Economic & Financial Developements

Part A: Economic and Financial Developments

Executive Summary

The first quarter of FY16 reflected mixed results in terms of various indicators associated with overall economic activities. One important indicator which grew significantly was agricultural credit (16.5 percent growth in Q1FY16) with likely positive consequences of strong growth in the sector. Other indicators have grown moderately including growth of private sector credit (12.9 percent), medium and large scale industrial production growth (3.37 percent). Exports, however, remained almost static to register a 0.83 percent growth rate. Credit in trade and commerce and credit in the transport sector registered negative growth (-2.29 percent and -21.81 percent, respectively), indicating moderate growth impulse in the services sector in Q1FY16. At the same time, remittance inflows posted a negative growth (-1.93 percent) which might have had a dampening effect on consumption demand during the quarter under review.

The twelve month average CPI inflation that started to decline since January 2014 continued its downward trend during Q1 FY16 and reached 6.24 percent at the end of September 2015. However, point- to- point CPI inflation marginally declined to 6.24 percent in September 2015 from 6.25 percent in June 2015. Food inflation (p-t-p) fell down to 5.92 percent in September 2015 from 6.32 percent in June 2015 due to stable international commodity prices as well as the prevailing stable political environment in recent months. On the other hand, nonfood inflation (p-t-p) increased to 6.73 percent in September 2015 as compared to 6.15 percent in June 2015.

In the monetary policy statement (MPS) July-December 2015, Bangladesh Bank set target for broad money (M2) growth at 15.0 percent and reserve money growth at 16.5 percent by December 2015,keeping average inflation rate at around 6.2 percent and to support 7.0 percent economic growth. Developments in the money and credit markets remained below the target level in Q1FY16. The broad money (M2) growth (y-o-y) was 13.3 percent in September 2015 compared to 12.4 percent in June 2015. Reserve money (RM) growth was 13.2 percent (y-o-y) in September 2015 compared to 14.3 percent in June 2015. Growth in private sector credit decreased to 12.9 percent in September 2015 from 13.2 percent in June 2015, and remained below the programmed growth of 14.3 percent. Credit to the public sector declined by 1.4 percent in September 2015 compared to the negative growth of 2.6 percent in June 2015.

The current account balance (CAB) recorded a surplus of USD 739.0 million in Q1FY16 compared to a deficit of USD 293.0 million in Q1FY15. However, the trade balance recorded a deficit of USD 1.52 billion during the quarter under review although the deficits contracted due to higher export in the face of lower import compared to Q1FY15. Inflow of remittances declined slightly by 1.9 percent. The services account and the primary income account registered a deficits of USD 0.96 billion, and USD 0.80 billion, respectively. On the other hand, the secondary income posted a surplus of USD 4.02 billion during the quarter. The combined capital *and financial account also posted a surplus of USD 0.89 billion. Based on these, the overall balance of payments (BOP) recorded a surplus of USD 1.97 billion in Q1FY16 which was higher than the surplus of USD 1.18 billion in Q1FY15.*

The government expanded the national budget to Tk. 2951.0 billion (17.19 percent of GDP) for FY16 which was 23.1 percent higher than revised budget of FY15 with a deficit of Tk. 866.6 billion (5.0 percent of GDP). Preliminary estimated data for the Q1FY16 indicates that government fiscal operations resulted in a budget deficit of Tk. 337.6 billion which was 2.0 percent of GDP. The budget deficit was met from both external sources (Tk. 205.6 billion) and domestic sources including banking sources (Tk. 69.9 billion) and non-banking sources (Tk. 62.2 billion). Total current expenditure of the government increased by 75.2 percent to Tk. 575.8 billion and revenue earnings increased by 8.0 percent to Tk. 388.7 billion during Q1FY16. The ADP utilization rate realized only by 7.0 percent to Tk. 68.1 billion in Q1FY16 For FY16, government revenue has been targeted at Tk. 2084.4 billion or 12.14 percent of GDP which is 27.6 percent higher than the revised budget of previous year.

Banking sector indicators presented a mixed trend during Q1FY16. The capital adequacy ratio (CAR) increased to 10.5 percent in Q1FY16 from 10.3 percent in Q4FY15. The provision shortfall position of the banking sector improved from (-) Tk. 24.7 billion at the end of June 2015 to (-) Tk. 23.3 billion at the end of September 2015. Other positive developments were, the monthly interest rate spread for all banks, remained below 5.0 percent during Q1FY16 and the monthly weighted average call money rate also decreased from 5.79 percent in June 2015 to 5.71 percent in September 2015. On the other hand, the ratio of gross NPL to total outstanding loans of the banking sector increased slightly from 9.7 percent at the end of Q4FY15 to 9.9 percent at the end of Q1FY16. However, the ratio of net NPL remained same at 2.8 percent in Q1FY16 as it was in Q4FY15.

Turning to the stock market, all the indicators of Dhaka Stock Exchange (DSE) improved during Q1FY16. At the end of Q1FY16, the DSE broad (DSEX) index and DSE 30 index were 4852.1 and 1848.0, showed 5.9 percent and 4.4 percent growth, respectively, compared to Q4FY15. Over the same period, market capitalization increased by 3.7 percent. The DSEX index and DSE 30 index decreased by 4.4 percent and 5.8 percent, respectively, in Q1FY16 compared to Q1FY15. On the other hand, market capitalization of DSE increased 1.7 percent during Q1FY16 as compared to Q1FY15.

The budget for FY16, economic growth and inflation were targeted at 7.0 percent and 6.20 percent respectively. To achieve these targets, a pragmatic combination of monetary and fiscal policy was designed for FY16. Considering global economic recovery, a falling international price, prospective of food production, nonviolent stable political situation, it is expected that 7.0 percent economic growth is achievable.

I. Developments in the Real Economy

1.1 The first quarter of FY16 presents a moderate expansion of overall economic activities-reflected in various indicators. During this period, high growth of agricultural credit (16.5 percent) signals strong growth of agriculture sector, while moderate growth of private sector credit (12.9 percent), medium and large scale industrial production (3.37 percent), and export growth (0.83 percent) and negative growth of credit in trade and commerce (-2.29 percent) and credit in transport sector (21.81 percent) indicate decelerated growth impulse in the industry and service sectors. At the same time, remittance inflow posted a negative growth (-1.93) during Q1 FY16 which might have dampening effect on consumption demand.

1.2 According to the data collected from Directorate of Agriculture Extension (DAE), the target for total cereal food grain production for FY16 in the country has been set at 38.99 million metric tons (MMT)- a 0.83 percent high compared to the actual production of FY15, while the target for area of cultivation increased by 0.63 percent. After a year of good harvest of rice, the target for total rice production for FY16, which constitutes the lion share of total cereal crop, has been set at 35.02 MMT-a 0.90percent higher than the actual production of the previous fiscal year (34.71 MMT). The target for *aus* rice production, the first crop of the fiscal year, is set at 2.48 MMT (on 1.08 million hectares of land), 6.31percent higher than the actual production of FY15. Against this target, DAE preliminary estimate shows that 2.47 MMT *aus* had been produced in the current fiscal year. The target for *aman* production, the second largest crop of the fiscal year has been set at 13.56 MMT, a 2.77percent higher than the actual production of FY15. The target for *boro* production, the largest crop of the country, is set at 19.00 MMT, which is 1.00percent lower than the actual production of 19.19 MMT in FY15. Among the non-rice cereal crops, wheat production target has been set at 1.40 MMT for FY16- a 3.50percent high compared to the actual productions of FY15, while the target for maize production has been set at 2.57 MMT- 8.94percent higher than the actual production of the previous fiscal year.

