Are We Past the Worst?

Macroeconomic Outlook 1H'2025

January 21, 2025

What's Inside?

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Executive Summary

We are publishing our macroeconomic outlook for 1H'2025 addressing the pressing question on everyone's mind, "Are We Past the Worst?" The interim government formed after the July Uprising faces a challenging economic landscape, marked by high inflation, soaring interest rates, exchange rate fluctuations, and a slowdown in growth. CAL's view is that while six more months of economic pain lie ahead, a foundation for recovery is being laid. Key indicators suggest that stabilization in inflation and exchange rates by second half of 2025 will set the stage for gradual improvement in economic activity, easing lending rates, and a return to growth by next year. However, persistent political risks continue to loom over this outlook.

- **CAL expects the BDT to stabilize between 125-130/USD by Jun-25E**, contingent on timely budget support from development partners, robust remittance inflows, slower import growth due to curbed consumption and high interest rates, and steady export performance. A more flexible exchange rate mechanism and a projected current account surplus will reinforce stability.
- **We expect Inflation to decline to 8.5%-9.5% by Jun-25E,** driven by tight monetary policy, lower global commodity prices, and a favorable high-base effect. However, supply constraints during Ramadan may cause temporary food price volatility. We expect steep decline in the second half of the year.
- **We expect the 1-year T-bill rate to decline by 50-100 basis points by Jun-25E**, aided by easing inflation and reduced reliance on short-term borrowing. However, elevated lending rates will persist due to high-risk premiums, rising non-performing loans, and strict provisioning requirements.
- **We expect a 2.0%-3.0% GDP growth for FY2024-25E** constrained by productivity losses from the first quarter output following the July uprising and reduced consumption and investment due to contractionary policies. Stable export performance and improved global demand are expected to provide some support.
- **The DSEX remains undervalued,** trading at a PER of 10.1x, and is likely to move within 4,900-5,500 due to tight liquidity driven by the elevated interest rate scenario. A significant decline is unlikely barring external or political shocks.

Where Are We Now?

A Recap of 2H’2024

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How do the actual numbers compare with our December 2024 outlook?

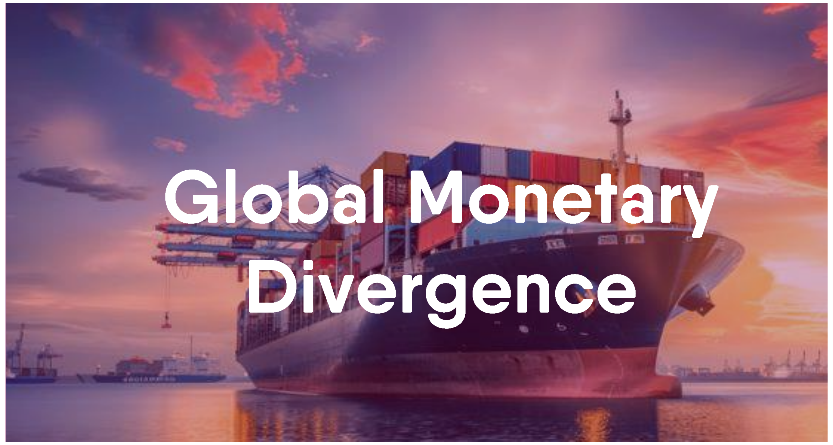
Macro Indicator	Actual (Jul-24)	CAL's Forecast	Actual (Dec-24)	Directional Match	Comment
Interest Rate (1-year T-bills)	11.95%	12.5%-13.5%	12.0%	✗	Slow private credit, post political turmoil, led to funds chasing low risk GSEC.
Exchange Rate (USD/BDT)	BDT c.118-122 (import)	BDT 120-125 (import)	BDT c. 122-124 (import)	✓	Exchange rates stabilized after briefly peaking at BDT 129 due to speculation on BDT free-float and arrear settlement pressure.
Inflation (%)	11.7%	9.7%-10.2%	10.9%	✓	Revised non-food weightage and food supply shocks post Jul-Aug turbulence led to higher recorded inflation figures.

The forecasts were published in July 2024 and updated in August 2024

Three pivotal forces significantly influenced the results of our macroeconomic outlook for 2H'2024.

- Weeks of lost productivity
- Disruption in supply chain
- Deposit flight from politically exposed banks
- Downgrade of sovereign rating
- Cuts in development spending

- Sustained contractionary stance
- Reduced intervention in FX market
- Allowed official exchange rate to depreciate
- Enforced USD arrears settlement
- Initiated banking sector reforms



- Trade tensions post US elections
- Delayed US rate cuts amid global easing
- Stronger USD pressuring EM currencies
- China rolls out major fiscal stimulus
- India signals rate easing ahead

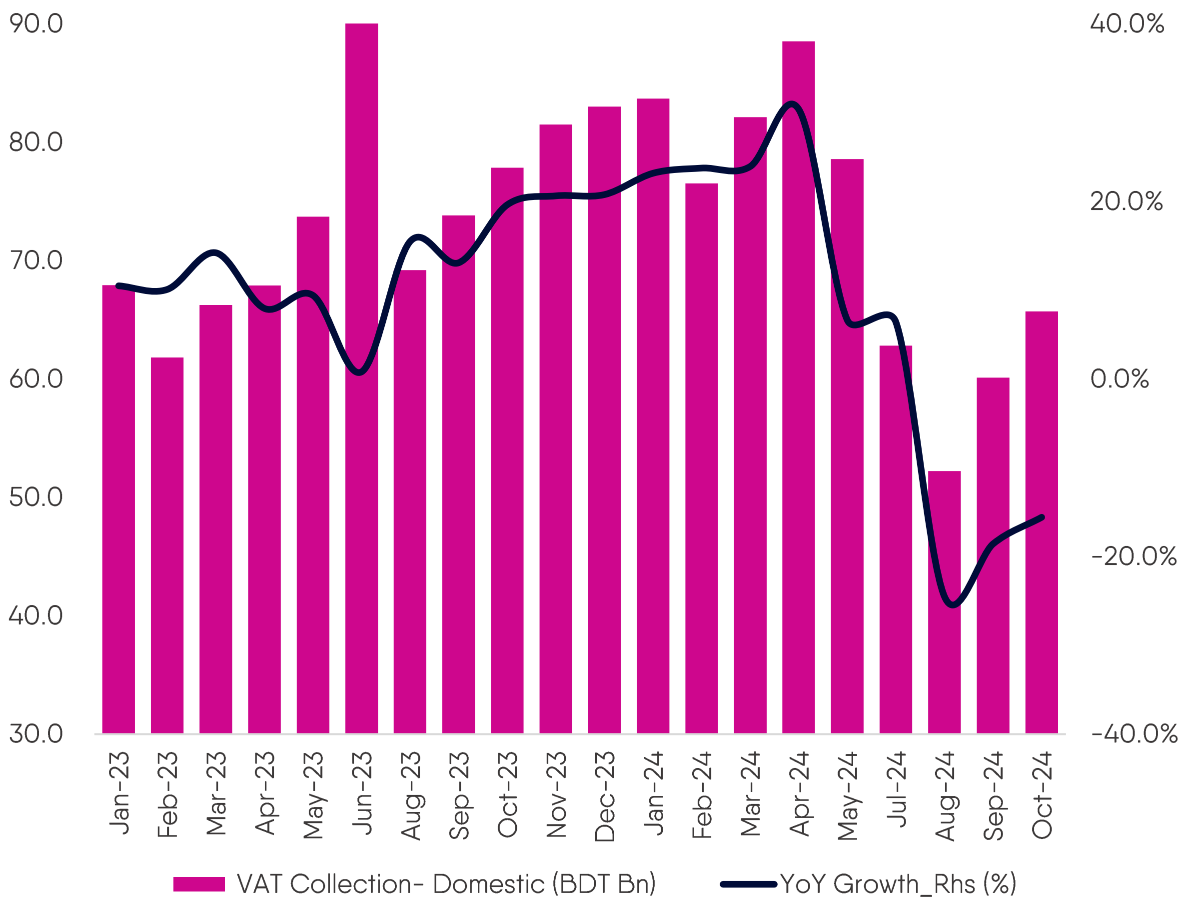
How did these Events Affect the Economy?

1. GDP growth fell to 1.81% in Jul-Sep due to unrest and disruptions.
2. Inflation hit 11.7% amid revised inflation computation and supply shocks.
3. T-bill rate fell 22 bps despite 150 bps policy hike, amid liquidity injection.
4. BDT depreciated due to stronger USD.

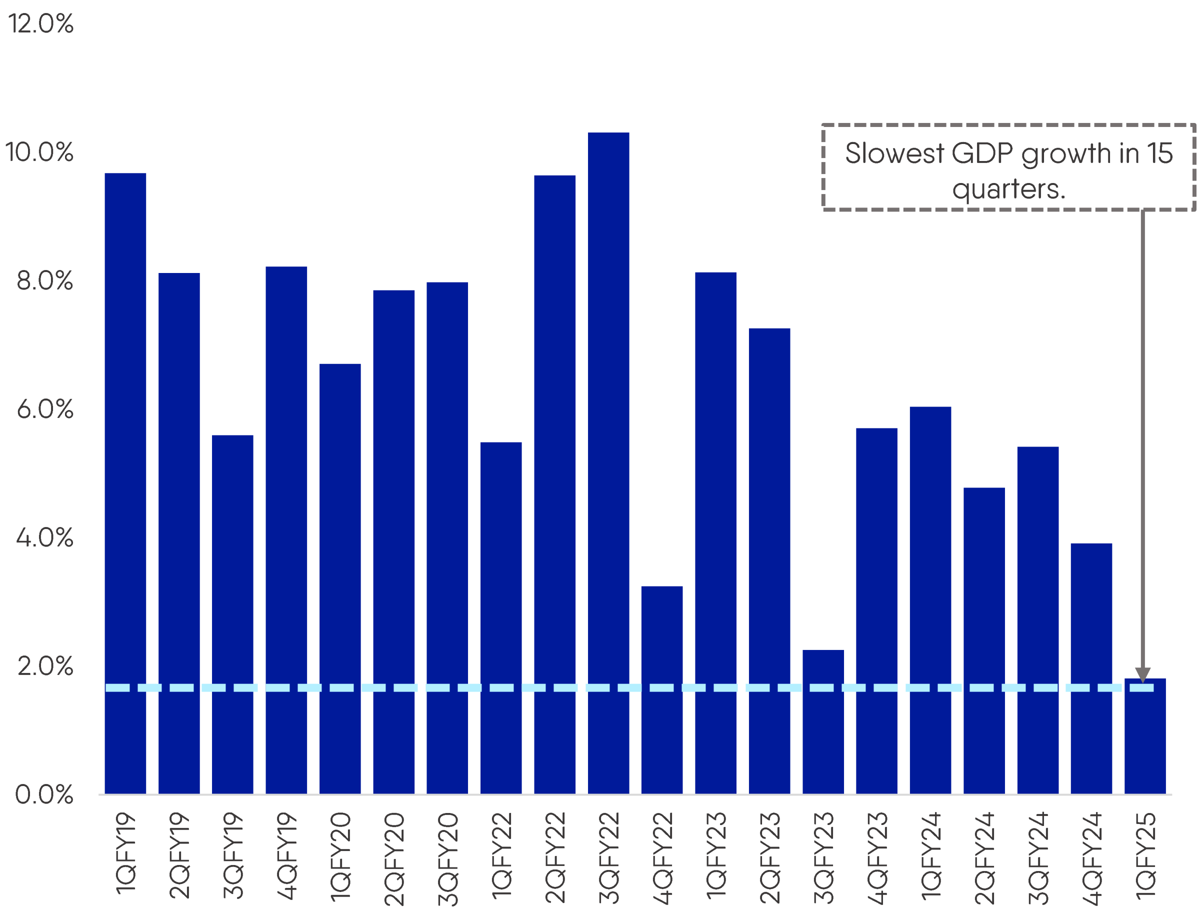
GDP growth sharply contracted to 1.81% YoY in Jul-Sep quarter amid political overhaul, industrial unrest and uncertainty in law enforcement.

Economic activity contracted for three consecutive months between July and September amid disruptions from the July uprising, as reflected in the declining domestic VAT collection. Consequently, quarterly GDP sank to its 15-quarter lowest of 1.81%.

Domestic VAT Collection (BDT bn)



Quarterly GDP Growth YoY (%)



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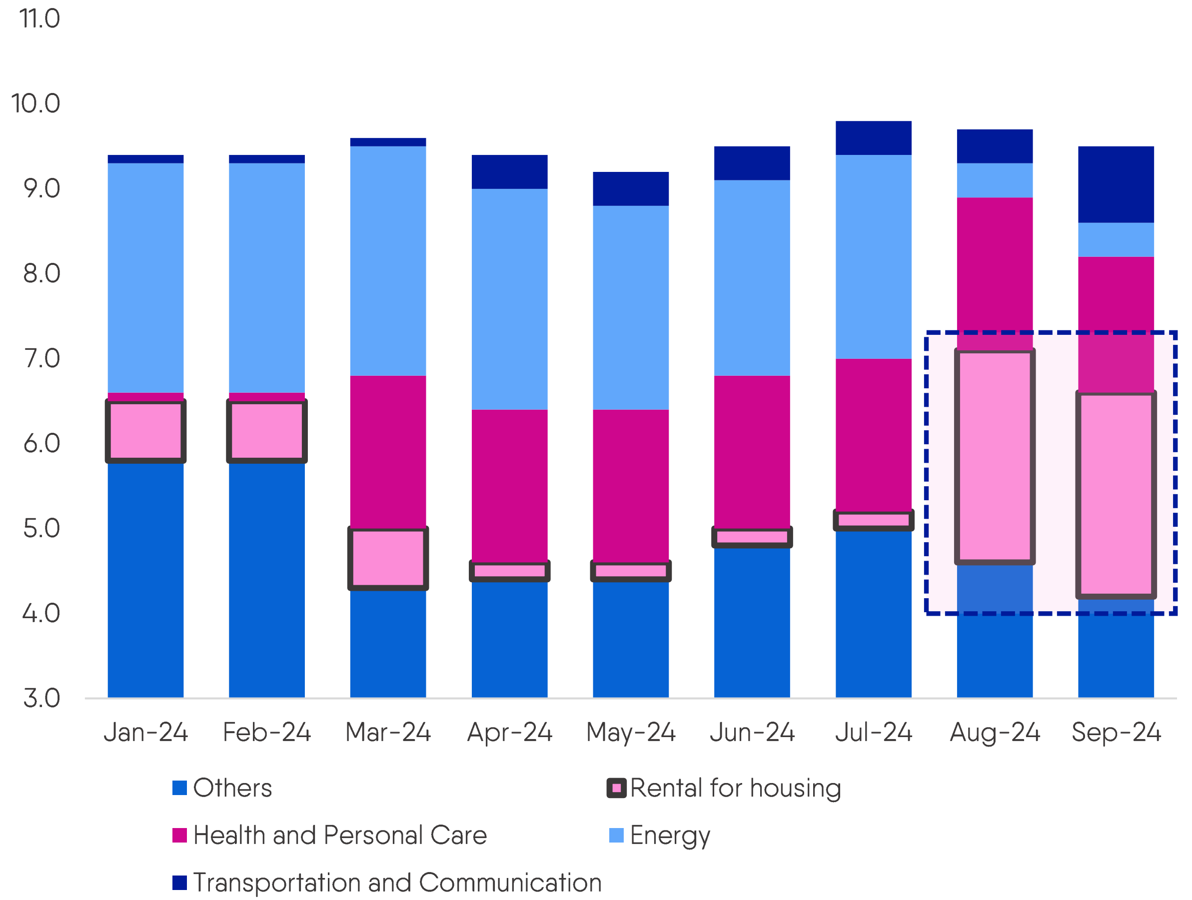
Source: Bangladesh Bank, BBS

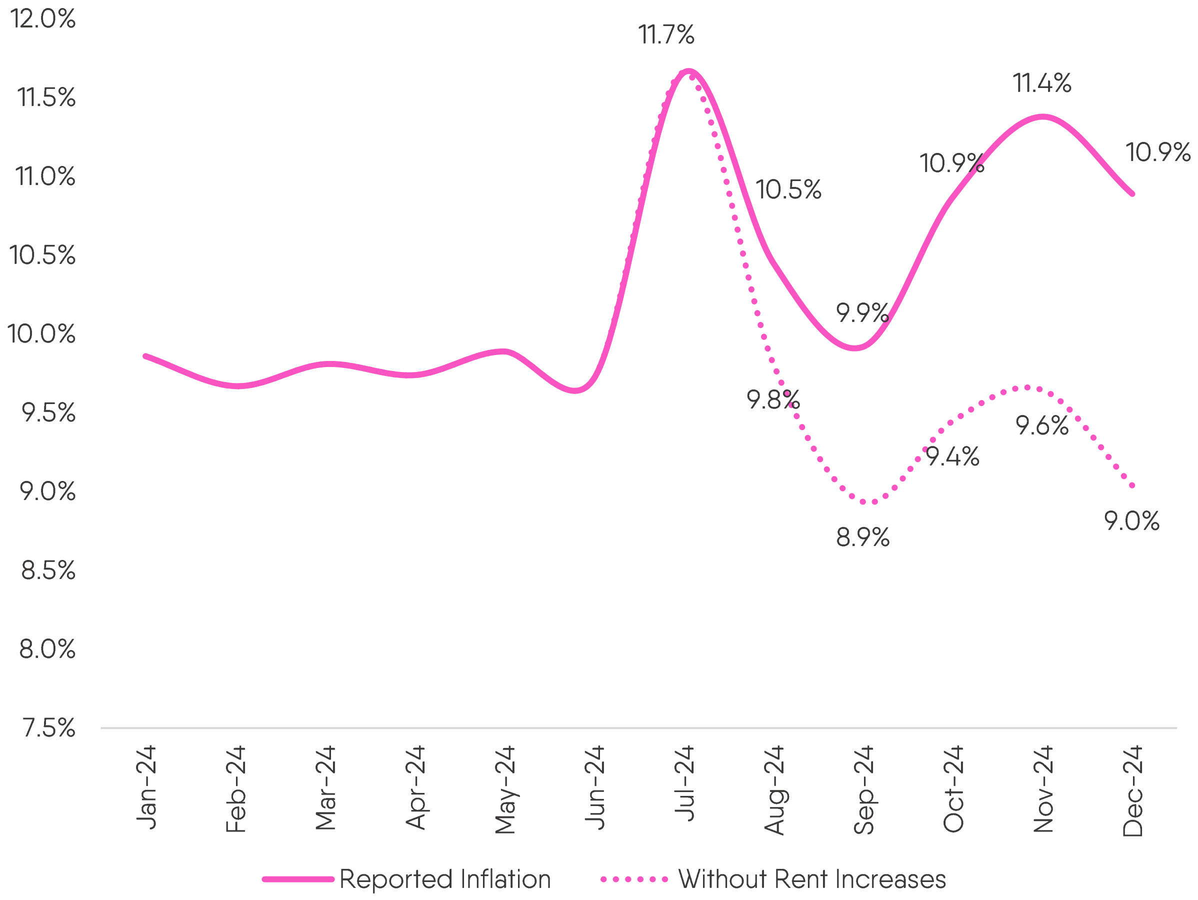
Inflation eased to 10.9% in Dec 2024 from its peak, driven by tightening measures, but remained elevated due to high food prices and revised non-food weightage.

Inflation surged sharply between July and October, fueled by supply disruptions from the July unrest, flooding in August–September, and rent weight adjustments reflecting prior-year price increases. However, the continued tightening measures have proven effective, as month-on-month inflation declined in both November and December, showing a clear improvement from October's sharp MoM spike.

Breakdown of Non-Food Inflation Components (%)



Headline Inflation With and Without Rent Adjustment (%)

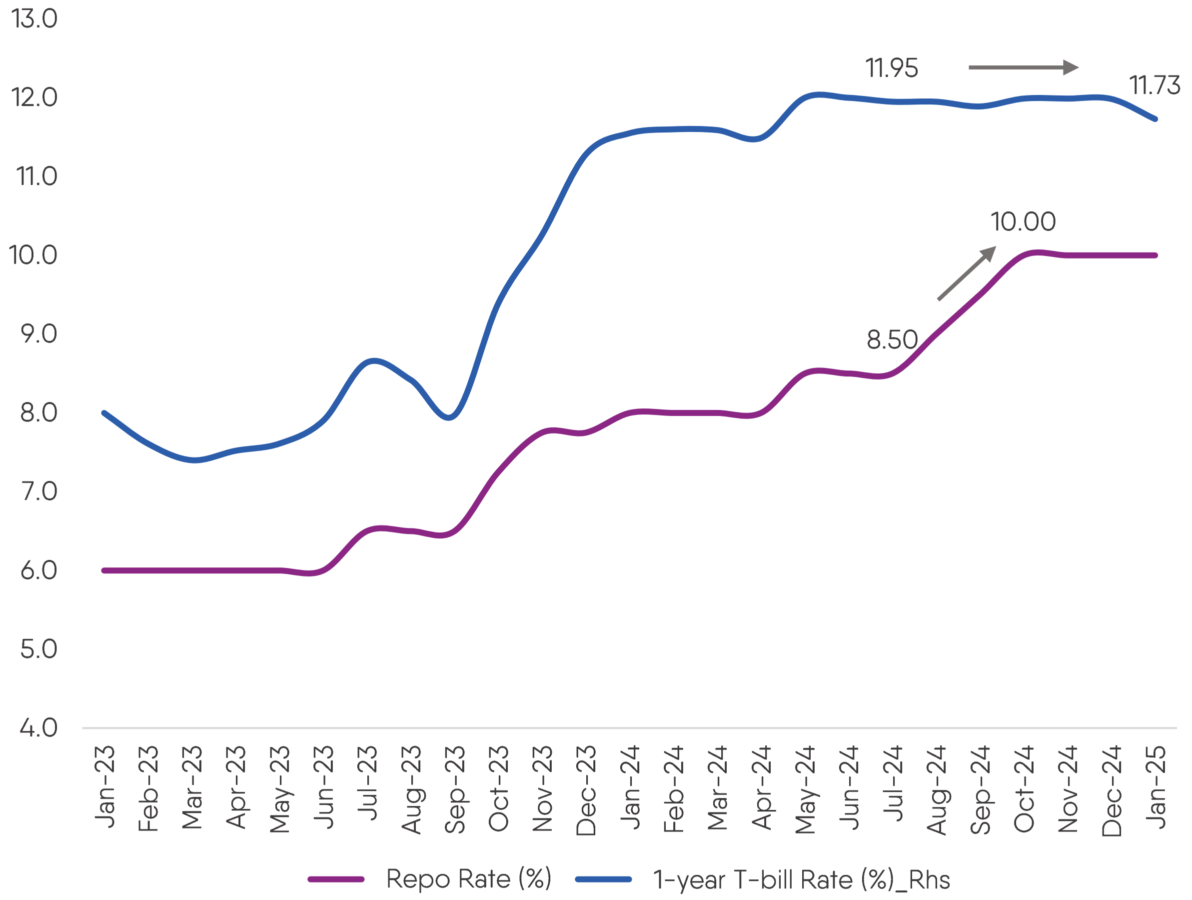


Source: BBS, CAL Research Estimates

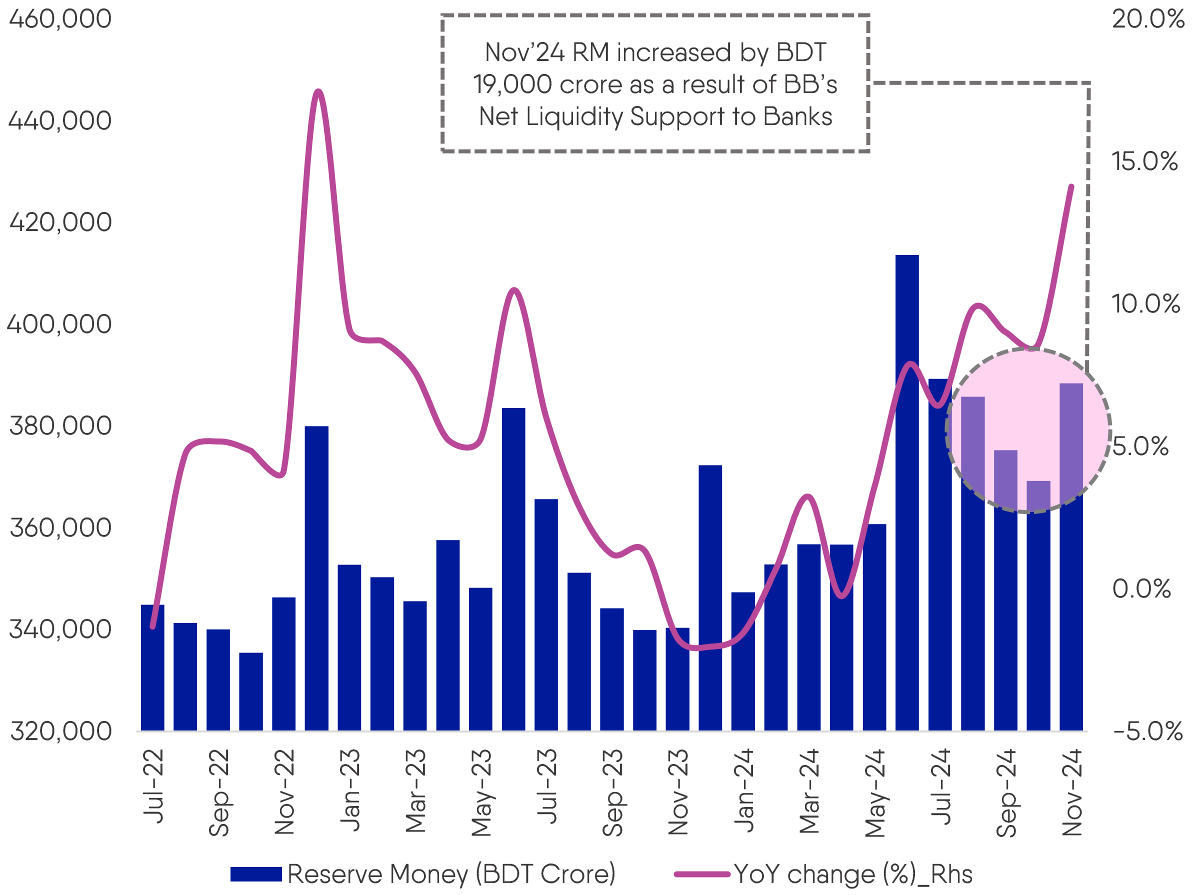
The 1-year T-bill rate declined by 22bps since July-24 despite a 150bps policy hike, amid weak credit demand and BB's liquidity injections to support weak banks.

BB hiked the policy rate by 150bps between Jul-24 to Oct-24 raising the policy rate to 10.0% from 8.5%. Despite the tightening measures, treasury bill rates declined by 22bps till Jan-25 as more funds chased treasury securities amid sluggish private credit demand and the central bank injecting funds to banks facing liquidity shortages.

