CAL BANGLADESH

Off Pace, On Course

Bangladesh Macroeconomic & Market Outlook 1H’2026

February 8, 2026

Economic **recovery on track** despite persistent headwinds

We maintain our constructive outlook for 1H'26, with stable FX, declining inflation, and monetary easing supporting recovery, though political uncertainty and policy risks warrant caution.

What Materialized

- ✓ Exchange rate remained stable
- ✓ Growth showed signs of recovery
- ✓ Long-term trend of interest rates shifted downward

What Surprised

- x Inflation remained stubbornly elevated

Our Base Case

- Economic growth to recover
- Inflation will decline gradually in 1H'2026, drop faster in 2H'2026
- Gradual monetary easing ahead
- Exchange rate to remain stable
- Bangladesh remains in IMF program

Political uncertainty has delayed but not derailed the recovery. Inflation stickiness is the primary forecast deviation, driven by structural non-food price pressures despite continued monetary tightening curbing demand.

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

Macro Indicator	Actual (Jun-25)	CAL's Forecast	Actual (Dec-25)	Directional Match	Comment
Interest Rate (1-year T-bills)	12.0%	8.5%-9.5%	10.7% In 30-Dec-2025 10.3% In 08-Feb-2026	✓	IMF disbursement delays till post election and borrowing from bank to support the Sammilito Islami Bank merger
Exchange Rate (USD/BDT)	BDT c. 122-124 (import)	BDT 122-125 (import)	BDT c. 122-125 (import)	✓	Exchange rates remained stable
Inflation (%)	8.46%	6.5% - 7.5%	8.49%	✗	Food inflation came down to 7.7%, but non-food continued to drive inflation

The forecasts were published in August 2025

Source: CAL Research

Our Forecasts for June'2026

Exchange Rate

USD/BDT 122–125

By Jun-26E

Strong remittance inflows driving current account surplus (USD 5 billion increase YoY)

Fed rate cuts and narrowing policy differentials to reduce external pressure on BDT

Foreign fund commitments to rise post elections once policy certainty is established

Inflation

6.75%–7.75%

By Jun-26E

Decade-low money supply growth (6.95%) creating lagged disinflationary effect

Stable exchange rate eliminating FX pass-through to domestic prices

Lower global commodity prices (Brent crude to $60/bbl) easing imported inflation

Interest Rate

8.5%–9.5%

By Jun-26E

Bangladesh Bank signaling 50 bps policy rate cut with inflation falling below 8.2%

Improved liquidity from Dollar purchases by BB

Banks continuing to chase government securities amidst limited capacity to extend loan book

GDP Growth

4.5%–5.5%

By Jun-26E

Consumption to drive recovery with VAT receipts up 18% YoY and credit card spending up 28% YoY

Post-election fiscal stimulus expected to boost government demand

Exchange Rate

No New Detours

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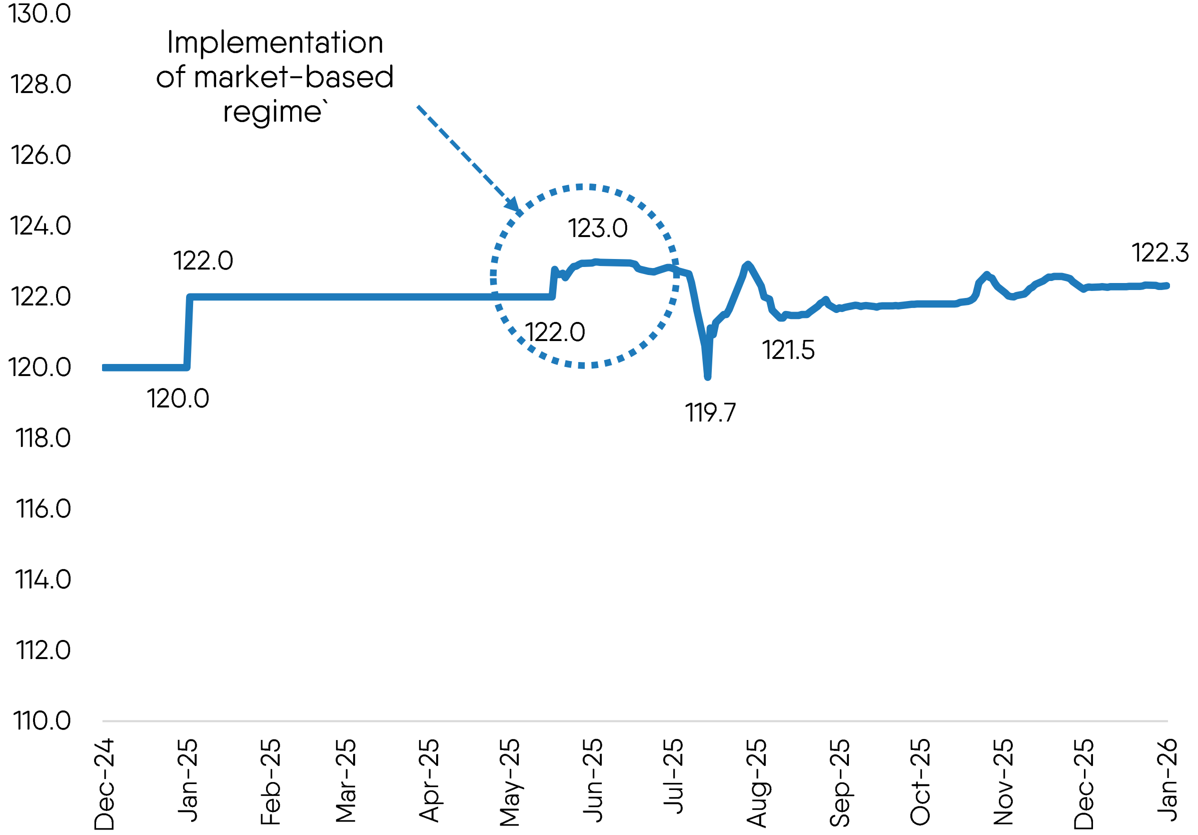
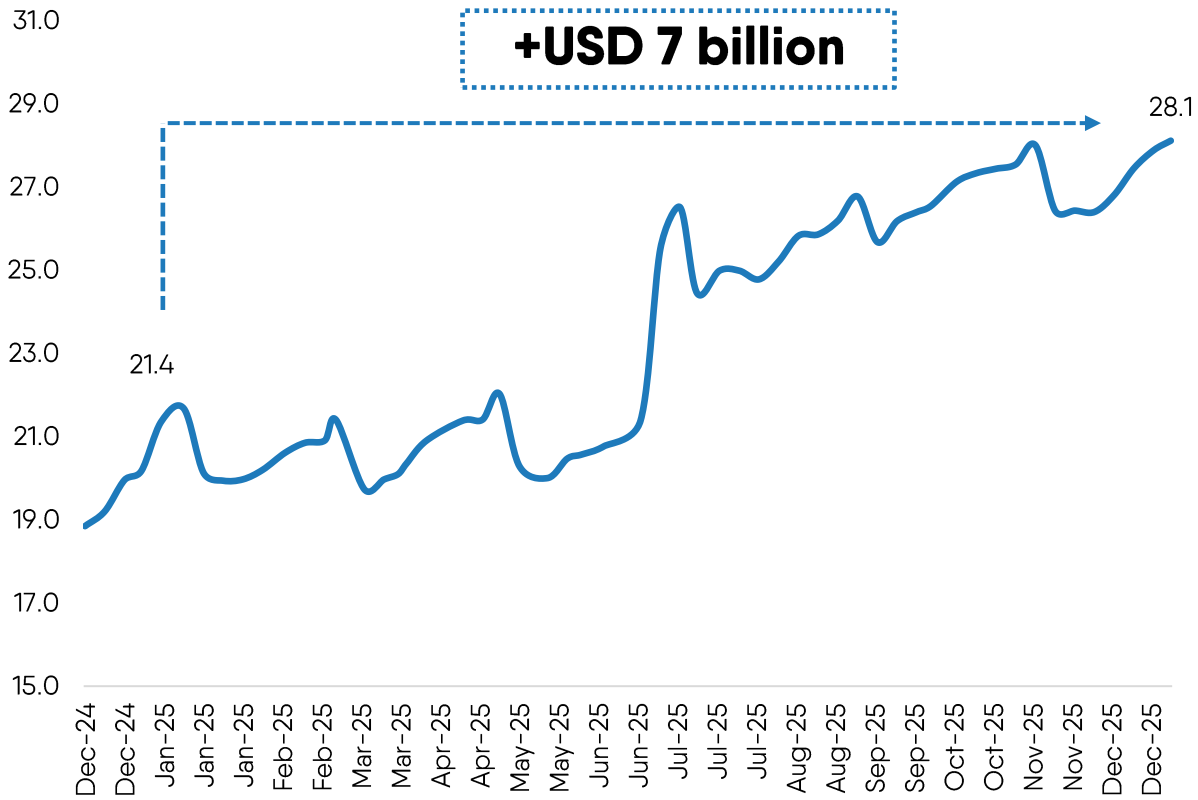
Recap Exchange rate remained stable after adopting **market-based regime**

Following the transition to a market-determined exchange rate framework in early 2024, the BDT has stabilized around 122-124 per USD with minimal volatility, while foreign exchange reserves (BPM6) have surged from USD 21.4 billion in January 2025 to USD 28.1 billion by December 2025, reflecting improved external account dynamics.

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



Foreign Exchange Reserve (BPM6) (USD bn)

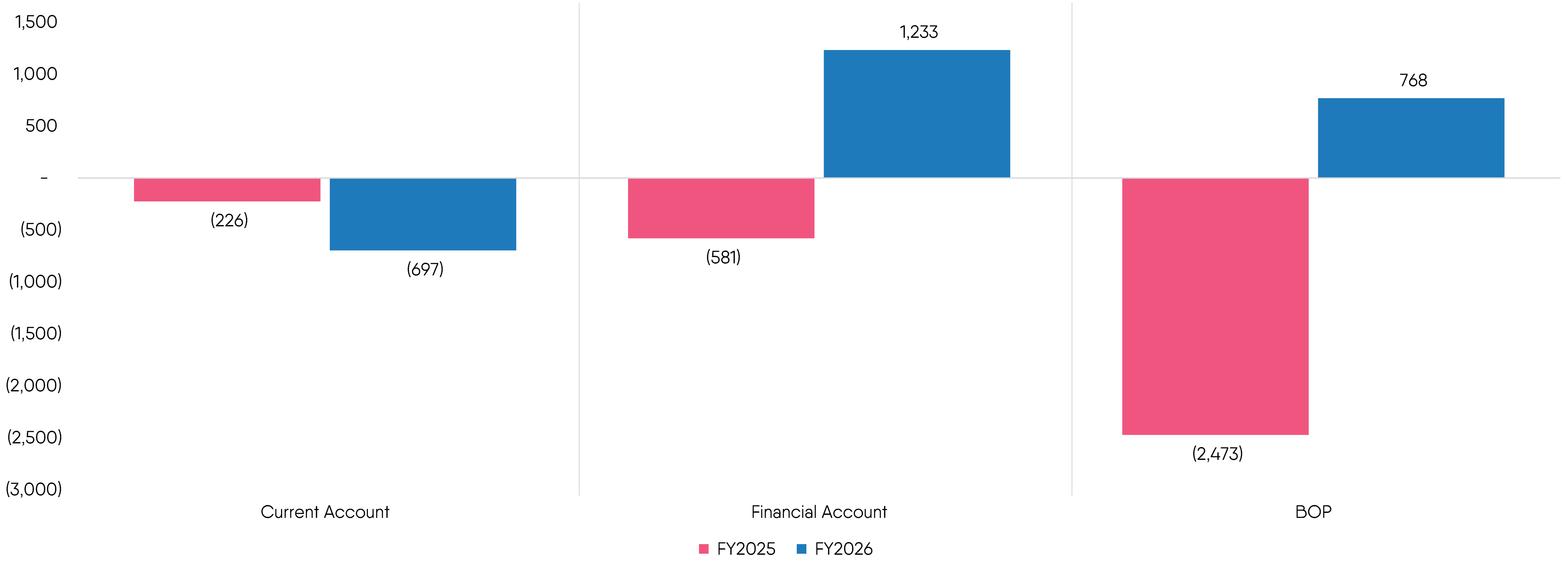


Source: Bangladesh Bank

Recap BOP remained in surplus driven by low CA deficit and foreign debt inflow

Bangladesh's external position improved significantly in July-November FY2026, with the balance of payments recording a USD 768 million surplus compared to a USD 2.5 billion deficit in the same period last year. Resilient remittances and strong financial account inflows marked a turnaround from last year.

Cumulative Bangladesh External Balance – July-November (USD bn)



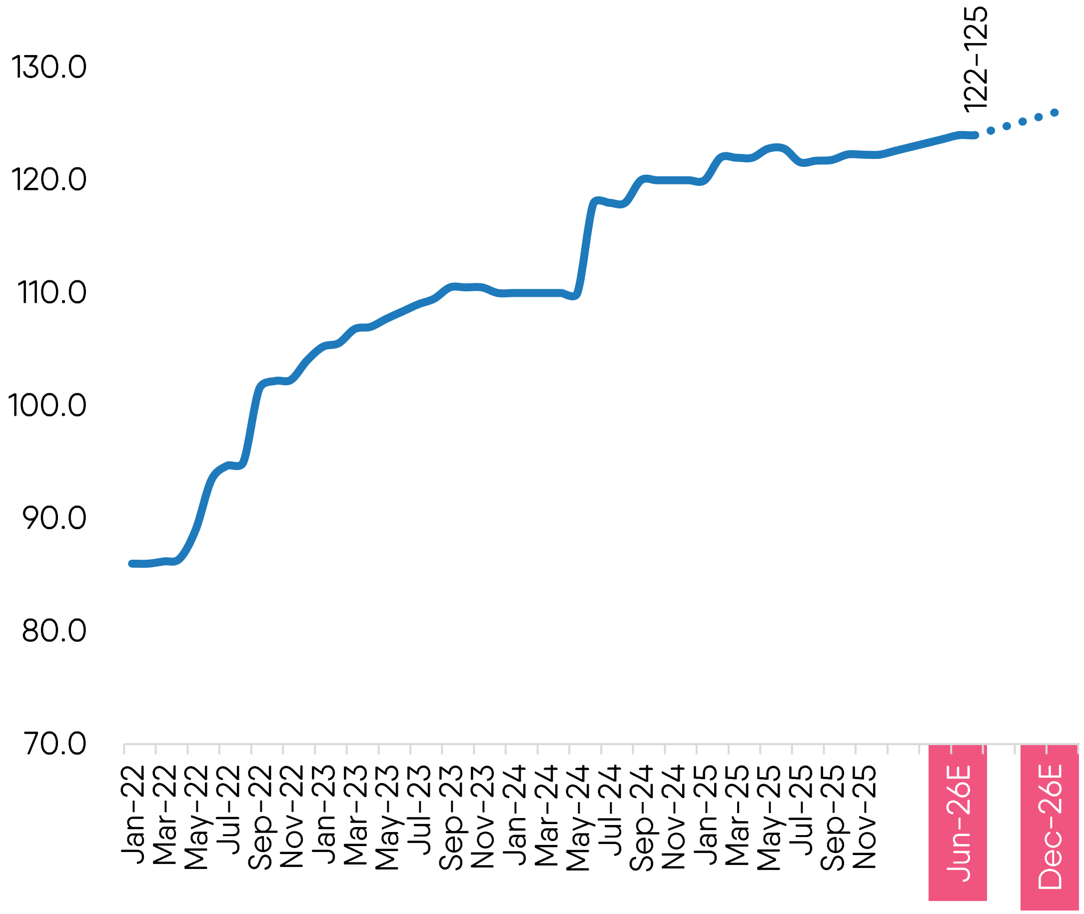
Source: Bangladesh Bank

Exchange Rate

BDT 122-125/USD by Jun-26E

1. FY26 current account positive on strong remittances
2. Fed rate cuts and rate differentials to support BDT
3. Arrival of IMF and development partner funds post elections to deliver a BOP surplus

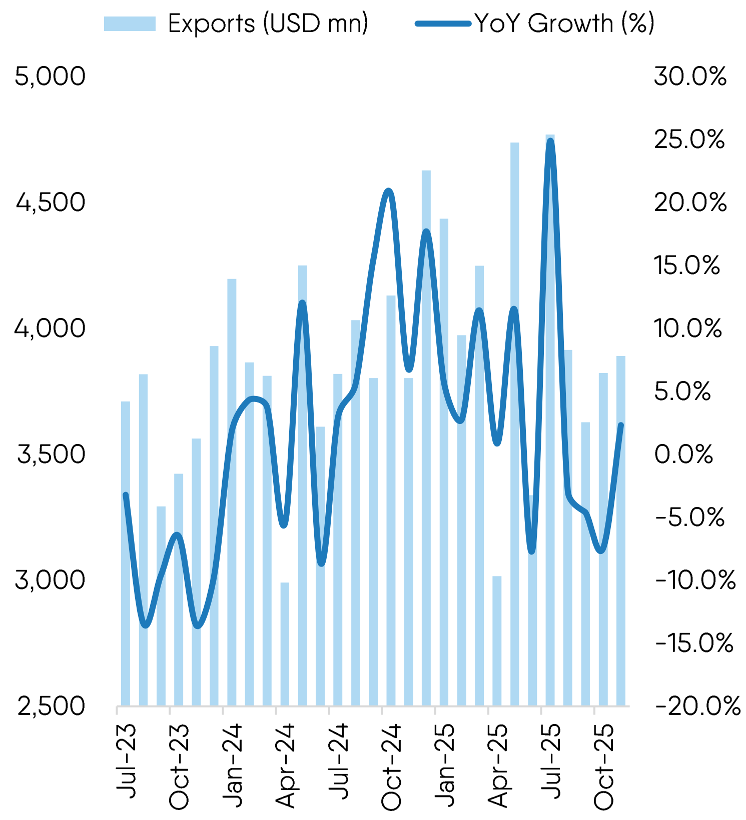
Exchange Rate (BDT per USD)



Exports will remain **under pressure** amid intensified EU competition and a US–EU trade conflict

Monthly Exports (USD mn)

Export growth slowed down to 2.2% YoY in the first five months of FY2025-26

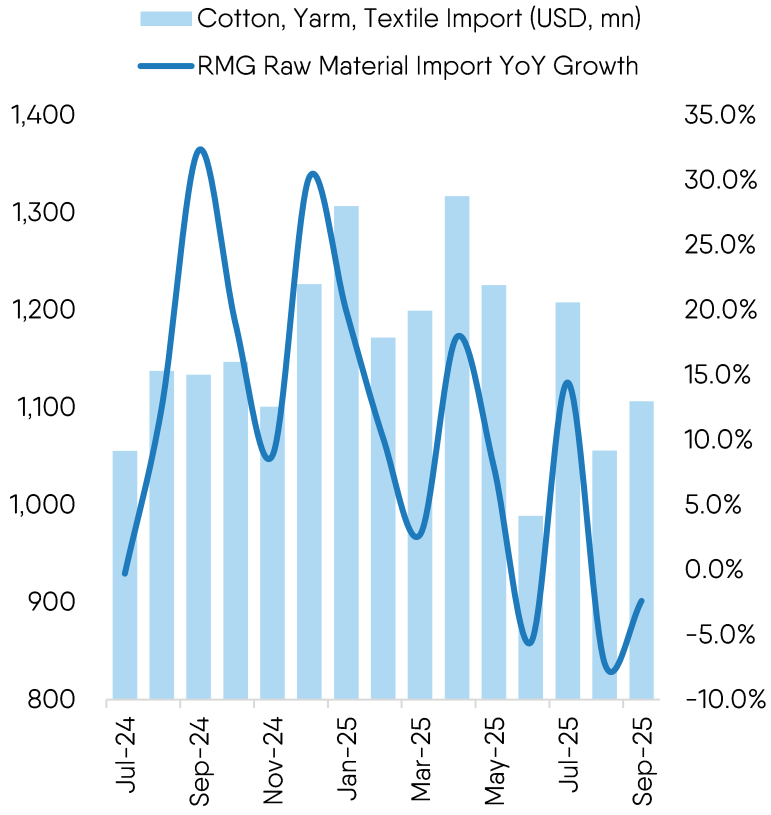


Unit Export Selling Price (EUR/Unit)

Selling price of RMG goods to EU has fallen due to more exporters pushing goods to EU amidst high tariffs to the US

RMG Raw Material Imports (USD mn)

RMG raw material import growth suggest weaker exports in coming months

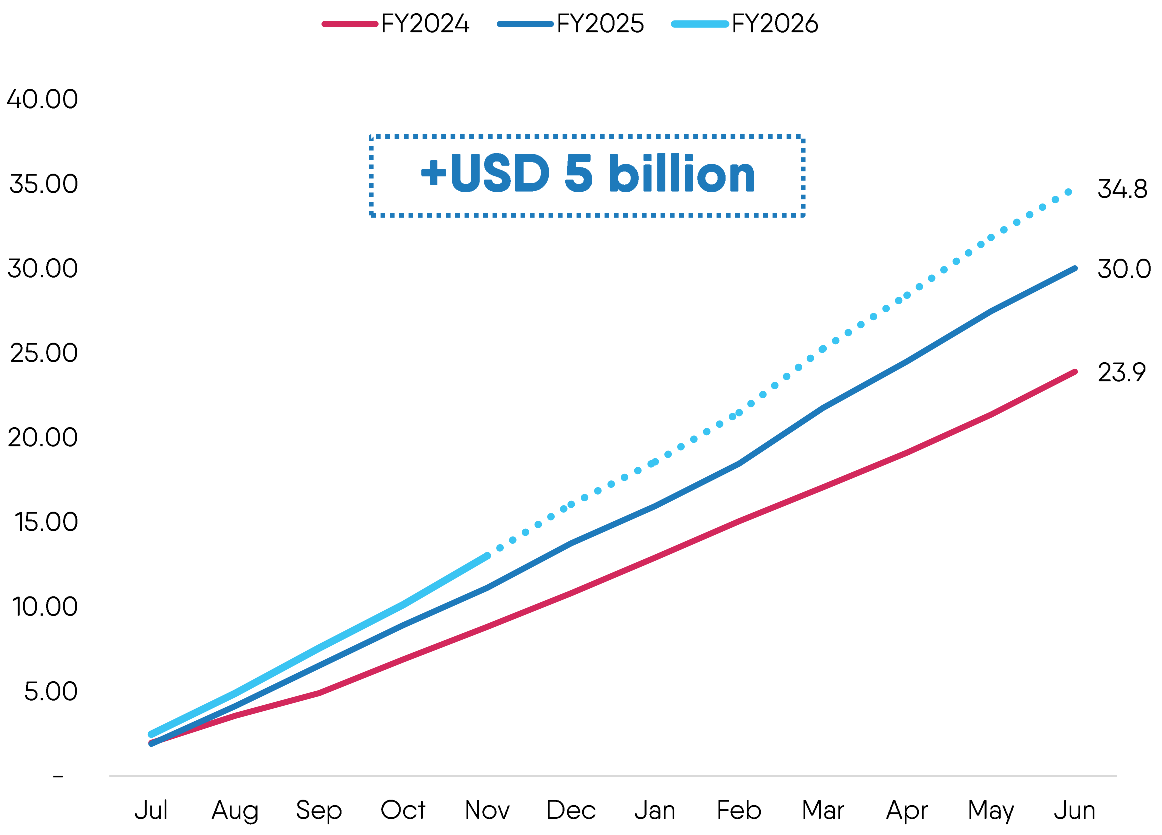


Source: Bangladesh Bank, CAL Research Estimates

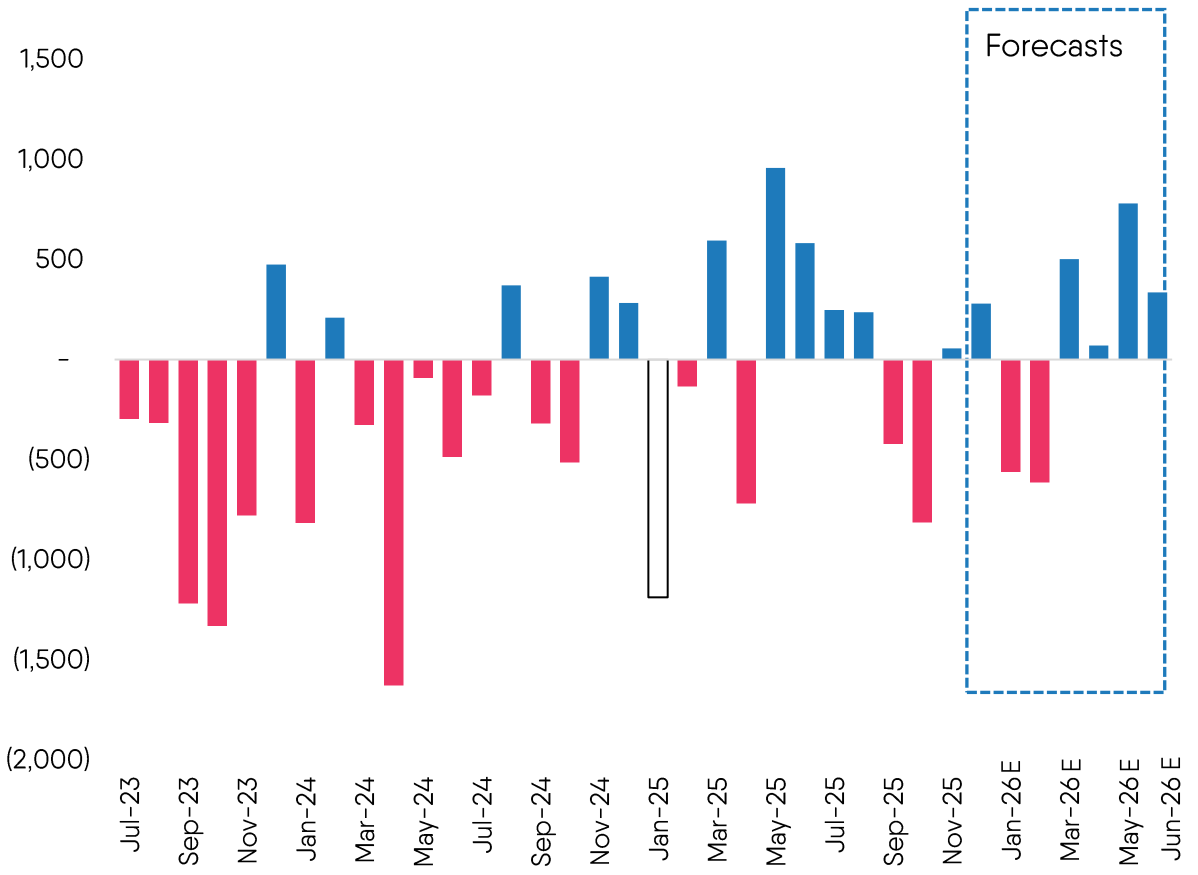
However, CAL expects CA pressure to **remain contained in 1H'26** driven by robust remittances

Remittance inflows accelerated in 5MFY25 and are projected to reach USD 34.8 billion in FY2026, up from USD 30.0 billion in FY2025 and USD 23.9 billion in FY2024. This has shifted the current account from persistent deficits in 2024 to largely stable outcomes (marked by surpluses and occasional low deficits) throughout 2025, strengthening external sustainability.

