The Daily Star
FOUNDER EDITOR: LATE S. M. ALI

Why is BJMC paying its idle workforce?

Such wastage of public resources is unacceptable

It is unacceptable that around 300 of BJMC officials have been getting regular salaries, accommodation facilities and other amenities even three years after the state-run jute mills were shut down. Reportedly, while these officials are retaining their positions with full government benefits, around 70,000 employees who were laid off in 2020 have been passing their days in hardship, with their hopes of getting re-employed once the factories are reopened under private initiatives fading with each passing day.

Some former workers have alleged that these officials are getting paid for doing nothing. But the BJMC chairman has defended it, saying they are guarding valuable assets of the corporation – 1,300 acres of real estate and numerous infrastructure – and also monitoring the tender process to reopen the closed mills.

The question is, why would the BJMC need such a huge number of officials – many from unrelated departments – for these tasks? How justified is spending so much money on its officials – the BJMC spent Tk 140 crore to pay their salaries in the last fiscal year – when more than 15,000 of its former workers, most of them temporary, are yet to receive their dues? Most importantly, why has the corporation still not been able to reopen any of the mills, as it had promised during the closure, even after three years? Has the government forgotten the promise that the minister for jute and textile made regarding the reopening of mills and re-employment of the workers?

The lack of sincerity and accountability of its officials was also clear from the way they are doing their jobs. When our reporter visited the BJMC headquarters in Motijheel, Dhaka recently, he found that only four out of the ten officials in the production section and only a few out of around 25 officials in the marketing department were present during a work day.

By now, the BJMC should be able to have a proper plan about the workforce it needs and allow redundant officials to be reassigned elsewhere in the public sector or just go, instead of wasting resources on them. It should also expedite the process of reopening the mills with the help of private investors, as it had planned. Modernising and reviving our jute industry is the need of the hour. The BJMC must be able to do so for the sake of the country and the workers.

Govt transparency seriously lacking

How can we expect 'rule by the people' when people are kept uninformed?

It is a matter of concern that the government has not adequately maintained fiscal transparency by making basic information publicly available. According to the US State Department's 2023 Fiscal Transparency Report, Bangladesh did not make significant progress in meeting the minimum requirements of fiscal transparency. Most of our South Asian neighbours met the minimum requirements, with Maldives showing significant progress in that direction. Only Bangladesh, Pakistan and Afghanistan failed, while Bhutan was not assessed.

The report also evaluated other transparency-related performances such as whether the government publicly disclosed key budget documents, or has a supreme audit institution that meets international standards of independence, etc. In that regard, although Bangladesh government made its executive budget proposal publicly available, it did not do the same with its end-of-year report within a reasonable period, the State Department noted. Furthermore, the budget documents were not prepared as per internationally accepted principles.

Aside from that, two extremely important points that were highlighted were the lack of transparency in relation to awarding government contracts for natural resource extraction and the lack of independence of the Office of the Comptroller and Auditor General (OCAG). As regards the first point, one may recall the questionable government decisions when it comes to extracting our natural resources, or how rampant corruption including "collusive deals" led to a perennially unstable energy sector. Consequently, while the nation massively lost out due to such government opacity, vested groups benefitted secretly. As regards the second point, although the OCAG has in recent times shown some promise by taking the lid off corrupt government institutions, the lack of independence granted to this constitutional body has clearly obstructed its work.

All this is quite disconcerting. Transparency and good governance are vitally important for Bangladesh as it assumes greater importance on the global stage. Increasingly, these are being used as yardsticks against which to measure the quality of our progress, which will also determine the success of our interaction with foreign countries and multilateral institutions. The government, therefore, must improve its overall transparency performance.

New Message
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New monetary policy will be less effective against inflation

MACRO MIRROR

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FAHMIDA KHATUN

The Bangladesh Bank's monetary policy statement (MPS) for the first half of FY2023-24, in effect since July 1, is focused on containing inflation, with a stated strategy to reduce the aggregate demand while continuing supply-side interventions. The central bank aims to achieve its objectives by adopting a contractionary monetary policy stance. The new MPS brings forth four areas of changes: establishment of a policy interest rate corridor; introduction of a reference interest rate for lending; unification of exchange rates; and adoption of a revised approach to calculating the gross international reserves, aligning with the guidelines outlined in the Balance of Payment and International Investment Position Manual.

