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Atiur Rahman*
Honorary Professor
Department of Development Studies, University of Dhaka
Former Governor, Bangladesh Bank
Email: dratiur@gmail.com

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*Corresponding Author

The New Role of Monetary Policy in Promoting Developmental Central Banking: The Case of Financial Inclusion in Bangladesh

The world economy and global geopolitics have not been this complex in many decades. Indeed, the clouds have further darkened in recent months, and the global economic outlook looks more uncertain. The pandemic, the disruptions in the supply chain, the persistent uncertainties and fallout from the war in Ukraine, the commodity price shocks, and the worldwide increase in inflation, all in one, are in motion to make the global financial system so different than what we used to know. Regarding economic management, policymakers worldwide are finding out that the water will be choppy for some time, and the waves will be big and many. The recently concluded Annual General Meetings of the IMF and the World Bank provided a grim picture of the outlook of the global economy, including a potential food crisis if the war in Ukraine continues for a longer period.

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More than ever, policymakers at this current juncture need a steady focus, a clear vision, and an aspirational conviction to anchor the difficult choices facing us, whether it involves making the exchange rate more flexible to reduce market pressures or tightening monetary policy to tame the broad-based inflationary pressure or further improving supervision so that growth touches the lives of many and not only of a few. We must make difficult choices; many may not be and cannot be popular. Based on my intimate knowledge as a former regulator, I must confess that good central banking is lonely. Central bankers, like good drivers, rarely get any credit for all the accidents they avoid during their tenure. So, loneliness is a part of the job description of a central banker. Let me share my take on that journey focusing on innovative monetary policy facilitating financial inclusion, which has also supported financial stability (Rahman, 2015).

Innovations in Monetary Policy in the Context of Developmental Central Banking

Monetary policy is indeed as much art as science. Institutionalizing innovations for managing changes in central banking is more of an art. If well designed, the central banks can make wide-ranging effects on the real economy and society through the effective implementation of monetary policies. This depends on how wisely a central bank defines its policy space and interacts with major stakeholders, mostly banks, to motivate and act as desired. Fortunately, Bangladesh Bank, as I saw it from a very close proximity, focused mostly on utilizing its mandates, objectives, targets, and instruments to effectively transmit its monetary policy decisions for desired economic growth with moderate inflation. We also prioritized financial inclusion. The focus on financial inclusion served several purposes: it improved monetary transmission, broadened the economic base, most importantly, brought the questions of ethics, equity, and environment into central policy focus well before this became part of the mainstream global central banking trend. Compared to other countries, Bangladesh started this approach earlier. We all know that monetary transmission in developing and advanced economies are often incomplete. Hence, in line with the philosophy of developmental central banking, we tried to innovate a market-based but somewhat activist policy design.

The strategy pursued by Bangladesh Bank has been to allow moderate monetary growth in proportion to real output growth expectations alongside guidance for lenders in channeling financial inclusivity into output initiatives in all economic sectors. This strategy of pragmatic monetary policy of Bangladesh Bank contrasts sharply with post-GFC large-scale Quantitative Easing in advanced countries in shoring up flagging global growth. Bangladesh Bank articulated its monetary policy objectives of prioritizing inclusive growth without compromising its core mission of price stability. It has been following the monetary targeting strategy by seeking to control broad money (M2) growth at a rate it deems consistent with its output growth and price stability objectives. As done by most central banks, Bangladesh Bank allows M2 to be broadly determined by reserve money (RM) through a money multiplier and by setting an operational target for RM accordingly. To reach its RM target, Bangladesh Bank controls liquidity in the market on a day-to-day basis using conventional instruments.

To encourage inclusive growth, a blended approach of moral suasion and targeted credits for farm, and nonfarm MSMEs for rural and urban communities to shore up the domestic supply of output and enhance demand through increased employment income has been used. The trade-offs between the supply and demand sides have been neatly balanced. In addition, Bangladesh Bank has been pursuing targeted refinance lines to incentivize the banks to give more credit to priority areas like agriculture, livestock, SMEs, green enterprises, etc. This has been complemented by the enforcement of differential ceilings on loan growth, maximum loan size, and debt-equity ratios for some sectors for macro-prudential reasons. The final objective has been to meet the target of sustainability and inclusivity. The emphasis on agriculture and green energy can be linked to increasing supply to reduce inflation, given the large share of food and power in the consumption basket.

