

## Monetary Policy Statement (MPS) H1'FY26: Key Figures

Figures in Percentage	FY24	FY H1'25 Review (Jul'24 to Dec'24)		FY H2'25 Review (Jan'25 to Jun'25)		FY H1'26 (Jul'25 to Dec'25)	FY H2'26 (Jan'26 to Jun'26)
	Actual	Target	Actual	Target	Actual	Target	Target
GDP Growth Rate	4.2	n/a	n/a	6.8	n/a	n/a	5.5
Inflation	9.7	n/a	10.3	6.5	10.0	6.5-7.0	6.5
CRR*	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Policy Rate (Repo Rate)	8.5	8.5	10.0	n/a	10.0	10.0	10.0
SDF (Standing Deposit Facility)	7.0	7.0	8.5	n/a	8.0	8.0	8.0
SLF (Standing Lending Facility)	10.0	10.0	11.5	n/a	11.5	11.5	11.5
Reserve Money Growth Rate	7.9	2.0	7.3	1.0	-0.1	5.0	8.0
Broad Money Growth Rate	7.7	8.2	7.6	8.4	7.0	7.8	8.5
Domestic Credit Growth Rate	10.0	10.7	9.4	11.6	8.0	10.0	10.3
Private Sector Credit Growth Rate	9.8	9.8	7.3	9.8	6.4	7.2	8.0
Public Sector Credit Growth Rate	10.5	14.2	18.1	17.8	13.6	20.4	18.1
Net Foreign Assets Growth	-17.4	2.3	-15.7	17.8	4.5	28.3	21.8
Net Domestic Assets Growth	13.8	9.3	12.1	6.8	7.4	4.8	6.2

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 sustains its contractionary stance in H1 FY26 to anchor inflation and stabilize macro fundamentals. The policy rate holds at 10.00%, with Standing Lending Facility (SLF) rate (11.50%) unchanged and Standing Deposit Facility (SDF) rate revised down to 8.00%. Inflation remains elevated; BB targets 6.5% for FY26. The FX regime has shifted to a flexible, market-based system, with interventions to manage volatility. FY25 GDP growth slowed to 3.97% (provisional); FY26 is projected at 5.5%. Private credit growth remains subdued amid tight liquidity, while public borrowing maintains uptick. Reforms in banking governance, asset quality review, and resolution frameworks are underway to address high NPLs. BB projects broad money growth at 8.5% and private credit growth at 8.0% for FY26. Despite global uncertainties, BB signals continued restraint in monetary expansion, prioritizing price stability, FX flexibility, and financial sector resilience.

**Policy Rate and  
SLF Rate  
Unchanged;  
SDF Revised**

**Inflation Target  
6.5%**

**Bank Reforms  
Gaining Traction**

**FX Regime  
Market Based**

**Credit Growth  
Stays Tight**

Since August 2024, Bangladesh Bank (BB) has pursued a disciplined, reform-driven strategy to stabilize the economy amid inflation, FX volatility, and banking sector fragility. Major actions include adopting classical tightening approach (hitting the policy rate at 10%), transitioning to a fully flexible exchange rate regime, and launching sweeping banking reforms—such as asset quality reviews, resolution frameworks, and governance restructuring. Point-to-point inflation peaked at 11.66% in July 2024 but eased to 8.48% by June 2025, aided by coordinated demand-supply measures. Reserve Money (M0) saw a slight contraction (-0.1%), reflecting fiscal consolidation and net government repayments. On the external front, BB achieved a BoP surplus of USD 3.29 Bn, FX reserves rose to USD 26.7 Bn (Jun'25-end) on top of clearing FX backlogs, and remittances hit a record USD 30.33 Bn - driven by liberalized FX policies, formal channel flow, and digital financial inclusion. These efforts signal BB's commitment to macro stability, inflation anchoring, and restoring investor confidence.

From a holistic lens, Bangladesh Bank is holding rates steady while deepening FX liberalization to anchor inflation and restore macro stability. Banking sector reforms are front-and-center, and BB's stability-first approach signals cautious credit expansion, with any rate easing contingent on sustained inflation moderation.



