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IDLC-SL H2 FY26 MPS Review

Policy rate on hold; liquidity tweaked ahead of election

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Highlights

- **Interest rates:** The policy rate has likely peaked; meaningful easing is unlikely soon as inflation control remains the priority.
- **Money market:** The SDF cut is aimed at improving short-term liquidity and reviving interbank activity. This supports system stability but does not materially alter banks' profitability or credit behavior in the near term.
- **Equities:** Any valuation re-rating requires post-election political stability and policy credibility rather than liquidity conditions alone.
- **Foreign exchange:** Exchange-rate stability and reserve rebuilding are supportive of foreign participation, though sustained inflows will hinge on confidence in the political and reform outlook.

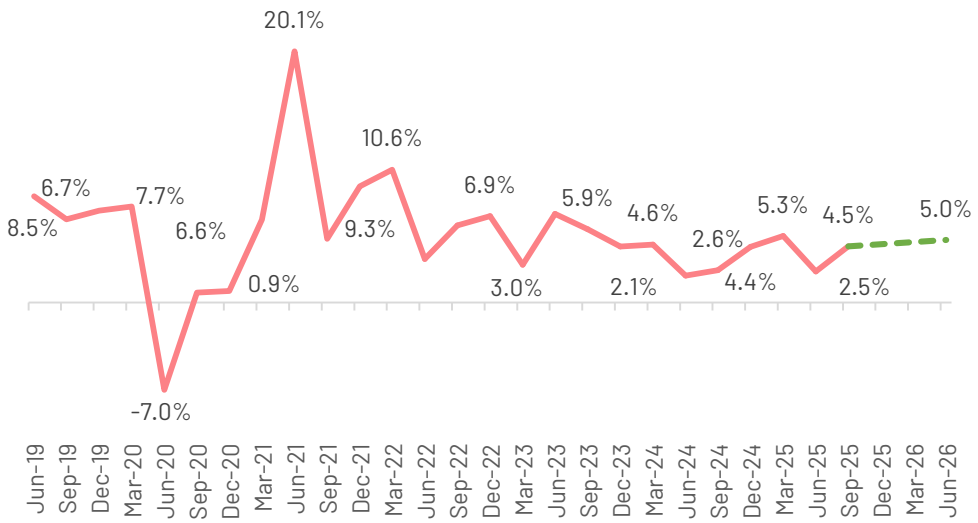
Particulars	Actual			Jun-26	
	Jun-25	Sep-25	Dec-25	Prior Projections	Revised Projections
Inflation- General *	8.48%	8.36%	8.49%	6.5%	7.9%
Economic Growth	2.47%	4.50%		5.5%	5.0%
Reserve money growth	-0.1%	3.5%	9.2%	8.0%	8.0%
Broad money growth (M2)	7.0%	8.1%	9.6%	8.5%	11.5%
Domestic credit growth	8.1%	10.3%	11.0%	10.3%	11.5%
Public sector credit growth	13.6%	25.0%	28.9%	18.1%	21.6%
Private sector credit growth	6.5%	6.3%	6.1%	8.0%	8.5%
Net Foreign Asset	4.3%^	17.6%^	26.8%	21.8%	22.0%
Net Domestic Asset	7.4%	6.7%	7.0%	6.2%	9.7%

Source: MPS H2FY26, Bangladesh Bank
* Inflation figure is point-to-point CPI inflation
^The numbers mismatch with Monetary Survey (M2) (Table – IIA) of Bangladesh Bank. The reported numbers in Monetary Survey (M2) (Table – IIA) are 9% and 37% respectively.

FY26 GDP growth revised down by 50bps to 5%

- The central bank targets a 5.0% GDP growth decreasing from 5.5% in H1FY26 MPS. Even though there might be early signs of recovery from liquidity situation, the political transition and low private sector growth would challenge the GDP growth.
- Additionally, the central bank is prioritizing price stability and inflation control rather than focusing on GDP growth. With resilient external sector the economic activities are expected to pick up during the post election.
- On the other hand, high non performing loans and fiscal stress due to higher public sector credit coupled with heightened geo political uncertainties could pressurize the economic activities.

Fig: Real GDP Growth (%)



Source: MPS H2FY26, Bangladesh Bank

Interest rates stay elevated...