Policy Rate (%) vs. 1-year T-bill Rate (%)



Trend in Reserve Money (BDT Crore)

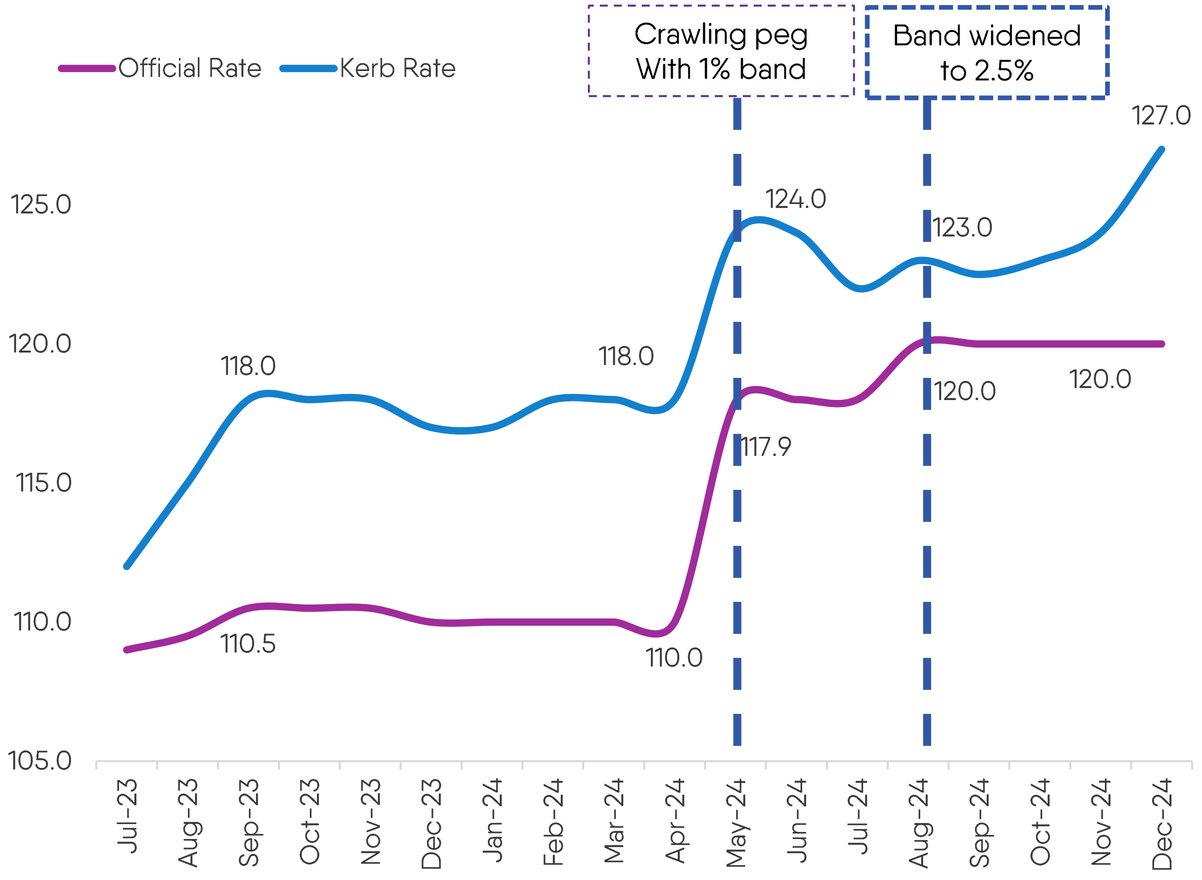


Source: Bangladesh Bank

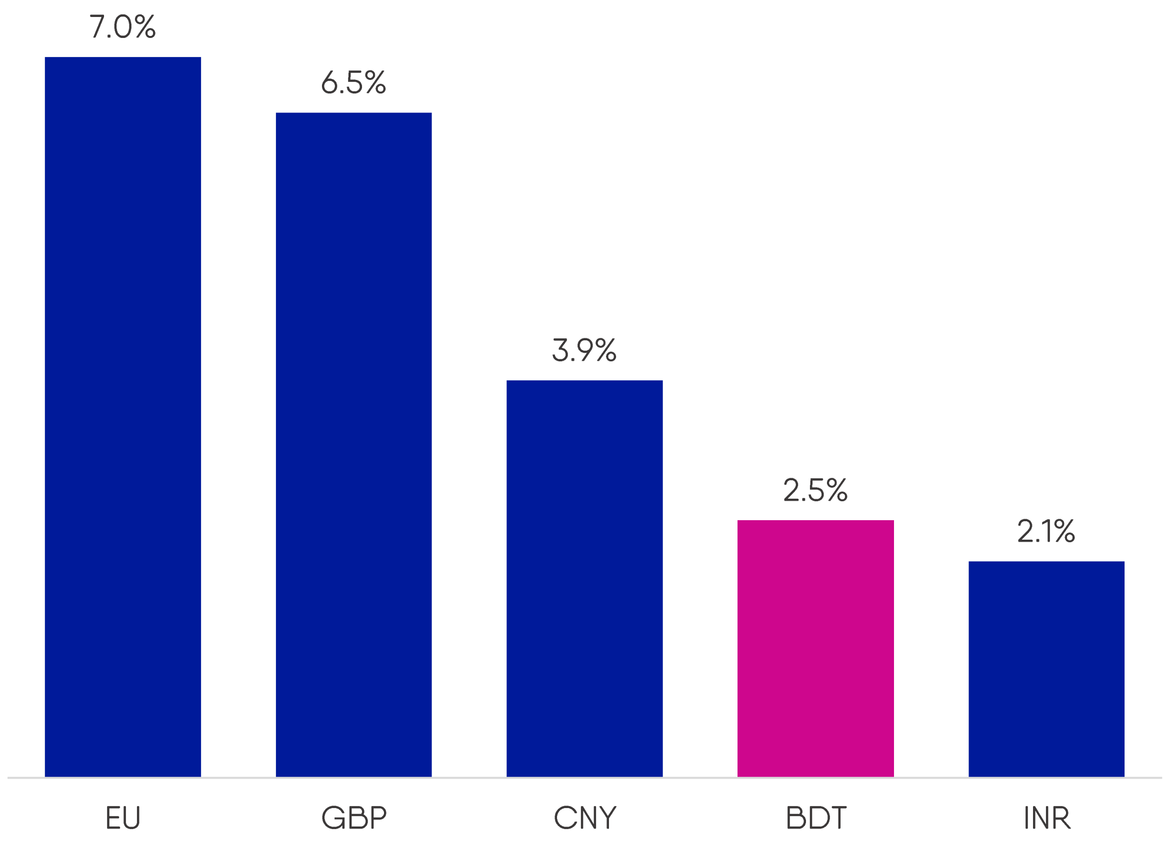
BDT depreciated in Aug-24 with the implementation of the crawling peg, followed by a period of relative stability but faced pressure in Dec-24 due to a stronger USD.

The band of the crawling peg was widened to 2.5% in August from 1.5%, narrowing the gap between the official and kerb market rates. This shift boosted remittance inflows and export repatriation through legal channels, increasing dollar availability. However, the currency came under pressure from the external front, as the US Dollar strengthened amidst concerns over higher-for-longer interest rates in the US.

Official Exchange Rate vs. Kerb Market Rate (BDT per USD)



Currency Depreciation of Bangladesh and Major Trade Partners between Oct-Dec 2024

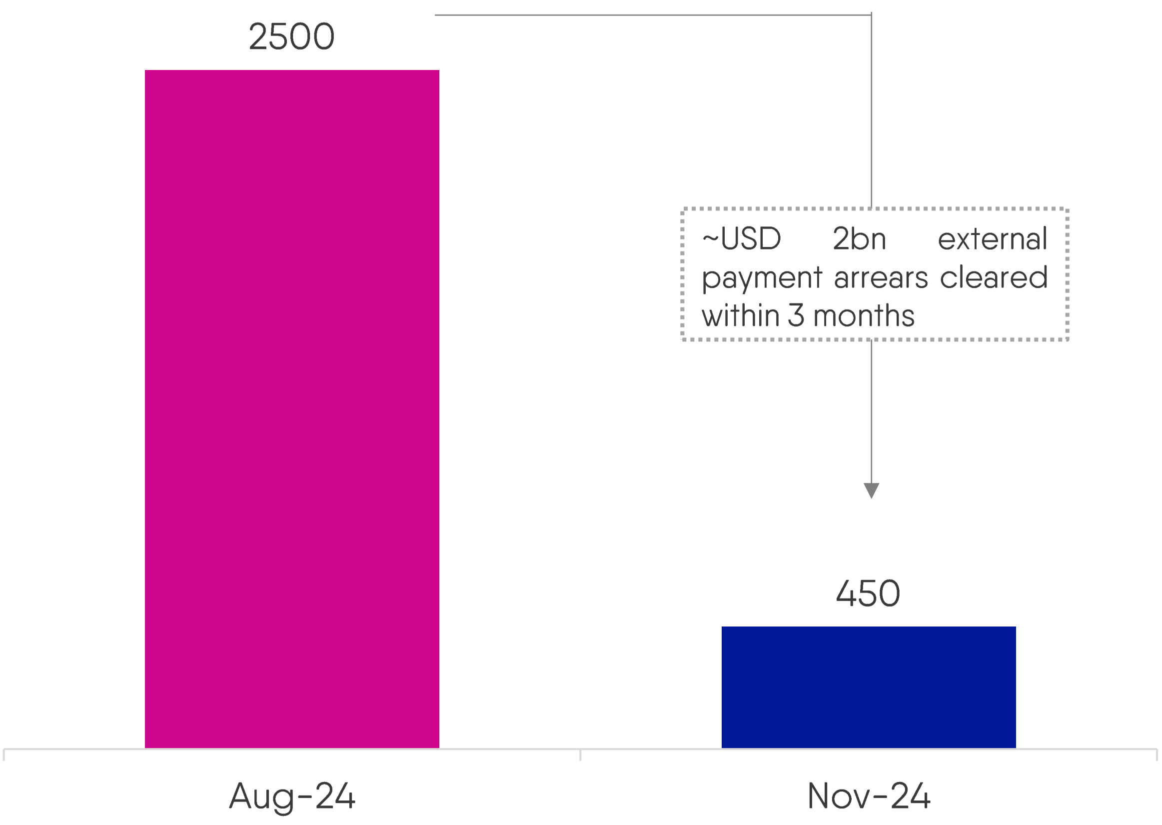


Source: Bangladesh Bank, Investing.com

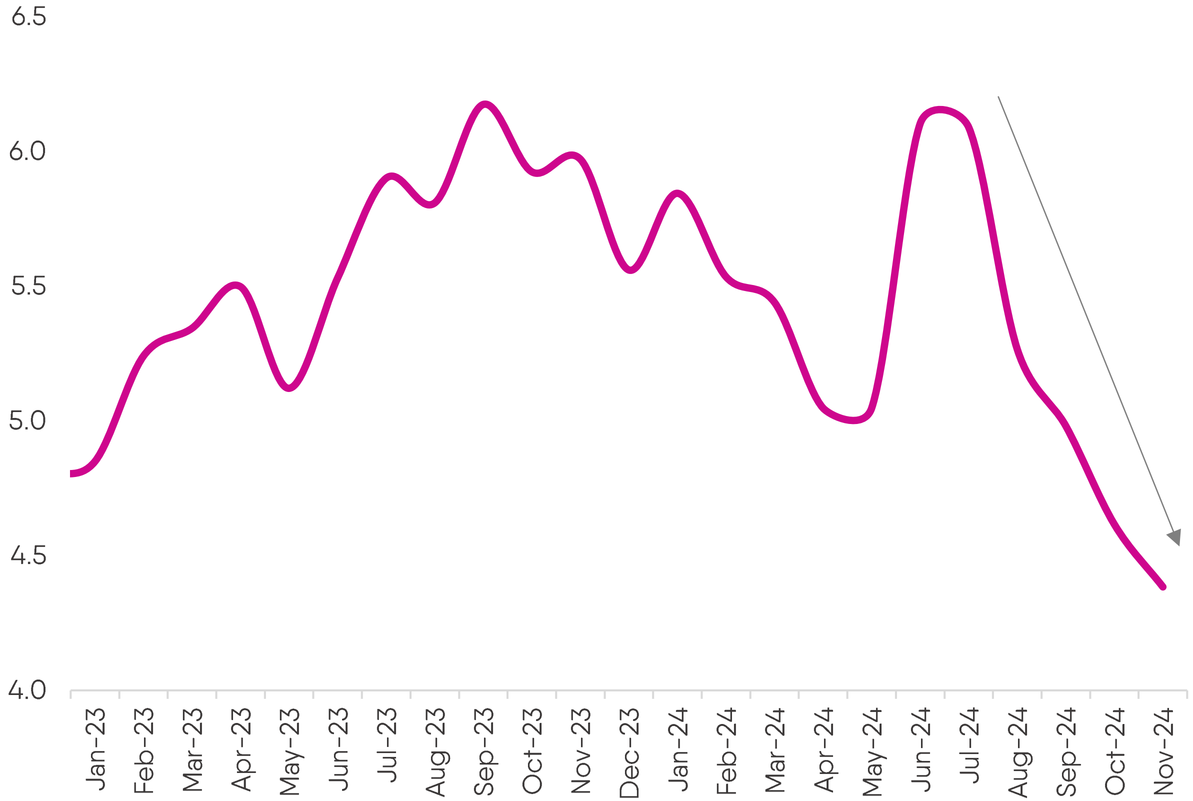
Additional pressure on the exchange rate arose as Bangladesh Bank instructed settling of arrears without selling reserves and imposed a December deadline for clearing overdue LCs.

The government instructed banks to clear approximately USD 2bn in external payment arrears over three months without tapping into FX reserves, instead sourcing USD from commercial banks. Simultaneously, the central bank set a December deadline for banks to settle all overdue LCs. These measures, along with a stronger USD, created currency volatility, pushing the kerb market rate to as high as BDT 129/USD in December. However, these pressures have since begun to ease.

External Payment Arrears (USD mn)



Foreign Currency Balance at Commercial Banks (USD bn)



Source: Bangladesh Bank

Global Outlook

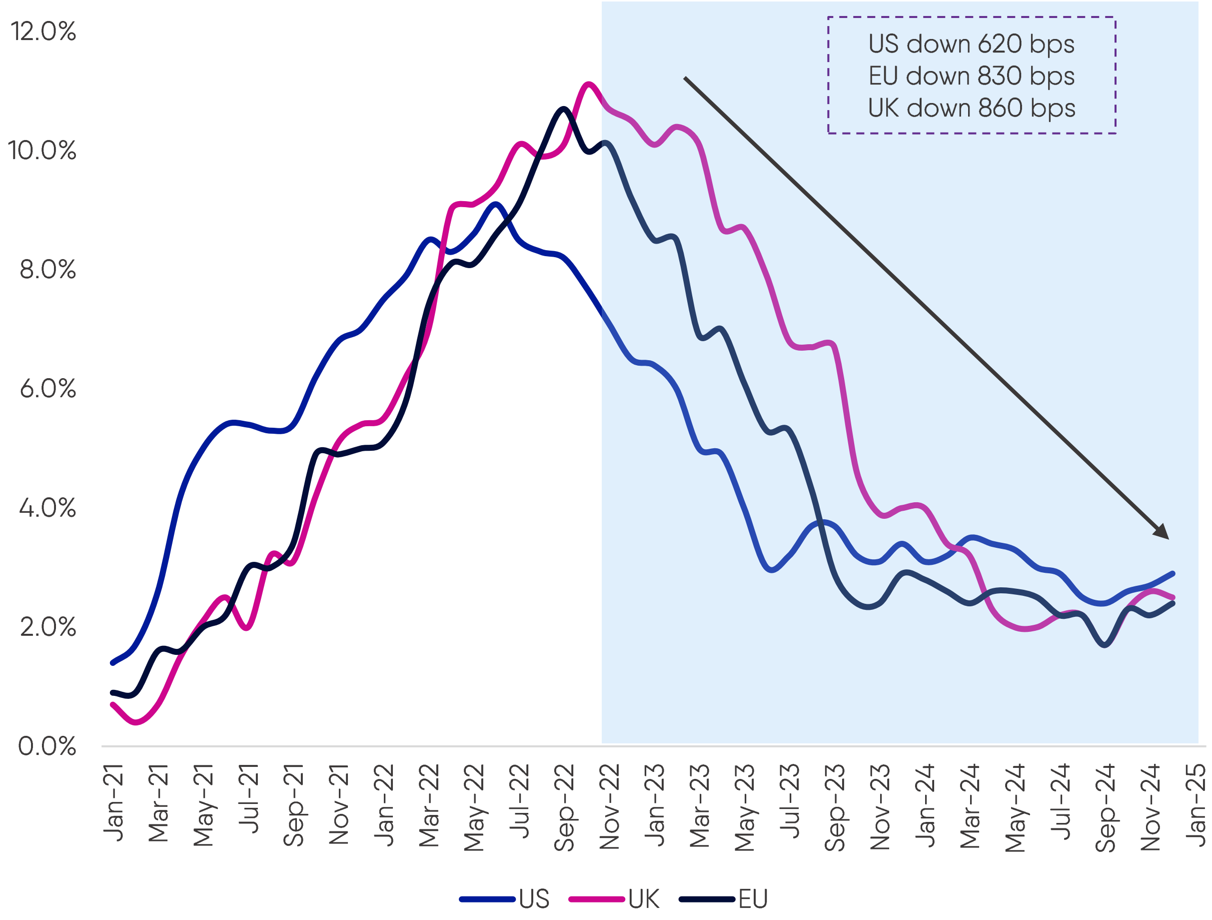
External Factors Influencing the Macroeconomic Landscape

1. Lower inflation in developed economies has improved consumer sentiment, boosting emerging market export prospects.
2. Potential higher US tariffs pose risks to the growth prospects of major economies outside the US.
3. A stronger US Dollar is likely to put pressure on currencies of emerging and developing economies.
4. Weaker CNY and INR to benefit trading partners through cheaper imports.

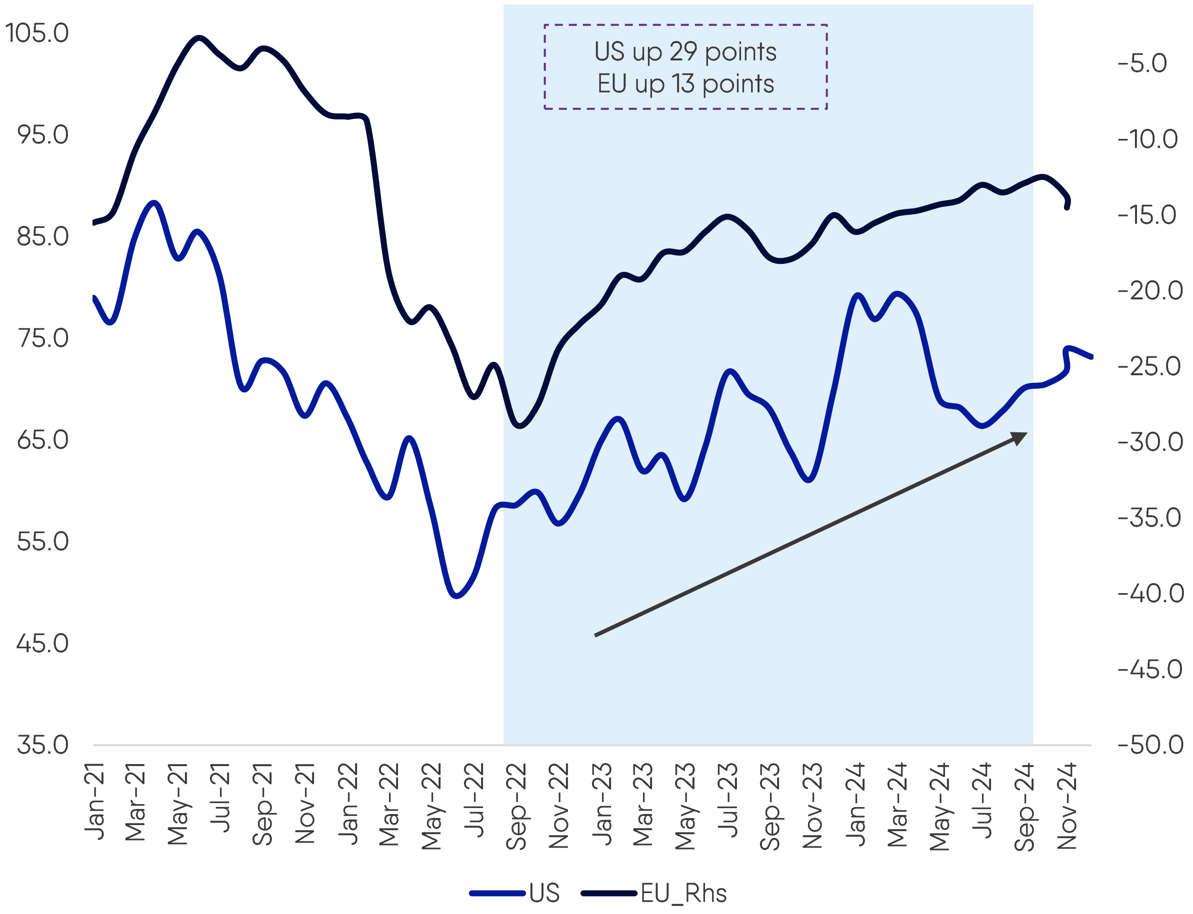
Consumer sentiment in developed markets is near a 3-year high amid falling inflation, **boosting prospects for higher imports from emerging markets.**

Falling inflation has lifted consumer confidence indices, with a 29-point rise in the US, and 15 points in the EU, signaling a recovery in consumption that could positively impact emerging market exports.

Developed Market Inflation (%)



Consumer Confidence Index: US vs EU



Source: Respective Countries' Central Bank Websites, Investing.com

However, major economies' growth prospects may be dampened by proposed tariffs on their exports under the presidency of Donald Trump in the US.

Prior to his election, Trump explicitly outlined his strategy to impose tariffs aimed at advancing trade protectionism. Should he proceed with these measures, the EU and UK are likely to experience subdued growth as their export sectors face headwinds. In contrast, US growth prospects remain robust, with the World Bank projecting higher growth rates for the US relative to the EU and UK.

Proposed Tariff Changes in US

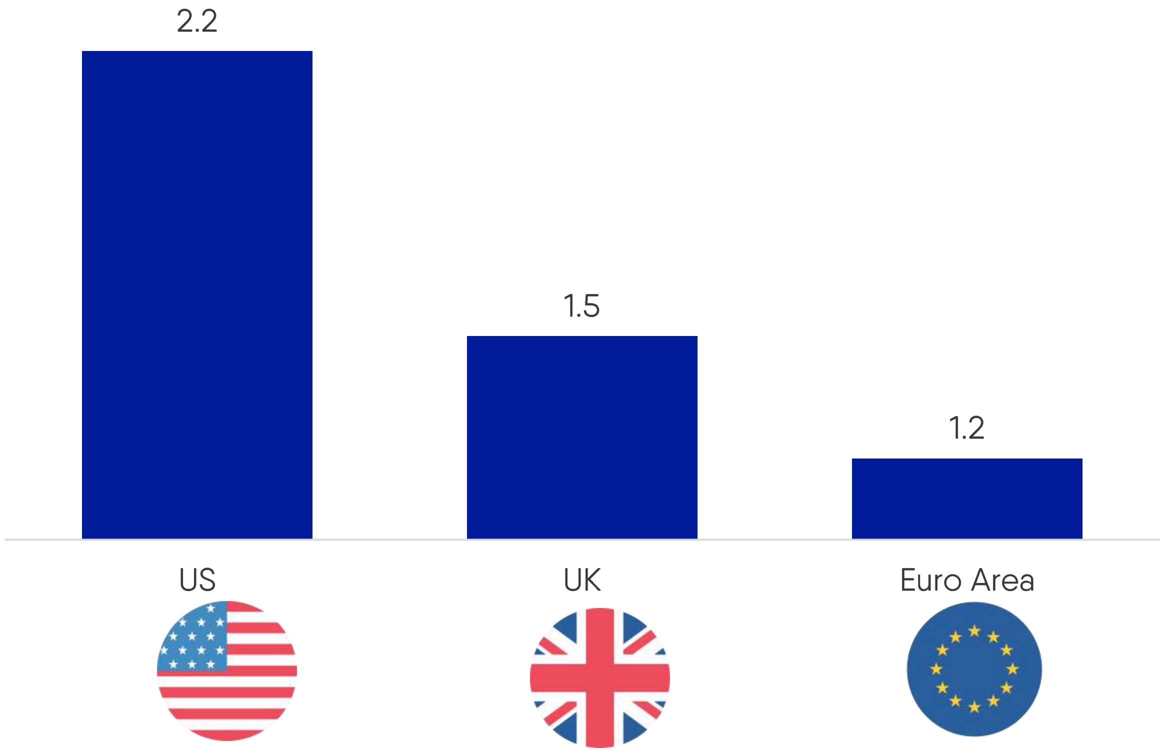
10%-20% on imported goods from all countries

25% tariff increase pledged after inauguration
Could go up to 75% on goods originating from Mexico

25% tariff increase pledged after inauguration

10% tariff increase pledged after inauguration
Current tariffs between 25% to 75% likely to go to 60%-100%

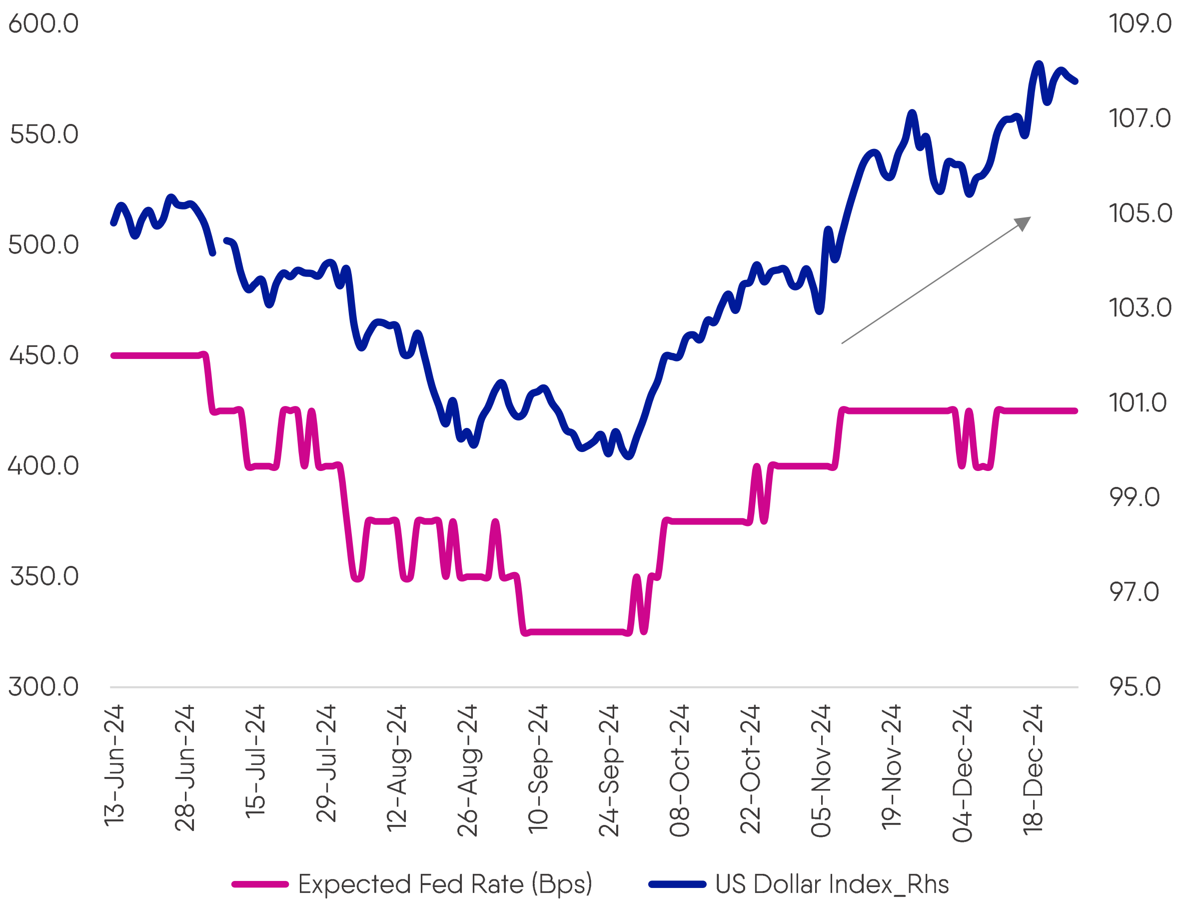
World Bank GDP Growth Forecast for 2025E (%)



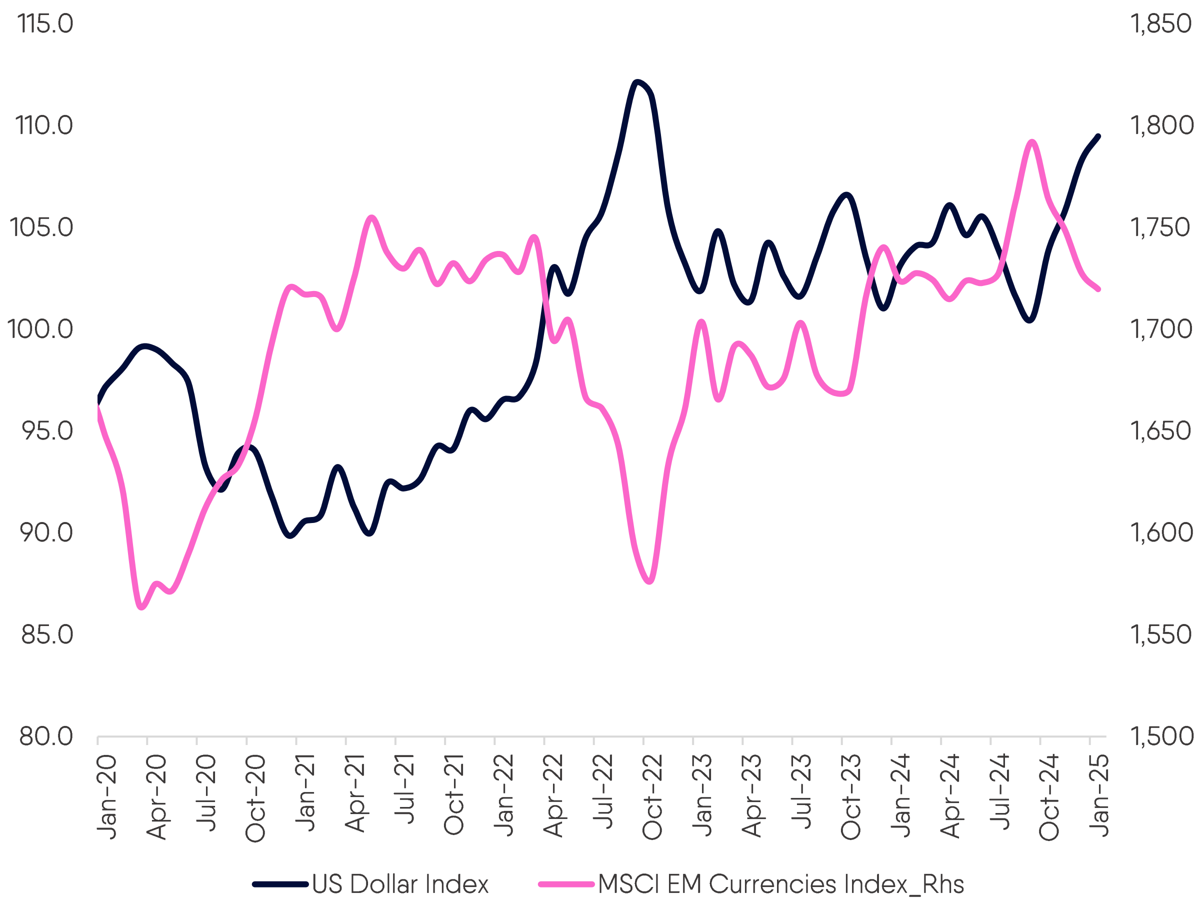
EM currencies to remain under pressure as USD strength set to persist in 1H'2025 due to a slower-than-expected monetary easing cycle in the US.

