Central Banking for Inclusive Development

Unprecedented shocks, the COVID-19 Pandemic and the war in Ukraine are severely undermining inclusive development in South and South-West Asia. In 2020, working hours lost were equivalent to 84 million full-time jobs, and remained sizeable at 35 million jobs in 2021 despite some easing of lockdown restrictions and revival of economic activities (ILO 2022). Amid these job losses and the prevalence of informal workers who lack access to social protection benefits,¹ the pandemic has pushed back an additional 68 million people into extreme poverty in South and South-West Asia (ESCAP 2022). Beyond its immediate impacts, the Pandemic will also hamper economic equality in the long run. For example, schools in Bangladesh were fully closed for up to 63 weeks, thus eroding learning and future employment opportunities.

Meanwhile, the war in Ukraine will further hurt poor and vulnerable households through higher food and energy prices, higher borrowing costs, and subdued job markets. For example, as a country that relies on imported fuel and many people still do not have access to electricity, Pakistan is highly exposed to rising energy prices with direct implications on the poor (ESCAP 2022a).

Policy responses by central banks in South and South-West Asia have helped cushion the effect of unprecedented shocks on people and small businesses. For example, the Bangladesh Bank reduced transaction fees and increased transaction limits to promote digital financial services during the lockdowns. To support Small and Medium-Sized Enterprises (SMEs) which are dominant employers in the subregion, central banks in countries such as India, Nepal and Sri Lanka provided debt suspension, loan guarantees and/or financial assistance.

In general, central banks have also played an important role in supporting inclusive development. Through monetary policy conduct, central banks indirectly support economic equality by maintaining price stability, as high and volatile inflation disproportionally dampens poorer people. Similarly, by ensuring macroeconomic stability, central banks support vulnerable households whose capacity to absorb shocks is minimal. Effective financial sector regulation by central banks also delivers robust and competitive financial sectors, resulting in greater safety for consumer deposits and lower transaction fees, which again benefit the poor to a greater extent. Finally, central banks in countries such as Afghanistan, Bhutan, Maldives, and Nepal directly promote equitable development by enhancing financial access, literacy and/or consumer protection.

Yet, amid rising economic inequality caused by a crisis upon crisis, central banks can step up their contribution to equitable development. Beyond conduct of traditional monetary policy, other central bank functions can foster economic equality. As investors, central banks can examine how to make the management of official reserves more socially oriented. Central banks can also explore Central Bank Digital Currencies (CBDC) as an innovative approach to improve financial inclusion. Finally, as financial sector regulators, central banks can encourage the issuance of unconventional financial instruments for social purposes.

The main objective of this session is to discuss how central banks in South and South-West Asia can promote more inclusive societies. Among other topics, participants will discuss the rationale and feasibility of inclusive central banking, concrete policy options, implementation challenges and good practices, and associated risks and mitigation measures. In addition to central bank officials, target

¹ For example, over 85% of female workers in Bangladesh, India, Nepal and Pakistan are informally employed.
participants will include relevant government officials (such as those in charge of national identification system and digital connectivity to support CBDC implementation); national financial supervisory agencies; private sector representatives (such as those interested in issuing social-oriented bonds); think tanks; academic institutions; Non-Governmental Organisations; and international development partners.

References


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