Monetary Policy Statement H2'FY26

Stability Prioritized Over Easing

Monetary Policy Statement (MPS) H2'FY26: Key Figures

Figures in Percentage	FY25	FY H1'26 Review (Jul'25 to Dec'25)		FY H2'26 Review (Jan'26 to Jun'26)	
	Actual	Target	Actual	Target	Revised
GDP Growth Rate	4.0	n/a	n/a	5.5	5.0
Inflation	10.0	6.5-7.0	8.8	6.5	7.0
CRR*	4.0	4.0	4.0	4.0	4.0
Policy Rate (Repo Rate)	10.0	10.0	10.0	10.0	10.0
SDF (Standing Deposit Facility)	8.5	8.0	8.0	8.0	7.5
SLF (Standing Lending Facility)	11.5	11.5	11.5	11.5	11.5
Reserve Money Growth Rate	-0.1	5.0	9.2	8.0	8.0
Broad Money Growth Rate	7.0	7.8	9.6	8.5	11.5
Domestic Credit Growth Rate	8.1	10.0	11.0	10.3	11.5
Private Sector Credit Growth Rate	6.5	7.2	6.1	8.0	8.5
Public Sector Credit Growth Rate	13.6	20.4	18.1	18.1	21.6
Net Foreign Assets Growth	4.3	28.0	26.8	21.8	22.0
Net Domestic Assets Growth	7.4	4.9	7.0	6.2	9.7

Source: Bangladesh Bank, MPS
Note: Inflation is based on a 12-month average.
** Bi-weekly CRR; Daily CRR has been reduced to 3.0% from previous 3.5%.*

Bangladesh Bank (BB) has opted to hold the policy rate unchanged at 10.0% for H2FY26, reaffirming its commitment to disinflation, exchange-rate stability, and restoration of monetary credibility. While headline inflation has moderated meaningfully from its mid-2024 peak, BB remains wary of sticky, supply-driven inflation dynamics and near-term demand risks linked to elections, Ramadan, and possible public-sector wage adjustments. Accordingly, BB has chosen policy continuity over premature easing, while deploying targeted corridor adjustments to improve liquidity transmission.

Policy Rate and SLF Rate Unchanged; SDF Revised Down to 7.5%

Inflation Target 7.0%

Confidence Restoration

NPL Resolution

FX Stability

The Standing Lending Facility (SLF) remains unchanged at 11.5%, while the Standing Deposit Facility (SDF) has been reduced by 50 bps to 7.5%. This asymmetric corridor adjustment signals BB's intent to discourage passive liquidity parking at the central bank and encourage greater interbank activity and private-sector credit intermediation, without diluting the overall contractionary stance.

Click here to access
H2'FY26 MPS

POLICY RATE: HELD AT 10.0%, CORRIDOR RE-CALIBRATED

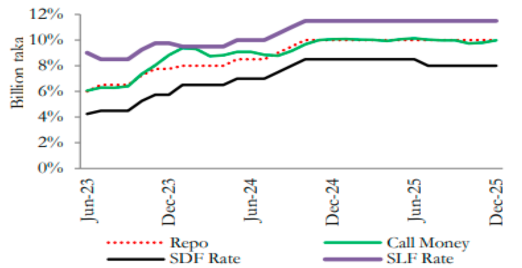
Policy rate maintained; SDF cut signals liquidity transmission focus:

- Policy rate: 10.0% (unchanged)
- SLF: 11.5% (unchanged)
- SDF: 7.5% (−50 bps)
- Rationale: BB observed some banks prefer parking liquidity at SDF; the cut is designed to push excess funds into interbank/private credit channels while keeping the anti-inflation stance intact.

Analyst Comment:

This is best read as a corridor optimization; BB is preserving the restrictive stance (policy rate unchanged) but trying to reduce “lazy liquidity” behavior. We think BB is explicitly prioritizing credibility and FX stability overgrowth support; a full easing cycle likely requires clearer disinflation and less event-driven demand risk (election/Ramadan/pay-scale).