The dollar index rose 9% from October 2024 to January 2025 as the market adjusted to the expectation that the US would experience a slower-than-anticipated monetary easing cycle. This shift was driven by the inflationary pressure caused by Trump's tariffs, which suggested that interest rates would remain elevated for a longer period.

Dollar Index vs Rate Cut Expectations



US Dollar Index vs. MSCI EM Currencies Index

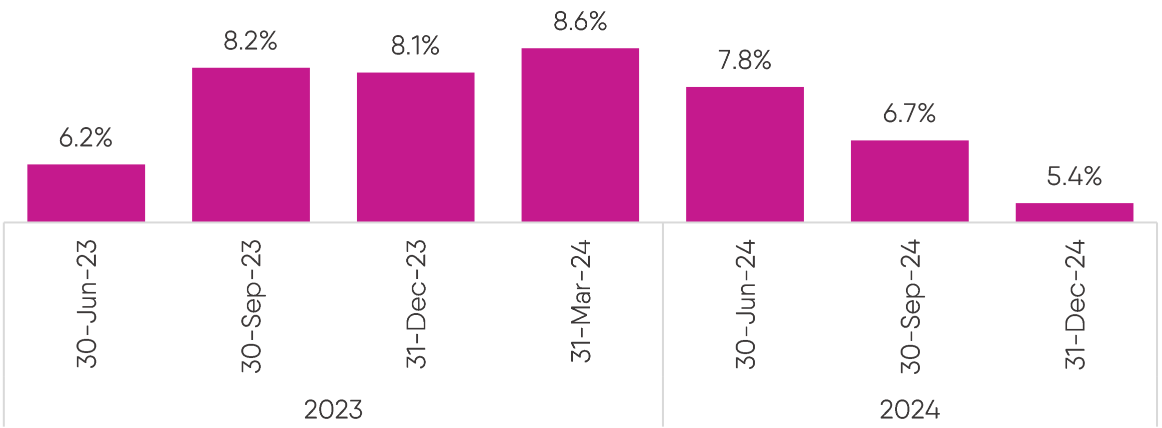


Source: Fed Watch, Investing.com

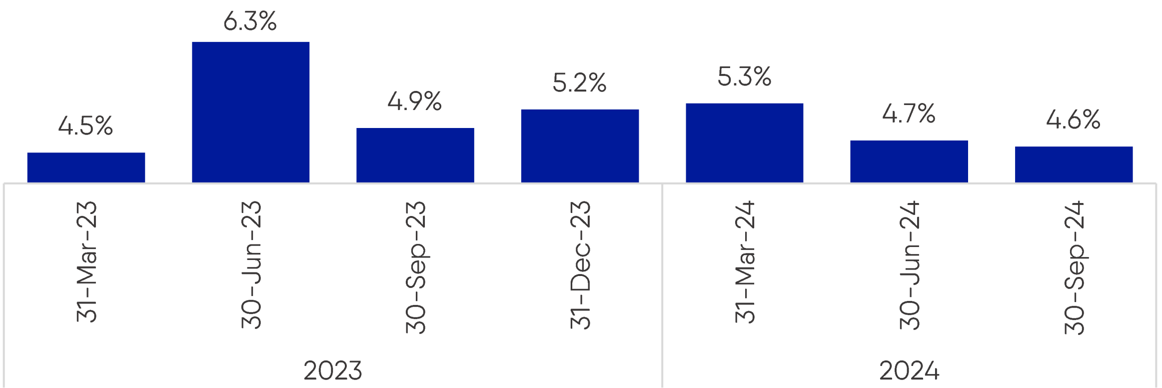
Slower growth in China and India is likely to prompt rate cuts and fiscal stimulus, **weakening the CNY and INR and benefiting trading partners through cheaper imports.**

India's GDP growth is slowing due to weak consumption and high interest rates, while China faces challenges from a property crisis, low consumer confidence, and potential US tariffs, prompting a stimulus package. As global currencies depreciate against the USD, all major trading partners of India and China are set to benefit from cheaper imports.

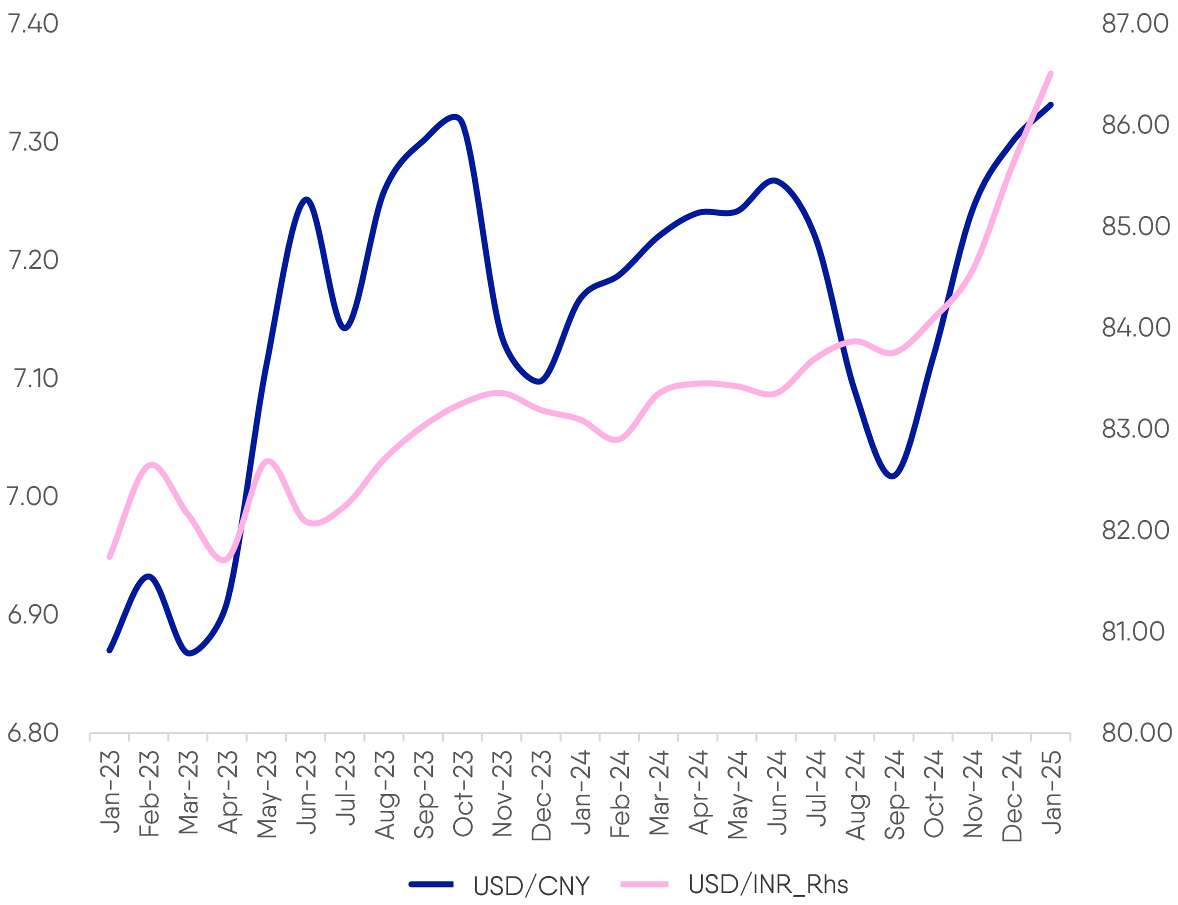
Indian Quarterly GDP Growth (%)



Chinese Quarterly GDP Growth (%)



Movement of the CNY and the INR against the USD



Source: Respective Central Bank Websites

Summary of CAL's Macroeconomic Outlook for June-2025

Exchange Rate

BDT 125-130/USD

Smoother Road Ahead

Inflation

8.5%-9.5%

Cruising Downhill, but a Bumpy Ride

Interest Rate

10.8%-11.3%

Balancing at the Peak

GDP Growth

2.0%-3.0%

An Uphill Climb

Exchange Rate

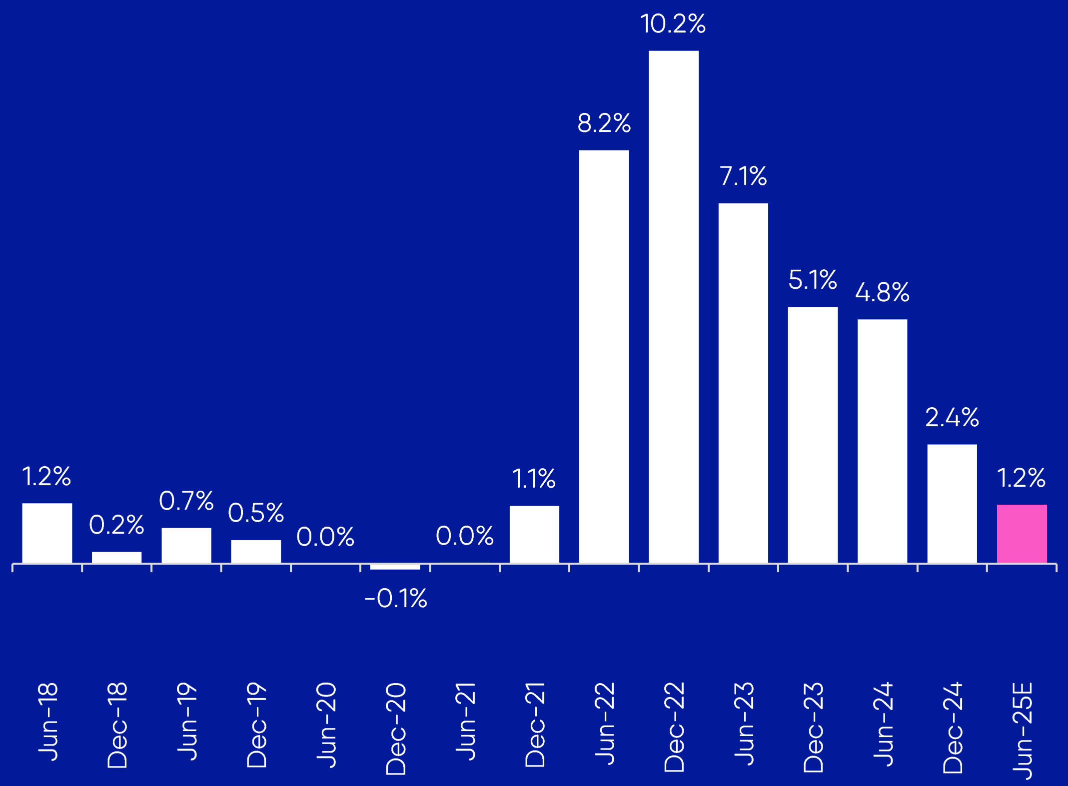
Smoother Road Ahead

Exchange Rate

BDT 125-130/USD by Jun-25E

1. Current account balance expected to turn positive by Jun-25E.
2. Robust remittances due to 2 Eid occasions, stable exports, and curbed imports will support the current account.
3. External financing gaps likely to be filled with funds coming in from development partners.
4. BB's tightening supports interest rate differential amid global policy shift from tightening.

Expected Currency Depreciation – 6 Month (%)

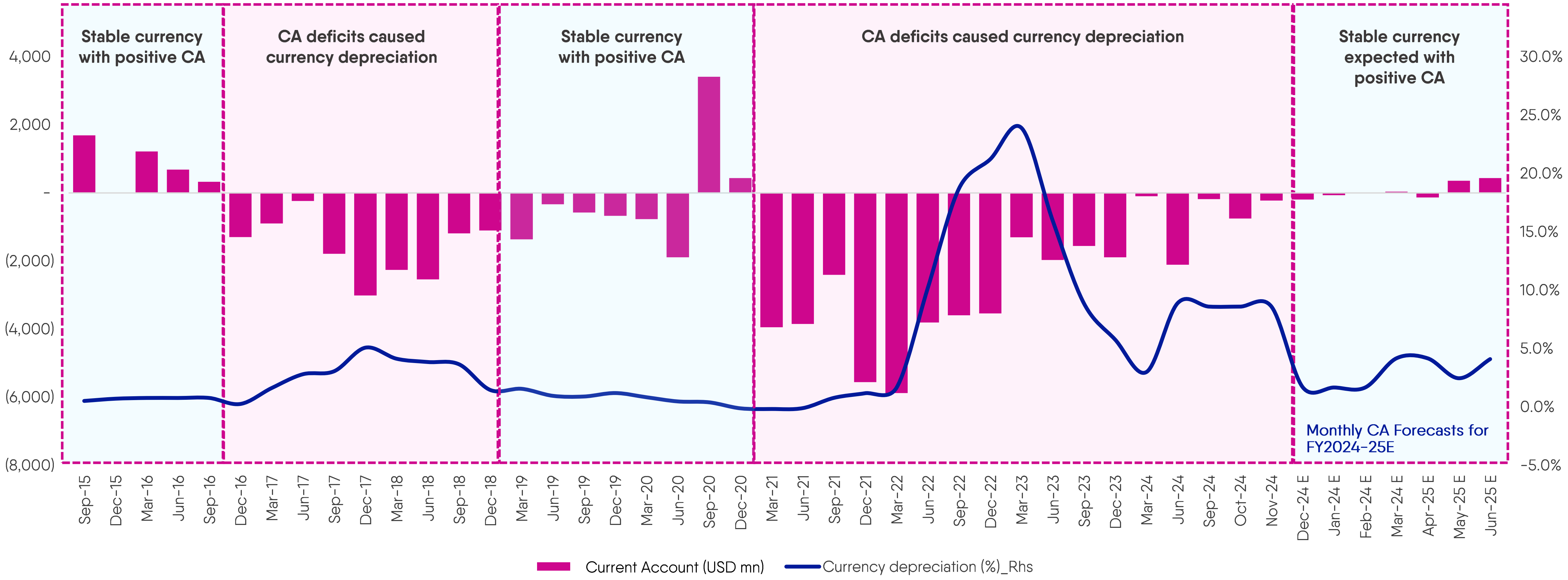


*Jun-25E depreciation is estimated based on the depreciation from the Dec-24 import exchange rate of BDT 125 to the midpoint exchange rate of BDT 127.

Exchange rate pressure is expected to ease due to the **current account balance turning positive by Jun-25E...**

Sustained current account deficits over the past two years have caused the currency to depreciate by c.20% from BDT 98.0 to BDT 122.0. However, current account pressures eased in 2H'2024, with the current account balance for fiscal year 2024-25 expected to end in a surplus of USD 436 mn for the month of Jun-25E.

Quarterly Current Account Balance (USD mn) and Currency Depreciation (%)



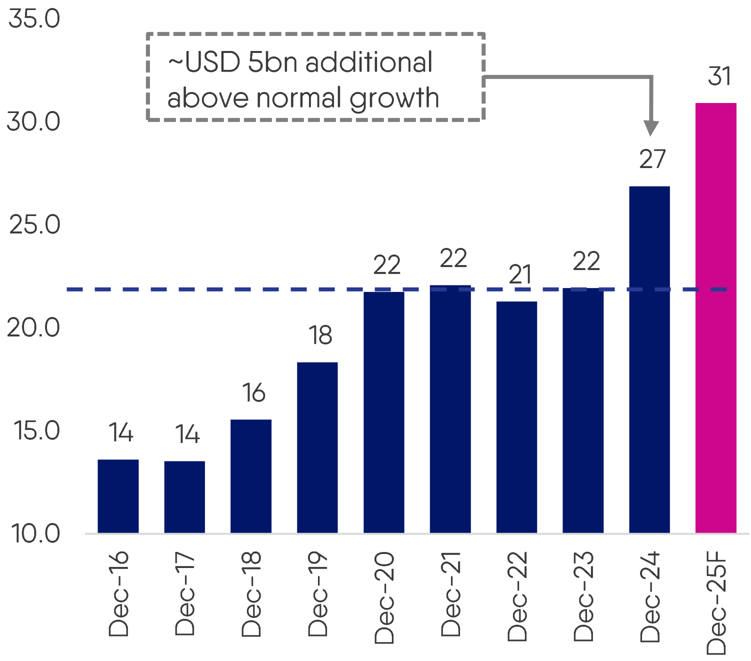
Source: Bangladesh Bank, CAL Research Estimates

…supported by strong USD inflows into the country from **robust remittance inflow, stable exports and curbed imports.**

(1) **high** remittance from narrowing official and kerb rate gap

- Remittances grew 22.7% YoY from USD 21.9 bn in 2023 to USD 26.9 bn in 2024. 2025 remittances are likely to reach USD 31 bn driven by high remittance flow during two upcoming Eid events.

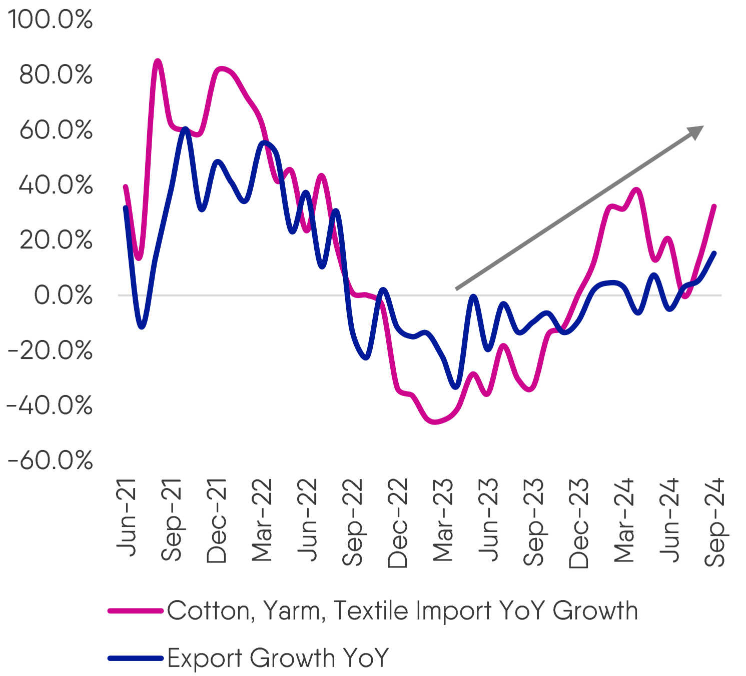
Annual Remittance Inflow (USD mn)



(2) **steady** export growth amid global monetary easing

- Despite Aug-Dec RMG labor unrest, exports remain steady growing 12.7% YoY to USD 24.6 bn in 2024. Recent monetary easing, declining inflation, and market recovery in the US and EU are anticipated to boost demand for RMG exports.

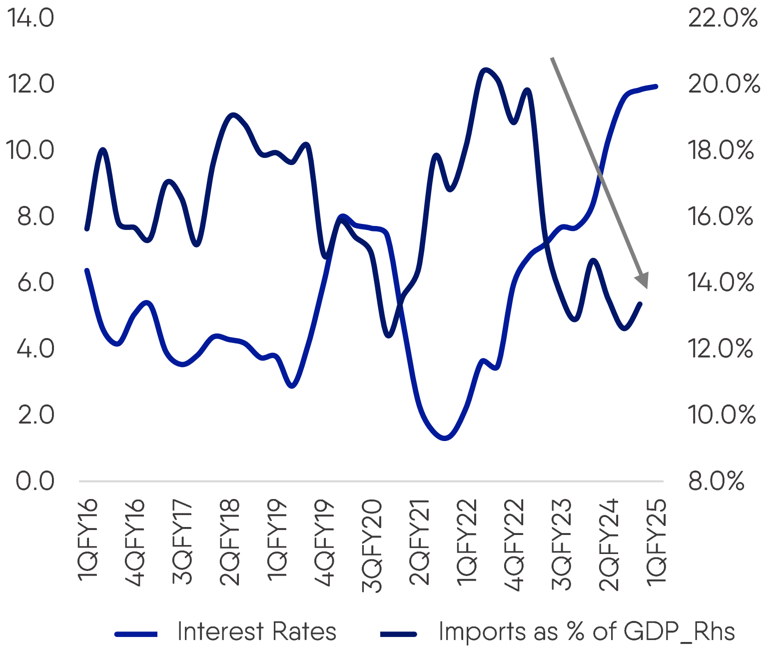
RMG Raw Material Import vs. Exports YoY Growth (%)



(3) **curbed** imports due to high domestic interest rates

- Decade-high interest rates, along with recent fiscal contractionary measures such as interest rate hikes and a reduced government expenditure budget, will keep imports subdued.

Imports as % of GDP vs. Interest Rate (%)

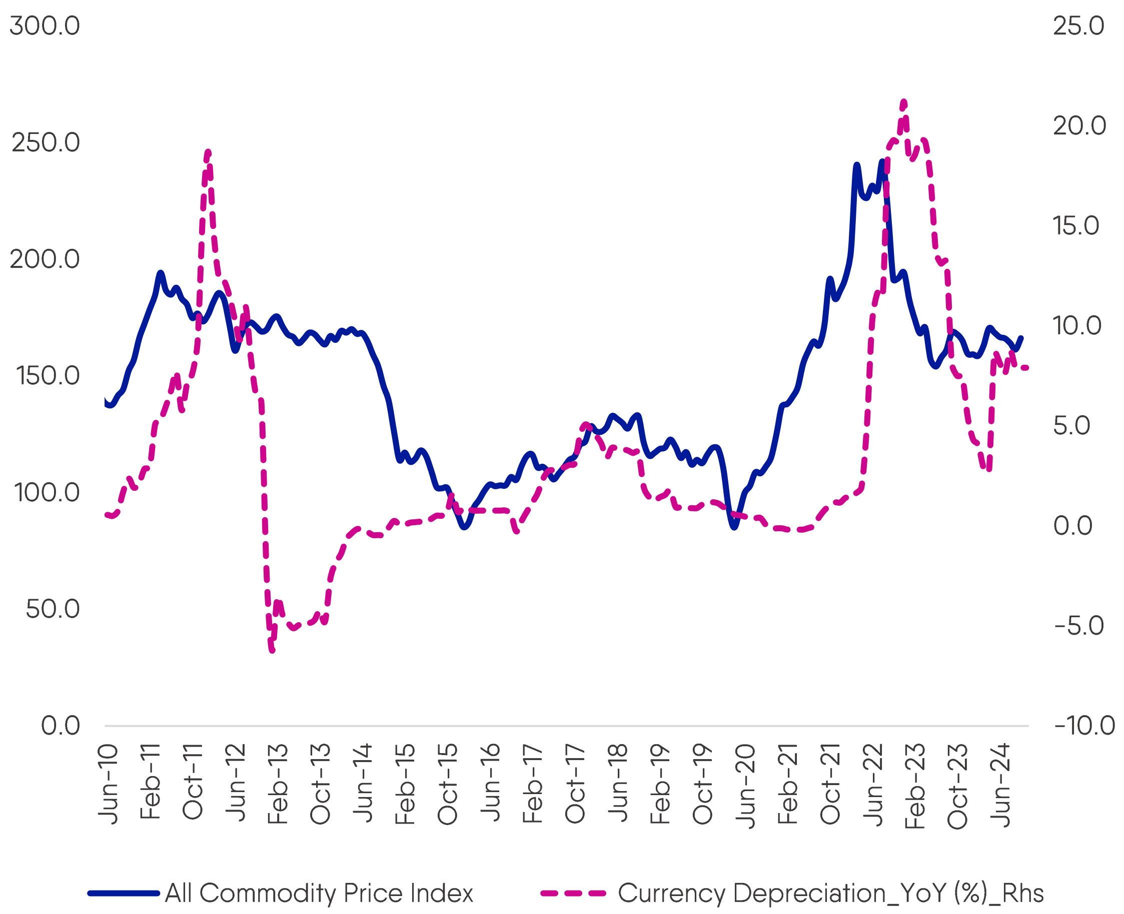


Source: Bangladesh Bank, CAL Research Estimates

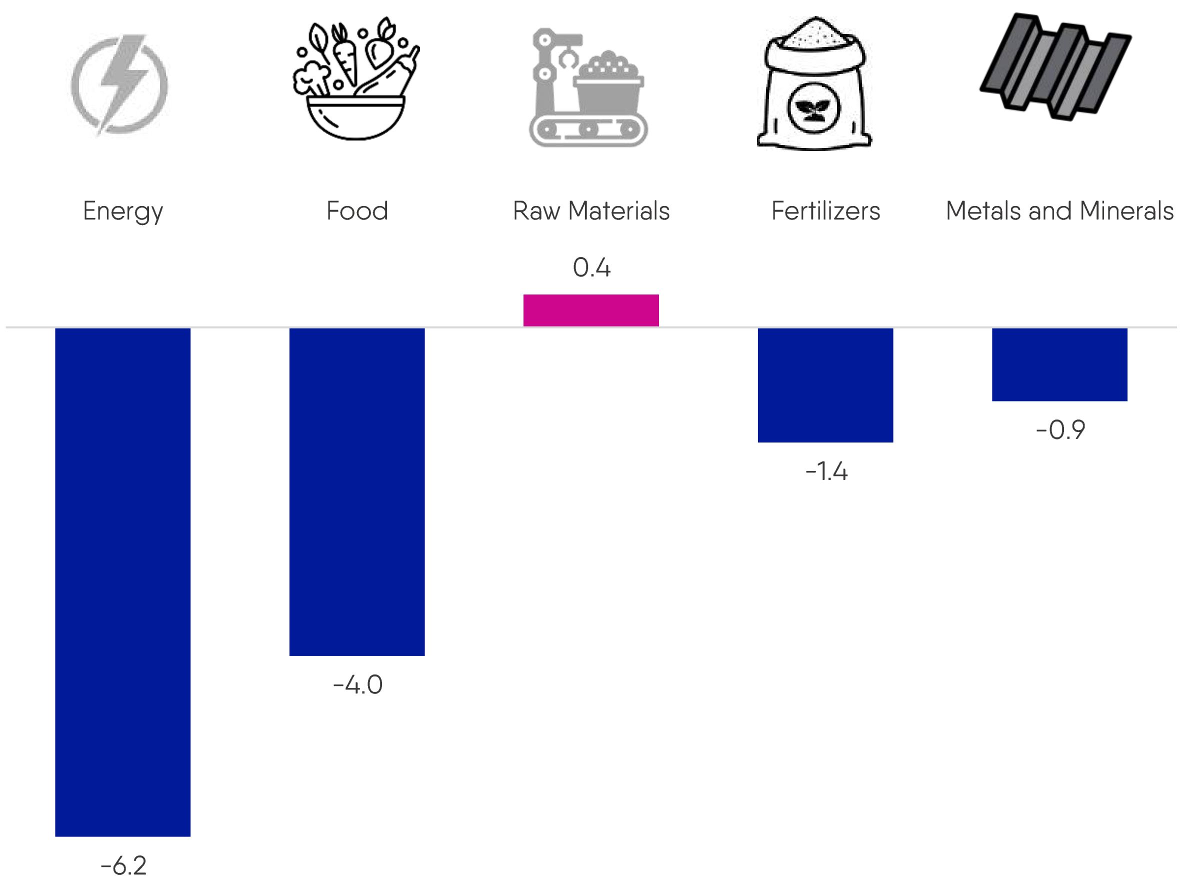
Lower import growth will also be supported by **softer outlook on commodity prices**.

