Economic & Financial Developements

Part A: Economic and Financial Developments

Executive Summary

The third quarter of FY16 reflected a considerable expansion in terms of various indicators associated with overall economic activities. Moreover, both external and domestic demand remained resilient as indicated by strong growth in both export earnings (9.7 percent) and import payments (9.24 percent) although remittance inflow registered negative growth (-4.9 percent) during the same period.

Although service sector data are available annually, the relevant proxies to gauge quarterly developments in the service sector such as trade financing, bank advances to the transport and communication sector, and cargo handled through Chittagong Port show encouraging figures: credit to the trade and commerce sector and the transport sector posted strong growth of 19.8 percent and 24.8 percent, respectively, in the third quarter of FY16 compared to 0.9 percent and -19.0 percent growth rates in the previous quarter. The cargo handled through Chittagong Port increased by 24.2 percent over the same period of the preceding year in contrast to 16.53 percent in Q3FY15.

Money and credit market developments remained below the target level in the third quarter of FY16. Broad money (M2) growth(y-o-y) was 13.55 percent in March 2016 compared with 13.07 percent in December 2015 against the targeted annual growth of 15.0 percent by June 2016. Reserve money (RM) growth was 15.8 percent (y-o-y) in March 2016 compared with 15.1 percent in December 2015 against annual targeted growth of 14.3 percent. Growth in private sector credit increased to 15.16 percent in March 2016 from 14.19 percent in December 2015, and remained within the programmed growth rate of 15.0 percent. Credit to the public sector declines by 5.28 percent in March 2016 compared to the negative growth of 7.8 percent in December 2015.

The inflation rate, measured in both average and point-to-point methods, declined mainly because of decelerating food inflation. The twelve-month-average CPI inflation decreased from 6.66 percent in March 2015 and 6.19 percent in December 2015 to 5.98 percent in March 2016 driven mainly by falling food inflation. Similarly, point-to-point CPI inflation fell from 6.27 percent in March 2015 and 6.10 percent in December 2015 to 5.65percent in March 2016 as food inflation came down.

In public finances, the overall budget deficit through Q3FY16 was much higher than the same period of last year. During the first three quarters of FY16, Revenue collections continued to register strong growth (15.5 percent) while total government expenditures continued to lag behind (14.6 percent) budget figure. Strong growth of external aid disbursements (66.9 percent) and *moderate growth of non-bank financing (4.7 percent) together reduced the need for domestic bank financing in Q3FY16.*

In the external sector, the current account balance (CAB) in Q3FY16 continued to be in surplus despite negative growth of inflow of workers' remittances. With large external aid disbursements, the capital account was also in surplus resulting in accumulation of international reserves to $28.3 billion- sufficient to cover 8 months of FY16 projected imports. The foreign exchange market remained mostly stable during this period with marginal appreciation of Taka against the US dollar during Q3FY16.

The banking sector indicators for Q3FY16 raised some concerns regarding non performing loans (NPL) for various reasons. After showing noticeable improvements during the preceding quarter, the condition of NPL slightly deteriorated in Q3FY16: the ratio of gross NPL to total outstanding loans increased to 9.92 percent at the end of Q3FY16 from 8.79 percent at the end of Q2FY16. Likewise, the ratio of net NPL increased from 2.26 percent at the end of December 2015 to 2.88 percent at the end of March 2016. At the end of March 2016, provision shortfall position of the banking sector slightly improved and stood at Tk. 41.2 billion from Tk. 42.8 billion at the end of December 2015. Similarly, in Q3FY16, the capital adequacy ratio (CAR) marginally decreased to 10.6 percent from 10.8 percent in Q2FY16.

Both the measures of the profitability in the banking industry showed improvement from the previous quarter. The return on assets (ROA) increased from 0.64 percent at the end of December 2014 to 0.77 percent at the end of December 2015. Similarly, the return on equity (ROE) of the banking sector also increased to 10.51 percent at the end of December 2015 from 8.09 percent at the end of December 2014. Monthly interest rate spread for all banks slightly increased to 4.86 percent in March 2016 from 4.84 percent in December 2015.

In the capital market, the declining trends of the DSE indices and market capitalization continued during Q3FY16. At the end of Q3FY16, the DSE broad (DSEX) index and the DSE 30 index were at 4357.5 and 1649.0 which were 5.9 percent and 5.8 percent lower compared to Q2FY16. Over the same period, market capitalization also decreased by 4.9 percent.

I. Developments in the real economy

1.1 During the third quarter of FY16, the economy of Bangladesh exhibited a strong growth impulse, reflected in the activities in three broad sectors of the economy-agriculture, industry and service. At the same time strong growth of the export sector (11.02 percent) and the import of capital goods and machinery (27.21 percent) also depicts the similar picture of the economy, while negative growth of remittances inflow might have some dampening effect on domestic demand.

Chart 1.1: Growth of Real GDP

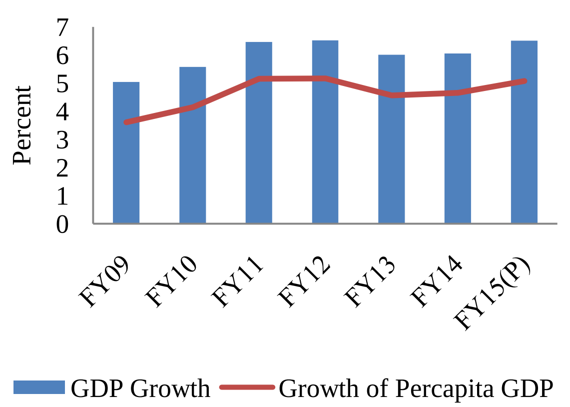
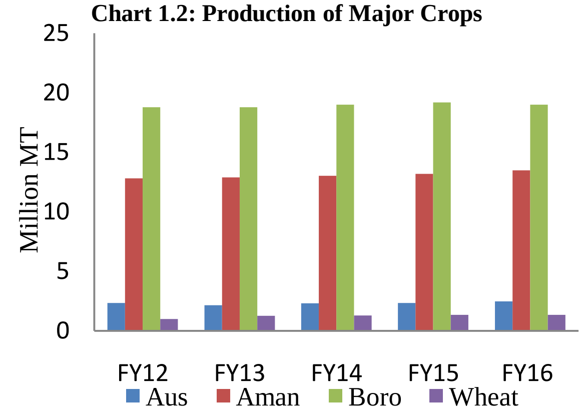


Chart 1.2: Production of Major Crops

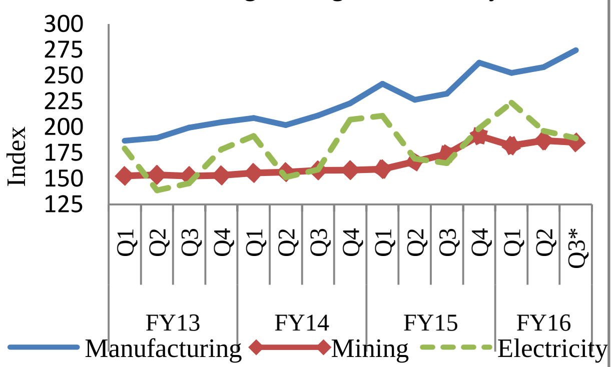


* Data for *boro* in FY16 represents target

1.2 In FY16, the production of *aman* rice crop, which is the second largest crop in Bangladesh and harvested in the second quarter of the fiscal year, has attained at very close to its annual target. Department of Agricultural Extension's (DAE) preliminary estimate shows that 13.48 million metric ton (mmt) *aman* rice has been grown on 5.90 million hectare land against the production target of 13.56 mmt for FY16. This production is 2.22 percent higher than the previous year's actual production. Before *aman*, 2.47 mmt *aus* rice crop has grown in FY16, which is 6.01 percent higher than the previous year's production. Though *boro* crop, which is the main crop of Bangladesh, cultivated in the December- mid February period of the fiscal year, the production data is yet to be made available. However, based on DAE estimate, it may presume that production of *boro* will fall short of its annual target, as the actual plantation area of *boro* for FY16 is 2.40 percent lower than the targeted area. Apart from rice crops, preliminary estimate by DAE shows that production of potato and onion registered strong growth of 11.35 percent and 10.36 percent respectively in FY16 compared to the previous fiscal year, while wheat production posted 0.52 percent growth. Among pulse and oil seeds type crops, *moong*, *mosur* and mustard production registered 14.14 percent, 3.46 percent and 5.56 percent growth in FY16.

