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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.



With respect to tackle the inflation of the country BIDS economists said, “The government should reduce demand through ensuring market-based interest and exchange rates as well as cutting allocation for infrastructure projects to rein in inflation and protect the foreign currency reserves.”

-BIDS, source: Dhaka Tribune (Published: June 13, 2023 3:43 PM)



Economy of Bangladesh

Key indicators at a glance

Countries	Nominal GDP (USD in billion)	Real GDP Growth (yearly % Change)	Inflation Point to point (as of May, '23)	Currency Appreciation/Depreciation against USD	Reserve (Billion US\$)	Currency Exchange Rates (per USD)
Bangladesh	426.85	6.03%	9.94%	-1.44%	29.87	108.19
Emerging Economies						
India	3,750.00	7.20%	5.20%	-1.15%	595.07	82.1
China	19,373.00	4.50%	0.20%	-2.23%	3184	7.25
Developed Economies						
USA	23,618.00	2.90%	4.05%	0%	243	1
UK	3,080.00	1.90%	8.70%	-1.27%	120.90	0.79

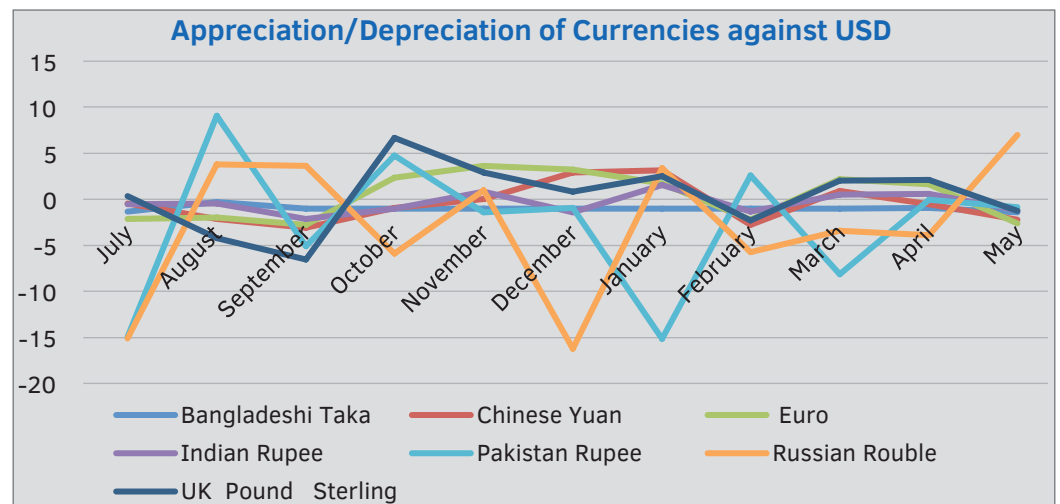


Figure 1: Appreciation or Depreciation of Different Currencies against USD

A visual tour of the key statistics

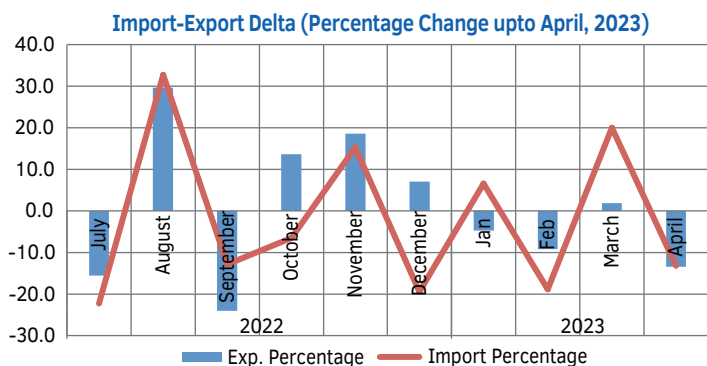


Figure 2: Import-Export Delta (Percentage Change up to April, 2023)

