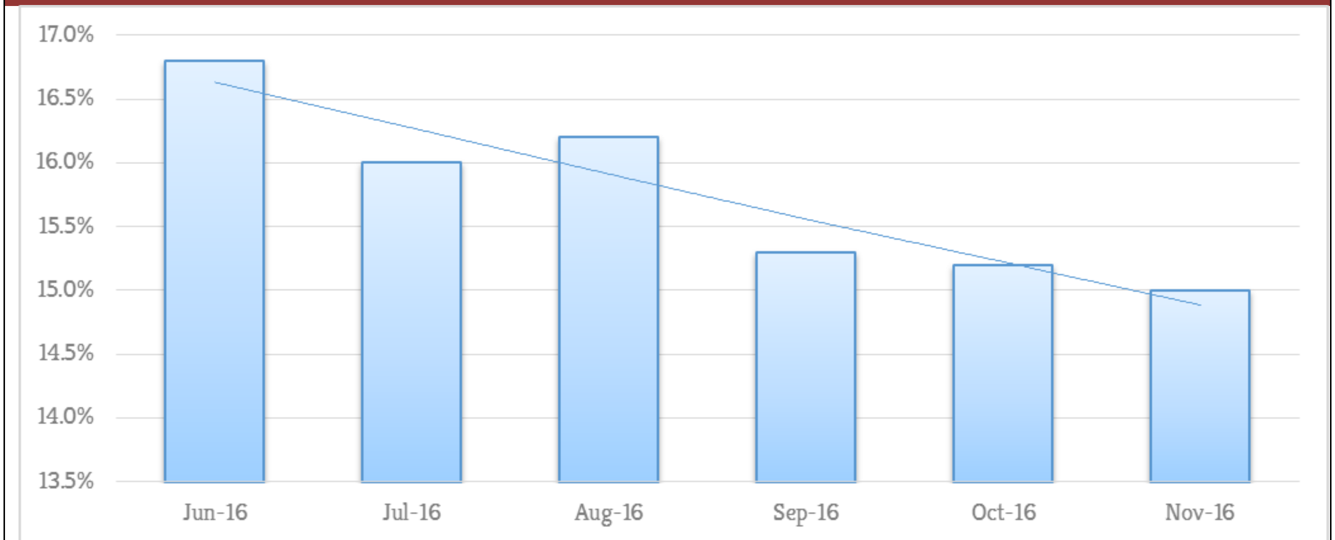
Bangladesh Economic Update

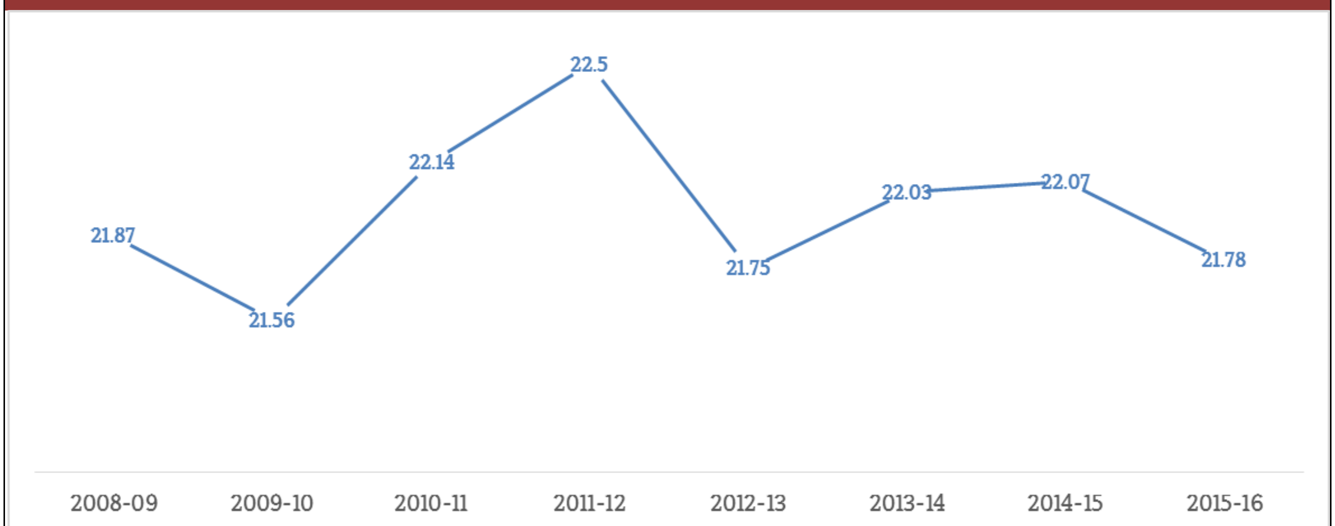
Monetary Policy Statement (January-June, FY 2016-17): A Rapid Assessment

