# Part A: Economic and Financial Developments

## *Overview and Executive Summary*

*Provisional estimates by BBS for FY14 GDP growth at constant price is 6.12% in line with its ten year average, and higher than the GDP growth of 6.01 percent in FY13. The growth momentum was largely concentrated in the service sector and agricultural activities.*

*Point to point inflation data shows that food inflation rose steadily from 5.02% in January 2013 to 9.09% in May 2014. Part of the rise was due to supply disruptions caused by the political unrest of late 2013. However food inflation for June 2014 declined to 8.00% possibly due to declining global and regional food prices. Point to point non-food inflation steadily declined, from 9.09% in January 2013 to 5.16% in May 2014. This is due to the adherence to the monetary program as well as a slowdown in credit growth. However in June 2014, there was a slight uptick in non-food inflation as it rose to 5.45%, perhaps due to increased consumer demand as Eid-ul-Fitr approaches. The rise in food inflation pushed up average inflation from 6.06% in January 2013 to 7.53% in December 2013 though over the past six months the decline in non-food inflation has contributed to a fall in average inflation to 7.35% by June 2014.*

*The current account balance (CAB) recorded a smaller surplus of USD 1547 million in FY14 compared to a surplus of USD 2388 million in the preceding fiscal year. The smaller current account surplus was essentially due to a negative remittance growth of -1.6%. A significant surplus in the combined capital and financial account also contributed to the large overall balance surplus of USD 5483 million in FY14. These improved external balances are reflected in the accumulation of international foreign exchange reserves reaching USD 21.5 billion at the end of FY14 compared with USD 15.3 billion at the end of FY13.The foreign exchange market remained mostly stable with a marginal appreciation of Taka against US dollar during Q4FY14.In order to protect Bangladesh's external competitiveness, Bangladesh Bank continued its interventions in the domestic foreign exchange market with a net purchase of foreign currencies amounting to USD 2.35 billion during H1FY14 and USD 2.80 billion in H2FY14.*

*During FY14, revenue collection was 95.9 percent of the annual revenue target while expenditure reached 85.9 percent of the yearly budgeted outlay. Consequently, the fiscal deficit was contained to 3.0 percent of GDP in FY14 relative to revised annual FY14 budget of 4.5 percent of GDP and 3.36 percent of GDP during FY13. An amount of Tk. 207.8 billion (1.7% of GDP) was accommodated from domestic sources that included bank financing of Tk. 66.3 billion (compared with Tk. 205.1 billion in FY13) and non-bank financing of Tk. 141.6 billion (Tk. 27.1* *billion in FY13), while remaining amount of Tk.146 billion (Tk. 143.9 billion in FY13) came from foreign sources.*

*Reserve money (RM) growth and growth of net domestic assets (NDA) of Bangladesh Bank, which are critical anchors of the monetary program, remained within program targets in FY14. This was despite a surge in Net Foreign Assets (NFA) of BB which was sterilized via reverse repo operations, selling BB bills and Islamic Bonds. Reverse repo operations grew significantly in the last few weeks of H2FY14 following a Government decision to temporarily suspend Treasury bill auctions. As a result, and in light of persisting inflationary pressures along with the significant liquidity in the banking system that led to a sharp rise in reverse repo operations with consequent costs to BB and ultimately the taxpayer, BB decided to raise the Cash Reserve Ratio from 6% to 6.5% in June 2014. Despite high growth of NFA, broad money (M2) growth was 16.1 percent (y-o-y) in FY14 compared with 16.7 percent in FY13, and remained marginally lower than the programmed growth of 17.0 percent for FY14, since domestic credit growth fell short of the anticipated rate due to shortfalls in both private and public sector credit growth.*

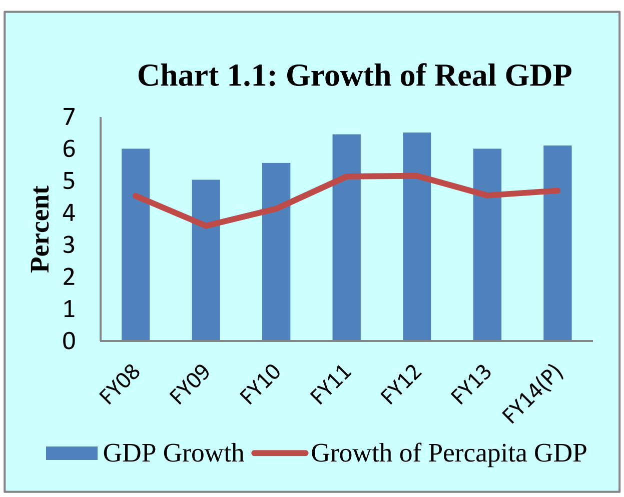
*Banking sector indicators for Q4FY14 deteriorate relative to the previous quarter. The ratio of gross non-performing loans (NPL) to total outstanding loans increased from 10.5 percent at the end of March to 10.8 percent at the end of June 2014. The ratio of net NPL of the sector also increased from 3.4 percent to 3.9 percent in the same period partly due to the increase of gross NPL as well as increased shortfall in actual provision maintained by the SCBs. Capital adequacy ratio (CAR) decreased to 10.7 percent in June from 11.3 percent in March 2014. Among the profitability measures, return on asset (ROA) in the banking sector declined from 0.9 percent at the end of December 2013 to 0.6 percent at the end of June 2014 primarily due to maintaining higher provision for the increased NPL and the net losses made by SOCBs. Return on equity (ROE) of the banking industry also decreased to 8.4 percent at the end of June 2014 from 11.1 percent at the end of December 2013. Interest rate spreads rose during the quarter from 5.15 percent at the end of Q3FY14 to 5.31 percent at the end of Q4FY14.*

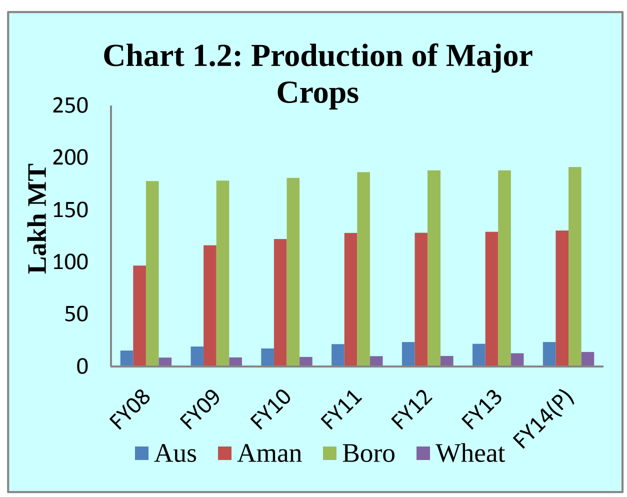
*BB's current forecast is that output growth will pick up in FY15 and should there be no major disruption to the economy, output growth could range between 6.2-6.5%. BB will update its forecasts on a regular basis during the course of the year and the monetary program will also be flexible to accommodate a significant change in these forecasts, including any upsurge in investment demand commensurate with the FY15 Budget expectation.*

# I Developments in the Real Economy

1.1 Provisional estimates of gross domestic product (GDP) for FY14 by Bangladesh Bureau of Statistics (BBS) reveal that the expansion of economic activities was slightly higher in FY14 compared to FY13, even though economic activities during the first half of the fiscal year were hindered by domestic political instability. These estimates show that GDP at constant price grew by 6.12 percent in FY14which was 6.01 percent in FY13. The growth momentum was largely concentrated in the service sector and agricultural activities, while the industry sector registered a decelerated growth compared to the previous fiscal year. Agriculture and industry sector, however, indicates strong economic activities in Q4FY14, while service sector presents a mixed picture during the quarter.

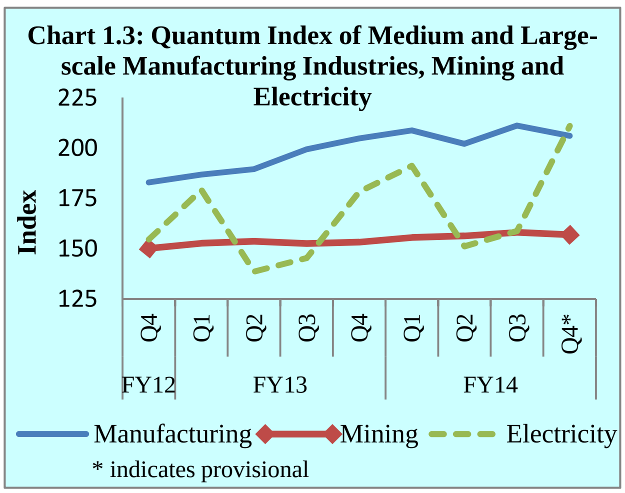
1.2 The agriculture sector, which constitutes 16.3 percent of real GDP, experienced a relatively higher growth of 3.35 percent in FY14 compared to 2.46 percent in FY13, due in turn largely by a higher growth of crop and horticulture production (1.91 percent in FY14 compared to 0.59 percent in FY13) and fishing (6.49 percent in FY14 compared to 6.18 percent in FY13). As per data from Department of Agriculture Extension (DAE),rice production, which constitutes the lion share of the total crop production in the country, experienced a 1.81 percent positive growth in FY14 compared to 0.24 percent negative growth in the previous fiscal year, due to both higher acreage and higher yield. On the other hand, fishing, which constitutes 3.69 percent of real GDP, registered a 6.49 percent growth in FY14, while this growth was 6.18 percent inFY13.

