Independent Review of
iRBD
Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

CPD's Reaction on

MPS FY2021-22:

To what extent does the monetary policy meet the needs of the economy?

Dhaka: 3 August 2021

CENTRE FOR POLICY DIALOGUE

www.cpd.org.bd

CPD IRBD 2021 Team

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Concerned officials belonging to a number of institutions have extended valuable support to the CPD IRBD 2021 Team members, for which the Team would like to register its sincere thanks.

The CPD IRBD 2021 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

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I. INTRODUCTION

1. Introduction

- On 29 July 2021, the Monetary Policy Statement (MPS) for fiscal year (FY) 2022 has been announced by Bangladesh Bank
- This is the second MPS during the ongoing COVID-19 pandemic.
- Given the challenges created due to the pandemic, monetary policy has a crucial role in addressing those
- On the one hand, economic crisis as a result of disruption in production and supply chains has led to economic contraction, loss of employment and increased poverty.
- On the other hand, inflation is creeping up which will have impact on purchasing power and demand, particularly of the poor and low income families.

1. Introduction

- Besides, the banking sector has been responsible for disbursing the loans under the stimulus packages announced by the government.
- The banking sector also has a number of pre-existing challenges which need to be resolved in order to have a disciplined financial sector in the country.
- In the above context, how the MPS for FY2022 will be able to achieve the stated targets delineated in the policy and also the requirements of the economy are issues to be examined.
- This presentation highlights a select set of current problems in the banking sector, and scrutinizes whether those are appropriate and adequate in addressing the current economic challenges.

1. Introduction

Analytical Framework

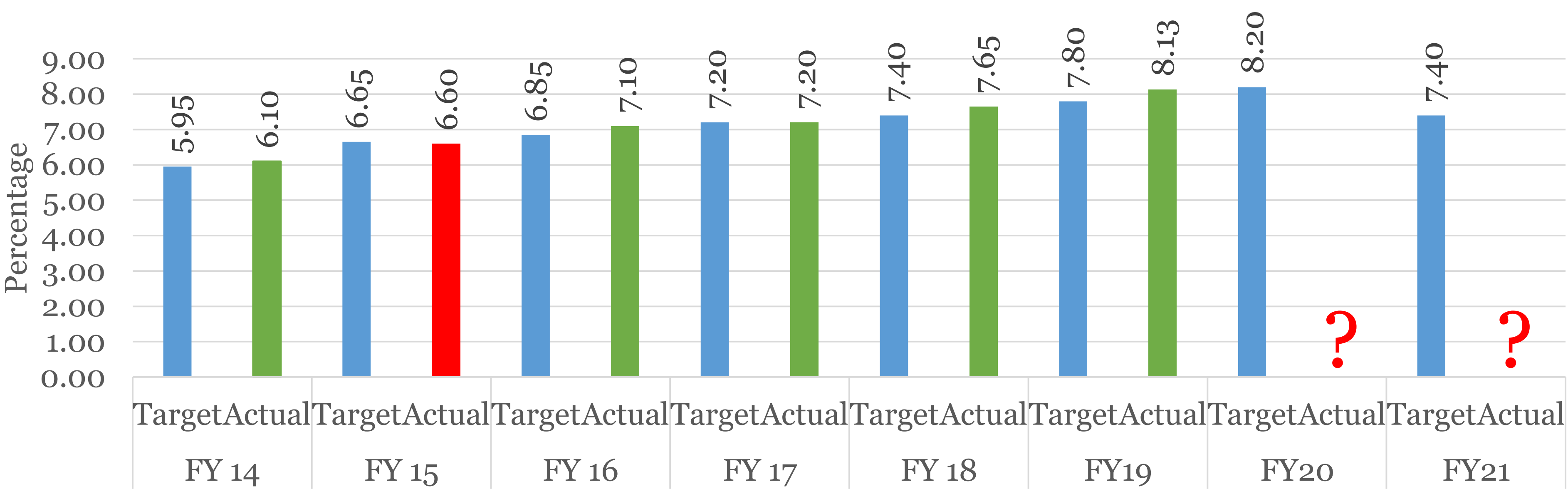
- Globally, the central banks have pursued several strategies in view of the pandemic, which may be categorised into four groups:
  i. rate cuts
  ii. liquidity provision and credit support
  iii. regulatory easing
  iv. asset purchases
- Bangladesh has opted three of these policies (excluding asset purchases) to address the pandemic
- For Bangladesh Bank, three major areas are important for MPS of FY2022
  i. Pursuing traditional monetary policy tools for addressing the pandemic
  ii. Governance in the banking sector – a major vehicle to carry out the policies
  iii. Administration of stimulus packages
- The present analysis is based on these three prisms

II. BRIEF REVIEW OF MONETARY POLICIES IN RECENT YEARS

Economic growth

- Economic growth targets set in the monetary policy were met or exceeded in 5 out of the last 6 years for which data are available.
- **Since data on actual growth of the GDP in FY20 and FY21 are not yet available, it is not possible to ascertain whether monetary policy in the past two years has been successful in supporting economic growth during the COVID-19 pandemic.**

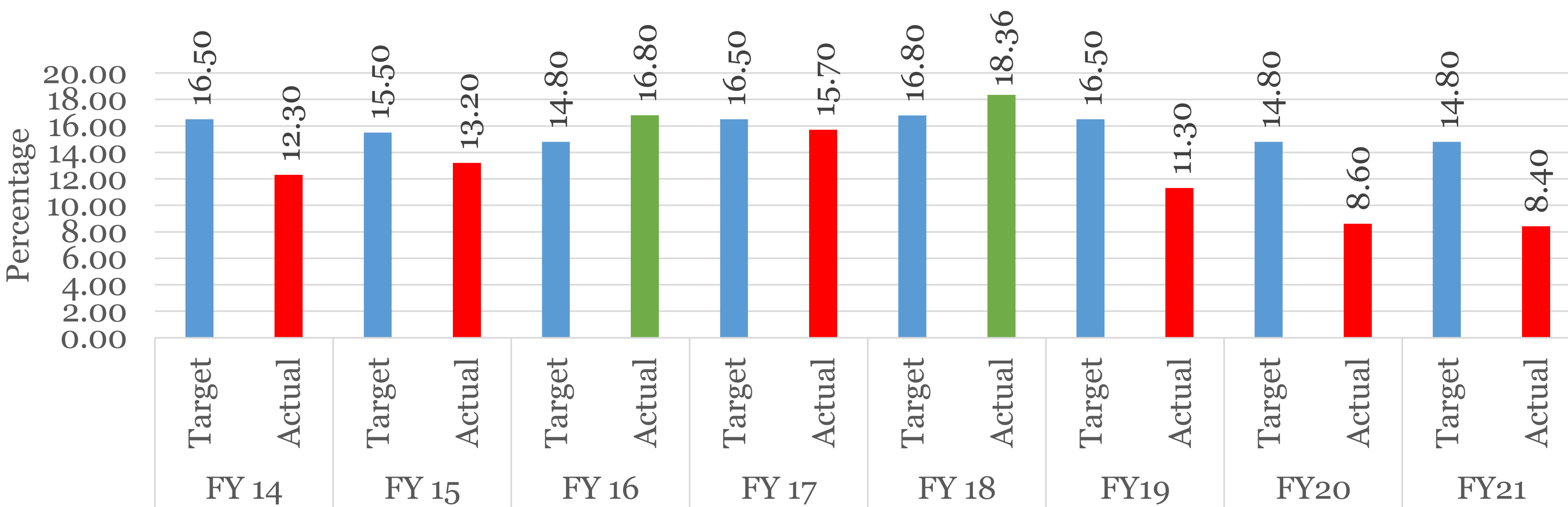
Figure: Economic Growth - Monetary Policy Targets vs. Actual



Private sector credit growth

- Despite stellar economic growth in the pre-pandemic years, private sector credit growth targets were not met in FY14, Fy15, FY17, and FY19.
- In response to low private sector credit growth, the central bank had to reduce its monetary policy targets in several years.
- **Weak private sector credit growth in an economy is indicative of low private sector investment**

