# Economic & Financial Developements

## Part A: Economic and Financial Developments

### *Executive Summary*

*Economic activities which expanded during the second quarter of FY16 have been reflected in various macroeconomic indicators. A significant growth in agricultural credit (28.40 percent) along with favorable weather condition helped grow agricultural production in Q2FY16. Higher growth in private sector credit (14.19 percent), a noticeable growth in medium and large scale industrial production index (12.08 percent), an impressive export earnings (13.70 percent), and higher import payments (14.80 percent) are indicative of positive developments in GDP during Q2FY16. Although, different proxy variables related to service sector performance like trade financing, bank advances to the transport and communication sector, and cargo handled through Chittagong port showed mixed results in service sector activities, tourism along with hotel and restaurant businesses remained buoyant during the period due to a stable political situation.*

*The twelve month average CPI inflation that started to decline since January 2014 continued its downward trend in the second quarter of FY16 and reached 6.19 percent at the end of December 2015. Headline point to point (p-t-p) CPI inflation also declined to 6.10 percent in December 2015 from 6.24 percent in September 2015. Food inflation (p-t-p) fell down to 5.48 percent in December 2015 from 5.92 percent in September. On the other hand, nonfood inflation (p-t-p) increased to 7.05 percent in December 2015 as compared to 6.73 percent in September 2015.*

*Developments in money and credit markets show that monetary aggregate remained below the target level in the second quarter of FY16. The broad money (M2) growth(y-o-y) was 13.1 percent in December 2015(15 percent target) compared with 13.3 percent in September 2015. Reserve money (RM) growth was 15.1 percent (y-o-y) in December 2015(16.5 percent target) compared with 13.2 percent in September 2015. The growth in private sector credit increased to 14.2 percent in December 2015 from 12.9 percent in September 2015, and remained within the programmed growth of 14.3 percent. Credit to the public sector declined by 7.8 percent in December 2015 compared with the negative growth of 1.4 percent in September 2015.*

*Preliminary estimated data show that overall revenue collection increased by 31.4 percent to Tk.447.3 billion while total expenditure increased by 12.8 percent to Tk. 455.2 billion during Q2FY16. As a result, budget deficit declined to Tk. 7.9 billion in Q2FY16 from Tk. 63.2 billion in Q2FY15. The deficit financing was met mainly from both external sources and domestic nonbank sources. The expenditure on ADP grew by only 4.7 percent during Q2FY16 over the same quarter of previous year. During the first half of FY16, only 24.5 percent of annual ADP target was utilized.*

*The current account balance (CAB) recorded a surplus of USD 456.0 million in Q2FY16 compared to USD 197.0 million in Q2FY15. However, the trade balance recorded a deficit of USD 2.33 billion during the quarter under review and the deficits widened due to relatively higher import compared to Q2FY15. Inflow of remittances increased slightly by 2.2 percent. The services account and the primary income account registered a deficits of USD 0.55 billion, and USD 0.37 billion, respectively. On the other hand, the secondary income posted a surplus of USD 3.71 billion during the quarter. The combined capital and financial account posted a deficit of USD 68.0 million. Based on these, the overall balance of payments (BOP) recorded a surplus of USD 0.47 billion in Q2FY16 which was higher than the surplus of USD 0.27 billion in Q2FY15.*

*Banking sector performance showed some noticeable improvement during Q2FY16. The capital adequacy ratio (CAR) increased to 10.8 percent in Q2FY16 from 10.5 percent in Q1FY16. The ratio of gross NPL to total outstanding loans decreased slightly from 9.89 percent at the end of Q1FY16 to 8.79 percent at the end of Q2FY16. Similarly, the ratio of net NPL also decreased from 2.84 percent in Q1FY16 to 2.26 percent at the end of Q2FY16. In addition, the monthly interest rate spread for all banks, remained below 5.0 percent during Q2FY16 and the monthly weighted average call money rate also decreased from 5.7 percent in September 2015 to 3.7 percent in December 2015. Notwithstanding these developments, the provision shortfall position in the banking sector deteriorated during Q2FY16 and stood at (-) Tk. 42.8 billion at the end of December 2015 from (-) Tk. 23.3 billion at the end of September 2015.*

*Despite a moderate pace of global economic recovery, the macroeconomic outlook for coming quarters of FY16 looks impressive due to increased domestic demand, prospective food production and a stable political situation. If this trend continues, 7.0 percent economic growth and 6.20 percent inflation seem quite achievable.*

## I.      Developments in the Real Economy

1.1      The overall economic activities showed expansion in Q2FY16 as reflected in various macroeconomic indicators. Higher growth of agricultural credit (28.40 percent) and a favorable weather condition helped achieve significant growth in agricultural production. Higher growth in private sector credit (14.19 percent), export earnings (13.70 percent), and import payments (14.80 percent) contributed to growth in large and medium scale industrial production (12.08 percent) also indicate positive economic activities in the industrial sector during Q2FY16. However, different proxy variables like trade financing, bank advances to the transport and communication sector, and cargo handled through Chittagong port, showed mixed results in service sector activities during the period.

1.2      The Q2FY16 is the time for harvesting *aman* crop which is the second major crop in Bangladesh. The actual data on *aman* production of FY16 is yet to be available. However, it gives an impression that the target of *aman* production (13.56 million metric tons (MMT) may be achieved in the current fiscal year due to a favorable weather condition. This weather may also help reach the production target of wheat and potato (1.40 MMT and 2.00 MMT, respectively). The Department of Agricultural Extension (DEA) had preliminary estimates that the production of Aus would stand at 2.47 MMT in FY16.

**Chart 1.1: Growth of Real GDP**

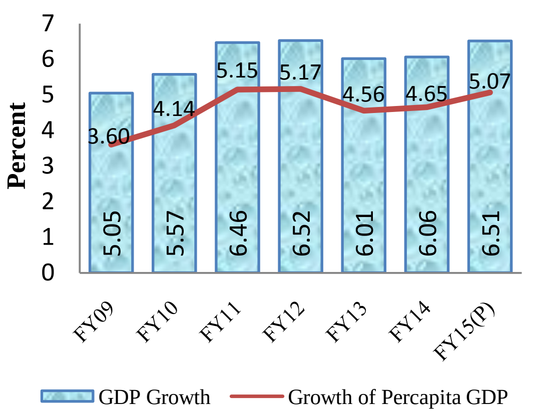
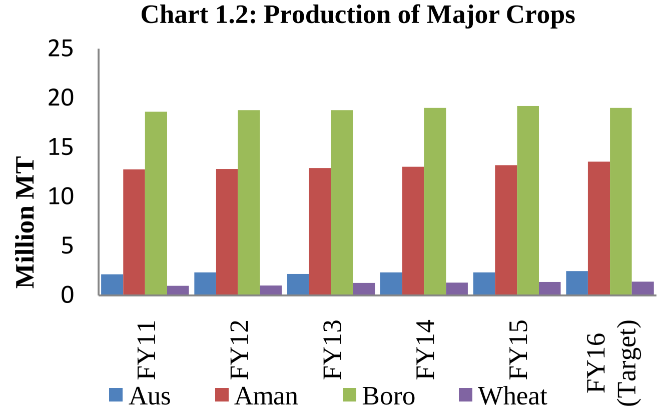
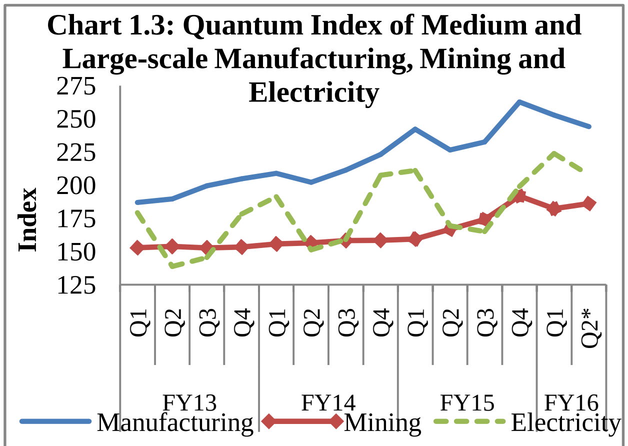



**Chart 1.2: Production of Major Crops**

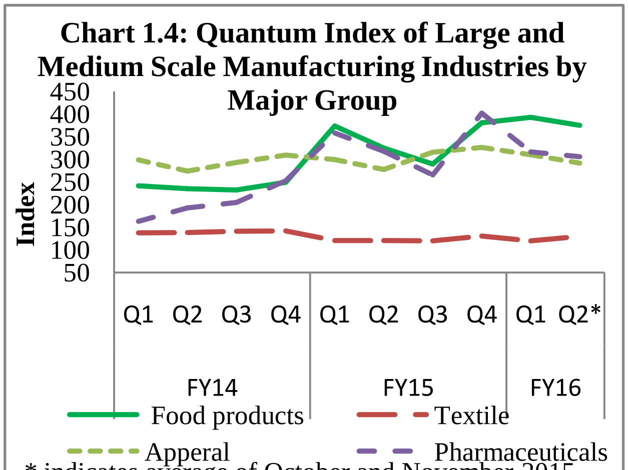



* Data for *aus* in FY16 represents actual production

1.3      The quantum index of large and medium scale industries is the only available data that proxy our industrial performance. During the Q2FY16 (up to November 2015)  large and medium scale production registered 12.08 percent growth compared to the same period  of the previous fiscal year, driven mainly by strong growth of manufacturing of transport equipments (264.37 percent),  non-metalic mineral products (52.93),  wearing apparels (17.34 percent) and food products (11.03 percent). On the other hand, negative growth was experienced in manufacturing of leather and leather products (-26.04 percent) and pharmaceuticals (-9.40 percent) during the same period. Apart from industrial production, the construction sector seemed to show a moderate growth impulse, as reflected in 8.08 percent credit growth in the construction sector during the second quarter of FY16 compared to the same period of the previous fiscal year.