- Due to non-performing loans and discontinuation of assured liquidity support (ALS) to primary dealers (PD), and a widespread scam in the banking sector, the liquidity condition had started to deteriorate.
- The central bank revived the liquidity situation through buying of USD from forex market, providing liquidity support to weak banks, revitalizing the Open Market Operation & Inter-bank call money market.
- Regarding the private sector, the real lending rate increased to 3.9% in Nov-25, up fro 3.6% in Jun-25 aligning with the economic activities. The real deposit rate stood at negative 1.9% after increasing by 0.27% in Nov-25.

Table: Interest rate structure of Banking Sector (%)

Category	FY24 (Jun-24)	FY25 (Jun-25)	FY25 (Dec-25)
Advance Rate (%)			
Large Industries	11.58	12.46	12.29
SME	11.80	12.44	12.66
Agriculture Credit	11.48	11.72	11.71
Weighted Average Lending Rate	12.08	12.16	12.14
Deposit Rate (%)			
Less than one year (FDR)	8.72	9.60	9.42
1 to 3 Year (FDR)	8.39	9.97	10.06
3 years and above (FDR & DPS)	8.60	9.26	9.32
Weighted Average Deposit Rate	6.26	6.42	6.36

Source: MPS H2FY26, Bangladesh Bank

...as inflation hovers around 8.6% due to sticky prices

- As of Jan-26, the point-to-point inflation stands at 8.6% mainly due to oligopolistic market structure, food price stickiness and supply side disruptions. The global commodity prices has been stabilizing and is on a downward trend.
- The policy measures aim to bring down the average CPI inflation from the current level. The inflation is forecast to be 7.9% by Jun-26 and 7.6% by Dec-26.

