

What Bangladesh needs to consider before devaluing the taka further



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AN OPEN DIALOGUE

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One of the hottest global news items right now is the effect of the dollar's strength on local currencies and on everyday life. Bangladesh loosened its grip on its currency and allowed the taka to weaken to a record low to preserve dwindling dollars. Like many other countries in the developing world, Bangladesh is dependent on imports, and the high cost of the US dollar is creating a drain on dollar reserves and pushing up the price of essential goods. There is hardly a single item in the country that has not been affected.

The

US dollar, one of four reserve currencies in the global financial system, is now at its highest in 20 years. The strong dollar and high interest rates in the US, UK, and other countries are "wreaking havoc" around the world, exporting inflation, forcing developing countries to raise their own interest rates, and leading to capital outflows. Bangladesh, like others, may soon face difficulties in the sphere of debt repayment.

Although Bangladesh Bank (BB) puts the official dollar rate at Tk 95, it reached its highest peak in history in the kerb or open market when it hit Tk 119.9 on August 10, and the dollar rate difference between the Bangladeshi interbank channel and kerb market became Tk 25. The trade deficit widened to USD 27.2 billion in the July 2021-May 2022 period as imports surged to nearly USD 59 billion, while exports rose at a slower pace to USD 31.5 billion.

The government and monetary authorities now face a dilemma. How much should they adjust the taka to dollar exchange rate, and how fast? The decision has been up in the air for quite a while, and economists, business groups, and other stakeholders have joined the chorus, sometimes offering divergent views on the matter.

The negative effect of any devaluation is felt immediately by importers, who now have to recover higher costs of the items they sell by raising prices or taking a cut on their profits. If you are in a competitive market, where imported goods vie with domestic products (as is the case of many electronic goods), the higher cost of imported goods results in reduced demand for the imported item and boosts the sale of local substitutes. The moral of this story is, devaluation helps domestic industries and facilitates "import substitution," providing a boost for exporters.

Local reactions to fast and steep devaluation are expected to be mixed. "Devaluation of taka should be gradual" was the call made by Mostafa Kamal of Meghna Group of Industries. He and some other businesspeople have cautioned the government against drastic action, arguing currency depreciation might "have a huge impact on every sphere of the economy and life."

His view was echoed by many others I spoke to. One businessman, who sells Microsoft products, reported that the price of an MS Windows license has already jumped since March 2022 by Tk 3,000-4,000. The members of the FBCCI are openly voicing their concerns regarding the increase in the interbank price of the dollar from Tk 84 to Tk 108.

Domestically, inflation has caught families with fixed budgets completely off guard. Even utilities are becoming costlier. After the

gas price hike, a proposal to raise electricity tariffs by 66 percent has been submitted. The Bangladesh Energy Regulatory Commission has suggested a 58 percent raise for per unit power.

Former BB governor Dr Salehuddin Ahmed, on the other hand, joined many economists in calling for quick action on adjusting the value of the taka against the dollar to reflect market realities. "It is time to think about inflation, our competitiveness and exchange rate," he said recently. "The wait-and-see policy will not bring any good. Crises snowballed in Sri Lanka over the last four to five years as the country did not act properly to set things right. I wish Bangladesh will not walk the same path."

Nonetheless, a careful assessment shows that devaluation will hurt the average consumers sharply and will only add marginally to our export earnings. One RMG exporter who was in the US recently told me that the recent down-swing in exports is transitional and will pick up once the war in Ukraine reaches a steady state and US importers take stock of market conditions, particularly the inventory on hand.

Bangladesh is dependent on imports; during the first eight months of 2022, it imported goods worth USD 50.2 billion. Of this amount, essential commodities account for 72 percent: USD 5.67 billion for food commodities, 4.41 billion for intermediate goods, 19.28 billion for industrial raw materials and 4.46 billion for petroleum products.

Going forward, Bangladesh Bank can consider a policy regime where exchange rate interventions will not be needed on a regular basis. The Nobel Prize-winning economist Paul Krugman had proposed a system where a currency can float a little above and a little below a target rate within a narrow band. This system, also known as "broad target zones," and followed by China among others, would require market intervention only if the market rate drifts far away from the "fix," an exchange rate set by Bangladesh Bank.

