

Monetary policy: Some clues from Turkey

AN OPEN DIALOGUE



ABDULLAH SHIBLI

SUPPOSE you decide to conduct an experiment, and ask a random person you come across on a busy thoroughfare in Dhaka: "Can you tell me what Bangladesh and Turkey have in common?" I am sure that the first answer that you will hear is "Islam". And I can bet that if you interview 30 individuals (a large sample, statistically speaking), or even 100, you will not get the reply I am looking for: "monetary policy".



Yes, these two countries now appear to have similar monetary objectives, i.e. lower interest rates and exchange rate stability. Each country is determined to lower the interest rate to stimulate investment. However, the similarity ends there. In Bangladesh the rates of interest are at least five percentage points lower than those in Turkey where it is over 17 percent. The official inflation rate is 15.39 percent annually and while the value of Bangladeshi taka against the US dollar is sliding downward, its decline has not been as precipitous as that of the Turkish lira.

I will start with the situation in Turkey. The Turkish economy has been on the forefront of global media for the last three months. President Erdogan always declared his opposition to central bank policies to raise interest rates. He appointed his son-in-law, Berat Albayrak, to the position of Minister for Treasury and Finance Ministry. Recently, Turkey started a diplomatic row with the US by holding American pastor Andrew Brunson in jail for allegedly supporting a failed coup in 2016, reportedly orchestrated by Fethullah Gulen, a Turkish citizen living in the US.

But, why does President Erdogan resist the

"single digit" interest rate, an initiative resisted by owners of private banks. Currently, banks and other lending agencies charge between 12 to 16 percent annual interest rates for various loans. The private banks contend they are at a disadvantage in attracting deposits, since the government offers relatively high rates of interest on National Savings Certificates (NSCs), instruments that help pensioners, widows, and small savers, but also help the government finance its budget deficit.

Late last June, Bangladesh Association of Banks (BAB), a body representing the owners of private commercial banks in Bangladesh, announced that interest rates charged by these institutions would be brought down to the single digits from July 1. The 2018 budget announced that banks will be getting lower corporate tax rates to provide them with the cushion they need to offer loans on easier terms.

It thus appears that the Turkish president and Bangladesh finance minister both see the value of reducing interest rates or keeping them low. Nevertheless, there is one big difference and that explains why their wishes have not been fulfilled, yet. In Turkey,

Erdogan is a conservative Muslim intent on turning his country away from the West. In Islam, charging interest on debts is considered as "riba," or usury, which is therefore "haraam". Albayrak told Turkish TV, "We will see inflation and interest rates decline in the coming period." Erdogan gave himself the lone power to name the new governor of the central bank, and ensured that the bank did nothing with interest rates until this appointment.

In Bangladesh, the ruling party and the government are gearing up for the parliamentary elections and reduction of interest rate on lending in an ad-hoc manner

Reduction of interest rate on lending in an ad-hoc manner is a much-used measure to boost investment and economic activity to enhance popularity of the government.

While the incumbent finance minister is not running for reelection announcing a year ago that he plans to retire, his ministry is working with the Bangladesh Bank and BAB to lower interest rates but to no avail.

One obstacle that bankers and

economists see in the way of lower interest rates is the NSC overseen by the Ministry of Finance. It has been argued that yield rates of savings certificates are high, and so these need to be brought down to the same level as deposit rates in banks or yield rates of treasury bills and bonds. The logic is that lower rates on NSC will help banks maintain lower rate of interest for deposits as well as for lending. Such demand from the owners of commercial banks is backed by many economists mostly aligned with international financial institutions.

The finance minister publicly voiced his support for the rate cuts in May but backed off following pushback from some sections of the "electorate". Savings certificates are popular with various citizens' groups, particularly pensioners and small savers, even though the high rates brought forth strong criticism from Bangladesh Bank and private think tanks. Interest rates of savings certificates were last cut only in 2015 by an average of two percent to reduce excess demand.

On August 7, the finance minister announced that the government is not going to reduce interest rates on savings certificates before the national election, and instead a committee was formed to debate the issue. The recommendations of the committee will be implemented after the election. In the coming days we can expect further developments in both countries, apropos who wins the battle, the market or the government, and how the various stakeholders fare in the protracted and ever-changing scenario.

Dr Abdullah Shibli is an economist, and Senior Research Fellow, International Sustainable Development Institute (ISDI), a think-tank in Boston, USA. His new book *Economic Crosscurrents* will be published later this year.

Iconoclast Donald J Trump?