Remittances (USD bn): Historical vs Forecast



Current Account Balance (USD mn)

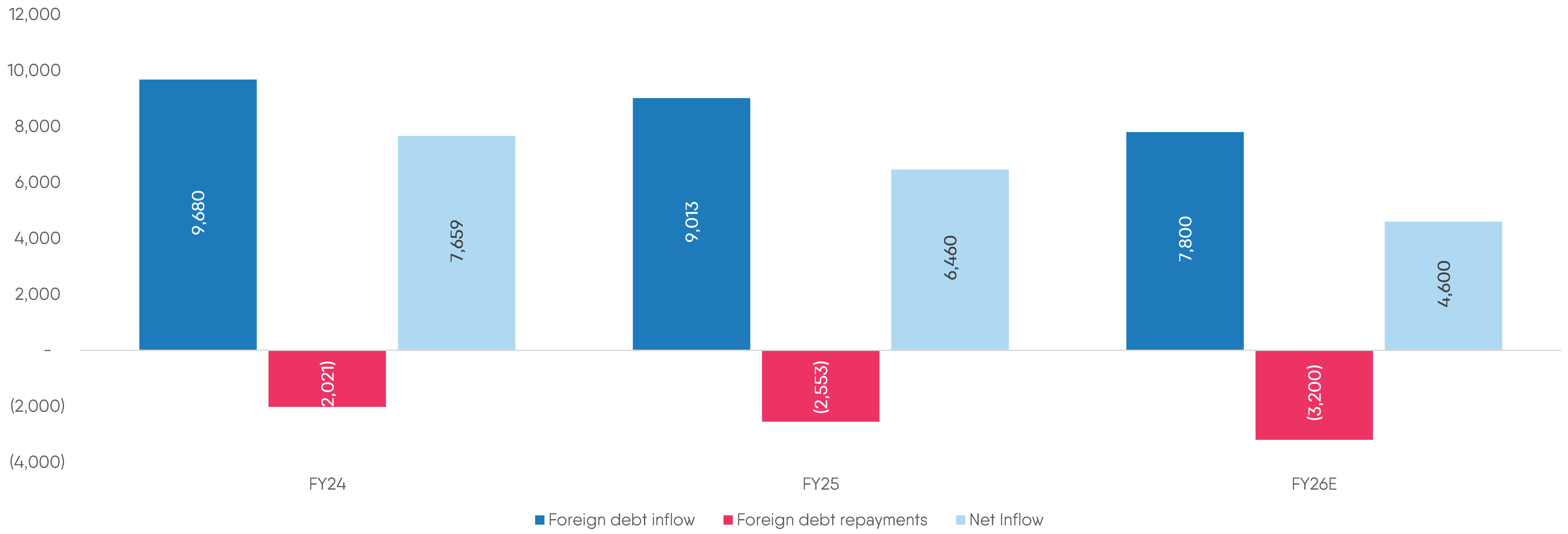


Source: Bangladesh Bank, CAL Research Estimates

Expected foreign debt inflows will keep the **balance of payment in surplus** in FY26

A post-election policy environment should support funding continuity, underpinning IMF's projected foreign debt inflows of USD 7.8 billion against USD 3.2 billion in repayments and sustaining a positive balance of payments.

Estimated Foreign Debt Inflow/Outflow (USD mn)

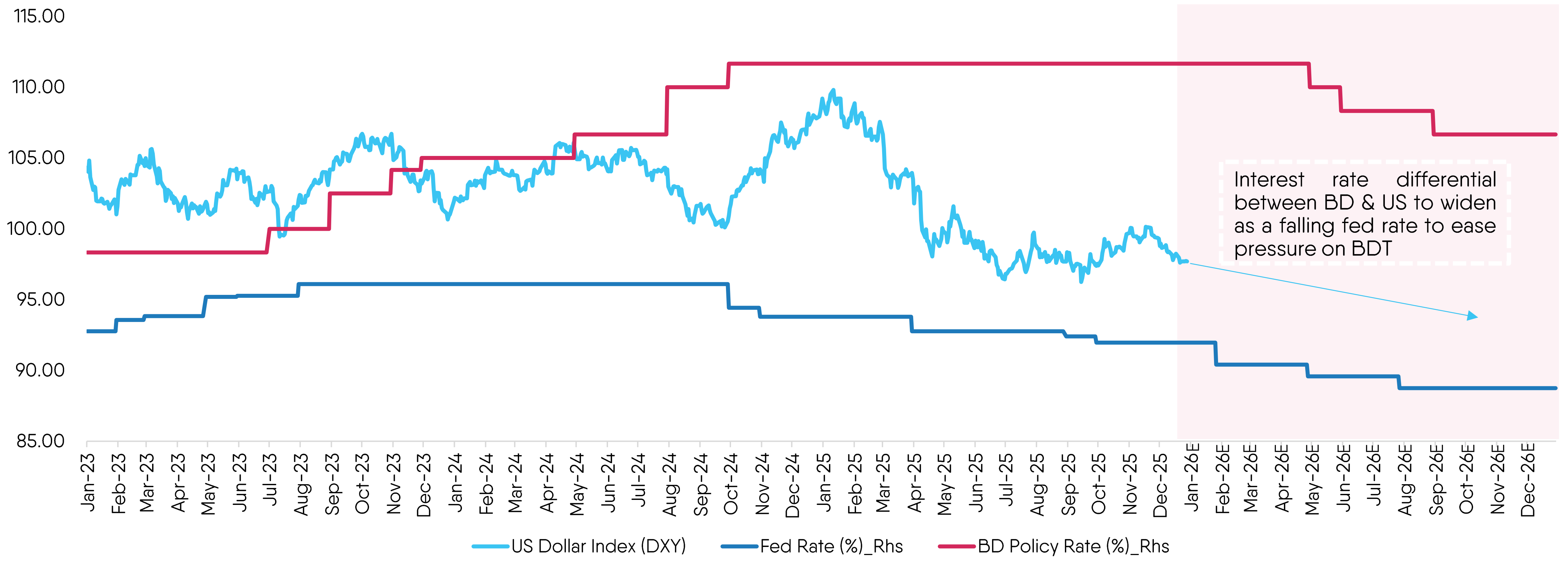


Source: IMF

External pressure on the BDT will **ease further** with the US implementing further rate cuts

The US Dollar Index has declined from its 2025 peak of 109 to approximately 97 as the Federal Reserve has cut rates from 5.50% to 3.00%, while Bangladesh's policy rate has eased from 10.00% to 8.50%. Continued Fed easing through 2026 is expected to further weaken the dollar and narrow the policy rate differential, reducing external pressure on the BDT.

US Dollar Index vs. BD & US Policy Rates (%)



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

Inflation

Cooling in Progress

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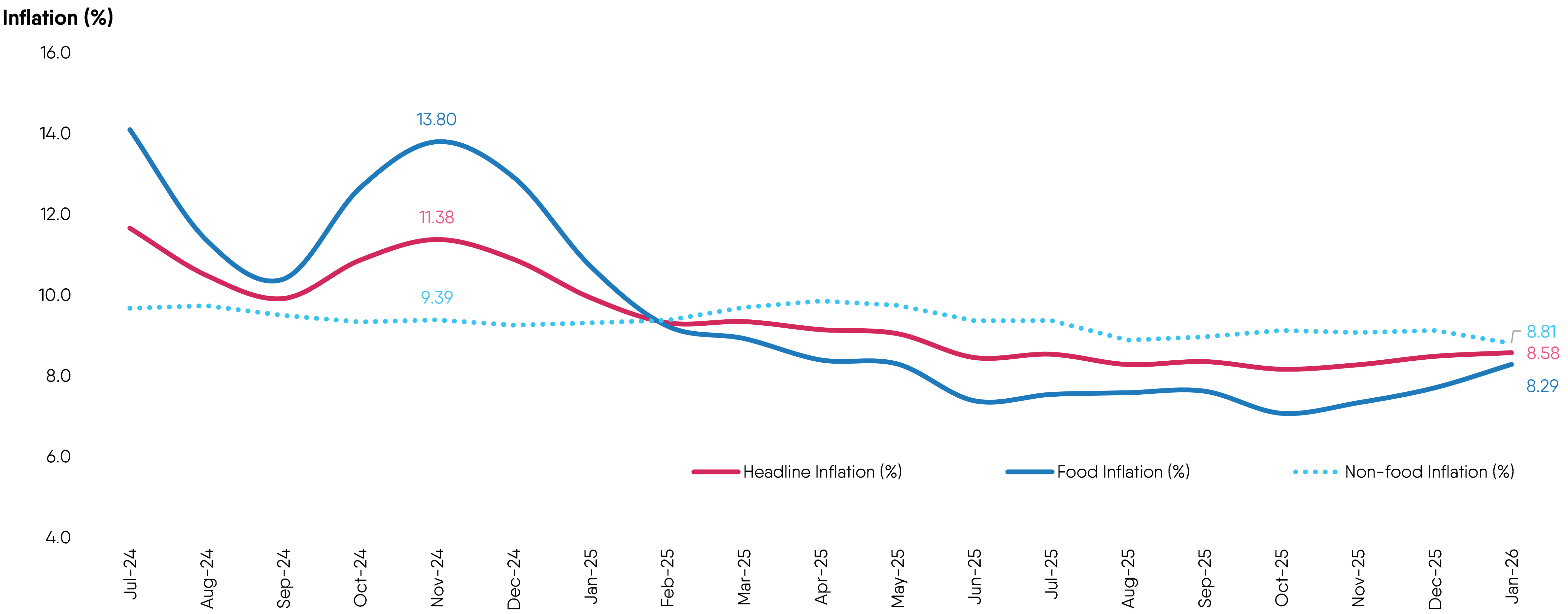
Recap Inflation eased from an **11% peak to below 9%**, yet remains elevated

Inflation has fallen from an 11%+ peak to below 9%, indicating a clear easing from last year's highs, though price pressures remain elevated. At the same time, food inflation at about 7% signals a moderation in underlying pressures and suggests inflation is beginning to calm.

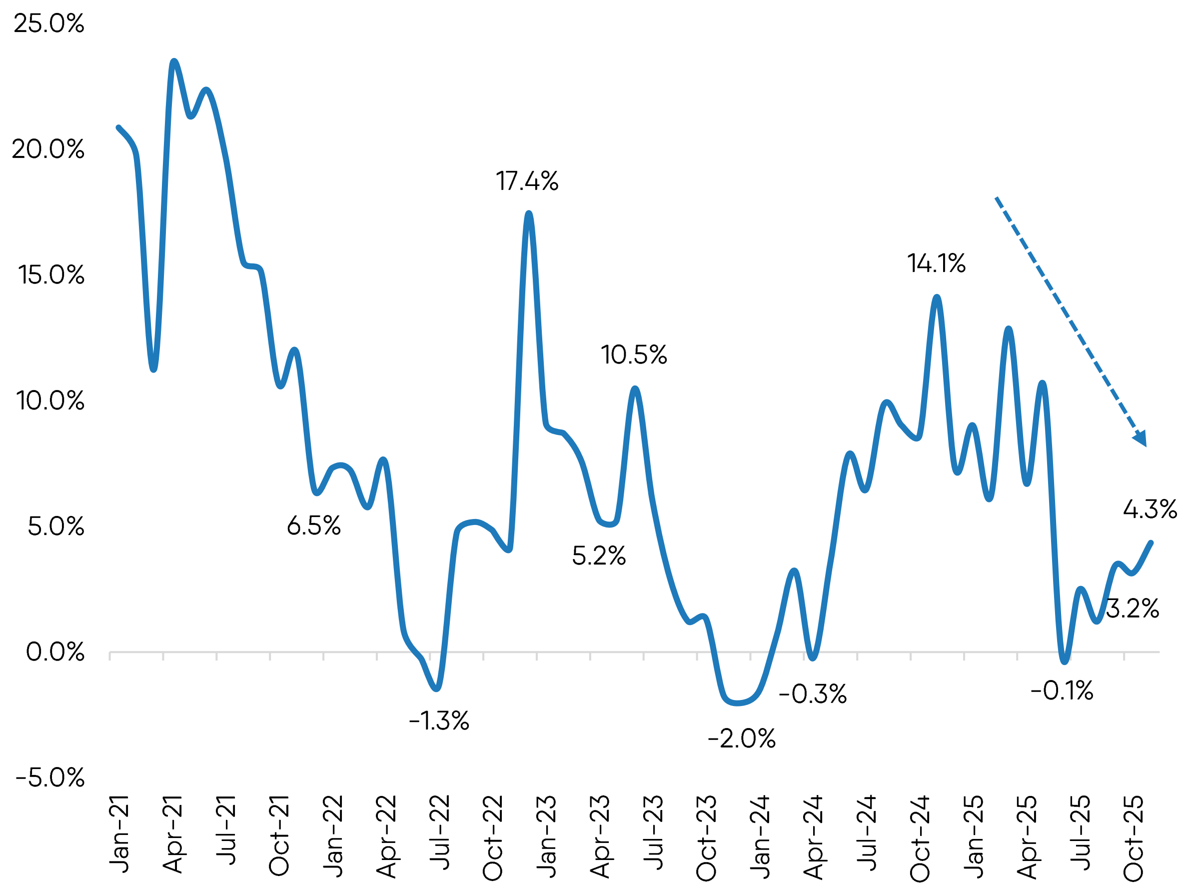


Source: Bangladesh Bureau of Statistics

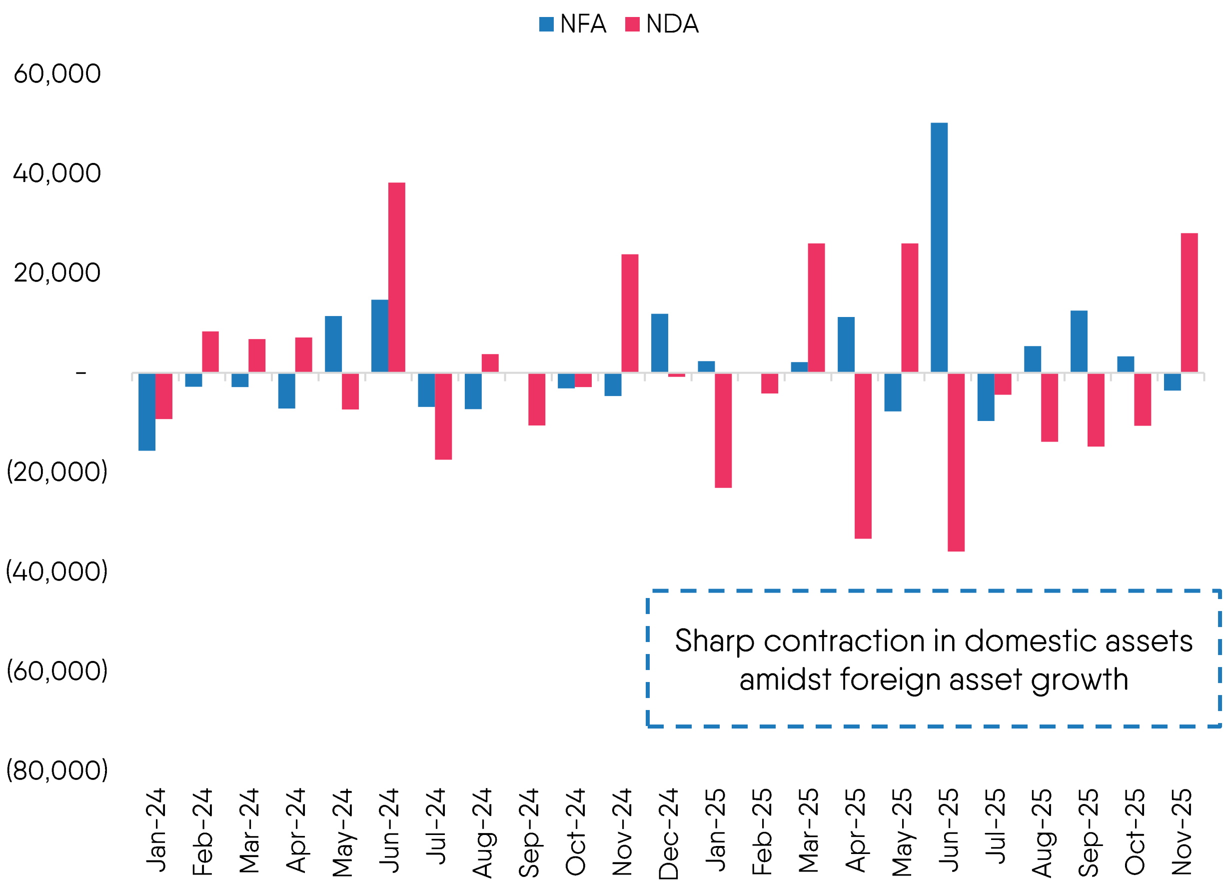
Recap Tightening measures **contracted money supply**, bringing inflation down to single digits

Bangladesh Bank's aggressive monetary tightening has driven reserve money growth to its lowest level in a decade, successfully reducing inflation to single digits. Despite substantial accumulation of net foreign assets due to the central bank's reserve purchases, BB has consistently mopped up domestic assets.

Reserve Money YoY Growth (%)



Reserve Money Components MoM Change (BDT Crore)

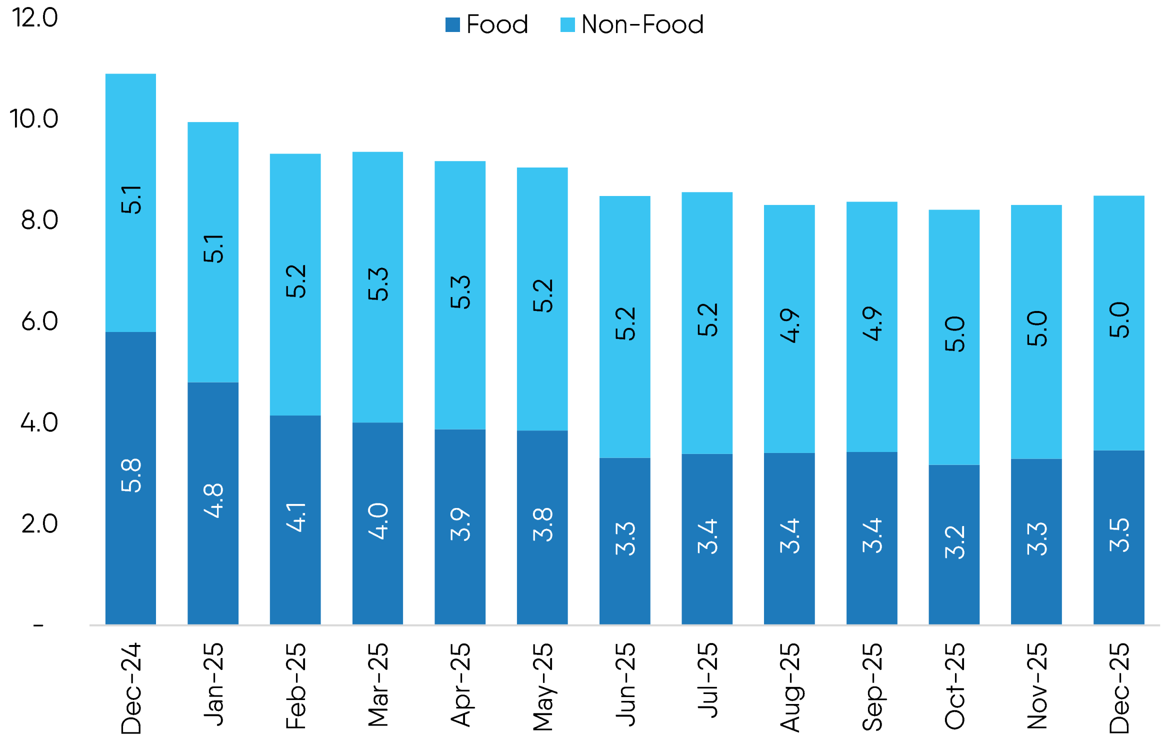


Source: Bangladesh Bank

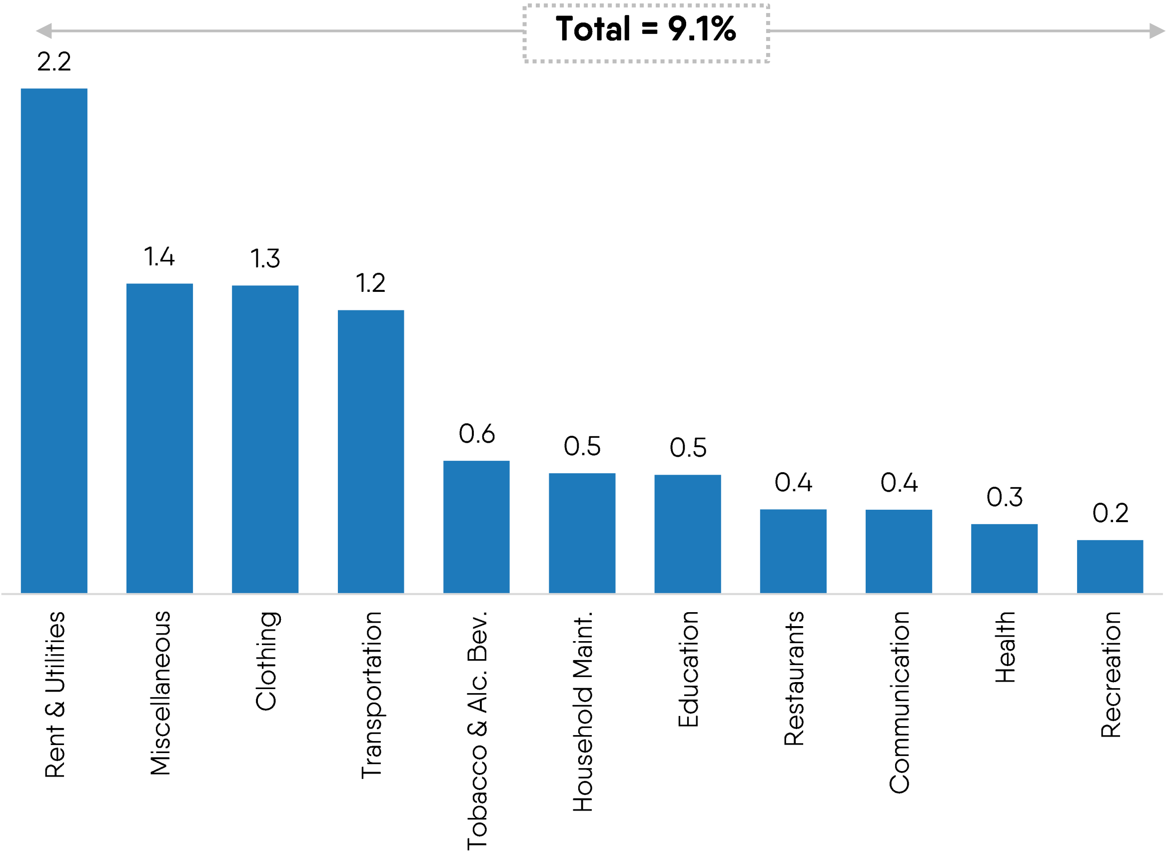
Recap Non-food has been the **bigger contributor** to inflation than food

Housing-related costs—including rent, utilities, and fuel—have become the largest contributors to non-food inflation in recent months. Additionally, the fire incident in the airport cargo zone temporarily pushed non-food prices higher, reflecting both actual supply losses and speculative price adjustments.

