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Why the US dollar is an optimal reserve currency for Bangladesh



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MIZANUR RAHMAN

Bangladesh received an infamous and inappropriate coverage in the global press that the country was planning to use Indian rupee or Chinese renminbi for international payment settlements. In other words, the argument was that the Bangladesh Bank, the country's central bank, would be diversifying its foreign exchange reserves away from the US dollar to include more renminbi and rupee instead. It is infamous and inappropriate because the country's forex reserves continue to consist mostly of the US dollar-denominated assets.

Bangladesh has experienced persistent and increasing bilateral trade imbalances against both China and India over the past decade, particularly since July 1, 2021. Note that most of the country's bilateral trades with China and India are invoiced in US dollars, and so the resultant international payment obligations are settled in US dollars. The idea of settling accrued payment obligations using either the Indian rupee or the renminbi instead of the US dollar is without substance, because their payment settlement is predetermined. In addition, the prevailing forex market really doesn't have access to those alternative currencies at any reasonable costs.

Now, considering that exports from China or India to Bangladesh are invoiced by their national currencies instead of the dollar, one would expect that Bangladeshi importers would be required to settle their international payment obligations in the same currencies. Given that Bangladesh incurred bilateral trade deficits of \$23.5 billion against China and \$15 billion against India in FY2021-22, the Bangladesh Bank would be obliged to act as the marketmaker for a forex market in the renminbi or rupee. But such a forex market will be dysfunctional, because supply and demand for either of the two currencies are wildly unequal. So the forex market will never clear unless the central bank intervenes as a marketmaker and fills in the gap between demand and supply.

This market-making operation of the central bank will be uneconomical for two reasons. One, the Bangladesh Bank will have to significantly diversify its forex reserves into rupee-denominated or renminbi denominated assets. The central bank will therefore be susceptible to significant exchange losses every time either of the currencies depreciates against the dollar. Two, more than 90 percent of the global over-the-counter (OTC) forex transactions are denominated in the US dollars. The daily turnover of this market was \$7.5 trillion in April 2022. Neither the Chinese yuan nor the Indian rupee enjoys any significance as of now in global forex markets. So as a part of market-making operations, whenever the Bangladesh Bank will buy either the

rupee or the renminbi in exchange for the dollar, it will incur relatively large transaction costs. How large will it be? It can be more than 10 times the transaction cost of trading in the US dollars.

As most of the country's international trade and financial transactions have been denominated in the US dollar, bilateral imbalance in the supply and demand for foreign exchange never caused market failure. Until recent times, the OTC market of foreign exchange always cleared without substantial interventions of the central bank. Over the last two financial years, the private flows of foreign exchange didn't clear the market, and so the central bank had to sell more than \$20 billion dollars of its net forex reserves. Disequilibrium in the forex market continued nonetheless. The taka has depreciated by more than 30 percent against the US dollar over the last couple of years. As the US dollar is still trading with significant premium in the kerb market, the home currency has remained under devaluation pressure.

Central banks, financial institutions, corporations and currency speculators invoice their international trade and financial transactions in terms of the US dollar because it has been the norm in the international monetary order after World War II. Accordingly, the Bangladesh Bank has maintained a growing volume of forex reserves mostly in the US dollar since its independence in 1971. So the forex market in Bangladesh is characterised by demand for and supply of US dollars. This OTC market in foreign exchange is highly liquid and very efficient, meaning that bid-ask spread is less than 50 basis points for large-size payment settlements. The forex market is also globally integrated.

The proposition that Bangladesh will move away from the US dollar-based payment settlement to a new international payment settlement, which will involve either the rupee or the renminbi as the invoice currency, is of no economic substance. It will produce a number of unintended consequences. Firstly, it will cause inefficient fragmentation of the prevailing forex market, which is dollar-based and globally integrated. Secondly, the Bangladesh Bank will need to diversify its portfolio of forex reserves giving significantly larger weights to the rupee and renminbi. That will complicate monetary and exchange rate policies of the central bank. Thirdly and most intriguingly, such a diversification of the forex portfolio will not be maximising profits for Bangladeshi exporters and importers, domestic borrowers in foreign currencies, nor for the Bangladesh Bank.