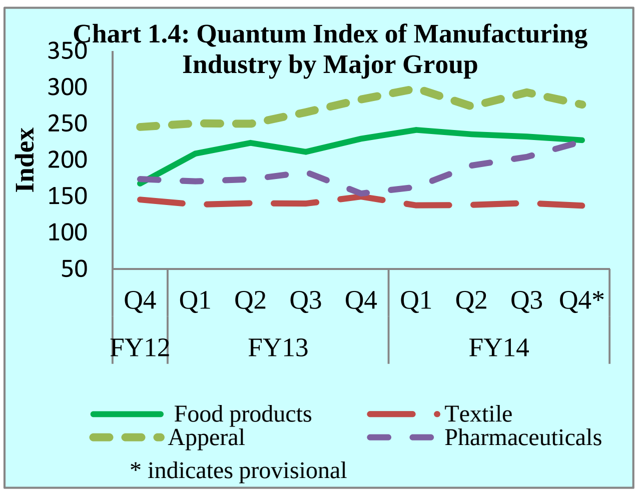


1.3 Relatively higher production of *boro* rice, wheat and maize-which are harvested in the last quarter signaled strong agricultural activities in the country during the last quarter of FY14 (April-June). According to DAE data, production of *boro* rice, the major crop of the country, increased to 1.91 million metric ton (mmt) in FY14 from 1.88 mmt in FY13. Production of wheat reached an eleven year high of 0.14 mmt in FY14, which was 0.13 mmt in FY13. Similarly, maize production also increased to 0.25 mmt in FY14 from 0.22 mmt in FY13.

1.4 The industry sector, which comprises 29.61 percent of real GDP, witnessed a robust but nevertheless slower growth of 8.39 percent in FY14 compared to 9.64 percent growth in FY13.BBS estimate shows that growth of manufacturing production declined to 8.68 percent in FY14 from 10.31 percent in FY13, due to low growth of both large and medium scale, and small scale manufacturing production. The growth of large and medium scale manufacturing production decreased to 9.16 percent in FY14 from 10.65 percent in FY13, while growth of small scale manufacturing production slowed to 6.60 percent from 8.81 percent in FY13. Unlike manufacturing industries, the construction industry registered a higher growth of 8.56 percent in FY14 compared to 8.04 percent in the previous fiscal year.




1.5 On the basis of the Quantum index of Large and Medium Scale Manufacturing Industries, manufacturing industries grew by 10.02 percent (year on year) in April 2014, which was 5.90 percent in the third quarter of FY14 (chart 1.4) largely due to high growth of manufacturing of apparel (16.16 percent), pharmaceutical (20.82 percent), and rubber and plastic product (14.21 percent). However, at the same time, some manufacturing productions experienced negative growth, such as chemical and chemical products (-14.59 percent), paper and paper products (-5.32 percent) and furniture (-6.79 percent).

1.6 BBS estimates shows that service sector (which is 54.04 percent of real GDP) grew by 5.83 percent in FY14 compared to 5.51 percent growth in FY13.This growth resulted from higher growth of wholesale and retail trade (which comprise26.05 percent of service sector) and transport, storage and communication (which comprise 21.35 percent of service sector). Wholesale and retail trade registered 6.57 percent growth in FY14 which was 6.18 percent in FY13. Similarly, transport, storage and communication experienced 6.47 percent growth in FY14 as against 6.27 percent growth in FY13. Real estate, renting and business activities (12.86 percent of GDP), grew by4.24 percent in FY14 compared to 4.04 percent growth in FY13.

1.7 A number of proxy indicators, such as cargo handling through Chittagong port, trade financing, bank advances to transport and communication sector and to trade etc, indicate a mixed picture in terms of service sector activities during the last quarter of FY14. Total cargo handled (export plus import) through Chittagong port registered a 15.92 percent increase in Q4 FY14 as against 11.57 percent rise in Q3 FY14. Data on bank advances by economic purposes (table 1.9 in appendix) show that credit (outstanding) to trade and commerce increased by18.30 percent in the last quarter of FY14 compared to the same period of previous fiscal year, while, at the same time, credit to transport sector declined by10.10 percent.

## II. Money and Credit Market Development

2.1 Broad money (M2) growth was 16.1 percent (y-o-y) in FY14 compared with 16.7 percent in FY13, and remained marginally lower than the programmed growth of 17.0 percent for FY14 despite high growth of NFA. Net foreign assets (NFA) grew sharply by 41.2 percent as against the programmed growth of 10.0 percent due to high levels of foreign exchange reserves built up in FY14. Net domestic assets (NDA), on the other hand slowed to 10.3 percent from the programmed growth of 18.60 percent during FY14. Similarly, in FY13, NFA and NDA grew by 43.9 percent and 11.8 percent respectively.

2.2 In Q4FY14, domestic credit growth (y-o-y) increased by 11.6 percent compared with 11.0 percent growth in Q4FY13. Private sector credit growth (y-o-y) increased to 12.3 percent at end of Q4 FY14 from 10.8 percent at end of Q4FY13. Credit to the public sector, on the other hand, slowed to 8.9 percent at the end of Q4FY14 from 11.7 percent growth at the end of Q4FY13 due mainly to slower growth in net credit to government (6.7 percent growth at the end Q4FY14 vis-à-vis 20.0 percent growth at the end of Q4FY13) during the period under review. However, there was 34.6 percent growth in credit to “other public sector” which is essentially lending to State Owned Enterprises at the end of Q4FY14 compared with a negative 38.4 percent growth at the end of Q4FY13. Narrow money (M1) grew by 14.6 percent at end of Q4FY14 which was 12.7 percent during the same period of the preceding fiscal year due to higher growth in demand deposits.

**Chart II.1: Sources of Reserve Money**

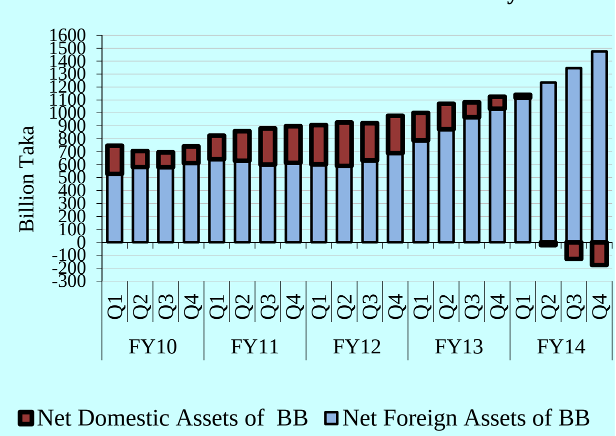
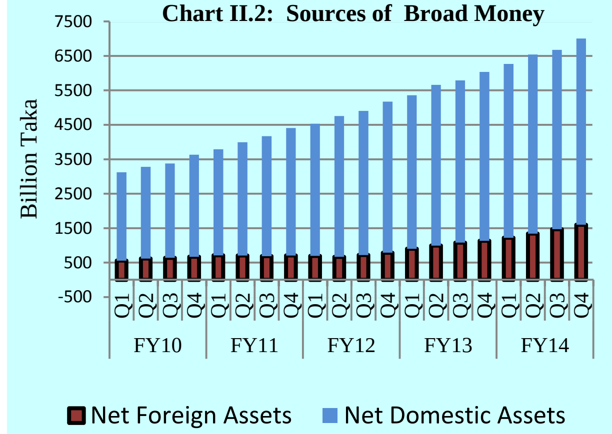
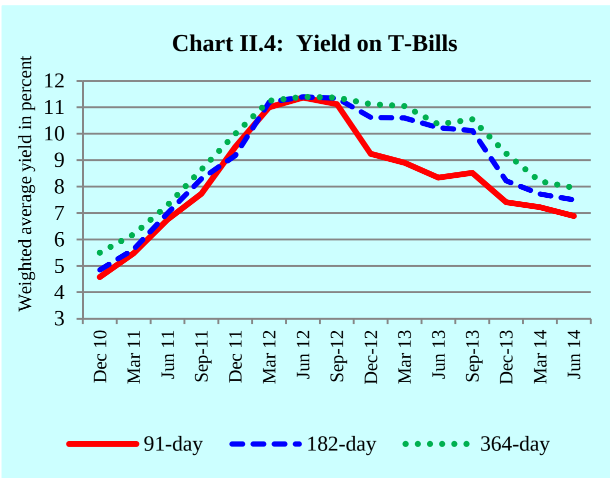


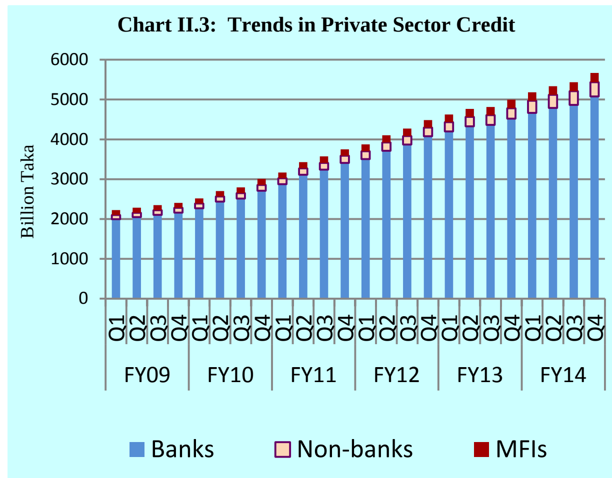

**Chart II.2: Sources of Broad Money**




2.3 A look at the components of M2 shows that growth of currency outside banks slowed to 13.8 percent at the end of Q4FY14 from 15.6 percent at the end of Q4FY13. The growth in time deposit also slowed marginally to 16.5 percent (y-o-y) at the end of Q4FY14 compared with the growth of 17.8 percent at the end of Q4FY13. However, the growth in demand deposits increased sharply to 15.5 percent (y-o-y) at the end of Q4FY14 compared with the growth of 9.3 percent at the end of Q4FY13. The money multiplier (M2/RM) remains the same at 5.4 at the end of Q4FY14 compared with the same period of the preceding year.

