Monetary Policy Statement FY'23 Highlights

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Monetary Policy Statement (MPS) Highlights FY'23

Cautious policy stance with a tightening bias to control inflation and exchange rate pressures while assisting the economic recovery process to attain long-term economic growth.

The central bank will pursue a cautious policy stance with an aim to contain inflation, reduce exchange rate depreciating pressure and protect foreign exchange reserve. Recent MPS focuses on:

- Keeping CPI inflation contained within the targeted ceiling of 5.50% and restrain pressure on devaluating exchange rate.
- Supporting the economic recovery process, ensuring the necessary flow of funds to the economy's productive and employment generating activities for long term growth.

Policy Measures to Contain Inflation and Exchange Rate Pressures

- The central bank has decided to increase its policy rate (repo rate), by 0.50% to 5.50% from 5.00%, while reverse repo rate remained unchanged at 4.00%. The increase of 50 basis points in the policy rate aims at addressing the pressures on the demand side to contain rising inflation and provide the necessary flow of funding to the important and productive industries to support supply-side operations.
- BB's monetary policy will formulate a new line of credit to minimize import dependency and save valuable foreign exchange reserve. Such initiatives will include creation of startup funds for import-substituting economic activities (particularly the industrial raw material like raw cotton, yarn, textile articles, fertilizer, etc), initiation of new low cost refinance scheme to enhance production of essential food items, expansion of credit guarantee scheme to expedite CMSMEs.

MPS 2023 SPOTLIGHT	TARGET H2'22	ACHIEVED H2'22	TARGET H1'23	TARGET H2'23
INFLATION	5.70%	5.99%[1]	Target FY'23: 5.50%[2]	
BROAD MONEY GROWTH	15.00%	9.10%[e]	10.00%	12.10%
RESERVE MONEY GROWTH	10.00%	0%[e]	9.00%	9.00%
DOMESTIC CREDIT GROWTH	17.80%	15.60%[e]	16.70%	18.20%
PRIVATE CREDIT GROWTH	14.80%	13.10%[e]	13.60%	14.10%
PUBLIC CREDIT GROWTH	32.60%	27.90%[e]	32.30%	36.30%

[1] Data Available up to May 22 [2] As Per National budget FY 2023 e= Estimated

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Uncertainties and bearish outlook of the global economy and supply side bottlenecks will pose challenges in attaining monetary targets.

- GDP growth target for FY'23 has been determined at 7.50%. The GDP growth rate target is expected to be achieved by facilitating credit growth in the productive sectors, opening of Padma Bridge leading to increase in business activities, continued government investment in the infrastructure projects, maintaining domestic demand and driving export & remittance growth. However, the rising import costs of commodities & capital equipment compelling manufacturers to lower output, potential supply chain bottlenecks owing to China's zero Covid policy, ongoing Russian-Ukraine war hampering supply of major commodities & raw materials, likelihood of stagnation or recession in the major world economies are the major challenges Bangladesh will have to face in attaining its GDP growth target.
- The inflation target for FY'23 has been declared at 5.5% in the Bangladesh National Budget. However, the depreciating currency, soaring commodity & energy prices in the global market and widening current account deficit will likely push the inflation well beyond the desired rate.
- BB has decided to increase its repo rate by 50 basis points to 5.50% from its previous 5.00%. This is the second time Bangladesh Bank (BB) has raised repo rate after raising it by 25 basis points from 4.75% to 5.00% in May earlier this year. BB has also lowered the target broad money growth and reserve money growth rates for H1'23 and H2'23 than those of H2'22. These initiatives are expected to stem the money flow to deal with demand side pressures.
- BB has stated its intention to introduce a new refinance line of credit for import-substituting products. BB has also said it would increase LC margins for luxury goods, fruits, non-cereal foods, canned and processed foods etc. to dissuade their imports. These two policies are expected to drive down the import payments and improve the foreign currency reserve in the near term.
- BB has kept the lending rate ceiling fixed at 9.0%. However, BB has stated it would take required policy actions if the higher inflationary and exchange rate pressures along with tight monetary condition leading to increasing cost of funds make maintaining the current lending rate ceiling challenging.
- Recent floods in the north and northeastern part of the country could put further pressure on inflationary outcome and adversely affect growth outlook.
- BB has lowered the private credit growth rate targets for H1'23 (13.60%) and H2'23 (14.10%) from the target private credit growth rate of H2'22 (14.80%). Target public credit growth rates for H1'23 (32.30%) is lower and H2'23 (36.30%) is higher than that of H2'22 (32.60%). Overall domestic credit growth rate targets for H1'23 and H2'23 are 16.70% and 18.20% respectively which was 17.80% for H2'22. However, private credit growth, public credit growth and overall domestic credit growth rate targets for both H1'23 and H2'23 are higher than the achieved (estimated) growth rates in H2'22. The stated objectives for the credit growth rate targets are to continue the implementation of mega projects and supply funds in productive sectors. However, focus on achieving the stated credit growth targets can inhibit the initiatives taken to contain inflation.

