Economic and Financial Developements

Part A: Economic and Financial Developments

Executive Summary

Real GDP grew by 7.05 percent in FY16 compared 6.55 percent in FY15, mainly supported by a stable political environment along with pragmatic fiscal and accommodative monetary policies. The growth momentum was largely pronounced in the industry and service sectors. The industry sector grew by 10.1 percent in FY16 compared to 9.67 percent growth in FY15. The service sector registered higher growth at 6.7 percent in FY16 from 5.8 percent in FY15. The agriculture sector's growth, however, decelerated to 2.6 percent in FY16 from 3.3 percent in FY15.

The 12-month average CPI inflation came down to 5.92 percent in FY16 from 6.40 percent in FY15, driven mainly by falling food inflation. Similarly, point-to-point (p-to-p) CPI inflation fell from 6.25 percent in June 2015 to 5.53 percent in June 2016. At a disaggregated level, food inflation (p-to-p) trended down until May 2015 and reached 3.81 percent and then it increased to 4.23 percent in June 2016 because of the holy Ramadan. On the other hand, nonfood inflation (p-to-p) rose from 6.15 percent in June 2015 to 7.5 percent in June 2016.

Developments in money and credit markets were more or less in line with the annual monetary program for FY16. In FY16, broad money (M2) grew by 16.4 percent compared with 12.4 percent growth in FY15. The M2 growth was 1.4 percentage points higher than the programmed level of 15.0 percent in June 2016. The credit growth in private sector increased to 16.6 percent in FY16 compared to13.2 percent growth in FY15. The private sector credit growth was 1.8 percentage points higher than the programmed growth of 14.8 percent in June 2016. Credit to the public sector growth was 2.6 percent in June 2016 compared to the negative growth of 5.3 percent in March 2016. Net Foreign Asset (NFA) grew by 23.0 percent in FY16 compared to 18.2 percent in FY15.

Although the external sectors trade, services, and in primary income as before, both current account and overall balance recorded considerably big surpluses to help foreign reserve move further up. The picture for FY16 showed deficits of USD 6.27 billion in the trade balance, USD 2.79 billion in service account and USD 2.58 billion in primary income account, while the secondary income account recorded a surplus of USD 15.36 billion. The current account balance (CAB) recorded a surplus of USD 3.71 billion in FY16 compared to a surplus of USD 2.88 billion in FY15. However, inflows of workers' remittances decreased by 1.8 percent during FY16 from the level of FY15.Based on the healthy surpluses in CAB and capital & financial accounts, the overall balance of payments (BOP) recorded a surplus of USD 5.04 billion in FY16 which was higher than the surplus of USD 4.37 billion recorded in FY15.

Preliminary estimates show that overall revenue reached BDT 1829.1 billion against BDT 1752.8 billion targeted in revised budget of FY16 while overall expenditure stood at BDT 2416.2 billion against BDT 2645.7 billion targeted in revised budget of FY16. Accordingly, the overall budget deficit for FY16 amounted to 3.4 percent of GDP (69.8 percent of the annual deficit in the revised budget) against 4.9 percent of GDP targeted in the revised budget for FY16, slightly higher than 2.9 percent of GDP recorded in the previous year.

The banking sector performance during Q4FY16 exhibited some concerns compared to that of the previous quarter. Several key indicators such as gross nonperforming loans (NPL), provision shortfall position, return on assets (ROA) and return on equity (ROE) exhibit deteriorations during this quarter relative to the previous quarter.

The ratio of gross NPL to total outstanding loans of the banking sector increased from 9.92 percent at the end of Q3FY16 to 10.06 percent at the end of Q4FY16. However, the ratio of net NPL decreased from 2.88 percent at the end of March 2016 to 2.81 percent at the end of June2016. The Provision shortfall position of the banking sector deteriorated during Q4FY16 and stood at BDT (-) 44.5 billion from BDT (-) 41.2 billion at the end of March 2016, the capital adequacy ratio (CAR) marginally decreased from 10.6 percent in Q3FY16 to 10.3 percent in Q4FY16.

Among the profitability measures, ROA of the banking industry declined from 0.77 percent at the end of December 2015 to 0.44 percent at the end of June 2016. Return on equity (ROE) of the banking industry also decreased to 6.74 percent at the end of June 2016 from 10.51 percent at the end of December 2015. On the other hand, the monthly interest rate spread for all banks, measured as the difference between the monthly weighted average interest rate of advances and deposits, remained below 5.0 percent during Q4FY16.

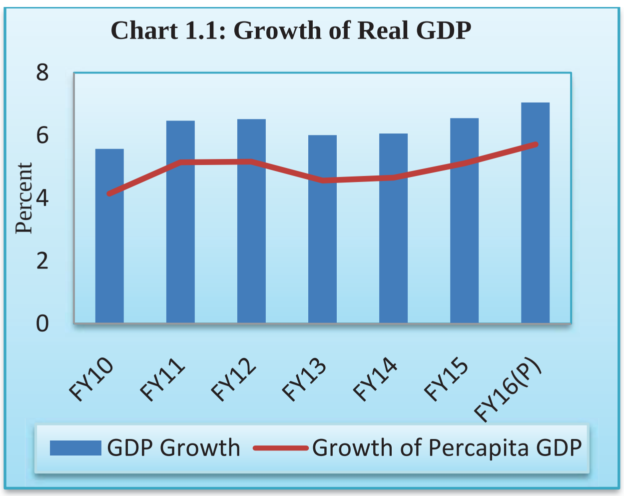
Turning to the stock market, during Q4FY16 all the indicators of the Dhaka Stock Exchange (DSE) improved compared to the Q3FY16. At the end of Q4FY16, the DSE broad (DSEX) index and the DSE 30 index were at 4507.6 and 1770.8 which were 3.4 percent and 7.4 percent higher respectively compared to the level of Q3FY16. Over the same period, market capitalization increased by 5.5 percent. However, the yearly performance indicates that all the indicators of DSE deteriorated during Q4FY16 compared to the Q4FY15. The DSEX index decreased by 1.6 percent in Q4FY16 compared to Q4FY15 while the DSE 30 index slightly increased by 0.1 percent in Q4FY16 compared to Q4FY15. The DSE market capitalization decreased by 3.2 percent in Q4FY16 as compared to Q4FY15.

Monetary Policy Statement for H1 and H2 of FY16 was inclusively growth supportive. To keep up growth momentum and maintain tolerable level of inflation, monetary policy for H1FY17 is announced which is supportive for achieving 7.2 percent real GDP growth and an inflation rate at or below 5.8 percent for FY17.

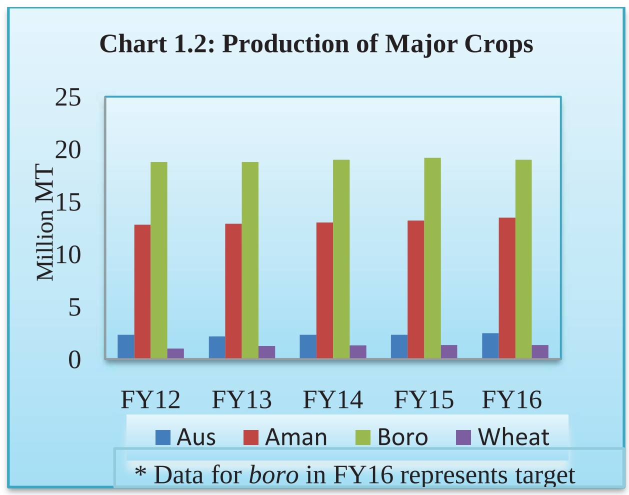
I. Developments in the Real Economy

1.1 The Bangladesh economy exhibited a strong growth pace in FY16. According to the provisional estimates of Bangladesh Bureau of Statistics (BBS) real GDP registered a 7.05 percent in FY16 compared to 6.55 percent growth in FY15. The growth momentum of FY16 was largely concentrated in the industry and service sectors, while agricultural activities registered a decelerated growth compared to the growth of the previous fiscal year. However, during Q4FY16, industry sector indicates strong economic activities, while agriculture and service sector activities present a mixed picture.

1.2 According to BBS estimate the agriculture sector, which constitutes just over 15 percent of real GDP, posted a slower growth of 2.60 percent in FY16 compared to 3.33 percent in FY15. This low growth of the agricultural sector was caused by the meager growth of 0.50 percent of the crops and horticulture subsector which constituted around 54 percent of the agriculture sector, while fishing, and forest and related services subsectors recorded relatively strong growth of 6.19 percent and 5.13 percent respectively.



Source: Bangladesh Bureau of Statistics.

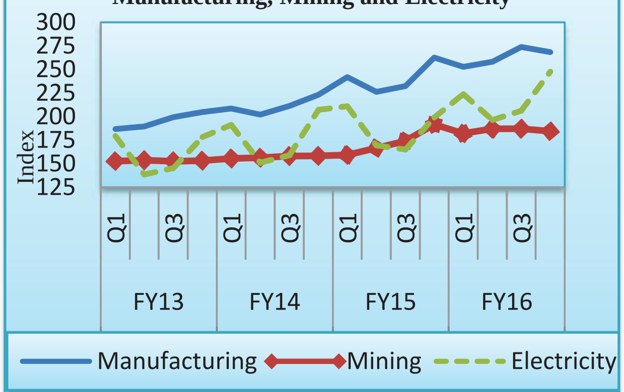


Source: Bangladesh Bureau of Statistics and Directorate of Agriculture Extension, Ministry of Agriculture.

