

Targeted GDP growth: <b>7.50%</b>	Targeted Inflation rate: <b>6.00%</b>	Targeted Repo Rate: <b>6.50%</b>	Targeted Reverse Repo Rate: <b>4.50%</b>	Targeted Domestic Credit Growth: <b>15.3%</b>
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## Monetary Policy H1'24 - a contractionary policy to curb inflation

Bangladesh Bank (BB) announced a contractionary monetary policy to contain inflation while trying to attain a target GDP growth of 7.5% in FY24. The repo rate has been increased from 6.0% to 6.5% while the reverse repo rate, which will now be known as standing deposit facility (SDF) rate has been increased from 4.25% to 4.50%. The lending rate cap has been withdrawn and a new market driven reference lending rate known as six-month moving average rate of treasury bill (SMART) has been introduced for all types of bank loans. The projected inflation rate would be 6.0% in FY24. Moreover, BB will adopt a unified and market driven exchange rate where the market forces will determine BDT to USD or any other currency rate. Apart from that, BB will publish gross international reserve (GIR) according to IMF's guideline for Balance of payment and international investment position manual. BB expects that both private and public sector credit growth will rise, broad money growth will increase, inflation will slow down, forex reserve to improve and a surplus in balance of payment (BOP).

## Major Policy Targets

Particulars	FY H1'23 Actual	FY H2'23 Review		Target for FY H1'24	
		Target	Actual	Target	Change
GDP Growth Rate	6.90	7.50	7.10	7.50	40 bps
Inflation	7.70	6.30-7.50	9.90	6.00	-390 bps
Repo Rate	5.75	5.50	6.00	6.50	50 bps
Reverse Repo Rate	4.00	4.00	4.25	4.50	25 bps
Reserve Money Growth Rate	17.40	14.00	10.00	0.00	1000 bps
Broad Money Growth Rate	8.50	11.50	10.50	9.50	-100 bps
Domestic Credit Growth Rate	15.40	18.50	16.40	16.90	50 bps
Private Sector Credit Growth Rate	12.90	14.10	11.00	10.90	-10 bps
Public Sector Credit Growth Rate	27.60	37.70	40.00	43.00	300 bps
Net Foreign Assets Growth	-23.30	-11.90	-25.70	-20.30	540 bps
Net Domestic Assets Growth	18.90	17.90	20.04	16.80	-324 bps

Chart: Broad money growth (M2)

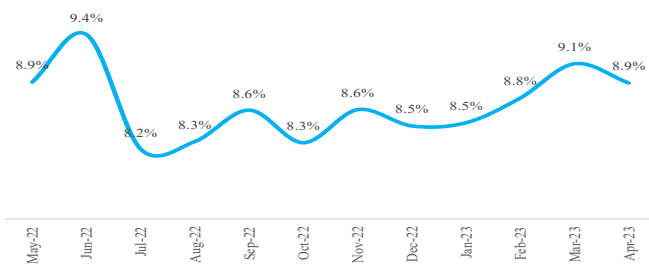


Chart: Reserve money growth

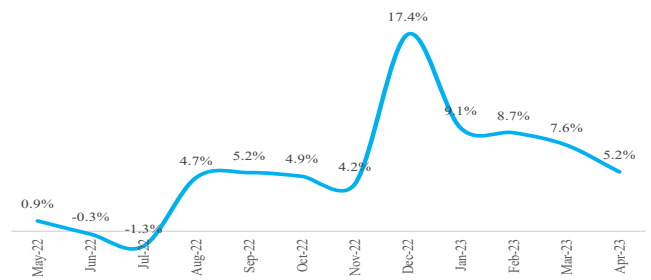


Chart: Call money rate and REPO rate

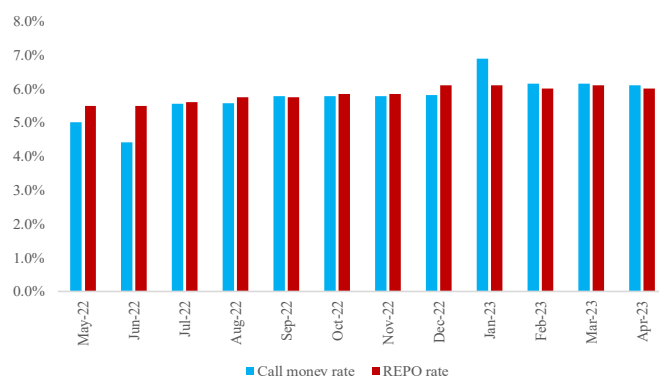
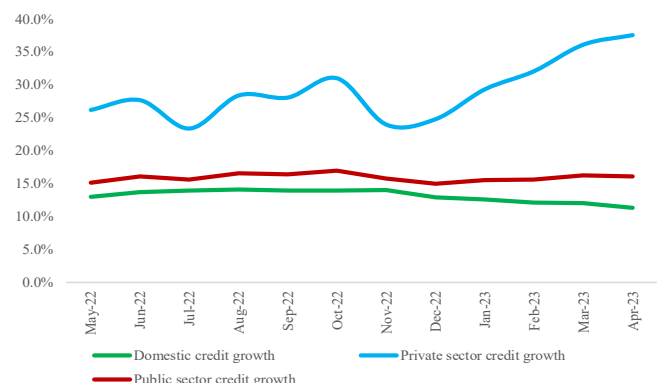


