CASH SUBSIDY FOR REMITTERS

Why go around elbow to get to the nose?

ZAHID HUSSAIN

THE government announced a 2 percent subsidy on remittances in the FY20 budget and allocated Tk 3,060 crore for this purpose.

In Bangladesh, remittances have a large development impact because they are 2.3 times the net official development assistance, foreign direct and portfolio investments combined.

Remittances reached $16.4 billion in FY19, a new historic height in nominal terms. A recent survey by the General Economics Division showed that 91 percent of remittance recipients are above the upper poverty line.

The equity justification for the subsidy is therefore not compelling. The efficiency justification is hard to construct given the absence of any obvious positive externalities that can be directly associated with international remittances.

The above questions are academic since the decision to subsidise has already been made. The more pertinent question now is through what administrative mechanism will the subsidy be delivered?

On August 6, the Bangladesh Bank (BB) issued a circular detailing the implementation modalities of the subsidy. This clarifies the apprehensions expressed by many regarding the subsidy delivery mechanism and the associated costs as well as risks. At the same time, it leaves a few points to ponder.

Remittances not exceeding $1,500 will get the cash subsidy without any questions asked. Remitters exceeding this limit will have to submit appropriate documentation such as appointment letters, passport, business licence if the remitter is not a wage employee etc. on the sources of their income to be eligible for this subsidy.

We do not know how the $1,500 threshold was fixed, but perhaps the threshold was motivated by concerns about abuse of the subsidy by sending money abroad and transferring it back to the country as remittances or by transferring as remittances export earnings not eligible for any cash subsidy or export earnings getting less than 2 percent cash subsidy.

What will deter such abusers from sending these in different instalments through different banks? The average cost of transferring $200 remittances in the South Asia region is 5 percent, according to the World Bank's April 2019 brief on migration and remittances.

This can be a deterrent, but the fees decrease with increase in the amount sent. Moreover, how difficult will it be to obtain fake business licence by those who may attempt to take undue advantage of the cash subsidy?

Honest remitters on the other hand may be discouraged to send over $1,500 in one transfer due to the documentation requirements. This could adversely affect the volume of remittance inflow.

How will banks get the money for paying the cash subsidy to the recipient households? BB will provide imprest advance to banks, equivalent to three months' remittances based on previous year's average monthly remittances plus 10 percent growth.

Somebody in BB will have to verify whether the banks are accurately reporting the previous year's remittances through their banks.

There is obviously an incentive to maximise the imprest advance, since it is costless and since banks will have to pay the subsidy even if the imprest balances are exhausted. In case of the latter, the banks will accrue a claim on the BB on which they will earn no interest.

Banks will have to maintain a separate taka account on cash subsidy disbursements, prepare documentation (Form Ka every quarter and Form Kha every month) for the appropriate BB departments and preserve these documents for audit for at least the next three years.

Bank management will also have to ensure that their staff fully comply with the rules of disbursing the cash subsidy to avoid debits in their reserves with the BB. Clearly, all these mean an increase in the cost of doing remittance transactions for the banks, a cost against which they earn no direct benefits.

Remittance recipients will have to pay back the cash subsidy to the disbursing banks if for any reason they must return the remittances to the sender. This means loans remitted by senders to the recipients are not eligible for cash subsidy if the loan repayments are remitted back.

If the repayments are made locally to the relatives or friends of the loan providing remitter, the cash subsidy received will not need to be paid back since banks have no way of monitoring such behaviour.

However, this requirement may create complications for those who send money abroad to support children, relatives or friends as allowed under existing BB regulations.

They may be required to provide evidence that they did not receive any remittance subsidy.

One cannot help but wonder why we could not let a correction in the currently overvalued exchange rate to deliver the same, or perhaps even more, augmentation of the income of remittance receiving households.

This would have dispensed with all administrative hassles on the part of BB and the remittance dealing banks.

Exchange rate correction has other benefits such as making exports and domestic import substitutes more price competitive and stopping leakage of taka liquidity from the banking system resulting from BB's dollar sales to defend the taka.

Yes, there is no free lunch. Cost of imports will rise, thus creating the risk of higher inflation. If this inflation tax is assessed to be too onerous economically or politically, it can be managed through appropriate fiscal response.

