

H2FY19 Monetary Policy Stance

Particulars	Target
Average Inflation	5.60%
Repo rate	6.00%
Reserve repo rate	4.75%
Domestic Credit Growth	15.90%
Private Sector Credit Growth	16.50%
Public Sector Credit Growth	10.90%
Reserve Money Growth	7.00%
Broad Money (M2) Growth	12.00%
Net Foreign Assets Growth	-3.40%

Source: Bangladesh Bank

MPS H1FY19: Targets vs Actual

Particulars	Actual	Target
Average Inflation	5.54%	5.80%
Domestic Credit Growth	13.30%	15.90%
Private Sector Credit Growth	13.30%	16.80%
Public Sector Credit Growth	13.30%	8.50%
Reserve Money Growth	8.20%	7.00%
Broad Money (M2) Growth	9.40%	12.00%
Net Foreign Assets Growth	-0.20%	-1.20%

Source: Bangladesh Bank

Bangladesh Bank (BB) released the Monetary Policy Statement (MPS) for the second half of 2019 (Jan'19-Jun'19) 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 16.8% in Dec'18 to 16.5% in Jun'19. BB considered four factors while setting private sector credit growth target i.e. the base-effect of last five-year's high growth, the liquidity impact from a negative net foreign asset growth, lack in interest rate flexibility, and pre-election credit low demand.

Public Sector Credit Growth Target Has Been Revised Upwards

BB has increased the targeted ceiling of Public Sector Credit growth in H2FY19 MPS from 8.5% in Dec'18 to 10.9% in Jun'19. 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 kept unchanged at 15.9%.

Average Inflation Target Has Been Cut

BB revised down the Average Inflation ceiling from 5.8% to 5.6%. BB expects that inflation would hover between 5.3% to 5.6% in Jun'19 driven by declining trend in global food and energy prices coupled with satisfactory domestic production.

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.

Monetary Aggregates' Growth Target Has Been Kept Unchanged

BB has kept the Reserve Money (RM) and Broad Money (M2) growth target unchanged at 7.0% and 12.0% respectively while Net Foreign Asset (NFA) growth target has been reduced to -3.4%.

MONETARY POLICY IMPLEMENTATION RISKS AND CHALLENGES

Inflation Risk: Inflation risk may emerge from strong domestic demand and exchange rate volatility. In BB's inflation expectation survey, 70.0% of the respondents anticipated that inflation would be above 6.0% against BB's forecast range of 5.3% to 5.6% in Jun'19.

Non-market Linked NSC Rate: Non-market linked high rate of NSC creates obstacle to BB for establishing an effective monetary policy transmission channel.

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High NPL: In Bangladesh, high NPL resulted in increase in interest rate by $\sim 1.0\%$, creating a wedge between deposit and lending rate and making interest rate less sensitive to monetary policy actions.

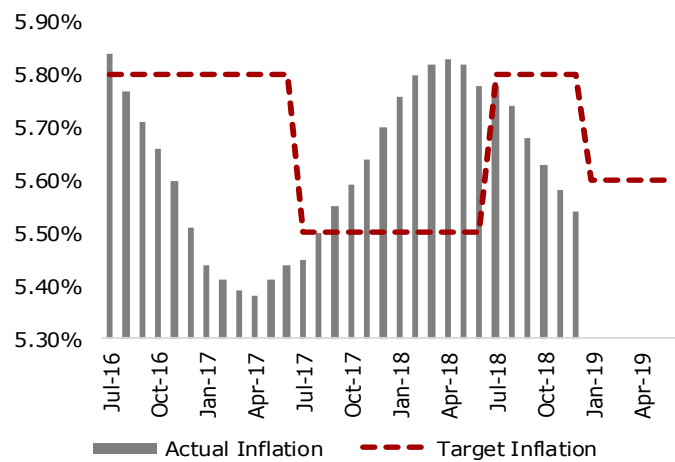
BANGLADESH BANK'S REVIEW ON OVERALL MACRO ECONOMY

- **GDP Growth:** BB believes that the targeted broad money and domestic credit growth in H2FY19 MPS can accommodate GDP growth rate between 7.5% to 8.2%.
- **External Sector:** BB projects export, import and remittance growth to be 14.0%, 7.5% and 11.0% respectively in FY19. BB points out that ongoing trade tension between US and China could increase the global demand for Bangladeshi readymade garments. Regarding the forecast of slow import growth, BB considered the tapering of the one-off factors, favor from global commodity price, and existence of base effect following a sharp rise in FY18.
- **Current Account Deficit:** BB expects that the current deficit would stand below 2.0% of GDP in FY19, which is normal at current account development phase of Bangladesh.
- **Non Performing Loan:** BB emphasized on bringing down the NPL of the banking sector by instilling strict lending and recovery discipline.
- **Exchange Rate Flexibility:** BB believes that interest rate and exchange rate would become more flexible as Bangladesh will transit towards middle income phase.

ANALYSTS' OBSERVATION

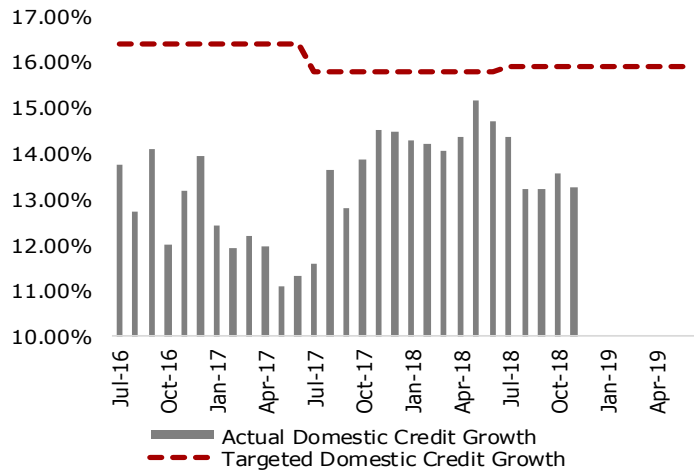
We see an indication of increase in interest rate in H2FY19 MPS mainly led by higher Broad Money growth target. In MPS, YoY broad money growth target was set at 12.0% in Jun'19. However, YoY Broad Money growth has been below 10.0% since Jun'18. We estimate that banking sector would require additional BDT 1,000bn to BDT 1,100bn worth time or demand deposit to meet the Broad Money target. Banks would have to offer higher rate to book such high amount of deposit (deposit size of the banking sector is around 10,000bn).

