

MONETARY POLICY SUMMARY: JULY-DECEMBER 2013

The Bangladesh Bank (BB) has pursued a 'restrained' Monetary Policy Statement (MPS) for the first half of the current fiscal year (July to December, 2013) based on an assessment of global and domestic macro-economic conditions with an aim to bring the average inflation rate down to 7.0% and ensuring an increase in credit flow to encourage broad economic growth.

MPS Highlights

- BB set the GDP growth rate to be 6.2% which is last 10 year's average growth figure.
- The MPS aimed to bring average inflation down to 7% (using the 1995/96 base), which was 7.97% in June 2013.
- This MPS also put down its target to hold reserve money growth to 15.5% and broad money growth to 17.2% by December 2013.
- Bangladesh Bank cut its Private Sector Credit Growth target to 15.5% for December 2013 and 16.5% for June 2014 against the previous target of 18.5%. Private Sector Credit achieved 11.43% growth till May 2013.
- BB assumed government borrowing from the banking sector will remain around the FY14 budgetary figure of 260 billion taka.
- BB kept the policy interest rates (repo, reserve repo), required reserve ratios unchanged. (In MPS H2 FY13, BB cut repo rate by 50bp)
- BB's projection for few economic indicators were –

Indicators	Target for FY14	Current
Export Growth	11%	Jul-Jun, 2013 11.2%
Import Growth	9%	Jul-May 2013 -5.95%
Remittance Growth	11%	Jul-Jun, 2013 12.6%
Foreign Reserve Build-up	~USD 1bn	Jul 2013 USD 15.4bn outstanding
Lending-Borrowing Interest Rate Spread	<5.0%	Jun 2013 4.98%
GDP Growth	6.2%	Jul-Jun 2013 6.03%
Inflation	7.7%	Jun 2013 7.97%

Observations on MPS:

- No major policy stances have been taken in the declared MPS that may significantly affect the country's money market or capital market.
- Achieving inflation target may be challenging due to impending public sector wage hike, frequent strikes heading to national election and also rising inflation in India.
- GDP growth target also seems difficult to reach mainly due to sluggish investment demand before-hand the up-coming national election and tighter loan sanctioning procedures after some recent scams.
- MPS mentioned to drag down the interest rate spread, though there is no direct indication of the way to do so. Slow investment demand along with currently prevailing high lending rate may lead to further growth in the banking system's idle money.
- BB did not mention anything explicitly about the capital market in its declared MPS. However, in the MPS briefing, according to the newspapers, BB officials mentioned the capital market as complementary to the money market and also stated that BB will disburse the 1st installment of Incentive package of BDT 300 crore to ICB for affected investors within few days.

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