Fig: Policy Rate & Inflation: USA

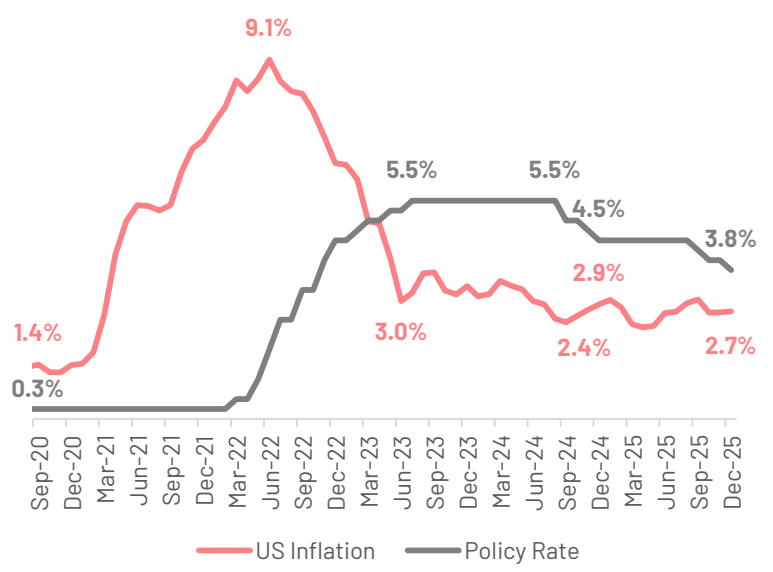


Fig: Policy Rate & CPI Inflation: Bangladesh

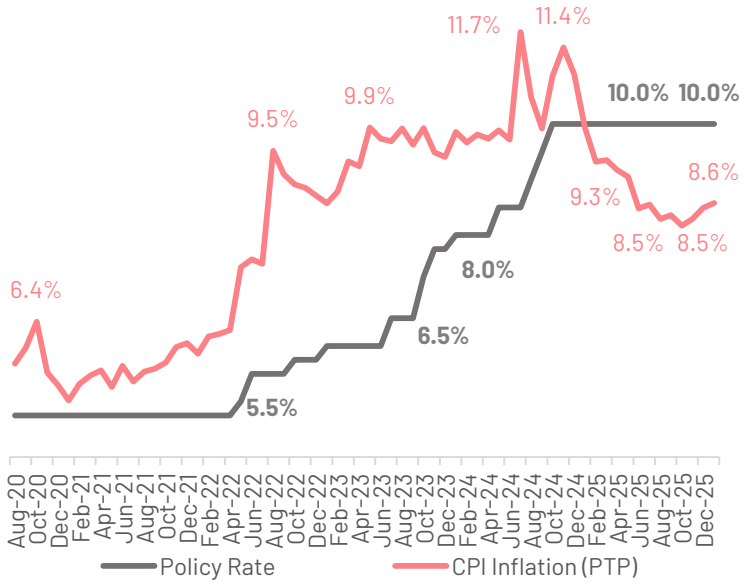
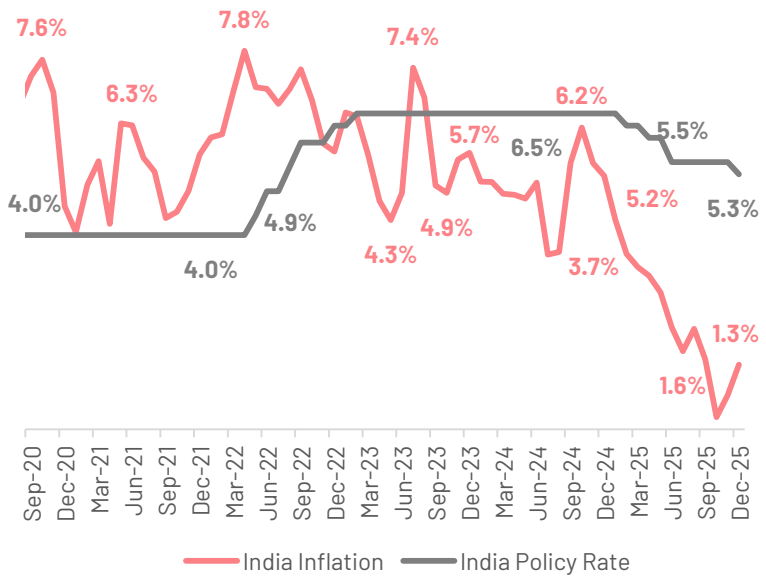


Fig: Policy Rate & Inflation: India



Source: MPS H2FY26, Bangladesh Bank, tradingeconomics.com

Hence unchanged policy rate; 50bps drop in SDF to support liquidity

- Bangladesh Bank (BB) continues its contractionary monetary policy stance as it hikes restricts the policy rate (repo) to 10.0%.
  - The objective is to anchor elevated inflation and keep positive real policy rate in the economy
- Additionally, Standing Lending Facility Rate (SLF) or special repo, the rate at which banks borrow from the BB, was kept unchanged at 11.5%.
- Standing Deposit Facility Rate (SDF) or reverse repo, the rate at which banks deposit to the BB, was cut by 50 bps 8.0% to 7.5%.
  - Bangladesh Bank wants to revitalize the interbank activity and discourage passive liquidity

	H1FY26		H2FY26
SLF (Special Repo)	11.5%	Unchanged	11.5%
Policy rate (Repo)	10.0%	Unchanged	10.0%
SDF (Reverse Repo)	8.0%	-50 bps	7.5%

Source: MPS H2FY26, Bangladesh Bank

M2 growth revised upwards

- The broad money is expected to grow 11.5% in Jun-26 based on 5% GDP growth, elevated inflation rates and increase in velocity of money from 5.29 to 5.44.
- The broad money is expected to be driven by 21.6% public sector credit growth stemming from fiscal financing in the post election period. Additionally, the private sector is expected to grow by 8.5% in the post election period due to various policy support for CMSME sector. The net foreign asset is supported by expected surplus in balance of payments, moderate growth in import and sustained growth in remittance during the post election period.

Fig: Reserve Money (BDT tn)

