July-December
2010

Monetary Policy Statement

July 19, 2010

Monetary Policy Department

Bangladesh Bank

Monetary Policy Statement
H1 FY11(July-December 2010)

Executive Summary

Introduction: *This tenth issue of Bangladesh Bank (BB)'s half yearly monetary policy Statement (MPS) outlines the monetary policy stance for H1 FY11, designed to support government's policies and programs in pursuit of faster inclusive economic growth and poverty reduction; while also maintaining price stability. As in case of the preceding issue, consultation sessions with eminent senior experts and different stakeholder groups have yielded important insights for drafting of this issue of MPS. Beginning from April, monthly deliberation sessions of a newly formed in-house Monetary Policy Committee (MPC) chaired by Governor and participated by senior management members and MPD staffers are adding further to the depth and sharpness of focus on monitoring of monetary developments and brainstorming on related policy issues.*

The main objective of ex-ante announcements of monetary policy stance in issues of MPS is to anchor inflation expectations of economic agents and the general public. Detailed analytical work in BB on various aspects of monetary policies are not reported in the MPS meant for lay readers, these appear in issues of Monetary Policy Review or as policy notes/occasional papers.

Monetary policies and programs in Bangladesh adopt the same tools and techniques as in other developing economies maintaining restrictions in external capital account. Monetary aggregates based policies and programs retain relevance in economies with restricted capital accounts; policy tools influencing growth of money stock, viz., monetary program targeting broad money growth path, adjustments in cash reserve and statutory liquidity requirements(CRR,SLR) are used as appropriate, besides adjustments in key policy interest rates (repo, reverse repo interest rates in Bangladesh).

Growth outcome and outlook: *Output growth performance in the agriculture sector in Bangladesh was robust in FY10, with climatic conditions favorable on the whole, and with strong hands on support from agricultural ministry and government ensuring timely access to adequate inputs and financing. The agriculture ministry estimates FY10 <u>agriculture sector output growth</u> provisionally at 4.39 percent, against preceding year's 4.60 percent. <u>Industry sector output growth</u> is estimated provisionally by the government at 6.42 percent against preceding year's 6.46 percent; quite fair when seen against output disruptions from power and gas supply outages, and from slower than hoped for recovery in export demand. Provisional government estimate for service sector output growth in FY10 is 6.59 percent against preceding year's 6.32 percent, the higher FY10 growth supported interalia by BB promotion of SME lending, and higher social safety net expenditures of the government underpinning buoyancy of domestic demand. Government's provisional estimate for overall FY10 GDP growth is 6.09 percent, against preceding year's 5.88 percent. Final BBS estimate for FY10 growth are yet to be available, and some external observers hold the view that FY10 real GDP growth may actually have fallen marginally short of 6.00 percent, because of energy shortages causing underutilization of manufacturing output capacity, and slower than hoped for recovery in export growth.*

For FY11, the national budget projects real GDP growth of 6.70 percent; which should be attainable subject to favorable weather conditions for agriculture, rapid recovery in export growth with diversification into new markets including the emerging economies, and urgent substantial increase in power and gas supplies.

Inflation outcome and outlook: *Despite easing in domestic annual point to point CPI inflation trend from March 2010 and in global commodity price trends from May 2010, 12-month average domestic inflation crept to 6.51 percent in April 2010, exceeding marginally the 6.50 percent ceiling targeted for FY10. The average CPI inflation will continue up creep for some months before starting decline in line with trend in point to point CPI inflation. IMF's July update of WEO projects global inflation to remain moderate in 2010 and 2011 and the FY11 national budget expects 12-month average CPI inflation in Bangladesh to remain within 6.50 percent in FY11.*

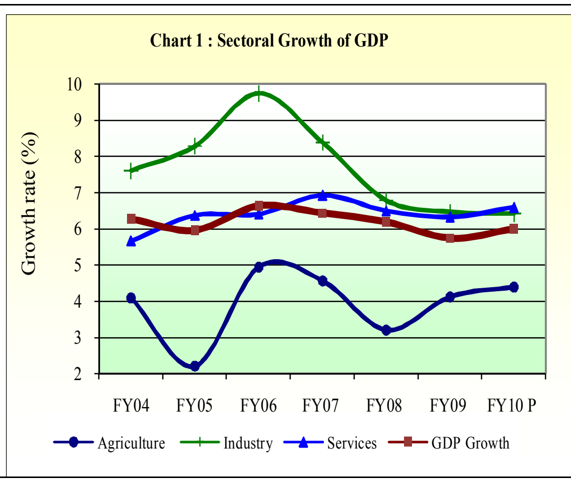
Monetary policy stance for H1 FY11: *Monetary policies in FY11 will be maintained on a growth supportive stance to help promote faster inclusive economic growth, with due vigil against inflationary pressures. BB's financial inclusion initiatives will continue strong support for adequate lending for agriculture, SMEs, renewable energy and other productive sectors; while discouraging expansion in lending for wasteful consumption and unproductive speculative investments. Monetary program for*

