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EXCHANGE RATE AND FOREIGN EXCHANGE MARKET DYNAMICS



Monetary Policy Department
Bangladesh Bank



Editor

Mahmud Salahuddin Naser
Executive Director (Research)-2

Co-editor

Dr. Mohammad Monirul Islam Sarker
Director (Research), MPD

Key Contributors

Khan Md. Saidjada
Additional Director (Research)

Md. Monir Khan
Deputy Director (Research)

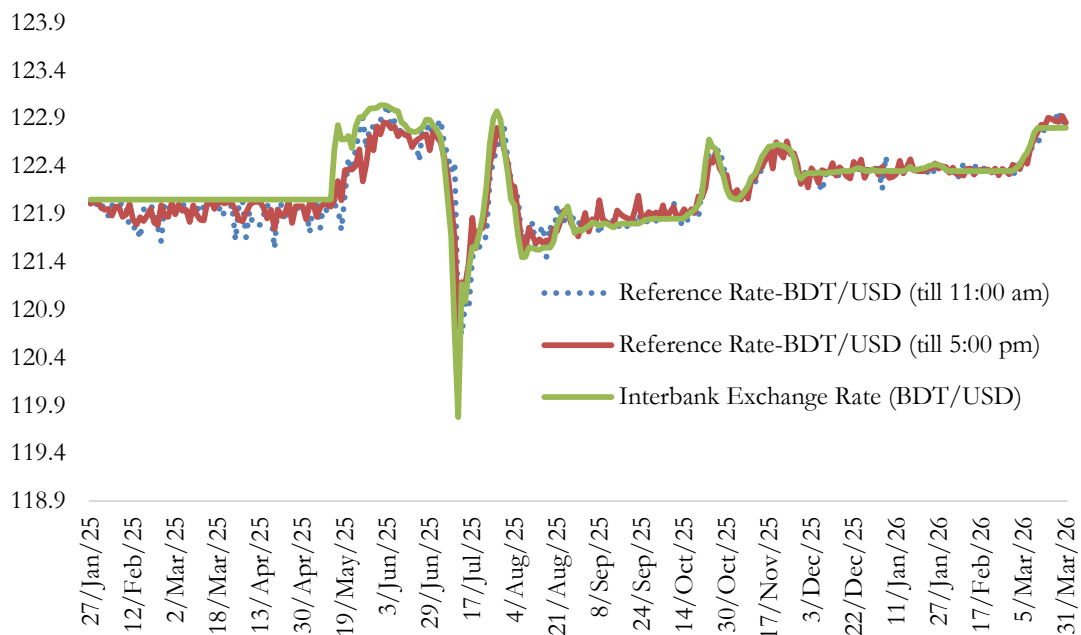
Sharmin Chowdhury
Assistant Director (Research)

Monetary Policy Department
Bangladesh Bank

Developments in Exchange Rates

- Despite the recent improvements in the balance of payment (BoP), the exchange rate of Bangladesh Taka (BDT) remained broadly stable with marginal depreciation in early-March 2026 amid heightened global uncertainty in the wake of war in the Middle East. The reference exchange rate¹ (till 5.00 pm) depreciated to BDT 122.80/USD at the end of March from BDT 122.30/USD at the end of February 2026, while the interbank exchange rate moved to BDT 122.75/USD from BDT 122.30/ USD following a similar path (Chart 1).

