Monetary Policy Statement

Fiscal Year 2021-22

Bangladesh Bank

Monetary Policy Statement Team

Chief Advisor

Fazle Kabir, Governor

Policy Advisors

Ahmed Jamal, Deputy Governor
Kazi Sayedur Rahman, Deputy Governor
A. K. M Sajedur Rahman Khan, Deputy Governor
Abu Farah Md. Nasser, Deputy Governor
Abu Hena Mohd. Razee Hassan, Head of BFIU

Lead Author

Dr. Md. Habibur Rahman, Executive Director (Research)

Analysts and Major Contributors

Md. Julhas Uddin, GM, Monetary Policy Department (MPD)
Dr. Md. Ezazul Islam, GM, Chief Economist's Unit
Dr. Sayera Younus, GM, Research Department
Dr. Muhammad Amir Hossain, GM, Statistics Department
Dr. Mohammad Monirul Islam Sarker, DGM, MPD

Other Contributors

Mst. Nurnaher Begum, DGM, MPD
Dr. Imam Abu Sayed, DGM, MPD
Rubana Hassan, JD, MPD
Md. Nazimul Arif Sarker, JD, MPD
Nasrin Sultana, JD, MPD
Hossain Md. Alhelal, JD, MPD
Md. Shamim Mondal, JD, MPD
Md. Ahsan Ullah, JD, MPD
Sadia Sultana, JD, MPD
Alok Roy, JD, MPD
Mohammad Mazharul Islam, DD, MPD
Sahabuddin Ahmed Seikdear, AD, MPD
Sajib Sarker, AD, MPD

Data/Write up Supports

Statistics Department
Economic Modeling and Forecasting Unit, Research Department
Residential Price Index Section, Research Department
Chief Economist's Unit
Department of Off-Site Supervision
Banking Regulation and Policy Department
SME & Special Programmes Department
Financial Inclusion Department
Agricultural Credit Department

Coverist

Tariq Aziz, DD, DCP

Cover Photograph

UNITY, a sculpture by Hamiduzzaman Khan
on the Bangladesh Bank premises.

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Bangladesh Bank

www.bb.org.bd

Acronyms and Abbreviations

ADB	Asian Development Bank
App	Appreciation
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BoP	Balance of Payments
BSEC	Bangladesh Securities and Exchange Commission
CMSME	Cottage, Micro, Small and Medium Enterprise
COVID	Coronavirus Disease
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CSE	Chittagong Stock Exchange
DC	Domestic Credit
Dep	Depreciation
DSE	Dhaka Stock Exchange
EDF	Export Development Fund
FAO	Food and Agriculture Organization
FCB	Foreign Commercial Bank
FDI	Foreign Direct Investment
FI	Financial Institution
FY	Fiscal Year
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GIR	Gross International Reserves
IMF	International Monetary Fund
IPO	Initial Public Offering
IT	Information Technology
LHS	Left Hand Side
LoC	Letter of Credit
M2	Broad Money
MPS	Monetary Policy Statement
MSCI	Morgan Stanley Capital International
NBFI	Non-Bank Financial Institution
NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Asset
NSC	National Savings Certificate
PCB	Private Commercial Bank
PSO	Payment Service Operator
PSP	Payment System Provider
REER	Real Effective Exchange Rate
RFFO	Regulatory FinTech Facilitation Office
RHS	Right Hand Side
RM	Reserve Money
SCB	State-owned Commercial Bank
SDG	Sustainable Development Goals
SLR	Statutory Liquidity Ratio
UK	United Kingdom
USA	United States of America
USD	U.S. Dollar
WEO	World Economic Outlook
y-o-y	Year on Year

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Highlights

- Despite the recurrent shocks of COVID-19 and consequent containment measures in terms of mobility restrictions and nationwide lockdowns, preliminary estimates suggest that Bangladesh economy has attained around 6.1 percent real GDP growth in FY21, significantly higher than last year's estimated growth of 5.2 percent, supported by reasonably healthy growth performances in agricultural and industrial sectors aided by the Government and BB's growth supportive unprecedented policy measures.
- BB's monetary policy has been broadly successful in taming inflationary pressure in FY21. In spite of the unprecedented expansionary and accommodative monetary and fiscal policy stances along with supply chain disruptions due to COVID-19 related containment measures amid global price hike, the CPI-based average inflation declined to 5.56 percent (against the target of 5.40 percent for FY21) from 5.65 percent in FY20.
- The monetary policy stance and monetary program outlined for FY21 were mostly successful in terms of injecting sufficient liquidity in the system accompanied by a lower market interest rate regime, containing inflation while ensuring stability in both the local and foreign currency markets.
- BB's foreign exchange management and operation were also successful in maintaining the external competitiveness of Taka and ensuring stability in the interbank foreign exchange market. The overall BoP in FY21 witnessed a healthy surplus, supported by a significant inflow in financial accounts along with a relatively thinner current account deficit due mainly to very strong inward remittances growth and robust export earnings. Relying on this BoP surplus, BB's foreign exchange reserve has reached a historical high of USD 46.4 billion at end of June 2021.
- *BB's monetary policy stance for FY22 is designed to continue the ongoing expansionary and accommodative mode supporting the disrupted economic recovery process while maintaining appropriate cautions for overall price and financial stability.* BB's annual monetary and credit programs for FY22 are outlined making sure that there is enough room for money and credit growth to sufficiently support the targeted nominal GDP growth while remaining vigilant about commodity and asset price movements. In case of any unexpected price pressure development or formation of any sporadic asset price bubbles due to the presence of ample excess liquidity in the banking system, BB will not hesitate to take appropriate policy action if required, throughout the year ahead.
- Given the on-going devastating waves of COVID-19 pandemic, the basic challenges that BB may encounter in the coming months are the restoration of full normalcy in lives & livelihood, and extending required flow of fund to the intended production pursuits. Longer sustenance of the current coronavirus pandemic situation amid the continuation of global price hikes, and any unexpected crop loss in the coming seasons due to natural calamities might create some undue commodity price pressure down the road. Besides, the presence of a huge amount of surplus liquidity in the economy attributed to the on-going expansionary fiscal and monetary stances may also contribute to form some price pressures in the days ahead.

Monetary Policy Statement: Fiscal Year 2021-22

1. Foreword

The prime objectives of Bangladesh Bank (BB) are to manage the monetary and credit system of the country with a view to stabilizing domestic monetary value and maintaining a competitive external par value of Taka towards fostering growth and development of country's productive resources in the best national interest.[1] Accordingly, BB's monetary and credit policies consistently adopt a stance supportive of the government's growth objectives while maintaining monetary and financial stability of the economy. BB announces its monetary policy once a year through a Monetary Policy Statement (MPS) while it may undertake any mid-course revision, if necessary. The purpose of this MPS is to outline the monetary policy stance and strategies along with the monetary and credit program for FY22 based on the evolving internal and external macroeconomic and financial developments.

Due to the existing COVID-19 pandemic situation, we were unable to organize any face-to-face consultation meetings prior to the preparation of MPS. However, feedbacks from former and current policymakers, analysts from think-tanks and academia, and financial sector experts have been gathered electronically before finalizing this MPS. We, therefore, gratefully acknowledge all the useful feedbacks, articulating current economic conditions and suggesting possible policy options, guiding us in comprehending the required policy stance along with framing the monetary and credit programs for MPS FY22. We also acknowledge the valuable inputs from all the erudite Members of the Board of Directors of BB. A concise evaluation of the actual outcomes of the last monetary policy has been made, and all required background information and rationale have been reviewed before adopting any stance or policy/program for MPS FY22.

2. Monetary Policy Outcomes in FY21

The last MPS was drawn up with the dual objectives of containing inflation and assisting the economic recovery process from the COVID-19 pandemic induced adversities while supporting the Government's huge stimulus package for rehabilitation of production capacity of the economy in restoring normal livelihoods of the people. The monetary and credit program of FY21 was initially formulated with the assumption of 8.2 percent real GDP growth and 5.4 percent average CPI inflation as envisaged by the Government in the national fiscal budget. Due to prolonged COVID-19 containment measures in the form of mobility restrictions and lockdowns, the revival of the economic activities was less than expected. Accordingly, the growth target of real GDP was revised to 7.4 percent in January 2021, keeping the inflation target unchanged. Concurrently, BB revised its monetary and credit programs for the second half of FY21 while continuing its ongoing pro-growth expansionary and accommodative monetary policy stance.

[1] Bangladesh Bank Order 1972, (Amendment) Act, 2003

Following this expansionary and accommodative stance, Bangladesh Bank undertook a range of investment and employment enhancing policy measures throughout the FY21, some of which are: relaxations of various policy interest rates, and purchasing extra government securities from the banks' holdings for supporting their longer-term liquidity need, the introduction of various low-cost refinance schemes, allowing moratorium facilities and extended time for realizing export receipts and import payments, and introduction of a new credit guarantee scheme for making easy access to credit at a lower cost by CMSMEs. BB also generously extended its supports in implementing most of the government's stimulus packages, taken for the recovery of economic activities disrupted by the COVID-19 pandemic.

