Part A: Economic and Financial Developments

Overview and Executive Summary

Output growth slowed marginally in FY13 compared to the previous year and relative to the 10-year historical average. Gross domestic product (GDP) growth at constant market price, using the 1995/96 base, is estimated at 6.03 percent in FY13, lower than 6.23 percent growth of FY12 and the 6.2% average for the previous decade. Slower growth in agriculture and services sector contributed to slower GDP growth.

Average inflation, using the 1995/96 base year, has been declining steadily over the past fifteen months, from a peak of 10.96% in February 2012 to 7.70% in June 2013. This decline was driven by a steady fall in point to point food and non-food inflation until October 2012 when food inflation bottomed out at 5.57%. Since then food inflation began to rise and in June 2013 is 8.53%. Non-food inflation fell from a peak of 13.96% in March 2012 to 6.79% a year later. However, point to point non-food inflation has increased to 6.99% in June 2013. Point to point inflation data using the 2005/06 base broadly shows similar trends to the pattern using the 1995/96 base though the absolute numbers differ. Using the 2005/06 base, point to point food inflation has risen from 1.75% in September 2012 to 8.26% in June 2013. Point to point non-food inflation is steadily declining, having peaked in October 2012 at 11.28% to 7.75% in June 2013. The rise in food inflation is pushing up average inflation which bottomed out at 6.06% in January 2013 and has risen to 6.78% in June 2013. As such both the old and new inflation base data indicate that inflation remains a key challenge.

In the external sector, the current account balance (CAB) registered a USD 2.53 billion surplus in FY13, reflecting the increasing inflows of remittances bolstered by continued export expansion and declining imports. Import growth was sluggish in FY13, partly reflecting the significant fall in food import demand, lower petroleum imports as well as slower demand for imports related to manufacturing output. Remittance growth of 12.6% in FY13 is higher than the 10.2% growth in FY12, though this growth did slow to 4.2% during the second half of the year compared to the first half of FY13 when remittance growth was 22%. This slow-down is a function of a 34% drop in the number of migrant workers between July-April FY13 relative to the same period in FY12. The capital account shows that foreign direct investment has increased from USD1.2 billion in FY12 to USD 1.3 billion in FY13. Medium and long term loan disbursements rose from USD 1.5 billion in FY12 to USD 1.7 billion in FY13 and net aid flows increased from USD671 million to USD841 million during the same period. Improved external balances are reflected in the accumulation of international reserves to over USD15 billion at the *end of FY13, sufficient to cover 4.9 months of projected imports. The Taka appreciated by 2.6% between January 1st-June 30th 2013 and real exchange rate data indicates a marginal impact on export competitiveness. However, BB's interventions in the foreign exchange market have limited this loss significantly by slowing the appreciation of the Taka.*

During FY13, revenue collection was 95.3 percent of the annual budgeted amount while expenditure reached 88.7 percent of the yearly budgeted outlay. Accordingly, the overall fiscal deficit for FY13 was contained to 3.55 percent of GDP. Borrowing from the banking system to finance the budget rose sharply in the Q4FY13 (115 billion taka) but overall the 178 billion taka borrowing in FY13 was well within the parameters of the revised Budget and was less than the 189 billion taka of FY12. Foreign financing of around 1.38% of GDP was also higher than the 1.06% in FY12.

Key monetary anchors – reserve money and Net Domestic Assets of BB - remained on track in FY13. Broad money growth was below the program path in Q4FY13 (16.7% growth in June 2013 compared with 17.7% target), despite high NFA growth. Net Foreign Assets (NFA) rose sharply as foreign exchange reserves of about USD 4.9 billion were built up in FY13. On the other hand, domestic credit growth fell short of the program rate due to shortfalls in private sector credit growth while credit to public sector crossed the program level during Q4FY13.

Banking sector indicators for Q4FY13 show some improvements relative to the first three quarters of the fiscal year. Capital adequacy ratio (CAR) increased from 8.80 percent at the end of March to 9.12 percent at the end of June 2013. The net non-performing loans (NPL) decreased from 5.84 percent at the end of March 2013 to 4.43 percent at the end of June 2013 due mainly to the improvement in actual provision maintained by the SCBs. The gross NPL, on the other hand, remained virtually unchanged; 11.90 percent at the end March 2013 and 11.91 percent at the end of June 2013. 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 faster growing interest expenditure than interest income and higher provision maintenance by the banks. However, return on equity (ROE) of the banking industry remained virtually unchanged; 8.20 percent at the end of December 2012 and 8.21 percent at the end of June 2012.

Looking ahead to FY14, BB's current forecast is that output growth is unlikely to deviate significantly from the last ten year average of 6.2%. This is based on current and projected trends of a number of variables including global growth, domestic and foreign investment, exports, imports, remittances etc. 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 public and private sectors which will create aggregate demand pressures. The FY14 Budget includes a sizeable provision for a public sector wage rise and in the private sector the Wage Board for the garments industry has been established which will in turn have implications for the rest of the economy. Another risk to food inflation in particular stems from possible supply-side disruptions if prolonged nationwide strikes take place and as in all years risks due to weather related factors affecting agricultural produce. 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 Bangladesh Bureau of Statistics' (BBS) provisional estimates reveal that the expansion of economic activities in Bangladesh was slower in FY13 compared to FY12. Gross domestic product (GDP) growth at constant market price, using the 1995/96 base, is estimated at 6.03 percent in FY13, lower than 6.23 percent growth of FY12. Slower growth in agriculture and services sector contributed to slower GDP growth.

1.2 According to Department of Agricultural Extension (DAE) data, the *boro* production, the major rice crop harvested in Q3 and Q4, was 18.78 million metric ton (mmt) which was almost same as the previous fiscal year's production. Wheat production, another major crop harvested in Q4, registered an impressive growth of 30 percent from 0.10 mmt in FY12 to 0.13 mmt in FY13 due mainly to extended acreage. Maize production also edged up 10 percent to 0.22 mmt in FY13 from 0.20 mmt in FY12.

1.3 The overall agriculture sector, which constitutes about 18.70 percent of GDP, experienced a lower growth of 2.17 percent in FY13 compared to 3.11 percent in FY12 largely due to the base effect of two consecutive years of record growth, lower output due to the falling farm-gate price of paddy/rice and also weather -related disruptions (e.g., cyclone Mahasen) in the coastal areas. The main reason is that the crops and horticulture sub-sector, whose contribution to GDP and agriculture is 10.25 percent and 55.0 percent respectively, grew by a slower rate of 0.15 percent in FY13 compared to 1.95 percent in FY12. This in turn is mainly due to negative growth of rice production. Total rice production in the country declined to 33.84 mmt (*aus* 2.16 mmt, *aman* 12.90 mmt and *boro* 18.78 mmt) in FY13 which was 33.91 mmt(*aus* 2.33 _mmt, *aman* 12.80 mmt and *boro* 18.78 mmt) in FY12 (as per provisional data from Department of Agricultural Extension (DAE). However, other sub-sectors of agriculture, i.e., fishing (4.37 percent in GDP), forest and related services (1.63 percent in GDP) and animal farming (2.45 percent in GDP) registered higher growth (5.52 percent, 4.47 percent and 3.49 percent respectively) compared to previous fiscal year.

1.4 During Q4 FY13, manufacturing growth remained slow, as proxied by the Quantum index of Large and Medium Scale Manufacturing Industry. Using 1988-89 as base year the Quantum Index for large and medium scale manufacturing industry production increased by 1.66 percent in April FY13 (y-o-y) compared to 3.71 percent in the same month of FY12. This in turn was partly due to negative growth of food beverage & tobacco (-25.00 percent). However, basic metal products and chemical petroleum and rubber sub-sectors increased by 14.21 percent and 12.38 percent respectively in April 2013 compared to the level in April 2012.

1.5 The industrial sector in FY2013 comprises 31.99 percent of GDP. Overall industrial growth is estimated at 8.99 percent in FY13, higher than 8.90 percent growth in FY12, mainly driven by faster growth of construction and small scale industries whose respective growth was 8.05 percent and 6.76 percent in FY13 compared with 7.57 percent and 6.45 percent in FY12. Higher remittance inflows (12.60 percent in FY13) and a significant increase in public investment (e.g., construction of flyovers in Dhaka and Chittagong cities, construction of highways and other public investments) may have fueled healthy construction growth in the country during the period. Overall while the growth of manufacturing declined somewhat in FY13 compared to FY12 due to marginal fall in large and medium scale industry growth, it still grew by 9.34 percent. The growth rate of large and medium scale industry (which comprises 14.28 percent of GDP) declined to a healthy 10.32 percent in FY13 compared to 10.52 percent growth in FY12.