* indicates average of October and November 2015



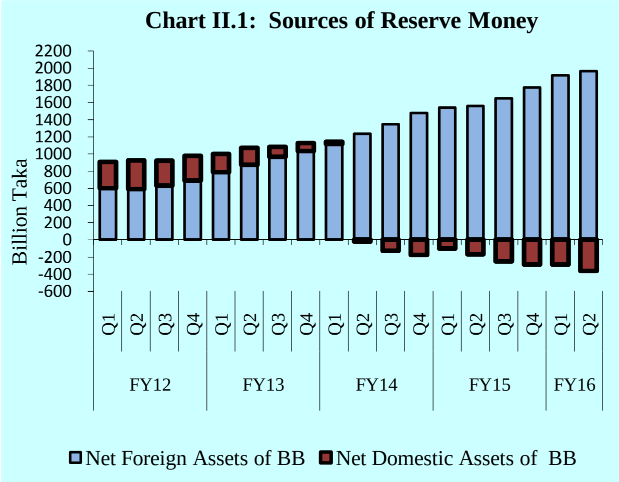
* indicates average of October and November 2015

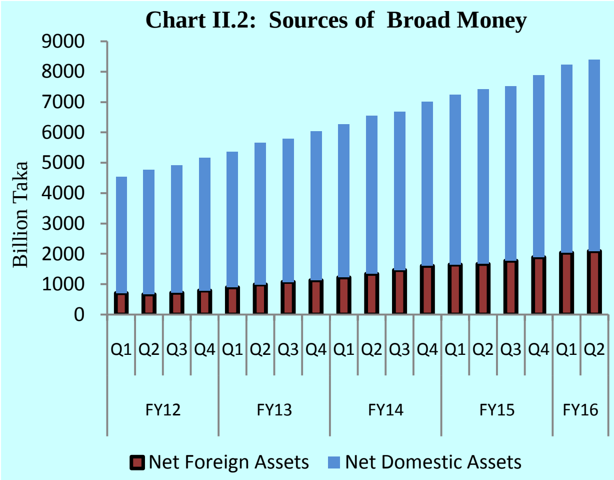
1.4 Though service sector data are available only on an annual basis, a number of proxy variables ─ trade financing, bank advances to the transport and communication sector, and cargo handled through Chittagong port, etc. revealed a mixed picture of service sector activities during the second quarter of FY16. The outstanding bank advances to the trade and commerce sector posted a moderate growth of 11.54 percent in Q2FY16 (Table 1.9 in Appendix). On the other hand, negative growth of advances to the transport and communication sectors (-22.16 percent) in the Q2FY16 depicted a slow growth of this sector. However, cargo handled through Chittagong port increased by 28.30 percent during the Q2FY16. Moreover, tourism along with hotel and restaurant business activities remained buoyant during the period mainly due to political calm throughout the country.

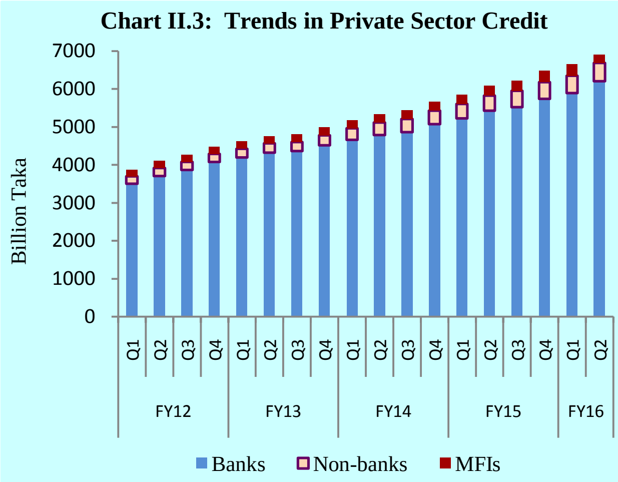
## II. Money and Credit Market Developments

2.1 The monetary policy stance of July-June 2016 is explicitly pro-growth to keep the average inflation rate at about 6.2 percent and to support the 7.0 percent growth target. In line with the target, BB aims to limit reserve money growth to 14.3 percent and broad money growth to 15.0 percent by June 2016. Room for private sector credit growth (15.0 percent including foreign borrowing by local corporate) has remained well to achieve growth targets.

2.2 In December 2015, broad money (M2) growth was 13.1 percent compared to 13.3 percent in September 2015 and 13.4 percent in December 2014. The M2 growth was 3.4 percentage point lower than the programmed level of 15.0 percent in December 2015. Growth in private sector credit increased to 14.2 percent in December 2015 from 12.9 percent in September 2015, and remained narrowly lower than the programmed growth of 14.3 percent. Growth in the public sector credit was negative by 7.8 percent in December 2015 compared with 1.4 percent negative growth in September 2015. Net Foreign Asset (NFA) grew by 25.1 percent in December 2015 compared to the growth of 23.4 percent in September 2015. Net Domestic Asset (NDA) grew by 9.56 percent in December 2015 compared to the growth of 10.52 percent in September 2015.



2.3 The components of M2 show that currency, demand deposits, and time deposits increased by 12.9 percent, 14.7 percent and 12.9 percent (y-o-y), respectively in December 2015 compared to the increase of 17.1 percent, 12.7 percent, and 12.8 percent in September 2015. Narrow money (M1) grew by 13.7 (y-o-y) percent in December 2015 which was 15.3 percent in September 2015, while reserve money (RM) grew by 15.1 percent (y-o-y) in December 2015 compared to 13.2 percent in September 2015. The money multiplier (M2/RM) increased to 5.23 in December 2015 from 5.05 in September 2015, reflecting a bit higher expansion of M2.

2.4 In December 2015, private sector credit (including banks, non-banks and micro-finance institutions) grew by 13.6 percent compared to 14.0 percent in December 2014. Individually, bank advances to industry grew by 24.2 percent at the end of December 2015 compared to 16.4 percent in December 2014 where term loan increased by 31.6 percent and working capital financing increased by 17.8 percent. In the agriculture sector the supply of credit increased by 23.2 percent at the end of December 2015 (of which advances to crops increased by 28.0 percent while others went down by 9.7 percent) compared to 1.8 percent at the end of same period of preceding year. Advances to trade and commerce sectors increased to 11.5 percent at the end of December 2015 compared to 13.1 percent at the end of December 2014. Bank advances to consumer finance increased to 10.2 percent at the end December 2015 compared to 52.2 percent at the end of December 2014. The growth of bank advances to the construction sector was 8.1 percent at the end of December 2015 compared to 11.4 percent at the end of December 2014.

Analyzing the share of bank advances based on economic purposes, it was found that 37.48 percent of the total advances went to the industrial sector followed by the trade and commerce (36.97 percent), the consumer financing (8.68 percent), and construction (8.34 percent) (Table I.9). The overall disbursements of industrial term lending by banks and NBFIs declined by 4.4 percent, and stood at Tk. 178.2 billion at the end of December 2015, from Tk. 127.0 billion in September 2015 and Tk. 186.4 billion at the end of same quarter of the preceding year.

2.5 Overall yields on short term treasury bills e.g., 91-day, 182-day and 364-day declined to 2.94 percent, 3.32 percent and 4.11 percent, respectively at the end of December 2015 from 5.33 percent, 5.58 percent and 6.15 percent at the end of September 2015 and 7.45 percent, 7.92 percent and 8.21 percent at the end of December 2014. The rate of 30-day Bangladesh Bank Bill declined to 3.38 percent at the end of December 2015 from 5.25 percent at the end of September 2015 (Table II.3). Two-year, five-year, ten-year, fifteen-year and twenty-year long-term treasury bonds/Bangladesh Government Treasury Bond (BGTB) yields were 4.86 percent, 5.04 percent, 7.23 percent, 7.87 percent and 8.97 percent, respectively ,at the last auction held during October-December 2015 (Table II.3).

