BOJ signals chance of policy shift

REUTERS, *Tokyo*

Bank of Japan Governor Kazuo Ueda said on Monday the likelihood of achieving the central bank's inflation target was "gradually rising" and it would consider changing policy if prospects of sustainably achieving the 2 percent target increase "sufficiently".

While companies are becoming more open to raising wages and prices, the key is whether wages will continue rising next year and lead to further increases in service prices, Ueda said.

"If the virtuous cycle between wages and prices intensifies and the likelihood of achieving our price target in a sustainable and stable manner rises sufficiently, we will likely considering changing policy," Ueda said, offering the clearest sign to date of the chance of ending ultra-easy monetary policy.

Ueda said the BOJ had not decided on a specific timing to change the loosest monetary stance of any major central bank, due to uncertainties over economic and market developments.

With inflation exceeding the target for well over a year, many market players expect the BOJ to lift short-term interest rates out of negative territory next year

"We will carefully examine economic developments as well as firms' wage- and price-setting behaviour, and thereby decide on future monetary policy in an appropriate manner," he said.

The language differed slightly from Ueda's usual phrase calling for the need to "patiently" maintain ultra-loose policy for the time being.

The Japanese government bond market shrugged off Ueda's remarks, with yields falling as the BOJ conducted a regular bond buying operation across the curve.

With inflation exceeding the target for well over a year, many market players expect the BOJ to lift short-term interest rates out of negative territory next year, with some betting on higher rates as early as January.

Ueda said Japan's prolonged experience of low inflation and stagnant wage growth likely heightened public perceptions that prices and wages would remain stuck around zero.

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FICCI at a glance
Since 1963

ITS 210 MEMBERS:
- Represent 31 countries
- Contribute 30% revenue to Bangladesh coffer
- Represent more than 90 percent inward FDI in Bangladesh.
- Account for nearly a fourth of market capitalisation at the DSE

Will the economy be out of the woods in 2024?

It hinges on what comes after the election, said FICCI President Naser Ezaz Bijoy

SOHEL PARVEZ

Bangladesh's economy has been passing through a challenging time for the past two years amidst growing pressure on foreign exchange reserves, the sharp depreciation of the taka and an elevated level of inflation.

And 2024 is not going to be an easier one as well. Rather, it could be another difficult year for the economy.

"But Bangladesh will be in a better position in the coming year than the outgoing year if there is no political fallout in the post-election period," said Naser Ezaz Bijoy, president of the Foreign Investors' Chamber of Commerce & Industry (FICCI), the apex body of foreign investors in Bangladesh.

This is because, he said, there will be a positive impact on the economy for the actions taken under monetary and fiscal policies.

"Inflation is easing in the West too. Stocks with western buyers are also falling. So, the decline in export orders may be arrested and it may even increase in the coming months," Naser said in an interview with The Daily Star last week.

He said the situation would be there a bit better in terms of exports and there might be an improvement in remittance flows too.

He believes in the long-term potential of Bangladesh though the economy faces some challenges now.

"Near-term challenges are real but they don't define the long-term potential. Bangladesh has a compelling growth story."

Also the chief executive officer of

Naser Ezaz Bijoy

Standard Chartered Bangladesh, Naser said the size of the economy was just $8 billion in 1971 when the country won Independence.

The economy grew to $80 billion in the first 36 years. and since 2008, it expanded three times to reach $324 billion in 2019. Bangladesh has performed better than its peers such as India and Vietnam since the Covid-19 pandemic.

"It was a difficult time but we could manage better than our peers. There was a resilience and that was primarily because of the good performance of agriculture," he said.

The aggregate growth of Bangladesh's gross domestic product was 17 percent in the three years to 2022. Vietnam's economy grew 13 percent and India registered an 11 percent expansion.

Naser took over the FICCI in early 2022, a time when Bangladesh's economy had been rebounding from the pandemic-induced losses.

Exports jumped along with import costs stemming from rising prices amid pent-up demand. Bangladesh's monthly import cost surged to $9-10 billion in the first quarter of 2022 to support increased exports and demand from domestic market-oriented industries.

But the economy's revival was short-lived because of the outbreak of the Russia-Ukraine war in February 2022 and a further spiral in global commodity prices, which sent import costs higher and compounded pressure on the current account balance, a measure of a nation's international transactions in trade and services.

The difficulty has lingered.

The taka lost its value significantly against the US dollar over the past two years though the Bangladesh Bank took several steps, including measures to discourage non-essential imports. It even sold dollars from the reserves to banks to address the forex shortage and slow the currency depreciation.

Naser, who has worked with SCB for nearly 30 years in diversified roles including in corporate banking, risk and audit in Asia, the Middle East and Africa, said the last two years have been an extremely challenging time.

"The biggest challenge was the pressure on the foreign exchange. Secondly, the depreciation of the taka affected inflation," he said.