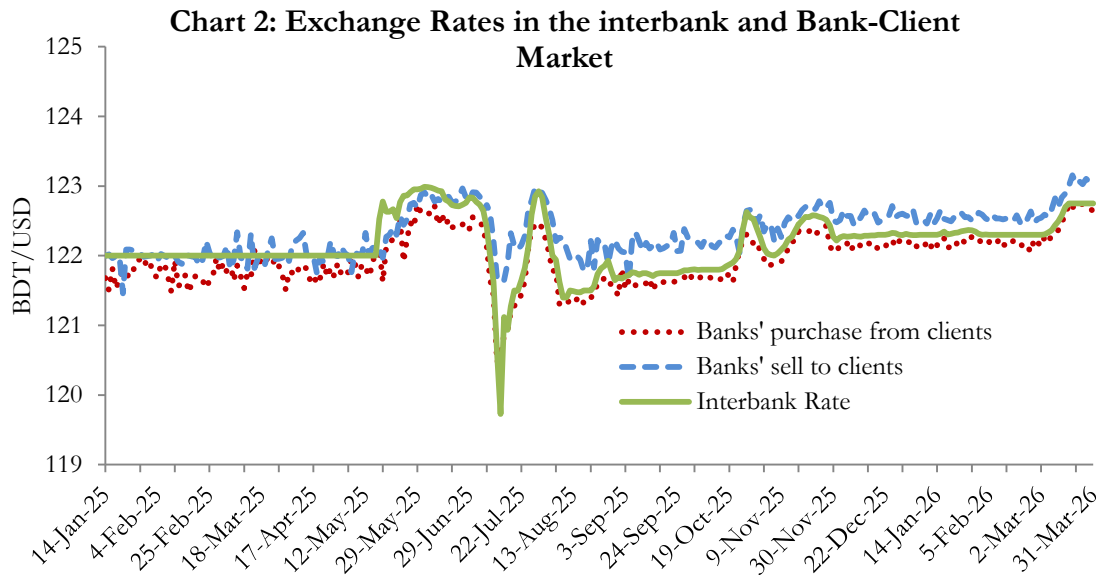
Chart 1: Trends in Exchange Rates



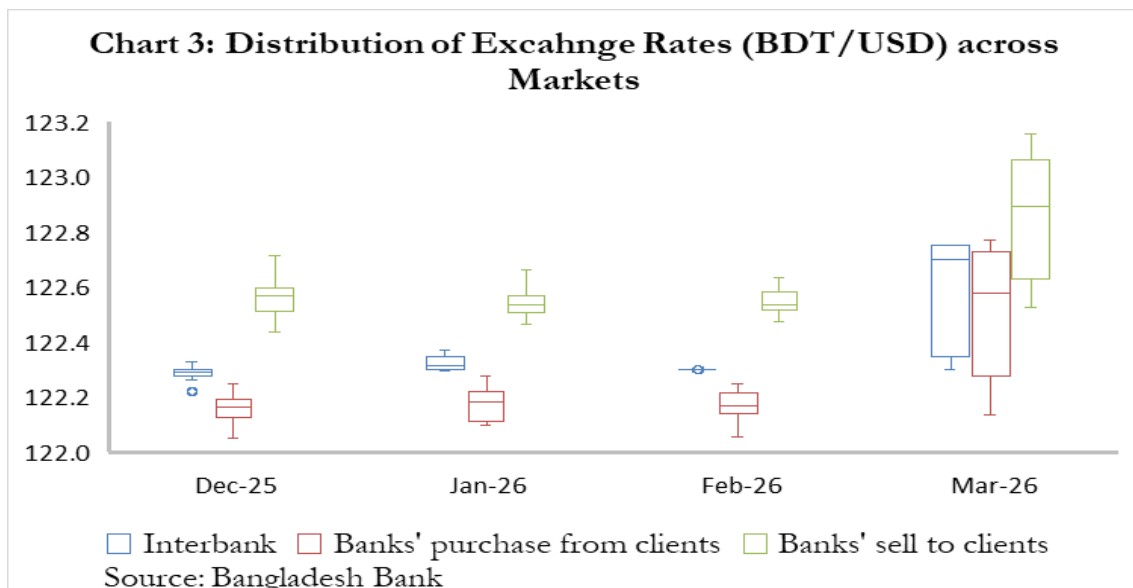
Source: Bangladesh Bank

- The fluctuation in the reference exchange rate originated mainly from the exchange rate for selling foreign currencies by banks to their clients (Chart 2), while exchanges rate in the interbank and for banks' purchase from clients witnessed low variability in this period.

¹ The Foreign Exchange Market Spot Reference Exchange Rate (RR) is defined as a weighted average of freely quoted spot exchange rates in the interbank market and buy-sell of foreign currencies between bank clients and authorized dealer (AD) banks. Bangladesh Bank publishes RR twice in a business day: in the morning using transactions before 11:00 am and in the afternoon using transactions until 5:00 pm.



- The box plot² presented in Chart 3 reveals that variability in the exchange rates increased considerably and rates moved within a wider range in March 2026 after a period of low variability since December 2025. However, the distribution of exchange rates in the interbank market and the rate at which banks purchase from clients had been skewed to the left in March 2026, while exchange rate in the banks sell to clients remained broadly symmetric.

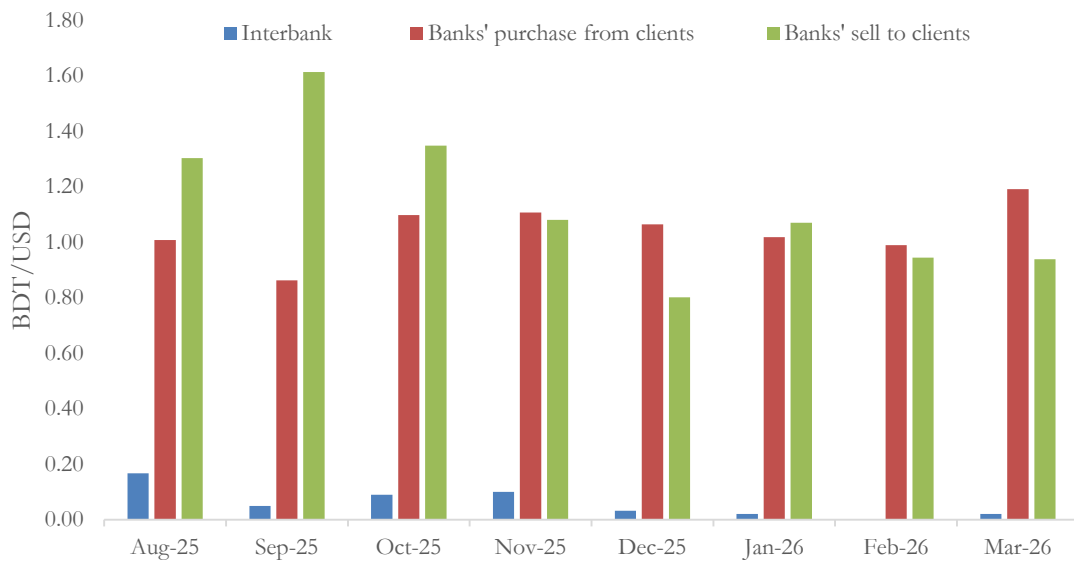


² A box and whisker plot is a graphical summary of data showing its minimum, first quartile, median, third quartile, and maximum helping to visualize the distribution and spread of values.

Spread of Exchange Rates

- Despite an improvement in the BoP in July-February of FY26, the global economic uncertainty emerged from the Middle East propagated in the foreign exchange market reflected in the daily average spread of spot exchange rates, defined as daily maximum minus minimum rate. While the spread in the interbank market and in the bank's sell to client remained stable, the spread in the bank's purchase from client market edged up on average to 1.19 BDT/USD in March 2026 from 0.99 BDT/USD in February 2026.

Chart 4: Daily Average Spread of Spot Exchange Rates
(Spread= day max. - day min.)