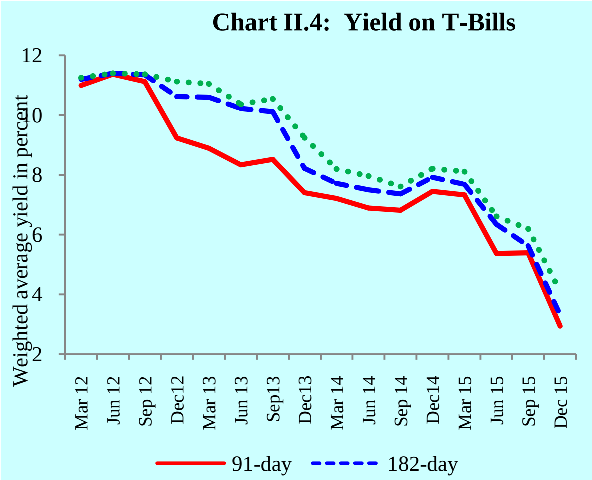



**Chart II.4: Yield on T-Bills**

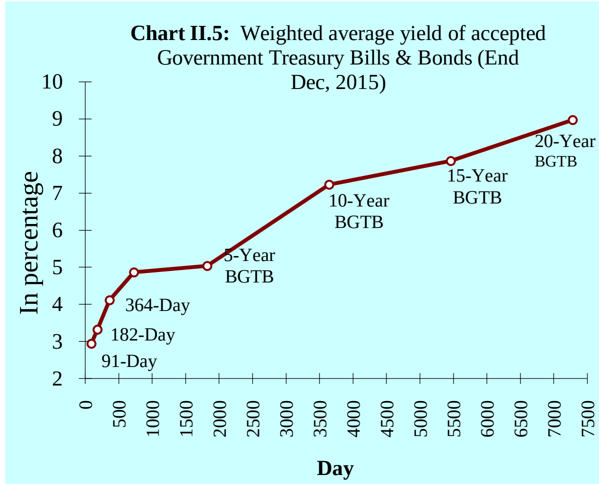



**Chart II.5:** Weighted average yield of accepted Government Treasury Bills & Bonds (End Dec, 2015)

2.6 The repo and reverse repo rates remained unchanged at 7.25 percent and 5.25 percent respectively during the period under review. On the other hand, the call money rate decreased to 3.69 percent at the end of December 2015 from 5.71 percent at the end of September 2015. The spread between lending and deposit rates marginally increased to 4.84 percent at the end of December 2015 compared to 4.79 percent at the end of September 2015.

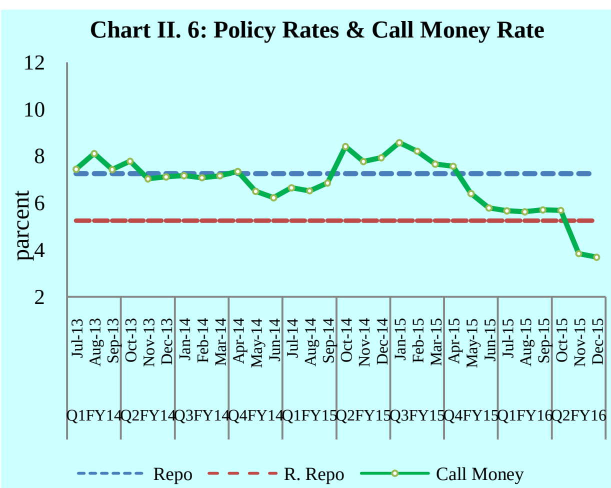



**Chart II. 6: Policy Rates & Call Money Rate**

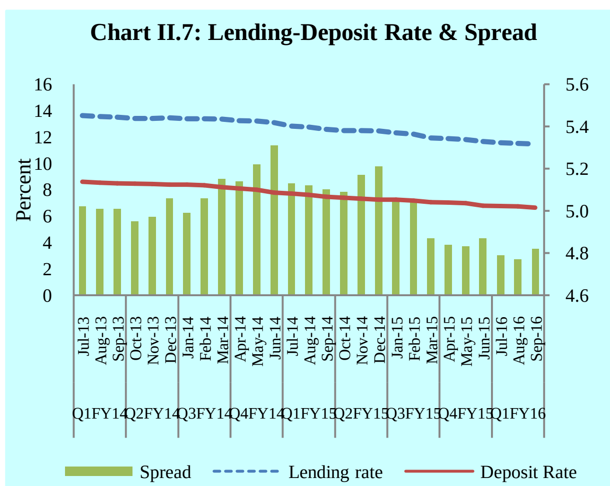



**Chart II.7: Lending-Deposit Rate & Spread**

## III. Fiscal Developments

3.1 Preliminary budget estimates show that total revenue receipts and expenditure increased by 31.1 percent, and 15.4 percent, respectively, during Q2FY16 compared to Q2FY15. Consequently, the budget deficit declined to Tk. 7.9 billion in Q2FY16 compared to Tk.60.4 billion in Q2FY15. Total revenue receipts and expenditure for the first half of FY16 (H1FY16) were 40.4 percent and 34.1 percent of the budget outlay for the year, respectively. Accordingly, the overall budget deficit for H1FY16 accounted to 19.0 percent of the annual budget deficit. It is important that, the full amount of deficit financing came from nonbank and foreign sources (Table III.3, Chart III.1 and Chart III.2).

**Chart III.1: Trend in Government Revenue and Expenditure**

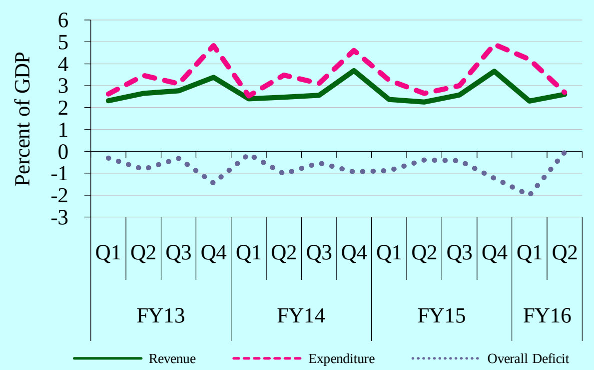
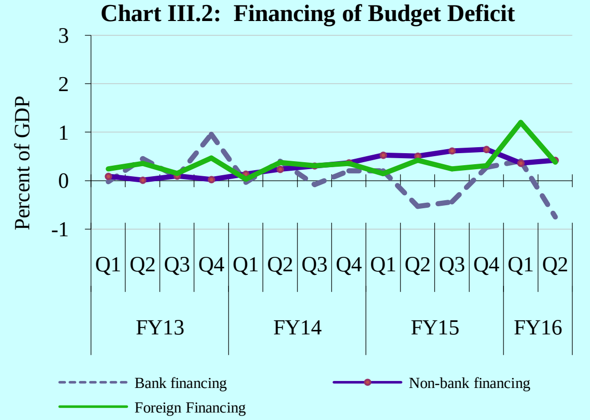



**Chart III.2: Financing of Budget Deficit**




3.2 During Q2FY16, total NBR tax revenue increased by 19.9 percent to Tk. 369.7 billion compared to the same period of corresponding fiscal year which is 21.0 percent of the budget target of FY16. Revenue receipts from customs duties, value added tax (VAT), income tax, and other sources grew by 32.3 percent, 16.9 percent, 8.1 percent and 41.2 percent, respectively, during the quarter under review as compared to the same period of previous year. The overall NBR tax revenue reached to Tk. 680.8 billion in H1FY16 which is 38.6 percent of the budget target of FY16 and 15.3 percent higher than the level of H1FY15.

3.3 The preliminary estimate of total expenditure was Tk. 455.2 billion in Q2FY16 which is 15.4 percent of the annual target and 13.3 percent higher than the same period of the corresponding year. The current expenditure increased by 39.9 percent to Tk. 247.8 billion in Q2FY16 and Annual Development Program (ADP) expenditure increased by only 4.7 percent to Tk. 169.7 billion (17.5 percent of annual ADP) compared to Q2FY15.

3.4 During H1FY16, total government expenditure was estimated at Tk.1006.7 billion (34.1 percent of budget target of FY16 and 5.9 percent of estimated annual GDP), which is 12.7 percent higher than the level of H1FY15. During that period current expenditure stood at Tk. 510.4 billion (31.0 percent of budget target of FY16 and 3.0 percent of GDP). The outlay of ADP stood at Tk. 237.8 billion in H1FY16 (24.5 percent of FY16 budget or 1.4 percent of GDP) and running behind the whole year target.

