



IDLC-SL H2 FY25 MPS Review

Adapting policy in economic reality

Summary

Policy Rate: Unchanged at 10%; 11.5% standing lending facility (SLF) & 8.5% standing deposit facility (SDF).

Inflation Target: 7-8% by FY 2025.

GDP Growth Target: 4-5% in FY25.

Inflation:

- Inflation in Bangladesh remains high at 9.94% in Jan 2025, down from 10.89% in Dec 2024 & 11.38% in Nov 2024. Driven by food inflation reaching to 10.72% in Jan 2025 from 12.92% in Dec 2024 & 13.80% in Nov 2024.
- Inflation expected to fall to 7-8% by FY25 end on the back of ongoing winter effect, Boro Rice production, low devolvment, global declining price outlook & stable exchange rate of BDT.

Economic Growth:

- Real GDP growth was 4.22% in FY24, with a sharp decline to 1.81% in Q1FY25.
- Economic rebound is expected on the back of steady remittance growth, increasing export earnings, and releasing of pent up import demand. The Purchasing Manager's Index (PMI) has already picked up by 4 points reaching 65.7 in Jan 2025 against Dec 2024.
- Expected growth is 4.0%-5.0% in FY25.

Exchange Rate:

- BDT/USD rate at 122 with crawling peg set at 2.5% for top and bottom rate. Publishing of market based spot exchange rate to stabilize forex.
- Plans to slowly move towards market based exchange rate but not now due to risk of market manipulation by the money aggregators.
- Stable exchange rate is expected, supported by stable remittance growth, increasing export earnings, and lower BoP deficit.

Summary

Balance of Payment:

- **CA:** USD 33mn surplus in H1FY25 against USD 3.5bn deficit in H1FY24; **FA:** USD 1.4bn surplus in H1FY25 against USD 604mn in H1FY24; **BoP:** USD 384mn deficit in H1FY25 against USD 3.5bn deficit in H1FY24.
- **Export:** USD 29bn in 7MFY25, implying 12% growth against USD 26bn in 7MFY24; **Remittance:** USD 16bn in 7MFY25, implying 24% growth against USD 13bn in 7MFY24; **Reserve:** USD 20bn level is expected for FY25.
- Due to slow revival of economy activities and releasing of pent up import demand, the financial account surplus (FDI Inflows, Budget Support & Development Aid) would be more significant for keeping low deficit in Balance of Payment.

Money Growth & Credit Growth:

- Broad money growth was at 7.6% in Dec 2024 (previous target: 8.2%, new target: 8.4%). It was thwarted by 15.7% de-growth in Net Foreign Assets on the onset of payment arrears. The reserve money grew at 7.3% rate (previous target: 2.0%, new target: 1.0%) on the back of 9.4% growth in domestic credit growth.
- Private sector credit grew 7.3% in Dec 2024. Crowding out effect from the public sector credit (18.1% growth) in Dec 2024, along with political uncertainty pushed down the credit demand in the private sector.

Liquidity:

- The banking sector's liquidity improved in H1FY25 due to BB's interventions. Even though excess liquid assets rose in 6M FY25, the excess reserve decreased. BB had also injected BDT 235bn as liquidity support to weak banks. BB has kept itself away from devolvment along with introducing two new BB bills.
- Along with the dropping of inflation, T-Bill and T-Bond yields have decreased as of last auction (**ST:** 97bps to 147bps; **LT:** 27bps to 128bps).

Summary

Banking Sector:

- Expected NPL to be 30.00% by Jun 2025 while it is 16.93% in Sep 2024. Contributing factors include systemic weaknesses, regulatory gaps, and exploitative practices such as money laundering and illicit capital flight.
- BB guaranteed interbank liquidity support is encouraged by the central banks to the weak banks. Bi-weekly Repo auction from daily auction.
- It is planned by operation of 3 separate task forces: a) Implementing comprehensive banking sector reforms – focusing on corporate governance & risk management practices B) Strengthening BB capacity & restructure operations to enforce the banking regulations & improve compliance. C) recovering stolen assets and managing NPLs by establishing Asset Management company.
- Asset Quality Review (AQR) to assess financial health of bank while Bank Resolution Act & Deposit Insurance Act to support in resolving, restructuring, or liquidating underperforming banks. The Ultimate Beneficial Owners (UBO) disclosure to improve governance and transparency.
- On the other hand, inter-agency task force has been formed to recover illegally transferred assets in abroad while working along with international organizations.
- Expected Credit Loss (ECL) provisioning is to be implemented in 2027 in alignment with IFRS 9.

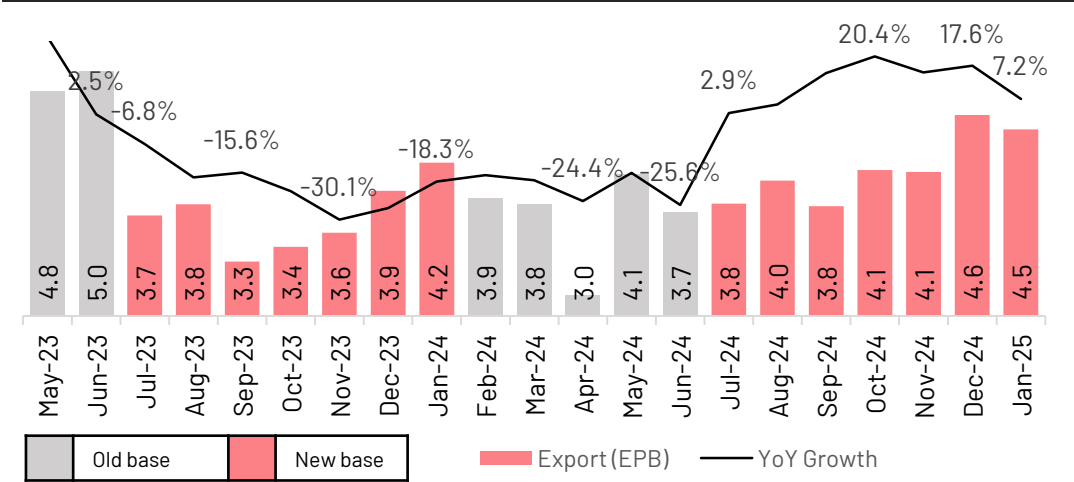
Macro Outlook



7M FY25 export grew by c12% riding on global rate cuts & economic revival of export destinations

- In 7M FY25, Bangladesh's exports rose by c12% YoY to USD 29bn from USD 26bn in 7M FY24*, despite labor unrest in the RMG sector post-regime change and economic challenges in key markets like the US, China, UK, and EU.
- The export is expecting tailwinds as the inflation & interest rates are easing up in the export destinations. The European Central Bank (ECB) cut rates from 4.00% to [3.00%](#), Bank of England has cut rates by 25bps to [4.50%](#), US has reduced short term rates to the range of [4.25% - 4.50%](#) from earlier 5.25% - 5.5%, Sweden has reduced rate from 3.25% to [2.75%](#), and China has lowered its 1 Year Loan Prime Rate (LPR) & 5 Year LPR to [3.10%](#) and [3.60%](#) from respectively 3.35% and 3.85%.

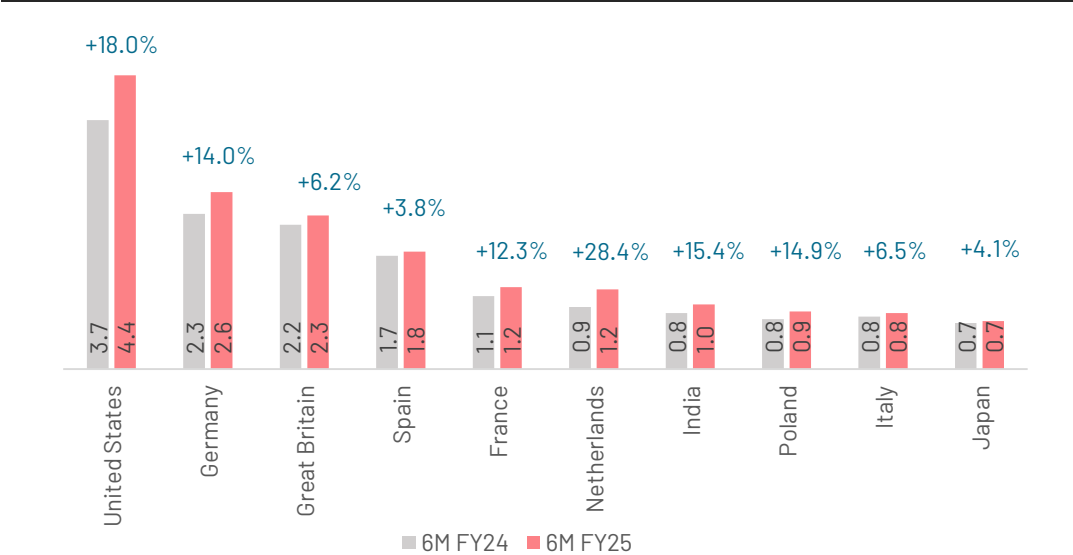
Fig: Monthly Exports (USD bn, YoY Growth)



* Revised EPB data has been used for Jul-Jan 2023 and Jul-Jan 2025 period

Source: IDLC-SL Research, Bangladesh Bank

Fig: Country-wise Exports (USD bn, YoY Growth)



Austerity measures & low demand kept import in check

- In Jul-Dec FY25, import FOB stood at USD 32.2bn, implying c1% yoy growth, compared to USD 32bn from the previous year. The flat figure indicates the continuation of the austerity measures by the government though the spike in Oct 2024 can be attributable to the pent-up demand during Jul – Aug 2024.
- Increasing import of raw cotton, chemicals, capital machinery, and textiles & articles thereof for the 5M FY25 is in alignment with the revival of RMG sector and subsequent pick up of export earnings in FY25.

