The monetary policy is working well

SADIQ AHMED

IT is now the time of the year when the Bangladesh Bank announces the next six monthly monetary policy stance. In anticipation there are considerable ongoing deliberations and debate on the forthcoming monetary policy statement (MPS). Bangladesh Bank has established a rich tradition of extensive prior consultations before it announces the MPS. Nevertheless, public debate through the media is appropriate and most welcome. Yet, it is important that this debate should be based on facts and outcomes rather than on perceptions and speculations. It is in this spirit that I share with the readers my views on the monetary policy in Bangladesh.

My one time boss at the World Bank in Washington DC, Joseph Wood, a former vice president of the South Asia Region, had one favourite advice to his staff: "If it ain't broke, don't try to fix it". This is a simple but profound statement. In our personal lives, professional career and also in public policymaking we often spend endless fruitless hours trying to find solutions to problems that do not exist. In the arena of policymaking, there are many issues and challenges. But trying to fix Bangladesh's ongoing monetary policy runs against the sage advice of Joseph Wood. There are many problems in the financial sector, especially in the banking sector. But monetary policy for a change is running well on course and I do not see the need for changing this course. Let me elaborate.

The table shows the conduct of monetary policy in the past five years. It shows also the outcomes of monetary policy in terms of various indicators where it is expected to have most influence.

MONETARY POLICY IMPLEMENTATION AND OUTCOMES

POLICY/INDICATORS	FY2010-FY12	FY2013-FY14
Growth of M2 (%)	20.3	14.9 (target 17.4)
Growth of private credit (%)	23.2	10.6 (target 17.3)
Net lending to Treasury (%)	14.8	10.8
Average inflation rate (%)	8.9	7.5
Change in nominal exchange rate (Tk/US$) (%)	6.0	(-) 2.6
Average lending rate (%)	11.3-13.9	13.9-13.3
Private investment rate (%)	20.6	21.4
Public investment rate (%)	4.8	5.7
GDP growth rate (%)	6.3	6.0

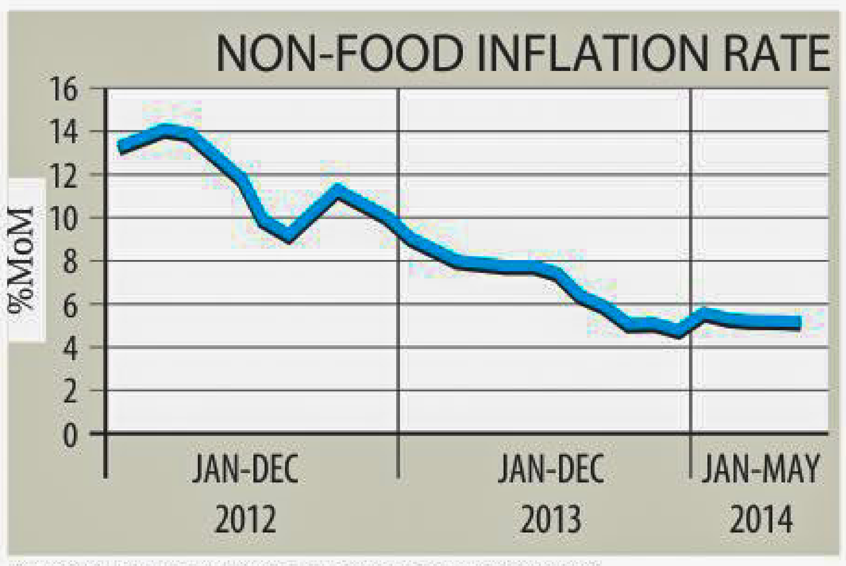
SOURCE: AUTHOR ESTIMATES BASED ON DATA FROM THE BANGLADESH BUREAU OF STATISTICS AND BANGLADESH BANK.

