Political issue has evolved from financial to structural problem

Noted economist Rehman Sobhan says

AM JAHID *and* MD MEHEDI HASAN

A longstanding political issue has now evolved from a financial concern to a structural problem in Bangladesh, according to noted economist Prof Rehman Sobhan.

Prof Sobhan said they initiated discussions about the impacts of political influence on the economy 40 years ago, adding that it had now graduated from a financial problem to a structural one.

One of the major issues lies in finding a solution to ensure the independence of the Bangladesh Bank, he said while addressing a webinar on 'Political Economy of Banking Sector in Bangladesh' organised by Samaj Gabeshana Kendra on Sunday.

"You [influential people] essentially want to make sure that the management of the central bank and the nature of the malfeasance in the banking system is an instrument of politics rather than an instrument of governance within the system."

Mentioning the names of Mohammed Farashuddin, Fakhruddin Ahmed, Salehuddin Ahmed and Atiur Rahman, Prof Sobhan said professionals were appointed as governors of the Bangladesh Bank over the years, but added that it was no longer the case.

"Eventually, we have ended up appointing bureaucrats as governors because by now the need to make sure that governors are completely subordinate and instrumental to the political dimensions of financial policy-making has become essential."

He suggested that there should be independence in the banking system, but added: "It is a nice dream but you will have to have independence, democracy and accountability before that if this is to be meaningful advice," he said.

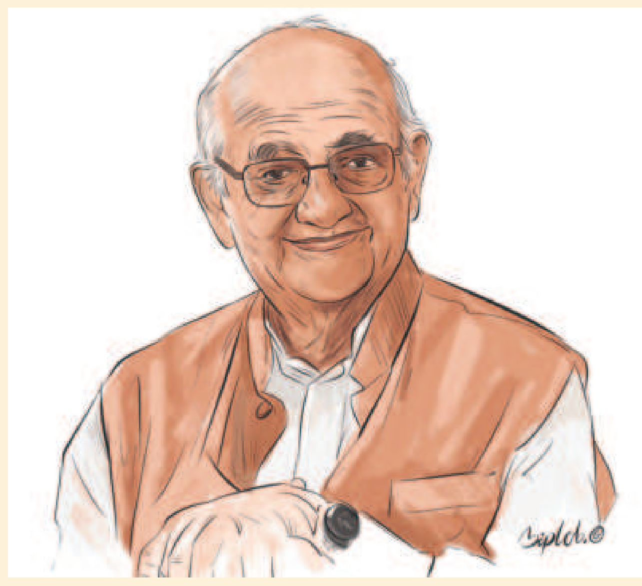
He also observed that, over time, political patronage has become the main criteria for lending.

He added that banks are using savings of small people to lend to a class which is not repaying its loans. This has created a massive state-patronised system of maldistribution of income and assets in the economy, he added.

This also created another asymmetry. "You are borrowing from short-term investors and lending to long-term investors. And since the bulk of the short-term investors are people of more modest means, you are taking the money of less privileged people and lending it to overprivileged people."

So, there was both an injustice and inefficiency which became built into the financial system, Prof Sobhan said.

Furthermore, political resources are used to ensure that loans are not effectively collected. Once that happens, that class becomes more empowered, he said.



The default culture has also distorted the setting of interest rates.

"Now, this whole process is linked to fundamental structural inefficiencies in the banking system. The nature of defaults is linked to the whole issue of money laundering."

What is essentially happening and what is one of the sources of the default loans is the fact that people use bank borrowing as a means to launder money outside the country, he said.

"You then created a structural problem within the banking, within the business sector itself and you created a model hazard problem."

The other structural problem is that borrowers were borrowing money cheaply from the banks while there was very little attempt to use the capital market as a source of industrial financing, he said.

As a consequence of such decisions, now, not only is the proportion of businessmen in parliament increasing, but a larger percentage of bank borrowers as well as a much larger percentage of defaulters are also businessmen, he said.

"But for all the default crisis, no major discussion, meaning a substantive discussion of the default problem, has actually taken place in parliament for probably about 20 or 30 years as far as I can see over successive regimes. Now, this again is an extraordinary state of affairs but hardly surprising."

Now a class of people have evolved who have not just captured the state but have become the state itself, he said. It is going to be very difficult to do anything about it because this class has now joined hands with the bureaucracy.

"A whole class of bureaucrats have also become part of the financial crisis because they too borrow from the system, they too in fact launder their loans," he said.

He added that he recently came to know that a senior police official had acquired huge assets and set up a holiday resort and so forth.

"Now, obviously this could only have been done by massive borrowing from the banking system. I have no idea what equity investments also went into this. But obviously this class can borrow and this class can reschedule."

"Now, you will see that a lot of the borrowed money which is coming in is now being laundered outside the country."

"Unless you can address the political sources of the problem and create a politically accountable system in which the state and nature of governance can be held accountable, not just in dialogues and discussions like this, but actually on the floor of the house and parliament, this will continue," he said.

