Economic & Financial Developements

Part A: Economic and Financial Developments

Executive Summary

Throughout the third quarter of FY15, economic activities were notably disrupted by nationwide political violence which seriously hurt the service sector although the agricultural and service sectors stood somewhat resilient. Moreover, both external and domestic demand suffered as indicated by lower growth in exports earning (5.74 percent) and remittances (1.61 percent), and negative growth of 2.47 percent in imports during the quarter under review.

Although service sector data are available annually, the relevant proxies to gauge quarterly developments in the service sector such as trade financing, bank advances to the transport and communication sector, and cargo handled through Chittagong port show disappointing figures: credit to the trade and commerce sector posted a negligible 0.24 percent growth while the transport and communication sub-sector registered a negative growth of 10.34 percent in the third quarter of FY15 compared to 13.08 percent and 5.71 percent growth rates in the previous quarter, respectively. The cargo handled through Chittagong port increased by 16.53 percent over the same period of the preceding year in contrast to 26.90 percent in Q2FY15.

Despite disruptions in economic activities, the external sector showed notable resilience during Q3FY15. The overall current account balance (CAB) recorded a surplus of USD 273.0 million in Q3FY15 which was significantly higher than the surplus of USD 75.0 million in Q3FY14 due mainly to the construction of the trade balance. The economy experienced trade deficits amounting significantly narrowed from USD 2.51 billion in Q3FY14 to USD 1.83 billion in Q3FY1. On the other hand, remittance inflows went up by 1.2 percent in Q3FY15 compared to the amount in Q3FY14.

The inflation rate, measured in both average and point-to-point methods, declined mainly because of decelerating food inflation. The twelve-month-average CPI-inflation decreased from 6.99 percent in December 2014 to 6.66 percent in March 2015 and 7.55 percent in March 2014 driven mainly by falling food inflation. Similarly, point-to-point CPI inflation fell from 7.84 percent in March 2014 to 6.27 percent in March 2015 as both food and nonfood inflation came down.

Broad money (M2) growth decelerated to 12.5 percent in March 2015 from 13.4 percent in December 2014 and 16.1 percent in June 2014. M2 growth stayed below the programmed level of 15.8 percent in March 2015, although private sector credit grew marginally. In contrast, credit to the public sector posted negative growth of 2.96 percent in March 2015 compared with 2.6 percent growth in December 2014 while programmed growth in March 2015 was 16.9 *percent. On the other hand, reserve money grew by 14.9 percent (y-o-y) in March 2015 compared with 12.5 percent (y-o-y) growth during the same period of the preceding year driven by 22.5 percent increase in the net foreign assets of Bangladesh Bank.*

Fiscal developments portrayed a mixed picture. Revenue collection registered 20.6 percent growth while government expenditure posted 19.3 percent during Q3FY15 compared to the corresponding quarter of the previous year. During the first three quarters of FY15, growth in budgeted expenditure (59.5 percent of target) fell behind that of revenue collection (71.0 percent of budgeted amount). Nevertheless, foreign financing grew faster in Q3FY15 accounting for almost 60 percent of the total deficit of the quarter while domestic financing comprised mainly of borrowing from outside the banking sector.

The banking sector indicators for Q3FY15 raised some concerns regarding nonperforming loans (NPL) of Tk. 37.8 billion (NPL) for various reasons. After showing noticeable improvements during the preceding quarter, the condition of NPL slightly deteriorated in Q2FY15: the ratio of gross NPL to total outstanding loans increased to 10.5 percent at the end of Q3FY15 from 9.7 percent at the end of Q2FY15. Likewise, the ratio of net NPL increased from 2.7 percent at the end of December 2014 to 3.7 percent at the end of March 2015. At the end of March 2015, provision shortfall stood at Tk. 37.8 billion increasing from Tk.8.0 billion at the end of December 2014. Similarly, in Q3FY15, the capital adequacy ratio (CAR) decreased to 10.7 percent from 11.4 percent in Q2FY15. Both measures of the profitability in the banking industry showed decline from the previous quarter. The return on assets (ROA) declined from 0.9 percent at the end of December 2013 to 0.6 percent at the end of December 2014 on account of higher provision requirements and the net losses made by SCBs and SBs. On the other hand, the return on equity (ROE) of the banking sector also decreased to 8.1 percent at the end of December 2014 from 10.8 percent at the end of December 2013. Nevertheless, one positive development was the fall in monthly interest rate spread for all banks to 4.87 percent at the end of Q3FY15 from 5.21 percent in December 2014.

Bangladesh Bank's monetary stance in January-June 2015 aimed to bring average inflation down to 6.5 percent by the end of FY15, while ensuring sufficient credit growth for stimulating inclusive economic growth. In line with these goals, BB aimed to limit reserve money growth to 15.9 percent and broad money growth to 16.5 percent by June 2015. It appears that the space for private sector credit growth of 15.5 percent for this period remained so far well in line with output growth targets and might be sufficient to accommodate any substantial rise in investment over January-June 2015.

I. Developments in the Real Economy

1.1 Throughout the third quarter of FY15, Bangladesh economy passed through an aberrant period of time caused by nation-wide strike and violence in the highways which hurt the service sector most, while agriculture and industry sectors were resilient in that period. Hence, during the quarter under review, economic activities of the country emerged mainly for agriculture and industry sectors. In addition, the economy faced weak external demand reflected in slower growth of exports earnings (5.74 percent) as well as weaken domestic demand reflected in negative import growth (-2.47 percent). At the same time, the growth of domestic demand might be decelerated by low growth of remittances inflow (1.31 percent) during the quarter under review.

1.2 The production of *aman* rice crop, which is the second largest crop in Bangladesh and harvested in the second quarter of the fiscal year, has met its annual target. Department of Agricultural Extension's (DAE) preliminary estimate shows that 13.19 million metric ton (mmt) *aman* rice has been grown on 5.53 million hectare land in the current fiscal year. This production is slightly (1.28 percent) higher than the previous year's actual production, but 1.95 percent lower than the annual target of 13.45 mmt set by DAE. Before *aman*, *aus* rice crop was grown 2.33 mmt, which was almost same as previous year's production. Though *boro* crop, which is the main crop of Bangladesh, cultivated in the third quarter, the production data is yet to be made available. However, based on DAE estimate, it may presume that production of *boro* will surpass its annual target, as plantation area has already exceeded its annual target.

Apart from rice crops, preliminary estimate by DAE shows that production of wheat and potato registered a growth rate of 13.90 percent and 4.22 percent respectively in the current fiscal year. In the current fiscal year, wheat production increased to 1.48 mmt from 1.30 mmt in the previous fiscal year, while potato production increased from 8.95 mmt to 9.33 mmt.

Chart 1.1: Growth of Real GDP

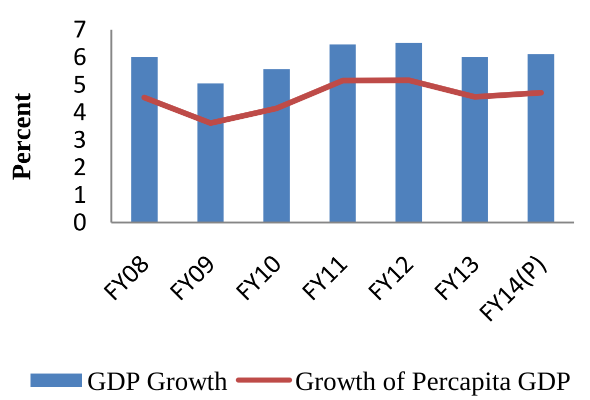
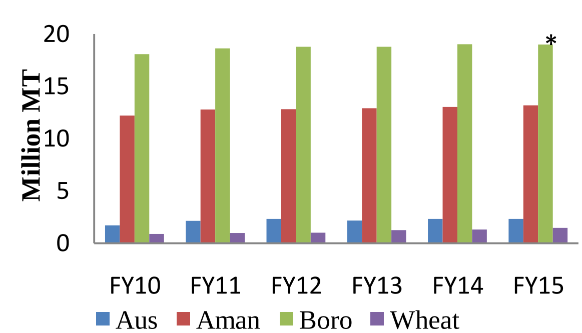


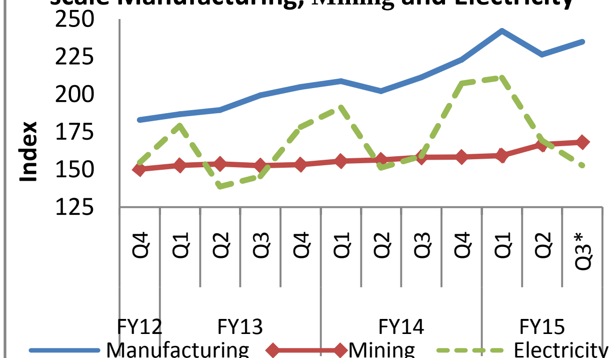
Chart 1.2: Production of Major Crops



Aus and Aman productions for FY15 are provisional DAE estimates
* indicates target

