Macro-Economic Report
January 17, 2024

Monetary Policy Statement H2’FY23-24

Money To Turn Costlier Ahead

Monetary Policy Statement (MPS) H2’FY2023-24: Key Figures

Figures in Percentage	FY23 Actual	FY H1’24 Review (Jul'23 to Dec’23)		Targets for FY H2’24 (Jan'24 to Jun’24)		Change
		Target	Actual	Target	Revised	
GDP Growth Rate	6.00	n/a	n/a	7.50	6.50	-100 bps
Inflation	9.02	n/a	9.48	n/a	7.50	
CRR	4.00	4.00	4.00	4.00	4.00	
Policy Rate (Repo Rate)	6.00	6.50	7.75	n/a	8.00	
SDF (Reverse Repo Rate)	4.25	4.50	5.75	n/a	6.50	
Bank Rate	4.00	4.00	4.00	4.00	4.00	
Reserve Money Growth Rate	10.5	0.00	-2.00[P]	6.00[P]	-1.00	-700 bps
Broad Money Growth Rate	10.5	9.50	8.80[P]	10.00[P]	9.7	-30 bps
Domestic Credit Growth Rate	15.3	15.90	11.70[P]	15.40[P]	13.9	-150 bps
Private Sector Credit Growth Rate	10.6	10.90	10.20[P]	11.00[P]	10.0	-100 bps
Public Sector Credit Growth Rate	35.8	37.90	18.00[P]	31.00[P]	27.8	-320 bps
Net Foreign Assets Growth	-23.4	-16.80	-21.80[P]	4.70[P]	-2.4	-710 bps
Net Domestic Assets Growth	21.3	15.90	16.20[P]	11.10[P]	12.2	+110 bps

Source: Bangladesh Bank, MPS
Note: Inflation is based on a12-month average. Source Chart: 16, MPS H2’FY24
FY23 GDP growth rate from IMF; FY24 growth rate taken from MPS
P denotes provisional estimate; A denotes latest figure as of now

Bangladesh Bank (BB) has announced the MPS for H2’FY24, continuing contractionary stance in tackling its objectives. Having election 2024 finally taking place and new GoB settling in, latest H2’FY24 revision adds moderate changes to BB’s Monetary policy stance.

In H1’FY24 Monetary Policy Statement (MPS) in June 2023, BB shifted towards a contractionary monetary policy stance and introduced four key reforms: the implementation of a policy interest rate corridor, the establishment of a reference interest rate for lending (SMART), the unification of exchange rate, and a revised methodology for calculating gross international reserves. In addition, BB implemented several policy measures within H1FY24 to alleviate inflationary pressure. These measures included a cumulative 175 basis points increase in policy rates from July to December 2023, the removal of the lending rate cap and the cessation of lending to the government by creating money. These actions were taken to elevate borrowing costs, restrict money and credit expansion, and anchor inflation expectations. As a result, money supply and private sector credit growth rates moderated between July and November 2023. Additionally, BB continued foreign currency sales, which functioned as automatic quantitative tightening measures in the money market, significantly absorbing liquidity from the system. These reforms aimed to address the evolving complexity of the economy, the dynamic nature of the financial system, and the integration into the global financial market.

Policy Rate Hike along with Narrowed IRC

Upward Revision in Inflation Target

Moving into Crawling Peg FX Rate System

Upholding Vigilence through Hawkish Approach

In its revised H2’FY24 MPS, BB has further increased the policy rate (repo rate) by 25 bps and has narrowed Interest Rate Corridor (IRC). In addition, it has declared its intention to introduce crawling peg system for exchange rate management. The inflation target has been revised upward to 7.5%, while BB would uphold its hawkish approach to contain inflation going ahead. Meanwhile, broad money and credit growth targets have been lowered, in line with the contractionary stance.

