The presentation

- The context: central bank mandates
- Growth-inflation-employment nexus: the challenges in Bangladesh
- The BB & its monetary policy stance (MPS)
- Financial sector: its deepening and development
- Financial inclusion (FI) initiatives: reach and rationale
- Summary remarks
THE MANDATE OF BANGLADESH BANK (BB)

- “BB...is mandated by its charter to promote and maintain high level of output, employment and real income, ....besides the orthodox mandates of preserving monetary and financial stability”;

BB, Developmental central banking in Bangladesh, (n.d.)

PRICE STABILITY: A SINGLE MANDATE FOR CENTRAL BANKS?

- “getting prices right” as macroeconomic policy priority? The growth-inflation-employment nexus
- Employment objective “dropped off the direct agenda of most central banks”; Epstein (2007)
- The onset of “inflation targeting “; Hammond (2012)
- The debate in flux; Blanchard et al. (2010); Bernanke (2003); Frankel (2012) ; Subbarao(2013)
THE CONTEXT OF DEVELOPING COUNTRIES

- “Imprecise control” on inflation targets
- Weak monetary structures and transmission mechanisms; Mishra et al (2010); Montiel (2014)
- Development of financial structures: critical for price stability; Subbarao (2013); Rummel (2012)

PRICE STABILITY, GROWTH AND EMPLOYMENT: THE CHALLENGES IN BANGLADESH

- The growth challenge (8 and 10% by 2015 and 2021 respectively): I/GDP as binding constraints? Mujeri (2014)
- Inequality and incidence of vulnerable population
- The employment challenge
- An employment-friendly growth for “inclusion” and structural transformation
STRUCTURAL TRANSFORMATION IN BANGLADESH ECONOMY

SECTOR COMPOSITION OF EMPLOYMENT

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Agriculture</td>
<td>48.85</td>
<td>50.77</td>
<td>48.10</td>
<td>47.50</td>
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<tr>
<td>Manufacturing</td>
<td>10.06</td>
<td>9.49</td>
<td>10.97</td>
<td>12.38</td>
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<tr>
<td>Construction</td>
<td>2.87</td>
<td>2.82</td>
<td>3.16</td>
<td>4.81</td>
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<tr>
<td>Services</td>
<td>38.79</td>
<td>36.15</td>
<td>37.55</td>
<td>35.30</td>
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BANGLADESH: GROWTH AND PRICE STABILITY

GDP growth

Inflation trends

6% plus average real GDP growth

Inflation at single digit
THE MORE RECENT PERIOD REGISTERS A POSITIVE RELATIONSHIP BETWEEN INFLATION AND GROWTH

BANGLADESH: GROWTH-INFLATION RELATIONSHIP 2000-2013

\[ \gamma = 0.1665x + 4.8547 \]
\[ R^2 = 0.6092 \]

Source: IMF WEO 2014

SOME FEATURES OF INFLATION IN BANGLADESH

- Inflation barely crossed double-digit levels (since 1990)
- Moderate inflation appears not incompatible with growing GDP (and a stable exchange rate)
- Inflation is as much a problem of aggregate demand as of supply constraints (food/fuel price inflation)
BANGLADESH BANK (BB) & THE MONETARY POLICY STANCE (MPS)

- Like most counterparts in South Asia, BB takes price stability as key ultimate target;
- M2 and RM “intermediate” and “operational” targets
- i.e. MPS largely conducted through credit/deposit channel
- And somewhat eclectic interventions in the F/Exch market.