With the support of these policy measures, signs of a broad-based economic recovery began to appear in Q1FY21, reflected through various macroeconomic and financial indicators. The speed of recovery was strengthened further in Q2FY21 by improving the consumer and business confidence stemmed from the declining trend of new infection rate and the growing hope for the roll-out of vaccination program against the COVID-19. The approval of several vaccines and the launching of vaccination program in Bangladesh helped to accelerate economic activities in Q3FY21. During this period, sustained activities in the agriculture sector, resumption of industrial production backed by exports and construction activities, and restoration of service sector activities with increased mobility of the people including a rush in local tourist destinations suggested a recovery in economic activities. However, the Q4FY21 has witnessed the devastation of the 2nd wave of the COVID-19 pandemic in terms of record death and infection rates resulting in the reinforcement of mobility restrictions and nationwide lockdowns. Despite these containment measures, the available data suggest that the external demand which is mostly reflected by export proceeds increased by 15.1 percent in FY21. Likewise, a couple of indicators of domestic demand reflected through imports and wage earners' remittance inflows saw phenomenal growths recording respectively at 19.7 percent and 36.1 percent in FY21. Similarly, strong annual growth in consumer credit (21.9 percent at the end of March 2021) has also been observed.

Besides, due to the implementation of several large infrastructure development projects by the Government, public sector investment also remained robust. The large and medium scale manufacturing output registered a 14.9 percent growth during the first ten months of FY21. However, since the middle of March of 2021, the second wave of COVID-19 has badly struck on Bangladesh economy and the situation has further worsened in the recent months by locally spreading Delta variant of COVID syndromes. Despite these recurrent shocks of COVID, all approximations of the government and Bangladesh Bank suggest that Bangladesh economy may attain over 6 percent real GDP growth in FY21 mostly supported by reasonably healthy growth performances in agricultural and industrial sectors.

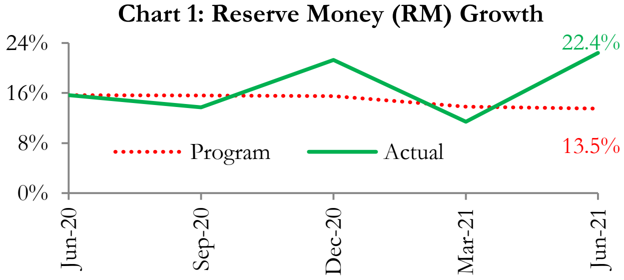
Despite frequent COVID-19 containment measures and associated supply chain disruptions amid recent global price pressure, the taming of inflation has broadly been achieved in FY21. The CPI-based average inflation declined to 5.56 percent (against the target of 5.40 percent for FY21) from 5.65 percent in

FY20. Among the components of general CPI inflation, the prices of food items specifically the edible oil, spices, sugar, wheat and rice, and among the non-food items, an unusual surge of transportation & communication costs and furniture, furnishing, household equipment's & operation were highly responsible for this marginal disenchantment of general inflation relative to target ceiling.

The monetary policy stance and monetary program outlined for FY21 were mostly successful in terms of injecting sufficient liquidity in the system accompanied by a softer market interest rate regime, containing inflation while ensuring stability in both the local and foreign currency markets. The BB's monetary policy measures created necessary space for the banks to provide sufficient loanable fund/liquidity to the local money market that ensured low and a stable interest rate in the interbank call money market. It also appropriately supported interest rate rationalization efforts on lending which is currently helping the borrowers in enjoying their loans reasonably at a lower single-digit rate. BB's foreign exchange management and operation were also successful in maintaining the external competitiveness of Taka and ensuring stability in the interbank foreign exchange market where Taka faced some sort of appreciation pressure against its intervention currency (USD) mainly due to a strong rebound of export earnings and significantly higher growth of inward remittances.

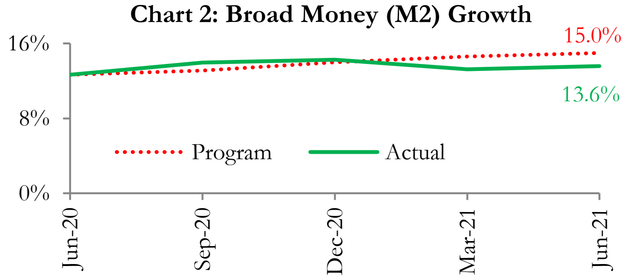
The stronger inflows in the wage earners' remittances in FY21 were mainly due to the Government's drives on preventing the informal channels and bringing upon remittances into the formal banking channels by allowing two (2) percent incentives to the beneficiary of the overseas wage earners' along with the BB's initiatives of time and cost-effective money transfer process. Exporters were supported through stimulus packages especially by enhancing the EDF fund, providing workers' salary, supporting working capital financing, and concurrently by defending the appreciation pressure. The monetary and exchange rate policies were effectively contributed to narrowing the current account deficit to USD 3808 million (1.0 percent of GDP) in FY21 from USD 4724 million (1.4 percent of GDP) in FY20. Despite this current account deficit, the country's overall BoP, supported by a remarkable surplus in financial accounts, witnessed a sizeable surplus of USD 9274 million in FY21 as compared with USD 3169 million in FY20. Relying on this BoP surplus, the net foreign assets of the banking system saw a very strong growth of 27.5 percent (see Chart 3) alongside reaching BB's foreign exchange reserve to a historically high level of USD 46.4 billion at end of June 2021.

Chart 1: Reserve Money (RM) Growth



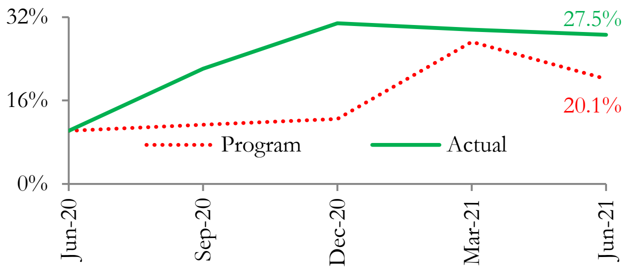
Source: Bangladesh Bank

Chart 2: Broad Money (M2) Growth



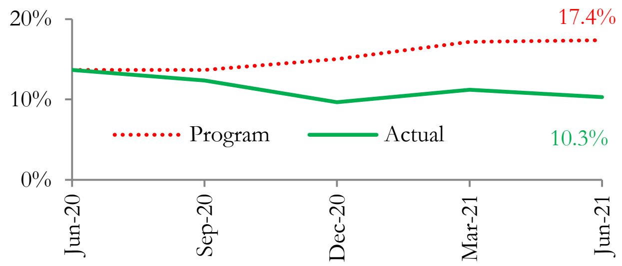
Source: Bangladesh Bank

Chart 3: Net Foreign Assets (NFA) Growth



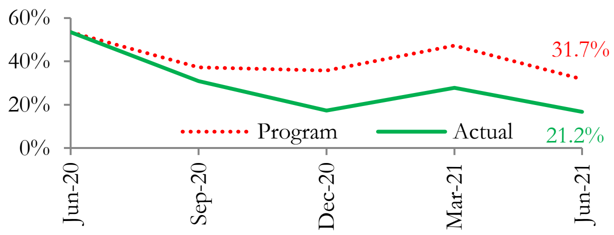
Source: Bangladesh Bank

Chart 4: Domestic Credit (DC) Growth



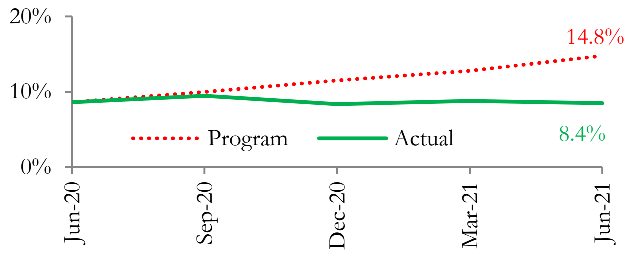
Source: Bangladesh Bank

Chart 5: Public Sector Credit Growth



Source: Bangladesh Bank

Chart 6: Private Sector Credit Growth

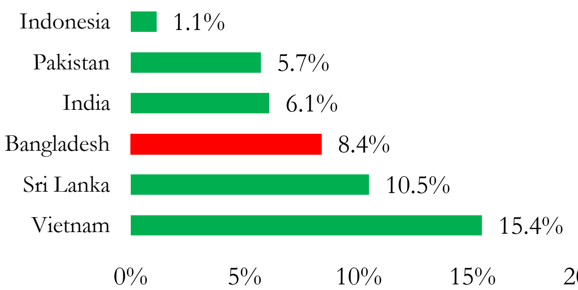


Source: Bangladesh Bank

Charts 1-6 display the actual growth paths of major monetary and credit aggregates vis-a-vis programmed paths set for FY21. BB's accommodative and expansionary policy stance along with the purchase of a huge volume of foreign exchange from the market helped the reserve money - 'the operating target' to grow faster than the programmed ceiling (Chart 1). On the other hand, the growth of broad money, the prime anchor variable of monetary policy - 'the intermediate target', displayed a surpassing tendency during the first half, that remained well below the programmed path during the second half (Chart 2), mainly due to the second wave of COVID-19 induced interruptions and precautions observed in the economy since March 2021. Despite the higher growth in the reserve money, the broad money grew lower than expected as the banks were forced to accumulate excess reserve while depositors keep relatively higher amounts of cash in hand making the money multiplying process slower during the latter half of FY21.

