained by reportedly large global grain stocks is not supported by any forecasts emanating from the international community.

Non-food inflation is likely to get cost-push boost not merely from domestic increase in electricity price but also from increase in the international price of petroleum leading to higher prices of imported raw materials and intermediate goods as well as depreciating exchange rate. The first half of the current fiscal year has already witnessed six-monthly average inflation of 7.5%. In light of the above factors it can be reasonably estimated that the current fiscal year will end with an inflation rate of about 8%.

The writer is a former adviser to the previous caretaker government.

# The way of all dictators

SYED BADRUL AHSAN

DICTATORS are a curious breed. When they seize power, they have little time or patience to remember the fate that might have befallen autocrats in earlier times and in other countries. Of course, some men, like Hosni Mubarak, do not come by power through seizing it but by being placed there through constitutional means.

The trouble, though, is that once they get to that place, they begin exploring the ways and means by which they can stay there and, more specifically, make sure that after them it will be their children to carry on with the odious job of ruling a country

power and the pelf, together with the accumulated arrogance of years, are all swiftly gone.

Mubarak could have left in dignity years ago. He did not, much as Ferdinand Marcos of the Philippines did not when he should have departed in good grace rather than impose martial law in 1972 as a means of clinging on to authority. Marcos had Benigno Aquino kept in detention and then freed and permitted to go abroad. In 1983, as a returning Aquino stepped out of an aircraft in Manila, his goal obviously to build up resistance to the regime, he was shot. His corpse lay sprawled on the tarmac.

Three years later, the entire Marcos clan fled the Philippines as Aquino's

think they can carry on despite a whole country rising up against them by asking the military to intervene on their behalf. The soldiers did intervene, but as the vanguard of a new dictatorship. Yahya Khan did bring Pakistan's army on to the scene again, by making sure that Ayub would go and he would take charge of a restive country. That was in March 1969.

In December 1990, Bangladesh's Hussein Muhammad Ershad saw the army he had brought back into politics in 1982 turn its back on him. General Nuruddin had little wish to prop up a dying autocracy. The march of democracy was too strong to be subverted.

There is always the ignoble about dictators. They begin by striking at the self-esteem of citizens. By the time their sinister rule draws to an end, it is their self-esteem which simply withers in the onslaught of popular resistance. It is a lesson dictators learn when it is too late in the day for them to save themselves.

Reza Pahlavi treated his people with contempt and the rest of the world with disdain. In January 1979, it was a contemptible emperor with pretensions to godliness that Iran's people forced out of the country. The self-styled Emperor Bokassa I of the so-called Central African Empire did not have intelligence enough to understand that he was a joke in modern times. He was thrown out. He had it coming.

Hosni Mubarak is now history. There are quite a few others who should be following in his footsteps. Think of Yemen's Ali Abdallah Saleh and Libya's Muammar Gaddafi. Think of all the Middle Eastern monarchies that must be reinvented as republics underpinned by the will of the people.

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# Money can't buy me love



My friend Stanley is the richest guy in the world. No joke. Consider this. I rent a small apartment. Bill Gates owns a house. Stanley Ho Hung-sun has his own country. Think of that, Mr. Gates.

But I wouldn't be Stanley Ho Hung-sun for all the tea in my grandma. If you think money buys happiness, read on. (Now when I used the word "friend" above, I meant it in the journalistic sense of "pest," but I have met him several times, so this is a somewhat informed view.)

Mr. Ho owns more of his quasi-country Macau (technically an autonomous zone) than other tycoons own of theirs, so in relative terms he is the richest guy in the world.

Citizens grow up in his flats, work at his hotels, eat in his restaurants, lose their wages in his casinos and will be buried in the columbarium his firm is building, possibly sooner than they might expect.

The old patriarch recently decided to retire -- and lawsuits started flying from various wives and children, who all want big slices of his empire.

All sorts of "wives" I had never heard of appeared.

I was astonished. "Is everyone in Macau Mr. Ho's offspring?" I asked a reporter friend following the story.

"Of course not," he replied. "Some are tourists."

The Macau media has been carrying minute-by-minute reports on how the fortune is likely to be split.

It's going to Wife One. No, Wives Three and Four. No, Wife Two, Child Eleven, and Dog Three. Etc. His casinos could probably offer this as a fun side-bet for gamblers.

The reporter told me that many stressed-out family members were staying up all night, alternately firing off love letters and lawsuits to other family members. What misery.

This reminded me about an inheritance puzzle in my kids' mathematics book.

"Q: A rich man with a million dollars leaves his wife 50%, his son 30% and his daughter 20%. What do they get?"

But the maths book failed to give the correct answer, which should be: "A lawsuit."

Clearly, it's better not to pass one's wealth on.

When my father died, there were no arguments over his inheritance. There was just about enough to buy dinner. At McDonald's. If we chipped in a bit extra for milkshakes.

Like my father, billionaire Warren Buffett is not passing on a fortune to his children, because getting money for nothing ruins one's character, he says.

Following his lead, I warned my offspring: "You know, kids, I could have chosen to amass a fortune and leave it to you guys, but I opted not to, for the sake of your characters."

My children thoughtfully took this on board, declaring: "Yeah right."

But at least they're not as bad as another friend of mine, whom I shall call Ricardo. His dad is old and rich. Whenever the old guy buys anything, Ricardo gets annoyed. "You're spending my inheritance, Dad," he complains. But the more he says this, the more the old man spends.

Eventually, Ricardo asked him why. The pensioner said: "I never liked spending my own money. But it's kind of fun to spend someone else's." Ricardo shut up after that.

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against its wishes. Mubarak took charge of Egypt after the assassination of President Anwar Sadat in October 1981. He was able to do that because he had been Sadat's vice president. And then began the long process of time in which Mubarak firmly and gradually entrenched himself in authority. He said he would be president for two terms, or twelve years in all. He broke that promise. And then he began grooming son Gamal as his probable successor.

Today, the whole Mubarak clan is bereft of power and influence. That is what years of dictatorial rule lead to. For years it is the word of the dictator against the word of the people or of the Almighty. And then comes a time when the dictatorship crumbles. The

widow led a People Power revolution to return the country to democracy. It was democracy that had brought Marcos to power in 1965, when he beat incumbent President Diosdado Macapagal at the elections. It was democracy he murdered in 1972.

When the twilight draws nigh, dictators pull out all the stops to try to hang on to power. Nicolae Ceausescu did it in Romania in 1989. But then came that rally in Timisoara, where for the first time in his life, Ceausescu faced the wrath of his long-suppressed people. A few days later, on the run from the mobs, he was caught and summarily killed along with his wife.

It was a reminder of what had happened to Benito Mussolini and his mistress in Italy in the 1940s. Some dictators, like Ayub Khan of Pakistan,