B a n g l a d e s h

Weekly Market Review

1281st Issue

J u l y 1 8 , 2 0 2 4

Year 26 No. 27

H1 monetary policy unveiled

Bangladesh Bank (BB) announced the monetary policy for the first half of FY2024-25, maintaining a contractionary approach. The policy includes a reduction in private sector credit growth, aiming to curb inflation and stabilize the exchange rate. In a bid to keep the money supply tight, BB maintained its policy rate unchanged at 8.50%. Policy rate stability is anticipated to keep bank lending rate constant, which is at 16% in July 2024. Similarly, the upper ceiling of the policy rate corridor the Standing Lending Facility (SLF) rate as well as the lower limit, the Standing Deposit Facility (SDF) have been kept the same at 10% and 7% respectively. The central bank has set the private sector edit growth target at 9.80% citing rising inflationary pressures and focusing liquidity to productive sectors only. Public sector credit growth is now projected at 17.8% considering declining credit demand from the government. In April 2024, private sector credit disbursement fell to 9.90%, compared to 10.49% in the prior month. The inflation forecast has been set at 6.5% by the end of 2025 aligning with the budgetary target. In June 2024, inflation stood at 9.72%. To curb foreign exchange market volatility, a crawling peg system has been implemented in May 2024, as per International Monetary Fund (IMF) recommendations. Since mid-2022, the Taka has been witnessing sizeable depreciation against the US Dollar. In its H1 monetary policy, BB refrained from stating any fixed Balance of Payments (BoP) target by the end of FY2024-25. However, it remained optimistic in conveying the current account deficit will stabilize by year-end, driven by remittance inflow recovery and further reduction of the trade deficit following exchange rate adjustments. Furthermore, BB assumes improvement in the financial account balance with the reversal of trade credit.

Government borrowing through T-bonds and bills surges

Government borrowing through the sales of treasury bonds and bills jumped fivefold in the previous fiscal year. As per the latest figures from the Bangladesh Bank (BB), Tk628.12b was mobilized by issuing bills and bonds in FY2023-24 up from Tk134.56b in FY2022-23. Out of Tk628.12b, the government borrowed Tk211.29b through the auction of treasury bonds, whereas Tk416.83b through treasury bills. As per BB, on 24 June 2024 the yield of 91 days Treasury Bills stood at 11.65%, 182 days Treasury Bills at 11.80% and for 364 days Treasury Bills at 12%. In June 2023, the interest on all kinds of Treasury Bills ranged from 6.8% to 8.9%. The yields on long-term treasury instruments rose substantially as well. Banks are receiving 12.30% to 12.80% interest by investing in 2 to 20 year bonds.

DSE rebalances DS30

The Dhaka Stock Exchange (DSE) has eliminated 2 banks along with 8 other companies from blue-chip index (DS30) effective from 21 July 2024 due to falling short of the qualification criteria set by DSE. As per DSE, most of the dropped companies had sufficient market capitalization but failed to fulfill the turnover criterion as required by the index methodology as a result of the slowdown in the capital market. The newly included companies are - Beximco Pharmaceuticals, Pubali Bank, City Bank, Bangladesh Steel Re-Rolling Mills, Robi Axiata, Orion Pharma, Summit Power, Power Grid Company, GPH Ispat and Linde Bangladesh. According to the DSE methodology for DS30, a company must have a float-adjusted market capitalization above Tk500m and must have a minimum three-month average daily value traded of Tk5m as on the rebalancing reference date.

OTC companies face free-float requirement

Over The Counter (OTC) companies seeking listing in the Small & Medium Enterprises (SME) platform must ensure 35% of their shares are free-float, as per Bangladesh Securities and Exchange Commission (BSEC) mandate. In case free-float shares fall short of the requirement, companies can raise capital with fresh shares through Qualified Investor Offer (QIO) or Share Money Deposits given they have obtained prior approval from the regulator. In a similar vein, the Small Capital Company Rules 2022 and Stock Exchange Listing of SME Regulation will need amendments. DSE introduced the OTC platform in 2009 with an aim to facilitate trade of the companies that were delisted from the main trading board due to their non-performance in business or non-compliance in the market. Later on 16 September 2021 BSEC issued an order asking both the exchanges, the companies in the OTC market and Central Depository Bangladesh Limited (CDBL) to complete dematerialization of the shares and effect transfer from one platform to the other within 30 days. DSE commenced the trading on the SME platform on September 30, 2021. The platform started trading with six companies, out of which two are newly listed enterprises, while four others came from the OTC market. Currently, 20 companies trade on the SME board. On July 18, 2024, the SME index lost 15.69 points to 1524.55, with board turnover increasing to Tk237.76m from Tk124.72m the previous day. In FY2023-24, the SME market index surged by nearly 12.60% (Y-o-Y), contrasting with the persistent price decline on the DSE main board. Last fiscal year also saw the addition of three new companies to the SME platform, namely Agro Organica, Web Coats and Craftsman Footwear and Accessories.

Trade deficit worsens on export figure errors

Current accounts have plunged deeper into deficit, reaching US$5.73b as of April 2024, after enjoying nine months of surplus. This shift stems primarily from significant discrepancies in export figures and a rising trade deficit. As per Bangladesh Bank (BB), trade deficit during the first ten months of FY2023-24 stood at US$18.69b, decreasing by 26.27% (Y-o-Y) to US$23.60b. A substantial factor in this worsening deficit is the revelation of inflated export figures, initially reported by the Export Promotion Bureau (EPB). The figures for July-April of FY2023-24, compiled separately by BB and EPB, show a significantly wide US$13.79b gap. Actual export receipts from July-April FY2023-24 were US$33.68b, a 6.82% (Y-o-Y) decline, while import payments dropped by 12.33% (Y-o-Y) to US$55.37b. However, worker remittances provided a silver lining, increasing by 7.90% (Y-o-Y) to US$19.12b. Financial account which remained in negative territory for long turned into surplus at US$2.23b during the period under review, reversing a deficit of US$9.26b in July-March.

Import LC openings drop in FY2023-24

In the FY2022-23 a total of US$66.95b worth of Letters of Credit (LCs) were opened which is slightly up by 1.85% (Y-o-Y) to US$68.19b in FY2023-24 due to various restrictions imposed by the Bangladesh Bank (BB) and the ongoing Dollar crisis. In June of FY2022-23, import LCs worth US$5.17b were opened against US$6.83b in May. To deal with the Dollar crisis, the central bank continued to sell greenbacks from the reserve. The central bank sold US$12.8b from reserves in FY2023-24, whereas in FY2022-23 it sold US$13.58b from the reserves. As a result, the forex reserve stood at US$21.79b at the end of June 2023, as per the definition of the International Monetary Fund (IMF).

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