

Snap Shot of Monetary Policy Statement H1FY15 (July-December 2014)

- The central bank of Bangladesh (BB) published its half-yearly (H1 FY 14) monetary policy Yesterday (26th July, 2014), aiming to curb inflation and help the productive sectors for achieving maximum economic growth.
- **Bangladesh Bank forecast the country's economic growth will be between 6.2% - 6.5% in fiscal 2014-15** though the government in the new budget set the target at 7.3%. **The growth was 6.1% in the FY 13-14 considering new base year 2005-06 which was 6.5% in old base year.**
- BB targeted to bring average **inflation down to 6.5% by June of the FY15 which was 7.4% in last fiscal year came down from 11.97% in FY 11-12** and to ensure a credit growth that stimulates inclusive economic expansion.
- Before announcement of new MPS Bangladesh Bank raised the **cash reserve requirement by 50 basis points to 6.5% for scheduled banks, effective from June 24, 2014** to curb inflationary pressure on the economy. Under the new rules, the scheduled banks will have to maintain 6.5% CRR with the central bank from their total demand and time liabilities on a bi-weekly basis. The central bank, **unchanged** the rate of **statutory liquidity ratio (SLR) at 19%**. Bangladesh bank would mop up around **BDT 30,000 million** from the banks by increasing the CRR to contain the inflationary pressure in tolerable level. The growing liquidity in the banking system suggests that an increase of reserve requirement ratios has not negative impact at this moment. Meanwhile, other policy rates remain unchanged in new monetary policy.
- **Bangladesh Bank has set a target of 14% private sector credit growth by Dec, 2014 and 15.5% by Jun, 2015**, the target of private sector credit growth well in line with the emerging Asia Countries. **The BB set the public sector credit growth at 12.9% by December 2014 and 24.8% by June 2015** in line with the government requirement.
- **Broad money growth target of 16% and Reserve money growth 15.5% by Dec 2014 respectively.**
- Terming the new private sector credit growth as “healthy”, the central bank says it is well in line with growth targets and similar to other countries in the region. It is to be mentionable that the private sector credit growth was 11.39% in May, 2014.

- The central bank said data for the second half of FY13 on agricultural output as well as indicators of industrial and service sector performance suggest that this growth rate could be achieved if there is no change in the global environment.
- **Bangladesh Bank project overall export growth of 12%, import growth of 15% and remittance growth of 4%** - the historical pattern in the capital and financial account suggests that the overall balance will be in surplus.
- Government borrowing (net) from the banking system was significantly lower than projected in both the original and revised FY14 Budget. Government borrowing (net) from the banking system amounted to BDT 64.3 billion in FY14 against an original budget provision of BDT 260 billion for the whole of FY14 and a revised Budget estimate of BDT 300 billion. However the ample liquidity position in the banking sector suggests that this increase in government borrowing did not crowd out private sector credit.
- **Call money rates have declined since their peaks in early 2012 when they were around 20%, and also fell in H2FY13 from around 10% in January 2013 to around 7% in June 2013 and around 7-8% in H1FY14. In H2FY14 call money rates fell further from 7.17% in January 2014 to 6.23% in June 2014.** High liquidity levels are also reflected in below average loan to deposit ratios, signaling further easing of liquidity pressures in the banking system.

External Sector Summary

Items	FY11	FY12	FY13	Jul. - May. FY14	
Export(% changes)	41.5	6.0	11.2	12.6	
Import (% changes)	F.o.b (including EPZ)	52.1	2.4	0.8	9.8
	L/Cs Opened	34.0	-4.0	-2.8	13.3
Remittances(% changes)	6.0	10.2	12.6	-3.6	
FDI (in million USD)	775	1,192	1,300	1,413	
Overall Balance (in million USD)	-656	494	5,128	4,971	
Forex Reserves (in million USD)	10,912	10,364	15,315	20,267	
Exchange Rate (Tk./USD)	74.2	81.8	77.8	77.6	

Monetary Aggregates (Y-o-Y growth in percent)

Items	Actual				Program	
	FY11	FY12	FY13	May.14	Dec.14	Jun.15
1. Net Foreign Assets@	6.2	7.8	50.1	39.1	30.3	16.8
2. Net Domestic Assets	24.7	19.2	11.1	9.9	12.4	16.4
Domestic Credit	27.5	19.2	10.9	10.1	13.8	17.3
Credit to the public sector (incl. Govt.)	34.6	17.4	11.1	5.3	12.9	24.8
Credit to the private sector	25.8	19.7	10.8	11.4	14.0*	15.5
3. Broad money	21.4	17.4	16.7	15.2	16.0	16.5
4. Reserve money	21.1	9.0	15.0	10.8	15.5	16.0

BANGLADESH BALANCE OF PAYMENTS
In million US\$

	2011-12 Actual	2012-13 Provisional	2013-14 Estimation
Trade balance	-9,320	-7,010	-6,914
Services	-3,001	-3,159	-3,847
Primary income	-1,549	-2,315	-2,217
Secondary income	13,423	15,009	14,769
<i>Of which: Workers' remittances</i>	12,734	14,338	14,109
<u>CURRENT ACCOUNT BALANCE</u>	<u>-447</u>	<u>2525</u>	<u>1791</u>
Capital account	482	588	700
Financial account	1436	3209	3180
Foreign Direct investment	1191	1730	1550
Errors and omissions	-977	-1194	229
<u>OVERALL BALANCE</u>	<u>494</u>	<u>5128</u>	<u>5900</u>
Reserve Assets	-494	-5128	-5900
Bangladesh Bank	-494	-5128	-5900
Assets	293	5196	6243
Liabilities	-201	68	343

Source: Statistics Department, Bangladesh Bank, EPB and the Ministry of Finance.