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Bangladeshis enrolling for work abroad queue for departure outside Hazrat Shahjalal International Airport in Dhaka. Remittances sent by migrant workers have a big impact on the country's economy.

UK households more cautious about major purchases

REUTERS, *London*

British working-age households are growing more cautious about making major purchases amid concerns about Brexit and a possible recession, a monthly consumer survey showed on Monday.

The IHS Markit Household Finance Index dropped to a three-month low of 43.7 in August from 44.3 in July, and households' appetite to make major purchases fell at the second-fastest rate since September 2017.

"The Brexit haze, uncertainty over the political environment and the increased possibility of the UK entering recession appear to have dented expectations," IHS Markit economist Joe Hayes said.

Prime Minister Boris Johnson has promised to take Britain out of the European Union by Oct. 31, even if that means leaving without a transition deal - something most economists think would put the country at high risk of recession.

Trade conflict between the United States and China, and a surprise contraction in British economic output in the three months to June, have already raised concerns in financial markets about the outlook for growth.

However British consumers have largely shrugged off Brexit worries so far, due to a solid job market and wages that are rising at their fastest rate in 11 years.

Most households still expect the BoE's next move to be to raise interest rates, IHS Markit said, but the proportion expecting a cut increased to its highest since October 2016 at 23 percent this month, up from 16 percent in July.

Worries about job security were also the greatest since March, when Britain was originally due to leave the EU. The British government decided to delay Brexit after parliament rejected its exit plan.

The majority of households expecting higher rates may please the BoE, which said this month it still expects to raise interest rates if Brexit goes reasonably smoothly and the world economy picks up.

But that stance is at odds with expectations in financial markets, which - due primarily to the risk of a no-deal Brexit - have largely priced in a 25 basis point rate cut by the time Governor Mark Carney steps down at the end of January. IHS Markit based its data on a survey of 1,500 Britons aged 18-64 carried out by polling company Ipsos MORI between Aug. 8 and Aug. 13.

REUTERS/FILE

A woman carrying an umbrella passes a shop selling brightly coloured household items in Brighton, southern England.

DATA PRIVACY ISSUES

Google cuts some Android phone data for wireless carriers

REUTERS, *New York/San Francisco*

ALPHABET Inc's Google has shut down a service it provided to wireless carriers globally that showed them weak spots in their network coverage, people familiar with the matter told Reuters, because of Google's concerns that sharing data from users of its Android phone system might attract the scrutiny of users and regulators.

The withdrawal of the service, which has not been previously reported, has disappointed wireless carriers that used the data as part of their decision-making process on where to extend or upgrade their coverage. Even though the data were anonymous and the sharing of it has become commonplace, Google's move illustrates how concerned the company has become about drawing attention amid a heightened focus in much of the world on data privacy.

Google's Mobile Network Insights service, which had launched in March 2017, was essentially a map showing carriers signal strengths and connection speeds they were delivering in each area.

The service was provided free to carriers and vendors that helped them manage operations. The data came from devices running Google's Android operating system, which is on about 75% of the world's smartphones, making it a valuable resource for the industry.

It used data only from users who had opted into sharing location history and usage and diagnostics with Google. The data were aggregated, meaning they did not explicitly link any information to any individual phone user. It included data relating to a carrier's own service and that of competitors, which were not identified by name.

Nevertheless, Google shut down the service in April due to concerns about data privacy, four people with direct knowledge of the matter told Reuters. Some of them said secondary reasons likely included challenges ensuring data quality and connectivity upgrades among carriers being slow to materialize.

Google spokeswoman Victoria Keough confirmed the move but declined to elaborate, saying only that changing "product priorities" were behind it. Google's notice to carriers when it shut down the service did not specify a reason, two of the four people told Reuters.

"We worked on a program to help mobile partners improve their networks through aggregated and anonymized performance metrics," Keough said. "We remain committed to improving network performance across our apps and services for users."

The loss of Google's service is the latest example of an internet company opting to end a data-sharing service rather than risk a breach or further scrutiny from lawmakers.The European Union's General Data Protection Regulation, introduced last year, prohibits companies sharing user data with third parties without users' explicit consent or a legitimate business reason.

REUTERS/FILE

Google signage is seen at the Google headquarters in Manhattan of New York City.