Contribution to Overall Inflation (%)



Contribution to Non-Food Inflation in December (%)

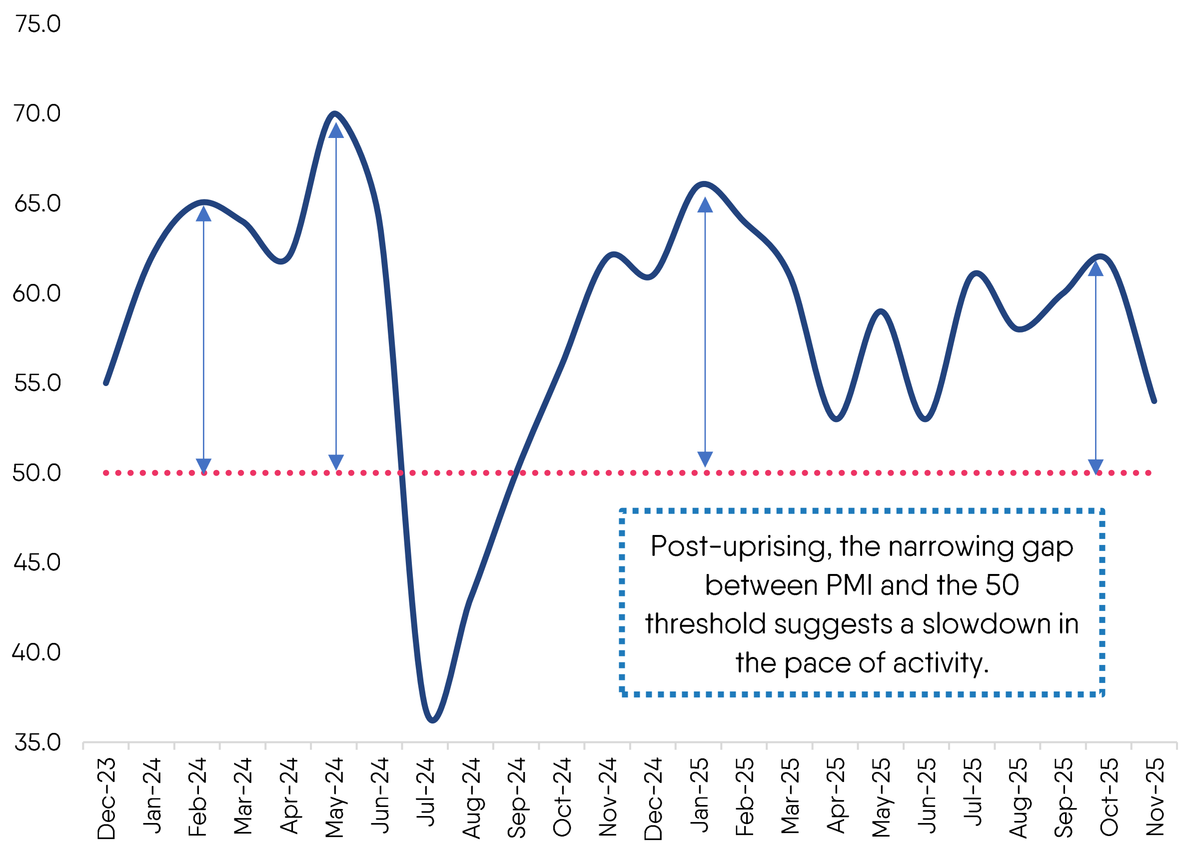


Source: BBS, CAL Research

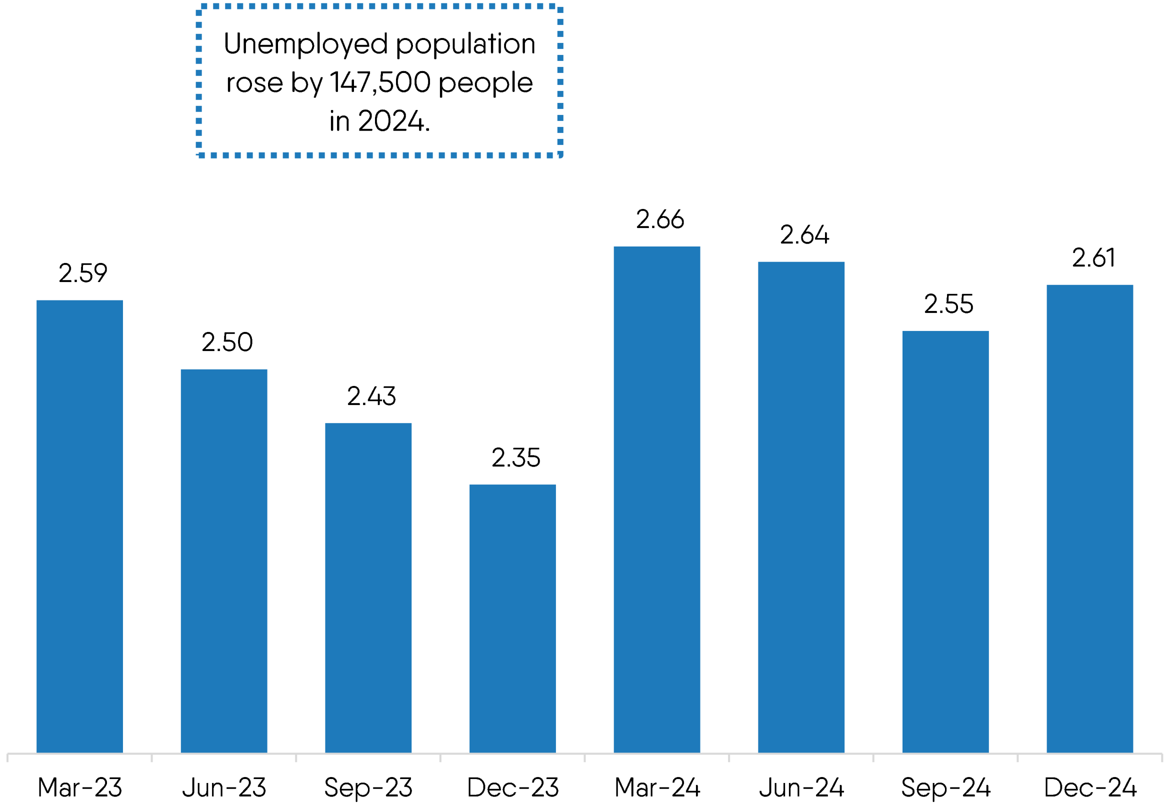
Recap However, sustained inflation appears inconsistent with **weak demand and rising unemployment**

PMI remains expansionary, but the post-uprising narrowing versus the 50 threshold signals slower activity momentum. Rising unemployment further points to weak demand conditions, inconsistent with sustained inflationary pressure.

Purchasing Managers Index (PMI)



Unemployed Population (In mn)

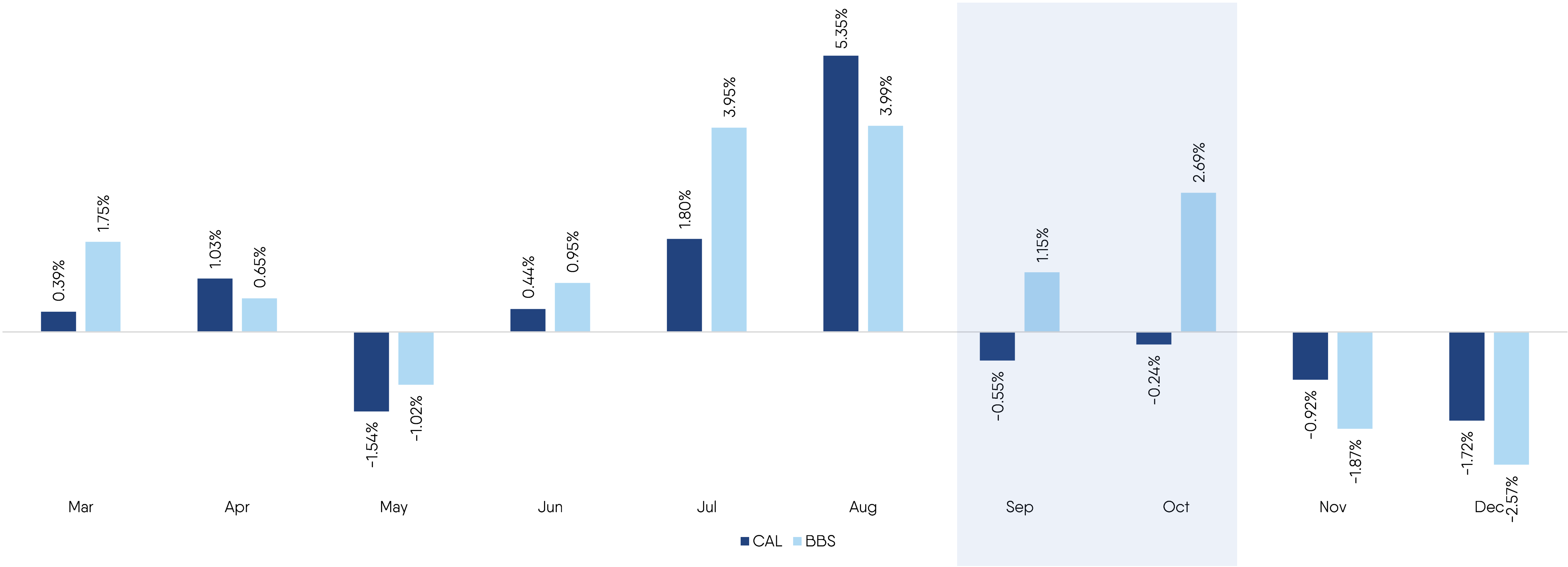


Source: BBS, Bangladesh Bank, MCCI

Recap CAL food basket points to **easing Sep–Oct inflation** using BBS methodology

September and October saw sharp MoM increases in inflation in the official data. The CAL food basket, which covers around 95% of the official food categories and applies the same category weights, data source and calculation approach, shows a different MoM pattern during this period.

MoM Food Inflation: CAL vs BBS

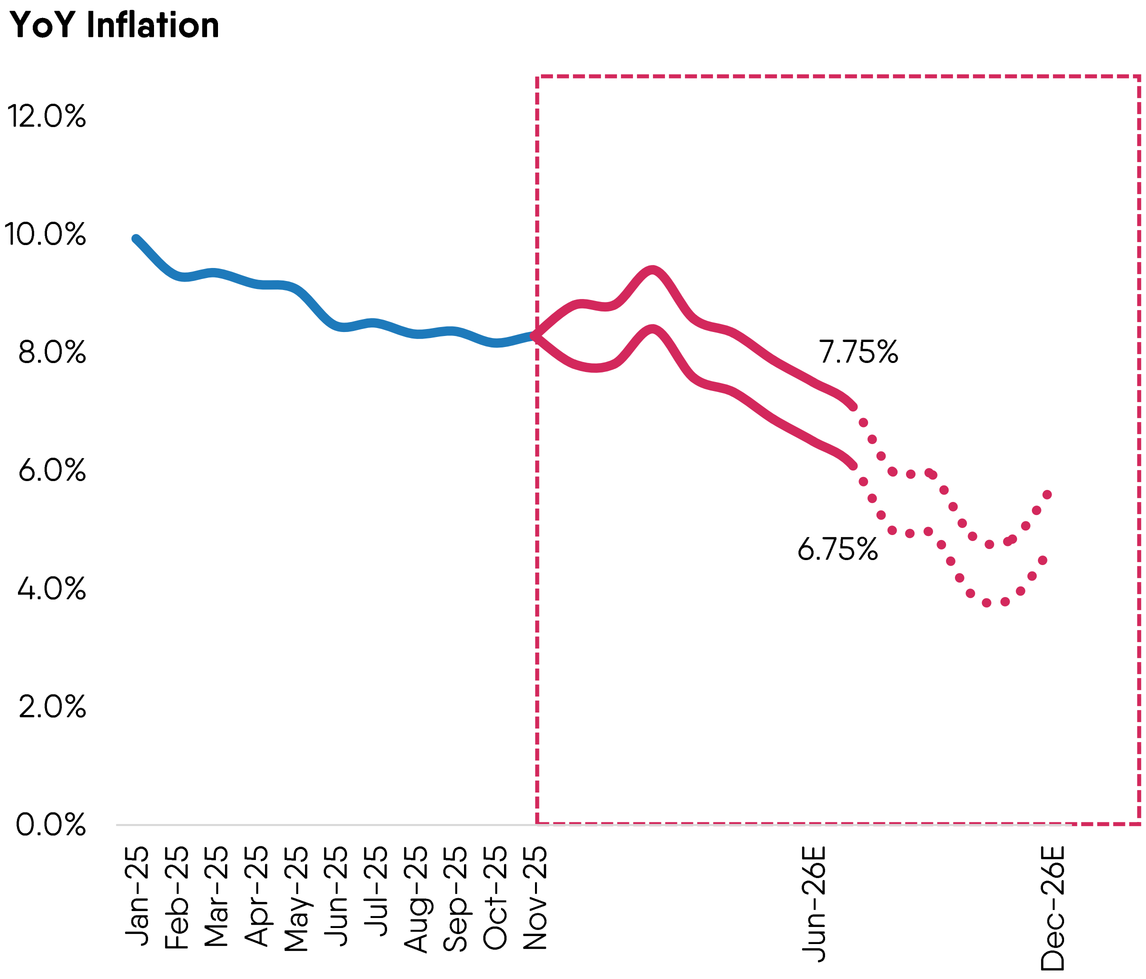


Source: BBS, dam.gov.bd

Inflation

6.75%-7.75% by Jun-26E

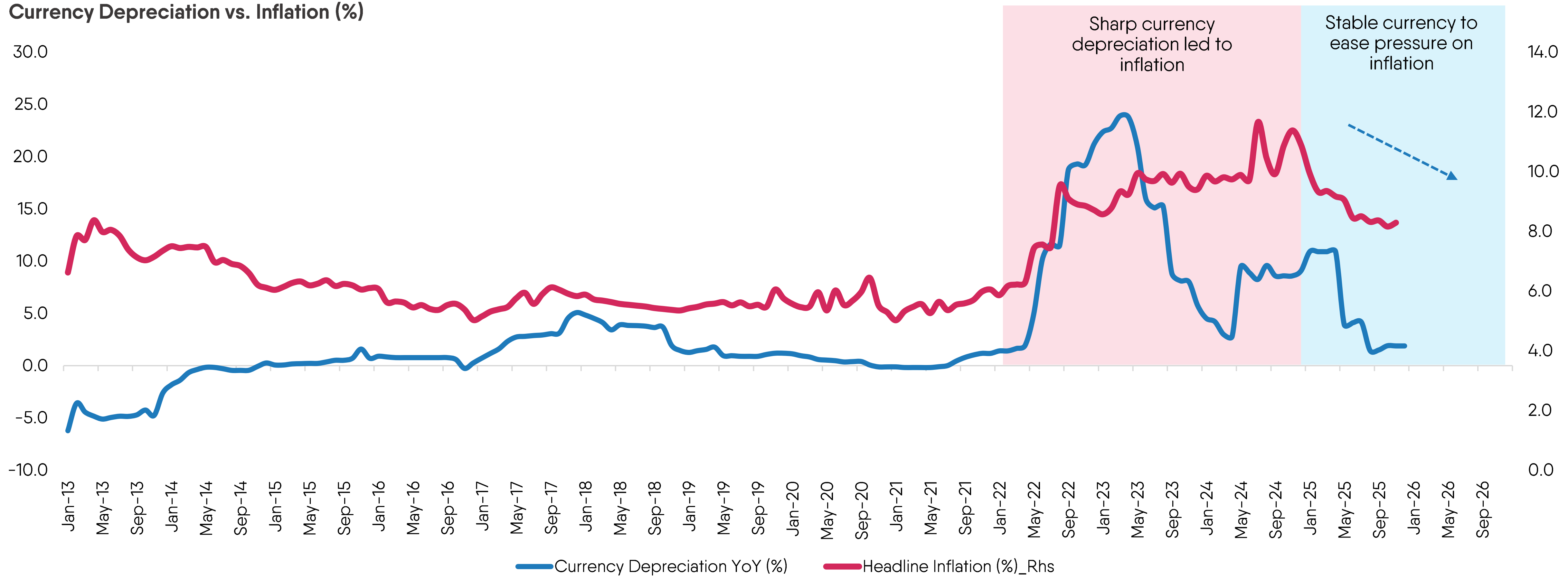
1. **Inflation will keep easing on tight policy, low demand and base effect**
2. **Stable USD to contain price pressures**
3. **Lower fuel and commodity prices to ease import costs**



Stable currency will **reduce future FX pass-through to inflation**

Following acute depreciation-driven inflation during 2022-2023, the recent stabilization of the exchange rate has substantially reduced FX pass-through effects, contributing to a moderation in headline inflation from its peak of approximately 12% to current levels below 9%.

Currency Depreciation vs. Inflation (%)



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Source: investing.com, CAL Research Estimates

CAL expects that decade-low money supply growth will bring inflation down to 6.75%-7.75% by Jun-26E.

M2 growth has decelerated to a decade-low of 6.95%, down from over 13% in early 2021, creating a lagged effect that is expected to drive one-year leading inflation down to approximately 5-6% by mid-2026, marking a significant easing from current levels.

