

Monetary Policy Statement FY'21 Highlights

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Monetary Policy Statement (MPS) Highlights FY'21

An expansionary, growth accommodative policy stance for the FY'21 in considerations of impediments caused by ongoing COVID-19 pandemic, seasonal floods, and international sluggish economic and volatile price situations

Bangladesh bank endures an expansionary, growth accommodative policy stance for the FY'21 in response to the additional fund requirements for restoring country economy. Recent MPS focuses on:

- Accommodating credit to available sectors while recovering economy from the adversity caused by COVID-19 pandemic and rehabilitation of the production capacity to restore growth.
- Keeping CPI inflation contained within the targeted ceiling of 5.04 to 5.93%.

Policy Measures to Restore the Growth of the Economy

- Policy rates (repo and reverse repo) reduced further to 4.75% and 4.00% respectively from 5.25% and 4.75% (slashed policy rate twice from 6.00% while reverse repo rate remained unchanged at 4.75%). Besides, after 17 years, Bank Rate is reduced to 4% from 5% to rationalize it with current interest rate regime.
- BB will remain fully engaged and vigilant to generate employment opportunities in agriculture, industry and services sectors so that the COVID-19 pandemic related economic losses could be recovered fast. In this respect, they will take timely actions to inject required liquidity in the market while attaining programmed monetary objectives.

	Target H2'20	Achieved H2'20	Target H1'21	Target H2'21
 INFLATION	5.50%	5.65%	Target FY'21: 5.04-5.93%	
 BROAD MONEY GROWTH	12.50%	12.70%	14.00%	15.60%
 RESERVE MONEY GROWTH	12.00%	15.70%	15.50%	13.50%
 DOMESTIC CREDIT GROWTH	15.90%	13.70%	15.00%	19.30%
 PRIVATE CREDIT GROWTH	14.80%	8.60%	11.50%	14.80%
 PUBLIC CREDIT GROWTH	24.30%	53.30%	35.60%	44.40%

Attaining Monetary Targets will Become Challenging due to the Shocks Assumed from COVID-19 Pandemic, Seasonal Floods and External Shocks

- Owing to pandemic related devastation, government has already estimated GDP growth rate for FY'20 to be 5.20% from initially estimated 8.20%. Fiscal Policy considered a fast recovery from this condition by assuming an overwhelming 8.20% GDP growth rate for FY'21. Though BB advocates the growth target set by fiscal policy but its attainment is contingent on proper implementation of the stimulus packages, completion of few mega projects and not so severe damages from seasonal floods.
- BB widened target inflation range but still huge liquidity injection, BB's policy relaxation and possibility of crop loss due to ongoing floods may posit challenge this inflation containment within the target range i.e. inflationary pressures will be there.
- BB's measures like reduction of CRR by 150 bp points for banks, 350 bp for offshore banking units (OBU) and 100 bp for FIs, introduction of long-term repo facilities up to 360-day, adoption of several refinance

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schemes helped to inject sufficient liquidity in the money market. But, lower than expected tax revenue and slow NSC sales (which eventually raised government bank borrowing target in recent budget) may offset such substantial improvement in liquidity condition but still no liquidity crunch will occur in current fiscal year.

- ☞ BB has narrowed down bank's intermediation spread since April '20 but growing deposit despite negative Real Interest Rate (execution of disciplinary measures for investing in NSC channeled funds in the money market) helped to overlook pressures from narrowed intermediation efficiency. But mounting NPL will posit challenge the sustainability of this narrowed intermediation efficiency.
- ☞ BB has expressed its intention to remain cautious regarding the risk factors while implementing the monetary policy objectives for FY'20 and if require policy rates, cash reserve and liquidity ratios may witness mid-course modifications.
- ☞ BB projects slight deterioration of current account balance (owing to sluggish domestic and international demand). But anticipated moderate upsurge in financial receipts may help to offset the impact and will be enough to generate a sensible BoP surplus.
- ☞ Government announced 2% incentives serve as stimuli for attaining remarkable growth in remittance. However, this growth may not remain sustainable as large number of expats become jobless due to COVID-19 and without any improvement of current pandemic situation in the host countries.

Latest MPS will Posit Neutral to Positive impact on Capital Market

- ☞ Bangladesh Bank has taken several steps to improve the liquidity condition of the capital market over the last fiscal year such as: (1) relaxation of bank's capital market exposure limits by allowing 25% on Solo basis and 50% on consolidated basis of excess liquidity to be invested in capital market, (2) allowing for creation of BDT 2 billion special investment fund in excess of allowed stock market exposure limit by each bank, (3) allowing banks to distribute dividend up to 30% which can include 15% cash dividend given maintenance of 12.5% capital conservation.
- ☞ Bangladesh Bank has proposed to cut both the overnight repo and reverse repo rate by 0.50% and 0.75% respectively along with considering 1% cut to Bank Rate. These rates' cuts will increase the excess liquidity of Bank and FIs which will in turn increase their available fund to be invested in the capital market.
- ☞ Bangladesh Bank proposes increased coordination among BSEC, Merchant Banks and Stock Exchanges to enhance market capitalization and ensure listing of profitable state owned and multination companies with good fundamentals.
- ☞ As the global markets have started recover, due to the trend observed of synchronized movement between DSE and other global equity markets, it can be expected the DSE and CSE may follow the suit too.
- ☞ Due to the possibility of higher inflation and lower interest rate, real interest gain from debt instruments is likely to fall which can create incentives for investors to invest in capital market.

