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The BICM Financial Market Review provides analytical insights about the performance of the financial market in Bangladesh on a monthly basis.



“Emerging markets and developing economies are expected to grow at the rate of 3.4 percent, maintaining the steady growth from 2022’s expansion. And while Bangladesh’s projected growth rate of 5.2% for 2023 is 1.5 points less than what was forecast last June, it is expected that, in 2024, the growth rate will accelerate to 6.2 percent, one of the highest among South Asian countries.”

- The Daily Star (Abdullah Shibli, Sat, Jan 21, 2023)



**Economy
of Bangladesh**

Key indicators at a glance

Countries	Nominal GDP (as of Apr, '22) (USD in billion)	Real GDP Growth (as of Apr, '22) (yearly % Change)	Inflation Point to point (as of Oct, '22)	Currency Appreciation/Depreciation against USD	Reserve (Billion US\$)	Currency Exchange Rates (per USD)
Bangladesh	460.75	7.25%	8.71%	-1.01%	33.74	104.92
Emerging Economies						
India	3,821.00	8.70%	5.72%	-1.40%	573.72	82.03
China	4,778.20	3%	1.80%	2.92%	3128	6.72
Developed Economies						
USA	6,533.10	2.90%	6.50%	0%	244	1
UK	735.90	1.90%	10.50%	0.84%	119.4	0.81

Figure 1: Key Economic Indicators

Appreciation/Depreciation of Currencies against USD

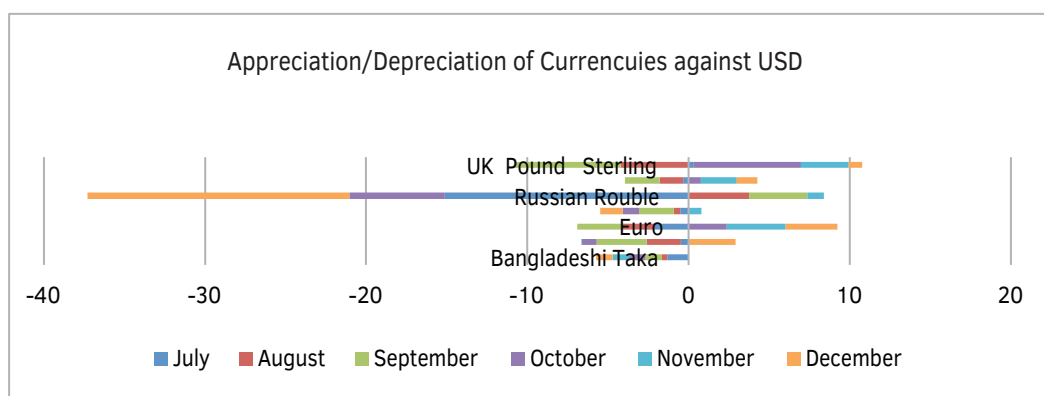


Figure 2: Appreciation or Depreciation of Different Currencies against USD

A visual tour of the key statistics

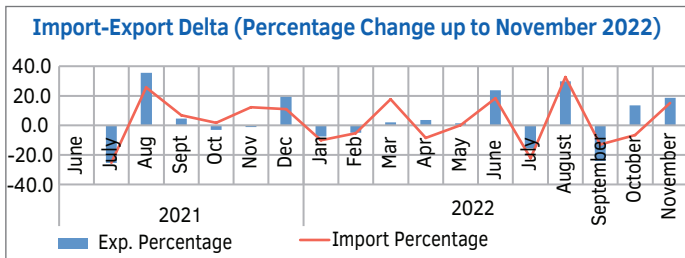


Figure 3: Import-Export Delta (Percentage Change up to Nov 2022)