With tight liquidity and upward-looking rates, we expect borrowing to become costlier. We expect the inflation to stay high, while proper implementation of crawling peg may help stabilize BDT, provided FX Reserve situation improves. This requires attaining a favourable BoP level by FY24, which asks for successful macro navigation in this challenging landscape.

Click here to access H2’FY24 MPS

POLICY RATES: GOING UPWARD TO HAVE GREATER INTEREST RATE CONTROL

Policy Rate Hike Continues: For H2FY24, BB raised the policy rate to 8.00%, and narrowed the Interest Rate Corridor (IRC) to 150 bps. The recent changes include-

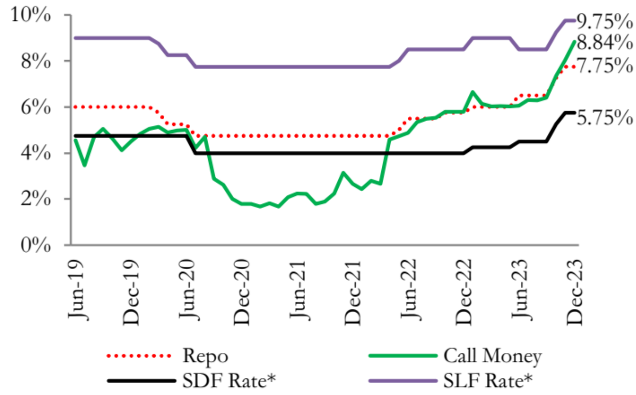
- Raised the policy interest rate to 8.00% (+25 bps)
- Standing Lending Facility (SLF) rate has been revised down to 9.50% (-25 bps), while Standing Deposit Facility (SDF) rate has been increased to 6.50% (+75 bps) effective from Jan 17, 2024.

Implications For Banks: Continuing upward adjustment of SDF is likely to encourage banks to deposit more funds with the central bank. Simultaneously, the decrease in SLF rate would make borrowing more affordable amidst liquidity constraints.

Implications For BB: The narrower corridor of policy rate may provide the central bank with greater control over monetary policy transmission.

Analyst Comment: The adjustments in the SLF and SDF rates are designed to fine-tune liquidity management and create a more control over interest rate environment.

Chart 16: Movement of Call Money and Policy Rates



Source: Bangladesh Bank, * Before 01July 2023, SDF was Reverse Repo and SLF was Special Repo .

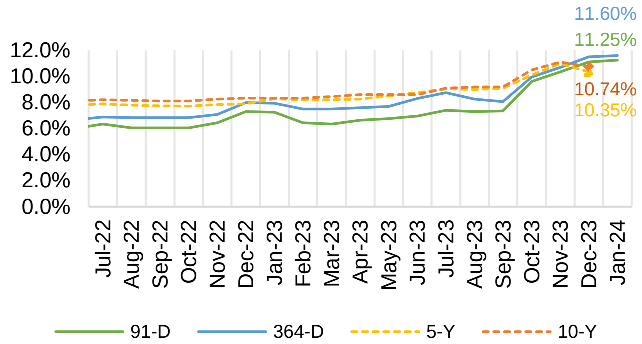
INTEREST RATE ENVIRONMENT: NO POLICY CHANGE AMIDST UPTREND SMART

No Change in SMART margin: Following H1FY24 MPS, BB has hiked SMART (Six-months moving average rate of Treasury bill) margin twice for banks, and once for NBFIs. As of latest, SMART reached 8.14%, a 104-bps increase compared to 7.1% back in Jul'23 (since inception). The latest rate ceilings would be:

- Bank Lending: SMART + 375 bps
- NBFI Lending: SMART + 550 bps
- NBFI Deposits: SMART + 250 bps

As usual, CMSME and consumer loans will have an additional 100 bps margin for supervision costs on top. Credit card rates will remain unchanged.

Cut-off Yields of T-Bills & T-Bonds



Source: BB

Analyst Comment:

With current 182-D T-Bill rate hovering above 11.0% and an expectation of maintaining upward trend, SMART would also head upward. In such a case, lending rate could shoot upward to 15% for banks (~17% for NBFIs).

