



Bangladesh Bank

Head Office
Motijheel, Dhaka
Bangladesh

Monetary Policy Department

Date: 18 July, 2024

Minutes for the 4th meeting of Monetary Policy Committee (MPC)

01. The fourth meeting of the Monetary Policy Committee (MPC) in FY25 was held on the July 14th, 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 at the meeting. Kazi Sayedur Rahman, Deputy Governor, Bangladesh Bank and Mahmud Salahuddin Naser, Director, Monetary Policy Department, member secretary of MPC were also present.

02. The MPC assessed the current macroeconomic situation, challenges, and outlook from domestic and global perspectives. The global economic outlook for 2024 and 2025 is optimistic, with major economies avoiding severe downturns and reducing inflation without increasing unemployment. Headline CPI inflation is expected to align with central bank targets, barring significant shocks in food and energy prices. However, geopolitical tensions and potential supply chain disruptions remain concerns. As global inflation continues to fall, many central banks are anticipated to lower policy rates this year.

03. Domestically, the current trends in inflation, monetary aggregates, liquidity, interest rates, foreign exchange reserves, and exchange rate developments were reviewed following three major recent policy decisions: the introduction of a crawling peg system with a market-driven mid-rate, the removal of the interest rate cap under SMART, and the increase in policy rates. The MPC noted that Bangladesh's economy has begun to respond to these policies. While the upward trend in inflation has moderated recently, it remains stubbornly high owing to food price inflation. The crawling peg system has stabilized the exchange rate and contributed to building foreign exchange reserves. Amid tight liquidity conditions, all interest rates—including those in the money market, deposits, lending, and yields on Treasury bills and bonds—have increased substantially, indicating effective policy transmission. Most monetary aggregates have followed the projected paths. After careful review, the MPC concluded that the current monetary policy tightening stance should be maintained until inflation reaches a tolerable level.

04. Inflation control remains a top priority for Bangladesh Bank (BB). BB has maintained a contractionary monetary policy for almost a year, significantly increasing the policy rate and avoiding new high-powered money issuance for government spending. BB has also instructed banks to maintain minimum cash margins on import L/Cs for essential, high-demand products. Despite some moderation, CPI inflation remained above 9 percent throughout H2FY24. However, coordinated policy initiatives and global commodity price temperance are expected to continue reducing CPI inflation in the coming months. BB aims to bring down inflation to or around 6.5 percent at the end of FY25. The MPC also

recommended that BB should enhance credit support to agriculture and CMSMEs for augmenting production.

05. The MPC discussed the recent revision in the export data. BB officials explained that this affects data for the last three years FY22-FY24. The revisions suggest that exports have been falling over the past three years. The estimated total exports for FY2024 is likely to be around \$42 billion, which is \$10 billion less than the figure reported by EPB based on NBR customs data. The MPC recommended that BB staff should prepare a policy note on this and other areas of interest related to the transmission of monetary policy (growth of the bond market) and mobilization of foreign currency inflows and put them on the BB website for wider dissemination. The MPC also requested a research paper on the underlying factors contributing to higher food price inflation.

Resolution

On the basis of an assessment of the current and evolving macroeconomic situation, the MPC decided to:

- a) Keep the policy rate unchanged at 8.50 percent. Accordingly, the SDF and SLF rates also remain unchanged at 7.0 percent and 10.0 percent respectively;
- b) monitor the functioning of the crawling peg system with a view to maintaining its flexibility. BB plans to continuously review and adjust the parameters of this regime as needed, paving the way for a fully flexible, market-based system in the near future;
- c) pursue quantitative tightening measures through efficient liquidity management for containing inflation; In this regard, ensure that the credit growth targets for FY25 are consistent with the inflation reduction target and coordinate with the Ministry of Finance on the consistency of fiscal deficit and bank financing targets for FY25 with this total credit growth target;
- d) continue comprehensive credit support to agriculture and CMSMEs along with the low-cost of extending refinancing and pre-financing facilities to enhance production.

Sd/-

(Abdur Rouf Talukder)
Governor
Bangladesh bank