

Mess in the macroeconomy: How to clean up

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FOLLOWING the recent visit of IMF mission, macroeconomic management in Bangladesh has come under the spotlight. The reputation that the country has enjoyed over many years in pursuing sound macroeconomic policies appears to be in jeopardy. The following table tells a poignant story of the mess in the macroeconomy.

The highlights of the story in words are as follows:

Domestic component

- A dramatic increase in the growth of credit to the public sector for which both the government and the other public sectors (ie, government owned corporations and autonomous bodies) are responsible. Between those two entities, the government is more guilty.
- A significant increase in the rate of inflation, contributed primarily by food price inflation.
- The only bright spot is a notable increase in tax revenue collection.

External sector

- The remarkable increase in the growth of exports has been more than counteracted by even higher growth of import payments. Note that the base figure of import payments is much higher than that of exports.
- A substantial fall in the growth of remittances.
- A noticeable decline in net disbursement of external aid as well as inflow of foreign direct investments.
- The combination of the above led to an astounding increase in trade deficit and reduction of current account balance and caused considerable depreciation of the exchange rate.

Failure of monetary policy: What needs to be done?

Bangladesh bank monetary policy statement (MPS) January-June 2011 targeted total domestic credit year on year growth of 17.9%, 25.3% for the public sector and 16.% for the private sector for June 2011. It is obvious that monetary policy has miserably failed in producing results anywhere near these targets.

Another failure of monetary policy lies in the incapacity to reduce the spread (be-

tween lending and deposit rate) which has persistently stayed above 5%.

A third failure relates to depreciation of the exchange rate which remained stable at around Tk.69 per US dollar from FY 2004-2005 till August 2010. The combination of excessive credit growth and currency depreciation has contributed to high inflationary pressure.

The above diagnosis suggests a number of curative measures that need to be urgently implemented.

Those include:

- Bangladesh bank must exercise its full authority to contain the growth of credit to both private and public sectors. Even an accommodating monetary policy which incorporates (rather than seeking to contain) inflation does not justify the rate of credit growth that has been experienced during FY2010-2011.
- Many businessmen complain that much of the credit growth to the private sector is attributable to satisfying the demand from rental power plant owners and many productive sectors are actually suffering from credit crunch. Bangladesh Bank's monitoring role should, therefore, go beyond the aggregate numbers and examine the intersectoral deployment of credit. Based on the findings, credit to the unproductive or non-priority sectors should be actively discouraged. Investors in rental power plants should be forced to explore alternative sources of finance including the capital market. Note that despite gyrations in the secondary market, no IPO has remained undersubscribed in recent times.
- Bangladesh Bank must take a firm stand

with respect to credit to the public sector. It should refuse central bank credit to the government. It should refrain from exerting pressure on primary dealers to buy government bonds which add to unencumbered, but practically unmarketable assets to the commercial bank's portfolio. Bangladesh Bank should also ensure that the state-owned commercial banks do not simply serve

measures should be taken to reduce the demand for non-essential imports. On the supply side private parties may be allowed to raise finance from the international financial market on a limited scale, while ensuring that likely currency and maturity mismatches do not reach any serious level. The appreciation of taka to a level of around Tk.70 per US dollar could help mitigate inflation without hurting the export sector.

Fiscal policy failure and the corrective steps:

The greatest failure of fiscal policy is that despite impressive growth of tax revenues, particularly NBR tax revenues, the government borrowed heavily from the banking system including the central bank. The budget for FY 2010-2011 envisaged an amount of Tk.15,680 crores from the banking system, the actual estimated amount of the borrowing turned out to be Tk.19,384 crore, thus exceeding the budget target by nearly 25%. In this connection it is also worth noting that the size of the annual development programme was revised in FY 2010-2011 from Tk.38,500 crore to the Tk.35,880 crore of which about 90% was actually spent.

The above scenario obviously emerged due to rapid rise of non-development expenditure, failure to mobilise targeted foreign aid and also due to fall in the collection of non-tax revenues estimated to be Tk.16,135 crore against the budget provision of Tk.16,805 crore in FY2010-2011.

- Taking the above-mentioned developments into account, the government needs to pay serious attention to the implementation of the following actions:
- The government must drastically reduce

borrowing from the banking system. This may have a positive impact on inflation as well.

- The reduction of government borrowing from the banking system in turn, requires containing non-development expenditure. Of particular importance in this context is a comprehensive analysis of the huge amount of subsidies being doled out in different sectors. The government should progressively get rid of generalised subsidies and adopt a regime of means tested subsidies. Generalised subsidies are neither efficient nor equitable.
- The government should also take a fresh look at its treatment of state-owned enterprises (SOE). The basic principle that should be followed, particularly with regard to commercial SOEs, is that if they cannot meet variable costs of production, they should be privatised or closed down. Moreover, the government should stop offering guarantees for SOE loans from the banking system.
- Serious efforts should be made to accelerate disbursement of foreign aid. This may also help reduce the pressure on the exchange rate and have a mitigating impact on inflation.
- Diplomatic initiatives should be strengthened to resolve the problems faced by the migrant Bangladeshi workers abroad and also explore new employment opportunities both in the existing markets and in other countries. An acceleration of remittances would also reduce pressure on the exchange rate.

