

# **Economic & Financial Development**



## **Part A: Economic and Financial Developments**

### *Overview and Executive Summary*

*Despite expansion in economic activities in the second quarter of FY15, aggregate demand was somewhat subdued owing to negative remittance growth, slow private sector credit growth and lower external demand growth. The agricultural sector stayed buoyant in this quarter as it met the annual production target of aman rice crop following the target production in aus rice crop in the preceding quarter. Similarly, the industrial sector measured by the quantum index of large and medium scale industries also registered a positive growth and grew by 11.2 percent (y-o-y) in October 2014. This growth was propelled by higher growth of manufacturing of food products, pharmaceuticals and fabricated metal products.*

*On the other hand, service sector proxy indicators depicted a mixed picture for the service sector during the second quarter of FY15. Bank advances to the trade and commerce sector registered a lower but positive growth. Bank advances to the transport and communication sector delivered positive growth in the quarter after successive negative growth rates in the previous six quarters.*

*Point-to-point CPI inflation continued to fall and reached 6.11 percent in December 2014 from 6.84 percent in September 2014 due to a fall in food prices. Correspondingly, the twelve month average CPI inflation followed a downward trajectory during Q2FY15 and came down to 6.99 percent in December 2014 as compared to 7.22 percent at the end of September 2014.*

*As per preliminary estimates, domestic revenue increased by 15.1 percent during Q2FY15, whereas total expenditure decreased by 5.1 percent from the second quarter of FY14. The overall budget deficit in H1FY15 amounted to 27.2 percent of the annual budgeted deficit or 1.4 percent of GDP. Almost 81.2 percent of the financing of this deficit came from nonbank sources. ADP outlays in H1FY15 indicated better performance than that of H1FY14, although it is only 1.8 percent of GDP, making it necessary to expedite utilization of budgeted ADP in the following two quarters of FY15.*

*The overall current account balance (CAB) recorded a deficit of USD 1.07 billion in Q2FY15 compared to a surplus of USD 854 million in Q2FY14 due to widening trade balance caused by larger import growth (23.3 percent) against the smaller growth of export (2.2 percent) during the period. The overall balance of payments (BOP) recorded a surplus of USD 268 million in Q2FY15.*

*Broad money (M2) growth decelerated to 13.4 percent compared with 16.1 percent in June 2014 and 15.6 percent in December 2013. The slower M2 growth (lower than the programmed level of*

*16.0 percent for December 2014) was due to slower growth in domestic credit as well as in net foreign assets. Private sector credit increased to 13.5 percent in December 2014 from 12.3 percent in June 2014, but remained lower than the programmed growth of 14.0 percent, though the growth was higher than the actual growth of 10.6 percent a year earlier. Growth in credit to the public sector shrank as well compared to the previous quarter and the corresponding quarter of the previous fiscal year.*

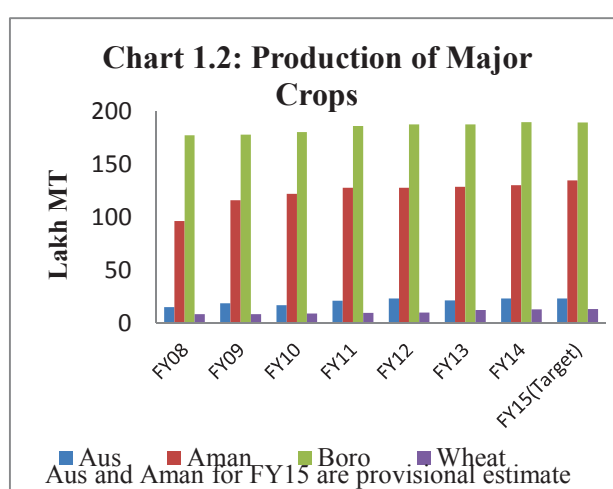
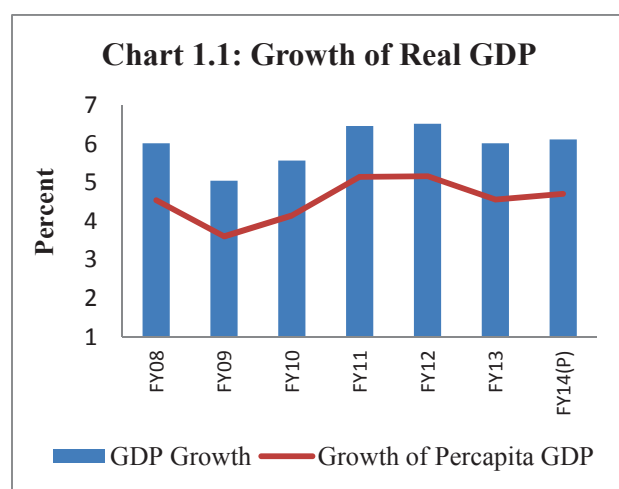
*Most of the banking sector indicators improved during Q2FY15 compared to that of the previous quarter. Conditions of NPL (nonperforming loan) improved in both gross and net terms as reflected in decreased NPL ratios during Q2FY15. The provision shortfall situation of the sector also improved. In Q2FY15, the capital adequacy ratio (CAR) increased to 11.4 percent from 10.6 percent in Q1FY15. However, both measures of profitability of the banking sector, the return on asset (ROA) and the return on equity (ROE), declined at the end of December 2014 due to maintenance of higher provision by banks and the net losses made by state-owned commercial banks and specialized banks. The ROA slightly dropped from 0.88 percent in December 2013 to 0.64 percent in December 2014 whereas the ROE fall from 10.80 percent to 8.09 percent in same period.*

## I. Developments in the Real Economy

1.1 In the second quarter of FY15, the expansion of economic activities in the agriculture and industry sectors depicted a normal trend, while activities in the service sector reflected a mixed trend. Although economic activities expanded in Q2FY15, aggregate demand somewhat subdued during the quarter under review due to negative growth of remittances inflow (-0.80 percent), slow private sector credit growth (14.00 percent) and lower external demand growth (2.20 percent).

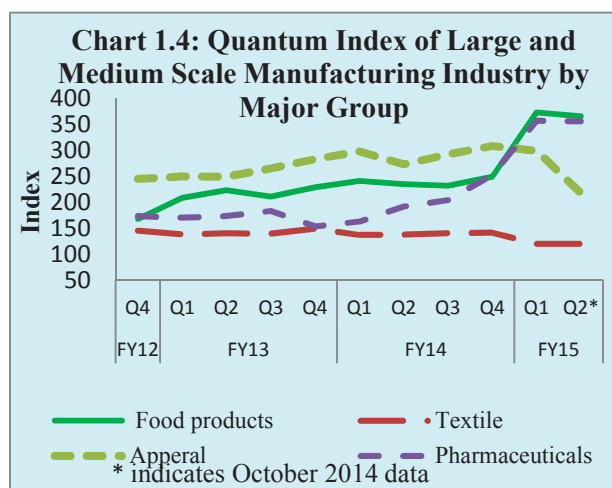
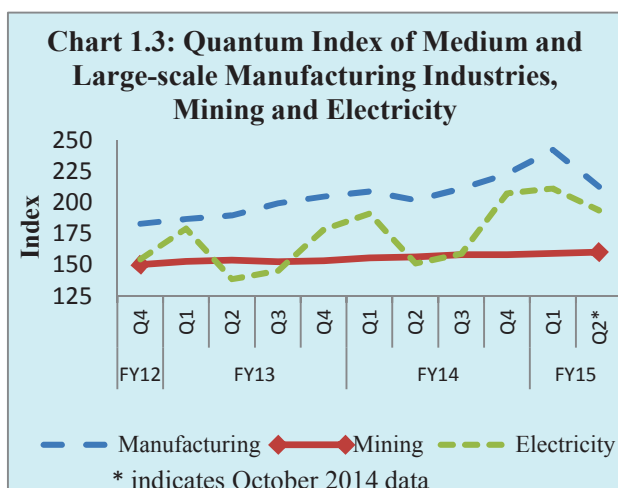
1.2 The production of *aman* rice crop, which is the second largest crop in Bangladesh and harvested in the second quarter of the fiscal year, met its annual target in FY15. Department of Agricultural Extension's (DAE) preliminary estimate shows that 13.48 million metric ton (mmt.) has been grown on 5.67 million hectare land in the current fiscal year. This production is slightly higher than the annual target of 13.45 mmt. set by DAE and 3.52 percent higher than the previous year's production. *Aus* rice crop, the first crop of FY15 was grown 2.33 mmt. , which was almost same as previous year's production. Apart from rice crops, preliminary information from DAE shows that both potato and wheat have cultivated on 0.48 million hectare land which are higher than their respective acreage in the previous year. Due to prevailing favorable weather, higher acreage of potato and wheat suggest that the production of these crops will surpass their respective previous year's productions.

