EBL Securities Ltd.

HIGHLIGHTS OF
MONETARY POLICY STATEMENT
HY1, FY 2023-24

Call Us
+8802 223350016

Visit Us
www.eblsecurities.com

Monetary Policy Statement (MPS) Highlights H1'24

Contractionary monetary policy stance to contain inflation, promote exchange rate stability and ensure adequate fund flow to the productive sectors to attain the desired economic growth

The central bank will adopt a contractionary monetary policy stance with a transition from a monetary targeting to an interest rate targeting framework in order to contain inflation, improve the current account balance, reduce exchange rate instability, protect foreign exchange reserves and stabilize the financial sector. Recent MPS focuses on:

- Keeping CPI inflation contained within the targeted ceiling of 6.00 percent and restrain pressure on devaluating exchange rate.
- Supporting desired economic growth by ensuring necessary flow of funds to the economy's productive and employment generating sectors, including agriculture, CMSMEs, large industries, import-substituting sectors and services.

Policy Measures to Contain Inflation and Exchange Rate Pressures

- The central bank has decided to increase the policy rates by 50 basis points from 6.00 percent to 6.50 percent, with a symmetric corridor of ±200 bps consisting of a Standing Lending Facility (SLF) or the Special Repo rate at 8.50 percent and a Standing Deposit Facility (SDF) or the Reverse Repo rate increased to 4.50 percent from 4.25 percent.
- The central bank also intends to remove the lending rate cap and introduce a market-driven reference lending rate termed as the 'SMART' (Six-month Moving Average Rate of Treasury bill) with a margin applied for banks and non-bank financial institutions (NBFIs). However, there will be no changes in the interest rates applicable to credit card loans.
- Bangladesh Bank will adopt a unified and market-driven single exchange rate regime in order to ensure stability in the foreign exchange market. The central bank will no longer fix any specific rate for buying and selling foreign currencies.
- BB will calculate and publish Gross International Reserves (GIR) in line with the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6) while keeping track of current practices of calculating and reporting total foreign assets.

MPS FY'24 SPOTLIGHT	TARGET H2'23	ACHIEVED H2'23	TARGET H1'24	TARGET H2'24
INFLATION	7.50%	8.84% [1]	Target FY'24: 6.00% [2]	
BROAD MONEY GROWTH	11.50%	10.50% [e]	9.50%	10.00%
RESERVE MONEY GROWTH	14.00%	10.00% [e]	0.00%	6.00%
DOMESTIC CREDIT GROWTH	18.50%	16.40% [e]	16.90%	15.30%
PRIVATE CREDIT GROWTH	14.10%	11.00% [e]	10.90%	11.00%
PUBLIC CREDIT GROWTH	37.70%	40.00% [e]	43.00%	30.00%

[1] Data Available up to May'23 [2] As Per National budget FY 2023-24 e= Estimated

Monetary Policy Statement (MPS) Highlights H1'24

Through adopting an interest rate targeting framework, raising the policy rate to increase borrowing costs, eliminating the lending rate cap, and implementing a market-driven unified exchange rate regime, BB aims to contain rising inflation effectively, achieve stability in the foreign exchange markets, and improve balance of payment conditions

- Bangladesh Bank (BB) has maintained the target of 7.5% GDP growth rate and 6.0% headline inflation in FY'24, in line with the Government's fiscal policy while formulating its monetary policy statement.
- BB has outlined containing inflation as top priority and conformed a tight monetary policy stance. Hence, the policy rate has been raised by 50 basis points to 6.5%, Reverse Repo rate (SDF rate) by 25 basis points to 4.5%. The increased policy rate is set with a symmetric corridor of ±200 bps, implying that the bank & NBFIs can borrow from the central bank at a maximum of 8.5% through Special Repo Rate (SLF) and deposit excess cash at a minimum interest rate (SDF) of 4.5%. The increase in policy rates is expected to raise the cost of borrowing, and reduce the demand driven inflationary pressure.
- BB has introduced a market-driven reference lending rate to abolish the existing lending rate cap regime. This new approach namely SMART (Six-Month Moving Average Rate of Treasury bill) is based on weighted average yield of the 182-Day T-Bills on a weekly basis and then, the simple average of the four weeks' weighted average yields over the past 6-months. Banks and NBFIs will apply a margin to SMART, with up to 3.0% for banks and up to 5.0% for NBFIs. However, there may be an additional fee of up to 1.0% for lending activities involving CMSMEs and consumer loans to cover supervision costs. Credit card loan interest rates will remain unchanged. Overall deposit growth of the banking system can be expected to improve as a result of these measures.
- The BB has decided to adopt a unified and market-driven exchange rate regime, removing the variable rates for exporters, importers, and remitters. Through this new approach, the exchange rate will be determined by market forces, allowing it to fluctuate based on supply and demand dynamics. Upon implementation of this policy, speculation and volatility in the foreign exchange market can be expected to subside.
- BB will publish the Gross International Reserves (GIR) following the guidelines outlined in the BPM6 as per IMF's condition. However, in addition to GIR, BB will continue to monitor and include other foreign assets, such as the Export Development Fund (EDF), in the calculation and reporting of gross foreign assets. This approach ensures that BB remains aligned with international standards while also considering current practices for a comprehensive assessment of the country's forex reserve.
- BB has projected private sector credit growth rate for FY'24 at 11.0% reflecting BB's intention to support required investment in the productive sector and employment-generating activities to achieve the targeted GDP growth of 7.5%. Considering the government's budgetary borrowing target, the public sector credit growth is projected to reach 30.0% by June 2024.
- BB expects that both exports and remittance will grow by 10.0% and imports by 8.0% in FY'24. Moreover, they anticipated that the overall balance of payment will be at a surplus level in FY'24, owing to policy initiatives such as discouraging imports of luxury goods and other non-essential products and promotion of import substituting activities.
- BB has set growth projection for broad money for FY'24 at 10.0%, in line with the target for nominal GDP growth. The control of broad money growth will be achieved by setting the target for the policy interest rate and managing market liquidity through an interest rate corridor.

