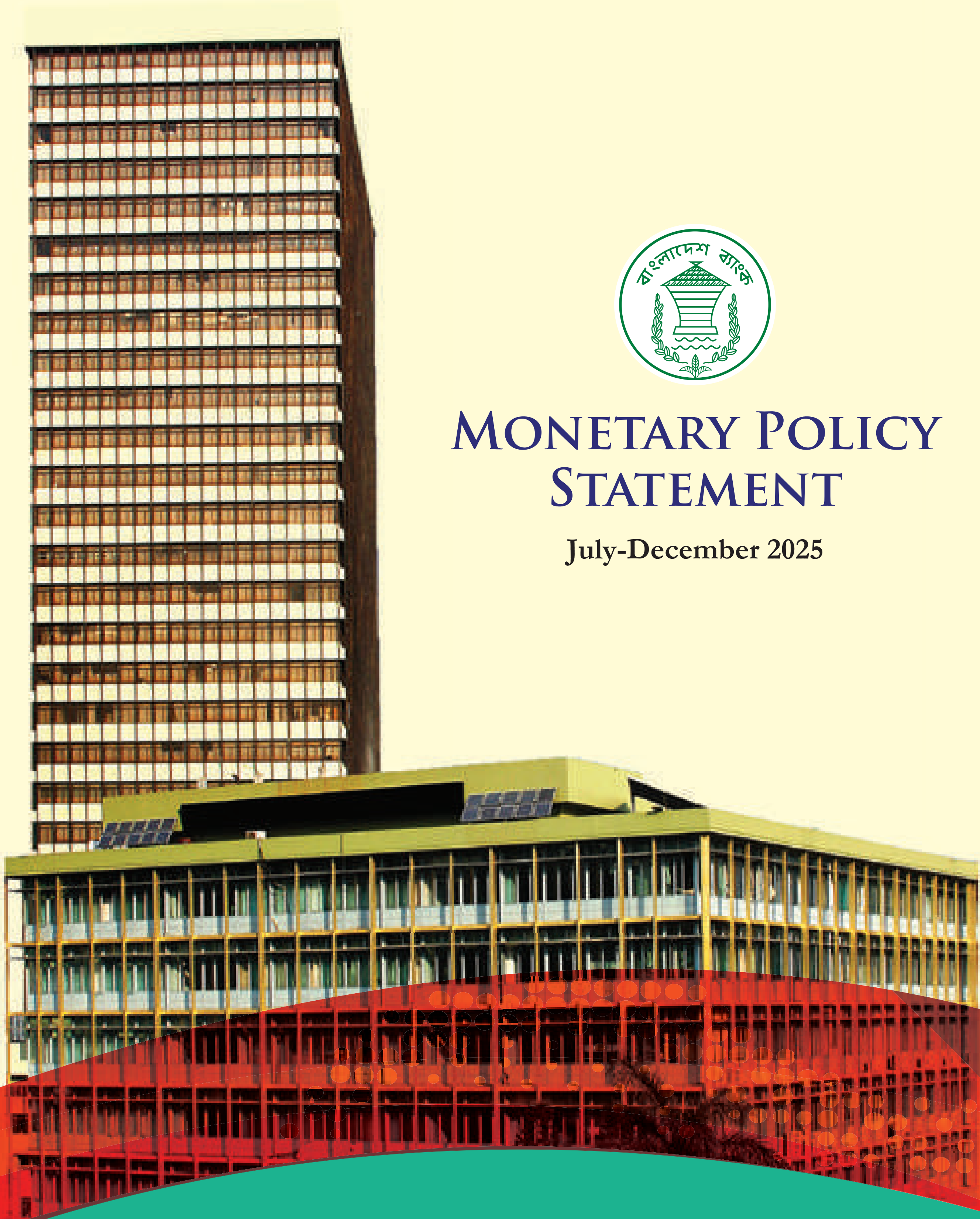

Monetary Policy Statement

July-December 2025

Bangladesh Bank

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Monetary Policy Statement

July-December 2025

Bangladesh Bank

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Acronyms and Abbreviations

ACC	Anti-Corruption Commission
Act.	Actual
AD	Authorised Dealer
ADB	Asian Bevelopment Bank
ALS	Assured Liquidity Support
AM	Ante Meridiem
AQR	Asset Quality Reviews
ARIN-AP	Asset Recovery Inter-Agency Network – Asia Pacific
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BDT	Bangladesh Taka
BFIU	Bangladesh Financial Intelligence Unit
BoP	Balance of Payments
BPM-6	Balance of Payments and International Investment Position Manual 6
BRO	Bank Resolution Ordinance
BSEC	Bangladesh Securities and Exchange Commission
BSR-TF	Banking Sector Reform Taskforce
CAB	Current Account Balance
CIC	Central Intelligence Cell
CID	Criminal Investigation Department
CIID	Customs Intelligence and Investigation Directorate
CL	Classified Loan
CMSMEs	Cottage, Micro, Small, and Medium Enterprises
CPI	Consumer Price Index
CRM	Credit Risk Management
CRR	Cash Reserve Requirement
DMBs	Deposit Money Banks
DPS	Deposit Pension Scheme
DSEX	Dhaka Stock Exchange
ECL	Expected Credit Loss
ELA	Emergency Liquidity Assistance
EY	Ernst & Young
FCDO	Foreign, Commonwealth & Development Office
FDI	Foreign Direct Investment
FDR	Fixed Deposit Receipt
FE	Foreign Exchange
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Domestic Product
GoB	Government of Bangladesh
H1	First Half
H2	Second Half
IACCC	International Anti-Corruption Coordination Centre
IBLF	Islamic Banks Liquidity Facility
ICAR	International Centre for Asset Recovery
ICB	Investment Corporation of Bangladesh

IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
JIT	Joint Investigation Teams
KPMG	Klynveld Peat Marwick Goerdeler
L.H.S	Left Hand Side
LC	Letter of Credit
LLP	Limited Liability Partnership
M2	Broad Money
MFS	Mobile Financial Service
MLAT	Mutual Legal Assistance Treaties
MLS	Mudarabah Liquidity Support
MLT	Medium and Long-Term
MPD	Monetary Policy Department
MPS	Monetary Policy Statement
NBDCs	Non-Bank Depository Corporations
NBR	National Board of Revenue
NDA	Net Domestic Asset
NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Asset
NPL	Non-Performing Loan
NSCs	National Savings Certificates
OMOs	Open Market Operations
PM	Post Meridiem
Proj.	Projection
PSP	Payment Services Providers
QR	Quick Response
R.H.S	Right Hand Side
RBS	Risk-Based Supervision
REER	Real Effective Exchange Rate
RM	Reserve Money
RMG	Ready-Made Garments
RR	Reference Exchange Rate
SBS	Scheduled Bank Statistics
SDF	Standing Deposit Facility
SLF	Standing Lending Facility
SLR	Statutory Liquidity Ratio
SLS	Special Liquidity Support
SME	Small and Medium Enterprise
StAR	Stolen Asset Recovery
T-bills	Treasury Bills
T-bonds	Treasury Bonds
UK	United Kingdom
US	United States
USA	United States of America
USD	US Dollar
USDJ	US Department of Justice
WEO	World Economic Outlook

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Executive Summary

The economy was confronted with significant macroeconomic challenges when the current interim Government assumed office in August 2024. The major challenges included persistently high inflation, a rapid depreciation in exchange rate, depleting foreign exchange reserves, a buildup of external payment arrears, tight liquidity conditions, a lack of good governance, and elevated non-performing loans (NPLs). In response, Bangladesh Bank (BB) has outlined clear and forward-looking strategies emphasizing its strong commitment to containing inflation, stabilizing the exchange rate, rebuilding foreign exchange reserves, and restoring confidence in the banking sector through improved governance. To fulfill its commitment, BB has maintained a tight monetary policy stance and adopted a fully flexible market-based exchange rate regime. BB also initiated a wide range of reform programs targeting the banking sector.

Headline inflation (p-t-p) has gradually eased in response to the coordinated demand and supply-side measures adopted by the respective authorities. Exchange rate stability has been achieved due to a substantial improvement in the BoP, which contained the pass-through effect of imported inflation. BB's initiatives towards implementing a fully flexible exchange rate regime have also contributed to rebuilding foreign exchange reserves. Furthermore, accountability and good governance in the banking sector are gradually being restored, depositor confidence has improved, and the liquidity situation has slowly eased. These positive developments resulted from a wide range of administrative measures and reform programs initiated in the banking sector.

This issue of BB's half-yearly Monetary Policy Statement (MPS) delineates the monetary policy stance that BB will adopt in H1FY26 in light of the evolving political landscape, macroeconomic conditions, and outlook on both global and domestic fronts, actual outcomes observed during the second half of FY25, money & credit projections, and extensive consultations with stakeholders. BB has aligned its policies with the Government's targets of achieving 5.5 percent GDP growth and containing inflation within the 6.5 percent ceiling for FY26. The primary aims of this MPS are to decelerate the rate of inflation further while maintaining exchange rate stability and strengthening financial stability.

Global economic growth is expected to weaken due to increased trade tensions and heightened policy uncertainty. The recent rise in tariffs by the U.S. administration and the associated uncertainties pose risks to exports, disruptions to global supply chains, and intensify financial market turbulence. Moreover, global inflation is expected to ease due to weakening demand, currency volatility, and declining hydrocarbon prices. Therefore, central banks around the world may be more inclined to reduce interest rates or keep them steady at current levels, given the dual context of weaker growth and lower inflation. Meanwhile, world commodity prices are expected to decline in 2025 and 2026.

BB will continuously monitor inflation trends and the liquidity situation in the domestic market. Once current developments and projections consistently show a decline in inflation and the policy rate in real terms reaches 3.0 percent, BB will gradually begin to lower the policy rate. Moreover, if exports weaken due to tariff shocks and the weaker global growth outlook, BB will adjust the policy rate as needed to cushion the short-term impact while safely guiding its inflation objectives.