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H1'FY26 MPS

**We expect inflation to ease further, paving the way for gradual rate softening and a pickup in credit growth. BB's continued tight stance supports stronger investment income and repricing opportunities for financial institutions. FX stability is improving, with FX Reserves slowly rebuilding on the back of resilient remittance and export flows. With critical reforms on the horizon, BB is expected to steer transformative measures to reignite trust and stability across the financial sector.**

## POLICY RATE: MAINTAINED AT 10%, ROOM TO EASE

### Corridor Expanded to 8.0%–11.5%, Rate Held Steady:

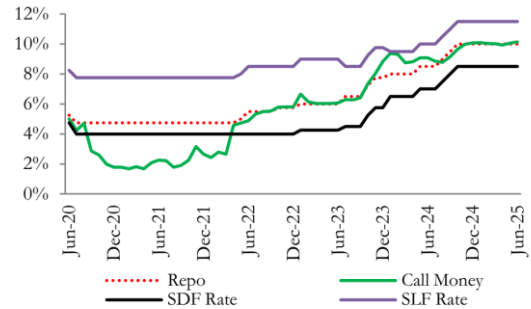
Bangladesh Bank (BB) has retained the policy (repo) rate at 10.0%, unchanged since October 2024, reflecting its continued tight monetary stance. The corridor has been slightly expanded, with the Standing Deposit Facility (SDF) lowering to 8.0% and the Standing Lending Facility (SLF) remaining at 11.5%.

- The reduction in SDF is expected to discourage excessive short-term savings, promoting more productive use of liquidity within the financial system.
- SLF remains elevated to deter short-term borrowing, encouraging financial prudence amid ongoing reform in banking governance.

### Open Market Operations Streamlined for Liquidity Discipline

BB continues to refine its liquidity management by simplifying its Open Market Operations, moving toward a unified repo rate regime to enhance monetary transmission and remove rate distortion in the banking system.

Chart 11: Movement of Call Money and Policy Rates



Source: Bangladesh Bank

### Analyst Comment:

- Despite holding the rate steady, BB signaled a potential pivot if inflation trends below 7.0%, **as policy rate in real term reaches 3.0% on sustainable basis.**
- We anticipate rate normalization in H2FY26 to support credit recovery and real sector growth, though BB may act sooner if export softness and BDT depreciation pressure resurface.

## INTEREST RATE ENVIRONMENT: STABLE FOR NOW

**Interest Rate Settling at Peak:** Interest rates have experienced a sharp increase during FY25, following the shift towards a market-based interest rate mechanism in May'24, coupled with a continued contractionary monetary policy and a tight cash liquidity environment. As of May'25, both lending and deposit rates expanded by 158 bps and 133 bps, respectively, since the removal of interest rate restrictions back in Apr'24. Subsequently, private sector credit slowed down amidst high inflation and increased financial expenses.

**G-Sec Yields Similarly Signals Stability:** Yields on the government securities during Jun'25 remain broadly similar to Jun'24 end. Despite intermittent declines, interest rates have broadly remained rigid. BB anticipates inflation containment measures would help mitigate negative real interest rates.