Fig: Monthly Imports FOB (USD bn, YoY Growth)

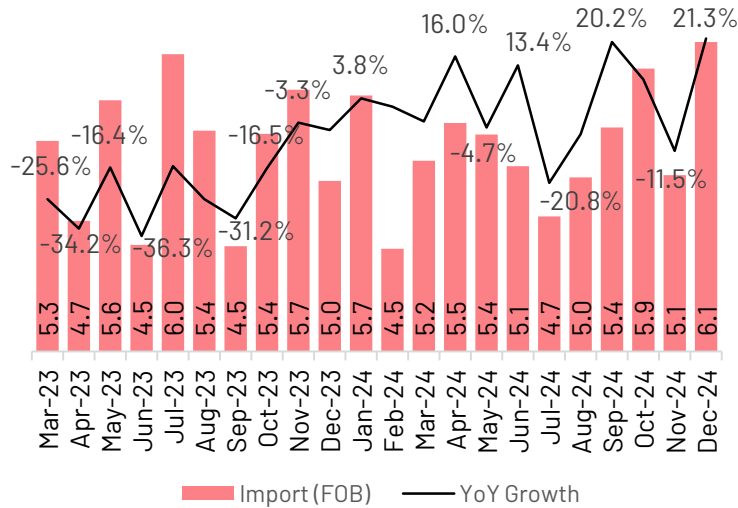


Fig: Monthly Imports C&F (USD bn, YoY Growth)

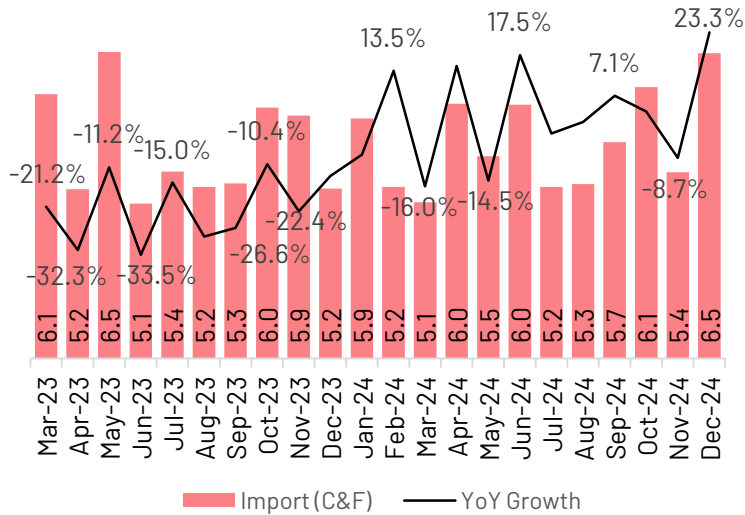
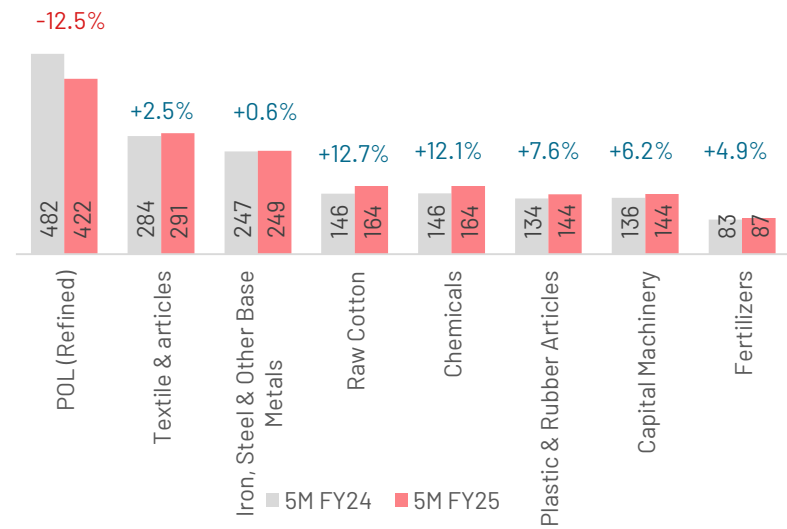


Fig: Commodity-wise Imports (BDT bn, YoY Growth)



Source: IDLC-SL Research, Bangladesh Bank

LC opening & settlement both increased 3-4% in 6M FY25

- In 6M FY25, both LC opening and LC settlement increased by c4% & c3% respectively, compared to the same period in FY24, due to the political change and continuation of austerity measures.
- The LC opening and settlement increased in Dec 2024. Pent up demand, import for Ramadan increased LC opening whereas clearing up dues hiked LC settlement.

Fig: Monthly LC Opening (USD bn, YoY Growth)

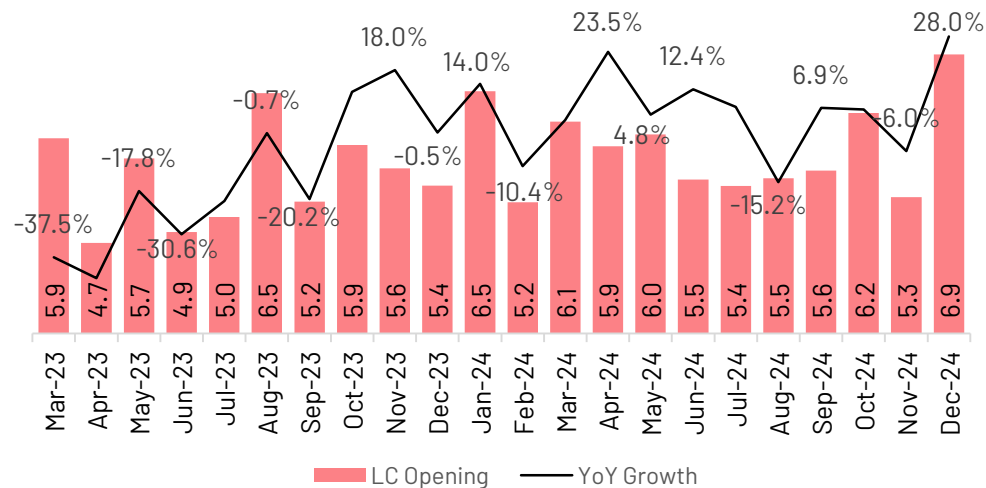
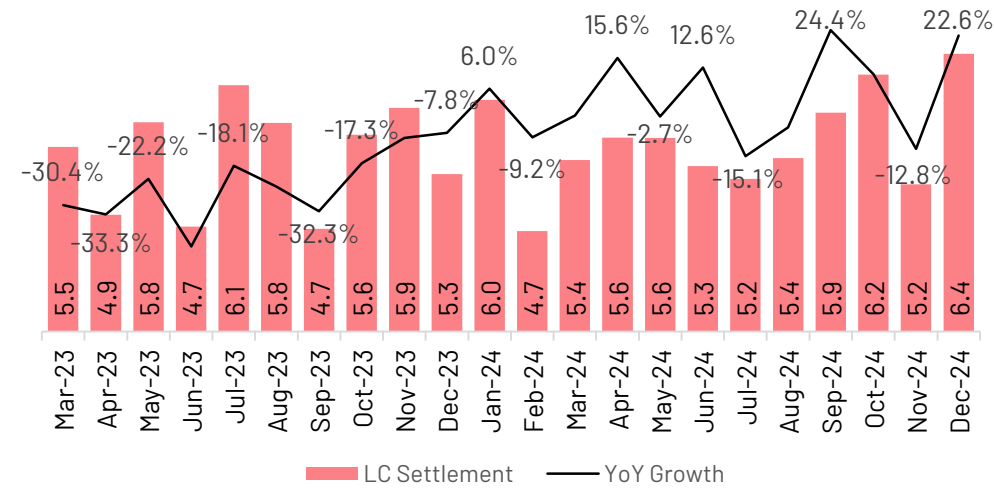


Fig: Monthly LC Settlement (USD bn, YoY Growth)



Source: IDLC-SL Research, Bangladesh Bank

Meanwhile, double digit growth in remittance continued

- The 7M FY25 remittance stood at USD 16bn against USD 13bn in 7M FY24, registering a sharp c24% yoy increase.
- If we adjust the remarkably low remittance in Aug & Sep 2023, prior to the national election, the growth is likely to stand c14%.
- The regime change is likely to have curbed black money creation and wealth transfer thereby, suggesting more remittance inflow through formal channels.
- The continuous expatriation to Malaysia, UAE, and Oman along with UK, USA, Singapore & Italy is likely to help the growth continue.