Headline Inflation vs. Money Supply Growth (%)

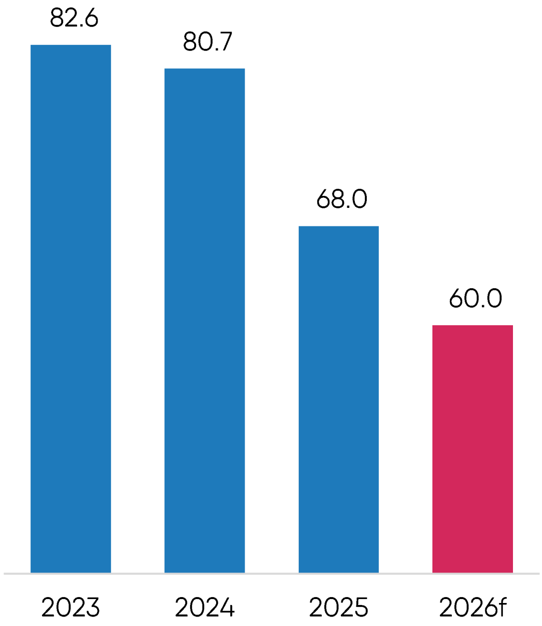
Source: BBS, BB, CAL Research

Imported inflation likely to ease amidst lower oil and stable commodity prices

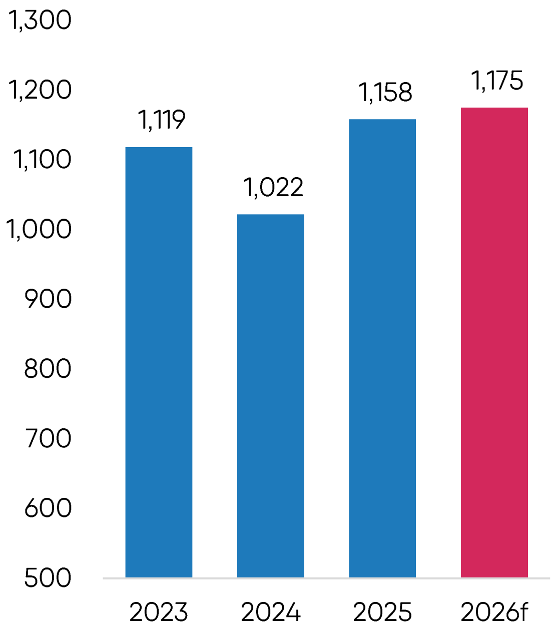
World Bank projections indicate a broad-based moderation across key commodity markets through 2026, with Brent crude anticipated to decline to $60/bbl, soybean oil stabilizing around $1,175/MT, wheat retreating to $258/MT, and sugar normalizing at $0.37/kg—collectively reducing imported inflation for commodity-dependent economies

Forecast of Major Commodity Prices – World Bank

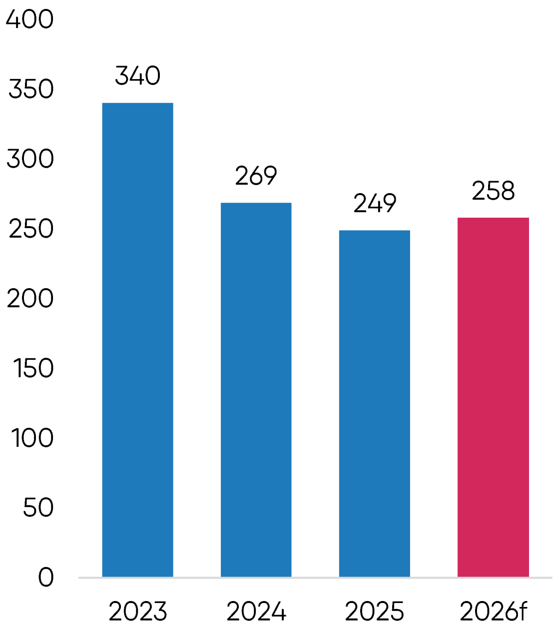
Brent Crude (USD/bbl)



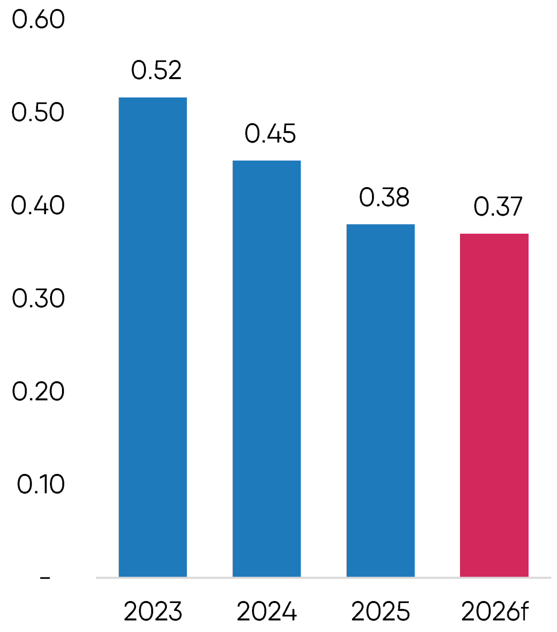
Soybean Oil (USD/MT)



Wheat (USD/MT)



Sugar (USD/Kg)



Source: investing.com, CAL Research Estimates

Interest Rate

Easing Ahead

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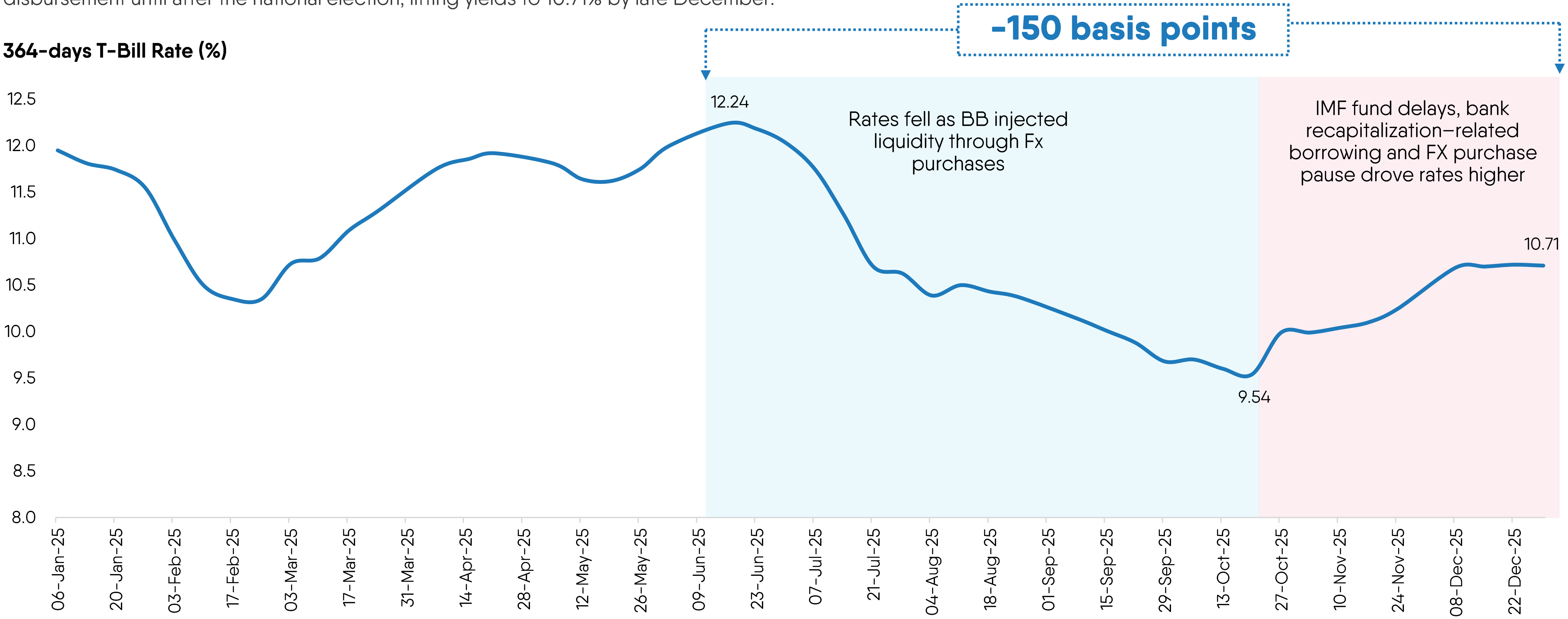
Recap Interest rates came down to our **target range of 8.5%-9.5%** in October

The 364-day T-Bill rate fell 150 bps from its June 2025 peak of 12.24% as Bangladesh Bank's FX purchases boosted liquidity, reaching a low of 9.54% in late October. However, rates edged back up in Q4 after the central bank paused dollar purchases and sentiment tightened following the IMF's decision to delay the sixth tranche disbursement until after the national election, lifting yields to 10.71% by late December.

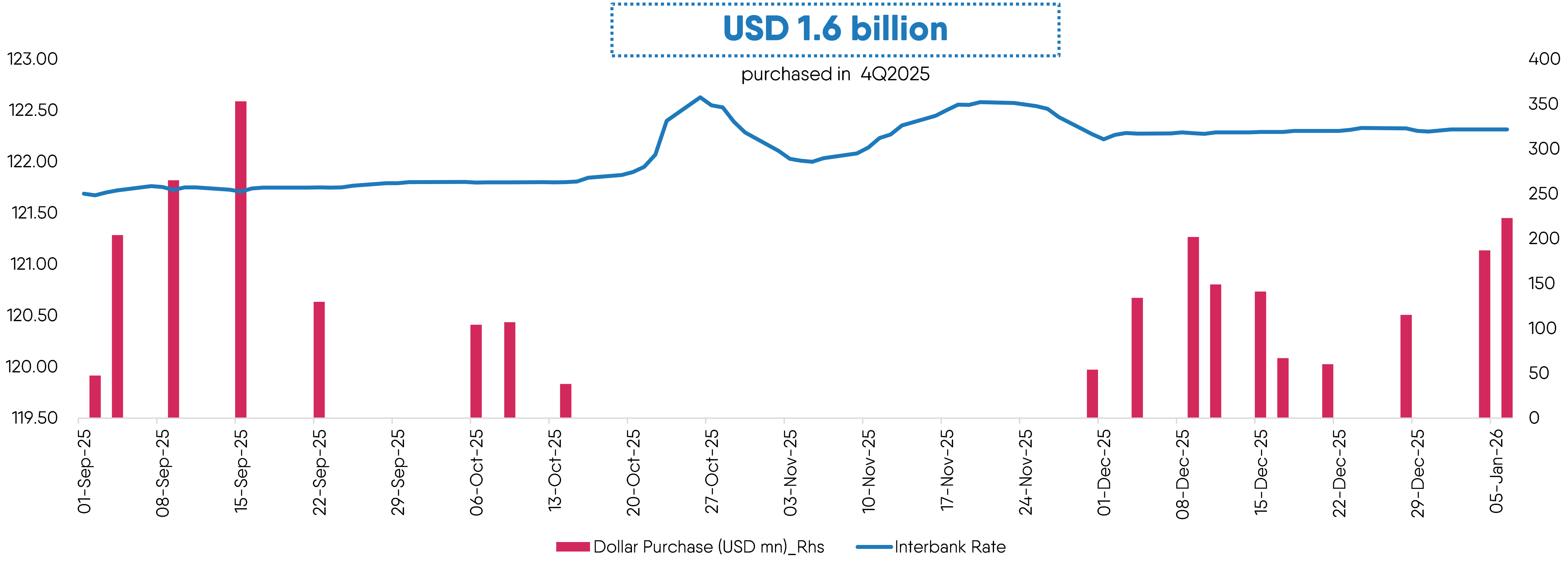


Source: Bangladesh Bank

Recap Central bank's FX purchases improved banking sector liquidity

Bangladesh Bank's strategic USD 1.6 bn purchases in Q4 2025 stabilized the interbank rate near 122.30, keeping the USD/BDT range-bound at BDT 122–124 per USD.

Interbank USD/BDT Rate & BB Dollar Purchase Amount (USD mn)



Source: Bangladesh Bank, IMF

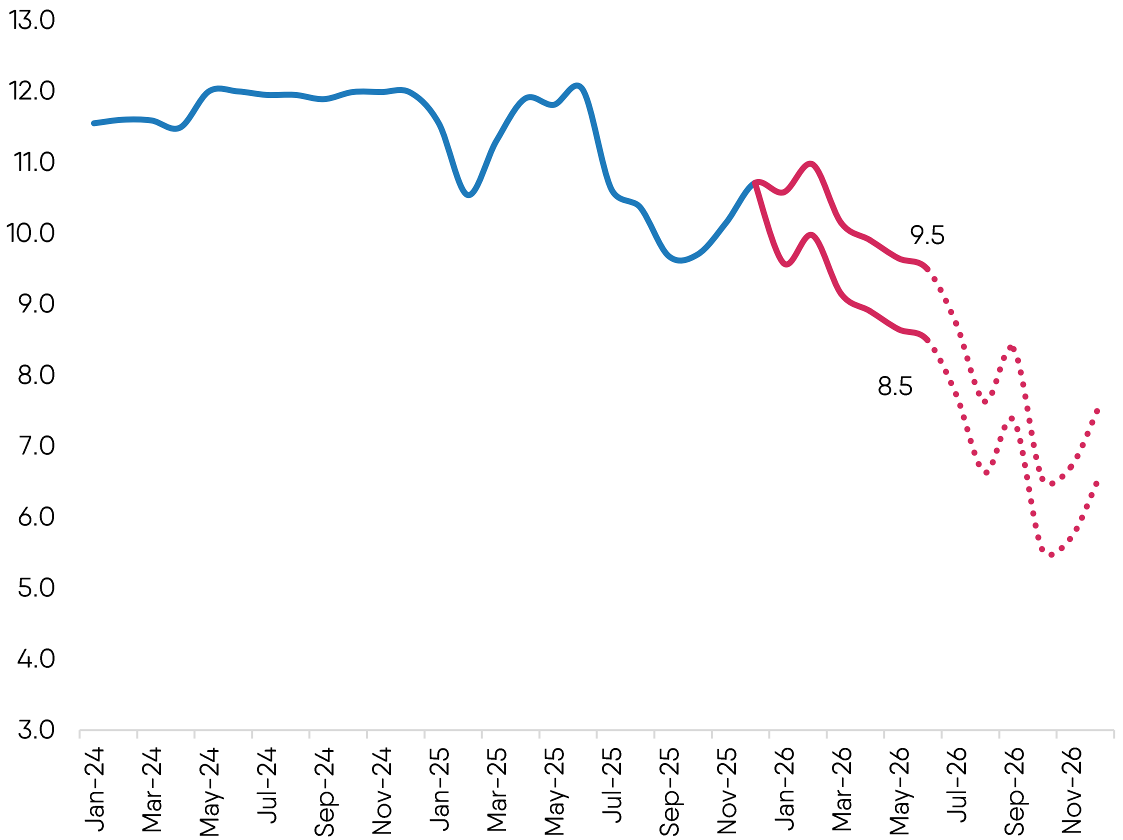
Interest Rates

8.5%-9.5% by Jun-26E

364-days T-bill Rate (%)

1. **Yields to fall amid improved liquidity and high real rates**
2. **50 bps rate cut expected with easing inflation**
3. **BB's FX purchases to inject further liquidity**

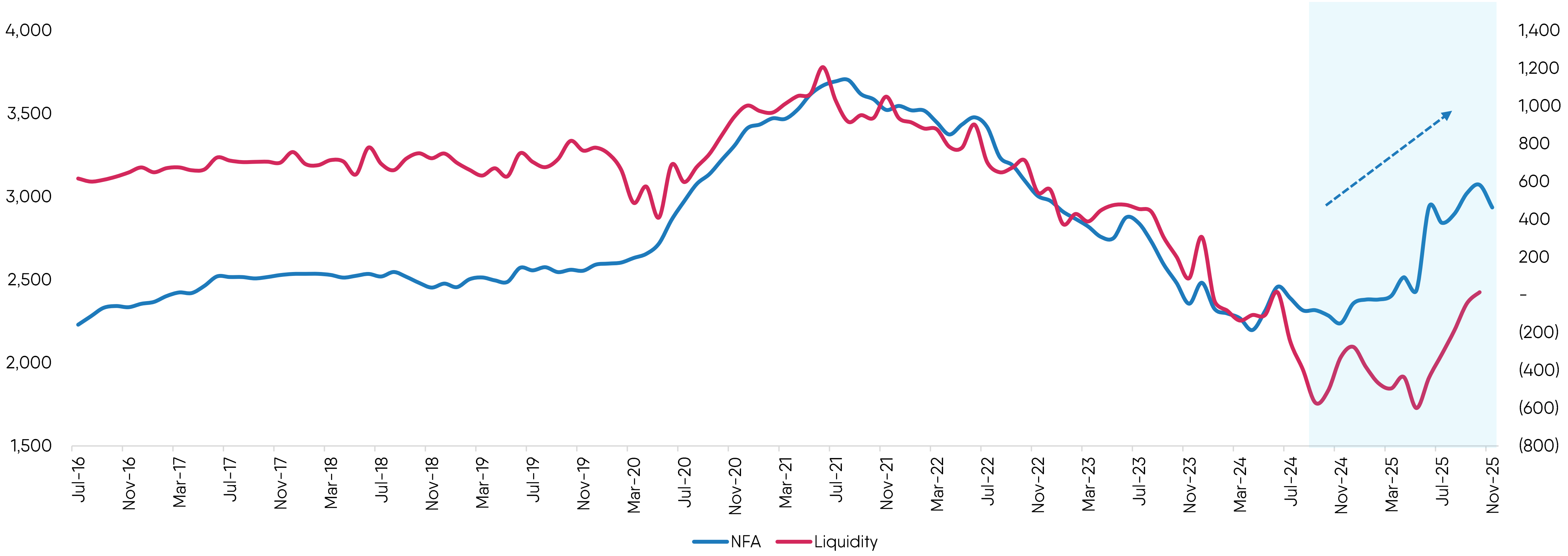
364-days T-bill Rate: Historical and Projected (%)



Long-term trend of liquidity has improved **as FX outflows reverse course**

Following a prolonged period of foreign exchange outflows that depleted banking sector liquidity to negative BDT 600 billion in late 2024, net foreign assets have rebounded sharply from BDT 2,300 billion to nearly BDT 3,000 billion, catalyzing a synchronized recovery in system liquidity back toward positive territory as external pressures subside and capital flows normalize

Net Foreign Assets vs. Liquidity (BDT bn)

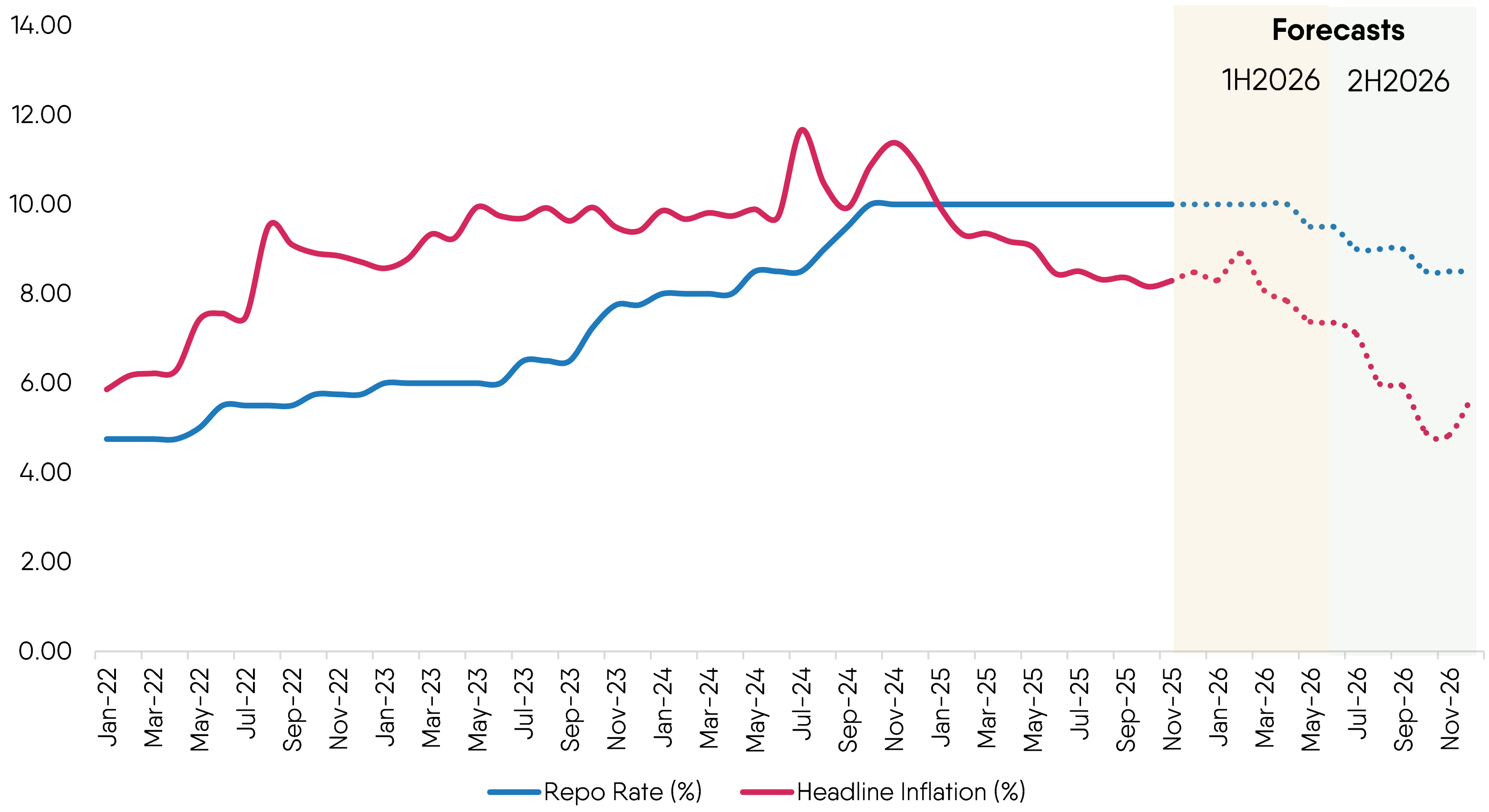


Source: Bangladesh Bank, CAL Research Broadcast

Policy easing expected to begin in 1H'26, **with scope for faster cuts in 2H'26**

With headline inflation declining from its 11.9% peak in mid-2024 to 8.2% currently, Bangladesh Bank Governor has signaled readiness to reduce the 10% policy rate once inflation falls below 8.2%. Our base case projects initial rate cuts in 1H'26 followed by more aggressive easing by year-end as disinflationary momentum strengthens.

Policy Rate vs. Inflation (%)



News Snippets

THE BUSINESS STANDARD

29 November, 2025

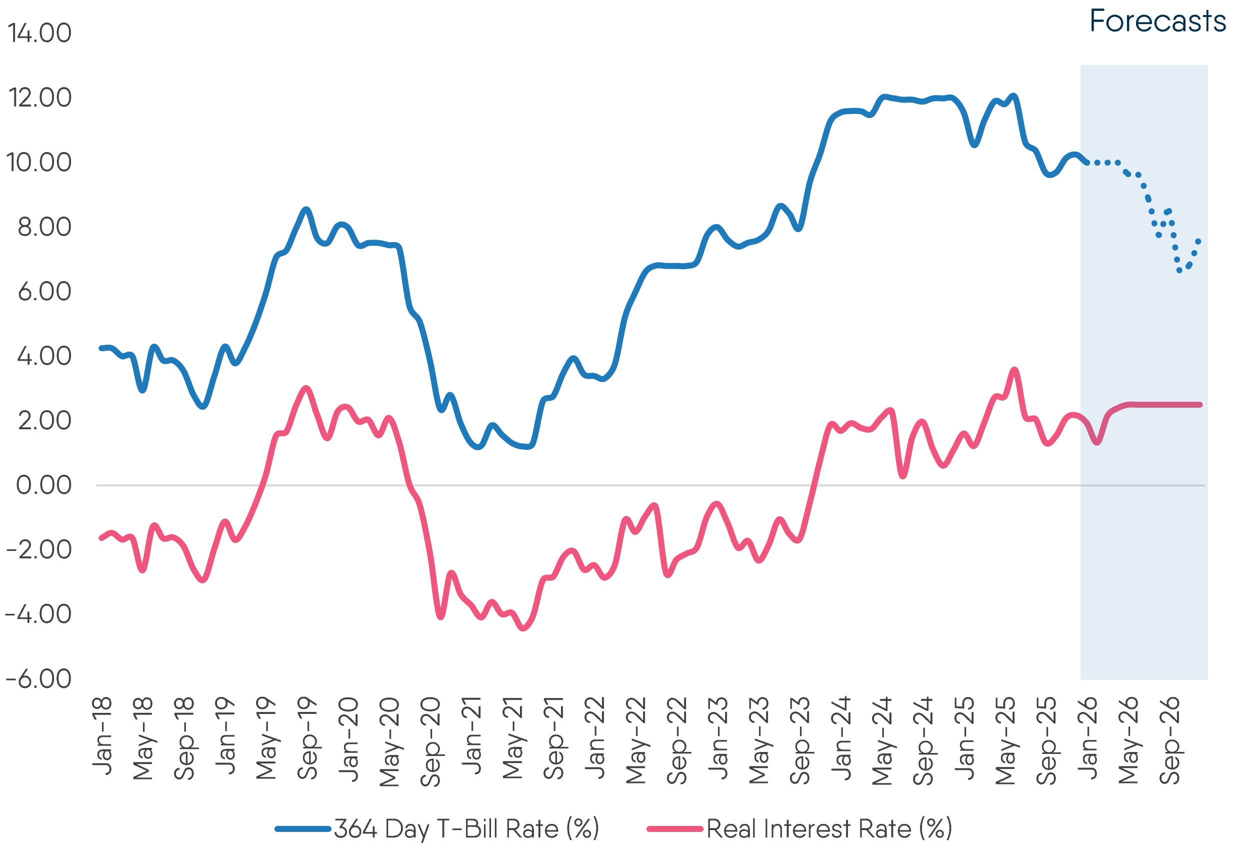
10% policy rate to be reduced if inflation drops below 8.2%: BB governor

Mentioning that inflation stands at 8.2%, he added that if it falls further, ideally into the 7% range, the policy rate will be reduced.

