

Budget should support green growth



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BA NGLADESH has sustained a GDP growth rate of more than 6 percent for over a decade. The impending graduation out of the least developed countries category is a remarkable achievement for the country of 160 million people, in its fifth decade as an independent nation.

This growth trajectory has brought in its wake several key challenges on the environment front: unchecked extraction of scarce natural resources, environmental degradation, population pressure, climate-related vulnerabilities, to name a few.

Bangladesh is one of the lowest ranked countries in the global Environmental Performance Index prepared by the Yale Centre for Environmental Law and Policy. The 2018 report ranks Bangladesh 179th out of 180 countries. Studies have shown that Bangladesh loses about 1 percent of its GDP due to the harmful effects of air pollution alone.

This has, in turn, put pressure on policymakers to ensure that growth strategies followed by the country are sustainable. A key element of sustainability is a green growth path, which is not only expected to limit the damage to the environment but also to enhance the productivity of the natural capital stock.

In a country where the poor remain heavily reliant on natural resources, an equitable or inclusive growth agenda needs to take on a

decidedly 'green' hue – following the path of 'green growth'.

In 2014, the government of Bangladesh produced a Climate Fiscal Framework primarily to highlight how the government prioritises climate action in its budgeting and implementation. While Bangladesh has been proactive in highlighting the risks posed by climate change on low-lying areas and is widely recognised as a leading voice of the global, it needs to widen its priorities to include tackling the challenges posed by its environmentally unsustainable growth trajectory.

The promotion of green growth through the introduction of green fiscal policies is tools used by both emerging and advanced economies. Many governments have introduced environmental taxes, which charge particular groups to pay for environmental damage, incentivise them to change their behaviour, and also provide additional revenues for the government. Such measures might include fuel or carbon duties, congestion charges, or waste/landfill taxes. These measures focus on the expansion of fiscal space and increasing available resources for environmental

BRIEFLY, THE FOUR STAGES OF THE BUDGET CYCLE ARE

Policy formulation:

Budgets are vehicles to deliver national and sectoral policy priorities of governments. The first step in influencing budget systems, therefore, is to work on the policy development processes.

Budget formulation:

In Bangladesh, budgetary allocations for ministries and divisions are made under two heads – the development budget, which refers to projects, and the non-development budget, which refers to recurrent costs of government.

Budget execution:

Budgets are spent through two main routes – public investments, that are capital expenditures, and public procurement, that refers to the purchase of goods, services and works by the government.

Budget oversight:

The expenditure side is monitored by means of accounting mechanisms, and assessed using public auditing methods. Robust oversight is critical for ensuring that budget is spent effectively.

Opportunities for reform

A concrete step towards recognising the importance of green growth is to begin reflecting it in the way Bangladesh allocates its finances. This essentially refers to reforms to the Public Financial Management (PFM) systems.

Public finances must be managed in a way that ensures more effective and efficient allocation and expenditure on green growth issues. When policy options are being analysed, one should factor in the value of natural capital inputs, and determine how it is factored into the deliberations. Reforming public procurement practices to ensure they reward green business practices is another important aspect.

or green growth purposes. In Bangladesh, these options remain underdeveloped, and more work is urgently required so that policymakers have a list of viable policy proposals from which to choose from in the formulation of environmental and fiscal policies.

In our recent paper, "Greening Public Financial Management for Sustainable Development: A Green Fiscal Framework for Bangladesh", authored by Bushra Ferdous Khan, we offer suggestions on how principles of environmental conservation and sustainable use of natural capital can be embedded in, and delivered through Bangladesh's PFM system.

A running theme in any reforms



STAR/FILE

Studies have shown that Bangladesh loses about 1 percent of its GDP due to the harmful effects of air pollution alone.

process is the capacity of those who are responsible for authorising the changes and who are responsible for implementing them. It is critical to ensure that the reform proposals are situated within Bangladesh's broader political priorities. For example, would an agenda that pushes the country to go green succeed if it were positioned against the priorities of wealth creation? The key to this is to avoid the perception of this being a zero-sum game. And indeed, there are long-term benefits from a green economy, as that would mean that natural capital inputs of a higher quality remain available for future generations. Global research that demonstrates this link must be made available to policymakers as they set

reform priorities.