Fig: Remittance (USD bn, YoY Growth)

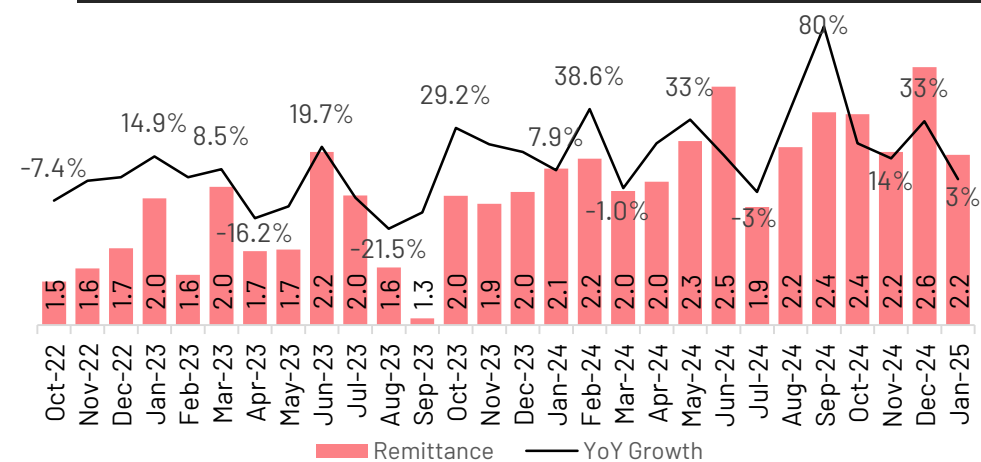
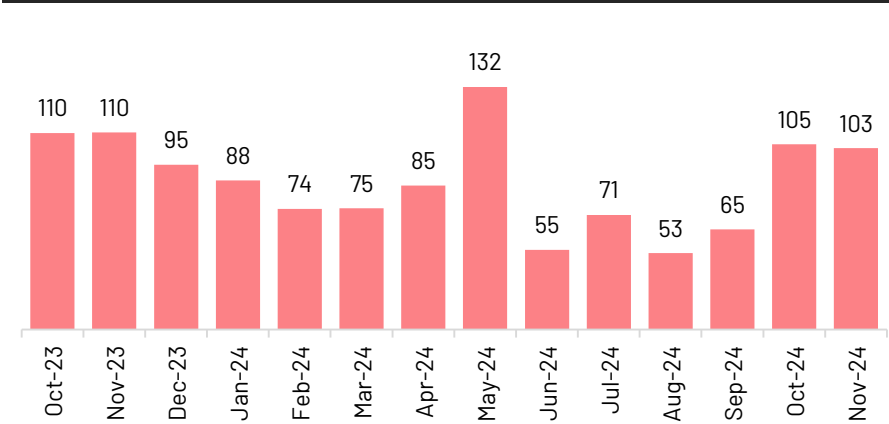


Fig: No of Employees Left for Abroad ('000s)

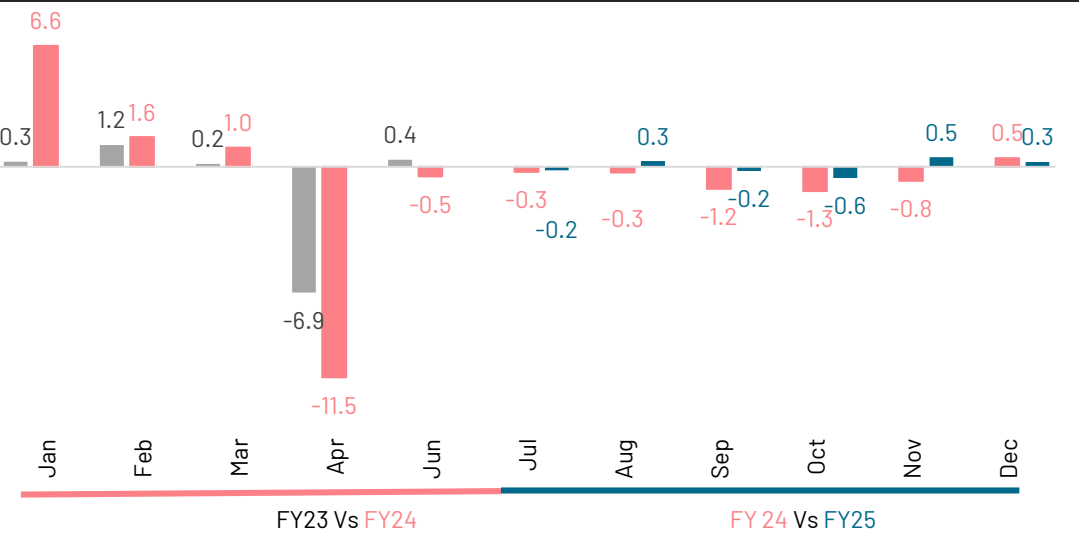


Source: IDLC-SL Research, Bangladesh Bank

which supported the decline in current account deficit

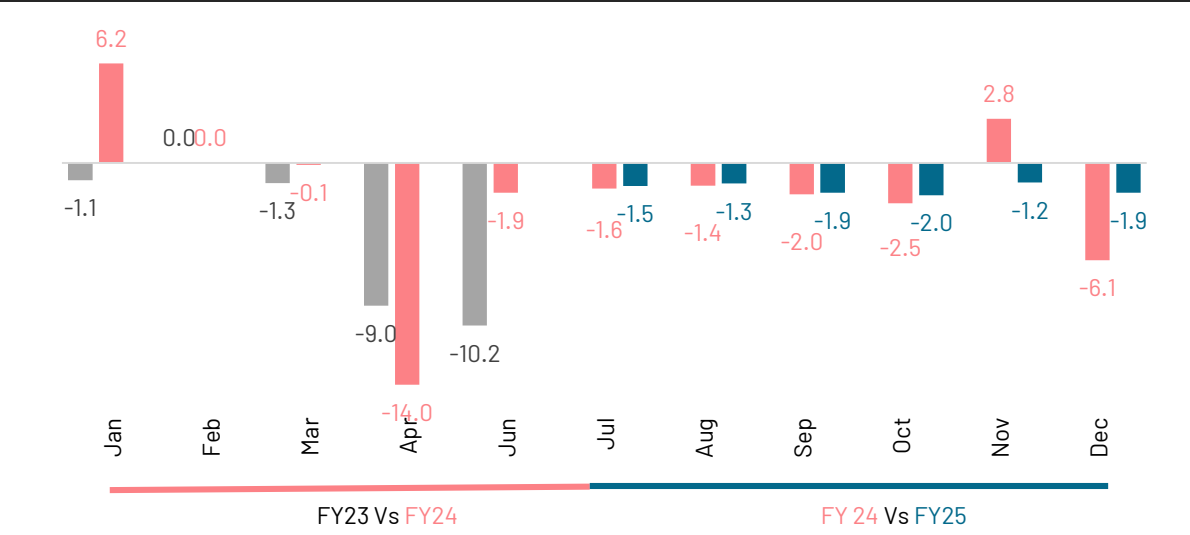
- Current account balance was USD 33mn in 6M FY25 and it was USD -3.5bn in 6M FY24, indicating a massive reduction in current account deficit. With austerity measures on import, increasing export, and steady remittance inflow, the current account deficit declined in the early FY25 and it is expected to remain low in FY25.
- In 6M FY25, trade balance was USD -9.8bn against USD -10.9bn in 6M FY24, as export growth outpaced import growth due to austerity measures and lower consumption during regime change.

Fig: Monthly Current Account Balance (USD Bn)



* May 2023 & May 2024 rebased data not available
Source: IDLC-SL Research, Bangladesh Bank

Fig: Monthly Trade Balance (USD Bn)

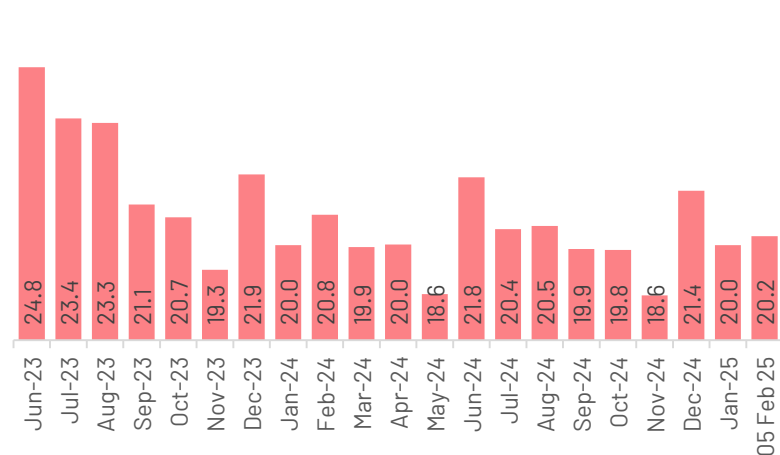


* May 2023 & May 2024 rebased data not available

Foreign fund inflow to balance debt repayment

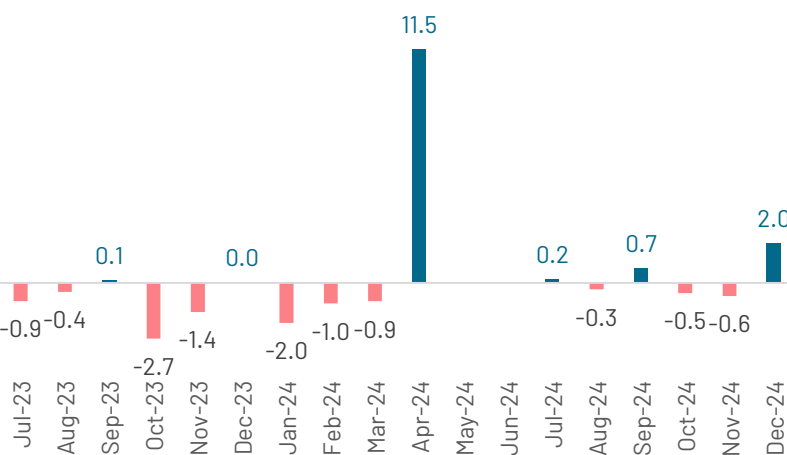
- At 05th February 2025, the forex reserve declined c3% YoY and stood at USD 20.2 compared to Feb 2024. As there is no Asian Clearing Union (ACU) payment in Feb 2025, the forex reserve is expected to stay above USD 20bn level.
- In 6M FY25, financial account balance stood at USD 1.4bn against USD -5.4bn in 6M FY24, driven by fund commitment inflow.
- Even though, the repayment is expected to increase from H2 FY25 period, Bangladesh has foreign fund commitments with expectation of receiving USD 4.9bn in the next 1.5 years – USD 0.7bn by June 2025 & USD 4.2bn by June 2026.