The results are follows:

Monetary policy was highly expansionary in the three years of FY2010-FY12. On average, broad money supply grew at a heady pace of 20.3 percent per year. Private sector credit grew at an unprecedented annual average rate of 23.2 percent. Inflation rate shot up, reaching a peak of 14 percent in March 2012. Stock prices soared in 2010, with the Dhaka Stock Exchange (DSE) index reaching an unsustainable peak of 8,919 points on December 5, 2010. While other factors were also at play, the rapid growth in private credit contributed strongly to pushing up stock prices.

Land prices also surged as excess liquidity found its way into land speculation. Demand for imports and foreign exchange soared, causing a huge pressure on the exchange rate, which rapidly depreciated from Tk 69.4/$ in July 2010 to a peak of Tk 81.9/$ in May 2012. The unsustainable bulge in stock prices soon burst, crashing stock prices to a low of 3,895 points on May 27, 2011, causing huge panic and social unrest among investors. The overall macroeconomy came under severe pressure until corrective monetary policy actions starting in January 2012 stabilised the economy by reducing the growth of domestic liquidity that fueled the instability.

The correction in monetary policy starting with the MPS of January-June 2012 has been carried forward further since then through end June 2014. On average the growth of money supply declined to 14.9 percent during FY2013-FY14. Inflation rate has fallen, the exchange rate has stabilised and stockmarket is stable, although the confidence factor that was shaken by the 2011 stockmarket crisis is yet to return. Land prices have normalised and even declined in real terms. The reduction in inflation has been impressive and is much better reflected in the decline in non-food inflation whereby the rate fell from its peak of 14 percent in March 2012 to a low of 4.9 percent in December 2013. It is now stable at around 5 percent. This is a remarkable achievement.



SOURCE: BANGLADESH BUREAU OF STATISTICS

What has been the impact of monetary policy correction on economic activity? Proponents of the so-called expansionary monetary policy argue that it supports the growth of investment and GDP, while a tightening hurts investment and GDP. The evidence provided in the table shows that there was indeed some increase in real interest rate after the correction of monetary policy. Real lending rate increased from about 4 percent to 5 percent.

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YUNUS CENTRE

Second from right, Nobel laureate Prof Muhammad Yunus poses with the ministers of Myanmar after a recent conference in Nay Pyi Taw.

Social business shows way of development in Myanmar

Yunus discusses his concept with top ministers of Southeast Asian nation

STAR BUSINESS DESK

NOBEL laureate Prof Muhammad Yunus discussed the role of social business in the development of Myanmar with the country's ministers, senior government officials and members of parliament on the final day of his three-day visit there.

He was received at the conference venue by Myanmar's two Union Ministers U Tin Naing Thein and U Soe Thein, who are referred to as "super ministers" as each of them oversees five or six ministries and are based in the president's office.

Naing Thein had been a retired brigadier general in the Myanmar army and a former commerce minister. A retired Vice Admiral, Soe Thein had previously served Myanmar Navy as the Commander in Chief.

The meeting was attended by more than 100 senior representatives of various ministries, including national planning and economy, finance and agriculture. Representatives from NLD, the leading opposition party led by Aung San Suu Kyi, were also present, Yunus Centre in Dhaka said in a statement yesterday.

Supervising Minister U Soe Thein gave the opening speech describing the development policies undertaken by the Myanmar government.

Microcredit inspired by Grameen Bank practices has been given the highest importance in the development strategy of Myanmar, he said, adding that 197 firms had been given licences to operate microfinance organisations.

The largest microfinance institution operating in Myanmar is the programme implemented by PACT, an international NGO.

The programme was originally set up and run by Grameen Trust for six years from 1997 in the delta zone, and currently it reached 700,000 families with microcredit in Myanmar.

Yunus thanked the minister for the steps the government took for the development of the poor.

He described his journey in initiating microcredit and how over the years he had created companies and entities to tackle different problems faced by the poor.

As Myanmar is opening up, it has the opportunity to pursue the right track of development avoiding the mistakes of other countries, he said.

