

INFLATION AND MONETARY POLICY

Time to tighten up

BIRU PAKSHA PAUL

THE dual mandate of Bangladesh Bank's (BB) monetary policy, which comprises moderate inflation and inclusive growth, has recently evidenced a rather balanced success rarely found in Bangladesh's past. The World Economic Outlook 2012 predicts an average growth rate of 5.5% for developing nations over 2013. Bangladesh is hovering at over a 6% growth rate, which is respectable given the projected 2013 growth figures of 6% and 8% for the global emerging giants, India and China, respectively. The 12-month average inflation in Bangladesh is now 8.74% -- down from its peak of 11% in February 2012. The best indicator of whether monetary policy is working in Bangladesh is the slow but steady downward trend of inflation since March 2012.

When the governor of the central bank can readily seize inflation numbers to prove his anti-inflation stance, he must continue to further tighten monetary policy by mainly reducing money growth. If money velocity is assumed to constant, broad money growth should not exceed 15%, as calculated by adding the inflation and growth targets. Alarming, average money growth over June-November 2012 was more than 18%. BB's new money growth target for June 2013 is 17.7% -- still high to stoke inflation. A tighter monetary policy is warranted to bring inflation down to 7.5% by June 2013 and 5% by 2017, as targeted by the government.

BB's June 2013 target for private sector credit (PSC) growth is 18.5%. Bringing money growth down to 15% will also reduce PSC growth to, say, 16%. It won't be an easy task for BB to displease the business community that plainly sees PSC as a panacea for growth. When India registered 8% economic growth by using 15% PSC growth, it is not unlikely



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Augmenting economic growth requires expanding the share of capital formation in GDP. Investment as a share of GDP must be augmented to register higher growth. PSC, though necessary, is not a sufficient condition in this respect. In 2000, the PSC-GDP ratio was 21% and the investment-GDP ratio 23%. By now, the PSC-GDP ratio has more than doubled, but the investment-GDP ratio has remained only 26%, suggesting that simply PSC growth cannot guarantee higher capital formation and thus higher economic growth. The recent credit scams in national banks are a testimony to this point. Stricter governance and credit-quality enhancement are more effective than just quantita-

tive easing.

India's investment-GDP ratio is 3%, which is adequate to achieve GDP growth of 8% to 9% since capital-output ratio is approximately 4 in this region. The investment-GDP ratio in Bangladesh is thus required to be raised to at least 30% to achieve an economic growth rate of 7% or above. Interest rates must be lowered to encourage a qualitative jump in investment. And that task is impossible without lowering inflation, which, in turn, warrants for a tighter monetary policy.

The World Bank sees a slowdown in Bangladesh's GDP growth in the face of slower exports. Rising remittances have appreciated Bangladesh's currency, pushing the real effective exchange rate (REER) further up and thus making our export competitiveness worse than before. Since we should not prevent remittances from inflowing, the only way to prevent the REER from rising is to pull inflation down even further. Thus, taming the monster of inflation is the most pragmatic choice we are left with, and a tighter monetary policy is the only answer to this malaise.

Although Bangladesh's inflation is on the wane, it is not still impressive in a regional comparison. India's inflation was 7.24% in November and Pakistan's 7.9% in December last year. For the last 4 years, India has been reducing its money growth that came down to 16% in 2011 from a peak of 21% in 2008. China's money growth slipped down to 17% by 2011 from 28% in 2009, and the country now enjoys an inflation rate of 2%, ensuring the best macro stability in the region. Our central bank must be ruthless in curbing inflation to bring better macro stability for further acceleration of growth in the years to come.

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SHIFTING IMAGES

"Brains in your head and feet in your shoes ..."



MILIA ALI

WE live in an age of specialisation. Expert opinion today is a precious commodity with a high price tag. By "expert" I don't mean a regular economist or a music or art connoisseur. Fields of specialisation have narrowed to the extent that we not only have the standard macro or

micro economist, but also behavioural economists, institutional economists, environmental economists. There are political pundits specialising in election outcomes or terrorism experts who are authorities solely on al-Qaeda or the Taliban!