Fig: Foreign Exchange Reserve (BPM6, USD bn)



Source: IDLC-SL Research, Bangladesh Bank

Fig: Financial Account Balance (USD bn)



* May & June 2024 data is not available

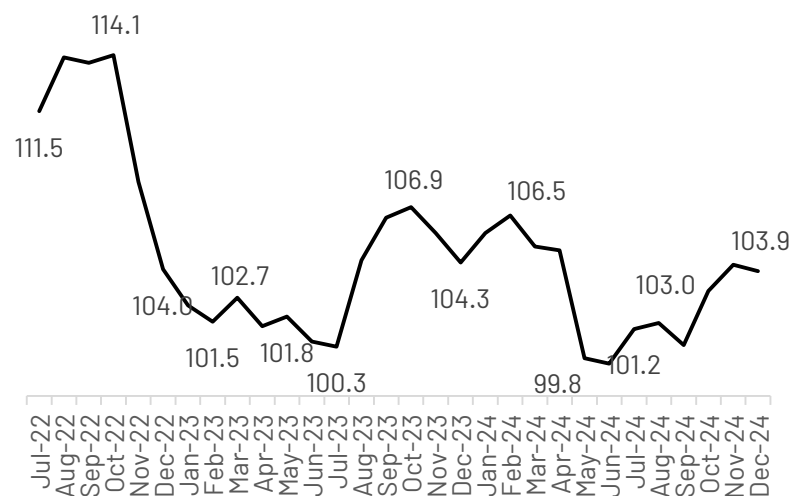
Fig: Foreign Fund Commitments (USD mn)

Partner	Purpose	Amount	Date
IMF	ECF & EFF	565	Feb 25
IMF	Resource Gap	80	Feb 25
IMF	Resource Gap	80	Jun 25
WB	Health , Nutrition	379	FY25/26
WB	CWASA	280	FY25/26
IMF	ECF & EFF	1,935	FY 26
IMF	Resource Gap	590	FY 26
ADB	Climate Resilience	1,000	CY 25
ADB	Climate Resilience	4,000	CY 26 to 29

Currency is likely to experience less volatility

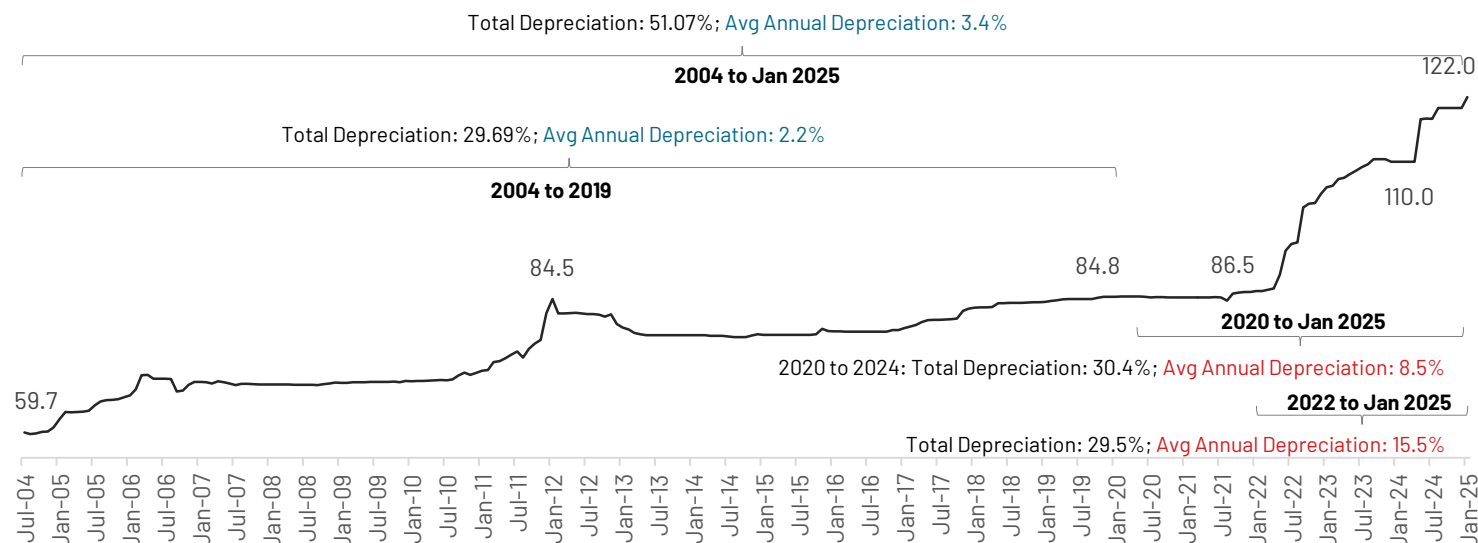
- The BDT has stabilized, after c31% depreciation in 43 months, with REER value declining from its October 2022 peak of 114.1 to 103.9 in December 2024. The BDT depreciation in COVID and Post-COVID era (Jan 2020 – Jan 2025) stands at c30%, compared to c45% in Pakistan and c39% in Sri Lanka rupees.
- The level of depreciation and decline in current account deficit suggests that another massive currency depreciation is less likely, given the current economic circumstances. Going forward, depreciation should follow the long term rate: 3.4% CAGR in the past 20 years.

Fig: Real Effective Exchange Rate (REER) of BDT



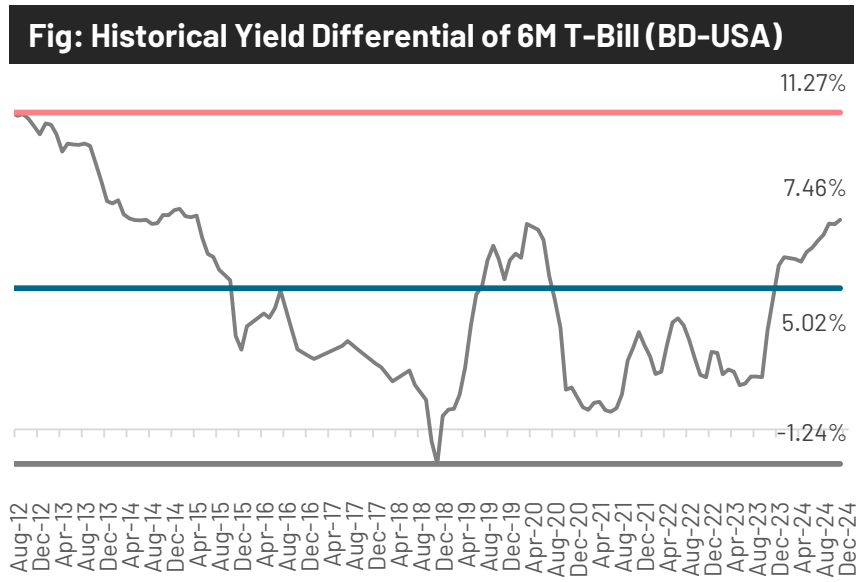
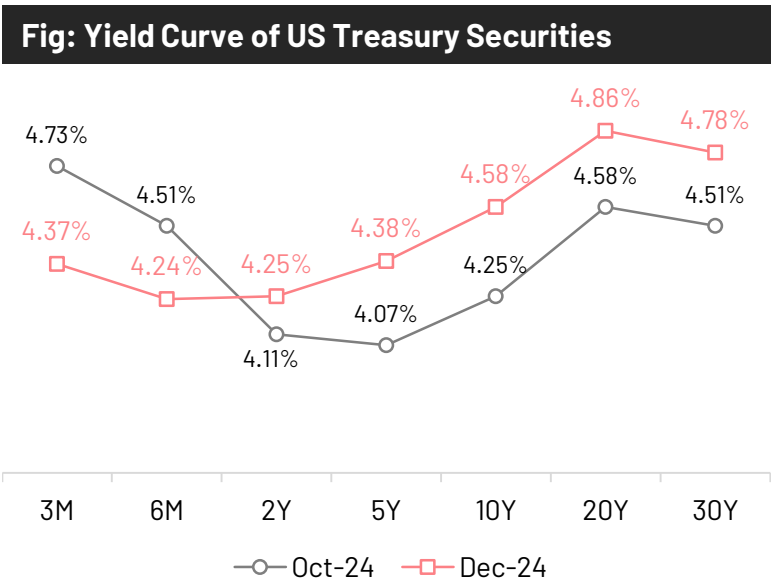
Source: IDLC-SL Research, Bangladesh Bank

Fig: Inter-Bank Exchange Rate (USD-BDT)



High yield differential with US supports such expectations

- The declining trend in global inflation and interest rates (i.e. drop in US Policy rate by 100bps in 3 steps) along with the increasing yield differential between BD and US treasury instruments, which is currently 7.46%, also bolster such expectations.



