

MAY

2026

# EXCHANGE RATE AND FOREIGN EXCHANGE MARKET DYNAMICS



**Monetary Policy Department**  
**Bangladesh Bank**



# Exchange Rate & Foreign Exchange Market Dynamics

- Editor** : **Dr. Imam Abu Sayed**  
Executive Director (Research)
- Co-editor** : **Dr. Mohammad Monirul Islam Sarker**  
Director (Research)  
Monetary Policy Department
- Key Contributors** : **Khan Md. Saidjada**  
Additional Director (Research)
- Md. Monir Khan**  
Deputy Director (Research)
- Sharmin Chowdhury**  
Assistant Director (Research)

May 2026



**Monetary Policy Department**  
**Bangladesh Bank**

# Exchange Rate & Foreign Exchange Market Dynamics

## Contents

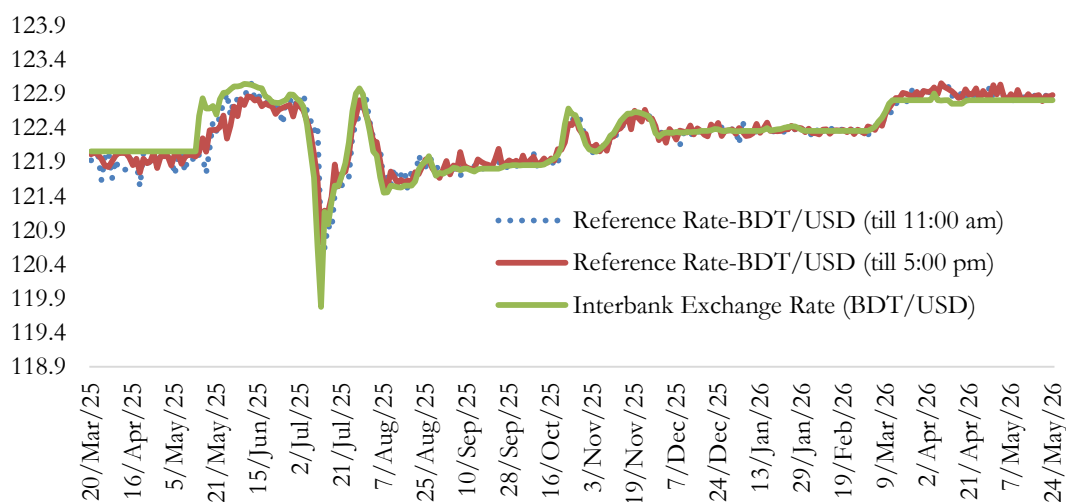
Developments in Exchange Rates.....	1
Spread of Exchange Rates.....	3
Variability of Exchange Rates.....	3
Transaction Volume in the Interbank Foreign Exchange Market .....	4
Distribution of Spot Foreign Exchange Transactions .....	5
Buy and Sell in the Foreign Exchange Market .....	6
Foreign Exchange Reserve.....	6
Depreciation of Exchange Rate .....	7
Economic Fundamentals .....	9

# Exchange Rate & Foreign Exchange Market Dynamics

## Developments in Exchange Rates

- The external position of the Bangladesh economy continued to recover in May 2026, driven by a stable exchange rate and a substantial overall surplus in the balance of payments (BoP). The surplus in the BoP helped to stabilize the foreign exchange market, allowing for a steady accumulation of foreign exchange reserves.
- The exchange rate of Bangladeshi Taka (BDT) vis-à-vis USD remained broadly stable in May 2026. In this period, the reference exchange rate<sup>1</sup> (till 5:00 pm) fluctuate within a small range of 122.74–122.98 BDT/USD, driven by variation in the exchange rates for Bank-client level transactions, while the exchange rate in the interbank market stayed at 122.75 BDT/USD throughout (Chart 1).

