

Dollar-peg is a double-edged sword

SHARJIL HAQUE

GLOBAL foreign exchange markets just took a hammering from Britain's shocking exit from the EU. In our own neck of the woods, the exchange rate does not float freely to exhibit the kind of overnight volatility we saw in Britain, but is no less important for one of our fundamental economic drivers. I am talking of course about exports.

Export growth of 9.0 percent this year is credited - at least in part - to a stable exchange rate which refused to budge from its 77-78 territory. In the interest of exporters, the central bank continued to buy large amounts of dollars from the foreign exchange market to stabilise the nominal exchange rate. If anyone is keeping count, it is now four years on the trot that annual foreign exchange purchases exceeded USD 3.5 billion. Small wonder that our foreign reserve is on the brink of touching USD 30 billion. One would think buying dollars is the best hedge for export growth.

Not quite. Going beyond sterilisation costs associated with massive foreign exchange intervention, fixing the Taka firmly to the nominal Dollar rate cannot prevent appreciation of the real effective exchange rate (REER). This is because Bangladesh's inflation-differential with the Euro Area, United States and China rose from 3.7, 4.1 and 3.6 percent respectively in 2012 to 6.4, 6.3 and 5.0 percent respectively in 2015. (Source: IMF WEO, author's calculations).

That Bangladesh's high inflation-differential with major trade partners has contributed to real effective appreciation is already well known. The other less publicised - but equally important - factor which contributed to REER appreciation is the taka's bilateral strengthening against a number of major currencies. By definition, REER reflects both inflation-differential and nominal exchange rate movements with trade partners (in trade-weighted terms). As it turns out, since the US dollar



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was strengthening and the taka-USD rate was kept stable, the taka appreciated significantly against other currencies from 2013 to 2015. Some notable ones include the Euro, British Pound, Malaysian Ringgit, Chinese Renminbi, Indian Rupee and Singapore Dollar.

Proponents of the long-standing US dollar-centric exchange rate policy may argue that we are yet to see any clear (adverse) impact on exports due to REER appreciation. Why worry about this now? Such scepticism typically overlooks a non-linear relationship. Prolonged REER appreciation could eventually wipe out Bangladesh's relative cost advantage, giving other developing countries a slice of Bangladesh's export pie. Slowdown

in exports has undeniable implications for other aspects of the economy: employment, tax collection, bank asset quality and GDP growth to name a few.

So what scenarios can lead to further dollar - and by extension, taka - appreciation against other currencies? If for instance, the US Federal Reserve continues on a tighter monetary policy path next year, subsequent capital inflow (say, from Europe, Japan or China) will lead to dollar appreciation against these countries' currencies. Further compounding this issue is Europe's adoption of extremely loose monetary policy and China's economic slowdown and recent devaluation.

Or take Brexit for example. UK's

unprecedented exit resulted in sharp depreciations of the Pound (which reached lows not seen since 1985) and the Euro against the US dollar. So the taka has further appreciated against these currencies given its peg to the dollar. While we can continue spinning out different exchange rate-related scenarios, one fact becomes clear; stable taka-USD objective does not let Bangladesh adjust to exchange rate and monetary policy shocks in large open-economies.

Given these external risks, identifying a strategy which prevents REER appreciation is the order of the day. One way is through a reduction in inflation-differentials with major trade partner countries. To be fair, this is a tough ask; the Euro Area, Japan and

Singapore are grappling with deflation. China's inflation is falling due to slowing demand, property downturn and lower commodity prices. And let us not forget that India tugged down its inflation much faster than Bangladesh has in the last two years. On the other hand, Bangladesh Bank can hardly tighten monetary policy (to lower inflation) at a time when private sector credit demand is finally picking up.

In this context, the best way forward for Bangladesh would be to increase productive imports to take advantage of falling prices in trade partner countries and give the central bank a more realistic chance of depreciating the nominal (dollar) exchange rate. Admittedly, this is a lot easier said than done. Higher imports would require greater private investment, which in turn needs quality public spending on infrastructure, lower trade protection and efficient financial markets.

That leaves us with one last option. Bangladesh can follow in China's footsteps and adopt a currency-basket as reference for foreign exchange intervention. In December 2015, China moved away from its dollar-peg towards a currency basket to revive trade competitiveness and make the Renminbi more market-based. Bangladesh can consider a similar approach to protect competitiveness in the European market and also better synchronise exchange rate policy with monetary policy.

True, the matter is not so simple. Authorities would need to determine which currencies to use in the basket (apart from obvious candidates like the dollar, euro, pound etc.), what their respective weights should be, how to adjust those weights over time and how to be transparent about such a process. Nevertheless, if we agree that buying dollars cannot protect exports forever, prompt and decisive action is essential.

