

Why our balance of payments won't balance out post-election



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With the facade of the elections at its height, prevailing financial issues seem to have faded into the background. While the mystery of how local politicians have made their fortunes is being speculated in every constituency, people seem less bothered about the nation's finances. But, contrary to what many believe, these issues will not iron themselves out after the election. Financial matters cannot be fixed overnight. They are the accumulation of past mistakes made in the banking sector and the capital market, which have strained our overall balance of payments.

During the first four months of the 2023-24 fiscal year (July-October), Bangladesh's balance of payments took a disturbing turn. Although the trade deficit came down to \$3.8 billion, this was an orchestrated dip brought about by putting a hard brake on import growth, which suffered a decline of more than 20 percent while exports displayed only a 3.6-percent growth over the same period. The import of capital machinery witnessed an almost 36-percent drop during July-November 2023. This will invariably reduce future GDP growth, which the World Bank projects to be 5.6 percent in FY 2023-24—less than the finance ministry's prediction of 6.5 percent.

The deficits in services and primary income stood to be \$1.7 billion and \$1.35 billion, respectively, over the July-October 2023 period. This, added to the trade deficits, faces us with a total deficit of \$6.86 billion. Secondary income, the majority of which is made up of remittances, stands as a positive figure of \$7.1 billion, making the current account balance less than one-fourth of a billion dollars. The surprising and unprecedented deficits in the financial accounts put the overall balance of payments at a negative figure of \$3.83 billion—almost equivalent to the trade deficits. And this yanked the foreign reserve down to \$20.7 billion at the end of October 2023. The declining trend continued, with the reserve being at \$19.5 billion at the end of November 2023. The balance of reserves has worsened since October last year, primarily due to an incorrect exchange rate policy and the failure to control trade mis-invoicing (which drains dollars via illicit capital flight overseas).

As previous patterns suggested, there will be an upsurge in both exports and imports after the national election on January 7. This idea is held more so due to imports since they have been kept suppressed for the last year or so. The majority



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of Bangladesh's imports consists of capital machinery, intermediate goods, and raw materials—the import of all of which has been intentionally deferred due to political turbulence. Thus, a 20-percent drop in imports is expected to reverse this trend after the election, when the pent-up import demand will be unleashed. Given the figures of exports and imports during the July-October 2023 period, annual exports over the remainder of FY 2023-24 are expected to remain in the vicinity of \$52 billion while imports may reach \$70 billion, making the trade deficit to be around \$18 billion.

In the near future, the deficits in the balance of services and primary income are expected to reach \$9 billion, making the total deficit to be

around \$27 billion (which will largely be offset by probable remittances of \$22 billion). Hence, the current account balance can expect an approximately \$5 billion deficit at the end of the ongoing fiscal year. The balance of the financial account, including foreign investments in the country, is the ultimate determinant of Bangladesh's balance of payments. If the current trend continues, the financial account will end up in a deficit of around \$12 billion, given that it was at around \$4 billion during the first four months of FY 2023-24. However, proportional calculations do not work for a financial account because its main incentive belongs to a lucrative rate of return in a macroeconomically stable environment.

Because of not-so-thorough policies and inadequate rates of return in Bangladesh, whether foreign investment will again gravitate to our economy is difficult to conjecture. A deficit of \$6 billion to \$10 billion may remain in the financial account, making the overall balance in the balance of payments close to negative \$10 billion—a figure which will push foreign currency reserves below \$10 billion, footing imports for a little under two months. Needless to say, this would be an alarming situation in terms of macro stability.

But there are ways to address this impending crisis, by promoting exports, controlling imports, increasing remittance inflow, and increasing the financial balance.

Export growth mainly depends on foreigners' income growth and the taka's devaluation. While Bangladesh has influence on foreigners' income growth or their preference for our goods, a devaluation of the taka will promote exports, slow the pace of import growth, and invite higher remittances through the official channels. The treatment of the financial balance is the most critical action in managing the balance of payments. But the return of Bangladeshi bonds and other securities must be competitively attractive to foreigners. Our slow pace of upward interest rate adjustments is what has primarily damaged the financial markets.

Simply put, policy tardiness in terms of interest rates and exchange rates is responsible for the financial issues that Bangladesh is facing now. Our fate would have been the opposite of what it is now, had policymakers at the finance ministry and the central bank acted wisely by not opting for makeshift theories which contradict logical macroeconomic policymaking. As we have learned in theory, the balance of payments will always balance, and this can be true for Bangladesh as well. But it will happen at the cost of a funding hemorrhage in foreign reserves. And this is not desirable at the current stage of the country's development journey. The situation warrants the presence of stronger leadership at all financial institutions—where leaders will make timely decisions regarding policies which make sense in economics, and not just ensure temporary political gains for the powers that be.

Calculations for predictions are the author's own.

Monitor groundwater to manage it better



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The fact that the global climate crisis is essentially a water crisis is clear to see. Climate action thus requires strong commitment to better managing this essential resource. And being the largest store of fresh and unfrozen water, globally, groundwater plays a significant role in our adaptation to climate change and variability.

