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# A GENDER APPROACH TO MONETARY AND FINANCIAL POLICIES IN THE COVID-19 RECOVERY

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November 2021

## Acknowledgements

This paper is part of the project ‘Shaping the Macro-Economy in Response to Covid-19: A Responsible Economic Stimulus, a Stable Financial Sector and a Revival in Exports’. It complements country case studies in Bangladesh, Kenya, Peru, Tanzania and Sri Lanka. The authors would like to thank Arjan de Haan (IDRC), Marzia Fontana (IDS), Sherillyn Raga and Dirk Willem te Velde (both ODI) for their feedback on earlier drafts and IDRC for the financial support.

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# CONTENTS

1	Introduction	1
1.1	Aligning monetary and financial policy to a gender equity goal	4
1.2	C19 shock and recovery context	5
2	Assessing monetary policy from a gender perspective during the Covid19 crisis	7
2.1	The Evolution of Monetary and Financial Responses	7
2.1.1	Evolution of policy in Bangladesh	7
2.1.2	Evolution of policy in Kenya	8
2.1.3	Evolution of policy in Peru	9
2.1.4	Evolution of policy in Sri Lanka	10
2.1.5	Evolution of policy in Tanzania	10
2.2	Assessing the impacts of these measures on women	13
3	Implications for policy	3
3.1	From impact on women to gender equalising monetary and financial policies	3
3.2	Applying Taylor rules – an illustration	3
4	Conclusion	8
5	References	9

## ACRONYMS

ARR	asset-based reserve requirement
BB	Bangladesh Bank
BCRP	Banco Central de Reserva del Perú
bps	basis points
BoT	Bank of Tanzania
CBK	Central Bank of Kenya
CBSL	Central Bank of Sri Lanka
CRR	cash reserve ratio
EDF	Export Development Fund
FX	foreign exchange
GBV	gender-based violence
GDP	gross domestic product
MSMEs	micro, small and medium enterprises
NBFI	non-bank financial institution
NPL	non-performing loan
QE	quantitative easing
RMG	ready-made garment
SMEs	small and medium enterprises

## EXECUTIVE SUMMARY

A combination of monetary policies and public investment can address gender biases in an economy by supporting equality among entrepreneurs, workers, carers and consumers. Recent recovery interventions from central banks have not explicitly considered the impacts of their policies on gender equality, which is a missed opportunity. This paper discusses the gender implications of monetary policies, arguing that they are not gender neutral. We examine the evolution of monetary policies in Bangladesh, Kenya, Peru, Sri Lanka and Tanzania and discuss the indirect gender equality implications of these policies. The aim is to complement the country case studies of the project 'Shaping the Macro-Economy in Response to Covid-19: A Responsible Economic Stimulus, a Stable Financial Sector and a Revival in Exports'.

We distinguish four types of monetary policies: (1) interest rates and reserve policies, which relate to banks' capital requirements; (2) quantitative easing, lending terms and loan guarantees for sectors, firms and individuals, which relate to maintaining liquidity in the financial system; (3) alternative monetary policies, restricting or earmarking specific constraints or provisions; and (4) balance of payments policies, which include policies relating to exchange rate, capital controls and central banks' foreign reserve holding.

We describe how these policies have evolved over time in the five country case studies and discuss their possible impacts. Disentangling the positive and negative gender effects of these policies is not straightforward. Women are a heterogeneous group whose characteristics – high versus low income earners, regular versus irregular migration status, marital status, age, education and training, sexual orientation, motherhood vs childlessness – will determine the extent to which they are able to respond to new economic incentives. Furthermore, lack of data often translates into uncertainty over which sub-groups may benefit from or be constrained by the trickling down effect of monetary policies.

We provide a number of insights into how monetary policy affects gender, bearing in mind that the potential effects we describe may ultimately impact women differently depending on their socio-economic characteristics:

**Interest rates and reserve policies.** The manufacturing sectors of Bangladesh and Sri Lanka, which employ predominantly women on low incomes, have been afflicted with cancelled orders and factory shutdowns. This shock has affected not only women workers in waged factory jobs but also own account workers and women employed in micro, small and medium enterprises (MSMEs) in the sector. A lowering of interest rates could support investment and, in turn, female employment, as the sector is sensitive to interest rates, of course on the condition that demand for garments and manufactured goods increases.

**Quantitative easing, lending terms and loan guarantees.** All the case study countries put in place measures that changed borrowing requirements and the terms for repayments, but none of these specifically targeted MSMEs or sectors in which women-owned businesses are disproportionately represented. Doing so could have leveraged easier access to credit for women entrepreneurs. On the other hand, the potential size of the countries' informal sectors and lack of data limit the possibility of a more targeted approach.

**Alternative monetary policies.** Earmarking specific provisions to target specific sectors or groups could have gender-equalising effects if those measures predominantly benefit women. Key here is to be able to develop data and tools to identify those sectors with greater potential for equality promotion. For example, a lowered interest rate in the agricultural sector in Bangladesh may impact women working as daily labourers. Given that women constitute more than 50% of the agricultural labour force, there is the possibility that the loan would spur more investment on farms and more demand for hired labour of which a share may be women when it comes to weeding or harvesting. Lower interest rates may indirectly benefit female agricultural workers, although the primary beneficiaries would be larger farm owners who can take advantage of lower rates and who are more often men.

**Balance of payment policies.** From the production perspective, a higher price for imported inputs for the agricultural or manufacturing sectors could trigger contraction of those sectors with resulting layoffs that could affect women. Women form a large share of the workforce in those sectors compared to total female labour force participation. From the consumption point of view, higher prices of imported food items due to currency devaluation could affect primarily women's nutrition (because in times of crisis, women tend to see their food portions reduced due to unequal intrahousehold allocation dynamics).

We discuss a range of policies that could be used to improve the position of low-income women in five case study countries. One important monetary policy includes the Taylor rule, used by central banks to control inflation. We suggest that such a rule could include women's employment as an objective. Calibrating rudimentary Taylor rules for the five country case studies, we find that the gender-focused Taylor rules would lead to the use of more accommodative monetary policy when compared to standard Taylor rules that put a higher weight, or responsiveness, on inflation dynamics. Generally, central banks have the potential to play an important role in promoting gender equality through their ability to influence credit availability, spur investment in priority sectors where women are disproportionately represented and maintain a stable and competitive exchange rate that smooths price shocks for imported commodities.

Applying a gender lens to monetary policies is critical to advancing equality. Monetary policy is only one tool to address systemic gender inequality, but additional tools such as fiscal policies related to the care economy would lower women's share of the unpaid care burden (e.g. affordable childcare, public services to care for the elderly and sick), as well as labour market policies that promote women's employment.

# 1 INTRODUCTION

The paper focuses on the implementation of both conventional and unconventional monetary policies during the Covid-19 pandemic and their possible effects on women's livelihoods. It assesses monetary policy implementation from a gender equality perspective in Bangladesh, Kenya, Peru, Sri Lanka and Tanzania.

## 1.1 Aligning monetary and financial policy to a gender equity goal

Macroeconomic policy typically refers to government spending, tax policy or monetary policy. Central banks' monetary policies are usually calibrated to achieve stable inflation and, to a lesser extent, balanced economic growth (Elson and Cagatay, 2000). In broad terms, monetary policy encompasses any central bank decision to influence the cost and availability of money through steering short-term interest rates and other tools, such as exchange rates. These tools represent key transmission mechanisms of policy into the real economy. Macroeconomic policies are typically enacted with a focus on market-based criteria (e.g. stable inflation), rather than criteria centred around social justice (Elson and Cagatay, 2000). Yet, central bank policies are not gender neutral. They have distributional impacts on wealth and income, and gender-differentiated effects on income, employment, consumption and savings (Seguino, 2019a).

For developed countries' central banks, such as the US Federal Reserve or the European Central Bank, the monetary policy objective is defined predominantly in terms of price stability, at times combined with a growth objective. As a first step, central banks operating in well-developed financial markets implement monetary policy via short-term interest rates to manage liquidity on the market. In response to the 2008–2009 financial crisis, however, central banks developed non-standard measures to influence market interest rates and the availability of liquidity in periods when nominal interest rates are at or close to zero – the effective lower bound. Quantitative easing (QE) can broadly be defined as the purchase of high-quality, low-risk premium bonds, but can include higher risk corporate bonds (Beck et al., 2019). QE has multiple transmission channels (Chen et al., 2012) including through liquidity provision, lower long-dated nominal yields, mitigating distortions in funding markets (ECB, 2015) and pass-through to bank lending rates (ECB, 2017).

Research on the gender differentiated effects of monetary and financial policy on employment and consumption has emerged in recent years, with Braunstein and Heintz's (2008) study on gender-specific employment effects of deflationary episodes. Since then, research has also focused on the effect of gender diversity on the conduct of monetary policy, but gaps remain in particular on the feedback loop of monetary policies on gender equality and growth (Seguino, 2019a).

There is a growing body of empirical evidence to suggest that the transmission mechanisms of monetary policy are not gender neutral, particularly during times of economic crises (Kabeer and Natali, 2013; Elson 2010; Ruiters, 2008). In particular, central banks' disproportionate emphasis on higher interest rates to stem inflation could come at the expense of employment generation. Given that some sectors have high gender segregation, this approach has an impact on women's labour market participation, access to work, the terms-of-access to global markets and women's participation in specific productive sectors in the macroeconomy (Grazzini and Kim, 2020). Additionally, the specific costs associated with inflation reduction are inequitably distributed along gender lines in developing countries, with what Elson and Cagatay (2000) call the deflationary bias (Takhtamanova and Sierminska, 2008; Braunstein and Heintz, 2005). Unconventional monetary policy can also have a gendered impact. Its asymmetric distributional gendered impact works, in part, by raising asset prices, which unintentionally benefits wealthier cohorts of the population (who are on average, more often male) at the expense of the income-poor parts of the population, more often female (Young, 2019; Young, 2018). Despite this, gender impacts are not considered in policy formulation or design (Metzger and Young, 2020).

