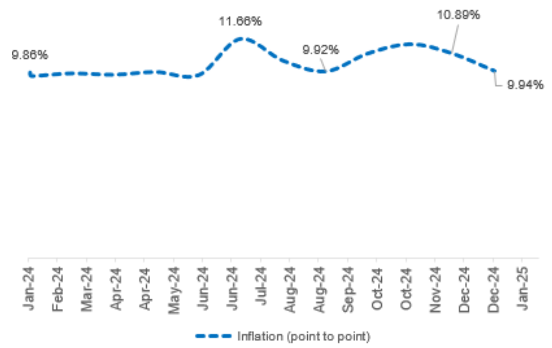
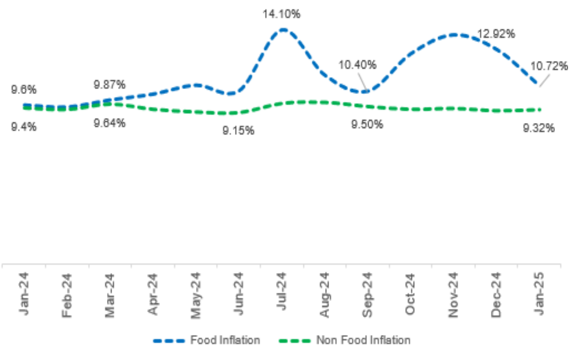
Chapter 01: Inflation drops below double digits

- Bangladesh's inflation fell to 9.94% in January mainly due to seasonal effects like the increasing supply of winter vegetables and the contractionary monetary policy. Additionally, exchange rate depreciation and high global commodity prices remain key factors. Though food inflation is still in double digits, the finance adviser expressed optimism that inflation will fall to 6-7% by June 2025. Food supply has improved, and monetary policy has started to take effect, whereas non-food inflation remains a concern due to higher energy costs, increased VAT, and taxation, further exacerbating the distress of the masses.

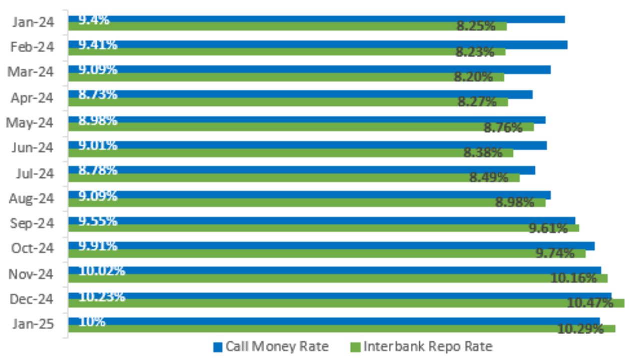


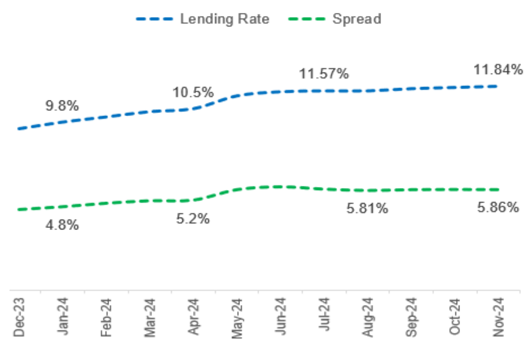


Chapter 02: How Contractionary Monetary Policy is driving interest rates up

- The trend indicates a consistent rise in lending and deposit rates over the period, reaching 11.84% and 5.99% in November 2024 respectively. The lending rate has increased due to the rising cost of funds, a hike in the policy rate by the central bank, and the shift toward a market-driven interest rate regime in the upcoming period. Banks are passing the higher cost of funds to borrowers while maintaining a steady spread from operations. Moreover, the deposit rate within the banking industry has risen due to intense competition among banks to attract deposits in a tightening liquidity environment.

