
October 2025

Macro Economic Update

Bangladesh

Currency Stabilize after
years



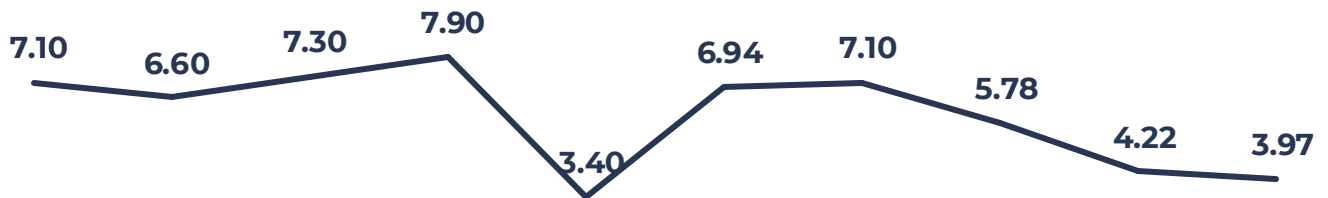
Executive Summary

- Bangladesh is navigating a period of structural adjustment and recovery following years of economic mismanagement and data distortion in key macro indicators, including exports, NPL ratios, GDP, revenue collection, and inflation. These distortions have eroded fiscal credibility, triggered sovereign credit downgrades, and contributed to a liquidity crisis and weak private credit growth. Meanwhile, subsidy expenditures continue to rise—particularly in the power and agriculture sectors—further widening fiscal pressures and sustaining the twin deficits in the current and budget accounts.
- Despite these headwinds, macroeconomic stabilization has begun to take hold. The foreign exchange reserve has recovered, the taka has stabilized, and remittance inflows, up 23.6% year-on-year, with continued growth of 18.4% in the first two months of FY2026. These strong inflows, alongside a narrowing trade deficit and improved current account balance, have eased external pressures and supported domestic liquidity. Inflation has also moderated, marking the first instance in five years where it remains below the policy rate. This progress reflects a decisive shift toward tighter monetary discipline, greater policy transparency, and the removal of administrative distortions.
- However, legacy challenges persist. The public debt burden and banking sector fragilities—including high NPLs (24.13% of total loans)—continue to constrain productive investment and credit intermediation. Fiscal imbalances, compounded by weak revenue mobilization (tax-to-GDP at 6.68%), demand structural reforms in tax administration, expenditure efficiency, and debt management.
- The interim government under Nobel Laureate Dr. Muhammad Yunus has initiated critical governance and market reforms. While there has been few setbacks in this month alone, still we hope in longer term the economy would recover with better policies.

Bangladesh's Economic Outlook: Risks of Overstated Growth, Middle-Income Trap, and the Case for Reconsidering LDC Graduation

- Bangladesh's economic growth has been severely affected by global trade contraction driven by COVID-19, the Russia-Ukraine war, Middle East tensions, monetary tightening, local inflation, and government austerity measures and regime change resulting in a 3.97% growth in FY 2025.
- Bangladesh faces the risk of falling into the middle-income trap due to structural economic challenges. Pushing for LDC graduation at this stage could limit access to critical concessional financing and trade preferences. It is advisable for Bangladesh to reconsider this path until it achieves more stable and sustainable growth.

GDP Growth
Yearly



FY 16 FY 17 FY 18 FY 19 FY 20 FY 21 FY 22 FY 23 FY 24 FY 25

GDP Growth
Quarterly



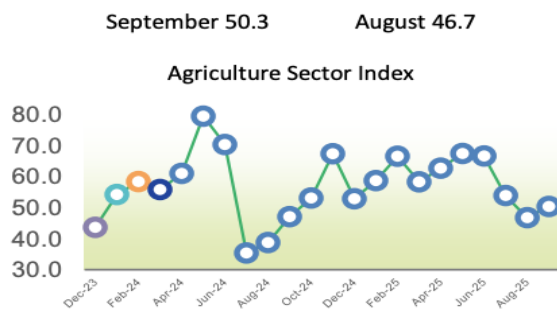
Bangladesh's Economic Recovery Gains Momentum Amid Persistent Challenges

- Economy expands slightly as PMI rises to 59.1 in September. According to the latest data released, the overall improvement was driven by a quicker expansion in the manufacturing sector, while the services sector experienced a slower rate of growth. Both the agriculture and construction sectors returned to expansion territory after several months of weaker performance.
- GDP growth is expected to rebound in Q1 FY 2026 as stability improves and key sectors gain momentum. However, challenges persist from political uncertainty regarding election.

Purchasing Managers' Index (PMI)



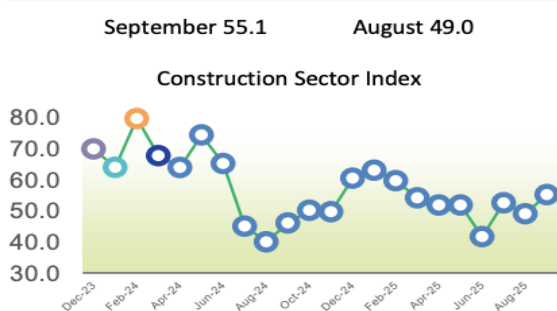
Agriculture Sectors



Manufacturing Sectors



Construction Sectors



Services Sectors



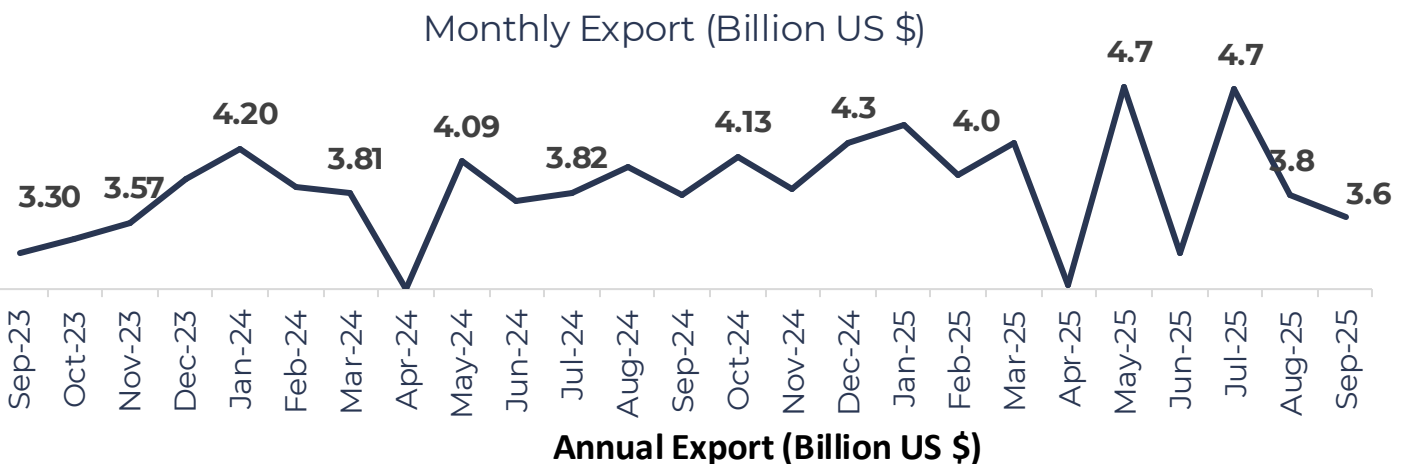
External Debt Keep rising

Particulars in USD BN	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Total Debt	167	194	194	186	193
Internal Debt	85	98	96	82	80
External Debt	82	95	98	103.79	113.2
Public	62.9	69.5	75.85	83.22	93.42
Private	18.72	25.95	22.26	20.57	19.77
Public sector External Debt % GDP	15%	15%	16.7%	18.5%	20.2%
Total External Debt % GDP	19%	22.7%	23%	23.1%	24.5%
Total Debt % of GDP	32.41%	33.79%	36.34%	36.30%	41.75%

- Bangladesh's reported Debt-to-GDP ratio for FY 2025 stands at 41.75%.
- As of 31 March 2025, the outstanding stock of government guarantees stood at \$9.8 billion, adding further strain to the fiscal outlook.
- Despite these pressures, the debt remains below critical thresholds—Debt-to-GDP at 70% and foreign debt at 50% of GDP. Prudent fiscal management and efficient resource utilization are crucial to avoid further financial distress.

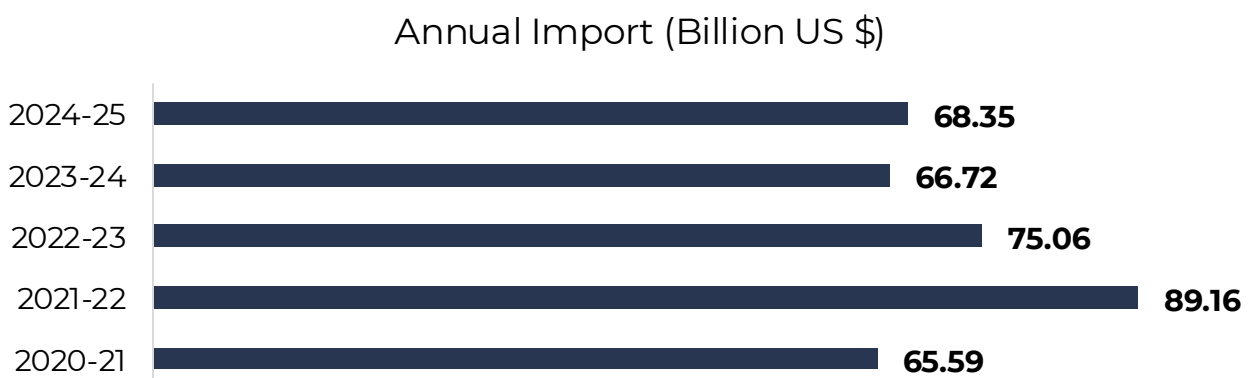
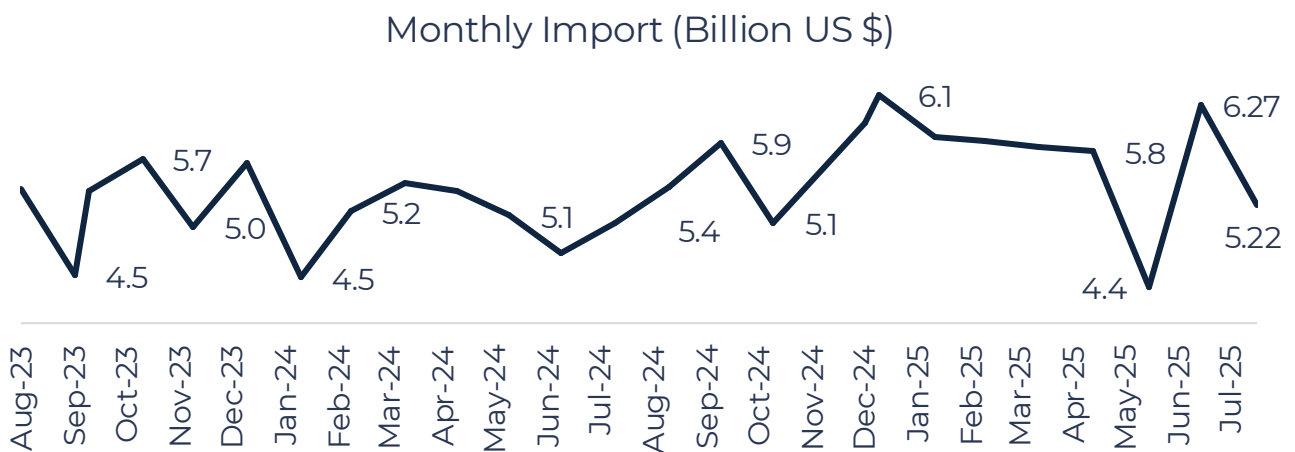
Reviving Bangladesh's Exports: Addressing Data Mismatch and Unlocking Diversification

- Following the fall of the previous regime, Bangladesh's exports have shown a strong rebound, registering 8% growth after two consecutive years of decline. The recovery is being driven by improving demand in key global markets and a gradual restoration of business confidence.
- In the first 3 months of FY2026, export earnings surged to USD 12.27 billion, marking a 5.25% year-on-year increase. Projections indicate that exports could reach around USD 50 billion by the end of FY2026, supported by Bangladesh's tariff advantage over China and India mid recent tariff imposed by US.
- To sustain this momentum, Bangladesh needs to diversify its export basket beyond traditional apparel which accounts for nearly 80% of current export. Strategic focus should be placed on IT and AI services, semiconductors, electronics, and footwear, following the Vietnamese model of export-led industrial transformation that emphasizes technology, value addition, and integration into global supply chains.

