Part A: Economic and Financial Developments

Overview and Executive Summary

The investment climate suffered in FY13Q3 following a series of national strikes and consequent disruptions to the supply chain. A slowdown in imports related to industrial output as well as the crop outlook points to lower output growth than FY12. On a more positive note the FY13 growth momentum continued to be driven by large inflows of remittances and a rebound in exports. Moreover public investment rose compared to the same period last year partly making up for the anticipated drop in private investment. Overall the deterioration in the investment climate since the start of Q3FY13 implies that output growth for FY13 may fall short of our December 2012 forecast of between 6.1-6.4%.

Average 12-month inflation continued to trend downwards, and in March 2013 was 8.0 percent down from 8.74 in December 2012. The full year single digit inflation target of 7.5 percent is well within reach. However point to point CPI inflation inched up in Q3FY13 to 7.74 percent in March 2013 from 7.69 percent in December 2012. The uptick in prices was driven by increases in the food prices while non-food inflation fell during the quarter.

In public finances, the overall budget deficit during the first three quarters of FY13 amounted to 1.7 percent of GDP compared to 2.8 percent of GDP during the first three quarters of FY12. Revenue collections continued to register relatively strong growth while total government expenditures continued to lag behind budgeted amounts. Lower overall deficit in Q3FY13 and larger external aid disbursements combined to reduce the need for domestic bank and nonbank financing relative to the situation in Q3FY12.

Money and credit market developments in Q3FY13 continued to be heavily influenced by large inflows of foreign remittances. The net foreign assets expansion fueled a larger than programmed growth in broad money. However net domestic asset growth remained well within targets due both to a lower than programmed public and private sector credit growth (13.4% average growth in Q3FY13 compared to 18.8% in Q3FY12). More liquidity at the short-end of the money market continues to reduce call money and TBills rates. On the other hand large bank holdings of domestic government debt with little secondary market transactions have resulted in longer tenure interest rates rising progressively.

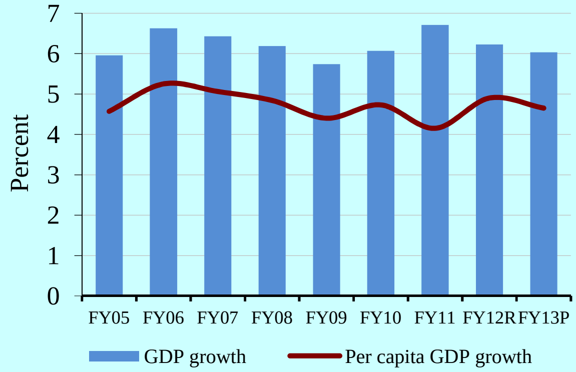
Banking sector performance continued to deteriorate during Q3FY13. The ratio of non-performing loan (NPL) to total loan for the banking sector, in both gross and net terms, increased. Gross NPLs rose from 10.0% to 11.9% between the end of Q2FY13 and Q3FY13. This is partly due to the implementation of tighter BB classification and provisioning requirements which now brings the sector in line with international best practice standards. Monthly interest rate spread for all banks fell to 5.06 percent at the end of March 2013 from 5.33 percent at the end of December 2012 with both lending and deposit rates declining. The return on asset (ROA) and return on equity (ROE), two important measures of bank profitability, declined reflecting the higher provisions but also due to the tightening of the interest rate spread. This worsening bank performance was mainly concentrated in state owned commercial banks and specialized banks.

In the external sector, the current account balance (CAB) in Q3FY13 continued to be in surplus reflecting the increasing inflows of remittances bolstered by continued export expansion and declining imports. With large external aid disbursements, the capital account was also in surplus resulting in accumulation of international reserves to almost $14 billion at the end of Q3FY13, sufficient to cover over four months of FY13 projected imports. The foreign exchange market remained mostly stable during this period with the Taka appreciating by 2.12 percent against the US dollar during Q3FY13.

I. Developments in the real economy

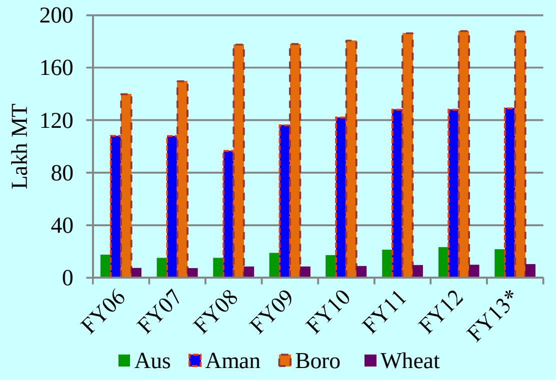
1.1 The production target for *boro* paddy, the largest cereal crop, was set at 18.76 MMT on 4.78 million hectares of land. Though data on actual production of *boro* is yet to be made available, preliminary information from the Department of Agricultural Extension (DAE) shows that *boro* paddy has been cultivated on 4.75 million hectares of land which is marginally short of the targeted area of cultivation. Revised data of DAE shows that 12.90 million metric ton (MMT) *aman* paddy, the second largest cereal crop and the second crop of the fiscal year, was grown on 5.61 million hectares of land in FY13. This production was slightly higher than the actual *aman* production in FY12 (12.8 MMT) but 3.12 percent lower than the target set for FY13 (133 MMT). Prior to *aman*, the production of *aus* paddy was also lower than both the production of previous fiscal year and the target set for FY13. The decline in area of rice cultivation reflects the response of growers to the lower farm-gate price of rice in the country. Production of wheat is expected to grow higher compared to previous fiscal year as planted area of wheat in FY13 is higher than both in FY12 (by 23.05 percent) and target set for FY13 (by 19.73 percent). Provisional estimate of DAE shows that 8.92 MMT potato was grown in FY13 which was 8.65 percent higher than the previous year's production.

Chart I.1: Growth of Real GDP



P=Provisional estimates of BBS, R=Revised

Chart 1.2: Production of Major Crops

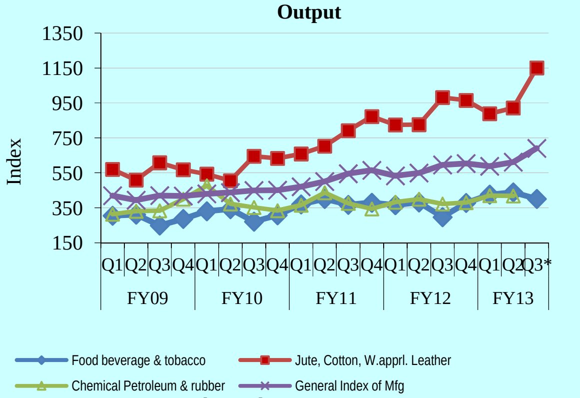


*Boro and Wheat figure represents target set by DAE

1.2 In order to contribute to the agriculture growth target, Bangladesh Bank has set a disbursement target for agricultural credit of Tk.141.3 billion for FY13 which is 7.62 percent higher than the actual disbursement of Tk.131.3 billion in FY12. During the third quarter of FY13, total agricultural credit disbursement was Tk.37.8 billion. This represented 26.75 percent of the yearly target and 9.25 percent higher than the actual disbursement in the same period of

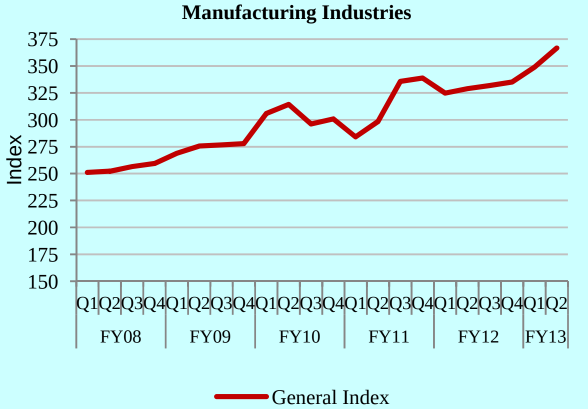
FY12. In the first nine months of the current fiscal year, agricultural credit grew by about 11.00 percent to 102 billion (72.19 percent of yearly target) compared to 0.05 percent growth during the same period of previous fiscal year. Of the total agricultural credit disbursement during the third quarter of FY13, an amount of Tk.18.6 billion went to the crop sector, Tk.4.3 billion to livestock sector, Tk.3.9 billion to poverty alleviation program, Tk.3.1 billion to fisheries sector and Tk.6.3 billion to other sectors.

