

# Monetary Policy Review for H1 FY2020

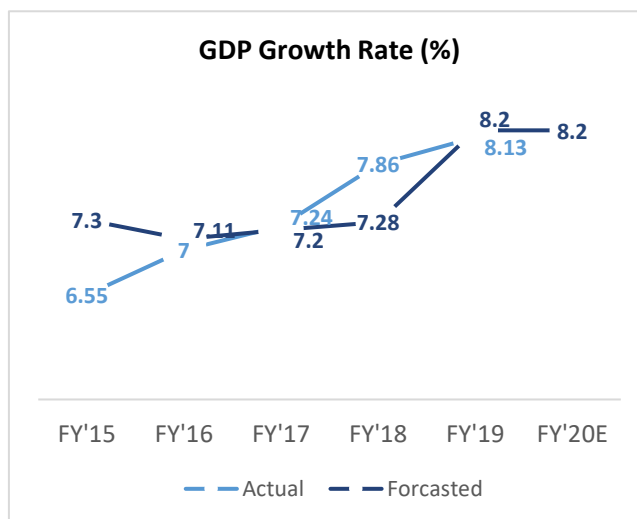
## Key Policy Stance

Bangladesh Bank (BB) has announced "cautiously accommodative" monetary policy statement (MPS) for the fiscal year of (2019-20) aiming to achieve a targeted GDP growth by higher credit expansion and curbing inflationary pressures. BB has decided to enforce one monetary program every financial year, effective from the current fiscal year, instead of twice every fiscal year. BB cautioning on a couple of domestic risk factors that may hamper attainment of the monetary program objectives. Moreover, ongoing global trade war and geopolitical tensions are uncertainties that may or may not harm to attain the FY20 monetary program outcomes.



### GDP growth momentum is likely to continue

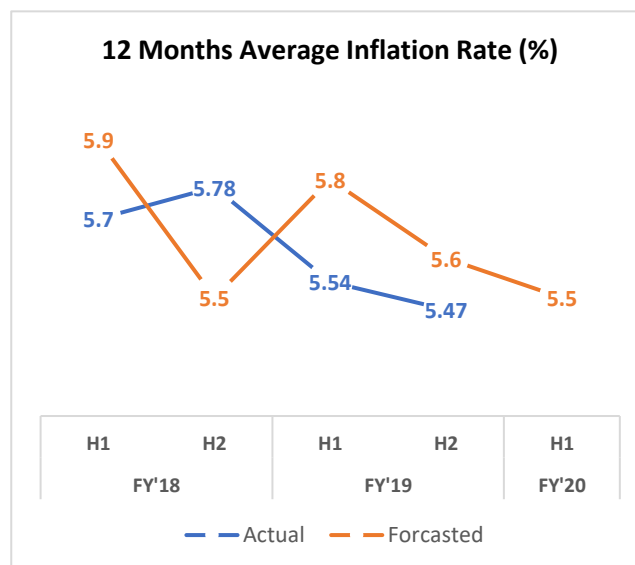
GDP of the country got momentum with 8.13% growth rate in FY19 estimated by BBS from 7.86% in FY18 whereas the global growth was 4.1% for 2019 in emerging market and developing economies. The solid GDP growth was supported by strong domestic demand and by external demand of 10.5% export growth. BB estimates the GDP growth to 8.20% for FY2020 and the current robust growth will continue till FY2024 presuming stable global and domestic economic environment in coming years, probable implementation of large ongoing projects during the period and additional output capacity to domestic and external investment in the country.



Source: Bangladesh Bank and BASL Research

### Inflationary pressure is expected to slow down

Bangladesh economy continues to maintain a robust growth momentum and project to continue through 2024 supported by ongoing infrastructure project to attract new domestic and external investment. Inflation came down to 5.47% in June 2019 on a year-on-year basis which is far below the targeted rate 5.60%. MPS keep the CPI inflation contained within the targeted ceiling of 5.5 percent in line with the national budget projection. As upward revision of fuel and gas price and the imposition of new VAT law is already underway, all these may lead to inflationary pressure. Moreover, if the monsoon flood endures for a longer period of time, this can result in significant loss in agricultural output which in turn threaten the inflation level.