1.6 There are a number of proxy indicators for service sector growth (e.g., cargo handling, trade financing, bank advances to transport and communication sector and to trade etc.) which indicate a mixed picture of service sector activities during the last quarter of FY13. Total cargo handled (export and import) through Chittagong port registered a significant growth of 17.73 percent during Q4 FY13 compared with Q4FY12 which suggests that trade-related service activities have remained buoyant. On the other hand data on bank advances (private sector) by economic purposes (Table 1.9 in appendix) shows that the growth of credit (outstanding) to transport and communication sector and trade sector declined to 14.29 and 8.95 percent at the end of Q4 FY13 from 59.00 and 21.36 percent respectively at the end of last quarter in the previous fiscal year, reflecting slow growth of service sector in the last quarter of FY13.

1.7 The service sector which comprises 49.30 percent of GDP, experienced growth of 5.73 percent in FY13 from 5.96 percent in FY12, largely due to the moderate growth of wholesale and retail trade. The growth rate of wholesale and retail trade, that constitutes 14.05 percent of GDP and 28.0 percent of service sector, went down to 4.69 percent in FY13 from 5.63 percent in FY12. This is partly due to frequent national strikes and supply bottlenecks during the last fiscal year.

1.8 Looking ahead to FY14, BB's current forecast is that output growth is unlikely to deviate significantly from the last ten year average of 6.2%. This is based on current and projected trends of a number of variables including global growth, domestic and foreign investment, exports, imports, remittances etc. BB will update its forecasts on a regular basis during the course of FY14.

II. Money and Credit Market Developments

2.1 Broad money growth was below the program path in Q4FY13 (16.7% growth in June 2013 compared with 17.7% target), despite high NFA growth. Net Foreign Assets (NFA) rose sharply as foreign exchange reserves of about USD 4.9 billion were built up in FY13. On the other hand, domestic credit growth fell short of the program rate due to shortfalls in private sector credit growth while credit to public sector crossed the program level during the last three consecutive months.

Chart II.1: Sources of Reserve Money

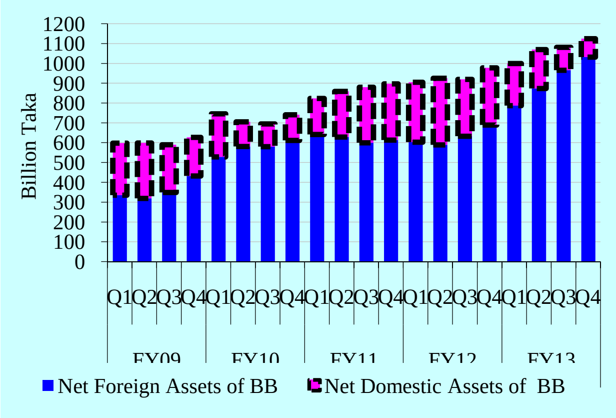
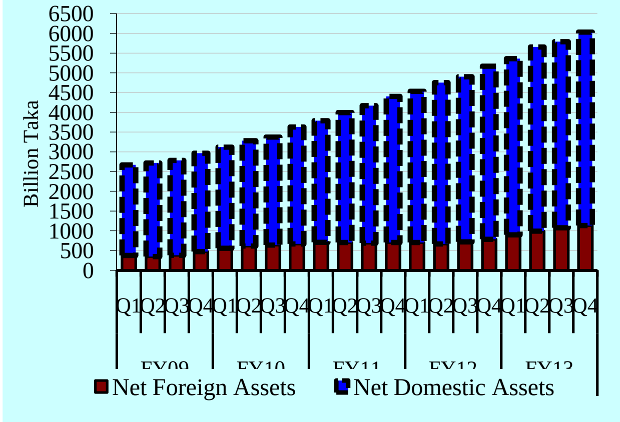


Chart II.2: Sources of Broad Money



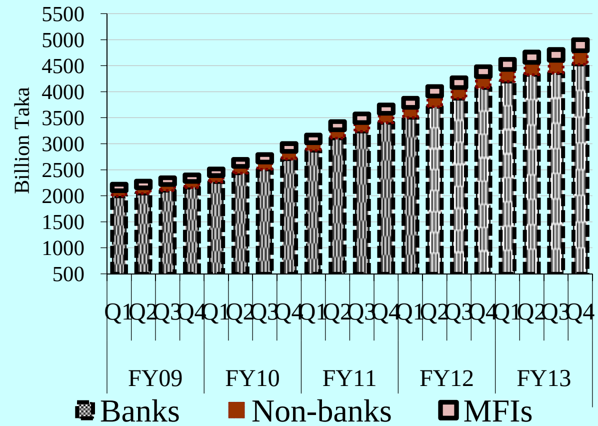
2.2 In Q4FY13, NFA grew by 43.85 percent and NDA grew by 11.83 percent compared with 11.67 percent and 18.48 percent growth respectively during the same period of the preceding year. The sharp growth in NFA was due mainly to higher exports and remittances growth as well as lower import growth. Domestic credit growth (y-o-y) increased by 13.35 percent in Q4FY13 led by 22.57 percent growth in credit to the public sector and a 35.9 percent growth in credit to “other public sector” which is essentially lending to State Owned Enterprises. Private sector credit growth (10.85 percent) at end June 2013 was significantly lower than the 19.72 percent at end June 2012. Total bank advances by economic purposes increased by 10.5 percent and stood at Tk. 4149.2 billion in Q4FY13. The highest share of bank advances went to the trade sector (37.08 percent) followed by industry (21.4 percent) and working capital (13.16 percent) financing (Table I.9). Narrow money or M1 grew by 12.65 percent at end June 2013 which was 6.41 percent during the same period of the preceding year due to higher growth in currency and demand deposits.

2.3 A breakdown of the components of M2 show that currency, demand deposits and time deposits increased by 15.63 percent, 9.26 percent and 17.8 percent (y-o-y) respectively during Q4FY13 as compared with 6.61 percent, 6.19 percent and 20.74 percent respectively during the same period of the preceding year. The money multiplier (M2/RM) rose to 5.4 in Q4FY13 due to higher increase in M2 than RM.

2.4 Reserve money (RM) grew by 15.01 percent (y-o-y) in June, 2013 compared with 8.99 percent (y-o-y) growth during the same period of the preceding year. This occurred due to significant growth in NFA of BB, as discussed above, which was partially sterilized through the issue of BB bills.

2.5 During FY13, the overall disbursement of industrial term loan by Banks and NBFIs increased by 20.55 percent However, the disbursement of industrial term loan by Banks and NBFIs only grew by 2.33 percent during Q4 FY13 compared with Q4 FY12 indicating the slow-down in investment demand. Banks and NBFIs disbursed a total of Tk. 224.97 billion as SME loan to different sectors during Q4FY13 which was 25.16 percent higher over the same period of FY12. This was 30.32 percent of annual target of Tk. 741.87 billion for 2013.

Chart II.3: Trends in Private Sector Credit



2.6 Overall yields on short term treasury bills e.g., 91-day decreased to 8.34 percent in June 2013 from 11.37 percent in June 2012, while 182-day, 364-day treasury bills rates also decreased to 10.23 percent and 10.36 percent respectively at end of June 2013 from 11.4 percent

Chart II.4: Yield on T-Bills

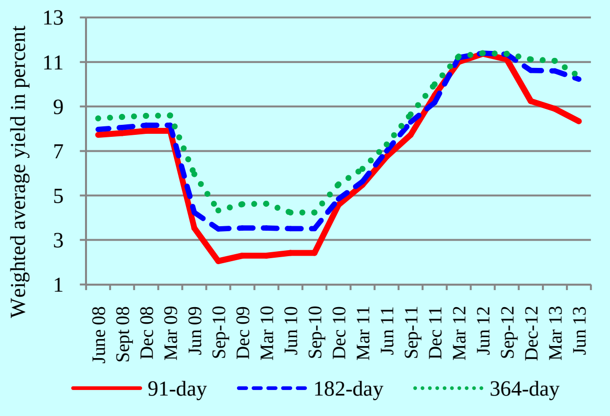
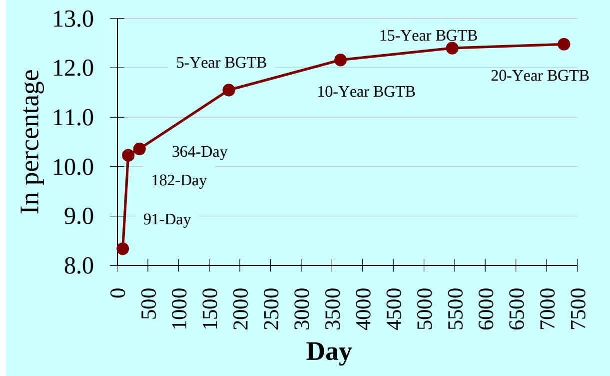


