BRAC EPL INVESTMENTS LTD

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A Synopsis of Monetary Policy Statement
January- June 2014

Bangladesh Bank (BB) has published its Monetary Policy Statement (MPS) H2 FY14 on 27 January, 2014. BB will pursue the MPS, based on an assessment of global and domestic macro-economic conditions and outlook. The main focus of the MPS is to boost up the credit growth along with taming the inflation within the target level which is adequate to stimulate economic growth. Although, the macro-economic challenges are still prevailing due to political unrest for last few months, BB has fine-tuned its view on GDP growth and inflation target. BB termed this MPS as an "Investment Friendly"; from our view point it is a "Cautious" statement.

Growth forecast: 5.8-6.1 % for FY14.

Facts behind the forecast:

- Slower service sector growth during the first half of FY14BB.
- Credit to the trade sector declined to 12.9 percent at the end of Q1FY14 from 24.7 percent at the end of Q1FY13.
- Iron, steel and cement manufacturers reported a 50%-60% drop in sales in Q2FY14.
- Negative growth in remittances (- 8.4%) in H1FY14 relative to the same period in FY13.

Growth Projection: BB adjusts its view on the growth target which is more realistic

Risk: Inflation risk prevails.

Facts behind the risks:

- Food inflation has risen steadily from 1.75% in September 2012 to 9.00% in December 2013 mainly due to higher distribution costs caused by frequent nationwide strikes.
- Rise in food inflation is pushing up average inflation which bottomed out at 6.06% in January 2013, rose to 6.78% in June 2013 and is 7.53% in December 2013.
- Rising inflation in Indian economy will affect adversely in our economy.

Inflation rate below7%, a very ambitious target given the current macroeconomic scenarios

Measures:

- No quantitative change/ no rate cut.
- Projected broad money growth and private sector credit growth are kept same as they were in FY14 H1. (17% and 16.5% respectively).

MPS Target: Providing sufficient space in broad-based investment and inclusive growth.

Measures:

- Policy steps like – inclusion of new sectors, such as leather and ceramics, in coverage of Export Development Fund. Previously only RMG availed this fund.
- Loan rescheduling facilities to genuine borrowers.
- Policy aid to support SME creditors.
- Ensuring financial stability:
    - Continuing existing steps for reducing exposure of state owned commercial bank to state owned enterprises.
    - Continuation of strengthening supervision capacities of BB.
- Strengthening financial inclusion and diversification:
    - Fostering accessibility to banking services by supporting Agent banking and Mobile banking services.
    - Greater emphasize on providing services to rural clients by enforcing 1:1 rural urban new branch ratio.
    - Facilitating Microfinance Institutions to provide small loans to 'ten-taka' account holder.
    - Close monitoring of SME and agricultural credit.
- Strengthening domestic debt markets:
    - Removing lock-in period of government bond investment for overseas investor and PDs as well.
    - Introducing new Islamic bond to better liquidity management of Islamic banks.
- Supporting Capital Market:
    - BB will be supportive of the Capital market through on-going deeper regulatory co-ordinations and policy support.
    - Encouraging larger borrowers to access capital market by imposing single borrower's limits for banks.
    - Facilitate the role of private equity/venture capital sources of finance which will open a new window for the development of primary capital market (supply side).

Monetary Policy stance ensuring healthy credit flow to productive uses

MPS shows emphasize on secondary market operation of debt market which is a good sign for capital market development. The policy also encourages larger borrowers to use capital market which may result in increased activities in primary market

BB creates a new opportunity for private equity/venture capital firm

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