



Bangladesh Economy and Monetary Policy 2015

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Today's roadmap

- **Part A: Bangladesh Economy**
- **Part B: Monetary Policy**
- **Questions and Answers**

PART A: BANGLADESH ECONOMY

A time-series economic overview

- Global outlook
- Domestic sector
- External sector
- Price, Money, and financial sector
- Lessons for monetary policy?

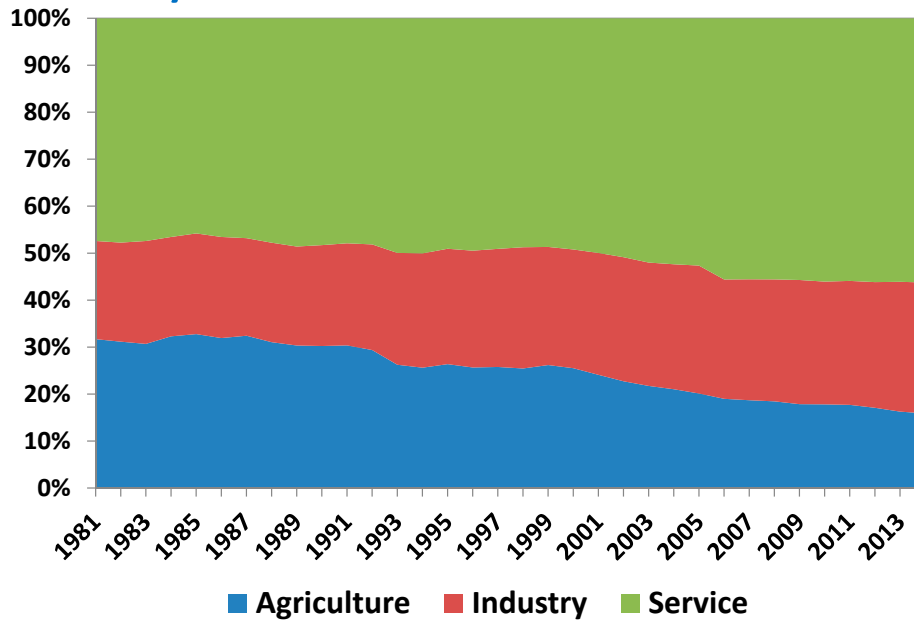
Global Outlook on growth

GDP at constant prices	Year on year % change			Projections	
	2011	2012	2013	2014	2015
World	4.1	3.4	3.3	3.3	3.8
Advanced Economies	1.7	1.2	1.4	1.8	2.3
USA	1.6	2.3	2.2	2.2	3.1
Euro Area	1.6	-0.7	-0.4	0.8	1.3
Other Advanced Economies	2.7	1.6	2.1	2.9	2.9
Emerging Market and Developing Economies	6.2	5.1	4.7	4.4	5.0
China	9.3	7.7	7.7	7.4	7.1
India	6.6	4.7	5.0	5.6	6.4
Bangladesh	6.5	6.3	6.1	6.2	6.4

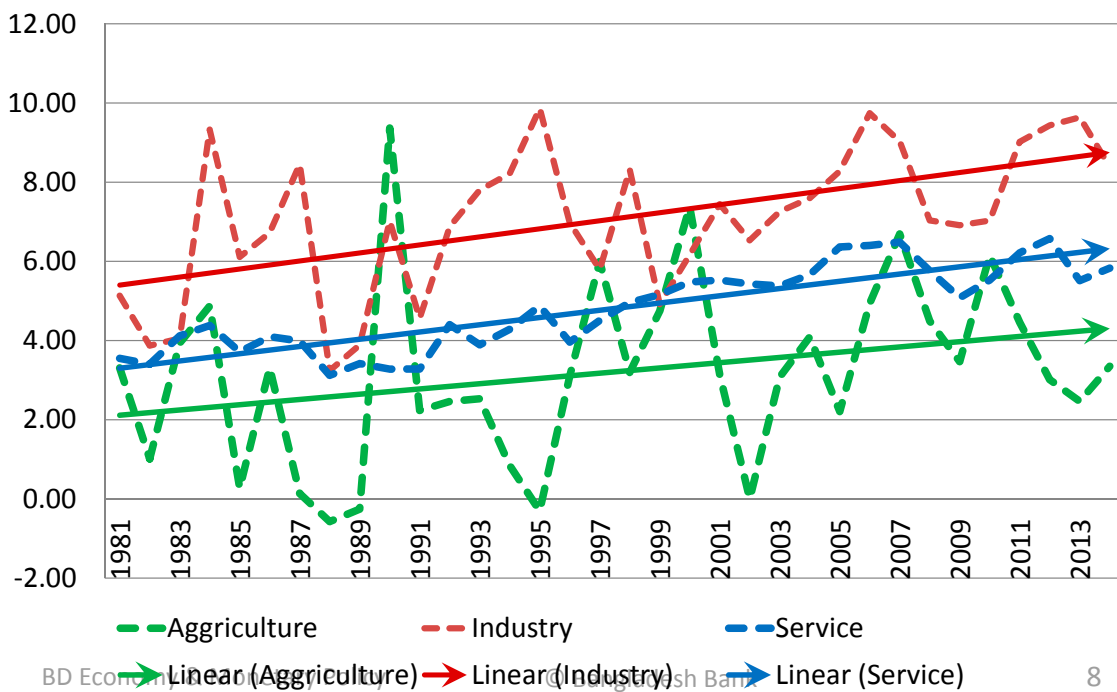
Source: IMF World Economic Outlook (October 2014)

Domestic Sector

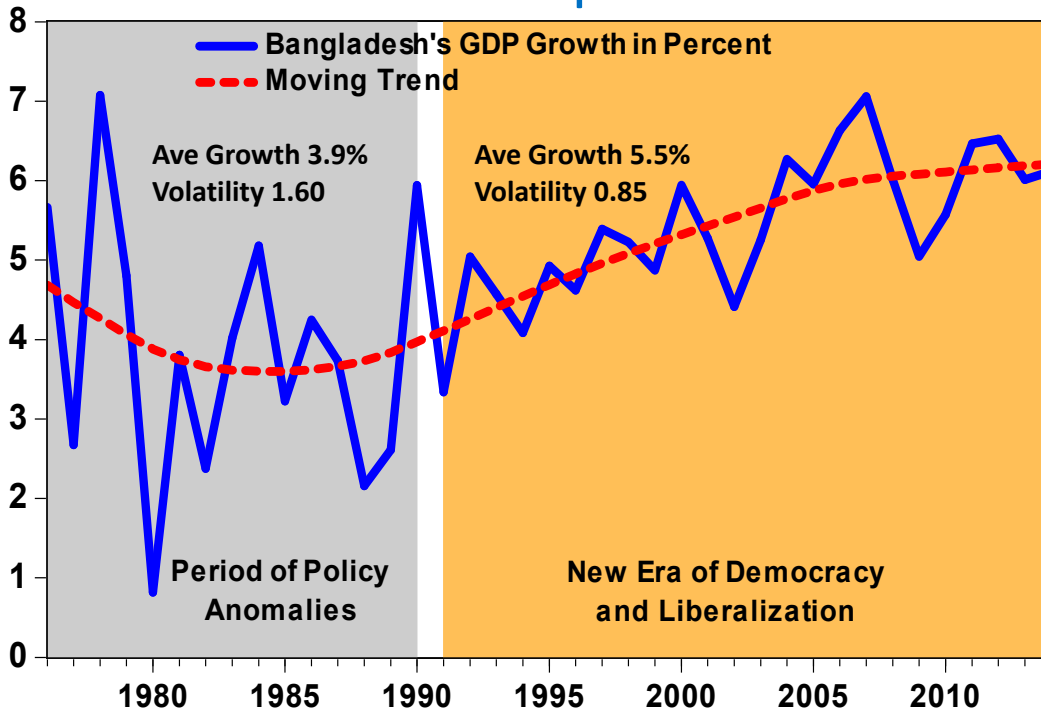
Composition of the economy: Dynamics of the 3 Sectors