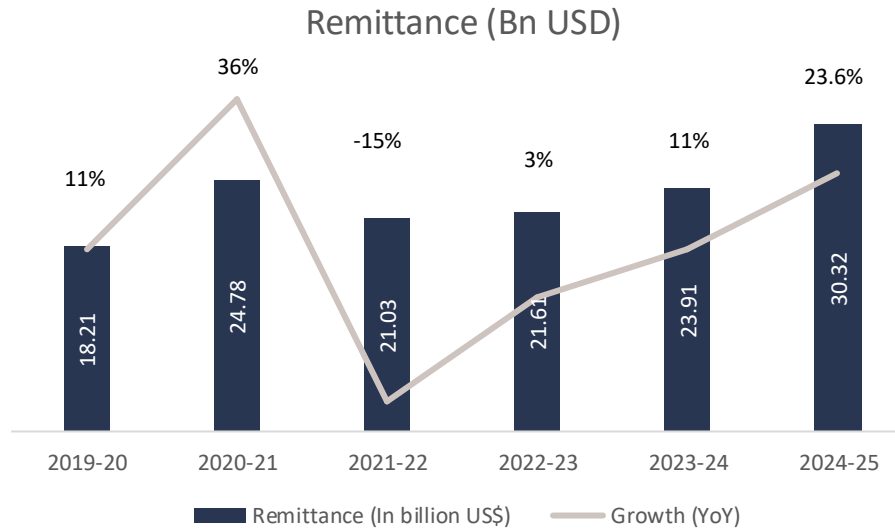


Import starts to Surge with Relaxed Controls

- Bangladesh’s overall imports rebounded in FY2025, at 2.42%, Continuing on that in the first 2 month of FY 26 we saw a growth of 9.26% marking a turnaround after two consecutive years of contraction and Capital Machinery growth .
- In the previous fiscal years, imports had declined sharply — by 13.05% in FY2023 and 7.9% in FY2024 — as the Bangladesh Bank implemented austerity measures to contain import-driven pressure stemming from post-pandemic demand recovery and the Russia-Ukraine war.
- Following the policy easing introduced by the interim government after August, trade activities started to regain momentum. The import of industrial raw materials showed a notable uptick, reflecting a gradual revival in manufacturing and export-oriented sectors. Now the capital machinery imports also increased by 42% due to the US Tariff on China and India reflecting Textile industry’s expansion plans

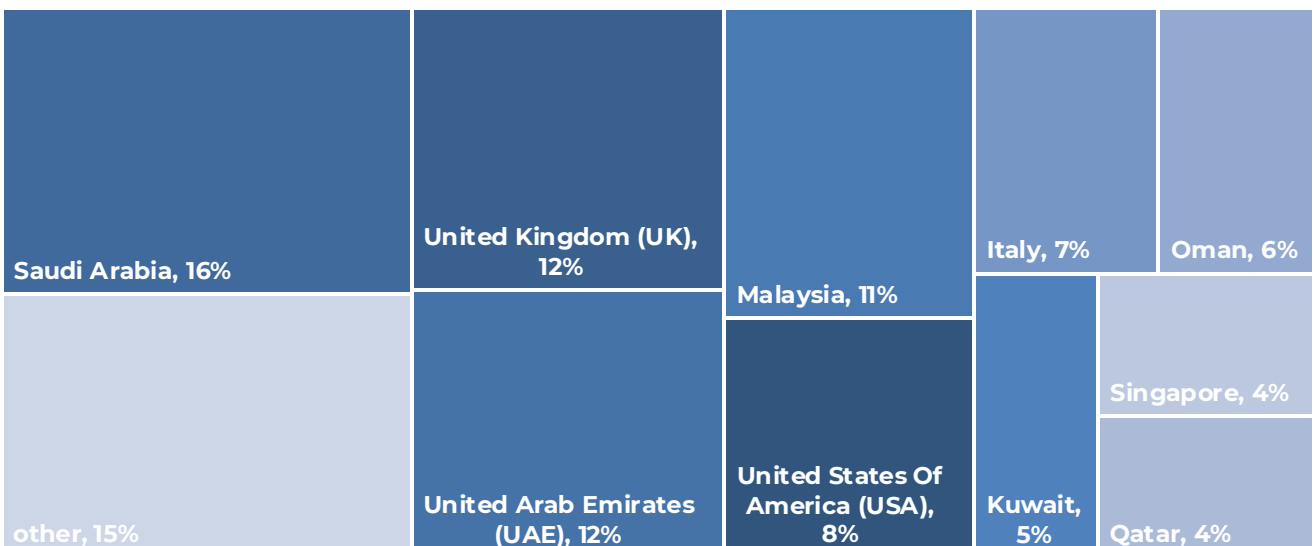


Remittance: The Lifeline of Bangladesh's Economy



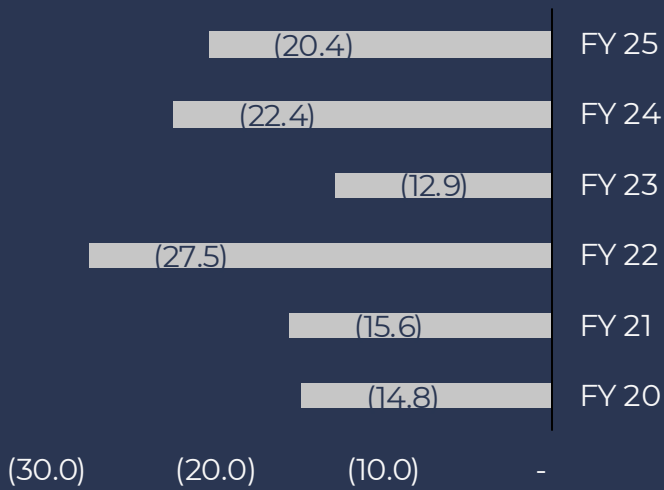
- In FY2025, remittance inflows reached \$30.32 billion, marking a robust 23.6% year-on-year increase (over \$7 billion higher than the previous year). The United States, Saudi Arabia, and the United Arab Emirates & United Kingdom remained the top sources of remittance.
- During the first two months of FY2026, remittance maintained strong momentum, rising 18.41% year-on-year. If this trend continues, inflows could reach around \$35 billion by the end of FY2026, providing crucial support to Bangladesh's economy.
- Although expatriate outflow fell by 42% in the latter half of FY2025, remittance flows remained resilient. However, heavy reliance on a few labor markets increases policy risk, underscoring the need for diversification.
- In the short term, fewer new migrants will have limited effect, but in the medium to long term, the ageing expatriate workforce and the growing use of AI and automation in major labor-importing countries pose challenges for Bangladesh's overseas employment prospects.

Countrywise Remittance Contribution



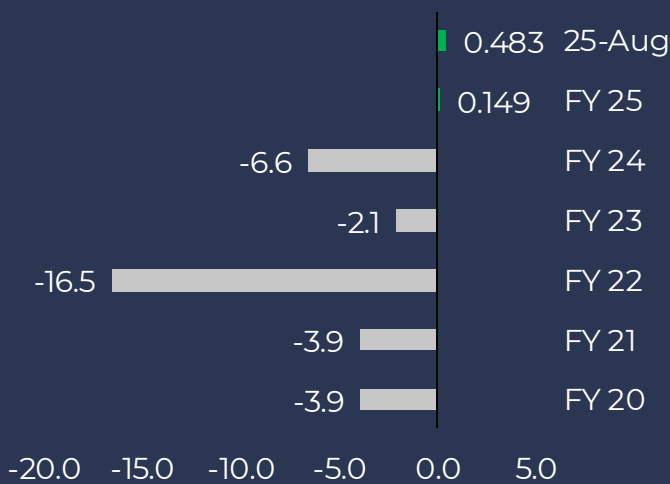
Economic Shifts: Deficits to Surpluses

Trade Balance (Billion US \$)



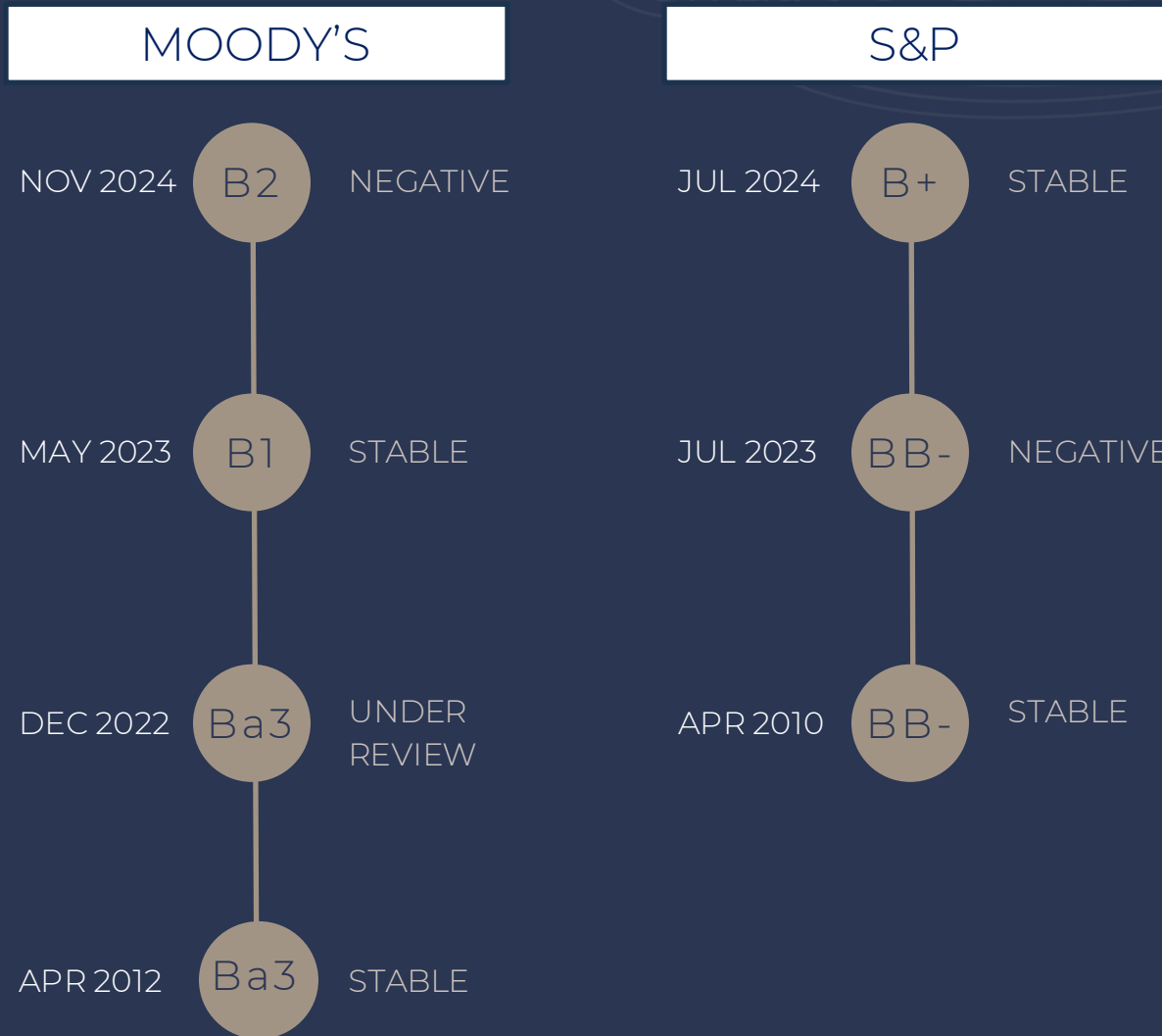
- In FY2025, Bangladesh’s trade deficit narrowed by 9% year-on-year to \$20.4 billion, driven by moderate import growth and strong export performance.
- This improvement, coupled with robust remittance inflows, has eased pressure on the country’s external accounts, strengthening overall balance of payments stability.

Current Account Balance (Billion US \$)



- In August FY 26, We can already see the current Account Balance has remained positive after years of negative balance. Looking ahead, Bangladesh’s current account balance is projected to record a surplus of around \$3 billion by the end of FY2026, supported by a narrower trade gap and sustained growth in both exports and remittances.