1.3 Two important crops of Bangladesh- *boro* rice crop and maize- are harvested in Q4FY16, but production data of these crops are yet to be made available. However, it may presume that production of *boro* crop, which is the main crop of Bangladesh, would fall short of its annual target set for FY16 as well as last year's actual production, as the acreage of *boro* crop in FY16 was 2.40 percent lower than the target. The acreage of *boro* crop slid to 4.69 million hectares in FY16 from 4.80 million hectares in FY15. The decline of the acreage of the *boro* crop was due mainly to low farm gate price during the harvest period for consecutive years. As *boro* is a high-cost crop, low firm gate prices encouraged farmers to shift their production from *boro* to other profitable agricultural productions. As maize is one of the competing crops of *boro* and requires relatively low cost, it may presume that maize production would rise significantly in FY16 which has already been reflected in higher acreage of maize. The acreage of maize production increased sharply to 0.76 million hectares in FY16 from 0.36 million hectares in FY15- more than two times higher than last year.

1.4 The industry sector, which is the main driver of Bangladesh's GDP growth, remained buoyant and witnessed a lofty growth of 10.10 percent in FY16 compared to 9.67 percent growth in FY15. This growth of the industrial sector was contributed by the healthy growth of large and medium scale industries (11.01 percent), mining and quarrying (12.06 percent) and electricity gas and water supply (11.15 percent) subsectors. However, the growth of the small scale industries declined to 7.02 percent in FY16 from 8.54 percent in FY15. The growth of the construction subsector remained somewhat lower than overall industry sector growth, even though it increased to 8.87 percent in FY16 from 8.60 percent in FY15.

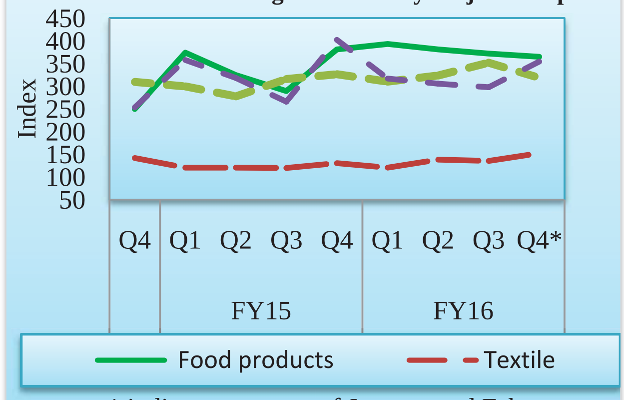
Chart 1.3: Quantum Index of Medium and Large-scale Manufacturing, Mining and Electricity



*April 2016

Source: Bangladesh Bureau of Statistics.

Chart 1.4: Quantum Index of Large and Medium Scale Manufacturing Industries by Major Group



* indicates average of January and February

Source: Bangladesh Bureau of Statistics.

1.5 To shed some light on the developments of the industry sector in Q4 FY16, we have only available data on the quantum index of large and medium scale manufacturing industries for April 2016. This index went up by 13.21 percent in April 2016 compared to the same period of the previous year, benefited by the strong growth of manufacturing of textile (23.04 percent), wearing apparels (13.88 percent), rubber and plastic product (18.07 percent) and non-metalic mineral products (39.67 percent). Manufacturing of pharmaceuticals and leather products, on the other hand, registered negative growth of 8.04 percent and 4.38 percent respectively.

1.6 BBS estimates shows that the service sector (which contributes over 53 percent to real GDP) grew by 6.70 percent in FY16 compared to 5.80 percent growth in FY15. The growth resulted mainly from higher growth of public administration and defence (15.68 percent), education (13.78 percent), health and social works (8.45 percent), and hotel and restaurants (7.00 percent). The growth of the wholesale and retail trade, and transport, storage and communications subsectors (which comprise around 26 percent and 21 percent of the service sector respectively) attained at 6.61 percent and 6.51 percent growth in FY16 compared to 6.35 percent and 5.96 percent respectively in FY15.

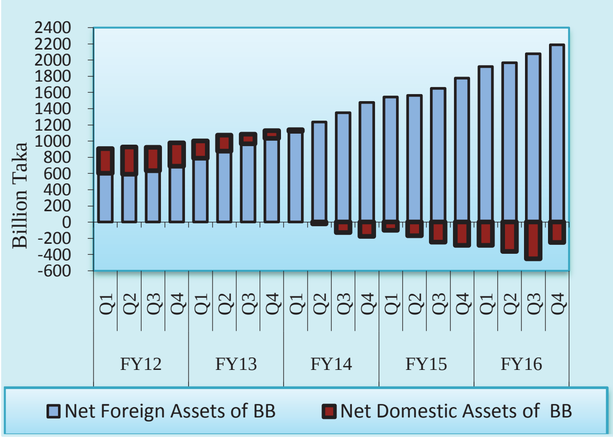
1.7 A number of proxy indicators, such as cargo handling through Chittagong port, trade financing, bank advances to transport and communication sector and to trade etc, indicate a mixed picture in terms of service sector activities during Q4 FY16. Total cargo handled (export and import) through Chittagong port registered a 9.83 percent increase in Q4 FY16 which was 22.00 percent in Q4 FY15. On the other hand, data on bank advances by economic purposes (Table 1.9) show that advances (outstanding) to trade and commerce increased by 15.22 percent in Q4FY16 as against 20.20 percent in Q42015. Bank advances to transport sector rebounded from a negative growth of 23.25 percent in Q4FY15 to 12.56 percent growth in Q4FY16.

II. Money and Credit Market Development

2.1 The monetary policy stance of January-June 2016 is explicitly pro-growth to keep the average inflation rate at about 6.2 percent and to support 7.0 percent growth target. In line with the target, BB aims to maintain reserve money growth to 14.3 percent and broad money growth to 15.0 percent by June 2016. Space for private sector credit growth of 15.0 percent (including foreign borrowing by local corporate) has been kept well to achieve output growth targets and to accommodate any potential rise in investment.

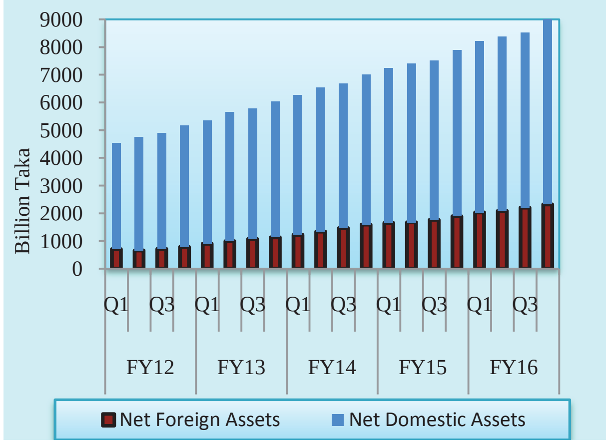
2.2 In June 2016 broad money (M2) growth was 16.4 percent compared with 13.6 percent in March 2016 and 12.4 percent in June 2015. The M2 growth was 1.4 percentage points higher than the programmed level of 15.0 percent for June 2016. The credit growth in private sector increased to 16.6 percent in June 2016 from 15.2 percent in March 2016 and 13.2 percent in June 2015. The private sector credit growth was 1.8 percentage points higher than the programmed growth of 14.8 percent for June 2016.Credit to the public sector growth was 2.6 percent in June 2016 compared with the negative growth of 5.3 percent in March 2016. Net Foreign Asset (NFA) grew by 23.0 percent in June 2016 compared to the growth of 24.1 percent in March 2016.

Chart II.1: Sources of Reserve Money



Source: Monetary Policy Department, Bangladesh Bank.

Chart II.2: Sources of Broad Money



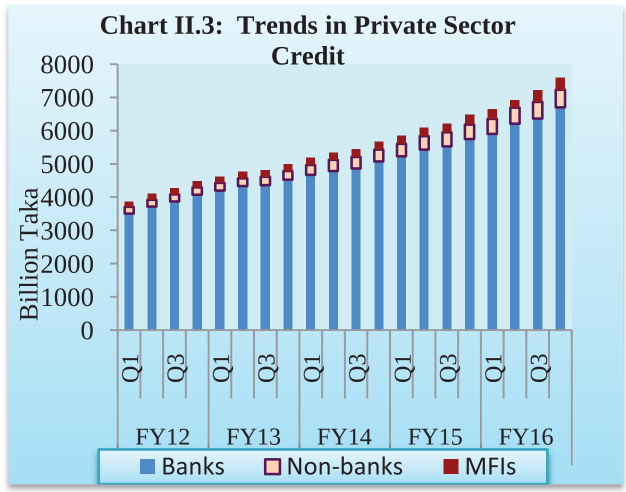
Source: Monetary Policy Department, Bangladesh Bank..