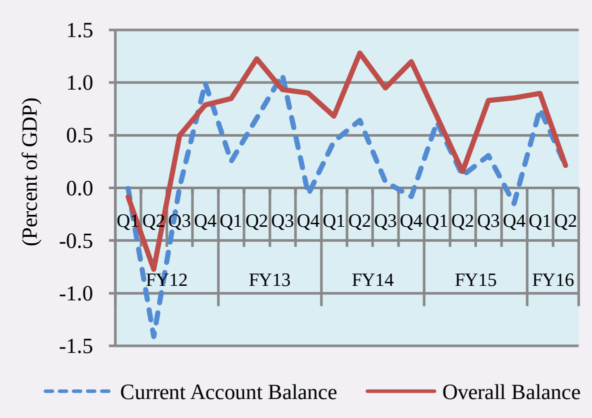
3.5 The overall fiscal deficit stood at only Tk. 7.9 billion during Q2FY16 (representing 0.05 percent of GDP) compared to Tk. 60.4 billion or 0.4 percent of GDP in Q2FY15. Among the sources of domestic financing, Tk.71.8 billion came from nonbank while government paid Tk.128.6 billion to the banks instead. Overall domestic financing became negative indicating government need not to borrow from domestic sources rather paid Tk. 56.8 billion during the quarter. Deficit financing from foreign sources stood at Tk. 64.7 billion in Q2FY16 which is almost same of Tk. 64.3 billion in Q2FY15.

3.6 The overall fiscal deficit in the first half of FY16 stood at Tk. 164.5 billion or 1.0 percent of GDP compared to Tk. 193.7 billion or 1.3 percent of GDP in H1FY15. An overview of the sources of deficit financing shows that Tk. 75.2 billion was accommodated from domestic sources, while the remaining amount of Tk. 89.3 billion came from foreign sources in H1FY16.

## IV. External Sector Developments

4.1 The current account balance (CAB) recorded a surplus of USD 456.0 million in Q2FY16 compared to USD 197.0 million in Q2FY15 despite the widened deficit in the trade balance of USD 2.33 billion compared to USD 1.97 billion in the corresponding quarter of the previous fiscal year. The services account and the primary income account recorded deficits of USD 554 million, and USD 365 million, respectively, while the secondary income recorded a surplus of USD 3.71 billion (of which the inflow of workers' remittances was USD 3.55 billion) during the quarter.

**Chart IV.1: Trends in CAB and overall balance**




4.2 The combined capital and financial account recorded a deficit of USD 68.0 million in Q2FY16 as compared to a deficit of USD 70.0 million in Q2FY15. The financial account recorded a deficit of USD 246.0 million, while surplus in the capital account increased to USD 178.0 million in Q2FY16 from USD 152.0 million in Q2FY15.At the end of Q2FY16, the overall balance of payments (BOP) recorded a surplus of USD 468.0 million which is higher than the surplus of USD 268.0 million in Q2FY15. The foreign exchange reserves stood at USD 27.7 billion at the end of December 2015 (Table IV.1).

**Chart IV.2: Exchange Rate Movements**

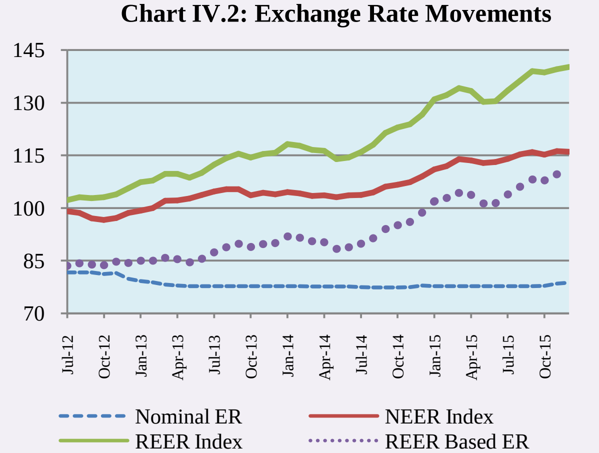
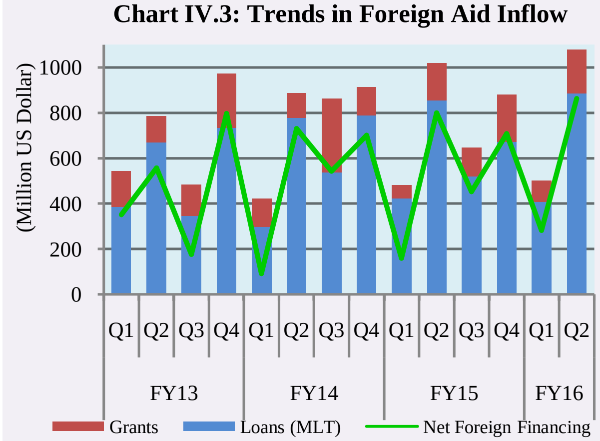



**Chart IV.3: Trends in Foreign Aid Inflow**



4.3 Total foreign aid during Q2FY16 was USD 1.08 billion, compared to USD 1.02 billion in Q2FY15. Out of the total aid, USD 885.7 million was disbursed as medium and large term (MLT) loan as compared to USD 856.3 million, disbursed in Q2FY15. Grants increased from USD 163.3 million in Q2FY15 to USD 191.9 million during Q2FY16. In Q2FY16, Bangladesh made an amortization payment of USD 256.1 million, of which USD 215.0 million was paid as principal. As a result, net foreign financing in Q2FY16 was USD 862.6 million higher than USD 799.7 million received in Q2FY15 (Table IV.8).

4.4 The weighted average nominal exchange rate depreciated to Tk. 78.78 per US dollar in December 2015 from Tk. 77.80 per US dollar in September 2015. The REER based exchange rate increased to Tk. 110.41 per USD at the end of December 2015 from Tk. 108.13 per USD at the end of September 2015. Bangladesh Bank continued its intervention in the domestic foreign exchange market with a net purchase of foreign currencies amounting to USD 366.0 million during Q2FY16.

**Chart IV.4: Trends in Exports & Imports**

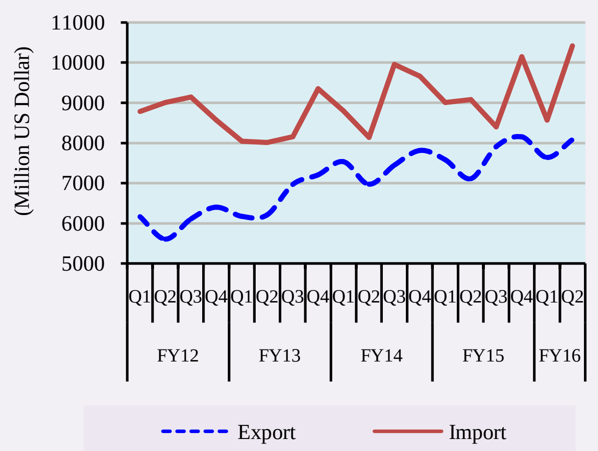
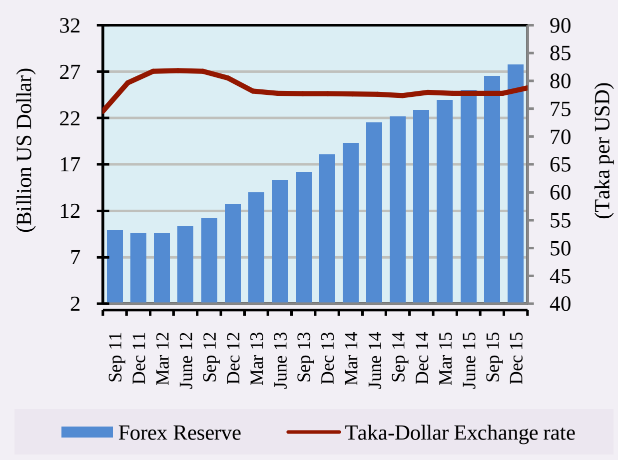



**Chart IV.5: FOREX Reserve & Exchange Rate**




4.5 According to Export Promotion Bureau (EPB) data, exports earnings increased by 15.3 percent to USD 8.33 billion in Q2FY16 from USD 7.22 billion in Q2FY15 (on adjusted f.o.b basis export earnings increased by 13.7 percent to USD 8.09 billion in Q2FY16 from USD 7.11 billion in Q2FY15). Exports of RMG grew by 15.6 percent to USD 6.70 billion during the quarter under review. In Q2FY16 export of woven garments and knitwear to European countries increased by 18.5 percent and 13.5 percent, respectively. Among other major export items, earnings from leather and raw jute decreased by 39.8 percent and 32.4 percent, respectively, in Q2FY16 over the corresponding quarter of the previous year. Among non-traditional markets, export of non-RMG products increased to Japan (+38.8 percent), India (+48.2 percent) and UAE (+186.6 percent) in Q2FY16 (Table IV.2 and IV.5).