The actual growth of domestic credit broadly followed the program path during the initial months and then slightly slid down (Chart 4), due to slower than programmed growths of both public and private sector credit. The growth of public sector credit including net credit to the Government was significantly lower than the program ceiling throughout the fiscal year (Chart 5), mainly because of larger-than-planned sales of National Savings Certificates (NSCs) which indirectly helped to tame price pressure. The private sector credit growth, on the other hand, followed the program path during the first quarter of FY21

Chart 7: Cross-country Comparison of Private Sector Credit Growth (latest available data)*



Source: Respective Central Banks' Websites.
** Jun 21 for Bangladesh and India, May 21 for Indonesia, Pakistan and Vietnam, and Sri Lanka.*

and moderated thereafter (Chart 6) due to banks' adherence towards quality lending as well as the continuation of coronavirus outbreak along with the severe impact of its second wave from mid-March 2021. A cross country comparison of the private sector credit growth, however, indicates that the private sector credit growth in Bangladesh is still higher than many other fast-growing South Asian and East Asian emerging markets and developing economies including India, Pakistan, and Indonesia (Chart 7).

3. Overview of Global and Local Contexts of Monetary Policy Stance for FY22

3.1. Global Growth, Inflation, Interest Rate, and Trade Environment

Governments and central banks across the globe have responded, in tandem, with huge money injections to fight the COVID-19 pandemic. As per an IMF report[2], Governments' fiscal supports globally stood at $16 trillion while global central banks had to increase their balance sheets by a combined $7.5 trillion since March 2020. The IMF report further notes, "*Deficits are the highest they have been since World War II and central banks have provided more liquidity in the past year than in the past 10 years combined.*" All these were necessary and rightly done so to tackle the extraordinary challenges stemming from the COVID-19 crisis like no other. With all these global efforts and initiatives more vaccines are rolled off the production line as well as more people are getting jabbed across the countries. The advanced and developed economies are in a better state in this regard; their economies are gradually reopening while keeping the spread of coronavirus under control. Keeping this in mind, the IMF in their latest (July 2021) World Economic Outlook has further upgraded the growth projections for 2022 from their previous forecast made in April 2021 for the world economy including major advanced and emerging market and developing economies (Table 1). The last two columns of Table 1 demonstrate the up-gradation of growth projections in percentage points for 2021 and 2022.

Table 1: Overview of Global Economic Growth as per July 2021 WEO Update

(y-o-y % change)

Region	Growth				Difference from April 2021 WEO Projection	
	Actual		Projection			
	2019	2020	2021	2022	2021	2022
World	**2.8**	**-3.2**	**6.0**	**4.9**	**0.0**	**0.5**
Advanced Economies	1.6	-4.6	5.6	4.4	0.5	0.8
USA	2.2	-3.5	7.0	4.9	0.6	1.4
Euro Area	1.3	-6.5	4.6	4.3	0.2	0.5
Other Advanced Economies	1.9	-2.0	4.9	3.6	0.5	0.2
Emerging Market and Developing Economies	3.7	-2.1	6.3	5.2	-0.4	0.2
China	6.0	2.3	8.1	5.7	-0.3	0.1
India	4.0	-7.3	9.5	8.5	-3.0	1.6

Source: International Monetary Fund

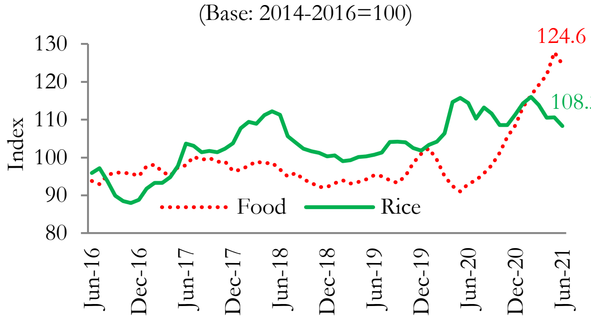
The exhibited growth performances of advanced economies particularly with regard to the Euro Area and the USA are very significant for Bangladesh economy as they are the topmost export destinations of Bangladesh's exports. The strong growth performances of emerging markets and developing economies

[2] https://blogs.imf.org/2021/07/20/seizing-the-opportunity-for-a-pro-growth-post-pandemic-world/

particularly related to China and India are also very crucial because of their geographical proximity and as leading sources of Bangladesh's imports.

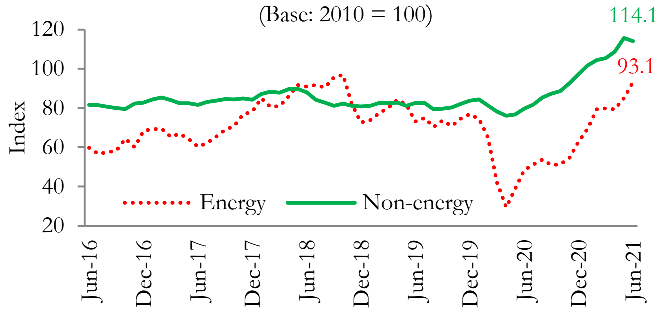
The global headline inflation is anticipated to be increasing in the near term owing to the demand push factors as reflected in the improving global economic outlook and for some commodity-specific supply factors as well. The trends of global food and non-food commodity price indices as shown in Charts 8 and 9 are broadly depicting a price spiraling in the recent months which have already been observed by rising import payments in our economy, particularly toward the end of FY21. If this situation continues in the upcoming months, the persisting appreciation pressure to the domestic currency (Taka) may overturn which can put some pressure on our domestic inflation, though the upward trend in global energy price could be unresponsive to our domestic inflation due to its administered pricing mechanism.

Chart 8: Global Food and Rice Price Indices
(Base: 2014-2016=100)



Source: Food and Agriculture Organization (FAO)

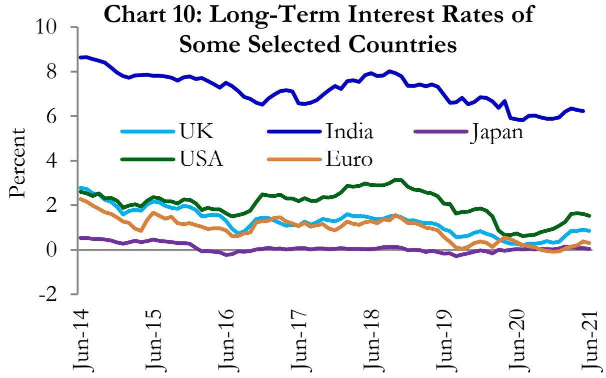
Chart 9: Commodity Price Indices
(Base: 2010 = 100)



Source: World Bank

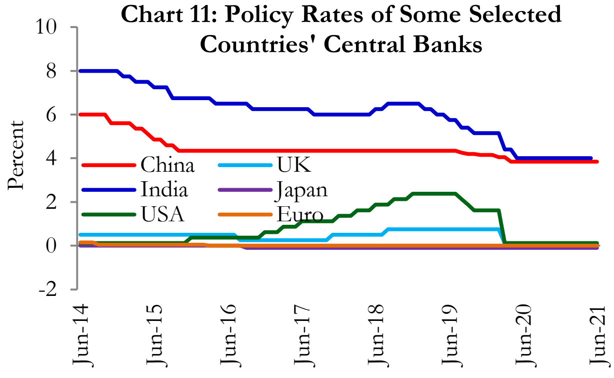
The trends of long-term interest rates refer to the yield of government bonds maturing in ten years have been showing an increasing tendency in most of the major developed and developing countries particularly since after June 2020, though till now these are remaining below their average trends/pre-COVID levels until June 2021 (Chart 10). The main reason behind these upward trends of long-term interest rates was the high demand for government debt necessitated to execute the fiscal stimulus packages taken for recovering the COVID-19 related output losses. The central banks in India and China and the advanced economies like in the USA, UK, Japan, and Euro areas are till now maintaining their recent low level of policy interest rates for providing liquidity into their financial systems mainly to recovering from the COVID-19 related disruptions (Chart 11). In this regard, it is noteworthy to mention that interest rates (both the long-term interest rate and the policy rate) in China and India remained relatively at a higher level than the advanced economies mainly due to their inflation differentials which is a very common feature in many other emerging markets and developing economies including Bangladesh. However, if the low long-term interest rates in the advanced economies continue to rise in the coming months, it may create some pressures on interest and exchange rates in the emerging markets and developing economies, including Bangladesh, though, with a very little amount of foreign direct and portfolio investments, Bangladesh's condition may not be affected that much.