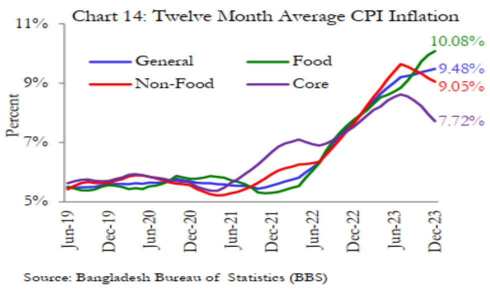
We expect Financial Institutions to prioritize quality lending and slow repricing in current economic context.

Following the introduction of SMART, most of the banks and NBFIs focused on preserving spread to offset the rising cost of funds. However, only a few with spread advantage (BRACBANK, DUTCHBANGL, PUBALIBANK) would benefit from the repricing. We do not expect significant upside from repricing immediately.

INFLATION: INTERVENTIONS CONTINUE, IMPACT UNCLEAR

7.5% is a Challenging Target: Aligning with the GoB's revision, BB has revised inflation target at 7.5% by Jun'24. Currently, 12-month average inflation stands at 9.48% (as of Dec'23). BB will continue its vigilance and willing to allow interest rates to rise to keep inflation under control (Hawkish approach). In addition, supply-side intervention would continue by ensuring adequate funding to productive sectors.

Analyst Comments: We are skeptical of the target as major part of the inflation is cost-push and upcoming festival driven demand can exert some pressure. In addition, the sticky downward nature of domestic prices, on top of depreciation driven dampening, would hinder reaching the target. We foresee BB to revise policy rates further up ahead in an attempt to contain inflation.



LIQUIDITY: CHALLENGES WOULD PERSIST

Liquidity Stays Tight: Starting H1FY24, BB has implemented contractionary monetary policies and has actively intervened in the foreign exchange market, which has led to a decrease in excess cash reserves and liquid assets in the banking sector. Additionally, the significant sales of foreign reserve (USD 5.7 Bn net during Jul'23-Dec'23, p.24) by BB have absorbed a significant portion of local currency liquidity. The high currency-deposit ratio has further contributed to a tighter liquidity situation in the money market.

Broad Money is On Target: Broad money (M2) growth remained slightly below the projection of H1FY24, primarily due to lower net foreign assets of the banking system. Tight liquidity prompted the call money rate (8.84% in Dec'23) to surpass the repo rate.

BB has maintained its provision of repo and liquidity support facilities to ease liquidity pressures, with steps including -

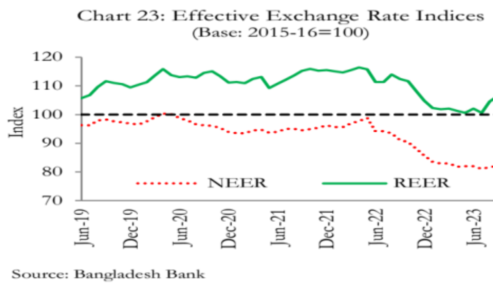
- Continued offering of repo facilities, assured liquidity support (ALS), and special repo facilities to conventional banks and NBFIs.
- Continued Mudarabah Liquidity Support (MLS) and Islamic Banks Liquidity Facility (IBLF) specifically for Shariah-based Islamic banks
- Offered refinance and pre-finance facilities to banks for agriculture and CMSMEs sectors, aiming to enhance liquidity in pivotal sectors crucial for economic growth