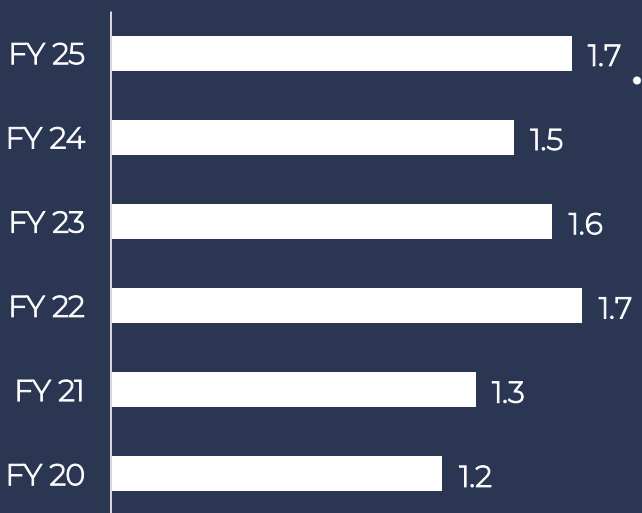
Bangladesh Credit Rating



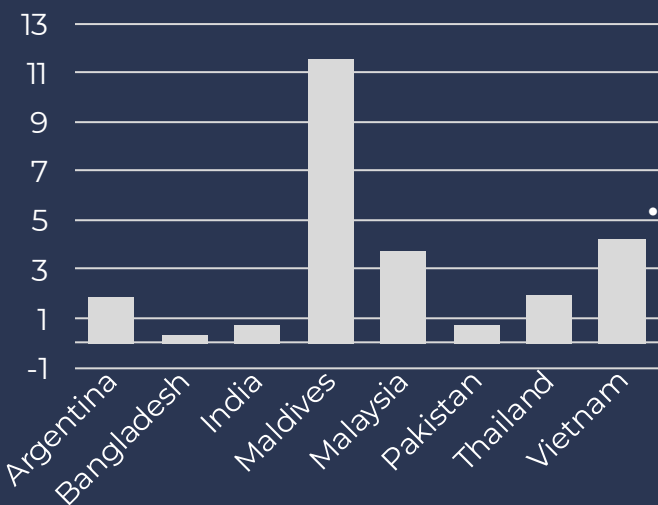
- Moody's downgraded Bangladesh's sovereign rating from B1 to B2 with a negative outlook, which also impacted six banks, including BRAC Bank, City Bank, and Dutch-Bangla Bank. Moody's Ratings has downgraded Bangladesh's banking system outlook from "stable" to "negative after rescheduling facility"
- Whereas S&P downgraded from BB- to B+. The downgrade could still impact investor confidence, foreign fund pricing, and overall trust in the banking system
- The rating emphasizes structural weaknesses such as liquidity constraints, politically influenced loan defaults, and poor asset quality under the previous regime.
- Moody's has failed to account for the recent reforms by Bangladesh Bank, including steps to improve asset quality and align regulatory practices with international standards

Foreign Direct Investment (FDI) Hits a Plateau

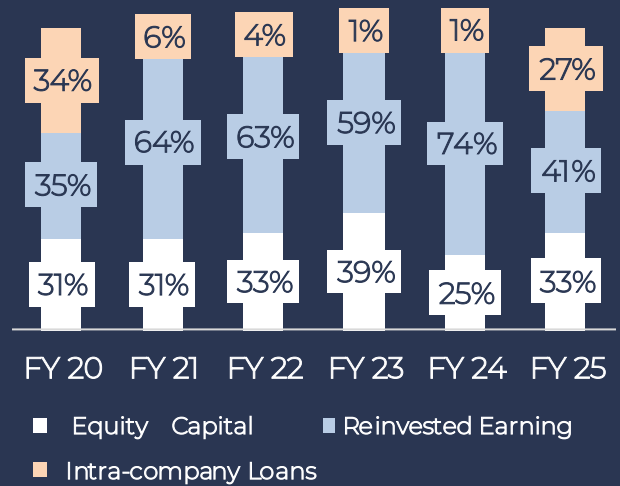
Foreign Direct Investment (In billion US\$)



Foreign Direct Investment, Net Inflows (% Of GDP)



FDI Contribution



Net foreign direct investment (FDI) in Bangladesh increased by 14.3% in FY2025, signaling a modest recovery in investor sentiment. Reinvested earnings accounted for 41% of total FDI inflows, highlighting a continued reliance on existing investors rather than new capital inflows. However, this share declined slightly from last year as dividend repatriation challenges eased, enabling smoother fund transfers for foreign companies.

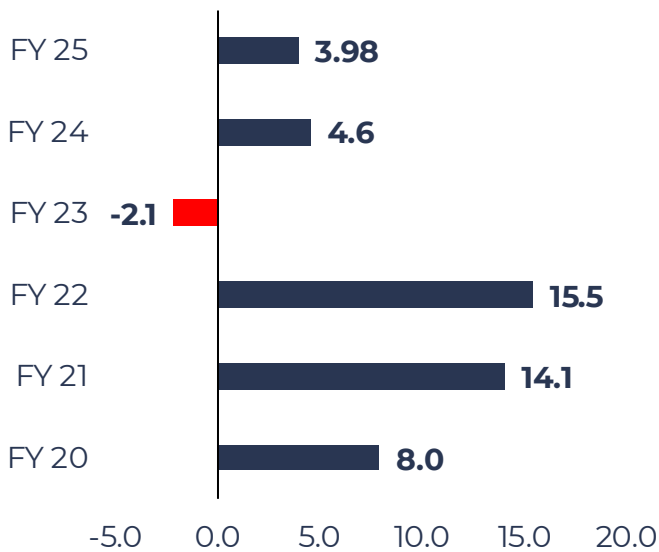
- Despite the year-on-year increase, the overall investment environment remains challenging. Persistent concerns over election-related uncertainty, macroeconomic instability—including currency devaluation—and Bangladesh’s poor ease of doing business ranking have weighed on investor confidence. Furthermore, recent credit rating downgrades have added to the cautious stance of global investors.

With an FDI-to-GDP ratio of just 0.3%, the lowest in the region, Bangladesh still struggles to attract large-scale foreign investments. However, with Dr. Muhammad Yunus leading the interim government, there is renewed optimism that improved governance, transparency, and policy consistency could help restore investor confidence and stimulate greater FDI inflows in the coming years.

Bangladesh's Forex Reserves:

Gradual Recovery Amid Persistent Challenges

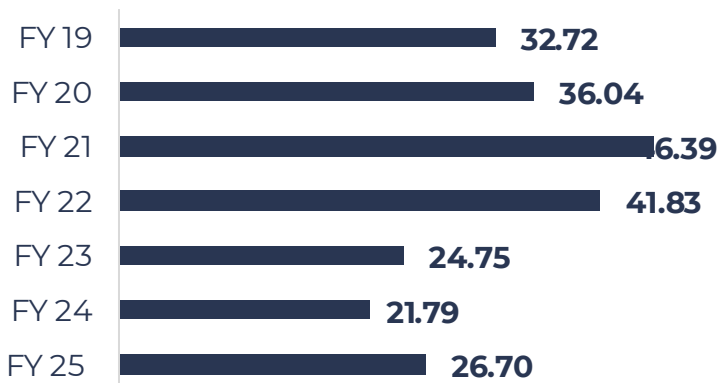
Financial Account Balance
(Billion US \$)



Bangladesh's financial account turned negative in 2023 for the first time in 13 years, primarily due to economic instability.

However, following data adjustments and improved regional socio-economic conditions, the financial account began to recover after the national election and political turbulence, supported by policy reforms, including the introduction of a more flexible foreign exchange market.

Foreign Exchange Reserves
(Billion US \$)



Bangladesh's foreign exchange reserves have risen to \$26.7 billion, signaling a recovery after two consecutive years of declines. And is expected to cross \$30 billion by the end of this year.

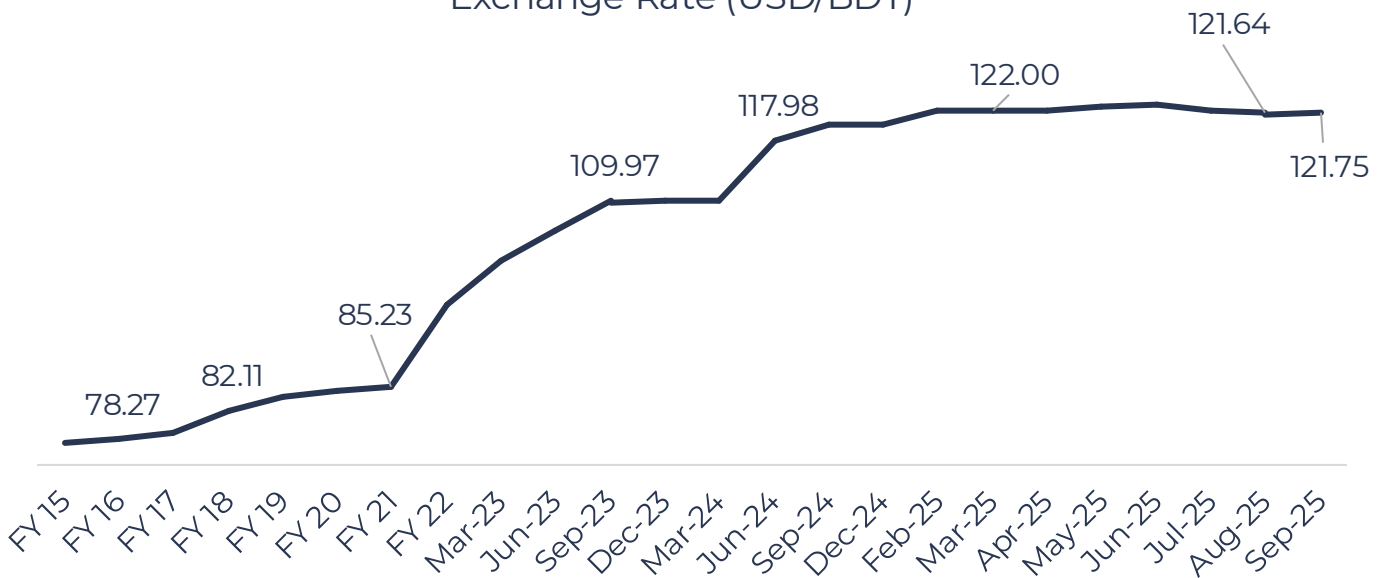
Reserves, which stood at \$46.4 billion in FY2021, had fallen sharply due to the 2022 global commodity price shock and higher import costs. They are now projected to stabilize around \$24 billion by the end of FY2025.

This recovery has been supported by development finance institutions (DFIs) assisting the new government led by Dr. Yunus. However, rising debt servicing obligations continue to exert significant pressure on the sustainability of reserves.

