

Exchange Rate & Foreign Exchange Market Dynamics

JUNE 2025

MONTHLY UPDATE



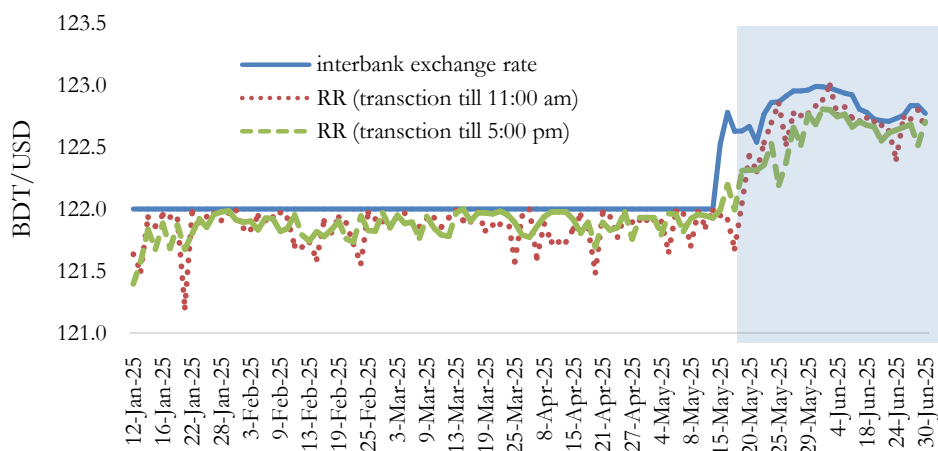
Bangladesh Bank
(The Central Bank of Bangladesh)

Monetary Policy Department
Exchange Rate Analysis Wing

Developments in Exchange Rates

- Interbank exchange rate moved to 122.77 BDT/USD at the end of June 2025 from 122.00 BDT/USD on 14th May of 2025.
- After staying stable at 122.00 for a long time, interbank exchange rate of BDT vis-à-vis USD had been depreciating since mid-May 2025 in an orderly fashion. However, exchange rates witnessed some appreciation pressure in recent period at the end of June 2025 amid a favorable development in the balance of payments (BoP) on the back of strong external inflows against weak import demand.
- BB has introduced crawling peg with the band exchange rate regime on 8th May of 2024 as an interim arrangement before stepping in a market determined flexible exchange rate regime. To support proper functioning of the foreign exchange market and ensure exchange rate flexibility Bangladesh Bank issued a circular on 14th May 2025 (FE circular no.-18), which allowed exchange rates to move freely.

Chart 1: Trends in Exchange Rates



Source: Bangladesh Bank

Editor: Dr. Md. Ezazul Islam, Executive Director, Bangladesh Bank.

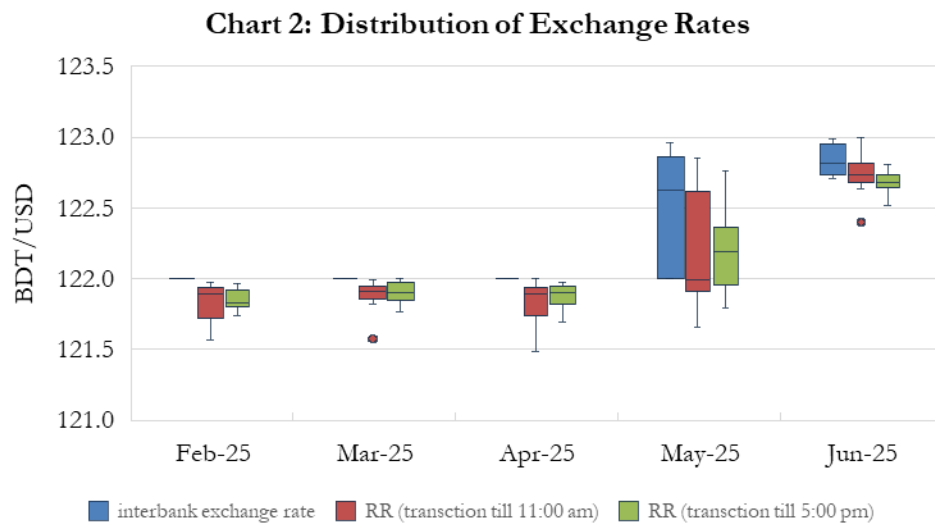
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- BB has started calculating and publishing Foreign Exchange Market Spot Reference Exchange Rate (RR), defined as a weighted average of freely quoted spot exchange rates in market transactions with customers and other dealers, since 12th January 2025. The RR is published twice in a business day: in the morning using transactions before 11:00 am and in the afternoon using transactions until 5:00 pm.
- Although the interbank exchange rate (BDT/USD) remained stable at 122.00 during January-mid-May 2025, reference exchange rates showed some fluctuation on account of variation in the Bank-client level exchange rates. However, the reference rates have also shown similar trend as the interbank exchange rate during mid-May-June 2025.

