CAL
BANGLADESH

All Signals Green

Bangladesh Macroeconomic Outlook 2H'2025

August 13, 2025

Executive Summary

Bangladesh's outlook is turning positive, with easing inflation, lower interest rates, and a stable exchange rate expected to revive consumption and investment. GDP growth of 5–6% in FY25–26 is likely, supported by monetary easing and stronger liquidity. For the first time in years, all four key macro signals—inflation, interest rates, growth, and the exchange rate—are aligned in the right direction, turning all signals green. These trends create a Goldilocks environment for equities, with earnings poised to rebound 40% by 2026, margins expanding, and valuations offering over 88% upside from current levels. Political clarity post-elections and returning foreign inflows add to the bullish case.

Exchange Rate

USD/BDT 122-125

By Dec-25E

Easing current account pressures due to robust remittances

Steady foreign debt inflow by virtue of being in an IMF program

Inflation

6.5%-7.5%

By Dec-25E

Relative money supply growth of BDT remains historically low

Domestic food and energy prices easing with global trends amid FX stability

High base effect will cause a steep fall in inflation

Interest Rate

8.5%-9.5%

By Dec-25E

Falling inflation will increase real interest rate and prompt policy rate cuts

Prime borrowing rates will ease, but overall borrowing costs will stay elevated given limited lending capacity and divergent liquidity conditions in the banking sector

GDP Growth

5.0%-6.0%

In FY205-26E

Consumption will gradually recover with falling inflation

Investment growth will rebound on political clarity and lower interest rates

The IMF will Continue to Drive Key Policy Actions in 2H2025

Major IMF Recommendations/Conditions	Implications
Continued Monetary Tightening	Policy rate will be adjusted slowly despite sharp drops in inflation
Reducing Electricity Subsidies	Inflation will increase by 1% above current downward trajectory
Raising Tax-GDP Ratio	Higher taxes and reduced tax exemptions to weigh on consumption
Increasing Forex Reserve	BB will purchase FX, injecting taka liquidity into banks

How do the actual numbers compare with our January 2025 outlook?

Macro Indicator	Actual (Dec-24)	CAL's Forecast	Actual (Jun-25)	Directional Match	Comment
Interest Rate (1-year T-bills)	12.0%	10.8%-11.3%	12.0% In 30th June 10.6% In 30th July	✓	Delayed arrival of IMF funds led to higher domestic financing needs
Exchange Rate (USD/BDT)	BDT c. 122-124 (import)	BDT 125-130 (import)	BDT c. 122-125 (import)	✓	Exchange rates remained stable despite increased flexibility
Inflation (%)	10.9%	8.5% - 9.5%	8.5%	✓	Monetary tightening and a high base brought inflation down below 9%

The forecasts were published in January 2025

Source: CAL Research

Summary of Key Events in 1H'2025

Source: CAL Research

How did these Events Affect the Economy?

1. Inflation fell to 8.5% due to tight monetary policy and high base.
2. Market-based USD narrowed the official–kerb gap, boosting legal inflows.
3. BDT rose on a strong current account, though BB intervened.
4. 1-year T-bill fell from 12.0% in Jun ’25 to 10.6% in Jul’25 after IMF inflows.
5. Tariff uncertainty drove a 5.4% YoY drop in FDI reinvestment in 1QCY25.
6. Government paid off USD 5.1 bn in power arrears in FY25

Summary of CAL's Macroeconomic Outlook for Dec-2025

All Signals Green

No Turbulence Ahead

Exchange Rate

BDT 122-125/USD

Cleared for Landing

Inflation

6.5%-7.5%

Cross-walk Clear

Interest Rate

8.5%-9.5%

Full Steam Ahead

GDP Growth

5.0%-6.0%

Exchange Rate

No Turbulence Ahead

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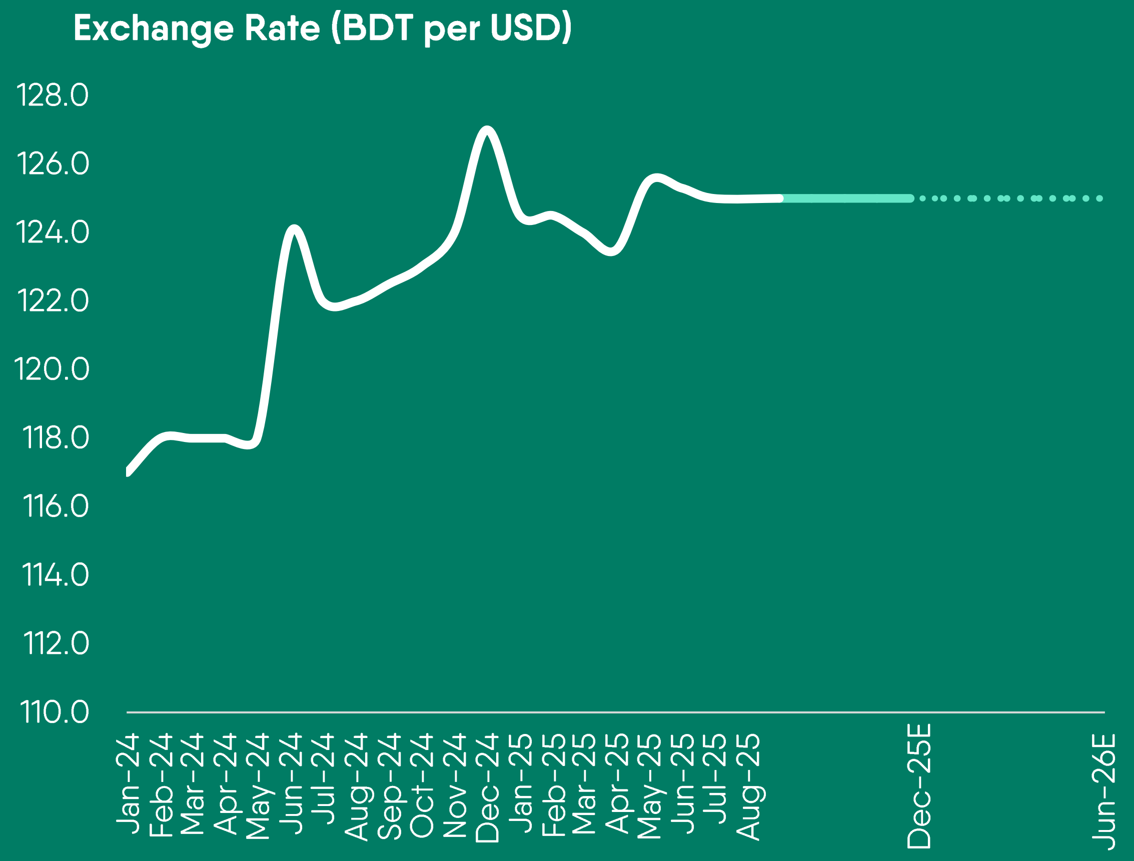
Exchange Rate

BDT 122-125/USD by Dec-25E

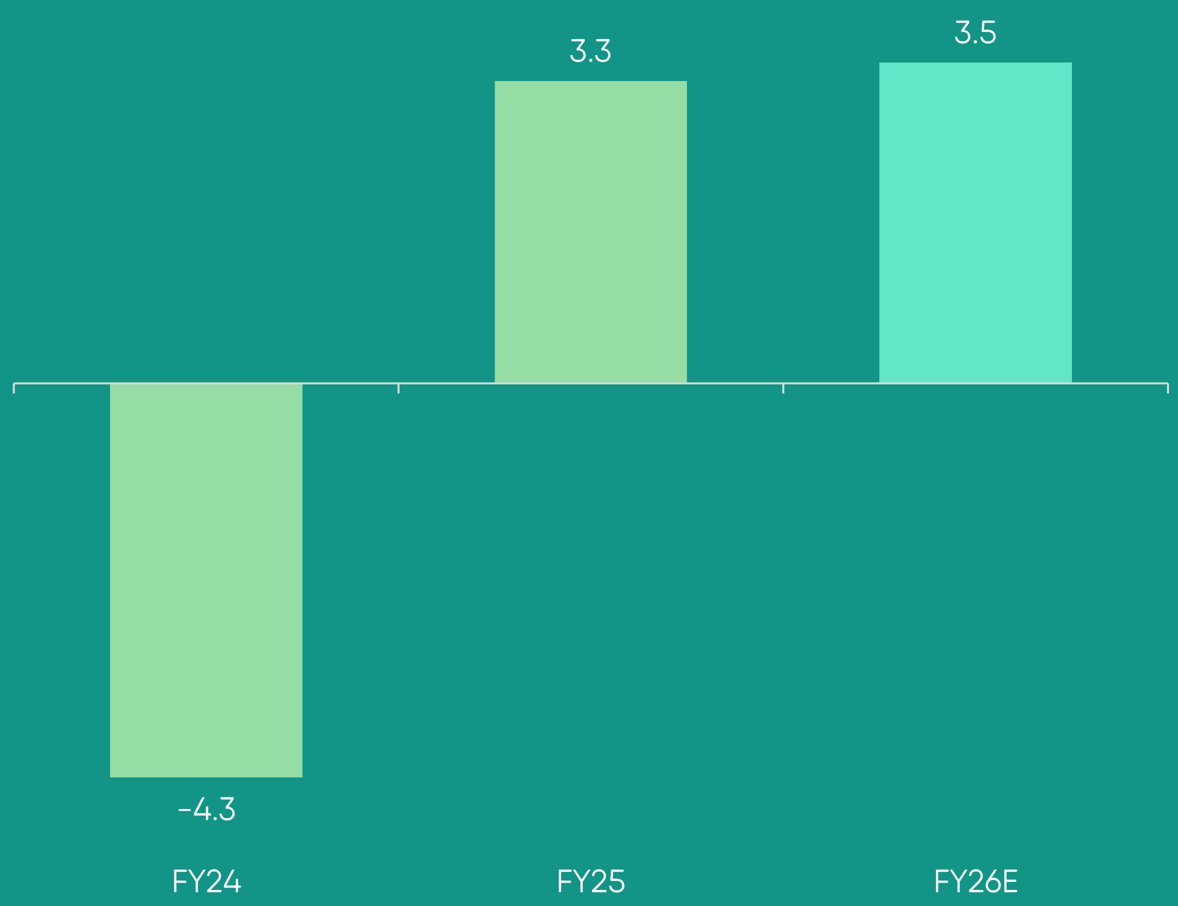
1. FY25 current account positive on strong remittance
2. FY26 current account positive on subdued imports, low arrears and stable remittance
3. Stable foreign debt inflows to sustain BoP surplus
4. Weak USD and rate differentials to support BDT



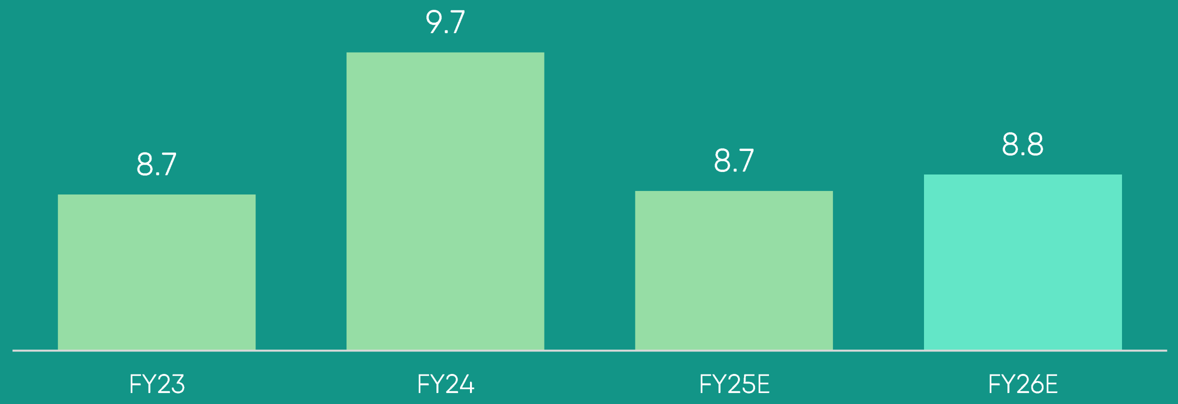
CAL expects the exchange rate to remain stable within BDT 122-125/USD, supported by a balance of payments surplus, a weaker USD, and steady foreign debt inflows

The exchange rate is expected to remain stable, supported by a positive current account balance and steady foreign debt inflows, together delivering a projected USD 3.5bn balance of payments surplus. A weaker US dollar index will provide additional support to the exchange rate.

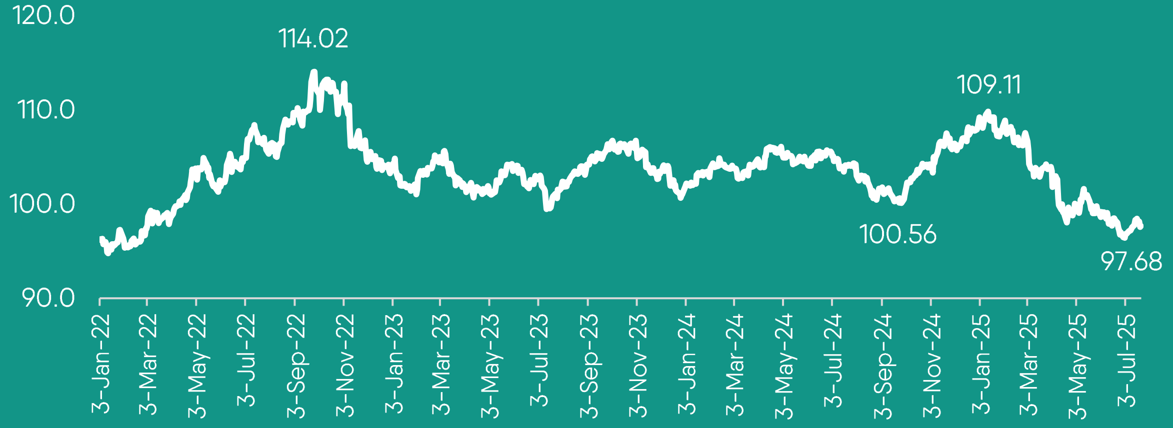
Balance of Payments (USD bn)



Expected Foreign Debt Inflow (USD bn)



US Dollar Index

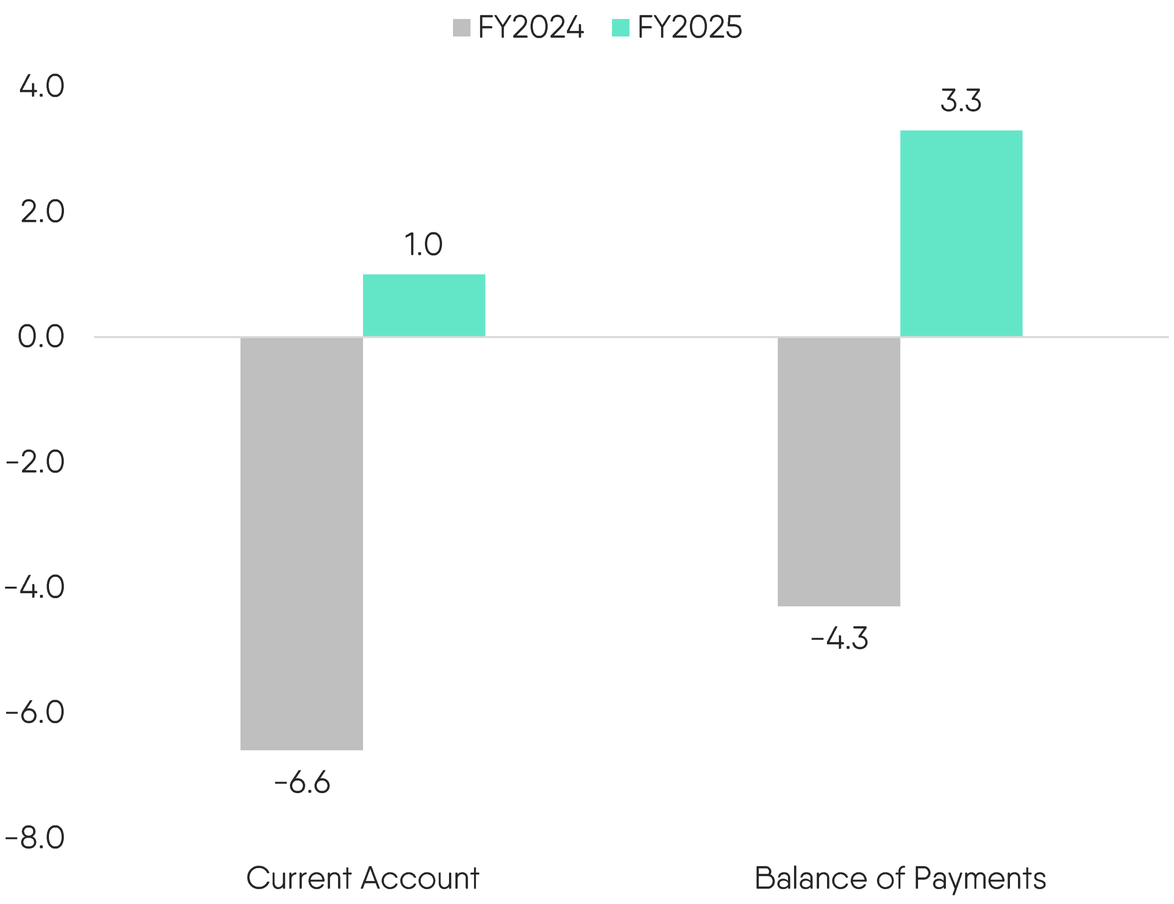


Source: CAL Research Estimates, IMF, investing.com

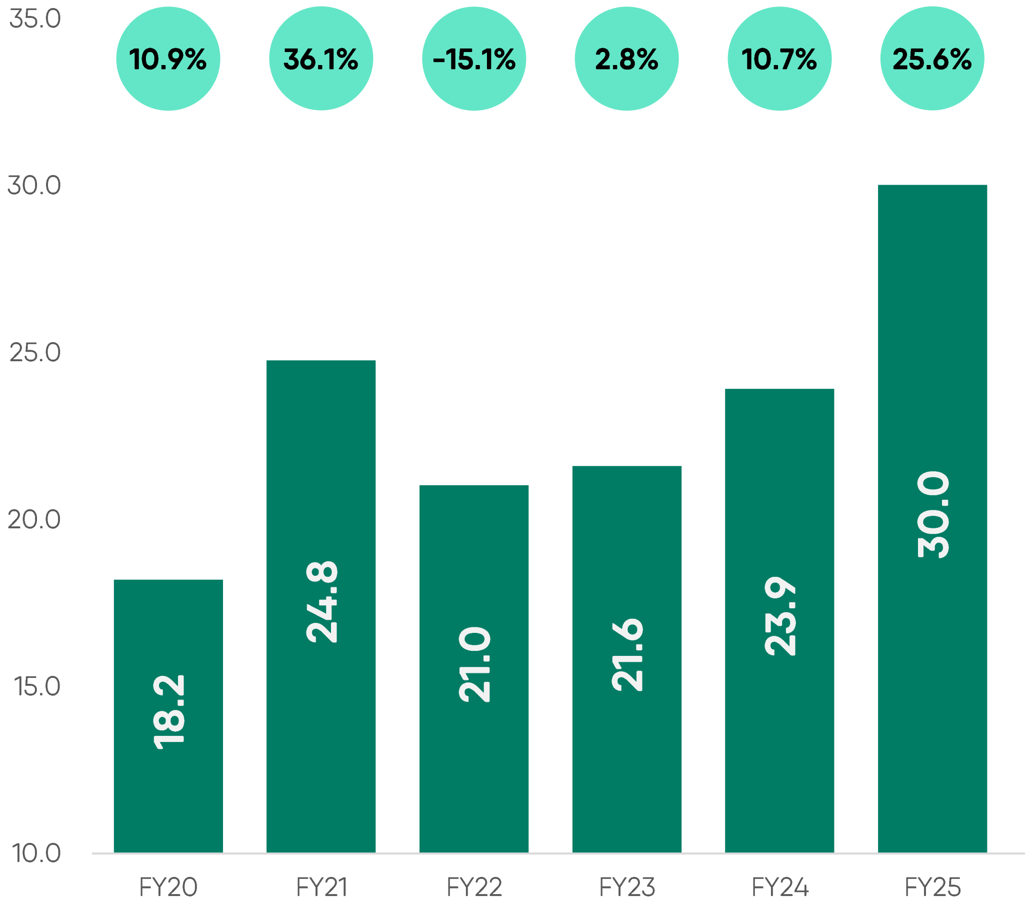
Both the **current account balance and balance of payments recorded a surplus in FY25**, supported by strong remittance inflows.

In FY25, the current account and BOP posted surpluses of USD 1.0bn and USD 3.3bn, respectively, reversing last year's deficits. The improvement was underpinned by robust remittance inflows, which rose 25.6% YoY to USD 30bn.