Accurate data to help address economic challenges better

MD DEEN ISLAM

The recent correction of nearly $14 billion in export figures by the Bangladesh Bank (BB) has led to significant changes in the financial account of the balance of payments (BoP). The financial account, a crucial component of the BoP, turned positive after more than a year due to this correction.

Previously, there was a substantial gap between the export data provided by the Export Promotion Bureau (EPB) and the BB, with the former showing higher shipments compared to the latter. The correction adjusted this discrepancy, resulting in a positive financial account for the July-April period of fiscal year 2023-24.

The balance of the current account, which records a nation's transactions with the rest of the world, fell into negative territory during the same period as it stood at $5.72 billion. These corrections are crucial for understanding their broader implications on economic indicators like GDP and growth estimates, and the potential impact on policy framing and data integrity.

Exports are a critical component of a country's GDP, specifically within the net exports (exports minus imports) segment of the expenditure approach to GDP calculation.

A reduction in reported exports directly impacts GDP calculations. The nearly $14 billion downward adjustment will likely result in a lower GDP than previously estimated. This correction will lower the GDP growth rate.

With exports contributing less to overall economic output, GDP growth rates for the period will need to be revised downward, and future projections for economic growth will need to be adjusted to reflect the more accurate export figures, potentially leading to more conservative growth estimates.

The revision in export data will also affect sector-specific growth rates, particularly in export-driven sectors like textiles and garments, which dominate Bangladesh's export profile. Lower reported exports will reduce sectoral GDP contributions, that is, the contribution of export-heavy sectors to GDP will be revised downward.

Additionally, lower export figures could indicate reduced demand, potentially impacting employment and future investment in these sectors.

With the revised export figures indicating a significant decline, policymakers may need to reassess their strategies to stimulate economic growth and stabilise the macroeconomic environment. Potential policy responses could include strategies to enhance the competitiveness of Bangladesh's exports, such as improving quality standards, diversifying export products, and exploring new markets.

The decline in exports necessitates a review of trade policies to address underlying issues and support the export sector. Improving trade facilitation measures, such as reducing bureaucratic hurdles and enhancing port efficiency, can help boost export performance.

The significant revision in export data could create temporary confusion and mistrust among stakeholders, including businesses, investors, and international partners. Revisions might lead to questions regarding the credibility and reliability of economic data published by national agencies.

Businesses and policymakers relying on previous data for forecasting and planning may need to adjust their strategies and models, leading to short-term disruptions.

However, the reconciliation of export data provides a more accurate picture of Bangladesh's economic landscape, which is crucial for effective policy-making and strategic planning. Accurate data will enable policymakers to better address the challenges facing the export sector and the broader economy.

This may involve reorienting policies to focus on domestic market strengthening, improving export competitiveness, and enhancing economic resilience.

In conclusion, despite the positive financial account, the economy's health remains unchanged. Bangladesh continues to face challenges related to foreign currency shortages for managing external transactions. The correction addresses anomalies but does not fundamentally alter the economic landscape.

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EU tariffs hit growth in China's EV exports

REUTERS, *Beijing*

The prospect of European tariffs cut 20-30 percentage points off China's growth in exports of electric and plug-in hybrid cars in recent months, an official at a leading Chinese auto industry body said on Monday.

Last week, the European Union introduced provisional tariffs of up to 37.6 percent on China-made electric vehicles (EVs) to safeguard against what it described as a potential flood of unfairly subsidised EVs - a move China strongly opposes.

The EU also took steps in March that meant tariffs could be imposed retroactively. "New energy vehicle exports currently face temporary pressure," Cui Dongshu, secretary general at the China Passenger Car Association (CPCA), said on Monday. New energy vehicles (NEVs) include electric cars and plug-in hybrids.

"Our (NEV export) growth used to be at least 30-40 percent, and it has slowed to only more than 10 percent, meaning (the tariffs) had a 20-30 percentage point impact on (NEV export growth), a conspicuous short-term impact," Cui added.

He was speaking after the CPCA reported that China's domestic car sales fell for the third month running in June. NEV exports rose 12.3 percent year-on-year in June, but were down 15.2 percent from May, the data showed, with NEV exports accounting for 21 percent of total car exports, down 3 percentage points from June 2023.

Chinese EV exports rose 12.3 percent year-on-year in June, but were down 15.2 percent from May

Amid the EU's crackdown, US electric carmaker Tesla's exports of China-made EVs in April-June fell to the lowest level since the third quarter of 2022, when its Shanghai factory operations were largely suspended during a COVID lockdown. Europe is the largest export market for Tesla EVs made at the Shanghai plant.

China's total car exports for June rose 28 percent year on year following a 23 percent gain in May, underpinned by robust gasoline car exports, according to the CPCA.

Domestically, China's car sales fell 6.9 percent in June from a year earlier, dropping for a third straight month as government incentives failed to spur consumer demand in a sputtering economic recovery.

Passenger vehicle sales totalled 1.78 million, with the pace of decline picking up from a 2.2 percent drop in May and a 5.8 percent fall in April.