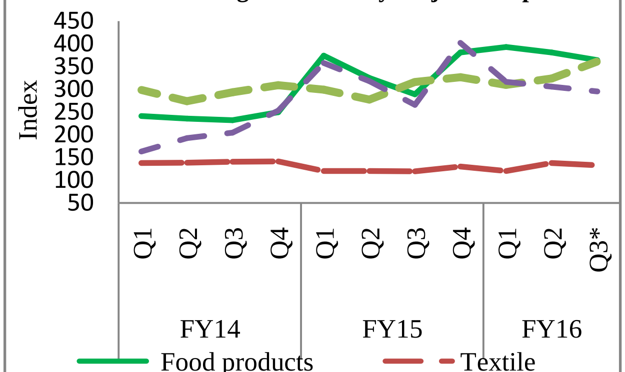
1.3 The only available data which proxies for industrial growth in the third quarter of FY16, is the quantum index of large and medium scale industries for January and February 2016 which indicates a buoyant growth of the industrial sector during the third quarter of FY16. Compared to January and February FY15, large and medium scale industries registered a healthy growth of 16.88 percent in the first two months of the third quarter (January and February) of FY16, driven mainly by high growth of manufacturing of food products (24.70 percent), basic metal (34.48 percent), non metalic mineral product (44.21 percent), leather and leather products (12.65 percent) and pharmaceuticals (12.30 percent). In addition, manufacturing of textile and wearing apparel, which comprise 39 percent of large and medium scale industrial production, posted 10.32 percent and 10.99 percent growth respectively. Among the others industrial sector, 52.21 percent growth of cement production and 16.72 percent growth of iron and steel production in the first eight months FY16 reflects a satisfactory picture of the construction sector in the country.

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



*Average of January and February 2016

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



* indicates average of January and February

1.4 Though service sector data is available only on an annual basis, a number of proxy indicators (such as trade financing, bank advances to transport and communication sector, and cargo handled through Chittagong port, etc.) reflect strong service sector activities in the country during the third quarter of FY16. Bank advances (outstanding) to trade and commerce sector and transport sector posted a healthy growth of 19.84 percent and 24.82 percent respectively in Q3FY16 compare to the same period of previous fiscal year (Table 1.9 in appendix). In addition, cargo handled through Chittagong port increased by 24.20 percent during the quarter under review. Moreover, benefited by the stable political situation in the country, tourisms, hotel and restaurant business remained buoyant during the period under review.

II. Money and Credit Market Developments

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 March 2016 broad money (M2) growth was 13.6 percent compared with 13.1 percent in December 2015 and 12.5 percent in March 2015. The M2 growth was 0.9 percentage point lower than the programmed level of 14.5 percent for March 2016. The growth in private sector credit increased to 15.2 percent in March 2016 from 14.2 percent in December 2015 and 13.6 percent in March 2015. The private sector credit growth was 1.1 percentage points higher than the programmed growth of 14.1 percent for March 2016. Credit to the public sector growth was negative by 5.3 percent in March 2016 compared with the negative growth of 7.8 percent in December 2015. Net Foreign Asset (NFA) grew by 24.1 percent in March 2016 compared to the growth of 25.1 percent in December 2015.

Chart II.1: Sources of Reserve Money

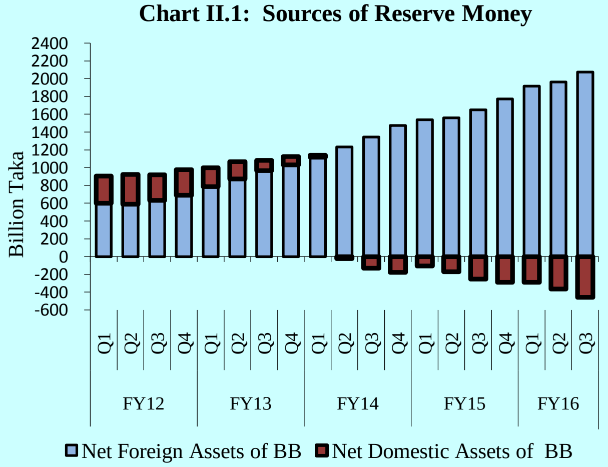
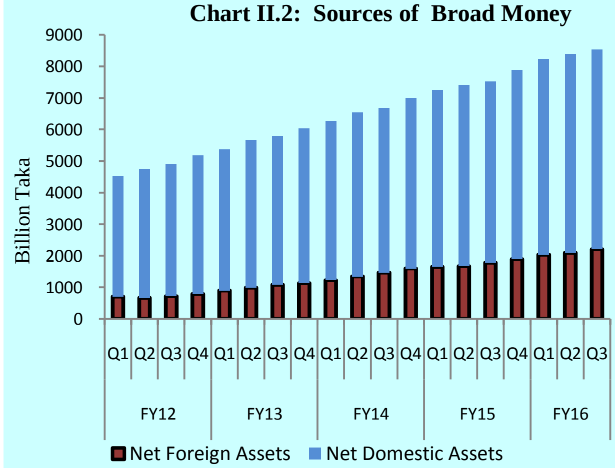


Chart II.2: Sources of Broad Money

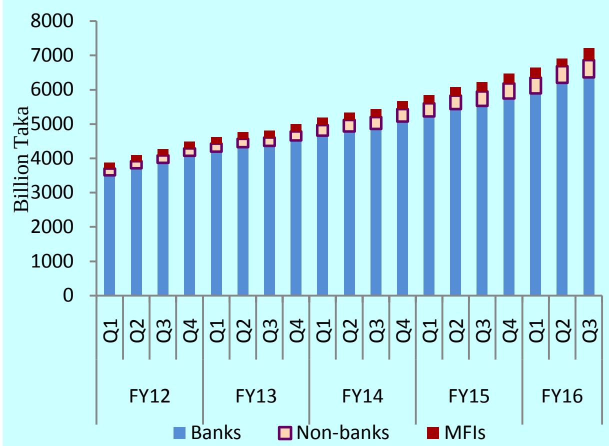


2.3 A look at the components of M2 shows that currency, demand deposits, and time deposits increased by 17.6 percent, 15.8 percent and 12.8 percent (y-o-y) respectively in March 2016 compared to the increase of 12.9 percent, 14.7 percent and 12.9 percent respectively in December 2015. Narrow money or M1 grew by 16.8 percent in March 2016 which was 13.7 percent in December 2015. The money multiplier (M2/RM) increased to 5.29 in March 2016 from 5.25 in December 2015 reflecting a bit higher expansion of M2. While, reserve money

(RM) grew by 15.8 percent (y-o-y) in March 2016 compared with 15.1 percent in December 2015 and 14.9 percent growth in March 2015.

2.4 In March 2016, private sector credit (including banks, non-banks and micro-finance institutions) grew by 15.9 percent compared with 15.2 percent in December 2015. Individually, the bank advances to industry grew by 15.4 percent at the end of March 2016, in which industrial term lending grew by 29.4 percent and working capital financing increased by 5.3 percent over the period. In the agriculture sector the supply of credit increased by 9.5 percent at the end of March 2016 (of which advances to crops increased by 8.2 percent while others increased by 26.4 percent) compared to 17.0 percent at the end of same period of preceding year. Advances to construction sector increased to 30.6 percent at the end of March 2016 compared to 9.6 percent at the end of December 2015. Bank advances to transport increased to 24.8 percent at the end March 2016 compared to 18.6 percent went down at the end of December 2015. The growth of bank advances to trade & commerce was 19.8 percent at the end of March 2016 compared to 12.4 percent at the end of December 2015.

