

Monetary Policy Statement Review H2 2023-24



Jan 17, 2024

Major Highlights

- The central bank continued the contractionary monetary policy stances for the second half (January-June) of FY24 aiming to tame inflation by tightening the money supply .
- The central bank also raised the policy rate, which is also known as the repo rate by 25 basis points to 8.00 % from 7.75 %. the Standing Lending Facility (SLF) rate is reduced by 25 basis points to 9.50 % from 9.75 %, and the Standing Deposit Facility (SDF) rate is increased by 75 basis points to 6.50 % from 5.75 %, reducing the policy rate corridor from ± 200 basis points to ± 150 basis points.
- Bangladesh Bank will implement the **Crawling Peg system** tied to a selected currency basket to control currency value fluctuations. The strategy involves setting a stable benchmark at the corridor midpoint, allowing intervention to keep the currency within specified boundaries . The initiation of crawling peg will reduce price volatility in imported products and ease inflationary pressure. The crawling peg system is seen as a transitional arrangement by the BB which will pave the way towards a fully flexible floating exchange rate regime in the future.
- Aiming to tighten the money flow, the broad money growth (M2) is set to 9.7% from prior target of 10 %.
- As part of austerity measures the government will continue to focus on selective expenditure on priority projects which will reduce the public credit demand and thus the projected public sector credit growth is reduced to 27.8% from 31%.
- Annual average CPI based average inflation stood at **9.05%** which is far against the target of 7.5% in H1'FY24. However, for H2'FY24 the target remains same which will be hard to achieve.
- For H2'FY24 broad money growth (M2) has been set much lower at 9.7% from the previous year and reserve money target is set -1% with a target to shift the funds from consumer hands to banking channel.
- In July 2023, BB implemented the 'Six Months Moving Average Rate of Treasury Bill (SMART)' as a benchmark lending rate, initially with a 300 bps which was later increased to 375 bps margin for banks, have been kept unchanged though it worked at a slower pace for taming inflation.
- For easing pressure on the Balance of Payments (BoP) in the remainder of FY24, restriction on import will likely to continue and as such the import growth is set to -7%

Implications for the Capital Market

- Anticipated higher interest rates are poised to boost the financial sector's profitability, encompassing both banks and non-bank financial institutions especially those having good asset quality, growth in deposits and lending and a strong liquidity position.
- Companies with high debt in their capital structure will be negatively affected by the additional burden of financial expenses amid rising interest rate.
- On the contrary, companies with low debt burdens will have competitive advantages in their respective industries, which will lead to better financial outcomes, as well as good returns on share price.
- Companies that have substantial liquid assets in the form of Fixed Deposit Receipt (FDR) will also see higher financial income in the rising interest rate scenario.

Balance of Payment Highlights			
Major Items	FY 22 Actual	FY 23 Actual	FY24 Projection
Trade balance	(33,250)	(17,163)	(10,197)
Services	(3,987)	(4,384)	(7,275)
Primary income	(2,726)	(3,407)	(5,617)
Secondary income	21,767	22,289	22,756
Workers' Remittance	21,032	21,611	22,043
Current account balance	(18,196)	(2,665)	(332)
Capital accounts	610	475	150
Financial account	16,691	(2,078)	200
Errors and omissions	(5,761)	(3,954)	(622)
Overall balance	(6,656)	(8,222)	(604)

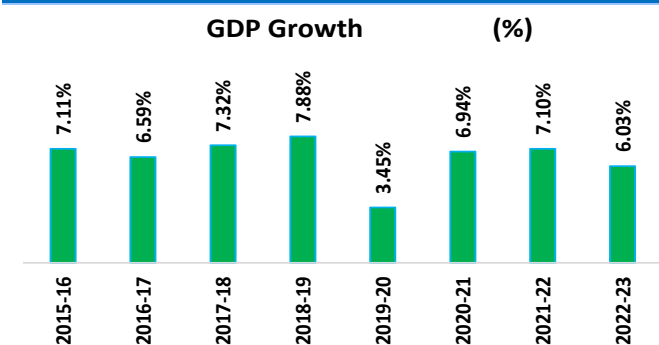
Table: Revised Monetary and Credit Projections for FY24

