STOCKS		COMMODITIES		ASIAN MARKETS			
DSEX	CSCX	Gold ▲	Oil ▲	MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▲ 0.35%	▲ 0.34%	$1,952.60	$43.52	▼ 1.10%	▼ 1.15%	▼ 0.37%	▲ 2.06%
4,171.20	7,200.43	(per ounce)	(per barrel)	38,071.13	22,397.11	2,573.45	3,294.55

CURRENCIES — STANDARD CHARTERED BANK

	USD	EUR	GBP	CNY
BUY TK	83.95	97.30	107.38	11.76
SELL TK	84.95	101.10	111.18	12.37

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BB throws kitchen sink at downturn with its latest monetary policy

AKM Zamir Uddin

The central bank yesterday took an expansionary monetary policy by way of cutting the interest rate on its tools with the view to making funds cheaper for both banks and businesses.

The latest initiative will, hopefully, go some way towards bringing an economic bounce.

As part of its move to make funds cheaper for banks, it cut the repurchase agreement (repo) rate once again such that banks will get funds smoothly from the Bangladesh Bank.

The repo rate was cut 50 basis points to 4.75 per cent when it unveiled the monetary policy statement (MPS) for fiscal 2020-21.

The latest rate cut, which stood at 6 per cent before the pandemic, will inspire confidence amongst banks and businesses alike, a central bank official said.

In Bangladesh, the repo rate is the central bank policy rate (CBPR), which is the rate that is used to implement or signal the monetary policy stance.

Under the repo programme, the repayment duration of the repo is between one day and 28 days as per the central bank's regulations.

The central bank also cut the reverse repo rate by 75 basis points to 4 per cent and the bank rate by 100 basis points to 4 per cent.

A reverse repo agreement is the purchase of securities with the agreement to sell them at a higher price at a specific date in future. In Bangladesh, banks deposit their money with the central bank at a rate set by the latter.

Bank rate, which is another major tool of the central bank, was cut yesterday after 17 years as part of the expansionary monetary policy. BB, on the whole, uses the rate while giving out money to banks under its refinance scheme.

The central bank has recently cut cash reserve ratio and credit-deposit ratio in tandem, which has helped banks enjoy a large amount of liquidity to tackle the ongoing economic fallout.

Besides, BB is also injecting funds to the financial sector as part of its effort to implement the stimulus packages.

But businesses continue to show little interest in taking loans from banks, leaving them with excess liquidity.

Asked for the rationale behind the initiative when the money market is flush with liquidity, a BB official, who has strong knowledge on the matter, said banks hardly take any fund from the central bank to make the financial sector vibrant.

"So, the latest initiative is more for optics. It sends out a positive signal," he said.

The latest BB move will play a vital role in increasing both the reserve and broad money supply to the financial sector in the days ahead, said Ahsan H Mansur, executive director of the Policy Research Institute.

Reserve money (RM) or the central bank money represents the base level for money supply or it is the high-powered component of the money supply.

Broad money depends on the volume of reserve money, which is a multiple of reserve money as well.

The growth of RM stood at 15.7 per cent in FY20, up from 5.3 per cent a year ago.

The supply of RM increased significantly last fiscal year as the central bank circulated the currency to the financial sector to mitigate the fallout.

The BB has also set an RM growth target of 13.5 per cent for this fiscal year.

But Mansur said RM might surpass the growth set by the central bank as both the net foreign assets and government borrowing may increase significantly this fiscal year.

The net foreign assets (NFAs) traditionally increase when GDP growth faces crisis as this has harmed the import, he said.

Although banks now enjoy huge liquidity, they will show little interest in investing their fund in the treasury bills and bonds in the days ahead due to the declining trend of the interest rate on the government securities.

Against the backdrop, the central bank will have to provide the funds to the government by using the RM.

The government has set a bank borrowing target of Tk 84,980 crore to meet its deficit financing of the fiscal budget.

The central bank has set a public sector credit growth target of 44 per cent for fiscal 2020-21, up from 53.3 per cent a year earlier.

Public sector credit growth may be higher than the target set by the central bank as the government continues to show frustrating performance in mobilising revenue, said Zahid Hussain, former lead economist of the World Bank's Dhaka office.

Monetary policy for FY21

- Private sector credit growth target set at **14.8**%
- Repo rate cut **50** basis points to **4.75**%
- Reverse Repo rate cut **75** basis points to **4**%
- Bank rate cut **100** basis points to **4**%
- Reserve money growth target **14.80**%
- Broad money growth target **15.6**%

FIROZ AHMED

All indicators have given a signal that money supply from the central bank will increase significantly in the days ahead.

The central bank will have to monitor strictly on the financial sector such that the speculative sectors like housing or capital market will not get the excessive fund.

Excessive investment in the speculative sector led the global recession in 2007, said Mansur, also a former high official of the International Monetary Fund.

