



Quarterly Monetary Policy Statement October–December, 2026

1. Background and Monetary Policy Decision

The Monetary Policy Committee (MPC) of Bangladesh Bank decided at its 13th meeting on 30 July 2026 to publish the Monetary Policy Statement on a quarterly basis. Accordingly, this issue marks the first Quarterly Monetary Policy Statement of Bangladesh.

At its 14th meeting, held on 23 September 2026, the MPC reviewed recent domestic and global macro-financial developments and assessed the appropriate monetary policy stance. Although headline inflation eased to 8.26 percent in August 2026 from 9.16 percent in June, underlying inflationary risks persist alongside subdued economic activity. Inflation remains vulnerable to supply and cost pressures, particularly from high and volatile global energy prices amid the prolonged Middle East conflict and disruptions in the Strait of Hormuz, the recent upward adjustment of administered fuel prices, and the potential impact of national pay scale implementation. At the same time, economic growth remains under stress, reflected in weak industrial production, slow private sector credit expansion, and a depressed Purchasing Managers' Index.

Against this backdrop, *the MPC has decided to keep the policy repo rate unchanged at 9.50 percent, with the Standing Lending Facility (SLF) at 11.00 percent and the Standing Deposit Facility (SDF) at 7.50 percent.* The central policy challenge is to support economic activity without compromising the disinflation process. The MPC will closely monitor global and domestic macro-financial developments and calibrate monetary policy stance as necessary.

2. Global Economic Situation

The global economy is currently facing increased uncertainty due to the ongoing conflict in the Middle East. The immediate impact of the Middle East conflict is the prolonged disruption in the Strait of Hormuz, which could keep petroleum and LNG prices elevated and volatile, raise freight and insurance costs, and cause shortages of fuel and fertilizer. By this way, the conflict has led to heightened geopolitical tensions, disruptions in trade, and rising energy prices at the global level. However, the AI-related investment and productivity gain have provided some support to global economic activities.

Considering the current global economic landscape, the IMF has revised its global growth forecast for 2026, lowering it to 3.00 percent (July 2026 WEO update) from 3.10 percent (April 2026 WEO). Conversely, the growth forecast for 2027 has been upgraded to 3.40 percent (July 2026 WEO update) from 3.20 percent (April 2026 WEO). The IMF has also raised its global inflation forecast to 4.40 percent in 2026 before declining to 3.70 percent in 2027 (April 2026 WEO), suggesting a pause in the disinflation process. The FAO projection also points to higher global food prices through 2027, reflecting lower cereal production, El Niño-related disruptions, and geopolitical risks.

The global higher prices, particularly fuel, LNG, fertilizer, wheat, maize, and edible oil, could widen the import bill, raise production costs, and intensify inflationary and external-sector pressures in Bangladesh. The resulting pass-through from energy and non-energy import prices could further prolong Bangladesh's underlying inflation.

The global financial conditions are also less supportive for emerging markets, including Bangladesh. Following its first-rate increase since 2023, the Federal Reserve raised its target range by 25 basis points in September 2026 and indicated that persistent inflation risks could warrant further tightening. Higher US interest rates and a stronger dollar could weaken capital flows to emerging markets, raise external borrowing costs, and increase depreciation pressures on vulnerable currencies.

3. Domestic Economic Situation

3.1 Output Growth

The Bangladesh Bureau of Statistics (BBS) has projected a real GDP growth of 4.14 percent for FY26. However, quarterly GDP growth was estimated at 2.2 percent, while industrial output contracted by 0.28 percent in Q3FY26. These developments suggest that the provisional annual growth estimate may not fully capture the underlying stress on economic activities. Furthermore, high-frequency indicators such as industrial production, power generation, fuel supply, and private sector credit growth suggest sluggish economic activity throughout FY26, although a modest recovery is anticipated in the first quarter of FY27.