Global commodity prices are expected to decline by 6% on average in 2025, with energy and food prices expected to fall by 6% and 4%, respectively. This decline will reduce import costs, ease pressure on the balance of payments, and support currency stability.

Global Commodity Prices vs. BDT Depreciation



Expected YoY Change in Commodity Prices in 2025E (%) (World Bank)

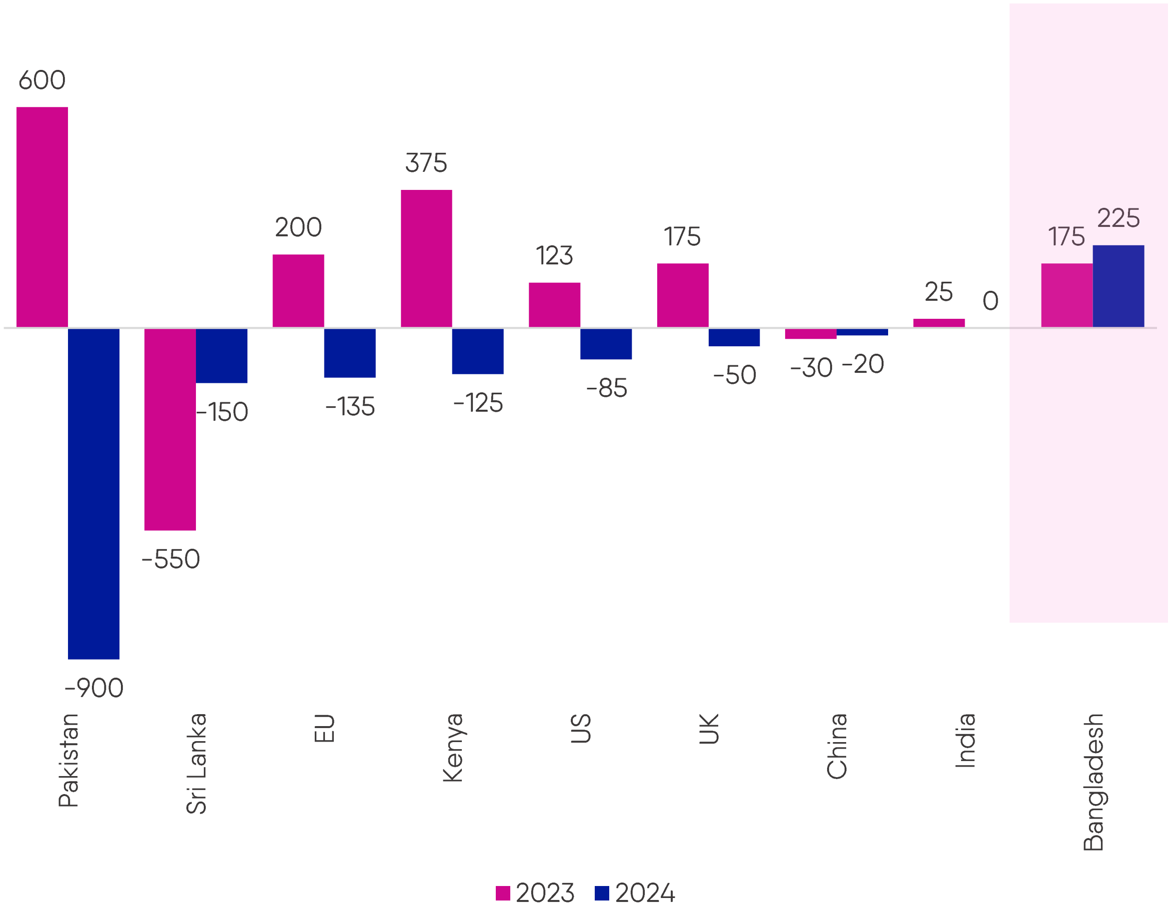


Source: Bangladesh Bank, World Bank, IMF

Bangladesh Bank's tightening stance will support BDT stabilization amid a global monetary easing cycle.

Bangladesh Bank's continued tightening stance has maintained a high real interest rate, contrasting with the monetary easing observed in global markets, particularly in the United States. This has led to a narrowing of the real interest rate differential between Bangladesh and major trading partners, which is expected to stabilize the exchange rate and alleviate pressure on the BDT.

Change in Key Policy Rates of Major Trading Partners (in bps)



While global economies are easing, Bangladesh is following a contractionary policy.

Reuters

Bank of England's Taylor says it's time to cut interest rates

Reuters

ECB rate cut of 25 bps possible, not more, ECB's Holzmann tells paper

Reuters

China's central bank says it will cut banks reserves, rates at proper time

Reuters

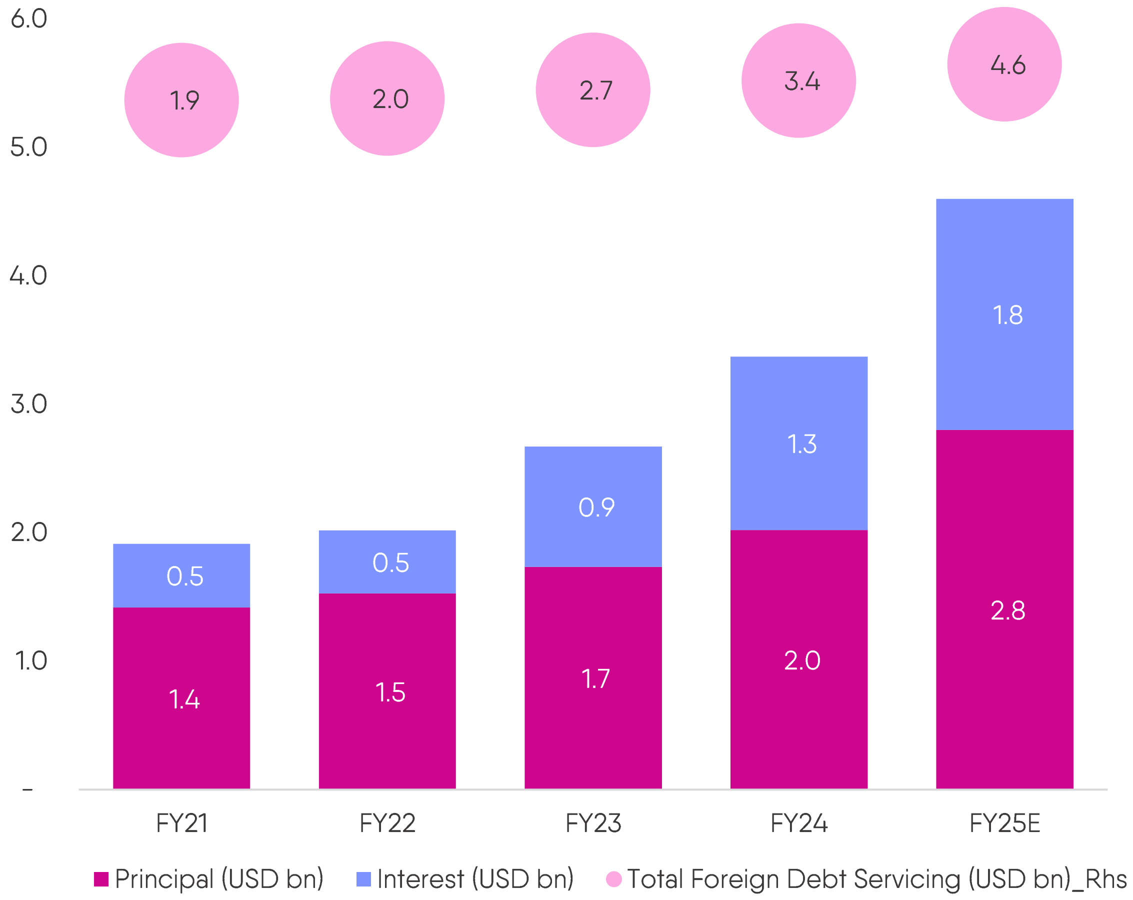
Fed lowers rates but sees fewer cuts next year due to stubbornly high inflation

Source: Bangladesh Bank, Reuters

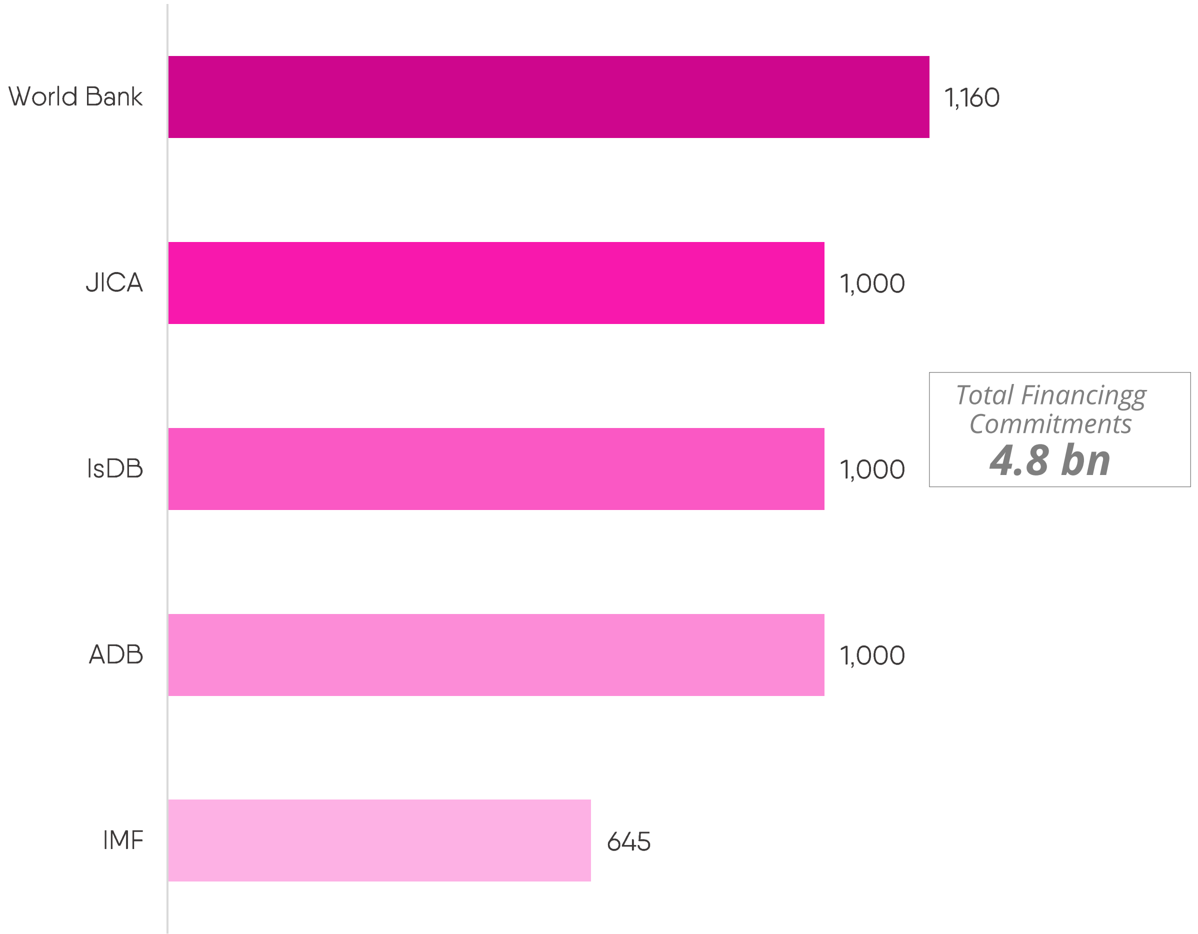
External debt servicing requirements likely to be fulfilled with fund inflow from development partners, easing any strain on the balance of payments.

Bangladesh has reached a staff-level agreement with the IMF for the disbursement of the 4th tranche of the loan, aimed at addressing the external financing gap for FY2025E. The arrival of these funds is critical to easing pressure on the balance of payments, as other global lenders are likely to follow the IMF's lead in mobilizing additional financing.

Foreign Debt Servicing Requirements (USD bn)



Expected Foreign Financing Inflow (USD mn)



Source: Economic Relations Division, National dailies

Inflation

Cruising Downhill, But a Bumpy Ride Ahead

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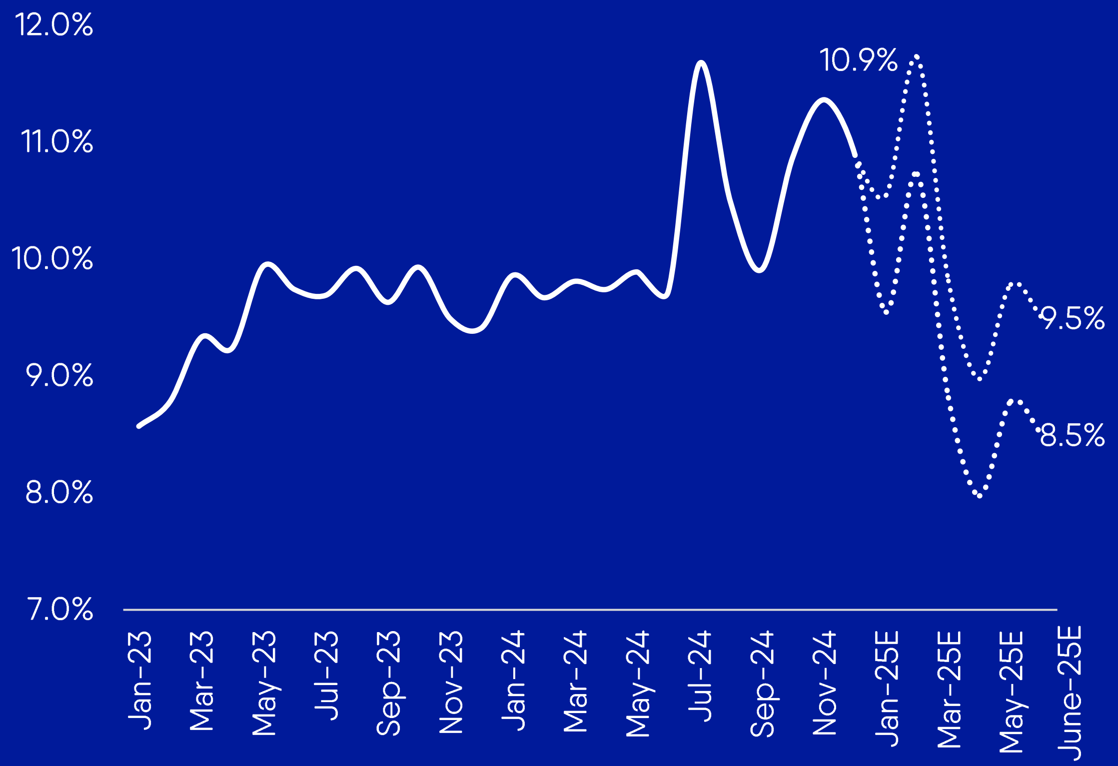
Inflation

8.5% - 9.5% by Jun-25E

1. Bangladesh Bank's monetary tightening measures have started to impact inflation, with month-on-month inflation showing signs of slowdown.
2. Lower global commodity and fuel prices will reduce costs of imported goods.
3. However, there might be some volatility in prices ahead of Ramadan due to supply constraints.
4. Sharp declines in inflation are anticipated in 2H2025, driven by a high-base effect from the decade-high inflation recorded in 2H'2024.

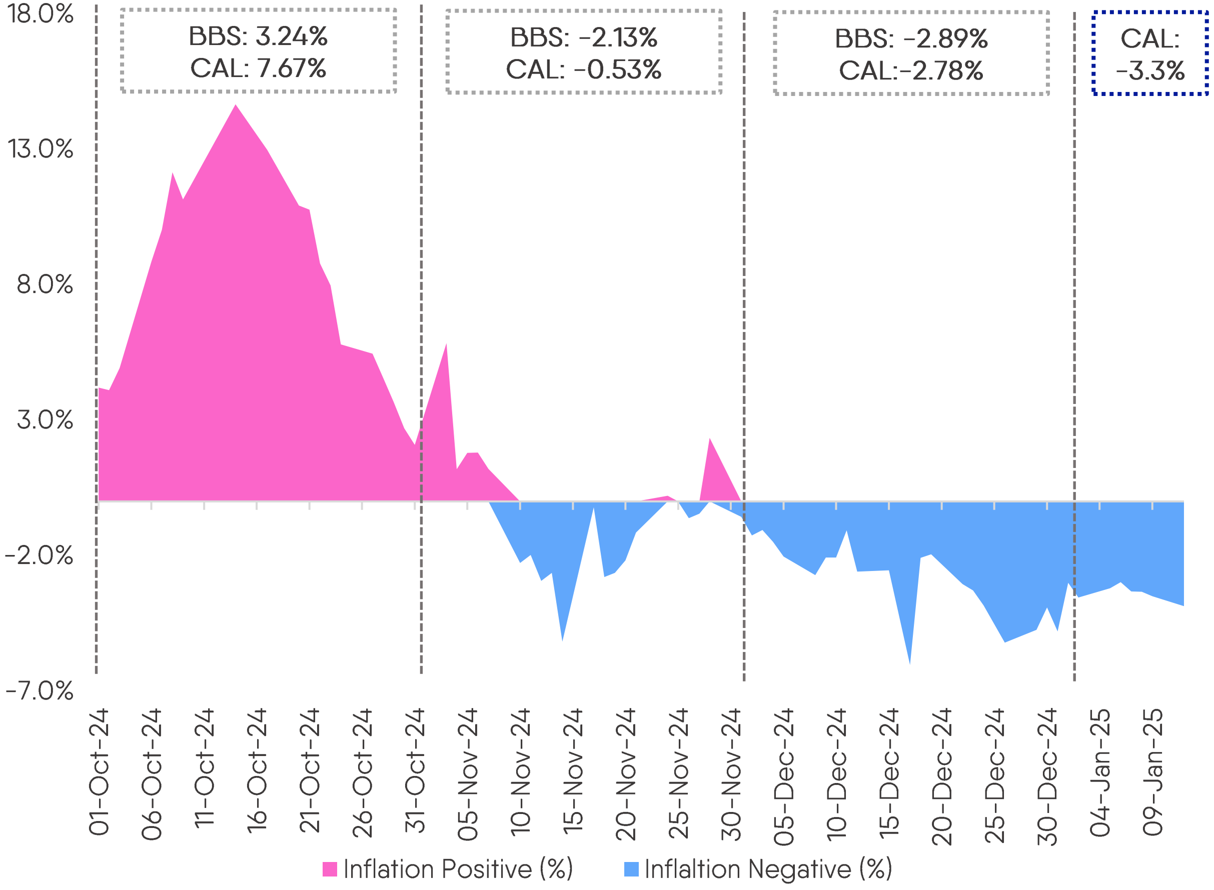
Inflation Forecast (%)



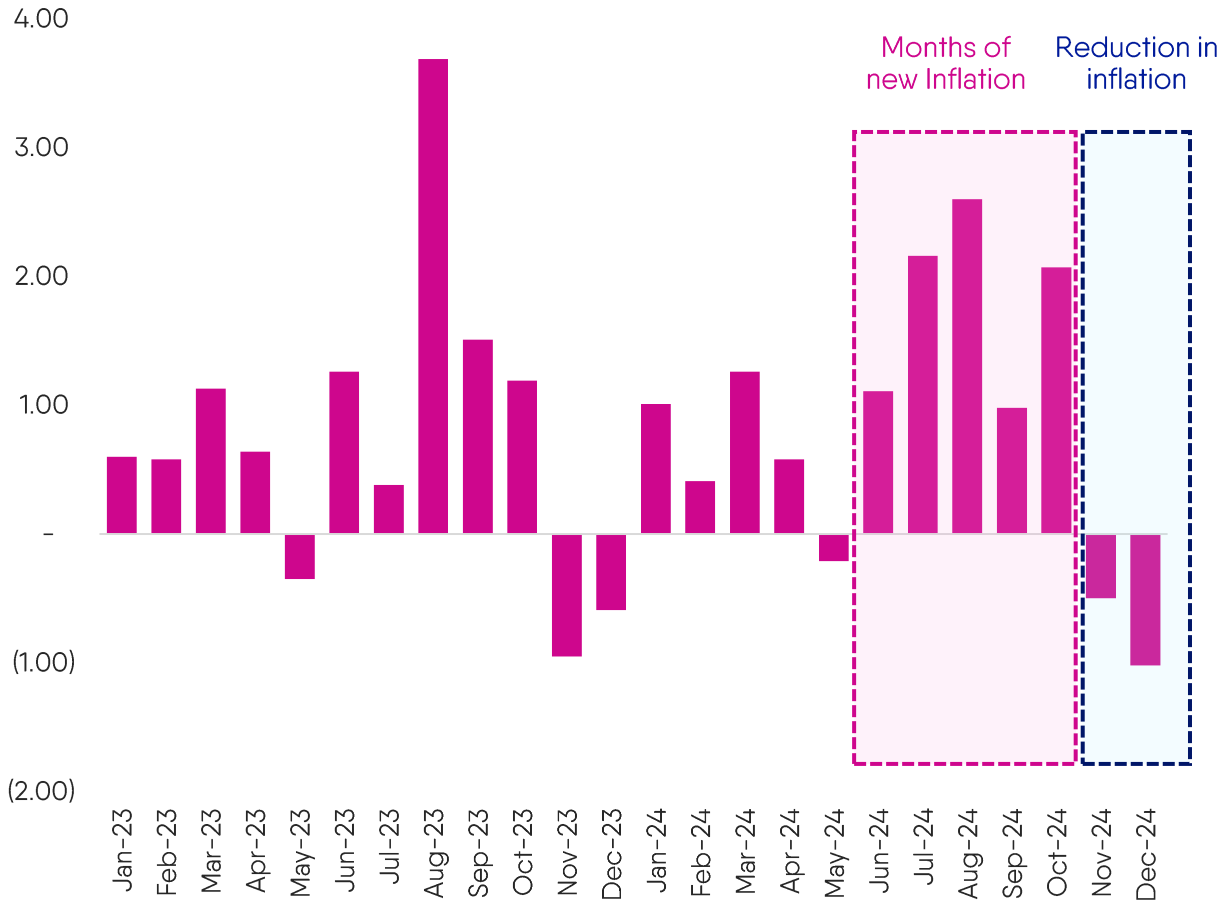
Food prices have started to ease, driven by seasonal factors and the impact of monetary transmission, effectively curbing the creation of new inflation.

Overall food prices have remained lower on a month-on-month basis throughout November and December, reflecting improved supply conditions and reduced demand due to the effects of monetary transmission after a period of heavy inflation creation.