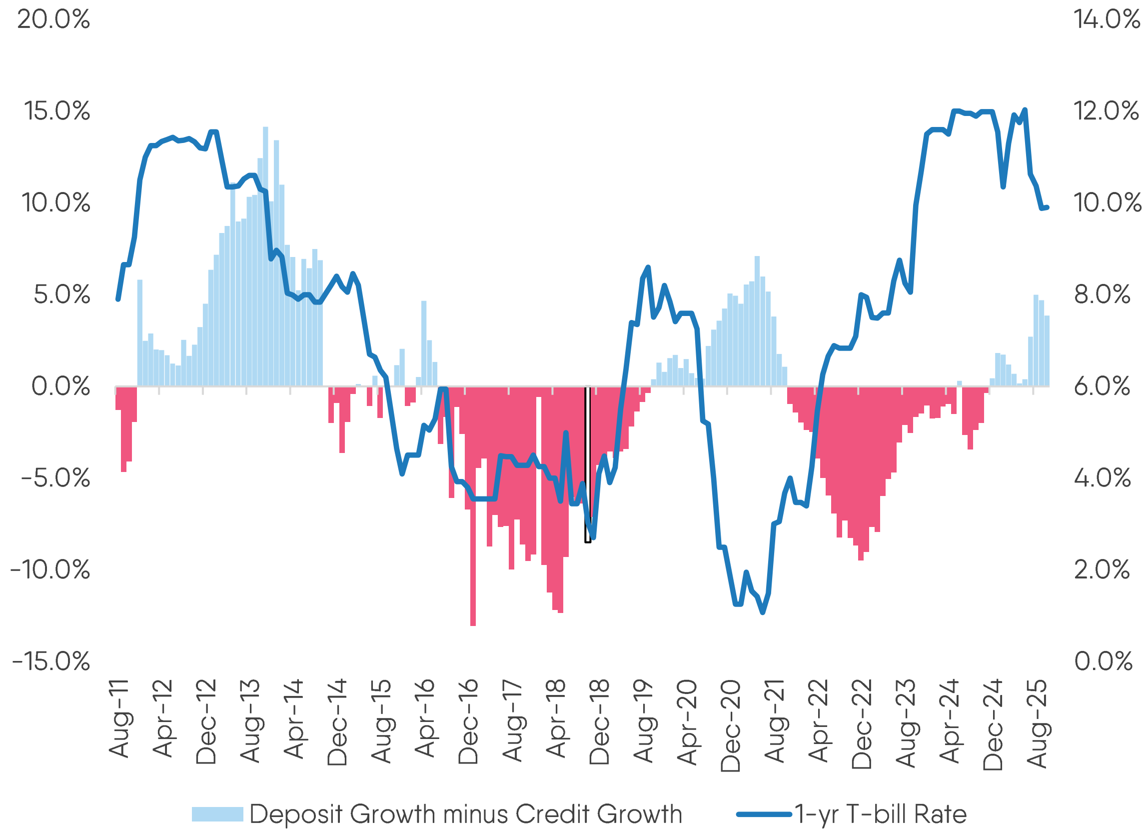
364D T-bill to track policy rate expectations with banks continuing to chase treasuries amidst sluggish credit demand

Considering a 2.5% premium over inflation, the 364-days treasury bill rate will fall to 8.5%-9.5% by Jun-26E as banks are likely to channel funds into treasury securities as higher deposit surpasses credit demand.

Net Foreign Assets vs. Liquidity (BDT bn)



Deposit Growth minus Credit Growth (%)

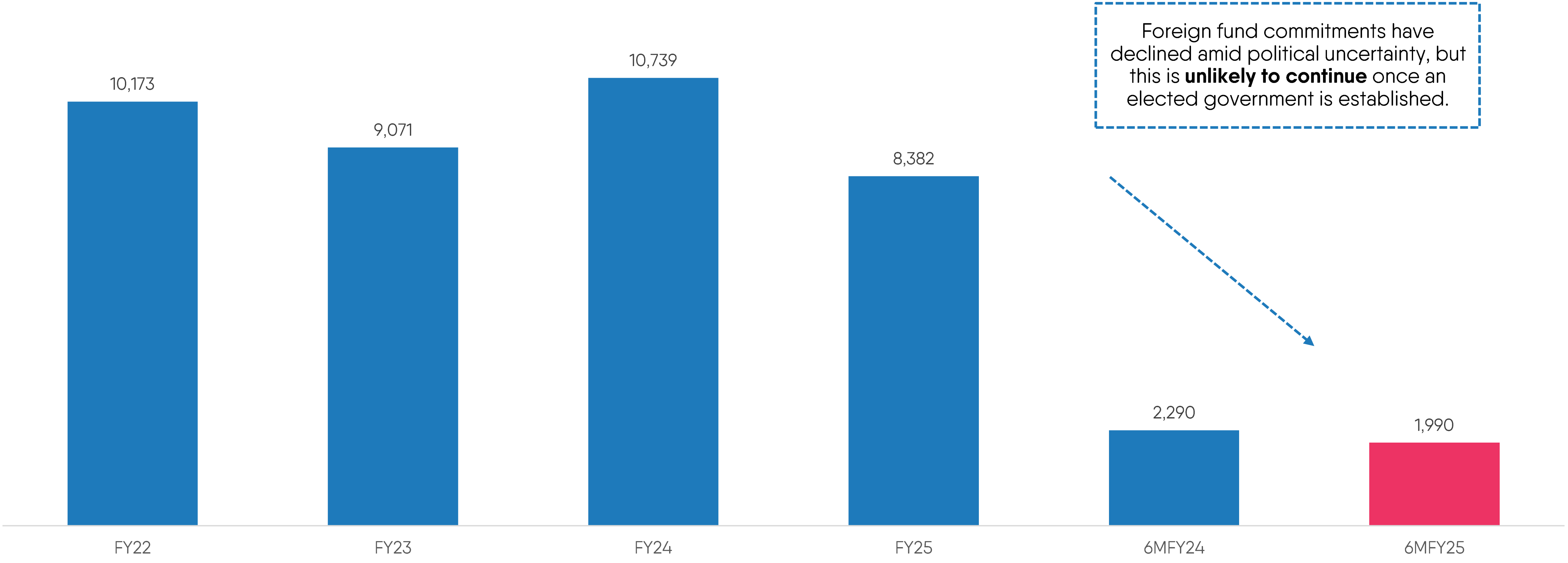


Source: Bangladesh Bank, CAL Research Broadcast

Rate pressure should ease over the next 6 months as partner financing resumes with **policy clarity post-election**

Bangladesh's foreign funding commitments have remained broadly stable at USD 8–10bn. However, heightened policy uncertainty in the absence of an elected government has prompted the IMF to delay disbursements, with bilateral partners taking a similar stance. We expect commitments to normalize once an elected administration is in place and lenders regain confidence on the policy outlook.

Foreign Fund Commitments (USD mn)

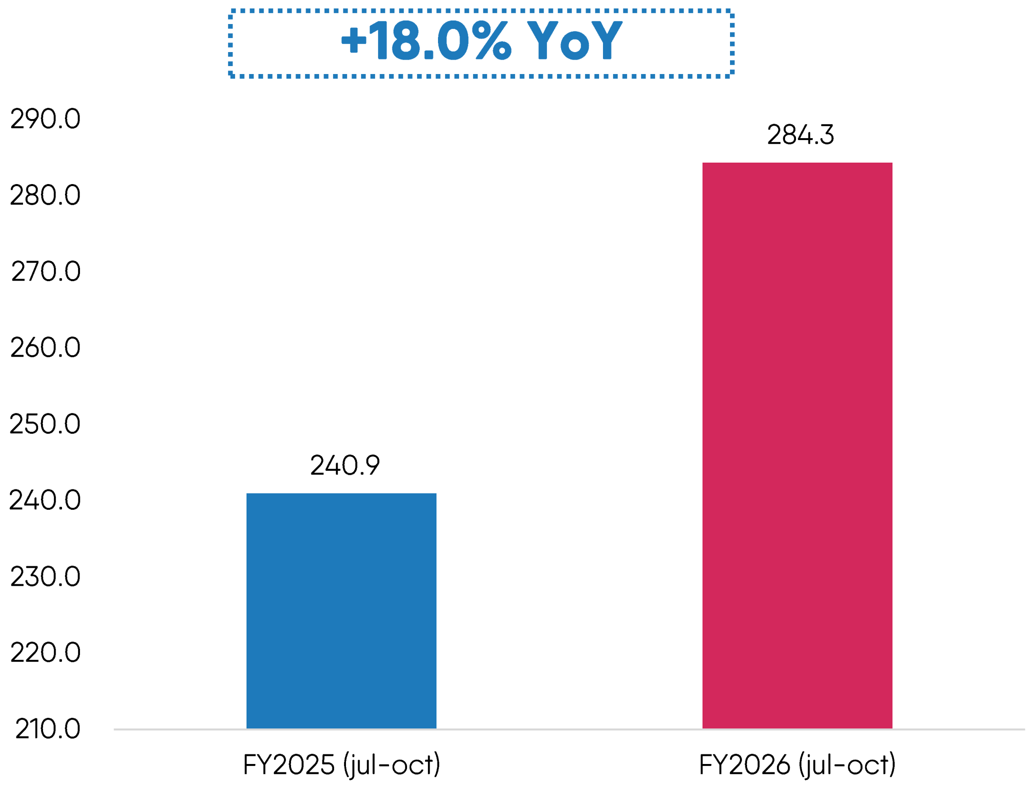


Source: Bangladesh Bank

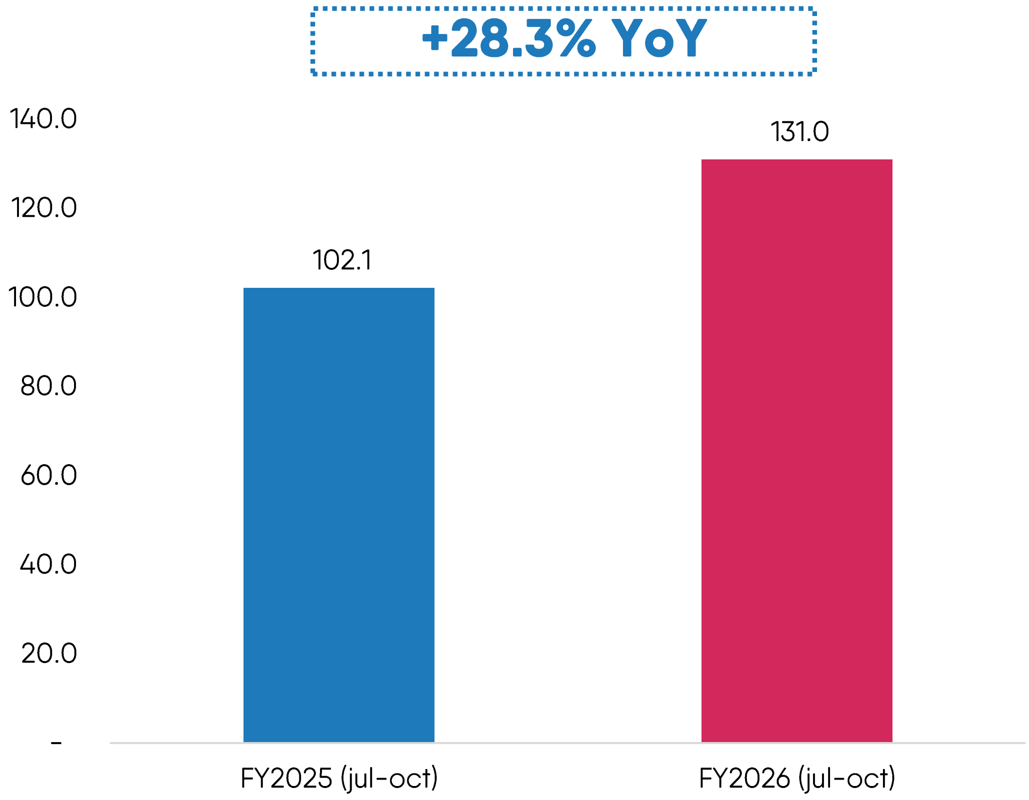
Recap VAT receipts, card spend accelerate—**consumption rebound gathers pace**

VAT collections rose 18% YoY to BDT 284.3 bn, while credit card transactions jumped 28.3% YoY to BDT 131B for Jul–Oct FY2026, signaling sustained recovery momentum.

Domestic VAT Collection (BDT Bn)



Credit Card Transactions (BDT bn)



Source: Bangladesh Bank, CAL Research

Growth

The Road Opens Up

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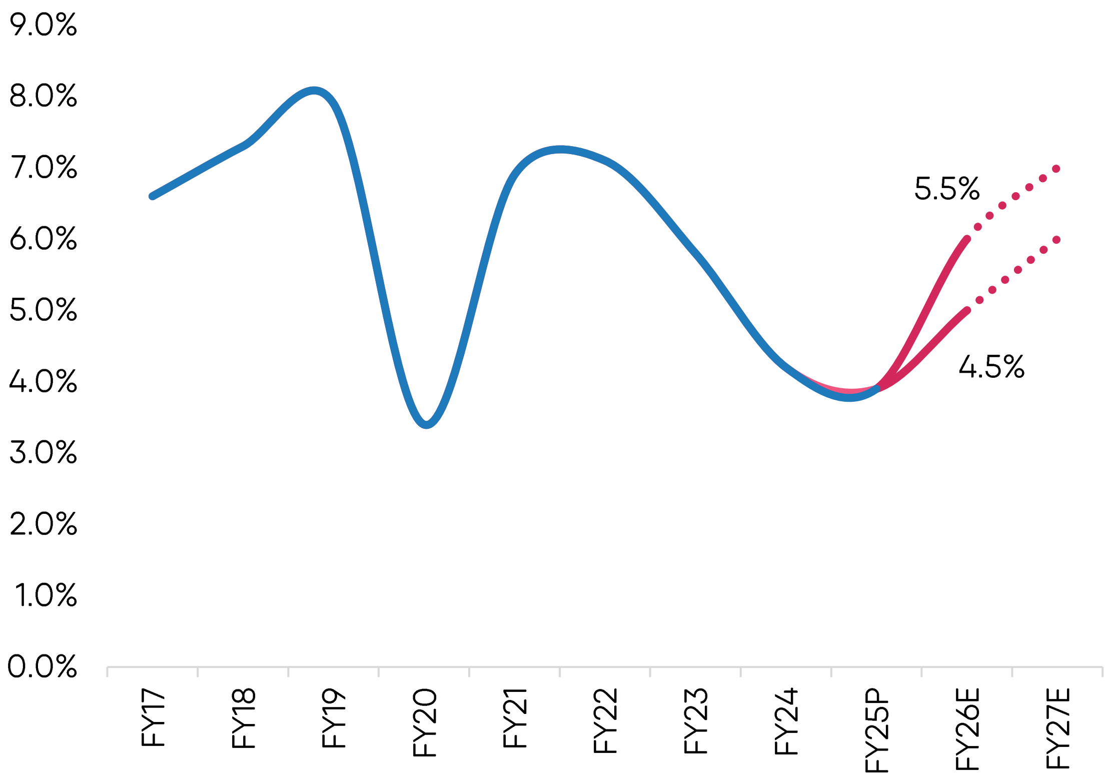
Growth

4.5%-5.5% by Jun-26E

1. **Easing inflation and rates to boost household spending**
2. **Post-election fiscal push to support government demand and business activity**
3. **Credit growth to remain subdued as banks risk taking ability has declined**

Forecasted GDP Growth (%)

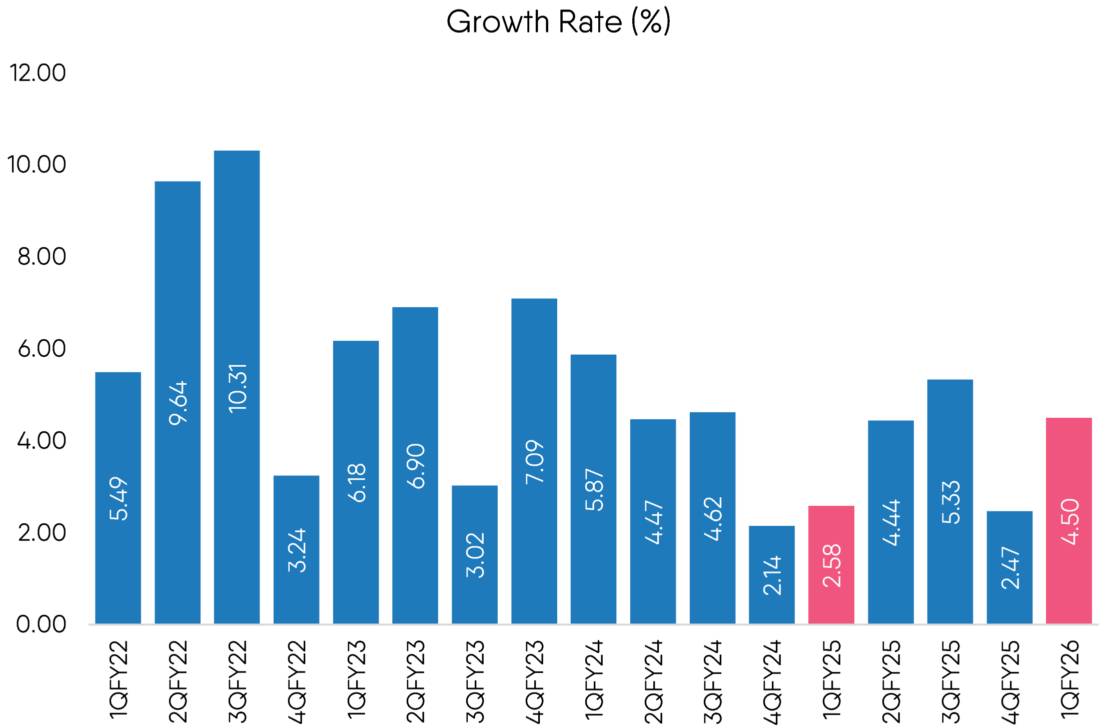


We revised down our growth forecast on **softer 1QFY26 momentum and export slowdown**

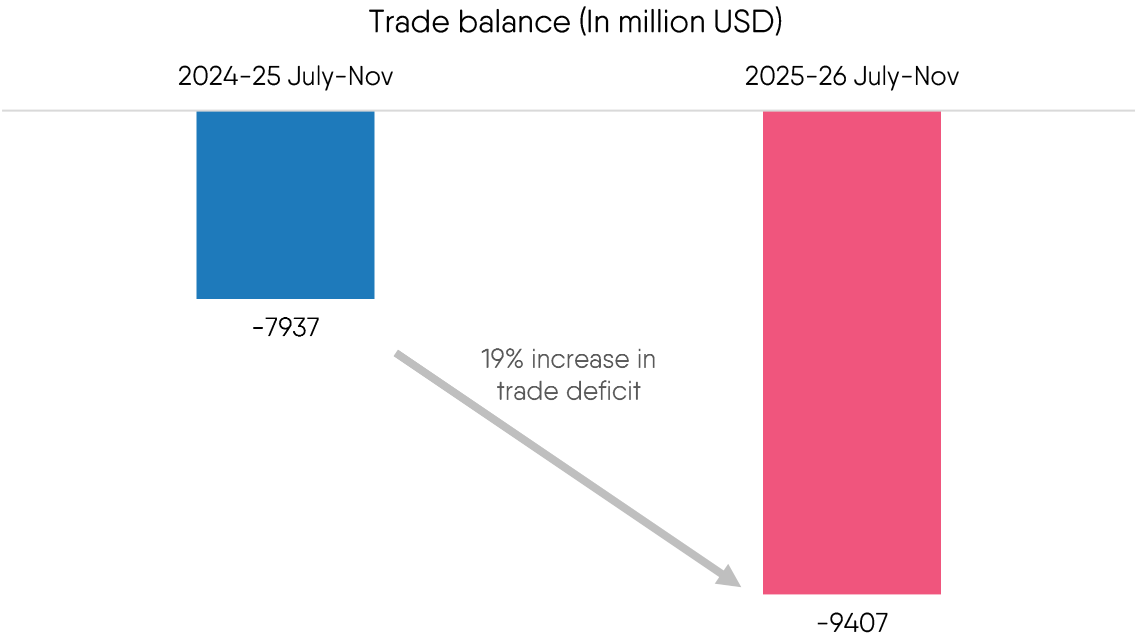
FY26 opened with slower momentum than anticipated, despite the benefit of an unusually low base. At the same time, an expanding trade deficit—driven largely by export softness—has intensified the negative contribution from net exports. Together, these factors underpin the downward revision to the near-term growth trajectory.

Rationale

1 **Slower than expected growth in 1QFY26 despite low base in 1QFY25 due to the July unrest**



2 **A wider trade deficit due to export slowdown**

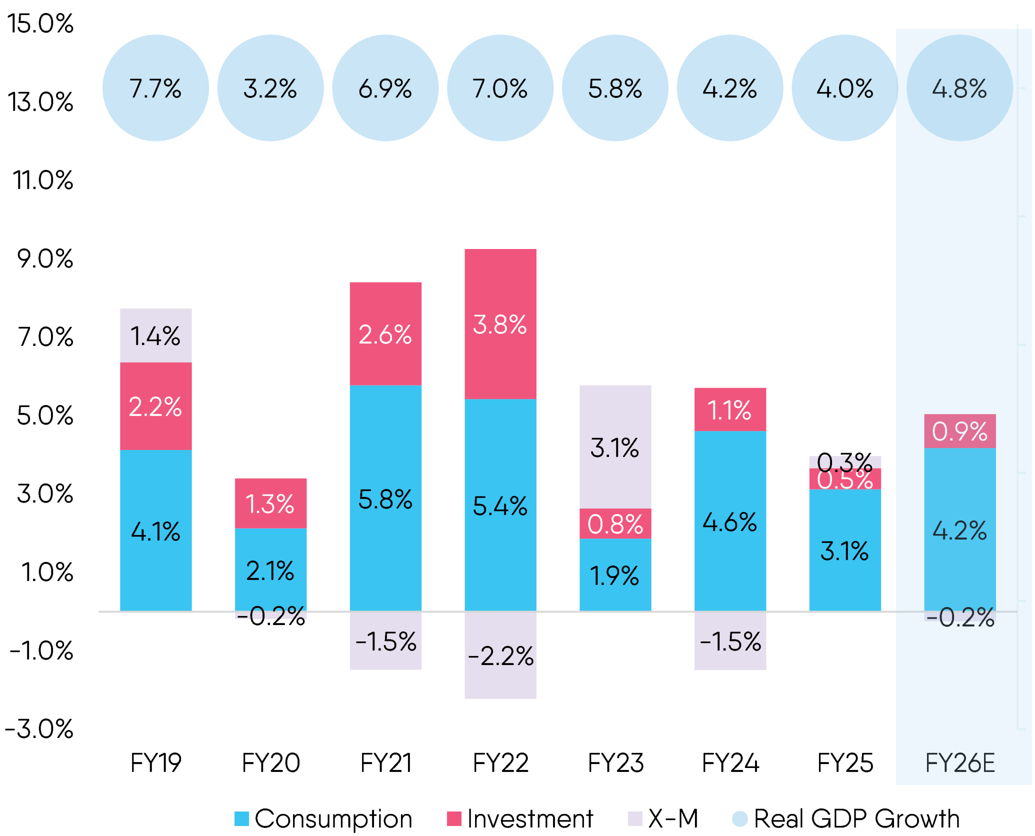


Source: BB, BBS

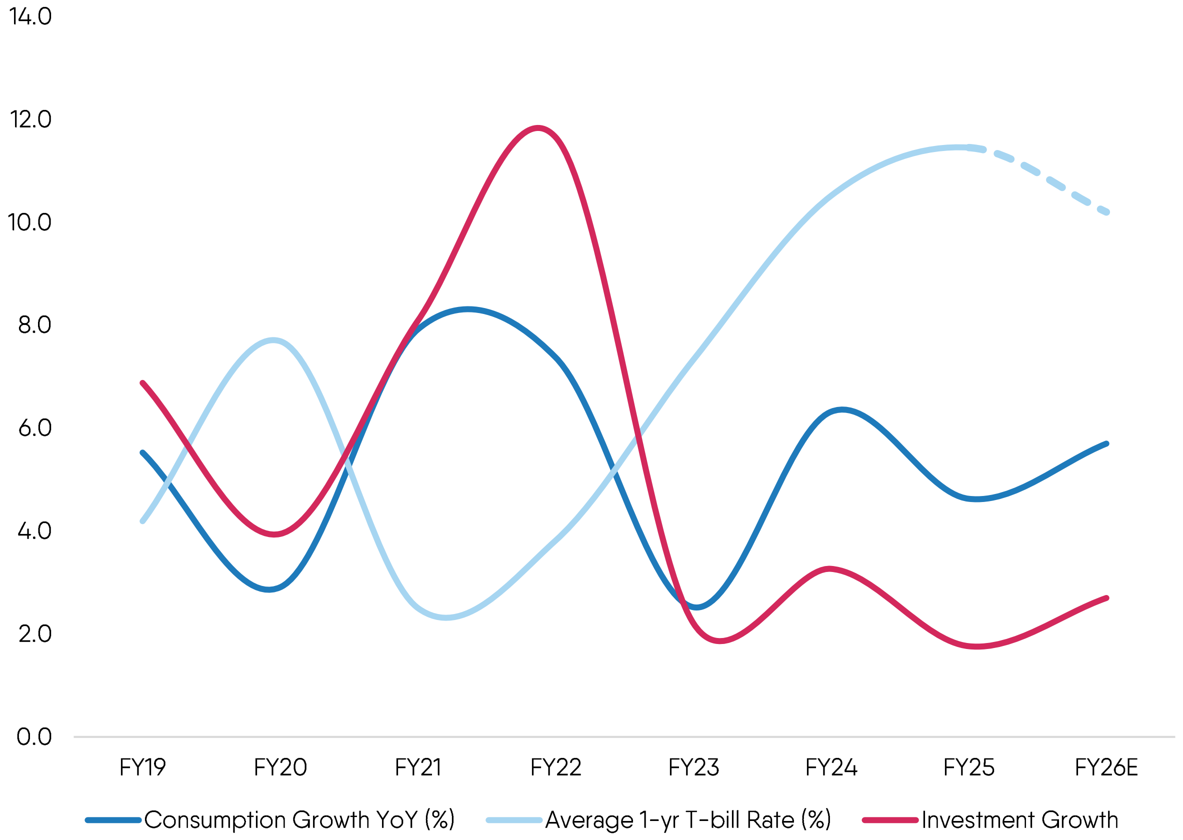
CAL expects **growth to be around 4.5% - 5.5%**, with growth to be driven by consumption rebound

Despite a softer-than-expected FY25 outcome and continued external trade pressures, medium-term fundamentals remain intact. Consumption is set to be the pivotal growth engine in FY26, supported by gradually improving household sentiment and a measured rebound in investment activity, even as net exports remain a structural drag.