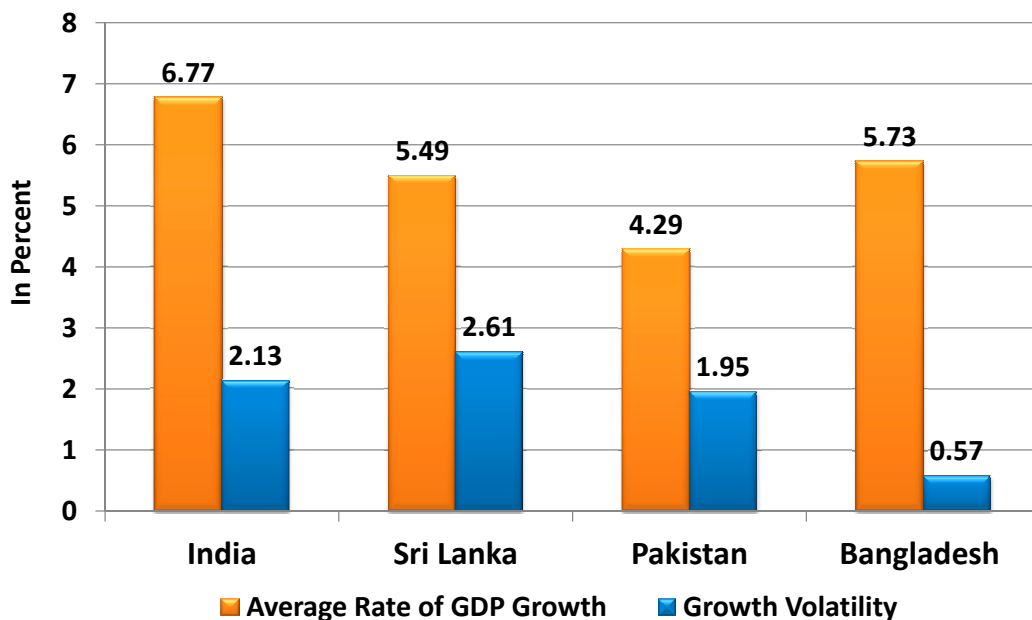
Growth of the 3 Sectors



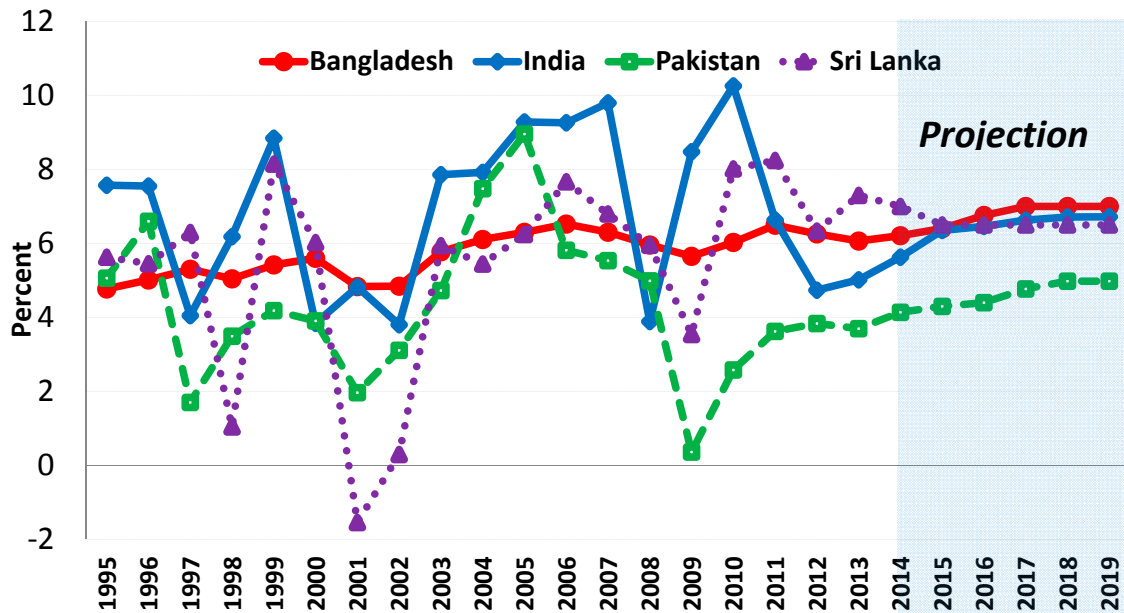
Growth earned an uptrend since 1991



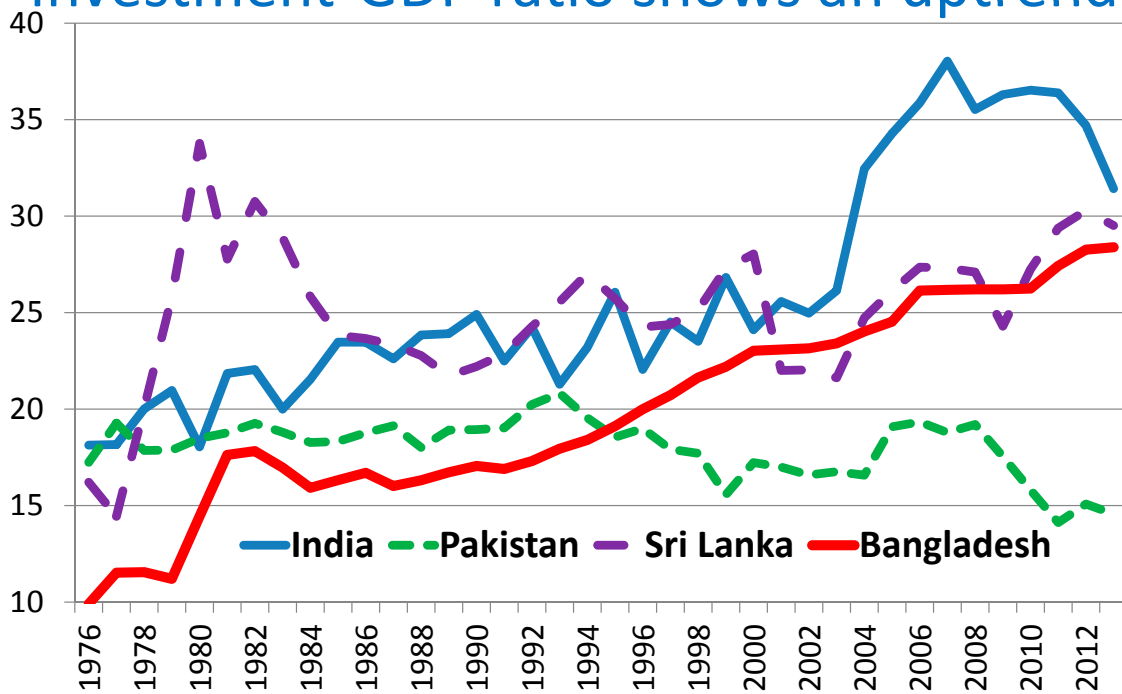
BD's growth 2nd highest in South Asia