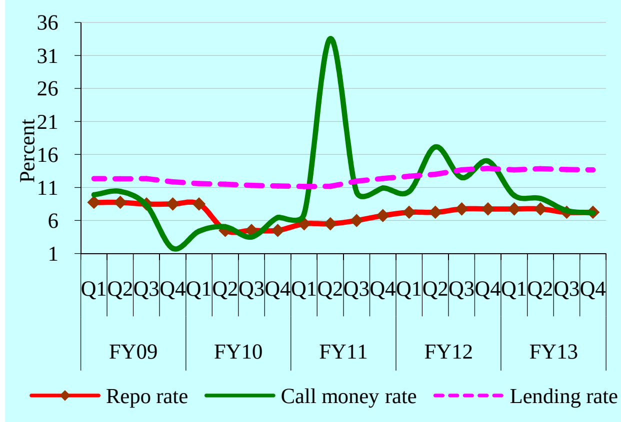
Chart II.5: Weighted average yield of accepted Government Treasury Bills & Bonds (End June, 2013)



at the end of June 2012. This was due to a significant increase in the appetite for short-term securities given their relatively attractive yields and growing liquidity in banks. Long-term bond such as 5-year and 10-year increased to 11.55 percent and 12.16 percent respectively at the end of June 2013 from 11.45 percent and 11.60 percent in June 2012 (Table II.3). The yields on 15-year, and 20-year BGTB also increased from 11.8 percent and 12.12 percent respectively to 12.40 and 12.48 percent in June 2013.

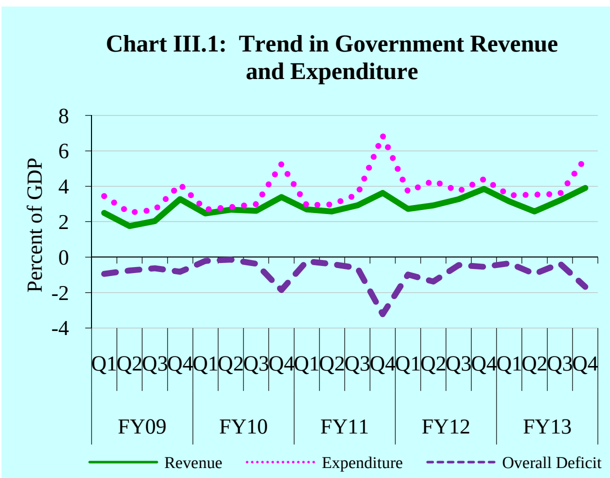
2.7 The call money rate was 7.17 percent at the end of June 2013 which was 15.02 percent at the end of June 2012 reflecting a comfortable liquidity condition in the money market. The spread between lending and deposit rates decreased from 5.79 percent at end of Q4FY12 to 5.13 percent at the end of Q4FY13.

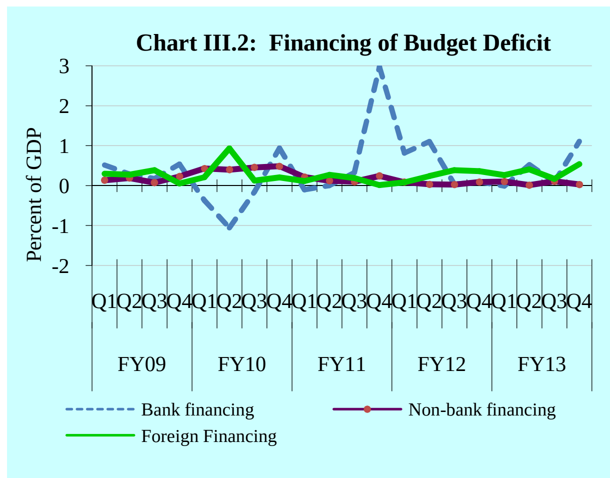
Chart II.6: Interest Rate Movements



III. Fiscal Developments

3.1 During FY13, revenue collection was 95.3 percent of the annual budgeted amount while expenditure reached 88.7 percent of the yearly budgeted outlay. Accordingly, the fiscal deficit for FY13 was contained to 3.36 percent of GDP relative to revised annual FY13 budget of 4.77 percent of GDP. This is despite preliminary estimates which show that total expenditure grew at 41.3 percent whereas total revenue increased by 12.8 percent during Q4FY13 compared with Q4FY12. Higher ADP utilization during the quarter pushed total expenditure up. Overall as we detail below foreign financing of the budget in FY13 has been significantly higher than FY12 (Table III.1 Chart III.1 and III.2)





3.2 In FY13, total revenue collection increased by 13.5 percent to Tk. 1330.5 billion as compared to Tk. 1172.50 billion in FY12. Total NBR tax revenue increased by 10.7 percent to Tk. 353.7 billions in Q4 FY13 from Tk.319.4 billion in Q4FY12. Income tax and value added tax (VAT) went up by 20.4 percent and 16.9 percent respectively, which contributed to increased revenue during the quarter under review. Revenue collection from custom duties and other sources decreased by 5.7 percent and 11.6 percent respectively during Q4FY13 over the same period of FY12 due mainly to the fall in imports. During FY13, revenue collection from income tax, custom duties, value added tax and other sources increased by 27.6, 1.1, 15.1 and 0.7 percent respectively over FY12 while revenue from non-tax sources increased by 9.9 percent to Tk. 203.9 billion in FY13 over FY12.

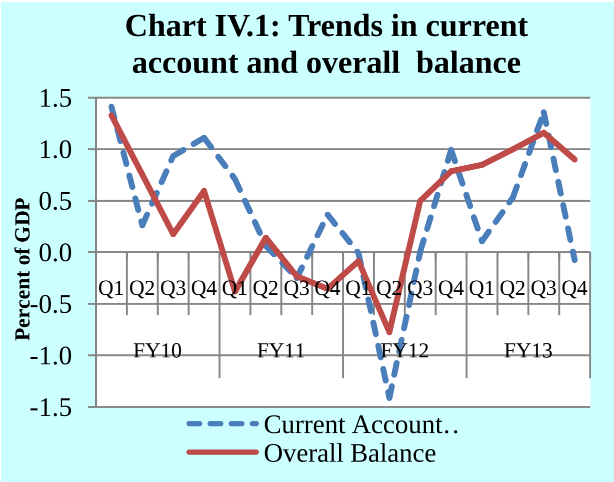
3.3 Preliminary estimates of total expenditure increased by 41.3 percent to Tk.579.0 billion during Q4FY13 over Q4FY12, driven mainly by increased ADP expenditure. Total ADP expenditure increased by 45.3 percent, while current expenditure increased by only 2.0 percent during Q4 FY13 over Q4 FY12. In FY13, total government expenditure is estimated at Tk. 1679.1 billion (16.18 percent of GDP), which is 13.3 percent higher in nominal terms than the level of FY12 and 88.7 percent of FY13 budget. During this period, current expenditure rose to Tk. 811.3 billion (7.8 percent of GDP), which is 3.3 percent higher relative to FY12 and represented 78.8 percent of FY13 budget. Annual development program (ADP) outlay stood at Tk. 522.8 billion (5.04 percent of GDP) in FY13, which is 38.0 percent higher than that of FY12 and 99.8 percent of FY13 budget. At the same time, the "other expenditure" category which includes subsidies on petroleum and electricity increased by 57.2 percent to Tk. 340.2 billion (3.28 percent of GDP) in FY13 which is higher than the FY13 budget amount.

3.4 During Q4 FY13, total deficit financing was Tk. 174.32 billion, representing 1.68 percent of GDP compared with Tk. 50.8 billion or 0.56 percent of GDP in Q4FY12. Domestic financing of the deficit at Tk. 118.1 billion in Q4FY13 was significantly higher than Tk. 17.3 billion registered in Q4FY12. This was because the bulk of domestic borrowing from the banking sector occurred in the second half of FY13, in contrast to FY12 when the majority of it took place in the first half of the year. Foreign financing was also higher at Tk. 56.2 billion compared with Tk.31.6 billion in Q4FY12. Total deficit financing during FY13 amounted to Tk. 348.6 billion or 3.36 percent of GDP compared to Tk.309.3 billion or 3.37 percent of GDP during FY12. An amount of Tk. 204.7 billion (Tk. 210.3 billion in FY12) was accommodated from domestic sources that included bank financing of Tk. 177.8 billion (Tk. 188.8 billion in FY12) and non-bank financing of Tk. 26.9 billion(Tk. 23.3 billion in FY12), while the remaining amount of Tk. 143.9 billion (Tk. 97.2 billion in FY12) came from foreign sources during FY13.