Distribution of Exchange Rates



- Distributions¹ of reference exchange rates (RR) and interbank exchange rate, presented in Chart 2, were skewed to the right in June 2025, reflecting depreciation pressure on BDT on an average. Exchange rates fluctuated within smaller ranges in June than those in May 2025. Exchange rates fluctuated within a wider range in May 2025 with the initiation of free quoting of exchange rates.
- In May and June of 2025, dispersion of exchange rate was relatively higher in the interbank market, while reference rate based on transaction till 5:00 pm moved within a smaller range.
- The fluctuation of reference exchange rate based on transactions till 11:00 am was relatively high, as it is calculated from a smaller number of transactions.

¹ 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 Rate

- The spread of interbank exchange rate, defined as daily highest minus lowest rate, picked up to BDT 0.8 per USD during the early period of the inception of free quoting of exchange rates in mid-May 2025. Subsequently, the spread narrowed considerably and hovered around its month average of BDT 0.16 per USD in June 2025 (Chart 3).

Chart 3a: Daily Spread of Interbank Exchange Rate
(Spread= day max. - day min.)

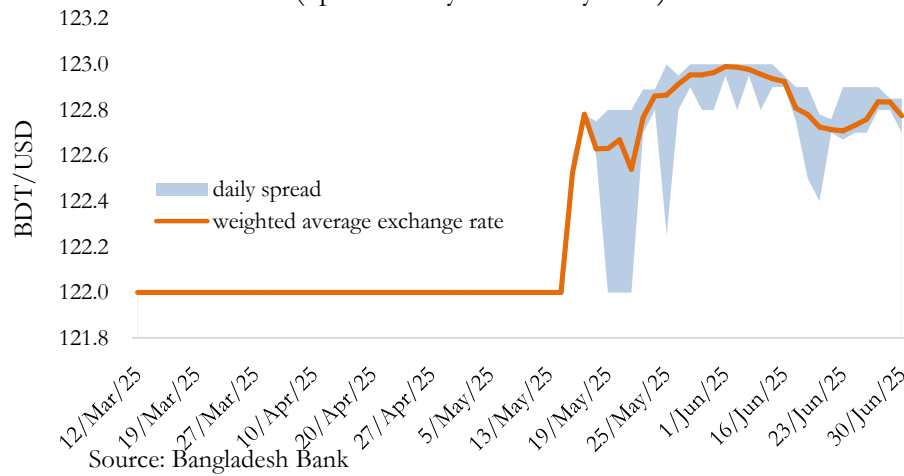
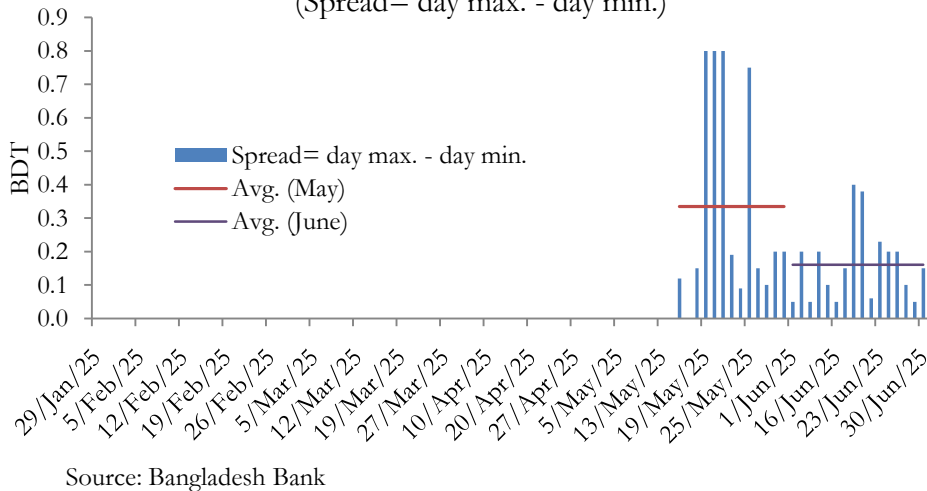