Source: IDLC-SL Research, WP Finance LLC, Bangladesh Bank, Wall Street Journal

But demand-supply disparity may cause sudden spike

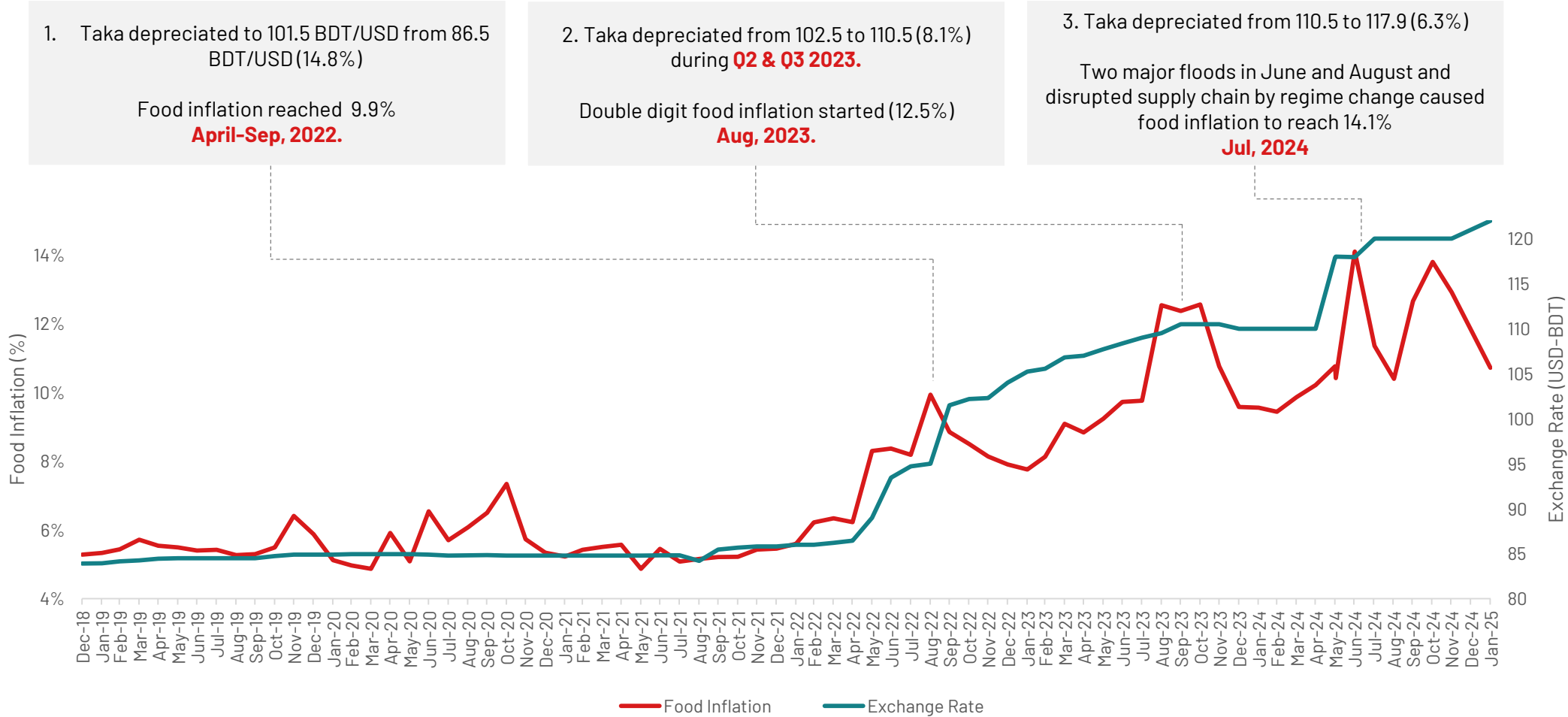
- Any sudden shock in demand and supply scenario, however, may push the prevailing exchange rate balance.
- For example, the central bank instructed to clear all Letter of Credit (LC) related payment in time along with the easing of the austerity measures for import in recent months.
- This led commercial banks to collect forex dollars from remittance aggressively, resulting in spike of USD rate from BDT 120 to BDT 128 among aggregate exchange houses. The ripple also spilt over the curb market, thus affecting overall balance.
- It led central bank to intervene in the forex market and increase the interbank exchange rate to BDT 122. It also suggests that the austerity measures will continue, and the forex market will be under strong monitoring.

The positives stemming from **export growth, austerity measure, strong remittance, and foreign fund commitments** has been providing cushion to the economy against the external adversities.

However, to confront the reality of CY25, we must unveil the major challenge of the economy which is

Inflation

We import more than just food—we also inherit inflation



Source: IDLC-SL Research, Bangladesh Bank

High rice prices aided inflation

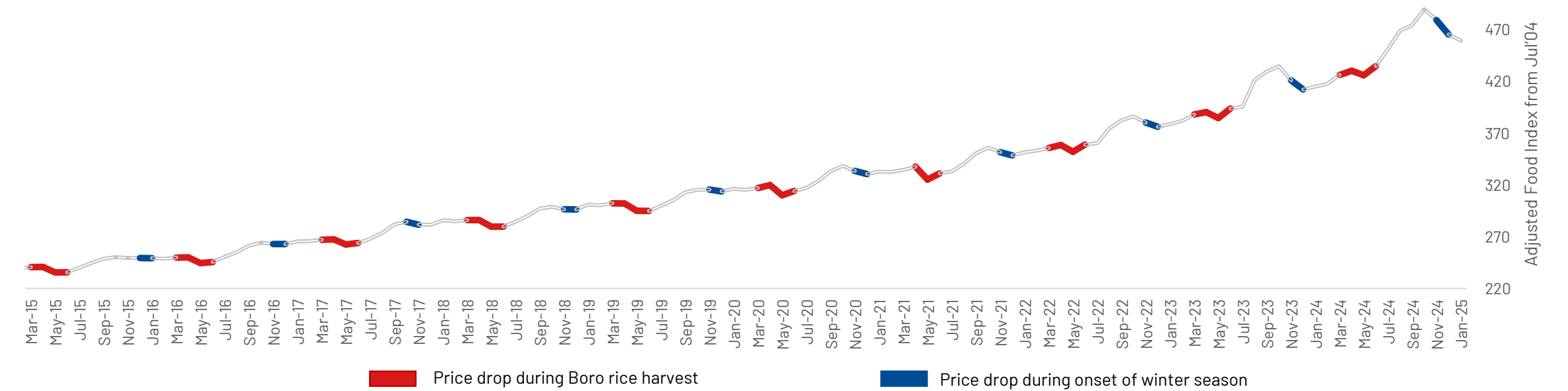
- Aman rice, accounting for 41% of total rice production and being the second-most produced rice crop, has been adversely affected by recent flooding.
- In the past month, fine rice prices rose by 4% to BDT 70-84, medium-grain rice increased by 2.46% to BDT 60-65, and coarse rice surged by 6.67% to BDT 54-58. On average, rice prices have climbed 15% over the past year. As rice comprises 20% of the food index, this sustained increase is contributing to elevated food inflation.

Crop	Harvesting Period	Production (Million Metric Tons)	% of Total Production
Aush	July-August	3	7%
Aman	December-January	17	41%
Boro	April-June	21	52%

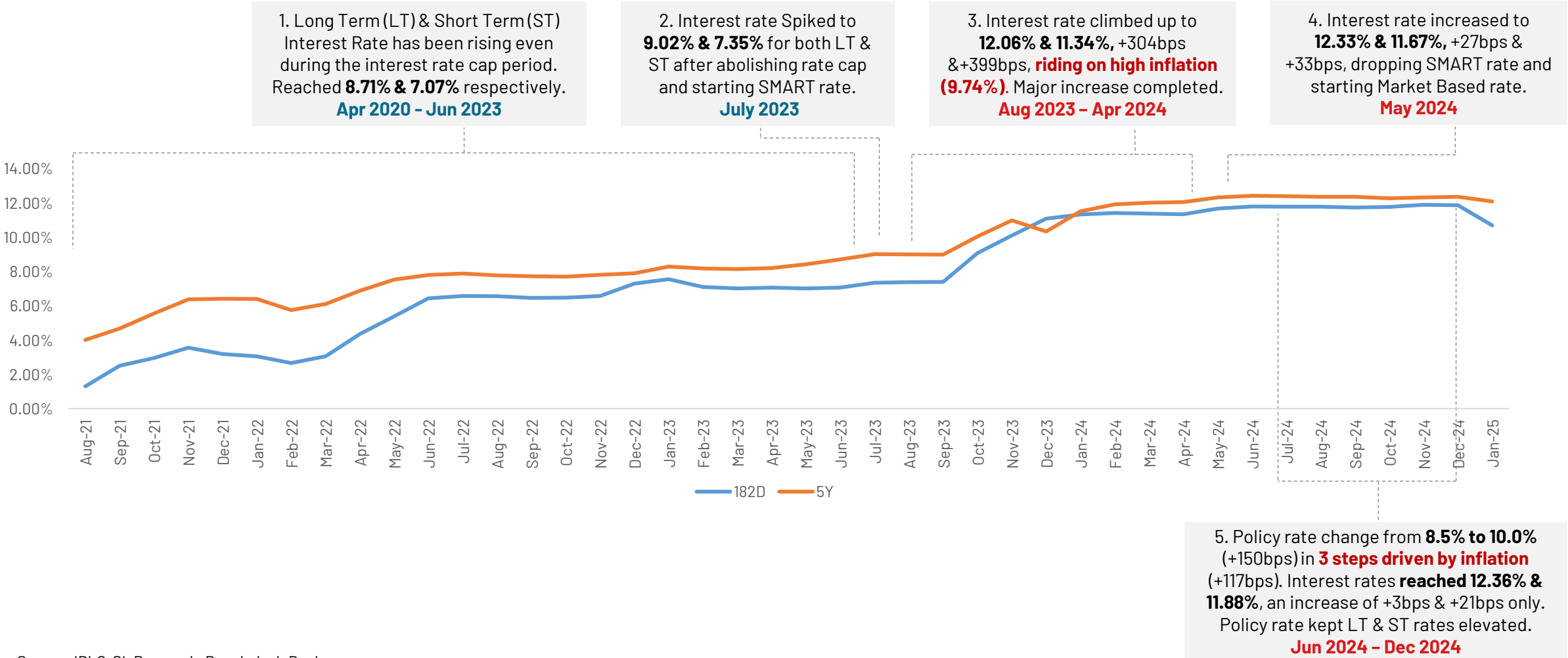
Source: IDLC-SL Research, Bangladesh Bureau of Statistics

Inflation dropped in January; further decline expected during Boro harvest season

- The early winter season typically experiences a price decline or plateau due to the arrival of new crops, while the later part experiences plateau or push up in the food price level (index).
- Historical trends indicate that price level (index) typically drop in the Apr-Jun period, during the harvest season of Boro rice, which constitutes 52% of the total rice production in the country.
- The winter effect is already in play during Dec 2024, and we have already seen Jan 2025 inflation to drop. Additionally, Boro rice harvest period is looming around Apr-Jun 2025. So, the factors to reduce inflation are coming into play.