The FICCI chief said policymakers first tried to contain and bring down inflation by increasing the supply of goods though the proven approach to curb consumer prices is to tighten the money supply.

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What is the future of the floor price?

M SHAHRIAR AZAD BHUIYAN

In the intricate tapestry of Bangladesh's stock market, the imposition of the floor price by the Bangladesh Securities and Exchange Commission (BSEC) on July 28, 2022, has cast a shadow of uncertainty.

Ostensibly conceived as a protective shield guarding investors against the whims of a volatile market, the floor price has metamorphosed into a restrictive force, dampening the very essence of market dynamics.

The stakeholders of the capital market assume that the floor price will be released after the post-election period. Even the BSEC is keen to withdraw the floor price but is unable to predict the consequences, thus remaining silent on this issue.

The negative repercussions of the floor price are profound and multifaceted. At its core, the restrictive nature of the floor price has stifled market liquidity to an unprecedented degree.

The market, once characterised by its ability to respond swiftly to supply and demand, now finds itself ensnared in a web of predetermined prices. This liquidity crisis has, in turn, created a daunting scenario where sellers are unable to offload their shares promptly, leading to an oversupply glut that exacerbates the problem.

The floor price, despite its well-meaning origins, has become a stumbling block in Bangladesh's stock market journey. The negative impact on market liquidity, investor confidence, and foreign investments can't be overlooked.

The road to recovery demands a thoughtful re-evaluation of this strategy, exploring alternatives that restore the market's natural rhythm. Only through a comprehensive reassessment can Bangladesh's stock market regain its vibrancy, instilling confidence among investors and ushering in a new era of stability and growth.

Furthermore, the floor price has sown the seeds of disillusionment among investors. What was meant to be a protective measure has become a barrier, deterring potential buyers and stalling market activity.

The inherent freedom of the market, wherein investors could make decisions based on prevailing conditions, has been curtailed, eroding investor confidence. This erosion of trust is a dire consequence, for it takes years to build investor confidence and mere moments to shatter it.

The imposition of the floor price for almost one and a half years has sharply reduced turnover in the bourses. This downturn has had a detrimental effect on the business of brokerage houses, with many reputable companies being unable to achieve even break-even status.

The prolonged stagnation in market activity has forced brokerage houses to grapple with financial challenges, affecting their ability to sustain operations at the branch level and provide essential services to investors. As their financial health deteriorates, the overall efficiency and vibrancy of the capital market is compromised, hindering economic growth and development.

The dilemma faced by the BSEC is palpable. While the intention behind the floor price was noble, it has inadvertently become a straitjacket, hindering the very market it seeks to protect. In this precarious situation, finding a way forward necessitates a delicate balance between investor protection and market flexibility.

In light of these challenges, stakeholders are increasingly urging the BSEC to reconsider and expedite the withdrawal of the floor price as soon as possible, recognising its adverse effects on both market dynamics and the sustainability of businesses within the stock brokerage sector.

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Russia needs months before rate cuts

REUTERS, *Moscow*

Russia's central bank will need two to three months to make sure that inflation is steadily declining before taking any decision on interest rate cuts, the bank's governor Elvira Nabiullina told RBC media on Sunday.

The central bank raised its key interest rate by 100 basis points to 16 percent earlier in December, hiking for the fifth consecutive meeting in response to stubborn inflation, and suggested that its tightening cycle was nearly over.

Nabiullina said it was not yet clear when exactly the regulator would start cutting rates, however.

"We really need to make sure that inflation is steadily decreasing, that these are not one-off factors that can affect the rate of price growth in a particular month," she said.

Nabiullina said the bank was taking into account a wide range of indicators but primarily those that "characterize the stability of inflation".

Realistic 2024 GDP goal key for China

ANN/CHINA DAILY

Against the backdrop of heightened geopolitical tensions, global growth sluggishness and domestic economic transformation, the recently concluded Central Economic Work Conference called for efforts to pursue progress while ensuring stability, consolidating recovery through progress and "establishing the new before abolishing the old".

The tone-setting meeting, during which top leaders set economic targets for the following year, also encouraged the introduction of more policies that help stabilize expectations, growth and jobs.

ANALYSIS

China's GDP growth rate is expected to surpass 5 percent this year, which is a considerable improvement over 3 percent registered in 2022. This accomplishment is seen being made in the context of a sharp dip in the nation's real estate investment growth rate over the previous two years.

The economic drag from the property sector doldrums is expected to ease in 2024. Consumption growth should remain stable and exports are likely to rebound from negative growth. These elements will underpin the forecast that China's economic growth will see an improved performance next year.

Long-term constraints on the global economy include structural contradictions and huge levels of government

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Consumers shop at a duty-free mall in Haikou, capital of Hainan province. China's GDP growth rate is expected to surpass 5 percent this year, which is a considerable improvement over 3 percent registered in 2022.

PHOTO: CHINA DAILY/FILE