Monetary policy stands to impact women's livelihoods. Social policy approaches, focused on education, health-care, gender-based violence and childcare, are necessary but not sufficient (Elson and Cagatay, 2000; Seguino, 2018). Including gender equity in monetary policy implementation would need to vary by country and according to different economic and financial conditions. Crucially, gender equity intersects policy in three domains – capabilities, livelihoods and agency (Seguino, 2016; Grown et al., 2005).

*Capabilities* (such as education and health) can be thought of as the prerequisites to being economically active; *livelihoods* includes wages, employment, access to credit and asset ownership; and *agency* is the ability to shape one's environment. Gender equality in livelihoods requires greater access to employment and the reduction in women's disproportionate unpaid care burden (Seguino and Grown, 2006; Kabeer, 2005). Policies to increase women's education and labour force participation will only yield their full benefits with sufficient economy-wide aggregate demand to generate employment demand. This suggests that employment improvement should be a central macroeconomic indicator (Nayyar, 2012; Kabeer et al., 2013).

The effects of past financial crises and associated austerity policies have been to limit the public resources available to promote gender equality (Blanton et al., 2018; Elson and Cagatay, 2000; Ghosh, 2005). And yet, crises create inherent opportunities to consider strategies to promote equality – particularly through risk mitigation and access to credit (Seguino, 2018). For example, in developed economies, a sound financial system is typically geared towards limiting the probability of a misallocation of funds, sharp corrections in financial markets and associated sharp downturns in economic activity (Beyer et al., 2017). These can include capital management techniques, asset-based reserve requirements (ARRs) and loan guarantees – some of which could be employed in order to mitigate women's lack of legal title to assets for collateral to obtain credit (Napier et al., 2013; Brixiová et al., 2020). For example, ARRs could tackle a number of challenges. Among them, private banks can hold a proportion of their loans in designated priority areas or otherwise hold the same proportion of their assets in non-interest-bearing reserve accounts. Thus, bank lending into designated policy areas could be prioritised, given that banks would otherwise incur a cost of holding reserves in accounts that do not pay interest (Palley, 2004).

In a similar vein, central bank tools, such as capital controls and reserve management affect gender equality given that, at the macroeconomic level, lower-income earners (a category in which women are disproportionately represented) tend to lose more than higher earners (mostly men) from unstable economic growth and financial crises (Grabel, 2013; Singh and Zammit, 2000). Capital account management can reduce destabilising cross-border capital movements, which can limit macroeconomic volatility and economic crises that undermine livelihoods (Iskenderian, 2020; Horn, 2010). Reduced domestic financial volatility is key to safeguarding limited savings and assets and reducing unemployment effects. When it comes to reserve management, government revenue tied up in reserves can be diverted to public investment and building up financial buffers to insure against a financial crisis or external shocks. The cost of holding such large reserves can be represented by the potential interest earned from investing funds in higher-yielding financial assets, as well as the potential for public investment to crowd-in private investments and reduce inequality (Elson and Warnecke, 2011; Rodrik, 2006). This is particularly important given that monetary policy does not explicitly incorporate gender impacts.

## 1.2 Covid-19 shock and recovery context

Not only has the Covid-19 crisis – both in its health and economic aspects – had gender-differentiated impacts, but inequalities between women based on race, disability, income and age have been brought to the fore in the spread and impact of the virus (UNDP, 2021).

From the health perspective, it seems that men have higher death rates than women, given there is no observed sex difference in the proportion of people with Covid-19 (Peckham et al., 2020). Early evidence points at differences in the innate and adaptive immune system between biological sexes and at co-morbidity factors linked to gendered lifestyle and representations of masculinity, such as smoking, drinking and poor diet, that increase the odds of men requiring intensive treatment and dying.



In economic terms, overall, women lost jobs at greater rates than men globally between March and December 2020 (5% employment loss for women compared to 3.9% for men) and have been more likely to become inactive and drop out of the labour force than men (ILO, 2021). This can in part be explained by the fact that women form a higher share of the labour force in service sectors hard hit by lockdown policies implemented to contain the spread of the virus, such as the retail and hospitality sectors. They also form the largest share of people in insecure, informal jobs, with lower levels of education, which were hindered by the successive lockdowns (ILO, 2021). Women also represent the greatest share of the global poor (World Bank, 2020) and Covid-19 has jeopardised progress on poverty reduction, threatening to reverse previous gains by 4 to 10 years (Alkire et al., 2021).

As of May 2021, governments across the globe have taken 3,112 measures in response to the pandemic. About 42% of these measures are gender sensitive, meaning they 'directly seek to address the specific risks and challenges women face as a result of the pandemic' (UNDP, 2021). These are interventions that target gender-based violence (GBV), social protection measures related to unpaid care or women's economic security and, fiscal and economic measures aimed at female-dominated economic sectors. The bulk of these interventions has been in relation to GBV rather than directed towards improving women's economic security and addressing the issue of unpaid care work or financing of care services. Indeed, about 82% of countries have adopted only one type of gender sensitive measure (mostly GBV), meaning that whole dimensions of women's livelihood and welfare have been left unaddressed. In this context, highlighting how monetary policy can be a lever for gender equality is critical so that all tools available to support a gender-transformative recovery are used.

### 1.3 Structure of the paper

Following this introduction on gender differentiated effects of monetary policies and the consideration of gender equity in recovery monetary policies so far (Section 1), the paper proceeds to examine central banks' responses and outline the transmission mechanisms to the real economy and the potential micro-economic impact of macroeconomic policies for different categories of women earners and consumers (Section 2). Section 3 reflects on the policy implications of considering gender equality as a monetary policy objective with an illustrative Taylor rule modified for gender-equalising effects. Section 4 concludes.

## 2 ASSESSING MONETARY POLICY DURING THE COVID-19 CRISIS FROM A GENDER PERSPECTIVE

### 2.1 The evolution of monetary and financial responses

As the economic consequences of the Covid-19 pandemic continue to be felt, policymakers, including those setting monetary policy, have been proactive in providing economic stimuli. This section examines key monetary and financial policies in Bangladesh, Kenya, Peru, Sri Lanka and Tanzania and how they have evolved since the pandemic began in March 2020. Typically, most developed and developing economies have seen monetary easing in the form of lower interest rates and an increase in liquidity-boosting measures through QE. In some instances, bank lending and other types of credit provision have been subsidised. Each case study subsection will examine the degree to which there has been a shift from policy stimulus and accommodation to a less expansionary stance, or even to policies that are characterised as tighter and less accommodative. None of the case study countries' central banks have explicitly mentioned gender or the objective of supporting women during the crisis. This is in line with how most central banks purport that their policies are gender neutral (Metzger and Young, 2020; Young, 2018).

#### 2.1.1 Evolution of policy in Bangladesh

At just under 4% of its gross domestic product (GDP), Bangladesh's stimulus package was one of the largest in South and Southeast Asia (Raihan, 2020). The monetary policy stance of the Bangladesh Bank (BB) is designed to support government policies and programmes in pursuit of faster inclusive economic growth and poverty reduction, while maintaining price stability. The bank aims to facilitate broad-based growth in output, employment and income for rapid poverty eradication and inclusive economic and social progress. In March 2020, BB announced that it would start purchasing treasury bonds and bills from banks to boost liquidity in its banking system and it cut its repo rate from 6% to 4.75% from March to July 2020. Banks' cash reserve ratio (CRR) requirement was reduced on both a daily (from 5% to 3.5%) and a bi-weekly basis (5.5% to 4%). The CRR was also cut for offshore banking operations and for non-bank financial institutions (NBFIs) from June 2020.

Credit expansion has been key among the measures taken. Both Bangladesh's advance-deposit ratio and its investment-deposit ratio were raised by two percentage points to facilitate credit inflows into the private sector and improve liquidity. This came with further government interest rate subsidies to borrowers,<sup>1</sup> which have been estimated in the range of 0.2–0.4% of GDP (Raihan, 2020). After the initial measures of monetary easing, the Export Development Fund (EDF) was raised from \$3.5 billion to \$5 billion on 11 June 2020. In October 2020, BB further reduced the interest rate on EDF loans from 2% to 1.75%, after an April reduction. The refinancing limit was also increased in addition to other schemes, totalling 390 billion Bangladeshi taka (\$4.6 billion). A 360-day tenor special repo facility was also introduced alongside a credit guarantee scheme for exporters, farmers, and small and medium enterprises (SMEs)<sup>2</sup> to facilitate the government's stimulus packages. BB also announced an agriculture subsidy programme to run to mid-2021 (Bangladesh Bank, 2021).

In the absence of deeper bond and equity capital markets, Bangladesh's banking system plays a key role in reducing financial risk and providing liquidity. At nearly 9% of total loans, as of September 2020, non-performing loans (NPLs) are high in Bangladesh. NPL rates are as high as 30% for state-owned banks (Dey, 2019). Amid the pandemic, BB has taken measures to delay NPL classification, relax loan rescheduling policy, waive credit card fees and interest, suspend loan interest payments, relax credit risk rating rules for banks, impose restrictions on bank dividend payments, extend tenures of trade instruments and ensure access to financial services. The Ministry of Finance also subsidised interest

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<sup>1</sup> Data is not available on who the borrowers able to benefit were, so we cannot assess the extent to which certain women may have used this opportunity.