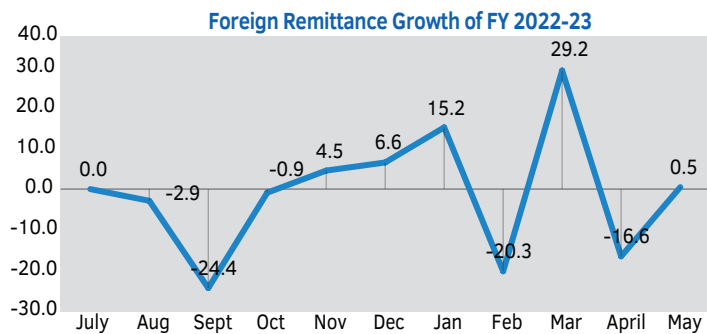


Figure 3: Foreign Remittance Growth of FY 2022-23

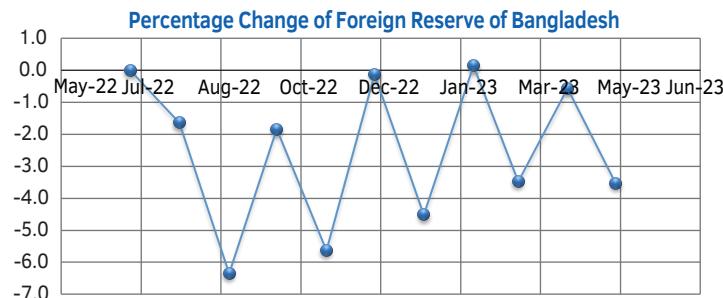


Figure 4: Percent Change of Foreign Reserve

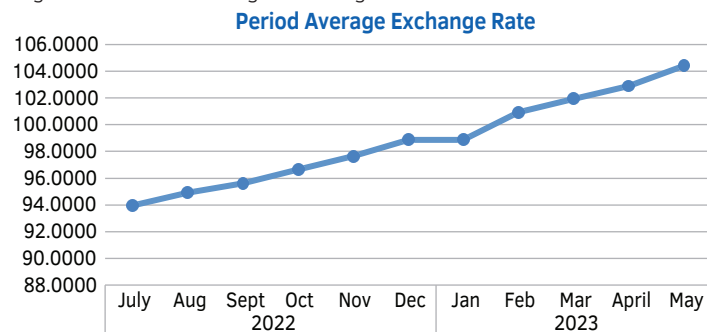


Figure 5: Period Average Exchange Rate of Bangladesh

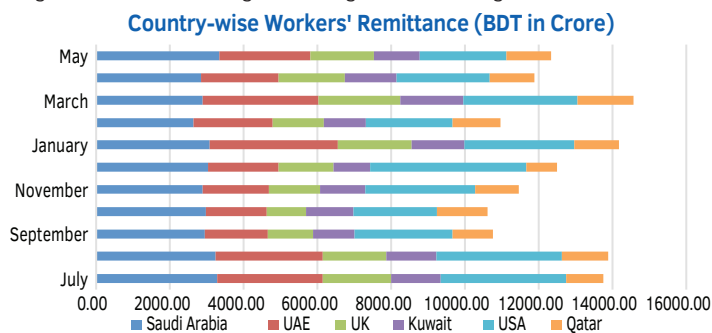


Figure 6: Country-wise Workers' Remittance

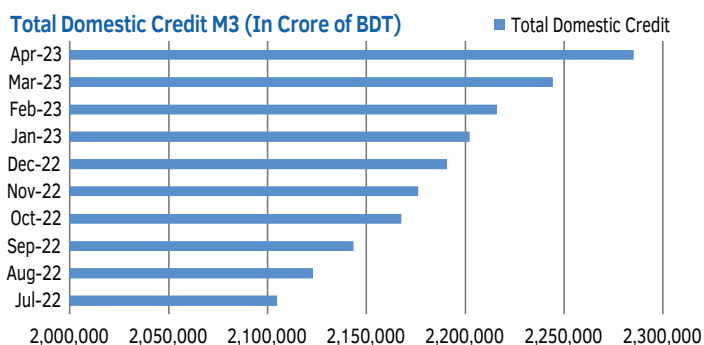


Figure 7: Total Domestic Credit

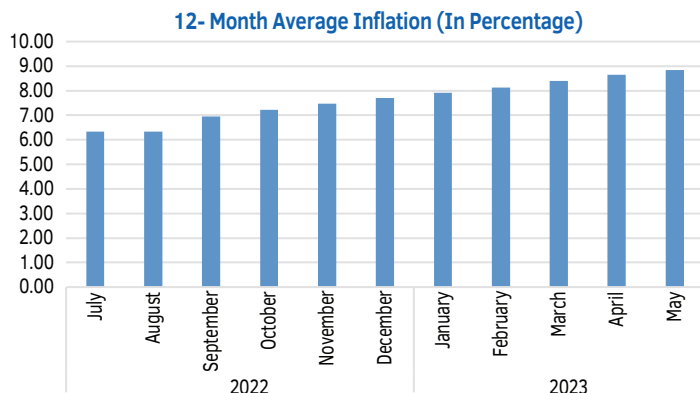


Figure 8: 12- Month Average Inflation (In Percentage)

Numbers to Note

1. BDT was found to be depreciating by 1.44% per USD while other big South Asian economies depreciated also against USD in this month.
2. Both export and import growths were negative which is alarming for price hike of necessary products.
3. Foreign remittance growth increased by 0.5% in May, 2023 comparing to April, 2023.
4. The reserve is now 29.87 billion US Dollar which is lower by nearly 1 billion than previous month.
5. The average monthly exchange rate is now 104.42 Taka per USD that represents continuous depreciation over the last few months.
6. The Debt to GDP percentage in 2023 is 38% which was 37.5% in the previous year.
7. The 12-month average inflation is 8.84%.

Economic Challenges Ahead

1. Bangladesh's foreign debts rose to \$82.85 billion as of the third quarter (January-March) of the current fiscal year 2022-23 as government borrowing increased year on year which is an alarming issue to address.
2. The falling export and import value is a big concern to maintain the price level and demand level regular.
3. The Debt to GDP ratio is forecasted to cross 40% which may become an alarming issue to address.
4. The Non-Performing Loans may shrink the scopes of improvement for the economy.
5. The rising inflation and increasing cost of commodities may turn on the switch of the economic depression in Bangladesh unless tackled properly.
6. Inflation and devaluation of Taka may slowdown manufacturing growth at a rapid rate.