EXCHANGE RATE

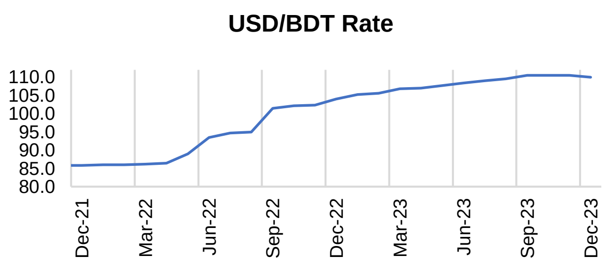
Bangladesh Bank (BB) to Implement Crawling Peg: BB is focusing to move toward a crawling peg system before moving to a free-floating exchange rate. In crawling peg, it will link to a competitive and representative equilibrium rate (based on a basket of selective currencies) at the midpoint and allow the exchange rate flexibility within a predefined exchange rate corridor. Also, BB would have the option to step in and prevent the exchange rate from exceeding these established bounds. BB has not yet disclosed the precise details.

Present Status of the Exchange Rate: Addressing the increased demand for foreign exchange, BB sold around USD 5.7 Bn net during H1FY24 to ease the supply-demand chain. Meanwhile, volatility decreased over time, and BDT slid 1.2% during H1FY24. Currently USD: BDT stands at 110.0. However, uptick REER signals depreciation pressure.

Analyst Comment: Our analysis suggests BDT is indeed getting more stable over the period. However, implementing crawling peg would require some time. If FX reserve improves ahead, BDT volatility would reduce.



Source: Bangladesh Bank

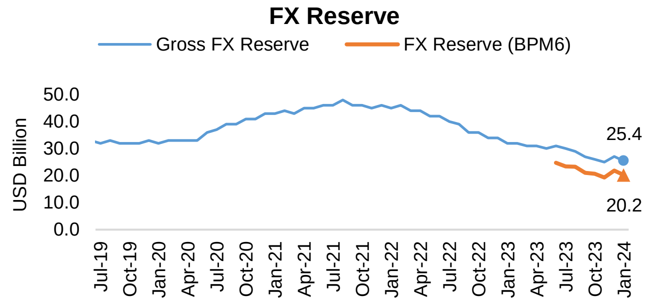


FX RESERVE

BB Optimistic About Reserve:

As of Jan 11, 2024, the gross foreign exchange reserves of Bangladesh Bank, including the Export Development Fund (EDF) and other foreign assets, amounted to USD 25.4 Bn covering ~4.9 months of import. Whereas using the IMF's BPM6 method FX reserve stood at USD 20.2 Bn. BB is expecting CA improvement assisted by MFI and FDI inflows. Thus, projecting an optimistic gross foreign exchange reserve of USD 29 Bn by Jun'24.

Analyst Comment: Despite scepticism about a complete reversal, we anticipate somewhat improvement in Financial Accounts owing to MFI inflows, contingent upon Bangladesh meeting necessary conditions. Notably, IMF financing conditions imply for Bangladesh to keep net international reserve of USD 20.1 Bn by Jun'24.



Source: BB

BROAD MONEY TARGETS AND CREDIT SCENARIO

In Dec'23, broad money growth (+8.8%) along with reserve money growth (-2.0%) fell below the projected growth mainly due to substantial selling of foreign currency. Actual private sector growth was 10.2%, in line with projected 10.9%. While public sector credit only grew 18.0% vs projected 37.9%, mainly stemming from diminished credit demand from GoB.

Jun'24 Targets are Conservative, projected broad money growth for Jun'24 is 9.7%, while the reserve money growth is projected to be at -1.0%. Furthermore, private sector credit growth is forecasted to remain at 10% while public sector credit is projected at 27.8%. Considering both, domestic credit is projected to grow at 13.9% in Jun'24.

Analyst Comment: Rate hike would lead to a more conservative private credit growth, and with diminished GoB credit demand, we believe overall domestic credit demand may slow down.

