

Economic & Financial Developements



Part A: Economic and Financial Developments

Executive Summary

In spite of political instability during Q3 in FY15, GDP at constant price grew by 6.51 percent in FY15 which was reasonably higher than 6.06 percent growth in FY14 reported in the provisional estimates by Bangladesh Bureau of Statistics (BBS). The growth momentum was largely concentrated in the industry and service sectors, while agricultural activities registered a decelerated growth rate compared to the previous fiscal year. The industry sector grew by 9.60 percent in FY15 compared to 8.16 percent growth in FY14. The service sector registered a higher growth to 5.83 percent in FY15 from 5.62 percent in FY14. The agriculture sector's growth decelerated to 3.04 percent in FY15 from 4.37 percent in FY14.

The 12-month average CPI inflation came down to 6.41 percent in FY15 from 7.35 percent in FY14, driven mainly by decelerating food inflation. However, point-to-point (p-to-p) CPI inflation fell from 6.97 percent in June 2014 to 6.25 percent in June 2015. At a disaggregated level, food inflation (p-to-p) trended down until December 2014 and then started to rise because of supply disruptions that stemmed from political unrest and reached 6.23 percent in May 2015. Finally it was 6.32 percent in June 2015 because of the holy Ramadan. On the other hand, nonfood inflation (p-to-p) rose to 6.15 percent in June 2015 from 5.45 percent in the previous month.

Developments in money and credit markets were more or less in line with the annual monetary program for FY15 excepting growth in public sector credit. In FY15 broad money (M2) decelerated to 12.4 percent from 16.1 percent in FY14. The growth in private sector credit increased to 13.2 percent in FY15 compared with 12.3 percent growth in FY14. However, the growth of credit to the public sector was far behind the programmed growth of 25.3 percent in June 2015 due to substantial improvement in balance of government account. Net Foreign Asset (NFA) grew by 18.2 percent in FY15 compared to 41.2 percent in FY14.

The current account balance (CAB) recorded a deficit of USD 1.65 billion in FY15 compared to a surplus of USD 1.40 billion in FY14, largely due to import growth (+13.0 percent) outpacing the export growth (4.4 percent). Inflows of remittances, however, grew by 7.5 percent during FY15. The overall picture for FY15 showed deficits of USD 9.92 billion in the trade balance, USD 4.63 billion in services account, USD 2.99 billion in primary income account, while the secondary income posted a surplus of USD 15.89 billion. Based on the healthy surplus in capital and financial accounts, the overall balance of payments (BOP) recorded a surplus of USD 4.37 billion in FY15 which is lower than the surplus of USD 5.48 billion in FY14.

Preliminary estimates show that overall revenue reached TK. 1641 billion against TK. 1633.7 billion targeted in revised budget of FY15 while overall expenditure stood at TK. 2093.9 billion against TK. 2396.7 billion targeted in revised budget of FY15. Accordingly, the overall budget deficit for FY15 amounted to 3.4 percent of GDP (59.3 percent of the annual deficit in the revised budget) against 5.0 percent of GDP targeted in the revised budget of FY15, slightly higher than 2.6 percent of GDP recorded in the previous year.

The banking sector performance during Q4FY15 was mixed compared to that of the previous quarter. Several key indicators such as gross nonperforming loans (NPL), net NPL, provision shortfall and interest rate spread exhibit improvements during this quarter while profitability measures such as return on equity (ROE) and return on assets (ROA) show decrease in profitability during the quarter relative to the previous quarter.

The ratio of gross NPL to total outstanding loans of the banking sector decreased from 10.5 percent at the end of Q3FY15 to 9.7 percent at the end of Q4FY15. Accordingly, the ratio of net NPL decreased from 3.7 percent at the end of March 2015 to 2.8 percent at the end of June 2015. Provision shortfall position of the banking sector also improved during Q4FY15 and stood at (-) Tk. 24.7 billion from (-) Tk. 37.8 billion at the end of March 2015. However, the capital adequacy ratio (CAR) decreased to 10.3 percent in Q4FY15 from 10.7 percent in Q3FY15. Among the profitability measures, ROE of the banking industry decreased to 6.6 percent at the end of June 2015 from 8.09 percent at the end of December 2014. On the other hand, the monthly interest rate spread for all banks, measured as the difference between monthly weighted average interest rate of advances and deposits, remained below 5.0 percent during Q4FY15.

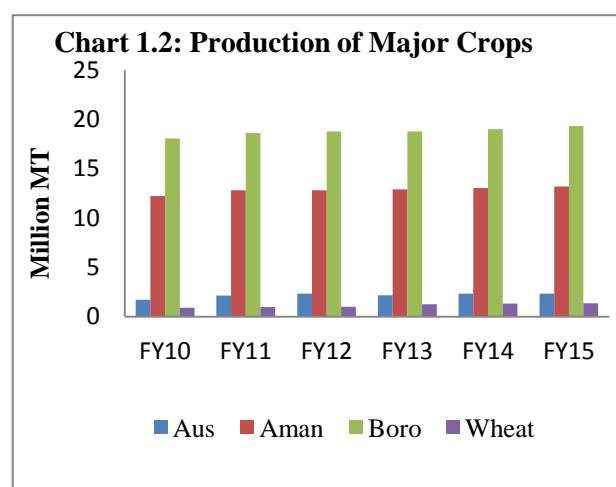
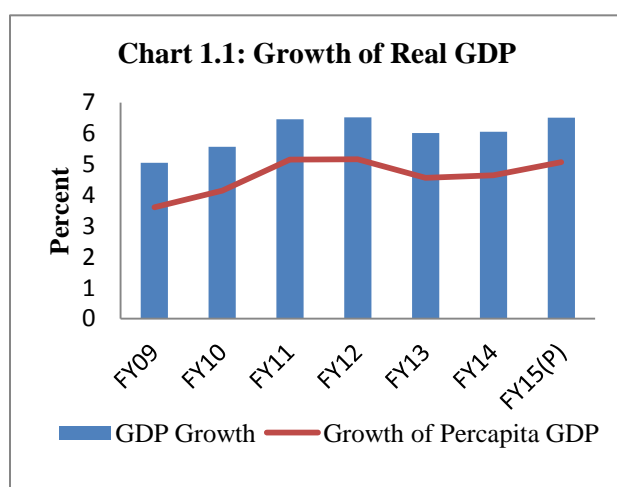
Turning to the stock market, during Q4FY15 all the indicators of the Dhaka Stock Exchange (DSE) improved due mainly to reduced corporate tax rates and higher profit rates in NSD certificates. At the end of Q4FY15, DSE broad (DSEX) index and DSE 30 index were at 4583.1 and 1769.4 which were 1.2 percent and 2.4 percent higher respectively compared to Q3FY15. Over the same period, market capitalization increased by 3.2 percent. DSEX index and DSE 30 index increased by 2.3 percent and 7.6 percent respectively in Q4FY15 compared to Q4FY14. DSE market capitalization increased significantly by 13.2 percent during Q4FY15 as compared to Q4FY14.

Bangladesh Bank's monetary policy stance for July-June of FY15 as reflected in the half-yearly Monetary Policy Statement for H1FY15 and H2FY15 was inclusive growth supportive. Monetary policy for H1 of FY16 is designed for inclusive sustainable growth supportive to achieve 7.0 percent real GDP growth for FY16.

I. Developments in the Real Economy

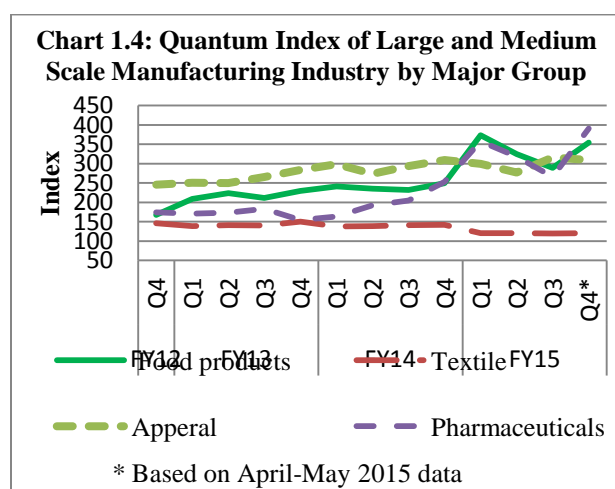
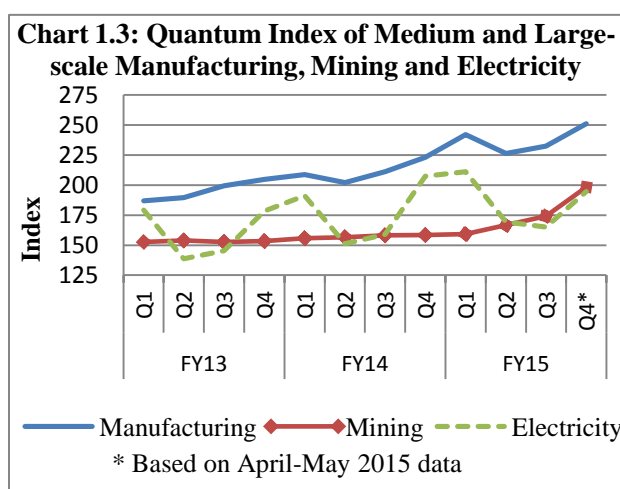
1.1 Provisional estimates of gross domestic product (GDP) for FY15 by Bangladesh Bureau of Statistics (BBS) reveal that the expansion of economic activities was significantly higher in FY15 compared to FY14, even though economic activities during the third quarter of FY15 were hindered by domestic political instability. GDP at constant prices grew by 6.51 percent in FY15 which was 6.06 percent in FY14. The growth momentum was largely concentrated in the industry and service sectors, while agricultural activities registered a decelerated growth compared to the previous fiscal year. However, during the last quarter of FY15, industry sector indicates strong economic activities, while agriculture and service sector activities depicted a mixed picture.