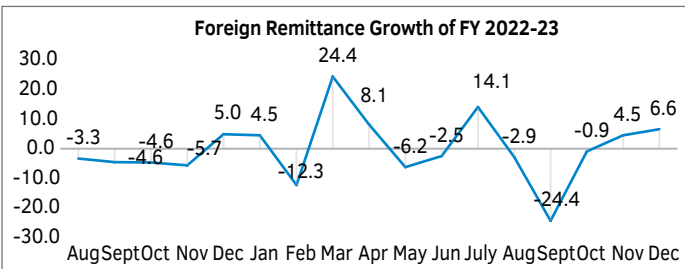


Figure 4: Foreign Remittance Growth of FY 2022-23

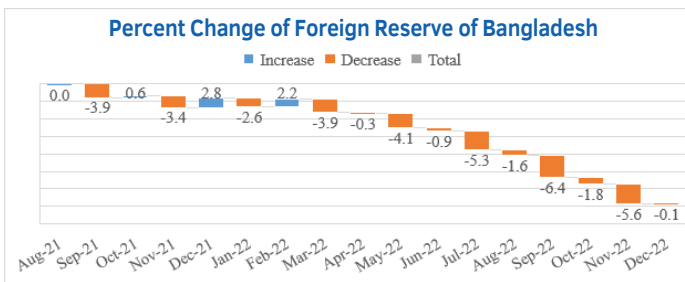


Figure 5: Percent Change of Foreign Reserve

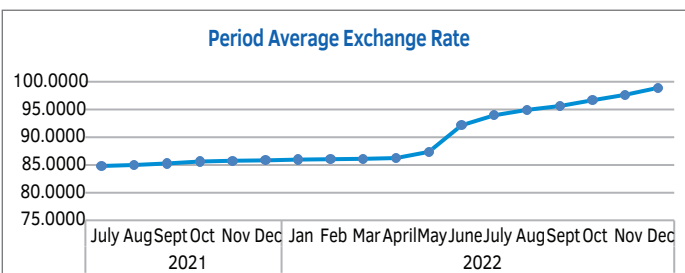


Figure 6: Period Average Exchange Rate of Bangladesh

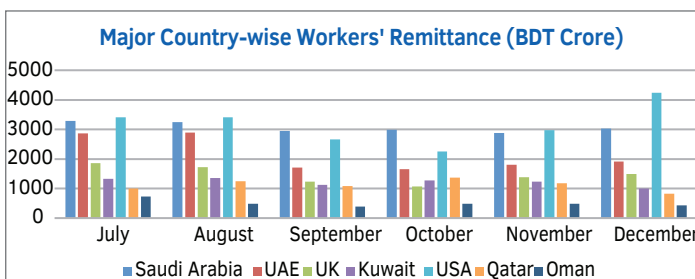


Figure 7: Country-wise Workers' Remittance

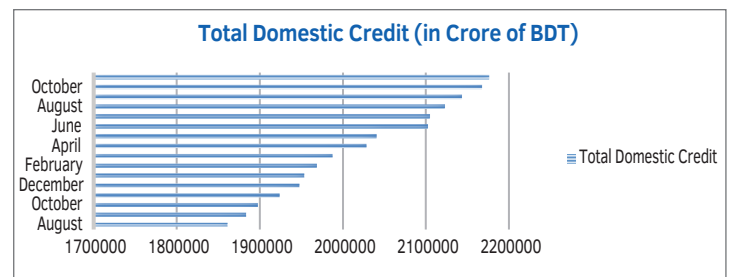


Figure 8: Total Domestic Credit

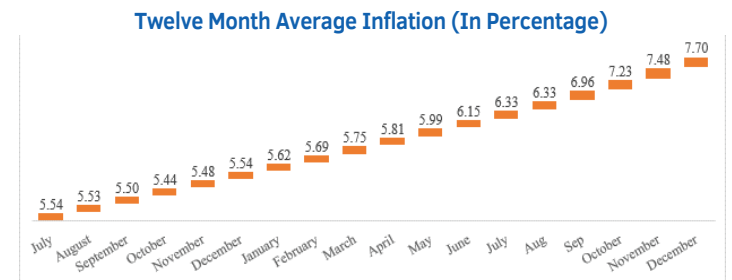


Figure 9: 12- Month Average Inflation (In Percentage)

Numbers to Note

1. BDT was found to be depreciating by 1.01% per USD, while INR depreciated by 1.40% and the Russian Rouble also depreciated by 16.27%.
2. Exports increased in comparison to the previous month, while imports increased as well. However, the rate of increase in exports is greater than the rate of increase in imports.
3. In December 2022, the growth of foreign remittances was 6.6%, which was higher than the 4.5% growth in November 2022.
4. The reserve is now 34 billion US dollars. This represents a 0.1% decrease from the previous month.
5. The average monthly exchange rate is now 98.85 BDT per USD.
6. In 2021, the debt-to-GDP ratio will be 21.8%, up from 19.5% the previous year.
7. The 12-month average inflation is 7.7%; it was 7.48% in the previous month.

Economic Challenges Ahead

1. The IMF's loan of USD 4.7 billion is going to tie the economic policy of Bangladesh to a differently guided procedure that may collide with the economic plans or budget policies of Bangladesh.
2. Currency-level macroeconomic indicators are still vulnerable due to exchange rate volatility.
3. The reserve is decreasing, that is an unsatisfactory signal, but the rise in exports is showing a good sign of adjustment.
4. The rising inflation and increasing cost of commodities may flip the switch on the economic depression in Bangladesh unless they are tackled properly.

Capital Market experienced a slight improvement in Index in January



Capital Market

In comparison to the month before, December 2022, the market showed a 1.16% increase in the DSEX index in January 2023. However, the majority of the issues' prices were unchanged.

It is apparent from analyzing the capital market snapshot of January 2023 that the DSE market indices demonstrated a slightly upward movement with a minor decrease in the first week of the month. Other indices have also increased compared to those of December 2022. During January, 26 issues were advanced, 142 issues were declined, and the remaining 175 issues were unchanged.