4.6 According to customs data import payments increased by 14.8 percent to USD 11.26 billion in Q2FY16 compared to USD 9.81 billion in Q2FY15 (Table IV.3). Import of food-grains decreased from USD 411.8 million in Q2FY15 to USD 330.8 million in Q2FY16. Import of rice in Q2FY16 (USD 51.5 million) was lower compared to the corresponding quarter of FY15, while import of wheat (USD 279.3 million) was a little higher. Import of other food items increased from USD 457.1 million during Q2FY15 to USD 692.8 million in Q2FY16. Among the other food items, the import of spices (+25.9 percent), edible oil (+182.1 percent), pulses (+49.6 percent) increased, while that of milk & cream (-7.3 percent) decreased in Q2FY16 over Q2FY15 (Table IV.3).

4.7 Imports of consumer and intermediate goods increased by 13.9 percent to USD 6.62 billion during Q2FY16. Among the intermediate goods, imports of textile and articles thereof (+14.6 percent), oil seeds (+168.9 percent), POL (+98.6 percent), yarn (+10.8 percent), plastics and rubber articles thereof (+1.8 percent), dyeing and tanning materials (+11.7 percent), pharmaceutical products (+88.0 percent) increased. During the same period imports of fertilizer (-24.4 percent), raw cotton (-2.6 percent) decreased. Import of crude petroleum fell by 20.9 million during Q2FY16 over the same quarter of previous year. Imports of iron, steel & other base metals increased by 13.6 percent while that of capital goods increased by 4.7 percent in Q2FY16 over Q2FY15.

4.8 In Q2FY16, the opening of import LCs increased by 8.0 percent to USD 11.29 billion, of which petroleum and petroleum products (-36.3 percent), machinery for miscellaneous industries (-2.9 percent) and consumer goods (-3.4 percent) decreased, while opening of LCs for intermediate goods (+5.7 percent), industrial raw materials (+9.0 percent) and capital machinery (+46.3 percent) increased (Table IV.9).

4.9 The inflow of workers' remittances increased by USD 77.60 million in Q2FY16 to USD 3.55 billion compared to Q2FY15. Despite a fall in remittance earnings from the Gulf region for the second consecutive quarter, remittances from USA increased by USD 86.3 million. (Table IV.4). Overseas employment for Bangladeshi workers increased by 53.2 percent in Q2FY16 since a total of 179,404 Bangladeshi people migrated which was 117,142 in the corresponding period of FY15.

## V. Price Developments

5.1 The twelve month average CPI inflation has taken a sustained downward turn since January 2014, from 7.60 percent to 6.19 percent at the end of December 2015 owing to an uninterrupted decline in food prices. Headline point-to-point CPI inflation declined to 6.10 percent at the end of December 2015 as compared to 6.24 percent at the end of September 2015 due to declining food inflation, which decreased (p-t-p) to 5.48 percent at the end of December 2015 from 5.92 percent at the end of September 2015. Besides, nonfood inflation rose to 7.05 percent at the end of December 2015 from 6.73 percent in September 2015 which was even higher than 6.56 percent in November 2015. As table-5.2 shows, clothing and footwear, medical care and health expenses, recreation, entertainment, education, and cultural items have stimulated the nonfood price hike at the end of 2015.

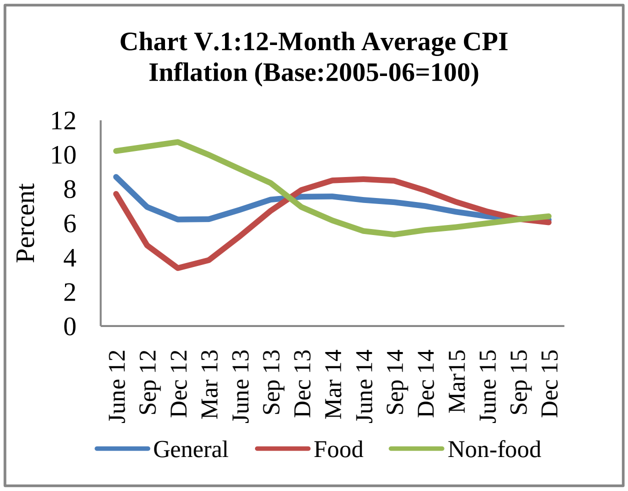
**Table 5.1: Contribution @ of Food and Major Non-Food Items / Groups in CPI inflation(Point to Point)**
**Base Year 2005-06: 100**

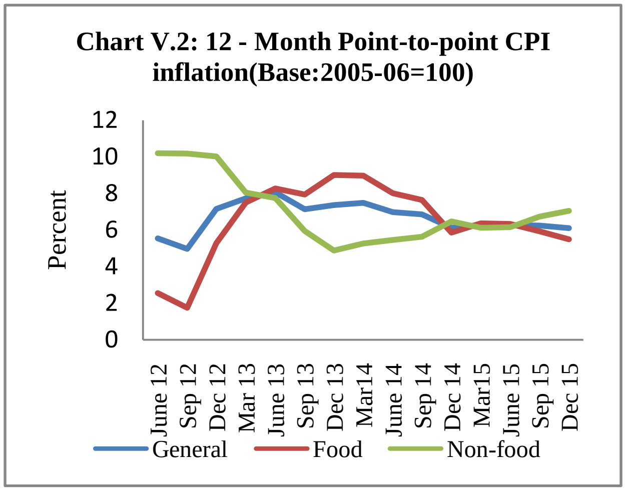
| Months | **Food beverage & tobacco** | Clothing & Footwear | Gross rent, Fuel & Lighting | Furniture, Furnishing & Other | Medical care and Health Expenses | Transport & Communications | Recreation, Entertainment, Education & Cultural | Misc. Goods & Services | **Non-food** |
|---|---|---|---|---|---|---|---|---|---|
| **Weight** | **56.18** | **6.84** | **14.88** | **4.73** | **3.47** | **5.8** | **4.28** | **3.82** | **43.82** |
| **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** |
| **Apr-15** | **57.69** | 7.06 | 8.79 | 3.86 | 8.63 | 9.07 | 1.30 | 3.58 | **42.31** |
| **May-15** | **56.51** | 8.21 | 8.82 | 3.80 | 8.77 | 9.11 | 1.42 | 3.37 | **43.49** |
| **Jun-15** | **56.86** | 7.97 | 7.73 | 3.95 | 8.85 | 9.38 | 1.61 | 3.65 | **43.14** |
| **Jul-15** | **42.35** | 14.59 | 6.54 | 2.86 | 12.90 | 4.84 | 8.76 | 7.15 | **57.65** |
| **Aug-15** | **43.22** | 15.02 | 5.43 | 2.85 | 13.49 | 4.04 | 9.14 | 6.80 | **56.78** |
| **Sep-15** | **40.89** | 20.32 | 5.38 | 2.74 | 12.99 | 2.39 | 8.77 | 6.51 | **59.11** |
| **Oct-15** | **40.86** | 20.39 | 5.05 | 2.70 | 11.79 | 4.52 | 8.75 | 5.94 | **59.14** |
| **Nov-15** | **39.40** | 21.27 | 5.78 | 3.16 | 10.54 | 4.32 | 9.33 | 6.19 | **60.60** |
| **Dec-15** | **36.93** | 22.58 | 6.87 | 4.00 | 10.90 | 4.37 | 9.08 | 5.28 | **63.07** |

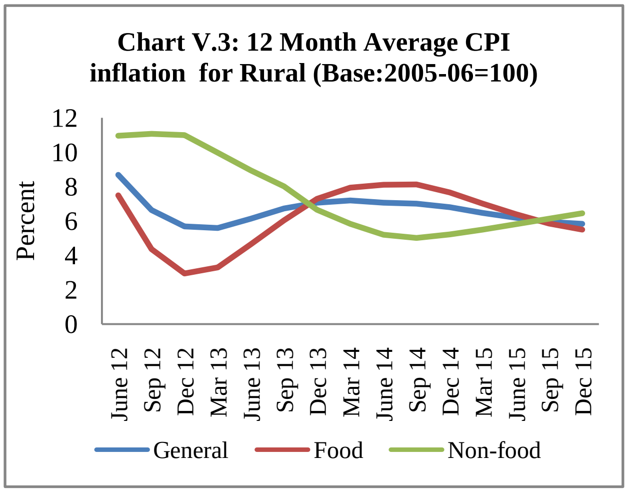
$$@\text{Contribution of ith Group} = \left(\frac{\text{Inflation in ith group} * \text{Weight of ith group in CPI basket}}{\text{Headline inflation}}\right) \times 100$$