2.4 Reserve money (RM) grew by 15.5 percent (y-o-y) at the end Q4FY14 compared with 15.0 percent growth at the same period of the preceding fiscal year. This occurred due to significant growth in NFA of BB, as discussed above, which was partially sterilized through the issue of BB bills.




2.5 At the end of Q4FY14, a slightly broader definition of private sector credit which includes micro-finance institutions (in addition to banks and non-banks), grew by 13.4 percent compared with 11.1 percent at the end of Q4FY13. Bank advances to industry slowed to 10.7 percent at the end of Q4FY14 due to a sharp decline in term loan financing, which declined by 17.1 percent at the end of Q4FY14 from 11.8 percent at the end of Q4FY13. Advances to the construction and trade & consumer sectors were 8.3 and 18.3 percent respectively at the end of Q4FY14 compared with 20.3 percent and 8.4 percent respectively at the end of Q4FY13.In the agriculture sector the supply of credit increased by 11.9 percent at end of Q4FY14 (of which crops increased by 9.9 percent and others sector increased by 32.6 percent respectively) from 9.5 percent growth at the end of Q4FY13 (Table I.9).

2.6 Overall yields on short term treasury bills e.g., 91-day decreased to 6.89 percent at the end of June 2014 from 8.34 percent at the end of June 2013. 182-day and 364-day treasury bills rates also decreased to 7.50 percent and 7.96 percent respectively at end of June 2014 from 10.23 percent and 10.36 respectively at the end of June 2013. This was due to a significant increase in the appetite for short-term securities given their relatively attractive yields and growing liquidity in banks. Five-year long-term bond yields decreased to 10.07 percent at the end of June 2014 from 11.55 percent in June 2013 (Table II.3). The yields on 15-year and 20-year BGTB also decreased from 12.40 percent and 12.48 percent respectively to 11.97 and 12.12 percent in June 2014.

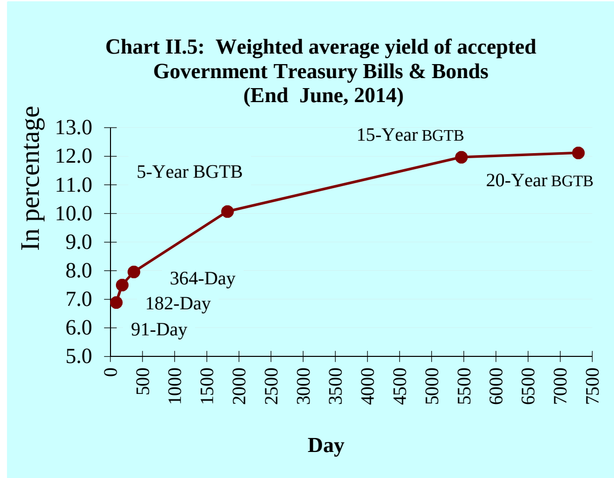


**Chart II.5: Weighted average yield of accepted Government Treasury Bills & Bonds (End June, 2014)**

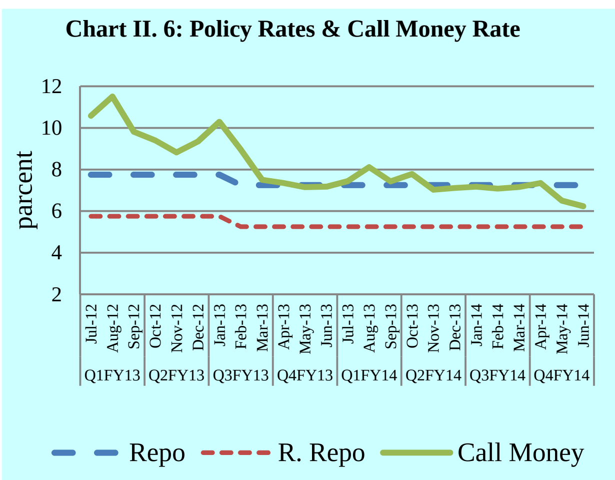


**Chart II. 6: Policy Rates & Call Money Rate**

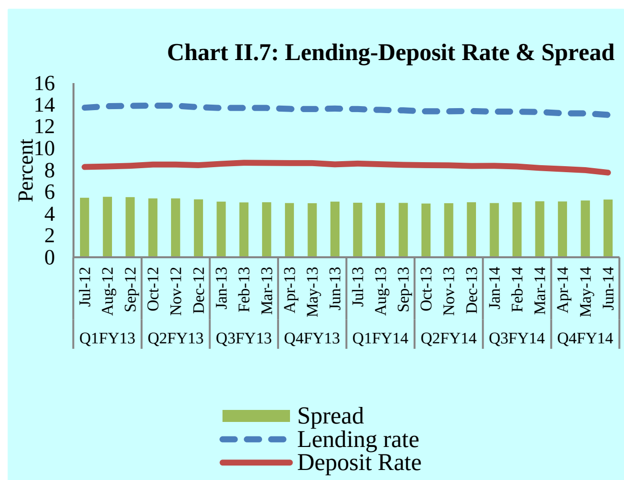
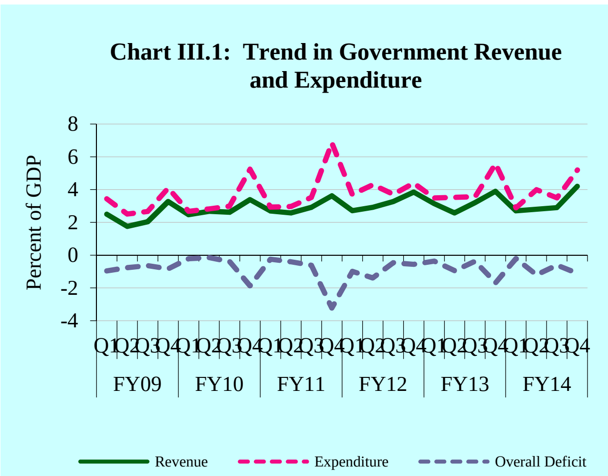


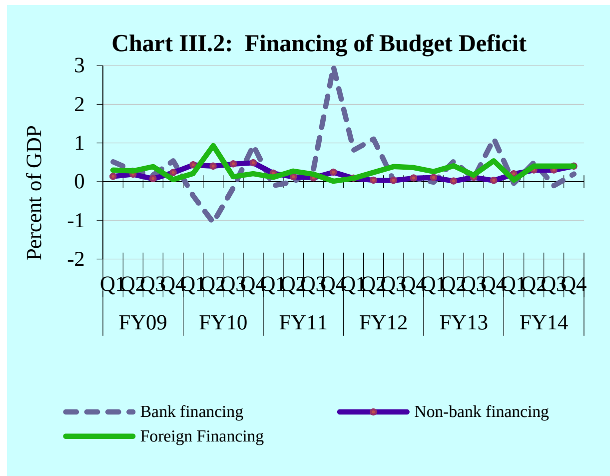
**Chart II.7: Lending-Deposit Rate & Spread**

2.7 The BB repo and reverse repo rates remained unchanged at 7.25 and 5.25 percent respectively during FY 2014. The call money rate was 6.23 percent at the end of June 2014 which was 7.17 percent at the end of June 2013 reflecting a comfortable liquidity condition in the money market. The spread between lending and deposit rates increased from 5.13 percent at end of Q4FY13 to 5.31 percent at the end of Q4FY14

## III. Fiscal Developments

3.1 During FY14, revenue collection was 95.9 percent of the annual revenue target while expenditure reached 85.9 percent of the yearly budgeted outlay. Consequently, the fiscal deficit was contained to 3.0 percent of GDP in FY14 relative to revised annual FY14 budget of 4.5 percent of GDP. Preliminary estimates of revenue and expenditure show that total revenue increased by 23.1 percent whereas total expenditure increased by 7.7 percent in Q4FY14 over Q4FY13. Accordingly, the budget deficit decreased by 27.9 percent during the quarter compared to that in Q4FY13. Overall as we detail below foreign financing of the Budget in FY14 has been higher than FY13 (Table III.1 Chart III.1 and Chart III.2).




3.2 In Q4FY14, total revenue collection grew by 23.1 percent to Tk. 498.2 billion compared to Tk. 404.7 billion in Q4FY13 (Table III.1). Total NBR tax revenue rose by 16.9 percent to Tk. 413.4 billion over Q4FY13. Income tax, custom duties and value added tax (VAT) increased by 27.6 percent, 9 percent and 7.9 percent respectively, which contributed to increased revenue during the quarter under review. Non-NBR tax revenue also grew by 32.0 percent to Tk. 14.8 billion over Q4FY13. During FY14, total revenue collection increased by 12.9 percent to Tk. 1502.7 billion compared to Tk. 1330.4 billion in FY13. Total NBR tax revenue rose by 10.9 percent to Tk. 1205.1 billions over FY13. VAT and custom duties grew by 8.2 percent and 2 percent respectively whereas income tax rose by 17.4 percent. During FY14, non-NBR tax revenue increased to Tk. 46.1 billion from 40.3 billion in FY13.