DSE Market Indices

Index Name	1-Jan-23	31-Jan-23	Change	% Change
DSEX	6,195.37	6,267.05	71.68	1.16%
DSES	1,355.59	1,366.01	10.42	0.77%
DS30	2,193.60	2,219.60	26	1.19%
CDSET	1,214.16	1,221.56	7.4	0.61%
DSMEX	1,288.95	1,225.29	-63.66	-4.94%
Scripts Movement	Advance	Decline	Unchanged	
	26	142	175	

Figure 10: DSE Market Indices

DSE Market Indices

	31 Jan 2023	31 Dec 2022	Change	% Change
Average Market Capital (TK Million)	7,596,534.15	7,624,007.05	-27,472.90	-0.36%
Average Traded Value (TK Million)	5,098.63	3,615.70	1,482.93	41.01%
Average Number of Trades	113,562.83	77,279.75	36,283.08	46.95%
Average Trade Volume	83,011,330.48	51,769,162.15	31,242,168.33	60.35%

Figure 11: Market Aggregates

Sector-wise Contribution

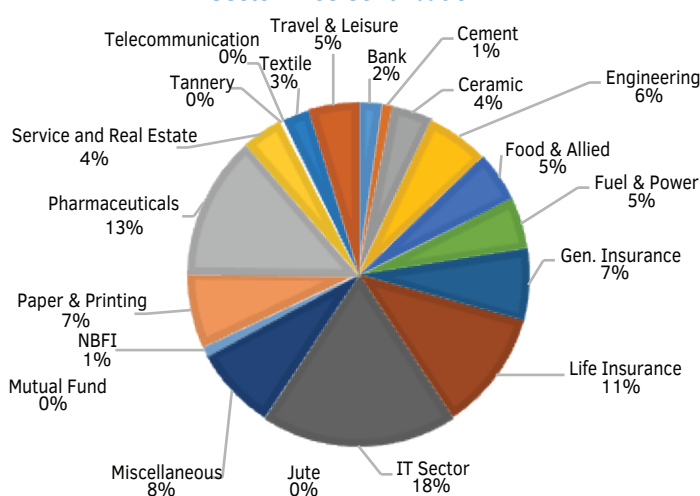


Figure 12: Sector-wise Contribution

Sector Return

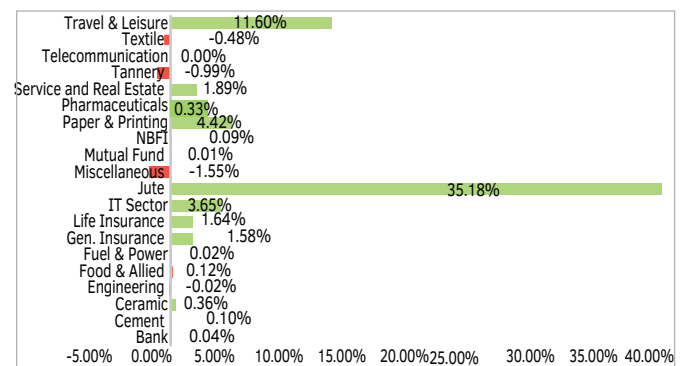


Figure 13: Sector Return

The AD ratio compares the number of stocks that increased in value to the number of stocks that decreased in value. By shedding light on the AD ratio of this month, it is evident that the 23-trading day denoted an upward trend in the market.

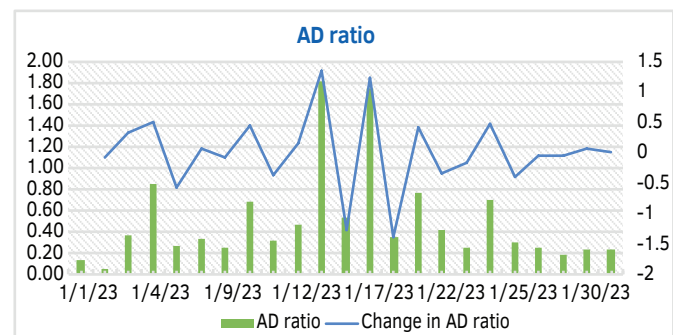


Figure 14: AD Ratio

The market gained some points on most of the trading days of the month. Investment in the market also increased as investors are returning to the market. However, higher inflation and dwindling foreign reserves hampered the increase. Investment in the market dropped compared to the previous year due to investors' inertia to invest in stocks in fear of having their investment stuck for a long time. Institutional eligible investors limited their exposure, causing many stocks to trade at or near the floor price.

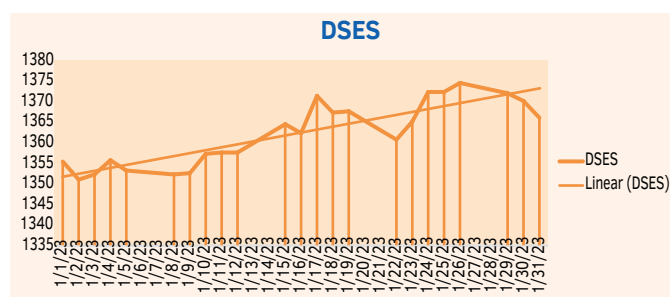
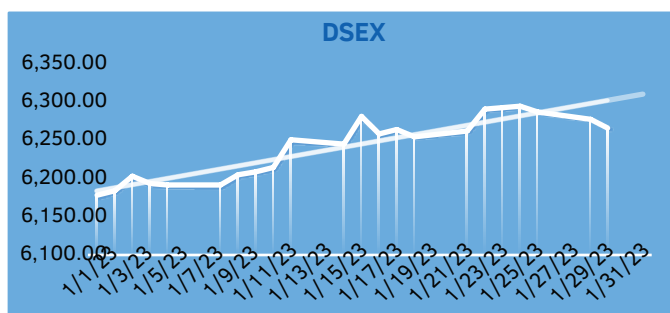


Figure 15: DSEX and DSES

The declining trade deficit, along with the bridle on falling foreign exchange reserves, have created confidence among investors to return to the capital market. Moreover, foreign remittances increased by 15% in the month of January, which is good news for our economy and the market as well. Overall, 12 IPOs are in the pipeline to penetrate the market, while three of them have already secured approval from the BSEC.