Bangladesh Bank also upgraded the financial sector infrastructure covering wide-ranging digitization for improving transmission channels. The core goal has been to combine short-term business fluctuation management with long-term sustainability agenda. Simultaneously, Bangladesh Bank has been attempting to ingrain socially and environmentally responsible financial ethos reflecting local context and global challenges. The main motivation has been to enable the bottom of the pyramid by financing sustainable entrepreneurial innovations. These ideas of central banking were certainly ahead of the curve. But fortunately, the global financial and climate crises have pushed many central banking experts to think outside the box and go for multiple targets beyond inflation targeting, even though it was never less important than others.

After more than a decade of Bangladesh Bank's courageous move to go beyond a single target and materialize financial inclusion, it was heartening to hear Professor Barry Eichengreen of the University of California, Berkeley, in the same vein. He states, "Monetary policy has implications for issues beyond inflation and payments, including climate change and inequality. …The best way forward for central bankers is to use monetary policy to target inflation while directing their regulatory powers at other pressing concerns." (Eichengreen, 2021). This shift in paradigm on monetary policy leads us to focus more on the emerging concept of developmental central banking, where Bangladesh Bank stands on higher ground. In short, our innovations in monetary policy should not be viewed in isolation but within the broader context of the work agenda of developmental central banking. This goal of the central bank looks more relevant for a developing country like Bangladesh, which is facing externally induced inflation through high prices of imports due to serious disruptions of supply chains caused by 'post-covid' complications and the war in Ukraine, and unusual rate hikes by the Western central banks. In particular, the depreciation of most currencies against US dollars has also been fueling 'imported inflation' in developing countries.

Why Developmental Central Banking?

Inclusive development has emerged as a global policy priority. While the fiscal policy has a dominant role in addressing inequality, the central banks in many countries have broadened their objectives and have deployed several innovative monetary policy tools over time to ensure equitable allocation and distribution of sectoral credit. Although it is widely accepted that the key purpose of any central bank should be to achieve price stability, the global financial crisis and, most recently, the COVID-19 pandemic has highlighted a wider and complementary role of the central banks in safeguarding the economy against domestic and external shocks.

Central banks primarily contribute to inclusive development by maintaining low and stable inflation and ensuring stability in the financial sector. They also promote inclusive growth by safeguarding customers' interests and ensuring prudent regulation for the financial sector. As a policymaker, investor (of foreign exchange reserves), the issuer (of currency), and regulator (of the financial sector), a central bank can make its monetary policy more effective in addressing inequality while not jeopardizing its core responsibilities. Historically, central banks have pursued multiple developmental goals and tools. Examples are the central banks of Argentina, Bangladesh, China, and India, which have used a broad array of tools to manage their economies for developmental purposes.

As mentioned earlier, Central banks can play a broader role in helping countries meet key challenges, such as generating productive employment, allocating investment to productivity enhancing activities, and tackle the challenges of climate change. The central bank can work effectively with other key institutions, such as development banks, specialized financial institutions, and a variety of government ministries and private actors while, at the same time, ensuring that it is manageable with tasks better undertaken elsewhere. Developmental central banking works better with stronger coordination between the central bank and the government. In many developing and emerging economies, central banks have begun to place renewed emphasis on the promotion of economic development and structural transformation, looking beyond narrow mandates for macroeconomic stability. For example, the governor of the Reserve Bank of India recently concluded that financial inclusion has empowered monetary policy by strengthening its ability to stabilize inflation and reap welfare gains for the society. Bangladesh Bank, as already indicated, has been a pioneering central bank in promoting innovative features of financial inclusion with noticeable impacts on financial stability and broadening access to finance to the unserved and underserved. Fast adoption of digital technology has provided an edge to Bangladesh in making mobile financial services and agent banking services available to the doorsteps of the disadvantaged.

How Central Banking can make Banking Better?

