Quarterly Review

April-June 2018 (Q4 of FY18)

Economic Situation in Bangladesh

MCCI
Since 1904

METROPOLITAN CHAMBER OF COMMERCE & INDUSTRY, DHAKA

METROPOLITAN CHAMBER OF COMMERCE & INDUSTRY, DHAKA
Since 1904

Chamber Building

122-124 Motijheel, C/A, Dhaka-1000, Bangladesh

Phone : +880-2-9565208-10 & +880-2-9574129-31 (PABX), Fax : +880-2-9565211-12

Email : sg@mccibd.org, info@mccibd.org, Web : www.mccibd.org

VISION

Be the leading voice serving responsible business

MISSION

Become the leading Chamber for providing research and analysis related to business in Bangladesh

Attract quality membership, representative of a cross section of business

Effectively respond to changing business environment

Collaborate with local and international institutions

Engage and communicate regularly with our stakeholders

Promote best practices that benefit business and society

VALUES

Fairness

Integrity

Respect

Equal Opportunity

CORE COMPETENCIES - ORGANISATION

Research based Policy Advocacy

Networking

Business Intelligence

CORE COMPETENCIES – PEOPLE

Professional

Innovative

Adaptable

Team Player

Proactive

Communication & Interpersonal Skills

CHAMBER COMMITTEE FOR 2018

PRESIDENT

MS. NIHAD KABIR

VICE-PRESIDENT

MR. GOLAM MAINUDDIN

MEMBERS

MR. SYED TAREQUE MD. ALI

MR. M. ANIS UD DOWLA

MR. TABITH M. AWAL

MR. TAPAN CHOWDHURY

MS. SIMEEN HOSSAIN

MR. A.K.M. RAFIQUL ISLAM, FCA

MR. RUBAIYAT JAMIL

MR. HABIBULLAH N. KARIM

MR. HASAN MAHMOOD, FCA

MR. SYED NASIM MANZUR

MR. FRANCOIS DE MARICOURT

SECRETARY-GENERAL

MR. FAROOQ AHMED

QUARTERLY REVIEW
April-June 2018 (Q4 of FY18)

Contents

EXECUTIVE SUMMARY

General

Provisional estimate of Bangladesh GDP by BBS for FY18 indicates economic growth of 7.65 per cent in real term as compared to 7.28 per cent in FY17. The higher GDP growth in FY18 over FY17 is mainly due to the expansion in i) agriculture, ii) manufacturing, iii) electricity, gas and water supply, iv) construction, and v) some services sub-sectors.

The economy progressed well in the quarter under review, but below its true potential. It has experienced decent growth over the years, but the growth has not resulted in the desired increase in employment generation and eradication of inequality. Inadequate infrastructure, lack of investor confidence in the economy that discourages making fresh investments and shortage of power and energy are now major impediments to the country's development.

Agriculture

The agriculture sector accounted for about 14.10 per cent of GDP in FY18. Due to strong government support in terms of timely availability of inputs and finance, the sector recorded comparatively higher growth of 3.06 per cent in FY18 compared to 2.97 per cent in FY17.

Industry

The industry sector depicted 11.99 per cent growth in FY18 as against the previous year's 10.22 per cent. The share of the industry sector in GDP also increased to 33.71 per cent in FY18 from 32.42 per cent in FY17.

The manufacturing sub-sector grew by 13.18 per cent in FY18, 2.21 percentage points higher than the previous fiscal year's 10.97 per cent. The large and medium scale industries sub-sector grew by 13.77 per cent in FY18, compared to 11.20 per cent in FY17. The small scale manufacturing industries also performed better than in the previous fiscal, growing by 10.34 per cent in FY18 as against 9.82 per cent in FY17.

Construction

The construction sub-sector performed better in FY18, growing at 10.11 per cent during the fiscal, compared to 8.77 per cent in FY17.

Power

The power supply situation improved in the quarter under review but the demand for power, too, shot up as anticipated. The maximum generation of electricity in 2018 was 11,387 mw on 18 July 2018. Total installed capacity rose to 16,473 mw in July 2018 and derated/present capacity rose to 15,835 mw, but production remained low because of gas shortage and also because of the shutting of some power stations for maintenance.

Services

Data on the nine services sub-sectors are yet insufficient to enable an understanding of how they have fared in the quarter under review. However, the share of the broad services sector in GDP decreased by 0.67 percentage point to 52.18 per cent in FY18 from 52.85 per cent in the previous fiscal year. The sector grew at an estimated 6.33 per cent in FY18 as against 6.69 per cent in FY17.