> *Under the circumstances and taking into account the global risks, BB will continue its tight monetary policy stance in the first half of FY26 to contain inflation and anchor inflation expectations. If the inflation rate continues to decelerate further, as we expect, the policy repo rate may be adjusted downward, if inflation rate comes below 7.0 percent, until then, the policy repo rate will remain unchanged at 10.0 percent; the Standing Lending Facility (SLF) rate will remain at 11.5 percent, and the Standing Deposit Facility (SDF) rate will be 8.0 percent.*

In the upcoming H1FY26, on the domestic front, Bangladesh's economy may continue to face macroeconomic challenges, including the persistence of inflation, uncertainties associated with the forthcoming election, slowing GDP growth, stagnant private investment, and consistently high levels of non-performing loans. In addition, on the external front, export growth may be hindered by the effects of tariff shocks.

In May 2025, BB moved towards a more flexible exchange rate regime, aiming to enhance stability in the foreign exchange market. This flexible exchange rate regime remains crucial for achieving smoother adjustments to external imbalances, easing foreign exchange market pressures, and preserving foreign reserves. BB recognizes that allowing greater exchange rate flexibility is an important policy initiative to compensate for the impact of reduced demand of our exports amid escalating trade tariffs. To closely monitor the foreign exchange market, BB publishes a reference exchange rate twice a day, which serves as a benchmark for price discovery in the market.

> *In this regard, consistent with the flexible exchange regime and to rebuild foreign exchange reserves, BB will intervene in the foreign exchange market to curb volatility in the exchange rate and ensure greater stability in the foreign exchange market.*

BB's commitment to maintaining a flexible exchange rate regime aims to ensure stability in the exchange rate and build up foreign reserves, thereby helping to mitigate external shocks.

To address the rising non-performing loans (NPLs), BB has launched significant reform initiatives to avoid a crisis and ensure long-term economic stability. The effective implementation of ongoing initiatives, coupled with forthcoming measures and the development of robust resolutions for distressed banks based on asset quality review (AQR) findings, will position BB to restore good governance practices and bolster stakeholder confidence in the banking system. 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.

Although recent inflation showed a downward trend, it remains above the target level. Moreover, the persistence of this deceleration in inflation is uncertain, given ongoing cost pressures stemming from the nominal depreciation of the Taka triggered by the U.S. reciprocal tariff measures. Therefore, BB is likely to maintain its tight monetary policy in H1FY26 to contain inflation below 7.0 percent, while still supporting productive economic activities.

Monetary Policy Statement: H1FY26

1. Foreword

The spirit of the July 2024 student-mass uprising has echoed through policy corridors, reshaping economic policymaking with widespread demands for good governance and institutional integrity. Responding to these demands, Bangladesh Bank (BB) has accelerated its reform agenda, ranging from modernizing the monetary policy framework, strengthening banking sector governance, and increasing exchange rate flexibility. BB also articulated some pragmatic forward-looking strategies and approaches that prioritize its mandate of supporting low and stable inflation with sustained economic growth and financial stability.

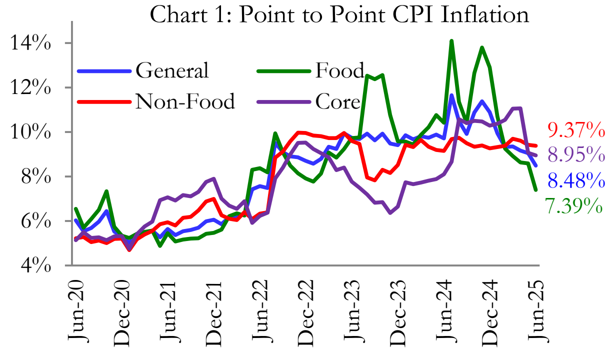
This issue of BB's half-yearly Monetary Policy Statement (MPS) delineates the monetary policy stance that BB will adopt in H1FY26 in light of the actual macroeconomic outcomes observed during the second half of FY25 and the evolving political landscape, macroeconomic conditions, and outlook on both global and domestic fronts. The prime objective of this MPS is to anchor inflation expectations, stabilizing the exchange rate while rebuilding financial stability amid alarming non-performing loans in the banks and non-bank financial institutions. As Bangladesh comes out of a shifting political landscape, BB adopted extensive feedback from stakeholder consultations with its executives, members of the monetary policy committee, members of Board of Directors, feedback through BB's website, policymakers, economic analysts', think-tank, and private sector leaders besides the usual co-ordination with the Government before drawing up this issue of MPS.

2. Monetary Policy Outcomes and Macroeconomic Developments in H2FY25

2.1 Price Development and Outlook

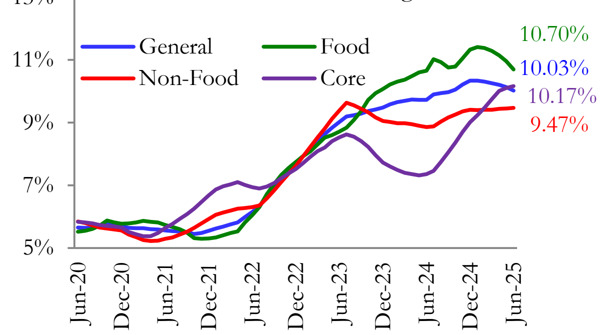
The stubbornly high inflation in Bangladesh has shown symptoms of easing throughout H2FY25. Headline point-to-point inflation, which peaked at 11.66 percent in July 2024—the highest over a decade—has steadily declined to 8.48 percent by June 2025 (Chart 1). This marks the first time in more than two years that inflation has fallen below 9 percent, implying a sense of success in the country's inflation combat. Food inflation reduced to 7.39 percent in June 2025 compared to 14.10 percent in July 2024. Non-food inflation, on the other hand, stayed mostly stable during FY25, registering at 9.37 percent in June 2025. The recent decline in inflation is a possible outcome of several policy actions by the central bank and the government. BB has maintained a tight monetary policy stance, keeping the policy rate steady at 10 percent since October 2024. This tightening significantly helped anchor inflation expectations. Meanwhile, the exchange rate exhibited promising signs of stabilization after a period of sharp depreciation (13.76 percent in FY23 and 8.17 percent in FY24). This stabilization emerged from the introduction of the Crawling Peg Exchange Rate System in May 2024 and further facilitated exchange rate flexibility in May 2025. This has facilitated the recovery of the competitiveness of BDT and contributed to stabilizing the foreign exchange market. On the supply side, targeted interventions—such as rationalizing import duties, eliminating Letter of Credit (LC) margin requirements for key imports, and enhancing commodity stocks monitoring, along with a good harvest of vegetable and boro crops—have eased food price pressures. Moreover, relatively favorable commodity prices in the international market during H2FY25 and a stable forecast for prices minimized part of the potential risks of domestic price hikes through the external channel.

Chart 1: Point to Point CPI Inflation



Source: Bangladesh Bureau of Statistics (BBS).

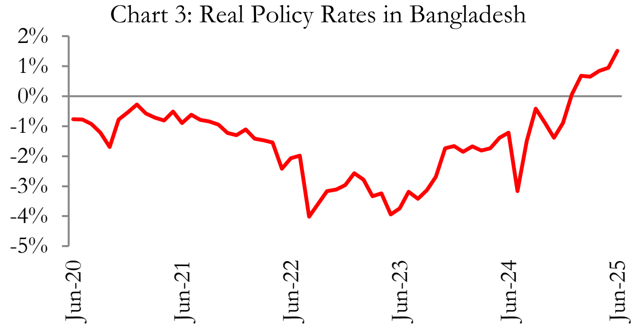
Chart 2: Twelve Month Average CPI Inflation



Source: Bangladesh Bureau of Statistics (BBS).

Several elements, including the consequence of a loose monetary policy, which resulted in a negative real policy rate (Chart 3) and constraints on interest rates that remained in effect until May 2024, delayed the transmission of recent monetary tightening. In turn, the inflationary pressures worsen throughout 2024.

Chart 3: Real Policy Rates in Bangladesh



Source: Bangladesh Bank.

The depreciation of the BDT since 2022 has had a significant pass-through effect on domestic prices, especially for imported goods and inputs, amplifying inflation despite subsequent currency stabilization. Additionally, higher inflation expectations emerged from rising food prices over a prolonged period. Supply chain disruptions caused by political turmoil and severe floods in August and September 2024 kept food prices volatile and elevated food inflation during H1FY25. A significant level of hoarding may have occurred even at the consumer level, due to the uncertainty caused by persistent inflation, which adds more headwinds to lowering commodity prices. Imperfect market conditions, such as limited competition in key commodity markets, have also subdued the complete transmission of policy measures.

The Bangladesh Bank's policy response during H2FY25 primarily focused on tapering inflation. Maintaining a tight monetary condition with a positive real policy rate has also helped stabilize the exchange rate. Fiscal consolidation efforts, such as including expenditure restraint and prioritization of essential spending, also complemented monetary tightening and contributed to macroeconomic stability. Supply-side initiatives aimed at facilitating trade, rationalizing tariffs, and enhancing market oversight have contributed to the price stability of most key food items. These synchronized actions have begun to yield visible results, as reflected in the recent decline in both food and non-food inflation.

Looking forward to the first half of FY26, the Bangladesh Bank projects that the downward trend in inflation will continue, with headline inflation expected to approach the target range of 6.5–7.0 percent by the end of 2025, assuming that the supply-side disruptions are less likely to occur or minimized. This estimate also close to the IMF's projection. Several key factors support this optimistic outlook. The real policy rate is expected to remain positive, reinforcing the anti-inflationary stance and supporting exchange rate stability. The central bank will continue to prioritize exchange rate management, leveraging expected robust remittance inflows and improved foreign exchange reserves to shield against external shocks. Ongoing efforts by the government to monitor the market, facilitate trade, and provide policy support are expected to alleviate price pressures further. The global price trajectory also appears favorable, with international commodity prices projected to remain relatively stable, thereby reducing the risk of imported inflation. However, several risks linger. Weather-related disruptions could impact agricultural output and logistical bottlenecks, leading to temporary food price spikes and re-exacerbating inflation expectations. Renewed global supply chain shocks or intensification of geopolitical tensions could affect import prices. The Bangladesh Bank, however, remains vigilant and prepared to adjust its policy stance in the face of upside inflationary risks. Overall, the central bank's commitment to prudent, data-driven policy actions will be crucial in anchoring inflation expectations and supporting sustained macroeconomic stability.