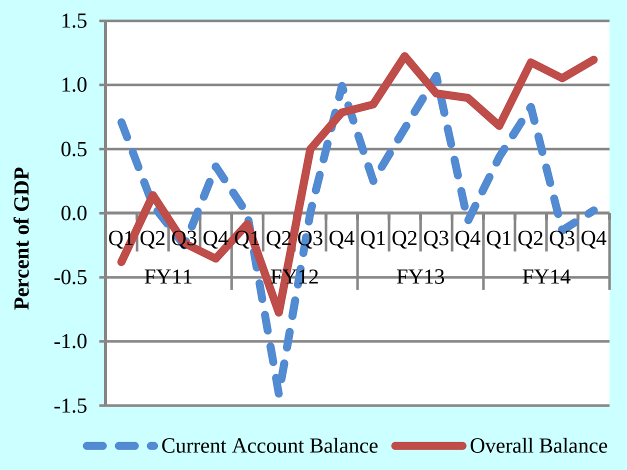
3.3 During Q4FY14, total expenditure increased by 7.7 percent to Tk.624 billion compared with Tk.579.2 billion in Q4FY13, which is primarily driven by a 24.2 percent increase in Annual Development Program (ADP) expenditure. Current expenditure decreased by 5.7 percent compared to the corresponding figures of Q4FY13. In FY14, total government expenditure is estimated at Tk. 1856.5 billion (15.6 percent of GDP), which is 10.5 percent higher relative to the level of FY13. During the period, current expenditure rose to Tk. 944.2 billion (7.9 percent of GDP), which is 16.4 percent higher relative to that of FY13. ADP outlay was Tk.595.8 billion (5 percent of GDP) in FY14, which is 14 percent higher than the level of FY13.

3.4 During Q4FY14, total financing was Tk. 125.8 billion, representing 1.1 percent of GDP compared with Tk. 174.5 billion or 1.68 percent of GDP in Q4FY13. Domestic financing of the deficit at Tk.77.9 billion in Q4FY14 was significantly lower than Tk.118.3 billion in Q4 FY13. This was due to reduced borrowing from the banking sector. However, borrowing from non-banking sources increased significantly. Foreign financing was also lower at Tk. 47.9 billion in Q4FY14 compared with Tk. 56.2 billion in Q4FY13. During FY14, total deficit financing amounted to Tk. 353.8 billion or 3.0 percent of GDP compared to Tk. 349.0 billion or 3.36 percent of GDP during FY13. An amount of Tk. 207.8 billion (1.7% of GDP) was accommodated from domestic sources that included bank financing of Tk 66.3 billion (compared with Tk 205.1 billion in FY13) and non-bank financing of Tk 141.6 billion (Tk 27.1 billion in FY13), while remaining amount of Tk.146 billion ( Tk 143.9 billion in FY13) came from foreign sources.

## IV. External Sector Developments

4.1 Despite a deficit in Q3FY14 the overall current account balance (CAB) recorded a surplus of USD 1.55 billion in FY14 against a surplus of USD 2.39billion in FY13. During Q4FY14, current account balance turned around to a surplus of USD 30.0 million from a deficit of USD 0.18 million in Q3FY14 due to higher export growth than import and a reasonable 9.7 percent remittances growth. .The overall picture for FY14 shows a deficit of USD 6.81 billion in trade balance, USD 4.19 billion in service account, USD 2.37 billion in primary income account while a healthy surplus of USD 14.91 billion in the secondary income (of which more than 95% was remittances from abroad) which contributed to the surplus in CAB.

Chart IV.1: Trends in CAB and overall balance

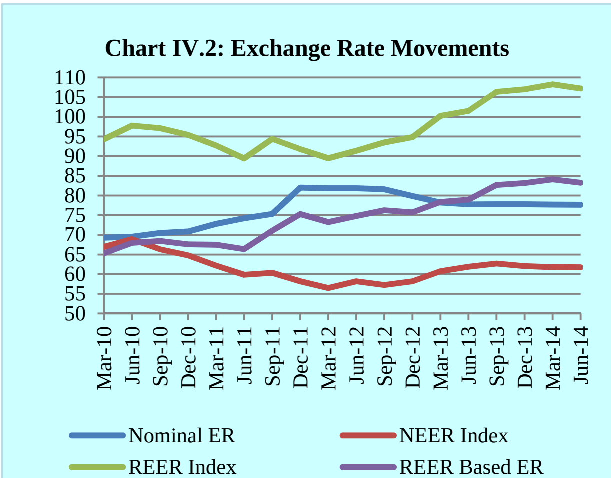


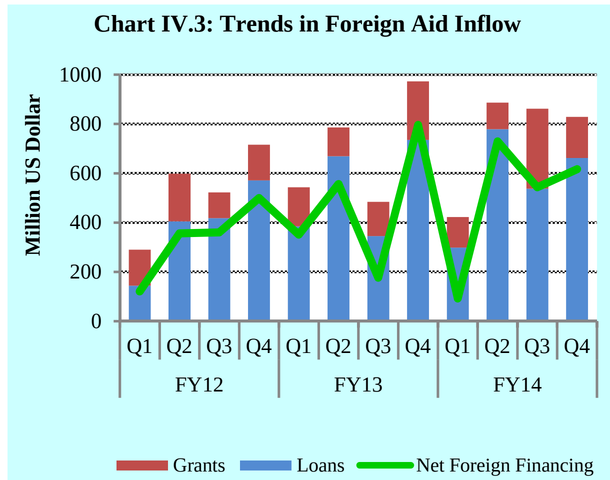

4.2 The combined capital & financial account showed an upward trend from the second half of the fiscal year and recorded a surplus of USD 1.52billion in Q4FY14 increasing from a surplus of USD 863million in Q4FY13.The financial account recorded a surplus of USD 1.36 billion in Q4FY14, which was significantly higher than the surplus of USD 600 million in Q4FY13 as other short term loans (net) came back to a surplus from deficit. On the other hand, surplus in the capital account constructed from USD 263.0 million in Q4FY13 to USD 154.0 million in Q4FY14. Finally, the surpluses in the capital & financial account went down slightly to USD 3.43 billion in FY14 from USD 3.49 billion in FY13.

Based on the surplus in CAB and capital & financial account along with a reserve of foreign exchanges of USD 21.51 billion at the end of June 2014, the overall balance of payments (BOP) showed a surplus of USD 5.48 billion in FY14 (a surplus of USD 1.6 billion in Q4FY14).

4.3 Total foreign aid in Q4FY14 was USD 828.7 million, compared to USD 998.0 million in Q4FY13. Out of the total aid, USD 662.1 million was disbursed as MLT loan and USD 166.6 as grants during the quarter against USD 685.5 million as MLT loan and USD 312.5 million as grants during Q4FY13. In Q4FY14, Bangladesh made an amortization payment of USD 254.1 million, of which USD 211.9 million was paid as principal. As a result, net foreign financing in Q4FY14 was USD 616.8 million, lower than USD 820.9 million received in Q4FY13. Overall, Bangladesh made an amortization payment of USD 1.21 billion against a total received of USD

3.00 billion and thus, Bangladesh received a net foreign financing of USD 1.98 billion in FY14 (which was USD 1.91 billion in the previous fiscal year).(Table IV.8)




4.4 The foreign exchange market remained mostly stable with a marginal appreciation of Taka against US dollar during Q4FY14. Following the appreciation bias of Taka, Bangladesh Bank continued its intervention in the domestic foreign exchange market with a net purchase of foreign currencies amounting of USD 1.37 billion during Q4FY14.The weighted average nominal exchange rate decreased to Tk. 77.63 per US dollar in June 2014 from Tk. 77.71 per US dollar in March 2014 and the REER based exchange rate decreased to Tk. 83.22 per USD at the end of June 2014 from Tk. 84.08 per USD at the end of March 2014.

4.5 According to Export Promotion Bureau (EPB), export earnings increased by 12.0 percent to USD 29.77 billion in FY14 compared to USD 26.56 billion in FY13. During the last quarter of FY14, exports rose by 8.2 percent to USD 7.80 billion from USD 7.21 billion in Q4FY13. Exports of RMG grew by 10.3 percent to USD 6.44 billion during the quarter under review. Export of woven garments and knitwear products to European countries increased by 17.0 percent and 14.2 percent respectively in Q4FY14compared to the corresponding quarter of FY13. Among other major export items, earnings from jute goods and frozen shrimps and fish decreased by 14.7 percent and 23.1 percent respectively in Q4FY14over the corresponding quarter of the previous year. Overall export of woven garments (+12.7 percent), knitwear products (+15.0 percent), leather (+26.5 percent), frozen shrimps and fish (+17.5 percent) increased in FY14 compared to FY13; while export of raw jute (-45.0 percent), jute goods (-12.8 percent) and terry towels (-18.1 percent) decreased. Among non-traditional markets, RMG export to Turkey (+49.8 percent), Japan (+19.6 percent), China (+73.5 percent), Republic of

Korea (+18.5 percent), India (+27.9 percent) increased during FY14. Export of non-RMG products decreased to India (-26.3 percent), Hong Kong (-27.6 percent) and UAE (-15.2 percent) in FY14. (Table IV.2 and IV.5)

4.6 Import payments (according to banking sector data) increased by 19.3 percent to USD 40.68 billion in FY14 from USD 34.08 billion in FY13. Imports rose to USD 10.90 billion in Q4FY14 compared to USD 8.74 billion in Q4FY13 (Table IV.3). Import of food-grains increased sharply from USD 195.7 million in Q4FY13 to USD 350.2 million in Q4FY14.Import of rice was USD 118.1 million during Q3FY14, compared to USD 5.9 million in Q4FY13. Wheat import increased from USD 189.8 million in Q4FY13 to USD 232.1 million in Q4FY14.Import of other food items increased from USD 725.0 million during Q4FY13 to USD 909.0 million in Q4FY14.Among the other food items, the import of sugar (+20.5 percent), spices (+51.9 percent), edible oil (+46.8 percent), and milk & cream (+27.5 percent) all increased, while pulses (-27.5 percent) decreased in Q4FY14 over Q4FY13 (Table IV.3).