Chart 12: Developments of Deposit rates

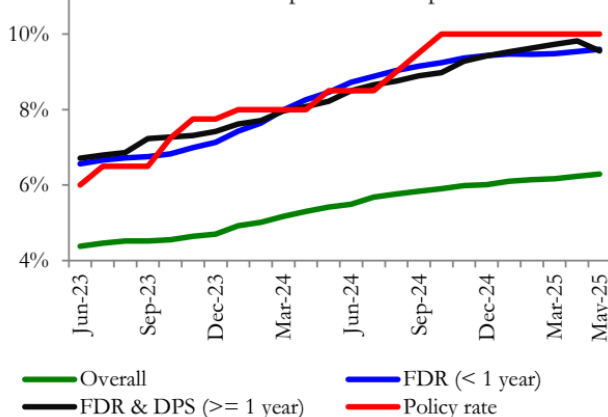


Chart 13: Developments of Lending rates

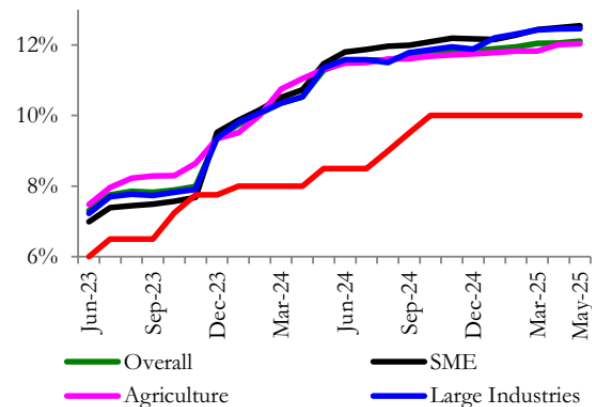
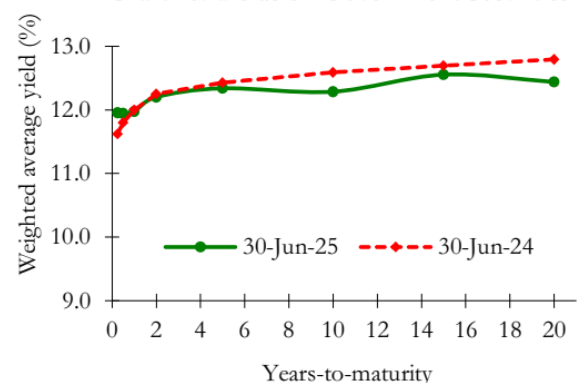


Chart 16: Yields on Government Securities



#### Analyst Comments:

- The current high interest rates are anticipated to continue till inflation (as of Jun'24, 12M inflation: 10.03%; P2P: 8.48%) consistently remains below the 7.0% threshold (so that real interest rate reaches 3.0%). However, market-

anchored rates are expected to enable banks and NBFIs to price assets based on risk and enhance their spreads.

- While the treasury yields declined in Jul'25 (150-200 bps), we are cautious whether this decline was temporarily driven by liquidity and lower GoB borrowing demand.

## INFLATION: POLICY ACTION IN EFFECT, INFLATION EASING

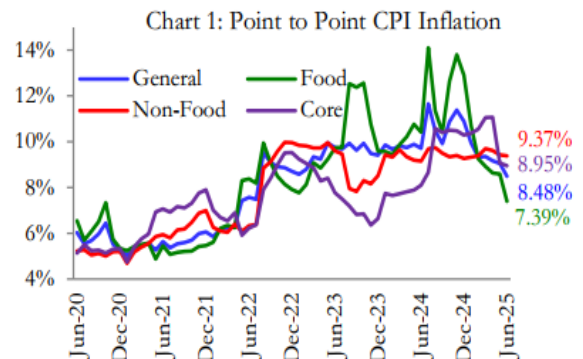
### Cautious Projection at 6.5%-7.0% range

Bangladesh Bank revised its inflation forecast to a 6.5%-7.0% range by December 2025, with the latest Jun'25 figure easing to 8.48% (P2P).

The latest easing in inflation appears to stem from a set of deliberate policy actions by both the government and the central bank - these include maintaining a tight monetary stance through sustained high policy rates, ensuring exchange rate stability, and narrowing the fiscal deficit. On the supply side, supportive measures such as the rationalization of import duties, removal of LC margin requirements on key imports, tighter commodity stock monitoring, and declining global commodity prices have further helped to cool off inflationary pressures.

#### Analyst Comments:

The current policy stance supports a cautiously optimistic outlook for easing inflation in FY26. Key priorities for the government and Bangladesh Bank include addressing market inefficiencies, maintaining exchange rate stability, and leveraging favorable global commodity trends. However, the inflation outlook remains vulnerable to both domestic and



Source: Bangladesh Bureau of Statistics (BBS)

external risks. Geopolitical tensions and potential tariff shocks, particularly from a shift in U.S. trade policy, could disrupt disinflation momentum and pose challenges to the broader recovery.

## LIQUIDITY: SUPPORTS WORKED, COMFORTABLE FOR NOW

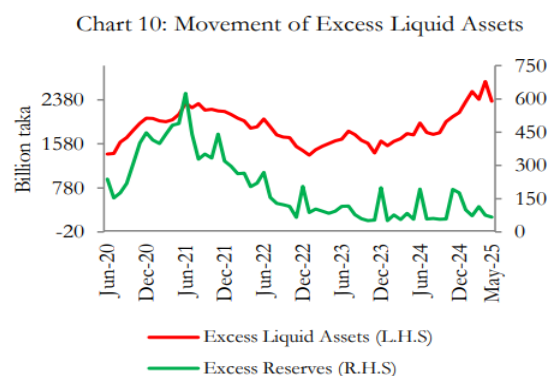
**Cash Liquidity Remains Tight:** Liquidity continues to be tight due to multiple factors, such as high volume of non-performing loans (NPLs) due to loan fraud and irregularities at certain banks, discontinuation of 28-D repo facility, withdrawals of deposits stemming from a lack of confidence in the banking sector, and widespread scams, particularly in certain Shariah-based banks. BB has undertaken several initiatives to tackle the issue, which includes providing unsterilized liquidity support to struggling banks to meet their daily operational needs and reducing the "daily" cash reserve requirement (CRR) from 3.5% to 3.0%.