BD's growth prospect is one of the best

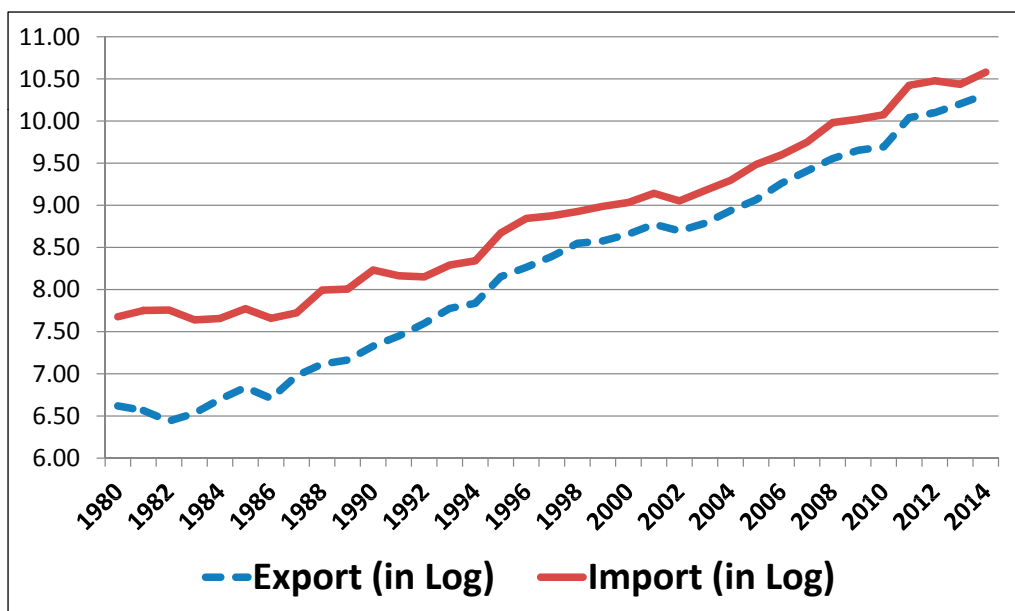


Investment-GDP ratio shows an uptrend

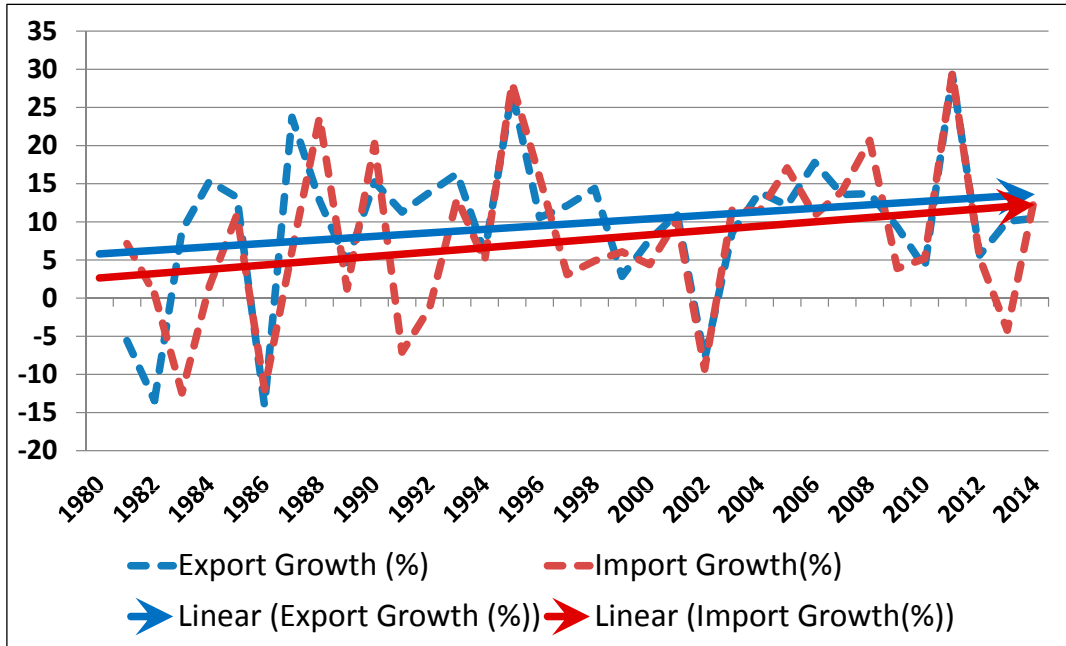


External Sector

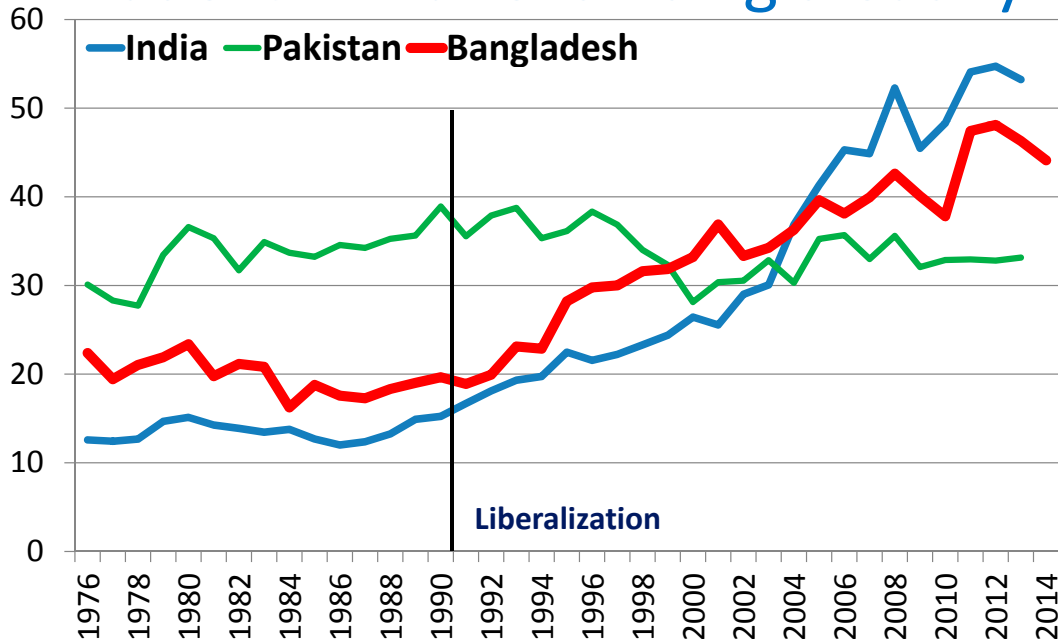
Exports and imports are rising steadily



