



Prime Bank Investment Ltd.

Powering Business Solutions
(A Subsidiary of Prime Bank Limited)

Monetary Policy Statement Review H1'FY25 (July–December 2024)

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Key Highlights of Monetary Policy FY'25

Inflation Rate

Target Inflation: 6.50% (FY'2025)

Current Inflation: 9.73%

Policy Rate

8.50%

SDF (Standing Deposit Facility) Rate

7.00%

SLF (Standing Lending Facility) Rate

10.00%

Broad Money (M2)

8.20% (Dec'24)

8.40% (Jun'25)

Reserve Money (M1)

2.00% (Dec'24)

1.00% (Jun'25)

- Bangladesh Bank has decided to maintain a "cautiously tight" monetary policy stance for the first half of FY'25 to bring inflation down to a target of **6.5%** by the end of FY'25.
- The central bank kept the policy rate, which is also known as the repo rate at **8.50%**, the Standing Deposit Facility (SDF) rate at **7.00%** and the Standing Lending Facility (SLF) rate is at **10.0%** unchanged.
- BB will continue quantitative tightening measures, including streamlining Open Market Operations, ending currency swaps between banks and BB, and refraining from issuing new money to finance government spending.
- The crawling peg system, introduced as a temporary measure towards a fully flexible, market-based exchange rate system, will remain in place. The mid-rate will stay at **Tk.117.00 per USD**. Import liberalization will be enhanced by removing LC margin requirements for all products except luxury items.
- The growth projection of broad money for FY'25 is set at **8.40%**, considering the nominal GDP growth target of **10.90%**, along with the positive change in the velocity of money.
- Public sector credit growth is projected to be **17.80%**, considering lower credit demand from the Government, as the Government has been selectively spending on priority projects in the process of austerity policy measures.

Major Highlights (Cont'd)

- Private sector credit is projected to grow at **9.80%**, considering the contractionary nature of the monetary policy to contain persistent high inflation while confirming to the Bangladesh Bank's supply interventions to support necessary credit flows to productive and employment-generating sectors through refinance and pre-finance schemes.
- The projection of Reserve Money (RM) growth is set at a positive growth of **1.0%**, considering the economic realities and the stable movement of the money multiplier, which is influenced by currency deposit and reserve deposit ratios.
- The Bangladesh Bank announced a cessation of money printing for government spending. This policy shift aims to control inflation, which was reported at **9.72%** year-on-year in June, with a target to bring it down to around **6.5%** by the end of Fiscal Year 2025. This decision reflects a strategic move towards more disciplined fiscal and monetary policies to curb inflationary pressures.

Strategic Initiatives to Address the Macroeconomic Challenges:



- **Controlling Inflation:** BB will prioritize controlling inflation through its contractionary monetary policy. The government will support these efforts through measures such as reducing tariffs on certain commodities and expanding social protection programs.
- **Stabilizing the Exchange Rate:** The crawling peg system, introduced to stabilize the Taka against the US dollar, will be maintained and monitored.
- **Building Foreign Exchange Reserves:** Policymakers aim to build foreign exchange reserves through increased remittances and a more stable exchange rate. Liberalization initiatives, such as the RFCD, NFCD, and the Offshore Banking Act 2024, are expected to support this goal by boosting foreign exchange inflows.
- **Managing Non-Performing Loans (NPLs):** BB aims to reduce NPL ratios in state-owned and private commercial banks by implementing legislative reforms, identifying those who intentionally default on loans, updating how loans are written off, and enhancing recovery processes.

The policies outlined in the MPS indicate a proactive approach to navigate the current economic challenges and to promote a more inclusive and robust financial sector.

Interest Rate Structure of the Banking Sector (%)

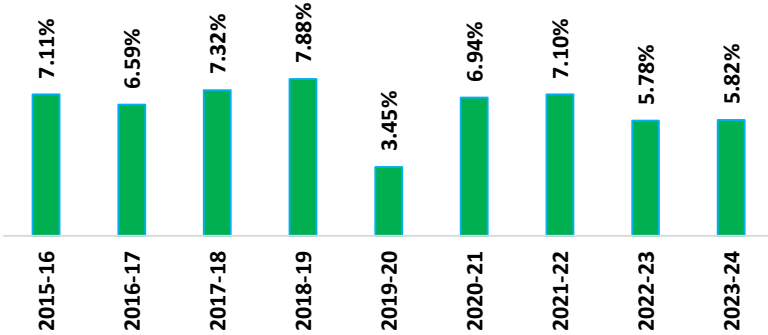
Category	FY22 (Jun-22)	FY23 (Jun-23)	FY24 (May-24)
Advance Rate (%)			
Large Industries	6.92	7.23	11.35
SME	7.05	6.99	11.46
Agricultural Credit	7.26	7.48	11.31
Deposit Rate (%)			
Less than one year (FDR)	5.52	6.56	8.46
1 to 3 years (FDR)	5.76	6.71	8.12
3 year and above (FDR & DPS)	7.58	7.62	8.34