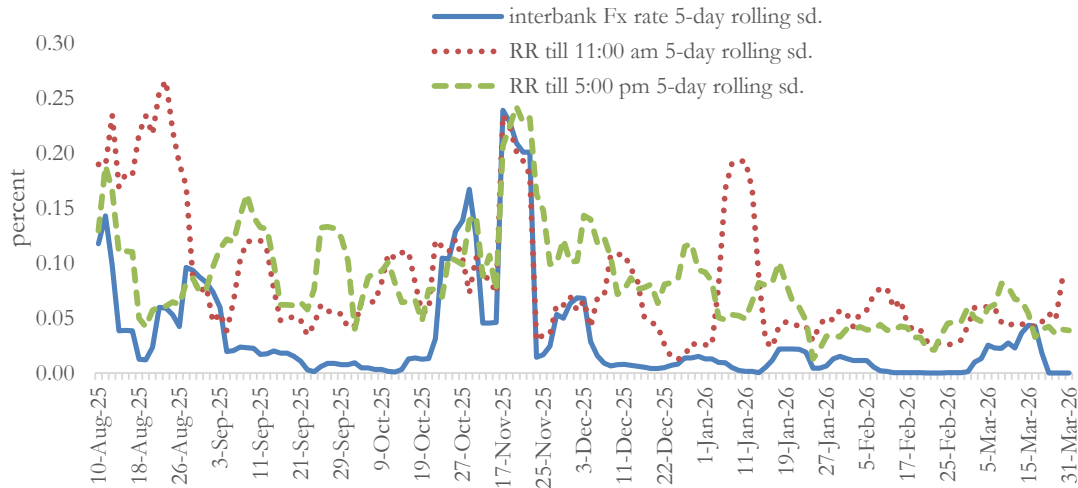
Source: Bangladesh Bank

Variability of Exchange Rates

- The variability³ of reference exchange rates and interbank spot exchange rate edged up on average in March 2026 (Chart 5), reflecting a mild pressure in the foreign exchange market in this period. However, the variability of the reference exchange rate based on transactions till 11:00 am and 5.00 pm showed some spike in March 2026, mainly because of variation in the exchange rates for Bank-client foreign exchange transactions.

³ Variability of exchange rate is defined as 5-day rolling standard deviation of daily return of exchange rate.

Chart 5: Variability in Reference Exchange Rates

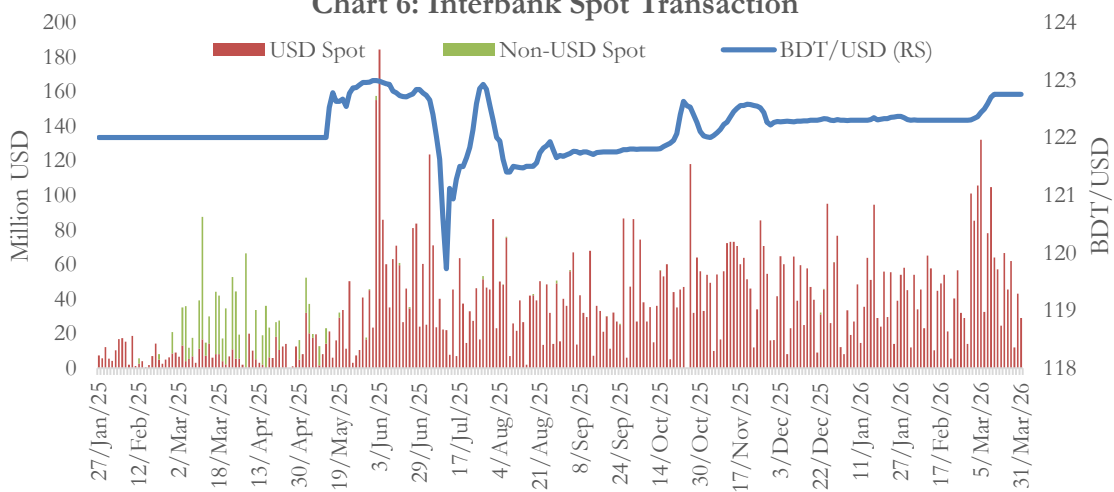


Source: Bangladesh Bank

Transaction Volume in the Interbank Foreign Exchange Market

- Interbank foreign exchange transactions in Bangladesh are comprised mainly of spot and swap transactions between authorized dealer (AD) banks, while forward transactions are generally infrequent and tiny in size.
- In the wake of growing global economic uncertainties, the volume of interbank spot and swap transaction edged up noticeably in March 2026 compared to February 2026 (Chart 6). The volume of daily average spot transactions escalate to USD 62.17 million in March 2026 compared to USD 37.27 million in February 2026. Although the volume of daily average interbank spot transaction edged up noticeably, its share in total interbank transaction (spot plus swap) dwindled to 38 percent in March 2026 from 41 percent in February 2026.