1.2 The agriculture sector, which constitutes 15.95 percent of real GDP, experienced a slower growth of 3.04 percent in FY15 compared to 4.37 percent in FY14, due largely by a lower growth of crop and horticulture production (1.30 percent in FY15 compared to 3.78 percent in FY14). As per data from Department of Agriculture Extension (DAE), cereal crops production, which constitutes the lion share of the total crop production in the country, experienced a lower growth rate of 1.30 percent in FY15 compared to 2.44 percent growth in the previous fiscal year.



1.3 Relatively higher production of *boro* rice, and negative growth of maize production- which are harvested in the Q4, signaled a mixed trend of agricultural activities in the country during the last quarter of FY15). According to DAE data, production of *boro* rice, the major crop of the country, increased to 19.43 million metric ton (mmt) in FY15 from 19.01 mmt in FY14. On the other hand, maize production registered a negative growth rate of 2.19 percent in FY15 compared to a positive growth of 15.52 percent in FY14. The production of vegetables grew a lower rate of 3.40 percent in FY15 compared to 4.03 percent growth in FY14.

1.4 The industry sector, which comprises 30.42 percent of real GDP, witnessed a robust growth of 9.60 percent in FY15 compared to 8.16 percent growth in FY14. Higher growth of the manufacturing and construction sub-sectors was the main driver of the growth. BBS estimates showed that growth of the manufacturing production increased to 10.32 percent in FY15 from 8.77 percent in FY14, due to higher growth in both the large and medium scale, and small scale manufacturing production. The growth of large and medium scale manufacturing production increased to 10.24 percent in FY15 from 9.32 percent in FY13. Similarly, the growth of small scale manufacturing production picked-up to 10.70 percent in FY15 from 6.33 percent in FY14. Like manufacturing industries, the construction industry also registered a higher growth of 8.63 percent in FY15 compared to 8.08 percent in FY14.



1.5 On the basis of the Quantum index of Large and Medium Scale Manufacturing Industries, manufacturing industries grew by 17.01 percent in April-May 2015 compared to the same period of the previous fiscal year (chart 1.4), largely due to high growth in manufacturing of food products (53.73 percent), manufacturing of pharmaceuticals (69.29 percent) and manufacturing of non-metallic mineral products (41.44 percent). However, some manufacturing productions experienced negative growth, such as textile (-11.36 percent), paper, leather and leather products (-13.36 percent) and chemical and chemical products (-12.28 percent). At the same time, manufacturing of wearing apparel registered a low growth of 4.17 percent during the same period.

1.6 BBS estimates showed that service sector (which is 53.62 percent of real GDP) grew by 5.83 percent in FY15 compared to 5.52 percent in FY14 resulted from higher growth in public administration and defense (7.48 percent), financial intermediation (8.83 percent) and real estate, renting and business (4.66 percent). However, wholesale and retail trade (which comprise 26.33 percent of the service sector) and transport, storage and communication (which comprise 21.34

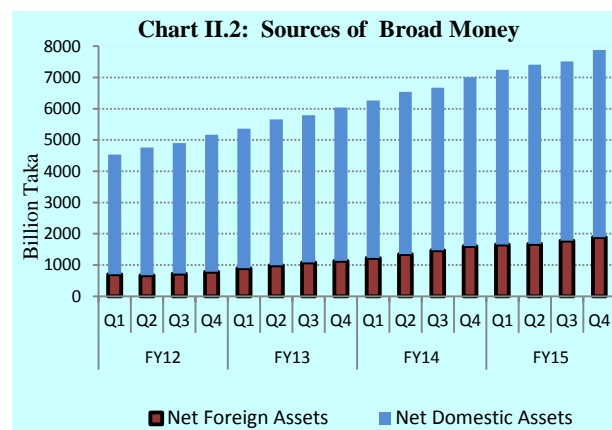
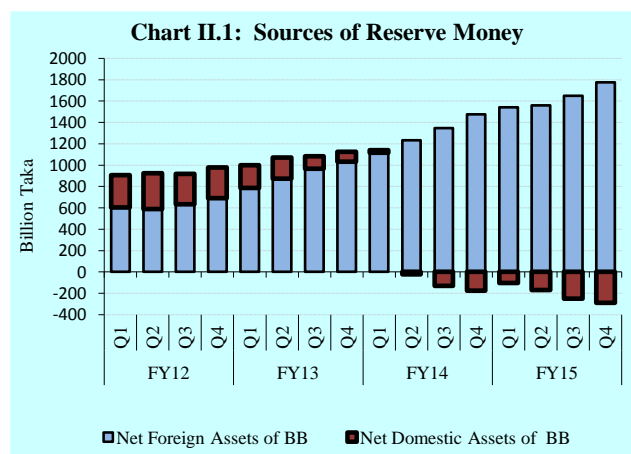
percent of the service sector) registered somewhat low growth compared the previous fiscal year. Wholesale and retail trade grew by 6.59 percent in FY15 compared to 6.73 percent in FY14. Similarly, transport, storage and communication experienced 5.99 percent growth in FY15 as against 6.05 percent in FY14.

1.7 A number of proxy indicators, such as cargo handling through Chittagong port, trade financing, bank advances to transport and communication sector and trade etc, indicate a mixed picture in terms of service sector activities during the last quarter of FY15. Total cargo handled (export and import) through Chittagong port registered 22.00 percent increase in Q4 FY15 as against 15.92 percent rise in Q4 FY14. On the other hand, data on bank advances by economic purposes (table 1.9 in appendix) show that credit (outstanding) to trade and commerce increased by 5.83 percent in Q4FY15 as against 20.20 percent in Q42014. Credit to transport sector declined by 22.12 percent in Q42015 which was (-) 9.30 percent in Q42014.

II. Money and Credit Market Developments

2.1 The monetary policy stance of July-December 2015 is explicitly pro-growth to keep average inflation rate at about 6.2 percent in supporting 7.0 percent growth target. In line with the target, BB aims to limit reserve money growth to 16.5 percent and broad money growth to 15.0 percent by December 2015. The space for private sector credit growth of 14.3 percent (including foreign borrowing by local corporate) has been kept well to achieve output growth targets and to accommodate any potential rise in investment over July-December 2015.

2.2 In June 2015 broad money (M2) growth was 12.4 percent compared with 12.5 percent in March 2015 and 16.1 percent in June 2014. The M2 growth was 4.1 percentage point lower than the programmed level of 16.5 percent in June 2015. The growth in private sector credit decreased to 13.2 percent in June 2015 from 13.6 percent in March 2015, and remained lower than the programmed growth of 15.5 percent though the growth was a bit higher than the actual growth of 12.3 percent a year earlier. Credit to the public sector decreased by 2.6 percent in June 2015 compared with the decline of 3.0 percent in March 2015 and an increase of 8.9 percent in June 2014. However, the growth of credit to the public sector was far behind the programmed growth of 25.3 percent in June 2015 due to substantial improvement in balance of government account. Net Foreign Asset (NFA) grew by 18.2 percent in June 2015 compared to the growth of 20.8 percent in March 2015.

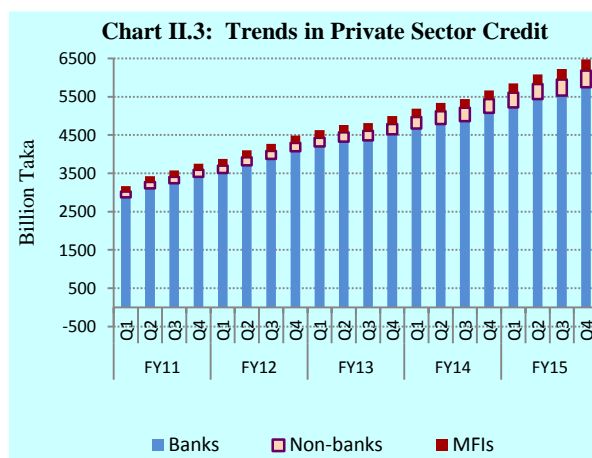


2.3 A look at the components of M2 shows that currency, demand deposits and time deposits increased by 14.3 percent, 12.5 percent and 12.1 percent (y-o-y) respectively in June 2015 compared with the increase of 13.9 percent, 15.4 percent and 16.5 percent respectively during the same period of the preceding year. Narrow money or M1 grew by 13.5 percent in June 2015 which was 10.0 percent in March 2015 and 14.6 percent in June 2014. The money multiplier

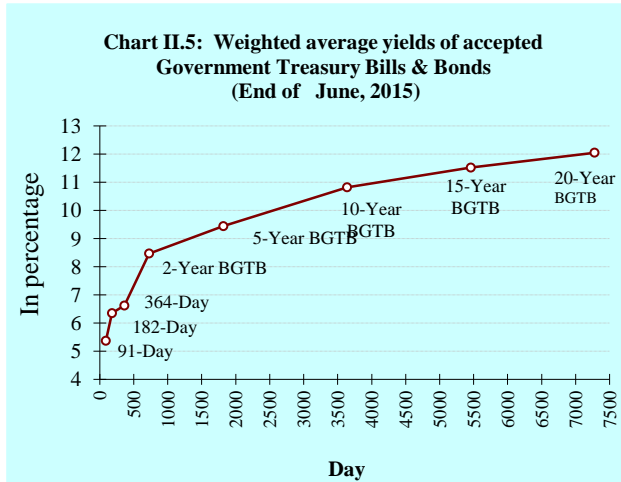
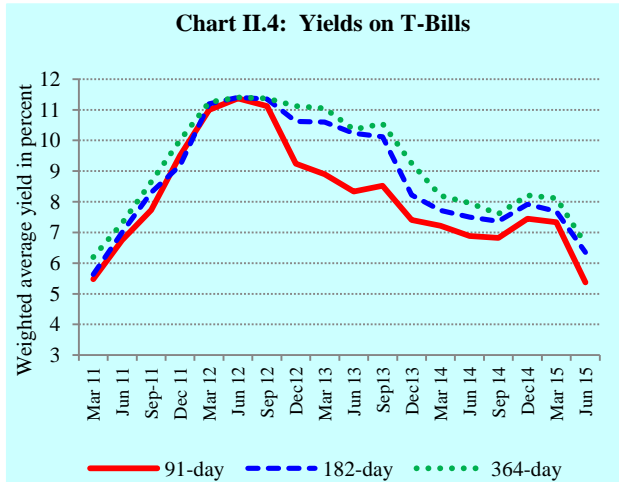
(M2/RM) marginally decreased to 5.32 in June 2015 from 5.39 in March 2015 and 5.41 in June 2014 reflecting the slightly slower expansion of M2.

