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Low interest rates penalise savers, small borrowers

We must have monetary policy that benefits all, not just the privileged few

WE are deeply concerned to find that, due to excess liquidity in the banking sector, savers and some small borrowers are being penalised to ensure hefty dividends for shareholders. This is a result of interest rates on deposits being slashed at a faster pace than interest rates on loans, leading to a widening gap between lending rates and deposit rates (average spread).

According to a report in this daily, the weighted average rate on deposits dropped to 4.13 percent in June 2021. The June inflation rate of 5.64 percent means depositors actually received negative returns on their savings. At the same time, the lending rate in June was 7.33 percent, leading to a highly undesirable average spread of 3.20 percent. Experts have warned that not only does this deprive depositors of getting returns on their funds, it also goes against banks' main agenda and shifts their focus to profit-making instead.

At a time when the Covid-19 pandemic has had massive repercussions on incomes and pushed a substantial chunk of the population into poverty—2.45 crore people, according to data released by PPRC and BIGD in April 2021—it is distressing that banks would adopt such a strategy. We have written extensively on how unemployment, redundancy and reduced incomes have forced many to dip into their savings to survive the pandemic. But we now find that our banking regime is set up so that savings are discouraged, so what are people supposed to fall back on? The fact that banks in Bangladesh posted a hefty operating profit in the first half of 2021 despite the pandemic-induced economic slowdown, while during this same period, ordinary people struggled to make ends meet, only makes this situation more objectionable.

Alongside savers, small borrowers have also been adversely affected by this banking strategy, since they have little bargaining power to secure loans at a lower rate than larger ones. Yet, it is these same borrowers who have suffered the most during the pandemic and are most in need of help. A report in *The Daily Star* from October last year detailed how banks were given the responsibility to distribute more than Tk 80,000 crore from the government stimulus packages in the form of soft loans. From these, the packages dedicated to corporate groups were most successfully disbursed, yet the funds allocated for the SME and farm sectors saw sluggish implementation due to the reluctance of lenders.

Experts have suggested that the central bank should take actions to mop up a portion of the excess liquidity, boost the private sector's appetite for credit and ensure a stable stock market where individual investors can benefit. We hope the authorities will listen to these suggestions and implement monetary policy that benefits all sections of society and not just the privileged few. However, the most urgent need of the day is to get the pandemic situation under control and rein in widespread transmission through a comprehensive vaccination programme in order to restore business confidence and get the economy back on track.

Are we doing enough to curb lightning fatalities?

19 deaths in just two incidents show the level of risk we face from lightning

SEVERE storms and lightning are common during the June-September monsoon season in Bangladesh, where each year lightning kills more than 200 people, mostly farmers in their fields. The country is said to be the third-most lightning-prone region in the world. These statistics add a certain degree of inevitability to the occurrence of this natural phenomenon and the fatalities and injuries caused, but are of little consolation when you consider how a lot of them are actually preventable with enough preparation and awareness. In the latest case reported on Thursday, at least 19 people were killed and 16 others injured in two separate incidents in Chapainawabganj and Kishoreganj districts. Of the dead, 17 were struck in Chapainawabganj when they were travelling by a boat to a wedding, while the groom, who was with them, survived. The other two victims were fishermen who were struck by lightning when they were fishing in a haor in Kishoreganj.

In Bangladesh, lightning strike is recognised as a major disaster, yet official response remains far from adequate, and clearly not on a par with its response to other natural disasters like cyclones and floods. Because of the government's failure to devise an effective plan to bring down the incidence of lightning and associated risks, the country has seen an alarming rise in deaths in recent years. Since 2017, the annual death toll twice rose north of 300, and this year recorded 177 deaths in the first half alone. The upward trend in casualties is deeply worrying.

Experts say the rise in fatal lightning strikes is due to continued deforestation, which has led to the disappearance of many tall trees that earlier would have drawn lightning strikes. In recent years, the government has taken initiatives to plant hundreds of thousands of palm trees in a bid to ease the impact of lightning. But clearly, a more robust, better-planned and better-coordinated intervention is needed, both in the countryside, where most casualties occur, and in urban areas, where most buildings still do not have lightning diversion systems in place. As well as addressing these problems, the government also needs to step up its efforts to increase awareness. Unfortunately, for most people, lightning still seems to inspire only awe and allusions to the divine. If people cannot be made aware of the importance of responsible behaviour—such as staying indoors around the time a storm occurs, or taking shelter at the first sight of it—tragedies may continue to happen.

