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Macroeconomic Report
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Monetary Policy Statement FY 2021-22: BB Continues Expansionary Stance, Aiming Faster Recovery

MPS FY 2021-22: Key Figures

Figures in Percentage	FY 2021 Review: Target vs. Actual		Targets for FY 2022	
	Targets	Actual*	6M (up to Dec'21)	12M (up to Jun'22)
GDP Growth Rate	7.40	6.10	7.20	7.20
Inflation	5.40	5.56	5.30	5.30
CRR	5.50	4.00	4.00	4.00
Repo Rate	4.75	4.75	4.75	4.75
Reverse Repo Rate	4.00	4.00	4.00	4.00
Bank Rate	4.00	4.00	4.00	4.00
Reserve Money Growth Rate	13.50	22.40	14.00	10.00
Broad Money Growth Rate	15.00	13.60	13.80	15.00
Domestic Credit Growth Rate	17.40	10.30	14.10	16.50
Private Sector Credit Growth Rate	14.80	8.40	11.00	14.80
Public Sector Credit Growth Rate	31.70	21.20	30.60	32.60
Net Foreign Assets Growth	20.10	27.10	13.00	10.40
Net Domestic Assets Growth	13.60	10.30	14.10	16.50

**as of Jun 2021, Source: Bangladesh Bank, MPS*

MPS Amid A Pandemic: How Far We are from Recovery?

Bangladesh Bank (BB) has announced the 3rd MPS since the outbreak of COVID-19, aiming at economic recovery while keeping inflation stable. Like the previous two MPSs, BB continued its expansionary and accommodative monetary policy stance by keeping the key interest rates unchanged.

Looking back, in the wake of the pandemic, Bangladesh bank drastically cut the key policy rates (i.e., CRR by 150 bps, Repo rate by 125 bps, Reverse Repo rate by 75 bps in April 2020) to supply liquidity to the Banks and NBFIs to provide sufficient loanable fund to the borrowers at a low and stable interest rate. In addition to that, GoB announced a stimulus package worth BDT 1.38 trillion (USD 15.9 billion) to aid the faltering economy. As such, the liquidity in the system surged (BDT 2,315 billion in June 2021 vs BDT 1,396 billion in June 2020) and the weighted average interest rate for loans fall by 225 bps from March 2020. Despite that, the private sector credit growth remained subdued at 8.50% in June 2021 due to lower domestic demand and the bank's cautionary stance against bad debt.

As Bangladesh continues to steer amid the pandemic, the central question revolves around how fast can the country move out of the pandemic and how long it will take to make an economic recovery. While GoB has been putting up regular lockdowns, mass vaccinations, and other measures to tackle and limit the pandemic, BB is playing the key role in ensuring a policy stance to accommodate current economic needs and also provide necessary headroom for economic drivers to aid a proper recovery. And so far, BB's policies have been in line, mostly expansionary in nature. In the latest MPS, policy stances remain mostly unchanged, with minor adjustments in targets. While it remains unknown how long recovery may take, we expect BB's stance to continue to be supportive and complementary to GoB's steps to ensure a proper comeback from the pandemic.

Policy Rates are Kept Unchanged

Results in FY 2021 & Proposed Policy

- BB has kept the policy rates unchanged to maintain the expansionary and accommodative monetary policy stance.
- The purpose of the interest rate cut was to supply low-cost loanable funds for Banks and NBFIs to provide loans to productive sectors at a lower interest rate to support investment, employment, and income-generating activities.

Analyst Notes

Since last year, the Bank sector was given the task of distributing stimulus package. To entice the banks to distribute the stimulus packages and to ensure sufficient liquidity, CRR and Repo rates were cut. So far, more than 85% of the stimulus package has been distributed. We do not expect the rates to reverse to the previous level in the current fiscal year.