2.4 Reserve money (RM) grew by 14.3 percent (y-o-y) in June 2015 compared with 15.5 percent (y-o-y) growth during the same period of the preceding year due mainly to 20.3 percent increase in NFA of BB.

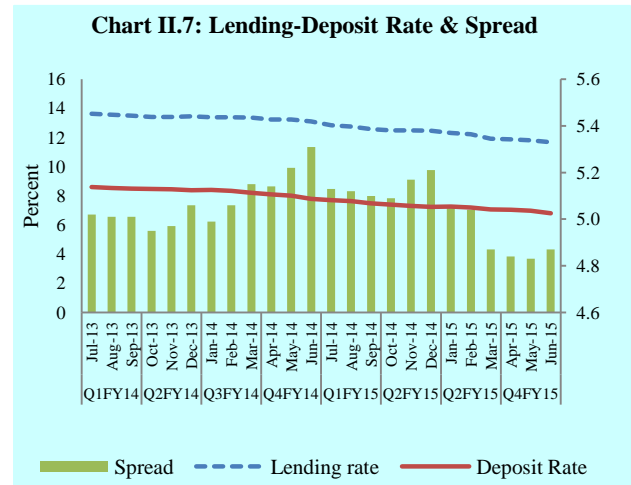
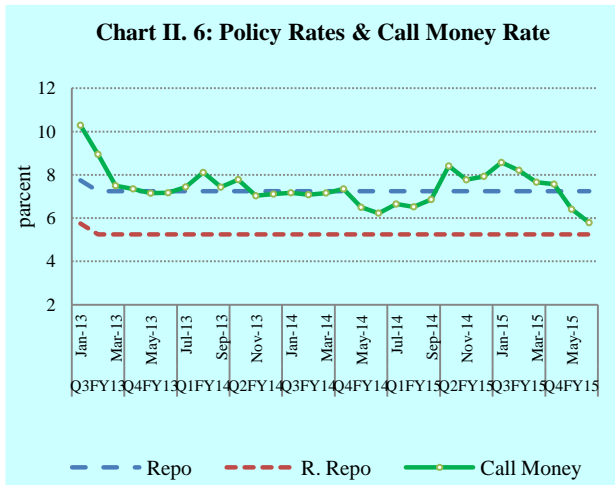
2.5 In June 2015, private sector credit (including banks, non-banks and micro-finance institutions) grew by 18.0 percent compared with 11.5 percent in June 2014. Individually, bank advances in consumer financing grew sharply by 81.2 percent at the end of June 2015 compared to 2.5 percent at the end of June 2014. In the agriculture sector the supply of credit significantly increased by 51.7 percent at the end of June 2015 (of which advances to crops increased by 54.7 percent while others went up



by 25.3 percent) compared to 10.6 percent at the end of previous year. Institutional lending grew by 26.8 percent during the quarter. Bank advances to industry grew by 19.9 percent at the end of June 2015 due to a sharp increase in industrial term lending by 21.5 percent over the period. On the other hand, working capital financing increased by 18.4 percent. Growth of bank advances to the construction was 8.3 percent at the end of June 2015 compared to 5.1 percent at the end of June 2014. Growth of advances to trade & commerce sectors was 5.8 percent at the end of June 2015 compared with the growth of 20.2 percent at the end of June 2014. The highest share of bank advances went to the industry sector (36.14 percent) followed by the trade and commerce (34.93 percent), the consumer finance (9.56 percent) and construction (8.09 percent) (Table I.9). The overall disbursements of industrial term lending by banks and NBFIs grew by 30.7 percent, and stood at Tk. 149.8 billion at end of June 2015, from Tk. 133.5 billion in March 2015 and Tk. 114.6 billion in the same quarter of the preceding year.



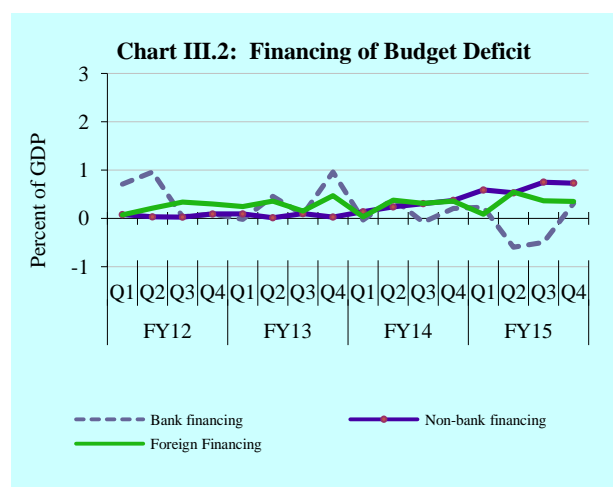
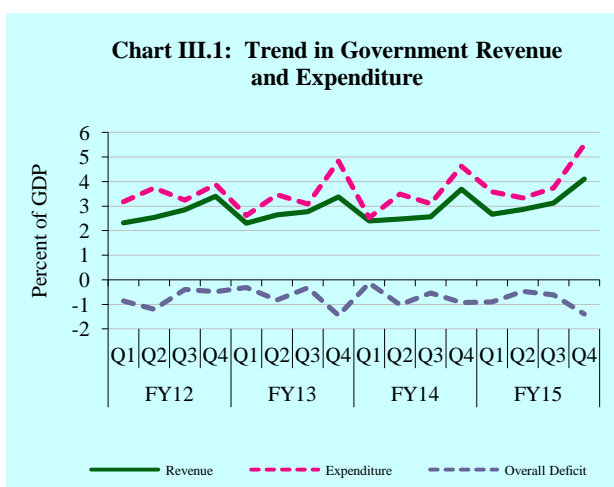
2.6 Overall yields on short term treasury bills e.g., 91-day, 182-day and 364-day declined to 5.37 percent, 6.35 percent and 6.62 percent respectively at the end of June 2015 from 7.33 percent, 7.69 percent and 8.12 percent respectively at the end of March 2015 and also from 6.89 percent, 7.50 percent and 7.96 percent at the end of June 2014. The rate of 30-day Bangladesh Bank bill remained unchanged at 5.25 percent since December 2014 but decreased from 5.85 percent in June 2014. (Table II.3). Government has temporarily discontinued primary auction of 2-year, 5-year, 10-year, 15-year and 20-year BGTB during the quarter due to adequate liquidity in the government account. Two-year, five-year and ten-year long-term treasury bonds yields were 8.47 percent, 9.44 percent and 10.82 percent respectively as on last auction held during January-March quarter 2015. On the other hand, fifteen-year and twenty-year BGTB yields were 11.52 percent and 12.05 percent respectively as on last auction held during October-December quarter 2014 (Table II.3).



2.7 The repo and reverse repo rates remained unchanged at 7.25 percent and 5.25 percent respectively during the period under consideration. However, the call money rate decreased to 5.79 percent at the end of June 2015 from 7.66 percent at the end of March 2015. The spread between lending and deposit rates remained unchanged at 4.87 percent in March 2015 and June 2015.

III. Fiscal Developments

3.1 Preliminary estimates show that total revenue increased by 11.0 percent, whereas total expenditure grew by 18.5 percent during Q4FY15 compared to that of Q4FY14. Consequently, fiscal deficit increased during the quarter under review compared to the previous quarter. Overall revenue reached Taka 1641 billion as against revised budget target of Taka 1633.7 billion in FY15 while overall expenditure stood at Taka 2093.9 billion as against the revised budget target of Taka 2396.7 billion during FY15. Accordingly, the overall budget deficit for FY15 amounted to 3.4 percent of GDP (59.3 percent of the annual revised budget deficit) as against 5.0 percent of GDP of revised budget FY15 target, slightly higher than 2.6 percent of GDP recorded in the previous year. Preliminary estimates exhibited that 60 percent of the total deficit of FY15 has been financed by domestic sources, in particular non-bank financing, while rest of the amount financed from foreign sources (Table III.1 and Chart III.2).



3.2 In FY15, Total NBR revenue increased by 13.4 percent to TK.1366.9billion (101.2percent of the revised annual target of FY15 from the level ofFY14. Revenue collection from income tax, value added tax (VAT), custom duties, and other sources increased by 13.1 percent, 12.1 percent, 13.1 percent, and 17.4percent respectively during FY15 compared to that in the previous fiscal year.