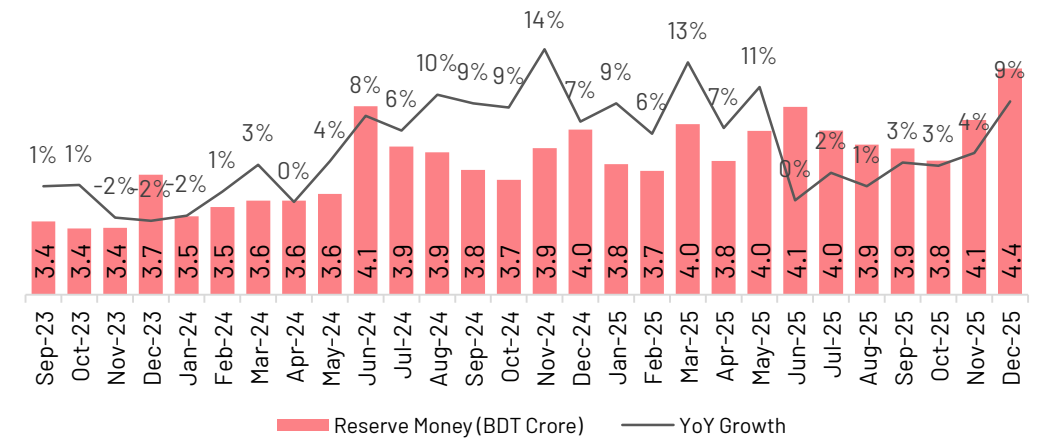
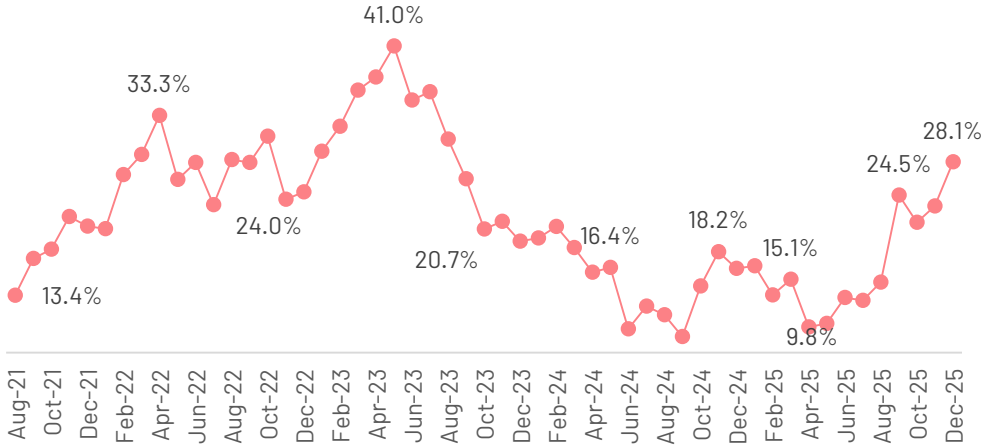


Fig: Public Sector Credit Growth YoY (%)

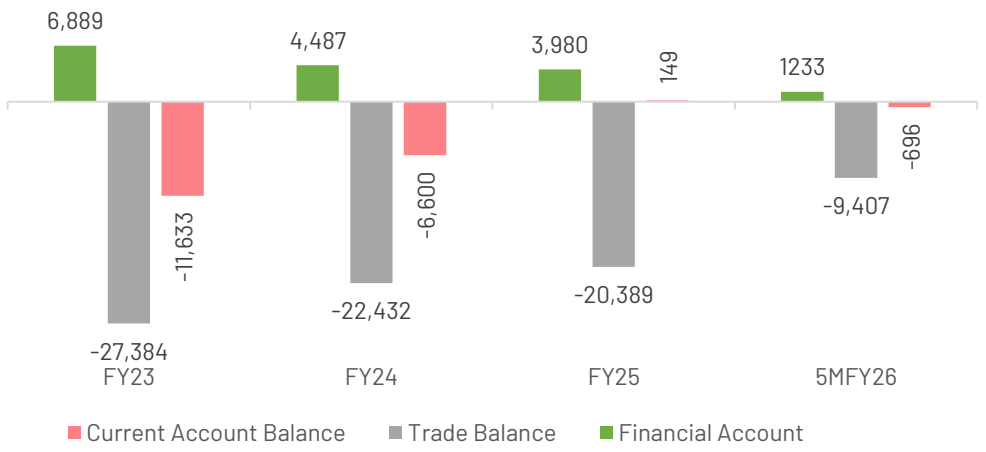


Source: MPS H2FY26, Bangladesh Bank

External position improving, contingent on political stability

- The extern position expects to improve further in the H2FY26.
- The current account balance is expected to be nearly balanced with support from remittance and rebound of export while the donor disbursement would increase in the coming days.
- However, the pre-condition is the smooth political transition and post-election stability.