IV. External Sector Developments

4.1. The overall current account balance (CAB) in FY13 was USD 2.53 billion, about USD 3 billion higher than FY12. This was despite a small current account balance deficit (USD 97 million) for Q4FY13. *This small deficit was due to higher imports of about $1.2 billion and about $373 million lower remittances in Q4FY13 relative to Q3FY13. Even with the deficit in the CAB, the overall balance recorded a surplus of USD 1.18 billion during the quarter against a surplus of USD 913 million in the same quarter of FY12 due to a healthy surplus of USD 1.41 billion in the capital & financial account. The foreign exchange reserves rose to USD 15.32 billion at the end of Q4FY13 against USD 10.36 billion at the end of the same quarter last year mainly due to increased supply of foreign currencies from export earnings, workers' remittances with lower use of foreign currency for imports.*

4.2 The overall picture for FY13 shows a deficit of USD 7.01 billion in trade balance, USD 3.16 billion in services account and USD 2.32 billion in primary income account while a healthy surplus of USD 15.01 billion recorded in secondary income (the bulk of which was remittances from abroad) which contributed to a surplus of USD 2.53 billion in CAB.



4.3 The capital & financial account recorded a surplus of USD 1.41 billion during Q4FY13 against a surplus of USD 770 million in Q4FY12. The capital account recorded a surplus of USD 222 million (against a surplus of USD 113 million in Q4FY12) and the financial account recorded USD 1.19 billion (against a surplus of USD 657 million in Q4FY12). The surplus in the financial account in Q4FY13 includes inflow of USD 250.0 million of net FDI and USD 735 million of MLT loans. The surplus in capital and financial account led to the overall balance of payment surplus of USD 1.18 billion during Q4FY13. Overall, during FY13 the capital & financial account recorded a surplus of USD 3.37 billion compared to a surplus of USD 1.92 billion in FY12. Based on the surpluses in CAB and capital & financial account, the overall balance of payments (BOP) had a surplus of USD 5.13 billion during FY13 along with a reserve of foreign exchanges of USD 15.32 billion at the end of June 2013 (Table IV.1).

4.4 Preliminary data show that total foreign aid, comprising of loans and grants, disbursed by the multilateral and bilateral donors was USD 973.1 million during Q4FY13 compared with

USD 715.6 million during the same period of FY12. Out of the total foreign aid, USD 735.1 million was disbursed as MLT loan and USD 238.0 million as grants during the quarter against USD 571.1 million as MLT loan and USD 144.5 million as grants during Q4FY12. During the quarter Bangladesh made an amortization payment of USD 214.5 million of which USD 177.1 million as principal and USD 37.4 million as interest. As a result, Bangladesh received net foreign loans and grants of USD 796.0 million during Q4FY13 which was 499.6 million during the same quarter of the previous fiscal year (Table IV.8). Overall during FY13 Bangladesh received USD 2.79 billion foreign aid of which USD 651.8 million as grant and USD 2.13 billion as MLT loan. On the other hand, during FY13 Bangladesh amortized an amount of USD 1.10 billion resulting net inflow of foreign loans and grants of USD 1.88 billion.

Chart IV.2: Exchange Rate Movements

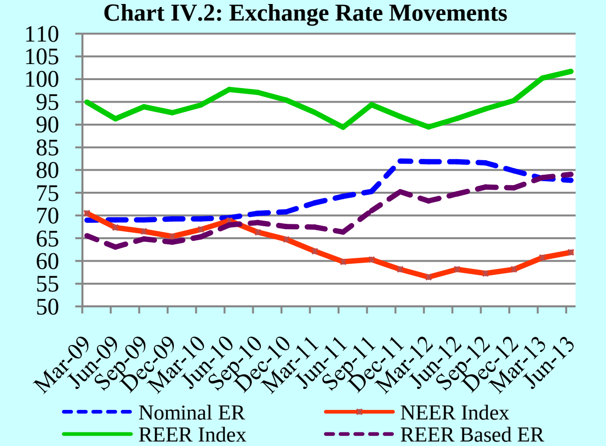
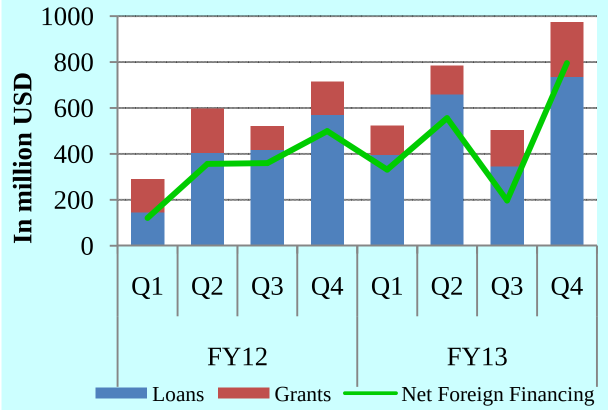


Chart IV.3: Trends in Foreign Aid Inflow



4.5 The foreign exchange market remained mostly stable with the Taka appreciating by 0.57 percent against USD during Q4FY13. As per one of the major objectives of avoiding excessive volatility of exchange rate, Bangladesh Bank has continued its interventions in FY13 with a net purchase of foreign currencies amounting to USD 4.54 billion during FY13 including USD 964 million during Q4FY13. The REER based exchange rate reflecting the external competiveness of Taka increased to Taka 79.07 per USD at end June 2013 from Taka 78.37 per USD at end March 2013 while the weighted average nominal exchange was 77.76 per USD at end June 2013 from Taka 78.58 per USD at end March 2013. The real exchange rate data indicates some erosion of export competitiveness of Bangladesh in the international market during this period.

4.6 According to Export Promotion Bureau (EPB) export earnings increased by 14.3 percent to USD 7.31 billion during Q4FY13 against USD 6.40 billion recorded during the corresponding quarter of FY12. This growth was mainly due to increased exports of jute goods (+10.1 percent), leather (+36.4 percent), frozen food (+16.9 percent), woven garments (+18.2 percent) and knitwear products (+16.0 percent) while exports of raw jute (-15.8 percent), tea (-22.2 percent) and terry towels (-67.2 percent) declined compared to the corresponding quarter of FY12. Overall, export earnings recorded a 11.2 percent growth to USD 27.02 billion during FY13 compared to USD 24.29 billion during FY12 (Table IV.2).

4.7 Import payments remained sluggish and increased by only 1.1 percent (on cif basis) to USD 8.67 billion during Q4FY13 compared to USD 8.57 billion in Q4FY12 (Table IV.4). Reflecting the higher domestic production, imports of food-grains declined by 8.9 percent during Q4FY13 to USD 191.2 million compared to USD 209.8 million in Q4FY12 mainly due to imports of wheat which decreased by 9.4 percent (USD 185.4 million during Q4FY13 against USD 204.6 million during Q4FY12). Rice imports increased by 11.5 percent (USD 5.8 million during Q4FY13 against USD 5.2 million during Q4FY12). Imports of other food items, on the other hand, increased by 5.1 percent to USD 724.4 million during the quarter under review compared to USD 689.0 million recorded during Q4FY12, of which the imports of milk & cream (+24.1 percent), spices (+43.4 percent), edible oil (+3.6 percent), pulses (+83.1 percent) increased while imports of and sugar (-29.8 percent) decreased. Overall, during FY13 imports of food grains declined by 19.9 percent and other food items declined by 15.6 percent.

