

Make WB communication public

Only way to prove government's claim

IN an oblique response to a direct query by a correspondent whether the government would disclose the World Bank's reports containing "evidence of corruption" in the Padma bridge project the Finance Minister said that the he did not believe in character assassination and that he had been against character assassination all his life.

That is indeed a very laudable thought to have, but we wonder whether the minister has realised the "Character Assassination" of the country as a consequence of the Padma Bridge loan cancellation. The international image of the country has suffered a serious blow.

Any attempt to show that the matter has not demeaned the country is nothing but behaving like an ostrich. It has indeed maligned the country's image, and it is not because of the Bank's allegations but how the government has handled the episode thus far without substantiating its claim that the evidence provided by the WB is not 'credible'

What makes the government's stand all the more untenable is the fact that the Canadian government has found the report credible enough to not only investigate but also arrest two top officials of the Canadian company alleged to have been involved in this scam and initiate legal proceedings against them. Two completely different reactions from two governments on the same report have greatly dented the credibility of our government.

Under a situation where the WB asserts that that the evidence it has provided merits cognizance and a thorough investigation, and the government's claim that the evidence is not credible enough, the only way to put all speculation at rest is to make public what the WB has provided by way of evidence.

It is an ignoble position to take that chooses to save the 'character' of, as it stands now, only one person at the expense of a project of great import to the country and the prestige of 16 crore Bangladeshis. "Character assassination" is but a fig leaf of an excuse. The only alternative for the government to restore its credibility in this matter is to make the WB letters public. And this is the only way that the government can validate its stance on the matter.

Cancelling classes to greet minister

Abuse of government order

STUDENTS of nearly 85 educational institutions including schools, madrasas and colleges in the Charfasson upazilla of Bhola were made to abandon classes on Saturday to greet the home minister. This is deplorable and a clear violation of the government directive in this regard.

While students were made to queue up on roadsides, the teachers had to attend a meeting with the minister organised by the administration. To top it all, exams scheduled for the day were put off to a later date. Although government officials involved with the day's programme denied having given any instruction to the educational institutions, teachers and guardians categorically made it clear that they had received specific instructions from government authorities to do so.

This is outrageous, to say the least. What was the purpose of it all? What did the concerned authorities try to prove by this? The home ministry, we believe, owes us an explanation as to why this had to be done and how the students were benefited from this. Why should the schools were closed down for the day and students made to endure the sun and the rain just to greet a minister who was on government duty?

As we know it, the government in December 2009 issued a notification clearly forbidding closure of schools and queuing up of students during visits of government high-ups, which is observed in its breach. If government servants pay no heed to government orders what can we

THIS DAY IN HISTORY

July 17

1762
Catherine II becomes tsar of Russia upon the murder of Peter III of Russia.

1945
World War II: the leaders of the three Allied nations, Winston Churchill, Harry S. Truman and Joseph Stalin, meet in the German city of Potsdam to decide the future of a defeated Germany.

1948
The South Korean constitution is proclaimed.

1968
A revolution occurs in Iraq when Abdul Rahman Arif is overthrown and the Ba'ath Party is installed as the governing power in Iraq with Ahmed Hassan al-Bakr as the new Iraqi President.

1973
King Mohammed Zahir Shah of Afghanistan is deposed by his cousin Mohammed Daoud Khan while in Italy undergoing eye surgery.

1979
Sandinista rebels take Nicaraguan capital. The left-wing Sandinistas take control of the Nicaragua after 46 years of dictatorial rule by the Somoza family.

Cutting back on energy subsidies



SYED MANSUR HASHIM

PRESENTLY, the government is expending more than 4% of its GDP on subsidising energy prices, which is more than what it spends on health and social welfare programmes. As with many developing economies, energy subsidies have strong advocates who preach that such measures aid the poor, particularly agriculture, where the heavy duty usage of energy-intensive equipment such as irrigation pumps that play a crucial role in production. With about seven-tenths of the total cultivable land being tilled with some form of mechanisation, any talk of reforming subsidies on energy is bound to be political dynamite.

According to a recent study published by Bangladesh Institute of Development Studies, the country's energy subsidy basket for the current fiscal stands at around Tk. 282 billion (\$3.4 billion), "almost 90% of the total amount spent on all subsidies. Nearly 34% of these subsidies are off-budget, such as government loans for Bangladesh Power Development Board (BPDB) at favourable lending rates."