Chart I.3: Quantum Index of Manufacturing Output



*January 2013 data only

Chart 1.4: Quantum Index of Small Scale Manufacturing Industries



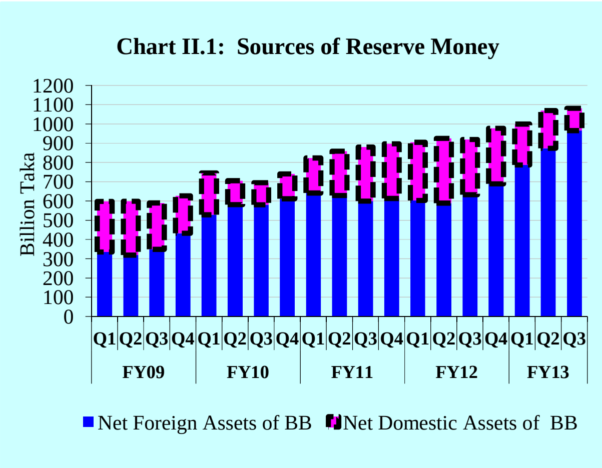
1.3 The Quantum General Index for industrial production (large and medium manufacturing) increased by 14.32 percent (y-o-y) in January 2013, driven mainly by the growth of basic metal products (33.92 percent), food beverage & tobacco (27.13 percent) and jute, cotton, RMG & leather (16.28 percent). In the first seven months of the current fiscal year, production of large and medium manufacturing industries increased by 11.04 percent compared to same period of previous fiscal year. In Q3FY12, this index grew by 9.24 percent. This steady growth of the industrial production reflects the strong increase in loan disbursements to the sector. Disbursement of industrial term loans by banks and non-bank financial institutions grew by 26.96 percent to Tk. 98.46 billion in Q3FY13 as against 2.53 percent growth in Q3FY12. At the same time, disbursements of SME loan increased to Tk. 193.23 billion from Tk.142.81 billion in Q3FY12. This accounted for 26.05 percent of the annual (calendar year) target and was 35.31 percent higher than the actual disbursement in Q3FY12. In addition to manufacturing sector, during the first seven months of FY13, high growth of domestic production of cement, iron and steel indicates healthy growth of construction sector. During July 2012-January 2013, domestic production of cement and iron and steel increased by 10.83 percent and 34.90 percent compared with 3.59 percent and 9.95 percent during July 2011-January 2012 respectively. Steady workers' remittances inflow (16.68 percent growth in the first nine months of current fiscal year compared to same period of previous fiscal year), construction of flyovers in Dhaka and Chittagong cities and other public investments may have fueled healthy construction sector growth during the period.

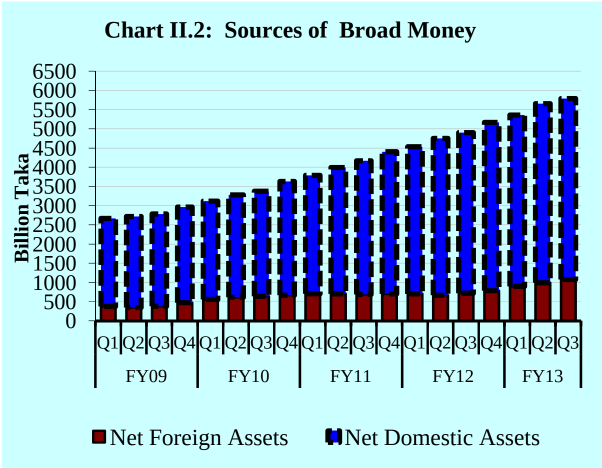
1.4 There are a number of proxy indicators for service sector growth e.g., cargo handling, trade financing, bank advances to transport and communication sector, subscription of mobile phone etc. which indicate a relatively slow expansion of the service sector during the third quarter of FY13. Total cargo handled (export and import) through Chittagong port registered (-) 1.94 percent growth during Q3 FY13 as against negative growth of 2.22 percent in Q3 FY12. Similarly, import cargo handled registered (-) 2.12 percent growth in Q3 FY12 as against the negative growth of 2.59 percent in Q3 FY12, while export cargo handled declined by 0.57 percent in Q3 FY13 as against positive growth of 0.81 percent in the same period of previous fiscal year. Given the high growth of industrial term loan disbursement and a moderate overall growth of private sector credit, the service sector was the area which experienced sluggish credit growth. Data collected from a small sample of large retail supermarkets also shows that growth rate of total sales declined significantly, due mainly to recent strikes in the country. During July-March of FY13 sales experienced 14.98 percent growth compared with 65.59 percent growth in the corresponding period of previous year. The number of mobile phone subscribers increased to 99.87 million at the end of March 2013 from 97.18 million at the end of December 2012, registering 2.77 percent growth during the quarter under review.

1.5 In light of the slowdown in the agricultural and service sectors the FY13 GDP growth is likely to be at lower end of the range BB had forecast in December 2012 (6.09-6.36) and could even be lower than this range. This will depend significantly on the number of days affected by national strikes and whether any natural disaster or unanticipated event takes place in the remaining months of FY13.

II. Money and Credit Market Developments

2.1 BB's monetary policy stance for H2FY13 is designed to contain inflation in single digits while ensuring adequate credit flow to productive investments. In Q3FY13, as in the first and *second quarter actual broad money (M2) growth was at 18.1 percent, higher than the programmed 17.0 percent due mainly to substantial increase in Net Foreign Assets (NFA). Despite this, average inflation continues to trend down as discussed in the section on price developments.*

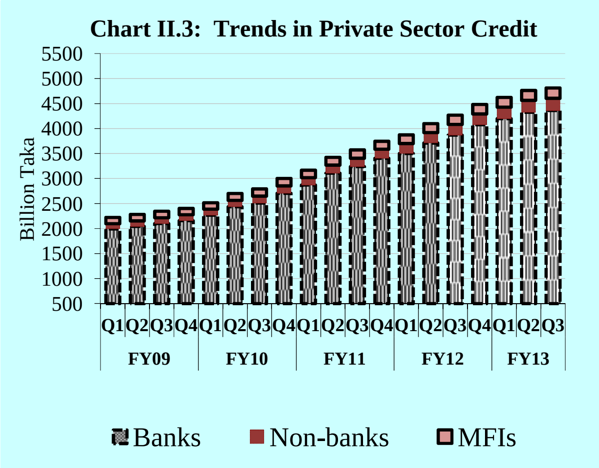




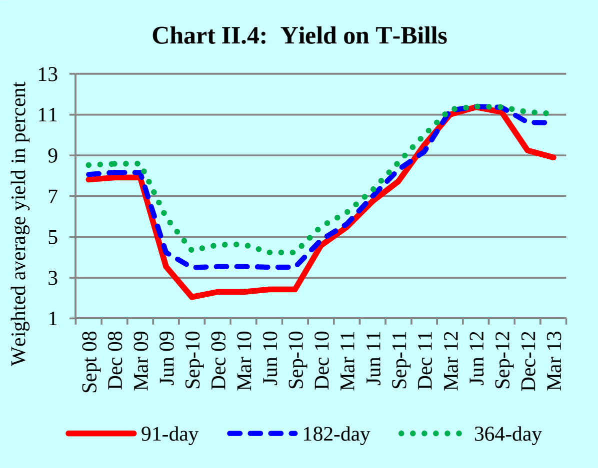
2.2 In Q3FY13, NFA grew by 49.9 percent and NDA grew by 12.6 percent compared with 4.6 percent and 20.2 percent growth respectively during the same period of the preceding year. While NDA growth was below the monetary program path, the sharp growth in NFA due mainly to higher than expected remittance growth resulted in the higher than targeted broad money growth discussed above. On the domestic credit front, growth (y-o-y) in net credit to the government at end March 2013 was 7.4 percent compared to March 2012, significantly less than the 19.4 percent (y-o-y) programmed, or expected growth. The slow growth in net credit to the government was mainly due to satisfactory revenue receipts and substantial net increase of foreign financing. In the same way, government net receipts from foreign sources increased to Tk. 87.7 billion during July-March of FY13 against the net receipt of Tk. 65.5 billion in July-March of FY12. Narrow money or M1 grew by 11.1 percent at end March, 2013 which was 6.6 percent during the same period of the preceding year due to higher growth in currency and demand deposits.