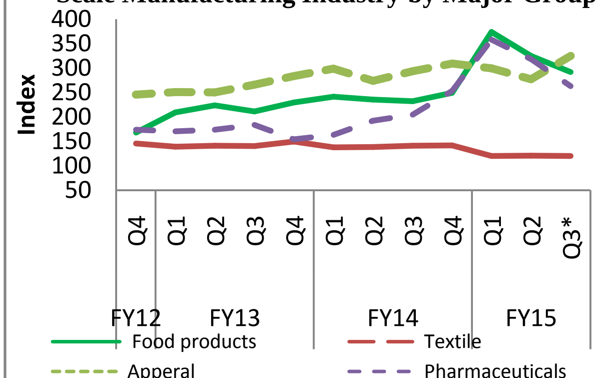
1.3 The only available data which proxies for industrial growth in the third quarter of FY15, is the quantum index of large and medium scale industries for January and February 2015. Compared to the average index of January and February, 2014 large and medium scale industries registered a 10.09 percent growth in the first two months of the third quarter of FY15 (January and February), driven mainly by high growth of manufacturing of food products (24.57 percent), manufacturing of pharmaceuticals (29.67 percent), computer, electronics and optical product (77.22 percent), electrical equipments (36.04 percent) and non-metallic mineral products (32.80). However, apparel industry registered a 7.59 percent growth which is lower than the industry average. On the other hand, manufacturing of textile, leather and leather products, and chemical registered negative growth of (-) 11.17 percent, (-) 23.80 and (-) 14.71 percent respectively. It may be mentioned that large scale industrial production registered 11.99 percent growth in the Q2FY15 (October-December 2014) compared to the same period of previous fiscal year. Among others in the industry sector, 46.82 percent growth of cement production and 12.38 percent growth of iron and steel production in the first eight months FY15 reflects a satisfactory picture of the construction sector in the country.

Chart 1.3: Quantum Index of Medium and Large-scale Manufacturing, Mining and Electricity



* indicates data based on the average of January and February, 2015

Chart 1.4: Quantum Index of Large and Medium Scale Manufacturing Industry by Major Group



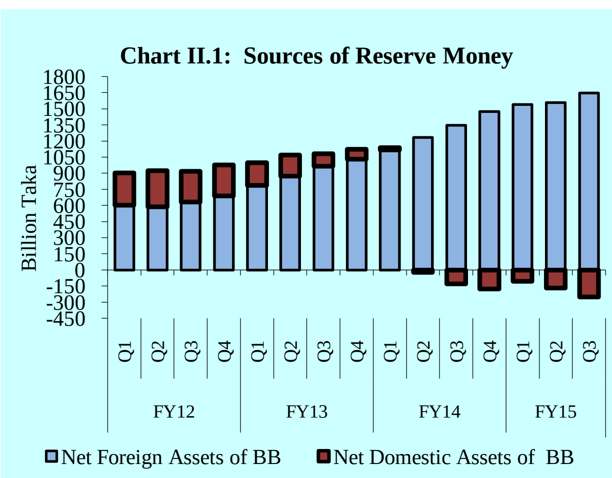
* indicates data based on the average of January and February, 2015

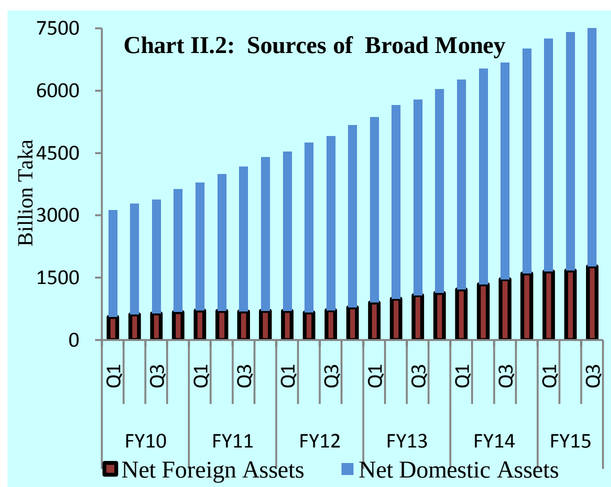
1.4 Though service sector data is available only on an annual basis, quarterly developments in the service sector activities assessed based on a number of proxy indicators, such as trade financing, bank advances to transport and communication sector, cargo handled through Chittagong port, etc. Credit growth to the trade and transport sub-sector, which constitutes almost half of the service sector, portrays a dismal picture of the service sector during the third quarter of FY15, while the growth of cargo handled through Chittagong port was subdued. In the third quarter, trade and commerce sector registered as low as 0.24 percent growth, while transport and communication sub-sector registered a negative growth of 10.34 percent. In the second quarter, growths of this sub-sector were 13.08 percent and 5.71 percent respectively. On the other hand, cargo handled through Chittagong port increased by 16.53 percent during the Q3FY15 compared to the same period of previous fiscal year, while this growth was 26.90 percent in the Q2FY15.

II. Money and Credit Market Development

2.1 The monetary stance January-June 2015 aims to bring average inflation down to 6.5 percent by end of FY15, while ensuring the credit growth is sufficient to stimulate inclusive economic growth. Given these objectives, BB aims to limit reserve money growth to 15.9 percent and broad money growth to 16.5 percent by June 2015. The space for private sector credit growth of 15.5 percent (including foreign borrowing by local corporate) has been kept well in line with output growth targets and is sufficient to accommodate any substantial rise in investment over January-June 2015.

2.2 In March 2015 broad money (M2) growth was 12.5 percent compared with 13.4 percent in December 2014 and 16.1 percent in June 2014. The M2 growth remained lower than the programmed level of 15.8 percent in March 2015. The growth in private sector credit marginally increased to 13.6 percent in March 2015 from 13.5 percent in December 2014, but remained lower than the programmed growth of 15.3 percent though the growth was higher than the actual growth of 11.5 percent a year earlier. Growth of credit to the public sector was -2.96 percent in March 2015 compared with 2.6 percent in December 2014 and 8.8 percent in June 2014 while programmed growth in March 2015 was 16.9 percent. Net Foreign Asset (NFA) grew by 20.8 percent in March 2015 compared to the growth of 24.6 percent in December 2014.



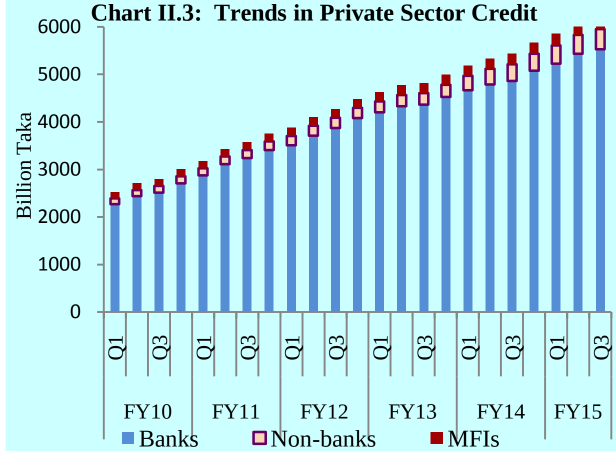


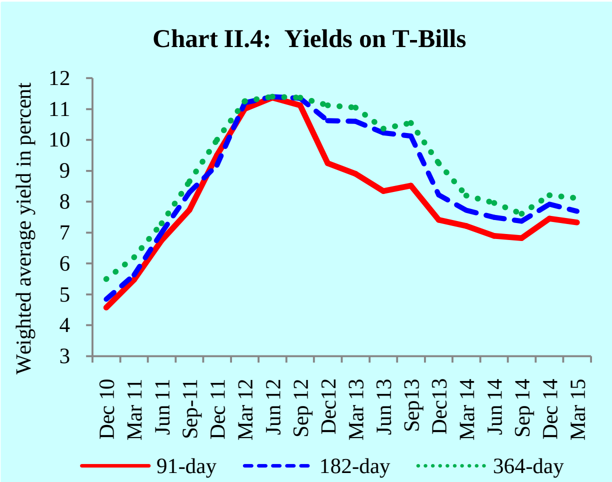
2.3 A look at the components of M2 shows that currency, demand deposits and time deposits increased by 12.7 percent, 6.6 percent and 13.2 percent (y-o-y) respectively in March 2015 compared with the increase of 10.3 percent, 16.0 percent and 15.9 percent respectively during the same period of the preceding year. Narrow money or M1 grew by 10.0 percent in March 2015 which was 15.1 percent in December 2014. However, the money multiplier (M2/RM) marginally increased to 5.4 in March 2015 from 5.3 in December 2014 reflecting the slightly higher expansion of M2.

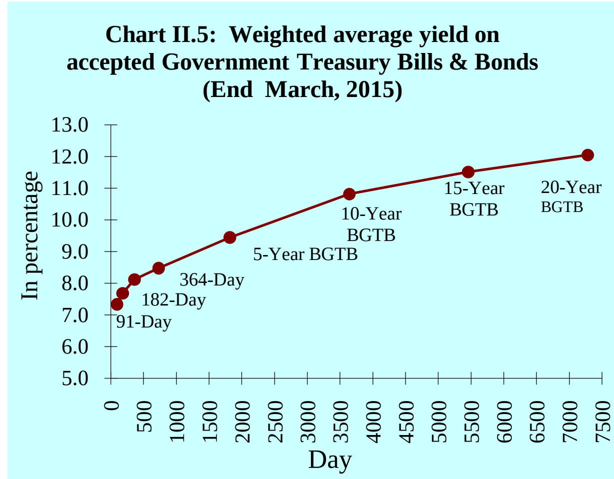
2.4 Reserve money (RM) grew by 14.9 percent (y-o-y) in March 2015 compared with 12.5 percent (y-o-y) growth during the same period of the preceding year. This was due to the 22.5 percent increase in NFA of BB.

