NEW MONETARY POLICY

Nothing really new except renewal of old worries

Zahid Hussain

THE Bangladesh Bank (BB) has adjusted the monetary programme for the current fiscal year. Although the adjustment is limited to just one component, it is a big one.

Growth in the public sector borrowing has been revised upwards from 24.3 per cent in the original monetary programme to 37.7 per cent in the revised programme. All other monetary policy parameters remain unchanged.

The rise in the public sector borrowing target has increased broad money growth target from the original 12.5 per cent to 13 per cent.

Note that public sector bank borrowing this fiscal year reached Tk 51,740 crore as on January 9, 2020. This constituted 37.8 per cent growth relative to the stock of public sector debt to the banking system as on June 30, 2019.

This is already larger than the total increase in public sector borrowing implied by the revised 37.7 per cent growth target.

So, believe it or not, the BB is expecting the public sector not to borrow any more from the banking system and in fact make a small Tk 242 crore repayment the rest of the year.

While it is heartening that the BB has revised the monetary programme to only accommodate the deviations from the monetary target that has already happened, it is not clear whether the new monetary programme is realistic enough.

It will require some serious fiscal adjustments to enable financing of government spending only from revenues and external sources.

Absent such adjustments, government borrowing will inevitably increase further, creating pressure on interest rates and inflation. The risk of accelerated inflation is even greater if the increased borrowing is from the BB.

Public sector borrowing has already surpassed historic high by a large margin this year. The closest highest level of public borrowing previously was Tk 23,300 crore in fiscal 2010-11 and the next highest was Tk 22,500 crore last year.

Note that the government reduced the level of debt to the banking system by Tk 22,640 crore during fiscals 2014-15 and 2017-18, a period during which net sales of National Savings Certificates increased by Tk 132,640 crore.

Despite 69 per cent reduction, net sales of NSCs in the July-October this fiscal year were Tk 5,520 crore. Together with large increases in bank borrowing last year as well as this year, clearly, we have entered a phase of rapid increase in domestic public debt.

Public debt has long been an important issue in economic research with a focus on its impact on economic growth.

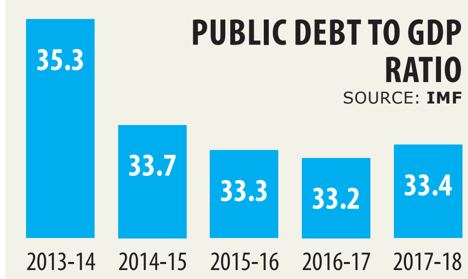
The conventional view is that in the short-term, aggregate output can be boosted, but in the long-run, investment is reduced, thus hindering economic growth.

There is also a third view suggesting that investment and economic growth are not affected because the private sector responds appropriately to make sure that the future generations do not have to bear any unreasonable burden of public debt.

But this is implausible in countries where a large majority of current generation are constrained by income such that they are not in any position to leave much for the next generation.

Public debt can adversely affect economic growth through several channels.

High public debt leads to higher long-term interest rates, higher distortionary taxation and inflation. High public debt levels constrain discretionary fiscal policies and therefore generate higher volatility.

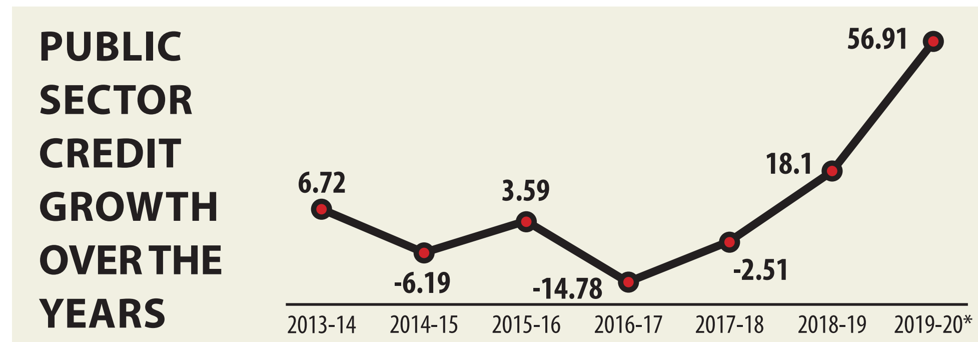


Even if the magnitude of the harmful effects of debt on growth varies, it is estimated internationally that a 10 per cent increase in debt-to-GDP ratio reduces annual growth by 0.1–0.2 percentage points on average.