1.3 In Q2FY15, industrial sector's output expansion, reflected in the quantum index of large and medium scale industries. This index registered 11.17 percent growth (y-o-y) in October 2014<sup>1</sup>, compared to that of October 2013 driven mainly by higher growth of manufacturing of



<sup>1</sup> The only available data which proxies for industrial growth in the second quarter of FY15, is the quantum index of large and medium scale industries for October 2014.

food products (52.42 percent), manufacturing of pharmaceuticals (84.10 percent) and fabricated metal products (45.85 percent). But, at the same time, manufacturing of textile and wearing apparels, which constitute almost half of the industrial production, registered a negative growth of 15.47 percent and 10.05 percent respectively. It may be mentioned that large scale industrial production registered 15.94 percent growth in the Q1FY15 (July- September 2014) compared to the same period of previous fiscal year. Apart from industrial production, 14.60 percent growth of credit to the construction sector in the Q2FY15 along with 19.19 percent growth of cement production in the first month of Q2FY15 reflected a satisfactory growth of the construction sector during the quarter.

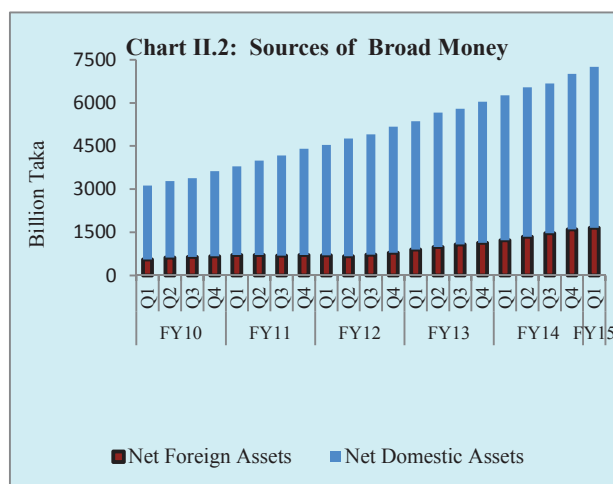
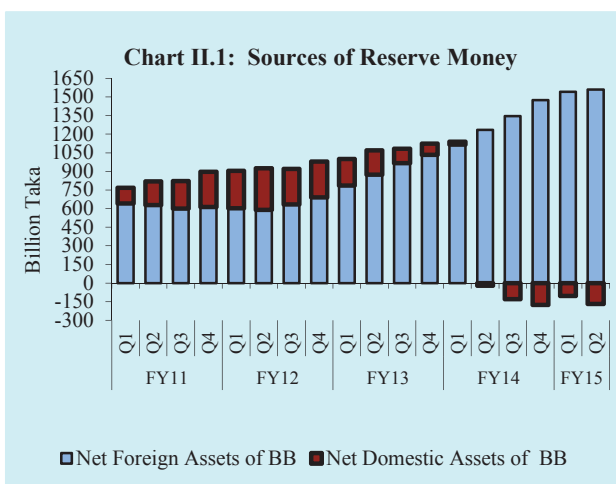


1.4 Though service sector data is available only on an annual basis, a number of proxy indicators (such as trade financing, bank advances to transport and communication sector, and cargo handled through Chittagong port, etc.) reflect a mixed picture of service sector activities in the country during the second quarter of FY15. After showing a 19.10 percent growth of bank advances in the first quarter of current fiscal year, bank advances (outstanding) to trade and commerce sector registered a moderate growth of 13.40 percent in Q2FY15 compare to the same period of previous fiscal year (Table 1.9 in appendix), while bank advances to the transport and communication sectors returned to a positive growth of 6.90 percent in the Q2FY15 after successive negative growth in previous six quarters. These slow growth of credit to various service related sectors may be a reflection of moderate expansion of trade and transport related services. On the other hand, cargo handled through Chittagong port increased by 26.90 percent during the Q2FY15 compared to the same period of the previous fiscal year.

## II. Money and Credit Market Development

2.1 The monetary stance in July-December 2014 aims to bring average inflation down to 6.5 percent by end of FY15, while ensuring that credit growth is sufficient to stimulate inclusive economic growth. Given these objectives, BB aims to limit reserve money growth to 15.5 percent and broad money growth to 16.0 percent by December 2014. The space for private sector credit growth of 14.0 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 July-December 2014.

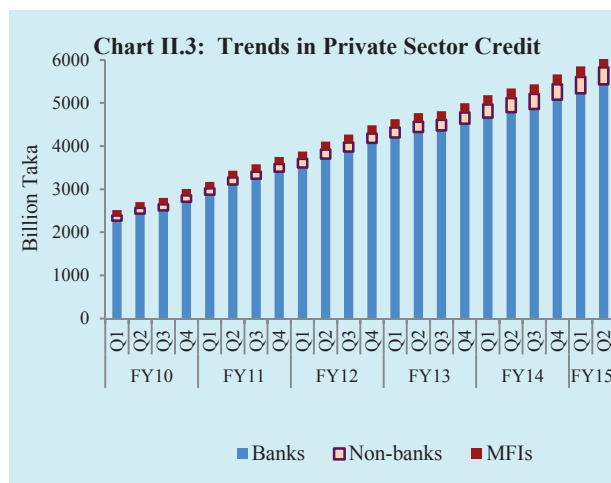
2.2 In December 2014 broad money (M2) growth was 13.4 percent compared with 16.1 percent in June 2014 and 15.6 percent in December 2013. The M2 growth remained lower than the programmed level of 16.0 percent in December 2014. The growth in private sector credit increased to 13.5 percent in December 2014 from 12.3 percent in June 2014, but remained lower than the programmed growth of 14.0 percent though the growth was higher than the actual growth of 10.6 percent a year earlier. Growth of credit to the public sector was 2.5 percent in December 2014 compared with 8.9 percent in June 2014 and 11.6 percent in December 2013 while programmed growth in December 2014 was 10.9 percent. Net Foreign Asset (NFA) grew by 24.6 percent in December 2014 compared to the growth of 35.2 percent in December 2013.



2.3 A look at the components of M2 shows that currency, demand deposits and time deposits increased by 12.4 percent, 18.5 percent and 12.9 percent (y-o-y) respectively in December 2014 compared with the increase of 12.2 percent, 3.9 percent and 17.4 percent respectively during the same period of the preceding year. Narrow money or M1 grew by 15.1 percent in December 2014 which was 8.5 percent in December 2013 due to higher growth in both currency and demand deposits. However, the money multiplier (M2/RM) marginally decreased to 5.3 in December 2014 from 5.4 in December 2013 reflecting the relatively slower expansion of M2.

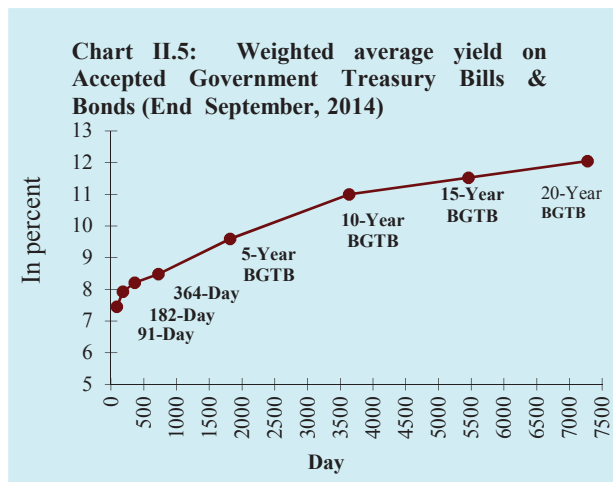
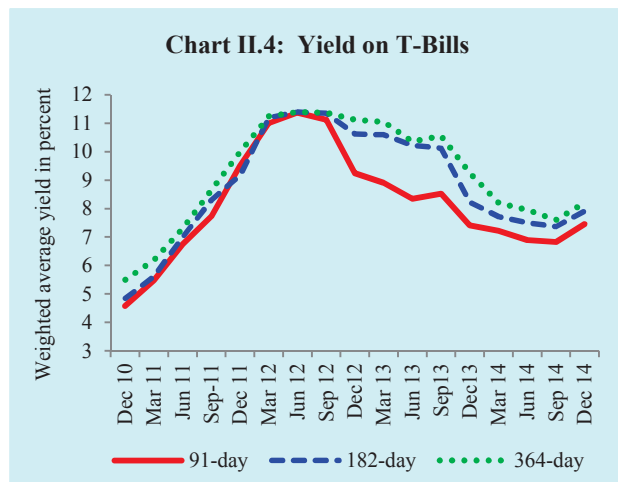
2.4 Reserve money (RM) grew by 14.8 percent (y-o-y) in December 2014 compared with 13.3 percent (y-o-y) growth during the same period of the preceding year. This was due to the 26.4 percent increase in NFA of BB.

