Ten years on, Fed's long, strange, trip to zero redefined central banking

REUTERS

Whatever the acronym, when the US Federal Reserve dropped its policy rate to near zero on Dec. 16, 2008, to counter a full-scale economic crisis, it ushered in what the central bank's chairman at the time, Ben Bernanke, called "the end of the old regime."

A decade later, the full impact and import of that move are still not fully clear. But the Fed was never the same. The decision to move to zero ushered in wholesale changes to how the Fed works, from its building a massive balance sheet to adopting an explicit 2 percent inflation target and holding regular post-meeting press conferences.

A new body of research continues to explore the likelihood that trips to the "effective lower bound" will become common.

It stands for "zero interest rate policy," and became one of the most common acronyms used to describe the seven-year period when the Fed's benchmark overnight lending rate was parked in a range of between zero and 0.25 percent. Policymakers also called it the "zero lower bound" and "effective lower bound."

The Fed was not the first to employ such an aggressive response to an economic downturn. The Bank of Japan adopted ZIRP in the 1990s in response to a collapse in its real estate market that helped trigger a decade of economic stagnation.

There was nowhere else to go. From July 2007 to the fall of 2008, the Fed had trimmed its target policy rate from 5.25 percent to 1 percent.

The economy was so weak that many models indicated the appropriate interest rate for the Fed would have been negative - in effect a tax on savings that might prompt people to spend. While theoretically possible and in fact later adopted by a few central banks elsewhere, negative interest rates would have been a political non-starter in the US Congress, and difficult to sell to the public in a fast-moving crisis.

Instead, a dramatic Fed action drove the policy rate to a range of between zero and 0.25 percent. It was, in effect, a zero rate, but more importantly demonstrated the Fed's willingness to go to extremes.

Not hardly. And Fed officials knew the developing crisis needed more than just standard interest rate policy.

"I see few advantages to gradualism," then San Francisco Fed president Janet Yellen, the eventual chair, said according to transcripts of the December meeting. The statement announcing the cut also said the Fed "will employ all available tools to promote the resumption of sustainable economic growth."

That flagged what was to come, including trillions of dollars in asset purchases used to shore up financial markets and maintain the low long-term interest rates that are critical to the housing market and mortgage lending. Even though the Fed could not cut its target rate any further once the "zero lower bound" had been reached, the unconventional tools used by the Fed then still shape financial markets today.

The unemployment rate is at its lowest in nearly 50 years. Inflation is hovering around the Fed's target. A near decade of economic growth will become the longest expansion on record next year.

It took seven years for the Fed to leave the zero lower bound, and rates are still abnormally low. By some accounts, consumers and businesses may be addicted to cheap money, and so sensitive to interest rates their willingness to buy homes or invest may fall off more quickly than in the past as rates rise.

Corporations, meanwhile, have gorged on cheap debt, possibly laying the groundwork for the next crisis.

The Fed has been raising interest rates now for three years, but does not expect take them much higher than 3 percent. Target policy rates of 5 percent or more were common in the past, but few at the Fed expect to return to those days.

The working assumption is that rates globally will remain lower than they were, and that policymakers will routinely reduce rates to zero in future recessions. As a consequence, they expect to keep tools like asset purchases at the ready, and are exploring other strategies, such as higher inflation targets, that could lift all rates closer to their previous levels.

STANCHART

Hossain Khaled, managing director of Anwar Landmark, and Lutful Habib, head for client acquisition & relationships, retail banking at Standard Chartered Bangladesh, attend a deal signing ceremony recently to offer preferential interest rates on loans and gifts on the purchase of the real estate company's flats till February 28 next year.

GREEN DELTA

Ahsan Khan Chowdhury, chairman and CEO of Pran-RFL Group; Farzana Chowdhury, president of Entrepreneur Organization (EO) Bangladesh, and Hossain Khaled, founding president, pose at the fourth meeting of EO Board Room Series at Pran-RFL Center in Dhaka recently. The series aims to uncover inspiring stories behind the success of established and prominent entrepreneurs. The event encompassed an exclusive dialogue and experience sharing session with Ahsan Khan.