Particulars	YoY % Change					
	Jun-23	Sep-24	Dec-23		Jun-24	
	Actual	Actual	Projection	Acruar p	Prior Projection@	Revised Projection
Broad money	10.5	9.0	9.5	8.8	10.0	9.7
Net Foreign Assets	-23.4	-23.7	-16.8	-21.8	4.7	-2.4
Net Domestic Assets	21.3	17.9	15.9	16.2	11.1	12.2
Domestic Credit	15.3	12.7	15.9	11.7	15.4	13.9
Credit to the public sector	35.8	25.9	37.9	18.0	31.0	27.8
Credit to the private sector	10.6	9.7	10.9	10.2	11.0	10.0
Reserve money	10.5	1.2	0.0	-2.0	6.0	-1.0
Money Multiplier	4.93	5.46	5.07	5.14	5.11	5.46

P= Provisional

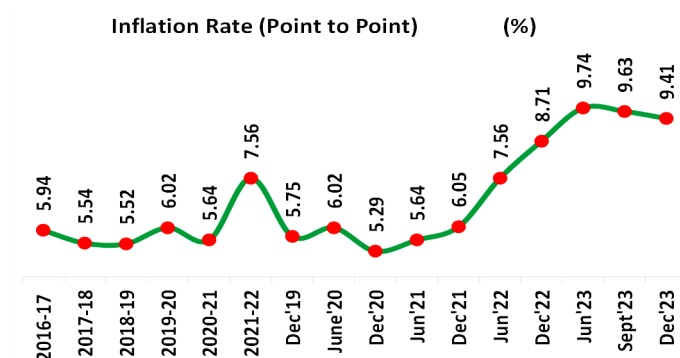
Source: Bangladesh Bank

GDP Growth



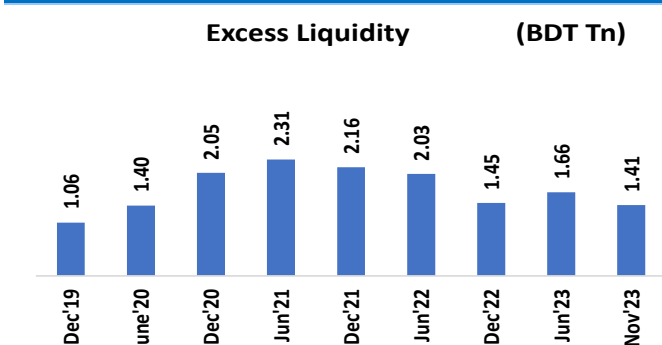
Source: Bangladesh Bank

Inflation Rate (point to point)



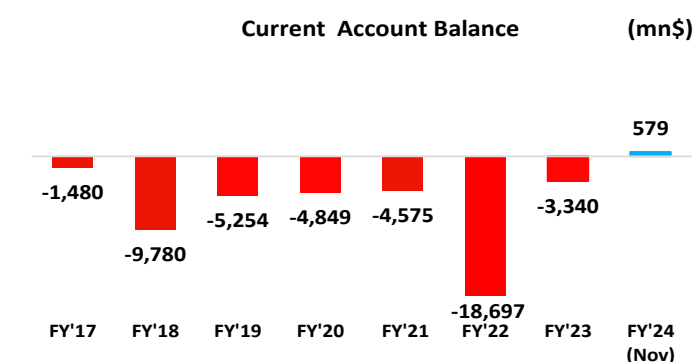
Source: Bangladesh Bank

Liquidity Surplus

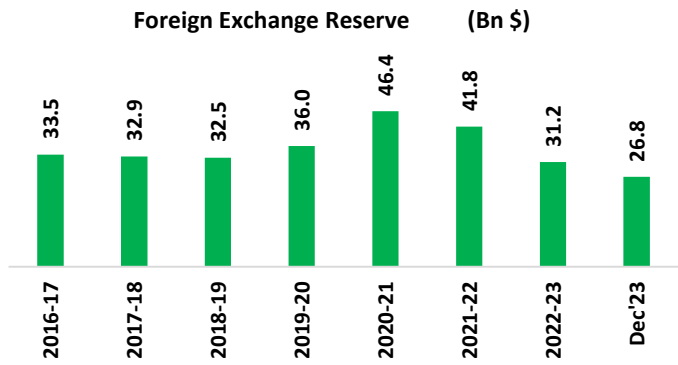


Source: Bangladesh Bank

Current Account Balance (mn\$)