Money and Capital Market

Broad money (M2) recorded a lower growth of 10.20 per cent at the end of May 2018 compared to the 11.69 per cent growth achieved at the end of May 2017. Domestic credit, on the other hand, grew at a higher rate of 15.15 per cent in the 12-month period ending in May 2018, as against 11.07 per cent till the end of May 2017. The credit growth in May 2018 was also slightly below the credit growth target of 15.80 per cent set in the monetary policy for the second half of the fiscal year.

Among components of domestic credit, private sector credit registered a relatively higher growth of 17.60 per cent during the 12-month period up to May 2018, compared to 16.03 per cent growth during the corresponding 12-month period between May 2016 and May 2017. Public sector credit, on the other hand, recorded a negative growth of 3.48 per cent at the end of May 2018, compared to the negative growth of 16.11 per cent at the end of May 2017. Within public sector credit, credit to government (net) recorded a negative growth of 7.14 per cent, and credit to other public sector recorded a growth of 13.91 per cent during the period.

Total liquid assets of scheduled banks stood lower at Tk.248,533 crore as of end May 2018 compared to Tk.267,194 crore as of end June 2017. The minimum required liquid asset of all scheduled banks was Tk.168,882 crore as of end May 2018.

The interest rate spread in the country's banking sector marginally decreased to 4.45 per cent at the end of May 2018 from 4.46 per cent at the end of April 2018. The weighted average interest rate on deposits rose to 5.51 per cent in May 2018 from 5.43 per cent in April 2018, and the interest rate on lending also increased to 9.96 per cent from 9.89 per cent.

The disbursement of industrial term loans during January-March of FY18 stood at Tk.16,979 crore, which was 5.0 per cent lower than the amount of Tk.17,881 crore disbursed during the immediate previous quarter (October-December) of FY18. The recovery of industrial term loans also decreased by 11.4 per cent to Tk.16,520 crore during the January-March quarter of FY18 from Tk.18,640 crore recovered in the previous quarter (October-December of FY18).

During July-May of FY18, the disbursement of agricultural credit and non-farm rural credit by banks increased by as little as 3.63 per cent. The recovery, however, increased by 17.27 per cent in the same period.

Dhaka stocks edged lower in the just-concluded financial year (FY18). Between 1 July 2017 and 28 June 2018, the benchmark index of the Dhaka Stock Exchange (DSE), DSEX, lost 251 points or 4.44 per cent to close at 5,405. Also, the Chittagong Stock Exchange (CSE) ended lower with its Selective Categories Index (CSCX) falling by 163 points to settle at 10,009.

Public Finance

Total tax revenue collection (NBR and non-NBR) during July-March of FY18 stood at Tk.148,866 crore which was 17.64 per cent higher than the collection of Tk.126,539 crore during the corresponding period of FY17. Tax revenue collection by NBR during July-March of FY18 stood at Tk.143,434 crore, which is 17.35 per cent higher than the collection of Tk.122,223 crore during the corresponding period of the previous fiscal.

The rate of implementation of the Annual Development Programme (ADP) in the first eleven months of FY18 was lower (62.81%) than the corresponding period of the previous fiscal year (64.72%).

Export and Import

Export earnings (merchandise) in FY18 rose year-on-year by 5.81 per cent. However, export earnings in the quarter under review (Q4 of FY18) grew year-on-year by 4.25 per cent.

Import payment (C&F) in July-May of FY18 was 25.51 per cent higher than the import payment during the corresponding months of FY17. The value of Imports increased mainly due to higher imports of consumer goods, fuel oil, and capital machinery to meet the growing demands of the local market.

Remittances

Remittance inflows in FY18 increased by 17.12 per cent to US$14.959 billion compared to US$12.772 billion in FY17, while remittances in the quarter under review (Q4 of FY18) rose year-on-year by a slightly higher rate of 17.34 per cent.

Foreign Aid

The disbursement of foreign aid in FY18 increased by 66.76 per cent year-on-year to US$6.12 billion. On the other hand, the commitment from the foreign sources decreased by over 18 per cent year-on-year to US$14.61 billion.

Foreign Direct Investment (FDI)

In July-May of FY18, the net FDI decreased by US$70 million or 4.18 per cent to US$1.606 billion from US$1.676 billion in the corresponding period of FY17.