Revised Monetary and Credit Projections for FY25

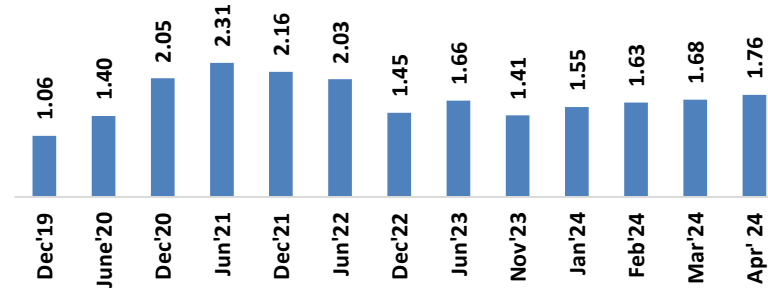
▲YOY%

Particulars	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25
	Actual	Actual	Actual	Projection	Projection
Broad money	10.5	8.6	8.2	8.2	8.4
Net Foreign Assets	-23.4	-21.8	-17.0	2.3	17.8
Net Domestic Assets	23.0	17.0	14.1	9.3	6.8
Domestic Credit	15.3	11.6	10.5	10.7	11.6
Credit to the public sector	35.8	17.9	12.8	14.2	17.8
Credit to the private sector	10.6	10.1	9.8	9.8	9.8
Reserve money	10.5	-2.0	7.9	2.0	1.0
Money Multiplier	4.93	5.13	4.94	5.45	5.30

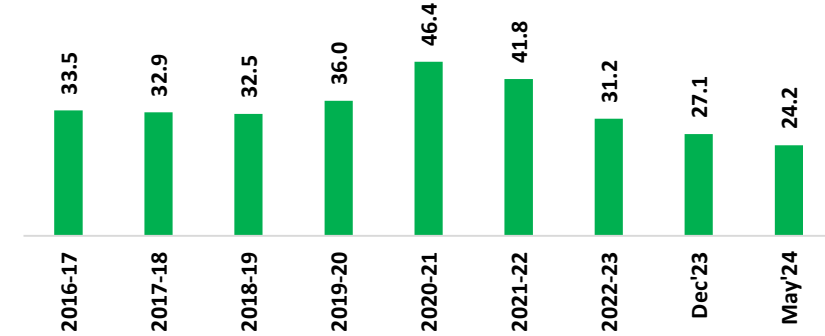
GDP Growth (%)



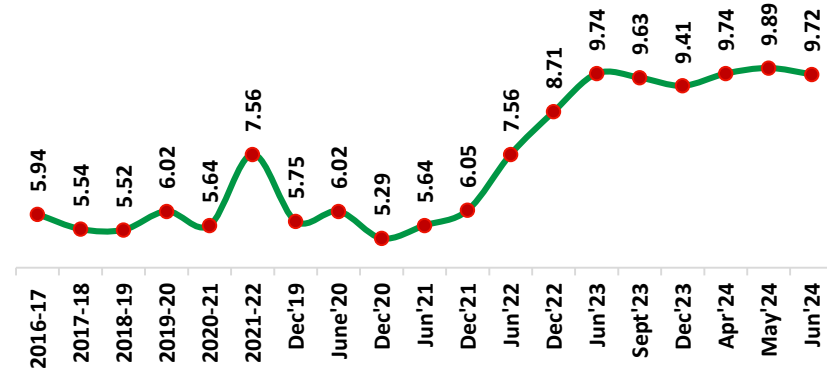
Liquidity Surplus (BDT tn)



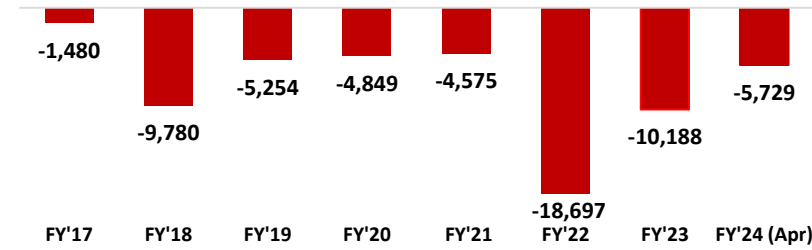
Foreign Exchange Reserve (bn \$)