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The business of being professional

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IT goes without saying that the private sector has contributed tremendously despite many odds to development in Bangladesh. The journey in the next stretch needs to be very different than the last 40 years, as sticking to the same approach will only lead to failure. In order to take business to the next level, all organisations need to improve their professional business practices, taking into account simple issues, like starting the meeting or event on time, respecting other people's privacy, keeping commitments with clients and employees, avoiding double standards, maintaining higher levels of transparency, and so on. It goes without saying that when an organisation constantly maintains professional business practices, this perseverance becomes their brand, as they are successfully able to create trust, credibility, loyalty, amidst a set of unique values for both their customers as well as employees.

Professional business practices go both ways; it has to come from the organisation as well as their clients. I have firsthand witnessed bank officers dealing with several customers at the same time while discussing confidential information in front of several outsiders; the funny thing is, some customers don't even mind this unprofessionalism. Undoubtedly, such a practice shouldn't become the culture in the corporate world, and customers should definitely not allow that either. When a bank, or any other corporate employee, asks personal details of their clients - for example, their salary, marital status, rent that they pay for their apartment, etc - in front of anyone else, it becomes a breach of their

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professional ethics. Even if the information is being collected for professional reasons, it should be noted that these details are very confidential and thus, cannot be shared in public places. The client can fill out the form in their own time privately, either in a separate room or at home.

A few years ago, when I was opening an account with a prominent bank, I discovered that it

took quite a while for me to get the checkbook and the ATM card. At one point, when I needed to take out some money from my account, I spoke with an officer at the bank. Inexplicably, his solution was that he could transfer the money from my account to his account and hand over the money to me! First of all, this would have been a violation of the bank policy; let's not even get to the fact that it would be considered

unethical behaviour and an unprofessional business practice.

An organisation mustn't encourage such unprofessional behaviour, while the clients should definitely protect themselves by exposing such actions. That day, I had lost my trust in the said bank, and declined to carry out further transactions with them. While it might seem natural to take shortcuts, for organisations that

want to build themselves on trust and longevity, such easy routes can only lead to loss of respect and credibility.

On a recent visit to a nonprofit organisation funded by foreign donors, I was very impressed with their professionalism from the main entrance by the security guards and receptionist. I was early for the appointment, so waited in the car. However, the receptionist came to

me and invited me inside to sit in the lobby. The person I was visiting hadn't reached the office yet, so the receptionist called her to inform that I was already there. When she reached the office, she met me 15 minutes before the scheduled time. This kind of considerate professionalism is very rare in Bangladesh, but it is happening - slowly but surely. Their strict pursuance of ethics is the reason why these organisations manage to earn the loyalty of their clients.

Today, the stakes are very high, and the competition is always on the rise. Thus, customers have a range of choices in front of them when compared to previous times. While an organisation's brand value is sure to suffer in the long run if they fail to follow professional ethics, on the other hand, maintaining professional practices can lead to clients feeling a sense of confidence, belonging and security. When customers are happy, they will spread the good word and this word of mouth publicity is sure to bring more clients. What other form of advertising is more desirable, affordable and effective than the compliments of a happy customer?

Maintaining professional business practices doesn't cost money; it just needs willingness. The willingness to change and implement ethical practices will do most of the work. Businesses might find some resistance from their employees and clients at the beginning, but in the long run, these challenges will seem surmountable. It's time to create our brand and let the rest of the world know that we are serious, we know what professionalism is, and we are willing to maintain that.

The writer is Assistant Professor at ULAB.

QUOTABLE Quote

MARTIN LUTHER KING, Jr. (1929-1968)

The best way to solve any problem is to remove its cause.

CROSSWORD BY THOMAS JOSEPH

ACROSS	DOWN
1 Fleshy fruit	1 Invigorate
6 Targets for bulls	2 Occur
11 Make blank	3 Track horse
12 Celeb roster	4 Inquire
13 Yard surrounder	5 Hoe users
15 Purpose	6 Casual eateries
16 Buck's mate	7 Pub product
17 Tavern	8 Arcade game
18 Medusa's killer	9 Fugitive
20 Big galoot	10 Sound systems
21 Museum focus	14 Race tipster
22 "Pinocchio" goldfish	19 "The Odd Couple" director Gene
23 Port sights	22 Cajole
26 Parcels out	23 Givies
27 Burden	24 Eight furlongs
28 Film noir classic	25 Finger-nails neighbor
29 Trawling need	26 Gizmos
30 Carbon-	28 Slimming plan
34 French friend	30 Attire
35 Wine choice	31 Singer Cara
36 Sprinted	32 Tango or twist
37 Source of play passes	33 Come in
40 New York's-- Island	38 Young one
41 Simpleton	39 Stomach
42 Garden starters	
43 Ranch animal	

YESTERDAY'S ANSWER

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BEETLE BAILEY by Mort Walker

BABY BLUES by Kirkman & Scott