Source: Bangladesh Bank and BASL Research

### Broad Money Growth Target has increased

Broad money and private sector credit growth targets for FY2019-20 are 12.5% and 14.8%, respectively. Broad money registered 9.9% YoY growth in FY'2019; while private sector credit growth was 11.3% in the same period. To limit the price movement within the targeted inflation level Broad money used as an intermediary target. Annual Broad Money growth consistent with the real GDP growth and CPI inflation ceiling is estimated to accommodate domestic credit growth. By narrowing down the import pressure and boosting the remittance inflow, rise in the NFA, has caused the upward movement of M2.

### **Bank rate, REPO and reverse REPO rate remain unchanged**

Bank rate, REPO and reverse REPO remained unchanged to 5.00%, 6.00% and 4.75% respectively. Current policy and the downward trend are assumed to be suitable to achieve the targeted growth. Of inflation is assumed. As the interest rate has edged down and banks spread has amplified and credit growth has picked up to such a level that leads to take such cautionary steps in this MPS. On the other hand Liquidity scenario has lessened to some extent due to the improvement of BOP (Balance of Payment) and a rise in NFA(Net Foreign Assets) for which interbank markets for both BDT and USD has slightly improved during the last part of FY'19 while comparing with preceding half. Double digit growth in export and remittance along with massive decline in import have helped current account deficit narrow down to USD 5.29 bn from USD 8.81 bn a year earlier. Net Foreign Asset (NFA) is expected to grow at 2.0% in December 2019 and 0.3% in June 2020. In June 2019 NFA grew by 2.2% which is far above the projection of negative 3.4%.

### **Public sector credit growth expected to grow**

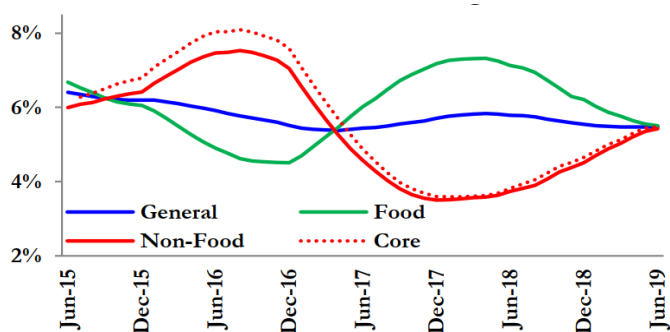
Public sector growth target is set at rate which is significantly higher than private sector credit growth. This will impede industrial growth to some extent. The private sector credit growth had dropped due to the central bank's emphasis on issuance of quality credit and prevention of aggressive lending. BB has fixed private sector credit growth target at 13.20 %and 14.8 % respectively for the first half (H1) and second half (H2) of the FY '20 while public sector credit growth target has been set at 25.2% and 24.3 % respectively. The private sector credit growth target could be changed midway of the fiscal year if demand for quality credit is found high and reducing the issue of liquidity crisis in a number of banks surfaced due to serious mismatch between assets and liquidity. Moreover, the policy rates, including CRR (cash reserve requirement), SLR (statutory liquidity ratio), Repo, and Reverse Repo, remained unchanged for the current fiscal year, according to the MPS.

### **Capital Market Prospects**

- Listing of quality IPOs in the market are expected with the recent amendments made in the IPO rules.
- Promotion of corporate bond issuance for medium and long-term finance through activating bond market is prioritized by both government and Bangladesh Bank which can increase the depth of capital market.

