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FOUNDER EDITOR: LATE S. M. ALI

Raising energy prices is a bad idea

It will do much more harm than good

WE urge the government to take note of the warning issued by the Federation of Bangladesh Chambers of Commerce and Industries (FBCCI) in regard to hiking energy prices. The FBCCI has rightly pointed out that raising the prices of electricity and gas right now would be suicidal, as it would significantly raise production costs for Bangladeshi businesses, making it impossible for export-oriented businesses in particular to compete with other countries. With the ongoing instability in the exchange rate, and with our forex reserves dwindling, any decrease in exports would be extremely detrimental at this stage—and could lead to further reduction in the country's forex reserves. And, in the long run, this may cause huge damage to our business sector.

Along with increased production costs for businesses, inflation, which is already hitting record highs, will also increase substantially for consumers, lowering their disposable income even more. As low- and middle-income people are already struggling to afford their daily essentials, making sure that inflation does not rise any more should be the government's number one priority right now. The government needs to realise that the inflation that will result from a 58 percent increase in bulk electricity price could lead to complete chaos due to the strain it would put on ordinary people.

Equally importantly, the government has another alternative to raising energy prices. As members of the business community have pointed out—which experts have also suggested—instead of raising the price of electricity and gas, the government should bring radical changes to the energy and power sectors, starting with shunning the quick rental power plants, which are no longer essential to meeting our energy needs and have become a huge burden on the public exchequer. In their place, it should make use of the more efficient ones to generate electricity at lower costs. This might not be a popular decision among powerful interests, but it is essential given the current circumstances. Moreover, the government should look to get rid of illegal connections and reduce unnecessary consumption to address the current energy crisis.

Trying to address the ongoing energy crisis by hiking energy prices will lead to an even bigger one. The business community and experts have made that abundantly clear. Therefore, it is extremely important for the government to look at other alternatives—which are readily available—rather than increasing electricity and gas prices, as it has the potential to further destabilise our economy and cause mass sufferings.

Syndication equals monopoly in migration

Not good for economy, certainly not for labour migration

NO one can take issue with the consensus that emerged from a roundtable discussion held on May 21, organised by Baira Anti-Syndicate Grand Alliance, that syndication in respect of sending workers abroad must be prevented and, further, that good governance in this sector is a *sine qua non* for that to be possible.

The said roundtable was organised against the backdrop of, first, the Malaysian government signing an MOU on labour cooperation with Bangladesh in December last year, lifting a three-year freeze—but regrettably the recruiting process has not started as yet since the two countries have not reached a consensus on the process of sending labour—and, second, a group of 25 recruiting agencies lobbying the government to give them exclusive rights to send workers to Malaysia, over other recruiting agencies.

Needless to say, our migrant workers have suffered at both ends due to lax regulation, poor oversight and a general lack of good governance which, among other things, failed to ensure compliance by all the stakeholders. And it's a pity that despite the sincere efforts of the government and in particular the expatriate welfare ministry, there remain many impediments in the way of ensuring hassle-free, less expensive migration process for our migrant workers.

There should be no syndication, because that would mean monopoly, more scope to resort to corrupt practices and circumvent—even disregard—the legal and institutional requirements since, more likely than not, the cabal would have the blessings and indeed the sponsorship of the powerful quarters. Admittedly, a great deal has been done to reduce the trouble our migrant workers face both at home and in the receiving countries, but much more remains to be done. We have written exhaustively on the state of governance in the migration labour sector, which ranges from institutional weaknesses, lack of adequate legislation, inadequate manpower for oversight, and of course rampant corruption and lack of coordination between various agencies involved in the migration process.

Given the contribution to the country's GDP and the foreign exchange reserves by migrant workers, it is time to seriously cogitate on the ways and means to attenuate the governance lacunae and accentuate the performance of the ministries and agencies concerned. There are several studies made in this regard; the latest one by the Transparency International Bangladesh (TIB) identified as many as 16 types of irregularities and corruption which, if addressed urgently, would go a long way in ameliorating the sufferings of migrant workers and improving governance in the sector.

Stabilise the forex market through concrete measures

MACRO MIRROR

Dr Fahmida Khatun *is executive director at the Centre for Policy Dialogue (CPD). Views expressed in this article are the author's own.*

FAHMIDA KHATUN

EXCHANGE rate management is an important task for the central bank. In Bangladesh, though the central bank follows a floating exchange rate, it manages the foreign exchange market through intervention. Even then, the volatility in the forex market has reached a record level. The supply of dollars to the economy is less than the demand. There have also been panic purchases.

