Part A: Economic and Financial Developments

Overview and Executive Summary

Key indicators related to output growth in Q1FY14 suggest that economic growth is likely to have slowed relative to FY13 levels. Though service sector – which comprises over half of GDP - data is available only on an annual basis, a number of proxy indicators reflect slower service sector growth during the first quarter of FY14. Data on bank advances show that the growth of credit (outstanding) to the trade sector declined to 12.93 percent at the end of Q1FY14 from 24.68 percent at the end of Q1FY13, while bank advances to transport and communication sector registered a negative growth of -43.54 percent. Moreover there is also evidence that retail and wholesale trade has slowed due to frequent national shut-downs during the quarter under review. Low growth of cement production (3.61 percent) and negative growth of iron and steel production (-8.72 percent) indicate slowing growth of the construction sub-sector in the first quarter of FY14 compared to the same quarter of FY13. Presumably, this slow growth is stemming from the low growth of private sector construction activity as bank credit to this sector also experienced a low growth of 8.87 percent. Manufacturing sector growth for Q1FY14 can only very partially be proxied by the July Quantum Index of Manufacturing which registered a 14.9% growth though the 22% export growth in Q1FY14 also suggests that there was robust growth in this sub-sector. Agricultural output data for Q1FY14 suggests that thus far agricultural growth is on track. Overall the sluggish services, construction sector data and negative growth in remittances (- 8%) suggests that aggregate demand will be lower than FY13.

Twelve month average CPI inflation using 2005-06 base year fell from the beginning of FY13 and bottomed out at 6.06 percent in January 2013. Thereafter, it started to go up and reached 7.37 percent at the end of Q1FY14 (the National Budget targeted 7.0 percent for FY14). Point-to-point CPI inflation has eased to 7.13 percent at the end of Q1FY14 which is lower than 8.06 percent at the end of Q4FY13 suggesting that if these trends continue average inflation may decline in the months ahead. On the other hand disruption in the supply chain and wage pressures may have the opposite effect, leading to higher average inflation, which is the more likely scenario.

The current account balance (CAB) recorded a surplus of USD 786 million during Q1FY14 compared to a surplus of USD 331 million during the same period of preceding fiscal year. The improvement in trade deficit helped to build up CAB surplus in the first quarter of FY14 despite an 8% decline in the inflow of wage earners' remittances. Supported by a small surplus in the combined capital and financial account, the overall balance recorded a surplus of USD 910.0 *million. This contributed to foreign exchange reserves reaching USD 16.2 billion at the end of Q1FY14 compared with USD 11.3 billion a year earlier.*

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 1.07 billion during Q1FY14. Consequently, the foreign exchange market remained stable with the Taka remaining virtually unchanged during Q1FY14 against USD.

Preliminary estimates show that total domestic revenue increased by 16.7 percent to Tk. 322.8 billion whereas total expenditure grew by 8.4 percent to Tk. 340.9 billion during Q1FY14. This contributed to lower fiscal deficit at Tk. 18.1 billion during Q1FY14 compared with Tk. 37.8 billion in Q1FY13. The quarterly fiscal deficit was financed mainly by borrowing from non-bank sources due to the healthy demand for National Savings Certificates.

Key monetary indicators remained on track in FY13. Broad money growth (16.9%) was below the program path in Q1FY14 despite high NFA growth (35.8%). This was because domestic credit growth fell short of the program rate due to shortfalls in private sector credit growth (11.1% in September 2013 compared with 19.9% a year earlier) while credit to the public sector was also subdued during this quarter (9.6%).

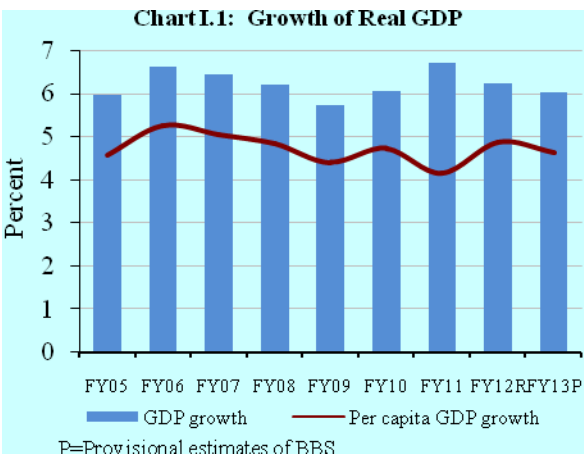
Banking sector indicators for Q1FY14 raise some concerns. Gross Non-Performing Loan (NPL) went up from 11.9 percent at the end of Q4FY13 to 12.8 percent at the end of Q1FY14. Ratio of net non-performing loans (NPL) of the sector has also increased from 4.4 percent at the end of June 2013 to 5.0 percent at the end of September 2013 due partly to the increased shortfall in actual provision maintained by the banks. During Q1 FY14, capital adequacy ratio (CAR) remained at the 0.91 percent level of Q4FY13. Among the profitability measures, return on asset (ROA) in the banking sector declined marginally from 0.64 percent at the end of December 2012 to 0.61 percent at the end of June 2013 primarily due to the higher interest expenditure than interest income. However, return on equity (ROE) of the banking industry remained virtually unchanged at 8.20 percent at the end of December 2012 and 8.21 percent at the end of June 2013. The falling interest rate spread during Q1FY14 is a positive development.

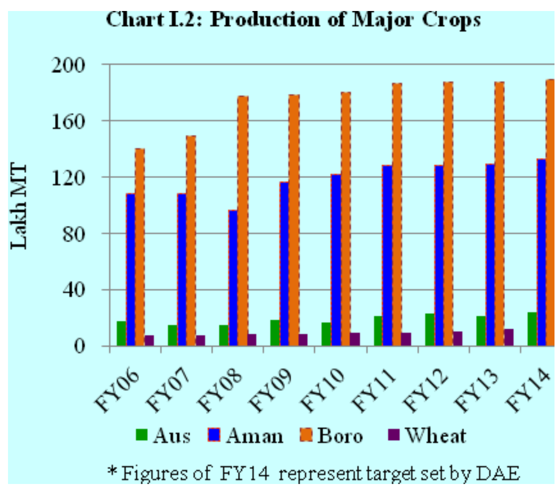
Looking ahead to FY14, BB's current forecast is that output growth is likely to range between 5.7-6.0%. This is based on current and projected trends of a number of variables including global growth, domestic and foreign investment, exports, imports, remittances etc. The recent escalation of nationwide shut-downs has led to the downward revision of our growth forecast which was previously around 6.2%. BB will update its forecasts on a regular basis during the course of FY14.

The inflation target for FY14 announced in the Budget is 7.0%. While this is achievable there are a number of risks. First likely wage increases in both the private and public sectors stemming from the increase in garment worker wages and the decision to set up a public sector wage board will create aggregate demand pressures. Another risk stems from possible supply-side disruptions due to prolonged nationwide strikes. Finally the recent rise in Indian inflation could also transmit to Bangladesh as shown by historical long term trends.

I Developments in the real economy

1.1 The target for total cereal food grain production for FY14 has been set at 38.12 million metric tons (MMT), which is 2.28 percent higher than the actual production in FY13. The target for total rice production has been set at 34.6 MMT, which is 2.27 percent higher than the actual production in previous fiscal year. The target for *aus* production, the first crop of the fiscal year, is set at 2.41 MMT (on 1.16 million hectares of land), 11.58 percent higher than the level of FY13. The target for *aman* production, the second largest crop of the fiscal year (on 5.63 million hectares of land) is 13.28 MMT, which is 2.94 percent higher than the actual production of FY13. Information from Directorate of Agricultural Extension indicates that the target of *aus* production will be satisfied. The target for *boro* production, the largest crop, is set at 18.92 MMT, only 0.73 percent higher than the actual production in FY13, on 4.78 million hectares of land. Wheat and maize production targets have been set at 1.28 MMT and 2.24 MMT respectively for FY14, which are 2.07 percent and 2.66 percent higher than their respective actual production in FY13. The target for potato production is set at 8.65 MMT on 0.44 million hectares of land for FY14, which is almost same as in the previous fiscal year.