A lot of investment capital and donor money were coming into Myanmar, he said, adding that the country could make it work for the people at the bottom rather than have all the surplus taken away from extractive industries and other sectors to foreign lands or to benefit just a few people at the top.

He recounted the experience in Bangladesh with microcredit and social business, and especially talked about the importance of creating selfless businesses where profits of successful business are ploughed back into the local communities.

He said social business was a non-dividend company to solve human problems and gave examples of effective social businesses and social business funds being implemented in Bangladesh and around the world.

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Twin air disasters threaten Malaysian tourism push

AFP, *Kuala Lumpur*

AN unprecedented second major aviation disaster in four months could further associate Malaysia with calamity in the eyes of travellers, observers warn, putting the tropical destination's vital tourism sector at risk.

Even before Malaysia Airlines flight MH17 was shot down on Thursday over rebel-held eastern Ukraine in an apparent missile strike, killing all 298 people on board, Malaysian tourism was under a cloud following the MH370 debacle.

Malaysia's March 8 loss of a jumbo jet with 239 people aboard and its widely mocked response hurt the country's image worldwide.

With most of the passengers on MH370 Chinese, tourist arrivals from China -- an increasingly important travel-industry market on which Malaysia has pinned much of its hopes for visitor growth -- dropped in the aftermath.

While the circumstances of the two disasters are markedly distinct, perception is key in branding, and the latest tragedy is expected to complicate efforts to repair Brand Malaysia's image.

"Malaysia's competency and governance are not under the spotlight to the same degree as in MH370," Bridget Welsh, a Malaysia researcher at National Taiwan University, told AFP.

"This said, Malaysia Airlines and travel to Malaysia will be affected outside of Malaysia. The effects will not be as serious as MH370 but overall negative."

In some Asian societies such as China, deeply held superstitions cause people to shun anything associated with death, and Beijing resident Quan Yi summed up a commonly held Chinese view toward Malaysia.

"I'm definitely not considering travelling to Malaysia," he said.

"I had a few friends who went there for their honeymoon. People who wanted to go there are reconsidering because Malaysia is too dangerous to go now."

Some in the tourism sector, however, say any impact may be short-lived as Malaysia's pristine rainforests and beaches, vibrant multi-culturalism and food scene and an overall safe and visitor-friendly environment continue to draw discerning travellers.

Malaysia drew 25 million visitors in 2013 and 65 billion ringgit ($20 billion) in tourism receipts, according to official data.

Hopes were high for 2014, which the government declared "Visit Malaysia Year" with plans to ramp up international promotional efforts centring on its years-long "Malaysia: Truly Asia" campaign familiar across the region.

Goals of 28 million visitors and 76 billion ringgit in receipts were set.

Most visitors are day-trippers from neighbouring Singapore but Malaysia is targeting bigger-spending arrivals from the Middle East, Europe and particularly China.

AFP

Tourists pose at the Petronas Twin Towers in Kuala Lumpur, Malaysia yesterday.

Chinese arrivals have soared, hitting nearly 2 million last year -- seven percent of the total.

But Chinese anger over MH370 caused arrivals to drop 20 percent in April, according to the latest Malaysian figures.

The China Business News reported Monday that concern over travelling on Malaysia Airlines, a major feeder of visitors to the country, has crimped arrivals by more than 40 percent since MH370, citing figures collected from Chinese travel agencies.

"The crash of the Malaysia Airlines flight (MH17)... has deepened consumers' concerns over the carrier," the report cited an official with China Environment International Travel Service as saying.

The official added that MH17 had led to a "large number" of new Malaysia travel cancellations "because a lot of tourists no longer trust Malaysia Airlines' safety".

India outsources chores as servant culture shifts

AFP, *Mumbai*

NEED someone to pay your bills and pick up your shopping, take an elderly relative to hospital or deliver 26 presents to your girlfriend on her 26th birthday?

These are just some of the requests received by Mumbai start-up "Get My Peon", one of the new Indian companies offering to do your chores and errands in a country traditionally reliant on full-time servants.

