



## Monetary policy signals caution, not enough conviction

Wednesday, Jul 1, 2026

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Bangladesh Bank's Monetary Policy Statement (MPS) for July-December 2026 arrives at a difficult moment for the economy. Inflation remains elevated, [private credit growth](#) is below 5 percent, and economic growth has slowed to around 4 percent. Together, these point to symptoms of stagflation.

Against this backdrop, the MPS describes the central bank's stance as contractionary. The policy rate remains unchanged at 10 percent, with the Standing Lending Facility rate at 11.5 percent and the Standing Deposit Facility rate at 7.5 percent. On paper, this appears tight. But in Bangladesh's inflationary environment, the stance is better described as cautiously

restrictive than decisively contractionary.

The reason is simple. Inflation remains too high, too persistent and too broad-based for an unchanged policy rate to be enough. The MPS acknowledges that average inflation stood at 8.63 percent in May 2026, well above the June target of 7 percent. More worrying, non-food inflation reached 9.71 percent, showing that price pressures have spread beyond food markets and temporary supply shocks. Housing, transport, healthcare, education and essential services continue to face entrenched cost pressures. Once inflation becomes embedded in these sectors, it is much harder to reverse.

Bangladesh Bank's own forecasts reinforce these concerns. It projects headline inflation at 8.9 percent by December 2026 and 8.6 percent by June 2027, both above the government's FY27 ceiling of 7.5 percent. Even under the central bank's baseline scenario, inflation is not expected to return to target within the policy horizon. A policy expected to miss its inflation objective can hardly be described as sufficiently contractionary.

This is not to suggest the Bangladesh Bank has ignored inflation. Since October 2024, it has kept the policy rate at 10 percent, helping to cool private credit demand and contributing to some disinflation. But the real policy stance should be judged against actual and expected inflation. With inflation still close to 9 percent, the real policy rate is only marginally positive. Based on expected inflation through June 2027, it becomes an even weaker anti-inflation signal.

Financial conditions also do not appear uniformly tight. The MPS notes that lending and deposit rates edged down during the second half of FY26. The weighted average lending rate fell from 12.03 percent in December 2025 to 11.96 percent in April 2026, while the deposit rate slipped from 6.34 percent to 6.24 percent. The real lending rate declined from 3.5 percent to 2.9 percent, while the real deposit rate fell further to negative 2.8 percent. Negative real returns weaken incentives to save and continue to erode household purchasing power.

The strongest restrictive feature is weak private sector credit growth. Private credit is estimated to have grown by only 5.5 percent in June 2026, far below earlier projections, and is expected to reach just 8 percent by June 2027. This reflects subdued demand, uncertainty and tighter borrowing conditions. But weak private credit alone does not prove monetary policy is appropriately calibrated. It may also reflect banking sector stress, rising non-performing loans, greater risk aversion and banks' preference for investing in government securities instead of lending to businesses.

That distinction matters. If credit is weak because banks are impaired and firms remain cautious, monetary transmission is not working as intended. Bangladesh could then face the worst of both worlds: weak growth alongside persistent inflation.

Public sector credit adds another complication. While private credit remains subdued, public sector credit is projected to grow by 17.2 percent by June 2027, while broad money growth is expected to reach 13 percent. This does not suggest a particularly tight monetary environment. Instead, it points to a policy mix that seeks to curb inflation while supporting growth and accommodating fiscal needs.

The Tk 60,000 crore stimulus and refinancing package further complicates the picture. Its objectives are understandable, given uneven economic recovery and weak industrial activity. But from an inflation perspective, it sends mixed signals. Of the package, Tk 41,000 crore will come from surplus banking liquidity and Tk 19,000 crore from the Bangladesh Bank. Subsidised lending at below-market rates eases financial conditions for selected sectors, making the overall stance less restrictive than the headline policy rate implies.

Bangladesh's inflation is not driven by demand alone. The MPS rightly highlights supply chain inefficiencies, energy prices, exchange rate movements, fertiliser costs and global geopolitical shocks. Even so, monetary policy cannot afford ambiguity. When inflation expectations remain elevated, the central bank must clearly signal that price stability is its overriding priority.

A more credible approach would not necessarily require higher interest rates. Instead, it

could involve tighter liquidity management, stronger sterilisation of foreign exchange purchases, clearer forward guidance, stricter limits on inflationary fiscal accommodation and tighter controls over refinancing schemes. The Bangladesh Bank should also explain what further action it will take if inflation remains above target through June 2027.

The current MPS is best seen as a balancing act. But in an inflationary environment, balance can become counterproductive. A barely positive real policy rate, easing market rates, negative real deposit returns, inflation projected above target, rising broad money, strong public sector credit growth and a large subsidised stimulus package together suggest the stance is not sufficiently contractionary to bring inflation under control.

The immediate risk is not monetary indiscipline but a gradual loss of credibility. If households and businesses come to expect inflation to remain close to 9 percent while policy changes little, those expectations may become entrenched. At that point, reducing inflation will require much more painful measures.

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