Cumulative Bangladesh External Balance (USD bn)



Annual Remittance (USD mn) and YoY Change (%)

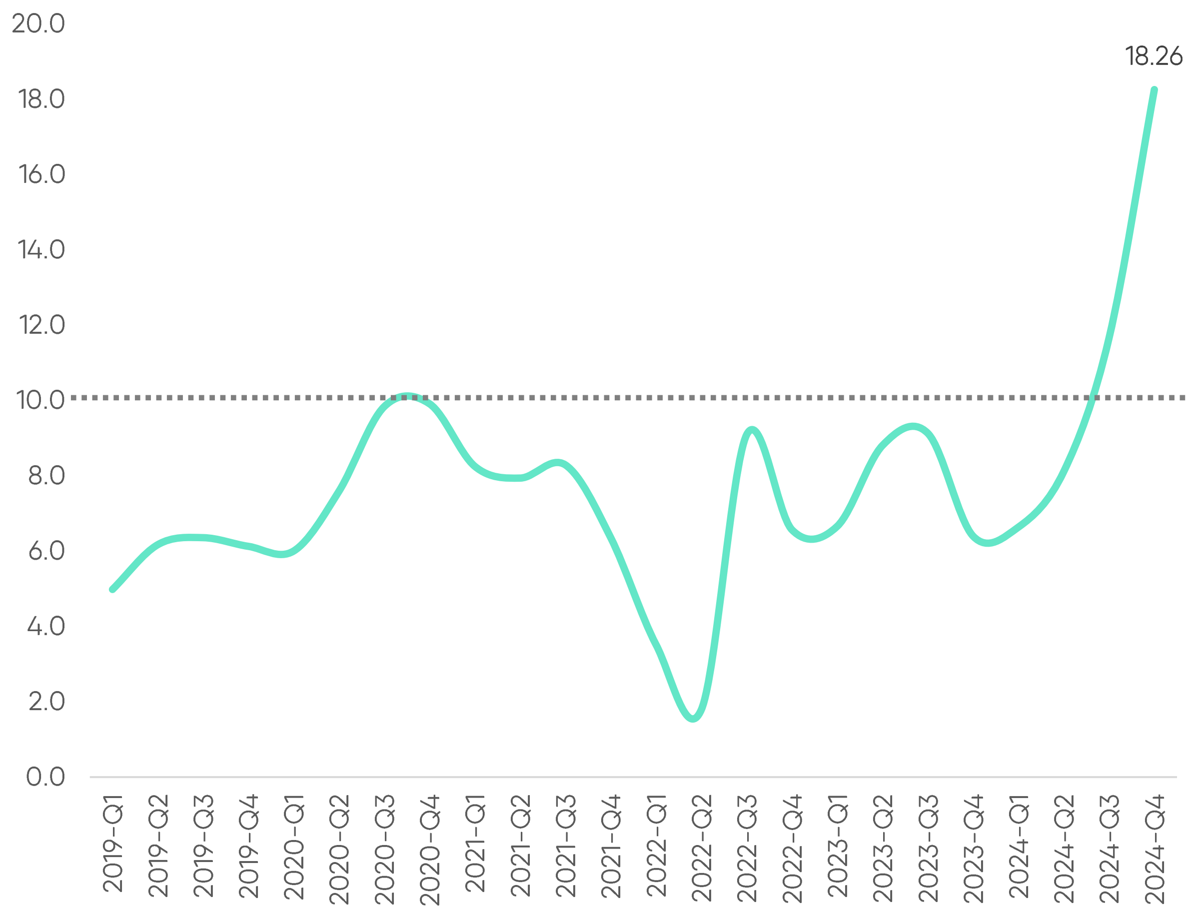


Source: Bangladesh Bank, CAL Research Estimates

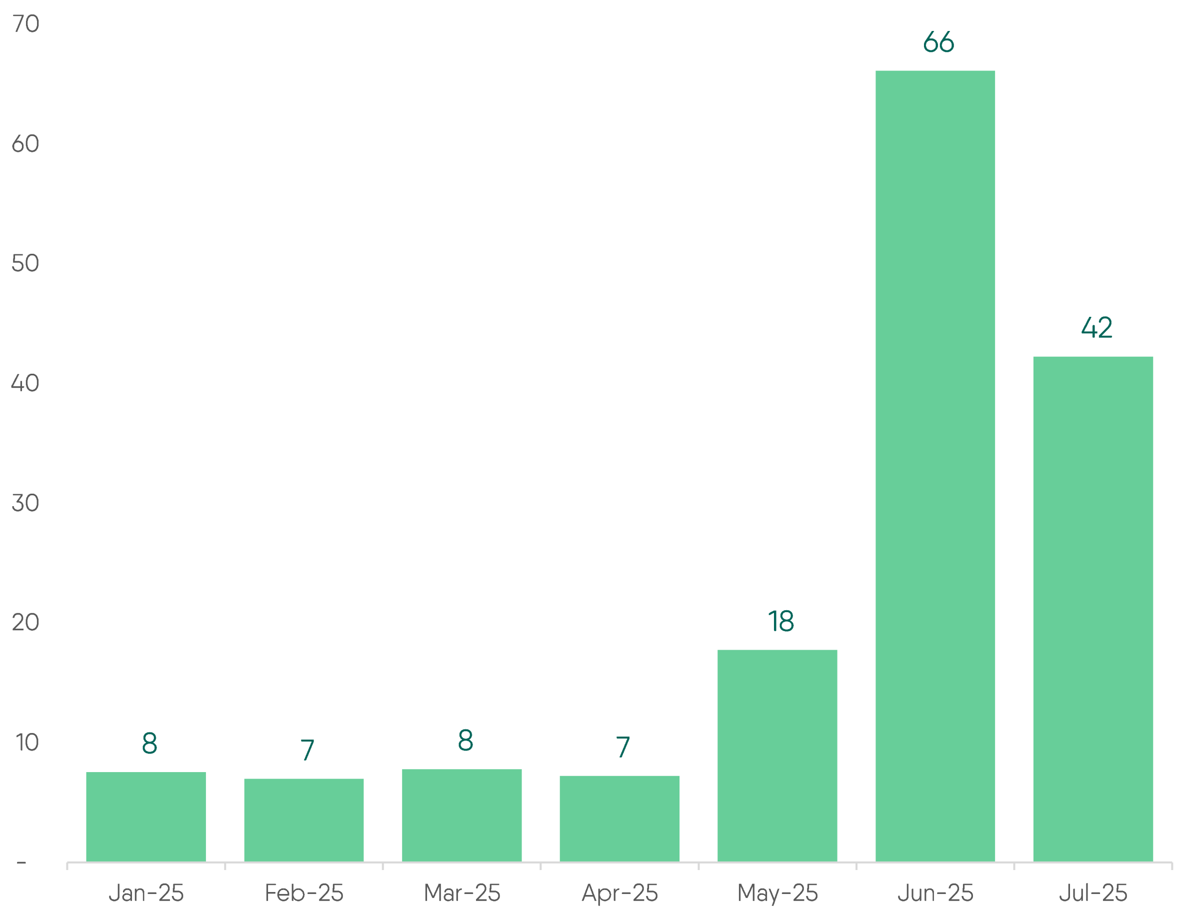
FX availability has increased significantly with an active interbank market in a market-based exchange rate regime

FX availability in the banking sector has remained strong since 4Q2024, with foreign debt inflows lifting banks' net open position in FX to total assets to a 5-year high by December. The Bangladesh Bank's move to float the exchange rate in mid-May 2025 spurred a sharp increase in interbank FX activity, with average turnover rising 2–4x. A June BOP surplus further boosted dollar supply, supporting market liquidity.

Net Open Position in Foreign Exchange to Total Assets (%)



Average Daily FX Turnover in Interbank Market (USD mn)

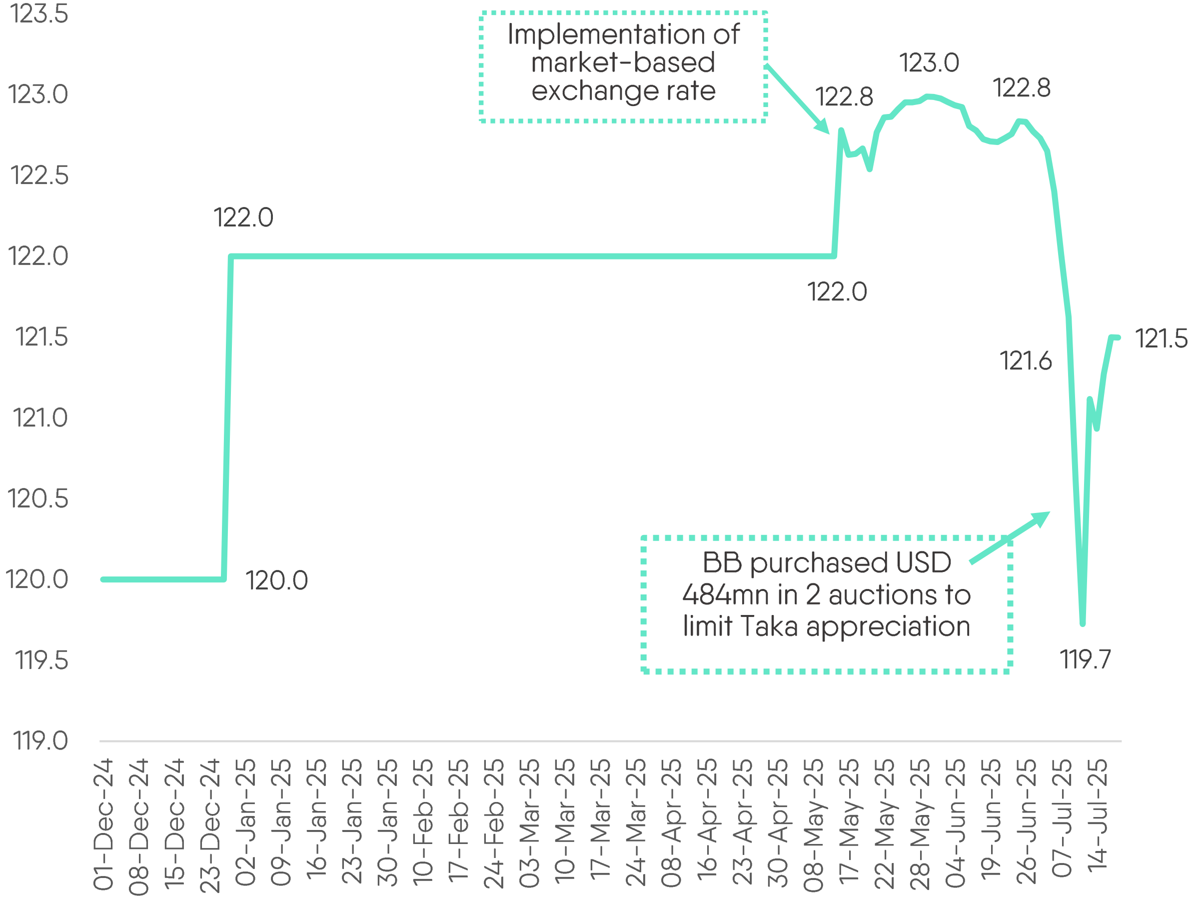


Source: Bangladesh Bank, CAL Research Estimates

BB intervened in the FX market in July to limit BDT appreciation to protect export competitiveness and incentivize remittances

In July, Bangladesh Bank purchased USD 484 million through two auctions to curb appreciation pressure on the BDT. The exchange rate had strengthened to BDT 119.5 amid weak dollar demand—driven by a slowdown in capital machinery imports ahead of the elections—prompting the central bank's intervention. Following these purchases, the BDT settled near 121.5 per USD.

Exchange Rate in Interbank Market (w.avg.) (BDT per USD)



Foreign Exchange Reserve – BPM6 (USD bn)

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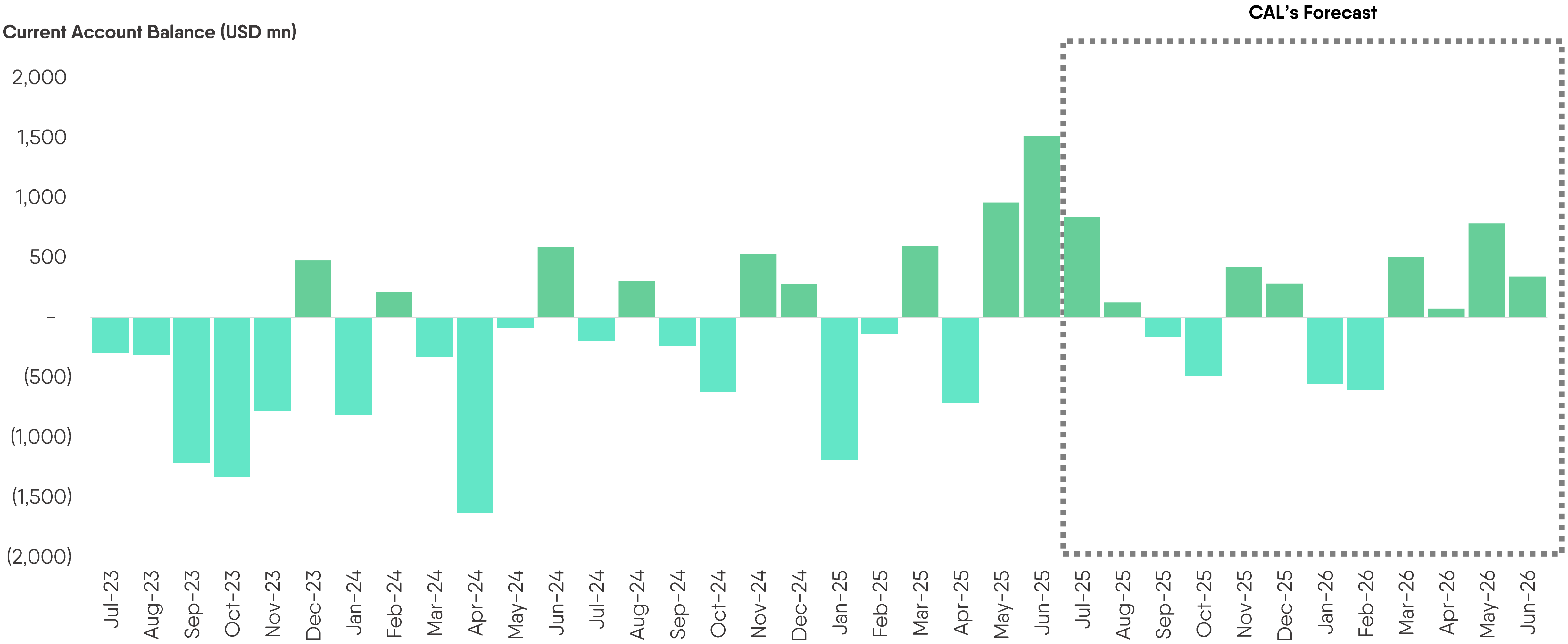
Source: Bangladesh Bank

CAL expects the **current account balance to remain positive** in the next fiscal year as well.

Excluding periods of elevated imports—pre-Christmas export orders and pre-Ramadan demand influx—the current account is generally expected to remain in surplus.

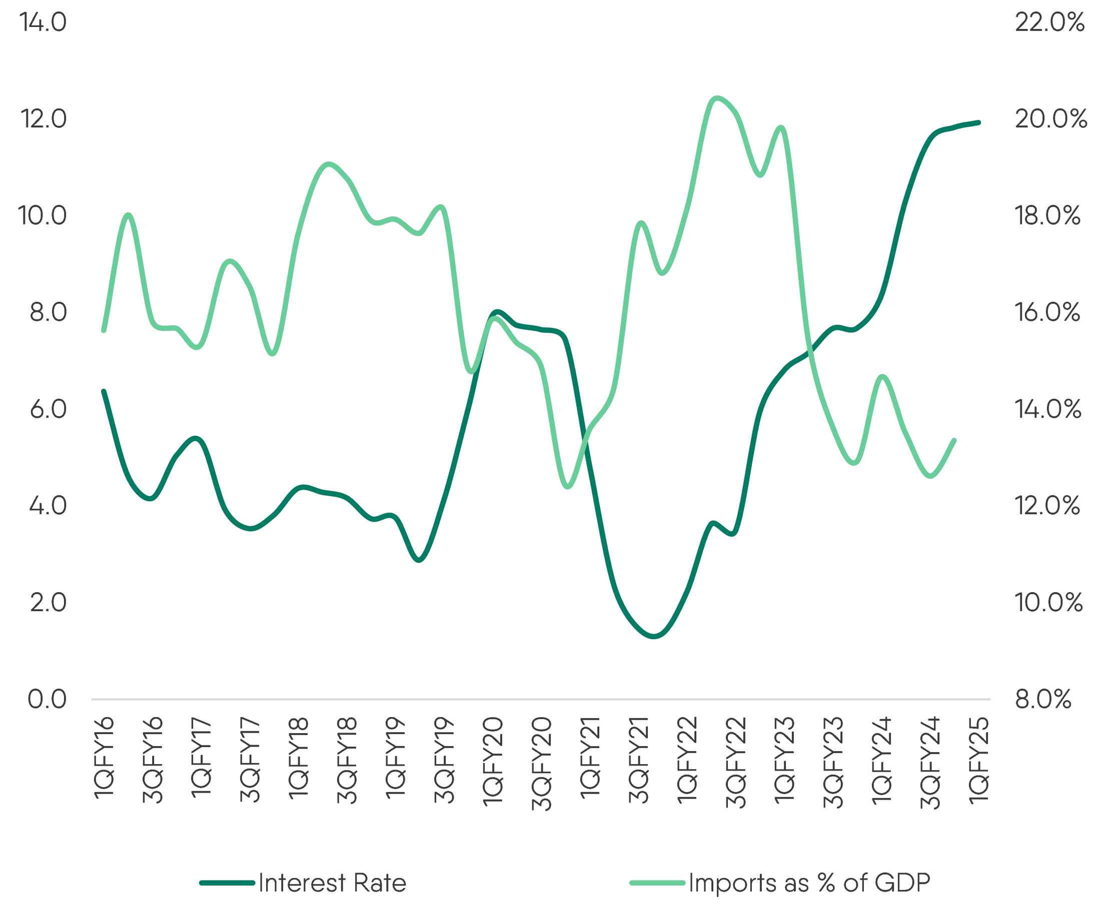


Source: Bangladesh Bank, CAL Research Estimates

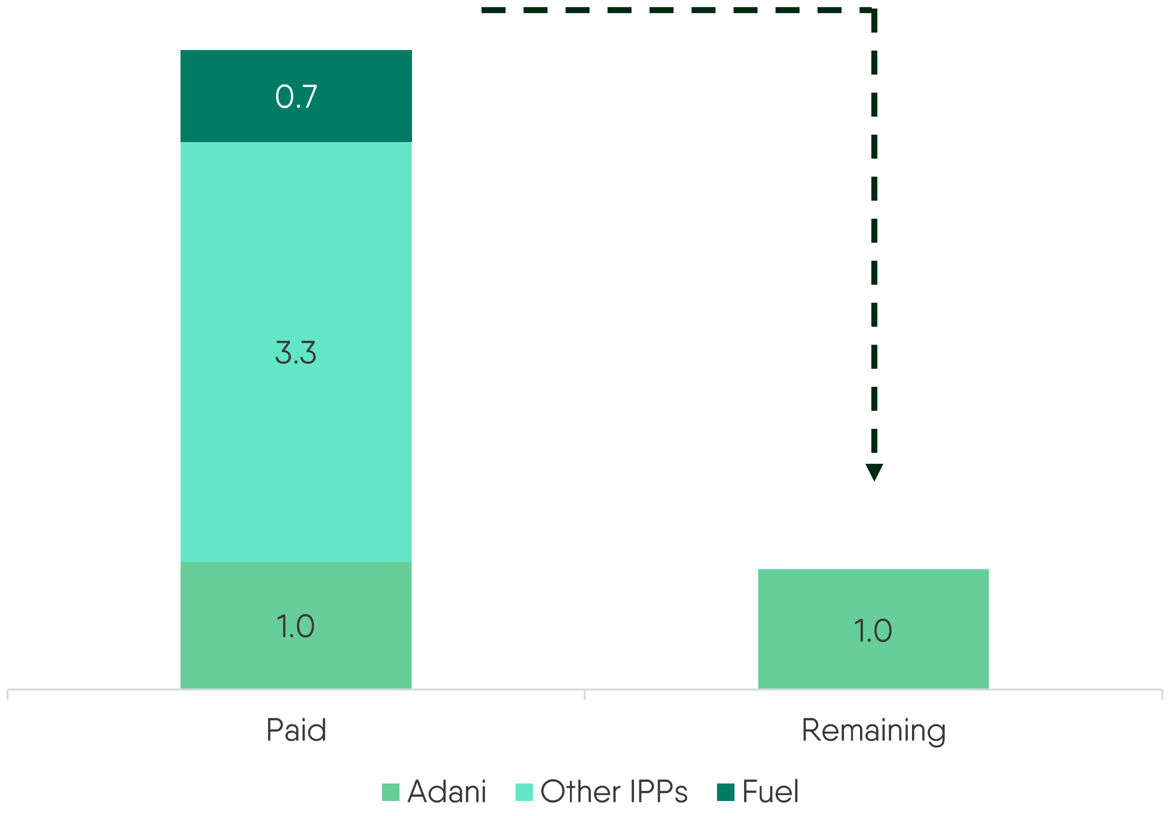
The surplus will be sustained by **lower imports** and easing pressure from **reduced arrears**.