Chart 1.1: Growth of Real GDP

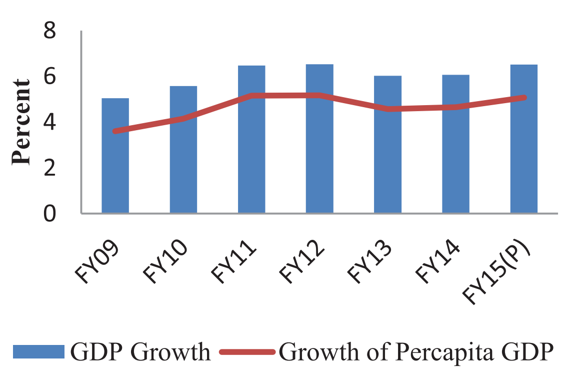
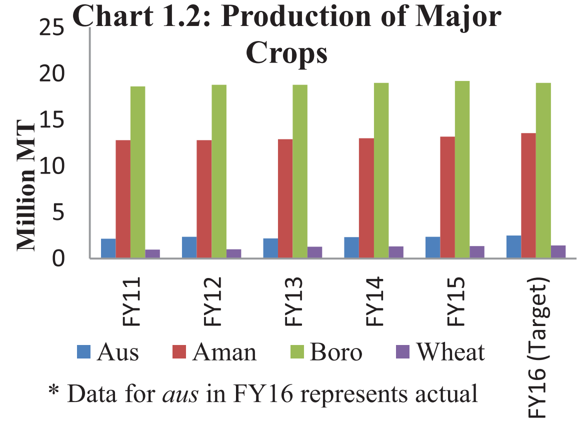


Chart 1.2: Production of Major Crops



* Data for *aus* in FY16 represents actual

1.3 For the first quarter of FY16, the only available data to measure the performance of the industry sector is the index of medium and large scale manufacturing industries which registered a moderate growth. The index of medium and large scale manufacturing industries grew by 3.37% in the Q1 FY16 (year on year), this growth was 17.69 percent in Q4 FY15 (Chart-1.3). The moderate growth of Q1 FY16 can be attributed to negative growth of manufacturing of textile (-0.23%), leather and leather products (-19.77%) and pharmaceuticals (-11.48%). At the same time, the growth of manufacturing of wearing apparel was subdued (the manufacturing of wearing apparel constitutes more than one-third of total medium and large scale industrial production and posted a moderate growth rate of 3.48% in Q1 FY16). However, higher growth of cement, and iron and steel production (41.13% and 47.78% growth respectively in Q1 FY16 compared to the same quarter of the previous fiscal year) signal strong growth of construction sector-possibly due to implementation of the mega construction projects (The Padma Bridge and flyovers in Dhaka and Chittagong).

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

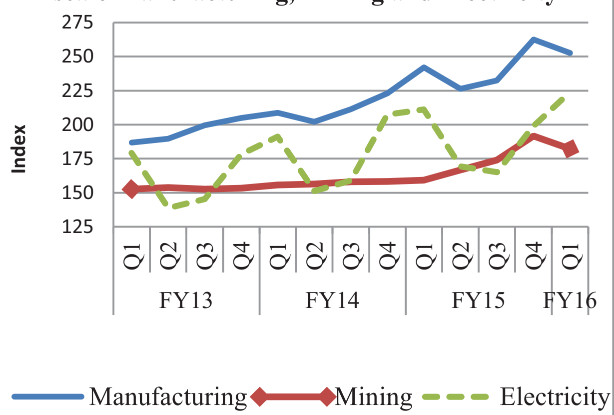
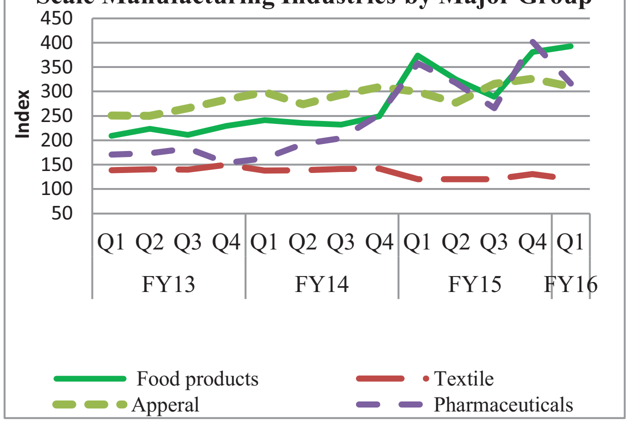


Chart 1.4: Quantum Index of Large and Medium Scale Manufacturing Industries by Major Group

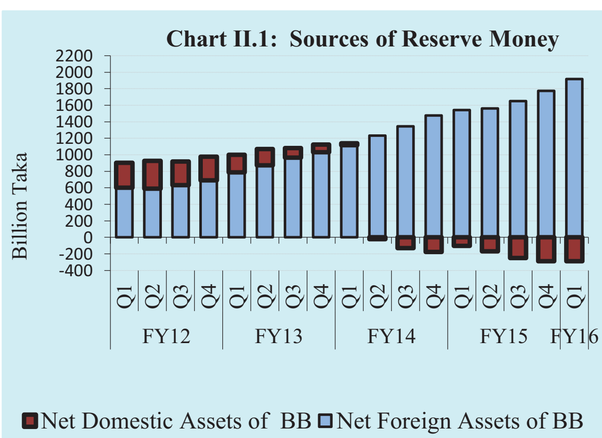


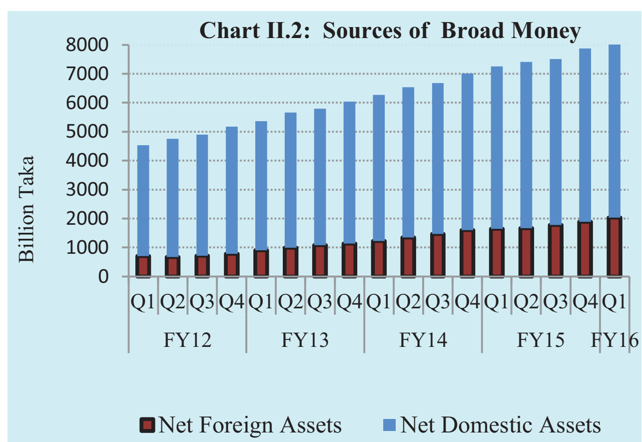
1.4 Though service sector data is available only on annual basis, a number of proxy indicators (such as trade financing, bank advances to transport and communication sector, cargo handled through Chittagong port etc.) depict a moderate growth picture of the service sector during the first quarter of FY16. Data on bank advances (table 1.9 in appendix) shows that credit (outstanding) to trade and commerce sector declined by 2.29 percent in the Q1FY16 compared to Q1FY15. At the same time, bank advances to transport and communication sector also registered a negative growth of (-) 21.81percent compared to the same period of previous fiscal year. On the other hand, cargo handled through Chittagong port increased by 7.89percent in Q1 FY16.

II. Money and Credit Market Developments

2.1 The monetary policy stance of July-June 2016 is explicitly pro-growth to keep average inflation rate at about 6.2 percent and to support 7.0 percent growth target. In line with the target, BB aims to limit reserve money growth to 16.5 percent and broad money growth to 15.0 percent by December 2015. The space for private sector credit growth of 14.3 percent (including foreign borrowing by local corporate) has been kept well to achieve output growth targets and to accommodate any potential rise in investment over July-December 2015.

2.2 In September 2015 broad money (M2) growth was 13.3 percent compared with 12.4 percent in June 2015 and 15.7 percent in September 2014. The M2 growth was 0.7 percentage point lower than the programmed level of 14.0 percent in September 2015. The growth in private sector credit decreased to 12.9 percent in September 2015 from 13.2 percent in June 2015, and remained lower than the programmed growth of 14.0 percent though the growth was a bit higher than the actual growth of 12.2 percent a year earlier. Credit to the public sector growth was negative by 1.4 percent in September 2015 compared with the negative growth of 2.6 percent in June 2015. Net Foreign Asset (NFA) grew by 23.4 percent in September 2015 compared to the growth of 18.2 percent in June 2015.

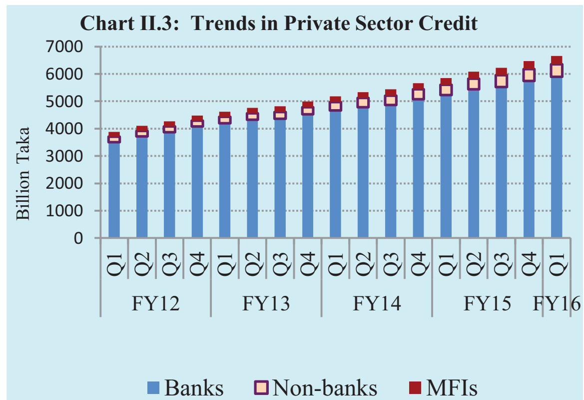




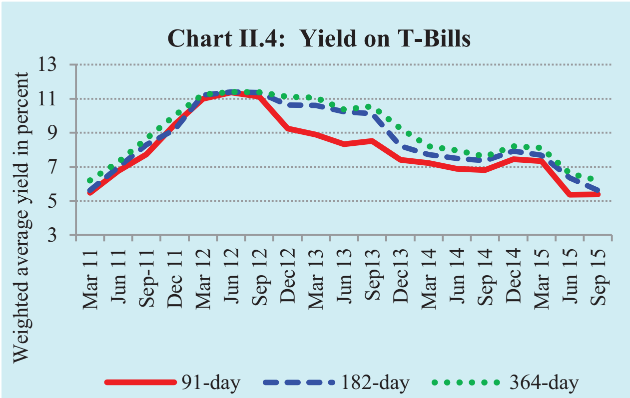
2.3 A look at the components of M2 shows that currency, demand deposits and time deposits increased by 17.1 percent, 12.7 percent and 12.8 percent (y-o-y) respectively in September 2015 compared with the increase of 26.2 percent, 14.9 percent and 14.3 percent respectively during the same period of the preceding year. Narrow money or M1 grew by 15.3 percent in September

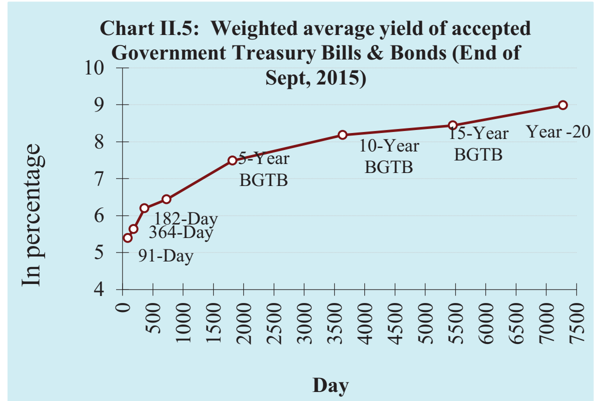
2015 which was 13.5 percent in June 2015 and 21.3 percent in September 2014. The money multiplier (M2/RM) decreased to 5.06 in September 2015 from 5.32 in June 2015 reflecting the slightly slower expansion of M2.

