Macro Economic Report
February 10, 2025

Monetary Policy Statement H2'FY25
A Year For Macroeconomic Consolidation

Monetary Policy Statement (MPS) H2'FY25: Key Figures

Figures in Percentage	FY24	FY H1'25 Review (Jul'24 to Dec'24)		FY H2'25 Review (Jan'25 to Jun'25)	
	Actual	Target	Actual	Previous	Revised
GDP Growth Rate	4.2	n/a	n/a	6.8	4.0-5.0
Inflation	9.7	n/a	10.3	6.5	7.0-8.0
CRR	4.0	4.0	4.0	4.0	4.0
Policy Rate (Repo Rate)	8.5	8.5	10.0	n/a	10.0
SDF (Standing Deposit Facility)	7.0	7.0	8.5	n/a	8.5
SLF (Standing Lending Facility)	10.0	10.0	11.5	n/a	11.5
Reserve Money Growth Rate	7.9	2.0	7.3	1.0	1.0
Broad Money Growth Rate	7.7	8.2	7.6	8.4	8.4
Domestic Credit Growth Rate	10.0	10.7	9.4	11.6	11.5
Private Sector Credit Growth Rate	9.8	9.8	7.3	9.8	9.8
Public Sector Credit Growth Rate	10.5	14.2	18.1	17.8	17.5
Net Foreign Assets Growth	-17.1	2.3	-15.7	17.8	7.7
Net Domestic Assets Growth	13.5	9.3	11.9	6.8	8.5

Source: Bangladesh Bank, MPS
Note: Inflation is based on a 12-month average.
FY24 growth rate taken from MPS

Bangladesh Bank (BB) has announced the MPS for H2'FY25, maintaining current contractionary stance to tackle economic challenges. In this MPS, both Policy Rate (10.00%) and Interest Rate Corridor (± 150 bps) remains unchanged. Progressing to market-driven FX regime, the crawling peg mid-point has been recently updated (BDT 119.0) in Jan'25. The inflation target has been revised to 7.0%-8.0% for FY25, while broad money and credit growth targets have been kept in line with the H1'FY25 provisional outcome. The outcome of BB's continuing contractionary stance would become more evident within H2'FY25, paving the way for economic improvement. BB's ongoing reform measures for the banking sector vulnerabilities would become visible in the short-to-midterm horizon.

Policy Rate and Interest Rate Corridor Unchanged	Downward Revision in Inflation Target	Devolvement Discontinued	FX Policy Liberalization Continues	Implementing Bank Sector Reforms

Following August 2024, BB further intensified its contractionary monetary policy stance by: 1) three-step hike in policy rates, 2) further liberalized the interest and FX rates, and 3) right-sizing GoB expenditure. BB successfully prevented financial sector meltdown stemming from liquidity crisis in distressed banks, offering direct liquidity support and credit guarantee in money market. While the move resulted in reserve money (M0) growth, coordinated fiscal-monetary policy efforts subdued broad money supply (M2) and private sector credit demand. Additionally, after clearing deferred FX payments, BB managed to: 1) stabilize FX Reserve at USD ~20.0 Bn range, and 2) contain BDT depreciation within <3% during H1'FY25. FX rate and LC margin relaxations improved remittance and exports, turning Current Account into positive.

From a holistic view, in H2'FY25 MPS, it appears BB would remain constrictive on both price and quantum of money, prioritizing inflation management as primary target, while accommodating current growth recovery. We observe BB is optimistic about improvement in FX situation, underpinned by FX budget support, FDI, and remittance improvement from more liberal policies.

Considering the latest developments on both monetary and fiscal front, we find BB's targets to be more feasible compared to earlier ones. Following the moderate 4-5% GDP growth projection for FY25, BB forecasts a strong 6.0% GDP growth for FY26, driven by improved macro-outlook and political stability.

We expect inflation outlook to improve, and credit growth to gradually pick up following interest rates ease up. We expect better stability for BDT. In our view, FX Reserve will remain stable riding on remittance and export, offsetting external payments. In addition, we expect BB to meet IMF's targets, considering the expected supports from DFIs ahead.