Those responsible for implementing reforms also face constraints in terms of knowledge and skills. This is an area where technical assistance by bilateral or multilateral aid agencies can play a role. Supporting the development of specialised (and localised) technical knowledge and the promotion of international knowledge networks can be a mechanism to help the government.

In conclusion

Development priorities set at the highest levels of the government find their way to the ground through an elaborate administrative apparatus. Therefore, those working on public sector reforms must focus not only on policy commitments but also

(crucially) on the nuts and bolts of governance. The budget cycle of a country is one of the most prominent examples of the latter.

A green PFM system is a long-term goal, but it is a journey that we need to embark on immediately. Whilst it is recognised that there are improvements to be made in the systems that are currently in use, the fundamentals of what makes a system work are known. It is important though for Bangladesh to ensure that the approach taken is highly contextualised – both to the government's overall objectives as well as underlying institutional capacity.

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Apple, Buffett saw value and acted



REUTERS/FILE

An iPhone X is seen on a large video screen in the new Apple Visitor Centre in California.

REUTERS, San Francisco

APPLE Inc was not the only one to leap on a chance to buy its stock at a fat discount last quarter as Warren Buffett stepped in to scoop up an additional 75 million shares for Berkshire Hathaway at the same time.

Between them - the two biggest players in the iPhone maker's shares - they bought nearly one of every 10 Apple shares traded during the quarter, according to Thomson Reuters calculations.

But the discount window did not stay open long, with Apple's stock back at a record high above \$183 on Friday after trading in the mid-\$150s for part of the first quarter.

The recovery in the share prices makes it less opportune for Apple's corporate treasury to execute purchases as it proceeds with an additional \$100 billion of buy-backs in an effort to further winnow down its mountain of cash.

Apple bought more than \$23 billion of its own shares in the first three months of the year at an average price of \$171.48, the company said this week.

A Buffett representative on Friday confirmed Berkshire Hathaway increased its stake in Apple by 75 million shares, for which the company looks to have paid between \$12 billion and \$13 billion, based on the stock's trading range during the period.

Funds from the repatriation of Apple's \$252 billion overseas cash hoard arrived at a convenient time for traders working on behalf of Apple. The Cupertino, California, company's massive share purchase in the March quarter coincided with a 10 percent slump in the S&P 500 between Jan 26 and Feb 8.

That drop raised fears across Wall Street that a nine-year bull market was ending and made it easier for big players amassing shares in a company to find willing sellers.

Apple shares fell even more than the broader market, tumbling over 13 percent from their record high close. But while the S&P 500 has remained in correction territory, Apple shares quickly recovered, and it seems the company and Berkshire were there to help.

Buffett, a billionaire bargain hunter, increased his company's stake to 240.3 million shares worth \$42.5 billion during first quarter.

At its low in February, the stock was available for as little as \$150, an 18 percent discount to its current price.

On more than a third of the trading days during the March quarter, Apple's stock traded below its volume weighted average price, or VWAP, for the prior 60 days.

On Feb 8, when it closed at \$155.15, the low for the quarter, it was at a nearly 10 percent discount from its 60-day average VWAP. The stock had not been available at such a large discount to its prevailing average since May 2016, which happens to be when Buffett bought his first-ever shares of Apple.

At its close of \$183.83 on Friday, however, Apple now stands at a premium of nearly 7 percent to its 60-day VWAP of \$172.11.

Prior to last quarter, Apple's largest-ever quarterly repurchase occurred in early 2014, a year after it initiated its first \$210 billion buyback program. The stock traded at a discount to its 60-day VWAP through much of the quarter, and Apple spent \$18 billion to buy up its own shares, according to filings.

Asian jet fuel buyers paying the highest premiums to get supply since 2008

REUTERS, Singapore

ASIAN jet fuel buyers are paying the highest premiums for this time of year in 10 years as new and expanded airports in the region push its consumption to new highs.

The premium for jet fuel cargoes in the Asian trading hub of Singapore was \$1.01 a barrel above benchmark quotes on Friday JET-SIN-DIE, the highest for this time of year since 2008, according to data on Thomson Reuters Eikon.

The booming aviation market has also pushed up the profit margins, known as cracks, refiners make from producing jet fuel to their highest since early 2015.

Demand for jet fuel, which is composed of the middle distillate fuel kerosene that is also used for heating, was expected to ease after the winter heating season, but consumption has stayed strong on a jump in orders from the aviation industry. The demand earlier this winter drove the jet fuel/kerosene premium to \$2.28 a barrel Feb. 27, the most since May 2008.