Chart 10: Long-Term Interest Rates of Some Selected Countries



Source: Organization for Economic Co-operation and Development

Chart 11: Policy Rates of Some Selected Countries' Central Banks



Source: Bank for International Settlements

Finally, the progress and prospect of the global economies are immensely dependent on improving the existing pandemic situation and its successful prevention through the implementation of public health-related safety measures including rapid vaccination for the common people. With the remarkable progress of vaccination, few countries including the USA, the Euro zone, and China are already showing some signs of a good recovery, though a vast region of the global economy, especially the emerging markets and developing economies are struggling till now for procuring required vaccines from the global sources which may force to produce highly uneven two-track economic recoveries for the world economies. However, a very encouraging sign for the Bangladesh economy is that in spite of the ongoing global pandemic situation, the exports & imports along with the inflows of remittances have substantially increased in FY21. These trends in international trade and inward remittances are anticipated to continue in the coming months owing to the policy support structures of the government and for a positive turnaround in Bangladesh's major export destinations including the USA and the Euro zone alongside an expected revival of economic activities in the oil-enriched Middle Eastern countries where the prime terminus of Bangladeshi overseas employments are.

3.2. Domestic Growth and Inflation Outlook

Notwithstanding the worldwide outbreak of coronavirus disease which began to strike in Bangladesh from early March 2020, Bangladesh economy displayed its inherent resiliency reflected through a notable 5.24 percent real GDP growth where all other South-Asian economies experienced economic contractions in FY20. Aided by prudent fiscal and monetary policy measures, the growth momentum for Bangladesh continues, recording an estimated growth of 6.1 percent in FY21, well supported by rebounded exports and import growth amid sustained high growth of inward remittances throughout the year.

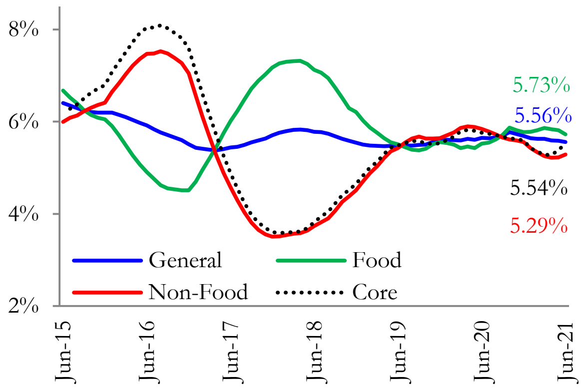
It may be noted that the government of Bangladesh has so far announced 28 stimulus packages worth of Taka 1.35 trillion which is approximately 4.9 percent of FY20's current price GDP, for mitigating the adverse impacts of the outbreak of COVID-19 on Bangladesh economy and facilitating faster economic recovery. BB has also appropriately adopted a range of policy measures for ensuring uninterrupted banking and mobile/digital financial services even in the lockdown situation, injecting sufficient loanable funds for the banks and other non-bank financial institutions, reducing the cost of loanable funds, establishing the funds for promoting new entrepreneurs, and enhancing the productivity of export sectors, and extending the refinance facilities for the priority sectors including agriculture, CMSMEs, large industries, export-oriented industries, and services sector. BB has taken the responsibility of implementing Government's nine (9) major stimulus packages along with its own three (3) stimulus packages amounting to nearly Taka 1.0 trillion for covering the COVID-19 related disruptions, of which around 85.6 percent has already been implemented as of end June 2021.

Moreover, the rapid expansion of the mobile and digital financial services, agent banking, and technology-driven sub-branch opening by banks in the underprivileged remote areas have played a vital role in stimulating domestic demand especially by time and cost-effective remittances distribution among the recipients and in opening new job opportunities for the job-seekers including freelancers. Besides, various financial inclusion drives including agent and sub-branch opening in the remote areas have created new prospects for the female in accessing the formal financial services. Financial services extending through digital platforms like e-commerce, e-payments are now playing a vital role in achieving desired employment and growth in the sector.

Looking ahead, the Government has set a target of real GDP growth at 7.2 percent for FY22 considering that the ongoing corona situation will improve especially with the implementation of mass-scale vaccination programs, strengthening the recovery process in the coming days. Relying on the ongoing global COVID-19 containment and economic recovery measures, many international organizations including the IMF, the World Bank, and ADB have upgraded their growth forecasts for the World economies including Bangladesh in their latest updates published around June 2021. Based on the recent sectoral trends and some econometric exercises done by the BB's Modeling and Forecasting Unit have broadly supported the Government's real GDP growth target for FY22 given that there would be a reasonable improvement of the ongoing COVID-19 situation soon with no major external as well as internal shocks.

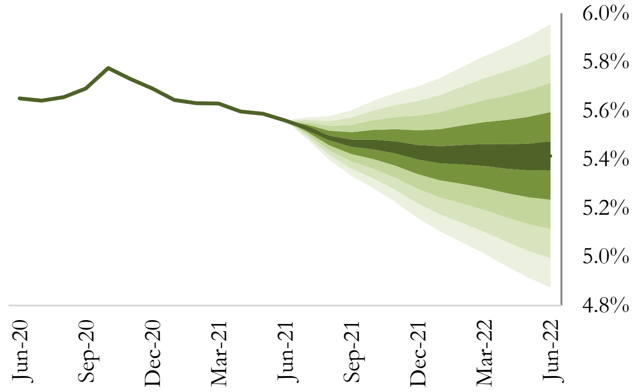
Despite the unprecedented expansionary and accommodative monetary and fiscal policy stances along with supply chain disruptions due to COVID-19 related containment measures amid global price hike, BB has been broadly successful in taming inflationary pressure in FY21. The CPI-based average inflation declined to 5.56 percent (against the target of 5.40 percent for FY21) from 5.65 percent in FY20. Subdued demand-side pressure, policy-driven bumper agricultural production in the country, and effective coordination between the monetary and fiscal authorities which reflected in a timely reduction of tariff and slashing down of LoC margins on importing essential food items have significantly contributed to this achievement.

Chart 12: Twelve Month Average CPI Inflation



Source: Bangladesh Bureau of Statistics (BBS)

Chart 13: Projection of Average General CPI Inflation



Source: BB's Research Team Projection Based on BBS Data

Chart 12 plots the trend of CPI-based 12-month average general or headline inflation along with its broad components - food, non-food, and core (non-food and non-energy) inflation since June 2015. Both the core and non-food components of average inflation are generally considered to be influenced by monetary phenomena are seen to be gradually declining and contained well below the target ceiling while food components of average inflation are seen to be moving slightly elevated and are mainly responsible for marginally missing the target ceiling of 5.40 percent set for the FY21.

Virtually, Bangladesh's inflation dynamics are heavily dependent on food price movements mostly due to its single most weightage in the basket items. With the recent rising trend of food items in the global markets, taming general inflation may continue to face some challenges in the coming months. However, with a bumper production of paddy in the last harvesting season ended in April-June 2021 and the Government's serious drive for pilling up its food stock both from domestic and international sources may provide some sense of relief. Moreover, in spite implementation of the huge stimulus packages, the money supply in the economy remained well contained within the safe limit until June 2021. In these backdrops, the Government has already declared in the last fiscal budget to contain inflation within 5.3 percent in FY22 which is pretty much consistent with the projected outcome of BB's Modeling and Forecasting Unit for FY22 (Chart 13). However, any further deterioration of the existing corona pandemic situation amid the continuation of global price hikes and any other unexpected crop loss in the next seasons due to natural calamities like floods, cyclones, etc. might create some undue price pressure down the road. Besides, the presence of a huge amount of surplus liquidity in the economy attributed to the on-going expansionary fiscal and monetary stances may contribute to form some price pressures in the coming days. In this case, BB will remain vigilant and take appropriate course of action to tackle the situation.

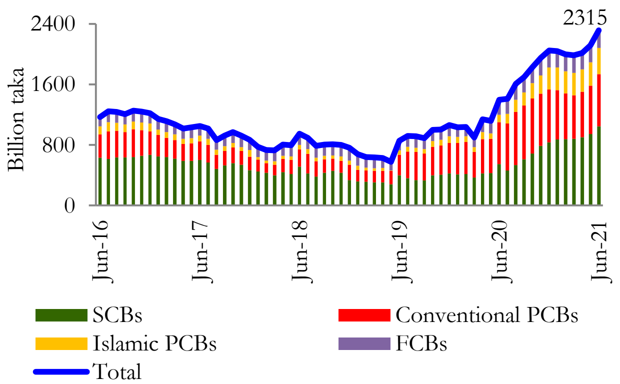
3.3. Liquidity Situation, Interest Rates and Related Issues in Money and Credit Markets

The liquidity situation is broadly measured by banks' surplus/shortfall of cash and liquid asset reserves (after the maintenance of CRR and SLR) of the scheduled banks which have shown an increasing trend since the introduction of the policy relaxations by BB in April 2020. The last MPS (announced in July

2020) was also intended to inject sufficient liquidity in the system, broadly aided by all the policy rates cut accompanied by the matching expansionary policy moods of the Government and BB to protect the economic fallout due to the COVID-19 pandemic. The trend of this liquidity accumulation has further been intensified by the sustained high inward remittance growth coupled with the Government's enhanced reliance of its deficit financing on the non-banking sources through the sales of NSCs. An upward trend of deposit growth aided by the robust growth in remittance inflows alongside BB's efforts towards maintaining exchange rate stability through purchasing USD from the foreign exchange market and sluggish growth of loans and advances caused by the COVID-19 related uncertainty resulted in a liquidity glut in the economy.