CAL's Food Inflation Tracker vs BBS: MoM Change in Selected Food Prices (%)



MoM Inflation (%)

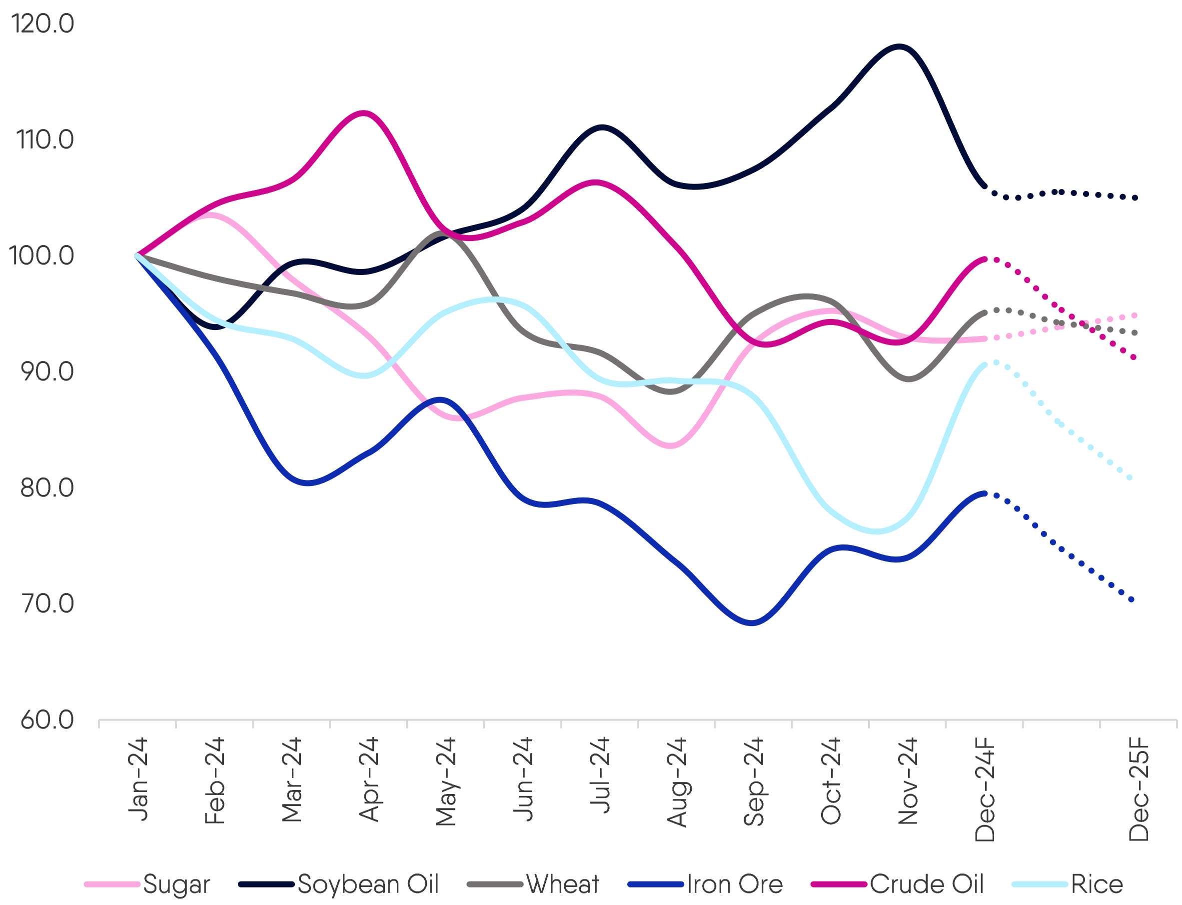


Source: CAL Research Estimates, World Bank

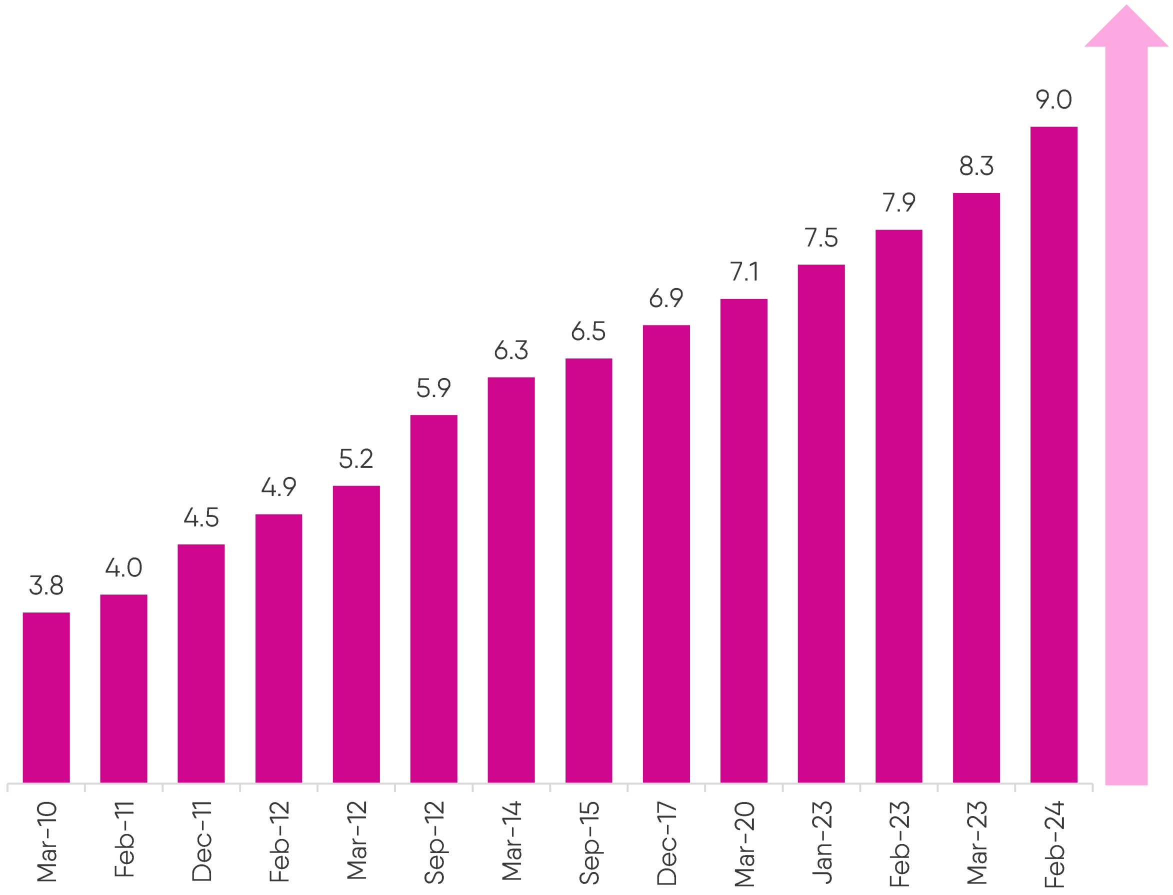
Lower fuel and commodity prices in 2025, as predicted by the World Bank, would partially offset the inflationary effects of expected electricity tariff hikes.

Any potential hike in retail electricity tariffs, in line with IMF recommendations to reduce subsidy burdens, could push inflation higher. However, the impact may be partially offset by lower food and energy costs driven by declining global commodity prices.

World Bank Commodity Prices Outlook (Indexed to 100)



Retail Electricity Unit Price (BDT)

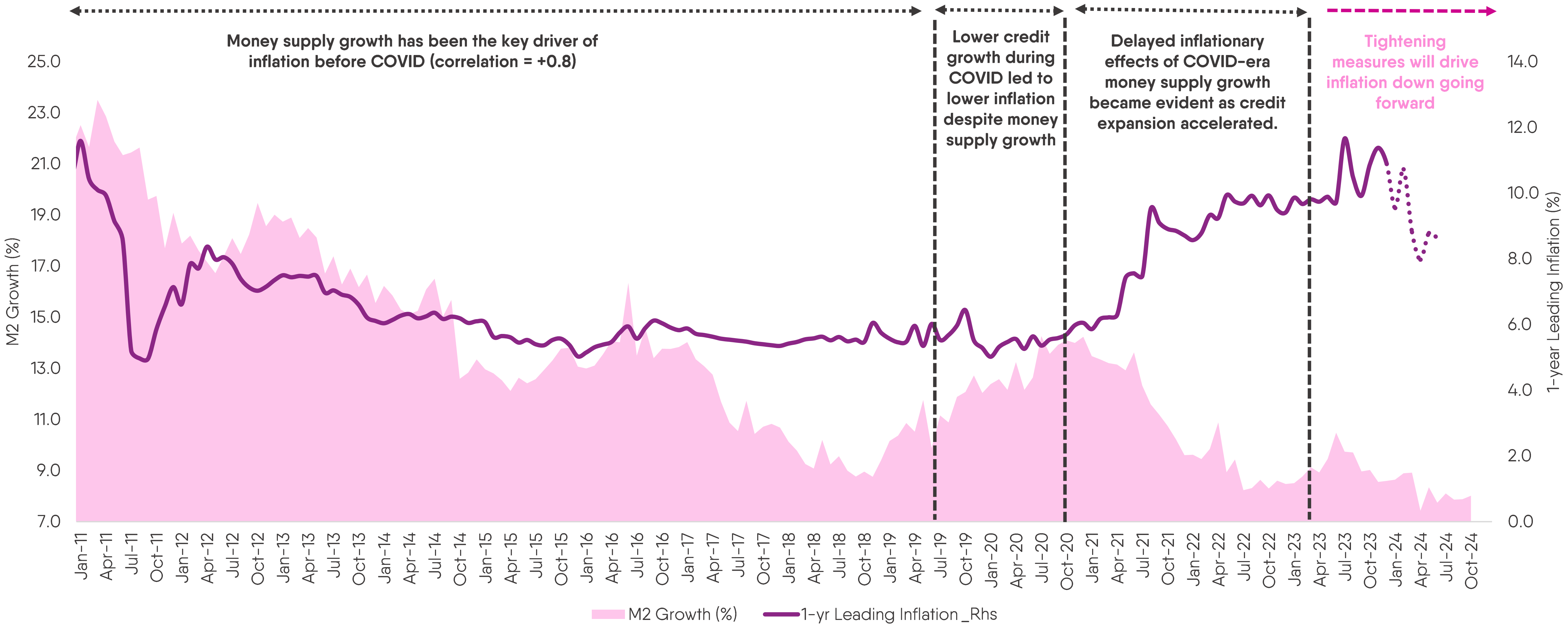


Source: Investing.com, Energy and Mineral Resources Division, (GOB), BPDB

BB's continued tightening measures will move inflation to downward trajectory from 1H'2025.

Decade-low money supply growth due to BB's contractionary measures and a stable exchange rate is expected to ease inflationary pressures gradually in 1H'2025.

Broad Money Growth vs. 1-year Leading Inflation (%)

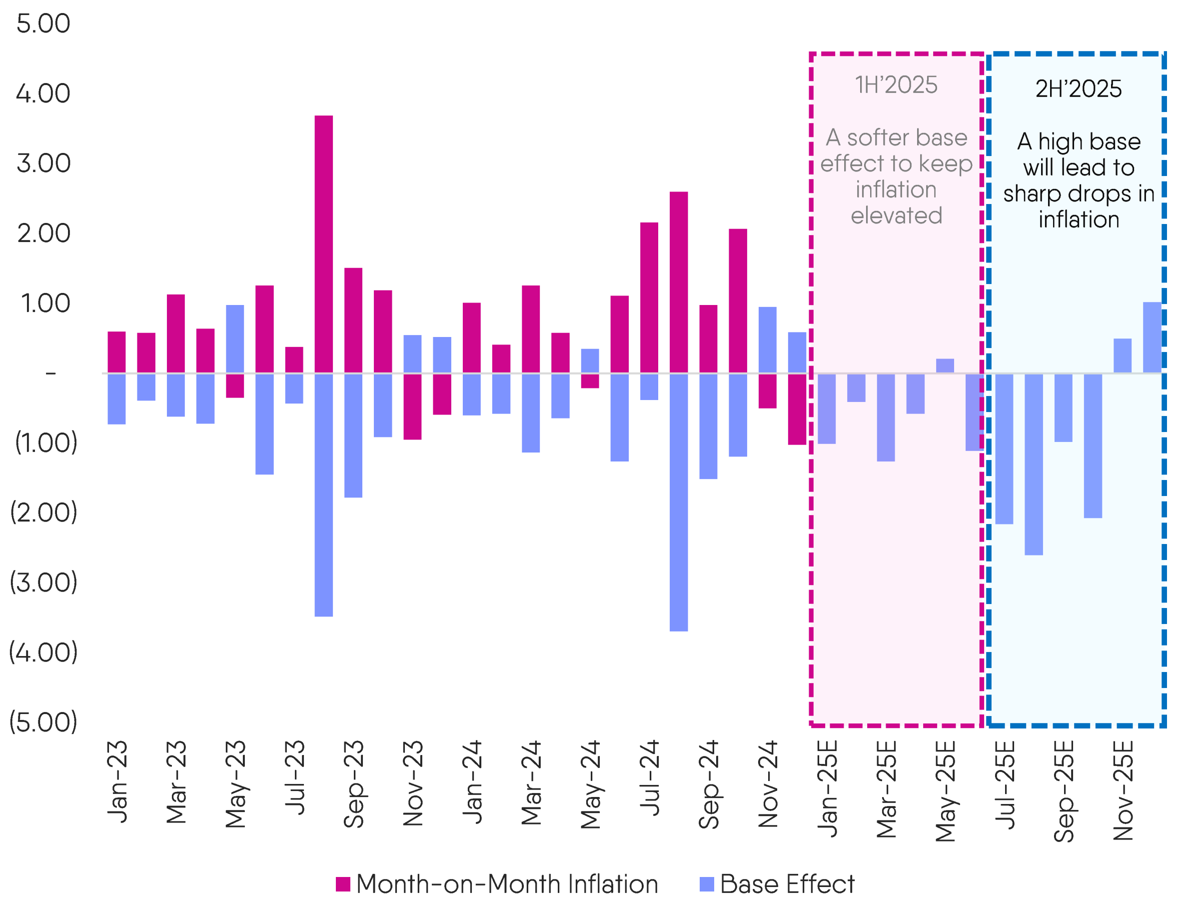


Source: Bangladesh Bank, CAL Research

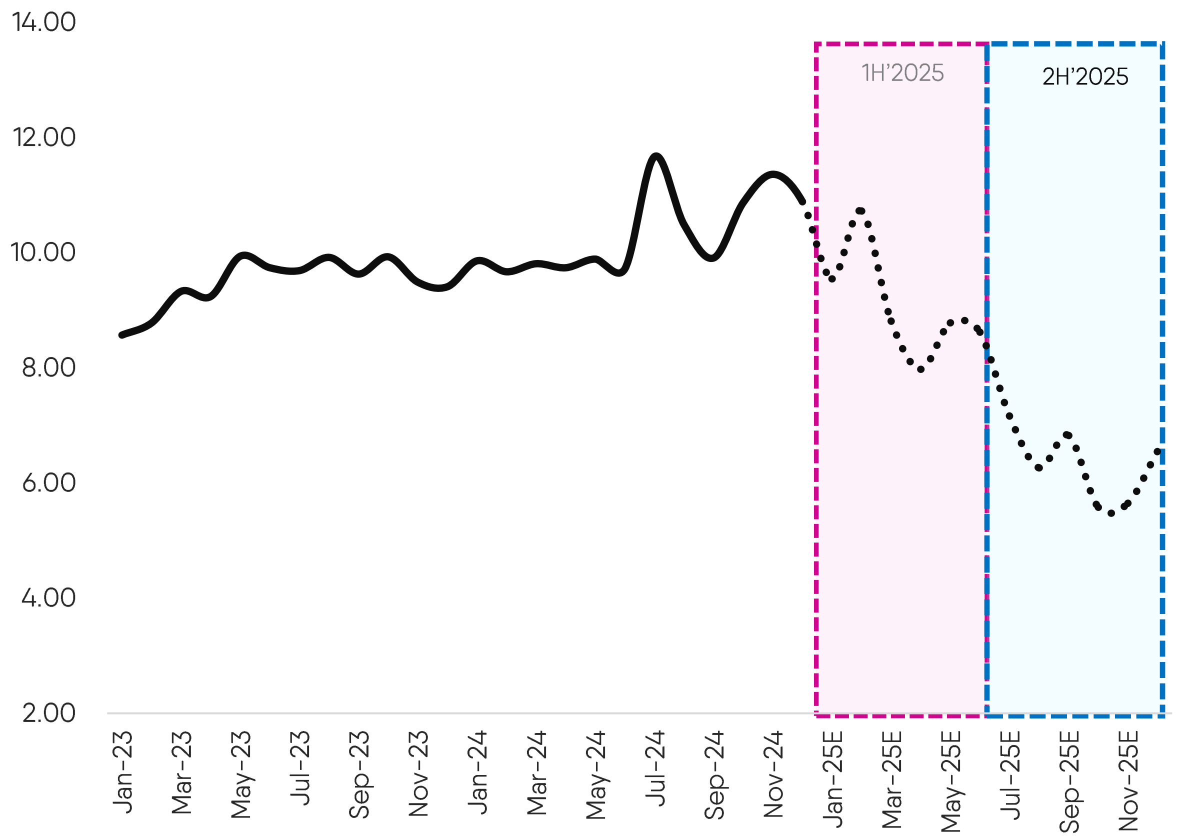
CAL expects inflation will drop sharply in 2H’2025 due to the high-base effect from heavy inflation creation in 2H’2024, softer commodity prices, and a stable exchange rate.

Food price inflation is expected to remain subdued, supported by softer global commodity prices and a stable exchange rate. Additionally, overall inflation is projected to drop sharply to mid-single digits in 2H’2025, driven by a high-base effect from the heavy inflationary period in 2H’2024.

Month-on-month Inflation and Base Effect (%)



Headline Inflation Forecast (%)



Source: BBS, CAL Research Estimates

Interest Rates

Balancing at the Peak

CAL | Research

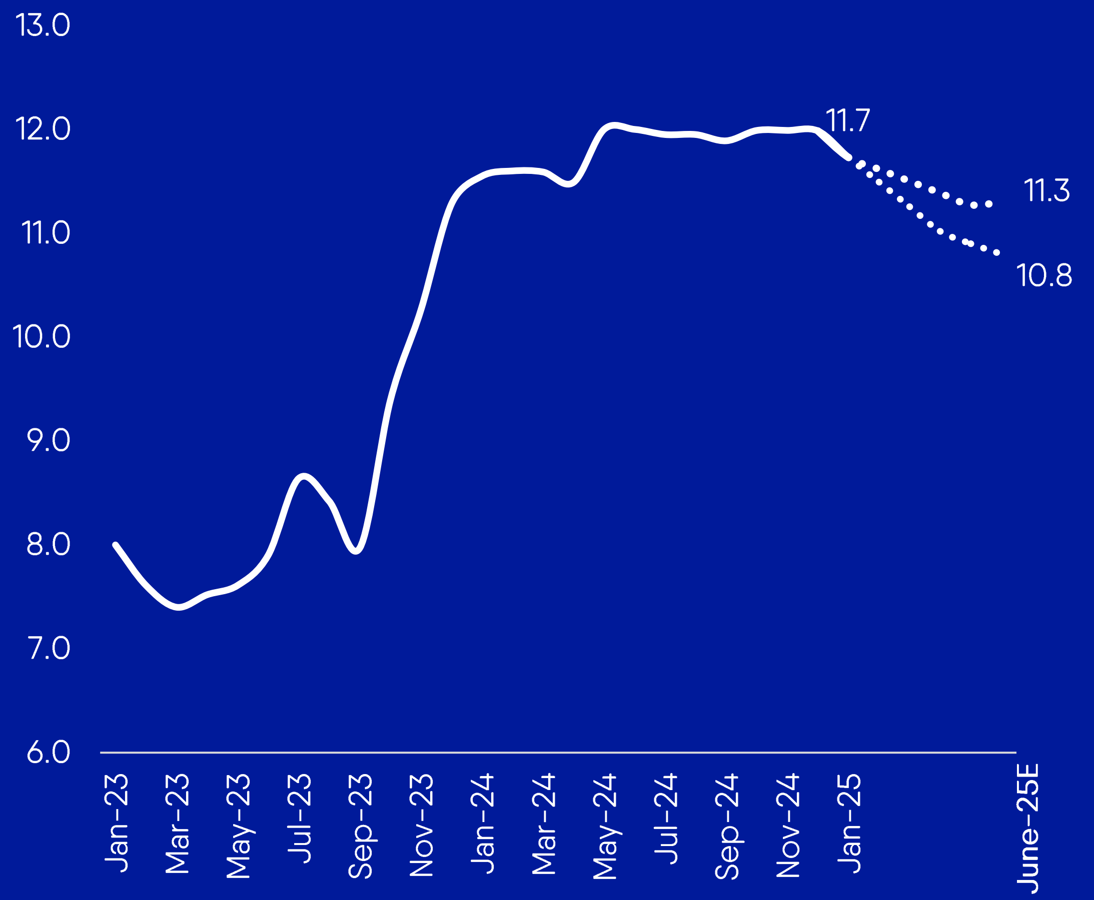
Interest Rates

10.8% - 11.3% by Jun-25E

(1-year T-Bill)

1. Reduced inflation premium due to expected drop in inflation from 2H'2025.
2. Banks benefitting from deposit shifts pouring more funds into treasuries amid limited lending capacity.
3. Lower funds raised from treasury bills to reduce supply in relation to demand thus lowering rates.
4. However, lending rates will remain elevated due to higher risk-aversion of banks amidst stringent provisioning rules.

1-year T-Bill Rate Forecast (%)



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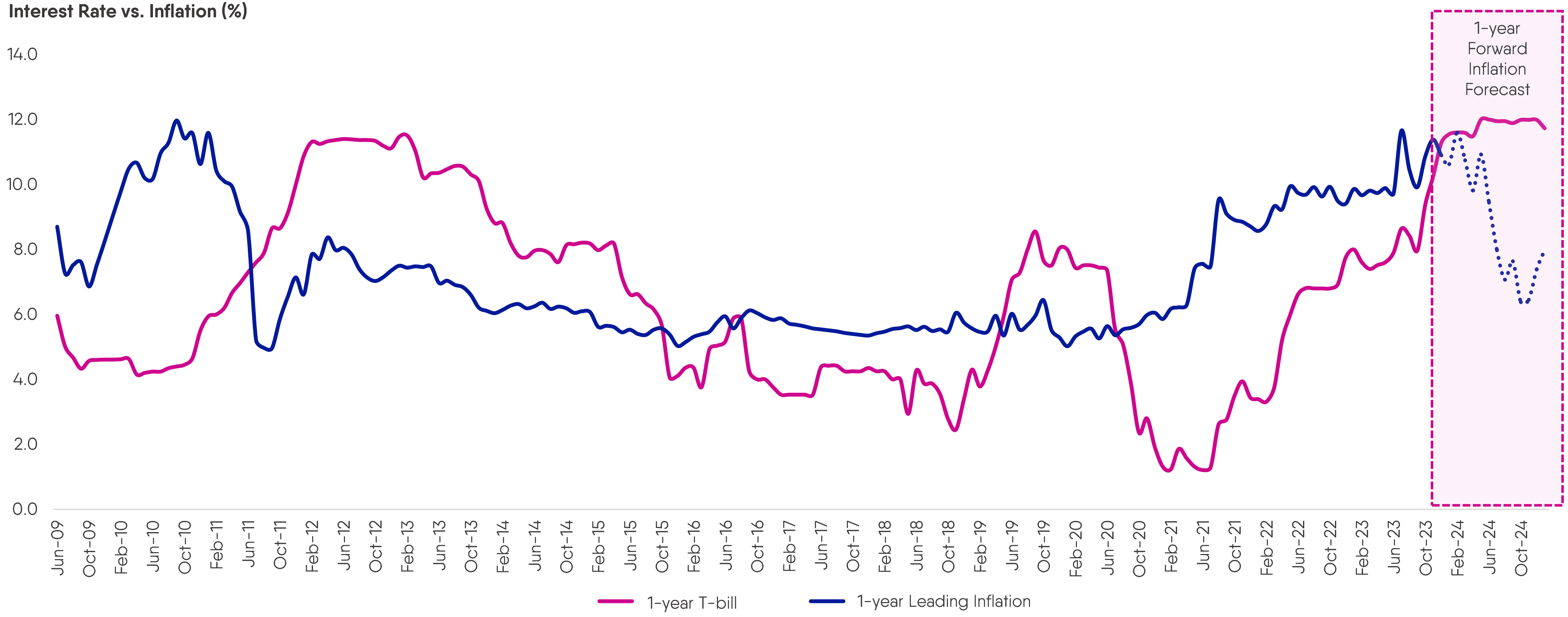
Expectation of lower inflation from 2H'2025 will reduce inflation premium, easing pressure on treasury bill rates.

Double-digit inflation has kept upward pressure on short-term T-bill rates throughout 2024. However, the expectation of a sharp decline in inflation from 2H'2025 is gradually reducing the inflation premium and treasury bill rates have started to trend downwards.

Interest Rate vs. Inflation (%)



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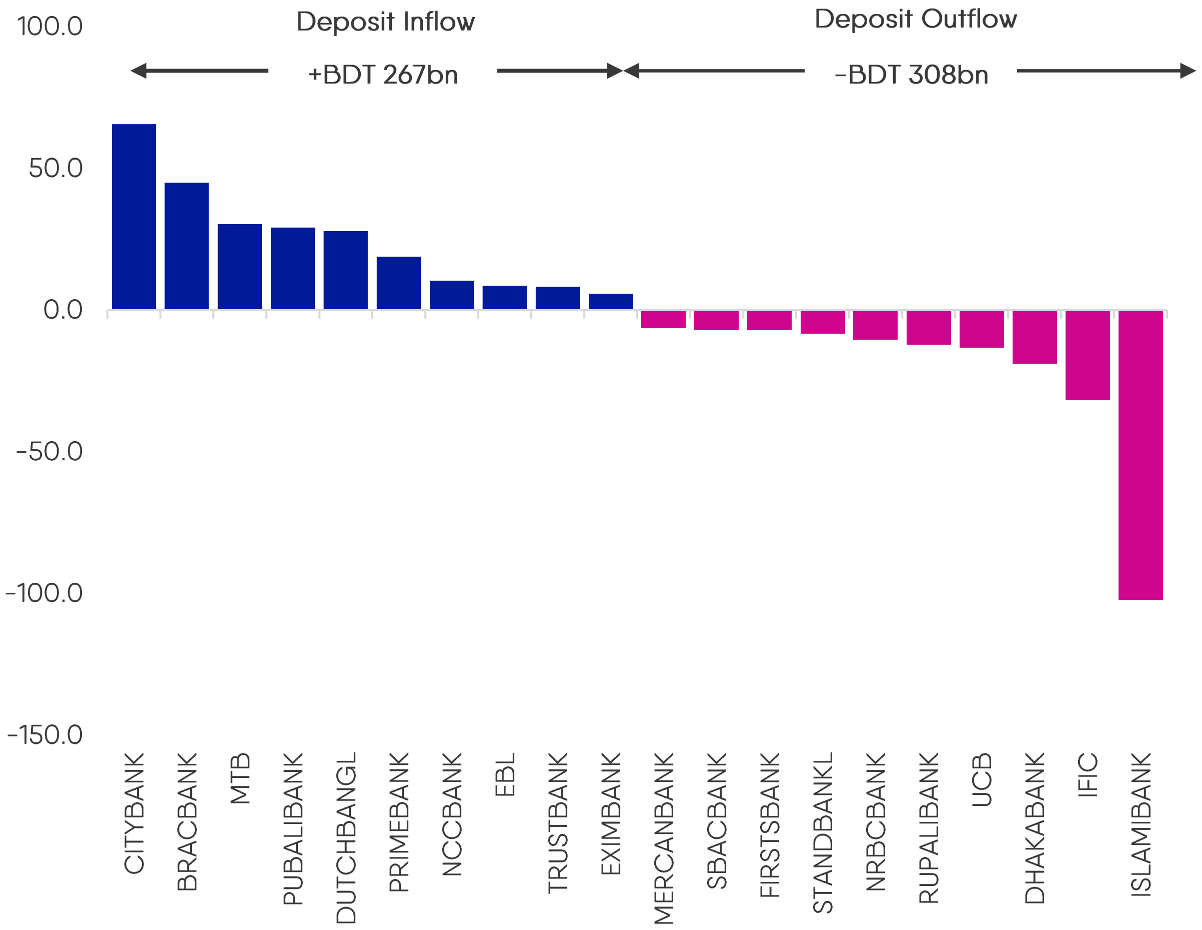
Source: Bangladesh Bank, BBS, CAL Research

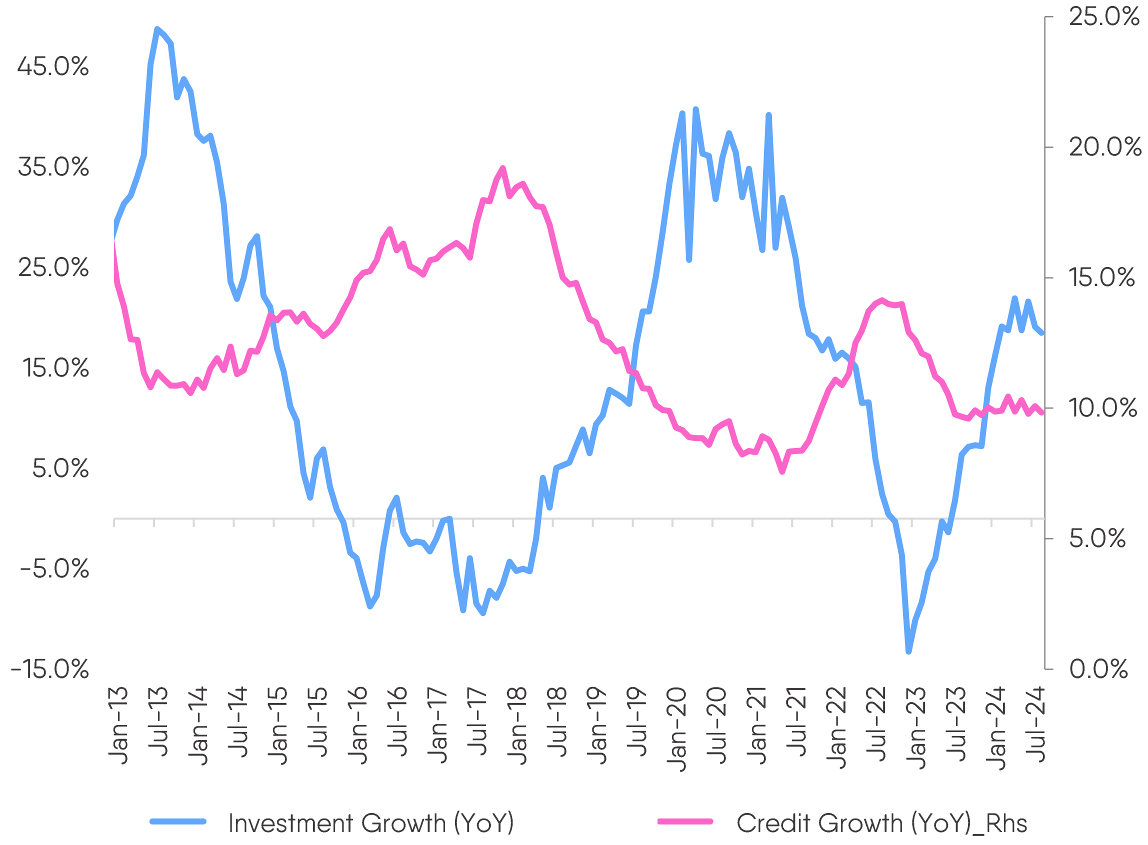
Banks benefitting from deposit flight to safety will channel more funds to treasury securities amid sluggish credit demand.

