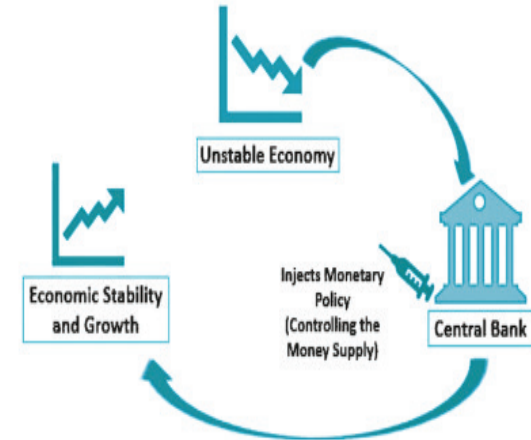


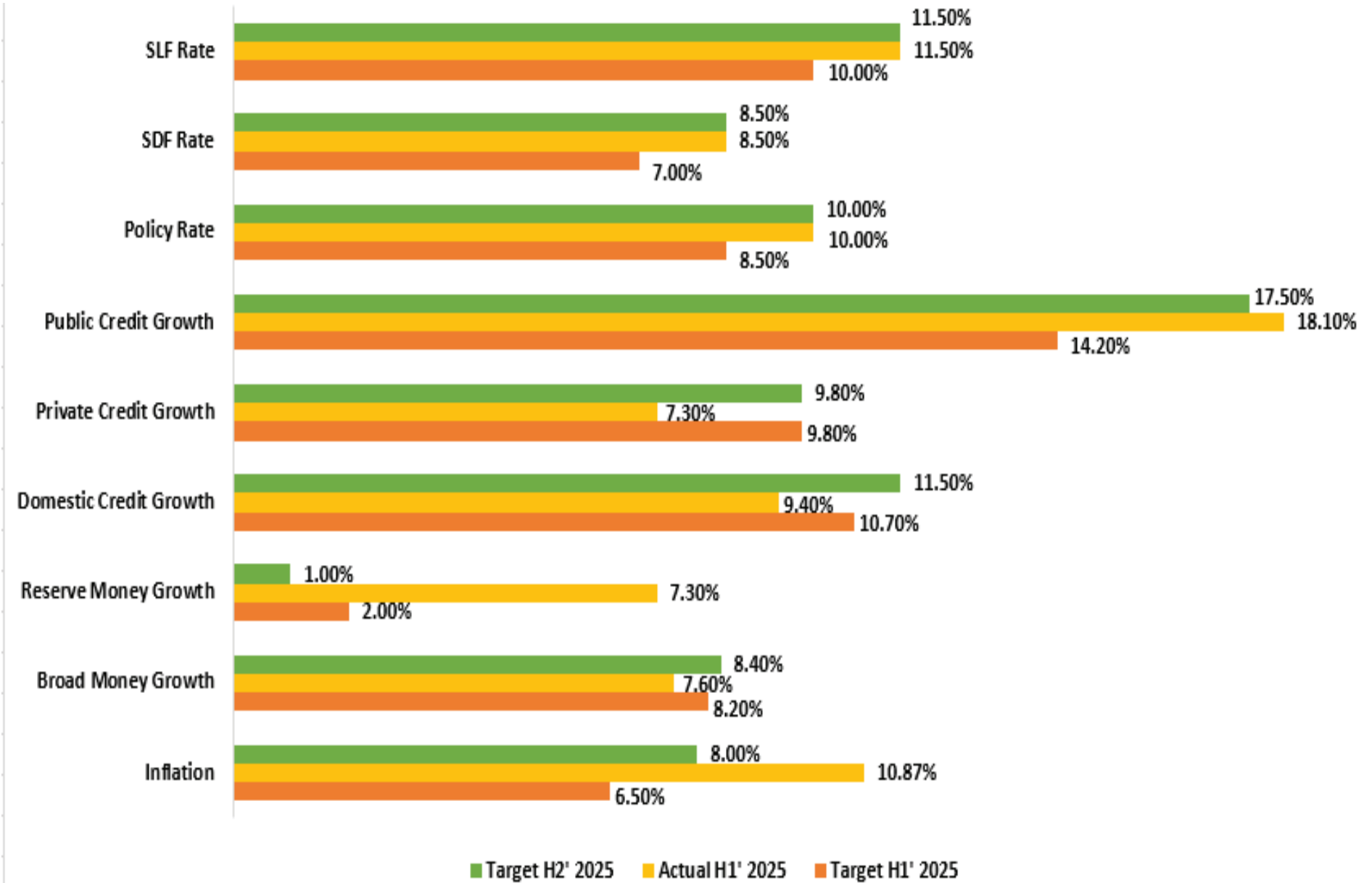
# Review and Analysis Report on: **Monetary Policy Statement Of Bangladesh**



