The Daily Star

FOUNDER EDITOR: LATE S. M. ALI

A perfect economic storm is upon us

Poor governance cannot get us safely out of this crisis

WE are deeply concerned with the state of the middle- and lower-income people of the country, who are having to delve deeper and deeper into their savings, as their daily financial struggles continue to pile up without any end in sight. The majority of these people were hit extremely hard, first, by the Covid-19 pandemic, and then, by the consequences of the Russia-Ukraine war – not to mention the endless government corruption and wastage that have continually eaten away at their hard-earned incomes and benefits.

Reportedly, as commodity prices spiralled out of control and remain astronomically high, people with fixed incomes in particular have resorted to breaking their savings certificates and selling off the shares they owned, at a loss, just to make ends meet. Inflation in Bangladesh, even according to the government's own statistic – which many have argued is lower than the actual figure – now stands at a nine year high of 7.56 percent. At the same time, people's savings are decreasing. In the 2019-20 fiscal year, the national savings rate stood at 27.08 percent. In the last fiscal year, that came down to 21.56 percent. As the national savings rate is an indicator of a nation's economic health, the current trend clearly indicates that our economic health is getting worse and worse.

The lack of job creation and income generating opportunities are additional concerns – which were there even before the pandemic – that are only piling on more misery on people. And at a time when prices are showing no signs of coming down, in the absence of new (or enough) income, people are being forced to spend out of their savings faster. But what will happen when the middle and lower-income people end up spending all their savings? Many have already cut down their consumptions, in some cases, to the bare minimum. Therefore, cutting down on their consumptions further may not even be an option for many.

Since the government lowered interest rates during the pandemic, and is yet to adjust them according to the new economic reality, people with fixed income are being hit doubly hard – as the value of their bank deposits continue to go down due to high inflation compared to low interest earnings. The declining trend in deposit growth across banks confirms this.

The government needs to recognise that ordinary people are feeling a much greater brunt of the crisis than government officials have so far admitted to. And this only adds further insult to their sufferings. Thus, it should immediately look to bring prices under control, through better market monitoring and more efficient supply chain management. Additionally, it should consider adjusting the inflation rate in accordance with the new reality we are in, temporarily withdraw taxes on savings instruments and, most importantly, look to cut down on the enormous amount of corruption and wastage that have become the hallmarks of our governance system.

Illegal toll collection from vehicles must stop

DSCC must take action against the authorised company for harassing vehicle drivers

WE are dumbfounded by the way an organised gang has been extorting truck and other vehicle drivers at various points of the roads in areas under the Dhaka South City Corporation (DSCC) in the name of city toll collection. Surprisingly, the gang members are none other than the employees of a company authorised by the DSCC for city toll collection. According to a report by the daily *Prothom Alo*, the DSCC has given lease to the company to collect tolls from at least 57 points in five areas: Sayedabad, Gulistan-Jaykali Mandir, Fulbaria, Dayaganj, and Dholaikhal truck terminal. But what the employees of the company are doing is collecting tolls from outside the designated spots. While they are supposed to collect tolls from buses and minibuses from some particular points, they are collecting tolls from trucks and other cargo vehicles and charging them as they want. And if the drivers don't comply, they are even beating them up with rods and sticks.

Reportedly, these illegal activities have been going on for a long time without the city authorities taking any steps to contain the situation. Police and Rab have only arrested some of the petty extortionists and filed a few cases. That's all. Last year, this daily published a similar report on how two companies, authorised by the DSCC, were collecting tolls from commercial vehicles in the name of non-existent terminals. It has been also found that the entire toll collection system was running without following due procedure, but no corrective measures have been taken over the years.

Reportedly, the LGRD ministry issued a letter to all concerned in 2015 regarding toll collection. The question is, have the ministry's guidelines been followed by the DSCC authorities? From the way the company designated by the DSCC is operating its activities, it is clear that it doesn't care for any rules and regulations. Such toll collection is nothing but "institutionalised extortion" and must stop once and for all, because it is the DSCC authorities that are losing the revenue; reportedly, the DSCC has earned only Tk 13 crore from toll collection in one year.

What the DSCC authorities should do now is issue a show-cause notice to the company for violating the rules and regulations for toll collection. They must investigate and find out the real extortionists and take legal action against them. Only arresting some field-level employees will not help. Also, in order to streamline the toll collection system, they must formulate some specific guidelines for the lease-holding companies and also monitor that the lessees abide by the rules. The toll collectors must follow some basic rules, such as wearing their designated clothes and showing their ID cards before toll collection.

It is the DSCC's responsibility to stop such extortion – and seriously explore the culpability and corruption of its own officials in the whole process.

The anatomy of our macroeconomic challenges

Dr Selim Raihan
is a professor at the Department of Economics of the University of Dhaka, and executive director at the South Asian Network on Economic Modeling (Sanem).

