Bangladesh Economic Update

Monetary Policy, Inflation and Liquidity Crisis

July 2011

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Unnayan Onneshan
The Innovators
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MONETARY POLICY, INFLATION & LIQUIDITY CRISIS

1. INTRODUCTION

The current issue of the Bangladesh Economic Update focuses on the recently announced six-monthly policy statement (MPS) for the period of July – December of 2011.

The report suggests that the policy instruments enlisted such as hikes of CRR, repo rates induce cost of capital, and thereby may dampen investment, by increasing the cost of capital as the banks borrow at higher rates. Therefore, the central bank's expectation of reduction of pressure on liquidity may not be materialised.

It also argues that the MPS's envisaged instruments may not rein in inflation because of the wrong diagnosis of the causes of continuous increase in prices. The inflation has occurred for two reasons, namely, domestic prices are increasingly knotted to international prices due to the liberalisation of trade and administered prices are adjusted to global prices, and a reduced emphasis on public distribution system has encouraged jacking up in prices.

The inflation rate in FY 2011 is 8.85 against the target of 6.5 percent. Board money has increased by 5.8 percent than that of the target of 15.2 percent.

Furthermore, the central bank has not been able to maintain its targets. The apparent divergence between key targets and outcomes seems to occur with unfailing regularity raising the issue of credibility and realism in target setting. Target set by previous MPS' could not reign in. The inflation rate in FY 2011 was 8.85 against the target of 6.5 percent. Board money increased by 5.8 percent than that of the target of 15.2 percent and same difference prevailed for domestic credit, credit to public and private sector. Under the business as usual scenario, it is evident that the targets set in the Monetary Policy Statement (July-December 2011) may left far behind than the actual.

Contrary to what has been prescribed in the MPS, these require harmonisation of monetary policies with fiscal measures to address this "imported" inflation, with expansion of domestic productive capacities.

An increase in interest rate, consequentially, is expected to have a number of effects. A rise in higher cost of capital may induce declined investment as the cost of the capital will go up, as opposed to the central bank's expectation of reduction in pressure on liquidity. Current elevated rates of inflation pose significant risks to future growth.

Furthermore, the dampening of investment and unabated rise in the price would hurt different sections of society differently. Any failure to contain inflation is to bound increase inequality as the latter has been showing an upward trend for some time.

2. MONETARY POLICY

The monetary policy by the Bangladesh Bank is tailored to maintaining reasonable price level. It also regulates the cost and availably of domestic credits to the priority sector at the same time that can increase investments. Monetary policy can be both expansionary and contractionary. It is contingent upon the expansion/contraction of the total supply of money. In the context of high unemployment rate, expansionary policy is applied to increase production. On the other hand, contractionary monetary policy, conventionally, is applied, if prices are destabilised.

Recently, Bangladesh Bank has declared its six-monthly Monetary Policy Statement (MPS) and adopted contractionary monetary policy to reduce the stress of the existing liquidity pressure and contain inflationary pressure. For continuous high inflation, people need more money for consumption. Increase in domestic credit and import payment and deficit in trade balance results into rising of demand of both domestic and foreign currency. For these reasons commercial banks are facing liquidity pressure from December 2010. So the currency outside the banks and currency in tills are increasing simultaneously.

To meet up the objectives of the MPS, both REPO and Reverse REPO are used. Due to the increase in the world price of food and oil, the pressure of inflation is increasing in Bangladesh. There has been increased pressure of demand both in domestic taka and foreign exchange markets rather sharply in FY 2011. While workers' remittance inflows are slowed down, trade deficit increases for the import growth and declining in capital account inflows creates the stress on taka and foreign exchange markets. In this situation, Bangladesh Bank has enhanced the REPO 50 basis point at once and Reverse REPO interest hikes in total 255 basis points in four steps.

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Table 1: Monetary Policy Statements (Target & Actual)

	FY 10		FY 11		FY 12
	Target	**Actual**	**Target**	**Actual***	**Target**
Domestic Credit	18.7	17.91	17.9	27.8	20
Credit to public sector	25.3	-1.65	25.3	38.0	28.1
Credit to private sector	16.7	24.24	16.0	25.5	18.0
Broad money	15.5	22.44	15.2	21.0	18.5
Inflation (12 Month Moving Avg.)	6.5	7.31	6.5	8.85	7.5

Source: Bangladesh Bank

Yet the central bank has not been able to maintain its target. The apparent divergence between key targets and outcomes seems to occur with unfailing regularity raising the issue of credibility and realism in target setting. Target set by previous MPS' could not reign in. The inflation rate in FY 2011 was 8.85 against the target of 6.5 percent. Board money increased by 5.8 percent than that of the target of 15.2 percent and same difference prevailed for domestic credit, credit to public and private sector. Under the business as usual scenario, it is evident that the targets set in the Monetary Policy Statement (July-December 2011) may left far behind than the actual.

3. BROAD MONEY

During July-May in FY 2010-11, broad money increased by Tk. 66244.6 crore against the increase of Tk. 55726.10 crore in FY 2009-10.

