



IDLC-SL H1 FY26 MPS Review

Navigating Stabilization with Tactical Tightness

Monetary Policy Statement Key Points

The central bank has continued tight monetary stance with the policy rate unchanged at 10.0%, only to dissipate when inflation drops below 7.0% (currently c8.5%) or on the event of any global economic and political shock. This decision can be attributed to the sluggish pace of inflation easing and the vulnerability of the external sector.

Bangladesh Bank (BB) has also decided to keep the Standing Lending Facility (SLF) and Standing Deposit Facility (SDF) unchanged at 11.5% and 8.0%, respectively. This cautious approach seems justified, as core inflation remains persistent even though headline CPI has started to ease. Prematurely loosening policy could put renewed pressure on the Taka and undermine recent improvements in external balances. However, with real interest rates turning slightly positive and inflation gradually slowing, there may be room for rate cuts in the 2nd or 3rd quarter of FY26—provided inflation trends towards the 6.5% target and no new supply or energy shocks occur.

The 5.5% GDP growth projection for FY26 may be optimistic given tepid private credit growth, cautious investment sentiment, and external uncertainties. Interest rate drop is the only silver lining.

The GDP growth rate has improved from c2% yoy in September 2024 to 4.9% yoy in March 2025. BB expects a modest rebound from the provisional 3.97% growth in FY25. Early signs of improvement in remittance inflows and export orders are encouraging, but private sector credit grew by only 6.4% year-on-year in June 2025—well below typical levels. This reflects investor caution, and weak investment appetite amid pending elections and geopolitical uncertainties. The only silver lining is a drop in inflation and interest rate, which might support the targeted private sector credit growth rate of 9.8%. Otherwise, actual GDP growth could fall short of the 5.5% target, possibly staying closer to 4.5–5.0%.

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The 6.5% inflation target is achievable if supported by consistent policies, and political stability.

Inflation has declined from 9.02% in FY24 to 8.48% in June 2025, reflecting tighter monetary policy, softer domestic demand, and some relief from global commodity prices. Still, core inflation is elevated, and underlying cost pressures—like utility rate hikes and transportation expenses—continue to influence pricing behavior. Furthermore, food price spikes in global market, global supply chain shocks or intensification of geopolitical tensions pose challenges. Therefore, achieving the 6.5% inflation goal by FY26 aligns with BB's tightening approach but requires strong fiscal coordination (controlled government borrowing), exchange rate stability, and an absence of major shocks to commodity supply.

Liquidity has stabilized, with sluggish growth in reserve and broad money despite substantial support to banks—particularly Islamic ones.

As of June 2025, reserve money grew at -0.1% year-on-year, and M2 at 7.0%—both trailing behind nominal GDP growth. This occurs despite BB providing BDT 12.09 trillion in liquidity support in H2FY25, including BDT 844.2 billion in Shariah-compliant tools aimed at Islamic banks (IBLF, MLS, SLS). The apparent contradiction is explained by BB's balancing measures: treasury repayments (~BDT 640 billion), liquidity absorption through BB-bills and the SDF, and structural changes like lowering the Cash Reserve Ratio (CRR) from 3.5% to 3.0%, which reallocated rather than expanded liquidity. As a result, while banks gained more excess liquidity, it didn't translate into a notable boost in reserve money or deposits.

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The balance of payments (BoP) has swung into positive territory, supported by rising remittances, resilient exports, and low imports—helping stabilize the exchange rate. FY25 ended with a current account surplus of USD 981 million and a BoP surplus—marking the first in several years. Remittances reached USD 30.3 billion (up c27%), exports increased by c9%, and imports up by c3% yoy. This reduced trade gap and more stable capital flows allowed BB to buy back USD 496mn through auction and transition toward a flexible exchange rate regime. Foreign reserves grew modestly to USD c25 billion (BPM 6), boosting market confidence. If this positive trend continues, BB could accumulate reserves while gradually reducing its interventions.

Stock investors become optimistic in anticipation of a better liquidity condition, inflation drop and stable balance of payments. The yields of treasury bonds have already experienced around 190 bps drop during the July 2025 auction. It resulted in c16% return in the stock market from its recent bottom in May 2025 and c4% in YTD basis.

Going forward, credible policies and coordination will be key to turning recent monetary achievements into a broader and more durable economic recovery. Bangladesh Bank has successfully executed a cautious tightening strategy that restored macro stability without derailing the financial system. Encouragingly, inflation is moderating, the external position has improved, and market-based reforms are gradually gaining traction. To sustain this momentum, structural reforms—particularly in banking sector governance, targeted subsidy rationalization, and enhanced price signaling—will be essential. Addressing elevated NPLs and unlocking private credit growth can further support investment and job creation. As inflation softens and external buffers strengthen, a gradual roadmap for policy rate normalization, greater exchange rate transparency, and import policy recalibration will help shift the economy from stabilization to inclusive and sustainable growth.

Economic target & challenges

Policy Rate: Unchanged at 10%. Flexibility for change to meet certain conditions.

SLF & SDF: Standing Lending Facility(SLF): 11.50%; Standing Deposit Facility: 8.0%.

