Policy Stance

7.25% Repo rate

5.25% Reverse Repo rate

6.00% CRR

19.0% SLR

17.2% Broad Money Growth

15.5% Reserve Money Growth

33.7% Public Sector Credit Growth

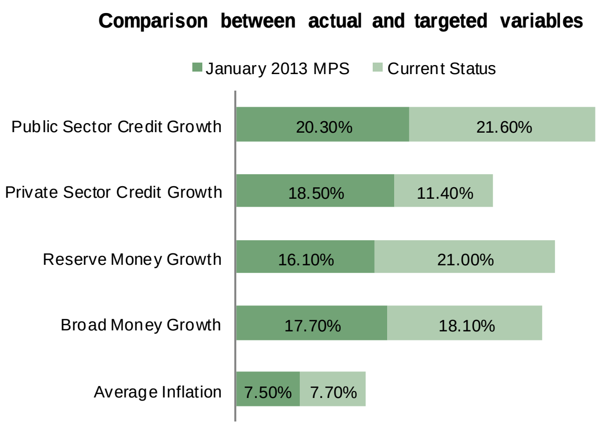
15.5% Private Sector Credit Growth

Source: Bangladesh Bank

Policy Highlights

- The H1 FY 2014 monetary policy stance aims to bring average inflation down to government's target level (7%) while ensuring sufficient credit growth.
- Repo and reverse repo rate remain at 7.25% and 5.25% respectively. CRR and SLR rates remain at current 6% and 19% respectively.
- Bangladesh Bank (BB) aims to contain reserve money growth to 15.5% and broad money growth to 17.2% by December 2013.
- The space for private sector credit growth of 15.5% for December 2013 and 16.5% for June 2014 has been kept well in line with economic growth targets.
- BB's forecast for export growth in FY14 is 11%, import growth is 9% and remittance growth is 11%.
- BB's preliminary estimate for FY 2013 real GDP growth is 6.03%. BB's forecast for FY 14 real GDP growth is around 6.2%.
- The target public sector credit growth from July to December (FY -14) is projected to be 33.70%. Overall growth of credit to public sector for FY 14 will be 19.50%.

The FY 2014 H1 monetary policy stance is designed to ensure a monetary growth path which aims to bring average inflation down to government's target level (7%) while ensuring that credit growth is sufficient to stimulate inclusive economic growth. However, monetary policy remains a neutral one.



Source: Bangladesh Bank

Policy rates remain same

Policy rates are kept unchanged. Repo rate and reverse repo rate remain at 7.25% and 5.25% respectively. CRR and SLR rates remain at current 6% and 19% respectively. It was anticipated as aggregate amount of available "loanable" excess funds in banks rose to BDT 694.99 billion in April from BDT 456.76 billion in June last 2012. BB thinks if rates are cut further, then the rising trend of inflation in recent months will be boosted amid prospects of wage pressures and rising regional inflation. The FY14 Budget includes a sizeable provision for a public sector wage rise and in the private sector the Wage Board for the garments industry has been established. Another risk to food inflation in particular stems from possible supply-side disruptions if prolonged nationwide strikes take place.

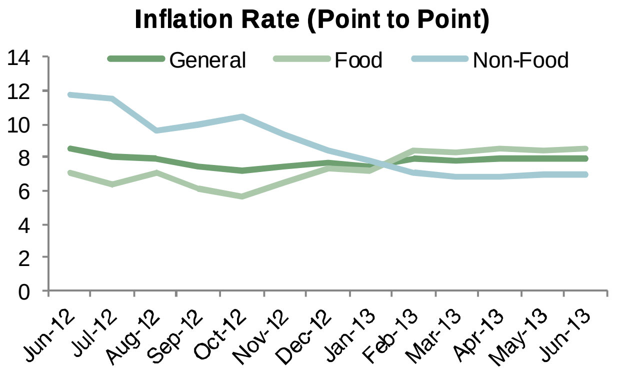
Broad and reserve money growth aim lower than the current status

BB aims to contain reserve money growth to 15.5% and broad money growth to 17.2% by December 2013. The space for private sector credit growth of 15.5% for December 2013 and 16.5% in June 2014 has been kept well in line with economic growth targets. BB thinks actual private sector credit growth may not use up all the space in the monetary program as it will depend on the investment climate up to the national elections.

Government borrowing

The monetary stance also assumes that government borrowing from the banking sector will remain around the FY14 budgetary figure of BDT 260 billion. The public sector credit growth from July to December is projected to be 33.70%. The relatively high credit to public sector growth projection for December 2013 is due to the “low base effect” for December 2012 since only 59 billion taka was borrowed in FY13H1. Overall growth of credit to public sector for FY-14 is targeted to be 19.50%.

Inflationary outlook



Source: Bangladesh Bank

Point to point inflation as of June 2013 stands at 7.97% and average inflation in June 2013 stands at 7.70%, both of which remain higher than 7.00% target in the FY-14 budget speech. However, 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 stood at 8.53% in June 2013. Non-food inflation fell from a peak of 13.96% in March 2012 to 6.79% a year later. However, point to point nonfood inflation has increased to 6.99% in June 2013.

