

Experiences with monetary policy

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As a part of its regular functions, the Bangladesh Bank (BB) announced its half-yearly Monetary Policy Statement (MPS) for the period January-June 2013 on January 31, which has been appreciated by many as "balanced" and "pro-active" one. It is the output of a series of consultations with the relevant stakeholders/experts and the policy makers in the monetary and financial fields as well as the in-house in-depth exercises at the BB, keeping in view the latest outcome in the domestic and external economic scenarios. Though it is not a detailed review of the present MPS, this short note makes an attempt to evaluate the past experiences with monetary policy pronouncements in Bangladesh.

It is not at all an easy task to evaluate the performance of monetary policy in any country. Like a layman, we can fix up a benchmark of key elements of monetary policy and then compare those with the real outcome obtaining in the economy. In Bangladesh, the recent experience with the monetary policy centers around the following major objectives:

(1) Containment of inflationary pressure: Inflationary pressure in any country originates from both domestic and external sources. The central bank and the government try to mitigate this by adopting different supply augmenting and demand managing policy measures. At present, the inflationary pressure in Bangladesh is showing a gradual declining trend. The twelve-month average inflation rate as calculated by the Bangladesh Bureau of Statistics was as high as 10.71% in December 2011 which gradually declined to 8.74% in December 2012 and further to 8.40% in January 2013. Inflation rate on point-to-point basis also depicted the same trend. This has been caused mainly by the decline in food price inflation, weight of which is now about 58.84% in Bangladesh. If this trend continues, then the authority's expectation of achieving inflation rate at 7.5% by the end of June 2013 is an attainable proposition. But there are some potential risks associated with inflationary pressure in Bangladesh which may arise in future due to the present volatility in the world commodity market and recent upward adjustment in fuel prices. Added to this is the recent appreciation of domestic currency which may negatively affect inflation rate and inflow of foreign remittances into the country.

(2) Stability in exchange rate: Exchange rate is very important in influencing the major macroeconomic variables in an economy like, among others, exports, imports, remittances, inflation rate, etc. It is also an instrument of building up of foreign

exchange reserves in the country. The nominal exchange rate of Taka vis-à-vis US\$ depreciated significantly by 9.4% in FY 2012. The recent behaviour in exchange rate is stable after depicting an appreciating trend with the large inflow of remittances, buoyant export growth and a declining trend in import payments. The Taka has appreciated by about 2.9% during July-December 2012. Bangladesh Bank has



STAR ARCHIVE

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purchased foreign exchanges to the tune of about US\$281million during July-10 January 2013 and its reserves position stood at US\$13.3 billion (more than four months equivalent of imports) on February 10, 2013.

(3) Using resources for productive purposes: The traditional textbook discussions on monetary policy postulates the idea of using the scarce resources in

the most productive sectors for generating employment opportunities and higher income in the economy. Private sector is now dominant in most of the countries including Bangladesh and is regarded as the "engine of growth." The share of private sector credit (PSC) to total domestic credit (TDC) may be a guiding principle to judge the effectiveness of monetary policy in the economy. The share of PSC to TDC

remained more or less flat at around 79% during FY10-FY12. But, the share of PSC to GDP which was 39% in 2010 increased to 43.3% in 2011 and marginally further to 44.6% in 2012.

If we look at the recent trend in the distribution of loans and advances according to the economic purposes, we see that a significant structural shift is taking place in Bangladesh's banking sector as per

directives of the central bank. There are different types of industries in Bangladesh -- large, medium and small scale -- and BB is encouraging the banks to increase the flow of loans and advances to the medium and small scale enterprises (SME) which are labour intensive and have lower gestation period. The share of term loans to large industries, which was about 73% at the end of June 2009 sharply declined to 62% at the end of June 2012. Again, the share of medium scale industries to term loans increased from 23% to 30% during the same period. The share of small industries also increased from 4% to 7%. This trend is encouraging as it is a great leap forward towards showing greater financial inclusion as well as generating higher income and employment opportunities in the country.