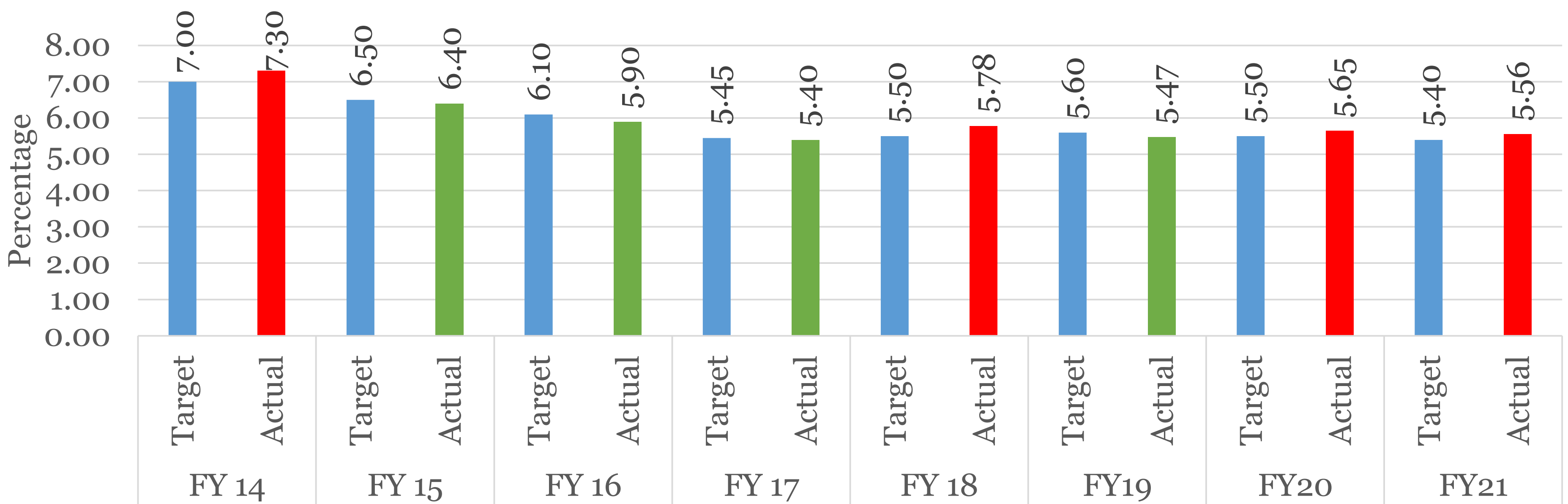
Figure: Private Sector Credit Growth - Monetary Policy Targets vs. Actual



Inflation

- Inflation during the COVID-19 pandemic slightly exceeded the monetary policy targets set in FY20 and FY21, due to a host of factors such as sporadic shutdowns and lockdowns due to spikes in COVID-19 cases and deaths in Bangladesh
- Prior to the pandemic years, **inflation targets were met** in FY15, FY16, FY17 and FY19, although in reality the cost of living kept rising

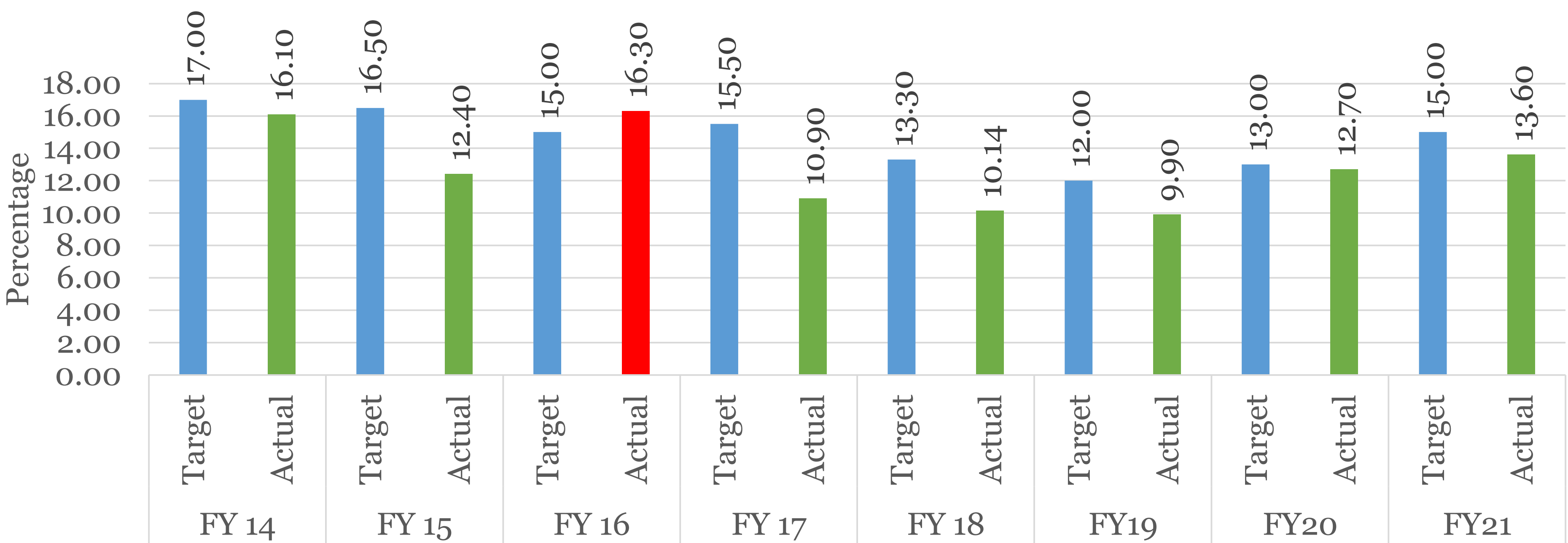
Figure: Inflation - Monetary Policy Targets vs. Actual

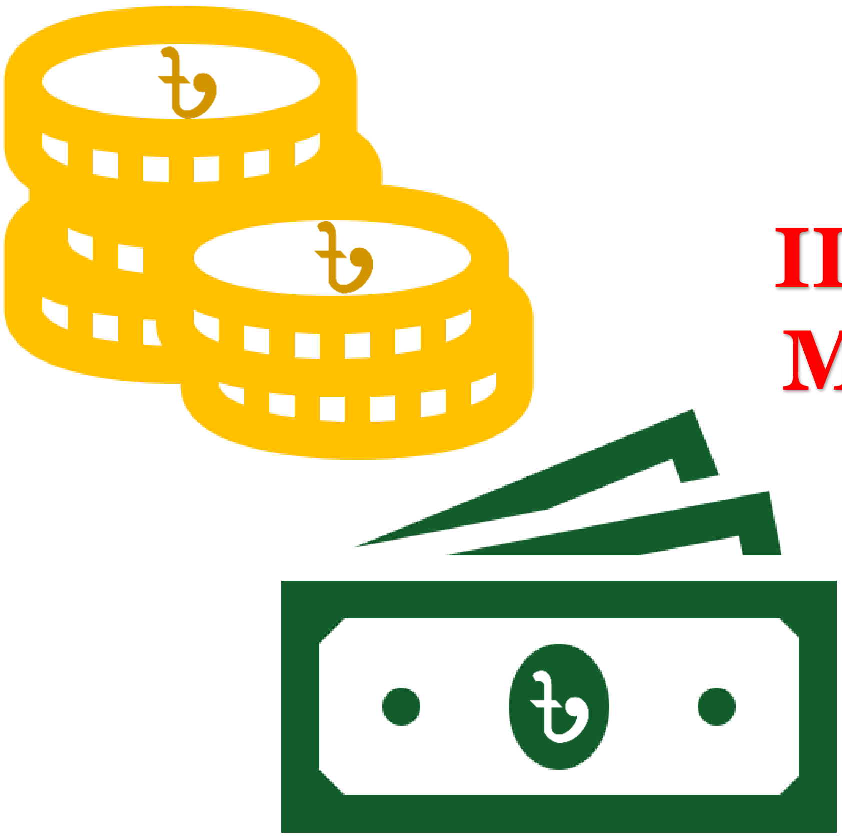


Broad money

- Broad money growth was within the targets set by the monetary policy in FY20 and FY21
- During FY14 to FY19, broad money growth was always below the target set by the monetary policy, except in FY16.

