

Money and Credit

Performance of Monetary and Credit Policy in FY21

4.01 The monetary policy stance and monetary programme of Bangladesh Bank for FY21 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 packages for boosting the production capacity of the economy in restoring normal livelihoods of the people. The monetary policy stance was essentially expansionary and accommodative for all growth supportive needs with the target of keeping inflation at 5.4 percent as well as attaining GDP growth rate initially at 8.2 percent for FY21. Due to the prolonged COVID-19, the revival of the economic activities in Bangladesh was less than expected. Accordingly, the growth target of real GDP was revised down to 7.4 percent in January 2021, keeping the inflation target unchanged.

4.02 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. Annual average CPI inflation edged down to 5.56 percent in FY21 from 5.65 percent of previous fiscal year, remained slightly above the target of 5.40 percent. Among the components of general inflation, the prices of food items specially the edible oil, spices, sugar, wheat and rice and among the non-food items, an unusual surge of transportation and communication costs and furniture, furnishing, household equipments and operation were

Table 4.01 Programme and Actual Developments of Monetary and Credit

Particulars	(In billion BDT)		
	End June 2020	End June 2021	
	Actual	Programme	Actual ^P
1. Net foreign assets	2999.1 (10.2)	3601.9 (20.1)	3822.4 (27.5)
2. Net domestic assets (a+b)	10732.0 (13.4)	12188.9 (13.6)	11777.2 (9.7)
a) Domestic credit (i+ii)	12943.0 (13.7)	15192.0 (17.4)	14278.9 (10.3)
i) Credit to the public sector ¹	1970.4 (53.4)	2595.4 (31.7)	2388.3 (21.2)
ii) Credit to private sector	10972.7 (8.6)	12596.6 (14.8)	11890.6 (8.4)
b) Other items (net)	-2211.0	-3003.1	-2501.8
3. Narrow money (i+ii)	3276.4 (20.2)	-	3750.3 (14.5)
i) Currency outside banks	1921.1 (24.5)	-	2095.2 (9.1)
ii) Demand deposits ²	1355.3 (14.6)	-	1655.1 (22.1)
4. Time deposits	10454.7 (10.5)	-	11849.2 (13.3)
5. Broad money (1+2) or (3+4)	13731.1 (12.7)	15790.8 (15.0)	15599.5 (13.6)

Note: Figures in the parentheses indicate y-o-y percentage changes.

¹ This includes net credit to government and government lending fund has been treated as deposit in calculating claims on government (net).

² Demand deposits of monetary authority are excluded.

^P Provisional

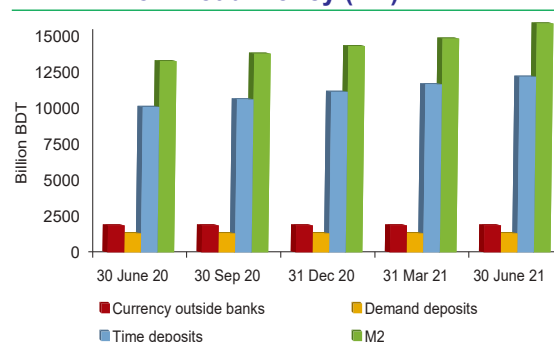
Source: Monetary Policy Department, Bangladesh Bank.

highly responsible for this marginal disenchantment of general inflation relative to target ceiling. The real GDP growth stood at 6.94 percent for FY21 which was significantly higher than previous year's growth of 3.45 percent. The real GDP growth increased in FY21 due mainly to the healthy growth performances in agricultural and industrial sectors aided by the government and Bangladesh Bank's growth supportive unprecedented policy measures.