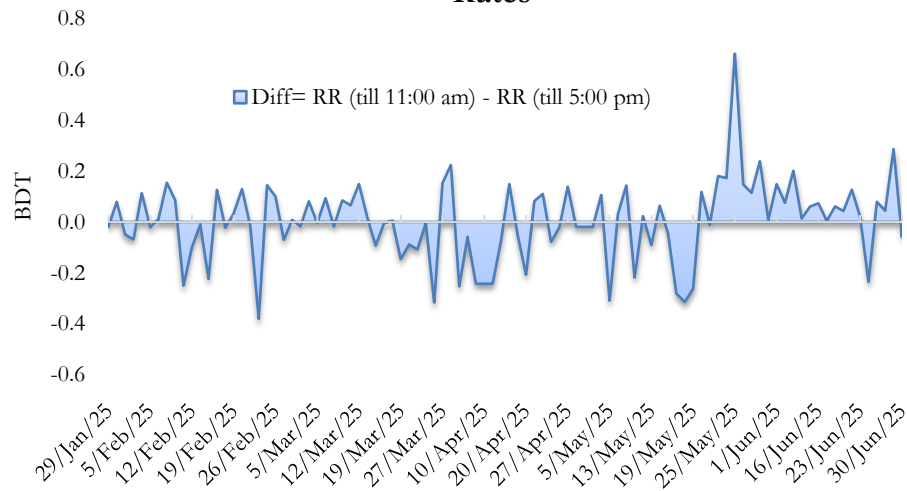
Chart 3b: Daily Spread of Interbank Exchange Rate
(Spread= day max. - day min.)



- The reference exchange rate, which takes interbank and bank-client level foreign exchange transaction into account, represents an aggregate picture of exchange rate in the economy.
- A difference between reference exchange rates in the morning (based on transaction till 11:00 am) and in the afternoon (based on transactions till 5:00 pm) is observed. Although

this difference showed no specific pattern, reference rate in the morning had been higher than that in the afternoon in most of the days in June (Chart 4).

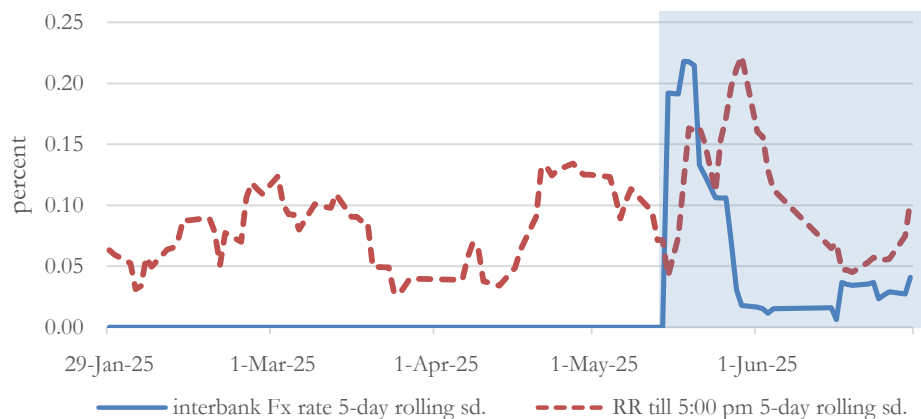
Chart 4: Divergence between Reference Exchange Rates



Source: Bangladesh Bank

Variability of Exchange Rates

Chart 5: Variability in Reference Exchange Rates



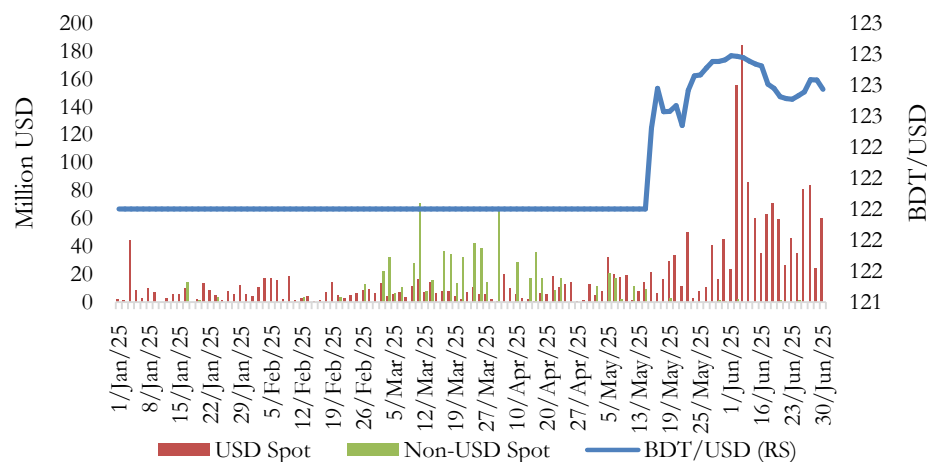
Source: BB staff calculations

- Flexibility in exchange rates increased during the period immediately after 15th May 2025, but it declined subsequently because of weak demand in the foreign exchange market amid economic slowdown.
- Interbank exchange rate showed less flexibility compared to reference exchange rate (based on transaction till 5:00 pm).