There is a more nuanced view that suggests that public borrowing is harmful only when it is used for current expenditure but not when it accumulates public capital.

The purpose, composition and quality of institutions matter in determining the impact of public debt.

The type of interest group activities regarding unlawful and unproductive appropriation of resources can be checked by good institutional arrangements.



The importance of corruption has been widely recognised in many studies. Some items of public expenditure are more attractive than others in acquiring illegal rents and bribes.

Corruption in the bureaucracy distorts the purpose and functionality of the public sector. Studies that look into the effect of corruption on debt argue that a low level of corruption prevents distortionary misallocation of resources caused by public debt.

High levels of corruption tend to shift loan resources away from high-value projects such as health and education into potentially unproductive projects such as fancy infrastructure and bloated public administration.

Over-borrowing caused by corruption harms the whole economy. In any case, corruption plays a negative role in the association of public debt with economic growth.

Public debt itself may not be a big problem but becomes more of an issue when associated with bad institutions.

The rapid rise in public borrowing in Bangladesh in recent years is worrisome because of the factors driving such increases, weak institutions and the effects of public borrowing on interest rates and availability of credit to the private sector.

Increases in recurrent expenditures and unusually large shortfall in revenue collection, coupled with some decrease in external financing (as evident from BB data for the July-October period), have driven such a dramatic increase in domestic borrowing.

Anecdotal stories on wasteful uses of public development expenditures and embezzlement of public funds are plenty and keep coming.

Interest rates on government bills and bonds have risen 3 to 5 percentage points, depending on their tenor, in the last one year and a half. This is a major hindrance in the implementation of the government's single digit lending rate agenda from April 1.

Growth of credit to the private sector was down to 9.9 per cent in November, the lowest in recent memory. It is extremely hard to argue that the surge in public borrowing had no role in such a slump in private credit growth.

Can the BB stick to the revised monetary programme so as to harden the budget constraint on the public sector, thus forcing efficient fiscal adjustment? Only time will tell.

The author is an economist

Record tea production last year

Dwaipayan Barua, *Ctg*

Bangladesh produced 96.07 million kilogrammes of tea last year, its highest in 166 years, on the back of favourable weather round-the-year and supportive measures.

Continuous expansion and replantation by growers in the last several years as well as favourable weather, adequate rains and steps aimed at keeping diseases under control helped the country set the new record.

"The good yield was the outcome of some initiatives taken in the last few years," said Munir Ahmed, deputy director for planning of the Bangladesh Tea Board.

There was also no major natural calamities like floods, said Mohammad Ali, director of the Bangladesh Tea Research Institute, adding that steps taken to keep diseases under control through regular monitoring of the gardens were also a factor.

"Whenever we got information about disease outbreak in any garden, we sent our teams and the producers also followed our guidelines," Ahmed said.

In 2019, yield grew 17 per cent from a year earlier, when 167 tea gardens across the country produced 82.13 million kilograms of tea, according to state-run Bangladesh Tea Board, which released the data yesterday.

The output also comfortably exceeded the annual production target of 80 million kg.

Before the latest spell of increased production, annual output had actually declined compared to local demand, prompting the country to turn to imports in 2010.

Production started increasing in 2016, when yields hit a record high of 85.05 million kg thanks to favourable weather. However, it fell to 78.95 million kg the following year.