2.3 A look at the components of M2 shows that currency, demand deposits, and time deposits increased by 38.8 percent, 24.0 percent and 12.4 percent (y-o-y) respectively in June 2016 compared to the increase of 17.6 percent, 15.8 percent and 12.8 percent respectively in March 2016. Narrow money or

M1 grew by 32.1 percent in June 2016 which was 16.8 percent in March 2016. The money multiplier (M2/RM) decreased to 4.7 in June 2016 from 5.3 in March 2016 reflecting a bit higher expansion of RM in June 2016 compared to March 2016.

2.4 Reserve money (RM) grew by 30.1 percent (y-o-y) in June 2016 compared with 15.8 percent in March 2016 and 14.3 percent growth in June 2015, which was far above the target of 16 percent for FY16. The high rise in net foreign asset of BB (23 percent in end-June 2016) in Q4FY16 was the main driver of high reserve money growth in FY16.

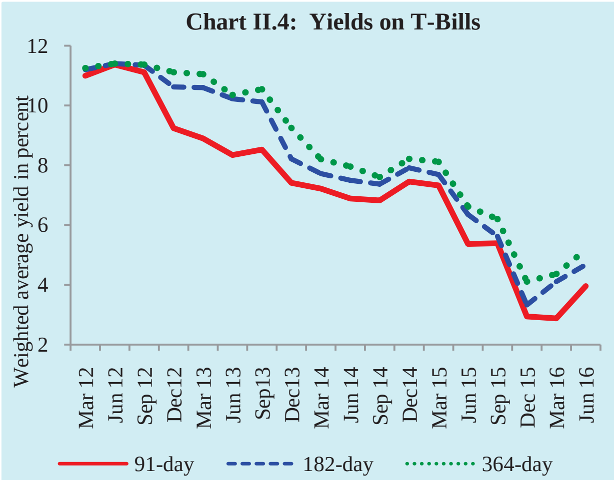
2.5 In June 2016, private sector credit (including banks, non-banks and micro-finance institutions) grew by 17.4 percent compared with 15.9 percent in March 2016 (Table I.8). The bank advances to industry grew by 21.1 percent at the end of June 2016, in which industrial term lending grew by 13.9 percent and working capital financing increased by 28.1 percent over the period of June 2015. In the agriculture sector the supply of credit increased by 27.0 percent at the end of June 2016 (of which advances to crops increased by 23.6 percent while others increased by 19.0 percent) compared to 6.2 percent at the end of same period of preceding year. Advances to construction sector increased to 22.5 percent at the end of June 2016 compared to 31.1 percent at the end of March 2016. Bank advances to transport increased to 12.6 percent at the end June 2016 compared to 22.7 percent went down at the end of March 2016. The growth of bank advances to trade & commerce was 15.2 percent at the end of June 2016 compared to 18.6 percent at the end of March 2016.

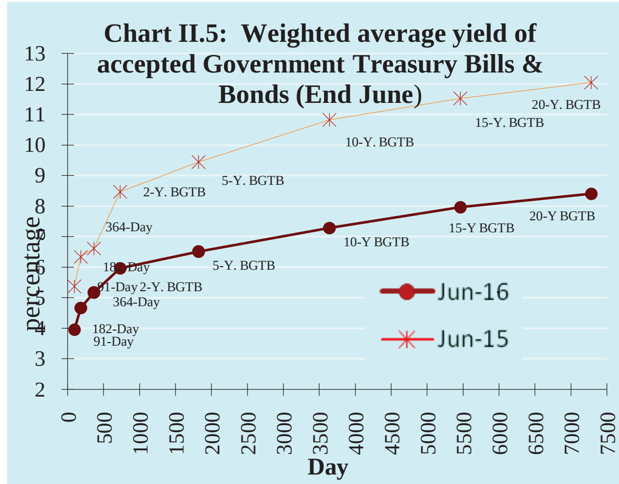


Source: Bangladesh Bank

2.6 Analyzing the share of bank advances based on economic purpose, it was found that the highest share of bank advances went to the industry sector (38.1 percent) followed by the trade and commerce (35.6 percent), the construction (8.78 percent), and consumer finance (8.76 percent) (Table I.9).

2.7 The overall disbursements of industrial term lending by banks and NBFIs decreased by 8.2 percent to BDT. 167.6 billion at the end of June 2016, from BDT 182.6 billion in March 2016 and BDT 149.8 billion in the same quarter of the preceding year (Table I.12).

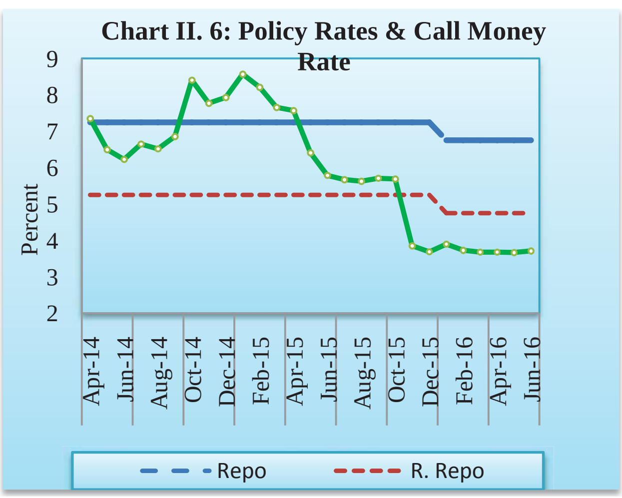


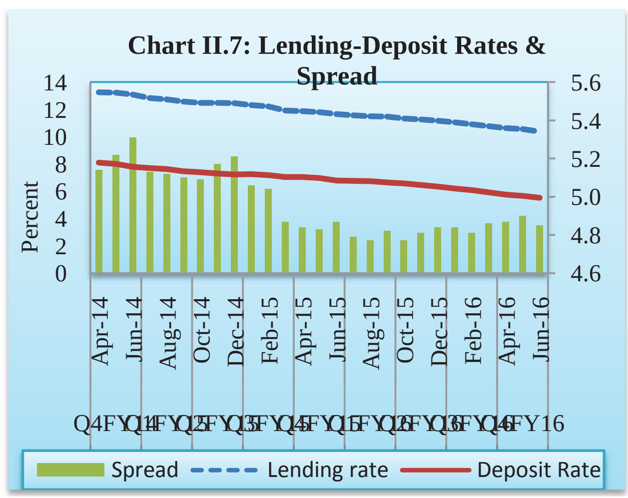


Source: Monetary Policy Department, Bangladesh Bank.

Source: Monetary Policy Department, Bangladesh Bank.

2.8 Overall yields of, 91-day treasury bill increased to 3.96 percent in June 2016 from 2.87 percent in March 2016. The rate of 30-day Bangladesh Bank bill also marginally edged up 2.96 percent at the end of June 2016 from 2.90 percent at the end of March 2016. Two-year, five-year and ten year long-term treasury bonds yields were 5.97 percent, 6.51 percent and 7.29 percent respectively during April-June, 2016 compared with 8.47 percent, 9.44 percent and 10.82 percent respectively during January-March 2015. (Chart II.4, Table II.3).





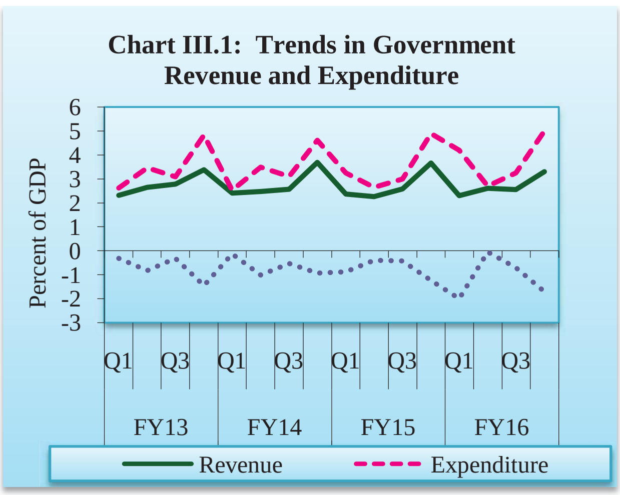
Source: Monetary Policy Department, Bangladesh Bank.

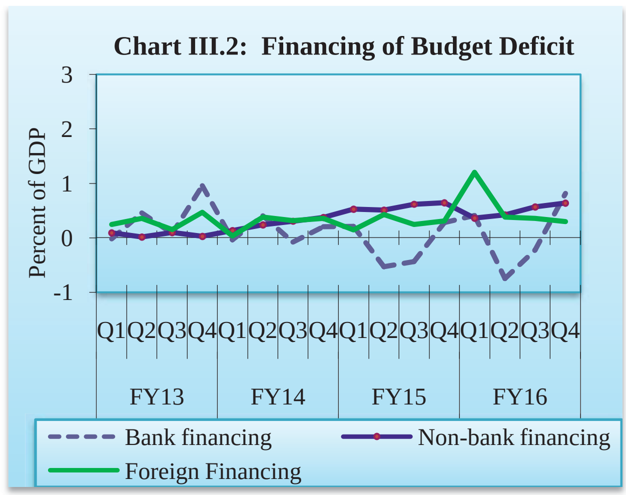
Source: Statistics Department, Bangladesh Bank.