The change in approach for a major monetary tool such as the interest rate is a welcome move. For a long time, the central bank remained rigid in letting these rates be determined by the market, based on the consideration that doing so would hamper the private sector's competitiveness, which could ultimately hamper growth. However, without improving structural bottlenecks and governance, a low interest rate does not necessarily increase competitiveness in the economy. The new MPS shifts to a market-driven reference lending rate for all categories of bank loans, replacing the lending rate cap that was enforced in April 2020. This shift is expected to promote competitiveness within the banking sector and cultivate a favourable lending climate for both businesses and individuals.

The new MPS states that the Bangladesh Bank will transition from a monetary targeting framework to an interest rate targeting one. Under this, the interbank call money rate will closely align with the policy rate, ensuring stability. Simply put, the interbank call money market serves as a short-term financial market where major institutions like banks, mutual funds, and corporations can engage in borrowing and lending activities at interbank rates (the rate at which banks borrow funds from one another).

In line with adopting an appropriate monetary policy approach, the central bank has chosen to raise the policy rates. This move is intended to raise the cost of borrowing, with the aim of curbing the impact of CPI (consumer price index) inflation.

From now on, the Bangladesh Bank will announce the reference lending rate, referred to as "SMART," on a monthly basis through its website. This rate is determined based on the six-month moving average rate of treasury bills. Banks and non-bank financial institutions (NBFIs) will have a margin applied to this rate. For banks, the margin can be up to three percent, while for NBFIs, it can be up to five percent. However, lending activities for cottage, micro, small, and medium enterprises (CMSMEs) as well as consumer loans may be subject to an additional fee of up to one percent to cover supervision costs. The interest rates for credit card loans will remain unchanged.

For a long period, banks were lending at a rate that was in fact lower than the inflation rate, which rose to 9.94 percent as of May 2023. So, the real interest rate, which is the borrowing rate minus inflation rate, was negative. Now with the removal of the lending cap, there won't be much difference in the lending rate. Currently, the six-month treasury bill rate stands at 7.1 percent. As per the newly implemented formula, the maximum lending rate for banks will be 10.1 percent, while NBFIs will have a maximum lending rate of 12.1 percent. However, the inflation rate is still high.

The MPS projects growth of inflation rate to be six percent in FY24, even though it recognises that achieving this target may be challenging. It also plans to tighten credit flow to the private sector and has projected a lower private sector credit growth at 11 percent in FY24, compared to 14.1 percent in FY23. However, the national budget for FY24 set a target of 15 percent credit growth to the private sector.

The Bangladesh Bank has raised the repo rate by 50 basis points, from six percent to 6.5 percent, and the reverse repo rate by 25 basis points, from 4.25 percent to 4.50 percent. Repo is the short-term purchase of government securities by banks with the agreement to sell those back within a fixed time, while a reverse repo is a short-term agreement to sell securities to buy them back at a slightly higher price. The decision to raise the policy rate is a positive move as it is an important tool for determining the interest rate. However, lending rate will still be closer to the inflation rate, and one does not know when and how the inflationary pressure will be reduced, given the expansionary fiscal policy and market distortions by a handful of market players forming syndicates.

ILLUSTRATION: REHNUMA PROSHOON

Also, the SMART measure will not allow banks to set their interest rates based on market conditions and risk assessments. Banks will still be constrained by the directives of the central bank and will not be able to exercise a market-oriented approach to lending. Hence, the effectiveness of the MPS for the first half of FY24 in containing inflation will be limited.

As opposed to the contractionary monetary policy, fiscal measures of the new budget are expansionary. The new MPS will have to accommodate the need for higher government borrowing from commercial banks. With liquidity crunch in banks, the government relied on borrowing from the central bank in FY23. This possibility exists in FY24 as well. This will fuel inflationary pressure further. Therefore, simply implementing a contractionary monetary policy to reduce inflationary pressure would not suffice to mitigate the sufferings of poor, low-income and lower-middle-income households in the country. The lack of coherence between the fiscal and monetary policy stances will make the monetary policy less effective in controlling inflation.