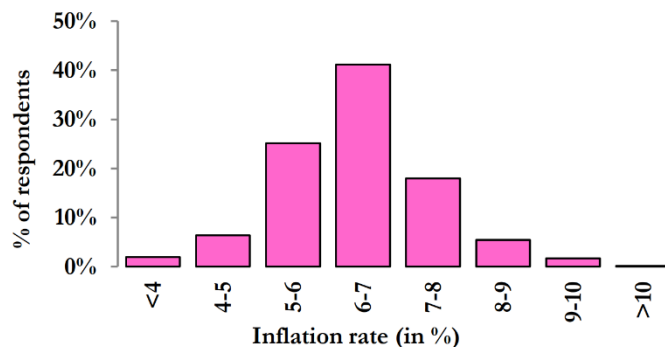
## Highlights of Key Monetary Policy Indicators (Annexures)

**Figure 01: Twelve Month Average Inflation**



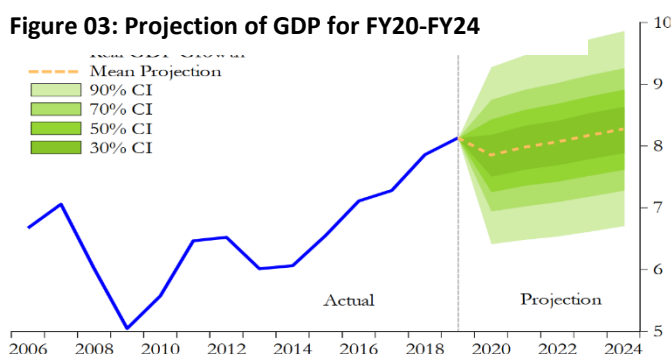
Source: Bangladesh Bank

**Figure 02: Inflation Expectation Survey for next one year**



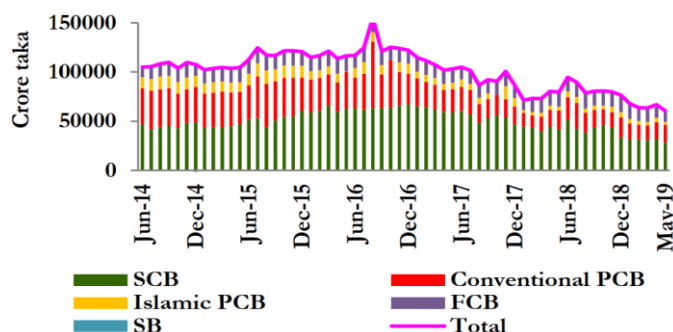
Source: Bangladesh Bank

**Figure 03: Projection of GDP for FY20-FY24**



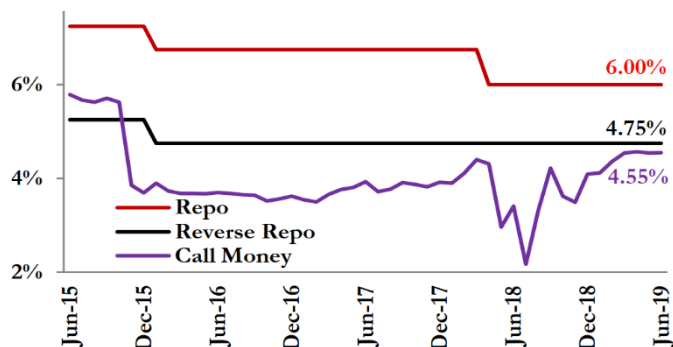
Source: Bangladesh Bank

**Figure 04: Excess Liquidity (above SLR and CRR)**



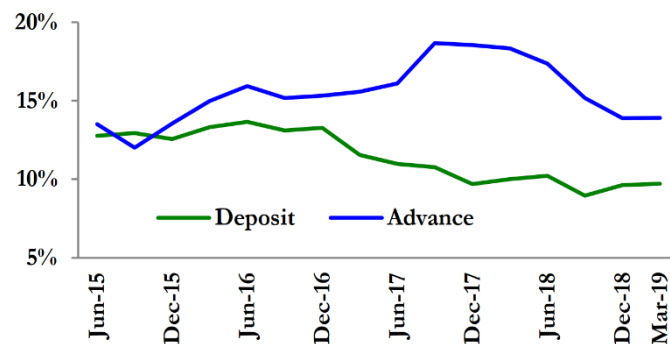
Source: Bangladesh Bank

**Figure 05: Call Money and Policy Rates**



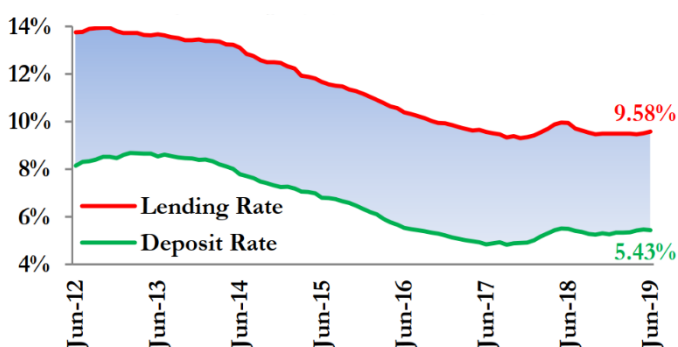
Source: Bangladesh Bank

**Figure 06: Trend of Growth on Deposit & Advances**



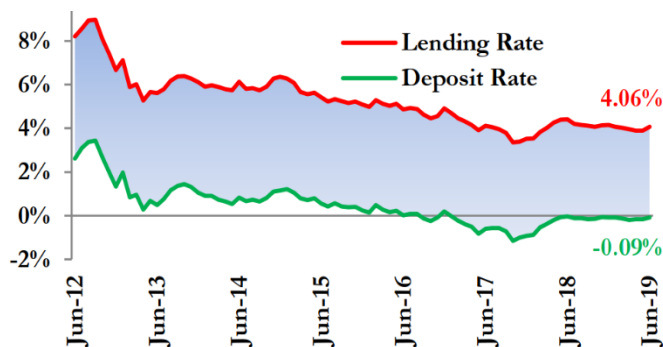
Source: Bangladesh Bank

**Figure 07: Nominal Interest Rates**



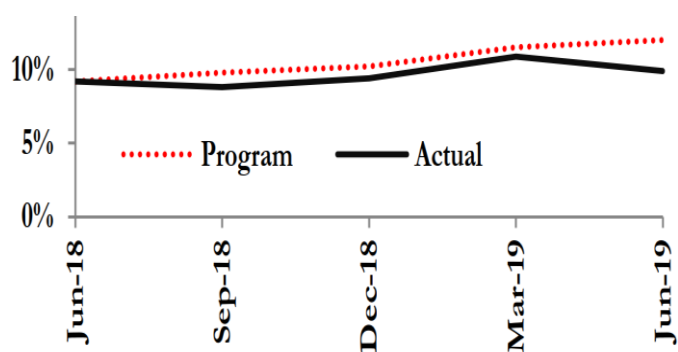
Source: Bangladesh Bank

**Figure 08: Real Interest Rates**



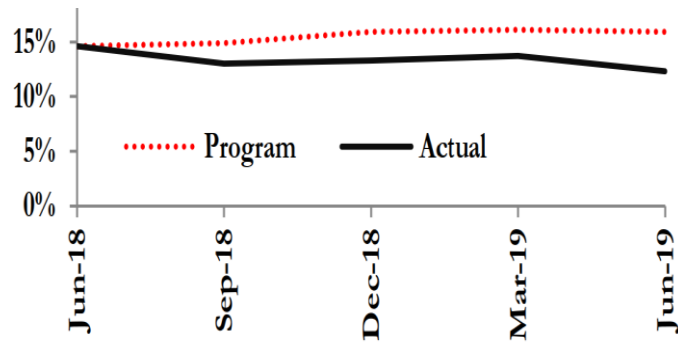
Source: Bangladesh Bank

**Figure 09: Broad Money (M2) Growth**



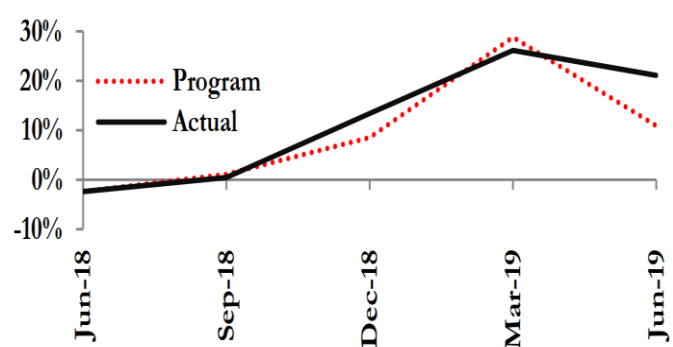
Source: Bangladesh Bank