In the last few years, BB emphasised in its half-yearly MPSs to discourage credit flow to the unproductive sectors as well as discouraging luxury imports (private cars, televisions, air conditioners, refrigerators, cosmetics, etc.) into the country. As a result, imports of luxury goods which increased by about 11% in FY2011 significantly declined by about 23% in FY2012. Again, the share of imports of the luxury goods to total imports which was as high as 3% in FY2009 gradually declined to 1.9% in FY2011 and further to 1.4% in FY2012, which clearly demonstrates the authority's efforts to channelise credit flow to the desired sectors.

(4) Interest rate spread (IRS): The interest rate spread is the difference between the weighted average interest rate on advances and on deposits. It is influenced, among others, mostly by inflation rate. Because, if it is high then the depositors will ask for higher interest rate from the banks to ensure a positive returns on their deposits. If the deposit rate is high then the banks in turn will also charge higher interest rate on their loans and advances. In this situation, demand for credit may go down which will negatively affect production and employment situation in the country.

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TRIBUTE

Professor Mosharaff Hossain: Committed to welfare of the people

IAN MARTIN

PROFESSOR life and work have been devoted to trying to persuade his fellow countrymen and the international community to address more effectively the poverty of the great majority of the people of his beloved Bangladesh.

In 1970, as a young staff member of the Ford Foundation in Pakistan, I was commissioned to explore where serious work was in progress on the issue of rural poverty, so that it could be better supported. This soon led me to seek out Professor Hossain, and one day I arrived on the campus of the University of Rajshahi, where the elder of his young sons found me before I found his father. Thus began a friendship of more than four decades.

Less than a year later, I was visiting Professor Hossain and his family in Calcutta. They had left Rajshahi ahead of the savagery which the Pakistan army unleashed upon the university and town, and helped by villagers, had crossed into West Bengal, where he put himself at the service of the Bangladesh government established in exile. Already he was planning for the economic recovery and future of an independent Bangladesh, and before long I was meeting him again in Dhaka when he was a member of the Planning Commission of Sheikh Mujibur Rahman's first government.

His commitment as an economist to alleviation of poverty could not be separated from his political commitment to an independent, democratic, secular Bangladesh. His love and admiration for Sheikh Mujib was unchanging but clear-sighted: he was one of very few in any comparable position who refused to join Baksal and endorse the single-party state. He was devastated by the murder of Sheikh Mujib and his family, and unforgiving in his hatred of those who were complicit in it.

When he returned to Bangladesh after a period of exile in Oxford, which happily for me enabled his family and mine to see more of each other, he became president of the Bangabandhu Parishad. It was characteristic of him that while he would not join in obsequious deference to a leader in power when he believed him mistaken, he would take the lead in public tribute when this was unwelcome to the regime then current.

Professor Hossain's students can testify far better than I to his influence as a teacher. But I was privileged to watch over the years his interaction with

members of the international community, and to hear his private reflections about their engagement with Bangladesh. At one end of the scale were close friendships -- such as those with George Zeidenstein, the first full Ford Foundation Representative in independent Bangladesh, later President of the Population Council, and Borje Ljunggren, the first Head of Swedish Sida, later Swedish ambassador to China -- in which he educated many of us to better understand the society, politics and economics of his country. At the other was trenchant criticism -- expressed with such subtle humour that its victims sometimes failed to feel its full force -- of those international institutions which he believed encouraged economic policies ignoring or contributing to impoverishment.

His retirement from the University of Dhaka resulted not in relaxation but in an intensification of research and writing. For many years he devoted long hours in his home to encouraging those active in politics who he thought had honest commitment to socialist values, but his growing disillusionment with the state of Bangladesh politics left more time for private study.

His deepest contempt has always been for any form of corruption. He referred to his own occasional international consultancies as "racketeering," although he always used them to deliver serious analysis which promoted the consistent values of his work, much of which he financed from his own pocket. His alliance with nutritionists gave him crucial evidence with which to challenge those whose over-optimistic assessment of trends contradicted what he knew to be the reality of the rural poor.

The influence of a teacher, writer and friend is in a literal sense incalculable. The majority of contributions to this felicitation volume will testify to Professor Mosharaff Hossain's influence on Bangladeshi development scholars and practitioners. I can testify to the profound influence he has had on many in the international community who want to see, and where we can assist, a Bangladesh in which his values are expressed in honest, committed politics and economics which truly serve the majority of its people -- who, in the midst of ostentatious wealth and corruption, continue -- to his deep dismay -- to live in poverty.

