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FOUNDER EDITOR: LATE S. M. ALI

Political will needed to save the economy

Repeat of poor economic policies will cost us dearly

We strongly concur with the Centre for Policy Dialogue's warning that Bangladesh's economy is in its worst state in recent history, and the situation may worsen if policymakers do not take appropriate corrective measures to address the problems. The main drivers for the current crisis, according to the think-tank, are high inflation, slowing remittance and exports, falling forex reserves, lack of good governance, lax policy implementation, and the inability to make necessary reforms on the government's part. The fact that policies have for long been formulated to protect the interest of influential groups at the expense of ordinary people and the nation remains the greatest obstacle to making the required reforms.

With the next budget to be presented in parliament on June 1, the primary concern for policymakers should be to restore the country's macroeconomic stability. The first step in that direction would be to not repeat the mistakes made during the preparation of the last budget, including the setting of unrealistic targets. For instance, last year the government set an inflation target of 5.4 percent. Yet, actual inflation was slightly below the decade high of 9.52 percent in August last year. Such discrepancy between the government's make-belief scenario and peoples' lived reality has led to one poor government policy decision after another. As a result, the government measures taken to resolve the ongoing problems – such as the initiatives to boost remittances or resolve the ongoing crisis in forex reserves – have also failed.

Furthermore, according to the think-tank, the central bank did not even use its monetary tools to contain inflationary pressure. For example, it should have relaxed the interest rate cap of 9 percent on loans to tackle the high inflation. Additionally, given that the state-owned monopoly Bangladesh Petroleum Corporation (BPC) has made an after-tax profit of Tk 36,074 crore over the last seven years, there is no reason for it to not reduce petroleum prices now.

While the government has pursued a number of poor economic policies, the fact remains that they have largely been driven due to political considerations. Therefore, the only way to make a course correction is for the government to finally develop the necessary political will. We call on the government to put the interest of the nation first – instead of that of special interest groups – in preparing the next budget and its upcoming economic policies.

Safe repatriation must be the goal

We need a sustainable, not one-off, solution

During the 12th Foreign Office Consultation (FOC) between Dhaka and Beijing, China reiterated its commitment to early repatriation of Rohingyas to the Rakhine state. While China's intervention and the "pilot repatriation plan" have shone a ray of hope on the six-year crisis, we must not forget that this is the third initiative taken at China's behest. The previous two yielded no results, due to Myanmar backtracking on its promises and failing to take accountability. A proper timeline is yet to be established in the pilot plan, which raises questions about Myanmar's sincerity on the matter. For repatriation to be a sustained process, it has to be agreed upon by all stakeholders in the international fora. Otherwise, it runs the risk of becoming a one-off repatriation, with China playing to the world gallery.

Two recent attempts of repatriation in May failed as no Rohingya volunteered to return to Myanmar, arguing that they lack guarantee of citizenship and security as their villages have been turned into displacement camps. Five refugees who went on the "go-and-see visit" on May 5, in coordination with Bangladesh and Myanmar's junta, expressed their fear of history repeating itself. About 600,000 Rohingyas in Rakhine state remain confined to squalid camps, according to the Human Rights Watch. Given the violence the Rohingyas have suffered in the Rakhine state, for which they fled to Bangladesh in the first place, safe and voluntary repatriation would only be possible if Myanmar's military government puts a stop to the systematic persecution of the community.

The US and others have warned that Myanmar is not yet conducive to the Rohingya's safety but has not prioritised the urgent need for repatriation from Bangladesh's end. The UN Security Council passed the first ever resolution last year to address "military violence" in Myanmar. However, as we have seen over the course of the current protracted crisis, international actors have failed to create the critical pressure on Myanmar needed to render repatriation a possibility. The financial burden to support Rohingyas in Bangladesh, while the nation battles with economic turmoil, has become a critical issue. For Bangladesh's sake, we back efforts for early repatriation, but for this plan to follow through, the international community must step foot on the pedal and come together to ensure that Myanmar creates a state that is conducive to the safe repatriation of the Rohingya.

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Macroeconomic challenges that overshadow FY24 budget

MACRO MIRROR

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FAHMIDA KHATUN

The macroeconomic stability that our economy has enjoyed for a long time has disappeared in the face of multiple challenges – from both external and domestic sources. Due to the inherent weaknesses of the domestic economy, making a turnaround to the previously experienced comfort zone has become tough.

