Unnayan Shamannay

MONTHLY MACROECONOMIC OVERVIEW

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Taka Depreciation Drives 50% of Inflation Spike

Bangladesh's economic turbulence, underscored by a 9.02% surge in the Consumer Price Index (CPI) during FY23, lays bare the repercussions of a 20% depreciation of the taka. The International Monetary Fund (IMF) boldly implicates this currency devaluation for half of the inflationary onslaught, marking the highest average inflation rate in 12 years. Beyond temporary factors, the compounding impact of global price hikes, escalating local fuel and energy costs, and the depreciating currency mandates a decisive response. The IMF suggests a further tightening of monetary policy as an imperative step to realign inflation with the nation's target range.

Garment Exports Face Moderate Recovery in 2024

Bangladesh's garment exports are projected to grow moderately at 7-10% in 2024, recovering from a sluggish 4.35% growth in Jan-Nov 2023. Challenges like global economic slowdown and inflation affected the traditionally robust sector. The expected rebound is linked to the US halting high-interest rates, potential Federal Reserve rate reduction, and increased demand after festive season sales. Challenges in 2023 included labor unrest, currency depreciation, and energy supply issues. Despite hurdles, Bangladesh aims for a $100 billion garment export by 2030, emphasizing diversification and global competitiveness.

Inflation
9.42 %

Forex Reserve BPM6
$21.45 B#

Remittances
$1.93 B

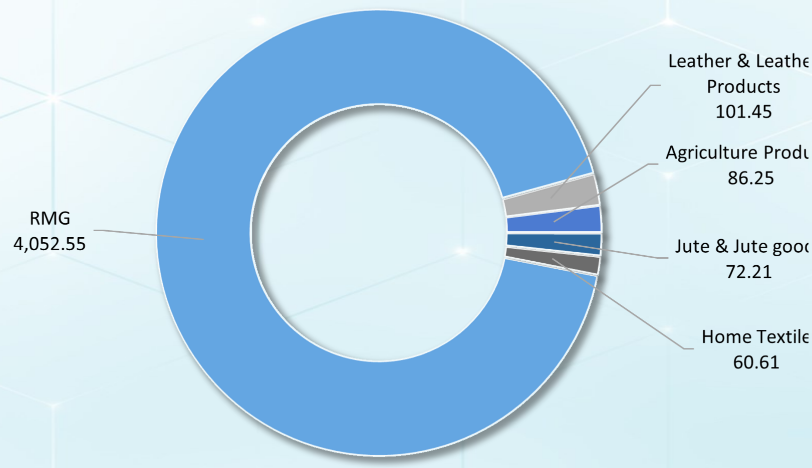
Export
$4.78 B

Agri and Rural Loan
৳3319.61 crore#

Import FoB
$5.52 B*

Arrow sign indicates the changes in the situation compared to previous month

November 2023's Top Export Performers
(Value in million USD)



ADB Trims Bangladesh's Growth Forecast to 6.2%

ADB has revised down the economic growth forecast for FY2024 to 6.2% from the initial 6.5%. This adjustment is due to moderate growth in exports and manufacturing, economic slowdown in key export markets, energy shortages, and high inflation. Upside risks to the forecast include receding uncertainties over January's elections. Inflation forecasts for 2024 were slightly revised upward to 3.6%, influenced by ongoing price pressures and assumptions of higher international oil prices. ADB emphasizes uncertainty in oil markets, citing geopolitical tensions and global economic conditions as crucial factors.

Forex Shortages Imperils Poultry Farms' Corn Supply

Despite a projected 7% rise in local corn production to 52 lakh tonnes, the industry grapples with credit challenges affecting mills of all sizes. Soaring feed costs, escalating Tk 6,000 per tonne from October to November 2023, led many small and medium-sized farms to shutter operations, causing a 20% spike in poultry feed prices. A USDA report foresees a 41% plunge in Bangladesh's corn imports to 12 lakh tonnes in the 2023-24 marketing year. Diminished demand in poultry, aqua, and other sectors, along with import challenges amid forex shortages, contributes to this decline. Farm closures and credit obstacles may worsen the situation in 2024.

DECEMBER AT A GLANCE

- The US Department of Agriculture (USDA) has adjusted its forecast for Bangladesh's rice production in Marketing Year 2023-24, citing partial damage to the Aman rice crop caused by cyclone Midhili. Anticipating a slight decline, the USDA projects farmers to harvest 3.63 crore tonnes, down from the previous year. Delayed rainfall during Aman cultivation led to supplementary irrigation, increasing costs for farmers. The cyclone affected 5-10% of standing Aman paddy in southern coastal districts, with minimal damage. The USDA revised Aman rice production downward by nearly 5%, while projecting increased production for Aus and Boro rice. Rice import and wheat forecasts were also adjusted.

- Bangladesh's external debt hit $97.01 billion in 2022, soaring 6.59% from the previous year. Despite a 3.4% drop in low- and middle-income countries' debt, Bangladesh's figures have doubled since 2010. The World Bank's report highlights concern over rising debt servicing costs diverting funds from vital sectors.

- China is now Bangladesh's fourth-largest foreign loan provider, contributing nearly 10% annually, exceeding $1 billion. This surge accounts for 40% of China's total lending in the last four fiscal years. Concerns include shorter repayment periods, exclusive contractor selection, and potential impacts on project quality, raising geopolitical implications.

- Bangladesh faces escalating debt repayment risks as the IMF projects its debt service-to-revenue ratio to surpass 100% in the current fiscal year. Challenges like missed tax targets, slowed revenue growth, and global economic uncertainties raise concerns, emphasizing the urgency for sustained fiscal responsibility and revenue generation.

- Bangladesh's interest payments on foreign debt surged 136.70% to $562 million in the first five months of the fiscal year, driven by increased disbursements for key projects. Rising global fund costs and a 25% Taka depreciation also contribute to higher interest expenses, while foreign loan utilization declined 14% to $2.12 billion.

- Bangladesh experiences a 22% YoY surge in remittance inflows, totaling $1.57 billion in the first 22 days of December, likely surpassing $2 billion by month-end. Favorable exchange rates, reaching Tk122 per dollar, contribute to the increase, and resist the overall 4.19% decline in fiscal year remittances.

- Bangladesh's central bank concludes December with net reserves exceeding the IMF's benchmark at $17.7 billion. Despite record sales of $6.7 billion to banks in July-December 2023, the central bank faces a dollar shortage. Dollar rate disparities persist, with some banks collecting remittances at Tk120 to Tk122.

- CEBR forecasts Bangladesh as the 20th global economy by 2038, backed by sustained growth. The prediction anticipates 6.8% annual GDP growth from 2023-28, followed by an average 6.2% in the subsequent decade. Despite challenges, CEBR sees Bangladesh climbing 17 spots in the World Economic League Table by 2038, reaching 23rd by 2033.

* The figures on point to point inflation, export, remittances are of November while import are of October Further, reserve is the latest amount of 28th December 2023. # Agri and rural loans disbursement are of November 2023. All data have been collected from Statistics Department, Bangladesh

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