

Expansionary Monetary Policy Continues
 Macroeconomic Report
 February 04, 2021

Bangladesh Bank (BB) published the Monetary Policy Statement (MPS) for FY 2020-21 on 29 July 2020. Then on 02 February 2021, the central bank published a press release with a few revisions of the MPS for H2 FY'21. The circular revised GDP growth rate target, broad money growth rate target, domestic and public sector credit growth rate targets, and net foreign & domestic assets targets for H2 FY'21. All the other targets were kept unchanged for H2 FY'21.

Monetary Policy Statement for H2 FY'21 Revision: Key Figures

<i>Figures in Percentage</i>	Actual in FY 2020*	Targets for H1 FY'21	Actual in H1 FY'21**	Target for H2 FY'21 in MPS	Target for H2 FY'21 in Revision
GDP Growth Rate	5.20	8.20	N/A	8.20	7.40
Inflation	5.65	5.04-5.93	5.69	5.04-5.93	5.40
CRR	4.00	4.00	4.00	4.00	4.00
Repo Rate	5.25	4.75	4.75	4.75	4.75
Reverse Repo Rate	4.75	4.00	4.00	4.00	4.00
Bank Rate	5.00	4.00	4.00	4.00	4.00
Broad Money Growth Rate	12.70	14.00	14.23	15.60	15.00
Domestic Credit Growth Rate	13.70	15.00	9.70	19.30	17.40
Private Sector Credit Growth Rate	8.60	11.50	8.37	14.80	14.80
Public Sector Credit Growth Rate	53.40	35.60	17.20	44.40	31.70
Reserve Money Growth Rate	15.70	15.50	21.30	13.50	13.50
Net Foreign Assets	10.20	12.50	30.80	5.80	20.10
Net Domestic Assets	13.40	14.40	9.80	18.30	13.60

*as of Jun 2020, Source: Bangladesh Bank, MPS
 **as of Dec 2020, Source: Bangladesh Bank, MPS

Analyst Notes

- ◆ **Inflation rate** target has been kept within the previous range. The current target of 5.4% is lower than the actual inflation of 5.69% in Dec'20. Due to expansionary monetary policy worldwide, inflation may pick up all over the world which may affect the local inflation rate as well. Moreover, persistent excess liquidity and typical price hike in Ramadan due to high demand may result in an inflationary pressure. However, the central bank stated that the government is taking necessary steps in anticipation of high inflation pressure. Hence, the current target is a difficult but achievable one.
- ◆ **GDP growth rate** expectation has been revised downward at 7.4% whereas the World Bank & the United Nations have predicted that Bangladesh's GDP growth rate for FY'21 will be 1.6% & 5.1% respectively. Both private and public sector credit growth have fallen. The poverty rate has increased due to Covid-19 which affects consumption. In such a scenario, a GDP growth target of 7.4% seems ambitious.
- ◆ **Policy rates** have been kept unchanged which indicated the central bank's decision to not hinder the low interest rate scenario of both treasuries and the banking sector.
- ◆ **Broad money** growth rate target has been revised downwards to 15.0% from 15.6%. The broad money target is still set high which brings forth a probability of persistence excess liquidity in H2 FY'21 if credit growth doesn't pick up. **Reserve money** target is kept unchanged at 13.5%. Attainment of that target may help the government to control excess liquidity. A low ADP implementation rate of 23.9% in H1 FY'21 and low investment demand of the private sector resulted in an increase in the reserve money in H1 FY'21. However, if no change in demand from the private sector can be seen, the reserve money growth may not be kept at such a low rate.
- ◆ **Public sector credit growth** target for H2 FY'21 has been revised downward from 44.4% to 31.7%. Due to Covid-19, all of the government's large projects were paused which resulted in a low public sector credit growth in H1 FY'21. The work of the large projects has started again and the ADP implementation rate usually increases in the second half of the fiscal. Due to all of these reasons combined with low treasury rates, the public sector credit growth may pick up in H2 FY'21. However, whether it can increase to such a high rate after a subdued period is questionable.
- ◆ **Private sector credit growth** target is kept unchanged at 14.8% for H2 FY'21. The private sector credit growth has been in single digit rates in 2020. Due to a global shutdown, global demand fell drastically which resulted in a low demand for credit from the private sector. Although vaccination has started, it is still uncertain how much time will require for global demand to go back to the pre-pandemic level. In this scenario, private sector credit growth is unlikely to reach the target within H2 FY'21.

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