**Chart 1: Trends in Exchange Rates**

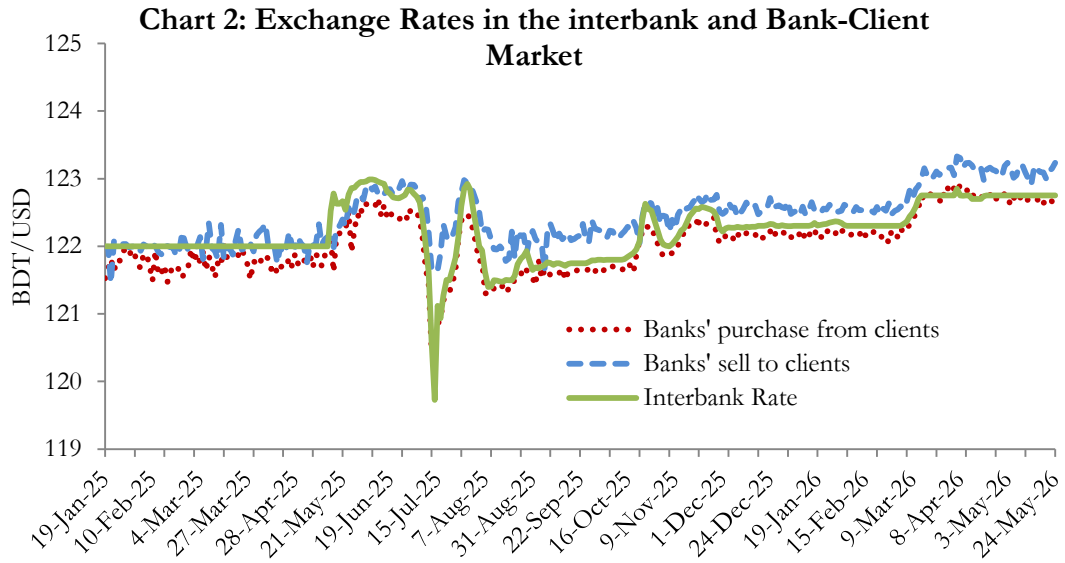


Source: Bangladesh Bank

- The fluctuation in the reference exchange rate originated mainly from the exchange rate for selling foreign currencies by banks to their clients (mainly for import payments), which moved within a range of 122.91–123.24 BDT/USD in May 2026 (Chart 2). However, the exchange rate for banks' purchasing foreign currencies from clients (mainly for remittance

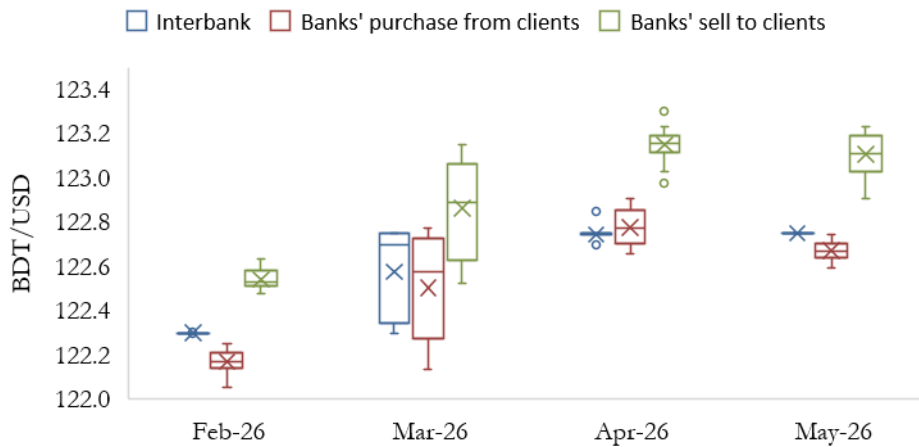
<sup>1</sup> The Foreign Exchange Market Spot Reference Exchange Rate (RR) is defined as a weighted average of freely quoted spot exchange rates in the interbank market and buy-sell of foreign currencies between bank clients and authorized dealer (AD) banks. Bangladesh Bank publishes RR twice in a business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

inflows and export receipts) fluctuated within a narrow range of 122.59–122.75 BDT/USD in this period.



- The box plot<sup>2</sup> presented in Chart 3 reveals that variability in the reference exchange rate decreased considerably in April and May of 2026 after an increase in March 2026 amid some depreciation. The low variability was due to interbank exchange rate, which remained stagnant at 122.75 BDT/USD throughout May 2026. However, the distributions of exchange rates for bank–client transactions were broadly symmetric in this month.

**Chart 3: Distribution of Exchange Rates across Markets**

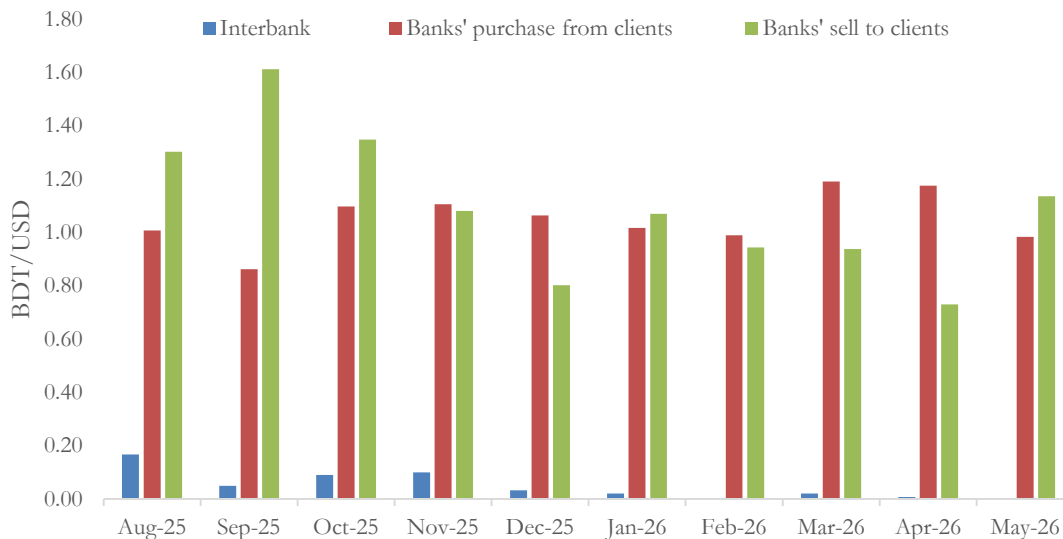


<sup>2</sup> A box and whisker plot is a graphical summary of data showing its minimum, first quartile, median, third quartile, and maximum helping to visualize the distribution and spread of values.