Uncertainty of future impact due to ongoing COVID-19 Pandemic and volatility of both global and local economy will pose challenge in the attainment of monetary targets

The uncertainty over the length and depth of COVID-19 both in Bangladesh and Global market still remain as the most important risk in the attainment of MPS targets. Volatility of oil price, global economic recession and geopolitical instabilities present significant challenge to export and remittance inflow. Bangladesh has implemented the largest social welfare program in its history and is planning to launch more stimulus packages going forward which can create inflationary pressure beyond the BB's target. In sum up, MPS target attainment subject to many contingencies and uncertainties with probable adjustment if so require.

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Appendix

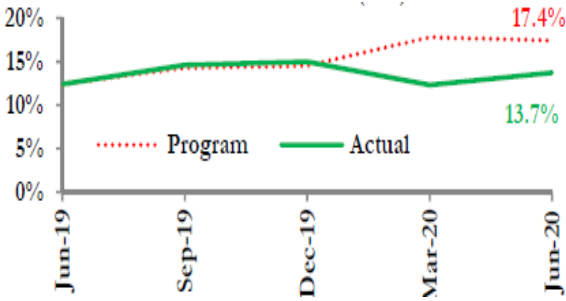


Figure 1: Domestic Credit Growth
Source: Bangladesh Bank

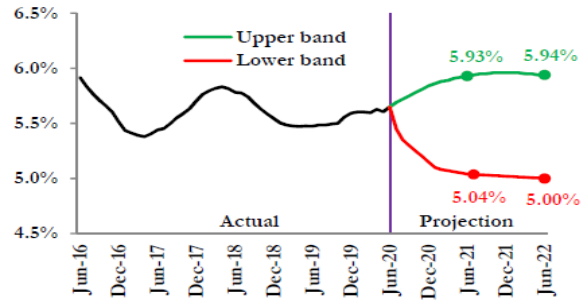


Figure 2: Twelve Month Average Inflation
Source: Bangladesh Bank

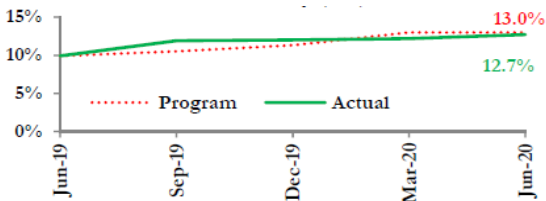


Figure 3: Broad Money (M2) Growth
Source: Bangladesh Bank

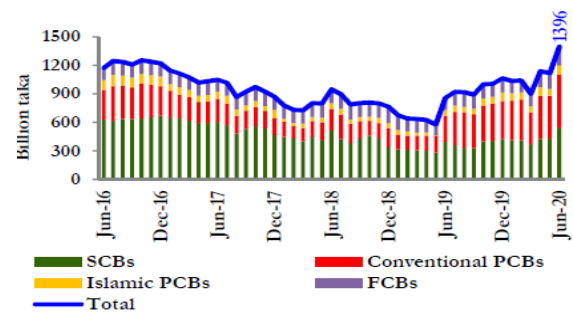


Figure 4: Excess (above CRR and SLR) Liquid Assets
Source: Bangladesh Bank

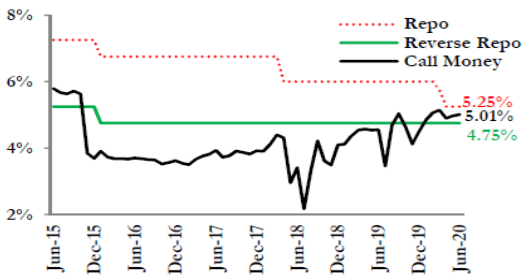


Figure 5: Call Money and Policy Rate
Source: Bangladesh Bank

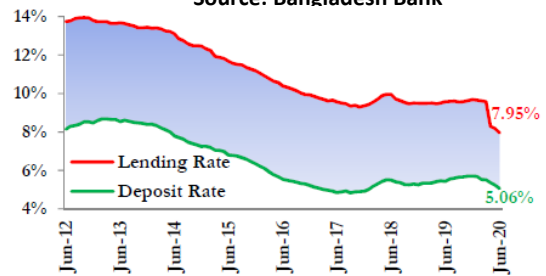


Figure 6: Interest Rate Spread
Source: Bangladesh Bank

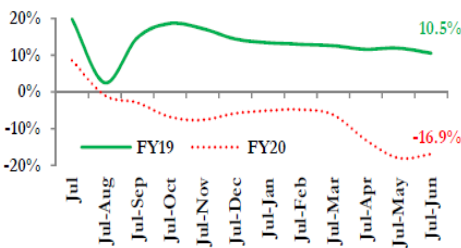


Figure 7: Cumulative Export Growth
Source: Bangladesh Bank

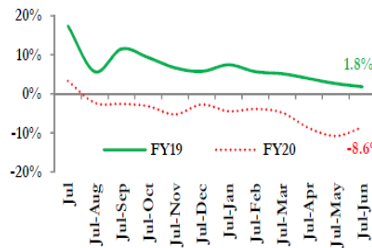


Figure 8: Cumulative Import Growth
Source: Bangladesh Bank

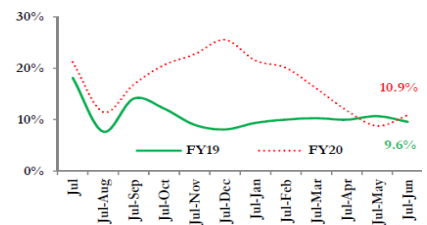


Figure 8: Cumulative Remittance Growth
Source: Bangladesh Bank

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Overweight	: Stock is expected to provide positive returns at a rate greater than its required rate of return
Accumulate	: Stock is expected to provide positive inflation adjusted returns at a rate less than its required rate of return
Market weight	: Current market price of the stock reasonably reflect its fundamental value
Underweight	: Stock expected to fall by more than 10% in one year
Not Rated	: Currently the analyst does not have adequate conviction about the stock's expected total return

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