The capital market will face anticipated impact from the contractionary monetary policy

- The BB has already allowed banks to maintain a lower general provision of 1.0%, instead of the previously imposed 2.0% provision, on unclassified amounts for loans extended to brokerage houses, merchant banks, and stock dealers. This measure is to enhance flexibility within the banking sector for investing in the capital market, with the goal of promoting stability within the capital market.
- The central bank acknowledged the role of capital market for long term economic development of the country and emphasized the development of the bond market.
- Listed manufacturing companies which are highly leveraged may exhibit decreased profitability due to higher interest expense. However, listed manufacturing companies with higher FDR at banks and NBFIs might have some positive impact on profitability due to probable higher net interest income.
- Banks and NBFIs are expected to increase their interest rate spread, leading to higher profitability, due to the withdrawal of lending rate cap and introduction of market driven reference lending rate.
- Listed companies which are highly reliant on imported raw material might face an increase in production cost due to higher exchange rate. However, listed companies that generate revenue from export might be positively impacted due to higher conversion rate of foreign currency.

Achieving the targeted GDP growth rate while containing inflation and ensuring exchange rate stability in order to comply with the IMF recommendations will be challenging considering the uncertain short to medium term global economic outlook along with the prevailing domestic economic challenges

With a pandemic-free environment and stabilized conditions from the impact of the Russia-Ukraine war, the macroeconomic outlook of the country appears to be stable, paving the way for a potential return to a high growth trajectory by 2024. However, rising inflation and exchange rate pressures pose significant challenges to achieving the targeted GDP growth rate of 7.50 percent for FY'24. To address these challenges, the Bangladesh Bank is prioritizing containing inflation and promoting stability in exchange rates while also vigilantly managing other macroeconomic instabilities with the aim of fostering a stable and resilient macroeconomic environment.