2.9 In January 2016, Bangladesh Bank has lowered repo and reverse repo rate by 50 basis points to 6.75 percent and 4.75 percent respectively. In Q4FY16, the call money rate edged up to 3.71 percent at the end of June 2016 from 3.64 percent at the end of March 2016. The spread between lending and deposit rates marginally slashed down to 4.85 percent at the end of June 2016 compared to 4.86 percent at the end of March 2016 (Chart II.6).

III. Fiscal Developments

3.1 Preliminary estimates show that total revenue increased (y-o-y) by 2.8 percent whereas total expenditure grew by 17.7 percent in Q4FY16 from the level of Q4FY15. Consequently, budget deficit increased to BTD 301.9 billion in Q4FY16 compared to the deficit amount of BTD 186.5 billion in Q4FY15. In FY16, total revenue collection increased by 11.3 percent whereas total expenditure increased by 15.8 percent. Accordingly, the overall budget deficit in FY16 increased to 3.4 percent of GDP which was 2.9 percent of GDP in FY15. Preliminary estimates exhibit that about 83.0 percent of the total deficit of FY16 has been financed by domestic sources, while rest of the amount financed from foreign sources (Table III.3, Chart III.1 and Chart III.2).





Source: Budget Summary 2011/12, 2012/13, 2013/14, 2014/15 and 2015/16, Ministry of Monetary Policy Department, Bangladesh Bank and Monthly Fiscal Report, MoF, various issues

3.2 In FY16, total NBR tax revenue increased by 13.7 percent to BTD 1555.1 billion (105.2 percent of the annual target of FY16) from FY15. Revenue collection from value added tax (VAT), customs duties, income tax, and other sources grew by 11.0 percent, 18.1percent, 10.4 percent, and 23.6 percent respectively during FY16 compare to that of previous fiscal year. The overall revenue collection of FY16 reached BTD 1829.1 billion, which was 11.3 percent higher than the level of FY15.

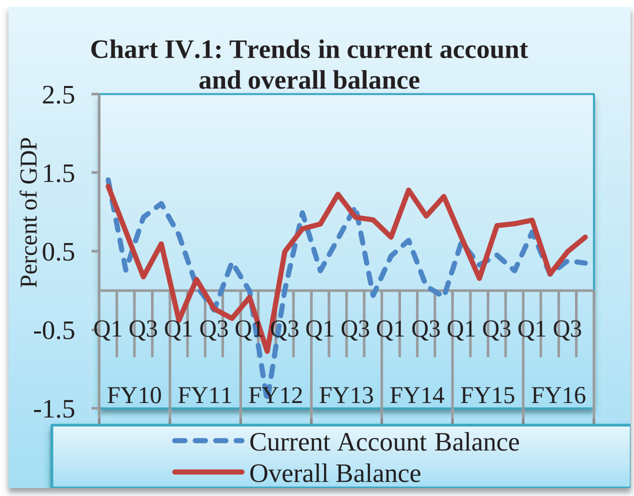
3.3 During Q4FY16, a preliminary estimate of total expenditure was BTD 871.0 billion (32.9 percent of annual target), which was 17.7 percent higher, in nominal terms, than that of Q4FY15. The current expenditure grew by 46.8 percent to BTD 346.7 billion and ADP expenditure grew by 31.7 percent to BTD 450.8 billion (49.5 percent of annual ADP target) in Q4FY16 compared to that of Q4FY15. The ADP expenditure increased almost about 2.5 times during Q4FY16 compared to Q3FY16.

3.4 In FY16, total expenditure grew by 15.8 percent to BTD 2416.2 billion compared to that of FY15. The ADP utilization for FY16 amounted to Tk. 869.7 billion (22.2 percent higher than that of FY15) which was 95.6 percent of annual ADP target. The current expenditure grew by 33.2 percent to BTD 1338 billion compared to FY15 and it was about 89.0 percent of annual target.

3.5 During Q4FY16, fiscal deficit stood at BTD 301.9 billion, representing 1.7 percent of GDP compared to BTD 186.5 billion or 1.2 percent of GDP in Q4FY15. Overall fiscal deficit for FY16 increased by 32.2 percent to BTD 587.1 billion (3.4 percent of GDP) compared to BTD 444.2 billion (2.9 percent of GDP) recorded in FY15. A look at the sources of financing the deficit shows that BTD 384.9 billion was accommodated from domestic sources that included bank financing of BTD 43.3 billion and non-bank financing of BTD 341.7 billion, while the remaining amount of BTD 202.1 billion came from foreign sources in FY16.

IV. External Sector Developments

4.1 In FY16, the overall current account balance (CAB) recorded a surplus of USD 3.71 billion compared to a surplus of USD 2.88 billon in FY15. During Q4FY16, the CAB recorded a surplus of USD 773.0 million compared to a surplus of USD 441.0 million in Q4FY15 as the export growth (11.7 percent) surpassed the import growth (2.8 percent). The services account and the primary income account recorded deficits of USD 885.0 million and USD 693.0 million respectively, while the secondary income account recorded a surplus of USD 4.0 billion (of which the inflow of workers' remittances was USD 3.8 billion) during the quarter under review. The overall picture for FY16 showed deficits of USD 6.27 billion in trade balance, USD 2.79 billion in service account and USD 2.58 billion in primary income account, while the secondary income account recorded a surplus of USD 15.36 billion (Table IV.1).

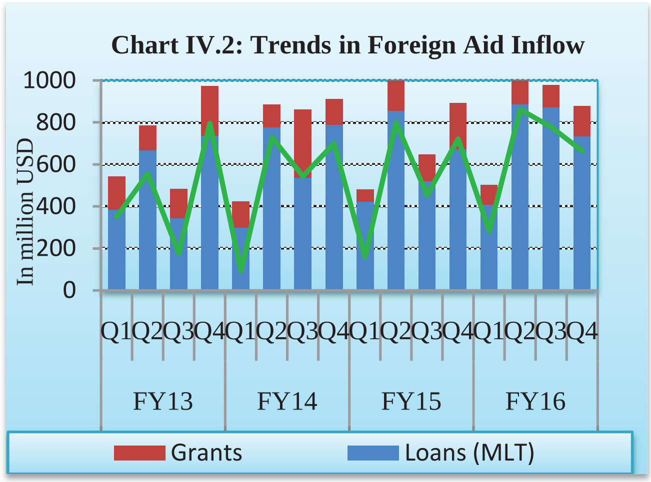


Source: Statistics Department, Bangladesh Bank.

4.2 The surplus, combine with capital and financial account, lessened to USD 0.92 billion in Q4FY16 from a surplus of USD 1.27 billion in Q4FY15. The financial account recorded a surplus of USD 803.0 million in Q4FY16 compared to a surplus of USD 1.12 billion in Q4FY15 and the capital account also recorded a surplus of USD 114.0 million. Overall, surplus in the capital and financial account decreased to USD 2.09 billion in FY16 from USD 2.42 billion in FY15 (Table IV.1).

4.3 Based on the healthy surpluses in CAB and capital & financial account, the overall balance of payments (BOP) recorded a surplus of USD 5.04 billion in FY16, higher than the surplus of USD 4.37

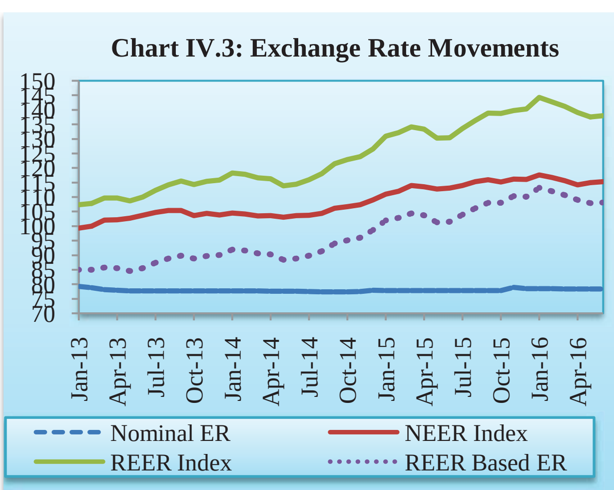
billion recorded in FY15. Accordingly, the foreign exchanges reserve stood at USD 30.18 billion at the end of June 2016 from USD 25.02 billion in June 2015 (Table IV.1).



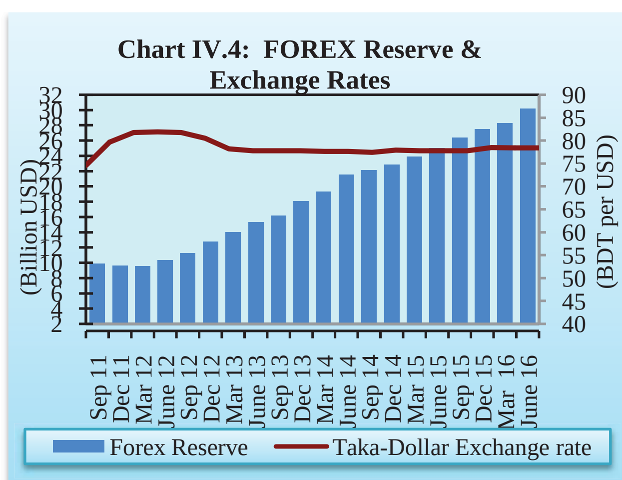
Source: Statistics Department, Bangladesh Bank.

