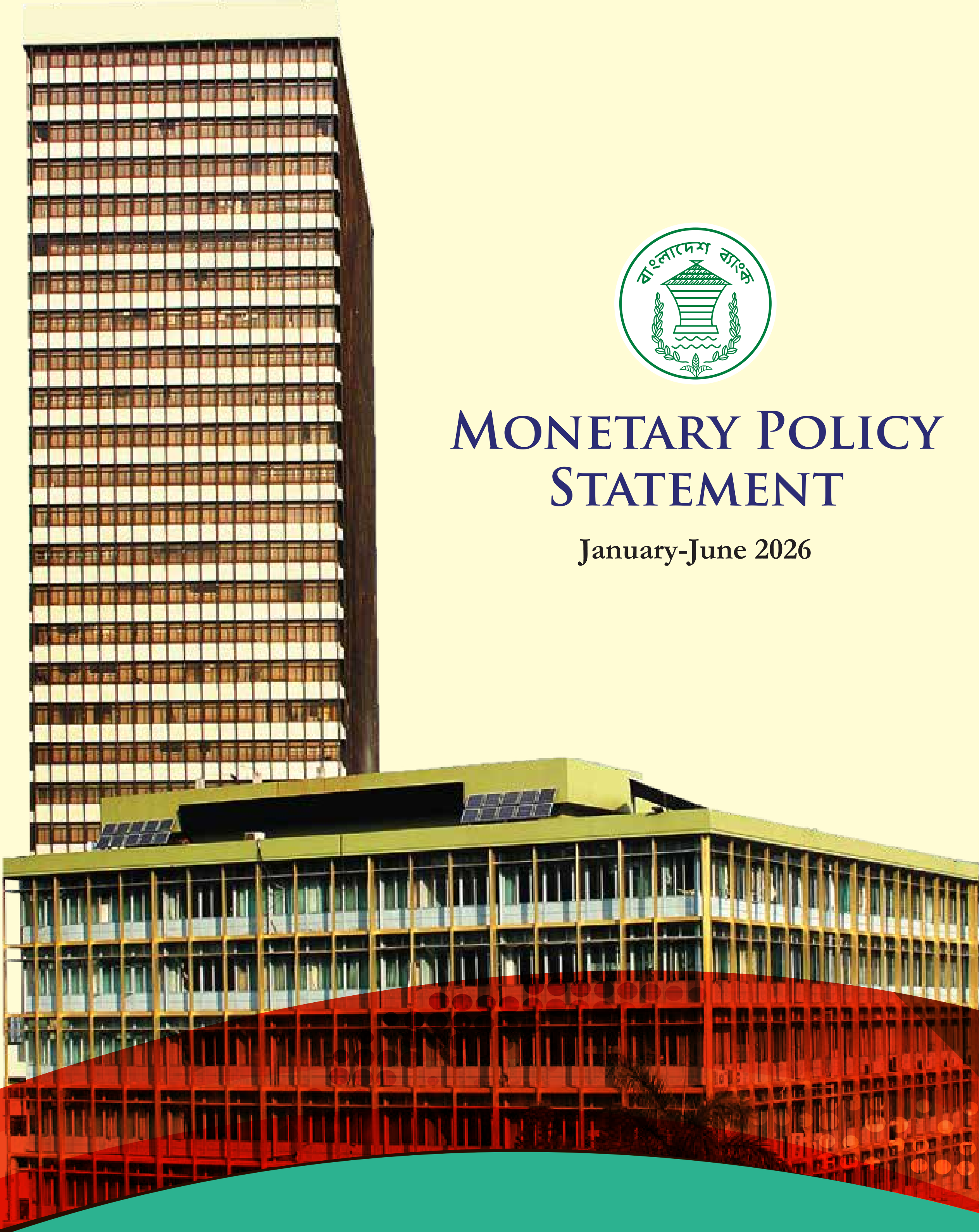

MONETARY POLICY STATEMENT

January-June 2026

Bangladesh Bank

Monetary Policy Statement Team

Chief Advisor
Dr. Ahsan H. Mansur, Governor

Policy Advisors
Nurun Nahar, Deputy Governor
Dr. Md. Habibur Rahman, Deputy Governor
Md. Zakir Hossain Chowdhury, Deputy Governor
Dr. Md. Kabir Ahmed, Deputy Governor
Dr. Md. Akhtar Hossain, Chief Economist
Md. Ahsan Ullah, Advisor to the Governor on Bangladesh Bank Reforms

Lead Author
Mahmud Salahuddin Naser, Executive Director, Monetary Policy Department (MPD)

Analysts and Major Contributors
Dr. Md. Salim Al Mamun, Director, Chief Economist's Unit (CEU)
Md. Sadrul Hasan, Director (in-charge), MPD
Dr. Md. Omor Faruq, Additional Director, MPD

Other Contributors
Ashish Kumar Roy, Executive Director, Statistics Department
Md. Abdul Wahab, Director, Research Department
Shohel Ahammed, Director, CEU
Khan Md. Saidjada, Additional Director, MPD
Md. Nazimul Arif Sarker, Additional Director, MPD
Shampa Chakraborty, Additional Director, CEU
Md. Rashel Hasan, Additional Director, CEU
Sadia Sultana, Additional Director, MPD
Md. Ahsan Ullah, Joint Director, MPD
Dr. Saidul Islam, Joint Director, CEU
Omar Faruk, Joint Director, MPD
Masum Mia, Deputy Director, MPD
Mohammad Saiful Islam, Assistant Director, MPD
Md. Belaiet Hossain, Assistant Director, MPD

Data/Write up Supports
Chief Economist's Unit
Statistics Department
Economic Modeling and Forecasting Wing, Research Department
Inflation Expectation Survey Wing, Research Department
Agricultural Credit Department
Bangladesh Financial Intelligence Unit
Banking Regulation and Policy Department
Bank Resolution Department
Financial Inclusion Department
Financial Stability Department
Foreign Exchange Policy Department
Islami Banking Regulations and Policy Department
Payment Systems Department
Taskforce Section, Secretary's Department
SME & Special Programmes Department
Sustainable Finance Department
Supervisory Policy and Coordination Department

Coverist
Redoy Rahman, CGO, DCP

Monetary Policy Statement

January-June 2026

Bangladesh Bank

www.bb.org.bd

Acronyms and Abbreviations

ADB	Asian Development Bank
AI	Artificial Intelligence
AQR	Asset Quality Reviews
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BDT	Bangladesh Taka
BFIU	Bangladesh Financial Intelligence Unit
BPM-6	Balance of Payments and International Investment Position Manual 6
BRRF	Bank Restructuring and Resolution Fund
BRO	Bank Resolution Ordinance
BSEC	Bangladesh Securities and Exchange Commission
CMSMEs	Cottage, Micro, Small, and Medium Enterprises
CPI	Consumer Price Index
DPO	Deposit Protection Ordinance
DPS	Deposit Pension Scheme
DSEX	Dhaka Stock Exchange
EU	European Union
FDI	Foreign Direct Investment
FDR	Fixed Deposit Receipt
FE	Foreign Exchange
FSSP-II	Financial Sector Support Project II
FY	Fiscal Year
GDP	Gross Domestic Product
H1	First Half
H2	Second Half
IBLF	Islamic Banks Liquidity Facility
IIPS	Instant Interoperable Payment System
IMF	International Monetary Fund
IPO	Initial Public Offerings
LC	Letter of Credit
MLS	Mudarabah Liquidity Support
MLT	Medium and Long-Term
MPS	Monetary Policy Statement
NDA	Net Domestic Asset

NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Asset
NPL	Non-Performing Loan
NSCs	National Savings Certificates
PM	Post Meridiem
PMI	Purchasing Managers Index
QR	Quick Response
RBS	Risk-Based Supervision
REER	Real Effective Exchange Rate
RM	Reserve Money
RMG	Ready-Made Garments
RR	Reference Exchange Rate
SDF	Standing Deposit Facility
SIG	Supervisory Intervention Guideline
SLF	Standing Lending Facility
SLR	Statutory Liquidity Ratio
SLS	Special Liquidity Support
SME	Small and Medium Enterprise
SMME	Small, Medium and Micro Enterprise
TCB	Trading Corporation of Bangladesh
UK	United Kingdom
US	United States
USA	United States of America
USD	US Dollar
WEO	World Economic Outlook

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Executive Summary

Bangladesh Bank (BB) continues to pursue a firm monetary stance, maintaining the policy rate at 10.0 percent to anchor persistently high, largely supply-side factors-driven inflation. This approach has successfully shifted the real policy rate into positive territory—a significant milestone for restoring price stability and policy credibility. However, tight monetary conditions, increasing borrowing needs to finance the budget deficit, and subdued credit demand amid persistent uncertainty in undertaking new investment have pushed private-sector credit growth to historically low levels. Elevated public-sector borrowing to finance fiscal gaps has generated crowding-out effects, constraining the availability of affordable credit for private enterprises, despite remarkable exchange-rate stability.

Liquidity conditions in the banking sector were in acute stress in 2024, primarily due to massive capital flight stemming from the substantial resources stolen from the banking system until the change of government in August 2024. Deposit growth, however, has rebounded in 2025 from a low of less than 7.8 percent in August 2024 to approximately 11.1 percent by December 2025, providing much-needed liquidity buffers. This deposit recovery, however, has been uneven, characterized by a pronounced "flight to quality" as depositors reallocated funds across the banking sector. At the same time, the banking sector is undergoing a rigorous balance-sheet cleansing. Officially recognized non-performing loans (NPLs) exceeded 36.0 percent by September 2025. While this level appears alarming, it reflects improved governance, resulting in correct accounting and the application of stricter asset classification in line with international standards. Consequently, although liquidity has improved, banks remain focused on balance-sheet repair rather than aggressive credit expansion.

The Bangladesh economy is now at a critical juncture, transitioning from a possible economic meltdown toward substantial macroeconomic stabilization and laying the foundations for renewed growth. Coordinated reform efforts launched by BB have yielded tangible improvements in the banking sector governance and overall macroeconomic management. BB's initial priority was the restoration of external trade financing from foreign correspondent banks by eliminating accumulated external payment arrears of USD 3.5 billion, rebuilding foreign exchange reserves, and stabilizing the exchange rate. Supported by a robust inflow of workers' remittances, the current account of the balance of payments moved from a large deficit in FY24 to a sizable surplus in FY25. As a result, notwithstanding the adoption of a flexible, market-based exchange-rate regime with no intervention, the Bangladesh Taka (BDT) has stabilized against the US dollar during the first half of FY26. Despite subdued export performance, strong remittance inflows and moderated import demand helped build foreign exchange reserves from USD 25.6 billion (about 4 months of imports coverage) in August 2024 to USD 33.2 billion in

December 2025 (about 5 months of imports coverage). The resumption of regular servicing of foreign obligations, including the elimination of all deferred payments, has now restored confidence among external creditors and helped alleviate pressures on both foreign exchange reserves and the exchange rate.