Figure: Broad Money - Monetary Policy Targets vs. Actual



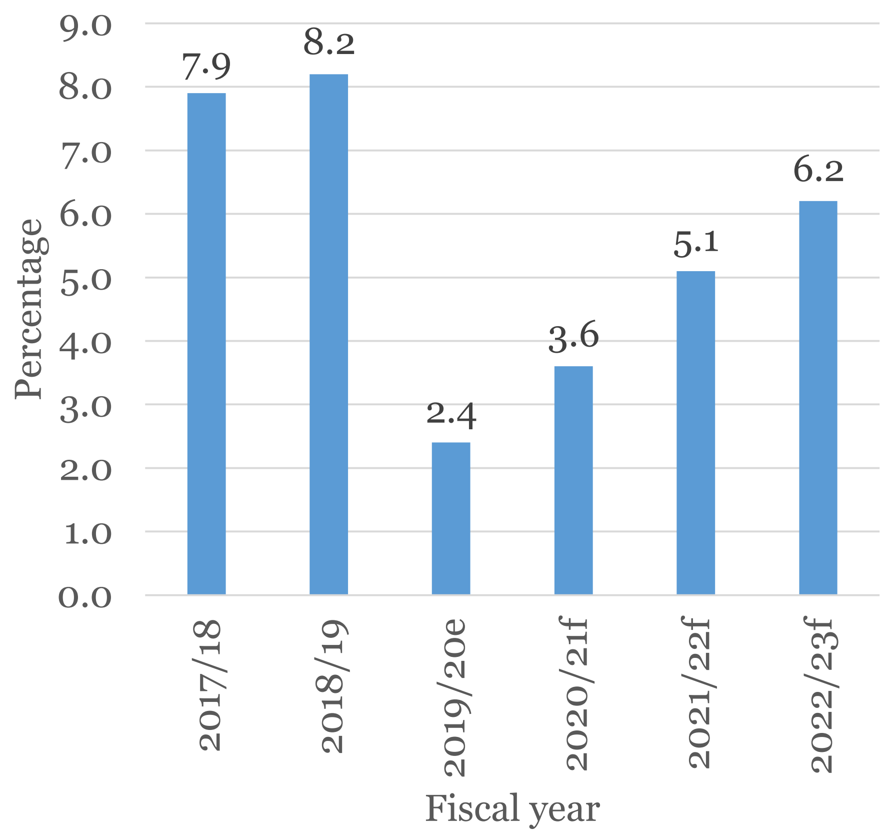


III. HIGHLIGHTS OF MONETARY POLICY FOR FY2021-22

Economic growth target

- MPS of FY22 sets an ambitious **economic growth target of 7.2%**
- Such a target appears to be based on the **most optimistic scenario of recovery from the pandemic**
- According to the World Bank's Global Economic Prospects Report June 2021,
  - Bangladesh's real GDP growth rate at market prices in fiscal year 2019-20 was estimated to be 2.4%
- Although real GDP growth rate at market prices is forecasted to rise, it will not reach pre-COVID levels even in fiscal year 2022-23

Figure: World Bank's real GDP growth estimates & forecasts for Bangladesh (in %)

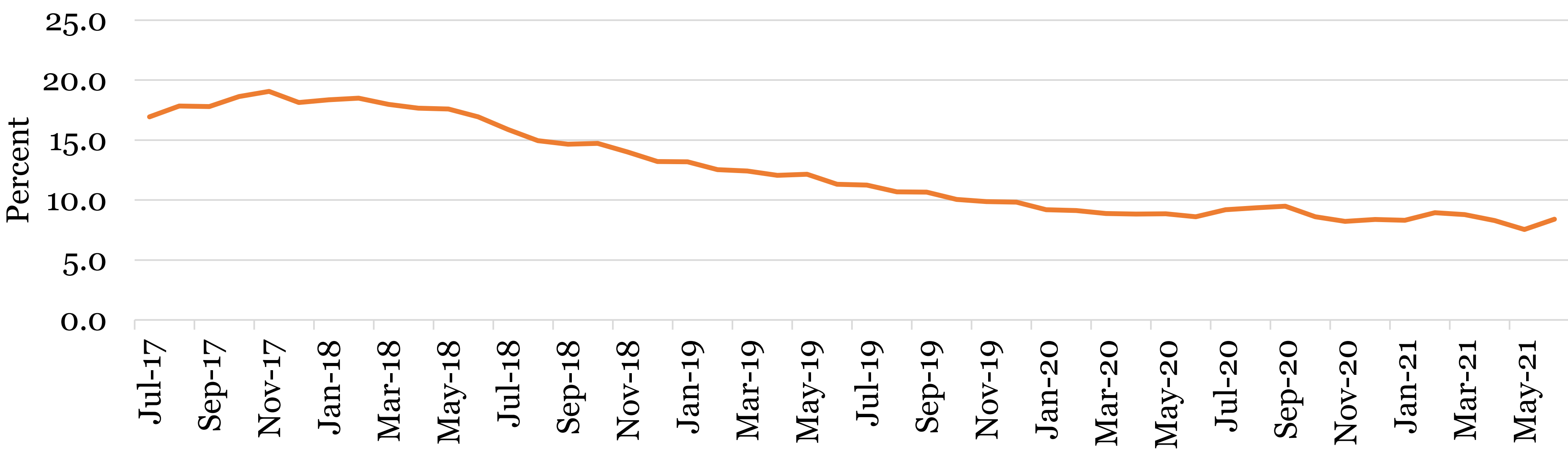


Source: https://www.worldbank.org/en/publication/global-economic-prospects .
Note: e = estimate; f = forecast

Private sector credit growth target

- Targeting the monetary aggregates *has been particularly weak in the area of credit to private sector*
- Indeed credit to private sector has been largely on a declining trend since Mar 2018 – and is **below 10% since Nov 2019**
- Nevertheless, MPS of FY22 has set **private sector credit growth target of 14.8%** which is very high compared to the trend in the recent past

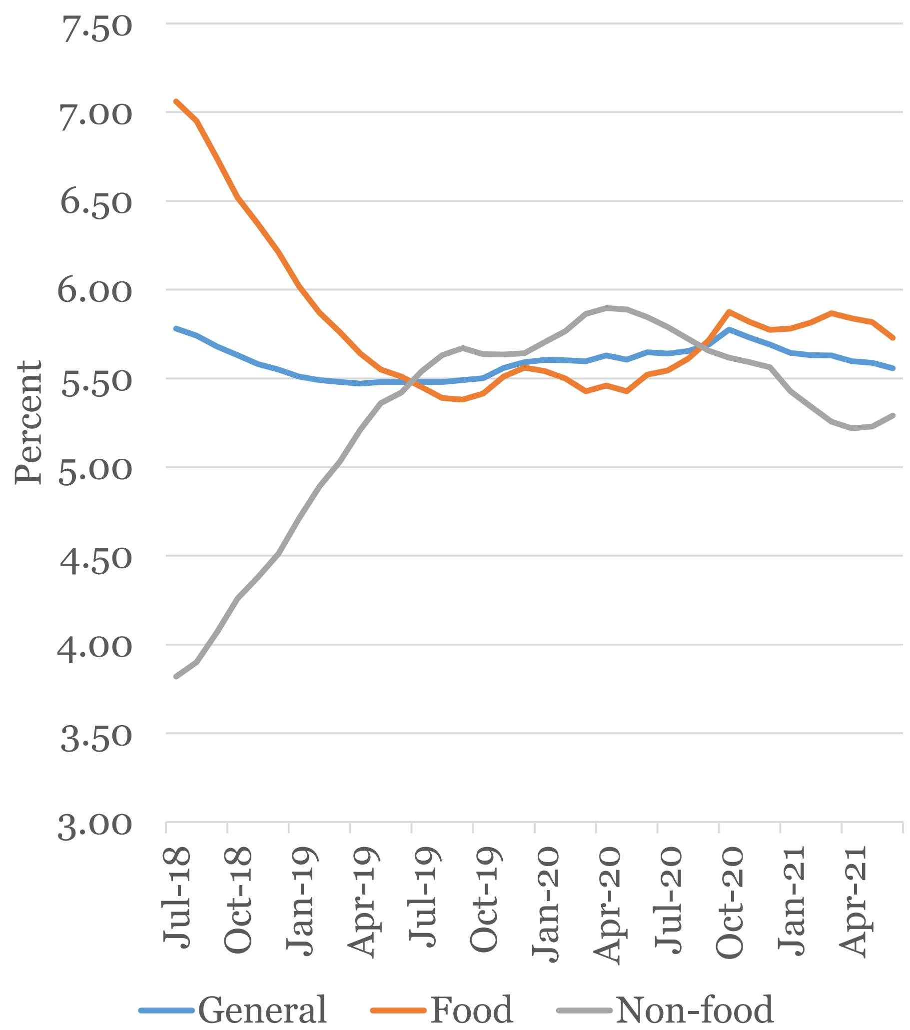
Figure: Growth of Credit to Private Sector (%)



Inflation target

- ❑MPS of FY22 sets an **inflation target of 5.3%**
- ❑Data shows that the 12-month average food and non-food inflation rates have fluctuated in a cyclical pattern over the past several years.
- ❑**However, it appears that the inflation rate has lost its relevance to the real world**
- ❑ The poor and low income groups are increasingly finding it difficult to make ends meet in the face of dual blows from
  - ➢ **purchasing power erosion**
  - ➢ **income erosion**