4.03 Despite some recurrent shocks of COVID-19, the overall BoP witnessed a healthy surplus of USD 9.3 billion in FY21 as compared

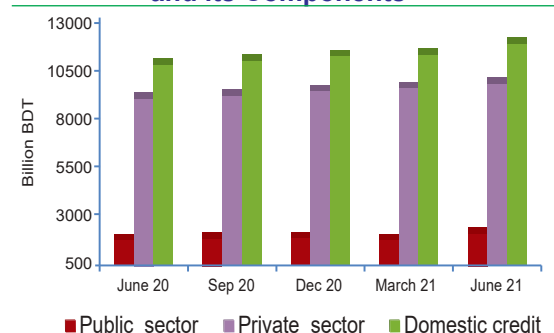
with USD 3.2 billion in FY20, supported by a significant inflow in financial accounts along with a relatively small current account deficit. The current account deficit reduced to USD 4.6 billion in FY21 from USD 5.4 billion in FY20, mainly because of outstanding growth of inward remittances and a robust growth of export earnings. Based on a sizeable BoP surplus, the NFA growth (27.5 percent) kept overshooting relative to the programmed ceiling of 20.1 percent, while the growth of NDA stood at 9.7 percent against the programmed growth of 13.6 percent due to less credit demand from both the public and private sectors as reflected in June 2021 data. The growth of reserve money (22.4 percent) remained much higher than the programmed ceiling of 13.5 percent set for end June 2021 due to purchase of huge volume of foreign currency from the market, ample supply of refinance and various stimulus packages for keeping momentum in economic activities. On the other hand, the growth of broad money (13.6 percent) remained beneath the target of 15.0 percent for June 2021 caused by economic slowdown, lack of business confidence and increased bank reserves in the ongoing COVID-19 pandemic situation. The growth of public sector credit including net credit to government was significantly lower than the programme ceiling throughout FY21, mainly because of larger than planned sales of national saving certificates. The private sector credit experienced 8.4 percent annual growth in June 2021 against the programmed growth of 14.8 percent set for June 2021 due to banks' adherence towards quality lending as well as the continuation of Coronavirus outbreak alongwith the severe impact of its second wave from mid-March 2021.

Chart 4.01 Movements in the Components of Broad Money (M2)



Source: Monetary Policy Department, Bangladesh Bank.

Chart 4.02 Movements in Domestic Credit and its Components



Source: Monetary Policy Department, Bangladesh Bank.

4.04 Following the expansionary and accommodative stance, Bangladesh Bank undertook a range of investment and employment enhancing policy measures throughout FY21, which include relaxations of various policy interest rates and purchasing extra government securities from the banks holding for maintaining their long-term liquidity need, the introduction of various low cost refinance schemes, allowing moratorium facilities and extended time for realising export receipts and import payments, and introduction of a new credit guarantee scheme for making easy access to credit at a lower cost by the CMSMEs. Supported by larger inflows from remittances and significant amount of surplus in financial account balance

in BoP emerged from medium and long term loans, foreign exchange reserve reached a record high of USD 46.39 billion at the end of June 2021. The government's 2.0 percent cash incentive programme and BB's initiatives of easing money transfer process along with the policy of stabilising BDT against USD played pivotal role in augmenting remittance inflows (36.1 percent growth) in FY21. Since the emergence of the COVID-19 outbreak, Bangladesh Bank has been actively providing necessary policy supports to mitigate its adverse economic impact and to revive normalcy in all sectors of the economy. BB's noteworthy initiatives in support of access to finance and enhancing production and employment in agriculture and CMSMEs were reducing 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, providing loans to the fisheries and livestock sectors and implementing of a credit guarantee scheme of BDT 20 billion for CMSMEs and so on. BB's policy measures included reduction of CRR and repo rate along with enhancement of tenor of the term repo and refinance facilities to banks with timely intervention in the foreign exchange market helped maintain stability in both the interbank call money and foreign exchange markets, though BDT against USD marginally depreciated by 0.04 percent in FY21. The comfortable amount of foreign exchange reserve as well as stability in the exchange rate is now instilling the confidence of foreign investors on the strength and stability of the growing Bangladesh economy.