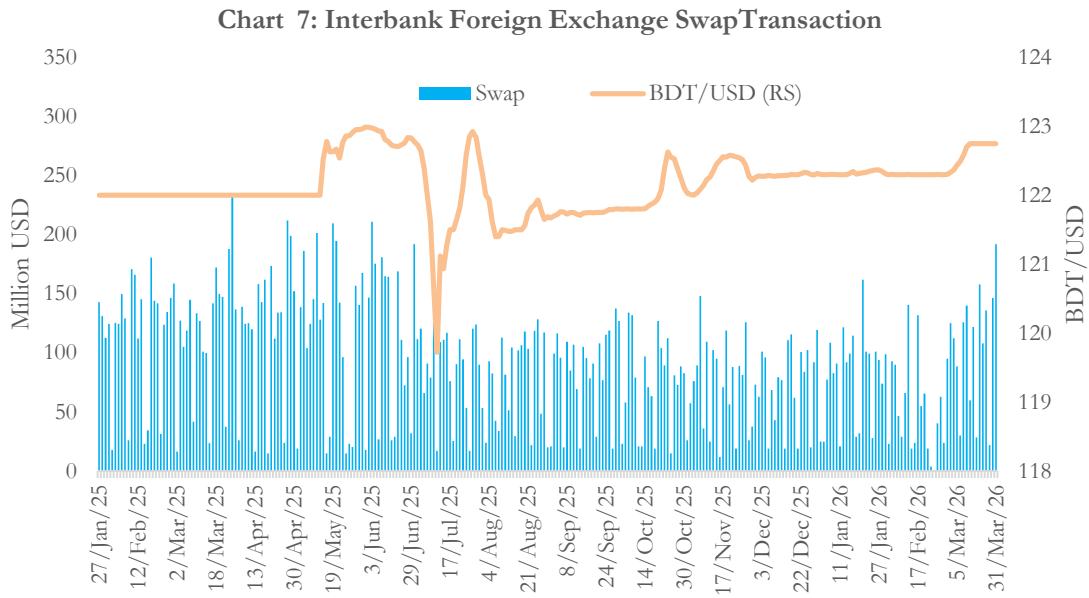
Chart 6: Interbank Spot Transaction



Source: Bangladesh Bank

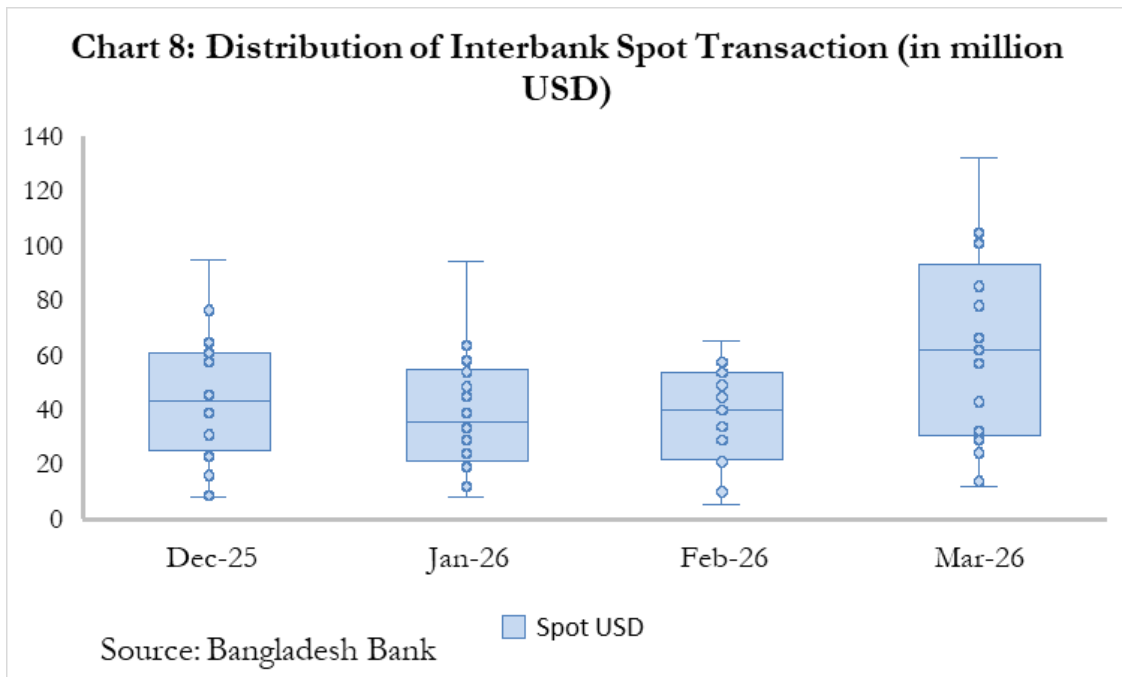
It implies that swap transaction increased at a faster rate than spot transaction amid growing war-driven uncertainties.

- Along with dominating the total interbank foreign exchange transactions, the volume and share of swap transaction also edged up markedly during the period under review (Chart 7). The average daily swap transaction prominently boosted to 100.82 million USD in March 2026 from 53.54 million USD in February 2026. Similarly, the share of swap transactions also climbed to 62 percent in March 2026 from 59 percent in February 2026.



Source: Bangladesh Bank

Distribution of Spot Foreign Exchange Transactions



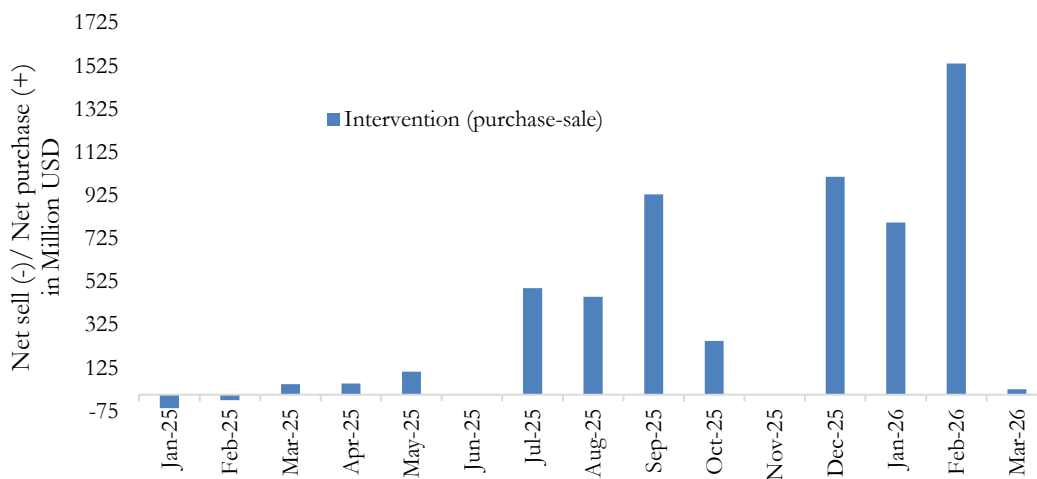
Source: Bangladesh Bank

- An increase in exchange rate flexibility and a rise in liquidity in the foreign exchange market led to a rise in interbank spot foreign exchange transaction volume on average in March 2026 with some fluctuation in daily transactions.
- In this month, the volume of daily spot USD transactions ranged from USD 12 million to USD 132.12 million.
- The distribution of daily spot USD transactions in March 2026, presented in Chart 8, remained broadly symmetric.
- Interbank spot transactions were entirely in USD. No non-USD spot transactions took place during this period.