4.4 Total foreign aid disbursement during Q4FY16 decreased to USD 878.9 million, compared to USD 894.0 million in Q4FY15. Out of the total aid, USD 736.3 million was disbursed as MLT loan as compared to USD 672.5 million disbursed in Q4FY15. Grants decreased from USD 221.4 million in Q4FY15 to USD 142.6 million during Q4FY16. In Q4FY16, Bangladesh made an amortization payment of USD 254.4 million, of which USD 214.5 million was paid as principal. As a result, net foreign financing in Q4FY16 was USD 664.4 million, compared to USD 721.5 million in Q4FY15. Overall, Bangladesh made an amortization payment of USD 1.05 billion against a disbursement of USD 3.45 billion in FY16 and thus, Bangladesh received a net foreign financing of USD 2.60 billion during FY16 (which was USD 2.13 billion in the FY15) (Table IV.8).

4.5 The weighted average nominal exchange rate remained same at BDT 78.40 per US dollar at the end-June 2016 compared to end- March 2016, but higher than BDT 77.80 per US dollar in June 2015. As a result Bangladesh taka depreciated by 0.77 percent against US dollar during FY16. The REER based exchange rate decreased to BDT 108.15 per USD at the end of June 2016, compare to BDT 110.67 per USD at the end of March 2016. Bangladesh Bank continued its intervention in the domestic foreign exchange market with a net purchase of foreign currencies amounting to USD 1184 million during Q4FY16.



Source: Statistics Department, Bangladesh Bank.



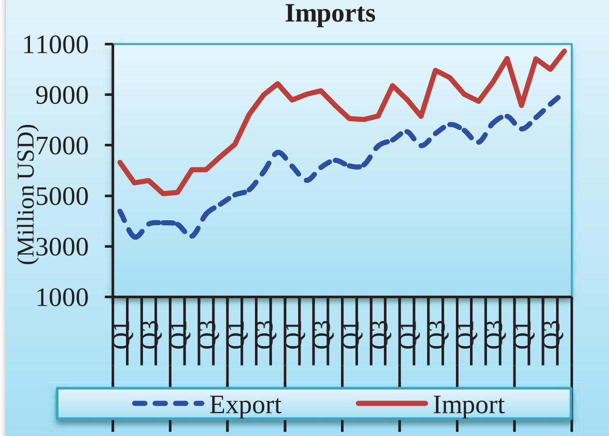
Source: Statistics Department, Bangladesh Bank.

4.6 According to Export Promotion Bureau (EPB) , exports earnings increased by 11.8 percent to USD 9.29 billion in Q4FY16 from USD 8.30 billion in Q4FY15 (on adjusted fob basis export earnings increased by 11.7 percent to USD 9.09 billion in Q4FY16 from USD 8.14 billion in Q4FY15). Exports of RMG grew by 11.5 percent to USD 7.65 billion during the quarter under review, as export to European countries increased by 16.4 percent in Q4FY16. Among other major export items, earnings from raw jute increased by 148.1 percent. (Table IV.2 and IV.5).

4.7 Import payments (according to customs data) increased by 5.4 percent to USD 42.92 billion in FY16 from USD 40.70 billion in FY15. Imports also rose to USD 11.59 billion in Q4FY16 compared to USD 11.27 billion in Q4FY15 (Table IV.3). Import of food-grains decreased from USD 438.4 million in Q4FY15 to USD 275.8 million in Q4FY16. Import of rice in Q4FY16 (USD 10.1 million) was significantly lower compared to the corresponding quarter of FY15 (USD 92.4 million), as well as import of wheat (USD 265.7 million) was also lower. Import of other food items increased from USD 712.9 million during Q4FY15 to USD 832.7 million in Q4FY16. Among the other food items, the import of spices (9.9 percent), edible oil (51.1 percent), pulses (78.6 percent) increased, while imports of sugar (-44.6 percent) and milk & cream (-22.1% percent) decreased in Q4FY16 over Q4FY15 (Table IV.3).

4.8 Imports of consumer and intermediate goods decreased by 4.1 percent to USD 6.28 billion during Q4FY16. Among the consumer and intermediate goods, imports of textile and articles thereof increased by 4.2 percent in Q4FY16 over Q4FY15, while import of POL decreased by 32.1 percent. Import of oil seeds (56.2 percent), crude petroleum (56.4 percent) yarn (6.8 percent), dyeing and tanning materials (3.1 percent), and pharmaceutical products (97.1 percent) increased. During the same period imports of raw cotton (-3.3 percent), fertilizer (-50.0 percent), plastics and rubber articles thereof (-1.8 percent) decreased. Imports of iron, steel & other base metals decreased by 13.6 percent while import of capital goods and others increased by 18.1 percent in Q4FY16 over Q4FY15.

Chart IV.5: Trends in Exports & Imports



Source: Statistics Department, Bangladesh Bank

4.9 During FY16, opening of import LCs increased by 0.62 percent to USD 43.34 billion, of which LCs for intermediate goods (3.9 percent), industrial raw materials (4.2 percent), capital machinery (10.3 percent) and machinery for miscellaneous industries (4.9 percent) increased while LCs for consumer goods (-7.0 percent) and petroleum & petroleum products (-34.8 percent) decreased. In Q4FY15, the opening of import LCs increased by 12.7 percent to USD 12.13 billion, of which consumer goods (12.0

percent), industrial raw materials (10.5 percent), petroleum and petroleum products (99.9 percent), machinery for miscellaneous industries (55.5 percent) increased, while LCs for intermediate goods (-41.1 percent) and capital machinery (-22.4 percent) decreased (Table IV.9).

4.10 The inflow of workers' remittances decreased by 2.5 percent to USD 14.93 billion in FY16 compared to 15.32 billion in FY15. During Q4FY16, remittances also decreased to USD 3.87 billion compared to USD 4.06 billion in Q4FY15. During Q4FY16, remittance decreased in most of the sources except euro region, UAE, Qatar, Oman and Japan. On the other hand, overseas employment for Bangladeshi workers increased in Q4FY16 as a total of 182,027 Bangladeshi people migrated abroad compared with 135,530 people migrated in the corresponding period of FY15. During Q4FY16, remittance from the Gulf region decreased by 7.4 percent attributable mainly due to a large decline in remittances from Saudi Arabia (-20.2 percent) and Bahrain (-23.3 percent) compared to that of Q4FY15. Inflow of remittance from the Euro region increased (9.8 percent). During the period, remittance from the Asia Pacific region also decreased (-5.7 percent). Remittance inflow from the rest of the world (including the USA) remained same in Q4FY16 over Q4FY15. Overall, the major sources of remittance during FY16 was Saudi Arabia (USD 2.96 billion), followed by UAE (USD 2.71 billion), USA (USD 2.41 billion), Malaysia (USD 1.32 billion) and Kuwait (USD 1.04 billion) (Table IV.4).

V. Price Developments

5.1 At the end of June 2016 the twelve month average headlines CPI inflation came down from 6.41 percent in FY15 to 5.92 percent in FY16 which is below the target of 6.2 percent for FY16 due to fall in food prices both in domestic and international market.(Chart V.1). Point to point CPI inflation also went down to 5.53 percent in FY16 from 6.25 percent in FY15.

5.2 Both the food and the nonfood inflation were benign during Q4 FY16. The food inflation went down rapidly compare to reduction of nonfood inflation during Q4 FY16, though nonfood inflation experienced arise in June 2016 as compared with end-June 2015 (Chart V.2). Slight cut down fuel prices in domestic market was probably one reason to decelerate nonfood inflation during the quarter under review. Food inflation (p-t-p) declined to 4.23 percent in end-June 2016 from 6.32 percent at the end of June 2015 where nonfood inflation increased to7.50 percent at the end of June 2016 from 6.15 percent during same period of previous year. The contribution of food and non-food prices to total headline CPI is given in Table 5.1. With food and nonfood components, both p-t-p and 12-month average headline CPI inflation were more acute in urban areas than that of the rural area (Chart V.3-V.6).