<sup>2</sup> Again, data is unavailable at present on who benefited from the scheme, so we cannot assess the extent to which certain women may have used this opportunity.

payments on working capital loans of up to Tk600 billion (\$7.07 billion) provided by scheduled banks to businesses. The Prime Minister also announced that Tk20 billion (\$235.6 million) in interest payments (encompassing 13.8 million loan recipients negatively impacted by the national shutdown) would be covered by the government (Dhaka Tribune, 2020).

BB intervened in currency markets to an unprecedented degree at the start of the 2021 to keep the taka stable (Uddin, 2021). This has been in part to safeguard financial stability alongside the introduction of international factoring to support exports (Bangladesh Bank, 2020). Bangladesh's world market share in ready-made garments (RMGs) is around 6.5%, making it the second largest RMG exporter after China after registering annual growth of 14.8% for the last three decades, according to Asian Development bank estimates. The pandemic-related loss of employment has created significant and widespread vulnerability in livelihoods and future employment opportunities in the garment sector, which mostly employs women (Kabir et al., 2020). The Tk50 billion stimulus package for the export-oriented industries, primarily RMGs, stipulated that businesses can borrow from the stimulus package at 2% interest to pay their workers' salaries for up to three months, via a bank or a mobile financial service account. The borrowers will get a six-month grace period. The BB also issued guidelines for loan disbursement under the stimulus, including maintaining a single borrower exposure limit, loan classification and provisioning rules, and the highest loan limits for both banks and clients.

### 2.1.2 Evolution of policy in Kenya

Kenya's economy has a relatively high vulnerability to the negative economic impacts of the Covid-19 pandemic (Raga and te Velde, 2020) which necessitated a proactive response from the government and in the monetary policy response from the Central Bank of Kenya (CBK). Kenya's domestic monetary policy consists of decisions and actions taken by the central bank to ensure that the supply of money in the economy is consistent with the growth and price objectives set by the government. CBK policy aims to maintain price stability in the economy and to sustain the value of the Kenya shilling and is guided by a programme premised on economic growth and inflation targets provided by the Treasury. Monetary policy decisions are made by the Monetary Policy Committee that meets at least once every two months and reviews data and analysis. Operationally, the CBK's monetary policy tools to achieve price stability, and to direct liquidity in the financial system, are the reserve requirement, discount window operations, open market operations, the central bank rate and foreign exchange market operations.

At the start of the pandemic, on 24 March 2020, the central bank lowered its policy rate by 100 basis points (bps) to 7.25%. The CBK also lowered banks' cash reserve ratio by 100 bps to 4.25%. It also significantly increased the maximum length of repurchase agreements from 28 to 91 days. On 29 April 2020, it lowered its policy rate by 25 bps to 7.0% and has since kept its policy rate steady. It has announced flexibility to banks regarding loan classification and provisioning for loans that were non-performing but were restructured due to the pandemic.

Given the deterioration in banks' asset quality owing to the economic downturn (Fitch Ratings, 2021), the CBK has encouraged banks to extend flexibility to borrowers' loan terms based on pandemic-related circumstances. On 15 April 2020, the central bank suspended for six months the listing of negative credit information for borrowers whose loans became non-performing after 1 April. A new minimum threshold of \$10 was set for negative credit information submitted to credit reference bureaus. In March 2021, the CBK stated that the period allowing banks to restructure loans for borrowers affected by the Covid-19 pandemic, had ended (Miriri, 2021).

The CBK has encouraged the waiving or reducing of charges on mobile money transactions to disincentivise the use of cash. Two commercial banks in Kenya partnered with M-PESA to offer additional financial products that allow both credit and savings facilities to be opened entirely on the M-PESA platform; consumers can leverage their mobile money usage as a proxy credit score to apply for loans if needed (Bazarbash et al., 2020). This measure is particularly pertinent to Kenya's financial sector, which continues to see widespread usage of mobile money and a 116% mobile penetration rate (Gilbert, 2020). Some of the measures, including waiving or reducing of charges on mobile money transactions and suspension of listing of negative credit information for borrowers, were reversed on 1 January 2021. The temporary elimination of fees for mobile money transactions reduced costs for users

and promoted transition from physical exchange of cash to a safer means of payment. While economic activity is picking up, many challenges remain. Public health is still under pressure and the rollout of Covid-19 vaccines is only just under way. Higher poverty has set back progress towards Kenya's development goals. Kenya's fiscal and debt positions have also worsened, adding to difficulties that existed before the shock (Central Bank of Kenya, 2020).

### 2.1.3 Evolution of policy in Peru

The objective of the *Banco Central de Reserva del Perú* (BCRP) is to preserve monetary stability through targeting inflation of 1–3%, predicated on the notion that inflation discourages investment and generates distortions in the price system and an inefficient allocation of resources. General and continuous increases in the prices of goods and services affects mainly low-income groups as they typically have little to no access to more complicated financial instruments that allow inflation hedging to protect their wealth, as most of their savings is held in cash (Easterly and Fischer, 2001). Thus, by containing inflation, the BCRP argues that it creates the necessary conditions for normal economic activity which, in turn, contributes to higher levels of sustained economic growth. The BCRP is mandated to regulate money and credit in the financial system, manage international reserves and periodically report on the country's finances. Operationally, BCRP monetary policy actions consist of modifying the reference interest rate for the interbank market. Depending on whether inflationary or deflationary pressures are observed in the economy, the BCRP will modify the reference interest rate to maintain inflation at the target level.

The BCRP also has an active exchange rate policy, necessitated in part by Peru's dollarisation. This is in part to manage a number of FX risks, including around the economy's dollarisation itself. There are different types of dollarisation that can take multiple forms and that can have multiple pathways into an economy (Berg and Borensztein, 2000). Financial dollarisation exposes the economy to currency mismatch, which generates risks for households and businesses with income in local currency but debt in US dollars, implying that an unexpected depreciation of the domestic currency will increase sol-denominated obligations. This typically has a knock-on effect on banks' solvency as debtors experience losses. Inflation targeting is included among a first group of measures aimed at reducing financial dollarisation. Not only does it contribute to 'reinstating confidence' in the domestic currency, but also to develop long-term domestic currency-denominated financial instruments. A second group of measures is geared towards promoting capacity to respond to strong depreciation pressures or liquidity constraints in foreign currency, principally by building a high level of international reserves. The central bank has been intervening to support the sol since late February 2020 to mitigate any disorderly conditions in the foreign exchange market.

The central bank has cut the policy rate by 200 basis points, lowering it to 0.25%, and is monitoring inflation developments and its determinants to increase the monetary stimulus if necessary. In addition, the bank has reduced its reserve requirements, provided liquidity to the financial system through repo operations, and approved a package of 60 billion soles (over 8.8% of GDP) in liquidity assistance (backed by government guarantees) to support lending (Varona and Gonzales, 2021; Andina, 2020). Financial institutions have been permitted to modify the terms of their loans to households and enterprises affected by the pandemic without changing the classification of the loans. The government allowed the BCRP to cap interest rates on bank loans, subject to a review every six months (Reuters, 2020a). In December 2020, the BCRP announced it would offer long-term interest rate swaps and repos to enable banks to hedge the risk of rising interest rates on long-term loans such as mortgages and corporate loans. The bank also introduced a one-to-two-month facility to repurchase commercial invoices from SMEs and extended the suspension for the additional reserve requirement for foreign currency loans.

Policy announcements in the context of Peru's second wave included additional cash transfers to households in areas subject to the shelter-at-home restrictions (equivalent to 0.4% of GDP), and two-month tax referrals benefiting companies and individuals. The government also expanded two government-guaranteed lending programmes (PAE MyPES and FAE Turismo) and extended the grace

and payment periods for certain loans under Reactiva Peru.<sup>3</sup> In its monetary policy meeting of 11 March 2021, the BCRP kept its policy rate steady, maintaining its reference rate at 0.25% and implementing further liquidity injection operations. Year-on-year inflation decreased from 2.7% in January to 2.4% in February due to supply-side bottlenecks that led to higher prices. The Board also decided to maintain the following interest rates steady on its window facility operations in domestic currency with financial entities on overnight deposits, direct security/currency repo and rediscount operations (BCRP, 2021). In the light of the weakness in economic growth and the high share (73%) of informal workers (mainly women) in the labour market (Chacaltana, 2020), there could be scope for further targeted credit expansion and/or QE given the already low level of policy rates.

#### 2.1.4 Evolution of policy in Sri Lanka

The Central Bank of Sri Lanka (CBSL) has explicitly stated that it conducts its monetary policy using a flexible inflation targeting framework aimed at stabilising inflation at mid-single-digit levels over the medium term while supporting economic growth. This aims to orient monetary policy so that inflation is stabilised around a desired target while, at the same time, real economic growth is stable and supported by monetary conditions. It employs policy instruments to guide short-term interest rates, with the Average Weighted Call Money Rate as the operating target. The bank has transitioned from using explicit monetary targets, and broad money supply remains a key indicator to guide policy. The bank conducts open market operations within the corridor of interest rates formed by its policy rates (the standing deposit facility rate and the standing lending facility rate) to achieve the intended inflation path.