PROJECT SYNDICATE

Understanding Biden's big bet on India

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ARVIND SUBRAMANIAN

The unprecedented lovefest between India and the United States has been striking and, frankly, puzzling. Following the pageantry of US President Joe Biden hosting a state dinner for Indian Prime Minister Narendra Modi, and of US Speaker of the House Kevin McCarthy inviting Modi to address a joint session of Congress for a second time, one wonders if America is giving away the store and getting very little in return.

After all, symbols such as these are the least of it. Among other things, the US is transferring sensitive military technology to a non-treaty partner, nudging its companies to invest in India, easing visa restrictions for Indian nationals, and desisting from publicly chastising Modi's government for its democratic backsliding. In effect, the US has drawn India into a one-sided quasi-alliance: it seems to have taken one, at most one and a half, to tango. The strategic rationale, of course, is the need to counterbalance China. But what is the Indian quo for the American quid?

Former US diplomat Ashley J Tellis believes the US is making a "bad bet," because India will never participate in coalition warfare with the US against China unless its interests are directly threatened. In a Sino-American conflict over Taiwan, India would remain on the sidelines, despite the generosity the US has shown it. Even US National Security Adviser Jake Sullivan has acknowledged this.

But India experts such as Pratap Bhanu Mehta, a former vice-chancellor of Ashoka University, point out that the US will increasingly need India as its own hegemony erodes. The new axis of autocracies includes not only China, Russia, and Iran, but also Saudi Arabia and even Turkey.

Faced with this geopolitical development, the US at least needs to forestall any potential cooling with India, lest it find itself more isolated. Not only is America's adversary count rising, but its allies leave something to be desired. Europe is predictably inconsistent and ambivalent, especially when it comes to China, and though Japan and South Korea are reliable allies, their demographic decline deprives them of real heft.

But more to the point, it is not clear that the US needs to go to such lengths to prevent India from joining the axis of autocracies. After all, China is a hostile neighbour, Saudi Arabia is a global financier of militant Islam, and Russia – its primary military supplier – is headed for disorder. Partnership with such countries is not remotely enticing for India. Likewise, India, with its influential diaspora and basic congruence of economic and military interests, has little to gain by openly snubbing the US.

So, the US is giving away quite a lot either for something that India will never sign up to (military engagement against China), or for something that India would do regardless of the enticements on offer. What are American strategists thinking?

One plausible explanation is simply the economic arithmetic of hard power. Democrats and Republicans alike have concluded that China poses an existential threat that cannot be neutralised, only counterbalanced. According to the International Monetary Fund (IMF), US GDP in 2023 will be $26.9 trillion, whereas China's will be $19.4 trillion (at market exchange rates). But over the next two decades, that 30 percent American edge will likely narrow.

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Yet, for all the euphoria around India's growth prospects, it is still a long way from matching Chinese economic and financial capabilities. China's GDP is more than five times greater than India's at market exchange rates, and about 2.7 times greater at purchasing-power-parity rates. Moreover, China's military spending is three to four times greater, and its foreign exchange reserves (to the extent that they can now be measured) are easily six to seven times larger. The multiple on China's total trade over India's is similar, and its lead in global development lending is astronomical.

China's overwhelming economic advantage helps explain why India often appears helpless in the face of provocations, like China's extensive land grabs along the countries' border in the Himalayas. Such episodes make it painfully evident that India is no counterbalance to China.

But America's wager is based not on the present, but on the expectation that China and India's fortunes may change over the long term. Owing to long-standing structural and demographic challenges, not to mention Chinese President Xi Jinping's increasingly repressive approach to the private sector, China's long-run growth rate could well fall to about 2.5 percent. At the same time, India could continue to grow at perhaps five to six percent per year.

Though by no means guaranteed, this scenario is plausible if India develops better policies and stronger institutions. It would not eliminate the large China-India hard-power differential, but it could narrow the gap enough to force China to re-calibrate its decision-making. For example, if China's five-fold GDP advantage over India was to be halved over the next two decades, Chinese leaders could no longer afford to discount the possibility of India retaliating on trade or along the border.

Properly understood, Biden's "India Bet" is not about securing Indian military support in a hypothetical standoff with China, nor is it designed to prevent India from drifting towards the axis of autocracies. Rather, it is a calculated prod aimed at narrowing the real and perceived power gap between India and China. The smaller their hard-power imbalance, the more effective the counterbalance for the US vis-à-vis China.

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