2.2 Growth

Economic growth in FY25 was subdued, reflecting the lingering effects of earlier shocks that emerged from political unrest, supply chain disruptions, and slow private investment growth. Provisional estimates by BBS indicate that real GDP growth for FY25 is likely to be around 3.97 percent, marking the slowest expansion in recent years and falling short of the government's initial target of 6.75 percent. Sectoral performance was mixed— estimated agriculture growth slowed to approximately 1.79 percent, impacted by severe floods and supply bottlenecks during H1FY25. Industrial growth is estimated at around 4.34 percent, supported by a modest recovery in large-scale manufacturing and export-oriented industries such as Ready-Made Garments (RMG). The services sector is estimated to expand by around 4.51 percent, driven by increased activity in trade, transport, and communications as the country receives the gradual benefit of political stability.

Several factors have shaped the growth dynamics of Bangladesh. On the positive side, political stabilization following the transition to a new government has begun to restore investor and consumer confidence and create a more favorable business environment. The external sector has remained resilient throughout FY25 with promising growth in remittances and robust export performance, particularly in the RMG sector, underpinning external balances and supporting domestic demand. Policy support through fiscal discipline, coupled with enhanced monetary policy effectiveness, has fostered a more conducive environment for growth. Manufacturing and services sectors are projected to recover further, aided by improved supply chain conditions and increased private sector activity. Stress in the banking sector, including rising non-performing loans and limited credit growth, has further constrained private sector expansion. Additionally, global headwinds such as sluggish growth in key trading partners, rising trade barriers, and geopolitical uncertainties continue to pose risks to export demand and FDI inflows.

Looking ahead to the first half of FY26, the growth outlook appears to be cautiously optimistic. The government has set a GDP growth target of 5.50 percent for FY26, with projections from international organizations such as the IMF, the World Bank, and ADB ranging between 4.90 percent and 5.40 percent. This anticipated rebound is supported by improved political and macroeconomic stability, which is expected to foster a more predictable and supportive environment for investment. The large-scale manufacturing output exhibited 6.02 percent growth during July-April of FY25, compared to a 1.71 percent increase in the same period of FY24, which also brings about prospects for regaining growth momentum. The resilience shown by the external sector throughout FY25, driven by continued strength in remittance inflows and solid export earnings, will bolster the external balance and support domestic demand. As inflation moderates and more flexibility is ensured in the foreign exchange market, private sector investment is expected to rise, supported by ongoing reforms aimed at improving the business climate. The government's medium-term development framework emphasizes investment in key infrastructure, promoting investment and facilitating FDI inflows, which should provide further impetus to growth.

Nevertheless, risks to the growth outlook remain. Persistent weaknesses in the banking sector could limit credit availability and dampen private investment. Global economic uncertainties, including the looming threat of trade war among major economies, the risk of tariff hike by the USA, intensifying geopolitical tensions, etc., may impact export performance and capital flows. Structural bottlenecks, such as the need for economic reforms, infrastructure development, and labor market flexibility, must be addressed to unlock growth potential.

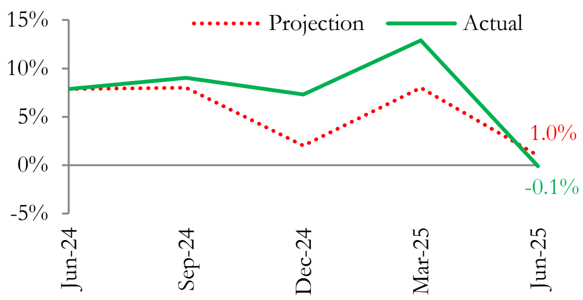
2.3 Monetary Aggregates

Broad money (M2), an information variable of monetary policy, witnessed a year-on-year growth of 7.0 percent in June 2025 against the projected growth of 8.4 percent for June 2025. The broad money recorded a lower growth compared to the projected growth path due to lower growth in net foreign assets (NFA). The NFA of the banking system during H2FY25 experienced a positive growth of 4.5 percent compared to the projected growth of 7.7 percent for June 2025. The lower growth in NFA can be attributed mainly to repayment of short-term loans, trade credit (net), and increasing payment of MLT amortization. The Reserve Money (RM), another indicative target of monetary policy, experienced a negative growth of 0.1 percent against the projected growth of 1.0 percent. The negative growth of

RM is attributed to the negative growth of the NDA of BB. The negative growth of NDA is mainly driven by the Government's net repayment of Tk. 63,997.0 crore to BB. The positive growth of NFA of BB partially offset the negative growth of Bangladesh Bank's NDA.

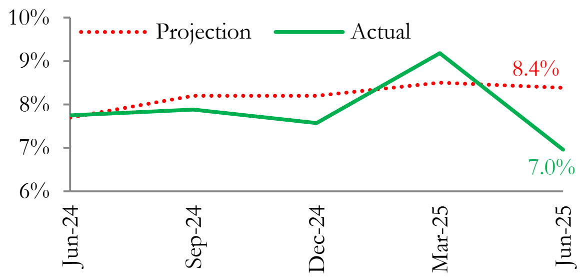
Credit growth in both the private and public sectors—an indicator of the national investment landscape exhibited mixed trends during H2FY25. Private sector credit grew by 6.5 percent in June 2025, which marked the historically lowest growth and was significantly below the projected growth rate (Chart 9). Several factors may have contributed to this decline, including reduced credit demand from non-bank deposit corporations and other financial sectors from deposit money banks amid ongoing uncertainties in the country, the implementation of a contractionary monetary policy that led to higher borrowing costs, and a tight liquidity situation within the banking sector. In contrast, public sector credit experienced a growth of 13.5 percent in June 2025 against the projected growth rate of 19.8 percent for June 2025 (Chart 8). This substantial increase can be attributed to higher credit demand from the Government to meet its spending needs, as revenue collection has fallen significantly below target. Overall, domestic credit growth is well below the projected trajectory for June 2025, primarily driven by the strong growth in public sector credit alongside lower expansion in private sector credit (Chart 7). Most monetary and credit aggregates were aligned with the anticipated trajectory during H2FY25. Charts 4-9 exhibit the actual growth paths of major monetary and credit aggregates compared to the projection set for H2FY25.

Chart 4: Reserve Money (RM) Growth



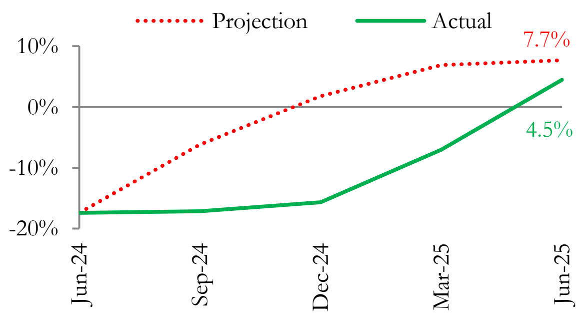
Source: Bangladesh Bank.

Chart 5: Broad Money (M2) Growth



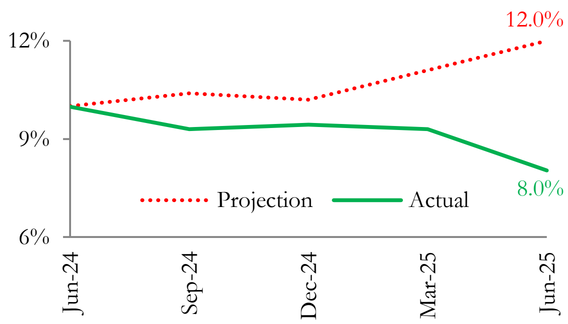
Source: Bangladesh Bank.

Chart 6: Net Foreign Assets (NFA) Growth

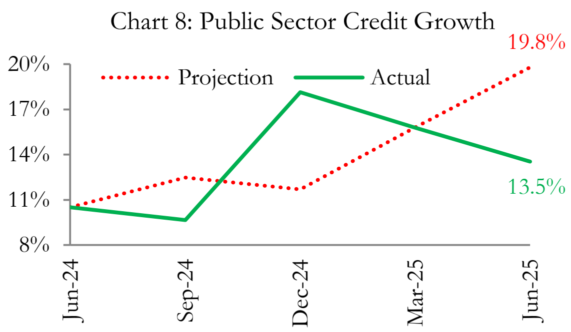


Source: Bangladesh Bank.

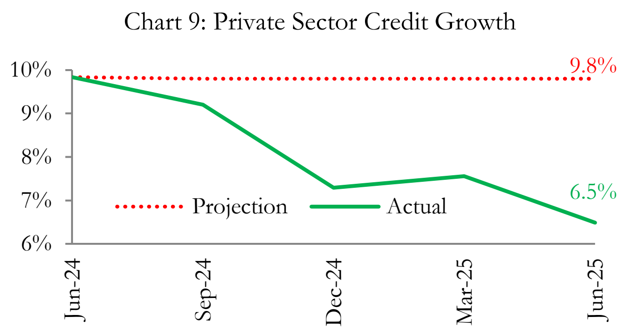
Chart 7: Domestic Credit Growth



Source: Bangladesh Bank.



Source: Bangladesh Bank.



Source: Bangladesh Bank.