**Figure 10: Domestic Credit (DC) Growth**



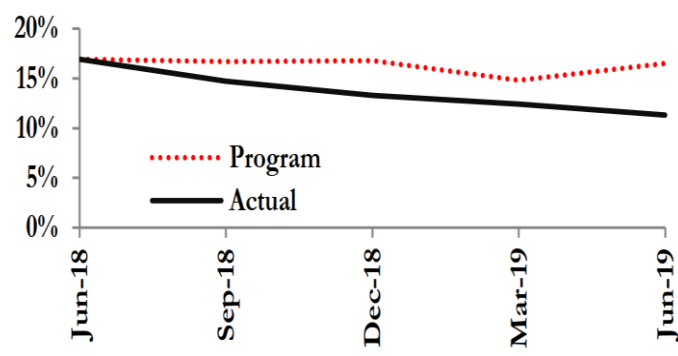
Source: Bangladesh Bank

**Figure 11: Public Sector Credit Growth**



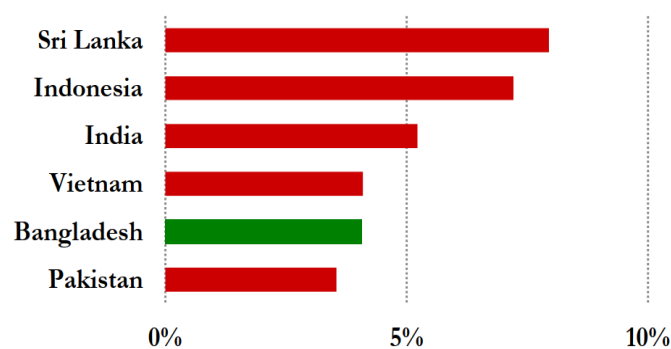
Source: Bangladesh Bank

**Figure 12: Private Sector Credit Growth**



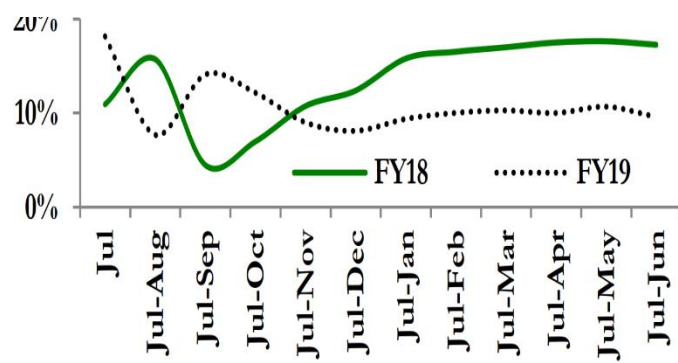
Source: Bangladesh Bank

**Figure 13: Peer Country Real Lending Rate**



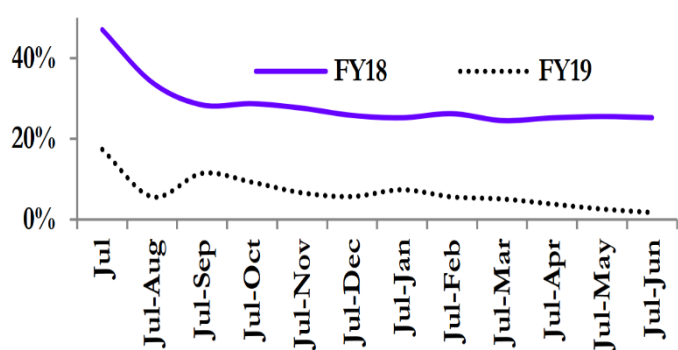
Source: Bangladesh Bank

**Figure 15: Cumulative Remittance Growth**



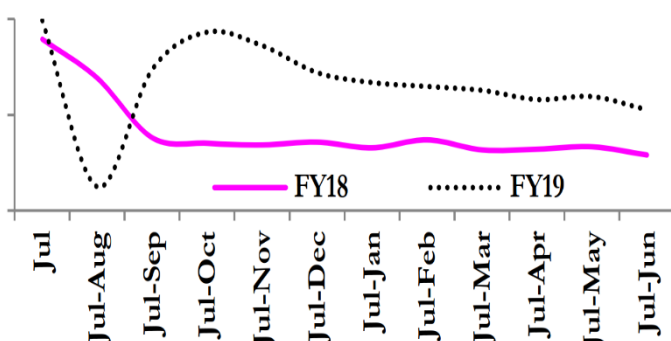
Source: Bangladesh Bank

**Figure 15: Cumulative Import Growth**



Source: Bangladesh Bank

**Figure 14: Cumulative Export Growth**



Source: Bangladesh Bank

## Disclaimer

*This document has been prepared by Bank Asia Securities Ltd (BASL) based on publicly available data for information purpose only and does not solicit any action based on the material contained herein and should not be construed as an offer or solicitation to buy or sell or subscribe to any security. Neither BASL nor any of its directors, shareholders, member of the management or employee represents or warrants expressly