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# Plan ahead to prevent economic instability

## Expand fiscal support to offset inflation from taka's devaluation

IT is disconcerting to note that Bangladesh, like many other countries, is facing a volatile situation in the foreign exchange market. Initially, this volatility was the result of demand recovery after Covid and the ongoing supply chain disruptions. But over the last one month, this instability has increased as a result of Russia's invasion of Ukraine and other factors related to that crisis.

To prevent the taka from fluctuating rapidly, the Bangladesh Bank had injected a record USD 3.78 billion between July 1 and March 23 this fiscal year. But this has hardly resolved the crisis for banks facing a dollar shortage for their transactions. Even though export earnings have risen by 29 percent to USD 27.97 billion year-on-year, it has not been enough to offset the steep increase in import payments—as imports rose by 46 percent year-on-year, to USD 46.67 billion—along with a sharp decline in remittance. As a result, demand for the dollar went up significantly—particularly in comparison to its supply—which even compelled some banks to purchase the greenback from the central bank to settle letters of credit for imports.

In response, the central bank has been generous in providing dollars to commercial banks to prevent a major fall in the value of taka. Yet, the exchange rate now stands at Tk 86.20 per USD compared to Tk 84.80 a year ago, which means the central bank has allowed the taka to depreciate slightly. But, more importantly, our forex reserve declined from USD 48 billion in August last year to USD 44.29 billion on March 23 this year.

Despite these concerns, experts believe that the worst is yet to come, as Bangladesh has still not felt the full brunt of the crisis. And they believe that the taka will eventually have to be depreciated against the dollar. That depreciation will lead to further inflation, and the government has to take certain policy measures to counteract its effects, particularly on low-income people.

Amid the current global turmoil, policymakers will have to remain extra vigilant to ensure macroeconomic stability in the country. And to make sure that our forex reserve doesn't decline further, experts suggest that the government look to stem imports, particularly of non-essential and luxury items. Given that the taka is expected to lose some of its value, leading to increased inflation, the government should plan ahead to provide further fiscal support to the poor population. Additionally, it should consider reducing taxes and VATs, as well as expand its open market sales (OMS) programmes, as recommended by experts.

# Beware of antimicrobial resistance

## Proper policies needed to change how antibiotics are used

IT'S been known for some time that antimicrobial resistance (AMR)—which occurs when bacteria, viruses, fungi and parasites no longer respond to antibiotics and other antimicrobial medicines—has become a global health threat. Now, a report by *The Daily Star* illustrates the level of danger we are in. It shows how not only are drugs becoming increasingly ineffective—due to intake of over-prescribed or self-prescribed medicines—but germs are getting drug-resistant as well. As a result, even common infections are becoming harder to treat, leading to higher medical costs, longer hospital stays, and increased mortality.

One example of this, as explained by a superbug expert at Bangabandhu Sheikh Mujib Medical University (BSMMU) in Dhaka, is the germ that causes typhoid fever. Over the past 20 years, two antibiotic drugs used to treat typhoid have been replaced as they've become ineffective against the water-borne disease. "If ceftriaxone [the antibiotic now in use] loses efficacy, typhoid will break out in the community," he said. Over 85 antibiotics are currently available in our country for treating different diseases. A surveillance study by BSMMU, which examined 1,250 bacteria collected from nearly 9,000 samples and tested around 30 antibiotics against those, found that there was not a single bacterium that wasn't resistant to at least one drug.

This is a shocking development. Experts say that gross misuse and overuse of antimicrobials are responsible for the development of these drug-resistant pathogens, and for some of the critical medicines becoming ineffective. For example, throughout the pandemic, doctors prescribed antibiotics unnecessarily to Covid patients in 83 percent of cases, according to a study by the IEDCR. As per another estimate by the health ministry, 60 percent of patients take medicines without consulting doctors or upon advice from informal providers like quacks and pharmacies.

Clearly, both doctors and patients, as well as policymakers governing various aspects of drug use, are responsible for this situation. The prospect of life-saving drugs no longer working is indeed a frightening one, which should worry us all. One solution to the drug resistance problem can be to bring in new drugs, which is a costly and time-consuming process.

A more sustainable solution is to restrict the use of antibiotics through proper policies. For one, sale of antibiotics without prescription should be prohibited. Also, physicians outside hospitals shouldn't be allowed to prescribe high-end antibiotics. To regulate the use of antibiotics, the health authorities may also create separate lists of antibiotics that registered doctors, consultants and doctors at hospitals can prescribe. We must take actions befitting the gravity of the danger for the sake of public health.