## Spread of Exchange Rates

- Despite an improvement in the BoP and the de-escalation of geopolitical tension in the Middle-East, the conflict has left a clear mark on the foreign exchange market reflected in the daily average spread of spot exchange rates, defined as daily maximum minus minimum rate. Given a steady exchange rate in the interbank market, while the spread in the exchange rate for bank's purchase from client market narrowed on average to 0.98 BDT/USD in May 2026 from 1.18 BDT/USD in April 2026, the spread in the bank's sells to client market edged up significantly on average to 1.14 BDT/USD from 0.73 BDT/USD in this period.

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



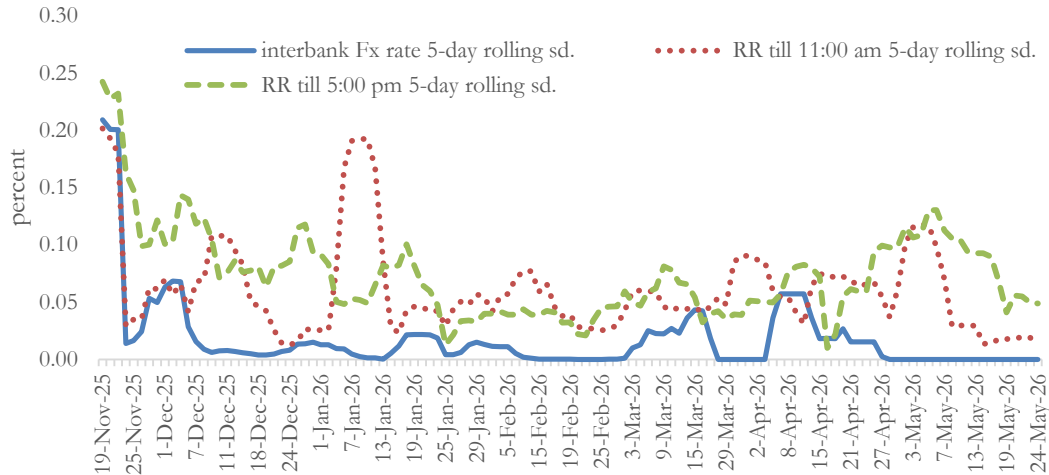
Source: Bangladesh Bank

## Variability of Exchange Rates

- Driven by the flexibility of exchange rates for bank-client transactions, the variability<sup>3</sup> of the reference exchange rate ticked up in the first half of May 2026 before moderating later in the month (Chart 5). However, the flexibility was notably higher in the exchange rate for bank's sell to clients.