or impliedly that the information or data of 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. BASL or Research & Development Department will not take any responsibility for any decisions made based on the information herein. As this document has been made for the Traders of BASL and strongly prohibited for circulation to any clients, investors or any other persons from outside of BASL.*

## About Bank Asia Securities Ltd

Bank Asia Securities Limited (BASL) is one of the leading full-service brokerage companies in Bangladesh. The company was formed in 2009 and running its operation as a majority owned subsidiary of Bank Asia Limited. BASL offers full-fledged standard brokerage services for retail, institutional and foreign clients with a dedicated team of skilled professionals. The company is currently providing the brokerage services under the membership of Dhaka Stock Exchange Limited (DSE).

## BASL Research Team

*Mr. Shariful Alam Chowdhury*  
Head of Research & Investments

*tushar@basl-bd.com, tusharbd@bloomberg.net*

*Mr. Shohidul Islam*  
Research Analyst

*shohidul@basl-bd.com, shohidulbd@bloomberg.net*

*Tanzin Naher*  
Research Associate

*tanzin@basl-bd.com*

## BASL Networks

### Head Office

Hadi Mansion (7th Floor)  
2, Dilkusha Commercial Area  
Dhaka-1000, Bangladesh  
Phone: +88-02-9515826-28  
Fax: +88-02-9567884

### Modhumita Extension Office

158-160 Modhumita Building  
(5th Floor)  
Motijheel C/A, Dhaka-1000  
Phone: +88-01819118893

### Dhanmondi Branch

Meher Plaza (1st Floor),  
House # 13/A, Road # 05  
Dhanmondi, Dhaka - 1207  
Phone: +8802-8624874-5

### Mirpur Branch

Nishi Plaza, plot # 01,  
Avenue-04, Section-06,  
Block-C  
Mirpur, Dhaka - 1216  
Phone: +88-02-9013841

### Uttara Branch

House # 79/A, (4th Floor),  
Road # 07, Sector # 04  
Uttara Model Town, Dhaka-  
1230  
Phone: +88-02-8958371

### Banani Branch

Nur Empori, Plot # 77 (1st  
Floor), Road No # 11,  
Banani,  
Dhaka-1213  
Phone: +8801716180767

### Khulna Branch

28, Sir Iqbal Road (1st Floor)  
Khulna  
Phone: +88-041-731208-9

*For International Trade & Sales, please contact at +8801993111666, +880 02 9515826, Ext:101 at Business hour.*

*For further query, write to us at [research@basl-bd.com](mailto:research@basl-bd.com)*