Contribution to Real GDP Growth (%)



Aggregate GDP Factors YoY Growth (%)

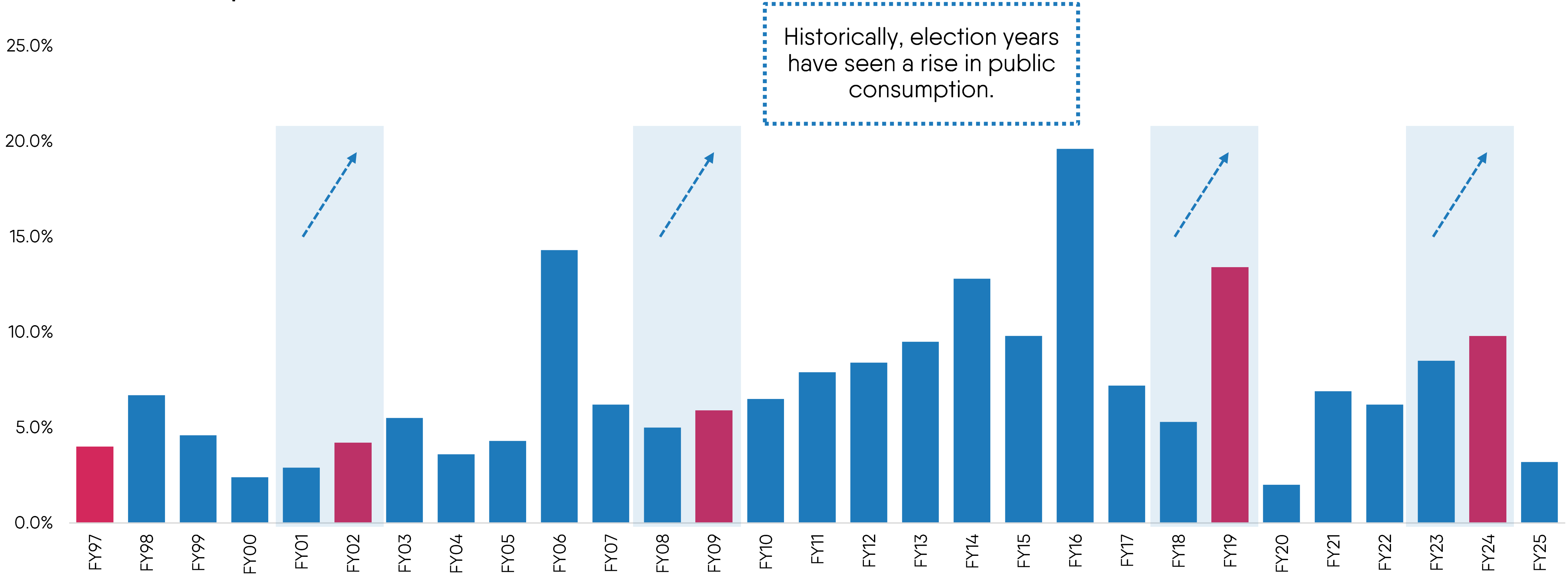


Source: BB, CAL Research

Post-election fiscal push to boost **consumption and business activity**

Historical trends show sharp upticks in public consumption during election years, with FY24 already posting a notable rise. Fiscal measures and government spending are likely to sustain momentum into FY26, reinforcing domestic demand and business confidence.

YoY Real Public Consumption Growth (%)

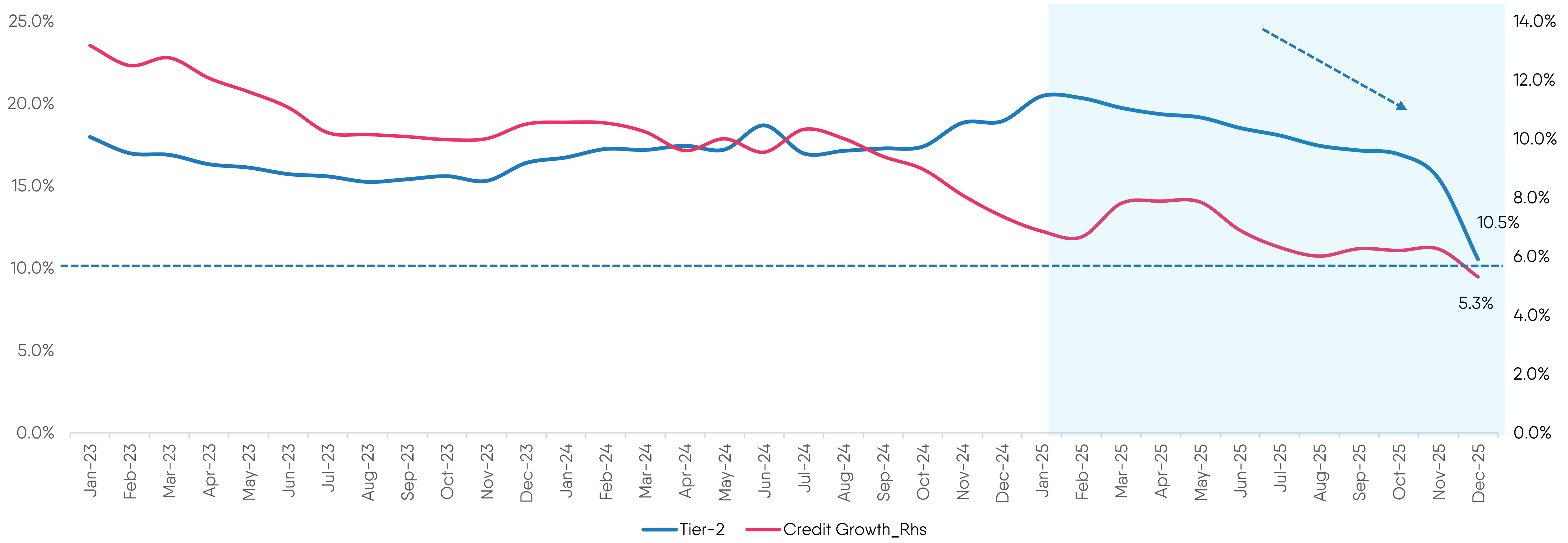


Source: CAL Research

Banks' weakening capital base will curb lending capacity in 2026, **constraining credit growth**

High G-sec yields and rising concerns over sector irregularities drove credit growth sharply lower in 2024. As asset quality issues emerged, tighter loan classification and higher provisioning eroded retained earnings and capital buffers. Combined with attractive G-sec yields and increased risk aversion, this has constrained private credit growth, which should continue into 2026.

Monthly Private Credit Growth vs Bank Tier-2 Ratio (%)



Source: Bangladesh Bank

Equity Outlook 1H'26

Engines Revving Up

CAL | Research

CAL maintains the view that the index will move toward 10,000+ in 12-18 months

Index Upside Drivers

Earnings Growth

(1+40%)

×

P/E Rerating

(1+47%)

From 9.5x to 14.0

=

Upside

106%

Catalysts

- Corporate earnings growth
- Falling interest rates
- Political stability

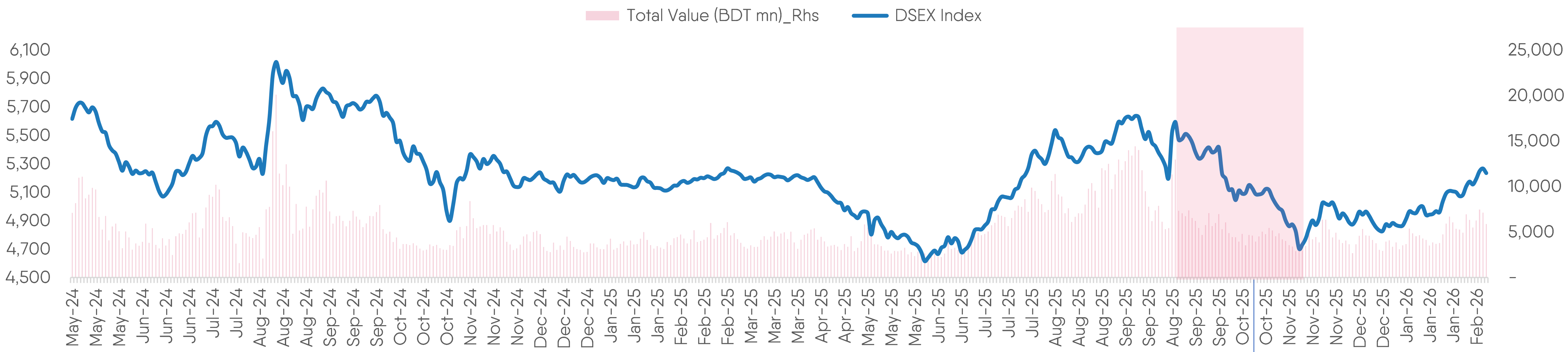
What Delayed the Call

- Bilateral lenders delayed fund disbursal
- Margin loan regulations tightened
- Elections delayed to Feb'26

Our original call for a structural market recovery remains intact, **but timing was disrupted by exogenous shocks**

The macro and earnings backdrop supporting a structural recovery remained intact, but political uncertainty and abrupt policy interventions—particularly around margin regulations and interest rate policy—disrupted sentiment and liquidity, delaying the market's recovery path.

Timeline of Key Developments in the DSE



IMF and JICA signaled post-election funding; Islamic bank support pushed rates back toward 11%

Margin loan tightening drove forced deleveraging.

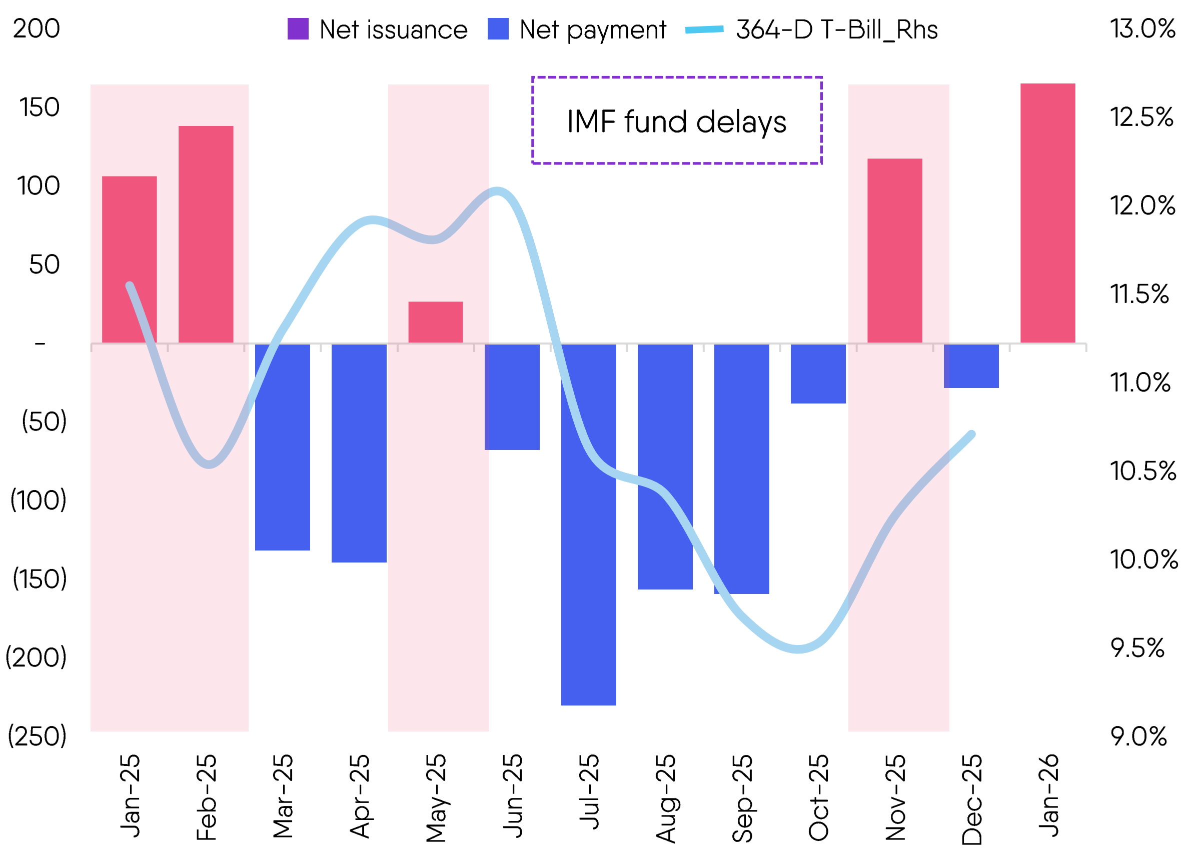
Prolonged **election deadlock** worsened investor sentiment

Source: DSE, National Dailies

IMF fund delays and increased gov. net issuance in November tightened liquidity, driving interest rates on treasury bills above 10.0%

In October, the IMF and JICA deferred disbursements, and in November the government tapped domestic funds to recapitalize the new Islami Bank, tightening liquidity and lifting rates from 9.5% to above 10.5%, similar to pressures seen during IMF delays in February and May.

Net Issuance of Govt. Securities (BDT bn) vs. 364-days T-bill Rate (%)



News Snippets

THE BUSINESS STANDARD

17 February, 2025,

IMF delays fourth tranche of $4.7 billion loan again

06 May, 2025

IMF keeps Bangladesh hanging on loan tranches

22 October, 2025

$5.5b loan: IMF wants to consult with elected govt before next tranche, says governor

Source: Bangladesh Bank, National Dailies

November's **tighter margin loan rules** forced deleveraging, driving a sharp drop in the index

Higher EDR thresholds for margin calls and forced sales, tighter financing ratios, and stricter eligibility criteria have sharply reduced brokers' margin-lending capacity, while also triggering aggressive sell-offs as brokers move quickly to protect and withdraw capital.

Margin Maintenance Requirements

- Customers must keep ≥ 75 % equity or 175 % portfolio value.
- If equity ≤ 50 % or portfolio ≤ 150 %, holdings to be sold.
- If not addressed in 3 days, trades to be stopped.

Margin Ratios & Financing Limits

- Customer Ratio Scale: 5–10 lakh → 1:0.5, ≥ 10 lakh → 1:1, Life-insurance shares → 1:0.25
- Financing cannot exceed the customer's equity (max ratio 1:1).
- Financing cannot exceed 3x net worth; any excess must be reduced within six months.

Eligible Securities

- Only 'A' and dividend-paying 'B' shares (≥ 5 % annual dividend) qualify.
- If financed share becomes Z, N, G, SME, ATB, OTC, it must be sold within 60 trading days.
- Previously financed securities that become ineligible must be sold within 6 months.

Market Capitalization and Valuation Standards

- Each security must have free-float market cap ≥ 50 crore BDT
- If it drops below BDT 50 crore, it must be sold within 60 days after notice.
- Margin financing disallowed for stocks with trailing P/E > 30; allowed P/E = lower of 30 or 2× sector median.

Source: BSEC

Prolonged election delays and recurring political tensions weakened sentiment and pushed the index lower

Since the uprising, prolonged disputes between the interim government, political parties, and the army delayed election clarity, with the schedule only emerging in late November and the final date set for 12 February 2026 in December.

Timeline of Political Developments

Jan–Feb: Post-Uprising Optimism

- **14 Jan:** BNP demands polls by mid-2025
- **28 Feb:** NCP launched by uprising student leaders

Mar–May: Reform vs. Election Deadlock

- **7 Mar:** Chief Adviser: polls Dec 2025–Mar 2026, reform-dependent
- **6–30 Apr:** BNP protests for Dec polls; NCP/Jamaat/Hefazot rally for Charter priority
- **11 May:** Awami League banned
- **14 May:** Chief Adviser: global firms for Chattogram port
- **21 May:** Army Chief demands Dec polls; elected govt only for corridor, port decisions
- **22–23 May:** Adviser rejects corridor; Chief Adviser hints resignation

Jun–Aug: Election Timeline Compromise

- **6–7 Jun:** Chief Adviser sets Apr 2026 polls; BNP condemns
- **14 Jun:** Yunus-Tarique agree Feb 2026; NCP/Jamaat accept reluctantly

Sep–Oct: Islamist Student Dominance

- **Sep–Oct:** Chhatra Shibir sweeps DUCSU, JUCSU, CUCSU, RUCSU polls
- **3 Oct:** Jamaat fields candidates for all 300 seats
- **16–18 Oct:** July Charter signed; NCP abstains; left parties boycott over Liberation War narrative

Nov: External Pressure Mounts

- **3 Nov:** BNP names candidates for 237 seats
- **11 Nov**: Eight Islamic parties rally for Charter, pre-poll referendum
- **15 Nov:** JICA defers ties until elected govt
- **17 Nov:** Hasina death sentence in absentia
- **29 Nov:** Khaleda Zia critically ill

Dec: Pre-Poll Volatility

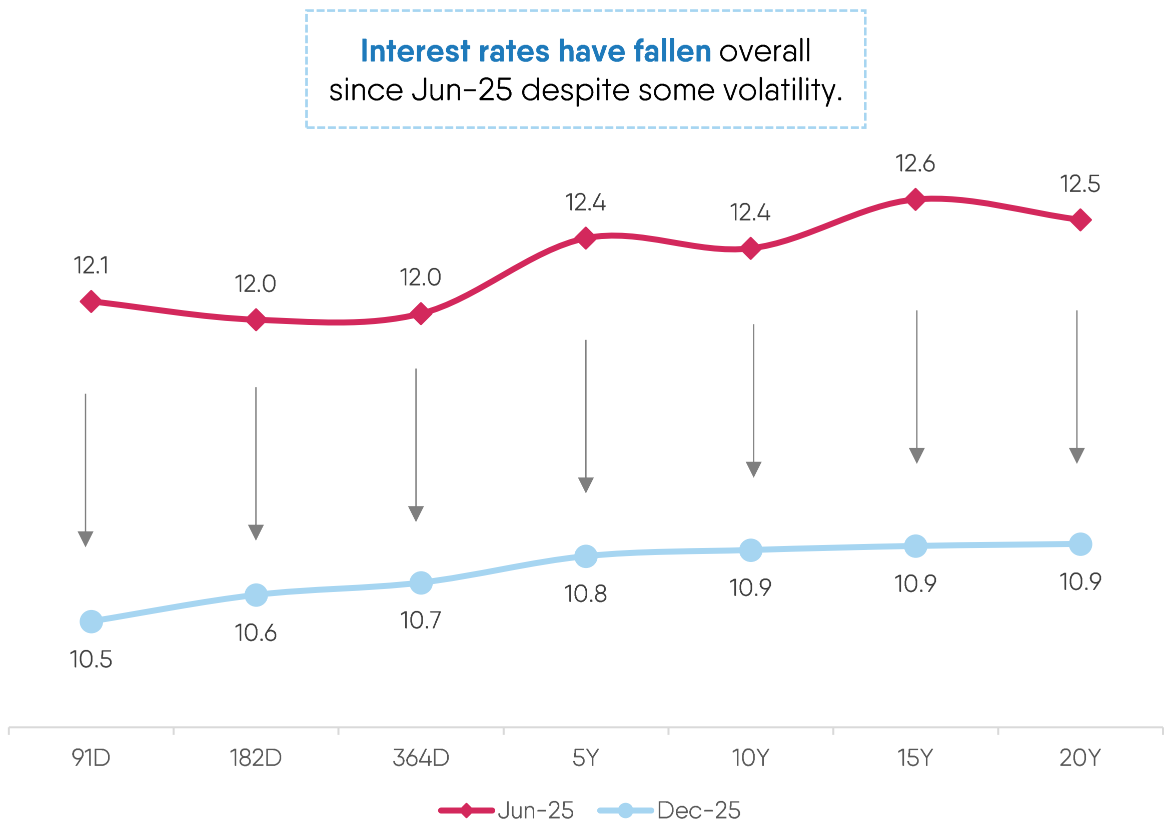
- **11 Dec:** Polls, referendum fixed 12 Feb 2026
- **12–18 Dec:** Sharif Osman Hadi assassinated; violence, anti-India protests
- **25 Dec:** Tarique Rahman returns
- **27–30 Dec:** NCP crisis over Jamaat alliance—protests, resignations; BNP candidate rebellions
- **30 Dec:** Khaleda Zia dies; nomination deadline upheld

Source: National Dailies

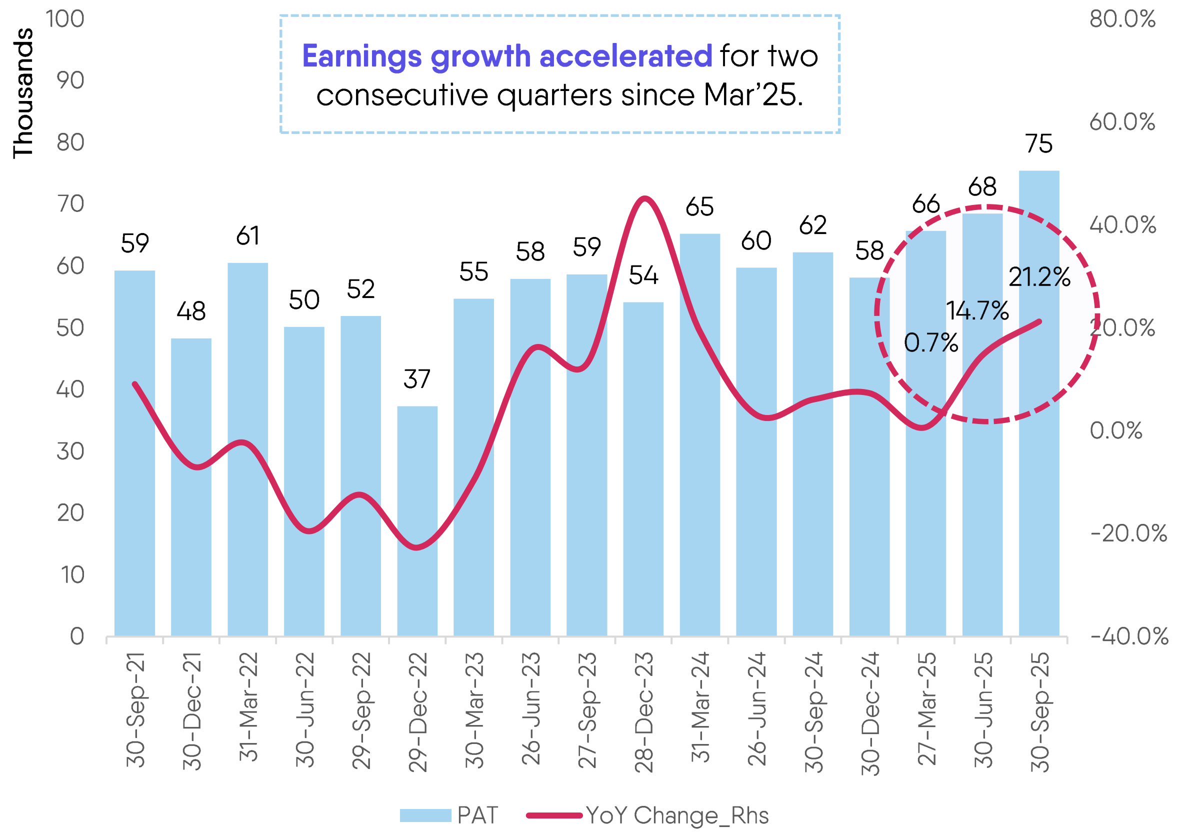
Two of three catalysts (earnings rebound and falling rates) from our August call **are now materializing**

Our August call was playing out as inflation and interest rates ease, while earnings—after bottoming in March 2025— turned up, activating two of our three key market catalysts. Consequently, the market temporarily rebounded more than 20% from the bottom.

