ABSTRACT

The Central Bank is the highest authority employed by the government for formulation of monetary policy to guide the economy in a certain country. Monetary policy is defined as the regulation of the money supply and interest rates by a central bank. Monetary policy also refers to how the central bank uses interest rates and the money supply to guide economic growth by controlling inflation and stabilizing currency. Like any other central bank, Bangladesh Bank is performing the role to formulate monetary policy in Bangladesh.

The control of money supply is an important policy tool in conducting monetary policy. The success of monetary policy depends on the degree of predictability, measurability and controllability that the monetary authority has over money supply.

Monetary policy in Bangladesh is framed using projected real GDP growth rate. The targeted rate of inflation adopts Reserve Money (RM) and Broad money (M2) as operating and intermediate targets respectively. The RM is influenced by the indirect market based instrument such as CRR, SLR, repo, reverse repo, open market operation and moral suasion.

This paper analyses the different statistical economic data relating to money supply. To get the outcome of the study determinants of money supply, monetary base and money multiplier have been explained. Basically the trend, behavior of the determinants shows that net foreign assets, net domestic assets, interest rate spread, government borrowing have a greater impact on money supply process in Bangladesh. It is revealed here that changes of broad money, monetary base and money multiplier are not proportionally acting in targeting and achieving money supply. The prudent consideration addressing the matters may helpful for Bangladesh Bank for adopting and implementing effective monetary policy and sustainable growth in economy.