The Daily Star
FOUNDER EDITOR
LATE S. M. ALI
DHAKA MONDAY JANUARY 2, 2017, POUSH 19, 1423 BS

Our wish list for 2017

True commitment needed to fulfil

WE have said goodbye to a year with positive notes in many aspects, particularly the economy. However, we hope and aspire for a better 2017 and there are several areas that we think changes can make a big difference.

Firstly, we would like the current spate of development to continue in the same vein. Admittedly, development was possible primarily because of absence of political turmoil last year, much because there was absence of politics in the true sense of the term. However, development by itself will remain incomplete if it is not accompanied by democracy. And to make democracy meaningful the dissenting voices, particularly the political opposition, must be afforded more space, something that has been lamentably lacking last year. But we also understand that making democracy meaningful is not the sole obligation of the ruling party alone and the opposition has an equal burden of responsibility, something that the main opposition has woefully lacked in fulfilling, primarily because of the destructive politics it had resorted to in 2015.

Secondly, the government must address the bane of corruption that costs the country a substantial chunk of GDP. In particular we would want the government to address the lack of financial discipline in the banking sector, especially in the public banks that are being weighed down by bad loans.

Thirdly, we feel there must be more accountability in public spending. Government's effort to raise revenue, which deserves compliments, is nullified by injudicious use of public money, particularly in time and cost overrun of government projects. The regime of accountability must prevail over everyone that spends public money.

Last but not the least, the regime of good governance must be imposed on every sphere of government activity because that is the sine qua non for every success that the government aspires to.

Free textbooks

A notable achievement

IN a praiseworthy feat, the government is distributing more than 36 crore textbooks to more than 4 crore students of primary and secondary schools, ebtedayee and dakhil madrasas and technical institutions across the country. And for the first time, it will provide about 25,000 children from ethnic communities with pre-primary textbooks in five ethnic languages, Chakma, Marma, Tripura, Sadri and Garo. Moreover, about 9,000 braille books will be given to visually impaired students.

Printing so many textbooks and dispatching those to educational institutions so that students get new textbooks for free on the first morning of the New Year are no mean accomplishments. The initiative which the government started in 2010 is significant as it is likely to encourage many parents in the rural areas who cannot afford to buy books to send their children to school. What could be a better gift to a student than a set of textbooks fresh off the press?

It is encouraging to see the government put such high emphasis on education which is the main driver of a nation's progress. Thanks to several government initiatives, enrolment in schools has been going up at a steady rate. We have achieved the quantity; the challenge now is to ensure quality which remains a matter of concern. More resources should be allocated to teachers' training and improving the condition of classrooms.

LETTERS TO THE EDITOR

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Death of children from drowning

Drowning is the leading cause of death of children aged 1-17 years and has turned into a "silent epidemic" in Bangladesh. On average, 18,000 children die every year from drowning in this county. This startling statistic is enough to shock any health worker, parent, or politician, but it is very real and it is happening every year.

Though child deaths have reduced noticeably, the number of child deaths from drowning is increasing day by day. The majority of Bangladeshi people live in rural areas. So, it is no surprise that most deaths from drowning take place there.

Children are frequently drowning in swollen rivers, canals, ponds, ditches and other water bodies while playing nearby. Research show that the main reason young children drown is a lack of supervision. Children rush into water in excitement without knowing how to swim or how to survive if they get into trouble. Often, people's perception about drowning is that it is a natural phenomenon. The drowning of children is something that we can all prevent by ensuring that children are under constant supervision near water. Superstition needs change in regards to the death of children from drowning. Proper knowledge and parental attention, together with effective social and family security, should be included in the necessary measures that can stop such unnecessary deaths.

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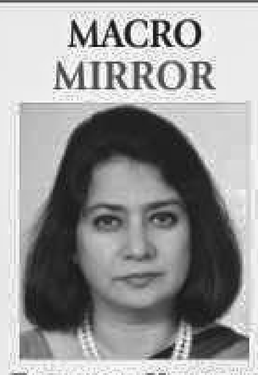
Moving forward beyond 2017

MACRO MIRROR



FAHMIDA KHATUN

GLOBALLY, 2016 has been an unprecedented year. Brexit, Trump, rise of populism, refugee crisis and terrorism will continue to define the political and economic scenario of the world in 2017. Inside the country, a number of positive as well as challenging developments will shape the dynamics of Bangladesh's journey in 2017. As most big economies are still struggling to recover from slow growth, Bangladesh's major economic boost will have to come from within the country.