[Data Source: Bangladesh Bank, IMF, WB & BBS]

Capital Market orchestrated downward movement losing 11 points in June '23



Capital Market

In June 2023, the market demonstrated a 0.18% decrease in the DSEX index compared to the previous month of May. The prices of the majority of issues remained unchanged

It is glaringly apparent by analyzing the capital market snapshot of June 2023 that the DSE market indices demonstrated a downward movement along with a positive trend in the last week of the month. The prices of the majority of issues increased compared to the previous month. Other indices have also increased compared to those of May except a downturn in high cap index. During June, on an average, only 128 issues advanced, 46 issues declined and the remaining 200 issues remained unchanged. 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 18-trading day denoted a positive change in the market throughout the month along an increase in the first and second week of the month.

The market lost points on maximum trading days of the month. Investment in the market decreased as total traded value decreased by 6.61% over the month and average trade volume also decreased by 13.84%. This month was quite significant for country's capital market as monetary policy and fiscal policy got promulgated. Country's foreign reserves rose to \$30 billion. Investment in the market decreased due to Eid-UI-Adha and uncertainty related to tax imposition on capital gain in recent budget. However, institutional and eligible investors inhibited their exposure to many stocks, causing many of the stocks to be at the floor price. The widening trade deficit, along with the free fall in foreign exchange reserves have created an inertia among investors to exhaustively return to the capital market. Overall 8 IPOs are in the pipeline to penetrate the market waiting for the approval from the BSEC. Analyzing the returns of the world's major indices it is apparent that major indexes of India, USA and Japan showed a positive return in June compared to that of Bangladesh and the UK. Among those, Japan's NIKKEI 225 index had a positive return of more than 6.5% greater than any other countries in comparison. In terms of global commodity future markets, except Natural Gas and Soybean every major commodity futures showed a negative trend. Natural gas gained a maximum value of 23.50% whereas Sugar and Cotton prices have decreased by more than 9% in the month of June.

The market PE ratio of the Dhaka Stock Exchange Limited this month was 21 on an average. Meghnalife was in the top position based on turnover; KBPPWBIL was the top gainer in terms of price with 58% increase over the month whereas NTC was the top loser. In terms of sector return, insurance sector, and textile sector, engineering sector and tannery sector performed well in this month. Aggregately, the average trade volume and the average trade value decreased by 13.8% and 6.61% respectively along with a 0.22% increase in the average market capitalization compared to the previous month. A piece of positive news this month for the economy of Bangladesh is that remittances increased compared to the previous month.

BSEC already has taken several actions to improve the market performance. Allowing general investors to buy treasury bonds using their BO accounts is scintillating new hopes for the market development. BSEC has signed MoU with UNDP (United Nations Development Program) and Hellenic Capital Market Commission (HCMC) to bring new opportunities to the capital market of Bangladesh. This kind of policy level assistance will ensure a vibrant capital market for the upcoming days

DSE Market Indices

Index Name	1-Jun-23	30-Jun-23	Change	% Change
DSEX	6,355.56	6,344.09	-11.47	-0.18%
DSES	1,379.57	1,377.00	-2.57	-0.19%
DS30	2,201.33	2,192.82	-8.51	-0.39%
CDESET	1,214.42	1,213.52	-0.9	-0.07%
DSMEX	1,184.62	1,290.98	106.36	8.98%
Scripts Movement (Monthly)	Advance		Decline	Unchanged
	128		46	200

Table 1: DSE Market Indices

Market Aggregates

	30 Jun 2023	31 May 2023	Change	% Change
Average Market Capital (TK Million)	7,710,571.40	7,693,261.79	17,309.61	0.22%
Average Traded Value (TK Million)	8,210.24	8,791.39	-581.15	-6.61%
Average Number of Trades	178,823.67	192,137.67	-13,314.00	-6.93%
Average Trade Volume	145,179,514.86	168,496,910.71	-23,317,395.86	-13.84%