Against this backdrop, the current issue of BB's half-yearly Monetary Policy Statement (MPS) outlines the monetary stance for the second half of FY26, taking into account the evolving global and domestic political and macroeconomic environment, actual outcomes observed in H1FY26, credit projections, and extensive stakeholder consultations. The key objectives of this MPS are to anchor inflation expectations, guide inflation toward BB's target, address the unacceptably elevated NPLs, and restore public confidence in the banking system through improved governance and close coordination with fiscal and other relevant authorities.

The global economy demonstrated notable resilience in 2025 despite rising trade barriers and ongoing geopolitical tensions. This resilience reflects a smaller-than-expected tariff shock, accelerated investment in artificial intelligence, and supportive fiscal and monetary policies. Nonetheless, global growth is projected at 3.3 percent in 2025 and is expected to remain unchanged in 2026, while global inflation is expected to decline from 4.2 percent to 3.7 percent over the same period. Major central banks are anticipated to continue easing policy rates as inflation expectations remain well anchored. In parallel, global commodity and energy prices are forecast to soften in 2026 amid weaker growth prospects.

Domestically, although GDP growth has begun to recover, momentum remains subdued as the cost of living and the cost of doing business have not eased as rapidly as expected. Inflation remains persistently above BB's 7.0 percent target, despite exchange rate stability and favorable global commodity price developments, reflecting entrenched structural rigidities rather than purely monetary factors. With global commodity prices moderating and the exchange rate remarkably stable, imported inflation is expected to remain contained. The disinflation path, however, has been uneven, as domestic prices exhibit significant "stickiness" due to supply-side constraints and structural bottlenecks.

Despite these challenges, BB's contractionary monetary stance has delivered several critical outcomes. Exchange-rate stability has been restored through relatively higher rewards on Taka-dominated assets, foreign exchange reserves have recovered sharply, and the real policy rate has shifted decisively into positive territory—encouraging savings and deposit growth and reinforcing policy credibility. As these measures gain further traction in auctions, broader inflationary pressures are beginning to ease, and the gap between real wage growth and inflation is narrowing, signaling a gradual return toward macroeconomic normalization.

Although inflationary pressures are subsiding, they still remain elevated and uneven, suggesting that a premature policy rate reduction would be imprudent. Maintaining exchange-rate stability remains essential to containing imported inflation, and any premature rate cut before further inflation deceleration could risk renewed downward pressure on the Taka. Moreover, several near-term inflation risks persist, including the upcoming national elections, the holy month of Ramadan, and the potential implementation of a new national pay scale—each of which typically boosts demand and consumer spending. These considerations underscore the need for a cautious and balanced monetary approach. BB observed that, at the prevailing Standing Deposit Facility (SDF) rate, some banks were opting to place excess liquidity with the central bank rather than extending credit to the interbank market or the private sector. To discourage such passive liquidity placement and to stimulate interbank activity and private-sector lending, BB has decided to reduce the SDF rate by 50 basis points, while keeping the policy rate and the Standing Lending Facility (SLF) rate unchanged. This adjustment is intended to incentivize more active liquidity management, deepen interbank market transactions, and facilitate greater credit flow to the private sector.

Accordingly, BB will maintain the policy rate at 10.0 percent and continue its tight stance in H2FY26. The Standing Lending Facility (SLF) rate will be held at 11.5 percent. However, BB decided to lower the Standing Deposit Facility (SDF) rate from 8.0 percent to 7.5 percent.

To support targeted lending through special discount facilities to the priority sectors by a wider range of banks, BB has relaxed loan provisioning requirements for banks lending to priority sectors, including agriculture and Cottage, Micro, Small, and Medium Enterprises (CMSMEs).

To further entrench a market-based exchange-rate framework, BB has allowed full exchange-rate flexibility since May 2025. Interbank foreign-exchange transactions are now conducted at the Foreign Exchange Market Spot Reference Rate (RR), while banks are free to set customer and interbank rates for spot, swap, and forward transactions. BB has not sold any foreign exchange from its reserves since August 2024, but purchased US dollars in the amount of USD 4.3 billion in FY26 from the interbank market through a transparent auction mechanism to build up its reserves.

Notwithstanding these significant gains, the banking sector continues to face significant challenges stemming from elevated NPLs, which have intensified liquidity pressures in weaker banks and non-bank financial institutions. In response, BB has launched a comprehensive reform agenda to strengthen governance, stability, integrity, and public confidence in the financial system. Currently, no banks can disburse dividends if they have shortfalls in meeting provision requirements or capital adequacy requirements. No bonuses can be awarded to bank staff unless the bank makes a profit through transparent accounting. These reforms and financial measures reflect long-term commitments to resolve the NPL problem through improving asset quality and institutional resilience.

As financial globalization and rapid technological change increase the complexity and risk profile of banking operations, traditional compliance-based supervision—largely backward-looking and rule-focused—has become insufficient. Against this backdrop, BB has implemented Risk-Based Supervision (RBS) from 4 January, 2026. This framework is designed to enhance forward-looking risk assessment, strengthen risk governance, promote accountability, and foster a prudent risk culture across banks, while supporting sustainable financial innovation and safeguarding systemic stability. More than 500 BB officials have been trained in Risk-Based Supervision (RBS), and all banks are now ready for its implementation, effective from January 2026.

The Bank Resolution Ordinance 2025 (BRO 2025) and the Deposit Protection Ordinance 2025 (DPO 2025) mark a major milestone in strengthening Bangladesh's financial stability framework. Together, these ordinances equip the central bank with robust legal authority to resolve distressed banks through mergers, restructuring, liquidation, or the creation of bridge banks. A notable reform under this framework is the increase in deposit insurance coverage from Tk. 1 lakh to Tk. 2 lakhs per depositor. This expanded coverage is designed to safeguard nearly 95 percent of individual retail depositors in the event of bank liquidation. By reinforcing depositor protection, the ordinances aim to mitigate the risk of bank runs, strengthen public confidence in the banking system, and enable the central bank to address toxic assets in an orderly manner without undermining depositor interests. This dual-track approach—combining institutional resolution mechanisms with enhanced deposit insurance—is critical to restoring long-term credibility and resilience in the financial system. In line with these reforms, Sammilito Islami Bank, a new Shariah-compliant bank with the largest capital base in the segment (Tk. 33,000 crores), was established through the merger of five troubled Islami banks. At the same time, depositors are allowed to receive their insured deposits of up to Tk. 2 lakhs, underscoring the practical effectiveness of the new resolution and protection framework. Nine non-bank financial institutions (NBFIs) are also being liquidated under this BRO 2025.

Broad-based reforms across the banking sector are already yielding early positive signs. BB remains cautiously optimistic that, as these initiatives mature, their benefits will become increasingly visible. While improvements in the external account—driven by exchange-rate stability, strong inflow of remittances, and favorable interest-rate differentials—have strengthened macroeconomic conditions, lingering banking-sector vulnerabilities may weigh on near-term growth. Nevertheless, ongoing reforms, including asset-quality reviews, resolution of weak institutions, and enhanced depositor protection, are expected to strengthen financial stability, improve credit allocation, and support macroeconomic resilience over the near to medium term.

Monetary Policy Statement: H2FY26

1. Foreword

Bangladesh economy has undergone a transformation after the student-led mass uprising of July-August 2024. The government of Bangladesh has undertaken a number of reforms to rebuild the economic structure and restore macroeconomic stability. Bangladesh Bank (BB) has also initiated a series of sweeping reforms to restore economic stability and public trust in the banking sector. The combined initiatives of the government and BB have led to visible improvements in macroeconomic management, helping restore stability in the external sector. While the external sector has regained stability, several vulnerabilities persist on the domestic economic front. These include inflation above BB's target level of 7.0 percent, subdued GDP growth, a high volume of non-performing loans, historically low private-sector credit growth, and political uncertainty ahead of the upcoming national election scheduled for February 2026.

In light of the above-mentioned challenges, BB presents this Monetary Policy Statement (MPS) for H2FY26. This MPS is intended to anchor inflation expectations, bring inflation down to BB's target level, manage high non-performing loans, and restore public trust in the banking sector, in coordination with the fiscal authority and other relevant agencies. Moreover, this semi-annual MPS sets out BB's monetary policy stance for the second half of FY26, taking into account the actual outcomes in the first half of FY26. In anticipation of the transition to a political government following the national election in February 2026, BB adopted extensive feedback from stakeholder consultations with its executives, members of the monetary policy committee, members of the Board of Directors of BB, feedback through BB's website, policymakers, economic analysts, think-tanks, and private sector leaders besides the usual coordination council consultations with the government before drawing up this issue of MPS.

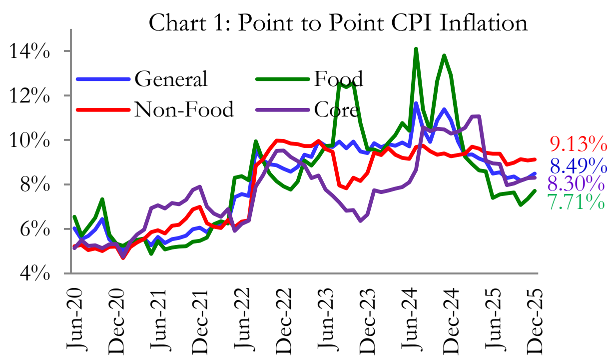
2. Monetary Policy Outcomes and Macroeconomic Developments in H1FY26

2.1 Price Development and Outlook

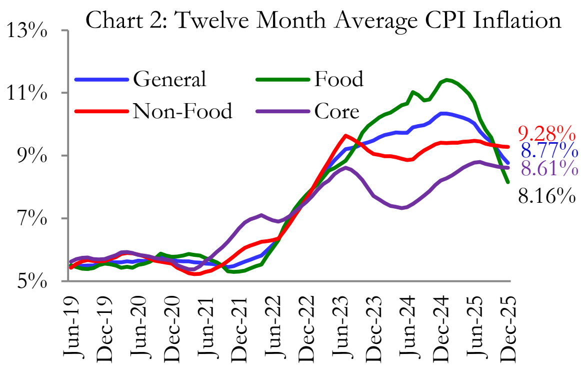
The stubbornly high inflation in Bangladesh has shown symptoms of easing throughout H2FY25 and H1FY26. Headline point-to-point inflation, which peaked at 11.66 percent in July 2024, declined to 8.49 percent by December 2025 (Chart 1), reflecting progress in controlling price growth. Food inflation dropped to 7.71 percent in December 2025 from 12.92 percent a year earlier. Non-food inflation remained stable, ranging from 8.90 to 9.74 percent during FY25 and H1FY26. To combat inflation, Bangladesh Bank maintained a tight monetary policy, keeping the policy rate fixed at 10 percent since October 2024. This approach has helped anchor inflation expectations. On the supply side, measures such as rationalizing import duties, removing Letter of Credit (LC) margin requirements for key imports, and enhancing commodity stock monitoring helped ease food price pressures. Moreover, relatively stable non-energy and food prices in the international market during H1FY26 and a stable price forecast minimized part of the potential risks of domestic price hikes through the external channel.