# Smart policies needed to deal with current economic shocks

MACRO MIRROR

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FAHMIDA KHATUN

THE world is facing an unprecedented time as countries desperately try to recover from the fallouts caused by two years of Covid, followed by the newly raised geopolitical tensions due to the Russia-Ukraine war. With the rage of the pandemic weakening, economic activities around the world have started to gain momentum. This has led to higher demand for goods and services. However, as the supply is not yet able to keep pace with increased demand, prices of goods and services continue to rise. The ongoing war between Russia and Ukraine has worsened it further. Bangladesh feels its impact, too.

To deal with such circumstances, appropriate economic policymaking will play a critical role. The national budget, which is an important tool to implement the priorities of the country through certain fiscal measures, can stimulate the economy in a given financial year. The budgetary process is not a mere exercise of target settings for expenditure and resource mobilisation—it is an important medium towards contributing to the government's ongoing development activities. The upcoming national budget for FY2022-23 should prioritise resource allocation for the affected people and sectors, and extend guidance for smooth recovery from the existing economic challenges.

Currently, the economic stress that Bangladesh is going through is being reflected in a few important indicators. Prices have skyrocketed, resulting in distress not only for the poor and low-income people, but also the fixed income groups. Though food inflation is around 5.3 percent at present, the ground reality paints a different picture. Prices of many essential commodities have increased by more than 25 percent. About 30 percent of Bangladesh's economy is integrated with the global economy through exports and imports. Hence, high global prices are passed on to our domestic consumers. But price hikes in our local markets are not entirely fuelled by high import prices—market manipulation by a small group of traders is also a major reason for such hikes at times of crises.

Other concerns include current account deficit and negative trade balance. Since July 2021, our export growth has been robust. But imports grew at a higher rate than exports. During July-February of FY2022, export growth was 30.9 percent while import growth was 46.2 percent. Remittances have seen a sharp decline since May 2021. During July-February of FY2022, remittance growth was negative (-) 19.5 percent. Hence, the current account deficit reached to USD 10 billion during July-January of FY2022, compared to USD 1.5 billion in the entire FY2021. This is also creating a pressure on the foreign exchange reserve, and it is expected to increase in the coming months given high import payments and low remittance inflow. In June 2021, Bangladesh had the forex reserve equivalent to about 10

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months of import payments. This has now come down to 5.5 months due to high international prices and low remittance inflow. High demand for foreign currency has appreciated the US dollar against the Bangladeshi taka. The Bangladesh Bank has intervened in the forex market to keep it stable by pumping dollars into the market. However, the exchange rate of USD in the interbank money market has been increasing since August 2021. There is a demand for devaluation of taka against USD to support exports and remittances.

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The recovery of Bangladesh's economy will depend on how the global economy does in the coming months. The challenges that have emerged are not only immediate in nature, but also have medium- and long-term implications. Advanced economies have been on the recovery path even though they have also been facing pandemic inflation. With the Russian invasion in Ukraine, production and supply disruptions could reduce growth. Therefore, the global economy might experience stagflation, which occurs when there is high inflation but low growth. This is a situation the world economy has not experienced since the 1970s. So, if the growth of large economies stagnates, other countries will also face a similar situation, resulting in unemployment and further inequality.

In Bangladesh, these circumstances call for effective government interventions on many fronts. The purchasing power of people will have to be enhanced by putting money into their hands. It will boost aggregate demand in the economy. Higher government expenditures on productive activities are required so that people have employment with decent income. With expansion of the economy, the demand for higher public expenditure has increased. In recent years, large investments have been made on infrastructures, which have created job opportunities. In the current circumstances, public projects which are going to be completed soon should be prioritised. However, public expenditure must be made judiciously, and wastage of public resources should be curtailed.

The government should also extend higher support to the poor and low-income households through increasing supplies of commodities in the market. Along with adequate public spending in social sectors, the delivery system should be made efficient and corruption-free. Stimulus packages should be continued to the poor and small enterprises.

During the first six months of FY2022, there has been fiscal surplus in the budget due to slow expenditures. The government can use this resource for direct cash transfer to the poor, and provide subsidies to important sectors such as fuel, power, and agriculture for a few months. Of course, there is a need for subsidy rationalisation, and a gradual attempt must be made to withdraw subsidies since it distorts markets and encourages wastage of resources. Most importantly, fuel and energy subsidies are harmful for the environment and contribute to climate change.