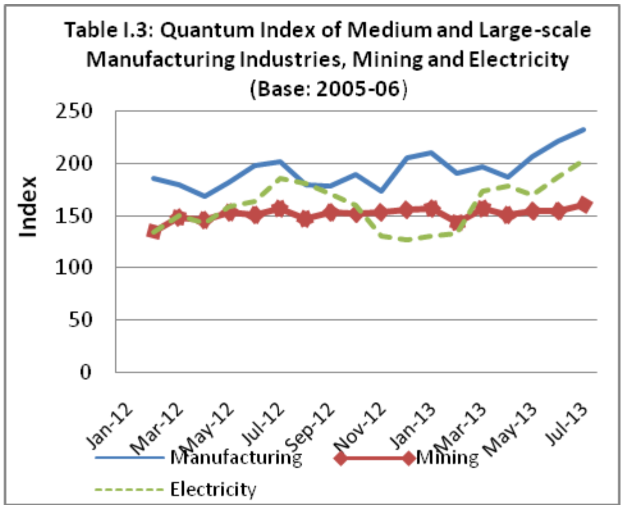


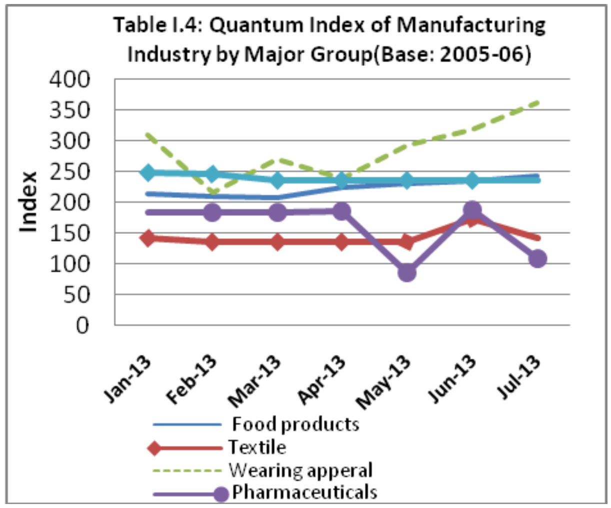


1.2 The only available data which proxies for industrial growth in the first quarter of FY14, is the quantum index of large and medium scale industries for July 2013. On the basis of 2005-06 base year[1] data, manufacturing industries grew by 14.90 percent (year on year) in July 2013, which was 11.96 percent in the last quarter of previous fiscal year (Chart-1.3). This growth is largely due to the high growth of manufacturing of rubber and plastic products (63.21 percent), beverage (47.73 percent), food (23.11 percent) and apparel (21.76 percent). However, at the

[1] Recently, Bangladesh Bureau of Statistics (BBS) has introduced 2005-06 base year for all of its real sector data.

same time, some manufacturing industries experienced negative growth such as pharmaceutical and medical chemical (-36.67 percent) and chemical and chemical products (-13.70 percent). Among others in the large and medium scale industries, electricity and mining grew by 9.54 percent and 2.59 percent respectively in July 2013. However, low growth of cement production (3.61 percent) and negative growth of iron and steel production (-8.72 percent) indicate decelerating growth of the construction sub-sector in the first quarter of FY14 compared to the same quarter of previous fiscal year. Presumably, this slow growth is stemming from the low growth of private sector construction, as bank credit to construction sector also experienced a low growth of 8.87 percent.





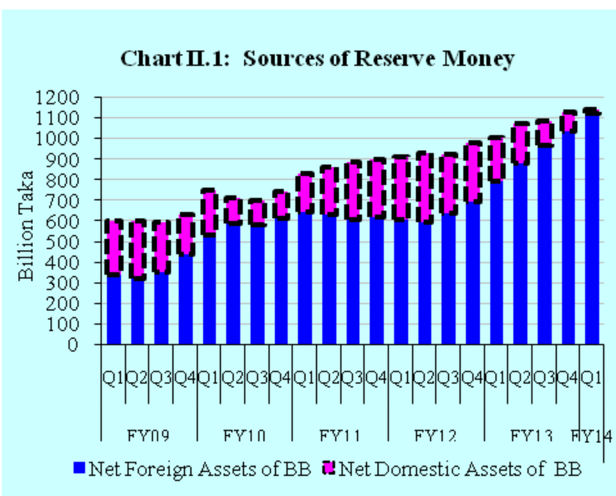
1.3 Though service sector data is available only on annual basis, a number of proxy indicators (such as trade financing, bank advances to transport and communication sector, and number of mobile phone subscribers etc.) reflect slower service sector growth during the first quarter of FY14. Data on bank advances (table 1.9 in appendix) show that the growth of credit (outstanding) to trade sector declined to 12.93 percent at the end of Q1FY14 from 24.68 percent at the end of Q1FY13, while bank advances to transport and communication sector registered a negative growth of (-) 43.54 percent as against a positive growth of 85.68 percent in the same period of previous fiscal year. Moreover, recently, a number of news paper reports indicate that retail and wholesale trade, hotel and restaurant business, and tourism are facing sluggish demand due to frequent national shut-downs during the quarter under review. However, one positive indicator is the growth of mobile phone subscribers, which increased by 18 percent to 110.68 million at the end of September 2013 from 93.78 million at the end of September 2012. The telecom service sector is therefore likely to remain buoyant particularly following the introduction of 3G services in September 2013.

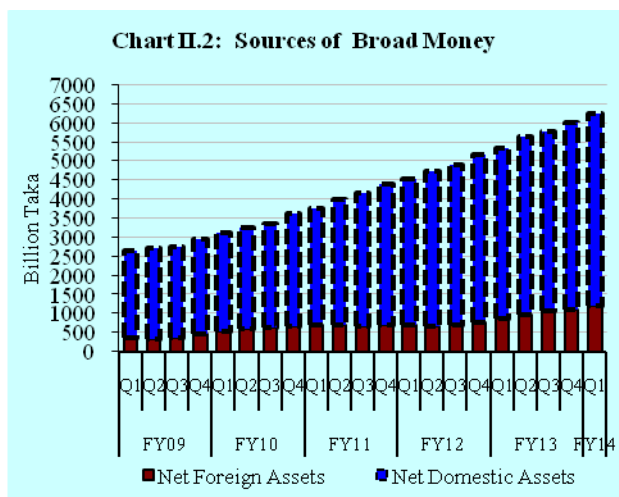
1.4 Looking ahead to FY14, BB's current forecast is that output growth is likely to range between 5.7-6.0%. This is based on current and projected trends of a number of variables including global growth, domestic and foreign investment, exports, imports, remittances etc. The recent escalation of nationwide shut-downs has led to the downward revision of our growth forecast which was previously around 6.2%. BB will update its forecasts on a regular basis during the course of FY14.

II. Money and Credit Market Development

2.1 The monetary stance in H1FY14 of Bangladesh Bank (BB) aims to bring average inflation down to 7.0 percent while ensuring sufficient credit growth to stimulate inclusive economic growth. Given these objectives, BB aims to limit reserve money growth to 15.5 percent and broad money growth to 17.2 percent.

2.2 In Q1FY14 broad money (M2) growth was16.9 percent. The growth in private sector credit slowed to 11.1 percent in September 2013, and remained lower than the quarterly target growth of 14.0 percent and actual growth of 19.9 percent a year earlier. Credit to the public sector also recorded only a 13.6 percent growth (y-o-y) in Q1FY14. However, Net Foreign Asset (NFA) rose sharply to 35.8 percent in September 2013, which eased pressure on the external sector as well as on the liquidity position.





2.3 A look at the components of M2 shows that currency, demand deposits and time deposits increased by 13.0 percent, 8.9 percent and 18.4 percent (y-o-y) respectively during Q1FY14 compared with 7.1 percent, 5.3 percent and 21.8 percent respectively during the same period of the preceding year. Narrow money or M1 grew by 11.2 percent at Q1FY14 which was 6.3 percent during the same period of the preceding year due to higher growth in currency and demand deposits. However, the money multiplier (M2/RM) increased marginally to 5.5 in Q1FY14 from 5.4 in Q1FY13 reflecting the relatively faster expansion of M2.

2.4 Reserve money (RM) grew by 14.1 percent (y-o-y) compared with 10.5 percent (y-o-y) growth during the same period of the preceding year. This was due to the 54.0 percent increase in NFA of BB which resulted from the foreign exchange purchase by BB in order to keep the nominal exchange rate relatively stable and protect export competitiveness. Net domestic assets of Bangladesh Bank fell by 69.3 percent mainly due to lower demand for government borrowing from Bangladesh Bank.

2.5 In Q1FY14, private sector credit (including banks, non-banks and micro-finance institutions) grew by 12.1 percent compared with 19.3 percent in Q1FY13. Bank advances to the transport and communication sector had negative growth of 43.5 percent in Q1FY14. Credit to the construction, industry and trade sectors decreased by 8.9, 9.9 and 12.9 percent respectively in Q1FY14. In the agriculture sector the supply of credit increased by 13.5 percent at end of Q1FY14 (of which crops increased by 13.9 percent and others by 9.4 percent). Credit for working capital financing increased by 19.6 percent in Q1FY14 compared with 17.5 percent in the same period of the preceding year. The highest share of bank advances went to the trade sector (38.7 percent) followed by the industry (19.9 percent) and working capital financing (15.0 percent) (Table I.9).

