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Public Sector Gets Prioritized Again

Macroeconomic Report
January 21, 2020

Bangladesh Bank (BB) published the Monetary Policy Statement (MPS) for FY 2019-20 on 31 July 2019. Then on 19 January 2020, the central bank published a press release with a few revisions of the MPS for H2 FY'20. The press release revised broad money growth rate target, domestic credit growth rate target, public sector credit growth rate target, and overall balance of payment target for H2 FY'20. All the other targets were kept unchanged for H2 FY'20.

Monetary Policy Statement for H2 FY'20 Revision: Key Figures

Figures in Percentage	Actual in FY 2019*	Targets for H1 FY'20	Actual in H1 FY'20**	Target for H2 FY'20 in MPS	Target for H2 FY'20 in Revision
GDP Growth Rate	8.13	8.20	N/A	8.20	8.20
Inflation	5.47	5.50	5.59	5.50	5.50
Repo Rate	6.00	6.00	6.00	6.00	6.00
Reverse Repo Rate	4.75	4.75	4.75	4.75	4.75
Broad Money Growth Rate	9.88	11.30	12.80	12.50	13.00
Domestic Credit Growth Rate	12.30	14.50	15.20	15.90	17.40
Private Sector Credit Growth Rate	11.29	13.20	10.00	14.80	14.80
Public Sector Credit Growth Rate	21.10	25.20	59.60	24.30	37.70

**as of Jun 2019, Source: Bangladesh Bank, MPS*
***as of Dec 2019, Source: Bangladesh Bank*

Analyst Notes

- **Inflation rate** target has been kept unchanged at 5.5% even though the inflation rate has increased to 5.59% in Dec'19. The inflation rate in H1 FY'20 has been affected by high onion price as India stopped exporting onion to Bangladesh due to a supply shortage. The central bank has predicted that limiting the inflation rate within 5.5% will be difficult with increasing price of oil and other food items. The oil price has increased due to Iran-US tension and the situation may not get subdued. So, the oil price may not see any downward trajectory. The second half of FY'20 will include the month of Ramadan and during that period the price of food items increase due to higher demand. Moreover, the central bank has set a higher target for Broad Money growth which may cause an upward tick in inflation as well. So, the central bank is rightfully worried about missing the inflation target.
- **GDP growth rate** expectation has been kept at 8.2% whereas the World Bank & the United Nations have predicted that Bangladesh's GDP growth rate for FY'20 will be 7.2% & 7.8% respectively. Low private sector credit growth and declining trade balance may result in lower GDP growth than the expectation of the central bank.
- **Broad Money growth** rate has been revised upward to 13.0% from 12.5% for H2 FY'20. The government is thinking about imposing a new policy that will reduce the deposit rate to 6% and the lending rate to 9% from April 2020. If this policy is imposed, banks may face a continuation of liquidity crunch due to investors pulling money out of the banks. So, the money supply growth rate target has been increased to counter the liquidity crunch.
- **Public sector credit growth** target for FY'20 has been revised upward from 24.3% to 37.7%. Public sector credit growth has seen a huge jump as revenue collection in 2019 has been slow, national savings certificate (NSC) sales has seen a decline while government spending has increased. High credit from the banks has created a crowding-out effect for the private sector credit as well. The increase in the target signifies that the government plans to continue its high borrowing from the banks. The public sector credit growth may be higher than the target due to the continuation of low NSC sales, low revenue mobilization, implantation of the new interest rate policy, and increase of money supply.
- **Private sector credit growth** target is kept unchanged at 14.8% for H2 FY'20. The private sector credit growth has been low throughout H1 FY'20. Lower export growth due to a global economic slowdown, financial institutions facing liquidity pressure, and the crowding-out effect of the public sector pulled down private sector credit growth. The private sector credit growth is not expected to increase significantly from its low level due to the new interest rate policy to reduce the lending rate to 9%. Commercial banks may decide to reduce loan disbursement at such a low rate. Moreover, the crowding-out effect from the public sector is expected to continue as well. So, private sector credit growth will possibly be not as high as the target of the central bank.
- **Balance of Payment** target has been revised to USD 410 Mn from USD 100 Mn for FY'20. As of Nov'19, the overall balance of payment is USD –307 Mn. The government has declared incentives for remittance which has caused 25% growth in remittance in H1 FY'20. The central bank believes that remittance growth will continue to show high numbers and foreign funds will flow in for government projects during H2 FY'20. Moreover, the interest rate on loans under the Export Development Fund (EDF) scheme has been reduced by 1% which may improve export. Both export and import were on decline during H1 FY'20 due to global slowdown, undiversified RMG portfolio, and overvaluation of the currency. In the MPS FY 2019-20, the central bank has admitted that the currency is overvalued. So, if the currency gets devalued in H2 FY'20 to boost up exports, the overall balance of payment target is expected to be met.

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