Broad money consists of currency plus demand deposits, travelers' checks, other checkable deposits, retail money markets, mutual fund balances, saving deposits and small time deposits. It is the intermediate targets in the monetary policy. The underlying assumption is that the growth of the monetary aggregates such as M2 has a direct impact on the domestic price levels. By controlling M2, the central bank tries to control the price level. At July-May in FY 2010-11, broad money increased by Tk. 66244.6 crore or 18.25 percent against the increase of Tk. 55726.10 crore or 18.79 percent in FY 2009-10. But in May 2011, the supply of M2 is Tk. 429275.80 crore whereas it was Tk. 363031.20 crore in June 2010. Of the components of broad money, currency in circulation has increased by 16.90 percent while demand deposits and time deposits witnessed it an increase of 18.44 percent and 9.22 percent respectively. During this fiscal year; total domestic credit of the banking system has increased by 23.797 percent or by Tk. 80957.4 crore compared to the increase of TK. 51661.4 crore or 17.90 percent in the previous one.

Domestic credit has increased by Tk. 80957.40 crore during July-May, in FY 2010-11 whereas it was Tk. 39735.80 crore in FY 2009-10.

Domestic credits are increasing day by day due to the expansion of the credits of the private sectors. Domestic credit has increased by Tk. 80957.40 crore or 23.80 percent during July-May, in FY 2010-

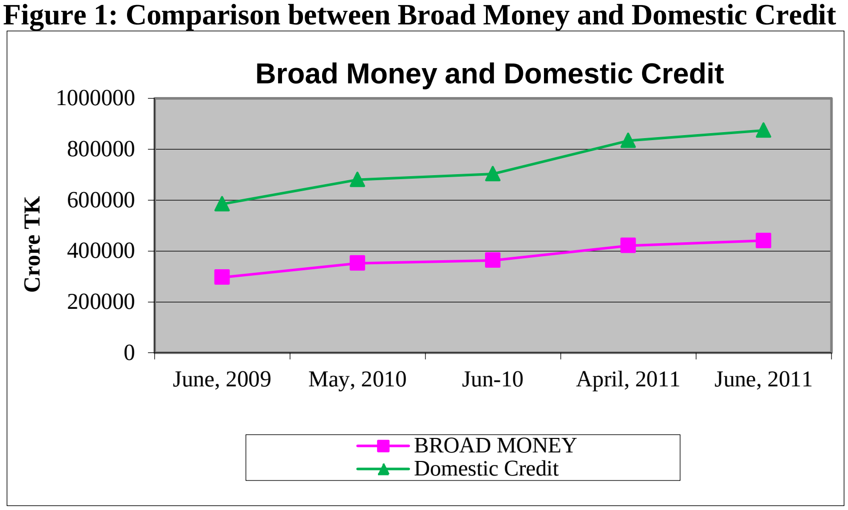
11 whereas it was Tk. 39735.80 crore in FY 2009-10. Domestic Credit growth in May 2011 over May 2010 is 28.29 percent. The Bangladesh Bank emphasizes on the sufficient credit availability for agriculture, small and medium enterprises, renewable energy and other productive sectors.

Table 2: Broad Money Movements

Particulars	Outstanding Stock (Crore TK.)					% Changes in Outstanding Stock		
	Jun, 08	Jun, 09	Jun, 10	May, 11	July-May 10/11	July-May 09/10	June-June 09/10	June-June 08/09
Net Foreign assets of Bangladesh Bank	37317.9	47459.4	67073.7	67877.20	1.198	37.25	41.33	27.18
Net Domestic assets of Bangladesh Bank	211477.0	249040.4	295957.5	361398.60	22.11	15.28	18.84	17.76
Broad Money	248794.9	296499.80	363031.20	429275.80	18.25	18.79	22.44	19.17
a) Currency outside bank	32689.9	36049.20	46157.10	53958.60	16.90	23.66	28.04	10.28
b) Deposits	216105.00	260450.60	316874.10	375317.20	18.44	18.12	21.66	20.52
# Demand deposits	26624.5	30377.70	41831.30	45690.20	9.22	25.65	37.70	14.097
*Time deposits	189480.5	230072.90	275042.80	329627.00	19.85	17.13	63.01	21.42
Domestic Credit	248677.3	288552.30	340213.70	421171.10	23.797	13.77	17.90	16.03

Source: Statistical Department, Bangladesh Bank; Bangladesh Economic Review 2011

Figure 1: Comparison between Broad Money and Domestic Credit



Source: Bangladesh Bank

Private sector credit recorded an increase of Tk. 65877.60 crore in FY 2010-11 whereas it was Tk. 46111.20 in FY 2009-10. The Government (net) sector credit increases by Tk. 11240.6 crore.

It as well discourages the banks to lend credits to the unproductive sectors and unnecessary consumer loans as gorgeous marriage ceremony, travel to foreign countries and consumer credits by using credit cards etc. The components of domestic credits are increasing such as private sector credit recorded an increase of Tk. 65877.60 crore or 24.33 percent in FY 2010-11 whereas it was Tk. 46111.20 in FY 2009-10. The Government (net) sector credit also raises, it increases by Tk. 11240.6 crore or 20.67 percent. Other public sector credit goes up by BDT 3839.20 crore or 25.49 percent in FY 2010-11.