Table 4.02 Programmed and Actual Growth of Reserve Money and Its Components

Particulars	(In billion BDT)		
	End June 2020	End June 2021	
	Actual	Programme	Actual ^P
Net foreign assets ¹ ®	2697.3	-	3549.7
Net foreign assets ² ®	2723.1	3304.6	3550.3
Net domestic assets ¹	141.3	-	-74.9
Net domestic assets ²	115.6	-82.8	-75.4
Domestic credit	498.3	256.3	475.3
	(48.7)	(-48.6)	(-4.6)
Credit to the public sector ³	430.4	180.4	286.5
	(52.9)	(-58.1)	(-33.4)
Credit to deposit money banks ⁴	67.9	75.9	188.7
	(27.0)	(11.8)	(177.9)
Other items (net)	-382.8	-339.1	-550.7
Reserve money	2838.6	3221.8	3474.9
	(15.7)	(13.5)	(22.4)
Currency issued	2080.9	2437.3	2268.9
	(22.1)	(17.1)	(9.0)
Deposits of banks with BB ⁵	757.7	784.5	1206.0
	(1.00)	(3.5)	(59.2)
Money multiplier	4.84	4.90	4.49

Note: Figures in the parentheses indicate y-o-y percentage changes.

® Excluding foreign currency clearing account balance and offshore bank account.

¹ Calculated using end of period exchange rates.

² Calculated using constant exchange rates of end June 2019.

³ Govt. lending fund is treated as deposit in calculating net credit to Govt.

⁴ Considers only loans and advances to DMBs.

⁵ Excluding foreign currency clearing account balance and non-bank deposits.

^P Provisional

Source: Monetary Policy Department and Statistics Department, Bangladesh Bank.

Money and Credit Situation

4.05 To support the growth supportive monetary policy stance and to attain the inflation target, the growth of major anchor variables of the monetary and credit policy and programme including broad money (M2), reserve money and domestic credit were programmed to be within 15.0 percent, 13.5 percent and 17.4 percent respectively in FY21. Broad money grew by 13.6 percent against the target ceiling mentioned above. Although actual NFA growth outpaced the programme path, NDA remained below the programmed level. NDA growth stood much lower at 9.7

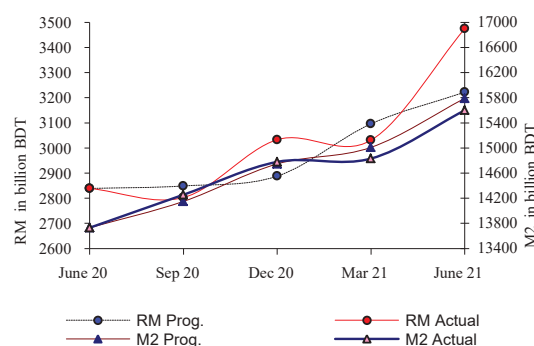
percent than that of 13.4 percent of the previous year and also 13.6 percent of programmed growth due mainly to slow growth of credit to both public and private sectors. Private sector credit grew by 8.4 percent against the targeted growth of 14.8 percent in FY21. The public sector credit including net credit to the government grew by 21.2 percent against the programmed growth of 31.7 percent due mainly to larger than planned government borrowing (net) from the non-banking system, particularly from the national saving certificates. However, domestic credit grew moderately by 10.3 percent against the targeted 17.4 percent in FY21. The monetary and credit programme vis-à-vis their actual outcome and development of the major components of broad money are presented in Table 4.01 and Chart 4.01 respectively.

Reserve Money Developments

4.06 Bangladesh Bank uses reserve money (RM) as an operating target to modulate liquidity consistent with the overall monetary projection as well as keeping broad money (M2) in line with the programme path to attain price stability. Bangladesh Bank's own instruments along with government's treasury bills and bonds are used to track RM for maintaining M2 growth within the projected level.

4.07 In line with the projected broad money growth, monetary programme was set to 13.50 percent growth of RM for FY21 while actual growth stood at 22.4 percent. Actual growth of reserve money surpassed the target level due mainly to increase in net foreign assets (NFA). The NFA of Bangladesh Bank increased by BDT 827.2 billion and stood at BDT 3550.3 billion in FY21 against the programmed level of

Chart 4.03 Programmes and Actual Developments of M2 and RM



Source: Monetary Policy Department, Bangladesh Bank.