These experts speak with eloquence and write with informed confidence. The views they express may sometimes cloud the judgment of the common man even before he has formed an opinion. But that is hardly surprising because these erudite few are supposed to guide us in making decisions on: which singer to like, which movie to give a "triple A" rating and which cricketer is likely to be the next Sachin Tendulkar!

It's informative as well as entertaining to read arts and sports reviews or watch TV shows with doyens discussing the future of the world economy. After all we, the common folk, are caught up in our mundane pursuits and have limited time to enhance our knowledge in diverse fields. Hence, we acquiesce to the specialist's superior

The stories I tell are from the perspective of a woman living in the United States with a parallel Bangladeshi identity. Interestingly, I find many commonalities among people from both sides and in many ways this is what I try to highlight: that, at the very core, all of us have similar aspirations, ambitions, concerns and emotions.

wisdom and believe that he has a crystal ball for predicting the outcomes of cricket matches or presidential elections!

The problem often arises when "non-professionals" dare to offer an opinion on a subject, which is considered the exclusive purview of experts. The amateur point of view is analysed, dissected, and even trashed. The fact that is overlooked is that amateurs (the word is derived from the Latin verb for love) are usually the 99% who have a passion for a discipline -- the majority who invest time and effort in an area of interest simply for the love of it. They are the ones who fill up concert halls, movie theaters and sports arenas. One doesn't have to be a specialist to be touched by a song or enjoy a tennis match. Neither does one need a university education to appreciate a poem by Tagore or a musical composition by Mozart. And it's the common man that is mostly affected by tax policies and fluctuations in economic growth. Then why is it that his opinion is seldom given any credence? After all, authority can also be derived from passion and acquired knowledge, not just a college degree.

In case some of you are wondering what this long prelude is about, let me get to the point. Since my column "Shifting Images" is now standing on its own, having celebrated its second New Year, it may be the right time to revisit the underlying objective of the opinion pieces in that column. The column is meant to be a commentary of every day human interactions, emotions, events and occurrences. Diverse social issues of common interest are covered hoping that those will provoke discussions among the readers.

I make an effort to observe and listen keenly, to introspect and to analyse. Above all, I try to posit relevant questions and spend time and energy seeking probable answers. And, in the course of such introspection, the opinion that is formed is shared with my readers. May be not an expert opinion, but an informed, considered, and, hopefully, refreshing opinion of a person who lives life with passion and empathy. That is essentially the substance that makes up my column.

Besides, the stories I tell are from the perspective of a woman living in the United States with a parallel Bangladeshi identity. Interestingly, I find many commonalities among people from both sides and in many ways this is what I try to highlight: that, at the very core, all of us have similar aspirations, ambitions, concerns and emotions.

Through my writings I share my life's journey -- a journey comprising laughter, a few tears and of someone with a penchant for living! For those of you who are on board and continue to give me positive feedback, I promise that I will try to remain honest and sensitive to the issues that impact your daily lives. I will always try to speak in your voice. Together we can embark on an expedition of discovery -- and with "brains in our head and feet in our shoes" go places that we have never been!

To the critics, I would simply say that through your constructive and intelligent comments, you can make me grow and reinvent myself.

The writer is a renowned Rabindra Sangeet exponent and a former employee of the World Bank.

The Maldives at a critical juncture

SELINA MOHSIN

THE cut-off period has begun! The presidential election in the Maldives will take place in mid-2013. The country is poised at a perilous spot. The optimism of the first democratic election of 2008 was shattered by the events of February 7, 2012, when former President Nasheed stepped down claiming a coup after street protests. Politics in the Maldives, based on personalities rather than on effective policy reforms, prompts people with vested interests to switch parties for position and financial gains. These power brokers stem reforms that might de-stabilise the patronage network that keeps them in office. Democracy is also impeded by a negative political culture that prefers retaliation over rapprochement and suspicion over consultation. Given the minuscule civil society with only weak bargaining power, a long tradition of dictatorship and great inequalities of wealth, the country is tottering at the brink of a precipice.

The events of 7 February, 2012, when former President Nasheed stepped down, have been the subject of numerous discourses. With Nasheed out, followers of former dictator Gayoom wriggled into power.