Chart II.3: Trends in Private Sector Credit



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 (36.8 percent) followed by the trade and commerce (36.4 percent), the construction (9.3percent), and consumer finance (8.6 percent) (Table I.9). The overall disbursements of industrial term lending by banks and NBFIs increased by 2.5 percent, and stood at Tk. 182.6 billion at the end of March 2016, from Tk. 178.2 billion in December 2015 and Tk. 133.5 billion in the same quarter of the preceding year.

Chart II.4: Yield on T-Bills

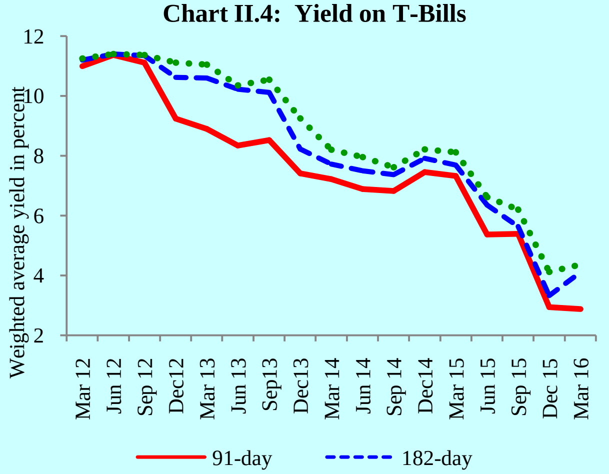
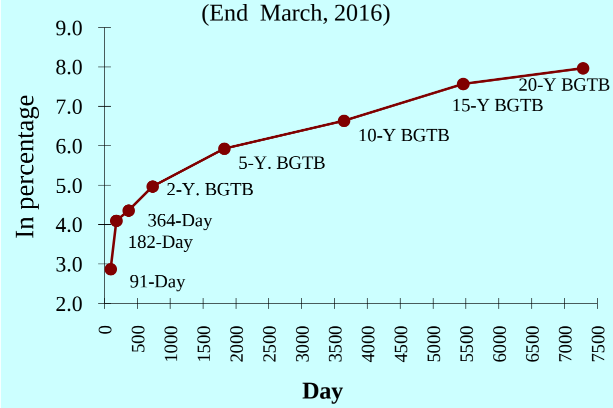


Chart II.5: Weighted average yield of accepted Government Treasury Bills & Bonds
(End March, 2016)



2.5 Overall yields on short term treasury bill e.g., 91-day declined to 2.87 percent in March 2016 from 2.94 percent in December 2015. The rate of 30-day Bangladesh Bank bill declined to 2.90 percent at the end of March 2016 from 3.38 percent at the end of December 2015. (Table II.3). Two-year, five-year, ten-year, fifteen-year and twenty-year long-term treasury bonds yields were 4.97 percent, 5.92 percent, 6.64 percent, 7.57 percent and 7.97 percent respectively as on the last auction held during January-March quarter 2016(Table II.3).

2.6 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. This move will attempt to dampen other interest rates in the market and thus will help investment stimulate. In align with the rate cut, the call money rate decreased to 3.64 percent at the end of March 2016 from 3.69 percent at the end of December 2015. The spread between lending and deposit rates, however, marginally increased to 4.86 percent at the end of March 2016 compared to 4.84 percent at the end of December 2015.

Chart II. 6: Policy Rates & Call Money Rate

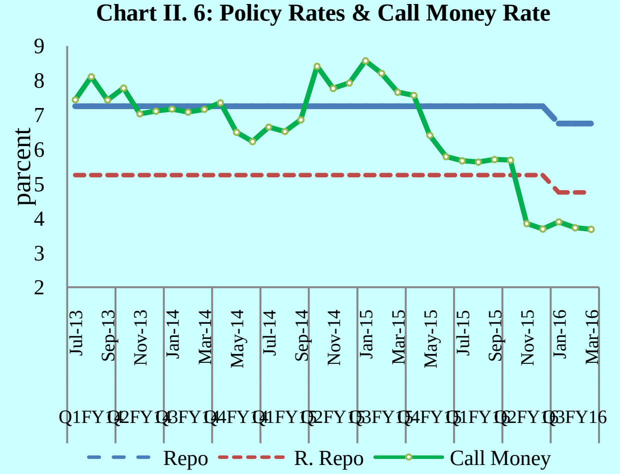
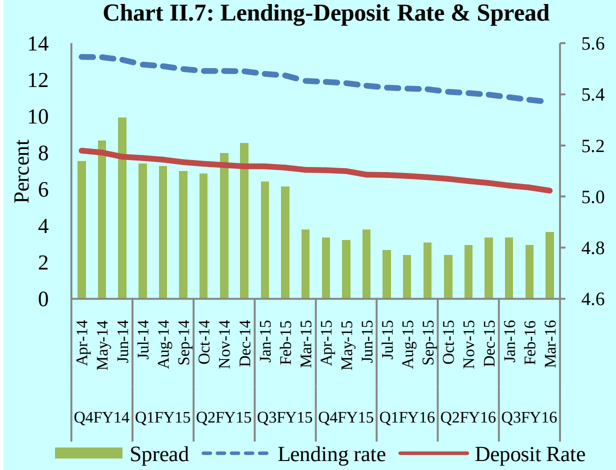


Chart II.7: Lending-Deposit Rate & Spread



III. Fiscal Developments

3.1 Preliminary estimates show that total revenue increased (y-on-y) by 13.3 percent whereas total expenditure grew by 17.4 percent in Q3FY16 compared with Q3FY15. Consequently, budget deficit increased to Tk. 120.7 billion in Q3FY16 compared to the deficit amount of Tk. 64.0 billion in Q3FY15. During the first three quarters of FY16, revenue collection and expenditure were 71.8 percent and 58.3 percent of the yearly revised budget target. Accordingly, the overall budget deficit for the first three quarter of FY16 amounted to 33.9 percent of the revised budgeted deficit or 1.6 percent of GDP which is slightly lower than the deficit of 1.7 percent of GDP for the same period in FY15. The entire amount of deficit financing came from non-bank and foreign financing sources (Table III.3, Chart III.1 and Chart III.2).

Chart III.1: Trend in Government Revenue and Expenditure

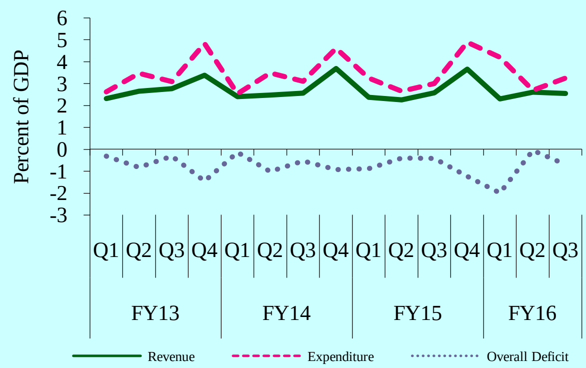
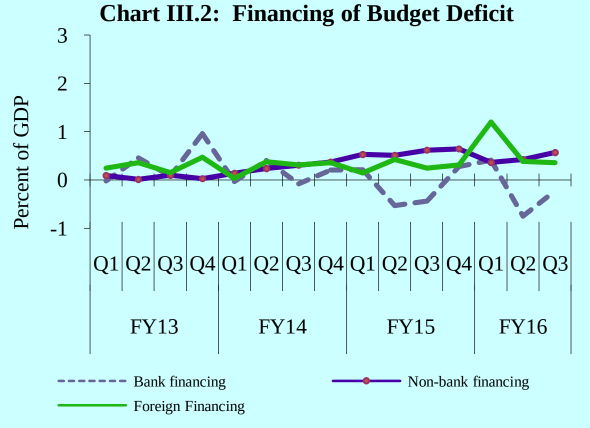


Chart III.2: Financing of Budget Deficit



3.2 During Q3FY16, total NBR tax revenue increased by 10.9 percent to Tk. 373.5 billion (25.3 percent of the annual target of FY16) from Q3FY15. Revenue collection from customs duties, value added tax (VAT), income tax, and other sources grew by 30.2 percent, 4.7 percent, 5.4 percent, and 22.5 percent respectively during the quarter under review over Q3FY15. The overall NBR tax revenue collection in the first three quarter of FY16 reached Tk. 1052.4 billion (71.2 percent of the revised target of FY16), which was 13.5 percent higher than the level of FY15.