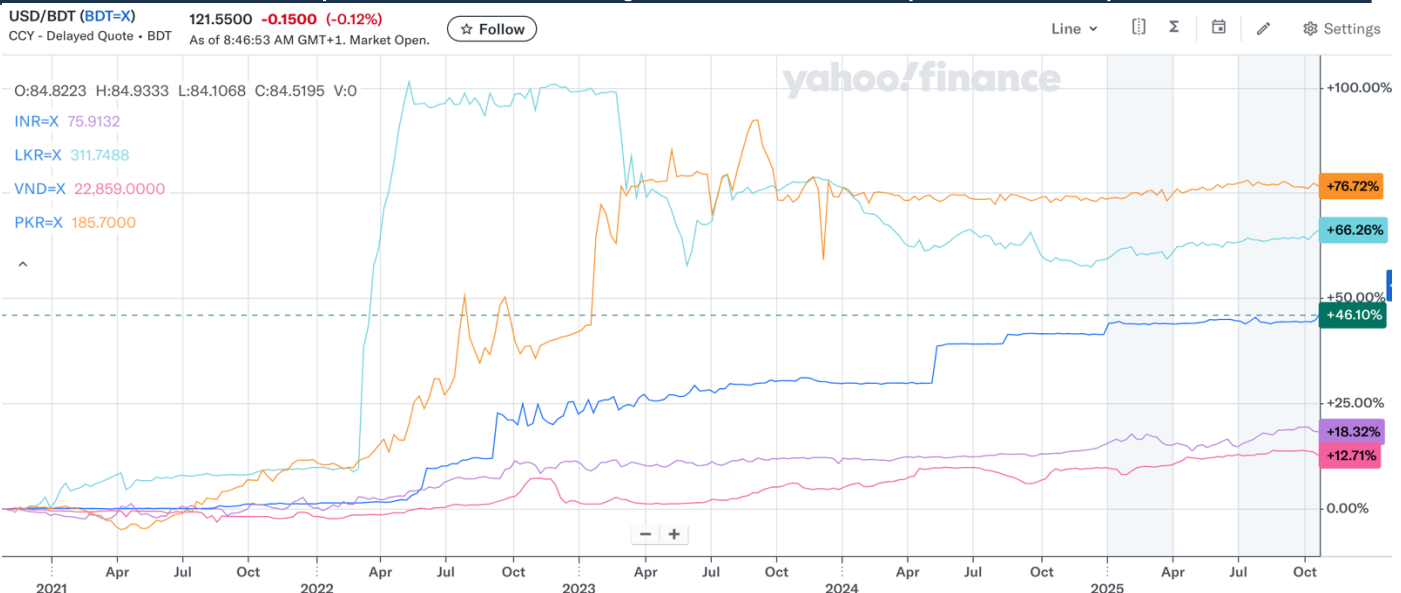
Currency Stabilizes after Years

- Over the past four years, the USD has appreciated by 44% against the BDT, highlighting significant currency depreciation due to previous central bank policy missteps, particularly the failure to allow gradual depreciation from 2012 to 2021. However Currency get stabilization with reserve improvement, flexible exchange rate current account improvement and tight monetary policy.
- As of September 2025, the exchange rate stands at BDT 121.75 per USD, slightly below its 122 peak, reflecting relative stability. The Real Effective Exchange Rate (REER) index increased from 101 in July 2025 meaning fair price compared to peer economies,

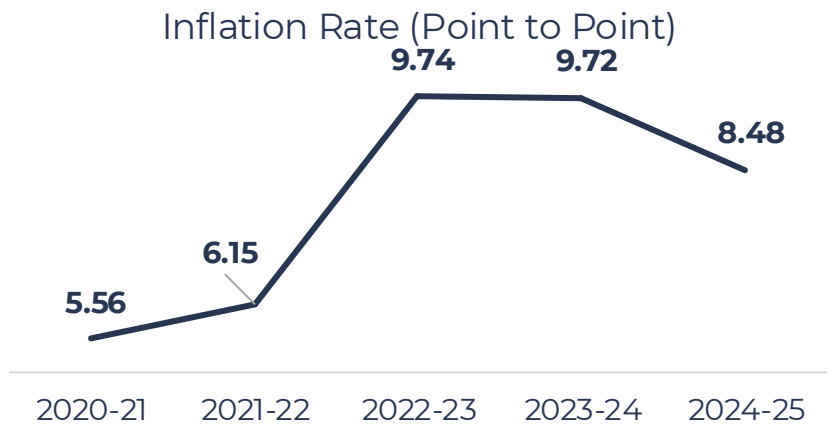
Exchange Rate (USD/BDT)



Comparative Currency Performance (South Asia)

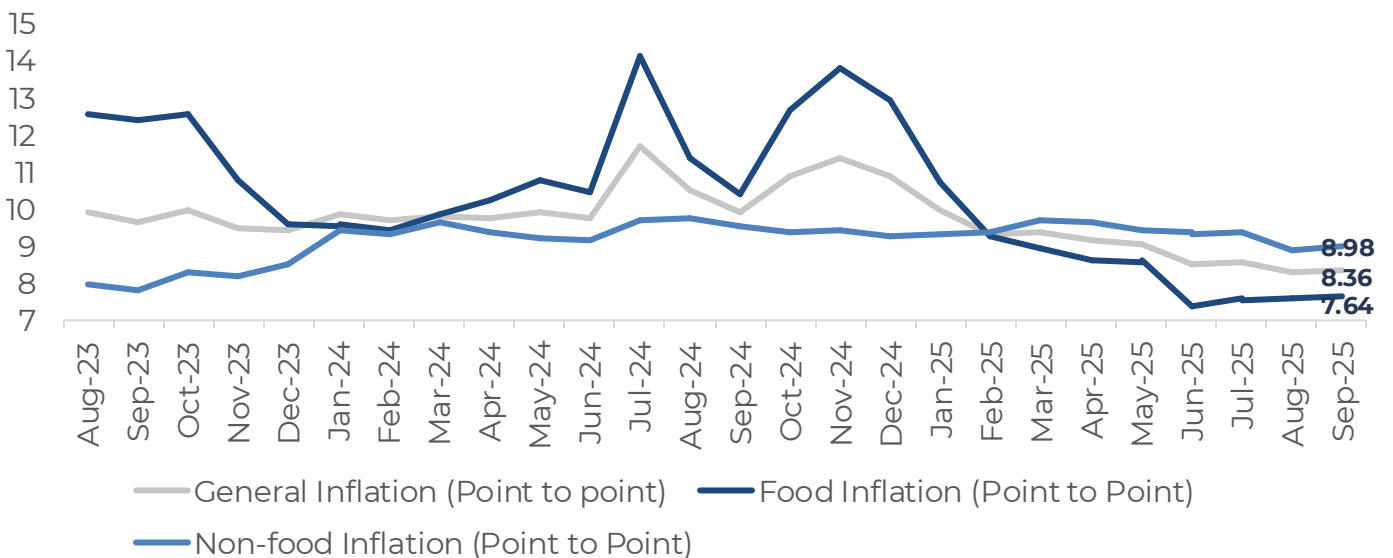


Inflation Started to cool down



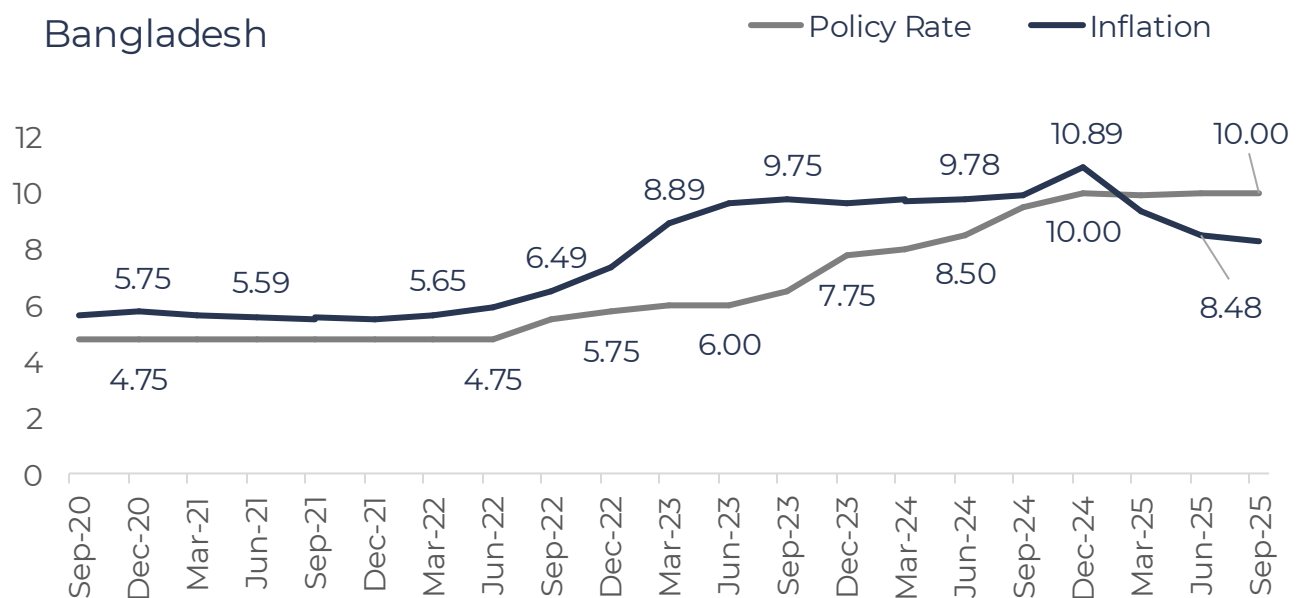
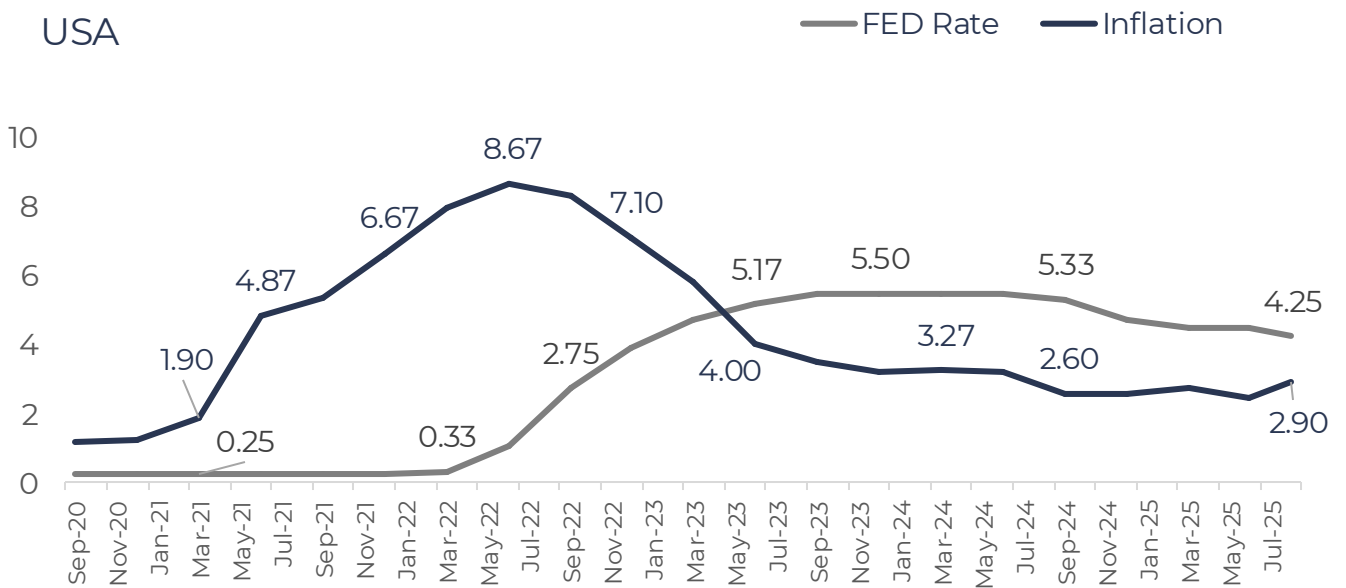
- Inflation in Bangladesh reached a peak of 11.66% in July 2024 and rose to 11.38% in November 2024, the highest in FY25. Since then, it has moderated to 8.36 after the first quarter of FY26, as food prices began to ease. Current food inflation stands at 7.64% in which the heavy rain had a role to play and non-food inflation at 8.98%, according to the Bangladesh Bureau of Statistics (BBS).
- The current government’s commitment to non-intervention in data reporting has enhanced transparency. Despite a 34% decline in the global commodity price index since March 2022, inflationary pressures persist, largely due to local currency depreciation and reduced government subsidies in the power sector.
- To curb inflation, the Bangladesh Bank has raised the repo rate three times, lifting it from 4.5% in FY2020 to 10%, aiming to control money flow and stabilize the economy.
- Looking ahead, while the inflation is expected to gradually decline to 8% in the latter half of 2025 and further ease to around 7% in the first half of 2026, supported by no further major currency depreciation and improved accuracy in inflation measurement.