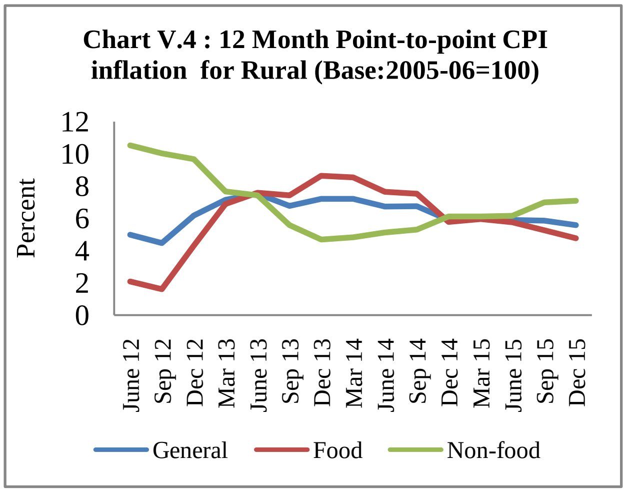
5.2 Point-to-point CPI inflation in rural areas went down to 5.58 percent at the end of Q2FY16 as compared to 5.86 percent at the end of Q1FY16. Although nonfood prices in rural areas increased during the above mentioned period, sharp decrease in food prices might have dominated p-t-p CPI inflation to 5.58 percent at the end of Q2FY16. On the other hand, in urban areas p-t-p CPI inflation increased to 7.07 percent at the end of Q2FY16 as compared to 6.96

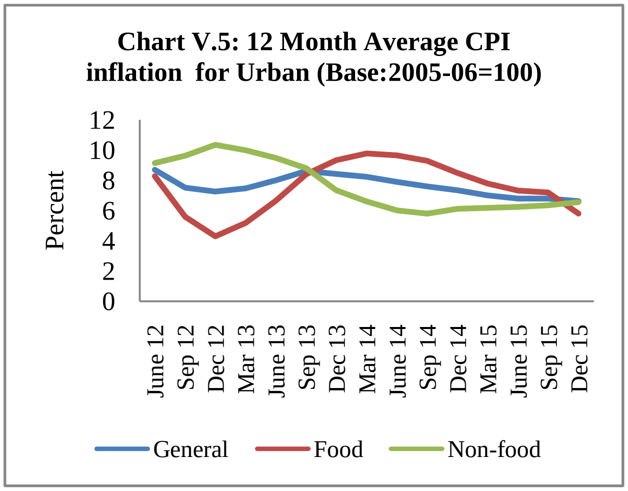
percent at the end of Q1FY16, driven by a rise in nonfood item prices, though food item prices in that area slightly came down by then. Nonfood p-t-p inflation in rural areas was more acute than that in urban areas in December 2015.

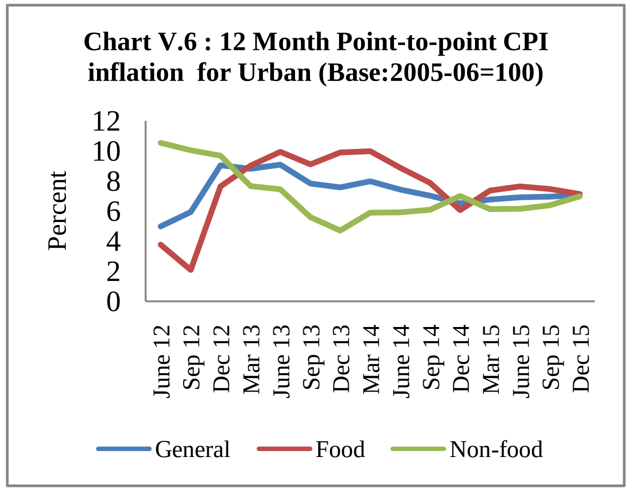


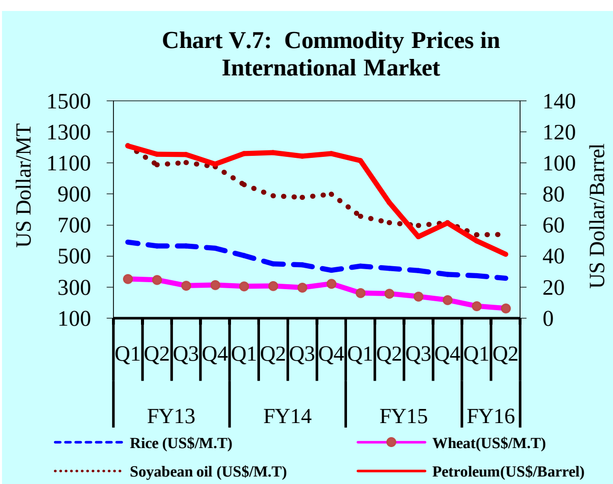



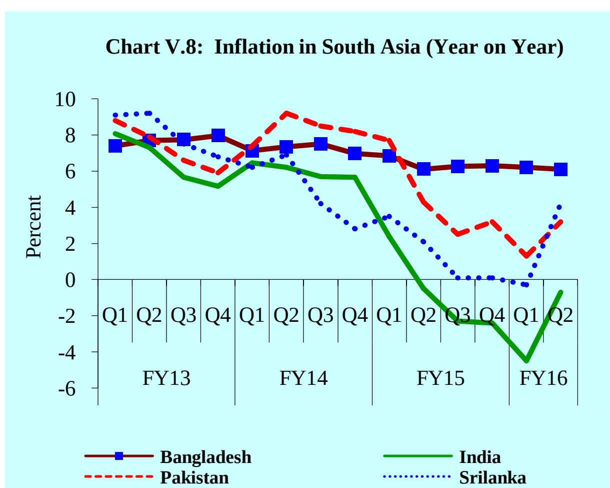






5.3 The quarterly Average commodity price index in international market dropped to 9.65 percent during Q2FY16 as compared to Q1FY15. Compared to other South Asian countries, Bangladesh had a slightly higher inflation rate (6.1percent at the end of Q2FY16). Meanwhile, the WPI was -0.7 percent and CPI-NS 5.6 percent in India at the end of Q2FY16, 3.2 percent in Pakistan and 4.2 percent in Sri Lanka (4.2 percent). Owing to replacing Colombo CPI by National CPI (2013=100) covering all provinces in the country, Sri Lanka now faces positive inflationary pressures which were negative for the old base CCPI (2006/07=100). This new base NCPI (p-t-p) increased to 4.2 percent at the end of Q2FY16 as compared to 1.9 percent at the end of Q1FY16.