The real GDP growth also remains uneven across demand components. Strong remittance inflows continue to support private consumption, while both public and private investments have moderated. Weak private sector credit growth, subdued Purchasing Manager's Index (PMI), and soft capital-goods demand point to cautious business sentiment. Firms appear to be delaying

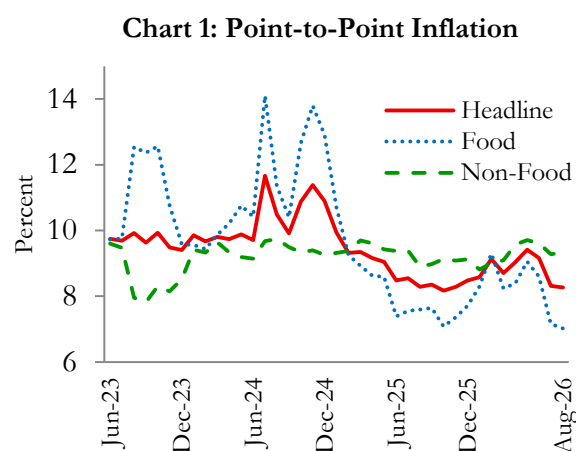
expansion amid high financing costs, energy shortages, infrastructure bottlenecks, and uncertainty surrounding domestic and external demand.

On the supply side, industrial activity remains under pressure from energy disruptions, elevated input costs, supply-chain delays, and subdued global demand for garments. Agriculture, by contrast, continues to provide an important stabilizing force for food security, inflation, and rural incomes, although its performance remains dependent on favorable weather conditions and timely access to key inputs, particularly fertilizer at affordable prices. Overall, these developments suggest that the economy operated below potential, with the output gap widening in Q1FY27 amid both weak demand and persistent supply-side constraints.

To support recovery and narrow the output gap, the government and Bangladesh Bank have introduced a Tk. 60,000 crore stimulus package, including Tk. 20,000 crore to support the reopening of closed factories, alongside refinance schemes for agriculture, CMSMEs, and export diversification. The measures are expected to support economic recovery. However, implementation delays, weak bank balance sheets, and high borrower indebtedness could constrain their effectiveness.

3.2 Inflation

The headline CPI inflation has moderated over the months, reaching a 10-month low at 8.26 percent (point-to-point) in August 2026 from 9.16 percent in June 2026. This moderation is mainly driven by food inflation. The food inflation reached 7.02 percent, while non-food inflation remained stubbornly high at 9.32 percent in August 2026 (Chart 1).



Source: Bangladesh Bureau of Statistics (BBS).

The easing of food inflation reflects improved domestic supply conditions and favorable base effects, whereas persistently high non-food inflation points to more durable price pressures. The upward adjustments of domestic administered prices in the first-half of 2026 have continued to feed into the price level through transport, energy, rent, and service costs. Furthermore, the war in the Middle East and disruptions in the Strait of Hormuz have increased import costs through higher global energy, food, and other commodity prices, alongside rising freight and insurance costs. However, the relatively stable exchange rate with recent mild appreciation has partly offset the pass-through of global commodity prices.

Persistently high inflation increases the risk of elevated inflation expectations and second-round effects. Survey evidence also indicates that inflation expectations have risen. If expectations become less firmly anchored, the process of disinflation is likely to become more costly and prolonged.

The near-term inflation outlook has become more challenging following the government's sharp upward adjustment of administered fuel prices in late September 2026 in response to higher import costs. The adjustment is likely to raise transport and production costs and could interrupt the recent disinflation trend. Partial implementation of the national pay scale could add further demand-side pressure. Therefore, the recent decline in headline inflation should be evaluated in conjunction with core and non-food inflation, monthly price momentum, inflation expectations, wage adjustment and the emerging risks associated with them. In addition, it should be remembered that the inflation outlook is highly sensitive to energy prices, food supply, exchange-rate conditions, fiscal financing, and the credibility of monetary policy.