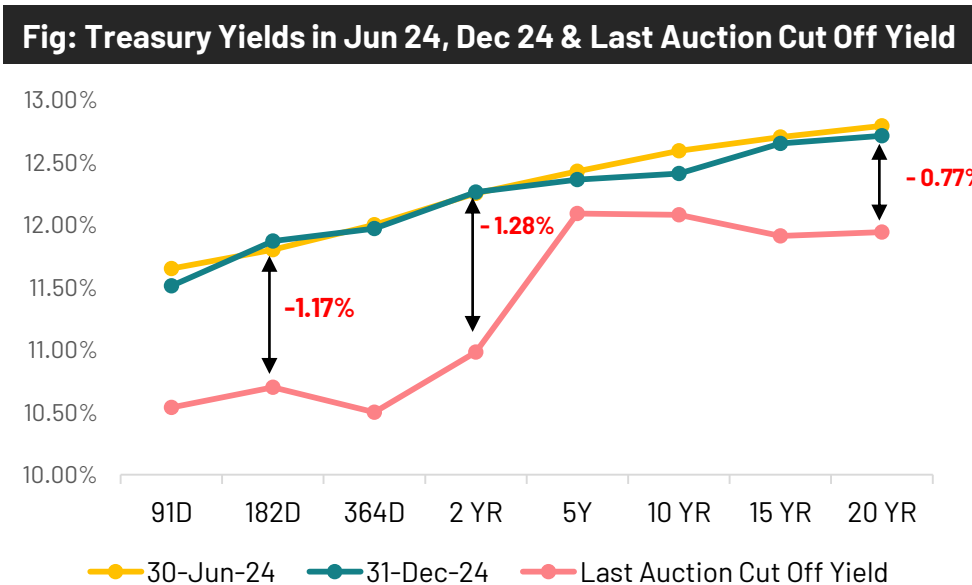
Inflation has been driving the interest rates



Source: IDLC-SL Research, Bangladesh Bank

The interest rates are coming down

- Following the drop in food inflation in December 2024 & January 2025, along with the unchanged policy rate of 10% and Bangladesh Bank no longer participating in the devolvement process – the short term and long-term treasury yields have come down drastically.
- The short term treasury yields have decreased in the range of 97 to 147bps points while the long term yields decreased in the range of 27bps to 128bps.



Source: IDLC-SL Research, Bangladesh Bank

Revision of policy rate will wait for now

- Even if the inflation has been declining for last two months (Dec 24 & Jan 25), the policy rate may not be dropping right away.
- The policy rate is expected to remain elevated for a few more months, until there is a substantial drop in inflation.
- Developed economy (USA) & emerging economy (India) – both showcases elevated policy rate even after drop in inflation.

Fig: Policy Rate & Inflation: USA

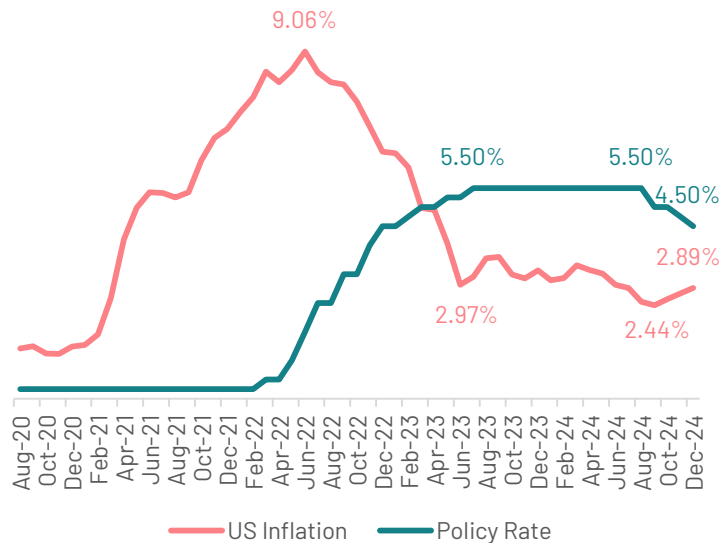


Fig: Policy Rate & Inflation: Bangladesh

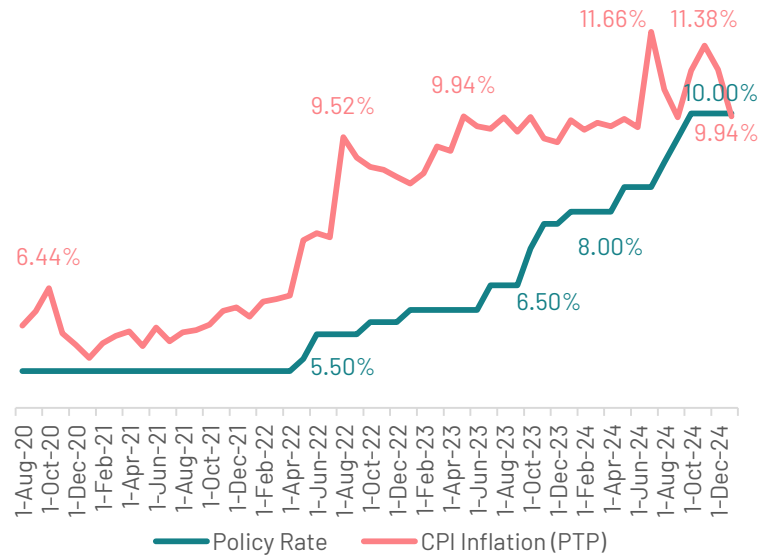
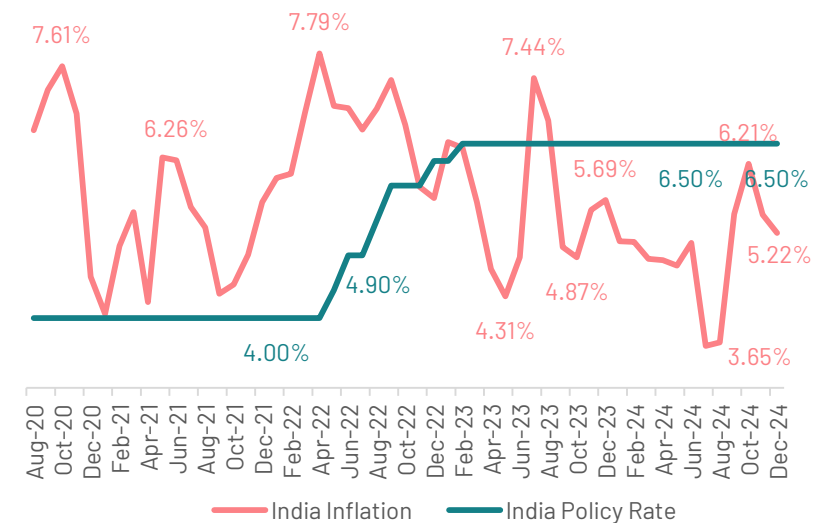


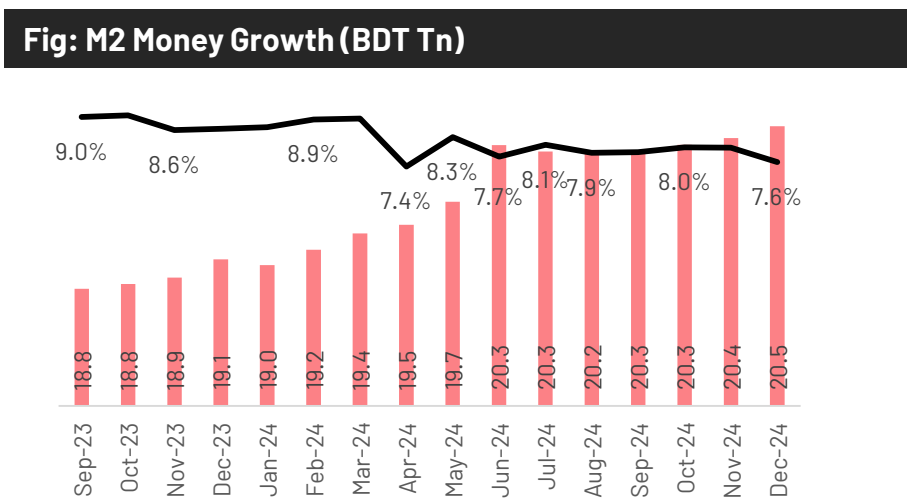
Fig: Policy Rate & Inflation: India



Source: IDLC-SL Research, Bangladesh Bank

Curbing inflation required controlling money supply

- The M2 money has been growing steadily around 8% for the last 6 months.
- In absolute monetary term, the M2 money has concentrated between BDT 20.3 to 20.5tn since June 2024, indicating a control on the money supply in the economy.