Upcoming Approved IPO

Company Name	Asset Class	Listing Method	Subscription Open	Subscription Close	Offer Price
Asiatic Laboratories Limited	Equity	Book Building	8-Jan	4-Jan	20
Midland Bank Limited	Equity	Fixed Price	----	----	----
Dhaka Bank Perpetual Bond	Bond	Fixed Price	8Feb	15 Feb	----

Figure 16: Upcoming Approved IPO

Analyzing the returns of the world's major indices, it is apparent that China, Japan, and the UK all gained positive returns in January, except for the USA and India.

World's Index & PE Ratio

Country	Index Name	Return	PE Ratio
China	SSEC	-2.12%	13.1
India	NIFTY 500	-3.22%	22.13
USA	S&P500	-6.27%	18.64
Japan	Nikkei 225	-7.55%	15
UK	FTSE 250	-2.87%	12.8
Bangladesh	DSEX	-0.62%	14.5

Figure 17: World's Major Indexes

The market PE ratio of the DSEX this month was 16.23. GENEXIL was in the top position based on turnover; SEAPEARL was the top gainer, whereas SONALIANSH was the top loser. In comparison to the previous month, the average trade volume and average trade value increased by 60% and 41%, respectively, while the average market capitalization decreased by 0.36%. A piece of positive news this month for the economy of Bangladesh is that remittance flow to Bangladesh rose to a five-month high as banks put all their efforts into mobilizing US dollars from abroad to tackle the foreign exchange market. Monetary policy announced by Bangladesh is also likely to boost the Bangladeshi capital market.

Sectoral PE Ratio

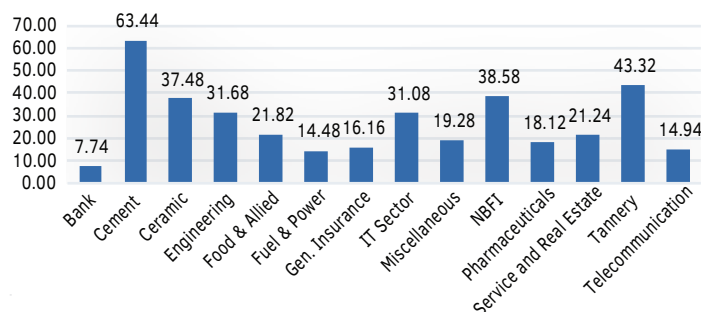


Figure 18: Sectoral PE Ratio

The market PE ratio of the DSEX this month was 14.25. ORIONPHARMA was in the top position based on turnover; NAVANAPHARMA was the top gainer, whereas BDCOM was the top loser. Cumulatively, the average trade volume and the average trade value increased by 45% and 38%, respectively, along with a 38.27% increase in the average market capitalization compared to the previous month. A positive development this month for the capital market of Bangladesh is that FDI increased by 37% compared to the previous month.

Top Gainer and Loser

Turnover			Gainer		Loser	
SI	Stock	Turnover	SI	Stock	SI	Stock
1	GENEXIL	670.01	1	SEAPEARL	1	SONALIANSH
		28.37%		46.88%		-39.57%
2	BSC	596.09	2	EHL	2	EGEN
		8.92%		40.34%		-16.84%
3	BPML	513.04	3	GENEXIL	3	EASTRNLUB
		15.24%		39.54%		-15.25%
4	ORIONPHARM	371.39	4	DHAKAINS	4	ADVENT
		5.19%		39.19%		-15.14%
5	SEAPEARL	343.83	5	AAMRANT	5	GEMINISEA
		-5.93%		38.29%		-14.72%

Figure 18: Top Gainer and Loser

This month was good for the investors compared to the previous month, and it can be said that the positive reinforcements taken by the policymakers of Bangladesh and the increased participation of institutional investors will bring heydays for the capital market of Bangladesh.

“
The acceptability of Mobile Financial Services (MFS) is well understood by the proportion of its users which is the foremost for the financial inclusion of country
”



Total deposits have increased by around 6.68 percent Year on Year (YoY) as of November 2022, with demand deposits growing by 12.51 percent and time deposits increasing by 5.93 percent. Compared to the previous month, demand deposits and time deposits each contributed 0.71 percent and -0.34 percent, respectively, while total deposits shrank by -0.21 percent [Table-01].

Total bank credits have scaled up by 10.93 percentage points annually. The YoY increases for advances and bills were 14.88 percent and 0.96 percent, respectively. Besides, we observe monthly growth of the same by 1.32 percent and -0.37 percent, respectively. Bank investments fell by 2.04 percent year over year while falling by 2.67 percent month over month [Table-01].