TRENDS IN GROWTH OF RESERVE MONEY (RM), BROAD MONEY (M2) AND MONEY MULTIPLIER

BANGLADESH: TRENDS IN GROWTH OF RESERVE MONEY (RM), BROAD MONEY (M2) AND MONEY MULTIPLIER

Source: Bangladesh Bank
CALIBRATING CREDIT/DEPOSIT GROWTH AND MONEY SUPPLY

M2 AND PRIVATE SECTOR CREDIT GROWTH (LEFT); M2 AND DEPOSIT GROWTH (RIGHT)

Source: Bangladesh Bank Statistics (MPD)

MPS TARGETS AND ACTUALS (1)

- Close correlations between M2 and credit/deposit can be consistent with target “misses”

Various factors:
- Weak transmission
- Food vs. non-food inflation
- Is there a tangible “imported inflation?”
- Other factors: fiscal dominance (Mansur, 2014); trade imbalances; exchange rate movements.
MPS TARGETS AND ACTUAL (2): INFLATION, GDP AND M2

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>M2 Growth</th>
<th>GDP</th>
<th>Inflation</th>
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<tbody>
<tr>
<td>Source</td>
<td>Actual</td>
<td>Target</td>
<td>Actual</td>
</tr>
<tr>
<td>2008</td>
<td>17.63</td>
<td>16.00</td>
<td>8.20</td>
</tr>
<tr>
<td>2009</td>
<td>15.17</td>
<td>17.50</td>
<td>5.70</td>
</tr>
<tr>
<td>2010</td>
<td>23.44</td>
<td>15.50</td>
<td>6.30</td>
</tr>
<tr>
<td>2011</td>
<td>11.34</td>
<td>14.30</td>
<td>6.70</td>
</tr>
<tr>
<td>2012</td>
<td>17.99</td>
<td>17.00</td>
<td>6.50</td>
</tr>
<tr>
<td>2013</td>
<td>16.71</td>
<td>17.70</td>
<td>7.20</td>
</tr>
</tbody>
</table>

* Source: Bangladesh Bank Time Series Data, From www.bangladesh-bank.org
** Consumer Price Index and Rate of Inflation for National (Base: 1995-96 = 100), Internal and Islamic Economics Division, Research Department, BB.

FORTIFYING THE MPS

- Getting towards a dependable short-term policy rate
- Addressing the weak transmission mechanisms; Mishra et al (2010); Montiel (2014)
- Strengthening the financial structures; financial sector development; Subbarao (2013)
TRANSMISSION MECHANISMS: MAJOR WEAKNESSES AS IN MOST DEVELOPING COUNTRIES

- Weak institutional and regulatory frameworks
- Non-competitive banking sector
- Limited role of securities markets
- “A small degree of de facto integration with international capital markets”, Montiel (2014)

SOME CURRENT ANOMALIES IN MONETARY SECTOR AFFECTING TRANSMISSION

- High non-performing loans (NPLs)
- High interest rate spreads
- Excess liquidity
- High proportion of classified loans (esp SBs)
LARGE VARIATIONS IN PERFORMANCE AND RISK-MANAGEMENT BY BANK GROUPS

COMPARATIVE PERFORMANCE : INTEREST RATE SPREAD (LEFT); NON-PERFORMING LOANS 2012 (RIGHT)

Source: Scheduled Bank Statistics (various issues), Bangladesh Bank

DEEPENING OF FINANCIAL SECTOR (2001-2013)

- M2/GDP (0.34 to 0.59)
- Total credit/GDP (0.33 to 0.55)
- Private sector credit/GDP (0.26 to 0.44)
- However, further integration/strengthening of financial sector segments needed (formal/informal; rural/urban)
STRENGTHENING THE FINANCIAL STRUCTURE THROUGH *INTER ALIA*

- Enhanced risk-management culture in financial intermediation
- Mechanism for debt-restructuring and debt resolution
- Increased medium and long-term financing (e.g. industrial and housing finances)
- Reducing political influences on financial discipline
- Further integration of financial sector segments (formal; non-formal)
- Widening the net: Financial Inclusion (FI)

FINANCIAL INCLUSION: A BURGEONING GLOBAL PRACTICE

- FI initiatives in Bangladesh: emergence and evolution
- From a poverty-reduction campaign to “formalizing” the informal financial sector
- The global FIs upsurge: (ex. MPesa in Kenya; India’s recent Jana Dhan Yojana; G20 initiatives)
BB’S MAJOR FI INITIATIVES