<sup>3</sup> 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

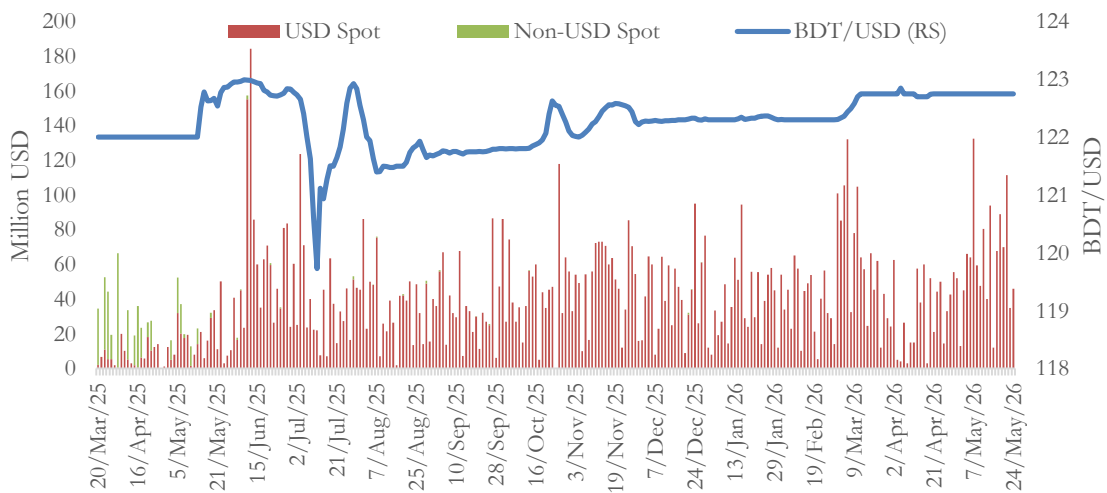


Source: Bangladesh Bank

### Transaction Volume in the Interbank Foreign Exchange Market

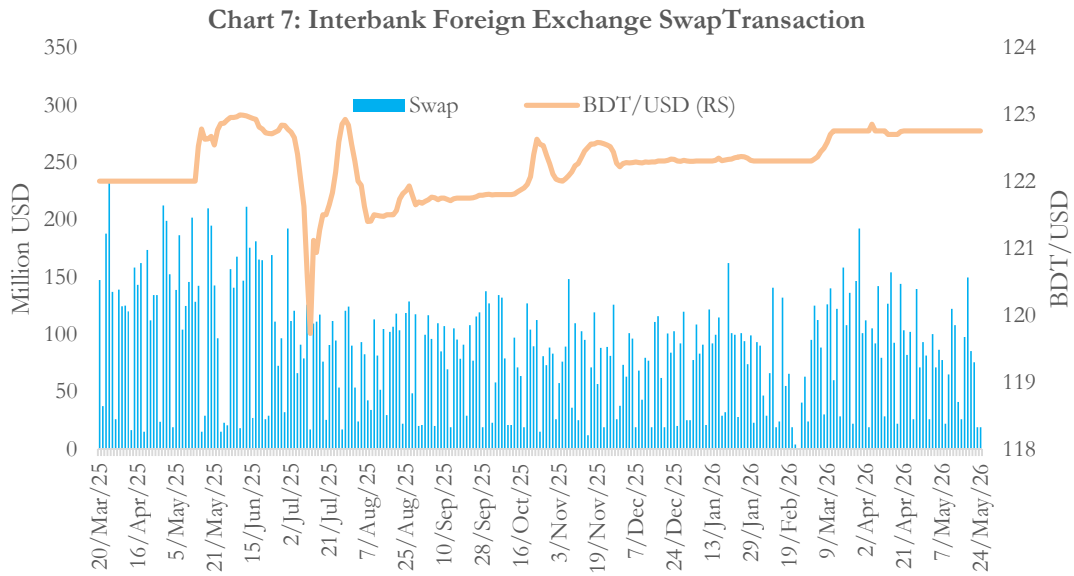
- Interbank foreign exchange transactions in Bangladesh are comprised mainly of spot and swap transactions between authorized dealer (AD) banks, while forward transactions are generally infrequent and tiny in size.
- Despite the heightened of global economic uncertainties led by Middle-East geopolitical tension, an ample inflow of remittances ahead of Eid festival led to a sharp increase in interbank spot foreign exchange transactions in May 2026, while total swap transactions declined significantly (Chart 6). The average daily spot transaction volume increased to USD 63.14 million in May 2026 from USD 32.34 million in April 2026.

Chart 6: Interbank Spot Transaction



Source: Bangladesh Bank

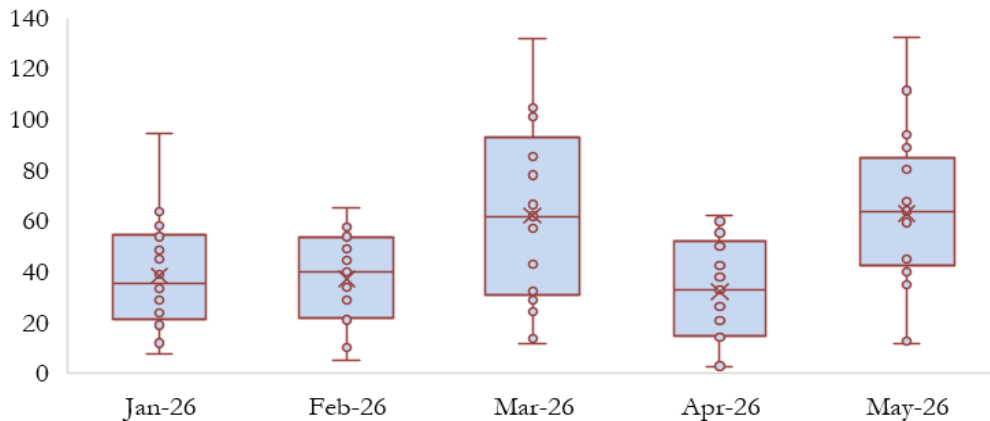
- Consequently, the share of spot transactions in total interbank transactions (spot plus swap) increased to 47.40percent in May 2026 from 26.98percent in April 2026, indicating an increase in liquidity in the foreign exchange market.
- The volume and share of swap in the interbank market transactions decreased significantly during the period under review (Chart 7). In May 2026, the average daily swap transaction decreased to USD 70.05 million from USD 91.26 million in April 2026. The share of swap transaction in total interbank transaction also declined to 52.60percent in May 2026 from 73.02percent in April 2026.



Source: Bangladesh Bank

### Distribution of Spot Foreign Exchange Transactions

**Chart 8: Distribution of Interbank Forex Spot Transaction Volume (Million USD)**



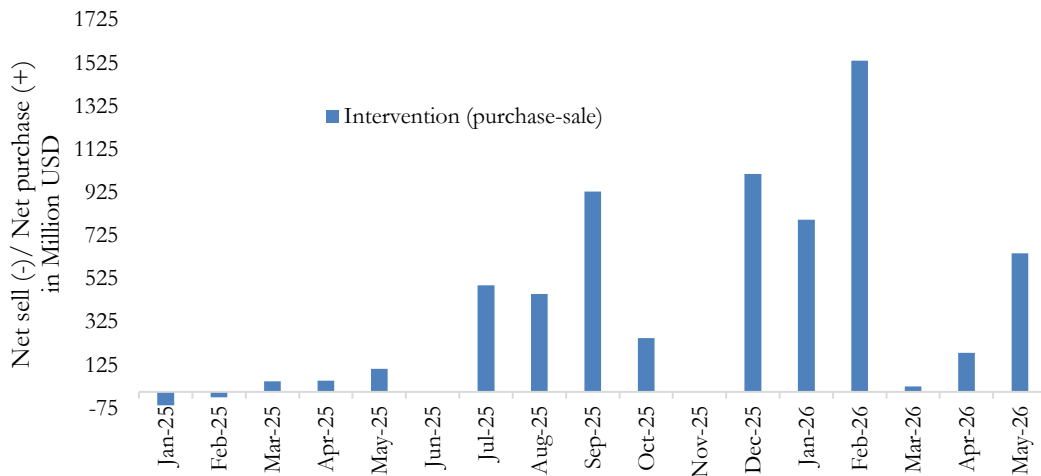
Source: Bangladesh Bank

- A rise in liquidity in the foreign exchange market led to a rise in interbank spot foreign exchange transaction volume on average in May 2026 with some fluctuation in daily transactions compared to April 2026.
- In this month, the volume of daily spot USD transactions ranged from USD 12 million to USD 132.50 million.
- The distribution of daily spot USD transactions in May 2026, presented in Chart 8, remained at a relatively high level with considerable variability with a broadly symmetric 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

- As the foreign exchange market experienced mild pressure, Bangladesh Bank increased the pace of its foreign exchange (FX) purchases in May 2026. As part of its cautious and prudent market management strategy, the central bank raised its FX purchases to USD 642 million in May 2026, compared to USD 180 million in April 2026.