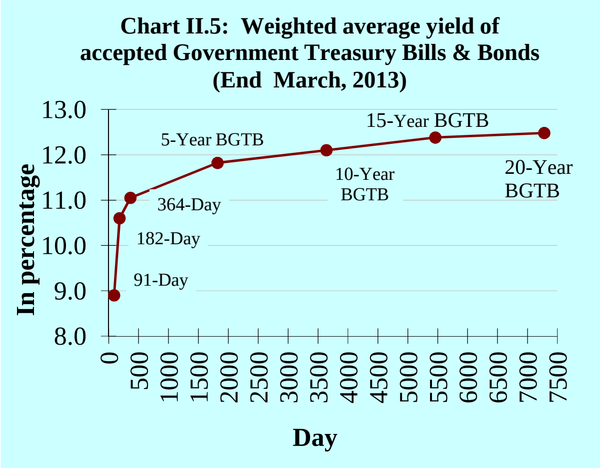
2.3 A look at the components of M2 show that currency, demand deposits and time deposits increased by 14.1 percent, 7.5 percent and 20.1 percent (y-o-y) respectively during Q3FY13 as compared with 11.9 percent, 0.8 percent and 21.9 percent respectively during the same period of the preceding year. The money multiplier (M2/RM) rose to 5.4 in Q3FY13 due to higher increase in M2 than RM.

2.4 Reserve money (RM) grew by 17.7 percent (y-o-y) in March, 2013 compared with a 4.5 percent (y-o-y) growth during the same period of the preceding year. This occurred due to significant growth in NFA of BB by 52.7 percent in Q3FY13 over Q3FY12. The upward trend of NFA was due to purchase of USD 4150 million by BB (during Jul-Mar. of FY13) from the market. NDA of BB has declined sharply mainly due to lower demand of government borrowing from the banking system. The negative 59.6 percent growth in NDA of BB is attributed to a substantial decrease in claims on banks by 48.6 percent and also claims on the public sector by 15.7 percent respectively in Q3FY13, which was 15.6 percent and 63.3 percent during the same period of the preceding year.



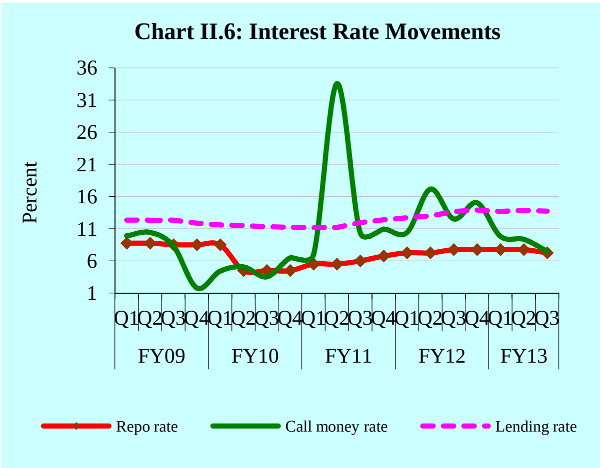
2.5 In Q3FY13, private sector credit (including banks, non-banks and micro-finance institutions) grew by 13.4 percent compared with the 18.8 percent in Q3FY12. Growth rate of economic purpose-wise bank advances to the private sector declined from 19.9 percent in Q3FY12 to 13.8 percent in Q3FY13. In Q3FY13, advances to agriculture, construction, transport and communication, trade, working capital and industry sector grew by 21.3 percent, 19.6 percent, 15.7 percent, 13.5 percent, 12.5 percent and 10.3 percent respectively. The highest share of bank advances went to the trade sector (37.2 percent) followed by the industry and working capital financing while agriculture sector received only 5.5 percent of bank advances (Table I.9). The outstanding position of term lending by banks and NBFIs increased by 8.5 percent and stood at Tk. 839.5 billion at end Q3FY13, from Tk. 774.0 billion in Q3FY12.





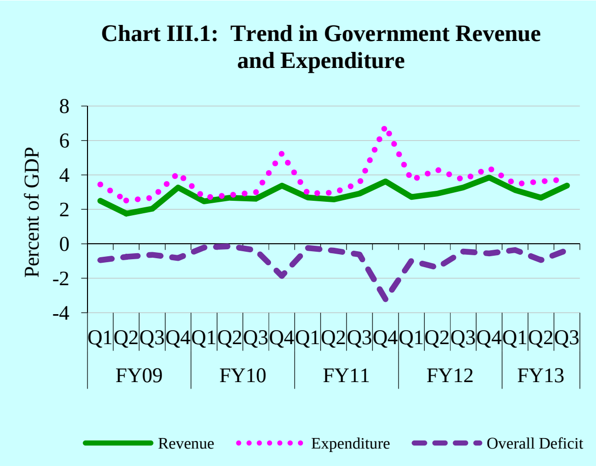
2.7 In line with the January 2013 Monetary Policy Statement, Bangladesh Bank reduced repo and reverse repo rate by 50 basis points to 7.25 percent and 5.25 percent respectively with effect from 01 February, 2013 as inflation eased. Likewise, overall yields on short term treasury bills e.g., 91-day decreased to 8.90 percent in March, 2013 from 11.00 percent in March, 2012, while 182-day, 364-day treasury bills rates also decreased to 10.60 and 11.05 percent at end of March, 2013 from 11.20 and 11.25 percent respectively at the end of March, 2012. Long-term bond such as 5-year and 10-year increased to 11.82 percent and 12.10 percent at the end of March, 2013 from 11.30 percent and 11.40 percent in March, 2012 (Table II.3), while the yields on 15-year, and 20-year BGTB also increased from 11.65 percent and 12.03 percent respectively to 12.38 and 12.48 percent in March, 2013.

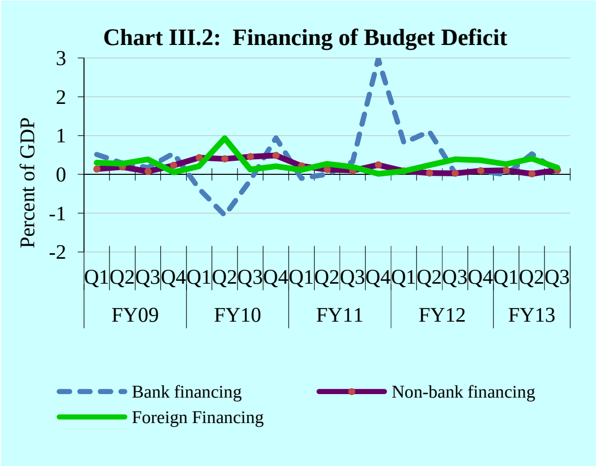
2.8 The call money rate was 7.5 percent at the end of March, 2013 which was 12.5 percent at the end of March, 2012 reflecting the liquidity condition in the money market. The spread between lending and deposit rates decreased from 5.33 percent at end of Q2 FY13 to 5.06 percent at the end of Q3FY13, which was 5.58 percent during the same period of the preceding year.