Chart IV.4: Trends in Exports & Imports

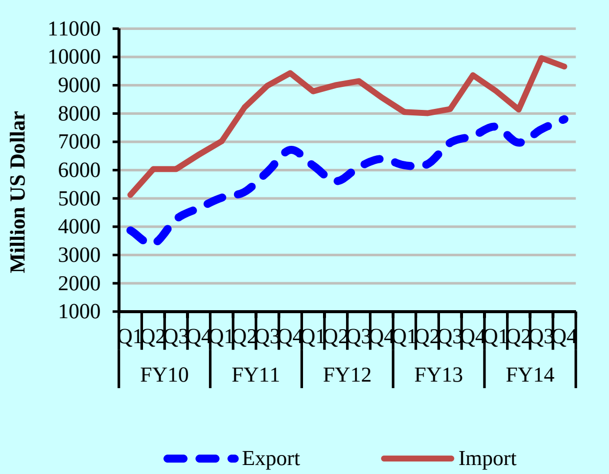
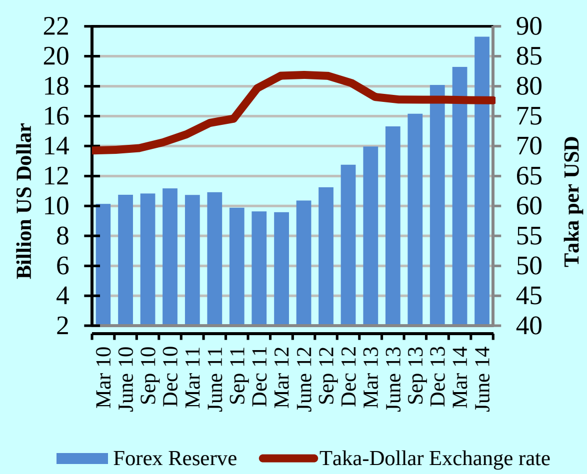



Chart IV.5: FOREX Reserve & Exchange Rate




4.7 Imports of intermediate and consumer goods increased by 26.3 percent (y-o-y) to USD 5.28 billion during Q4FY14.Among the intermediate goods, imports of textile and articles thereof (+3.0 percent), pharmaceutical products (+48.3 percent), raw cotton (+18.0 percent), plastic and rubber articles thereof (+44.6 percent),POL (+53.7 percent), fertilizer (+31.5 percent) and yarn (+32.5 percent) increased, while imports of crude petroleum (-15.9 percent)decreased. Imports of capital machinery recorded a growth of 45.3 percent in Q4FY14 over Q4FY13. Overall, import of food grains (+103.1 percent), other food items (+23.6 percent), consumer & intermediate goods (+12.8 percent) and capital goods and others (+22.8 percent) all increased during FY14 compared to the previous fiscal year.

4.8 During FY14, the overall opening of import LCs increased by 16.2 percent to USD 41.81 billion, of which machinery for miscellaneous industries (+40.39 percent),capital machinery (+35.88 percent),petroleum and petroleum products (+21.49 percent), consumer goods (+20.95 percent), industrial raw materials (+7.76 percent), increased, while intermediate goods (-3.08 percent) decreased. In Q4FY14, the opening of import LCs increased by 29.8 percent to USD 12.13 billion, of which machinery for miscellaneous industries (+109.9percent),capital machinery (+49.2 percent), petroleum and petroleum products (+23.4percent), industrial raw materials (+17.9percent),) consumer goods (+10.1 percent), increased, while intermediate goods (-21.1percent)decreased (Table IV.9).

4.9 The inflow of workers' remittances fell by 1.6 percent in FY14 compared to FY13. The decline in remittance income was mainly due to a fall in inflow of USD 712.3 million from Saudi Arabia. This plunge in remittance receipts was somewhat cushioned as the inflow from USA increased by USD 463.5 million over the same period. In the last quarter of FY14, total remittance stood at USD 3.73 billion compared to USD 3.34 in Q3FY14. During Q4FY14, remittance from the Gulf region increased by 7.7 percent with the help of growth in remittances from Oman (+31.1percent),UAE (+11.0 percent), and Bahrain (+47.9 percent) compared to Q4FY13. The rise in remittance was possible despite a fall in remittance flow from two major sources, Saudi Arabia (-1.2% percent) and Kuwait (-0.4percent), indicating that other sources of remittance are gradually gaining prominence in our income receipt.Growth of remittance inflows from the Euro region (+6.7percent) and the Asia Pacific region (+8.2 percent) during the Q4FY14 over Q4FY13were positive. Remittance inflow from the rest of the world (including the US) registered 26.8 percent growth in Q4FY14 over Q4FY13.In absolute amounts, the major sources of remittance during FY14 was Saudi Arabia (USD 797.2million), followed by UAE (USD 695.3 million), USA (USD 607.8 million), Malaysia (USD 298.7million) and Kuwait (USD 284.4 million)(Table IV.4). Overseas employment for Bangladeshi workers increased by11 percent in Q4FY14 as a total of 111,889Bangladeshi migrated compared with 100,714in the corresponding period of FY13.

## V. Price Developments

5.1 CPI inflation (point-to-point) fell from 7.46 percent in April 2014 to 6.97 percent in June 2014. The sharpest drop was during the last month of FY14 when point to point inflation decreased to 6.97 percent in June 2014 from 7.48 percent in May 2014. This was mainly due to a fall in food inflation which dropped to 8.00 percent in June 2014 from 9.09 percent the previous month. Food inflation moderated due to declining food prices in global and local commodity markets. At the end of June, global food price index decline by 4.96 percent as compare to April 2014. According to the Food Policy Monitoring Unit (FPMU) of the Ministry of food, the wholesale prices of rice and wheat declined by 3.10 percent and 7.08 percent respectively during April-June 2014. The retail price of rice and wheat also fall by 2.9 percent and 2.0 percent respectively during above mentioned period. On the other hand, non-food inflation has declined steadily from 9.09 percent in January 2013 to 5.16 percent in May 2014 due to cautious monetary policy as well as slowed down in credit and remittance growth. However, Point-to-point non-food inflation increased to 5.45 percent in June 2014 was likely to have high consumer demand stemming from Eid-ul-Fitr.

As the charts below show, urban inflation was higher than rural inflation. In June 2014, point to point inflation in urban areas was 7.42percent (food inflation was 8.87 percent and non-food inflation was 5.91 percent) while in rural areas it was 6.73 percent (food inflation at7.64 percent and non-food at 5.12 percent). One of the main features of the recent food inflation is that the gap between urban and rural food inflation has narrowed during Q4FY14 due to high rural food inflation.

After bottoming out at 6.06 percent in January 2013, average CPI inflation continued to rise and peaked at 7.60 percent in January 2014. It, however, fell to 7.35 percent in June 2014 due mainly to fall in point-to-point non-food inflation during the last six months. Specifically during Q4FY14, average CPI inflation fell from 7.48 percent to 7.35 percent. This was mainly driven by a fall in average non-food inflation which declined by 5.54 percent in June 2014 from 5.94 percent in April 2014 while average food inflation rose from 8.51percent to 8.57 percent during this period.

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

| Months | Food beverage & tobacco | Clothing & Footwear | Gross rent, Fuel & Lighting | Furniture, 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-13** | **41.75** | 12.43 | 15.29 | 7.54 | 2.72 | 6.84 | 6.83 | 6.60 | **58.25** |
| **Feb-13** | **53.38** | 10.22 | 11.63 | 6.14 | 1.82 | 5.49 | 5.92 | 5.41 | **46.62** |
| **Mar-13** | **54.75** | 10.05 | 11.75 | 5.65 | 1.61 | 5.31 | 5.67 | 5.20 | **45.25** |
| **Apr-13** | **58.73** | 9.39 | 10.41 | 5.31 | 1.52 | 5.01 | 4.79 | 4.84 | **41.27** |
| **May-13** | **57.65** | 9.58 | 10.76 | 5.39 | 1.59 | 5.39 | 4.73 | 4.91 | **42.35** |
| **Jun-13** | **58.07** | 9.55 | 10.71 | 5.28 | 1.48 | 5.44 | 4.62 | 4.85 | **41.93** |
| **Jul-13** | **58.92** | 10.57 | 8.69 | 5.26 | 1.38 | 5.62 | 4.54 | 5.01 | **41.08** |
| **Aug-13** | **62.38** | 7.93 | 9.95 | 4.98 | 0.95 | 4.86 | 4.67 | 4.27 | **37.62** |
| **Sep-13** | **63.54** | 8.01 | 8.45 | 5.00 | 0.86 | 5.40 | 4.18 | 4.55 | **36.46** |
| **Oct-13** | **68.48** | 7.16 | 8.14 | 3.83 | 1.13 | 4.20 | 3.60 | 3.46 | **31.52** |
| **Nov-13** | **68.63** | 7.43 | 8.29 | 3.64 | 1.21 | 4.29 | 3.40 | 3.11 | **31.37** |
| **Dec-13** | **70.59** | 6.94 | 8.06 | 3.25 | 1.22 | 3.96 | 3.07 | 2.90 | **29.41** |
| **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** |

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

Table 5.1shows that the contribution of food inflation to point-to-point CPI inflation has declined and that of non-food inflation has increased in June 2014.