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, Furnishing & Other	Medical care and Health Expenses	Transport & Communications	Recreation, Entertainment, Education & Cultural	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-15	**56.86**	7.97	7.73	3.95	8.85	9.38	1.61	3.65	**43.14**
Jul-15	**42.35**	14.59	6.54	2.86	12.90	4.84	8.76	7.15	**57.65**
Aug-15	**43.22**	15.02	5.43	2.85	13.49	4.04	9.14	6.80	**56.78**
Sep-15	**40.89**	20.32	5.38	2.74	12.99	2.39	8.77	6.51	**59.11**
Oct-15	**40.86**	20.39	5.05	2.70	11.79	4.52	8.75	5.94	**59.14**
Nov-15	**39.40**	21.27	5.78	3.16	10.54	4.32	9.33	6.19	**60.60**
Dec-15	**36.93**	22.58	6.87	4.00	10.90	4.37	9.08	5.28	**63.07**
Jan-16	**38.88**	13.53	24.25	5.33	4.59	10.57	1.25	1.61	**61.12**
Feb-16	**36.34**	13.89	25.79	5.26	4.34	11.15	1.34	1.90	**63.66**
Mar-16	**37.34**	13.77	25.58	4.85	4.29	10.99	1.32	1.87	**62.66**
Apr-16	**37.06**	13.91	25.67	4.83	4.30	11.03	1.34	1.86	**62.94**
May-16	**38.15**	14.41	24.43	4.55	4.40	10.96	1.28	1.82	**61.85**
Jun-16	**41.92**	13.21	23.82	4.27	4.22	10.36	1.01	1.18	**58.08**

$$@\text{contribution of ith group} = \left(\frac{\text{Inflation in ith group} * \text{weight of ith gruop in CPI basket}}{\text{Headline Inflation}}\right) \times 100$$

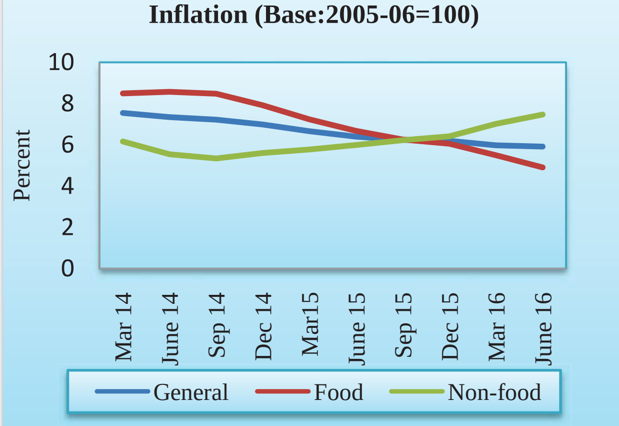


Chart V.1:12-Month Average CPI Inflation (Base:2005-06=100)

Source: Bangladesh Bureau of Statistics

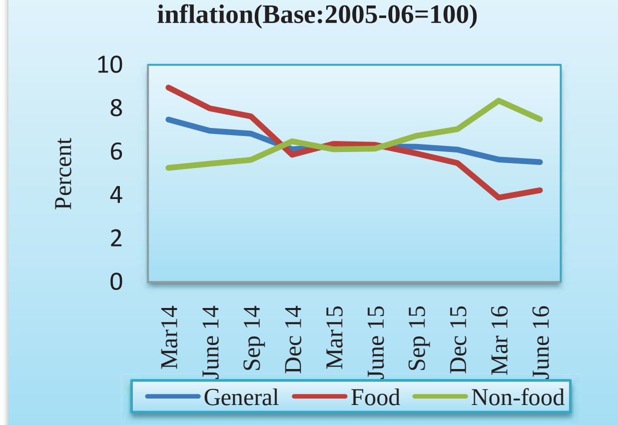
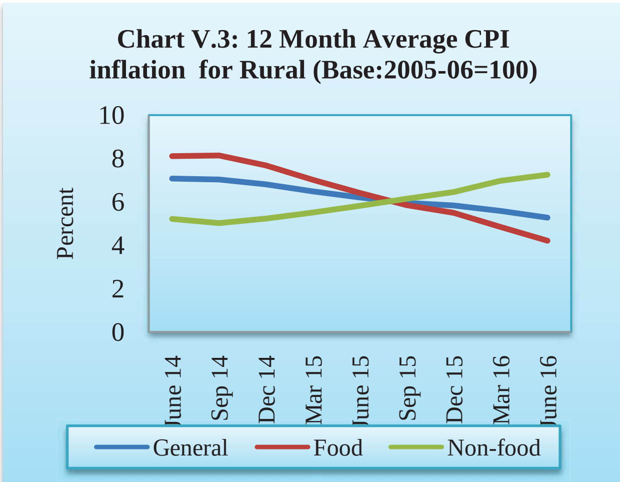
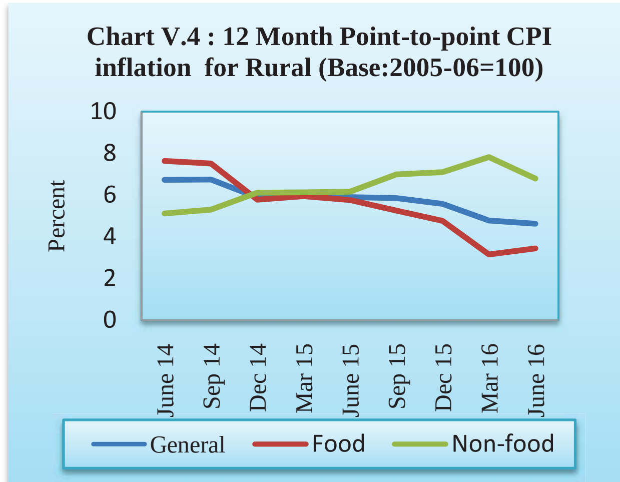


Chart V.2: 12 - Month Point-to-point CPI inflation(Base:2005-06=100)

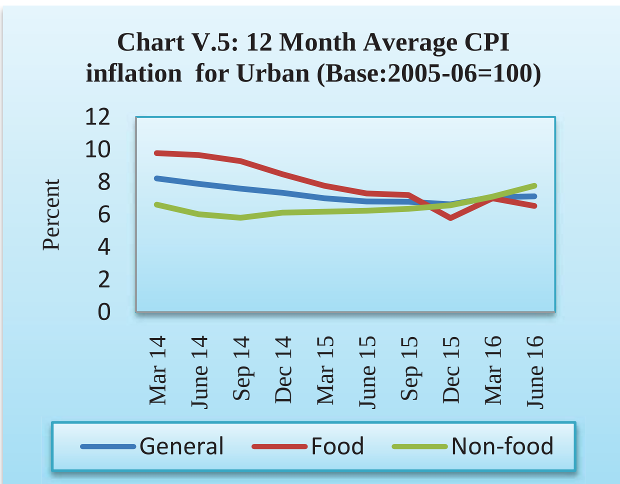
Source: Bangladesh Bureau of Statistics



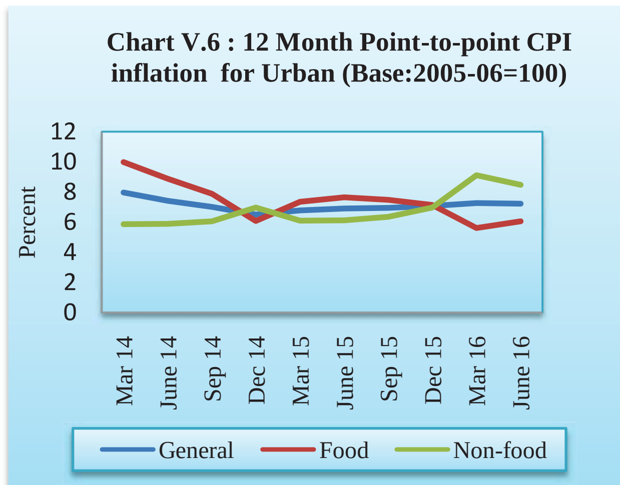
Source: Bangladesh Bureau of Statistics



Source: Bangladesh Bureau of Statistics



Source: Bangladesh Bureau of Statistics

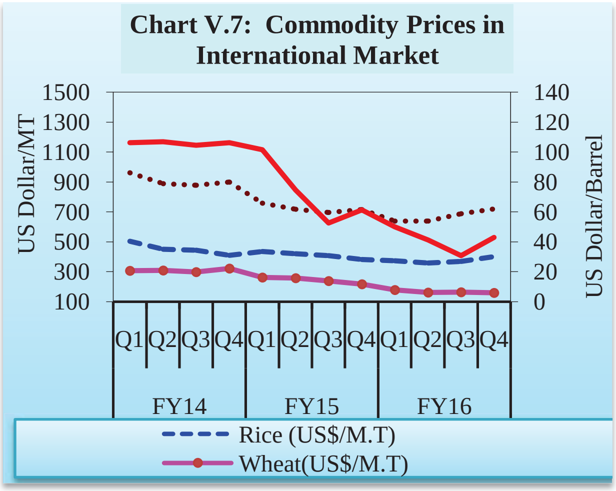


Source: Bangladesh Bureau of Statistics

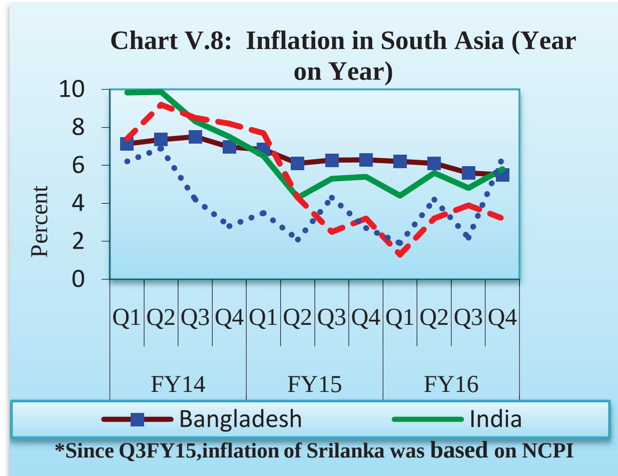
5.3 During Q4FY16, prices of commodities including rice, sugar, edible oils in the global market followed a mixed trend. According to IMF data, the quarterly average rice (Thailand 5%) price edged up by 9.0 percent even though imports comprise only a small portion of total rice consumption. The average crude petroleum price hiked up by 39.98 percent, followed by sugar (by 19.40 percent) and then, soybean oil (Chicago future) rose by 4.78 percent during the quarter above mentioned. While wheat price came down by 2.11 percent during the quarter under review (Chart V.7). In view of recent global commodity price movements, it is anticipated that the increase in prices of these food items might have a pass-through effect in the domestic market in near future. . However, overall inflation is expected to be softening with agricultural growth stemming from persistence agricultural production, smooth flow of supply chain in domestic market due to absence of political uncertainty.