Elevated lending rates are expected to weigh on imports, keeping them subdued in 2026E. Meanwhile, the government's repayment of ~USD 5.0bn in power sector arrears has significantly reduced outstanding balances, easing payment obligations and lowering payment pressure in 2026E.

Imports as a % of GDP vs Lending Rates (%)



Power Arrears Balance (USD bn)

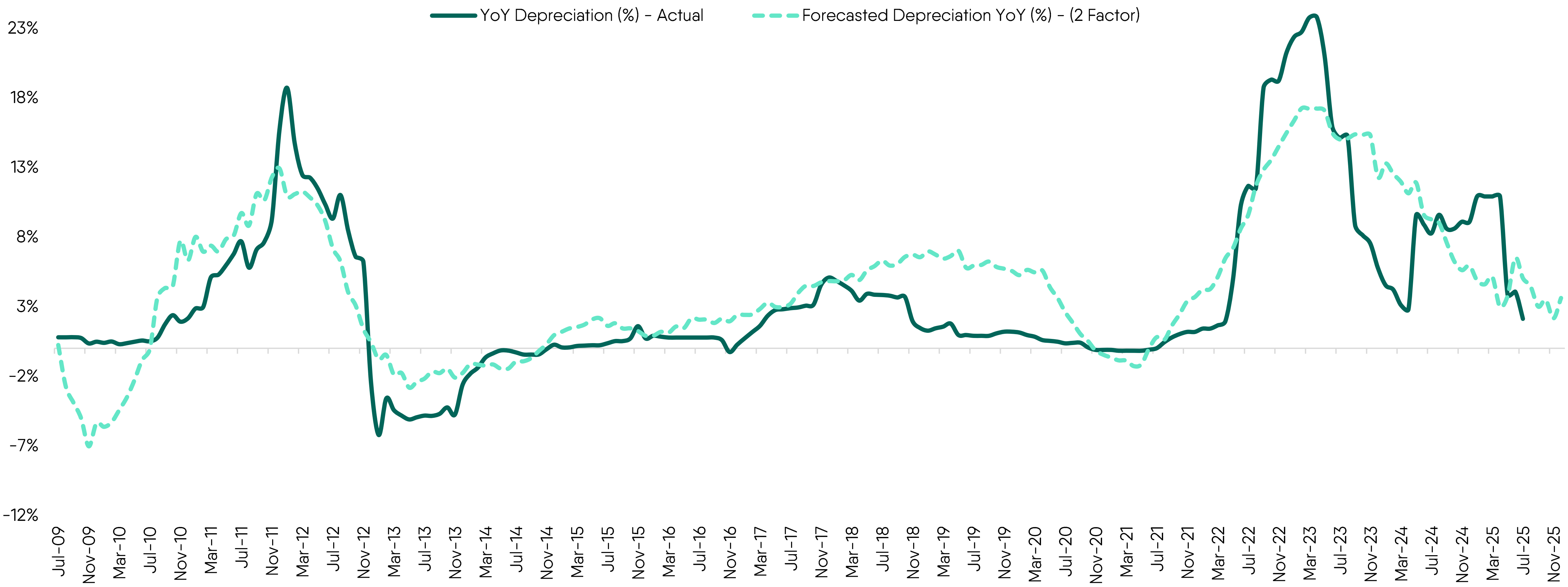


Source: Bangladesh Bank, National Dailies, CAL Research Estimates

This is consistent with **CAL's currency model** which indicates there is no depreciation pressure on the currency.

CAL's proprietary currency model, which has been 90% accurate in its currency forecast, estimates that there is no further depreciation pressure on the BDT.

Current Account Balance (USD mn)



Source: Bangladesh Bank, Federal Reserve Bank of St. Louis, CAL Research Estimates

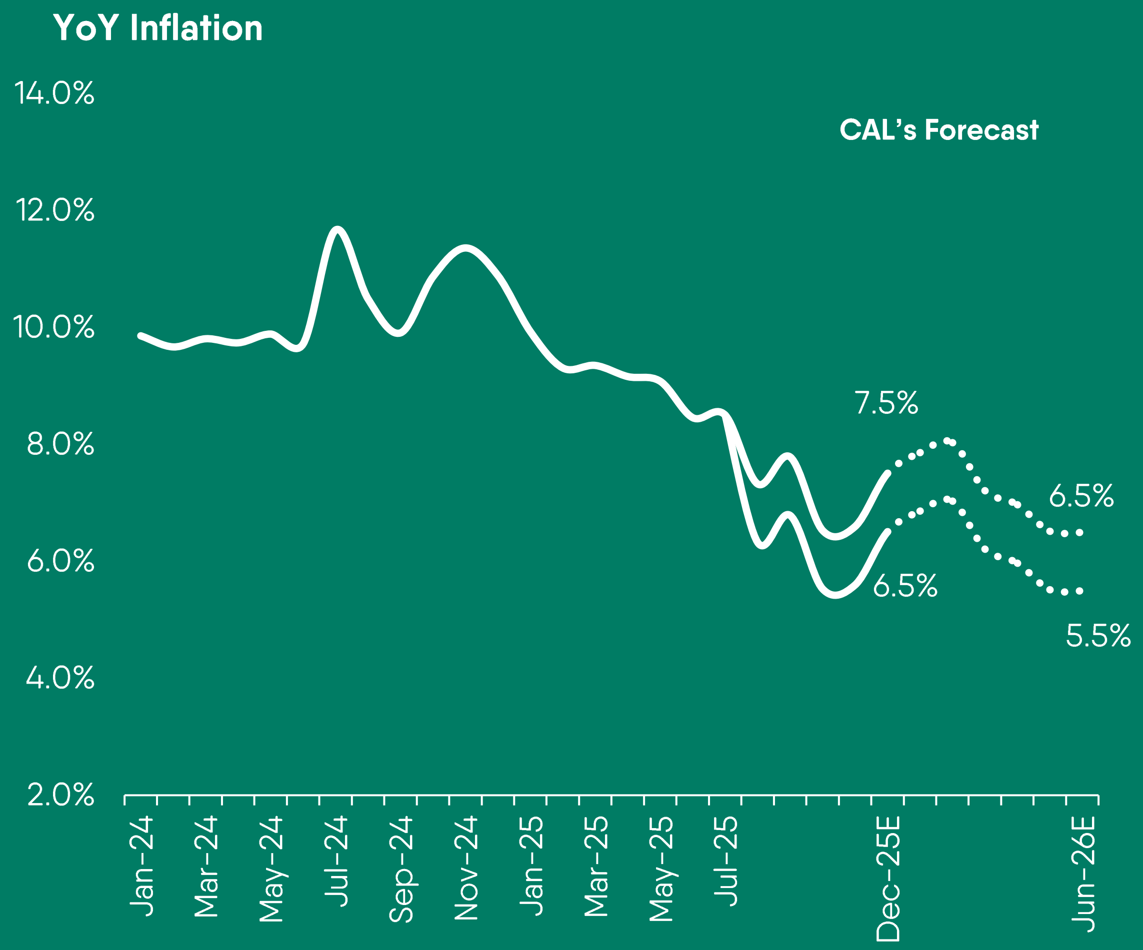
Inflation

Cleared for Landing

Inflation

6.5%-7.5% by Dec-25E

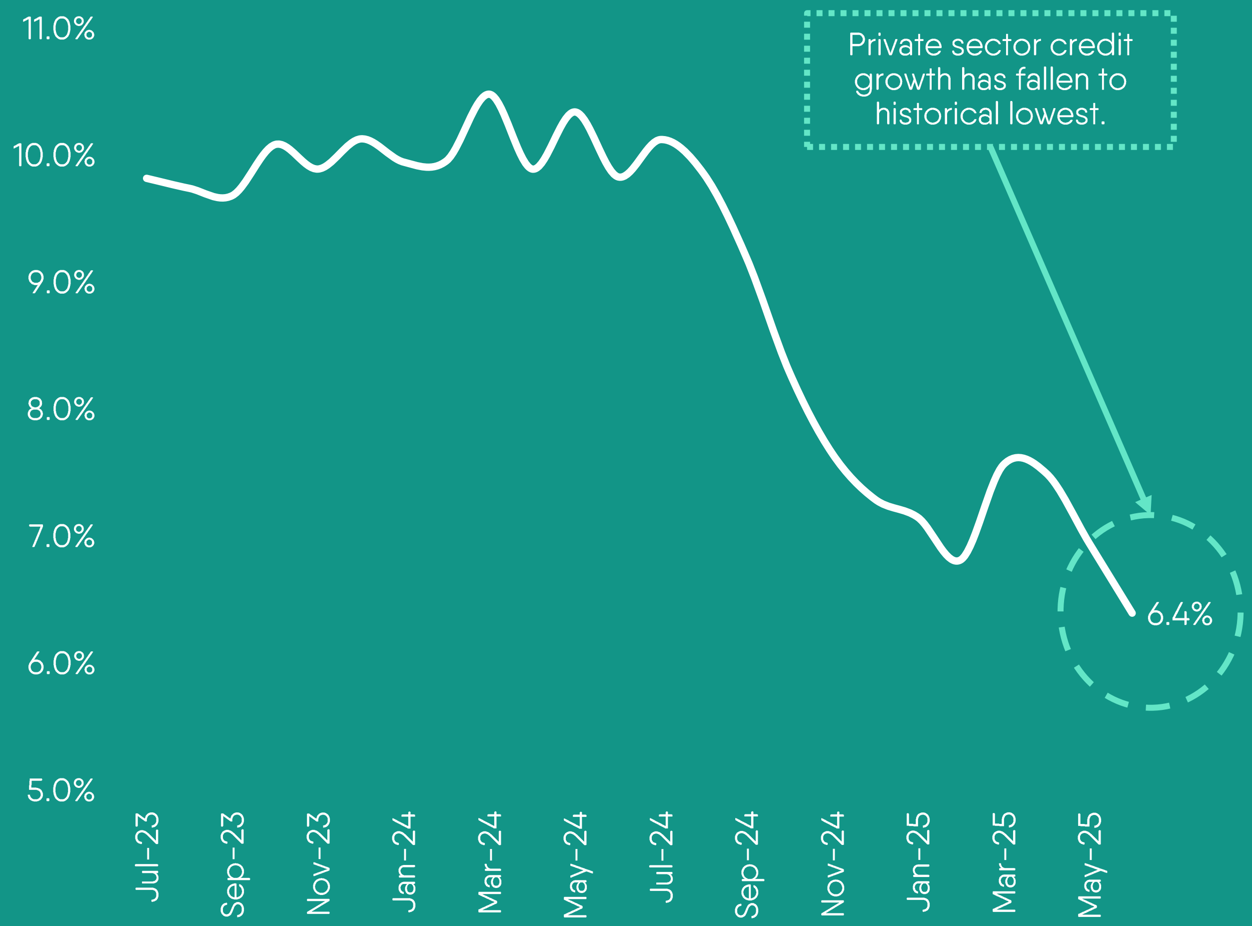
1. Inflation will keep easing on tight policy, low demand and base effect
2. Stable USD and lower global prices to reduce import costs
3. Global fuel prices down; local adjustments likely to follow



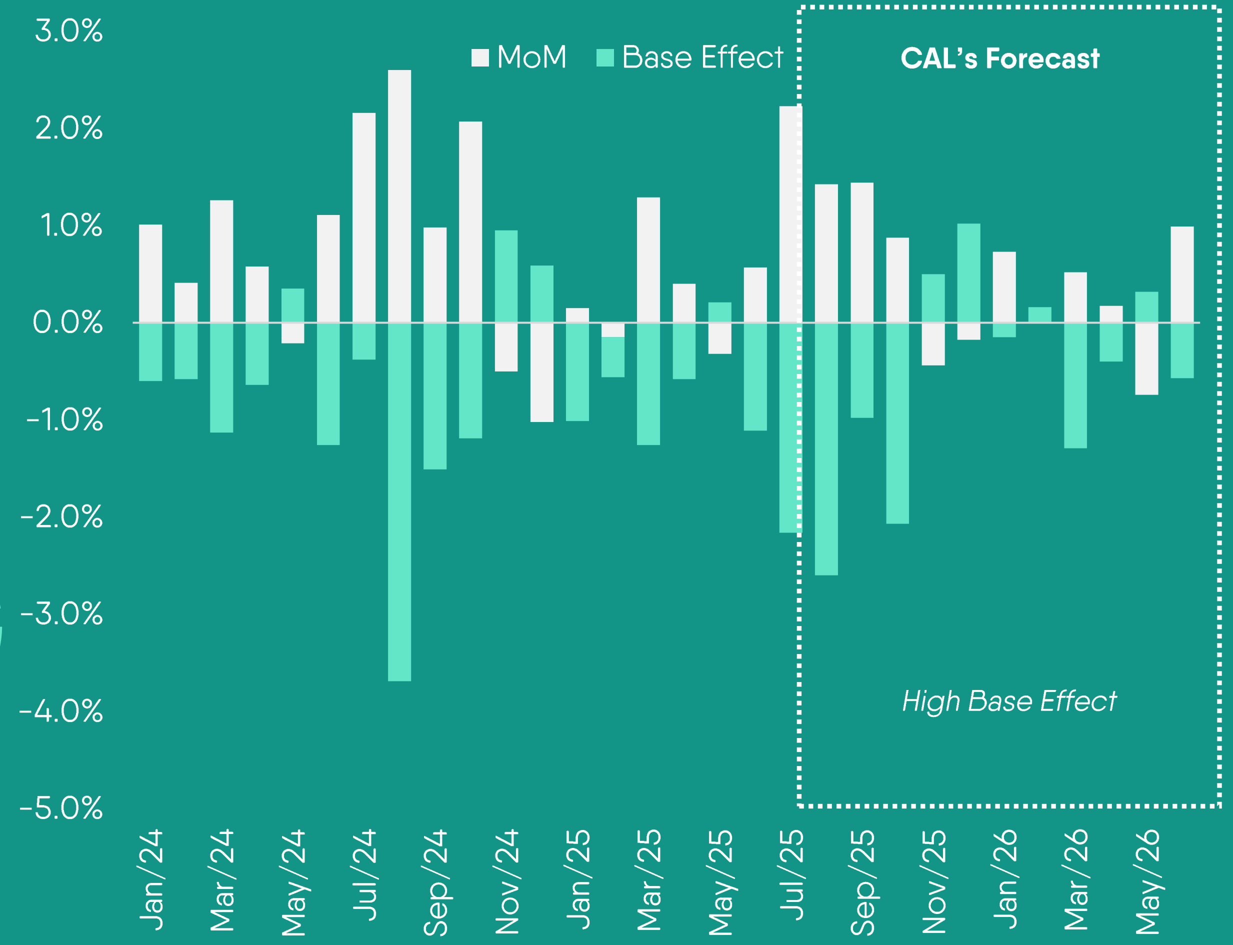
Inflation will drop to 6.5–7.5% by Dec-25E, driven by weak demand and high base

Private credit growth has fallen to a historic low of 6.4%, driven by the central bank's continued monetary tightening, which should help ease inflationary pressures. Moreover, the high base from last year's price surge will constrain YoY inflation in 2H2025 and 2026E.

Private Credit Growth (%)



MoM Inflation (%)

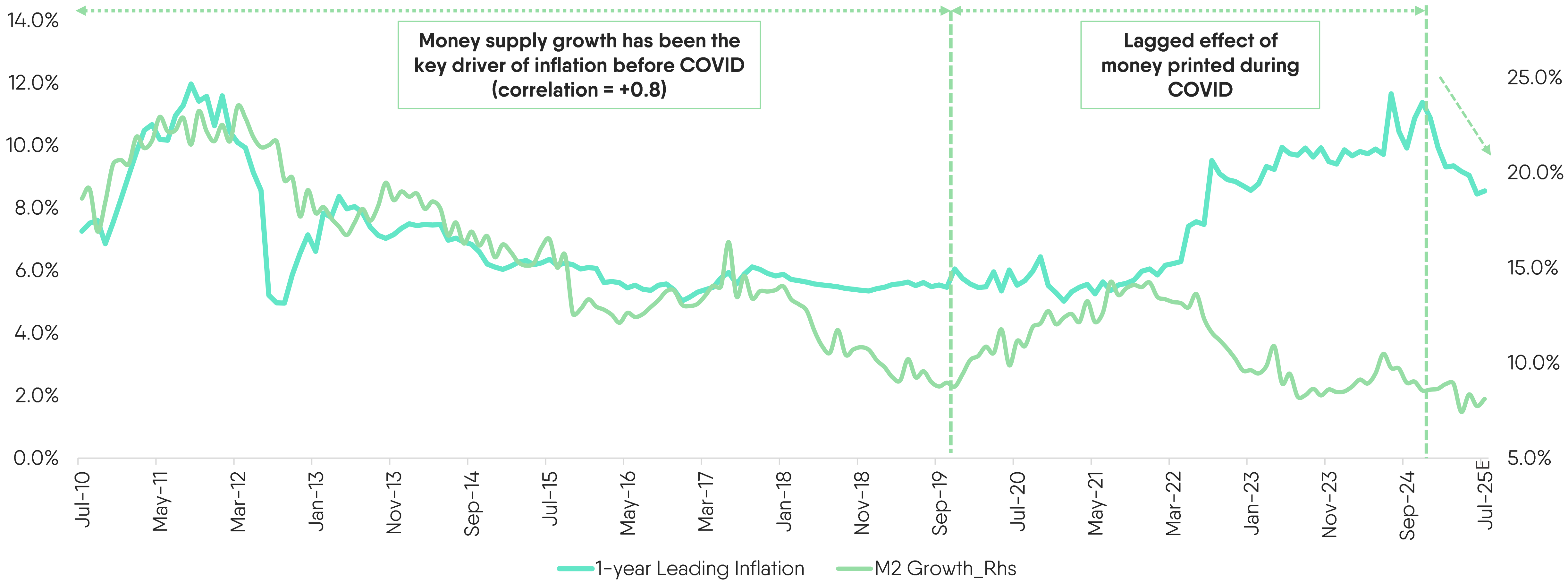


Source: CAL Research Estimates, Bangladesh Bank, BBS

Inflation finally dropped below 9% after 27 months. **Record-low money supply growth will support further declines in the months ahead.**

With an 80% correlation to one-year-ahead inflation, the historically low money supply growth observed throughout FY2024–25 is likely to support a steady decline in the year ahead.

Money Supply Growth vs. 1-yr Lagged Inflation (%)

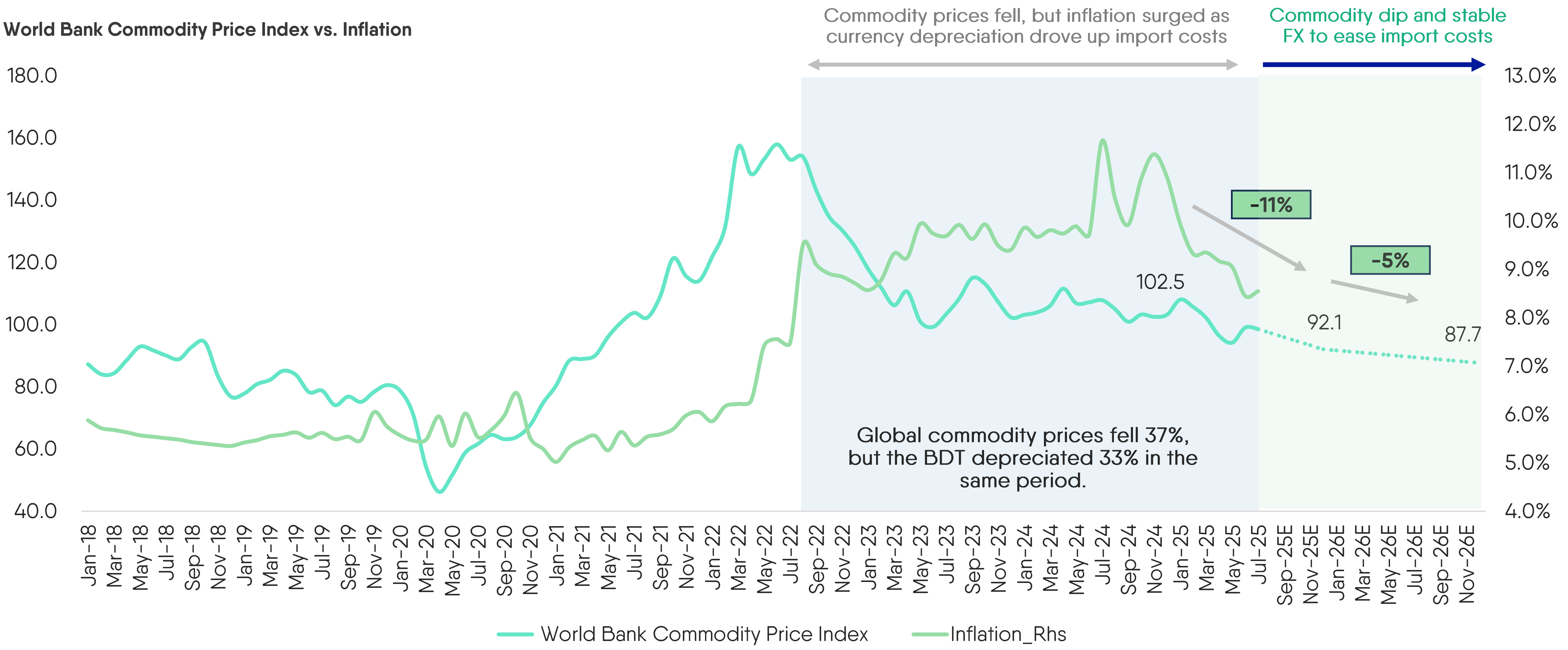


Source: Bangladesh Bank, BBS

With the exchange rate now stable, **benefits of lower commodity prices in international markets can finally reach local markets.**

Global commodity prices have been declining since peaking during the early phase of the Russia-Ukraine war. However, the sharp depreciation of the BDT limited the pass-through of price relief to domestic markets. With the exchange rate expected to remain stable in 2H2025, the Bangladesh economy should finally be positioned to benefit from lower commodity prices.

