

How can Bangladesh Bank counter high oil prices?

KINGSHUK NAG

It has been close to 3 months and the Middle East crisis continues to hit headlines across the world. Some call it the Arab world uprising and some call it the Arab youthquake. But whatever name we may use, the repressive governments in the region are surely having a tough time in controlling the boiling tempest.

Two presidents have already conceded to the public outcry and many more heads are expected to get toppled in the next few months. Libya, Syria and Yemen seem to have dark clouds hanging over their president's future, while on the other hand, Arab monarchs in Saudi Arabia and Bahrain are shelling out fresh incentives from their very deep caskets to silence the democratic demands.

As if the Middle East crisis was not enough to stifle world recovery, Japan was hit with a devastating 8.9 magnitude earthquake and tsunami, killing more than 12,000 people. Immediately following the earthquake, Japan's Fukushima nuclear power plants reported a failure in their cooling system as several nuclear plants were shutdown, resulting in severe electricity shortages across the country. Japan's Prime Minister Naoto Kan quickly ordered the state machinery to release 66 million barrels of oil to meet up the deficiency of nuclear energy.

The twin crisis in the Middle East and Japan are already pushing oil prices up as Brent oil reached a peak of \$119 a barrel some days back. Egypt, Libya, Algeria, Syria and Yemen combine to produce more than 5 million barrels of oil a day, which is close to 8 percent of global oil production. The longer the crisis exists in these countries, the tougher it will be for other OPEC countries to

sustain reasonable oil prices by shoring up spare capacity. Nomura Holdings, a major investment banking firm, pointed out that if Libyan and Algerian production were halted, oil prices could reach as high as \$220 a barrel and set the stage for another recession.

While central banks around the world are ruminating over the best possible strategy to counter the effects of high oil prices, we would be wondering what cards the Bangladesh Bank (BB) chief unravels to sustain optimal level of growth and still not worry about rising inflation.

Bangladesh meets 90 percent of its oil requirements from imports. The country might be more than worried if oil hovers around the present \$120 a barrel for too long, let alone the Goldman Sachs dreaded forecast level of \$200 a barrel. Stakes for Bangladesh are quite high, as last year, Bangladesh Petroleum Corporation (BPC) imported 4.3 million tonnes of oil, which cost \$2.6 billion to the exchequer. This year, BPC plans to import 4.5 million tonnes of oil and it would be fair to say the initial budget is undergoing multiple revisions against the planned \$3 billion outlay.

So how should BB adjust the monetary policy to combat volatile oil prices? Every country has its own unique characteristics and no one policy can be the most apt one. Bangladesh is a country that perennially has high inflation rates and had inflation rates hovering around 8-9 percent last year. On the other hand, Bangladesh has been posting over 6 percent GDP growth and is expected to show a 7 percent rise in output for fiscal 2011-12. Government spending is slated to increase as infrastructure expenditure is all set to foot a bill of around Tk 15,000 crore to develop the



AFP

A convoy of rebel fighters drives past a sign welcoming guests at the entrance of the Brega university on the edge of the key oil city in Libya. The Middle East crisis stoked fears of an oil price hike around the world.

country's transport and connectivity systems.

Against a backdrop of the current state of the economy, BB might consider tightening the monetary policy to counter the effects of high oil prices, which eventually leads to a rise in inflation. Since high infrastructure spending also has a direct consequence on inflation, interest rates could be increased to reduce aggregate demand (AD). As a result of a fall in AD, the credit supply is choked as businesses are discouraged from investing or they have to avail credit at higher rates. On the other hand, depositors are encouraged to stash their money away from investment avenues into banks, as savings becomes more attractive. Also, the local currency will see an appreciation in value and help defuse inflationary pres-

ures.