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 banks, while forward transactions are generally infrequent and tiny in size.
- The volume of interbank spot transaction had been on the rise since mid-May 2025 on the back of market-driven movements in exchange rate, phasing out of BB's intervention in the interbank foreign exchange market, and improved foreign exchange liquidity position.
- In June 2025, daily average spot transaction rose substantially to USD 68.7 million, which was around USD 7.5 million in March and April of 2025. The share of spot transactions increased to 37.7 percent in June 2025 from 13.2 percent in April 2025 and 16.5 percent in May 2025.
- The volume of total spot transactions picked up to USD 155.03 million and USD 184.30 million in 2nd and 4th June of 2025, respectively, before a 10-day long public holiday for Eid al-Adha and weekends.
- Spot transactions were highly concentrated in USD (Chart 6). However, non-USD spot transaction, mainly Euro, showed an upsurge in March-April 2025 in the face of rigid BDT-USD exchange rate.

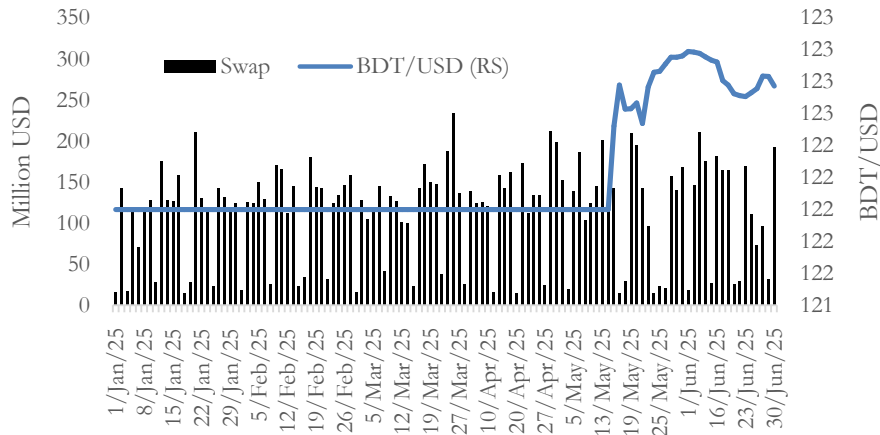
Chart 6: Interbank Spot Transaction



- Swap transaction dominates overall transaction in the interbank market. Despite some moderation with the rise in liquidity in the foreign exchange market, average daily swap transaction remained as high as USD 113.5 million in June 2025. However, the share of

swap transactions declined to 62.3 percent in June from 86.8 percent in April 2025 and 83.5 percent in May 2025, mainly because of a significant increase in interbank transaction.

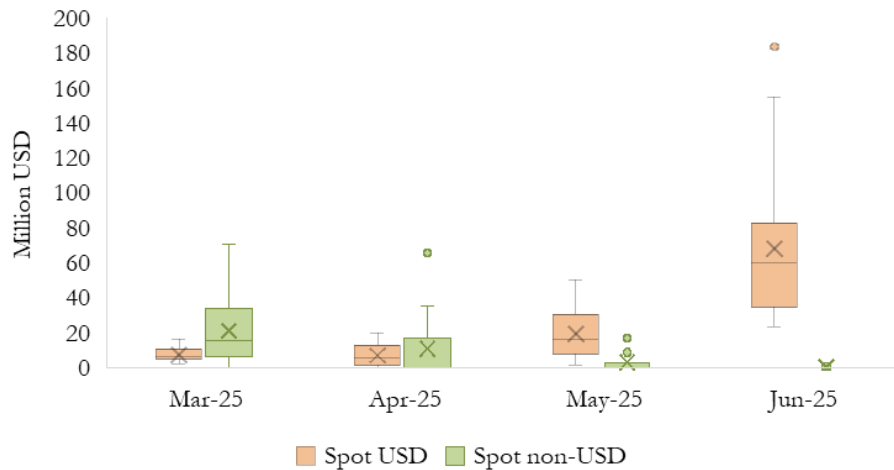
Chart 7: Interbank Foreign Exchange Swap Transaction



