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Part A: Economic and Financial Developments

Executive Summary

Economic activities witnessed a strong expansion in Q1FY17 compared to the level of Q1FY16. The momentum in economic activities was more pronounced in the industry and the service sectors-reflected in noticeable growth of large and medium scale industry production (9.53 percent) and considerable growth of bank credit to trade and commerce (15.80 percent) along with healthy growth of cargo handled through Chittagong port (20.10 percent). In addition, agriculture sector was also active during Q1FY17 due to the absence of any major weather related disruption, though credit to the agriculture sector registered a somewhat lower growth (6.12 percent). The strong growth in imports (17.29 percent) and on track strong growth of private sector credit (15.86 percent) represented a picture of buoyant domestic demand in Q1FY17, while the negative growth of remittances inflow might had some dampening effect on the demand. At the same time, the low growth of exports (4.12 percent) was also suggesting weak external demand during the period under review.

Headline CPI inflation (twelve month average) kept falling during the Q1FY17and came down to 5.71 percent in September 2016, lower than targeted level of 5.80 percent in the national budget of FY17, from 5.92 in June 2016. This falling trend of CPI inflation stemmed mainly from declining and low level of food inflation. Food inflation (twelve month average) declined to 4.56 percent in September 2016, while nonfood inflation remained elevated and was hovering around 7.50 percent during the quarter. On the other hand, after showing a downward trend over long time, point to point CPI headline inflation showed an uptick in the last month of Q1FY17. Food inflation (point to point) was soaring throughout the Q1FY17, while nonfood inflation kept falling.

The movements of money and credit market indicators were loosely followed the program path set in monetary policy statement (MPS) for the first half (H1) of FY1. Broad money (M2) growth (13.40 percent) remained below the program path despite a high growth of net foreign asset (21.09 percent) and moderate growth of private sector credit (15.34 percent). Domestic credit growth (11.89 percent) fell short of program rate due to negative growth of public sector credit (-3.27 percent). On the other hand, the growth of reserve money (16.70 percent) was higher than the target path, implying that money multiplier became smaller in Q1FY17 than in Q1FY16.

Preliminary estimates show that total revenue grew by 24.50 percent (y-on-y) in Q1FY17, while total expenditure rose by 10.20 percent. Consequently, budget deficit reduced to BTD 120.7 billion in Q1FY17 compared to BTD 156.6 billion in Q1FY16. Accordingly, the budget deficit, as percent of GDP, decreased to 0.6 percent in Q1FY17 from 0.9 percent in Q1FY16. To finance budget deficit, domestic sources played a dominant role in Q1FY17. More than 82.0 percent of the total deficit was financed from domestic sources during the quarter under review.

The current account balance (CAB) recorded a deficit of USD 504 million in Q1FY17 compared with a surplus of USD 1,663 million in the same period of preceding fiscal year. The deficit in the CAB in Q1FY17 was due to the large deficit in the trade balance and negative growth of remittance inflow. The *trade balance deficit plunged to USD 2,366 million in Q1FY17 from USD 1,122 million in Q1FY16, owing to a high growth of import payments (17.29 percent) and slow growth of export receipts (4.12 percent). At the same time, inflow of workers' remittances also declined by 17.51 percent in Q1FY17. Despite a deficit in the CAB, overall balance recorded a surplus of USD 1,789 million because of a large surplus of USD 2,045 million in the financial account, which emerged from the rise in trade credit.*

To protect external competitiveness of BDT, Bangladesh Bank continued its intervention in the foreign exchange market with a net purchase of foreign currencies amounting to USD 1,511 million during Q1FY17. Consequently, the foreign exchange market remained stable with BDT remaining virtually unchanged during Q1FY17. Nonetheless, real effective exchange rate was appreciating due mainly to considerable depreciation of large trading partners' currencies and their low level of inflation.

The banking sector indicators showed some concern during Q1FY17 as gross non performing loan (NPL) ratio crept up to 10.34 percent at the end of September 2016 from 10.06 percent at end June 2016. However, the ratio of net NPL in the banking sector declined to 2.77 percent from 2.81 percent during the same period due partly to some shrink in provision shortfall. The provision shortfall position of the banking sector narrowed to BDT (-) 43.8 billion at the end of September 2016 from BDT (-) 44.5 billion at the end of June 2016. The Capital adequacy ratio (CAR) remained unchanged at10.3 percent in September 2016. On the other hand, the spread of monthly weighted average interest rates for all banks fell to 4.76 percent in September 2016 from 4.91 percent in June 2016 owing to falling lending rates, while the weighted average call money rate decreased marginally from 3.70 percent in June 2016 to 3.64 percent in September 2016.

The national budget of FY17 set target for achieving 7.2 percent output growth and keeping inflation at 5.8 percent for FY17. To attain this target Bangladesh Bank (BB) formulated its monetary policy. For the H1FY17, BB set target for reserve money growth at 11.00 percent, broad money (M2) growth at 14.80 percent and private sector credit growth at 16.60 percent by December 2016.

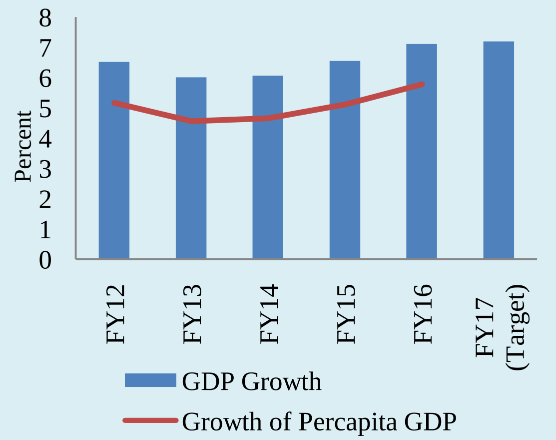
Looking ahead to FY17, BB's current forecast is that output growth is likely to range between 7.1-7.3 percent. This was based on current and projected trends of a number of variables including global growth, domestic and foreign investment, private sector credit growth, electricity production, growth of capital goods import etc. However, negative growth of remittance inflow and upward adjustment of natural gas price hike might create downside risk to the projection. Though the current level of CPI inflation (12-month average) is below the target, point to point non food inflation has been rising since July2016 which might put some upward pressure on average inflation in coming months.

I. Developments in the Real Economy

1.1 In Q1FY17, supply side related indicators depicted a picture of strong economic activities, while demand side related indicators represented a mixed picture. On the supply side, during the period, a noticeable growth of large and medium scale industry production (9.53 percent) and considerable growth of bank credit to trade and commerce (15.80 percent) along with healthy growth of cargo handled through Chittagong port (20.10 percent) signaled a strong growth impulse in the industry as well as in the service sector. In addition, agriculture sector also was active during the Q1FY17 due to the absence of any major weather related disruption, though credit to the agriculture sector registered a somewhat lower growth (6.12 percent). On the demand side, various indicators represented a mixed picture of aggregate demand during Q1FY17. The strong growth of import (17.29 percent) and on track growth of private sector credit (15.86 percent, which was close to the programmed path) represented a picture of buoyant domestic demand, while the negative growth of remittances inflow might have some dampening effect on domestic demand. At the same time, the low growth of exports (4.12 percent) was also indicating weak external demand during the period.

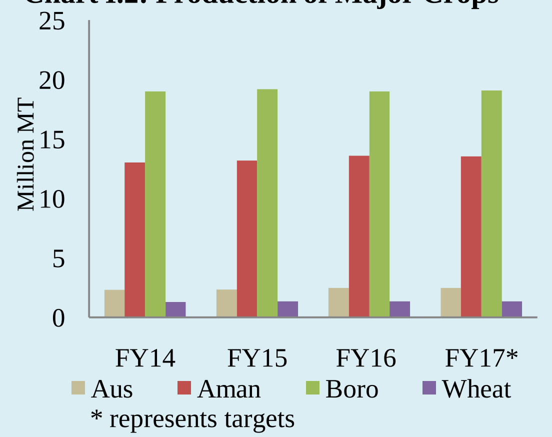
1.2 According to the Directorate of Agriculture Extension (DAE), the target for total cereal food grain production for FY17 in the country has been set at 39.23 million metric tons (mmt) which remains almost same as the last year's actual production, while the target for acreage has been set at 12.28 million hectares, 0.77 percent higher than the previous year. After a year of good harvest, the target for total rice production for FY17, which constitutes the lion’s share of the total cereal crop, has been set at 35.08 mm, among which production target for aus, *aman*, and *boro* are 2.48 mmt, 13.54 mmt and 19.06 mmt respectively which are almost same as previous year's actual production. Among the non-rice cereal crops, wheat production target has been set at 1.35 mmt for FY17, slightly (0.52 percent) lower than previous year's production, while the target for maize production has been set at 2.76 mmt.