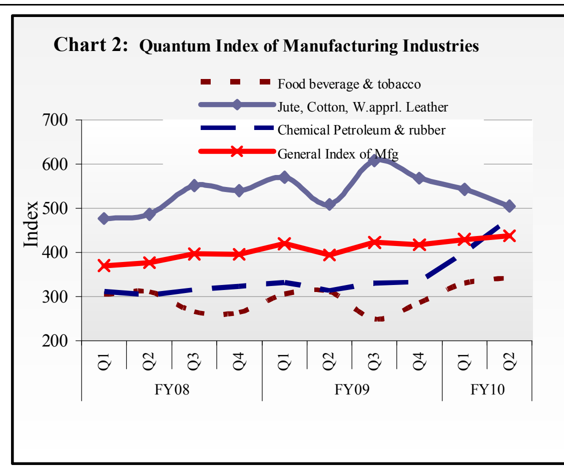
FY11 has been chalked up accordingly, based on real GDP target and inflation ceiling mentioned in the FY11 national budgets. BB will remain proactive in liquidity management operations and policy interest rate/CRR/SLR adjustments as warranted by unfolding developments. The liquidity overhang and the inflows driven appreciation pressures on Taka are expected to ease out with stronger investment activities, and with settling down of workers' remittance growth and rise back of import growth to their trend levels. The financial stability of banks and financial institutions are also under constant watch of BB. For this, the state owned and private sector banks are now being supervised by BB on the same footing.

Monetary policy context, outcome and outlook

1. **<u>FY 10 macroeconomic developments and monetary policy actions in retrospect:</u>** In the backdrop of global economy coming out of slowdown on a recovery path beset with lingering uncertainties, FY10 (July 09-June10) began for Bangladesh economy on growth path with 5.88 percent FY 09 real GDP growth against preceding year's 6.19 percent; but with weakening export demand from traditional Western markets, slowdown in new investment activities and a large liquidity overhang cumulating from slow utilization of growing inflows from expatriate workers. Expectations for FY10 were for substantial recovery in export and new investment growth momentum by the end of H1 FY10. Growth supportive stances were maintained in fiscal and monetary policies, but with wary eye on buildup of inflationary pressures. To sustain buoyancy in domestic demand and output activities, the social safety net for the weak and the vulnerable poor was widened; strong agricultural and SME credit programs supported by BB refinance lines expanded financial inclusion of under-served/un-served productive economic sectors and population segments. Domestic demand, output and investment activities thus strengthened were expected to use up the liquidity overhang from FY 09. Real GDP growth in FY 10 was expected to be around 6.00 percent, with 12 month average CPI inflation within 6.50 percent by end FY10, from 6.66 percent of end FY09.

Actual outcomes unfolded in FY10 broadly along expected lines, but at slower, more belated pace of recovery in exports, new investments and manufacturing output. Exports improved steadily throughout FY10, but it took up to Q4 to make good for the negative growth rates of initial months, limiting FY10 export growth to low single digit level. Off take of industrial term loans and import LC opening for capital machinery grew robustly by Q3, but growth in actual import of capital goods remained slow because of scarcities in power and gas supply, the scarcities also causing under utilization of installed capacities. Agriculture sector activities remained buoyant however, with favorable overall climatic conditions and with strong hands-on support from the Ministry of Agriculture and BB credit programs ensuring timely access to adequate inputs and financing. Final BBS estimates for FY10 GDP growth are awaited. External observers mostly hold that real GDP growth may have fallen somewhat short of the targeted six percent, given slower export growth, and the energy scarcities causing underutilization of output capacity; but the government feels confident about its concerted efforts having actually yielded the targeted growth in full.