The present government, when it took office, made a serious attempt to generate electricity to boost economic development. The decision to go for electricity purchase from independent rental power plants was made as a stopgap measure. Yet, the retail price that consumers paid for electricity generated by liquid fuel-fired plants fell behind the rising cost of electricity. The result was that the government has had to bail out BPDB over the years with soft loans amounting to \$734 million every year from 2008 to 2009. Subsidies grew exponentially after 2008 due to the price fluctuations in global oil markets. With nearly half the electricity generated coming from these oil-run plants, the government finds itself in a Catch-22 situation. Raising fuel prices to cut the subsidy trap and eventually help rectify the negative balance of payments comes at a political price. Yet, to continue to sell power at a price lower than production cost, though politically acceptable in the short-run, exacts a heavy price

on the economy since it requires the state to borrow heavily from state-owned commercial banks. With rampant cross-border smuggling a ground reality, subsidised fuel has a habit of crossing national boundaries to meet demands in neighbouring countries where fuel prices are much higher.

The arguments for subsidising energy are inherently flawed. Data published by Bangladesh Bureau of Statistics (2010) show that lower income groups (income up to Tk.1,500 per month) consume approximately 0.1% of traditional fuel and biomass. Roughly translated, the poor consume about 0.1% of kerosene and less than 0.1% of natural gas and LPG. At the other end of the spectrum,

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we have the upper middle class and rich consuming about 79% of natural gas and LPG, 88% of petrol, 89% of diesel, 94% of motor oil and CNG. If we are to trust government published data, the information basically negates the popular belief that any rationalisation of energy prices through reduction in energy subsidy will adversely affect the poor in the country. Hence, a fundamental rethinking is required here.

Rethinking is required in terms of two broad questions: are such subsidies a good utilisation of government's limited fiscal resources? And secondly, would fuel subsidies (i.e. the nearly \$3.5 billion being spent annually) be money better spent on upgrading the distribution net-

work and more reliable power delivery? The government has a number of options to mitigate the pains associated with the higher tariff consumers will have to pay from now on. Drawing upon the experience of other countries which have gone down this path may serve as a good example. Indonesia initiated Cash Transfer Assistance programme (BLT) in 2005 and again in 2008 to counter opposition to fuel price increases and simultaneously help poorer families to cope with increased energy bills. Poor families were paid two instalments of \$30. This cash incentive was backed up by an increase in social spending: education, health and rural infrastructure (Beaton & Lontoh, 2010). Although there were some discrepancies, these measures largely helped in aiding poor households make the transition to higher fuel prices. Different countries have adopted different measures to reach basically the same goal. For instance, Jordan initiated its energy subsidy reform in 2008 and increased the national minimum wage. Low income groups and government employees received a onetime payment.

What measure Bangladesh will adopt or can adopt largely depends on the government machinery's capacity to implement these programmes. But the options are out there. It would be a fatal mistake to pass on revised pricing of energy without putting into effect some measures, like the examples stated above. Mere cash transfers and increased social spending will not be enough. These multi-billion taka programmes need to be prepped for public acceptance. The general populace must understand why an increase in tariff is necessary. Regular disclosure of information on changing fuel prices in the international market, costs associated with transportation, distribution, etc. needs to be disseminated to the wider audience through well articulated public awareness campaigns -- in print and electronic media, over the course of months not days. The benefit of these measures is that such disclosure can help increase transparency and accountability of government bodies something that is woefully in short supply at present.

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Forthcoming monetary policy

MAHFUZ KABIR

IT is quite commendable that Bangladesh Bank has started consultation meeting with the experts, bank representatives and businesspeople to shape up its upcoming monetary policy statement in a participatory way. Indeed, monetary policy, like fiscal policy, has profound implications to a country's nominal and real economic sectors. The two major objectives of Bangladesh's monetary policy are to promote overall economic growth, and to curb and maintain inflation at an acceptable level. The general point-to-point consumer inflation has come down at 8.56 in June, which is perceived to be a success of the "cautionary" monetary policy pursued for quite some time. The new fiscal year has just started with many challenges and opportunities in both internal and external sectors, which have to be realised, addressed and accommodated properly in the forthcoming monetary policy statement.