Chart I.1: Growth of Real GDP



Source: Bangladesh Bureau of Statistics and National Budget FY17

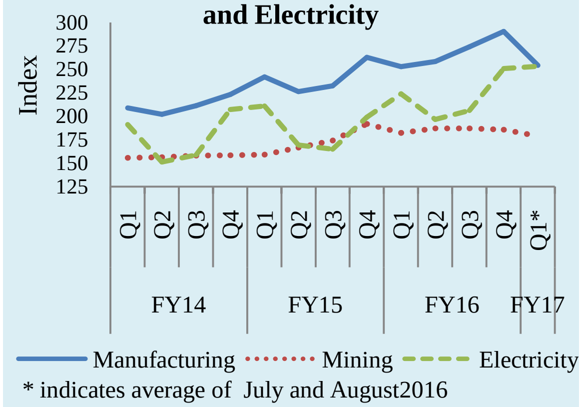
Chart I.2: Production of Major Crops



Source: Department of Agriculture Extension

1.3 During Q1FY17, the industry sector activities seemed to register a satisfactory growth, benefited by the improvement in electricity supply, pragmatic fiscal policy and accommodative monetary policy. Available data on the quantum index of large and medium scale industries for July-August 2016 showed that electricity production posted a robust growth of 24.35 percent (year-on-year) and large and medium scale manufacturing industry registered a noticeable growth of 9.53 percent during the period under review(Chart-1.3 and 1.4). The growth of large and medium scale manufacturing industry stemmed largely from the high growth of the production of non-metalic mineral products (23.93 percent), rubber and plastic products (16.70 percent), pharmaceuticals (13.68 percent), leather products (22.98 percent), textile (12.56 percent) and wearing apparel (8.92 percent) among others. On the other hand, at the same time, food products, basic metal and transport equipments registered negative growth.

Chart I.3: Quantum Index of Medium and Large-scale Manufacturing Industries, Mining and Electricity



* indicates average of July and August2016

Source: Bangladesh Bureau of Statistics

Chart I.4: Heat Map for the Growth of the Quantum Index of Large and Medium Scale Manufacturing Industry by Major Industry Group

	Weight	FY15 Q1	FY15 Q2	FY15 Q3	FY15 Q4	FY16 Q1	FY16 Q2	FY16 Q3	FY16 Q4	FY17 Q1*
General Index of Manufacturing	**100**	**15.9**	**12.0**	**10.1**	**17.7**	**3.4**	**14.0**	**17.8**	**10.6**	**9.5**
Food products	10.8	54.8	37.9	24.5	52.7	5.2	17.3	28.4	3.8	-1.2
Beverage	0.3	11.0	5.2	-19.5	-17.7	-22.9	18.5	71.1	20.6	30.2
Tobacco product	2.9	-1.3	-5.6	2.3	-1.3	-11.7	-3.3	-23.3	6.1	13.5
Textile	14.1	-12.6	-12.9	-14.9	-8.0	-0.2	14.5	12.5	24.7	12.6
Wearing apparel	34.8	0.3	1.2	7.7	5.6	3.5	16.7	11.4	13.2	8.9
Lether and related product	4.4	9.2	10.7	-23.0	-9.7	-19.8	-31.5	8.8	1.9	23.0
Wood and product of wood and cork	0.3	4.6	10.0	12.4	16.5	15.0	13.4	11.5	7.7	7.7
Paper and paper products	0.3	10.2	18.1	16.0	15.8	5.6	3.0	2.5	3.7	1.7
Printing and recorded media	1.8	7.7	10.0	10.9	12.6	7.7	5.7	3.3	3.1	5.5
Coke and refined petroleum product	1.3	72.2	-2.0	-6.7	-17.6	-12.5	-17.9	14.2	86.5	101.8
Chemicel and chemicel product	3.7	6.5	0.1	-11.6	-7.0	15.2	8.3	30.4	25.9	12.6
Pharmaceuticals products	8.2	119.3	65.2	29.9	59.0	-11.5	-3.9	12.2	-11.2	13.7
Rubber and plastic products	1.6	18.5	11.7	6.2	8.2	9.1	10.6	22.4	20.0	16.7
Non-metalic meniral product	7.1	16.4	18.5	34.8	38.3	28.3	49.9	49.2	37.5	23.9
Basic metal	3.2	-5.7	16.0	36.1	51.1	38.8	-1.6	27.2	-19.7	-11.7
Febricated metal product	2.3	64.6	26.3	4.5	9.9	-23.6	-5.1	15.5	11.2	14.7
Computer and electronic products	0.2	36.6	3.6	85.7	36.8	12.4	76.7	48.4	93.3	62.2
Electrical equipments	0.7	5.0	13.0	31.9	48.4	33.3	38.8	25.4	25.5	43.1
Machinery and equipments	0.2	16.3	13.8	23.7	20.5	23.4	33.9	39.9	45.8	43.7
Motor vehicals and trailers	0.1	451.9	267.4	-9.1	-38.2	-64.2	-4.9	100.6	50.0	84.2
Transport equipment	0.7	8.0	6.2	43.5	121.3	287.1	266.1	174.5	58.3	-16.0
Furniture	0.9	7.2	13.4	15.8	23.9	18.4	13.4	12.7	9.9	10.4

* indicates the average of July and August 2016

Red areas indicate low growth and increasing order of Green represents higher and higher grwoth

Source: Bangladesh Bureau of Statistics

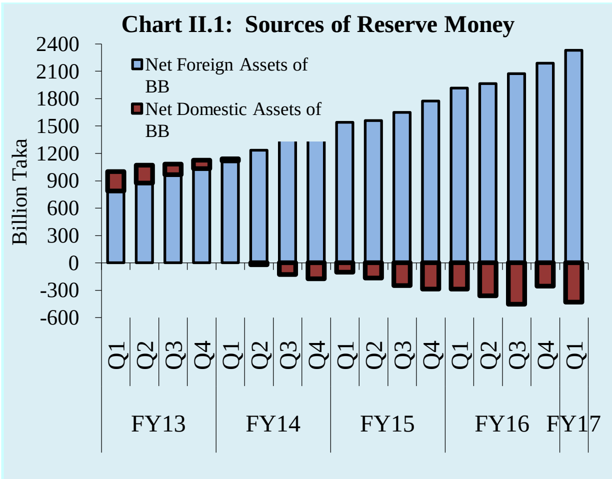
1.4 Though the service sector data is only available on an annual basis, a number of proxy indicators (such as trade financing, bank advances to transport and communication sector, cargo handled through Chittagong port etc.) depicted a picture of strong growth in the service sector activities during Q1FY17. Data on bank advances (table 1.9 in the appendix) shows that credit (outstanding) to trade and commerce, and transport and communication sector rose by 15.80 percent and 7.30 percent respectively during Q1FY17 compared to the level of Q1FY16. Similarly, cargo handled through Chittagong port picked up by 7.89 percent in Q1FY17 compared to the same period of the previous fiscal year.

II. Money and Credit Market Developments

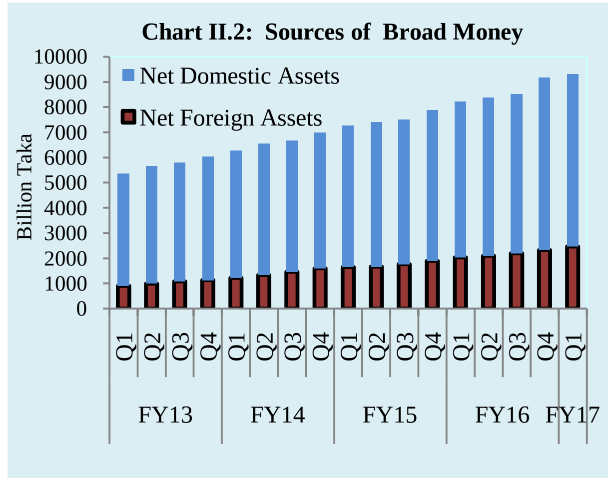
2.1 The monetary policy stance of July-December 2016 is explicitly pro-growth to keep the average inflation rate at about 5.8 percent and to support 7.2 percent growth target. In line with the target, BB aims to maintain reserve money growth to 14.0 percent and broad money growth to 15.5 percent by December 2016. Space for private sector credit growth of 16.5 percent (including foreign borrowing by local corporate) has been kept well to achieve output growth targets and to accommodate any potential rise in investment.

2.2 In September 2016 broad money (M2) growth was 13.4 percent compared with 16.4 percent in June 2016 and 13.3 percent in September 2015. The M2 growth was 0.9 percentage point lower than the programmed level of 14.3 percent for September 2016. The growth in private sector credit decreased to 15.3 percent in September 2016 from 16.8 percent in June 2016 and 12.9 percent in September 2015. The private sector credit growth was 1.4 percentage points lower than the programmed growth of 16.7 percent for September 2016. Credit to the public sector growth was negative by 3.27 percent in September 2016 compared with 2.6 percent in June 2016. Net Foreign Asset (NFA) grew by 21.1 percent in September 2016 compared to the growth of 23.2 percent in June 2016.