Chart IV.4: Trends in Exports & Imports

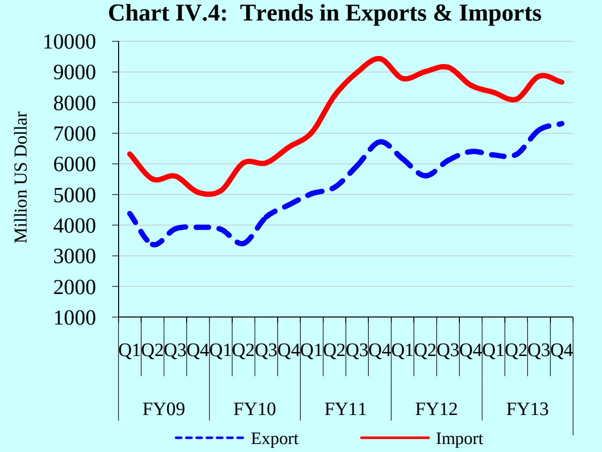
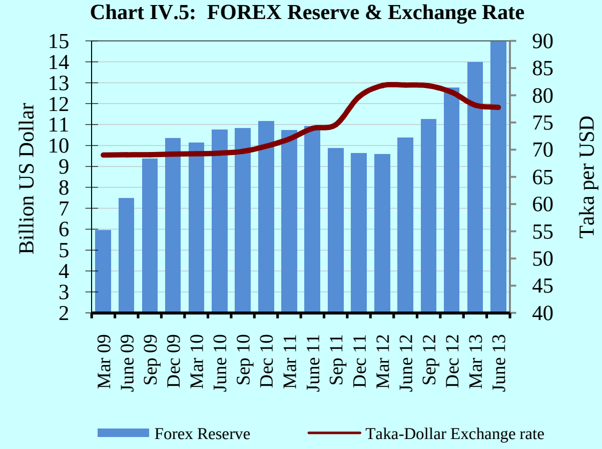


Chart IV.5: FOREX Reserve & Exchange Rate



4.8 Imports of intermediate goods mainly used for manufacturing output decreased by 1.3 percent to USD 4.11 billion during Q4FY13 against USD 4.17 billion recorded during the corresponding quarter of FY12. Among the intermediate goods, imports of crude petroleum (+21.1 percent), chemicals (+16.5 percent), pharmaceutical products (+15.2 percent), plastic and rubber articles thereof (+16.8 percent), yarn (+29.1 percent), and textile and articles thereof (+21.7 percent) increased while imports of clinker (-4.4 percent), POL (-26.4 percent), oil seeds (-53.5 percent), fertilizer (-34.2 percent) dyeing and tanning materials (-2.9 percent), raw cotton (-7.1 percent) and staple fibre (-0.7 percent) decreased. Imports of capital goods recorded a slower growth of 0.7 percent in Q4FY13, of which imports of iron, steel and other base metals increased by 2.7 percent and other capital goods increased by 1.0 percent while imports of capital machinery declined by 2.7 percent.

4.9 Overall during FY13 opening of LCs for imports decreased by 2.8 percent, of which opening of LCs for capital machineries increased sharply by 30.4 percent to USD 2.85 billion compared to USD 2.19 billion in FY12 while opening of LCs for consumer goods (-10.4 percent), industrial raw materials (-5.7 percent), intermediate goods (-0.2 percent), petroleum and petroleum products (-11.5 percent) and machinery for miscellaneous industries (-10.1 percent) decreased. During Q4FY13 the opening of import LCs decreased by 4.4 percent to USD 9.35 billion which was USD 9.78 billion during the same period of the previous fiscal year. Opening of LCs for imports of petroleum and petroleum products increased by 15.5 percent to USD 1.06 billion during the quarter compared to USD 913.9 million and capital machinery increased sharply by 39.7 percent to USD 742.1 million during the quarter compared to USD 531.2 million during the same quarter of previous fiscal year. On the other hand, opening of LCs for the imports of consumer goods decreased by 6.7 percent to USD 1.13 billion, industrial raw materials decreased by 26.3 percent to USD 778.3 million, intermediate goods decreased by 0.7 percent to USD 3.2 billion, machinery for miscellaneous industries decreased by 28.0 percent to USD 834.8 million during the quarter.

4.10 The overall inflow of workers' remittances recorded a reasonable 12.6 percent growth during FY13. However workers' remittances recorded only 0.9 percent growth during Q4FY13 compared to Q4FY12. This slower growth in the inflow of workers' remittance during the second half of the year is due to a 36.2 percent drop in the number of migrant workers' during FY13 relative to FY12, whose impact was felt in the latter half of the year. During Q4FY13 remittances from the Gulf region recorded a 7.7 percent decline despite remittances from Oman registering a 25.6 percent increase. Other key markets, Saudi Arabia (-16.9 percent), UAE (-0.4 percent), Qatar (-26.9 percent), Kuwait (-3.6 percent) and Bahrain (-1.7 percent) all declined. Remittances from the Euro region recorded a decline of 4.0 percent while remittances from the Asia Pacific region registered 21.5 percent growth and growth from rest of the world (including USA) was 24.0 percent. In absolute amounts, the major sources of remittance during the quarter was Saudi Arabia (USD 804.4 million), followed by UAE (USD 626.4 million), USA (USD 470.1 million), Kuwait (USD 285.6 million) and Malaysia (USD 253.3 million) (Table IV.4). It will be important for the several bilateral agreements which have recently been signed e.g. with Malaysia, to lead to a significant increase in actual migration during FY14. Moreover the initiatives to reduce the cost of migration by introducing an on-line lottery system and capping the emigration-related costs are important to increase the returns to overseas migration.

V. Price Developments

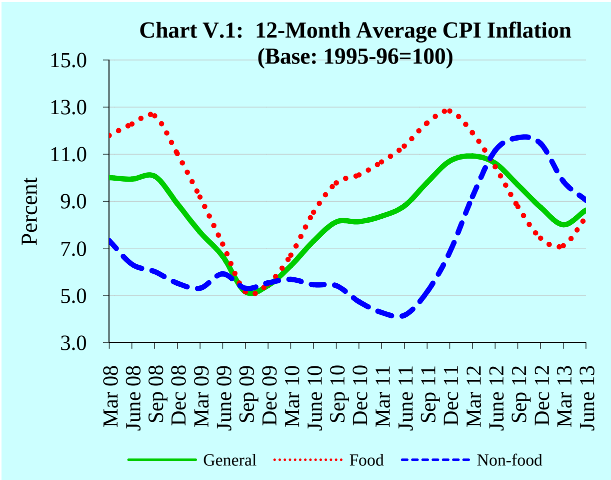
5.1 The twelve month average CPI inflation (using 1995-96 base year) maintained its declining trend during the last four consecutive quarters and came down to 7.70 percent at the end of FY13. The point to point inflation witnessed some fluctuations since the beginning of FY13, initially driven by non food components and later on food components of CPI inflation. The point to point food inflation started to rise since November 2012 and was 8.53 percent in June 2013 while the point to point non-food inflation maintained its declining trend after reaching 10.46 percent in October, 2012 and came down to 6.99 percent at end June 2013.

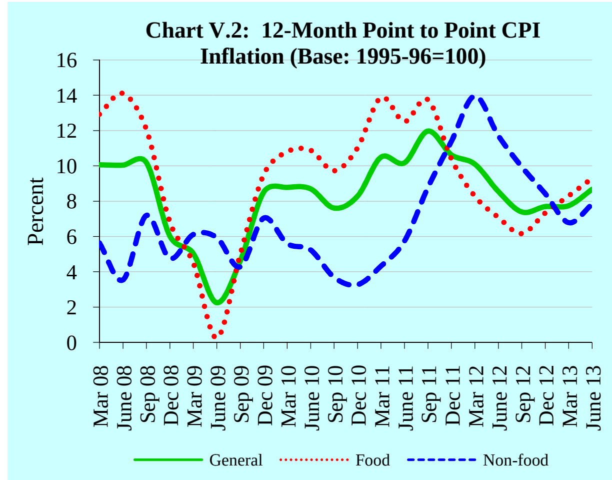
Table-5.1: Contribution@ of Food and Major Non-Food Items / Groups in CPI inflation(Y-o-Y)