**Broad Money Below the Target:** Broad Money (M2) growth moderated to 7.0% YoY in June'25 vs projected 8.4%. Clearance of deferred payments and lower than expected FX budget support contributed to the 4.5% growth in Net foreign assets (NFA), falling short of the projected 7.7% growth. Reserve Money (M0) saw a degrowth of 0.1% instead of the projected 1.0% growth, primarily due to GoB's net repayment of BDT 639.97 Bn to Bangladesh Bank, which outweighed BB's unsterilized liquidity support to stressed banks. Subsequently, the call money rate rose to 10.14% in June 2025 (Jun'24: 9.08%), broadly aligning with the unchanged policy repo rate of 10.0%. Interbank repo rate also increased to 10.37% in Jun'25 from 8.56% in Jun'24.

#### Analyst Comments:

While a substantial portion of the private banks' liquidity is invested in G-Sec, certain weak banks continue to depend on BB liquidity support. We anticipate once economic activities

rebound and interest rate eases, we may see gradual unlocking of liquidity.



Source: Bangladesh Bank

Particulars	BDT Bn	Timeline
<b>Overall Liquidity Support</b>	<b>12,091</b>	<b>H2FY25</b>
Of which: Shariah Banks	844.2	
<b>Interbank Guarantee</b>	<b>111.0</b>	
Of which Utilized	65.0	As of May'25
<b>Special Liquidity Support (Daily Operations)</b>	<b>330.2</b>	<b>June 2025</b>
<b>Support to Liquidity-stressed banks</b>	<b>193.5</b>	<b>June 2025</b>

## EXCHANGE RATE: BANGLADESH SHIFTS TO MARKET-BASED FX REGIME

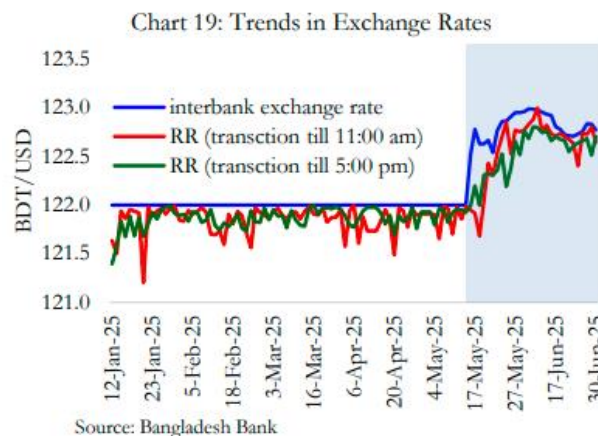
On May 14, 2025, Bangladesh Bank (BB) adopted a flexible market-based exchange rate, ending administrative controls and allowing the BDT to move freely.

- BB publishes **Reference Exchange Rate (RR)** based on actual trades twice daily to guide the market.
- Stabilization observed:** BDT/USD interbank rate held at 122.77 by June 2025, with FY25 depreciation slowing to 3.89%, down from 8.17% in FY24.
- Interbank spot transaction volumes rose 9X since April 2025, signalling confidence in the FX market.
- Despite this liberalization, BB retains a mandate to **intervene to curb volatility** if needed.
- NEER depreciated 7.31% in FY25, but REER fell 0.45% as higher inflation in Bangladesh offset much of the nominal currency depreciation.

### Analyst Comments:

BB's move toward a more flexible FX regime is a step in the right direction, helping the BDT better reflect market dynamics. The introduction of a market reference rate and wider trading

band supports better price discovery, though smooth execution will depend on liquidity and clear guidance. While challenges remain, the reform sends a positive signal to the market. BB has already implemented a USD 500 Mn forex intervention fund to stabilize FX rate as required.



## FX RESERVE: SHARP RECOVERY DRIVEN BY IMPROVED INFLOWS

FX reserves (BPM6) rose sharply to USD 26.7 Bn at the end of June 2025 (vs USD 21.7 Bn in FY24), despite BB's net sale of USD 508 Mn, primarily to settle government payments for fuel, electricity, and fertilizer imports.