4. RESERVE MONEY

In FY 2010-11 during July-May, reserve money increased by Tk. 10876.4 crore whereas it was Tk. 6286.00 crore for the same period of the previous fiscal year.

The Reserve Money (RM) is the operating target in the annual monetary programme. The RM consists of currency with the public cash in tills and balances of scheduled banks and other financial institutions with Bangladesh Bank. In FY 2010-11 during July-May, reserve money increased by Tk. 10876.4 crore or 13.51 percent whereas it was Tk. 6286.00 crore or 9.06 percent for the same period of the previous fiscal year. The increase in reserve money occurred mainly for the increase in net domestic assets of Bangladesh Bank which is BDT 12067 crore or 62.50 percent in FY 2010-11 than that of the previous fiscal year.

Table 3: Movements of Reserve Money

Items	Outstanding stock (Crore TK.)					Changes in Outstanding Stocks		
	Jun, 08	Jun, 09	Jun, 10	May, 11	July-May 10/11	July-May 09/10	June-May 10/09	June-May 08/09
	1	2	3	4	5	6	7	8
1. Sources of Reserve money	52789.60	69390.10	80510.3	91386.7	10876.4 (+13.51)	6286.00 (+9.06)	11120.20 (+14.00)	16600.50
a) Net Foreign assets of Bangladesh Bank	32835.8	43244.9	61198.1	60014.30	-1183.8 (-1.934)	16004.30 (37.01)	-1183.80	10409.10
b) Net Domestic assets of Bangladesh Bank	19953.8	26145.2	19305.40	31372.40	12067 (+62.50)	-9717.70 (-37.17)	-6839.80	6191.40
2. Reserve Money (a+b)	52789.60	69390.10	80510.30	91386.70	10876.4 (+13.51)	6286.00 (9.06)	11120.20 (14.00)	16600.50
a) Currency Issued	35648.50	39448.70	50465.40	59170.50	8705.4 (+17.25)	9495.10 (24.07)	11016.70	3800.20
b) Deposits held with BB	17141.10	29941.40	30044.90	32216.20	2171.3 (+7.23)	-3208.50 (-10.72)	103.50	12800.30
Reserve money multiplier	4.10	4.27	4.51	4.70	0.19 (+4.21)	0.38	0.24	0.17

Source: Statistics Department, Bangladesh Bank

But the net foreign assets of Bangladesh Bank have been decreased by BDT 1183.8 crore or 1.9 percent during July-May in FY 2010-11. The reason behind this decrease is the increased payment and slow rate of remittance inflows. The reserve multiplier in June 2009 was 4.27, 4.51 in June 2010, and it went up by 4.70 during May 2011.

5. LIQUIDITY RATIO

Central Bank controls the liquidity position in the economy by the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). In the recent monetary policy, central bank has increased the CRR and SLR ratio. Increase of excessive investments in the unproductive sectors such as consumer products and luxurious goods, real estate, and the capital markets etc. creates the stress on liquidity. In this situation, central bank is supplying liquidity help by REPO.

By the end of June 2011, the total liquid assets of the schedule banks went up by Tk. 100564.96 crore which was Tk. 87196.61 crore in the previous year. The excess liquidity of the schedule banks decreased by Tk. 34071.21 crore in June 2011 against BDT 34498.73 crore in June 2010.

As of June 2010, the total liquid assets of the schedule banks were Tk. 87196.61 crore. By the end of June 2011, this went up by Tk. 100564.96 crore. Currently, the amount of required liquidity SLR is BDT 66493.75 crore. The excess liquidity of the schedule banks decreased by Tk. 34071.21 core in June 2011 against BDT 34498.73 crore in June 2010 that means it decreased by 1.23 percent in 2011. Banks hold cash in tills and the excess cash reserves with the BB (which is around 10 percent of total liquidity) to meet immediate cash withdrawal needs of customers. Balance with Bangladesh Bank and unencumbered approved securities that are 6.58, 36.10 and 57.32 percent of the total liquidity assets.

6. IMF'S VIEW

Bangladesh is going on to the credit deal with the International Monetary Fund (IMF) equivalent to USD one billion under its three years' programme, Extended Credit Facilities (ECF). There is widespread apprehension that conditions of this one billion dollar loan may slow down the economic growth of the country. Before this, Bangladesh borrowed USD 490 million from IMF's poverty reduction growth facilities schemes between 2004 and 2007. However, it is argued that this loan did not provide any fruitful result despite the increased debt crisis. The major condition of IMF loan is to implement the contractionary monetary policy assuming that it is the demand pull inflation. But in reality, inflation has increased in two years either because of cost of import going up or because of increase in cost of production cost. Such cost-push inflation and/or supply shocks may induce decline in savings, investment and employment levels of the economy. Another condition of further liberalization of tariff level might leave further blow to the already deteriorating deficits in trade due to increased cost of import while the export receipts have not matched the similar level. The pressure on the balance of payment may have knock on effect on the government to maintain the targeted GDP growth rate by following all conditions of the IMF.

