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MONTHLY MACROECONOMIC OVERVIEW

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Surging Inflation: Reaching an 11-Year High

Bangladesh Bank, the central bank, is poised to unveil the monetary policy for the fiscal year 2023-24 amid daunting economic hurdles. These challenges encompass surging inflation and a dwindling foreign exchange reserve.

In May, inflation spiked to a staggering **9.94 percent**, marking an 11-year record high. Consequently, the average inflation for the current fiscal year stands at **8.95 percent**, surpassing the revised target of **7.5 percent** by a significant margin. Non-food inflation is pushing the general inflation.

Transitioning to Interest Rate Targeting Framework

Bangladesh is implementing a new monetary policy shifting to tackle inflation and maintain supply-side interventions. The transition from monetary targeting to an interest-rate-targeting framework sets the policy-interest rate at **6.50 percent**, with a symmetric corridor of plus-minus 200 basis points. This ensures stability and aligns with the interbank call-money rate.

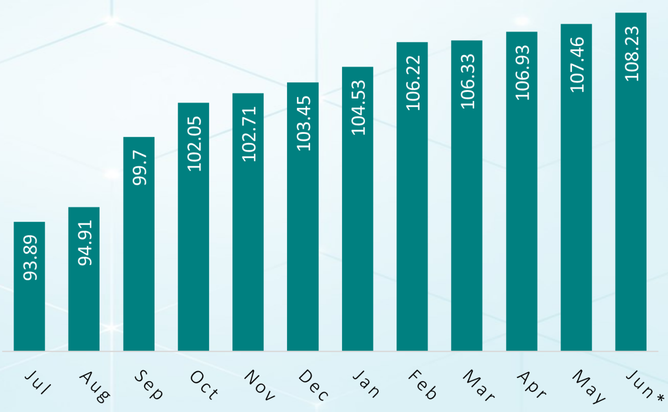
The policy rate has increased by 50 basis points to **6.5 percent**, and the standing deposit facility (SDF) rate is adjusted to **4.50 percent**. These measures aim to limit consumer price impact and foster a competitive banking sector with a market-driven lending rate.

Inflation
9.44 %

Remittances
$1.69 B

Private Sector Credit Growth
11.28%**

Monthly average Exchange rate (BDT/USD) in FY2022-23



*up to 25 June 2023

Reserve
$30.02 B

Export
$4.85 B

Import
$5.23 B**

Dollar Hits Record High in Bangladesh

The interbank highest buying exchange rate for the US dollar in Bangladesh hit a new record high, rising to Tk. 108.7. This surge in the interbank dollar rate is primarily due to the rise in remittance rates. The Association of Bankers Bangladesh and Bangladesh Foreign Exchange Dealers' previously increased the remittance dollar rate by Tk0.50 to Tk108.50. The monthly average exchange rate increased to Tk.108.23 in June 2023 which was Tk.92.03 in last June. The taka depreciated by nearly 18 percent in the last 12 months.

Falling Reserves and Import Control Measures

The Bangladesh Bank projects an increase in reserves to **$31.5 billion** in 2023-24 from the current level of around $30.02 billion (June 2023), which is significantly lower than the $41.44 billion recorded in June of the previous year. Moody's, a global ratings agency, expects gross foreign exchange reserves to remain below **$30 billion** for the next few years. A **29% decline** in reserves over the past year, driven by higher-than-usual imports and increased global commodity prices, has led to import control measures by the government. This has resulted in supply shortages and price acceleration in the local market, creating challenges for businesses reliant on imports.

JUNE AT A GLANCE

- According to the Bangladesh Bank's latest Monetary Policy Statement (MPS), achieving the **7.5%** GDP growth target may be challenging due to high inflation in developed economies and global uncertainties.
- Despite improvements in supply chains and moderated commodity prices, the high inflation and global uncertainties are expected to impact Bangladesh's economic recovery in the first half of FY24.
- Higher depreciation in Taka against greenback will be eased gradually.

- The budget for the fiscal year 2023-24 is estimated at **Tk7.61 lakh crore**, equivalent to **15.2 percent** of the GDP.
- This includes allocations of **Tk 4.36 lakh crore** for operating and other sectors, and **Tk 2.63 lakh crore** for the Annual Development Programme (ADP).

- The proposed budget includes a total revenue estimate of **Tk 5 lakh crore**, with **Tk 4.30 lakh crore** to be collected through the National Board of Revenue and **Tk 70 thousand crore** from other sources . Budget deficit of Tk. 1.02 lakh crore will be financed from external sources and 1.55 lakh crore from domestic sources.

- According to Export Promotion Bureau (EPB) data, the total RMG export for the July -May period of fiscal year 2022-23 has reached **$42.63 billion**, showing a 10.67% YoY growth. Of this amount, **$21.22 billion** was exported to the EU market, accounting for **49.78%** of the total export.

- The Bangladesh Bank plans to introduce a market-driven reference lending rate, called SMART, for all types of bank loans. This replaces the previous lending-rate cap and aims to promote competition and a favorable lending environment.

- Under the monetary policy, the broad money target has been reduced to **9.5%** until December 2023, while the domestic credit target has been set at 16.9%, both adjusted from the previous estimations.

- Credit to the public sector has increased to **43%**, and credit to the private sector has decreased slightly to **10.9%**, compared to the June 2023 estimations.

- The SMART rate, based on the six-month moving average rate of Treasury bills, will be announced monthly on the BB website. Banks and non-bank financial institutions will have different margin rates, with up to 3.00% for banks and up to 5.00% for NBFIs.

** The figures on foreign exchange reserve and exchange rate are of June and headline inflation, export, remittances are of May while import and private sector credit growth, are of April. All data have been collected from Statistics Department, Bangladesh Bank.

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