Fig: Current Account, Trade Balance & Current Account (USD mn)



Source: MPS H2FY26, Bangladesh Bank

Flexible FX regime maintained to preserve stability

- The market-based flexible exchange rate is to be continued in H2FY26.
- During the market based approach, the exchange rate remained stable and accumulated foreign exchange reserves over H1FY26.

Fig: Inter Bank Exchange Rate (BDT per USD)

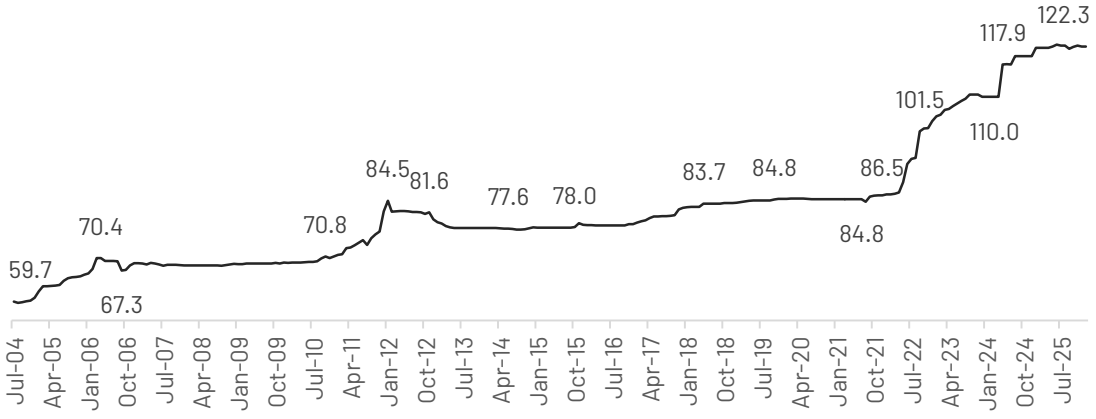
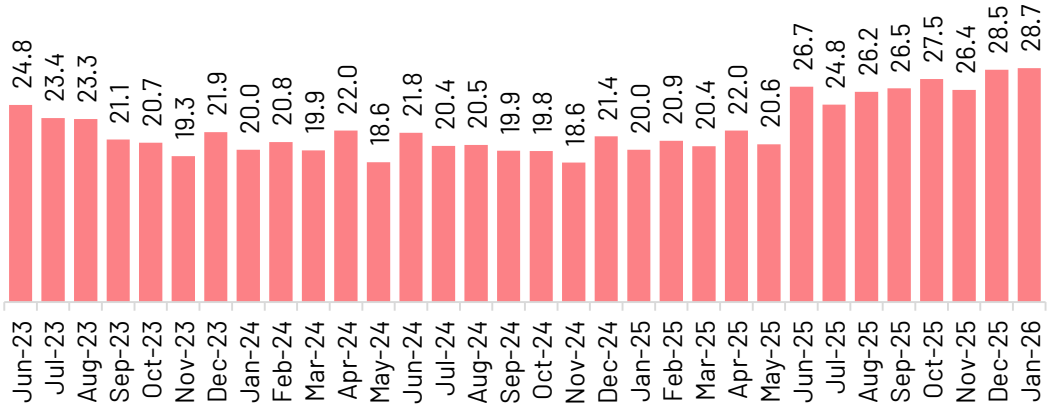


Fig: Foreign Exchange Reserve (BPM6, USD bn)



Source: MPS H2FY26, Bangladesh Bank

Market recovery hinges on political and policy stability

- Growth momentum is likely to soften in 2026, although moderating inflation may allow monetary easing, offering near-term support to equity and bond markets.
- Political transition risks and residual macro pressures are expected to continue shaping the investment landscape.
- While the capital market is progressing toward recovery, a durable upturn will depend on post-election stability and policy continuity.
- Sustained long-term performance will require ongoing structural reforms, regulatory enhancements, and disciplined economic management.

Source: MPS H2FY26, Bangladesh Bank

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As at 1 Jan '26 Recommendation	**IDLCSL Count**	**% of Total**
Outperform	N/A	N/A
Market Perform	N/A	N/A
Underperform	N/A	N/A
Total	**N/A**	**N/A**

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