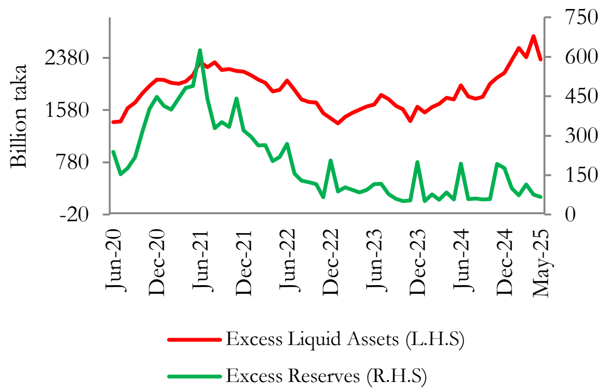
During FY25, the Government borrowed a net amount of Tk. 1,36,369.0 crore from scheduled banks, while it made a net repayment of Tk. 63,997.0 crore to the Bangladesh Bank (BB). As a result, the Government's net credit from the banking system during FY25 amounted to Tk. 72,372.0 crore, which is 73.1 percent of the revised target from the banking sector of Tk. 99,000 crore. With BB ceasing development, the Government's net credit now predominantly relies on scheduled banks. As of end June 2025, the outstanding amount of the devolved facility stood at Tk. 72,675.8 crore. Moreover, net sale of NSCs in FY25 declined to negative Tk. 6,063.3 crore. However, the fall was significantly steep compared to FY24, when net sale had sharply dropped to negative Tk. 21,124.4 crore. However, net foreign financing totaled Tk. 38,063.7 crore during July-May of FY25, reflecting an decrease of Tk. 58,048.3 crore recorded in the corresponding period of the previous fiscal year.

2.4 Liquidity and Interest Rate

Bangladesh's banking sector has been experiencing a tight liquidity situation during FY25, caused by several factors. These include a high volume of non-performing loans (NPLs) due to loan fraud and irregularities at some banks, the discontinuation of the 28-day repo facility, withdrawals of deposits stemming from a lack of confidence in the banking sector, and widespread scams, particularly in certain Shariah-based banks. In response to this tight liquidity situation, BB has taken several measures to alleviate pressure on the banking sector during the second half of FY25. These measures include (i) providing unsterilized liquidity support to struggling banks to meet their daily operational needs, and (ii) reducing the cash reserve requirement (CRR) from 3.5 percent to 3.0 percent. The changes in the liquidity situation are illustrated in Chart 10.

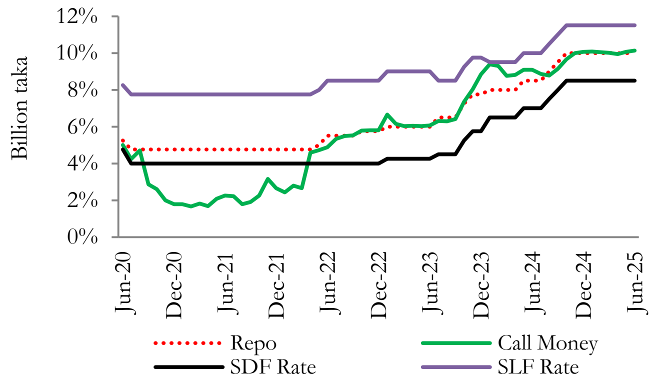
There were significant changes in the money market stemming from BB's implementation of contractionary monetary policy, streamlining OMOs, and a tight liquidity situation in the banking sector. The weighted average call money rate in the inter-bank call money market increased to 10.14 percent in June 2025 compared to 9.08 percent in June 2024 (Chart 11). Furthermore, the interbank repo rate also increased from 8.56 percent in June 2024 to 10.37 percent in June 2025.

Chart 10: Movement of Excess Liquid Assets



Source: Bangladesh Bank.

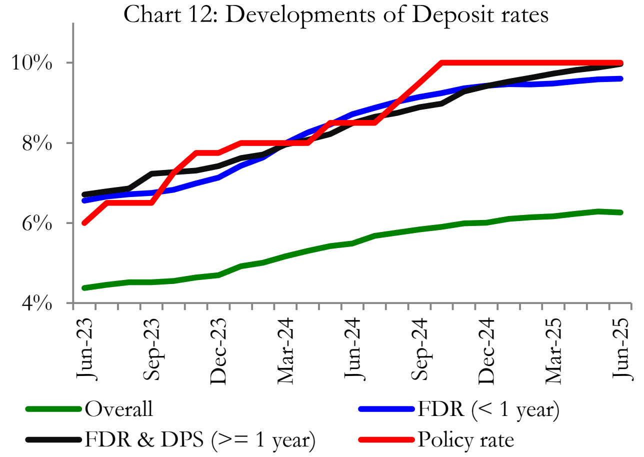
Chart 11: Movement of Call Money and Policy Rates



Source: Bangladesh Bank.

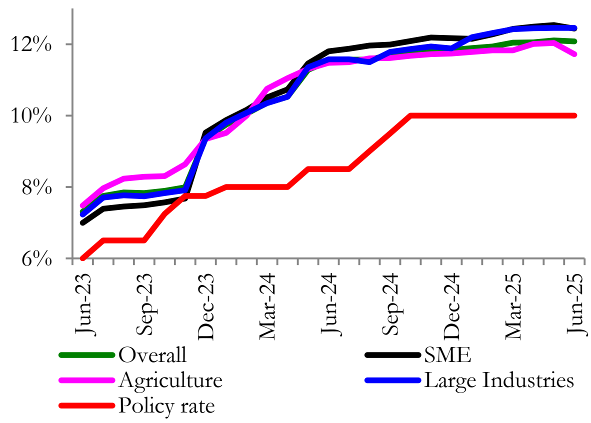
To ensure stability in the liquidity situation, BB has consistently supported the banking system by offering various liquidity facilities. These include repo facilities, assured liquidity support (ALS), assured repo, and special repo facilities for conventional banks and non-bank financial institutions. Additionally, BB has provided liquidity support through Mudarabah Liquidity Support (MLS), the Islamic Banks Liquidity Facility (IBLF), and Special Liquidity Support (SLS) specifically for Shariah-compliant Islamic banks.

Chart 12: Developments of Deposit rates



Source: Bangladesh Bank.

Chart 13: Developments of Lending rates

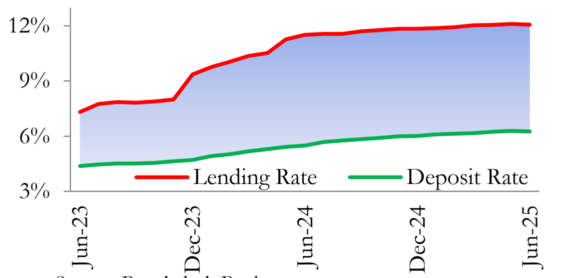


Source: Bangladesh Bank.

BB provided Tk. 12,09,117.8 crore as liquidity support to the banking system during H2FY25 including Tk. 84,417.7 crore to Shariah-based Islamic banks. Of the total support extended, Tk. 12,08,435.8 crore was retired resulting a net outstanding liquidity support of Tk. 628.0 crore at the end of the period, indicating near full absorption of the liquidity support. Additionally, BB guaranteed Tk. 11,100 crore under a credit guarantee scheme for interbank transactions to assist banks facing liquidity shortages. The outstanding amount of utilization of this scheme was Tk. 6,500 crore as of May 2025. Furthermore, BB offered special liquidity support of Tk. 33,020 crore to banks struggling to meet their daily operational needs, and an additional Tk. 19,354 crore was provided in June 2025 to liquidity-stressed banks to address their cumulative negative current account balances with BB, which have persisted since November 2022.

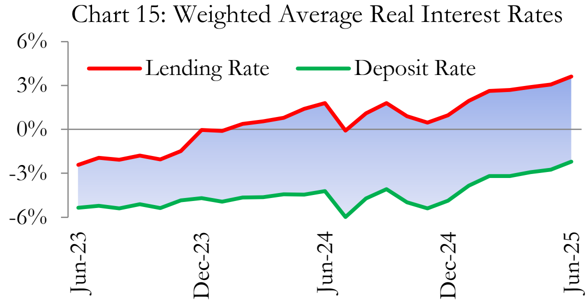
Due to substantial liquidity support from the BB during H2FY25, banks' excess liquid assets rose to Tk 2,35,500.4 crore by the end of May 2025, up from Tk 1,95,824.4 crore in June 2024. In contrast, banks' excess reserves decreased to Tk 6,719.1 crore by the end of May 2025, down from Tk 19,329.0 crore in June 2024. Meanwhile, the excess liquid assets of Islamic banks fell to Tk 5,620.0 crore at the end of May 2025, down from Tk 11,603.1 crore at the end of June 2024, despite the significant liquidity support from the BB during H2FY25. Additionally, the excess reserves of Islamic banks were Tk 1,543.6 crore by the end of May 2025, compared to Tk 6,902.0 crore at the end of June 2024.

Chart 14: Weighted Average Nominal Interest Rates



Source: Bangladesh Bank.

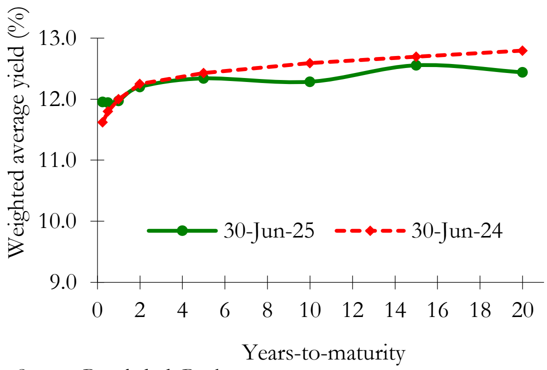
Chart 15: Weighted Average Real Interest Rates



Source: Bangladesh Bank.

Given the tightening liquidity situation in the local currency market, there was an upward movement in the weighted average nominal lending and deposit rates (Chart 14). Specifically, the weighted average nominal lending rate experienced an increase, rising from 11.52 percent in June 2024 to 12.08 percent in June 2025. Similarly, the weighted average nominal deposit rate also showed an upward shift, reaching 6.26 percent in June 2025 compared to 5.49 percent in June 2024. It is observed that interest rate of lending and deposits have increased noticeably during H2FY25 (Table 1, Chart 12, Chart 13).