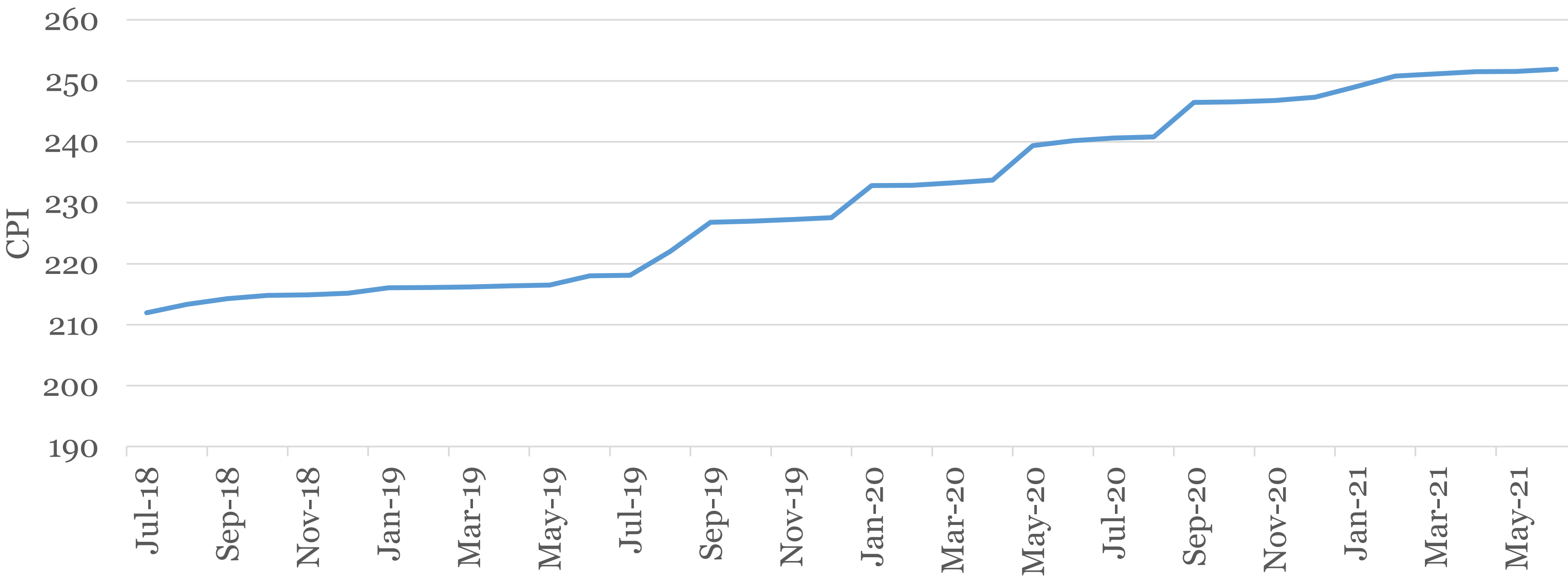
Figure: 12-month average inflation rate



Rising cost of healthcare

- Consumer Price Index (CPI) of medical care and health expenses increased from **156.1 in July 2012** to **251.9 in June 2021**
- Inflation rate of medical care and health expenses increased from 0.18% in April 2020 to 2.42% in May 2020, due to the rise in COVID-19 cases

Figure: CPI of medical care and health expenses



A new monetary policy with a 16-year old consumption basket?

Food expenditure as a share of income (in %)

	National	Rural	Urban
2000	42	48	32
2005	45	50	36
2010	53	57	45
2016	46	52	37

Food expenditure as a share of consumption expenditure (in %)

	National	Rural	Urban
2000	55	59	45
2005	54	59	45
2010	55	59	48
2016	48	50	43

Weights used for food in calculation of CPI (base year 2005)

	National	Rural	Urban
2000			
2005	56	61	47
2010	56	61	47
2016	56	61	47

- **Engel's law** states that *as income increases, people spend a smaller proportion of their total income on food*
  - In Bangladesh, *nominal household income increased* by 7.86% per year on average and *real* household income increased by 0.16% per year on average between 2010 and 2016
    - *food expenditure as a share of income* **decreased** from **53%** in **2010** to **46%** in **2016**
    - *food expenditure as a share of total consumption expenditure* **decreased** from **55%** in **2010** to **48%** in **2016**
- However, the *weights used for food in the calculation of CPI are significantly higher than share of food expenditure in either income or consumption expenditure*
- **Thus, the consumption basket used for calculating overall general inflation was created in 2005 and does not reflect the current consumption pattern of consumers or the actual prices in the market**

Source: BBS

Consumption basket does not portray accurate consumption behaviour

Weights used for calculating CPI vs. actual distribution of consumption expenditure

	Weights used for non-food items in calculating CPI (base year 2005)	Distribution of consumption expenditure based on crowd-sourced data
Non food	44	60
Clothing	7	3
Rent	15	17
Transport	6	21
Recreation	4	7

- Crowd-sourced data of prices of 5,621 items contributed by 449 respondents during November 2019 to November 2020 show that
  - share of **non-food** items in actual consumption expenditure was **16% higher** than the weight in CPI
  - share of **rent** in in actual consumption expenditure was **2% higher** than the weight in CPI
  - Share of **transport** in actual consumption expenditure was **15% higher** than the weight in CPI
- **Thus, the consumption basket used for calculating non-food inflation does not accurately portray the behaviour of the consumers at present or the market prices prevailing at the moment**

Source: BBS and Numbeo

Broad money growth target

- MPS of FY22 sets a **broad money growth target of 15%**
- Analysis of data shows that there is a unidirectional causal relationship running from the supply of broad money and the price level in Bangladesh.
- Therefore, the central bank should exercise caution in the conduct of monetary policy, lest inflationary pressures overburden the economy.

Table 1: Results of Granger Causality Test

Null hypothesis	F statistic (p value)	chi square statistic (p value)	Interpretation
M2 growth does not Granger-cause CPI growth	4.06 (0.0599)	4.78 (0.0288)	*Unidirectional causality running from M2 growth to CPI growth*
CPI growth does not Granger-cause M2 growth	0.47 (0.5006)	0.56 (0.4554)	
Log of M2 does not Granger-cause log of CPI	8.83 (0.0082)	10.30 (0.0013)	*Unidirectional causality running from log of M2 to log of CPI*
Log of CPI does not Granger-cause log of M2	2.71 (0.1171)	3.16 (0.0754)	

Note: (i) One period lag chosen; (ii) M2 growth is defined as percentage change in supply of broad money; (iii) CPI growth is defined as percentage change in consumer price index, base year 2005-06; (iv) M2 data from Bangladesh Bank and CPI data from Bangladesh Bureau of Statistics; (v) Granger causality implies predictive causality and not true causality.

V. IMPLICATIONS FOR THE BANKING SECTOR

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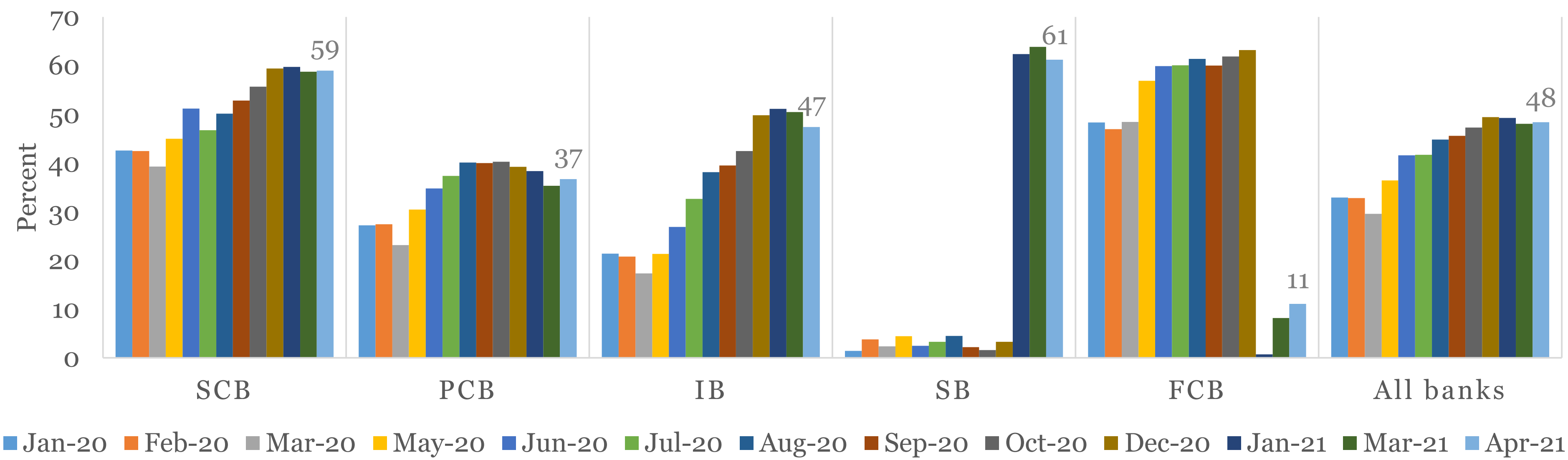
Excess liquidity in the banking sector

