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EXCHANGE RATE AND FOREIGN EXCHANGE MARKET DYNAMICS

Monetary Policy Department

Bangladesh Bank

Exchange Rate & Foreign Exchange Market Dynamics

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Developments in Exchange Rates

- Although the Balance of Payments (BoP) recorded an overall surplus in FY26, the Bangladeshi Taka (BDT) experienced a mild depreciation in June 2026. This depreciation was primarily driven by a temporary, seasonal spike in import LC settlements and external debt repayments, coupled with slower growth in export receipts and remittance inflows in June 2026. Consequently, the reference exchange rate[1] (based on transactions till 5:00 pm) gradually moved from 122.83 BDT/USD at the end of May 2026 to 123.44 BDT/USD by the end of June 2026, while the interbank exchange rate saw a slight adjustment from 122.75 to 122.85 BDT/USD (Chart 1).

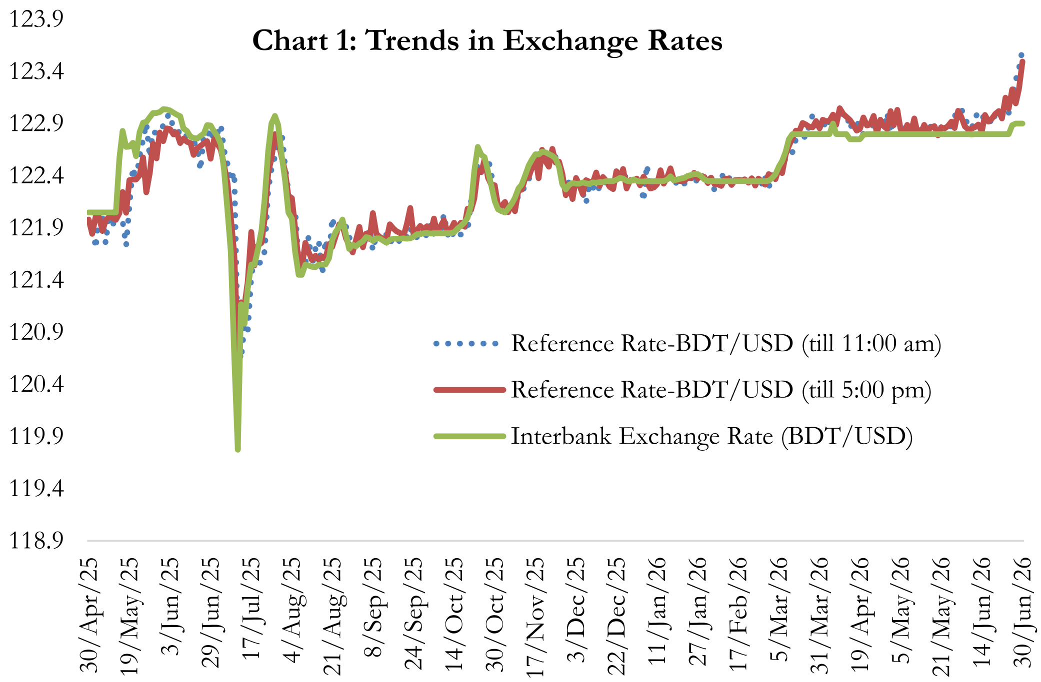


Chart 1: Trends in Exchange Rates

Source: Bangladesh Bank

- The fluctuation in the reference exchange rate was primarily driven by the exchange rate for banks' sell transactions to clients. Driven by tight dollar liquidity and typical fiscal year-end seasonal demand for import payments, the exchange rate for banks' sell transactions spiked sharply to nearly 124 BDT/USD, widening the gap above both the interbank and purchase rates (Chart 2). In contrast, the exchange rate for banks' foreign currency purchases, sourced

[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.

mainly from remittance inflows and export receipts, increased at a slower pace over the same period.

