Monetary Policy Statement (MPS) Highlights :: FY 2020-21

Bangladesh Bank has announced an ***'expansionary and accommodative growth supportive'*** monetary policy for the FY 2020-21 framed for the current fiscal year aiming to boost money supply at a time when the coronavirus has left a huge impact on the economy by **keeping unchanged the private sector credit growth** due to the poor credit growth in the January-June of 2020 period. **The MPS has made a further cut in the overnight Repo rate from 5.25% to 4.75% and a reduction of Reverse Repo rate from 4.75% to 4.00%** to ensure the availability of less costly funds for banks. Moreover, **the Bank Rate which remained unchanged for the last 17 years (since 2003) has also been considered to be reduced from 5.00% to 4.00%** to rationalize it with the current interest rate regime.

- **Private sector credit growth target remain unchanged:** The private sector credit growth target remained unchanged at 14.8% for the FY '21. In FY20, private sector credit growth plunged to 8.61% against the target of 14.8%. The central bank programmed to attain 11.5% growth by December 2020 and 14.8% growth by June 2021. This private sector credit growth will act in achieving 8.20% GDP (gross domestic product) growth and contains inflation by the end of this fiscal year, as per Bangladesh Bank.

- **Public sector credit growth target increased:** The public sector credit growth has surpassed the programmed target in June 2020 - reached 53.3% against targeted 37.7%. The public sector credit target rose as the government went for spending for development activities. **The public sector credit growth has been projected to grow by 35.60% and 44.4%** respectively for the first half (H1) and second half (H2) of the FY '21.

- **Domestic credit growth target increased:** The MPS has projected to increase the domestic credit growth at the rate of **15.00% and 19.30% respectively for the first half (H1) and second half (H2)** of the FY '21 while the target for FY '21 was 15.9%. The domestic credit growth was 12.3% as of June 2019 which was 14.6% in June 2018.

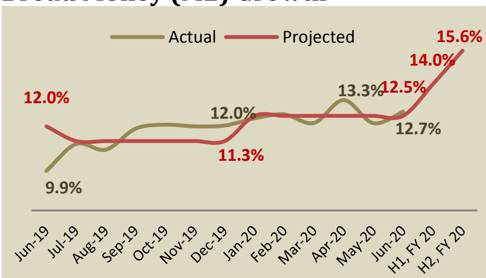
- **Policy rates decreased further:** The central bank has further decided to **lower the Repo rate by 50 basis points** from 5.25% to 4.75% and to **reduce Reverse Repo rate by 75 basis points** from 4.75% to 4.00%. It also reduced the **bank rate from 5% to 4%**.

- **Inflation target kept in line:** In the MPS, BB maintained its cautious position on containing inflationary pressure on the economy. The central bank estimated the **inflation to keep within the targeted ceiling of 5.4%** in the current fiscal while the actual inflation was 5.65% in June 2020 which was slightly up from the target.

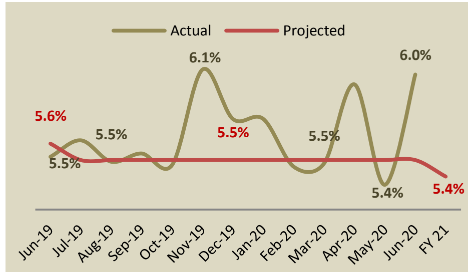
- **M2 supply targeted higher:** The target of **broad money supply rose to 14.0% & 15.6%** respectively for the first half (H1) and second half (H2) of the FY '21. Actual broad money supply was 12.7% in June 2020 against targeted 12.5%. Such monetary targets of broad money are sufficient to accommodate real gross domestic product (GDP) growth and contain the average annual inflation in FY 21, according to the MPS.

- **Money flow to real sectors prioritized**: BB's usual support and promotion of adequate credit flows to job creating priority productive sectors will continue in FY21 including in MSMEs (Micro, Small & Medium Enterprises), agriculture, manufacturing industries in output practices for environmental sustainability and entrepreneurship.

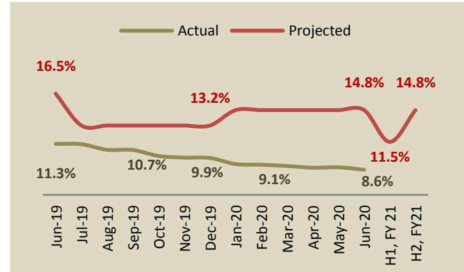
Broad Money (M2) Growth



Inflation



Private Sector Credit Growth



- **Export:** Total export in FY20 decreased by 16.93% compared to that of last fiscal year. This was due to a sharp drop of exports owing to long and sustained worldwide lockdowns caused by the covid-19 pandemic. However, the **Government has set a 20% target in export growth for the FY 2020-21** with the hope of a recovery from the global economic slowdown due to the coronavirus pandemic.

- **Import:** Custom based import during Jul-May of 2019-20 fell by 10.81% over the same period of last year due mainly to sluggish domestic and international demand during the period which has further aggregated by the worldwide outbreak of corona-virus pandemic.

- **Remittance:** Total receipts of worker's remittances increased by 10.87% in FY20 against last year. Though remittance hit an all-time high of $18.20 billion in FY 20, the situation will reverse shortly as overseas employment of Bangladeshi workers has dropped sharply due to worldwide breakout of pandemic.

- **Foreign currency reserve**: Forex reserve stood at USD 36.04 billion at the end of June 2020 which was USD 32.54 billion in June 2019. The country's **foreign exchange reserve exceeded the $37-billion mark for the first time on July 27, 2020** as the inflow of remittance reached record $2.24 billion in first 27 days of July.

Impact on Capital Market

- To improve the liquidity condition in the capital market, the central bank took several initiatives including:
  - ✓ relaxation of bank's capital market exposure limits by allowing 25% on Solo basis and 50% on consolidated basis to invest in capital market
  - ✓ the creation special investment fund of BDT 2.0 billion by each bank in addition of bank's stock market exposure limit
  - ✓ initiation of a new disbursement policy allowing banks to distribute dividend upto 30% including 15% cash subject to maintaining minimum 12.5% capital conservation
  - ✓ introduction of long term repo and other liquidity enhancing policy measures helping the banks to ease up their maneuverability of funds
- BB will be proactive to work with the capital market regulators and other stakeholders to provide a supportive regulatory framework.
- BB laid emphasis to enhance the market capitalization through listing of companies having good fundamentals.
- The central bank remains supportive for the capital market development as they are trying to introduce the bond market.
- BB's expansionary monetary policy will lower the borrowing cost and boost the money flow of the banking sector.

"..and the global market started to recover during H2FY20. With these positive policy supports and gradual normalcy in the economic activities, it is expected that the two stock exchanges in Bangladesh are likely to rebound in the coming months," as per the MPS.

Sources: Bangladesh Bank, The Financial Express, The Daily Star, The New Age and ILSL Research