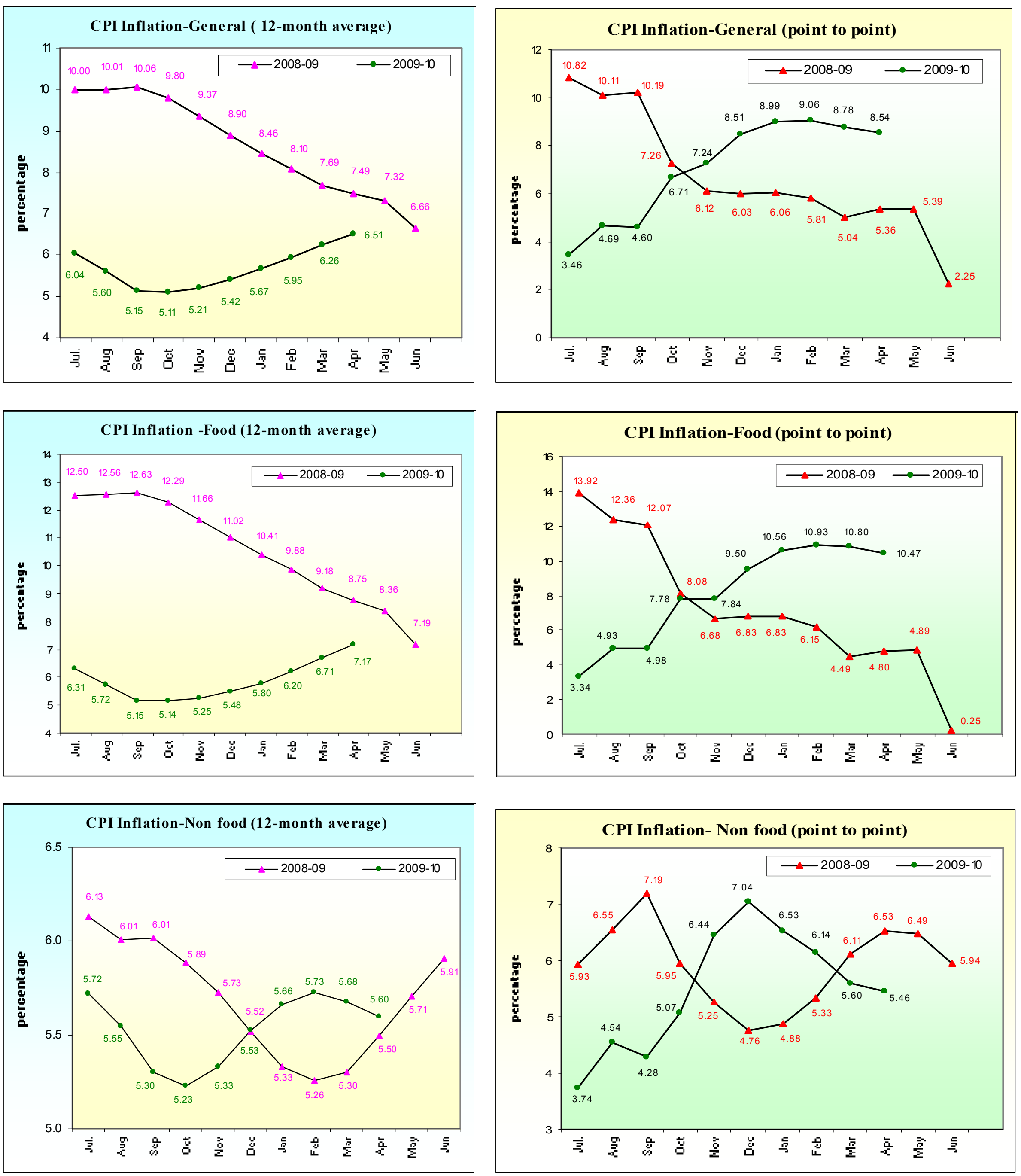




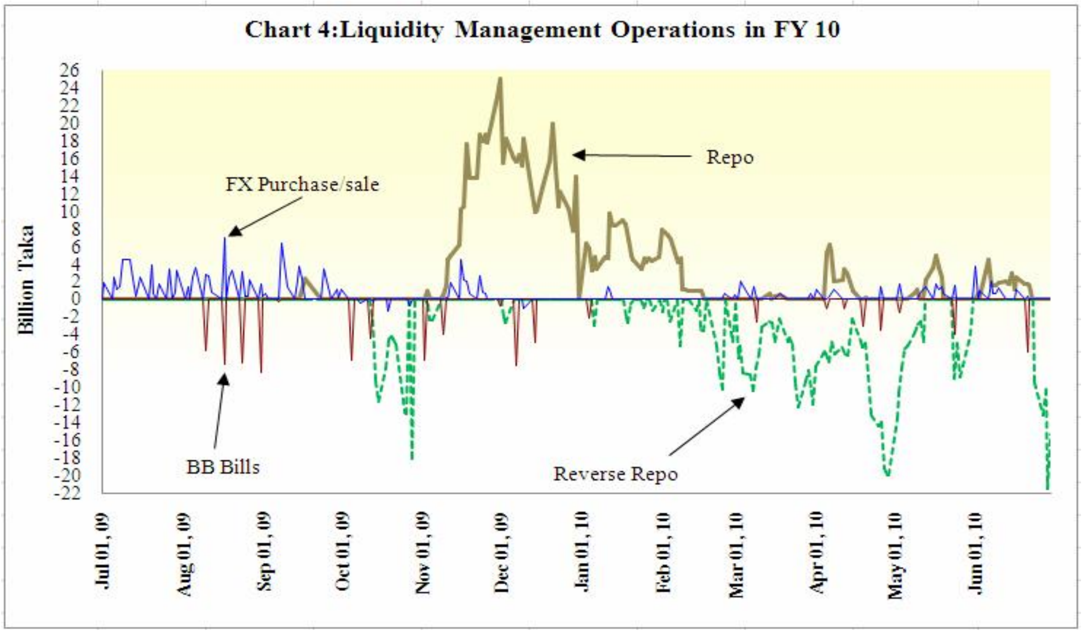
CPI inflation maintained upward trend from Q2 FY 10, with point to point food price inflation at double digit levels by Q3 despite satisfactory domestic food grain output; driven by trends in external prices, particularly those of neighboring countries. Global price trends of food grains and other commodities have softened towards the close of FY 10, and authorities in neighboring India have adopted measures to curb Indian inflation. Both food and non food 12-month point to point CPI inflation have been easing down slowly from March 2010, but the 12-month average CPI inflation crept up to 6.51 percent in April 2010, exceeding the earlier projected 6.50 percent level for end FY 10 (June 2010).

Chart:3 Trends in CPI Inflation

(Base : 1995-96=100)



Liquidity in the domestic market came down to near normal levels by Q2 (excess Taka reserves of banks with BB Tk 31.1 billion as of end Nov 09, from Tk 98. 9 billion of end June 09) with pick up in private sector credit and in opening of LCs for import of capital goods. Actual fund outflows for imports languished however; with gas and power supply scarcities leaving installed capacities underutilized and discouraging installation of new capacities. On the other hand, continuing growth in inflows from expatriate workers and negative bank borrowing by government (with higher revenue and external financing receipts) kept adding to market liquidity, and FY 10 closed with excess cash reserves of banks with BB at Tk 58.8 billion.



