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Monthly Macroeconomic Overview

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Bangladesh Bank Approves Digital Bank Guideline

The Bangladesh Bank has sanctioned a guideline for Digital Banks, requiring a **minimum paid-up capital of BDT 125 crore**. These banks will operate under the Banking Company Act 1991 and adhere to the Bangladesh Payment and Settlement System Regulations, 2014. The guideline mandates a minimum sponsor shareholding of BDT 50 lakh, extendable in certain cases. Digital Banks, distinct for their online operations and absence of physical branches, aim to modernize banking in a sector with 61 conventional banks. The launch follows global trends and aligns with the country's budget speech announcement.

Battling Elevated Inflation Amid Challenges

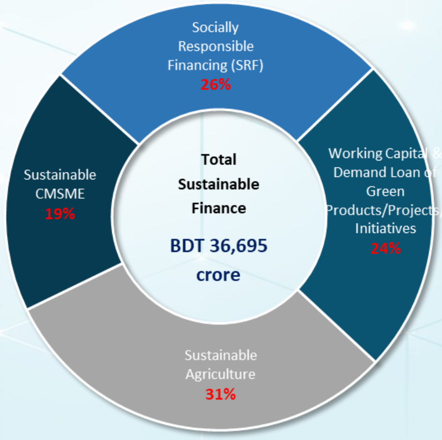
Despite falling inflation rates in neighboring South Asian nations, Bangladesh **grapples with high consumer-price index (CPI)** driven by multiple factors, analysts observe. While commodity price drops globally have had little impact on Bangladesh's inflation, internal factors including demand-supply mismanagement, supply chain issues, business practices, and governance are contributing to the country's elevated CPI. The contrast is highlighted by substantial decreases in inflation rates in Sri Lanka. Economists stress the need for effective macroeconomic management to address the ongoing inflationary pressure.

Inflation ↓
9.69%

Remittances ↓
$1.97B

Private Sector Credit Growth ↓
10.57%*

Sustainable Linked Finance (SLF)



Reserve ↓
$23.07 B*

Export ↓
$4.59 B

Import ↓
$4.73 B*

Promoting Sustainable Financing for Green Projects

Bangladesh Bank drives eco-friendly initiatives through Sustainability, urging banks to allocate funds for projects reducing carbon footprint. The program's indicators evaluate banks' dedication to sustainability. Seven banks and four financial institutions received Sustainability Ratings, prioritizing solar energy, reduced power usage, and green manufacturing. By March 2022, BDT 36.69 billion (13.77%) was assigned to these projects. The initiative encourages responsible banking for a greener future.

Forex Reserves Depleted by Flaws

A **17-month effort** to restore Bangladesh's foreign exchange reserves, which fell from **$38 billion to $23 billion**, faced challenges. A faulty exchange rate system diverted dollars to informal channels. Low lending rates boosted imports, while global rate increases deterred private borrowing. Financial account deficits and credit rating downgrades eroded foreign investor confidence. Exchange rate discrepancies hindered remittances and exports, impacting reserves. Despite initiatives, reserves remain depleted due to multiple factors including trade credit discrepancies, geopolitical concerns, and inadequate dollar supply.

AUGUST AT A GLANCE

- Bangladesh's goods and commercial services exports as a percentage of GDP **declined to 12.5%** in 2022 according to World Trade Statistical Review 2023., indicating a **2.3% drop in 12 years among 46 least developed** countries.
- This low ratio, attributed to lack of export diversification and reliance on garments, poses challenges for economic growth and LDC graduation. Experts emphasize the need to increase competitiveness and explore non-garment sectors like IT for sustainable export expansion.

- In July, Bangladesh's inflation **slightly dipped to 9.69%** from June's 9.74%, still surpassing the record average of 9.02% in FY23. Food inflation rose to 9.76% from June's 9.73%, affecting urban areas more. High inflation persists, posing challenges for citizens in the new fiscal year, prices.

- In the first month of fiscal 2023-24, the Annual Development Programme (ADP) implementation rate in Bangladesh rose, with only **1.27% of allocations spent**. This rate was higher than the previous fiscal years, which reported 0.96% and 1.14% implementation rates.

- Bangladesh Bank's **dollar sales from foreign reserves persist**, despite implementing a unified exchange rate, as the gap between official and market rates widens to over BDT5 per US dollar.
- Banks deviate from central bank rate of BDT109.50, opening LCs at BDT114-116.

- The central bank's FY2022-23 **operating profit declined by around 95%**, impacted by lower foreign exchange gains due to fluctuating rates. Despite high government lending, profits were affected by currency rate fluctuations.

- **Fifty-two companies have submitted applications for digital bank** licenses to Bangladesh Bank, surpassing expectations. The central bank will now scrutinize the applications and decide on approvals. This surge in interest highlights a rush to establish digital banks amid challenges faced by traditional banks.

- Bangladesh's central bank is taking steps to curb non-performing loans (NPLs) and banking sector irregularities, aligned with an IMF agreement. Long-term loan classification overdue period will be **reduced from six to three months**. Fingerprint verification for loan guarantors and penalty interest on overdue loans are also being enforced.

- The banking sector's **total risky loans reached BDT 377,922 crore** by the end of last year, including non-performing loans, rescheduled loans, and restructured written-off loans. This trend raises concerns about the sector's health and sustainability, attributed to various factors including policy issues and frequent loan rescheduling.

* The figures on point to point inflation, export, remittances are of July while import and private sector credit growth, are of June. Further, reserve is the latest amount of 31th August, 2023. All data have been collected from Statistics Department and Sustainable Finance Department, Bangladesh Bank.

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