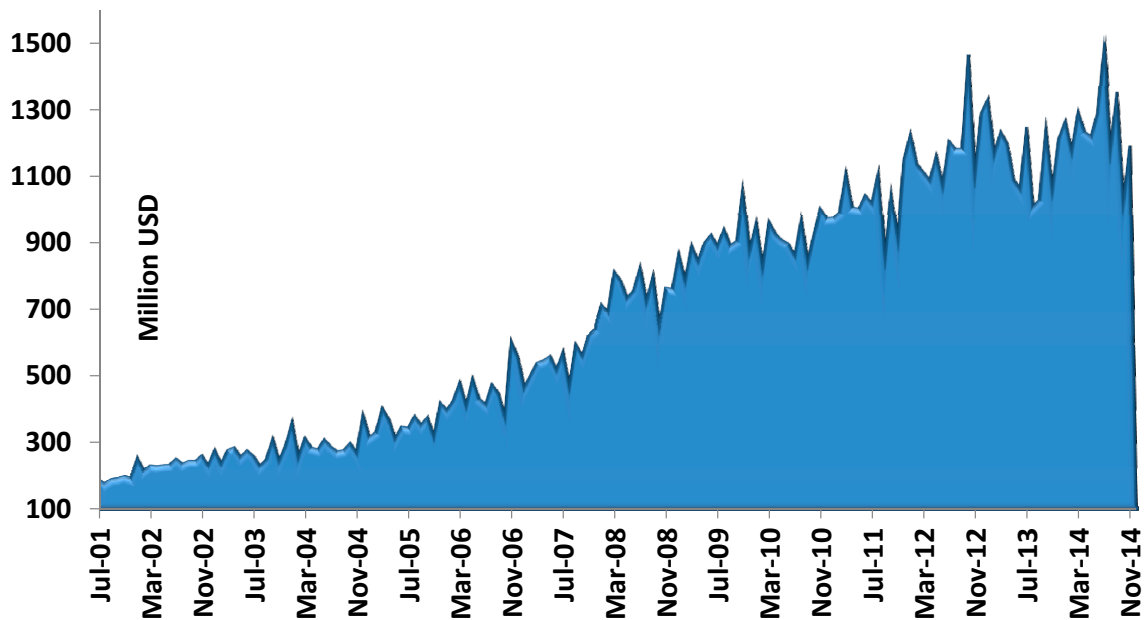
Uptrend in export and import growth



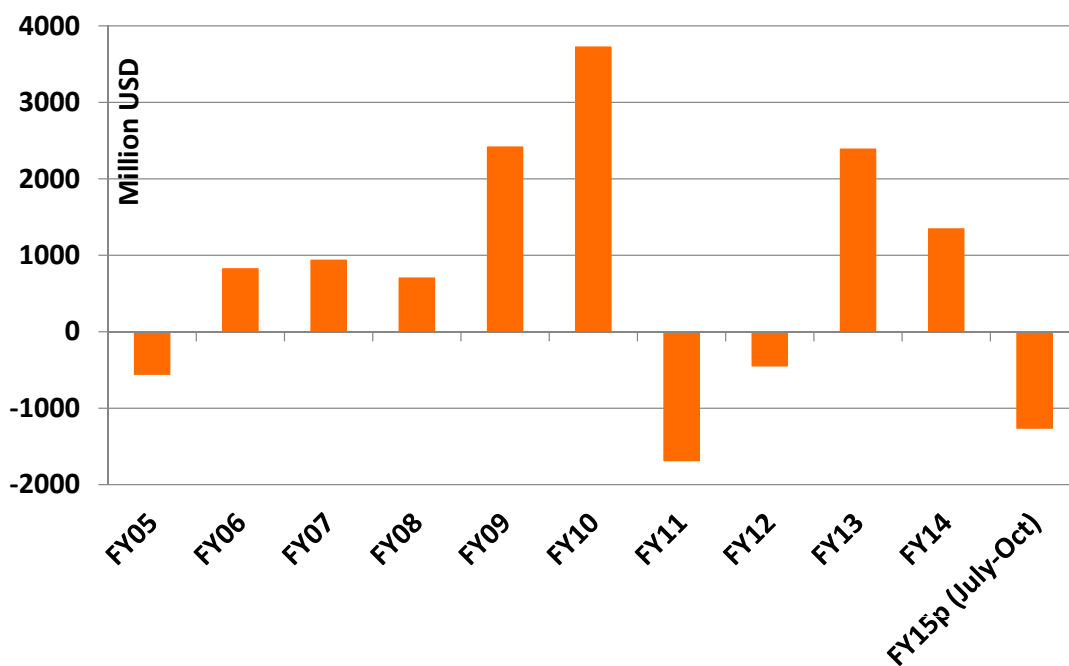
Trade-GDP ratio is rising steadily



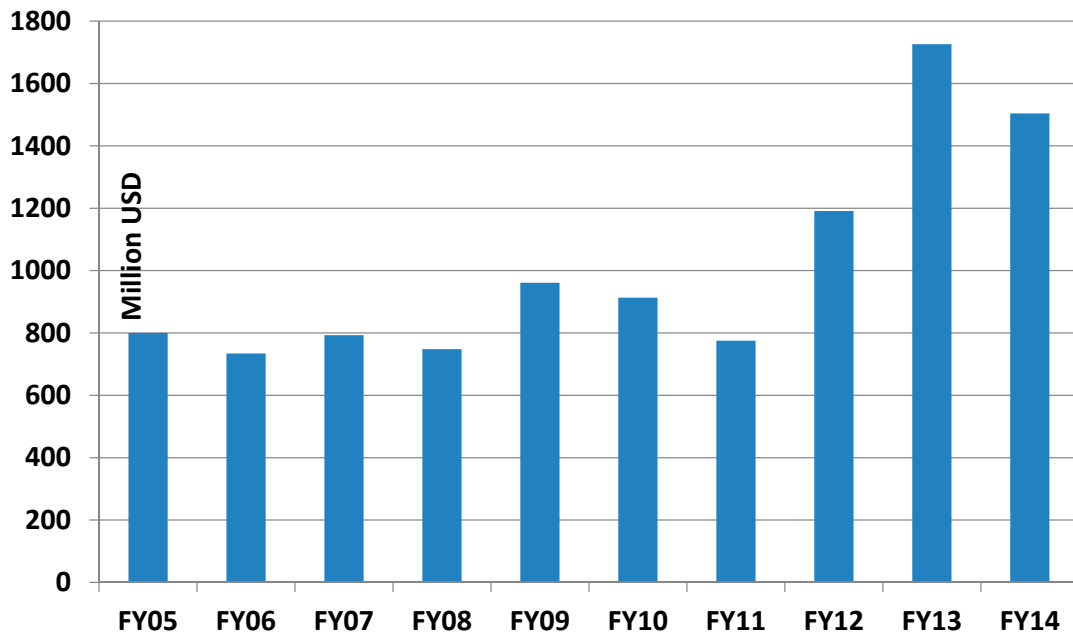
Remittances rose remarkably after 2007