Several factors, including the lasting consequences of a loose monetary policy that led to a negative real policy rate and constraints on interest rates that remained in effect until May 2024, deterred the immediate transmission of recent monetary tightening. In turn, the inflationary pressures intensified throughout 2024. The sharp, uncontrolled depreciation of the BDT during FY23 and FY24 has had a long-lasting, significant pass-through effect on domestic prices, particularly for imported goods and inputs, amplifying inflation despite subsequent currency stabilization. Additionally, higher inflation expectations emerged from rising food prices over a prolonged period, also impeding anchoring of inflation expectations to a desired level throughout H1FY25. 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. This also influenced uptick inflation expectations. Inflation began to ease from the beginning of H2FY25, as BB's policy response has effectively focused on tapering inflation since H1FY25.

Maintaining a tight monetary condition with a positive real policy rate since the beginning of H2FY25 has also helped stabilize the exchange rate. The base effect of prolonged inflation has also played a systematic role in slowing down the inflationary path. As fiscal consolidation efforts, such as expenditure restraint and prioritization of essential spending, were matched with monetary tightening, this supported macroeconomic stability. Supply-side initiatives—



Source: Bangladesh Bureau of Statistics (BBS).



Source: Bangladesh Bureau of Statistics (BBS).

rationalizations of tariffs and strengthening market oversight —have contributed to price stability and market saturation of many key food items. Despite slowing moderation, inflation did not reduce to the desired level of 6.5-7.0 percent as mentioned in the MPS of H1FY26. The underlying persistent nature, a salient feature of the inflation dynamics in Bangladesh, inhibits downward inflation expectation.

The distinct "downward stickiness" of kitchen market prices in Bangladesh, characterized by almost instantaneous upward adjustment in response to the global price spick or local weather shocks, local prices rarely return to their previous levels when the global or local phenomena subsides, also hinders anchoring of inflation expectations. The aggregate demand, on the other hand, has been notably boosted by surging foreign-exchange remittances since FY25, further reinforcing the downward stickiness of inflation expectations. As a few large importers hold disproportionate power over the supply of several essential commodities in Bangladesh, this can induce disproportionate price movement or supply shock if well-timed administrative actions are not in place. Despite these challenges, inflation expectations have been nudged gently by the inflation containment efforts. Respondents to the BB inflation expectation survey conducted in December 2025 anticipated that headline inflation might fall to 7.99 percent in June 2026 and 7.69 percent in December 2026.

Looking forward to the second half of FY26, the Bangladesh Bank cautiously projects that a slow but downward trend in inflation will emerge, with headline inflation expected to approach below 8.0 percent by the end of FY26, assuming that the supply-side disruptions are less likely to occur and the political landscape is ameliorated following the national election. BB’s model forecasts headline inflation to contract to 7.92 percent in June 2026 and 7.58 percent in December 2026. The IMF, however, projects average inflation of 8.7 percent by the end of FY26. The real policy rate is expected to remain in positive territory, strengthening the central bank's anti-inflationary stance and contributing to exchange rate stability. The central bank will maintain its focus on exchange rate flexibility, taking advantage of anticipated strong remittance inflows and improved foreign exchange reserves to buffer against external shocks. Continued government initiatives—such as market monitoring, trade facilitation, open-market sales of essential products through the Trading Corporation of Bangladesh (TCB), and targeted policy support (fertilizer and power subsidies)—are also expected to help ease price pressures. Globally, commodity prices are anticipated to remain stable, lowering the risk of imported inflation.

Nevertheless, certain risks persist. The Aman rice harvest in the Northern region might come in short due to midseason weather disruptions, while the upcoming election and two major religious festivals in the second half of FY26 may significantly boost overall spending. Additionally, renewed global supply chain disruptions or escalating geopolitical tensions could influence import prices. The Bangladesh Bank will remain alert and uphold its policy stance amid potential inflationary pressures. Ultimately, the central bank's commitment to careful, data-driven policy decisions will be vital for anchoring inflation expectations and maintaining 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 3.97 percent real GDP growth for FY25, marking the slowest expansion in recent years. Sectoral performance was mixed—estimated agricultural 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 the Ready-Made Garments (RMG) sector. The services sector is estimated to expand by around 4.51 percent, driven by increased activity in trade, transport, and communications as the country gradually benefits from greater foreign exchange availability and political stability.

Several factors have shaped Bangladesh's growth dynamics in recent years. On the positive side, the external sector has remained favorable throughout FY25 with promising growth in remittances and robust export performance, underpinning external balances and supporting domestic demand. Policy support through fiscal discipline, coupled with the central bank's inflation-containment stance, aided economic stability. The export sector, however, recorded negative growth during July-December 2025 due to uncertainties surrounding U.S. tariff restrictions and increased competition in the EU market from Indian and Chinese exports. Despite being well-positioned relative to its competitors on US tariffs, Bangladesh could not capitalize on its trade advantage due to a productivity gap. The private sector, on the other hand, faced crowding-out due to public-sector borrowing, which slowed private-sector credit growth. In response to the political uncertainty stemming from the forthcoming national election, investors remained cautious in making new investments. Stress in the banking sector, including rising non-performing loans and cautious lending, has further constrained private-sector expansion. Additionally, global headwinds, including sluggish growth in key trading partners (EU, US, and Japan), rising trade barriers, and geopolitical uncertainties, continue to pose risks to export demand and FDI inflows.

Looking ahead to the second half of FY26, a robust growth rebound cannot be expected. The government has set a revised GDP growth target of 5.0 percent for FY26, while projections from international organizations such as the IMF, the World Bank, and ADB range from 3.8 percent to 5.0 percent. This cautiously optimistic growth target could be facilitated by improved political and macroeconomic stability following the national election in February 2026, which is expected to foster a more supportive investment environment. The Purchasing Managers' Index (PMI) trend suggests broad-based expansion across manufacturing, construction, and the service sector. The output of small, medium, and micro enterprises (SMMEs) increased by 4.75 percent during July-September of FY25, compared to a 3.15 percent increase in the same period of FY24, suggesting prospects for regaining growth momentum in the SMME sector. The resilience shown by the external sector throughout H1FY26, driven by continued strength in remittance inflows and steadily accumulating reserves, will bolster the external balance and support domestic demand. A 9.84 percent growth in capital goods imports during July-November 2025, accompanied by 29.40 percent growth in LC opening for machinery, vividly signals that investment in productive sectors will be energized in the near term. Thus, assuming political certainty and stability are secured following the national election, the private sector is expected to regain momentum—stimulating domestic demand and extending employment.

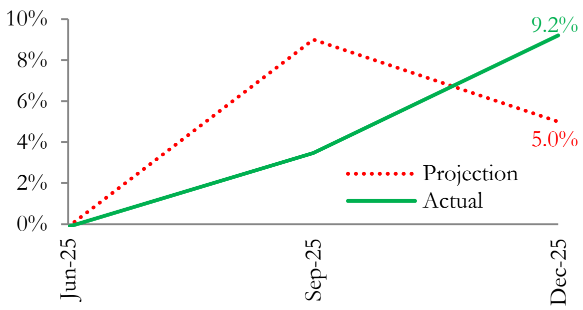
Nevertheless, risks to the growth outlook remain. Ongoing challenges in the banking sector and fiscal stress resulting in higher public borrowing may restrict public sector access to credit and suppress private investment. The productivity gap in the export sector could further weaken export performance in the second half of FY26, and a robust recovery may be delayed unless decisive measures are taken. Global economic uncertainties and intensifying geopolitical tensions may further impact export performance and capital flows. Structural bottlenecks, such as the need for economic reforms, infrastructure development, including port operations, technological innovation, and labor market flexibility, must be addressed to unlock growth potential.

2.3 Monetary Aggregates

Broad money (M2 growth picked up modestly to 9.6 percent year on year in December 2025, but still remained well below the nominal growth of GDP (Chart 4). Broad money growth was higher than the December 2025 projection (7.8 percent) made in the earlier MPS due to stronger growth in NDA. The Net Foreign Assets (NFA) of the banking system recorded around 26.8 percent growth in December 2025, in line with the projection made earlier (28.0 percent) (Chart 5). A significant improvement in the overall BoP position supported the robust rebound in the NFA compared to June 2025. On the other hand, Net Domestic Assets (NDA), a key component of broad money, recorded 7.0 percent growth in December 2025, which was also higher than the projected 4.9 percent. The higher growth in NDA is primarily attributable to the higher net credit to the government. The higher growth in NDA, coupled with robust growth in NFA, has played a crucial role in the stronger growth in broad money (M2). The Reserve Money (RM), another information variable of monetary policy, experienced a positive growth of 9.2 percent (year-over-year) by the end of December 2025 (Chart 3). The growth of RM was slightly higher than the projected trajectory set in December 2025 due to the strong growth in the NFA of BB. The positive growth in the NFA component of RM was also driven by BB's purchase of USD 3.14 billion from the domestic foreign exchange market during H1FY26.

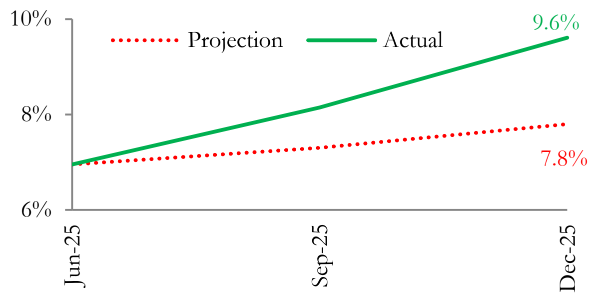
In summary, most monetary and credit aggregates expanded faster than their anticipated trajectories during H1FY26. Charts 3-8 show the actual growth paths of major monetary and credit aggregates compared with the July 2025 projections for H1FY26. As shown in Charts 7 and 8, the markedly higher public sector credit growth has essentially crowded out the private sector credit growth, despite higher expansions of total domestic credit (Chart 6) and broad money (Chart 4).

Chart 3: Reserve Money (RM) Growth



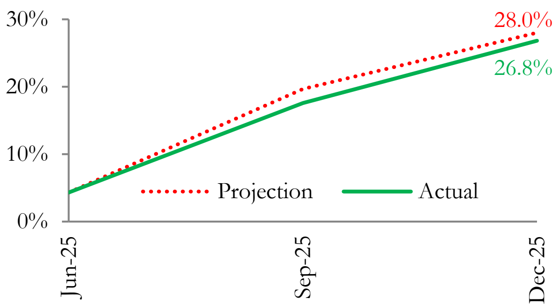
Source: Bangladesh Bank.

