High interest could impede India's growth

REUTERS, *Mumbai*

A high real interest rate in India could prevent private investments from picking up and hold the country back from achieving its true growth potential, an external member of the monetary policy committee said on Friday.

Professor Jayant Varma, who was the sole dissenter at the February monetary policy meeting when the MPC held rates steady at 6.50 percent, voted for the repo rate to be cut by 25 basis points.

"India's growth is robust when compared to the rest of the world, but not when compared to our potential or to our aspirations," Varma said in an interview.

"When 4.25 percent average growth rate since the pandemic is touted as robust growth rate, that reflects a grave lack of confidence in India's growth potential. I do not subscribe to this growth pessimism."

The Indian economy is expected to expand 7.3 percent in the current fiscal year ending March and the central bank has projected growth of 7 percent in 2024/25, in line with the government forecast.

Varma said the potential growth rate of the economy is at least 8 percent - based on all the reforms and infrastructure investment in recent years and there is still some growth required to close the post-pandemic output gap.

The rationale cited by other MPC members for status quo on rates was to ensure inflation reaches the target of 4 percent on a durable basis with supply chain disruptions and food price shocks still a risk amid the continued geopolitical tensions.

"I am somewhat more optimistic about disinflation than the rest of the MPC, but that is not the main point of my dissent," Varma said.

"My point is that the MPC's own projections of 4.5 percent for 2024/25 (on inflation) with risks evenly balanced do not warrant a repo rate of 6.5 percent."

PHOTO: SAURAV HOSSAIN SIAM

Workers are seen going about their daily activities at a steel rerolling mill in Fatullah union of Narayanganj sadar upazila. Speakers at a discussion yesterday said more social welfare benefits should be extended for labourers across all industries in Bangladesh.

More social protection needed for workers

Speakers say at Sanem conference

STAR BUSINESS REPORT

Bangladesh needs more social protection for workers as a large number of them receive meagre wages, according to an economist.

"At present, just 22 percent of the population are enjoying at least one social welfare facility," said Iyanatul Islam, an adjunct professor at the Griffith Asia Institute under the Griffith University in Australia.

Speaking at a lecture, styled "The Labour Market and Macroeconomic Policy: Is There an 'anti-Worker' Bias?", Islam suggested increasing the social protection measures so that workers can have better lives.

The event was held as part of the 7th Sanem Annual Economists' Conference (SAEC) 2024 at the BRAC Centre Inn in Dhaka yesterday.

He also said the workers in the country have negligible coverage under collective bargaining agreements and most of them, or about 95 percent, are employed in the informal sector.

The workers in Bangladesh receive the lowest minimum wage compared to other countries in South Asia, and their income has declined over the years.

"The average increase in real wages has been negative for more than 10 years despite robust growth in productivity," he added.

Islam pointed out that there are continuing concerns about the lack of safe and healthy work environments while the country's pro-competition policy does not cover labour market.

"This is because structural features of Bangladesh's labour market enable the potential use [and abuse] of employer power."

Unskilled workers with low educational certifications are more likely to become victims of employer abuse, with women being particularly susceptible, added Islam, also a former branch chief of the International Labour Organisation (ILO).

Replying to a query, Islam said artificial intelligence has created both opportunities and risks for jobs.

"But the overall impact is positive," he added.

Islam explained that social protection, training and education are needed to help workers face risks related to automation as only then can they adopt the required skills to remain relevant.

"Also, social protection is needed to improve the work-life balance of workers."

While chairing the session, Rizwanul Islam, a former special adviser for employment at the ILO, said the wage fixing process for garment workers last year was suppressed not only by the employers, but also by the government.

"This was not just by design, but also negligence and even collusion."

The current macroeconomic policy could even create bias as labour market considerations are completely absent, he said.

Against this backdrop, Rizwanul made an appeal to go back to the previous mandate and at least protect the basic interests of workers if not their major interests.

He also suggested going beyond the conventional framework of macroeconomic stability and ensuring adequate employment in labour markets.

Although economists have different recommendations and opinions for the country's macroeconomy, very few are realised in the labour markets, Rizwanul added.

Paramount Textile to raise Tk 250cr

STAR BUSINESS REPORT

Paramount Textile PLC is going to raise funds of Tk 250 crore by issuing a type of non-convertible, fully redeemable and unsecured zero-coupon bond.

A zero-coupon bond is a debt security that does not pay interest but instead trades at a deep discount. It will render profit at maturity, when the bond is redeemed for its full-face value.

The Bangladesh Securities and Exchange Commission approved the bond during a meeting held last week at its office in Agargaon, Dhaka.

The bond's discount rate will range from 9 to 12 percent. It will be issued through private placement to institutional investors and high-net worth investors, with the face-value of each unit set at Tk 10 lakh.

With the bond proceeds, the textile maker will repay bank loans and expand its business.

