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BB spells out five steps to keep economy on track

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The central bank has announced five steps that include hiking interest rates on savings certificates, mobilising more external and domestic resources and rationalising public expenditures to implement its monetary policy.

The plans came as Bangladesh Bank Governor Atiur Rahman yesterday announced the bank's Monetary Policy Statement for the second half of the current fiscal year, which tightened the policy further to curb soaring inflation and reduce pressure on rocketing exchange rate.

"Ensuring positive real interest rates will strengthen monetary transmission channels, curb non-essential imports, stabilise external reserves and lead to an equilibrium in exchange rate," said the governor at a press briefing at his office in Dhaka.

First, the central bank said there is scope for increasing private sector credit growth for productive investments beyond the programmed level if there is a reduction in growth in credit to the public sector.

The BB also said it plans to reduce the demand for consumer loans to increase the share of lending going towards growth-enhancing investment purposes.

"We will discourage investment in risky sectors. We, however, do not mean investment in stockmarket as risky," Allah Malik Kazemi, a senior consultant of the central bank, told journalists after the briefing.

"There are many loans in the SME (small and medium enterprise) sector that are risky."

Second, the BB will ensure liquidity support for banks, so that productive credit growth is not crowded out. In future, the government's borrowing calendar will need to be modified to allow for a higher percentage of debt auctions in Treasury bills, as the long dated Treasury bonds lack liquidity in the absence of an active secondary market.

Third, while the interest rate regime will remain liberalised, the central bank will focus more on monitoring interest rate spreads so that they remain below 5 percent except for SME lending (as the costs of SME operations are higher) and consumer lending.

Fourth, the central bank said, in order to reach the new external sector equilibrium, overall import demand needs to be rationalised. Opening of letters of credits for non-essential and luxury items will be discouraged, while those for essentials such as petroleum will be unhindered.

The BB said a new coordination committee would aim to ensure that taka liquidity is provided ahead of time so that banks can purchase the needed foreign exchange on the inter-bank market on a regular basis.

As a result, lumpy Bangladesh Petroleum Corporation payments can be met instead of approaching the BB for foreign exchange.

Fifth, the central bank will take further steps to improve the stability and outreach of its financial system.

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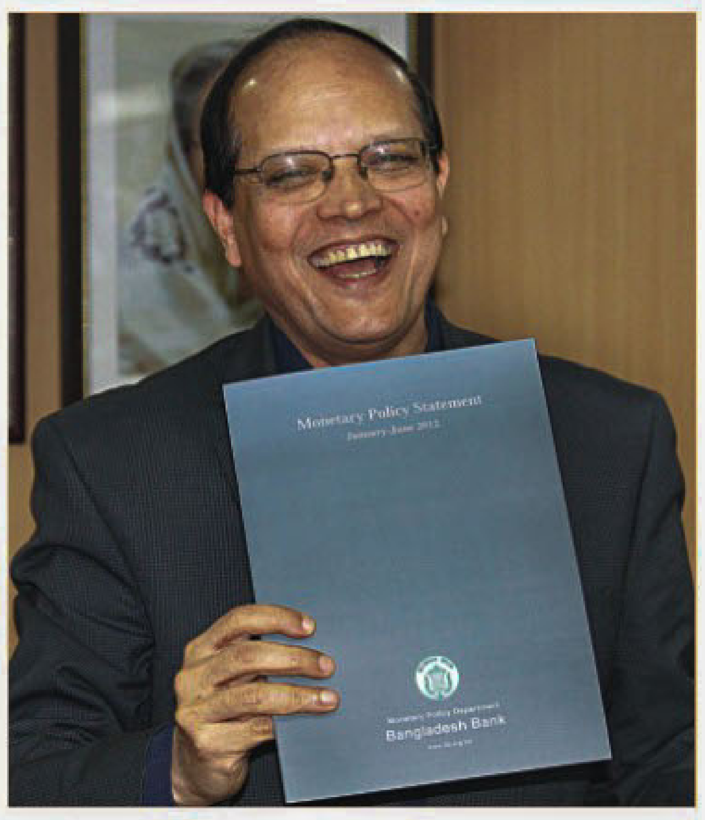

Atiur Rahman

Economists back BB's strict stance

Businessmen say curbs on credit to hurt investment

SOHEL PARVEZ

Bangladesh Bank's tightened monetary policy received applauds from economists, but businesses expressed concerns that the target to curb credit to the private sector would discourage investments.

The reactions came after the central bank unveiled its Monetary Policy Statement with an aim to bring down inflation by reining in credit growth.

The economists said, other than targeting growth in money supply, scope for the BB to contain inflation and reduce external imbalance was limited in the face of a slowdown in exports, heavy depreciation of the taka and dwindling foreign exchange reserves.

But the success of the BB in attaining its targets will depend on a squeeze in government's borrowing from banks.

Here, the decision lies with the hands of the government, its fiscal policy and ability to ensure speedy disbursement of foreign aid, they added.

"Monetary policy alone is not sufficient. The fiscal policy should share the burden of adjustment as well," said Ahsan H Mansur, executive director of Policy Research Institute.

In the first six months of the current fiscal year, credit to the public sector soared by 62 percent.

Mansur said the government's borrowing from the banking system needs to be contained urgently.

"We have to anchor domestic credit as a whole. This can only be achieved with active support from the fiscal side managed by the finance ministry."

In the MPS for January-June, the BB aims to bring down credit growth to government to 31 percent by June this fiscal year. It also targets to restrain credit growth to the private sector to 16 percent by June down from 18 percent in July-December.

Mustafizur Rahman, executive director of the Centre for Policy Dialogue, said the BB might achieve its target on private sector credit growth. But it will be difficult to bring down government borrowing in line with the BB target, he said.

"The major problem remains here," he said. "Achieving that target depends largely on the government itself."

"The success of the policy depends on the government's fiscal policy and economy-wide policy," Rahman said, pointing to increased revenue generation by the government to finance budget deficits and government's ability to mobilise and utilise foreign aid.

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Atiur dispels CRR rumour

STAR BUSINESS REPORT

The central bank yesterday refuted rumours on slashing the cash reserve ratio (CRR), which is the amount of cash that banks have to hold in reserve.

"It will be considered only after the inflation rate comes down to 7-8 percent," Dr Atiur Rahman, the central bank governor, told reporters at the launch of the monetary policy statement for January-June.

It was rumoured in the money and capital markets that Bangladesh Bank would reduce the CRR by 50 basis points to 5.5 percent after India's central bank did so on Wednesday. The stockmarket bounced back on that day.

If the CRR is reduced by 50 basis points, nearly Tk 2,000 crore will come into the cash-strapped banking industry, according to the central bank.

But inflationary pressure troubles BB.

The point-to-point inflation came down to 10.63 percent in December from nearly 12 percent in September, mainly due to a decline in food prices.

"However the fact that non-food inflation is still steadily increasing suggests that the focus on bringing inflation to a single digit needs to continue," Rahman said.

Tight liquidity forced banks to collect deposits at up to a 15 percent rate to maintain the loan-deposit ratio within 85 percent. But banks lent more than the regulatory limit and are now trying to match it by increasing deposits.