Chart 4: Broad Money (M2) Growth



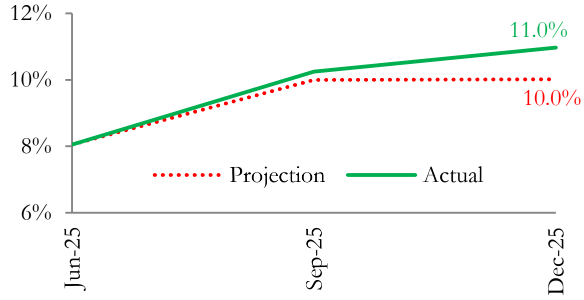
Source: Bangladesh Bank.

Chart 5: Net Foreign Assets (NFA) Growth



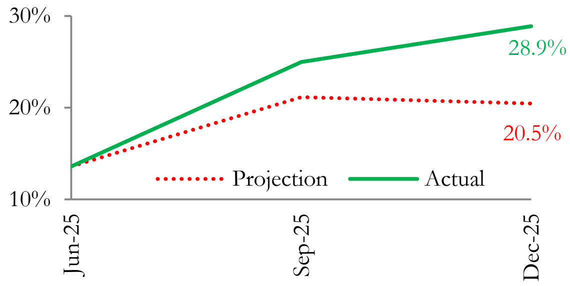
Source: Bangladesh Bank.

Chart 6: Domestic Credit Growth



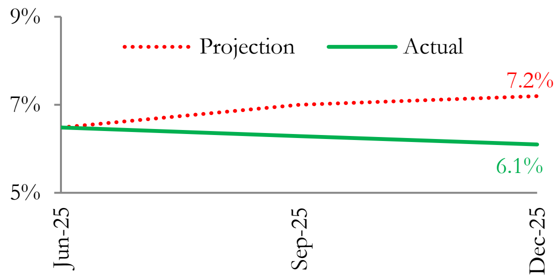
Source: Bangladesh Bank.

Chart 7: Public Sector Credit Growth



Source: Bangladesh Bank.

Chart 8: Private Sector Credit Growth



Source: Bangladesh Bank.

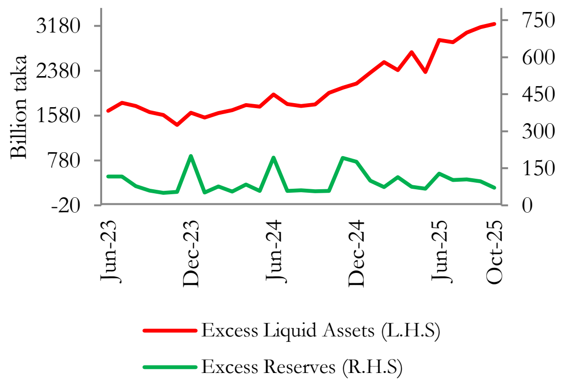
According to the latest data, the government's net credit from the banking system during July-December of FY26 amounted to Tk. 50,782 crore, which is 43 percent of the revised borrowing target from the banking sector of Tk. 1,18,000 crore. During this period, the government borrowed a net amount of Tk. 35,718 crore from scheduled banks, and Tk. 15,064 from BB, respectively. With BB ceasing devolvement, the government's net credit now predominantly relies on borrowing from the scheduled banks. Moreover, government borrowing from the NSCs during July-December of FY26 declined by Tk. 1,358 crore compared to Tk. 17,306 crore decrease recorded during the same period in FY25. This decrease suggests that repayments exceeded sales, indicating a partial redemption of NSCs through alternative sources. However, net foreign financing totaled Tk. 12,906.0 crore during July-December of FY26, reflecting a deceleration of Tk. 14,207.0 crore recorded in the corresponding period of the previous fiscal year.

2.4 Liquidity and Interest Rate

The liquidity situation in the banking sector began to improve during H2FY26, primarily due to a recovery in bank deposits, from less than 7.8 percent in FY25 to 11.1 percent in H2FY26. The liquidity situation remains tight due to several factors, including a high volume of non-performing loans (NPLs) resulting from loan fraud and irregularities, slow loan recovery, discontinuation of assured liquidity support to Primary Dealers (PDs) banks, and a lack of confidence in some Shariah-based banks due to widespread scams that happened in recent years preceding August 2024. Given the still prevailing tight liquidity situation, some policy measures, particularly BB's purchase of USD from the foreign exchange market (USD 4.3 billion) and special liquidity support to some banks facing serious difficulties in meeting their daily operational needs, along with significant improvement in deposit growth in response to higher deposit rates, contributed to a slight easing of liquidity pressure. The liquidity scenario is depicted in Chart 9.

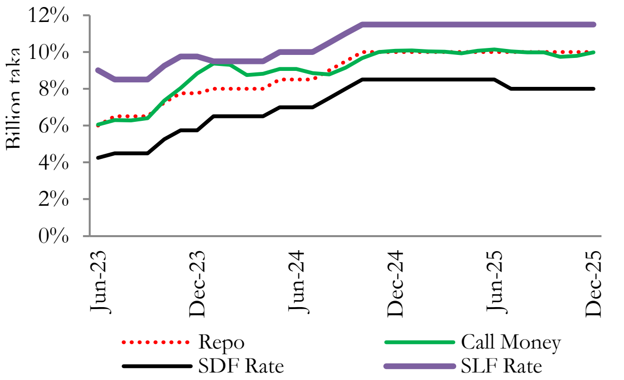
Due to BB's initiatives to streamline OMOs, the money market during H2FY26 was vibrant, and interest rates remained stable. The weighted average call money rate in the inter-bank call money market eased slightly to 9.99 percent in December 2025 from 10.14 percent in June 2025 (Chart 10). Furthermore, the interbank repo rate at the end of December 2025 also decreased to 10.14 percent from 10.37 percent at the end of June 2025.

Chart 9: Movement of Excess Liquidity



Source: Bangladesh Bank

Chart 10: Movement of Call Money and Policy Rates



Source: Bangladesh Bank

To ensure liquidity stability, BB has consistently supported the banking system through various liquidity facilities. These include repo facilities, 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 11: Developments of Deposit Rates

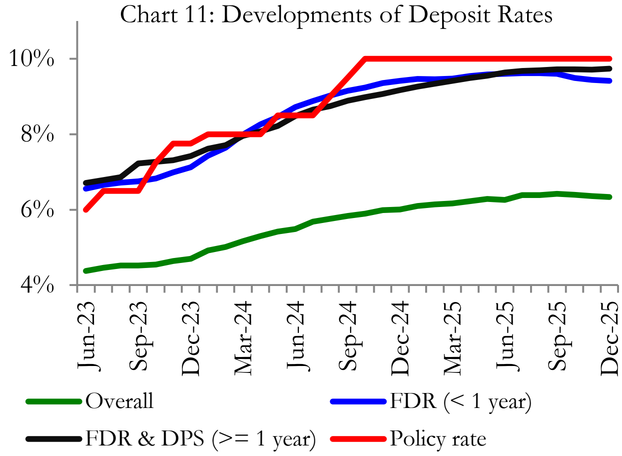
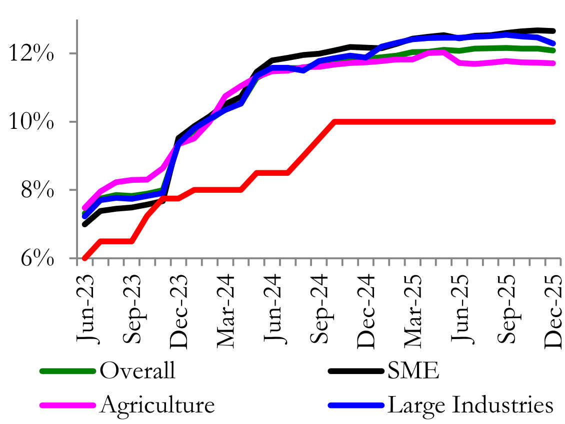


Chart 12: Developments of Lending Rates

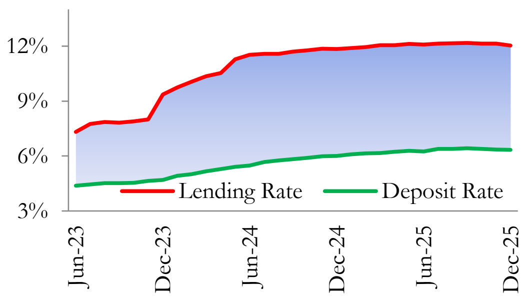


At the end of H1FY26, the outstanding liquidity reached Tk. 99,861.0 crore, compared with Tk. 1,24,317.0 crore at the end of H2FY25. Besides, BB approved Tk. 12,000 crore from the Deposit

Insurance Trust Fund for the 5 Islamic banks under resolution, of which Tk. 3792 crore was already disbursed. The excess liquid assets in the banking system rose to Tk 3,21,255.5 crore by the end of October 2025, up from Tk 2,92,745.4 crore in June 2025. Higher investment in T-bills and T-bonds by banks, attracted by higher interest rates on these instruments, and their cautious lending behavior due to higher NPL ratios and improved loan governance and classification, may have contributed to this increase in excess liquid assets.

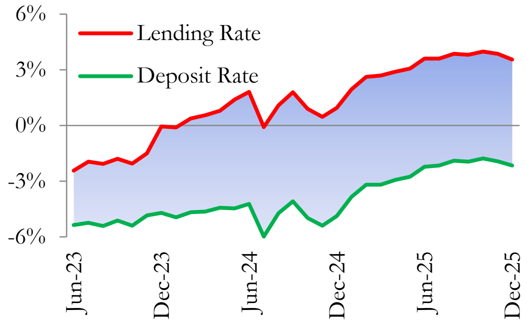
In contrast, banks' excess reserves decreased to Tk 7,164 crore by the end of October 2025, down from Tk 12,895.2 crore in June 2025. Meanwhile, the excess liquid assets of Islamic banks fell to Tk 10,495.8 crore at the end of October 2025, from Tk 12,004.4 crore at the end of June 2025, despite significant liquidity support from the BB during H1FY26.

Chart 13: Weighted Average Nominal Interest Rates



Source: Bangladesh Bank

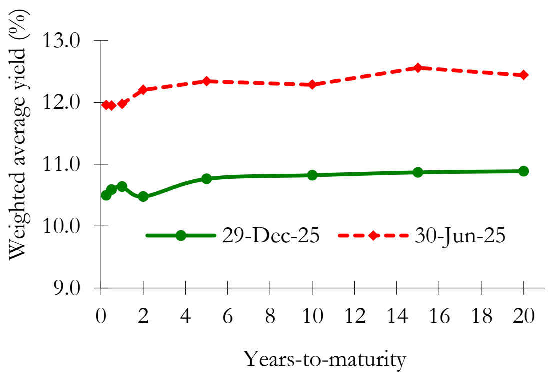
Chart 14: Weighted Average Real Interest Rates



Source: Bangladesh Bank

Additionally, the excess reserves of Islamic banks were Tk 2,675.6 crore by the end of October 2025, compared to Tk 3,857.3 crore at the end of June 2025.