Chart 11: Movement of Call Money and Policy Rates



Source: Bangladesh Bank

INFLATION: DISINFLATION CONTINUES, BUT “STICKINESS” DOMINATES

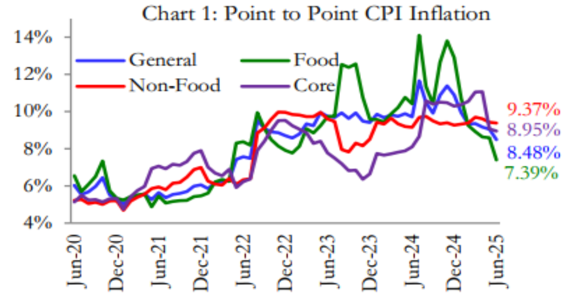
Inflation easing yet remains above target; supply-side rigidities keep BB cautious.

- Headline inflation eased to 8.49% (Dec-25) from 11.66% (Jul-24 peak); food inflation dropped to 7.71%. Non-food 8.90%–9.74% during FY25 and H1FY26.
- BB’s inflation expectation survey forecasts headline 7.99% by Jun-26 and 7.69% by Dec-26; acknowledges IMF’s higher average inflation view.
- BB repeatedly flags downward price stickiness (kitchen-market dynamics, supply bottlenecks, market concentration), limiting rate-transmission effectiveness.

Analyst Comments:

BB implies inflation in Bangladesh is less about aggregate demand and more about structural supply frictions, meaning policy rates can anchor expectations and FX, but will not quickly normalize food/non-food prices without faster administrative/supply responses. Near-term upside risks remain (election seasonality, Ramadan, possible wage scale), supporting BB’s decision to avoid premature easing.

Chart 1: Point to Point CPI Inflation



Source: Bangladesh Bureau of Statistics (BBS)

LIQUIDITY: IMPROVING, BUT STILL UNEVEN ACROSS BANKS

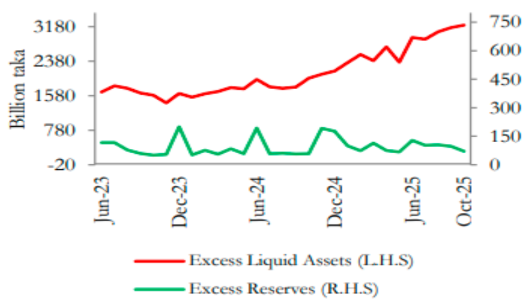
Deposit recovery helps, yet NPLs and weak-bank stress keep lending cautious

- Deposit growth rebounded to ~11.0% in Dec-25 (from less than 7% levels in FY’25), improving buffers, but with “flight to quality” across banks.
- Banking liquidity remains pressed by high NPLs, weak confidence in parts of Shariah-based banking, and cautious lending amid balance-sheet clean-up.
- Call money eased modestly to 9.99% (Dec-25); interbank repo also declined to 10.14% vs 10.37% in Jun-25.

Analyst Comments:

System liquidity is improving, but distribution matters. Stronger banks are liquid and prefer safe assets (G-secs), while weaker institutions remain dependent on liquidity facilities and repair. The SDF cut is consistent with BB’s goal to bring liquidity into the interbank circulation, but we expect private credit transmission to remain sluggish until NPL recognition and governance reforms reduce risk aversion.