Governments require the credit flow to create fiscal space to strengthen relief, recovery, and reform. For that, we must enable spending on nationally produced goods and services. This can have a positive impact on containing inflation through the route of the supply side. If we direct the money to the many, that is an effective way to generate internal demand within a country. It enables investment in productive capacities and creates more jobs. This is another area where we can inject money to enhance social protection to cover the newly poor and vulnerable, and to ensure that excess liquidity does not create inflationary pressure.

We still have inflationary pressure in many developing countries, including Bangladesh. The Ukraine-Russia war has made the situation even more complicated as prices are going up persistently. These increases are having a significant effect on the inflationary situation in many developing countries. Even developed countries like the UK and other European countries are facing the heat of rising inflation, particularly in the areas of food and energy price hikes.

Given these challenges, we need to discuss a more realistic monetary policy that addresses more than the single inflation target. But it cannot remain oblivious to it either, as inflation hurts the poor more. Hence the need to opt for a more innovative monetary policy without creating any financial imbalance. Bangladesh has done quite well in making the balanced transition to restraining inflation and encouraging inclusive growth. How?

The Bangladesh Experience

After the global financial crisis, Bangladesh promoted inclusive finance for over a decade. We made financial services accessible to one and all, leveraging digital solutions to ensure reliable, low-cost services.

As already pointed out, we focused on underserved segments, such as agriculture or micro and small and medium enterprises, and prioritized women entrepreneurs. Private banks have been particularly motivated to finance SMEs and prioritized women entrepreneurs on the strength of incentives from the Bangladeshi Central Bank.

Environmentally benign green output processes have been promoted to ensure sustainable development in Bangladesh. Our idea was to test the ground to change the real economy for people living at the bottom of the social pyramid. The driving force has been focusing on socially responsible finance for more inclusion, which Bangladesh made the core of its central banking activity. The outcome has been strong macroeconomic performance as a foundation, and a strong financial sector, which allowed increases to the reserves, controlled inflation, and accelerated investment creating fiscal space. However, the ongoing global economic crisis seems to have been creating unsurmountable challenges for the financial sector of Bangladesh as well.

Notwithstanding, a balancing act between innovation and maintaining continuity has been the key to those gains. It was difficult, but we encouraged innovation and open discussion with government departments and stakeholders, including the banks. The stakeholders' response was very positive. They came forward with innovative ideas about how to make services more user-friendly, and we saw changes in people's mindsets. The bankers started to go beyond a compliance culture. They went, at a grass-roots level, to help the many.

Bangladesh's financial system has been highlighted as a model of sustainable economic development. The country has been a role model for financial inclusion and sustainable economic growth for its financial inclusion campaign. A credit guarantee scheme from the Bangladesh Central Bank was taken up, providing extra support for SME finance in the country. The central bank also provides liquidity support to the banks through low-cost refinancing facilities to motivate them to give SMEs, including women entrepreneurs, more loans. Entrepreneurial farmers are also getting such loans.

School banking in Bangladesh has been another fantastic innovation. Between March 2020 and March 2021, these accounts increased from 2.2 million to 2.6 million, an 18% increase. At the same time, the amount deposited increased by 37%. This means many young people are becoming familiar with banking, and money, at an earlier stage, and are better equipped to create more resilient futures for themselves.

Digitization has been key to promoting access to finance and reaching many. Immediately after the global financial crisis, the Central Bank of Bangladesh took the initiative to pursue integrated supervision systems, encouraging other banks to go digital. During the pandemic, this digitization worked very well. KYC (Know Your Customer) processes have been linked to a national database of the Election Commission using national IDs. Digital financial services like online banking, mobile financial services, and agent banking greatly benefit from this digital database. Between 2015 and 2020, the central bank's drive for digitalization significantly and positively impacted access to finance.

Bangladeshi banks' green drive has been another very interesting innovation. I believe green financing funds and Bangladesh's Central Bank policy will reinforce longer-term climate-friendly initiatives. The Bangladesh government is developing this strategic investment framework, called the Mujib Climate Prosperity Plan, to mobilize finance through international cooperation for renewable energy and climate resilience initiatives. The government has earmarked about 8% of its budget for these green initiatives, and the central bank has provided further support. The Central Bank of Bangladesh has also developed a farsighted Sustainable Finance Policy to guide the banks and other financial institutions to support more green initiatives through directed green financing.