KAUTILYAN KRONICLES



IMTIAZ A HUSSAIN

TO any question whether the US president and commander-in-chief is working against the country, Donald J Trump's tenure

already supplied an overwhelming positive answer, even before he dramatised them all in Finland during mid-July 2018. We just preferred to look away. We can discard *principles*, measuring which leaves us fudging with intangibles. We have come, for example, to a stage in the United States where snatching babies and children from migrant parents is not considered a human rights violation to some, while to others it becomes a lesser evil than illegal migrants settling in the country. What was enshrined as a constitutional right by the country's hallowed Founding Fathers is now subject to a liberal or conservative (or even fascist) interpretation in which fewer and fewer US citizens find themselves on the same liberal/democratic page.

Institutional evidences leave a narrower error margin, well captured by the *iconoclastic* term. Meaning "to break images" (to wit, *icons*), since institutions give images feet, hands, and a functional capacity, elaborated in each of their own constitution, they best illustrate the onset of awry conditions. If, for example, we look at post-World War II global leadership, the United States, by dominating that era, built the appropriate institutions: multilateral trade, whose seed was sown in 1947 in Geneva; the North Atlantic Treaty Organization (NATO), which successfully challenged communism from 1949, much to the free-world's relief; and the G7 forum to separate the "cream of cream" industrialised countries in 1975 (driven by the calamitous OPEC oil-price hikes), thereafter annually until 1987, thereafter biennially. All of these institutions had subsidiary agencies, but were, frankly, offshoots of the grand-daddy of them all: another US initiative called the Charter of the United Nations, produced from Eleanor Roosevelt's tireless contributions, against staggering odds, within the same lifetime as the very generation that rejected the League of Nations in 1920.

Turning first to trade, the United States sought, through the 1934 Reciprocal Trade Agreements Act (RTAA) to extend this bilateral framework multilaterally. It failed to establish the International Trade Organization in 1947-8 in Havana, thus leaving the 1947 *ad hoc* General Trade and Tariffs Agreement (GATT) to struggle, successfully through eight rounds of negotiations, to produce the World Trade Organization in 1995. This monumental, persevering US accomplishment was often challenged by the European Community, particularly over farm trade preferences. It was ceremoniously jettisoned by Trump, though one protectionist *gesture* after another by just about every president since Richard M Nixon, may institutionalise this mercantilist *mindset* while deepening this *movement*. Our generation, and conceivably many after us, will now have to directly or



US President Donald Trump. PHOTO: YURI GRIPAS/REUTERS

indirectly cough up the extra cash that this will mean to our personal income every time we purchase anything.

Right from his campaign, Trump was determined to make the NATO institution a four-letter word, that is, of the vile type. Arguing the European partners were not doing enough to pay for their own defence, which, by the way, is a solidly correct argument, he originally went out to dismantle the very institution that helped win the Cold War. Just as a qualification: any country can validly make that argument, but one aspiring to be a leader must assume that responsibility to induce the support of others. By supplying something in return, in this case, military security (or relatively open markets), the United States stepped up to the plate in the 1940s. Would the moribund Soviet Union have loved to have Trump on board, since that is precisely what the Warsaw

Pact failed to do from 1955? Vladimir Putin, who wants the Soviet aura restored, not to mention czarist suzerainty invested in him, cannot believe hitting his jackpot of squeezing more "juice" out of the United States, and by a US president, like Trump himself.

Trump retreated from his NATO brinkmanship at the organisation's July Brussels 2018 summit, arguing his West European counterparts had increased their proportional contributions. Originally he wanted every member pay two percent of their GDP (gross domestic product) to the NATO budget, or pay back the United States (which pays 3.5 percent of its GDP). For 2018, only four of 26 European NATO members pay that proportion, at least: Greece, Great Britain, Estonia, and Latvia, in order of proportional contributions (Poland is very close, with 1.99 percent; non-European members include Canada,

the United States, and Turkey). We must now see what his follow-up measures will be to increments by other members, particularly Canada and Germany, both near the 1.5 percent mark.

It is only a small hop-skip-and-jump to flushing the G7 summit in Canada this June. Trump's refusal to sign the communiqué brought the largest free-trade border in the world into its twilight zone, while widening the Atlantic gap with the other flock of steady friends the United States has had in Europe. All of this is happening just as Russia is consolidating its counterpart alliance, the Shanghai Cooperation Organization, an institution it reluctantly joined after the immediate pangs of post-Soviet humiliation (and still carrying misgivings under Chinese preponderance), but is relishing wielding now (of course, along with China).