2.4 Reserve money (RM) grew by 13.2 percent (y-o-y) in September 2015 compared with 14.3 percent in June and 26.0 percent growth in September 2014.



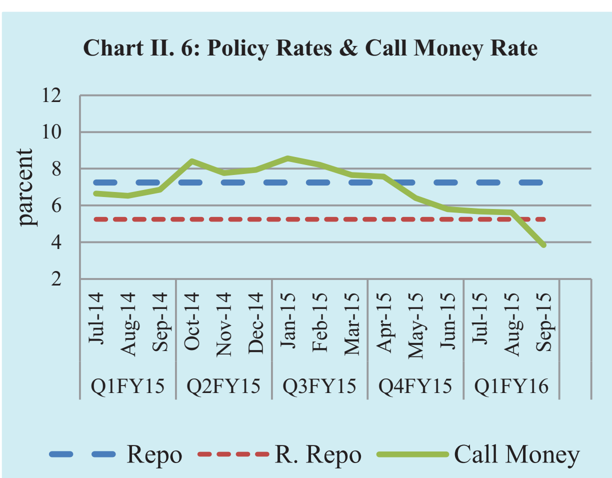
2.5 In September 2015, private sector credit (including banks, non-banks and micro-finance institutions) grew by 13.7 percent (y-o-y) compared with 14.3 percent in June 2015. Individually, Bank advances to consumer finance increased to 37.6 percent at the end of September 2015 compared to 4.3 percent at the end of September 2014. In the agriculture sector the supply of credit significantly increased by 36.7 percent at the end of September 2015 (of which advances to crops increased by 37.8 percent while others went up by 27.1 percent) compared to 1.3 percent at the end of same period of preceding year. Bank advances to industry grew by 24.1 percent at the end of September 2015 due to a sharp increase in industrial term lending by 28.4 percent and working capital financing increased by 20.7 percent over the period. Growth of bank advances to the construction was 7.2 percent at the end of September 2015 compared to 19.9 percent at the end of September 2014. Advances to trade and commerce sectors declined by 2.3 percent at the end of September 2015 compared with the growth of 19.1 percent at the end of September 2014. The highest share of bank advances went to the industry sector (38.10 percent) followed by the trade and commerce (34.85 percent), the consumer finance (8.84 percent), institutional lending (8.84 percent) and construction (8.67 percent) (Table I.9). The overall disbursements of industrial term lending by banks and NBFIs declined by 0.9 percent, and stood at Tk. 127.0 billion at end of September 2015, from Tk. 149.8 billion at the end of June 2015 and Tk. 128.1 billion in the same quarter of the preceding year.

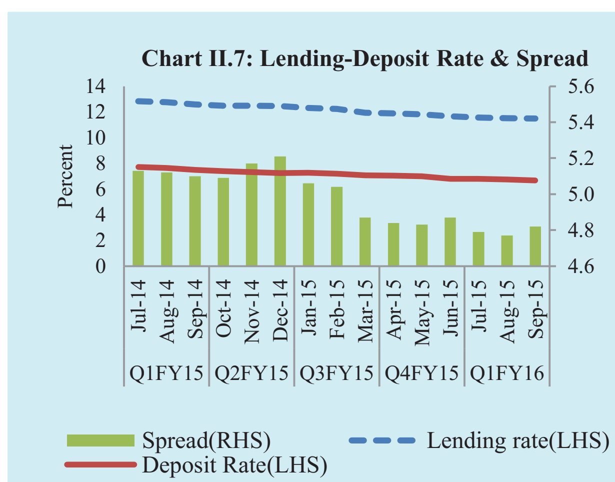




2.6 Overall yields on short term treasury bills e.g., 91-day, 182-day and 364-day declined to 5.33 percent, 5.58 percent and 6.15 percent respectively at the end of September 2015 from 5.37 percent, 6.35 percent and 6.62 percent respectively at the end of June 2015 and also from 6.82 percent, 7.37 percent and 7.61 percent at the end of September 2014. The rate of 30-day Bangladesh Bank bill remained unchanged at 5.25 percent since December 2014. (Table II.3). Two-year, five-year, ten-year, fifteen-year and twenty-year long-term treasury bonds yields were 6.41 percent, 7.31 percent, 8.18 percent, 8.43 percent and 8.98 percent respectively as on last auction held during July-September quarter 2015(Table II.3).

2.7 The repo and reverse repo rates remained unchanged at 7.25 percent and 5.25 percent respectively during the period under consideration. However, the call money rate decreased to 5.71 percent at the end of September 2015 from 5.79 percent at the end of June 2015. The spread between lending and deposit rates marginally decreased to 4.82 percent at the end of September 2015 compared to 4.87 percent at the end of June 2015.





III. Fiscal Developments

3.1 Preliminary estimates show that total revenue increased by 8.0 percent to Tk. 388.7 billion, whereas total expenditure grew by 51.6 percent to Tk. 726.3 billion during Q1FY16 compared to that of Q1FY15. The faster expenditure growth relative to revenue contributed to fiscal deficit at TK. 337.6 billion during Q1FY16 compared with TK. 120.6 billion in Q1FY15. Foreign financing grew faster over domestic financing during Q1FY16, almost 60.0 percent of the total deficit of the quarter was coming from foreign sources and the remaining 40.0 percent was coming from domestic sources. Among domestic sources almost 53.0 percent was financed from the banking system and rest of the amount was financed from non-bank sources during the quarter under review (Table III.1 and Chart III.2).

Chart III.1: Trend in Government Revenue and Expenditure

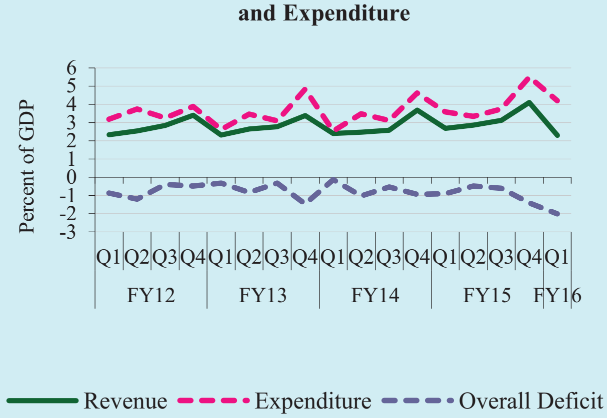
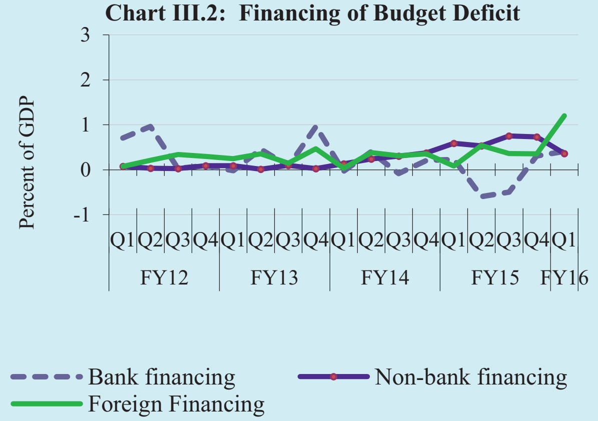


Chart III.2: Financing of Budget Deficit



3.2 The national budget for FY16 estimated overall revenue and expenditure to be 12.1 percent and 17.2 percent of GDP respectively compared with 10.8 percent and 15.8 percent of GDP in the revised budget of FY15 generating a fiscal deficit of 5.0 percent of GDP in FY16. Total deficit financing was set at Tk. 866.6 billion (excluding grants) for FY16, of which Tk. 565.2 billion was projected to be financed by domestic borrowing including bank financing of Tk. 385.2 billion (around 21.5 percent higher than revised budget of FY15), and non-bank financing of Tk. 180.0 billion (around 21.7 percent lower than revised budget of FY15). The remaining amount of Tk. 301.3 billion (around 39.6 percent higher than revised budget of FY15) was expected to come from foreign sources including foreign grants of Tk. 58.0 billion.