Amid a liquidity crisis in part of the banking sector, particularly Islamic banks, stronger banks have benefited from the flight of deposits to safer institutions. These funds are likely to be directed towards government securities due to sluggish private sector credit demand, stringent provisioning requirements and heightened risk aversion limiting lending capacity.

Sep'24 Bank-wise Change in Deposit-base QoQ (BDT bn)



Credit Growth vs. Investment Growth of Banks

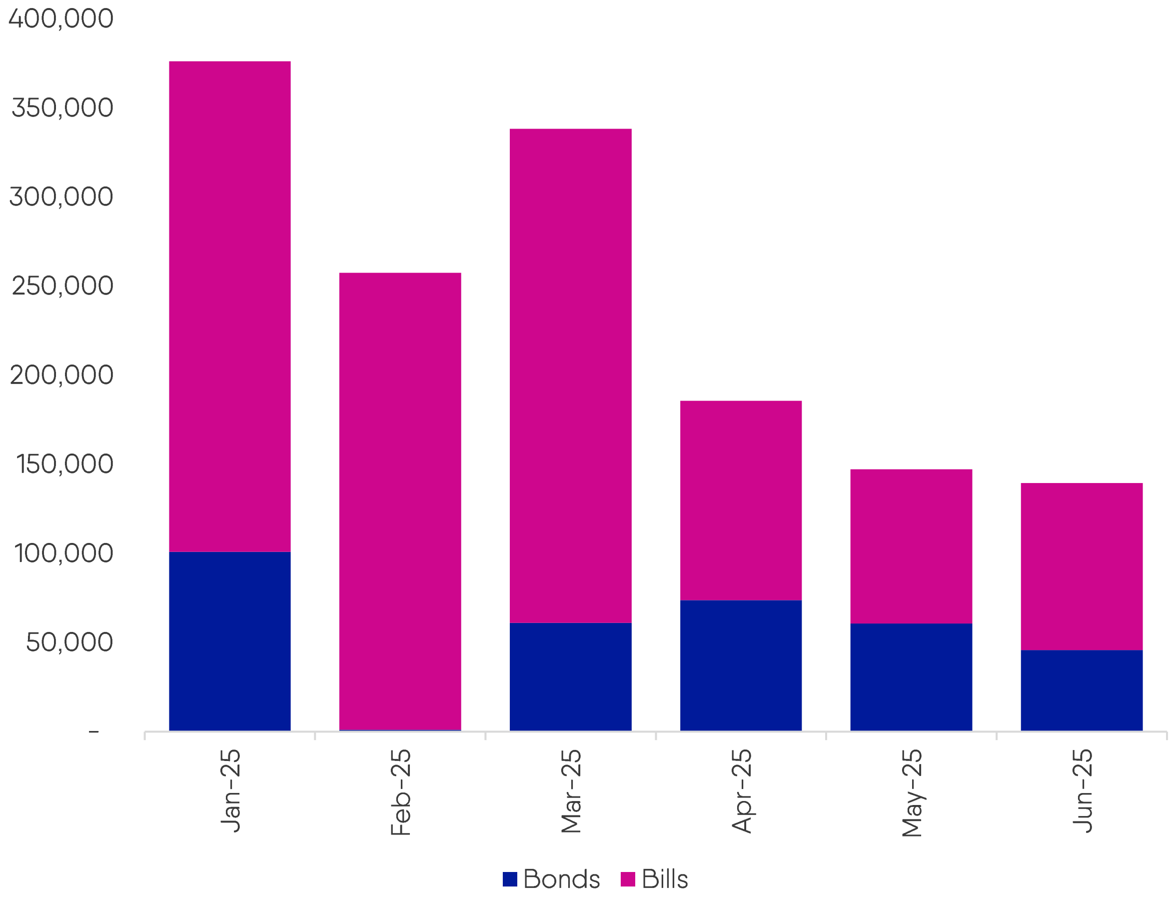


Source: Company Financial Statements, Bangladesh Bank

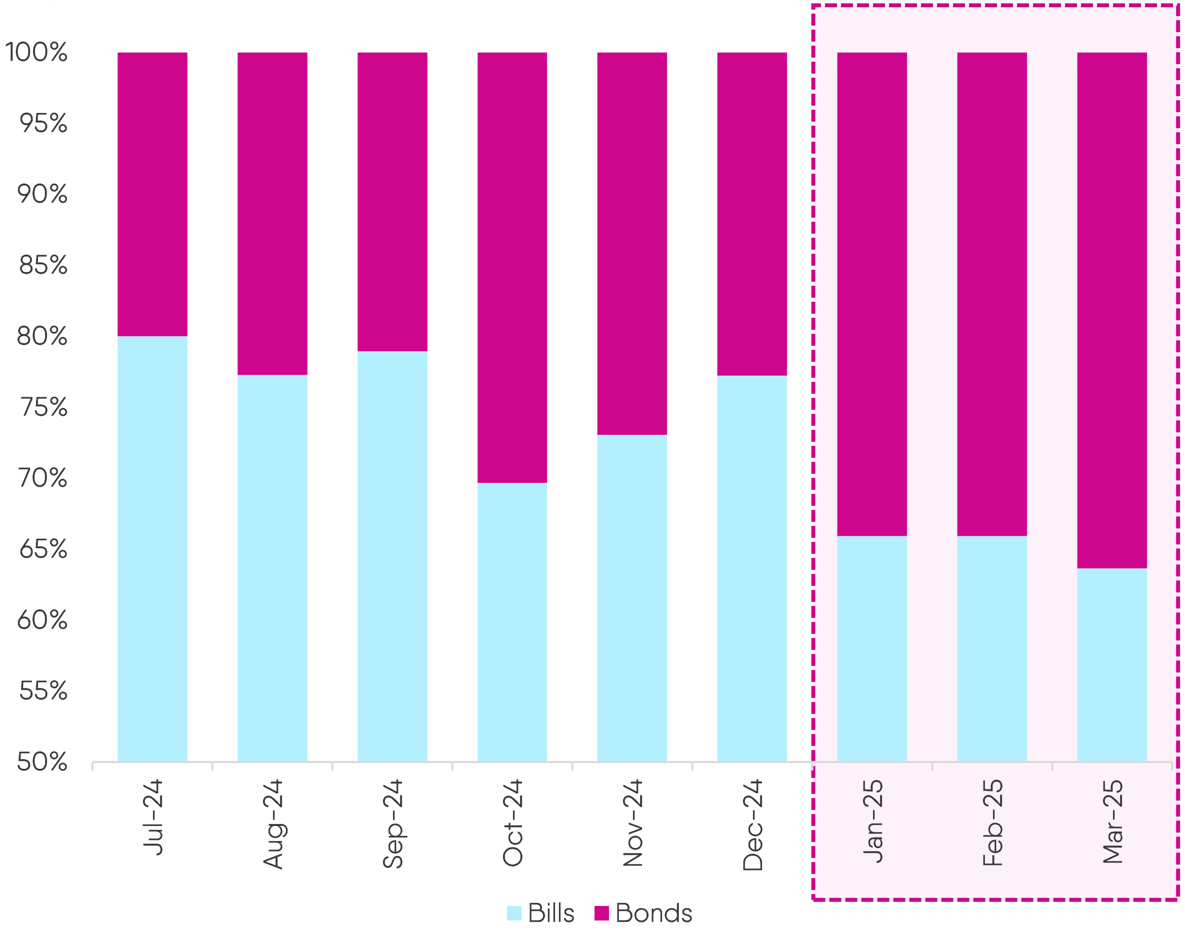
The government is reducing the weightage of short-term treasury bills from funds raised, which will decrease supply in relation to demand for bills thus pushing rates down.

The government is strategically reducing its reliance on treasury bills to lower short-term gross financing needs. As a result, the supply of short-term government securities will decrease, reducing supply in relation to demand thereby leading to a decline in yields.

Maturities of Treasury Bills and Bonds (BDT crore)



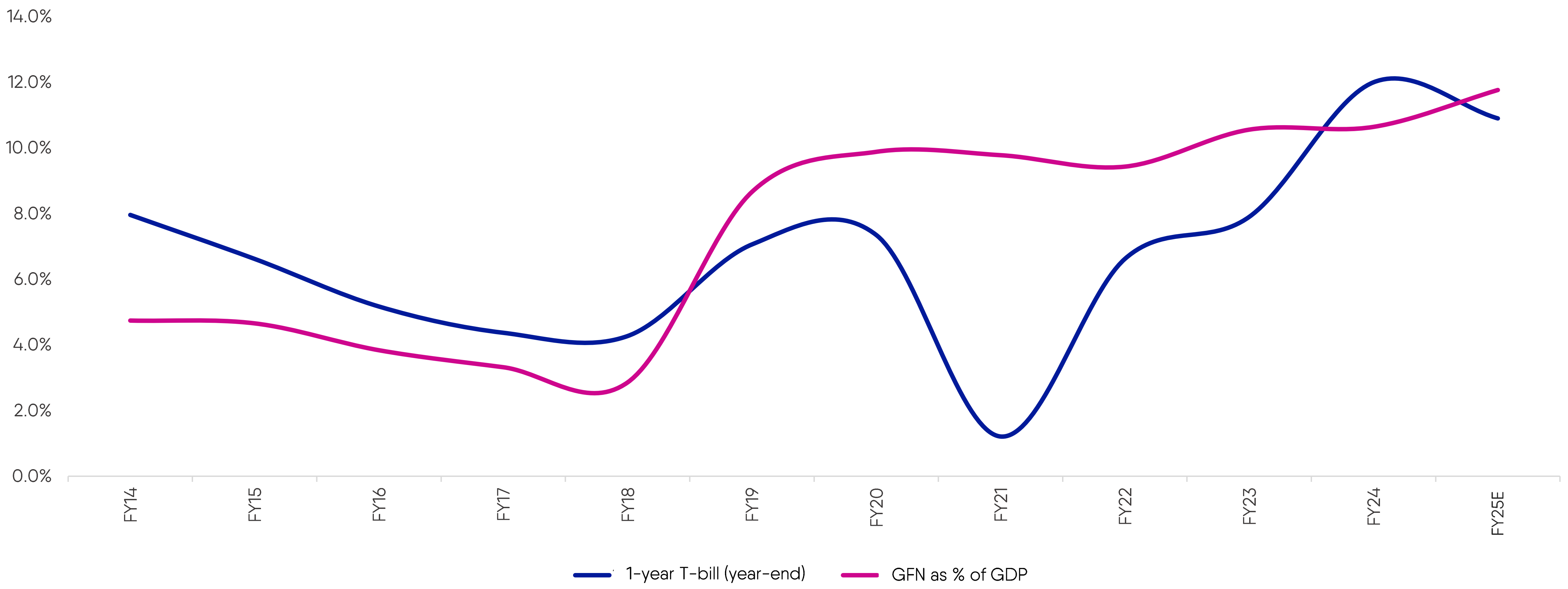
Proportion of Funds Raised from Bills vs Bonds (%)



However, higher gross financing needs in FY2024-25E and the central bank maintaining a tightening stance will **keep interest rates elevated.**

Gross financing needs, including the government's primary balance deficit, debt maturities, and interest payments, will remain high in FY2024-25 due to the heavy reliance on short-term financing in the past two years. As a result, the overall government fundraising requirement will remain elevated, exerting upward pressure on interest rates.

Interest Rate vs. Gross Financing Needs as % of GDP

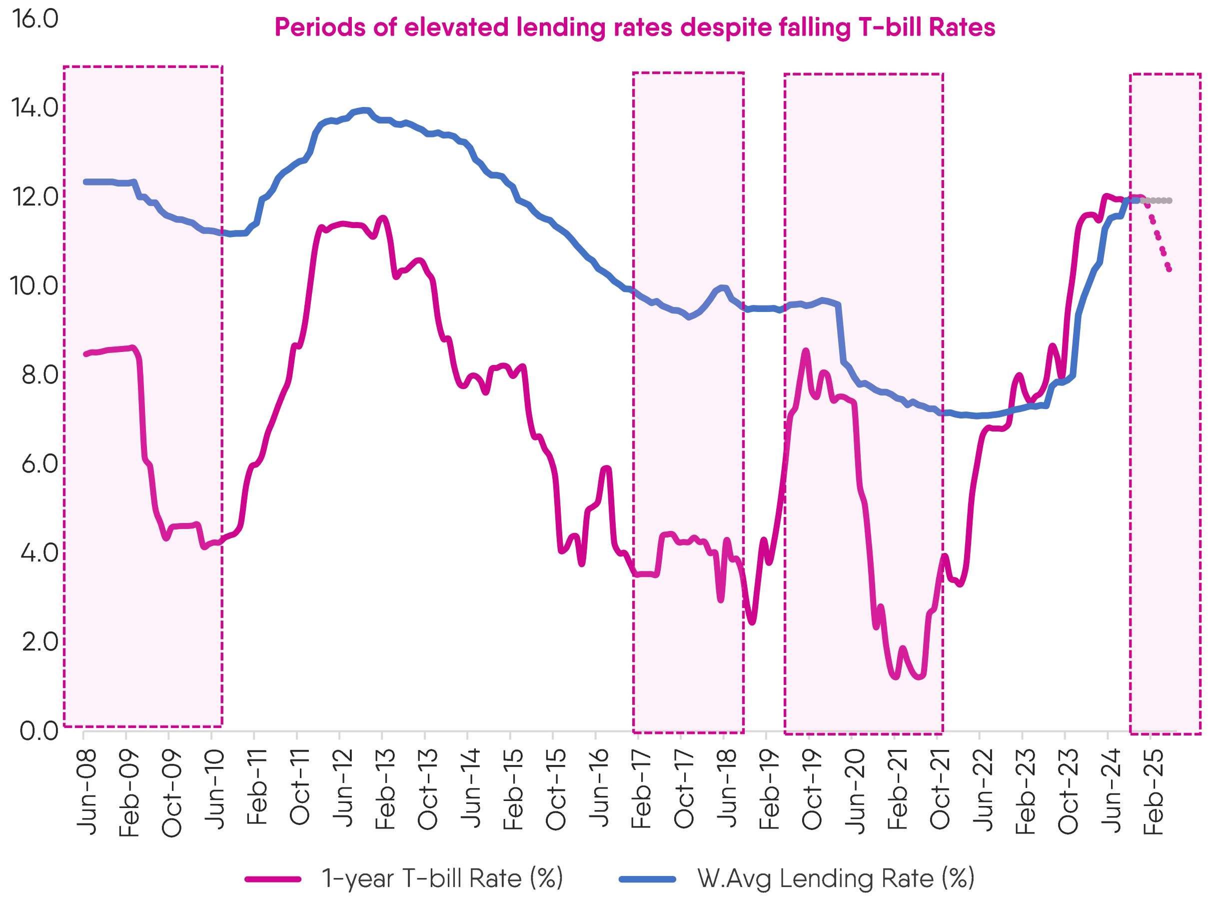


Source: Bangladesh Bank, CAL Research Estimates

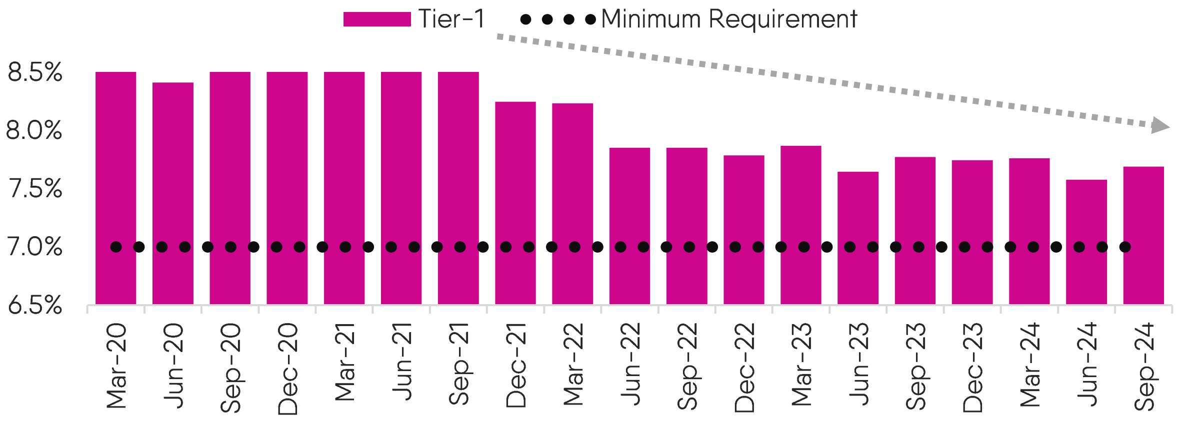
Lending rates to stay elevated despite falling treasury bill yields, driven by banks' heightened risk aversion and stringent provisioning requirements reducing lending capacity.

On 8 April 2024, Bangladesh Bank issued BRPD Circular 09, reducing the overdue loan threshold from 6 to 3 months, effective 30 September 2024. Additionally, a master circular issued on 7 Nov 2024 tightened rules further, reducing the NPL classification period from 9 to 6 months, effective 1 April 2025. With sector tier-1 ratios at a historic lows of 7.7%, these changes will likely increase classified loans and provision expenses, straining profitability, heightening risk aversion, and keeping lending rates elevated.

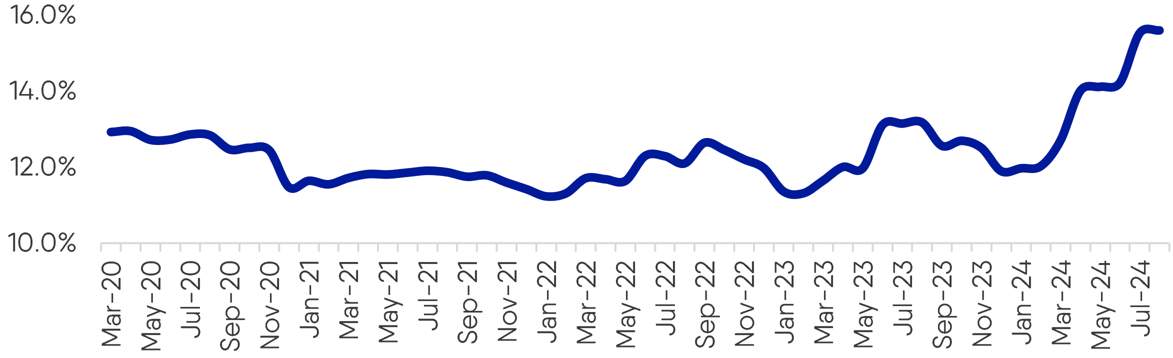
Lending Rate vs. 1-year T-bill Rate (%)



Tier-1 Capital Ratio of Listed Banks (%)



Classified Loans as a % of Total Banking Sector Loans



Source: Bangladesh Bank, CAL Research Estimates

Growth

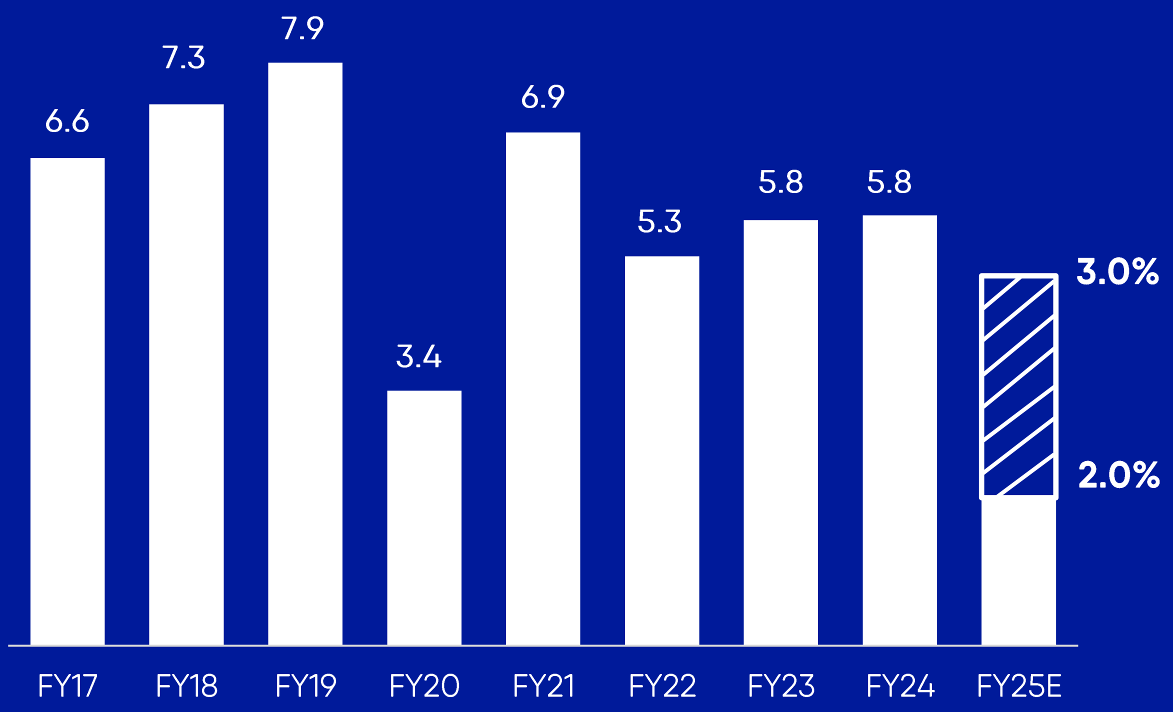
An Uphill Climb

Growth

2.0% - 3.0% in FY25E

1. Productivity loss during Jul-Sep quarter will weigh on GDP.
2. Synchronized monetary and fiscal tightening measures will curb consumption growth.
3. High interest rates and uncertainty will slow investment growth.
4. Growth in net exports will be the primary driver of growth due to stable exports and curbed imports.

Real GDP Growth Forecast (%)



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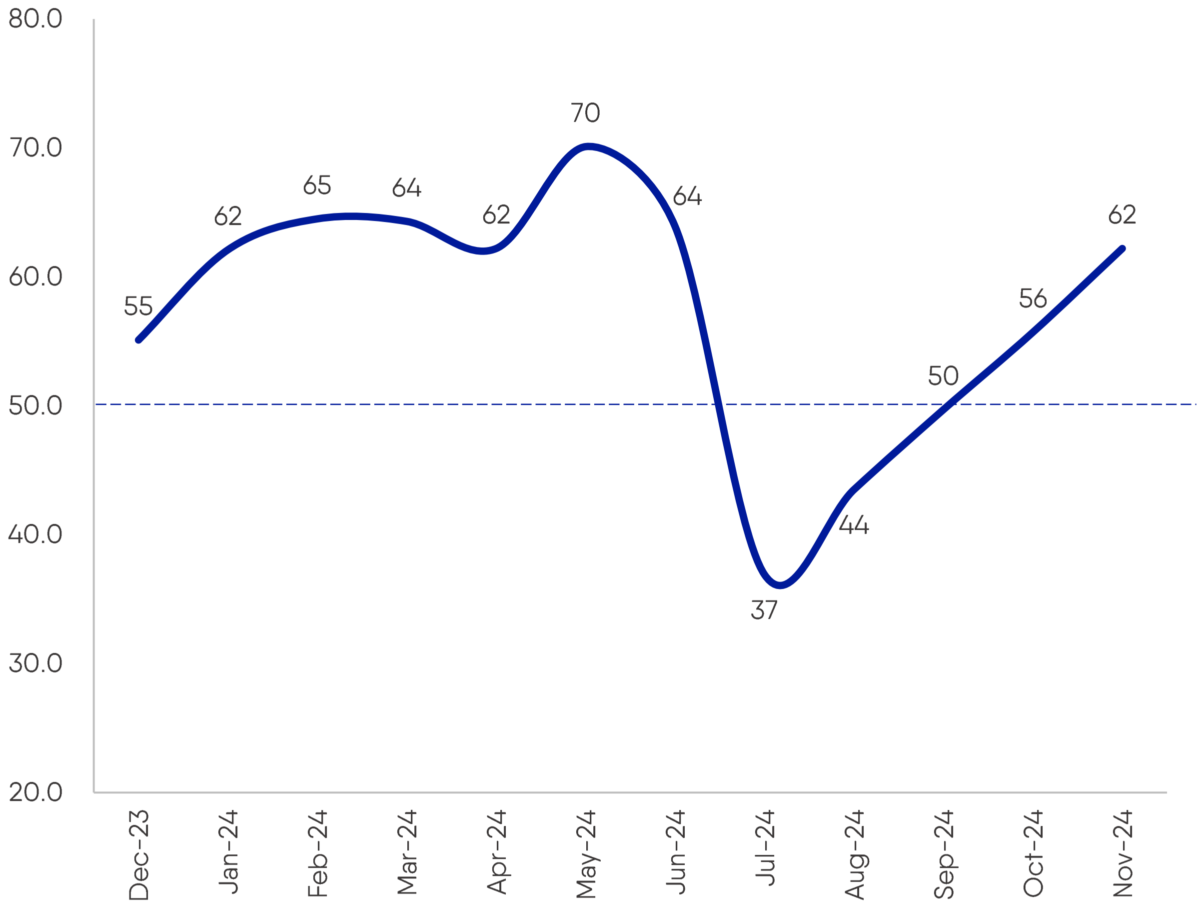
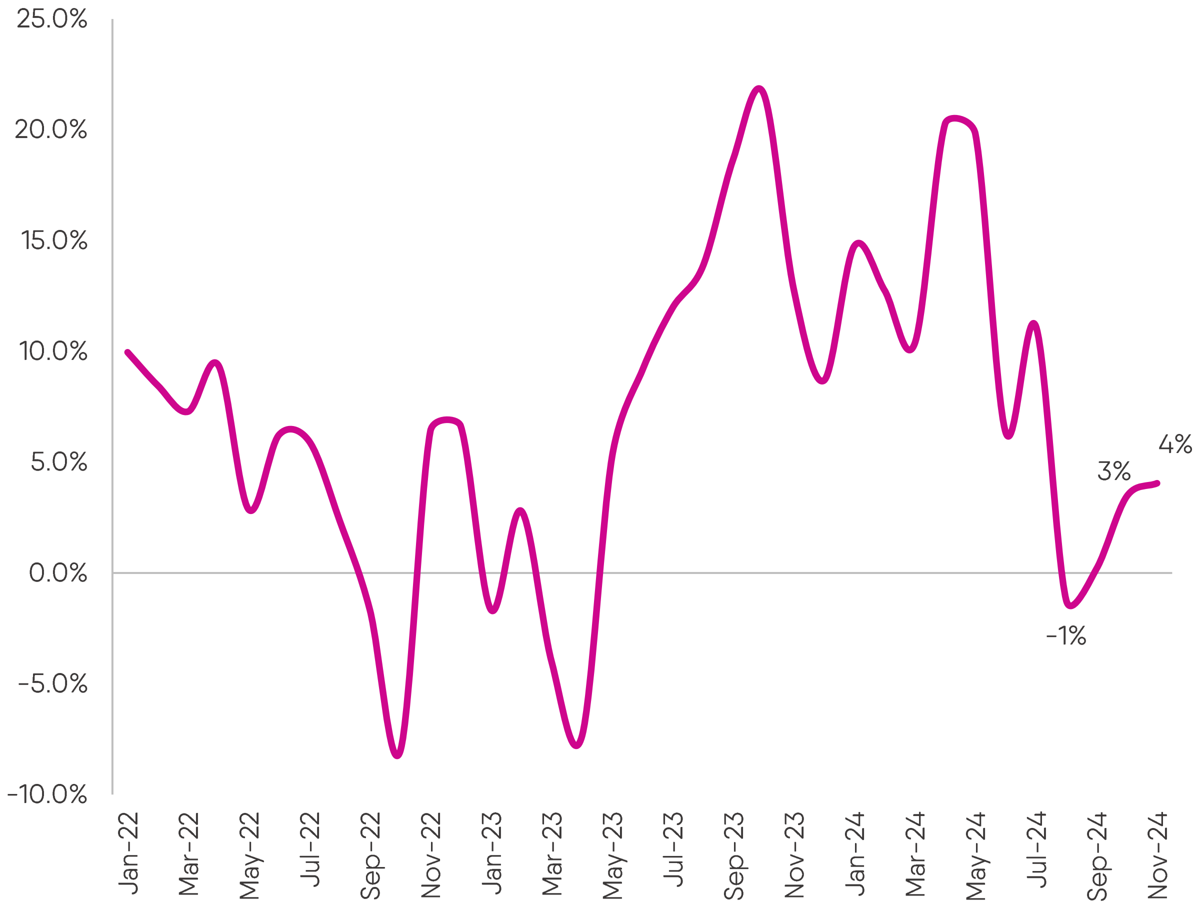
Economic activity sharply contracted in July–August amid the July uprising, significantly impacting GDP, although it is now on the path to recovery.