Table 4.03 Income Velocity of Money

Year	GDP at current market prices (Base FY16=100)	Broad Money (M ₂) (End period)	(In billion BDT)
			Income velocity of money
FY 16	20758.21	9163.78	2.27
FY 17	23243.07	10160.76	2.29
FY 18	26392.48	11099.81	2.38
FY 19	29514.29	12196.12	2.42
FY 20	31704.69	13737.35	2.31
FY 21	35301.85	15605.39	2.26

Note: Figures in parentheses indicate percentage changes over previous financial year.

Source: Monetary Policy Department, Bangladesh Bank.

BDT 3304.6 billion. The robust increase in NFA due to increasing inflows of remittances, medium and long-term loans from foreign sources contributed significantly to keep reserve money growth above the programme path. Domestic credit of BB decreased by BDT 23.0 billion or 4.6 percent to BDT 475.3 billion in FY21 compared to BDT 498.3 billion in FY20, though it was much more higher than the targeted level of BDT 256.3 billion. Domestic credit growth decreased by virtue of decline in BB's credit to public sector. BB's credit to public sector slid down by BDT 143.9 billion or 33.4 percent and stood at BDT 286.5 billion in FY21

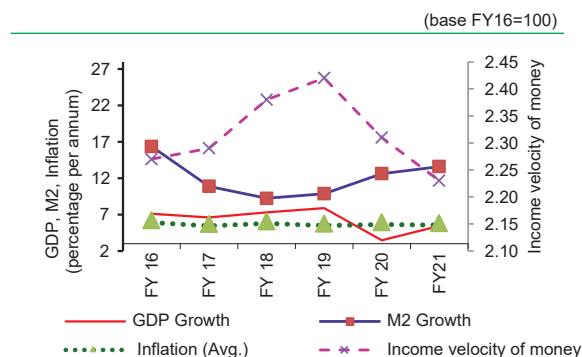
as compared to the actual credit to public sector of BDT 430.4 billion in FY20. On the other hand, credit to deposit money banks increased by BDT 120.8 billion or 177.9 percent and stood at BDT 188.7 billion in FY21 against actual level of BDT 67.9 billion in FY20. The liabilities in other items (net) increased by BDT 167.9 billion and stood at BDT (-) 550.7 billion in FY21 against the actual liability of BDT (-) 382.8 billion in FY20. Consequently, net domestic asset (NDA) of Bangladesh Bank stood at BDT (-) 75.4 billion in June 2021 against the programmed BDT (-) 82.8 billion for FY21 as the amount of liability in others items (net) was larger than BB’s domestic credit. Actual and programmed growth of RM during FY21 can be seen in Table 4.02. Actual developments of M2 and RM against their respective programmed paths can also be seen in Chart 4.03.

4.08 Money multiplier decreased to 4.49 in FY21 as compared to 4.84 in FY20. Money multiplier is usually affected by the behavior of banks, individuals as well as central bank which is reflected through change in reserve-deposit ratio and currency-deposit ratio. Reserve-deposit ratio increased to 0.102 in FY21 from 0.078 in FY20 leading to decline money multiplier while currency-deposit ratio decreased to 0.155 in FY21 as compared to 0.163 in FY20. Relative strengths of the said two ratios helped to decrease money multiplier in FY21.

Income Velocity of Money

4.09 The income velocity of money decreased slightly to 2.23 in FY21 from 2.31 in FY20 (Table 4.03). The income velocity of money started to decrease since FY20 after a continued increasing trend from FY16 to FY19, reflecting faster M2 growth than the growth of

Chart 4.04 Movements of GDP Growth, M2, Growth Rate of Inflation and Income Velocity of Money



Source: Monetary Policy Department, Bangladesh Bank.