Chart 15: Yields on Government Securities



Source: Bangladesh Bank

Due to tight liquidity conditions resulting from higher public-sector borrowing amid slower deposit growth, both the weighted-average nominal lending and deposit rates increased (Chart 13). Despite the increase, the weighted average deposit rate remained significantly negative, while the real interest rate on lending became positive only after December 2024, following the liberalization of the interest rate structure. The increase in the weighted average nominal lending rate slowed significantly since 2025 and reached at 12.03 percent in December 2025. Likewise, the increase in the weighted-average nominal deposit rate was limited to 0.08 percentage points from 6.26 percent in June 2025 to 6.34 percent in December 2025.

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

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

Source: Statistics Department, Bangladesh Bank.

One important positive development was that the government securities-related yield curve at the end of December 2025 was significantly lower than at the end of June 2025[1] (Chart 15). The lower yield curve in December 2025 compared to June 2025 reflects lower interest rates on T-bills and T-bonds, stemming from higher investment demand from banks, non-banks, and individuals. Armed with higher deposit growth, banks wanted to acquire more treasury bills and bonds. Despite the higher level of government bond supply in recent months, demand for bonds exceeded supply. On lending to the private sector, the real lending rate increased to 3.54 percent at the end of December 2025, up from 3.60 percent at the end of June 2025, reflecting higher demand for credit in line with the recovery in domestic economic and trade-related activities. On the deposit side, the real deposit rate since June 2025 increased moderately by 0.07 percentage points to negative 2.15 percent in December 2025. The real deposit rate, which had been in much larger negative territory for an extended period, was largely influenced by persistently high inflation (Chart 14). Looking ahead, BB's ongoing efforts to contain inflation through various policy measures may help mitigate negative real interest rates on deposits in the coming months.

2.5 External Sector Developments

After two years of intense pressure on the balance of payment (BoP), the external position of Bangladesh has continued recovering since FY25, and the stability of the sector strengthened further in H1FY26, supported by improving external balances, evolving exchange rate flexibility gained from the introduction of a market-oriented exchange rate regime, and ongoing firm monetary policy accompanied by fiscal retrenchment through expenditure restrains. The

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

recovery of the sector was reflected in a reversal of the BoP to an overall surplus, a stable exchange rate, increasing interbank foreign exchange spot transactions, and a rebuilding of the foreign exchange reserve.

According to the latest data available as of December 2025, the BoP flipped to an overall surplus of USD 1.94 billion in H1FY26— a notable improvement from a deficit of USD 467 million during the same period of FY25 (Chart 16). This improvement was driven mainly by a notably large surplus of the financial account, while the current account continued with a moderate deficit. The current account deficit shrunk somewhat to USD 343 million in H1FY26— up from USD 518 million in the same period of FY25. Despite strong remittance inflows and subdued import growth, sluggish exports amid increasing global trade uncertainties were the precipitating factor of the current account deficit.

Chart 16: Balance of Payment

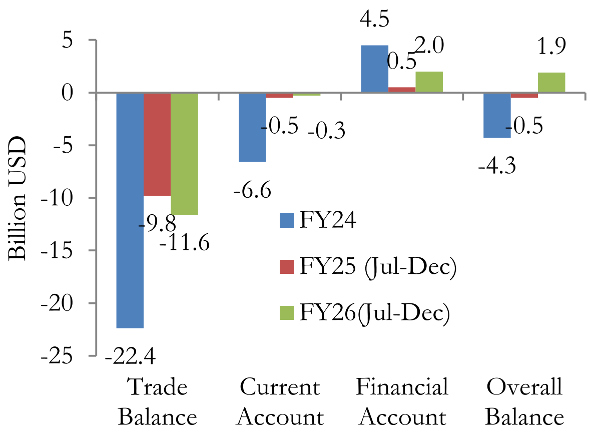
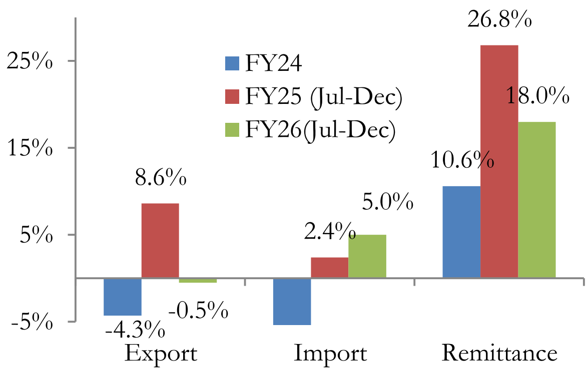


Chart 17: Growth of Export, Import, and Remittance Inflows



In H1FY26, total export earnings (shipments) declined by 0.54 percent to USD 24.40 billion – down from USD 24.53 billion in the corresponding period of the previous fiscal year (Chart 17). The slowdown in exports stemmed mainly from a decline in demand for ready-made garments (RMG), which accounted for around 81 percent of total exports. The export of RMG declined by 2.63 percent to USD 19.37 billion in H1FY26. Weak apparel demand from the US amid price increases from reciprocal tariffs and intense competition in the EU market from major export competitors, which faced higher tariffs in the US, contributed to the moderation of RMG exports.

Total imports continued to recover at a slower pace amid a decline in international commodity prices (including energy), slower economic growth, heightened domestic political uncertainties, and receding demand for export-related raw materials. Imports grew by 4.17 percent to USD

35.58 billion in H1FY26 (Chart 17), driven mainly by food grains, petroleum products, fertilizer, and capital goods, while an upturn in capital machinery imports by 13.40 percent in this period pointed to a positive outlook for investment demand and economic turnaround.

Maintaining a robust growth of 18.04 percent, remittance inflows amounted to USD 16.26 billion in (Chart 17). The inflow of remittances accelerated further to 45 percent in January 2026, and the outlook remains favorable in the coming months. A prevailing market-oriented exchange rate, strict oversight of informal networks, and accessible financial services helped boost remittance inflows in this period.

Meanwhile, the financial account returned to its normal surplus, helping mitigate external pressure. In H1FY26, the financial account recorded a surplus of USD 2.05 billion— a notable improvement over a surplus of USD 525 million in the same period of FY25 (Chart 16). The surplus in the financial account emerged mainly from the reversal of net trade credit and the banking sector's (DMBs and NBDCs) net external flows, turning deficits into substantial surpluses. In addition, net foreign direct investment increased to USD 828 million, up from USD 553 million during the same period of previous fiscal year.

Looking ahead, the external position of the economy is expected to improve further. The current account is expected to be nearly balanced, with export growth rebounding following a temporary slowdown amid an evolving global trade environment. The surplus in the financial account is likely to grow with a prospective increase in donor disbursements and private external borrowings. However, this outlook is subject to several downside risks. This positive outlook would be conditioned upon a smooth political transition after the upcoming national election and post-election political stability. Moreover, in the period ahead, an acceleration in import demand could emerge from the prospective normalization of monetary policy and a consequent growth recovery, which might result in a wider current account deficit.

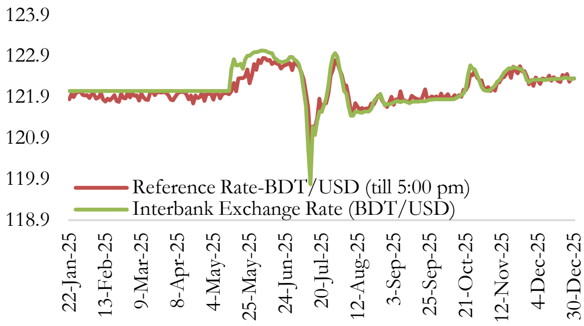
2.6 Movements of the Exchange Rate and Foreign Exchange Reserve

Bangladesh Bank entered a new exchange rate regime on 14 May 2024, introducing a fully flexible exchange rate mechanism. In addition to moving to a market-based exchange rate regime, this new regime was also devised with a systematic framework for intervention in the foreign exchange market. To ensure exchange rate flexibility and proper functioning of the foreign exchange market, BB has revamped the newly introduced exchange rate regime by issuing a circular on 14 May 2025 (FE circular no. 18).

Continued tight monetary policy, moving to a market-oriented new exchange rate regime, and a favorable development in the BoP helped strengthen stability in the foreign exchange market. In

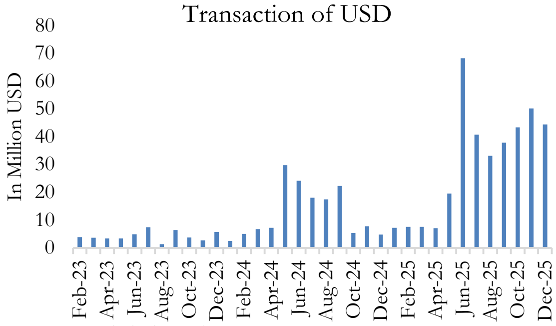
H1FY26, the exchange rate of Taka (BDT) vis-à-vis USD remained broadly stable, despite a short-lived, orderly appreciation (2.55 percent) of the interbank spot rate in early July 2025, driven by strong inflows. The interbank spot exchange rate moved to 122.31 BDT/USD at the end of December 2025 from 122.77 BDT/USD at the end of June 2025, with a 0.38 percent appreciation relative to the reference rate[2]. The exchange rate followed a similar trend to the interbank rate, reaching 122.30 BDT/USD, a 0.33 percent appreciation (Chart 18).

Chart 18: Trends in Exchange Rates



Source: Bangladesh Bank

Chart 19: Daily Average Spot FX Transaction of USD



Source: Bangladesh Bank

Following the same trend in the exchange rate of BDT vis-à-vis USD, the nominal effective exchange rate (NEER)[3] remained stable during H1FY25. The NEER index edged slightly up to 89.05 with 0.09 percent appreciation at the end of December 2025 from 88.98 at the end of June 2025, while the real effective exchange rate (REER) appreciated by a much higher rate of 6.63 percent in this period, moving the REER index to 102.74 from 96.35 in this period, on account of higher inflation in Bangladesh than its trading partners. Nonetheless, the nominal exchange rate of BDT vis-à-vis was hovering close to the REER-based exchange rate, suggesting that the exchange market is in virtual equilibrium.

The volume of interbank spot transactions began rising in mid-May 2025, supported by improvements in the foreign exchange liquidity position on the back of an overall BoP surplus and by the new exchange rate regime, which ensured exchange rate flexibility. During H1FY26, the daily average spot transaction rose substantially to USD 41.67 million (Chart 19) – significantly higher than the daily average spot transaction of USD 16.13 million in FY25, while transactions continued to be highly concentrated in the USD.