Bangladesh has been experiencing rapid financial inclusion in sync with the faster adoption of digital technology. The Central Bank of Bangladesh is statutorily mandated to support the attainment of the country's developmental aspirations along with maintaining price and financial stability. It made an honest effort to respond to this call by strategizing financial inclusion to uphold the domestic demand, particularly following the global financial crisis during 2007-08.

Bangladesh Bank (BB)'s focus on financial inclusion has increased recently as a part of its proactive response to Covid-19. Despite many challenges, the pandemic has also accelerated the digital transformation of businesses, including MSMEs benefiting widely from the pioneering moves of BB for multifaceted financial inclusion. Financial inclusion remains a policy priority in Bangladesh, as reflected in its National Financial Inclusion Strategy 2020-2024, launched in 2019 to further strengthen the regulatory moves of BB.

The goals of this strategy are to:

1. Increase financial deepening
2. Strengthen payment systems and service delivery
3. Establish a robust data and measurement framework
4. Promote financial literacy and consumer empowerment
5. Broaden and deepen financial inclusion for women, people affected by climate change, and other underserved segments of the population
6. Upscale digital financial services and fintech
7. Strengthen the policy and regulatory environment
8. Fortify the risk management of financial inclusion initiatives
9. Strengthen insurance services
10. Reinforce capital market services
11. Strengthen microfinance
12. Strengthen quasi-regulated financial service providers, including PKSF

As indicated above, this is a holistic and well-coordinated policy move to align all the relevant stakeholders, including ministries and financial authorities. However, BB remains the key anchor here. It has demonstrated its prowess in pushing the financial inclusion agenda during the pandemic. It has been working very closely with the government and other regulatory authorities in designing and implementing several stimulus packages to ease the impact of the pandemic, with a special focus on reaching the badly hurt micro, small and medium enterprises. This inclusive financing support has been very helpful in initiating a robust recovery process out of the woods of the pandemic, even though the larger entrepreneurs have been better placed to take advantage of these financial facilities. The implementation of the stimulus packages for the MSMEs has been picking up in recent days, however, as BB remains focused on it.

It may be noted that BB has been promoting inclusive financing with particular attention to the underserved segments of agriculture and SMEs for many years, particularly in the wake of the global financial crisis. The central bank also adopted environmentally benign "green" output processes to promote inclusive, sustainable development. Priority to women entrepreneurs in financing access figured importantly in policy initiatives of BB. It has been trying to touch the ground to change the real economy for people living at the bottom of the societal pyramid.

The massive countrywide thrust in promoting inclusive, green financing began with sustained ongoing sensitization and motivation campaigns to take onboard all banks, financial institutions, and clientele group stakeholders. The motivational campaigns, paying off richly in forging enthusiastic engagement of all banks and financial institutions – state-owned and private sector, local and foreign – continues as a full-blown initiative for firmly ingraining socially and environmentally responsible financing in the institutional ethos of our financial sector.

BB's policy supports for inclusive and sustainable financing included: (i) consultatively setting priorities and targets of inclusive and green financing, aimed at attaining and maintaining adequacy of financing in the underserved areas; (ii) massive up-gradation of the payment system and the financial sector IT infrastructure enabling the advent and rapid growth of cost-efficient off-branch online/mobile phone/smart card-based financial service delivery; (iii) consultatively drawn-up regulatory frameworks and guidelines for mobile phone/smart card-based and other off-branch service delivery modes, green banking, environmental risk assessment, and so forth; (iv) making sure that enough rural branches and, of late, sub-branches/booth-branches are established to reach the unbanked in a cost-effective way using latest digital technology; (v) macro-prudential regulations favoring lending for green alternative of traditional options; (vi) modest extents of low-cost refinance lines against SME and green financing, funded jointly by BB and external development partners.