Source: Bangladesh Bank

Distribution of Spot Foreign Exchange Transaction

Chart 8: Distribution of Interbank Spot Forex Transaction



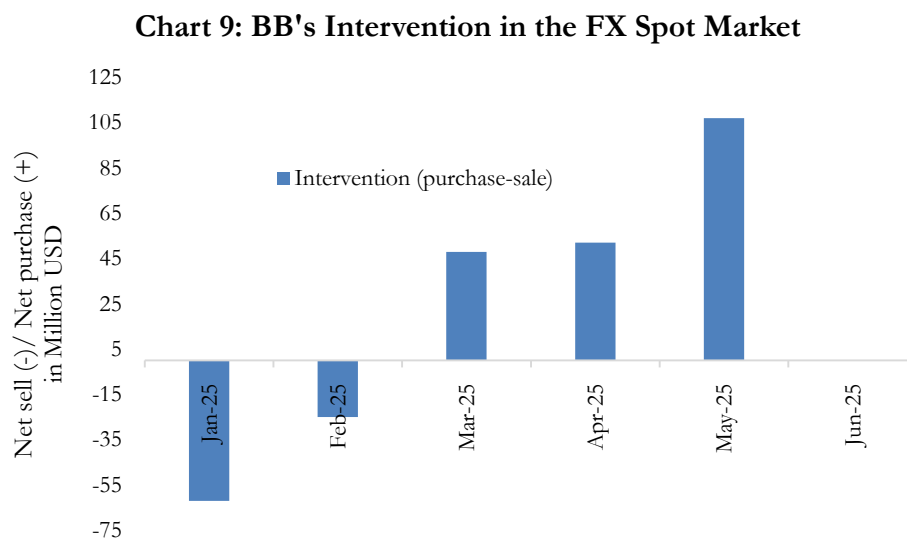
Source: Bangladesh Bank

- The volume of interbank spot USD transaction maintained an upward trend since March 2025.
- The volume of daily spot USD transactions in June 2025 ranged from USD 23.5 million to USD 184.3 million and transactions were highly concentrated in USD.
- Distribution of daily spot USD transaction, presented in Chart 8, had been skewed to the right with an outlier in June 2025, reflecting presence of some large transactions.

- However, non-USD spot transactions, mostly Euro, dominated the spot market transactions in March and April 2025 partly because of inflexibility in BDT-USD exchange rate.

Intervention in the Foreign Exchange Market

- After a persistent net sell amid stress on external balance, BB's intervention reversed to a net purchase in March – May 2025.
- To foster effective functioning of the interbank market, BB has gradually phased out undue intervention (both sell and purchase of foreign currency) in the foreign exchange market.
- According to the intervention strategy formulated for the management of the Crawling peg system, BB will intervene in the foreign exchange market if the reference exchange rate exceeds the upper or lower bound of the crawling peg monitoring bands.
- BB has made no intervention in the foreign exchange market since 15 May 2025.

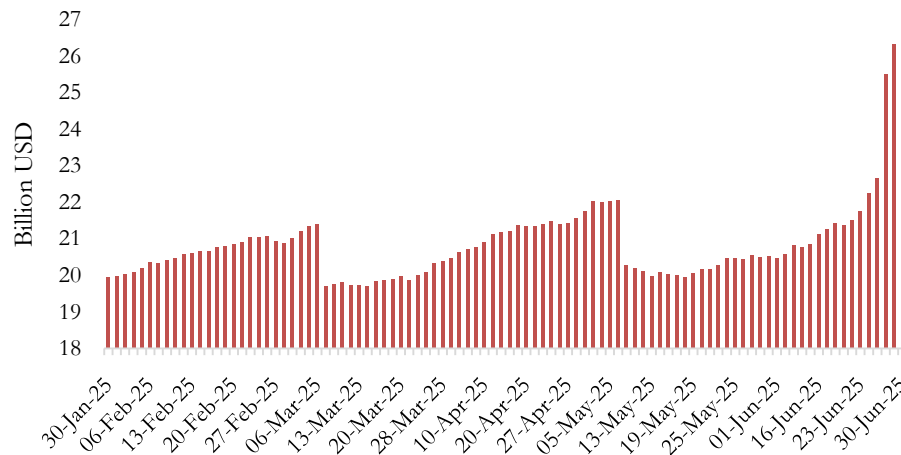


Source: Bangladesh Bank

Foreign Exchange Reserve

- Gross international reserve (BPM 6) increased sharply to 26.72 billion at the end of June 2025 after receding to USD 20.29 billion on account of routine payment for Asian Clearing Union (ACU) dues.
- Disbursement of foreign loans, mainly from the IMF and World Bank, among others contributed to the increase in gross foreign Exchange reserve.

Chart 10: Gross Foreign Exchange Reserve (BPM 6)