Chart 16: Yields on Government Securities



Source: Bangladesh Bank.

Table 1: Interest Rate Structure of the Banking Sector (%)

Category	FY23 (Jun-23)	FY24 (Jun-24)	FY25 (Jun-25)
Advance Rate (%)			
Large Industries	7.23	11.58	12.46
SME	6.99	11.80	12.44
Agricultural Credit	7.48	11.48	11.72
Deposit rate (%)			
Less than One year (FDR)	6.56	8.72	9.60
1 to 3 year (FDR)	6.71	8.39	9.97
3 year and above (FDR & DPS)	7.62	8.60	9.26

Source: Statistics Department, Bangladesh Bank.

The government securities-related yield curve at the end of June 2025 was lower than that at the end of June 2024[1] (Chart 16). The lower yield curve in June 2025 compared to June 2024 reflects the lower

[1] The yield curve shows the interest rates (yields) on government securities for a particular day against their maturities of 91-day, 182-day, 364-day, 2-year, 5-year, 10-year, 15-year, and 20-year.

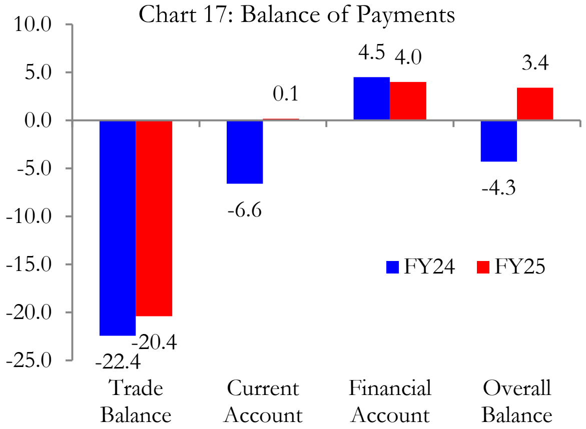
interest rates on T-bills and T-bonds, which resulted from increased investment demand for these securities from banks, non-bank financial institutions, and individuals. The real lending and deposit rates, which had been in negative territory for an extended period, were primarily influenced by the upward trend in the inflation rate (Chart 15). However, the real lending rate turned positive in February 2024, reaching 3.6 percent at the end of June 2025. Moreover, the real deposit rate increased significantly from negative 4.2 percent in June 2024 to negative 2.2 percent in June 2025. Looking forward, BB's continuous efforts to contain inflation through various policy measures, combined with the upward trend in interest rates, may help mitigate the issue of negative real interest rates on deposits in the upcoming months.

2.5 External Sector Developments

The pressure on the external sector had broadly stabilized in FY25, supported mainly by flexibility in exchange rates, a balanced policy-mix of tight monetary policy and budget retrenchment, inflow of foreign assistances, a surge in remittance inflows, and a robust export growth. The recovery of the sector was reflected in a reversal of the balance of payment (BoP) to a surplus, rebound in foreign exchange reserve, and stability of exchange rates.

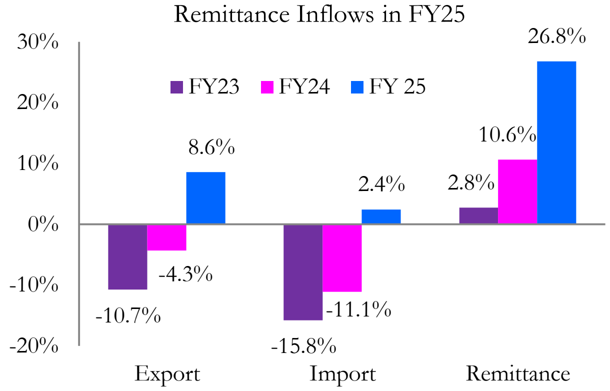
According to the latest available data, the BoP flipped to an overall surplus of USD 3.39 billion in FY25 – an impressive progress over a deficit of USD 4.3 billion in the previous fiscal year. This improvement was driven mainly by the return of the current account balance (CAB) to a surplus from a large deficit, while the financial account surplus witnessed some moderation. A surge in remittance inflows and robust export earnings in tandem with sluggish imports contributed to the reversal of the CAB to a surplus of USD 149 million in FY25, manifested a remarkable improvement over a deficit of USD 6.60 billion in the previous fiscal year (Chart 17).

Chart 17: Balance of Payments



Source: Bangladesh Bank.

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



Source: Bangladesh Bank.

Steady export demand and prevailing market driven exchange rates helped expand export by 8.6 percent to USD 48.3 billion in FY25, up from USD 44.5 billion in FY24 (Chart 18). Exports had been highly concentrated in ready-made garments (RMG), which expanded by 8.9 percent in this period. Among non-RMG items, export of leather and leather goods, footwear, and plastic products registered substantial growth in this period. Following a sharp downturn of 11.1 percent in FY24, import started recovering in FY25 on the back of improving liquidity situation in the foreign exchange market. Despite an adverse effect of higher borrowing cost, depreciation of exchange rates, and weak aggregate demand, total import recovered with a moderate growth of 2.4 percent in FY25, driven mainly by import of consumer goods and RMG-related raw materials. In this period, a downturn in capital machinery imports manifested a weak investment demand in the economy.

Remittance inflow reached an all-time high of USD 30.33 billion with a 26.8 percent growth in FY25. Prevailing market-driven competitive exchange rate, strict oversight dismantling informal networks, and accessible agent banking and mobile financial services helped boost remittance inflow in this period.

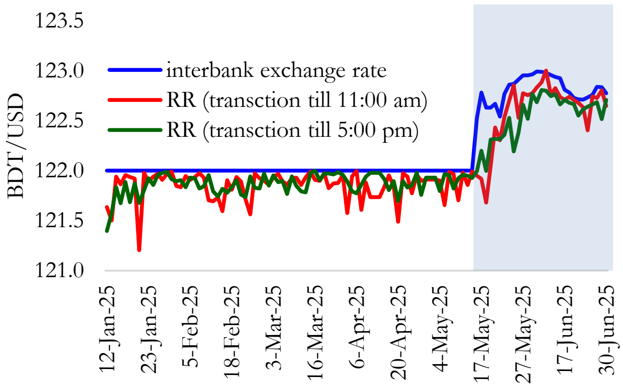
On the other hand, notwithstanding a hefty inflow of foreign assistance at the end of June 2025, the surplus in the financial account moderated somewhat on the back of a weak inflow of other long-term loans, a large deficit in trade credit, and an increase in foreign liabilities of DMBs and NBDCs. The surplus in the financial account came down to USD 4.0 billion in FY25, which was USD 4.5 billion in FY24.

Looking ahead, the BoP is expected to continue improving in FY26 with a favorable position in the CAB, underpinned by the recent trend of remittance inflows and export earnings. Given a limited space for further improvement in the CAB in the face of a growing deficit in the primary income and a potential rise in import ensued from a warranted downward revision of policy rate in FY26 following the down trend of inflation, the progress in the overall BoP would be conditioned upon developments in the financial account. However, this outlook is surrounded by a number of uncertainties and risks tilted to the downside. A risk to sustaining export growth in the period ahead could emerge from new US tariff imposed on Bangladeshi products, particularly on RMG products. In addition, growing domestic political uncertainty could also hamper FDI and export prospects.

2.6 Movements of Exchange Rate and Foreign Exchange Reserve

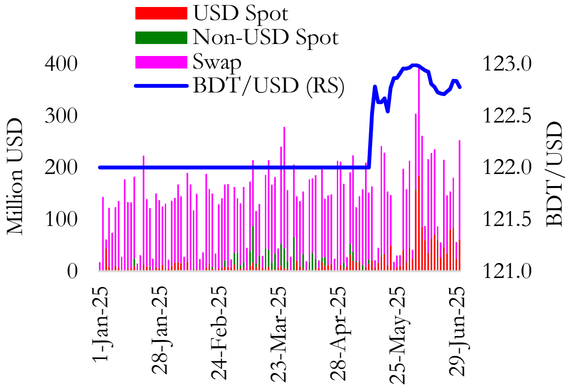
Continued tight monetary policy and a favorable development in the BoP helped restore stability in the foreign exchange market in the second half of FY25. To support the effective functioning of the foreign exchange market and ensure exchange rate flexibility, BB issued a circular on May 14, 2025 (FE Circular No. 18), which allowed exchange rates to move freely. Following this policy change, the interbank exchange rate of BDT vis-à-vis USD experienced a mild depreciation in the second half of May 2025. It remained broadly stable, with some appreciation bias in June 2025, driven by improved liquidity conditions in the foreign exchange market. The nominal exchange rate stood at 122.77 at the end of June 2025, resulting in a depreciation of 3.89 percent in FY25 (Chart 19). BB has started calculating and publishing the Foreign Exchange Market Spot Reference Exchange Rate (RR), defined as a weighted average of freely quoted spot exchange rates in the interbank market and exchange rates for transactions between customers and authorized dealer (AD) banks, since January 12, 2025. The RR is published twice a business day: in the morning, using transactions before 11:00 am, and in the afternoon, using transactions until 5:00 pm. The RRs also followed a similar trend to the exchange rate in the interbank market with some fluctuations in this period (Chart 19).

Chart 19: Trends in Exchange Rates



Source: Bangladesh Bank.

Chart 20: Interbank Foreign Exchange Transactions



Source: Bangladesh Bank.

The depreciation of the BDT vis-à-vis the USD, along with the depreciation of the USD against major currencies, resulted in a 7.31 percent depreciation of the nominal effective exchange rate (NEER) in FY25. The value of the NEER index decreased to 67.02 at the end of June 2025, from 72.31 at the end of June 2024. Despite a notable depreciation of the NEER, the real effective exchange rate (REER) depreciated at a much lower rate of 0.45 percent during this period, due to higher inflation in Bangladesh compared to its trading partners. The value of the REER index descended to 98.61 in June 2025 from 99.06 in June 2024.

