

Dollar crisis and impacts

MAMUN RASHID

The other day an esteemed client and a leading businessman asked me -- how far will the dollar go against the taka? For him, the import cost is going up. Added to this is dollar liquidity shortfall in the market, thereby impacting timely settlement of import liabilities.

Primarily, a large increase in import payments and a slowdown in wage earners' remittance growth have deepened the dollar crisis in the country. Reduced foreign aid or delayed disbursement of foreign aid also contributed further to this. In the face of the crisis, the central bank has been releasing dollars to meet import expenses, especially for the essential imports in the public sector, which is creating pressure on the country's foreign currency reserve.

When the US dollar is weakening against other currencies around the world, it is getting stronger against the taka due to the demand-supply gaps for dollars. For obvious reason, many of our economists and bankers are raising their eyebrows. I have read a former central bank governor saying, "Even in Japan, which is struggling with tsunami and nuclear radiation, the dollar is not getting as strong against the yen as against the Bangladesh currency. If this continues, it will increase inflation." He also said the situation would increase business costs and reduce investment and ultimately lead to an increased rate of inflation.

The current exchange rate of the dollar ranges between Tk 72 and Tk 73, which was around Tk 69 a couple of months back. Taka lost 1.93 percent of its value in December 2010 from that in July 2010 and lost a further 2.50 percent of its value in January from that in December. The total foreign aid, including loans and grants, in the first eight months of the current fiscal year amounted to \$400.60 million compared to \$1.430 billion in the same period in FY2010.

The export earnings of the country in the same period stood at \$14 billion, posting a 40 percent rise from that in the same period of FY2009-10, and the



import costs in the period amounted to \$22 billion, marking a 41 percent rise from that in the July-February period of the last fiscal year. The amount of inward remittance in the period was \$7.5 billion. At the same time, the country's foreign currency reserve depleted from \$11.16 billion in February to \$10.63 billion on March 22.

As mentioned above, banks are facing a severe dollar crisis along with a liquidity crisis faced by some banks, compelling them to express inability to open letters of credit for imports. What is worse is that it has become really difficult to get dollars even at that high price.

Some economists also felt, money was smuggled out of the country after being converted into dollar, which ultimately led to the present dollar crunch. The ongoing unrest in the Middle East was anticipated to worsen the problem. They also felt, making investment in productive sectors for employment generation, discouraging imports of consumer and luxury goods and investment in unproductive sectors would alleviate the problem.

Obviously it is well said than done. Bangladesh is an emerging economy. The policymakers have decided to err with even inflation than growth. The nature and composition of our import bills have warranted this on them. Our import bill says most of this is coming from capital machinery imports for readymade garments, textiles, pharmaceuticals and food processing industry or industrial raw materials or power plant equipment. Dollar price is rising. However, growth dynamics in the economy, along with fabulous increase in exports and good harvest seem to have provided a safety net. Serious interest in the external world for 'made in Bangladesh' goods as well as a significant rise in demand for consumer items in the domestic market is encouraging our business community to go for massive investment in the production lines. They don't mind paying 2-3 percent extra for a greenback, while the return on investment is very attractive in Bangladesh. I think there is sufficient space to absorb higher exchange rate as well as higher interest rate cost. This is a basic

symptom of an economy, which is going to see some accelerated growth rate in the coming years. While I worry with the slowing down of remittances, I think the situation would get better. May be 20 percent growth is unrealistic, but it should settle around 5-10 percent. With oil price remaining high, job opportunities in Middle East would improve with more construction projects undertaken to pacify the people there. There may be a bit of time lag though. A recent calculation showed that even fuel price remaining at \$150 for the rest of the year would only make the current account neutral from current surplus and even if the higher cost cannot be passed through, the budget deficit would increase from current 5 percent to 6 percent. Not really a desperate situation.

However, the regulators possibly need to work on the supply economics with an integrated approach. They need to maintain a healthy balance and at the same time ensure that the remitters and development partners are given enough incentives through

their ardent commitment to continuous reforms. Delay in committing budgetary support, disbursement of balance of payment support or release of millennium challenge fund does not make us happy at all. If the development partners cannot be pacified, Bangladesh may explore commercial borrowing from external sources, in view of the better sovereign rating. While we are ready to settle with bit of extra price spiral, provided investment in growth driving sector continues with employment generation, we do not appreciate any supply side constraint or management debacles. While our exporters are facing a rise in import finance rate, they should be okay with dollar rate hike. However, regulators need to draw a balance between dollar price rise and price spiral, since most of our inflation is 'imported inflation' and our popularly elected governments are committed to save common people from the onslaught of excessive price spiral.