Source: IDLC-SL Research, Bangladesh Bank

... and mopping of liquidity with low devolvement

- In Jun'24 government had provided a large liquidity support which is being mopped up starting from July 2024. Additionally, BDT 235bn liquidity support has been provided to the weak banks from central bank. As a result, the reserve money reached BDT 399.5bn, a 7% YoY growth in Dec 2024.
- Decreasing trend of devolvement indicated by only BDT 4.3bn net devolvement in 4M FY25 by Bangladesh Bank, along with the government printing less money – is also working towards mopping up liquidity from the market.
- Bangladesh Bank (BB) has also reduced the Repo Auction to one-day and introduced 90D and 180D BB bills as part of its initiative to regulate and mop up money supply in the market.

Fig: Reserve Money (BDT Bn, YoY Growth)

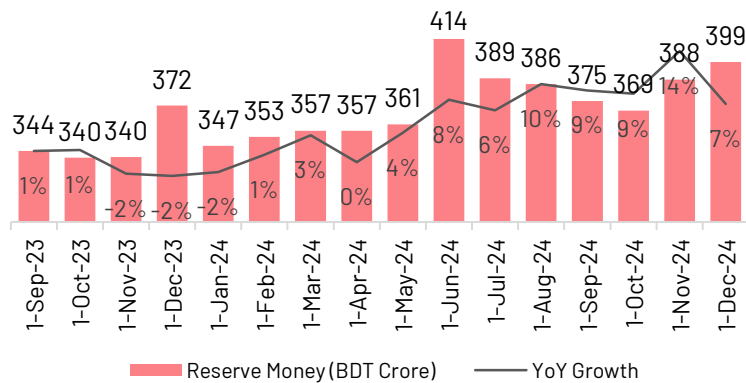


Fig: Gross G-Sec Devolvement Outstanding (BDT Crore)

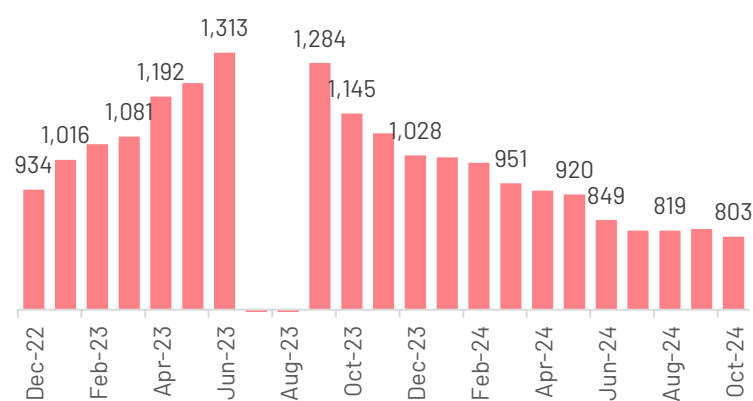
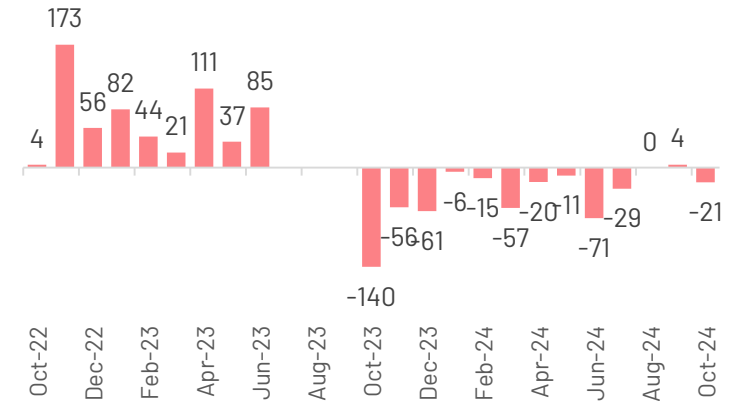


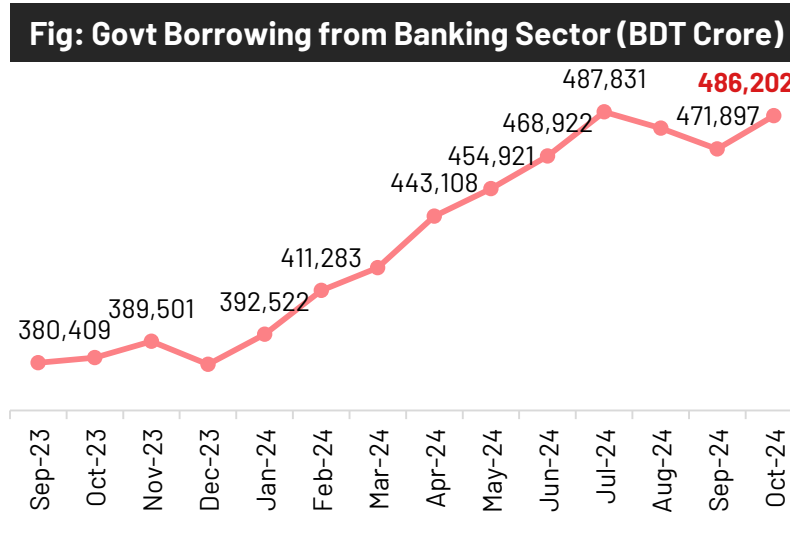
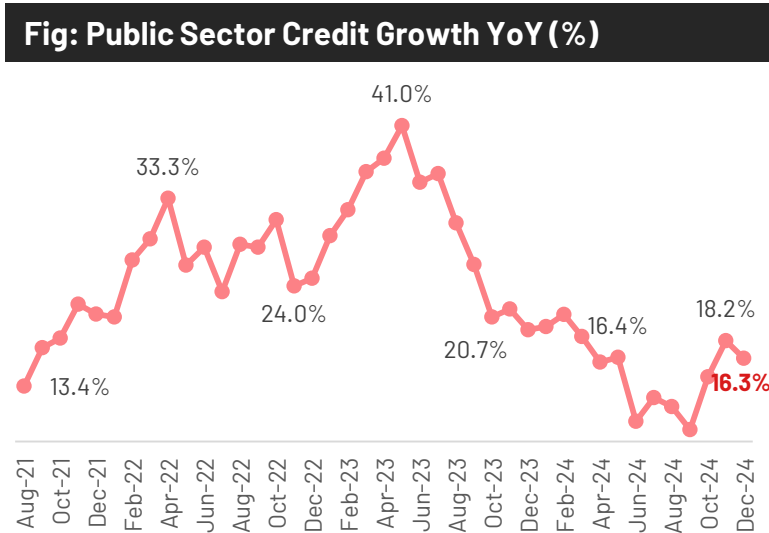
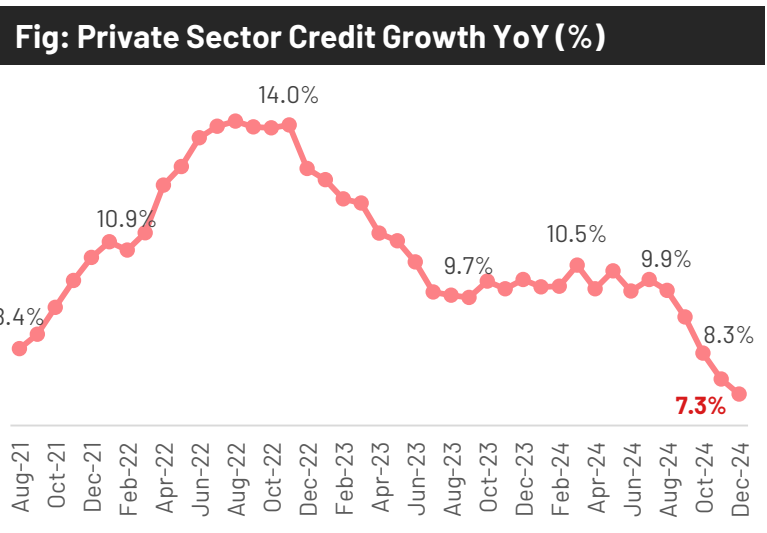
Fig: Net Monthly Devolvement (BDT Crore)



Source: IDLC-SL Research, Bangladesh Bank

High rates & crowding out slowed private credit growth

- Due to the persisting high-interest rate scenario in the economy, the private sector credit amounted to BDT 16.9tn, indicating a c7% yoy growth in Dec'24, which is in contrast of the general double-digit growth in the economy. Without controlling the inflation, the private sector credit is expected to be subdued for the remaining FY25.
- On the other hand, the public sector credit had a sharp increase of c16% yoy in December 2024* indicating the financing of budget deficit from banks and thereby resulting in a crowding out effect.



Source: IDLC-SL Research, Bangladesh Bank, *Weekly Selected Economic Indicators

As a result, economic activity is slowing down

- The Real GDP Growth stood at 1.81% in the Q1 FY25 (Jul-Sep 24) and 12.41% in FY24 compared to the same period previous year, indicating a contraction in the economic output.