2.3 A look at the components of M2 shows that currency, demand deposits, and time deposits increased by 15.5 percent, 18.3 percent, and 12.5 percent (y-o-y) respectively in September 2016 compared to the increase of 38.8 percent, 24.0 percent, and 12.3 percent respectively in June 2016. Narrow money or M1 grew by 16.6 percent in September 2016 which was 32.1 percent in June 2016. The money multiplier (M2/RM) increased to 4.9 in September 2016 from 4.7 in June 2016.

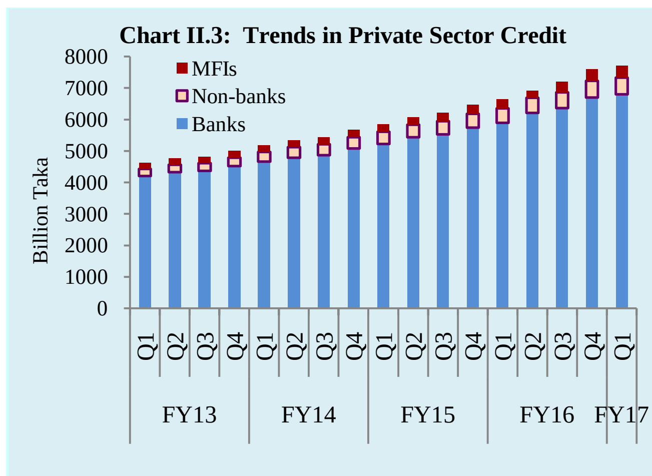


Source: Monetary Policy Department, Bangladesh Bank



Source: Monetary Policy Department, Bangladesh Bank

2.4 Reserve money (RM) grew by 16.7 percent (y-o-y) in September 2016 compared with 30.1 percent growth in June 2016 and 13.2 percent growth in September 2015.



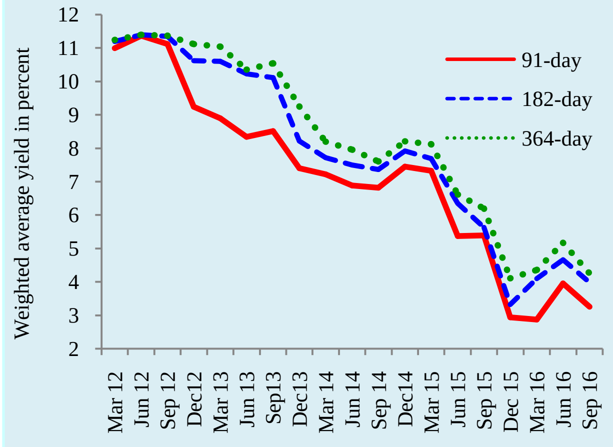
Source: Bangladesh Bank

2.5 In September 2016, private sector credit (including banks, non-banks, and micro-finance institutions) grew by 15.9 percent compared with 17.4 percent growth in June 2016 (Table I.8). Individually, the bank advances to industry grew by 15.0 percent at the end of September 2016, in which industrial term lending grew by 12.7 percent and working capital financing increased by 17.2 percent over the period. In the agriculture sector, the supply of credit increased by 9.5 percent at the end of September 2016 (of which advances to crops increased by 11.6 percent while others decreased by 8.6 percent) compared to 21.4 percent at the end of same period of preceding year. Advances to construction sector increased to 17.0 percent at the end of September 2016 compared to 22.8 percent at the end of June 2016. Bank advances to transport increased to 7.3 percent at the end September 2016 compared to 16.0 percent at the end of June 2016. The growth of bank advances to trade & commerce was 15.8 percent at the end of September 2016 compared to 15.3 percent at the end of June 2016.

Analyzing the share of bank advances based on economic purpose, it was found that the highest share of bank advances went to the industry sector (37.6 percent) followed by the trade and commerce (36.2 percent), the construction (9.02 percent), and consumer finance (8.59 percent) in September 2016 (Table I.9).

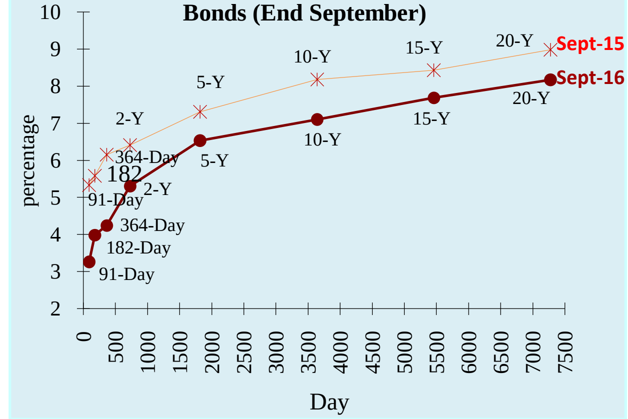
The overall disbursements of industrial term lending by banks and NBFIs decreased by 22.2 percent and stood at Tk. 130.4 billion at the end of September 2016 from Tk. 167.6 billion in June 2016 which was Tk. 127.0 billion in the same quarter of the preceding year (Table I.12).

Chart II.4: Yields on T-Bills



Source: Monetary Policy Department, Bangladesh Bank

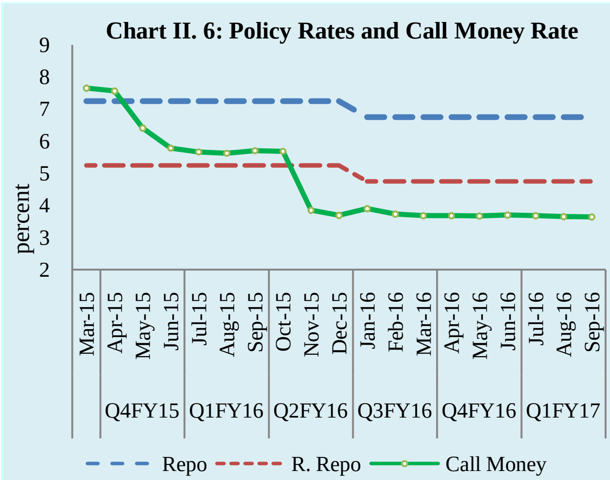
Chart II.5: Weighted Average Yield on Accepted Government Treasury Bills & Bonds (End September)



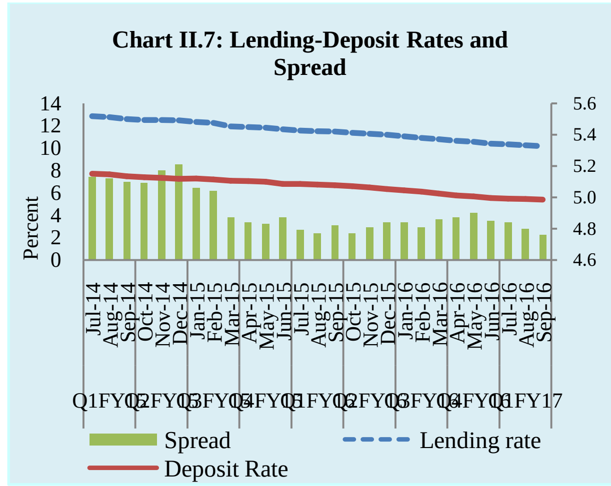
Source: Monetary Policy Department, Bangladesh Bank

2.6 Overall yields on 91-day treasury bill decreased to 3.26 percent in September 2016 from 3.96 percent in June 2016. The rate of 7-day and 30-day Bangladesh Bank bills was remain unchanged at 2.97 percent and 2.96 percent respectively at the end of September 2016 compared to June 2016. The rate of 14-day Bangladesh Bank bill was slightly edged down to 2.97 percent at the end of September 2016 compared to 2.98 percent in June 2016. The rate of two-year, five-year, ten-year, fifteen-year and twenty-year long-term treasury bonds yields was 5.31 percent, 6.51 percent, 7.29 percent, 7.69 percent and 8.17 percent respectively in September 2016 (Table II.3).

2.7 The call money rate decreased to 3.64 percent at the end of September 2016 from 3.70 percent at the end of June 2016. The spread between lending and deposit rates slashed down to 4.76 percent at the end of September 2016 compared to 4.85 percent at the end of June 2016.