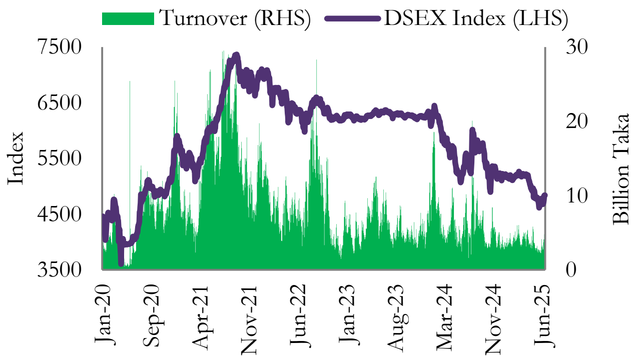
Supported by an improved foreign exchange liquidity position, a market-driven free exchange rate, and the phasing out of intervention in the interbank foreign exchange market, the volume of interbank spot transactions had been increasing since mid-May 2025. In June 2025, the daily average spot transaction rose substantially to USD 68.3 million, which was approximately USD 7.5 million in both March and April 2025 (Chart 20). The share of spot transactions in total interbank transactions increased to 37.7 percent in June 2025 from 13.2 percent in April 2025 and 16.5 percent in May 2025. Despite an increase in interbank spot transactions, swap transactions still dominate the overall transactions in the interbank market. The volume of average daily swap transactions remained as high as USD 113.5 million in June 2025.

To foster the effective functioning of the interbank market, BB has gradually phased out undue intervention (both sale and purchase of foreign currency) in the foreign exchange market and did not intervene in the foreign exchange market from May 15 to June 30, 2025. Nonetheless, BB sold USD 508.38 million (net) in FY25 mainly to meet payment obligations of government agencies, primarily for fuel, electricity, and fertilizer imports. Despite this net sale by BB, the gross international reserve (BPM 6) increased sharply to USD 26.7 billion at the end of June 2025, from USD 21.7 billion at the end of the previous fiscal year, driven largely by a sizable inflow of foreign assistance.

2.7 Capital Market

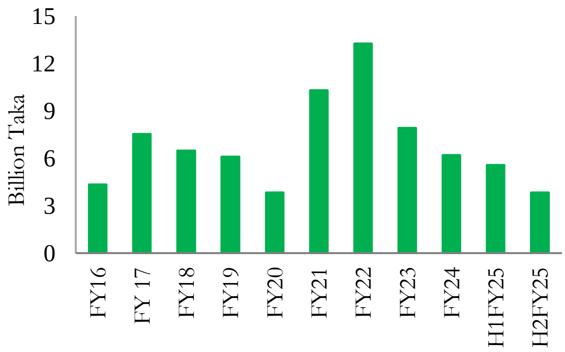
Bangladesh's capital market demonstrated a weak performance in the second half of FY25, as reflected in a downward trend of the price indices and average turnover (Charts 21 and 22). Several challenges, including domestic high inflation, political uncertainty, and ongoing global geopolitical tensions, contributed to the capital market's poor performance. The DSEX, the benchmark index of the capital market, dropped by 7.2 percent to 4838 points as of the end of June 2025, from 5216 points recorded at the end of December 2024 (Chart 21). The average daily turnover also reduced by 31 percent to BDT 383 crore in H2FY25, compared to BDT 559 crore in H1FY25 (Chart 22).

Chart 21: DSEX Index and Turnover



Source: Dhaka Stock Exchange.

Chart 22: DSE Daily AverageTurnover



Source: Dhaka Stock Exchange.

The BSEC has implemented various reform initiatives aimed at restoring investors' confidence by promoting institutional investment and encouraging good governance in the capital market. Reform initiatives, such as reducing capital gains tax to spur investment and providing sovereign guarantees to the Investment Corporation of Bangladesh (ICB), are expected to boost market liquidity. Besides, the government also prioritized the development of a liquid bond market. Recently, the interim government was instructed to issue five strategic directives, notably urging large corporations to raise capital through bonds or equity rather than relying solely on bank loans-an important step toward reducing pressure on the banking sector and diversifying financial sources. To ensure coordinated execution, a joint committee comprising the Ministry of Finance, Bangladesh Bank, and BSEC was established.

In the secondary market, a total of 239 government treasury bonds were actively traded until June 2025, marking significant progress in the bond market. Bangladesh Bank issued the 'RDIRWSP Socio-Economic Development Sukuk' worth BDT 20 billion on May 19, 2025, and the 'CIBRR-2 Socio-Economic Sukuk' worth BDT 30 billion on March 12, 2025. In June 2025, the government raised Tk. 240 billion through six investment sukuk, which banks and NBFIs can use to meet their statutory liquidity reserve (SLR), enabling Islamic banks to participate more actively in monetary management.

Additionally, the Bangladesh Bank issued guidelines for scheduled banks to create a special Tk. 200 crore fund for capital market investments, initially set to expire in February 2025. To support financial sector stability, the fund's term has now been extended until December 31, 2026. Investments from this fund in Green Sukuk Bonds issued by Special Purpose Vehicles (SPVs) set up by private entrepreneurs for investment in the renewable energy sector are permitted until December 31, 2028.

To boost the capital market, the Interim Government plans to reduce its stake in multinational companies, encourage large local firms to list on the stock exchange, crack down on market manipulation, and reduce reliance on bank loans. Initiatives also include setting up commodity exchanges and implementing blockchain-based back-office software for greater transparency. These reforms aim to restore investor confidence and market momentum.

Improving access to long-term capital for corporations, as well as reducing over-reliance on bank financing, is critical to developing a functional corporate bond market in Bangladesh. To this end, a working group comprising BB, BSEC, and the Ministry of Finance is collaborating to address regulatory issues.

3. Global Macroeconomic Development in H2FY25 and Outlook for H1FY26

According to the World Economic Outlook released by the IMF in July 2025, global GDP growth, having reached 3.3 percent in 2024, is projected to decelerate to 3.0 percent in 2025 before making a modest recovery to 3.1 percent in 2026. This growth is expected to be constrained by several factors, including high borrowing costs, reduced fiscal support, structural challenges, unfavorable demographic trends, sluggish productivity growth, the prolonged Russia-Ukraine conflict, trade restrictions through tariff and non-tariff measures, poor consumer demand across nations, and rising geopolitical and geo-economic tensions.

Growth among advanced economies also faces headwinds, with GDP expanding by 1.8 percent in 2024 but expected to taper to 1.5 percent in 2025, followed by a slight rise to 1.6 percent in 2026. This subdued outlook is primarily driven by weak domestic demand and fragile consumer confidence, particularly in the United States and the Euro area.

Emerging markets and developing economies are expected to experience a moderate deceleration in growth, easing from 4.3 percent in 2024 to 4.1 percent in 2025 and 4.0 percent in 2026. This sluggish pace of growth is primarily attributed to prolonged weakness in China's real estate sector, low consumer confidence, and growing trade tensions, as well as the depletion of pent-up demand in India that had accumulated during the pandemic. However, in South Asia, India is expected to maintain resilient economic performance, with GDP growth forecasted to surpass 6.0 percent, underpinned by private consumption. Conversely, Bangladesh's growth forecast has been downgraded due to persistent political instability, as outlined in Table 2.

Table 2: Overview of Global Economic Growth

(YoY % change)

Region	Growth			
	Actual		Projection	
	2023	2024	2025	2026
World	**3.5**	**3.3**	**3.0**	**3.1**
Advanced Economies	1.8	1.8	1.5	1.6
USA	2.9	2.8	1.9	2.0
Euro Area	0.5	0.9	1.0	1.2
Other Advanced Economies	1.9	2.2	1.6	2.1
Emerging Market and Developing Economies	4.7	4.3	4.1	4.0
China	5.4	5.0	4.8	4.2
Indonesia	5.0	5.0	4.8	4.8
Vietnam	5.1	7.1	5.2	4.0
South Asia				
Bangladesh	5.8	4.2	3.8	6.5
India	9.2	6.5	6.2	6.3
Pakistan	-0.2	2.5	2.7	3.6

Source: World Economic Outlook, July 2025 & April 2025, International Monetary Fund.

Inflation in Asia and the Pacific has eased, remaining significantly lower than in other regions. This is primarily attributed to effective monetary tightening, temporary price controls, and subsidies, which have helped alleviate pressure from commodity prices. By the end of 2023, inflation in most emerging economies had already met policy targets, and other economies in this region are expected to reach their targets by 2025.

Global headline inflation decreased from 6.6 percent in 2023 to 5.7 percent in 2024, mainly driven by lower fuel and energy prices, along with monetary tightening in both advanced and emerging economies. Projections indicate that inflation will continue to decline, falling from 5.7 percent in 2024 to 4.3 percent in 2025 and 3.6 percent in 2026. In advanced economies, inflation is expected to decrease from 2.6 percent in 2024 to 2.5 percent in 2025 and 2.2 percent in 2026, driven by falling commodity prices and the impact of stricter monetary policies. Following the same trend, inflation in emerging markets and developing economies is anticipated to decline to 5.5 percent in 2025, before easing to 4.6 percent in 2026, as shown in Table 3.

Table 3: Global Inflation

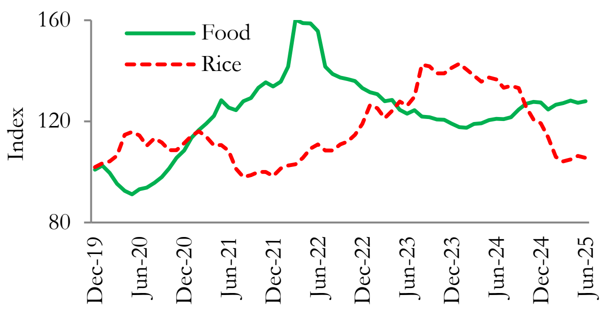
(in percent)

Region	Actual		Projection	
	2023	2024	2025	2026
World	6.6	5.7	4.3	3.6
Advanced Economies	4.6	2.6	2.5	2.2
Emerging Market and Developing Economies	8.0	7.7	5.5	4.6

Source: World Economic Outlook, April 2025, International Monetary Fund.