Fig: Real GDP Growth (%)

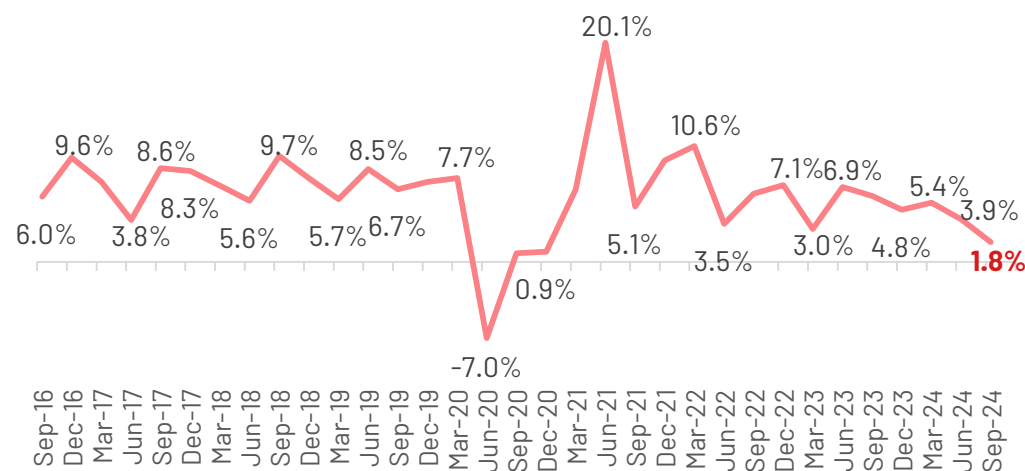
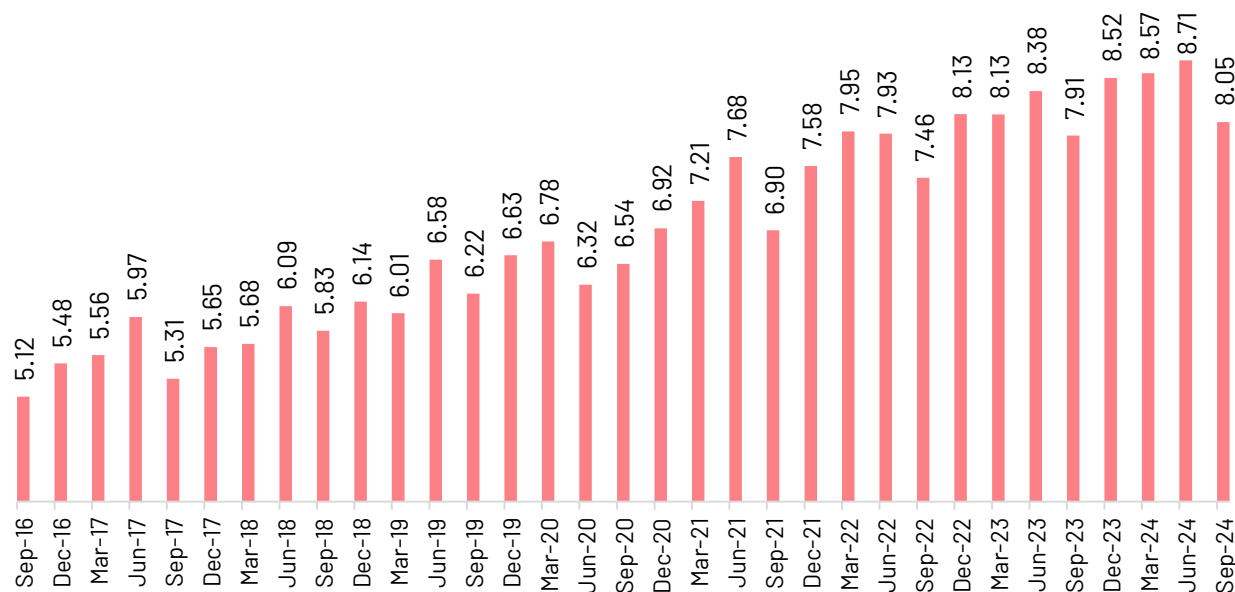


Fig: GDP at Constant Price (BDT Tn)



Source: IDLC-SL Research, Bangladesh Bank

Revenue collection also dropped

- As the GDP growth is slowing down, it affects government's revenue collection, which has declined by c1% during 4M FY25 yoy.
- The declined revenue collection is also creating challenge to meet budget requirements.

Fig: Growth (%) in NBR Tax Revenue

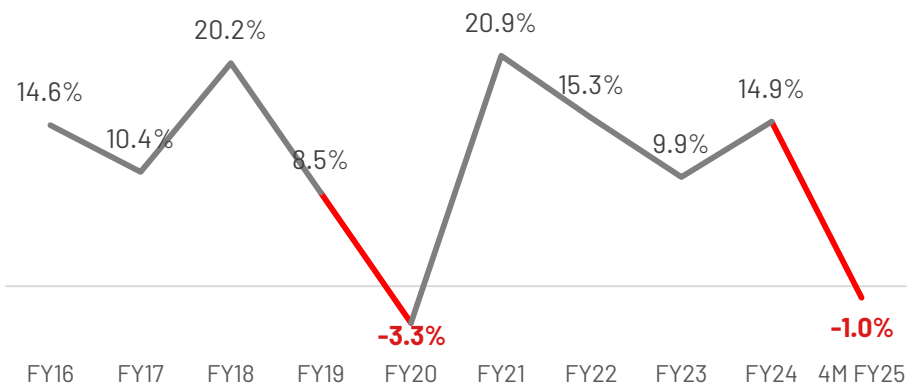
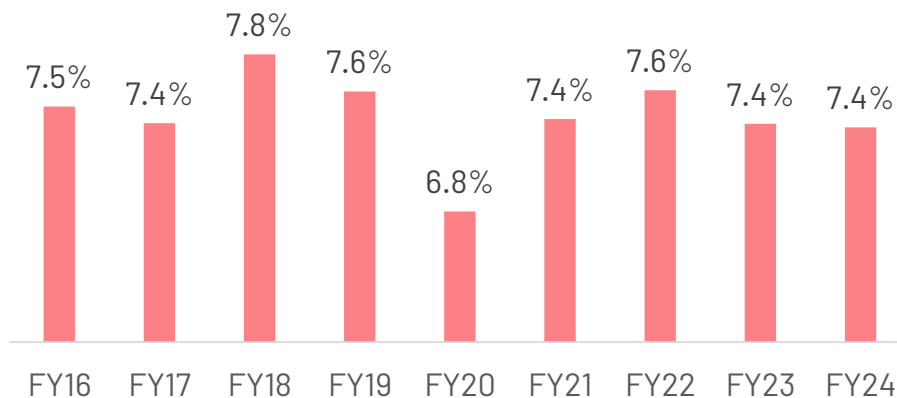


Fig: NBR Tax Revenue to GDP (%) per year



Source: IDLC-SL Research, Bangladesh Bank

Disclosures

Explanation of Research Recommendations

- Buy recommendation means – an upside of 15% or more within a trading range of 180 days.
- Sell recommendation means – a downside of 10% or more within a trading range of 180 days.
- Hold recommendation means – an upside or downside of less than the above within a trading range of 180 days.

The recommendations are based on data generally available in the market and reflect the prices, volatility, corporate information and general economic data available at the time of publication together with historical information in respect of the security(ies) or issuer(s). Further information in respect of the basis of any valuation is available from the analyst on request.

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Research Team



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Mr. Saif was appointed as MD of IDLC SL in 2009. He has over 24 years of experience working in the financial sector. Mr. Saif joined IDLC in 2001 as a Management Trainee in the Real Estate Finance unit. He worked as Head of Credit & Collection of Personal Finance Division prior to his current role. Mr. Saif completed his MBA from the Institute of Business Administration, University of Dhaka in 2001 and holds an MBS degree from University of Rajshahi. He is a CFA charter holder.



Tanay Kumar Roy, CFA
Head of Equity Research

Tanay Kumar Roy assumed the role of Head of Equity Research of IDLC Securities Limited in January 2022. He has more than 11 years of experience in Equity Research and Investment. Tanay joined IDLC Securities Limited in October 2016 as a Research Analyst. Prior to joining the team, he was a Senior Research Associate in LankaBangla Securities Limited. Before starting his career as a sell-side analyst, he gathered experience as a buy-side analyst in LR Global BAMCO. Tanay graduated from Institute of Business Administration (IBA), University of Dhaka and completed MBA from the same institute. He is a CFA charter holder.



Md Fahad Been Ayub
Business Analyst

Md. Fahad Been Ayub is a Business Analyst at IDLC Securities Limited, starting his tenure in July 2023 as a Senior Executive Officer. Before joining IDLC Securities Limited, Fahad worked as an Engineer in the Technology division at SSD-TECH. Fahad holds a Bachelor's degree in Computer Science and Engineering from Chittagong University of Engineering & Technology (CUET). To complement his technical background, he pursued an MBA with a major in Finance from the Institute of Business Administration (IBA), University of Dhaka, equipping him with a robust understanding of financial strategies and business management.



Mohammad Tashnim
Research Associate

Mohammad Tashnim is a Research Associate at IDLC Securities Limited. He has started his journey as a Management Trainee of IDLC in May 2024. Prior to joining in IDLC, Tashnim had worked in investment banking and in Finance & Accounts department of two other organizations. Tashnim has completed his MBA with Major in Finance from Institute of Business Administration, University of Dhaka in 2024 & completed his BBA from Bangladesh University of Professionals in 2019. Tashnim has completed CIMA Level 1 and a Post Graduate Diploma in Islamic Finance Practices.



Zareen Binte Shahjahan
Research Associate

Zareen Binte Shahjahan is a Research Associate at IDLC Securities Limited. She started her career with IDLC Finance Limited from May 2024 through their Youth Leadership Management Trainee Program. She was placed in IDLC Securities Limited from October 2024. Zareen completed her undergraduate degree from Bangladesh University of Professionals in May 2024 where she majored in Finance and Banking.

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