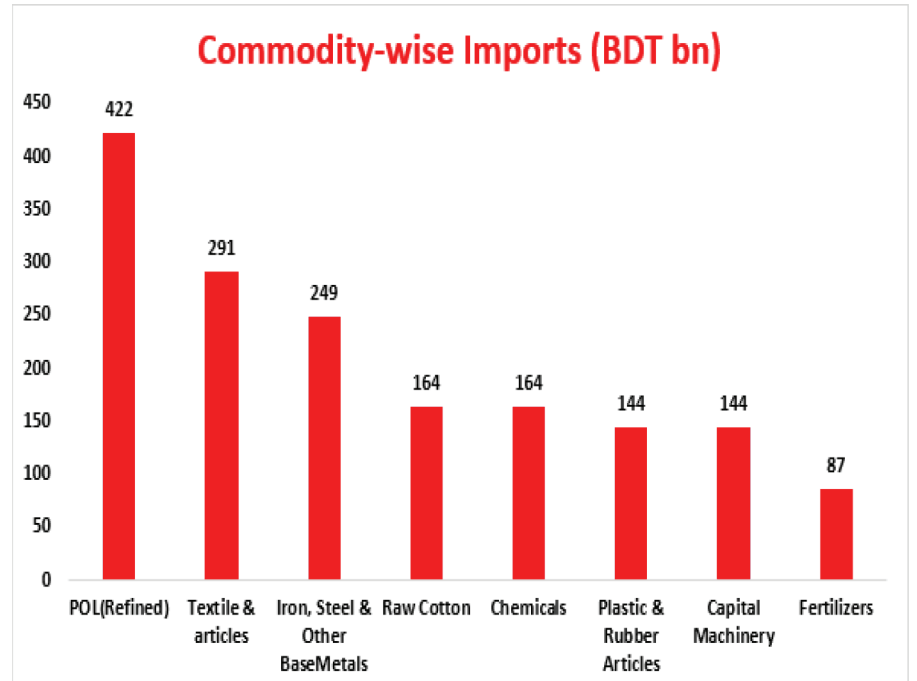
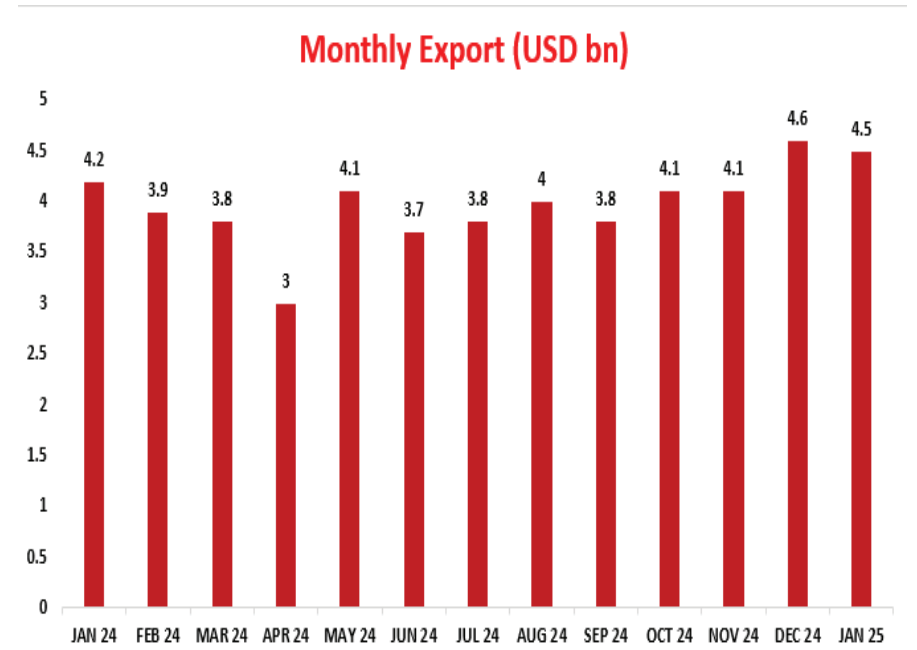
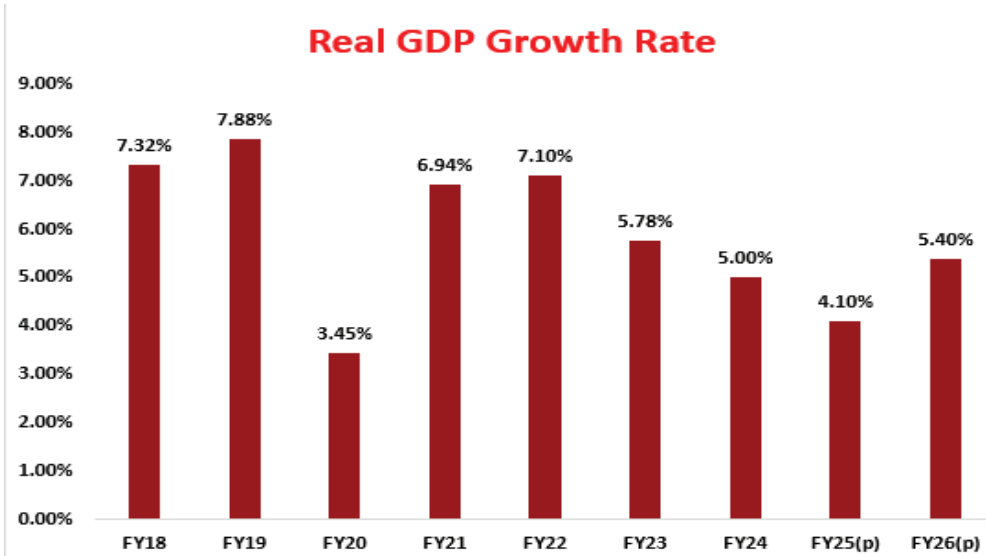
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The central bank has decided to continue its contractionary monetary policy stance to control inflationary pressures and reduce exchange rate volatility.