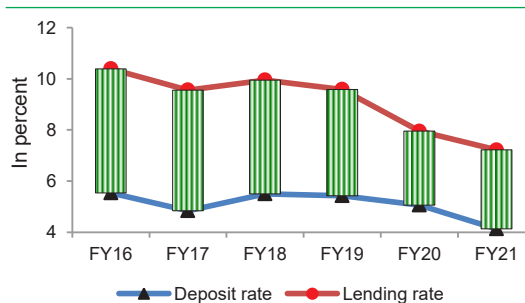
Table 4.04 Quarterly Positions of Bank Credit*

(In billion BDT)

Outstanding as of	Advances	Bills	Total
30 June 20	10776.84 (97.83)	239.55 (2.17)	11016.39
30 Sep 20	10925.99 (97.87)	237.94 (2.13)	11163.93
31 Dec 20	11228.43 (98.07)	220.64 (1.93)	11449.07
31 Mar 21	11382.75 (97.96)	237.51 (2.04)	11620.26
30 June 21	11664.92 (97.98)	240.25 (2.02)	11905.17

Note: Figure in parentheses indicate percentage shares of total bank credit.
* Excluding foreign bills and inter bank credit.
Source: Monetary Policy Department, Bangladesh Bank.

Chart 4.05 Trends in Weighted Average Interest Rates of Scheduled Banks



Source: Monetary Policy Department, Bangladesh Bank.

nominal income which indicates slow pace of economic activities during the pandemic period.

Hence, the income velocity of broad money declined by 4.63 percent in FY20 and 2.16 percent in FY21. The magnitudes of income velocity of money and their changes during FY16-FY21 are shown in Table 4.03. Movements of the growth of GDP at current market prices, broad money (M2) growth, annual average inflation and income velocity of money during FY16-FY21 are shown in Chart 4.04.

Bank Credit

4.10 Outstanding bank credit (excluding foreign bills and inter-bank items) in FY21 rose by BDT 888.78 billion or 8.07 percent to BDT 11905.17 billion against the increase of BDT 974.58 billion or 9.71 percent to BDT 11016.39 billion in FY20. The rise in the bank credit occurred due to the increase of both advances and bills purchased and discounted by banks in FY21. Advances increased by BDT 888.08 billion or 8.24 percent to BDT 11664.92 billion in FY21 against the increase of BDT 1040.70 billion or 10.69 percent to BDT 10776.84 billion in FY20. Bills purchased and discounted slightly increased by BDT 0.70 billion or 0.29 percent to BDT 240.25 billion in FY21 against the decrease of BDT 66.13 billion or 21.63 percent to BDT 239.55 billion in FY20. The quarterly position of bank credit and its components are given at Table 4.04.

Bank Deposits

4.11 Bank deposits (excluding inter-bank items) increased by BDT 1778.93 billion or 14.02 percent to BDT 14469.92 billion during FY21 against the increase of BDT 1217.84 billion or 10.61 percent to BDT 12690.99 billion in FY20. The rise in total bank deposits was shared by all kinds of deposits. Demand

Table 4.05 Quarterly Outstanding Positions of Bank Deposits*

Balances as of	Demand deposits	Time deposits	Govt. deposits	(In billion BDT)
				Total deposits
30 June 20	1355.28	10454.71	880.99	12690.98
30 Sep 20	1357.88	11006.60	865.84	13230.32
31 Dec 20	1481.72	11423.00	921.45	13826.17
31 Mar 21	1449.56	11540.16	915.27	13904.99
30 June 21	1657.24	11850.67	961.77	14469.68

* Excluding interbank and restricted deposits.

Source: Monetary Policy Department, Bangladesh Bank.

Table 4.06 Trends in Weighted Average Interest Rates of Scheduled Banks and their Spreads

Items	As of end June (In percent)					
	FY16	FY17	FY18	FY19	FY20	FY21
Deposit rate	5.54	4.84	5.50	5.43	5.06	4.13
Lending rate	10.39	9.56	9.95	9.58	7.95	7.33
Spread	4.85	4.72	4.45	4.15	2.89	3.20

Source: Monetary Policy Department, Bangladesh Bank.

deposits increased by BDT 299.82 billion or 22.12 percent to BDT 1655.10 billion in FY21 against the increase of BDT 173.10 billion or 14.64 percent to BDT 1355.28 billion in FY20. Time deposits increased by BDT 1395.96 billion or 13.35 percent to BDT 11850.67 billion in FY21 against the increase of BDT 991.53 billion or 10.48 percent to BDT 10454.71 billion in FY20. Government deposits increased by BDT 84.58 billion or 9.60 percent to BDT 965.57 billion in FY21 against the increase of BDT 53.20 billion or 6.43 percent to BDT 880.99 billion in FY20. Quarterly outstanding position of bank deposits is shown at Table 4.05.

