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In FY 2012-13 (FY13), in line with the global economic slowdown, Bangladesh has been showing bit of a slower than expected overall growth performance. That's not surprising because it has happened in almost every country- China has significantly reduced its growth estimate; India particularly has revised its growth down to 5.8 percent from 7.5 percent. Bangladesh's growth target was 7.2 percent, and like most comparator countries that's also not going to be realized. To be realistic, it's going to be significantly less- perhaps around low 6 percent.

There are a number of reasons for that. When we compare the current economic situation in Bangladesh with that of last year, we are observing a significant softening of domestic economy both because of slower export and domestic demand. First, if we look at major thrust sectors like export, there is no significant change- 3 to 4 percent growth for the past five months over the corresponding period last fiscal year; that's not promising, although I am still expecting some modest pickup on the export side. Second, if we look at the domestic side of the economy, we see the unfolding of a mixed scenario: on the one hand, remittances are going strong and that will help domestic demand from the private household sector side; on the other hand, because agriculture prices are doing much worse, there will be loss of income for the farmers and that will dampen demand in the farm sector. Therefore I would expect that there will be a bit of subdued domestic demand overall because of the farming sector doing worse. Third, in addition to these factors the impact of the stock market crash is still being felt in both the corporate and household balance sheets; it's like a significant wealth loss for a large number of well-off people and financial sector entities. There is also a kind of winding down in the real-estate side; apartment and land prices are slowly coming down. These factors are going to impact demand negatively and have contributed to the: observed slowdown in construction activity; growing inventory of housing/apartment; selling of land by people or companies who were speculating on land. All these factors altogether essentially reflect a depressed domestic demand. That has also been reflected in the import demand as well; import growth actually is negative at the moment. Overall, it would be very difficult to achieve significantly high growth for the overall economy.

Bangladesh's fiscal policy has for the most part fairly well managed in the sense that overall expenditure level never crosses

the budget target and there was not much of a problem in terms of the overall fiscal deficit. As a matter of fact, usually the deficit target is set at 5 percent of GDP but Bangladesh never crossed that level in recent years. Last fiscal year we ended up with a deficit of 4 percent of GDP. And if we measure the deficit including grants, it would be 3.5 percent of GDP, which is quite sustainable for a country like Bangladesh. Therefore, the fiscal side story is not destabilizing or growth-augmenting but it has its own kind of macro-stability friendly nature. The level of public debt in Bangladesh at about 50% of GDP is under control and because if its concessional debt service payments on its external debt is very low. Revenue performance last year was good, but this year, the macroeconomic sluggishness seems to be showing up in revenue collection. Even VAT revenue, which is traditionally the most buoyant component of tax revenue, has been growing at much a slower pace than it was last year. Banking sector profitability has been declining and loan loss provisioning has started to rise after a long period secular decline.

Monetary policy at the moment is something that I fully support. After 3 years of expansionary monetary policy--which led to a high inflation, exchange rate depreciation, and balance of payment instability--Bangladesh Bank has put monetary policy back on the correct tract. The correction started happening with announcement of the January 2012 Monetary Policy Statement and adhering to it. I always emphasized that we cannot generate growth by simply injecting higher amounts of liquidity because the perception that more credit would lead to higher growth is absolutely wrong. If we look at the investment side, Bangladesh's investment level in the last 3 years did not change much. Bangladesh Bank allowed a sharply higher growth of private sector credit ranging between 25-27 percent, but there has not been a corresponding increase in domestic investment. The expansionary monetary policy of past years did not help investment and growth-- only led to the formation of bubble in the stock market, real estate, and land prices. Import payments surged contributing to the instability in the balance of payments. The change in the monetary policy stance was appropriate and made perhaps on the basis of learning from the past mistakes.

Monetary policy is not in a contractionary phase; it's more of a contained phase because still it is allowing for a very healthy growth in credit and monetary expansion. Some business people may still cry. Since after getting used to 25-27% growth in private sector credit if growth comes down to an appropriately lower

level of about 18%, some may feel frustrated though the growth rate we see is actually fine. If parents has been giving their son an excessive amount of ten thousand taka every week as pocket money and suddenly lower the amount to five thousand taka, the son would feel frustrated though the given amount is still very reasonable and contain wastage. Similarly, Bangladesh Bank's concern should be to provide sufficient amount of liquidity for the economy to function effectively but not jeopardizing the inflation target of the government.