Table 2: Market Aggregates

Sectorwise Contribution

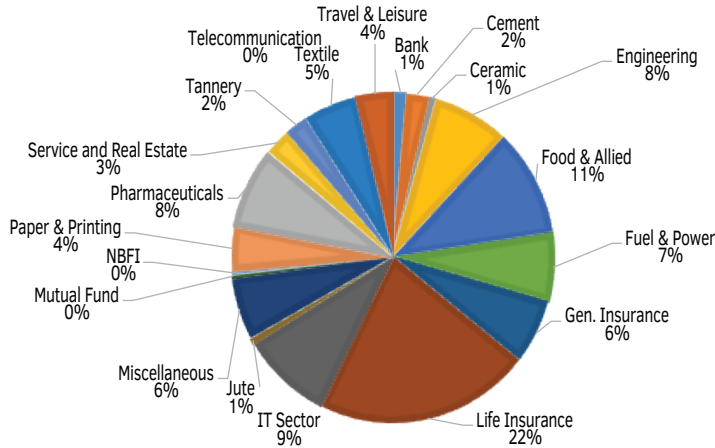


Figure 9: Sectorwise Contribution

Sector Return

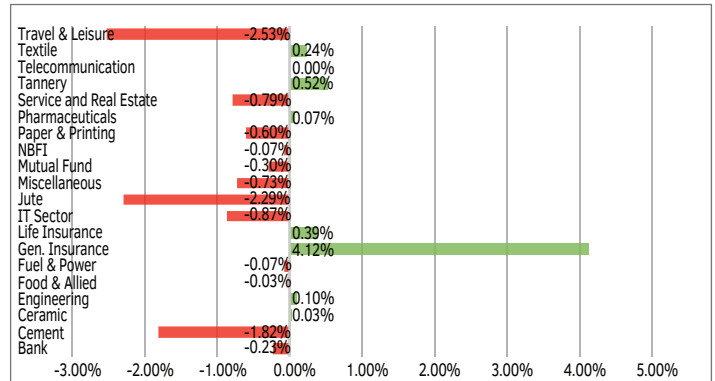


Figure 13: Sectoral Return

DSEX

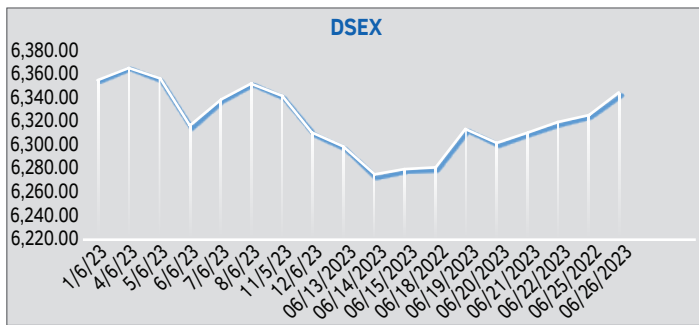


Figure 10: DSEX

AD ratio

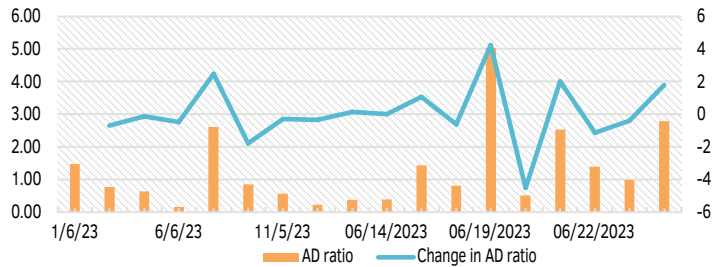


Figure 14: AD Ratio

DSES

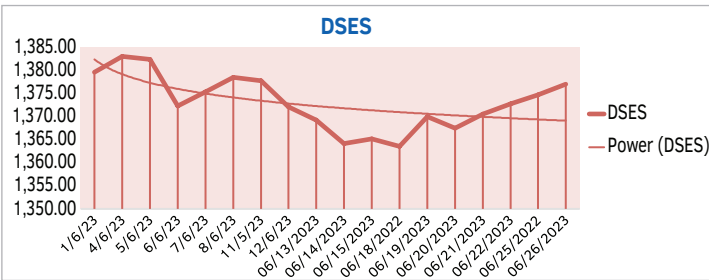


Figure 11: DSES

Performance comparison of World's Major Index

Country	Index Name	Return
India	BSESENSEX	2.38%
USA	DOWJONES	2.01%
Japan	Nikkei 225	6.57%
UK	FTSE 250	-2.20%
Bangladesh	DSEX	-0.18%

Table 3: Performance comparison of World's Major Index

Sectoral PE Ratio

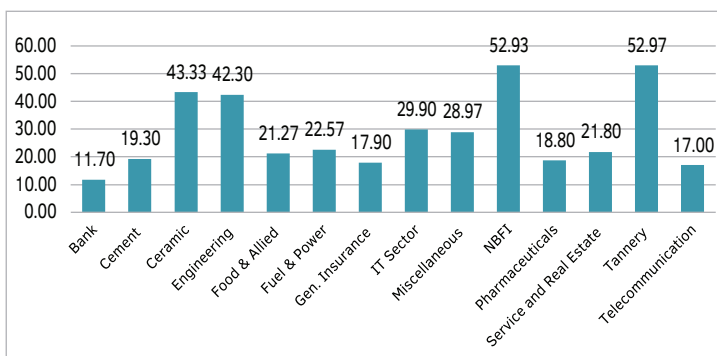


Figure 12: Sectoral PE Ratio

Performance comparison of DSE Major Index

Sl	Stock	Turnover	Total (%)	Sl	Stock	Return(%)	Sl	Stock	Return(%)
1	MEGHNALIFE	564.98	2.42%	1	KBPPWBIL	57.64%	1	NORTHERN	-29.02%
2	NAVANAPHARMA	426.18	38.10%	2	TILIL	52.54%	2	SHURWID	-17.71%
3	INTRACO	419.2	19.80%	3	QGBALLPEN	42.38%	3	PRAGATILIF	-10.11%
4	RUPALILIFE	355.6	114.00%	4	IMAMBUTTON	36.15%	4	PARAMOUNT	-17.39%
5	SEAPEARL	313.78	5.50%	5	KPPL	32.32%	5	CVOPRL	-14.75%

Table 4: Performance comparison of DSE Major Index

Deposits in banks continue to grow in the first four months of 2023 as commercial banks raised their deposit rates following the removal of constraints on deposits by central bank as well as improvement of confidence on banking sector



Money Market

Total deposits increased by about 8.54 percent year over year as of April 2023, with demand deposits and time deposits growing by 11.05 and 8.21 percent, respectively.