5.4 In the South Asian region, the highest inflation based on CPI was in Sri Lanka followed by India during the fourth quarter of FY16. After softening to 4.8 percent in March 2016, inflation in India rose to

5.8 percent in June 2016 while in Sri Lanka, p-t-p inflation started to decline since February 2016 from 1.7 to 6.4 percent in June 2016. Pakistan experienced a marginal decline in inflation by 3.2 percent in the end of June 2016 from 3.9 percent in end-March 2016 (Chart V.8).



source : International Financial Statistics (IFS),IMF

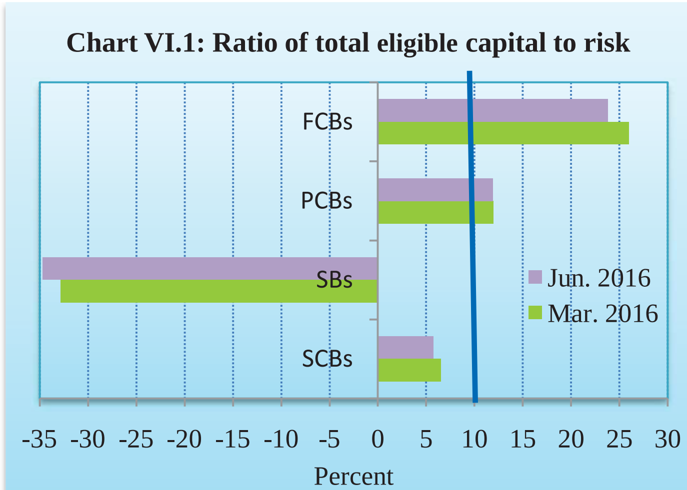


Source: Central banks and statistics department/bureau of respective departments.

VI. Banking Sector Performance

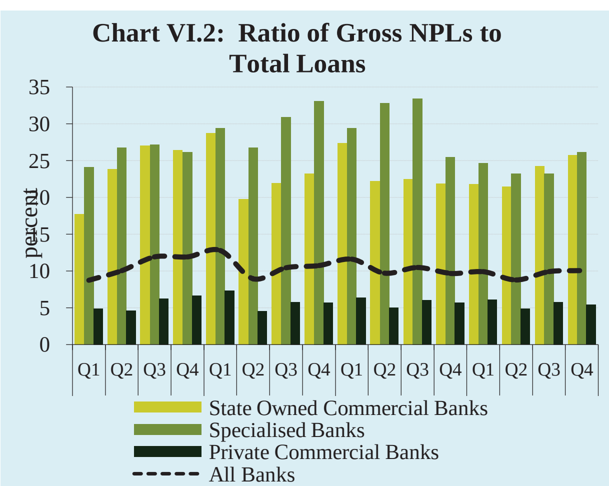
6.1 The banking sector indicators showed some concerns during Q4FY16 compared to that of the preceding quarter. The ratio of gross NPL to total outstanding loans of the banking sector increased from 9.92 percent at the end of Q3FY16 to 10.06 percent at the end of Q4FY16. However, the ratio of net NPL decreased from 2.88 percent at the end of March 2016 to 2.81 percent at the end of June 2016. The provision shortfall position of the banking sector deteriorated during Q4FY16 and stood at BDT (-) 44.5 billion from BDT (-) 41.2 billion at the end of March 2016. Capital adequacy ratio (CAR) decreased to 10.3 percent in Q4FY16 from 10.6 percent in Q3FY16.Among the profitability measures; return on asset (ROA) declined from 0.77 percent at the end of December 2015 to 0.44 percent at the end of June 2016. Return on equity (ROE) of the banking industry also decreased to 6.74 percent at the end of June 2016 from 10.51 percent at the end of December 2015. On the other hand, monthly interest rate spread for all banks, measured as the difference between the monthly weighted average interest rate of advances and deposits, continued to stay below 5.0 percent during Q4FY16. Call money rate increased marginally from 3.68 percent in March 2016 to 3.70 percent in June 2016.

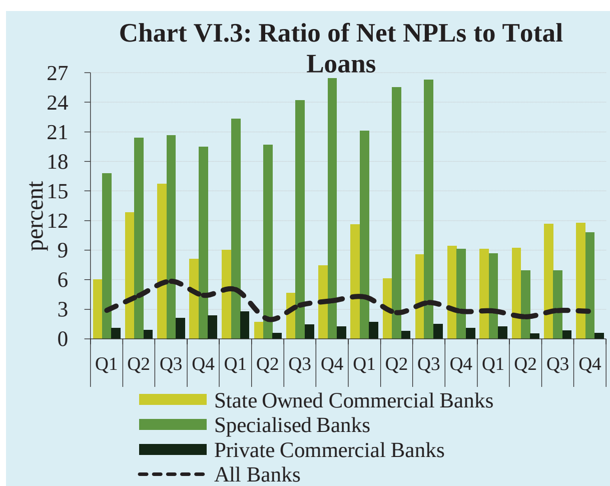
6.2 In Q4FY16, capital adequacy ratio (CAR) decreased to 10.3 percent from 10.6 percent in Q3FY16 – a minimum of 10% is the regulatory requirement. Total risk weighted asset and minimum capital requirement of the banking sector as a whole grew by 4.5 percent and 4.0 percent respectively in Q4FY16 over Q3FY16 and total eligible capital increased by 1.7 percent during this period. The CAR for SCBs, SBs, PCBs and FCBs decreased to 5.8 percent, (-) 34.7 percent, 11.9 percent and 23.8 percent respectively in Q4FY16 from 6.5 percent, (-)32.9 percent, 12.0 percent and 26.0 percent respectively in Q3FY16. (Chart VI.1).



Source: Department of Off- site supervision, Bangladesh Bank.

6.3 The ratio of gross NPL to total the outstanding loans of the banking sector increased from 9.92 percent at the end of March 2016 to 10.06 percent at the end of June 2016 (Table VI.2 and Chart VI.2). Outstanding loan of the sector increased by 5.2 percent during Q4FY16 over Q3FY16. Along with this, total classified loan increased by 6.66 percent over the same period. The gross NPL ratio for SCBs, SBs, and FCBs increased from 24.3 percent, 23.2 percent, and 7.5 percent respectively at the end-March 2016 to 25.7 percent, 26.1 percent and 8.3 percent respectively at the end-June 2016. However, the ratio of PCBs marginally decreased from 5.8 percent to 5.4 percent during the same period.





Source: Banking Regulation and Policy Department, Bangladesh Bank.

On the other hand, the net NPL ratio for all banks slightly decreased from 2.88 percent Q3FY16 to 2.81 percent Q4FY16. (Table VI.3, Chart VI.3). In addition, the provision/shortfall position of the banking sector deteriorated further during Q4FY16 and stood at BDT (-) 44.5 billion from BDT (-) 41.2 billion Q3FY16 (Table 6.1). In Q4FY16, in addition to SCBs, SBs also failed to maintain its required amount of provision resulting in an increase of the net NPL ratio of this bank group from 6.9 percent in Q3FY16 to 10.8 percent. Net NPL ratios for SCBs and FCBs also increased from 11.65 percent and (-) 0.33 percent respectively in Q3FY16 to 11.76 percent and 0.9 percent respectively Q4FY16. However, the net NPL ratio of PCBs decreased to 0.58 percent in Q4FY16 from 0.86 percent Q3FY16.

6.4 Return on assets (ROA) declined from 0.77 percent in December 2015 to 0.44 percent in June 2016. The ROA for SCBs, SBs, PCBs and FCBs decreased from (-) 0.04 percent, (-) 1.15 percent, 1.00 percent, and 2.92 percent respectively in December 2015 to (-) 0.24 percent, (-) 3.98 percent, 0.73 percent, and 2.68 percent respectively in June 2016. Similarly, return on equity (ROE) of the banking industry decreased remarkably to 6.74 percent in June 2016 from 10.51 percent in December 2015. The ROE for SCBs, SBs, PCBs and FCBs decreased to (-) 3.97 percent, (-) 21.96 percent, 10.6 percent and 13.82 percent respectively in June 2016 from (-) 1.47 percent, (-) 5.79 percent, 10.75 percent, and 14.59 percent respectively in December 2015 (Table VI.4).