Chart 10: Movement of Excess Liquid Assets



Source: Bangladesh Bank

EXCHANGE RATE: MARKET-BASED REGIME HOLDS; FX STABILITY REMAINS POLICY ANCHOR

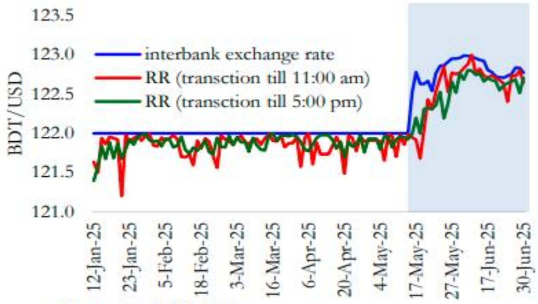
BDT stable; BB continues reserve buildup

- Under full flexibility (since May-25), BDT remained broadly stable: ~122.31 interbank (Dec-25) vs 122.77 (Jun-25).
- Interbank activity deepened: daily average spot transactions rose to ~USD 41.7mn in H1FY26.
- BB has not sold any FX since Aug-24; instead purchased USD 3.14 Bn in H1FY26 via auction to prevent excessive appreciation and rebuild buffers.

Analyst Comments:

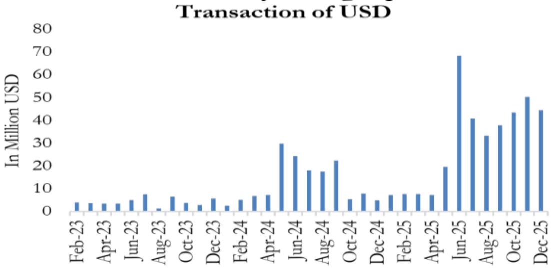
FX stability is now a centrepiece of BB's inflation strategy, stable currency caps imported inflation and anchors expectations. We view this as the key reason for BB's reluctance to cut the policy rate: premature easing before inflation decisively converges could trigger renewed FX pressure. If remittance momentum sustains, the FX regime should remain orderly, although post-election confidence remains the pivotal factor.

Chart 19: Trends in Exchange Rates



Source: Bangladesh Bank

Chart 20: Daily Average Spot Fx Transaction of USD



Source: Bangladesh Bank

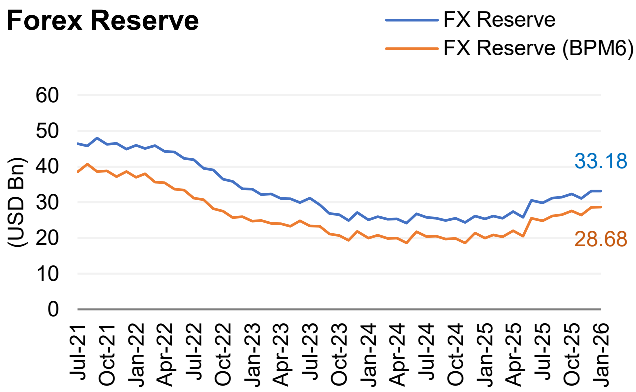
FX RESERVE: CONTINUES TO REBUILD, SUPPORTING CONFIDENCE

Reserves rise on remittance strength and BB USD buying

- Gross reserves (BPM6) reached USD 28.52 Bn (Dec-25) and USD 29.2 Bn (Feb 05, 2026).
- BB purchased USD 3.14 Bn in H1FY26, cumulative USD 3.4 Bn by end-Jan 2026.

Analyst Comments:

Rebuilding FX Reserves has been a major positive, which improved external credibility, reduced tail FX risk, and supported market confidence. However, FX reserve durability depends on (i) sustained formal remittances, (ii) disciplined import recovery, and (iii) uninterrupted external servicing.



BROAD MONEY & CREDIT: PUBLIC CREDIT CROWDING OUT PRIVATE

M2 surprised higher; government borrowing dominates credit mix

- M2 growth: 9.6% YoY (Dec-25) vs prior projection 7.8%.
- M0 growth overshot projection due to BB's purchase of USD from the banks.
- NFA: +27.0%; NDA: +7.1% (Dec-25).
- Public credit growth: +28.9%; private credit growth: +6.1% (Dec-25). Private credit at historic lows due to crowding out and banks' risk aversion.
- FY26 growth projections revised:

  M2: +11.5% | Public credit: +21.6% | Private credit: +8.5% | Domestic credit: +11.5%.