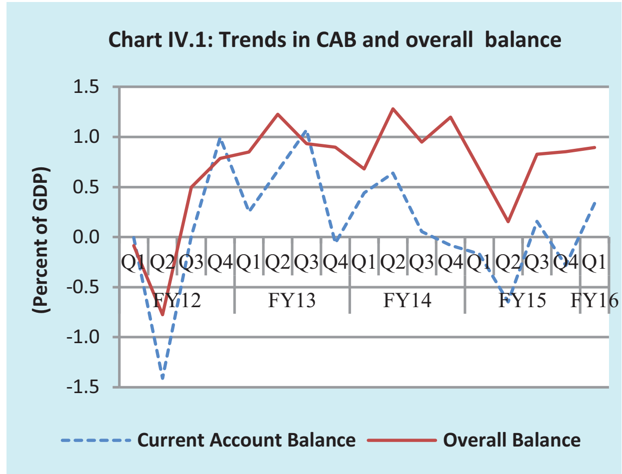
3.3 In the first quarter of FY16, revenue collection of NBR increased by 9.5 percent to Tk. 309.3 billion from the level of Q1 FY15 and amounted to 17.5 percent of the annual target of FY16. Revenue collection from income tax, value added tax (VAT), custom duties, and other source was increased by 10.8 percent, 9.2 percent, 4.0 percent, and 11.9 percent respectively in Q1FY16 compared to that of Q1FY15.

3.4 During Q1FY16, a preliminary estimate of total expenditure was TK. 726.3 billion (24.6 percent of annual target) which is 51.6 percent higher than that of Q1FY15. Current expenditure grew faster than annual development expenditure (ADP) during the quarter under review. The current expenditure increased by 75. 2 percent to Tk. 578.5 billion where as ADP expenditure decreased by 10.3 percent to Tk. 68.1 billion during the quarter under review compared to the level of Q1FY15. The ADP utilization rate for Q1FY16 amounted to only 7 percent of annual ADP target and rate of current expenditure covered 35.0 percent of annual target in the quarter under review.

3.5 Fiscal deficit stood at Tk. 337.6 billion during Q1FY16, representing 2.0 percent of GDP compared to Tk. 120.6 billion or 0.9 percent of GDP in Q1FY15. Overall fiscal deficit for Q1FY16 increased by 179.9 percent compared to that of Q1FY15 and covered 39.0 percent of the annual target. Of the total deficit financing, domestic financing stood at Tk. 132.1 billion in Q1FY16 which was 20.9 percent higher than Tk. 109.2 billion recorded in Q1FY15. Foreign financing of the deficit was at Tk. 205.6 billion in Q1FY16 which was also higher than Tk. 11.4 billion disbursed in Q1FY15 and covered almost 68 percent of the annual target. Of the domestic sources, bank financing and non-bank financing stood at Tk. 69.9 billion and Tk. 62.2 billion respectively compared to Tk. 30.7 billion and Tk. 78.5 billion respectively in Q1FY15.

IV. External Sector Developments

4.1 The current account balance (CAB) recorded a surplus of USD 739.0 million in Q1FY16 compared to a deficit of USD 293.0 million in Q1FY15 although the trade balance showed a deficits of USD 1.52 billion during the quarter. The trade deficits contracted due to higher export in the face of lower import during the quarter compared to Q1FY15. Inflow of remittances reduced slightly by 1.9 percent. The services account and the primary income account recorded deficits of USD 0.96 billion, and USD 0.80 billion respectively, while the secondary income posted a surplus of USD 4.02 billion during the quarter.



4.2 The combined capital & financial account recorded a surplus of USD 0.89 billion in Q1FY16 as compared to a surplus of USD 1.58 billion in Q1FY15. Of which, the financial account recorded a surplus of USD 798.0 million and surplus in the capital account doubled from USD 44.0 million in Q1FY15 to USD 88.0 million in Q1FY16.

Based on the surplus in capital & financial account, the overall balance of payments (BOP) recorded a surplus of USD 1.97 billion in Q1FY16 which is higher than the surplus of USD 1.18 billion in Q1FY15. The foreign exchanges reserve stood at USD 26.51 billion at the end of September 2015 (Table IV.1).

4.3 Total foreign aid in Q1FY16 was USD 460.5 million, compared to USD 481.6 million in Q1FY15. Out of the total aid, USD 407.9 million was disbursed as MLT loan as compared to USD 423.1 million, disbursed in Q1FY15. Grants decreased from USD 58.5 million in Q1FY15 to USD 52.6 million during Q1FY16. In Q1FY16, Bangladesh made an amortization payment of USD 279.3 million, of which USD 219.6 million was paid as principal. As a result, net foreign financing in Q1FY16 was USD 240.9 million, higher than USD 158.7 million received in Q1FY15 (Table IV.8).

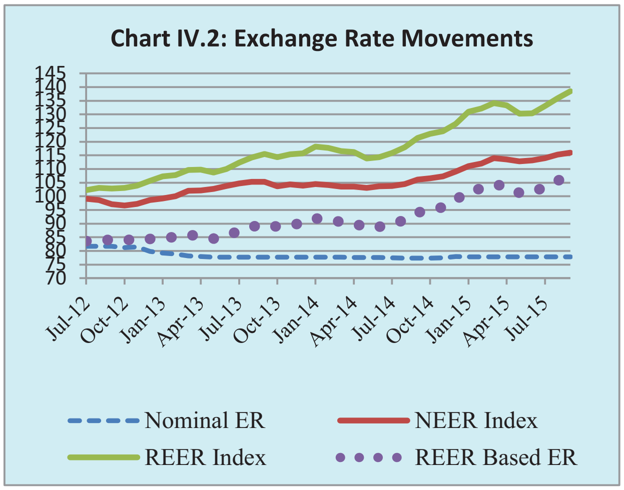


Chart IV.2: Exchange Rate Movements

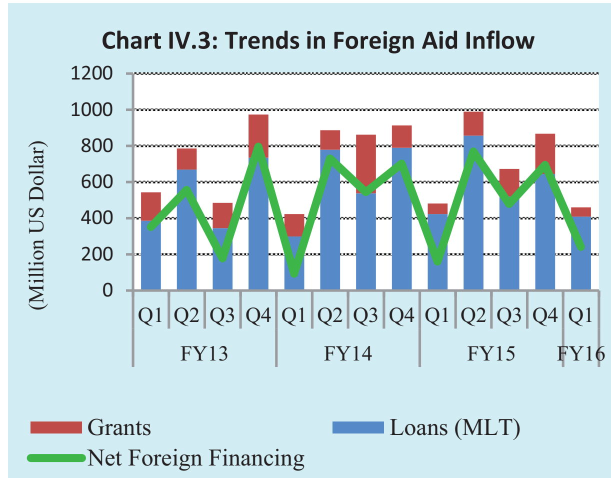


Chart IV.3: Trends in Foreign Aid Inflow

4.4 The weighted average nominal exchange rate remained unchanged at Tk. 77.80 per US dollar from June 2015 to September 2015. The REER based exchange rate increased to Tk. 107.77 per USD at the end of September 2015 from Tk. 101.44 per USD at the end of June 2015. Bangladesh Bank continued its intervention in the domestic foreign exchange market with a net purchase of foreign currencies amounting to USD 1.89 billion during Q1FY16.