In conformity with the declared policy stance, BB's monetary policy operations in FY10 remained light fingered rather than heavy handed, so as not to impede pick up in output, exports and new investment activities. Purchases of foreign exchange inflows from the market to retain Taka on a slight undervaluation bias for export competitiveness were only partly sterilized by liquidity management operations. Chart 4 plots BB's liquidity management operations (repo, reverse repo and BB Bill auctions, FX purchases and sales) during FY10. With benefit of hindsight it would now appear that liquidity support by way of repo (mainly to primary dealers in treasury securities) in FY10 may at times have been overly generous.

Concerns have been aired in some quarters about inflationary risks from BB refinance lines supporting lending to various priority sectors. Outstanding total balance against all BB refinance lines increased by Tk 2.8 billion in 11 months of FY10 up to May 2010 to Taka 71.6 billion; the incremental addition of Tk 2.8 billion to market liquidity is insignificant relative to total domestic credit stock exceeding Tk 3.3 trillion.

Besides direct liquidity management operations, the permitted open exchange positions of banks (as percentage of capital) were widened to reduce occasions of banks needing to approach BB with foreign exchange sales offers. Sectoral credit flows were promoted or discouraged eclectically; while credit flows to under-served productive sectors like agriculture and SMEs were promoted, expansion in credit for unproductive ostentation, conspicuous consumption and speculative purposes were discouraged. Oversight on capital market activities of banks was tightened; restrictions were imposed on bank lending for land purchase and on any land acquisition by banks, in the overheated state of the real estates market.

Credit to private sector has grown strongly in FY10, to 22.28 percent y-o-y by May 2010 with no correspondingly strong pick up in manufacturing output activities, and with import growth a mere 2.82 percent (overall growth of domestic credit was contained at 16.03 percent, due to government's negative bank borrowing). According to available data up to Q3 FY10, growth of consumer credit remained in single digit, its share in total advances declining. Discussions in stakeholder consultation sessions revealed that capacity underutilization due to energy shortages are landing manufacturing units into cash inflow shortages, compelling them to use bank credit to meet wage payments and other fixed overheads. Apart from such pressing needs, higher non food inflation in rural areas in FY10 may be indicative of some diversion from the strongly promoted agricultural and SME credit into acquisition of consumer goods; urban private sector borrowings may likewise have been used partly for consumer goods or for speculative investments in capital markets and real estates (less likely though, real estate capital gains cannot be cashed in for loan repayments readily by disinvestment). The situation warrants field level sample surveys of actual patterns of end use of bank credit drawn for various declared purposes. To keep inflationary pressures from such tendencies in check by restraining expansion of the monetary base, BB raised CRR and SLR for scheduled banks by one half percentage point from mid May 2010, its effect on credit growth will show up in monetary survey data for June 2010, due in second week of August 2010.