Import growth moderate

FROM PAGE B1

He, however, expressed concerns over the negative growth of capital machinery imports as it indicated that there was a slowdown in new industrial plants being set up.

From July to October, import of capital machinery amounted to $1.64 billion, down from $1.74 billion in the same period last fiscal year.

The bumper production of rice in recent seasons also played an important role in bringing down the import of food grains to $446 million, down from $875 million during the same period last fiscal year, central bank data showed.

There is no possibility for the import of food grains to go up in the next couple of months because of the significant increase in rice production, which will certainly help ease the pressure on the BoP.

Mansur said the local currency might feel some respite amidst the ongoing pressure from the exchange rate even if the import growth remained within 10 percent this fiscal year.

Muhith sees risks from Ctg conglomerate

FROM PAGE B1

According to the minister, his only failures were not being able to introduce district budget and unified budget.

Muhith said he had already prepared a framework for the present government to implement if it retains power.

He said he wanted the incumbent government to win the elections to complete the mega projects it had undertaken.

When asked whether he would respond positively if the next government requests him to take the helm of the finance ministry, the minister said if he was given the responsibility he would have to shoulder it. "But that possibility is slim."

Thyssenkrupp steel boss Goss to lead joint venture with Tata Steel

REUTERS, *Frankfurt/Mumbai*

Germany's Thyssenkrupp and India's Tata Steel on Monday named the top management of their planned European joint venture, ending months of uncertainty over who will join the entity's leadership.

Andreas Goss, the head of Thyssenkrupp's steel division, will become the chief executive of the entity, which will be Europe's second-largest steelmaker after ArcelorMittal.

Hans Fischer, who is currently leading Tata Steel's European division, will become deputy CEO and chief technology officer.

Thyssenkrupp and Tata Steel in June signed a final agreement to create the venture following years of talks, just days before a leadership crisis erupted at the sprawling German industrials group.Sandip Biswas, a member of Tata Steel's senior management, will become finance chief of the new entity, the groups said.

Accord's hearing today

FROM PAGE B1

Yesterday's appeal was filed challenging a High Court directive that asked Accord to stop its activities after November 30.

A seven-member bench of the Appellate Division headed by Chief Justice Syed Mahmud Hossain passed the order after Accord's representative Advocate AM Aminuddin informed that he would place arguments before it today after consulting his client.

During yesterday's hearing Additional Attorney General Murad Reza told the SC that the government would permit Accord to stay on in Bangladesh if the agency fulfils the eight conditions set by the government.

Paddy output to rise: FAO

FROM PAGE B1

The FAO said, because of ample supply from record output, Bangladesh's rice imports may decline to 8.50 lakh tonnes in fiscal 2018-19. Total rice import hit a record at 38.92 lakh tonnes the previous year. During the current fiscal year, one lakh tonnes of rice were imported between July 1 and December 12, according to food ministry data. However, wheat import requirements are estimated at a record level of 60 lakh tonnes in the current fiscal year, said the FAO.

"The strong demand for wheat reflects a shift in consumers' diet preferences as well as the increased use as a substitute for more expensive rice," it said, adding that maize imports were expected to increase to 17 lakh tonnes due to sustained demand for feed.

Overall, cereal import requirement in the July-June period of 2018-19 is estimated at 86 lakh tonnes, almost 30 percent above the five-year average and 22 percent less than the previous year's unusual high, FAO said.

Apart from increased imports, maize production also rose 6 percent year-on-year to 32 lakh tonnes in 2018, reflecting increased plantings to meet rising demand.

The FAO also forecasts that wheat production may drop to 13 lakh tonnes, slightly below the five-year average, due to a contraction in plantings as farmers preferred to shift to more remunerative crops such as paddy.

Political jitters sink stocks

FROM PAGE B1

The index fell 143.1 points, or 2.67 percent, in the last seven trading days, according to the DSE.

A top official of another stock brokerage said institutional and foreign investors were in a wait-and-see mode.

"Some people are even playing at this time. The regulators should be careful about the manipulation, which may erode investors' confidence further," he added.