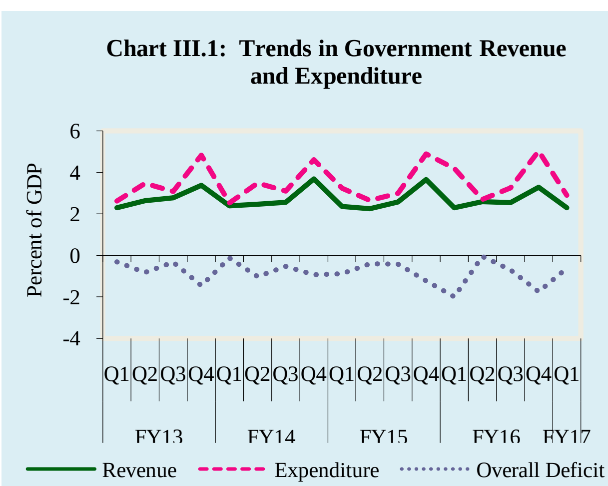
Source: Monetary Policy Department, Bangladesh Bank



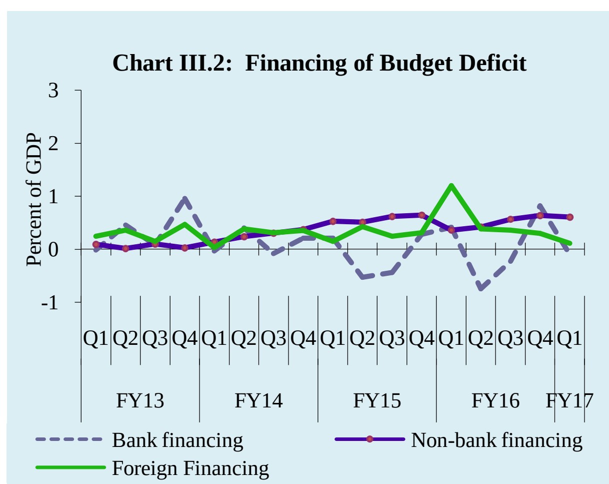
Source: Statistics Department, Bangladesh Bank

III. Fiscal Developments

3.1 Preliminary estimates show that total revenue and total expenditure increased by 24.5 percent and 10.2 percent (y-on-y) respectively in Q1FY17. Consequently, budget deficit decreased to BTD 120.7 billion in Q1FY17 compared to the deficit of BTD 156.6 billion in Q1FY16. Accordingly, the overall budget deficit in Q1FY17 decreased to 0.6 percent of GDP compared to 0.9 percent of GDP in Q1FY16. Domestic financing grew faster over foreign financing during Q1FY17. About 82.0 percent of the total deficit has been financed by domestic sources, while rest of the amount financed from foreign sources (Table III.3, Chart III.1 and Chart III.2).



Sources: 1) Budget Summary 2012/13, 2013/14, 2014/15, 2015/16 and 2016/17, Ministry of Finance; Monetary Policy Department, Bangladesh Bank, National Board of Revenue, Bangladesh.



Sources: 1) Budget Summary 2012/13, 2013/14, 2014/15, 2015/16 and 2016/17, Ministry of Finance; Monetary Policy Department, Bangladesh Bank, National Board of Revenue, Bangladesh.

3.2 The national budget of FY17 estimates overall revenue and expenditure to be 12.4 percent and 17.4 percent of GDP respectively for FY17 compared to 10.3 percent and 15.3 percent of GDP in the revised budget of FY16, generating a fiscal deficit of 4.7 percent of GDP in FY17. Total deficit financing was set at BDT 923.4 billion for FY17, of which BDT 615.5 billion was projected to be financed by domestic sources including bank financing of BDT 389.4 billion, and non-bank financing of BDT 226.1 billion. The remaining amount of BDT 307.9 billion was expected to come from foreign sources.

3.3 In the first quarter of FY17, revenue collection of NBR increased by 17.1 percent to BDT 364.4 billion from the level of BDT 311.2 billion in Q1FY16 which was 17.9 percent of the annual target for FY17. Revenue collection from income tax, value added tax (VAT), custom duties, and other source were increased by 10.2 percent, 14.8 percent, 17.5 percent, and 34.2 percent respectively in Q1FY17 compared to that of Q1FY16

3.4 During Q1FY17, a preliminary estimate of total expenditure was BTD 575.2 billion (16.9 percent of annual target), which was 10.2 percent higher, in nominal terms, than that of Q1FY16. The current expenditure increased by 4.7 percent to BTD 412.3 billion whereas ADP expenditure grew substantially by 58.5 percent to BTD 107.9 billion (9.7 percent of annual ADP target) in Q1FY17 compared to that of Q1FY16.

3.5 Fiscal deficit stood at BDT 120.7 billion during Q1FY17, representing 0.6 percent of GDP compared to BDT 156.6 billion or 0.9 percent of GDP in Q1FY16. Overall fiscal deficit for Q1FY17 covered 13.1 percent of the annual target. Of the total deficit financing, domestic financing stood at BDT 98.7 billion in Q1FY17 which was 25.3 percent lower than BDT 132.1 billion recorded in Q1FY16. Foreign financing of the deficit was at BDT 22.0 billion in Q1FY17 which was also higher than BDT 19.0 billion disbursed in Q1FY16. Among the sources of domestic financing, BDT 118.9 billion (52 percent of the annual target) came from nonbank sources and BDT (-) 20.2 billion was come from bank sources.

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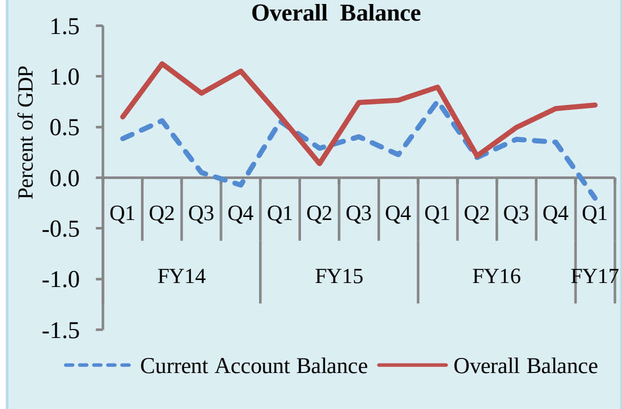
IV. External Sector Developments

4.1 The current account balance (CAB) during Q1FY17, recorded a deficits of USD 504.0 million compared to a surplus of USD 1663 million in Q1FY16 as the import growth (17.3 percent) surpassed the export growth (4.1 percent) which showed a deficits of USD 2366 million in trade balance in Q1FY17. The services account and the primary income account recorded a deficits of USD 840.0 million and USD 701.0 million respectively, while the secondary income account recorded a surplus of USD 3403 million (of which the inflow of workers' remittances was USD 3192 million) during the quarter under review (Table IV.1).

Chart IV.1: Trends in Current Account and Overall Balance



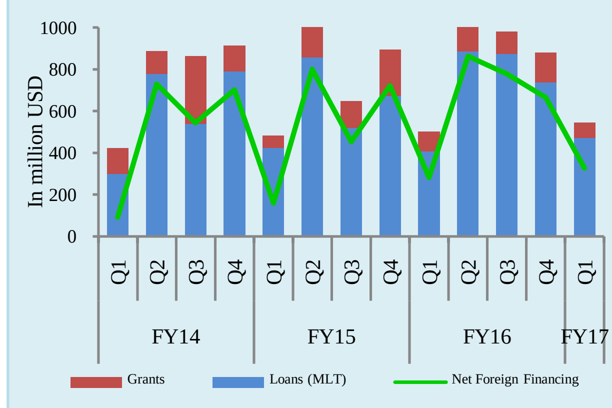
Source: Statistics Department, Bangladesh Bank.

4.2 The surplus in capital & financial account increased to USD 2105 million in Q1FY17 from a surplus of USD 465 million in Q1FY16. The financial account recorded a surplus of USD 2045 million in Q1FY17 compared to a surplus of USD 377 million in Q1FY16 and the capital account also recorded a surplus of USD 60 million compared to a surplus of USD 88 million in Q1FY16 (Table IV.1).

4.3 The overall balance of payments (BOP) recorded a surplus of USD 1.79 billion in Q1FY17, lower than the surplus of USD 1.97 billion recorded in Q1FY16. The foreign exchanges reserve stood at USD 31.39 billion at the end of September 2016 (Table IV.1).

4.4 Total foreign aid disbursement during Q1FY17 increased to USD 545.9 million, compared to USD 502.2 million in Q1FY16. Out of the total aid, USD 472.6 million was disbursed as MLT loan compared to USD 407.9 million disbursed in Q1FY16. Grants decreased from USD 94.3 million in Q1FY16 to USD 73.3 million during Q1FY17. In Q1FY17, Bangladesh made an amortization payment of USD 276.9 million, of which USD 220.2 million was paid as principal. As a result, net foreign financing in Q1FY17 was USD 325.7 million compared to USD 282.6 million in Q1FY16. (Table IV.8).

Chart IV.2: Trends in Foreign Aid Inflow



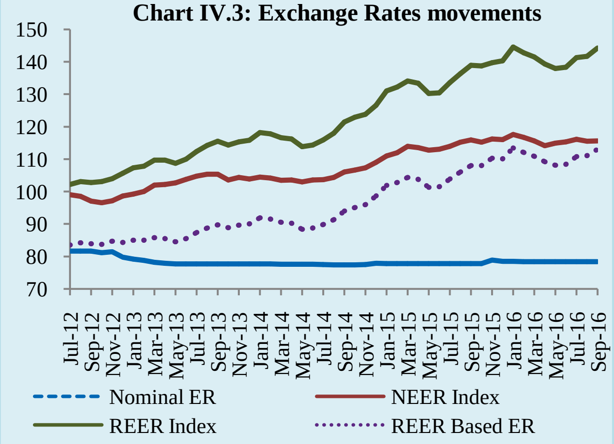
Source: Statistics Department, Bangladesh Bank.