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The Uptick in Global Commodity Price and Excess Liquidity might Put Inflationary Pressure

Results in FY 2021 & Proposed Policy

- Inflation is targeted to be at 5.3% H1'FY22
- Current 12-months average inflation stood at 5.56% as of June 2021, above the target ceiling of 5.40%.
- BB considers potential inflationary pressure from the followings:

i) increase in global commodity prices and excess liquidity in the system
ii) spill-over effect of global inflationary pressure on emerging and developing countries
iii) ongoing flood in the country

- BB has assured to step in and play an active role in inflation stabilization.

Figures in Percentage	Actual Inflation	Target Inflation
1H FY2015	7.35	6.0 — 6.5
2H FY2015	6.99	NA
1H FY2016	6.40	6.50
2H FY2016	6.19	6.20
1H FY2017	5.92	6.07
2H FY2017	5.52	5.80
1H FY2018	5.44	5.80
2H FY2018	5.78	5.50
1H FY2019	5.54	5.4 — 5.8
2H FY2019	5.47	5.3 — 5.6
1H FY2020	5.59	5.50
2H FY2020	5.65	5.50
1H FY2021	5.69	5.04-5.93
2H FY2021	5.56	5.40
1H FY2022	NA	5.30

Source: Monetary Policy Statement, Jul 2021

Analyst Notes

We have observed a surge in commodity prices after the outbreak of COVID-19. The uptick in Commodity prices was indicating an increase in inflation. However, inflation in Bangladesh is dominated by food inflation. As such, GoB's effort to pile up food stock from both national and international sources, aided further from bumper production of paddy has provided a breathing space on the inflationary front. In addition to that, lower consumption demand has helped to keep the 12-month average inflation ~5.56% in June 2021.

We anticipate that inflationary pressure from the commodity price uptick will be offset by the sufficient inventory of food and lower consumer demand. However, unexpected crop loss due to natural calamities (i.e. flood) might put some inflationary pressure in the next FY.

Bangladesh Bank Assumes Real GDP Growth Rate of 7.2%

Results in FY 2021 & Proposed Policy

- Real GDP increased by 6.1% in FY 2021.
- Bangladesh Bank projects GDP growth to be 7.2% in FY 2022.
- GDP Growth Projections from external sources—
  World Bank: 3.6% for 2021 and 5.1% 2022.
  ADB GDP: 6.8% for 2021 and 7.2% for 2022.
  IMF: 5.0% for 2021 and 7.5% for 2022.

Analyst Notes

BB's projection of GDP growth rate for FY 2021 is lower than the world bank's projection but similar to ADB and IMF's ones. The GDP growth rate estimated by the government may be attainable if the third wave of Covid-19 is contained soon. The recovery of the global economy is the primary factor that encouraged the government and the multilateral lenders to declare GDP growth projection at this range.

Stability in the FX is Expected

Results in FY 2021 & Proposed Policy

- BDT appreciated by 0.1% against USD in FY'21
- Real Effective Exchange Rate (REER) stood at 110.6 in Jun'21 compared to 112.6 in Jun'20.
- Latest exchange rate against major currencies (Jun 30,2021):
  BDT/USD: 84.57
  BDT/EUR: 100.26
  BDT/GBP: 116.94

REER is the weighted average of a country's currency in relation to an index or basket of other major currencies. The weights are determined by comparing the relative trade balance of a country's currency against that of each country in the index.

Analyst Notes

The REER of BDT shows that the currency is overvalued. REER declined during the last fiscal year as India and China saw a much larger appreciation of their currency.

Similar to the previous years, in FY'21, the central bank intervened in the FX market by purchasing USD 7.7 billion to keep the currency stable.

In MPS, BB has stated that it does not expect any shock to the exchange rate. However, growing prices in both food and non-food category is concerning. We expect that the strong USD reserve of 46 billion will act as a guard of any sudden movement in prices and protect against currency depreciation.