2.5 In December 2014, private sector credit (including banks, non-banks and micro-finance institutions) grew by 14.0 percent compared with 12.0 percent in December 2013. Individually, bank advances in consumer financing grew sharply by 43.6 percent at the end December 2014 compared to 54.0 percent at the end of December 2013. Bank advances to industry grew by 17.9

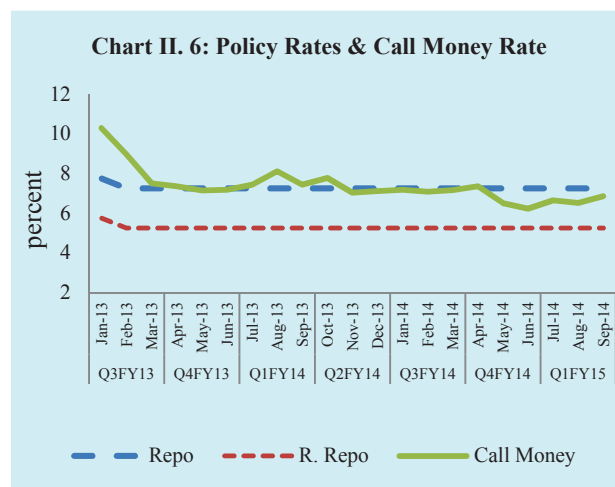


percent at the end of December 2014 due to a sharp growth in working capital financing by 33.5 percent over this period. On the other hand, industrial term loan increased by 3.0 percent for the first time after June 2013. Bank advances to the construction and transport sectors grew by 14.6 percent and 6.9 percent respectively at the end of December 2014 compared to 8.9 percent and -11.3 percent respectively at the end of December 2013. In the agriculture sector the supply of credit increased by 8.2 percent at the end of December 2014 (of which advances to crops increased by 5.2 percent while others went up by 38.8 percent). Growth of advances to trade & commerce sectors was 13.4 percent at the end of December 2014 compared with the growth of 14.0 percent at the end of December 2013. The highest share of bank advances went to the trade sector (38.9 percent) followed by the industry (35.2 percent) construction sector (9.1 percent) and consumer finance (8.5 percent) (Table I.9). The overall disbursements of industrial term

lending by Banks and NBFIs grew by 44.2 percent, and stood at Tk. 128.1 billion at end of Q1FY15, from Tk. 88.8 billion in Q1FY14.

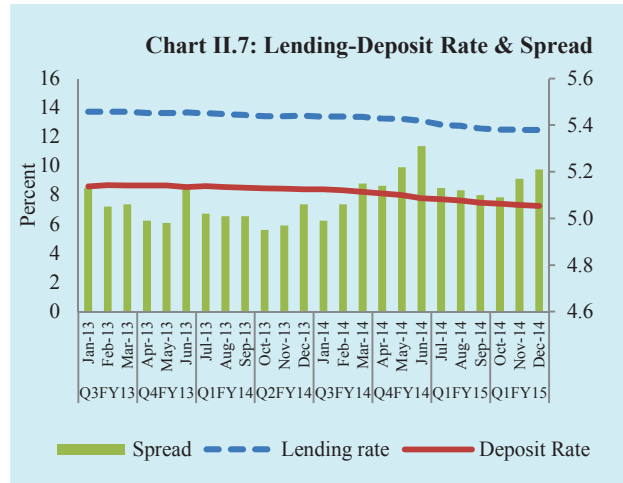


2.6 Overall yields on short term treasury bills e.g., 91-day marginally increased to 7.45 percent at the end of December 2014 from 7.41 percent at the end of December 2013. The rates of 182-day and 364-day treasury bills decreased in December 2014. The rates declined to 7.92 percent and 8.21 percent respectively at end of December 2014 from 8.22 percent and 9.25 percent respectively at the end of December 2013. The rate of 30-day Bangladesh Bank bill fell to 5.25 percent in December 2014 from 7.09 percent during the same quarter of the previous year. Two-year and five-year long-term treasury bonds yields decreased to 8.48 percent and 9.59 percent respectively at the end of December 2014 from 10.03 percent and 11.30 percent at the end of the same period of the preceding year (Table II.3). The yields on 10-year, 15-year and 20-year BGTB also decreased from 12.11 percent, 12.28 percent and 12.32 percent respectively at the end of December, 2013 to 10.99 percent, 11.52 percent and 12.05 percent respectively at the end of December, 2014.



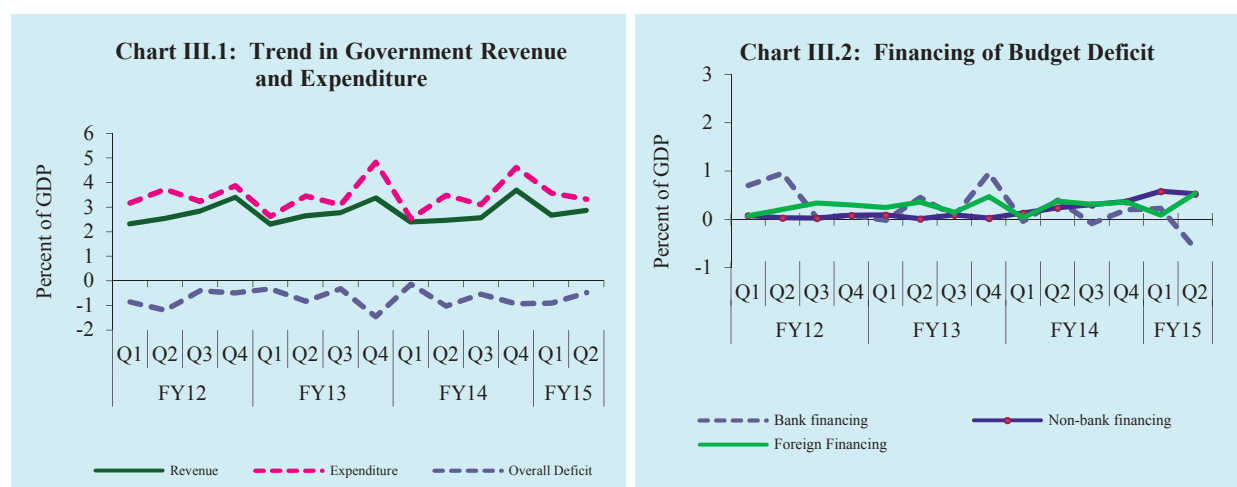


2.7 The repo and reverse repo rates remained unchanged at 7.25 percent and 5.25 percent respectively during the period under consideration. However, the call money rate marginally increases from 7.11 percent recorded at the end of December 2013 to 7.93 percent at the end of December 2014. The spread between lending and deposit rates widened in December 2014 to 5.21 percent from 5.06 percent in December 2013 although it came down to 5.10 percent at the end of September 2014.



### III. Fiscal Developments

3.1 Preliminary estimates demonstrate that total revenue increased by 15.1 percent whereas total expenditure decreased by 5.1 percent during Q2FY15 compared with Q2FY14. Consequently budget deficit in the second quarter of FY15 dropped to Tk. 63.2 billion from Tk. 137.6 billion in Q2FY14. During H1FY15 revenue collection was 40.6 percent while expenditure ran at 37.0 percent of the full year budgeted outlay. Accordingly, overall budget deficit for first six months of current fiscal year amounted to 27.2 percent of the annual budgeted deficit or 1.4 percent of GDP. Notably, almost 81.2 percent of financing of this deficit came from nonbank sources.



3.2 During Q2FY15, total NBR revenue increased by 20.9 percent to Tk. 308.2 billion (20.6 percent of the annual target), from the level of Q2FY14. Revenue collection from income tax, value added tax (VAT), custom duties and other sources grew by 26.8 percent, 21.2 percent, 10 percent and 17.4 percent respectively during the quarter under review. Non-NBR tax revenue increased by 14.4 percent whereas Non-tax revenue plummeted by 6.5 percent decreased from the level of Q2FY14. In H1FY14, overall NBR tax revenue collection reached Tk.590.6 billion (39.4 percent of the target of FY15).

