

Is economy heading towards stagflation?

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Is the economy getting in the throes of stagflation – a situation marked by inflationary conditions amid slowed-down, if not stagnating, pace of activities in its real sectors?

Despite the efforts by the caretaker government to resuscitate the flood-damaged and cyclone “Sidr” battered economy, the current indicators raise fresh concern over its likely course in the immediate future.

Inflation continues to hit the common people below the belt. Food grain prices have already come under fresh upward pressures in the recent days. All other kitchen items have likewise recorded a renewed surge in prices. The unofficial estimates about the latest rate of inflation, particularly those relating to food and other essential items, would, on a rough reckoning, suggest a 7-8 percent rise at the least.

Prices showed some stability, though on a level much higher than that of the last year, during the month of Ramadan this year. But that phase of relative stability is now apparently over and the inflationary fuel is now conspicuous by its presence in the market.

While prices of essentials are now up again, the growth performance of the real sectors, as the available indicators would show, is slowing down. Retailers in most shopping complexes are complaining about a significant drop in their business turnover. If that provides any real index about the state of the economy, then disclaiming recessionary conditions thereof is difficult to substantiate. And again, if the latest statistics about excess liquidity or surplus funds with the bank give any signal about the economic activities, the picture remains quite disconcerting. Notwithstanding the instructions of the central bank and the policy measures of the government to buoy up growth-supporting activities through stepped-up lending operations by the banks, credits, particularly to private sector, are yet to pick up. The amount of excess liquidity with the banks stands now at over Taka 140 billion. And banks are reported to be encountering the growing burden of non-performing loan (NPLs) because of the difficulties that they are facing from some of their large borrowers.

Further, most banks, being awash with excess liquidity, are now cutting their deposit rates. Such cuts in a situation where inflationary pressures are already markedly up, will lower the real effective rate of interest for the savers. That will be