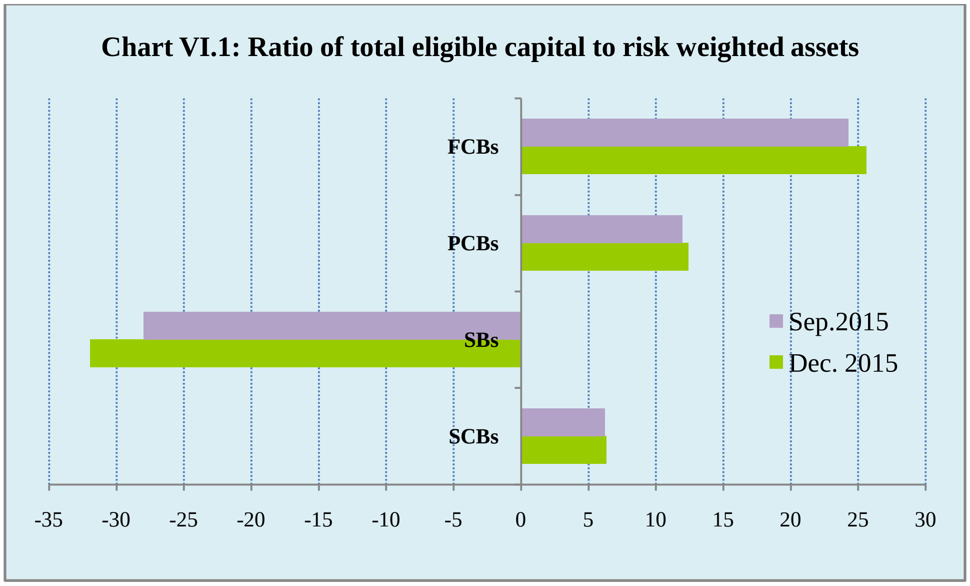


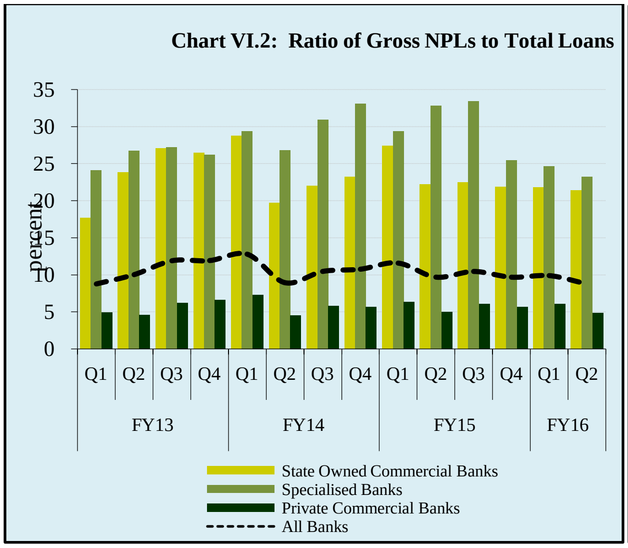
## VI. Banking Sector Performance

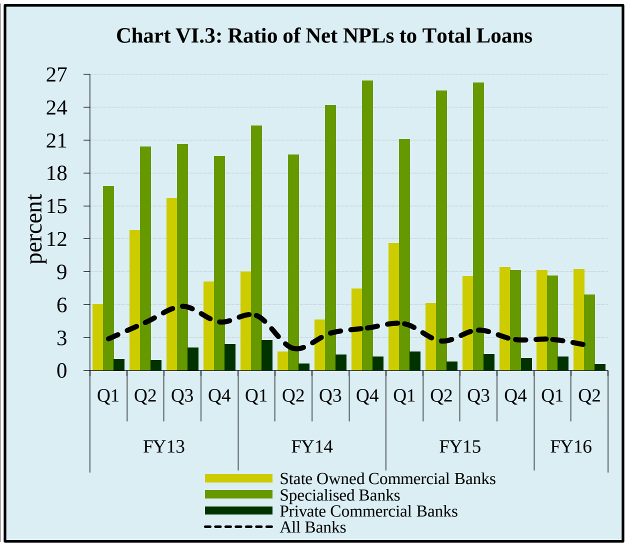
6.1 The banking sector indicators showed some noticeable improvements during Q2FY16 over the previous quarter. The ratio of gross NPL to total outstanding loans decreased from 9.9 percent at the end of Q1FY16 to 8.8 percent at the end of Q2FY16. The ratio of net NPL also decreased from 2.8 percent in Q1FY16 to 2.3 percent in Q2FY16. The capital adequacy ratio (CAR) increased to 10.8 percent from 10.5 percent during the period under report. Among the profitability measures, return on asset (ROA) increased from 0.6 percent at the end of December 2014 to 0.8 percent at the end of December 2015. Return on equity (ROE) in the banking industry also increased to 10.5 percent at the end of December 2015 from 8.1 percent at the end of December 2014. Another positive development was that monthly interest rate spread for all banks, measured as the difference between monthly weighted average interest rate of advances and deposits, remained below 5.0 percent during Q2FY16 and monthly weighted average call money rate also decreased markedly from 5.71 percent in September 2015 to 3.7 percent in December 2015. Notwithstanding improvement in NPL and the CAR, provision shortfall position of the banking sector further deteriorated during Q2FY16 and stood at Tk. 42.8 billion at the end of December 2015 from Tk. 23.3 billion at the end of September 2015.

6.2 In Q2FY16, the capital adequacy ratio (CAR) increased to 10.8 percent from 10.5 percent in Q1FY16 whereas a minimum of 10 percent is the regulatory requirement. Total risk weighted asset of the sector grew by 0.6 percent in Q2FY16 over Q1FY16 while total eligible capital of the sector increased by 3.6 percent during this period. The ratio for SCBs marginally increased from 6.2 percent to 6.4 percent during this period. The ratios for PCBs and FCBs also increased to 12.4 percent and 25.6 percent, respectively, in Q2FY16 from 12.0 percent and 24.3 percent respectively in Q1FY16. However, the negative ratio for SBs deteriorated from 28.0 percent to 32.0 percent over the period (Chart VI.1).




6.3 The ratio of gross NPL to total outstanding loans of the banking sector decreased from 9.9 percent at the end of September 2015 to 8.8 percent at the end of December 2015 (Table VI.2 and Chart VI.2). Total outstanding loan of the sector increased by 5.7 percent during Q2FY16 compared to Q1FY16, while total classified loan decreased by 6.1 percent over the same period. Gross NPL ratio for SCBs, SBs, PCBs and FCBs decreased from 21.8 percent, 24.7 percent, 6.1 percent and 8.8 percent respectively at the end-September 2015 to 21.5 percent, 23.2 percent, 4.9 percent and 7.8 percent respectively at the end of December 2015.




Similarly, the net NPL ratio for all banks also decreased from 2.8 percent in Q1FY16 to 2.3 percent in Q2FY16 (Table VI.3, Chart VI.3). In Q2FY16, net NPL ratio of SBs, PCBs and FCBs decreased to 6.9 percent, 0.6 percent and (-) 0.2 percent, respectively, from 8.7 percent, 1.2

percent and 0.4 percent. However, the ratio for SCBs slightly increased from 9.1 percent to 9.2 percent over the same period. The provision shortfall position of the banking sector deteriorated during Q2FY16 and stood at Tk. 42.8 billion from Tk.23.3 billion at the end of September 2015 (Table 6.1).

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

(Tk. in billion)

| Quarter | Items | SCBs | SBs | PCBs | FCBs | All Banks |
|---|---|---|---|---|---|---|
| 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 |
| Q4 FY15 | Total classified loan | 224.0 | 58.3 | 223.5 | 19.4 | 525.2 |
| | Required provision | 126.2 | 31.2 | 126.5 | 16.4 | 300.4 |
| | Provision maintained | 96.7 | 31.2 | 130.6 | 17.2 | 275.6 |
| | Excess(+)/shortfall(-) | -29.6 | 0.0 | 4.1 | 0.8 | -24.7 |
| Q1 FY16 | Total classified loan | 227.3 | 52.9 | 245.8 | 21.2 | 547.1 |
| | Required provision | 128.7 | 28.7 | 134.8 | 16.4 | 308.5 |
| | Provision maintained | 99.2 | 28.7 | 140.3 | 17.1 | 285.2 |
| | Excess(+)/shortfall(-) | -29.5 | 0.0 | 5.5 | 0.7 | -23.3 |
| Q2 FY16 | Total classified loan | 237.4 | 49.7 | 207.6 | 19.0 | 513.7 |
| | Required provision | 140.4 | 26.4 | 126.0 | 16.1 | 308.9 |
| | Provision maintained | 94.7 | 28.4 | 126.6 | 16.5 | 266.1 |
| | Excess(+)/shortfall(-) | -45.7 | 1.9 | 0.5 | 0.4 | -42.8 |

6.4 Return on assets (ROA) increased from 0.6 percent at the end of December 2014 to 0.8 percent at the end of December 2015.The ROA for SCBs improved from (-) 0.6 percent to (-) 0.04 percent while the ratio for the PCBs remained almost unchanged at 1.0 percent over this period. However, the ratio for SBs and FCBs decreased from (-) 0.7 percent and 3.4 percent, respectively to (-) 1.2 percent and 2.9 percent during the same period. Like ROA, return on equity (ROE) of the banking industry also increased to 10.5 percent at the end of December 2015 from 8.1 percent at the end of December 2014. The ROE for SCBs, SBs and PCBs improved to (-) 1.47 percent, (-) 5.8 percent and 10.8 percent respectively in December 2015from (-) 13.5 percent, (-) 6.0 percent and 10.3 percent at the end of December 2014. ROE of the FCBs decreased from 17.7 percent to 14.6 percent over 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.15 | Sep.15 | Dec.15 | Sep.15 | Dec.15 | Sep.15 |
| SCBs | 13.0% | 12.8% | 6.6% | 8.6% | 52.4% | 53.9% |
| SBs | 5.9% | 9.9% | 3.9% | 5.4% | 74.0% | 73.7% |
| PCBs | 14.4% | 14.8% | 15.4% | 15.4% | 79.5% | 76.9% |
| FCBs | 0.8% | -0.8% | 5.4% | 3.0% | 63.9% | 61.7% |
| All | 13.1% | 13.3% | 12.6% | 12.9% | 71.0% | 69.8% |

**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, 2015[P] | | | | | | |
| SCBs | 137.83 | 155.74 | 17.91 | 272.66 | 891.38 | 618.72 |
| SBs* | 14.62 | 15.43 | 0.81 | 0.00 | 0.00 | 0.00 |
| PCBs (other than Islamic) | 232.97 | 241.82 | 8.84 | 460.74 | 807.32 | 346.58 |
| Private Banks (Islamic) | 98.32 | 138.05 | 39.73 | 83.19 | 216.61 | 133.42 |
| FCBs | 23.45 | 29.27 | 5.82 | 46.16 | 181.52 | 135.36 |
| All | 507.19 | 580.30 | 73.11 | 862.75 | 2096.83 | 1234.08 |
| As of end June, 2015 | | | | | | |
| SCBs | 129.82 | 131.48 | 1.65 | 256.96 | 762.15 | 505.19 |
| SBs* | 13.94 | 15.39 | 1.45 | 0.00 | 0.00 | 0.00 |
| PCBs (other than Islamic) | 212.74 | 212.55 | -0.19 | 421.14 | 764.03 | 342.89 |
| Private Banks (Islamic) | 90.81 | 120.96 | 30.16 | 76.84 | 203.57 | 126.73 |
| FCBs | 23.65 | 25.32 | 1.67 | 46.55 | 180.72 | 134.17 |
| All | 470.95 | 505.70 | 34.75 | 801.49 | 1910.47 | 1108.98 |