BALANCE OF PAYMENTS

BB has revised FY24 trade deficit to USD 10.2 Bn, considering exports of USD ~54.4 Bn (+4.0% YoY) and imports of USD ~64.6 Bn (-7.0% YoY). On top, remittance inflows are projected at USD ~22.2 Bn (+2.0% YoY) for FY24. Per latest data, the deficit in the overall balance of payments (BoP) contracted to USD 4.9 Bn at the end of 5MFY24 (5MFY23: USD 6.0 Bn), a significant improvement achieved from restricting imports amidst slowdown in export, remittance, and financial account (FA) inflows.

In the latest MPS, BB projects that the current account balance would improve to USD 332 Mn deficit (H1FY24 projection: USD 2.7 Bn) by the end of FY24, while the Financial & Capital accounts are projected to see marginal net inflows. Overall BoP balance is projected to reach USD 604 Mn deficit in FY24.

	Actual FY22	Actual FY23	Outlook FY24	YoY Growth	
				Actual (FY23)	Outlook (FY24)
Trade Deficit	33,250	20,901	10,197	-37.1%	-51.2%
Remittance	21,032	21,611	22,043	2.8%	2.0%
Current Account Deficit	18,196	2,665	332	-85.4%	-87.5%
Current Account Deficit as % of GDP	4.0%	0.6%	0.1%		
Financial & Capital Accounts Balance	17,301	-1,603	350	-109.3%	-121.8%
Gross International Reserve	41,827	31,203	29,000	-25.4%	-7.1%

Source: Bangladesh Bank MPS
Note: GDP figures taken from IMF

BRAC EPL
STOCK BROKERAGE LTD

IMPORTANT DISCLOSURES

Analyst Certification: Each research analyst and research associate who authored this document and whose name appears herein certifies that the recommendations and opinions expressed in the research report accurately reflect their personal views about any and all of the securities or issuers discussed therein that are within the coverage universe.

Compensation of Analysts: The compensation of research analysts is intended to reflect the value of the services they provide to the clients of BRAC-EPL. As with most other employees, the compensation of research analysts is impacted by the overall profitability of the firm, which may include revenues from corporate finance activities of the firm's Corporate Finance department. However, Research analysts' compensation is not directly related to specific corporate finance transaction.

General Risk Factors: BRAC-EPL will conduct a comprehensive risk assessment for each company under coverage at the time of initiating research coverage and also revisit this assessment when subsequent update reports are published or material company events occur. Following are some general risks that can impact future operational and financial performance: (1) Industry fundamentals with respect to customer demand or product / service pricing could change expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes; (3) Unforeseen developments with respect to the management, financial condition or accounting policies alter the prospective valuation; or (4) Interest rates, currency or major segments of the economy could alter investor confidence and investment prospects.

BRAC EPL Stock Brokerage Limited

Research

Salim Afzal Shawon, CFA	Head of Research	salim@bracepl.com	01708 805 221
Fahim Hassan	Research Analyst	fahim.hassan@bracepl.com	01709 636 546
Hossain Zaman Towhidi Khan	Senior Research Associate	hztowhidi.khan@bracepl.com	01708 805 224
Billal Hossain	Research Associate	billal.hossain@bracepl.com	01708 805 229
Syed Tawsifuzzaman	Research Associate	s.tawsifuzzaman@bracepl.com	01708 805 202
Foysal Ahmed	Research Associate	foysal.ahmed@bracepl.com	01708 805 201
S M Toufique Imran	Research Associate	smtoufique.imran@bracepl.com	01708 805 228

International Trade and Sales

Ahsanur Rahman Bappi	Chief Executive Officer	bappi@bracepl.com	01730 357 991

FOR SERVICE RELATED QUERIES, REACH OUT TO

care@bracepl.com   Call 16285

Research   Analytics   Advisory

BRAC EPL
STOCK BROKERAGE LTD

Website	Address	E-Mail	Contact
www.bracepl.com	Symphony, Plot No. S.E. (F) - 9, Road No. 142, Gulshan-1, Dhaka	Research: research@bracepl.com Sales : ftrader@bracepl.com	Phone: +88 02 222282446-47 Fax: +88 02 222282452