Yield Curve (%)



Quarterly Corporate Earnings (BDT mn) and YoY Change (%)



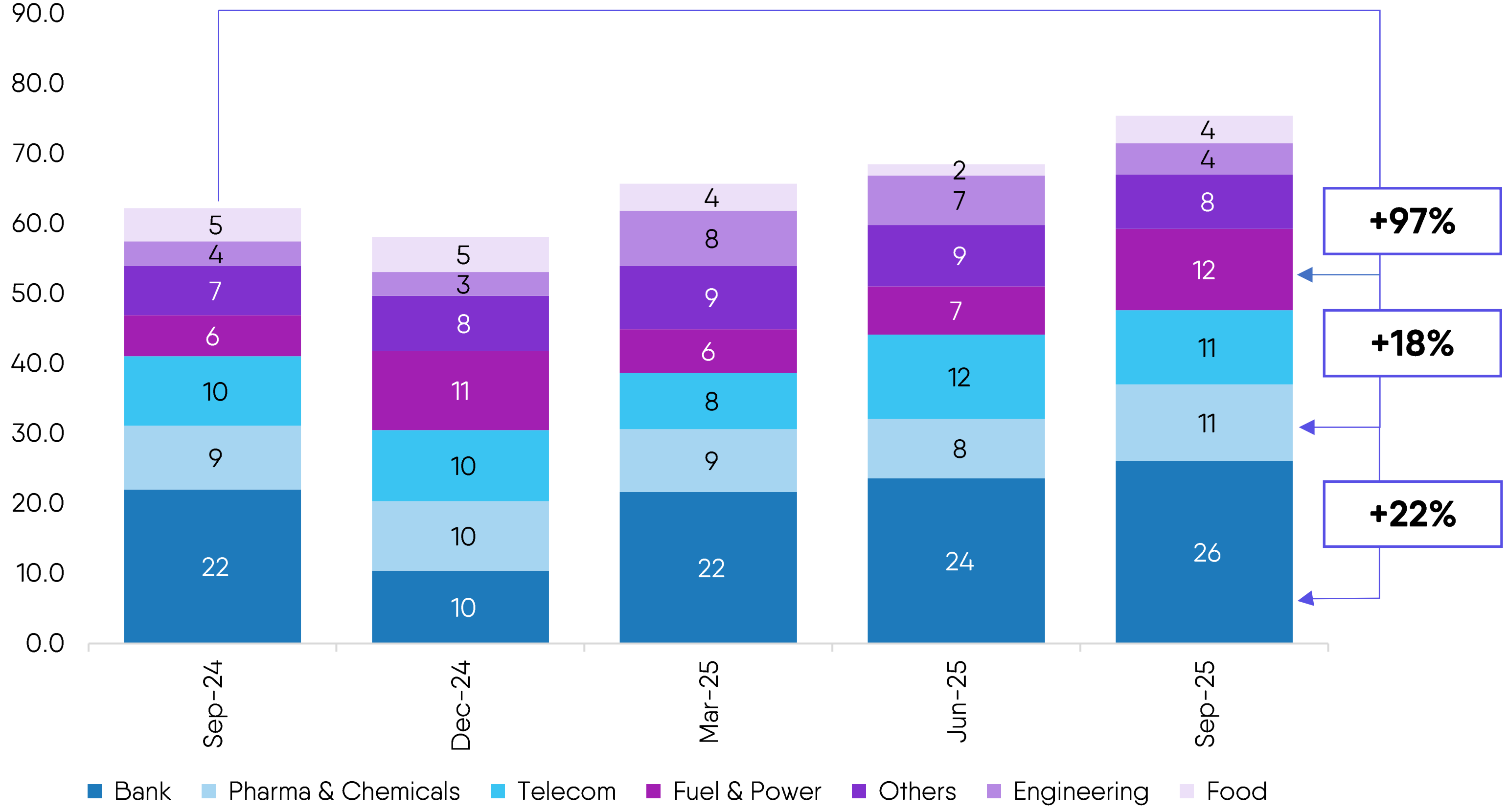
Based on 133 profitable companies (92% of earnings, 72% of market cap), excluding BXPHARMA and LINDEBD.

Source: Bangladesh Bank, Company Financial statements

Earnings recovery is now clearly visible, led by **banks, pharmaceuticals, and fuel** in the first phase of the cycle

The market is showing early signs of recovery, led by initial profit gains in banks, pharmaceuticals, and fuel & power.

Sector-wise Quarterly Earnings Composition (BDT bn)



Oil transmission companies benefited from large FDR balances, while FX gains on USD-denominated liabilities supported POWERGRID earnings.

Industry consolidation supported revenue growth and gross margin improvement, driving a sharp increase in **pharmaceuticals'** profitability.

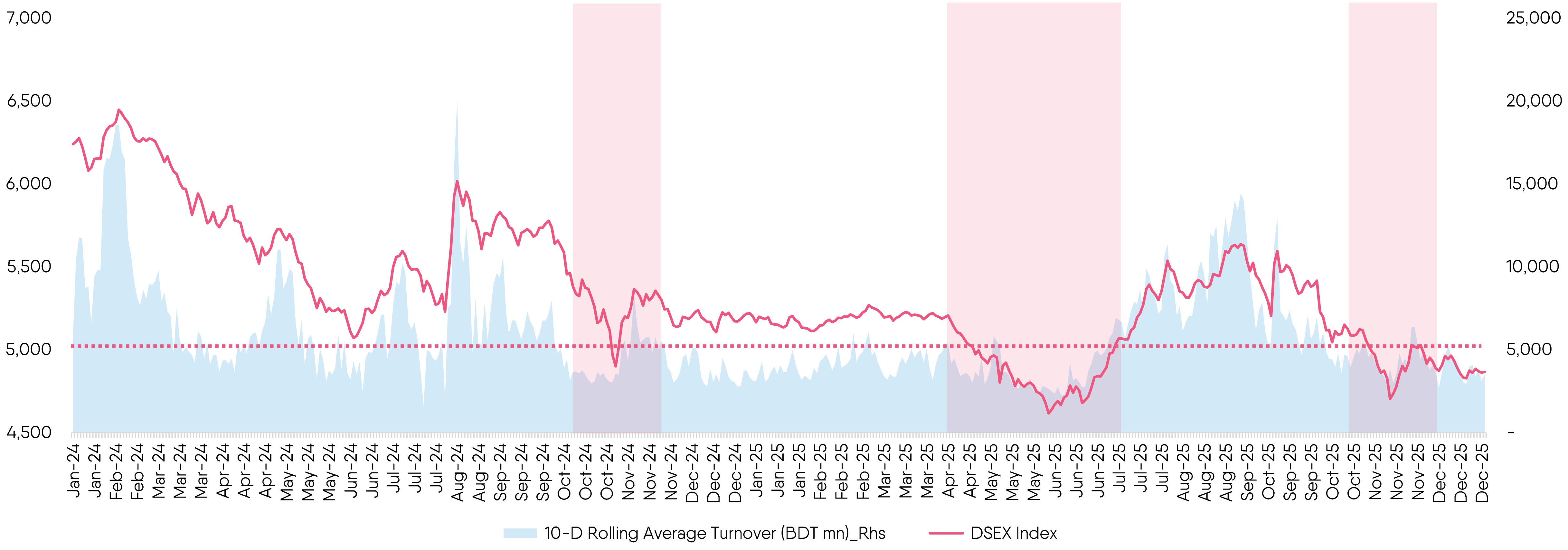
Bank earnings were driven by investment income, not core lending. Higher GSEC exposure boosted investment income, flowing directly into PAT amid subdued loan growth.

Source: Company Financial Statements

Each major decline was shock-driven, but liquidity consistently thins below 5,000, **limiting incremental downside**

Prices have stabilized despite weak turnover, signaling seller exhaustion. From current levels, downside risk is limited to 8% versus a 25–30% drawdown seen in 2024.

DSEX Index Values and Turnover (BDT mn)

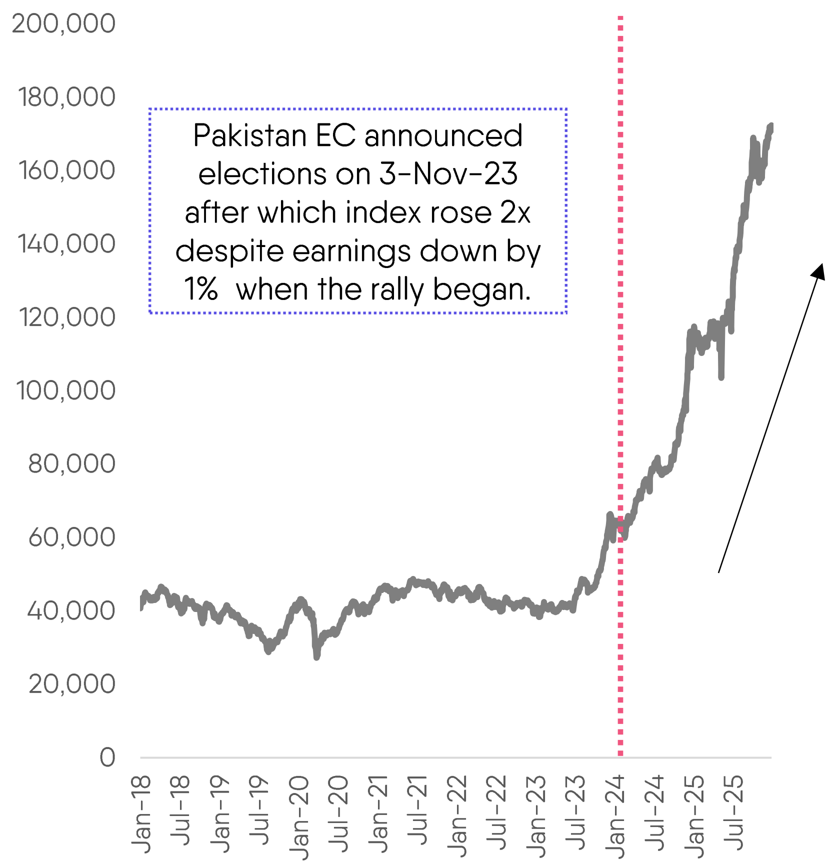


Source: DSE

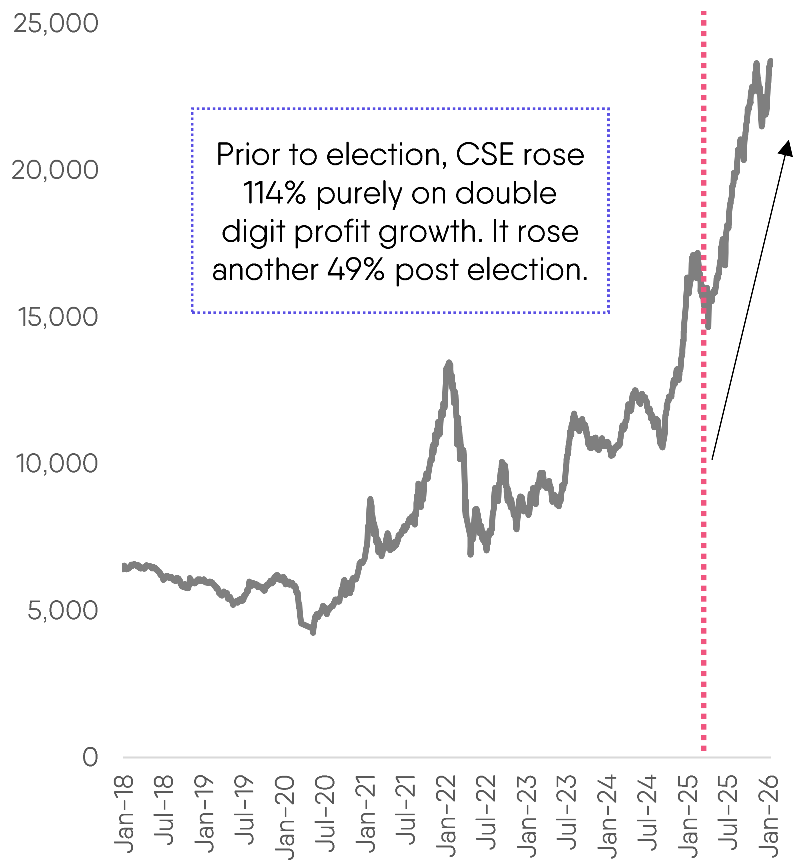
With earnings recovering and yields falling, the key catalysts are in place, **leaving political clarity as the trigger** as seen with peers.

Pakistan and Sri Lanka re-rated sharply on political clarity, while Bangladesh remains suppressed by uncertainty, a divergence unlikely to persist in 2025.

KSE 100 Index



CSE All Share Price Index



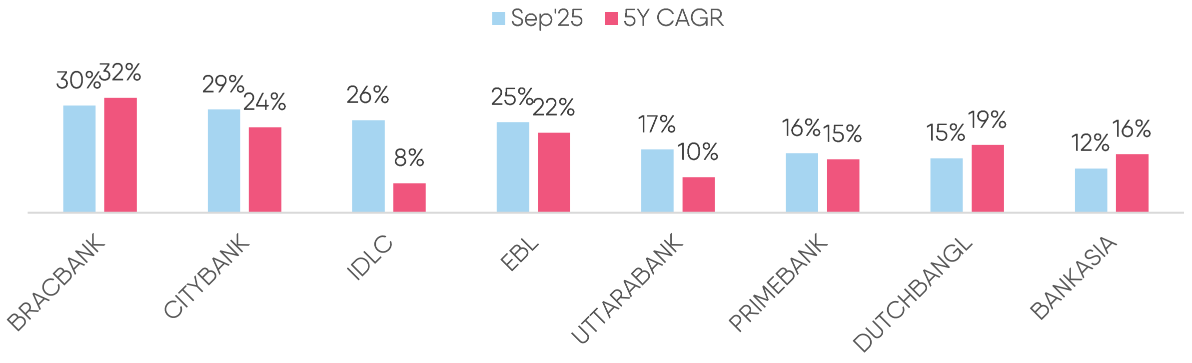
DSE Index

Source: Investing, DSE

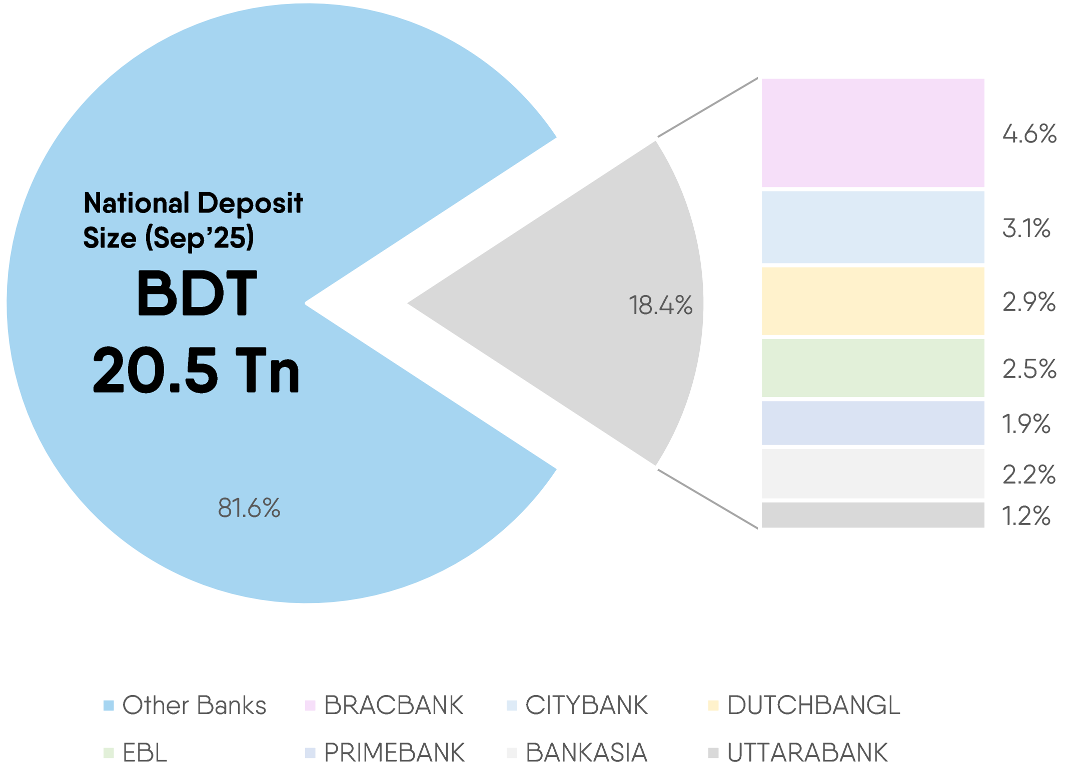
Strong banks and NBFIs are sustaining double-digit profit growth amid elevated system stress.

Elevated sector NPLs of 35.0% accelerated deposit migration toward compliant listed banks, which are reporting double-digit deposit growth and now account for 18.4% of total system deposits.

Bank and NBFI Deposit Growth: Sep'25 YoY vs 5Y CAGR



Bank-wise Market Share of Deposits



Two-Stage Bank Growth

Fixed Income Gains

- Banks shifted from credit to G-Secs post-2022, weighing on NIMs.
- ROEs remain elevated, driven by high treasury yields.
- Falling rates in 2026 create potential mark-to-market gains on bank HFT portfolio.

Credit Revival Gains

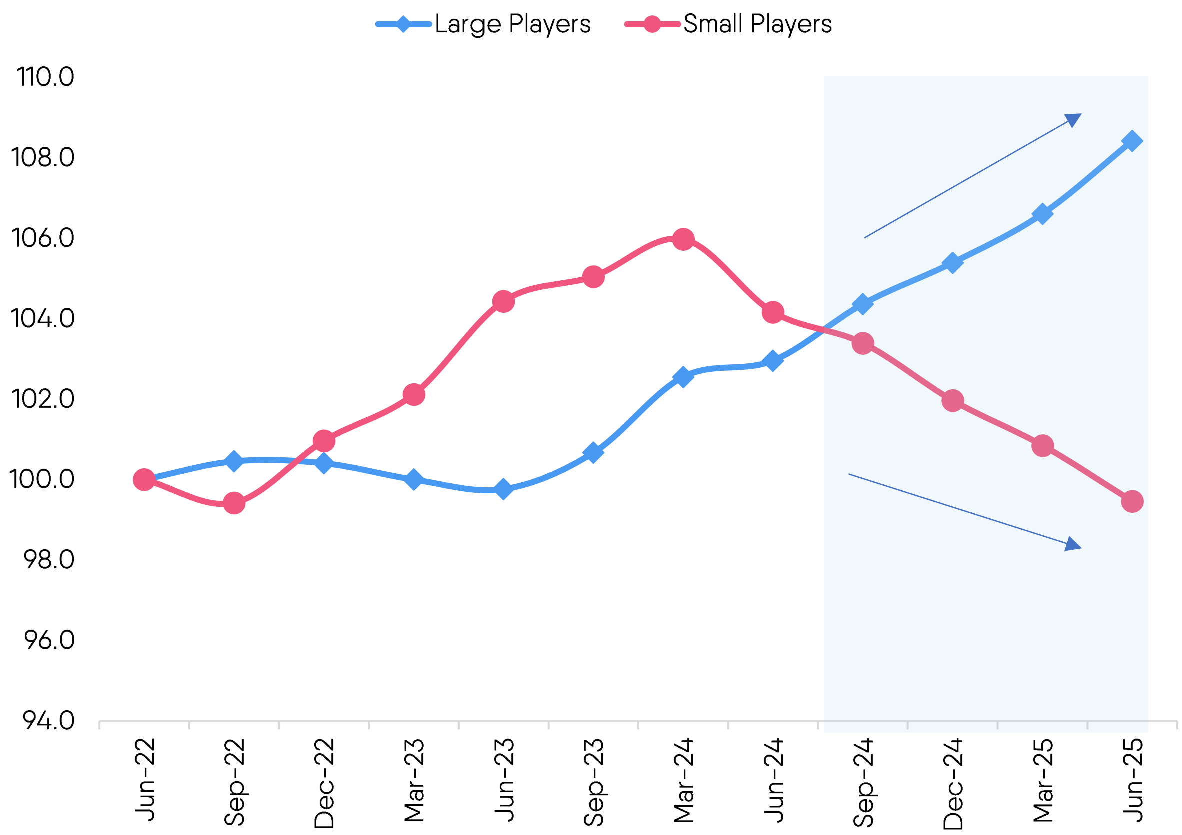
- Elections or falling inflation may enable rate cuts in 2H26.
- Well-capitalized banks and NBFIs are best positioned to capture the lending upcycle.