III. Fiscal Developments

3.1 Preliminary estimates show total revenue increasing by 17.7 percent whereas total expenditure grew at 14.7 percent during Q3FY13 as compared with Q3 FY12. During the first three quarters (July-March) of FY13, revenue collection was 68.4 percent of the annual budgeted amount while expenditure reached only 58.9 percent of the full year budgeted outlay. Accordingly, the overall budget deficit for the first three quarters of FY13 was contained to 1.68 percent of GDP relative to the annual FY13 budget target of 5 percent of GDP and a deficit of 2.82 percent of GDP in the first three quarters of FY12. Overall as we detail below domestic financing of the budget in the first three quarters has been significantly lower than during the corresponding period last year. (Table III.1 and Chart III.1).





3.2 Total NBR tax revenue increased by 18.3 percent to Tk. 282.6 billion in Q3 FY13 from the level of Tk. 238.8 billion in Q3 FY12. Income tax and VAT were the main drivers of this growth during the quarter under review. During Q3 of FY13 NBR tax revenue collected from income tax, Value Added Tax (VAT), custom duties and other sources increased by 38.3 percent, 15.3 percent, 1.8 percent, and 6.7 percent respectively over the level of the same period of the previous fiscal year. Preliminary estimates of total revenue collection reached Tk. 955.1 billion during the first three quarters, which is 17.3 percent higher than the level of the first three quarters of FY12 and 68.4 percent of budget FY13. Of this amount, NBR tax revenue stood at Tk. 730.6 billion, during these first three quarters which is 15.6 percent higher from the actual level of the same period of previous fiscal year led by income tax (due mainly to higher income tax augmented by corporate bodies), custom duty, value added tax (VAT) and other sources[1]. Non-tax revenue stood at Tk. 194.6 billion in the first three quarters of FY13, which is 24.0 percent higher than the level of the same period of FY12.

3.3 Preliminary estimates of total expenditure increased by 14.7 percent to Tk. 390.3 billion during Q3 FY13 over Q3FY12. Since ADP increased by 36.2 percent and current expenditure by 10.9 percent respectively during Q3 FY13 over Q3 FY12, the higher growth in total expenditure continues to be accounted for by ADP expenditure. During the first three quarters of FY13, total government expenditure is estimated at Tk. 1129.6 billion (10.8 percent of GDP), which is 5.3 percent higher than the level of the first three quarters of FY12 and 58.9 percent of FY13 budget. During this period, current expenditure rose to Tk. 638.1 billion (6.1 percent of GDP), which is 0.6 percent higher relative to the first three quarters of FY12 and represented 64.1 percent of FY13 budget. Annual development program (ADP) outlay reached Tk. 272.1 billion (2.6 percent of GDP) in the first three quarters of FY13, which is 32.0 percent higher than the same period of previous fiscal but still lagged behind the yearly target realizing only 49.5 percent of FY13 budget. At the same time, others expenditure which includes subsidies on petroleum and electricity decreased by 5.5 percent during the same period and amounted to Tk. 219.4 billion (2.1 percent of GDP), which is 58.9 percent of the FY13 budget amount.

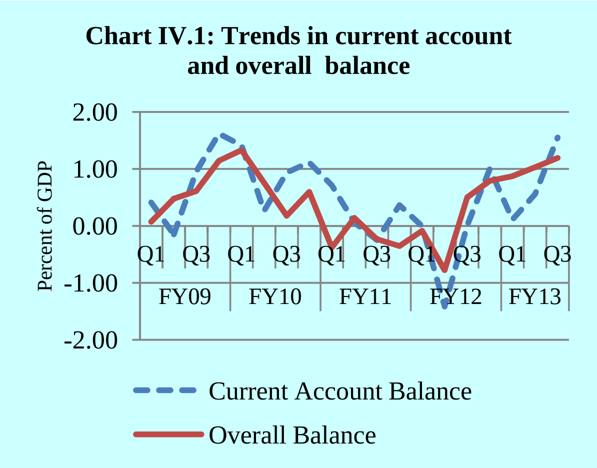
3.4 Total deficit financing during the first three quarters of FY13 amounted to Tk. 174.5 billion or 1.7 percent of GDP compared to Tk.258.2 billion or 2.82 percent of GDP during the first three quarters of FY12. An amount of Tk. 86.9 billion was accommodated from domestic sources that included bank financing of Tk. 62.9 billion and non-bank financing of Tk. 23.9 billion, while the remaining amount of Tk. 87.7 billion (Tk. 65.3 billion in the same period of FY12) came from foreign sources during the first three quarters of FY13.

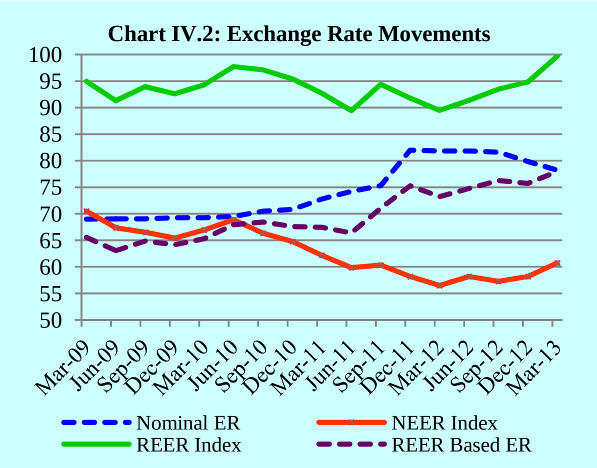
IV. External Sector Developments

4.1 Based on relatively higher export earnings and steady inflows of workers' remittances, the current account balance (CAB) witnessed a surplus of USD 1.98 billion during Q3FY13 against a surplus of USD 1.53 billion during the same quarter of the previous year. During the quarter, however, the trade deficits marginally increased to USD 1.19 billion compared to a deficit of

[1] Other sources include supplementary duty (local and import), excise duty, turnover tax, and travel tax.

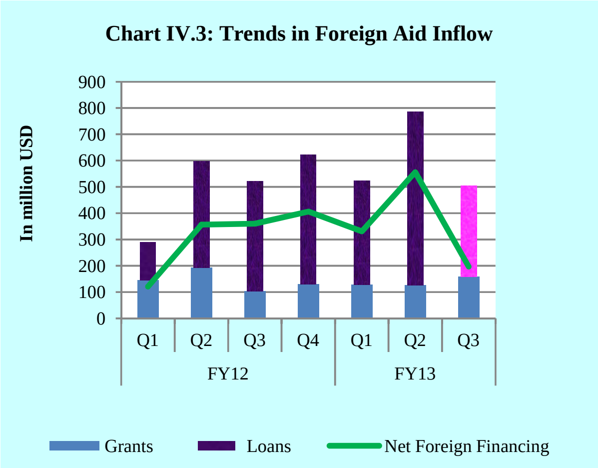
USD 1.17 billion recorded in Q3FY12. This was made up for by workers' remittances, which increased by 7.4 percent to USD 3.72 billion during Q3FY13 compared to USD 3.46 billion during Q3FY12. The overall balance also recorded a surplus of USD 1.52 billion during the Q3FY13 quarter against a surplus of USD 579 million in the same quarter of FY12 despite a moderate deficit in the capital & financial account. The foreign exchange reserves rose to USD 13.97 billion at the end of Q3FY13 against USD 9.58 billion at the end of the same period last year. These trends led to an appreciation of the exchange rate during the quarter under review.





4.2 Despite the deficits in trade, net services and primary income accounts, the surplus in CAB is due mainly to higher surplus in the secondary income account. The deficit in the net services account narrowed to USD 239 million during Q3FY13 against a deficit of USD 568 million in the same quarter of the previous fiscal year. Likewise, the deficit in the primary income account increased to USD 462 million compared to a deficit of USD 374 million in Q3FY12. In contrast, the surplus in the secondary income account increased to USD 3.86 billion compared to USD 3.64 billion of Q3FY12. However the overall picture for the first three quarters of FY13 shows a deficit of USD 4.86 billion in trade balance, USD 2.34 billion in services account and USD 1.49 billion in primary income account while a surplus of USD 11.48 billion recorded in secondary income which helps to build up a surplus of USD 2.83 billion in CAB and USD 3.95 billion in overall balance of payments.

