

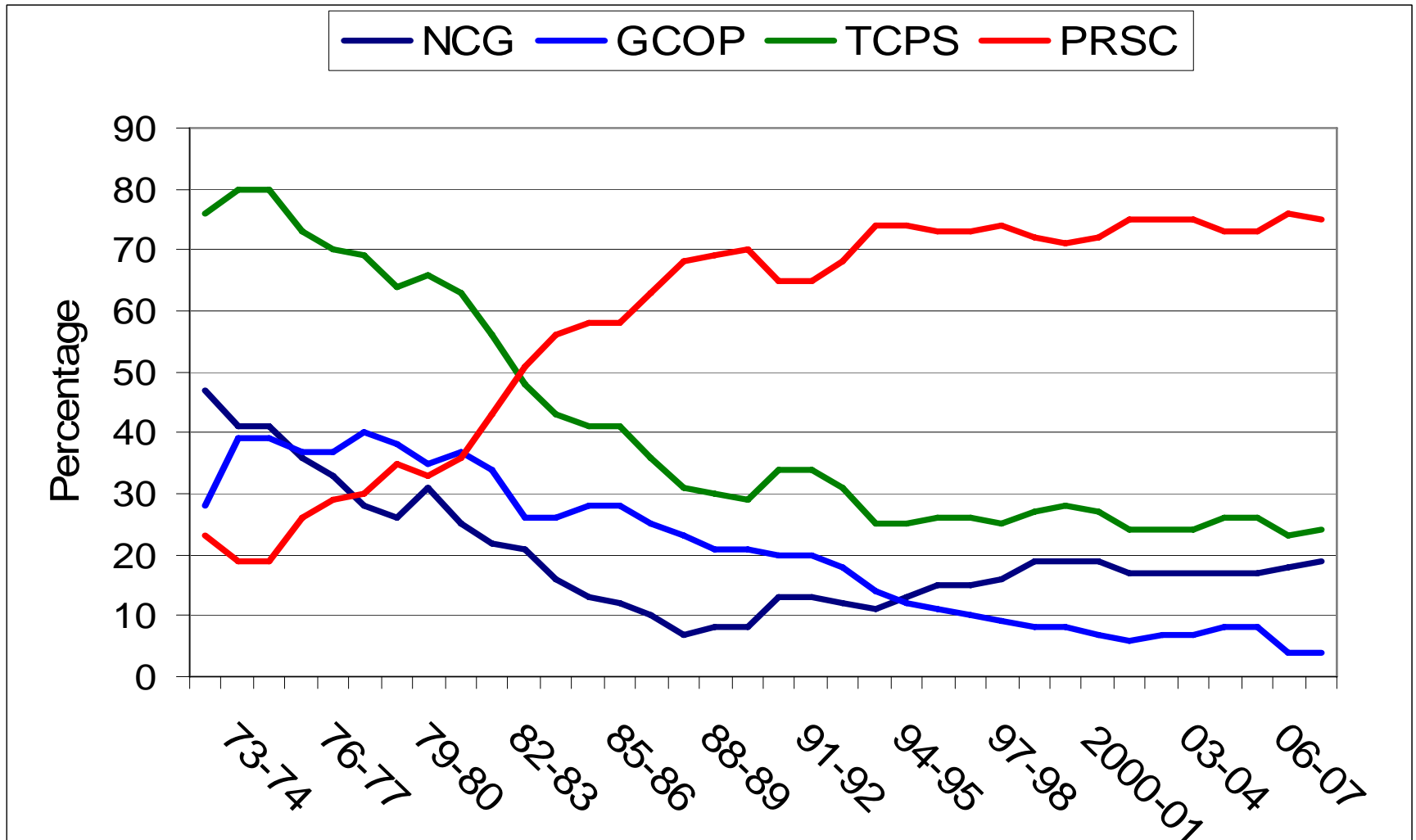
FY 10 Monetary Stance and Agricultural Credit