GDP growth in FY25, is projected to remain sluggish at 4%-5% with expectations for recovery to 6% or above in FY26 caused by political uncertainty subsides and proactive policies take effect. Globally the growth rate is expected to remain steady at 3.2%-3.3% in 2024 and 2025 providing a supportive backup for export recovery. Due to high inflation and global uncertainty the real GDP growth in FY24 slowed to 4.22% and the July 2024 student uprising added disruption with Q1 FY25 growth dropping to 1.81%. Though industrial sector showed potential recovery but faced difficulties with bearish trend of private credit growth, floods, agricultural losses and increasing unemployment. Government has taken initiatives for boosting remittance, RMG export and stimulating private demand to mitigate the sluggish FDP growth. BB has maintained its previous target for private sector credit growth at 9.8% for H2'25, up from 7.3% growth achieved in H1'25, to support investment activities for achieving the targeted GDP growth. Meanwhile, public sector credit growth is projected to be moderated to 17.5% in H2'25, down from 18.1% achieved in H1'25, considering the government's adjusted borrowing parameters.



Primary focus of the monetary policy for the remaining part of this fiscal year will be containing CPI inflation within the government's target range of 7%–8% by keeping the policy rate unchanged and ensuring exchange rate stability by continuing the recently established Foreign Exchange Spot Reference Rate mechanism, while gradually shifting to a market-based regime with the improvement of macroeconomic conditions over the long term.