- Agriculture credit policy
- A credit programme for share croppers
- 10 taka account for farmers
- “Directed” credit for SME financing
- Mobile banking
- Environment-friendly and green financing

FIS : BROAD ACHIEVEMENTS

FINANCIAL INCLUSION: SELECTED INDICATORS

<table>
<thead>
<tr>
<th></th>
<th>End-2009</th>
<th>End-2013</th>
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</thead>
<tbody>
<tr>
<td>Bank branches per 1000 sq.km</td>
<td>48.1</td>
<td>58.9</td>
</tr>
<tr>
<td>Bank branches per 100,000 pop*</td>
<td>5.1</td>
<td>5.7</td>
</tr>
<tr>
<td>No of ATM per 1000 sq km</td>
<td>8.0</td>
<td>35.55</td>
</tr>
<tr>
<td>No of deposit account per 1000 pop*</td>
<td>267.3</td>
<td>412.8</td>
</tr>
<tr>
<td>No of loan account per 1000 pop*</td>
<td>60.2</td>
<td>62.9</td>
</tr>
<tr>
<td>Bank sector assets (%GDP)</td>
<td>59.0 (June)</td>
<td>80.0 (Dec)</td>
</tr>
<tr>
<td>No of accounts: Conventional (mill.)</td>
<td>37.6 (end 2008)</td>
<td>49.9 (end 2013)</td>
</tr>
<tr>
<td>No of accounts: Innovative (mill.)</td>
<td>-</td>
<td>13.5</td>
</tr>
<tr>
<td>of which farmers 10-taka Account (mill.)</td>
<td>-</td>
<td>9.7</td>
</tr>
<tr>
<td>Farmers getting agricultural credit (mill.)</td>
<td>2.1</td>
<td>3.3</td>
</tr>
<tr>
<td>SME (mill. Enterprises, Jan 2010- Mar 2014)</td>
<td>-</td>
<td>1.9</td>
</tr>
<tr>
<td>Women enterprises (mill. Enterprises, Jan 2010- Mar 2014)</td>
<td>-</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Source: Bangladesh Bank (adapted from various BB sources)
DIRECTIONAL CREDIT TOWARDS AGRICULTURE AND SMEs

Source: Bangladesh Bank statistics, as quoted in Rahman, H. (2014)

FIs: SOME CONCERNS AND WAYS FORWARD

- Linking better the FI objectives and programmes: impact assessment and monitoring
- Limitations of “credit only” approaches in the FIs; lessons from previous experiences
- CSR-induced FIs, supported by refinance schemes, are relatively small; needs major scaling up
- Ascertain precise contribution of FIs to price and financial stability: further research
- Articulating a coordinated strategy of FI initiatives
FI INITIATIVES AND POTENTIAL EXTERNALITIES

- BB’s FI initiatives as catalytic models
- Consolidation, modernisation and regulations of ebanking, mobile banking, payment mechanisms likely to reduce risks and costs for enhanced formalisation and lending to unbanked/under-served
- Fostering the “rural connect” ---evolving approaches and strategies

SUMMARY REMARKS (I)

- Bangladesh among very few countries where CBs have an explicit development objective (ILO content analysis); focused on price stability and inclusive growth
- Adequate rationale not to confine to single mandate/inflation targeting
- Current policy focus requires increased attention to
  - greater competition and confidence in banking/financial sector;
  - strengthening transmission mechanisms for a dependable policy rate;
  - financial sector development & FI's
SUMMARY REMARKS (II)

- Integration of financial market segments
- Developing secondary markets for securities (ie for enhanced role of interbank rates and transactions)
- Regulatory framework for better financial discipline and investment climate
- An articulated strategy for FIs: review impact and mainstreaming.

THANK YOU

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