3.3 During H1FY15, total government expenditure is estimated at Tk. 925.8 billion (37.0 percent of FY15 target or 6.9 percent of GDP), which is 7.5 percent higher in nominal terms than the level of H1FY14. During this period, current expenditure grew to Tk. 536.6 billion (41.8 percent of FY15 budgeted amount or 4.0 percent of GDP), which is 5.3 percent higher than that of H1FY14. ADP outlays reached Tk. 238.0 billion (29.6 percent of FY15 budget or 1.8 percent

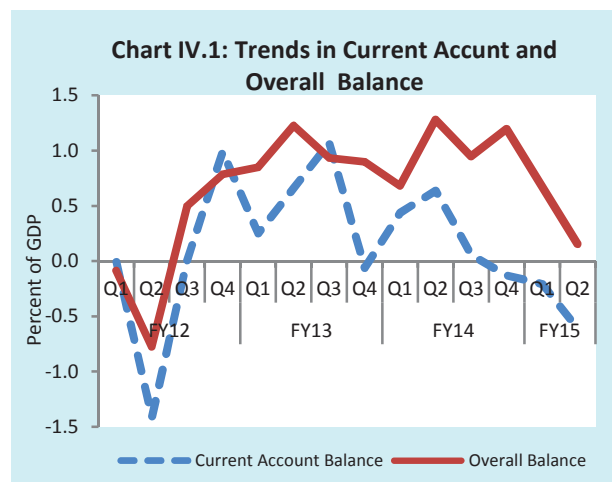
of GDP), which is 31.6 percent higher than that of H1FY14. Thus, the efficient utilization of the 70 percent of budgeted ADP in the remaining six months of the fiscal year is concerned.

3.4 During Q2FY15, the overall fiscal deficit stood at Tk. 63.2 billion, representing 0.5 percent of GDP compared with Tk.137.6 billion or 1.0 percent of GDP in Q2FY14. Domestic financing of the deficit was negative Tk. 9.1 billion which reflects government's repayment of bank loan of Tk. 79.9 billion and Tk. 70.7 billion financing from non-banking sector. Foreign financing of deficit rose to Tk. 72.3 billion in Q2FY15 from only Tk. 11.4 billion in Q1FY15.

3.5 In the first half of FY15, overall fiscal deficit amounted to Tk. 183.8 billion or 1.4 percent of GDP, compared to Tk. 155.6 billion in H1FY14. A closer look at the sources of financing the deficit shows that Tk.100.1 billion in H1FY15 was accommodated from domestic sources that included repayment of bank loans of Tk.49.2 billion and non-bank financing of Tk. 149.2 billion, while the remaining amount of Tk. 83.7 billion came from foreign sources in H1FY15. The growth in non-banking sector domestic financing in H1FY15, primarily through the sale of National Savings Certificates, is a key difference with the same period in FY14.

## IV. External Sector Developments

4.1 The overall current account balance (CAB) recorded a deficit of USD 1.07 billion in Q2FY15 compared to a surplus of USD 854.0 million in Q2FY14 due to widening of trade balance because of larger import growth (23.3 percent) against the smaller growth of export (2.2 percent) during the period. Remittance inflow decreased by 0.8 percent in Q2FY15 compared to Q2FY14. Deficits in trade balance (USD 2.92 billion), services (USD

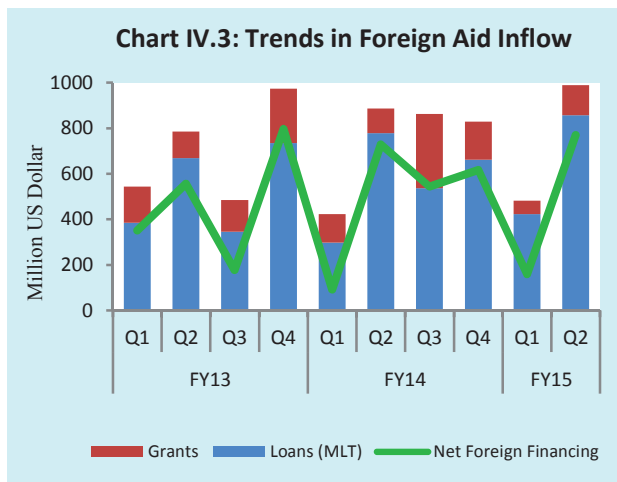
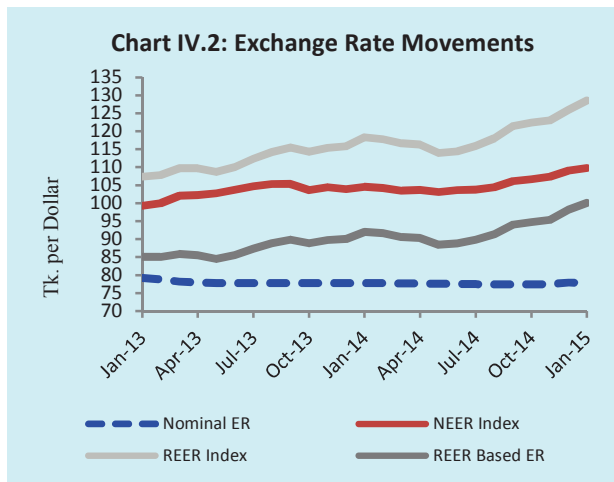


1.18 billion) and primary income (USD 0.70 billion) all together turned the current account balance worse. However, secondary income recorded a surplus of USD 3.73 billion.

4.2 The combined capital & financial account recorded a surplus of USD 1.55 billion in Q2FY15 compared to a surplus of USD 418.0 million in Q2FY14. The financial account recorded a surplus of USD 1.38 billion in Q2Y15, which was significantly higher than the surplus of USD 318.0 million in Q2FY14. Capital account surplus also increased from USD 100.0 million in Q2FY14 to USD 169.0 million in Q2FY15.

The overall balance of payment (BOP) recorded a surplus of only USD 268.0 million in Q2FY15, the lowest in the last 12 quarters, along with a reserve of foreign exchanges of USD 22.85 billion at the end of December 2014 (Table IV.1).

4.3 Total foreign aid in Q2FY15 was USD 989.1 million, compared to USD 886.6 million in Q2FY14. Out of total aid, USD 856.3 million was disbursed as MLT loan in Q2FY15, whereas USD 778.7 million was disbursed under the same heading in Q2FY14. Grants increased from USD 107.9 million in Q2FY14 to USD 132.8 million in Q2FY15. In Q2FY15, Bangladesh made an amortization payment of USD 260.8 million, of which USD 219.9 million was paid as principal. As a result, net foreign financing in Q2FY15 was USD 769.2 million. (Table IV.8)



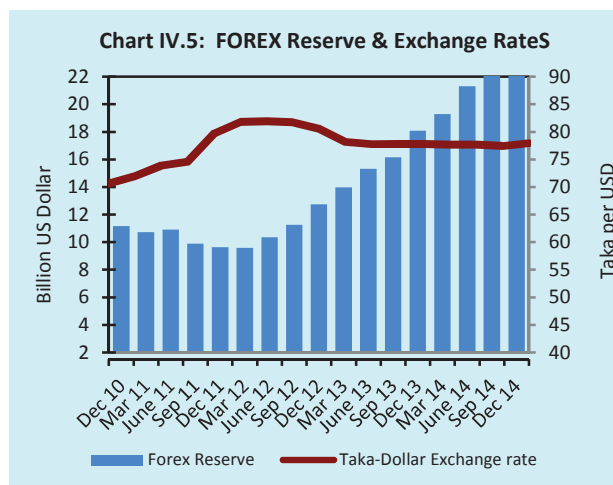
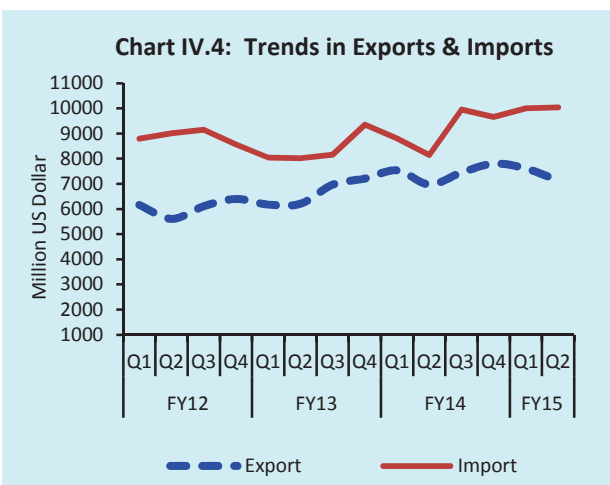
4.4 The foreign exchange market remained mostly stable as Taka slightly depreciated against US dollar during Q2FY15. Bangladesh Bank continued its intervention in the domestic foreign exchange market with a net sale of foreign currencies amounting of USD 223.55 million during Q2FY15. The nominal exchange rate decreased to Tk. 77.95 per US dollar in December 2014 from Tk. 77.40 per US dollar in September 2014, while the REER based exchange rate increased to Tk. 98.17 per USD at the end of December 2014 from Tk. 93.98 per USD at the end of September 2014 (Base Year: 2010-11, 10-Currency Basket).