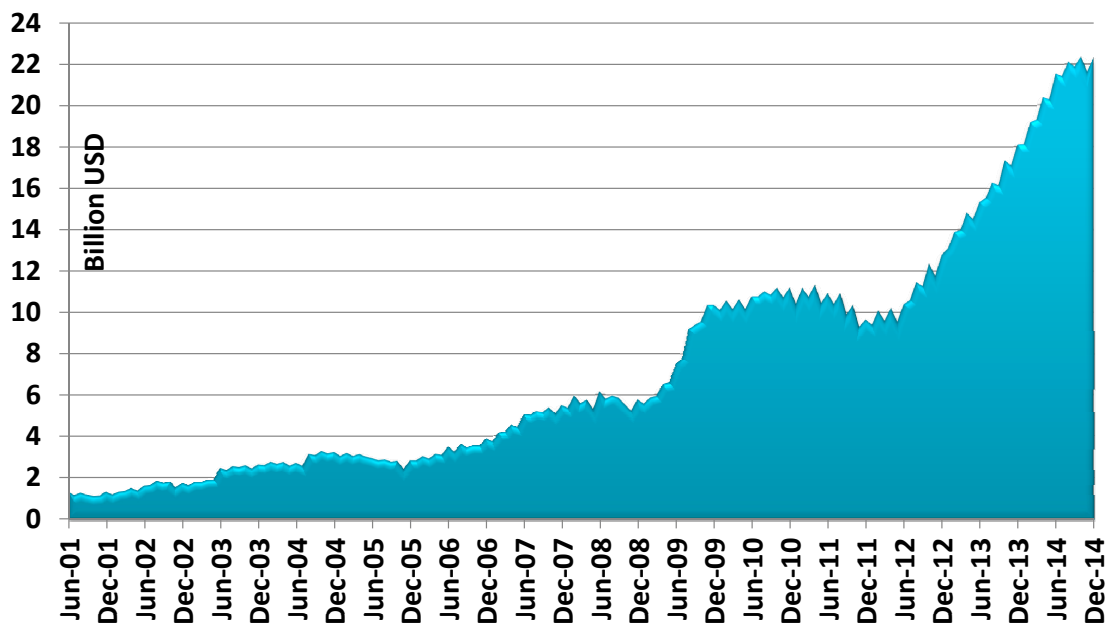
CAB shows no fixed pattern



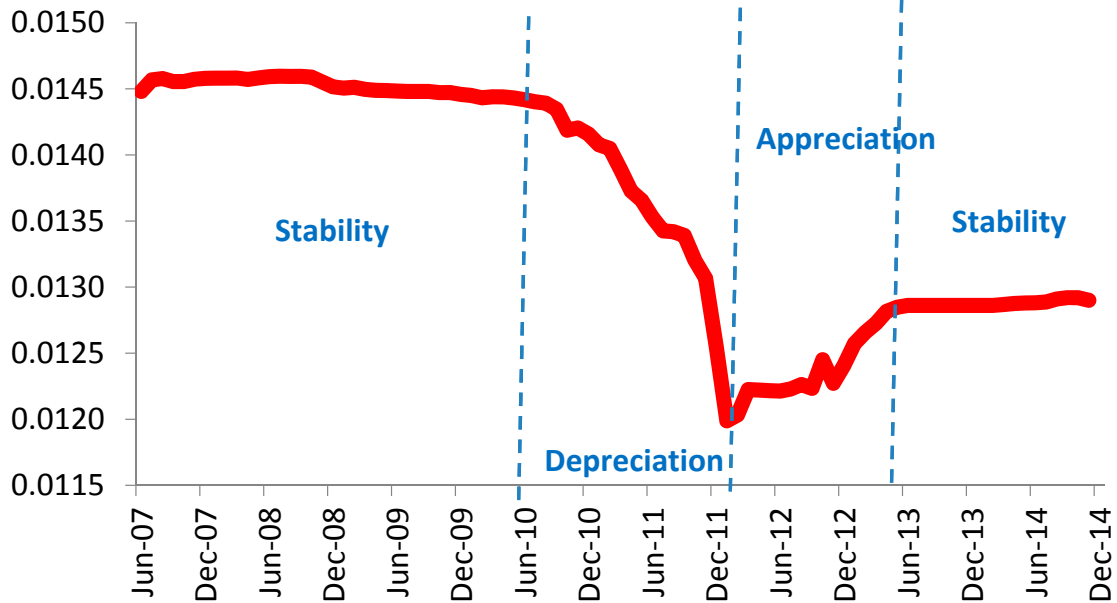
FDI inadequate: still less than 1% of GDP



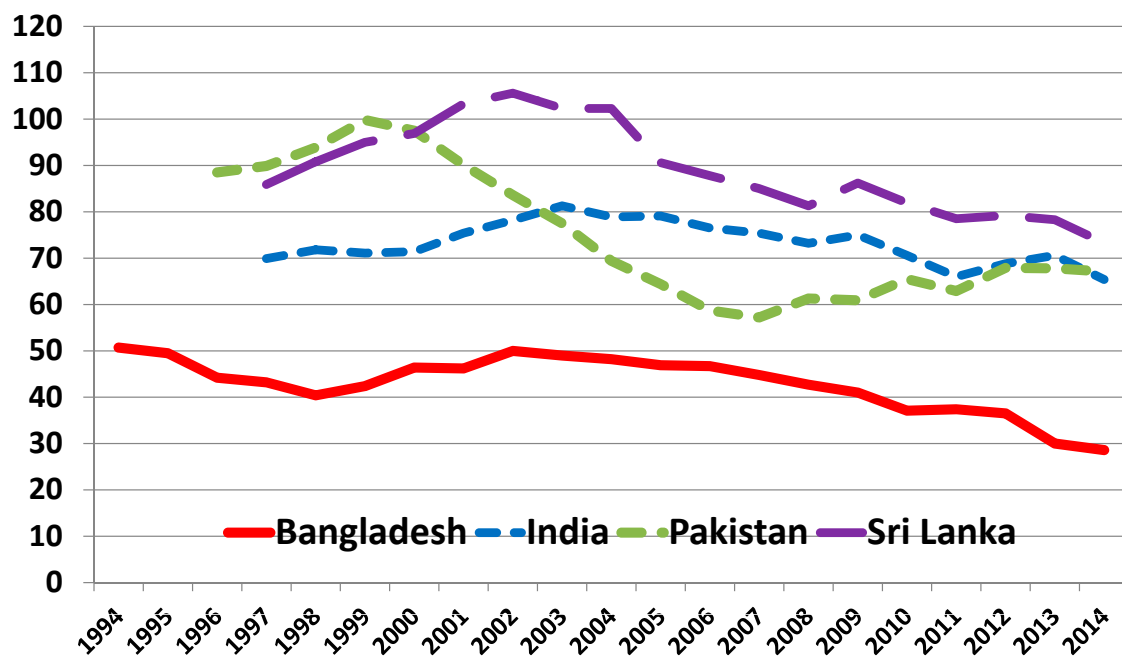
Foreign reserves cover 6 months' imports