The CBSL has reduced monetary policy rates by 200 basis points since the start of the Covid-19 pandemic. The required reserves ratio of commercial banks has been lowered by 300 basis points and the interest rate on the central bank's advances to banks has been lowered by 650 basis points. A debt repayment moratorium was instituted, including a moratorium on bank loans to the tourism, garment, plantation and IT sectors and to SMEs, with CBSL providing refinancing and concessional lending facilities (equivalent to 1% of GDP) and partially supported by a CBSL guarantee. Additionally, there was a three-month moratorium on small-value personal banking and leasing loans, given deteriorating asset and earnings for the country's finance and leasing companies (Fitch Ratings, 2020). Interest rates on credit cards, overdrafts and pawning facilities were capped. NPLs have been rescheduled, while capital conservation buffers and loan classification rules have been relaxed.

To preserve financial stability, and in particular foreign exchange reserves, capital outflow restrictions on investments and remittances were introduced (Reuters 2020b). There are also import restrictions on certain goods, and commercial banks are prohibited from facilitating imports of vehicles. Outward remittances have been limited, while inward remittances are exempted from certain regulations and taxes. A scheme was introduced to insure foreign investors in domestic-currency government securities against foreign exchange risk. Commercial banks have been prohibited from purchasing foreign-currency-denominated Sri Lanka International Sovereign Bonds (Economynext, 2020). In February 2021, the CBSL Deputy Governor announced that exporters are required to convert 25% of export proceeds to rupees and repatriate foreign earnings within 180 days of shipment. Bank lenders are already required to transfer 10% of remittances to the CBSL (Sirimanne, 2021).

#### 2.1.5 Evolution of policy in Tanzania

The Bank of Tanzania's (BoT) primary objective is to implement monetary policy with a view to maintaining domestic price stability, which is in turn conducive to balanced, inclusive and sustainable growth. Operationally, the Monetary Policy Committee of the Board of Directors is responsible for setting the monetary policy direction bi-monthly, in line with the stated targets. The bank's Reserve Money Programme has been its operational framework since the mid-1990s and the key driver behind the period of domestic monetary stability. At the time of its adoption, a reserve money anchor was optimal as a nominal anchor to ensure price stability. Tanzania's commitment to a freely floating exchange rate and its relatively underdeveloped domestic financial markets made a reserve target preferable to currency or interest rate targeting. Crucially, targeting reserves, a key component of the bank's balance sheet, also

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<sup>3</sup> On the cash transfer, tax referral and lending program extension, lack of available data precludes knowing who benefited.

helped enforce budget discipline on the fiscal side (Alexianu, 2020), thus forging a particularly strong link between fiscal and monetary policy and an enhanced need for deeper policy coordination during crises.

In light of the bank's institutional framework, monetary policy objectives in 2020/21 were set with a view to stabilising the economy and providing adequate liquidity amid the shock of the pandemic. The bank's monetary policy stance focused on easing liquidity conditions to support underlying growth, which it projected at 5.5% in 2020, and achieving inflation of between 3.0% and 5.0% in 2020/21. The bank's stated monetary policy targets were annual growth of reserve money of 9.5%, broad money supply (M3 growth) of 10%, annual private sector credit growth of 11.6%; and maintaining adequate foreign reserves to cover at least four months of imports of goods and service (Bank of Tanzania, 2021). Structurally, Tanzania's inflation is affected by supply side shocks and developments in global commodity prices that are beyond the influence of monetary policy (Adam et al., 2012). By contrast, it is only short-run expansionary monetary policy that can influence growth of output due to perceived rigidity of prices. However, in the long run expansionary policies will lead to higher prices rather than higher output growth as price rigidities diminish.

On 12 May 2020, the BoT reduced the discount rate from 7% to 5% and reduced collateral haircut requirements on government securities. Effective 8 June, the BoT Statutory Minimum Reserves requirement was reduced from 7% to 6%. In addition, the bank provided regulatory flexibility to banks and other financial institutions to carry out loan restructuring operations on a case-by-case basis. Lastly, the daily transactions limit for mobile money operators was raised from about \$1,300 to \$2,170 and the daily balance limit from \$2,170 to \$4,340.

The BoT has stated that it will continue to implement accommodative monetary policy. This policy stance, coupled with prudential and regulatory measures towards improving credit intermediation, the business environment and efficiency in financial services delivery, will continue to ensure macroeconomic and financial sector stability and spur the private sector's contribution to further recovery of the economy.

Table 1: Key monetary and financial policies adopted since the beginning of the crisis

	<b>First set of policies (March 2020)</b>	<b>Second set of policies (2020–2021)</b>	<b>Third set of policies (January 2021– present)</b>
<b>Bangladesh</b>	<p>QE (from March 2020) [1]</p> <p>Repo rate cut from 6% to 4.75% (March to July 2020) [2]</p> <p>Banks' CRR requirement cut (from 5% to 3.5% daily) and (from 5.5% to 4% bi-weekly) (April 2020) [3]</p> <p>Agricultural loans at an interest rate of 4% from central bank funds, and rate subsidised by BB (April 2020) [4]</p> <p>CRR cut for offshore banking operations and for NBFIs (June 2020) [5]</p>	<p>Measures to delay NPL classification. Relaxation of loan rescheduling policy for NBFIs, waive credit card fees and interests, suspend loan interest payments, relax credit risk rating rules for banks, extend tenures of trade instruments (April 2020) [6]</p> <p>Relaxation of FX rules to facilitate access to short-term loans (May 2020) [7]</p> <p>International factoring introduced to accelerate exports (June 2020) [8]</p>	<p>Interventions in the foreign exchange market to keep the exchange rate relatively stable following the Covid-19 outbreak (January 2021) [9]</p> <p>Renewal of extension for loan repayments to the country's scheduled banks (March 2021) [10]</p> <p>Downward revisions to monetary and credit growth targets (March 2021) [11]</p>

<p><b>Kenya</b></p>	<p>100 basis point cut in policy rate to 7.25%; 100 basis point cut in CRR to 4.25%; and increase in max tenor of repurchase agreements from 28 to 91 days. Flexibility on loan repayments introduced (<b>March 2020</b>) [12]</p> <p>CBK suspends listing of negative credit information for borrowers whose loans became non-performing. A new minimum threshold of \$10 was set for negative credit information submitted to credit reference bureaus (<b>April 2020</b>) [13]</p>	<p>Cut in policy rate by 25 bps to 7.0% (<b>April 2020</b>) [14]</p> <p>Transfer of \$45.6 million to treasury (<b>February 2021</b>) [15]</p> <p>Measures on loan restructuring and classification flexibility <i>not</i> renewed (<b>March 2021</b>) [16]</p>	<p>Policy rate held steady at 7% (<b>March 2021</b>) [17]</p> <p>Resumption of mobile money charges for savings and credit societies (<b>April 2021</b>) [18]</p>
<p><b>Peru</b></p>	<p>BCRP FX intervention to maintain market stability (<b>since February 2020</b>) [20]</p> <p>Policy rate cut by 200 basis points to 0.25% (<b>April 2020</b>) [21]</p> <p>Reserve requirements reduced, liquidity through repo operations provided [22]</p> <p><b>Reactiva Peru</b> package of 60 billion soles (11% of GDP) in liquidity assistance (backed by government guarantees) to support lending (<b>expired October 2020</b>) [23]</p> <p>Financial institutions modify loan terms for those affected by Covid-19 without changing classification [24]</p>	<p><b>BCRP long-term interest rate swaps and repos</b> to enable banks to hedge risk of rising rates on long-term loans such as mortgages and corporate loans. BCRP introduces 1–2-month facility to repurchase commercial invoices from SMEs (<b>December 2020</b>) [25]</p> <p>Extension of temporary suspension for additional reserves on foreign currency loans <b>until April 2021</b> [26]</p> <p>Further QE, increasing liquidity by allowing banks to temporarily sell packages of high-quality loans in repo operations (<b>December 2020</b>) [27]</p>	<p>Policy rate held steady (<b>March 2021</b>) [28]</p>

<p><b>Sri Lanka</b></p>	<p>Cut in policy rate by 200 bps; required reserve ratio cut by 300 bps; liquidity coverage ratio cut to 90%; interest rate on CBSL advances to banks cut by 650 bps (<b>from March 2020</b>) [29]</p> <p>Debt repayment moratorium on bank loans for tourism, garment, plantation and IT sectors and SMEs; CBSL refinancing and concessional lending facilities of 1% of GDP, with partial CBSL guarantee (<b>until April 2021</b>) [30]</p> <p>Interest rate on credit cards/overdrafts capped; NPLs rescheduled; capital conservation buffers/loan classification rules relaxed [31]</p>	<p>Import restrictions introduced; banks prohibited from facilitating vehicle imports [32]</p> <p>Outward remittances limited, inward remittances exempted from certain regulations and taxes [33]</p> <p>Foreign investments in local-currency government securities protected against FX risk [34]</p> <p>Commercial banks prohibited from purchasing foreign currency-denominated Sri Lankan Bonds (<b>until end-March 2021</b>); banks required to sell 10% of foreign exchange received from remittances to CBSL [35]</p>	<p>Capital outflow restrictions introduced, through suspension of outward investment payments (<b>until July 2021</b>) [36]</p>
<p><b>Tanzania</b></p>	<p>Discount rate cut by 200 bps to 5%; reduces collateral haircut requirements on government securities (<b>May 2020</b>) [37]</p> <p>Daily transactions limit for mobile money operators raised (from \$1,300 to \$2,170) and daily balance limit raised from \$2,170 to \$4,340 (<b>May 2020</b>) [38]</p>	<p>BoT Statutory Minimum Reserves requirement cut 100 bps to 6% (<b>June 2020</b>) [39]</p> <p>Regulatory flexibility provided to banks and other financial institutions to carry out loan restructuring operations on a case-by-case basis (<b>June 2020</b>) [40]</p>	

Source: Bangladesh Bank, Central Reserve Bank of Peru, Central Bank of Kenya, Central Bank of Sri Lanka, Central Bank of Tanzania  
 Note: while countries started to act in March 2020, they adjusted their interventions at different points in time. Hence, the timing of the interventions listed as first, second and third set of policies are not directly comparable across countries.