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**Chart V.1: 12 - Month Point-to-point CPI inflation(Base:2005-06=100)**

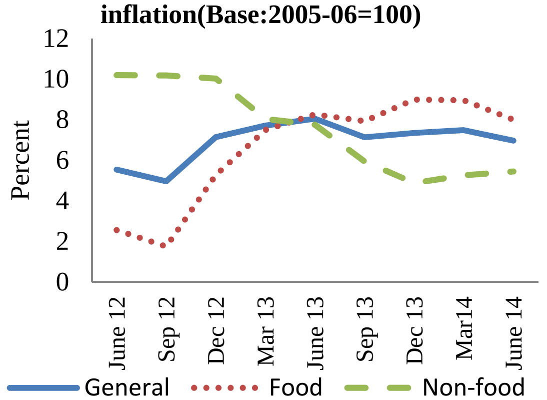



**Chart V.2:12-Month Average CPI Inflation (Base:2005-06=100)**

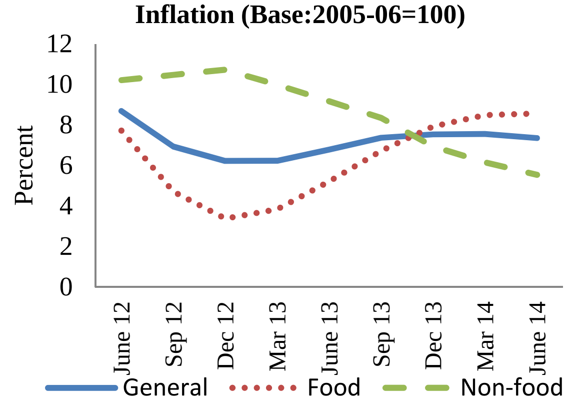


**Chart V.3 : 12 Month Point-to-point CPI inflation for Rural (Base:2005-06=100)**

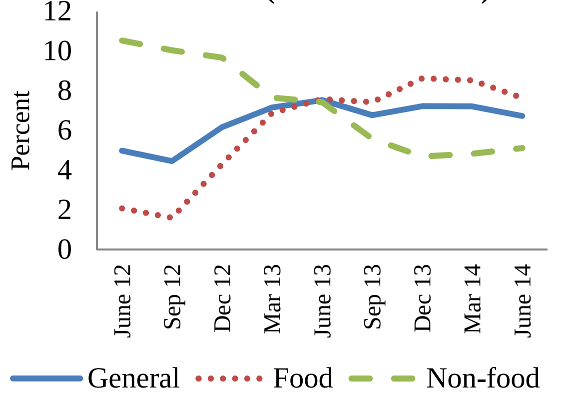



**Chart V.4: 12 Month Average CPI inflation for Rural (Base:2005-06=100)**

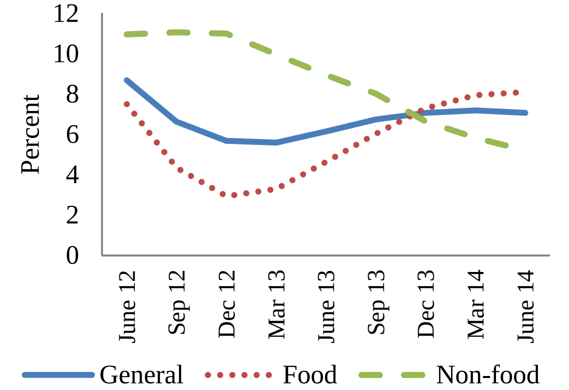



**Chart V.5 : 12 Month Point-to-point CPI inflation for Urban (Base:2005-06=100)**

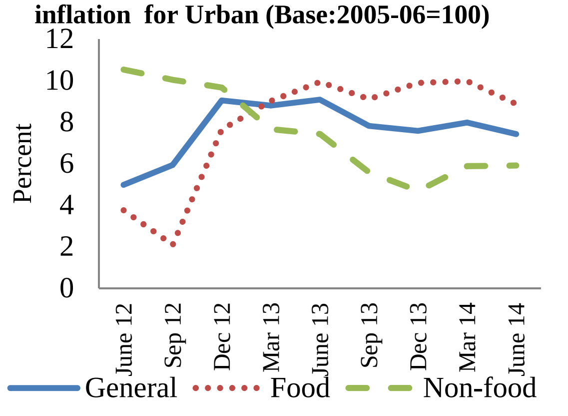
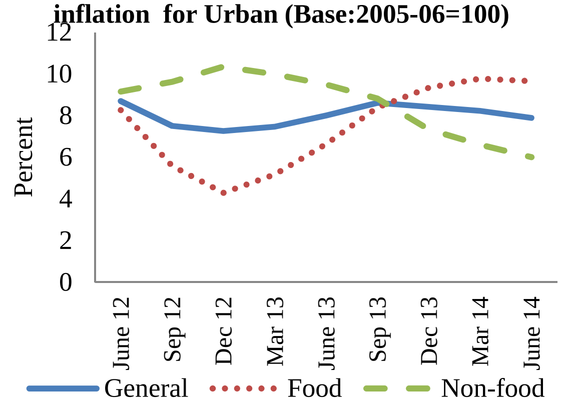



**Chart V.6: 12 Month Average CPI inflation for Urban (Base:2005-06=100)**




5.2 Global commodity price index rose by 0.54 percent in June 2014 as compared to May 2014 due to high energy price though agriculture and metal prices declined. However, Point-to-point CPI inflation in our neighboring South Asian countries exhibited a downward trend during the quarter under review. CPI inflation in India declined to 7.31 percent in June 2014 from 8.59 percent in April 2014. WPI inflation in India also experienced a slight decline to 5.43 percent in June 2014 from 5.55 percent in April 2014. CPI inflation in Pakistan fell to 8.2 percent in June 2014 as compared to 9.2 percent in April 2014. Similarly, CPI inflation in Sri-Lanka declined to 2.8 percent in June 2014 from 4.9 percent in April 2014.

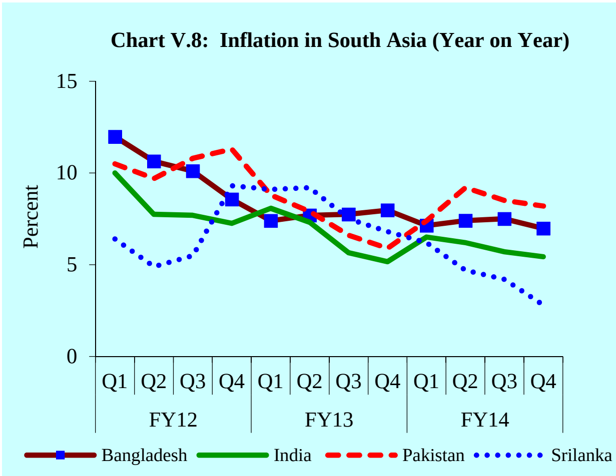


Chart V.8: Inflation in South Asia (Year on Year)
Percent
15
10
5
0
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
FY12 FY13 FY14
Bangladesh
India
Pakistan
Srilanka

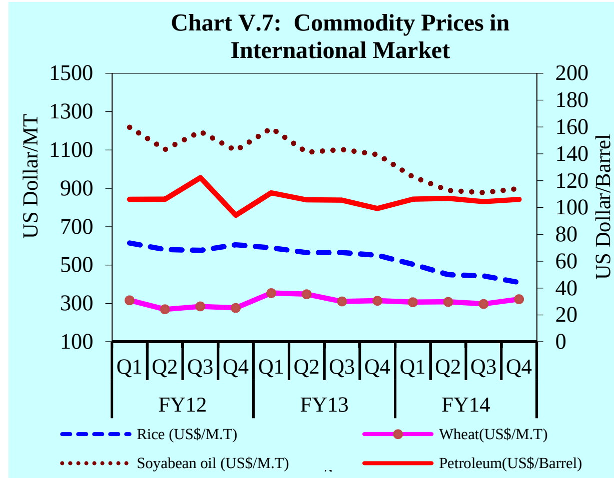


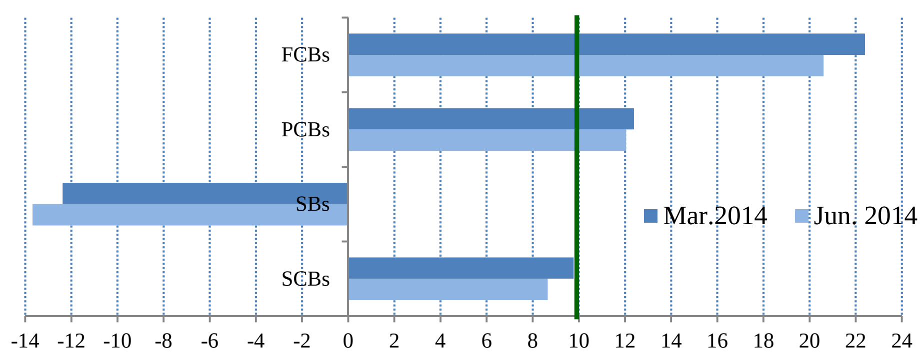
Chart V.7: Commodity Prices in International Market
US Dollar/MT
1500
1300
1100
900
700
500
300
100
US Dollar/Barrel
200
180
160
140
120
100
80
60
40
20
0
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
FY12 FY13 FY14
Rice (US$/M.T)
Wheat(US$/M.T)
Soyabean oil (US$/M.T)
Petroleum(US$/Barrel)