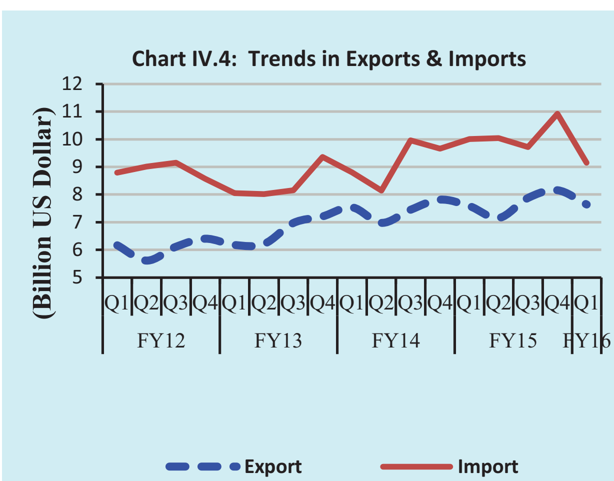


Chart IV.4: Trends in Exports & Imports

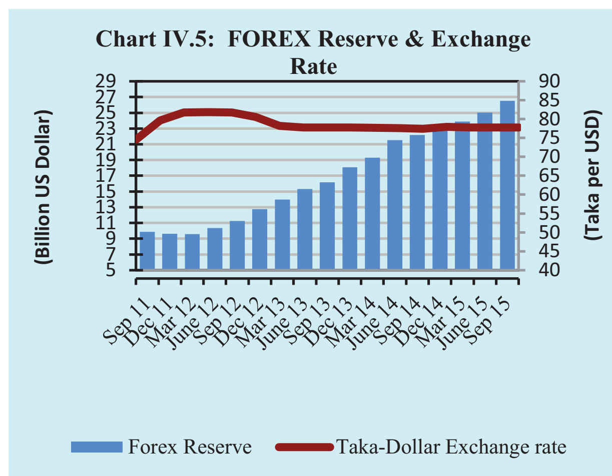


Chart IV.5: FOREX Reserve & Exchange Rate

4.5 Export earnings (f.o.b.) rose by 0.8 percent to USD 7.64 billion in Q1FY16 from USD 7.58 billion in Q1FY15. Exports of RMG grew by 3.3 percent to USD 6.44 billion during the quarter under review. Export of woven garments to European countries increased by 5.6 percent, while export of knitwear products to the European market decreased by 6.0 percent in Q1FY16 compared to the corresponding quarter of FY15. Among other major export items, earnings from jute goods increased by 126.3 percent, while export of frozen shrimps and fish decreased by 36.6 percent in Q1FY16 over the corresponding quarter of the previous year.Among non-traditional markets, RMG export to Japan (+10.9 percent), India (+4.2 percent), Turkey (+6.8 percent) increased during Q1FY16. Export of non-RMG products increased to Japan (+14.9 percent), India (+13.8 percent) and UAE (+33.7 percent) in Q1FY16 (Table IV.2 and IV.5).

4.6 Import payments (according to customs data) declined to USD 10.17 billion in Q1FY16 compared to USD 11.11 billion in Q1FY15 (Table IV.3). Import of food-grains decreased from USD 274.9 million in Q1FY15 to USD 175.0 million in Q1FY16. Import of both rice (USD 38.1 million) and wheat (USD 136.9 million) in Q1FY16 was lower compared to import of these items in the corresponding quarter of FY15. Import of other food items decreased slightly from USD 1.18 billion during Q1FY15 to USD 1.13 million in Q1FY16. Among the other food items, the import of spices (+4.4 percent), edible oil (+5.5 percent) increased, while that of sugar (-0.8 percent), pulses (-46.8 percent), milk & cream (-30.2 percent) decreased in Q1FY16 over Q1FY15 (Table IV.3).

4.7 Imports of consumer and intermediate goods fell by 8.3 percent (Q1FY16 over Q1FY15) to USD 5.09 billion during Q1FY16. Among the intermediate goods, imports of textile and articles thereof (+1.2 percent), oil seeds (+28.0 percent), pharmaceutical products (+7.9 percent) increased. During the same period imports of POL (-22.8 percent), fertilizer (-3.5 percent), raw cotton (-15.2 percent), yarn (-6.1 percent), plastic and rubber articles thereof (-17.7 percent), dyeing and tanning materials (-25.7 percent) decreased. Import of crude petroleum rose sharply during the quarter, from USD 11.9 million in Q1FY15 to USD 86.7 million in Q1FY16. Imports of capital machinery reduced by 27.1 percent in Q1FY16 over Q1FY15.

4.8 In Q1FY16, the opening of import LCs decreased by 9.8 percent to USD 9.78 billion, of which petroleum and petroleum products (-48.6 percent), consumer goods (-13.2 percent) industrial raw materials (-1.4 percent) decreased, while LCs for intermediate goods (+6.8 percent), machinery for miscellaneous industries (+9.0 percent), and capital machinery (+7.0 percent) increased (Table IV.9).

4.9 The inflow of workers' remittances decreased by USD 77.5 million in Q1FY16 to USD 3.93 billion compared to Q1FY15 as remittance from the Gulf region dropped by USD 70.5 million. On the other hand, remittance inflow from Malaysia increased by 4.0 percent. (Table IV.4). Remittance from Malaysia which was 6.0 percent of the total remittance inflow in Q1FY12 had 9.2 percent share of the total influx in Q1FY16. The vast majority of the remittance still comes from the Gulf region (60.4 percent of the total share). Overseas employment for Bangladeshi workers increased by 31.6 percent in Q1FY16 as a total of 132,238 Bangladeshi migrated compared with 100,491 in the corresponding period of FY15.

V. Price Developments

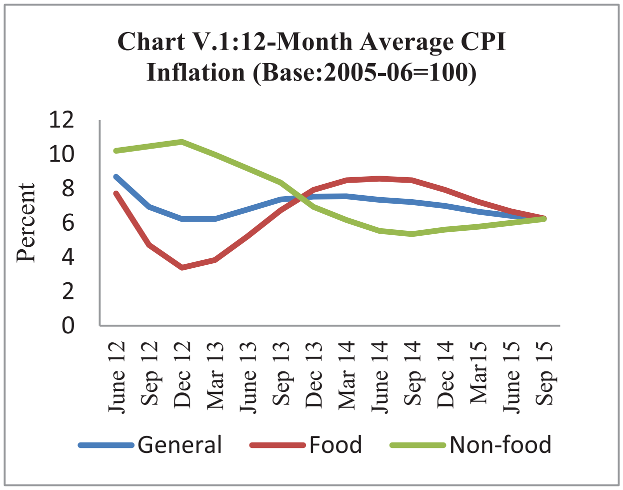
5.1 The twelve monthly average CPI inflation maintain a downward trend since January 2014 and the trend continued during the first quarter of FY16 when it reached to 6.24 percent in September 2015 This decline was mainly driven by declining food inflation. On the other hand, point to point CPI inflation marginally declined to 6.24 percent at the end of September 2015 as compared to 6.25 percent in June 2015. In disaggregate level; food inflation (p-t-p) followed a downward trend during FY16Q1 (5.92 percent in September 2015 as compared to 6.32 percent in June 2015) due to stable international commodity prices as well as prevailing political stability in recent time. In contrast, nonfood inflation (p-t-p) rose to 6.73 percent at the end of September 2015 as compared to 6.15 percent in June 2015.

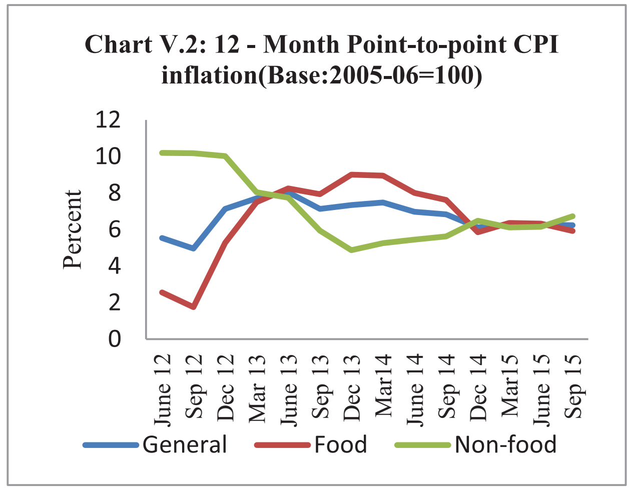
Table 5.1: Contribution @ of Food and Major Non-Food Items / Groups in CPI inflation(Point to Point)
Base Year 2005-06: 100