DSE data showed that stocks of Paramount Insurance rose 44.78 percent to Tk 19.4, Sunlife Insurance was up 43 percent to Tk 28.7 and JMI Syringes advanced 28 percent to 256 Tk in the last two weeks.

Yesterday Square Pharmaceuticals dominated the turnover chart with 4.07 lakh shares worth Tk 10.18 crore changing hands, followed by JMI Syringes, United Power, Brac Bank and Anlima Yarn Dyeing.

Among the major sectors, only telecommunication witnessed an increase. The energy sector stayed flat while sectors such as banking, pharmaceuticals, food, non-banking financial institutions, and engineering all fell, according to IDLC Securities.

The top three negative index contributors were Olympic, City Bank and GPH Ispat.

Of the traded issues, 61 advanced and 231 declined while 47 securities closed unchanged.

Sunlife Insurance was the day's best performer with a 9.96 percent gain while Jute Spinners was the worst loser, shedding 9.88 percent.

Chittagong stocks also fell with the bourse's benchmark index, CSCX, declining 56.51 points, or 0.57 percent, to finish the day at 9,697.83.

Huge gender gap still exists: survey

FROM PAGE B1

Among the digital financial services, the research particularly examined MFSs as these are the most prevalent in Bangladesh.

Among the 76 respondents the researchers spoke to, 57 were women and eight men who used MFS and the rest were agents.

The study identified that volume and frequency of need influence women to use MFSs.

Women use MFSs when they receive money such as remittance and tuition fees and send money to parents or pay hostel fees as students, according to the study.

Families can motivate women to use the digital financial services. Immediate family members and friends who use MFSs play an important role in motivating women to open MFS accounts. In most cases, these members are males.

When it comes to learning how to use MFSs, it appears that women learn themselves mostly as well as with support from other family members, according to the study.

Convenience is a big factor that leads women to use MFSs, the survey found.

At present, MFS service providers don't follow or evaluate gender disaggregated data analysis to understand women's behaviour on MFS use, said Bhavana Srivastava, associate director of MicroSave Consulting.

"This indicates that providers may not still be looking at women users as unique customers."

A focus on building a larger set of influencers who could act as catalysts in creating a financial services space for women would encourage them to use MFSs frequently, she said.

Md Ashraful Alam, country project coordinator of the UNCDF's Shaping Inclusive Finance Transformations (SHIFT) programme, also spoke.

Teletalk finally launches 4G

FROM PAGE B1

The private entities have already commenced the services across the country. This stands in stark contrast to the launch of 3G, which was led by Teletalk with much hype in 2012, around a year ahead of its competitors.

Teletalk officials said they were offering customers "the best speeds": 15 Mbps for uploads and 40 Mbps for downloads.

The telecom regulator has fixed 7 Mbps as the minimum speed the mobile operators have to offer for 4G. However the obligation is not met all the time.

Existing 3G users of Teletalk can automatically migrate to the service by sending "4G" as a text to 111, said the officials.

Shahab Uddin informed that they would not go for any advertisement campaign as they were already late in arrival.

"We will try our level best to satisfy our customers with our highest level of speed and best coverage and that will give us a lead in the market share," he said.

The officials said since the smallest operator was as a public entity and had a shortage of funds, it needed to get some extra privileges to harvest business from this segment, as had been in the case of 3G.

