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## Where the monetary policy needs to be pro-active

The economy of Bangladesh is passing through some extra-ordinary times. There is an urgent need for coordination of both fiscal and monetary policies to address the challenges that the economy faces and to seize the opportunities that it does otherwise have, writes **M Azizur Rahman**

**T**HE fundamental goals of a sound monetary policy are to enhance economic growth performance, accelerate economic diversification efforts, boost per capita gross national product, create jobs, reduce the income divide between poor and rich, man and woman, old and young etc, ensure equity for geographically balanced national development and, thus, address the issue of regional imbalance. Furthermore, special needs of the backward regions like those of north south and east west areas of Bangladesh and the tribal people in the hilly areas do merit a special attention in the context of the given socio-economic conditions in the country.

The basic objective of the monetary policy has to be in harmony with the needs for poverty alleviation and improving the quality of life of the country's teeming millions. Maintenance of both the balance of trade and balance of payments (BoP) situations under relatively stable conditions should also be the focus of the monetary policy that is framed by the central bank.

On the whole, expansionary fiscal policy is needed for expediting the face of national development efforts in priority areas, as stated above. But such a policy has to be coordinated with monetary policy whose prime objective is to rein in inflation. The inflationary pressure is already too strong in the Bangladesh economy. The expansion of credit beyond the targeted level and the increase in money supply in any excessive manner are, among other factors, also responsible for this. Market failures or imperfections do furthermore add fuel to the inflationary pressure. Some unexpected collusion between large or small sellers or the market agents compounds the problem here.

Lack of coordination between fiscal and monetary policies does also exacerbate inflationary pressures in the economy. It is the prime responsibility of government to intervene in this kind of market failure that is being witnessed in Bangladesh, by breaking the so-called business syndicates

of all kinds and all sizes, and also the collusive attitude of middlemen, brokers, commission agents etc.

The economy of Bangladesh has already been facing challenges in areas of infrastructural support facilities. For lack of adequate supplies of gas and electricity and absence of proper communication facilities, the economy has been performing far below its potential. All such constraints have been working as major bottlenecks to creating an investment-supporting environment. Our indigenous technology does otherwise hold out some good prospects for our economic advancement in some areas. Our people are also hardworking. These constitute some positive factors to help boost our economic growth performance.

But we have not yet been able to create enough scope for growth of our agricultural, industrial and service sectors in order to ensure increasing levels of output of goods and services on a sustained basis. In the market, the collusive actions by some 'influential' players are largely to blame for the unabated inflationary pressure and for artificial supply crises of goods and services at times.

The monetary policy of the central bank, in tandem with other policies, should aim at boosting supply of goods and services in the market, ensuring their fair distribution and increasing market competition. Otherwise, it will not be possible to bring down the prices of essential goods to an acceptable level within the affordable means of the common people.

We continue to see now higher prices of goods and the persistence of a high rate of inflation, largely due to market failure and lack of efficient market intervention by the government. In most cases, we try to blame or discredit the government and the inability of the central bank to properly discharge its functional role to help maintain a proper balance between money supply and real economic needs and priorities, with a particular focus on containing the rate

of inflation.

We need to control credit and inflation and, for that matter, the Bangladesh Bank should exercise utmost caution against unnecessary monetary expansion. But this must not lead to any contractionary policy, denying credit to economic operators to the reasonable extent for the optimum utilisation of available resources and to enable them to keep the wheels of the economy moving as well as to encourage them to undertake new investment activities in real sectors for optimum utilisation of our indigenous technology, manpower and land resources. The growth and development of our economy and supply of goods and services under a pro-active monetary policy, in coordination with fiscal policy, must be encouraged.

The monetary policy must ensure extension of all possible supports to help boost the performance of our export sector. Currency-rate adjustments at appropriate doses and also at appropriate times, should be made. Such actions must not be put on hold for unnecessary reasons for any longer period of time. We have to look for all possible ways to earn more foreign exchange through exports of goods and also our manpower.

Growth, investment and inflation do involve many inter related factors. The monetary policy, on its part, should help promote efforts that can reinforce links between and among such factors in order to reap the best dividends out of the same. The role of the capital market does also merit attention here. Unfortunately, the stock market in Bangladesh has been suffering from, what can be called, a gambling practice. Things have to be straightened out there through appropriate reform measures. The Bangladesh Bank does need to extend all its cooperation to such efforts by the Securities and Exchange Commission (SEC), the capital market regulator.

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