Stability in Bangladesh, both economically and politically was strong in 2016. This has helped in achieving higher growth of gross domestic product that crossed 7 percent in fiscal year 2016. Industry played the main role in higher GDP followed by the services sector. Low petroleum prices in the global market helped inflation rates to stay low since Bangladesh spends a significant amount on petroleum products. Export earnings increased at a higher rate than imports and export-GDP ratio increased in FY2016 while import-GDP ratio declined. Higher export of readymade garments contributed to this growth. Bangladesh is eying at earning USD 50 billion through RMG exports by 2021. Given the potential of the sector and the compliance measures being undertaken for the last two years following the Rana Plaza incident, the sector can meet the target easily. Surely, improved infrastructural facilities, technological upgradation, skills development will facilitate the growth process of the sector.

Investment remains a crucial component of growth in Bangladesh as the major impetus for growth has to come from both public and private investment. In FY2016, investment as a share of GDP was 29.7 percent, lower than the target for the fiscal year. This was lower than the savings rate also, indicating the weakness in utilisation capacity of the economy. Keeping in mind the need for a growing economy, the government has targeted to increase investment to 32.7 percent of GDP in FY2017. This will require boosting investment efforts through infrastructure projects. Depressed economic performance in the oil exporting countries has led to a cut in remittance flow to the country despite increase in migrant workers. This is worrying since a major part of Bangladesh's foreign exchange is earned through remittances.

While macroeconomic indicators are better compared to many other countries, Bangladesh will have to focus on a number of issues that may hinder the growth momentum of the country. In 2016, the banking sector continued to display its weaknesses. Rise of non-performing loans, lower capital adequacy and the overall lack of governance in the sector are disturbing for the economy. Window dressing through rescheduling and restructuring of NPL and government support to the loss making banks cannot solve the problem unless stern measures are taken against malpractices and fraudulent cases. Cyber crime has emerged as a new phenomenon for the banking sector in Bangladesh that caused a reserve heist of USD 101 million from Bangladesh Bank. The investigation report on this hack has not been made public and the progress in getting the stolen money back is slow. Much activity on tackling cyber crimes has not been visible yet.

The most shocking incidence of 2016 has been the terrorist attack in Holey Artisan Bakery. The nature of the attack was different from earlier single incidences where religious militants killed members of minority groups, two foreigners and a number of bloggers. Holey attack was massive in scale when 20 people were killed, 17 of them were foreigners. After the Holey killings, there was a fear that foreigners would stop coming to Bangladesh and the economy may suffer. However, Bangladesh could tackle the situation very well by strengthening the security in the country. Bangladesh's partners have not turned away either. The visit of the Chinese President and his commitment to invest in Bangladesh, the assurance of continued cooperation from Japan, the visit of the World Bank President despite World Bank's cancellation of funding the Padma Bridge construction on corruption allegations, and international events such as the one on migration in Dhaka are indication of confidence in Bangladesh's approach towards terrorism and commitment for growth and prosperity.

