



Date: May 8th, 2024

Minutes of the 3rd meeting of Monetary Policy Committee (MPC)

The third meeting of the Monetary Policy Committee (MPC) in FY24 was held on the May 08th, 2024 presided over by the Governor of Bangladesh Bank. The other members of the committee – Dr. Md. Habibur Rahman, Deputy Governor, Bangladesh Bank; Dr. Sadiq Ahmed, economist; Dr. Binayak Sen, Director General, Bangladesh Institute of Development Studies (BIDS); and Dr. Md. Ezazul Islam, Executive Director, Bangladesh Bank were present in the meeting. Kazi Sayedur Rahman, Deputy Governor was also present.

2. The MPC reviewed the current macroeconomic situation, challenges, and outlook from both domestic and global perspectives. Specially, the MPC reviewed the current inflation dynamics and outlook, monetary aggregate and liquidity situation in the banking system, interest rate corridor and interest rate transmission mechanism, external sector pressure and exchange rate developments. After reviewing the mentioned issues in detail, the MPC noted that the Bangladesh economy faced two critical challenges: persistently high inflation and depleting foreign exchange reserves. Although BB and the government have taken various measures to curb inflation, stabilize the exchange rate, and protect the erosion of foreign exchange reserves, inflation remains stubbornly high and the foreign exchange reserve situation is not improving to the desired level. The MPC was appraised of the proposed new exchange rate regime of a crawling peg system to provide flexibility to the exchange rate. The MPC was also informed about the proposal to replace the current interest rates SMART based lending rates with a market based interest policy in order to increase the effectiveness of monetary policy.

3. After a comprehensive discussion and review, the following resolutions were made with the aim of reducing inflation and building up foreign exchange reserves.

4. Resolutions

- (1) In order to bring more flexibility in the foreign exchange market, Bangladesh Bank has decided to introduce a crawling peg system for buying and selling of foreign currencies. Under the new system, a Crawling Peg Mid-Rate (CPMR) is set at Taka 117.00 per USD. BB will keep the new regime in review and will adjust the parameters of the regime as needed. The crawling peg system will be an interim arrangement before moving to a fully flexible market based system in the near future.
- (2) To anchor inflation expectations at the desired level, the policy rate will be increased by 50 basis points to 8.50 percent from 8.00 percent. Additionally, the Standing Lending Facility (SLF) rate will be increased by 50 basis points to 10.00 percent from 9.50 percent, and the Standing Deposit Facility (SDF) rate will be increased by 50 basis points to 7.00 percent from 6.50 percent, maintaining the policy rate corridor ± 150 basis points accordingly.
- (3) To move towards a market based interest rate, the existing reference rate SMART for determining the lending rates of banks/NBFIs is hereby abolished. Banks and NBFIs can set the interest rates based on the interaction of demand and supply in the market as well as the banker-customer relationship.

5. The above decisions will be effective immediately. The monetary contractionary measures will be continued until the inflation target is achieved.

Sd/-

(Abdur Rouf Talukder)
Governor
Bangladesh bank