In the coming FY2022-23, the government will have to work hard to enhance revenue generation to finance the increased resource requirements. In this regard, revenue targets set out in the national budget will have to be fulfilled through strong monitoring and enforcement mechanisms. Most importantly, the unfinished agenda to reform the tax system needs to be addressed.

# *Sustainability's biggest sell? It's profitable*

RMG NOTES

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MOSTAFIZ UDDIN

SUSTAINABILITY should not be a hard sell. And yet, in our industry, so many garment makers continue to look at it as a financial burden—a potential drain for their businesses. At its heart, however, sustainability is about future-proofing your business. It is also about good housekeeping. Confused? Please, bear with me.

Growing up, many of us were taught the value of taking care of precious resources. Don't leave the lights on; don't waste electricity; separate household waste streams into recyclables; don't throw things away when they can be used again. These thrift techniques are passed down from one generation to another. To use an English phrase, "If you look after the pennies, the pounds will look after themselves."

Most smart business owners take these lessons to their trade. In fact, the most successful business owners will often walk around the factory floors and spot instances of waste, whether it be a leaking tap or a piece of equipment that has been left running unnecessarily. These people might be successful business owners—they could be multimillionaires—but they hate seeing resources being wasted.

The flip side of this is that the owner who loses sight of these small things, their business begins splurging money on unnecessary luxuries. Too much fat and poor use of resources will catch up with any business eventually—especially one where margins are tight, such as garment manufacture.

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I said sustainability is about good housekeeping. To this end, it represents a financial opportunity. How so?

A few examples spring to mind from the ready-made garment (RMG) industry. The first is a recent study that found that RMG factories in Bangladesh have huge potential to harvest rainwater for use in production. The study, conducted by WaterAid and the RAiN Forum, suggests that some factories are already meeting up to 60 percent of their production requirements using harvested rainwater. The report found that many factories have the potential to harvest 10,000 cubic metres of rainwater, while larger factories could harvest anywhere from 10,000 to 30,000 cubic metres every year. Obviously, factory owners have to make an initial investment in water harvesting technology, but after that, the savings soon become apparent (and the investment is relatively small).

But I hear people say: factories don't pay for water, so why does it matter? Actually, I do believe that, one day, our industry will begin to put a large monetary price on water, especially for industrial use. When that day comes, the factories that harvest rainwater will be well placed financially. Until then, owners will be able to sleep well with the knowledge that they know they are doing the right thing for the planet.

Secondly, many businesses in fashion are now looking to partner with factories that are actively working on sustainable operations. Thus, there is a financial return on these kinds of investments in terms of securing and maintaining business relations with international apparel brands.

The second example of sustainability having a financial incentive is in terms of energy and chemical savings in apparel production. As well as using excess water, clothing production often wastes energy and chemicals, which is a prime example of bad housekeeping. Many businesses in our industry waste huge amounts of money each year on excessive use of resources. It's remarkable, isn't it, that at a time when we should all be thinking about how we can save resources, many factory owners are inadvertently wasting them?

It need not be this way. A series of programmes funded by organisations such as the World Bank over the years have shown that huge amounts can be saved in energy, chemicals (and water) by investing in more sustainable and efficient methods of production.

Often, the steps that factory owners need to take are relatively simple and would be regarded as low hanging fruit where sustainability is concerned. Lots of small steps can often have a large net effect. They might include retrofits and the replacement of old production technology with more efficient equipment. To offer some perspective, one study found that energy consumption in Vietnam's textile sector alone could decrease nationwide by 30 percent with technology upgrades and improved efficiency. Thirty percent! Vietnam has a similarly sized textile industry like Bangladesh, so the comparison is relevant.

What are we waiting for, then? Well, there are plenty of things holding our industry back from making these changes. Arguably the biggest is our mindset and attitude. Like I said before, too many owners still see sustainability as a financial burden. Perhaps, sustainability needs to be marketed differently. Perhaps, those selling it need to start with the question: Is your manufacturing operation haemorrhaging money? Is it spending too much on energy or textile chemicals? Is it failing to maximise operational efficiencies and having an excess of waste, harming profit margins?

So many businesses are failing in these areas. They think they have a sustainability problem, but in reality, they have a financial problem.

In the modern world, the two are, in many cases, two sides of the same coin.