Click here to access
H2'FY25 MPS

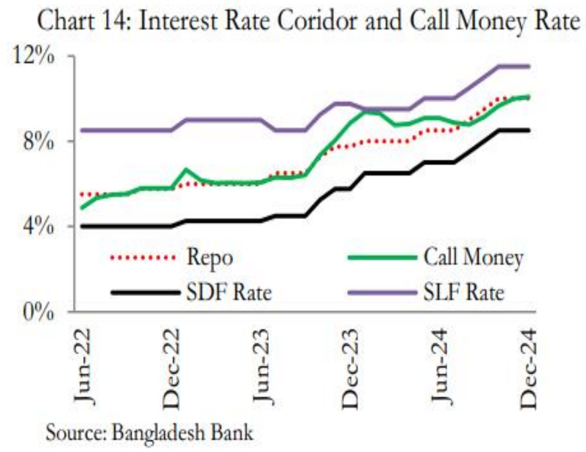
POLICY RATE: KEPT TO 10%, EXPECTED TO EASE

Corridor Set within 8.5%-11.5%, Policy Rate unchanged:

Following the regime change, the government prioritized inflation control. To achieve this, Bangladesh Bank (BB) raised the policy rate by a total 150 basis points within Aug'24-Oct'24. Since then, the policy rate has remained unchanged. The Standing Deposit Facility (SDF) has been adjusted to 8.5%, while the Standing Lending Facility (SLF) stands at 11.5%.

- Wider corridor (±150 bps) is intended to allow more participatory actions in the interbank market, allowing better liquidity transmission among the banks.
- The higher SDF rate is expected to encourage higher savings. In contrast, the increased SLF rate will discourage borrowing, improving banks' liquidity in the short term and fostering a more stable financial environment.

Open Market Operations (OMO) Get Streamlined: BB is continuing quantitative tightening by streamlining Open Market Operations (OMOs). Since July 2024, it has reduced repo auctions to twice a week from daily auctions. In November 2024, BB introduced weekly repo auctions with overnight fine-tuning OMOs at the end of the Reserve Maintenance Period (RMP). BB plans to streamline liquidity management by adopting a single instrument at a uniform repo rate, eliminating rate disparities, and improving liquidity control for banks and NBFIs.



Source: Bangladesh Bank

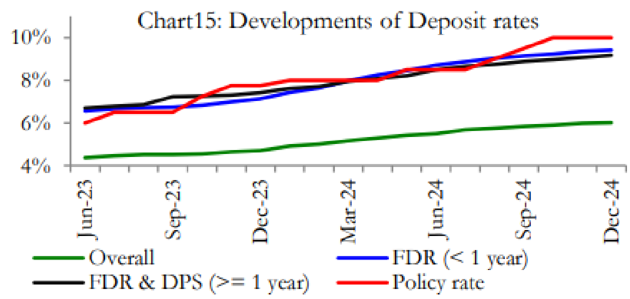
Analyst Comment:

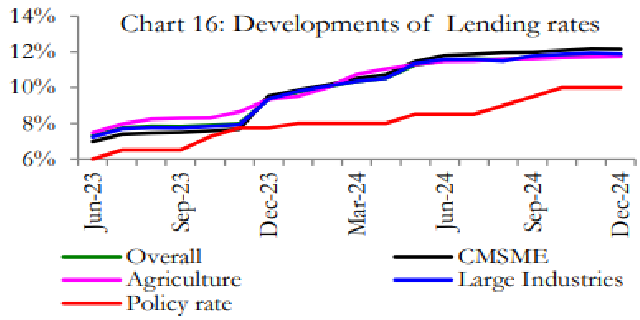
- The decision to maintain the policy (Repo) rate to 10%, along with SDF and SLF rates, reflects BB's commitment to a cautious, tight monetary policy stance.
- The gap between G-Sec rates and the SLF has substantially squeezed, which is likely to divert liquidity from G-Sec to other channels, notably private sector and capital market.