Chart: Credit growth



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## Summary of Policy Deviations

- The reserve money growth fell during the 1st and 3rd quarter due to a drop in BB's Net Foreign Assets (NFA). However, in the 2nd quarter of H2'FY23, the reserve growth jumped above the programmed rate driven by BB's liquidity support which further strengthened the Net Domestic Asset (NDA). The broad money growth remained well below the programmed path mainly due to the lower NFA of the banking system.
- The drop in NFA was driven by significant drop in the BoP, which resulted from large current account deficit and substantial trade credit repayment. As a result, the forex reserve dropped from 41.8bn to 29.9bn mainly due to commodity price shock and the depreciation of the BDT.
- The domestic credit fell slightly below the programmed path (projected: 18.5%, actual: 16.4%). The public sector experienced robust growth as it surpassed the programmed path mainly due to the negative sales of national saving certificate (NSC) as the government has strict requirement for investment. The private sector growth fell below the programmed path (projected: 14.1%, actual: 11.0%) but it is still much higher than many emerging Asian countries.

## Policy Stances - A Tighter One

### Strategy to Curb Inflation

The last policy inflation target was 7.5%, which was way below the actual rate of 9.98%. The higher rate was driven by supply side shocks, hike in fuel prices, and the sudden depreciation of the BDT. The government, however, took some austerity measures to control import and arranging refinancing facilities to supply side industries to combat inflation. The attempts were successful as imports slowed down. Moreover, the increased repo rate will help

### Unified Exchange Rate

The BDT depreciated more than 13.0% during the FY'23 – the highest among the other Asian developing countries. To lessen the depreciation rate, BB sold around USD 13bn in FY'23. However, the projected NFA indicates that BB might not sell USD anymore as they are confident about the current BDT exchange rate.

### Market Driven Reference Lending Rate - SMART

The newly announced market driven reference lending rate for all types of bank loans will positively impact the banking sector. For banks, the margin of lending would be SMART plus a margin of 3.0%, 5.0% for NBFIs, and additional 1.0% for CMSMEs and consumer loans to cover their supervision costs while interest rate of credit card loans was unchanged. The new lending rate policy will raise the cost of borrowing and ultimately may drive down inflation.

### Impact on Capital Market - Tight Liquidity Stance

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Chart: Point to Point Inflation

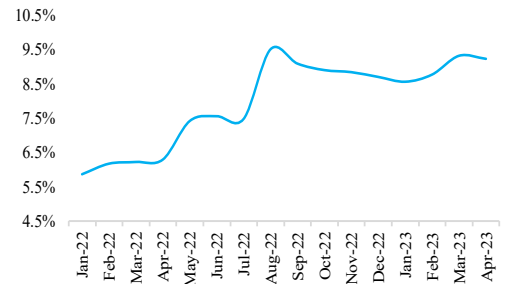


Chart: Exchange rate of BDT against USD

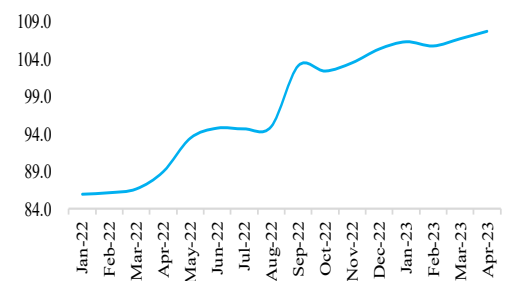


Chart: Lending rate, Deposit rate and Spread

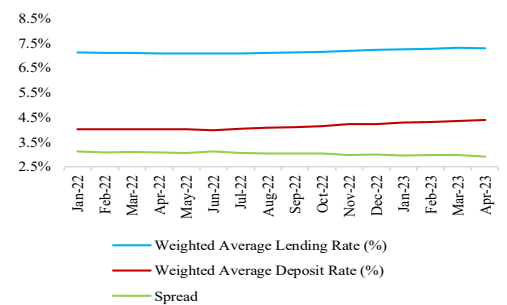


Chart: Foreign exchange reserve (USD bn)