Table 1: Deposits Held in DMBs and Bank Credit

Deposits held in DMBs (Taka in million)					
Items	Nov 2022	Oct 2022	Nov 2021	Percentage Changes	
				Nov 2022 over Oct 2022	Nov 2022 over Nov 2021
Demand Deposits	1,795,780	1,783,121	1,596,074	0.71	12.51
Time Deposits	13,073,101	13,117,312	12,341,311	-0.34	5.93
Total	14,868,881	14,900,433	13,937,385	-0.21	6.68

Bank Credits (Taka in million)					
Items	Nov 2022	Oct 2022	Nov 2021	Percentage Changes	
				Nov 2022 over Oct 2022	Nov 2022 over Nov 2021
Advances	13,857,094	13,676,662	12,062,433	1.32	14.88
Bills (Import & Inlands)	325,573	326,792	322,462	-0.37	0.96
Investments	3,359,570	3,451,886	3,429,420	-2.67	-2.04
Total	17,542,237	17,455,340	15,814,315	0.5	10.93

*Import & Inlands Bills

Notes: 1. Deposits exclude Interbank Deposits and Government Deposits, 2. Advances include Loans & Advance, Money at Call, Balances & R. Repo with NBFIs & Accrued Interest, 3. Investments include Treasury Bills, Treasury Bonds, Share & Securities with accrued interest.

The call money rate remained high in January 2023, peaking at 7 percent with an average of 6.64 percent [Figure 19]. The nominal loan rate and deposit rate, which average out to 7.12 percent and 4.05 percent, respectively, have stayed stable throughout time [Figure 20].

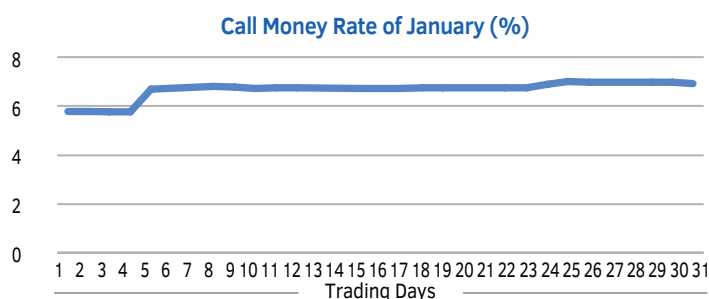


Figure 19: Call Money Rate of January (%)

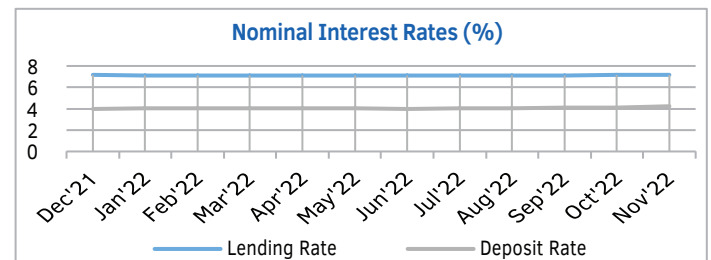


Figure 20: Nominal Interest Rate of January 2023

The cost of funds and adjusted cost of funds had respective averages of 6.59 and 7.55 percent [Figure 21]. Government borrowing from banking sector stood at 45,057 crore as of December 28, 2022, against the target of 106,334 crore [Figure 21].

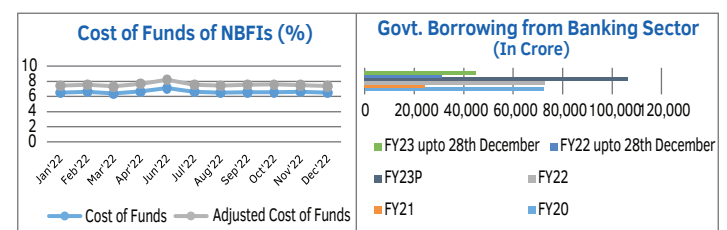


Figure 21: Cost of Funds of NBFIs and Govt. Domestic Borrowing

Private sector credit growth slowed again, reaching 12.40 percent in December 2022 [Figure 22]. Foreign currency reserve reduced to USD 32.48 billion as of January 2023 [Figure 22].

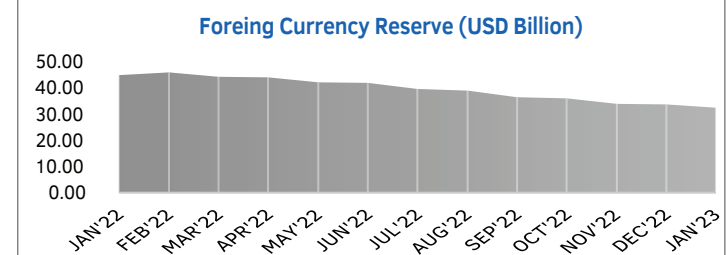
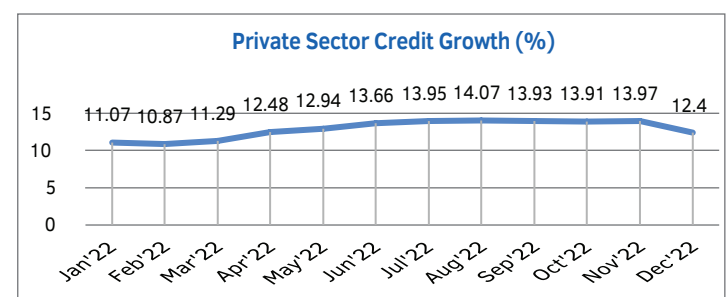