During the July-August mass uprising, economic activity came to a standstill, with the PMI plunging to 37.0. Since then, it has steadily recovered, posting consecutive gains from August to November. Electricity generation also increased for two straight months logging YoY gains of 3% and 4%.

Purchasing Managers' Index (PMI)



Electricity Generation Growth (YoY) (%)

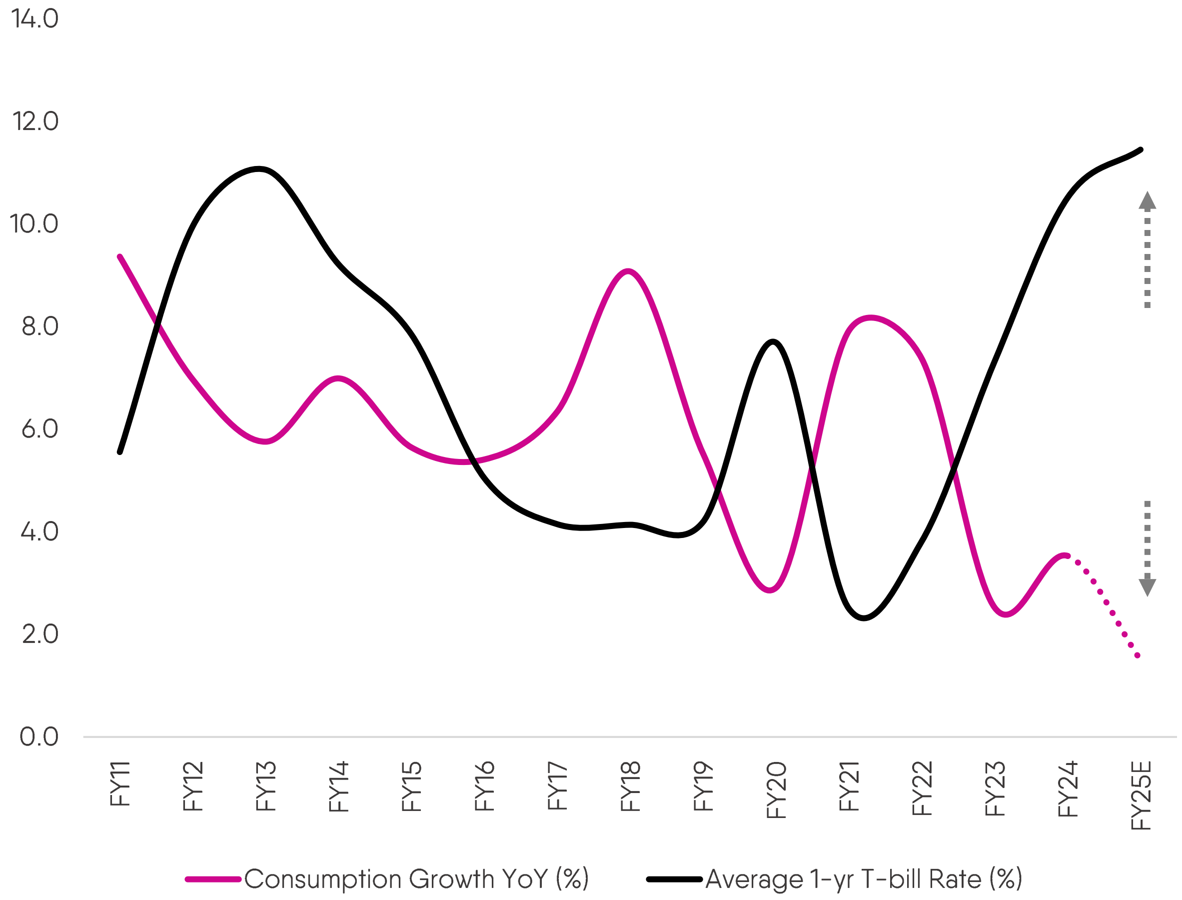


Source: MCCI, BPDB

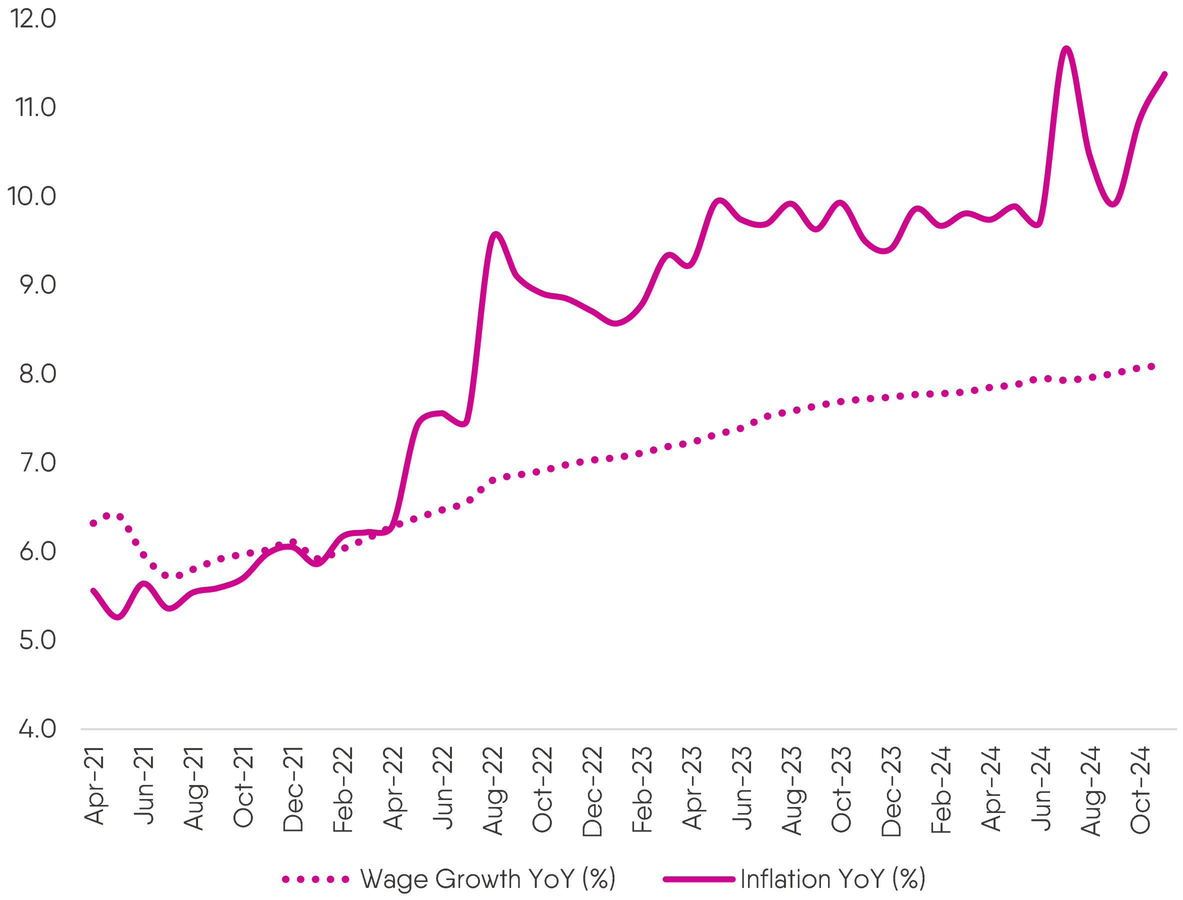
Consumption growth will remain weak due to the dual effects of contractionary monetary and fiscal policies, as the government prioritizes inflation control above all else.

The central bank's aggressive tightening to curb inflation has pushed interest rates to decade-high levels. Combined with prolonged inflation outpacing wage growth, this will continue to suppress consumption growth. Additionally, political uncertainty will likely delay consumption until greater clarity emerges.

Consumption Growth vs. Interest Rate (%)



Wage Growth vs. Inflation (%)

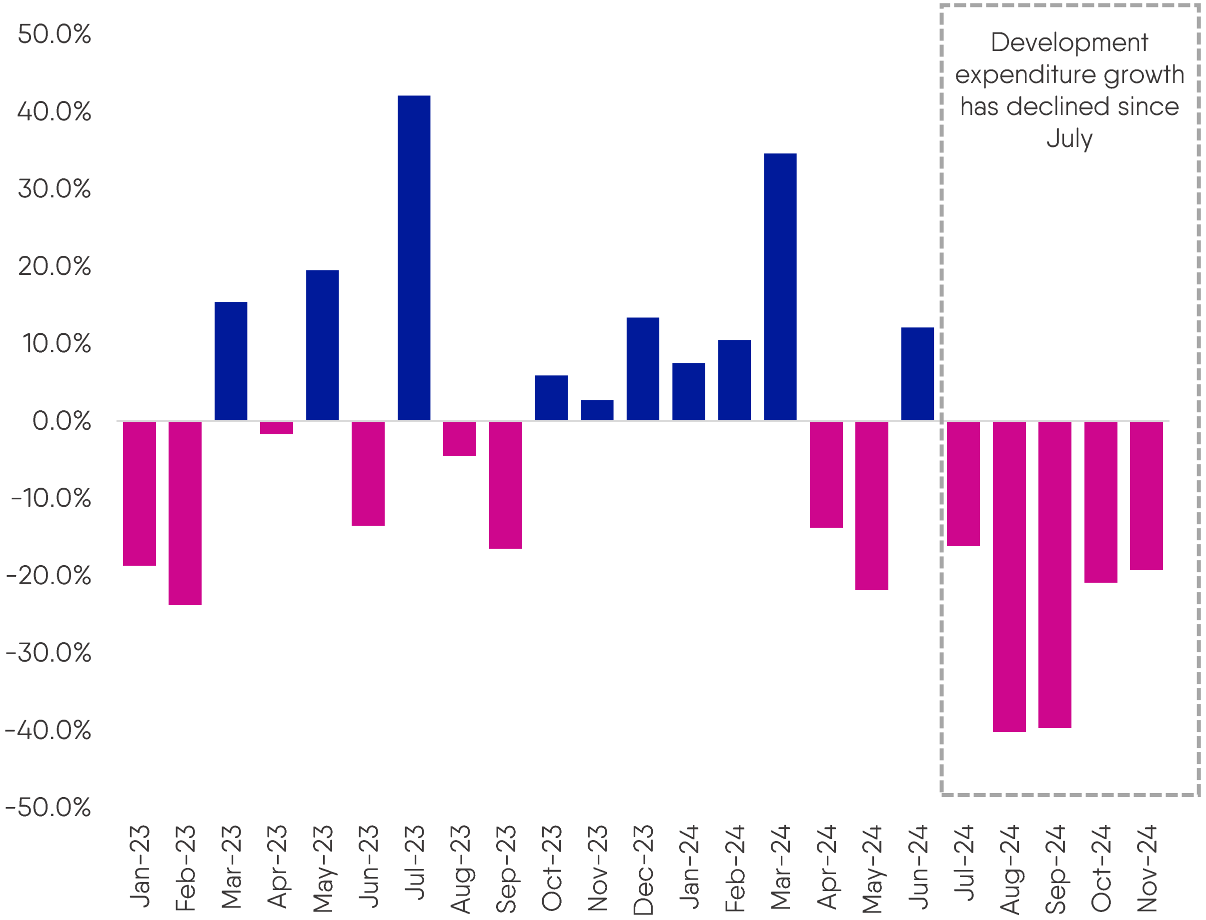


Source: NBR, BBS, Bangladesh Bank

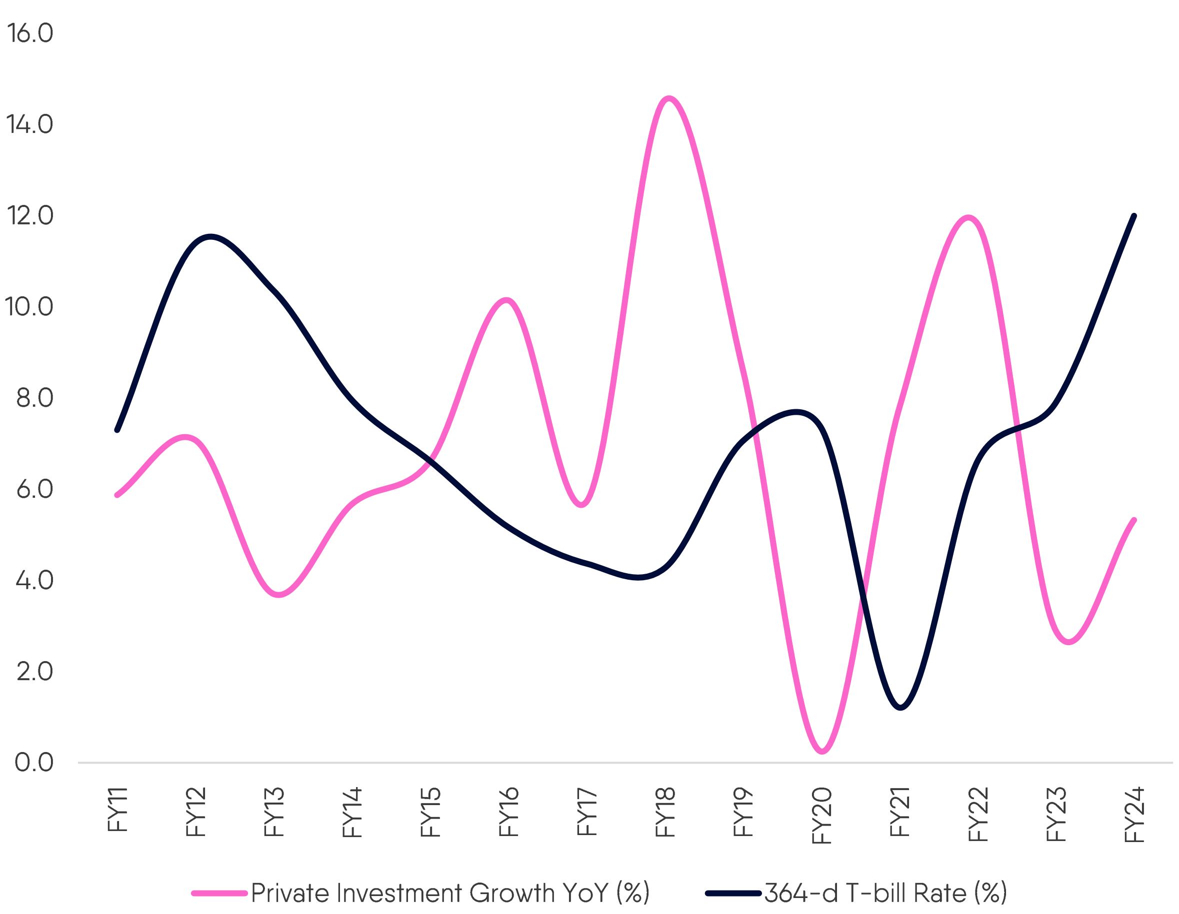
Both private and public investment growth will remain sluggish due to curtailed development expenditure and elevated interest rates

In response to the interim government's efforts to reduce the budget deficit amidst declining revenue collection, plans are in place to cut development expenditure by around 40%. Additionally, private investment growth is expected to be delayed due to low investor confidence and elevated interest rates.

Government Development Expenditure YoY Growth (%)



Private Investment Growth vs. Interest Rate (%)

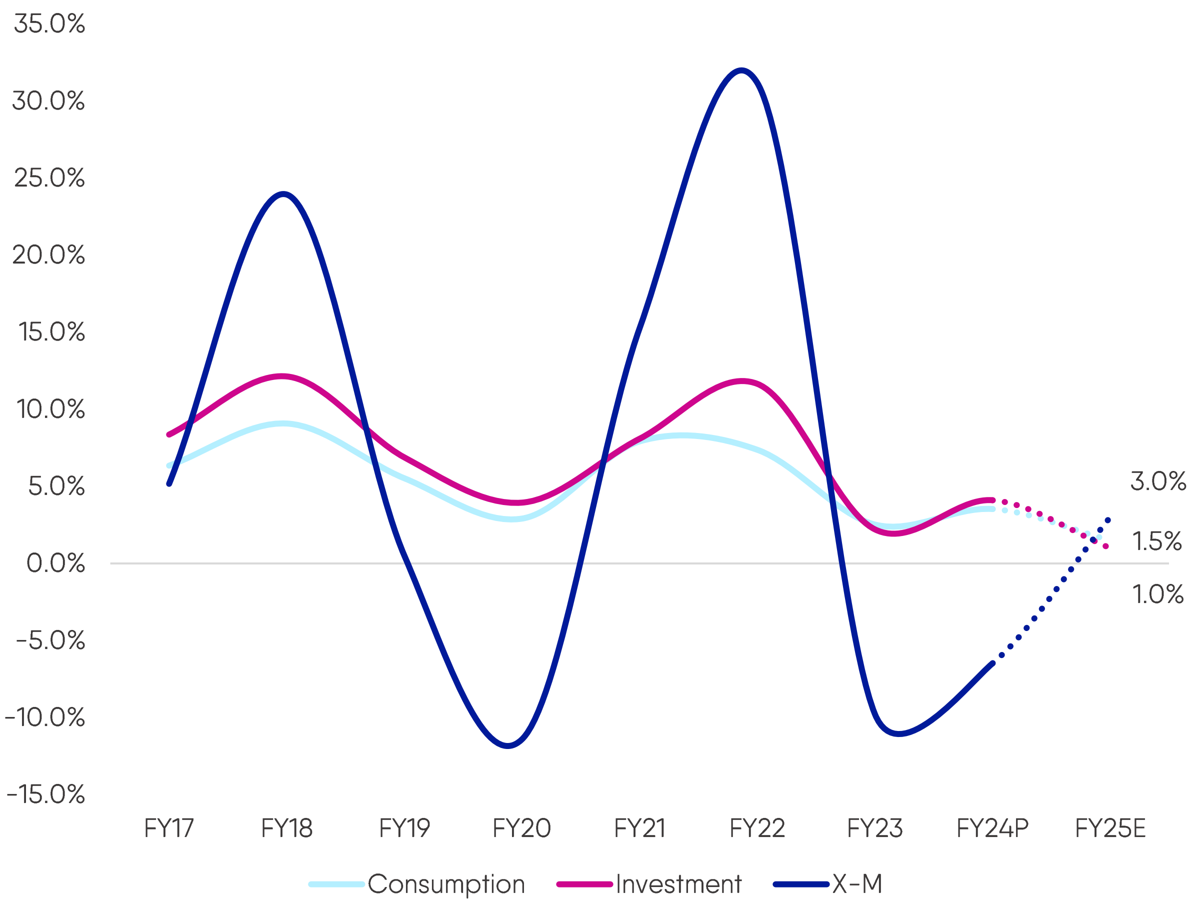


Source: IMED, Bangladesh Bank

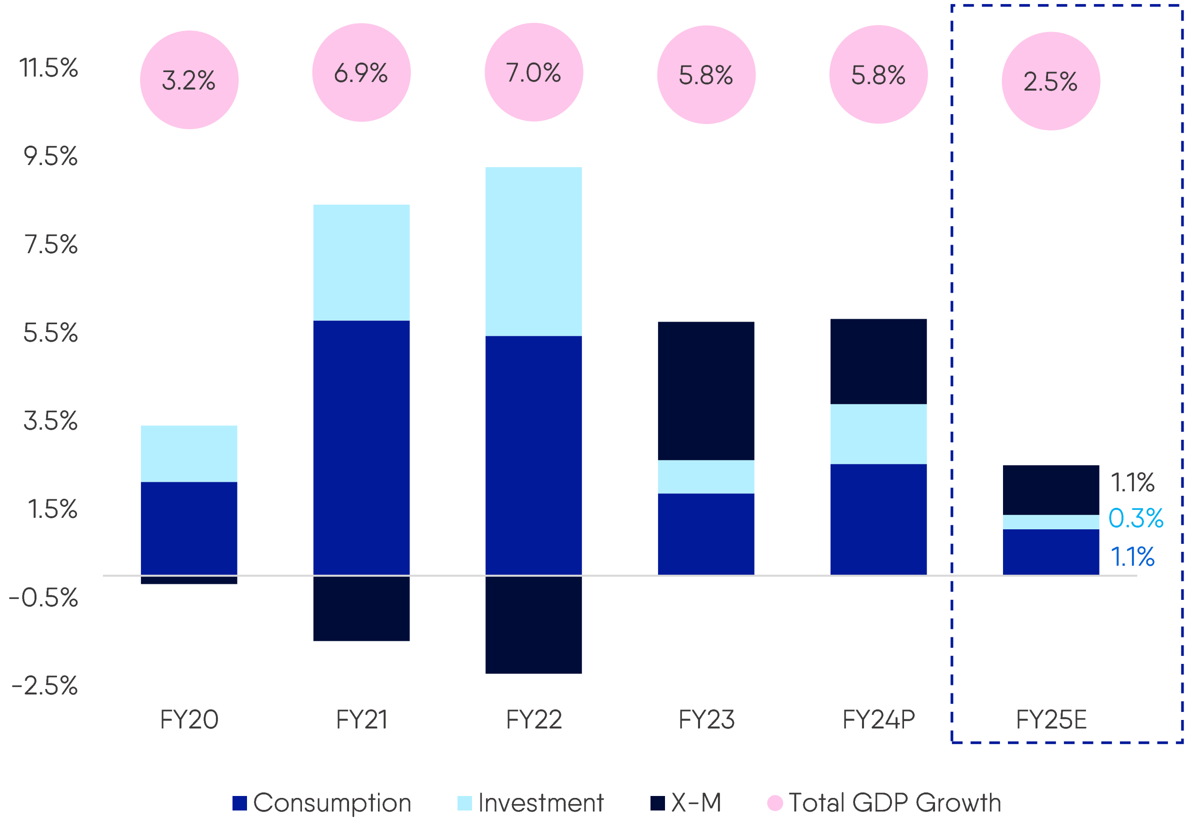
CAL maintains GDP growth of 2.0%-3.0% in FY2024-25E driven by weak consumption and investment growth due to fiscal and monetary tightening.

Improved net exports, driven by stable exports and reduced imports from tightening measures like high interest rates and lower development expenditure, will support GDP growth despite weak consumption and investment.

Growth of GDP Components YoY (%)



Contribution to Real GDP Growth by Component (%)



Source: Bangladesh Bank, BBS

Medium-term Outlook

Medium Term Outlook

1

GDP
Rebound in 1H’2026

Economic growth set to rebound in 1H’2026 with consumption recovering and development expenditure getting back on track under an elected government.

2

Inflation
Sharp Drop in 2H’2025

Sustained monetary tightening and fiscal contractionary measures including will bring inflation back to historical average levels.

3

Interest Rates
Moving to a Downtrend

T-bill rates will move to a downtrend, but lending rates will decline at a slower pace than T-bill rates.

4

Exchange Rate
Stable

Exchange rate stability is contingent upon timely arrival of foreign funds and allowing flexibility.

Key Risks to the 1H’2025 Outlook

What happens if the 4th IMF tranche is not approved?

Depending on the outcome of the February 10 board meeting, the IMF may delay the disbursement of the 4th tranche due to concerns over the reversal of VAT hikes, with other global lenders likely to follow suit. If this occurs, a larger portion of the budget deficit will need to be financed domestically.

Scenario 1: Additional Funds Raised Through Auctions	Scenario 2: Money Printed to Finance Deficit	CAL’s View
Interest Rate: Additional domestic financing pressure could push 1-year T-bill rate up to 12.5%-13.5%.	**Interest Rate:** Interest rates may fall at a faster pace than our estimates.	**We believe Scenario 1 is the most likely outcome** if the funds do not materialize.
Exchange Rate: Short-term speculation could push the currency above BDT 130/USD but will stabilize after initial volatility.	**Exchange Rate:** Currency may reach BDT 135-138 per USD due to higher relative BDT money supply.	

How will Equities Fare in 1H'2025?

CAL | Research

Equity Outlook: Undervalued Market to Move Sideways

1. Significantly undervalued market trading at a PER of 10.1x.
2. Market is unlikely to fall sharply from current levels, as it is moving sideways with turnover below 15Y median, indicating reduced sell pressure.
3. Corporate earnings expected to decline YoY in 1H'2025, particularly for banks facing higher provisioning.
4. A market rally could emerge by Jun-25E, contingent on falling inflation, similar to past regional trends.

How did our stock picks perform in 2H'2024?

Stock Picks	Peak Return	2H'2024 Return
SQURPHARMA	18.7%	3.2%
BXPHARMA	31.5%	-30.9%
RENATA	26.1%	-17.5%
IBNSINA	49.8%	14.8%

Stock Picks	Peak Return	2H'2024 Return
BRACBANK	72.7%	42.9%
CITYBANK	44.6%	21.1%
PRIMEBANK	23.8%	11.4%
DUTCHBANGL	22.1%	1.1%

Stock Picks	Peak Return	2H'2024 Return
GP	70.0%	30.4%
ROBI	66.7%	21.5%
BATBC	29.8%	13.9%
OLYMPIC	70.4%	19.3%

**These picks were recommended in our July 2024 report.

Source: CAL Research

CAL maintains that the DSE is undervalued as it is currently trading at a PER of 10.1x.

The DSE is trading at a PER of 10.1x which is at a 28.9% discount to the 11Y median PER of 14.2x.

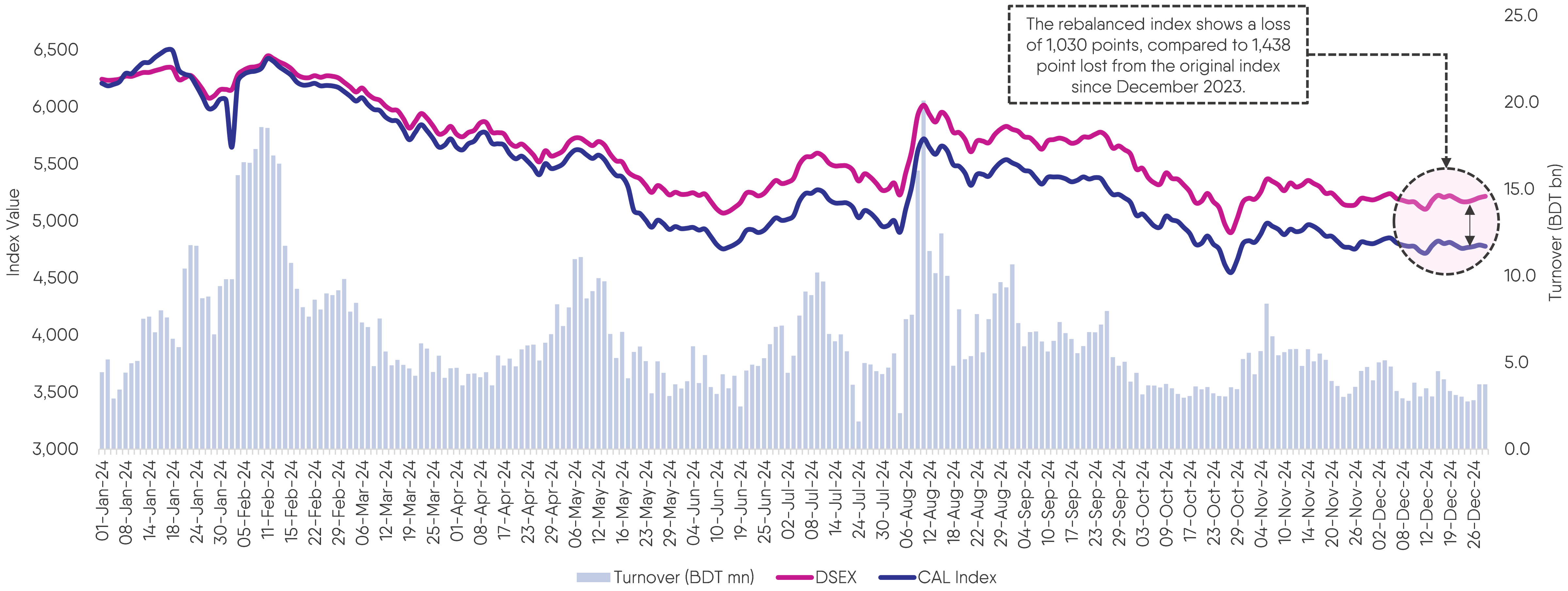
Historical Market P/E (x)

Source: CAL Research, BBS

The market is near to the bottom as the actual DSEX is trading at a 408-point discount to rebalanced index.