The taka has been devalued against the dollar in seven steps this year. This measure adds to the cost of business. The Bangladesh Bank has resisted mounting pressures on the taka for a while, but it is increasingly running out of options. The exchange rate of the dollar against the Bangladeshi taka was Tk 84.9 on January 1, 2020. On August 15, 2022, the rate went up and is currently Tk 95, with a decline of the value of the taka by 12 percent. While this is a significant decrease, the currency has held up better than many others. Currencies of the world's top economies, as well as those of our neighbouring countries, have lost their value against the US dollar. India has spent more than 10 percent of its reserves on interventions in the foreign exchange market, which are down USD 27 billion.

There is a silver lining in this bleak scenario. The BB has taken several steps to stem demand for foreign exchange and curb inflation – by raising the repo rate, raising the deposit margin on letters of credit of imports of non-essential items, and restrictions on imports of luxury items. The government has decided to go slow on major projects to manage the import bill of construction materials and hardware.

Despite Mohib's killing drawing international condemnation, little has been done to improve the security of

Rohingya human rights defenders in the refugee camps, where more than one million Rohingya struggle to survive,

unable to safely return to their indigenous homeland in Myanmar.

Mohib regularly spoke of security risks from different actors in Bangladesh. He understood well the political dynamics in the refugee camps and that his peaceful advocacy was perceived as a threat to ARSA's authority and control in the camps.

He texted me a month before his assassination. "It is [a] bad night for me in the camps. When will you come to Bangladesh?" In a separate text he said, "I am fine, but still in fear of ARSA."

The Rohingya face ongoing genocide in Myanmar, where the military and previous governments persecuted them for decades. In 2017, Myanmar military soldiers went on a campaign to destroy the Rohingya people forcibly deporting more than 700,000 to Bangladesh. Since that time, the security situation in the camps has deteriorated with Rohingya human rights defenders being killed, abducted, tortured, and threatened by an array of non-state actors.

Mohib founded the organisation the Arakan Rohingya Society for Peace and Human Rights to promote the rights of Rohingya refugees in Bangladesh, Myanmar, and globally. Because of this work, he knew he was a target and that he needed protection. And he took steps to seek protection.

Before his death, Mohib Ullah wrote to authorities in Bangladesh and officials at the UN High Commissioner for Refugees (UNHCR) – the agency mandated to protect refugees – requesting protection. His messages went unanswered.

Mohib Ullah recruited Rohingya volunteers to serve as unarmed security guards for him and put in place other measures, including at times sleeping outside the refugee camps when he believed he was in danger.

Tragically, Mohib's efforts to ensure his own security were in vain.

I remember Mohib Ullah on my frequent visits to the refugee camps in Cox's Bazar district as a man who smiled easily – a man who was extremely hospitable and humble. Our conversations over tea and instant coffee would meander between the need for international accountability for the Rohingya, refugee rights, and the more mundane pleasures of daily life.

Mohib understood the broader political dynamics related to the refugee crisis that he was a living part of. He was not only a leader in the camps, but a global figure who called for justice for the Rohingya before audiences at the White House and the UN Human Rights Council.

Not long after the assassination, Bangladeshi authorities opened an investigation into Mohib Ullah's killing, resulting in the identification of more than 25 suspects. The suspects included ARSA members, and in March 2022, the Bangladesh government publicly



A portrait of Rohingya leader Mohib Ullah, from April 2018.

PHOTO: REUTERS

Mohib Ullah's killers remain at large

Others like him need protection just as much as he did



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Just over one year ago, gunmen stormed the offices of prominent Rohingya-led human rights organisation in Kutupalong refugee camp in Cox's Bazar district, Bangladesh, to fatally shoot its chairperson Mohib Ullah. This targeted assassination, carried out by men believed to be affiliated with the Arakan Rohingya Salvation Army (ARSA), a Rohingya militant group, robbed the community and the world of a brave, inspiring, and outspoken human rights defender.