Balance of Payments (BoP)

The trade deficit worsened by US$7.865 billion, increasing by 84 per cent to US$17.228 billion in July-May of FY18 from US$9.363 billion in July-May of FY17 due to low export receipts but large import payments. The deficit in services trade also increased by 35.85 per cent to US$4.081 billion in these eleven months. Higher deficits in goods and services trade led to a more than 4-fold increase in the current account deficit during the period under review despite an uptrend in inward remittances. The financial account recorded a sizeable surplus of US$8.035 billion during July-May of FY18, compared to US$4.217 billion in the corresponding period of FY17. Higher inflow of other investment (net) in the form of medium- and long-term loans led to a robust surplus in the financial account. The overall balance recorded a big decline from the surplus of US$2.682 billion in July-May of FY17 to a deficit of US$970 million in July-May of FY18.

Exchange Rate and Foreign Exchange Reserve

Between end-June of 2017 and end-June of 2018, the Taka depreciated by 3.85 per cent in terms of US dollar. Gross foreign exchange reserves stood at US$32.916 billion (with ACU liability of US$1.26 billion) as of end June 2018, as compared to US$32.349 billion (with ACU liability of US$0.71 billion) as of end May 2018. The current foreign exchange reserves (less ACU liability) is equivalent to import liability of 6.54 months.

Inflation

In June 2018, the general point to point inflation fell slightly by 0.03 percentage point to 5.54 per cent from 5.57 per cent in May 2018 as food prices have fallen. However, year-on-year, the inflation rate in June 2018 decreased by 0.40 percentage point from 5.98 per cent.

The food inflation decreased by 0.58 percentage point to 5.98 per cent in June 2018 from 6.56 per cent in the immediate past month of May. On the other hand, non-food inflation increased by 0.79 percentage point to 4.87 per cent in June 2018 from 4.08 per cent in the previous month.

A comparison of inflation data for urban and rural areas in June of FY18 shows that the general inflation rate was higher in urban areas than in rural areas.

THE REPORT

1.0 AGRICULTURE

Detailed data on agriculture sector production are not yet available for the quarter under review (Q4 of FY18). However, according to the National Accounts Statistics of BBS, the share of the sector in GDP is provisionally estimated at 14.10 per cent in FY18, compared to 14.74 per cent in FY17. It includes three sub-sectors namely: i) Crops and horticulture, ii) Animal farming, and iii) Forest and related services. Due to strong government support in terms of timely availability of inputs and finance, the sector achieved a relatively higher growth of 3.06 per cent in FY18 compared to 2.97 per cent in FY17.

1.1 Food Situation

Domestic Production

The Department of Agricultural Extension (DAE) set the revised target for food grains (rice and wheat) production for FY18 at 36.835 million metric tons (mmt), which is 4.89 per cent higher than the actual production of 35.118 mmt in the preceding year (FY17). The final estimate about food grains production is yet been available from the Bangladesh Bureau of Statistics (BBS). However, according to the latest monitoring report of DAE, the area of land under aus in the present crop year is 10.751 lakh hectares (target was 11.253 lakh hectares) and production is estimated at 2.710 mmt (target was 2.650 mmt). For aman and boro, production is estimated at 13.994 mmt and 19.771 mmt, respectively, exceeding the respective targets set by the DAE at 13.864 mmt and 19.041 mmt. Boro cultivation this year has not suffered any natural calamity so far, and hence, the production is expected to exceed the target. There has been a decline in the area under wheat, and consequently, wheat production is projected by the DAE at 1.153 mmt, which is slightly lower than the target (1.280 mmt). Nonetheless, the actual production of aus, aman, boro and wheat this year is unlikely to fall much short of the respective targets. In fact, total food grains production in FY18 is likely to be around 37.628 mmt, which is about 7.15 per cent above the actual production in the previous fiscal year (35.118 mmt), which is also 2.15 per cent higher than the FY18 target.

Food Grains Import

During the fortnight up to 5 July 2018, about 11.0 thousand metric tons (tmt) of rice was imported exclusively by the public sector. There was no rice import by the private sector.

Regarding other food grains, up to the fortnight ending 5 July 2018, about 7.2 tmt of wheat was imported by the public sector, and about 233.2 tmt of wheat was imported by the private sector.

