

CONNECTING THE DOTS

Rupee performance: Bangladesh Bank take note



A. R. CHOWDHURY

A number of articles in recent weeks have analysed the impact of the drop in the value of taka against the US dollar. However, taka is not alone in seeing its value depreciate. A

number of other emerging market currencies have seen their value drop. For instance, the Indian rupee was one of the worst performers among the emerging Asian currencies in 2011. The rupee fell by almost 20% over the course of the year, reaching a record low against the US dollar in December.

So what caused the drop in the value of the rupee? How did the Indian monetary authorities respond to the falling national currency? And what can we learn from their experience?

Similar to other emerging market currencies, the European sovereign debt crisis and the accompanying rise in global financial market volatility have been the key source of selling pressure on the Indian rupee. However, India's vulnerable external position also had a lot to do with it.

India is running a persistent current account deficit that stood at 2.6% of GDP in

late 2011. While this is below the peak reached in late 2010, the country is still dependent on foreign capital inflows to finance that external shortfall. From a currency market perspective, the rupee thus tends to face natural depreciation pressure whenever global risk aversion increases and capital inflows drop.

A closer look at the composition of capital flows suggests that foreign direct investment flows remained relatively steady last year while portfolio flows both accounted for a more important share of overall capital flows and shown higher volatility. Subsequently, India's basic balance (the sum of the current account and long-term capital flows) had widened in 2011.

So what did the monetary authorities do? Even during this period of pronounced currency weakness, the Reserve Bank of India pursued only limited direct foreign exchange intervention, primarily aimed at smoothing currency volatility. Instead, greater emphasis has been put on changes in foreign exchange and capital account rules to increase the supply of foreign currency and ease selling pressure on the rupee.

Among the relaxation of capital account rules implemented in recent months, authorities increased the limit on investment in government and corporate debt by foreign investors, raised the ceiling on interest rates payable on non-resident deposits and eased rules allowing foreigners to invest directly in the Indian stock market.

Although global factors have been the key

neutral or easier monetary policy stance. Central bank rate hikes have certainly been a mixed blessing for the Indian currency, increasing the rupee's relative yield advantage but also weighing on growth, stock market sentiment and foreign purchases of Indian stocks.

The interest rate tightening cycle came to a halt in December, when the central bank left its repo and reverse repo rates unchanged. This was because the downside risks to economic growth had clearly increased. Separately, and distinct from its anti-inflationary monetary policy stance, the Reserve Bank of India has eased liquidity conditions.

However, some of the domestic negatives are starting to dissipate. The tightening cycle appears complete and could give way to monetary easing before too long, even if that easing is unlikely to be particularly aggressive due to continued inflation.

Going forward, where do I see the value of the Indian rupee by the end of 2012? The current downward pressure on the currency would ease somewhat and it should trade against the US dollar at around Rs. 50-52.

There are several reasons for that. First,

the rupee has already weakened by about 20% from its 2011 peak and is near its 2009 low, which was arguably a point of even higher stress for the global financial markets. Second, with interest rate hikes less likely, the Reserve Bank of India will be unwilling to risk higher inflation via a weaker currency. Further sharp rupee weakness could thus see a more aggressive central bank intervention. Third, recent capital account liberalisation measures could be rupee-supportive as they would tend to accelerate rupee gains during periods of positive risk sentiment. Finally, India's domestic fundamentals should also turn less negative. In particular, moderate central bank easing would support the economic growth outlook and encourage renewed capital inflows.

So what does the Indian experience tell us about the value of taka which has dropped more than 15% in the last six months? Though several external factors have contributed to the fall, the inability of our authorities to intervene with timely and coordinated corrective measures has exacerbated the situation. The continued drop in the value of taka is not in our economic interest. It is time the Bangladesh Bank takes a hard look at its options.

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factors for the rupee's decline, the domestic economic mix of persistent inflation and slowing growth has offered little support to the currency. Annual GDP growth in the third quarter of 2011 slowed to about 7%, while growth in industrial output is close to a standstill.