The trends during the first three quarters of the outgoing fiscal year reveal a lacklustre performance in revenue collection that has led to a contraction of fiscal space. During the first eight months of FY2023, the total revenue collection fell compared to the corresponding period of FY2022, as per data from the finance ministry. With such a trend of low mobilisation, reaching the target for total revenue growth for the year will be difficult.

Similarly, utilisation of the ADP budgetary allocation has been less during the first eight months of FY2023 compared to the same period of the previous year. In the midst of a shrinking fiscal space, the budget deficit during the first eight months of FY2023, excluding grants, was equivalent to Tk 21,201 crore, as opposed to the budget surplus of Tk 2,937 crore during the same period in FY2022. The government is covering the budget deficit by borrowing from the Bangladesh Bank, which is high-powered money and could fuel inflationary pressure if continued.

Heavy reliance on borrowing from the central bank to finance the budget deficit has resulted in tightened liquidity for the scheduled banks. To create fiscal space, the government will have to enhance its efforts towards revenue mobilisation. Besides, tax exemptions provided to some sectors should be discontinued and reduced. How much tax is foregone due to such exemptions should be made transparent.

Due to limited fiscal space, the government cannot allocate more resources to support poor and low-income households struggling with high commodity prices. There are several essential items on which various types of duties and tariffs are imposed. If a portion of those duties could be removed for a limited period of time, poor and low-income families could get some relief. However, since our tax system is dependent on indirect tax, there is an unwillingness in undertaking such a measure.

Export earnings during the first 10 months of FY2023 grew by only 5.4 percent compared to the corresponding period of FY2022. In order to meet the strategic target of 11.5 percent in FY2023, exports have to grow by 41.4 percent in the remaining months of the year. In case of remittances, growth was slow during July-April of FY2023, at 2.4 percent, compared to the same period of the previous fiscal year. What's worrying is that even though the number of people going abroad for work has increased, particularly in the Gulf countries, the remittance flow from those countries has not increased accordingly.

Due to a restriction on the import of luxury items, import payments have reduced, which has helped improve the balance of trade significantly – though it is still negative as of March 2023. The current account balance, despite some improvements, is also in the negative. Another worrying sign is the deterioration in the financial account balance. The gross foreign exchange reserves have declined by about $13 billion between March 2022 and March 2023. If the IMF estimate of forex reserves is considered, the reduction is about $20 billion during this period.

Policymakers attempted to address the disquieting situation in the external sector via various measures. The taka was allowed to depreciate significantly as exporters were losing competitiveness significantly in the international market. In view of the declining forex reserves, imports were selectively restricted, and the letter of credit (LC) margins were increased. This reduced import payments, but reduction of import payment for capital machineries should be observed carefully as it has implications for private investment. As it is, private investment has been stagnant at about 24 percent of GDP for many years. Without any breakthrough in this area, employment generation will not be possible.

In response to these difficulties, the government has sought a loan of $4.7 billion from the IMF, which has imposed a series of quantitative benchmarks and qualitative prerequisites that our economy badly needed. The policymakers have taken measures that are detrimental to the welfare of the country. The subsidy issue is a case in point. Partly driven by the need for increased earnings and partly due to the IMF pre-condition, our policymakers have continued to increase energy prices. This has been implemented at a time when global energy prices are on a decline. This has fuelled inflation further and eroded people's purchasing power. Low-income households and small businesses have been severely affected by the energy price hikes. Similarly, if the subsidy is withdrawn from the agriculture sector, it will have serious implications for food security. Therefore, subsidy management requires careful planning.

VISUAL: SALMAN SAKIB SHAHRYAR

Unfortunately, our policymakers failed to fully grasp the potential consequences of external shocks to our economy. Hence, they could not anticipate the adverse impacts these shocks would have on the country's overall macroeconomic management. This has been observed in their way of policy formulation. For example, the FY2023 budget was prepared in a business-as-usual scenario where the ongoing politico-economic realities were not considered. The FY2023 budget projected a 7.5 percent GDP growth and set an inflation target of 5.6 percent. Moreover, the potential impact on the external economy – exports, imports, remittances, reserves, and exchange rates – was not accurately appreciated. Since the projected growth was not possible to achieve given the reality, the GDP growth target had to be revised to 6.03 percent. On the other hand, the actual inflation rate has been significantly higher than the projected rate, reaching 9.24 percent in April 2023.

