

FY20 Monetary Policy Stance	Target	
	H1FY20	H2FY20
Average Inflation	NA	5.50%
Repo rate	6.00%	6.00%
Reserve repo rate	4.75%	4.75%
Domestic Credit Growth	14.50%	15.90%
Private Sector Credit Growth	13.20%	14.80%
Public Sector Credit Growth	25.20%	24.30%
Reserve Money Growth	9.80%	12.00%
Broad Money (M2) Growth	11.30%	12.50%
Net Foreign Assets Growth	2.00%	0.30%

Source: Bangladesh Bank

MPS H2FY19: Targets vs Actual

Particulars	Actual	Target
Average Inflation	5.47%	5.60%
Domestic Credit Growth	12.30%	15.90%
Private Sector Credit Growth	11.30%	16.50%
Public Sector Credit Growth	21.10%	10.90%
Reserve Money Growth	5.30%	7.00%
Broad Money (M2) Growth	9.90%	12.00%
Net Foreign Assets Growth	2.20%	-3.40%

Source: Bangladesh Bank

Bangladesh Bank (BB) released the Monetary Policy Statement (MPS) for FY20 (Jul'19-Jun'20) prioritizing the government's inclusive and sustainable growth agenda, keeping the price stability in the top most priority.

MAJOR POLICY STANCES

Private Sector Credit Growth Target Has Been Revised Down

BB has revised down the targeted ceiling of Private Sector Credit growth from last MPS from 16.5% in Jun'19 to 13.2% in Dec'19 and 14.8% in Jun'20. Banks have adopted a cautious approach to disburse loan because of liquidity pressure. BB has realized that high private sector credit growth is difficult to achieve unless the liquidity scenario improves.

Public Sector Credit Growth Target Has Been Revised Upwards

BB has increased the targeted ceiling of Public Sector Credit growth from 10.9% in Jun'19 to 25.2% in Dec'19. However, public sector credit growth target has been revised down to 24.3% in Jun'20. BB considered that government's borrowing from banks would increase as government is currently more aggressive in implementing mega projects than the past. However, the targeted ceiling of Domestic Credit growth has been revised down to 14.5% in Dec'19 from 15.9% in Jun'19. The targeted domestic growth rate has increased again to 15.9% in Jun'20.

Average Inflation Target Has Been Cut

BB revised down the Average Inflation ceiling from 5.6% to 5.5%. BB view that downward trend in energy prices in international market and low dependency on rice import has reduced significant near term risk for domestic price inflation in Bangladesh.

Repo and Reverse Repo Rate Has Been Kept Unchanged

BB has kept Repo and Reserve Repo Rate unchanged at 6.0% and 4.75% respectively to support liquidity in the economy.

Reserve Money Growth increased ; Broad Money Growth Cut

BB has revised up the Reserve Money (RM) growth target from 7.0% in Jun'19 to 9.8% in Dec'19 and 12.00% in Jun'20. Broad Money (M2) growth target revised down to 11.30% Dec'19 and then revised up to 12.50% in Jun'20 from 12.0% in Jun'19. Net Foreign Asset (NFA) growth target has been increased to 3.00% in Dec'19 and then reduced to 0.3 0% in Jun'20.

MONETARY POLICY IMPLEMENTATION RISKS AND CHALLENGES

Inflation Risk: The effect of upward revision of fuel gas prices and the implementation of new VAT law can create inflationary pressure. Moreover, if monsoon flood prolongs or recurs, significant agricultural output will be lost or damaged which in turn can cause high food inflation.

Geopolitical Tension: External factors like trade war between USA and China and geopolitical tension in middle east may impair the attainment of BB's monetary program outcome.