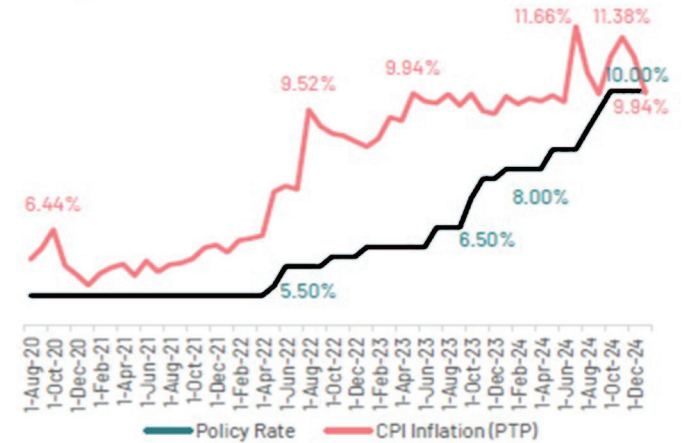
Still inflation is remaining a major challenge by peaking at 11.66% in July 2024 which is the highest from 2011, though, with lower food sector inflation it shows declining trend and easing to 9.94% in January 2025. Key drivers of inflation was:

1. Delayed policy response and the 9% lending rate cap from April 2020 to May 2024,
2. Depreciation of exchange rate which was more than 30% by the end of 2024 and lead higher imported inflation.
3. Twin floods worsened inflationary pressures, supply chain disruptions and energy price shocks.

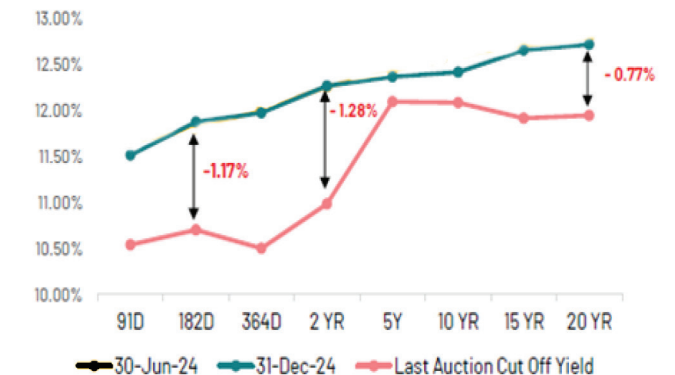
The central bank has ranged its GDP growth and inflation targets with the govt’s objective to achieve 4%-5% GDP growth and containing inflation within 7%-8% range by June 2025. Beside these Bangladesh Bank has maintained its monetary policy tightened by keeping the policy rate unchanged at 10% with the policy rate strip set at ±150 bps, market driven interest rates and expenditure cuts to reduce the fiscal policies. Bangladesh Bank is considering the gradual easing of inflation in recent months. Not only these but also Bangladesh Bank is aiming to monitor inflation trends continuously and bring adjustments when necessary to interest rates and liquidity measures.

The Standing Lending Facility (SLF) or Special Repo rate and the Standing Deposit Facility (SDF) or Reverse Repo rate will remain at 8.5% and 11.5%, respectively. Not only this but also Bangladesh Bank has emphasized reducing Non-Performing Loans (NPLs) and alleviating liquidity constraints by implementing targeted reform initiatives to restore public confidence in the banking sector.