The bond's trustee is Sena Kalyan Insurance Company, and its arranger is NDB Capital Ltd. The bond will be listed on the alternative trading board of the stock exchanges.

Block cheap Chinese imports from Mexico, US automakers urge

REUTERS, *Washington*

The US government should block the import of low-cost Chinese autos and parts from Mexico, a US manufacturing advocacy group said on Friday, warning they could threaten the viability of American car companies.

"The introduction of cheap Chinese autos - which are so inexpensive because they are backed with the power and funding of the Chinese government - to the American market could end up being an extinction-level event for the US auto sector," the Alliance for American Manufacturing said in a report, opens new tab.

The group argues the United States should work to prevent automobiles and parts manufactured in Mexico by companies headquartered in China from benefiting from a North American free trade agreement.

"The commercial backdoor left open to Chinese auto imports should be shut before it causes mass plant closures and job losses in the United States," the report said.

Vehicles and parts produced in Mexico can qualify for preferential treatment under the US-Mexico-Canada trade agreement as well as qualifying for a $7,500 electric vehicle (EV) tax credit, the report noted.

The Chinese embassy in Washington said in response that China's automobile exports "reflect the high-quality development and strong innovation of China's manufacturing industry... The leapfrog development of China's auto industry has provided cost-effective products with high quality to the world."

Tesla announced plans almost a year ago to build a factory in the northern Mexican state of Nuevo Leon. In October, Mexico said a Chinese Tesla supplier and a Chinese technology company would invest nearly a billion dollars in the state.

Currency swap to help

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for a tenure ranging from seven days to 90 days.

The deal is expected to reduce the liquidity pressure on banks and allow them to get back their US dollars when needed.

Ahmed said in recent times, the BB has told banks to manage their own forex liquidity. But in the absence of a vibrant interbank market, this was becoming increasingly difficult.

Many banks have long been struggling to supply adequate US dollars to importers to facilitate their purchases from external sources. They are also struggling to make loans to local businesses amid the persisting local currency liquidity crunch.

"The new measure will allow banks to use their forex liquidity to support their local currency books. This is good news," Ahmed said.

"The currency swap should indirectly help local borrowers by improving the banking system liquidity."

A forex swap has two legs or stages: a near-leg date and a far-leg date.

On the near-leg date, one swaps one currency for another at an agreed spot foreign exchange rate and agrees to swap the same currencies back again on a future date (far leg date) at a forward foreign exchange rate.

For conventional commercial banks, the taka will be sold in exchange for approved foreign currencies at the spot rate at the near-leg.

At the far-leg, the deal will be settled by applying the same exchange rate with a swap point based on the interest rate differential considering the prevailing benchmark rate of foreign currencies. Here, the three-month term SOFR for US dollars and the policy rate of the BB for the taka will be applicable.

The secured overnight financing rate (SOFR) is a benchmark interest rate for dollar-denominated derivatives and loans that replaced the Libor (London Interbank Offered Rate). The SOFR rate presently stands at 5.38 percent while the policy rate in Bangladesh is 8 percent, figures from the Federal Reserve of the US and the BB showed.

The DCCI chief said given a 2.6 percentage points swap point difference, this should lead to a profitable proposition for the banks sitting on a higher volume of foreign currencies, especially given current call money rates.

The new mechanism was unlikely to help banks without the forex liquidity, he said.

For Shariah-based commercial banks, at the near-leg, the taka will be sold in exchange for approved foreign currencies at the spot rate. At the far-leg, the deal shall be settled by applying the same exchange rate.

Ahmed said it appears that Shariah-based banks will be able to conclude transactions without any swap point differences between the near-leg and the far-leg, which could be a source of disparity.

Inflation edges up despite monetary tightening

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which was in place for more than three years. The shift aims at making the interest rate gradually market-based.

Globally, except for tensions centring the Red Sea and some hikes in freight for the rerouting of ships, overall prices have been falling.

In its latest World Economic Outlook, the International Monetary Fund (IMF) said global inflation was expected to fall from 8.8 percent in 2022 to 6.6 percent in 2023. It may ease further to 4.3 percent in 2024.

Bangladesh, a net importer, is supposed to benefit from the decline.

However, the data prepared by the Bangladesh Bureau of Statistics, showed that there is no sign of a cooling in prices, leaving further room for policymakers to find the loopholes and plug them in.

"We need to examine the source behind inflation and find out how much of demand is contributing to inflation and how much of it is coming from supply-side problems," said Mustafa K Mujeri, executive director at the Institute for Inclusive Finance and Development.

Also, a former chief economist at the BB, Mujeri said inflation does not decline just after the increase in policy rates.

"However, as the central bank is hiking policy rate and inflation is not reducing, there might be something in the supply side."

"Problems related to supply exist. Here, the interest rate hike will not work alone. Other measures involving commerce and food to ensure smooth supply have to be taken simultaneously. Without that, the effect on prices is unlikely."