Exporters of China or India will not prefer invoicing their exports even in their national currencies,

not to mention the Bangladeshi taka. It is because of the prohibitive exchange rate uncertainty of those currencies and the lack of instantaneous liquidity of financial assets denominated by those currencies. In fact, the market for government securities or AAA-rated corporate bonds, which are denominated by either the Indian rupee or Chinese renminbi, is mostly localised. Their weight in the global financial market is insignificant. A perilous implication is that corporations will incur prohibitive transaction costs (broadly defined) in settlement of their international payment obligations in this proposed scenario.

Consider this example, if the rupee depreciates by 10 percent against the US dollar over a period of six months, which is the typical credit period of an export, the Indian exporter would lose 10 percent value of his exports in terms of the US dollar because of a rupee-invoicing. The counterparties in Bangladesh, that is, the importers, will face a dysfunctional forex market in the rupee. As I explained previously, those markets will be very illiquid and costly. So all parties to trade will incur larger costs and uncertainties. International trade and finance will surely decline in this case. A natural hedge of any company is to invoice their international trade or financial transactions in a few major currencies including the US dollar notably. A political decision to force international trade and payment settlement away from the US dollar to any non-major currencies will be disruptive, risky and costly.

Think of a scenario where a government-owned corporation in Dhaka will have a Chinese renminbi loan due for settlement on June 30, 2023. The OTC market for foreign exchange in renminbi will not work, because there is already a disequilibrium between demand for and supply of it. It shows that the Bangladesh Bank will be forced to convert their US dollar reserves into renminbi and supply the same to the local forex market in renminbi. Ultimately, the Bangladesh Bank is committing itself into a self-defeating strategy that it will micromanage a forex market in an unimportant currency, incurring private costs and unforeseen exchange risks.

Finally, a fragmented forex market in some peripheral currencies will prove unforgiving for managing external debt of both public and private sectors of a developing country. As of June 30, 2022, more than 90 percent of public sector external debt, which is approximately \$75 billion, is dollar-denominated. Almost 100 percent of private sector external debt, which is approximately \$25 billion, is also dollar-denominated. While the external indebtedness of the public sector is long-term and of low cost, that of the private sector is mostly short-term, variable-rated and unhedged. Faced with such a condition, any diversification of forex reserves into peripheral currencies will increase sovereign risks and downgrade the global rating of the country. It is hoped that policymakers will not jump to such a self-sabotaging strategy of exchange rate and forex reserve management.

It's time we talked about menopause

Raffat Binte Rashid
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RAFFAT BINTE RASHID

When I was in my 20s, my mother was going through a physical and mental transition that her family took lightly, unknowingly. In fact, my father was lost as to how to suddenly deal with a depressed wife. She was an emotional bomb about to burst for no reason; those mood swings were the worst besides her lack of sleep and hot flashes.

The family was not supportive of her newfound indifference towards her everyday normal routine, and could not take the cue as a sign of some sort of health crisis. Later, we realised she was going through menopause. She faced a bad spell

hormonal changes throughout her life. These are all part of natural reproductive health. However, these stages have their nuances that need to be sorted.

In my mother's time, a woman's health – and that, too, her menstrual health – was not something to speak about even within her family boundaries. "Periods are normal and hormonal changes are natural, so deal with it" – this was our attitude towards her monthly cycles.

Even women did not know how to address these changes in them – until recently, when they can freely talk about taboo health topics. Thus, our mothers aged quickly and were sad most of the time, while we modern women try to learn and make adjustments as our body demands.

I made sure my husband is aware of my severe, monthly premenstrual

and a while later you are in socks and layers of clothing. You feel hot and then cold in the middle of the night, a very common phenomenon in women. The constant brain fog because of lack of sleep affects your daily productivity.