Chart 5: Trends of Monetary Aggregates

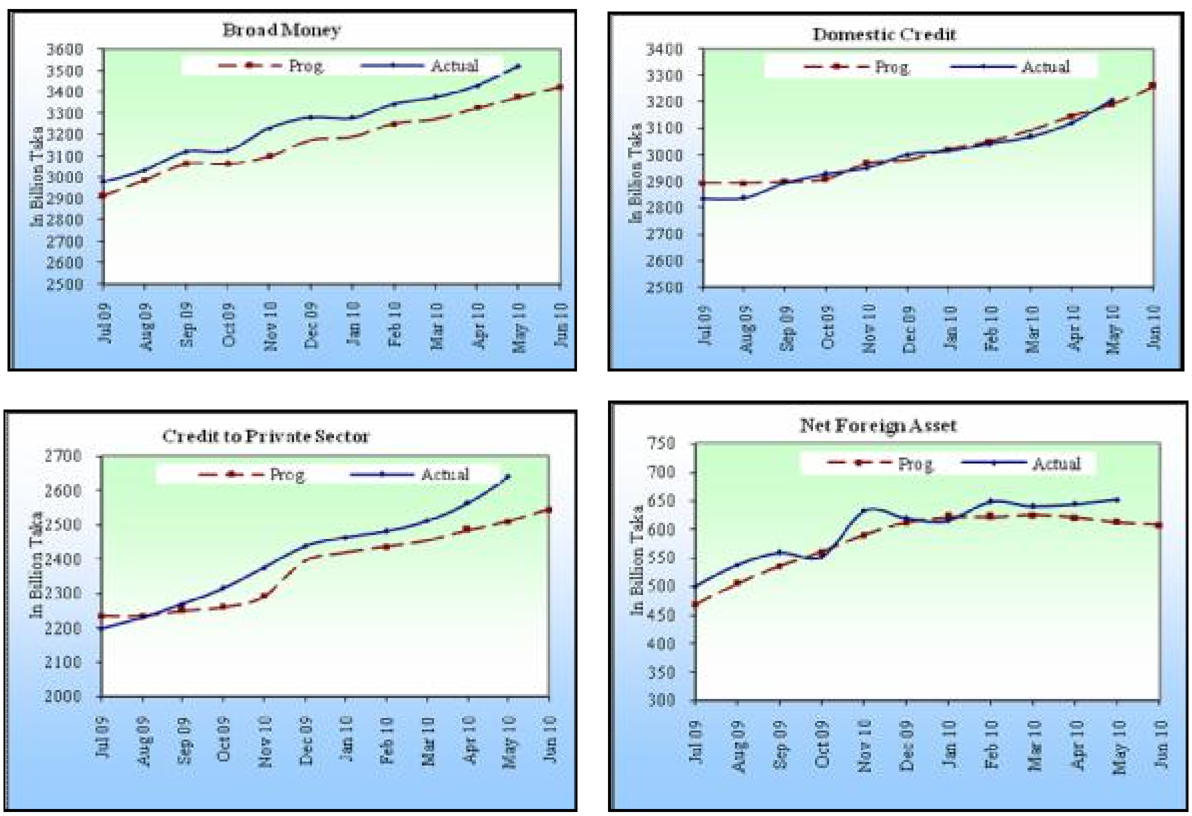


Table 1: Monetary Aggregates (Y-o-Y growth in percent)							
	FY 09	Sep-09	Dec-09	Mar-10	May-10	Jun-10 (estimated)	Jun-11 (Prog.)
1. Net Foreign Assets	27.2	49.7	78.7	70.0	51.3	34.6	4.2
2. Net Domestic Assets	17.8	11.6	12.2	13.7	17.9	15.8	17.6
Domestic Credit	15.9	12.4	13.7	13.6	16.1	18.4	17.9
Credit to the pub. sec. (incld. Govt.)	20.3	8.2	-5.1	-6.9	-5.9	9.4	25.3
Credit to the pvt. Sec.	14.6	13.7	19.2	19.5	22.3	21.1	16.0
3.Broad money	19.2	16.9	20.7	21.3	22.9	18.8	15.2
4.Reserve money	31.9	24.3	18.7	19.6	25.2	17.1	13.0

2. Outlook for FY11:

(a) Growth: Based on momentum of output activities in H1, 2010, the projection of global output growth for 2010 has been raised by 0.4 percentage point to 4.6 percent in the July WEO update of IMF; albeit with stronger caveats about downside risks from financial sector weaknesses and the unease of markets about high budget deficits of some EU countries. 2010 growth projection for France and UK have been lowered in the update, while projections for other regions including the US, Japan and the emerging economies have been raised. Overall global growth projection for 2011 remains unchanged in the update at 4.3 percent, but with some paring off for the Euro area, Japan, UK, Canada, and some Asian emerging economies including China; with equivalent incremental rises for the US, CIS including Russia, Middle East and North Africa.

The Government's 2010-2011 (FY11) budget document projects 6.7 percent FY11 real GDP growth for Bangladesh economy, and spells out public expenditure and support measure programs aimed at attaining the projected growth. The targeted growth is not at all overambitious given the imperative of rapid poverty reduction; but attaining the substantial leap in growth gain will hinge on benign developments on all fronts; in particular, on success in urgently addressing the energy shortages hampering output activities and on ensuring faster higher agricultural and manufacturing output growth, interalia with quick resolution of ongoing labor unrests in the export oriented apparels sector. Attainment of the growth target will look likelier if the projected 14 quick rental units of total 1647 mw new power generation capacity are actually commissioned within 2010 as planned for. The ruling minimum wage levels in the sector needs urgently to rise as these have fallen well below the wage levels now prevailing for rural laborers; this is as important for subsistence of the workers as for addressing concerns of consumer lobbies in the export markets in advanced economies about fair treatment for the workers. Strategies for promotion of export of manufactures and manpower will need to be designed bearing in mind the projected geographical patterns of global growth referred to earlier. Export demand from the traditional Western markets, particularly the US, may be slow to rebound to the debt fuelled pre-crisis levels, but this can be more than made up for by growing export opportunities in the emerging Asian economies; gearing up initiatives for concluding, bilateral/regional trade agreements with low tariff and non-tariff barriers.

Supportive monetary and credit conditions will also be necessary for attainment of the targeted GDP growth. One view aired in the recent stakeholder consultation sessions was that monetary policies are not as effective in promoting growth on the supply side as in limiting pressures on the demand side. This view may be correct for advanced economies with mature well developed markets; but in developing economies with evolving incomplete markets, supportive monetary and financial policies do have useful role in creating and diversifying access to financing for diverse output activities. In particular, widening and deepening financial inclusion of underserved productive economic sectors and population segments promote growth both on the supply and demand sides; and conducive monetary conditions help financial markets develop and deepen new dimensions responding to evolving needs of diverse sectors. Even for mature advanced economies faltering in growth performance, the IMF is now explicitly advocating growth supportive monetary policies, with responsiveness in both directions.

(b) <u>Inflation</u>: The rising trend in global prices of food and non food commodities seen in the beginning of 2010 abated by May 2010, and IMF's July WEO update has lowered the projections of oil price rise (to USD 75.3 and 77.5 per barrel for 2010 and 2011, from April projections of USD 80.0 and 83.0). Given the deflation fears in some of the advanced economies, consumer price inflation projections in the update have been lowered for advanced economies to 1.4 and1.3 percent for 2010 and 2011, from April projections of 1.5 and 1.4 percent. In view of the projected quicker pace of economic growth, inflation projections for the emerging and developing economies have been raised to 6.3 and 5.0 percent for 2010 and 2011, from previous projections of 6.2 and 4.7 percent. Given these moderate projections for global inflation, influences from external prices on consumer price trends in Bangladesh in FY11 are likely to remain subdued. The current high double digit inflation in immediate neighbor India remains a concern, influencing prices in Bangladesh through formal and informal trade; but the Indian authorities have recently taken strong steps to bring down inflationary pressures.