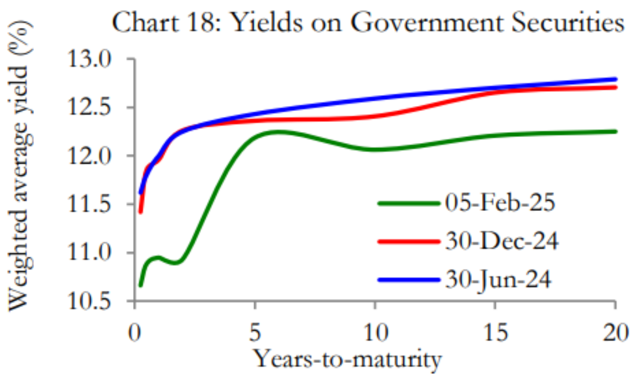
INTEREST RATE ENVIRONMENT: SIGNS OF EASING IN LIGHT

Market-Based Now, Getting Settled: The shift to a market-based interest rate mechanism in May'24, coupled with a continued contractionary monetary policy and a tight liquidity environment, has led to a sharp rise in interest rates by Dec'24. However, a significant portion of this increase in lending and deposit rates occurred immediately after the removal of the lending rate cap in May'24, preceding the policy rate hikes that began in Aug'24. Notably, lending rates climbed faster compared to deposit rates resulting in an expanded spread.

G-Sec Yields Show Signs of Decline: Yields on the government securities in Dec'24 were lower than those of the end Jun'24. Later by Feb'25, there was a sharp decline of 150 bps+ in the yields, stemming from higher investment demand from banks, NBFIs, and individuals.







Analyst Comment:

- Market-driven rates are expected to persist, enabling banks and NBFIs to price assets based on risk and enhance their spreads.
- With long-term interest rates lower than short-term rates, inflation expectations for the future remain subdued.
- Given the decline in treasury yields, we anticipate repricing in other instruments as well.

INFLATION: COORDINATED POLICY INTERVENTIONS IMPROVES OUTLOOK

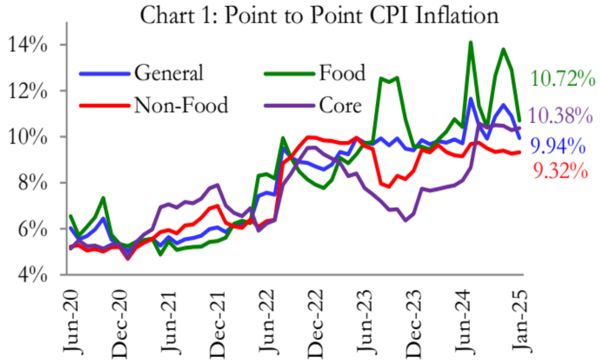
Pragmatic Interventions Could Lead to 7.0%-8.0% Target

Bangladesh Bank revised its inflation forecast to 7-8% range by June 2025, with latest Jan'25 figure easing to 9.94%.

In our opinion, the latest developments stem from pragmatic policy interventions and seasonal declines in winter agri-produce prices. Key measures include market-driven interest rates, policy rate hikes, significant reduction in fiscal deficit, elimination of taxes and LC margin requirements on essential food imports, FX availability and stability, and availability of agriculture and power sector related imports.

Analyst Comments: The current set of policy moves provide reasonable anticipation for subdued inflation outlook in FY25. Addressing market inefficiencies, ensuring Boro harvest, and stabilizing FX rates would remain key priorities for GoB and BB. However, local and external shocks could alter the inflation outlook, which could derail recovery efforts, as projected FY25 GDP growth has been lowered to 4-5%.

Chart 1: Point to Point CPI Inflation



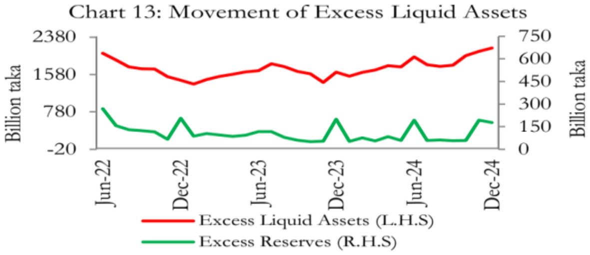
Source: Bangladesh Bureau of Statistics (BBS)

LIQUIDITY: RELATIVELY COMFORTABLE FOR NOW

Liquidity Stays Tight: Liquidity remained tight at the end of Dec 2024 due to the following factors - slow loan recovery, high volume of NPLs, sluggish deposit growth, and increased cash holding by the public. The situation was offset by several BB initiatives, including stopping USD sales, increasing repo allotments, and BB's liquidity support for stressed banks.

Broad Money Below the Target: Broad Money (M2) growth registered 7.6% YoY in Dec'24 vs projected 8.2%. Clearance of deferred payments and lower than expected FX budget support contributed to the 15.7% degrowth in Net foreign assets (NFA) compared to projected 2.7% growth. However, Reserve Money (M0) expansion, geared towards liquidity support for stressed banks, was offset by GoB's borrowing shift from BB to banking sector. Subsequently, the call money rate (10.07% on avg. in Dec 2024) remained broadly in line with repo rate.