Monthly Inflation breakdown



Delayed Response to Swift Action: Bangladesh Bank's Policy Shift to Tackle Inflation

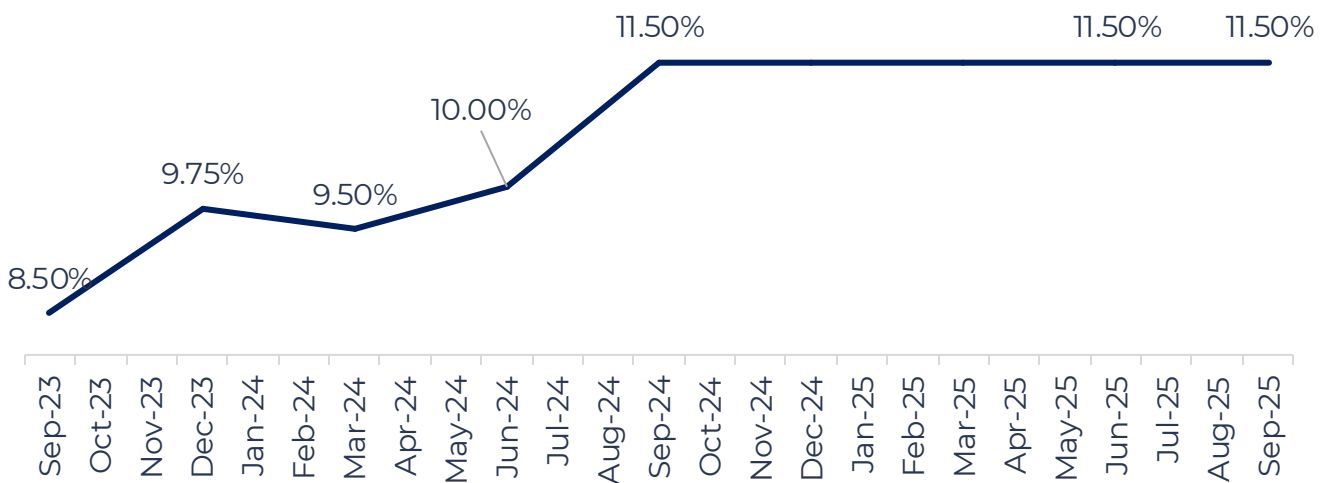
- US inflation surged after the Russia-Ukraine war due to supply chain disruptions. In response, the Federal Reserve swiftly raised policy rates from 0.25% to 5.5%, curbing peak inflation of 8.7% to 2.9%, before later easing rates to 4.25%. However, new tariffs resulting in supply chain disruption could push inflation higher again.
- In contrast, Bangladesh Bank delayed its response, raising policy rates only a year after the US, while maintaining an interest rate cap that slowed the impact of monetary policy. As a result, inflation remained persistently high. However, with the new governor taking charge, the policy rate was increased by 150 basis points within six months, and rates are now market-driven — marking the first time in five years that inflation has fallen below the policy rate.



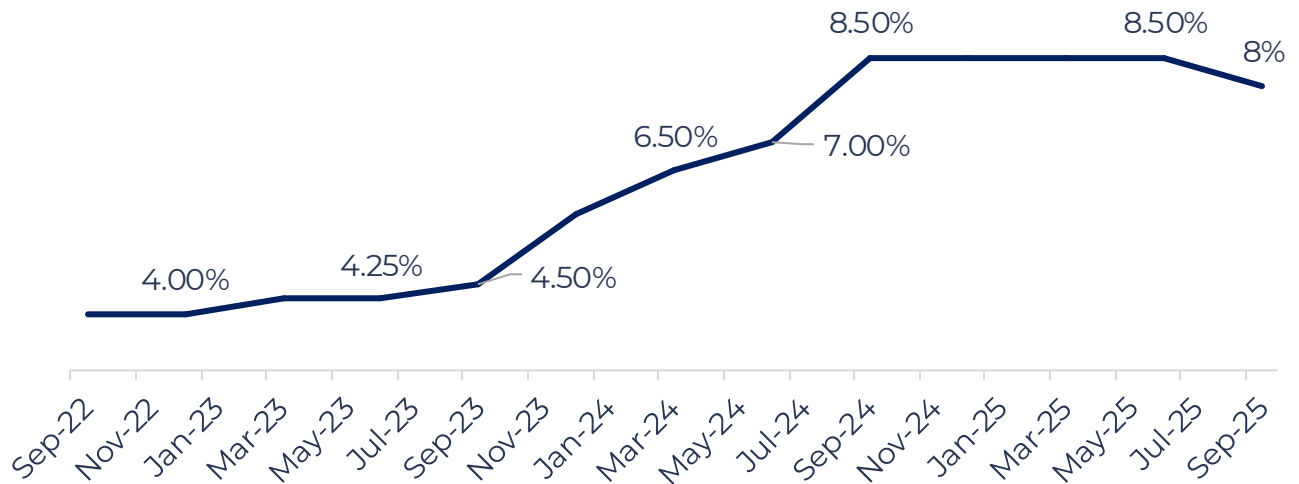
Bangladesh Bank Hikes SLF and SDF Rates to Tame Inflation

- The Standing Lending Facility (SLF) and Standing Deposit Facility (SDF) are key monetary policy tools utilized by the Bangladesh Bank. The SLF allows the central bank to provide overnight credit to eligible banks during liquidity shortages, while the SDF enables banks to deposit excess liquidity with the central bank.
- Recently, the rates for SLF has been raised to 11.5% and SDF has been raised to 8.5% to control money supply and curb inflation. However as there is indication of low inflation central bank reduce SDF to 8%.

SLF Rate (Quarterly, %)



SDF Rate (Quarterly, %)

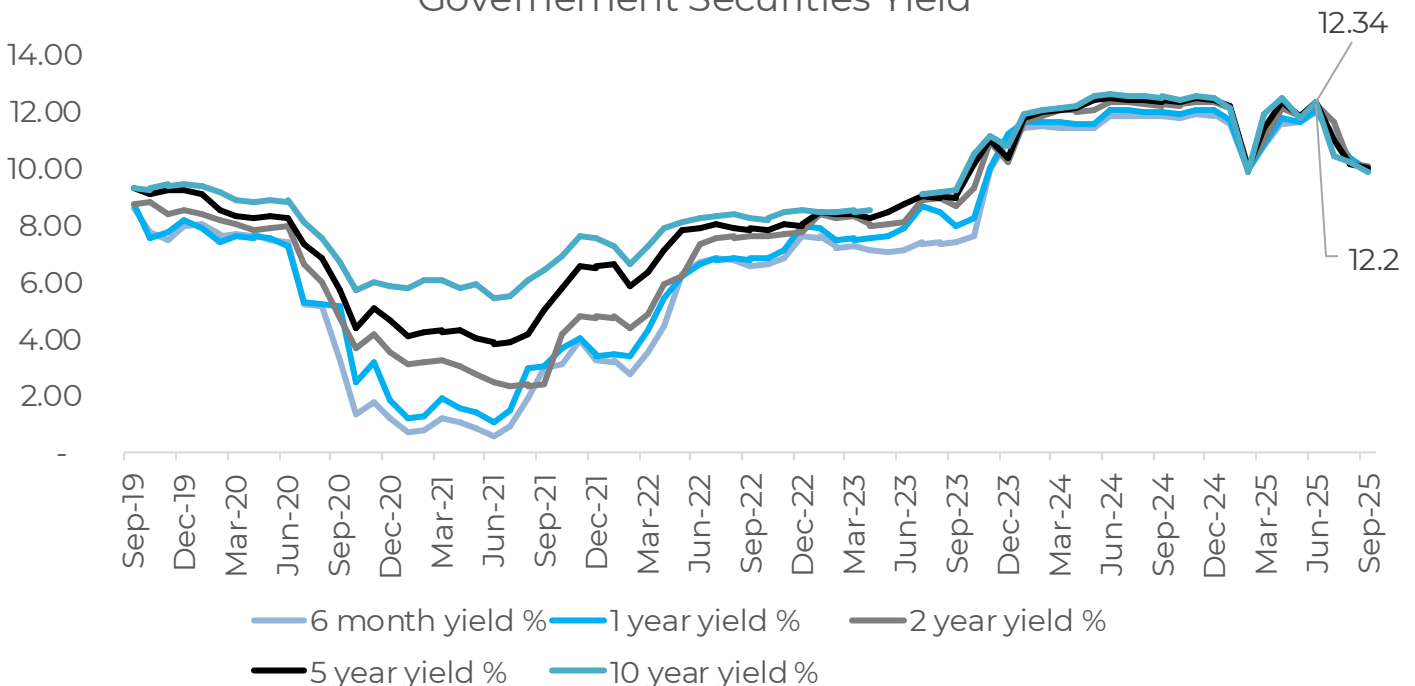


Treasury Yield started to fall due to high liquidity in the market



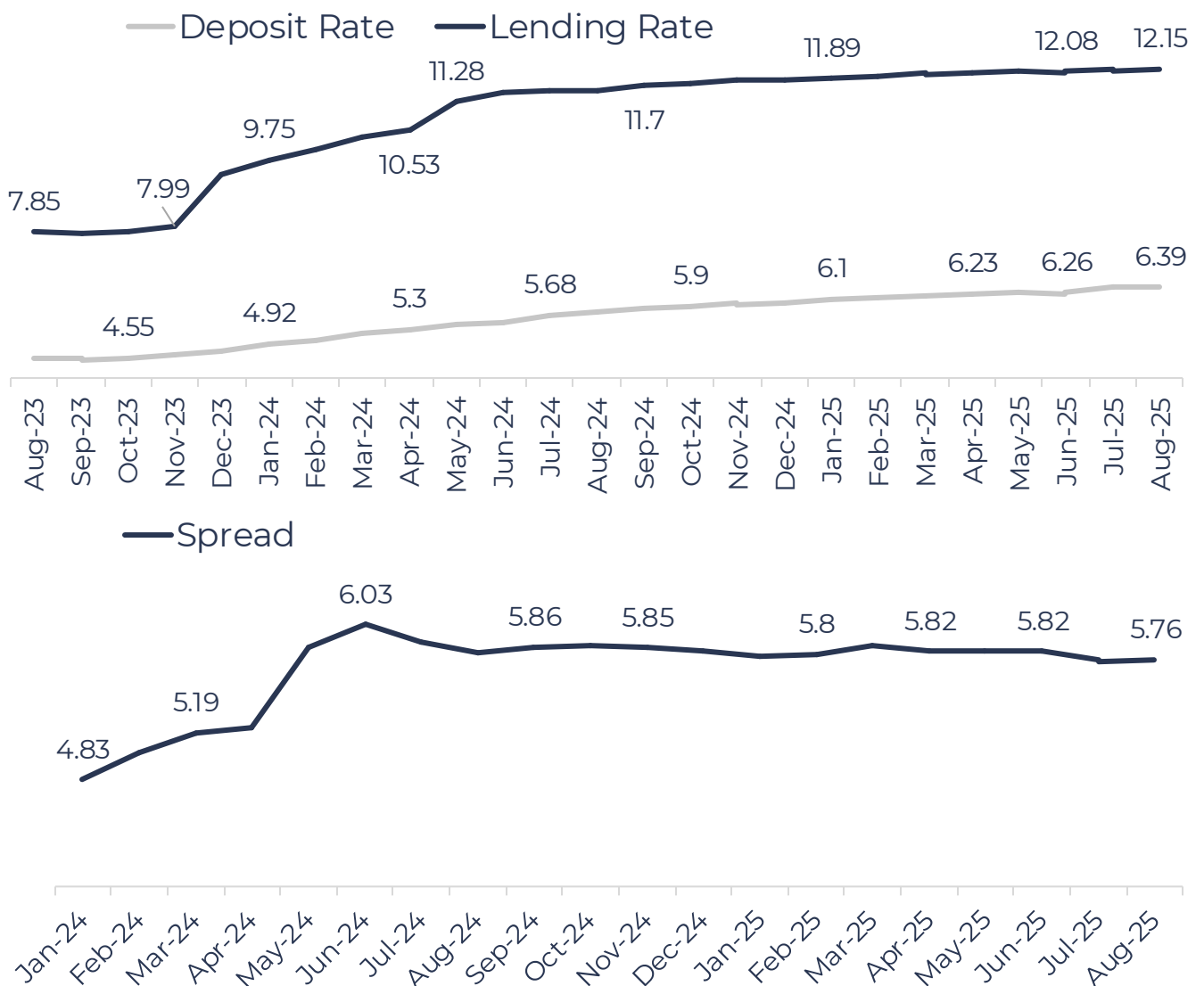
- Bangladesh’s Treasury bill yield recently hit a decade-high of above 12% this year, reflecting tight liquidity conditions as the Bangladesh Bank intensified its monetary tightening to rein in inflation. The flattening of the yield curve, with short-term T-bill rates rising faster than long-term bond yields, signaled an economic slowdown and shrinking investment appetite.
- However, yields have since declined by around 220 basis points across all maturities, indicating a gradual easing of liquidity stress amid BB buying dollar aggressively from the market and improved market confidence following inflation moderation and stable policy direction from the central bank.

