

Can central bankers succeed in getting global economy back on track?

ANATOLE KALETSKY

Why is the world economy still so weak and can anything more be done to accelerate growth? Six years after the near-collapse of the global financial system and more than five years into one of the strongest bull markets in history, the answer still baffles policymakers, investors and business leaders.

This week brought another slew of disappointing figures from Europe and Japan, the weakest links in the world economy since the collapse of Lehman Brothers, despite the fact that the financial crisis originated in the United States. But even in the United States, Britain and China, where growth appeared to be accelerating before the summer, the latest statistics -- disappointing retail sales in the United States, the weakest wage figures on record in Britain and the biggest decline in credit in China since 2009 -- suggested that the recovery may be running out of steam.

As Stanley Fischer, the new vice chairman of the Federal Reserve Board, lamented on August 11 in his first major policy speech: "Year after year, we have had to explain from mid-year onwards why the global growth rate has been lower than predicted as little as two quarters back. ... This pattern of disappointment and downward revision sets up the first, and the basic, challenge on the list of issues policymakers face in moving ahead: restoring growth, if that is possible."

The central message of Fischer's speech -- that central bankers and governments should try even harder than they have in the past five years to support economic growth -- was closely echoed by Mark Carney, the governor of the Bank of England, at his quarterly press conference two days later.

This consistency should not be surprising: Carney was Fischer's student at the Massachusetts Institute of Technology in the 1970s -- as, even more significant, was Mario Draghi, president of

the European Central Bank. Because of Fischer's influence on other central bankers, as well as his unparalleled combination of academic and official experience, he is probably now the world's most influential economist.

When US President Barack Obama appointed him vice chairman of the Federal Reserve, Fischer was widely viewed as more hawkish than Chairwoman Janet Yellen. He was considered a restraining influence on her instinct to focus on jobs and growth rather than inflation control.

So investors and business leaders should pay attention when Fischer makes his first major speech a call for more explicitly growth-oriented monetary policies -- a call that other central bankers are already heeding.

Carney made this clear when he surprised financial markets by revealing no hint of anxiety about inflation or financial bubbles. He instead reiterated the Bank of England's interest rate policy of "lower for longer" than almost anyone expects. To the chagrin of currency traders, who had been buying sterling on the assumption that Britain would be the first major economy to raise interest rates -- perhaps as early as this year.

Even at the European Central Bank, the once taboo idea that monetary policy can be used to stimulate growth is suddenly open for discussion -- if not yet conventional wisdom.

Draghi, in his recent policy statements, has unequivocally promised that the European Central Bank would keep interest rates at zero for longer than the Fed and has openly welcomed the weaker euro this policy should produce. There has also been no criticism for this ultra-dovish policy from German Chancellor Angela Merkel or the Bundesbank -- if only because the German economy is reeling from the body-blow of the sanctions war with Russia and the violence in Ukraine.

But what of Fischer's discouraging caveat at the end of his quote? The challenge, he said, "is

restoring growth, if that is possible."

Many economists now say there is nothing more that policy can do to stimulate growth or employment, a view shared by many industrialists, financiers and politicians. Fischer is clearly not among these skeptics, and neither are the other leading central bankers.

Though official statements from leading policymakers are invariably hedged with qualifications, the gist of Fischer's speech is clear: Restoring pre-crisis growth rates should be possible -- but only if economic policy is reformed to deal with three issues that have been treated as taboo, especially among central bankers:

First, central banks must be allowed to interpret their inflation targets flexibly, to ensure that monetary policy promotes growth, as well as maintaining stable prices. In support for European debtor nations that are wrestling with Germany over the ECB's exclusively inflation-fighting mandate, Fischer insists that "in practice, even in countries where the central bank officially targets only inflation, monetary policymakers also aim to stabilize the real economy around some normal level or path."

Second, policymakers must distinguish weak demand, which is likely temporary, from weak supply-side growth, which may well be structural. This is essentially the issue discussed last month in this column. In the United States, Fischer attributes the weakness of demand to housing, Europe and fiscal drag, and suggests that all these "headwinds" could be countered with better policies. Housing, for example, could be helped by avoiding a repeat of the "sharp rise in mortgage rates in mid-2013." Reversing the drag from Europe requires resolution of the euro crisis. On fiscal policy, the obvious solution is simply to stop raising taxes or cutting public spending.