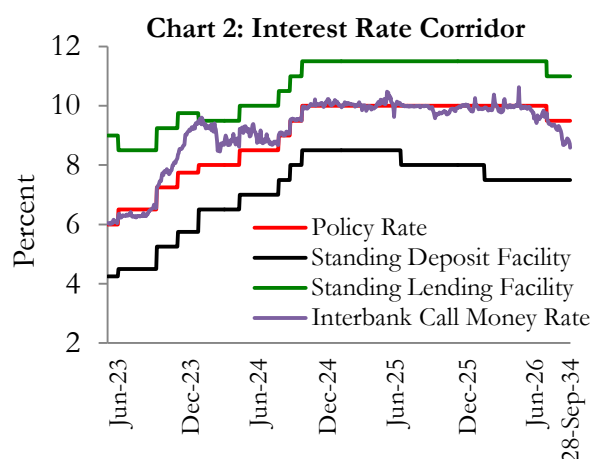
To mitigate the impact of higher prices on vulnerable households, the government has initiated a family-card support for eligible poor households, providing a monthly allowance of Tk. 2,500 through mobile financial services. Such targeted transfers are expected to help cushion vulnerable households against price pressures.

3.3 Interest Rate and Credit Development

The current monetary policy framework of Bangladesh Bank employs the short-term interest rate, specifically the interbank call money rate, as an operational target to achieve its overarching objectives of price stability, sustainable economic growth, job creation, and financial sector stability. Within this framework, Bangladesh Bank consistently aims to maintain the call money rate in close alignment with the policy rate, known as the repo rate.

Observing the elevated inflation rate, Bangladesh Bank maintained a higher policy rate of 10 percent for an extended period, since October 2024. As a result, the inflation rate decreased somewhat; however, it remained above the medium-term target. Meanwhile, economic growth slowed over the past couple of years due to weak domestic and external demand. In this context, maintaining an excessively restrictive monetary policy risked imposing increased costs on employment and economic recovery without achieving a significant reduction in the primarily supply-driven inflation. In this context, the MPC, at its 13th meeting held on 30 July 2026, lowered the policy rate by 50 basis points to 9.50 percent to support economic recovery.

Chart 2 illustrates the movement of the interbank call money rate alongside the policy rate since the interest rate-based monetary policy framework was implemented on 1 July 2023. Since the introduction of the new framework, the interbank call money rate has moved closely with the policy rate. However, it experienced a significant drop and fell below the policy rate in the recent period, following the policy rate cut at the end of



Source: Bangladesh Bank

July 2026. Simultaneously, yields on government securities gradually declined as overall excess liquidity rose. This trend reflects weak demand for private sector credit, robust deposit growth, and a diminished willingness to extend new loans. Furthermore, banks have increased their holdings of government securities, which has contributed to lower yields across the curve. This scenario suggests that while the transmission from the policy rate to market rates has been relatively swift, the transmission to private sector credit and the real economy remains weak.

The private-sector credit growth remained weak at 4.75 percent in August 2026, with fresh credit disbursements contracting in certain segments. Weak credit demand indicates subdued investment, elevated borrower risk, uncertain returns, and the impaired balance sheets of several banks. In the balance sheets of commercial banks, total liquid assets have increased markedly. However, their distribution remains uneven; stronger banks possess substantial liquidity, while some weaker banks continue to encounter funding and liquidity pressures.

Broad-money growth reached 12.40 percent at the end of August 2026, primarily driven by increases in net credit to the government and surge in net foreign assets. The rise in government borrowing from the banking system indicates weak revenue mobilization and significant fiscal financing needs.

The stability of the financial sector, which is vital for effective monetary policy and macroeconomic stability, has remained vulnerable in recent years. The non-performing loan ratio known as an important indicator of financial stability has reached 32.78 percent, while significant capital erosion has diminished the resilience of the banking system.

3.4 External Sector Development

The external sector of Bangladesh's economy showed significant improvement in FY26, as the overall balance of payments recorded a surplus of USD 6.60 billion. This surplus contributed to

reserve accumulation and stability in the exchange rate. Strong remittance inflows helped contain the current-account deficit despite a wide trade deficit, while the financial account also improved.