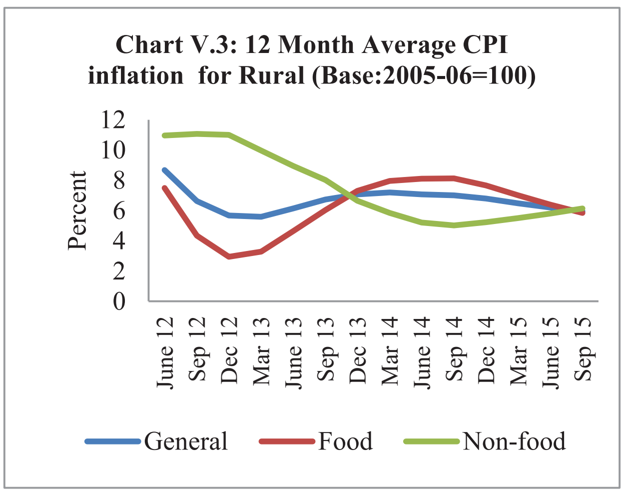
Months	Food beverage & tobacco	Clothing & Footwear	Gross rent, Fuel & Lighting	Furniture, Furnishing & Other	Medical care and Health Expenses	Transport & Communications	Recreation, Entertainment, Education	Misc. Goods & Services	Non-food
Weight	**56.18**	**6.84**	**14.88**	**4.73**	**3.47**	**5.8**	**4.28**	**3.82**	**43.82**
Jan-14	**67.34**	8.48	12.20	3.41	1.49	3.02	1.45	2.62	**32.66**
Feb-14	**68.07**	8.29	11.96	3.21	1.46	3.07	1.40	2.54	**31.93**
Mar-14	**68.72**	7.90	11.80	2.93	1.46	3.11	1.60	2.48	**31.28**
Apr-14	**68.80**	8.00	11.70	2.48	1.50	3.35	1.59	2.58	**31.20**
May-14	**69.41**	6.72	11.74	2.81	1.54	3.37	1.59	2.82	**30.59**
Jun-14	**65.42**	8.21	13.63	2.92	1.65	3.56	1.67	2.96	**34.58**
Jul-14	**64.15**	8.86	14.05	2.59	1.63	4.10	1.69	2.94	**35.85**
Aug-14	**63.03**	8.71	15.05	2.52	1.57	4.86	1.33	2.93	**36.97**
Sep-14	**63.28**	8.60	15.03	1.88	1.80	5.96	1.40	2.04	**36.72**
Oct-14	**61.40**	8.21	14.45	2.34	2.71	7.08	1.27	2.54	**38.60**
Nov-14	**58.45**	8.36	14.90	2.45	4.11	7.62	1.38	2.74	**41.55**
Dec-14	**53.54**	8.84	15.59	2.88	4.55	9.45	1.66	3.50	**46.46**
Jan-15	**56.24**	7.21	9.47	3.04	8.41	9.89	1.76	3.98	**43.76**
Feb-15	**55.69**	7.46	9.42	3.23	8.89	9.76	1.68	3.87	**44.31**
Mar-15	**57.08**	7.33	8.95	3.41	8.73	9.45	1.33	3.72	**42.92**
Apr-15	**57.69**	7.06	8.79	3.86	8.63	9.07	1.30	3.58	**42.31**
May-15	**56.51**	8.21	8.82	3.80	8.77	9.11	1.42	3.37	**43.49**
Jun-15	**56.86**	7.97	7.73	3.95	8.85	9.38	1.61	3.65	**43.14**
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**

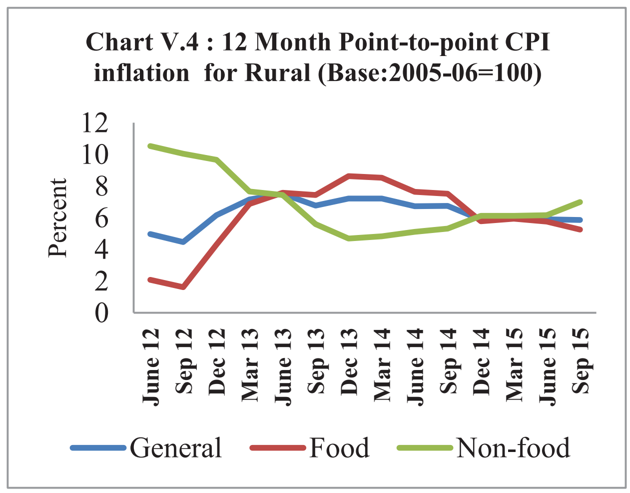
$$@\ \text{Contribution of ith Group} = \left(\frac{\text{Inflation in ith Group} \times \text{Weight of ith Group in CPI Basket}}{\text{Headline Inflation}}\right) \times 100$$

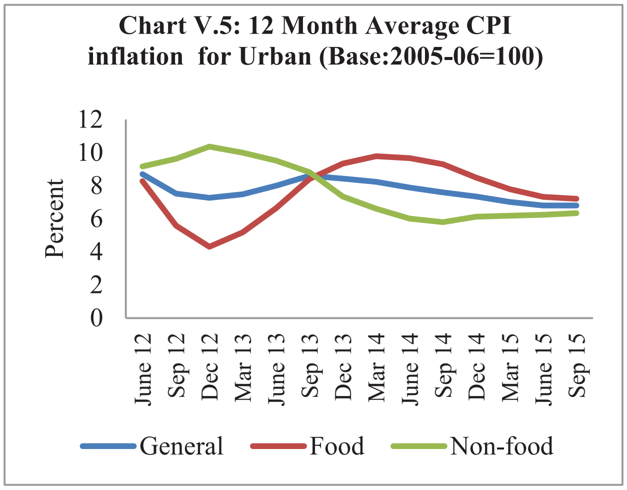
5.2 Like national average CPI inflation, urban and rural inflation followed a declining trend during FY16Q1 driven by declining in point-to-point food inflation. Point-to-point CPI inflation in rural areas declined to 5.86 percent at the end of FY16Q1 from 5.90 percent in end FY15Q4 due to decline in food inflation (5.26 percent in end FY16Q1 as compared to 5.76 percent in end FY15Q4). On the other hand, p-t-p CPI inflation in urban areas slightly increased to 6.96 percent at the end of FY16Q1 from 6.91 percent in end FY15Q4 because of increased in nonfood inflation at the end of FY16Q1. In contrast, nonfood inflation (p-t-p) in rural and urban areas rose to 6.99 percent and 6.37 percent in end FY16Q1 as compared to 6.16 percent and 6.14 percent respectively in end FY15Q4. Interestingly, nonfood inflation (p-t-p) was more acute in rural areas than that of urban at the end of FY16Q1.

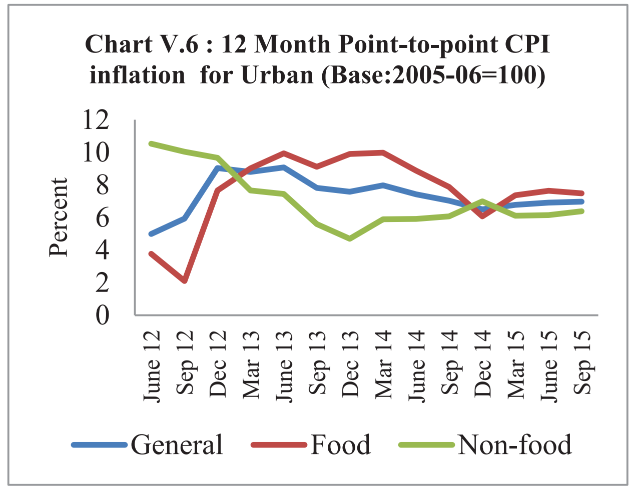




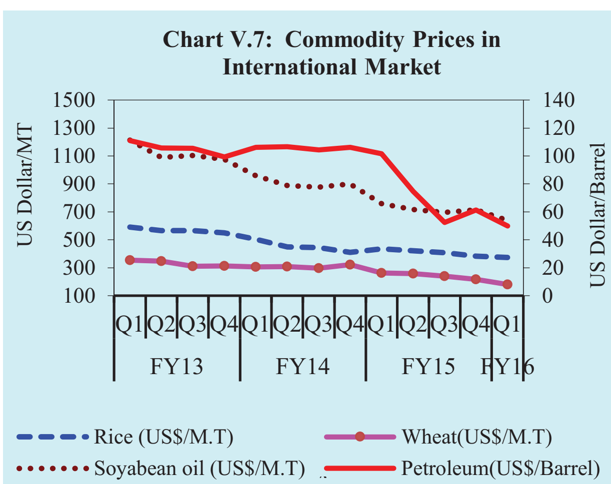


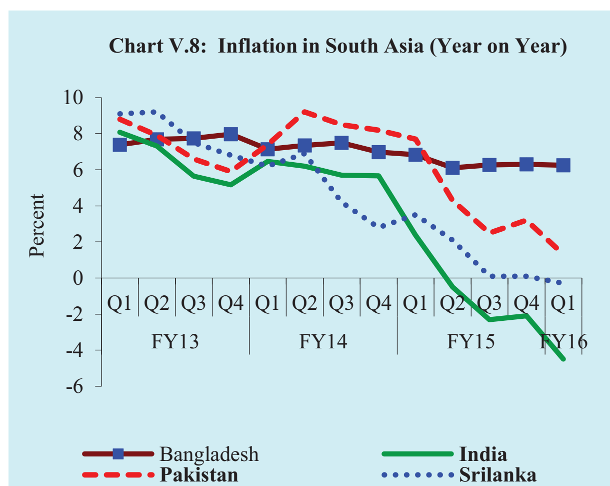






5.3 Global commodity prices continued to remain falling due to drop of fuel oil price as well as ample supply condition. Average all commodity prices index in international market dropped 12.28 percent during FY16Q1 as compared with FY15Q4. In South Asian region, though inflation based on CPI followed downward trend during FY16Q1, Bangladesh faced higher inflationary pressure than India (4.4 percent p-t-p CPI and (-) 4.5 percent WPI), Sri Lanka (-0.3 percent p-t-p CPI) and Pakistan (1.3 percent p-t-p CPI) at the end of September 2015.(Chart V.8).