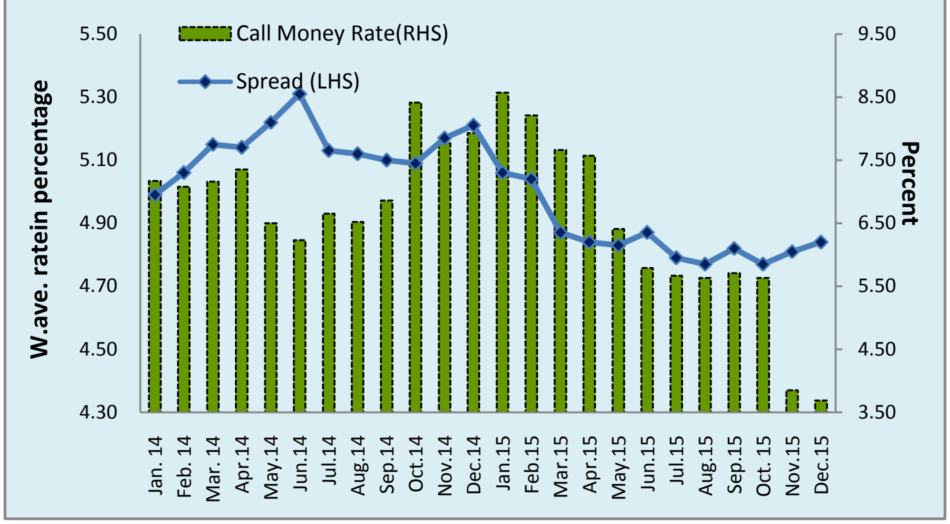
P=Provisional. * SLR is not applicable for Specialised banks since it is exempted by the Government.

**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 During Q2FY16, the growth (year-on-year) of both deposits and advances slowed down slightly. The growth rate of deposits decreased from 13.3 percent at end of September 2015 to 13.1 percent at end of December 2015. The growth of advances decreased from 12.9 percent to 12.6 percent during the period. Nonetheless, the advance-deposit ratio (ADR) increased from 69.8 percent at the end of September 2015 to 71.0 percent at the end of December 2015, but still remained far below the maximum regulatory ceiling. (Table 6.2). The liquidity position of the banking sector as a whole was higher at the end of December 2015 than in June 2015; leading to a further easing of money market conditions (Table 6.3).

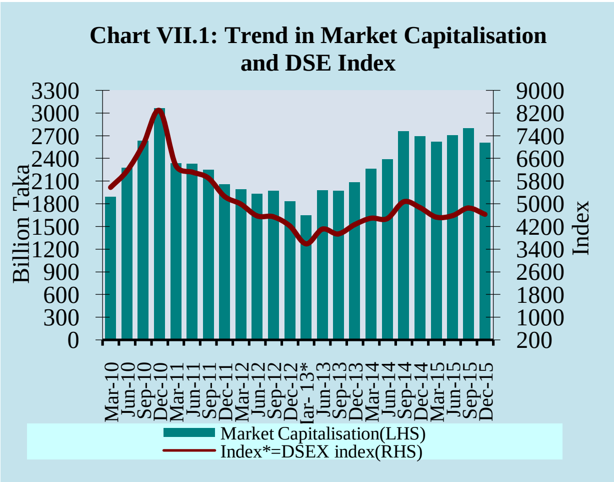
**Chart VI.4: Interest Rate Spread and Call Money Rate**

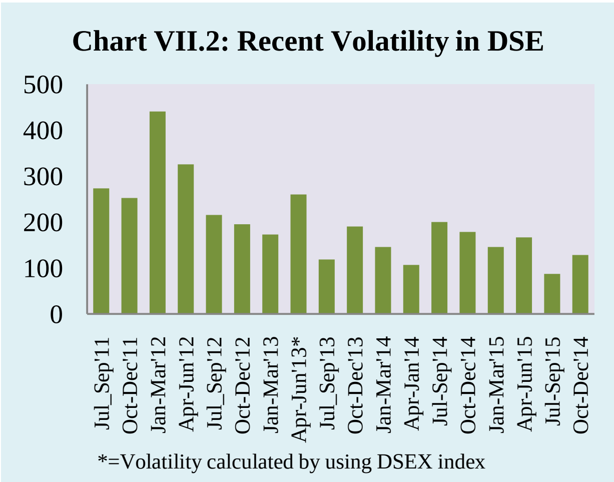



6.6 The monthly interest rate spread for all banks, measured as the difference between monthly weighted average interest rate of advances and deposit, remained below 5.0 percent during Q2FY16. Although the spread decreased from 4.82 percent in September 2015 to 4.77 percent in October 2015, it increased to 4.84 percent in December 2015 (Chart VI.4). However, the monthly weighted average call money rate decreased significantly from 5.71 percent in September 2015 to 3.69 percent in December 2015 mainly due to the ease in money market conditions.

## VII. Capital Market Developments

7.1 During Q2FY16 the country's capital market witnessed downward pressure as reflected in the falling DSE indices, market capitalization, and market liquidity. At the end of Q2FY16, the DSE broad (DSEX) index and the DSE 30 index were at 4629.6 and 1750.6 which were 4.6 percent and 5.3 percent lower compared to Q1FY16. Over the same period, market capitalization decreased by 7.0 percent (Chart VII.I and Table VII.I). The DSEX index and the DSE 30 index decreased by 4.8 percent and 2.9 percent, respectively, in Q2FY16 compared to Q2FY15. Market capitalization of the DSE, however, increased by 2.2 percent during Q2FY16 compared to Q2FY15.




7.2 The average price earnings ratio of the DSE decreased to 15.30 in December 2015 compared to 16.45 at the end of September 2015. Total turnover value in the DSE decreased by 21.8 percent from Tk. 311.3 billion in Q1FY16 to Tk. 243.4 billion in Q2FY16. The liquidity situation in the capital market tightened as measured by the Turnover Velocity Ratio (TVR)[1], which decreased to 37.3 percent in Q2FY16 from 44.4 percent in Q1FY16. The number of listed securities increased to 338 in Q2FY16 from 325 in Q2FY15. During Q2FY16 the value of issued equity and debt increased by 1.7 percent along with three new companies listed in the capital market.

7.3 The sector-wise DSE data show that market capitalization of mutual fund, financial institutions, Food and allied products and insurance sectors have increased during the period under report (Table VII.2). On the other hand, market capitalization of all other sectors (banks, pharmaceuticals and chemicals, jute industry, paper printing, cement industry and telecommunication, and service and real estate fuel and power, textile industry, miscellaneous

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

and corporate bond) have decreased during Q2FY16. The contribution of the banking sector slightly increased to 15.8 percent at the end of Q2FY16 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 Q2FY16 the investments on share purchase by foreign and non-resident Bangladeshi investors increased to Tk. 10.5 billion from Tk. 8.2 billion in the previous quarter. At the same time, total share sales by foreign and non-resident Bangladeshi investors also increased to Tk. 9.5 billion from Tk. 9.1 billion in the previous quarter. As a result, net investment of foreign and non-resident Bangladeshi during Q2FY16 increased to Tk.1.0 billion from Tk. 0.9 billion in the previous quarter. However, foreign exchange turnover still has a limited contribution in total turnover of DSE. During Q2FY16 total foreign exchange turnover increased to 8.2 percent of total turnover from 5.5 percent in the previous quarter. The volatility measured by standard deviation, increased to 127.9 during Q2FY16 compared to 87.8 in Q1FY16.

7.5 Cross country data regarding price earnings ratio of December 2015 shows that Bangladesh capital market is the second lowest 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: PE Ratio and Dividend Yield of regional Capital markets in December 2015

| Country | Price Earnings Ratio | Dividend Yield |
|---|---|---|
| Bangladesh | 16.45 | 3.58 |
| India | 19.88 | 1.43 |
| Sri Lanka | 17.92 | 2.19 |
| Thailand | 22.57 | 3.36 |
| Malaysia | 17.00 | 3.20 |
| Hong Kong | 9.9 | - |
| China | 17.63 | - |

Source: Monthly Review, Dhaka Stock Exchange,- = Not available