Inflation Target: 6.5% by FY26.

GDP Growth Target: 5.5% by FY26.

Expected economic challenges for H1FY26:

- Persistence of inflation.
- Uncertainties associated with the up coming election.
- Slowing GDP growth.
- Stagnant private investment
- High levels of non-performing loans.
- 20% Tariff shock hampering export growth.

Snapshot: Key MPS Targets

Particulars	Actual			Projections	
	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26
Inflation- General *	9.72%	10.89%	8.48%		6.5%
Economic Growth					5.5%
Reserve money growth	7.9%	7.3%	-0.1%	5.0%	8.0%
Broad money growth (M2)	7.7%	7.6%	7.0%	7.8%	8.5%
Domestic credit growth	10.0%	9.4%	8.0%	10.0%	10.3%
Public sector credit growth	10.5%	18.1%	13.6%	20.4%	18.1%
Private sector credit growth	9.8%	7.3%	6.4%	7.2%	8.0%
Net Foreign Asset^	-17.4%	-15.7%	4.5%	28.3%	21.8%
Net Domestic Asset	13.8%	12.1%	7.4%	4.8%	6.2%

Source: MPS 1H FY26, Bangladesh Bank
 * Inflation figure is point-to-point CPI inflation
 ^ Calculated using the estimated constant exchange rates of end June 2025 by Bangladesh Bank

Inflation Expectation

- Inflation is projected to decline to 6.5% by FY26, driven by a positive real policy rate, expected exchange rate stability, strong commodity production, robust remittance inflows, improved foreign exchange reserves, limited central bank devolvment, and a stable global price environment. IMF targets 6.2% inflation for FY26.
- The central bank would keep the policy rate unchanged at 10%. However, the central bank would gradually decrease the policy rate if –
 - a) The policy rate reaches 3.00% in real terms (now it is 1.52%). That means, if the inflation declines to at least 7%.
 - b) Exports weaken due to tariff shocks, or a weaker global growth outlook, or currency depreciation pressures.
- Inflation in Bangladesh remained elevated at 8.48% in June 2025, down from 9.94% in January and 10.89% in December 2024, driven by a decline in food inflation to 7.39% in June from 10.72% in January and 12.92% in December

Central Bank Initiatives:

- Eliminated margin requirements for key imports, rationalized import duties, and enhanced commodity stock monitoring.
- Expenditure restraint and prioritization of essential spending by only a 6% increase in FY26 budget from FY25 revised budget.
- The policy rate in real terms stayed positive as per the central bank initiatives and it has kept the currency from any deep depreciation.

Challenges:

- Weather-related disruptions impacting agricultural output and logistical bottlenecks, leading to temporary food price spikes & inflation.
- Renewed global supply chain shocks or intensification of geopolitical tensions.
- Hoarding in times of uncertainty and limited competition in key commodity markets.

Economic Growth Expectation

- Expected growth is 5.50% for FY26. Budget expressed 6.5% over the medium-term time.
- IMF growth expectation: 6.5% & ADB growth expectation: 5.10% for FY26.
- Provisional growth estimate is 3.97% for FY25. Government's target was 6.75% for FY25.

Central Bank Initiatives

- Alignment of fiscal policy objective with monetary policy objective so that both can work towards the same goal.
- Macroeconomic stability through remittance inflow, export earnings result in external balance and support domestic demand.
- Economic rebound is expected on the back of steady remittance growth, increasing export earnings, and releasing of pent up import demand. On the other hand, the flexible exchange rate regime and declining inflation is expected to support the private sector investment growth.

Challenges:

- Persistent weaknesses in the banking sector could limit credit availability, increase interest rates, and dampen private investment.
- Major global economic trade war, the 20% tariff hike by the USA, and intensifying geopolitical tensions - may impact export performance and capital flows in the country.

Money Growth & Credit Growth Expectation

- The central bank continues to implement contractionary monetary policy, restraining broad money growth and private sector credit expansion. Meanwhile, government credit demand is expected to decline as government is expected to have austerity in spending.
- Broad money grew by 7.0% in June 2025, below the 8.4% target, driven by a weak 4.5% growth in Net Foreign Assets (target: 7.7%) amid repayments of short-term loans, trade credit (net), and MLT loans. Reserve money contracted by 0.1% (target: 1.0%) due to the government's net repayment of BDT 640 billion to the central bank.
- Private sector credit grew by 6.4% in June 2025, below the 9.8% target, due to political uncertainty and the crowding-out effect from public sector credit, which grew by 13.6% (target: 19.8%). The crowding-out effect is a result of the low revenue collection.

Central Bank Initiatives:

- BB ceasing the devolvement participation of government bonds, the government is now reliant on scheduled banks for any requirement of credit.
- The projection of positive growth for NFA is based on the anticipation of a surplus in the overall balance of payments, with predicted 10.0% growth in exports and remittances, and 8.0% growth in imports by the government.
- The projection of Reserve Money (RM) growth is set at 8.0%, considering economic realities and stable movement of currency deposit and reserve deposit ratio.

Challenges:

- Unplanned spending requirement of the government, engaging in devolvement process, and sudden increase of private investment and balance of payment items would go against the money and credit growth expectation.