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[2] The Foreign Exchange Market Spot Reference Exchange Rate (RR) is defined as a weighted average of freely quoted spot exchange rates in the interbank market and buy-sell of foreign currencies between bank clients and authorized dealer (AD) banks. Bangladesh Bank publishes RR twice in a business day: in the morning, using transactions before 11:00 am, and in the afternoon, using transactions until 5:00 pm. Here, we use the reference exchange rate based on transactions until 5:00 pm, as it captures the whole day's foreign exchange transactions.

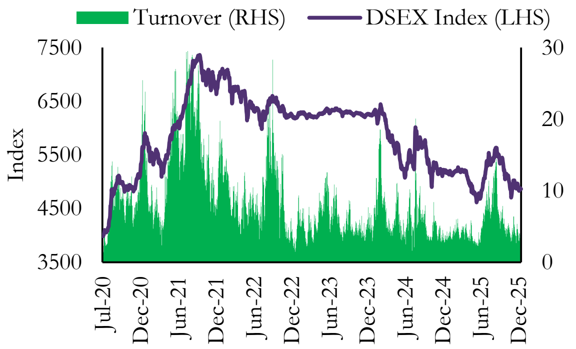
[3] Base year FY24=100. In November 2025, Bangladesh revised the currency basket and shifted the base year for NEER and REER calculations from FY2015-16 to FY2023-24.

Given subdued import demand, the sharp increase in foreign-exchange liquidity prompted BB to purchase foreign currency in the interbank market to prevent further exchange-rate appreciation and build its reserve buffer. In H1FY26, BB purchased a total of USD 3.14 billion from the interbank market through auctions. In line with its intervention strategy, the cumulative purchase amount increased further to USD 3.4 billion by the end of January 2026. Consequently, gross international reserves (BPM 6) reached a recent high of USD 28.52 billion at the end of December 2025 and further to USD 29.2 billion by 05 February 2026, up from USD 26.74 billion at the end of June 2025.

2.7 Capital and Bond Market

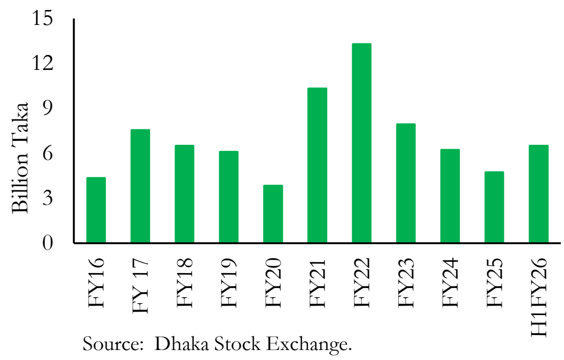
The performance of Bangladesh's capital market exhibited an upward trajectory in the first half of FY26, notwithstanding occasional fluctuations, driven by a significant increase in turnover, collectively signaling a revival of market momentum. The DSEX, the benchmark index of the capital market, rose0.6 percent to 4,865 points at the end of December 2025, compared with 4,838 points at the end of June 2025 (Chart 20). The index gained further momentum in the following weeks, crossing the 5200 mark in early February 2026. Furthermore, the average daily turnover reached BDT 650 crore in H1FY26, up from BDT 472 crore in FY25 (Chart 21). These positive developments reflect a revitalization of market momentum, driven by ongoing reforms and a more favorable macroeconomic environment.

Chart 20: DSEX Index and Turnover



Source: Dhaka Stock Exchange.

Chart 21: DSE Daily AverageTurnover



Source: Dhaka Stock Exchange.

To modernize the capital market and enhance investors' confidence, the Bangladesh Securities and Exchange Commission (BSEC) has introduced several regulatory amendments. These include the new Margin Rules 2025, which improve risk management in margin trading, and proposed updates to the IPO, Mutual Fund, and Public Issue Rules to promote greater transparency and governance. Additionally, BSEC has implemented faster investor dispute-resolution mechanisms, established a Shariah Advisory Council to expand Islamic capital market products, and adjusted compliance timelines for brokers to ease market stress. Overall, the amendments aim to enhance market stability, boost confidence, and support the long-term development of Bangladesh's capital market.

In the secondary market, a total of 232 government treasury bonds were actively traded until December 2025, reflecting progress in the bond market. In December 2025, the government raised BDT 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.

To enhance the secondary market for government securities and establish a market-based yield curve, Bangladesh Bank has mandated that Primary Dealers provide two-way price quotes for Treasury bonds within the first hour of each business day, meeting specific bid-ask requirements, with compliance expected by 31 January 2026.

To further modernize the capital market, the government is focused on reforms such as reducing the government's shareholdings in multinational companies, encouraging local firm listings, preventing market manipulation, and implementing tax incentives. The establishment of commodity exchanges and blockchain-based back-office systems is expected to improve transparency and boost investor confidence. Coordinated efforts by the Ministry of Finance (MoF) and other stakeholders are essential to deepen financial markets and create a more efficient debt market.

Looking ahead to 2026, economic growth is projected to slow, but a potential easing of inflation could lead to interest rate cuts, supporting both equity and bond markets, though political uncertainty and macroeconomic risks remain challenging. Hence, while Bangladesh's capital market is making strides in recovery and reform, its future growth hinges on post-election political stability and on addressing structural challenges and ensuring long-term stability through continued regulatory improvements and strategic reforms.

3. Global Macroeconomic Development in H1FY26 and Outlook for H2FY26

According to the World Economic Outlook, October 2025, updated in January 2026, world GDP growth, having reached 3.3 percent in 2024, is estimated to mirror that for 2025 and 2026. Though there are several important downside risks like the Middle East and ongoing Ukraine-Russia conflicts, bilateral flare-ups in Iran-USA and Venezuela-USA disputes, and their impacts on the global oil market. The steady growth outlook is expected to be constrained by several factors, including surging technological investment, fiscal and monetary support across major economies, and accommodative financial conditions, as well as temporary front-loading of trade and investment in early 2025.

Growth in advanced economies also faces headwinds, with GDP expanding by 1.8 percent in 2024 but estimated to decelerate slightly to 1.7 percent in 2025, before rising to 1.8 percent in 2026. This subdued outlook is primarily driven by a boom in AI investment, fiscal stimulus from the One Big Beautiful Bill Act of 2025, continued strong job sector growth, and fiscal expansion, particularly in the United States, the Euro Area, Japan, and other advanced economies.

Emerging markets and developing economies are projected to show slight growth, rising from 4.3 percent in 2024 to 4.4 percent in 2025, and the pick-up is expected to decelerate slightly to 4.2 percent in 2026. Despite external shocks, this sluggish pace of growth is driven by a combination of domestic policy constraints, easier financial conditions, strategic adaptation, and a front-loaded surge in exports to Asian and European partners. However, in South Asia, India is expected to maintain resilient economic performance, with GDP growth estimated at 7.3 percent in 2025, underpinned by offsetting the increase in the US effective tariff rate on imports from India and a downward revision to 6.4 percent in 2026. 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		Estimate	Projection
	2023	2024	2025	2026
World	**3.5**	**3.3**	**3.3**	**3.3**
Advanced Economies	1.7	1.8	1.7	1.8
USA	2.9	2.8	2.1	2.4
Euro Area	0.4	0.9	1.4	1.3
Other Advanced Economies	1.8	2.3	1.8	2.0
Emerging Market and Developing Economies	4.7	4.3	4.4	4.2
China	5.4	5.0	5.0	4.5
Indonesia	5.0	5.0	5.0	5.1
Vietnam	5.1	7.1	6.5[P]	5.6
South Asia				
Bangladesh	5.8	4.2	3.8[P]	4.9
India	9.2	6.5	7.3	6.4
Pakistan	-0.2	2.6	3.0	3.2

Source: World Economic Outlook, October 2025, WEO Update, January 2026, International Monetary Fund. P=Projection

Inflation in Asia and the Pacific has eased, remaining significantly lower than in other regions. This is primarily attributed to effective monetary tightening, a decline in European natural gas prices, weak global economic growth, and a growing oil surplus, 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 the region are expected to meet theirs by 2025.

Global headline inflation decreased from 6.7 percent in 2023 to 5.8 percent in 2024, mainly due to lower fuel and energy prices and monetary tightening in both advanced and emerging economies. Projections indicate that inflation will continue to decline, falling from 5.8 percent in 2024 to 4.2 percent in 2025 and 3.7 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 5.3 percent in 2025, before easing to 4.7 percent in 2026, as shown in Table 3.

Table 3: Global Inflation

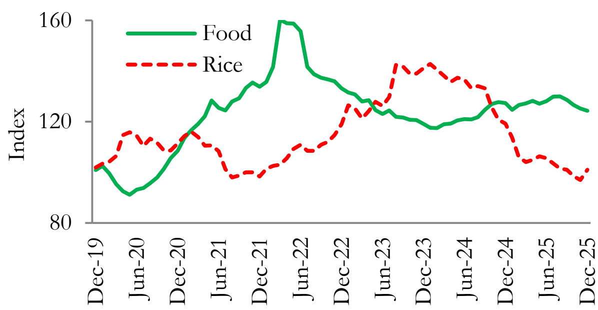
(in percent)

Region	Actual		Estimate	Projection
	2023	2024	2025	2026
World	6.7	5.8	4.2	3.7
Advanced Economies	4.6	2.6	2.5	2.2
Emerging Market and Developing Economies	8.2	7.9	5.3	4.7

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

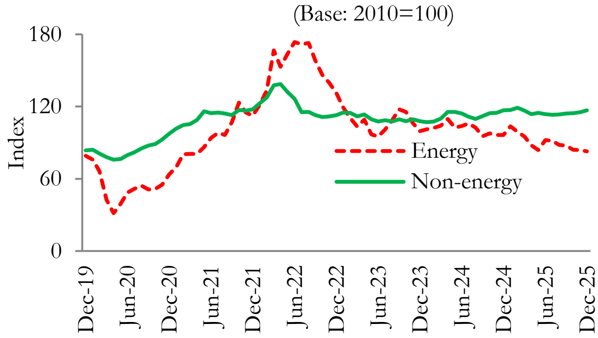
Inflation exceeds the target in most countries through 2024 and is expected to gradually align with targets by 2025, as global commodity and fuel prices continue to decline, as anticipated by the IMF. The global food price index declined gradually between August and December 2025, driven primarily by declines in meat, dairy products, and vegetable oil prices, which offset increases in cereals and sugar. With the exception of a temporary increase in December 2025,the rice price index has been trending downward since May 2025, due to improved crop production in India and other parts of Asia (Chart 22). Energy prices also generally trended downward from June to December 2025, owing to declines in natural gas, coal, and non-energy commodity prices, and remained largely stable as of December 2025 (Chart 23).