Chart II.3: Trends in Private Sector Credit

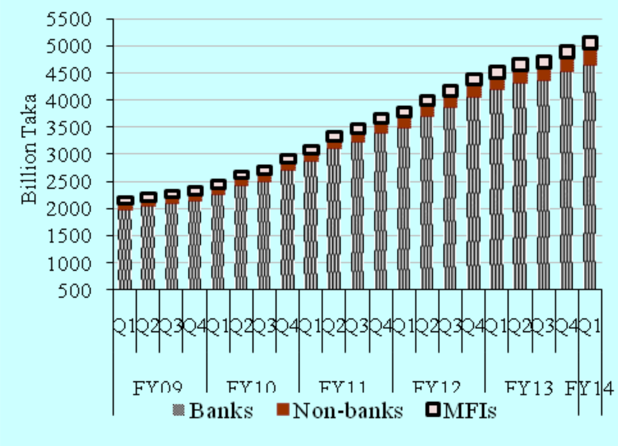


Chart II.4: Yield on T-Bills

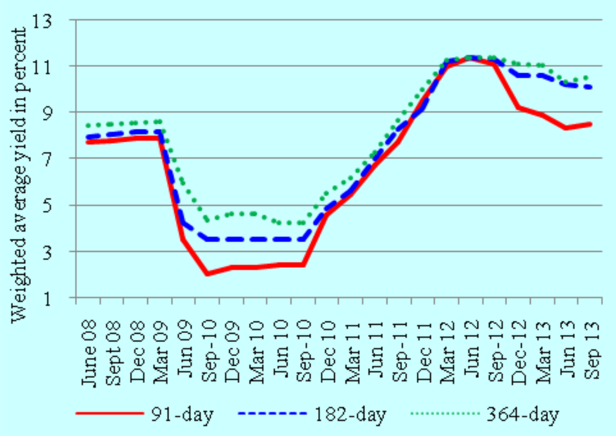
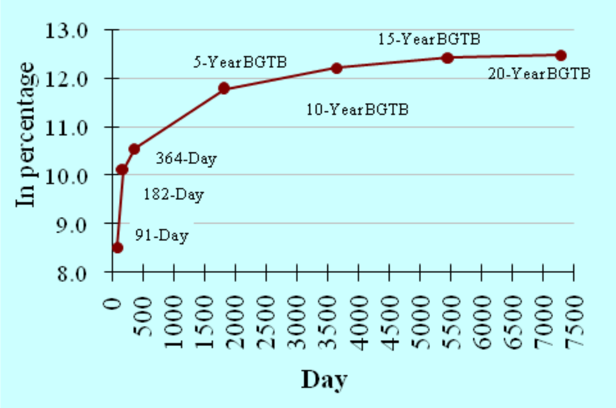


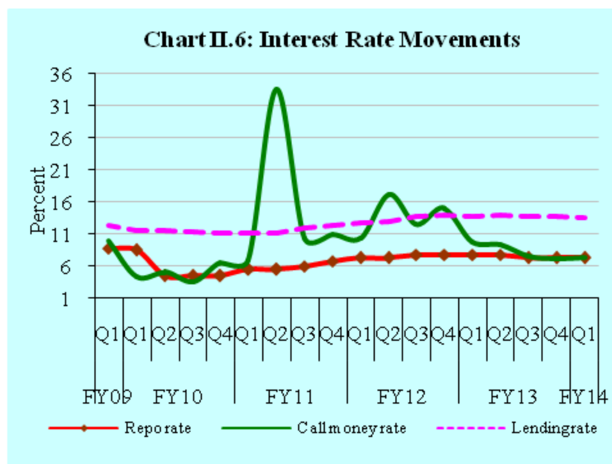
Chart II.5: Weighted average yield of accepted Government Treasury Bills & Bonds (End September, 2013)



2.6 The overall disbursements of industrial term lending by Banks and NBFIs was negative 66.0 percent, and stood at Tk. 33.0 billion at end Q1FY14, from Tk. 97.2 billion in Q1FY13. On the other hand, Banks and NBFIs disbursed a total of Tk. 206.2 billion as SME loan to different sectors during Q1FY14 which was 18.9 percent higher over Q1FY13.

2.7 The repo and reverse repo rates remained unchanged at 7.25 percent and 5.25 percent respectively from rates set downward by 50 basis points in February 2013. The rate of 30-day Bangladesh Bank bills fell sharply to 7.7 percent from 9.4 percent in November 2012, when its auction was resumed after nearly two years. Overall yields on short term treasury bills e.g., 91-day decreased to 8.5 percent in September, 2013 from 11.1 percent in September, 2012. Similarly, the yields on 182-day bills decreased to 10.1 percent from 11.4 percent, on 364-day bills to 10.6 percent from 11.4 percent. In contrast, long-term bond such as 5-year and 10-year increased to 11.8 and 12.2 percent respectively at the end of September, 2013 from 11.6 percent and 11.8 percent respectively in September, 2012 (Table II.3), Similarly, the yields on 15-year, and 20-year BGTB both also increased from 11.9 percent and 12.2 percent respectively to 12.4 and 12.5 percent in September, 2013.

2.8 The weighted average call money rate was 7.4 percent at the end of September, 2013 which was 9.8 percent at the end of September, 2012 reflecting excess liquidity in the market. The build-up of excess liquidity in the banking system arose due to the sluggish business environment. BB maintained close monitoring of the money market's day-to-day liquidity requirements and sterilized some of this excess liquidity to avoid a re-emergence of inflationary pressures. The spread between lending and deposit rates decreased from 5.13 percent at end of Q4FY13 to 5.01 percent at the end of Q1FY14.



III. Fiscal Developments

3.1 Preliminary estimates show that total revenue increased by 16.7 percent to Tk. 322.8 billion whereas total expenditure grew by 8.4 percent to Tk. 340.9 billion during Q1FY14 compared with Q1FY13. The faster revenue growth relative to expenditure contributed to lower fiscal deficit at Tk. 18.1 billion during Q1FY14 compared with Tk. 37.8 billion in Q1FY13. The quarterly fiscal deficit was financed mainly by borrowing from non-bank sources due to the healthy demand for National Savings Certificates (Table III.1 and Chart III.1).

Chart III.2: Financing of Budget Deficit

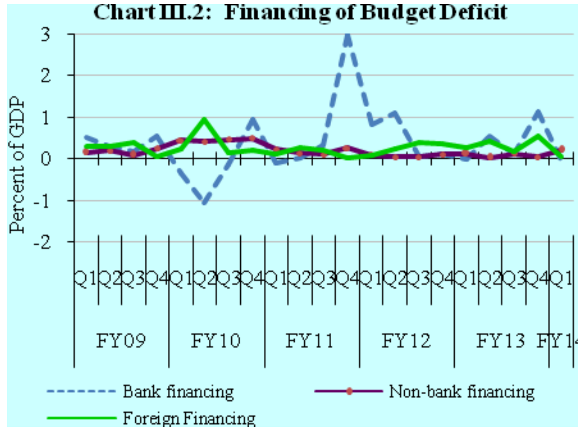
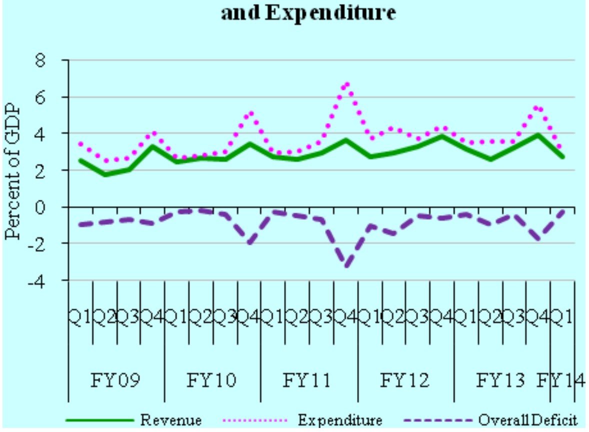


Chart III.1: Trend in Government Revenue and Expenditure



3.2 The national budget for FY14 estimated overall revenue and expenditure to be 14.1 percent and 18.7 percent of GDP respectively compared with 13.5 percent and 18.2 percent in FY13 generating a projected fiscal deficit of 4.6 percent of GDP in FY14 and actual deficit of 4.8 percent of GDP in FY13. Total deficit financing was set at Tk. 550.3 billion (excluding grants) for FY14, of which Tk. 339.6 billion was projected to be financed by domestic borrowing including bank financing of Tk. 259.9 billion, non-bank financing of Tk. 79.7 billion, and TK.210.7 billion from foreign sources including foreign grants of TK. 66.7 billion.