Base Year (1995-96)=100

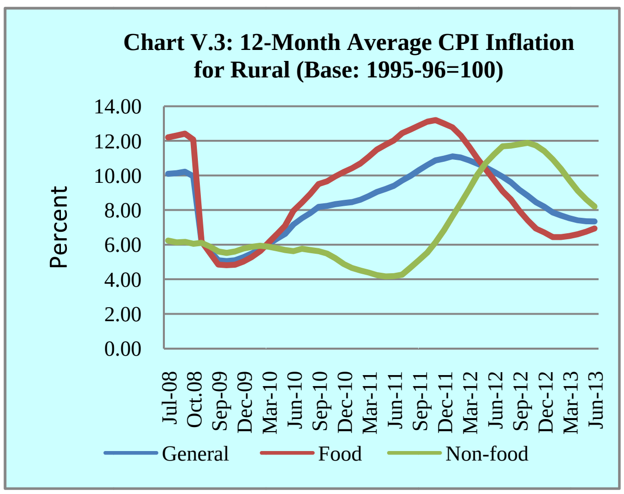
Months	Food beverage & tobacco	Clothing & Footwear	Gross rent, Fuel & Lighting	Furniture, Furnishing & Other	Medical care and Health Expenses	Transport & Communications	Recreation, Entertainment, Education & Cultural Services	Misc. Goods & Services	Non-food
Weight	58.84	6.85	16.87	2.67	2.84	4.17	4.13	3.63	41.16
Jun-12	46.15	12.37	26.37	3.41	2.36	3.99	1.00	4.33	53.85
Jul-12	43.49	11.91	30.33	3.36	2.61	3.61	1.02	3.66	56.51
Aug-12	51.22	8.79	26.07	3.12	2.55	3.55	0.95	3.76	48.78
Sep-12	46.62	9.96	28.39	3.60	2.72	3.49	1.14	4.07	53.38
Oct-12	43.07	11.38	30.09	3.42	2.87	3.46	1.23	4.47	56.93
Nov-12	49.83	10.33	25.03	3.34	2.75	3.33	1.27	4.12	50.17
Dec-12	55.59	10.33	20.40	3.03	2.43	3.05	1.36	3.81	44.41
Jan-13	57.17	10.63	17.13	2.75	2.22	3.32	2.96	3.82	42.83
Feb-13	62.87	9.93	14.49	2.29	1.72	2.68	2.65	3.37	37.13
Mar-13	63.80	10.29	14.29	2.30	1.40	2.60	2.60	2.74	36.20
Apr-13	64.50	10.20	13.76	2.29	1.39	2.61	2.54	2.71	35.50
May-13	63.19	10.79	14.05	2.41	1.44	2.85	2.57	2.69	36.81
Jun-13	63.79	10.75	13.82	2.41	1.16	2.83	2.55	2.70	36.21

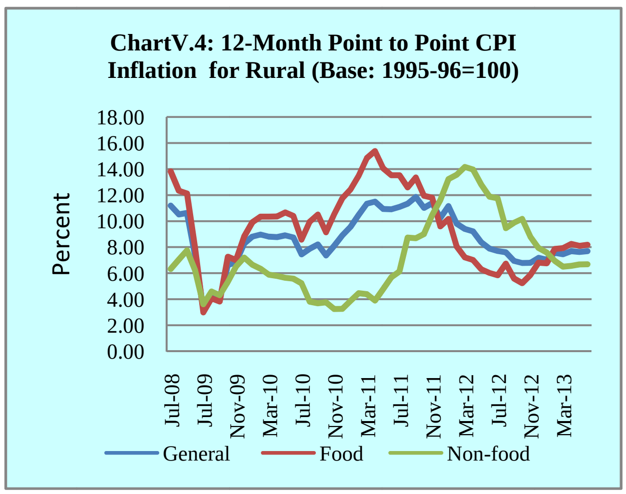
@ Contribution of ith Group=(Inflation in ith group*Weight of ith group in CPI basket/Headline inflation)*100

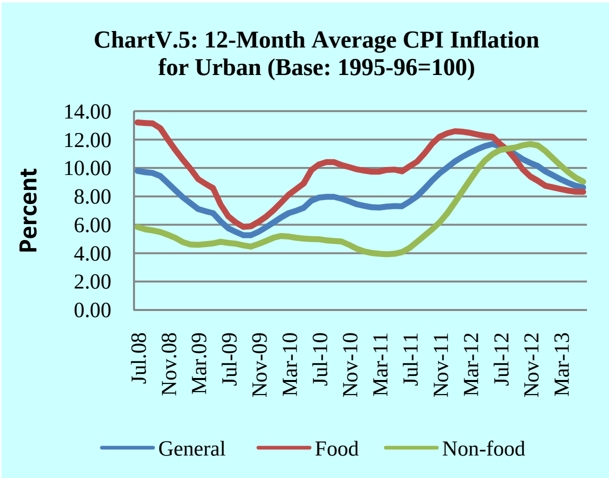


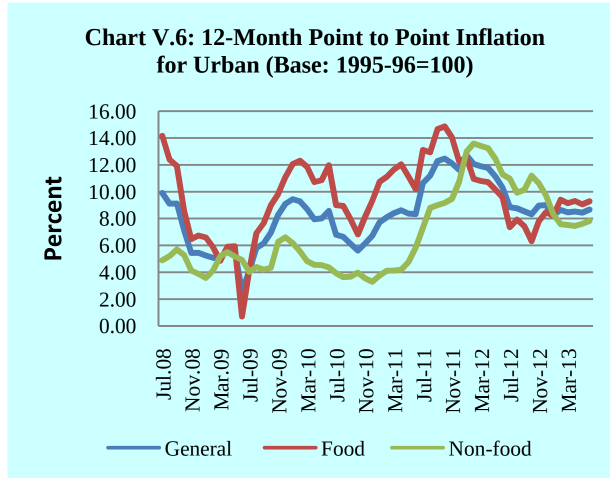


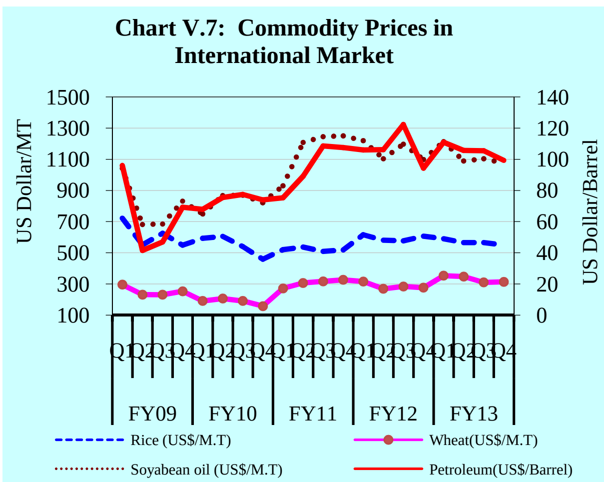
5.2 The international commodity prices such as price of rice, wheat, soybean oil, sugar, crude and petroleum oil have overall been on a declining trend during the last one year. Moreover, Bangladeshi Taka appreciated by 4.96 percent (y-o-y) against US dollar in FY13. These factors, along with restrained monetary policy, contributed to declining inflationary pressure in FY13. The sources of inflationary pressure during the latter part of FY13 were mainly due to the supply side disruptions in the domestic market arising from national strikes. However, the risk of imported inflation may be nullified by cheap import from India due to recent depreciation of the Indian currency. Moreover, the impact of wage price increase may show up on CPI inflation in the coming months.

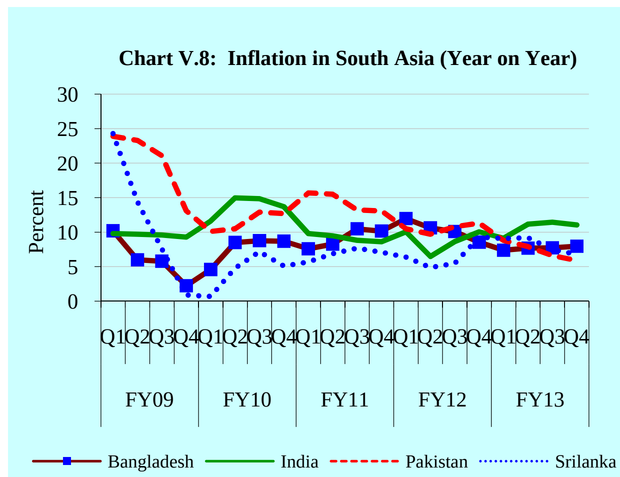












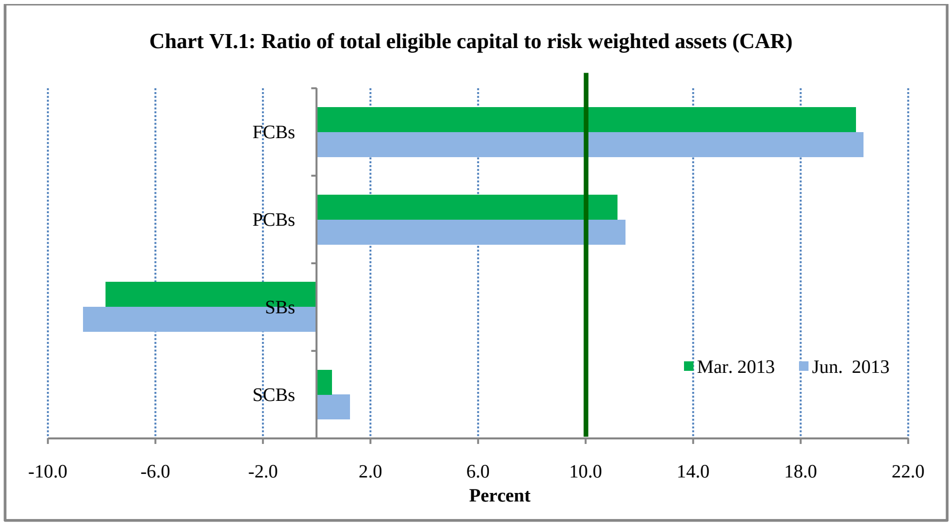
5.3 The point to point CPI inflation in our neighboring South Asian countries exhibits a mixed trend during the quarter under review. In India, point-to-point CPI inflation edged up to 9.87 percent in June 2013 from 9.31 percent in May 2013. Indian headline WPI inflation declined from 7.31 percent in February 2013 to 4.70 percent in May 2013 and then went up to 4.86 percent in June 2013. In Pakistan, point-to-point CPI inflation was 5.1 percent in May 2013and rose to 5.9 percent at end June 2013. In Sri Lanka, inflation decreased from 7.5 percent in March 2013 to 6.8 percent at the end of June 2013 (Chart-V.8)