Surges to *break* well established institutions serving global functions have been illustrated here: selectively over trade, security, and economic redistribution (G7), or collectively, as referenced here, through the UN framework (UN). They coexist with surges *constructing* new institutions, with one key difference: these are largely by dictators, just as the *breaking* counterparts were democratic. Is the former displacing the latter?

Trump's tenure has prioritised summits with authoritarians (Xi Jinping, Kim Jong-un, Putin, among others), than with their free-thinking counterparts (Angela Merkel and Justin Trudeau), while big-brothering those wedged uncomfortably somewhere else (Emmanuel Macron and Theresa May). How this pans out may be

crucial for the globe's future.

Conventional wisdom accents the *breaking* force before the November 2018 US mid-term election, since the accumulated costs of free-riding the United States may, arguably, be one of the root causes of today's tectonic global changes. Winning votes from a normal population is itself a herculean democratic task, but to win it from a distempered population cannot come without enormous socio-political and socio-economic costs. These can only be taken by going to the extremes of authoritarian control: only by redistributing NATO financial contributions can the old order be sustained, as the popular message seems to be in the country paying the most, the United States.

Should the Republican majorities remain in the two houses, those forces can only *institutionalise*, strengthening the US pull-back argument. Even if they do not, there is very little Congress can do to revoke the Chief Executive's implemented policies until that office changes. In other words, whatever damage has been done cannot easily be reversed: the rest of the world must fidget to fit into a new world order. If, on the other hand, this is what the US public desires, our tribute to democracy compels that we begin researching its flip side, what Aristotle called "mobocracy", that is, "the perverted" form of "rule of the many". Our future may be too intertwined with it to ignore it now, but it may still be heads above authoritarianism.

Imtiaz A Hussain is the head of Global Studies & Governance Program at Independent University, Bangladesh (IUB).

ON THIS DAY IN HISTORY

AUGUST 19, 1988

IRAN-IRAQ BEGIN A CEASEFIRE IN THEIR 8-YEAR-OLD WAR

The Iran-Iraq War was an armed conflict, beginning on September 22, 1980, when Iraq invaded Iran, and ended when Iran accepted the UN-brokered ceasefire.

CROSSWORD BY THOMAS JOSEPH

ACROSS

- 1 Slow tempo
- 6 Showy parrot
- 11 Outfit
- 12 Happened
- 13 Hollywood street
- 15 Plopped down
- 16 Tennis court divider
- 17 D. C. Baseball, for short
- 18 Puzzled
- 20 Storybook elephant
- 23 Ice, in bars
- 27 Milky stone
- 28 Finger feature
- 29 Arrive
- 31 Peculiar
- 32 Number unit
- 34 Bible boat
- 37 Gist

DOWN

- 1 Not as much
- 2 Blue hue
- 3 Litter's littlest
- 4 USO patrons
- 5 Starting bid
- 6 Learn completely
- 7 Museum subject
- 8 Field crop
- 9 Tibet setting
- 10 Cried
- 14 Singer Ritter
- 18 Legitimate
- 19 Dunkable ring

38 Buddy

41 1990s Aaron

44 Cloth fold

45 Turning tool

46 Run-down

47 Old anesthetic

20 Marshy area

21 King Kong, for one

22 diamond club

24 Alley prowler

25 Model buy

26 Devious

30 Right angel's degrees

31 Tug on the line

33 Belly

34 Nile snakes

35 Hold power

36 Leg bend

38 School course

39 Dull pain

40 "Believe" singer

42 Mournful

43 Have lunch

YESTERDAY'S ANSWER

CASE PALS
COMET ADAPT
ALAMO RAZOR
RAZING RIKE
ODES RODNEY
LAD MALIGN
CHILIS SSE
CRAMIN APED
LIZ GAZING
AMISH NURSE
PENCE TRIES
AGIN SETS

BEETLE BAILEY BY MORT WALKER

I THINK MAYBE YOU DRINK TOO MUCH, SIR

WINSTON CHURCHILL DRANK A LOT AND HE LIVED TILL 90

WELL, MAYBE HE'D HAVE LIVED TWICE AS LONG WITHOUT DRINKING

180?!

BABY BLUES BY KIRKMAN & SCOTT

MOM, HAMMIE IS DELIBERATELY ANNOYING ME!

OUT? HOW?

HE COPIES EVERYTHING I DO!

HM.

HOW CAN I GET HIM TO STOP??

HAVE YOU TRIED WIPING YOUR NOSE OR CLEANING YOUR ROOM?

Write for us. Send us your opinion pieces to dsopinion@gmail.com.