Bank credits overall have climbed by 8.77 percent annually. While bank investments declined by 3.38 YoY, bank advances and bills both climbed by 12.18 and 5.80 percentage points. [Table-5]

Scheduled Banks' Deposits and Credits

Deposits held in DMBs (Taka in Million)					
Items	Apr, 2023	Mar, 2022	Apr, 2022	Percentage Changes	
				Apr, 2023 over Mar, 2022	Apr 2023 over Apr, 2022
Demand Deposits	1842878	1798886	1659491	2.45	11.05
Time Deposits	13639106	13434075	12604351	1.53	8.21
Total	15481984	15232961	14263842	1.63	8.54

Banks' Credits (Taka in Million)					
Items	Apr, 2023	Mar, 2022	Apr, 2022	Percentage Changes	
				Apr, 2023 over Mar, 2022	Apr 2023 over Apr, 2022
Advances	14353131	14287371	12794594	0.46	12.18
Bills (Import & Inland Bills)	387489	362755	366239	6.82	5.8
Investments	3389820	3347992	3508288	1.25	-3.38
Total	18130440	17998118	16669121	0.74	8.77

Table 5: Scheduled Banks' Deposits and Credits

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

Table 5: Deposits held in DMBs and Bank Credit

In contrast to May, call money rates in June showed an upward slope, with a monthly average of 6.07 percent. [Figure-15]. Nominal rates for Loan and deposit have raised marginally upward to 7.29 and 4.28 percentage points, respectively. [Figure-16]

Call Money Rate of June '23 (%)

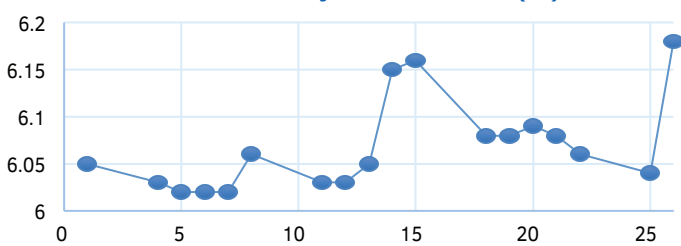


Figure 15: Call Money Rate of June '23

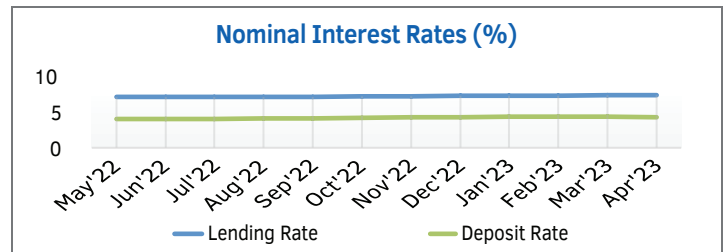


Figure 16: Nominal Interest Rates

Both cost of funds and adjusted cost of funds remained high and stroked at 6.84 and 7.79 percentage as of March 2023. [Figure-17]. Government borrowing from banking sector stood at 92,288 crores up to 11 months of FY23, which is 82.68% of its target. Target set for FY24 is around 1,32,395 crores. [Figure-18]

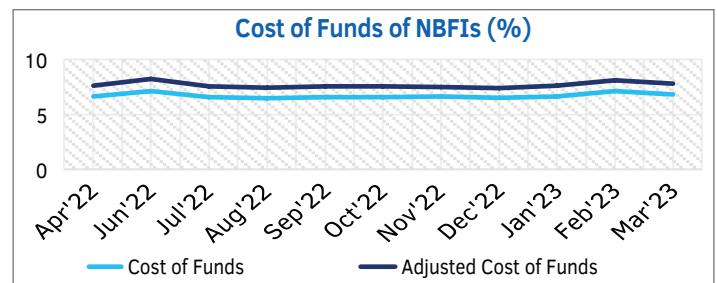


Figure 17: Cost of Funds of NBFIs (%)

Govt. Borrowing from Banking Sector (In Crore)

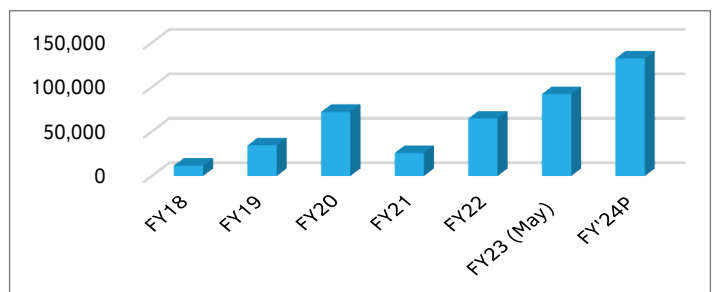


Figure 18: Govt. Borrowing

As of May 2023, private sector credit growth remained sluggish and stood at 11.10 percent. [Figure-19].