**Chart 10: BB's Intervention in the FX Spot Market**

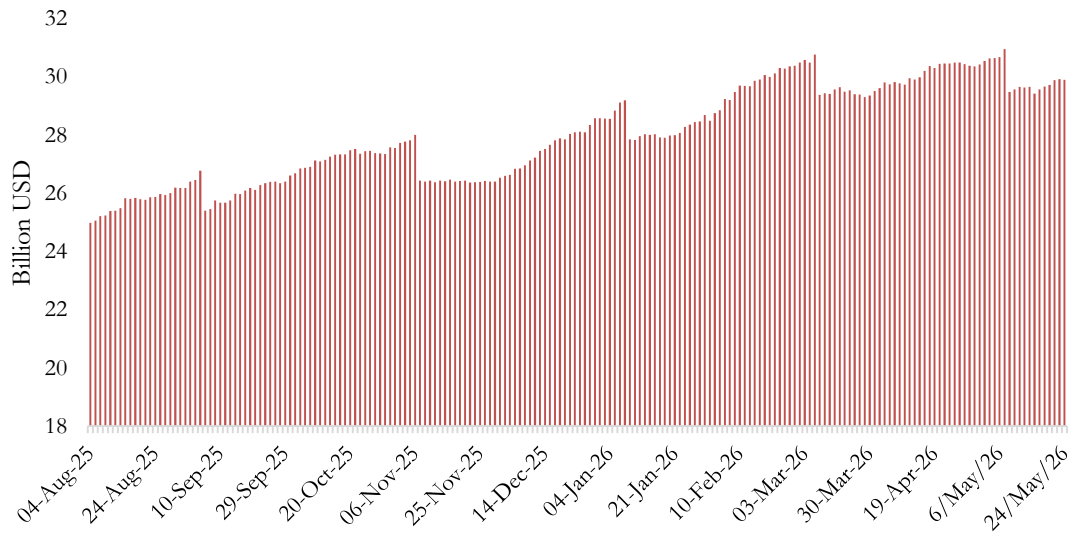


Source: Bangladesh Bank

### Foreign Exchange Reserve

- The foreign exchange reserves reflected a sharp decline in the mid May but after this it showed an upward trend for the rest of the month May 2026. On 10<sup>th</sup> May 2026, Bangladesh Bank made an ACU payment of approximately USD 1.51 billion to settle import liabilities for the March–April period, significantly reducing the gross foreign exchange reserve. However, in May 2026, the gross foreign exchange reserve decreased by nearly USD 530 million, reflecting a stable and stronger foreign currency inflows during the period.

**Chart 10: Gross Forex Reserve (BPM 6)**

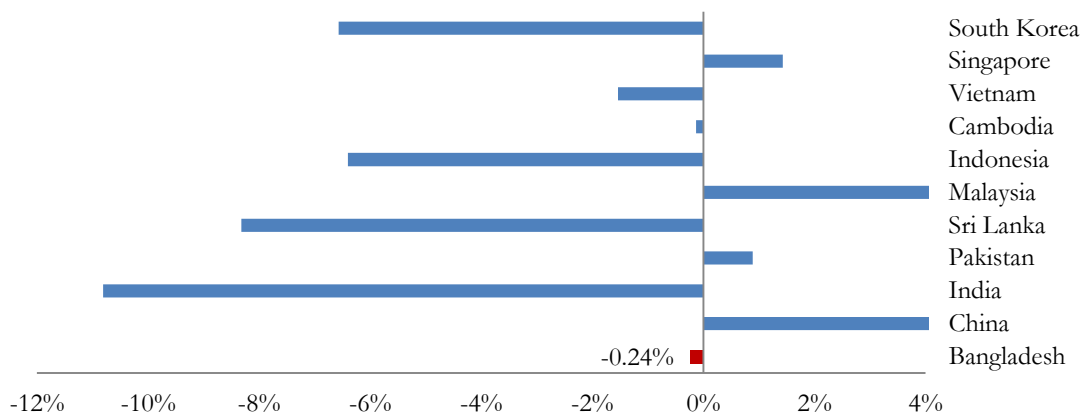


Source: Bangladesh Bank

### Depreciation of Exchange Rate

- The interbank spot exchange rate remained unchanged at BDT 122.75 per USD at the end of May 2026, the same level recorded at the end of April 2026, reflecting stability in the foreign exchange market. However, on a year-on-year basis, the exchange rate movement resulted in a nominal depreciation of 0.24 percent against the US dollar in May 2026 (Chart 11).