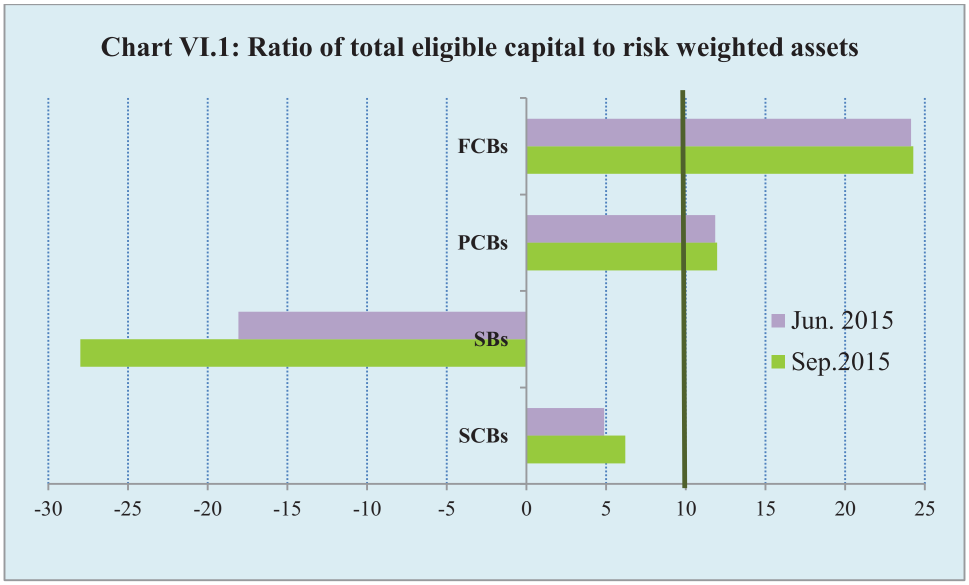




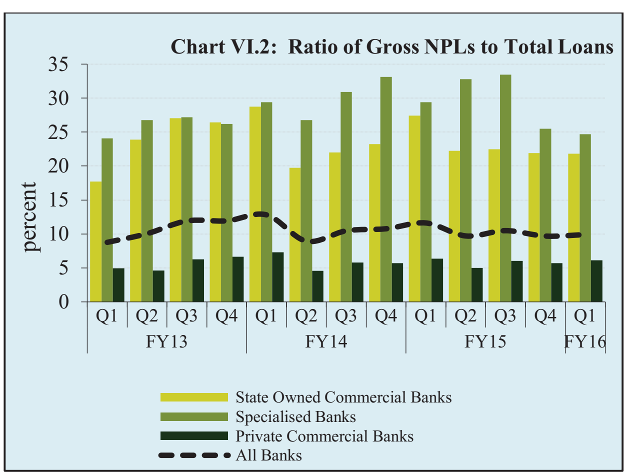
VI. Banking Sector Performance

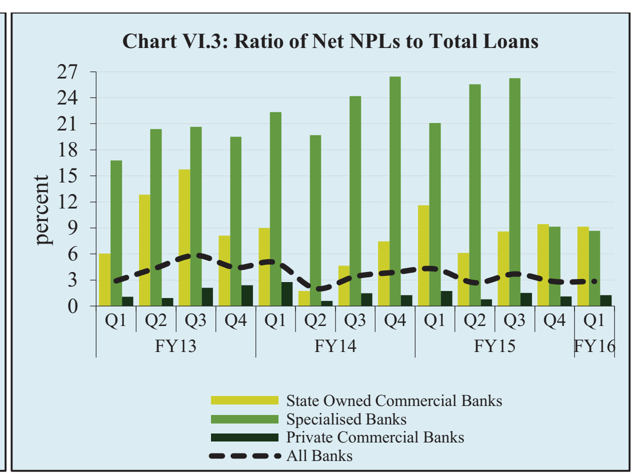
6.1 The banking sector indicators showed a mixed trend during Q1FY16 compared to that of the previous quarter. The ratio of gross NPL to total outstanding loans of the banking sector increased slightly from 9.7 percent at the end of Q4FY15 to 9.9 percent at the end of Q1FY16. The ratio of net NPL remained the same level at 2.8 percent in Q1FY16 as it was in Q4FY15. . However, provision shortfall position of the banking sector improved during Q1FY16 and stood at (-) Tk. 23.3 billion at the end of September 2015 from (-) Tk. 24.7 billion at the end of June 2015. Capital adequacy ratio (CAR) increased to 10.5 percent from 10.3 percent in Q4FY15. Among the profitability measures, return on asset (ROA) declined slightly from 0.6 percent at the end of December 2014 to 0.5 percent at the end of June 2015. Return on equity (ROE) of the banking industry also decreased to 6.6 percent at the end of June 2015 from 8.1 percent at the end of December 2014. A positive development, on the other hand, 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 Q1FY16 and monthly weighted average call money rate also decreased from 5.79 percent in June 2015 to 5.71 percent in September 2015.

6.2 In Q1FY16, capital adequacy ratio (CAR) increased to 10.5 percent from 10.3 percent in Q4FY15– a minimum of 10 percent is the regulatory requirement. Total risk weighted asset of the sector as a whole grew by 4.0 percent in Q1FY16 over Q4FY15 while total eligible capital of the sector decreased by 6.6 percent during this period. The ratios for SCBs, PCBs and FCBs increased to 6.2 percent, 12.0 percent and 24.3 percent respectively in Q1FY16 from 4.9 percent, 11.8 percent and 24.1 percent respectively in Q4FY15. However, the ratio for SBs deteriorated from (-) 18.1 percent to (-) 28.0 percent during the period (Chart VI.1).



6.3 The ratio of gross NPL to total outstanding loans of the banking sector increased slightly from 9.7 percent at the end of June 2015 to 9.9 percent at the end of September 2015 (Table VI.2 and Chart VI.2). Total outstanding loan of the sector increased by 1.8 percent during Q1FY16 over Q4FY15 while total classified loan decreased by 4.2 percent over the same period. Gross NPL ratio for SCBs and SBs decreased from 21.9 percent and 25.5 percent respectively at the end-June 2015 to 21.8 percent and 24.7 percent respectively at the end-September 2015. However, the ratio of PCBs and FCBs increased from 5.7 percent and 8.3 percent respectively to 6.1 percent and 8.8 percent respectively over the period.





The net NPL ratio for all banks remained unchanged at 2.8 percent in Q1FY16 as it was in Q4FY15 (Table VI.3, Chart VI.3). In Q1FY16, net NPL ratio of SCBs and SBs decreased to 9.1 percent and 8.7 percent respectively from 9.4 percent and 9.2 percent respectively in Q4FY15. However the ratio for PCBs and FCBs increased from 1.1 percent and (-) 0.4 percent respectively to 1.2 percent and 0.4 percent respectively over the period. The provision shortfall position of the banking sector improved during Q1FY16 and stood at (-) Tk. 23.3 billion from (-) Tk.24.7 billion at the end of June 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
Q2 FY15	Total classified loan	227.6	72.6	184.3	17.1	501.6
	Required provision	128.6	37.1	108.7	15.3	289.6
	Provision maintained	135.3	14.7	115.4	16.2	281.6
	Excess(+)/shortfall(-)	6.7	-22.3	6.7	1.0	-8.0
Q3 FY15	Total classified loan	226.5	74.2	227.5	18.4	546.6
	Required provision	128.7	37.5	124.8	15.8	306.8
	Provision maintained	111.2	14.7	126.9	16.2	269.0
	Excess(+)/shortfall(-)	-17.5	-22.7	2.0	0.4	-37.8
Q4 FY15	Total classified loan	224.0	58.3	223.5	19.4	525.2
	Required provision	126.2	31.2	126.5	16.4	300.4
	Provision maintained	96.7	31.2	130.6	17.2	275.6
	Excess(+)/shortfall(-)	-29.6	0.0	4.1	0.8	-24.7
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

6.4 Return on assets (ROA) declined from 0.6 percent at the end of December 2014 to 0.5 percent at the end of June 2015.The ROA for SCBs remained almost unchanged at (-) 0.6 percent over this period. The ratio for SBs, PCBs and FCBs decreased from (-) 0.7 percent, 1.0 percent and 3.4 percent respectively to (-) 1.5 percent, 0.9 percent and 3.1 percent respectively during the same period. Similarly, return on equity (ROE) of the banking industry decreased to 6.6 percent at the end of June2015 from 8.1 percent at the end of December 2014. The ROE for SCBs, SBs, PCBs and FCBs decreased to (-) 22.5 percent, (-) 8.2 percent, 9.7 percent and 15.7 percent respectively in June 2015from (-) 13.5 percent, (-) 6.0 percent, 10.3 percent and 17.7 percent respectively at the end of December 2014 (Table VI.4).