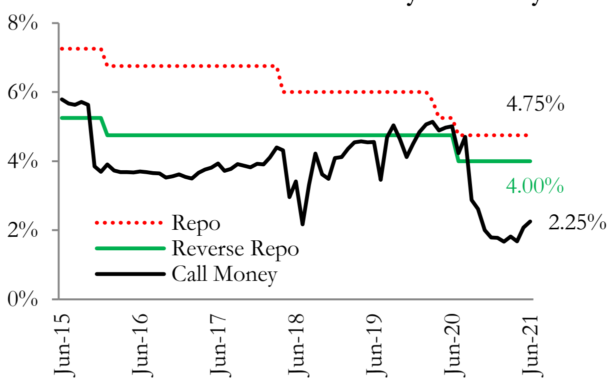
Banks' surplus reserves maintained for the statutory purpose stood at Taka 2315 billion as of the end-June 2021 which is significantly higher than Taka 1396 billion of end June 2020 (Chart 14). Although a lion share (around 65 percent) of these surplus liquid asset reserves by banks are kept in the form of government securities, those can easily be converted into cash in the interbank market or the secondary market (though the secondary market for the government securities is yet to be developed) for investing in the higher profit earning lending purposes. Moreover, banks' surplus cash liquidity in terms of surplus cash reserves with BB (after the maintenance of CRR) has also significantly increased in FY21 owing from slashing back of CRR by BB and substantial growth of deposits aided by remittance inflows. The banks' surplus cash reserves with BB stood at Taka 625 billion at the end of June 2021 which was Taka 238 billion at the end of June 2020. A significant part of these surplus cash reserves are kept by the Islamic Shariah-based banks due to the unavailability of ample Shariah compliance securities[3] and in the form of foreign currency for maintaining CRR requirements of their off-shore banking units. The persistence of surplus liquidity in the system resulted in a sharp decline in the call money rate[4] in the interbank money market recording a significant decline from 5.01 percent in June 2020 to 2.25 percent in June 2021 (Chart 15).

Chart 14: Movement of Excess Liquid Assets



Source: Bangladesh Bank

Chart 15: Movement of Call Money and Policy Rates



Source: Bangladesh Bank

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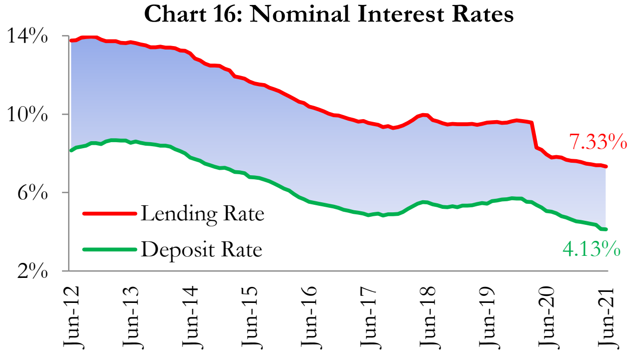
[3] The Government has already introduced 'Sukuk Bond' in FY21 for this purpose.
[4] The weighted average overnight interest rates in the interbank money market.

Understandably, BB intentionally refrained from conducting any liquidity sterilization action as a part of its employment and investment supporting pro-growth expansionary policy stance considering the COVID-19 pandemic situation and maintaining safe positions of the key anchoring monetary and credit variables and supporting interest rate rationalization efforts on lending. Looking ahead, BB will remain vigilant continuously monitoring the commodity and assets price developments along with the progress in money as well as foreign exchange markets, and will take appropriate policy measures as required.

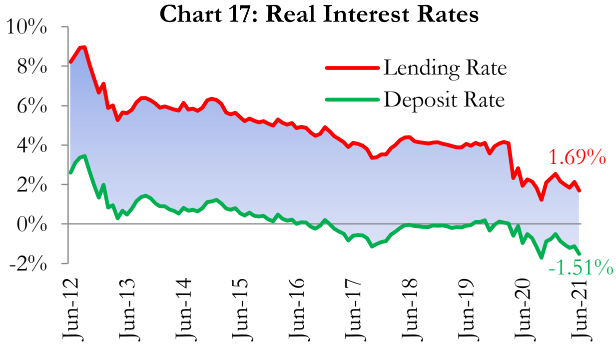
Following the existence of ample liquidity in the money market coupled with the market lending rate rationalization efforts of BB undertaken toward the end of FY20, both the weighted average interest rates on lending and deposit have significantly declined by the end of FY21. Charts 16 and 17 plot monthly trends of weighted average lending and deposit interest rates of all scheduled banks suggesting that the reduction of lending rate was much sharper than the deposit rate both in nominal and real terms. The negative moving weighted average real deposit rate is a matter of concern for the depositors, economists, and policymakers as the savers will see a fall in the real value of their savings. Available data indicate that the weighted average lending rate has come down to 7.33 percent in June 2021 from 7.95 percent in June 2020 while the weighted average deposit rate has come down to 4.13 percent in June 2021 from 5.06 percent in June 2020. Virtually, banks are now operating almost all of their lending activities well below the 9 percent interest rate cap and the existing lower trajectory of lending interest rate along with robust growth in deposits can be a blessing for enhancing the private investment and economic activities during the post COVID period.

Chart 16: Nominal Interest Rates



Source: Bangladesh Bank

Chart 17: Real Interest Rates

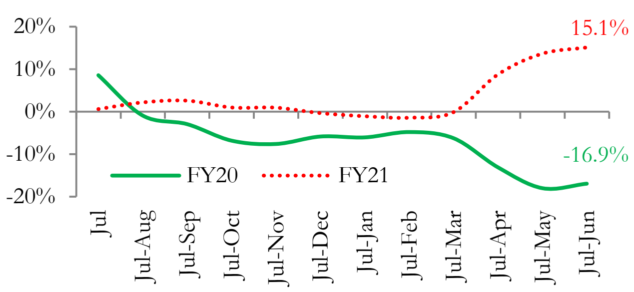


Source: Bangladesh Bank

3.4. Overview on External Sector Developments and Outlooks

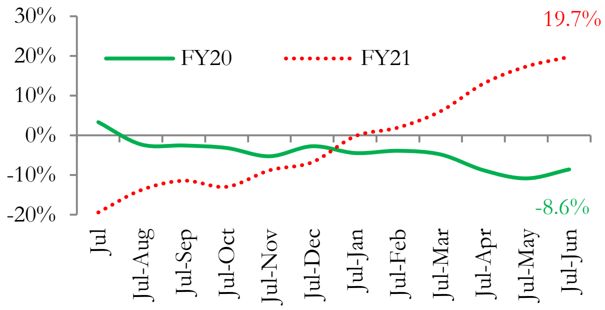
Given the improving situation in terms of corona vaccine rollout particularly in the developed and advanced parts of the World along with better corona pandemic management in the Middle-Eastern economies, almost all the external sector accounts received significant impetus in FY21. As per provisional data, exports and imports growth strongly rebounded by 15.1 and 19.7 percent respectively reflected to a widening trade gap in FY21 (Charts 18 and 19). The sharp increase in import payments is partly attributed to an upsurge of global commodity prices accompanied by heightened demand for implementing some mega projects in the country reflected through the increase of import payments for the intermediate and capital goods including petroleum and oil.

Chart 18: Cumulative Exports Growth



Source: Export Promotion Bureau

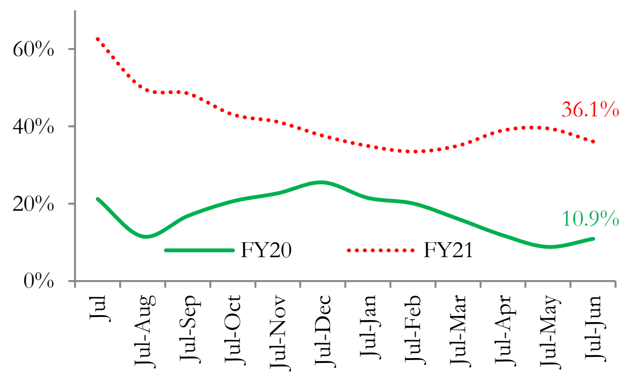
Chart 19: Cumulative Imports Growth



Source: National Board of Revenue

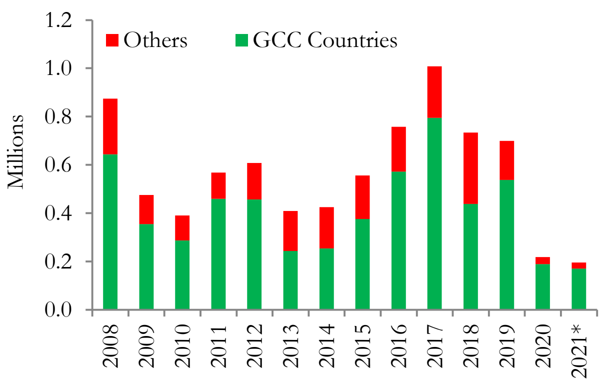
Despite of widen trade deficit, the deficit in the current account remarkably reduced to USD 3808 million (1.0 percent of GDP) in FY21 from USD 4724 million (1.4 percent of GDP) of the last fiscal year due mainly to significant growth in remittance inflows. The Government's drive of bringing inward remittances into formal channels by providing two (2) percent cash incentives to the beneficiaries of the inward remittances might have worked as an instrumental factor in achieving 36.1 percent growth in FY21, significantly higher than the 10.9 percent growth recorded in FY20 (Chart 20). There are reasons to believe that the infliction of the corona pandemic severely disrupted the informal channels while the Government's two (2) percent incentive program accompanied by time and cost-effective policy initiatives of BB largely encouraged the remitters to make a permanent shift from informal to formal channel. Thus, the growth momentum of remittance inflows is expected to continue in FY22 due to the continuation of the government's cash incentive along with an encouraging sign of rebounding overseas employment of the Bangladeshi workers and professionals, especially in the GCC countries during the first five months of 2021 (Chart 21).