2.5 In March 2015, private sector credit (including banks, non-banks and micro-finance institutions) grew by 14.4 percent compared with 13.0 percent in March 2014. Individually, bank advances in consumer financing grew sharply by 70.4 percent at the end of March 2015 compared to 8.5 percent at the end of March 2014. Bank advances to industry grew by 26.4 percent at the end of March 2015 due to a sharp growth in working capital financing by 40.0 percent over this period. On the other hand, industrial term loan increased by 11.8 percent. Growth of bank advances to the construction, and transport sectors were 1.6 percent and -10.3 percent respectively at the end of March 2015 compared to 7.6 percent and -14.4 percent respectively at the end of March 2014. In the agriculture sector the supply of credit increased by 6.5 percent at the end of March 2015 (of which advances to crops increased by 5.6 percent while others went up by 14.6 percent). Growth of advances to trade & commerce sectors was 0.2 percent at the end of March 2015 compared with the growth of 20.1 percent at the end of March 2015. The highest share of bank advances went to the industry sector (37.7 percent) followed by the trade and commerce (35.0 percent), the consumer finance (9.3 percent) and construction (6.5 percent) (Table I.9). The overall disbursements of industrial term lending by Banks and NBFIs grew by 43.8 percent, and stood at Tk. 133.5 billion at end of March 2015 from Tk. 92.8 billion in the same quarter of the preceding year.

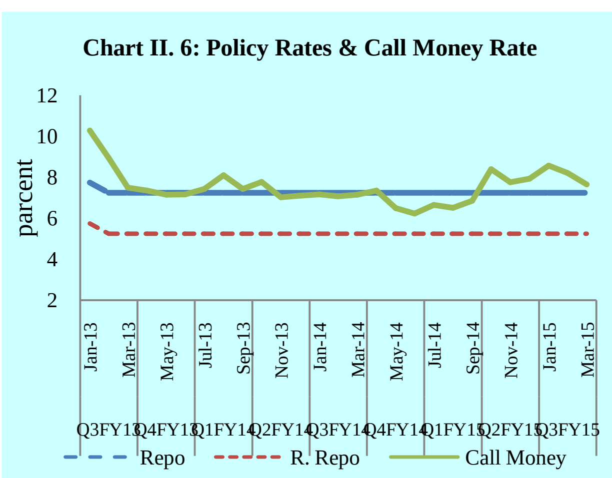
Chart II.3: Trends in Private Sector Credit

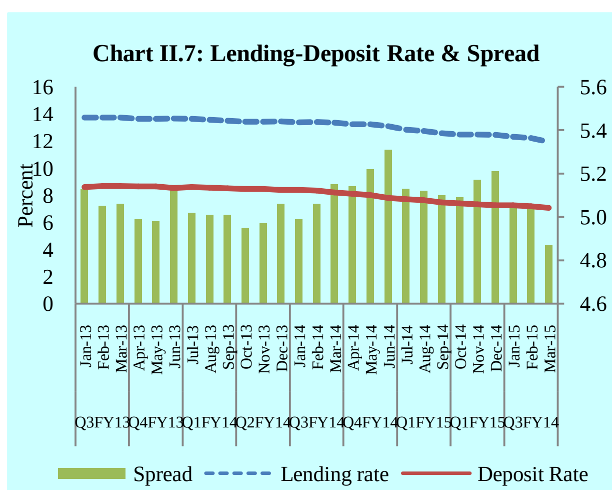






2.6 Overall yields on short term treasury bills e.g., 91-day, 182-day and 364-day declined to 7.33 percent, 7.69 percent and 8.12 percent respectively at the end of March 2015 from 7.45 percent, 7.92 percent and 8.21 percent respectively at the end of December 2014. The rate of 30-day Bangladesh Bank bill remain unchanged at 5.25 percent in December 2014 and March 2015 but decreased from 6.92 percent during the same quarter of the previous year. Two-year, five-year and ten-year long-term treasury bonds yields marginally decreased to 8.47 percent, 9.44 percent and 10.82 percent respectively at the end of March 2015 from 8.48 percent, 9.59 percent and 10.99 percent respectively at the end of December 2014 (Table II.3). Government has temporarily stopped primary auction of 15-year and 20-year BGTB during the quarter due to have adequate liquidity in the government account.





2.7 The repo and reverse repo rates remained unchanged at 7.25 percent and 5.25 percent respectively during the period under consideration. However, the call money rate decreased to 7.66 percent at the end of March 2015 from 7.93 percent at the end of December 2014. The spread between lending and deposit rates narrowed in March 2015 to 4.87 percent from 5.21 percent in December 2014.

III. Fiscal Developments

3.1 Preliminary estimates show that total revenue increased by 20.6 percent, whereas total expenditure grew by19.3 percent during Q3FY15 compared to that of Q3FY14. During the first three quarters (Up to March of FY15) of FY15, revenue collection was 71.0 percent while expenditure reached only 59.5 percent of the full year budgeted amount. Accordingly, the overall budget deficit for the first three quarters of FY15 amounted to 34.9 percent of the annual revised budget deficit which was 2.0 percent of GDP, slightly higher than 1.7 percent recorded for the same period in the previous year. Preliminary estimates exhibit that foreign financing grew faster over domestic financing during Q3FY15 and almost 60 percent of the total deficit of the quarter has been financed by foreign sources, while rest of the amount financed from domestic sources. Among domestic sources, entire amount has been financed from non-bank sources during this quarter under review (Table III.1 and ChartIII.2).

Chart III.1: Trends in Government Revenue and Expenditure

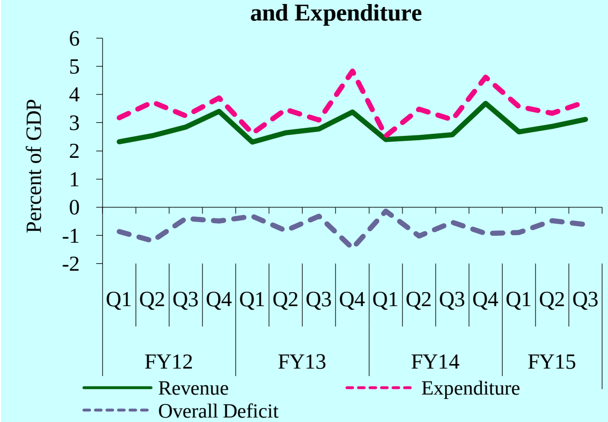
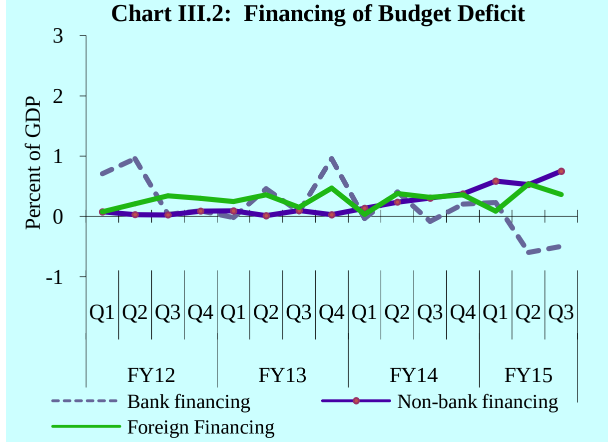


Chart III.2: Financing of Budget Deficit



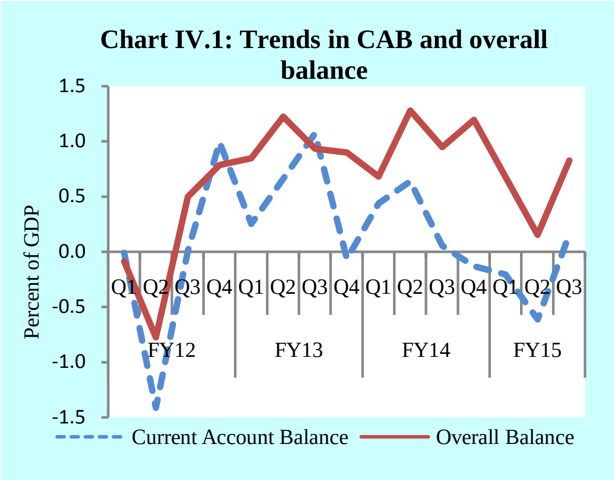
3.2 Total NBR revenue increased by 16.8percent to TK. 336.7billion (24.9 percent of the revised annual target of FY15) in Q3FY15 from Q3FY14. Revenue collection from income tax, value added tax (VAT), custom duties, and other sources increased by 19.9 percent,16.2 percent,11.3 percent, and 15.6 percent respectively during the quarter under review compared to that of in the same quarter of previous year. The overall NBR revenue collection for the first three quarters of FY15 reached TK.927.3billion (68.7 percent of the revised target of FY15), which is 17.1 percent higher than that of in the same time of FY14.