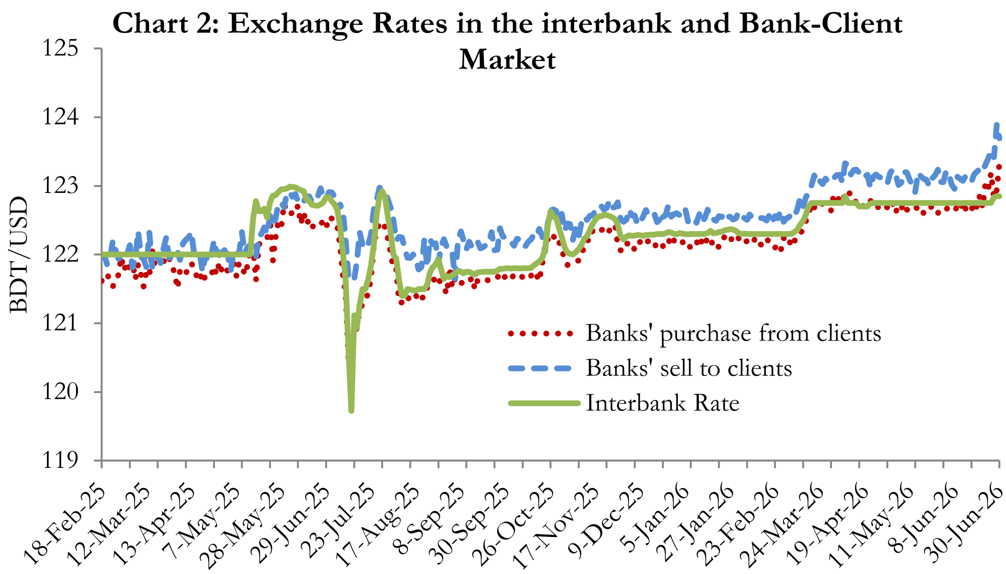


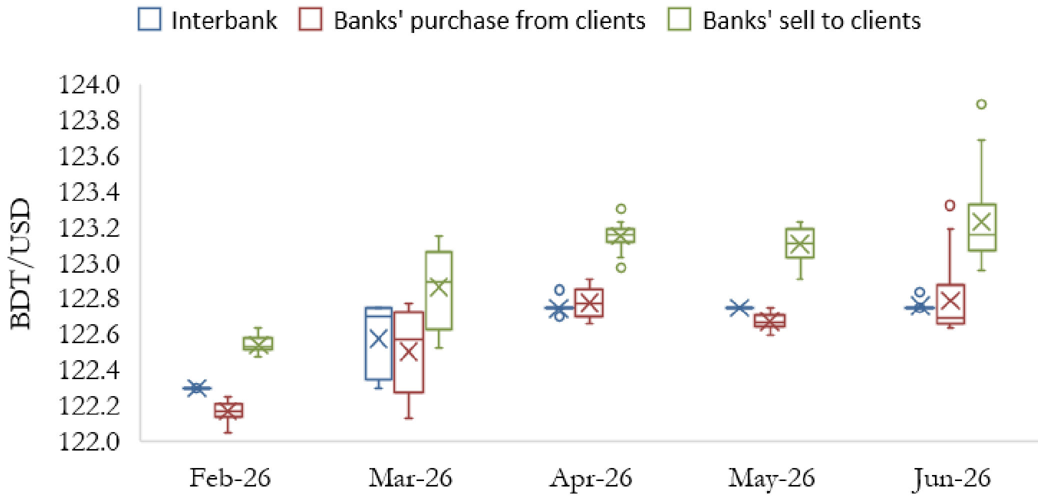
Chart 2: Exchange Rates in the interbank and Bank-Client Market

Source: Bangladesh Bank

- The box plot[2] presented in Chart 3 indicates greater dispersion and upward skewness in the exchange rate for banks' selling in June 2026, while the interbank market remained comparatively stable, suggesting increased flexibility in client-level FX pricing rather than a broad movement in the interbank rate. In this month, the interbank exchange rate maintained a tight distribution around BDT 122.7–122.8/USD. In contrast, banks' client-facing rates showed greater dispersion: purchase rates were concentrated around BDT 122.7–122.8/USD, while selling rates were higher and more widely dispersed, with the median around BDT 123.2/USD and an upper outlier approaching BDT 123.9/USD.

[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.

Chart 3: Distribution of Exchange Rates across Markets



Spread of Exchange Rates

- In June 2026, foreign exchange market segments exhibited notable variation in daily average spread sizes (defined as daily maximum minus minimum rate). The interbank market maintained a tight spread near zero, reflecting continued stability. In contrast, bank–client markets shoed divergent spread movements. The average daily spread of the exchange rates for banks' purchase from clients expanded to BDT 1.01/USD (up from BDT 0.98/USD in May), while the average spread of the exchange rate for banks' selling to clients compressed significantly to BDT 0.91/USD (down from BDT 1.14/USD).

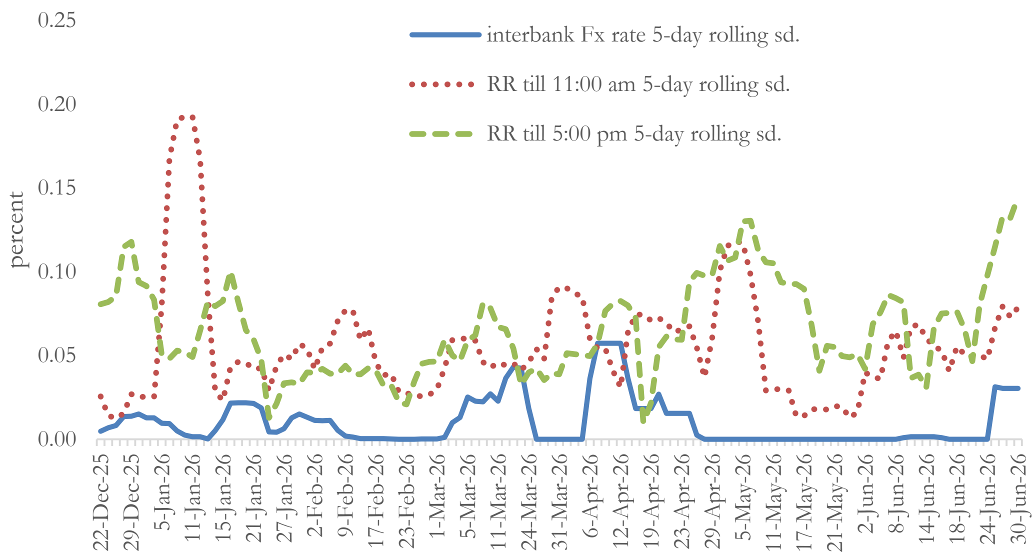
Chart 4: Daily Average Spread of Spot Exchange Rates
(Spread= day max. - day min.)