## 2.2 Assessing the impacts of these measures for gender equality

Given that monetary policy has distributional consequences, we explore the gender impact of the monetary and financial responses detailed in the previous sections to offer pointers on the transmission mechanisms from central bank policy to impact on women and different sub-groups along race, class, skill and ability divides (Seguino, 2019b).

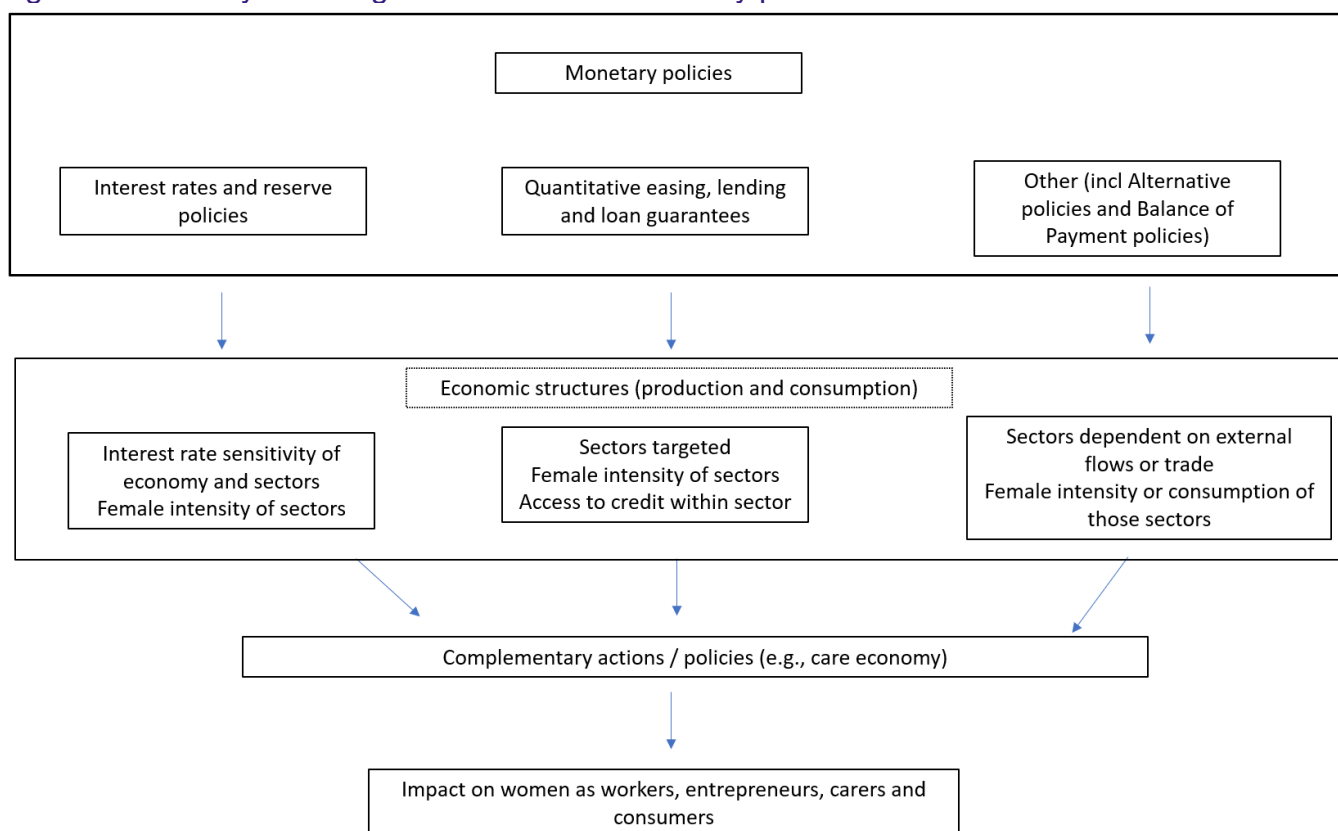
Figure 3 summarises the conceptual pathways from monetary policies to gender effects. It distinguishes between different types of monetary policy and their effect on gender equality through the specific economic structures: the *production channel*, where sectors require different kind of workers, and the



*consumption channel*, where changes in prices affect socio-economic groups differently due to varying income levels.

The pathways are illustrated through the case studies. Broadly, monetary policies have indirect ‘transmission mechanisms’ for gender equality, so complementary policies (e.g. protection of workers’ rights, childcare policies, financial accessibility, education for girls and women) are key to ensure the potential new opportunities opened up by a change in monetary policy can effectively be taken up by different sub-groups of women. In this sense, collecting data to track the ‘terms of inclusion’ – that is, the ‘quality’ of women’s inclusion in the economy – would help better target complementary actions for women along different socio-economic characteristics. For example, tracking how lowered interest rates may affect gender equality requires not only data on loan uptake by female-led MSMEs, but also on loan size, survival rate of business, risk of indebtedness.

**Figure 3: Pathways of the gender effects of monetary policies**



The monetary and financial policies adopted since March 2020 in all five countries are listed in Table 1 in the previous section. We can sort them into four broad policy categories taken from Seguíno (2021):

- i. **Interest rates and reserve policies:** policies related to interest rates and banks’ capital requirements.
- ii. **Quantitative easing, lending terms and loan guarantees:** policies related to maintaining liquidity in the financial system, including QE, lending terms and loan guarantees for sectors, firms and individuals.
- iii. **Alternative monetary policies:** unusual policies restricting or earmarking specific constraints or provisions.
- iv. **Balance of payments policies:** policies related to exchange rate, capital controls and central banks’ foreign reserve holding.

The measures listed under the same category in Table 2 share the same transmission pathway and have the same pattern of impact. The allocation of measures to categories can be subject to interpretation; for example, a few measures could be part of ‘Interest rate and reserve policies’ but also

of ‘Alternative monetary policies’ (e.g. measure 4). In such cases, the measure is deemed non-standard and hence allocated under ‘Alternative monetary policy’.

Table 2: Mapping of monetary and financial policies implemented by April 2021

Monetary policies	Bangladesh	Kenya	Peru	Sri Lanka	Tanzania
<b>i. Interest rates and reserve policies</b>	2;3;5	12; 14; 17	21; 22; 28	29	37; 39
<b>ii. Quantitative easing, lending and loan guarantees</b>	1; 6; 10; 11	13;15;16;18	23; 27	31	38; 40
<b>iii. Alternative monetary policies</b>	4		24; 25	30; 36	
<b>iv. Balance of payments policies</b>	7;8;9		20; 26	32; 33; 34;35	

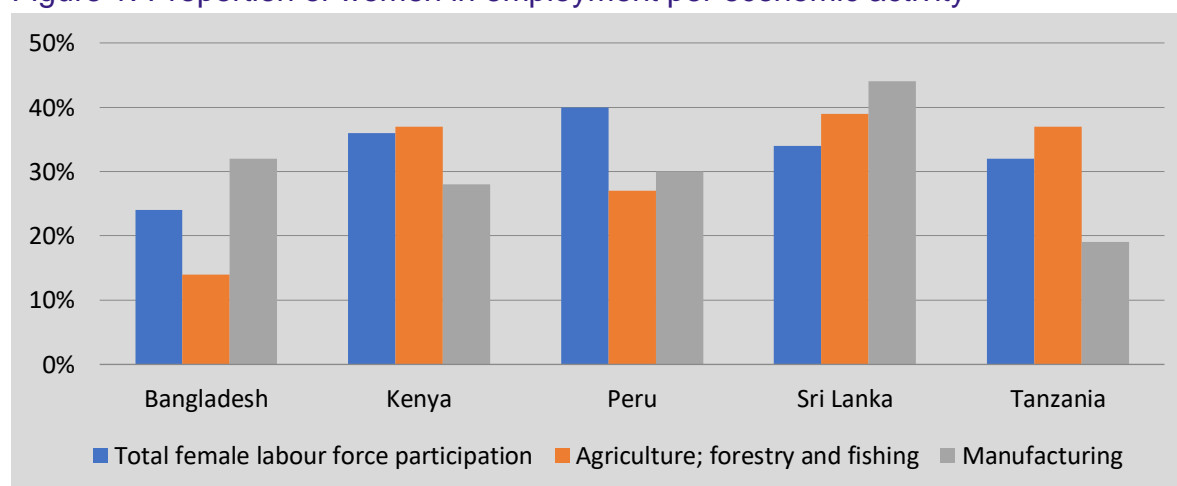
Source: Author’s categorisation of monetary and financial policies listed in Table 1.

Each monetary policy category is examined in turn to outline its impact pathway to women’s livelihoods, checked against the country case study interventions.