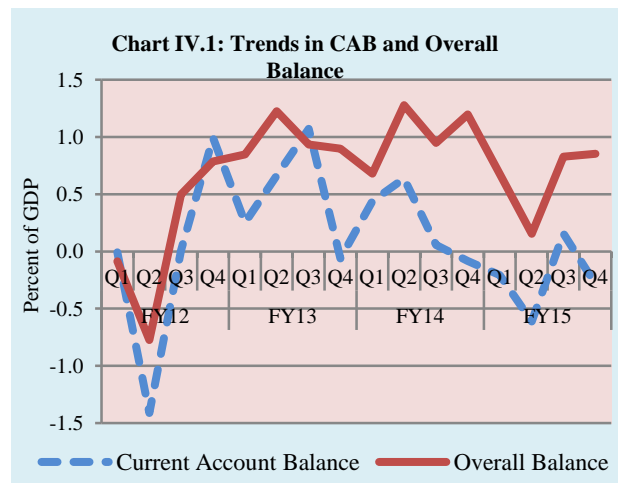
3.3 During Q4FY15, a preliminary estimate of total expenditure was TK. 739.4billion (30.9 percent of revised annual target), 18.5 percent higher than that of Q4FY14. At the end of FY15, total expenditure grew by 12.8 percent to TK. 2093.9 billion compared to that in FY14. The ADP expenditure increased more than twofold during Q4FY15 compared to Q3FY15. The ADP utilization for FY15 amounted to Tk. 711.4 billion (19.4 percent higher than that in FY14) which

was 94.9 percent of annual ADP target. The current expenditure grew by 3.4 percent to TK. 995.8 billion compared to FY14 and covered 78.2 percent of annual target.

3.4 Fiscal deficit stood at Tk.186.5 billion during Q4FY15, representing 10.4 percent of GDP compared to Tk. 125.8 billion or 0.9 percent of GDP in Q4FY14. Overall fiscal deficit for FY15 increased by 27.9 percent to TK. 452.4 billion (3.4 percent of GDP) compared to TK. 353.8 billion (2.6 percent of GDP) recorded in FY14. Of the total deficit financing, domestic financing stood at Tk. 273.5 billion in FY15 which was 31.6 percent higher than Tk. 207.8 billion recorded in FY14. Foreign financing of the deficit was Tk.178.8 billion in FY15 which was also higher than Tk.146 billion disbursed in FY14. Of the domestic sources, bank financing stood at (-) Tk. 73.7 billion compared to Tk. 66.3 billion in FY14. On the other hand, financing from non-bank sources increased by 145.3 percent to Tk.347.2 billion (Taka 230.0 billion revised budget inFY15 Target) from Tk.141.6 billion in FY14.

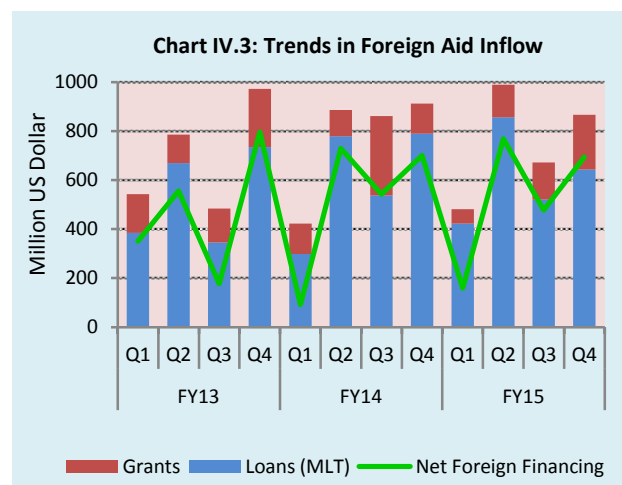
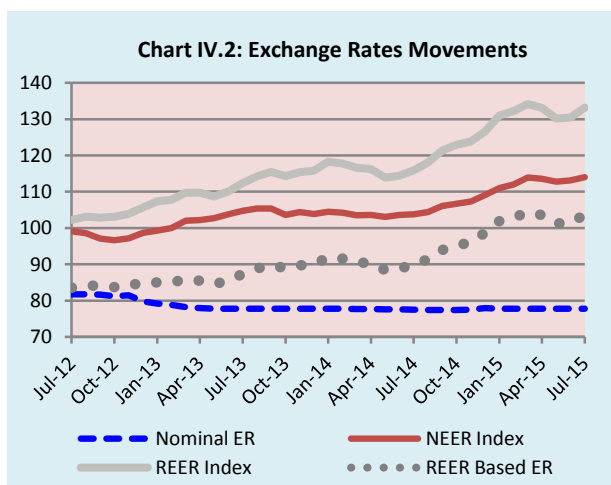
IV. External Sector Developments

4.1 The overall current account balance (CAB) recorded a deficit of USD 1.65 billion in FY15 compared to a surplus of USD 1.40 billion in FY14. During Q4FY15, the CAB recorded deficit of USD 496 million following widened trade deficit due to import growth (13.0 percent) outpaced the export growth (4.4 percent). Inflow of remittances, however, grew by 8.9 percent during the quarter under report. The overall picture for FY15 showed deficits of USD 9.92 billion in trade balance, USD 4.63 billion in services account, USD 2.99 billion in primary income account, while the secondary income posted a surplus of USD 15.89 billion.



4.2 The combined capital & financial account recorded a surplus of USD 1.48 billion in Q4FY15, lower than the surplus of USD 1.50 billion in Q4FY14. The financial account recorded a surplus of USD 1.33 billion in Q4FY15. On the other hand, surplus in the capital account expanded from USD 108 million in Q4FY14 to USD 147 million in Q4FY15. Overall, surpluses in the capital & financial account widened to USD 5.64 billion in FY15 from USD 3.41 billion in FY14.

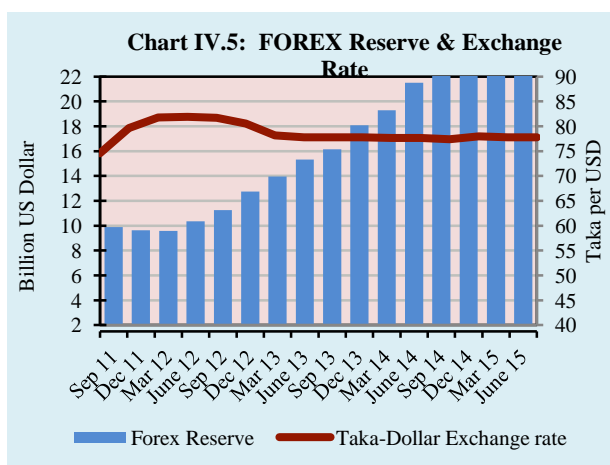
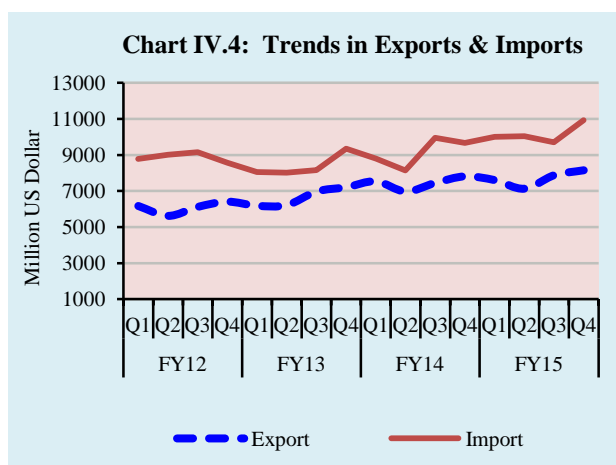
Based on the healthy surplus in capital & financial account, the overall balance of payments (BOP) recorded a surplus of USD 4.37 billion in FY15 which is lower than the surplus of USD 5.48 billion in FY14. The foreign exchange reserve stood at USD 25.02 billion at the end of June 2015 (Table IV.1).



4.3 Total foreign aid in Q4FY15 was USD 866.3 million, compared to USD 913.0 million in Q4FY14. Out of the total aid, USD 643.9 million was disbursed as MLT loan as compared to USD 789.3 million, disbursed in Q4FY14. Grants raised from USD 123.8 million in Q4FY14 to USD 222.4 million during the same period of FY15. In Q4FY15, Bangladesh made an amortization payment of USD 202.9 million, of which USD 172.5 million was paid as principal. As a result, net foreign financing in Q4FY15 was USD 693.8 million, lower than USD 701.2 million received in Q4FY14. Overall, Bangladesh made an amortization payment of USD 1.09 billion against a disbursement of USD 3.01 billion in FY15 and thus, Bangladesh received a net foreign financing of USD 2.09 billion during FY15 (which was USD 2.06 billion in the FY14) (Table IV.8).

4.4 The weighted average nominal exchange rate remained unchanged at Tk. 77.80 per US dollar from March 2015 to June 2015. The REER based exchange rate decreased to Tk. 101.48 per US dollar at the end of June 2015 from Tk. 104.35 per US dollar at the end of March 2015. Bangladesh Bank continued its intervention in the domestic foreign exchange market with a net purchase of foreign currencies amounting to USD 1.25 billion during Q4FY15. Overall, Bangladesh made a net purchase of USD 3.40 billion during FY15.

4.5 According to the Export Promotion Bureau (EPB), export earnings (f.o.b.) increased by 3.3 percent to USD 30.77 billion in FY15 compared to USD 29.77 billion in FY14. During the last quarter of FY15, exports rose by 4.4 percent to USD 8.16 billion from USD 7.82 billion in Q4FY14. Exports of RMG grew by 6.6 percent to USD 6.87 billion during the quarter under review. Export of woven garments and knitwear products to European countries increased by 6.4 percent and 0.41 percent respectively in Q4FY15 compared to the corresponding quarter of FY14. Among other major export items, earnings from jute goods increased by 5.4 percent, while export of leather decreased by 24.8 percent in Q4FY15 over the corresponding quarter of the previous year.