3.3 During Q3FY15, a preliminary estimate of total expenditure was TK. 500.5 billion (20.9 percent of revised annual target), which was 19.3 percent higher, in nominal terms, than that of Q3FY14. The current expenditure grew by 25.5 percent to TK. 291.3 billion during Q3FY15 compare to that of Q3FY14. The ADP expenditure on the other hand, declined by 19.0 percent to TK. 131.28 billion during Q3FY15 compared to the previous quarter Q2FY15. The ADP utilization for the first three quarters of FY15 amounted to Tk. 369.2 billion which is only 49.2 percent of annual ADP target as compared to the amount of Tk. 284.2 billion or 47.38 percent of annual target of FY14.

3.4 The overall fiscal deficit stood at Tk.82.1 billion during Q3FY15, representing 0.61percent of GDP compared to Tk. 72.4 billion or 0.5 percent of GDP in Q3FY14. Domestic financing of the deficit at Tk. 34.1 billion in Q3FY15 was slightly higher than Tk. 30.2 billion recorded in Q3FY14.Foreign financing of the deficit at Tk.48.0 billion in Q3FY15 was also higher than Tk. 42.2 billion disbursed in Q3FY14.Of the domestic sources, bank financing stood at (-) Tk. 66.4 billion compared to (-) Tk. 11.0 billion in Q3FY14.On the other hand, financing from non-bank sources increased by 144.3 percent to Tk. 100.5 billion from Tk.41.1 billion in Q3FY14.

3.5 The overall deficit financing during the first three quarters of FY15 amounted to Tk.265.9 billion or 2.0 percent of GDP compared to TK.228.0 billion or 1.7percent of GDP for the same period in FY14.A look at the sources of financing, the deficit shows that Tk. 134.2 billion in the first three quarters (Tk.129.9 billion in the same period of FY14) was accommodated from domestic sources that included net bank financing (-) Tk. 115.6 billion and non-bank financing of Tk. 249.7 billion. The remaining amount of Tk.131.7 billion (Tk.98.1 billion in the same period of FY14) came from foreign sources during the first three quarters of FY15.

IV. External Sector Developments



4.1 The overall current account balance (CAB) recorded a surplus of USD 273.0 million in Q3FY15 compared to a surplus of USD 75.0 million in Q3FY14 as exports increased while import decreased in the current quarter over the corresponding quarter of FY14. The inflow of remittance increased by 1.2 percent in Q3FY15 compared to Q3FY14.Deficit in trade balance narrowed down to USD 1.83 billion in Q3FY15 compared to USD 2.51 billion in Q3FY14. There were deficits in services (USD 1.08 billion) and primary income (USD 675.0 million) in Q3FY15, while secondary income recorded a surplus of USD 3.86 billion during the same period.

4.2 The combined capital & financial account recorded a surplus of USD 796.0 million in Q3FY15 compared to a surplus of USD 1.29 billion in Q3FY14. The financial account recorded a surplus of USD 659.0 million in Q3Y15, which was lower than the surplus of USD 1.01 billion in Q3FY14. Surplus in the Capital account of USD 137.0 million in Q3FY15 was also much lower compared to the surplus of USD 274.0 million recorded in Q3FY14.

The overall balance of payments (BOP) recorded a surplus of USD 1.44 billion in Q3FY15, with a foreign exchange reserve of USD 23.91 billion at the end of March 2015 (Table IV.1).

4.3 Total foreign aid in Q3FY15 was USD 672.4 million, compared to USD 862.1 million in Q3FY14. Out of the total aid, USD 520.3 million was disbursed as MLT loan in Q3FY15, whereas USD 537.4 million was disbursed under the same heading in Q3FY14. Grants decreased from USD 324.8 million in Q3FY14 to USD 152.1 million in Q3FY15. In Q3FY15, Bangladesh made an amortization payment of USD 250.4 million, of which USD 194.5 million was paid as principal. As a result, net foreign financing in Q3FY15 was USD 477.9 million. (Table IV.8)

Chart IV.2: Exchange Rates Movements

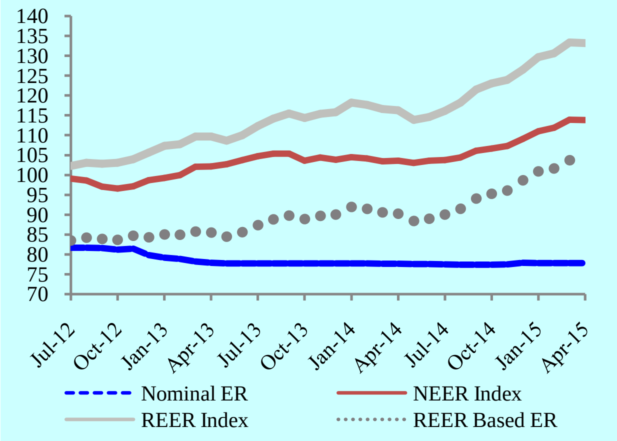
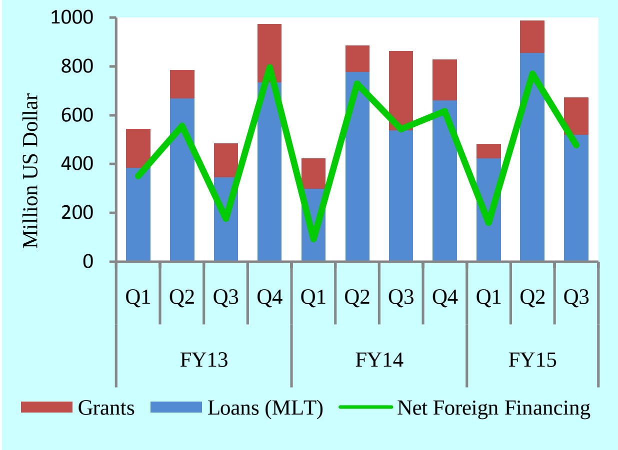


Chart IV.3: Trends in Foreign Aid Inflow



4.4 The foreign exchange market remained mostly stable as Bangladesh Bank continued its intervention in the domestic foreign exchange market with a net purchase of foreign currencies amounting to USD 1,168.00 million during Q3FY15. The nominal exchange rate remained unchanged at Tk. 77.80 per US dollar from December 2014 to March 2015, while the REER based exchange rate increased to Tk. 103.75 per USD at the end of March 2015 from Tk. 98.65 per USD at the end of December 2014 (Base Year: 2010-11, 10-Currency Basket).

4.5 According to the Export Promotion Bureau (EPB) data, export earnings increased by 5.7 percent to USD 7.99 billion in Q3FY15 compared to USD 7.56 billion in Q3FY14. Export of woven garments increased by 11.0 percent in Q3FY15 compared to Q3FY14 as export to European countries increased by 10.61 percent. Export of knitwear items grew by 4.3 percent during the same period.

Among other major export items, earnings from jute goods increased by 20.7 percent while that of frozen shrimps and fish decreased by 9.2 percent and export of leather declined by 34.4 percent in Q3FY15 over Q3FY14. Among non-traditional markets, RMG export increased to Japan (+37.6 percent), China (+15.9 percent), India (+33.9 percent), United Arab Emirates (+32.6 percent) during Q3FY15 over Q3FY14. Export of non-RMG products to India (+36.7 percent) also increased. (Table IV.2 and IV.5)

4.6 Import payments (according to banking sector data) rose to USD 10.62 billion in Q3FY15 compared to USD 9.84 billion in Q3FY14 due mainly to increase in import of capital machinery from USD 395.8 million in Q3FY14 to USD 782.5 million in Q3FY15. Import of rice increased to USD 180.4 million during Q3FY15, compared to USD 122.8 million in Q3FY14.

Wheat import decreased from USD 292.5 million in Q3FY14 to USD 279.2 million in Q3FY15. Import of other food items increased from USD 769.6 million during Q3FY14 to USD 1031.8 million in Q3FY15. Among the other food items, import of spices (+51.0 percent), edible oil +48.1 percent), milk & cream (+65.4 percent), pulses (+59.2 percent) all increased, while that of sugar (-7.7 percent) decreased in Q3FY15 over Q3FY14 (Table IV.3).