At the end of January 2024, the DSE Index was rebalanced to include only 250 companies, down from over 330. Using the original 330+ companies, our CAL index shows that the market is actually 408 points lower than the rebalanced DSEX.

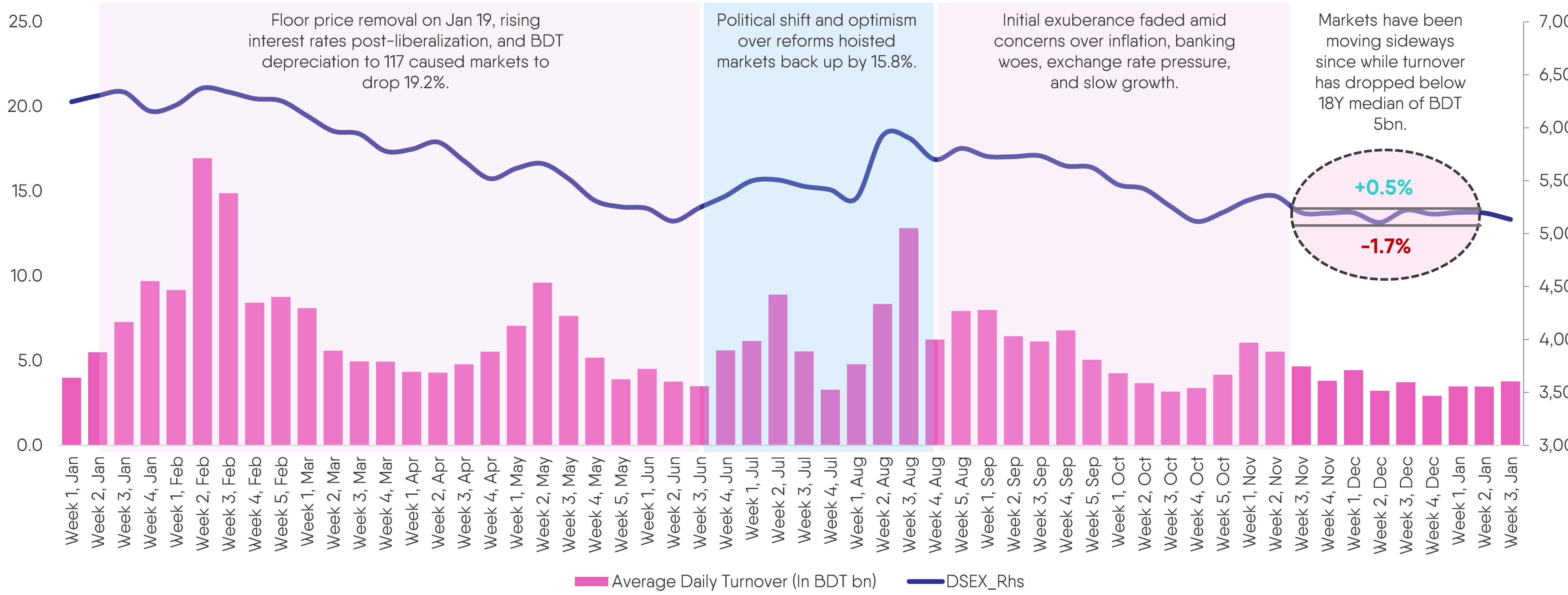
DSEX vs CAL Index



Source: DSE, CAL Research

DSEX is expected to range around 4,900-5,500 by Jun-25E, with low turnover and sideways index movement indicating reduced sell pressure, unless political or external shocks occur.

DSEX (Points) and Turnover (BDT bn) Timeline

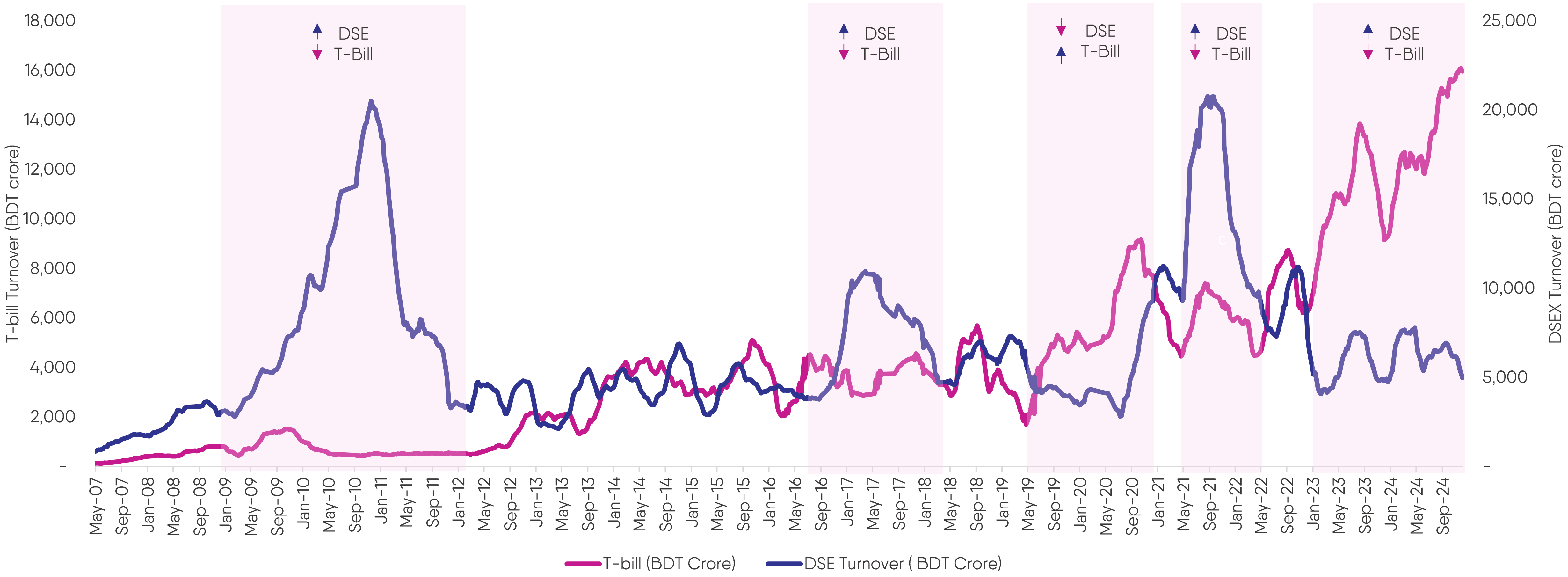


Source: DSE, National Dailies

Market liquidity has fallen dramatically due to decade high GSEC yields which have diverted fund flows to the bond market…

Both the turnovers of the fixed income market and the stock market are negatively correlated as funds will move to whichever market provides the most attractive yields.

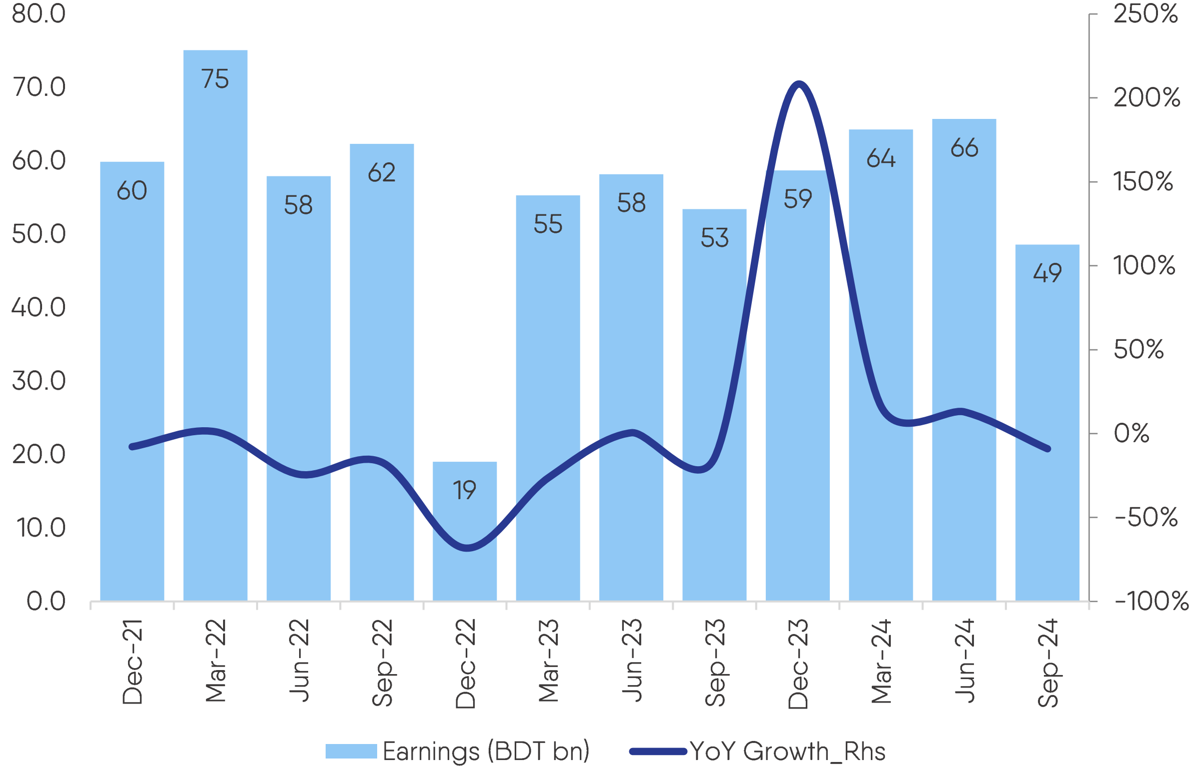
Average Trailing T-Bill Auction Turnover vs DSEX Turnover (BDT Crore)



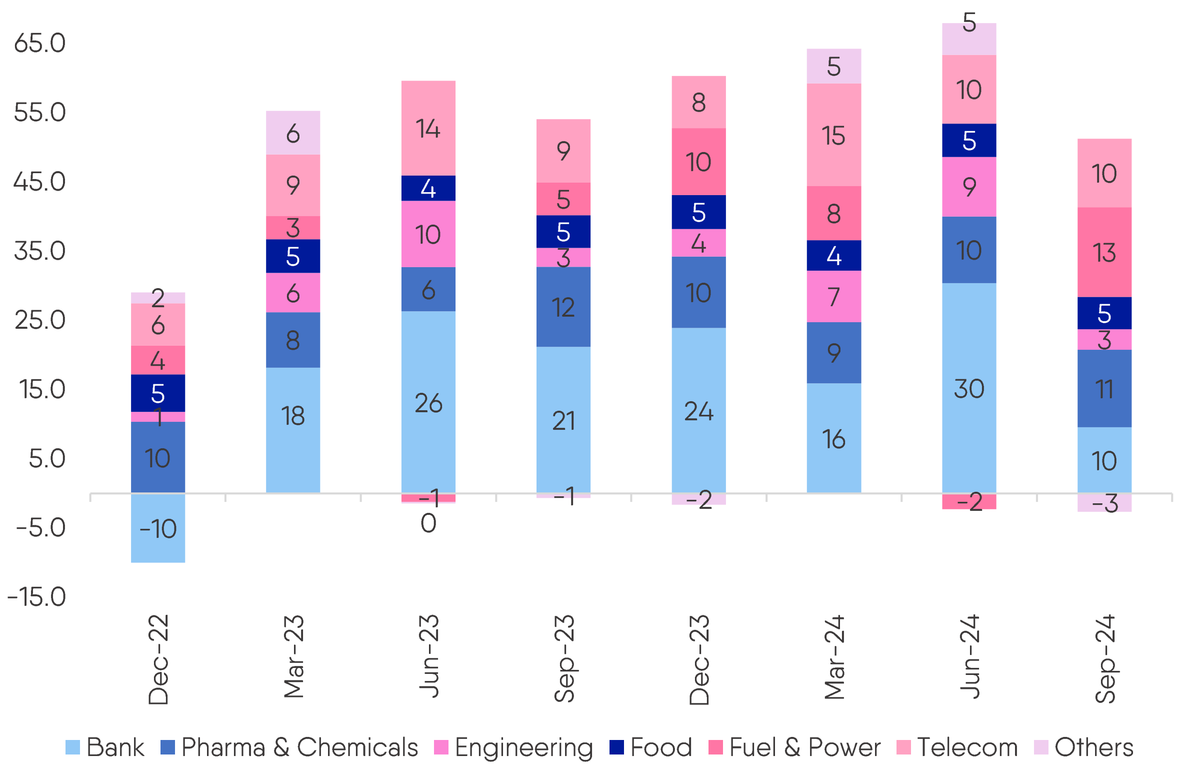
Corporate earnings are expected to decline YoY in 1H'2025 as weaker banks face higher provisioning expenses from tighter loan classification laws effective 30 Sep 2024.

Banks, accounting for 30% of corporate earnings, reported a 54.9% YoY decline in Jul-Sep 2024, with NBL, EXIMBANK, and BANKASIA posting BDT 1bn+ losses. Major Islamic banks, including ISLAMIBANK and ALARABANK, reported losses for the first time. Higher provisioning under new classification rules will further put downward pressure on bank earnings.

Quarterly Corporate Earnings (BDT bn)



Sector-wise Quarterly Corporate Earnings (BDT bn)



**Dec'23 YoY earnings surged due to a low base, as NBL's losses had severely impacted Dec'22 earnings.

CAL Research

Source: Company Financial Statements

Banks with strong balance sheets are poised to outperform sector earnings, driven by gains from their bond portfolios.

Banks with lower ADRs and higher Tier-1 ratios, well within regulatory limits, demonstrate prudent lending practices, shielding them from the impact of new provisioning laws. Their substantial GSEC investments position them to benefit from ongoing gains in bond portfolios due to elevated interest rates.

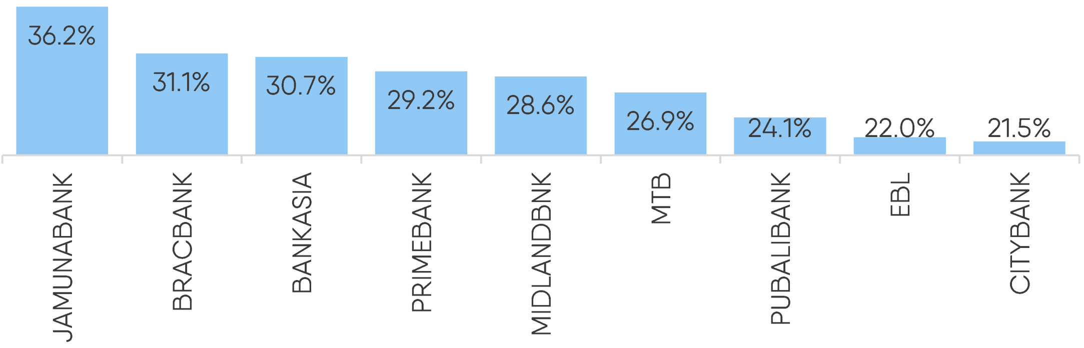
Selected Bank Stock Fundamentals

Rank	Bank	P/NAV	ADR	Tier-1	ROE
1	BRACBANK	1.2x	72.2%	12.3%	18.0%
2	JAMUNABANK	1.0x	65.5%	11.6%	23.8%
3	PUBALIBANK	0.6x	80.4%	9.3%	20.9%
4	PRIMEBANK	0.7x	76.5%	11.3%	17.4%
5	EBL	0.8x	83.9%	10.6%	14.2%
6	CITYBANK	0.7x	83.6%	8.7%	14.9%
7	MIDLANDBNK	2.1x	79.3%	14.9%	7.0%
8	BANKASIA	0.6x	75.9%	9.5%	8.9%
9	MTB	0.5x	80.4%	8.7%	10.6%

ADR and Tier-1 Capital Thresholds for Private Commercial Banks

ADR	Tier-1
<85.0%	<7.0%
85.0%-87.0%	7.0%-9.0%
87.0%+	9.0%+

Selected Bank Stock Investment Size (as % of Total Assets)

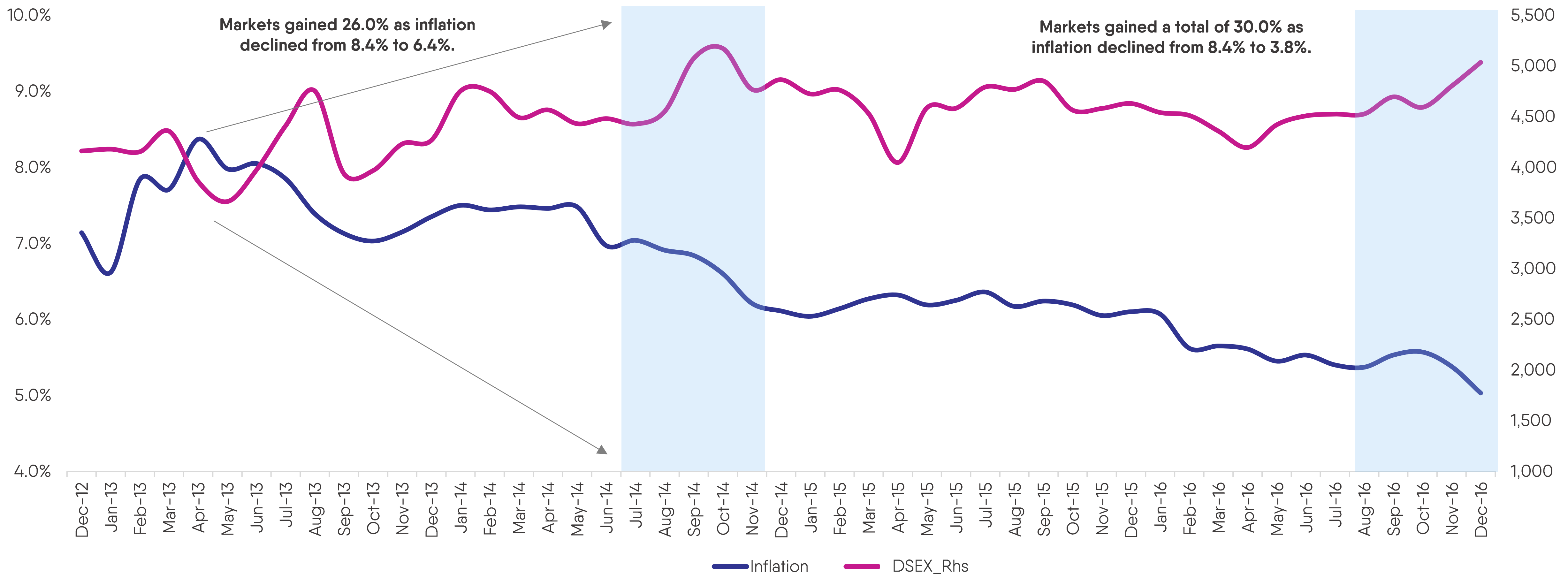


Source: Company Financial Statements, DSE

Medium-Term Outlook: **Possibility of a turnaround exists,** with a market rally potentially emerging in 2H'2025, contingent on a pattern of consistently falling inflation as observed during the 2013-16 rally.

Market returns have historically shown a strong correlation with inflation trends. During the declining inflation period of 2013-2016, markets gained 26.0% YoY following a 200bps drop in inflation, and an additional 30.0% YoY as inflation fell by another 460bps.

DSEX vs Inflation (%)

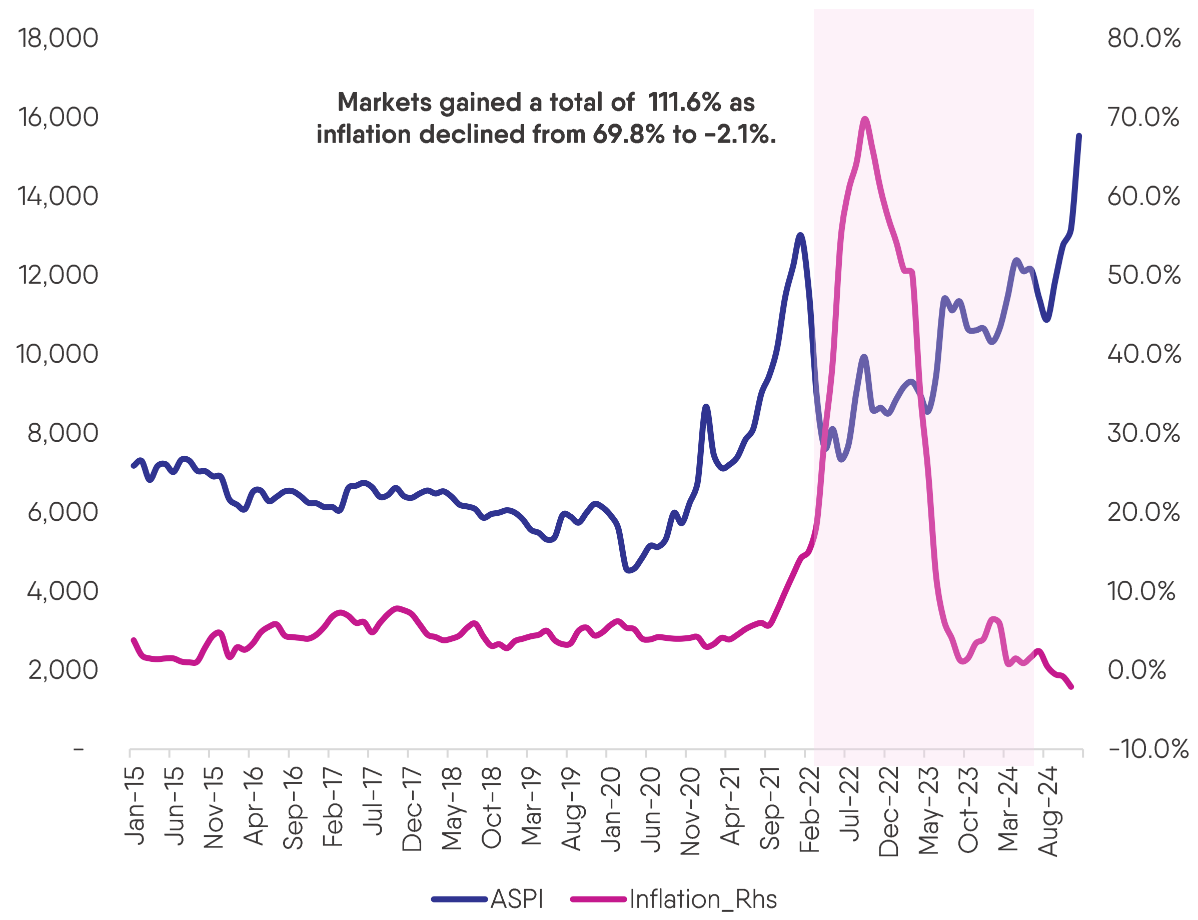


Source: DSE, Bangladesh Bank

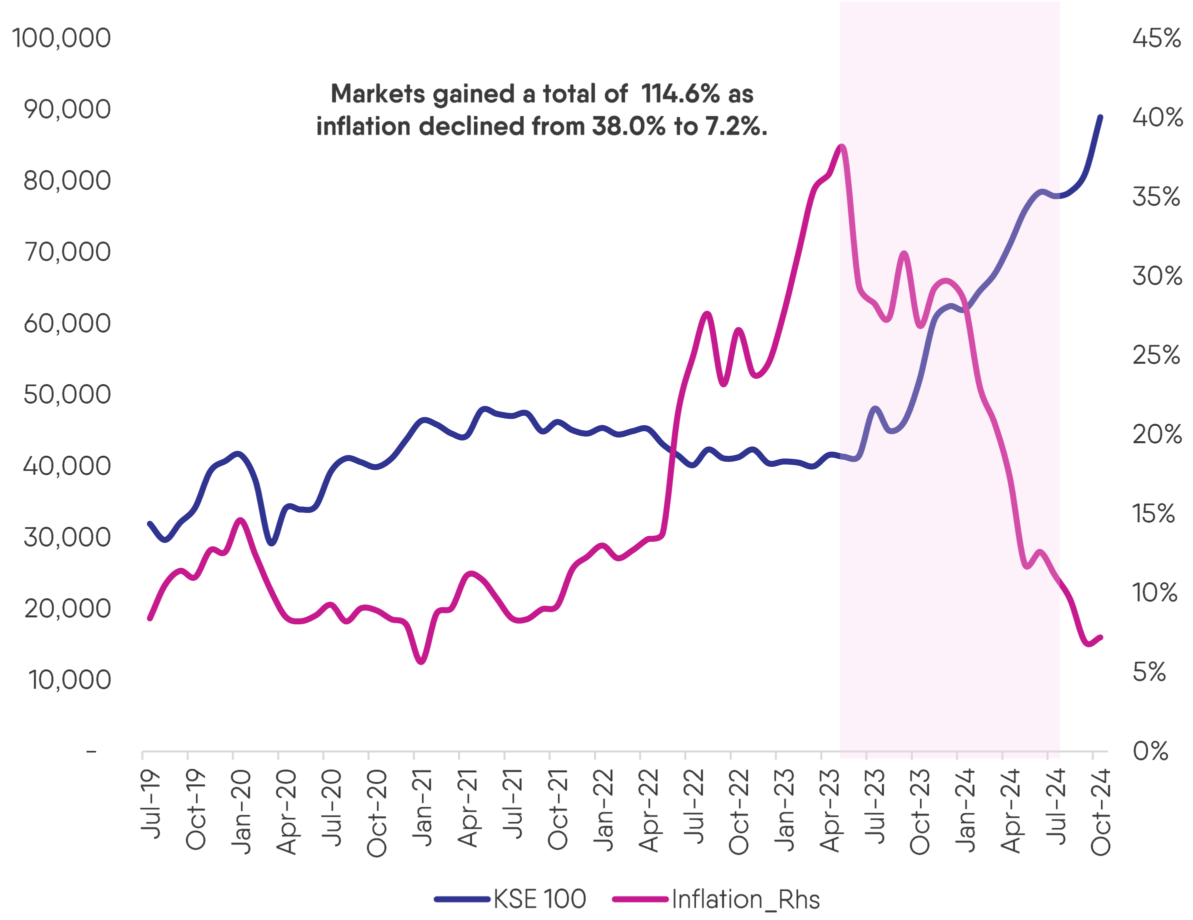
Declining inflation fueled massive market rallies in Pakistan and Sri Lanka, with returns surpassing 100%.

Similar patterns have been observed among distressed regional peers. In Sri Lanka, inflation dropped from 69.8% to -2.1%, triggering a massive market rally with returns of 111.6%. Likewise, Pakistan experienced a 114.6% market gain as inflation declined from 38.0% to 7.2%.

CSE ASPI vs Sri Lankan Inflation (%)



KSE100 vs Pakistani Inflation (%)



Source: Respective Central Banks' Website, Investing.com

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