Overall export of woven garments (5.0 percent), knitwear products (3.1 percent), jute goods (8.4 percent) increased in FY15 compared to FY14; while export of raw jute (-11.7 percent), leather (-21.4 percent), and frozen shrimp and fish (-7.7 percent) decreased. Among non-traditional markets, RMG export to Japan (14.1 percent), China (26.3 percent), UAE (31.0 percent), Republic of Korea (15.3 percent) increased during FY15. Export of non-RMG products increased to India (17.4 percent), UAE (18.7 percent) and Brazil (114.4 percent) in FY15 (Table IV.2 and IV.5).

4.6 Import payments (according to customs data) increased by 11.3 percent to USD 45.19 billion in FY15 from USD 40.62 billion in FY14. Imports also rose to USD 12.13 billion in Q4FY15 compared to USD 10.73 billion in Q4FY14 (Table IV.3). Import of food-grains almost doubled from USD 242.1 million in Q4FY14 to USD 438.4 million in Q4FY15. Import of rice rose to USD 92.4 million during Q4FY15, compared to USD 31.5 million in Q4FY14. Wheat import increased from USD 210.6 million in Q4FY14 to USD 346.0 million in Q4FY15. Import of other food items decreased from USD 1.25 billion during Q4FY14 to USD 948.7 million in Q4FY15. Among the other food items, the import of spices (41.1 percent), sugar (34.3 percent), pulses (21.1 percent) increased, while import of edible oil (-42.7 percent) and milk & cream (-3.3 percent) decreased in Q4FY15 over Q4FY14 (Table IV.3).

4.7 Imports of consumer and intermediate goods increased by 6.5 percent (y-o-y) to USD 6.12 billion during Q4FY15. Among the intermediate goods, imports of POL (40.6 percent), textile and articles thereof (9.7 percent), plastic and rubber articles thereof (7.4 percent) increased, while imports of raw cotton (-11.3 percent), oil seeds (-42.4 percent), yarn (-5.8 percent), crude petroleum (-33.8 percent), fertilizer (-13.0 percent), dyeing and tanning materials (-9.9 percent), pharmaceutical products (-24.6 percent) decreased. Imports of capital machinery recorded a growth of 108.5 percent in Q4FY15 over Q4FY14. Overall, import of food grains (64.5 percent), consumer & intermediate goods (12.9 percent) and capital goods and others (9.8 percent) increased during FY15 compared to the previous fiscal year, while that of other food items (-1.7 percent) decreased.

4.8 During FY15, opening of import LCs increased by 3.0 percent to USD 43.07 billion, of which LCs for intermediate goods (20.8 percent), consumer goods (12.4 percent), capital machinery (12.3 percent), industrial raw materials (3.8 percent) increased while LCs for petroleum and petroleum products (-32.9 percent) and machinery for miscellaneous industries (-11.98 percent) decreased. In Q4FY15, the opening of import LCs decreased by 11.26 percent to USD 10.76 billion, of which petroleum and petroleum products (-49.98 percent), machinery for miscellaneous industries (-35.5 percent), consumer goods (-10.7 percent) industrial raw materials

(-9.5 percent) decreased, while LCs for intermediate goods (69.7 percent), capital machinery (28.9 percent) increased (Table IV.9).

4.9 The inflow of workers' remittances increased by 7.6 percent to USD 15.32 billion in FY15 compared to 14.23 billion in FY14 due to increased inflow of remittances more than USD 1.0 billion during the last year, earned from the Gulf region (increased by USD 697.40 million) and inflow from Malaysia (increased by USD 316.83 million). In the last quarter of FY15, total remittances stood at USD 4.06 billion compared to USD 3.73 billion in Q4FY14. During Q4FY15, remittance from the Gulf region increased by 8.9 percent attributable mainly due to higher growth in remittances from Saudi Arabia (13.3 percent) and Oman (17.6 percent) compared to Q4FY14. Inflow of remittance from the Euro region decreased (-2.0 percent) while remittance from the Asia Pacific region increased (20.5 percent) during Q4FY15 over Q4FY14. Remittance inflow from the rest of the world (including the US) registered 5.6 percent growth in Q4FY15 over Q4FY14. Overall, the major sources of remittance during FY15 was Saudi Arabia (USD 3.35 billion), followed by UAE (USD 2.82 billion), USA (USD 2.38 billion), Malaysia (USD 1.38 billion) and Kuwait (USD 1.07 billion) (Table IV.4). Overseas employment for Bangladeshi workers increased by 21.1 percent in Q4FY15 as a total of 135,530 Bangladeshi migrated compared with 111,889 in the corresponding period of FY14. Overall, a total of 461,872 Bangladeshi migrated abroad during FY15.

V. Price Developments

5.1 The twelve monthly average CPI inflation registered at 6.41 percent in June 2015 as compared to 7.35 percent in June 2014 driven mainly by deceleration in food inflation. Point to point CPI inflation also came down from 6.97 percent in end June 2014 to 6.25 percent in June 2015 which was slightly higher than 6.19 percent in May 2015 due to increase in both food and nonfood inflation. In disaggregate level, food inflation (p-t-p) followed downward trend up to December 2014 then it started to rise because of political unrest and reached 6.23 percent in May 2015 and finally it was 6.32 percent in June 2015 because of holy Ramadan .On the other hand, nonfood inflation (p-t-p) rose to 6.15 percent from 5.45 percent during the same period. Table-5.1 shows that contribution of food inflation to point to point CPI inflation slowly decreased with amid fluctuations over the whole FY2015 where that of nonfood inflation gradually increased during the same period.

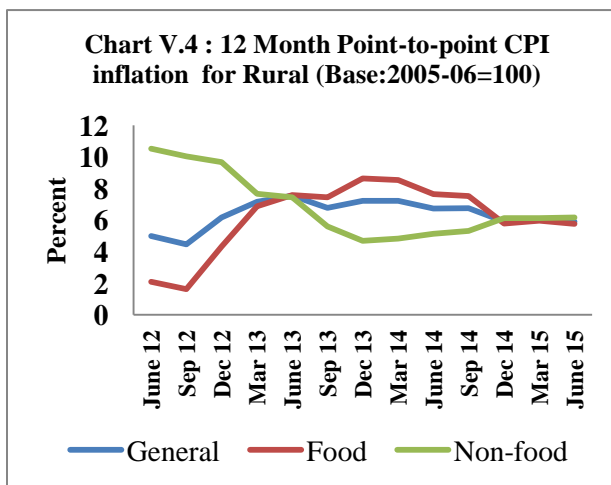
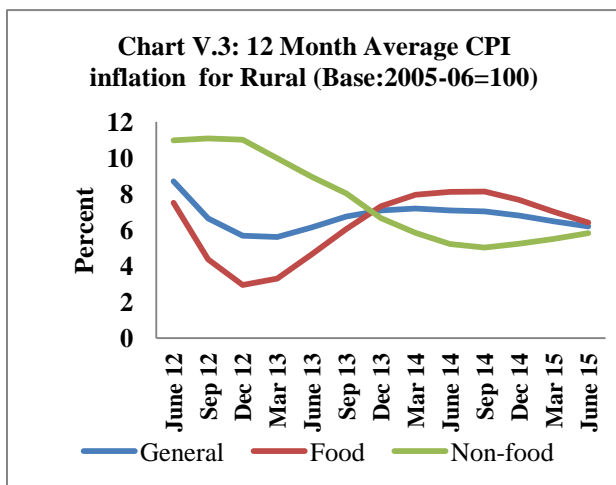
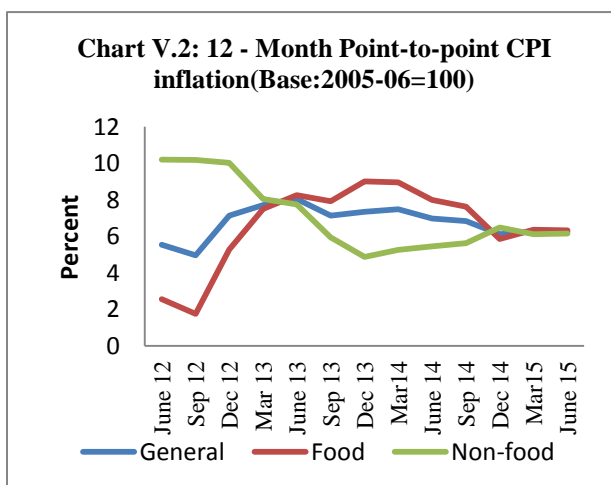
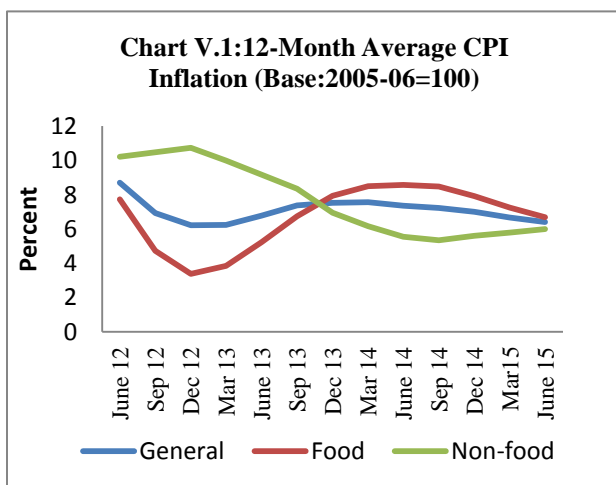
Table 5.1: Contribution[@] of Food and Major Non-Food Items / Groups in CPI inflation(Point to Point)
Base Year 2005-06: 100