Private Sector Credit Growth (%)



Figure 19: Private Sector Credit Growth

As of June 2023, the yields on T-Bills with terms of 91, 181 and 364 days were 6.95, 7.25 and 8.30 percent respectively. [Figure-20]. The yields on the 2, 5, 10, 15 and 20 year T-Bonds hit 8.15, 8.75, 8.60, 8.65 and 8.80 percent respectively. [Figure-21].

Yield on T-bills (%)

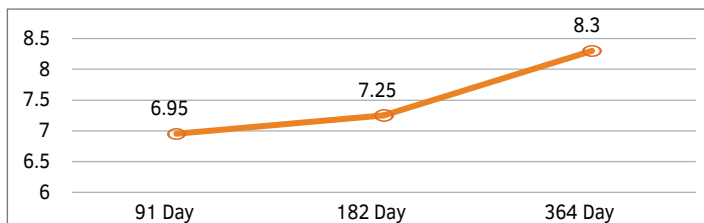


Figure 20: Yields on T-Bills

Yield on T-bonds (%)

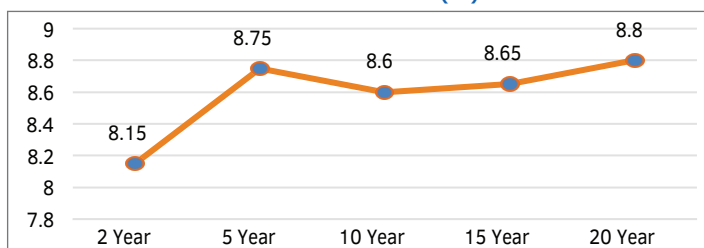


Figure 21: Yields on T-Bonds

Trends in Financial Inclusion and Digital Finance Statistics

As of April 2023, there were around 6.89 million internet banking subscribers, which is an increase of around 34 percent YoY growth. [Figure-22]. The number of MFS users remained buoyant and reached at around 200.69 million as of April 2023, which is around 14.18% YoY growth. [Figure-23].

Number of Internet Banking Users (in Million)

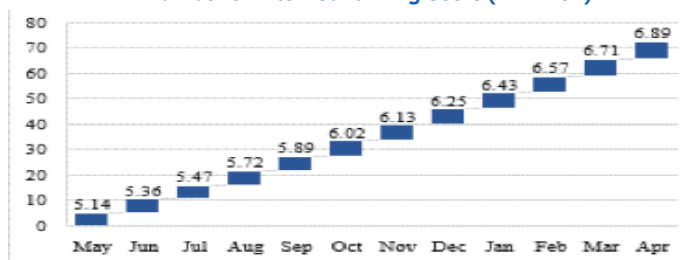


Figure 22: Number of Internet Banking Users

Number of MFS Accounts (In Million)

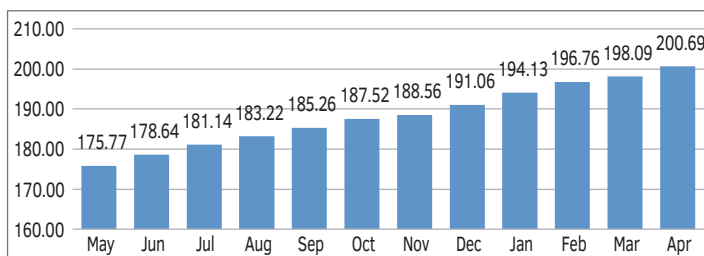


Figure 23: Number of MFS Accounts

If we consider the amount of transactions through agent banking, a significant number has been accessed by rural people. [Figure-24]. In using the modern banking gateways, around 68%, 11%, 12% and 9% transactions take place through ATMs, POS, CRM, and E-commerce respectively. [Figure-25]