## VI. Banking Sector Performance

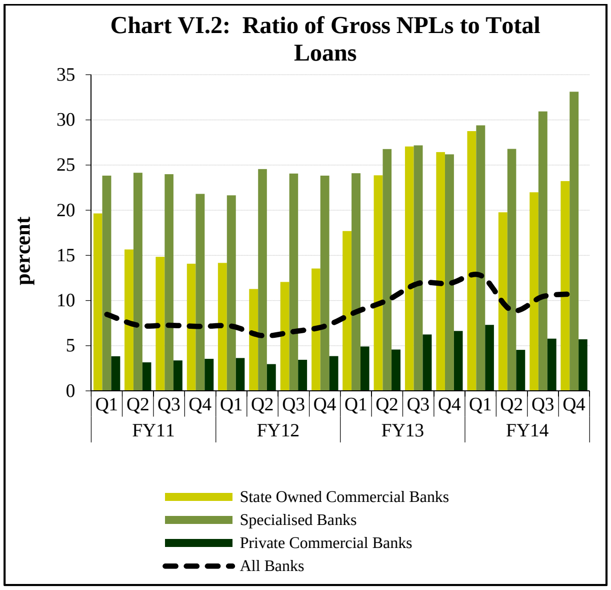
6.1 Banking sector indicators for Q4FY14 have again raised some concerns compared to the previous quarter for a variety of reasons. The ratio of gross non-performing loans (NPL) to total outstanding loans increased to 10.8 percent at the end of Q4FY14from 10.5 percent at the end of the previous quarter. The ratio of net NPL of the sector has also increased from 3.4 percent at the end of March 2014 to 3.9 percent at the end of June 2014 partly due to the increase of gross NPL as well as increased shortfall in actual provision maintained by the sector. During Q4FY14, the capital adequacy ratio (CAR) decreased to 10.7 percent from 11.3 percent in Q3FY14.Among the profitability measures, return on asset (ROA) in the banking sector declined from 0.9 percent at the end of December 2013 to 0.6 percent at the end of June 2014 primarily due to maintaining higher provision for the increased NPL and the net losses made by SOCBs. Return on equity (ROE) of the banking industry also decreased to 8.4 percent at the end of June 2014 from 11.1 percent at the end of December 2013.Interest rate spreads rose during Q4FY14.

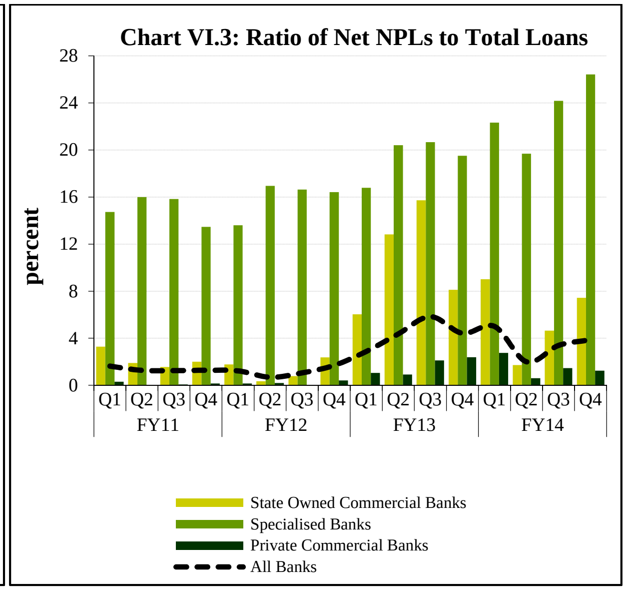
6.2 During Q4FY14, the industry capital adequacy ratio (CAR) decreased to 10.7 percent from 11.3 percent inQ3FY14though still surpassing the minimum 10% regulatory requirement. The decreased in CAR was across the board for all types of banks as the ratios for SCBs, SBs, PCBs and FCBs decreased from 9.8 percent, (-) 12.4 percent, 12.4 percent and 22.4 percent respectively to 8.7 percent, (-) 13.7 percent, 12.1 percent and 20.6 percent respectively during the period under consideration (Chart VI.1).

**Chart VI.1: Ratio of total eligible capital to risk weighted assets (CAR)**



6.3 The ratio of gross NPL to total outstanding loans of the banking sector went up at the end of Q4FY14 to 10.8 percent from 10.5 percent at the end of Q3FY14 (Table VI.2 and Chart VI.2). There was an overall deterioration as the ratios for SCBs, SBs and FCBs increased to 23.2 percent, 33.1 percent and 6.2 percent respectively at end-June 2014 from 22.0 percent, 30.9 percent and 5.3 percent respectively at end-March 2014. However, the ratio of PCBs has improved marginally, falling from 5.8 percent to 5.7 percent during the period.




Similarly, the net NPL ratio for all banks increased from 3.4 percent at the end of March 2014 to 3.9 percent at the end of June 2014 partly due to the increase of gross NPL as well as increased shortfall in actual provision maintained by the sector (Table VI.3, Chart VI.3 and Table 6.1). Provision shortfall of the sector as a whole increased from Tk.24.3 billion at the end of March 2014 to Tk. 40.0 billion at the end of June 2014.In Q4FY14 gross NPL ratio for SCBs and SBs increased by 1.2 percentage points and 2.2 percentage points respectively and these two groups of banks also had provision shortfall of Tk.13.6 billion and Tk.30.0 billion respectively. As a result, net NPL ratios for SCBs and SBs increased from 4.7 percent and 24.2 percent respectively at the end of March2014 to 7.4 percent and 26.4 percent respectively at the end of June 2014. Net NPL ratio of PCBs slightly improved from 1.5 percent to 1.2 percent during the period.

**Table 6.1: Comparative Position of Classified Loan and Provision Maintained, FY14**

(Taka in billions)

| Quarter | Items | SCBs | SBs | PCBs | FCBs | All Banks |
|---|---|---|---|---|---|---|
| Q1 FY14 | Total classified loan | 241.7 | 87.8 | 223.1 | 14.5 | 567.1 |
| | Required provision | 151.4 | 39.2 | 117.6 | 12.1 | 320.3 |
| | Provision maintained | 146.7 | 17.4 | 114.3 | 9.1 | 287.5 |
| | Excess(+)/shortfall(-) | -4.7 | -21.8 | -3.3 | -3.0 | -32.8 |
| Q2 FY14 | Total classified loan | 166.1 | 83.6 | 143.2 | 13.0 | 405.9 |
| | Required provision | 107.8 | 38.2 | 94.8 | 11.6 | 252.4 |
| | Provision maintained | 122.3 | 17.4 | 97.8 | 12.3 | 249.8 |
| | Excess(+)/shortfall(-) | 14.5 | -20.8 | 3.0 | 0.7 | -2.6 |
| Q3 FY14 | Total classified loan | 186.9 | 97.3 | 185.3 | 12.3 | 481.7 |
| | Required provision | 120.6 | 44.0 | 107.3 | 11.1 | 283.0 |
| | Provision maintained | 120.3 | 17.7 | 109.1 | 11.6 | 258.7 |
| | Excess(+)/shortfall(-) | -0.3 | -26.3 | 1.8 | 0.5 | -24.3 |
| Q4 FY14 | Total classified loan | 197.2 | 110.5 | 191.5 | 14.2 | 513.4 |
| | Required provision | 124.2 | 49.3 | 114.4 | 12.5 | 300.4 |
| | Provision maintained | 110.7 | 19.3 | 117.9 | 12.5 | 260.4 |
| | Excess(+)/shortfall(-) | -13.6 | -30.0 | 3.5 | 0.0 | -40.0 |

6.4 Return on assets (ROA) declined from 0.9 percent at the end of December 2013 to 0.6 percent at the end of June 2014due to maintaining higher provision for the increased NPL and the net losses made by SCBs. The ROA for SCBs, SBs and PCBs deteriorated from 0.6 percent, (-) 0.4 percent and 1.0 percent respectively at the end of December 2013 to (-) 0.1 percent, (-) 0.9 percent and0.8 percent respectively at the end of June2014. However, the ratio for FCBs improved from 3.0 percent to 3.5 percent during the same period. Return on equity (ROE) of the banking industry decreased to 8.4 percent at the end of June 2014 from 11.1 percent at the end of December 2013. The ROE for SCBs decreased to (-) 2.4 percent at the end June 2014from 10.9 percent at the end of December 2013mainly due to the negative net income of this category of banks. The ratios for PCBs and SBs also deteriorated from 9.8 percent and (-) 5.8 percent to 8.4 percent and (-) 9.5 percent respectively during the period. However, ROE for FCBs improved from 16.9 percent to 20.1 percent during the same period(Table VI.4).

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

| Bank groups | Year-on year growth of deposit (excluding interbank) | | Year-on year growth of advances (excluding interbank) | | Advance Deposit Ratio (ADR) | |
|---|---|---|---|---|---|---|
| | Jun.14 | Mar.14 | Jun.14 | Mar.14 | Jun.14 | Mar.14 |
| SCBs | 13.7% | 14.6% | -4.2% | -4.0% | 53.4% | 56.6% |
| SBs | 14.8% | 24.8% | 13.1% | 14.5% | 81.6% | 77.3% |
| PCBs | 17.6% | 16.3% | 15.6% | 12.9% | 77.2% | 75.6% |
| FCBs | 7.2% | 11.9% | -1.7% | -0.1% | 61.4% | 58.6% |
| All | 15.8% | 16.1% | 10.1% | 8.5% | 70.5% | 69.9% |

**Table 6.3: Liquidity Position of the Scheduled Banks**

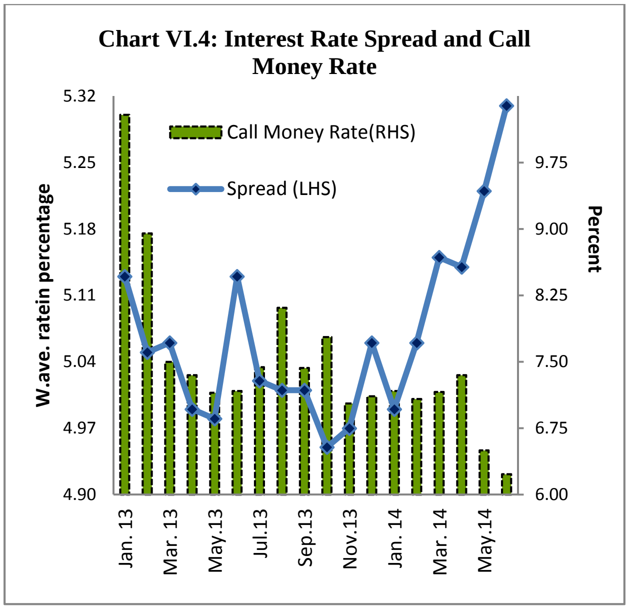
(Tk. in billions)