4.5 According to the Export Promotion Bureau (EPB) data, export earnings increased by 2.3 percent to USD 7.22 billion in Q2FY15 compared to USD 7.01 billion in Q2FY14. Export of woven garments increased by 2.0 percent in Q2FY15 compared to Q2FY14 as export to European countries increased by 5.05 percent. Export of woven garments to USA, however, decreased (-5.38 percent). Growth of export of knitwear remained almost same (+0.1% percent) as export to the major destination, the European market decreased during this quarter compared to previous quarter (-1.91 percent).

Among other major export items, earnings from jute goods increased by 12.4 percent while that of frozen shrimps and fish decreased by (-14.2 percent) and leather (-15.0 percent) in Q2FY15 over Q2FY14. Among non-traditional markets, RMG export increased to Japan (+19.2 percent), China (+ 9.6 percent), Russian federation (+7.3 percent), United Arab Emirates (+18.9 percent) during Q2FY15 over Q2FY14. Export of non-RMG products also increased to India (+32.5 percent), China (+14.8 percent) and UAE (+57.1 percent) in Q2FY15. (Table IV.2 and IV.5)

4.6 Import payments (according to banking sector data) went up to USD 10.38 billion in Q2FY15 compared to USD 10.18 billion in Q2FY14 due mainly to increase in food-grains import from USD 276.4 million in Q2FY14 to USD 453.9 million in Q2FY15. Import of rice

increased to USD 166.7 million during Q2FY15, compared to USD 53.2 million in Q2FY14. Wheat import also increased from USD 223.2 million in Q2FY14 to USD 287.2 million in Q2FY15. Import of other food items decreased from USD 923.1 million during Q2FY14 to USD 801.1 million in Q2FY15. Among the other food items, the import of sugar (-29.2 percent), edible oil (-4.4 percent), milk & cream (-20.8% percent), pulses (-10.6 percent) all decreased while that of spices increased (+10.9 percent) in Q2FY15 over Q2FY14 (Table IV.3).



4.7 Imports of intermediate and consumer goods decreased by 0.1 percent in Q2FY15 to USD 4.72 billion. Among the intermediate goods, imports of POL declined to (-27.5 percent), oil seeds (-30.0 percent), crude petroleum (-12.8 percent), while import of fertilizer increased to (+21.6 percent), yarn (+15.4 percent), textile and articles thereof (+5.9 percent), plastic and rubber articles thereof (+ 8.9 percent), raw cotton (+8.1 percent), clinker (+29.2 percent). Imports of capital machinery recorded a growth of 7.1 percent in Q2FY15 over Q2FY14 (Table IV.3).

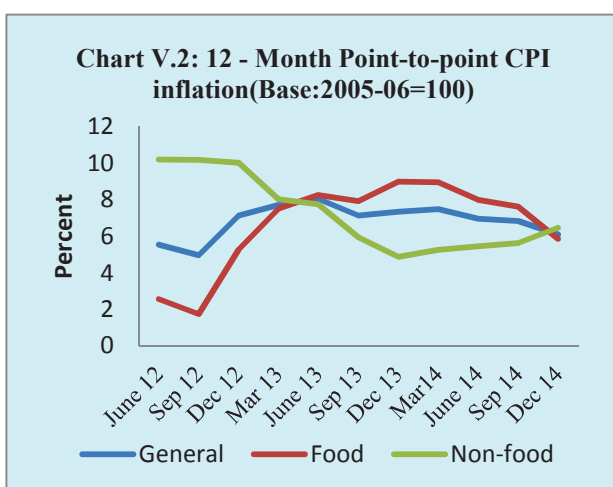
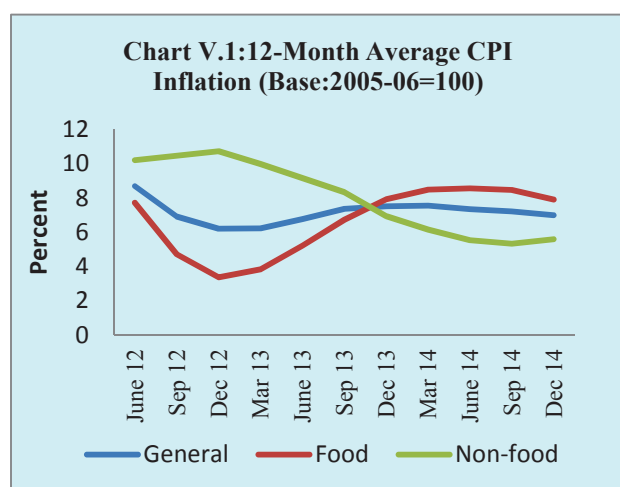
4.8 From Q2FY14 to Q2FY15, the opening of import LCs increased by 13.5 percent to USD 10.45 billion, of which consumer goods increased by 17.1 percent, machinery for miscellaneous industries 20.6 percent, industrial raw materials 10.5 percent, intermediate goods (+31.7 percent), while petroleum and petroleum products decreased 5.2 percent), capital machinery (-6.2 percent). (Table IV.9).

4.9 The inflow of workers' remittances went down by 0.8 percent to USD 3.48 billion in Q2FY15 compared to USD 3.50 billion in Q2FY14. Remittance inflow decreased from Saudi Arabia by USD 12.4 million, from Kuwait by USD 24.3 million, from UK by USD 50.8 million, and from USA by USD 58.4 million (Table IV.4). Overseas employment for Bangladeshi workers increased in Q2FY15 as a total of 117,142 Bangladeshi migrated compared to 100,664 in the corresponding period of Q2FY14.

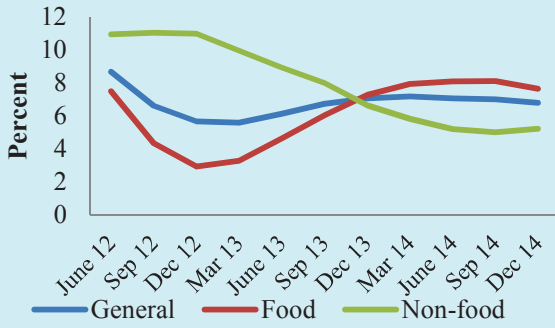
## V. Price Developments

5.1 The twelve month average CPI inflation maintained a declining trend during Q2FY15 and came down to 6.99 percent in December 2014 as compared to 7.22 percent at the end of September 2014, due mainly to fall in point-to-point CPI inflation to 6.11 percent in December 2014 from 6.84 percent in September 2014 which was driven by fall in food prices during the above mentioned period. Point-to-point food inflation started to decline since June 2014 and step down to 5.86 percent at the end of December 2014 after sharply declining from 7.63 percent in September 2014 while non-food inflation experienced an increasing trend since July 2014 and reached 6.48 percent at the end of December 2014.

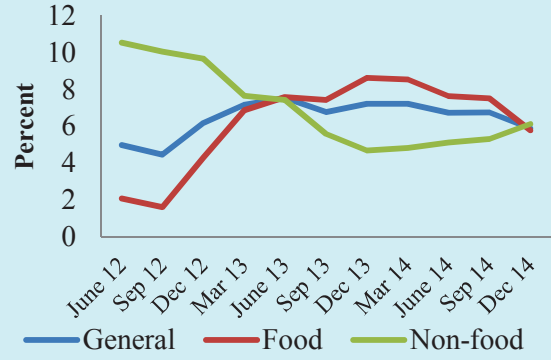
At the end of December 2014, 12-month average CPI inflation in rural and urban areas showed a declining trend like national one but urban inflation (7.35 percent) was more acute than rural (6.80 percent) inflation. Point-to-point CPI inflation in urban areas went down to 6.50 percent in December 2014 from 7.02 percent in September 2014 due to decline in point-to-point CPI food inflation to 6.07 percent in December 2014 as compared to 7.88 percent in September 2014. Point-to-point CPI inflation in rural areas also fell to 5.89 percent in December 2014 from 6.75 percent in September 2014 because of the decline in point-to-point CPI inflation to 5.78 percent in December 2014 as compared to 7.52 percent in September 2014. Point-to-point CPI non-food inflation both urban and rural areas followed an upward trend during the second quarter of FY15 and reached 6.99 percent in urban areas and 6.12 percent in rural areas at the end of the quarter.