World Bank Commodity Price Index vs. Inflation

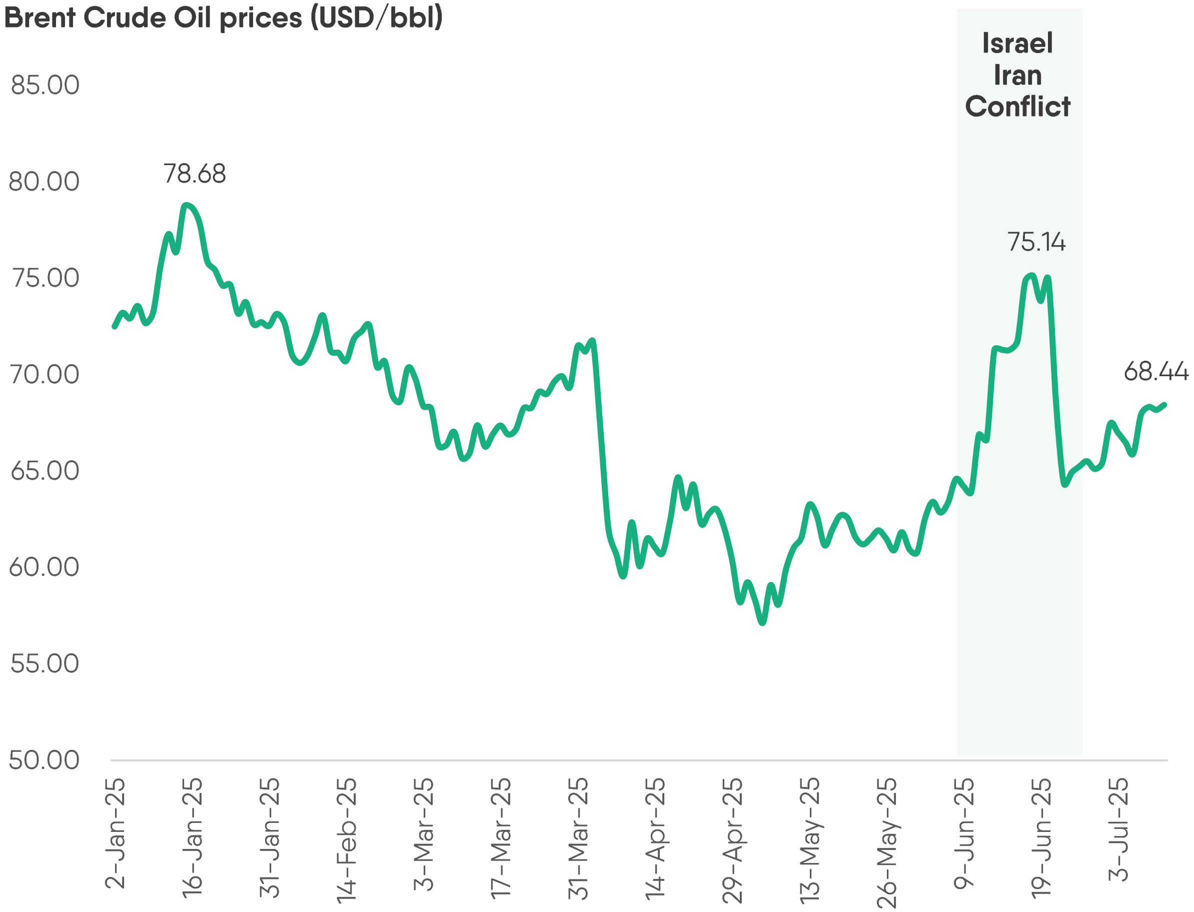


Source: World Bank, BBS

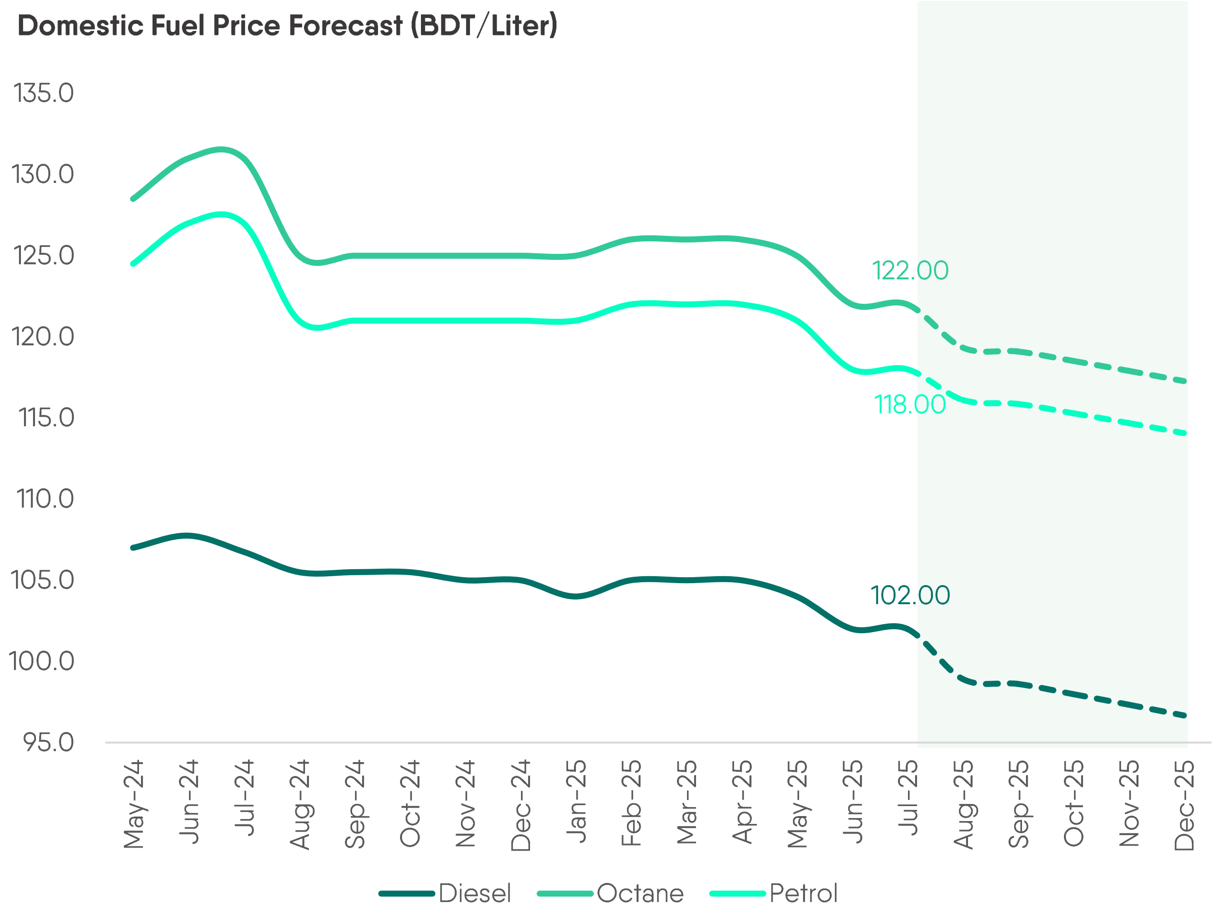
Domestic fuel prices are likely to remain on a downtrend in the coming months as oil price volatility seen during the Israel-Iran conflict has eased, and the exchange rate is expected to remain stable.

Despite brief volatility during the Israel-Iran conflict, global fuel prices have returned to average levels. Domestic fuel prices, already on a downward trend, are likely to remain soft through 2025, easing pressure on non-food inflation and limiting pass-through to food prices.

Brent Crude Oil prices (USD/bbl)



Domestic Fuel Price Forecast (BDT/Liter)

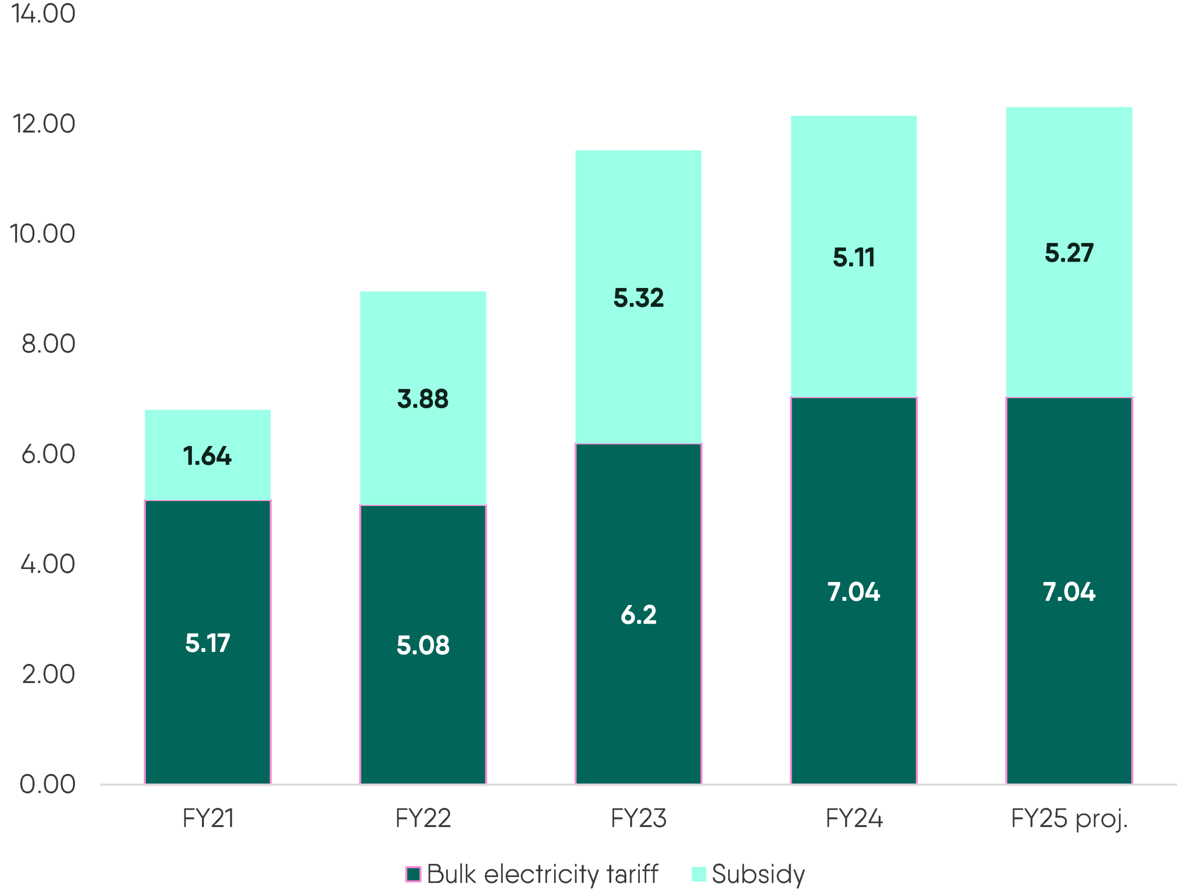


Source: investing.com, CAL Research Estimates

Major Risk to Inflation: A 10% power Tariff hike during the year could push inflation to 8.0% by Dec-25E

The government is expected to announce a three-year electricity subsidy phase-out plan by September to meet a key IMF structural benchmark. If a 10% electricity tariff hike is implemented in September, it could push inflation up to 8% by the year-end.

Bulk Electricity Tariff vs. Subsidy (BDT/Unit)



Inflation Forecast with Tariffs

Source: CAL Research Estimates, IMF

Interest Rate

Clear to Cross-Over

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Interest Rates

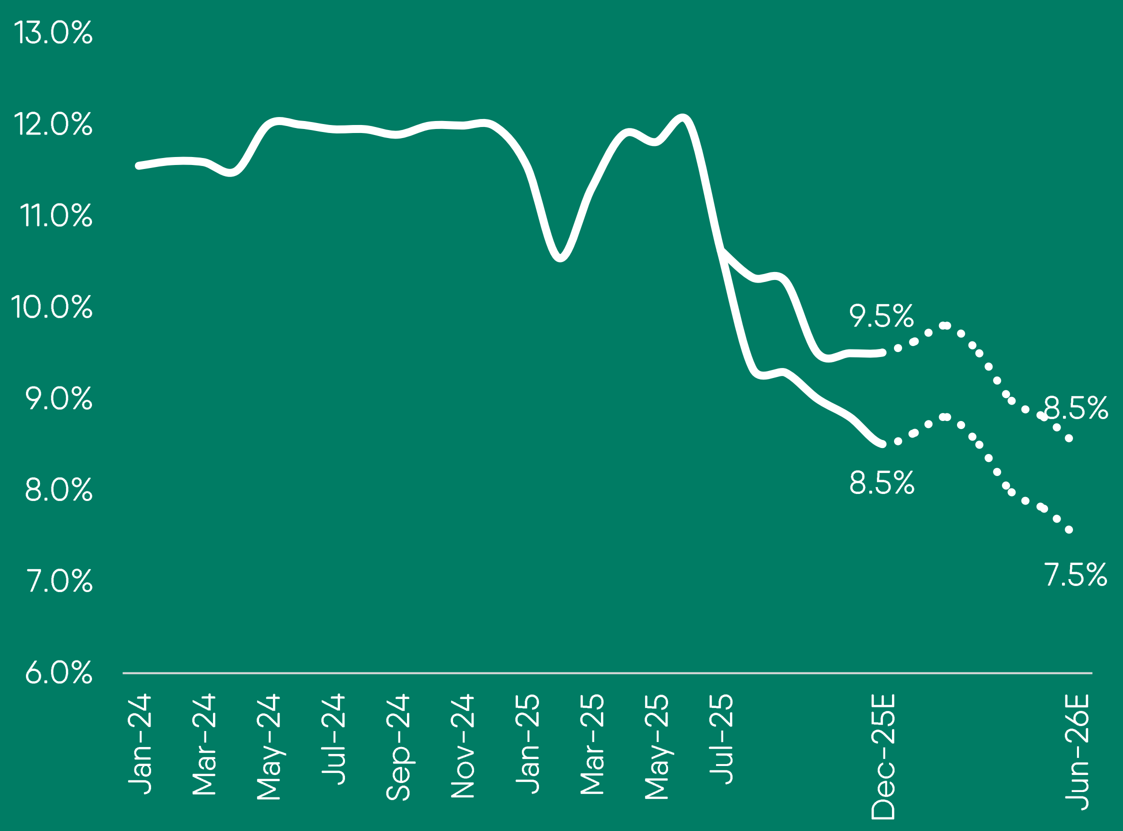
8.5%-9.5% by Dec-25E

1. Yields to fall amid weak credit and high real returns

2. 50 bps rate cut expected with easing inflation

3. BB's FX purchases to meet IMF targets expected to inject liquidity

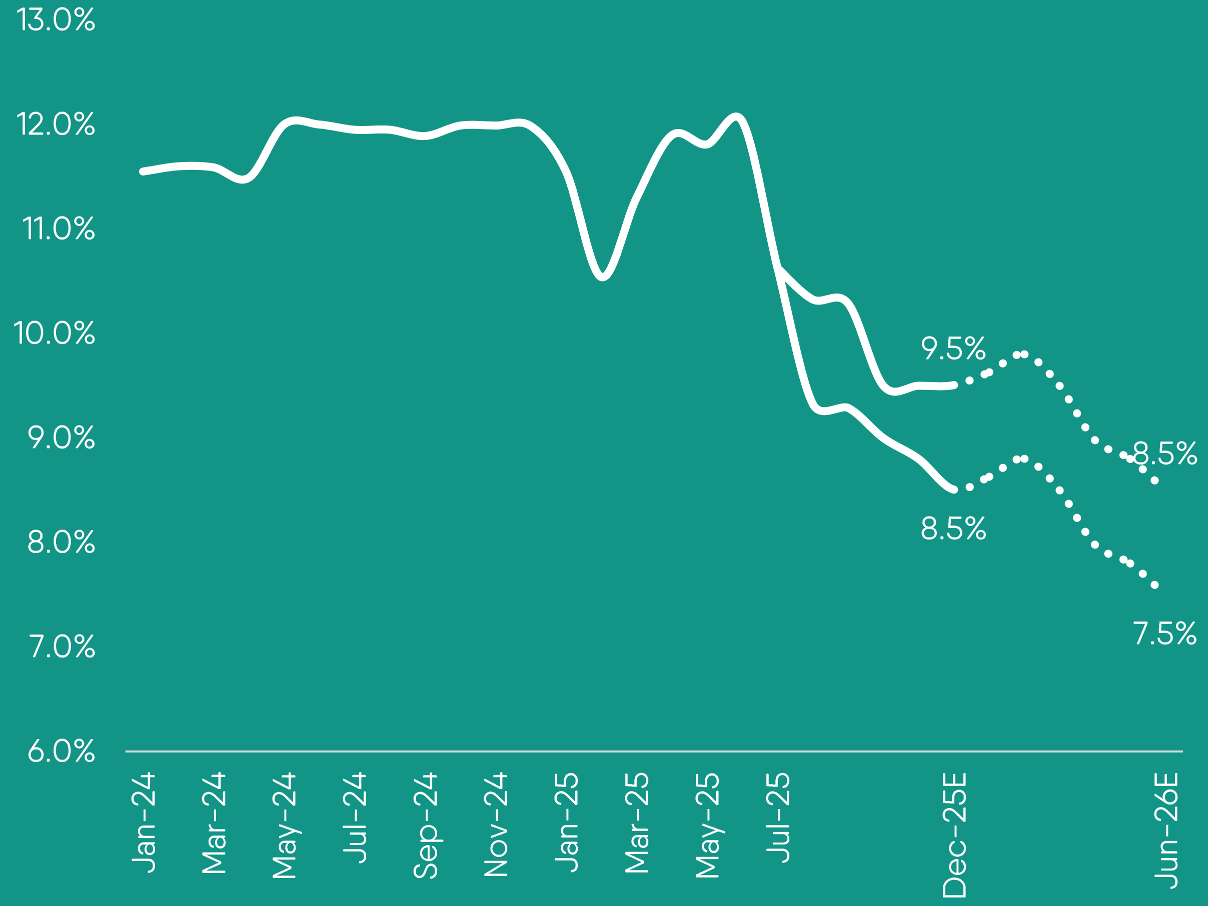
1-year T-bill Rate: Historical and Projected (%)



CAL expects the 1-year T-bill rate to decline to 8.5–9.5% by Dec-25 supported by (1) sharp drops in inflation pushing up real returns from government securities…

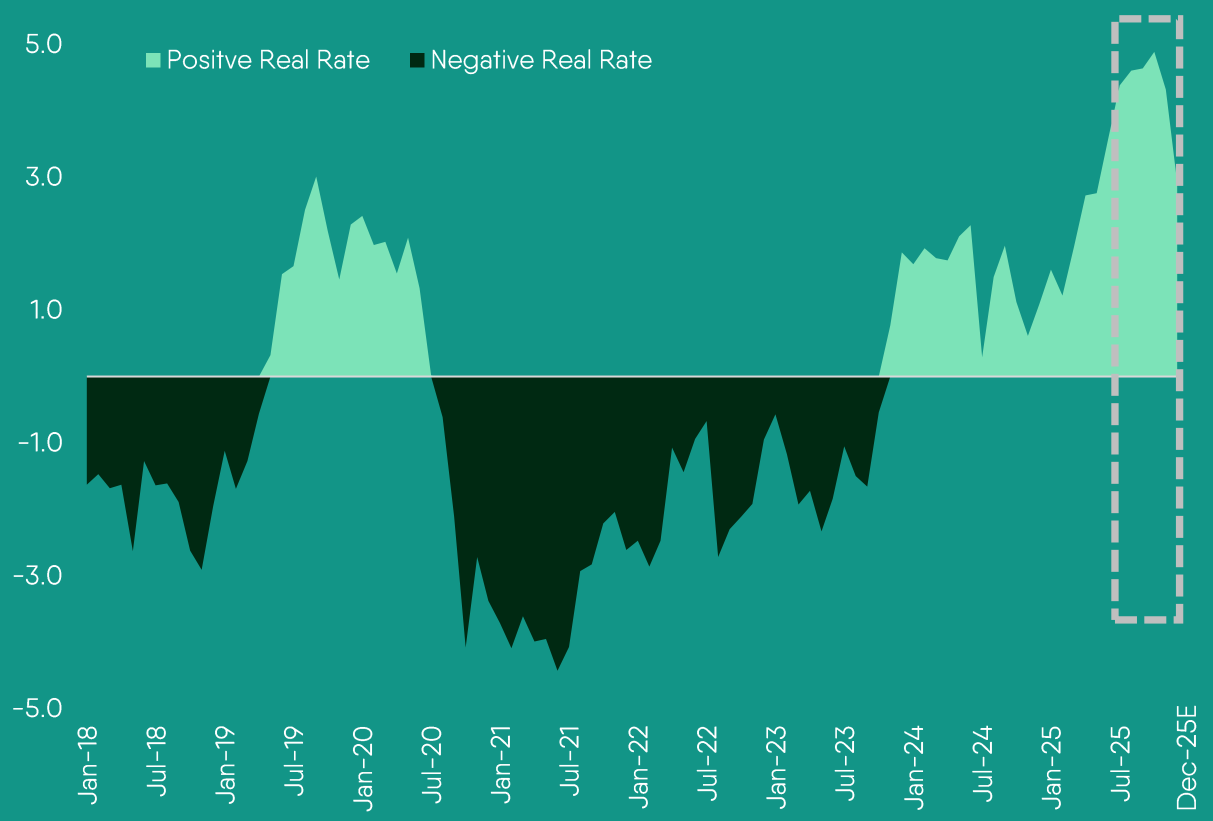
With inflation set to decline sharply in 2H'2025, real interest rates on government securities are expected to rise to unsustainably high levels. As a result, we anticipate a downward adjustment in GSEC yields to restore a more balanced real rate environment.

