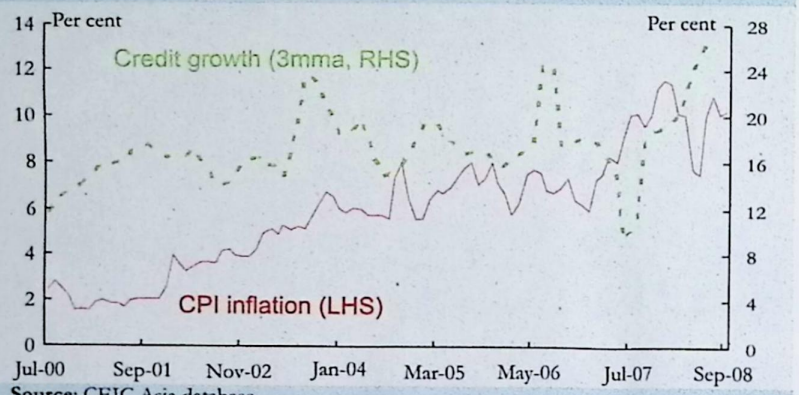
Chart 4: Credit to private sector and CPI inflation



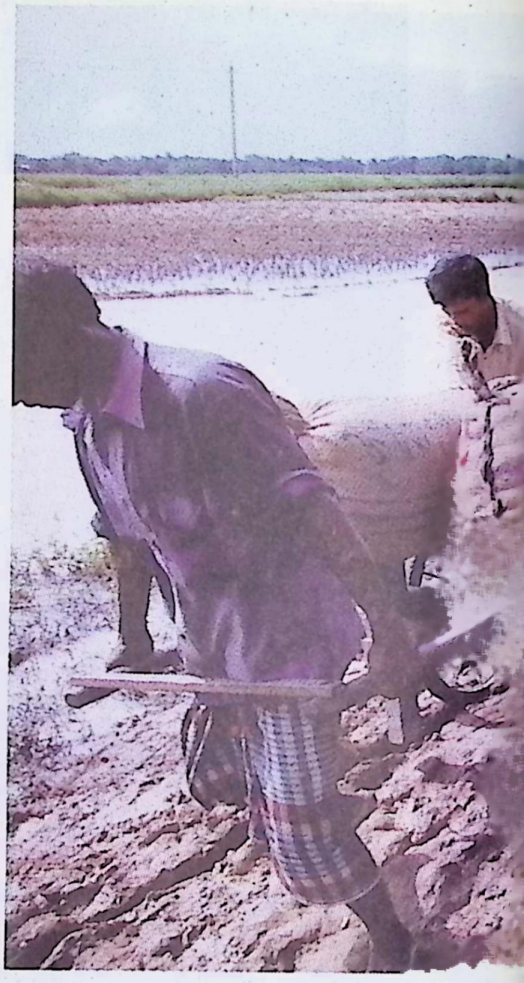
Source: CEIC Asia database.

Table 3: CPI inflation in Bangladesh

	Actual		Forecasts	
	2006	2007	2008	2009
Bangladesh Bank (a)	7.2	7.2	9.9	8.5-9.0
Consensus (a)	6.8	9.1	9.7	7.8
IMF	7.1	9.1	10.1	10.0
ADB (a)	7.2	7.2	9.9	9.0

(a) Financial year. Source: Mujeri and Shahiduzzaman; Consensus Forecasts; IMF WEO; ADB ADO.

International agencies such as the IMF or the ADB have often argued that the monetary stance taken by the Bangladesh Bank is too accommodative, pointing to strong credit growth as evidence.



from the US do seem to be consistent with the Wal Mart Effect -- as the economy has soured, consumers seem to have moved towards the cheaper end of the market.

To what extent these factors help avoid an export slump remains to be seen. An additional complicating factor may be exchange rate movements. The US dollar has appreciated sharply, and since the taka is in de facto peg with the dollar, it has appreciated too against other currencies. Taka has gained about 10 per cent against both the euro and the sterling since April. Presumably, at some point the depreciation will start affecting the exporters. For now, however, the Bangladesh Bank's focus remains to be on the fight against inflation.

Inflation

Our central bank is not the only policy agency forecasting inflation to remain stubbornly high, even though market economists seem to think inflation will ease in the coming period (Table 3). Who is right?

International agencies such as the IMF or the ADB have often argued that the monetary stance taken by the Bangladesh Bank is too accommodative, pointing to strong credit growth as evidence (Chart 4). More alarmingly, there also appears to be a somewhat of a lagging relationship between credit growth and inflation -- a rise in credit growth today shows up in higher inflation a year from now. This is particularly worrying because it means that even if the banks were to tighten credit flow right away, there is probably already too much money in the system to keep inflation high.

While the credit acceleration suggests that the Bangladesh Bank is right about remaining vigilant against inflation, there are also grounds for optimism. The imminent recession has resulted in sharp falls in oil prices -- a barrel of oil now costs less than $50, compared to nearly $150 in July. As oil prices tumble, all else being equal, inflation should ease.

Another factor that should help with the fight against inflation is the recent appreciation of taka against the Indian rupee. Last year, I argued that taka's depreciation against the rupee contributed to rising food price inflation in Bangladesh. Since that time, taka has appreciated by as