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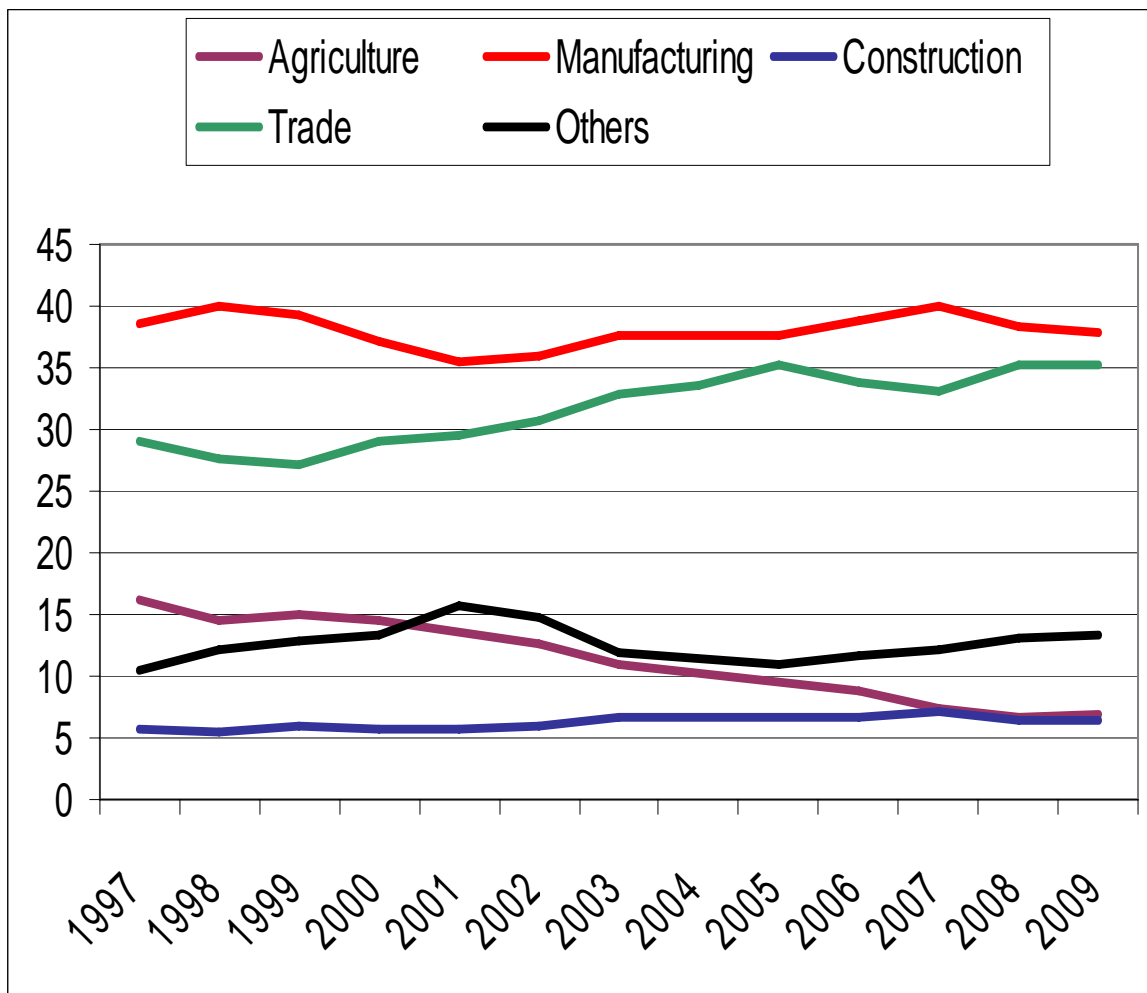
Agricultural Credit In Monetary Stance

- Monetary Stance indicates growth rate of credit to private sector, and although agricultural credit is known to have BB's attention, no projected rate of growth has been given – made mandatory for banks to serve farmers
- No desired rate of growth in agriculture has been indicated but probably it is similar to that in FY 09 which was 4.6%, nominally probably 11-12%
- Such rates of growth indicate the need for credit particularly as main rice and other high value crops and non-crop agriculture are cash cost-intensive
- For rice 75-80% are cash costs – last year farmers had to borrow money at 240% r/l for farming