However, the external position weakened somewhat in the first-two months of FY27, with the overall balance of payments moving into deficit, driven primarily by a deficit in the financial account. The current account nevertheless remained in surplus, supported by strong remittance inflows, although higher prices of fuel, LNG, fertilizer, and other raw materials increased the import bill. Remittance inflows, which grew by 18.9 percent in the first-two months of FY27, remain the main external buffer. The financial-account deficit mainly reflected subdued FDI alongside higher external financing and debt-service pressures.

Supported by a favorable balance of payments in FY26, the exchange rate of the taka remained broadly stable against the US dollar, even as the currencies of most major trading partners depreciated. This stability has helped contain the domestic pass-through of global commodity prices and imported inflation. However, maintaining exchange-rate stability through excessive intervention or market distortion could delay necessary adjustment, weaken export competitiveness, and put pressure on foreign exchange reserve if external imbalances persist.

To enhance foreign trade, bolster external resilience, and stimulate private investment, the government has implemented several initiatives, particularly the Import Policy for 2026–2029. This policy permits certain industrial and commercial imports to proceed without requiring letters of credit. Ongoing support for formal remittance channels, export diversification, productive imports, and orderly exchange-rate flexibility will be crucial for strengthening the external position while maintaining reserve buffers.

4. Near- and Medium-Term Outlook and Challenges

The near-term outlook points to subdued economic growth alongside gradually declining but still elevated inflation. Persistent domestic inflation, weak exports, sluggish investment, and a less supportive global environment continue to constrain the recovery. The World Bank projects Bangladesh's GDP growth at 4.60 percent in FY27, while the IMF has recently downgraded its forecast to 3.50 percent from 4.30 percent, underscoring the weaker-than-expected growth momentum and considerable uncertainty surrounding the outlook.

Bangladesh Bank's assessment is broadly consistent with a gradual recovery rather than a rapid return to the pre-stress growth trajectory. High-frequency indicators suggest a subdued economic activity in Q1FY27, while a stronger recovery will require improved energy supply, restored business confidence, stronger export demand, and renewed private investment

especially in manufacturing sector. The new stimulus package and refinance programs could support the recovery, but their effectiveness will depend on timely implementation and efficient credit allocation.

Inflation may decline gradually if food supply conditions remain favorable together with interest rate and exchange-rate balancing demand pull and cost push inflation. However, the pace of disinflation is likely to remain uncertain amid persistent non-food inflation, elevated inflation expectations, higher and volatile global energy prices, and the pass-through from recent administered fuel-price adjustments. Implementation of the national pay scale could also add pressure on inflation and fiscal burden. A sustained return to the target will therefore require broad-based and durable disinflation rather than a temporary decline in headline inflation.

Overall, risks remain tilted toward weaker growth and higher inflation. Escalation of the Middle East conflict, prolonged disruption in the Strait of Hormuz, higher global energy and fertilizer prices, or tighter US monetary policy could simultaneously weaken growth and increase inflation. Domestic risks include energy and infrastructure constraints, weather-related agricultural shocks, weak revenue mobilization, increased government borrowing, the potential inflationary and fiscal pressures, delayed banking reform, and elevated non-performing loans.

The main policy challenge is to support economic activity without compromising the disinflation process. Given ongoing energy, infrastructure, and supply-side constraints, stronger growth will require effective implementation of the stimulus package and targeted refinance schemes, alongside measures to address structural bottlenecks, especially taking care of money market pressure derived from fiscal and capital market fronts. Monetary transmission also needs to be strengthened through restoring bank solvency, governance, and credit discipline, while external stability should be preserved by allowing the exchange rate to absorb external shocks. Against this backdrop, Bangladesh Bank will closely monitor global and domestic developments and remain committed to supporting a sustainable economic recovery while preserving price stability, external balance, and financial system soundness.