Government Securities Yield



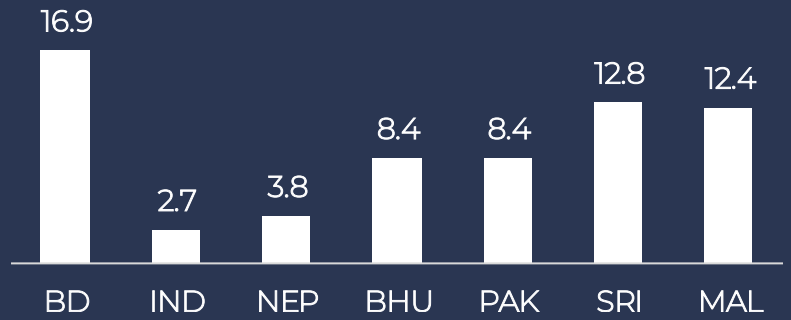
Rising Rates Strain Businesses

- The Weighted Average Lending Rate continues to rise after the removal of the interest rate cap, currently standing at 12.15%, while the Weighted Average Deposit Rate has increased to 6.39%, resulting in a spread of 5.8%.
- Deposit rates are expected to stabilize now with lending rates now exceeding 13% in the banking sector and 16% in the NBFY sector.
- The rising cost of borrowing is driving up the cost of doing business, leaving companies with low EBITDA margins struggling to service their debts.

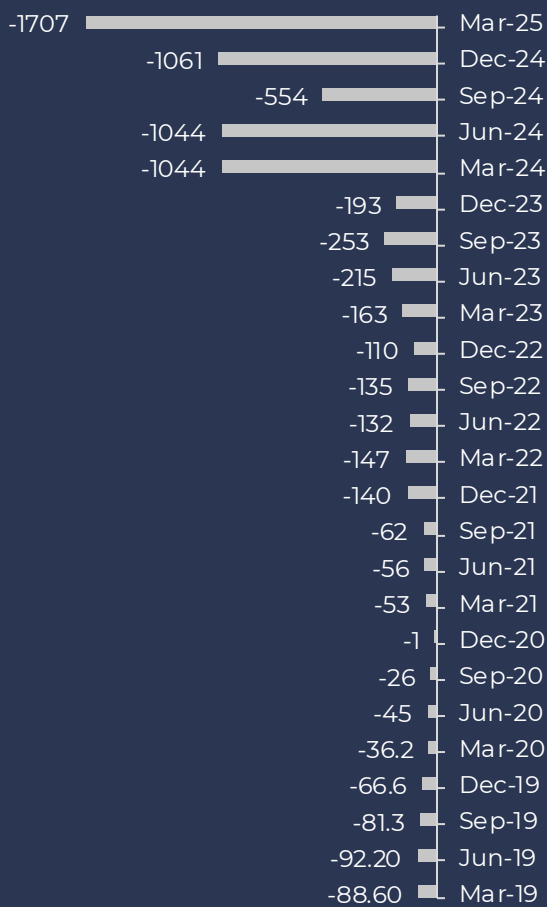


Bangladesh's NPL Crisis: Highest in South Asia and the Path to Financial Recovery

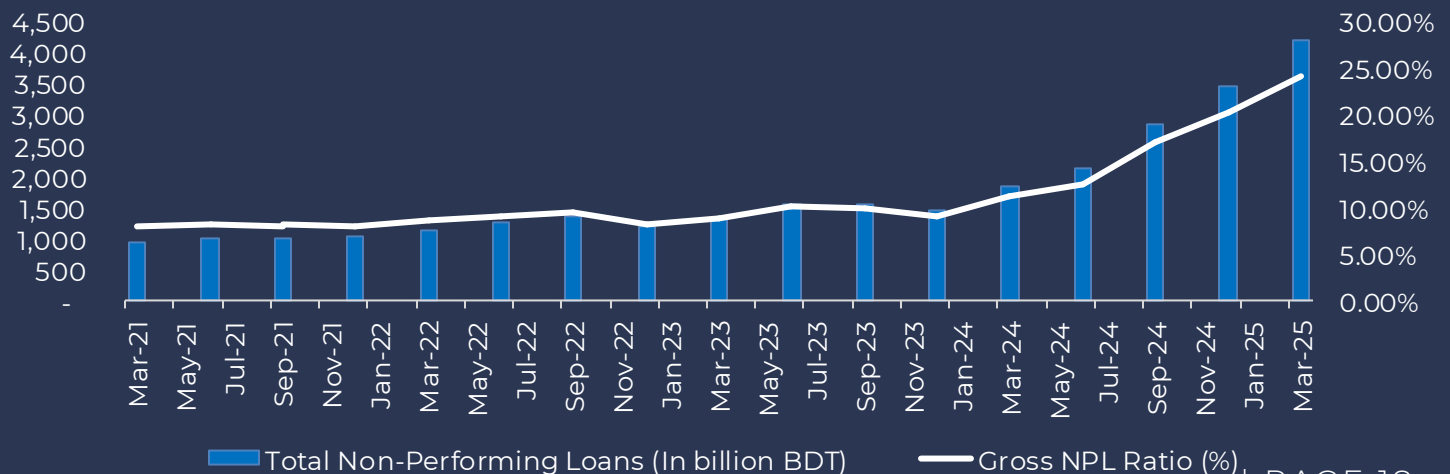
Comparative NPL Ratio (SAARC)



Provision Shortfall (In billion BDT)

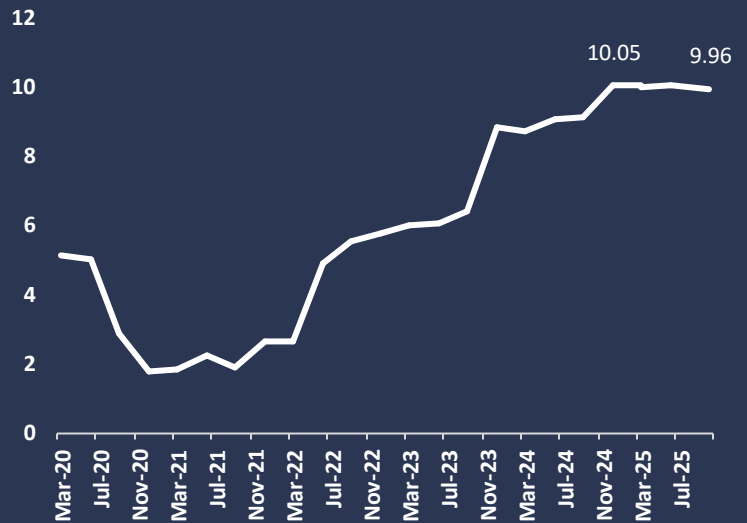


- As of March 2025, Bangladesh's non-performing loans (NPLs) have surged to BDT 4203 billion, accounting for 24.13% of total distributed loans—the highest in South Asia. This alarming rise threatens the country's financial stability. The revelation comes under the interim government after the end of Sheikh Hasina's 15-year rule, during which "window dressing" practices concealed defaulted loan figures for years.
- From April 2025, the central bank will classify loans as non-performing after three months of being overdue, instead of six months, in line with Basel III standards and IFRS 9. This move is expected to push NPLs beyond 30%, further straining the economy. Provision shortfall is 62% of the provision needs to be kept.
- To address this crisis, urgent measures are needed, including forming an Asset Management Company (AMC), converting deposits into equity, injecting fresh equity and BB is going merge 5 Banks to restructure and stabilize the banking sector.

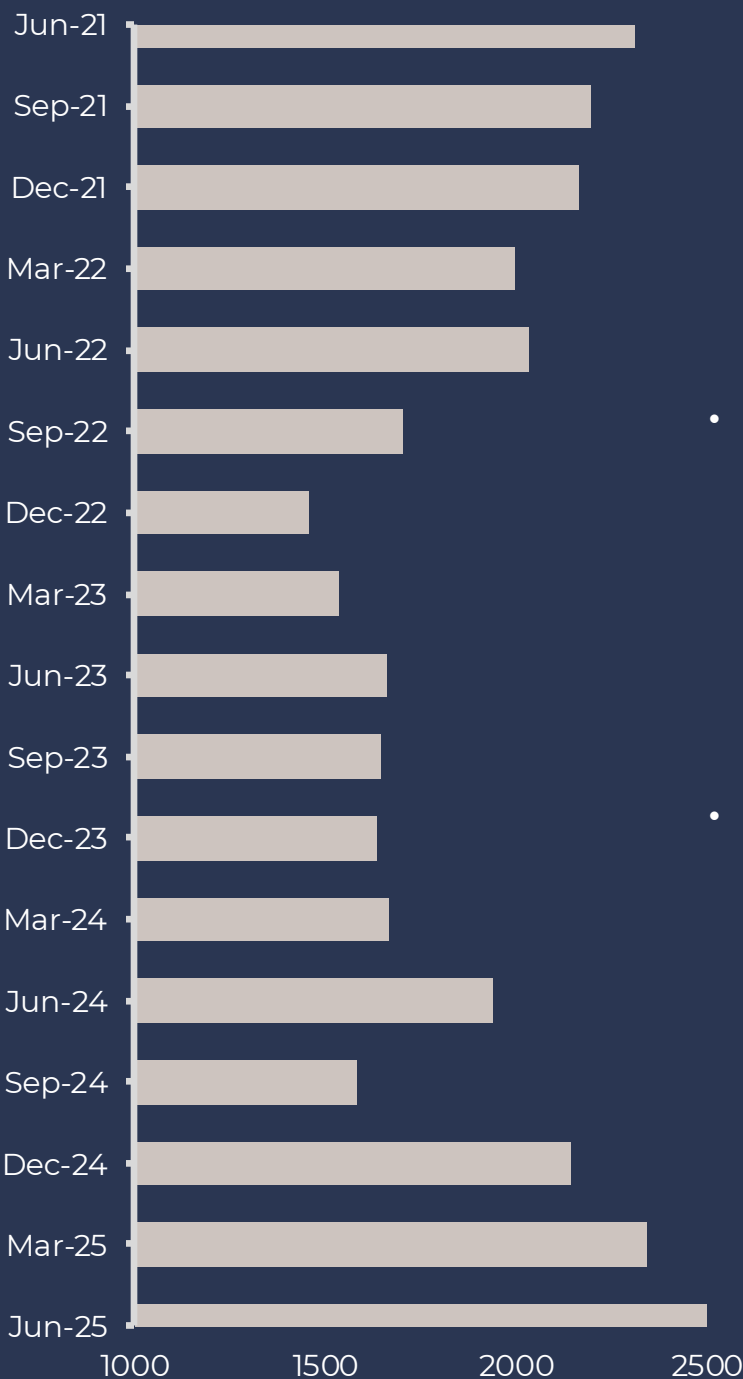


Liquidity started to ease due to low private sector credit growth and Dollar Buying by BB