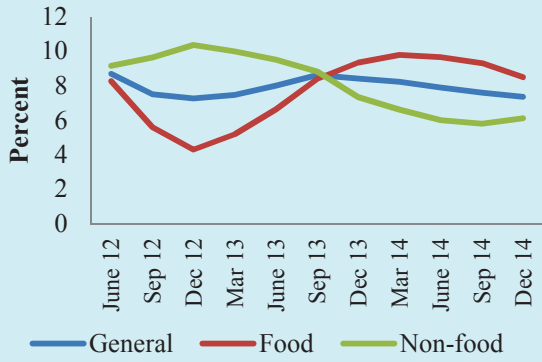
**Chart V.3: 12 Month Average CPI inflation for Rural (Base:2005-06=100)**



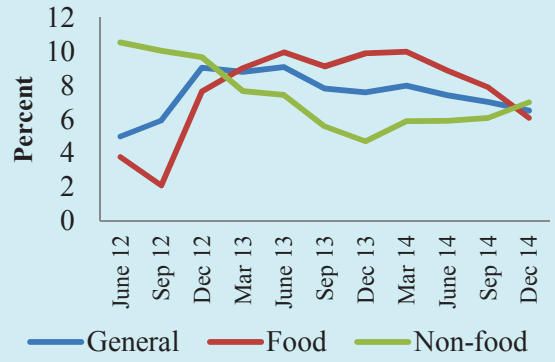
**Chart V.4 : 12 Month Point-to-point CPI inflation for Rural (Base:2005-06=100)**



**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)**





Months	Food beverage & tobacco	Clothing & Footwear	Gross rent, Fuel & Lighting	Furniture, Furnishin g & Other	Medical care and Health Expenses	Transport & Communi cations	Recreatio n, Entertain ment, Education	Misc. Goods & Services	Non-food
<b>Weight</b>	<b>56.18</b>	<b>6.84</b>	<b>14.88</b>	<b>4.73</b>	<b>3.47</b>	<b>5.8</b>	<b>4.28</b>	<b>3.82</b>	<b>43.82</b>
<b>Sep-13</b>	<b>63.54</b>	8.01	8.45	5.00	0.86	5.40	4.18	4.55	<b>36.46</b>
<b>Oct-13</b>	<b>68.48</b>	7.16	8.14	3.83	1.13	4.20	3.60	3.46	<b>31.52</b>
<b>Nov-13</b>	<b>68.63</b>	7.43	8.29	3.64	1.21	4.29	3.40	3.11	<b>31.37</b>
<b>Dec-13</b>	<b>70.59</b>	6.94	8.06	3.25	1.22	3.96	3.07	2.90	<b>29.41</b>
<b>Jan-14</b>	<b>67.34</b>	8.48	12.20	3.41	1.49	3.02	1.45	2.62	<b>32.66</b>
<b>Feb-14</b>	<b>68.07</b>	8.29	11.96	3.21	1.46	3.07	1.40	2.54	<b>31.93</b>
<b>Mar-14</b>	<b>68.72</b>	7.90	11.80	2.93	1.46	3.11	1.60	2.48	<b>31.28</b>
<b>Apr-14</b>	<b>68.80</b>	8.00	11.70	2.48	1.50	3.35	1.59	2.58	<b>31.20</b>
<b>May-14</b>	<b>69.41</b>	6.72	11.74	2.81	1.54	3.37	1.59	2.82	<b>30.59</b>
<b>Jun-14</b>	<b>65.42</b>	8.21	13.63	2.92	1.65	3.56	1.67	2.96	<b>34.58</b>
<b>Jul-14</b>	<b>64.15</b>	8.86	14.05	2.59	1.63	4.10	1.69	2.94	<b>35.85</b>
<b>Aug-14</b>	<b>63.03</b>	8.71	15.05	2.52	1.57	4.86	1.33	2.93	<b>36.97</b>
<b>Sep-14</b>	<b>63.28</b>	8.60	15.03	1.88	1.80	5.96	1.40	2.04	<b>36.72</b>
<b>Oct-14</b>	<b>61.40</b>	8.21	14.45	2.34	2.71	7.08	1.27	2.54	<b>38.60</b>
<b>Nov-14</b>	<b>58.45</b>	8.36	14.90	2.45	4.11	7.62	1.38	2.74	<b>41.55</b>
<b>Dec-14</b>	<b>53.54</b>	8.84	15.59	2.88	4.55	9.45	1.66	3.50	<b>46.46</b>

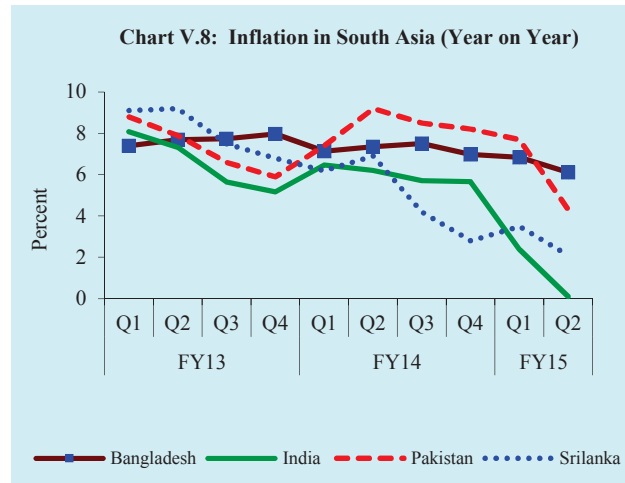
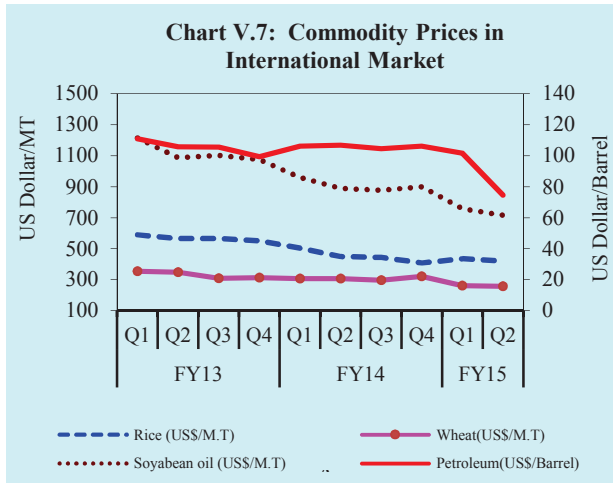
$$\text{@Contribution of ith Group} = \left( \frac{\text{Inflation in ith group} * \text{Weight of ith group in CPI basket}}{\text{Headline inflation}} \right) \times 100$$

Table 5.1 shows that the contribution of food inflation to point-to-point CPI inflation is declining during Q2FY15 while that of non food inflation is increasing during the period.

5.2 According to IMF primary commodity price data, the average price of rice (Thailand , 5% broken) fell by 6.46 percent in Q2FY15 compared with the price of Q2FY14. The average price of wheat (HRW) decreased by 16.21 percent in Q2FY15 from 11.53 percent in Q2FY14. During Q2FY15, the average oil price came down to 30.10 percent as compared to 0.39 percent in Q2FY14. Thus, lower global food and oil prices in the international market will probably lead to further ease in inflation pressure.

5.3 Inflation in South Asian Countries exhibited a declining trend in December 2014. In India, WPI inflation significantly declined to 0.1 percent in December 2014 as compared to 2.4

percent at the end of September 2014. However, Indian CPI inflation went down to 5.0 percent from 6.5 percent during the above mentioned period. CPI inflation in Pakistan decreased substantially to 4.3 percent in December 2014 from 7.7 percent in September 2014. Similarly, CPI in Sri Lanka fell by 2.1 percent in December 2014 as compared to 3.5 percent September 2014.