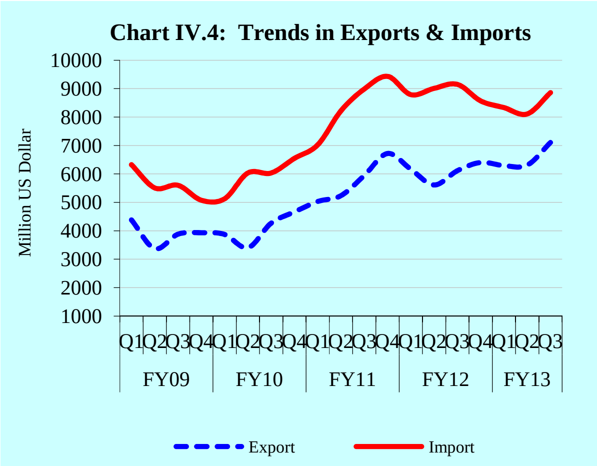
4.3 A deficit of USD 341 million in financial account and a surplus of USD 129 million in capital account resulted in a deficit of USD 212 million in the capital & financial account in Q3Y13. Net inflow of capital increased to USD 129 million in Q3FY13 compared to USD 82 million in Q3FY12. The deficit in the financial account resulted from USD 300.0 million net inflow of FDI and USD 711 million outflow of other investments covering all financial transactions including trade credit except FDI and portfolio investments. The overall balance of payments (BOP) stood at a surplus of USD 1.52 billion during the quarter along with a reserve of foreign exchanges USD 13.97 billion at end of March 2013.

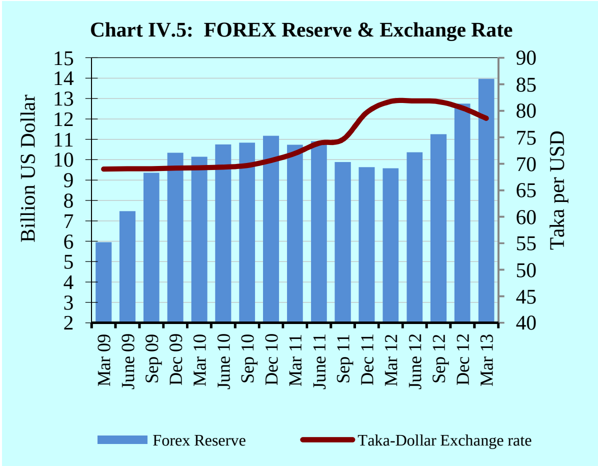


4.4 Preliminary data show that total foreign aid, comprising of loans and grants, disbursed by the multilateral and bilateral donors stood at USD 504.3 million during Q3FY13 compared with USD 522.4 million during the same period of FY12. Out of the total foreign aid, USD 345.5 million was disbursed as MLT loan and USD 85.8 million as grants during the quarter against USD 417.9 million as MLT loan and USD 89.1 million as grants during Q3FY12. During the quarter Bangladesh made an amortization payment of USD 363.8 million of which USD 307.7 million as principal and USD 56.1 million as interest. As a result, Bangladesh received a net foreign financing of USD 196.6 million during Q3FY13 which was 360.2 million during the same quarter of the previous fiscal year (Table IV.8). Overall in the first three quarters of FY13 Bangladesh received USD 1.81 billion foreign aid of which USD 413.8 million as grant and USD 1.40 billion as MLT loan. During July-March period of FY13 Bangladesh amortized an amount of USD 887.7 million resulting net inflow of foreign financing of USD 1.08 billion.

4.5 The foreign exchange market remained mostly stable with the Taka appreciating by 2.12 percent against USD during Q3FY13. This is largely due to increased supply of foreign currencies from exports proceeds, remittances and other sources with lower use of foreign exchange for imports and other purposes. Bangladesh Bank has continued its interventions in FY13 with a net purchase of foreign currencies amounting to USD 3.58 billion during July-March period of FY13 including USD 1.52 billion during Q3FY13 to reduce excess volatility while the Taka appreciates in value. The REER based exchange rate reflecting the external competiveness of Taka increased to Taka 77.96 per USD at end March 2013 from Taka 75.71

per USD at end December 2012 while the weighted average nominal exchange rate decreased to Taka 78.19 per USD at end March 2013 from Taka 79.85 per USD at end December 2012. Appreciation of REER based exchange rate indicates some erosion of export competitiveness of Bangladesh in the international market during the period.





4.6 According to Export Promotion Bureau (EPB) export earnings increased by 16.2 percent to USD 7.10 billion during Q3FY13 against USD 6.11 billion recorded during the corresponding quarter of FY12. This growth was mainly due to increased exports of jute goods (+29.6 percent), leather (+29.4 percent), woven garments (+17.6 percent), knitwear products (+18.4 percent) and terry towels (+55.3 percent) while exports of raw jute (-24.6 percent), tea (-42.9 percent) and frozen food (-6.6 percent) recorded decline compared to the corresponding quarter of FY12 (Table IV.2).

4.7 Import payments recorded a 3.2 percent decline (on cif basis) to USD 8.86 billion during Q3FY13 compared to USD 9.15 billion in Q3FY12 (Table IV.3). Reflecting the higher domestic production, imports of food-grains declined by 33.1 percent during Q3FY13 to USD 112.0 million compared to USD 167.3 million in Q3FY12 of which rice import decreased sharply by 68.9 percent (USD 6.5 million against USD 20.9 million) and imports of wheat decreased by 27.9 percent (USD 105.5 million against USD 146.4 million). Imports of other food items also decreased by 30.2 percent to USD 790.9 million during the quarter under review compared to USD 1133.2 million recorded during Q3FY12, of which the imports of pulses (+80.4 percent) increased while imports of milk & cream (-24.9 percent), spices (-10.2 percent), edible oil (-18.2 percent) and sugar (-56.7 percent) decreased.

4.8 Imports of intermediate goods mainly used for manufacturing output decreased by 1.1 percent to USD 4.47 billion during Q3FY13 against USD 4.42 billion recorded during the corresponding quarter of FY12. Among the intermediate goods imports of clinker (+2.4 percent), POL (+13.5 percent), oil seeds (+257.9 percent), pharmaceutical products (+3.6 percent), dyeing and tanning materials (+15.1 percent), yarn (+1.1 percent), textile and articles thereof (+11.7 percent) and staple fibre (+3.4 percent) increased while imports of crude petroleum (-29.3 percent), chemicals (-2.4 percent), fertilizer (-14.0 percent), plastic and rubber articles thereof (-14.0 percent) and raw cotton (-6.1 percent) decreased. Imports of capital goods and others recorded a moderate decline of 2.8 percent in Q3FY13, of which imports of iron, steel and other base metals increased by 5.6 percent while imports of capital machinery (-2.1 percent) and other capital goods (-5.8 percent).

4.9 Against the decline in actual imports in the current quarter, indications of a possible increase in imports in the coming months is seen through the current LCs opening data. During Q3FY13 the opening of LCs for imports increased by 6.1 percent (y-o-y) to USD 9.59 billion which was USD 9.04 billion during the same period of the previous fiscal year. Opening of LCs for imports of consumer goods increased by 11.4 percent to USD 1.01 billion, intermediate goods increased by 8.3 percent to USD 3.8 billion and capital machinery increased sharply by 74.8 percent to USD 1.02 billion during the quarter compared to USD 0.90 billion, USD 3.51 billion and USD 0.58 billion respectively during the same quarter of previous fiscal year. On the other hand opening of LCs for the imports of industrial raw materials (-7.3 percent), petroleum and petroleum products (-24.1 percent) and machinery for miscellaneous industries (-6.5 percent) decreased.