Buy and Sell in the Foreign Exchange Market

- Since foreign exchange market has experienced gentle pressure which leads Bangladesh Bank (BB) to reduce the pace of its foreign exchange purchase in March 2026. As a part of cautious and prudent market management, BB has significantly reduced its purchase only to USD 25 million in March 2026 while the amount was USD 1535 million in February 2026.

Chart 9: BB's Intervention in the FX Spot Market

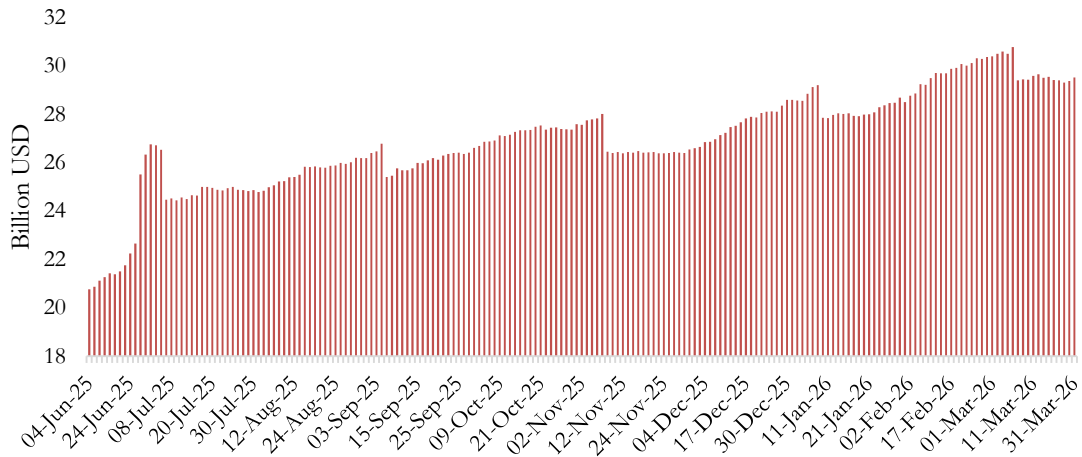


Source: Bangladesh Bank

Foreign Exchange Reserve

- In March 2026, Bangladesh Bank has made an ACU payment of approximately D1.37 billion to settle import liabilities for the January–February period. As a result, Gross Foreign Exchange Reserve (BPM 6) decreased in March 2026. Following the settlement of the ACU payment, the foreign exchange reserves have exhibited an upward trend for the rest of the days in March 2026.

Chart 10: Gross Forex Reserve (BPM 6)

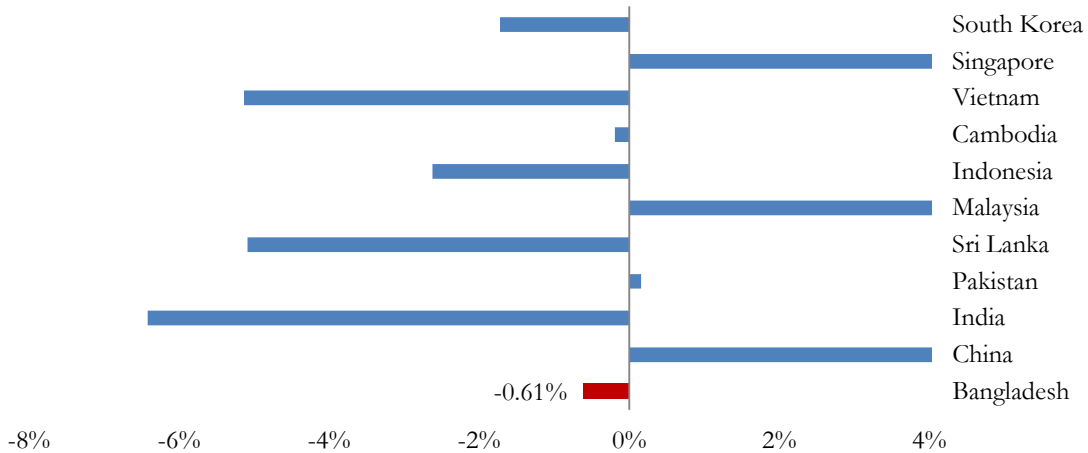


Source: Bangladesh Bank

Depreciation of Exchange Rate

- The interbank spot exchange rate depreciated marginally from BDT 122.30 per USD at the end of February 2026 to BDT 122.75 per USD at the end of March 2026, reflecting gentle pressure in the foreign exchange market supported by the increasing spot and swap transaction. However, on a year-on-year basis, the movement in the exchange rate resulted in a nominal depreciation of 0.61% against the US dollar in March 2026 (Chart 11).