### i. Interest rates and reserve policies

All central banks in the country case studies have lowered their interest rates during the crisis. Lower interest rates affect aggregate demand, reduce consumer debt and stimulate business borrowing and, in turn, employment. Depending on the type of employment created, this may benefit some groups of women. If employment is created in sectors which tend to primarily employ women (see **Error! Reference source not found.** and Table 2), then the lower interest rate stimulus may support women’s economic activity. However, the type of employment thus created remains a critical point: the quality, safety, formality and opportunity and status of the jobs (own account worker, wage worker, employer, unpaid contributing family worker) matter for bridging the gender gap between men and women’s employment opportunities.

Figure 1: Proportion of women in employment per economic activity



Source: Calculations based on ILOSTAT 2021, Employees by sex and economic activity (thousands) – Annual. Data corresponds to the latest year available (2017 for Bangladesh; 2013 for Kenya; 2019 for Peru; 2018 for Sri Lanka and 2013 for Tanzania).

**Table 3. Percentage of women in paid employment, by sector**

	Bangladesh, 2017		Kenya, 2013		Peru, 2019		Sri Lanka, 2018		Tanzania, 2013	
	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men
Total for all sectors	24	76	36	64	40	60	34	66	32	68
Agriculture; forestry and fishing	14	86	37	63	27	73	39	61	37	63
Mining and quarrying	3	97	19	81	8	92	4	96	10	90
Manufacturing	32	68	28	72	30	70	44	56	19	81
Electricity; gas, steam and air conditioning supply	9	91	27	73	5	95	11	89	3	97
Water sanitation utilities	28	72	34	66	22	78	28	72	22	78
Construction	8	92	18	82	5	95	2	98	5	95
Wholesale and retail trade; repair of motor vehicles and motorcycles	14	86	25	75	44	56	20	80	20	80
Transportation and storage	9	91	16	84	17	83	6	94	18	82
Accommodation and food service activities	21	79	35	65	65	35	24	76	60	40
Information and communication	10	90	38	62	34	66	31	69	22	78
Financial and insurance activities	18	82	44	56	50	50	47	53	15	85
Real estate activities	7	93	42	58	35	65	0	100	56	44
Professional, scientific and technical activities	13	87	28	72	49	51	41	59	49	51
Administrative and support service activities	15	85	25	75	35	65	31	69	19	81
Public administration and defence	15	85	35	65	34	66	34	66	29	71
Education	40	60	42	58	58	42	68	32	44	56
Human health and social work activities	50	50	60	40	69	31	66	34	60	40
Arts, entertainment and recreation	17	83	36	64	38	62	23	77	19	81
Other services	25	75	38	62	47	53	29	71	48	52
Activities of households for own use	78	22	63	37	95	5	40	60	72	28
Activities of extraterritorial organisations and bodies	13	87	27	73	n.a.	n.a.	57	43	28	72
Other	45	55	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	28	72

Source: Keane et al. (2021)

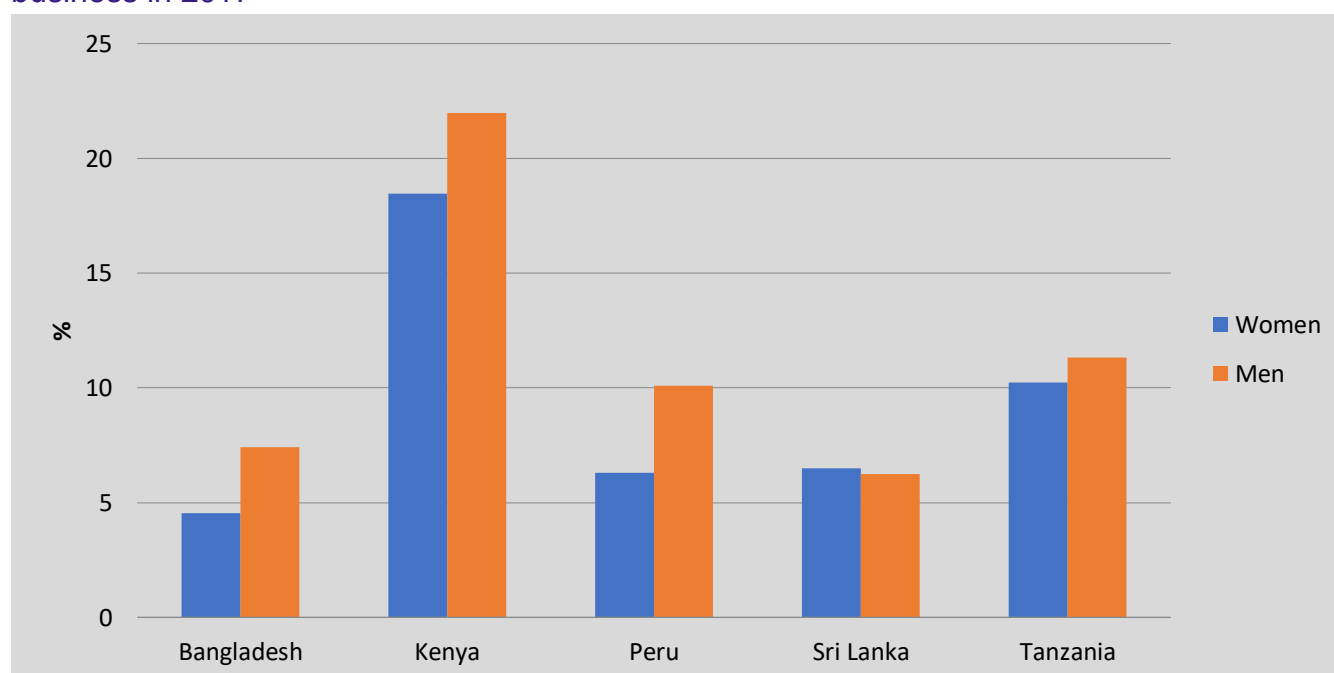
Due to lack of high frequency data, it is not possible to quantify the employment effect of the reduced interest rates, let alone the gender-differentiated ones. But it is possible to assume that more interest-rate-sensitive industries are likely to benefit from a lower interest rate. For example, in the agricultural sector, borrowing for inputs (seeds, pesticides, fertiliser, hired labour) is generally required and lower interest rates could support women farmers by reducing the cost of credit. This would be, however, conditional to other factors mediating access to financial services, given that women farmers often do not have the means to borrow (owing to land tenure, social norms or financial literacy, for instance).

## ii. Quantitative easing, lending terms and loan guarantees

Policies aimed at managing liquidity, such as QE, or at influencing credit availability, such as lending terms and loan guarantees, can play an important role for gender equality, giving incentives to banks to lend to priority sectors or groups – e.g., small enterprises or specific sectors where women are overrepresented in the workforce. For example, asset-based reserve requirements modified to be smaller for assets contributing to job creation in priority sectors or loan guarantees that substitute for collateral can be used by central banks to direct credit to specific groups.

Given that access to credit is more difficult for small businesses, and given that women-owned businesses tend to be MSMEs, directing requirements to lower collaterals (e.g., through loan guarantees), can lower the cost of credit for women who own small and micro businesses. As evidenced in Figure 2, the proportion of women who were able to borrow to start, operate or expand a business or a farm was lower than the share of men who did so the same year, except in Sri Lanka where the proportions were practically the same between genders. While this discrepancy might not be down to the cost of credit alone but also to cultural norms, wider ease of doing business or land tenure, the smaller share of women able to borrow does point to a lower starting point for them. Facilitating access to credit would be an improvement in the financing environment to support credit-constrained women entrepreneurs. In 2017, women entrepreneurs in MSMEs globally faced a finance gap (the difference between the potential demand for credit and the existing supply) equivalent to \$1.7 trillion, accounting for one-third of the total MSME finance gap. There are regional variations and the finance gap for MSMEs women entrepreneurs was estimated at \$50 billion in sub-Saharan Africa, \$98 billion in Latin America and \$27 billion in South Asia (IFC, 2017). These figures only consider the formal economy, so given that women’s businesses are often informal, the gap is certainly an underestimate (ILO, 2018).

Figure 2: Proportion of women and men who borrowed to start, operate or expand a farm or business in 2017



Source: Global Findex database. Answers for women and men aged 15+

All countries put in place some measures changing requirements for borrowing and the terms for repayments: Bangladesh [6;10], Kenya [13], Peru [23], Sri Lanka [31], Tanzania [40]. None specifically targeted MSMEs or a particular sector in which women-owned businesses are disproportionately represented, which could have leveraged easier access to credit for women entrepreneurs. That said, it must be acknowledged that targeting women-owned MSMEs or women at the intersection of different demographic characteristics is not immediately feasible where relevant data is unavailable.

### iii. Alternative monetary policies

Non-standard or unconventional monetary policies have been adopted during the crisis. Broadly, these are any measures that aim at directing finance to specific groups or sectors, or that allow for credit holiday. For example, policy [4] implemented in Bangladesh improved the terms for agricultural loans, supporting the primary sector. Whether this policy supports women farmers is determined by the conditions of access to the agricultural loans, coupled with the security of land rights for women farmers. Indeed, differences in security in land tenure mean women farmers with no official land title may be unable to benefit from these loan conditions. Given that in Bangladesh women constitute more than 50% of the agricultural labour force (CARE, 2020), there is at least a possibility that the loan would spur more investment on farms and more demand for hired labour, of which a share may be women when it comes to weeding or harvesting. This is a potential transmission mechanism but it relies on decision-making at farm level in terms of investment decisions and actual uptake of the loan.