4.10 The inflow of workers' remittance recorded a 7.4 percent growth rising to USD 3.72 billion during Q3FY13 compared to USD 3.46 billion in Q3FY12. This growth was mainly due to higher remittance from Oman, Singapore and USA. During Q3FY13 remittances from the Gulf region recorded 6.3 percent growth of which Saudi Arabia recorded 1.4 percent, UAE recorded 12.0 percent, Oman recorded 52.3 percent, Kuwait recorded 4.0 percent and Bahrain recorded 7.7 percent growth, while remittance from Qatar declined by 26.7 percent compared to Q3FY12. Remittances from the Euro region recorded decline by 18.9 percent perhaps due to euro zone crisis, while remittances from the Asia Pacific region registered 18.2 percent growth and growth from rest of the world (including USA) was 17.9 percent in Q3FY13. In absolute amounts, the major sources of remittance during the quarter was Saudi Arabia (USD 1019.8 million), followed by UAE (USD 746.0 million), USA (USD 486.3 million), Kuwait (USD 302.6 million) and UK (USD 225.1 million) (Table IV.4).

V. Price Developments

5.1 The year-on-year twelve month average CPI inflation edged down to 8.00 percent in Q3FY13 from 10.92 percent during the same period of the preceding year. The point to point CPI inflation also decelerated to 7.74 percent in March, 2013 from 10.10 percent during the same period of the preceding year owing mainly to significantly lower non-food prices (Table 5.1).

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**
Mar-12	**45.99**	12.65	23.39	3.59	2.16	5.87	0.93	5.42	**54.01**
Apr-12	**45.84**	12.47	24.02	3.39	2.16	5.86	0.91	5.36	**54.16**
May-12	**45.61**	12.49	25.45	3.41	2.03	4.96	0.96	5.08	**54.39**
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**

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

5.2 The point to point CPI inflation decelerated to 7.74 percent in March 2013 from 7.87 percent in February, 2013 though it slightly increased from the 7.69 percent level in December 2012. Using the 1995-96=100 base year, food inflation (p-t-p) decreased from 8.34 percent in February, 2013 to 8.30 percent in March, 2013 while it increased from 7.33 percent in December, 2012. The point to point non-food inflation continued decelerating from 8.43 percent in December 2012 to 6.79 percent in March 2013. It is evident from Table 5.1 that the food

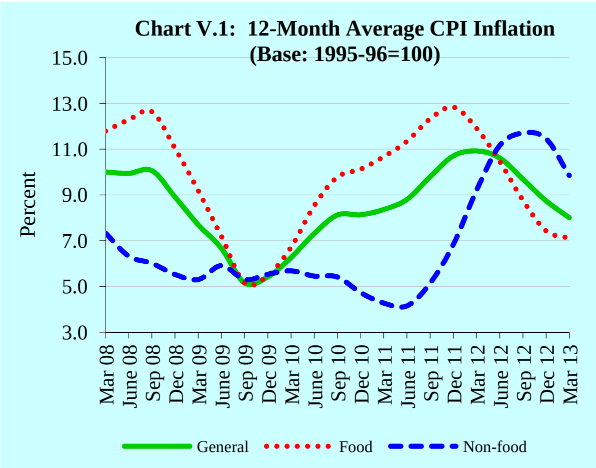


Chart V.1: 12-Month Average CPI Inflation (Base: 1995-96=100)

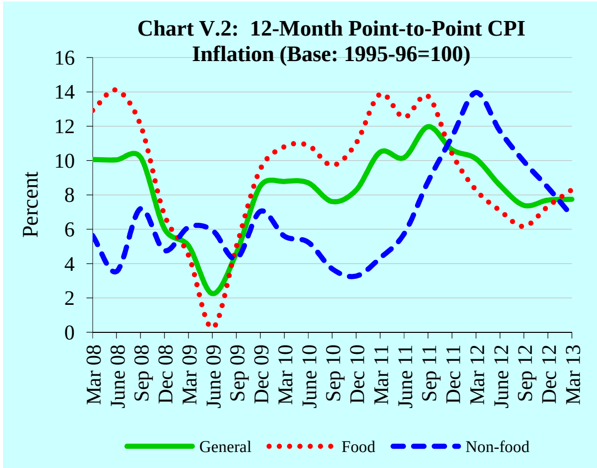


Chart V.2: 12-Month Point-to-Point CPI Inflation (Base: 1995-96=100)

component remained the main driver of the inflationary pressure observed in March 2013. Among the food items, although the price of rice and other cereals declined; the prices of all other food components including vegetables, meat and eggs, fish and dry fish, milk and milk products, beverage and tobacco have increased during the period under review. The price of oil and fats increased in the urban areas but decreased in the rural areas. Inflation (both food and non food) remained higher in urban areas compared to that of rural areas. The twelve month average inflation continued to decline over the past one year from a peak of 10.96 percent in February 2012 to 8.00 percent in March 2013 mainly due to a very good domestic harvest and declining commodity prices in the international market.

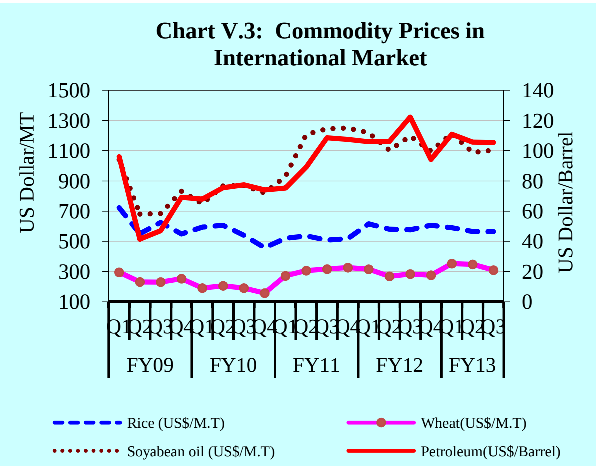


Chart V.3: Commodity Prices in International Market

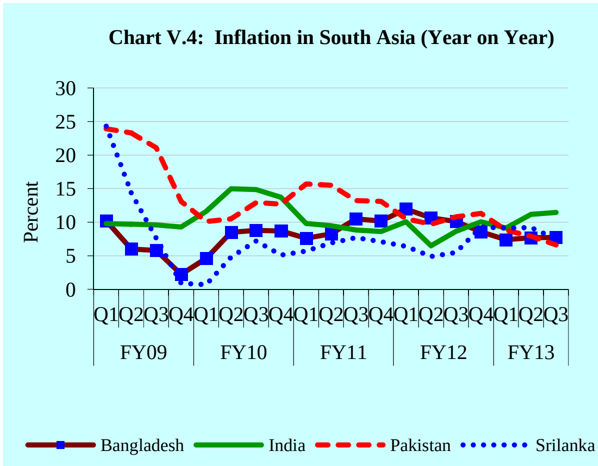


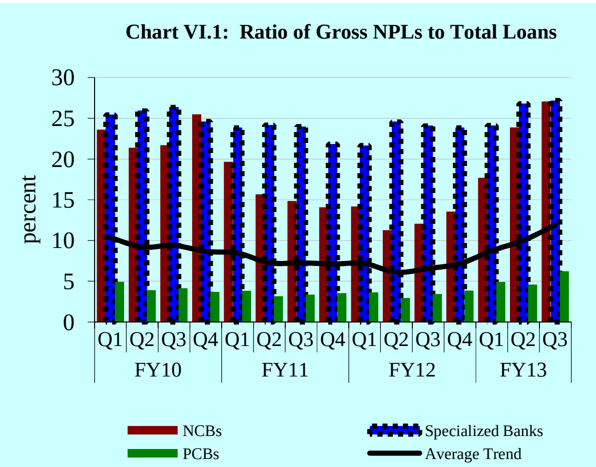
Chart V.4: Inflation in South Asia (Year on Year)

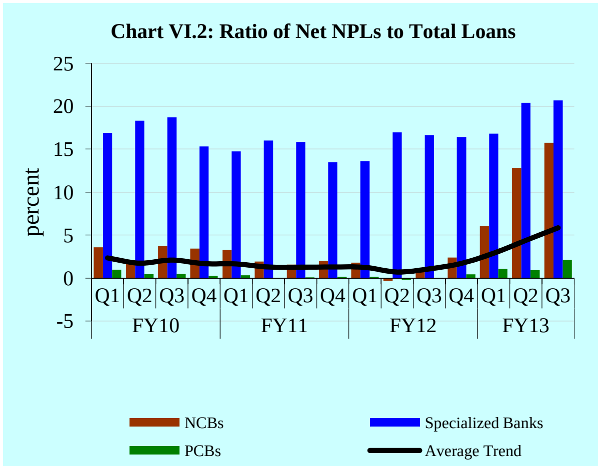
5.3 Point to point CPI inflation in our neighboring South Asian countries exhibited a mixed trend during the quarter under review (Chart V.4). In India, point-to-point CPI inflation (for industrial workers) increased to 11.44 percent in March 2013 from 11.17 percent in December 2012, while WPI inflation decreased from 7.31 percent in December 2012 to 5.96 percent in

March 2013. In Pakistan, point-to-point CPI inflation came down to 6.6 percent in March, 2013 from 7.9 percent in December 2012. In Sri Lanka, CPI inflation decreased from 9.2 percent to 7.5 percent during this period.