- **Excess liquidity in the banking sector has nearly doubled** from BDT 103 thousand crore in January 2020 to BDT 202 thousand crore in April 2021
- During the same period, excess liquidity has more than doubled in state-owned commercial bank (SCBs) and more than tripled in Islamic banks (IBs).
- Excess liquid assets comprised of **48% of the total liquid assets** of the banking sector in April 2021

Figure: Excess liquid assets as a percentage of total liquid assets



Hardly any calls in the call money market

- Signs of excess liquidity were also manifested in the call money market, as the **monthly average call money market borrowing and lending rates both tumbled down from June 2020 onwards**
- The low cost of funds in the call money market indicates that there was **very low demand for funds**, since the majority of banks most likely had excess liquidity.

Figure: Monthly average call money market lending rate

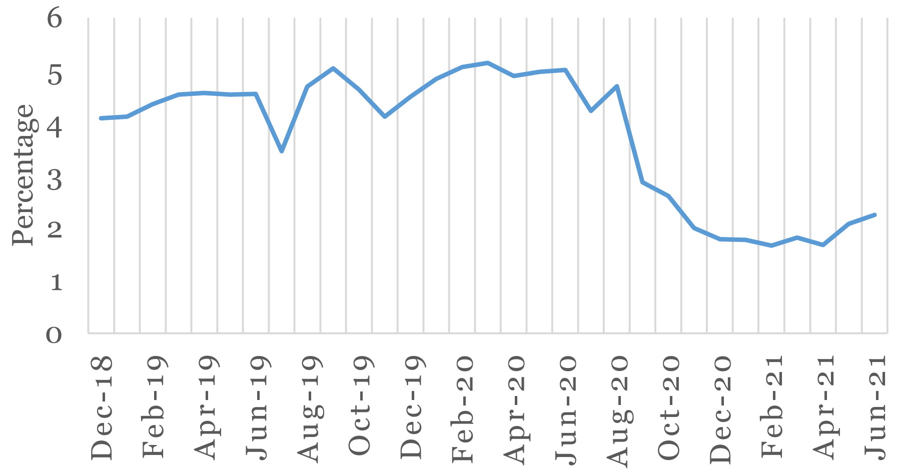
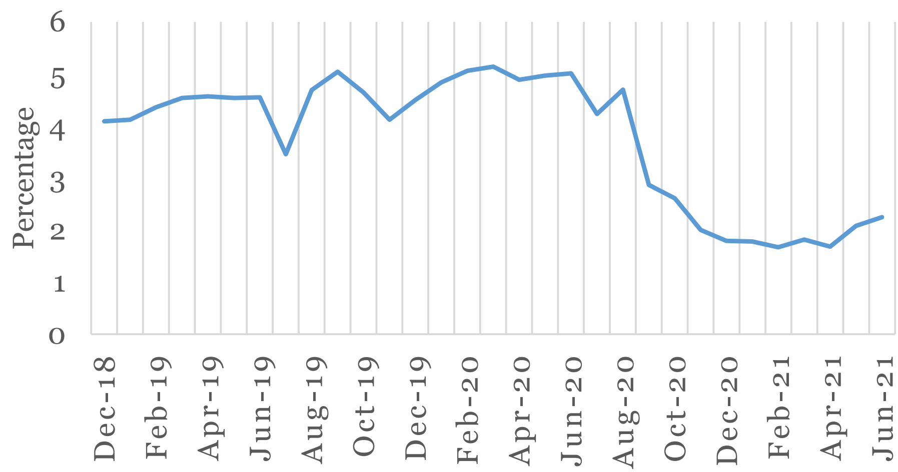


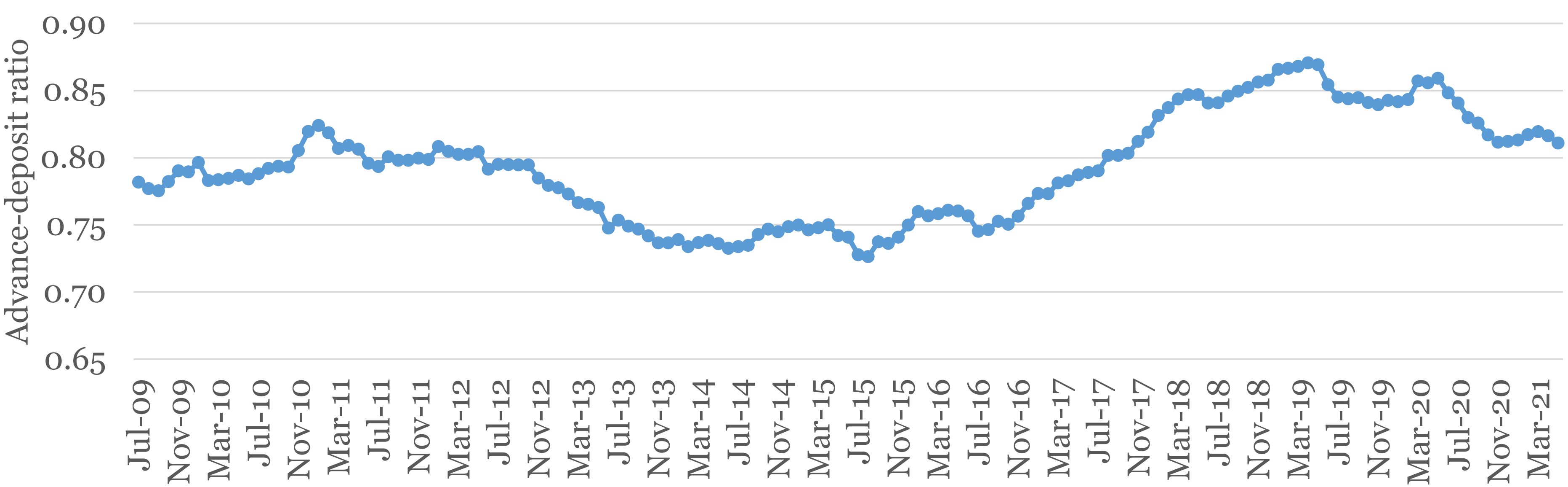
Figure: Monthly average call money market borrowing rate



Advance-deposit ratio

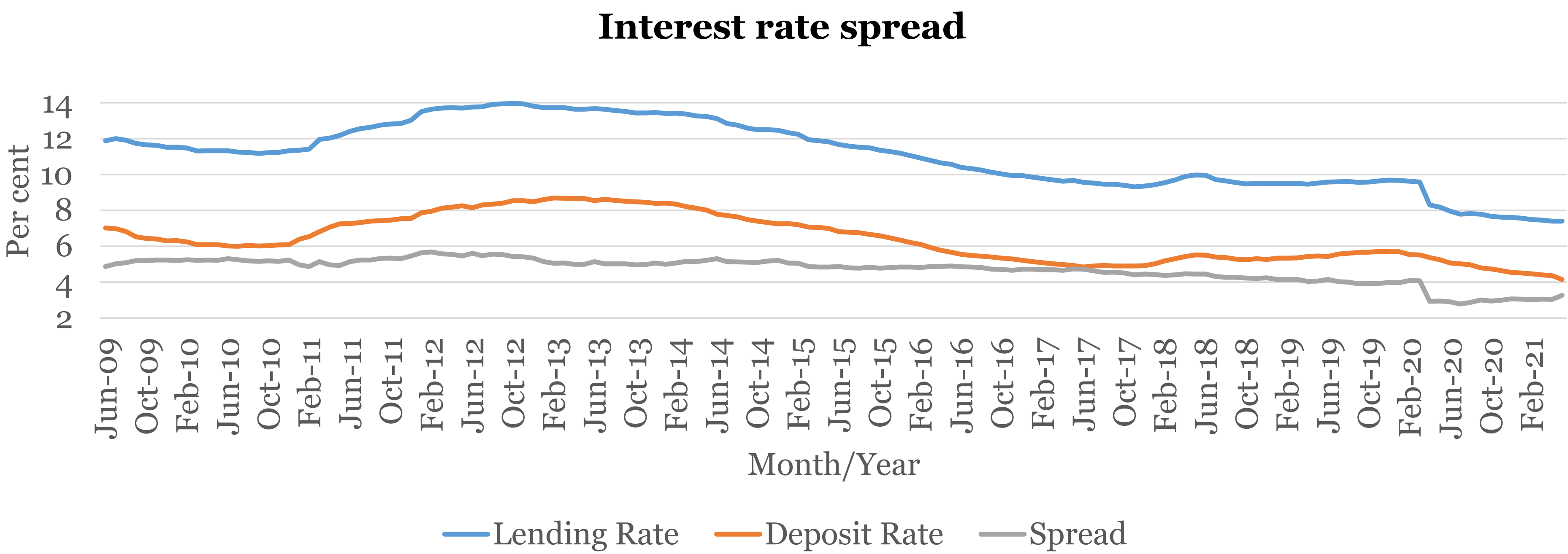
- Excess liquidity is also a sign that the demand for loans is low, which is likely since the real economy is still experiencing the repercussions of the COVID-19 shock.
- The advance-deposit ratio (ADR) of all banks fell to a three-year low of 0.81 in November 2020.
- The plummeting ADR points indicates that economic activity has declined during the third wave of COVID-19.