The anticipated upward revisions of user prices of gas, fuel oil and power are the likely main internal influences on domestic inflation in Bangladesh in FY11. The high cost quick rental option needed for urgent augmentation of power generation has heightened the urgency of increase in user prices of energy, to keep budgetary subsidy burdens sustainable. The price adjustments will need to be selective, retaining subsidies to keep costs tolerable for low income households, and also to keep agricultural and manufacturing output activities competitive; while withdrawing subsidies for better off households and commercial establishments, even surcharging these users wherever appropriate.

Wage revisions that the apparels sector workers are now agitating for will be another significant local influence on domestic inflation in FY11. Higher public expenditure on the extended social safety net, and uncontrollable partial leakages from the actively promoted agricultural and SME lending into consumption expenditure will be the other probable demand side local influence impacting domestic inflation. BB's active management of market liquidity will keep inflationary pressures from these influences well contained. Growth in inflows from expatriate workers has cooled off in recent months to trend levels; the risk of inflationary pressures from speculative uses of the liquidity overhang will ease down with the anticipated pick up in investment activities and capital goods imports, and with BB's monitoring discouraging unproductive and speculative uses of credit. Overall, barring major unforeseen natural calamities or social disruptions, and with BB's active monetary policy management, CPI inflation in Bangladesh is expected to remain moderate in FY11; within the 6.5 percent annual average level projected in government's FY11 budget. However even moderate rises in inflation (particularly in food prices) attract concern disproportionate with their macroeconomic significance, because gains from inflation go to the affluent while the pains go to the low income population groups. Government authorities will therefore need to remain proactive in facilitating and enforcing orderly functioning of wholesale and retail markets and supply chains; subsidized sales from public food grain stocks to low income consumers may be called for in events of sudden sharp food grain price spikes. Public procurement of food grains for food security buffer stocks can take advantage of spells of favorable global prices (wheat is now a much lower cost alternative of rice), instead of large scale attempts of local procurement that can escalate local prices.

(c) <u>Fiscal developments</u>: Government's FY11 budget targets 19.6 percent increase in public expenditure to Tk. 1321.7 billion, including 34.4 percent increase in development expenditure to Tk 427.7 billion. Seen against the reported high attainments respectively of 25.5 percent and 47.2 percent increase in FY10, both expenditure targets for FY11 look attainable.

Revenue receipts are targeted to grow 16.8 percent in FY11, again looking quite attainable seen against the 25.7 percent growth reported for FY10 or against the projection of 13.2 (6.7+ 6.5) percent nominal GDP growth for FY11. A high 26.8 percent FY11 growth in income tax receipts is targeted; but this progressive tax is projected to constitute less than thirty percent of total tax revenues; taxes of regressive nature like VAT and import duties still constituting the bulk of the tax base.

The sectoral outlays of public expenditure in the FY11 budget laudably have distinct inclusive and poverty combating features, with one third of total outlays going to social infrastructure, including nearly one fourth for human development (health, education, science & technology and other related sub sectors). The social safety net and social empowerment expenditure outlays for poor and vulnerable population groups are 12.7 percent higher in FY11 budget than those in FY10. Allocation of a high 30.4 percent of total expenditure outlays for physical infrastructure reflect due attention to the deficiencies holding back investment and growth. The Tk 132.7 billion allocation for interest costs on domestic debt represent 13.7 percent of projected FY11 revenue receipts, interest costs on much larger stock of (mostly concessional) external debt is about a tenth of this.

Budget deficits of 4.5 percent and 5.0 percent of GDP are estimated for FY10 and FY11; eventual actual outcomes are likelier to be around the trend level of under four percent of GDP, with actual development expenditures well short of initial budget projections. The Tk 58.8 billion excess bank reserves carried over from FY10 provides a liquidity cushion allaying concerns about crowding out of private sector credit needs in case the projected Taka 156.8 billion bank borrowing is fully drawn upon. Bangladesh economy is at this moment in need of robust spurt in investment expenditure, be that public or private.

While unlike many advanced western economies and fast growing neighboring economies Bangladesh is now free of any immediate worry about sustainability of public debt, the 19.0 percent increase in borrowings by non financial State Owned Enterprises (SOEs) in the context of overall negative bank borrowing by the public sector warrant timely attention. Some SOEs lying idle for lack of commercial viability have been reactivated in the recent past. The relevant ministries need to insist on realistic, viable business plans and attainment of specified physical and financial performance targets for the reactivated SOEs; otherwise these may end up again as drain on public resources and loan default burdens on state owned banks.

(d) External sector: Annualized import and export growth in 11 months of FY10 up to May 2010 were low 2.8 and 2.5 percent respectively, but these low figures mask the steady year round improvement from negative growth in initial months. After steady narrowing throughout first ten months of FY10, trade deficit widened in May 2010 with high import payments. Current account surpluses grew throughout FY10 with rising inflows from expatriate workers.

Both imports and exports are projected to grow at double digit rates in FY11, with workers' remittance inflows settling down around lower double digit trend level. This will narrow down current account surpluses, with corresponding moderation in foreign exchange reserve growth. The need for USD purchases (with attendant infusion of equivalent Taka liquidity) to limit appreciation of Taka will decrease, easing inflationary pressure. BB's foreign exchange purchases from the market in FY10 totaled USD 2.1 billion. This did not altogether eliminate the appreciation pressures on Taka; the competitiveness cushion in terms of difference between nominal and real exchange rates has slimmed down substantially.