3.3 During the Q3FY16, a preliminary estimate of total expenditure was Tk. 532.8 billion (20.1 percent of annual target), which was 17.4 percent higher, in nominal terms, than that of Q3FY15. The current expenditure grew by 34.7 percent to Tk. 339.3 billion in Q3FY16 and ADP expenditure grew by 38.0 percent to Tk. 181.1 billion (19.9 percent of annual ADP) compared to that of Q3FY15.

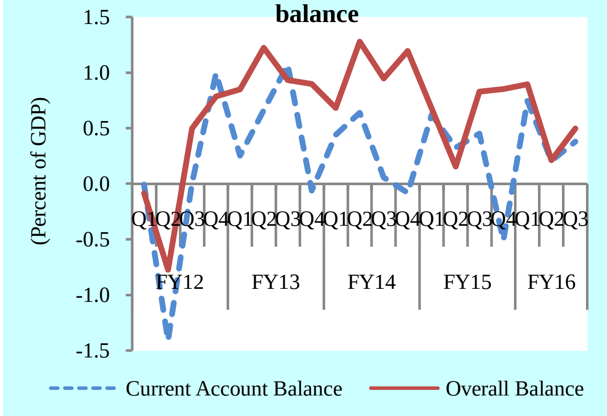
3.4 The overall fiscal deficit stood at Tk. 120.7 billion during Q3FY16, representing 0.7 percent of GDP compared with Tk. 64.0 billion or 0.4 percent of GDP in Q3FY15. Domestic financing of the deficit at Tk. 58.9 billion in Q3FY16 was much higher than the Tk. 27.0 billion registered in Q3FY15. Foreign financing of deficit at Tk. 61.8 billion in Q3FY16 was also higher than the Tk. 37.0 billion disbursed in Q3FY15. Of the domestic financing sources, financing from the banking sector increased to Tk. (-)38.9 billion from the Tk. (-)66.4 billion in Q3FY15, and financing from non-banking sector marginally increased to Tk. 97.8 billion in Q3FY16 from Tk.93.4 billion in Q3FY15.

3.5 During the first three quarter of FY16, the overall fiscal deficit amounted to Tk. 285.2 billion, or 1.6 percent of GDP. A look at the sources of financing the deficit shows that Tk. 134.2 was accommodated from domestic sources that included bank financing of Tk. (-)97.6 billion and non-bank financing of Tk. 231.8 billion, while the remaining amount of Tk. 151.0 billion came from foreign sources in the first three quarter of FY16.

IV. External Sector Developments

4.1 The current account balance (CAB) recorded a surplus of USD 833.0 million in Q3FY16 compared to USD 788.0 million in Q3FY15 as the trade deficit decreased from USD 1.62 billion to USD 1.38 billion. The services account and the primary income account recorded deficits of USD 713.0 million and USD 720.0 million respectively, while the secondary income recorded a surplus of USD 3.65 billion (of which the inflow of workers' remittances was USD 3.53 billion) during the quarter.

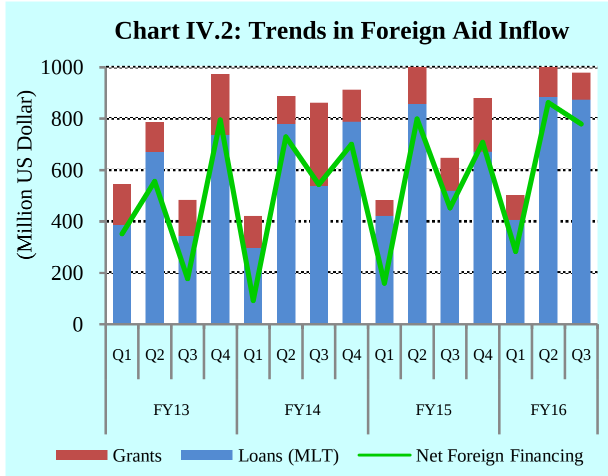
Chart IV.1: Trends in CAB and overall balance

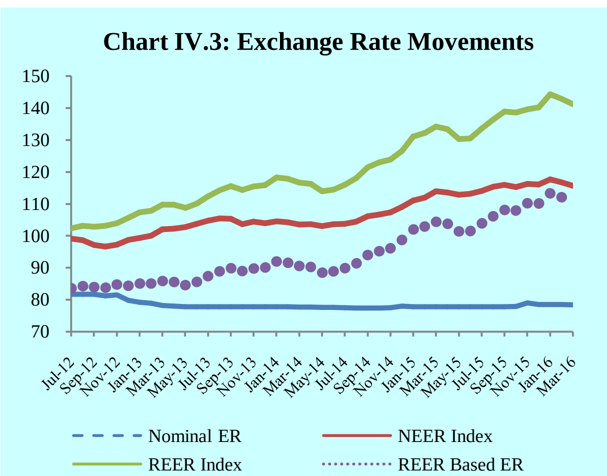


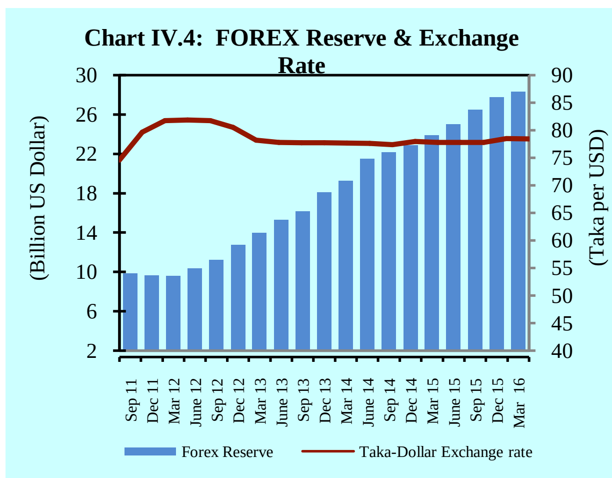
4.2 The surplus in combined capital & financial account narrowed to USD 353.0 million in Q3FY16 from a surplus of USD 782.0 million in Q3FY15. The financial account recorded a surplus of USD 255.0 million in Q3FY16 compared to a surplus of USD 634.0 million in Q3FY15, while the capital account recorded a surplus of USD 98.0 million.

At the end of Q3FY16, the overall balance of payments (BOP) recorded a surplus of USD 1.09 billion, lower than the surplus of USD 1.44 billion recorded in Q3FY15. The foreign exchanges reserve stood at USD 28.3 billion at the end of March 2016 (Table IV.1 in appendix).

4.3 Total foreign aid increased to USD 978.7 million during Q3FY16 compared to USD 647.5 million in Q3FY15. Out of the total aid, USD 873.9 million was disbursed as MLT loan as compared to USD 520.3 million in Q3FY15. Grants decreased slightly from USD 127.1 million in Q3FY15 to USD 104.9 million during Q3FY16. In Q3FY16, Bangladesh made an amortization payment of USD 261.2 million, of which USD 199.8 million was paid as principal. As a result, net foreign financing in Q3FY16 stood at USD 778.9 million compared to USD 453.0 million in Q3FY15 (Table IV.8 in appendix).