Credit-Deposit Ratio

4.12 The credit-deposit ratio of the scheduled banks excluding the specialised banks stood at 0.82 at the end of June 2021 which was 0.87 at the end of June 2020. The ratio of credit to deposit declined marginally in FY21 reflecting subdued credit demand due to COVID-19 pandemic.

Scheduled Banks' Borrowing from Bangladesh Bank

4.13 Scheduled banks' borrowings from Bangladesh Bank increased by BDT 233.27 billion or 46.38 percent to BDT 736.26 billion in FY21 which increased by BDT 149.30 billion or 42.21 percent to BDT 503.00 billion in FY20. Under Bangladesh Bank's various low-cost refinance schemes, scheduled banks borrowing sharply increased in FY21 for addressing the COVID-19 induced shocks.

Scheduled Banks Balances with BB and their Cash in Tills

4.14 Balances of scheduled banks with Bangladesh Bank sharply increased by BDT 448.29 billion or 59.17 percent to BDT 1205.97 billion at the end of June 2021 against the increase of BDT 7.56 billion or 1.01 percent to BDT 757.68 billion at the end of June 2020. Cash in tills of scheduled banks increased by BDT 13.91 billion or 8.70 percent and stood at BDT 173.71 billion at the end of June 2021 which decreased by BDT 1.20 billion or 0.75 percent to BDT 159.80 billion at the end of June 2020.

Cash Reserve Requirement (CRR)

4.15 The cash reserve requirement (CRR) for the scheduled banks with the Bangladesh Bank remained unchanged in FY21 which was reduced by 150 basis points in two parcels to 4.0 percent of their total demand and time liabilities to enhance adequate liquidity in the economy in FY20. Banks are required to maintain CRR at the rate of 4.0 percent on

Table 4.07 Liquidity Indicators

As on	ADR	LCR	NSFR	Call money rate	Credit deposit ratio
30 June 2020	76.22	213.52	110.57	5.02	0.87
30 Sept 2020	74.01	225.57	111.19	2.66	0.84
31 Dec 2020	72.69	224.77	110.06	2.12	0.83
31 Mar 2021	72.82	211.32	108.59	1.83	0.84
30 June 2021	71.55	211.70	109.39	2.23	0.82

Note: ADR and call money rate has shown in percentage.
Source: Department of Off-site Supervision and Monetary Policy Department, Bangladesh Bank.

Table 4.08 Excess Liquid Assets of Various Bank-groups

As on	State-owned Banks	Specialised Banks	Private Banks (Other than Islamic)			Total
			Islamic Banks	Foreign Banks		
30 Jun 2020	546.73	0.00	556.85	93.52	198.68	1395.78
30 Sep 2020	611.44	0.00	715.14	168.91	201.09	1696.58
31 Dec 2020	836.44	0.00	694.93	293.87	221.94	2047.18
31 Mar 2021	879.23	0.00	587.34	285.57	232.52	1984.66
30 Jun 2021	1046.75	0.00	707.57	327.60	232.71	2314.63

Source: Monetary Policy Department, Bangladesh Bank.

bi-weekly average basis provided that the CRR would not be less than 3.5 percent in any day with effect from 15 April 2020.

Statutory Liquidity Ratio (SLR)

4.16 According to the sub section (2) under section 33 of the Bank Company Act, 1991, banks are now required to maintain SLR separately, (a) for the conventional banks- the statutory liquid assets inside Bangladesh, which also includes excess reserves with Bangladesh Bank, is not less than 13.0 percent of their total demand and time liabilities, and (b) for the *shariah* based Islamic banks- this rate is not less than 5.5 percent.