Chart 11: Appreciation (+)/Depreciation(-) of Currencies vis-à-vis USD March 2026 over March 2025 (in %)

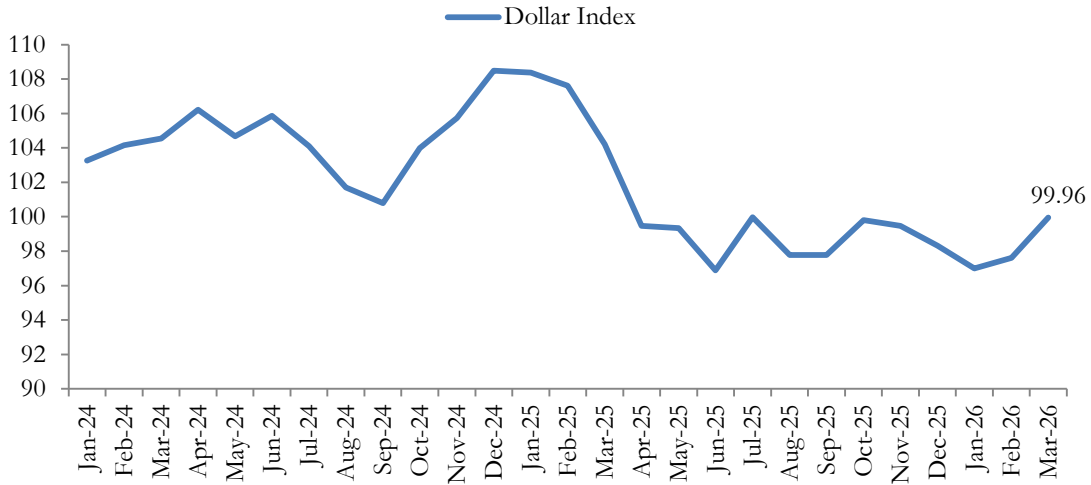


Source: Bangladesh Bank and IFS, IMF, central bank of respective countries

- Since January 2026, the dollar index has exhibited an upward trend, indicating a strengthening of the U.S. dollar against a basket of six major foreign currencies representing

key trading partners of the United States. Dollar index has increased to 99.96 in March 2026 from 97.61 in February 2026 (Chart 12).

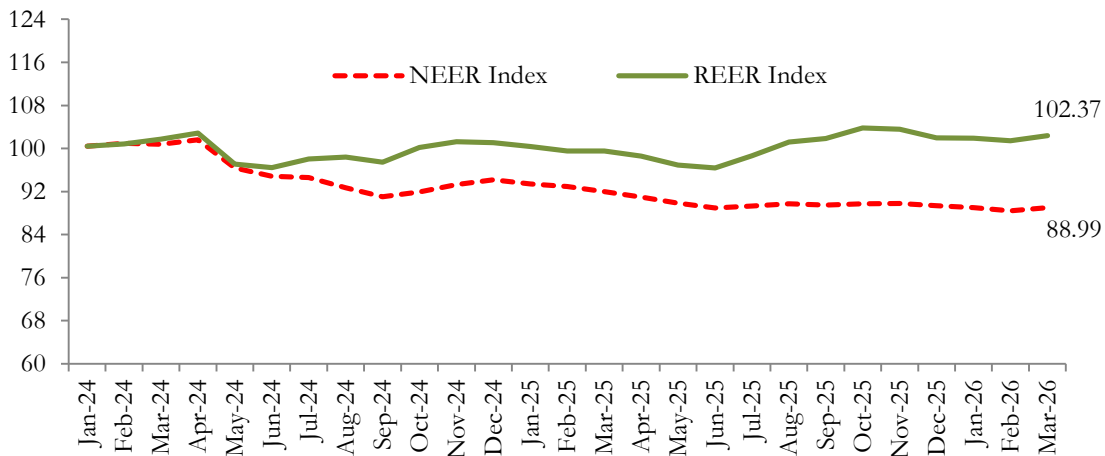
Chart 12: Dollar Index



Source: <https://www.marketwatch.com>

The value of the Nominal Effective Exchange Rate (NEER) index has appreciated in March 2026. It has become 88.99 in March 2026 from 88.44 in February 2026 indicating that the currency has strengthened on a trade-weighted basis against the country’s major trade partners. However, in March 2026, the NEER index recorded a year-on-year depreciation of 3.23%, indicating a weakening of the domestic currency against a basket of major trading partners’ currencies.

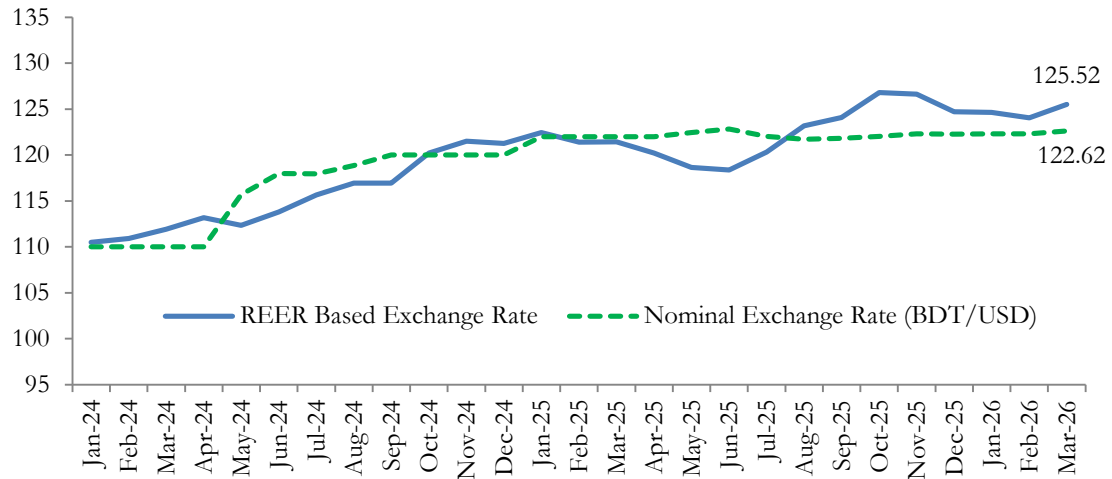
Chart 13: Movement of NEER & REER Index (Base: FY24 =100)



Source: Bangladesh Bank

- The Real Effective Exchange Rate (REER) has also witnessed 2.83% appreciation⁴ year on year basis due to a larger increase in the price level of (consumer price index) major trade partners of Bangladesh. The value of REER index has increased to 102.37 in March 2026 from 101.35 in February 2025.