3.3 During Q1FY14, revenue collection of NBR increased by 17.0 percent to Tk. 246.3 billion from the level of Q1FY13, which is 18.1 percent of the annual target of FY14. Tax revenue collection from value added tax (VAT), income tax, custom duties, and other sources increased by 16.6 percent, 28.1 percent, 4.7 percent and 11.7 percent respectively during the quarter under review over the level of Q1 FY13.

3.4 The FY14 National Budget projected the total revenue of Tk.1674.6 billion, of which NBR tax revenue is Tk.1360.9 billion, 21.2 percent higher from the actual level of FY13, while non-NBR tax revenue is Tk. 51.3 billion which is 12.3 percent higher from the actual level of

FY13 and non tax revenue is Tk. 262.4 billion which is 14.8 percent higher from the actual level of FY13. A new VAT law enacted in FY13, electric filing of tax, expansion of tax base and Alternative Dispute Resolution (ADR) introduced in FY13 should play a significant role in scaling up revenue collection. However, the current national strikes will act as a drag on revenue collection. The NBR projects Tk. 499.6 billion from VAT (36.7 percent of NBR revenue), Tk. 483.0 billion from income tax (35.5 percent), Tk. 149.6 billion from custom duties (11.0 percent) and Tk. 228.5 billion from other sources (16.8 percent) for FY14, which are 23.4 percent, 36.7 percent, 3.2 percent and 4.0 percent respectively higher than the actual level of FY13.

3.5 In FY14, current expenditure and annual development program (ADP) expenditure were set at Tk.1134.7 billion (9.5 percent of GDP) and Tk. 658.7 billion (5.5 percent of GDP), which are 10.3 percent and 25.8 percent respectively higher than the actual level of FY13. Economic analysis of total expenditure of the FY14 budget shows that the largest allocations are likely to go to the heads of 'public service'(14.4 percent), 'interest payment' (12.5 percent), 'education and technology' (11.7 percent), 'transport and communication' (9.3 percent), 'agriculture' (7.9 percent), 'local government and rural development' (6.7 percent), and 'defense services' (6.5 percent).

3.6 During the Q1 FY14, preliminary estimates of total expenditure was Tk. 340.9 billion (15.3 percent of target) which was 8.4 percent higher than the level of Q1FY13. The preliminary estimate of ADP expenditure was Tk. 72.6 billion (11 percent of annual ADP) which was 13.8 percent higher than the level of Q1FY13.

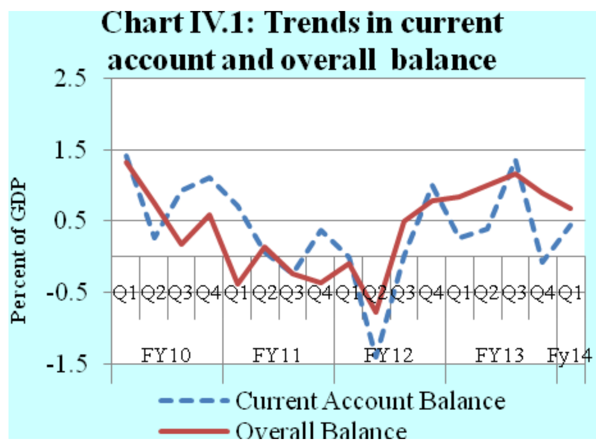
3.7 During Q1 FY14, budget deficit was Tk.18.1 billion (0.2 percent of GDP) compared to Tk. 37.8 billion (0.36 percent of GDP) in Q1 FY13. Deficit financing during the quarter under review amounted to Tk.13.4 billion from domestic sources that included bank financing Tk.(-) 4.8 billion and non-bank financing of Tk.18.3 billion while the remaining amount of Tk. 4.7 billion was from foreign sources. It is particularly noteworthy that borrowing from the banking system is negative for Q1FY14. The overall budget deficit in FY14 was fixed at Tk. 550.3 billion excluding grants (4.6 percent of GDP) relative to the actual deficit of Tk. 496.6 billion (4.8 percent of GDP) in FY13. In FY14 budget, deficit financing from domestic and foreign sources is projected at Tk. 339.6 and Tk. 210.7 compared to the actual level of Tk. 324.7 billion and Tk. 171.8 billion respectively in FY13. Among domestic sources, bank financing was set at Tk. 259.9 billion and non-bank financing at Tk. 79.7 billion in FY14, compared to the realized figure of Tk. 285 billion and Tk. 39.7 billion respectively in the FY13.

IV. External Sector Developments

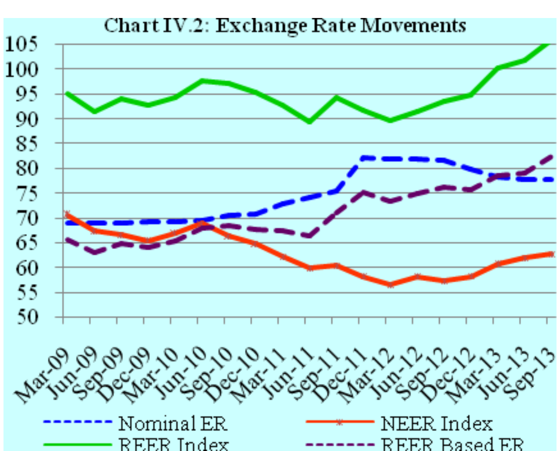
4.1. The current account balance (CAB) recorded a surplus of USD 588 million during Q1FY14 compared to a surplus of USD 331 million during the same period of preceding fiscal year. The improvement in trade deficit along with the inflow of wage earners' remittances, helped to build up CAB surplus in the first quarter of FY14. Supported by the surplus in CAB and a small surplus in the combined capital and financial account, the overall balance recorded a surplus of USD 910 million. This led to foreign exchange reserves reaching USD 16.2 billion at the end of Q1FY14 compared with USD 11.3 billion at the end of Q1FY13.

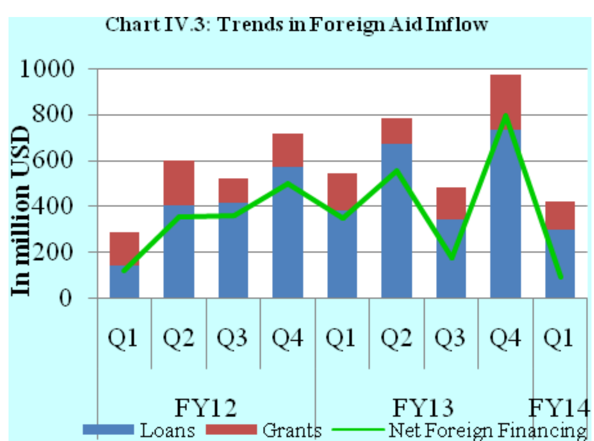
4.2 The Balance of Payments (BOP) for Q1FY14 showed a deficit of USD 1.3 billion in the trade balance (compared with a deficit of USD 1.9 billion in Q1FY13), USD 958 million in services account and USD 607 million in primary income account, with a surplus of USD 3.4 billion recorded in secondary income (almost 95.0 percent of which was remittances from abroad).

4.3 The combined capital & financial account recorded relatively small surplus of USD 211 million during Q1FY14 compared with a surplus of USD 811 million in the corresponding quarter of the previous fiscal year. The capital account recorded a surplus of USD 116 million against a surplus of USD 129 million in Q1FY13 and the financial account recorded a surplus of USD 95 million against a surplus of USD 682 million in Q1FY13. The financial account exhibited a large negative change due to a bunching of amortization payments made against MLT loans and a large deficit in short-term loans and trade credit (Table IV.1).



4.4 Preliminary data show that total foreign aid, comprising of loans and grants was USD 422.7 million during Q1FY14 compared with USD 543.0 million during the same period of FY13. Out of the total foreign aid, USD 298.4 million was disbursed as MLT loan and USD 124.3 million as grants during the quarter against USD 384.7 million as MLT loan and USD





158.4 million as grants during Q1FY13. During the quarter, Bangladesh made an amortization payment of USD 387.8 million of which USD 330.7 million as principal and USD 57.1 million as interest. As a result, Bangladesh received a net foreign loans and grants of USD 92.0 million during Q1FY14, which was USD 351.0 million during the same quarter of the previous fiscal year (Table IV.8).