The global economy is experiencing weak growth, high inflation, and supply disruptions in the aftermath of the Covid pandemic as well as in the wake of the Russia-Ukraine war. The inflationary pressure is felt in Bangladesh, too, primarily due to high import costs. During the first nine months (July-March) of the 2021-22 fiscal year, import payment increased by 44 percent, while export income increased by 33 percent. This implies that the trade deficit has gone up to USD 24.9 billion. On the other hand, remittance has fallen by 18 percent during the same period. As a result, the current account deficit has increased to about USD 14 billion during the above-mentioned period.

The demand for foreign currency has also increased on account of travelling as borders have reopened. More students have started to go abroad for higher studies, which had declined due to the pandemic. Even though their tuition fees are paid through formal channels, the out-of-pocket expenditures are managed through purchases from the kerb market beyond official travel quotas. For medical treatment, people buy the US dollar through informal channels as expenses cannot be met through credit cards because of transaction limits. Due to procedural delays, many do not want to go through the formal channel of applying to Bangladesh Bank. In addition, foreign currency demand is high during Hajj. There is also pressure on foreign currency because a large part of ill-gotten money is transacted via foreign currency these days.

The pressure on foreign exchange has not only led to the devaluation of the taka against the dollar, but also to at least three exchange rates, making the situation complex. In the informal market, USD 1 is traded at around Tk 100. On the other hand, the interbank rate has been Tk 94-96 per dollar, while banks are selling USD 1 at Tk 96-98. But the Bangladesh Bank sells USD 1 at Tk 87.50. In order to avoid the pressure to transact at the dictated spot rate, banks were seen transacting in the short-tenured forward rate. As a result, business is being performed at a higher cost.

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During FY2021-22, the Bangladesh Bank injected about USD 5 billion into the forex market to keep the exchange rate stable. This may have helped the government to import fuel and other essential commodities at lower prices, but this could not stabilise the exchange rate. Indeed, the taka has been devalued against the dollar by only 3.38 percent during the first nine months of FY22.

ILLUSTRATION: BIPLOB CHAKROBORTY

Several countries including China, India, Pakistan, Sri Lanka, the Philippines, Turkey, and the UK have devalued their local currencies by 5-50 percent.

As a trading nation, Bangladesh tries to maintain an exchange rate that helps both exporters and importers. The current crisis requires immediate government intervention to improve foreign currency supply into the market. Here are eight concrete recommendations to overcome the current forex challenges.

1) A separate fund should be set up for government imports such as fuel. This should be given to banks only for settling government imports; banks will not keep any profit margin for these payments. This will reduce pressure on the private sector demand for the dollar for the import of other essentials.

2) The Export Retention Quota (ERQ) should be reduced to 5-10 percent of repatriated proceeds for the exporters for the next six months. They need to encash everything other than back-to-back import payments for the next six months.

3) The current Net Open Position (NOP) of banks should be reduced by 50 percent immediately to inject forex flow into the market. Seventy-five percent of the existing NOP should be immediately sold off to the interbank market to facilitate supply to different banks.

4) The Bangladesh Bank should inject another USD 1-2 billion from the reserves to stabilise the market and reduce panic-buying in order to bring down the exchange rate. It may be mentioned that to support the rupee against the dollar, the Reserve Bank of India sold USD 20.1 billion in the spot forex market in March 2022.

5) The taka should be devalued to be closer to the interbank rate and be realistic to the market rate to align with the current situation. This should cool the market down and restore stability.

6) The forex reserves should be used judiciously. Import of luxury items should be restricted till the situation improves.

7) Effective measures involving all stakeholders are needed to improve the remittance flow. Remittances are not coming through the banking channel even after the incentives given to the remitters. Hundi is more lucrative to remitters as it offers higher rates compared to the formal banking channel.

8) Bangladesh should gradually establish links with the future commodities market to ensure a long-term supply contract with a few global suppliers. Of course, Bangladesh must increase its trading capacity to operate in the international commodities market.

The current exchange rate volatility is neither useful for business, nor individuals. The forex market is the major determinant of inflation. Therefore, a stable exchange rate is important for price stability. This, in turn, will help maintain a stable macroeconomy. The government should be proactive as well, because the inflationary pressure has hit the poor and low-income groups hard in the current circumstances.