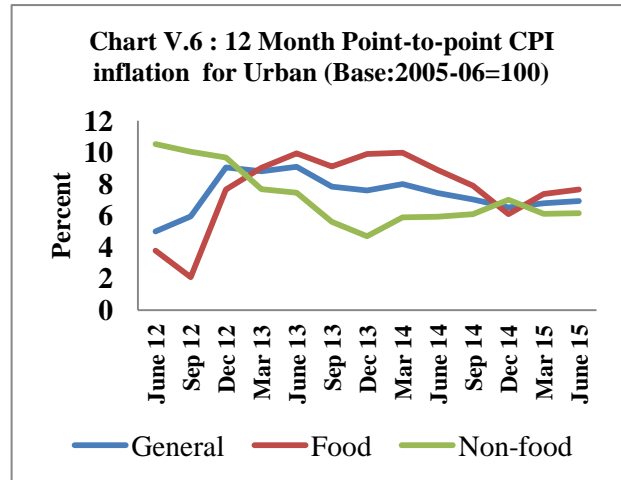
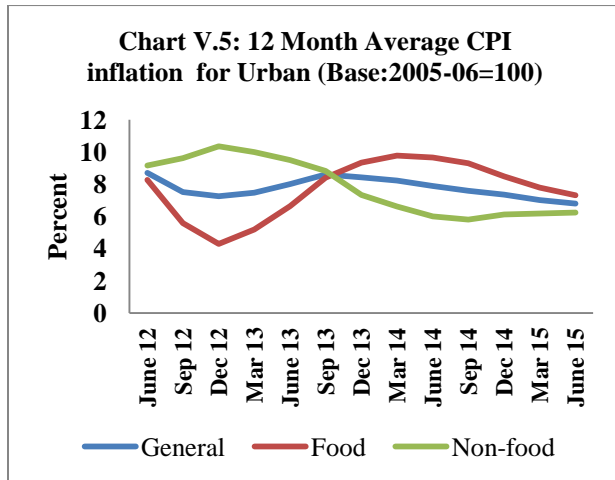
Months	Food beverage & tobacco	Clothing & Footwear	Gross rent, Fuel & Lighting	Furniture, Furnishin g & Other	Medical care and Health Expenses	Transport & Communications	Recreation, Entertainment, Education	Misc. Goods & Services	Non-food
Weight	56.18	6.84	14.88	4.73	3.47	5.8	4.28	3.82	43.82
Jun-14	65.42	8.21	13.63	2.92	1.65	3.56	1.67	2.96	34.58
Jul-14	64.15	8.86	14.05	2.59	1.63	4.10	1.69	2.94	35.85
Aug-14	63.03	8.71	15.05	2.52	1.57	4.86	1.33	2.93	36.97
Sep-14	63.28	8.60	15.03	1.88	1.80	5.96	1.40	2.04	36.72
Oct-14	61.40	8.21	14.45	2.34	2.71	7.08	1.27	2.54	38.60
Nov-14	58.45	8.36	14.90	2.45	4.11	7.62	1.38	2.74	41.55
Dec-14	53.54	8.84	15.59	2.88	4.55	9.45	1.66	3.50	46.46
Jan-15	56.24	7.21	9.47	3.04	8.41	9.89	1.76	3.98	43.76
Feb-15	55.69	7.46	9.42	3.23	8.89	9.76	1.68	3.87	44.31
Mar-15	57.08	7.33	8.95	3.41	8.73	9.45	1.33	3.72	42.92
Apr-15	57.69	7.06	8.79	3.86	8.63	9.07	1.30	3.58	42.31
May-15	56.51	8.21	8.82	3.80	8.77	9.11	1.42	3.37	43.49
Jun-15	56.86	7.97	7.73	3.95	8.85	9.38	1.61	3.65	43.14

$$^{\textcircled{a}}\text{Contribution of ith Group} = \left(\frac{\text{Inflation in ith group} * \text{Weight of ith group in CPI basket}}{\text{Headline inflation}} \right) \times 100$$

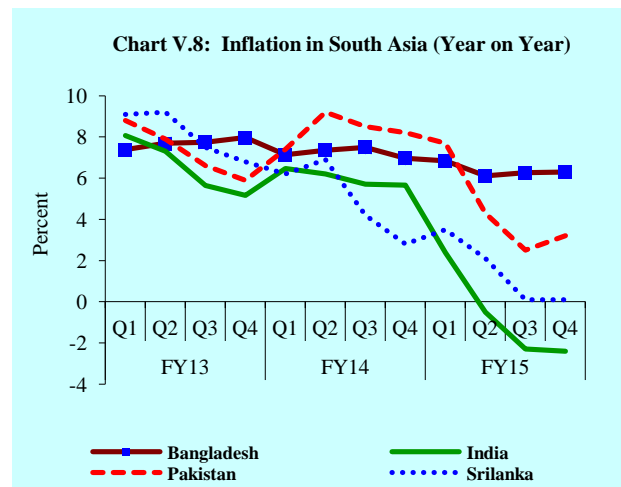
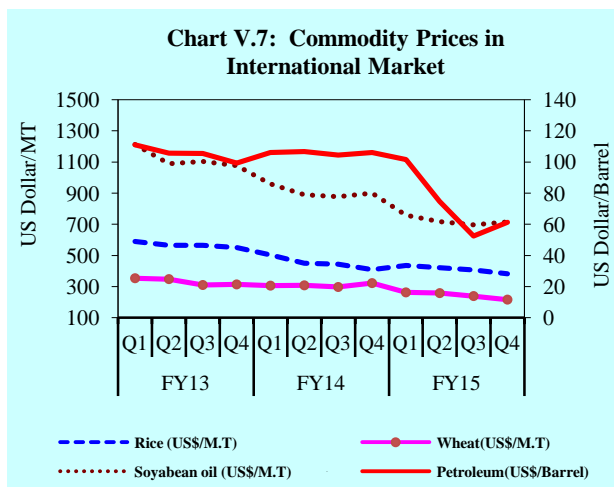
5.2 Like national average CPI inflation, urban and rural inflation followed a declining trend over the whole FY15 driven by declining in p-to p food inflation. Point-to-point CPI inflation in rural and urban areas also registered a downward trend (6.73 percent in June 2014 to 5.90

percent in June 2015 and 7.42 percent in June 2014 to 6.91 percent at the end of June 2015 respectively) and amid some fluctuations slightly rose at the end of June 2015 as compared to May 2015 because of rising both food and nonfood inflation stemming from Holy Ramadan. Point to point food inflation decreased to 5.76 percent in June 2015 from 7.64 percent in June 2014 in rural areas while food inflation declined to 7.64 percent from 8.87 percent for urban area. On the other hand, nonfood inflation in rural and urban areas rose to 6.16 percent at the end of June 2015 as compared to 5.12 percent in June 2014 and 6.14 percent from 5.91 percent during same period respectively.





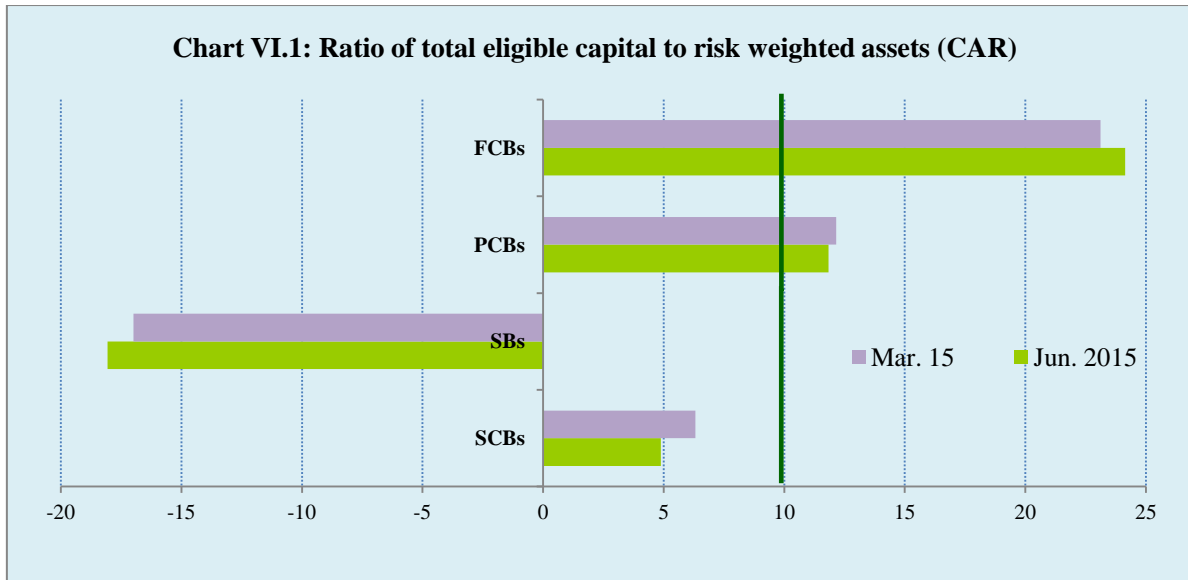
5.3 Average all Commodity prices index in international market dropped 23.62 percent during the whole FY15 due to fall in prices of the major commodities because of adequate supply. Chart V.7 incorporated the trend of quarterly average commodity prices, imported by Bangladesh. Among the South Asian countries, Bangladesh (6.3 percent p-t-p CPI) was highly inflationary pressured country than India (5.4 percent p-t-p CPI and (-) 2.4 percent WPI), Sri Lanka (0.1 percent p-t-p CPI) and even than Pakistan (3.2 percent p-t-p CPI) at the end of March 2015 (Chart V.8).