1-Year T-Bill Forecast (%)



Real Interest Rate (%)

Inflation-adjusted interest rate will reach decade-high

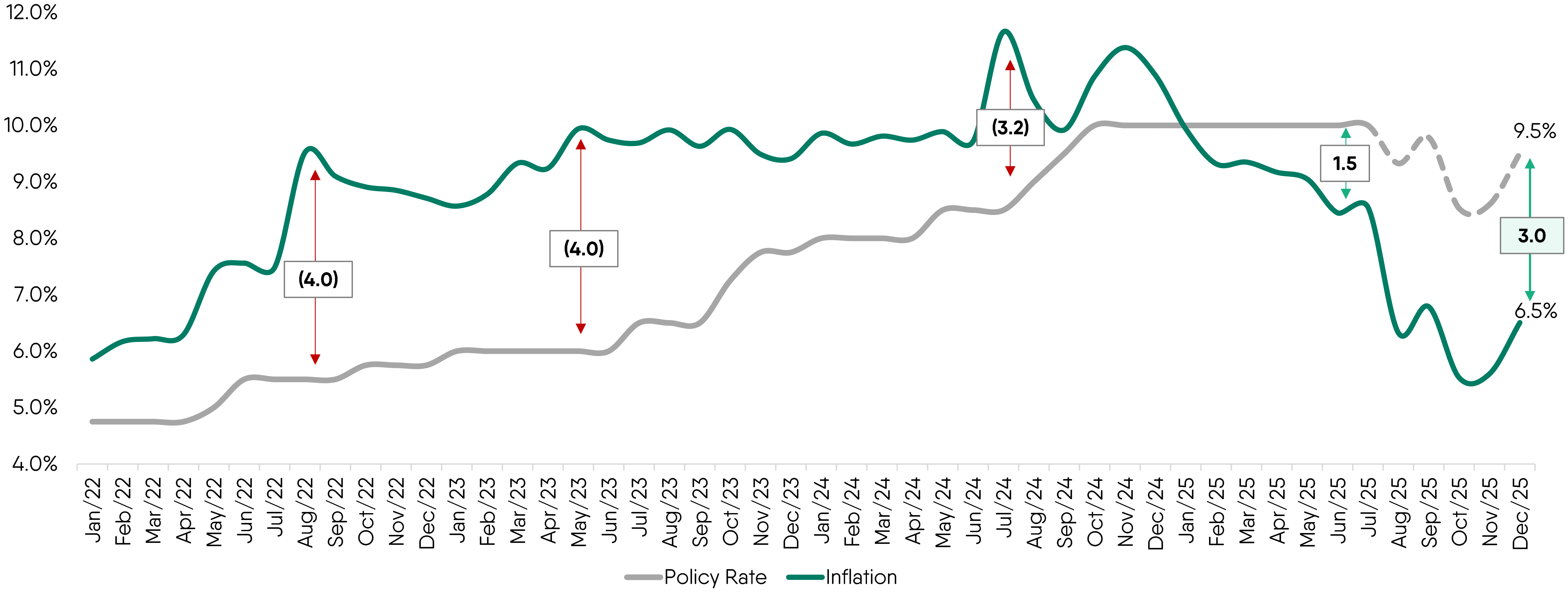


Source: CAL Research Estimates, Bangladesh Bank

…(2) **A 50 bps policy rate cut is expected as per BB guidelines**

By Dec 2025, we expect inflation to ease to 6.5%. This would provide room for Bangladesh Bank to cut the policy rate by 50 bps from the current 10.0% to 9.5%, consistent with its guidance to maintain a real interest rate of around 3%.

Policy Rate vs. Inflation (%)

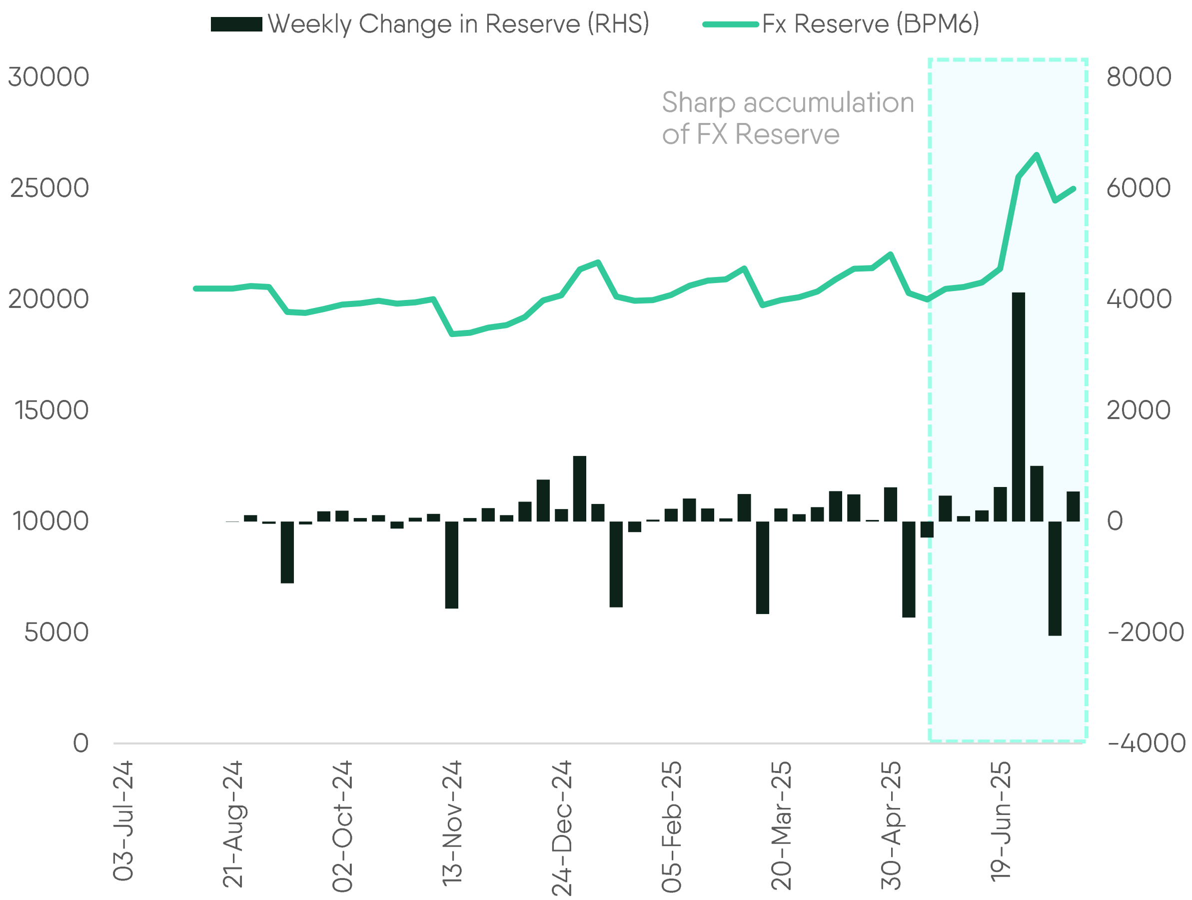


Source: Bangladesh Bank, BBS, CAL Research

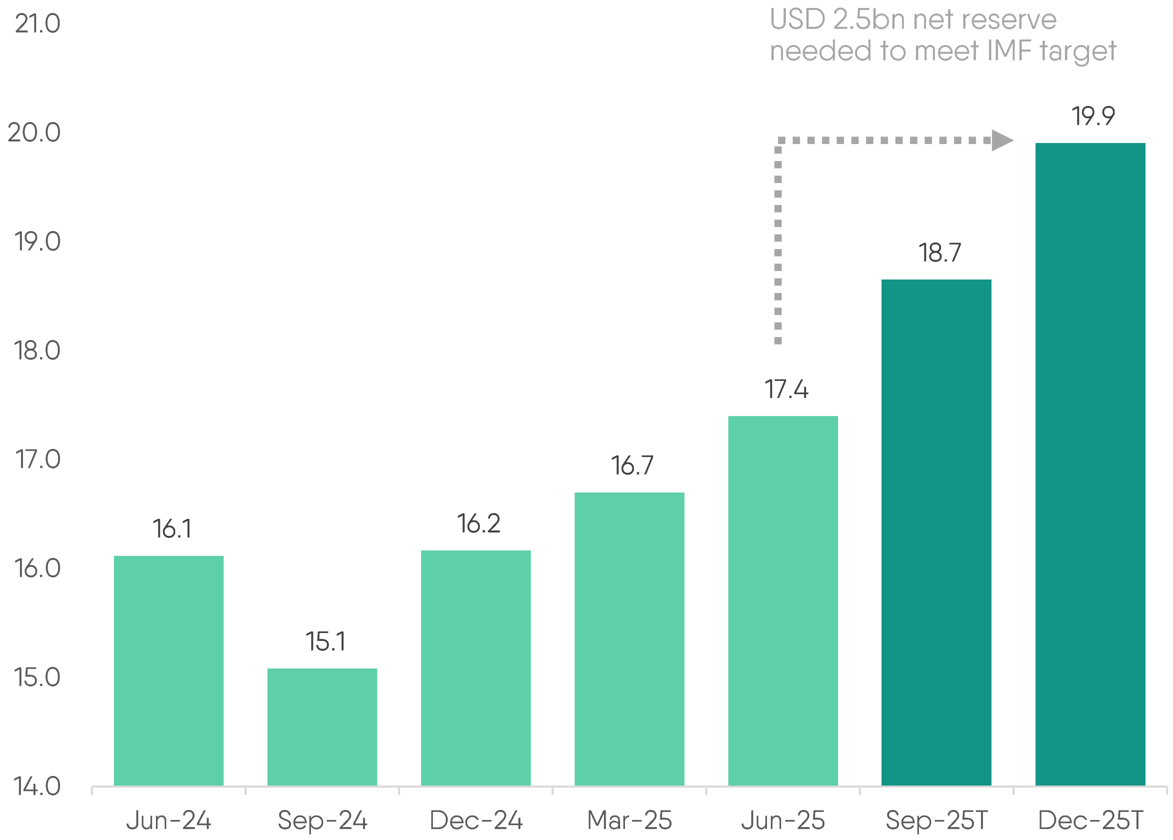
… (3) improved current account balance and **FX purchases by Bangladesh Bank** to limit BDT appreciation and meet IMF targets, injecting taka liquidity

In an unprecedented move to contain appreciation pressure on the BDT, the central bank purchased USD 331 million through two auctions in June. While this intervention aimed to maintain the USD at a competitive level for remittances and exports, Bangladesh Bank still needs to buy an additional USD 2.5 billion by Dec-25E to meet IMF reserve targets, injecting significant Taka liquidity into the banking system.

FX Reserves and Weekly Change in Reserve (USD mn)



IMF Net International Reserve Targets (USD bn)



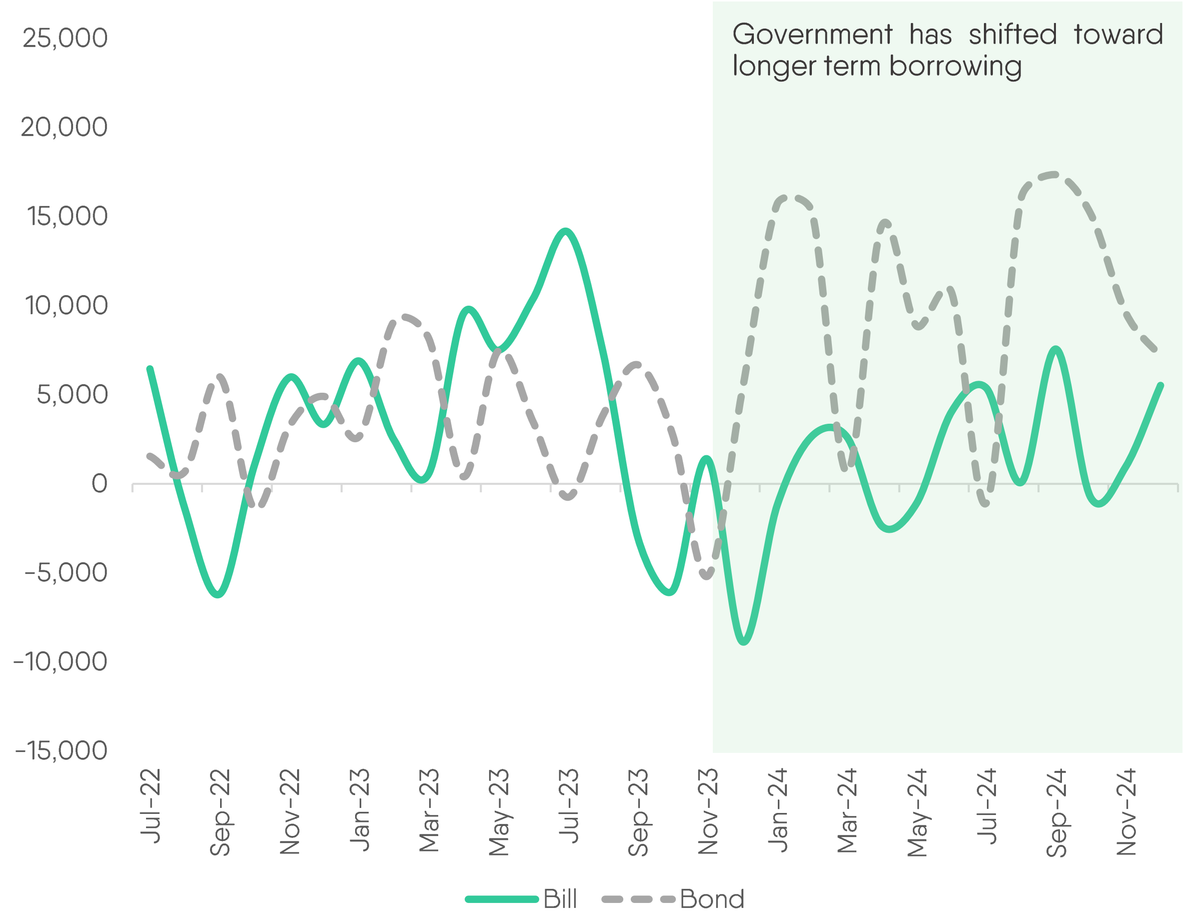
IMF's Net International Reserves are usable foreign assets minus short-term foreign liabilities, based on program-defined criteria.

Source: Bangladesh Bank, IMF

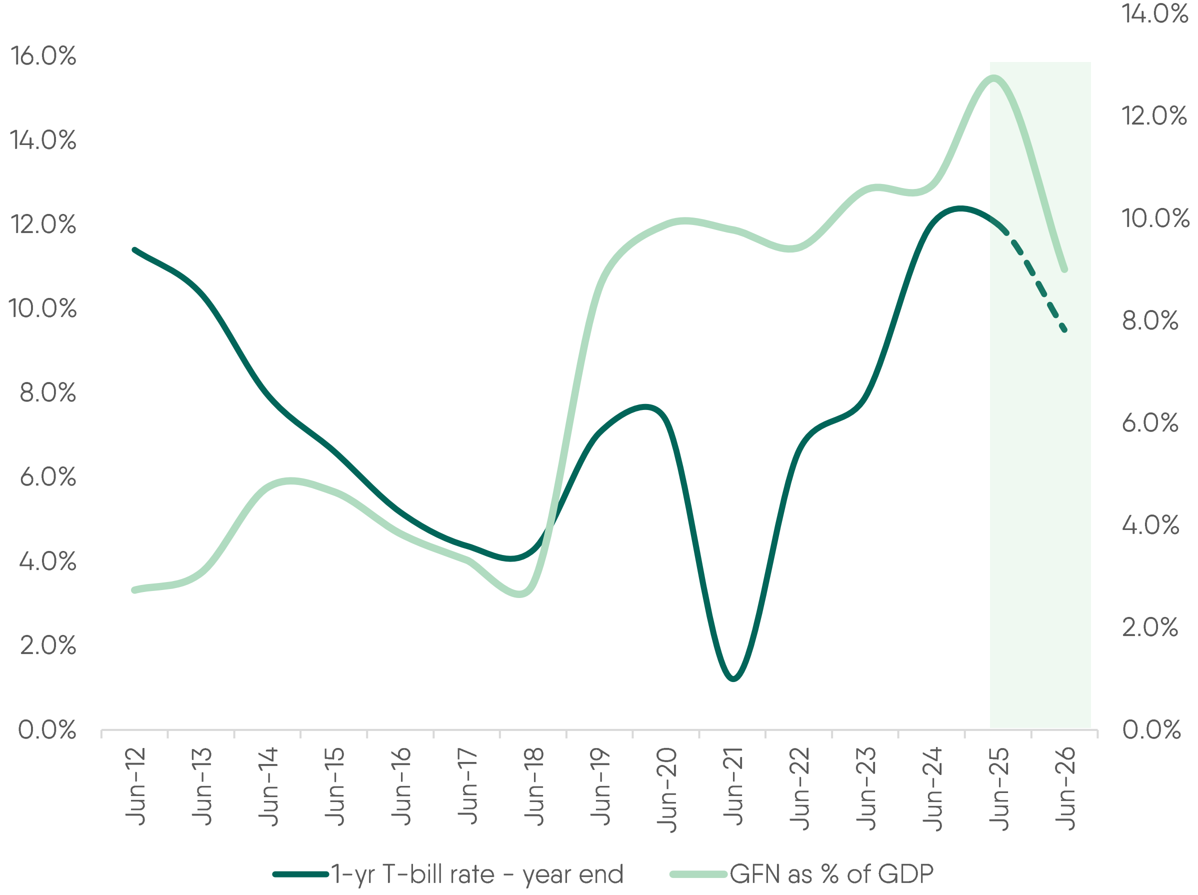
… (4) **shift to longer-term borrowing** has reduced the government's immediate financing needs by spreading out repayments

The government has recently shifted its borrowing mix toward longer-tenor securities, reducing reliance on short-term instruments. As a result, government's gross financing needs as a % of GDP for the upcoming year will be lower than the previous year, easing overall domestic borrowing pressure.