The author is a columnist for Reuters.



Atiur Rahman, governor of Bangladesh Bank, and Anis A Khan, chairperson of SWIFT Member and User Group of Bangladesh and managing director of Mutual Trust Bank, attend a programme in Dhaka recently to celebrate SWIFT's 20th anniversary of operations in Bangladesh.

Air Arabia to connect Chittagong next month

The carrier to run three flights a week

STAR BUSINESS REPORT

Air Arabia has announced it will start flights to Chittagong next month from its new hub in Ras Al Khaimah in the UAE, strengthening its connectivity with Bangladesh.

The Sharjah-based low-cost carrier will run three flights a week from Ras Al Khaimah from September 2, the airline said in a statement on Saturday.

Chittagong, the country's second-largest city with a population of over 6.5 million, becomes the 98th destination serviced by Air Arabia worldwide and second in Bangladesh after Dhaka.

The airline currently runs 14 flights to Dhaka a week.

Adel Ali, group chief executive officer of

Air Arabia, said: "As we close in on our 100th destination worldwide, it is fitting that we are strengthening our connectivity with a market that possesses such strong growth potential for both tourism and business."

He said the ever growing appeal of the airline's flights, underpinned by its core value of making flying affordable for everyone, is why Air Arabia is considered the airline of choice for thousands of passengers who travel between Bangladesh and the UAE every month.

In the first half of 2014, Air Arabia opened its second hub in the UAE and fourth worldwide at Ras Al Khaimah International Airport following a long-term strategic partnership with Ras Al Khaimah Department of Civil Aviation.

Indonesia budget highlights fuel subsidy challenge

AFP, Jakarta

Energy subsidies are set to eat up a huge chunk of the Indonesian budget again next year, the president said Friday, highlighting the challenge for incoming leader Joko Widodo to reduce the crippling payouts.

At current rates, fuel and electricity

subsidies are expected to cost 363.5 trillion rupiah (\$31.3 billion), up slightly from this year, according to a draft budget for 2015 presented by President Susilo Bambang Yudhoyono.

That is around 18 percent of the budget, with fuel subsidies the main drain on state coffers.

Food grain consumption set to rise

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The report said total rice area and production might drop to 1.18 crore hectares and 3.46 crore tonnes in fiscal 2014-15 due to lower Boro rice acreage as farmers

reportedly have switched to more profitable crops.

Assuming normal weather conditions, it kept the wheat output forecasts at 13 lakh tonnes.

Private banks' credit roll-out surges

FROM PAGE B1

The new factories are being run with fuel-based generators, which increase operational costs. If two factories from the same industry are run with two different sources of energy, they cannot compete with one other, according to Khaled. "As a result, the new industries are hesitant to come to the market."

He also said the fall in credit disbursement by state banks is due to their shyness to distribute loan owing to earlier scams.

Zaid Bakht, a director of Sonali Bank, echoed the same, adding that state-banks' vigilance is high mainly after the Hall-Mark scam.

He said the reason for the private banks' increase in credit disbursement is that they mainly provide import financing and working capital and imports increased recently and so did businesses' demand for working capital following the diffusion of political tension.