He points out prices usually go up ahead of the fasting month of Ramadan as businesses increase prices for no reason.

"Under the circumstances, curbing inflation through the policy rate alone will not be fruitful. Supply-related problems need to be addressed."

Mujeri said piecemeal measures such as slapping fines on traders will not solve the problem as well.

He called for an integrated approach with short and medium-term measures involving related ministries to tackle higher inflation.

MA Taslim, a professor of economics at the Independent University, Bangladesh, said the way monetary policy was arranged, too much effect on inflation is unlikely.

A higher interest rate does not bring about too much impact other than for investments, he added.

In an article recently, Zahid Hussain, a former economist at the World Bank, wrote monetary tightening has not been long enough and tight enough.

Maximum lending rates have been allowed to increase by less than 350 basis points since last July, he said, adding that countries where monetary tightening seems to be working have done much larger tightening for longer.

Policymakers have raised rates by about 400 basis points on average in advanced economies since late 2021, and around 650 basis points in emerging market economies, Tobias Adrian, director of the IMF's monetary and capital markets department, wrote in October.

Besides, Zahid Hussain said, the foreign exchange shortage, exacerbated by policy uncertainty on Bangladesh Bank's stance on future exchange rates, has not eased.

"Consequent increases in parallel market rates have increased the cost of producing and importing goods."

Hussain said export restrictions in various forms in supplying countries, India in particular, often trigger such volatility.

Here, he said, market manipulation, popularly believed to be through "syndicates", may be operative at least some of the time.

"The same goes for opportunistic price gouging in response to export restrictions in supplying countries."

Inflation has been falling faster than expected in most regions of the globe with the unwinding of supply-side bottlenecks and restrictive monetary policy.

"Bangladesh has remained immune to these declines," said Hussain.

In its monetary policy for the second half of 2023-24, released last month, the BB noted the decline in global prices too.

However, it said, Bangladesh's economy has yet to experience an equal adjustment primarily due to domestic price rigidity, market imperfections marked by oligopolistic behaviours in certain commodities, and significant depreciation of the domestic currency, counteracting the potential advantages of reduced global prices.

To stem foreign exchange reserve losses and help restore external balance, the central bank allowed the taka to weaken by close to 20 percent in 2022-23.

The pass-through of a sharp depreciation of the local currency accounted for half of the inflation surge seen in Bangladesh in the last financial year, said the IMF in December.

The BB said the inflexible nature of internal price adjustments, coupled with the persistent depreciation of the domestic currency, might impede a decline in domestic inflation despite recent reductions in international market prices.

It said the inflationary strains and significant price surges observed in various essential goods during FY23 and the first half of FY24 are likely to contribute to sustained inflationary expectations in the second half of FY24.

Elevated land and construction materials prices have driven up asset prices, further exacerbating inflation risk, said the BB.

Fahmida Khatun, executive director at the Centre for Policy Dialogue, said no market works perfectly globally but the extent of imperfections is low in economies where governance is better.

"In Bangladesh's case, market distortion is high. In such cases, single policy measures can't be effective."

She called for harmonisation of monetary policy with fiscal policies and institutional measures.

"Unnecessary public expenditures have to be reduced and tax collections should be enhanced. Also, there is market manipulation by big players that should be tackled with tough measures."

Fahmida said if increased prices were a monetary- or demand-driven phenomenon alone, inflation was supposed to be falling as the BB has been hiking rates for the last several months.

She said the possibility of inflation easing in the coming months is unlikely because the government is expected to increase electricity tariffs further.

According to IMF's Tobias Adrian, central banks must remain determined in bringing inflation back to target because sustained economic growth and financial stability is not possible without price stability.

"If financial stability is threatened, policymakers should promptly use liquidity support facilities and other tools to mitigate acute stress and restore market confidence."

Poverty, inequality

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The price shock in the post-pandemic period might be the contributing factor to the recent stagnation in the poverty reduction process, Prof Raihan said.

In all indicators, food insecurity rose and the severity of the insecurity was higher in urban areas than in the countryside.

"It is very alarming," he said.

During the pandemic, around 60 percent of the surveyed households faced challenges related to employment and earnings.

The price of essentials was also another major challenge and major coping strategies involved involuntary changes to dietary patterns and borrowing.

In the post-pandemic scenario, more than 85 percent of the households that the current price spike has affected their livelihoods. Almost a third of the households have changed their dietary patterns to survive.

In the last five years, inequality also widened.

The youth rate of NEET (not in employment, education, or training) has increased for both males and females, the think tank said. The NEETs are a group of population aged 15-24.

The Sanem said 15 percent of school-aged children, ranging from five years to 15 years, were out of education in 2023 while it was 13 percent five years earlier.

The Sanem found that one-third of migrant workers who returned permanently remained unemployed in 2023.

The access to healthcare also worsened last year amid price shocks: 7.2 percent of the population could not access healthcare in 2023, way higher than 1.7 percent in 2018.