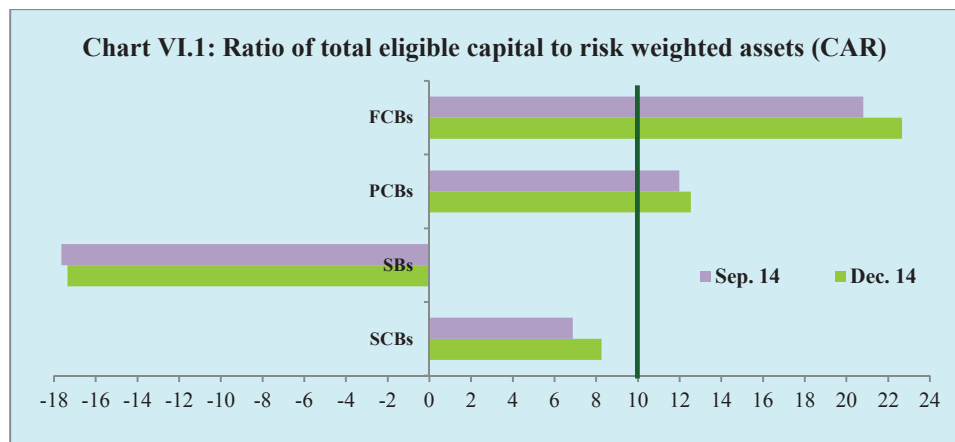
## VI. Banking Sector Performance

6.1 Most of the indicators in the banking sector improved during Q2FY15 compared to that of the previous quarter. The ratio of gross non-performing loans (NPL) to total outstanding loans decreased to 9.7 percent at the end of Q2FY15 from 11.6 percent at the end of Q1FY15. The ratio of net NPL also decreased from 4.3 percent at the end of September 2014 to 2.7 percent at the end of December 2014 due mainly to reduction in the gross NPL. Provision shortfall situation of the sector as a whole improved which decreased from Tk.29.0 billion at the end of September 2014 to Tk. 8.0 billion at the end of December 2014. In Q2FY15, the capital adequacy ratio (CAR) increased to 11.4 percent from 10.6 percent in Q1FY15. 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. Monthly interest rate spread for all banks, measured as the difference between monthly weighted average interest rate of advances and deposits, increased to 5.21 percent at the end of Q2FY15 from 5.10 percent in September 2014.

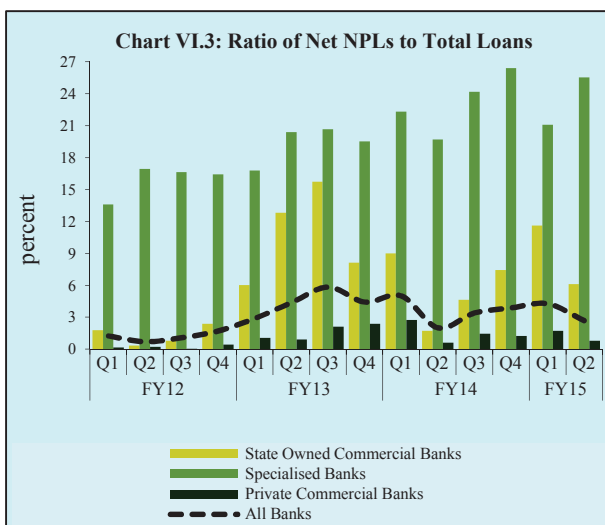
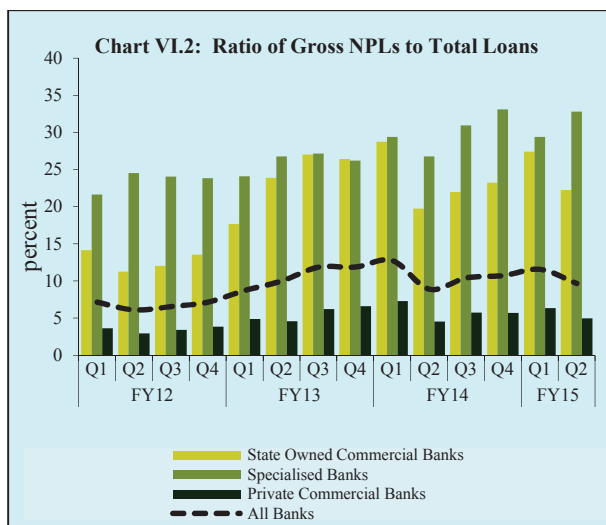
6.2 In Q2FY15, capital adequacy ratio (CAR) increased to 11.4 percent from 10.6 percent in Q1FY15 – a minimum of 10% is the regulatory requirement. The reason for this improvement is the better capital position of all bank groups at the end of December 2014 compared to the end of September 2014. Total risk weighted asset of the sector as a whole grew by 3.0 percent in Q2FY15 over Q1FY15 while total eligible capital of the sector rose by 10.5 percent during this period. The ratio for SCBs<sup>2</sup>, PCBs and FCBs have increased in Q2FY15 to 8.3 percent, 12.5 percent and 22.7 percent respectively from 6.9 percent, 12.0 percent and 20.8 percent respectively in Q2FY15. The ratio for SBs improved marginally from (-) 17.7 percent to (-) 17.4 percent during the period (Chart VI.1).

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<sup>2</sup> SCBs includes BASIC Bank Limited



6.3 The ratio of gross NPL to total outstanding loans of the banking sector had been increasing since December 2013 before it fell by about 2.0 percentage points from 11.6 percent at the end of September 2014 to 9.7 percent at the end of December 2014 (Table VI.2 and Chart VI.2). Total outstanding loan increased by 4.9 percent during Q2FY15 over Q1FY15 while total classified loan decreased by 13.6 percent over the same period. The improvement in gross NPL ratio of the sector was due to the reduced non-performing loans of SCBs and PCBs. The ratios for SCBs and PCBs decreased to 22.2 percent and 5.0 percent respectively at end-December 2014 from 27.4 percent and 6.4 percent respectively at end-September 2014. However, gross NPL ratio of SBs and FCBs increased to 32.8 percent and 7.3 percent respectively from 29.4 percent and 7.0 percent respectively during the period.



Similarly, the net NPL ratio for all banks decreased from 4.3 percent at the end of September 2014 to 2.7 percent at the end of December 2014. (Table VI.3, Chart VI.3). Provision shortfall situation of the sector as a whole improved during Q2FY15 and stood at Tk. 8.0 billion which

decreased from Tk.29.0 billion at the end of September 2014 (Table 6.1). In Q2FY15 gross NPL ratio for SCBs and PCBs decreased by 5.2 and 1.2 percentage points respectively and each of these groups of banks had provision surplus of Tk.6.7 billion. Net NPL ratios for SCBs, PCBs and FCBs decreased from 11.6 percent, 1.7 percent and 0.6 percent respectively at the end of September 2014 to 6.1 percent, 0.8 percent and (-) 0.9 percent respectively at the end of December 2014. However, Net NPL ratio of SBs increased from 21.1 percent to 25.5 percent during the period.

**Table 6.1: Comparative Position of Classified Loan and Provision Maintained, FY14**

(Tk. in billion)

Quarter	Items	SCBs <sup>1</sup>	SBs	PCBs	FCBs	All Banks
Q3 FY14	Total classified loan	212.5	71.7	185.3	12.3	481.7
	Required provision	131.8	32.8	107.3	11.1	283.0
	Provision maintained	124.9	13.1	109.1	11.6	258.7
	Excess(+)/shortfall(-)	-6.9	-19.7	1.8	0.5	-24.3
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

1/SCBs includes BASIC Bank Limited

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 June 2014. 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)	
	Dec.14	Sep.14	Dec.14	Sep.14	Dec.14	Sep.14
	SCBs	11.8%	12.5%	8.4%	4.4%	53.5%
SBs	9.7%	12.9%	7.9%	9.8%	76.7%	78.8%
PCBs	15.5%	16.3%	17.5%	15.4%	78.2%	76.4%
FCBs	-1.3%	1.8%	-4.6%	-4.2%	61.8%	60.6%
All	13.3%	14.3%	14.0%	11.7%	71.0%	69.9%

**Table 6.3: Liquidity Position of the Scheduled Banks**

(Tk. in billion)