The writer is an economic analyst, and can be reached at: mamun1960@gmail.com.

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Mexico: another BRIC in the wall?

REUTERS, Mexico City

Though it exports more than Brazil and India and enjoys the kind of population growth Russia can only dream about, Mexico has long been in the shadow of its more dynamic emerging market cousins.

Today Mexico has a growing body of supporters who believe it is closing the gap on the so-called BRIC nations as a driver of global growth, powered by rising competitiveness and the willingness to capitalise on untapped financial resources.

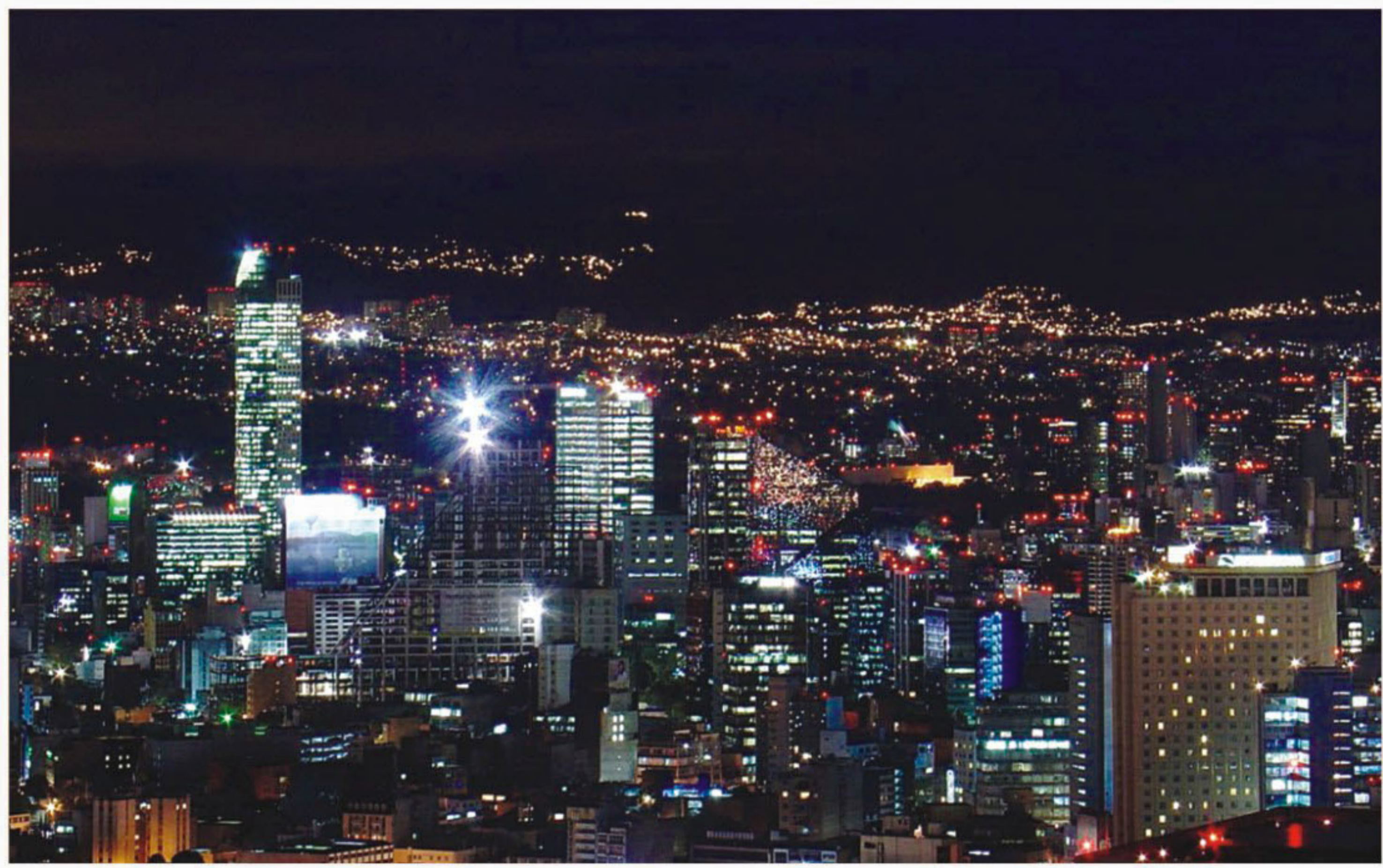
Grouped under the "BRIC" moniker coined by Goldman Sachs' Jim O'Neill in 2001, Brazil, Russia, India and China have leapt up the chart of the world's biggest economies, and recent forecasts suggest Mexico may soon advance at a similar pace.