Amount of Transactions

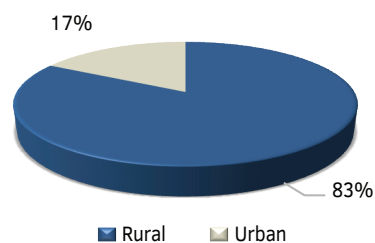


Figure 24: Number of Transactions through Agent Banking

Transactions through Gateways

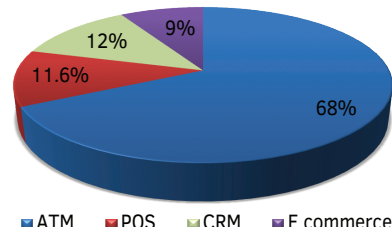


Figure 25: Transactions through Gateways

Key Takeaways

- > Deposits in banks continue to grow in the first four months of 2023 as commercial banks raised their deposit rates following the removal of constraints on deposits by central bank as well as improvement of confidence on banking sector.
- > Call money rate in June continues to remain above 6 percentage which signals tight liquidity condition in the sector.
- > Nominal interest rates for both deposit and lending remained upward. In addition, the removal of lending rates ceiling from July may shoot the rates upward in coming days.
- > The rising cost of financing is having a substantial negative impact on the profit margins of non-bank financial institutions (NBFIs). The rising NPL in the industry has also increased the cost of borrowing money. Furthermore, the removal of the deposit floor rate has encouraged banks to offer high rates to depositors, which has led many institutional depositors to lodge their money there rather than with NBFIs.
- > Following the sloth in revenue mobilization, reliance on bank borrowing by government continues to grow in the last part of FY23. Government has borrowed nearly 13,015 crores from scheduled banks and paid around 2,783 crores to central bank.
- > Due to weak credit demand caused by the current economic slowdown, private sector loan growth fell to a 15-month low of 11.10%. The fifth consecutive month of drop was attributed to the business community's persistent position of caution due to numerous uncertainties on both domestic and international level.
- > The number of internet banking customers and transactions are growing even though the pandemic situation has improved and the economy is fully functional. Due to the pandemic-related travel restrictions that compelled people to conduct all of their banking and shopping online, the number of internet banking customers has doubled, and transactions have tripled over the past two years.
- > The expansion of this industry remained brisk in terms of both opening accounts and carrying out transactions as a result of financial inclusion and the rapid adaption of mobile financial services by the mass population.
- > As per statistics, it can be rightfully inferred that agent banking has been playing a pivotal role in bringing the marginal people under banking arena.

Source: Bangladesh Bank Website

POS: Point of Sale

ATM: Automated Teller Machine

MFS: Mobile Financial Service

CRM: Cash Recycling Machine

YoY: Year on Year



Md. Adnan Ahmed

Reflecting on Monetary Policy

A contractionary policy stance for H1FY24



The implementation of a contractionary monetary policy, characterized by its inclination towards fiscal restraint and tight monetary control, is an instrumental strategy employed by central bank to curtail inflationary pressures and stabilize an overheating economy. In parallel with global economy, Bangladesh Bank (BB), central bank of the country, has followed the same suit, depicted in the monetary policy for first half of fiscal year 2023-24 (H1FY24).

Taking into account several difficulties such as rising inflationary pressure, currency rate pressure, and rapid loss of foreign exchange reserves, BB adopted a contractionary monetary policy stance along with specific policy actions.

Flashback of Monetary Policy for H2FY23

With the objectives of mitigating inflationary pressure, addressing exchange rate pressure, ensuring stability and supporting economic growth, BB devised such policy for the second half of fiscal year 2022-23 (H2FY23) to achieve the real GDP target of 6.50 percent while keeping inflation within 7.50 percent. The following infographic vignettes the performance of key indicators for H2FY23, based on the policy support taken then. To combat the inflationary pressure, repo and reverse repo rate were uplifted by 25 basis points to 6.00 percent and 4.25% respectively. In response to increasing pressure on exchange rates, a number of policy actions were adopted to encourage foreign exchange inflows while limiting foreign exchange outflows. BB has allowed to depreciate BDT by 13 percent by injecting USD 12.62 billion during July and May of FY23.

Export & Import: Export being an indicator of external demand, grew by 7.11 percent resulting from prevailing global economic turmoil and uncertainties. Owing to a number of restrictions on imports, the indicator grew negatively by 14.44 percent.

Private Sector Credit Growth: Private sector credit growth remained low compared to its target, owing to tight liquidity in banking sector as well as low demand from borrowers' end.

Public Sector Credit Growth: Public sector credit growth remained buoyant owing to a number of government mega projects thus depending on borrowing from banking sector.

Inflation: Inflation remained dominant in H2FY23 mainly from increase in domestic commodity price.

Broad Money Growth (M2): Broad money growth, being a demand influencing factor, remained below the program 10.50 percent in H2FY23.

Reserve Money Growth: Reserve money accounted for below programmed path of 10 percent, primarily resulting from

significant decrease in net domestic assets which further mitigated by the liquidity support from BB.

Performance of Key Indicators for H2FY23

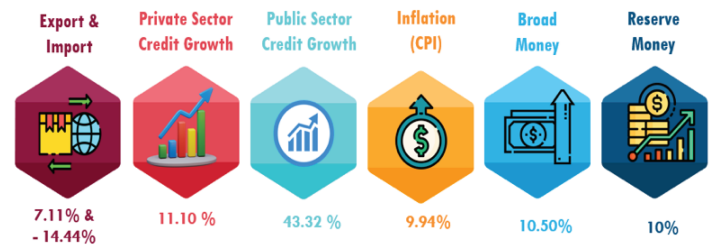


Figure 26: Performance of Key Indicators for H2FY23

[Source: Bangladesh Bank, Infographic: Author Developed]

Global Outlook

The following table highlights the global outlook about the economic growth where world economy has been projected to grow by 2.8 and 3.0 percent in 2023 and 2024 respectively. Emerging market and developing economies will grow more than advanced economies where Bangladesh is projected to grow by 5.5 and 6.5 percent in 2023 and 2024 respectively.