Exchange rate: a story of all stages

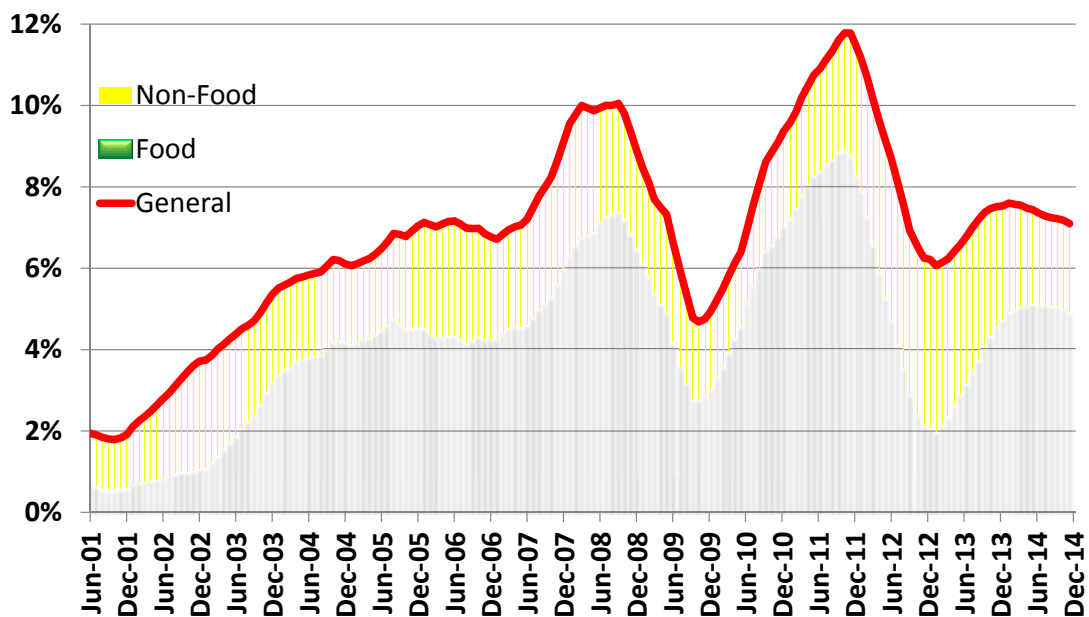


Debt-GDP Ratio: the lowest in South Asia

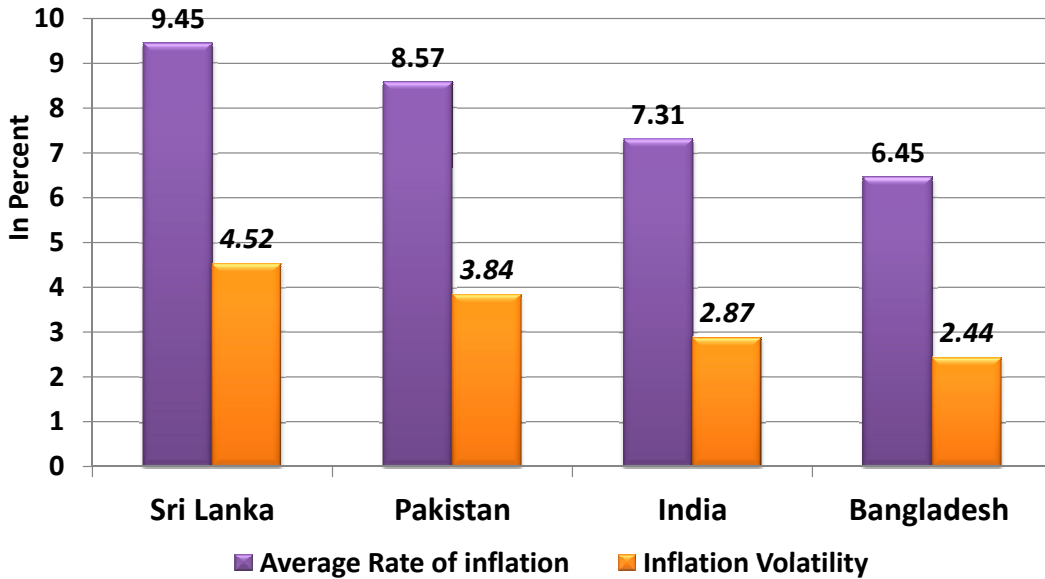


Price, Money, and Financial Sector

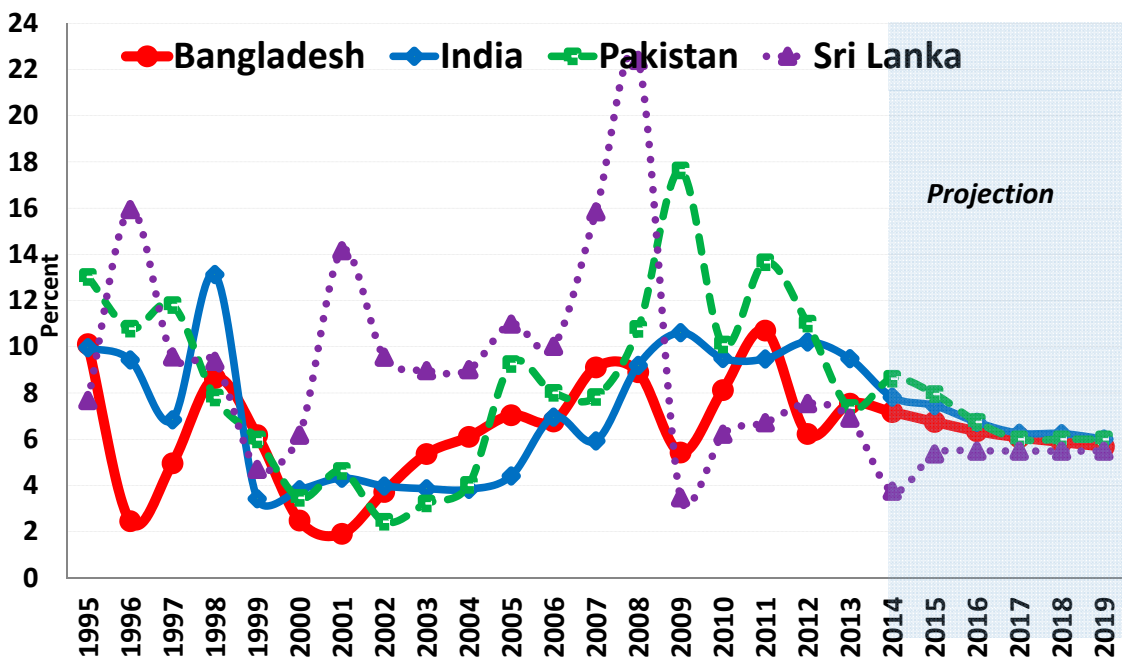
Inflation is falling since end-2011.



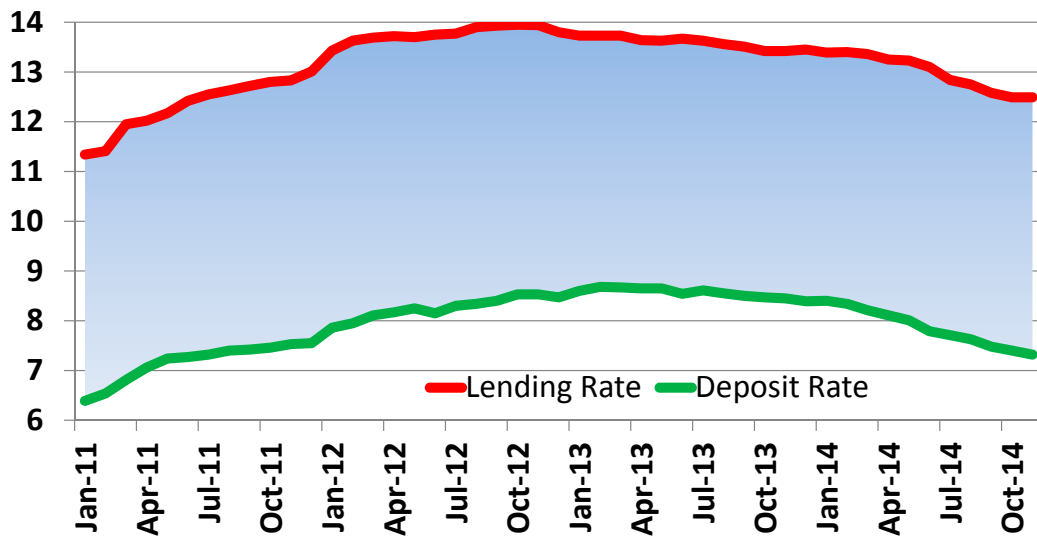
BD's inflation is the lowest in South Asia



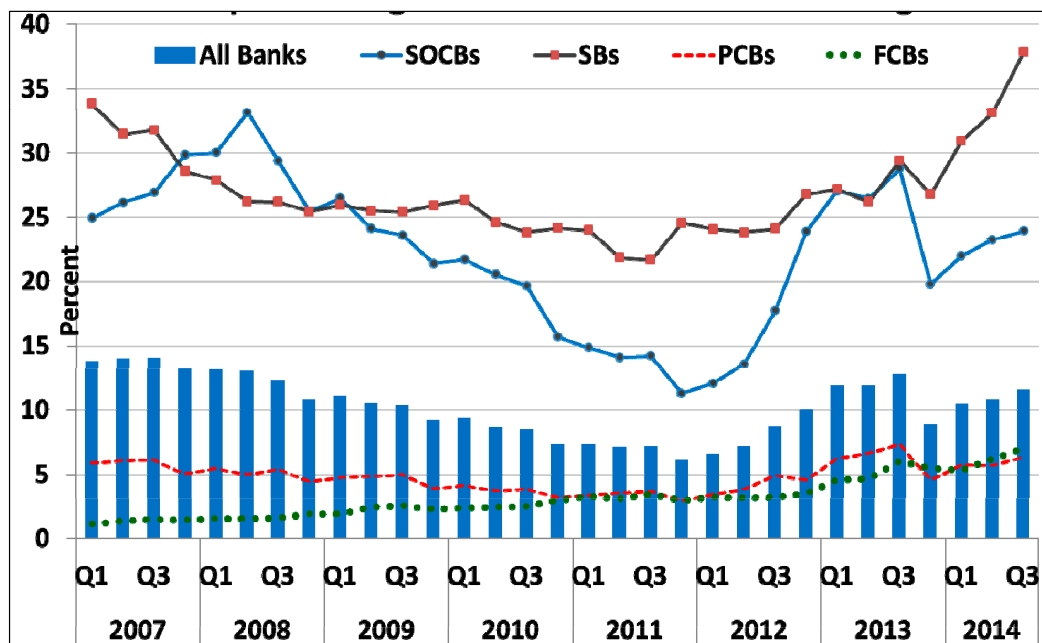
Projected Inflation shows a downtrend



Interest rates are still too high: why?