Bank Rate

4.17 The bank rate which was unchanged at 5.00 percent since 2003 has been reduced to 4.00 percent on 29 July 2020 to rationalise it with the changing market interest rate scenario.

Box 4.01 Monetary and Credit Policy Measures to Mitigate Impact of the COVID-19 Pandemic

Economic activity in emerging economies has decelerated at a pace unseen before as the impact of the COVID-19 pandemic ravages the global economy. The central banks across the globe have taken several monetary policy measures in tandem with governments' fiscal measures in order to mitigate the adverse economic impact of the COVID-19 pandemic.

The main purpose of these policy measures is to revive economic activities by injecting a huge amount of money to the economies. In response to the COVID-19 situation, Bangladesh Bank (BB) has ensured adequate liquidity in the financial system by adopting expansionary and accommodative stance of monetary policy since March 2020, when the COVID-19 outbreak started to strike in Bangladesh economy. The repo rate was cut down by 125 basis points to 4.75 percent and 360 days tenor repo facility has been introduced during March-July, 2020. The cash reserve ratio (CRR) for domestic banking operations, off-shore banking operations and non-bank financial institutions was reduced by 150 basis points to 4.0 percent, 350 basis points to 2.0 percent and 100 basis points to 1.5 percent on a bi-weekly average basis during April-June, 2020, respectively. BB also emphasised on the outright purchase of government treasury bills and bonds from the banks, which were held after maintaining their statutory liquidity ratio (SLR).

The advance-deposit ratio for conventional banks and investment-deposit ratio for *Shariah*-compliant Islamic banks increased by 2 percentage points to 87 percent and 92 percent in April 2020 respectively. The export development fund was raised by USD 2.5 billion to USD 6 billion with the interest rate set at 2.00 percent since 07 April 2020. However, the rate was slashed to 1.75 percent effective from 28 October 2020 to 31 March 2021. A start-up fund of BDT 5.00 billion for promoting new entrepreneurs and a technology development/up-gradation fund of BDT 10.00 billion for the development of export oriented industries were established during January-March, 2021. BB created several refinancing schemes of BDT 415 billion and a credit guarantee scheme for exporters, farmers and CMSMEs under the government's stimulus packages of BDT 1.35 trillion taken as of June 2021 to mitigate impact of the COVID-19 on Bangladesh economy. The devised refinance schemes along with working capital loans, and expanded refinance scheme for the CMSMEs are expected to be helpful in recovering economic activities injured by Coronavirus pandemic and to enhance employment opportunity in the economy.

In addition, BB has taken necessary measures to defer non-performing loan classification, relax loan rescheduling policies, waive credit card fees and interests, suspend loan interest payments, relax credit risk rating rules for banks, extend tenures of trade instruments, lower farm loan interest rate and allow short-term farm loan rescheduling, and ensure access to financial services. BB imposed an additional 1.0 percent general provision against loans that have enjoyed deferral/time extension facilities.

All the policy measures taken so far have helped in ensuring sufficient liquidity at a low cost which is now facilitating the economic activities to boost up in the recent months. At the same time, BB remains watchful on any development of undue inflationary pressure and asset price bubbles so that nothing can jeopardize long lasting macroeconomic stability of our economy.