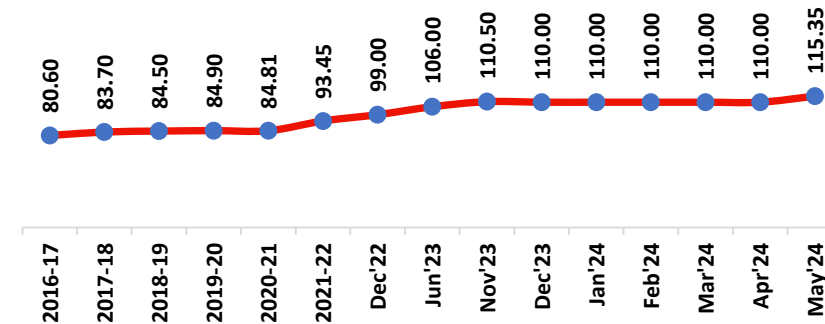
Inflation Rate (Point to Point) (%)



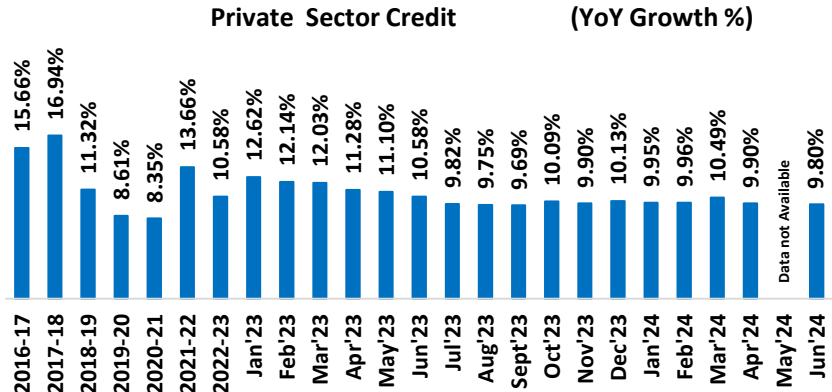
Current Account Balance (mn \$)



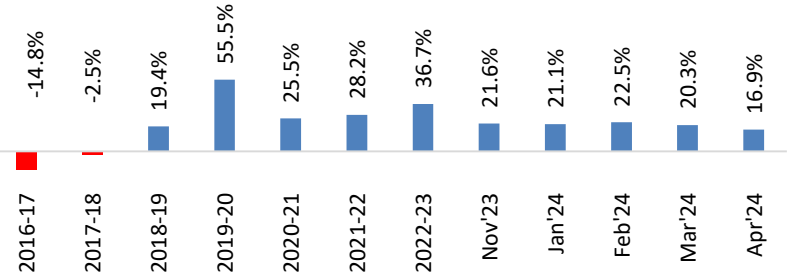
Exchange Rate BDT/USD



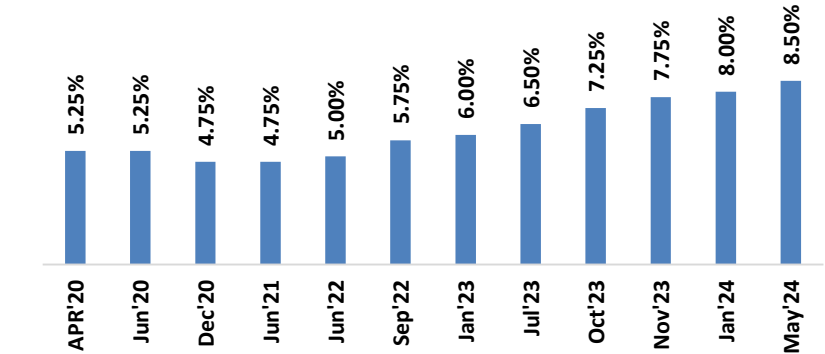
Private Sector Credit Growth (YoY Growth %)