4.5 The weighted average nominal exchange rate remained same at BDT 78.40 per US dollar in September 2016 compared to June 2016, but higher than BDT 77.80 per US dollar in September 2015. The REER based exchange rate increased to BDT 113.10 per USD at the end of September 2016, compare to BDT 108.45 per USD at the end of June 2016. Bangladesh Bank continued its intervention in the domestic foreign exchange market with a net purchase of foreign currencies amounting to USD 1.51 billion during Q1FY17.

4.6 According to Export Promotion Bureau (EPB) data, exports earnings increased by 4.1 percent to USD 8.08 billion in Q1FY17 from USD 7.76 billion in Q1FY16 (on adjusted fob basis export earnings increased by 3.5 percent to USD 7.91 billion in Q1FY17 from USD 7.64 billion in Q1FY16). Exports of RMG grew by 3.52 percent to USD 6.67 billion during the quarter under review, as export to European countries increased by 10.9 percent in Q1FY17. Among other major export items, tea increased by 20.0 percent and frozen shrimps and fish increased by 10.9 percent while earnings from export of raw jute decreased by 5.5 percent (Table IV.2 and IV.5).

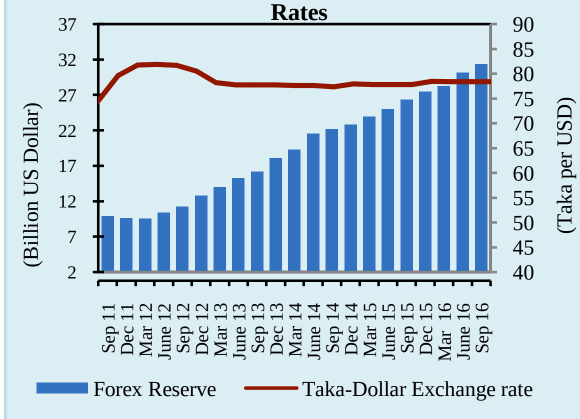
4.7 Import payments increased by 17.3 percent to USD 11.11 billion in Q1FY17 from USD 9.47 billion in Q1FY16 (on adjusted fob basis). Import of food-grains increased from USD 176.8 million in Q1FY16 to USD 268.6 million in Q1FY17. Import of rice in Q1FY17 (USD 3.2 million) was lower compared to the corresponding quarter of FY16 (USD 38.6 million), while import of wheat Q1FY17 (USD 265.4 million) was higher than that of Q1FY16 (USD 138.2 million). Import of other food items decreased from USD 778.6 million during Q1FY16 to USD 717.9 million in Q1FY17. Among the other food items, the import of sugar (14.4 percent) and pulses (22.7 percent) increased, while imports of spices (-1.0 percent), edible oil (-27.1 percent) and milk & cream (-3.7 percent) decreased in Q1FY17 over Q1FY16 (Table IV.3).

Chart IV.3: Exchange Rates movements



Source: Statistics Department, Bangladesh Bank

Chart IV.4: Forex Reserve & Exchange Rates

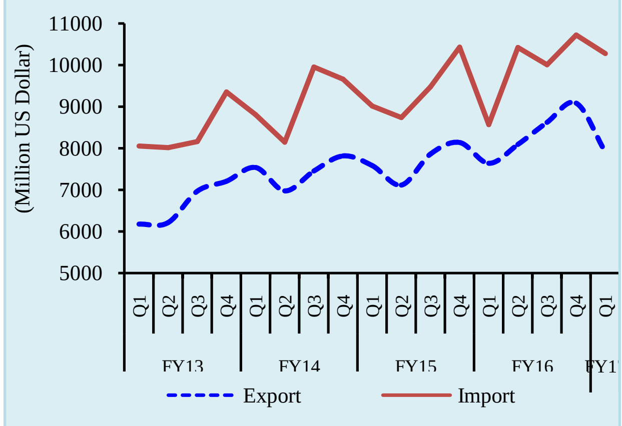


Source: Statistics Department, Bangladesh Bank

4.8 Imports of consumer and intermediate goods increased by 6.6 percent to USD 5.78 billion during Q1FY17 from USD 5.43 billion in Q1FY16. Among the consumer and intermediate goods, imports of clinker (+5.8 percent), crude petroleum (+39.0 percent), POL (+41.6 percent), chemicals (6.1 percent), pharmaceuticals (21.8 percent), dyeing and tanning materials (+7.8 percent), plastics and rubber articles thereof (+8.8 percent), yarn (+9.6 percent), textile and articles thereof (+2.5 percent), staple fibre (+1.1 percent) and iron, steel & other base metals (+22.2 percent) increased in Q1FY17 over Q1FY16, while, imports of oil seeds (-5.5 percent), fertilizer (-31.7 percent) and raw cotton (-18.1 percent) decreased. During the same period imports of capital goods and others increased by 57.8 percent over Q1FY16.

4.9 In Q1FY17, the opening of import LCs increased by 10.16 percent to USD 10.77 billion, of which LCs for petroleum and petroleum products (3.37 percent), consumer goods (23.62 percent), intermediate goods (12.32 percent), machinery for miscellaneous industries (17.68 percent), and capital machinery (18.44 percent) increased while LCs for industrial raw materials (- 3.63 percent) decreased (Table IV.9).

Chart IV.5: Trends in Exports and Imports



Source: Statistics Department, Bangladesh Bank.

4.10 The inflow of workers' remittances decreased to USD 3.25 billion in Q1FY17compared to USD 3.93 billion in Q1FY16. During Q1FY17, remittance decreased in most of the sources except Qatar, Germany and Japan. On the other hand, overseas employment for Bangladeshi workers increased in Q1FY17 as a total of 173,380 Bangladeshi people migrated abroad compared with 132,238 people migrated in the corresponding period of FY16. The exchange rate differential in the country between formal and informal foreign exchange markets as the carb market rate was much higher than in the inter-bank market induced remitter to send remittance through the informal channels is perhaps one of the main reasons behind the decline in the inflow of remittance despite a significant increase in overseas employment.

During Q1FY17, remittance from the Gulf region decreased by 16.9 percent to USD 1.85 billion, attributable mainly due to a large decline in remittances from Saudi Arabia (-23.1 percent), UAE (-21.2 percent) and Bahrain (- 41.3 percent) compared to Q1FY16. Remittance from the Euro region during Q1FY17 decreased by 26.4 percent and from the Asia Pacific region decreased by 7.9 percent. Remittance from the rest of the world (including the USA) also decreased by 21 percent in Q1FY17 over Q1FY16 (Table IV.4).

V. Price Developments

5.1 CPI inflation (twelve month averages) followed a downward trend during the first quarter of FY17 attributed to falling food prices. At the end of Q1FY17, it reached 5.7 percent and remained slightly below the target of 5.8 percent for FY17. Like the twelve month average general inflation, rural average inflation also followed a downward trend while in urban, it moved up during Q1FY17.

5.2 CPI headline inflation (p-t-p) started to increase during Q1FY17. After decreasing to 5.37 percent in August 2016 from 5.40 percent in July 2016, it went up to 5.53 percent in end September 2016 due to increasing food prices. Table -5.1 shows that the contribution of food inflation to CPI inflation (p-t-p) started to increase since June 2016 where that of nonfood inflation registered a decreasing trend in terms of their respective share during the period under review. Hence, food inflation has become the dominant source of overall inflation since June 2016 and rose to 5.10 percent at the end of Q1FY17. By contrast of food inflation, nonfood inflation has begun to decline since June 2016, from 7.50 percent to 6.19 percent in September 2016 due mainly to downward adjustment in administered fuel price in the domestic market supported by a high share of gross rent and fuel inflation in table-5.1. In terms of both food and nonfood inflation, inflation was acute in urban areas during the first quarter of FY17 (Chart-V.1-V.6).