Chart IV.4: Trends in Exports & Imports

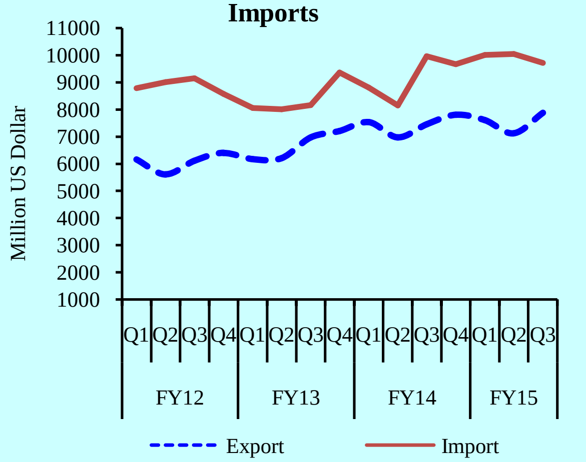
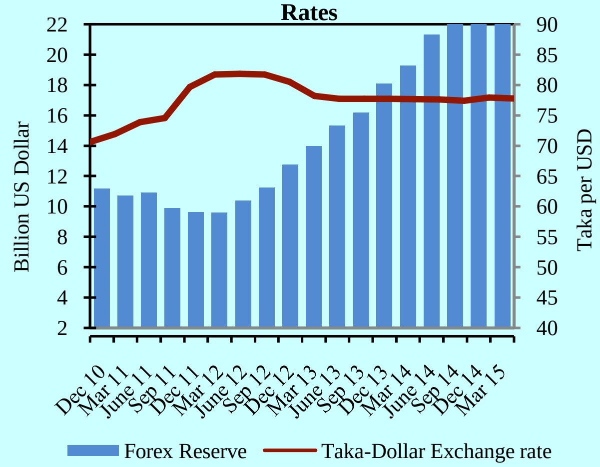


Chart IV.5: FOREX Reserve & Exchange Rates



4.7 Imports of intermediate and consumer goods increased by 1.4 percent in Q3FY15 to USD 4.73 billion. Among the intermediate goods, imports of POL (-32.7 percent), raw cotton (-1.3 percent), clinker (-6.2 percent), crude petroleum (-41.7% percent) all declined, while import of oil seeds (+144.7 percent), fertilizer (+39.7 percent), yarn (+10.5 percent), textile and articles thereof (+7.7 percent), plastic and rubber articles thereof (+31.5 percent) increased. Imports of capital machinery recorded a growth of 97.7 percent in Q3FY15 over Q3FY14 (Table IV.3).

4.8 Opening of import LCs increased by 1.3 percent to USD 11.02 billion in Q3FY15 compared to USD 10.88 billion in Q3FY14, of which consumer goods (20.7 percent), machinery for miscellaneous industries (6.09 percent), industrial raw materials (4.35 percent), intermediate goods (1.54 percent), capital machinery (13.21 percent) increased, while petroleum and petroleum products (-51.58 percent) decreased. (Table IV.9).

4.9 The inflow of workers' remittances increased by 1.3 percent to USD 3.77 billion in Q3FY15 compared to USD 3.72 billion in Q3FY14. Remittance inflow decreased from Saudi Arabia by USD 7.40 million, from Kuwait by USD 15.80 million, from UK by USD 37.02 million, and from USA by USD 36.48 million (Table IV.4). Overseas employment for Bangladeshi workers increased in Q3FY15 as a total of 108,709 Bangladeshi migrated compared to 96,068 in the corresponding period of FY14.

V. Price Developments

5.1 The twelve monthly average CPI inflation decelerated to 6.66 percent in March 2015, compared with 6.99 percent in December 2014 and 7.55 percent in March 2014 driven by deceleration in food inflation mainly. Point to point CPI inflation also came down to 6.27 percent in March 2015 from 7.84 percent in end March 2014 due to decline in food and nonfood inflation jointly during the period. Table-5.1 shows that after December 2014, contribution of food inflation to point to point CPI inflation followed upward trend with amid fluctuations where that of nonfood slightly declined during the same period.

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

Months	Food beverage & tobacco	Clothing & Footwear	Gross rent, Fuel & Lighting	Furniture, Furnishing & Other	Medical care and Health Expenses	Transport & Communications	Recreation, Entertain-ment, Education	Misc. Goods & Services	Non-food
Weight	**56.18**	**6.84**	**14.88**	**4.73**	**3.47**	**5.8**	**4.28**	**3.82**	**43.82**
Jan-14	**67.34**	8.48	12.20	3.41	1.49	3.02	1.45	2.62	**32.66**
Feb-14	**68.07**	8.29	11.96	3.21	1.46	3.07	1.40	2.54	**31.93**
Mar-14	**68.72**	7.90	11.80	2.93	1.46	3.11	1.60	2.48	**31.28**
Apr-14	**68.80**	8.00	11.70	2.48	1.50	3.35	1.59	2.58	**31.20**
May-14	**69.41**	6.72	11.74	2.81	1.54	3.37	1.59	2.82	**30.59**
Jun-14	**65.42**	8.21	13.63	2.92	1.65	3.56	1.67	2.96	**34.58**
Jul-14	**64.15**	8.86	14.05	2.59	1.63	4.10	1.69	2.94	**35.85**
Aug-14	**63.03**	8.71	15.05	2.52	1.57	4.86	1.33	2.93	**36.97**
Sep-14	**63.28**	8.60	15.03	1.88	1.80	5.96	1.40	2.04	**36.72**
Oct-14	**61.40**	8.21	14.45	2.34	2.71	7.08	1.27	2.54	**38.60**
Nov-14	**58.45**	8.36	14.90	2.45	4.11	7.62	1.38	2.74	**41.55**
Dec-14	**53.54**	8.84	15.59	2.88	4.55	9.45	1.66	3.50	**46.46**
Jan-15	**56.24**	7.21	9.47	3.04	8.41	9.89	1.76	3.98	**43.76**
Feb-15	**55.69**	7.46	9.42	3.23	8.89	9.76	1.68	3.87	**44.31**
Mar-15	**57.08**	7.33	8.95	3.41	8.73	9.45	1.33	3.72	**42.92**

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

5.2 Like national average CPI inflation, that in urban and rural areas followed a declining trend during Q3FY15 due mainly to decline in point-to point food inflation. Point-to-point CPI inflation in rural areas declined to 6.01 percent in March 2015 from 7.21 percent in March 2014. Similarly, in the urban areas CPI inflation also went down from 7.98 percent to 6.77 percent during the same period. The decline in point-to-point CPI inflation in both areas was undoubtedly driven by the fall in food point-to-point CPI inflation (from 8.53 percent to 5.95 percent in rural areas and for urban areas from 9.99 percent to 7.36 percent during the above mentioned period).While nonfood point-to-point CPI inflation in both urban and rural areas, however, increased slightly during the period under report.

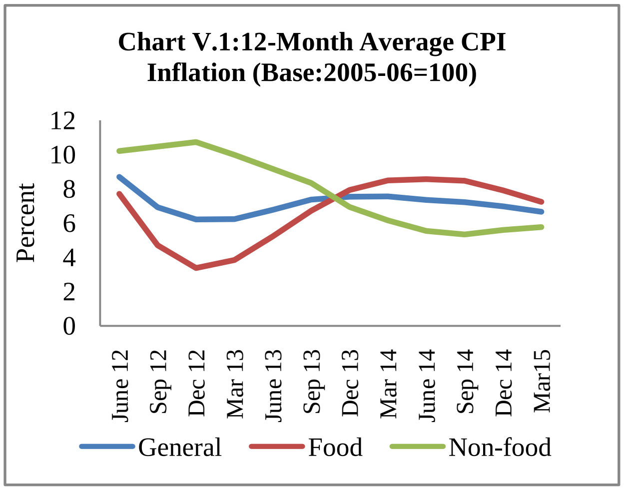


Chart V.1:12-Month Average CPI Inflation (Base:2005-06=100)

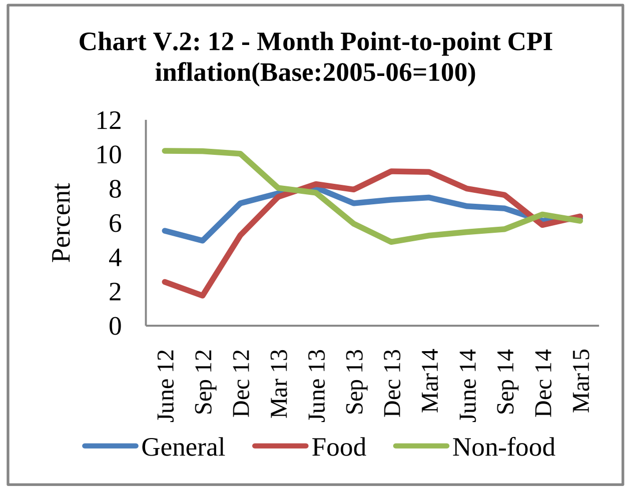


Chart V.2: 12 - Month Point-to-point CPI inflation(Base:2005-06=100)

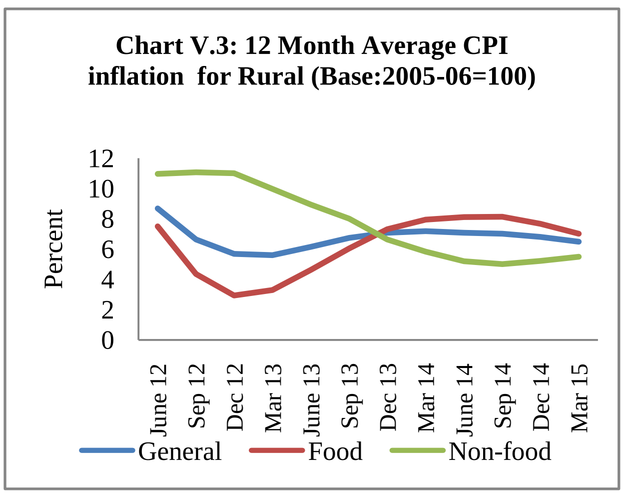


Chart V.3: 12 Month Average CPI inflation for Rural (Base:2005-06=100)