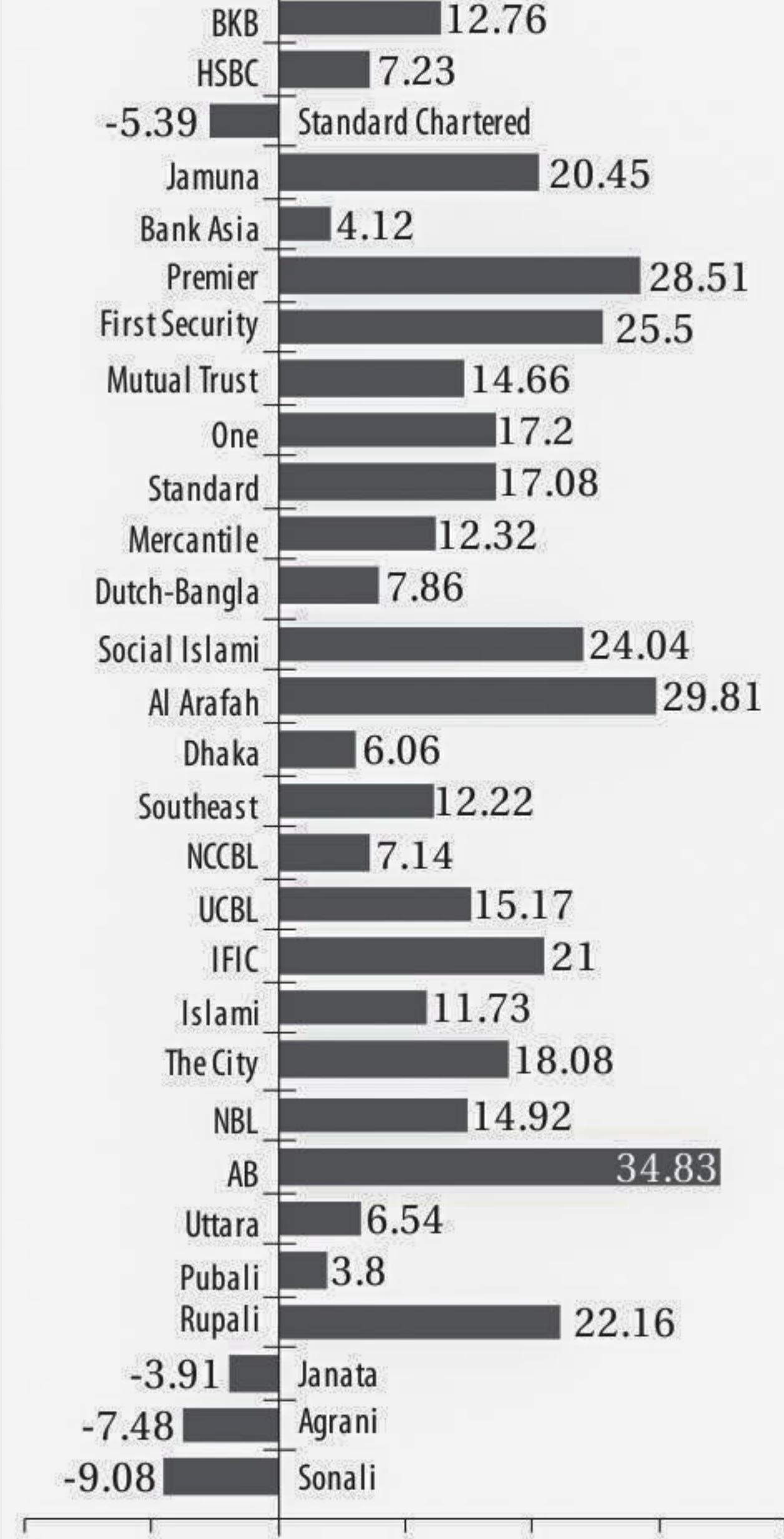
Bakht, also the research director of Bangladesh Institute of Development Studies, expects credit roll-out to increase much next year, when the Padma bridge project is in full swing.

Meanwhile, a branch manager of the state-owned Agrani Bank told The Daily Star that while they hesitate to extend a Tk 100 crore loan even after adequate collateral, the private banks give out Tk 200 crore loans against the same collateral.

"Banking by private banks is much more aggressive than the state banks," he added.

A branch manager of UCBL Bank, a private bank, said they are given a specific target every year and if they fail to meet that the bank cannot do business. "We still scrutinise all paperwork before disbursing loans."

CREDIT GROWTH, JUNE 2014 IN %



Shahjalal Islami Bank Chairman AK Azad attends the bank's half-yearly managers' conference in Dhaka. Managing Director Farman R Chowdhury was also present.