Reclaiming our future

Armida Salsiah Alisjahbana *is the United Nations under-secretary-general and executive secretary of the Economic and Social Commission for Asia and the Pacific (ESCAP).*

ARMIDA SALSIAH ALISJAHBANA

THE Asia Pacific region is at a crossroads today—to further breakdown or breakthrough to a greener, better, safer future.

Since the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) was established in 1947, the region has made extraordinary progress, emerging as a pacesetter of global economic growth that has lifted millions out of poverty.

Yet, as ESCAP celebrates its 75th anniversary this year, we find ourselves facing our biggest shared test on the back of cascading and overlapping impacts from the Covid-19 pandemic, raging conflicts, and the climate crisis.

Few have escaped the effects of the pandemic, with 85 million people pushed back into extreme poverty, millions more losing their jobs or livelihoods, and a generation of children and young people missing precious time for education and training.

As the pandemic surges and ebbs across countries, the world continues to face the grim implications of failing to keep the temperature rise below 1.5°C—and of continuing to degrade the natural environment. Throughout 2021 and 2022, countries across Asia and the Pacific were again battered by a relentless sequence of natural disasters, with climate change increasing their frequency and intensity.

More recently, the rapidly evolving crisis in Ukraine will have wide-ranging socioeconomic impacts, with higher prices for fuel and food, increasing food insecurity and hunger across the region.

Rapid economic growth in Asia and the Pacific has come at a heavy price, and the convergence of these three crises have exposed the fault lines in a very short time. Unfortunately, those hardest hit are those with the fewest resources to endure the hardship. This disproportionate pressure on the poor and most vulnerable is deepening and widening inequalities in both income and opportunities.

The situation is critical. Many communities are close to tipping points beyond which it will be impossible to recover. But it is not too late.

The region is dynamic and adaptable.

In this richer yet riskier world, we need more crisis-prepared policies to protect our most vulnerable populations and shift the Asia Pacific region back on course to achieve the Sustainable Development Goals (SDGs) as the target year of 2030 comes closer—our analysis shows that we are already 35 years behind and will only attain the goals in 2065.

To do so, we must protect people and the planet, exploit digital opportunities, trade and invest together, raise financial resources, and manage our debt.

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The first task for governments must be to defend the most vulnerable groups—by strengthening health and universal social protection systems. At the same time, governments, civil society and the private sector should be acting to conserve our precious planet and mitigate and adapt to climate change while defending people from the devastation of natural disasters.

For many measures, governments can exploit technological innovations. Human activities are steadily becoming "digital by default." To turn the digital divide into a digital dividend, governments should encourage more robust and extensive digital infrastructure and improve access, along with the necessary education and training to enhance knowledge-intensive internet use.

Much of the investment for services will rely on sustainable economic growth, fuelled by equitable international trade and foreign direct investment (FDI).

The region is now the largest source and recipient of global FDI flows, which is especially important in a pandemic recovery environment of fiscal tightness.

While trade links have evolved into a complex noodle bowl of bilateral and regional agreements, there is ample scope to further lower trade and investment transaction costs through simplified procedures, digitalisation and climate-smart strategies. Such changes are proving to be profitable business strategies. For example, full digital facilitation could cut average trade costs by more than 13 percent.

Governments can create sufficient fiscal space to allow for greater investment in sustainable development. Additional financial resources can be raised through progressive tax reforms, innovative financing instruments and more effective debt management. Instruments such as green bonds or sustainability bonds, and arranging debt swaps for development, could have the highest impacts on inclusivity and sustainability.

Significant efforts need to be made to anticipate what lies ahead. In everything we do, we must listen to and work with both young and old, fostering intergenerational solidarity. And women must be at the centre of crisis-prepared policy action.

This week, the commission is expected to agree on a common agenda for sustainable development in Asia and the Pacific, pinning the aspirations of the region on moving forward together by learning from and working with each other.

In the past seven-and-a-half decades, ESCAP has been a vital source of know-how and support for the governments and peoples of Asia and the Pacific. We remain ready to serve in the implementation of this common agenda.

To quote United Nations Secretary-General Antonio Guterres, "the choices we make, or fail to make today, will shape our future. We will not have this chance again."