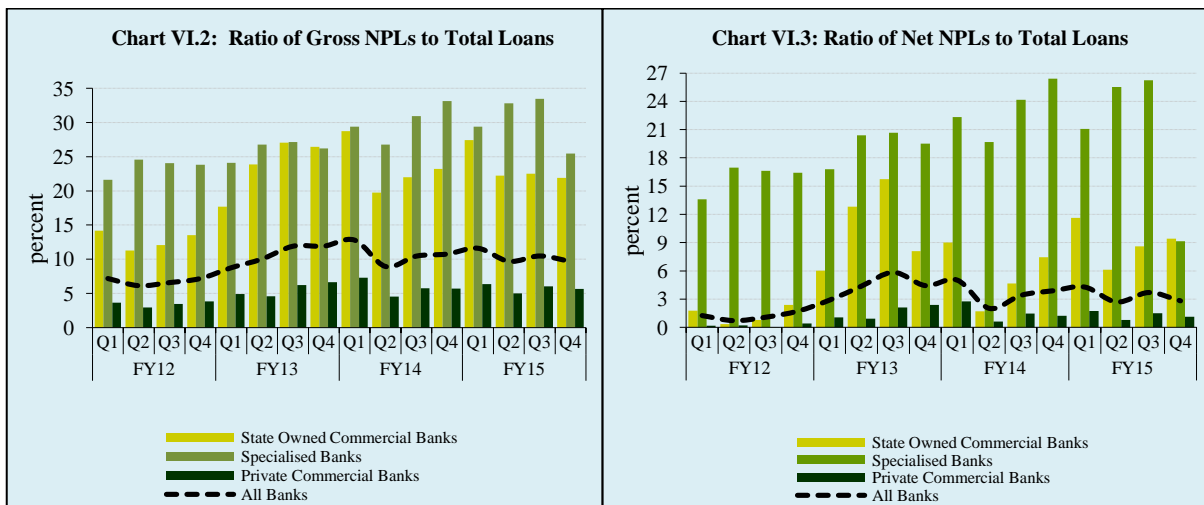
VI. Banking Sector Performance

6.1 The banking sector indicators showed a mixed trend in banking sector's performances during Q4FY15 compared to that of previous quarter. The ratio of gross NPL to total outstanding loans of the banking sector decreased from 10.5 percent at the end of Q3FY15 to 9.7 percent at the end of Q4FY15. Accordingly, the ratio of net NPL decreased from 3.7 percent at the end of March 2015 to 2.8 percent at the end of June 2015. Provision shortfall position of the banking sector also improved during Q4FY15 and stood at (-) Tk. 24.7 billion from (-) Tk. 37.8 billion at the end of March 2015. However, capital adequacy ratio (CAR) decreased to 10.3 percent in Q4FY15 from 10.7 percent in Q3FY15. Among the profitability measures, return on asset (ROA) declined slightly from 0.6 percent at the end of December 2014 to 0.5 percent at the end of June 2015. Return on equity (ROE) of the banking industry also decreased to 6.6 percent at the end of June 2015 from 8.09 percent at the end of December 2014. On the other hand, a positive development was that monthly interest rate spread for all banks, measured as the difference between monthly weighted average interest rate of advances and deposits, remained below 5.0 percent during Q4FY15. Monthly weighted average call money rate also decreased from 7.68 percent in March 2015 to 5.79 percent in June 2015.

6.2 In Q4FY15, capital adequacy ratio (CAR) decreased to 10.3 percent from 10.7 percent in Q3FY15 – a minimum of 10% is the regulatory requirement. Total risk weighted asset of the sector as a whole grew by 2.8 percent in Q4FY15 over Q3FY15 while total eligible capital of the sector decreased by 1.6 percent during this period. The ratios for SCBs, SBs and PCBs decreased to 4.9 percent, (-) 18.1 percent and 11.8 percent respectively in Q4FY15 from 6.3 percent, (-) 17.0 percent and 12.2 percent respectively in Q3FY15. However, the ratio for FCBs improved from 23.1 percent to 24.1 percent during the period (Chart VI.1).



6.3 The ratio of gross NPL to total outstanding loans of the banking sector decreased from 10.5 percent at the end of March 2015 to 9.7 percent at the end of June 2015 (Table VI.2 and Chart VI.2). Outstanding loan of the sector increased by 4.0 percent during Q4FY15 over Q3FY15 while total classified loan decreased by 3.9 percent over the same period. Gross NPL ratio for SCBs, SBs and PCBs decreased from 22.5 percent, 33.5 percent and 6.0 percent respectively at the end-March 2015 to 21.9 percent, 25.5 percent and 5.7 percent respectively at the end-June 2015. However, the ratio of FCBs remained unchanged at 8.3 percent over the period.



Accordingly, the net NPL ratio for all banks decreased from 3.7 percent at the end of March 2015 to 2.8 percent at the end of June 2015. (Table VI.3, Chart VI.3). In addition to that provision shortfall position of the banking sector improved remarkably during Q4FY15 and stood at (-) Tk. 24.7 billion from (-) Tk. 37.8 billion at the end of March 2015 (Table 6.1). In Q4FY15, SBs maintained its required amount of provision and the net NPL ratio of this bank group decreased to 9.2 percent from 26.3 percent in Q3FY15. Net NPL ratios for PCBs also decreased from 1.5 percent to 1.1 percent while for FCBs it remained unchanged at 4.0 percent during this period. However, provision shortfall of SCBs increased to Tk. 29.6 billion in Q4FY15 from Tk.17.5 billion in Q3FY15 and the net NPL ratio of this bank group increased to 9.4 percent from 8.6 percent over this period.

Table 6.1: Comparative Position of Classified Loan and Provision Maintained

(Tk. in billion)

Quarter	Items	SCBs	SBs	PCBs	FCBs	All Banks
Q1 FY15	Total classified loan	269.5	65.1	221.9	16.4	572.9
	Required provision	148.7	32.7	121.8	15.4	318.6
	Provision maintained	137.0	14.7	125.4	12.5	289.6
	Excess(+)/shortfall(-)	-11.8	-17.9	3.5	-2.8	-29.0
Q2 FY15	Total classified loan	227.6	72.6	184.3	17.1	501.6
	Required provision	128.6	37.1	108.7	15.3	289.6
	Provision maintained	135.3	14.7	115.4	16.2	281.6
	Excess(+)/shortfall(-)	6.7	-22.3	6.7	1.0	-8.0
Q3 FY15	Total classified loan	226.5	74.2	227.5	18.4	546.6
	Required provision	128.7	37.5	124.8	15.8	306.8
	Provision maintained	111.2	14.7	126.9	16.2	269.0
	Excess(+)/shortfall(-)	-17.5	-22.7	2.0	0.4	-37.8
Q4 FY15	Total classified loan	224.0	58.3	223.5	19.4	525.2
	Required provision	126.2	31.2	126.5	16.4	300.4
	Provision maintained	96.7	31.2	130.6	17.2	275.6
	Excess(+)/shortfall(-)	-29.6	0.0	4.1	0.8	-24.7

6.4 Return on assets (ROA) declined from 0.6 percent at the end of December 2014 to 0.5 percent at the end of June 2015. The ROA for SCBs remained almost unchanged at (-) 0.6 percent over this period. However, the ratio for SBs, PCBs and FCBs decreased from (-) 0.7 percent, 1.0 percent and 3.4 percent respectively to (-) 1.5 percent, 0.9 percent and 3.1 percent respectively during the same period. Similarly, return on equity (ROE) of the banking industry decreased to 6.6 percent at the end of June 2015 from 8.09 percent at the end of December 2014.

The ROE for SCBs, SBs, PCBs and FCBs decreased to (-) 22.5 percent, (-) 8.2 percent, 9.7 percent and 15.7 percent respectively in June 2015 from (-) 13.7 percent, (-) 6.0 percent, 10.3 percent and 17.7 percent respectively at the end of December 2014 (Table VI.4).

Table 6.2: Deposit and Advance Position of Scheduled Banks (end of the month)

Bank groups	Year-on year growth of deposit (excluding interbank)		Year-on year growth of advances (excluding interbank)		Advance Deposit Ratio (ADR)	
	Jun.15	Mar.15	Jun.15	Mar.15	Jun.15	Mar.15
SCBs	12.7%	14.5%	7.0%	8.3%	52.8%	55.2%
SBs	15.5%	13.0%	4.4%	5.9%	74.0%	73.3%
PCBs	13.6%	13.2%	15.7%	17.8%	78.4%	77.9%
FCBs	-0.9%	-4.3%	2.5%	-2.2%	61.9%	59.5%
All	12.6%	12.5%	12.7%	14.2%	70.3%	70.5%

Table 6.3: Liquidity Position of the Scheduled Banks

(Tk. in billion)