Only through a combination of judicious prevention measures, including extensive afforestation, and proper awareness can we hope to bring down the number of striking fatalities. The government must step up its game.

The effect of the Delta variant in uncertain times

The receding timeline for herd immunity and the 'final destination'

AN OPEN DIALOGUE

ABDULLAH SHIBLI

FOR Bangladesh, the Delta variant of Covid-19 virus couldn't have come at a worse time. Starting in January, our infection rate had been going down and was below 300 per day in mid-February. Then Bangladesh experienced a rise in infection and death rates in the wake of the spread of the Delta variant in India. The subsequent cancellation of the contracted SII vaccine shipment to Bangladesh compounded its woes. Now, everyone is talking about breakthrough cases, long Covid, booster shots, the third dose (for Pfizer), the Lambda variant, and the possibility of the world fractured once again between the North and the South.

While the previous characterisation may appear to be an over-dramatisation, it is closer to reality than it sounds. Bangladesh's economy fared much better than many other developing countries as it bounced back a few months ago from the earlier phases of the pandemic. Now, it will not be an exaggeration to say that the Delta variant, along with the talk of breakthrough infections—cases where fully-vaccinated people get infected—and the uncertainty relating to a global economic recovery, will continue to plague the engine of GDP growth. It is already casting its shadow on financial markets. While the Tokyo Olympics, however scaled back, has kept us distracted for a few weeks until August, eventually reality will sink in and we need to ask: "When and how can we get rid of this Covid spectre once and for all?"

In a recent article in the *Boston Globe*, Professor Katherine Gergen Barnett, MD, of Boston University wrote, "As Covid-19 rates are rising again and the Delta variant is spreading at dramatic rates in largely unvaccinated American states, partially vaccinated countries, and globally where access to vaccines has been poor, the fantasy of arriving at our 'final destination'—the post-Covid-19 world—appears to be quickly slipping away." Garnett is vice chair of Primary Care Innovation and Transformation in the Department of Family Medicine at Boston Medical Centre, clinical associate professor at the Boston University School of Medicine, and a fellow at the Boston University Institute for Health Systems Innovation and Policy.

I asked an infectious diseases specialist, "Since I have been fully vaccinated, can I be sure that I will not get the Delta or die from it?" He hesitated for a few seconds, and said, "I wish I can give you a straight answer". On TV, epidemiologists are making contradictory guesses, for example, "Either there's lots of unseen spread of Delta among the vaccinated, or hardly any". On July 27, the CDC in the USA advised even the fully vaccinated to wear masks in indoor settings. Representatives from the Robert Koch Institute (RKI), Germany's centre for disease control, offered a bleaker picture. To reach herd immunity, they said, 85 percent of those aged 12 to 59 would need to be vaccinated, as well as 90 percent of all those above the age of 60. Out of frustration, Germany's *Der Spiegel* announced, "Herd Immunity is Impossible. Now What?"

There is no doubt that the timeline for herd immunity is receding, and so is the

immediate prospect of the so-called final destination.

Let me reassure the readers that Bangladesh is not alone in facing a future that is uncertain, unpredictable and unmapped. The Delta variant has emerged as a "black swan" for the world economy which has been struggling under the Covid pandemic since March 2021. The IMF has in its latest forecast for the global economy cautioned that Delta variant has introduced considerable uncertainty, given the unpredictable course taken by the pandemic, especially in emerging-market economies and finally conceded that its forecasts outlined in its *Economic Outlook* remains uncertain. In a nutshell, the effect of the Delta variant in these precarious times is slower global recovery and massive redistribution of wealth.

The variant, which some have also compared to the bubonic plague of the 14th century, has unleashed unfounded speculations and total disarray even in the scientific community. Now, after months of vaccination and an uptick of the Delta variant, ordinary people are confused and fatalistic, believing at the same time that Covid is rarer, more random, and more fatal than it is.

Trudie Lang, director of the Global Health Network at the University of Oxford's Nuffield Department of Medicine, said the Delta variant was an important factor in leading to new mutations and would continue to gradually drive out old ones. The WHO has already warned that, based on the estimated transmission advantage of the Delta variant, "it is expected that it will rapidly outcompete other variants and become the dominant circulating lineage over the coming months."