Hired help still plays a huge role in hierarchical Indian society, with those who can afford it employing maids, cooks, drivers and nannies, as well as "peons" or servants at work -- still an acceptable term in India for office boys and runners.

But some are increasingly opting to outsource their daily tasks rather than depend on in-house staff. Get My Peon, set up in 2012, now has about 800 clients on its books, from chief executives to housewives.

"People have stopped doing things the old-fashioned way. The labour costs for full-time staff are very high," said Bharat Ahirwar, the 29-year-old founder of Get My Peon, which charges 200 rupees ($3) for a one-way errand.

While India's urban middle-class is growing and looking for affordable help, new avenues are opening for poorer workers who earlier were more likely to settle as full-time, often poorly paid, servants.

"The availability of manpower is going down," said Bhavin Shah, who runs dehydrated meals company Satvita Foods and regularly uses Get My Peon for deliveries after previously employing his own runner.

"Getting the right kind of people is tough, they occupy real estate, a lot of things are required for full-time staff and you've got to keep track of them all the time," he said.

"The more you can outsource, the better it is."

Having your own staff still appears to be something of a status symbol -- some of Get My Peon's users prefer their clients not to know they are using the service instead of a personal servant.

"That happens a lot," said Ahirwar, who employs a team of about 10 runners.

As well as being assigned errands, they can be hired for a day to help with certain tasks at home or in the office.

Anil Dharker, a Mumbai columnist who writes on social issues, agreed that most Indian companies now want fewer employees on their books and therefore fewer liabilities, with a declining number enlisting full-time chauffeurs for their senior executives.

"They give an allowance and he (the senior executive) finds his own person," said Dharker, also mentioning the various taxi firms that offer drivers for hire by the day, in a country where public transport options remain limited.

American cab-hailing smartphone app Uber has recently entered the Indian market, positioning itself as an alternative to full-time chauffeurs by advertising as "everyone's private driver".

Get My Peon has meanwhile tied up with several other start-ups offering to take care of household chores, including laundry service Chamak Direct, professional cleaners Hammer and Mop and home repairs firm Travtus Workforce.

"I don't think middle-class people in (Indian) cities have ever held a drill in their life. They're so used to having people do it for them," said Travtus founder Tripty Arya.

She said working with one's hands was still considered a "lower grade job" in India, where even do-it-yourself enthusiasts struggle to find time for such tasks on top of commuting to work in traffic-clogged cities.

With a growing number of nuclear families in which both parents go out to work, help in the home remains in high demand in urban India.

But those looking for cheap, full-time labour often find themselves disappointed, said Vikas Singh, who runs domestic help provider Deliseva.com, based in Mumbai.

"We have householders coming in and saying a maid is working for us for 3,000 to 4,000 rupees ($50-67) a month, give us another for that same price," said Singh, whose firm sticks to a minimum wage of 7,200 rupees a month for eight-hour days.

New India government urges changes to World Bank

AFP, *New Delhi*

India's new government has called for reforms to the World Bank structure to reflect the "emerging" clout of developing nations in a meeting with visiting bank chief Jim Yong Kim.

The government, which took office in May, said in a statement late Tuesday that Finance Minister Arun Jaitley stressed at an evening meeting with Kim the need for significant changes to the way the World Bank operates.

Jaitley told Kim that the Bank needs to play a "global role in poverty reduction and development" and also "reflect the emerging world order in its governance".

Kim is on an official visit to India that wraps up Wednesday during which he is meeting members of the country's new right-wing government.

The call by India's finance minister came on the heels of the BRICS group of nations -- Brazil, Russia, India, China and South Africa -- establishing earlier this month a development bank to rival the World Bank.

At a meeting in mid-July, BRICS leaders agreed on the set-up of a $50-billion development bank by granting China its headquarters and India its first rotating presidency.

The move has been seen as a step away by developing nations from the traditional commanding role of Western nations in the global economy.