Monthly Net Govt. Borrowing from Banking System (BDT Crore)



Gross Financing Needs as % of GDP

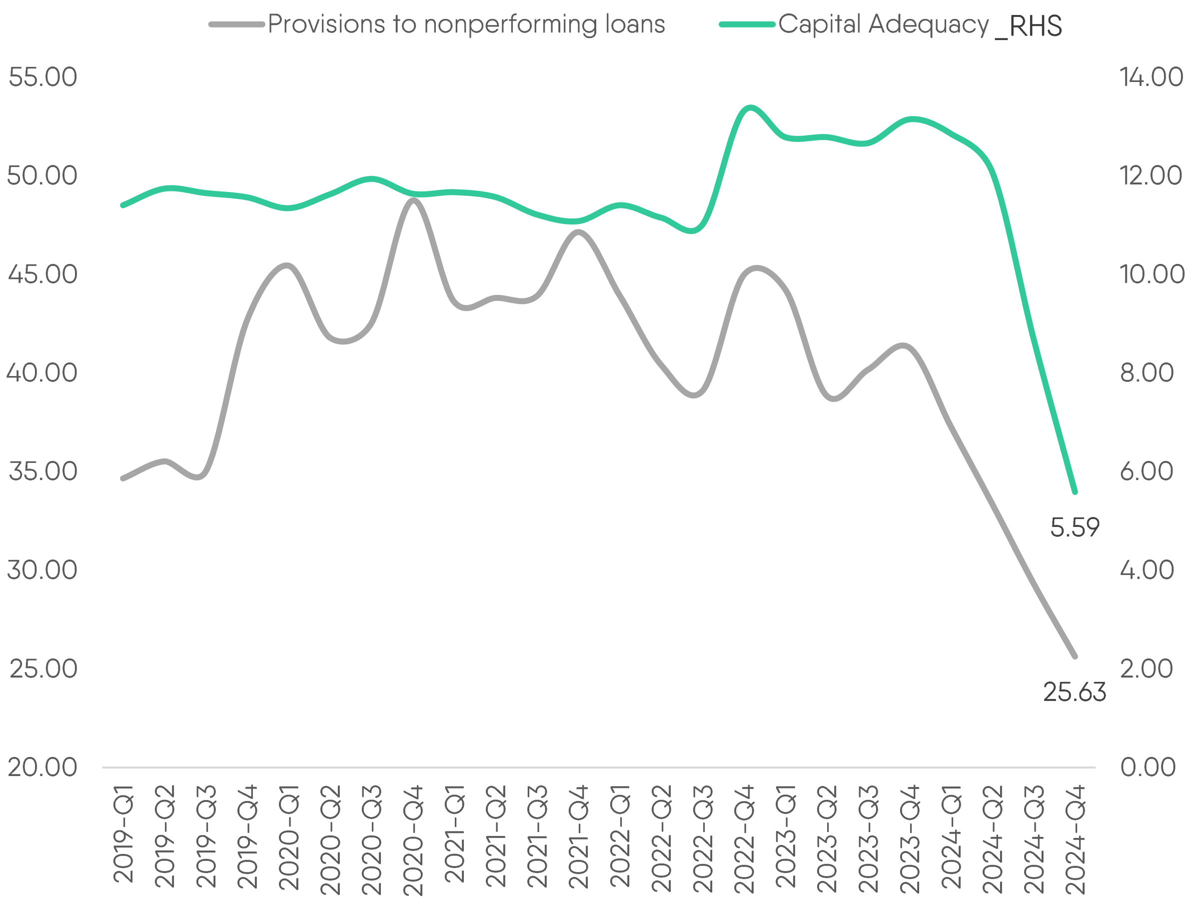


Source: Bangladesh Bank, Ministry of Finance, CAL Research Estimates

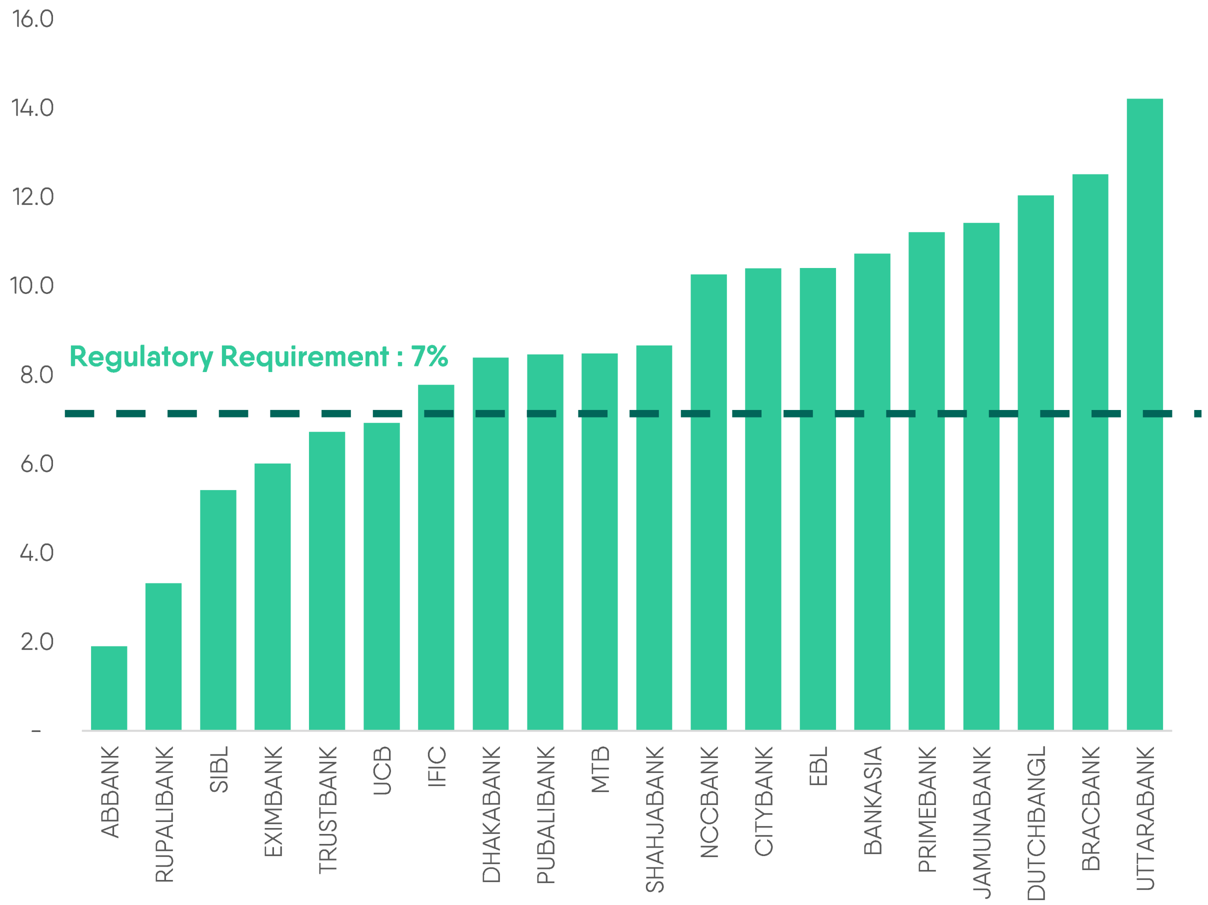
… and (5) **banks channeling more funds to GSEC** due to lower capital adequacy amidst higher provisioning eroding lending capacity

Falling capital adequacy across most banks will constrain their lending capacity due to regulatory requirements. To maintain ratios—or avoid further deterioration—banks are likely to channel funds into safer GSECs going forward. This will act as downward pressure on GSEC rates.

Capital Adequacy Ratio of Banking Sector (%)



Listed Banks' Tier-1 Ratio (%)

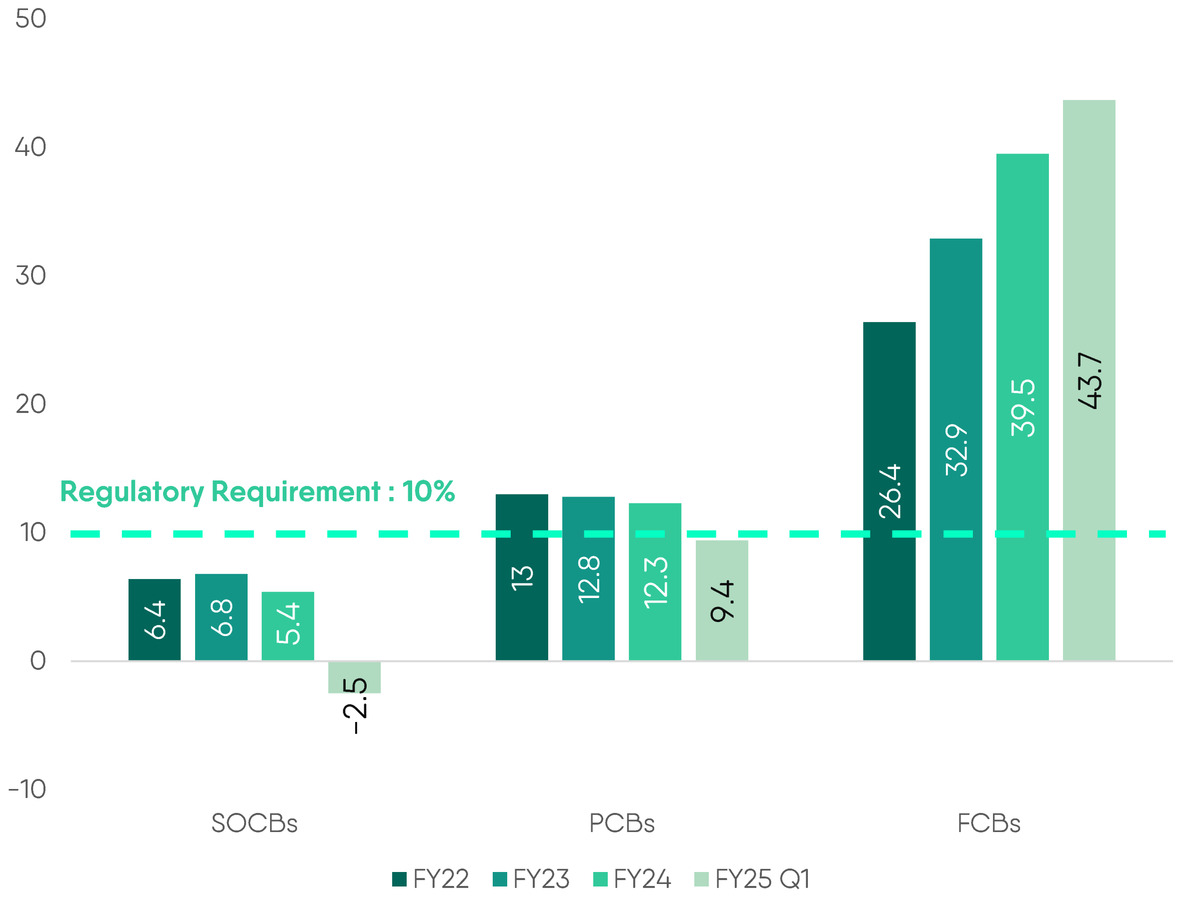


Source: Financial Statements of Companies, Bangladesh Bank

Banks may offer lower rates to top-tier borrowers, but differences in asset quality, liquidity, and higher risk will **keep borrowing costs relatively high for most customers**

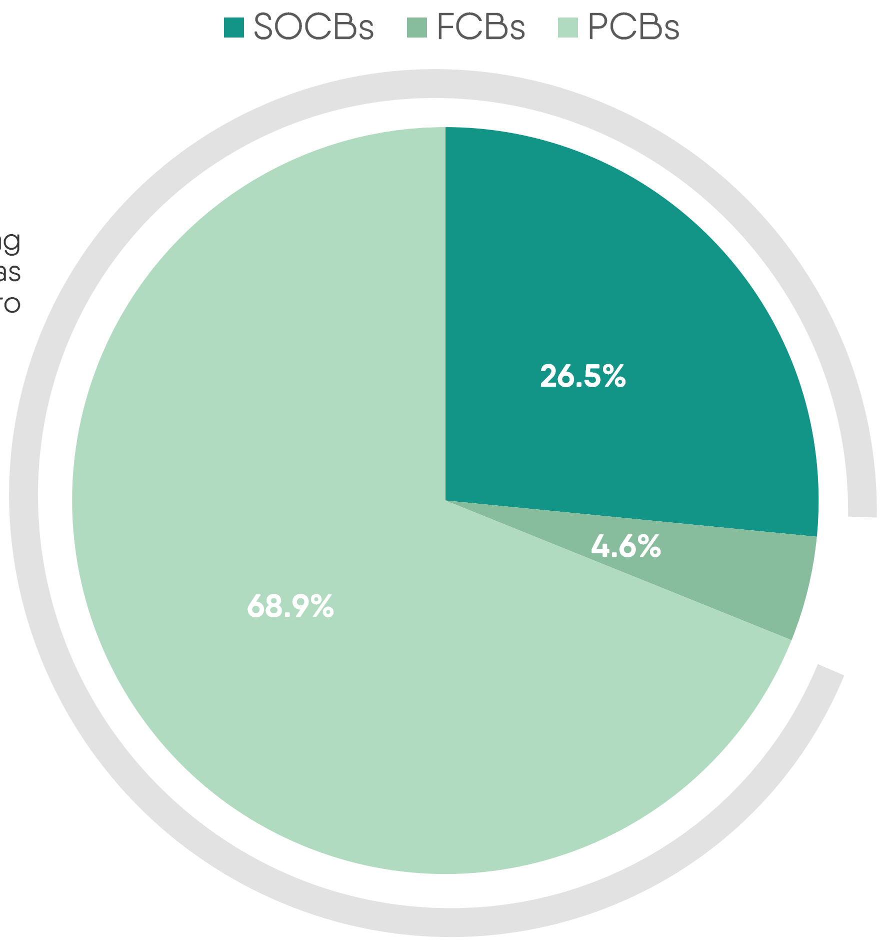
Falling inflation will lower the cost of funds, enabling banks to offer reduced borrowing rates to prime clients. However, liquidity conditions vary widely across the banking sector. Well-capitalized banks with ample liquidity and stronger asset quality will be in a position to cut lending rates. In contrast, banks facing liquidity stress and capital shortfalls will have higher cost of funds and will remain more risk-averse, leading to higher lending rates.

Capital Adequacy Ratio (%)



Share of Total Deposits by Category of Banks

Majority of the banking sector currently has limited ability to extend credit



Source: Bangladesh Bank

Growth

Full Steam Ahead

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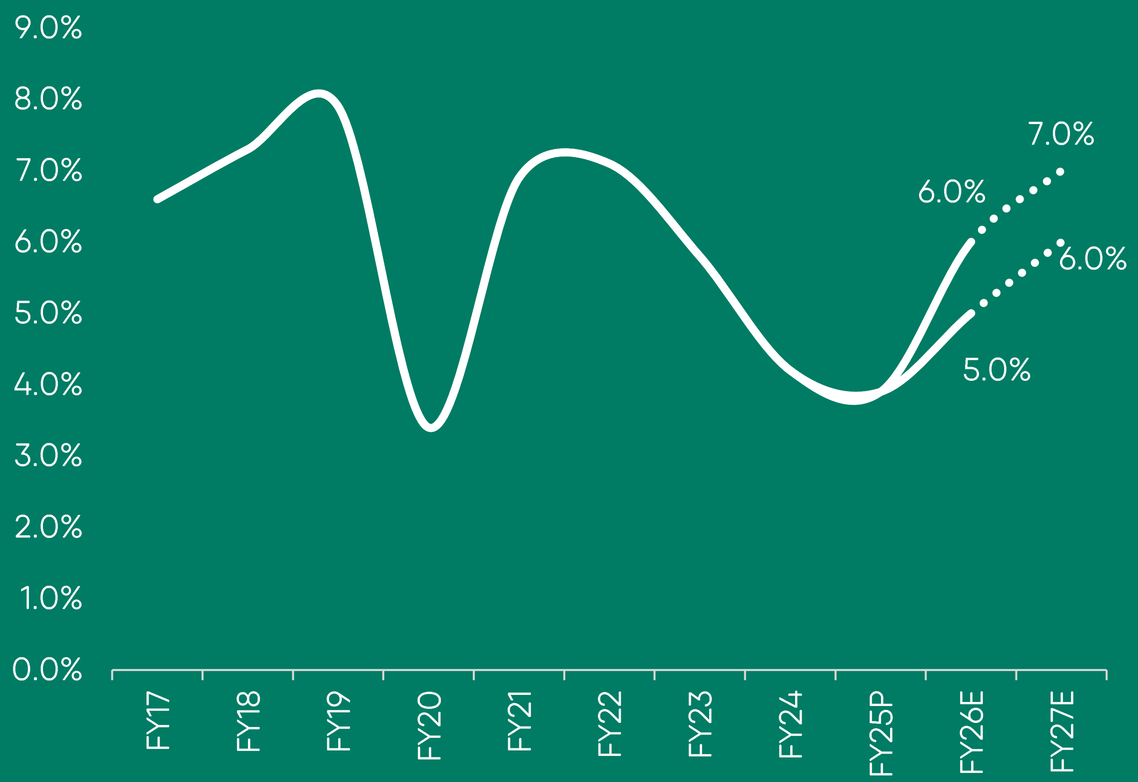
Growth

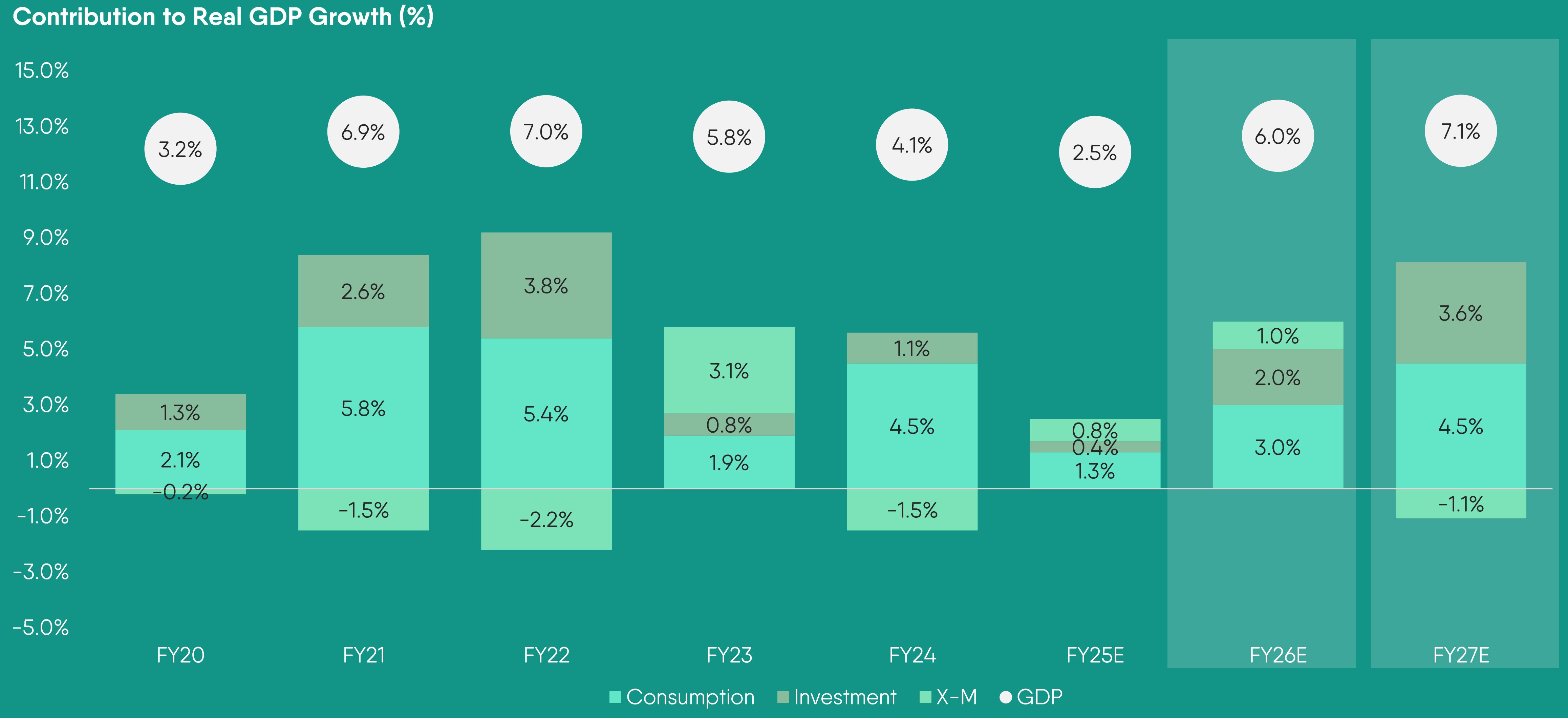
5.0%-6.0% by Jun-26E

1. Easing inflation and interest rates to boost household spending in 2H'25
2. Post-election fiscal push to support government demand and business activity in 1H'26

Forecasted GDP Growth (%)



CAL expects GDP to rebound to 5.0%-6.0% in FY2025-2026 driven by a recovery in consumption and investment