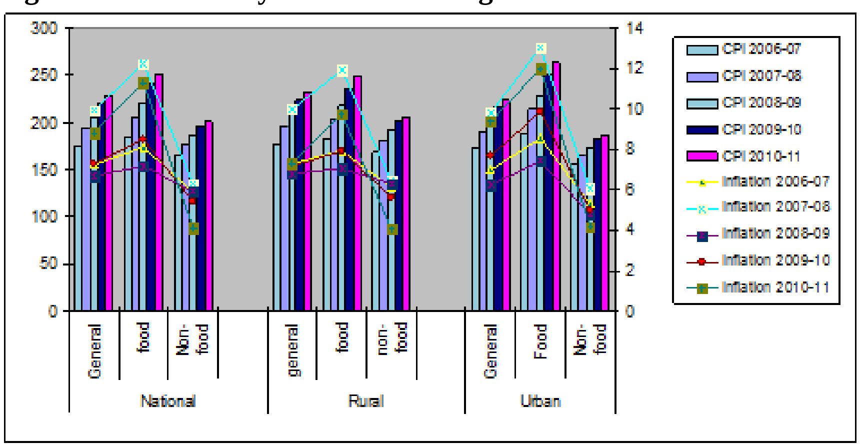
7. INFLATION

Bangladesh Bank has adopted contractionary monetary policy for the reduction of high inflation. The stated objective of the Bangladesh Bank is to maintain the inflation rate, low unemployment rate and economic growth.

The rate of inflation in FY 2010-11 was 8.85 percent which is well above the targeted level of 8.00 percent.

The persuasion of prescribed mechanisms to contain inflationary pressures in subsequent MPS' has not given results. In FY 2008-09 Inflation rate was 6.66 percent whereas in FY 2009-10 it was 7.31 percent and 8.85 percent in 2010-11 which is well above the targeted level of 8.00 percent.

Figure 2: Inflationary situation in Bangladesh

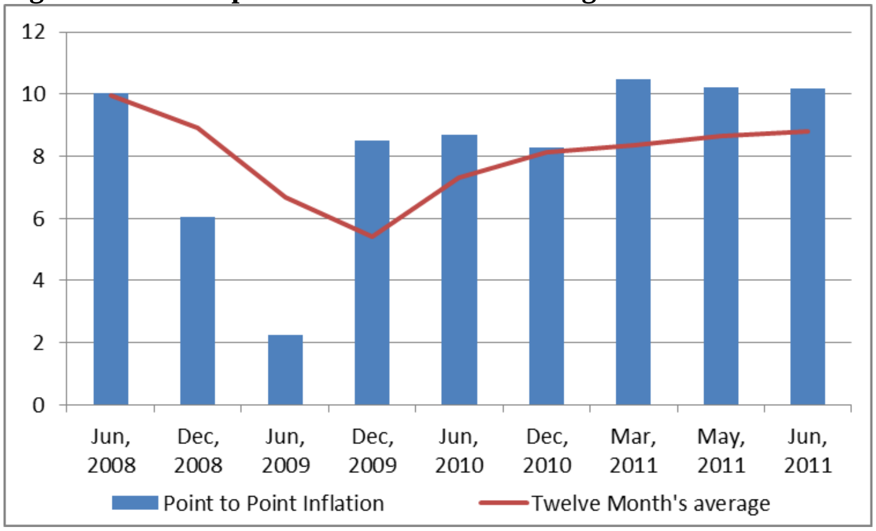


Source: Statistic Department, Bangladesh Bank

In the urban areas, food inflation was 12.03 percent in FY 2010-11 than that of 9.85 percent in FY 2009-10. In the rural areas general inflation was 7.3 percent in June 2011 that was 6.83 percent in 2010.

General inflation in July 2011 was 9.1 percent. In the urban areas, food inflation was 12.03 percent in FY 2010-11 than that of 9.85 percent in FY 2009-10. In the rural areas general inflation was 7.3 percent in June 2011 that was 6.83 percent in 2010. Changes in inflation rate in FY 2009-10 was 9.76 percent where as it was 20.25 percent in 2010-11. Percentage of change in food inflation was 18.80 percent in 2009-10 but it was 32.94 percent in 2010-11. The government projected inflation to be 7.5 percent in the current fiscal year but if this inflationary situation holds further, this projection will remain in the oblivion.

Figure 3: Point to point & twelve month average basis inflation



Source: Selected indicators, Bangladesh Bank

The government data shows that point to point inflation is following a downward trend which was 10.49 percent in March, 10.20 percent in May and in 10.17 Percent in June 2011. But, on the twelve month average basis, the inflation rate recorded as the highest level of 8.8 percent in June 2011 compared to 5.42 percent in December 2009.

7.1 Impacts of inflation

Inflation was the most shattering phenomenon in FY 2010-11. It has a direct impact on unemployment, the output and income levels. Increase in the global food and oil prices often leads to higher domestic retail prices due to increase in cost of production and overall prices. It mainly upsurges the level of poverty and inequality.