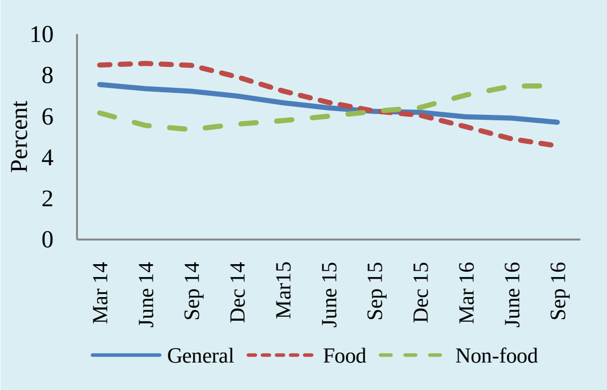
Table 5.1: Contribution [@] of Food and Major Non-Food Items / Groups in CPI inflation(Point to Point)

Base Year 2005-06: 100

Months	Food beverage & tobacco	Clothing & Footwear	Gross rent, Fuel & Lighting	Furniture, Furnishing & Other	Medical care and Health Expenses	Transport & Communications	Recreation, Entertainment, Education & Cultural	Misc. Goods & Services	Non-food
Weight	**56.18**	**6.84**	**14.88**	**4.73**	**3.47**	**5.8**	**4.28**	**3.82**	**43.82**
Sep-15	**40.89**	20.32	5.38	2.74	12.99	2.39	8.77	6.51	**59.11**
Oct-15	**40.86**	20.39	5.05	2.70	11.79	4.52	8.75	5.94	**59.14**
Nov-15	**39.40**	21.27	5.78	3.16	10.54	4.32	9.33	6.19	**60.60**
Dec-15	**36.93**	22.58	6.87	4.00	10.90	4.37	9.08	5.28	**63.07**
Jan-16	**38.88**	13.53	24.25	5.33	4.59	10.57	1.25	1.61	**61.12**
Feb-16	**36.34**	13.89	25.79	5.26	4.34	11.15	1.34	1.90	**63.66**
Mar-16	**37.34**	13.77	25.58	4.85	4.29	10.99	1.32	1.87	**62.66**
Apr-16	**37.06**	13.91	25.67	4.83	4.30	11.03	1.34	1.86	**62.94**
May-16	**38.15**	14.41	24.43	4.55	4.40	10.96	1.28	1.82	**61.85**
Jun-16	**41.92**	13.21	23.82	4.27	4.22	10.36	1.01	1.18	**58.08**
Jul-16	**55.07**	5.45	24.25	6.14	0.89	14.70	-5.14	-1.36	**44.93**
Aug-16	**55.30**	5.67	23.47	6.16	0.92	14.46	-5.09	-0.89	**44.70**
Sep-16	**61.46**	0.87	22.55	5.72	0.84	13.89	-4.90	-0.42	**38.54**

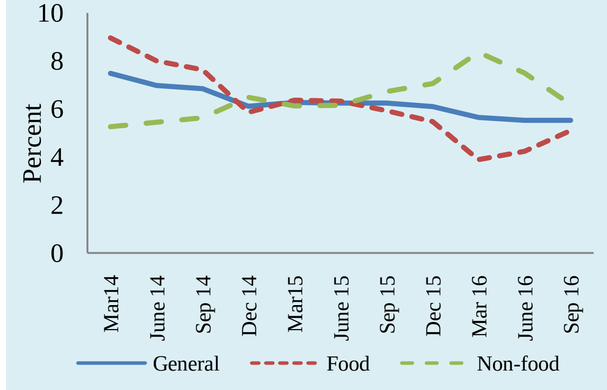
$$@\text{contribution of ith group} = \left(\frac{\text{Inflation in ith group} * \text{weight of ith group in CPI basket}}{\text{Headline Inflation}}\right) \times 100$$

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



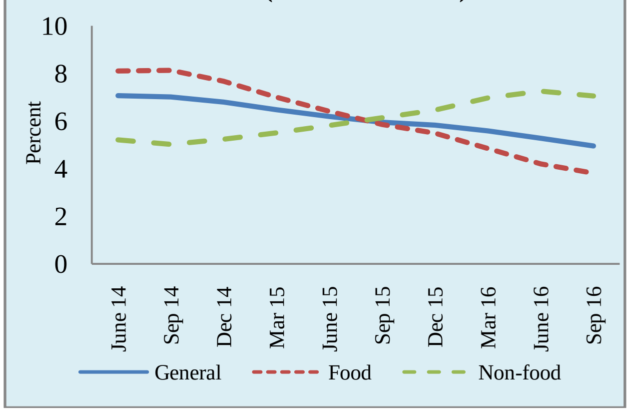
Source: Bangladesh Bureau of Statistics

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



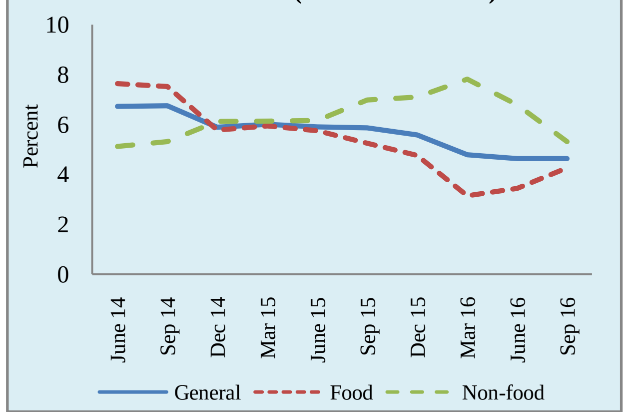
Source: Bangladesh Bureau of Statistics

Chart V.3: 12 Month Average CPI Inflation for Rural (Base:2005-06=100)



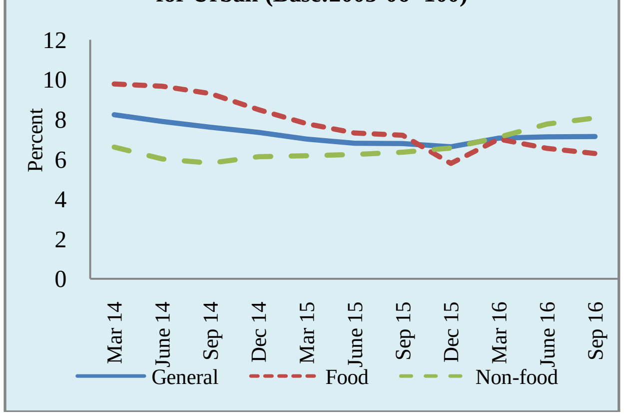
Source: Bangladesh Bureau of Statistics

Chart V.4 : 12 Month Point-to-point CPI Inflation for Rural (Base:2005-06=100)



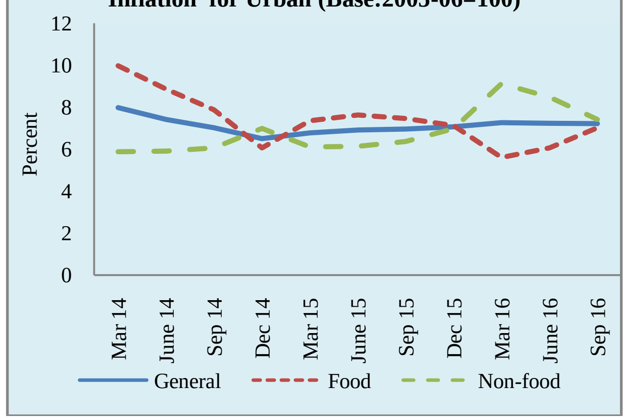
Source: Bangladesh Bureau of Statistics

Chart V.5: 12 Month Average CPI Inflation for Urban (Base:2005-06=100)



Source: Bangladesh Bureau of Statistics

Chart V.6 : 12 Month Point-to-point CPI Inflation for Urban (Base:2005-06=100)



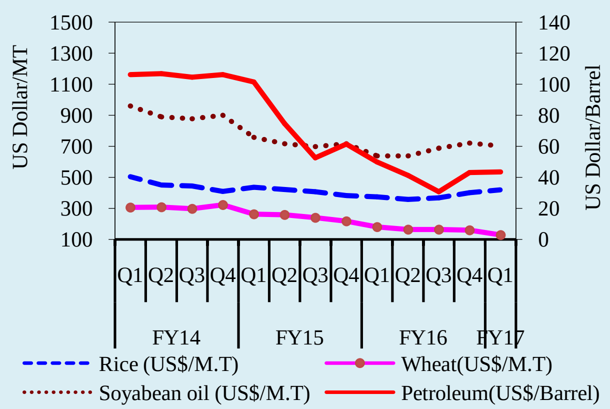
Source: Bangladesh Bureau of Statistics

5.3 Commodity prices in the international market eased further during Q1 FY17. Weak demand with ample supply prospects was the main driver of softening commodity prices in global commodity markets. According to IMF data, quarterly averaged inflation based on commodity price index (2005=100) trimmed down to 1.2 percent during Q1FY17 against 17.2 percent in Q4FY16.Inflation has declined noticeably in many advanced economies due to the persistence economic slack and softening commodity prices since the Great Depression. According to the Food and Agriculture Organization of the United Nations, inflation (m-o-m) based on FAO food price index 2.9 percent in September 2016 which was -0.9 percent in July 2016 indicating global food commodity market were stable during Q1FY17. As per IMF Commodity Price Outlook and risk report, agricultural commodity price outlook is shaped with some mixed trend where rice, wheat, corn and coffee prices will be increasing, but soybean and soybean meal prices remaining broadly unchanged over the next twelve months.

5.4 The current 12-month average inflation level (5.7 percent in September 2016) in the first quarter of FY17 remains almost near to the inflation projection for FY17 in Bangladesh and the factors worked behind this low inflation might be slow private sector credit growth, reduced nonfood items prices in domestic market as well as low global fuel and commodity prices. However, upside inflation risk might be stemmed from an upsurge in food prices in the domestic market over the coming months, partly reflected in CPI (p-t-p). As per (BBS) data, food price hiked associated with increases in the price of rice, vegetable, salt, spices, sugar, and edible oil in September 2016. In addition, under procurement program, the government's ongoing purchase of course rice has generated supply shortage from farmers which may create near-term expectation about rice price hike.