Region	Growth (%)			
	Actual		Projection	
	2021	2022	2023	2024
World	6.3	3.4	2.8	3.0
Advanced Economies	5.4	2.7	1.3	1.4
USA	5.9	2.1	1.6	1.1
Euro Area	5.4	3.5	0.8	1.4
Other Advanced Economies	5.4	2.6	1.8	2.2
Emerging market and Developing Economies	6.9	4.0	3.9	4.2
China	8.5	3.0	5.2	4.5
India	9.1	6.8	5.9	6.3
Bangladesh	6.9	7.1	5.5	6.5
Pakistan	5.7	6.0	0.5	3.5
Sri Lanka	3.3	-8.7	-3.1	1.5
Indonesia	3.7	5.3	5.0	5.1
Vietnam	2.6	8.0	5.8	6.9

[Source: World Economic Outlook, April 2023, International Monetary Fund]

- > The Asia-Pacific region, which accounts for 70% of global growth, has shown remarkable endurance and vibrancy as a result of the new energy brought on by China's reopening and rising external demand.
- > Since mid-2022, global headline inflation has been gradually reducing, primarily as a result of declining fuel and energy prices. Inflation in advanced economies is predicted to decline

from 7.3 percent in 2022 to 4.7 percent in 2023 as a result of falling commodity prices and global monetary tightening by the majority of advanced countries. On the other hand, developing and emerging market economies may continue to see higher inflation rates, with a potential 8.6% inflation rate in 2023.

- > Most of the developed and developing countries' long-term interest rates have been rising. This indicates investors' worries about ongoing inflation despite tight monetary policies from central banks.
- > Trade restrictions and USD strengthening would cause a fall in global trade volume to 2.4 percent in 2023 from 5.1 percent in 2022. The cost of traded goods increased as the USD gained strength for other countries. Consequently, trade growth in 2023 will be lower.

Looking Forward and Possible Implications of Changes: Monetary Policy Stance for H1FY24

BB will adopt a contractionary policy for the first half of fiscal year 2023-24, thus making a transition from a monetary targeting to an interest rate targeting framework. The policy focuses the following:

- > To contain inflation
- > To improve current account balance
- > To reduce exchange rate volatility
- > To protect foreign exchange reserves
- > To stabilize the financial sector

Lending Facility (SLF) or Special Repo Rate at 8.50 percent. The reverse repo which has been renamed to Standing Deposit Facility has been set at 4.50 percent. An increase in overall rates will increase cost of borrowing. However, this has aimed to keep the interbank call money rate within lower and upper band.

- > BB projects FY23 will end with USD -4.0 bn current account balance and aims at -2.7 bn for FY24. In addition, central bank expects overall balance to be USD 1.5 bn in FY24.
- > BB will introduce a unified and market-driven exchange rate from July 01, 2023 by eliminating multiple rates. This move will stabilize the forex market.
- > As per International Monetary Fund (IMF) condition, BB will calculate and publish Gross International Reserves (GIR) in accordance with IMF's Balance of Payments and International Investment Position Manual (BPM6). This would help to manage the forex more efficiently with greater transparency.
- > BB has projected the private sector credit growth rate for FY'24 at 11.0%, in line with its supply-side actions to encourage the necessary investment and job creation for targeted GDP development.
- > BB has aligned with Government's budgetary target of GDP around 7.5% and set target for inflation at 6.0%. The ongoing economic slowdown as well as global turmoil may pose a great challenge in achieving the target.

Impact on Capital Market

The removal of lending cap for both banks and NBFIs will positively affect the profitability of the financial institutions. This will enhance the capital market as well. Listed companies which are export oriented will be positively impacted, owing to high conversion rate for foreign currency. On the contrary, listed companies which rely on imported raw materials will face high cost of production owing to high price of dollar. BB has also acknowledged the importance of capital market in long-term economic development as well as emphasized bond market development in its recent monetary policy. This may create an effective coordination among the regulators, needed for the financial markets of the country.

The macroeconomic outlook of the country is expected to be stable yet rising inflation and continuous pressure on forex reserve may pose challenges. This may also create a challenging situation to attain GDP growth, keeping the inflation at targeted level. Acknowledging these challenges, the recent MPS prioritizes containment of inflation and promoting exchange rate stability to attain the MPS's goals.

[Source: Monetary Policy Statement H1FY24, Bangladesh Bank]

MPS H1FY24 Highlights		
Indicators	Existing	Target
Interest Rates	Lending Cap except Credit Card	Removal of lending rate and introducing market-based interest rates
Credit Growth	Domestic 16.40% Private Sector 11.00% Public Sector 40.00%	Domestic 16.90% Private Sector 10.90% Public Sector 43.00%
Money Flow	Reserve Money 10.00% Broad Money 10.50%	Reserve Money 6.00% Broad Money 9.50%
Inflation Target	7.50%	6.00%
Policy Rates	Repo 6.00% Reverse Repo 4.25%	Repo 6.50% Reverse Repo 4.50%
Current A/C	-4.0 Billion [Revised Estimate FY23]	-2.7 Billion
Overall Balance	-\$7 Billion [Revised Estimate FY23]	1.5 Billion

Figure 27: MPS H1FY24 Highlights
[Source: Bangladesh Bank, Infographic: Author Developed]

- > BB will lift the lending rate cap from July 01, 2023 and introduce market-based lending rate. Thus, there will be a base rate titled by SMART (Six-month Moving Average Rate of Treasury Bills) plus a market on up to 3.0% for banks and 5.0% for NBFIs. However, an additional 1% will be imposed for CMSMEs and consumer loans whereas there is no limit for credit card loans.
- > The high public sector credit growth which is 43 percent for December, 2023 and 30 percent for June 2024 may pose crowding out situation in banking sector.
- > The foremost policy measures that BB has taken is to increase the policy rate by 50 basis points (bps) to 6.50 percent along with a corridor of ±200 bps including Standing

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