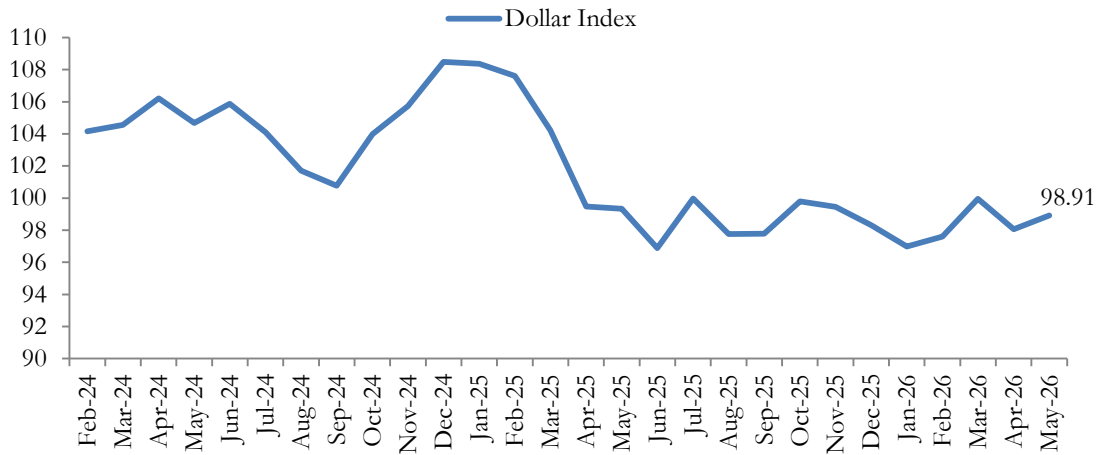
**Chart 11: Appreciation (+)/Depreciation(-) of Currencies vis-à-vis USD May 2026 over May 2025 (in %)**



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 May 2026, the index increased to 98.91 from 98.06 in April 2026 (Chart 12), reflecting a slight strengthening of the U.S. dollar during the period.

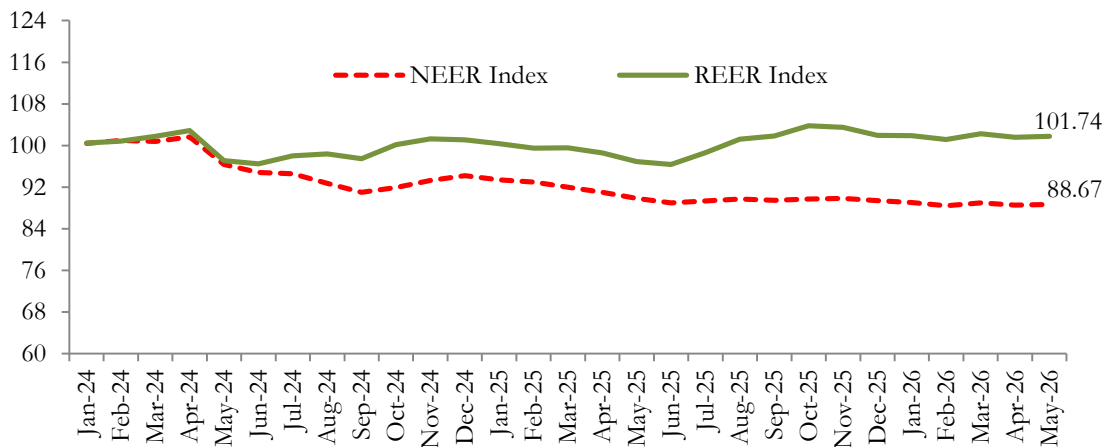
**Chart 12: Dollar Index**



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

- The Nominal Effective Exchange Rate (NEER) index appreciated in May 2026, increased to 88.67 from 88.56 in April 2026. This indicates that the domestic currency has strengthened on a trade-weighted basis against the currencies of the country’s major trading partners. Moreover, on a year-on-year basis, the NEER index recorded a depreciation of 1.29 percent in May 2026, further reflecting the weakening of the domestic currency against a basket of major trading partners’ currencies.

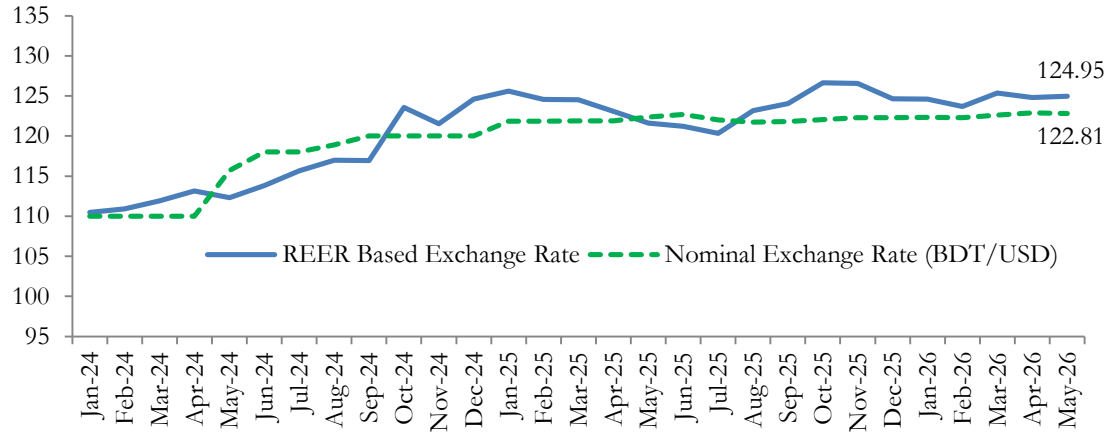
**Chart 13: Movement of NEER & REER Index (Base: FY24 =100)**



Source: Bangladesh Bank

- The Real Effective Exchange Rate (REER) witnessed a year-on-year appreciation of 4.99 percent, mainly due to a relatively larger increase in the consumer price indices of Bangladesh's major trading partners. The REER index increased to 101.74 in May 2026 from 101.57 in April 2026, indicating an appreciation<sup>4</sup> of the domestic currency in real trade-weighted terms against the currencies of major trading partners.