Credit to Public and Private Sectors

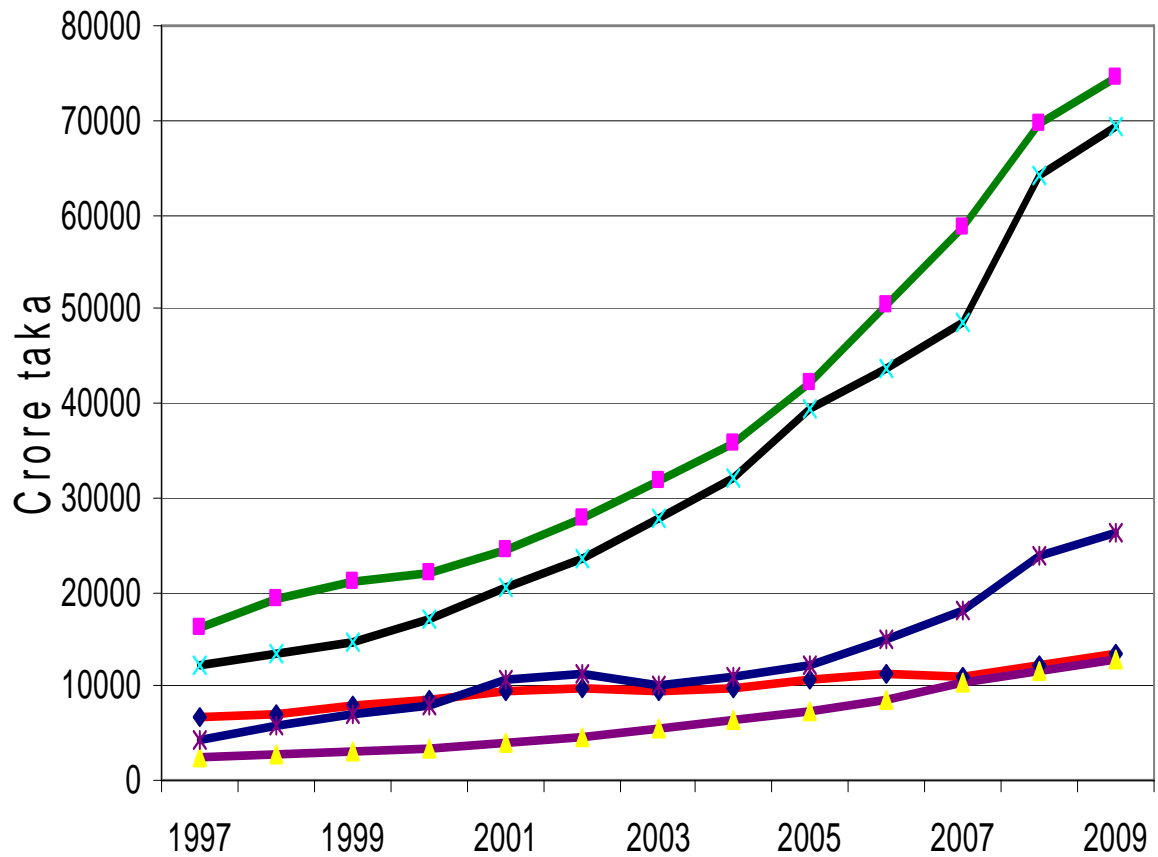
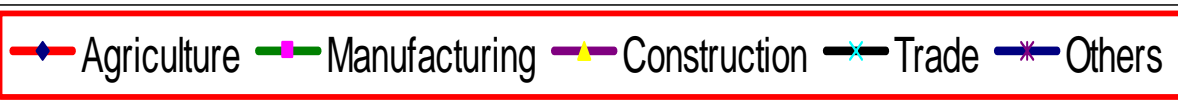


Share of Sectors in Private Credit



- **Only share of agriculture in credit has fallen over the last 10-12 years, trade share had risen most**

Growth of Credit to Sectors



- **Growth rates**
- **Agric - 5.1%**
- **Manuf - 12.9%**
- **Cons - 14.6%**
- **Trade – 15.1%**
- **Others – 13.1%**

Volume of Agricultural Credit- Rule-based or Discretionary

- **Monetary policy and by extension credit policy has to be rule-based**
- **Not clear if it is so – possibly not**
- **So called Taylor Rule used in many developed countries in deciding instruments and targets; targets are mostly output and inflation and the instruments are interest rate and monetary base**
- **Regulating credit using interest rate in agriculture may not be appropriate – volume of credit as a surrogate for monetary base may be**

Issues in Deciding Volume of Agricultural Credit

- First, given emphasis on credit to public sector, there may be a crowding out of private credit
- Second, squeeze on private credit likely to limit agric credit further – political economy of big business
- Third, more importantly, formal bank credit to agriculture has to take into account other large sources of credit such as micro & non-formal credit – these are ignored
- Not known how these are tied together – are they complementary or substitutes? Borrow from Peter to pay Paul?
- Without such knowledge, simply raising volume of agricultural credit may not be effective in raising output in agriculture

THANK YOU