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



Source: Food and Agriculture Organisation.

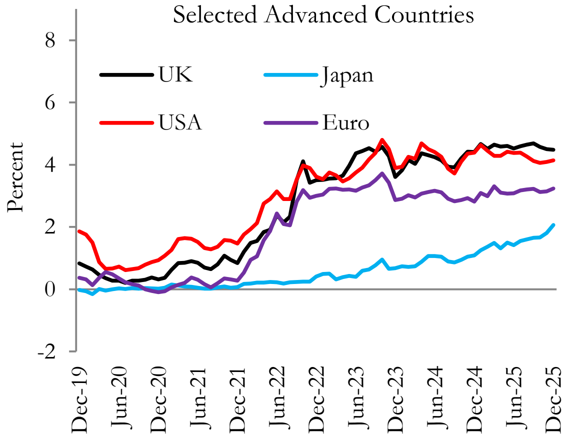
Chart 23: Global Commodity Price Indices
(Base: 2010=100)



Source: World Bank.

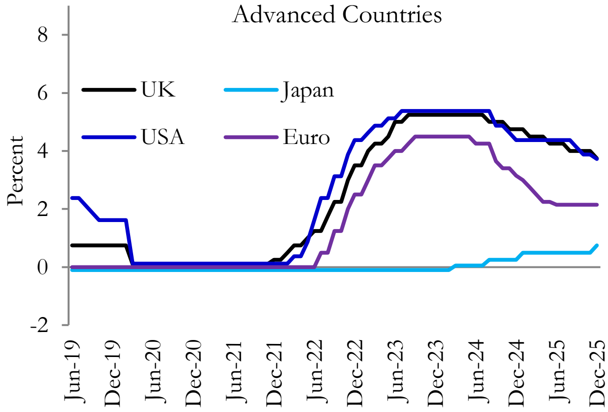
Long-term interest rates have steadily increased across most advanced economies. This upward trend reached its inflexion point in October 2023, driven by central banks' proactive policy tightening to address persistent inflationary pressures (Chart 24). After its peak, long-term interest rates fluctuated 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 began easing their tight monetary policy stance, except in Japan and the Euro area, until December 2025 (Chart 25), signaling a restrictive but stabilizing situation.

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

Bangladesh Bank (BB) continues to strengthen governance in the banking sector by enhancing supervisory oversight and implementing corrective measures to address the industry's long-standing structural weaknesses. In this regard, the circular titled "Transactions with Bank-Related Persons or Institutions," issued on 8 May 2025, continues to guide supervisory actions by imposing tighter limits and stricter conditions on credit facilities extended to related parties, including directors, senior management, significant shareholders, ultimate beneficial owners, and affiliated entities. Under some other new circulars:

i) Banks can't declare dividends unless they meet capital adequacy and loan-loss provisioning requirements.

ii) Banks can't announce bonuses for staff if they are not making profits under proper accounting.

4.2 Banking Sector Reforms in Bangladesh

(a) Bank Resolution Planning and Enforcement

Based on the findings and recommendations of the AQR, conducted by the International Consulting Firms (ICFs), a comprehensive resolution plan has been formulated and subsequently approved by the Board of Bangladesh Bank for five Shariah-based banks. As per the approved plan, a new government-owned bank has been established, with the five Shariah-based banks merged into this newly created entity. The aim is to gradually offload the government's ownership stake over the next 3–5 years, allowing strategic private investors to assume control in due course.

In parallel, a second round of AQRs covering three conventional banks –representing approximately 8 percent of the industry's total assets - is currently in progress and expected to be completed by February 2026. To facilitate the overall resolution process, several enabling legal instruments have been developed. The Deposit Protection Ordinance 2025 and the Bank Resolution Ordinance 2025 are already in place. Furthermore, the framework for establishing the Bank Restructuring and Resolution Fund (BRRF) has been prepared to support future resolution operations.

(b) Risk-Based Supervision

BB is implementing Risk-Based Supervision (RBS) to strengthen banking supervision and align with international standards, with full implementation starting from January 2026.

RBS replaces traditional compliance-based supervision with a forward-looking, risk-focused approach that emphasizes the assessment of inherent risks and risk management quality, allowing greater use of qualitative judgment and enabling differentiated supervision based on banks' risk profiles. By strengthening portfolio-based oversight and improving coordination between on-site and off-site supervision, this approach aims to enhance the effectiveness, stability, and efficiency of banking supervision.

Further enhancements to the RBS framework include finalizing the Supervisory Manual and all necessary guidelines under expert feedback, and developing a single-point data collection platform for all supervisory departments under the World Bank's FSSP-II project. Furthermore, with technical assistance from the World Bank, a Supervisory Intervention Guideline (SIG) is currently under preparation and will provide an integrated framework for banking supervision, enforcement, and resolution activities. A forensic supervisory department will also be formed, with proper training for supervisory staff to undertake forensic audits and inspections of banks when needed.

(c) Initiatives for Recovering the Stolen Assets

Bangladesh has strengthened its efforts to recover stolen assets by restructuring the `Inter-Agency Task Force on Stolen Asset Recovery and Management', led by the Governor of Bangladesh Bank and coordinated by the Bangladesh Financial Intelligence Unit (BFIU). The Task Force supports identification, investigation, recovery, repatriation, and management of illicitly transferred assets, while coordinating domestically and internationally to overcome legal and operational barriers. Eleven priority money-laundering cases have been identified and are being investigated by Joint Investigation Teams (JITs), with assets already traced and attached both at home and abroad, supported by Mutual Legal Assistance Requests (MLARs) to foreign jurisdictions. The government is also engaging international law firms, maintaining cooperation with global asset-recovery bodies, pursuing Mutual Legal Assistance Treaties (MLATs) with partner countries, and initiating civil proceedings alongside criminal cases, particularly for assets linked to non-performing loans. In parallel, legal reforms to the money laundering framework are underway, and high-level oversight is being maintained through regular briefings.

4.3 Enhancing Financial Inclusion and Cashless Society

BB aims to strengthen further financial inclusion efforts by developing standardized financial literacy content and introducing innovative outreach tools, including age-appropriate comic books, to improve financial awareness among children and youth. In parallel, school banking activities were reinforced through regulatory guidance encouraging banks to collaborate with nearby educational institutions to promote early savings habits, financial literacy, and financial inclusion among students.

On the supply side, BB undertook measures to strengthen inclusive delivery mechanisms and expand access to finance. In agent banking, enhanced reporting requirements on female-owned agent outlets were introduced to better assess and promote women's entrepreneurship within the agent banking framework. Access to small-value digital credit continued through the Digital Nano Loan Refinance Scheme, which has been extended through June 2028 with an expanded fund size. Participation by scheduled banks under the renewed scheme is expected to further scale up digitally delivered nano loans, thereby improving access to formal credit for small borrowers and underserved groups and supporting broader financial inclusion objectives.

To further encourage the adoption of Bangla QR—an interoperable QR code-based payment system—BB mandated that payments made through Bangla QR be credited to merchants' accounts immediately, effective from December 2025. In addition, the Ministry of Local Government directed all city corporations and municipalities to ensure the mandatory installation of Bangla QR payment facilities for retail business entities at the time of issuance and renewal of trade licenses. As part of place-based cashless initiatives, BB, in collaboration with the Tourism Police, local authorities, and banks, is planning to implement cashless and digital payment-based transactions for hotels and merchant activities in the Cox's Bazar tourism area, aimed at promoting safe, transparent, and digitally enabled transactions in key tourism hubs.

Meanwhile, BB initiated the development of a unified payment interface to enable instant transactions by connecting all relevant stakeholders across the payment ecosystem. In this context, a Memorandum of Understanding has been signed with the Gates Foundation to support the implementation of the Instant Interoperable Payment System (IIPS) by June 2027, providing technical assistance and global best-practice guidance.

4.4 Bond Market Developments

The bond market plays a critical role in mobilizing long-term capital, diversifying financing sources for both public and private sectors, and reducing excessive reliance on bank-based intermediation. Despite its global importance, Bangladesh's financial system remains predominantly bank-dependent. The development of Bangladesh's bond market—both government and corporate—faces multifaceted challenges arising from supply-side constraints, demand-side limitations, regulatory complexities, weak market infrastructure, and adverse macroeconomic conditions. On the supply side, constraints include the limited availability of diversified bond instruments, a narrow range of issuers, and low levels of corporate bond issuance. Demand-side constraints stem from a narrow investor base dominated by banks, limited participation by institutional, retail, and foreign investors, low market awareness, and weak secondary market activity.

To promote the development of the bond market and the broader capital market, the Government announced plans to reduce its ownership stakes in multinational companies and state-owned enterprises and to encourage large local corporations to diversify their financing sources by reducing their over-reliance on bank loans and increasing bond issuance.

Going forward, policy efforts will focus on easing supply-side constraints by broadening the issuer base—particularly government, semi-government, autonomous, and state-owned entities—while encouraging credible large private-sector enterprises to access the bond market. The development of diversified instruments, including infrastructure bonds, green, social, and sustainable bonds, as well as Shariah-compliant Sukuk, alongside conventional bonds, along with easing issuance procedures for credible borrowers, will help align long-term financing with the country's development and sustainability objectives. Measures to strengthen credit enhancement mechanisms, improve disclosure standards, promote credit ratings, and enhance corporate governance will be pursued to build investor confidence. On the demand side, initiatives aim to cultivate a broader and more diversified investor base by encouraging participation from institutional, retail, and foreign investors, supported by appropriate tax incentives and enhanced market awareness. Developing an active and transparent secondary market—supported by digital, real-time trading and settlement systems and reliable benchmark yield curves—will remain a priority to improve liquidity and price discovery.

BB will continue to work closely with fiscal authorities and market regulators, such as the BSEC, to review and rationalize existing laws, regulations, and issuance procedures to reduce costs, improve efficiency, and strengthen policy coordination. These structural reforms, complemented by a sustained commitment to macroeconomic stability—anchored in low and stable inflation, predictable interest rates, and orderly exchange rate movements—are expected to gradually deepen the bond market, enhance financial resilience, reduce reliance on bank lending and non-performing loans (NPLs), and support financial stability and sustainable long-term economic growth.

5. Monetary Policy Stance and Monetary & Credit Projections for H2FY26

5.1 Monetary Policy Stance for H2FY26

The global economy demonstrated notable resilience in 2025 despite trade barriers and geopolitical conflicts. This resilience can be attributed to a smaller-than-anticipated tariff shock, an acceleration in investments in artificial intelligence, and the implementation of supportive fiscal and monetary policies. Nonetheless, global growth is projected to decelerate from 3.2 percent in 2025 to 3.1 percent in 2026. In parallel, global inflation is expected to decrease from 4.2 percent in 2025 to 3.7 percent in 2026. Major economies' central banks are anticipated to further lower policy interest rates, as inflation expectations remain firmly anchored. Additionally, a decline in global commodity and energy prices is forecast for 2026 amid sluggish global growth prospects.