Chart 14: Nominal vs. REER based Exchange Rate FY24=100



Source: Bangladesh Bank

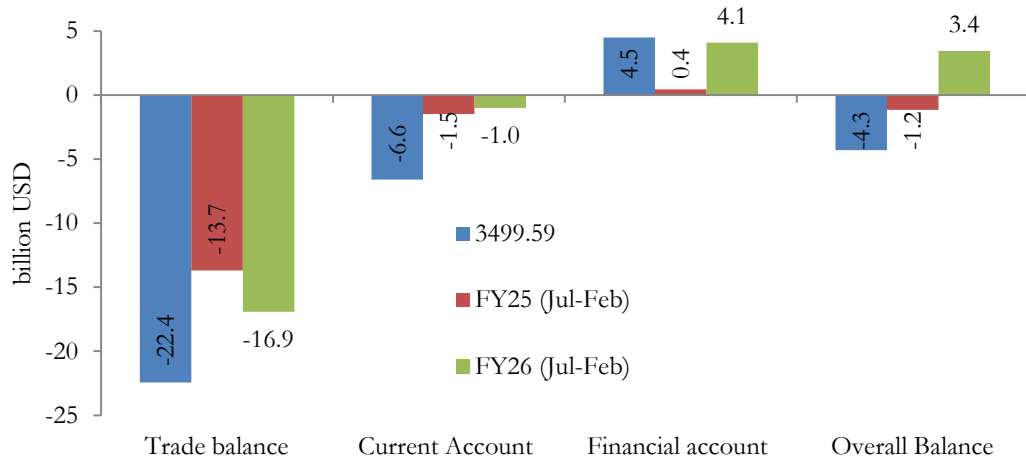
- As the value of the REER index is larger than 100, the REER-based exchange rate, which provides a sense of equilibrium exchange rate, moved above the nominal exchange rate, suggesting space for nominal depreciation of BDT (Chart 14). REER based exchange rate (USD/BDT) was 125.52 while Nominal exchange rate was 122.62 in March 2026.

Economic Fundamentals

Bangladesh’s Balance of Payments (BoP) position has improved markedly since FY25, with further gains in July–February FY26. The overall balance shifted from a USD1.2 billion deficit in the same period of FY25 to a USD 3.4 billion surplus in FY26, largely driven by a strong rise in the financial account surplus from USD 0.4 billion to USD 4.1 billion (Chart 1). The current account deficit also narrowed from USD 1.5 billion to USD 1.0 billion, supported mainly by higher secondary income, especially workers’ remittances.

⁴ An upward movement of the indices reflects appreciation and downward movement reflects depreciation.

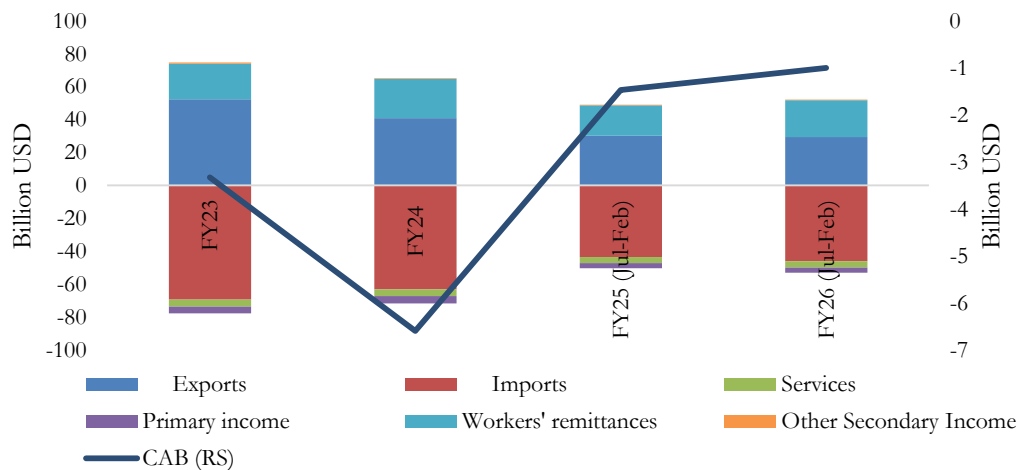
Chart 15: Balance of Payment



Source: Bangladesh Bank

However, underlying external-sector pressures remain. The trade deficit widened from USD 13.7 billion to USD 16.9 billion as imports increased while exports declined slightly. This suggests that the BoP improvement was driven more by remittance inflows and financial account gains than by a structural improvement in trade performance.