The rate of inflation increased from 8.68 percent in FY 2009-10 to 8.80 percent in FY 2010-11 whereas the unemployment rate also increased from 4.9 percent in FY 2009-10 to 5.2 percent in FY 2010-11.

According to the textbook Phillips law, increases in inflation rate may reduce the unemployment rate in the economy. But such was not the case in FY 2010-11 where inflation rate increased to 8.80 percent from 8.68 percent in FY 2009-10 whereas the unemployment rate also increased from 4.9 percent in FY 2009-10 to 5.2 percent in FY 2010-11. Though unemployment rate increases, the output level has also reduced and it affects the fixed income earners. Inflation reduces the value of money and people’s purchasing power.

Inflation does not only worsen poverty but can also exacerbate inequality in the economy such as the wealthy persons find their assets more valuable and the condition of the poor deteriorates further. As the food inflation rises, the poorer are compelled to spend more on it that reduces the consumption in basic needs such as health, education. As real income falls due to the increased price level, conditions of the middle-income families become vulnerable.

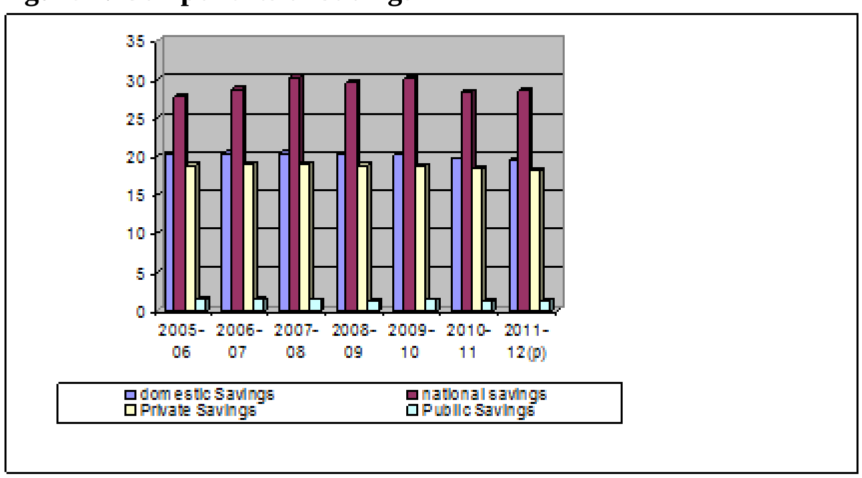
8. POSSIBLE EFFECTS Of MONETARY POLICY

8.1 Impact on Savings

Domestic savings as percentage of GDP in FY 2010-11 is 19.59 percent whereas it was 20.1 percent in 2009-10.

Bangladesh Bank has taken the contractionary policy by increasing REPO and REVERSE REPO which increases the interest rates. The lending interest rate is 12.40 percent and the deposit interest rate is 7.26 percent (June 2011). For the increased food consumption in 2010-11, domestic savings as percentage of GDP falls. It is 19.59 percent in FY 2010-11 whereas it was 20.1 percent in 2009-10. National savings also falls as the remittance inflow decreases in this fiscal year which is 28.4 as percent of GDP. Saving rate should have increased with the rise of interest rate. But in the fiscal year this does not happen for the reason of high food inflation as high as11.34 percent.

Figure 4: Components of Savings



Source: National Accounts wings, Bangladesh Bureau of Statistics (BBS)

Though the rate of inflation rises, interest rate on deposit is still low compared to the lending interest rate and saving rate does not increase as a result.

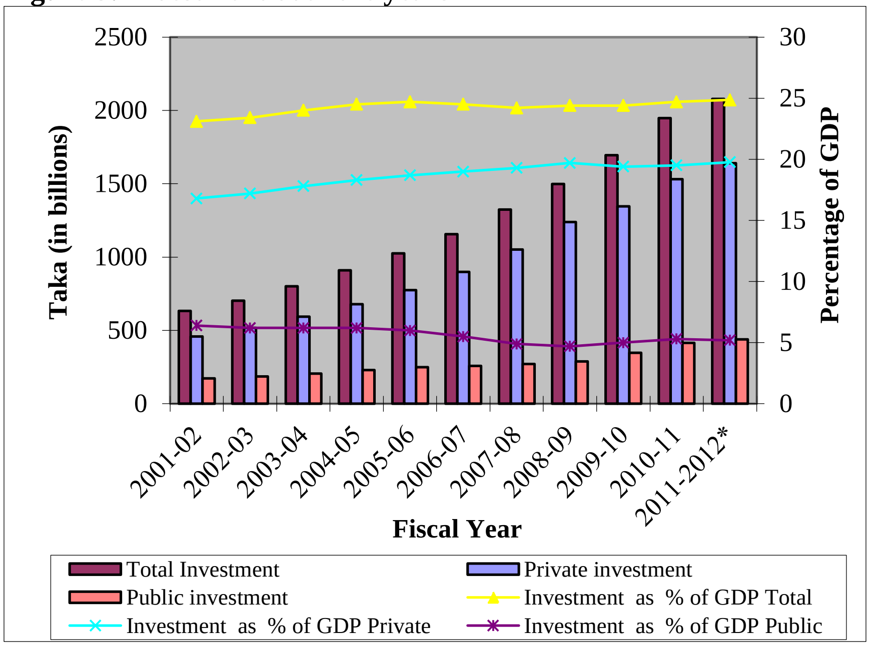
8.2 Impact on Investment

Investment is interrelated with the levels of inflation and interest rate. Increase in interest rate may pose an adverse effect on investment. This shows that in 2006 lending interest rate was 11.06