Domestic Procurement

In order to provide price incentive to farmers, the government decided to procure about 0.15 mmt of boro paddy at Tk.26.00 per kg, 0.80 mmt of parboiled rice at Tk.38.00 per kg, and 0.10 mmt of white rice at Tk.37.00 per kg from the domestic market during this boro procurement season. Boro procurement started from 2 May 2018 and will continue up to 31 August 2018.

As on 5 July 2018, about 872 tmt of boro rice was contracted and about 580 tmt of boro rice has been procured, according to the Directorate General of Food.

Public Distribution

The government has enhanced its efforts to increase the distribution of subsidized grains through public food distribution system (PFDS), mainly open market sale (OMS), vulnerable group development (VGD), essential priorities (EP), vulnerable group feeding (VGF), and fair price card (FPC) channels. In FY18, the revised target of food grains distribution was 2.17 mmt, compared to the actual distribution of 2.24 mmt in the previous fiscal. As of end FY18, a total of 2,117 tmt of food grains was distributed through PFDS, which is about 97.56 per cent of the yearly target. PFDS distribution included mainly OMS (390.0 tmt), VGD (367.0 tmt), EP (326.9 tmt), VGF (320.0 tmt) and FPC (300.0 tmt). The OMS drive now continues up to Upazila levels all over the country.

Public Stock

According to the Directorate General of Food, the public food grains stock as of 5 July 2018 stood at 1,372.10 tmt – 1,017.30 tmt in rice and 354.80 tmt in wheat.

Domestic Market Price

In the fortnight ending 5 July 2018, wholesale and retail prices of rice (Swarna) in Dhaka city markets increased, respectively, by 1.3 per cent and 6.1 per cent to Tk.39.50 per Kg and Tk.43.50 per Kg. In the corresponding period of the previous year, wholesale and retail prices of rice (Swarna) in Dhaka city markets dropped by 9.0 per cent and 8.9 per cent, respectively.

Over the same period, wholesale price of coarse flour (atta) in Dhaka city markets decreased by 0.4 per cent to Tk.22.20 per Kg but the retail price remained unchanged at Tk.26.50 per Kg.

International Market Price

In the fortnight ending 6 July 2018, the prices of India 5% parboiled, Thai 5% parboiled, Vietnam 15% white, and Pakistan 5% parboiled rice fell by 1.3 per cent, 2.6 per cent, 6.2 per cent, and 0.5 per cent, respectively, to US$380 per mt, US$375 per mt, US$409 per mt, and US$433 per mt. The price of West Bengal coarse rice also decreased by 1.4 per cent to US$363 per mt, while Dhaka city wholesale rice price increased by 1.6 per cent and stood at US$472 per mt.

However, in the fortnight ending 6 July 2018, the prices of both Russian and Ukraine wheat increased by 0.8 per cent, and their respective prices were US$201 per mt, and US$199 per mt. The price of US Soft Red Winter (SRW) wheat, however, decreased by 1.3 per cent to US$195 per mt. On the same date, Dhaka city wholesale wheat price decreased by 2.1 per cent to US$283.20 per mt.

1.2 Fish and Animal Farming (Livestock and Poultry)

According to the National Accounts Statistics of BBS, fish and animal farming (livestock and poultry) sub-sectors accounted for about 5.11 per cent of the country's GDP in FY18, compared to 5.21 per cent in FY17. Separately, fish and animal farming sub-sectors accounted for 3.57 per cent and 1.54 per cent, respectively, of the country's GDP in FY18, compared to 3.61 per cent and 1.60 per cent in FY17. Besides, fish and animal farming sub-sectors are likely to grow by 6.30 per cent and 3.40 per cent in FY18, compared to 6.23 per cent and 3.31 per cent in FY17, respectively. Nearly 20 million people are currently involved in the fish sector, while the animal farming sector has created job opportunities for around 6.5 million people.

Fish production in the country increased by 58.85 per cent in the last ten years as a result of various effective programs taken by the government. Both public and private sectors have contributed to increasing the fish production in the country. According to BBS Statistics, the production of inland fish stood at 3,574 thousand metric ton (tmt) in FY18 increasing from 2,218 tmt in FY09 following the introduction of modern technology. The production of marine fish, on the other hand, increased to 715 tmt in FY18 from 482 tmt in FY09.