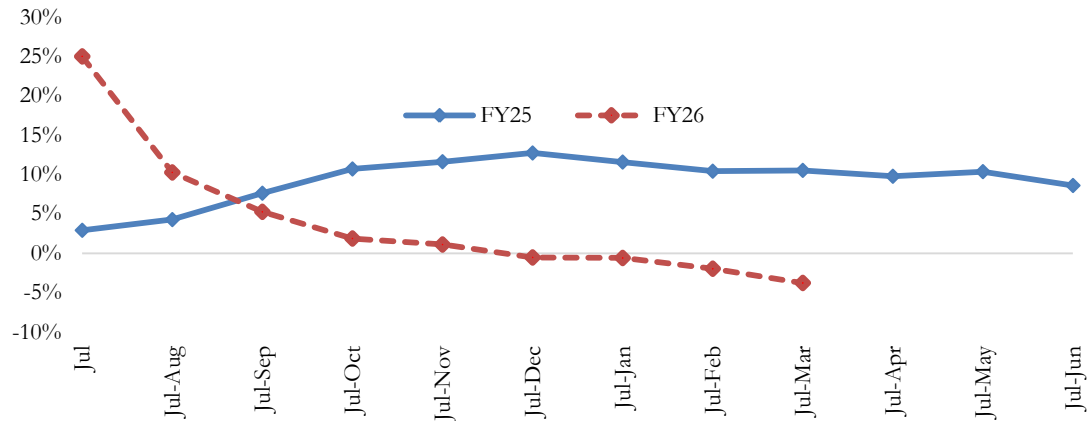
Chart 16: Current Account Balance



Source: Bangladesh Bank

Export growth weakened steadily during FY26, turning negative by mid-year and remaining subdued in July–March FY26 at -3.8 percent (y-o-y), mainly due to weaker ready-made garments (RMG) exports. Import growth, although strong at the start of FY26, moderated gradually and stood at 4.9 percent in July–February FY26, driven primarily by fuel, fertilizer, and capital goods imports.

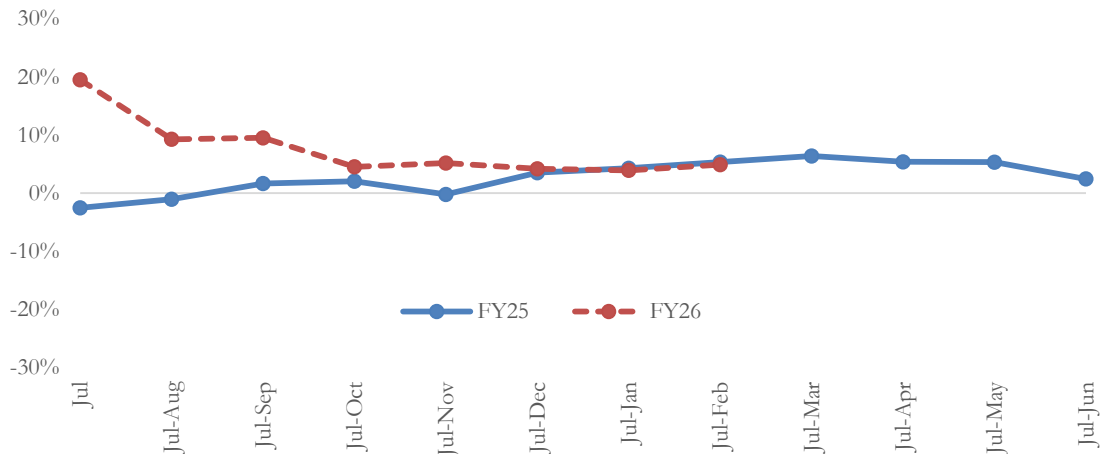
Chart 17: Cumulative Export Growth



Source: Bangladesh Bank

Despite strong starting in FY26 compared to FY25, export growth declined gradually and move onto negative trajectory in mid of FY26 and further deteriorate in July-March of FY26. Export growth remained in negative trajectory July-March of FY26 which recorded -3.8 percent (y-o-y), caused by the subdued performance of export of ready-made garments (RMG).

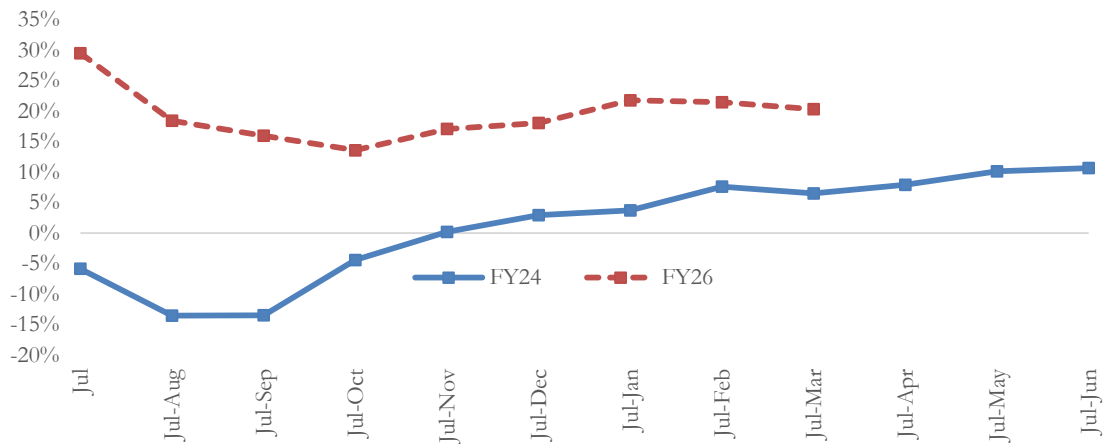
Chart 18: Cumulative Import Growth



Source: Bangladesh Bank

Notwithstanding the robust import growth in the starting of the FY26, import growth dwindle steadily to moderate level in July-February of FY26, supported by the well managed and sustainable trade activity by Bangladesh. Import registered by 4.9 percent in July-February of FY26. The growth of import was driven mainly by import of fuel, fertilizer, and capital goods.

Chart 19: Cumulative Remittance Growth



Source: Bangladesh Bank

Bangladesh maintained historical high percentage of remittances inflow across every single month of FY26 compared to the same period of the previous FY, indicating a significant improvement in remittance inflow through some formal channels. Remittances inflow amounted to USD 26.21 billion with 20.3 percent cumulative growth in July-February of FY26 which played significant role in stabilizing the Bangladesh's external sector during this period.