4.5 The foreign exchange market remained mostly stable with Taka appreciating marginally by 0.03 percent during Q1FY14 against USD. The Taka USD rate was 77.75 per USD at the end of Q1FY14. As a short run measure of avoiding excessive volatility in the foreign exchange market, Bangladesh Bank continued its interventions in the domestic foreign exchange market with a net purchase of foreign currencies amounting to USD 1.07 billion during Q1FY14. The REER based exchange rate increased from Taka 78.91 per USD at the end of June 2013 to Taka 82.36 per USD at the end of September 2013, indicating some erosion of export competitiveness during Q1FY14. The significant increase in REER based exchange rate during the quarter may be attributable to a large depreciation (4.9 percent) of Indian Rupee against US dollar.

4.6 According to Export Promotion Bureau (EPB) export earnings increased by 21.2 percent to USD 7.6 billion during Q1FY14 compared with USD 6.3 billion recorded during the corresponding quarter of FY13 due mainly to strong growth in RMG sector. In Q1FY14, RMG export accounting for about 81.3 percent of total export earnings grew by 24.2 percent, significantly higher than 3.8 percent growth in Q1FY13. RMG export earnings from the EU-the main source of the country's export earnings-grew by 28.9 percent to USD 3.9 billion (63.1 percent of total RMG export earnings) and from US by 18.0 percent to USD 1.4 billion (21.9 percent of total RMG export earnings). Among other major export items, earning from frozen shrimps and fish increased by 47.6 percent and leather by 58.3 percent; while export earnings from raw jute, and tea declined by 52.9 percent and 28.6 percent respectively compared to the corresponding quarter of FY13 (Table IV.2).

4.7 Import payments increased by 10.5 percent (on c.i.f. basis) to USD 9.2 billion during Q1FY14 compared to USD 8.3 billion in Q1FY13 (Table IV.3). As compared to Q1FY13, imports of food-grains rose significantly by 56.1 percent to USD 414.1 million, of which imports of rice increased to USD 53.5 million and imports of wheat to USD 360.6 million during Q1FY14. Imports of other food items increased by 68.3 percent to USD 842.7 million of which imports of spices (+69.1 percent), edible oil (+106.4 percent), pulses (+37.0 percent) and sugar (+82.7 percent) increased while imports of milk & cream (-14.2 percent) decreased.

4.8 Imports of intermediate goods mainly used for manufacturing output decreased by 1.5 percent (y-o-y) to USD 4.22 billion during Q1FY14. Among the intermediate goods, imports of clinker (+25.8 percent), oil seeds (+46.6 percent), chemicals (+3.8 percent), dyeing and tanning materials (+19.1 percent), plastic and rubber articles thereof (+21.8 percent), raw cotton (+24.0 percent) increased while imports of crude petroleum (-52.2 percent), POL (-19.2 percent), pharmaceutical products (-27.8 percent), fertilizer (-45.6 percent) decreased. Imports of capital goods recorded a growth of 13.6 percent in Q1FY14 over Q1FY13 and specifically imports of capital machinery increased by 12.6 percent.

Chart IV.4: Trends in Exports & Imports

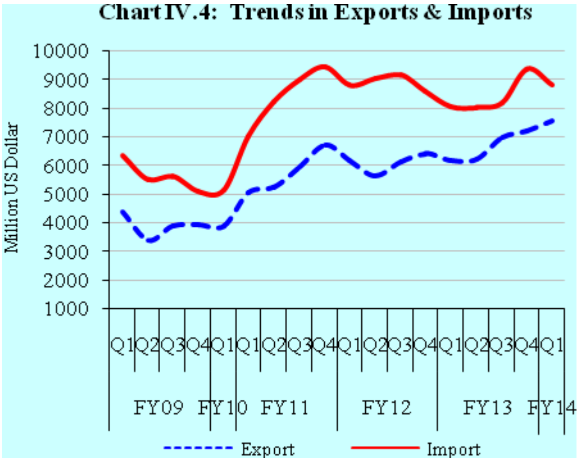
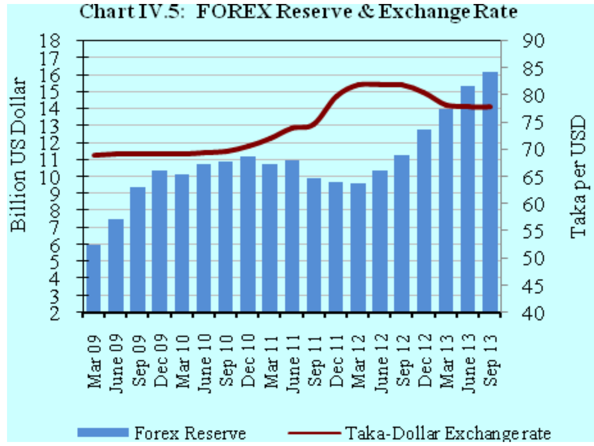


Chart IV.5: FOREX Reserve & Exchange Rate



4.9 During Q1FY14 the opening of import LCs increased by 9.8 percent to USD 9.6 billion, of which consumer goods (+25.0 percent), petroleum and petroleum products (+ 33.7 percent), capital machinery (+ 32.4 percent), industrial raw materials (+ 4.0 percent), and machinery for miscellaneous industries (+ 21.1 percent) increased. On the other hand, opening of LCs for imports of intermediate goods (- 7.1 percent) decreased compared to the same quarter in the previous fiscal year (Table IV.9).

4.10 The overall inflow of workers' remittances recorded a decline by 8.1 percent during Q1FY14 to USD 3.27 billion compared to USD 3.56 billion in Q1FY13. Remittance inflow decreased mainly due to a large (44.4 percent) drop in workers moving abroad, during H2FY13 compared to H2FY12. During Q1FY14 remittances from the Gulf region recorded a 15.2 percent decline as all the potential markets of the region like Saudi Arabia (-24.8 percent), UAE (-10.1 percent), Qatar (-28.6 percent), Kuwait (-6.6 percent) declined while Oman (+3.5 percent) and Bahrain (+1.7 percent) exhibited a small growth. Remittances from the Euro region (-13.5 percent) and the Asia Pacific region (-7.7 percent) also declined. On the other hand, remittance inflow from rest of the world (including USA) registered a 16.7 percent growth. In absolute amounts, the major sources of remittance during the quarter was Saudi Arabia (USD 709.2

million), followed by UAE (USD 620.4 million), USA (USD 529.5 million), Kuwait (USD 267.1 million) and UK (USD 237.7 million) (Table IV.4).

4.11 Overseas jobs for Bangladeshi workers fell by 28.2 percent in Q1FY14 as a total of 100,249 Bangladeshi found jobs outside compared with 139,647 in the corresponding period of FY13 reflecting a sharp decline in recruitment in Saudi Arabia (-72.5 percent), UAE (-91.2 percent), and Oman (-13.6 percent). Although small in terms of absolute numbers, jobs for Bangladeshi workers rose in Singapore by 5.8 percent and in Qatar by 106 percent in Q1FY14.

V. Price Developments

5.1 Twelve month average CPI inflation using 2005-06 base year fell from the beginning of FY13 and bottomed out at 6.06 percent in January 2013. Thereafter, it started to go up and reached 7.37 percent at the end of Q1FY14 (the National Budget targeted 7.0 percent for FY14). However, point-to-point CPI inflation has eased to 7.13 percent at the end of Q1FY14 lower than 8.06 percent at the end of Q4FY13. In urban areas, inflation is more acute than rural areas (Chart V.3 and Chart V.4).

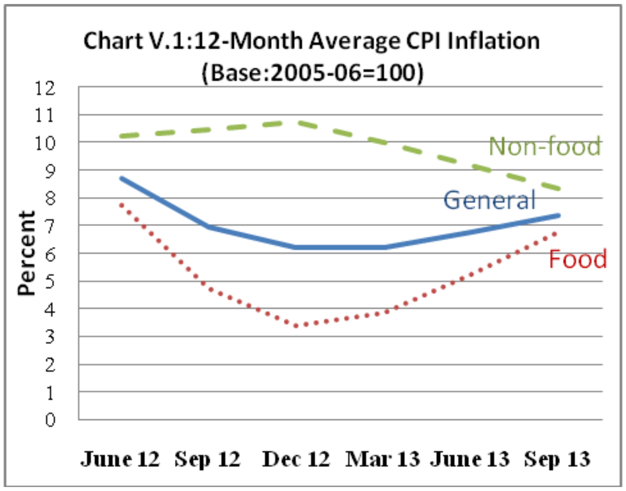
Table 5.2: Contribution @ of Food and Major Non-Food Items / Groups in CPI inflation(Point to Point)
Base Year 2005-06: 100