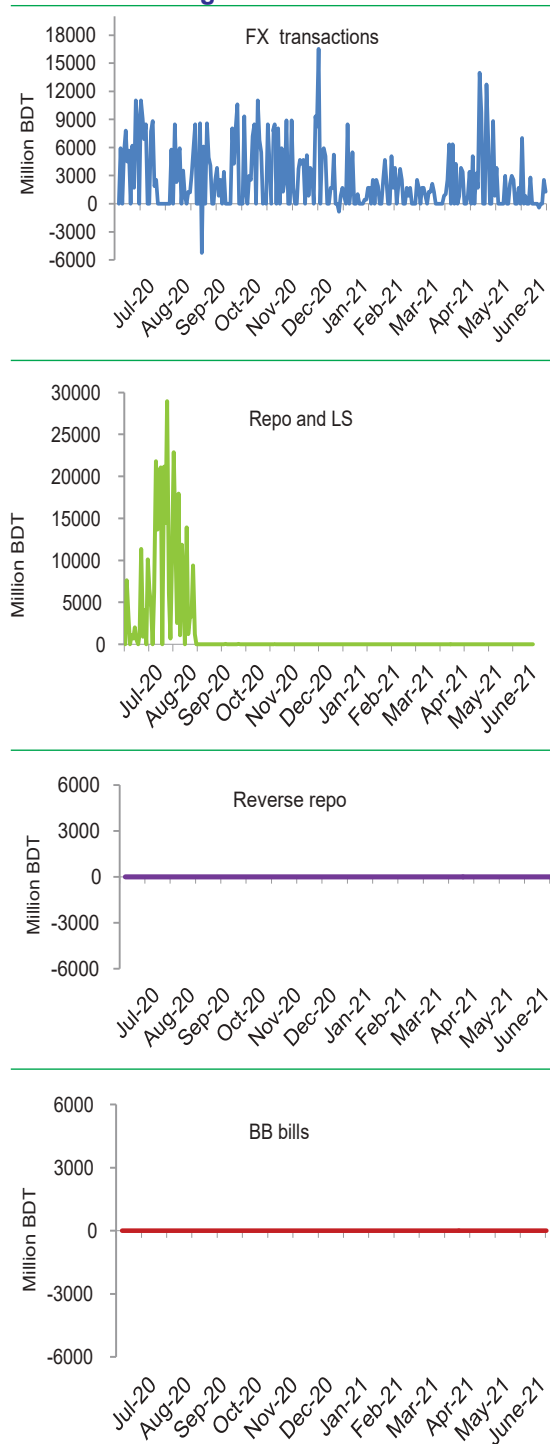
Interest Rates on Deposit and Lending

4.18 Due to ample liquidity in the money market and BB’s effort towards rationalisation of market lending rate undertaken at the end of FY20, both the weighted average interest rates on lending and deposit have significantly declined by the end of FY21. The weighted average lending rate declined to 7.33 percent in June 2021 from 7.95 percent in June 2020. The weighted average deposit rate also came down to 4.13 percent in June 2021 from 5.06 percent in June 2020. Banks are now operating almost all of their lending activities well below the 9.0 percent interest rates cap and the existing lower trajectory of lending interest rates along with robust growth in deposits can be helpful for enhancing the private investment and economic activities during the post COVID-19 period. Table 4.06 and Chart 4.05 contain weighted average interest rates of the scheduled banks on deposit and lending along with their spread during FY16 to FY21.

Liquidity Management Framework

4.19 BB’s monetary policy stance and monetary programmes for FY21 were mostly successful in terms of injecting ample 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. Through managing liquidity in the banking system by using various monetary policy instruments, BB tries to keep reserve money within the target path mainly for achieving price stability. BB was cautious about any unexpected price pressure development due to the presence of ample excess reserves in the banking system.

Chart 4.06 Liquidity Management Operations during FY21



Source: Monetary Policy Department, Bangladesh Bank.

4.20 Because of the COVID-19 outbreak, BB took various policy measures including reduction of CRR, intensive stimulus packages provided by BB and the government, foreign currency purchasing from the foreign exchange market. As a result, excess liquid assets (in excess of CRR and SLR) of scheduled banks substantially increased to BDT 2314.63 billion at the end of June 2021 which was BDT1395.78 billion at the end of June 2020. Moreover, banks' surplus cash liquidity in terms of surplus cash reserve with BB (after the maintenance of CRR) significantly increased in FY21 due to the reduction of CRR by BB and substantial growth of deposits aided by higher remittance inflows. The banks' surplus cash reserve with BB stood at BDT 625 billion at the end of June 2021 which was BDT 238 billion in FY20. As there was excess liquidity in the market, the call money rate also substantially decreased to 2.23 percent at the end of June 2021 from 5.02 percent at the end of June 2020.