BANGLADESH BANK'S REVIEW ON OVERALL MACRO ECONOMY

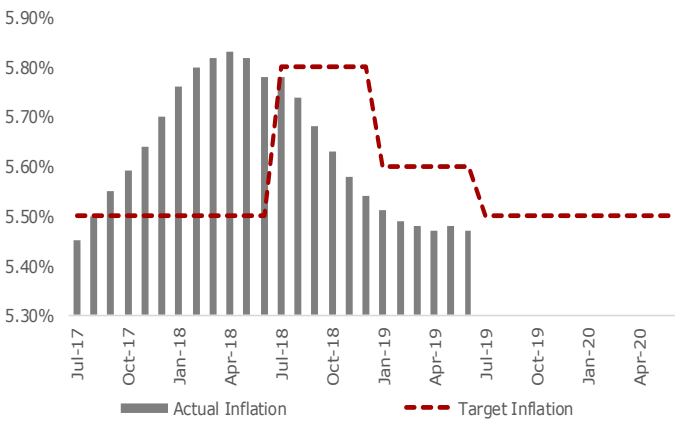
- **GDP Growth:** BB believes that 8.2% GDP growth target for FY20 budget is quite conservatively set and will be adequately achieved through BB's target money and credit growth.
- **Inflation Scenario:** BB expressed concern on the expected rise of inflationary pressure in coming months as the monsoon flood is now inundating sizable areas of Bangladesh. A more prolonged flood may outburst the inflationary pressure.
- **External Sector:** BB points out that ongoing global trade tension would add up to near term uncertainties in world economy. However, BB reiterates that growing developing economies including Bangladesh may book ample opportunities from global trade dispute. In different note, BB states that unless a prolonged inundation, Bangladesh will not have to import rice. Moreover, BB sees little probability of near term inflation risk stemming from global commodity price hike.
- **Fed Rate:** BB expects that US Fed rate would be trimmed from current level. As a result, Bangladesh would be benefitted from lower debt service cost on external borrowing.
- **Current Account Deficit:** BB claims that they were successful in managing current account deficit. The decision of depreciating taka, and cutting of Advance-Deposit-Ratio (ADR) of banks contributed to narrow down of current account balance to 1.7% of GDP against BB's target of 2.0% in FY19.
- **Liquidity in Private Banks:** BB acknowledges that private banks (PCB) suffered the most during liquidity crunch as PCBs got only a lower share of low cost government deposits and competed with high yielding national saving certificate (NSC). However, BB believes that liquidity situation in PCBs would improve as government introduced some modification in NSC issuance procedure.
- **Transformation of Monetary Policy Regime:** BB is in process of the preparatory work with IMF SARTTAC for adopting a policy interest rate focused monetary policy regime instead of current monetary aggregate policy regime. Policy interest rate focused monetary policy regime would better align the policy interest rate changes to the price level of financial and real sectors.

ANALYSTS' OBSERVATION

We see that there are at least two reasons to conclude that inflation would increase in coming months. **Firstly**, the domestic flood condition is yet to taper. We observed that due to flood, rice import crept to 3.3% of total import during FY18 as opposed to 0.2% in Jul'18-May'19. Average food inflation and P2P general inflation peaked to 7.87% and 6.12% respectively in FY18. Similar thing might replicate unless the flood situation improves quickly.

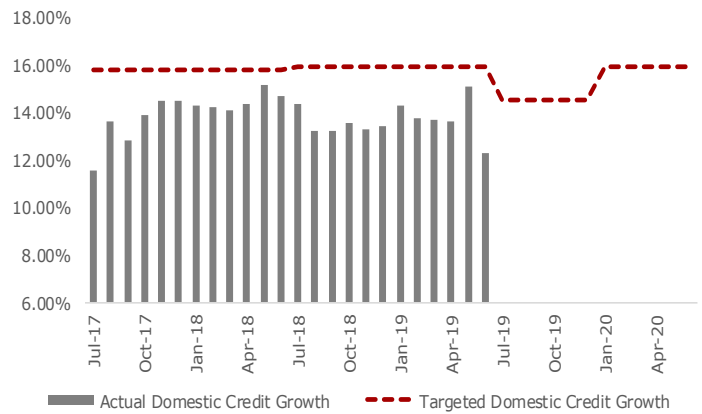
Secondly, government recognizes that commercial banks have liquidity drag and government's increasing borrowing demand from banks may crowd out privates and eventually decelerate the growth of private sector. As a result, government borrowed heavily from BB instead of commercial banks. BB's direct lending to government has almost doubled in Jun'19 from Jun'18. This could fuel inflation risk in coming months.

Actual Inflation vs Target Inflation



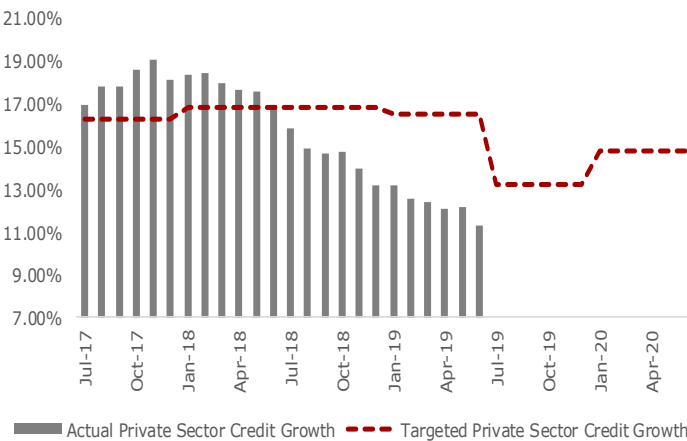
Source: Bangladesh Bank & UCBCML Research