Trump insists trade war doing no damage to US economy

REUTERS, *Washington*

US President Donald Trump and top White House officials dismissed concerns that economic growth may be faltering, saying on Sunday they saw little risk of recession despite a volatile week on global bond markets, and insisting their trade war with China was doing no damage to the United States.

"We're doing tremendously well, our consumers are rich, I gave a tremendous tax cut, and they're loaded up with money," Trump said on Sunday.

But he was less optimistic than his aides on striking a trade deal with China, saying that while he believed China was ready to come to an agreement, "I'm not ready to make a deal yet."

He hinted that the White House would like to see Beijing resolve ongoing protests in Hong Kong first.

"I would like to see Hong Kong worked out in a very humanitarian fashion," Trump said. "I think it would be very good for the trade deal."

White House economic adviser Larry Kudlow said trade deputies from the two countries would speak within 10 days and "if those deputies' meetings pan out... we are planning to have China come to the USA" to advance negotiations over ending a trade battle that has emerged as a potential risk to global economic growth.

Even with the talks stalled for now and the threat of greater tariffs and other trade restrictions hanging over the world economy, Kudlow said on "Fox News Sunday" the United States remained "in pretty good shape."

"There is no recession in sight," Kudlow said. "Consumers are working. Their wages are rising. They are spending and they are saving."

Their comments follow a week in which concerns about a possible US recession weighed on financial markets and seemed to put administration officials on edge about whether the economy would hold up through the 2020 presidential election campaign. Democrats on Sunday argued Trump's trade policies were posing an acute, short-term risk.

US stock markets tanked last week on recession fears with all three major US indexes closing down about 3% on Wednesday, paring their losses by Friday due to expectations the European Central Bank might cut rates.

The US Federal Reserve and 19 other central banks have already loosened monetary policy in what Fitch Ratings last week described as the largest shift since the 2009 recession.

Markets are expecting more cuts to come. For a brief time last week, bond investors demanded a higher interest rate on 2-year Treasury bonds than for 10-year Treasury bonds, a potential signal of lost faith in near-term economic growth.

White House trade adviser Peter Navarro on Sunday dismissed the idea that last week's market volatility was a warning sign, saying "good" economic dynamics were encouraging investors to move money to the United States.

"We have the strongest economy in the world and money is coming here for our stock market. It's also coming here to chase yield in our bond markets," Navarro told ABC's "This Week."

For bond markets, the sort of movement Navarro described is often driven by trouble - in this case the possibility that the trade battle with China is lasting far longer than expected and becoming disruptive to business investment and growth.

The US economy does continue to grow and add jobs each month. Retail sales in July jumped a stronger-than-expected 0.7 percent, the government reported last week, and Kudlow said that number showed that the main prop of the US economy was intact.

But manufacturing growth has slowed and lagging business investment has become a drag.

A slowdown would be bad news for Trump, who is building his 2020 bid for a second term around the economy's performance. He told voters at a rally last week they had "no choice" but to vote for him to preserve their jobs and investments.

The president and his advisers have repeatedly accused the Fed of undermining the administration's economic policies. On Sunday, Kudlow again pointed the finger at the central bank, describing rate hikes through 2017 and 2018 as "very severe monetary restraint."

The Fed hiked rates seven times over those two years as part of a plan to restore normal monetary policy following emergency steps taken to battle the 2007-2009 global financial crisis and recession.

Even with those steps, the Fed's target interest rate has remained well below historic norms, and policymakers have started cutting rates in response to growing global risks.

Democratic presidential candidates on Sunday joined the many economic analysts who have said the administration's sometimes erratic policies on trade - at one point threatening tariffs on Mexico over immigration issues - are to blame for increased uncertainty, disappointing business investment and market volatility.

"I'm afraid that this president is driving the global economy and our economy into recession," Democratic candidate Beto O'Rourke said on NBC's "Meet the Press."

Speaking to CNN's "State of the Union" on Sunday, Democratic candidate Pete Buttigieg criticized the administration for failing to deliver a deal with China.

"There is clearly no strategy for dealing with the trade war in a way that will lead to results for American farmers, or American consumers," he said.

REUTERS/FILE

US President Donald Trump poses for a photo with China's President Xi Jinping before their bilateral meeting during the G20 leaders' summit in Osaka, Japan.