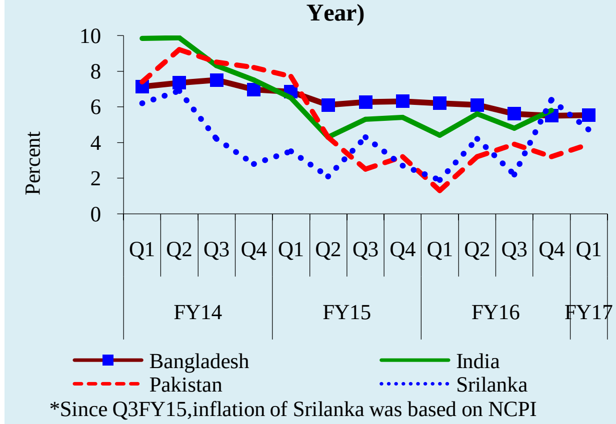
5.5 Looking at the inflationary trend among South Asian countries, Bangladesh faced high inflationary pressure based on CPI inflation (p-t-p) in end September 2016. Among the neighbor countries, CPI inflation showed a mixed pattern during Q1FY17.Inflation of Sri Lanka went down to 4.7 percent in September 2016 from 6.4 percent in June 2016. India experienced 4.3 percent inflation after declining from 5.8 percent during the period under review. In contrast, inflation in Pakistan rose 3.8 percent from 3.2 percent during the period under review (Chart V.8).

Chart V.7: Commodity Prices in International Market



Sources: Primary Commodity Prices, IMF

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

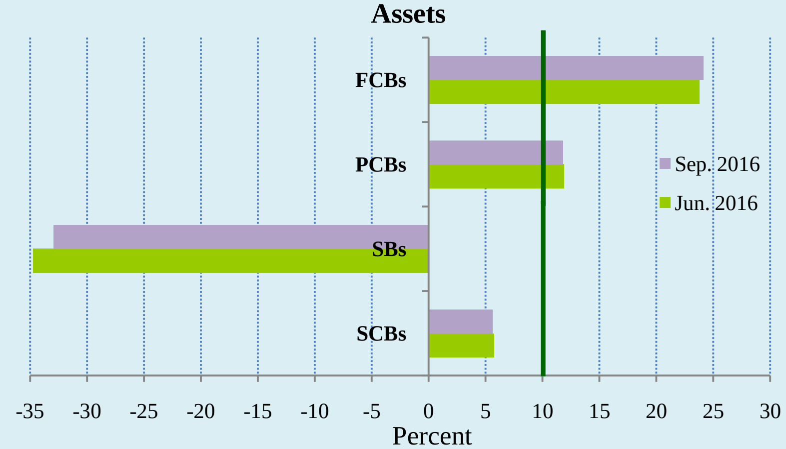


Source: Central banks and statistics department/bureau of respective Countries.

VI. Banking Sector Performance

6.1 During Q1FY17, the banking sector indicators showed some concerns compared to that of the preceding quarter. The ratio of gross NPL to the total outstanding loans of the banking sector increased further from 10.06 percent at the end of June 2016 to 10.34 percent at the end of September 2016. However, the ratio of net NPL to the total outstanding loans of the banking sector decreased to 2.77 percent from 2.81 percent during the same period. The provision shortfall position of the banking sector slightly improved at the end of September and stood at BDT (-) 43.8 billion from BDT (-) 44.5 billion at the end of June 2016. The Capital adequacy ratio (CAR) stands at 10.3 percent in September 2016, same as the level of June 2016. On the other hand, monthly interest rate spread for all banks, measured as the difference between the monthly weighted average interest rate on advances and deposits, continued to stay below 5.0 percent during Q1FY17. Monthly weighted average call money rate decreased marginally from 3.70 percent in June 2016 to 3.64 percent in September 2016.

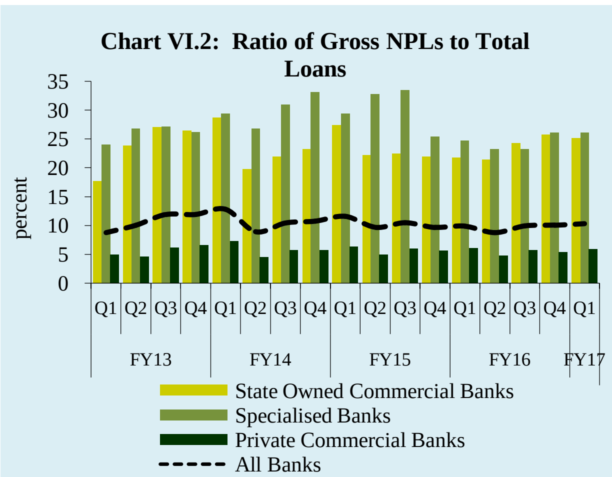
Chart VI.1: Ratio of Total Eigible Capital to Risk Weighted Assets



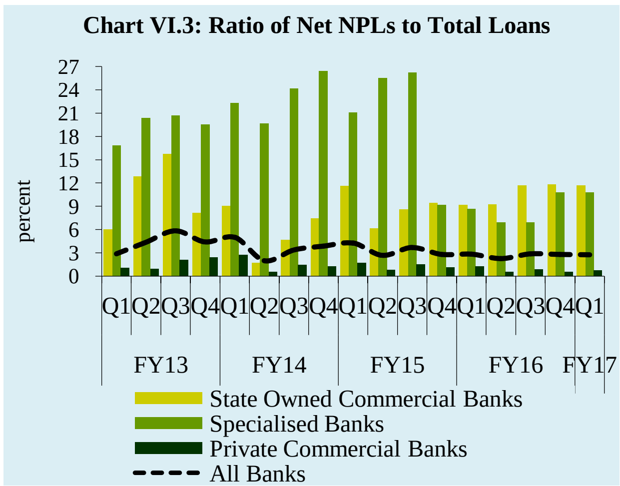
Source: Department of Off-site Supervision, Bangladesh Bank

6.2 In September 2016, the CAR accounted at 10.3 percent, slightly higher than the minimum regulatory requirement of 10.0 percent. Total risk-weighted asset, the minimum capital requirement and total eligible capital of the banking sector as a whole grew by 1.3 percent, 1.1 percent, and 1.0 percent respectively in September 2016 over June 2016. The CAR for SCBs, and PCBs decreased to 5.6 percent, and 11.8 percent respectively in September 2016 from 5.7 percent, and 11.9 percent respectively in June 2016, while CAR for SBs improved marginally from (-) 34.7 percent to (-)32.9 percent during the same period. (Chart VI.1). However, CAR for FCBs increased to 24.2 percent in September 2016 from 23.8 percent in June 2016. (Chart VI.1).

6.3 The ratio of gross NPL to the total outstanding loans of the banking sector increased from 10.06 percent at the end of June 2016 to 10.34 percent at the end of September 2016 (Table VI.2 and Chart VI.2). The total classified loan increased by 3.73 percent to BTD 657.31 billion during this quarter from the level of end June 2016. The ratio of gross NPL to the total outstanding for PCBs and FCB increased from 5.44 percent and 8.33 percent respectively at the end of June 2016 to 5.9 percent and 8.55 percent respectively at the end of September 2016. However, the NPL ratio of SCBs marginally decreased from 25.7 percent to 25.2 percent during the same period. The ratio of net NPL to the total outstanding loan of the banking sector has slightly decreased from 2.81 percent in June 2016 to 2.77 percent in September 2016 (Table VI.3, Chart VI.3). The ratio of net NPL to the total outstanding loans for PCBs and FCBs increased from 0.58 percent and 0.9 percent respectively in June 2016 to 0.75 percent and 1.31 percent respectively in September 2016. However, the ratio of net NPL to the total outstanding loans for SCBs decreased to 10.68 percent from 11.76 percent during the same period. In addition, the provision/shortfall position of the banking sector marginally improved during September 2016 and stood at BDT (-) 43.8 billion from BDT (-) 44.5 billion in June 2016 (Table 6.1).



Source: Banking Policy and Regulation Department



Source: Banking Policy and Regulation Department

Table 6.1: Comparative Position of Classified Loan and Provision Maintained

(In billion BDT)

Quarter	Items	SCBs	SBs	PCBs	FCBs	All Banks
Q2 FY16	Total classified loan	237.4	49.7	207.6	19.0	513.7
	Required provision	140.4	26.4	126.0	16.1	308.9
	Provision maintained	94.7	28.4	126.6	16.5	266.1
	Excess(+)/shortfall(-)	-45.7	1.9	0.5	0.4	-42.8
Q3 FY16	Total classified loan	272.9	49.7	253.3	18.2	594.1
	Required provision	154.6	26.4	140.0	15.2	336.2
	Provision maintained	98.9	28.4	152.0	15.7	294.9
	Excess(+)/shortfall(-)	-55.7	1.9	12.0	0.5	-41.2
Q4 FY16	Total classified loan	300.8	58.2	253.2	21.6	633.7
	Required provision	169.7	30.4	146.2	15.5	361.8
	Provision maintained	114.6	28.5	158.0	16.3	317.3
	Excess(+)/shortfall(-)	-55.1	-2.0	11.8	0.8	-44.5
Q1 FY17	Total classified loan	299.6	58.2	276.9	22.7	657.3
	Required provision	171.1	30.4	155.0	15.7	372.3
	Provision maintained	115.4	28.5	168.1	16.4	328.5
	Excess(+)/shortfall(-)	-55.7	-2.0	13.1	0.7	-43.8

Source: Banking Regulation and Policy Department, Bangladesh Bank.