Source: Bangladesh Bank

Variability of Exchange Rates

- Reflecting the flexibility of exchange rates in bank–client transactions, the variability of the reference exchange rate remained moderate throughout June 2026, although it increased during the final few days of the month (Chart 5). However, full-Day Reference Rate ("RR till 5:00 pm") exhibited noticeably greater flexibility up to 5:00 PM, indicating a wider range of intraday exchange rate movements during that period.

Chart 5: Variability in Reference Exchange Rates

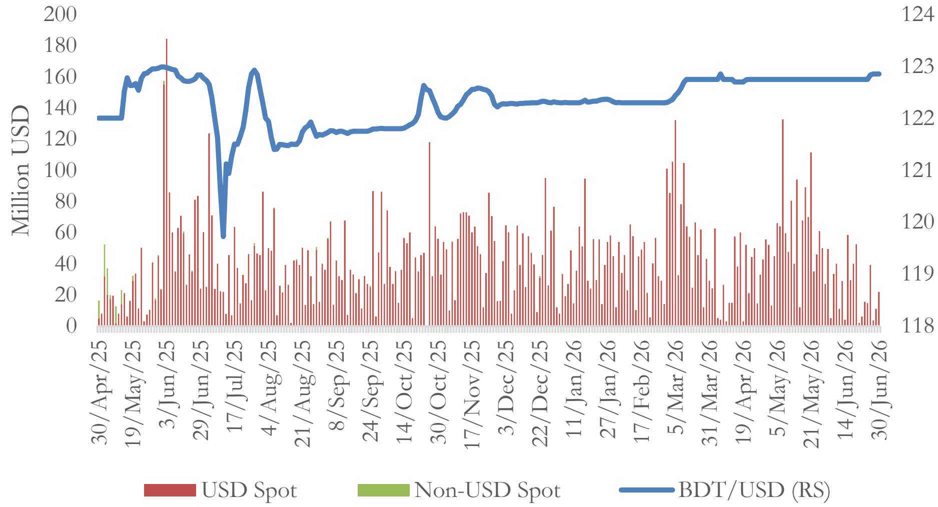


Source: Bangladesh Bank

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.
- Total spot transaction volume declined in June 2026, primarily reflecting low variability in the interbank exchange rate. The average daily spot transaction volume declined to USD 27.48 million in June 2026 from USD 63.14 million in May 2026.