"A rise in air-passenger traffic coming from increasing consumer affluence and improving infrastructure supports the strength in Asian jet fuel demand growth," said Sri Paravaikkarasu of energy consultancy FGE.

The Asia Pacific region makes up over one-third of the global air passenger market, gaining on

average a bit over 1 percent in global market share per year.

"Asia will remain the cornerstone for global jet fuel demand expansion in the coming decades," Paravaikkarasu said.

In March alone, Asia's passenger traffic rose by 12 percent compared to last year, according to data from the International Air Transport Association (IATA) released last week.

"The strong first quarter provides healthy momentum heading into the peak travel period in the northern hemisphere. Benign economic conditions are supporting — and being supported by — good demand for air travel," Alexandre de Juniac, IATA's chief executive said last week.

The current run of seasonal oil refinery maintenance in Asia has added to the pricing pressure by curtailing the supply of jet fuel available to the market.

There is 2.46 million barrels per day (bpd) of Asian oil refining capacity planned to undergo maintenance in May, according to data from consultants Energy Aspects. That is nearly equal to the crude oil demand of South Korea.

This supply tightness is occurring as travel demand in country's like China and India spur more jet consumption. China's domestic air traffic alone climbed 15 percent in March from a year ago, the strongest pace in five months, IATA data showed.

India's March domestic traffic



REUTERS/FILE

A Japan Airlines airplane flies past a factory's chimney at an industrial district in Tokyo.

rose by 28 percent, marking the 43rd straight month of double-digit growth, as the government embarks on an ambitious infrastructure development plan.

Lagging slightly behind India and China, but still seeing strong expansion thanks to economic growth and rising tourism figures, is Southeast Asia.

Singapore's DBS Bank expects passenger growth for the Association of Southeast Asian Nations (ASEAN), home to more than 600 million people in 10 countries, to be around 6 percent in 2018. The general boom in demand is a boon for refiners.

Asia's jet fuel crack was at \$15.75 per barrel above benchmark Dubai crude, more than 50 percent higher than a year ago. The cracks peaked at \$18.03 in February.

For all of 2018, Sukrit Vijayakar, director of energy consultancy Trifecta, said he expects an average jet fuel crack of \$16.50 per barrel.

While an advantage for refiners, the high jet fuel prices threaten airline profits, for whom fuel is by far the biggest cost factor. "We are on track to post a profit in 2018, but (this) will depend on the fuel price going ahead," said Pahala Mansury, chief executive of Indonesia's state-owned carrier Garuda, this week.

Japan may hold off on stimulus exit for years: former central banker

REUTERS, Tokyo

THE Bank of Japan's decision to drop a timeframe for hitting its inflation target shows it is losing confidence in its price outlook and could mean it puts off exiting easy policy for years to come, a former central bank executive said.

The BOJ last month removed any reference to a timeframe for hitting its 2 percent inflation target, in a surprise move analysts said was aimed at keeping market expectations for more stimulus in check.

At the April 27 rate review, the BOJ also issued new forecasts projecting inflation will hit 1.8 percent in fiscal 2019 and 2020 - meaning inflation would fall short of the target for another three years. Eight of the nine board members said there were downside risks to the 2020 price forecast.

"The decision to drop the timeframe reflects a growing view within the BOJ that it's not easy to change public perceptions that inflation will stay very low, even with bold monetary easing," Kazuo Momma, who oversaw

monetary policy and international affairs during his stint at the BOJ, told Reuters on Monday.

"The BOJ has made clear it no longer has any timeframe in mind in guiding policy. That means it could maintain current policy for years if the price target remains elusive," said Momma, who retains close contact with incumbent policymakers.

The central bank's projected timeframe has slipped several times since it was first introduced in 2013. In deploying a huge asset-buying programme back then, the

BOJ pledged to hit the price goal in two years. Since then, weak inflation forced the bank to push back the timeframe six times.

While removing the timeframe may give the BOJ more flexibility in guiding policy, it may be hard for the bank to either expand or withdraw stimulus any time soon, he added.

"Consumer inflation is finally near 1 percent but the economy lacks momentum to push up prices further from here," said Momma, currently an economist at Mizuho Research Institute.