After being self-sufficient in fish production for the first time in 2018, Bangladesh has started to get global recognition as one of the biggest fish producers. The country was ranked third in producing fish from inland water-bodies, behind China and India, according to a report of Food and Agriculture Organization (FAO). The country was the fifth on the list last year. Besides, Bangladesh is now also the fifth biggest aquaculture producer and eleventh biggest marine and costal sources producer in the world, according to the report titled 'The State of World Fisheries and Aquaculture 2018'.

The present size of the country's poultry industry is about Tk.250 billion. The industry now meets almost the entire local demand for meat and eggs, according to Bangladesh Poultry Industries Coordination Committee (BPICC). The industry produces 1,500 mt of poultry meat per day against the target of 1,400 mt. It also produces 16 million eggs per day against the demand for 15 million, and almost 10 million pieces of chicken every week against the weekly demand for nearly 9 million pieces. As a result, the industry has now an exportable surplus. However, Bangladesh could not yet export poultry due to the inability to maintain international standard. To meet the country's protein demand by 2021, the production of meat, eggs, day-old chicks, feeds, medicine and other ingredients has to be doubled. The poultry sector needs huge investment, capacity building, and policy and fiscal support to achieve the Vision 2021 ensuring adequate protein supply to the people.

2.0 INDUSTRY

Data on the country's broad industry sector, including the manufacturing sub-sector, are not available for the quarter under review (Q4 of FY18). However, according to BBS Statistics, the share of the industry sector in GDP at constant prices increased by 1.29 percentage points to 33.71 per cent in FY18 from 32.42 per cent in the previous fiscal year. The broad industry sector grew at 11.99 per cent in FY18 compared to 10.22 per cent in FY17.

2.1 Manufacturing Industries

Within the broad industry sector, the manufacturing sub-sector grew by 2.21 percentage points to 13.18 per cent in FY18, compared to the previous fiscal year's 10.97 per cent. The large and medium scale industries sub-sector performed better than in the previous fiscal, growing at 13.77 per cent in FY18, compared to 11.20 per cent in FY17. The small scale manufacturing industries grew at a lower rate than other sub-sectors. This sub-sector grew at 10.34 per cent in FY18 as against 9.82 per cent in FY17.

2.2 Construction

Data on the country's construction sector are not available for the quarter under review. The major components of construction activities are pucca and semi-pucca dwelling and non-dwelling construction. According to BBS, the value of output of these structures must have been increasing with increasing growth of the economy. Public sector construction is likely to be higher due to increased ADP for FY18. The construction sector is, therefore, expected to grow, say by above 10.0 per cent in FY18 compared to 8.77 per cent in FY17.

However, real estate business saw an improvement in recent times, thanks to property price corrections, falling interest on home loans and return of political stability. The sector appears to have been recovering in the last few months. An increasing number of customers were placing new bookings. Most of the realtors were selling flats and plots at a low profit margin to maintain their cash flows. The realtors hope that the proposed cut in lending rates by banks and financial institutions would help raise the apartment sales further.

2.3 Power

The power supply situation improved in the quarter under review but the demand for power, too, shot up as anticipated. Unofficial estimate puts the current demand for electricity at around 10,000 mw. The maximum generation in 2018 (recorded on 18 July) was 11,387 mw. Total installed capacity rose to 16,473 mw in July 2018 and derated/present capacity rose to 15,835 mw, but production remained low because of gas shortage and also because of shutting of some power stations for maintenance.

In July 2018, the total installed capacity of 16,473 mw comprised of coal 524 mw (3.18%), gas 9,921 mw (60.23%), HFO 3,448 mw (20.93%), HSD 1,690 mw (10.25%), Hydro 230 mw (1.40%), and imported 660 mw (4.01%), according to the BPDB website.

According to the Ministry of Power, Energy and Mineral Resources (MoPEMR), 90 per cent of the country's population has now access to electricity and the government has set the goal of providing electricity to all citizens by 2021. Government has initiated steps to generate 24,000 mw of energy by that year. It is also expected that energy generation will reach 40,000 mw by 2041. Thus, 54 new power plants, with a total generation capacity of 14,417 mw, are under construction. Among these, 36 power plants, with 7,104 mw power generation capacity, are independent power producer (IPP) entities and 18 power plants, with 7,313 mw capacity, are under the public sector. In addition to these initiatives, two separate agreements involving US$7.4 billion to generate 6,000 mw of electricity largely from liquefied natural gas (LNG) have been signed. One deal involves the local Summit Group, Japan's Mitsubishi Corporation and the US General Electric Company and the other is Bangladesh Power Development Board and GE Switzerland. The projects will include two units of on-shore LNG terminal with a total capacity of 380,000 cubic metres and an oil terminal with a 100,000 tonne capacity - all to be located in Matarbari, Cox's Bazar.