Major risks in achieving the target inflation in FY-14 are wage increase in both the public and private sectors, which will create aggregate demand pressures and supply-side disruptions in the food industry due to prolonged nationwide strikes. These circumstances will increase nonfood inflation and food inflation respectively. Moreover, recent rise in Indian inflation could also transmit to Bangladesh as suggested by history.

External balances

On the external front, current account balance (CAB) continued to be in surplus reflecting the increasing inflows of remittances bolstered by continued export expansion and declining imports. Import growth was sluggish in FY13, partly reflecting the significant fall in food import demand, lower petroleum imports and slower demand for imports related to manufacturing output. Remittances have been buoyed by larger numbers of Bangladeshi workers moving abroad in FY12 as well as real wage growth in the Middle East following the ‘Arab Spring’ events. Remittance growth of 12.6% in FY13 is higher than the 10.2% growth in FY12. The capital account shows that foreign direct investment is projected to have increased from USD1.2 billion in FY12 to USD1.3 billion in FY13. Improved external balances are reflected in the accumulation of international reserves to over USD15 billion at the end of FY13, sufficient to cover 4.9 months of projected imports. Avoiding excessive exchange rate volatility remains a key objective of BB. The Taka appreciated by 2.6% between January 1st -June 30th 2013 and real exchange rate data indicates a marginal impact on export competitiveness.

Looking ahead to FY14, BB’s balance of payments projection assumes an export growth of 11%, import growth of 9% and remittance growth of 11%. This will add USD 1 billion to the reserve.

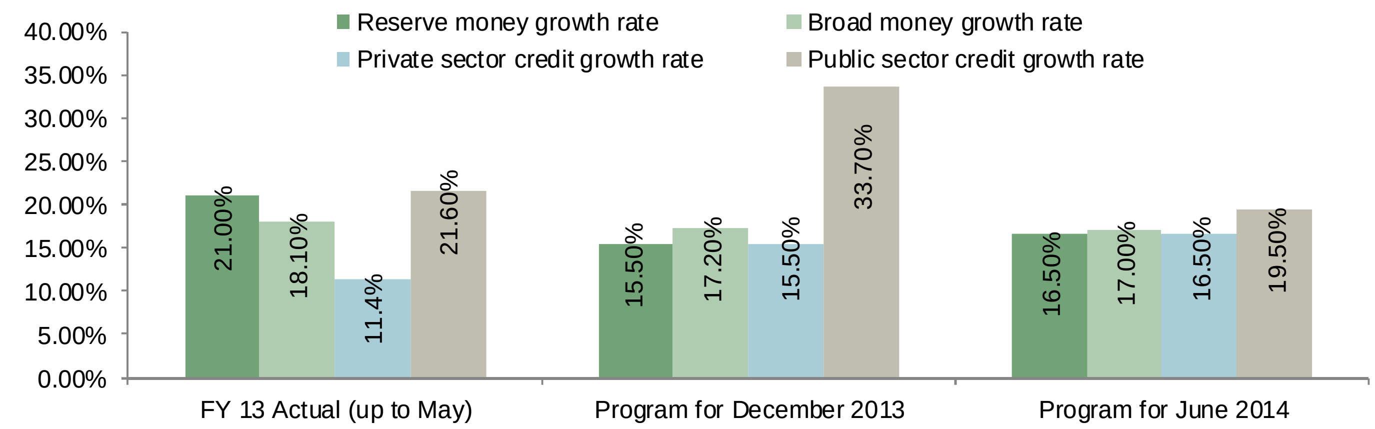
Capital Market Implication

Monetary policy for H1 FY-14 does not have much to say about capital market. If external equilibrium remains positive, this monetary policy will be accommodative for the capital market. As current private sector credit demand is low, increasing excess liquidity in the banking system will keep interest rates down and may find its way into risk assets slowly, once political transition uncertainty alleviates.

Monetary Policy: Summary

Indicators	July 2012 MPS (Target)	January 2013 MPS (Target)	July 2013 MPS for Dec 2013 (Target)	July 2013 MPS for June 2014 (Target)	Current Status
Average Inflation	7.50%	7.50%	7%	7%	7.70% (June,2013)
Broad Money Growth	16.50%	17.70%	17.2%	17%	18.10%(May ,2013)
Reserve Money Growth	13.80%	16.10%	15.5%	16.5%	21.00% (May,2013)
Repo Rate	7.75%	7.25%	7.25%	7.25%	7.25% (June 2013)
Reverse Repo Rate	5.75%	5.25%	5.25%	5.25%	5.25% (June 2013)
Special Repo Rate	10.75%	10.25%	10.25%	10.25%	10.25%(June 2013)
Private Sector Credit Growth	18.00%	18.50%	15.5%	16.5%	11.40%(May 2013)
Public Sector Credit Growth	20.80%	20.30%	33.7%	19.5%	21.6% (May 2013)

Source: Bangladesh Bank



Source: Bangladesh Bank

Economic Indicator	FY11	FY12	July- May FY12	July -May FY13
Export Growth Rate	41.5	6	7	10.7
Import Growth Rate (Shipment)	52.1	2.5	8.2	-0.4
Remittance Growth Rate	6	10.2	10.9	13.9
Overall Balance (in million USD)	-656	494	11	4429
Forex Reserve(in million USD)	10912	10364	9520	14531
Exchange Rate (Tk./USD)	74.2	81.8	81.9	77.8

Source: Bangladesh Bank

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