Chart 13: Movement of Excess Liquid Assets



Source: Bangladesh Bank

BB has maintained its liquidity support facilities to ease liquidity pressures, with steps including -

- Unrestricted access to Standing lending Facility (SLF) and full allotment of repo facilities.
- Special liquidity support to certain banks with direct support and BB guarantee.
- Continued assured liquidity support (ALS), and standard & 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.

Analyst Comments: Under the current macroeconomic situation and ongoing reforms in the banking sector, we foresee improved liquidity flow towards private sectors.

EXCHANGE RATE: MOVING TOWARD MARKET BASED

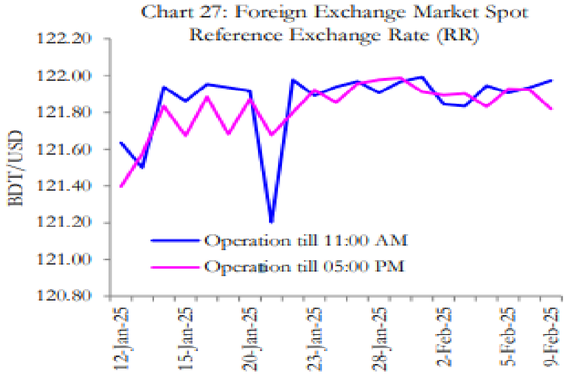
Bangladesh Bank (BB) is gradually making the exchange rate more flexible to improve the economy's ability to withstand external shocks and manage foreign currency reserves more effectively.

Path to a More Flexible Exchange Rate

- In May 2024, BB introduced a crawling peg system, allowing the BDT to move within a set range for greater stability and flexibility. The difference between unofficial and official FX rates have minimized.
- To further strengthen exchange rate adaptability, BB adjusted the central rate twice in Aug 2024 and widened the band from 1% to 2.5%, allowing BDT more room to move against the USD.
- Authorized Dealers can now buy and sell foreign currency at freely negotiated rates within the set band.
- On Jan 12, 2025, BB introduced a daily reference exchange rate based on real market transactions. This rate is published twice daily—once in the morning for transactions before 11:00 AM and again in the evening for the entire day's transactions.
- NEER showed a modest 0.7% depreciation in H1FY25.

Plan For Auction-Based Intervention:

BB plans to develop an auction based Foreign Exchange Intervention Strategy for the future exchange rate framework to ensure a more transparent and consistent exchange rate policy.



Analyst Comment:

BB's shift toward a more flexible exchange rate is a key step in strengthening the economy, allowing BDT to reflect market conditions. The planned auction-based intervention strategy aims to ensure more efficient currency management while maintaining liquidity. In our opinion, careful implementation will be crucial to minimize volatility risks for BDT.

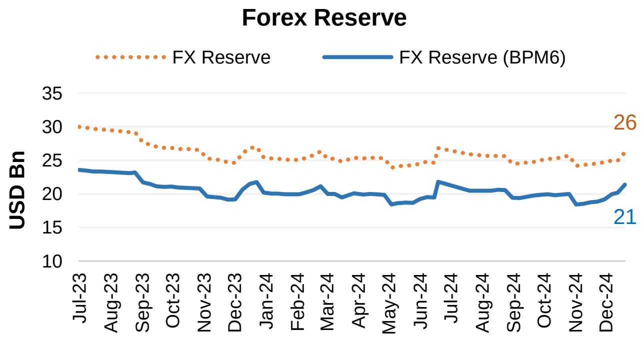
FX RESERVE: BB OPTIMISTIC TO REBUILD

BB Optimistic of FX Liberalization Policies

- BDT: USD has increased to 122.0 while latest reserve stood at USD 20.2 Bn (BPM6) following the USD 1.6 Bn ACU payment in Jan 2025, covering about ~3.7 month of imports.
- BB expects a more stabilize BoP situation ahead, as it moves towards better FX rate scenario with improving trade situation, remittance, FDI growth and MFI supports.
- While BB did not provide the projected FX reserve for Jun'25, the regulator projects a modest 7.7% YoY growth in Net Foreign Assets (NFA) by Jun'25.