Appendix

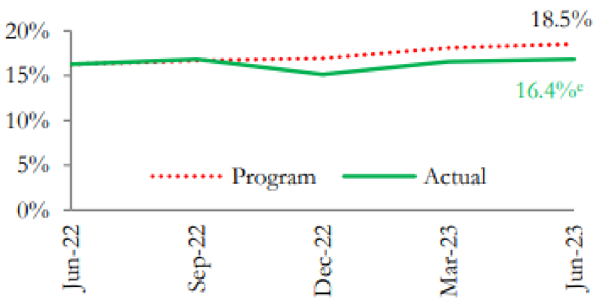

Figure 1: Domestic Credit Growth
Source: Bangladesh Bank

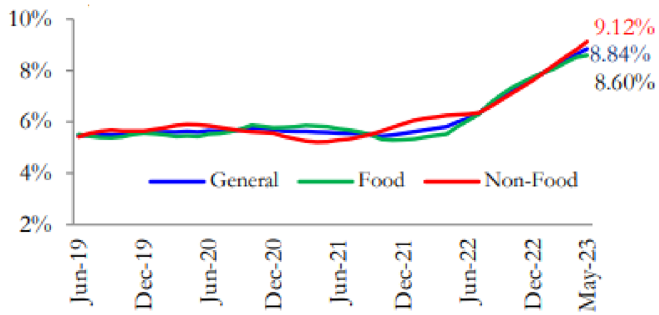

Figure 2: Twelve Month Average Inflation
Source: Bangladesh Bank

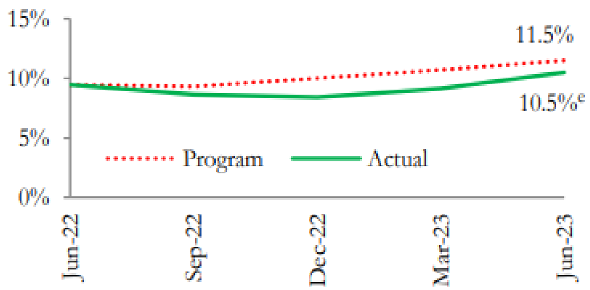

Figure 3: Broad Money (M2) Growth
Source: Bangladesh Bank

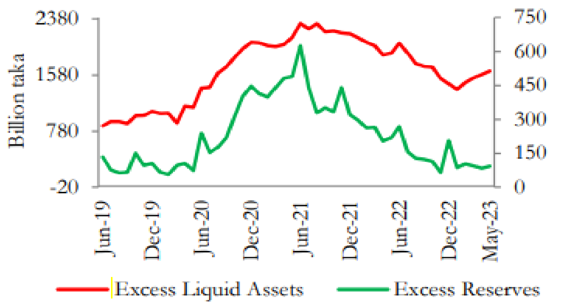

Figure 4: Excess (above CRR and SLR) Liquid Assets
Source: Bangladesh Bank

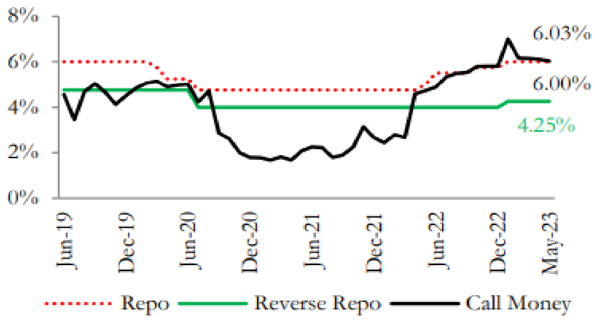

Figure 5: Call Money and Policy Rate
Source: Bangladesh Bank

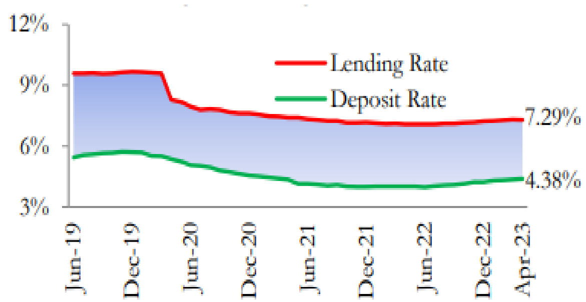

Figure 6: Interest Rate Spread
Source: Bangladesh Bank

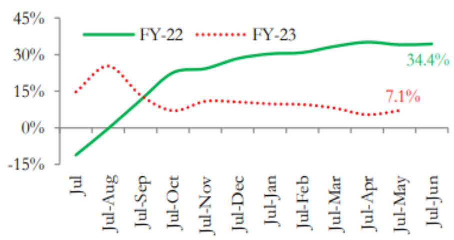

Figure 7: Cumulative Export Growth
Source: Bangladesh Bank

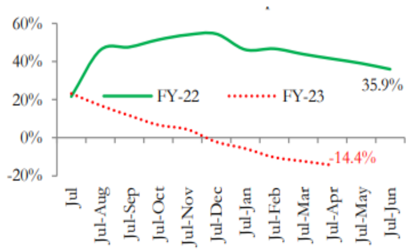

Figure 8: Cumulative Import Growth
Source: Bangladesh Bank

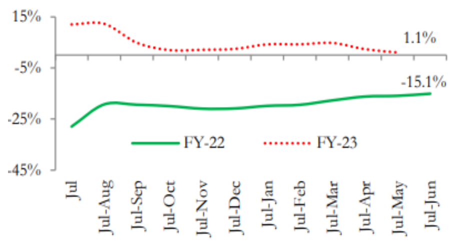

Figure 9: Cumulative Remittance Growth
Source: Bangladesh Bank

IMPORTANT DISCLOSURES

Disclaimer: This document has been prepared by EBL Securities Limited ("EBLSL") for information purpose only of its clients residing both in Bangladesh and abroad, on the basis of the publicly available information in the market and own research. This document does not solicit any action based on the material contained herein and should not be taken as an offer or solicitation to buy or sell or subscribe to any security. Neither EBLSL nor any of its directors, shareholders, member of the management or employee represents or warrants expressly or impliedly that the information or data or the sources used in the documents are genuine, accurate, complete, authentic and correct. However all reasonable care has been taken to ensure the accuracy of the contents of this document. Being a broker, EBLSL may have a business relationship with the public companies from time to time. EBLSL and its affiliates, directors, management personnel and employees may have positions in, and buy or sell the securities, if any, referred to in this document. EBLSL disclaims liability for any direct, indirect, punitive, special, consequential, or incidental damages related to the report or the use of the report.