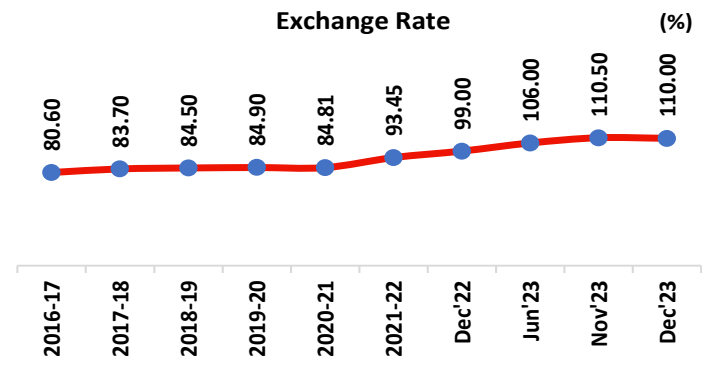


Foreign Exchange Reserve



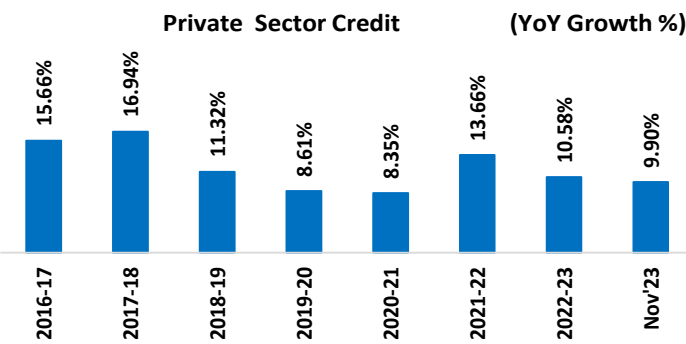
Source: Bangladesh Bank

Exchange Rate BDT/USD



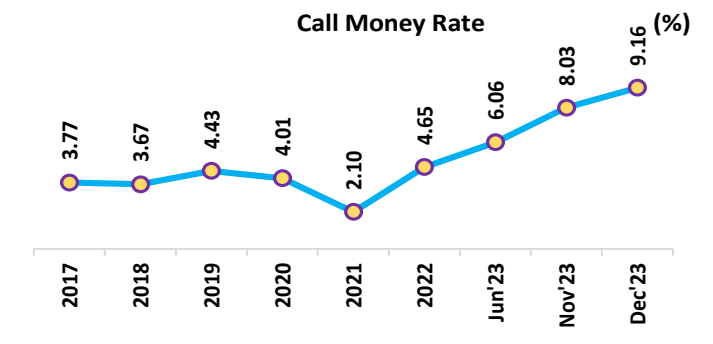
Source: Bangladesh Bank

Chart: Private Sector Credit Growth



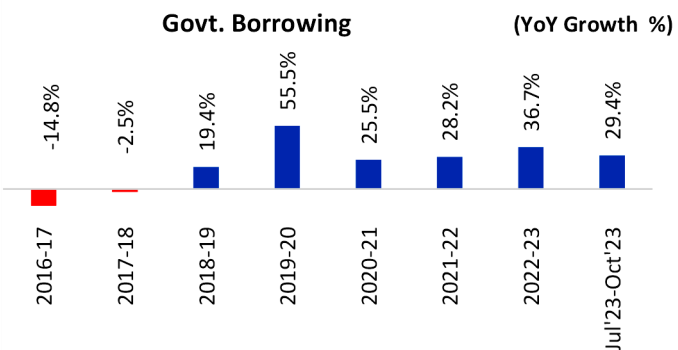
Source: Bangladesh Bank

Chart: Call Money Rate



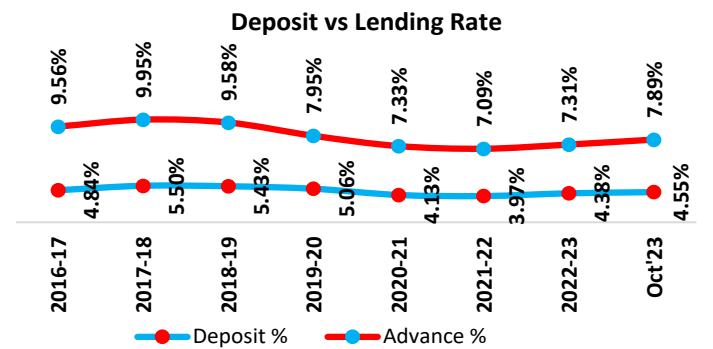
Source: Bangladesh Bank

Govt. Borrowing



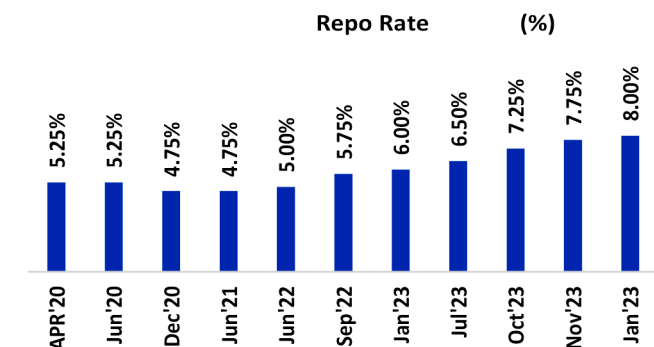
Source: Bangladesh Bank

Deposit vs Lending Rate



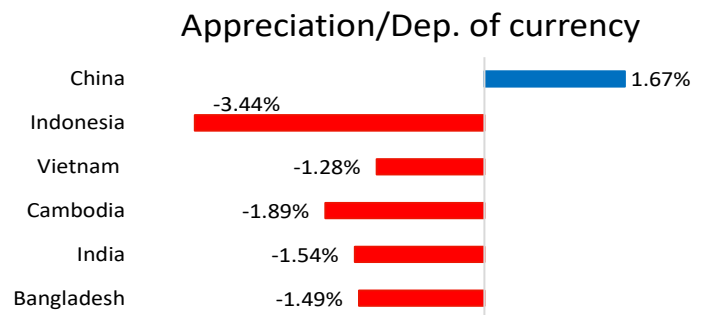
Source: Bangladesh Bank

Repo Rate



Source: Bangladesh Bank

Appreciation/Depreciation of Domestic currency vs USD



Source: Bangladesh Bank

Annexure

- **Cash Reserve Ratio (CRR):** The minimum required amount mandated by BB based on a schedule bank’s total demand and time liability (deposits), that needs to be kept in BB in the form of cash. Presently, the required CRR is **4%**
- **Statutory Liquidity Ratio (SLR):** The minimum required asset mandated by BB based on a schedule bank’s total demand and time liability (deposits), that needs to be kept in BB in the form of cash, or gold or in the form of un-encumbered approved securities.
- **Repo Rate** The rate at which the central bank of a country lends money to commercial banks in the event of any shortfall of funds.
- **(SDF)/Reverse Repo Rate-** The rate at which the central bank of a country borrows money from commercial banks within the country.
- **Crawling Peg Rate:** It is a system of exchange rate adjustments in which a currency with a fixed Exchange rate is allowed to fluctuate within a band of rates. The par value of the stated currency and the band of rates may also be adjusted frequently, particularly in times of high exchange rate volatility. Crawling pegs are often used to control currency moves when there is a threat of devaluation due to factors such as inflation or economic instability. Coordinated buying or selling of the currency allows the par value to remain within its bracketed range.

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