### iv. Balance of payments policies

The balance of payments affects the exchange rate and can lead to currency depreciation, which may stimulate demand for exports but may also increase the price of imported commodities. From the consumption angle, this could hit women in households that consume imported goods but would be unlikely to directly concern low-income households. Currency devaluation is potentially a direct hit in terms of food security, nutrition and related physical development outcomes for girls and women in low-income households (Botreau and Cohen, 2020). In less cash-strapped households, the impact may be felt less in terms of nutrition and food, but other expenditures may be curtailed potentially at the expense of girl's education and female's health. From the production perspective, a higher price for imported inputs for the agricultural or manufacturing sectors could also trigger contraction of those sectors with resulting layoffs that could affect women where those layoffs affect female-intensive sectors. Women form a large share of the workforce in those sectors compared to total female labour force participation (**Error! Reference source not found.** and Table 3).

While these effects remain to be ascertained in the current crisis, it is worth highlighting them as risks to women's employment and livelihoods. It is difficult to track if such effects have occurred in the country case studies. Peru and Bangladesh have been intervening in the foreign currency market [20, 26 and 7, 8 and 9, respectively] to maintain market stability, given that export demand was unlikely to counterbalance currency depreciation due to the economic contraction linked to successive lockdowns. Perhaps the country making the most use of this policy is Sri Lanka [32-35]. During its second set of interventions, most policies from the central bank related to the balance of payments to limit capital outflow and the depletion of foreign currency reserves. For example, Sri Lanka saved on foreign exchange by imposing restrictions on certain imports (mostly high-end goods such as vehicles, which we can assume would not have directly impacted low-income households). This reduced the volatility of the exchange rate and smoothed shocks for the poorest households, many of which are female-headed Lanka (UNFPA, 2015).

## 3 IMPLICATIONS FOR POLICY

### 3.1 Towards gender-equalising monetary and financial policies

Typically, central banks have a narrowly defined focus in their monetary policy interventions, which is to keep inflation contained (Seguino, 2019b), typically through inflation targeting or flexible inflation targeting. Central banks do not tend to use of tools that could improve gender equality, and adopting gender-equalising policies would mean re-framing their role.

Monetary policy largely fails to consider the multiple trade-offs between reducing inflation and supporting new employment opportunities, with the associated consequences for women's and men's paid work, as well as the favourable effect of QE on wealth assets mostly held by men, and the impact of currency devaluation on women's nutrition. This could be because central banks do not see gendered impacts, or even employment generation as a part of their remit (Haldane, 2014; Mersch, 2014; Metzger and Young, 2020). But even while monetary policies are not explicitly gendered, the rules central banks adopt can include or exclude people with different socio-economic characteristics (i.e. vulnerabilities intersect to determine who is included or excluded) from the economic system. It would be possible in principle to adopt gender-equalising policies that disproportionately benefit disadvantaged women.

Central banks could adopt 'real' targeting frameworks corresponding to adding 'real economy' variables to the nominal variables (i.e. rate of inflation) they follow. While acknowledging that monetary policy cannot control 'real' variables as much as 'nominal' ones, banks could link their targets to the real economy, such as employment growth, gender equality in employment, investment promotion and structural change from credit availability or a stable and competitive real exchange rate (Epstein, 2009). Such a framework could be tailored to the specific needs of the country.

Central banks could also further channel credit to uses and sectors where women are disproportionately represented. Policies and regulations can also encourage credit to be extended to improve housing, stimulate job-creating investments or promote access to loans for own-account informal workers, many of whom are women (Heintz, 2015). A major roadblock for women borrowers is the ability to qualify as credit worthy. Loan guarantees could expand access for targeted groups such as women farmers or women entrepreneurs. The central bank could guarantee low interest rate for certain loans, reducing risk exposure and hence lowering the cost of credit. Similarly, credit could be channelled to larger firms where women workers are overrepresented if they can demonstrate job creation. Monetary policies thus have the potential to generate employment and mitigate asset inequality by acting on accepted collaterals, but central banks have so far not adopted such tools.

Finally, just as monetary policies have gender-differentiated distributional effects, gender inequality itself is inefficient in the allocation of financial resources, which in turn impacts aggregate growth. In other words, gender inequalities have an economic cost that impact countries' growth. In this sense, central banks have an incentive to integrate gender equality into their agenda, given its detrimental impact on the central banks mandate.

### 3.2 Applying Taylor rules – an illustration

Taylor rules are simple monetary policy rules that prescribe how a central bank should adjust its interest rate policy in a systematic manner in response to developments in inflation and macroeconomic activity (Orphanides, 2007). Figure 4 presents a set of simple Taylor rule illustrations (Taylor, 1993) for the five country case studies that are the focus of this paper. The country charts present calibrations comparing standard Taylor rule rates to 'gender-sensitive' Taylor rule rates for each economy.

'Gender sensitive' is understood here using the female unemployment rate as the key resource gap – rather than gender aggregated unemployment data. The idea behind the Taylor rule is that if unemployment is high, it means that an economy's GDP is not at its full potential. Further, a large

unemployment rate entails a resource gap, so lowering interest rates would stimulate economic activity while keeping inflation rates in check, given the identified resource gap. A lower interest rate would support increased economic activity and would benefit employment across sectors, regardless of their gender concentration. In other words, more accommodative interest rates benefit male unemployment rates, as well. Complementary gender-equalising policies related to labour, education and childcare would ensure that the unemployment gap is progressively bridged. While perhaps simplistic, this Taylor rule comparison aims to provide a simple demonstration of what policy rates might look like if, for example, female employment was to be included as an explicit policy – i.e. having an explicit ‘real economy’ target in each rule, rather than economy-wide output gaps where labour is not gender-disaggregated.

In most instances, monetary policy is more accommodative when using female employment gaps as the key resource gap. Through policymakers allowing more inflation than would otherwise be the case, central banks would inherently allow real interest rates to fall, thus stimulating output and growth, and facilitating revenues for infrastructure spending and employment growth to promote gender employment equality. This would require central banks to expand their longstanding focus on inflation targeting.

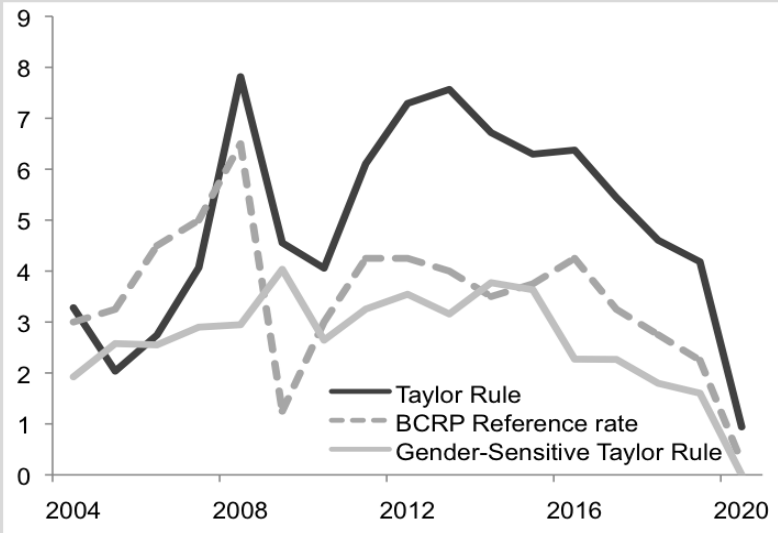
These rules, however, miss some of the structural dimensions of policy. Inflation is often related to an economy’s supply-side pressures, such as low productivity due to ill health and lack of education, agricultural shocks, energy costs and poor infrastructure. They also miss that inflation targeting can be deflationary and can, in turn, lead to slower GDP and employment growth, thus dampening private investment. This is because as inflation falls and nominal interest rates rise, the real inflation-adjusted rate of return on financial investments rises. Evidence indicates that rentier income (interest-rate-generated income derived from wealth holdings) has been on an uptrend since the 1980s (Bresser-Pereira, 2010; Epstein et al., 2004). This is problematic because it reflects growing income inequality. With the uptrend in rentier income, aggregate demand falls (due to the wealthy’s lower marginal propensity to consume) and there is subsequently reduced income and consumption of lower-income groups, as well as a reduced ability to invest in productivity-enhancing expenditures on health and education. This is exacerbated by higher interest rates fuelling capital inflows, which often brings currency appreciation and reduced exports, with gendered effects.

#### **Figure 4. Taylor rules applied to country case studies**

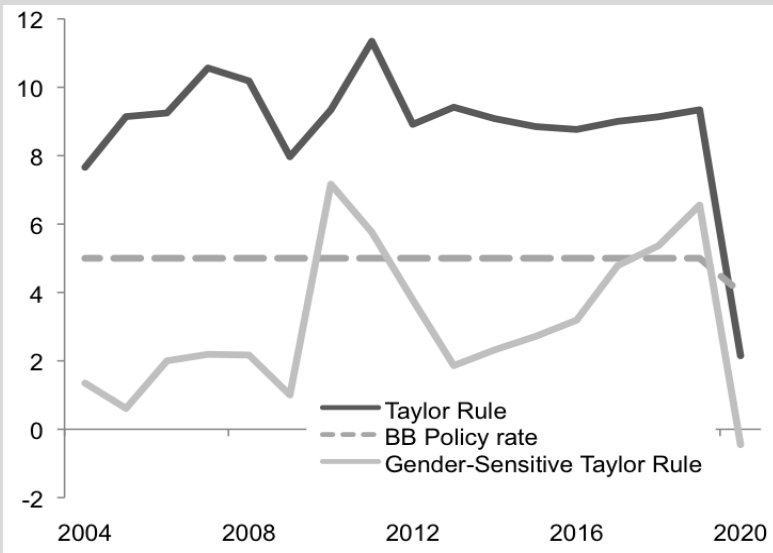
The Taylor rules that are calibrated in this paper are not meant to be predictive, but illustrative of sensitivities to changes in policy parameters and in the weights/sensitivities associated with the chosen policy parameters.