In 2009-10 private investment was Tk. 1346.9 billion whereas it is 1532.1 billion in 2010-11.

with an investment ratio in GDP was 24.5. Currently the lending interest rate rose from 12.63 in 2008 to 12.83 in April, 2011. The investment trend is found to have declined but the investment ratio in GDP rises by 24.7 percent in FY 2010-11. In 2009-10 private investment was Tk. 1346.9 billion whereas it is 1532.1 billion in 2010-11.

Figure 5: Investment over the years



Source: Bangladesh Bank, Bangladesh Economic Review

8.3 Credit Squeeze

Credit of private sectors may be squeezed by 28.25 percent by the end of the FY 2011-12.

Contractionary policy increases the interest rates in the economy. The Monetary policy statement of 2011 emphasizes on the distribution of the domestic credit to the priority sectors to reduce the inflation rates. Credit of private sectors may be squeezed by 28.25 percent by the end of the FY 2011-12.

The latest MPS stated the government should spend more on the public sectors. Increase in the public expenditure by government is financed by the borrowing. This public expenditure crowds out the private investment.

8.4 Agriculture

The relationship between monetary policy and the real economy are uncertain. Bangladesh is a developing country depending mainly on its agriculture sectors to maintain the food supply in the economy. In order to ensure increase in agricultural output, poverty reduction and food security government has allocated Tk. 12516 crore in the budget of FY 2011-12.

Table 4: Agricultural disbursement over the years (in crore Taka)

	May,'10	June,'10	May,'11	June,'11	FY1010-11*	FY2009-10	FY2008-09
a) Disbursement	939.65	1227.9	929.61	973.68	12184.32	11116.89	9284.46
b) Recovery	815.44	1071.07	978.84	1228.49	12148.61	10112.74	8377.62

Source: Selected indicators, Bangladesh Bank

Disbursement of agricultural credit during FY 2010-11 stood higher at Tk. 12184.32 crore against Tk. 11116.89 crore of FY 2009-10. In 2010-11, recovery of agricultural credit is BDT 12148.61 crore whereas it was BDT 10112.74 crore in FY 2009-10.

Disbursement of agricultural credit during FY 2010-11 stood higher at Tk. 12184.32 crore against Tk. 11116.89 crore of FY 2009-10. In 2010-11, recovery of agricultural credit is BDT 12148.61 crore whereas it was BDT 10112.74 crore in FY 2009-10. During both the sowing and harvesting period, credit disbursement for cash crop jute is very low. If this situation continues, the production of jute might decline in future. Credit disbursement is very low in the case of necessary species such as chili, turmeric and ginger, whereas it is high in the case of Boro and other crops. But disbursement credit of Aus and Aman is very low compared to that of Boro.

Table 5: Components of agriculture sectors

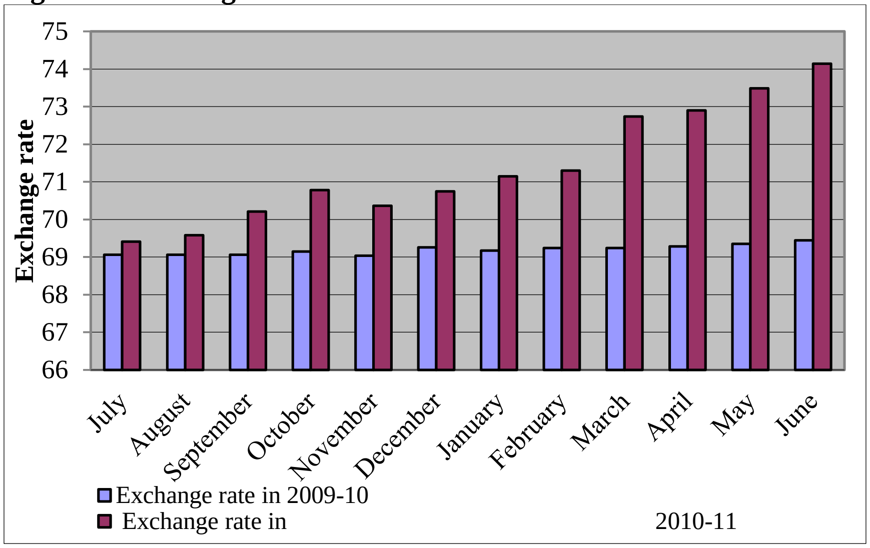
	Sectorial/sub-sectorial growth rate				Sectorial/sub-sectorial share in GDP			
	FY07	**FY08**	**FY09**	**FY10**	**FY07**	**FY08**	**FY09**	**FY10**
Agriculture sector	4.56	3.20	4.12	4.67	21.37	20.83	20.48	20.24
Agriculture and forestry	4.69	2.93	4.10	4.87	16.64	16.18	15.91	15.75
Crop and horticulture	4.43	2.67	4.02	5.13	12.00	11.64	11.43	11.34
Animal farming	5.49	2.44	3.48	3.32	2.88	2.79	2.73	2.66
Forest and related service	5.24	25.47	5.67	5.63	1.76	1.75	1.75	1.74
Fishing	4.02	4.18	4.16	3.49	4.73	4.65	4.58	4.49