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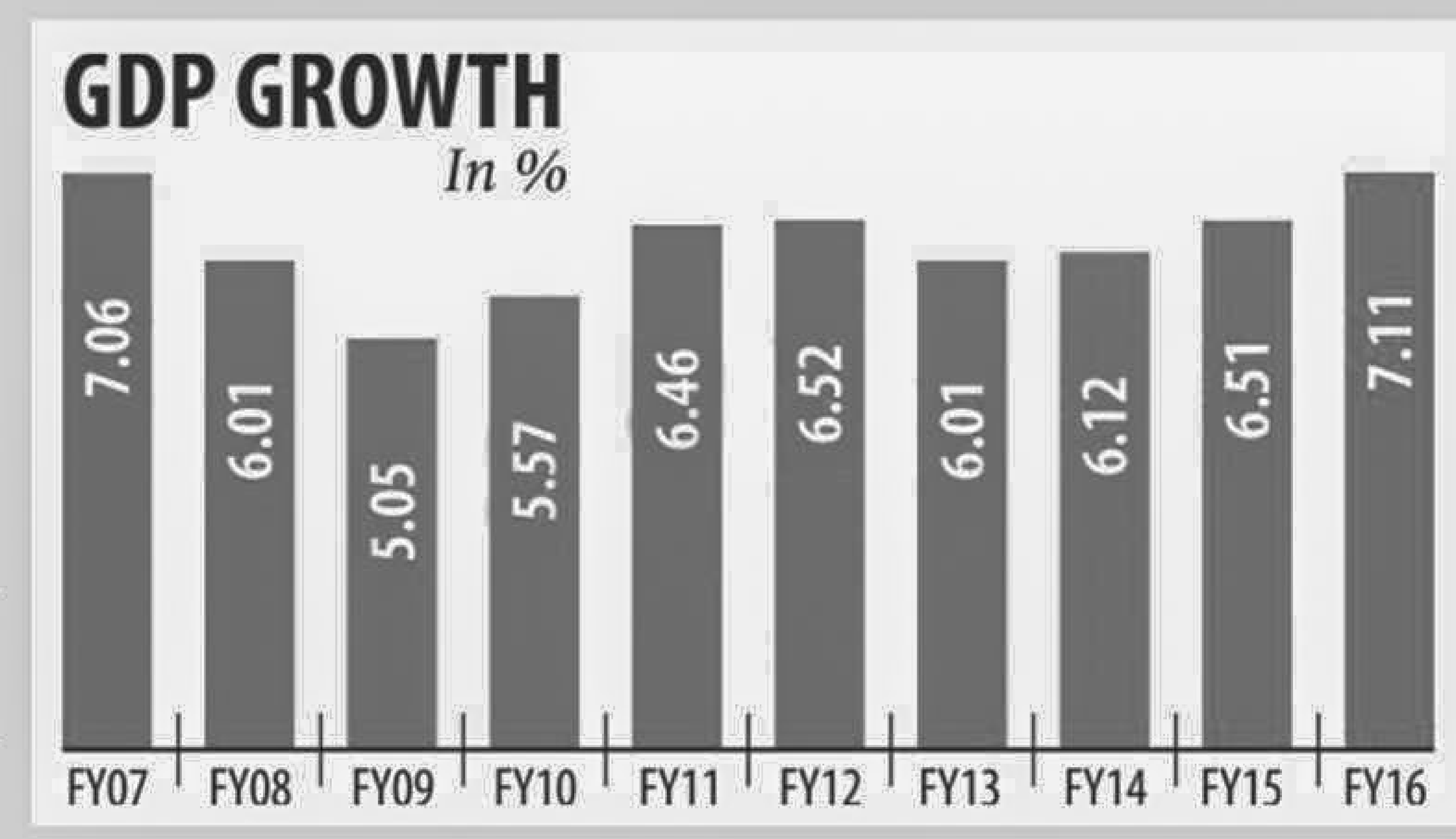

In 2017, Bangladesh would continue to drive its ambitions for becoming a higher middle income country. The country will also prepare to come out of the least developed country status. These will require consolidation of its achievements and preparation for tackling further challenges. As the country received commitments for an investment of USD 24 billion from the Chinese government and in the process of implementing mega projects such as the Padma Bridge and the Ruppoor power plant a lot of clarity on their implications as regards debt-GDP ratio, quality and timeliness is required. Of course, debt-GDP ratio is not an imminent issue at the moment since debt-GDP ratio is relatively low for Bangladesh. However, once commitments of the Chinese money start to get into the economy and the Ruppoor power plant is implemented, debt-GDP ratio would increase significantly. The pressure on the debt situation could be accommodated through increasing efficiency in project implementation and accelerated revenue collection.

Bangladesh's economic and social achievements are widely acclaimed around the world. The challenge is now to make this sustainable and inclusive. Maintaining macroeconomic stability, increasing efficiency in project implementation as well as national earnings and improving governance are major issues that will have to be vigorously followed up in 2017. The economy is set to run on a high speed lane with objectives set to achieve 7.2 percent growth in FY 2017 and even higher in the coming years. This ambition is underpinned by continuous economic and political reforms.

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PROJECT SYNDICATE

Will dollar strength trigger intervention in 2017?