VI. Banking Sector Performance

6.1 Banking sector indicators for Q3FY13 raises some concerns for a variety of reasons. The ratio of non-performing loans (NPL) to total loan for the banking sector, in both gross and net terms, increased at the end of Q3FY13 compared with that of Q2FY13. Gross NPL went up from 10.0 percent at the end of Q2FY13 to 11.9 percent at the end of Q3FY13, with SCBs and PCBs suffering deterioration of 3.2 percentage points and 1.7 percentage points respectively. The overall banking industry NPL at end Q3FY13 is 2.6 percentage points higher than the last five year average ratio of 9.3 percent. The risk weighted capital asset ratio (RWCAR) for all banks continue to deteriorate from 10.85 in September to 10.46 in December 2012 after having fallen progressively from 11.35 in December 2011. While the fall in RWCAR has been attributed in part to the implementation of BBs new provisioning guidelines, there has also been a notable increase in NPLs, mainly due to the state owned commercial banks. The return on asset (ROA) and return on equity (ROE), two important measures of bank profitability, declined due to both higher provisioning and higher interest expenses which grew faster than interest earnings. The falling interest rate spread in Q3FY13 is a notable positive development.





6.2 The risk weighted capital asset ratio (RWCAR) for all banks decreased to 10.46 percent at the end of December 2012 from 10.85 percent at the end of September 2012. RWCAR dropped because the risk weighted assets (RWA) of the banking industry increased by Tk.

102.60 billion while total eligible capital decreased by Tk. 8.88 billion between September to December 2012. This ratio for state owned commercial banks (SCBs), specialized banks (SBs) and foreign commercial banks (FCBs) declined from 9.74 percent, (-) 6.21 percent and 21.76 percent at end-September 2012 to 8.13 percent and (-) 7.78 percent and 20.56 percent respectively at end-December 2012. However, for private commercial banks (PCBs) the ratio increased marginally from 11.27 percent to 11.38 percent during the same period. The RWCAR remained significantly above the regulatory requirement of 10.0 percent only for FCBs, while the PCB ratio was marginally higher than requirement. In SCBs the ratio remained below the 10.0 percent of regulatory requirement after first breaching the requirement in Q1FY13 (Table VI.1).

6.3 The ratio of gross NPL to total loans of the banking sector increased from 10.03 percent at the end of December 2012 to 11.90 percent at the end March 2013 (Table VI.2 and Chart VI.1). Gross NPL ratio for the state owned commercial banks (SCBs) increased substantially for the second time in FY13 by 3.2 percentage points to 27.05 percent at end-March 2013 from 23.87 percent at end- December 2012. The ratio for the specialized banks (SBs), private commercial banks (PCBs) and the foreign commercial banks (FCBs) also increased from 26.77 percent, 4.58 percent and 3.53 percent at end-December 2012 to 27.17 percent, 6.23 percent and 4.60 percent respectively at end-March 2013. Similarly, net NPL ratio for all banks increased from 4.38 percent at the end of December 2012 to 5.84 percent at the end of March 2013 resulting from insufficient actual provision for increased gross NPL (Table VI.3, Chart VI.2 and Table 6.1). Group wise net NPL ratio for all bank groups increased during this period. Net NPL ratio for SCBs, SPBs, PCBs and FCBs increased from 12.82 percent, 20.40 percent, 0.92 percent, (-) 0.86 percent at end-December 2012 to 15.73 percent, 20.66 percent, 2.11 percent, (-) 0.06 percent respectively at end-March 2013.

6.4 Among the profitability measures, overall return on assets (ROA) in the banking sector declined from 1.54 percent at the end of December 2011 to 0.64 percent at the end of December 2012. This was primarily due to interest expenditure growing faster than interest income (Chart VI.3) and increase in NPL as well as higher loan provisioning requirements under the new loan provisioning guidelines of BB (Table 6.1). On the other hand performance of the SCBs also had some deteriorating effects on the industry outcomes as four SCBs hold about 26.1 percent in the total industry assets and 21.2 percent in the total outstanding loan.

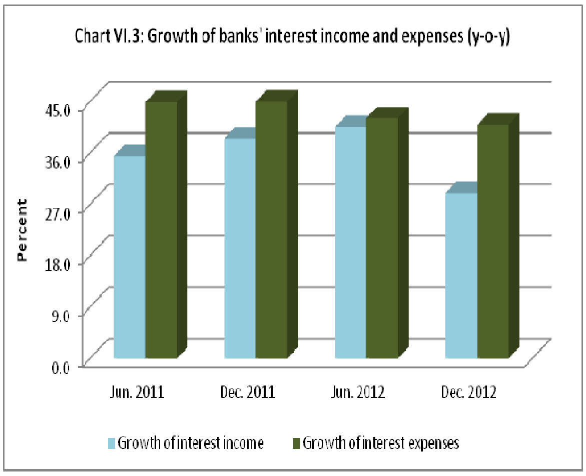


Table 6.1: Comparative position of classified loan and provision adequacy

(billion Taka)

Quarter	Items	SCBs	SBs	PCBs	FCBs
Q3 2012	Total classified loan	155.18	64.27	135.85	7.53
	Required provision	86.27	24.89	83.84	8.75
	Provision maintained	77.12	15.48	84.90	9.30
	Provision maintenance ratio	89.39%	62.17%	101.26%	106.22%
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%

The ROA for SCBs and PCBs declined from 1.34 percent and 1.59 percent at the end of December 2011 to (-) 0.56 percent and 0.92 percent respectively at the end of December 2012. However, the ROA for FCBs and SBs increased marginally from 3.24 percent and 0.03 percent to 3.27 percent and 0.06 percent during the same period. Overall return on equity (ROE) declined significantly from 17.02 percent at the end of December 2011 to 8.20 percent at the end of December 2012 due mainly to a sharp decline in ROE for SCBs from 19.66 percent to (-) 11.87 percent and a moderate decline for PCBs and SBs from 15.69 percent and (-) 0.92 to 10.17 percent and (-) 1.06 percent (Table VI.4). However ROE of FCBs increased from 16.58 percent to 17.29 percent during the same period.

6.5 The spread, difference between weighted average rate of advances and deposit, has gradually been decreasing since the beginning of FY13 (Table 6.2). Monthly interest rate spread for all banks slashed to 5.06 percent at the end of March 2013 from 5.33 percent at the end of December 2012 and 5.58 percent in March 2012 SOBs and PCBs have reduced the spread much more than that of the other bank groups (SPBs and FCBs).Since SOBs and PCBs together hold about 90.0 percent of total bank deposits and credit, the overall spread is dominated by the movements of spreads of these two groups. . At the end of March 2013, PCBs' weighted average rate of interest on deposit has increased whereas weighted average rate of interest on advances has declined compared to end December 2012.