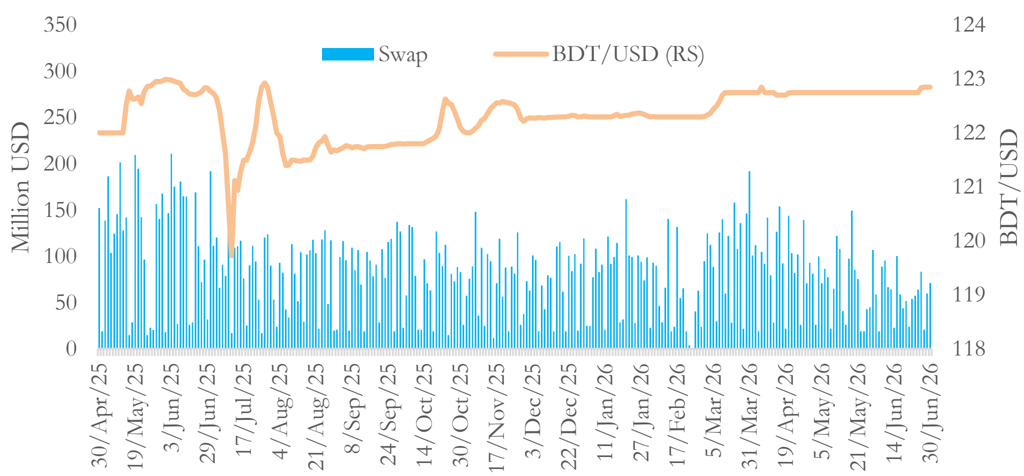
Chart 6: Interbank Spot Transaction



Source: Bangladesh Bank

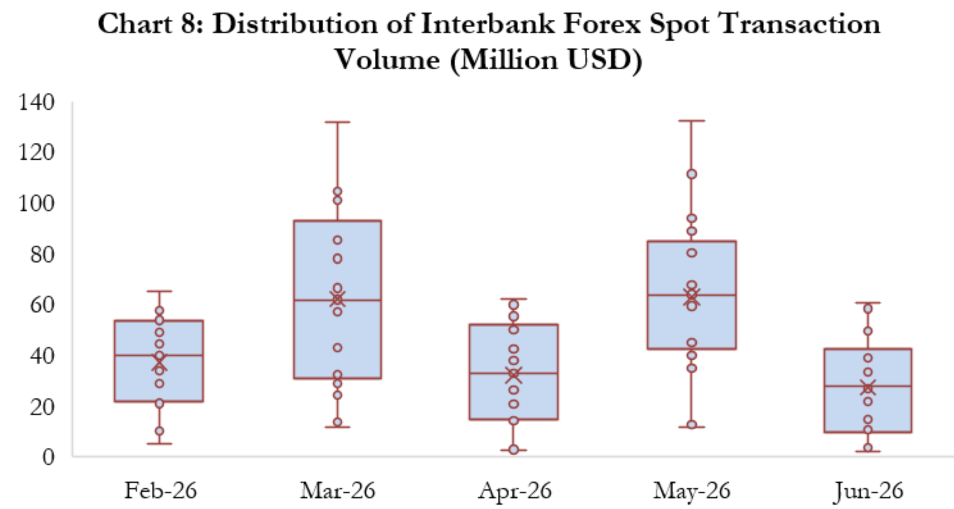
- Consequently, the share of spot transactions in total interbank transactions (spot plus swap) decreased to 36.03 percent in June 2026 from 47.40 percent in May 2026, indicating a decrease in liquidity in the foreign exchange market.
- Although the volume of swap transactions declined in June 2026, their share in total interbank market transactions increased significantly during the period under review (Chart 7). The average daily swap transaction volume decreased to USD 59.20 million in June 2026 from USD 70.05 million in May 2026. However, the share of swap transactions in total interbank market transactions increased to 63.97 percent in June 2026 from 52.60 percent in May 2026, reflecting a relatively larger contribution of swap transactions to overall interbank market activity despite the decline in their absolute volume.

Chart 7: Interbank Foreign Exchange SwapTransaction



Source: Bangladesh Bank

Distribution of Spot Foreign Exchange Transactions

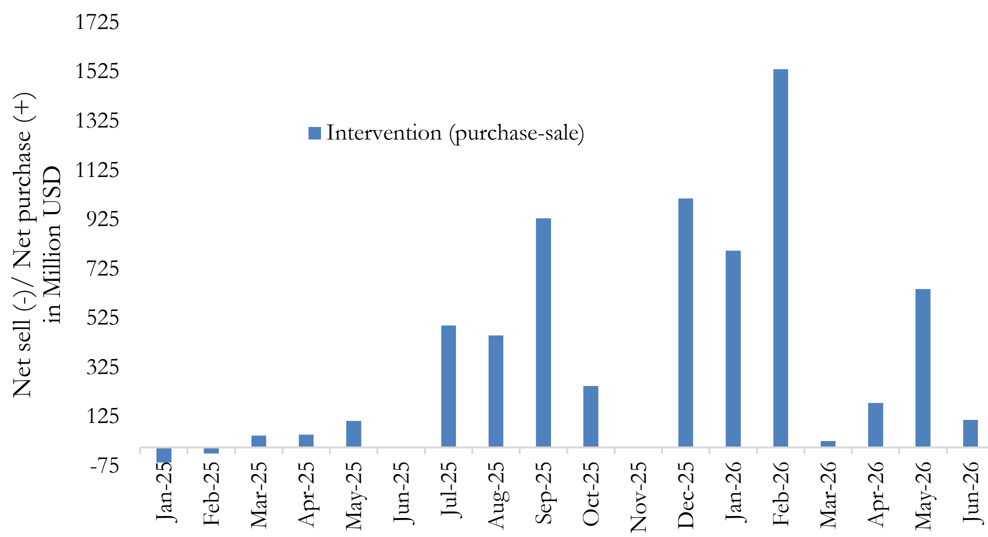


- A decline in liquidity in the foreign exchange market led to a fall in interbank spot foreign exchange transaction volume on average in June 2026, alongside a marked reduction in daily transaction fluctuations compared to May 2026.
- In this month, the volume of daily spot USD transactions ranged from USD 2 million to USD 61 million.
- The distribution of daily spot USD transactions in June 2026, presented in Chart 8, remained at a relatively low level with reduced variability and a broadly right-skewed distribution.
- 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

- Consistent with its cautious and prudent foreign exchange market management strategy, Bangladesh Bank further lowered intervention in the foreign exchange market in June 2026 to support exchange rate flexibility while remaining aligned with its broader monetary policy objectives. Consequently, Bangladesh bank's purchase of foreign currency from the interbank market reduced to USD 111 million in June 2026 from USD 642 million in May 2026.

