



# The Financial Express

## BOOK REVIEW

### A mirror of Bangladesh's Macroeconomy

Abdul Bayes | Friday, 11 September 2020

Any person deeply delved into Bangladesh's macroeconomic health should hurriedly access the most recently released book: "Bangladesh's Macroeconomic Policy: Trends, Determinants and Impact". Edited by Monzur Hossain of the Bangladesh Institute of Development Studies (BIDS), the book has been published by Palgrave Macmillan, thus providing it with an additional feather - international prominence.

The 500-page book is composed of four components of specific fields of interest such as : (1) Macro Policy, Economic Growth and Poverty; (2) Monetary and Fiscal Policy; (3) International Trade and Finance; and (4) Finance and Growth. The contents of the said book are enriched by a total of seventeen rigorously researched articles contributed by some eminent economists of this country. And each article in the book represents an eloquent exposition of evidence-based macroeconomic issues confronting Bangladesh. But, due to space limit, we shall pick up a few as sample.

An overview of Macroeconomic Policy, Growth and Poverty Reduction in Bangladesh provides ample food for thought. It is the first article of the book. Once bracketed, albeit arrogantly, as a 'Bottomless Basket' in the 1970s, and through thick and thin, Bangladesh emerged as a 'Development Puzzle' in international discourse. This is evidenced by euphoric economic growth rate averaging 6.0 per cent or so during last decade and crossing 7.0 per cent in recent few years till corona crumbled the world. The introductory article argues that macroeconomic policies are important for poverty reduction; reaching high growth trajectory may remain a pipe dream unless driven by a judicious mix of monetary and fiscal policies, integrated financing strategy, and institutional reforms. Both rewards and risks are examined in this chapter on an empirical plane. Further, the author opines that macroeconomic stability matters for the poor - 'instability might cause hysteresis'- a phenomenon where low output growth might have a lingering negative impact on poverty through shocks to the human capital of the poor.

A new insight can be obtained, as opposed to the traditional views prevailing, on inflation ( chapters 2 and 3). Rather than grasping the gravity of the impact of inflation at aggregate level, the authors had a look at impacts on two specific groups of households - day labourers and fixed income with four categories of each. For example, the pattern of rice expenditure and rice prices tend to show that a sharp rise in rice prices ( of food in general), could wreak havoc among lower income classes - especially those on the fringe of poverty line and those unable to adjust wages to prices. A part of the poor can adjust wages to rising prices while others tend to live with tears.

Impact of energy price adjustments are not found researched well but done in this book through a Macro-Econometric Modelling" to reason that a partial analysis may not be appropriate to gauge the proper impact of energy prices on various economic indicators. Any upward revision in energy prices is inflationary to some extent to lower real GDP growth rate and vice versa, ceteris paribus. However,



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# Bangladesh's

# **Macroeconomic Policy**

## *Trends, Determinants and Impact*

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changes in other macroeconomic indicators, paripassu adjustments, could improve the outcome (Chapter 4).

The researchers are of the view that monetary transmission channels in Bangladesh are weak to deter achieving its dual objective of growth and price stability. "The weak link between money supply and interest rate reveals the fact that the financial system of Bangladesh is not largely competitive and efficient...The Banks, particularly the private ones, collusively determine the lending rate". By and large, monetary policy has been less effective in accelerating growth and money supply has no discernible impact on inflation because of predominance of food inflation (Chapter 5).

However, while monetary policy allegedly remains important, fiscal policy plays important role; rooms for satisfaction hovers around fiscal front. over time, maintenance of fiscal discipline has been commendable. The fiscal stance remained relatively robust despite exogenous and endogenous shocks and the fiscal stance seems sustainable at the current and projected levels of the fiscal deficit. Research shows that public investment in health and education is a propeller of growth. On the other hand, a production function approach has been adopted to look into the effectiveness of fiscal policy instrument on economic growth. " The findings suggest that fiscal policy is more effective in stimulating growth in the long run than in the short run thus indicating to the importance of increasing government consumption for stimulating economic growth in Bangladesh. Moreover, efficiency of government spending must be ensured to obtain desired impact on economic development"( chapters 6&7).

The remaining chapters relate to important issues like Financing Infrastructure Investment, Trade Liberalization and Trade Performance, Analysis of Trade Pattern, Exchange Rate Management, Capital Flows, Macroeconomic Determinants of Remittance, Financial Liberalization, Microfinance and Development of Capital Market. Each of them. penned by famous economists, highlights patterns, problems, prospects and policy prescriptions pertaining to Bangladesh's macro economy.

The role of aid had long been a bone of contention. The authors seem to swim against the tide. Contrary

to common perceptions, they noticed that, inter alia, "public investments with support from foreign aid did not crowd out private investments. Rather, aid has played a catalytic role in public investment in infrastructure development that has led to private-sector-oriented growth". Aid played a positive role in attaining fiscal stability, build-up of foreign exchange, improvement in key social indicators and more importantly, aid has reduced dependency on aid. But aid, argue the authors, should continue to pour in on the heels of financing infrastructure, protection against vulnerabilities in external sector, and to counteract climate change impact (Chapter 13).

However, in analysing the impact of aid, the 'before-after' comparison could become a major concern to the critiques.

We are cocksure that the book would be a very rewarding read for all categories of readers. It has been compiled keeping in mind not only the researchers, and academics but also people for whom apparently the book tolls - policy makers. This is perhaps the first book ever solely submitted for policy makers.

The editor of the book as well as authors of the book might have to revisit few of their observations in the light of Covid-19 impacts on the economy if it lasts for a longer period. The price of the book may deter access by individuals but a paperback could easily ease the constraint.

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