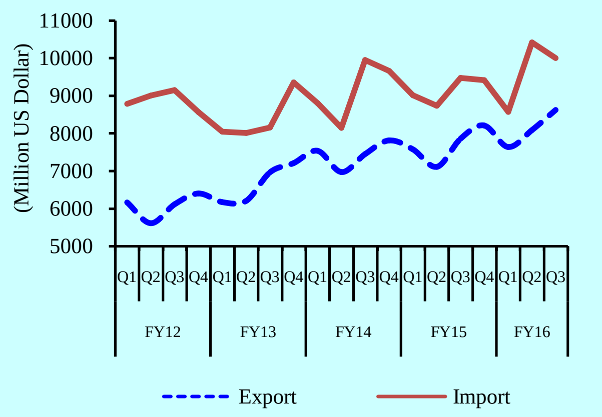




4.4 The weighted average nominal exchange rate decreased to Tk. 78.41 per US dollar in March 2016 compared to Tk. 78.78 per US dollar in December 2015. As a result Bangladesh Taka appreciated by 0.5 percent against US dollar during the quarter under report. The REER based exchange rate was Tk. 110.65 per USD at the end of March 2016, remaining almost unchanged at Tk. 110.06 per USD at the end of December 2015. Bangladesh Bank continued its intervention in the domestic foreign exchange market with a net purchase of foreign currencies amounting to USD 811.0 million during Q3FY16.

4.5 According to Export Promotion Bureau (EPB) data, exports earnings increased by 11.0 percent to USD 8.87 billion in Q3FY16 from USD 7.99 billion in Q3FY15 (on adjusted fob basis export earnings increased by 9.7 percent to USD 8.62 billion in Q3FY16 from USD 7.90 billion in Q3FY15). Exports of RMG grew by 10.6 percent to USD 7.30 billion during the quarter under review, as export to European countries increased by 13.5 percent in Q3FY16. Among other major export items, earnings from frozen shrimps and fish increased by 6.3 percent. Among the non-traditional markets, export of RMG products to Japan increased by 27.8 percent, while export of non-RMG products to UAE increased from 22.7 million in Q3FY15 to 50.7 million in Q3FY16 (Table IV.2 and Table IV.5 in appendix).

Chart IV.5: Trends in Exports & Imports



4.6 Import payments (according to customs data) increased by 5.3 percent to USD 10.79 billion in Q3FY16 compared to USD 10.24 billion in Q3FY15. Import of food-grains decreased from USD 365.6 million in Q3FY15 to USD 276.0 million in Q3FY16. Import of rice in Q3FY16 (USD 12.5 million) was significantly lower compared to the corresponding quarter of FY15, while import of wheat (USD 263.5 million) was higher. Import of other food items decreased from USD 874.6 million during Q3FY15 to USD 688.1 million in Q3FY16. Among the other food items, the import of spices (-0.7 percent), edible oil (-22.8 percent), pulses (-20.1 percent), sugar (-20.8 percent) and milk & cream (-26.8 percent) decreased in Q3FY16 over Q3FY15 (Table IV.3 in appendix).

4.7 Imports of consumer and intermediate goods increased by 5.9 percent to USD 5.95 billion during Q3FY16 compared to the corresponding quarter of FY15. Among the consumer and intermediate goods, imports of textile and articles thereof increased by USD 145.1 million in Q3FY16 over Q3FY15, while import of POL increased by USD 93.6 million. Import of raw cotton (+12.6 percent), yarn (+11.6 percent), dyeing and tanning materials (+8.7 percent), pharmaceutical products (+113.4 percent) have also increased. On the other hand, imports of fertilizer (-1.4 percent), oil seeds (-38.6 percent), crude petroleum (-18.3 percent), plastics and rubber articles thereof (-2.9 percent) have decreased in the same period. Imports of iron, steel & other base metals decreased by 5.1 percent while import of capital goods and others increased by 27.2 percent in Q3FY16 over Q3FY15.

4.8 In Q3FY16, the opening of import LCs decreased by 4.7 percent to USD 10.50 billion, of which petroleum and petroleum products (-31.3 percent), intermediate goods (-1.7 percent), capital machinery (-12.3 percent) and consumer goods (-21.6 percent) have decreased, while opening of LCs for machinery for miscellaneous industries (+9.8 percent) and industrial raw materials (+1.2 percent) increased (Table IV.9 in appendix).

4.9 The inflow of workers' remittances recorded USD 3.57 billion in Q3FY16 lower than USD 3.77 billion recorded in Q3FY15, as remittance earning from the Gulf region fell by USD 185.10 million (Table 4.4 in appendix). Overseas employment for Bangladeshi workers increased by 75.6 percent in Q3FY16 as a total of 190,868 Bangladeshi people migrated compared with 108,709 people migrated in the corresponding period of FY15.

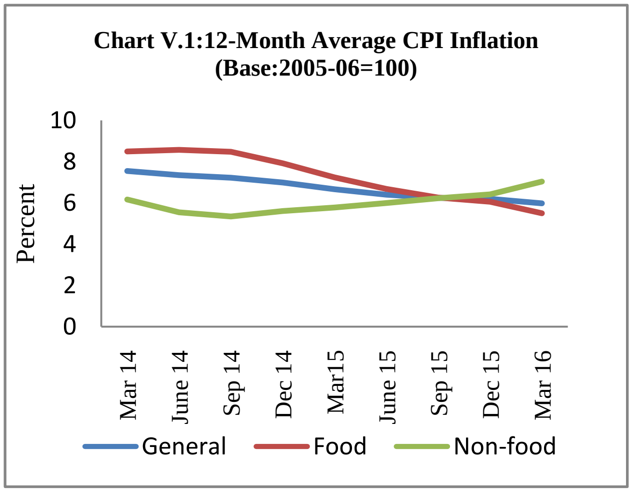
V. Price Developments

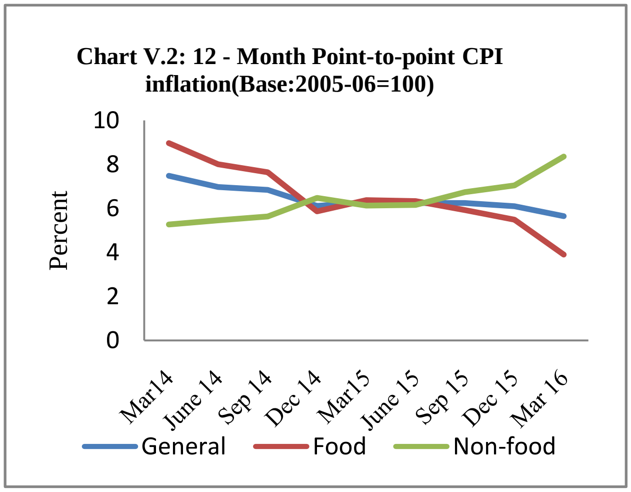
5.1 In the third quarter of FY16 (March, 2016), annual headline inflation registered a fall as food inflation was consecutively down over the quarter. Food inflation went down to 3.9 percent in March 2016 as compared to 6.4 percent in March 2015 due to good rice harvest and declining international commodity prices. Besides, nonfood inflation rose from 6.1 percent to 8.4 percent during the above mentioned period owing to increase in wage as well as high electricity and gas prices. However, after going up in the first month of Q3FY16, the twelve month average CPI inflation reduced at the end of the quarter. In the rural areas, the twelve month average CPI inflation followed a downward trend during Q3FY16 while in the urban areas; it registered a further rise in addition to those observed in the beginning of the second quarter of FY16 driven by rising nonfood inflation.