Liquidity & Interest Rate Expectation

- The long-term rates declined more than the short-term rates, indicating a lower inflation expectation for future. However, the interest rate is expected to stay elevated unless policy rate decreases from 10%.
- The weighted average call money rate rose to 10.14% in June 2025 from 9.08% in June 2024. Similarly, the interbank repo rate increased to 10.37%, up from 8.56% over the same period. Both indicates the liquidity shortage in the banking industry,
- Amid tightening liquidity, the weighted average nominal lending rate rose from 11.52% in June 2024 to 12.11% in May 2025. Likewise, the nominal deposit rate increased to 6.29% in May 2025, up from 5.49% in June 2024.

Central Bank Initiatives:

- Unsterilized liquidity support to the struggling banks. Reduced CRR requirements from 3.5% to 3.0%.
- Assured liquidity support (ALS), assured repo, and special repo facilities for conventional banks and Mudarabah Liquidity Support (MLS), the Islamic Banks Liquidity Facility (IBLF), and Special Liquidity Support (SLS) for Shariah-compliant Islamic banks.
- BB provided BDT 12.1tn in liquidity support during H2FY25. Additionally, BDT 330.2bn was extended as special liquidity support to banks facing daily operational challenges, and BDT 193.5bn was provided in June 2025 to address persistent cumulative negative current account balances.
- BB has introduced two new BB bills and discontinued the 28-day repo facility to encourage more call money market participation rather than more support from BB.

Challenges:

- High volume of non-performing loans (24.13% in March 2025) due to loan fraud and irregularities at some banks would increase interest rates.
- The weak banks would still be struggling for more liquidity support from BB unless the merger is in place.

Balance of Payment Expectation

- Balance of payment is expected to continue improving in FY26 due to flexible yet intervening exchange rate mechanism, continuing support from remittance, export, and austerity on imports.
- **CA:** USD 981mn surplus in FY25 against USD 6.6bn deficit in FY24; **FA:** USD 3.2bn surplus in FY25 against USD 4.5bn in FY24; **BoP:** USD 3.29bn surplus in FY25 against USD 4.3bn deficit in FY24.

Central Bank Initiatives:

- Employing tight monetary policy, fiscal budget spending restraints,
- Acquiring foreign support and loans
- Installing flexible yet intervening exchange rate mechanism.

Challenges:

- The primary income deficit is growing and any rise in import would curb current account balance and balance of payment position.
- Additionally, the decreasing of policy rate aligning with the inflation might push up imports and curb the balance of payment position.
- The new 20% US reciprocal tariff imposed on export from Bangladesh, might reduce the export numbers and destinations.

Exchange Rate Expectation

- The currency is expected to be stable with the new flexible yet intervening exchange rate mechanism.
- The nominal exchange rate stood at 122.77 at the end of June 2025, resulting in a depreciation of only 3.89% in FY25 .
- The value of the REER index descended to 98.61 in June 2025 from 99.06 in June 2024 due to higher inflation in the country.

Central Bank Initiative:

- In May 2025, the central bank moved towards flexible exchange rate regime, with a USD 500mn fund, to intervene against market volatility. However, BB do not have any cap on buying of USD but can sell USD only up to the fund limit, as per IMF guideline.
- BB is now publishing reference exchange rate of market twice a day.
- BB has been phasing out from interbank foreign exchange market and is letting the interbank spot transactions grow for USD requirements of the banks.

Challenges:

- Stable exchange rate is expected, supported by stable remittance growth, increasing export earnings, and lower BoP deficit.

Other Initiatives and Results

- **3 separate task forces results:**

- Banking Sector Reform Task Force: ARQ framework, MoU with UK's Foreign, Commonwealth & Development Office (FCDO) for technical assistance from Deloitte LLP, Bank Resolution Ordinance 2025.
- Strengthening capacity and compliance task force: Bangladesh Bank Order 2025 is under review.
- Stolen asset recovery task force: 11 nationally significant money laundering cases are being investigated while the assets have been identified and attached.

- **Credit Risk Management (CRM):** BB is revising the Guidelines on Credit Risk Management (CRM) for banks. Additionally, BB will roll out the risk-based supervision (RBS) of banks starting from January 2026, aiming to usher in qualitative changes in how banks are monitored and regulated.

- **Expected Credit Loss based Provisioning:** BB has announced a roadmap to implement ECL-based loan provisioning by 2027 as per IFRS.

- **Liquidity Shortage:** Potential liquidity shortfalls stemming from unexpected and substantial deposit withdrawals, BB is developing an Emergency Liquidity Assistance (ELA) Framework. This framework, currently under review, 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.

- **Asset Quality Review (AQR):** BB continued its coordination with development partners, including the World Bank and the Asian Development Bank (ADB), to launch the second and third phases of the AQR, covering the remaining 11 banks. The first phase had 06 banks.

- **Capital Market initiatives by the interim government:**

- Reducing government stake in MNCs.
- Listing large local firms in the capital market.
- Increasing reliance on capital market than bank loans for large corporations.

Disclosures

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- 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.

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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.



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