Ensuring private sector credit growth in the productive sector is the only way to bypass the speculative sectors, he said.

But, the credit growth stood at 8.61 per cent last fiscal year, much lower than the actual target of 14.80 per cent.

The central bank has also kept unchanged the credit growth target for this fiscal year.

The monetary policy statement (MPS) also said 8.20 per cent GDP growth set by the government could be achieved if the stimulus packages are implemented timely.

"The central bank in its MPS stated that the policy had been drawn up to recover the economy. But, we will be much too happy if the country could achieve a positive growth," Hussain said.

The MPS also said that inflation could be contained at 5.5 per cent as per the government's target.

The central bank, however, feared that the expansionary and accommodative monetary policy stance along with the implementation of the various stimulus packages in the economy may intensify the unexpected inflationary pressure through creating a price bubble in the near future.

"Further aggravation in the global recessionary economic condition due to the lingering of the pandemic along with the volatilities in oil price and ongoing geopolitical tensions in the Middle-East might have a serious negative impact on the future exports and remittances," the MPS said.

The central bank also thinks that defaulted loans in the banking sector would increase further in the days ahead.

Although the present default loan scenario of the banking sector has markedly improved, thanks in large part to the recent rescheduling facility, the worsening business condition means the condition might revert to its previous state.

"Banks should use the initiatives taken by the government and the central bank properly in order to use those in the productive sector," said BB Governor Fazle Kabir in a press release.

The economy will face different challenges if the funds are not used properly, he added.

Monetary policy meets the test of time

Ahsan H Mansur

As expected, the Bangladesh Bank has announced an expansionary monetary policy.

This expansionary stance has been essential given the current economic slump and the need for supporting the economy with adequate liquidity support and lower cost of fund.

Since the beginning of the countrywide general shutdown on 26 March, BB has been quite proactive and at the same time cautious by easing the monetary policy stance in phases and assessing the economic outlook.

The policy statement for fiscal 2020-21 essentially reaffirms the continuation of that cautious easing, and I welcome this approach under the prevailing macroeconomic environment of Bangladesh.

During the current pandemic, the monetary policy has to shoulder an extra burden since fiscal policy could not be expansionary enough due to a lack of fiscal space for undertaking a much larger discretionary spending programme and the precarious state of revenue mobilisation.

Thus, we have an uneven burden-sharing or mix between the fiscal and monetary policies, and in particular, certain policy gaps -- such as providing extensive livelihood support for the newly unemployed -- that could be addressed effectively by the fiscal policy cannot be filled by monetary policy.

That said, in my view, BB's new monetary policy statement aims to create a financial environment that is conducive to the resumption of growth.

The supportive environment will be achieved through lower interest rates, plenty of liquidity, and partial risk-sharing/mitigation for non-collateralised micro, small and medium enterprise (MSME) lending.

To this end, BB has used all available instruments at its disposal -- to an extent and at a pace never seen in Bangladesh.

Now is the implementation challenge for BB.

The policy framework is right. But if it is not properly implemented, not only would the economy not benefit to the extent it should, there would also be adverse reactions.

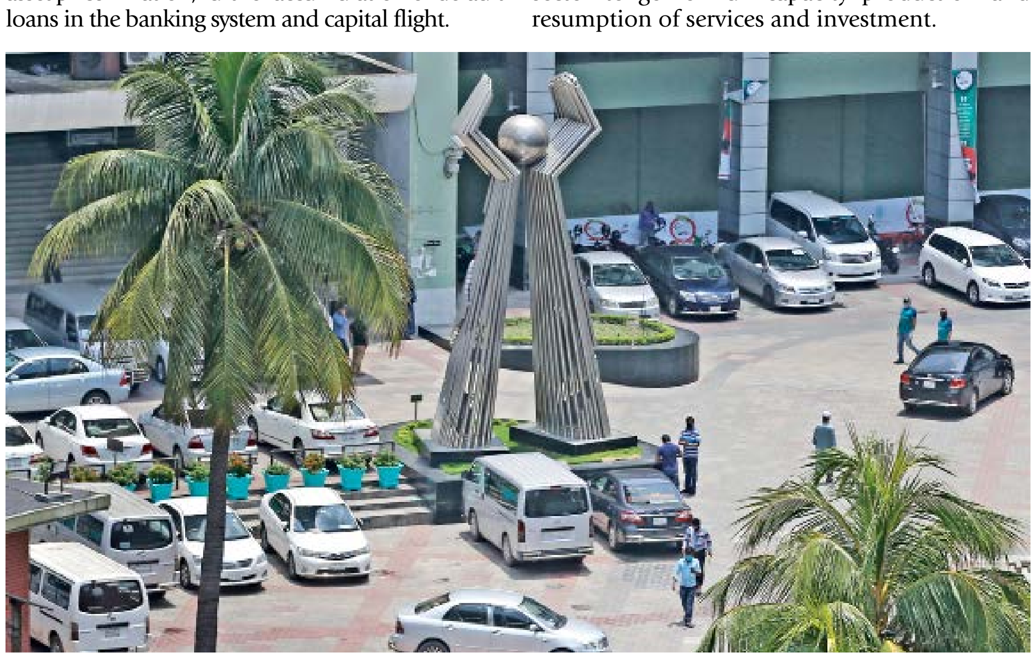
Easy money is needed under current circumstances, but BB has to make sure it is used properly in the productive sectors of the economy.