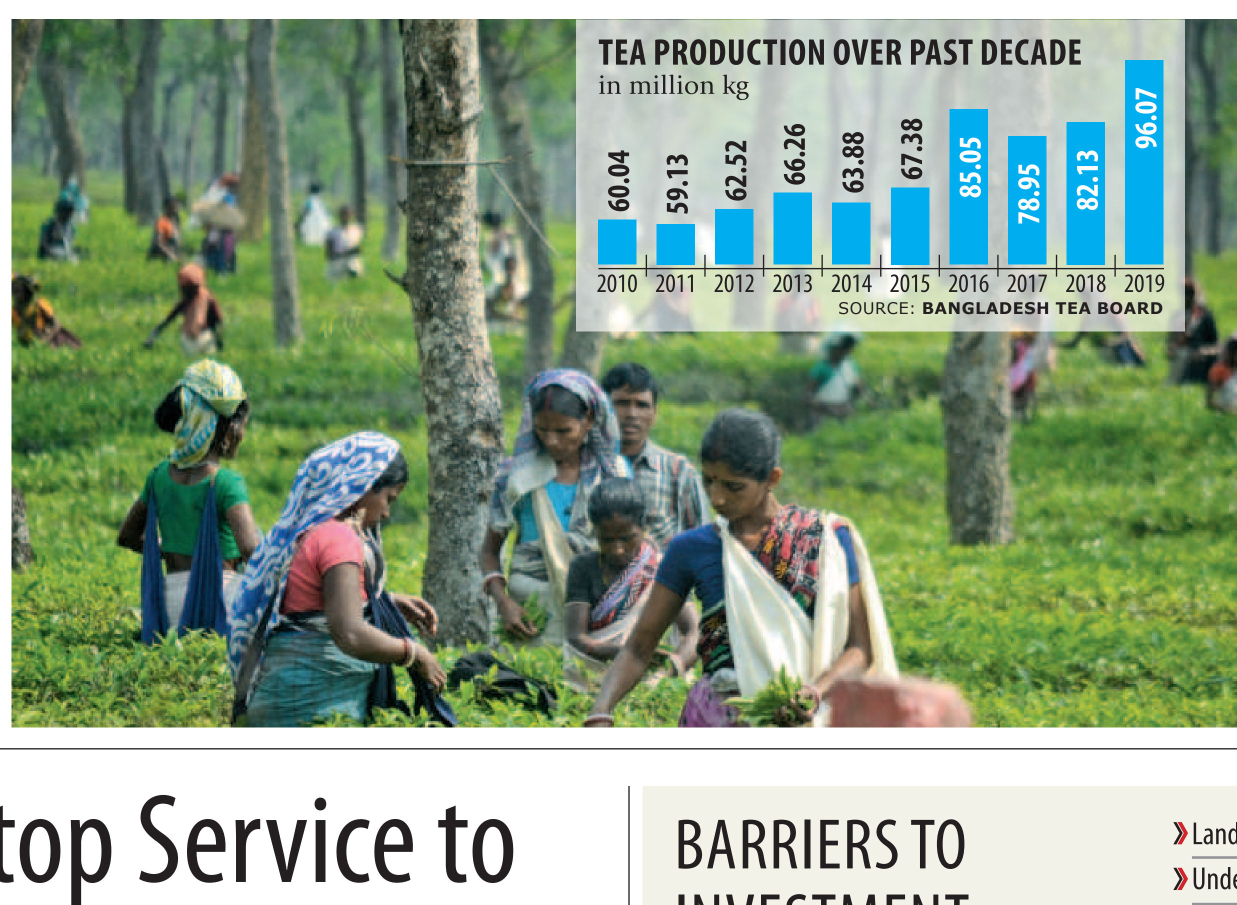
The government took a roadmap in 2016 for the development of the tea sector, setting a target to produce 140 million kg by 2025.

Some steps like expanding tea production area and replantation were taken as per the roadmap. Garden owners went for investment and took up expansion projects on the back of good prices.

For the last one decade, tea growers have been investing a lot to expand production areas in their gardens and replant in old areas replacing years-old plants, said Md Shah Alam, chairman of the Bangladesh Tea Association.

"This has been yielding positive results for the last couple of years," he added.

read more on beTea production on this soil started in Malnichhara tea garden in Sylhet in 1854.



Lankans look for direct investment

Star Business Report

Sri Lankan apparel manufacturers yesterday expressed interest to form a joint venture in Bangladesh's textile and garment industry, in hopes of utilising both countries' strengths to grab a greater share in the market collectively.

The willingness was expressed at a meeting between the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and the Joint Apparel Association Forum (JAAF) of Sri Lanka at the BGMEA office in Dhaka.

The Sri Lankan delegation also demanded that Bangladesh allow full foreign direct investment without discrimination for both domestic and foreign companies.

In addition, they called for equal policy support to encourage investment from Sri Lankan companies for the manufacture of value-added garment items and to collaborate with buyers to innovate products.

According to JAAF Chairman Sharad Amalean, incentives are given only to local companies and that could be sending the wrong message to investors.

"Bangladesh should allow 100 percent FDI here from any one," he said after the meeting, adding that that they faced discrimination as such recently.