Goldman estimates that by 2020, BRIC nations will account for nearly half of global growth, picking up the slack from aging and debt-laden developed economies, notably in Europe.

Mexico, which President Felipe Calderon this week described as a "predominantly middle class society", should provide the biggest boost to growth from the chasing pack, the bank said.

Despite Calderon's ongoing conflict with drug cartels that has cost 36,000 lives in the past four years, investors have kept faith in Mexico, piling money into its stock exchange, which hit an all-time high in January.

"The Mexican president doesn't understand why it's not called 'BRICM'," said Johannes Hauser, managing director of the German-Mexican chamber



The skyline of Mexico City. Mexico is closing the gap on the so-called BRIC nations as a driver of global growth, powered by rising competitiveness and the willingness to capitalise on untapped financial resources.

of commerce (CAMEXA). Fears persist that Mexico may be hamstrung by political deadlock, government reliance on oil revenues, and fears too much economic power is concentrated in just a few hands.

But for now there is rising optimism Mexican manufacturers have a bright future, having taken on a fraction of the debt of their BRIC rivals, particularly in China.

After the global recession in 2009, Mexico's economy grew 5.5 percent last year -- its fastest rate in a decade -- and the finance ministry has said 2011 could be even better.

Sergio Martin, HSBC's chief economist in Mexico, says one notable advantage the country holds over BRIC rivals is its proximity to the United States, the destination for around 80 percent of its exports, which totalled \$300 billion last year.

"It's like how Eastern Europe is profiting from Western Europe," said Martin. "We are modernising."

The dependence on its rich neighbour could leave Mexico exposed if the US economy falters. This risk should diminish if predicted growth results in a more resilient local economy.

HSBC said in January it expected growth in Mexico's per capita GDP to be 3-1/2 times faster than the U.S. this decade.

Mexico outperformed Russia in 2010 in growth, and HSBC forecast it would lead the charge in Latin America in coming years to become the world's eighth biggest economy by 2050.

Barely five percent of the workforce are jobless in Mexico, which has a median age of 27, compared to 29 in Brazil, and 35.5 in China, the CIA's World Factbook says. Russia stands at almost 39, and its population is

down nearly 4 percent from 1995. Mexico's rose about a quarter to 112 million since then.

Though investors have been plowing money into Brazil, attracted by high interest rates, data suggest that Mexico may have more leeway to draw on outside capital to fuel growth.

According to Fitch Ratings' sovereign data comparator, private sector credit in Mexico was worth 25 percent of gross domestic product (GDP) in 2009, well below any BRIC nation.

By contrast, it stood at 134

percent of GDP in China and 203 percent in the United States. Mexico's government has also maintained scope to invest by keeping spending under control.

In a phase when public borrowing was rising fast globally due to efforts to boost growth, according to Fitch estimates Mexico in 2010 managed to cut its general government debt to some 38 percent of GDP -- less than half the US level.

Businesses needing cash need look no further than Mexico's financial sector, which is well-placed to bankroll growth, said Eduardo Suarez, an economist at Royal Bank of Canada (RBC).

"The lowest ones have capital (adequacy) ratios of 16 percent, but many of them are in their 20s or higher," he said.

Banks in AAA-rated nations had an average ratio of 12.6 percent in 2009, and of 15.7 percent in Latin America and the Caribbean, according to Fitch. Mexico stood at 16.5 percent.

The country's previous reluctance to introduce new financial tools to attract fresh capital is also changing.

Earlier this month, Mexico launched its first real estate investment trust (REIT), while the derivatives exchange said it would expand the range of debt future instruments on offer.

Yet doubts linger about how much help the economy will get from lawmakers unaccustomed to bipartisan cooperation.

The main opposition party recently proposed bills to overhaul the tax system and make the job market more flexible. Age-old rivalries could condemn the plans to oblivion.

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