Source: Company Financial Statements

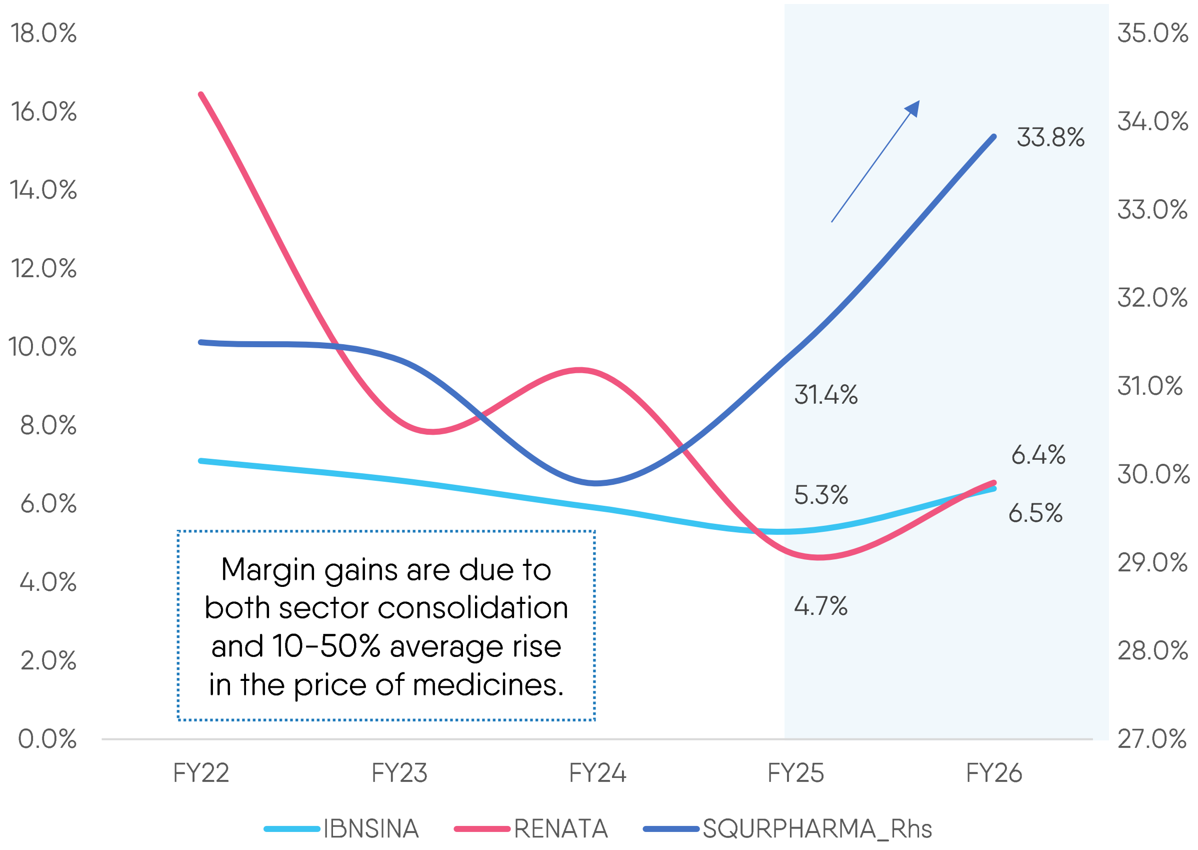
Margins are rising across **selected listed pharma**, supporting double-digit profit growth.

Large pharmaceutical companies such as SQURPHARMA and RENATA continue to gain market share at the expense of smaller players, driving strong topline growth and margin expansion. Some smaller firms, notably IBNSINA, are bucking the trend by regaining share lost during Jul–Aug 2024, supporting a sharp rebound in performance.

Pharmaceuticals Market Share (Indexed to 100)



Annual Net Profit Margin of Listed Pharmaceuticals (%)

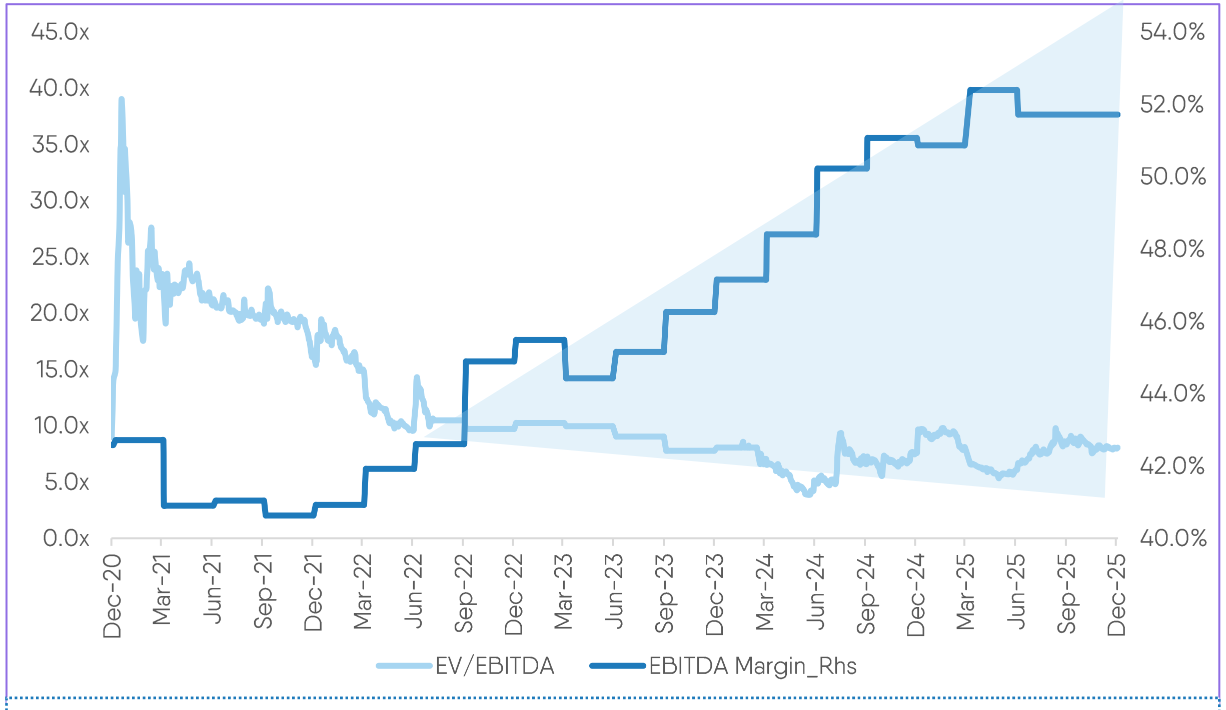


Source: IQVIA, Company Financial Statements

ROBI and ENVOYTEX have shown strong margin performance yet valuations remain compressed

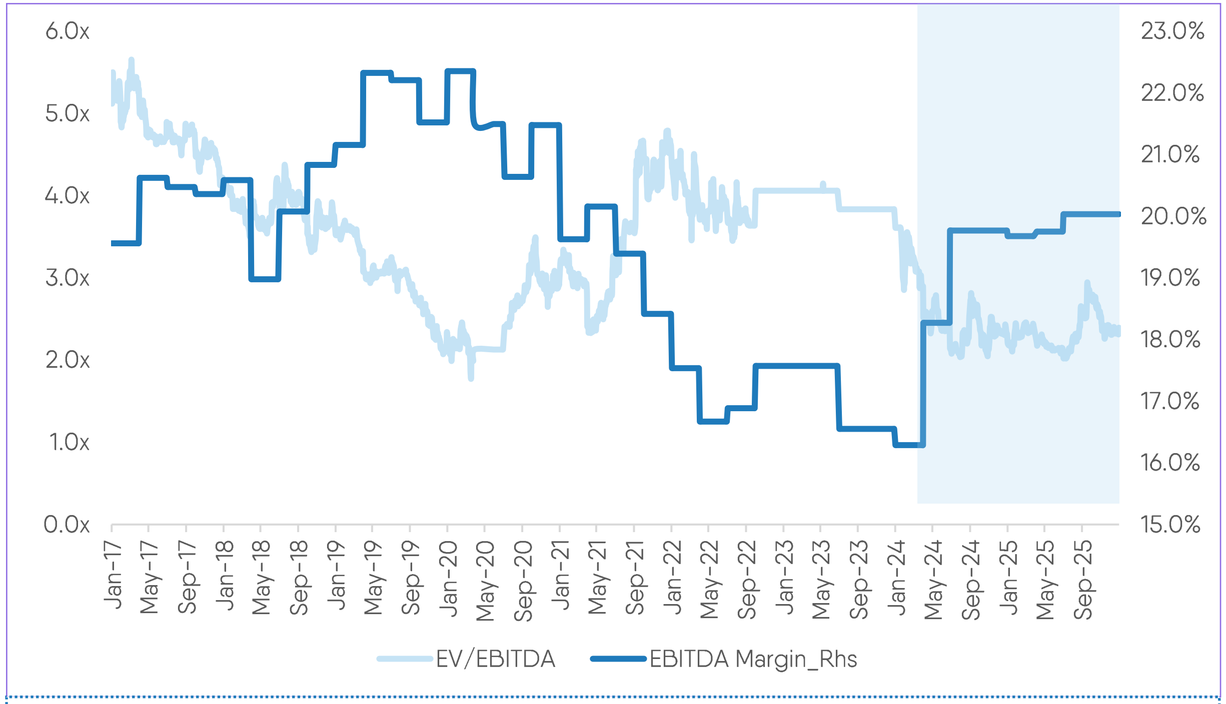
ROBI's EBITDA covers interest expense by ~7.5–8.0x, while ENVOYTEX's coverage stands at ~2.5–3.0x. Despite higher leverage, both companies are expected to sustain margins and comfortably service debt. Yet valuations remain depressed, with multiples failing to reflect improving operating performance.

ROBI: EV/EVITDA (x) vs EBIT Margin (%)



- EBIT margins rebounded from 40.9% to 51.7%, yet EV/EBITDA remains anchored near ~9.0x.
- Cost restructuring supports sustained margin strength.
- ROBI has increased DPS every year since 2021, in line with improving fundamentals.

ENVOYTEX: EV/EVITDA (x) vs EBIT Margin (%)



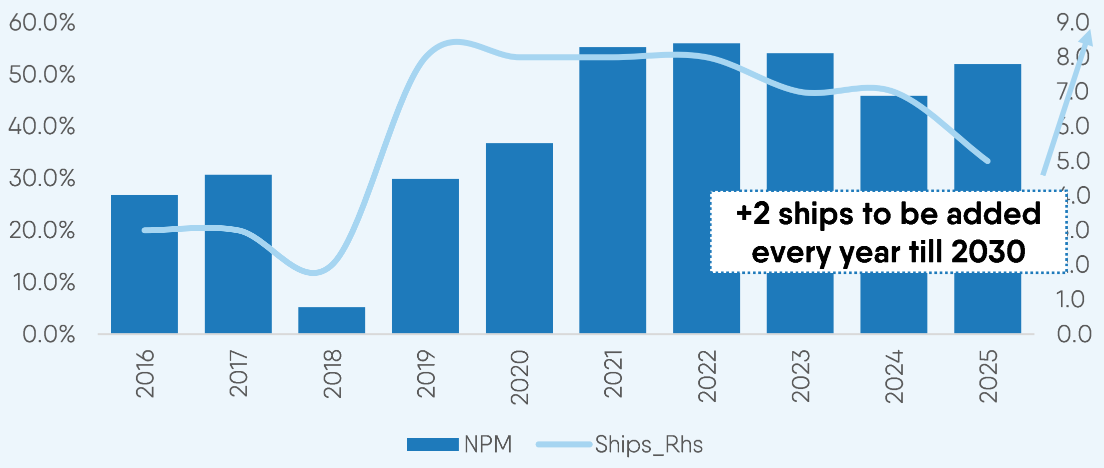
- EBITDA margins expanded from 16% (FY24) to ~20% on revenue and gross margin gains.
- Industry exits shifted orders to compliant players like ENVOYTEX, improving pricing power.
- Backward-integrated MMF spinning (BDT 97cr) lifts value addition and margin durability.
- Strong execution has supported annual DPS increases since 2023.

Source: DSE, Company Financial Statements

BSC and BSRMSTEEL are expanding capacity during a weak cycle to capture outsized growth in the next phase.

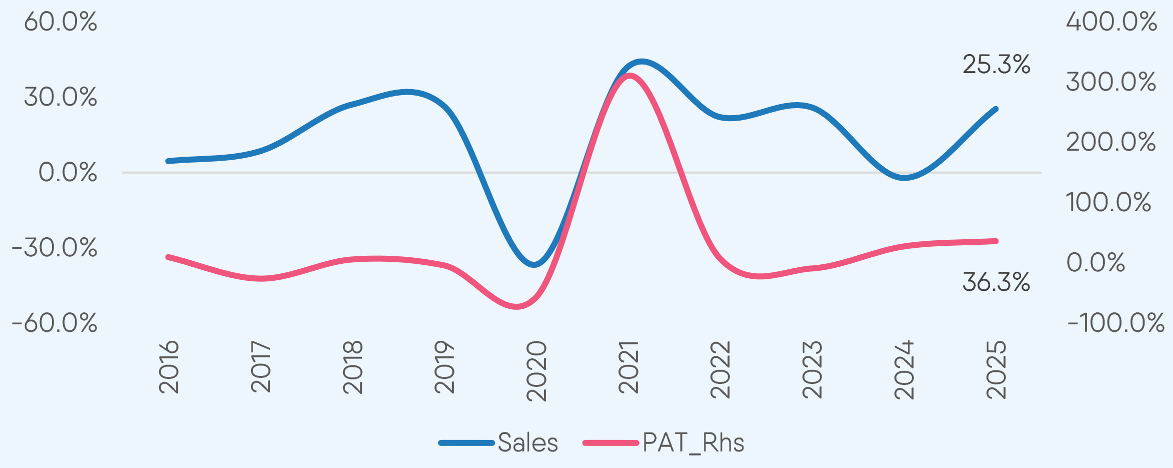
In shipping and steel, stronger firms are investing in capacity during the current slowdown, which should drive faster growth as volumes pick up.

BSC No of Ships and Net Profit Margin (%)



- Shipping rates rose 6× post COVID and 4× in 2024 geopolitical tensions.
- BSC's margins expanded from 5.2% (2018) to 50%+ on higher freight rates.
- Earlier margin pressure reflected a shrinking fleet; capacity is being rebuilt.
- 2 new vessels will lift fleet size to 22 over five years, supporting earnings.

BSRMSTEEL Sales and PAT Growth (%)



- BSRM is the second-largest steel producer with ~23% market share.
- New capacity is translating into pvt demand, with overall mkt-share target of 34%.
- As smaller players struggled, BSRM expanded capacity using cheap financing.
- High operating leverage means modest revenue gains drive outsized PAT growth.

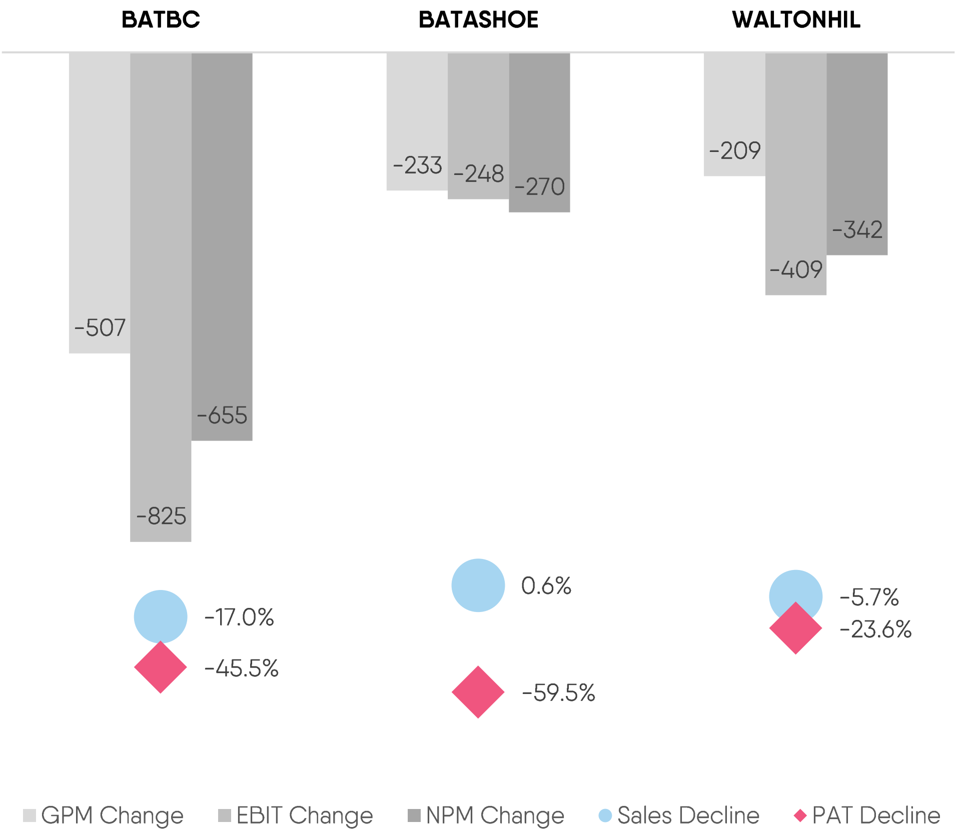
CAL | Research

Source: Company Financial Statements

Recent earnings in **BATBC, BATASHOE and WALTONHIL** weakness reflects temporary disruptions, not structural deterioration

Tax changes, operational disruptions, and policy uncertainty compressed near-term margins and earnings. With consumption expected to normalize and one-off costs fading, earnings recovery and re-rating potential remain intact.

Large PAT declines driven by margin compression despite modest sales weakness



Why Did These Companies Underperform?

- **BATBC:** Tax hikes, shutdown-related volume loss, and HO relocation costs eroded margins after a period of strong cost-led profit growth.
- **BATASHOE:** April disruptions triggered inventory write-downs and restructuring costs, reversing prior double-digit profit growth.
- **WALTONHIL:** Political uncertainty and tax-benefit concerns pressured margins despite solid sales momentum.

Drivers of Turnaround

- **BATBC:** Consumption recovery and Savar plant capacity additions should support a gradual margin and PAT recovery as temporary opex pressures fade.
- **BATASHOE:** Topline momentum should resume with improving middle-income demand, while recent write-downs and restructuring costs remain non-recurring.
- **WALTONHIL:** Tax policy uncertainty remains, but continued tax incentives and demand recovery should support earnings and market leadership.

Source: DSE, National Dailies, Company Financial Statements

Risk Assessment – **Downside Risks Persist**

Manifestation of the first three risks would lead Bangladesh to exit the IMF program and possibly lead to losing the funds from the

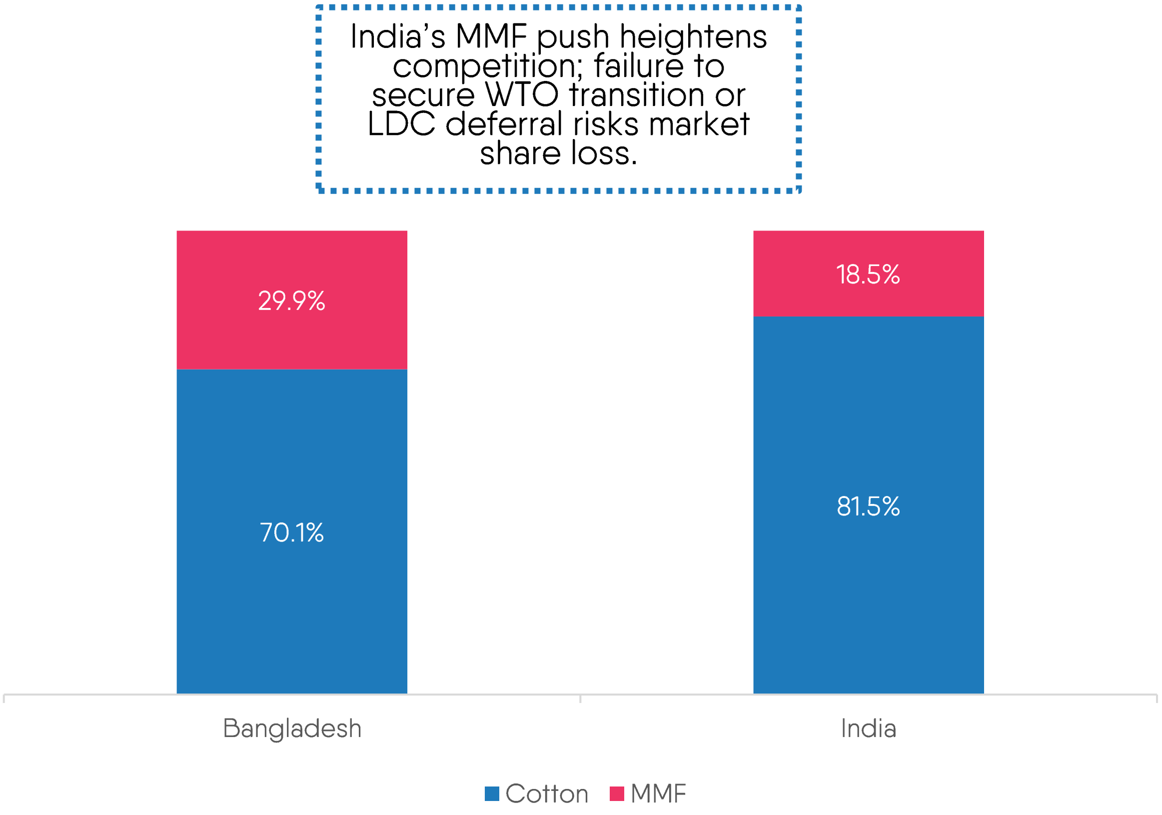
Risk Category	Trigger	Outcome	Severity
Banking Sector Risk	Delayed resolution of non-viable banks; phased but insufficient recapitalization	Credit constraints, liquidity support requirements, impaired monetary transmission	
Fiscal Sustainability Shock	Weak revenue mobilization and rising subsidy pressures	Crowding out of capital and social spending; higher government borrowing	
Policy Reversal Risk	Early rate cuts amid unresolved banking and fiscal vulnerabilities	FX pressure and inflation resurgence	
LDC Graduation 2026	Loss of LDC trade preferences without securing WTO transition or graduation deferral	Higher tariffs reduce price competitiveness in the EU and US, pressuring exports and trade balance	
External Supply Shock	Middle East conflict escalation	Oil/commodity price spike; current account deterioration; FX pressure	

Domestic policy choices (IMF compliance, banking sector management, fiscal discipline) are subject to policymakers' actions and represent the primary determinant of outlook realization.

LDC Graduation 2026: Bangladesh is pursuing a 12-year WTO transition post-LDC graduation to preserve EU competitiveness

Bangladesh's LDC graduation in 2026 raises competitiveness risks as India strengthens preferential access and expands into higher-value MMFs. To mitigate this, Bangladesh is pursuing a 12-year WTO transition and retains the option to seek an LDC deferral to preserve market access.

Export Basket: India vs Bangladesh



Risk

- Bangladesh is set to graduate from LDC status in November 2026.
- EU tariffs could rise from 0% to 9–12%; Canada tariffs from 16% to 18% post-graduation.
- India has secured preferential access via an EU FTA and tariff reductions in the US.
- Bangladesh could face heightened price competition from India in both the US and EU markets.

Possible Outcomes

- A 12-year extension of LDC-specific trade preferences is being sought to smooth the post-graduation transition.
- The proposal will be considered at WTO MC14 (March 26–29).
- The extension would preserve duty-free access and competitiveness during the adjustment period.
- Bangladesh also retains the option to seek a deferral of LDC graduation, subject to UN approval.

Source: National Dailies, EUROSTAT, OTEXA

Delaying Reforms **Will Trigger a Multi-Channel Crisis**

Delaying fiscal and banking reforms will trigger a multi-channel crisis threatening growth, inflation, and debt sustainability

1 Fiscal Deterioration

- Weak revenue and high subsidies continue to strain public finances
- Capital and social spending are being cut to meet the primary deficit target
- Debt servicing costs are rising as banks cannot absorb new government borrowing
- Sovereign distress risk is increasing

2 Banking System Fragility

- Ongoing undercapitalization is limiting banks' ability to lend
- Liquidity support is needed to prevent a loss of confidence
- Persistently low short-term rates could suppress investment
- Economic growth may weaken further

3 External Pressure Surge

- Policy uncertainty could raise exchange rate risk
- Capital outflows may drive sharp depreciation
- Reduced external funding could pressure reserves
- Currency pass-through may fuel inflation

⚠ Policy Imperative for Incoming Government

Without immediate alignment with IMF policy framework, Bangladesh faces cascading macro-financial instability. Reform delays create self-reinforcing crisis loops across fiscal, banking, and external channels—jeopardizing both macroeconomic stability and continued multilateral funding.

Source: National Dailies, EUROSTAT, OTEXA

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