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Time to be more pragmatic

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The latest monetary policy was declared yesterday, while the previous one was in July 2020. In my immediate reaction I want to question why monetary policies should come about on a yearly basis. It is not a budget which, under constitutional limitations, has to take place on a yearly basis. The monetary policy does not need to have such a requirement. Moreover, money variables deal with some volatility, so it is proper for it to be half-yearly. If that is done, there will be no need to issue periodic circulars which are on an ad-hoc basis.

Coming back to the monetary policy, it starts with a GDP growth of 6.1 per cent and inflation rate of 5.56 per cent. Some other macro variables including foreign exchange reserves also look good. But question arises on the growth rate and inflation. If you deconstruct the growth, it is difficult to see the sectors from which it comes from.

The Covid-19 pandemic has dealt a severe blow. Even then the agriculture sector and some select large industries have withstood that blow. But to justify a 6.1 per cent growth is difficult.

The inflation rate measurement has methodical problems. The reality does not conform to the official figure of inflation. Yet to me, the point here is that at this juncture, Bangladesh should not bother with so called trade-off between growth and inflation estimate.

What is now important is to revive the economy, create employment opportunities, boost up agricultural production and increase foreign currency earnings.

When I look at the monetary policy, I see Bangladesh Bank (BB) has mentioned it to be aimed towards investment and employment generation. In a tone of complacency, the BB states that its policy helped cottage, small and medium enterprises (CSMEs). How? What is the result? Has the Covid-19-induced package of the government announced last year benefitted small farmers? Yet the BB mentions that small farmers, street vendors, hotel workers, transport workers got some incentives. Time has come for BB and policymakers to be free from complacency and be more pragmatic.

The agricultural and rural credit policy mentions some packages like a refinancing scheme, credit guarantee scheme and startup fund for new entrepreneurs and self-employed. But the million dollar question is "Do these people get access to the fund from banks and financial institutions?" Bankers, adopting conventional and routine procedures and with age-old orientation of profit making, risk reducing and aim of expanding their domains, still do not adopt innovative, forward looking and small-borrower friendly methods.

Bangladesh Bank mentions "Monetary Management and Supervision". What are the concrete actions? The BB must go beyond fixing targets and some monetary measures only. It also should emphasise on the implementation, monitoring and supervision of whatever policies, guidelines and norms exist for banks and financial institutions. The first step is to reduce all problems of banks and financial institutions, ensure good governance. Without fixing the pillars, how can a stable economy be built up? The four things which should be kept in mind, not only for the present monetary policy but for subsequent periods, are: (a) impact of Covid-19 on the economy-wide sectors, (b) impact of changes in global trade and business, (c) removal of inequality and injustice created due to faulty strategies, and misplaced priorities and finally (d) employment generation.

Last but not the least, it is pertinent to point out that though the monetary policy has some lacks when it comes to having effect, it is important that it builds confidence of the people in the financial sector, including the capital market.

The writer is a former governor of Bangladesh Bank.