Analyst Comment:

Government borrowing lifts NDA and domestic credit, while private credit remains constrained. BB's projection assumes deposit growth improves into 12–14% range, enabling private credit to recover modestly. We remain cautious - private credit revival is as much about risk appetite plus NPL cleanup as it is about liquidity availability.

Table 4: Monetary and Credit Projection for FY26

Item	Jun-25	Sept-25	Dec-25		Jun-26	
	Actual	Actual	Projection	Actual P	Prior Projection@	Revised Projection
Broad money	**7.0**	**8.1**	**7.8**	**9.6**	**8.5**	**11.5**
Net Foreign Assets*	4.3	17.6	28.0	26.8	21.8	22.0
Net Domestic Assets	7.4	6.7	4.9	7.0	6.2	9.7
Domestic Credit	8.1	10.3	10.0	11.0	10.3	11.5
Credit to the public sector	13.6	25.0	20.5	28.9	18.1	21.6
Credit to the private sector	6.5	6.3	7.2	6.1	8.0	8.5
Reserve money	**-0.1**	**3.5**	**5.0**	**9.2**	**8.0**	**8.0**
Money multiplier	5.27	5.65	5.28	5.16	5.29	5.44

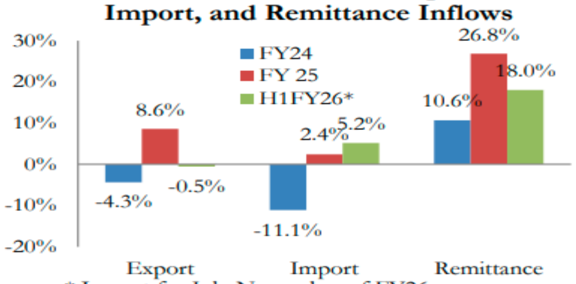
Source: Bangladesh Bank.
Note: *Calculated using the estimated constant exchange rates of end June 2025.@Announced in June 2025.P= Provisional

BALANCE OF PAYMENTS: SURPLUS RETURNS; EXPORTS SOFT, REMITTANCE STRONG

BoP flips to Positive, Remittance offsets Export softness and Controlled Imports

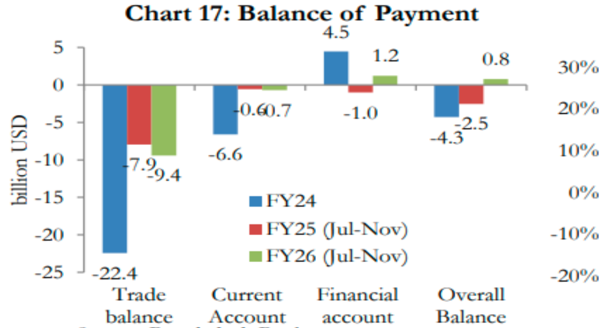
- Overall BoP: USD 769.0 Mn surplus (Jul–Nov FY26) vs USD 2.54 Bn deficit prior year period
- Exports (H1'FY26): −0.54%; RMG −1.04% amid demand/tariff uncertainties and competition.
- Imports (Jul–Nov FY26): +5.16%, led by essentials and capital goods; capital machinery import up meaningfully.
- Remittances: +18.04% (H1'FY26); momentum strengthened into Jan-26.

Chart 18: Growth of Export, Import, and Remittance Inflows



* Import for July-November of FY26
Source:Bangladesh Bank

Chart 17: Balance of Payment



Source: Bangladesh Bank

Analyst Comment:

External stabilization looks credible, but the growth mix is unbalanced, remittance-driven support remains the key pillar while exports are vulnerable to global trade policy and competitiveness gaps. If investment recovery accelerates (capital goods trend suggests it may), imports will rise, testing whether remittance and financial account inflows can keep BoP in surplus.