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



Source: Bangladesh Bank

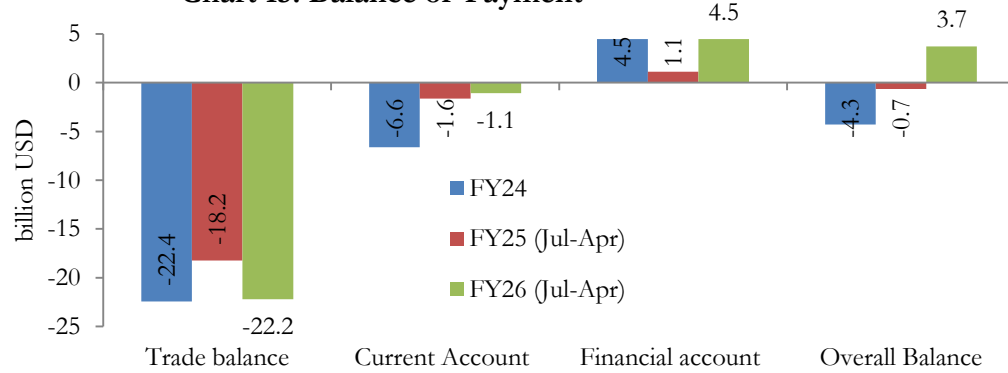
- As the value of the REER index is larger than 100, the REER-based exchange rate, which provides a sense of equilibrium exchange rate, moved above the nominal exchange rate, suggesting space for nominal depreciation of BDT (Chart 14). REER based exchange rate (USD/BDT) was 124.95 while Nominal exchange rate was 122.81 in May 2026.

## Economic Fundamentals

- After facing intense pressure, the external sector of the Bangladesh economy rebounded strongly in FY26, reflected in an improved balance of payment (BoP), a stable exchange rate, and a recovering foreign exchange reserve. An overall surplus in the BoP, driven by a narrow current account deficit (CAB) and a substantial financial account surplus eased pressure on the foreign exchange market and supported foreign exchange reserve accumulation.

<sup>4</sup> An upward movement of the indices reflects appreciation and downward movement reflects depreciation.

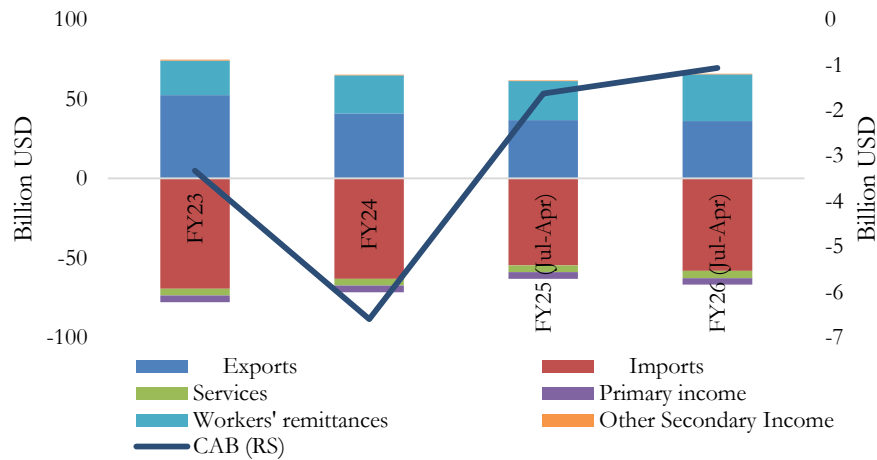
Chart 15: Balance of Payment



Source: Bangladesh Bank

- Despite a sizable deficit in the trade balance, the current account balance (CAB) maintained a low deficit, approaching near-balance in FY26, driven mainly by a robust inflow of remittances. According to the latest data available through April 2026, current account deficit narrowed to USD 1.07 billion (0.24 percent of GDP) during July-April of FY26 – an improvement over a deficit of USD 1.64 billion in the same period of FY25 (Chart 15).