This document is distributed by EBL Securities Ltd. and its authorized distribution partners on a global basis. This document is not directed to, or intended for distribution to or use by, any person or entity that is citizen or resident of or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. The information and data presented herein are the exclusive property of EBLSL and any unauthorized reproduction or redistribution of the same is strictly prohibited.

Analyst Certification: The person or persons named as the author(s) of this report hereby certify that the recommendations and opinions expressed in the research report accurately reflect their personal views about the subject matter(s) discussed. The views of the author(s) do not necessarily reflect the views of the EBL Securities Limited (EBLSL) and/or any of its salespeople, traders and other professionals and are subject to change without any prior notice. All reasonable care has been taken to ensure the accuracy of the contents of this document and the author(s) will not take any responsibility for any decision made by investors based on the information herein.

Compensation of Analyst(s): The compensation of research analyst(s) is intended to reflect the value of the services they provide to the clients of EBLSL. The compensation of the analysts is impacted by the overall profitability of the firm. However, EBLSL and its analyst(s) confirms that no part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations, opinions or views expressed in the research reports.

General Risk Factors: The information provided in the report may be impacted by market data system outages or errors, both internal and external, and affected by frequent movement of market events. The report may contain some forward looking statements, projections, estimates and forecasts which are based on assumptions made and information available to us that we believe to be reasonable and are subject to certain risks and uncertainties. There may be many uncontrollable or unknown factors and uncertainties which may cause actual results to materially differ from the results, performance or expectations expressed or implied by such forward-looking statements. EBLSL cautions all investors that such forward-looking statements in this report are not guarantees of future performance. Investors should exercise good judgment and perform adequate due-diligence prior to making any investment. All opinions and estimates contained in this report are subject to change without any notice due to changed circumstances and without legal liability. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment. However, EBLSL disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the publication of this report to reflect the occurrences and results of unanticipated events.

For U.S. persons only: This research report is a product of EBL Securities Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by EBL Securities Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

EBLSL Rating Interpretation

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

No part of this material may be (i) copied, photocopied or duplicated in any form by any means (ii) used in any other report or publication or anything of that sort without appropriate credit given or (iii) redistributed without the prior written consent of The EBL Securities Ltd. This disclaimer applies to the report irrespective of being used in whole or in part.

About EBL Securities Ltd.: EBL Securities Ltd. (EBLSL) is one of the fastest growing full-service brokerage companies in Bangladesh and a fully owned subsidiary of Eastern Bank Limited. EBLSL is also one of the leading stock brokerage houses of the country. EBL Securities Limited is the TREC-holder of both exchanges of the country; DSE (TREC# 026) and CSE (TREC# 021). EBLSL takes pride in its strong commitment towards excellent client services and the development of the Bangladesh capital markets. EBLSL has developed a disciplined approach towards providing capital market services, including securities trading, margin loan facilities, depository services, foreign trading facilities, Bloomberg Terminal, online trading facilities, research services, panel brokerage services, trading through NITA for foreign investors & NRBs etc.

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	Senior Research Associate	ratul@eblsecurities.com
Rayhan Ahmed	Research Associate	rayhan@eblsecurities.com
Zuhaier Shams	Research Associate	zuhaier@eblsecurities.com
A K M Arif Uzzaman	Probationary Officer	arifuzzaman@eblsecurities.com

For any queries regarding this report: research@eblsecurities.com
EBLSL Research Reports are also available on www.eblsecurities.com > Research

Our Global Research Distribution Partners

Bloomberg REFINITIV DATA IS JUST THE BEGINNING FACTSET CFA Institute Asia-Pacific Research Exchange ResearchPool RSRCHX MORNINGSTAR

To access EBLSL research through **Bloomberg** use **<EBLS>**

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:

DSE Tower (Level-10),
Room # 199, Plot # 46,
Road # 21 Nikunja-2,
Dhaka-1229
+88 02 41040160

Dhanmondi Branch:

Sima Blossom, (4th Floor),
House # 390 (Old), 3 (New),
Road # 27 (Old), 16 (New),
Dhanmondi R/A,
Dhaka-1209.
+88 02 9130268, 9130294

Chattogram Branch:

Suraiya Mansion (6th Floor);30, Agrabad C/A,
Road# Sonargaon Avenue,Chattogram-4100

+031 2522041-43

Khatungonj Booth:

1625/1351 Ramjoy Mohazon Lane (Post Office Goli),
Khatungonj, Chattogram-4000

+88 02 333350536, 333350538

EBL Securities Ltd.