The title of the policy needs revision. As it is being prepared semi-annually to outline the monetary instruments in order to target, achieve, and sustain some specified economic outcomes, it should be re-titled as "Monetary policy outline/outlook." Currently it provides a small outline of the monetary policy for the following two quarters after detailed review of global and domestic economic performance, inflation, external sector, government revenue, and monetary growth. The forthcoming monetary policy statement should detail out the small outline as it is the main part of the policy and the reviews will have to be significantly trimmed to a small paragraph or two as the prelude of the policy as the detailed review can be found in other Bangladesh Bank and Finance Division documents. In addition, the policy outline must be based on scientific achievable projections of different monetary variables by month along with their linkages with nominal and real sectors. These might need rigorous modeling exercises like computable general equilibrium and macroeconomic modeling to come up with meaningfully tangible trajectories of the monetary instruments and their outcomes for the following six months.

When we discuss the economic growth and other crucial statistics for Bangladesh, we recall Benjamin Disraeli's celebrated phrase: "Lies, damned lies, and statistics." Economic growth has been estimated to be 6.3% in the last fiscal year, which has already fallen short of the projected growth of 7% in

line with the Sixth Five-Year Plan. Agriculture has been estimated to grow at 2.53%. Now we see an excess aggregate supply situation in the market especially in crop sector due mainly to bumper rice harvest and timely food grain imports, which, according to standard economic theory, might have contributed to dampening food inflation along with the long-pursued monetary contraction. However, this conclusion is based on popular intuition; we do not have any scientific evidence yet.

Inflation has a detrimental impact on the people in the traditional understanding because it takes away their purchasing power. Inflation also has differential impact on different income groups according to their expenditure share on food and non-food items. The ongoing monetary policy has a commendable sympathy, especially towards the medium and low people, aiming at easing their lives through curbing inflation. However, macroeconomic theory implies that there is a short-term trade-off between inflation and unemployment. Thus, we can tap the opportunity of a short-term positive output and employment effect of high

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inflation through effective economic strategies.

Positive growth of narrow money, broad money, exports and foreign remittance had no evidence of triggering inflation if we consider the monthly data for the last two years even though the textbooks infer that direct relationship. Monetary contractions have been evident to have ambiguous impact on inflation as of many renowned studies. For developing countries the inflation elasticity of monetary contraction has been found to be quite low. Then why are we actively pursuing a rather tight monetary policy at the cost of some additional economic growth, which is crucial for Bangladesh to achieve the status of a middle-income country as per Vision 2021? We have again projected 7.2% growth in the current fiscal year, which is likely to be curbed if another round of tight monetary policy is pursued, indicating a progressive divergence from our "Vision!"

Sharp depreciation of foreign exchange rate in the last fiscal year has contributed to triggering inflation, which is evident from data of the last 24 months. Even though depreciation is supposed to

result in higher exports according to economic theory, we ended up with a mere 7% growth mainly due to resurgence of global recession from euro zone crisis. Another debate is whether we should continue to subsidise consumers of high income countries through incentives to our exports. On the other hand, international transactions become costlier due to higher exchange rate growth at around 15% while private credit grew at 18.4% against the target of 16%. Public sector credit witnessed significant growth at 31% against the target of 24.8% due to meeting up sudden need in the midst of widely perceived "crowding out" effect even though estimates show no such evidence in both short and long run (Kabir, 2012).

Government has never been a defaulter but we have plenty of private credit defaulters for whom we tend to aggressively "classify" and "reschedule" credit in the banks. Now there is a serious need for looking into the credit target keeping in mind the projected output growth as envisioned in the Outline Perspective Plan, Sixth Five-Year Plan, and related Medium Term Macroeconomic Framework -- not merely the inflation target. Monetary policy should also have a plan to manage transitory liquidity shortages emanating from internal and external shocks through contingency, but subject to assurance that it would not be abused. Moreover, the policy should also say something about the new banks and their role in achieving monetary targets.

Coordination between monetary and fiscal policy is much talked about by implying that the former should not be too tight to assist the latter to function. However, monetary policy should be facilitative to attain all the economic and social development policies. Thus, it should remain in conformity with all the sectoral and thematic policies because all the policies are important to the country's development and sustenance, which means greater synchronisation amongst policies.

Finally, the forthcoming policy needs to be explicit on regional and international coordination. It will help avoid "beggar thy neighbour" effects and reduce adversities of international linkage on Bangladesh economy. It can be easily done by looking into the monetary policies of the countries that have significant trade linkage with us.

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