Apart from these, the MoPEMR is giving utmost importance to shaping the future of Bangladesh by increasing the share of renewable energy in the total power mix to 10 per cent by 2021. A significant recent development is the introduction and usage of Solar Home Systems (SHS). Though the first one came through in 1996 in Sylhet, it has now become the biggest renewable energy program and has resulted in the installing of 5.2 million units in different parts of the country. About 17 million people are now using this facility. The financial institution IDCOL has greatly helped in this regard.

3.0 SERVICES SECTOR

The broad services sector has nine sub-sectors, data on which are yet insufficient to enable an understanding of how they have fared in the quarter under review. Of the different sub-sectors, electricity, gas & water supply, transport, storage & communication, hotel & restaurant, wholesale & retail trade, health & social work, education, community, social & personal services, and public administration & defence have performed better in the just-concluded financial year (FY18) compared to the previous one. However, according to the National Accounts Statistics of BBS, the share of the services sector in GDP decreased by 0.67 percentage point to 52.18 per cent at constant prices in FY18 from 52.85 per cent in the previous fiscal year. The growth rate of the broad industry sector is provisionally estimated at 6.33 per cent in FY18 compared to 6.69 per cent in FY17.

According to a recent study entitled 'Export Potentials of Trade in Service in Bangladesh' done by the Bangladesh Foreign Trade Institute, the country needs to concentrate on services export as it is not only the most dynamic segment of global trade, but also because Bangladesh will lose preferential trade facilities in goods trade after graduation from its LDC status. The study identified four main segments of the services sector which need to be given special focus. They are tourism and travel-related services, computer and IT services, freight transportation services, and health services. In July-March of FY18, exports of the services sector increased by 20.51 per cent to US$3.032 billion from US$2.516 billion in the corresponding period of the previous fiscal year. These exports exceeded the strategic target (US$2.625 billion) by 15.50 per cent and also contributed 9.07 per cent of Bangladesh's total exports of US$33.438 billion in July-March of FY18.

4.0 MONETARY AND CREDIT DEVELOPMENTS

Broad money (M_2) recorded a lower growth of 10.20 per cent at the end of May 2018 compared to the 11.69 per cent growth achieved at the end of May 2017. Domestic credit, on the other hand, grew by 15.15 per cent in the 12-month period ending in May 2018, as against the lower credit growth of 11.07 per cent till the end of May 2017. The credit growth in May 2018 is also slightly below the credit growth target of 15.80 per cent set in the monetary policy for the second half of the fiscal year.

Among components of domestic credit, private sector credit registered 17.60 per cent growth during the 12-month period between May 2017 and May 2018, compared with the lower growth of 16.03 per cent during the period between May 2016 and May 2017. Curiously enough, private sector credit growth exceeded the central bank's target of 16.3 per cent set for the second half of FY18 (MPS, H2 of FY18), dispelling the notion of an ongoing liquidity crisis in the banking sector. Public sector credit, on the other hand, recorded a negative growth of 3.48 per cent at the end of May 2018, compared with the negative growth of 16.11 per cent at the end of May 2017. Within public sector credit, credit to government (net) recorded a negative growth of 7.14 per cent, and credit to other public sector recorded a growth of 13.91 per cent, during the period (Table 1).

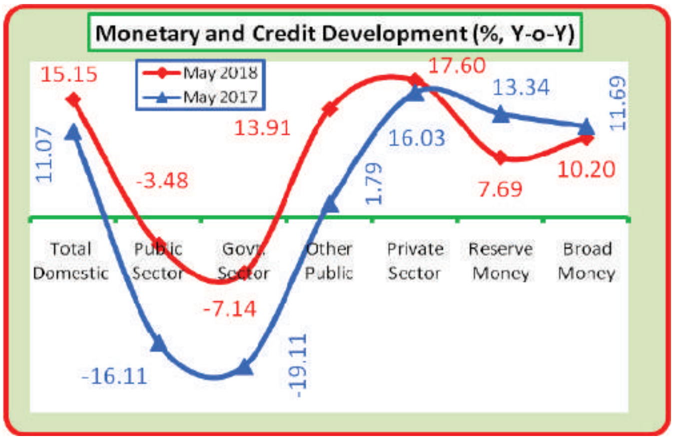


Table 1: Monetary and Credit Indicators

(Taka in crore)