The BGMEA and the JAAF also signed a memorandum of understanding (MoU) to promote bilateral businesses and enhance cooperation in the field of production, trade, commerce and research related to the textile and garment industry. Amalean and BGMEA President Rubana Huq inked the MoU.

In response to a query, Huq said that regionally they must come together, terming the inter-regional trade insignificant. She requested the visiting delegation to make joint investments in the country's proposed special economic zones.

BEZA's One-Stop Service to have 4 more services

Jagaran Chakma

With just some clicks on a mouse investors can now get as many as 14 major approvals from the One-Stop Service (OSS) Centre on the Bangladesh Economic Zones Authority's (BEZA) website.

Four more services are on way by this month's end: providing taxpayer's identification number, name clearance of company, registration of company name and occupancy certificate.

Previously, it took pin balling from one desk to another at a dozen government entities at the least.

Starting a business in Bangladesh was an uphill task, painstakingly time consuming and expensive, requiring a maximum of 16 permissions.

ONE-STOP SERVICE STATUS

BANGLADESH ECONOMIC ZONES AUTHORITY

Current available service category	14
Total service by the end of this month	18
Total project clearance by OSS	51
Visa recommendation	317
Work permit	118
Export permit	942
Import permit	5,296

BEZA plans to provide 125 services under 27 categories by June 30 on the OSS portal launched in October last year. This is all part of the government's plan to ensure foreign direct investment of $20 billion in Bangladesh's economic zones by 2030.

Investors say the steps have not only facilitated delivery of necessary services sans bureaucratic red tape but also turned the use of speed money redundant.

Take availing visas for instance. It necessitated connecting embassies and ministries of two countries. That meant a lot of paperwork and forwarding of letters. Now, by informing BEZA beforehand investors can get visas upon arrival.

Getting work permits required physically going through a number of offices, including the former Board of Investment. Now it can directly be availed from BEZA.

Accessing bonded warehouse facility, meaning importing raw materials duty free to make products solely for export, used to take up to one year. Now it takes just around a month.

The service providers are very cooperative and proactive, said Rafiquzzaman, country head of TIC Manufacturing (Bangladesh), an Australia-based hanger manufacturer.

"We are taking services paying only government fees without speed money and service is very swift. Now both time and money are being saved for necessary services like licence renewal, customs clearance and NBR-related activities."

According to him, this style of service is more commonplace abroad.

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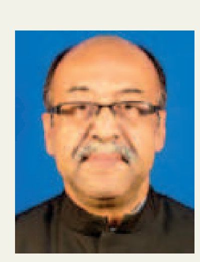
BARRIERS TO INVESTMENT

Industries Minister Nurul Majid Mahmud Humayun yesterday identified 16 obstacles that are standing in the way of attracting local and foreign investment



- Land scarcity
- Underdeveloped infrastructure
- Loan unavailability
- Raw material problems
- Production complications
- Shortage of competent manpower
- Marketing challenges
- Shortage of knowledgeable entrepreneurs
- Open economy market
- Uneven market competition
- Too many clearance certificates
- Tax problems
- Unfavourable policy
- High bank interest rates
- Inadequate gas

Samsung says may invest $500m to set up display factory in India

Reuters, *Seoul/Bangalore*

South Korean flat screen maker Samsung Display plans to set up a factory in India with a $500 million investment as parent Samsung Electronics Co Ltd seeks to expand smartphone production there, a regulatory filing showed.

The move would be a boon for India which is vying with nearby rivals such as Vietnam to attract global smartphone firms under the government's "Make in India" drive.

Under the plan, Samsung Electronics will provide 35 billion rupees ($492.31 million) in loans and transfer a parcel of land in Noida for 920 million rupees to its display unit, Samsung India Electronics Private Ltd said in a filing dated Jan. 3.

Samsung Electronics started making smartphones in Noida on the outskirts of the capital New Delhi in 2018. Last year, it stopped production in China where it had to contend with competition from domestic rivals.

The new display factory will help Samsung Electronics secure local supplies of one of the most expensive smartphone components at a time when the South Korean firm is also struggling to fend off competition from Chinese rivals in India.

Samsung did not disclose further details when contacted by Reuters. Samsung India did not immediately respond to a request for comment.

Samsung, the second-biggest smartphone vendor in India after China's Xiaomi Corp, saw its market share fall to 20 percent in the country in the third quarter, from 25 percent three months earlier, showed data from researcher Counterpoint.