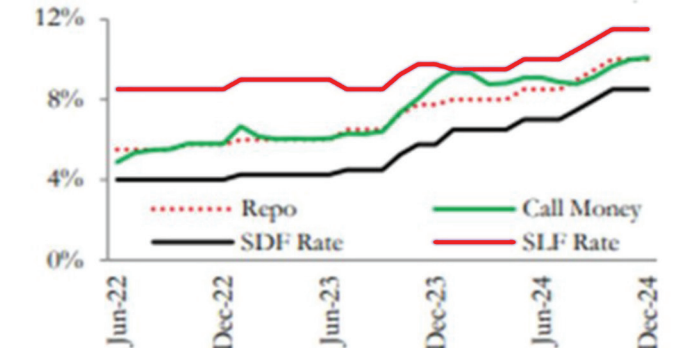
**Policy Rate & Inflation**



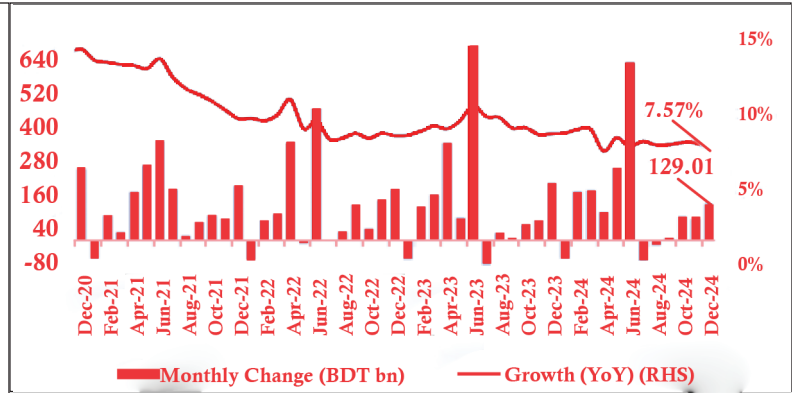
**Treasury Yields in Jun 24, Dec 24 & Last Auction Cut Off Yield**



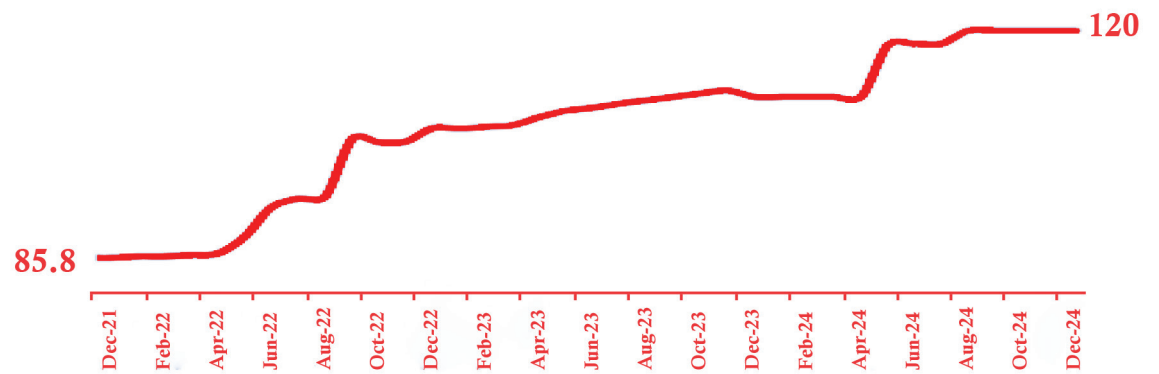
**Interest Rate Corridor and Call Money Rate**



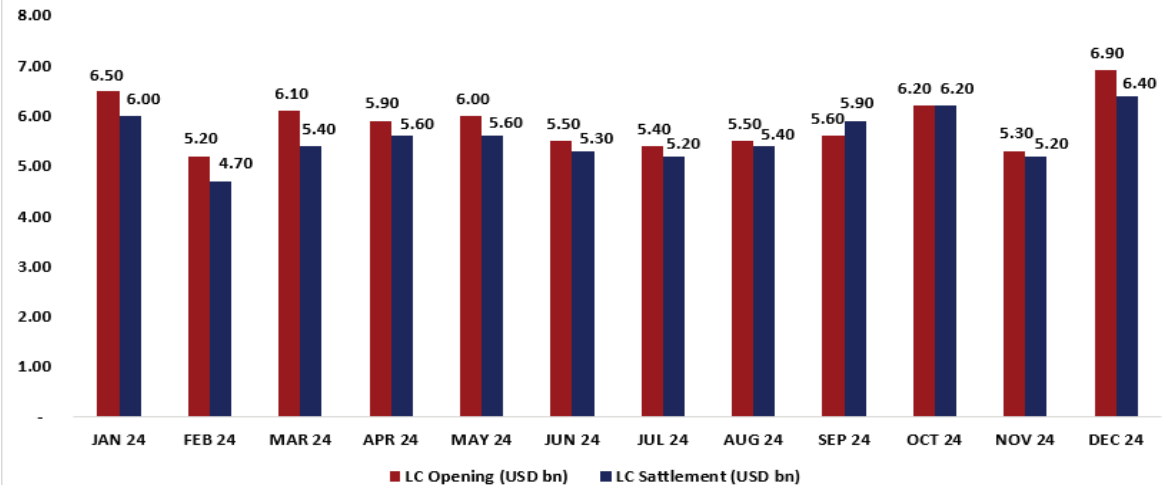
Broad money is a measure of the total amount of money in an economy, including cash, deposits, and other types of investments. It's used to understand the value of money available to individuals and businesses. Bangladesh Bank is expecting the Broad Money (M2) growth will remain moderate at 8.4% in H2, 2025 which was 7.6% in December 2024 for prioritizing inflation control and exchange rate stability though challenges like high NPLs, weak credit demand and liquidity constraints may hamper monetary expansion. The M2 growth will be managed by targeted policy rates and liquidity control within an interest rate corridor.



