

## A slight down in inflation

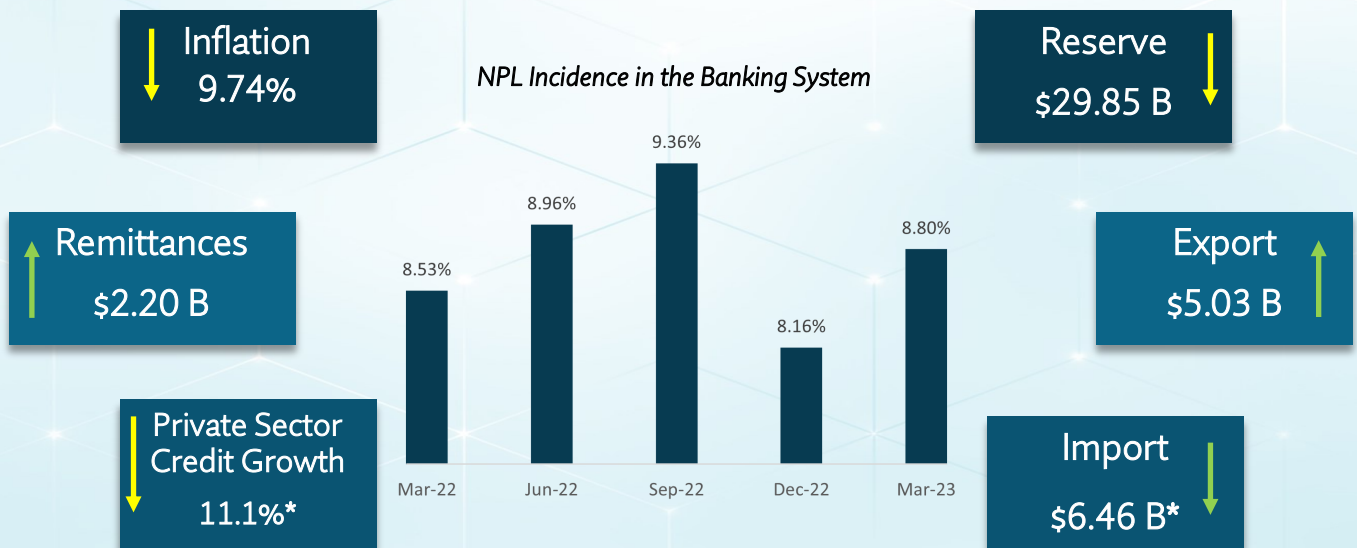
New fiscal year started with major macro-economic challenges persisting since last fiscal year. Deepening foreign currency shortages and increase in reserve money may be considered a contributing factor to the inflationary pressures. Headline inflation in June slipped down by 20-basis points in June.

Consequently, 12-month average inflation for FY2022-23 stands at 9.02 percent. During June, food inflation at rural areas is 70 basis point higher than that of urban areas, having implication for food security and cost of living.

## Rural and industrial segments showing resilience

Rural credit for agriculture and non-farm sectors declined by BDT 439 crore in May from April. However, over the past 11 months, there was a 13% increase in credit disbursement. Notably, the recovery rate consistently exceeded the disbursed amount, reflecting borrowers' responsible repayment practices.

Additionally, during Q4 2022, the industrial term loan recovery rate surpassed the disbursement rate, signifying a stable industrial sector. Despite the May setback, these trends indicate positive prospects for Bangladesh's economy, with rural and industrial segments showing resilience and contributing to overall economic growth and development.



## Bangladesh's Exports Surge in Positive Trend

In June 2023, Bangladesh experienced a positive trend in exports, with receipts amounting to US\$ 5.03 billion, showing a 2.5% increase from June 2022. The positive momentum extended over the period from July 2022 to June 2023, where export receipts surged by US\$ 6.95 billion (14.30%) compared to the same period in the previous year. This growth reflects the country's successful efforts in boosting international trade and diversifying its export markets. The increasing demand for Bangladeshi products globally contributes to economic growth, job creation, and overall development in the nation's economy.

## Savings Schemes: Mixed Growth and Decline

In May 2023, there was a significant 24.1% increase in total investments under Bangladesh's National Savings Schemes, including Sanchayapatra, Post Office Savings Bank, NRB Bonds, and others, amounting to Tk. 6,680 crore compared to April 2023. However, the overall trend for the period from July 2022 to May 2023 showed a decrease in total investment by Tk. 22631.5 crore, which is a decline of 23.3% compared to the same period in the previous year. Despite the monthly surge, the longer-term data indicates a notable contraction in investments, potentially reflecting changing economic conditions and investor sentiments.

## JULY AT A GLANCE

- ⇒ IMF expects a decline in global headline inflation over the next two years.
- ⇒ The **US Federal Reserve and the European Central Bank (ECB)** have both raised interest rates to combat inflation. The Fed increased rates by 0.25%, reaching 5.25-5.50%, the highest since 2007. US recession is no longer predicted. The ECB raised rates for the ninth time, with a deposit rate of 3.75% and a main refinancing rate of 4.25% - the highest since 2000. Both central banks aim to manage inflation while monitoring economic conditions closely.
- ⇒ **Service sectors slowed**, impacting US and Eurozone business. Progress in curbing inflation with falling input prices and hiring slowdown.
- ⇒ To cope with the **shortage of greenback dollars**, the central bank escalated dollar sales to banks during FY22 to support the import sector. By the end of FY22, a record \$7.62 billion was sold. Surprisingly, in FY23, this record was more than doubled, showing the severity of the crisis.
- ⇒ Recommend adopting a **comprehensive approach to BOP management**. Balance demand-side measures with supply-side incentives for exporters and remittances, fostering stability and mitigating risks. Enhance economic resilience and navigate fluctuations effectively.

- ⇒ Bangladesh's Duty-Free Quota-Free access to the **Australian market** won't be immediately affected after **LDC graduation** as per the recent commitment to high commissioner. Negotiations will play a crucial role in determining the specific outcomes. BGMEA President focused on **transformation in the apparel sector** of Bangladesh.
- ⇒ A negative outlook implies that **S&P Global Ratings** believes there is an increased risk that Bangladesh may face challenges in managing its external debt and financing needs in the future. This could be a result of various factors such as declining foreign reserves, **a high level of external debt, lower export earnings**, or other external economic vulnerabilities.
- ⇒ The Bangladeshi banking sector is facing challenges with irregularities, leading to a rise in **Non-Performing Loans (NPLs)** reaching Tk 131,621 crore by March 2023, up from Tk 22,480 crore in 2009. Authorities' inaction adds to concerns about financial stability.
- ⇒ According to a senior official from **BSEC**, the stock market **regulator plans to remove the floor price** once the economy stabilizes and ensures the security of investors' investments. However, its withdrawal indicates the regulator's confidence in the market's stability.

- ⇒ In the dynamic world of venture funding, Q2 2023 witnessed a global decline of 18%, impacting Asian startups by 27%. Meanwhile, Bangladeshi startups secured USD 6.8 Mn in Q2 and USD 43.3 Mn in H1 2023, showing a 50% drop from the previous year. Despite this, the logistics and mobility sector received substantial funding, indicating a growing demand for innovative transportation solutions in Bangladesh.

\* The figures on point to point inflation, export, remittances are of June while import and private sector credit growth, are of May. Foreign exchange reserve data is as of 19 July 2023. All data have been collected from Statistics Department, Bangladesh Bank and Report of World Economic Forum.

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