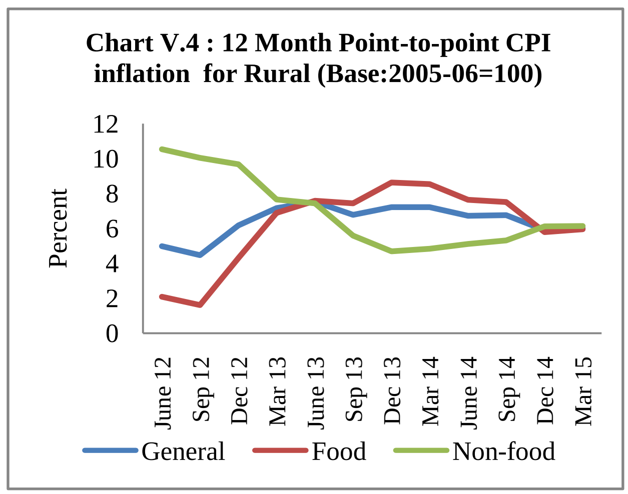


Chart V.4 : 12 Month Point-to-point CPI inflation for Rural (Base:2005-06=100)

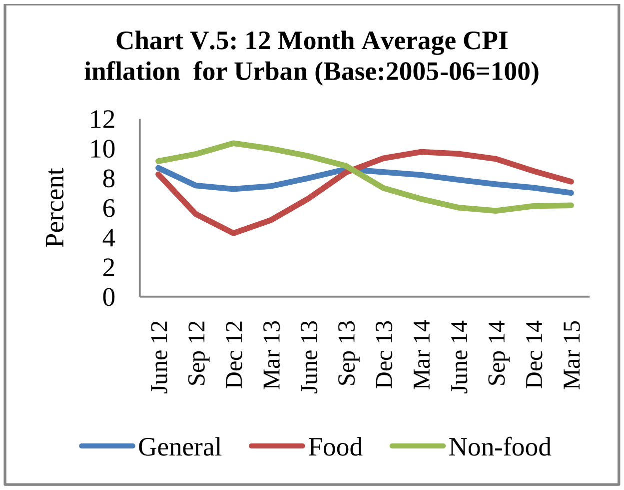


Chart V.5: 12 Month Average CPI inflation for Urban (Base:2005-06=100)

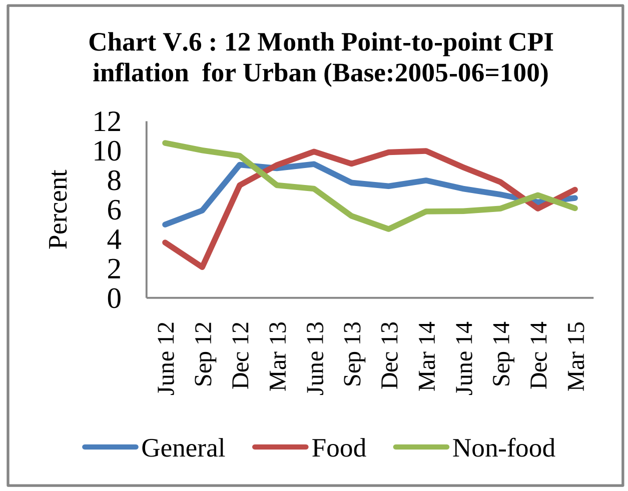


Chart V.6 : 12 Month Point-to-point CPI inflation for Urban (Base:2005-06=100)

5.3 During Q3FY15, average CPI in international market dropped 19.22 percent due to fall in prices of the major commodities because of plenty supply. Chart V.7 has been incorporated the trend of quarterly average commodity prices, imported by Bangladesh. Among the South Asian countries, Bangladesh (6.3 percent p-t-p CPI) was highly inflationary pressured country than India (5.2 percent p-t-p CPI and (-) 2.3 percent WPI), Sri lanka (0.1 percent p-t-p CPI) and even than Pakistan (2.5 percent p-t-p CPI) at the end of March 2015 (Chart V.8).

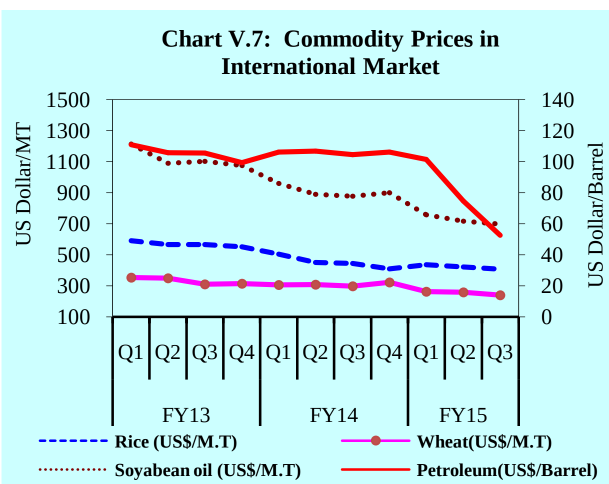


Chart V.7: Commodity Prices in International Market

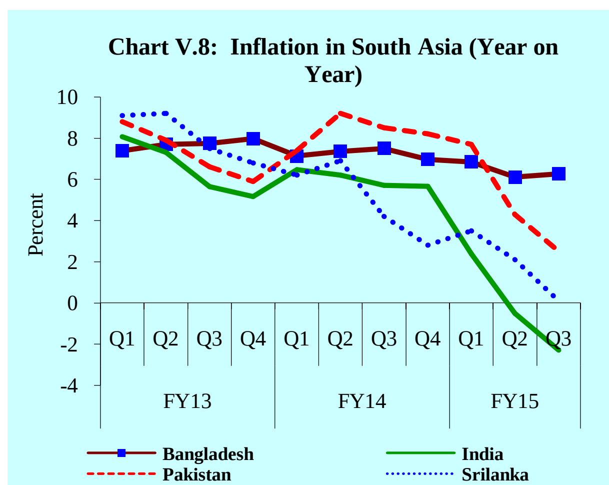
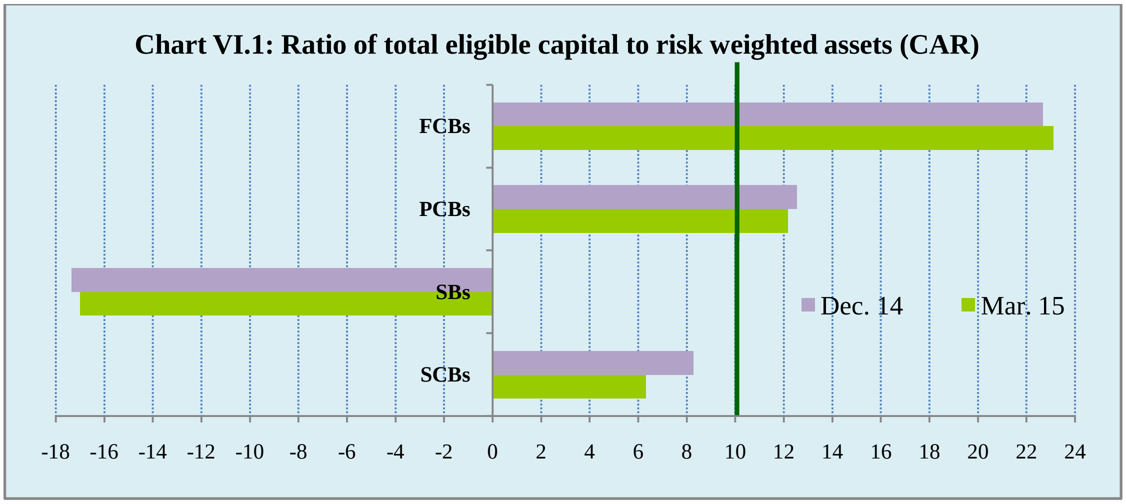


Chart V.8: Inflation in South Asia (Year on Year)