The exchange rate in H1 FY25 reflected signs of stabilization after significant depreciation in FY24 with the BDT depreciating by 1.7% to settle at BDT 120/USD by December 2024. Bangladesh Bank implemented a crawling peg exchange rate mechanism in May 2024 in accordance with the suggestion of IMF and wined the exchange rate band to 2.5% and introduced a market-based spot reference exchange rate allowing for gradual adjustments. As a result the nominal effective exchange rate (NEER) depreciated by 0.7% while the real effective exchange rate increased by 4.4% which reflecting inflationary pressure. The central bank is expecting the exchange rate will remain stable due to improved balance of payment (BoP) driven by strong remittance inflow and exports. Plans for fully flexible exchange rate system (crawling peg) lead to enlarge resilience situation in economy though risks from global financial volatility and trade imbalance.



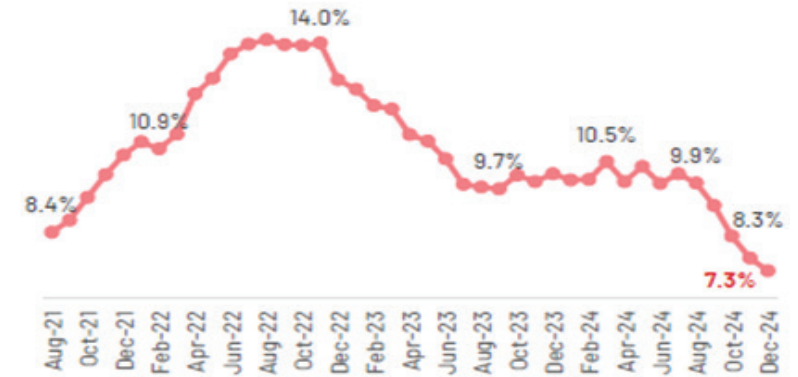
LC Opening and Settlement (USD bn)



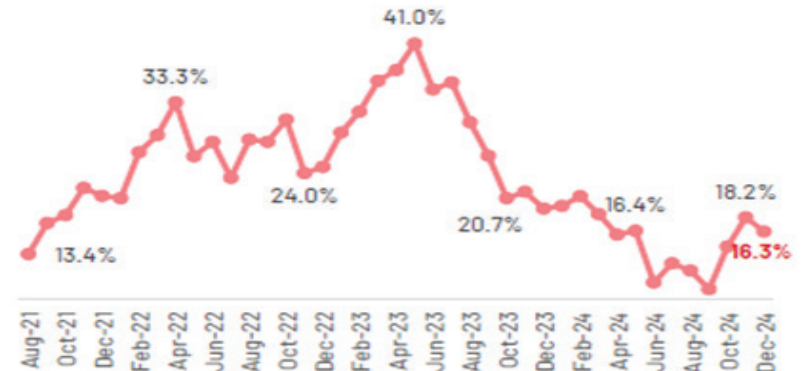
Three specialized task forces have been formed by Bangladesh Bank to strengthen the banking system. The Banking Sector Reform Taskforce (BSRTF) oversees Asset Quality Reviews (AQR), while Bangladesh Bank also proposes the Bank Resolution Act and Deposit Insurance Act amendment to address underperforming banks, guided by AQR findings. The second task force aims for internal restructuring and capacity building of the central bank to enforce regulations and improve compliance, while the third, an inter-agency task force, has been collaborating with domestic and international authorities to recover the laundered assets. BANGLADESH BANK has introduced guidelines for loan classification, provisioning, and recovery, aligning with international best practices and complying with the Basel III standards. Accordingly, the Expected Credit Loss (ECL) methodology, in line with IFRS 9, is set for implementation in 2027 to enhance credit risk management and mitigate the accumulation of NPLs. Bangladesh Bank aims for 75% cashless transactions by 2027, introducing a digital credit score to support digital lending and exploring an open banking framework to integrate fintech, banks, and mobile services. Moreover, it is drafting 'E-Money Regulations' to ensure secure, competitive digital transactions.