January, 2017

Trend in Private Sector Credit Growth



Trend in Private Investment (as percentage of GDP)



Source: Unnayan Onneshan, *Monetary Policy Statement (January-June, FY 2016-17): A Rapid Assessment*, Bangladesh Economic Update, Volume 8, No. 1, January 2017.

The Unnayan Onneshan (UO), an independent multidisciplinary think-tank, in its rapid assessment of recently announced monetary policy statement for the second half of the FY 2016-2017 reveals that declining growth in private sector credit resulting in stagnant private investment and consequential unemployment especially of youth is likely to challenge the efficacy of monetary policy strategies.

The UO in its January issue of Bangladesh Economic Update 2017 cautions that without increasing the quality, mere growth in private sector credit by the targeted level – 16.5% for the second half of the current fiscal year – may prove ineffective in boosting private investment and achieving the target of growth in gross domestic product (GDP).

The think tank points out that private investment has remained stagnant and stood at 22.07 percent of GDP in FY 2014-15 and 21.78 percent in FY 2015-16, while increase in public investment from 6.82 percent in FY 2014-15 to 7.6 percent in FY 2015-16 has not succeed to create much needed crowding in for private investment.

From 16.8 percent in June 2016, private sector credit growth declined to 16.2 percent in August, 15.3 percent in September and 15 percent in November 2016. Taking account of the recent trend, the research organization fears that the target of 16.5 percent growth in private sector credit for second half of the current fiscal year may remain unachieved causing further stagnation in private investment.

The think-tank evinces that the number of unemployed population increased at an annual rate of 5.29 percent during the period of 2000-2010 and increased from 1.70 million in 2000 to 2.60 million in 2010 while 10.6 million people were day laborers who did not have job security. In addition, 9.1 percent of the country's youth labor force is currently unemployed.

Despite the current stability in consumer price index (CPI) inflation, the research organization, referring to the monetary policy statement, expresses concern over the fact that average core inflation (non-food, non-fuel), a traditional measure of long-term inflation scenario, remains elevated at around 7.6 percent in December, indicating inflation can pick up if buffeted by adverse events.

Referring to weak performance of the external sector, the UO finds that the current account balance recorded a deficit of USD 0.7 billion during July-November 2016, whereas a surplus of USD 1.3 billion was observed during the same period of previous fiscal year. Current unsatisfactory performance of the sector is due to higher import growth (9.5 percent), lower export growth (6.2 percent), and slowdown in remittance inflows (-15.6 percent) during corresponding period of current fiscal year.

In regard to increased non-performing loan (NPL) vis-à-vis the total loan in the banking system, the think tank reiterates its concern about inefficiency in the banking sector and finds that the ratio of gross NPL to the total outstanding loans increased further from 10.06 percent at the end of June 2016 to 10.34 percent at the end of September 2016.

Referring to persistent deterioration in the financial portfolio of the state-owned banks, the research organization shows that the government allocates Tk. 2000 crore as investment for recapitalization in the budget of the FY 2016-17. This allocation implies inefficient use of public money as the investment for recapitalization seems to validate the disorganization and ineptitude in the sector.

Taking account of the monumental rise in writing off of loans, meteoric rise in the default loans and lax oversight and risk management, the research organization observes that "the public in general has to pump their tax money to rescue the stripped nationalized commercial banks through recapitilsation due to loots in these banks."

Calling for a cautious harmonization of fiscal and monetary policies that would cause both the money and fiscal multiplier to work in the economy and channel adequate resources for the expansion of productive capacities, the UO urges for creating a stable investment climate that would increase private investment and thus cause the national output to grow at the targeted rate.