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

Bank groups	Year-on year growth of deposit (excluding interbank)		Year-on year growth of advances (excluding interbank)		Advance Deposit Ratio (ADR)	
	Sep.15	Jun.15	Sep.15	Jun.15	Sep.15	Jun.15
SCBs	12.8%	12.7%	8.6%	7.0%	53.9%	52.8%
SBs	9.9%	15.5%	5.4%	4.4%	73.7%	74.0%
PCBs	14.8%	13.6%	15.4%	15.7%	76.9%	78.4%
FCBs	-0.8%	-0.9%	3.0%	2.5%	61.7%	61.9%
All	13.3%	12.6%	12.9%	12.7%	69.8%	70.3%

Table 6.3: Liquidity Position of the Scheduled Banks

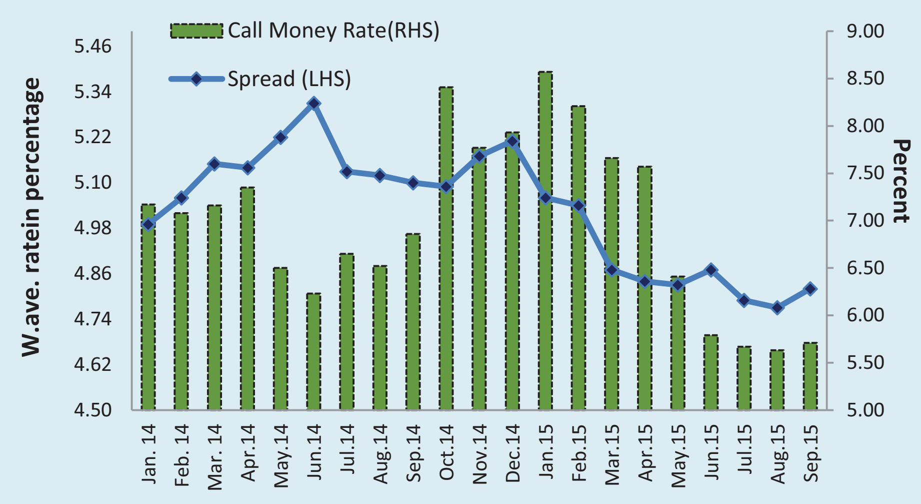
(Tk. in billion)

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 September, 2015[P]						
SCBs	135.68	134.53	-1.15	268.14	775.49	507.35
SBs	14.59	15.51	0.91	0.00	0.00	0.00
PCBs (other than Islamic)	225.89	230.26	4.37	446.94	828.58	381.64
Private Banks (Islamic)	94.48	115.40	20.92	79.95	208.42	128.48
FCBs	23.34	24.92	1.58	45.95	184.95	139.00
All	493.99	520.62	26.63	840.97	1997.44	1156.47
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

P=Provisional

6.5 At the end of Q1FY16, the growth rate (year-on- year) of deposits was higher than that of advances. As a result the advance-deposit ratio (ADR) marginally decreased from 70.3 percent in end-June 2015 to 69.8 percent in end-September 2015 and remained far below the maximum regulatory ceiling. The growth rate of deposits increased from 12.6 percent at end of June 20145 to 13.3 percent at end of September 2015. The growth of advances increased marginally from 12.7 percent to 12.9 percent during the period (Table 6.2). The liquidity position of the banking sector as a whole increased further at the end of Q1FY16; leading to a further easing of money market conditions though excess reserve has gone down (Table 6.3).

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 deposit, remained below 5.0 percent during Q1FY16. The spread has decreased over the first two months of Q1FY16 from 4.87 percent in June 2015 to 4.77 percent in August 2015 before increase again to 4.82 percent in the last month of the quarter (Chart VI.4). In the same way monthly weighted average call money rate also decreased from 5.79 percent in June 2015 to 5.63 percent in August 2015 and increased to 5.71 percent in September 2015 mainly due to the seasonal factor of Eid-ul-Azha.

VII. Capital Market Developments

7.1 All the indicators of Dhaka Stock Exchange (DSE) increased during the first quarter of FY16. At the end of Q1FY16, DSE broad (DSEX) index and DSE 30 index were 4852.1 and 1848.0 which are 5.9 percent and 4.4 percent higher respectively compared to Q4FY15. Over the same period, market capitalization increased by 3.7 percent (Chart VII.I and Table VII.II). DSEX index and DSE 30 index decreased by 4.4 percent and 5.8 percent respectively in Q1FY16 compared to Q1FY15. On the other hand, market capitalization of DSE increased 1.7 percent during Q1FY16 as compared to Q1FY15.

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

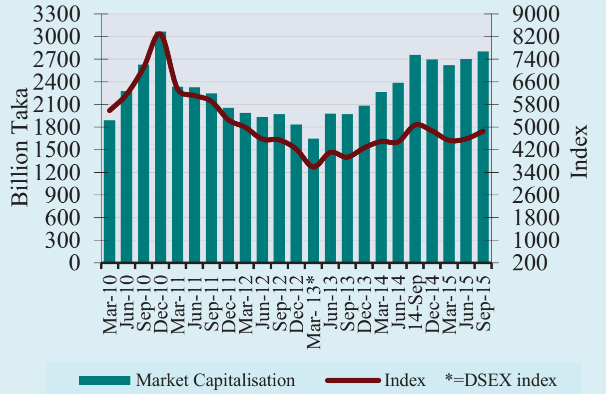
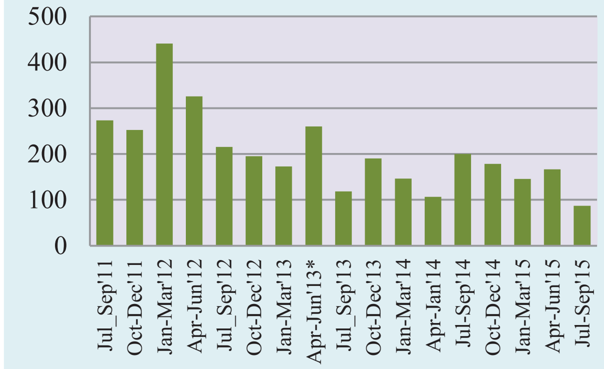


Chart VII.2: Recent Volatility in DSE



7.2 The average price earnings ratio of the DSE increased to 16.45 in September 2015 compared to 15.87 at the end of June2015. Total turnover value in the DSE increased by 1.7 percent from Tk. 306.0 billion in Q4FY15 to Tk. 311.3 billion in Q1FY16. The liquidity situation in the capital market tightened as measured by Turnover Velocity Ratio (TVR)[1], which decreased to 44.4 percent in Q1FY16 from 45.3 percent in Q4FY15. The number of listed securities increased to 335 in Q1FY16 from 323 in Q1FY15. During Q1FY16 the value of issued equity and debt increased by 0.9 percent and one new company was listed in the capital market.

7.3 The sector-wise DSE data shows that market capitalization decreased in the paper printing, Cement Industry and Telecommunication, sectors (Table VII.2). All other sectors (banks, financial institutions, Food and allied products, Pharmaceuticals and Chemicals, mutual fund, Jute industry, service, real estate, fuel and power, textile industry, miscellaneous and Corporate Bond) increased during Q1FY16. The contribution of the banking sector slightly increased to 14.7 percent at the end of Q1FY16 from 13.6 percent in the previous quarter. The relative contributions of all other sectors remained almost unchanged during the last quarter.

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

7.4 During Q1FY16 the investment on share purchase by foreign and non-resident Bangladeshi investors decreased to Tk. 8.2 billion from Tk. 10.2 billion in the previous quarter. At the same time, total share sales by foreign and non-resident Bangladeshi investors also decreased to Tk. 9.1 billion from Tk. 10.8 billion in the previous quarter. As a result, net investment of foreign and non-resident Bangladeshis' during Q1FY16 decreased to Tk.-0.9 billion from Tk. 0.5 billion in the previous quarter. However, foreign exchange turnover still has a limited contribution in total turnover of DSE. During Q1FY16, total foreign exchange turnover decreased to 5.5 percent of total turnover from 6.9 percent of total turnover in the previous quarter. The volatility, measured by standard deviation, increased to 87.8 during Q1FY16 compared to 166.3 in Q4FY15.

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

Table 7.1: Comparison among regional Capital markets September 2015

Country	Price Earnings Ratio	Dividend Yield
Bangladesh	16.45	3.58
India	20.58	1.42
Sri Lanka	19.40	2.07
Thailand	16.00	2.90
Malaysia	17.00	3.20
Taiwan	12.00	3.60
Hong Kong	12.00	2.80
China	10.00	2.90
Singapore	13.00	3.70

Source: Monthly Review, Dhaka Stock Exchange