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MONTHLY MACROECONOMIC OVERVIEW

Volume# 02| Issue # 01 | January 2024

Bangladesh Sees 8-Month Low Inflation, Food Prices Drop

Bangladesh recorded an 8-month low inflation of 9.41 percent in December 2023, primarily due to reduced food prices. The decline in food inflation by 1.18 percentage points to 9.58 percent is a positive development, but non-food inflation rose by 36 basis points, posing challenges for consumers in healthcare and transportation expenses. The rural point to point CPI decreased slightly lower compared to urban. Despite the slight improvement, economists express concerns about the continued hardship for low and middle income people, emphasizing the need for effective measures to address inflation and the ongoing dollar crisis. Wage growth remains below the inflation rate, impacting consumers' purchasing power.

Bangladesh Sees 36% YoY Drop in FDI Amid Uncertainty

Bangladesh experienced a significant decline in foreign direct investment (FDI) during the third quarter (Jul-Sep) of 2023, with a 39 percent decrease in gross FDI compared to the same period in 2022. The unstable exchange rate and political uncertainty contributed to a lack of confidence among external investors. The net investments saw a reduction from $1.1 billion to $670 million. The volatile nature of Taka against US dollar and global economic challenges were cited as factors impacting FDI inflows, resulting in a financial account deficit and heightened concerns about economic stability including business confidence.

Global economic situation:

- **US Job market** is sparking and wages are rising too. Sectors like hospitality and healthcare are hiring
- The Federal Reserve faces a challenge as core inflation stays well above its 2% target, in contrast to the favorable inflation situation in the **Eurozone**. However, **German economy** failing to grow in both the second and third and declining by 0.3% in fourth quarter.
- Shipping costs from China to Northern Europe quadrupling raises several concerns like **higher product costs** , **profit margins squeezed** , and **supply chain disruptions**.
- **Global gas demand** is expected to jump 2.5% in 2024, with supply forecast to be tight again.

Inflation 9.41 %	Forex Reserve BPM6 $19.94 bn*
Remittances $1.98 bn	Export $5.31 bn
Agri and Rural Loan Disburse ৳3,046 cr#	Import C&F $5.89 bn*

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

Expats Remit $1.36 Bn in First 19 Days of 2024, Up 3% in 2023

Expatriates sent $1.36 billion through legal channels in the initial 19 days of 2024. Remittances increased by nearly 3 percent to $21.92 billion in 2023, compared to $21.28 billion in 2022. The data shows various channels, including state-owned and private banks, were used for remittance transactions. Despite growth, remittance might not directly mirror manpower export trends. December 2023 recorded a six-month high of $1.99 billion in remittance earning. During second half of 2023, the manpower export increased by 32% compared to the corresponding period of last year, showing good earning prospects.

Bangladesh Meets IMF Targets, Lags in Reserves

Bangladesh has fulfilled all but one quantitative target set by the International Monetary Fund (IMF) for December 2023 to qualify for the third tranche of the $4.7 billion loan. The government missed the minimum net international reserves (NIR) target by $58 million. However, it met the tax revenue collection target, which was previously missed. The IMF's review mission for the third instalment is expected in March, and despite the NIR shortfall, a central bank believes it won't hinder the release, citing a minimal gap. The other four quantitative targets and structural conditions have been met.

JANUARY AT A GLANCE

- Bangladesh Bank introduces tighter monetary policy amid inflation concerns responding to elevated CPI and a liquidity crunch, the Bangladesh Bank unveiled a new monetary policy for the second half of the fiscal year. The key policy rate was raised by 25 basis points to 8 percent, aiming to make money more expensive for banks. The central bank also reduced money supply targets, including private sector credit growth. Additionally, plans for a "crawling peg" system to stabilize the exchange rate has been revealed. The policy emphasizes inflation control over economic growth, intending to persist until inflation reaches a 6 percent level.

- Bangladesh Bank began printing money to pay for loans to banks using the special bonds . In order to pay off the debts acquired by the electricity and fertilizer industries, the government is issuing bonds, and five banks have already received bonds totaling roughly Tk 50 billion. Printing money can increase the money supply, potentially leading to inflation.

- To diversify exports, the National Board of Revenue will offer other export-oriented sectors the same resources available to garment exporters. The corporate tax rate has been lowered by the government to 10% for eco-friendly apparel manufacturing and 12% for non-green factories. Similar actions will be taken by the NBR for other export-oriented industries.

- Bangladesh's mobile internet subscriber base declined for four months in a row as a result of consumer pressure brought on by inflation and the regulator's ban on buying short-term plans. In December of last year, there were approximately 11.85 crore mobile internet users, down nearly 5 lakh from the previous month, according to data from the Bangladesh Telecommunication Regulatory Commission (BTRC)

- Persistently high inflation, exceeding 9 percent since March 2023, has significantly impacted corporate sales in Bangladesh. Industries ranging from consumer goods to technology face declines, attributing the slump to reduced purchasing power. Businesses express concerns over a swift recovery, citing challenging economic conditions and susceptibility to global economic and geopolitical developments.

- BPC's profits soared (Tk 45.86 billion!), but citizens grapple with inflation's bite. While government got a share, could resources be managed differently? BPC's continued success this year clashes with everyday struggles. Experts say adjusting fuel prices could offer relief. Open discussions and collaboration might hold the key to solutions that benefit both BPC and the community, ensuring shared prosperity.

- Short-term foreign loan inflows into the private sector fell precipitously by $11.45 billion, as reported by the nation's banking sector. As a result, the foreign exchange reserve continued to be depleted and the financial account deficit grew. **Central bank data shows there was a surplus of $525 million in the inflow of short-term loans compared to repayments in 2022.**

- The government's phasing out of cash incentives, including a big cut for garment companies, aims for WTO compliance by 2026. They has been providing incentive for 43 items. Business urged for cancel the decision in the current situation. However, experts thought that the broader support required beyond cash, like tackling business costs, fighting extortion and red tape. While garments currently gobble up 65% of these benefits, questions linger on support for other sectors. Will alternative measures fill the gap? Time will tell if this move helps exporters fly or clips their wings.

* The figures on point to point inflation, export, remittances are of December while import are of November. Further, FOREX reserve is the latest amount of 31st January 2023. # Agri and rural loans disbursement are of December 2023. All data have been collected from Statistics Department, Bangladesh Bank . For global update, International Energy Agency's data and Deloitte Global Economics Resource Center's reports were reviewed.

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