Bad loans weaken the banking sector



Capital market issues

- Immature stage: irrational movements
- High deposit rates dampen stock market.
- Transparency and regulation needed
- Knowledge economy/financial education

Lessons

- Liberalization contributed to growth acceleration and poverty reduction.
- BD's growth, inflation, exchange rates, and reserves are commendable in the region.
- BD exhibited highest amount of stability in inflation and growth in the region.

Lessons

- The interest rates are comparably high and unsustainable in a globalized economy.
- We have some space to increase our debt.
- Infrastructure, energy, and social peace are needed to make the economy grow fast.

PART B: MONETARY POLICY

Monetary Policy

- What is monetary policy?
- Why is it needed? Objectives?
- How does it work? The Star Model
- What are the main points of the latest MP?
- How is it different in different economies?
- What did we learn and what should we do?

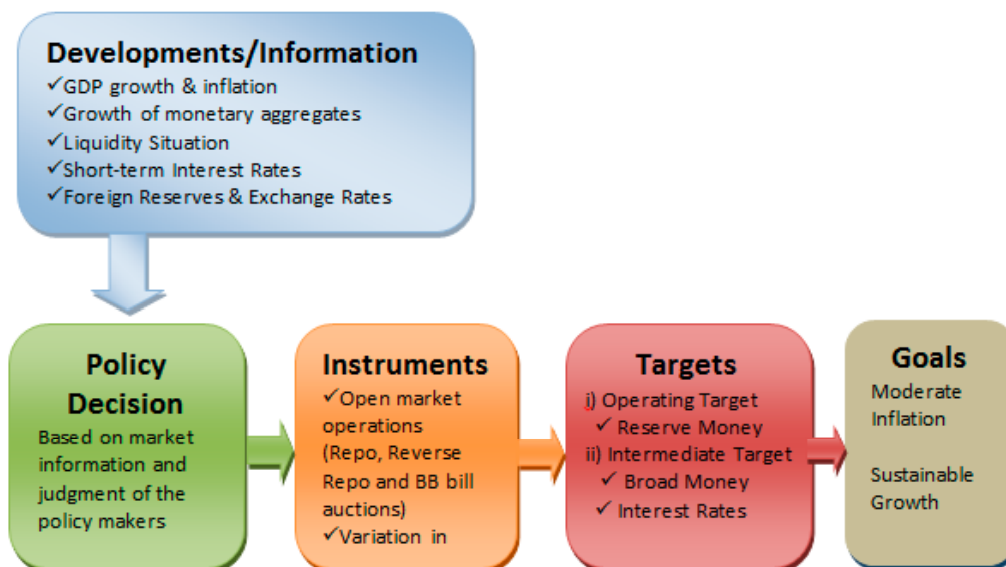
Why is monetary policy important?

- Fiscal and monetary policy: two wings of the economy bird.
- You need to grow (growth) for earning good health (development) after ensuring normal blood pressure and temperature (inflation).

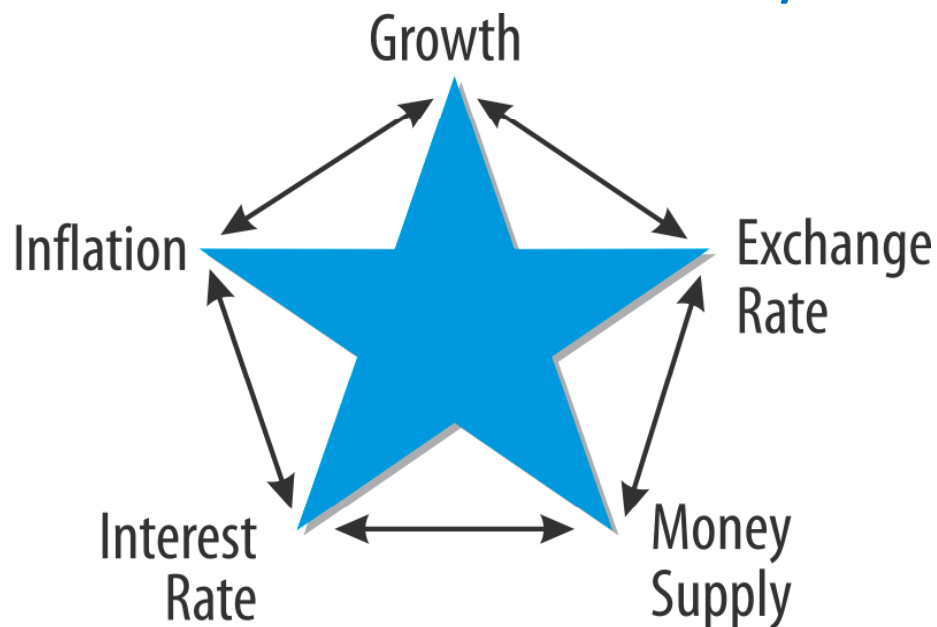
Monetary Policy Objectives

- **Price stability** is the main target of Monetary Policy. – Keynes (1923)
- **Dual Mandate (USA)**: price stability (2% inflation) and maximum employment (94%).
- BD doesn't have proper data on employment
- **Dual Mandate (BD)**: moderate inflation (5-6%) and high but sustainable growth (6-8%).

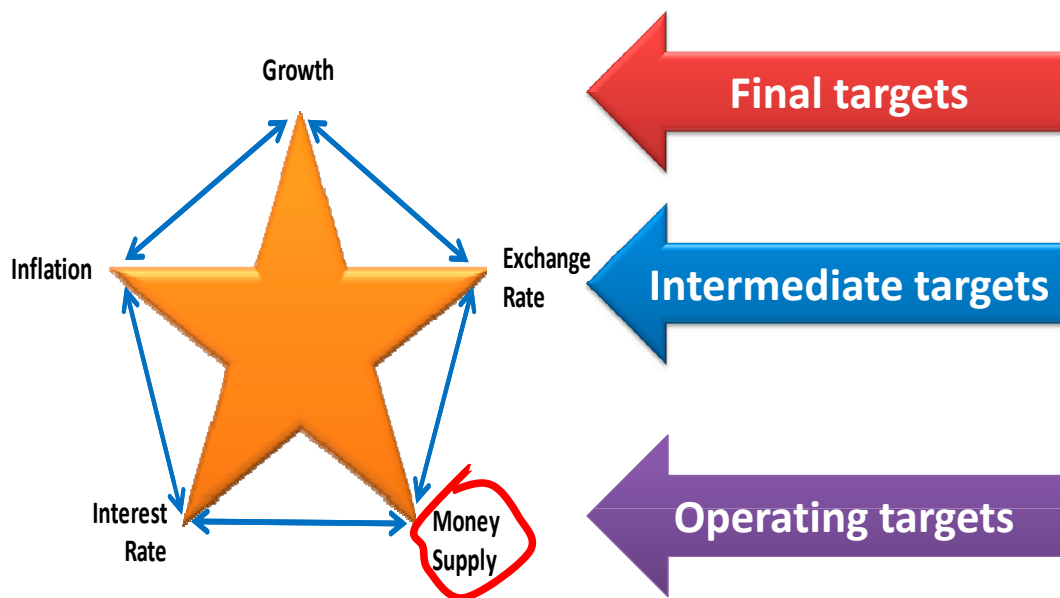
Monetary Policy Flowchart



The Star Model of Monetary Policy



How does the Star Model work?