Particulars	Outstanding Stock			% Changes in Outstanding Stock	
	May 2018^P	May 2017^P	May 2016^R	May 2018 over May 2017	May 2017 over May 2016
Total Domestic Credit	**988908**	**858836**	**773210**	**(+) 15.15**	**(+) 11.07**
Credit to Public Sector	96504	99986	119192	(-) 3.48	(-) 16.11
Net Credit to Government Sector	76697	82598	102109	(-) 7.14	(-) 19.11
Credit to Other Public Sector	19807	17388	17083	(+) 13.91	(+) 1.79
Credit to Private Sector	892403	758850	654017	(+) 17.60	(+) 16.03
Reserve Money (RM)	211042	195969	172903	(+) 7.69	(+) 13.34
Broad Money (M_2)	**1078298**	**978480**	**876094**	**(+) 10.20**	**(+) 11.69**

Note: P=Provisional; R=Revised

Source: Bangladesh Bank

Total liquid assets of scheduled banks stood lower at Tk.248,533 crore as of end May 2018, compared with Tk.267,194 crore as of end June 2017. The minimum liquidity requirement of the scheduled banks was Tk.168,882 crore as of end May 2018 (Table 2).

Table 2: Liquidity Position of Scheduled Banks

(Taka in crore)

Bank Group	As of end June, 2017^R	As of end May 2018^P		
	Total Liquid Assets	Total Liquid Assets	Minimum Required Liquid Assets	Excess Liquidity
1	2	3	4	5 (3-4)
State owned banks	109029	91709	50091	41618
Private banks (other than Islamic)	107163	106315	87295	19020
Private banks (Islamic)	29188	26259	22233	4026
Foreign banks	20122	22714	7764	14950
Specialized banks*	1692	1536	1499	37
Total	**267194**	**248533**	**168882**	**79651**

Notes: P=Provisional; R=Revised; *= SLR does not apply to Specialized banks (except BASIC Bank) as exempted by the government

Source: Bangladesh Bank

Bangladesh Bank data show that, of the total liquid assets of scheduled banks as of end May 2018, some 5.63 per cent was held in the form of Cash in tills and Balances with Sonali Bank, 22.58 per cent in the form of CRR, 3.20 per cent in the form of Excess Reserves, 3.65 per cent in the form of Balances with Bangladesh Bank in Foreign Currency and the remaining 64.94 per cent in the form of Unencumbered approved securities.

4.1 Interest Rate Developments

Between 1 February 2013 and 13 January 2016, BB's repo and reverse repo rates remained unchanged at 7.25 per cent and 5.25 per cent, respectively. The rates were lowered down by 50 basis points to 6.75 per cent and 4.75 per cent, respectively, with effect from 14 January 2016. Again, the repo rate was lowered down to 6.0 per cent, with effect from 15 April 2018 while the reverse repo rate was left unchanged at 4.75 per cent (Table 3).

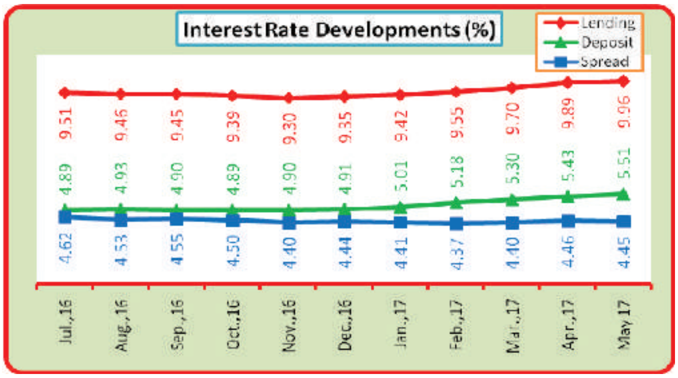


Table 3: Interest Rate (weighted average) movements in FY17 and July-May of FY18

(in per cent)