Facing difficulty in sleeping, emotional changes, irritability, mood swings or mild depression are normal for menopausal women, along with racing hearts, headaches, joint and muscle aches and pains, weight gain, hair loss or thinning, and sagging of skin. These experiences are all part of your body adjusting to ageing, and this can last for five to ten years.

Women need not suffer for these and they must learn to seek medical help. It's also the people around them who need to be empathetic to their mental and physical changes and well-being.

You need to learn how to regulate



ILLUSTRATION: REHNUMA PROSHOON

of hormonal changes, which might not be the case for others as the symptoms vary.

The physiological age for menopause is between 45 and 55 years; many women go through surgical menopause caused by hysterectomy for other health reasons. With menopause comes various bodily irritability, because the production of the female hormone oestrogen and progesterone, at the time, decreases. It is the big drop in oestrogen levels that causes most of the symptoms of menopause.

A woman, from her puberty or menarche to pregnancy and lactation period to perimenopause, menopause, and finally post-menopause stages, lives with and adapts to different levels of

syndrome (PMS). Now, when I am going through menopause, he is more patient towards my transition. I cannot help my depressive spells or mood swings and hot flashes, but I am definitely aware of my triggers and the reason why it is happening.

I am better equipped to handle the stress. I meditate, take long hot showers, do some brisk walking or gardening to release the pressure of coping with menopausal hormonal changes. I believe setting some time for myself and doing the things I want helps me adjust to such changes mentally.

The reason I am pointing this out is because, until recently, we as a society were not mindful of a woman's hormonal fluctuations that she deals with daily. You feel hot at one point of the night and have the air conditioner at full blast,

your diet and the foods that trigger certain reactions. The sudden onset of multi-joint pain will force you to start exercising regularly. The adjustments you need to make are mostly about food and exercise, listening to your body, and trying to learn as much as possible about this stage of your life.

The initial physical changes will be scary, but a supportive husband/partner can be extremely helpful in learning to deal with bad tempers, mood swings, and other elements of this natural transition.

It is only right to address these symptoms of hormonal changes with tender loving care. It is vital to talk about and listen to her; she needs support and to feel loved and taken care of through this phase of life.



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PRICE SENSITIVE INFORMATION

This is for kind information of all concerned that the Board of Directors of IFIC Bank PLC in its 857th Meeting held on 14 May 2023 during 7:00 p.m. to 8:30 p.m. through Digital Platform, among other issues, has approved the Un-audited Financial Statements of the Bank as at and for the 1st Quarter (Q1) ended on 31 March 2023 with the following financial highlights:

(Fig. in BDT)

Particulars	Consolidated Position		Separate/Solo Position	
	Jan.-Mar. 2023	Jan.-Mar. 2022	Jan.-Mar. 2023	Jan.-Mar. 2022
Net Asset Value (NAV) Per Share	19.17	17.14	17.02	15.34
Earnings Per Share (EPS)	0.35	0.18	0.17	0.15
Net Operating Cash Flow Per Share (NOCFPS)	(3.05)	0.85	(3.18)	0.83

Furthermore, pursuant to condition 3(2) of the Notification of BSEC and regulation 16(2) of the Listing Regulations, 2015 of the Stock Exchanges, the following comparative statements are also disclosed:

(Fig. in BDT)

Particulars	Consolidated		Separate/Solo	
	Jan.-Mar. 2023	Jan.-Mar. 2022	Jan.-Mar. 2023	Jan.-Mar. 2022
Earnings Per Share (EPS)	0.35	0.18	0.17	0.15

Y2022 figures are restated.

* The consolidated EPS of the Bank as of Q1 Y2023 is higher compared to Q1 Y2022 due to better performance of one of the subsidiaries.

* The consolidated and separate NOCFPS of the Bank as of Q1 Y2023 is lower compared to Q1 Y2022 due to higher investment in trading securities.

By order of the Board of Directors

Dated: Dhaka
14 May 2023

Mokammel Hoque, FCS
Company Secretary