CARMEN M. REINHART

ONLY a small group of central banks refrain from intervening in the foreign-exchange market to stabilise their currencies' exchange rate or coax it in the desired direction. Even when they do not intervene directly, their interest-rate policies are often formulated to be compatible with exchange-rate objectives. As a result, freely floating currencies are comparatively rare. This has important implications for the United States authorities as they confront a sharp rise in the dollar's exchange rate.

When a potential or actual loss of confidence in the currency threatens to bring about large capital outflows, intervention usually takes the form of sales of foreign-exchange reserves to mitigate the magnitude or speed of depreciation. The People's Bank of China's ongoing reserve losses are a salient recent example. The most recent US intervention in foreign-exchange markets (which has been rare in general) to support a weak dollar dates back to 1992-1995.

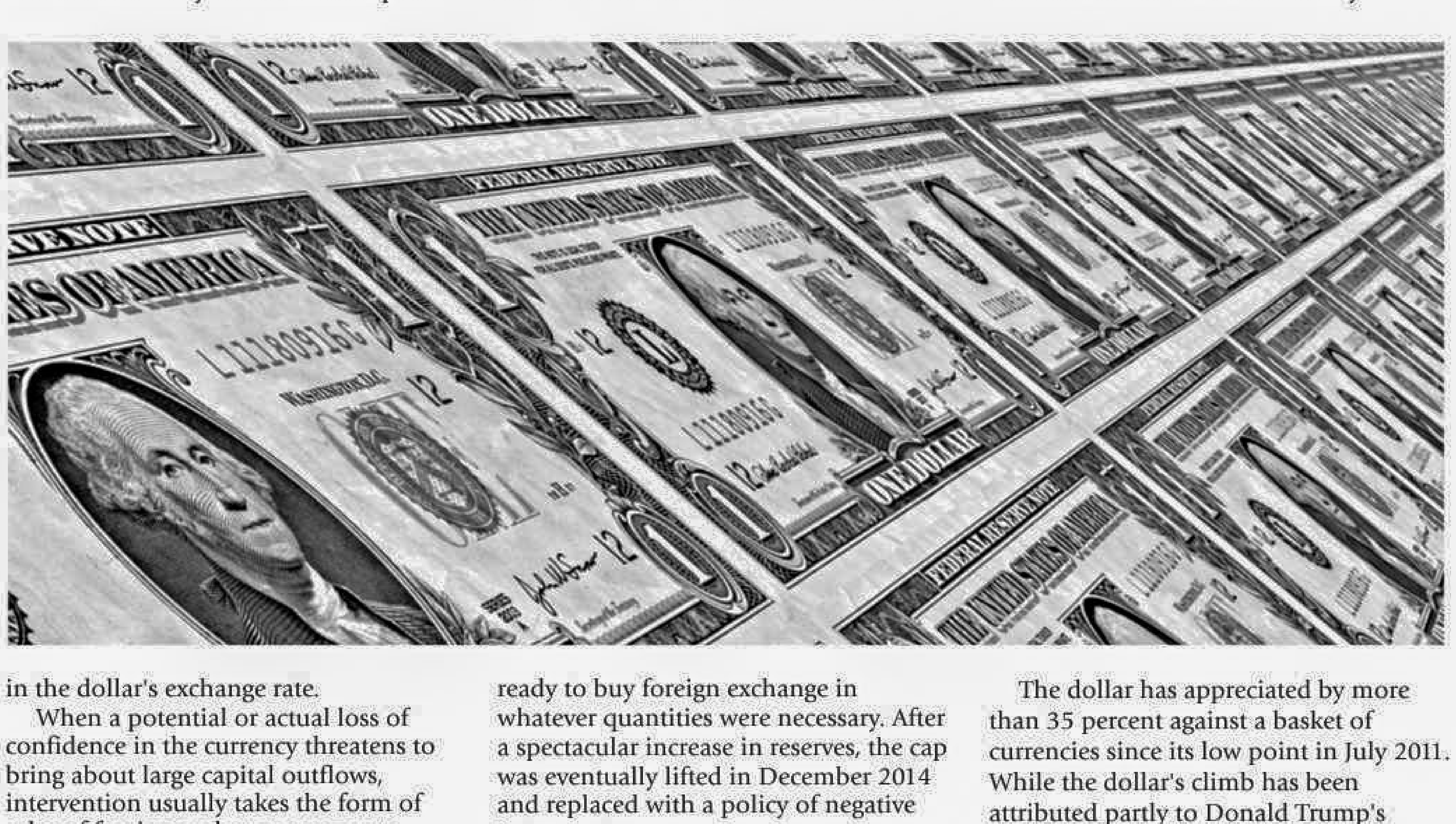
At the other end of the spectrum, concerns about lower international competitiveness as a result of significant currency appreciation may be even more common among policymakers and export-oriented firms. Worries about overvalued currencies permeated policy discussions in many emerging markets as recently as 2013, and sustained efforts to lean against the wind of appreciation resulted in record reserve accumulation for many central banks.