Chart 20: Cumulative Remittance Growth



Source: Bangladesh Bank

Chart 21: Overseas Employment



Source: Bureau of Manpower, Employment and Training. * Up to May 2021

With the moderation of the current account deficit, the overall balance of BoP is primarily estimated to have a surplus of USD 9274 million in FY21 underpinning strong performances in the financial accounts mainly led by higher inflows of net FDI and other investments including other short and long term loans, and trade credit. Looking ahead, the current account deficit is anticipated to be reduced further aided by strong remittance inflows, and the overall balance is expected to experience a healthy surplus mostly supported by enduring performances of the financial accounts in FY22. A summarized position of BoP's actual outcomes and outlook for FY22 are shown in Table 2.

Table 2: Balance of Payments Highlights

(In million USD)

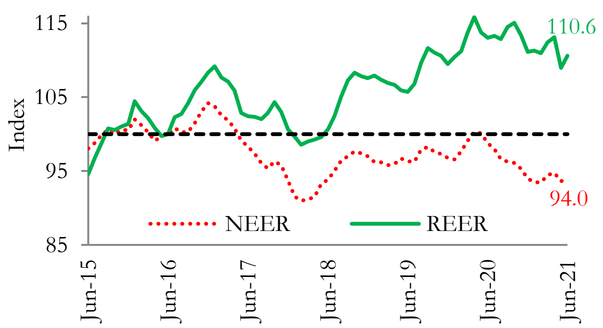
Major Items	Actual			Outlook
	FY19	FY20	FY21P	FY22
Trade balance	-15835	-17858	-22799	-26066
Services	-3176	-2578	-3008	-3249
Primary income	-2382	-3070	-3363	-3689
Secondary income	16903	18782	25362	30434
of which: workers' remittances	16420	18205	24778	29734
Current account balance	**-4490**	**-4724**	**-3808**	**-2570**
Capital accounts	239	256	221	250
Financial accounts	5130	7809	13080	7033
Errors and omissions	-700	-172	-219	386
Overall balance	**179**	**3169**	**9274**	**5100**
Memorandum items:				
Export growth (adjusted as per BPM6, percent)	9.1	-17.1	15.4	13.0
Import growth (percent)	1.8	-8.6	19.7	13.5
Remittance growth (percent)	9.6	10.9	36.1	20.0
Gross international reserves (GIR)	32717	36037	46391	52000
Months of import coverage by GIR	6.5	6.1	6.9	7.1

Source: Statistics Department, Bangladesh Bank. P= Provisional

3.5. Movements of Exchange Rate and Foreign Exchange Reserves

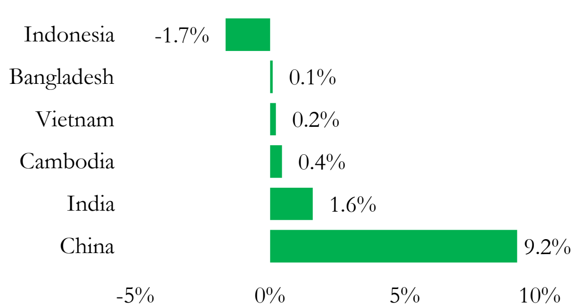
Reflecting on the improving feature of BoP's current account balance and a handsome surplus in overall balance, the exchange rate of Taka against its intervention currency the USD faced an appreciation pressure in FY21, though the exchange rate of Taka remained broadly stable due to BB's active intervention through the purchase of USD from the foreign exchange market. BB's net purchase stood at USD 7702 million in FY21 to maintain stability in the foreign exchange market. However, both the

Chart 22: Effective Exchange Rate Indices
(Base: 2015-16=100)



Source: Bangladesh Bank

Chart 23: App(+)/Dep(-) of Domestic Currency against USD in FY21



Sources: Respective Central Banks' Websites.

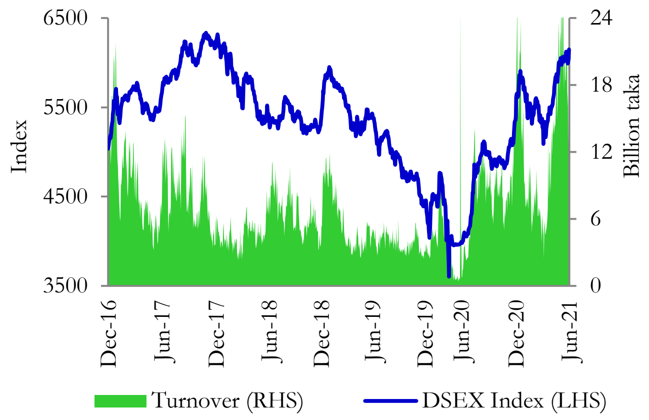
NEER and REER indices followed a declining trend mainly because of significantly larger appreciation of the basket currencies of the major trading partner counties including India and China (Charts 22 and 23). The elevated stand of the REER index reflects wide price differentials between Bangladesh and the major trading partner countries which are mostly the developed, and emerging market and developing economies of the world.

Based on the recent performances and near-term outlooks of the external sector accounts, BB expects no large shock on the exchange rate of Taka in the coming months, though growing energy, non-energy as well as food and commodity prices in the global market is creating some concerns.

3.6. Capital Market Developments and Prospects

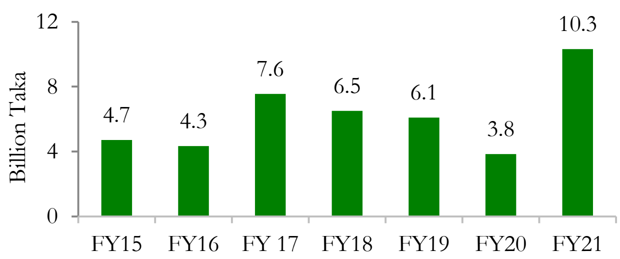
Both the bourses, the DSE and the CSE, in the country's capital market, mostly remained buoyant during FY21 supported by easy monetary condition and restoration of investors' confidence due to favorable policy supports from the associated regulatory bodies. Stock market prices, measured by the DSE broad index (DSEX), turnover, market capitalization, and issued capital have tremendously increased by end June 2021. The DSEX stood at 6150.5 by end June 2021 registering a 54.2 percent increase from its level of end June 2020 which was the highest level in the last three years (Chart 24).

Chart 24: DSEX Index and Turnover



Source: Dhaka Stock Exchange

Chart 25: DSE Daily Average Turnover

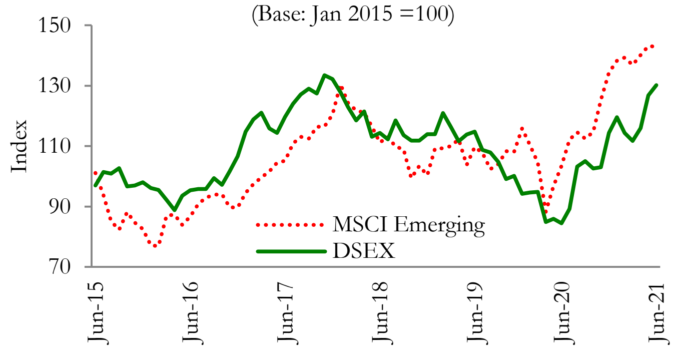


Source: Dhaka Stock Exchange

The daily average turnover, an important liquidity indicator of the capital market, significantly grew to Taka 10.3 billion in FY21 from Taka 3.8 billion in FY20 (Chart 25) which suggests that the investors' confidence has significantly increased in the recent months, though high volatilities persisted in the market. The DSE market capitalization also rose to 16.7 percent of GDP at end June 2021 from 11.2 percent of end June 2020. The sector-wise turnover data indicates that the insurance sector receives the highest (20.4 percent) turnover in FY21. The number of newly listed companies stood at 15, accounted for 15.5 percent of total market capitalization in FY21 which was only 5, accounted for 0.7 percent of total market capitalization in FY20.