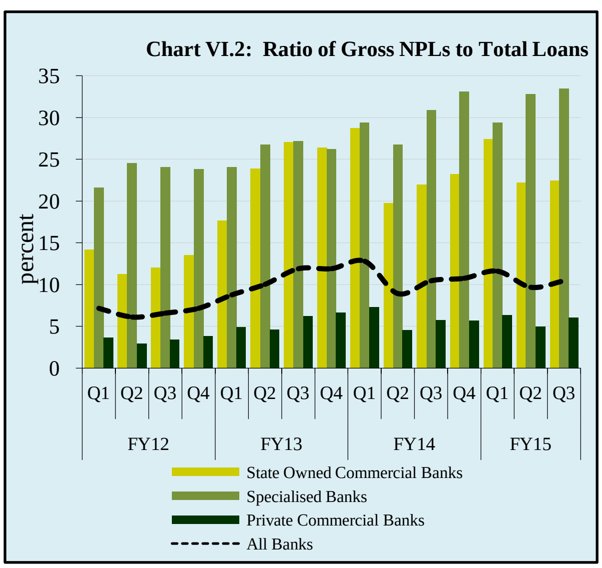
VI. Banking Sector Performance

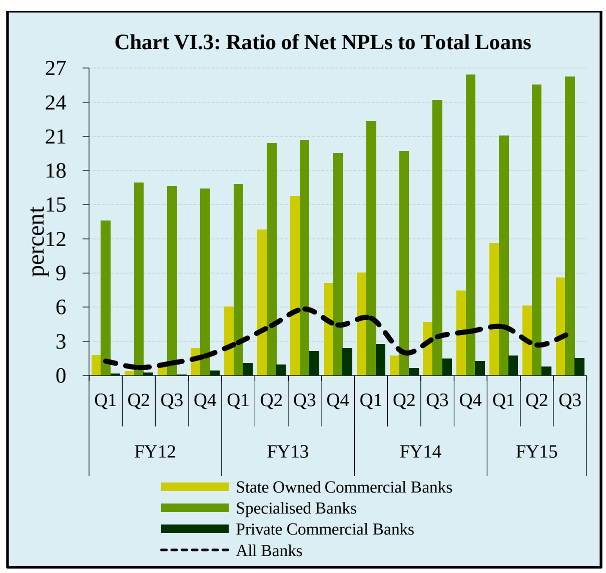
6.1 After showing noticeable improvements during Q2FY15, banking sector indicators for Q3FY15 show some concerns for a variety of reasons. The ratio of gross non-performing loans (NPL) to total outstanding loans increased to 10.5 percent at the end of Q3FY15 from 9.7 percent at the end of Q2FY15. The ratio of net NPL also increased from 2.7 percent at the end of December 2014 to 3.7 percent at the end of March 2015 due mainly to increase in the gross NPL. Provision shortfall increased from (-) Tk.8.0 billion at the end of December 2014 to (-) Tk. 37.8 billion at the end of March 2015. In Q3FY15, the capital adequacy ratio (CAR) decreased to 10.7 percent from 11.4 percent in Q2FY15. Among the profitability measures, return on asset (ROA) in the banking sector declined from 0.9 percent at the end of December 2013 to 0.6 percent at the end of December 2014 due to maintaining higher provision by banks and the net losses made by SCBs and SBs. Return on equity (ROE) of the banking industry also decreased to 8.1 percent at the end of December 2014 from 10.8 percent at the end of December 2013. However, a positive development was, monthly interest rate spread for all banks, measured as the difference between monthly weighted average interest rate of advances and deposits, decreased to 4.87 percent at the end of Q3FY15 from 5.21 percent in December 2014.

6.2 In Q3FY15, capital adequacy ratio (CAR) decreased to 10.7 percent from 11.4 percent in Q2FY15 – a minimum of 10% is the regulatory requirement. The reason for the decline is the deterioration in capital position of SCBs and PCBs which together hold about 90.0 percent of the risk weighted assets of the sector. Total risk weighted asset of the sector as a whole grew by 2.2 percent in Q3FY15 over Q2FY15 while total eligible capital of the sector decreased by 3.4 percent during this period. The ratios for SCBs and PCBs have decreased in Q3FY15 to 6.3 percent and 12.2 percent respectively from 8.3 percent and 12.5 percent respectively in Q2FY15. The ratios for SBs and FCBs improved from (-) 17.4 percent and 22.7 percent respectively to (-) 17.0 percent and 23.1 percent respectively during the period (Chart VI.1).



6.3 The ratio of gross NPL to total outstanding loans of the banking sector increased from 9.7 percent at the end of December 2014 to 10.5 percent at the end of March 2015 (Table VI.2 and Chart VI.2). Outstanding loan of the sector increased by 0.9 percent during Q3FY15 over Q2FY15 while total classified loan increased by 9.0 percent over the same period. The deterioration in gross NPL ratio of the sector was mainly due to the increase in non-performing loans of PCBs that grew by 23.5 percent during the period under review. The ratio for PCBs increased to 6.0 percent at the end-March 2015 from 5.0 percent at the end-December 2014. Gross NPL ratio of SCBs, SBs and FCBs also increased to 22.5 percent, 33.5 percent and 8.3 percent respectively from 22.2 percent, 32.8 percent and 7.3 percent respectively during the period.





Similarly, the net NPL ratio for all banks increased from 2.7 percent at the end of December 2014 to 3.7 percent at the end of March 2015. (Table VI.3, Chart VI.3). Provision shortfall in the banking sector deteriorated during Q3FY15 and stood at (-) Tk. 37.8 billion which increased from (-) Tk.8.0 billion at the end of December 2014 (Table 6.1). In Q3FY15 provision shortfall in SCBs was (-) Tk.17.5 billion and net NPL ratio of this bank group increased to 8.6 percent from 6.12 percent in Q2FY15. Net NPL ratios for SBs, PCBs and FCBs also increased from 25.5 percent, 0.8 percent and (-) 0.9 percent respectively at the end of December 2014 to 26.3 percent, 1.5 percent and (-) 4 percent respectively at the end of March 2015.

Table 6.1: Comparative Position of Classified Loan and Provision Maintained

(Tk. in billion)

Quarter	Items	SCBs	SBs	PCBs	FCBs	All Banks
Q4 FY14	Total classified loan	243.1	64.6	191.5	14.2	513.4
	Required provision	140.8	32.7	114.4	12.5	300.4
	Provision maintained	115.3	14.7	117.9	12.5	260.4
	Excess(+)/shortfall(-)	-25.6	-18.0	3.5	0.0	-40.0
Q1 FY15	Total classified loan	269.5	65.1	221.9	16.4	572.9
	Required provision	148.7	32.7	121.8	15.4	318.6
	Provision maintained	137.0	14.7	125.4	12.5	289.6
	Excess(+)/shortfall(-)	-11.8	-17.9	3.5	-2.8	-29.0
Q2 FY15	Total classified loan	227.6	72.6	184.3	17.1	501.6
	Required provision	128.6	37.1	108.7	15.3	289.6
	Provision maintained	135.3	14.7	115.4	16.2	281.6
	Excess(+)/shortfall(-)	6.7	-22.3	6.7	1.0	-8.0
Q3 FY15	Total classified loan	226.5	74.2	227.5	18.4	546.6
	Required provision	128.7	37.5	124.8	15.8	306.8
	Provision maintained	111.2	14.7	126.9	16.2	269.0
	Excess(+)/shortfall(-)	-17.5	-22.7	2.0	0.4	-37.8

6.4 Return on assets (ROA) declined from 0.88 percent at the end of December 2013 to 0.64 percent at the end of December 2014 due to maintaining higher provision for the bad debts mainly by SCBs. The ROA for SCBs deteriorated from 0.53 percent at the end of December 2013 to (-) 0.55 at the end of June2014. However, the ratio for SBs, PCBs and FCBs improved from (-) 1.09 percent, 0.95 percent and 2.98 percent respectively to (-) 0.68 percent, 0.99 percent and 3.38 percent respectively during the same period. Similarly, return on equity (ROE) of the banking industry decreased to 8.09 percent at the end of December 2014 from 10.80 percent at the end of December 2013. The ROE for SCBs decreased to (-) 13.46 percent in December 2014 from 10.03 percent at the end of December 2013 mainly due to the negative net income (after provision and tax) of this category of banks. However, the ratios for SBs, PCBs and FCBs improved from (-) 8.90 percent, 9.76 percent and 16.93 percent respectively to (-) 5.97 percent, 10.26 percent and 17.67 percent respectively during the period (Table VI.4).

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

Bank groups	Year-on year growth of deposit (excluding interbank)		Year-on year growth of advances (excluding interbank)		Advance Deposit Ratio (ADR)	
	Mar.15	Dec.14	Mar.15	Dec.14	Mar.15	Dec.14
SCBs	14.5%	11.8%	8.3%	8.4%	55.2%	53.5%
SBs	13.0%	9.7%	5.9%	7.9%	73.3%	76.7%
PCBs	13.2%	15.5%	17.8%	17.5%	77.9%	78.2%
FCBs	-4.3%	-1.3%	-2.2%	-4.6%	59.5%	61.8%
All	12.5%	13.3%	14.2%	14.0%	70.5%	71.0%

Table 6.3: Liquidity Position of the Scheduled Banks

(Tk. in billion)

Bank groups	CRR			SLR		
	CRR requirement	Balance with BB in local currency	Excess(+)/ shortfall (-) in reserve	SLR	SLR eligible liquid assets of banks**	Excess(+)/ shortfall (-) of SLR
1	2	3	4=3-2	5	6	7=6-5
As of end March, 2015^{P}						
SCBs	126.01	127.17	1.16	251.83	713.27	461.43
SBs*	15.15	15.87	0.72	0.00	0.00	0.00
PCBs (other than Islamic)	207.06	207.76	0.70	409.96	780.85	370.90
Private Banks (Islamic)	87.72	94.94	7.21	74.23	181.70	107.47
FCBs	22.97	24.94	1.97	45.22	179.51	134.29
All	458.91	470.68	11.77	781.23	1855.32	1074.10
As of end June, 2014^{R}						
SCBs	113.13	115.53	2.40	225.97	689.15	463.18
SBs*	13.50	15.35	1.85	0.00	0.00	0.00
PCBs (other than Islamic)	188.25	192.99	4.74	372.66	726.00	353.34
Private Banks (Islamic)	77.76	98.92	21.16	65.79	172.50	106.71
FCBs	24.53	25.58	1.04	48.36	137.87	89.51
All	417.17	448.37	31.20	712.78	1725.52	1012.74

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

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

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

6.5 At the end of Q3FY15, the growth rate (year-on- year) of deposits was lower than that of advances. The advance-deposit ratio (ADR) marginally decreased from 71.0 percent in end-December 2014 to 70.5 percent in end-March 2014 and remained far below the maximum regulatory ceiling. The growth rate of deposits decreased from 13.3 percent at end of December 2014 to 12.5 percent at end of March 2014. On the other hand, the growth of advances increased marginally from 14.0 percent to 14.2 percent during the period (Table 6.2).The liquidity position of the banking sector as a whole, improved at the end of Q3FY15; leading to a further easing of money market conditions (Table 6.3) though excess reserve has gone down.