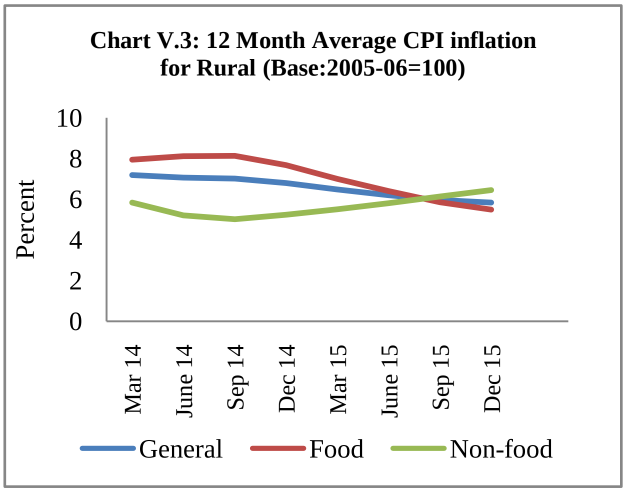
5.2 The favorable performance of inflation in Q3FY16 was associated with good supply prospects in the domestic market as well as stable exchange rate. Risk of inflation is likely to generate from nonfood inflation which is increasing continuously for last few months and also slightly form a rise in few commodity prices in the international markets. From the chart V.7, we can see that the quarterly average rice price went up to 2.8 percent in Q3FY16 as compared to (-) 4.4 percent Q2FY16. During the period, quarterly average soybean oil price increased to 7.6 percent from 0.05 percent.

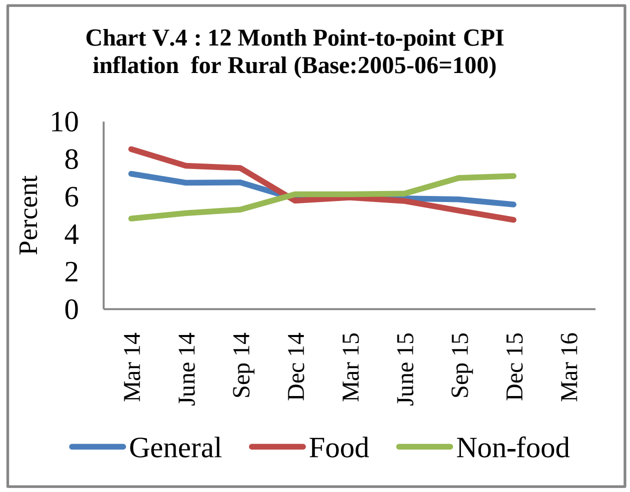
Table 5.1: Contribution @ of Food and Major Non-Food Items / Groups in CPI inflation(Point to Point)									
Base Year 2005-06: 100									
Months	**Food beverage & tobacco**	Clothing & Footwear	Gross rent, Fuel & Lighting	Furniture, Furnishing & Other	Medical care and Health Expenses	Transport & Communications	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**
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**
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**

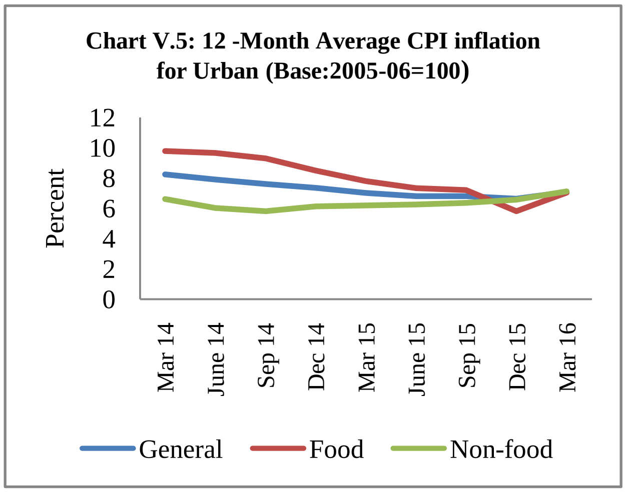
$$@\text{contribution of ith group} = \left(\frac{\text{Inflation in ith group} * \text{weight of ith gruop in CPI basket}}{\text{Headline Inflation}}\right) \times 100$$

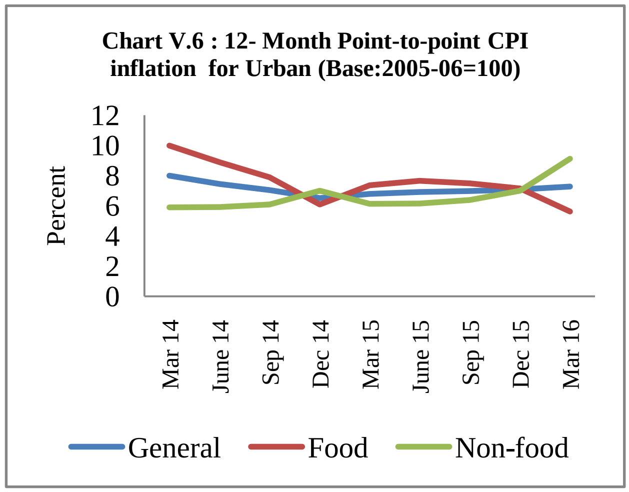






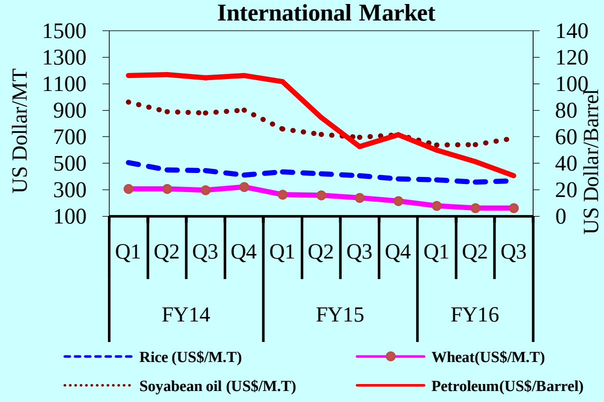






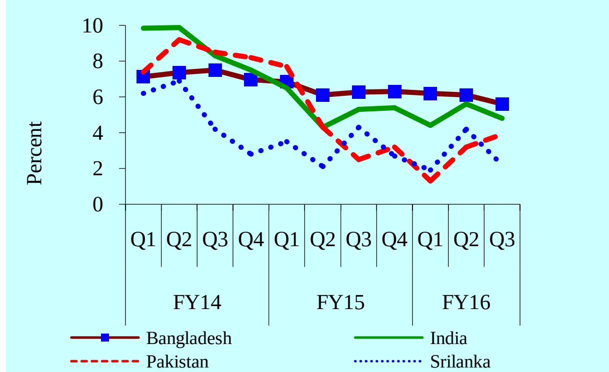
5.3 In the South Asian region, the highest inflation based on CPI was in Bangladesh followed by India during the third quarter of FY16. In India and Sri Lanka, the point-to-point CPI inflation was followed same pattern during the quarter under review. Before softening to 4.8 percent in March 2016, inflation in India rose to 5.6 percent in December 2015 while in Sri Lanka, inflation fell to 2.2 percent from 4.2 percent. Pakistan experienced an upsurge in inflation by 3.9 percent in the end of March 2016.