Figure 22: Private Sector Credit Growth and Foreign Exchange Reserve

As of January 2023, the yields on T-Bills with terms of 91, 181, and 364 days were 7.25, 7.48, and 7.94 percent, respectively [Figure 23]. The yields on the 2, 5, 10, 15, and 20 year T-Bonds hit 8.20, 8.29, 8.34, 8.76, and 8.89 percent, respectively [Figure 23].

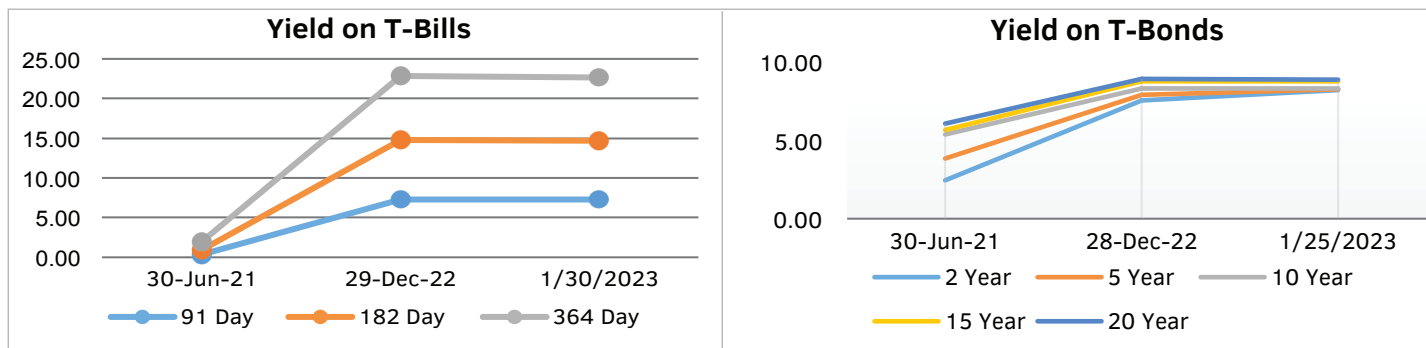


Figure 23: Yields on T-Bills and T-Bonds

Trends in Financial Inclusion and Digital Finance Statistics

As of November 2022, there were around 61,27,001 internet banking subscribers, which is an increase of 42.28 percent year over year [Figure 24]. Based on gender, males and females share 57.36 percent and 41.61 percent, respectively [Figure 24].

From December 2021 to November 2022, the average monthly growth for e-banking and e-commerce gateways, namely Automated Teller Machine (ATM), Point of Sale (POS), Cash Recycling Machine (CRM), and E-Commerce, was 3.12%, 2.78%, 7.36%, and 3.00, respectively [Figure 25]. Rural people conduct approximately 82 percent of agent banking transactions [Figure 25].

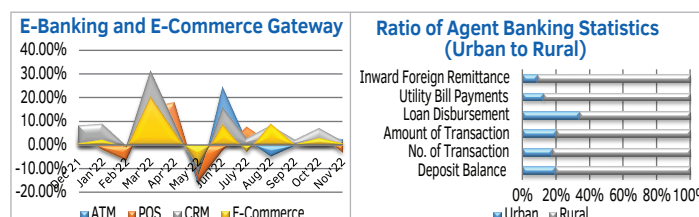
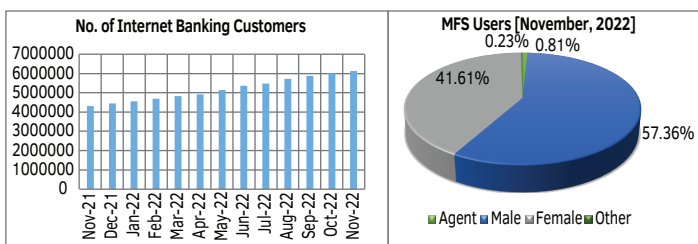