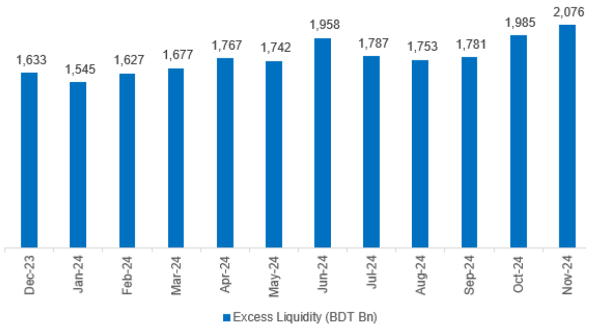
- The call money rate and interbank repo rate currently stand at 10% and 10.29%, respectively, in January 2025. The trend shows an upward trajectory as the central bank increased the repo rate to 10%, and banks are relying heavily on the interbank lending channel to meet funding needs amid a liquidity crunch. Besides, banks shifting towards safe investments like treasury bills and bonds is also pressurizing the rate to rise.

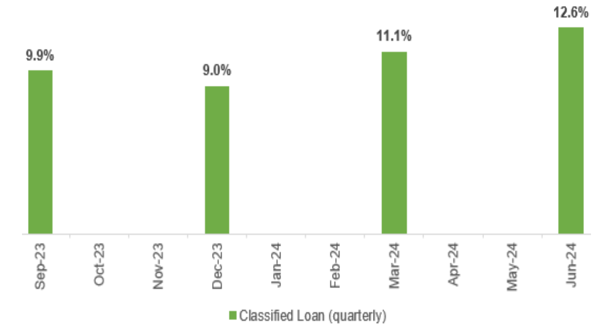




- The excess liquidity in the banking sector has increased to BDT 2,076 billion in November 2024, marking a 4.58% increase compared to the previous month. As government treasury securities offer attractive interest rates, banks are also offering higher deposit rates to clients, consequently exacerbating the size of excess liquidity. Besides, depositors' confidence in the banking channel has started to revive. Due to policy rate hike by central bank, the demand for private sector credit slowed down, further contributed to the rise of excess liquidity.

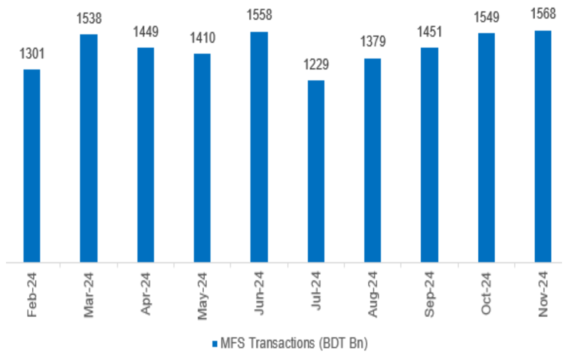
- The classified loans in the banking sector have reached 12.56% due to numerous instances of loan scams, irregularities, politically influenced loan decisions, weak corporate governance, and inadequate risk management. Previously, defaulters benefited from relaxed classification policies and loan rescheduling during various periods, including the COVID-19 era. Additionally, economic uncertainty, inflationary pressure, Middle East unrest, supply chain crises, and the regime change on August 5, 2025, have also significantly contributed to the skyrocketing NPLs within the banking and NBFI sector. However, the central bank has taken initiative to combat the level of NPL by following IMF and World Bank prescribed suggestions, actions and decision to stabilise the asset quality of the crucial segment of the economy.

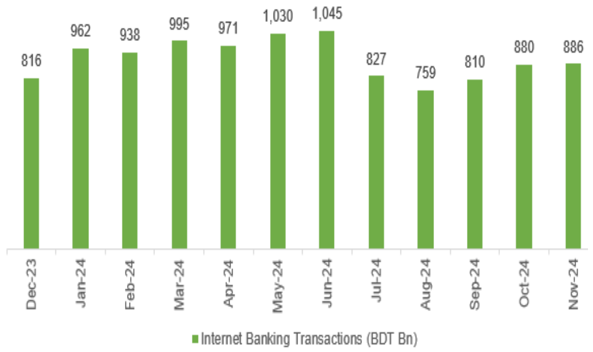




- Due to the growing trend of the mobile financial services (MFS) sector in Bangladesh, MFS transactions reached BDT 15.68 billion in November 2024, indicating greater financial inclusion among the masses. With wider service facilities such as utility bill payments, micro-loans, school fees, merchant payments, and bank account integration, MFS transactions are surging drastically. Additionally, during the July-August period, the banking channel was inaccessible, positioning MFS as an alternative channel for transactions and remittances.