Chart 09: BB's Intervention in the FX Spot Market

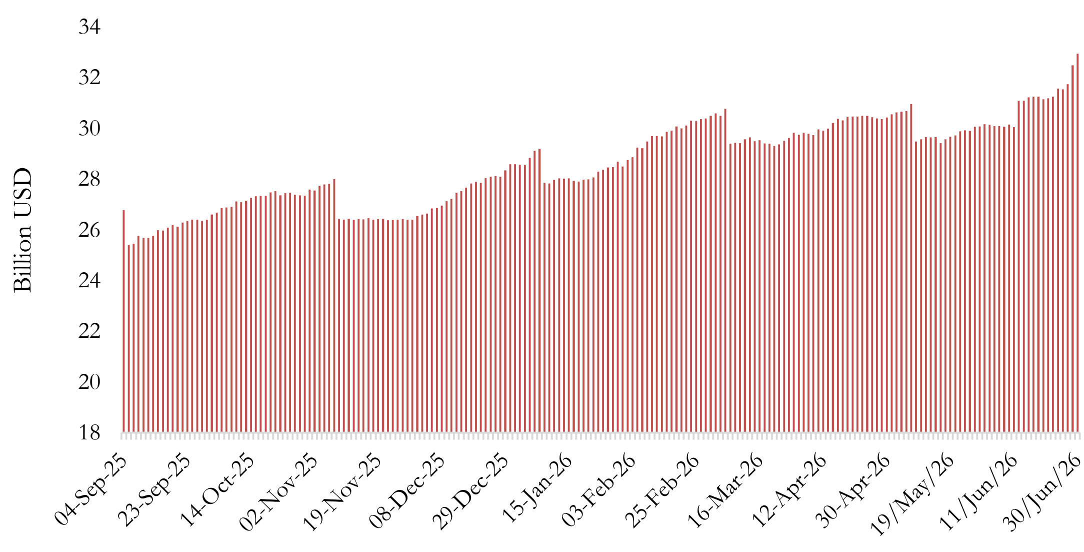


Source: Bangladesh Bank

Foreign Exchange Reserve

- Bangladesh Bank's purchase from the interbank market and commercial banks deposits for due payment of Asian Clearing Union (ACU) helped gross foreign exchange reserves increasing during June 2026. In the absence of ACU settlements or other significant reserve-depleting outflows, reserves continued to accumulate throughout the month. Consequently, gross foreign exchange reserves increased by nearly USD 3.04 billion in June 2026, reflecting sustained foreign currency inflows during the period.

Chart 10: Gross Forex Reserve (BPM 6)

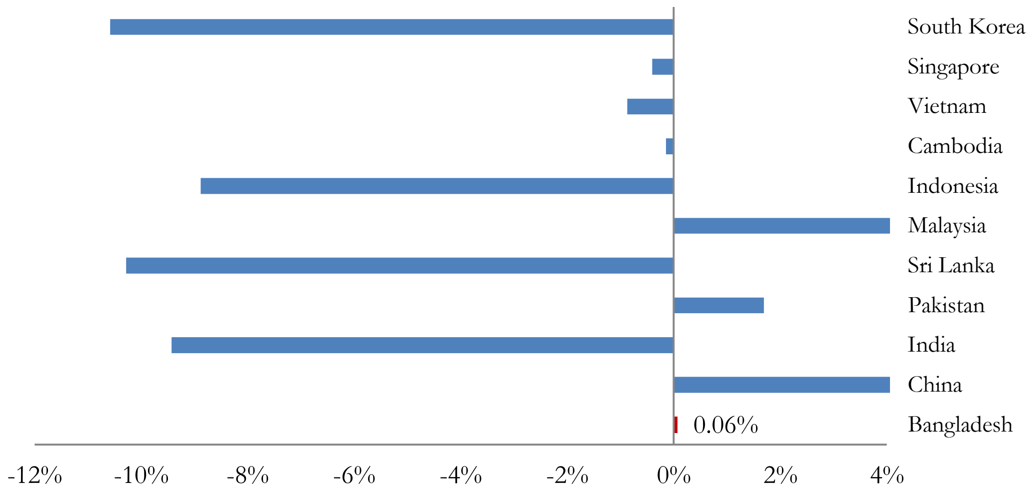


Source: Bangladesh Bank

Depreciation of Exchange Rate

- The interbank spot exchange rate remained broadly stable during June 2026, increasing marginally from BDT 122.75 per USD at the end of May 2026 to BDT 122.85 per USD at the end of June 2026. On a year-on-year basis, however, the taka recorded a nominal appreciation of 0.06 percent against the U.S. dollar in June 2026 (Chart 11).

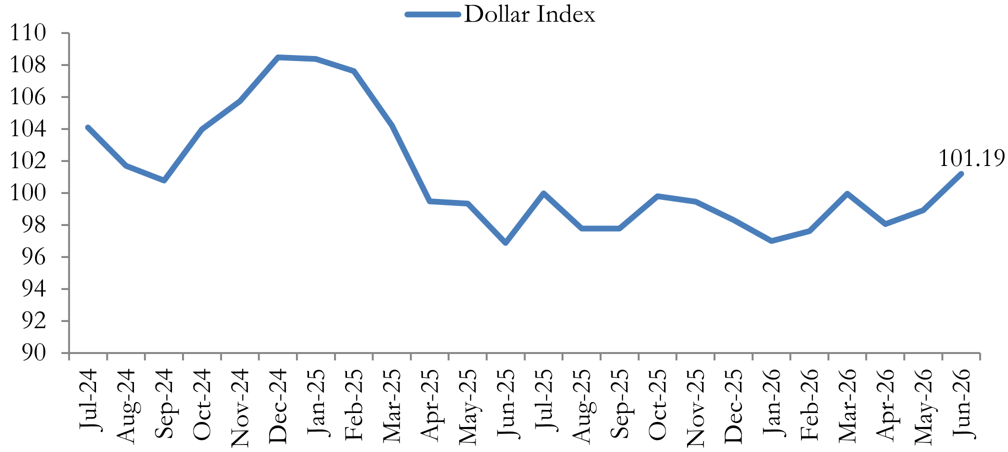
Chart 11: Appreciation (+)/Depreciation(-) of Currencies vis-à-vis USD June 2026 over June 2025 (in %)