The central bank faces challenges in achieving an ambitious inflation target and overhauling the banking sector due to economic headwinds, political uncertainties, and external constraints. High interest rates and supply chain inefficiencies may hinder inflation easing. Stricter loan classification rules set to take effect in April 2025 may hinder efforts to reduce non-performing loans. Continued reform initiatives after the current government's regime are also uncertain. Despite these challenges, the central bank's monetary policy stance is considered appropriate. Not only these but also as the GDP growth is slowing down, it affects government's revenue collection, which has declined by c1% during 4M FY25 YoY. The declined revenue collection is also creating challenge to meet budget requirements.

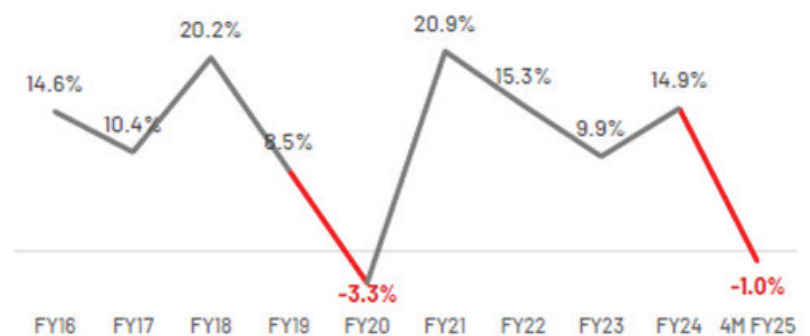
## Private Sector Credit Growth



## Public Sector Credit Growth



## Growth (%) in NBR Tax Revenue





Capital market of Bangladesh may face moderate pressure leading by continuation of tight monetary policy and liquidity constraints. A sharp downturn in H1'25 faced by Bangladesh's capital market due to declining investor confidence led by political instability. Subsequently, the newly appointed BSEC leadership took over and implemented strict regulatory measures, initiated investigations, and established a task force to restore market stability and rebuild investor trust on the market. Declining treasury yields in the recent G-sec auctions may make equities attractive in the long term, considering the projected easing in inflation. The exchange rate is expected to remain stable, which is likely to restore foreign investor confidence, especially given the current attractive valuation of the capital market. However, foreign investors may remain cautious due to ongoing economic challenges. Import-dependent companies, which previously experienced foreign currency losses, are expected to achieve more stable earnings as the central bank anticipates the exchange rate will remain stable. In contrast, exporters are expected to benefit from the higher exchange rate, positively impacting their earnings. The reduced private sector credit growth of 7.3% signals a potential slowdown in investment in H1'25. Continuance of such sluggish credit growth may lead to business contraction, declined profitability, and lower corporate earnings. Highly leveraged listed manufacturing companies may see lower profitability due to increased interest expenses, while companies with substantial fixed deposits in banks and NBFIs, such as some insurance companies and state-owned companies, could benefit from higher net interest income. The market-driven lending and deposit rate is expected to increase the earnings of well-governed banks and NBFIs, driven by a wider interest rate spread. As interest rates is expected to remain high in midterm, investors may shift their funds to fixed-income assets such as bonds and bank deposits, which could further reduce participation in the equity market.

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Thank You