In its latest weekly report on Wednesday, the WHO noted that as of July 20, the prevalence of Delta among the specimens sequenced over the past four weeks exceeded 75 percent in many countries worldwide including Australia, Bangladesh, Botswana, China, Denmark, India, Indonesia, Israel, Portugal, Russia, Singapore, South Africa and the UK. For many of these countries, the variant has had the effect of wrecking any confidence in the recovery and by increasing uncertainty about the shape of things to come. In the USA, last week, the headlines in the prestigious *Wall Street Journal* ranged from the entire spectrum from pessimism to optimism. "Variant Can Still Clip US Economy's Wings" (July 22) and "Delta Variant of Covid-19 Isn't Expected to Dent Robust US Recovery" (July 23). In the UK, the *Financial Times* was more global. "The Spread of the Delta Variant Bodes Ill for the World Economy".

This type of contradiction is also reflected in the latest pronouncements from the IMF and European Bank. Kristalina Georgieva, IMF's managing director, last week told a webinar that while its projection for world economic growth in 2021 will stay at the 6 percent forecast in April, the outlook for rich countries with speedy vaccination programmes has improved, while the outlook for poor countries has weakened! "The reopening of large parts of the economy is supporting a vigorous bounceback in the services sector," Christine Lagarde, president of the European Central Bank, told reporters Thursday. "But the Delta variant of the coronavirus could dampen this recovery in services, especially in tourism and hospitality."

Of course, all this is not entirely due to the Delta variant but the uncertainty about the road ahead is shattering any confidence in the recovery. The global supply problems that accompanied a rapid surge in demand earlier this year have yet to be resolved. "Continued price increases for labour, raw materials and transportation threaten to keep inflation elevated. And the spread of the new Delta variant could damp business optimism and consumer confidence."

Experts say it's still too early to say whether that will keep people home, as in previous spikes, slowing the economy and weakening the stock market. "We have to see how behaviour changes," says Michelle Meyer, head of US economics at Bank of America. Meyer said that her economic forecast hasn't changed, but the risk factors are increasing. "What we've seen throughout the course of this year has been an extraordinary increase in spending on activities, leisure," she tells Barron's. "The Delta variant, and the rise in Covid cases can disrupt that trend in a way that would be problematic for the economy."

The IMF report tried to add a sprinkle of hope. "Concerted, well-directed policies can make the difference between a future of durable recoveries for all economies or one with widening fault lines—as many struggle with the health crisis while a handful see conditions normalise, albeit with the constant threat of renewed flare-ups", it said.

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Central banks must address pandemic challenges

ANIS CHOWDHURY *and* JOMO KWAME SUNDARAM

HOPES for an inclusive global economic recovery are fast fading. As rich countries have done little to ensure poor countries' access to vaccines and fiscal resources, North-South "fault lines" will certainly widen.

Enhancing relief, recovery, transformation

While the International Monetary Fund (IMF) has revised rich countries' recovery prospects upward, the United Nations (UN) notes formidable challenges, especially for developing countries, due to the pandemic.

The UN warns of more setbacks for the Sustainable Development Goals (SDGs), already behind schedule before the pandemic. Grim recovery prospects have been worsened by debt distress and dramatic drops in investment and trade. Designing appropriate relief, recovery and reforms well is necessary. For the IMF, growth-enhancing reforms could significantly improve growth in emerging market and developing economies over the next decade.

Countries must quickly spend much more to contain the pandemic and offset adverse effects of policy responses. This is needed to protect incomes, jobs and businesses, while paying more attention to the most vulnerable. Also, the SDGs still need more financing.

Policy choices now will determine chances of a greener, more inclusive and resilient future. There have to be better synergies among short, medium and long-term policies through improved coordination.

Macroeconomic policy coordination

Although public debt is already high while tax revenue has shrunk, governments need to spend more. Central banks (CBs) must lend more to governments to create more fiscal space. Better monetary policy support for government spending should strengthen relief, recovery and reform, not enable more corporate debt and asset price bubbles.

In turn, fiscal authorities can create monetary policy space by enabling spending on nationally produced goods and services, investing in productive capabilities, enabling new jobs and occupations, and expanding social protection. Policy design should ensure that more liquidity does not generate excessive inflationary pressures or net imports.