Source: Bangladesh Bank and IFS, IMF, Central Bank of Respective Countries

- Since January 2026, the dollar index has generally 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. However, in June 2026, the index increased to 101.19 from 98.91 in May 2026 (Chart 12), reflecting a slight strengthening of the U.S. dollar during the period.

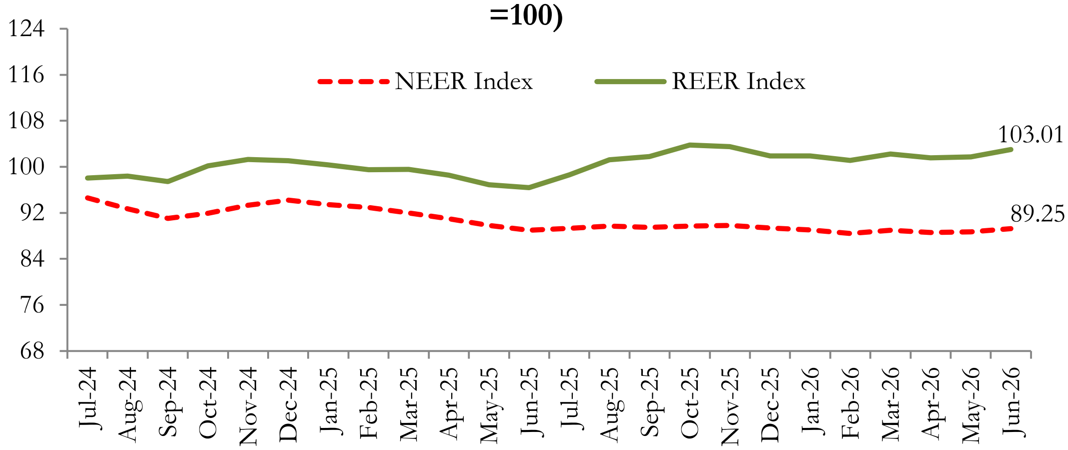
Chart 12:Dollar Index



Source: https://www.marketwatch.com

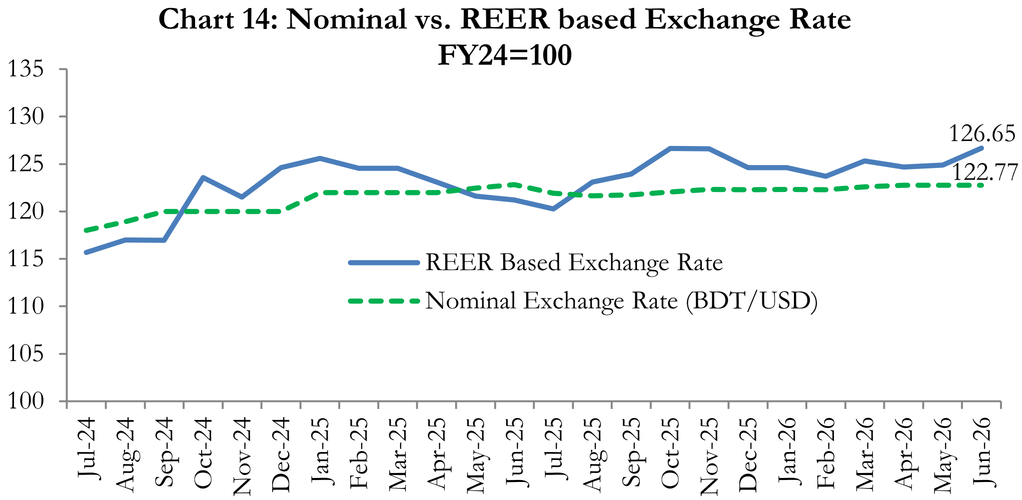
- In June 2026, the Nominal Effective Exchange Rate (NEER) index rose to 89.25 from 88.67 in May 2026, marking a trade-weighted appreciation of the domestic currency against major trading partner currencies. On a year-on-year basis, the NEER index appreciated by 0.31 percent.

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



Source: Bangladesh Bank

- Similarly, the Real Effective Exchange Rate (REER) index increased to 103.01 in June 2026 from 102.41 in May 2026. REER increased by 0.58 percent month-on-month (m-o-m), indicating a marginal appreciation of the real effective exchange rate compared with the previous month. On a year-on-year basis, the REER index recorded a 6.91 percent appreciation, primarily driven by the inflation differential between Bangladesh and its key trading partners.