Chart V.7: Commodity Prices in International Market



*Since Q3FY15,inflation of Srilanka was based on NCPI

Chart V.8: Inflation in South Asia (Year on Year)



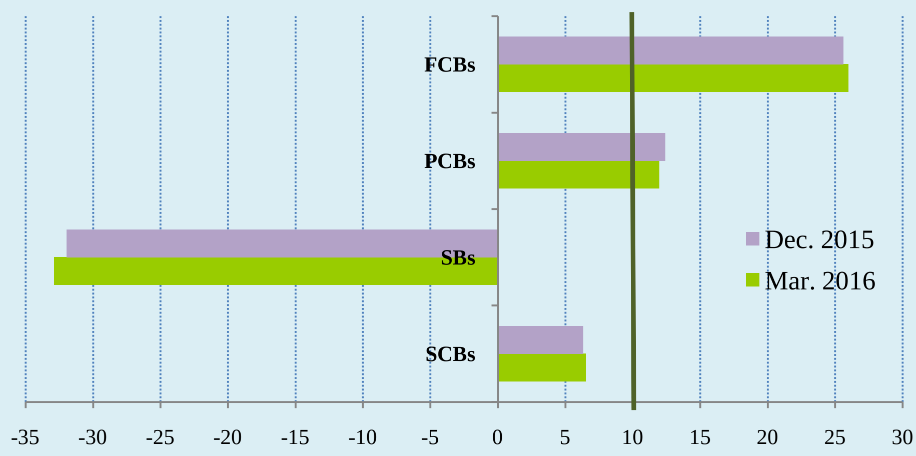
*Since Q3FY15,inflation of Srilanka was based on NCPI

VI. Banking Sector Performance

6.1 The banking sector indicators showed some concerns during Q3FY16 compared to that of the previous quarter. The ratio of gross NPL to total outstanding loans of the banking sector increased from 8.8 percent at the end of Q2FY16 to 9.9 percent at the end of Q3FY16. The ratio of net NPL also increased from 2.3 percent in Q2FY16 to 2.9 percent in Q3FY16. Capital adequacy ratio (CAR) decreased to 10.6 percent from 10.8 percent during the period under report. Among the profitability measures, return on asset (ROA) increased from 0.6 percent at the end of December 2014 to 0.8 percent at the end of December 2015. Return on equity (ROE) of the banking industry also increased to 10.5 percent at the end of December 2015 from 8.1 percent at the end of December 2014. Another 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 Q3FY16 and monthly weighted average call money rate also remained below 4.0 percent during this period. Notwithstanding deterioration in NPL and CAR, provision shortfall position of the banking sector marginally improved during Q3FY16 and stood at (-) Tk. 41.2 billion at the end of March 2016 from (-) Tk. 42.8 billion at the end of December 2015.

6.2 In Q3FY16, capital adequacy ratio (CAR) decreased marginally to 10.6 percent from 10.8 percent in Q2FY16– whereas a minimum of 10 percent is the regulatory requirement. Total risk weighted asset and minimum capital requirement of the banking sector as a whole grew by 2.5 percent and 2.2 percent respectively in Q3FY16 over Q2FY16 while total eligible capital increased by 0.4 percent during this period. The capital adequacy ratio for SCBs slightly increased from 6.4 percent to 6.5 percent during this period. The ratios for FCBs also increased to 26.0 percent in Q3FY16 from 25.6 percent in Q2FY16. However, the ratio for PCBs and SBs deteriorated from 12.4 percent and (-) 32.0 percent respectively to 12.0 percent and (-) 32.9 percent over the period (Chart VI.1 and Table VI.2).

Chart VI.1: Ratio of total eligible capital to risk weighted assets



6.3 The ratio of gross NPL to total outstanding loans of the banking sector increased from 8.8 percent at the end of December 2015 to 9.9 percent at the end of March 2016 (Table 6.2 and Chart VI.2). Total outstanding loan of the sector increased by 2.4 percent during Q3FY16 compared to Q2FY16, while total classified loan increased by 15.7 percent over the same period. Gross NPL ratio for SCBs and PCBs increased from 21.5 percent and 4.9 percent respectively at the end of December 2015 to 24.3 percent and 5.8 percent at the end of March 2016. The ratio for FCBs decreased marginally from 7.8 percent to 7.5 percent while for SBs it has remained unchanged at 23.2 percent over the period.

Chart VI.2: Ratio of Gross NPLs to Total Loans

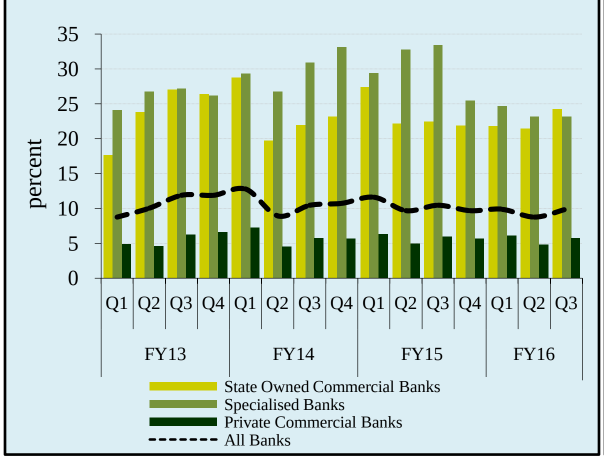
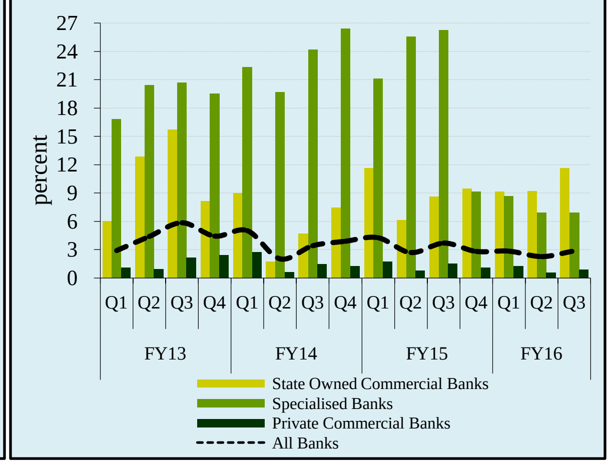


Chart VI.3: Ratio of Net NPLs to Total Loans



Similarly, the net NPL ratio for all banks also increased from 2.3 percent in Q2FY16 to 2.9 percent in Q3FY16 (Table VI.3, Chart VI.3). In Q3FY16, net NPL ratio of SCBs and PCBs increased to 11.7 percent and 0.9 percent respectively from 9.2 percent and 0.6 percent in Q2FY16. However, the ratio for FCBs slightly decreased from (-) 0.2 percent to (-) 0.3 percent while for SBs the ratio remained unchanged at 6.9 percent over the period. The provision shortfall position of the banking sector slightly improved during Q3FY16 and stood at (-) Tk. 41.2 billion from (-) Tk.42.8 billion at the end of December 2015 (Table 6.1).

Table 6.1: Comparative Position of Classified Loan and Provision Maintained

(Tk. in billion)

Quarter	Items	SCBs	SBs	PCBs	FCBs	All Banks
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
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	0.0	5.5	0.7	-23.3
Q2 FY16	Total classified loan	237.4	49.7	207.6	19.0	513.7
	Required provision	140.4	26.4	126.0	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	140.0	15.2	336.2
	Provision maintained	98.9	28.4	152.0	15.7	294.9
	Excess(+)/shortfall(-)	-55.7	1.9	12.0	0.5	-41.2

6.4 Return on assets (ROA) increased from 0.6 percent at the end of December 2014 to 0.8 percent at the end of December 2015. The ROA for SCBs improved from (-) 0.6 percent to (-) 0.04 percent while the ratio for the PCBs remained almost unchanged at 1.0 percent over this period. However, the ratio for SBs and FCBs decreased from (-) 0.7 percent and 3.4 percent respectively to (-) 1.2 percent and 2.9 percent during the same period. Like ROA, return on equity (ROE) of the banking industry also increased to 10.5 percent at the end of December 2015 from 8.1 percent at the end of December 2014. The ROE for SCBs, SBs and PCBs improved to (-) 1.47 percent, (-) 5.8 percent and 10.8 percent respectively in December 2015 from (-) 13.5 percent, (-) 6.0 percent and 10.3 percent at the end of December 2014. ROE of the FCBs decreased from 17.7 percent to 14.6 percent over the period (Table VI.4).