The Commonwealth-backed Commission of National Enquiry (CoNI) lacked credibility, with Gayoom's crony as its chair. It was reconstituted with a representative from Nasheed's Maldivian Democratic Party (MDP) and a senior judge from Singapore. However, Nasheed's representative resigned and Judge G.P Selvan left after a disappointing first draft. Predictably, the report absolved the current government of any illegal actions in the suspicious ousting of Nasheed. It reinforced the position of the de facto government as legal.

The international community, including South Asia's main player India, accepted the report and agreed to maintain the status quo urging all sides to respect the findings. This view contravened all precepts of human rights and justice. The independent legal analysis of the report by experts from Sri Lanka ripped it apart stating that the Commission exceeded its remit and ignored vital evidence. Regardless of the report's numerous flaws, it appears to have settled the issue and has brought the political discourse steadfastly into the present.

The archipelago of Maldives, termed by China as the "String of Pearls," has a strategic location. In November 2011, China was the first non-Saarc country to open an embassy in the Maldives. The Indian Ocean is an important sea route for China. The current president visited China the day after the



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release of the CoNI report to finalise a half billion dollar package of economic assistance. Chinese engagement has become strong with island states in the Indian Ocean, including Sri Lanka, Seychelles and Mauritius. This was at a time when internal politics prevented New Delhi from strengthening alliances with island countries, where India had the greatest influence.

Recently, at the Parliament's Executive Oversight Committee for inquiry into the controversial transfer of power, the former Maldives Head of Defence Force (MNDF), Jaleel, claimed that Nasheed had no option but to resign. The MNDF Chief of Intelligence Brig. Gen. Nilam reinforced Jaleel's claim, stating that it was indeed a coup. This testimony by Nilam on January 7, 2013, cost him his job as he was suspended a few days later.

Nasheed's forced resignation took place after a 22-day protest led by opposition parties and religious extremists fuelled by Nasheed's controversial detention of Chief Judge Abdulla. The judge, whose detention ignited such uproar by the opposition, was also a controversial figure during Gayoom's regime. Hassan Saeed, who led the protest in favour of Judge Abdulla, was the attorney general in Gayoom's period when he himself filed complaints against the very same judge for perverting the course of justice. But, he altered his opinion for political gains and is now an adviser to the presi-

dent. Such are the many faces of politicians.

Tourism, the largest foreign exchange earner, has dipped dangerously. The budget for tourism marketing has decreased to \$1 million in 2013 compared to \$4 million in 2012. Tourism growth slowed to 0.7% in 2012 compared to 15.8% in 2010. Inflation in the Maldives averages 15.8% and the budget deficit in 2012 rose, as projected, to 27% of GDP. The drop in government income was approximately 23%. The situation is bleak while religious extremists flourish.

In November 2012, Maldives cancelled the contract of India's GMR Infrastructure Ltd. and Malaysia Airport Holdings to modernise Male's International airport, citing irregularities in the \$511 million deal. It had included 25 years management of the airport by India. This was India's largest foreign direct investment in the Maldives. India seems to have been outmanoeuvred by China, and its talk of a roadmap is stone cold. Its intelligence agencies are concerned that Maldives requested China for a soft loan of

\$54 million for an IT infrastructure project. An agreement has been signed. At last, New Delhi has woken up with a jerk.

On January 20, India rejected an official request for the president of Maldives to visit Manmohan Singh. In the same month, the Indian High Commission imposed visa restrictions on Maldivians and handed 11 complaints against the country to reporters. These include exploitation of Indian workers, discrimination against Indian expatriates and others.

Meanwhile, Nasheed has requested parliament for a caretaker administration to enable a transparent election. There is a case pending against him for abuse of power. If there is a conviction he would be debarred from contesting. The religious Aadaalath party and extremists who were also behind Nasheed's fall termed it a Jjhad. If the international community fails to intervene to ensure a free and fair election and good governance then the religious extremism may snowball to create an environment of violence.

Overall this intrigue is the looming shadow of Gayoom, who is pulling the strings on the dais of power. Will the puppets continue to dance to his tune or will there be a credible election and a relatively stable democracy in the Maldives?

The writer is a former Bangladesh High Commissioner to the Maldives.