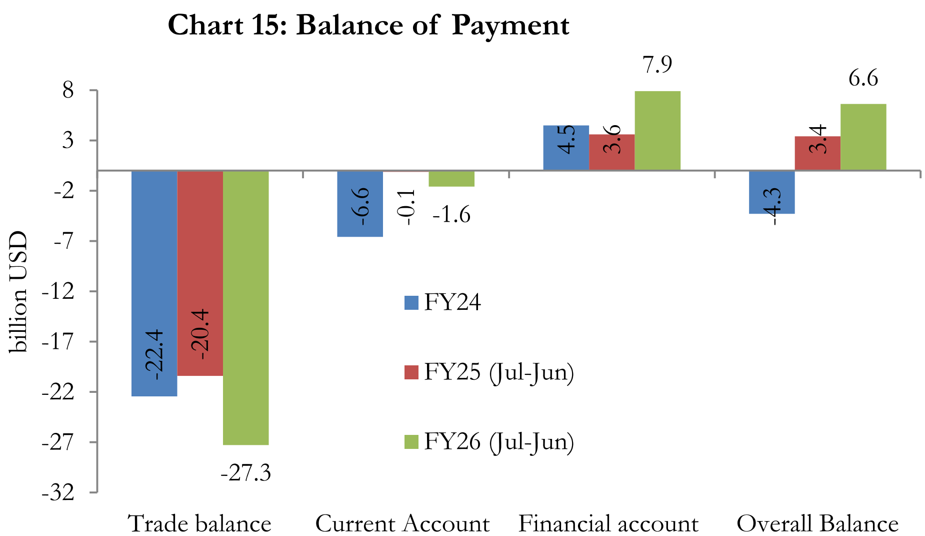


Source: Bangladesh Bank

- 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).

Economic Fundamentals

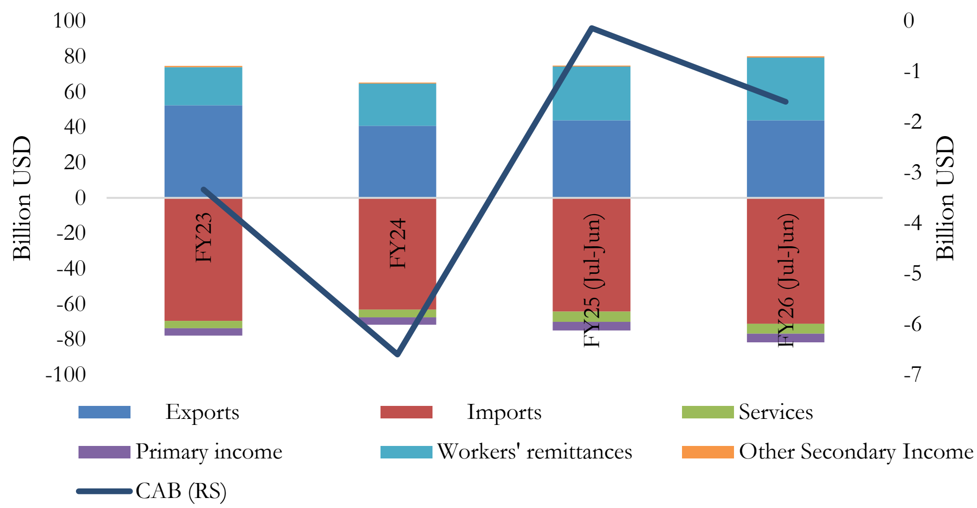
- Bangladesh's external sector experienced a substantial trade deficit accompanied by a negative current account balance (Chart 15). The financial account recorded a surplus and it was sufficient to offset the deficits in the trade and current accounts. Consequently, the overall balance remained in surplus, providing some relief to the country's foreign-exchange reserves while contributing to appreciating pressure on the exchange rate.



Source: Bangladesh Bank

- The trade balance worsened from 20.4 billion USD deficits in FY25 to 27.3 billion USD deficits in FY26, reflecting continued high import demand. The current account deficit also widened significantly in FY26, increasing to USD 1.6 billion, compared with just USD 0.1 billion in FY25. The financial account was the only component to record a positive balance, with its surplus increasing substantially to USD 7.9 billion in FY26, from USD 3.6 billion in FY25. As a result, the overall balance remained positive in FY26, recording a surplus of USD 6.6 billion, up from USD 3.4 billion in FY25.