ইস্টার্ন কেবলস লিমিটেড					
Eastern Cables Limited					
Patenga, Chittagong					
"শীর্ষ সার্কিটজিনিয়েট দুর্ঘটনা/অপ্লিকেশনে রুক্ষি এড়াতে আন্তর্জাতিকভাবে বীকৃত শৈল্ম মানে অনন্য ইস্টার্ন কেবলস লিঃ এর তৈরি কেবলস ব্যবহার করুন"।					
বিত্তীয় বিজ্ঞপ্তি					
"বেখানে যে অবস্থায় আছে" প্রস্তুত ওজন/সংখ্যার তিভিতে নিয়ন্ত্রিত ক্ল্যাপ সামগ্রী বিত্তীয়ের জন্য ইস্টার্ন কেবলস লিমিটেড, পতেঙ্গা, চট্টগ্রাম কর্তৃক					
Shahjalal Islami Bank Chairman AK Azad attends the bank's half-yearly managers' conference in Dhaka. Managing Director Farman R Chowdhury was also present.					
টেক্নোর নং	মালামালের বিবরণ	পরিমাণ (মেঘ টন/সংখ্যা)	সিডিউলের মূল্য (অফেরতযোগ্য) টাকায়	আর্মেস্টমানি/বায়নার পরিমাণ (টাকায়)	টেক্নোর খোলার তারিখ ও সময়
ইসিএল/এস-২৭(এফ)/২০১৪/বিশেষ; তাৰ-১৬/০৮/২০১৪ইং	০১ বেয়ার কপার ক্ল্যাপ	০৮			
	০২ ইস্লুটেড কোর কপার ক্ল্যাপ	৩০			
	০৩ বেয়ার এ্যালুমিনিয়াম ক্ল্যাপ	১৫			
	০৪ ইস্লুটেড কোর এ্যালুমিনিয়াম ক্ল্যাপ	১২			
ইসিএল/এস-২৭(এফ)/২০১৪/সাধারণ; তাৰ-১৬/০৮/২০১৪ইং	০১ পিডিসি কম্পাউন্ড ক্ল্যাপ (লাম্পস, সস মিশ্রিত পেলেট, পিডিসি ডাস্ট ইত্যাদি)	৫০			
	০২ ইস্লুটেড রিজেনেরেটিং রাবার ক্ল্যাপ	০৮			
	০৩ ৮০/৫০ গ্যালন ধারণ ক্ষমতাসম্পন্ন ১২ মানের খালি (ডি ও পি) স্টীল ড্রাম খালি (ডি ও পি) স্টীল ড্রাম খালি (ডি ও পি) স্টীল ড্রাম	১২০০টি			
শর্তাবলী:					
১। দরপত্র বিত্তীয়ের শেষ তারিখ ০/০/২০১৪ইং (অফিস চলাকলীন সময়ে)।					
২। দরপত্র অংশগ্রহণে আগ্রহী প্রতিষ্ঠান/ব্যক্তি/ব্যবসায়ীগণ উক্ত তারিখের মধ্যে যে কোন কার্যদিবসে (ক) ক্যাম্পিয়ার, ইস্টার্ন কেবলস লিমিটেড, পতেঙ্গা, চট্টগ্রাম (খ) ক্ষয়াশ শাখা, বিএসইলি প্রধান, ১০২, কাজী নজরুল ইসলাম এভিনিউত, ঢাকা এবং (গ) প্রগতি ইন্ডাস্ট্রি লিমিটেড, ১১-ফিল্মে হাউস (৩য় তলা), আশাবাদ রা/এ, চট্টগ্রাম এর ক্যাশ শাখা হতে টেক্নোর সিডিউল সংরক্ষ করতে পারবেন।					
৩। উপরোক্ত টেক্নোর অধীনে দরপত্র ইস্টার্ন কেবলস লিমিটেড, পতেঙ্গা, চট্টগ্রাম অথবা বিএসইলি প্রধান কার্যালয়, বিএসইলি ভৱন, ১০২, কাজী নজরুল ইসলাম এভিনিউত, ঢাকা অথবা প্রগতি ইন্ডাস্ট্রি লিমিটেড, ১১-ফিল্মে হাউস (৩য় তলা), আশাবাদ বাণিজ্যিক এলাকা, চট্টগ্রাম					