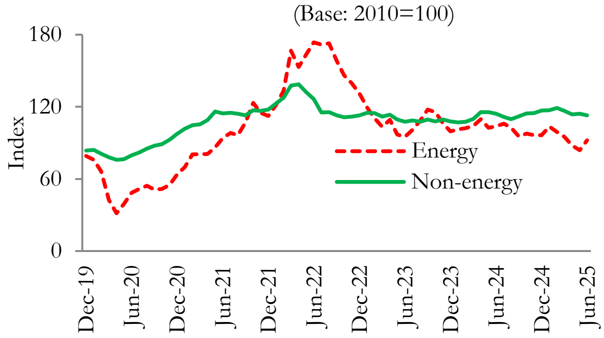
Inflation exceeds the target in most countries through 2024 and is expected to gradually align with targets by 2025, as global commodity and fuel prices continue to decline, as anticipated by the IMF. The global food price index increased slightly in June 2025 compared to May 2025, due to a rise in prices for meat, dairy, and vegetable oil, but remained 20.1 percent below its peak reached in March 2022. The rice price index, which has been rising since early 2022, stabilized as of January 2024 but is trending downward due to improved crop production in India and other parts of Asia (Chart 22). Energy prices have generally trended downward up to May 2025, but they rose in June 2025 due to a surge in crude oil and non-energy commodities, remaining largely stable as of June 2025 (Chart 23).

Chart 22: Global Food and Rice Price Indices
(Base: 2014-2016=100)



Source: Food and Agriculture Organisation.

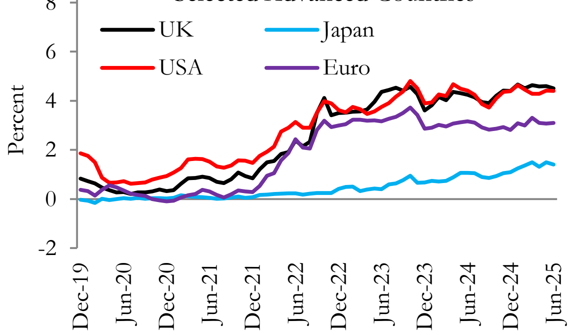
Chart 23: Global Commodity Price Indices
(Base: 2010=100)



Source: World Bank.

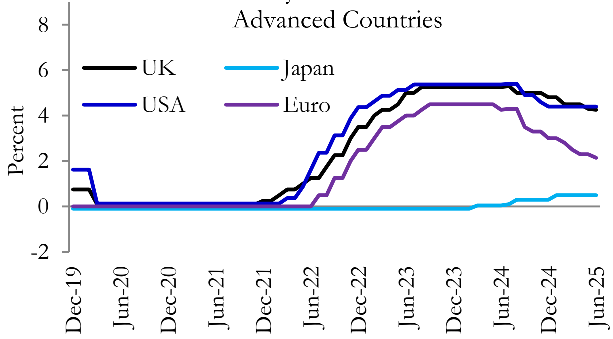
Long-term interest rates have steadily increased across most advanced economies. This upward trend reached its peak in October 2023, driven by central banks' proactive measures to tighten policies in response to persistent inflationary pressures (Chart 24). After its peak, long-term interest rates exhibited a mixed trend until June 2025. Except for Japan, the US, UK, and the Eurozone raised policy rates from early 2022 to August 2023 to combat rising inflation. Inflation had reached policy targets in most industrial countries, and central banks paused or eased their tight monetary policy stance. After a period of pauses, central banks began to gradually cut the policy rate, except in Japan, until June 2025 (Chart 25).

Chart 24: Long-Term Interest Rates of Some Selected Advanced Countries



Source: Organization for Economic Co-operation and Development.

Chart 25: Policy Rates of Some Selected Advanced Countries



Source: Bank for International Settlements.

4. Forward-Looking Policy Initiatives

4.1 Upholding Good Governance

BB continued its efforts to identify weaknesses in the boards of directors of banks that have contributed to the deterioration of their financial condition. As part of these efforts, Bangladesh Bank has so far dissolved the boards of directors of 15 banks and restructured them to restore effective governance and ensure sound bank management. Moreover, banks providing key monitoring indicators daily to BB are closely supervised.

To ensure the proper use of bank funds and maintain depositor confidence, transactions with bank-related individuals, institutions, entities, or companies must be conducted transparently under clear and established policies. The bank-related persons or institutions include current directors, MDs or CEOs, significant shareholders, their family members, the ultimate beneficial owner (UBO), and affiliated institutions. In this context, Bangladesh Bank issued a circular titled *"Transactions with Bank-Related Persons or Institutions"* on May 8, 2025. The circular imposes stricter limits and provisions on credit facilities for bank-related persons or institutions. The circular aims to ensure compliance with amended regulations, and banks have been instructed to follow the outlined provisions strictly.

4.2 Banking Sector Reforms in Bangladesh

Banking sector reform has become a top priority under the current interim government. To steer these reforms, BB has constituted three specialized task forces, with the Banking Sector Reforms Task Force (BSR-TF) leading the effort to strengthen the regulatory framework, improve asset quality, and establish a structured mechanism for effective bank resolution.

The BSR-TF has made substantial headway by introducing the Asset Quality Review (AQR) framework and issuing targeted regulations to facilitate independent assessments by internationally recognized consulting firms. In support of these initiatives, BB signed a Memorandum of Understanding (MoU) with the UK's Foreign, Commonwealth & Development Office (FCDO) for securing technical assistance from Deloitte LLP. As part of broader institutional reform, BB also established the Bank Resolution Department and subsequently finalized the Bank Resolution Ordinance (BRO), 2025.

The second task force, tasked with strengthening Bangladesh Bank's institutional capacity and restructuring its operations to enhance compliance, has made significant progress. A draft Bangladesh Bank Order 2025 has been formulated and is currently under review.

The third task force is responsible for supporting the identification, investigation, and repatriation of assets siphoned off from Bangladesh. Its key functions include removing legal barriers to expedite proceedings, managing recovered assets, coordinating with international partners for information sharing, and strengthening institutional capacity and internal coordination to ensure effective asset recovery. To enhance its mandate and operational legitimacy, the Ministry of Finance issued two circulars on June 15, 2025, restructuring the Inter-Agency Task Force on Stolen Asset Recovery and Management, chaired by the Governor of the Bank and coordinated by the Head of the BFIU.

The BFIU has formed Joint Investigation Teams (JITs), led by the Anti-Corruption Commission (ACC), with participation from the Criminal Investigation Department (CID), the Central Intelligence Cell (CIC), and the Customs Intelligence and Investigation Directorate (CIID). These teams have prioritized 11 nationally significant money laundering cases and are actively investigating them. So far, assets both within Bangladesh and abroad linked to the accused have been identified and attached. Additionally, BFIU has frozen over 6,500 suspicious accounts and shared more than 100 financial intelligence reports with relevant law enforcement agencies. The Task Force is also collaborating with several international law and litigation firms on other money laundering cases beyond the prioritized 11 cases, and is seeking to appoint legal representatives in various jurisdictions to overcome legal barriers to asset recovery.

To reinforce the legal and institutional framework, the government is in the process of amending the Money Laundering Prevention Act, 2012, and the Money Laundering Prevention Rules, 2019. The Financial Institutions Division is leading this amendment process in consultation with key stakeholders, including BFIU, ACC, NBR, CID, the Attorney General's Office, and the Ministry of Law.

The Task Force maintains close coordination with international organizations, including the Stolen Asset Recovery (StAR) Initiative, the US Department of Justice (USDOJ), the International Anti-Corruption Coordination Centre (IACCC), and the International Centre for Asset Recovery (ICAR), to access technical support, legal expertise, and training. To promote cross-border cooperation, the government is also working to sign Mutual Legal Assistance Treaties (MLATs) with several countries.

4.3 Road Map to Managing Non-Performing Loans (NPLs)

The surge in NPLs has raised growing concerns for the banking sector. This sharp increase in NPLs is primarily attributed to the implementation of stricter loan classification guidelines, which took effect on 30 September 2024. Moreover, the introduction of comprehensive loan classification and provisioning guidelines aligned with international best practices, which came into force on 1 April 2025. The non-renewal of some existing large loans and the non-repayment of rescheduled loans worsen the scenario. The growing volume of classified loans is deteriorating banks' capital adequacy, profitability, and their overall ability to lend.

In line with the comprehensive loan classification and provisioning guidelines, the classified loan (CL) reporting format has been updated, with new sectors added to enhance sector-wise supervision of disbursed loans. Directives on continuous loan renewal have been issued to prevent potential abuses. BB is revising the Core Risk Guidelines, including the Guidelines on Credit Risk Management (CRM) for banks, in preparation for the implementation of Risk-Based Supervision (RBS).

To further strengthen the banking sector's resilience, BB has announced a roadmap to implement ECL-based loan provisioning by 2027, aligning with the International Financial Reporting Standard (IFRS 9). Under Phase I, scheduled banks are currently complying with BB's directives and have submitted Time-Bound Action Plans. These plans include pre-assessment reports detailing the transition from the existing rule-based model to the ECL model, anticipated challenges, and necessary actions for full implementation of IFRS 9. Once fully operational, the ECL-based provisioning system will benefit banks, regulators, investors, and the public by promoting early recognition of credit risks, enhancing financial transparency, and ensuring banking sector stability. It will support proactive risk management, adequate supervision, and increased confidence among investors and depositors, while reducing the likelihood of financial shocks.

In light of potential liquidity shortfalls due to unexpected and substantial deposit withdrawals, BB is also 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.

4.4 Enhancing Financial Inclusion and Cashless Society

BB promotes financial inclusion as a strategic priority to ensure that all citizens, particularly the underserved and vulnerable segments, have access to formal financial services. BB is working towards promoting women's economic inclusion to improve gender equality and women's empowerment. Moreover, to reduce financial disparity, 'Digital Microcredit' facilities were introduced at low-interest rates to the underprivileged and marginalized population of the country. This initiative is fostering the habit of conducting banking transactions through digital means, especially mobile apps, among marginalized populations, playing a crucial role in building a cashless society. School banking is a key initiative under the Financial Inclusion Program. As part of the action plan for the year 2025-2026, BB is working on developing a revised comprehensive School Banking Policy and an operational manual for the School Banking Conference.