Advance-deposit ratio



Interest rate spread

- Excess liquidity in the banking system has led to a fall in the interest rates, which were already quite low even prior to 2020.
- During the pandemic, the weighted average lending rate in all scheduled banks has come down sharply and the weighted average borrowing rate in all scheduled banks has also declined.
- As a result, the interest rate spread has come down, adding to the woes of the commercial banks.



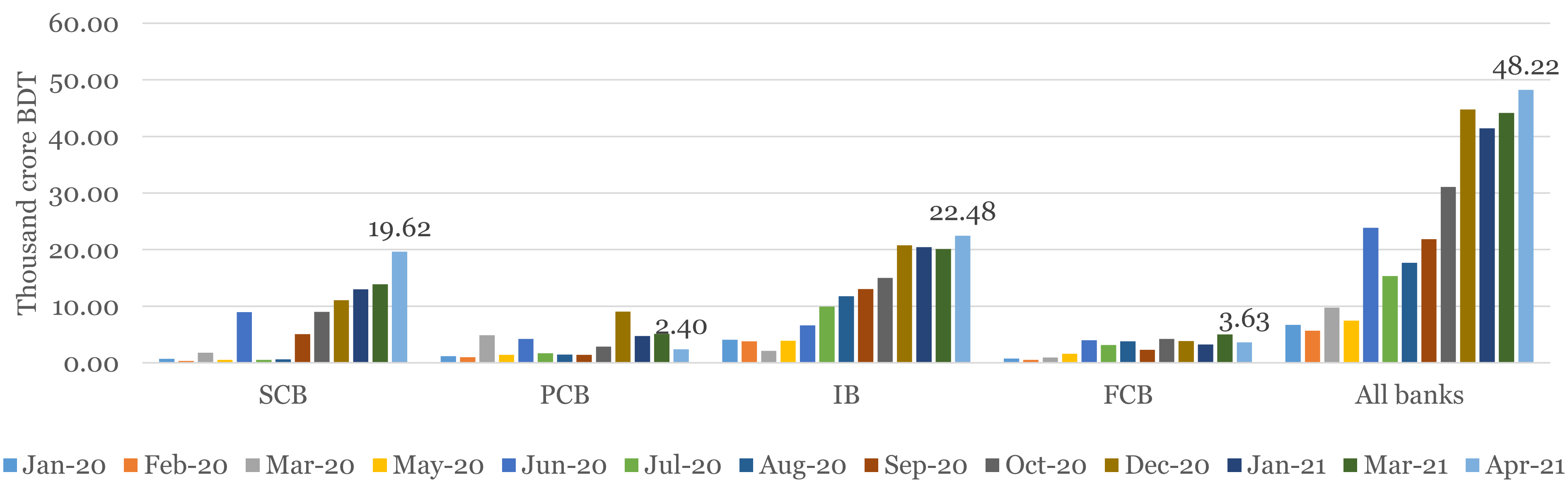
Monetary policy consequences of excess liquidity

- Excess liquidity in the banking system may induce commercial banks to behave in ways which may **jeopardise the stability of the financial system** and make it **difficult for the central bank to achieve its monetary policy goals**.
- Banks may attempt to offset their losses from holding excess liquidity by giving out risky loans which may lead to **higher volume of NPLs, higher inflation and the creation of asset bubbles**.
- Excess liquidity in the banking system also **weakens the interest-rate transmission mechanism of monetary policy**, making monetary policy less effective in fine-tuning aggregate demand.
- When there is excess liquidity in the banking system, commercial banks may perceive the opportunity cost of holding excess balances at the central bank to be low, and hence be slow to act to reduce excess liquidity.
  - As a result the central bank would find it *more challenging to determine the ideal level of desired and excess reserves*.

Excess reserves

- Data from Bangladesh Bank shows that in 2020, **excess reserves of all banks increased** from BDT 6.74 thousand crore, or 2.15 per cent of total liquid assets, in January 2020, to BDT 48.22 thousand crore, or **11.56% of total liquid assets, in April 2021**.
- *Since excess reserves represent un-invested cash, holding excess reserves is costly for banks.*

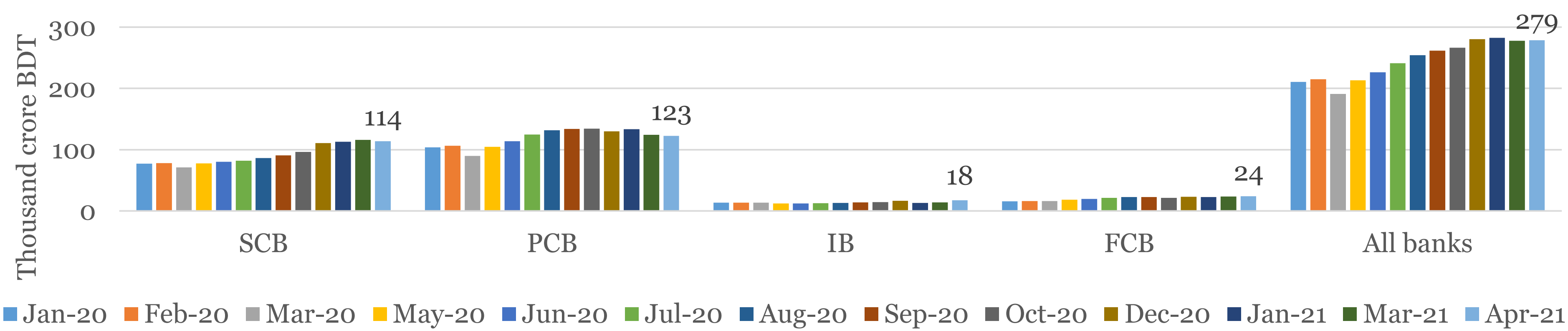
Figure: Excess reserve (un-invested cash) (BDT in thousand crore)



Reluctance to lend?

- Banks have also increased their holdings of unencumbered approved securities, which are zero risk rated assets issued or guaranteed by the government
- In 2020, holdings of unencumbered approved securities of all banks increased from BDT 211 thousand crore, or 67.15 per cent of total liquid assets, in January 2020, to BDT 279 thousand crore, or 66.83% of total liquid assets, in April 2021
- The decision of commercial banks to hold excess liquidity in the form of unencumbered approved securities instead of funds for lending shows that commercial **banks perceive that the yields on risk free unencumbered approved securities are better than the risk adjusted returns on interest-bearing loans that come with default risk.**
- *This implies that commercial banks are hesitant to lend, as they probably believe that economic activity is yet to pick up and so their loans may have a high probability of turning bad.*

Figure: Unencumbered approved securities (BDT in thousand crore)



Problems of the banking sector in pre-COVID and post-COVID scenarios

	Pre-COVID Scenario		Post-COVID Scenario	
Problems in the banking sector	***Policy recommendations by CPD***	***Measures taken or planned by the government***	***New issues relevant to old problems***	***Probable implications***
Lack of good governance	Forming a goal specific, time bound, inclusive, transparent, unbiased and independent Citizen's Commission on Banking	Forming a Banking Commission	Government guaranteed and subsidized loans are being provided; weak and poorly governed banks will be able to offer loans	Adverse selection and moral hazard; delays in forming a commission may lead to worsening of the state of governance in the banking sector
Excessive regulatory forbearance, despite knowledge of poor governance	Ending the practice of bailing out weak and poorly governed banks with tax payer's money	Recapitalising commercial banks repeatedly, using vast sums of public money	Weak and poorly governed banks will take advantage of COVID-19 induced regulatory forbearance to continue business-as-usual	Performance of weak and poorly governed banks may get worse under lax regulations due to COVID-19

Problems of the banking sector in pre-COVID and post-COVID scenarios

	Pre-COVID Scenario		Post-COVID Scenario	
Problems in the banking sector	***Policy recommendations by CPD***	***Measures taken or planned by the government***	***New issues relevant to old problems***	***Probable implications***
High volume of NPLs	Taking strong legal steps against willful defaulters, strengthening the central bank, and broadly implementing reforms that would instill good governance	Forming an asset-purchasing type public asset management company which will issue government guaranteed bonds to buy NPLs from troubled banks	Loan defaulters will be allowed to apply for loans under certain COVID-19 related liquidity support packages	Some loans provided as part of the COVID-19 liquidity packages may become bad, increasing the volume of NPLs further; since loan defaulters will be able to access the COVID-19 liquidity support packages, they may take undue advantage of the new measures.