Table 6.2: Monthly weighted average rate of interest					
Type of Banks	Month	W. Avg. Deposits	W. Avg. Advances	Spread	Spread reduced over the period (percentage points)
SOBs	December, 2012	7.15	11.21	4.06	0.37
	March, 2013	7.57	11.26	3.69	
SPBs	December, 2012	9.72	12.45	2.73	0.02
	March, 2013	9.90	12.61	2.71	
PCBs	December, 2012	9.18	14.69	5.51	0.24
	March, 2013	9.29	14.56	5.27	
FCBs	December, 2012	5.60	14.36	8.76	0.20
	March, 2013	5.84	14.40	8.56	
All Banks	December, 2012	8.47	13.80	5.33	0.27
	March, 2013	8.67	13.73	5.06	

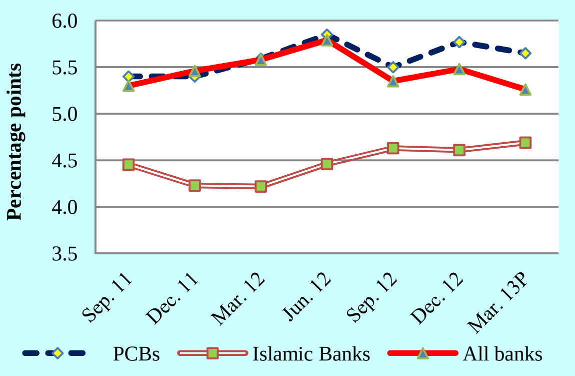
Table 6.3: Deposit and advance position of scheduled banks (end of the month)						
Bank groups	Year-on year growth of deposit (excluding interbank)		Year-on year growth of advances (excluding interbank)		ADR	
	Mar. 13	Dec. 12	Mar. 13	Dec. 12	Mar. 13	Dec. 12
SCBs	18.35%	16.29%	7.29%	12.98%	68.19%	68.95%
SBs	23.33%	22.36%	16.86%	20.38%	78.50%	82.46%
PCBs	19.09%	22.71%	11.42%	16.30%	77.97%	79.65%
FCBs	5.90%	12.30%	2.66%	13.41%	66.75%	72.15%
All	18.21%	20.32%	10.29%	15.62%	74.84%	76.59%
Islamic banking sector	22.39%	27.15%	15.53%	22.50%	85.54%	86.89%

6.6 At the end of Q3FY13, the growth rate (year-on year) of deposit remained higher than that of advances and advance-deposit ratio (ADR) was also far below the ceiling (for both conventional and Islamic banking). The growth rate of deposit and advances (year-on year and excluding interbank) declined from 20.32 percent and 15.62 percent respectively at the end of December 2012 to 18.21 percent and 10.29 percent respectively at the end of March 2013 (Table 6.3). Private sector credit growth (y-o-y) decelerated from 16.61 percent at the end of December 2012 to 12.70 percent at the end of March 2013. The liquidity position of all bank groups (except SPBs as they are exempted from the compliance of SLR by Government rule) have improved at the end of March 2013 than that of in June 2012 showing an easing of the money market (Table 6.4). The weighted average call money rate rose from 9.34 percent in December 2012 to 10.29 percent in January 2013 and then gradually fell to 7.50 by the end of March 2013.

Table 6.4: Liquidity position of the scheduled banks						(Tk. in billion)
	As of end June, 2012			As of end March, 2013P		
	Total liquid assets	Required liquidity (SLR)	Liquidity: excess(+) /shortfall(-)	Total Liquid asset	Required liquidity (SLR)	Liquidity: excess(+) /shortfall(-)
SOBs	382.39	222.08	160.32	428.82	258.06	170.76
SPBs*	33.72	22.60	11.12	33.59	27.92	5.67
PCBs (other than Islamic)	602.24	402.18	200.06	789.88	460.52	329.36
Private Banks (Islamic)	133.86	91.88	41.98	186.61	109.85	76.77
FCBs	102.22	58.94	43.28	139.48	61.53	77.94
All	1254.44	797.68	456.76	1578.38	917.89	660.49

6.7 At the end of March 2013, Islamic Banking sector had 18.84 percent and 21.51 percent of the industry deposit and advances respectively compared with PCBs share of 63.58 percent and 65.51 percent respectively. The share of the seven full-fledged private Islamic banks of the country in the total industry asset increased from 16.05 percent in December 2011 to 16.85 percent in December 2012. Though the ROA and ROE for the Islamic Banks as a group declined from 1.24 percent and 14.97 percent respectively at the end of December 2011 to 1.13 percent and 14.76 percent at the end of December 2012 these remained higher than that of the PCBs. Gross and net NPL ratios of Islamic banks as a group were 5.89 percent and 2.36 percent respectively at the end- March 2012 which is quite reasonable compared to gross and net NPL ratios of 6.23 percent and 2.11 percent respectively of the PCBs during the same period. The quarterly weighted average interest rate spread of Islamic Bank group also lower than that of PCBs (Chart VI.4).

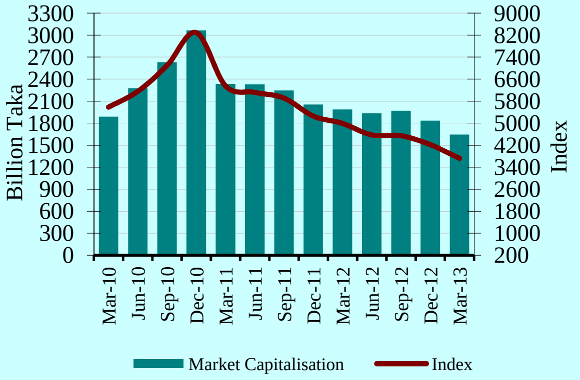
VI.4: Comparative picture of interest rate spread of PCBs and Islamic Banks



VII. Capital Market Development

7.1 During Q3 of FY13, the capital market continued to experience downward pressure as reflected in the falling DSE indices and declining market capitalization. At the end of Q3 FY13, DSE general index stood at 3722.41 which were 11.78 percent lower than Q2 FY13 index. Over the same period, market capitalization decreased by 10.28 percent (chart VII.1 and Table VII.1). The DSE general index and market capitalization declined significantly by 25.41 percent and 17.11 percent respectively during Q3 FY13 as compared to Q3 FY12. At the end of Q3 FY13, DSEX index and DSE 30 index stood at 3590.05 and 1340.15 which were respectively 12.23 percent and 9.02 percent lower than January 28, 2013.

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



7.2 It is also noteworthy that the Dhaka Stock Exchange Limited introduced two new indices, which are known as the DSE Broad (DSEX) Index and DSE 30 Index with effect from January 28, 2013. The base value of DSEX index and DSE 30 Index are 2951.91(which was the general index on January 17, 2008) and 1000 respectively. The base date of DSEX index and DSE 30 Index are January 17, 2008. The DSEX index has been calculated with the tradable share of 199 listed companies of DSE which contribute 97 percent of total market capitalization. DSE30 index is constructed with 30 leading listed companies of DSE which reflect around 51 percent of total market capitalization.

7.3 The average price earnings ratio of the DSE declined to 10.79 in March 2013 from 12.07 in December 2012 making the market potentially even more attractive for new investments. Total turnover value in the Dhaka Stock Exchange decreased by 28.74 percent from Tk. 202.61 billion in Q2FY13 to Tk. 144.78 billion in Q3FY13.Moreover, it decreased significantly by 37.26 percent relative to the same period of last year. The liquidity situation in the capital market tightened as measured by Turnover Velocity Ratio (TVR)[2], which decreased to 35.06 percent in Q3 from 44.14 percent in Q2 of FY13. The “number of listed securities” increased to 300 in March’13 from 294 in December’12. The value of “issued equity and debt” increased by 1.99 percent (Table VII.1) and six new companies were listed in the capital market during Q3 FY13.

7.4 Sector-wise, DSE data shows that during the Q3 FY13 market capitalization increased in food and allied products, fuel and power and pharmaceuticals sectors (Table VII.2). All together these sectors contributed 27.82 percent of the total market capitalization. All other sectors (72.18 percent of total market capitalization) decreased during Q3 of FY13. The relative contributions of the different sectors in total market capitalization remained almost unchanged during the last two quarters with banks contributing more than 25 percent.

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