Greater CB independence in recent decades has undermined macroeconomic policy coordination, preventing them from lending directly to governments. Keeping inflation low has become paramount, ignoring other policy goals. Supposedly for CB and monetary policy credibility, such priorities actually serve financial investors, especially speculators. But with "unconventional monetary policies" after the 2008 global financial crisis, CB lending to governments has become more acceptable. Many rich country governments have since turned to CBs for fiscal space and other finance.

With little affordable finance available from both private and official sources,

> *Extended slowdowns not only threaten to become depressions, but also to further set back the modest progress achieved in recent decades.*

some developing countries, such as Indonesia, have temporarily suspended laws preventing direct borrowing from CBs. Others, e.g., the Philippines, have amended legislation to allow CBs to directly lend to governments.

Thus, how countries emerge from recessions in the short-term, and transform their economies to achieve progress in the longer term, critically depends on effective cooperation between CBs and governments.

Central banks' developmental role

Historically, CBs have played a developmental role, e.g., financing public investment. Even though many CB statutes are not explicit about such roles, the two oldest CBs—the Bank of England and Sweden's Riksbank—are not prohibited from vigorously promoting policy priorities, e.g., the latter's commitment to housing for all.

The Bank of England has even pioneered creating specialised development institutions, e.g., the Industrial and Commercial Finance Corporation, the Finance Corporation for Industry, and the Bankers' Industrial Development Company.

The US Federal Reserve Act is committed to realise "the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates…in furtherance of the purposes of the Full Employment and Balanced Growth Act of 1948."

CBs of Italy, Germany, Japan and the Netherlands have used various means to finance activities underserved by credit markets. These include lowering bank reserve requirements and lending for priorities such as housing, agriculture, exports, small business and underdeveloped regions.

Well before independence, the Reserve Bank of India observed, "it may be desirable for Central Bank credit to be made available in a larger number of ways and with less restrictions". Hence, development objectives are explicit in many developing countries' CB statutes.

The statutes of some CBs established in the 1970s and 1980s with IMF technical assistance also have specific provisions for developmental roles, e.g., in Bhutan, Botswana, Fiji, Maldives, Solomon Islands, Swaziland and Vanuatu.

This is consistent with IMF Article of Agreement IV, "each member shall endeavour to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances".

The Bangladesh CB, a financial inclusion pioneer, also adopted a sustainable finance policy in 2011 to promote green investment and sustainable agriculture. Ninety developing country CBs have since signed the Maya Declaration to advance financial inclusion.

Supporting transformation

Borrowing to finance recovery and reform has to promote desirable changes, creating new productive capacities, accelerating digitalisation, revitalising rural and regional economies, conducting business and work in new ways, and making economies more sustainable.

The European Central Bank (ECB) has aligned "quantitative easing" with the European Commission (EC)'s pandemic response. By indicating it would buy newly issued government bonds in the secondary market, the ECB has effectively financed government borrowing despite the ban on directly lending to the government.

Thus, considerable ECB purchase of government bonds has lowered borrowing costs for member States' pandemic responses. These include the EC's Next Generation package, including the European Green Deal and its "digitalisation transition".

The Bank of Japan is also supporting government efforts for relief, recovery, economic growth, structural change, disaster management and global warming mitigation. It is also encouraging companies to invest in digitalisation and green technologies.

The South Korean CB has also purchased more government bonds. Several measures have provided monetary support for the "Korean New Deal", including pandemic relief, recovery, digital and green investments, and employment safety nets.

China's CB's targeted monetary policy tools are also increasingly aligned with the government's long-term strategic goals. These include supporting key sectors while preventing asset price bubbles and "overheating".

Bolder actions needed

Over the last year, poorer countries have been condemned to protracted recessions and delayed recoveries. Vaccine imperialism and apartheid mean that their vaccination efforts will be delayed and limited, if not worse.

Extended slowdowns not only threaten to become depressions, but also to further set back the modest progress achieved in recent decades. The North-South gap between rich and poor countries is certain to grow again.

Recovery prospects have been set back by poor countries' lack of "fiscal space". The IMF must help them use monetary policy much more creatively, not only to enhance fiscal space, but also to complement other policies for relief, recovery and transformation.

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