Capital inflows as FDI and ODI are expected to increase substantially as government's initiative for attracting external equity and loan/grant inflows in infrastructure investments start bearing fruit. Intensified activity levels in the external sector are expected to play the main role in orderly elimination of the overhang of Taka liquidity. BB's main objectives for the external sector will be the maintaining of flexibility and competitiveness of exchange rate of Taka, curbing of tendencies for instability and excessive volatility, and consolidating external sector viability with gradual further buildup in the foreign exchange reserve cushion, still slender relative to those in most other comparator economies.

(e) <u>Monetary outlook, policy stance for FY11</u>: BB's monetary policies will continue pursuing the dual objectives of maintaining price stability and supporting faster economic growth and poverty reduction. Continuous watch will be maintained to locate and neutralize likely inflationary pressures from the growth supportive monetary and credit policies, which, to the extent feasible, will be targeted to selected priority productive sectors. Deepening of financial inclusion of agriculture, SMEs, renewable energy and ecological footprint minimizing technology sectors will continue to remain the key areas of policy supports with appropriate refinancing lines. Tight monitoring and discouragement of expansion of unproductive, speculative use of credit will continue. Proactive role of civil society opinion leaders and think tanks in fostering cultural attitudes favoring disposable income based consumption and adequate equity based investment will probably be of much help in discouraging wasteful consumerism and casino like mindset for speculation.

As already indicated in the foregoing sections, the phase of inflows-driven strong monetary expansion is nearing its end, with growth in workers' remittance inflows settling down and import growth rising back to trend levels. The current liquidity overhang should stand used up by H1 FY11, with the expected acceleration in investment activities, particularly in the energy sector.

With the moderation trend in point-to-point CPI inflation noticed from March 2010, forecasts from linear extrapolation based projection exercises at PAU support the expectation that the 12 month average CPI inflation that crept to 6.51 percent in April 2010 will also come back below 6.50 percent (the level targeted in the national budget) in FY11.

Key monetary targets of the monetary program for FY11 drawn up on the basis of above described assumptions may be seen at last column of Table 1, page 7. The targets provide for monetary accommodation commensurate with the projected nominal growth of the economy, plus reasonable additional margin for increase in monetization (change in income velocity of money). BB's refinance lines supporting financial inclusion promotion initiatives in the agriculture, SMEs, renewable energy and other selected priority sectors will as before be within the envelop of reserve money growth path targeted in the FY11 monetary program.

Liquidity levels in the market will be actively managed to limit buildups in demand side pressure; field level surveys will be undertaken to ascertain the extent, if any, of leakages from bank credit for declared purposes, including agricultural and SME loans, into end uses for consumption or speculative purposes. Besides policy (repo, reverse repo) interest rates, cash reserve and statutory liquidity requirements will be adjusted as and when warranted by unfolding trends of growth in broad money and domestic credit.

Lowering of lending rates is a persistent demand from the entrepreneur community, but the interest rate structure is an outcome of complex interplays of conflicting interests of savers and entrepreneurs active in the credit and capital markets. Regulatory interventions on interest rests are best limited to those justifiable on consumer protection grounds; interventions beyond these will impair effectiveness of monetary policies, obstructing normal transmission channels of the policies.

Borrower grievances about high intermediation margins in bank lending are also common, but the margins in Bangladesh are not outliers relative to other comparator economies. Intermediation margins are quite low in state owned banks, and modest also in some private sector banks. Branches of foreign banks, and private banks with high exposure in SME and consumer lending and with modest sized deposit bases tend to have high intermediation margins. The margins should come down as deposit and advance bases of banks expand; income forgone in narrower intermediation margin compensated by income increase from larger asset portfolios. BB's supervision departments are closely monitoring the trends of intermediation margins of individual banks, in light of these aspects.

The banking sector is the key vehicle transmitting BB's monetary and credit policies into the real sector; reform measure in strength and efficiency of the sector are therefore under proactive BB monitoring. Hearteningly, an IMF FSAP update mission reported the banking sector in Bangladesh to be in good shape, after conducting assessment and stress testing in 2009. Following implementation of Basel II capital regime from Bangladesh; the entire regulatory and supervisory regime for the banking sector is being reviewed in light of reform recommendations coming out from BIS and other related global forums, for introducing changes in capital, liquidity, asset quality and provisioning requirements necessary and appropriate for the Bangladesh context. Stress testing routines in banks have already been introduced as an early warning system bringing out vulnerabilities. State owned and private sector banks are now being supervised by BB on the same footing and yardsticks for ensuring financial stability.

3. Concluding observations: The monetary stance for FY11 outlined in the foregoing sections is designed to render meaningful support to government's policies and programs aimed at placing the economy in firmer traction on path of faster inclusive growth and poverty reduction; while also maintaining monetary and price stability. The various external and internal risk factors to growth and price stability have been discussed in the relevant sections. The monetary stance will be reviewed in light of actual H1 FY11 outcomes in early January 2011; but the policy approaches will be under continuous review and adjusted appropriately in the light of actual developments. At all events, BB will ensure adequate credit access for all productive economic pursuits, and will take all feasible steps to ensure stability and orderly functioning of the money and credit markets. The financial stability of banks and financial institutions are also under constant watch of Bangladesh Bank.

