

Snap Shot of Monetary Policy Statement H1FY14 (July-December 2013)

- The central bank of Bangladesh (BB) published its half-yearly (H1 FY 14) monetary policy today (Thursday), aiming to curb inflation and help the productive sectors for achieving maximum economic growth.
- BB targeted to bring average inflation down to 7% using the 1995-96 base year and to ensure a credit growth that stimulates inclusive economic expansion.
- **BB take decision to keep repo rates and reserve requirement ratios unchanged following the 50 basis point rate cut in January 2013 was based on a number of factors such as growing inflationary pressures in upcoming months, prospects of wage pressures and possible supply-side disruptions.** Meanwhile, the growing liquidity in the banking system suggests that an easing of reserve requirement ratios is also unnecessary at this moment.
- **The central bank has set a target of 15.5% private sector credit growth by Dec, 2013 and 16.5% by Jun, 2014**, the target of private sector credit growth well in line with the emerging Asia Countries.
- **Broad money growth target of 17.2% and Reserve money growth 15.5% by Dec 2013 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 13.60% in May, 2013.
- Data shows that Export growth (11% in FY 13 which was only 5.92% in FY 12) while import growth (-160% between July-May FY 13 compared to the same period last year).
- GDP growth in FY13 will be 6.03%, which is lower than the previous five years average GDP growth 6.20%,BB’s forecast for **GDP growth for Bangladesh in FY14 – of between 6.1-6.2%**, whereas global growth is expected to be 3.8% with the average for developing countries is projected at 5.4%, and developed nations at 2.1%
- 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.
- The central bank has kept a lower ceiling in the projection of economic growth. The BB also said it would ensure adequate private sector credit to stimulate inclusive growth.
- Government borrowing (net) from the banking system rose in H2FY13 but remained within budget targets. Government borrowing (net) from the banking system amounted to 248 billion BDT in FY13, short of the revised budget figure of 285 billion BDT. The borrowing largely took place in H2FY13 as only 59 billion BDT was borrowed in H1FY13

- but the borrowing large surge in the last two weeks of June 2013. However the ample liquidity position in the banking sector suggests that this increase in government borrowing did not crowd out private sector credit. In FY12 government borrowing was 185 billion BDT.
- **Call money rates have declined and average retail interest rate spreads have fallen below 5%.** 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 signaling further easing of liquidity pressures in the banking system.
- **Average inflation, using the 1995/96 base year, has been declining steadily over the past fifteen months, from a peak of 10.96% in February 2012 to 7.70% in June 2013.** This decline was driven by a steady fall in point to point food and non-food inflation until October 2012 when food inflation bottomed out at 5.57%. Since then food inflation began to rise and in June 2013 is 8.53%. Non-food inflation fell from a peak of 13.96% in March 2012 to 6.79% a year later. However, point to point non-food inflation has increased to 6.99% in June 2013 and core inflation (non-food, non-fuel) has also increased since March 2013. BB hope core inflation will come down to 7.0% in FY 14.

External Sector Summary

Particulars	Jul.-May. FY12	Jul.-May. FY13
Export(%changes)	7.0	10.7
Import (%changes)	8.2	-0.4
Remittances(%changes)	10.9	13.9
FDI (in million USD)	583	650
Overall Balance (in million USD)	1,112	1,150
Forex Reserve (in million USD)	9,520	14,531
Exchange Rate (Tk./USD)	81.9	77.8

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

Items	Actual				Program	
	FY10	FY11	FY12	May 13	Dec.13	Jun.14
1. Net Foreign Assets	41.0	6.2	13.4	51.2	19.3	8.4
2. Net Domestic Assets	19.0	24.7	18.1	12.5	16.8	19.0
Domestic Credit	17.5	28.2	19.3	13.5	19.3	17.2
Credit to the public sector (incl. Govt.)	-4.2	38.3	17.6	21.6	33.7	19.5
Credit to the private sector	24.2	25.8	19.7	11.4	15.5	16.5
3. Broad money	22.4	21.4	17.4	18.1	17.2	17.0
4. Reserve money	18.1	21.0	9.0	21.0	15.5	16.5

BANGLADESH BALANCE OF PAYMENTS

In million US\$

	2010-11	2011-12	2012-13
	Actual	Provisional	Estimation
Trade balance	-9,935	-9,317	-7,344
Services	-2,612	-2,723	-3,453
Primary income	-1,454	-1,508	-2,267
Secondary income	12,452	13,699	15,069
<i>Of which: Workers' remittances</i>	11,650	12,843	14,461
<u>CURRENT ACCOUNT BALANCE</u>	<u>-1549</u>	<u>151</u>	<u>2004</u>
Capital account	642	469	535
Financial account	514	785	2347
Foreign Direct investment	775	1192	1300
Errors and omissions	-263	-911	0
<u>OVERALL BALANCE</u>	<u>-656</u>	<u>494</u>	<u>4886</u>
Reserve Assets	656	-494	-4886
Bangladesh Bank	656	-494	-4886
Assets	-481	293	4951
Liabilities	175	-201	65

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