Fears of a strong currency are by no means limited to emerging economies. As the recent crisis in the eurozone periphery deepened and the euro's value plunged relative to the Swiss franc, Switzerland's central bank, citing the strong franc's threat to the economy, introduced a de facto exchange-rate peg in September 2011. The policy capped the Swiss franc's appreciation against the euro, because the central bank stood ready to buy foreign exchange in whatever quantities were necessary. After a spectacular increase in reserves, the cap was eventually lifted in December 2014 and replaced with a policy of negative interest rates.

The US has not been exempt from such concerns. In the first half of the 1980s, following the Federal Reserve's record interest-rate hikes, the dollar appreciated by almost 45 percent against other major currencies. As a result of the strong dollar, the US lost international competitiveness and the trade balance sank to record lows in 1985.

These developments set the stage for the Plaza Accord, which my colleague Jeffrey Frankel has described as probably the most dramatic policy initiative in the foreign-exchange market since President Richard M. Nixon floated the dollar in 1973. At New York City's Plaza Hotel on September 22, 1985, US officials and their counterparts from the world's leading economies agreed to take concerted action to halt and reverse the dollar's appreciation. It was an accord precisely because it involved international policy coordination among the major players, whose public statements were coupled with organised market intervention (selling US dollars).

The dollar did indeed depreciate, though the extent to which this can be attributed to the Plaza Accord remains a source of some debate. What is certain is the relevance of that debate today.



The dollar has appreciated by more than 35 percent against a basket of currencies since its low point in July 2011. While the dollar's climb has been attributed partly to Donald Trump's unexpected victory in the US presidential election, it also reflects the fact that US monetary policy is set to tighten against a backdrop of continued monetary stimulus in the eurozone and Japan.

President-elect Trump campaigned on a promise to bring back US manufacturing, even if doing so requires imposing tariffs and dismantling existing trade arrangements. Yet a strong dollar is a major obstacle to fulfilling his promise. Perhaps financial markets will begin to perceive the dollar as currently overvalued and retrench. If not, will it be time for another Plaza-style accord? More important, who would be willing to cooperate?

Apart from the significant cumulative appreciation of the US dollar, there are scant similarities between the current environment and 1985. Back then, Japanese real GDP growth topped 6 percent. Today, sustained appreciation of the yen would probably derail the modest progress forged by the Bank of Japan in raising inflation and inflation expectations. With the ratio of public debt to GDP at around 250 percent, higher inflation is likely to be part of the solution to Japan's debt overhang.

On the other hand, Germany, with its record-high current-account surpluses (exceeding 8 percent of GDP) could withstand an appreciation. But, unlike 1985, in a scenario where the euro survives its current challenges, it will not be the Bundesbank that sits at the table in 2017. From the vantage point of the European Central Bank, which is coping with another round of distress in the periphery (primarily in Italy, where the frailty of the banking system is fuelling capital outflows), the euro's weakness is a godsend.

That leaves China, now the world's second-largest economy, which was not an integral part of the 1985 agreement, to bear the burden of dollar depreciation. But China's recent tightening of capital controls underscores the challenge it already faces in preventing the renminbi from depreciating further. Moreover, given the negative impact of the strong post-Plaza yen on Japan's subsequent economic performance, it is unclear why China would consider a stronger renminbi to be worth the risk.

In other words, while it is quite plausible to expect that Trump's Treasury will want to reverse the dollar's climb, it is equally plausible that no other major economy will help. If the strong dollar prompts intervention in currency markets in 2017, the most likely scenario is one in which the US intervenes alone.

The writer is Professor of the International Financial System at Harvard University's Kennedy School of Government.