Latest MPS will posit Negative to Neutral impact on Capital Market

- Amid the rate hikes and inflationary pressures, capital markets across the world has experienced bearish trends in the recent months including the indices of Dhaka Stock Exchange.
- Raising the repo rate by 50 basis points can posit liquidity pressure on the money market which may in turn adversely impact the liquidity scenario of capital market. However, due to fixed lending rate ceiling and existing negative Real Deposit rate, the adverse impact might not be as much.

- BB has taken several steps to stimulate the capital markets such as policy for adjustment of the overinvested amount made by the banks without reducing their portfolios, policy for portfolio based provision against diminishing value of investment instead of netting off individual instrument's gain and loss, special provisioning policy for investment in mutual funds, special regulatory forbearance and accounting treatment for investment up to BDT 2.0 billion for each bank in the capital market, specifying the criteria for NBFIs shares, debentures, corporate bonds, mutual fund units, loans and fees to be considered as stock market investments etc. These initiatives of BB may have a positive impact on the institutional participation in the capital market.
- Introduction of a universal pension system in the next fiscal year may direct a sizeable fund towards investment in the capital market.

The aim of achieving high GDP growth rate while containing inflation will likely face hurdles amidst an uncertain global economic scenario and domestic economic challenges

Bangladesh can be expected to continue its growth momentum owing to supportive monetary and fiscal policies, growing internal and external demand and almost full withdrawal of restrictions placed to contain Covid-19. However, attainment of macroeconomic outlook regarding inflation and GDP can face challenges from several factors such as prolonging of the Russia-Ukraine war, continuation of soaring global commodity and energy prices, widening current deficits along with depreciation pressure on exchange rate etc. The government may have to increase subsidies provided to key sectors such as fertilizers and fuels due to climbing prices in the global market which will create pressures on fiscal management. Recent floods in the north and northeastern part of the country has added to the already faced challenges to the stability and growth prospects of the Bangladesh economy. However, opening of Padma Multipurpose Bridge, the largest infrastructure project in the history of Bangladesh, may help Bangladesh to offset some of these pressing challenges.