6.4 At the end of September 2016, the growth rate (year-on- year) of deposits was slightly lower than that of advances. The advance-deposit ratio (ADR) marginally increased from 71.6 percent at the end-June 2016 to 73.9 percent at the end-September 2016 and remained far below the maximum regulatory ceiling. The growth rate of deposits decreased from 14.1 percent at the end of June 2016 to 13.5 percent at the end of September 2016. Similarly, the growth of advances decreased from 15.4 percent to 14.5 percent during the same period (Table 6.2). The liquidity position in the banking sector as a whole was comfortable at the end of September 2016; leading to a further easing of money market conditions (Table 6.3).

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. 16	Jun.16	Sep. 16	Jun.16	Sep. 16	Jun.16
SCBs	16.7%	16.4%	9.8%	8.5%	52.5%	50.5%
SBs	8.6%	8.2%	10.3%	9.3%	95.5%	80.1%
PCBs	12.9%	13.8%	16.6%	18.1%	82.8%	81.2%
FCBs	7.5%	8.2%	5.2%	10.2%	66.6%	63.9%
All	13.5%	14.1%	14.5%	15.4%	73.9%	71.6%

Table 6.3: Liquidity Position of the Scheduled Banks

(In billion BDT)

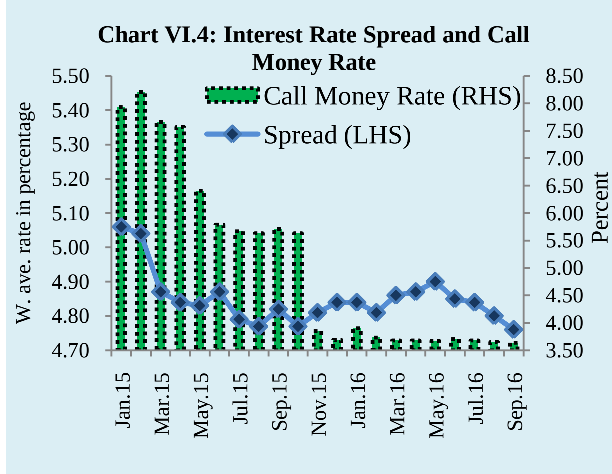
Bank groups	CRR			SLR		
	CRR requirement	Balance with BB in local currency	Excess(+)/ shortfall (-) in reserve	SLR	SLR eligible liquid assets of banks**	Excess(+)/ shortfall (-) of SLR
1	2	3	4=3-2	5	6	7=6-5
As of end September, 2016^P						
SCBs	157.94	172.63	14.69	312.47	975.40	662.93
SBs*	15.90	16.96	1.06	0	0	0
PCBs (other than Islamic)	249.12	255.03	5.91	498.24	854.02	355.78
Private Banks (Islamic)	114.55	144.85	30.30	96.93	211.18	114.25
FCBs	24.77	30.77	6.00	48.79	179.07	130.28
All	562.28	620.24	57.96	956.43	2219.67	1263.24
As of end June, 2016						
SCBs	150.43	166.06	15.63	297.89	969.87	671.99
SBs*	15.31	15.55	0.24	0.00	0.00	0.00
PCBs (other than Islamic)	238.26	247.87	9.61	476.52	747.40	324.96
Private Banks (Islamic)	107.60	152.53	44.93	91.05	206.24	115.19
FCBs	24.73	28.10	3.36	48.72	165.90	117.19
All	536.33	610.11	73.77	914.16	2143.49	1229.33

* SLR does not apply to specialized banks as exempted by the Government.

**includes cash in tills, balance with BB in foreign currency, balance with Sonali Bank as an agent of BB, unencumbered approved securities and excess reserve (column 4)

Note: According to the circular No-MPD-02, 2013 with effect from February 01, 2014 SLR has been calculated separately (excluded CRR of 6.5%) as 13% for conventional banks and 5.5% for Islamic banks of the total demand and time liabilities.

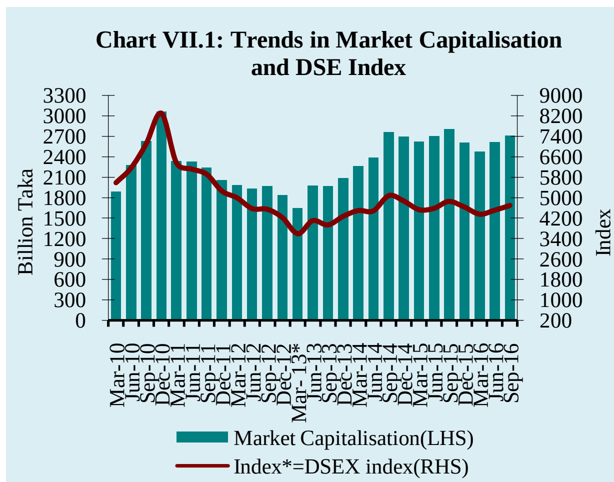
6.5 Monthly interest rate spread for all banks, measured as the difference between the monthly weighted average interest rate on advances and deposits, continued to remain below 5.0 percent during July-September 2016. The spread has been decreasing since June 2016; it was 4.85 percent in June 2016 and landed at 4.76 percent in September 2016 (Chart VI.4). Monthly weighted average call money rate has also decreased from 3.70 percent in June 2016 to 3.64 percent in September 2016.



Source: Monthly Economic Trends, October 2016

VII. Capital Market Developments

7.1 All the indicators of capital market such as DSE indices, market capitalization and market liquidity increased during Q1FY17 compared to previous quarter. At the end of Q1FY17, the DSE broad (DSEX) index and the DSE 30 index were at 4695.2 and 1778.7 which were 4.2 percent and 0.4 percent higher compared to Q4FY16. Over the same period, market capitalization increased by 3.6 percent. However, the yearly performance indicates that the DSEX index and DSE 30 index decreased by 3.2 percent and 3.7 percent in Q1FY17 compared to Q1FY16. DSE market capitalization was also decreased by 3.4 percent in Q1FY17 as compared to Q1FY16 (Chart VII.I and Table VII.I).



Source: Dhaka Stock Exchange.

7.2 The average price earnings ratio of the DSE increased to 15.19 in September 2016 compared to 14.6 at the end of June 2016. Total turnover value in the DSE increased by 4.6 percent from BDT 237.9 billion in Q4FY16 to BDT. 248.9 billion in Q1FY17. The liquidity situation in the capital market as measured by Turnover Velocity Ratio (TVR)[1] slightly increased to 36.7 percent in Q1FY17 from 36.4 percent in Q4FY16. During Q1FY17 the value of issued equity and debt increased by 0.7 percent. Two new companies were listed in the capital market during the quarter under review., One mutual fund, on the other hand was delisted from the DSE due to completion its tenure and one power sector company

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

'Summit Purbachol Power' merged with Summit Power Ltd in Q1FY17. Thus the number of listed securities remained unchanged at 338 in Q1FY17.

7.3 The sector-wise DSE data show that market capitalization decreased in food and allied products, pharmaceuticals and chemicals sectors (Table VII.2) during Q1FY17. All other sectors (banks, financial institutions, mutual funds, cement industry, telecommunication, service and real estate fuel and power, insurance and miscellaneous) increased during Q1FY17. The contribution of the banking sector increased to 16.3 percent at the end of Q1FY17 from 15.1 percent the end of Q4FY16.

7.4 During July-September 2016, investment portfolio (share purchase) by foreign and non-resident Bangladeshi investors increased to BDT 10.9 billion from BDT 8.15 billion in the July-September 2015. At the same time, total share sales by foreign and non-resident Bangladeshi investors also increased to BDT 9.43 billion from BDT 9.08 billion in the same period of the previous year. As a result, net investment of foreign and non-resident Bangladeshi during Q1FY17 increased by BDT 1.47 billion as compared to a decline of BDT0.9 billion in Q1FY16. However, foreign exchange turnover still has a limited contribution in total turnover in the DSE. During Q1FY17 total foreign exchange turnover increased to 8.2 percent in total turnover from 5.5 percent in total turnover in the same period of the previous year.

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

Table 7.1: Comparison among regional Capital markets September 2016

Country	Price Earnings Ratio	Dividend Yield
Bangladesh	15.19	3.69
India	20.92	1.41
Sri Lanka	13.41	3.04
Thailand	21.76	3.19
Hong Kong	10.89	-
China	15.45	-

Source: Monthly Review, Dhaka Stock Exchange.