BB's success in developmental central banking has become even more relevant in the present context of the ‘post-pandemic’ economic recovery. As was the case during the last global economic slowdown (in 2008-09), the world and countries like Bangladesh began to face a massive socio-economic slowdown originating from supply-chain dislocations and a fall in domestic demand. Of course, after about two years since the onset of Covid-19, the global economy was poised to stage its most robust post-recession recovery in 80 years. But the fast-expanding Omicron variant of the virus may create some obstacles to the worldwide recovery process, which was well on its way forward. Experts rightly fear that the recovery will be uneven, particularly in the new context. Bangladesh, however, appears to be an exception in still cruising at an accelerated six-plus percentage point growth rate while there is a deceleration in the global growth rate, as recently predicted by the World Bank. Given its demonstrated ability to achieve the highest nominal GDP per capita rate in emerging Asia for almost a decade, this is not surprising. Notably, more than 60 percent of this growth originates from the consumption-pushed domestic demand, where financial inclusion has played a significant role.

Indeed, Bangladesh has been performing far better than many of its peers in fending off the effects of the pandemic-induced economic shocks. But it is yet to attain the macroeconomic objectives set before the pandemic. Bangladesh will have to take a course that is going to be significantly challenging (due to the situations in the global arena mentioned above). In this context, the developmental role of the central bank needs to be re-emphasized.

The policymakers and the entrepreneurs of Bangladesh today need to look more inward. The authorities need to ensure that the credited flows are directed to enable spending on nationally produced goods and services, to invest in productive capabilities and create more jobs, to enhance social protection, and to ensure that excess liquidity does not create further inflationary pressure. In the wake of falling revenue and rising public debt, experts felt there was little to no alternative to the central bank but to expand its balance sheet. The BB did not hesitate to follow this path, knowing fully that keeping the economy liquid was more important than worrying about inflation. When the economy started recovering, the central bank began to balance its act by mopping up the excess liquidity by selling USD and government bonds. The floating of digital trading of government bonds in the secondary market platform of the Dhaka Stock Exchange Limited has also been a smart move to manage the debt market digitally. In this context, the expansion of digital financial services as part of BB's inclusive finance campaign has become even more relevant today.

Towards Digital Finance in Bangladesh

Leveraging digital technology to make services more accessible, especially for the poor and marginal, is gaining momentum as a core strategy for inclusive development worldwide. This can be observed across many sectors – healthcare, education, and sustainable development. The financial sector is no exception. When it comes to using digital innovations to enhance financial inclusion, Bangladesh perhaps is one of the pioneer countries.

As of 2018, 50 percent of Bangladesh's population had access to formal financial services, an increase of 57 percent since 2013. This has been possible because the government campaigned to achieve "Digital Bangladesh". Complementing this government's drive, the central bank of the country started using technology more actively to expand financial services to the doorsteps of people, including those living in hard-to-reach areas. BB's success in utilizing digital financial innovations to serve the underserved over the last decade or so requires revisiting, especially in the context of the pandemic-induced global economic slowdown and the subsequent recovery process. Bangladesh deserves to be recognized as an "early starter" regarding digital financial innovations. Key measures taken to digitize the financial services in Bangladesh over the last decade can be summarized as:

I. Introduction of automated Credit Information Bureau (CIB) to facilitate effective credit risk management and ease of doing business in Bangladesh;

II. Introduction of Automated cheque processing, National Payment Switch, BEFTN, and RTGS to enhance the speed as well as reliability of banking services;

III. Linking the KYC process with the national database maintained by the National Election Commission (through utilizing the NIDs);

IV. Implementation of online and paperless supervision, ISS (Integrated Supervision System), which has been a great success;

V. Major changes in traditional reporting of trade services by launching online reporting of authorized dealers' inward and outward remittance transactions;

VI. Digitization of financial services (online banking, mobile financial services, and agent banking), that has revolutionized access to finance in Bangladesh;

VII. Banks in Bangladesh have already started adopting blockchain technology, which, on a broader scale, will significantly help the country in trade-related transactions making it paperless, real-time, low-cost, faster, and free of errors;

VIII. Above all, backed by the innovative initiatives of Bangladesh Bank, today the banks are using core banking software and have dramatically automated most of their internal and external operations.

As expected, this drive for digitization has yielded a significant positive impact on financial inclusion in Bangladesh. This is visible in the periodical Financial Access Survey (FAS) conducted by the International Monetary Fund (IMF).