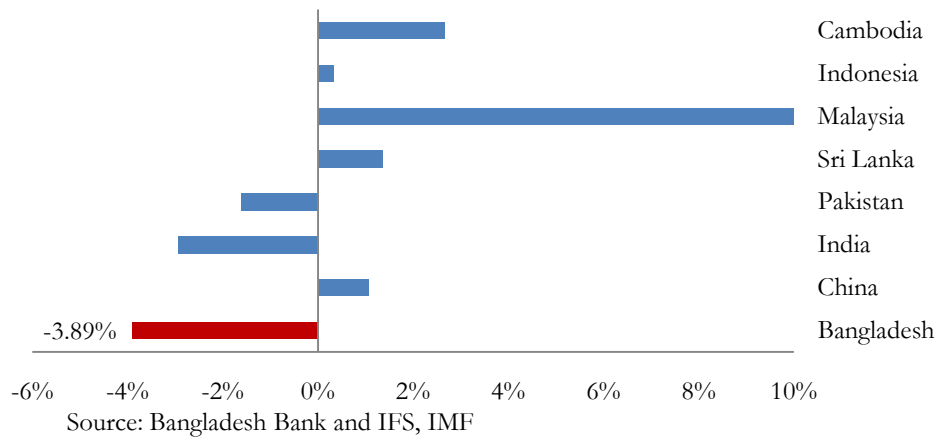


Source: Bangladesh Bank

Depreciation of Exchange Rate

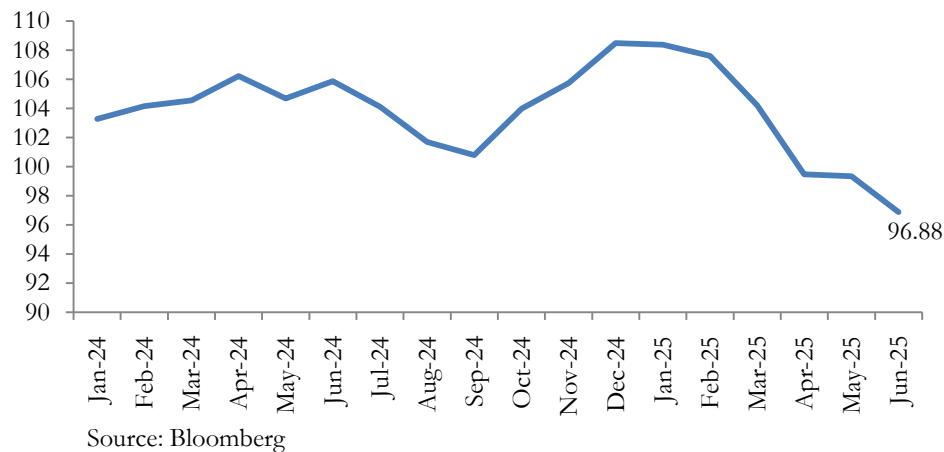
- The improvement in the BoP helped reduce the pressure on exchange rate. The nominal exchange rate of BDT vis-a-vis USD moved to 122.77 at the end of June 2025, resulting a depreciation of 3.89 percent in FY25 (Chart 12).
- The depreciation of BDT against USD was the highest among its peer economies' currencies in this period.

Chart 11: Appreciation (+)/Depreciation(-) of Currencies vis-à-vis USD June 2025 over June 2024



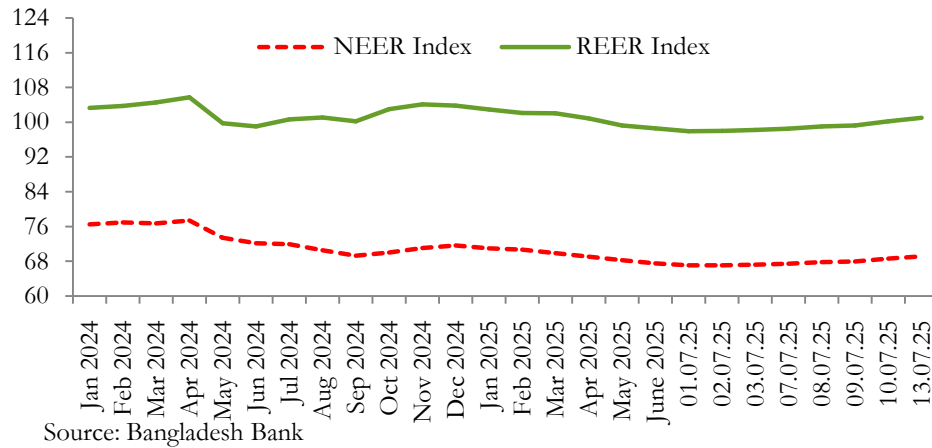
- USD depreciated against major currencies in recent months. Consequently, dollar index came down to 96.88 at the end of June 2025 from a recent high of 108.48 in December 2024.

Chart 12: Dollar Index



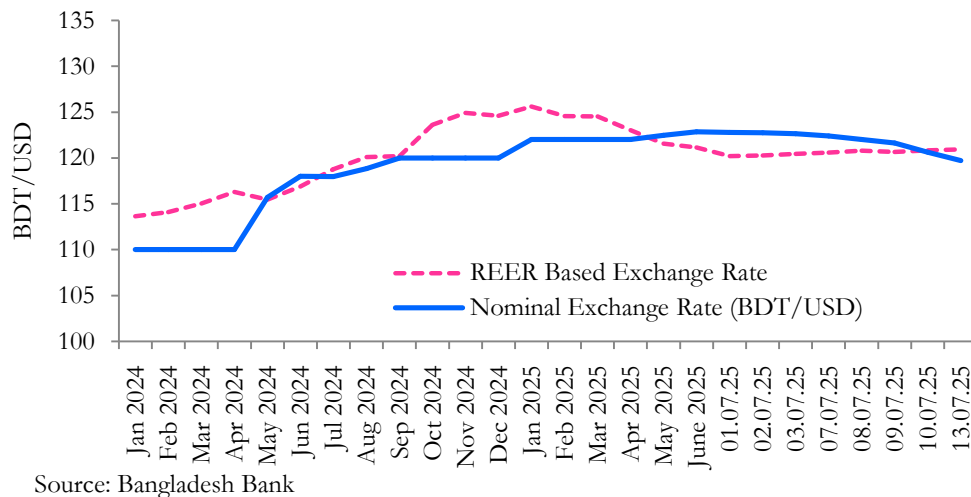
- The value of the nominal effective exchange rate (NEER) index came down to 67.02 at the end of June 2025 from 71.68 in December 2024. Both the depreciation of BDT vis-à-vis USD and depreciation of USD against Bangladesh's major trade partner currencies contributed to the NEER depreciation.