Annex 1 :

CPI Inflation (National, Rural, Urban) Base: 1995-96

CPI Inflation (National)						
Period	Twelve-Month Average Basis			Twelve-Month Point to Point Basis		
	General	Food	Non-food	General	Food	Non-food
2009-2010P						
July	6.04	6.31	5.72	3.46	3.34	3.74
August	5.60	5.72	5.55	4.69	4.93	4.54
September	5.15	5.15	5.30	4.60	4.98	4.28
October	5.11	5.14	5.23	6.71	7.78	5.07
November	5.21	5.25	5.33	7.24	7.84	6.44
December	5.42	5.48	5.53	8.51	9.50	7.04
January	5.67	5.80	5.66	8.99	10.56	6.53
February	5.95	6.20	5.73	9.06	10.93	6.14
March	6.26	6.71	5.68	8.78	10.80	5.60
April	6.51	7.17	5.60	8.54	10.47	5.46

CPI Inflation (Rural)						
Period	Twelve-Month Average Basis			Twelve-Month Point to Point Basis		
	General	Food	Non-food	General	Food	Non-food
2009-2010P						
July	6.16	6.19	6.10	3.21	2.99	3.62
August	6.64	5.52	5.89	4.25	4.07	4.60
September	5.10	4.85	5.60	3.99	3.83	4.30
October	5.05	4.81	5.52	6.62	7.26	5.34
November	5.10	4.84	5.60	6.83	7.00	6.51
December	5.27	5.02	5.77	8.27	8.82	7.20
January	5.49	5.28	5.87	8.81	9.92	6.65
February	5.73	5.62	5.93	8.96	10.34	6.35
March	6.03	6.11	5.88	8.81	10.35	5.89
April	6.33	6.60	5.79	8.77	10.36	5.79

CPI Inflation (Urban)						
Period	Twelve-Month Average Basis			Twelve-Month Point to Point Basis		
	General	Food	Non-food	General	Food	Non-food
2009-2010P						
July	5.76	6.60	4.72	4.09	4.14	4.03
August	5.50	6.17	4.66	5.81	6.92	4.39
September	5.26	5.85	4.54	6.15	6.76	4.20
October	5.26	5.90	4.46	6.96	9.00	4.34
November	5.50	6.20	4.64	8.27	9.83	6.27
December	5.81	6.56	4.86	9.10	11.08	6.60
January	6.16	7.02	5.08	9.44	12.07	6.18
February	6.51	7.56	5.20	9.29	12.32	5.57
March	6.81	8.12	5.17	8.70	11.86	4.83
April	6.99	8.51	5.08	7.95	10.72	4.56

Annex 2:

Balance of payments

(In million US$)

	FY 2008-09 July - May	FY 2009-10^P July - April	FY 2009-10^P July - May	FY 2009-10 Projection	FY 2010-11 Projection
	1		2	*3*	*4*
Trade balance	**-4726**	**-4501**	**-4885**	**-5177**	**-7335**
Exports f.o.b(including EPZ)	14162	12965	14519	16128	17806
Imports f.o.b(including EPZ)	-18888	-17466	-19404	-21306	-25141
Services	**-1546**	**-1437**	**-1585**	**-1939**	**-2930**
Receipts	1648	1578	1741	2153	2389
Payments	-3194	-3015	-3326	-4092	-5319
Income	**-1325**	**-1099**	**-1191**	**-1476**	**-2073**
Receipts	94	46	50	125	169
Payments	-1419	-1145	-1241	-1602	-2242
Of which:Official interest payment	*-210*	*-184*	-197	*-300*	*-350*
Current transfers	**9278**	**9726**	**10667**	**11760**	**13406**
Official transfers	68	92	93	89	131
Private transfers	9210	9634	10574	11671	13275
of which : Workers' remittances	*8770*	*9192*	*10095*	*11142*	*12925*
Current account balance	**1681**	**2689**	**3006**	**3167**	**1069**
Capital account	**409**	**277**	**291**	512	605
Capital transfers	409	277	291	512	605
Financial account	**-640**	**-297**	**-531**	**-849**	**-895**
i) Foreign direct investment(net)	901	564	621	677	700
ii) Portfolio investment	-126	-72	-85	-50	20
iii) Other investment	-1415	-789	-1067	-1476	-1615
Net aid flows	500	805	825	1054	1215
MLT loans (excludind suppliers credit)	1075	1371	1446	1804	2215
MLT amortization payments	-575	-566	-621	-750	-1000
Other long-term loans (net)	-59	-142	-152	-90	-120
Other short-term loans (net)	-148	24	192	-250	-350
Other capital	-577	-711	-839	-700	-850
Trade credit (net)	-1124	-610	-846	-1300	-1400
DMBs and NBDCs (commercial Banks net)	-7	-155	-247	-190	-110
Assets	-82	-226	-281	-290	-200
Liabilities	75	71	34	100	90
Errors and omissions	**-57**	**-242**	**-105**	**-51**	**-421**
Overall balance	**1393**	**2427**	**2661**	**2779**	**358**
Reserve assets (change)	-1393	-2427	-2661	-2779	-358
Bangladesh Bank	-1393	-2427	-2661	-2779	-358
Assets (- indicates increase)	-970	-3288	-3062	-3279	-750
Liabilities (- indicates decrease)	-423	861	401	500	392

P= Provisional. R= Revised