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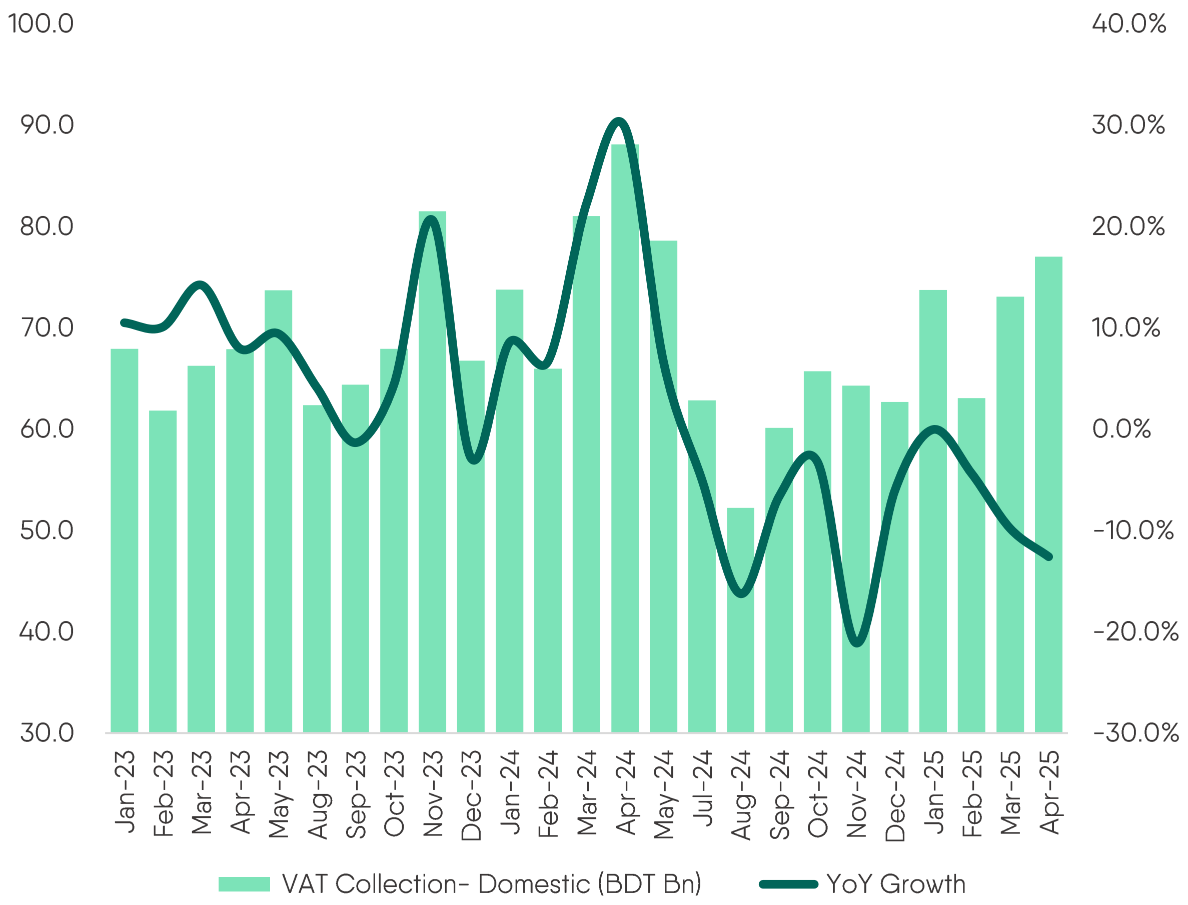
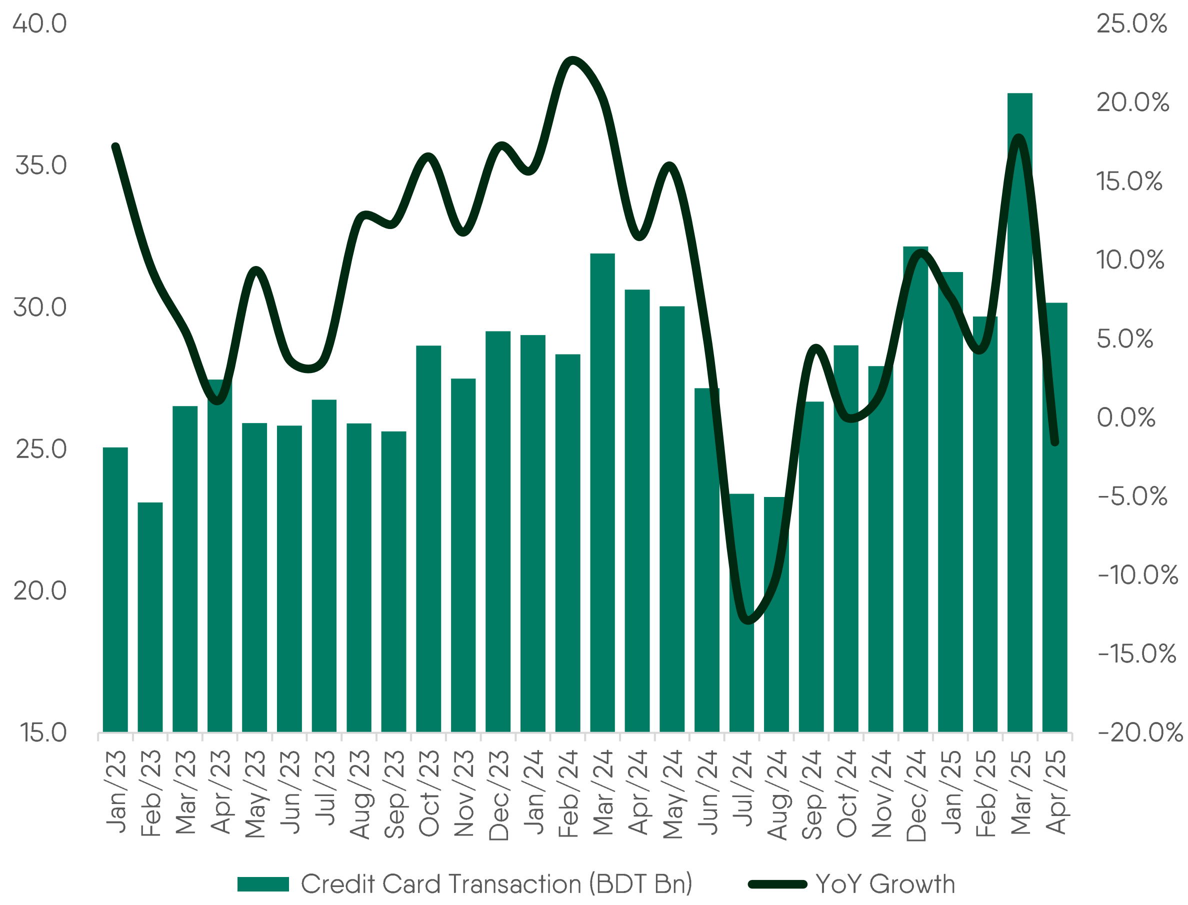
Although consumption indicators point to a persistent sluggishness in the economy amid high interest rates…

Key consumption indicators point to continued sluggishness in consumer spending amidst high inflation and interest rates. VAT collection growth has remained below inflation throughout FY2024-25. Credit card transaction growth has exhibited a similar sluggish pattern.

VAT Collection (BDT bn)



Credit Card Transactions (BDT bn)

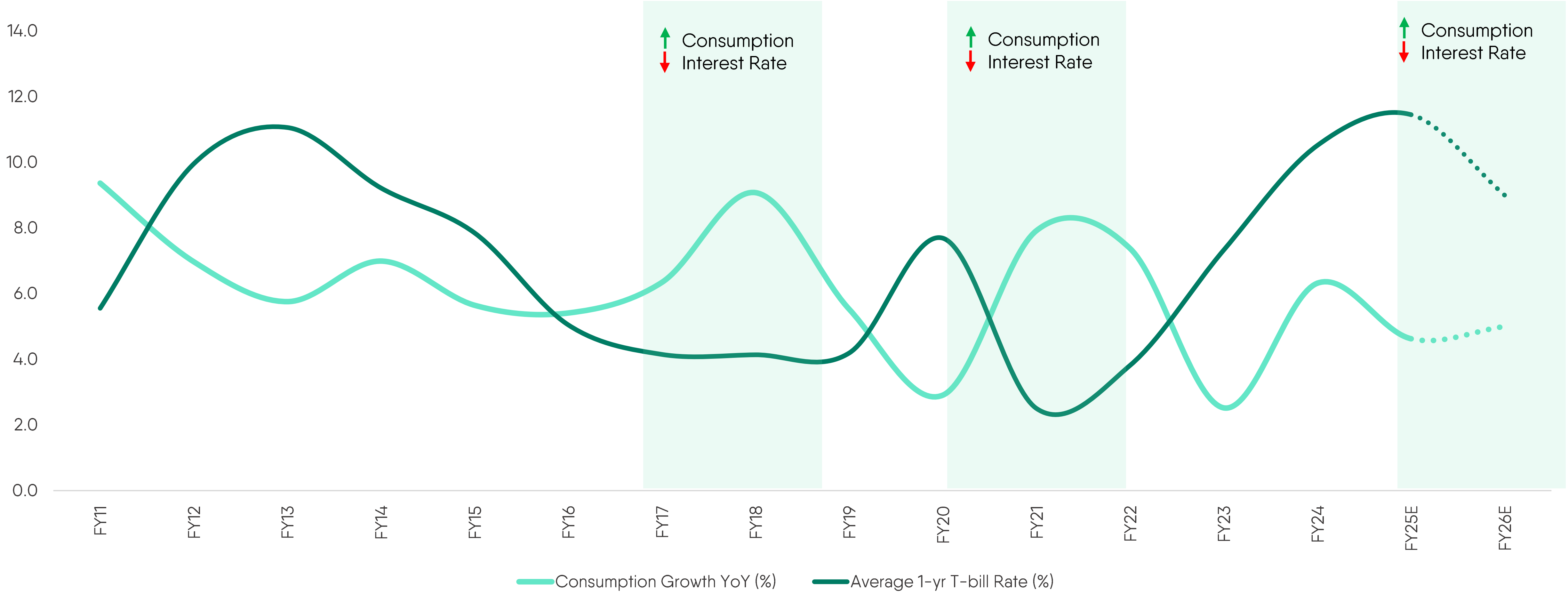


Source: Bangladesh Bank, NBR

...easing inflation and expected monetary easing in FY2025-26E will **initiate consumption recovery**

As inflation is likely to fall sharply in FY2025-26, consumer purchasing power will increase. Moreover, falling inflation will lead to lower interest rates which will stimulate spending in the economy.

Consumption vs. Interest Rate (%)

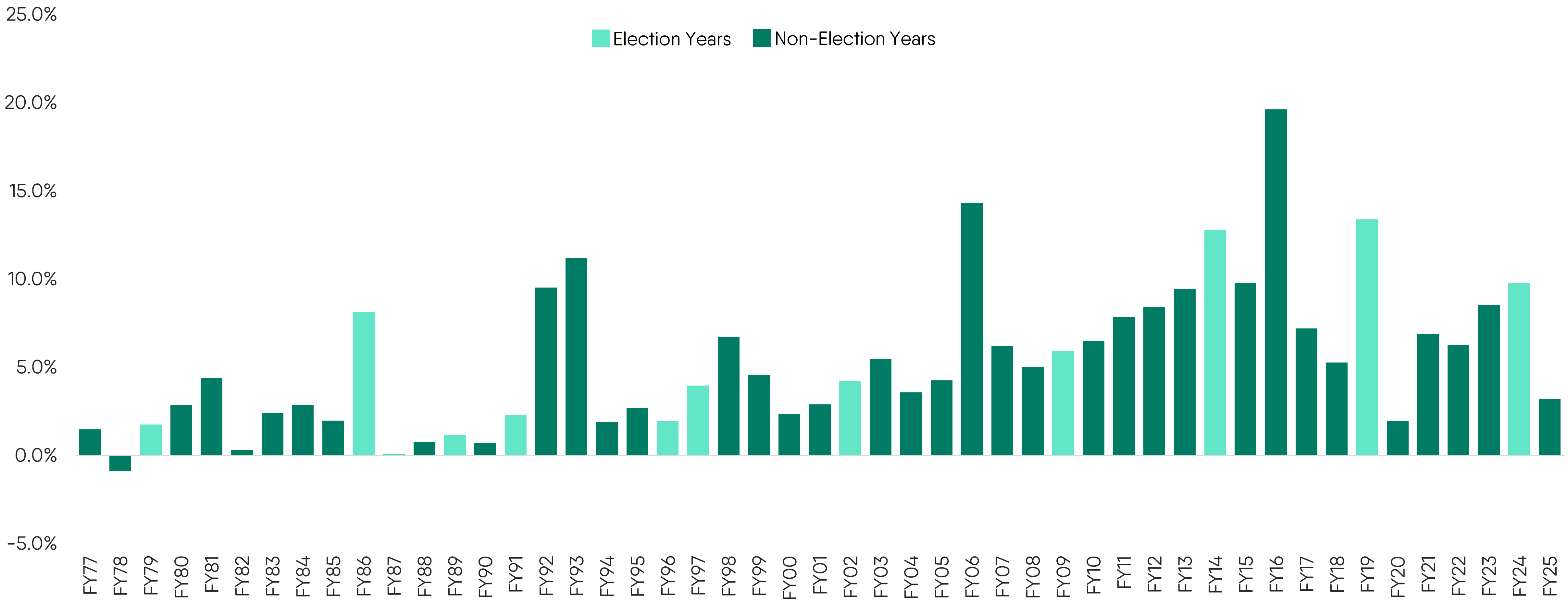


Source: Bangladesh Bank, CAL Research Estimates

Election cycles typically drive large public spending; **a trend expected to repeat in 1H2026E and lift public consumption.**

Historically, Bangladesh has seen elevated government spending on infrastructure, subsidies, and social programs both before and after elections to stimulate consumption and maintain public support. This pattern is expected to repeat in 1H2026E, boosting public consumption and supporting overall domestic demand.

Public Consumption Growth (%)

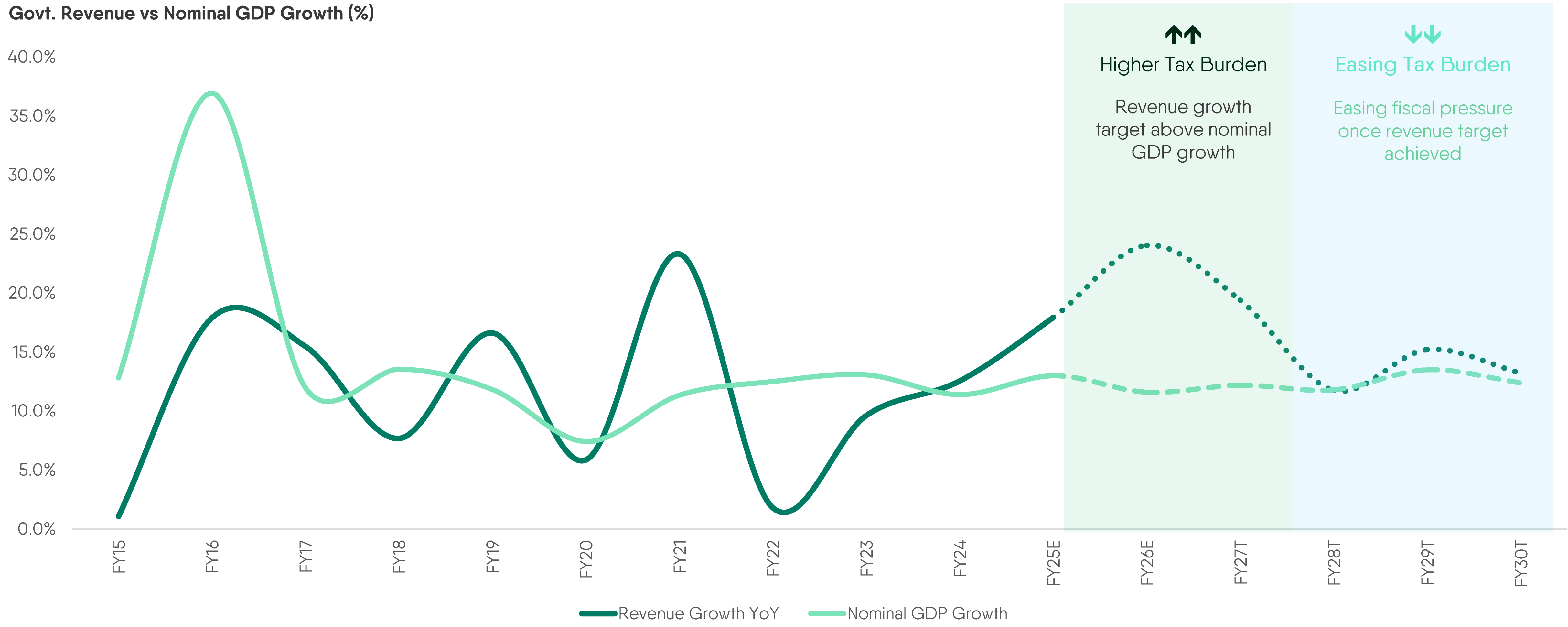


Source: Bangladesh Bank

Bangladesh's growth is set to strengthen over the next two years as tax-related consumption pressures ease, supporting a more sustainable growth by FY2027.

The government is expected to take significant steps over the next two years to raise the tax-to-GDP ratio, both to meet IMF benchmarks and to establish a more sustainable fiscal foundation. However, this aggressive revenue drive—targeting tax growth above nominal GDP—may weigh on consumption in the near term.

Govt. Revenue vs Nominal GDP Growth (%)



Source: IMF, CAL Research Estimates

Major Risk Factors to our Outlook

1

Heightened political unrest or election delays triggering instability and investor caution

2

Global conflict escalation may disrupt trade routes, remittances, and FX liquidity

3

Possible US recession from tariffs could affect major trading partners and the global economy

Outlook on Asset Classes

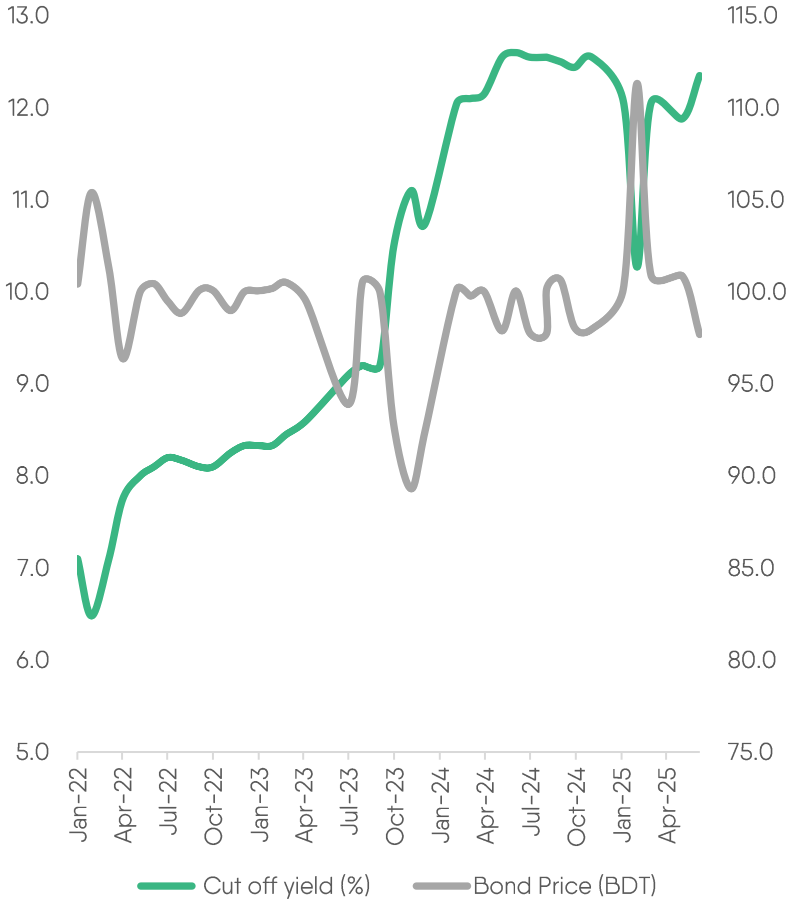
All Systems Go

Equities	Fixed Income	Real Estate
Bullish		

Asset prices declined steeply in the past 3 years

Fixed Income: Rates surged, bond prices fell

10- year Treasury Bond Price (BDT) vs. Interest Rate (%)



Equities: Stuck in a prolonged bear market

DSEX (points)