SELIM RAIHAN

UNTIL the onset of the current macroeconomic challenges, the story of macroeconomic stability in Bangladesh over the past one and a half decades included sustained and rising economic growth, low volatility of economic growth, keeping the budget deficit at around five percent of GDP, favourable current account balance, a declining share of foreign aid in the gross national income (GNI), low level of external debt as a percentage of GNI, overall robust growth of exports and remittances, growing foreign exchange reserves, manageable inflationary pressure, a stable exchange rate, a high level of installed capacity of electricity, and reasonably stable private investment regime. The list is long. Not many developing countries have enjoyed such macroeconomic stability for a long time in recent years. Even when the Covid pandemic affected the economy, poverty, and labour market in Bangladesh, the macroeconomic stability was not affected much. The government was able to run a large stimulus package.

However, there is the other side of the coin, too. Despite the macroeconomic success, Bangladesh faces several long-standing challenges, which include a very low tax-GDP ratio, a high degree of non-performing loans and weak governance in the banking sector, very low level of foreign direct investment (FDI), misalignment of exchange rate hurting export promotion and export diversification, high cost of doing business, lack of export diversification, sluggish employment growth, slow progress in private sector investment, a large amount of illicit outward money transfer, high amount of subsidies in the annual budget, and inefficiency in budget implementation.

The ongoing global economic crisis is a result of shocks from both the demand and supply sides, but supply-side disruption is the dominant one. Bangladesh, like most developing countries, has been struck hard by this slowdown and the war in Ukraine, which is driving up the prices of food and fertiliser and exacerbating food insecurity and poverty. The pressure of the current price hike is beyond the endurance level of the low-income people in the country. We are also facing an escalated current account deficit, slow growth in remittances, stress on the US dollar exchange rate, and strain on the forex reserves to support a sufficient and comfortable number of months of imports. Bangladesh's economy depends significantly on foreign trade. More significantly, its exports, including ready-made garment (RMG) products, shrimps, leather, etc are heavily dependent on Western consumer demand. Therefore, a global recession is likely to have detrimental effects on Bangladesh's export potential.

There have been three types of responses so far from the government to counter the current challenges: several attempts to contain imports, some devaluation of the currency, and several austerity measures. The government has also started the process of securing a loan from the International Monetary Fund (IMF) in the range of USD 4.5 billion, and some loans from the Asian Development Bank (ADB) and World Bank. There may be some conditions attached to the loans, especially from the IMF, which are likely to include undertaking reform in some critical areas, especially in the banking and taxation sectors. In the past, we have seen major disagreements among stakeholders in Bangladesh regarding adhering to the IMF conditionalities. But this time, we are seeing a kind of growing consensus on the necessity of such conditionalities that might seek reforms.

The government's responses to the crisis have largely been firefighting measures. But the ongoing macroeconomic challenges require undertaking some critical reforms – more than the firefighting measures – to address some inherent structural weaknesses in our economy. The banking sector's weak governance needs to be looked at quite seriously. At the same time, the existing interest rate cap – nine percent on lending and six percent on deposits – needs to be lifted.

The current situation underscores the need for a much bigger fiscal space that the country is seriously lacking. Bangladesh's tax effort has been inadequate and keeps falling short of its potential. Bangladesh has one of the lowest tax-to-GDP ratios in the world – at less than nine percent. The necessity for a prudent fiscal framework has become much more obvious than in the past. It is expected that the government will demonstrate strong political will in putting into effect long-overdue crucial reforms in the taxation sector.

There has been a devaluation of the local currency, we will probably see more of that in the coming days. This is likely to provide some strong incentives for export promotion and diversification. But currency devaluation may not have an auto-trigger for export response and export diversification unless some of the very inherent policy-induced and supply-side issues are taken care of. Many non-RMG export sectors, especially leather, light engineering and agro-processing, suffer from various policy-induced and supply-side bottlenecks in the form of high tariff and tax rates, weak infrastructure, and a lack of access to financing.

As a result of the war and its effects on fuel prices, Bangladesh may get the much-needed impetus it needs to reduce its dependency on fuel imports and switch to a green, resilient, and inclusive growth trajectory. We should gradually reduce ineffective fuel subsidies that typically favour wealthier households and drain the public coffers.

In terms of debt management, currently, Bangladesh is not under pressure like Sri Lanka. Public debt remains sustainable. However, the country needs to be on alert, because many of the country's large-scale projects are financed by foreign debt, and the amount of annual debt servicing is going to escalate quite significantly in a few years from now. Avoiding unnecessary megaprojects and proper feasibility studies of the development projects are crucial. The projects that are already underway could become burdensome if their completion are delayed and the expenses eventually become exorbitantly high. All these could eventually put unwanted strain on the debt burden.

Bangladesh hasn't been successful in attracting large-scale FDI, whereas FDI could be a major source of foreign exchange. The Padma Bridge has opened up a huge opportunity both for domestic and foreign investments. But we need Padma Plus; that means it's not only the Padma Bridge but several other investment-friendly measures that need to be put in place to make the best out of this bridge. To attract FDI, making some special economic zones operational at the quickest possible time is warranted.