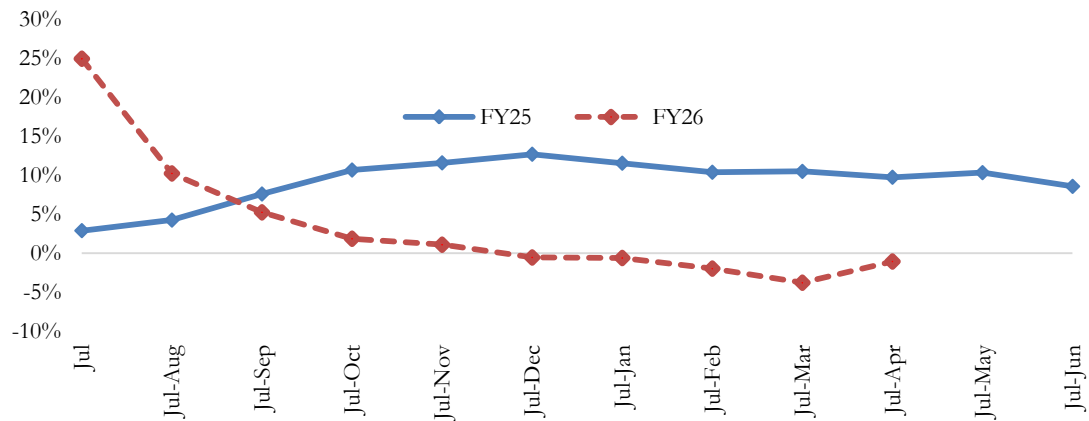
Chart 16: Current Account Balance



Source: Bangladesh Bank

- However, trade deficit widened considerably in this period, particularly in H2FY26, on the back of slowdown of export receipts and upward pressure on import bills due to global commodity and energy price surges following the eruption of war in the Middle East since late February 2026.

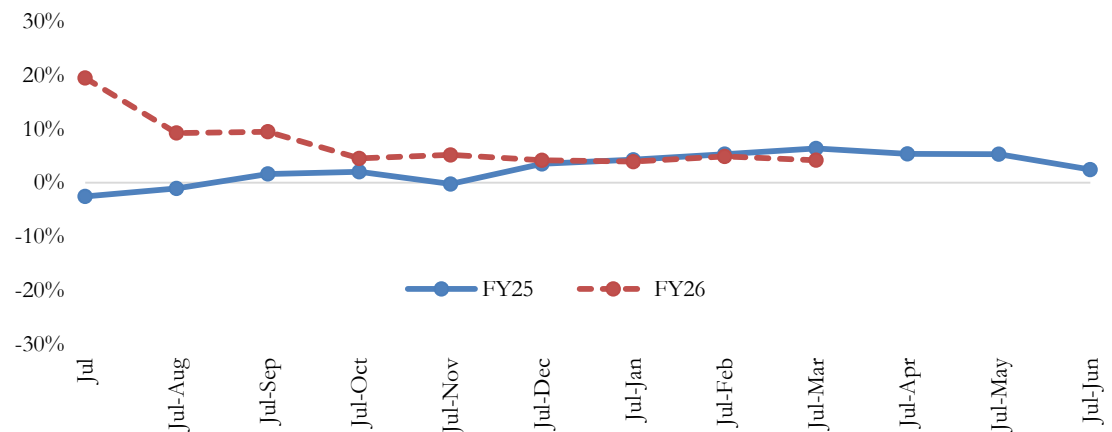
Chart 17: Cumulative Export Growth



Source: Bangladesh Bank

- The negative trend in export growth has persisted since July-December of FY26, although the declining trend narrowed slightly in the July-April period compared to July-March, mainly due to weaker ready-made garments (RMG) exports. The export growth was -1.1 percent (y-o-y) in July-April period of FY26 compared to 8.6 percent (y-o-y) of the same period of previous fiscal year.

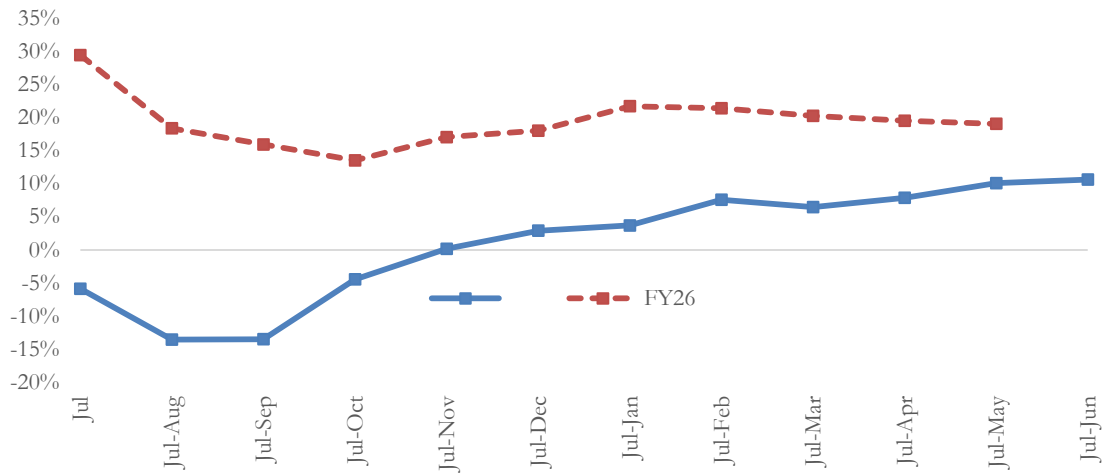
Chart 18: Cumulative Import Growth



Source: Bangladesh Bank

- Notwithstanding the robust import growth in the starting of the FY26, import growth dwindle steadily to moderate level in July-April of FY26, supported by the well managed and sustainable trade activity by Bangladesh. Import registered by 4.2 percent in July-April of FY26 compared to 6.4 percent during the same period of the previous fiscal year. 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 formal some channels. Remittances inflow amounted to USD 29.33 billion with 19.1 percent cumulative growth in July-May of FY26, which played significant role in stabilizing the Bangladesh's external sector during this period.