A review of the datasets of the FAS 2015 and FAS 2020 reveals that:

a) Number of commercial bank branches per 100,000 adult persons in Bangladesh has increased from 8.61 in 2015 to 8.99 in 2020 (4 percent increase in 5 years)

b) Number of ATMs per 100,000 adult persons in Bangladesh has increased from 7.09 in 2015 to 10.18 in 2020 (44 percent increase in 5 years)

c) Number of registered mobile money agent outlets per 1,000 square kilometres has increased from 4,408 in 2015 to 8,141 in 2020 (85 percent increase in 5 years)

d) Number of registered mobile money accounts per 1,000 adult persons in

Bangladesh has increased from 310 in 2015 to 825 in 2020 (166 percent increase in 5 years)

e) Value of mobile money transactions as a percentage share of GDP has increased from 11.26 in 2015 to 20.45 in 2020 (82 percent increase in 5 years)

It should be obvious from the discussion that digital financial services (DFS) have made reaching the "bottom of the social pyramid" possible for financial service providers at a low cost and at a high pace. DFS has proven its efficiency and reliability to the private sector and/or the non-state actors and the government itself.

In January 2010, with prudent directives from the central bank, the retail banks started allowing ultra-poor citizens of the country to open no-frill accounts worth BDT 10 (approximately USD 0.1) so that they may receive Social Safety Net Programme (SSNP) support from the government via these accounts. Indeed, the proliferation of Mobile Financial Services (MFS) and agent banking services in Bangladesh have proven that early policy moves in the right direction can provide a cushion in case of shocks. Bangladesh is now reaping the benefits of its early actions in the arena of DFS.

MFS and Agent Banking: Two Important Success Stories in Fintech Development

How the silent revolution of digital finance in Bangladesh has helped the country in coping with the pandemic can perhaps be most vividly described through the successes of the MFS and agent banking in the country. The faster pace of adoption of internet banking has also been equally helpful to the digital banking, particularly during the periods of lockdown. The collaboration between banks and fintech companies to mutually expand their services has also proved beneficial to the users of the financial services. More particularly, the country went onboard with these two digital finance innovations relatively early due to prudent and bold policy moves by the central bank.

Almost a decade ago, BB chose to implement the "Bank-led Model" of MFS in the country after considering the prospects and challenges of MFS. Within three to four years, virtually all citizens were brought under MFS coverage. The country is now enjoying the wider benefits of that prudent and early decision amidst the pandemic. In the face of the new challenges brought by Covid-19, people from all walks of life in Bangladesh increasingly depend on digital solutions, and MFS perhaps is the most prominent among them. Between March and November 2020, approximately 15 million new MFS customers joined in. This makes the total number of MFS users almost 100 million. In November 2020, monthly transactions rose to more than BDT 500 billion (a 30 percent increase in less than a year). During this period (March-November 2020), monthly merchant payments via MFS tripled to almost BDT 19 billion; the monthly utility bill payment almost doubled to over BDT 8.3 billion.

Gaining confidence based on this increased reliance of the people on MFS, the Government of Bangladesh opted for cash assistance to five million vulnerable poor families hit by the coronavirus pandemic through four major MFS operators. In the ‘post-covid’ period, it is expected that more people will be relying on MFS. Experts believe that MFS proliferation will become a key determinant in the growth of MSMEs in Bangladesh. Already some experiments are being conducted on how banks can utilize the robust database of MFS providers to provide them smaller ticket credit package without human intervention. This will revolutionize the depth and breadth of DFS in Bangladesh, if pursued. City Bank and bKash have already joined hands in rolling out this nano credit with appropriate regulation from the central bank. I hope other banks will also come forward to take advantage of this digital financial inclusion-related regulation.

Agent banking is another digital finance innovation brought in by BB in 2013. This innovative digital financial service model has become especially favored by bankers who intend to expand their businesses by covering those customers living in hard-to-reach areas without incurring high costs for running their branches. This is like a franchise business for the banks as well.

A nationwide survey conducted by Unnayan Shamannay, in 2018, revealed that:

I. Fifty-two percent of the agent banking service users reported they are saving time because of agent banking outlets being close to their place of work/residence;

II. Sixty-seven percent of them reported they do not have to spend additional money to travel to the outlets (previously they had to spend money for travelling to the nearest bank branches);

III. Most importantly, 20 percent of these respondents claimed that they were not able to save any money before agent banking was available in their respective localities.

