Economic Policy in the Post-COVID Era

Syed M. Ahsan, Ph D

Visiting Fellow, BIDS

&

Professor Emeritus, Concordia University, Montreal, Canada

Outline

- 1. Preamble: Post-COVID Scenario
- 2. Non-COVID Uncertainties
- 3. Whither 4.
- 5. 6. Conclusion

1. Preamble: Post-COVID Scenario

- General Consensus that BGD has fared exceptionally well during COVID on most accounts
- Public Health: Relatively low incidence of both morbidity and mortality.
- Employment Loss:
- Poverty Fallout: Rural/urban/gender
- Inequality:
- Education/Skill/Human Capital

… Post-COVID Scenario

- *RMG/Exports*: RMG decline in FY20 was offset a little by actual growth in non-RMG exports, though overall decline was substantial (15%). Recovery has been good.
- *Remittances*: Year-on year growth slowed in FY 20, but quickly recovered; however, the decline in FY22 and the recent outlook has emerged as a concern (more below).
- *Public Revenue*:
- GDP Growth: It fell precipitously to 3.5%, but remained well into the positive tertiary (e.g., unlike India). Subsequently, the rebound was robust (in the 7-percent range in FY 21 & 22).

2. Additional Uncertainties

- *(1) The Ukraine War (non-COVID origin)*: Serious adverse impact on global energy market, and in grain exports. This has immediate consequences on our current account balance.
- Petroleum Share of imports: Abut USD 9 billion in FY22, up by 68% y-o-y. FY 23 outlook?
- *Grain/Pulses Imports*: About 2 billions annually, not so high!

… Uncertainties

- *(2) China's Zero-COVID Policy*: Even though COVID may be on many people's rear-view mirror, this has been playing havoc since the advent of COVID.
- Impact: Higher cost of import's from China, e.g., all intermediate and capital goods (both RMG and other industrial sectors).
- Import dependence on China: About USD 20-22 billion annually, a substantial share of total.

… Uncertainties

(c) Post-COVID *High Inflation/Monetary tightening in North America & EU (US Policy rate, from 0.25 to 4.0 in CL 22)*

- What are the impacts on LMICs like BD.
- USD appreciation: Ideally should auger well for BD exports, garment and all against most currencies in the calendar year (1922). See below.
- RMB: about 13 % over last few months;
- Viet Dong: about 8-10% in CL22, some resistance of late.
- BDT: Deprecation, at least 15%??

… Uncertainties

- *Import Cost*: Most exports are backed up by offsetting imports (intermediaries & other inputs): Here global inflation plus USD appreciation is the bogeyman to watch out!
- *Valued-Addition*: Given the FX outlook, a country can gain most if exports are mostly made up with domestic inputs, not just labour.
- Room of additional FX intervention beyond restricting the import of luxuries.
- *Balance*: Jury is out?
- *Remittances*: How does the altered scenario foretell about remittance behaviour? See below.

… Uncertainties

- (4) *Home-grown Uncertainties: (a) Financial Sector Outlook*
- Sustainability of domestic credit growth: NBFIs esp.
- Prof Sobhan wondered about the relationship between credit disbursement and investment in physical capital/ equipment/ structures.
- Financing of working capital may explain a part of the gap.
- A research topic at BB would be to examine the possible linkage between private credit demand, demand for FX over-the-counter/hundi market and the financing of illicit/unofficial trade.

… Uncertainties

- *4 (b) Evolving Current Account (CA) Scenario*
- *Services* component of CA: the deficit here in FY23 appears to be about double that of FY22 (USD 1.1 billion vis-à-vis 0.6b). [… includes payment to foreign mobile phone operators/Royalties paid to foreign investors …]
- In proportionate term, this is much higher than BoT, which is likely to go up only by about 11% in FY23 (y-o-y), though in actual size it huge at about USD 8 billion.
- Q1: How much of this CA-gap can be offset by new surveillance measures launched by BB on LC-invoicing as cited above?
- Q2: What else can we find in the BB/FXI toolkit?

4. Policy Stance Going Forward

(a) Inflation Control

- Given the fixed band still in operation for a large share of credit flows, the scope of policy rates have been highly compromised.
- Monetary policy signalling has been *de facto* muted.
- Credit market intervention can only be economically rationalised if the observed return from lending to a sector has a social significance beyond its inherent private nature (e.g., micro loans/ loans to fertilizer producers that leads to cheaper than imported stuff etc). Targeting issue? Accountability.
- BB appears to recognise the point and plans to move in the direction market liberalisation.

… Policy Stance

- However, the longer the delay, the greater are the foregone costs of sub-optimal credit allocation. One needs to evaluate the social cost of such a policy?
- In any case, given that inflation is there for a while, one ought to design targeted subsidies to the poor; ration system is one possibility, though leakages are common.
- Any scope of a large scale NGO intermediation?
- (b) *FX Market Reforms/Interventions*
- Most economists view a uniform exchange rate to be a key part of the solution, though interventions are feasible.
- BB appears determined to move in that direction, albeit gradually presumably not to jolt the boat hard.

… Policy Stance

- *Remittances:* Different rates in different markets, official vs the hundi system.
- BB also appears to believe that market-based ER is the best defence, though the scourge may not be eliminated so easily.
- FX intermediations: some new initiatives, positive!
- BB's recent initiative to clamp down on over-under invoicing of tradables is a significant necessary step toward choking off the demand for hundi channel to an extent.
- Underground trade remains to be targeted (buoyed in part by the demand for narcotics and similar *temptation* goods).

… Policy Stance

- *(c) Policy Stance Uncertainty (Re. Int Rate, FX mkt, inflation target)*
- Everyone knows that market hates 'uncertainty' of all sorts, which by design cannot be eliminated completely. However agents ought to be able to gauge/forecast ('*qua* basis of action') based on announced policy stance that is consistent (in a dynamic sense) backed up by data whenever possible.
- Rumour in the media that MPS will be made annual from now on, not bi-annual! If so, this is a bad signal!
- The very first Policy Note published by PAU back in September 2005 (I believe) dealt with the centrality of CB Communication Strategy. I believe that ought to be a required reading for all CB senior management even today.