5.4 The inflation target for FY14 announced in the Budget is 7.0%. The risks to the inflation target stem partly from likely wage increases in both the public and private sectors which will create aggregate demand pressures. The FY14 Budget includes a sizeable provision for a public sector wage rise and in the private sector the Wage Board for the garments industry has been established which will in turn have implications for the rest of the economy. Another risk to food inflation in particular stems from possible supply-side disruptions if prolonged nationwide strikes take place and as in all years risks due to weather related factors affecting agricultural produce. Finally the recent rise in Indian inflation could also transmit to Bangladesh as shown by historical long term trends.

VI. Banking Sector Performances

6.1 Banking sector indicators for Q4FY13 show some improvements relative to the first three quarters of the fiscal year. Capital adequacy ratio (CAR) increased from 8.80 percent at the end of March to 9.12 percent at the end of June 2013. The net non-performing loans (NPL) decreased from 5.84 percent at the end of March 2013 to 4.43 percent at the end of June 2013 due mainly to the improvement in actual provision maintained by the SCBs. The gross NPL, on the other hand, remained virtually unchanged - 11.90 percent at the end March 2013 and 11.91 percent at the end of June 2013. 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 faster growing interest expenditure than interest income and higher provision maintenance by the banks. However, return on equity (ROE) of the banking industry remained virtually unchanged - 8.20 percent at the end of December 2012 and 8.21 percent at the end of June 2012.

6.2 The capital adequacy ratio (CAR) increased from 8.80 percent in March to 9.12 percent in June 2013 after having fallen progressively from 11.35 in December 2011. One of the reasons behind this improvement is increased Private Commercial Banks' Tier-1 capital which constitutes about 68.0 percent share in total RWA of the banking industry. The CAR for PCBs increased to 11.48 percent at the end of June 2013 from 11.18 percent at the end of March 2013. The CAR of SCBs and Foreign Commercial Banks increased to 1.23 percent and 20.34 percent at the end of June 2013 from 0.57 percent and 20.05 percent respectively at the end of March 2013 (Chart VI.1). The CAR remained significantly above the regulatory requirement of 10.0 percent for FCBs, while the PCB ratio was marginally higher than requirement. However, during *Q4FY13*, CAR for specialized banks (SBs) deteriorated to (-) 8.70 percent at the end June 2013 from (-) 7.85 percent at the end March 2013.



6.3 The ratio of gross NPL to total loans of the banking sector remained virtually unchanged - 11.90 percent at the end March 2013 and 11.91 percent at the end June 2013 (Table VI.2 and Chart VI.2). Gross NPL ratio for the SCBs and SBs decreased from 27.05 percent and 27.17 percent to 26.44 percent and 26.19 percent respectively after having risen consecutively for the previous two quarters. However, the ratio for the PCBs and the FCBs slightly increased from 6.23 percent and 4.60 percent at end-March 2013 to 6.62 percent and 4.66 percent respectively at end-June 2013. On the other hand, net NPL ratio for all banks decreased from 5.84 percent at the end of March 2013 to 4.43 percent at the end of June 2013 resulting mainly from increased provisioning by the SCBs as they contribute about 46.0 percent of the gross NPL of the industry (Table VI.3, Chart VI.3 and Table 6.1). Provision shortfall of the sector as a whole has fallen from Tk.92.58 billion at the end of March 2013 to Tk.24.63 billion at the end June 2013 while SCBs recorded a reduction of provisioning shortfall from Tk.74.68 billion to Tk.3.91 billion during this period. Net NPL ratio for SCBs has decreased substantially from 15.73 percent at end-March 2013 to 8.11 percent at end-June 2013. The ratio for SBs has also fallen from 20.66 percent to 19.51 percent during the same period. However the ratio for PCBs and FCBs has increased from 2.11 percent and (-) 0.06 percent at end-March 2013 to 2.39 percent and 0.10 percent respectively at end-June 2013.

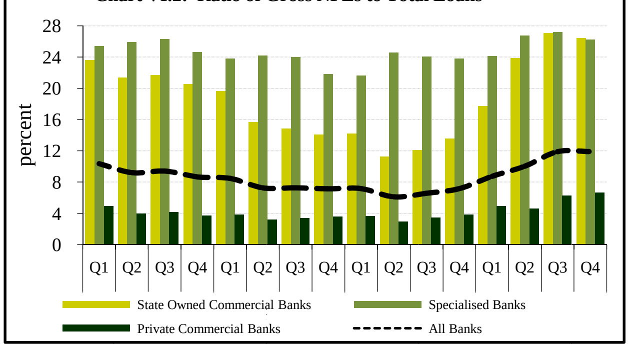


Chart VI.2: Ratio of Gross NPLs to Total Loans

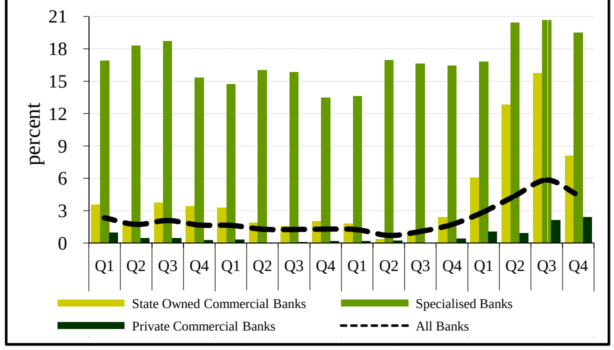


Chart VI.3: Ratio of Net NPLs to Total Loans

6.4 Return on assets (ROA), an important measure of banks profitability, 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. This was primarily due to interest expenditure growing faster than interest income (Chart VI.3) and as well as maintaining higher provision (Table 6.1).

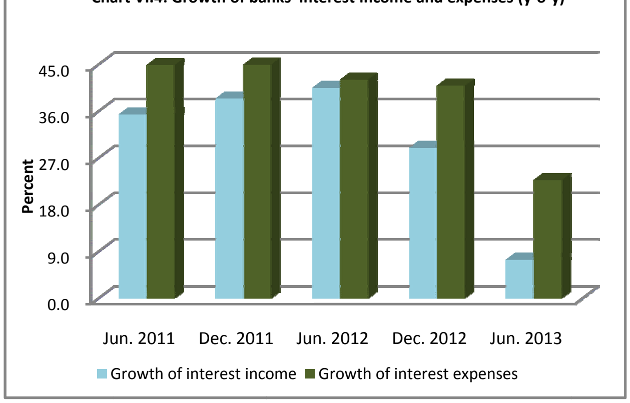


Chart VI.4: Growth of banks' interest income and expenses (y-o-y)

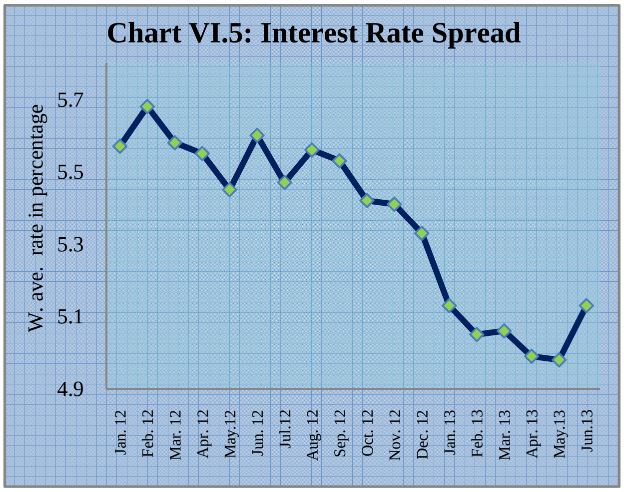
Table 6.1: Comparative position of classified loan and provision adequacy

(billion Taka)

Quarter	Items	SCBs	SBs	PCBs	FCBs
Q4 2012	Total classified loan	215.15	73.30	130.35	8.45
	Required provision	119.22	29.83	84.43	8.91
	Provision maintained	81.90	13.64	84.94	9.29
	Provision maintenance ratio	68.70%	45.73%	100.60%	104.26%
Q1 2013	Total classified loan	244.03	76.79	178.80	10.58
	Required provision	162.12	31.84	100.74	9.41
	Provision maintained	87.44	14.71	97.86	9.51
	Provision maintenance ratio	53.94%	46.21%	97.14%	101.11%
Q2 2013	Total classified loan	238.53	77.56	196.11	10.89
	Required provision	149.65	34.78	104.91	9.64
	Provision maintained	145.74	15.39	103.76	9.47
	Provision maintenance ratio	97.39%	44.25%	98.90%	98.24%

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 remained virtually unchanged; 8.20 percent at the end of December 2012 and 8.21 percent at the end of June 2012. There was a significant improvement in ROE for SCBs from (-) 11.87 percent to 11.72 percent and a moderate improvement for FCBs from 17.29 percent to 19.67 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 5.49 percent and (-) 28.89 percent respectively during the same period.