However, the security situation in the camps a year after his death remains dire. My colleagues and I at Fortify Rights have spoken to dozens of Rohingya human rights defenders and religious leaders during the past year who have been forced into hiding due to continuing threats from non-state actors, including ARSA.

"If there is no justice for Mohib Ullah, then people are at risk," a Rohingya activist told me from a hiding place.

More must be done to protect Rohingya human rights defenders in Bangladesh. Granting refugees the right to freedom of movement in Bangladesh would go a long way to ensure some protections for human rights defenders, in addition to allowing Rohingya refugees access to formal education and livelihood opportunities.

The Bangladesh authorities and UNHCR should also expand the network of safe houses available for at-risk refugee human rights defenders and their families.

The Rohingya want to go back to Myanmar but repatriation for Rohingya refugees is impossible given the recent military coup in Myanmar and ongoing persecution and violence in Rakhine state. And until effective measures are implemented to ensure refugee protections, the Bangladesh government

should support third country resettlement of Rohingya human rights defenders facing threats to their lives in Bangladesh.

In an encouraging move in August 2022, Bangladesh Home Minister Asaduzzaman Khan signaled Dhaka's commitment to opening more resettlement pathways after US Secretary of State Anthony Blinken committed days prior to work to "significantly increase resettlement of Rohingya refugees from the region, including from Bangladesh, so that they can rebuild their lives in the United States."

Dhaka should now follow through on its commitment and facilitate unfettered resettlement options, not only for Rohingya human rights defenders but all Rohingya refugees.

Increased commitment and support from Bangladesh, donor governments, and UNHCR is needed now more than ever. The risk is too great. Mohib's death was an incalculable loss for the Rohingya community, which continues to reverberate today. Authorities in Bangladesh and elsewhere must act now to ensure that those responsible are brought to justice and that other Rohingya human rights defenders are protected from the same kind of threats that Mohib tried and failed to escape.

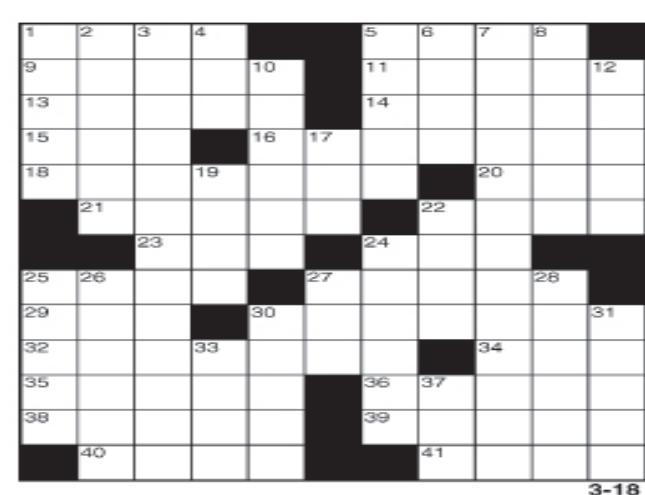


VISUAL: KAZI TAHSIN AGAZ APURBO

CROSSWORD BY THOMAS JOSEPH

ACROSS

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- 9 Field measures
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- 13 Saw things?
- 14 Letter before iota
- 15 Imitating
- 16 Floor sight
- 18 Spot to jot
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- 21 Pitched
- 22 Rating unit
- 23 Auditor's org.
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- 25 Soup buys
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- 2 Spotted cat
- 3 Chance to recover
- 4 Match part
- 5 Very unpopular
- 6 Workplace
- 7 Surgeon's spot
- 8 Singer Clark
- 10 Forms
- 12 Wild party
- 17 Unrefined
- 19 Goes astray
- 22 Tattoo site
- 24 Spa rooms
- 25 Presentation aid
- 26 Dawn goddess
- 27 Visibility lessener
- 28 Shred
- 30 Speech problems
- 31 Car's scars
- 33 Resting on
- 37 Letter before psi



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