Private & Public Sector Credit Growth Remain Depressed Despite Excess Liquidity

Results in FY 2021 & Proposed Policy

- In FY 2021, broad money growth rate of 13.6% was lower than the target rate of 15.0%. Target for broad money growth is set at 13.8% in H1 FY’22 and 15.0% in H2 FY’22.
- Target for reserve money growth is set at 14.0% in H1 FY’22 and 10.0% in H2 FY’22, much lower than the actual number at the end of FY’21.
- In FY 2021, private sector credit growth of 8.4% fell drastically short of the target of 14.8%. Public sector credit growth came at 21.2%, which was well below the target of 31.7% as well.
- Domestic credit growth — a combination of private and public sector credit growth, came below the target (10.3% against target of 17.4%), stemming from weak credit growth of both private and public sector. However, private sector has a stronger impact on overall domestic credit growth as it is more than 5 times bigger than public sector credit.
- Target for private sector credit growth in H1 & H2 FY 2022 is increased from the actual level to 11.0% and 14.8% respectively. Public sector credit growth target is at 30.6% and 32.6% in H1 & H2 FY’22 respectively. Domestic Credit growth target for the same period is at 14.1% and 16.5% respectively.

Analyst Notes

The pandemic has continued to drastically affect the credit growth in the country in FY’21. Bangladesh witnessed a short-lived resumption of economic activities around the end of 2020 after the first and second waves of Covid-19. However, even amid a low rate regime, not a lot of businesses went for expansion. Lenders were concerned regarding asset quality as well. Later on, the third wave struck the country severely and the country has been under lockdown since Apr’21. All of these resulted in a private sector credit growth of below double-digit during FY’21. At present, rapid vaccination in Bangladesh’s major export destinations may result in credit demands from the borrowers. We still do not expect private sector credit growth to reach 11.0% by Dec 2021. However, the actual result may not be far behind the target if the third wave subsides soon.

The public sector credit growth fell short of the target during FY’21 due to a low ADP implementation rate and high NSC sales. The ADP implementation rate of 42% until Q3 of FY’21 was the lowest in 11 years. The NSC sales increased by 240% YoY during Jul-May 2021. The works of most of the mega projects were at a halt last year. But as international travels start getting more flexible, foreign consultants for the projects will start arriving in Bangladesh. Moreover, the mega projects witnessed 48% more allocation in the recent budget of FY’22. Hence, though optimistic, the public sector credit growth may reach its target.

The broad money target has been kept the same which is a surprise as the banks are burdened with excess liquidity. However, the government is probably thinking about the risks of the third wave and ensuring liquidity in the market. BB has stated that it will take necessary steps if any asset bubble occurs due to the presence of excess liquidity.

Current Account Deficit is Forecasted at a Similar Level

Results in FY 2021 & Proposed Policy

	Actual in FY 2021 (USD Mn)*	Targets for FY 2022 (USD Mn)	Actual YoY Growth FY 2021*	Targeted YoY Growth FY 2022
Trade Balance	-22,799	-26,066	-27.7%	-14.3%
Remittance	24,788	29,734	36.2%	20.0%
Current Account Balance	-3,808	-2,570	19.4%	32.5%
Current Account Balance as % of GDP	-1.0%	-0.6%	NA	NA
Gross International Reserve	46,391	52,000	28.7%	12.1%

**as of Jun 2021, Source: Bangladesh Bank, MPS*

Analyst Notes

Both export & import were slow during H1 FY’21. As both global and domestic economies started recovering, trade activities picked up rapidly since the start of 2021. With RMG factories being operational during lockdown and global vaccination rate rising, it can be expected that export and imports will increase significantly. Hence, the targets set by the central bank regarding trade activities are likely to be met.

Remittance saw a tremendous growth in FY 2021, vastly crossing the central bank remittance growth target of 3.0%. The continuation of government incentives, workers returning home permanently with all of their assets, and unavailability of unofficial channels resulted in that significant growth of remittance. Overseas employment is expected to see strong growth as workers are returning to work abroad which will ensure a strong remittance growth in FY’22 as well.

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