Available information suggests that the global capital markets both in the developed and emerging market economies significantly amplified in FY21 because of unprecedented easy monetary and supportive macro-prudential policies adopted by the major central banks around the globe in response to the ongoing COVID-19 pandemic situation. Moreover, fiscal supports provided through the

Chart 26: Synchronization of DSE with Global Markets



Sources: Dhaka Stock Exchange and www.msci.com

implementation of various stimulus packages by the respective governments also played a crucial role in flourishing capital markets around the world. As a result, synchronized movements are seen between the MSCI emerging market index and the DSEX (Chart 26). The market return based on DSEX gain, Bangladesh's capital market is considered as the second-best performer in FY21 among the selected peer countries of the world.

Considering the importance of the capital market for the accumulation of long-term funds for private as well as public investments, recently Bangladesh Securities and Exchange Commission (BSEC) took many initiatives to restore the investors' confidence in the capital market of Bangladesh. These initiatives include: (a) faster approval process of IPO to enhance the market capitalization and listing of more securities in the stock exchanges, (b) implementation of two percent of total share capital holding for the individual director and 30.0 percent for all sponsors director of the company to bring transparency and trust in the trading system, (c) revision of IPO share distribution policy to allow general investors to be allotted the IPO shares on pro-rata basis instead of lottery, (d) re-fixation of margin loan limit at 1:0.8 if the DSEX index stays below 7000 mark and 1:0.5 if index exceeds 7000 mark, (e) approval of a market stabilization fund, and (f) approval of the perpetual bond by BSEC to be given to scheduled banks provided that (i) these banks maintain a mandatory investment of special fund of Taka 2 billion in the secondary market and (ii) at least 10.0 percent of perpetual bond are distributed in the secondary market through IPO.

Moreover, in order to improve the liquidity condition in the capital market, Bangladesh Bank reduced its repo rate from existing 6.00 percent to 4.75 percent applicable for creating a special investment fund of Taka 2 billion to be constituted by each bank for investing in the stock market beyond their market exposure limit. In order for increasing the quality of investment and reducing the risk of banks' equity exposure to the private infrastructure companies, detailed guidelines have been issued for the scheduled banks. The Government has also taken a series of initiatives to increase the flow of funds and institutional participation in the capital market including the continuation of permitting undisclosed money in the capital market. However, the sustainability of improving liquidity conditions in the capital market will highly depend on the expansion of its investors' base and creation of supportive ancillary institutional arrangements such as the establishment of a private pension fund authority, promotion and activation of corporate bonds, enhancement of surveillance activities of the BSEC for preserving investors' interest and confidence. BB's monetary policy will remain supportive of the much-needed shift of the long-term financing sources, away from the banking system and towards the capital market.

4. Monetary Policy Stance, Monetary and Credit Programs, and Possible Policy Options for FY22

4.1. Monetary Policy Stance

In the backdrop of the on-going corona pandemic situation, this MPS meticulously evaluate the current macroeconomic condition including money market, foreign exchange market, capital market, prices and real sector developments along with their near-term outlook before adopting its current monetary program and policy stance. The observed reality of the above economic indicators suggest that the monetary program and policy stance for FY22 need to ensure required flows of funds to all the productive sectors to generate the much needed investment and employment to support the Government's pursuits of protecting the economy from the devastation of the ongoing pandemic while remain watchful about the prime goal of maintaining price stability. BB's thrust will be to persuade banks and financial institutions to adopt such a strategy so that adequate financing support could be available to all the priority sectors like agriculture, CMSMEs, manufacturing industries, and the somewhat vulnerable sectors such as small businesses including tourism, hotel and restaurant, transportation, privately run education & training centers, and the sectors where the marginal people are formally or informally employed. Side by side, appropriate prudential measures are required to ensure proper use of the fund, preventing any sort of misappropriation of the fund. Thus, this monetary policy will try to proactively arrest any deterioration of aggregate demand by supporting new investment and employment generation, and help create enabling conditions for the businesses to normalize production and supply chains, streamlining the proper use of the fund. To these viewpoints, *BB's monetary policy stance embodied in its monetary and credit policies/programs for FY22 are designed to continue ongoing expansionary and accommodative mode supporting continuing efforts of economic recovery process while maintaining appropriate cautions for overall price and financial stability.*

BB's annual monetary programs are outlined making sure that there is enough room for money and credit growth to sufficiently support the targeted nominal GDP growth. The FY22 monetary program has been formulated based on the targeted real GDP growth of 7.2 percent and CPI-based average general inflation ceiling of 5.3 percent as declared in the national budget of the current fiscal year. Assuming a stable money demand function, the intermediate target of BB's monetary policy, the broad money (M2) growth is set based on the equation of exchange that accounts for the necessary adjustment in the change of the money velocity, and the target of nominal GDP growth comprising the summation of targeted real GDP growth and inflation ceiling.

The money velocity in Bangladesh markedly fell both in FY20 and FY21 due to the slowdown of economic activities and the high demand for holding cash. BB's projection suggests that the money velocity may continue to fall in FY22 due to the lingering COVID-19 pandemic. Since the change in money velocity is negative, the M2 growth target would be larger than the nominal GDP growth target for FY22. To maintain the M2 growth target, BB sets its operational target, the reserve money (RM) growth target. BB uses its monetary policy instruments like repo and reverse repo interest rates, cash reserve ratio (CRR), statutory liquidity ratio (SLR) along with its available open market operation tools to control RM growth impacting broad money growth and, thereby, influencing ultimate policy objectives in the desired direction. BB will continue its support for productivity and employment sensitive priority sectors while strengthening its monitoring to ensure the quality and purpose of the loans.

4.2. Monetary and Credit Programs

BB's monetary and credit programs containing the half-yearly movements of key anchoring monetary and credit aggregates for FY22 are illustrated in Table 3. The programmed growth of broad money (M2) is set at 15.0 percent which is consistent with the targeted real GDP growth and CPI-based average inflation ceiling based on the assumption that some additional monetary supports are needed for maintaining desired income velocity of money and accommodating nearly 17.8 percent domestic credit (DC) growth in FY22. Following the current stance of expansionary fiscal policy of the Government

Table 3: Key Items of Monetary Program

(y-o-y growth in %)

Item	Actual			Program	
	Jun-20	Dec-20	Jun-21	Dec-21	Jun-22
Net Foreign Assets*	10.2	30.4	27.1	13.0	10.4
Net Domestic Assets	13.4	9.9	9.8	14.1	16.5
Domestic Credit	13.7	9.7	10.3	14.1	17.8
Credit to the public sector@	53.4	17.2	21.2	30.6	32.6
Credit to the private sector	8.6	8.4	8.4	11.0	14.8
Broad money	**12.7**	**14.3**	**13.6**	**13.8**	**15.0**
Reserve money	**15.7**	**21.3**	**22.4**	**14.0**	**10.0**
Money multiplier	4.84	4.87	4.49	4.86	4.69

*Source: Bangladesh Bank.**Calculated using the constant exchange rates of end June 2021. @ The amount of net credit to government in FY20 and FY21 were Tk. 627 billion and Tk. 412 billion respectively, and for FY22 it is assumed to be Tk. 765 billion as per national budget.

especially for combating the COVID-19 fallout, the public, and the private sector credit growth are projected to be annually grown by 32.6 percent and 14.8 percent respectively at the end of June 2022. The projection of public sector credit growth is made based on the Government's expected borrowing needs from banks as envisaged in the national budget for FY22. The projection of private sector credit growth, on the other hand, has been kept unchanged given the fact that the pace of credit demand will pickup in the coming months with the expectation that the economy will reopen soon as the pandemic containment measures are underway in terms of broad based national vaccination and other health related safety programs. BB's cautiously designed expansionary and accommodative monetary policy stance along with the implementation of ongoing various stimulus packages on top of low base effect is likely to augment the private sector credit growth to its program level. Net foreign asset (NFA) growth is projected to remain positive in FY22, though lower than the actual growth of end June 2021, but consistent with the BoP outcomes of the current fiscal year.

4.3. Possible Policy Options

In light of the recent macroeconomic developments, it appears that owing to the ongoing expansionary and accommodative monetary and fiscal policy stances, the banking system has already been inundated with historically high levels of surplus liquidity, though growth of some other monetary and credit aggregates remained relatively slow due mainly to ongoing COVID-19 related uncertainties. In case of any unexpected price pressure development or formation of any erratic asset price bubbles due to the presence of ample excess reserves in the banking system, BB will take appropriate policy action anytime if situation warrants. BB may also consider taking on an appropriate sterilization measure, immediately after purchasing foreign exchange from the foreign exchange market to arrest any new injection of local currency in the system. However, BB's market interventions for preventing appreciation pressure on the local currency may be lessened in the coming months especially due to recent upsurge of oil and other commodity prices in the global markets. Substantial improvements of both the domestic and external demand especially with the advancement of vaccination against the COVID in the coming months which are expected to be favorable in tackling excess liquidity and bringing good balance between the local currency and foreign currency markets needing no additional measures.