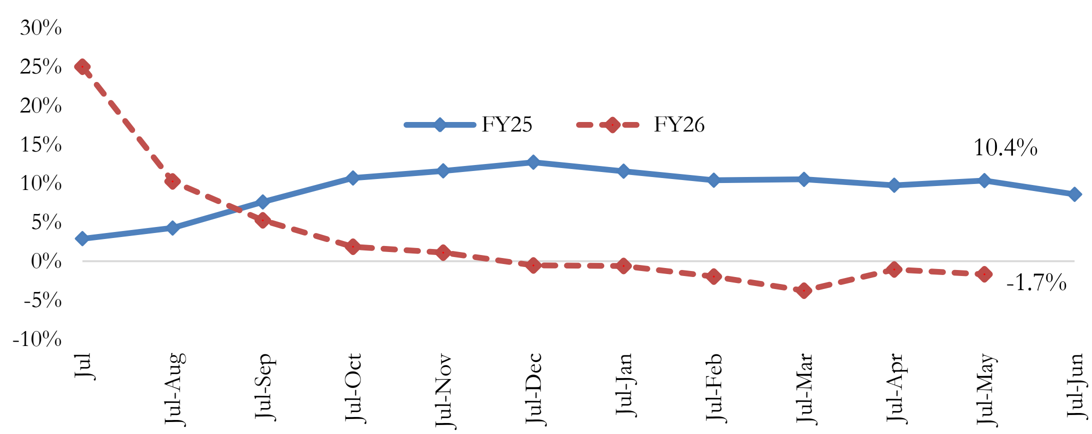
Chart 16: Current Account Balance



Source: Bangladesh Bank

- Bangladesh's current account deficit widened substantially in FY2026 compared with FY2025, driven mainly by slower growth in both remittances and exports, while import growth remained comparatively stronger.

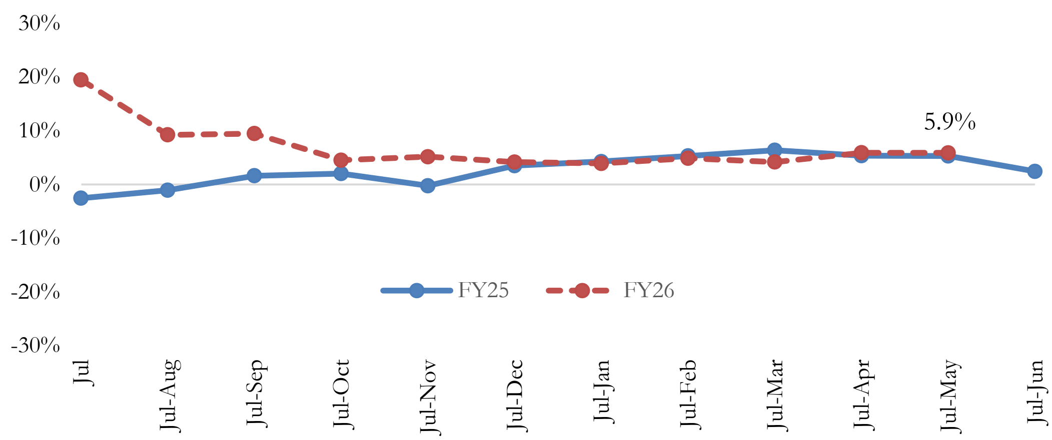
Chart 17: Cumulative Export Growth



Source: Bangladesh Bank

- Cumulative export growth reversed sharply in FY26, turning from a high base of over 20% early in the year into negative territory by year-end, in stark contrast to FY25's steady positive growth trajectory due mainly to weaker ready-made garments (RMG) exports. The export growth was -1.7 percent (y-o-y) in July-May period of FY26 compared to 10.4 percent (y-o-y) of the same period of previous fiscal year.

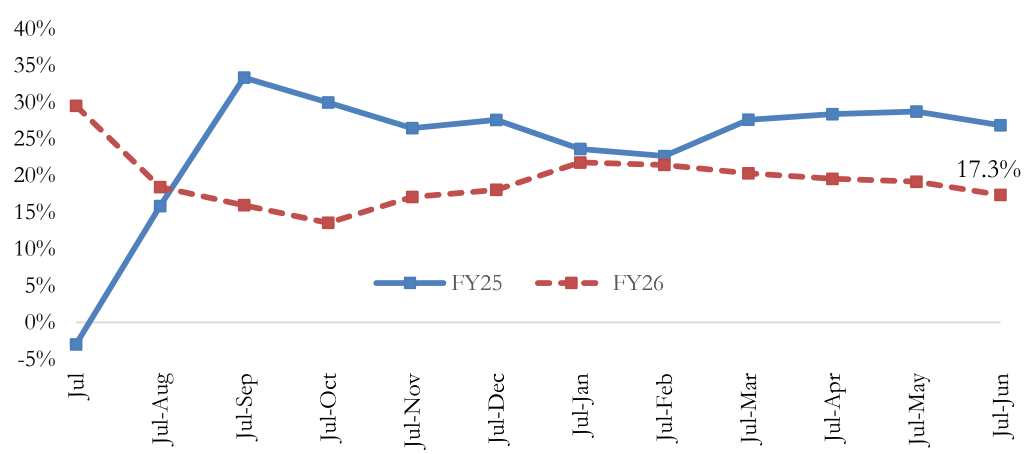
Chart 18: Cumulative Import Growth



Source: Bangladesh Bank

- Notwithstanding the robust import growth in the starting of the FY26, import growth dwindle steadily to moderate level in July-May of FY26, supported by the well managed and sustainable trade activity by Bangladesh. Import registered by 5.9 percent in July–May of FY26 compared to 5.3 percent during the same period of the previous fiscal year. The growth of import was driven mainly by the recent sharp increase in fuel import bill, fertilizer, and capital goods.

Chart 19: Cumulative Remittance Gtowth



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 35.59 billion with 17.3 percent cumulative growth in FY26 which played significant role in stabilizing the Bangladesh's external sector during this period.