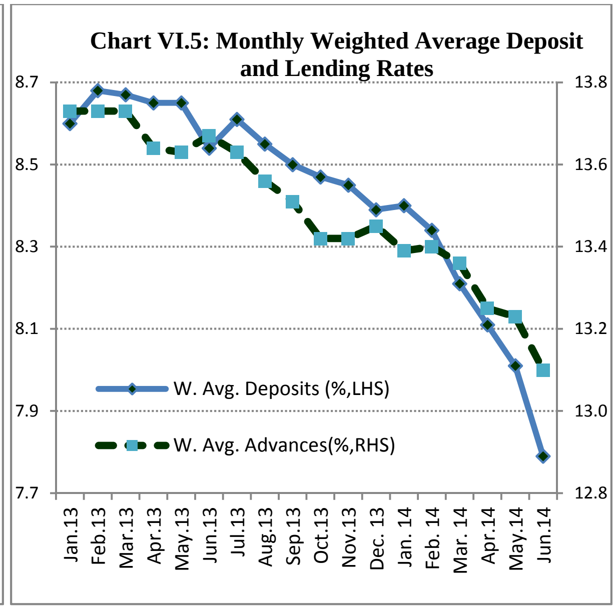
| | As of end June, 2013[R] | | | As of end June, 2014[P] | | |
|---|---|---|---|---|---|---|
| | Total Liquid asset | Required liquidity (SLR) | Liquidity: excess(+) /shortfall(-) | Total Liquid asset | Required liquidity (SLR) | Liquidity: excess(+) /shortfall(-) |
| SCBs | 534.7 | 264.3 | 270.3 | 772.4 | 208.3 | 564.1 |
| SBs* | 50.8 | 30.7 | 20.1 | 49.6 | 17.7 | 31.9 |
| PCBs (other than Islamic) | 795.2 | 475.4 | 319.8 | 913.0 | 372.7 | 540.3 |
| Private Banks (Islamic) | 218.4 | 113.0 | 105.4 | 250.3 | 65.8 | 184.5 |
| FCBs | 142.7 | 64.0 | 78.8 | 161.6 | 48.4 | 113.2 |
| All | 1741.7 | 947.3 | 794.4 | 2146.8 | 712.8 | 1434.0 |

* SLR does not apply to Specialized Banks (except BASIC Bank) as exempted by the Government.

Note: According to the circular No-MPD-02, 2013 with effect from February 01, 2014 SLR has been calculated separately as 13% (excluded CRR)

6.5 At the end of Q4FY14, the growth rate (year-on- year) of deposits remained higher than that of advances. As a result, advance-deposit ratio (ADR) remained far below the maximum regulatory ceiling as well as its average value for the last eight years. The growth rate of deposits decreased marginally from 16.1 percent at end-March 2014 to 15.8 percent at end-June2014. On the other hand, the growth of advances has increased from 8.5 percent to 10.1 percent during the period. Consequently, the advance - deposit ratio (ADR) slightly increased to 70.5 percent at the end June 2014 from 69.9 percent at the end of previous quarter (Table 6.2).The liquidity position of all bank groups, except SBs, improved at the end of June 2014 compared to that in June 2013, leading to a further easing of money market conditions (Table 6.3).

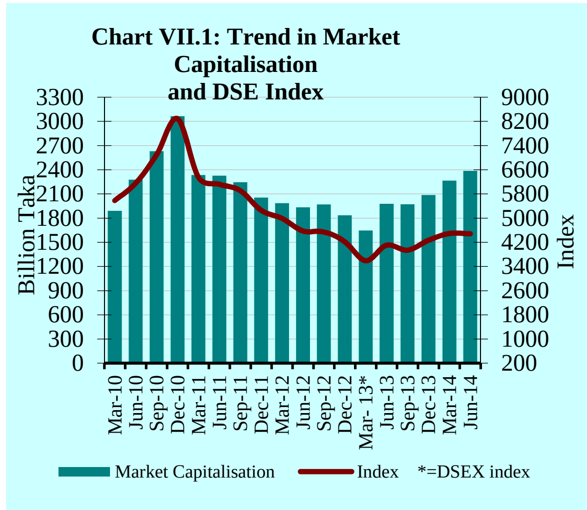



6.6 Monthly interest rate spread for all banks, measured as the difference between monthly weighted average interest rate of advances and deposit, rose to 5.31 percent by the end of Q4FY14 (Chart VI.4) from 5.15 percent in March 2014. Over the last two quarters banks were forced to cut both deposit and lending rates due to low investment demand and easing money market conditions. However, bank wise data shows that most banks reduced their weighted average deposit rates more than their weighted average lending rates which caused the increase in spread during this period (Chart VI.5). Monthly weighted average call money rate declined from 7.16 percent in March 2014 to 6.23percent in June 2014.

## VII. Capital Market Development

7.1 The performance of the Dhaka Stock Exchange (DSE) exhibited a mixed trend during the final quarter of FY14.During Q4FY14DSE broad (DSEX) index declined while DSE 30 index and market capitalization increased. At the end of Q4FY14, DSEX index was 4480.5 which is 0.3 percent lower than Q3FY14 index while DSE 30 index was 1644.8 which is2.6 percent higher thanQ3FY14. Over the same period, market capitalization increased by 5.4 percent (Chart VII.1 and Table VII.1).When compared with a year earlier, the DSEX index and DSE 30 index have increased significantly by 9.2 percent and 7.3percent respectively as compared to Q4FY13 level.

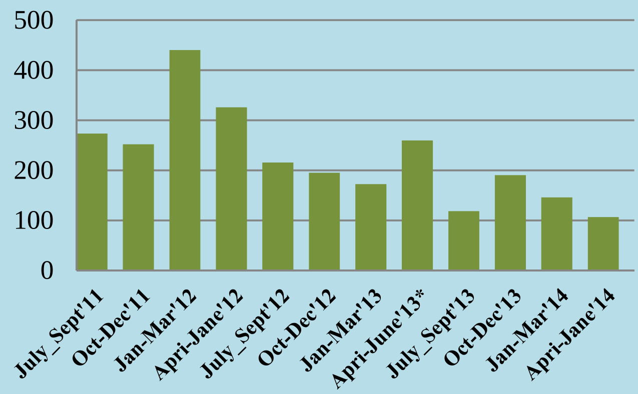



7.2 The average price earnings ratio of the DSE reached 16.37 in June 2014which was 56 basis points higher than 15.81inMarch 2014.Total turnover value in the Dhaka Stock Exchange decreased significantly by 24.1 percent from Tk.307.9 billion in Q3FY14 to Tk.233.8billionin Q4FY14. The liquidity situation in the capital market tightened as measured by Turnover Velocity Ratio (TVR), which decreased to 39.2 percent in Q4FY14 from 54.4percent in Q3 of FY14.Thenumber of listed securities increased marginally to 315 in June 2014 from 311ofMarch 2013. The value of "issued equity and debt" increased by 1.3 percent (Table VII.1) and three new companies were listed in the capital market and one company transferred from OTC market during Q3FY14.

7.3 The sector-wise DSE data shows that during Q4FY14 market capitalization increased in engineering, fuel & power, pharmaceuticals & chemicals, service and real estate, cement industry, telecommunications, and miscellaneous sectors(Table VII.2).All together these sectors contributed 60.0 percent of the total market capitalization. Market capitalization of the other sectors like banks, non bank financial institution, food & allied product, textile industries, etc. however, decreased during Q4FY14.The contribution of the banking sector decreased to16.5 percent at the end of Q4FY14from 18.8percent in the previous quarter. The relative contributions of all other sectors in total market capitalization remained almost unchanged during the last two quarters.

7.4 During Q4FY14the new investment on share purchases by foreign and non-resident Bangladeshi investors increased to Tk17.1 billion from TK.9.4billion in the previous quarter. At the same time, total share sales by foreign and non-resident Bangladeshi investors also increased to Tk.6.5 billion from TK.5.4 billion in the previous quarter. As a result, net investment of foreign and non-resident Bangladeshi during Q4FY14increased to Tk.10.6 billion from TK.5.0billion in the previous quarter. Foreign investment still has a limited contribution in total turnover of DSE. During Q4 FY14 total turnover by foreign investors increased to 10.1 percent of total turnover from 4.8 percent in the previous quarter. The volatility in the DSEX index, measured by standard deviation, decreased to 106.7 during Q4FY14compared to 146.1 in Q3FY14.

**Chart VII.2: Recent Volatility in DSE**




*=Volatility calculated by using DSEX index

7.5 Cross country data shows that price earnings ratio of June 2014, 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).

Table 7.1: Comparison among regional Capital markets- June 2014

| Country | Price Earnings ratio | Dividend Yield |
|---|---|---|
| Bangladesh | 16.37 | 3.79 |
| India | 18.58 | 1.39 |
| Sri Lanka | 17.19 | 3.01 |
| Thailand | 14.00 | 3.20 |
| Malaysia | 17.00 | 2.90 |
| Taiwan | 18.00 | 2.60 |
| Hong Kong | 15.00 | 2.70 |
| China | 9.00 | 3.40 |
| Singapore | 13.00 | 3.30 |

Source: Monthly Review, Dhaka Stock Exchange