Table 6.1: Comparative Position of Classified Loan and Provision Maintained

(In billion BDT)

Quarter	Items	SCBs	SBs	PCBs	FCBs	All Banks
Q1 FY16	Total classified loan	227.3	52.9	245.8	21.2	547.1
	Required provision	128.7	28.7	134.8	16.4	308.5
	Provision maintained	99.2	28.7	140.3	17.1	285.2
	Excess(+)/shortfall(-)	-29.5	0	5.5	0.7	-23.3
Q2 FY16	Total classified loan	237.4	49.7	207.6	19	513.7
	Required provision	140.4	26.4	126	16.1	308.9
	Provision maintained	94.7	28.4	126.6	16.5	266.1
	Excess(+)/shortfall(-)	-45.7	1.9	0.5	0.4	-42.8
Q3 FY16	Total classified loan	272.9	49.7	253.3	18.2	594.1
	Required provision	154.6	26.4	140	15.2	336.2
	Provision maintained	98.9	28.4	152	15.7	294.9
	Excess(+)/shortfall(-)	-55.7	1.9	12	0.5	-41.2
Q4 FY16	Total classified loan	300.8	58.2	253.2	21.6	633.7
	Required provision	169.7	30.4	146.2	15.5	361.8
	Provision maintained	114.6	28.5	158.0	16.3	317.3
	Excess(+)/shortfall(-)	-55.1	-2.0	11.8	0.8	-44.5

Source:: Banking Regulation & Policy Department, Bangladesh Bank.

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.16	Mar.16	Jun.16	Mar.16	Jun.16	Mar.16
SCBs	16.4%	15.3%	8.5%	6.8%	50.5%	51.8%
SBs	8.2%	9.9%	9.3%	3.8%	80.1%	73.1%
PCBs	13.8%	13.4%	18.1%	16.7%	81.2%	80.9%
FCBs	8.2%	4.9%	10.2%	10.2%	63.9%	60.1%
All	14.1%	13.4%	15.4%	13.8%	71.6%	71.5%

Table 6.3: Liquidity Position of the Scheduled Banks

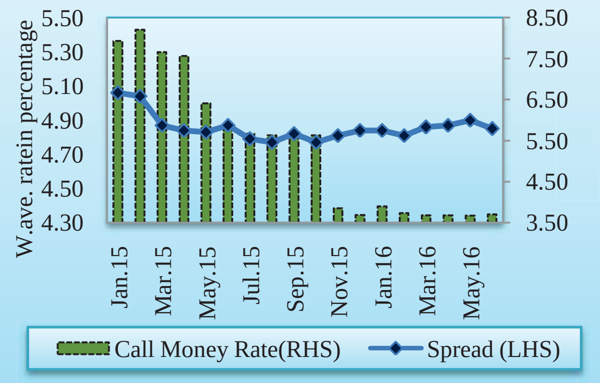
(In Billion BDT)

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, 2016^{P}						
SCBs	150.43	166.06	15.63	297.89	969.87	671.99
SBs*	15.31	15.55	0.24	0.00	0.00	0.00
PCBs (other than Islamic)	238.26	247.87	9.61	476.52	747.40	324.96
Private Banks (Islamic)	107.60	152.53	44.93	91.05	206.24	115.19
FCBs	24.73	28.10	3.36	48.72	165.90	117.19
All	536.33	610.11	73.77	914.16	2143.49	1229.33
As of end June, 2015						
SCBs	129.82	131.48	1.65	256.960	762.15	505.19
SBs*	13.94	15.39	1.45	0.00	0.00	0.00
PCBs (other than Islamic)	212.74	212.55	-0.19	421.14	764.03	342.89
Private Banks (Islamic)	90.81	120.96	30.16	76.84	203.57	126.73
FCBs	23.65	25.32	1.67	46.55	180.72	134.17
All	470.95	505.70	34.75	801.49	1910.47	1108.98

* SLR does not apply to specialized banks as exempted by the Government.
**includes cash in tills, balance with BB in foreign currency, balance with Sonali Bank as an 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 Q4FY16, the growth rate (year-on- year) of deposits was slightly lower than that of advances. The advance-deposit ratio (ADR) marginally increased from 71.5 percent in end-March 2016 to 71.6 percent in end-June 2016 and remained far below the maximum regulatory ceiling. The growth rate of deposits increased from 13.4 percent at the end of March 2016 to 14.1 percent at the end of June 2016. Similarly, the growth of advances increased from 13.8 percent to 15.4 percent during the period (Table 6.2).The liquidity position of the banking sector as a whole, improved at the end of Q4FY16; leading to a further easing of money market conditions (Table 6.3).

Chart VI.4: Interest Rate Spread and Call Money Rate



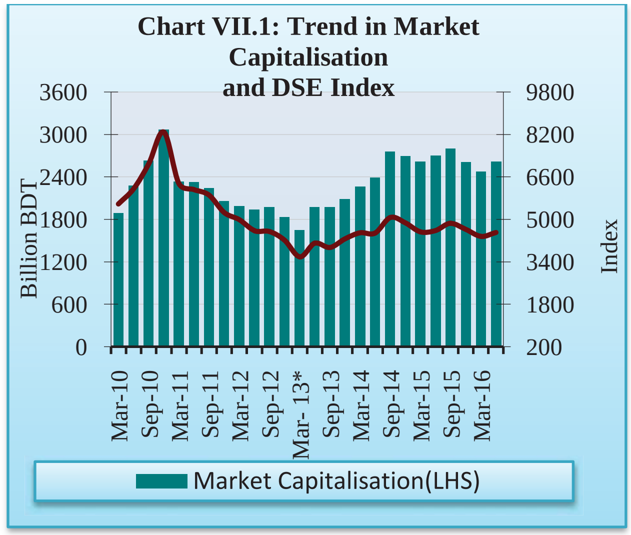
Source: Monthly Economic Trends, August 2016

6..6 Interest rate spread for all banks, measured as the difference between the monthly weighted average interest rate of advances and deposit, continued to remain below 5.0 percent during Q4FY16. The spread has increased over the first two months of Q4FY16 from 4.86 percent in March 2016 to 4.90 percent in May 2016 before decrease again to 4.85 percent in the last month of the quarter (Chart VI.4). Monthly weighted average call money rate marginally increased from 3.68 percent in March 2016 to 3.7 percent in June 2016.

VII. Capital Market Developments

7.1 The performance of capital market in terms of the DSE indices, and market capitalization improved during Q4 of FY16. At the end of Q4FY16, the DSE broad (DSEX) index and the DSE 30 index were at 4507.6 and 1770.8 which were 3.4 percent and 7.4 percent higher compared to the level of Q3FY16. Over the same period, market capitalization increased by 5.5 percent (Chart VII.I and Table VII.I). However, the yearly performance indicates that the DSEX index decreased by 1.6 percent in Q4FY16 compared to Q4FY15 while the DSE 30 index slightly increased by 0.1 percent in Q4FY16 compared to Q4FY15. The DSE market capitalization decreased by 3.2 percent in Q4FY16 compared to Q4FY15.

Chart VII.1: Trend in Market Capitalisation and DSE Index



Source: Dhaka Stock Exchange.

7.2 The average price earnings ratio of the DSE decreased to 14.66 in June 2016 compared to 14.80 at the end of March 2016. Total turnover value in the DSE decreased by 15.0 percent from BTD. 279.9 billion in Q3FY16 to Tk. 237.9 billion in Q4FY16. The liquidity situation in the capital market was tight as measured by Turnover Velocity Ratio (TVR)[1], which decreased to 36.4 percent in Q4FY16 from 50.0 percent in Q3FY16. The number of listed securities decreased to 338 in Q4FY16 from 339 in Q3FY16. During Q4FY16, the value of issued equity and debt increased by 2.8 percent and two new companies were listed in the capital market. On the other hand, three mutual funds were delisted from the DSE due to completion their tenure.

7.3 The sector-wise DSE data show that market capitalization decreased in engineering, Jute Industries, Paper and Printing, Textile and Insurance sectors during Q4FY16 (Table VII.2) . All other sectors (banks, financial institutions, food and allied products, Pharmaceuticals and Chemicals, Cement Industry, Telecommunication, service and real estate fuel and power, and Miscellaneous) increased during Q4FY16. The contribution of the banking sector to market capitalization remained almost unchanged at 15.1 percent at the end of Q4FY16.

7.4 During January-June 2016 (H2 of FY16) the investment on share purchase by foreign and non-resident Bangladeshi investors increased to BTD. 24.0 billion from BTD 19.6 billion in the January-June 2015(H2 of FY15). At the same time, total share sales by foreign and non-resident Bangladeshi investors also increased to BTD 19.6 billion from BTD 17.8 billion in the same period of the previous year. As a result, net investment of foreign and non-resident Bangladeshi during H2FY16 increased to BTD 4.4

[1] TVR= (Turnover during the Quarter/Quarter-end Market capitalization)*4.

billion as compared to BTD 1.8 billion in H2FY15. However, foreign exchange turnover still has a limited contribution in total turnover of DSE. During H2FY16 total foreign exchange turnover increased to 8.4 percent from 7.8 percent in the same period of the previous year in the total turnover of DSE.

7.5 In June 2016, cross country data show that price earnings ratio of, Bangladesh capital market is third lowest 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 2016

Country	Price Earnings Ratio	Dividend Yield
Bangladesh	14.66	3.74
India	19.81	1.44
Sri Lanka	12.99	3.06
Thailand	22.34	3.24
Malaysia	-	-
Hong Kong	9.69	-
China	14.46	-

Source: Monthly Review, June 2016, Dhaka Stock Exchange.