Appendix

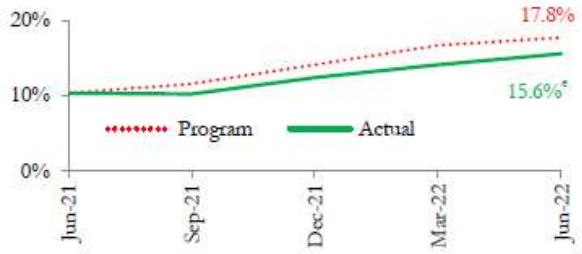

Figure 1: Domestic Credit Growth
Source: Bangladesh Bank

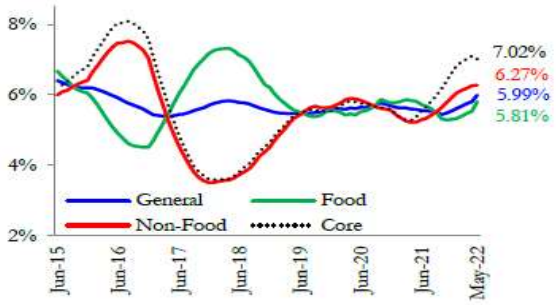

Figure 2: Twelve Month Average Inflation
Source: Bangladesh Bank

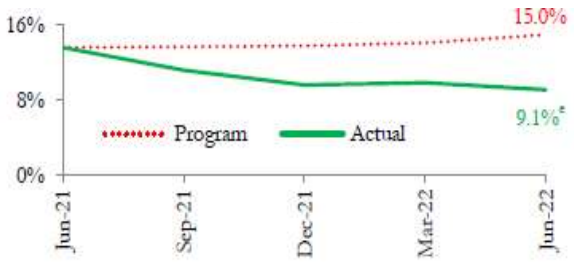

Figure 3: Broad Money (M2) Growth
Source: Bangladesh Bank

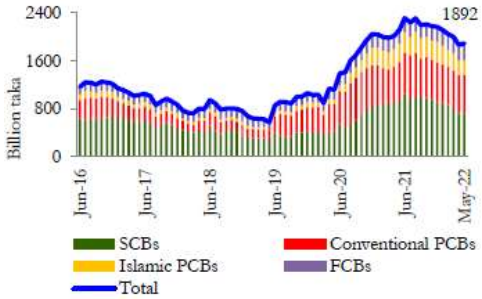

Figure 4: Excess (above CRR and SLR) Liquid Assets
Source: Bangladesh Bank

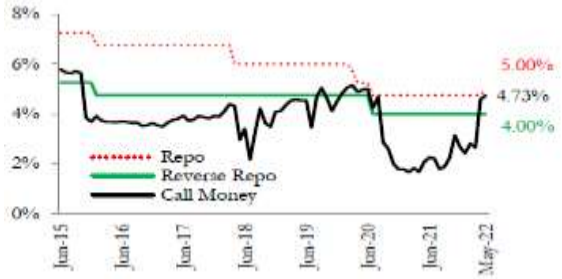

Figure 5: Call Money and Policy Rate
Source: Bangladesh Bank

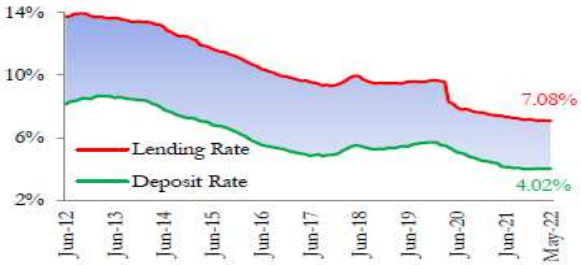

Figure 6: Interest Rate Spread
Source: Bangladesh Bank

Figure 7: Cumulative Export Growth
Source: Bangladesh Bank

Figure 8: Cumulative Import Growth
Source: Bangladesh Bank

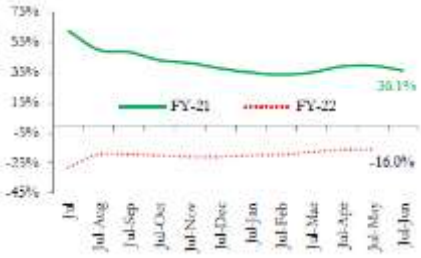

Figure 8: Cumulative Remittance Growth
Source: Bangladesh Bank

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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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EBLSL Key Management

Md. Sayadur Rahman	Managing Director	sayadur@eblsecurities.com
M. Shahryar Faiz	Chief Operating Officer	shahryar@eblsecurities.com
Md. Asaduzzaman	Chief Financial Officer	asad@eblsecurities.com

EBLSL Research Team

Mohammad Rehan Kabir	Research Analyst	kabir@eblsecurities.com
Arif Abdullah	Senior Research Associate	arif@eblsecurities.com
Md Rashadur Rahman Ratul	Research Associate	ratul@eblsecurities.com

EBLSL Institutional & Foreign Trade Team

Asif Islam	Associate Manager	asif@eblsecurities.com

For any queries regarding this report: research@eblsecurities.com

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Our Locations

Head Office:

Jiban Bima Bhaban,
10 Dilkusha C/A, 1st Floor, Dhaka-1000
+88 02 223350016, +88 02 223389254, +88 02 223383247
FAX: +88 02 47112944
info@eblsecurities.com

HO Extension:

Bangladesh Sipping Corporation (BSC) Tower
2-3, Rajuk Avenue (4th floor),
Motijheel, Dhaka-1000
+880257160801-4

Dhanmondi Branch:

Sima Blossom,
House # 390 (Old), 3 (New),
Road # 27 (Old), 16 (New),
Dhanmondi R/A,
Dhaka-1209.
+8802-9130268,

Chattogram Branch:

Suraiya Mansion (6th Floor);
30, Agrabad C/A
Chattogram-4100
+031 2522041-43

EBL Securities Ltd.