Despite this growth slowdown, inflation has remained persistent at around 9%. This has been a key challenge for the Reserve Bank of India which continued tightening its policy stance until late 2011 when many other central banks in Asia switched to a

Foiled coup attempt: Consolidating democracy is the key

SULTAN MOHAMMED ZAKARIA

FOR the first time in our history, Bangladesh army talked openly on an issue that many consider "too sensitive." Some say that it was unnecessary for the army to go public as the matter could be addressed applying its internal mechanisms. They are also of the opinion that it could set a bad precedent for the future. But, many others believe that the bold step army has taken to expose the conspirators will actually help ease the tension as, in recent times, some quarters, including our main opposition party, deliberately spread rumours about sensitive military issues. However, without making a value judgment on the army's first public appearance, let us congratulate it for foiling such a heinous adventurism by some renegades.

We can extract a number of positives out of this unprecedented move. Objectively, it has to be acknowledged that the history of bloody coups and counter-coups within Bangladesh army has harmed its credibility as an institution, and it still has to carry that legacy. Following 1975, the army, on several occasions, had been used by many quarters to serve their purposes. And this was not necessarily confined only to the equation of domestic power games i.e., entertaining the power thirst of some officers or political leaders, rather there were elements, as is usual for many third world countries, of external influence.

The twentieth century witnessed many countries and nationalist leaders falling victims to the Cold War between the two superpowers. Therefore, before any element -- external or internal -- starts boiling inside, it is always better to dispel the rumours that may misguide the officers and staff of the institution and may cause panic in the people. Transparency is a natural deterrent against all conspiracies.

Secondly, democracy has many good sides as well as a few bad sides. It encourages an open society where people enjoy a set of freedoms including organisation and freedom of association. However, in weaker democracies, where the concept of liberal democracy is not well understood and where a large part of the society is riddled with corruption and illiteracy and poverty are widespread, coterie interests dominate the system. And to serve those coterie interests, infiltrations are high in every sphere of public life including civil administration, military, civil society and media. In these democracies, while the interests of the common people are often compromised, the loopholes that pave the way for external penetration could easily endanger the stability of the society and the nation. Given this bitter part of the weaker democracies, there are arguments all over the world on whether openness in these societies can sometimes prove counterproductive.

We have seen many strong nationalist leaders around the world, who came to power through democratic means but chose to throttle the openness of the society. Besides, the totalitarian leaders often make the excuse of infiltration or penetration to legitimise their repressions and to caulk their society. However, this is a different debate.

Ours is no better than a weaker democracy. Almost half of our populace is illiterate, more than 30% live below the poverty line and we have a society that is extremely vulnerable to corruption. With this degree of risk element, penetration into our system is highly likely. And the army, being the most organised force in this sort of disarranging society, is the primary instrument of any possibility of penetrable intervention.

To balance the risk factors, several measures can be adopted by the government to consolidate its grip over power. Going back to the polity,

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explaining the overall situation and asking them to rally behind it could be one of the best ways to diffuse the tensions and threats. Addressing threats like coup without informing and involving the people allows more room for rumours and propaganda. We saw recently that a newspaper ran a story based on speculations, which were later dismissed by the ISPR, and the main opposition also fuelled that debate. After the landmark press conference, it will be easier for every stakeholder to talk about and analyse the issue more objectively rather than fomenting speculations and rumours. This is the better side of the military going public.

Thirdly, we have understood from the press conference that the army has acknowledged its role, terming its past interventions harmful to its reputation, and showed commitment to democracy and the democratic government. These are very crucial words in the whole discussion, and it will be really good for the nation if the institution can indoctrinate the philosophy within its own rank and file. Because, if we extend the previous argument further, an illiberal and weak democracy like ours contains a plethora of internal socio-economic and political problems which are quite difficult to resolve overnight.

Now the best institutions which can soberly address problems of this magnitude are the

political parties and a democratic system, however illiberal it is. Because, the complexities surrounding weaker democracies' governance structures are too big for other institutions, including military, to manage, contain or offer better managerial solutions to these problems. The leverage democracy enjoys is that it allows maximum number of people to engage in the governance system and power exercise. The military cannot run something that they are not well trained in. However, in the past, they often crossed the red line and the entire nation as well as the institution itself paid a heavy price for it. I think this is a welcome sign that the institution is realising what should be its best role in a democratic society. The press conference was pumped up with that spirit.