- Internet banking transactions was BDT 886 billion in November, 2024, BDT 6 billion higher than the previous month. Increasing adoption of MFS and rising inflationary pressure along with economic uncertainty is creating temporary downturn in internet banking transaction.

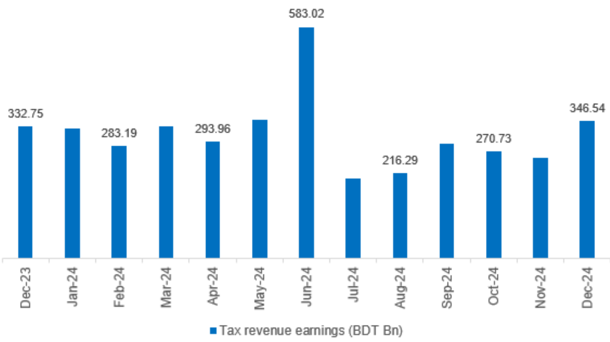


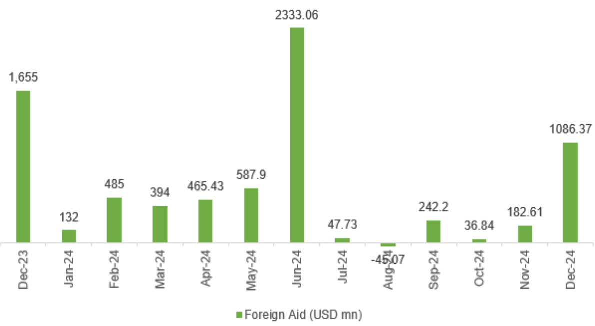


Chapter 03: Mixed fiscal scenario with rising tax collection, improving foreign aid, and a growing repayment burden

- The foreign aid rebounded to USD 1086.37 million in December 2024, showing a significant jump from just USD 182 million in the previous month. However, foreign aid fell by more than 34% year-on-year in December 2024. The temporary stagnation of foreign aid in the last six months emerged from political and economic uncertainty after the regime change, a prolonged review period by bilateral and multilateral lenders, and the slow implementation of projects and developments. Additionally, the recent downgrade of Bangladesh's credit rating also contributed to the decline in foreign aid disbursements. Up to November 2024, the foreign loan servicing pressure was greater compared to disbursement by the multilateral lenders which lowered the value of net foreign aid. Among the new disbursement, 7.67% came as grant and remaining portion was composed of foreign loan. However, USD 1050 million support from ADB and USD 800 million support from World Bank bolstered the net foreign aid figure.

- NBR has collected BDT 346.54 billion revenue for the month of December 2024 which shows 4.1% year-on-year growth compared to the previous fiscal year. The half yearly revenue collection of the current fiscal year stands at BDT 1580 billion reflecting almost 1% drop year-on-year compared to the previous fiscal year. The reason behind the fall of NBR revenue are the historic July-August movement, political unrest, lack of business and consumption activity. The revenue collection target was BDT 2143 crore in the first six month of the fiscal year but it fell short of BDT 564 billion. However, NBR is exploring different sources of revenue to boost its revenue mobilisation as per IMF prescription.