Concluding observations:

Most of the key macroeconomic indicators point to severe flaws in macroeconomic management in recent time. Bangladesh Bank and the government, specially the Ministry of Finance, the two most important guardians of macroeconomic management should work in unison to implement measures suggested in this brief paper in order to be able to restore the country's macroeconomic health. Effective implementation would require strong political will to take actions that may be considered unpopular in the short run, but business as usual and populist policy stance will only aggravate the current misery.

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Key macroeconomic indicators		
	FY (09-10)	FY (10-11)
1. Domestic Credit	18.8	25.0
I. Public sector	-1.7	33.6
II. Government	-6.5	35.0
III. Other public	21.1	28.7
IV. Private sector	24.2	25.8
2. Inflation Rate	7.3	9.1
I. Food	8.5	11.7
II. Non-food	5.4	4.3
3. Total Tax Revenue	17.6	26.9
I. NBR Tax Revenue	18.1	27.5
II. Non-NBR Tax revenue	7.3	13.4
4. Import Payments	5.5	41.8
5. Export	4.3	41.5
6. Remittances	13.4	6.0
7. Foreign direct investment (\$million)	913	768
8. Net disbursement of aid (\$million)	1477	1050
9. End Month	July10	July11
Exchange rate (Taka per U.S. \$)	69.4	74.7
10. Trade balance (\$millions)	-21388	-30336
11. Current account balance (\$millions)	3724	995

Note: Unless otherwise specified, the numbers show percentage change over the previous year.
Source: Bangladesh Bank, Major Economic Indicators, September 2011.

Sound macroeconomic management for which Bangladesh has earned considerable reputation over many years appears to be in jeopardy. Most of the key macroeconomic indicators provide indisputable evidence in support of this unpalatable reality. Bangladesh bank and the Ministry of Finance need to demonstrate boldness to adopt measures some of which may be politically unpopular in the short run in order to restore the country's macroeconomic health.

as bottomless money pot for the public sector to the neglect of prudential norms.

- Bangladesh Bank should explore measures to deal with allegedly collusive practice among private commercial banks to maintain high spread.
- As regards exchange rate, success in containing credit growth should help on the demand side. In addition, other

Meaning of Durga Puja

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ACCORDING to Hindu mythology, demon Mahishasur was creating problems for the gods and their king. Then Indra requested the holy trinity of Brahma, Vishnu and Shiva to save them from him. They in turn sought divine help of mother Durga who, armed with weapons and riding on a lion, killed demon Mahishasur. So, Durga Puja is a celebration of the victory of good over evil.

Durga Puja is held during Mahalaya, which is the first phase of crescent moon in Ashwin (according to the Hindu calendar). On this day, the devotees get up early and pray to the goddess Durga. After the celebration of Mahalaya comes Mahashasthi. Mahashasthi is followed by Mahasaptami, Mahaasthami, Mahanavami and ends up with Vijaydashmi.

The major attractions are *jatra*, folk dances, songs, and *shankh* competition, which are conducted by the local puja communities. A grand feast is also organised. Buffalo sacrifice is performed on the day of Mahaashtami. Every pandal community organises the feast. New clothes, smiling faces, dancing devotees, chanting of *mantras*, amazing display of lights and the rhythmic beat of *dhak* (drums) are all part of the grand Durga Puja celebration. On the tenth day of the festival, Vijaydashami, the idol of goddess Durga is immersed in the river or pond with full customary rituals. This marks the end of this majestic festival.

What is celebrated as Durga Puja these days has its root in ancient Hindu mythology. However, the Durga Puja festival that is celebrated in the Bengali month of Ashwin is known as "Akalbodhon." It is so called, because the time of this worship of Devi Durga differs from the conventional time of celebration of Durga worship during the Bengali month, Basanta.

Going back to the myth and its history, we get a story that tells us about a fierce demon known as Mahishasura, who won the favour of Lord Brahma by the dint of prolonged meditation. Pleased with the devotion of Mahishasura, Brahma blessed him with semi-immortality. Being blessed with the boon that no power on Earth or heaven would be able to kill him,

Mahishasura started a reign of terror, not only on the Earth but also in heaven. Because of this, terrorism prevailed on the Earth and in the heaven too.

People on Earth were already disturbed with loads of dissatisfactions; and it became worse when Mahishasura came with his evil power. Gods in heaven were assaulted and finally demons seized the deities and took their place. The green demon in the disguise of gigantic buffalo with fierce iron weapons attacked the King of the Lords (Indra/Purandar). The Lord was defeated in almost no time and Mahishasura won the throne of heaven, driving out the gods from heaven. They went to the trinity deities Brahma, Vishnu and Maheshwar (Lord Shiva) and prayed for themselves and the

power and symbol of goodness. Durga means "unattainable" in Sanskrit. She is also known Mahishasura Mardini, because she was the only power to demolish Mahishasura. She is Maha Devi, the Great Goddess, who is treated as the Mother of all mortal beings as well as the divine powers.