Chart VI.4: Interest Rate Spread and Call Money Rate

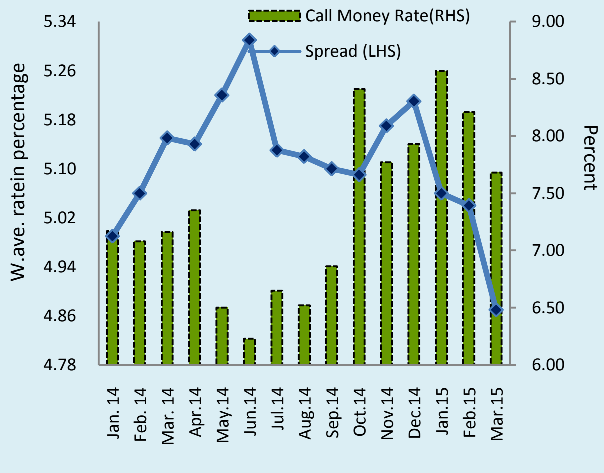
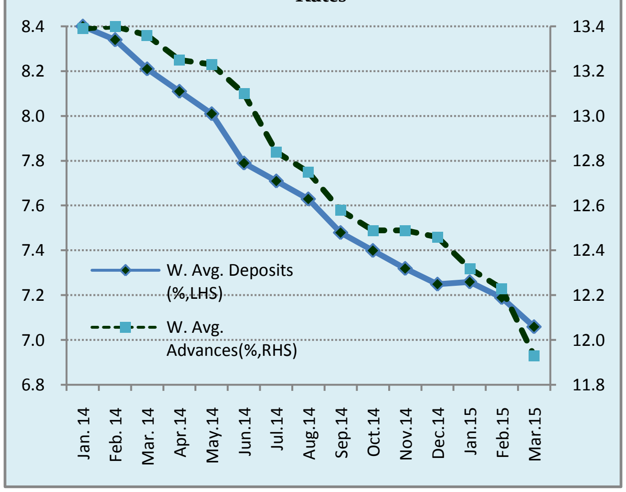


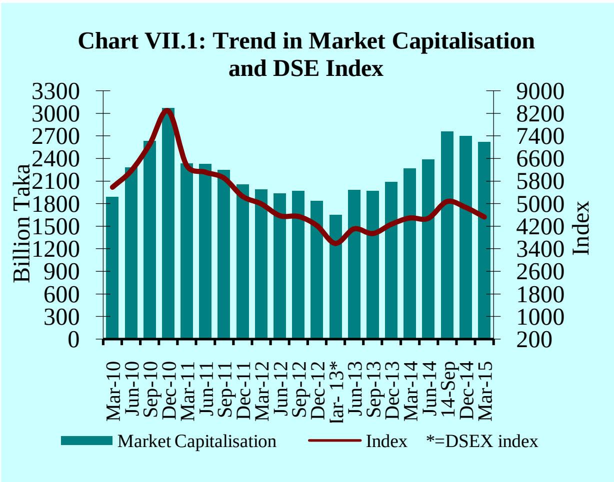
Chart VI.5: Monthly Weighted Average Deposit and Lending Rates

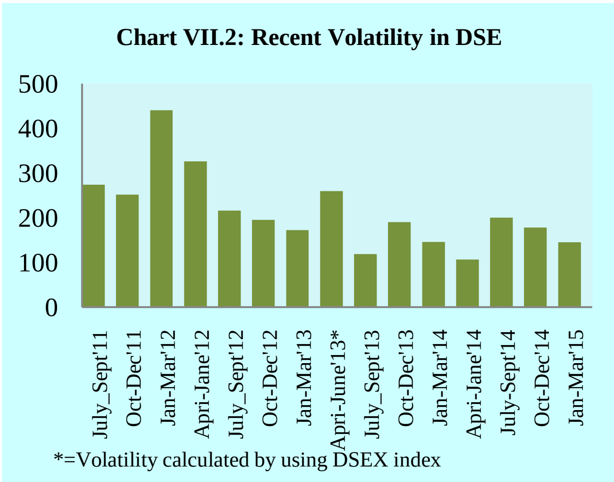


6.6 Monthly interest rate spread for all banks, measured as the difference between monthly weighted average interest rate of advances and deposit, decreased to 4.87 percent at the end of Q3FY15 (Chart VI.4) from 5.21 percent at the end of Q2FY15. Banks slash both of their deposit and lending rates due to lower credit demand and prevailing easy money market conditions. Bank- wise data show that during Q3FY15 lending rates declined faster than deposit rates, as a result interest rate spread decreased over the period (Chart VI.5). Monthly weighted average call money rate increased from 7.93 percent in December 2014 to above 8.57 percent in January 2015 but gradually came down to 7.68 percent at the end of Q3FY15.

VII. Capital Market Developments

7.1 The downward trend of the Dhaka Stock Exchange continued during Q3FY15 reflected in the falling DSE indices and market capitalization. At the end of Q3FY15, DSE broad (DSEX) index and DSE 30 index were at 4530.5 and 1728.5; depicted 6.9 percent and 4.1 percent lower compared to Q2FY15 respectively. Over the same period, market capitalization decreased by 2.8 percent (Chart VII.I and Table VII.II). DSEX index and DSE 30 index increased by 0.9 percent and 7.8 percent respectively in Q3FY15 compared to Q3FY14. DSE market capitalization increased significantly by 15.7 percent during Q3FY15 as compared to Q3FY14.





7.2 The average price earnings ratio of the DSE decreased to 16.77 in March 2015 compared to 17.87 at the end of December 2014. Total turnover value in the DSE significantly declined by 43.7 percent from TK. 303.3 billion in Q2FY15 to TK. 170.7 billion in Q3FY15. The liquidity situation in the capital market tightened as measured by Turnover Velocity Ratio (TVR)[1], which came down to 26.6 percent in Q3FY15 from 45.0 percent in Q2FY15. The number of listed securities increased to 330 in Q3FY15 from 311 in Q3FY14. During Q3FY15 the value of issued equity and debt increased by 3.1 percent and five new companies were listed in the capital market.

7.3 The sector-wise DSE data shows that during Q3FY15 market capitalization increased in food & allied product, and Pharmaceuticals and Chemicals, sectors (Table VII.2). All other sectors (banks, financial institution, mutual fund, Jute industry, paper printing and service and real estate fuel and power, textile industry, Cement Industry, Insurance, Telecommunication, Miscellaneous and Corporate Bond) decreased during Q3FY15. The contribution of the banking

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

sector decreased to 13.5 percent at the end of Q3FY15 from 15.4 percent in the previous quarter. The relative contributions of all other sectors remained almost unchanged during the last quarter.

7.4 During Q3FY15 the investment on share purchased by foreign and non-resident Bangladeshi investors decreased to TK. 8.7 billion from Tk. 12.7 billion in the previous quarter. At the same time, total share sales by foreign and non-resident Bangladeshi investors also increased to Tk. 7.7 billion from Tk. 6.6 billion in the previous quarter. As a result, net investment of foreign and non-resident Bangladeshi during Q3FY15 decreased to TK.1.0 billion from TK. 6.1 billion in the previous quarter. However, foreign exchange turnover still has a limited contribution in total turnover of DSE. During Q3FY15 total foreign exchange turnover increased to 9.6 percent of total turnover from 6.3 percent of total turnover in the previous quarter. The volatility, measured by standard deviation, decreased to 145.4 during Q3FY15 compared to 178.2 in Q2FY15.

7.5 Cross country data shows that price earnings ratio of March 2015, Bangladesh capital market is around the mid-point of some South and East Asian countries while dividend yield of Bangladesh is the highest among South and East Asian countries (Table 7.1). It implies that currently Bangladesh capital market is comparatively more attractive than the others based on both price earnings ratio and dividend yields.

Table 7.1: Comparison among regional Capital Markets- March 2015

Country	Price Earnings Ratio	Dividend Yield
Bangladesh	16.77	4.65
India	19.51	1.24
Sri Lanka	18.38	2.24
Thailand	15.00	2.80
Malaysia	16.00	3.10
Taiwan	15.00	2.80
Hong Kong	15.00	2.70
China	10.00	2.90
Singapore	13.00	3.50

Source: Monthly Review, Dhaka Stock Exchange