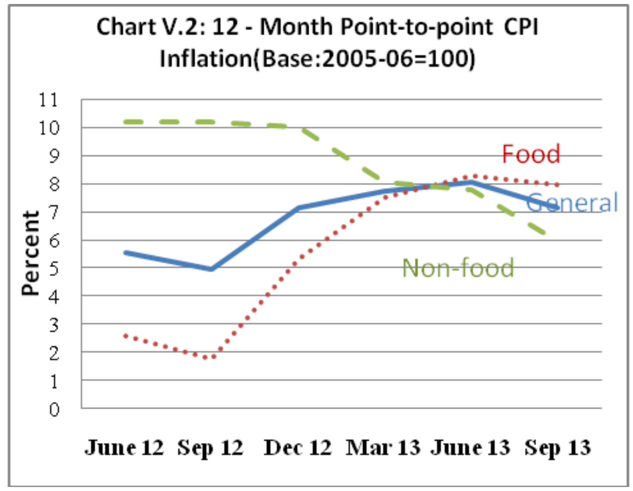
Months	**Food beverage & tobacco**	Clothing & Footwear	Gross rent, Fuel & Lighting	Furniture, Furnishing & Other	Medical care and Health Expenses	Transport & Communications	Recreation, Entertainment, Education & Cultural	Misc. Goods & Services	**Non-food**
Weight	56.18	6.84	14.88	4.73	3.47	5.8	4.28	3.82	**43.82**
Jun-12	**24.36**	15.59	27.95	9.67	2.59	10.06	3.56	6.23	**75.64**
Jul-12	**22.30**	14.70	32.18	9.60	2.87	8.26	4.05	6.05	**77.70**
Aug-12	**23.74**	13.58	29.57	10.29	3.79	7.44	4.98	6.59	**76.26**
Sep-12	**18.12**	14.90	31.76	11.32	3.44	6.68	6.03	7.74	**81.88**
Oct-12	**22.28**	13.97	29.06	10.59	2.97	6.67	6.31	8.16	**77.72**
Nov-12	**32.24**	12.19	24.62	9.73	2.68	5.91	5.78	6.84	**67.76**
Dec-12	**40.56**	11.46	18.96	9.09	2.44	5.64	5.60	6.25	**59.44**
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**

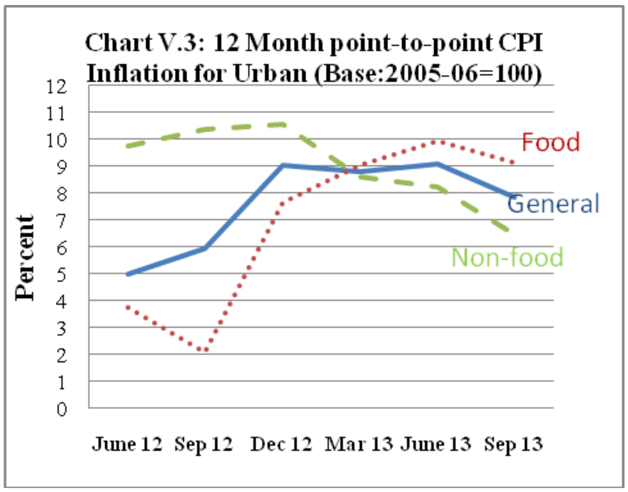
@Contribution of ith Group = $\left(\frac{\text{Inflation in ith group} * \text{Weight of ith group in CPI basket}}{\text{Headline inflation}}\right) \times 100$

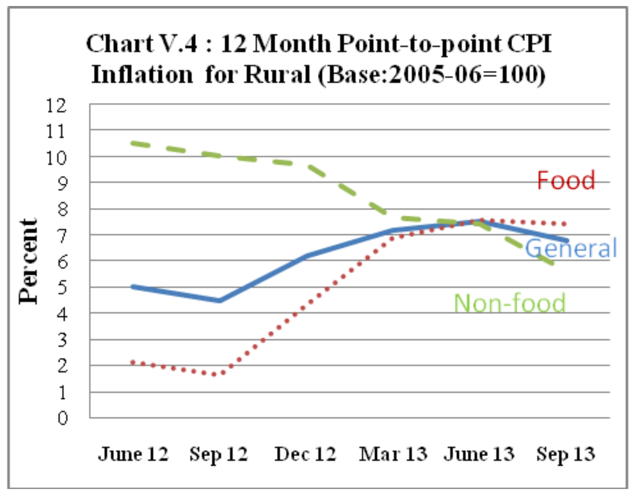
Table 5.2 reveals that up to January 2013 the main contributor of point-to-point CPI inflation was non-food inflation. After that, the scenario reversed and food inflation became an increasingly dominant contributor of point-to-point CPI inflation.

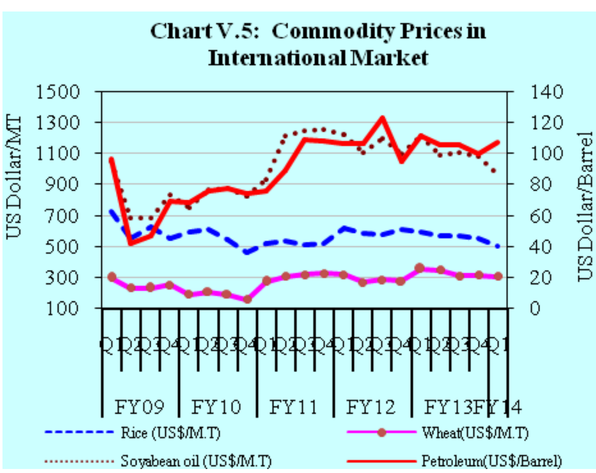
5.2 In the global context, food price declined during the first quarter of FY14 due to good global supply prospects. Crude petroleum oil price began to rise during Q1FY14 because of geopolitical tension.

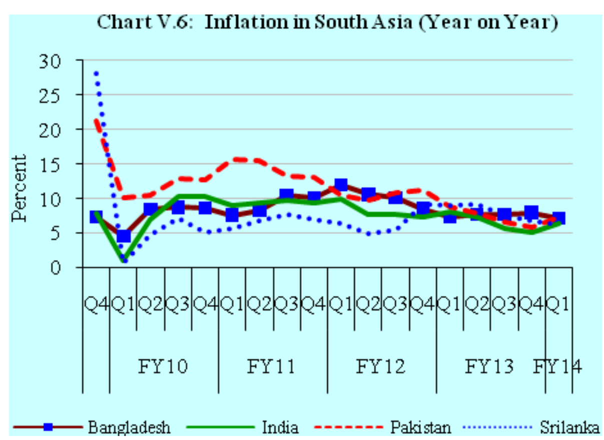












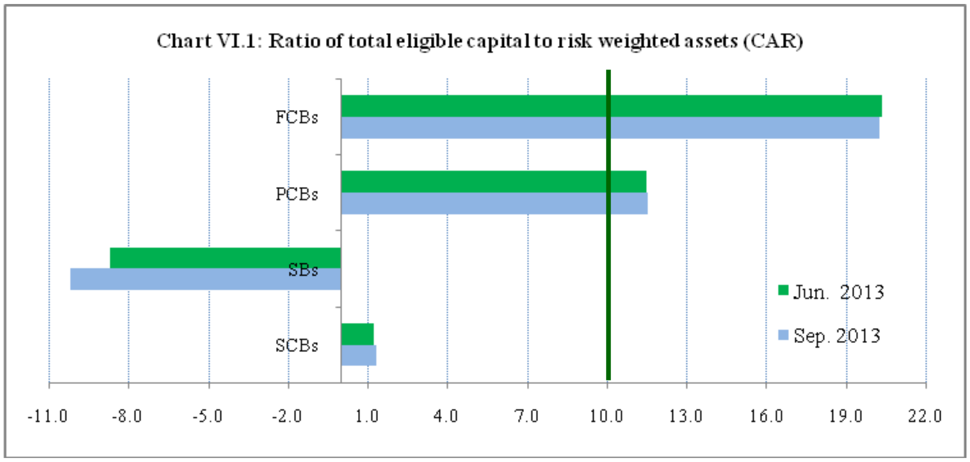
5.3 The point to point CPI inflation in our neighboring South Asian countries exhibits a mixed trend during the quarter under review. In India, point-to-point CPI inflation moved up to

9.84 percent in September 2013 from 9.31 percent in May 2013. Similarly, Indian headline WPI inflation rose to 6.46 percent in September 2013 after bottoming out at 4.58 percent in May 2013. In Pakistan, point-to-point CPI inflation edged up to 7.4 percent in September 2013 from 5.9 percent at end June 2013. In Sri Lanka, inflation decreased slightly to 6.2 percent in September 2013 from 6.8 percent in June 2013 (Chart-V.6).

