



It is premature to give an indication of which direction it will take though our broad objectives of sustained single digit inflation, ensuring external sector stability and providing sufficient credit to achieve growth targets will remain cornerstones of our next monetary stance.

Hassan Zaman

Chief Economist, Bangladesh Bank

Q What is your evaluation of current monetary policy? Do you think monetary policy is transmitted effectively to contain inflation?

A There are two basic ways of evaluating monetary policy. The first is whether BB was able to meet its monetary growth targets, which when you look back at our targets and then the actual money growth figures you can easily see that we were able to do so in FY12. The second approach is to look beyond the specific monetary targets and assess whether we met the broader objectives which we set. In January 2012 our core objectives for monetary policy was to improve external sector balances including reducing the volatility of the exchange rate and rebuilding foreign reserves, as well as bringing inflation to single digits. Our monetary stance contributed to achieving both of these objectives and at the end of 2012 we have a far more stable macro-economic position that we did at the start of the year. I also think that the FY12 economic growth rate of 6.3% is perfectly respectable given the sharp slowdown across all economies – Bangladesh has been remarkably resilient compared to others.

Q Point to Point Inflation rate has now approached below the target inflationary level? Is the central bank seriously thinking about reducing the policy interest rates?

A We are waiting for the December inflation numbers to come out and we will use it to firm up our policy stance which we will announce in our January Monetary Policy Statement.

Q Mark Carney, Governor of Bank of England has emphasized the idea of “flexible targeting” in which inflation could be allowed to stray from the target for longer than would normally be tolerated in order to stabilize financial markets or the economy. Do you think this new proposition of targeting growth rather than inflation is appropriate for Bangladesh Economy to come out from current stagnant situation?

A As discussed above I don't see the basis for your 'stagnant situation' claim. In FY12 growth was 6.3% and in FY13 we have recently forecasted that growth will be around this mark again, providing a range of 6.1-6.4% as our latest forecast. This in no way can be termed 'stagnant'!

Q What should be the appropriate inflationary target for Bangladesh?

A It is impossible to put a specific number around it. Clearly it won't be in the very low single digits as it is in industrialized countries and yet it should not also be in double digits as we know that high inflation has serious implications for the poor and lower middle classes.

Q In FY 2010-11 M2 growth was around 24.98 percent where average growth was around 18 percent in previous years. Do you think that this unsustainable growth in money supply solely responsible for assets bubble like in equities and real estate?

A In 2010/11, we reacted to the global economic crisis by helping stimulate the economy. This was the rationale for monetary growth being higher than average. Whether this contributed to asset bubbles or not will require more careful empirical analysis.

Q Central Bank is compelling the Non PD banks to participate in the primary auction. Are you going to revise this formula for adhering to IMF mandate in future?

A We changed the rules in 2012 so that PD Banks did not have to shoulder the responsibility alone in government auctions. We believe this more equitable distribution of these securities across all banks has helped create a more level playing field and has improved the liquidity position of the banking sector. Currently there are no plans to change this.

Q Do you think that foreign investors should be allowed to participate in the T-Bills to reduce the pressure on banking system?

A T-bill auctions are over-subscribed so I don't see why you would consider them to be a 'pressure on the banking system' – it is the longer dated government bonds for which there is less appetite.

Q How do you think the recent financial scandals have affected the financial intermediation of the country?

A Bankers are applying greater due diligence in their transactions which is good for the financial sector. However we have also asked them not to be so risk-averse that normal banking practices for good clients are hampered. So it is a question of striking the right balance and banks are moving towards this.

Q It is known that Basel II came out from the countries with saturated growth. In a growing country like Bangladesh, how do you justify the implementation of Basel III at this point?

A We are moving towards a gradual phased implementation of Basel III which will take several years. We are ensuring that this phased approach does not affect normal business activity. Basel III is important as it will strengthen our financial system making it more resilient to shocks and therefore ensuring its longer-run stability.

Q What signal do you like to provide to market participants about the coming H2 MPS for FY13? Can we expect monetary easing and lower interest rate in year of election?

A The new MPS will be launched in late January and we will develop this using the latest data and consultations with a wide-range of stakeholders including through our website. It is premature to give an indication of which direction it will take though our broad objectives of sustained single digit inflation, ensuring external sector stability and providing sufficient credit to achieve growth targets will remain cornerstones of our next monetary stance.

Interview is taken by Md. Ashaduzaman Riadb and Tanzina Ahmed Choudhury. All views and opinions expressed here are solely of the interviewed persons and neither represent the views of LankaBangla Securities Ltd. nor those of any of its associated institutions.

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