Actual Inflation vs Target Inflation



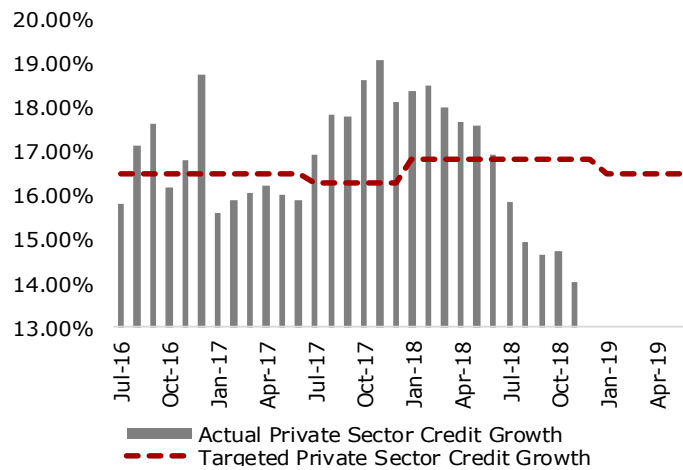
Source: Bangladesh Bank & UCBCML Research

Actual Domestic Credit Growth Vs Target Domestic Credit Growth



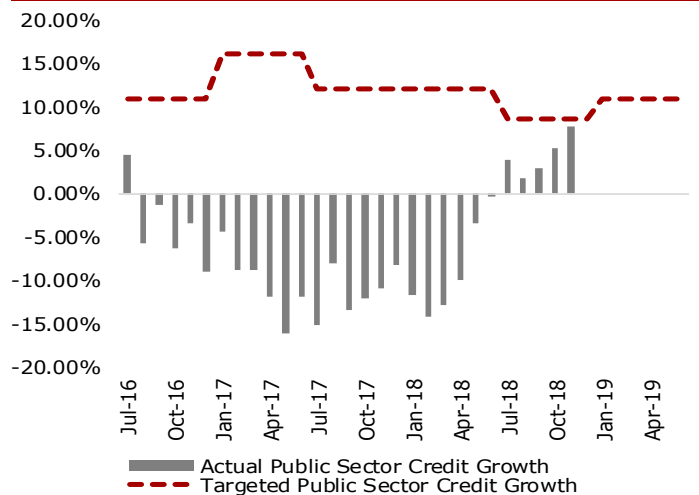
Source: Bangladesh Bank & UCBCML Research

Actual Private Sector Credit Growth Vs Target Private Sector Credit Growth



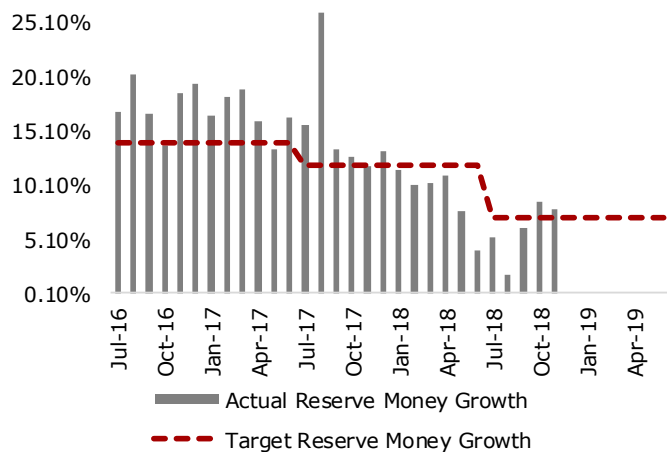
Source: Bangladesh Bank & UCBCML Research

Actual Public Sector Credit Growth Vs Target Public Sector Credit Growth



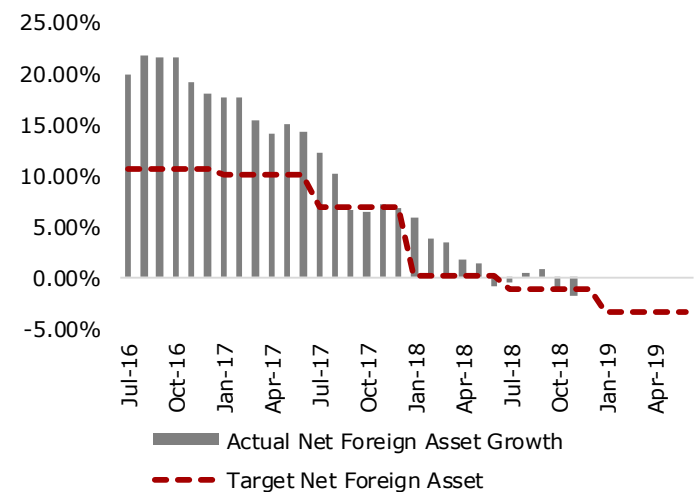
Source: Bangladesh Bank & UCBCML Research

Actual Reserve Money Growth Vs Target Reserve 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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