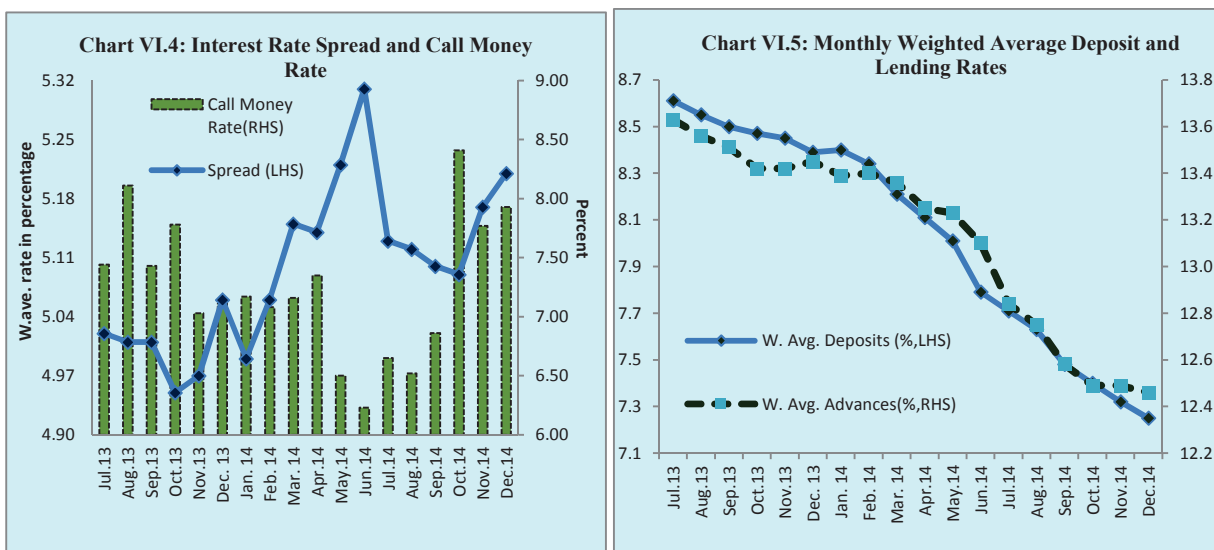
Bank groups	CRR			SLR		
	CRR requirement	Balance with BB in local currency	Excess(+)/shortfall (-) in reserve	SLR	SLR eligible liquid assets of banks**	Excess(+)/shortfall (-) of SLR
1	2	3	4=3-2	5	6	7=6-5
As of end December, 2014 <sup>P</sup>						
SCBs	119.62	122.81	3.19	239.06	741.58	502.52
SBs*	14.66	14.69	0.04	0.00	0.00	0.00
PCBs (other than Islamic)	198.59	212.20	13.61	393.09	775.25	382.16
Private Banks (Islamic)	84.66	108.97	24.31	71.64	199.11	127.47
FCBs	23.02	23.60	0.59	45.32	175.37	130.05
All	440.54	482.28	41.74	749.10	1891.31	1142.21
As of end June, 2014 <sup>R</sup>						
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.

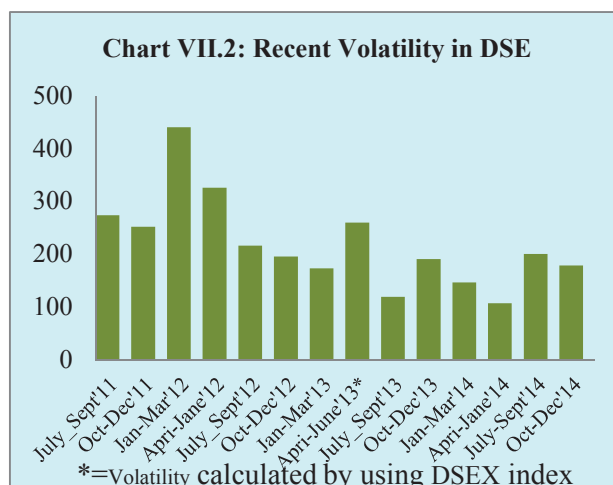
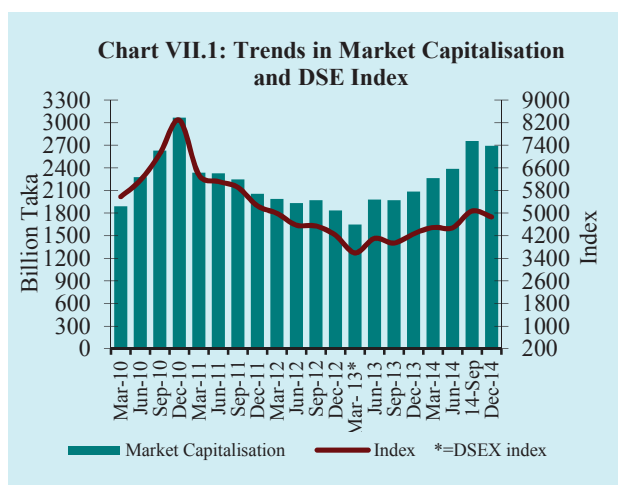
6.5 At the end of Q2FY15, the growth rate (year-on-year) of deposits was lower than that of advances. As a result, advance-deposit ratio (ADR) marginally increased from 69.9 percent in end-September 2014 to 70.1 percent in end-December 2014 though still remained far below the maximum regulatory ceiling. The growth rate of deposits decreased from 14.3 percent at end of September 2014 to 13.3 percent at end of December 2014. On the other hand, the growth of advances increased from 11.7 percent to 14.0 percent during the period (Table 6.2). The liquidity position of the banking sector as a whole, improved at the end of Q2FY15, leading to a further easing of money market conditions (Table 6.3).



6.6 Monthly interest rate spread for all banks, measured as the difference between monthly weighted average interest rate of advances and deposit, increased to 5.21 percent at the end of Q2FY15 (Chart VI.4) from 5.10 percent at the end of September 2014. 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 Q1FY15 lending rates declined faster than deposit rates, as a result interest rate spread decreased over the period (Chart VI.5). However, during Q2FY15 deposit rates declined faster than lending rates, as a result interest rate spread increased during the period under review. Monthly weighted average call money rate increased from 6.86 percent in September 2014 to 7.93 percent in December 2014

## VII. Capital Market Developments

7.1 During Q2FY15 the country's capital market witnessed downward pressure as reflected in the falling DSE indices and market capitalization. At the end of Q2FY15, DSE broad (DSEX) index and DSE 30 index were at 4865.0 and 1803.1 which are 4.1 percent and 8.0 percent lower respectively compared to Q1FY15. Over the same period, market capitalization decreased by 2.3 percent (Chart VII.I and Table VII.II). DSEX index and DSE 30 index increased by 14.0 percent and 23.0 percent respectively during Q2FY15 compared to Q2FY14. DSE market capitalization increased significantly by 29.2 percent during Q2FY15 as compared to Q2FY14.



7.2 The average price earnings ratio of the DSE decreased to 17.87 in December 2014 compared to 18.64 at the end of September 2014. Total turnover value in the DSE decreased by 11.7 percent from Tk. 343.6 billion in Q1FY14 to Tk. 303.3 billion in Q2FY15. The liquidity situation in the capital market tightened as measured by Turnover Velocity Ratio (TVR)<sup>3</sup>, which decreased to 45.0 percent in Q2FY15 from 49.8 percent in Q1FY15. The number of listed securities increased to 325 in Q2FY15 from 308 in Q2FY14. During Q2FY15 the value of issued equity and debt increased by 2.6 percent compared to Q1FY15 and two new companies were listed in the capital market.

7.3 Sector-wise DSE data shows that during Q2FY15 market capitalization increased in banks, financial institution, mutual fund, Jute industry, paper printing and service and real estate sectors (Table VII.2). All other sectors (food & allied product, fuel and power, textile industry, Pharmaceuticals and Chemicals, Cement Industry, Insurance, Telecommunication, Miscellaneous and Corporate Bond) decreased during Q2FY15. The contribution of the banking

<sup>3</sup> TVR= (Turnover during the Quarter/Quarter-end Market capitalization)\*4.



sector decreased to 15.4 percent at the end of Q2FY15 from 14.7 percent in the previous quarter. The relative contributions of all other sectors remained almost unchanged during the last quarter.

7.4 During Q2FY15 the investment on share purchase by foreign and non-resident Bangladeshi investors increased to Tk. 12.7 billion from Tk. 9.2 billion in the previous quarter. At the same time, total share sales by foreign and non-resident Bangladeshi investors also increased to Tk. 6.6 billion from Tk. 4.0 billion in the previous quarter. As a result, net investment of foreign and non-resident Bangladeshi during Q2FY15 increased to Tk. 6.1 billion from Tk. 5.2 billion in the previous quarter. However, foreign exchange turnover still has a limited contribution in total turnover of the DSE. During Q2FY15 total foreign exchange turnover increased to 6.3 percent of total turnover from 3.9 percent of total turnover in the previous quarter. The volatility, measured by standard deviation, decreased to 178.2 during Q2FY15 compared to 200.1 in Q1FY15.

7.5 Cross country data shows that price earnings ratio of December 2014, Bangladesh capital market is around the mid-point of some South and East Asian countries while dividend yield of Bangladesh is the second 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- September 2014

<b>Country</b>	<b>Price Earnings Ratio</b>	<b>Dividend Yield</b>
Bangladesh	17.87	3.35
India	18.84	1.23
Sri Lanka	19.66	2.09
Thailand	15.00	2.80
Malaysia	16.00	3.20
Taiwan	16.00	2.90
Hong Kong	15.00	2.60
China	10.00	3.20
Singapore	13.00	3.40

Source: Monthly Review, Dhaka Stock Exchange