The writer is a former Secretary General of Amnesty International.

How radio shows for farmers are boosting crop yields

THE GUARDIAN ONLINE

THE sun is just beginning its descent as a knot of farmers gathers around a small, portable radio in the grounds of the Nachol Pilot high school in Bangladesh's north-western Chapai Nawabganj district, about 300km from the capital, Dhaka.

The voices of Kausar Ali and Dhiren Karmakaur two farmers from Nachol who are sitting in a studio about 15km away from the crowd of eager listeners come in clearly on the airwaves, welcoming their remote audience to Krishi O Jibon (Agriculture and Life), a daily programme on Radio Mahananda.

The anchor begins by playing a popular type of song known as gambhira, a blend of folk music performed in the native dialect by local artists, before launching the farmers into a discussion about a common problem among this community of roughly 5,000 agriculturalists: pest attacks on maize crops.

"The feeling here is absolutely electric," says the anchor, Selim Kabir, a local farmer who uses this radio show to promote crop production in Chapai Nawabganj.

"Gambhira enlightens farmers about various aspects of agriculture," Kabir told IPS, "so we chose to use it throughout our programme, which delivers important messages and hosts live discussions on best practices to solve farm-related problems."

Radio Mahananda, launched last April, has become an indispensable communication tool in an almost entirely agriculture-dependent region, where illiteracy rates are as high as 50%.

The long fingers of development have not yet reached this part of the country hundreds of kilometres from Bangladesh's bustling industrial centres where there is little infrastructure and few plans to build any.

Chapai Nawabganj lies partially within the 7,780 sq km Barind region, an arid expanse of land located in north-western Bangladesh. Here, extreme weather brought on by climate change has made crop production a huge challenge.

Barind, which has an exceptionally high population density, is forced to contend with severe drought in the summer months, inadequate rainfall during the monsoon season, excessive withdrawal and depletion of groundwater, gradual loss in soil moisture and progressive deforestation.

In an effort to confront these challenges, the government set up the agriculture information service (AIS), which resulted in the establishment of more than 1,000 farmers clubs each with between 30 and 50 members in all of the country's 64 districts, to facilitate regular

exchanges of information about boosting crop production, and adapting traditional growing and planting cycles to a changing climate.

Now, with the help of Radio Mahananda, the government initiative is having an even greater impact. The rural community station has a 17km radius. It helps farmers share their own crop research with listeners and even invites farmers to participate in studio discussions on capacity development, cultivating improved varieties of seeds, promoting use of organic fertilisers, using less water for irrigation and improving yields.

Ahmed Moin, producer of the 30-minute Krishi O Jibon show, told IPS: "Over 60% of our programmes are focused on developing agriculture. We use the benefits of radio transmission to build awareness and overcome crop production crises."

This year, in response to massive popular demand, Radio Mahananda introduced another special programme A Masher Krishi (Agriculture This Month) which focuses on cultivating seasonal crops.

"We have seven hours of daily programmes," Hasib Hossain, chief executive officer of Radio Mahananda, told IPS, "and since Chapai Nawabganj is an important agricultural zone we design our programmes to maximise benefits to local farmers."

Radio shows typically begin after 3pm, to enable farmers to gather together at the end of the workday and tune in. The programmes are interspersed with useful tips on how to avoid pest attacks or use drought-resistant seeds.

Television is a rare luxury in this part of the country, and a high illiteracy rate among farmers makes it almost impossible to disseminate agriculture-related news and information in print the radio shows offer an excellent alternative to farming communities, who can even tune in using their mobile phones.

Habibur Rahman, a local farmer and regular listener from Delbari village, said: "We certainly benefit from listening to the radio programmes. For instance, I had a pest attack in my mustard field two years ago. Last season I avoided that by seeking advice in advance from experts who discuss these problems live [on the air]."

Farmers are encouraged to participate and send queries to the radio office through phone calls or text messages. There has been "huge enthusiasm among the farmers. Requests for advice keep pouring in and many have reported better grain harvests" after the radio programmes started, according to Moin.

Mohammad Mosharaff Hossain, senior scientific officer of a local mango research institute, said: "We ... teamed up with Radio Mahananda recently to disseminate information on our research and received an unbelievable response."