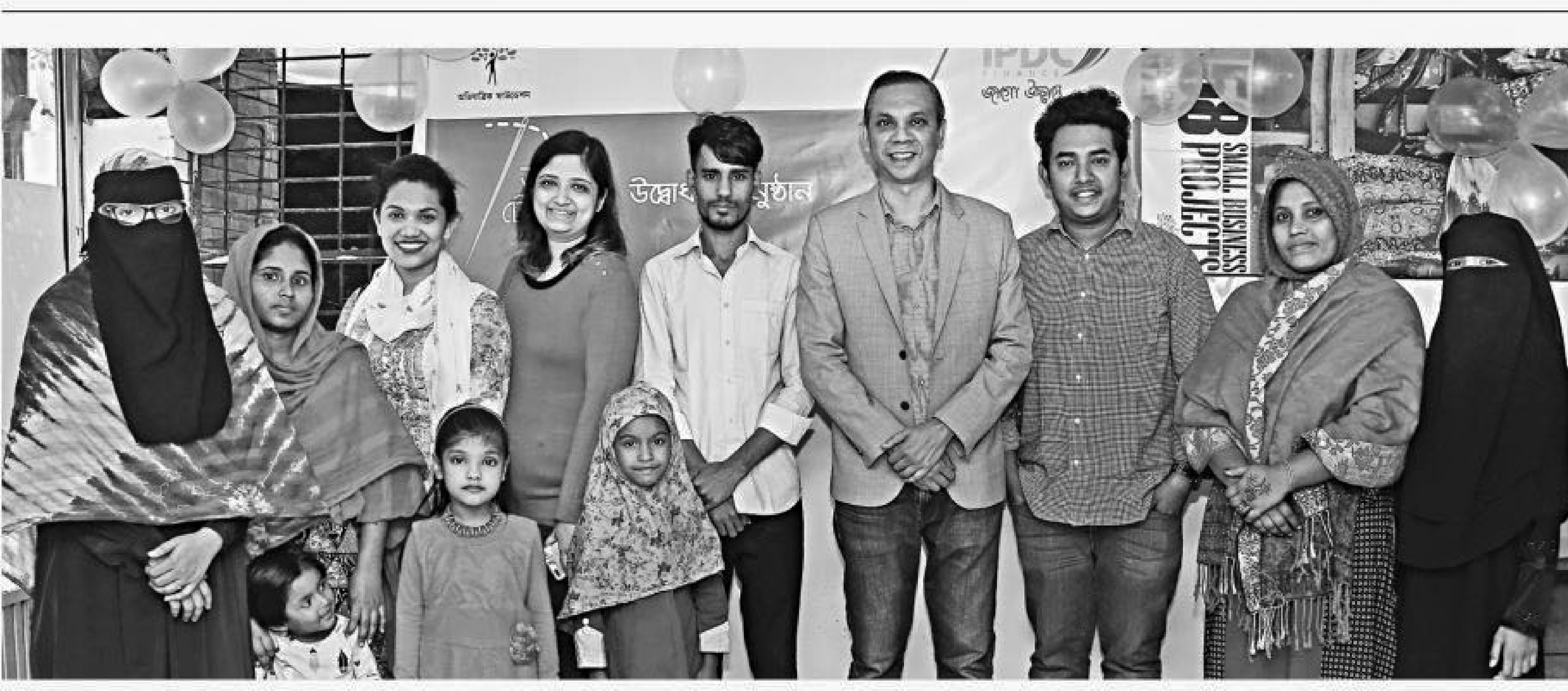
The operator has taken up a Tk 987 crore project using its own funds for the 4G network. Under it, 550 towers have already been established, mostly in big cities, and the process to set up another 550 in district headquarters is ongoing, according to the officials.

Teletalk currently has 34.93 lakh active connections, which is around 2 percent of the market share. Only a few of those are regularly active.

The operator's customer numbers peaked at about 48 lakh but declined over the last couple of years because of the limitations in the coverage.

All the four mobile operators got the 4G licences in February. About 1.30 crore customers, the prime part of the market, are availing the services from them.

Teletalk had first targeted to go for the 4G launch in May and then had postponed it to August, as the preparations were not complete.



IPDC FINANCE

Mominul Islam, CEO of IPDC Finance, poses at Obhizatrik Foundation's Mirpur office in Dhaka recently with some women who fell victim to a fire at Elias Mollah Slum in the capital's Mirpur in March this year. The financial institution donated sewing machines to the women through the foundation's "Shokkhom Project".

Md Mosharraf Hossain Bhuiyan, chairman of the National Board of Revenue; AKM Mosharraf Hussain, chairman of Jamuna Bank, and Nur Mohammed, chairman of Jamuna Bank Foundation, present an award to a winner of an art competition organised by the foundation at the Institution of Diploma Engineers, Bangladesh in the capital on Sunday marking Victory Day.

JAMUNA BANK