Specifically in Bangladesh, groundwater is an important natural resource upon which our water and food security is critically dependent. Bangladesh extracts approximately 32 cubic kilometres of groundwater every year, which is five times the volume of water in Kaptai Lake. In

growth, economic development, industrialisation, urbanisation, and food production. These demands have inevitably put pressure on groundwater storage and availability over the decades.

The availability of seasonal groundwater is increasingly becoming unpredictable as a result of the changing pattern of monsoon rainfall. An analysis of rainfall time-series data from the Bangladesh Meteorological Department reveals increased variability in monsoon rainfall, with long-term decline in rainfall in the centre of Bangladesh. A report published in this newspaper in August 2023 suggested that the

seasonality (timing) and magnitude of replenishment or recharge. Normally, shallow groundwater in most parts of Bangladesh is renewed or replenished every year during monsoon. Groundwater reaches its deepest (annual deepening) during the early summer period (March-April), which coincides with the period of highest temperature as well as demand for Boro rice cultivation. Groundwater levels start to rise (annual shallowing) during the monsoon season when water-use for irrigation ceases and rainfall starts to recharge the seasonally drained aquifers.

The time taken for groundwater to be replenished has extended over time. Low rainfall during peak monsoon (June-July) might have been already impacting the annual recharge process as groundwater takes longer to replenish. It is challenging to determine the impact of climate change and variability on groundwater recharge in a system that is highly influenced by anthropogenic activities such as

to more overland flow and flooding, which may not favour groundwater recharge particularly in the Madhupur and Barind Tracts. Additionally, an increased evapotranspirative demand during the early monsoon season may decrease groundwater recharge in the warmer climate of Bangladesh.

So, what kind of water adaptation should Bangladesh consider to cope with the impacts of climate and anthropogenic changes? In the face of the climate crisis, protecting groundwater resources is crucial to maintain the supply of water for drinking and irrigation. This does not mean that groundwater cannot be used more sustainably and prudently. Dependence of groundwater is continuously increasing to meet irrigation and industrial water demands across the country, and this dependence is unlikely to decrease in the future.

The problem with management is the lack of data on groundwater abstraction. A resource cannot be managed if it is not monitored

properly. While estimating water use for irrigation is possible using information collected by the Bangladesh Agricultural Development Corporation, there is no information on privately managed industrial water usage. This needs to be addressed by the government sooner than later.

To manage groundwater sustainably, farmers need to diversify crop types so that they are not forced to irrigate both Aman and Boro rice. Thankfully, this is already happening in some parts of the country, particularly in the Barind Tract region where farmers are moving towards vegetable and cash crops such as mangoes of their own accord. In order to encourage more farmers to go this route, government support is needed to accelerate crop diversification. This of course must be done in consultation with farmers so that they are part of the decision-making process.

The combined use of surface water and groundwater should be promoted where possible. The availability

of surface water in Bangladesh is seasonal, which is a crucial factor that water management strategies need to factor in. Groundwater, which is contaminated by arsenic and salinity in some regions, needs to be protected at any cost as the primary source of drinking water in Bangladesh.

At the moment, various government agencies monitor groundwater with their own network, but there is a lack of coordination or willingness to share data across departments. Plus, monitoring infrastructures are not regularly maintained beyond project lifetimes.

Despite its centrality to water and food security in Bangladesh, groundwater is not prominently featured in national water policies. Bangladesh first needs to develop its own groundwater policy. Our research and monitoring capacity regarding groundwater needs to be strengthened by founding separate groundwater-focused research and policy centres that will work closely with academics and practitioners.



Despite its centrality to water and food security in Bangladesh, groundwater is not prominently featured in national water policies. FILE PHOTO: AFP

terms of functional use, groundwater provides for 98 percent of drinking water and almost 80 percent of all irrigation water supply in the country. Still, groundwater has not received the proportionate level of attention when it comes to policy and practice.

Climate change, coupled with anthropogenic land-use practices (for example, irrigation), is putting a huge amount of pressure on Bangladesh's groundwater resources. However, we are largely unaware regarding the two factors due to which climate and anthropogenic changes impact groundwater sources: demand-led pressure and lack of supply.

Demand for freshwater has been increasing in Bangladesh since the 1980s due to population

lack of sufficient rainfall was forcing farmers to pump groundwater to irrigate Aman rice—a crop which is normally rain-fed and makes up almost 40 percent of total rice production. To note, the completely irrigated dry-season Boro rice crop contributes 54 percent to the total rice production of Bangladesh. The fact that Aman rice now requires irrigation in the middle of the rainy season is clearly a result of climate change and also a sign of forced adaptation. This also presents a water management challenge for the country. A dip in monsoon rainfall will lead to reduced river discharge, thus affecting navigation, aquaculture, and biodiversity.

Insufficient supply of storage for groundwater is due to the changing

irrigation and industrial use. Further research is necessary to characterise this process and determine the impact of climate change alone on changing groundwater storage and recharge patterns.

We do know that it is due to climate change that we are seeing heavier rainfall events and slightly higher rainfall during the early monsoon period (often leading to flash floods). While it is well established that episodic, heavy rainfall events lead to enhanced groundwater recharge in drylands in the tropics, we know less about the impact of these heavier rains in humid and monsoon climates such as that in Bangladesh. It is generally understood that heavy rainfall on desiccated lands following the dry season can lead

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