Figure 25: E-Banking and E-Commerce Gateways and Ratio of Agent Banking

Key Takeaways

- > Time deposits, which comprise fixed deposit receipts, witnessed negative growth due to the massive withdrawal of state-owned enterprises as well as high inflation, which compels many to encash their deposits.
- > Because of the liquidity crisis in the money market, the call money rate remained buoyant in January. According to different sources, massive withdrawals due to both high inflation and panic aggravated the situation further.
- > Due to caps, both the nominal lending rate and deposit rate remained stable. However, the recent withdrawal of the deposit floor as well as the consumer lending cap may alter the situation ahead.
- > To avoid NBFIs maturity mismatches, the central bank recently directed them to issue long-term bonds to raise funds rather than borrowing from the call money market. This may limit liquidity hunting for NBFIs that depend on the money market for fund.
- > Government borrowing from the banking sector continues to rise despite the liquidity crunch in the banking sector. According to experts, such central bank borrowing will have a negative impact on inflation because money will be pushed to the market.
- > Private sector credit growth slowed owing to the liquidity crisis and a reduction in imports resulting from the dollar shortage.
- > Because of larger import payments than total export and remittance receipts during the past year, Bangladesh's taka has been under pressure against the dollar, thus depleting the forex reserve.
- > Both yields on T-bonds and T-bills fell compared to the previous month. However, this signals the liquidity in money market has resumed to surge to some extent.
- > Increasing numbers of people are choosing to conduct their financial activities using digital technology, which has resulted in a significant YoY growth of 43 percent of internet banking customers.
- > The acceptability of MFS is well understood by the proportion of its users which is the foremost for the financial inclusion of country.
- > It goes without saying that agent banking has provided banking services to rural people to a great extent. However, the deposit growth of agent banking posted a negative as the costs of living for marginal people compelled them to save less than before.

Acronyms:

POS: Point of Sale ATM: Automated Teller Machine MFS: Mobile Financial Service CRM: Cash Recycling Machine YoY: Year on Year

Source: Bangladesh Bank Website



Md. Adnan Ahmed

Revisiting Monetary Policy A Cautiously Accommodative Policy Stance for H2FY23



With the motive of formulating and implementing its monetary policy to manage the monetary and credit systems of the country, Bangladesh Bank (BB), the central bank of the country, has announced its half-yearly monetary policy for the second half of fiscal year 2023 (H2FY23). However, the monetary policy of the BB emanates from the discussions of several stakeholders, such as policymakers, economic analysts from think tanks, academia, and leaders from the financial and business sectors. BB has opted to maintain its accommodative posture while major global central banks resume a synchronized tightening cycle in 2023, placing a higher priority on promoting economic growth over containing inflation and easing pressure on the exchange rate. The following discussion covers the forgone performance of the country in the first half of FY23 as well as the roadmap for the second half of FY23. The implications of the economic variables in the monetary policy statement will also be highlighted.

According to the monetary policy statement for H2FY23, BB's monetary and credit programs for H2FY23 will pursue a cautiously accommodative policy stance to contain inflationary and exchange rate pressures, support desired economic growth, and ensure the necessary flow of funds to the economy's productive and employment-generating activities.

Insights into Monetary Policy of H1FY23

The monetary policy statement for H1FY23 was intended to reduce demand-side pressures without obstructing the necessary flow of capital to the productive sectors. BB has taken time to time initiatives on H1FY23 to keep the balance well. In response to the storm exchange rate, BB depreciated the local currency BDT to an extent of around 11.28 percent, derived from the sale of USD 7.8 billion to banks. Aside from that, the following are the key performance indicators for the first half of FY23:

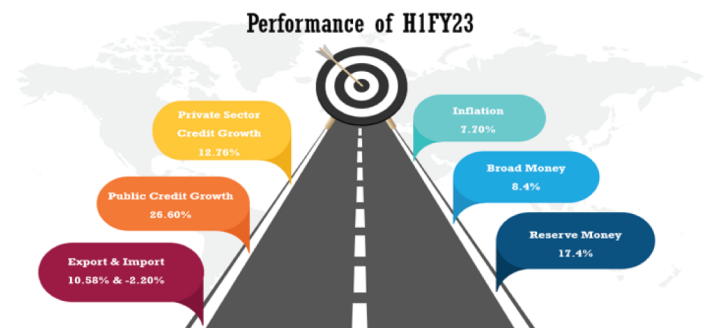


Figure 26: Performance of H1FY23; Source: Bangladesh Bank [Infographic: Author Developed]

Export and Import: Although the external demand, reflected by the export receipts, has increased, it has decreased from its previous level, partly due to a shrink in global demand. On the other hand, the stern measures taken by the central bank to tame the import payments resulted in the import growth negatively by 2.20 percent from June to December 2022. BB has taken a number of initiatives such as by increasing the LC margin requirements to deter imports of luxury and non-essential goods.

Public Sector Credit Growth: The public sector credit continued to robust growth, resulting from the implementation of some mega projects. The increased global prices further pushed the costs up.

Private Sector Credit Growth: The private sector credit growth remained buoyant during the period, mainly due to the resumption of economic activities after the pandemic, the lower lending rate owing to the cap, and the high import payments resulting from a significant depreciation of the local currency against the greenback. It stood at 12.76 percent in December 2022, whereas it was 10.68 percent during the same period last year.

Inflation: Inflation witnessed an upward trend, reaching 7.70 percent in December 2022 compared to its previous level of 6.15 percent in June 2022. Notably, supply-side factors resulting from increases in global commodity prices were the main drivers of the inflationary pressure during H1FY23.

Broad Money Growth: Broad money growth, a reflection of demand influencing factors, has been lower than the 10 percent, mainly dragged down by lower net foreign assets.