Actual Domestic Credit Growth Vs Target Domestic Credit Growth



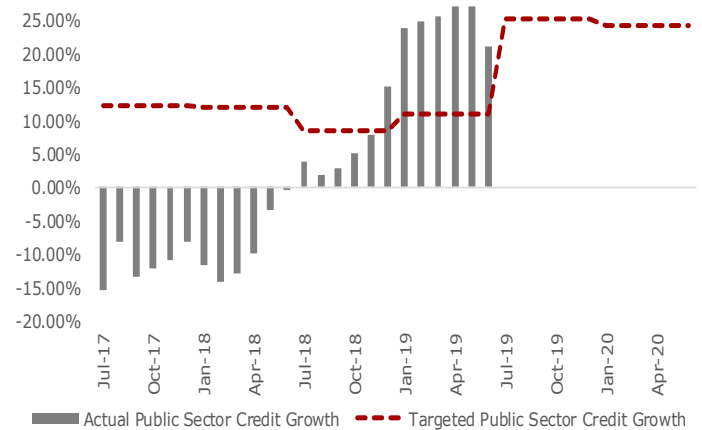
Source: Bangladesh Bank & UCBCML Research

Actual Private Sector Credit Growth Vs Target Private Sector Credit Growth



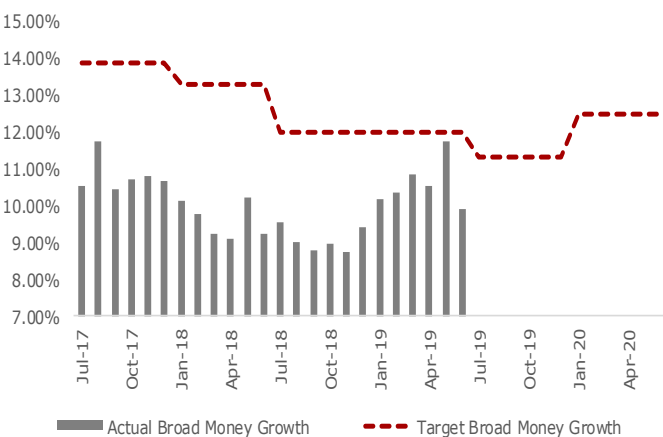
Source: Bangladesh Bank & UCBCML Research

Actual Public Sector Credit Growth Vs Target Public Sector Credit Growth



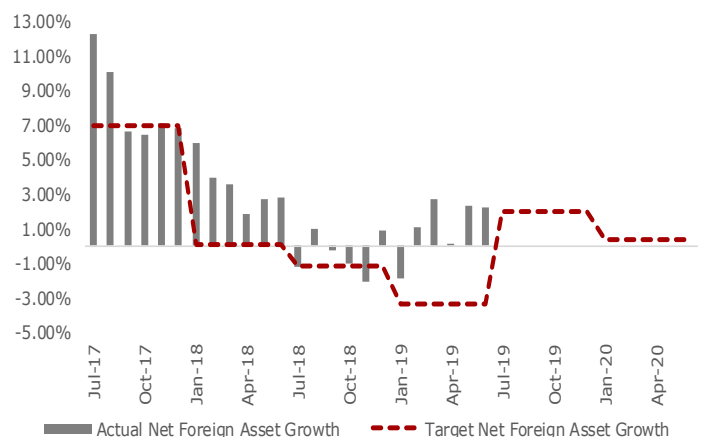
Source: Bangladesh Bank & UCBCML Research

Actual Broad Money Growth Vs Target Broad Money Growth



Source: Bangladesh Bank & UCBCML Research

Actual Net Foreign Asset Growth Vs Target Net Foreign Asset Growth



Source: Bangladesh Bank & UCBCML Research

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Expected absolute returns are calculated as the percentage of difference between our target price and latest close price. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Please note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Recommendation Type	Holding period (if not otherwise mentioned)	Absolute Return Potential
Buy	12 Months	More than +15%
Neutral/ Hold	12 Months	Between +15 % and -5 %
Underweight	12 Months	Less than -5 %

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