Source: Bangladesh Bureau of Statistics (BBS)

8.5 Effect on Exchange Rate

In FY 2008-09 and 2009-10 the exchange rate of taka against dollar remained steady due to sufficient supply of foreign reserve such as USD 10750 million in FY 2009-10 and USD 7471 million in FY 2008-09. But in the recent FY 2010-11 and in current months, the overall increase in commodity and food prices has increased the cost of import, while the flows of remittance have relatively declined. As a result Bangladeshi Taka against dollars has depreciated. The exchange rate against the US dollar has dropped and the USD stands at 1:74.69 against taka in August.

Figure 6: Exchange rate fluctuation over the months of 2010-2011

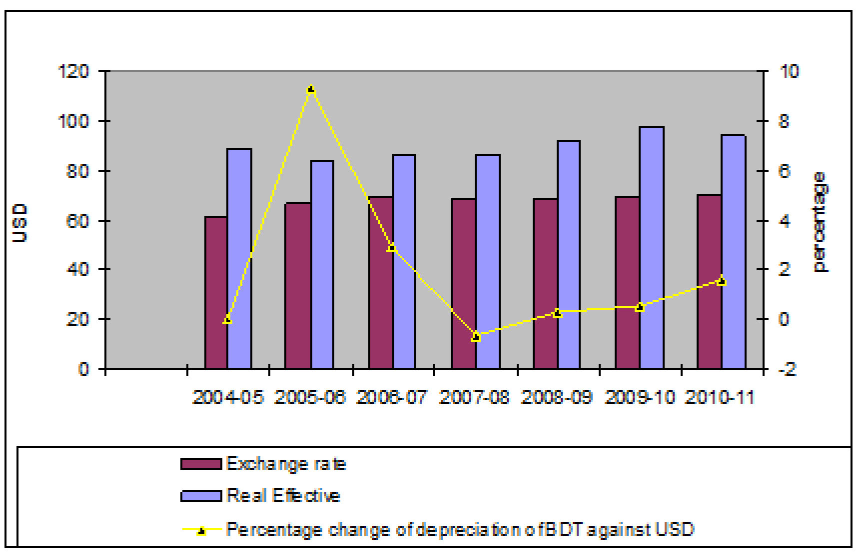


Source: Bangladesh Bank

The nominal exchange rate of US dollar is 74.15 in June 2011 whereas it was 69.44 in June 2010.

The real effective exchange rate shows that in FY 2010-11, it has depreciated to 97.78 from 94.18. This depreciation causes increase in export and decrease in volumes of import. In recent months, the nominal exchange rate is 74.15 in June 2011 whereas it was 69.44 in June 2010. Over the years, but in recent months with faster speed, Bangladeshi currency has depreciated against the USD, despite otherwise observed for the USD vis-à-vis other currencies.

Figure 7: Exchange rate situation over the year



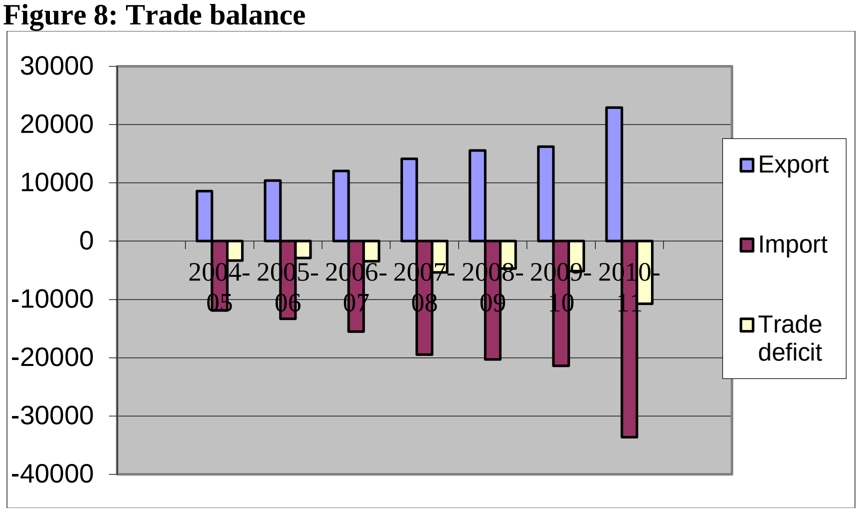
Source: Statistics Department, Bangladesh Bank. Bangladesh Economic Review

Export rises in FY 2010-11 as USD 20,611 million which was USD 16236 million in FY 2009-10. However, import rises in a great volume which is USD 27714 million.