Chart 13: Movement of NEER & REER Index
(Base: FY16 = 100)



- Favored by the nominal depreciation and an improvement in the relative price level, the real effective exchange rate (REER) also depreciated² in this period. The value of REER index descended to 98.61 at the end of June 2025 from 103.84 in December 2024.

Chart 14: Nominal vs. REER based Exchange Rate



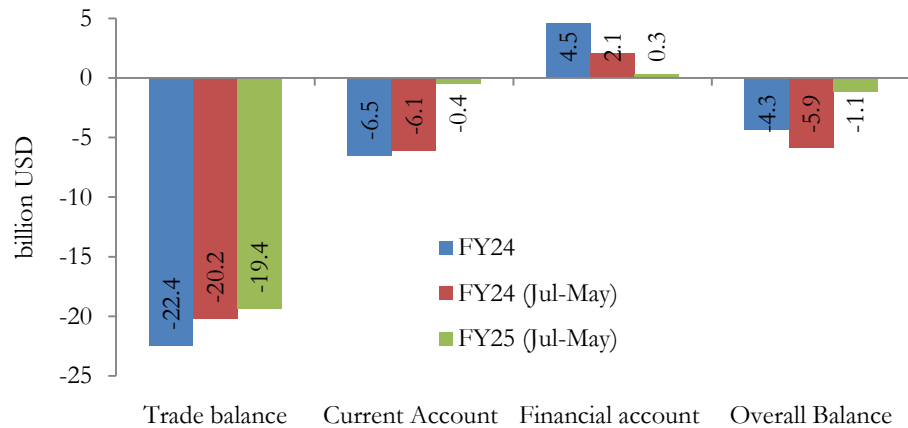
- As the value of the REER index was smaller than 100, the REER-based exchange rate³, which provides a sense of equilibrium exchange rate, moved below the nominal exchange rate (Chart 15).

² An upward movement of the indices reflects appreciation and downward movement reflects depreciation.

³ Nominal exchange rate and REER-based exchange rate are defined as BDT/USD. Hence, a rise in the exchange rate indicates depreciation and a fall indicates appreciation.