In view of the ongoing economic challenges and the experience of mistargeting major macroeconomic indicators in FY2022-23, the policymakers are expected to have formulated the budget for FY2023-24 in a more practical fashion. Carefully planning and efficiently implementing a budget is crucial in addressing and overcoming the ongoing challenges.

Bangladesh must prepare for shorter production runs

RMG NOTES

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MOSTAFIZ UDDIN

The world has too much clothing. Just recently, the European Union agreed to ban the destruction of unsold clothing as part of a drive towards reducing waste and improving levels of reuse and recycling. The proposed new law arrives amid growing concerns about excess clothing in the EU Bloc, an issue emerging from the rising trend of online purchasing and high rates of product returns.

The EU is not the only trading area where there are concerns about the amount of clothing being imported but not being sold. The argument is that this is a waste of valuable resources, not to mention a source of significant carbon emissions.

While these regulatory developments are happening, suppliers in Bangladesh are seeing another trend that may well be related: requests from customers for shorter production runs. This is a big deal for a country like ours, with its garment industry having built its reputation on the ability to deliver major orders in a relatively short timeframe.

For context, a large production run for, say, jeans might be considered to be 10,000-40,000 units (or pairs of jeans). A short run would be more like 500-1,500 units. As one can see, there is a huge difference, with clear implications for garment manufacturers. No manufacturer wants its machinery to be lying idle for long periods of time.

At present, we are already seeing market demand for shorter runs. There is also anecdotal evidence that manufacturers are unwilling to accept such orders for a variety of reasons. For example, they may not make financial sense as larger manufacturers are designed to operate at full capacity (or close to it) in order to leverage the benefits of scale economies.

There is some irony here. I wrote recently about larger manufacturers being the future of our industry, simply because they will be the only players financially capable of meeting impending requirements related to sustainable production. And yet, we may see more and more of them being asked to accept smaller orders – which they were not designed to handle.

More broadly, there are challenges regarding production and logistics in terms of shorter runs in Bangladesh. We are not geared for such runs in the same way that some manufacturers in Europe are. In countries such as Italy, the implementation of automation and digitisation to facilitate short-batch production is far more advanced than it is in Bangladesh and in other parts of Asia.

Will shorter runs be permanent? It is hard to say right now. For the time being, however, I see the demand for shorter runs becoming more and more common. One reason for that is the rising concerns about the global economy. In much of Europe, we are seeing high inflation rates which are affecting food and energy prices – two necessity products. If people are forced to spend more on energy and food, they have less money for luxury items. To some extent, clothing and fast fashion fall under this category.

Already, the world's fastest growing fashion retailer, Shein, is using short runs to test the market for seasonal items. This keeps inventory levels down, helping to reduce waste in Shein's supply chains. I believe other fashion brands will be looking at this model to see if there aren't any lessons to learn.

The second reason for shorter runs is linked with sustainability and environmental concerns. As outlined previously, the EU is cracking down on this issue and clothing retailers will be looking at their business models to see how they can better handle inventory.

Already, the world's fastest growing fashion retailer, Shein, is using short runs, often of just a few hundred units, to test the market for seasonal items. This keeps inventory levels down, helping to reduce waste in Shein's supply chains. I believe other fashion brands will be looking at this model to see if there aren't any lessons to learn. This model, it should be noted, relies on a flexible, highly responsive garment supply chain close to Shein's headquarters in China.

I don't think we will see long runs disappear completely, but I do believe we will see more and more demand in the market for shorter runs. This places further pressure on Bangladeshi garment manufacturers to adapt and innovate. We will also need our logistics infrastructure to evolve, becoming more flexible and nimble.

Some see a desire for near-shoring as a threat to Bangladesh, and a move towards shorter runs could be beneficial for our competitors in Europe (or, say, Mexico for the US market). There is some logic to this argument; however, Bangladesh continues to beat most of our competitors on price and this remains a key factor for brand-buying teams.

Finally, there is the issue of garment workers. Could shorter production runs lead to less employment in our industry? All other things being equal, this is likely to be the case. However, our industry can mitigate this by better gearing up for a more streamlined, responsive industry as the future unfolds and fashion brands seek greater efficiencies in their supply chains. Shorter runs could be an opportunity to evolve our industry into something better and more sustainable.

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