A price war since 2023 helped to lift Chinese vehicle sales earlier in the year but is having less effect in recent months despite fresh government subsidies for trading in cars, which were announced in April.

For the first half of the year, China's domestic car sales were up 2.9 percent at 9.93 million vehicles.

June sales of NEVs accounted for a record 48.1 percent of domestic car sales.

Chinese EV giant BYD, and relative newcomers such as Nio, Zeekr and Leapmotor all logged record monthly sales. Overall growth in EV sales cooled to 9.9 percent from 27.4 percent in May while sales of plug-in hybrids jumped 67.2 percent, up from a 61.1 percent increase the previous month.

Gold succumbs to profit-taking

PHOTO: REUTERS/FILE

REUTERS

Gold slipped on Monday as investors booked profits after soft US jobs data fuelled prices to a more than a-month high on rising expectations that the Federal Reserve will begin cutting interest rates in September.

Spot gold fell 0.9 percent to $2,370.00 per ounce as of 1000 GMT, after rising to its highest level since May 22 on Friday. US gold futures eased 0.8 percent to $2,377.50.

Data last week pointed to a slackening labour market that keeps the US central bank on course to start cutting interest rates soon.

Markets are currently pricing in a 74 percent chance of the Fed cutting interest rates in September as well as another cut in December.

"We should not forget gold had a nice rally last Friday, so some profit taking and a stronger dollar post the French elections are weighing on gold today," UBS analyst Giovanni Staunovo said.

"Lower US interest rates are likely to support more inflows into gold ETFs (exchange-traded funds), which likely has the room to push the yellow metal to $2,600/oz by the end of the year."

This week investors' focus will be on Fed Chair Jerome Powell's semi-annual Congressional testimony, comments from a series of Fed officials, and US inflation data.

"If we get another downside surprise in inflation data, which we have seen pretty consistently in US data, then that's going to be a tailwind for gold," said Kyle Rodda, a financial market analyst at Capital.com.

Elsewhere, top consumer China's central bank refrained from gold purchases to its reserves for a second consecutive month in June.

"Monthly data based on IMF reporting don't catch the full picture of central bank activity, so I would not be surprised if the final data from the World Gold Council indicates solid central bank activity in the second quarter of this year," UBS' Staunovo said.

Global economy finds new ways to keep growing

REUTERS, *London*

The world economy is defying the Cassandras. Despite widespread predictions of a slowdown, global GDP growth is accelerating. The United States is still the star performer but as it flags other regions are picking up the slack. Risks of damaging geopolitical confrontations abound. But for now investors can bask in an ideal economic environment.

"Steady but slow". "Weak pace". "Modest growth". The latest predictions by, respectively, the International Monetary Fund, the World Bank and the Organisation for Economic Co-operation and Development do not make for cheery reading. Their common concern is that the global economy has been unable to regain its pre-pandemic cruising speed. As the World Bank points out, in 2024 and 2025 nearly 60 percent of countries, comprising over 80 percent of the global population, will grow by less than their average rate in the 2010s.

Look under the bonnet of the world's economic engines, however, and the perspective is more optimistic. For a start, global GDP is accelerating. When economists at UBS last tracked 320 monthly data series from 28 economies for April, they found that the global economy was growing at an annual rate of 3.5 percent. If maintained throughout the year, this pace would be faster than the 3.2 percent expansion in 2023 and not far from the 3.7 percent yearly average in the decade before the Covid-19 pandemic struck in 2020.

In practice, such a heady pace is unlikely to last. Nevertheless, it is still a sign of the positive momentum behind global output. Just as importantly, this pickup is taking place as price rises are abating. Median headline inflation peaked at 9.4 percent in 2022 as the health emergency and lockdowns sent prices spiking around the world. But after supply chains, energy markets and consumer behaviour adapted, and central banks belatedly but aggressively raised rates, global inflation is on track to fall to 2.8 percent this year and 2.4 percent in 2025, the IMF forecasts.

People walk along Nanjing Pedestrian Road, a main shopping area in Shanghai. The Chinese economy grew at an annual rate of 5.3 percent in the first quarter, much better than the 4.6 percent forecast in a Reuters poll. PHOTO: REUTERS/FILE

The United States is the key driver of these benign conditions. While the other two big engines – Europe and China – sputtered, it was the world's largest economy that provided the thrust. Unlike most other countries, the US has already resumed its pre-pandemic growth trajectory, with GDP expected to grow by 2.7 percent this year, compared with just 1.7 percent for advanced economies, IMF data shows.

This economic feat owed much to the huge fiscal stimulus unleashed by the federal government in the form of corporate subsidies and direct transfers to households. These sustained consumption and corporate investment, helping to keep unemployment low. Admittedly, there are signs this star performer is flagging. US GDP grew at an annual rate of just 1.4 percent in the first three months of the year, while the consumer sentiment index compiled by the University of Michigan is at the lowest point since November 2023.