Economic Fundamentals

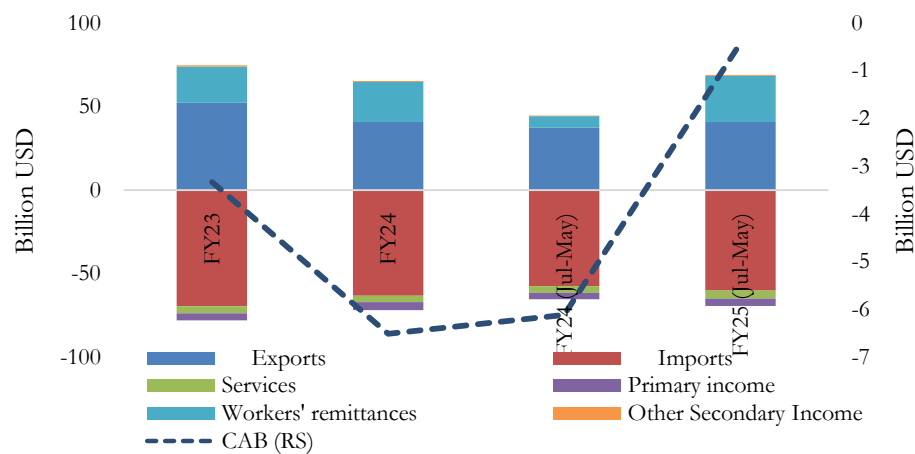
Chart 15: Balance of Payment



Source: Bangladesh Bank

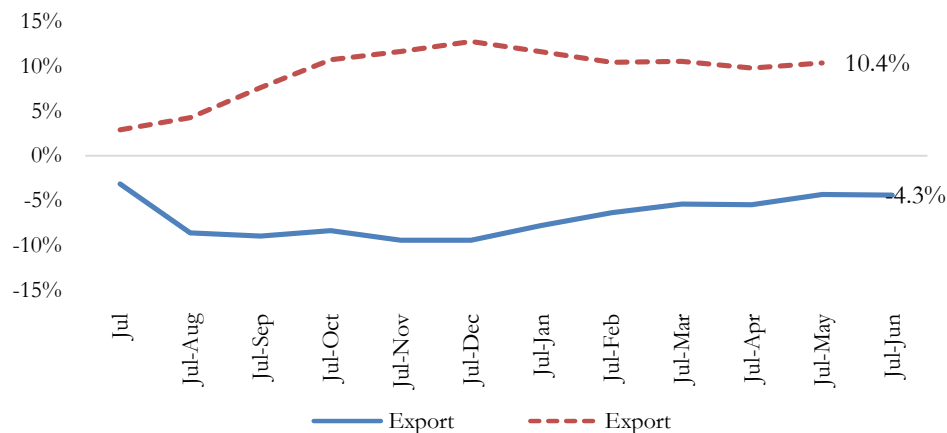
- The pressure in the foreign exchange market continued easing on the back of favorable developments in the balance of payment (BoP).
- Deficit in the overall BoP moderated to USD 1.1 billion during July-May of FY25 with an improvement in the current account balance driven by surge in remittance inflows, strong export growth, and weak import demand.

Chart 16: Current Account Balance



Source: Bangladesh Bank

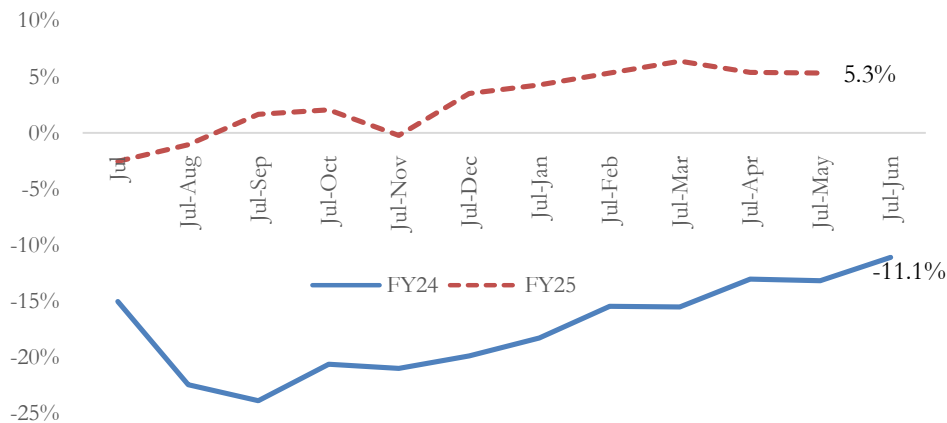
Chart 17: Cumulative Export Growth



Source: National Board of Revenue and Bangladesh Bank

- Export grew substantially by 10.4 percent (y-o-y) to USD 45.0 billion in July–May of FY25 supported partly by depreciation of exchange rate.
- Notably, export was mostly concentrated in ready-made garments (RMG).

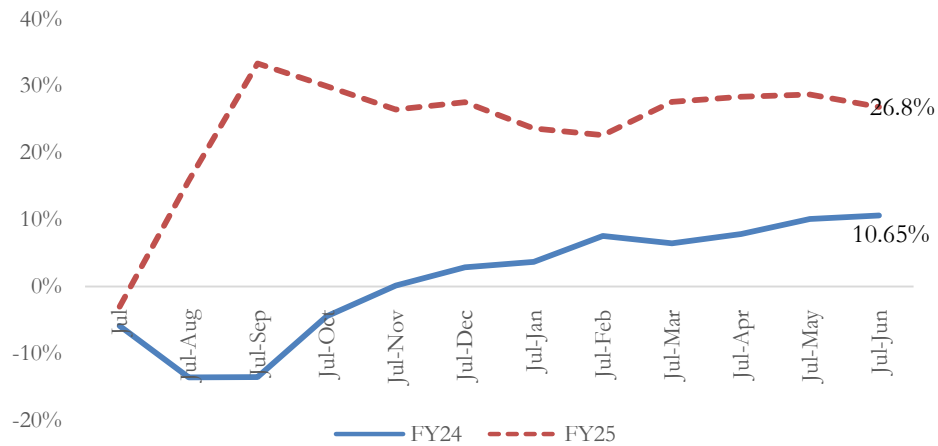
Chart 18: Cumulative Import Growth



Source: National Board of Revenue and Bangladesh Bank

- Continued tight monetary policy and growing domestic political and economic uncertainties led to a lackluster import growth (5.3 percent) in July-May of FY25.
- The growth of import was driven mainly by import of RMG related raw materials and consumer goods.

Chart 19: Cumulative Remittance Growth



Source: Bangladesh Bank

- A steady surge led remittance inflow through official channel to USD 30.3 billion with 26.8 percent growth in FY25, supported by competitive exchange rate, government's cash incentive, accessible agent banking and mobile financial services (MFS), and steps to restrain money laundering.