Chapter 04: Trade Policies and Monetary Adjustments Shaping the Economy

Particulars	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
Export growth YoY	-5.5%	12.1%	-8.5%	2.9%	5.6%	15.4%	20.6%	15.6%	17.7%	5.7%
Import growth YoY	14.7%	-14.5%	17.5%	-2.5%	0.5%	7.1%	3.1%	-8.7%	1.3%	
Remittance growth YoY	21.33%	33.30%	15.4%	-3.0%	39.1%	80.2%	21.5%	14.0%	32.5%	3.6%
Forex Reserve (USD mn)	25,365	24,161	26,815	25824	25566	24863	25487	24350	26215	
Forex Reserve - BPM6 (USD mn)	19,976	18,634	21,787	20394	20475	19861	19830	18611	21423	

- In January 2025, Bangladesh's exports grew 5.7% YoY to USD 4.44 billion, driven primarily by strong RMG sector performance, due to heightened Western demand and growing orders from new markets like India, Japan, and Australia. The US tariff hikes on Chinese goods provided Bangladesh's apparel industry a competitive edge, attracting more orders from global buyers shifting sourcing destinations. Additionally, policy support, including export incentives and trade agreements, contributed to the growth. Beyond RMG, diversification into leather, plastics, frozen fish, and agricultural products further boosted export earnings.

- In December 2024, Bangladesh's imports increased by 1.3% YoY, marking a rebound after an 8.7% decline in November. This modest growth was driven by the easing of import restrictions, as the government lifted LC margin requirements on most imports, excluding luxury goods, making procurement easier for businesses. Additionally, industrial raw material imports surged, signalling a steady economic recovery and higher manufacturing demand. The upcoming Ramadan season also played a key role, prompting businesses to increase imports in anticipation of heightened consumer demand.

- In January 2025, Bangladesh's remittance inflows remained robust, totalling USD 2.19 billion, marking the sixth consecutive month with inflows exceeding USD 2 billion. This represents a 3% year-on-year increase from USD 2.11 billion in January 2024. The sustained growth in remittances is largely attributed to expatriates favouring official banking channels, incentivized by depreciated local currency and the government's 2.5% cash incentive on remitted funds. Looking ahead, remittance inflows are expected to remain strong, especially with the upcoming Ramadan and Eid festivals, periods traditionally associated with increased financial support from overseas workers to their families.

- In December 2024, Bangladesh's gross foreign exchange reserves stood at USD 26.21 billion, reflecting stability amid external economic pressures. When calculated under the IMF's BPM6 methodology, reserves were USD 21.42 billion, aligning with the country's recent efforts to maintain external balance. The rise in remittances and export earnings played a significant role in sustaining reserve levels, with record-breaking remittance inflows in December and strong RMG export performance. Additionally, the Bangladesh Bank's decision to halt dollar sales following the government regime change helped preserve reserves.

Chapter 05: Continued borrowing of the Government from the banking channel and the higher interest rate scenario eats up growth in the Private Sector

- In November 2024, private sector credit growth reached USD 138 billion, marking a 7.7% YoY increase, but remained below the 9.8% target for H1 FY25 set by the central bank. The slowdown resulted from rising interest rates, weaker business investment, and reduced demand for SME and retail loans amid high inflationary pressures. Liquidity shortages in the banking sector further constrained borrowing, as financial institutions favoured treasury bills and bonds over private lending due to higher returns and lower risk. The shift to a market-based interest rate regime has also made borrowing more expensive, discouraging new credit expansion. If these conditions persist, private sector growth may remain sluggish, limiting business expansion, investment, and overall economic activity in the coming months.

- Public sector credit growth rebounded to 18.18% YoY in November 2024, surpassing the 14.2% target for H1 FY25, despite subdued government credit demand. The administration has upheld austerity measures, selectively allocating funds to critical projects to mitigate interest burdens and navigate fiscal constraints. This aligns with

Bangladesh Bank's contractionary monetary policy, aimed at curbing inflation. The impact of restrained public spending is evident in the ADP implementation rate, which dropped to 7.90% between July and October, a 15-year low, reflecting a 30.65% YoY decline. While public sector credit growth shows signs of recovery, liquidity challenges and slow project execution could continue to impede economic stability and fiscal sustainability.