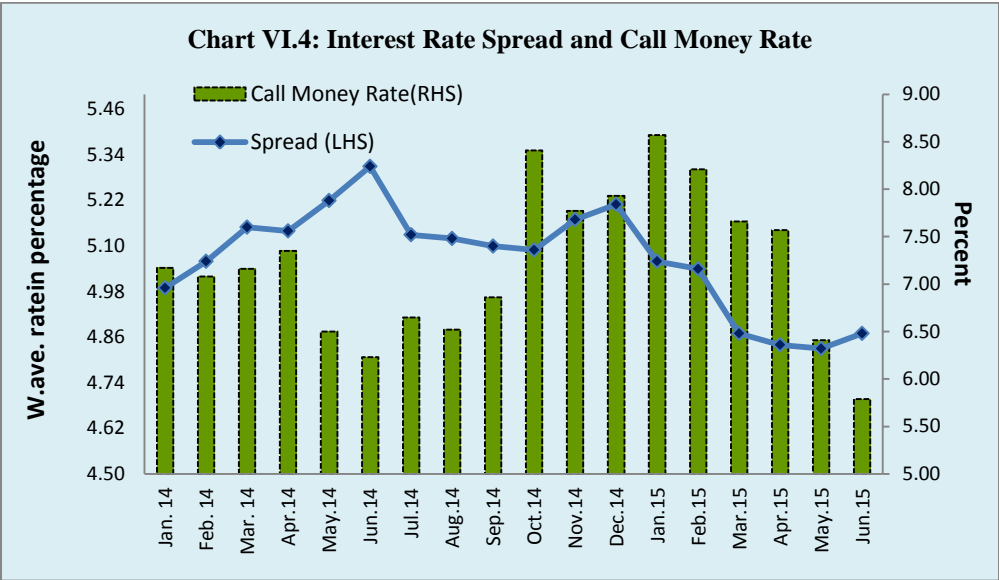
Bank groups	CRR			SLR		
	CRR requirement	Balance with BB in local currency	Excess(+)/shortfall (-) in reserve	SLR	SLR eligible liquid assets of banks**	Excess(+)/shortfall (-) of SLR
1	2	3	4=3-2	5	6	7=6-5
As of end June, 2015 ^P						
SCBs	128.6	130.1	1.5	257.0	762.2	505.2
SBs*	15.2	16.8	1.6	0.00	0.00	0.00
PCBs (other than Islamic)	212.7	212.6	-0.2	421.1	764.0	342.9
Private Banks (Islamic)	90.8	121.0	30.2	76.8	203.6	126.7
FCBs	23.7	25.3	1.7	46.6	180.7	134.2
All	471.0	505.7	34.8	801.5	1910.5	1109.0
As of end June, 2014 ^R						
SCBs	113.1	115.5	2.4	226.0	689.2	463.2
SBs*	13.5	15.4	1.9	0.00	0.00	0.00
PCBs (other than Islamic)	188.3	193.0	4.7	372.7	726.0	353.3
Private Banks (Islamic)	77.8	98.9	21.2	65.8	172.5	106.7
FCBs	24.5	25.6	1.0	48.4	137.9	89.5
All	417.2	448.4	31.2	712.8	1725.5	1012.7

* SLR does not apply to Specialised banks as exempted by the Government.

**includes cash in tills, balance with BB in foreign currency, balance with Sonali Bank as agent of BB, unencumbered approved securities and excess reserve (column 4)

Note: According to the circular No-MPD-02, 2013 with effect from February 01, 2014 SLR has been calculated separately (excluded CRR of 6.5%) as 13% for conventional banks and 5.5% for Islamic banks of the total demand and time liabilities.

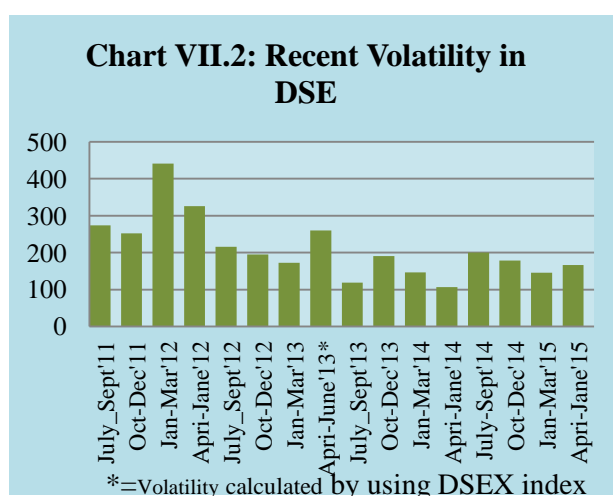
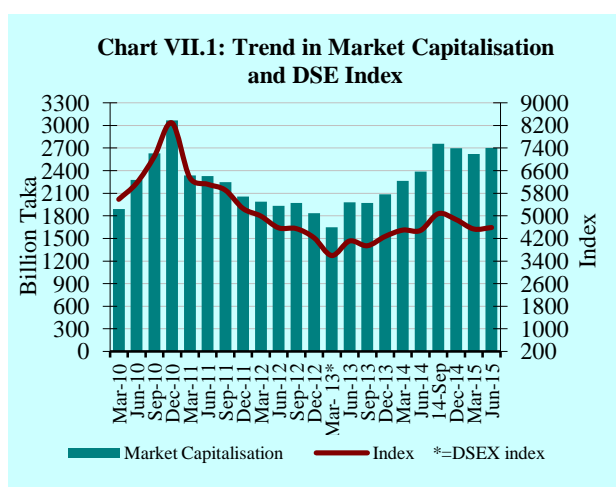
6.5 At the end of Q4FY15, the growth rate (year-on- year) of deposits was slightly lower than that of advances. The advance-deposit ratio (ADR) marginally decreased from 70.5 percent in end-March 2015 to 70.3 percent in end-June 2015 and remained far below the maximum regulatory ceiling. The growth rate of deposits increased marginally from 12.5 percent at end of March 20145 to 12.6 percent at end of June 2015. On the other hand, the growth of advances decreased from 14.2 percent to 12.7 percent during the period (Table 6.2).The liquidity position of the banking sector as a whole, improved at the end of Q4FY15; leading to a further easing of money market conditions though excess reserve has gone down (Table 6.3).



6.6 Monthly interest rate spread for all banks, measured as the difference between monthly weighted average interest rate of advances and deposit, remained below 5.0 percent during Q4FY15. Spread decreased over the first two months of Q4FY15 from 4.87 percent March 2015 to 4.83 percent in May 2015 before increase again to 4.87 percent in the last month of the quarter (Chart VI.4). Monthly weighted average call money rate also decreased from 7.68 percent in March 2015 to 5.79 percent in June 2015.

VII. Capital Market Developments

7.1 During Q4FY15 all the indicators of Dhaka Stock Exchange (DSE) improved due mainly to reduce corporate tax rate and profit rate of Sanchayapatra. At the end of Q4FY15, DSE broad (DSEX) index and DSE 30 index were at 4583.1 and 1769.4 which are 1.2 percent and 2.4 percent higher respectively compared to Q3FY15. Over the same period, market capitalization increased by 3.2 percent (Chart VII.I and Table VII.II). DSEX index and DSE 30 index increased by 2.3 percent and 7.6 percent respectively in Q4FY15 compared to Q4FY14. DSE market capitalization increased significantly by 13.2 percent during Q4FY15 as compared to Q4FY14.



7.2 The average price earnings ratio of the DSE decreased to 15.87 in June 2015 compared to 16.77 at the end of March 2015. Total turnover value in the DSE significantly increased by 79.3 percent from TK. 170.7 billion in Q3FY15 to TK. 306.0 billion in Q4FY15. The liquidity situation in the capital market improved as measured by Turnover Velocity Ratio (TVR)¹, which increased to 45.3 percent in Q4FY15 from 26.6 percent in Q3FY15. The number of listed securities increased to 334 in Q4FY15 from 315 in Q4FY14. During Q4FY15 the value of issued equity and debt increased by 4.3 percent and for new companies were listed in the capital market.

7.3 The sector-wise DSE data shows that market capitalization decreased in financial institution, food & allied product, Insurance, Telecommunication, and Corporate Bond sectors (Table VII.2). All other sectors (banks, Pharmaceuticals and Chemicals, mutual fund, Jute industry, paper printing and service and real estate fuel and power, textile industry, Cement Industry, Miscellaneous and) increased during Q4FY15. The contribution of the banking sector slightly

¹ TVR= (Turnover During the Quarter/Quarter-end Market capitalization)*4

increased to 13.6 percent at the end of Q4FY15 from 13.5 percent in the previous quarter. The relative contributions of all other sectors remained almost unchanged during the last quarter.

7.4 During Q4FY15 the investment on share purchase by foreign and non-resident Bangladeshi investors increased to TK. 10.2 billion from Tk. 9.4 billion in the previous quarter. At the same time, total share sales by foreign and non-resident Bangladeshi investors also increased to Tk. 10.8 billion from Tk. 7.61 billion in the previous quarter. As a result, net investment of foreign and non-resident Bangladeshi during Q4FY15 decreased to TK.-0.5 billion from TK. 2.3 billion in the previous quarter. However, foreign exchange turnover still has a limited contribution in total turnover of DSE. During Q4FY15 total foreign exchange turnover decreased to 6.9 percent of total turnover from 9.6 percent of total turnover in the previous quarter. The volatility, measured by standard deviation, increased to 166.3 during Q4FY15 compared to 145.4 in Q3FY15.

7.5 Cross country data shows that price earnings ratio of June 2015, Bangladesh capital market is around the mid-point of some South and East Asian countries while dividend yield of Bangladesh is the highest among South and East Asian countries (Table 7.1). It implies that currently Bangladesh capital market is comparatively more attractive than the others based on both price earnings ratio and dividend yields.

Table 7.1: Comparison among regional Capital markets June 2015

Country	Price Earnings Ratio	Dividend Yield
Bangladesh	15.86	5.03
India	20.74	1.37
Sri Lanka	17.84	2.26
Thailand	17.00	2.90
Malaysia	16.00	3.20
Taiwan	14.00	2.70
Hong Kong	12.00	2.50
China	12	2.50
Singapore	14.00	3.50

Source: Monthly Review, Dhaka Stock Exchange