Otherwise, we would not get the much needed and hoped job creation and positive supply response. Instead, the injected liquidity will lead to asset price inflation, further accumulation of default loans in the banking system and capital flight.

For example, BB cannot control the spread of coronavirus in Bangladesh, and much of the economic recovery is hostage to that.

The central bank cannot contain the food inflation in the face of a potential serious supply shock and its possible impact on non-food inflation.

Unless the spread of coronavirus is contained, the current severe flood situation is properly managed and domestic demand starts accelerating from current low levels, it is very likely that the monetary policy support alone would not encourage the struggling private sector to go for full capacity production and resumption of investment.



The car park of Bangladesh Bank headquarters in Motijheel, Dhaka. FIROZ AHMED

Thus, BB has to remain vigilant about the users of the credit, use of the credit, and the supply response and job creations resulting from the easy monetary policy.

I would strongly recommend that the BB undertake an independent third-party evaluation in the next 2-3 months to determine the effectiveness of the bank-led stimulus package and the impact of the overall easing of the monetary policy on the broader economy.

Many important things are outside the domain of the central bank and that is the way it should be like in other countries.

Economic revival will critically depend on how the government tackles all the important aspects associated with the pandemic.

The central bank's monetary policy stance, as announced through the policy statement yesterday, is an important step in the right direction and we fervently hope that the other arms of the government play their expected roles to pull the economy out of the pandemic-induced rubble.

The writer is the executive director of Policy Research Institute

Market raises toast to expansionary monetary policy

Ahsan Habib

Stock investors yesterday welcomed the expansionary monetary policy unveiled by the central bank, hoping it would rejuvenate the battered economy and persuade institutional investors to pour money into the capital market.

The central bank, in its policy for the next six months, brought down the bank rate to 4 per cent from 5 per cent.

It also proposed a cut in the repurchase agreement rate from 5.25 per cent to 4.75 per cent to make funds available for banks at a cheaper rate.

"When the policy rate is slashed, institutional investors get interested in pouring money into the stock market to earn more profits. So, this is a welcoming move," said Shahidul Islam, chief executive officer of VIPB Asset Management Company, which manages four funds worth Tk 250 crore.

Now, risk-free investments such as government bonds would offer lower rates and stocks' valuation would be lucrative, he said.

"Institutional investors now can come to the market. As a result, an immediate boost in the stock market can be seen," he added.

The monetary policy would be good for the stock market, said Md Moniruzzaman, managing director of IDLC Investments.

The lowering of the rate will allow banks to bring down the lending rates under 9 per cent, which will be good for businesses and the economy.

"When the economy gets a shot in the arm, the stock market gets expected results automatically," he said, adding that now some funds might come to the stock market.

General stock investors were also buoyant from the monetary policy and because of a milder impact of the pandemic on the earnings of listed companies.

Yesterday, DSEX, the benchmark index of the Dhaka Stock Exchange, rose 14.66 points, or 0.35 per cent, to 4,171.20.

Turnover, another important indicator of the market, surged to Tk 399.52 crore.

"The monetary policy statement was expected to be expansionary. So, investors started making purchases from the first day of the week," said a merchant banker preferring to remain unnamed.

On the other hand, most of the stocks with good performance records have fallen to their five- to six-year lows, so investors are optimistic, he said.

This is true that stocks will have lower opportunity costs now but some problems persist in the market, said a top official of a listed bank.

Market-determined pricing mechanism has been tampered with the imposition of the floor price on 19 March. As a result, the real prices of stocks can't be judged, the banker said.

The Bangladesh Securities and Exchange Commission (BSEC) set the floor price to halt the fall of the index amidst the pandemic.

BSEC knows well that the floor price is not good for the market, said a top official of the regulator.

"We want to lift it but small investors are urging us not to withdraw it. So, we are waiting for a boost."

The stock index has been rising for the past month buoyed by the news that the pandemic had a milder impact on the economy in comparison to other countries and the confidence in the present commission, he said.

DSEX rose 5.32 per cent to 4,171 points in the last one month.

Listed companies' profitability, strong fundamentals and good corporate governance are key to boosting the stock market, according to Islam of VIPB.