Given the resource constraints, Bangladesh's problems are manifold and multi-dimensional (consider our high population density). No government or system can offer overnight solutions to all these problems. From the government's point of view, it has to understand that democracy is all about performance rating and it should concentrate on scoring as much as possible. Bulldozing dissenting voices will only subtract its hard earned points. It needs to exercise tolerance, and refute allegations with facts and figures and more transparency and openness, and not with use of force.

On the other hand, the opposition should realise that any inducement to oust the elected government may not bring a favourable outcome all the time, and they should stir rational and objective criticism rather than dismiss anything and everything the government is doing, and not say that the government is only doing harm rather than good.

While soliciting votes, politicians promise and offer a complete package of solutions to every problem, although they know about the scarcity of our resources. They treat their constituencies as consumers who are irrational and prone to buy any absurd and flashy exaggerations.

Now, when dissatisfaction looms everywhere because of non-fulfillment of expectations, it is the politicians who are to blame in the first place for creating unnecessary hype. Democratic reform is a gradual process and we need to pick the leaders who will be more interested in solving problems rather than offering bounties. One key method of such approach is to ensure social justice, for which we need to build and strengthen democratic institutions and let them function independently. That is the key to consolidating our nascent democracy. It is almost impossible for any adventurous person or group to even think of any move to overthrow a system that is functioning well. Consolidating democracy is the key.

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My predictions for 2012



Nury Vittachi

FOREcasters are flatly refusing to predict the future this year. "Every pundit and futurologist I have met or heard has said that 2012 is the hardest year to call," business analyst Stephen Archer told clients.

Cowards! I reckon 2012 is the easiest one ever. Commentators can predict anything we like, what with the world being due to end on December 21. That's a full ten days before our predictions are proved to be complete rubbish, as they are every year.

And some things are guaranteed, anyway. For example, I predict Eurozone leaders will hold a summit to declare the crisis "finally over" in January. And February. And March. And April. Etc.

On similar lines, here are my forecasts for the next twelve months.

January 17: Lindsay Lohan accidentally tweets her personal New Year resolution to the world: "Get hammered, steal stuff, get arrested." (I'm guessing she makes the same resolution every year.)

February 6: The 60th year of the reign of Queen Elizabeth is marked by an emotional speech from her son Prince Charles: "Get off the throne you batty old witch, it's my turn."

February 15: Police invite Lindsay Lohan to visit an ankle monitor bracelet showroom. She steals one.

March 11: Celebrities around the world mark Rupert Murdoch's birthday by leaving birthday wishes on their own voice mails so he hears them when he hacks them.

March 25: Hong Kong leaders pledge to curb the power of property developers and the few people legally allowed to vote fail to make it to the polls as they are doubled up with laughter.

April 8: Newly rich junior pop star Justin Bieber buys Greece as a summer home. Citizens are thrilled until he says: "Wrap it up, I'll take it with me."

May 11: In Iran, leader Mahmoud Ahmadinejad is thrown out of his job for being too weird. In North Korea, Kim Jong Un is thrown out of his job for not being weird enough.

June 18: A shock war breaks out between America and Britain as London refuses Washington's demand to take Simon Cowell back.

July 27: The 2012 Olympics open in East London with the words: "Awright, guv?" Competitors complain that they were told the main language would be English.

August 9: A group of neutrinos fired by the Large Hadron Collider arrive at their destination 60 billionths of a second faster than they should have. Los Angeles traffic police offer to chase after them and book them for speeding.

September 23: Lindsay Lohan announces that she is turning her life around 180 degrees. Charlie Sheen announces that he is turning his life around 360 degrees.

October 7: As the US-UK war escalates, Americans fire a huge cannonball, Oprah Winfrey, across the Atlantic. She flattens the Houses of Parliament.

November 6: Donald Trump is elected US President and appoints the furry thing on his head Vice President.

November 12: Trump stumbles on his first international policy speeches but the thing on his head does fine on its own speaking tour.

December 20: Columnists print gloomy headlines over their final columns: "World ends today".

December 21: World fails to end.

December 22: Embarrassed commentators takes out class action lawsuit against the descendants of the Mayans.

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