As a result, this model of financial service has become increasingly popular within a matter of only a few years. As of October 2020, the total number of agent outlets stood at over 14 thousand. Of course, the pandemic has made agent banking deliver further on its great potential. Only a year ago, this number was below 10 thousand. During the same period, the number of accounts facilitated by agent banking outlets almost doubled to 88 million. Deposits mobilized through these accounts more than doubled to BDT 137 billion. Most importantly, remittances received by these accounts quadrupled amidst the pandemic.

These encouraging figures further emphasize the need to properly harness the potential of agent banking in the process of economic recovery. It must be noted that running a bank branch costs BDT 0.5 to 0.7 million per month, whereas agent outlets are much cheaper. It is also a model that is easily accessible by common customers. This, indeed, can be a reliable means to ensure access to finance for hard-to-reach areas. This last-mile service to the earlier unbanked and underbanked people of Bangladesh holds promise for the digital transformation of Bangladesh, which is simultaneously inclusive.

The digitization of financial services has revolutionized access to finance in Bangladesh. This will be pivotal in making the country's economic recovery desirably inclusive. But there is no alternative to "learning by doing". At the same time, special care needs to be taken to ensure that digital infrastructure and access-to-internet become affordable and sustainable. Moreover, a policy environment focusing on customer benefit must be the top priority, which necessitates ensuring interoperability, favorable tax policy etc. Gaining and maintaining customer confidence is also pivotal. DFS needs to ensure that customers get acclimated to the "new normal" and fraudsters do not spoil the show which has been developed with painstaking efforts.

The Role of Central Banks around the World

Beyond Bangladesh, climate change, pandemics, and the destruction of nature are common global threats. They should unite us in working towards a common solution for a 'cleaner, greener, and safer' world (Hasina, 2020). Central banks and banking, in general, should target climate-friendly development. Let me now summarize some learnings that may be useful for all the central banks and the banks all around the world in the light of the Bangladesh experience:

1) One size does not fit all. We need to consider national and contextual needs while pushing for regulatory innovation.
2) Specific groups and areas can be targeted to promote financial inclusion, such as sharecroppers or women entrepreneurs.
3) There is a need to focus on more than just controlling inflation. We need to focus instead on the broader economy and changing the mindsets of bankers and other stakeholders, which will yield huge results. How? Some ideas:

- A broader expertise and innovative approach, using new tools such as green technology or digital financial services;
- Developmental targeting, enhanced transparency, and accountability of the developmental approach;
- Coordination with the broader policy framework and understanding of the government's policy thrust. Central banks and Ministries of Finance must coordinate their activities and work together;
- Directing credit to productive sectors instead of speculative uses.

There is a need for a trade-off between developmental central banking and financial and economic stability. We need to take more money out of the traditional fields of investment and put it to work at a grass-roots level. I think that is what central banks should do.

Towards Hope, Confidence, and Pragmatism in an Uncertain World

No doubt, the current global economic situation remains highly vulnerable. The recession is already on. The tightening of monetary policy throughout the world led by the Fed has several consequences, including a shift of foreign investment from developing countries to the US that might not have been avoidable. This calls for remaining both cautious and focused on the ground reality. Continue traditional monetary policy as close to market imperatives and, simultaneously, invest in the real economy to augment more supplies of goods and services. Let's don't jump. Let's not be adventurous. Let's touch the ground and remain focused on what has been working better for our economy. If need be, we should also be ready to change our course in the middle of the journey, depending on the depth of the crisis. However, collaboration and partnership between stakeholders should remain our key strategy. This has worked well in the past. This will work better as well in the future. We should stay hopeful, optimistic, and confident. We must be pragmatic and continue taking small incremental steps. Indeed, the right choices are initially painful. We should never be distracted by the noises of vested interest groups. Instead, we must have trust in market-based solutions. This market should be for many and not a few. While harnessing market-based solutions, we must also be mindful of when and where the market may not adequately address equity, ethics, and inclusion.

As we navigate the ongoing complex global environment, we must remember that a modern monetary policy for a country like Bangladesh, which is undergoing rapid structural changes, cannot ignore the fact that both foreign exchange and interest rate flexibilities are necessary ingredients for necessary market development for the many.

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