Monetary Policy Review for January-June FY 2019

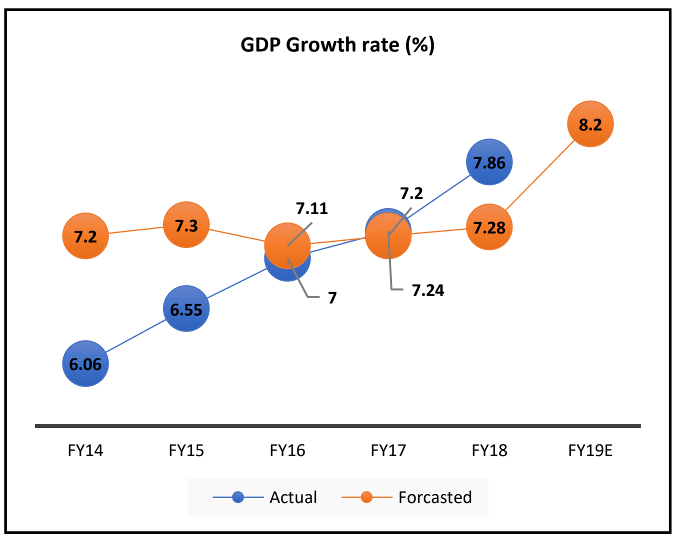
Key Policy Stance

Macroeconomic Indicators	*H2 FY19*	*H1 FY19*
Inflation	*5.60%*	*5.80%*
Repo rate	*6.0%*	*6.0%*
Reserve Repo rate	*4.75%*	*4.75%*
Broad Money Growth	*12.0%*	*12.0%*
Reserve Money Growth	*7.00%*	*7.00%*
Domestic Credit Growth	*15.90%*	*15.90%*
Public Sector Credit Growth	*10.90%*	*8.5%*
Private Sector Credit Growth	*16.50%*	*16.80%*

Bangladesh Bank (BB) has announced its monetary policy statement (MPS) for the second half (January-June) of the 2018-19 fiscal year taking into account the domestic and external development in line with the Government's growth target. The New 'cautious' monetary policy stance come up with a slight downward revision of the private sector credit growth target and notable increase in the public sector to support the growth and inflation target.

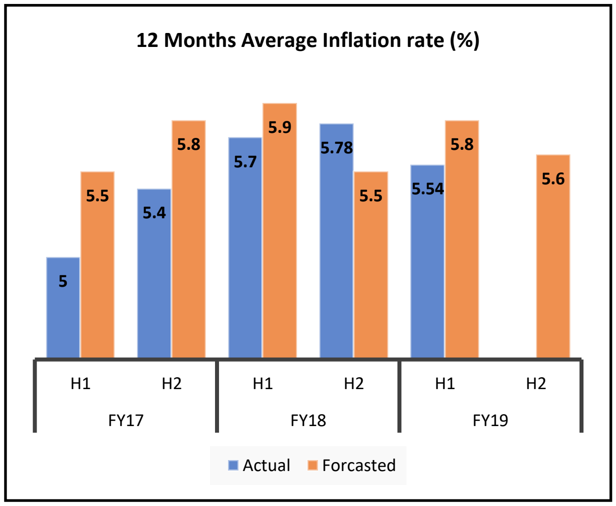
BB adopts policies to ensure quality credit growth and rationalizing advance-deposit ratio of banks along with asset-liabilities management, foreign exchange risk management. The MPS called for market rate-linked rationalization of the pricing of national savings certificates for market development and fiscal discipline.

GDP grew by 7.86% in FY18 from 7.28% in FY17 due to higher domestic demand met up with higher credit growth and improved export figure and encouraging remittance inflows. The growth of remittance inflows was 8% and the export was on robust growth in the H1FY2019. Increase in govt. expenditure accelerate the domestic consumption and investment. RMG industry witnessed growth momentum with the diversification of RMG from China and strong US economy. BB projects GDP growth for FY2019 in the range of 7.5-8.2% for FY19, assuming continued political calmness in coming months and no large external shocks.



Source: Bangladesh Bank and BASL Research

But CPI inflation declined gradually to 5.35% in December 2018 from 5.54% in June 2018 due to a rise in core inflation. Although declining trend of global food and energy prices have less impact on regulated domestic fuel price in Bangladesh but accelerated food production in the country. Both forces reduced inflation risk over the short to medium term since the last monetary policy statement. Average inflation rate is projected to be 5.3-5.6% in June 2019. For the July to December period of FY2018-19 (H1), the central bank set the private sector credit growth ceiling at 16.8%, but the actual growth as of December 2018 stood at 13.3%.



Source: Bangladesh Bank and BASL Research

As per the new MPS, the central bank expects that 16.5 per cent growth in the private sector credit would be enough to support the government's budgetary target of 7.86 per cent in gross domestic product growth for FY19. In December 2018 private sector credit growth stood at 13.30 percent, which is lower than the ceiling of 16.80 percent. In the MPS, the public sector credit growth target has been revised upward to 10.9 per cent for the second half of FY19 while the target was 8.6 per cent for the first half. Public sector credit growth picked up in H1FY19 as the government increased the expenditure for project Implementation.

Besides public sector credit growth, the new MPS also concentrates on National Savings Certificate (NSC) as a source of finance by giving importance on pricing NSC based on justified market rate.

- In December 2018, Broad money (M2) grew by 9.4% which was close to the target of 10.2%. The H2FY19 monetary policy targets broad money ceiling at 12.0%.
- Private sector credit growth, was 13.3% in Dec 2018, is expected to meet the targeted ceiling of 16.5% at the end of June 2019. The MPS also projects robust export and remittance growth at 14% and 11% respectively along with a moderate import growth at 7.5%.
- The central bank kept unchanged its domestic credit (DC) growth target at 15.90 per cent for H2 FY19. Besides targets of broad money (M2) supply and reserve money (RM) remained unchanged at 12 per cent and 7.0 per cent respectively. Moreover, the policy rates, including CRR (cash reserve requirement), Repo and Reverse Repo, remained unchanged for H2 of FY 19, according to the MPS.

Capital Market Prospects:

- There may not be any direct implication for the capital market as the new MPS make a revision of a few key indicators of the overall macro economy.
- H1FY19 reflected a higher trade volume with increased daily average turnover than H2FY18 with price declined due to global economic conditions. But BB’s long prioritized various measures, initiatives and rising trade and financial integration will help to grow further.
- Due to the strong demand from the strong economies and some reallocation of demand from china and robust export growth will continue to drive country’s RMG sector growth like H1FY19 which was 15.7%.
- The higher rates offered by NSCs will continue to attract depositors by reducing the pressure of bank deposit which bears a lower interest rate.

However, according to the MPS, Non-performing loans (NPLs) is the the key challenges of monetary transmission channels, making interest rates strictly downward and less sensitive to the monetary policy actions as the BB's observations came against the rising trend in default loans in the country's banking system.

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