ISSN 1684-0054

JOURNAL OF THE INSTITUTE OF BANKERS BANGLADESH

Volume 61

Number 1

January - June 2014

HALF-YEARLY JOURNAL
OF
THE INSTITUTE OF BANKERS, BANGLADESH

Journal of the Institute of Bankers, Bangladesh
Volume 61 No-1 January-June 2014

CONTENTS

China has cut interest rate twice to deal partly with the financial crisis faced by China and meanwhile both China and India has depreciated their own currencies more than once to boost up their export. This would keep Bangladesh wary about no other alternatives except for depreciation of our Taka vis-à-vis dollars for improving the competitiveness of exports of Bangladeshi goods to international markets. In last year Euro currency has already been depreciated against the dollars. Bangladeshi exporters are losing money for exporting few goods in euro zone due to differences in exchange rate. This prevailing situation has kept us consider the depreciation/devaluation of our currency vis-à-vis dollars through open market operation of BB in foreign exchange market and simultaneously sterilized intervention by BB would also be required to achieve price stability on the other.

The first article of this issue deals with the extent of sterilized intervention in the foreign exchange market of Bangladesh bank to offset the monetary expansionary effect of reserve accumulation in BB's balance sheet. The long run elasticity between NFA and NDA shows the extent of sterilized intervention about 11 percent in the foreign exchange market. In FY2014, BB has geared up sterilized interventions. In order to shield appreciation of Taka, BB mopped up USD 5 billion (equivalent to Tk. 400 billion has been rejected in the money market) from foreign exchange market through intervention during FY2014. As against this amount, BB sterilized about Tk. 200 billion in FY2014 through BB bill, reverse repo and Islamic bond. As there is policy dilemma of intervention in the foreign exchange market, it is not possible to achieve price stability and to resist appreciation of taka at the same time. So the extent of sterilization of BB turns out to be key issue for achieving price stability in the long run.

The second article highlights the much talked about 'inclusive financing' for sustained economic growth. The paper argues that the Bangladesh case is a great example to learn how the financial sector can play a crucial role in triggering shift of financing flows away from speculative price bubble creation towards inclusive financing of environmentally sustainable domestic demand driven output initiatives. The thrust of ingraining a socially responsible financing philosophy are on output initiatives in agriculture supporting food security and price stability; SME financing promoting output, employment and income generation; and green financing supporting environmental sustainability.

The third article deals with whether the training that are taken place in banks, are effective enough to prevent operational risk faced by banks taking survey evidence from banking sectors of Bangladesh. Banks in Bangladesh have instituted a sound and rigorous training of their employees, ensuring confidence to employees in their performance. The survey reveals that training is sound on the whole, as 95 percent trained bank employees felt being able to the task comfortably after training. Taking feedback and acting on it, and fine-tuning training accordingly helps bring improvement ensuring the efficacy of the training. What is more important, banks do not hold training bias to any specific functional area. Such stringent training indicates that banks are less susceptible to operational risk.

The last and final note of this issue is concerned with the use of M2 vs M3 in Bangladesh Bank's monetary programming for explaining CPI inflation and reducing errors while targeting monetary growth. The estimated outcome of the analyses indicates, that M2 has relatively stronger association with inflation and use of M2 in monetary targeting produces relatively smaller errors in actual money growth from targeted growth.

Mahmood Osman Imam **30 June, 2015**
Editor