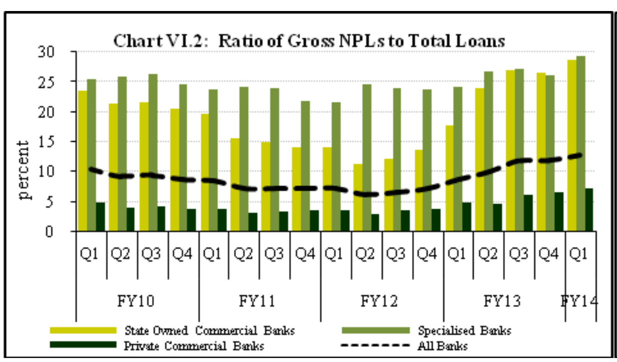
VI. Banking Sector Performance

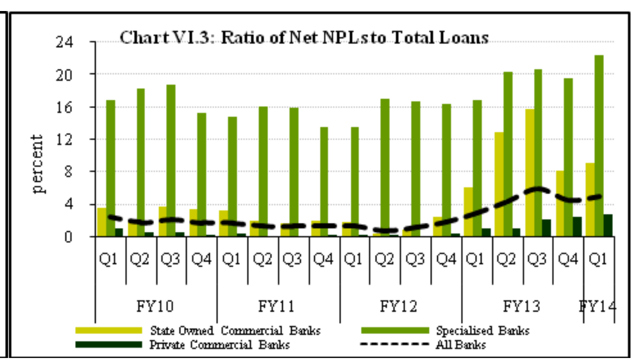
6.1 Banking sector indicators for Q1FY14 raise some concerns for a variety of reasons. The ratio of non-performing loans (NPL) to total loan for the banking sector, in both gross and net terms, increased at the end of Q1FY14 compared with that of end-Q4FY13. Gross NPL went up from 11.9 percent at the end of Q4FY13 to 12.8 percent at the end of Q1FY14. The ratio of net non-performing loans (NPL) of the sector has also increased from 4.4 percent at the end of June 2013 to 5.0 percent at the end of September 2013 due partly to the increased shortfall in actual provision maintained by the banks. During Q1 FY14, capital adequacy ratio (CAR) remained at the 9.1 percent level of Q4FY13. Among the profitability measures, return on asset (ROA) in the banking sector declined marginally from 0.64 percent at the end of December 2012 to 0.61 percent at the end of June 2013 primarily due to the higher interest expenditure than interest income. However, return on equity (ROE) of the banking industry increased to 9.70 percent at the end of June 2013 from 8.20 percent at the end of December 2012. The falling interest rate spread during Q1FY14 is a positive development.

6.2 During Q1 FY14, capital adequacy ratio (CAR) remained at 9.1 percent which was the same as end Q4FY13. The CAR fell gradually from 11.4 in Q2FY12 to 8.8 in Q3FY13 but has since improved. One of the reasons for improvement is the better capital position of PCBs. The CAR for SCBs and PCBs slightly increased to 1.3 percent and 11.6 percent at the end of September 2013 from 1.2 percent and 11.5 percent respectively at the end of June 2013. The CAR of FCBs remained virtually unchanged at 20.3 percent at end-September 2013 (Chart VI.1). The CAR remained significantly above the regulatory requirement of 10.0 percent for FCBs, while the ratio for PCBs was marginally higher than the requirement. During Q1FY14, CAR for specialized banks (SBs) deteriorated further to (-) 10.2 percent from (-) 8.7 percent in Q4FY13. This is largely because of higher provisioning needs at Basic Bank.



6.3 The ratio of gross NPL to total loans of the banking sector has been increasing since Q3FY12. The ratio rose from 11.91 percent at the end of June 2013 to 12.8 percent at the end of September 2013 (Table VI.2 and Chart VI.2). This was because in Q1 FY14, total classified loan increased by 8.4 percent while total outstanding loan only increased by one percent. There was across the board deterioration as the ratios for SCBs, SBs, PCBs and FCBs increased to 28.8 percent, 29.4 percent, 7.3 percent and 6.0 percent respectively at end-September 2013 from 26.4 percent, 26.19 percent, 6.6 percent and 4.7 percent respectively at end-June 2013. In the same way, net NPL ratio of the banking industry increased again in Q1FY14 after falling in the last quarter of FY13. The net NPL ratio for all banks increased from 4.4 percent at the end of June 2013 to 5.0 percent at the end of September 2013 partly due to the increase of gross NPL as well as increased shortfall in actual provision maintained by banks (Table VI.3, Chart VI.3 and Table 6.1). Provision shortfall of the sector as a whole increased from Tk.24.6 billion at the end of June 2013 to Tk.32.8 billion at the end of September 2013. Net NPL ratios for SCBs, SBs, PCBs and FCBs have increased from 8.1 percent, 19.5 percent, 2.4 percent and 0.1 percent respectively to 9.0 percent, 22.3 percent, 2.8 percent and 1.7 percent respectively during this period.





6.4 Return on assets (ROA), an important measure of bank profitability, declined marginally from 0.64 percent at the end of December 2012 to 0.61 percent at the end of June 2013. This was primarily due to interest expenditure growing faster than interest income (Chart VI.4) and as well as maintaining higher provision (Table 6.1).

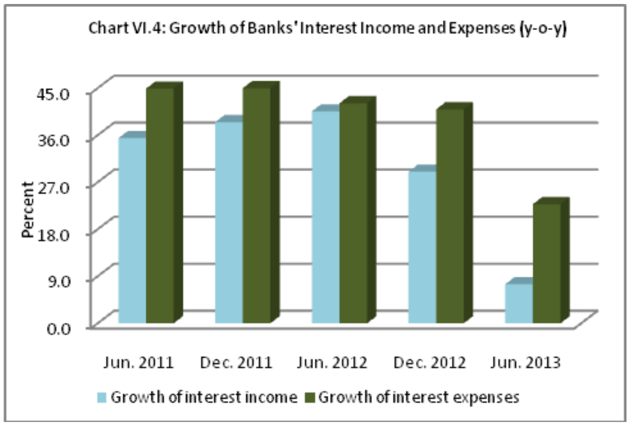
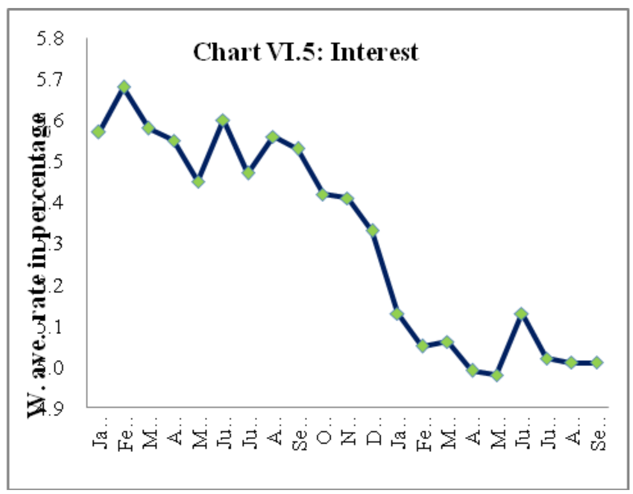


Table 6.1: Comparative Position of Classified Loan and Provision Maintained

(billion Taka)

Quarter	Items	SCBs	SBs	PCBs	FCBs
Q3 FY13	Total classified loan	244.0	76.8	178.8	10.6
	Required provision	162.1	31.8	100.7	9.4
	Provision maintained	87.4	14.7	97.9	9.5
	Excess(+)/shortfall(-)	-74.7	-17.1	-2.9	0.1
Q4 FY13	Total classified loan	238.5	77.6	196.1	10.9
	Required provision	149.7	34.8	104.9	9.6
	Provision maintained	145.7	15.4	103.8	9.5
	Excess(+)/shortfall(-)	-3.9	-19.4	-1.1	-0.2
Q1 FY14	Total classified loan	241.7	87.8	223.1	14.5
	Required provision	151.4	39.2	117.6	12.1
	Provision maintained	146.7	17.4	114.3	9.1
	Excess(+)/shortfall(-)	-4.7	-21.8	-3.3	-3.0

The ROA for SCBs and FCBs has improved from (-) 0.56 percent and 3.27 percent at the end of December 2012 to 0.60 percent and 3.44 percent respectively at the end of June 2013. However, the ratio for PCBs and SBs declined from 0.92 percent and 0.06 percent to 0.44 percent and (-) 0.53 percent during the same period. Return on equity (ROE) of the banking industry increased to 9.70 percent at the end of June 2013 from 8.20 percent at the end of December 2012. The ROE for SCBs increased to 94.81 percent at the end June 2013 from (-) 11.87 percent at the end of December 2012 mainly due to the positive net income and adjustment of capital during this period. Total capital came down to Tk.12.77 billion in June, 2013 from Tk.85.99 billion in December 2012 after adjustment.



