**Press Release**

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Attn: News Editor/ Chief Reporter/ Assignment Editor /Business Page-in-Charge:

**MPS for FY 2021-22 new Investment Drives**

For the first time, yearly Monetary Policy Statement (MPS) has been announced electronically for FY 2021-22 which is an expansionary and accommodative policy with some specific steps to mitigate the damages done in the economy by the COVID-19. Considering COVID situation and lack of assertiveness of businesses in investment, MPS targeted for private sector credit growth at 11% and 14.8% for the first and second half of FY 2022, while public sector credit growth target is 30.6% and 32.6% respectively. Due to COVID, there has already been a significant negative impact on employment. Lower interest in credit growth in the private sector could have further impact on employment situation in the country.

Banks have an excess liquidity of BDT 2.31 trillion as of June 30, 2021 because of lower private sector credit growth and cool investment environment. In that situation Bank investment may diverted to alternative sectors such as stocks and bond or even in real estate business. Experts apprehend asset bubbles, i.e. excess money with no dividends. The situation has to be addressed properly by encouraging alternative investments. Service sector could be a good opportunity for which supportive policies need to be announced.

There are several policy supports extended by the Bangladesh Bank in respect of loan moratorium, extension of usance period of L/C for import of essential good, Credit Guarantee Scheme, Start Up Loans, Technology Upgradation Fund of Taka 1,000 crore, extension of EDF and so on. Unfortunately, the investment situation is not improving. Because of low credit growth in the private sector, broad money supply has been reduced, which is described by the BB as one of the reasons of containment of the inflation rate.

MPS also mentioned that about Taka 1.35 trillion with 28 stimulus (SPs) packages have been announced by the government to contain the impact of COVID19. However, disbursement of the fiscal incentives to the required areas are limited. Many entrepreneurs could not get support from these SPs, especially the CMSMEs. Special attention and supportive policies are to be announced for micro, cottage and small entrepreneurs.

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A significant share of micro, cottage and small entrepreneurs are informal businesses that are suffering because of the small amount of monetary support. Bangladesh Bank’s policies to support these segments need to be more comprehensive.

The country needs to promote investment and ensure maximum utilization of the existing SPs as well as the Credit Guarantee Schemes for immediate rescue of CMSMEs. Government may announce a specific 2nd round of SPs with an allowance for new employment as well as retention of employment for encouraging investors. While there is a huge amount of liquidity in the Banks, there could be a good use of this liquidity in the areas so that velocity of money increases.

The trade balance shows adverse trend as it has been widened around USD 3.2bn than the previous fiscal year. This is alarming as over the last five months import remained stuck due to market shock. It should concentrate on policy support to service export which may help to keep the trade balance favourable.

We have a **steady foreign exchange** reserve with 36% growth which we can spend for three quarters. But the overseas employment rate has fallen drastically in the last two years and many of the 0.4 million repatriated Bangladeshi workers are languishing without earning sources. MPS could take a stance for this segment through a special scheme that may be a credit-based investment opportunity.

There is no directions for Lending Rate, Deposit Rate, Interest Rate Spread, Cash Reserve Ratio (CRR), Statutory lending Rate (SLR), Repo, Reserve Repo and Call Money rate in the announced MPS which would make liquidity situation and credit market unpredictable. The Banks and other lenders would face difficulties in case of credit decision. The MPS should use the tools and instruments such as Open market operations, reserve requirements, credit guidance and collateral policy for keeping the monetary and other related indicators favourable for the economy.

Aim of the MPS of the central banks to control money supply, inflation control, and employment creation. The announced MPS has not directed clearly to keep the inflation under control in the era of broad money expansion; it has not shown any direction and policy support about new job creation after the devastating pandemic period and after. There should be new circulars for mitigating the absent policy drive for job creation and inflation control in the interim period of time.

Fiscal Year should be specific as it starts from the month of July of one year and ends in next year June. The year-long monetary policy is less effective than half-yearly and quarterly MPS as the determinants (credit demand, inflation, capital market indices, current account & capital account balance, and foreign exchange rate index) of monetary instruments fluctuate very frequently. The MPS should be announcing quarterly in a precise format.

Sincerely



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