Given anticipated moderation in global food and energy prices and a stable exchange rate, imported inflation is expected to remain low in Bangladesh. While inflation has shown signs of easing, the disinflation trend has not been consistent. Concurrently, earlier policy tightening has pushed the real policy rate into positive territory, reaching 1.51 percent by the end of December 2025. The central bank's tighter monetary policy has resulted in several positive outcomes: (i) the stabilization of the exchange rate and a significant increase in foreign exchange reserves, (ii) a reduction in inflationary pressures, (iii) a transition of the real policy rate from negative to positive territory, and (iv) a decrease in the gap between real wage rates through lower inflation and higher nominal wage growth.

While Bangladesh economy continues to demonstrate resilience amid domestic challenges, it is grappling with a phenomenon often described as "sticky inflation." Even as GDP growth begins its recovery, the momentum remains subdued, partly because the cost of living—and cost of doing business—is not improving as quickly as hoped. Despite BB's efforts to pull inflation toward its 7.0 percent target, it remains stubbornly entrenched above 8.0 percent, mainly due to the unique structural rigidities of the local market.

In Bangladesh, prices exhibit a distinct "downward stickiness." When global commodity prices rise, or seasonal flash floods hit local production, retail prices in kitchen markets spike almost instantly. However, when those supply shocks subside or global costs drop, local prices rarely return to their previous levels. This stickiness is reinforced by a fragmented trading network in which informal participants—such as Beparis and Aratdars—operate in a cash-heavy environment largely insulated from central bank interest rate hikes.

Furthermore, the effectiveness of monetary policy is often undermined by delayed and insufficient administrative interventions. While the BB can manage the "price of money" (interest rates), it cannot directly control the "physical supply" of commodities like rice, sugar, edible oil, or eggs. Historically, when local prices for these essentials spike, there is a visible time lag before the government reduces import duties, grants import licenses (if applicable), or authorizes open-market sales. For example, by the time import permits for eggs were granted to bridge a supply gap, the "inflationary expectation" had already taken root among consumers and traders. These mismatches between demand and supply create a "sticky" inflation environment where retail prices remain high even after the initial global or local shock has subsided.

Ultimately, these challenges highlight that inflation in Bangladesh is not just a monetary phenomenon but a supply-side struggle. The central bank's efforts to tighten liquidity are often met with the reality that a few large importers hold disproportionate power over supply. Without timely administrative action to break these bottlenecks and ensure a steady flow of goods, the BB is left fighting a modern economic battle with tools that aren't designed to fix broken supply chains. To be truly effective, the bank's monetary tightening must be synchronized with agile trade policies that address these structural rigidities in real-time.

High commodity prices are typically linked to high global prices. However, there are times when domestic price increases surpass those driven by global price hikes. As a result, it is essential to establish a consistent monitoring system and enforce regulatory measures to control food prices. Additionally, assessing the short-term availability of food grains and managing stock levels is essential. Monitoring international food prices, examining policies in exporting countries, and evaluating domestic production conditions are also crucial when setting and adjusting trade policies.

The open tender process for food grain imports, along with complex procedures and severe port congestion, has delayed decision-making regarding when and how much to import. This situation contributes to uncertainty and volatility in domestic food markets. There is a need to realign market incentives to improve efficiency. Strict letter of credit (LC) rules, high and fluctuating tariffs, and sudden policy shifts aimed at managing local market prices create significant uncertainty and additional costs for importers. In response to rising food prices in the domestic market, the government should view this as an early warning and promptly issue automatic import permits to ensure an adequate supply of these commodities and alleviate supply-side pressures.

The disinflation process is currently showing some inconsistencies, but remains at a relatively elevated level, suggesting that a policy rate reduction may not be prudent at this time. It's essential to anchor the exchange rate stability, as this helps to contain imported inflation; lowering the policy rate could unintentionally create depreciation pressure on the exchange rate. There are also several near-term inflation risks, including the upcoming national election, the approaching holy month of Ramadan, and the possible announcement of a new national pay scale. These elements typically stimulate demand and consumer spending, underscoring the need for a careful, balanced monetary policy. By adopting a cautious stance, we can better navigate these challenges and support a stable economic environment. Recent developments indicate that a policy rate cut is not justified at this time.

> *Accordingly, BB will maintain the policy rate at 10.0 percent and continue its tighter stance in H2FY26. The Standing Lending Facility (SLF) rate will be held at 11.5 percent. However, BB decided to lower the Standing Deposit Facility (SDF) rate by 50 basis points from 8.0 percent to 7.5 percent. The lowering of SDF rate is aimed at encouraging inter-bank money market activity as well as private-sector investment, loan, and advance activities.*

BB noted that total domestic credit accelerated to 11.0 percent by December 2025, but private-sector credit growth has fallen to its lowest level due to crowding out by the public sector, as net credit to the government increased by 32.8 percent by December 2025. BB expects that, with a sustained recovery in deposit growth to around 12-14 percent in December 2026, private sector credit growth will increase to more than 8 percent by June 2026. BB has also relaxed general loan provisioning requirements to stimulate growth in priority sectors, such as agriculture and the Cottage, Micro, Small, and Medium Enterprises (CMSME) sector. This strategy is intended to encourage banks to increase lending in these priority areas.

In a major shift towards a market-based exchange rate, BB has allowed for greater exchange rate flexibility since May 2025. Backed by a tighter monetary policy stance, despite the adoption of a market-based flexible exchange rate, the Bangladesh Taka (BDT) against the US Dollar (USD) has remained stable for the past few months. This stability in the exchange rate, coupled with robust remittance inflows, has contributed to a surplus in the overall balance of payments. It has fostered the accumulation of foreign exchange reserves in the first half of FY26. Currently, foreign exchange transactions in the interbank market are conducted at the Foreign Exchange Market Spot Reference Exchange Rate (RR). Banks are free to set their own exchange rates for customers and for interbank foreign exchange transactions on a spot, swap, and forward basis.

5.2 Monetary & Credit Projections for H2FY26

The half-yearly movements of major monetary and credit aggregates, along with their projection set for FY26, are shown in Table 4. Under the interest rate targeting framework, monetary and credit projections lack an explicit focus. However, monetary aggregates such as broad money and reserve money are considered information variables of monetary policy. Moreover, they are important for aligning the interest rate target to uphold price stability and ensure financial stability.

Table 4: Monetary and Credit Projection for FY26

(YoY % change)

Item	Jun-25	Sept-25	Dec-25		Jun-26	
	Actual	Actual	Projection	Actual	Prior Projection@	Revised Projection
Broad money	**7.0**	**8.1**	**7.8**	**9.6**	**8.5**	**11.5**
Net Foreign Assets*	4.3	17.6	28.0	26.8	21.8	22.0
Net Domestic Assets	7.4	6.7	4.9	7.0	6.2	9.7
Domestic Credit	8.1	10.3	10.0	11.0	10.3	11.5
Credit to the public sector	13.6	25.0	20.5	28.9	18.1	21.6
Credit to the private sector	6.5	6.3	7.2	6.1	8.0	8.5
Reserve money	**-0.1**	**3.5**	**5.0**	**9.2**	**8.0**	**8.0**
Money multiplier	5.27	5.65	5.28	5.16	5.29	5.44

Source: Bangladesh Bank.
Note: *Calculated using the estimated constant exchange rates of end June 2025. @Announced in June 2025.

The growth projection for broad money for FY26 is set at 11.5 percent, based on a GDP growth target of 5.0 percent, a CPI-based average inflation ceiling of 7.0 percent, and a positive change in the velocity of money. Public sector credit growth is projected to grow 21.6 percent, underpinned by higher pre-election fiscal spending for the February 2026 national election and additional post-election administrative expenditures during the government transaction period. Moreover, the government budgetary target of borrowing Tk. 1,18,000.0 crore from the banking system is also duly considered in projecting the public sector credit growth limit. Private sector credit growth is projected at 8.5 percent. BB's policy stance remains supportive of productive sectors and will continue to deploy target policy measures to ensure adequate credit availability for priority productive and employment sectors, particularly agriculture and CMSMEs (Cottage, Micro, Small, and Medium Enterprises). Given higher growth in the public sector and moderate growth in the private sector, domestic credit growth is projected at 11.5 percent for FY26. The projection for Net Foreign Assets (NFA) of the banking system is 22.0 percent growth in FY26. The projection of positive growth for NFA is based on the expectation of a surplus in the overall balance of payments, with moderate growth in imports and robust growth in remittances. The projection of Reserve Money (RM) growth is set at 8.0 percent, reflecting economic realities and the stable movement of the money multiplier, which is influenced by the currency deposit and reserve deposit ratios.

6. Near-term Macroeconomic Issues and Challenges

Economic activity remained broadly stable, supporting a better growth outlook. However, political developments, soft industrial output, persistent inflation, and global headwinds may undermine the growth prospects. Inflation moderated further, albeit at a slower pace. The speed of disinflation suggests that inflation expectations may not yet be firmly anchored around the inflation target, potentially complicating efforts to maintain price stability. This development underscores the need for continued policy tightening, which should cool inflation further by the end of this fiscal year.

The economy has enjoyed a marked improvement in the external account, driven by a stable exchange rate, robust remittance inflows, and a favorable interest rate differential. With the substantial increase in overseas employment this year, the economy might continue to benefit from remittance receipts in the near term, thereby maintaining a favorable external position. Notwithstanding, the recent rebound in imports might exert pressure on the external balance.

Although the economy fared well across many major macroeconomic indicators, macro-financial challenges, particularly banking sector vulnerabilities, might sap economic performance in the near future. With distressed assets at record highs and significant undercapitalization, the banking sector continues to face challenges in mobilizing resources from surplus units to deficit units. A slew of reform initiatives—including asset quality reviews, the resolution of weak banks, and measures to protect depositors' interests—are likely to strengthen financial stability, improve credit allocation, and support macroeconomic stability in the near-to-medium term.

In sum, the economy made notable progress in its recovery from the business cycle trough, although downside risks persist. Inflation cooled modestly and is expected to decelerate further, though uncertainty remains regarding the pace of disinflation. Underpinned by the buoyed remittance and financial account inflows, the external balance turned favorable, supporting a steady buildup of foreign exchange reserves. Weak governance, capital shortfalls, and high NPLs characterized the banking sector, undermining its role in supporting the broader economy. BB has already begun implementing ongoing reform programs in the banking sector and is expected to improve its stability and efficiency in the medium term.

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Prepared by: Monetary Policy Department, Bangladesh Bank
Head Office, Motijheel, Dhaka, Bangladesh. website: www.bb.org.bd

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