Problems of the banking sector in pre-COVID and post-COVID scenarios

	Pre-COVID Scenario		Post-COVID Scenario	
Problems in the banking sector	***Policy recommendations by CPD***	***Measures taken or planned by the government***	***New issues relevant to old problems***	***Probable implications***
Money laundering and illicit financial outflows	Reinforcing the capacity of government agencies, such as the Transfer Pricing Unit of National Bureau of Revenue, to ensure enforcement of law in all areas related to illicit financial outflows	Bangladesh Bank has issued guidance notes and guidelines on money laundering and terrorist financing risk management and prevention	Banks may provide loans for import of coronavirus related essential medical items without repayment guarantee; many of these items may be imported at zero tariff under the current crisis situation	Import over-invoicing may be used to carry out trade based money laundering, taking advantage of absence of repayment guarantee and import tariff as added bonuses; illicit financial outflows may increase
Scams, heists and irregularities	Take immediate steps to bring perpetrators to justice and recover funds	Some steps have been taken, although they are mostly too little or too late; record of fund recovery is mixed	There is no clear definition of a COVID-19 "affected" business or individual based on objective and quantitative criteria	Fraudulent claims on government stimulus funds may be made by individuals presenting themselves as legitimate companies seeking assistance

Problems of the banking sector in pre-COVID and post-COVID scenarios

	Pre-COVID Scenario		Post-COVID Scenario	
Problems in the banking sector	***Policy recommendations by CPD***	***Measures taken or planned by the government***	***New issues relevant to old problems***	***Probable implications***
High number of commercial banks, relative to size of the country and the economy	Refraining from awarding licenses for opening new commercial banks	Bengal Commercial Bank Limited awarded license on the grounds of increasing financial inclusion	Direct cash transfers of COVID-19 related funds will be made through mobile banking channels, instead of the 60 commercial banks in the country	New commercial banks are unlikely to promote financial inclusion, since their borrowing and lending activities are largely based in Dhaka and Chittagong instead of districts with high poverty
Cronyism in banking	Reduce the number of family members allowed on board of directors of banks and decrease the tenure of each director	Number of family members allowed on the board of directors increased from 2 to 4 and tenure of each director increased from 6 years to 9 years	The greatest share of liquidity support has been offered to large industries	Crony capitalists may utilize their strong political foothold in banks to obtain more than their fair share of liquidity support

Problems of the banking sector in pre-COVID and post-COVID scenarios

	Pre-COVID Scenario		Post-COVID Scenario	
Problems in the banking sector	***Policy recommendations by CPD***	***Measures taken or planned by the government***	***New issues relevant to old problems***	***Probable implications***
Duality of interest rates of national savings certificates and bank deposits	Rationalising the interest rates of national savings deposits to make them sustainable in the long run; allowing interest rates on bank lending and deposits to be market determined	Capping the interest rate on lending to 9 per cent, and inducing the interest rate on deposits to be around 6 per cent	Some forms of COVID-19 related liquidity support will come with subsidized interest rates	Those who are eligible for liquidity support will borrow from the government's packages and those who are not eligible may not borrow at all; alternatively small savers will be suffer a double blow to their savings from the pandemic and the low interest rate on bank deposits. Capping interest rates may not stimulate investment in the post-COVID economy.

VI. COVID-19 STIMULUS PACKAGES

Government's COVID-19 response

- The Government of Bangladesh had responded to health and economic emergencies caused by COVID-19 by announcing a number of liquidity support and fiscal stimulus packages targeting various sectors and people. The amount of stimulus packages is about 4.4% of Bangladesh's GDP.
- The liquidity support was channeled through the banking sector which has proven to be the weakest link in the economy of Bangladesh for the past decade.
- Since about 80% of the government's COVID-19 response funds are in the form of liquidity support, banks are expected to play a central role in view of recovery of the pandemic-affected economy.
- Bangladesh's **fiscal** stimulus package (not loans) is less than **1%** of its GDP, and falls far short of the 11% of GDP that is estimated to be required to mitigate the socioeconomic impacts of COVID-19.

Concerns about implementation of the COVID-19 packages

- CPD had previously pointed out that the nature and design of Bangladesh's COVID-19 relief funds could encourage financial malpractices
- BB has issued more than 100 circulars related to the liquidity support packages over the past year. But the regulatory gaps have not been addressed yet.
  - This has made some of the government's liquidity support packages available also for **banks that are weak and poorly governed**; these supports were also made accessible to **loan defaulters**.
- It is not clear what the real situation of NPLs in the banking sector is at present, and it is uncertain as to how large NPLs may actually turn out to be in the future when the moratorium is lifted.
- Since the highest share of COVID-19 related liquidity support has been offered to large industries, crony capitalists may take advantage of their strong political foothold to use the banks to obtain more than their fair share of funds.
- Commercial banks must exercise their own judgement to decide which potential loan seekers have been **"affected"** by COVID-19, since no clear, objective and quantitative criteria for defining the term "affected" has been stipulated by the central bank.

Transparency and accountability

- The **transparency** and **accountability** of Bangladesh's COVID-19 stimulus plan will be key to its successful operationalisation and implementation.
- Hence, it is critical to make sure that the beneficiaries are selected based on **clear, objective, and quantitative criteria** and vested interests are not allowed to intervene.
- Without connections with the local powerful people, it has been proved to be difficult to get included in the list of beneficiaries.
- Widespread **corruption** has been reported to have taken place in the distribution of government's relief items.
- Such **malpractices** have been reported in the media at a time when the economy was reeling from the worst effects of the COVID-19 crisis.
- Since the vast majority of Bangladesh's COVID-19 relief funds will be distributed through banks, there is an **opportunity for unscrupulous individuals** to profit from humanitarian aid without coming into the limelight.

