

# Monetary Policy Review for July-December FY 2018

## Key Policy Stance

**5.90% Inflation forecast**

**6.75% Repo rate**

**4.75% Reverse Repo rate**

**13.90% Broad Money Growth**

**12.00% Reserve Money Growth**

**15.80% Domestic Credit Growth**

**12.10% Public Sector Credit Growth**

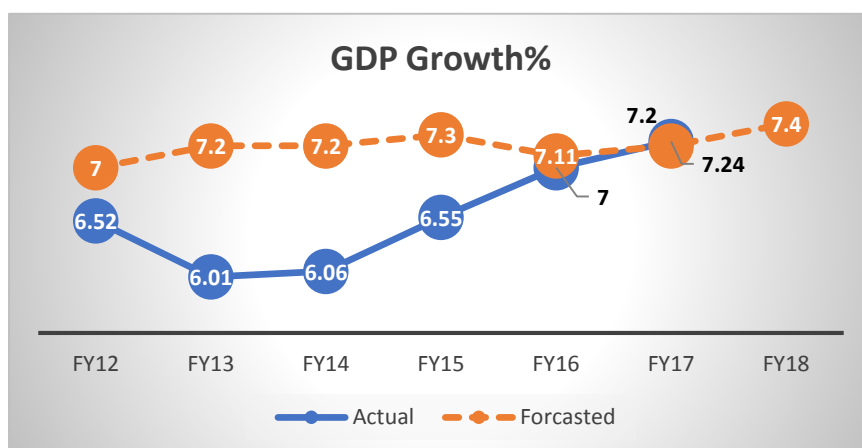
**16.30% Private Sector Credit Growth**

Bangladesh Bank (BB) is going to pursue an accommodative monetary policy for the first half of FY18 aiming to help real sectors in achieving sustainable economic growth with stable inflation. The policy prioritizes price stability while supporting growth and employment generation.

BB adopts policies to facilitate short- and medium-term macroeconomic management measure to promote socially responsible financing, facilitating attainment of the government's short- and longer-term projects, environmentally sustainable growth objectives.

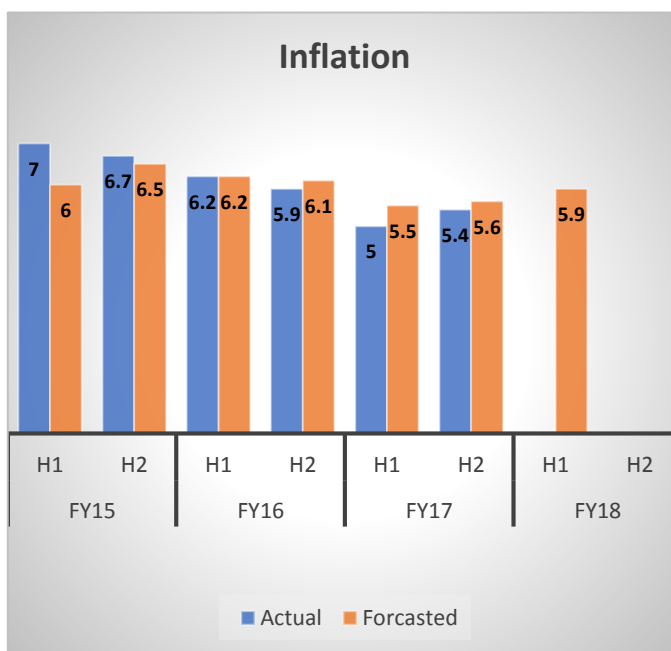
Current CPI Inflation is 5.44% as per June, 2017 and below the targeted ceiling of 5.80% for FY17. Central bank seeks to keep inflation within 5.50% for H1 FY18 to attain targeted 7.4% real GDP growth in FY'18. BB anticipating robust output growth momentum despite weaker performances in export growth and worker's remittance inflow and recent uptrend in inflation during Q4 FY17 caused by flash flood in haor areas as buoyant domestic demand-led manufacturing driven by robust growth in private sector credit is promising along with growth in agriculture and service sectors. BB also assumes the continuation of political calmness in the half year of FY18. BB also projects the real GDP growth for FY18 in the range of 7.1% to 7.4%.

BB assumes 7.1-7.40% GDP growth for FY18 where 7.4% was set in the recent Budget review for FY18. In FY17 GDP growth was 7.24%. BB expected that the political calmness will continue to achieve the targeted GDP growth.