Real Estate: Weak demand, stagnant prices

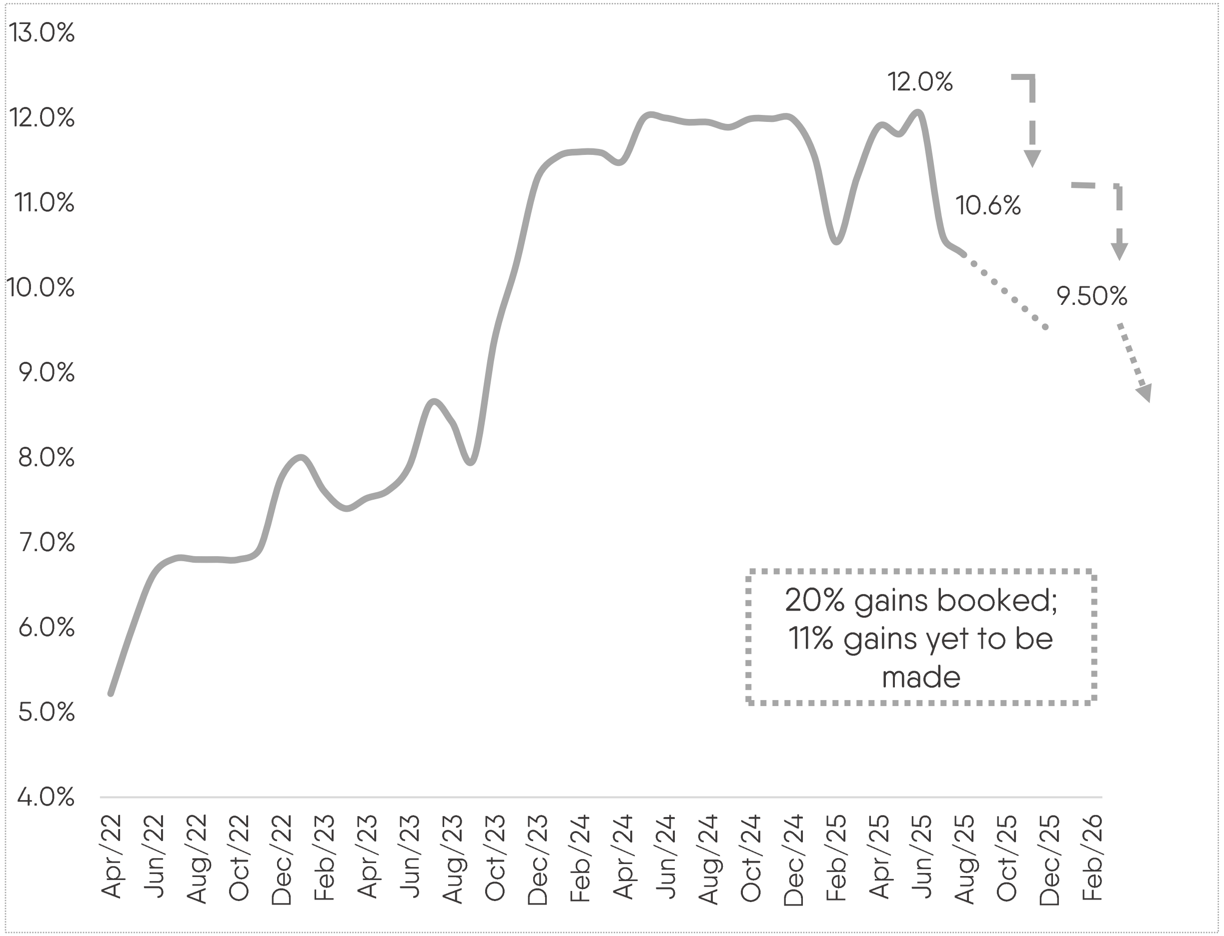
Construction Sector PMI

Source: Bangladesh Bank, DSE, MCCI

Bonds have met more than half their potential; real estate will follow in a year

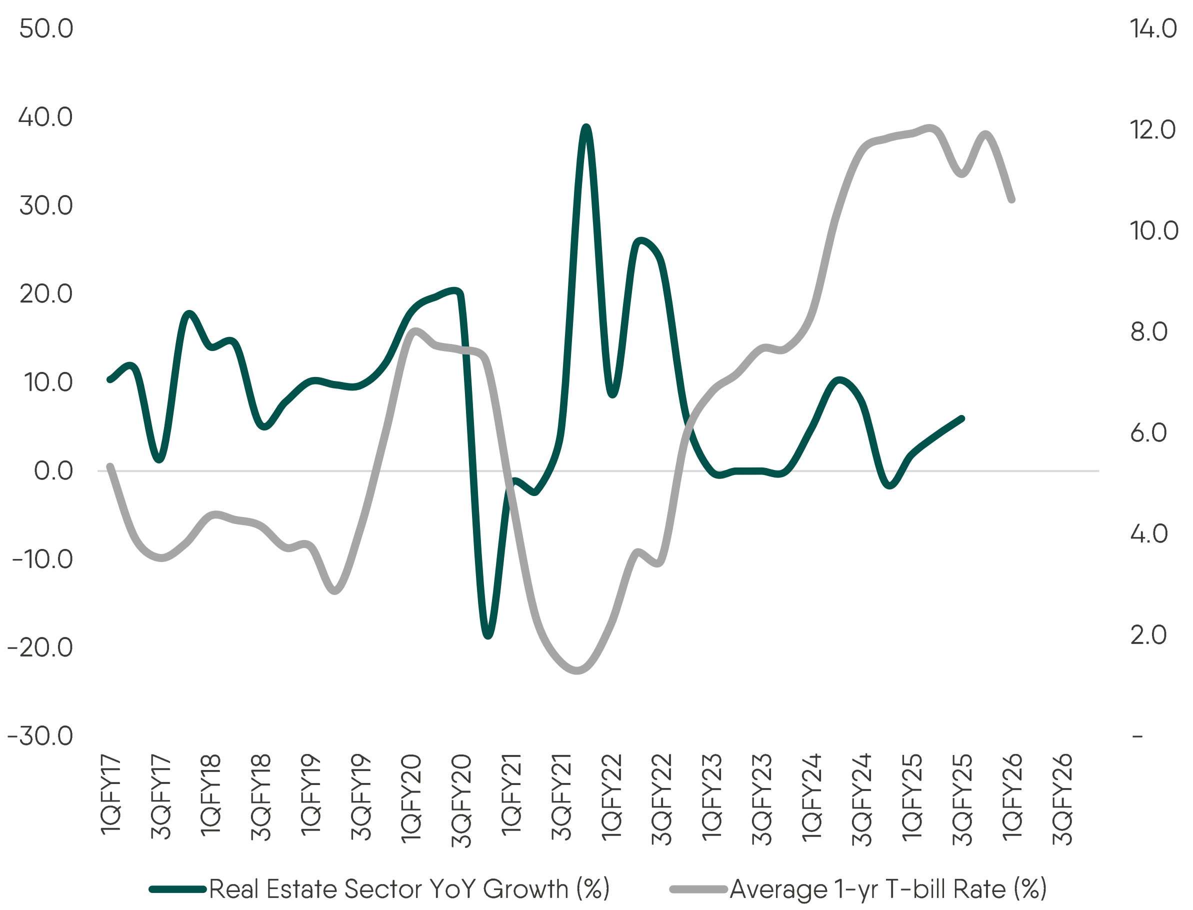
Interest rates will fall, Bond prices will appreciate

10-year Treasury Bond Rate (%)



Real estate prices will increase, but with a lag to other assets

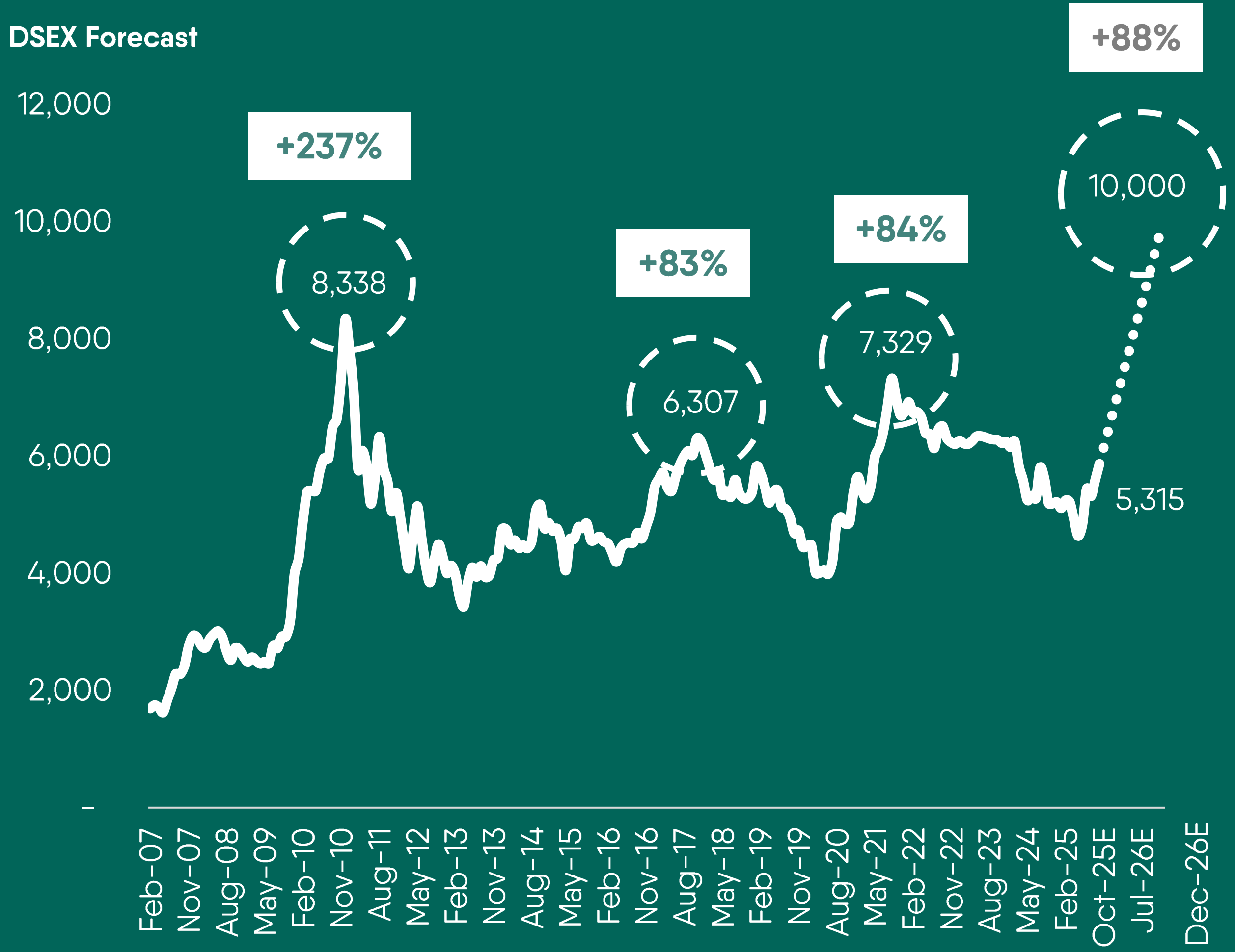
Real Estate Sector Growth vs. Interest Rate (%)



Source: Bangladesh Bank, CAL Research Estimates

CAL is Overweight on Equities

We expect the ***DSEX to reach 10,000+ in the next 18-24 months***



1 Macro tailwinds are aligning favorably

- Exchange rate is stabilizing
- Inflation is falling sharply
- Interest rates are entering a downcycle
- Demand is expected to recover steadily

2 Corporate Earnings will Rebound

- Falling inflation will drive volume growth
- Lower commodity prices and stable Fx will increase margins
- Topline growth will outpace operating costs
- Lower interest rates will reduce finance costs

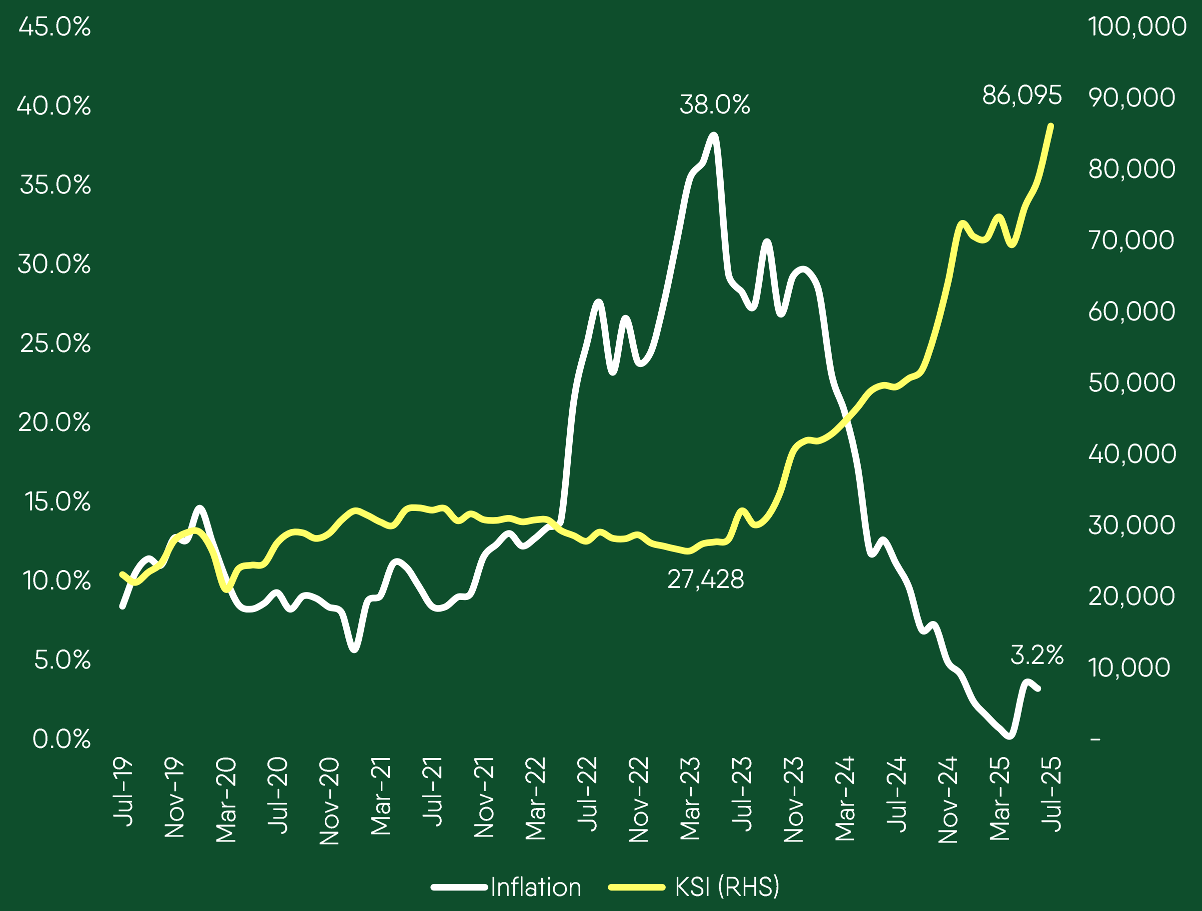
3 Multiples will rerate to the Historical Average of 14.0x

- Fund inflows from other asset classes will support equities
- Clarity on elections will lift investor sentiment
- Institutional and foreign participation will rise

With inflation falling sharply in Bangladesh, the market could **mirror Pakistan and Sri Lanka's 150%+ rallies** during falling inflation cycles

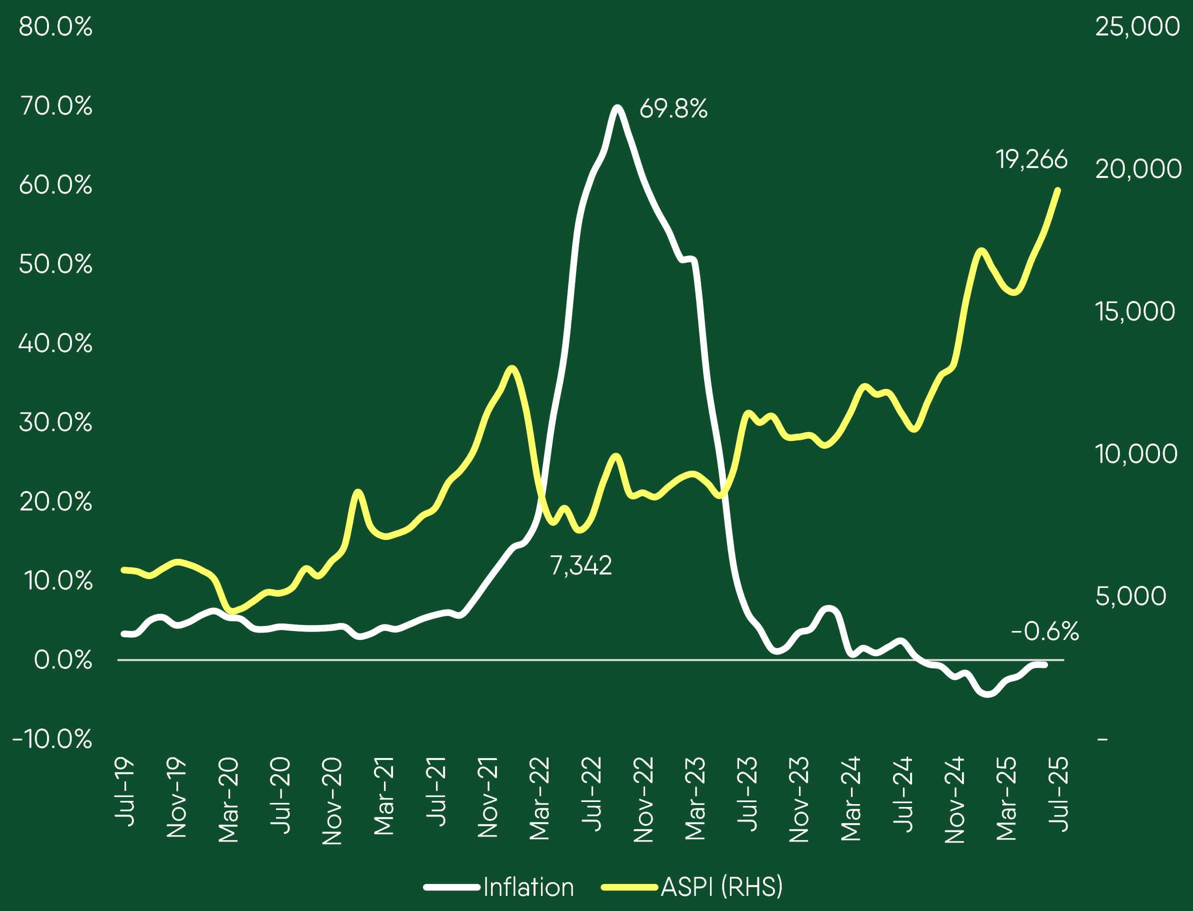
214% Market Return in 2 years

Pakistan Inflation vs. Karachi All Share Index



162% Market Return in 2 years

Sri Lanka Inflation vs. Colombo All Share Price Index

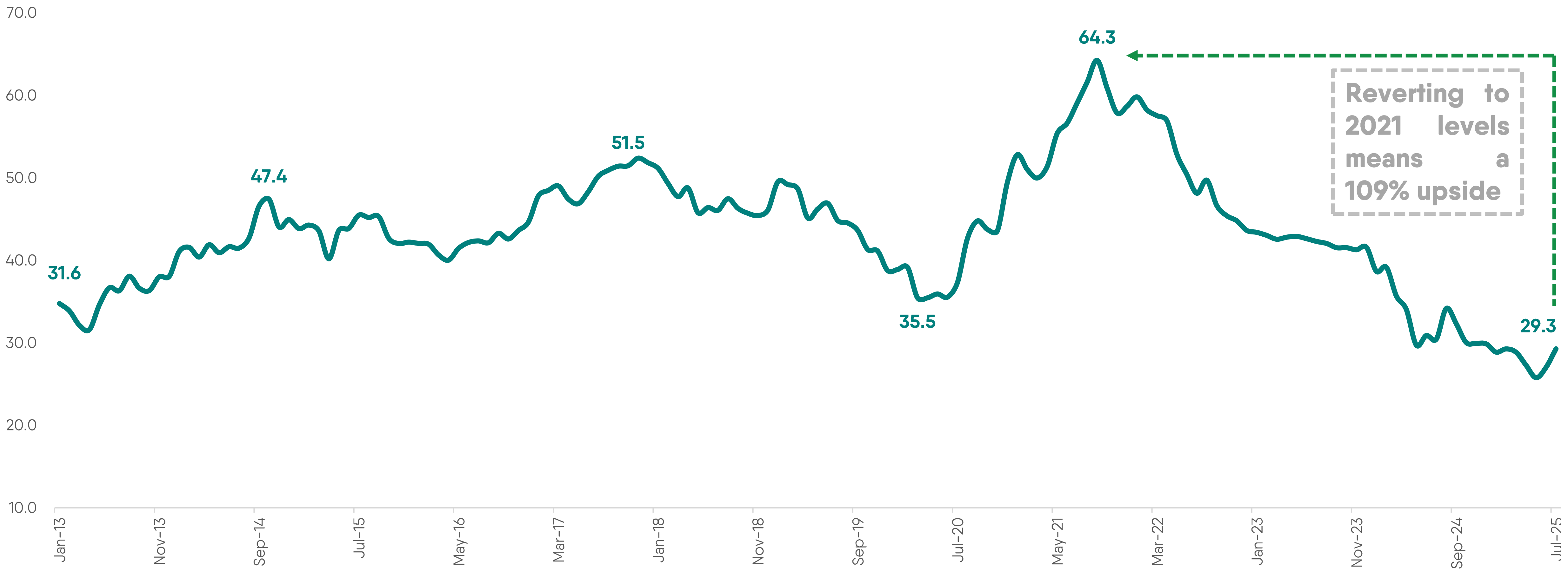


Source: Respective Countries' Indexes and Central Bank Websites

Equities Can Double: DSEX offers 100%+ upside even from returning to 2021 levels in USD terms

DSEX trades well below its 2021 USD levels; a return to those levels could offer 100%+ upside, supported by earnings recovery and improved liquidity—factors that also drove the 2021 rally.

USD Adjusted Market Cap (USD bn)



Source: DSE, Bangladesh Bank

A Goldilocks Scenario is Emerging for Equities

1

Corporate Earnings Will Rebound

Earnings Growth

40%

(1+40%)

x

2

Market Will Place a Higher Multiple On Earnings

P/E Rerating to

14.0 x

from 10.4x

(1+34%)

= 88%

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