BB might also consider intervening to take stock of the country's present currency situation. At present, the dollar to taka exchange rate hovers around Tk 73, while it was around Tk 70 three months back. While exports in July- February of fiscal 2010-11 marked a rise of 40 percent to about \$14 billion, imports marked a higher rise to about \$20 billion. Since cumulative imports are higher, the benefit would be greater had the local currency stopped devaluating against the dollar. Asian currencies across the world are at their highest levels against the US dollar since the 1997 Asian financial crisis. The Malaysian ringgit and the Korean won rose to unprecedented highs last month to combat rising inflation.

A decline in foreign aid,

deceleration of growth in remittance and wider trade deficits are contributing to higher inflation rates due to a weaker currency. However, a tight monetary policy is subject to time lags and could take more than a year to influence the economy.

On the other hand, the government's ambitious growth target of 7 percent could take a hit as real GDP or potential output could decline. As businesses suffer due to either higher costs of credit or lack of investment climate, productivity declines along with employment levels.

Unemployment will increase due to lower output levels and low generation of income from alternate sources.

Chris Lafakis, a Moody's economist, states, "The fundamental price of oil should be \$93 to \$94 a barrel plus a \$5 per

barrel 'uncertainty premium' should have the price of oil hovering around \$98 a barrel for 2011."

Apart from an uncertainty in prices, a leaked US diplomatic cable states a warning from a Saudi oil expert that the kingdom's oil reserves are overstated by 300 billion barrels, which is nearly 40 percent of Saudi's proven reserves. As oil prices are here to stay and oil supplies are uncertain, the government along with BB needs to proactively outline the best form of monetary policy in line with the country's demographics, as early as possible, so as to shield us from higher oil prices at present and in the future.

The writer is a banker and can be reached at kingshuk_nag001@yahoo.com.

'Skype school' brings knowledge to Indian village

AFP, New Delhi

The electricity keeps cutting out, the Internet connection is crackly and the speakers don't always work, but Santosh Kumar knows that 20 pupils far away in eastern India are relying on him.

Once a week, Kumar uses the Skype computer programme to teach maths to children in Chamanpura, a poor village in the struggling state of Bihar, 600 miles (970 kilometres) from his two-storey house in the suburbs of New Delhi.

The free internet service allows the class to see, via a projector, Kumar's tutorial which includes an animated tale about a greedy priest and a wily countryman to teach the students about numbers and the concept of infinity.

"The first time I did this, they were really excited by the technology, now they don't care," Kumar said. "It's normal to them."

Kumar, a successful 34-year-old engineer, grew up in Chamanpura village before battling his way to a place at the prestigious Indian Institute of Technology (IIT) and on to a well-paid job in the Indian capital.

"It's an uphill task to bring education to villages," he said, recalling his teenage years when he would cycle eight miles to college in a nearby town.

Kumar's cousin Chandrakant Singh, also now a well-paid engineer, decided during a trip back to the village to set up a school for children aged between 6 and 12.

"I wanted to provide a world-class education to students in the remotest place on Earth," said Singh, who remembers studying at night under the dim light of a kerosene lamp.

Unfazed by the fact that Chamanpura has no mains electricity, or by the refusal of experi-



AFP

The photo shows students in a remote village in Bihar listening to a volunteer mentor of the Chaitanya Gurukul Trust, Santosh Kumar (not pictured), during an online class conducted from New Delhi.

enced teachers to travel to Bihar, Singh approached his friends for donations to fund the Chaitanya Gurukul boarding school.

He installed two power generators and organised training for 16 local teachers before hitting on the idea of using Skype to connect students with professionals across India.

"The world's greatest teachers don't want to go there, so I thought maybe we could use technology to help our students learn faster," he said.

The school opened its doors in April 2010, offering admission to 500 students, 50 of whom pay nothing, with the rest charged according to their parents' ability to afford fees.

The Skype lessons take place in the evenings after the day's regular classes and at weekends.

Kumar was on board from the beginning, adamant that he could help the students and give them more "clarity" on what they learnt in class.

"Some of them were curious, others got intimidated, I had to work

with them to rid them of their fear," he said, pointing out many of them had never seen a computer before.