WHAT'S IN IT FOR CAPITAL MARKET

Macro stabilization plus reforms support sentiment, but banking stress remains an overhang

- DSEX edged higher by Dec-25 and crossed 5,200 in early Feb-26; turnover improved meaningfully
- BSEC reforms (margin rules, IPO/MF rule updates, dispute resolution, Shariah council) aim to improve governance and market confidence.

Analyst Comment:

Stable FX, disinflation, and declining G-sec yields are constructive for risk assets. But a durable equity re-rating still requires banking-sector normalization, NPL resolution, credible supervision (RBS), and confidence restoration. We see near-term market upside as policy credibility improves but expect volatility around election timing and liquidity shifts.

UPCOMING CHANGES: BANK SECTOR REPAIR

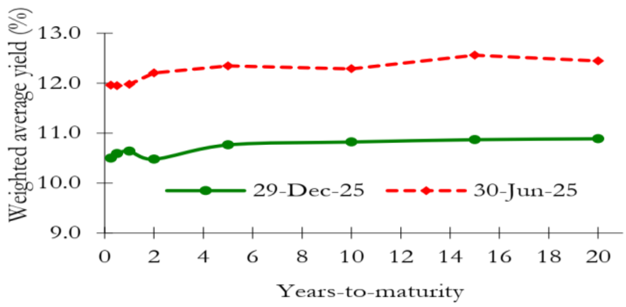
Risk-Based Supervision (RBS), resolution framework, depositor protection, prioritization on stability

- RBS implemented from Jan-2026; extensive regulator training completed.
- Bank Resolution Ordinance (BRO) 2025 and Deposit Protection Ordinance (DPO) 2025 strengthen resolution powers; deposit insurance coverage raised to BDT 200,000 per depositor.
- Five troubled Islamic banks merged into Sammilito Islami Bank with a large capital base; NBFI liquidations are ongoing.
- BB also pushes bond-market depth: Primary Dealers required to provide two-way quotes for T-bonds; Sukuk issuance expanded.
- Framework for Bank Restructuring and Resolution Fund (BRRF) has been prepared to support future resolution operations.

Analyst Comment:

The reform roadmap is the most structurally important part of this MPS. BB expects the second round of Asset Quality Review (AQR) covering three conventional banks to be completed by Feb-26. If implemented cleanly, it can reduce systemic risk premia, restore depositor confidence, and ultimately unlock private credit. That said, in the near term, tighter governance and stricter classification may keep lending conservative, supporting stability but delaying growth upside.

Chart 16: Yields on Government Securities



Source: Bangladesh Bank

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BRAC EPL Stock Brokerage Limited

Research

Salim Afzal Shawon, CFA	Head of Research	salim@bracepl.com	01708 805 221
Fahim Hassan	Research Analyst	fahim.hassan@bracepl.com	01709 636 546
Hossain Zaman Towhidi Khan	Research Analyst	hztowhidi.khan@bracepl.com	01708 805 224
Foysal Ahmed, CFA	Research Analyst	foysal.ahmed@bracepl.com	01708 805 201
S M Toufique Imran	Research Analyst	smtoufique.imran@bracepl.com	01708 805 228
Tasviha Taher Trishila	Research Associate	tasviha.trishila@bracepl.com	01730 701 733

International Trade and Sales

Ahsanur Rahman Bappi	Chief Executive Officer	bappi@bracepl.com	01730 357 991

FOR SERVICE RELATED QUERIES, REACH OUT TO

care@bracepl.com Call 16285

Research Analytics Advisory

BRAC EPL
STOCK BROKERAGE LTD

Website	Address	E-Mail	Contact
www.bracepl.com	Symphony, Plot No. S.E. (F) - 9, Road No. 142, Gulshan-1, Dhaka	Research: research@bracepl.com Sales : ftrader@bracepl.com	Phone: +88 02 222282446-47 Fax: +88 02 222282452