In line with the cashless Bangladesh initiative, BB introduced a national QR Code standard for retail payments in Bangladesh named 'Bangla QR' for low-cost, interoperable QR code-based payments. Currently, 42 banks, 7 Mobile Financial Services (MFS) providers, and 3 Payment Services Providers (PSPs) offer the Bangla QR payment facility.

4.5 Asset Quality Review (AQR) and Bank Restructuring

A Banking Sector Reforms Task Force (BSR-TF) was formed with the mandate of strengthening the regulatory framework, improving asset quality, and developing a structured mechanism for effective bank resolution. The BSR-TF made significant strides in improving financial sector resilience by implementing the Asset Quality Review (AQR) framework. The legal foundation and Terms of Reference (ToR) for the AQR Taskforce were approved along with the issuance of special regulations to facilitate independent assessments by international consulting firms. A total of 17 banks were selected for AQR in three phases. The first phase, covering six banks, has been completed, with KPMG and Ernst & Young (EY) Sri Lanka engaged to conduct the assessments.

To ensure robust oversight and accountability, a three-tier governance structure—comprising Implementation, Project Management, and Steering Committees—was established in January 2025. Furthermore, a few Special Inspection Teams were deployed to conduct comprehensive root cause analyses of asset quality.

The completion of data collection to support resolution planning represents a key milestone in the ongoing reform agenda. Scenario analyses under the AQR framework are currently being conducted by the operational Bank Resolution Ordinance (BRO). 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 bidding process to select international consulting firms to carry out these phases is currently underway.

4.6 Bank Resolution Ordinance, 2025

The Honorable President has issued an ordinance named 'Bank Resolution Ordinance, 2025' on 9 May 2025 to facilitate bank resolution in Bangladesh. Under this ordinance, if BB is convinced that a scheduled bank has become non-viable or has no chance of viability, BB can initiate a resolution process for it. The primary objectives of the resolution are to continue essential banking operations, including, among others, processing payments, clearing, and settlements, while safeguarding the interests of depositors. The purpose also aims to prevent the loss of value of the assets of the scheduled banks under resolution, thereby ensuring the stability of the financial system.

BB will establish an Inter-Institutional Organisation named 'Banking Sector Crisis Management Council'. The council's purpose will be to effectively address and mitigate the impact of the banking sector crisis, as well as the systemic crisis, to maintain financial stability. The BRO formally confers resolution authority to the Bangladesh Bank, enabling it to execute timely corrective actions and apply resolution tools in a structured and rule-based manner. 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. Criteria will be established for classifying banks based on their financial health, with graduated responses ranging from enhanced supervision to full-scale resolution.

5. Monetary Policy Stance and Monetary & Credit Projections for FY26

5.1 Monetary Policy Stance for H1FY26

Global economic growth is expected to weaken, resulting from increased trade tensions and heightened policy uncertainty. The recent rise in tariffs by the U.S. administration and the associated uncertainties pose risks to exports, disruptions to global supply chains, and intensify financial market turbulence. Moreover, global inflation is expected to ease due to weakening demand, currency volatility, and declining hydrocarbon prices. Therefore, central banks around the world may be more inclined to reduce interest rates or keep them steady at current low levels, given the dual context of weaker growth and lower inflation. Meanwhile, world commodity prices are expected to decline in 2025 and 2026.

On the domestic front, in the upcoming H1FY26, Bangladesh's economy may continue to face macroeconomic challenges, including the persistence of inflation, the uncertainties associated with the upcoming election, slowing GDP growth, stagnant private investment, and consistently high levels of non-performing loans. In addition, on the external front, export growth may be hindered by the effects of tariff shocks.

BB will continuously monitor inflation trends and the liquidity situation in the domestic market. Once current developments and projections consistently show a decline in inflation and the policy rate in real terms reaches 3.0 percent, BB will gradually begin to lower the policy rate. Moreover, if exports weaken due to tariff shocks and the weaker global growth outlook, accompanied by depreciation pressures, BB will adjust the policy rate as needed to cushion the short-term impact while safely guiding its inflation objectives.

> *Under the circumstances and taking into account the global risks, BB will continue its tight monetary policy stance in the first half of FY26 to contain inflation and anchor inflation expectations. If the inflation rate continues to decelerate further, as we expect, the policy repo rate may be adjusted downward, if inflation rate comes below 7.0 percent, until then, the policy repo rate will remain unchanged at 10.0 percent; the Standing Lending Facility (SLF) rate will remain at 11.5 percent, and the Standing Deposit Facility (SDF) rate will be 8.0 percent.*

In May 2025, BB moved towards more flexible exchange rate regime aiming to enhance stability in the foreign exchange market. This flexible exchange rate regime remains crucial for achieving the smoother adjustment of external imbalances, easing foreign exchange market pressures, and preserving foreign reserves. BB recognizes that allowing greater exchange rate flexibility is an important policy initiative to compensate for the impact of reduced demand of our exports amid escalating trade tariffs. To monitor the foreign exchange market closely, BB published reference exchange rate twice a day, which serves as a benchmark for price discovery in the market.

> *In this regard, consistent with the flexible exchange regime and to rebuild foreign exchange reserves, BB will intervene in the foreign exchange in a bit to curb volatility in exchange rate and ensure greater stability in the foreign exchange market.*

BB's commitment to maintaining a flexible exchange rate regime aims to ensure stability in the exchange rate and build up foreign reserves, thereby helping to mitigate external shocks.

5.2 Monetary and Credit Projections for H1FY26

The half-yearly movements of primary monetary and credit aggregates, along with their projection set for FY26, are shown in Table 4. Under the interest rate targeting framework, monetary aggregates such as broad money and reserve money are considered as indicative targets of economic policy. Therefore, monetary and credit projections are crucial in aligning interest rate targets to maintain price stability, ensure financial stability, and promote desired economic growth. BB controls the reserve money and broad money by adjusting the policy rate and managing liquidity through cash reserve ratio (CRR), statutory liquidity ratio (SLR), open market operation (repo operation, SLF, SDF, BB bill), assured liquidity support, exceptional liquidity support, advance-deposit ratio, refinance/pre-finance facilities, Mudarabah liquidity support (MLS), and Islamic bank liquidity facility (IBLF).

Table 4: Monetary and Credit Projections for FY26

(YoY % change)

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	13.5	20.4	18.1
Credit to the private sector	9.8	7.3	6.5	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	5.29

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

The growth projection for broad money in FY26 is set at 8.5 percent, considering the GDP growth target of 5.5 percent and a CPI-based average inflation ceiling of 6.5 percent, along with a positive change in the velocity of money. Public sector credit growth is projected to be 18.1 percent, taking into account lower credit demand from the Government, as the Government has been selectively spending on priority projects as part of its austerity policy measures. Moreover, the Government's budgetary target for borrowing a total of Tk. 1,040.0 billion from the banking system has also been duly considered in projecting the public sector credit growth limit. Private sector credit growth is projected to be 8.0 percent, assuming the contractionary nature of monetary policy aimed at containing persistently high inflation and lower credit demand from non-bank financial corporations. BB also confirms supply-side interventions to support necessary credit flows to productive and employment-generating sectors such as agriculture and CMSMEs (Cottage, Micro, Small, and Medium Enterprises) through refinance and pre-finance schemes. Considering the moderate growth in both the public and private sectors, domestic credit growth is projected to be 10.3 percent for FY26. The projection for the net foreign assets (NFA) of the banking system is expected to show positive growth of 21.8 percent for FY26. 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 percent growth in exports and remittances, and 8.0 percent growth in imports. The projection of Reserve Money (RM) growth is set at 8.0 percent, considering the economic realities and the stable movement of the money multiplier, which is influenced by currency deposit and reserve deposit ratios.

6. Near-term Macroeconomic Issues and Challenges

The interim government has inherited a faltering economy characterized by institutional collapse, elevated inflation, depleted foreign exchange (FX) reserves, a fragile banking sector, and a narrowing fiscal space. The government has initiated comprehensive economic reforms aimed at addressing key legal, institutional, structural, and regulatory aspects. Riding on these reform measures, along with the financial activities returning to normalcy, the economy has begun to recover from the fallout.

Bangladesh's economy appears to have turned around from the business cycle trough and is expected to grow moderately in FY26, led by sustained growth momentum in the industrial sector. A rebound in the service sector, coupled with a notable improvement in the agricultural industry, will also drive growth. In the near term, the broad-based recovery will hinge critically on favorable domestic conditions — easing election uncertainty and monetary and fiscal restraint — alongside benign external developments.

Inflation in Bangladesh has begun to take a soft landing in recent months, mainly due to continued monetary tightening, ample production of essential commodities, and a stable exchange rate. The hawkish policy stance has proved effective in dispelling the inflationary mindsets of the economic agents. Although spiraling inflation has recently receded, it remains uncertain whether the deceleration will persist in the near term, as cost pressures, partly stemming from the U.S. tariff-induced nominal depreciation of the Taka, may further spur inflation. Notwithstanding eased geopolitical tensions, subsided global prices, a bumper agricultural harvest, and, importantly, a careful recalibration of the monetary policy stance, these factors will continue to assuage inflationary pressures in the months ahead.

Overall, a more positive outlook for the external sector is evident from the recent spike in export earnings and remittance inflows. In addition to ensuring exchange rate stability, this upward trend has already produced a comfortable balance of foreign exchange reserves. If it continues, it is likely to generate a sizable reserve cushion soon. However, inflation in the country remains above the target level, despite a recent downward trend. For a few periods in the first half of FY26, BB is likely to maintain its tight monetary policy to keep inflation below 7 percent, while encouraging productive private sector activities.

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