Table 6.2: Bank Group-wise Growth of Deposits and Advances and Advance Deposit Ratio (ADR) **(end of the month)**

Bank groups	Year-on year growth of deposits (excluding interbank)		Year-on year growth of advances (excluding interbank)		Advance Deposit Ratio (ADR)	
	Mar.16	Dec.15	Mar.16	Dec.15	Mar.16	Dec.15
SCBs	15.3%	13.0%	6.8%	6.6%	51.8%	52.4%
SBs	9.9%	5.9%	3.8%	3.9%	73.1%	74.0%
PCBs	13.4%	14.4%	16.7%	15.4%	80.9%	79.5%
FCBs	4.9%	0.8%	10.2%	5.4%	60.1%	63.9%
All Banks	13.4%	13.1%	13.8%	12.6%	71.5%	71.0%

6.5 During Q3FY16, the growth (year-on- year) of both deposits and advances speeded up compared to the previous quarter. The growth rate of deposits increased from 13.1 percent at the end of December 2015 to 13.4 percent at the end of March 2016. The growth of advances increased from 12.6 percent to 13.8 percent during this period. Nonetheless, the advance-deposit ratio (ADR) increased from 71.0 percent at the end of December 2015 to 71.5 percent at the end of March 2016 but still remained far below the maximum regulatory ceiling (Table 6.2). The liquidity position of the banking sector as a whole was higher at the end of March 2016 than in June 2015; leading to ease in the money market conditions (Table 6.3).

Table 6.3: Liquidity Position of the Scheduled Banks

(Tk. in billion)

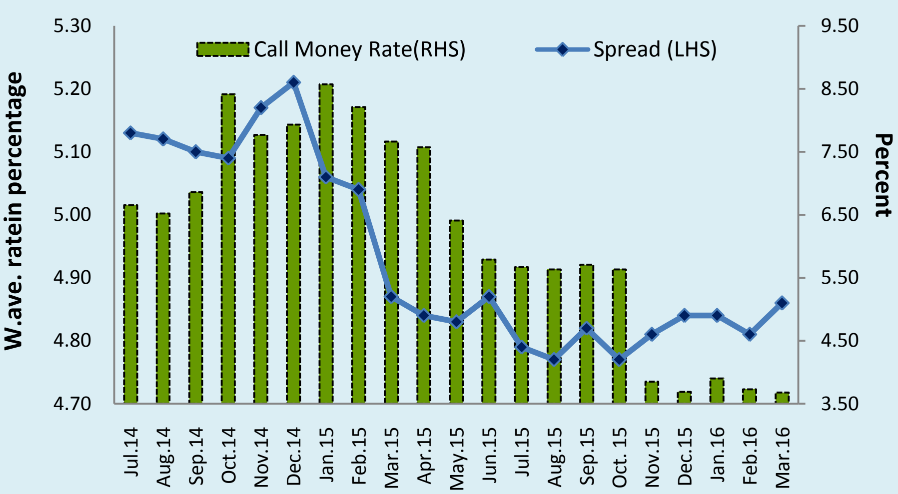
Bank groups	CRR			SLR		
	CRR requirement	Balance with BB in local currency	Excess(+)/ shortfall (-) in reserve	SLR	SLR eligible liquid assets of banks**	Excess(+)/ shortfall (-) of SLR
1	2	3	4=3-2	5	6	7=6-5
As of end March, 2016[P]						
SCBs	144.90	158.96	14.06	286.59	908.67	622.08
SBs*	14.74	15.81	1.07	0.00	0.00	0.00
PCBs (other than Islamic)	237.24	245.18	7.95	468.24	799.53	331.29
Private Banks (Islamic)	99.89	127.91	28.02	84.52	181.42	96.90
FCBs	23.41	27.91	4.50	46.09	188.82	142.73
All	520.18	575.77	55.59	885.45	2078.45	1193.00
As of end June, 2015						
SCBs	129.82	131.48	1.65	256.96	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 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)

P= provisional

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

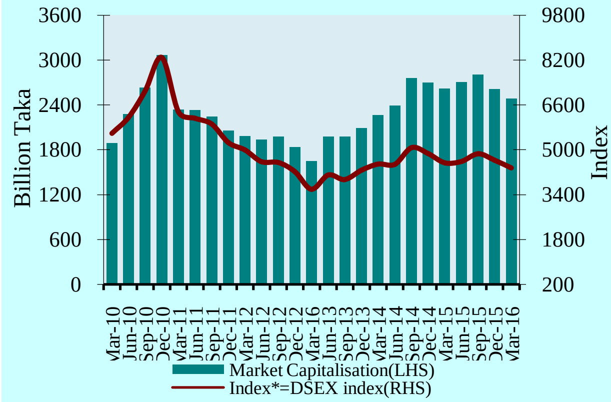


6.6 Monthly interest rate spread for all banks, measured as the difference between monthly weighted average interest rate of advances and deposits, remained below 5.0 percent during Q3FY16. Although the spread decreased from 4.84 percent in December 2015 to 4.81 percent in February 2016, it increased to 4.86 percent in March 2016 (Chart VI.4). However, the monthly weighted average call money rate increased slightly from 3.69 percent in December 2015 to 3.90 percent in January 2016 but came down again to 3.68 percent in March 2016 mainly due to the ease in money market conditions.

VII .Capital Market Developments

7.1 The declining trends of the DSE indices and market capitalization continued during Q3FY16. At the end of Q3FY16, the DSE broad (DSEX) index and the DSE 30 index were at 4357.5 and 1649.0 which were 5.9 percent and 5.8 percent lower compared to Q2FY16. Over the same period, market capitalization decreased by 4.9 percent (Chart VII.I and Table 7.I). The DSEX index and DSE 30 index decreased by 3.8 percent and 4.6 percent respectively in Q3FY16 compared to Q3FY15. On the other hand, market capitalization of the DSE decreased 4.6 percent during Q3FY16 as compared to Q3FY15.

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



7.2 The average price earnings ratio of the DSE decreased to 14.80 in March 2016 compared to 15.30 at the end of December 2015. Total turnover value in the DSE increased by 15.0 percent from Tk. 243.4 billion in Q2FY16 to Tk. 279.9 billion in Q3FY16. The liquidity position in the capital market improved as measured by Turnover Velocity Ratio (TVR)[1], which increased to 50.0 percent in Q3FY16 from 37.3 percent in Q2FY16. The number of listed securities increased to 339 in Q3FY16 from 330 in Q3FY15. During Q3FY16 the value of issued equity and debt increased by 1.0 percent and two new companies and two new mutual funds were listed in the capital market. On the other hand, three mutual funds were delisted from the DSE after maturity.

7.3 The sector-wise DSE data show that market capitalization of the textile sector only increased while all other sectors (banks, financial institutions, food and allied products,

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

Insurances, Pharmaceuticals and Chemicals, Jute industry, paper printing, Cement Industry and Telecommunication, service and real estate fuel and power, Miscellaneous and Corporate Bond) decreased during Q3FY16 (Table 7.2). The contribution of the banking sector slightly decreased to 15.1 percent at the end of Q3FY16 from 15.8 percent in the previous quarter.

7.4 During Q3FY16 the investment on share purchase by foreign and non-resident Bangladeshi investors increased to Tk. 10.5 billion from Tk. 8.2 billion in the previous quarter. At the same time, total share sales by foreign and non-resident Bangladeshi investors also increased to Tk. 9.5 billion from Tk. 9.1 billion in the previous quarter. As a result, net investment of foreign and non-resident Bangladeshi investors during Q3FY16 increased to Tk. 1.0 billion from Tk. -0.9 billion in the previous quarter. However, foreign exchange turnover still has a limited contribution in total turnover of DSE. During Q3FY16 total foreign exchange turnover increased to 8.2 percent of total turnover from 5.5 percent in the previous quarter

7.5 Cross country data on price earnings ratio in March 2016 show that Bangladesh capital market is second lowest among some South and East Asian countries while dividend yield of Bangladesh is the highest (Table 7.1). It implies that currently Bangladesh capital market is comparatively more attractive in South and East Asia based on both price earnings ratio and dividend yields.

Table 7.1: Comparison among regional Capital markets (March 2016)

Country	Price Earnings Ratio	Dividend Yield
Bangladesh	14.80	3.89
India	19.12	1.46
Sri Lanka	15.29	2.48
Thailand	20.11	3.46
Malaysia	-	-
Hong Kong	9.95	-
China	13.52	-

Source: Monthly Review, Dhaka Stock Exchange