Analyst Comments:

- We anticipate a better trade situation over export and remittance growth over flexible exchange rate.
- GoB debt servicing would create a sizable demand for USD, which could pressure on FX reserve.



Source: BB

BROAD MONEY TARGETS AND CREDIT SCENARIO

Broad Money Stays Off Target

Broad Money (M2) grew 7.6% YoY at the end Dec'24, marginally missing the projected 8.2%. A large contraction of NFA (-15.7% YoY), stemming from accumulated external payments, affected the M2 growth. However, a strong growth in NDA of 11.9% YoY surpassing previous projections upheld the M2 growth in H1FY25. Looking ahead, M2 growth is set at 8.4% for Jun'25, with NFA projected to grow at 7.7% and NDA by 8.5% by Jun'25.

Credit Scenario Looks Tight Still

Overall domestic credit growth (9.4% YoY) came short of earlier projections. Notably, public sector credit growth expanded to 18.1% YoY owing to increasing GoB demands to meet spending, while private sector credit missed target due subdued economic activities on top of GoB crowding out. By Jun'25, given GoB's reliance on bank borrowing, public credit growth is expected to manoeuvre around 17.5% and private credit growth to hit 9.8%. Considering both, domestic credit growth is projected at 11.5% for Jun'25.

Analyst Comment:

Subdued revenue collection is anticipated to increase public sector credit demand. We understand strong display in exports and import demand recovery would create additional credit demand from private sector.

BALANCE OF PAYMENTS

Diverging from the previous trend, BB refrained from providing a forecast on the external sector in this H2'FY25 MPS. Following the recent revision of export data, BB reported the Current Account (CA) surplus at USD 33 Mn in H1'FY25 (H1'FY24: USD 3.47 Bn deficit), while the Financial Account (FA) was USD 764 Mn surplus (H1'FY24: USD 5.07 Bn surplus). Subsequently, the overall BoP balance stood at USD 384 Mn deficit during H1FY25, a substantial improvement compared to USD 3.5 Bn deficit during H1FY24.

Bangladesh Bank (BB) projects limited improvement in the Current Account (CA) balance, citing higher imports due to reduced restrictions and increased demand stemming from expectations of economic recovery. The improvement in the balance of payments (BoP) will primarily rely on the financial account, with anticipated growth driven by higher foreign direct investment (FDI) and increased foreign assistance from development partners and budget support. Expected increase in remittances would help offsetting the pressures from elevated imports and helping stabilize the CA. BB acknowledges that political uncertainty and labour unrest could potentially disrupt the flow of both FDI and remittances, posing risks to the economic outlook.

Figures in USD Mn

	Actual FY22	Actual FY23	Revised FY24	Revised July'23-Dec'23	Provisional July'24-Dec'24
Trade Deficit	33,250	20,901	22,431	10,876	9,764
Remittance	21,032	21,611	23,912	10,800	13,776
Current Account Deficit/(Surplus)	18,196	2,665	6,604	3,465	-33
Current Account Deficit as % of GDP	3.95%	0.59%	1.47%	N/A	N/A
Financial & Capital Accounts Balance	17,301	-1,603	5,073	764	1,593
Gross International Reserve (GIR)	41,827	31,203	26,714	27,130	26,215

Source: Bangladesh Bank and MPS H2'FY25
Note: GDP figures taken from IMF and BBS

OTHER UPCOMING CHANGES TO THE SYSTEM

Key developments include:

- Forthcoming regulatory developments include Bank Resolution Act, amendment of Bangladesh Bank Order 1972, and Distressed Asset Management Act.
- Development of robust resolutions for distressed banks based on Asset Quality Reviews (AQR).
- Implementation of Expected Credit Loss (ECL) methodology-based provisioning system in 2027.
- Implementation of open banking framework to integrate fintech companies, traditional banks including agent banking, and mobile financial services (MFS) across digital platforms.
- Draft regulation on 'E-Money Regulations' to create a secure and competitive environment for digital transactions.
- BB plans to adopt a single instrument at a uniform repo rate in a bid to eliminate the multiplicity of instruments and disparate interest rates in the money market.

Following the July Revolution, reformed BB's policy actions have accelerated to manage economic issues and is already yielding. Further result is down the line, and while sticking to current course of action, upcoming changes would allow further fundamental improvements ahead. However, economic risks remain substantial, hence BB remains cautious on the growth expectation for the time being, putting inflation at the centre of efforts.

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