VISUAL: STAR

While the government has a priority to focus more on macroeconomic stability and economic recovery, it is equally important to address the issues of poverty, vulnerability, and rising inequality. Over the last two decades, the successive governments continued spending very low on education, health, and social protection. The repeated failures to increase the shockingly low tax-to-GDP ratio are the main cause behind low social spending. However, there are also concerns that the policymakers have not yet set in place the proper priorities when it comes to making significant investments in social protection, healthcare, and education.

All the structural measures are meant to make the underlying economic fundamentals of the country stronger to counter the short-term turbulence and achieve the long-term goals. Bangladesh has been enjoying macroeconomic stability for a long time, which created a reasonably resilient long-term path for its economy. But policymakers need to be very careful about these very strong short-term shocks. Unless the necessary structural reforms are undertaken, these short-term shocks can destabilise the long-term path quite significantly.

Climate change is a matter of human rights, too

POLITICS OF CLIMATE CHANGE

Dr Saleemul Huq
is director of the International Centre for Climate Change and Development (ICCCAD) at Independent University, Bangladesh (IUB).

SALEEMUL HUQ

THE concept of human-induced climate change originated from the scientific community based on the periodic assessment reports from the Intergovernmental Panel on Climate Change (IPCC), which was then picked up by policymakers at global levels. The United Nations Framework Convention on Climate Change (UNFCCC) was set up as a global treaty under which countries pledged to tackle climate change, initially by reducing emissions of greenhouse gases (GHGs) and then by adapting to the inevitable and unavoidable adverse impacts that were predicted to occur over time.

Thus, dealing with climate change was mainly seen to involve switching from using fossil fuels to renewable energy globally over time, while also preparing each country to be more resilient to withstand the inevitable impacts.

However, after the publication of the 6th Assessment Report of the IPCC, it has become abundantly clear that the impacts of human-induced climate change are already upon us and will only get worse in the short and even medium terms. But the worst impacts in the long term may still be avoidable – if every country in the world takes stronger mitigation and adaptation actions.

The world has already entered the era of loss and damage from human-induced climate change, and the adverse impacts are visible everywhere: from the recent floods in northeast Bangladesh to the heat waves in Europe and China. However, one of the new dimensions of this new era is that it is not equally distributed around the world. In fact, the worst impacts are felt by the poorest countries, as well as the poorest people even in the rich countries – as depicted by the recent floods in Kentucky, US. Meanwhile, these impacts are being exacerbated by GHG emissions by mostly rich countries.

Hence, there is now an element of causality introduced into the issue, where poor people who did not cause the problem are the worst victims of it. This is a violation of their human rights. This has opened up a new dimension of linking human rights to climate change, which is now beginning to play out in different platforms other than the UNFCCC.

One such arena is the courts where cases are being brought forward under national laws in countries such as the US, the Netherlands, Germany and Australia, where citizens of these countries are holding their own governments to account for failing to take actions to reduce their GHG emissions. Recently, the Pacific Island countries, led by Vanuatu, took a resolution to the UN General Assembly to request an advisory ruling from the International Court of Justice (ICJ), which will be voted upon in the upcoming General Assembly session later this year. Bangladesh along with all the member-states of the Climate Vulnerable Forum (CVF) is expected to support the resolution.

At the same time, during Bangladesh's tenure as the CVF chair, which concluded recently, we successfully lobbied for the creation of the post of a human rights rapporteur for Climate Change under the UN Human Rights Council based in Geneva, Switzerland. This was a very successful effort at diplomacy by the Permanent Mission of Bangladesh in Geneva: The Human Rights Council recently appointed Ambassador Ian Fry of Tuvalu as the new rapporteur for climate change and human rights. Ambassador Fry was the climate envoy of Tuvalu for many years and was a lead negotiator on loss and damage in the UNFCCC.

After his recent appointment, the rapporteur has decided to visit Bangladesh as part of his plan to visit the frontline countries suffering losses and damages from climate change.

Most recently, the UN also passed a resolution making it a human right for everyone on Planet Earth to have a healthy environment. The environmental advocates had been lobbying for this for many years and finally succeeded.

In less than a hundred days, countries will come together at the 27th UN Climate Change Conference – 27th Conference of Parties (COP27) – in Egypt, where the issue of finance for the victims of climate change will be high on the agenda.

As the world is now living through the era of loss and damage where climate change and human rights are interlinked, we need to find ways to tackle both issues together to ensure climate justice.

The Daily Star
Reg. No. DA 781

thedailystar.net
bangla.thedailystar.net/

EDITOR & PUBLISHER: Mahfuz Anam
Printed by him on behalf of Mediaworld Ltd at Transcraft Ltd, 229, Tejgaon Industrial Area, editor@thedailystar.net

Registered & Head Offices: The Daily Star Centre
64-65 Kazi Nazrul Islam Avenue, Dhaka-1215
Phone: 09610222222

Newsroom: Fax- 58156306
reporting@thedailystar.net

Advertisement: 01711623910
advertisement@thedailystar.net
GPO Box: 3257

Subscription:
01711623906