Call Money Rate %



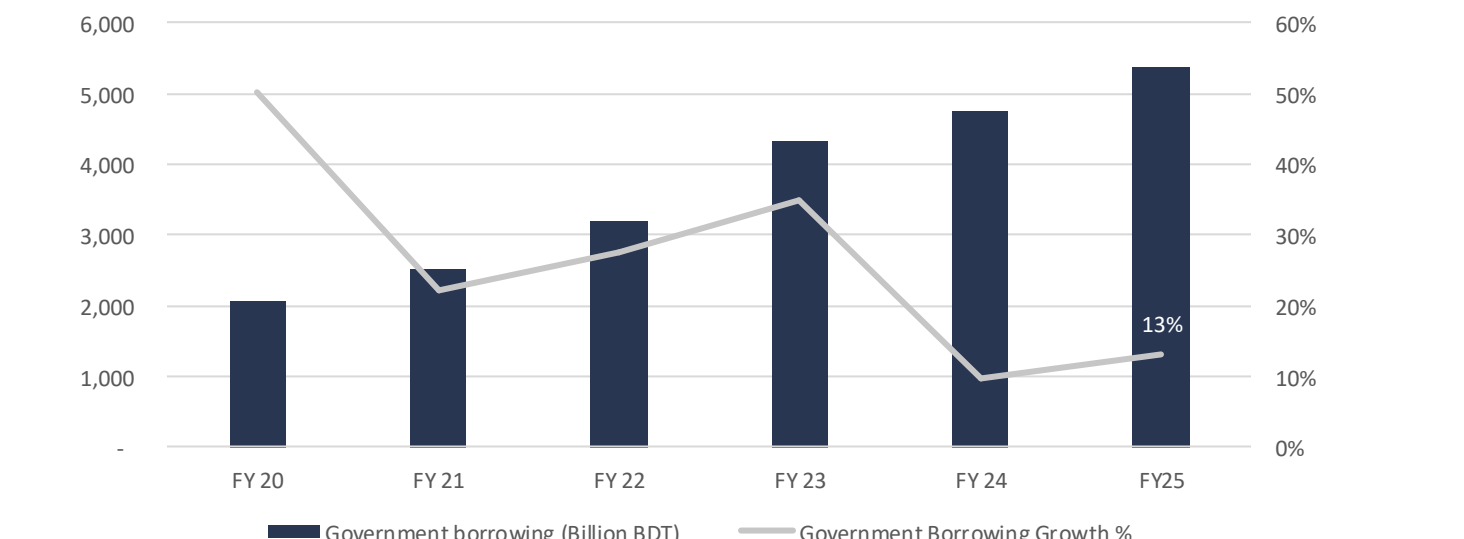
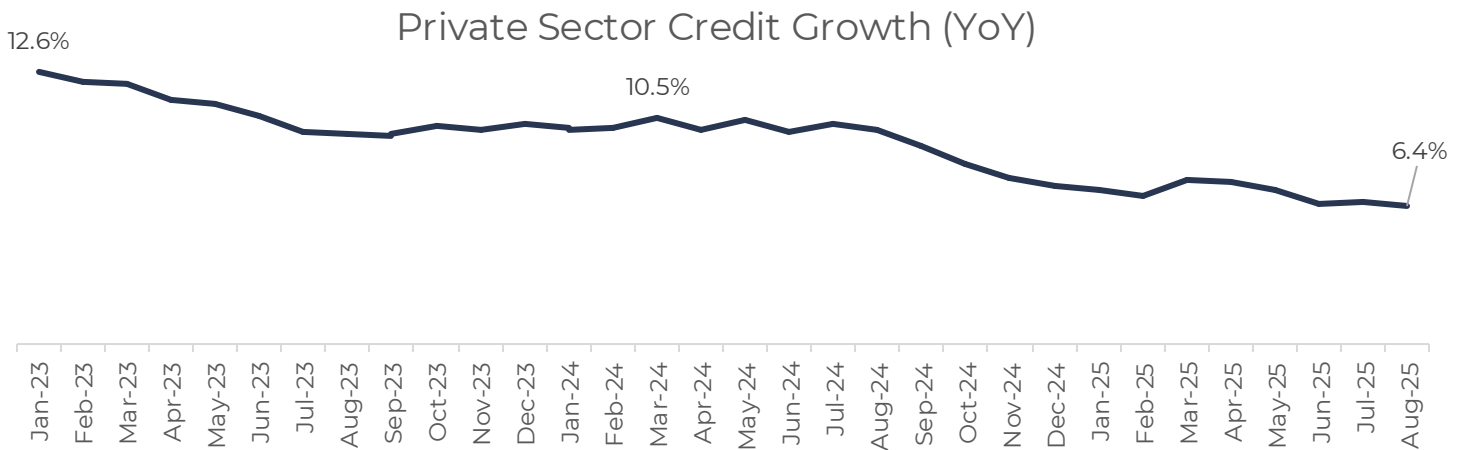
Excess Liquidity (in billion BDT)



- Excess liquidity in the banking system has started to ease, driven by slower private sector credit growth and continued dollar purchases by Bangladesh Bank to stabilize the forex market.
- As liquidity conditions improve, the call money rate, which peaked around 10.5%, has now fallen below double digits to 9.96%, reflecting reduced short-term funding pressure.

Private Sector Credit Growth Slows Amid High Rates and Economic Uncertainty

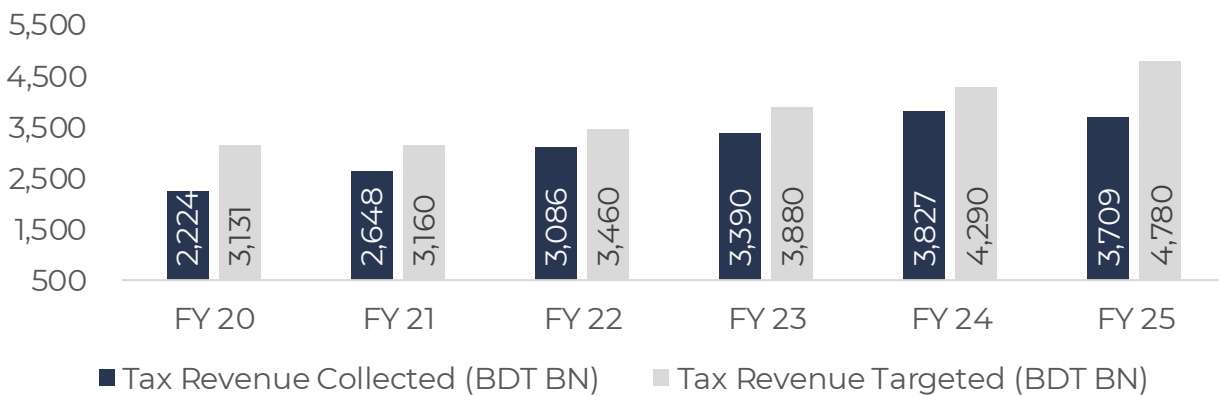
- Private sector credit growth slowed to 6.4% in August 2025 lowest in last 22 years due to investment uncertainty following the political changeover, persistent inflation, and rising borrowing costs. The Bangladesh Bank raised the policy rate to 10% on October 22, the 11th hike since May 2022, aiming to curb inflation but discouraging investment and restricting money supply.
- High interest rates, a liquidity crisis, weak law-and-order conditions, and persistent inflation (above 8 % in till date) are suppressing credit demand and dampening the investment climate. These factors have slowed economic growth to 3.97% in FY25.
- Prolonged contractionary monetary policies may reduce productive capacity, hurt small and medium enterprises, and increase non-performing loans. The government’s net borrowing from the banking system rose by Tk 5,364 crore in the FY 2024-25, amid falling tax revenues and rising foreign debt servicing costs, this is raising concerns over crowding out private credit. However, the uncertain political environment remains the biggest obstacle to sustained economic stability.



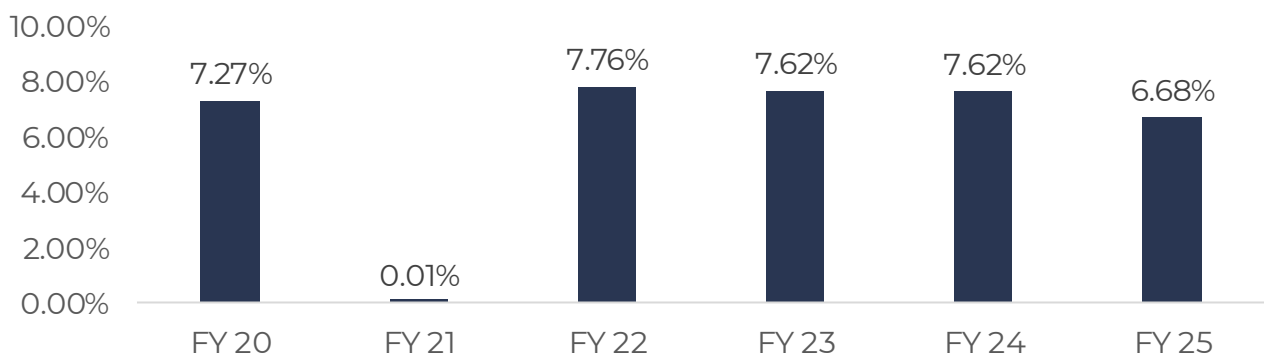
Bangladesh Grapples with Revenue Collection Challenges question GDP Growth

- Bangladesh's tax-to-GDP ratio fell to 6.68% in FY25, among the lowest in South Asia, with only 37 lakh out of 1.2 crore TIN holders filing taxes. Inefficiencies, corruption, and lack of public trust in the tax system, coupled with systemic flaws in the NBR, have hindered revenue growth.
- IMF's recommendation to raise Bangladesh's revenue target to 0.5% of GDP, tied to a \$4.70 billion loan, underscores the urgency for the country to elevate its revenue-GDP ratio to 10% in FY25
- To boost tax revenue, simplifying tax filing processes, making them mobile-friendly, and incentivizing digital payments can encourage compliance, particularly among the informal sector. Expanding services through upazila offices and increasing transparency can further engage taxpayers.

Tax Revenue(BDT Billion)