Now that the inflationary pressures are declining, I would hope that the policy makers would reduce the inflation target to 6.5 or 5.5 percent and frame the monetary policy accordingly. They should not relax the monetary policy stance before bringing inflation, particularly nonfood inflation, down further. . The target inflation for Bangladesh must not be more than 5 percent over the medium term.

The value of Bangladesh taka against the US dollar has stabilized more or less. It has appreciated by about 2-2.5 percent in the last couple of months. Bangladesh Bank's foreign currency buying from the interbank market is currently the right policy. The authorities are trying to support the exchange rate at about BDT 80. In the process, they are building up foreign exchange reserves, which is important because today the reserve cover may appear adequate due to the depressed level of imports. But since imports will surge in the coming months, we may find that our reserve cover is not adequate. So, we should now build a significant amount of reserve coverage because in future, more pressure will not only come from the import side but also from the capital account side. My suggestion to Bangladesh Bank would be to have a high reserve target; they should not be bothered until the level of reserve crosses US\$20 billion.

There is now a good opportunity for the government to stabilize inflation at around 6 percent. I feel in this fiscal year, this inflation target should be attainable if domestic and international supply conditions remain favorable. Food prices are low; global commodity prices are also stable; if the inflation target is brought down to 6 percent or below, there should be room for reduction of the interest rate structure, providing the much needed relief to our domestic investors.

Although the recent fires have produced some negative image for the garment/textile sector of Bangladesh, but I think it would not be a lasting one. Our garment sector must address the issue seriously and BGMEA must take the lead in this respect.

Current growth of remittance is unusually robust. I did not expect it to be as high as 24 percent; I was expecting about 15 percent or so. I feel it's a result of the growth in the outflow of people

last year. If we can maintain the outflow at a higher level and increase their skill level, then this high growth in remittances can be sustained for a long time. However, 24 percent growth would not be realistic for a long time but 15-20 percent growth may be sustainable over the medium term.

A promising part of 2012 was the restoration of macroeconomic stability. The macroeconomic situation was unstable at the beginning of 2012. It has significantly stabilized in the last quarter which is the biggest achievement from macroeconomic management point of view. However, performance of the financial sector has deteriorated as lots of financial scandals have surfaced recently and more are expected to be exposed in the coming months.

I don't think the stock market index will go below 4000 level or stay below 4000 for too long. I feel the stock price index is currently range-bound t moving between 4-5000 and, contrary to usual market commentaries, the equities are generally fairly priced now.

Looking forward, instability in the political environment is a major challenge for Bangladesh economy. Investment will be slower; it may accentuate capital flight; it may lead to postponement of Foreign Direct Investment in Bangladesh until the election is over. Lot of things will hinge on that- both private sector's decision and foreign investors' decision. The new year (2013) will be seen by most investors as a period for maintaining the "holding pattern"- essentially meaning whatever I have invested, I will maintain that without increasing the stakes further.

A lot of optimistic pictures are being painted for the long-term economic outlook of Bangladesh. Those optimistic outlooks are predicated upon various things getting right. Bangladesh should certainly capitalize on its demographic dividend. The policies that need to be clarified include the political environment which will dictate the economic environment for investment. Political and economic environments are preconditions for expanding investments in an economy. So, to me, the long term outlook is still favorable but we have to work on alleviating major economic constraints. Enhancing the skill level of our labor force and increasing the participation of women in the labor force will be critical; otherwise we would not be able to capitalize on our demographic dividend. Everything depends on the right policies and sustained implementation of those policies.

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Interview is taken by Md. Ashaduzzaman Riadh and Tanzina Ahmed Choudhury. All views and opinions expressed here are solely of the interviewed persons and neither represent the views of LankaBangla Securities Ltd. nor those of any of its associated institutions.