In the backdrop of ongoing pandemic situation, the basic challenges that BB may encounter in the coming months are restoration of full normalcy in life and extending required fund flow to the production pursuits especially those have become inoperative causing some degree of job and income losses. To this end, BB will attach big emphasis on full implementation of the Government's stimulus packages alongside strengthening its own refinancing windows in the coming days. For this purpose, BB will consider to adopt all possible policy options for encouraging new entrepreneurs and for generating new employment opportunities which include: (1) continuation of the ongoing refinance policy with more focus on micro, small and labor intensive medium enterprises especially for the eradication of urban poor existed in the transportation, tourism, hospitality, healthcare and small businesses; (2) fully operationalize its credit guarantee scheme to expedite CMSMEs financing, particularly towards the light engineering, cluster and value chain, and women entrepreneurs' development; (3) permitting banks and financial institutions for opening technology driven sub-branch in the rural remote areas by engaging their own-recruited minimal workforce for creating quality jobs and enhancing financial inclusion alongside ensuring proper safety and security; and (4) bringing the education sector, perhaps the most affected sector due to COVID-19 pandemic, to the refinance scheme so that both the needy teachers and the students can get their minimum required amount of loans for purchasing necessary electronic equipments, smart devices.

Alongside nudging socially responsible financing ethos, BB's monetary policy and monetary management will highly be vigilant in nourishing financial stability so that nothing can jeopardize our ultimate achievements towards reaching the Sustainable Development Goals(SDG) by 2030. BB will come forward with its all-possible monetary policy instruments to tackle the situation as and when required in the coming months to maintain financial stability.

5. Policy Supports toward Investment and Employment Creation

Since the inception of the COVID-19 outbreak in early March 2020, Bangladesh Bank has been actively providing necessary policy supports to mitigate its adverse economic impact and revive normalcy in all sectors of the economy. The specific purpose of these policy measures is to make available low-cost loanable funds for banks and NBFIs such that all the productive sectors are enabled to receive sufficient loans with low-interest rates supporting investment, employment, and income generating activities.

Following its expansionary and accommodative policy stance, BB undertook a range of investment and employment enhancing policy measures throughout the FY21 which include: relaxations of various policy interest rates, option for purchasing extra government securities from the banks' holdings for supporting their longer-term liquidity need, the introduction of various low-cost refinance schemes, allowing moratorium facilities and extended time for realizing export receipts and import payments, extensions of EDF fund with relaxing its maximum limit for banks, and introduction of a new credit guarantee scheme for making easy access to credit at a lower cost by CMSMEs.

Like many other countries, the labor market of Bangladesh, particularly its informal segment covering more than 85.0 percent of the employment share, is largely disrupted by the COVID-19 crisis. In this regard, small businesses & street vendors, transportation, hotel and restaurants, tourism, and privately run education centers are the most affected sectors. The agriculture sector is considered to be one of the major employment hubs directly accommodating more than 40.0 percent of working-age people, also affected to some extent due to corona pandemic. Although, there are some limitations of BB’s monetary policy in terms of direct involvement in enhancing investment, employment and production, it has, nonetheless, been extending many supportive measures to revive the domestic economy through investment and employment generation in the country.

BB outlines its Agricultural & Rural Credit Policy and Program annually to increase agricultural production, employment and income generation for the rural people through ensuring required flow of funds to this sector. Side by side, BB has been increasingly putting importance on consolidating cottage, micro, small and medium scale enterprises’ (CMSMEs) business activities in the country. In terms of access to finance for CMSMEs and entrepreneurs, Bangladesh Bank has been designing and implementing various initiatives. Besides, Bangladesh Bank is raising awareness of financial education, especially among women in rural areas. BB’s noteworthy initiatives in support of access to finance, and enhancing production and employment in the agriculture and CMSMEs are:

❖ Reducing the interest rate ceiling on agriculture and rural credit from 9.0 percent to 8.0 percent.

- ❖ Providing agricultural loan for crops and harvest sector at 4.0 percent concessional interest rate since April 2020.
- ❖ Implementing an agricultural refinance scheme for non-crop agriculture of Tk. 50 billion at 4.0 percent interest rate at borrower level.
- ❖ Providing loans to the fisheries and livestock sectors as well as the youth (Bangabandhu Youth Loan) from a fund of Tk. 10 billion at 4.0 percent interest rate at borrower level.
- ❖ Setting up a refinancing fund of Tk. 5 billion in the name of 'Start-up Fund' and instructing the banks and FIs to set up their own 'Start-up Fund' by transferring their 1.0 percent operational profits to promote new entrepreneurs and encourage self-employment opportunities.
- ❖ Instructing the banks and FIs to disburse 50 percent of SME loan to cottage, micro and small sector by 2024.
- ❖ Allowing collateral free financing up to Tk. 1 million on case to case basis and collateralize financing up to 2.5 million for new entrepreneur from 'New Entrepreneurs Refinance Scheme'.
- ❖ Allocating at least 15 percent of net outstanding loans for women entrepreneurs, while up to Tk. 2.5 million can be sanctioned without collateral, only against personal guarantee.
- ❖ Increasing the fund sizes of 3 existing refinance schemes to meet up the term loan (including working capital) requirement of the CMSMEs along with reducing the interest rate to 7.0 percent at borrower level.
- ❖ Providing working capital loans to CMSMEs from a government package of Tk. 200 billion at 4.0 percent interest at borrower level.
- ❖ Implementing a Credit Guarantee Scheme of Tk. 20.0 billion for CMSMEs.
- ❖ Offering required working capital support for export-oriented industries, the establishment of Technology Development/Upgradation Fund of Tk. 10.0 billion for the modernization and technological development of the export oriented industrial sector.

BB also took the responsibility of implementing the Government's nine (9) major stimulus packages along with its own three (3) stimulus packages amounting to nearly Taka 1.0 trillion for overcoming COVID-19 related disruptions, more than 85.6 percent of which are already implemented as of end June 2021. Inclusivity and environment-friendly green finance dimensions of loans and advances continue to be on the BB's priority list. BB remained watchful about BDT-USD exchange rate developments and appropriately intervened to ensure the external competitiveness of Taka. BB will continue its support for productivity and employment sensitive priority sectors while strengthening its monitoring to ensure the quality and purpose of the loans.

For secure and instantaneous service, BB has been effectively developing its IT-based network among financial institutions, businesses, and individuals as inclusive and quality growth is concerned. BB is meticulously working on regulation, policy, and licensing, which includes: (a) Legal and Regulatory

Function, (b) Mobile/Digital Financial Services, (c) Payment Service Provider (PSP) and Payment System Operator (PSO), and (d) Regulatory FinTech Facilitation Office (RFFO) for IT-based solution among others to tap underserved and informal economy encouraging financial innovation.

6. Concluding Remarks

Looking forward, the world output is projected to achieve a strong growth of 4.9 percent in 2022, up from the IMF's April 2021 forecast of 4.4 percent, based on the assumption that vaccines will be accessible in most of the countries by the second half of 2022. However, the outlook projects a high degree of uncertainty as new virus mutations are taking place, and the accumulating human losses are growing, particularly in many emerging market economies.

Faster recovery and further fiscal supports largely by expansions in the U.S. may build up inflationary pressure globally and could require raising interest rates earlier than expected. Such sustained inflationary pressure along with higher US interest rates could lead to a sharp tightening of global financial conditions. Emerging market economies may feel the blunt by such higher interest rates and inflationary pressure generated through spillover effects in the exchange rate, yield rate, and capital flows, while many of them are still struggling to recover the growth. Emerging market economies with slower economic recovery or limited access to vaccines may face daunting challenges, if medium to longer-term yield rates continue to rise in advanced economies. This may have adverse spillover effects to emerging markets and developing economies, inducing them to tighten financial conditions, when they have, in fact, large financing needs.

Due to global inflationary pressures, many countries are also facing rising commodity and food prices, putting low-income people at risk. Besides, disrupted labor markets because of the pandemic worsened the peoples' purchasing capacity, indicating a need for income support for the vulnerable population segment before the market conditions normalize.

Extraordinary expansionary and accommodative monetary policy is likely to continue both in advanced and emerging market economies to secure sustained recovery while most central banks are closely monitoring domestic as well as global price developments along with financial stability risks. They are communicating their policy plans cautiously and carefully to avoid such risks. In response to COVID-19 pandemic the Government of Bangladesh has taken various initiatives, ranging from social assistance to the distressed population to the stimulus funds for business entities. Different countries of the world have faced multitudes of financial crimes such as corruption in procurement, exploitation of stimulus measures by fraudulent activities and corruption in aid delivery in COVID-19 situation. Thus to address these sort of challenges, banks and other financial institutions need to take appropriate measures to monitor transactions and remain vigilant.

Given the economic adversities due to the COVID-19 pandemic, BB will continue its ongoing pro-growth expansionary and accommodative monetary policy stance to support investment and employment-generating activities, and help create enabling conditions for the businesses to normalize production and supply chains. BB will also remain watchful about the commodity and asset price developments in the country while stay engaged in selecting the priority sectors and ensuring the required funds in the system through various policy options under its disposal.

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Prepared by: Monetary Policy Department, Bangladesh Bank
Head Office, Motijheel, Dhaka, Bangladesh, website: www.bb.org.bd