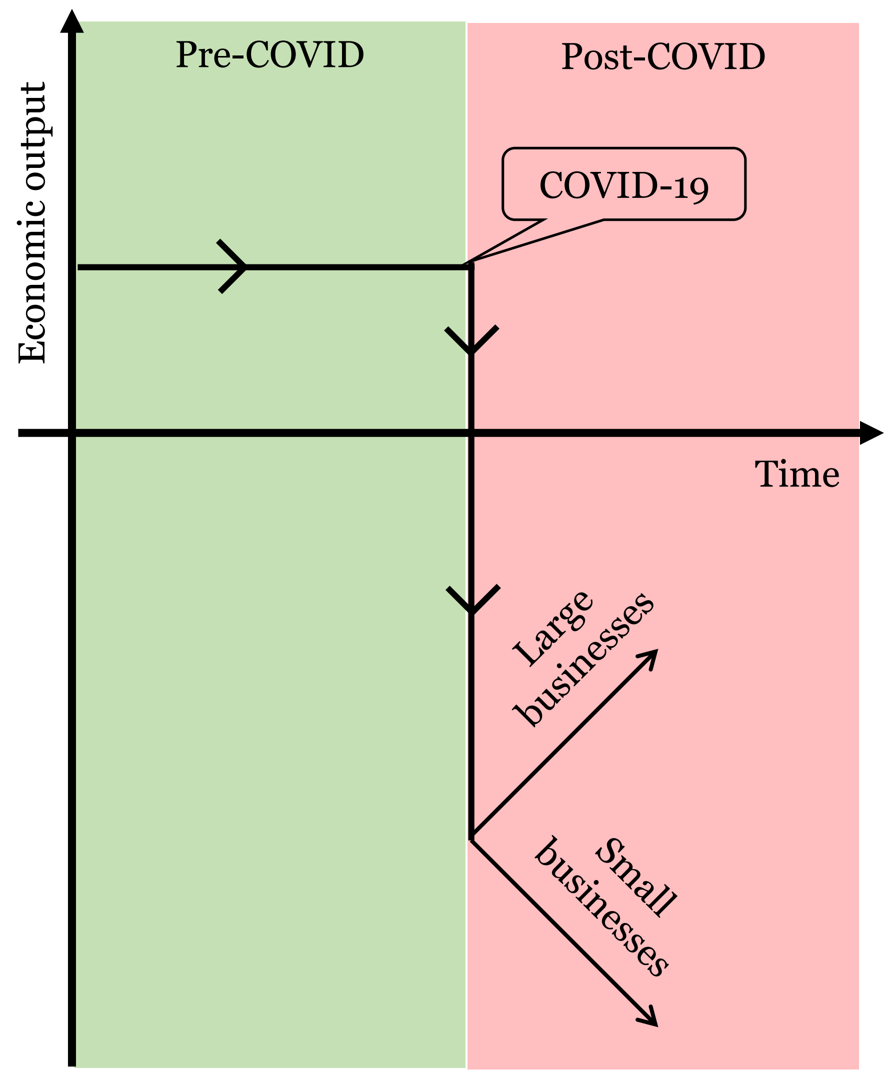
"k" shaped economic recovery

- Moreover, the **varying speed of implementation** of the various liquidity support packages has created an unequal turnaround as bigger firms have rebounded more strongly, owing to quick access to liquidity packages, while **smaller firms have been largely left behind**.
- From the outset of the announcement of the COVID-19 liquidity support packages by the government, **banks have been more willing to lend to large borrowers**, but were hesitant to lend to small borrowers.
- In a "k" shaped economic recovery curve, the COVID-19 recovery path splits in two directions: large firms and public-sector institutions with direct access to government and central bank stimulus packages will make some areas of the economy recover fast but leave behind small and medium-sized enterprises (SMEs), blue-collar workers, and the under-pressure middle class.
- **The design of the stimulus packages and their distribution services a mostly "k" shaped economic recovery path in Bangladesh.**

Driving a "k" shaped recovery

- In a **"k" shaped economic recovery** curve, the COVID-19 recovery path splits in two directions: *large* firms and public-sector institutions with direct access to government and central bank stimulus packages will make some areas of the economy recover fast but leave behind *small* and medium-sized enterprises (SMEs), blue-collar workers, and the dwindling middle class.
- **It seems that the design of the stimulus packages and their distribution are driving a "k" shaped economic recovery path for Bangladesh.**

Figure: A "k" shaped recovery path



Can loans lend a helping hand?

- **Liquidity support cannot be treated as philanthropy and so banks cannot provide loans to anyone on humanitarian grounds.**
- Any bank must follow its due diligence whilst providing loans, meaning that banks are generally more inclined to provide loans to their old borrowers who are familiar to them rather than new borrowers who are unfamiliar with them.
- As a result, new borrowers with no credit history and limited records of business-related bank transactions found it difficult to obtain loans from any bank under any liquidity support package regardless of how badly affected they were due to the pandemic.
- **Liquidity support through bank loans is not the best way to cater to the needs of small borrowers and new borrowers, as well as those who are the poorest and most vulnerable.**
- There is a lack of awareness among women, and the general public at large, regarding the government's liquidity support.
- **A large portion of people, who are actually poor and in dire need, did not receive any form of support from the government—whether in the form of relief items, liquidity support or fiscal stimulus**

VIII. CONCLUDING REMARKS

Weaknesses of the banking sector

- The current ailing banking system cannot sustain the ambition of high growth in the country.
- The **severity of high NPLs is currently invisible** due to the measures taken to ease loan classification.
  - However, once loans are classified without any special considerations the volume of NPL may rise significantly
- At present, problems of the banking sector are being tackled by government's support. This is possible since banking assets are only about 56% of GDP. When banking assets will increase, the government may not be able to do so.
- As Bangladesh prepares for graduation from a Least Developed Country (LDC) to a developing country and from a lower middle income country to an upper middle income country, it is crucial to develop a sound financial system which will ensure **finance for development, not finance for crony capitalism**.

Conclusions

- Stimulus packages provided through banks has created **new avenues for corruption and malpractices**.
- **Repayment of loans provided through stimulus packages** may become a cause of concern in the coming days.
- Once the moratorium on loan classification is eventually lifted, the level of **non-performing loans may also rise suddenly**
- Liquidity support and fiscal stimulus packages rolled out without prior assessment of the ground realities may not be able to address the **needs of the most vulnerable people in society**.
- In particular, **providing loans to vulnerable individuals and small businesses may not yield the expected results.**
- Hence, it is urgent for the government to reconsider liquidity support as the primary mode of economic response to COVID-19, and **increase fiscal stimulus and direct cash transfers to the poor.**

Conclusions (cont.)

- Sound macroeconomic management and prudential supervision must be rooted in established economic theory and high-quality empirical evidence.
- **Unfortunately, lack of data integrity in recent years has seriously compromised the effectiveness of the government's policies and the central bank's directives, thus jeopardising the overall economic progress of the country.**
- Calculating CPI on a base year and consumption basket which is 16 years old appears to be naïve at best and manipulative at worst.
- As even the middle-class struggle to make ends meet, it seems unlikely that long-term inflation is declining.
- **It is apprehended that actual inflation may likely be significantly higher than the reported values.**

Recommendations

- **Loan defaulters** should not be allowed to access any of the COVID-19 related liquidity support packages.
- **Weak and poorly governed banks** should be barred from participating in the COVID-19 related liquidity support packages. Banks which are not fully compliant with BASEL III or the Banking Company Act should be not be allowed to participate in the COVID-19 related liquidity support packages.
- Clear, objective, and quantitative criteria should be declared to properly identify **"affected"** businesses and individuals.
- **Transparency and accountability mechanisms** should be built into all COVID-19 related liquidity support packages, and more disaggregated data on the implementation status of all liquidity support packages should be published on a monthly basis.
- **Disbursement** of the government's COVID-19 liquidity support for small businesses, farmers, and low-income professionals should be **expedited immediately**.

Recommendations (cont.)

- The policymakers should **acknowledge the actual scale of the COVID-19 crisis** and then **formulate a specific and target-oriented post-COVID recovery plan** that aims to build back better.
- A thorough **needs assessment** should be conducted to understand the extent of damage done by COVID-19, the amount of support required, and the people who need the support the most.
- **Public awareness about the liquidity support and fiscal stimulus packages** should be raised through nation-wide campaigns so that the general population can clearly understand what kinds of support are being provided by the government, who are eligible for such support, and how to obtain the support.
- **Liquidity support is inappropriate for small borrowers and new borrowers, as well as those who are the poorest and most vulnerable.** Therefore, direct cash support should be provided by the government so that these groups can adjust to the shocks of COVID-19.

Recommendations (cont.)

- A **multi-stakeholder taskforce** with representatives from the various ministries, central bank, commercial banks, trade bodies, civil society, non-government organisations. and academia should be formed for monitoring the delivery of the COVID-19 liquidity support and fiscal stimulus packages and assessing their effectiveness.
- Banks with excess liquidity should be discouraged by the central bank from taking unnecessary risks.
- A goal-specific, time-bound, inclusive, transparent, unbiased and independent **Citizen's Commission on Banking** should be set up in order to bring transparency in the prevailing situation, identify the root causes of the manifest problems, and suggest credible measures for improving the situation sustainably.
- **A new consumption basket should be formulated for calculating CPI inflation**, based on rigorous research as regards consumer behaviour and expenditure patterns. All targets, projections, and plans in the monetary policy and the 8th Five Year Plan should be revised in accordance with this new consumption basket for CPI and new base year for inflation.

A cautious policy during chaotic times

- Overall, the monetary policy of FY22 appears to be *a cautious policy during the chaotic times* of the pandemic
- The central bank has refrained from taking any active steps in reducing the prevailing excess liquidity in the banking system, but has assured that it will not hesitate to take act if the need arises
- The overall stance of the policy is expansionary, and in the words of the central bank, *"accommodative"*
- It appears that the **targets set for private sector credit growth and economic growth may not be met**, considering the rapidly worsening COVID-19 situation at present
- **Inflation targets should be practical, based on updated consumption basket.**
- **Finally, governance of the banking sector will be an important determinant for better recovery of the economy. Unfortunately, reforms in the banking sector remains outside the radar of the central bank.**

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iRBD
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Stay Well, Stay Safe