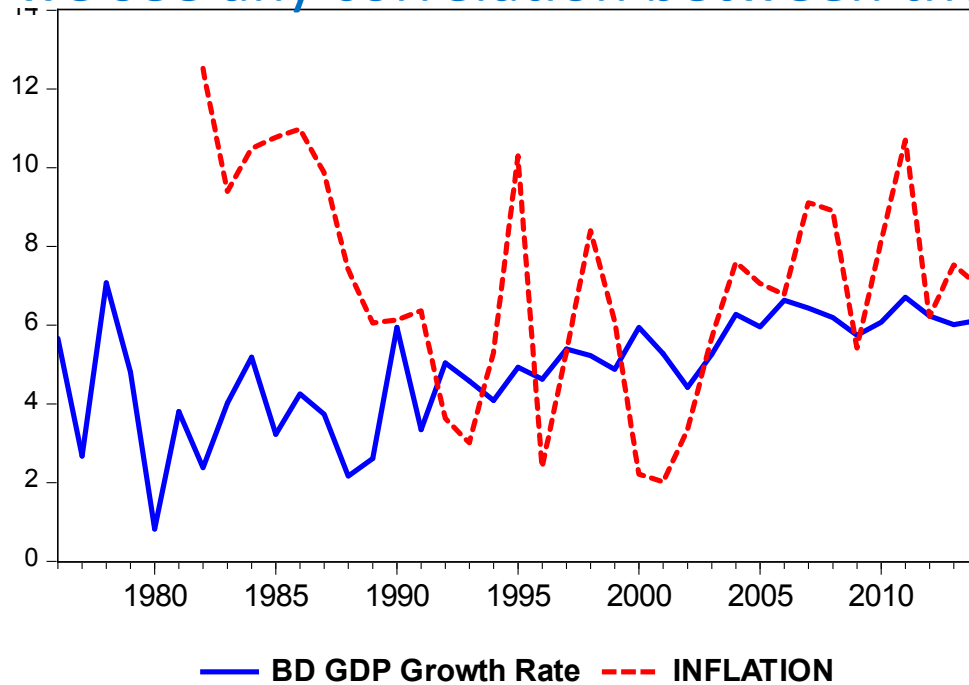
If expansionary monetary policy is taken:

- Interest rate falls => investment and consumption rise => output and growth increase.
- Exchange rate falls => exports rise and imports fall => net exports rise => output and growth increase.
- Wages rise => inflation increases (monetary channel of inflation)

Why is monetary policy difficult?

- Although the relationship between growth and inflation is complex (positive, negative, or zero), high growth is often associated with high inflation.
- Hence, achieving high growth and low inflation is the most difficult task for monetary policy.

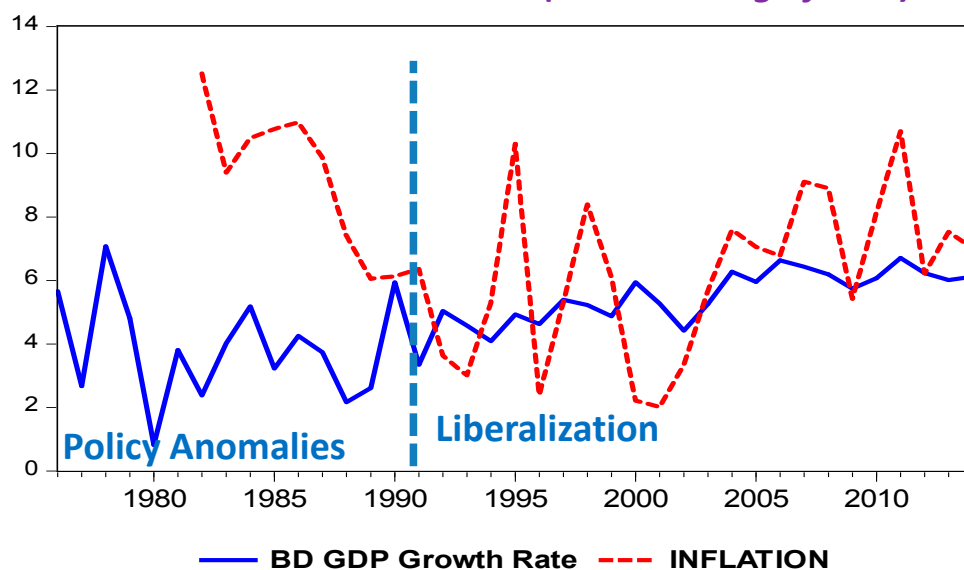
Do we see any correlation between them?



Is growth inflationary?

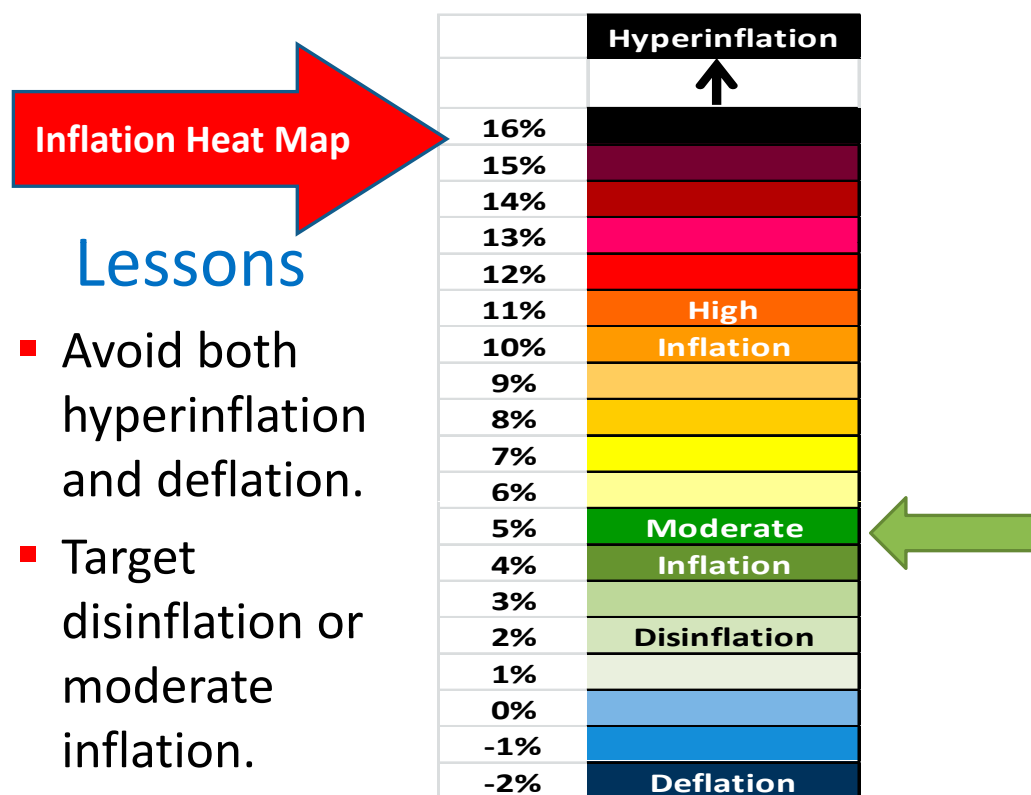
Correlation over 1976-2014: No (-12% but insignificant)

Correlation over 1990-2014: Yes (+45% and significant)



High inflation will erode growth

- If output rises => inflation rises => interest rate rises (Fisher) => investment and output fall.
- If interest rate rises => exchange rate rises=> net exports and output falls.
- A parable of self destruction



Highlights of Monetary Policy

- Inflation target 6.5% and GDP growth target 6.5-6.8% by June 2015
- Growth of reserve money at 15.9%, broad money 16.5%, and private credit 15.5%
- Lending rates and the spread to be reduced
- Exchange rate stability and healthy foreign reserves
- Inclusive and green financing for sustainable growth

Thank you.
Discussion and Questions