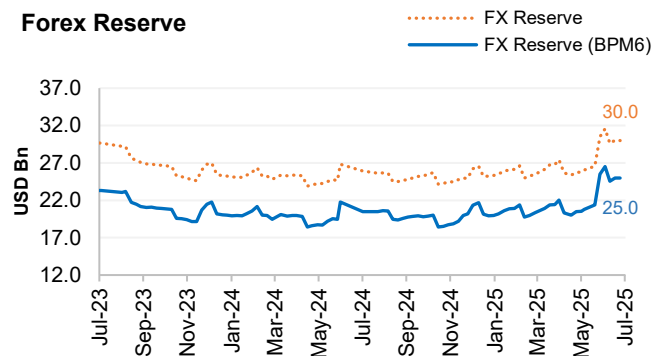
### Reserve buildup was largely driven by sizable inflows

- Remittances hit a record high of USD 30.3 Bn, growing 26.8% YoY in FY25, supported by a competitive market-driven exchange rate, tighter controls on unofficial channels, and better access to agent banking and MFS.
- Exports expanded by 8.6% YoY to USD 48.3 Bn in FY25, aided by strong RMG demand (+8.8%) and solid growth in leather, footwear, and plastic products.
- External aid from multilateral agencies also supported the reserve position.
- Imports grew modestly by 2.4%, recovering from an 11.1% contraction in FY24, primarily driven by RMG raw material and consumer goods. However, weak capital machinery imports continued to reflect tepid investment demand.

### Analyst Comments:

- We anticipate a better trade situation over export and remittance growth over flexible exchange rate. As economic activities rebound, import could also pick up pace going forward.
- GoB debt servicing would create a sizable demand for USD. Besides, if US tariffs remain, that could add further pressure on FX reserve.

### Forex Reserve





## BROAD MONEY TARGETS AND CREDIT SCENARIO

### Broad Money Trailing the Target

Broad Money (M2) grew 7.0% YoY at the end of Jun'25 against the projection of 8.4%. Net Foreign Assets (NFA) experienced 4.5% YoY growth, though fell short of the earlier projections attributed to external payments. Additionally, Net Domestic Assets (NDA) registered a moderate growth reflecting GoB's net repayment to BB. Looking ahead, M2 growth is set at 8.5% for Jun'26, while the NFA is projected to grow at 21.8% on the wake of surplus in overall BoP, and positive anticipation in exports and remittances while NDA is projected to grow by 6.2% by Jun'26.

### Credit Scenario Remains Anaemic

Overall domestic credit growth (8.0% YoY) came short of earlier projections. Notably, public sector credit growth expanded to 13.1% YoY owing to increasing GoB needs as revenue collection declined while private sector credit recorded the historical lowest growth of 6.4% YoY. By Jun'26, given GoB's larger reliance on banking system for financing, public credit growth is expected to manoeuvre around 18.1%

and private credit growth to hit 8.0%. Considering both, domestic credit growth is projected at 10.3% for Jun'26.

Table 4: Monetary and Credit Projections for FY26

Item	Actual			Projection	
	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26
Broad money	7.7	7.6	7.0	7.8	8.5
Net Foreign Assets*	-17.4	-15.7	4.5	28.3	21.8
Net Domestic Assets	13.8	12.1	7.4	4.8	6.2
Domestic Credit	10.0	9.4	8.0	10.0	10.3
Credit to the public sector	10.5	18.1	13.6	20.4	18.1
Credit to the private sector	9.8	7.3	6.4	7.2	8.0
Reserve money	7.9	7.3	-0.1	5.0	8.0
Money multiplier	4.92	5.15	5.27	5.28	5.30

Source: MPD staff's calculation based SBS. \* Calculated using constant exchange rates of 30 June 2025.

### Analyst Comment:

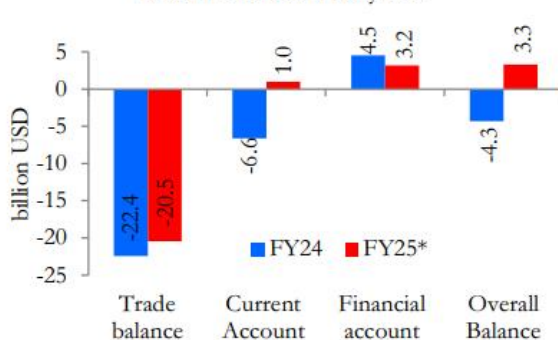
- Subdued revenue collection is likely to keep public sector credit demand upbeat. However, BB's proposed refinancing and pre-finance schemes are expected to channel credit towards productivity and employment-generating sectors, partially offsetting crowding-out concerns.