Reserve Money Growth: It has been observed that there's been a shortfall in banks' excess reserves, mostly in Islamic Shariah-based banks. Both total excess reserve and excess liquid

reserve declined to Tk. 6,591 crore and Tk. 1,53,177 crore at the end of November 2022. In addition, the sale of foreign currencies to meet the high import payments has swept up the local currency from the market, which BB termed "automatic quantitative tightening." This results in an increase in the interbank call money rate to 5.81 percent at the end of December 2022.

Global Outlook

Global economic growth prospects are confronting several headwinds, mainly due to the Russia-Ukraine war, multi-decade record high inflation in many economies, interest rate increases in most regions, and lingering COVID-19 effects in some parts of the world, particularly in China.

Table 2: Global Economic Growth Prospects (Source: International Monetary Fund)

Region	Growth (%)			
	Actual		Projection	
	2020	2021	2022	2023
World	-3.1	6.0	3.2	2.7
Advanced Economies	-4.5	5.2	2.4	1.1
USA	-3.4	5.7	1.6	1.0
Euro Area	-6.3	5.2	3.1	0.5
Other Advanced Economies	-1.8	5.3	2.8	2.3
Emerging market and Developing Economies	-2.0	6.6	3.7	3.7
China	2.2	8.1	3.2	4.4
India	-6.6	8.7	6.8	6.1

- > According to the IMF's latest World Economic Outlook, published in October 2022, global growth will be 3.20 percent in 2022 and 2.70 percent in 2023.
- > For 2022, inflation is projected at 7.20 percent for advanced economies and 9.90 percent for emerging and developing economies.
- > Major economies, including the USA, India, the UK, and the Euro area, raised their policy interest rates to tackle the soaring inflation.
- > According to the IMF, global trade volume will grow at a 4.30 percent annual rate in 2022 before slowing to 2.50 percent in 2023.

Such a downgrading of projections regarding the developed nations will also impact Bangladesh, as most of the countries are our export destinations and sources of remittance.

Looking Forward: Monetary Policy Stance for H2FY23

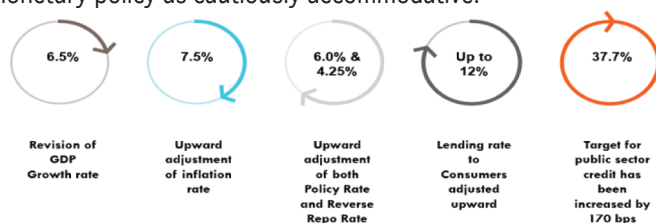
The major external challenges that the new monetary policy highlights include the Russia-Ukraine war, the frequent visit of COVID in some countries, particularly China, an energy shortage in Europe, and an ever-increasing debt burden in developing countries. Taking all of this into account, BB has labeled this monetary policy as cautiously accommodative.

- > Inflation for FY23 has been adjusted upward to 7.50 percent from 5.60 percent.
- > Considering the global outlook, the GDP growth rate has been adjusted downward to 6.50 percent for FY23.
- > The policy rate has been increased to 6.0 percent and the reverse repo rate to 4.25 percent.
- > The lending rate for a consumer's loan has been relaxed up to 12 percent, whereas lending apart from this remains capped at 9%.
- > The deposit floor, which was pegged to inflation, has been removed.
- > By the end of FY23, BB is aiming for a market-based flexible exchange rate with a variation of 2 percent.
- > The growth of public sector credit has been adjusted upward to 37.7 percent.
- > The ceiling for broad money growth has been revised to 11.50 percent from 12.1 percent.

Implications of Changes

Promoting economic development while limiting inflationary and exchange rate pressures is a tricky balance that BB must strike. Growth is given priority by the existing monetary policy. The current supportive approach may not be entirely sufficient to quell the inflationary pressure despite the upward modification of the inflation target to 7.5%. The public sector's domestic borrowing has been revised upward, demonstrating its reliance on domestic borrowing. Additionally, the price increases for gas and electricity, and the devaluation of local currency could increase inflation at the consumer level. Keeping the inflation at the targeted level will be big challenge as the persistent rising of price level comes from the supply side. To foster economic growth, the lending rate for all loans except consumer credit has been kept unchanged. This will keep the borrowing cost low thus may trigger the credit growth higher. However, the deposit rate, which was pegged to the inflation rate, has been relaxed. Since H1FY23, there has been a persistent decline in foreign exchange reserves, which will make it harder for central banks to intervene in foreign exchange markets in 2023. To lessen the pressure on the exchange rate, BB has adopted a variety of measures, including the promotion of import-substituting economic activities and the dissuasion of imports of non-essential items.

The recent MPS has had a somewhat neutral effect on the capital market. However, the removal of the deposit floor may pose a negative real return to depositors, considering the current level of inflation. As a result, many depositors may choose to park their funds in the capital market in order to earn a higher return. Bangladesh's economy performs reasonably well despite all of the difficulties it faces on the domestic and international fronts because of timely, suitable, and helpful monetary and fiscal policies. However, the performance of variables in the near future is mostly dependent on some external factors. Yet, the economy of Bangladesh needs to have enough spirit to keep it from being insulted by external shocks, a big challenge ahead for the country.



Infographic: Author Developed

Source: Bangladesh Bank

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