

BB's role in employment creation

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Like most other central banks, employment creation has fallen off the direct agenda of the Bangladesh Bank (BB) although problems like unemployment and poverty are taking centre stage as critical issues of development in the country. In Bangladesh, almost all households depend on employment as their primary source of income. This is especially true for the poor households since the only abundant productive resource that the poor have is their own labour. Increasing employment opportunities and raising the returns to labour is therefore the most viable option to reduce poverty and meet the country's human development goals.

In the above context, one important issue is to recognize that simply having access to employment is not enough to lift the poor households out of poverty. For reducing poverty, both quantity and quality of employment need emphasis for which economic growth alone is not adequate. This requires an employment-centred strategy to growth in which productive employment opportunities would expand for the poor along with returns adequate enough to raise the households out of poverty.

Labour force and employment

The labour force in Bangladesh has expanded rapidly over the last two decades. The total labour force was 53.7 million in 2009 compared with 36.1 million in 1996. This shows that every year nearly 1.5 million people enter the labour force and, given the present demographic trend, the growth of the labour force is unlikely to taper off during the coming decade.

With the labour force growing faster than the employment potential, the number of unemployed persons increased over time reaching 2.7 million in 2009 which corresponds to an unemployment rate

of 5.1 percent. Considering the total size of the population, this may be considered low. However, such a low unemployment rate as per the ILO definition is not surprising in a country like Bangladesh since the poor participants in the labour force are compelled to engage in some work – even for few hours and at low wages in the informal sector – in order to subsist with his/her family. But these people are considered as employed as per the above definition.

Thus the standard unemployment rate does not give a real picture of the supply-demand imbalance as well as the degree of inefficiency that prevails in the labour market. The un- and under-employment rates are generally higher among the youth and educated labour force especially among those with secondary or post-secondary and higher education. The unemployment rate among the labour force in the age group of 15-19 years is nearly 10 per cent and among those in the age group of 20-24 years is more than 9.0 per cent while the rate is less than 3.0 per cent for labour force above the age of 45 years.

These labour market characteristics highlight two important challenges of the country's employment situation. First, the problem of unemployment mostly affects the youth labour in Bangladesh. This suggests that the economy needs to generate employment opportunities for the youth at a much faster rate compared with the past. Second, the large majority of the unemployed youth are educated who are deprived of employment opportunities largely due to mismatch between supply and demand in the labour market, inappropriate and inadequate skills to effectively perform in the labour market, and slow pace of job creation particularly in the formal sector. The policy implications are clear: in order to meet the challenges in the labour market, Bangladesh needs to create jobs for the educated youth at a rapid

rate, which will come mostly through rapid expansion of productive and skill intensive formal and informal sector activities.

Orthodox role of central bank

The orthodox view and the global 'best practice' approach to central banking focus on inflation-centred monetary policy targeting stabilization rather than growth or development. The underlying rationale implicitly assumes that once stabilization is achieved, other goals like growth and poverty reduction will follow. Such an approach puts exclusive emphasis on using indirect, market-based instruments as primary tools of monetary policy rather than direct quantitative tools such as credit allocation methods, interest rate ceilings, and other ways to direct credit to priority sectors and goals. The approach thus narrows down both the goals and the tools of monetary policy.

One reason for the common perception that monetary policy has no major role in improving growth and employment prospects is the non-accelerating inflation rate of unemployment (NAIRU) view of the labour market which claims that, left to itself, market force will ensure full employment and any attempt to reduce unemployment will result in worsening inflation. The empirical basis of such a belief, however, is shaky.

Financial integration and monetary policy

With rapid global financial integration and increasing capital flows, the conduct of monetary policy has become highly challenging in terms of targeting monetary aggregates or pegging exchange rates along with trying to raise employment. Quite often the so-called 'trilemma' is invoked suggesting

that the central banks can only have two of the following three under control e.g. open capital market, fixed exchange rate, and autonomous monetary policy with focus on domestic goals. For monetary management, the traditional view is to eliminate capital control which is considered as the best policy along with full financial liberalization. The recent evidence, however, shows the danger of open capital markets creating costly problems especially for the developing countries. This calls for the use of a variety of techniques to effectively manage the capital flows.

Obviously, the need for the developing countries is to look for alternatives to inflation-focused monetary policy that can promote employment-intensive growth which is responsive to the needs of keeping inflation at a moderate level and maintaining an exchange rate that is not excessively volatile. For countries like Bangladesh, the monetary policy must be responsive to both stabilization and development needs.

BB as an agent of employment creation

It is important to recognize that a realistic monetary policy in Bangladesh needs to take into account several realities: (i) traditional monetary policy will not stimulate investment or growth by itself; (ii) the fiscal policy is highly constrained by a number of factors including large public debt; (iii) volatile external accounts and exchange rates undermine rapid and quality growth; and (iv) high economic growth does not necessarily guarantee quality growth with productive and remunerative employment.

For the Bangladesh Bank, the operating principle of monetary policy needs to be 'employment

targeting' along with moderate inflation as an additional constraint. Once the employment target of the economy is fixed, fiscal, monetary and related policy frameworks should be designed in a comprehensive and coherent manner so that the employment target could be achieved while maintaining moderate inflation. The frameworks may need support of complementary policies such as credit guarantees and subsidized credit for labour-intensive and small and medium enterprise sectors as well as income policies if necessary. The maintenance of a stable and competitive real exchange rate and targeted credit programmes for export-oriented sectors can boost productivity and employment.

It is important for the Bangladesh Bank not to keep itself constrained within the traditional scope of central banking. Rather, its role would be to provide effective support to the government's development goals while ensuring financial stability. For example, credit subsidies, asset-based reserve requirements, targeted interest rate ceilings, and similar measures could be tailored to present day conditions to serve useful purposes. The Bangladesh Bank must balance its crucial task of maintaining price stability with the development goals through acting as an agent of employment creation and fostering socially productive economic growth.

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Atiur sees 7 percent growth despite Muhith's doubt

Bangladesh Bank governor Atiur Rahman, contradicting finance minister AMA Muhith's doubt about growth projection, recently said the current fiscal year's targeted 7 per cent economic growth would be achieved.

'I think the 7 per cent economic growth will be achieved...the overall economic determinants indicate that,' Atiur told the news agency over phone.

His statement came four days after Muhith had said achieving the projected 7 per cent growth in gross domestic product might not be possible in the current fiscal year due to spiralling inflation, downward investment flow, high import cost and excessive subsidies in public spending.

Atiur recently said that they analysed the statistics of overall economy and collected data from rural economy that gave a positive outlook.

He said the progress of overall rural economy made him optimistic over the achievement of the GDP target.

Atiur said the key determinants of macro economy remained high in the country even during the post-recession period.

He said the country saw 47 per cent growth in RMG export and 20 per cent growth in remittance inflow during the last three years of the current government.

The central bank chief said that the country's foreign currency reserve stood at 9.35 billion dollar till December 11.

He said the country saw a 6.7 per cent GDP growth in the last fiscal driven by sustainable agricultural growth and strong expansion of manufacturing and service sector.

Addressing a function recently, Muhith said, 'The GDP growth in the last fiscal was 6.7 per cent and in this fiscal the target is 7 per cent. But, I'm not sure where we'll ultimately go as it depends on how we'll manage the current problem of inflation.'

However, before his candid confession over the doubt, Muhith had termed the target realistic and attainable on many occasions, including in his budget speech in parliament.

But, the finance minister in his recent remark mentioned factors like excessive bank borrowing by the government and high inflation rate which are hindering the targeted growth.