Export rises in FY 2010-11 as USD 20,611 million which was USD 16236 million in FY 2009-10. However, import rises in a great volume which is USD 27714 million. For the depreciation in exchange rate, the import should have decreased but this did not happen due to increase in cost of commodities and food.

Bangladesh is an import-oriented country and depreciation of taka increases the import bill, causing trade deficit to go larger. The devaluation of taka may temporarily induce an increase in the value of export, but the country being an import dependent one, overall may put further pressure on the prices to go up, resulting in higher inflation. In addition, the increase in import bill may increase the domestic price in the economy. Thus the dual reasons may seriously dampen the economic situation by increasing inflation. The following Figure shows that the export and import payments are increasing over the years, causing a continuous trade deficit and imbalance in balance of payment.

Figure 8: Trade balance



Source: Bangladesh Economic Review, Statistics Department, Bangladesh Bank, Export Promotion Bureau

8.6 Import

A developing country like Bangladesh has to rely upon imports for purchasing necessary inputs for economic development. The principal imports of Bangladesh are food grain, intermediate raw materials, capital goods, machineries, petroleum products, fuel and lubricants, chemicals etc. Now-a-days the relative shares of different categories in total imports are changing whereas food import payment are higher which may have spill over effects on the domestic prices of commodities. As a result inflation may go upward. Again, increases in oil prices and the political instability of different countries have increased total amount of import bills.

Table 6: Import Scenario (Capital Machinery) **(In million USD)**

Year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11(July-February)
Capital machinery	1211	1458	1929	1664	1420	1595	4070

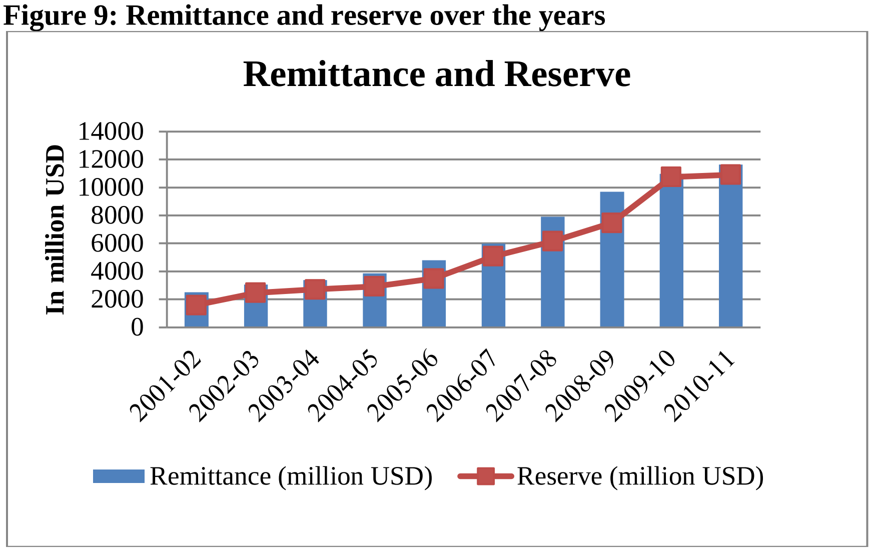
Source: Bangladesh Economic Review

Import payment as percentage of GDP is higher than the contribution of export as percentage of GDP so that this causes the deficit in the balance of payment. A number of national and internal factors are responsible for this situation. The service accounts also show the deficit situation. But increased deficit in B.O.P, higher amount of debt repayment and payment to IMF, foreign exchange reserves are bound to shrink.

8.7 Foreign Exchange Reserve

Foreign exchange reserve of Bangladesh was in April 2011 to the tune of USD 11316.44 million from USD 10730.59 million in March. Bangladesh Bank data shows that the reserve reached the highest amount in December 2010. Reserves decreased during the period of May 2011 and July 2011 because of the high inflation and increase in import payments.

Figure 9: Remittance and reserve over the years



Source: Finance Division, Ministry of Finance; Economic Review 2011; Accounts & Budgeting Department, Bangladesh Bank

Foreign exchange reserve of Bangladesh dipped to USD 10.38 billion by the end of July from nearly USD 11 billion at the end of the June.

Foreign exchange reserve of Bangladesh dipped to USD 10.38 billion by the end of July from nearly USD 11 billion logged at the end of the June on soaring food imports ahead of Ramadan. The dip of July came due mainly to a hefty rise in food imports which constitute a major share in total import bills.

8.8 Employment Level

The estimated population of Bangladesh is 16 crore in 2011. Of the total population, the labour force participation accounts of two-third of the adult populations. The labour force participation rate is 73.89 percent for the entire country. The participation rate for women is significantly lower than those of men. Decrease in money supply increases the interest rates in the economy. As a result firms find it less profitable for further investments and the level of employment also goes down.

8.9 Inequality

There exists a positive relationship between inflation and poverty. As inflation, especially food inflation increases, the people have to spend more money on the consumption food thus has to cut off spending money on other necessities like education and health. People with fixed income have to suffer a lot and becomes the victim of inequality and a portion of marginalised people goes under the poverty line.