"Now it's like television for them, it entertains them and hopefully they learn something," he said during another power outage. "The technical problems happen often. It's extremely frustrating but we carry on."

During his maths lesson, some students appeared engrossed by the video, while others chattered inaudibly in the back rows.

But they snapped to attention during the question session, with everyone answering correctly.

"It's a very different way of teaching, it helps me remember what I learn better than if I just read it," Anmol Kumar Jaiswal, 11, told AFP via the two-way Skype link.

Pragya Parashar, a 12-year-old girl sitting behind Jaiswal nodded in agreement.

Tsunami washes away hopes for Japan's young

AFP, Rikuzentakata, Japan

Japan's tsunami swept away more than just the buildings in places like Rikuzentakata -- it took people's dreams and their plans for the future.

Honami Suzuki graduated from high school just before the huge wave bore down on her home.

At just 18 years old she has her whole life ahead of her and was looking forward to a place at a vocational school where she would learn the art of cooking.

"I don't think I can do that now," she told AFP. "It was my family that would have had to pay for it, but they won't be able to afford that now."

"I think I'll just have to try to find a job straight away. I hope it will still be something to do with food, but I don't know. There isn't much left around here anymore."

Her friend and fellow high school graduate Shiori Hosoya has also abandoned any idea of staying in education.

"I think I'll just have to look for a job," she said. "I've no idea what it will be. Any job, I suppose."

But jobs are going to be hard to come by.

Labour authorities in the three hardest-hit prefectures -- Miyagi, Fukushima and Iwate -- have received around 150 calls from companies and new graduates about the cancellation of job offers or delays in employment.

Companies, often required by law to take on a specific number of new employees each year, have contacted authorities to explain their current difficulties in recruiting.

"In the past, companies were

reluctant to hire people because of the economic slump," said Yasuo Chikugo, an official from the Iwate Labour Department, referring to Japan's extended period of financial malaise.

"Now some of the companies themselves have disappeared. There are tough times ahead for new graduates."

Suzuki and Hosoya have tried to keep themselves busy since their homes were wrecked by the enormous waves. Both have been helping out at the refugee centre set up in their local junior high school.

"When we have free time, we come down here to the town," said Suzuki. "We're looking for useful things."

One afternoon's haul included two mud-splattered mugs.

"We're short of these at the school. I found them near my house," she said, pointing to an area of splintered wood and mangled cars.

They are surprisingly sanguine about what they may have lost: the alternative life they could have had one day with qualifications that might have led to better-paying jobs.

"You can't think about before," said Hosoya. "I've still got my life and my friends. That's the important thing."

In Higashimatsushima, another devastated city, a total of 146 youngsters graduating from Yamoto Daini Junior High School pledged to do their best as they embarked on a new, but uncertain, chapter in their lives.

"The disaster changed our lives and we lost many things," Kodai Kubota told the graduation cere-

mony, which had originally been scheduled for March 12, the day after the tsunami swept over the northeast coast, killing more than 12,000 and leaving more than 15,000 missing.

"But we also gained many things," Kubota said. "We think we can overcome future difficulties with what we have learned."

The school is one of the relatively lucky ones along the coast -- none of its students have been confirmed dead and only one is still unaccounted for.

Education chiefs say they are making special preparations for the new school year, including mulling the establishment of schools with dormitories for the as-yet unknown number of children orphaned by the disaster.

The Yamoto Daini school buildings, some of which were slightly damaged in the quake and tsunami, have been turned into an evacuation centre, a temporary refuge for hundreds of people who lost their homes.

"Nothing can be harder than this disaster," said Shizuku Abe, another graduate. "I will never forget what has happened and will use what I have learned to overcome future difficulties."

Fellow graduate Kento Takahashi said he would like to become a teacher "to hand down stories of the disaster to the coming generations for the sake of the many victims."

In his farewell message to graduates, school principal Eiichi Kanno said they should remember the Japanese proverb: "Overcoming great obstacles makes people stronger."