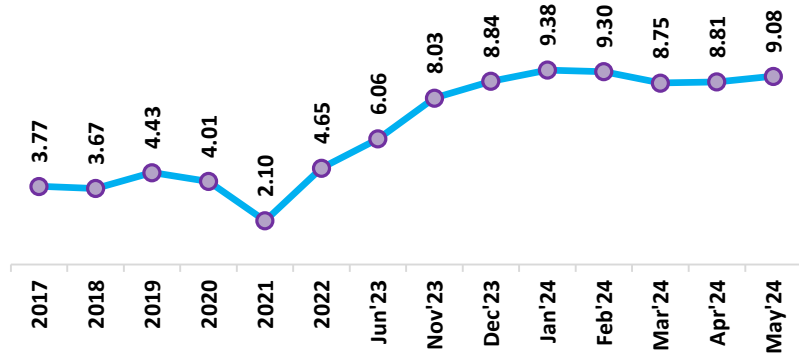
Government Borrowing (YoY Growth %)



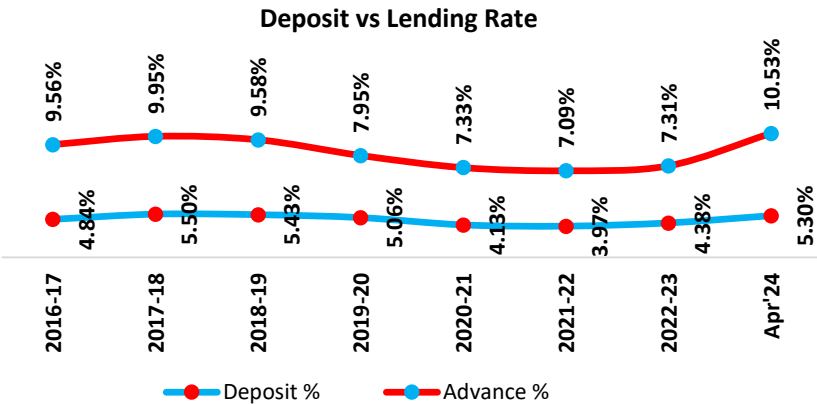
Repo Rate (%)



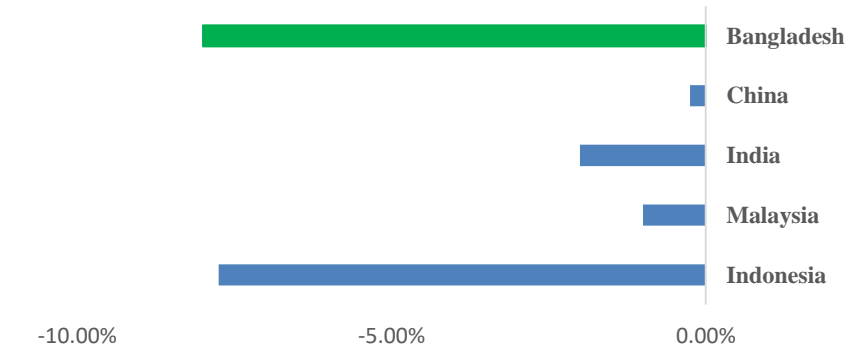
Call Money Rate (%)



Deposit vs Lending Rate



Appreciation – Depreciation of Domestic Currency vs USD



- **Cash Reserve Ratio (CRR):** The minimum required amount mandated by BB based on a schedule bank's total demand and time liability (deposits), that needs to be kept in BB in the form of cash. Presently, the required CRR is **4%**.
- **Statutory Liquidity Ratio (SLR):** The minimum required asset mandated by BB based on a schedule bank's total demand and time liability (deposits), that needs to be kept in BB in the form of cash, or gold or in the form of unencumbered approved securities.
- **Repo Rate:** The rate at which the central bank of a country lends money to commercial banks in the event of any shortfall of funds.
- **Standing Deposit Facility (SDF)/ Reverse Repo Rate:** The rate at which the central bank of a country borrows money from commercial banks within the country.
- **Crawling Peg Rate:** It is a system of exchange rate adjustments in which a currency with a Fixed Exchange rate is allowed to fluctuate within a band of rates. The par value of the stated currency and the band of rates may also be adjusted frequently, particularly in times of high exchange rate volatility. Crawling pegs are often used to control currency moves when there is a threat of devaluation due to factors such as inflation or economic instability. Coordinated buying or selling of the currency allows the par value to remain within its bracketed range.
- **Open Market Operation (OMO):** Open market operations refer to the buying and selling of government securities by the central bank of a country, to adjust liquidity within the monetary system. When the central bank aims to increase liquidity, it purchases government securities in the open market.

Disclaimer

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