However, is it not hypocritical to worship Devi Durga if we believe women are weaklings in real life? Is it not hypocritical to tell young boys not to be like girls all year and then in these one or two festivals have them bow down before the Goddess? How ironic that we restrict the things girls can do in life in the name of "protection" when we gather in Durga Puja to ask a woman for protection! Some of us respect women only in the motherly form. But why should we restrict respect only for mothers? What about all the other roles a Goddess has in life? Saraswati is not just our mother, but also the daughter of Durga, sister of Ganesha, and consort of Brahma. Even when she's in none of those roles, she's the Goddess of Wisdom. Does Hinduism not teach us to respect the feminine and masculine energies equally, in any role?

I hope that in this Puja, all of us take a moment to contemplate on what implications Goddess worship has in our daily lives. Bangalees should be at the forefront of women's rights, considering that we are a Goddess worshipping community. I hope we're at least conscious of the words we use against women everyday, or otherwise they might easily become our actions.

The sounds of the drumbeats early in the morning herald the arrival of Maa Durga. The moment the '*kaash phool*' begins to sway in the breeze, we know it's Sharodotsav with full of fun, laughter, shopping, eating and of course, offering prayers for all. One basic aim of this celebration is to propitiate Shakti, the Goddess in Her aspect as Power, to bestow upon human all wealth, auspiciousness, prosperity, knowledge (both sacred and secular), and all other potent powers. Whatever be the request that one may put before the Goddess it is granted consciously or unconsciously. Everyone is blessed with Her loving mercy and is protected by Her.

people on Earth. This invasion of heaven by Mahishasura and his army enraged the Supreme Gods. Flashes flew, thunderbolts tore the skies apart and fires illuminated the three worlds, heaven, the earth, and the netherworld with glaring beams of light.

The supreme powers merged together and formed a shape of a young Goddess, who was empowered with eternal power, three eyes and ten hands with a celestial weapon in each, mounted on a lion with awesome power. Her exquisitely beautiful look with glowing face and wide-open eyes added a special glory to her personality. She was the one and only one in the whole universe who could abolish the evil power by killing Mahishasura. She was named Durgathe Goddess of war, invincible lord of



YAMIN TAUSEEF JAHANGIR

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Five silliest law tales this week



I take back everything I've ever said about North America. I want to live there.

I've just seen a report about a woman in Edmonton, Alberta, who sued the makers of Stride chewing gum for \$100,000 because it stuck in her dentures and she "suffered depression for approximately 10 minutes." Wow! Imagine living in a place where you can blame your tiniest bad mood on some big corporation and take out a lawsuit against them for a small fortune.

I would sue the Nickelodeon TV channel for a million bucks because I felt mildly depressed for several seconds last night when I realised my children thought Spongebob Squarepants was more entertaining than their own father, and another million for being right.

And remember that incident in the US last month where a man sued a nail salon for \$200,000 because he felt mildly humiliated for a few moments for paying one dollar extra for his manicure?

I feel mildly humiliated all the time! That's the normal state of being for people in disreputable professions, such as journalist, lawyer, murderer, banker, etc. If I lived in the US I could retire after the first day.

Having said that, the North American legal system is better than the ones we have in Asia, where you can't sue anyone for anything. Last week, I found tinned fruit salad on my pizza, clearly a major human rights violation. A lawyer among my fellow diners told me there was nothing I could do. Unbelievable!

There was an item in the legal news last week, forwarded by reader Wendy Tong, which raised my eyebrows. Derrick Smith, about to be tried for murder, got a letter informing him that he had been selected for jury duty -- at his own murder trial.

He tried to accept the job. "I promise to be fair and impartial," he told a lawyer at the court in Albany, US, according to the Times Union newspaper. The court withdrew the offer. Shame. It could have been the fastest jury decision in history. "So, did you do it?" "Er, no." Boom. End of case.

Incidentally, I wish I was a juror on the Michael Jackson doctor trial. Rumour has it that the dead pop star's lawyers are going to "play the race card." Now here's the question: which race? He was black in the 1980s and became white around 1991, I reckon.

Still, the top legal story of the past week HAS to be this one: Swiss authorities passed a law making it illegal to keep just one guinea pig, Der Spiegel revealed. "It might be lonely," a legislator explained.

So if the entire population of Greece goes bankrupt and starves to death, no problem. But if a guinea pig feels a bit isolated? It's the Swiss to the rescue. That's SO European.

Now if this happened in the US, things would be completely different. The guinea pig could sue its owner for millions of dollars. The owner would get depressed and counter-sue the guinea pig. And the final outcome would be the same as with any case: the winners, of course, would be the lawyers.

Meanwhile, those of us stuck in Asia are left picking tinned fruit salad chunks out of our pizzas. Tragic.

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