

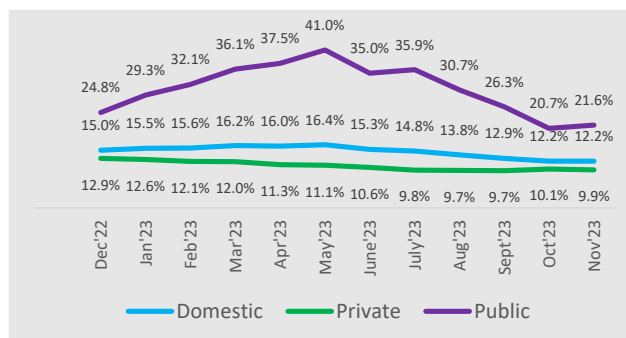
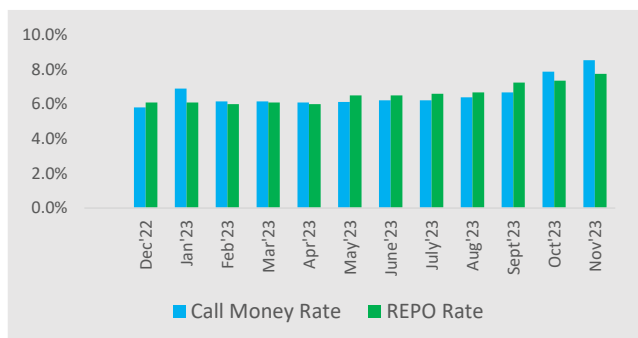
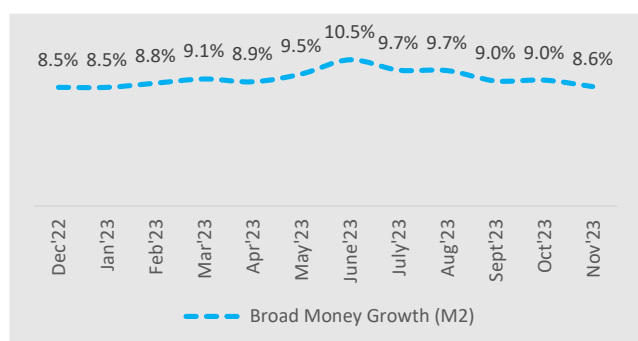
Targeted GDP growth: 6.5%	Targeted Inflation rate: 7.5%	Targeted Repo Rate: 8.0%	Targeted Reverse Repo Rate: 6.5%	Targeted Broad Money Growth Rate: 10.0%
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## Monetary Policy H2'24 - Contractionary Policy with a Crawling-Peg System for Foreign Exchange Rate Determination

Bangladesh Bank (BB) will continue its contractionary monetary policy stance and stick to the interest rate targeting framework to control inflation while trying to attain a target GDP growth of 6.5% in FY24. To mitigate the abrupt exchange rate fluctuations, BB is considering a crawling-peg exchange rate system in which the exchange rate will be tied to a selected basket of currencies and adjusted within the equilibrium of a predefined exchange rate corridor to make the local currency competitive. BB expects inflation rate to fall from 9.41% to 7.5% in H2 FY24 with an improved supply side scenario coupled with stringent monetary policy and fiscal measures. BB will implement effective techniques and robust corporate governance practices to improve non-performing loan management. BB expects both private and public sector credit growth will rise, broad money growth will increase, inflation will slow down, and forex reserve will improve.

### Major Policy Targets

Particulars	FY H2'23	FY H1'24 Review		Target for FY H2'24	
	Actual	Target	Actual	Target	Change
GDP Growth Rate	7.10%	7.50%	6.11%	6.50%	0.39%
Inflation Rate	9.90%	6.00%	9.41%	7.50%	-1.91%
Repo Rate	6.00%	6.50%	7.75%	8.00%	0.25%
Reverse Repo Rate	4.30%	4.50%	5.75%	6.50%	0.75%
Reserve Money Growth Rate	10.00%	0.00%	-2.00%	-1.00%	1.00%
Broad Money Growth Rate	10.50%	9.50%	8.80%	9.70%	0.90%
Domestic Credit Growth Rate	16.40%	16.90%	11.70%	13.90%	2.20%
Private Sector Credit Growth Rate	11.00%	10.90%	10.20%	10.00%	-0.20%
Public Sector Credit Growth Rate	40.00%	43.00%	18.00%	27.80%	9.80%
Net Foreign Assets Growth Rate	-25.70%	-20.30%	-21.80%	-2.40%	19.40%
Net Domestic Assets Growth Rate	20.40%	16.80%	11.70%	12.20%	0.50%



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## Summary of Policy Deviations

- The reserve money growth experienced a 2.0% drop due to the negative growth of BB's Net Foreign Assets (NFA) driven by significant foreign currency sales to banks to meet excess demand for USD. The broad money growth remained below the programmed path mainly due to the lower NFA of the banking system.
- NFA dropped 21.8% compared to an anticipated 16.8% decline due to a deficit in the BoP, particularly in the financial account balance.
- The domestic credit fell well below the programmed path (projected: 16.9%, actual: 11.7%). The public sector credit growth experienced a significant drop from the projected rate mainly due to the diminished credit demand from the government, aligning with the government's selective spending on priority projects as part of austerity measures. The private sector credit growth fell slightly below the programmed path (projected: 10.9%, actual: 10.2%) due to higher borrowing costs, global economic uncertainties, and liquidity constraints within the banking sector.

## Policy Stances

### Strategy to Curb Inflation

- The last policy rate target was 6.5%, which stands below the actual rate of 7.75%. With an aim to contain rising inflation, BB has further raised the policy rate by 25 basis points, thus taking it to 8.00%. Therefore, banks and NBFIs will incur higher borrowing costs ranging from 8.00% to 9.50%. As a result, the SMART rate will rise in near-term and might result in an increasing borrowing cost while making the demand driven inflationary pressure less severe.

## Unified Exchange Rate

- To control the volatile FX reserve, BB is contemplating the adoption of a crawling-peg system. In this system, the exchange rate will be tied to a selected basket of currencies. This strategy will help mitigate the abrupt fluctuations in the exchange rate.

## Impact on the capital market

- The rising interest rate environment will benefit Banks, NBFIs, and companies with high cash reserve.
- On the other hand, the highly leveraged companies will suffer from higher interest payment rate.
- The higher deposit rates of financial institutions and higher coupon rates offered by government securities might result in funds channeling out of the equity market.
- A crawling-peg system will aid the listed companies having higher exposure to forex fluctuations.