The ratio for FCBs slightly improved from 17.29 percent to 18.49 percent during the period under consideration (Table VI.4). However, ROE of PCBs and SBs decreased from 10.17 percent and (-) 1.06 percent to 5.03 percent and (-) 8.62 percent respectively during the same period.

6.5 Monthly interest rate spread for all banks, measured as the difference between monthly

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. 13	Jun. 13	Sep. 13	Jun. 13	Sep. 13	Jun. 13
SCBs	18.1%	16.7%	-3.2%	5.0%	58.3%	63.3%
SBs	28.5%	24.6%	15.1%	13.5%	79.4%	78.5%
PCBs	15.8%	16.6%	10.6%	10.6%	77.0%	79.6%
FCBs	8.1%	6.5%	4.3%	1.2%	65.8%	67.6%
All	16.5%	16.4%	7.4%	9.0%	71.7%	74.0%

Table 6.3: Liquidity Position of the Scheduled Banks (Tk. in billion)

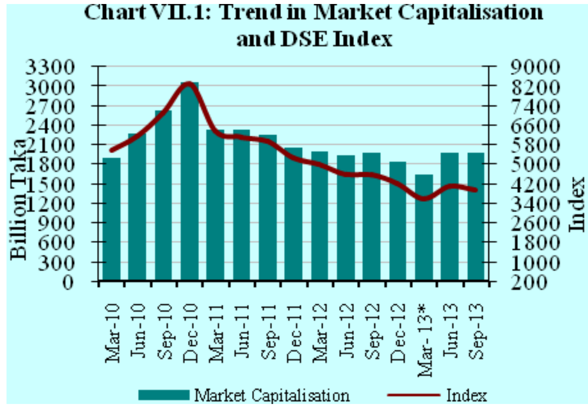
	As of end June, 2013[R]			As of end September, 2013[P]		
	Total Liquid asset	Required liquidity (SLR)	Liquidity: excess(+) /shortfall(-)	Total Liquid asset	Required liquidity (SLR)	Liquidity: excess(+) /shortfall(-)
SCBs	534.7	264.3	270.3	593.8	281.4	312.4
SBs	50.8	30.7	20.1	40.5	32.4	8.1
PCBs (other than Islamic)	795.2	475.4	319.8	848.5	490.7	357.8
Private Banks (Islamic)	218.4	113.0	105.4	189.0	117.0	72.0
FCBs	142.7	64.0	78.8	152.6	63.5	89.1
All	1741.7	947.3	794.4	1824.4	985.0	839.4

weighted average rate of advances and deposit, came down to 5.01 percent in September 2013 from 5.13 percent in June 2013. The spread decreased gradually to 4.98 percent in May 2013 from 5.56 percent at the end of August 2012. While it rose in June 2013 it has since resumed its downward trend (Chart-VI.5). Bank wise analysis shows that most banks reduced their weighted average lending rates more than their weighted average deposit rates although some banks increased their deposit rates during Q1FY14. Monthly weighted average call money rate rose from 7.17 percent in June 2013 to 8.11 percent in August 2013 and then it decreased to 7.44 percent in September 2013.

6.6 At the end of Q1FY14, the growth rate (year-on- year) of deposit remained higher than that of advances as results, advance-deposit ratio (ADR) remained far below the approved ceiling as well as its average value for the last eight years. The growth rate of deposit increased marginally from 16.4 percent at the end-June 2013 to 16.5 percent at end-September 2013. On the other hand, the growth of advances kept its declining trend of FY13 and it came down from 9.0 percent at the end of Q4FY13 to 7.4 percent at the end of Q1FY14. The advance - deposit ratio (ADR) decreased from 74.0 percent to 71.7 percent during the period under consideration (Table 6.2). Accordingly, the liquidity position of all bank groups except SBs and Islamic Banks improved at the end of September 2013 compared to that in June 2013, leading to an easing of money market conditions (Table 6.3).

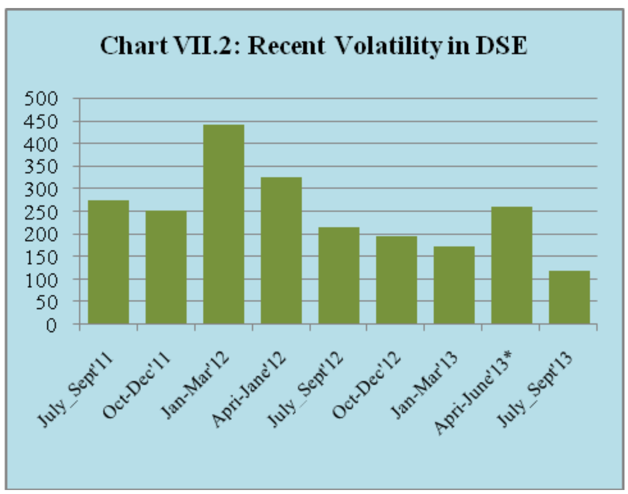
VII. Capital Market Development

7.1 The performance of capital market in terms of DSE indices and market capitalization remained subdued as of September 2013 due mainly to profit taking sell pressures and fall in foreign investment. At the end of Q1FY14, DSE broad (DSEX[2]) index and DSE 30 index were at 3937.7 and 1440.5 which are 4.1 percent and 6.0 percent lower respectively compared to Q4FY13. Over the same period, market capitalization decreased slightly by 0.3 percent (Chart VII.1 and Table VII.1). The DSEX index and DSE 30 index declined by 3.7 percent and 2.2 percent respectively in Q1FY14 as compared to January 28, 2013 (starting date of DSEX index and DSE 30 index). DSE market capitalization increased merely by 0.04 percent during Q1FY14 as compared to Q1FY13.



* = DSEX index

7.2 The average price earnings ratio of the DSE increased to 14.64 in September 2013 compared to 14.60 at end June 2013. Total turnover value in the Dhaka Stock Exchange increased significantly by 45.9 percent from Tk. 224.6 billion in Q4FY13 to Tk.327.9 billion in Q1FY14. In Q1FY14 total turnover also increased significantly by 14.9 percent relative to the same period of the last year. The liquidity situation in the capital market improved as measured by Turnover Velocity Ratio (TVR)[3], which increased to 66.5 percent in Q1FY14 from 45.4 percent in Q4FY13. The number of listed securities increased to 306 in September'13 from 304 of March'13. The value of issued



* Volatility calculate by using DSEX index

[2] DSE general index discontinued from 1st August 2013.
[3] TVR = (Turnover during the quarter/Quarter-end Market capitalization)*4

equity and debt increased by 1.8 percent (Table VII.1) and two new companies were listed in the capital market during Q1 FY14.

7.3 The sector-wise DSE data shows that during Q1FY14 market capitalization increased in food and allied products, textile industries, pharmaceuticals and chemicals, paper and printing, cement industries, service and real estate, insurance, and telecommunication sectors (Table VII.2). All together these sectors contributed 46.2 percent of the total market capitalization. All other sectors decreased during Q1FY14. The contribution of the banking sector decreased to 18.2 percent at the end of Q1FY14 from 21.1 percent 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 Q1FY14 the new investment on share purchases by foreign and non-resident Bangladeshi investors decreased to Tk.6.5 billion from TK.8.5 billion in the previous quarter. At the same time, total share sales by foreign and non-resident Bangladeshi investors increased to Tk.2.6 billion from TK. 1.9 billion in the previous quarter. As a result, net investment of foreign and non-resident Bangladeshi during Q1FY14 decreased to Tk.4.3 billion from TK. 6.5 billion in the previous quarter. However, foreign exchange turnover still has a limited contribution in total turnover of DSE. During Q1 FY14 total foreign exchange turnover declined to 2.8 percent of total turnover from 4.6 percent of total turnover in the previous quarter. The volatility in DSEX index, measured by standard deviation, significantly declined to 118.8 during Q1FY14 compared to 259.8 in Q4FY14.

7.5 Cross country data shows that price earnings ratio of Bangladesh capital market is comparatively lower than some South and East Asian countries while dividend yield of Bangladesh is higher than other South and East Asian countries (Table 7.1) implying 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 2013

Country	Price Earnings ratio	Dividend Yield
Bangladesh	14.64	3.93
India	17.27	1.51
Sri Lanka	16.50	2.70
Thailand	15.10	3.05
Malaysia	15.00	3.10
Taiwan	17.00	3.00
Hong Kong	14.00	2.80
China	9.00	3.40

Singapore	13.02	2.60

Source: Monthly Review, Dhaka Stock Exchange