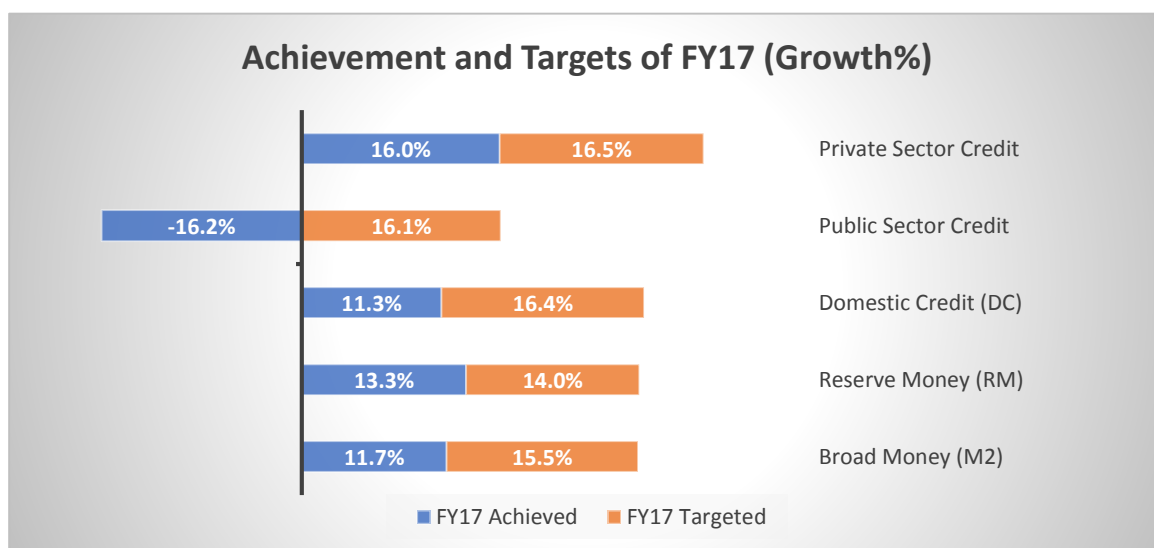


Source: Bangladesh Bank and BASL Research

The CPI inflation gradually declined during H2 of FY'17 and was at 5.44% in June 2017, well below the targeted ceiling of 5.8% in FY17. But the food inflation & Non-food inflation went up during H2, FY'17 starting from January 2017. Of these on larger scale food component was on uptrend caused largely by flash flood-related crop loss in the Northeastern haor regions in H2 GY17. At the latest survey by BB, the projected inflation expected for June 2018 is above 6% and BB projects average inflation for H1 FY18 to be around 5.5-5.9.



Source: Bangladesh Bank and BASL Research



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- **Broad Money (M2)** growth, was at 11.7% in May 2017, is well below the targeted 15.5% and is expected to be closely for FY17.
- **Private sector credit** growth, was 16% in May 2017, is expected to meet the targeted ceiling of 16.5% at the end of June 2017.
- Net government borrowing from sales of National Savings Certificates (NSCs) has been overwhelming than the borrowing from banking system. Therefore, overall domestic

credit growth was moderate level to 11.3% in May 2017, well below from the targeted ceiling of 16.4%.

- **Public sector credit** growth declined by 16.2% in May 2017 because of matured T-bills/T-bonds with proceeds of larger-than-planned sales of NSCs.
- **Reserve money growth**, was 13.3% in May 2017, is expected to meet the targeted ceiling of 14%.
- In FY17, the intermediation spread between weighted average rates on lending and deposit rates changed little narrowed by 12 basis point in FY17 despite substantial decline of the lending and deposit rates from FY14.
- Call money rate in recent months was in upward trend as credit growth has exceeded deposit growth.
- Repo and reverse repo rates will continue to remain unchanged at the current levels of 4.75% and 6.75% and the rate will be reviewed continuously and changed if required.
- Foreign Exchange Reserve growth continued to rising trend in FY17 and current reserve balance is satisfactory to meet 7 months import requirement.
- BoP current account deficit in FY18 will be widen further and overall balance will remain positive in upcoming year.

According to data available up to May 2017, key monetary policy targets and objectives for FY17 were largely achieved. GDP growth higher than the targeted ceiling of 7.2%. Average inflation went down due to turned downward or stagnated in in global commodity price caused by continuation of oversupply as well as monetary tightening in the US & the EU. Public sector bank borrowing went down because of surge in net sale of National Savings Certificates (NSCs). Domestic Credit growth has been allocated towards mostly to Private Sector along with a smaller growth in bank credit to the Public Sector. Possible fall in interest rate may affect this adversely but programmed public sector credit target is attainable. The recent BoP current account deficit-driven depreciation of Taka has helped improve export competitiveness. The local Foreign Exchange market is running smoothly at current exchange rate of Taka as BB won't intervene on sale or purchase side in Foreign Exchange market thus exchange rate of taka likely to remain stable in FY18. Capital Market showed bullish trend since HY1, FY'17 driven mainly from increased foreign investment following the inclusion of Bangladesh in the frontier economy segment of the Morgan Stanley Capital International (MSCI) index. BB is also cautious about the capital market monitoring closely the operations of capital market subsidiaries of banks particularly the statutory limits on capital market exposures of Banks. BB will intensify the close surveillance about the capital market exposure on routine basis.

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