6.5 Interest rate spread for all banks, measured as the difference between weighted average rate of advances and deposit, increased from 5.06 percent at the end March 2013 to 5.13 percent at the end of June 2013. The spread had been gradually falling from 5.56 percent at the end of August 2012 to 4.98 percent in May 2013 before it turned about in the month of June of the current year (Chart VI.4). Bank wise analysis shows that deposit rate for most of the banks went down more than that of advances while some bank's lending rate increased at the end of June 2013.



6.6 At the end of Q4FY13, the growth rate (year-on- year) of deposit remained higher than that of advances and 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 and advances declined from 18.21 percent and 10.29 percent at the end of March 2013 to 16.35 percent and 8.97 percent respectively at the end of June 2013 (Table 6.2). Advance to deposit ratio (ADR) decreased from 74.84 percent to 73.95 percent during the period under consideration. Accordingly the liquidity position of all bank groups (except SPBs as they are exempted from the compliance of SLR by Government rule) improved at the end of June 2013 than that in June 2012 showing an easing of the money market (Table 6.3). The weighted average call money rate rose from 9.34 percent at the end of December 2012 to 10.29 percent at the end of January 2013. Afterwards, it gradually fell to around 7.0 percent at the end of June 2013.

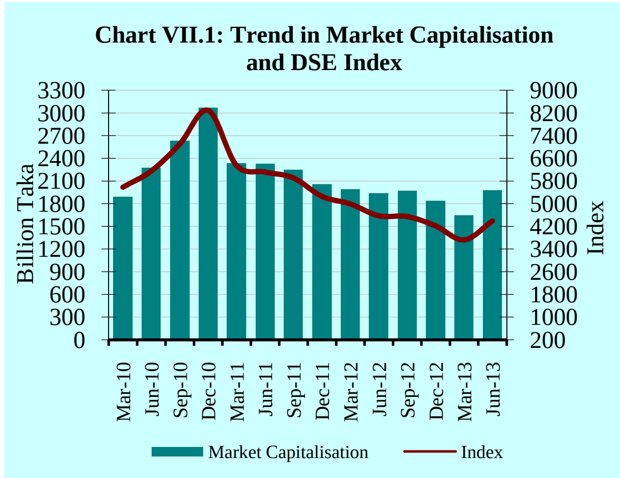
Table 6.2: Deposit and advance position of scheduled banks (end of the month)

Bank groups	Year-on year growth of deposit (excluding interbank)		Year-on year growth of advances (excluding interbank)		ADR	
	Jun. 13	Mar. 13	Jun. 13	Mar. 13	Jun. 13	Mar. 13
SCBs	16.66%	18.35%	5.00%	7.29%	63.26%	68.19%
SBs	24.56%	23.33%	13.45%	16.86%	78.54%	78.50%
PCBs	16.57%	19.09%	10.60%	11.42%	79.62%	77.97%
FCBs	6.53%	5.90%	1.23%	2.66%	67.55%	66.75%
All	16.35%	18.21%	8.97%	10.29%	73.95%	74.84%

Table 6.3: Liquidity position of the scheduled banks (Tk. in billion)

	As of end June, 2012			As of end June, 2013[P]		
	Total liquid assets	Required liquidity (SLR)	Liquidity: excess(+) /shortfall(-)	Total Liquid asset	Required liquidity (SLR)	Liquidity: excess(+) /shortfall(-)
SCBs	382.39	222.08	160.32	455.22	263.59	191.63
SBs	33.72	22.60	11.12	37.43	29.55	7.88
PCBs (other than Islamic)	602.24	402.18	200.06	809.15	471.31	337.84
Private Banks (Islamic)	133.86	91.88	41.98	211.55	111.47	100.08
FCBs	102.22	58.94	43.28	141.60	62.41	79.18
All	1254.44	797.68	456.76	1654.95	938.34	716.61

VII. Capital Market Developments



7.1 The country's capital market reversed its trend during Q4FY13 after declining during the preceding three consecutive quarters of FY13. At the end of Q4FY13, DSE general index was 4385.77 which is 17.82 percent higher than Q3FY13. Over the same period, market capitalization increased by 20.09 percent (Chart VII.1 and Table VII.1). Overall, the DSE general index declined by 4.09 percent at end of FY13 as compared to end of FY12, while DSE market capitalization increased moderately by 2.33 percent during this year.

7.2 The average price earnings ratio of the DSE increased to 14.60 in June 2013 from 10.79 at the end March 2013 reflecting higher demand for shares in the market. As a result, total turnover value in the Dhaka Stock Exchange increased by 55.56 percent in Q4FY13 from Tk. 144.78 billion to Tk. 224.64 billion. The liquidity situation in the capital market, improved as measured by Turnover velocity ratio (TVR)[1], which increased to 45.42 percent in Q4FY13 from 35.06 percent in Q3FY13. The value of "issued equity and debt" increased by 6.30 percent (Table VII.1) and four new companies were listed in the capital market during Q4FY13.

7.3 The sector-wise DSE data shows that during Q4FY13 market capitalization increased in all sectors except for corporate bonds (Table VII.2). The highest (53.61 percent) was in the engineering sector which increased more than 50 percent during Q4FY13 compared to the price of Q3FY13. The lowest growth (0.88 percent) was in the banking sector during this period. As a result, the contribution of the banking sector in market capitalization fell to 21.09 percent at the end of Q4 FY13 from 25.11 percent in the previous quarter. The volatility in DSE general index, measured by standard deviation, significantly declined to 270.67 during FY13 compared to 681.21 in FY12. The quarterly data indicates that the volatility increased to 294.61 during Q4FY13 after declining during the previous four quarters (Chart VII.2).

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

7.4 The investment by foreign and non-resident Bangladeshi investors in shares increased significantly to Tk.8.45 billion in Q4FY13 from TK.4.41 billion in the previous quarter. At the same time, total share sales by foreign and non-resident Bangladeshi investors increased by a small amount to Tk.1.93 billion in Q4FY13 from TK.1.47 billion in the previous quarter. As a result, net investment of foreign and non-resident Bangladeshi increased significantly to Tk.6.51 billion during Q4FY13 from TK.2.94 billion in Q3FY13.

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.

Chart VII.2: Recent Volatility in DSE

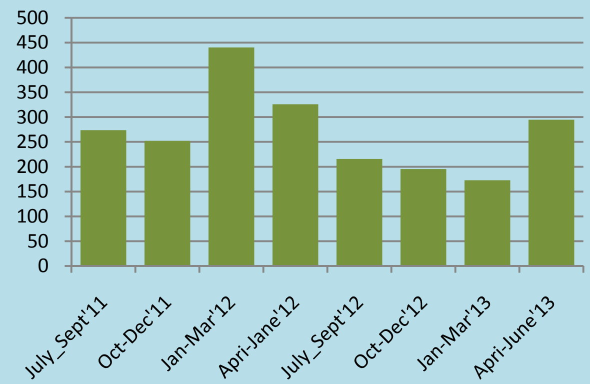


Table 7.1: Comparison among Regional Capital Markets-June 2013

Country	Price Earnings ratio	Dividend Yield
Bangladesh	14.48	3.65
India	16.97	1.59
Sri Lanka	16.58	2.26
Thailand	14.00	2.90
Malaysia	16.00	2.90
Taiwan	20.00	3.20
Hong Kong	15.00	2.60
China	10.00	3.20
Singapore	12.00	3.20

Source: Monthly Bulletin, Dhaka Stock Exchange