Note, female labour underutilisation rates may be appropriate in the context of developing countries where labour markets are not as developed as in higher-income economies. But alternative measures of unemployment are not gender-disaggregated and could not be used. Further, this ‘proof of concept’ and rough calibration aims to highlight that gender-sensitive Taylor rules imply more accommodative monetary policy compared to standard Taylor rules that put a higher weight (or responsiveness) on inflation dynamics.

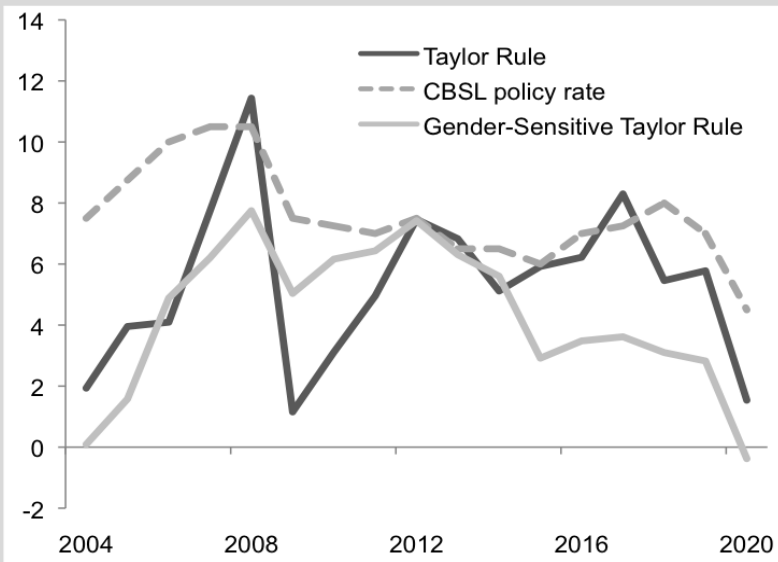
##### **Peru: Taylor rule analysis for BCRP**



**Bangladesh: Taylor rule analysis for Bangladesh Bank**

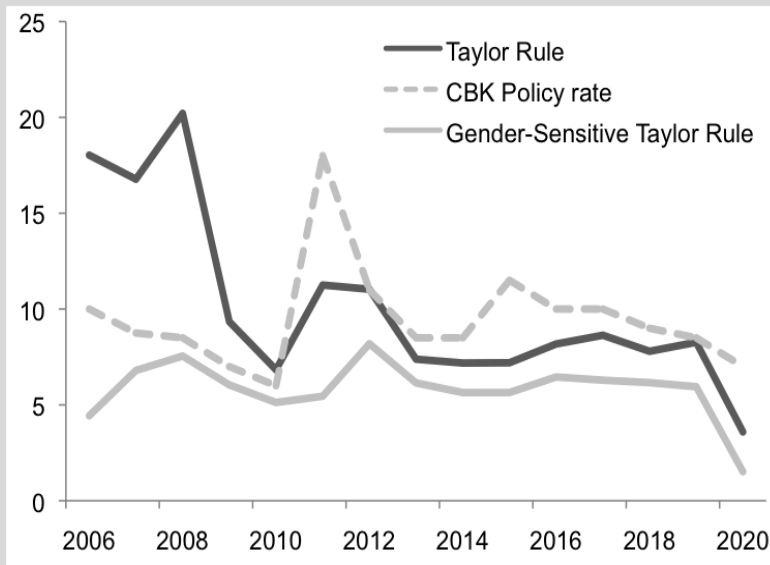


**Sri Lanka: Taylor rule analysis for CBSL**

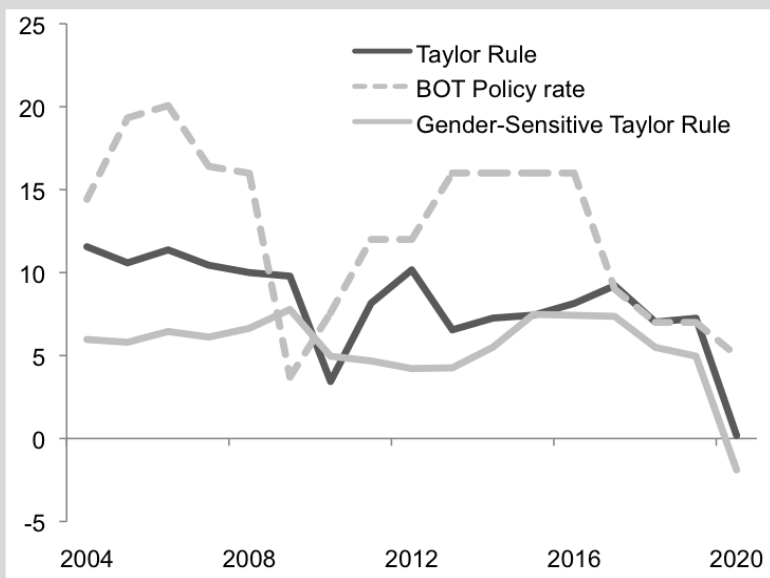




### Kenya: Taylor rule analysis for Central Bank of Kenya



### Tanzania: Taylor rule analysis for Bank of Tanzania



The specification of the Taylor rules is calibrated using the following basic equations:

**Standard Taylor rule** =  $\rho(r_{t-1}) + (1 - \rho)(r^* + \pi^*) + \alpha(\pi - \pi^*) + \beta (OG)$

**Gender-focused Taylor rule** =  $\rho(r_{t-1}) + (1 - \rho)(r^* + \pi^*) + \alpha(\pi - \pi^*) + \beta (FRG)$

Where:

$r^*$  = Equilibrium interest rate

$r_{t-1}$  = interest rate in the previous period

$\pi$  = Inflation rate

$\pi^*$  = Inflation target

$\rho$  = Interest rate smoothing parameter

$\alpha$  = Inflation weight (policy responsiveness to inflation gap)

$\beta$  = Resource gap weight (policy responsiveness to output gap)

OG = Output gap defined as

Where  $OG = (GDP - \text{Potential GDP}) / \text{Potential GDP}$

FRG = Female resource gap defined as the female unemployment gap.

Source: Taylor (1993), Kahn (2012), World Bank data for female unemployment rates and authors' calculations.

## 4 CONCLUSION

Central banks have the potential to play an important indirect role in promoting gender equality through their ability to influence credit availability, spur investment in priority sectors where women are disproportionately represented, and maintain a stable and competitive exchange rate that smooths price shocks for imported commodities. Hence, applying a gender lens to monetary policies is critical to advancing equality. Monetary policies can only go some way in setting the framework and rules shaping women's economic opportunities, however, so complementary policies are needed to ensure that interventions benefit women, including workers' rights protections, fiscal policies focused on improving care provision, and financial access facilitation.

We distinguished four types of monetary policies, and the application of these policies provides important insights.

**Interest rates and reserve policies.** The manufacturing sectors of Bangladesh and Sri Lanka, which employ predominantly women on low incomes, have been afflicted with cancelled orders and factory shutdowns. This shock has affected not only women workers in waged factory jobs but also own account workers and women employed in MSMEs in the sector. The extent to which the shock impacted these workers differently could not be assessed for lack of data. A lowering of interest rates could support investment and, in turn, female employment, as the sector is sensitive to interest rates, of course on the condition that demand for garments and manufactured goods increases.

**Quantitative easing, lending terms and loan guarantees.** All the case study countries put in place measures that changed borrowing requirements and the terms for repayments, but none of these specifically targeted MSMEs or sectors in which women-owned businesses are disproportionately represented. Doing so could have leveraged easier access to credit for women entrepreneurs. On the other hand, the potential size of the countries' informal sectors and lack of data limit the possibility of a more targeted approach.

**Alternative monetary policies.** Earmarking specific provisions to target specific sectors or groups could have gender-equalising effects if those measures predominantly benefit women. Key here is to be able to develop data and tools to identify those sectors with greater potential for equality promotion. For example, a lowered interest rate in the agricultural sector in Bangladesh may impact women working as daily labourers. Given that women constitute more than 50% of the agricultural labour force, there is the possibility that the loan would spur more investment on farms and more demand for hired labour of whom many will be women doing, for instance, weeding or harvesting. Lower interest rates would thus indirectly benefit female agricultural workers, although the primary beneficiaries would be larger farm owners, who are more typically men.

**Balance of payment policies.** From the production perspective, a higher price for imported inputs for the agricultural or manufacturing sectors could trigger contraction of those sectors with resulting layoffs that could affect women. Women form a large share of the workforce in those sectors compared to total female labour force participation. From the consumption point of view, higher prices of imported food items due to currency devaluation could affect primarily women's nutrition (because in times of crisis, women tend to see their food portions reduced due to unequal intrahousehold allocation dynamics).

To conclude, while monetary policies in coordination with public investment can have large gender-equalising effects by supporting women as entrepreneurs, workers, carers and consumers, the current recovery interventions from central banks have not explicitly considered gender equality. This is a missed opportunity at a time when progress on this goal is reversing.

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