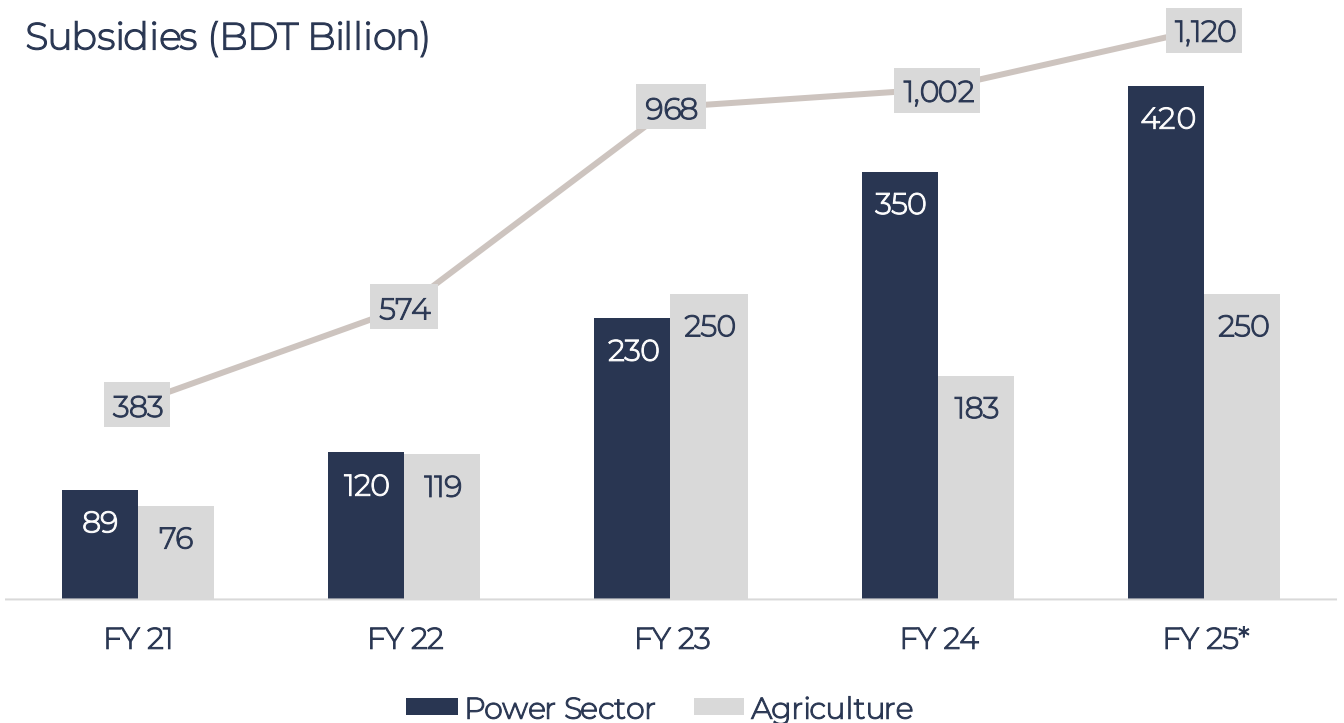


Tax to GDP



Bangladesh Faces Twin Deficits Amid Rising Subsidy Expenditures

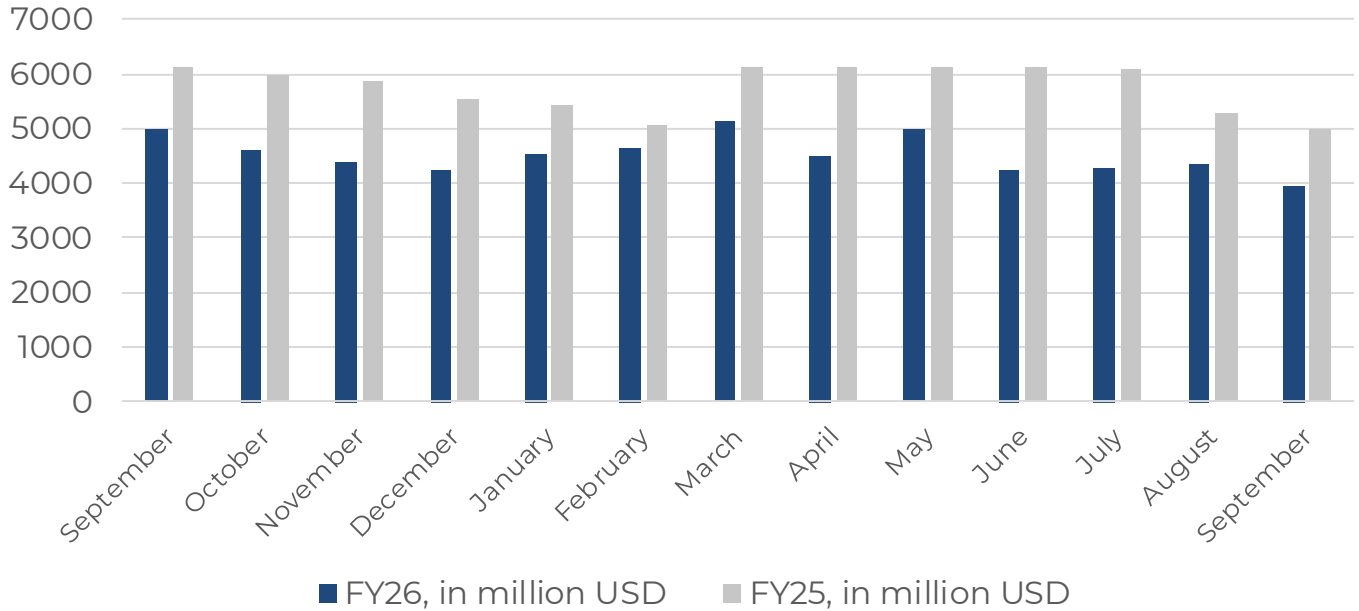
- Bangladesh is grappling with both a current account deficit and a budget deficit, commonly referred to as a twin deficit.
- Subsidy expenditures in FY25 are projected to rise to Tk 1,12,000 crore, with the corrupted power sector receiving Tk 42,000 crore due to higher energy costs and undue and unplanned capacity payments, while agricultural subsidies are set to increase to Tk 25,000 crore. Export incentives will decline as the country transitions out of LDC status.
- Social safety net allocations will remain at 2.5% of GDP, with a slight rise in beneficiaries but unchanged individual allowances for most groups.
- The government plans to reform subsidy and social safety net distribution through mobile financial service (MFS) accounts to improve efficiency and reduce corruption.



Foreign Exchange Reserve of Commercial Banks

- Liquidity in commercial banks has improved significantly in recent months. However, Bangladesh Bank continues to mop up excess dollar liquidity from the market to stabilize the exchange rate and strengthen the Balance of Payments (BoP) position.

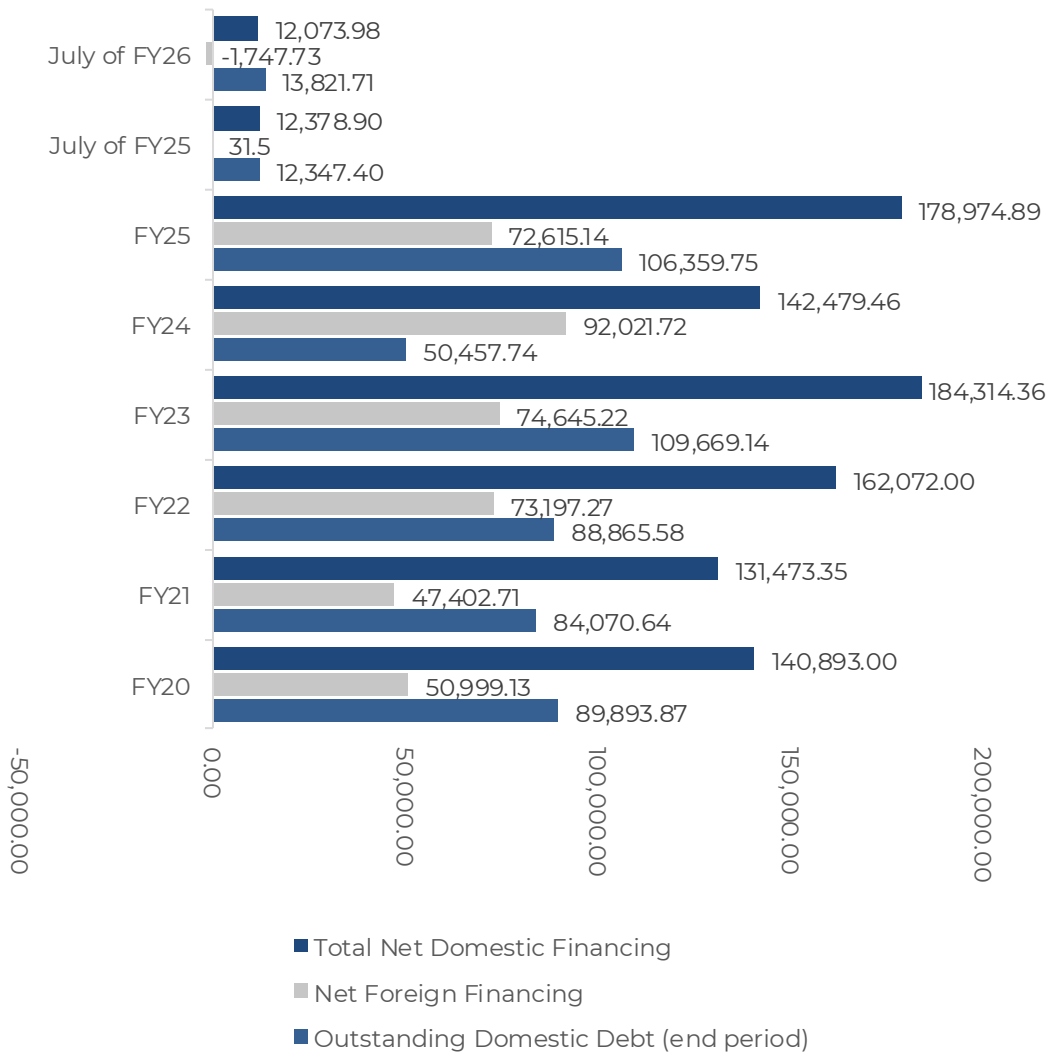
FX Reserve of Commercial Banks(in million)



Government Deficit Financing

- Bangladesh is grappling with both a current account deficit and a budget deficit, commonly referred to as a twin deficit.
- Due to ongoing political uncertainty, most investors remain cautious, preferring to delay major commitments until a stable democratic government is in place..

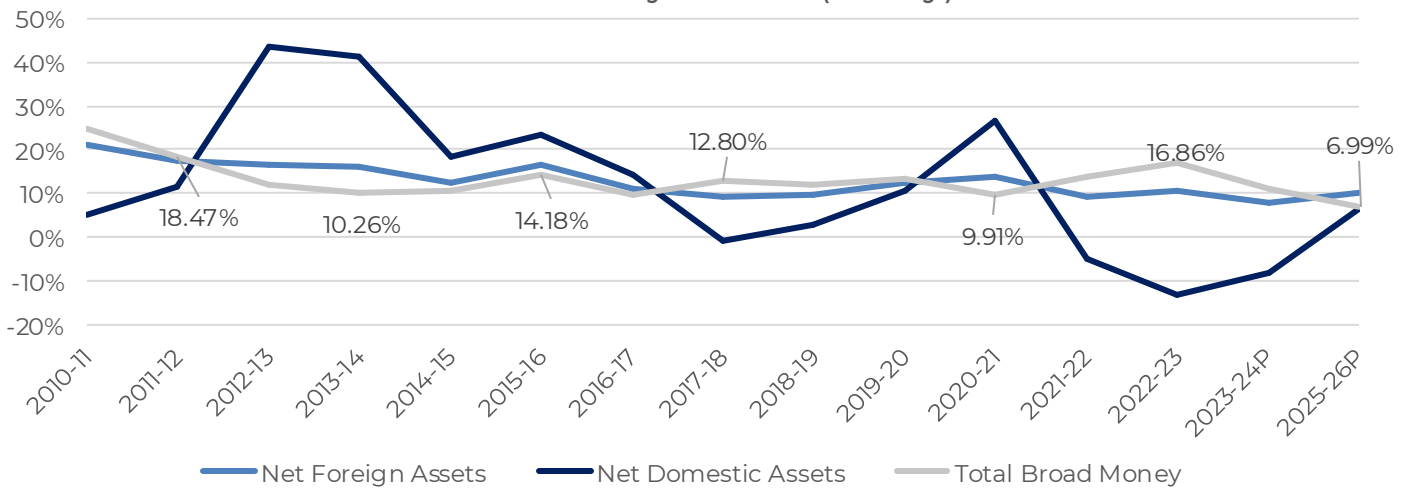
Government Deficit Financing(BDT in Crore)



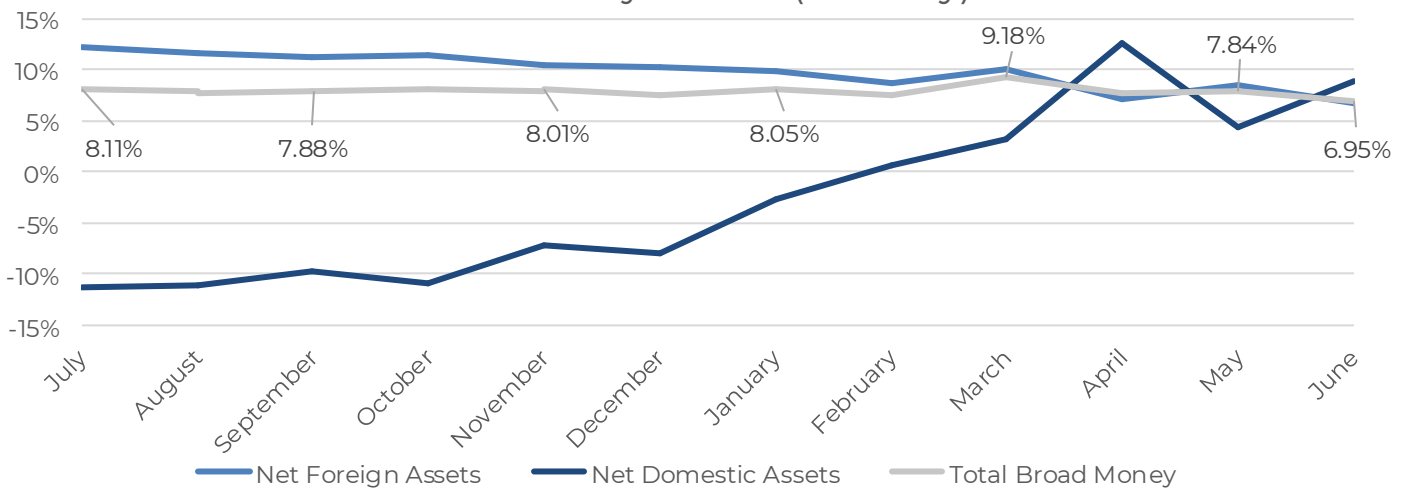
Broad Money (M2)

- M2 growth remains contained and single-digit, with NDA doing the heavy lifting and NFA finally turning less negative as external balances heal.
- This mix supports disinflation and FX stability but keeps credit tight—restraining demand and capex, raising crowding-out risks, and requiring careful calibration to avoid an extended growth drag.

Broad Money Growth(Yearly)



Broad Money Growth(Monthly)



Key Reforms Taken by Interim Government

BANGLADESH 2.0

- Released a white paper on the economy, acknowledging data mismanagement and initiating measures to restore public and investor confidence.
- Established 15 reform commissions to fix key institutions damaged under the dictatorship of Sheikh Hasina, focusing on governance, accountability, and efficiency.
- Restructured boards of problematic banks, enforced stricter NPL classification, and adopted Basel III and IFRS-9 standards to enhance governance and asset quality.
- Removed interest rate caps, raised policy rates despite pressure from business groups, and ensured a freer economy to foster sustainable growth.
- Recruited qualified professionals to improve the ease of doing business, encouraged FDI, and engaged DFIs to support "Bangladesh 2.0" initiatives.
- Reduced barriers on import activities to stabilize supply chains, boost industrial productivity, and support economic recovery efforts.

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Data Source: Bangladesh Bank, Dhaka Stock Exchange, Bangladesh Securities and Exchange Commission, Ministry of Finance, ERD, EPB, BPDB, BBS, World Bank, Company's Annual Report, The Daily Star, The New Age, The Financial Express and The Business Standard.

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