## BALANCE OF PAYMENTS

### Remittance Drives Current Account Recovery

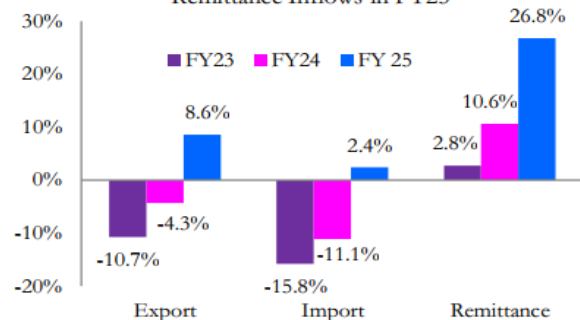
Diverging from the previous trend, BB continues to refrain from providing a forecast on the external sector, first initiated during H2'FY25 MPS. Driven by export expansion, market-driven exchange rate, and a boost in remittance inflow (+26.8% YoY), BB reported the Current Account (CA) surplus at USD 981 Mn in FY25 (FY24: USD 6.6 Bn deficit). Meanwhile, the Financial Account (FA) was USD 3.2 Bn surplus (FY24: USD 4.5 Bn surplus), due to weak inflow of long-term loans, large deficit in trade credit, and increase in foreign liabilities. Subsequently, the overall BoP balance flipped to a USD 3.29 Bn surplus during FY25, an impressive progress compared to a USD 4.3 Bn deficit during FY24.

Chart 17: Balance of Payment



Source: Bangladesh Bank, \* Provisional

Chart 18: Growth of Export, Import, and Remittance Inflows in FY25



Source: Bangladesh Bank

### BoP Dependent on External Supports

BB expects the Balance of Payments (BoP) to show moderate improvement in FY26, supported by strong remittances and steady export performance. However, with limited scope for further current account gains and a potential uptick in import demand, focus will likely shift to financial account dynamics. Downside risks persist, particularly from possible U.S. tariffs on RMG exports and heightened domestic political uncertainty, both of which could dampen FDI inflows and export growth.

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## WHAT'S IN IT FOR CAPITAL MARKET

The MPS reinforces the following capital market initiatives by the Interim Government to boost the capital market:

- Reducing government stake in multinational companies
- Encouraging large local firms to list on the stock exchange
- Cracking down on market manipulation
- Reducing reliance on bank loans
- Setting up commodity exchanges
- Implementing blockchain-based back-office software for greater transparency

## OTHER UPCOMING CHANGES TO THE SYSTEM

BB has initiated wide-ranging reform programs including:

- **Restructuring of Bank Boards:** Dissolving and restructuring boards of directors for 15 banks to restore effective governance.
- **Asset Quality Review (AQR):** Implementation of the AQR framework, with 17 banks selected for assessment in phases, involving international consulting firms.
- **Bank Resolution Ordinance, 2025 (BRO):** Issued to facilitate bank resolution for non-viable banks, establish a Banking Sector Crisis Management Council, and confer resolution authority to BB. The ordinance encompasses a wide range of resolution powers, including the establishment of a bridge bank, bail-in mechanisms, purchase and assumption transactions, temporary public ownership (if necessary), and the separation and transfer of assets to asset management companies.
- **Distressed Bank Resolution:** To commence following completion of AQR of the selected banks.
- **Roadmap to ECL-based Loan Provisioning:** Development of a roadmap to implement Expected Credit Loss (ECL)-based loan provisioning by 2027, aligning with IFRS 9.
- **Risk-Based Supervision (RBS):** BB will roll out RBS of banks starting from January 2026.
- **Strengthening Good Governance:** Issuance of a circular on "Transactions with Bank-Related Persons or Institutions" to ensure transparency and impose stricter limits on credit facilities.
- **Asset Recovery:** Formation of a task force and Joint Investigation Teams (JITs) to identify, investigate, and repatriate siphoned assets, collaborating with international partners.
- **Draft Bangladesh Bank Order:** To strengthening Bangladesh Bank's institutional capacity and restructuring its operations to enhance compliance.
- **Emergency Liquidity Assistance Framework:** Will outline the application process, interest rate, collateral requirements, duration, maximum limit, approval mechanisms, and execution procedures for providing liquidity support to banks facing such challenges.

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