Month/Quarter	Repo	Reverse Repo	Lending Rate	Deposit Rate	Interest Rate Spread
FY17[R]					
July	6.75	4.75	10.32	5.48	4.84
August	6.75	4.75	10.24	5.44	4.80
September	6.75	4.75	10.11	5.39	4.72
October	6.75	4.75	10.03	5.33	4.70
November	6.75	4.75	9.94	5.29	4.65
December	6.75	4.75	9.93	5.22	4.71
January	6.75	4.75	9.85	5.13	4.72
February	6.75	4.75	9.77	5.08	4.69
March	6.75	4.75	9.70	5.01	4.69
April	6.75	4.75	9.62	4.97	4.65
May	6.75	4.75	9.66	4.93	4.73
June	6.75	4.75	9.56	4.84	4.72
FY18[P]					
July	6.75	4.75	9.51	4.89	4.62
August	6.75	4.75	9.46	4.93	4.53
September	6.75	4.75	9.45	4.90	4.55
October	6.75	4.75	9.39	4.89	4.50
November	6.75	4.75	9.30	4.90	4.40
December	6.75	4.75	9.35	4.91	4.44
January	6.75	4.75	9.42	5.01	4.41
February	6.75	4.75	9.55	5.18	4.37
March	6.75	4.75	9.70	5.30	4.40
April	6.00	4.75	9.89	5.43	4.46
May	6.00	4.75	9.96	5.51	4.45
June	6.00	4.75	NA	NA	NA

Notes: P=Provisional, R=Revised, NA=Not Available

Source: Bangladesh Bank

The interest rate spread in the banking sector marginally decreased to 4.45 per cent at the end of May 2018 from 4.46 per cent in April 2018. The weighted average interest rate on deposits rose to 5.51 per cent in May 2018 from 5.43 per cent in April 2018, and the interest rate on lending also increased to 9.96 per cent from 9.89 per cent.

4.2 Industrial Term Loans

Data on industrial term loans are available only up to the third quarter (January-March) of FY18. According to BB data, the disbursement of industrial term loans during January-March of FY18 stood at Tk.16,979 crore, which was 5.0 per cent lower than the amount disbursed during the immediate previous quarter (October-December) of FY18 (Table 4). The recovery of industrial term loans also decreased by 11.4 per cent to Tk.16,520 crore during the January-March quarter of FY18.

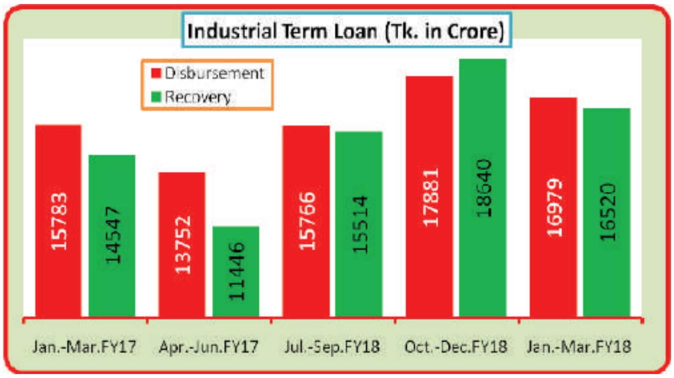


Table 4: Disbursement and Recovery of Industrial Term Loans

Quarter	Disbursement (Tk. in crore)				Recovery (Tk. in crore)			
	LSI	MSI	SSCI	Total	LSI	MSI	SSCI	Total
January-March of FY17[R]	11875	2297	1611	15783 (- 19.4)	11069	2186	1292	14547 (+6.3)
April-June of FY17[R]	10303	1781	1668	13752 (- 12.9)	8190	1992	1264	11446 (-21.3)
July-September of FY18[P]	11787	2435	1544	15766 (+14.6)	11381	2473	1660	15514 (+35.5)
October-December of FY18[P]	11932	3352	2597	17881 (+13.4)	13817	2712	2111	18640 (+20.1)
January-March of FY18[P]	12966	1871	2142	16979 (- 5.0)	12356	2131	2033	16520 (- 11.4)

Notes: LSI=Large Scale Industries, MSI=Medium Scale Industries and SSCI=Small Scale & Cottage Industries
P=Provisional; R=Revised; Figures in parentheses indicate the percentage change over the previous quarter
Source: BB

4.3 SME Loans

Data on SME loans are not available beyond Q3 (January-March 2018) of FY18. According to BB data, total SME loans by all banks and non-bank financial institutions (NBFIs) increased by 10.93 per cent to Tk.193,647 crore at the end of March 2018 from Tk.174,565 crore at the end of March 2017. The disbursement of SME loans was 21.42 per cent of total loans disbursed by all banks and NBFIs at the end of March 2018 (Table 5).

Table 5: Outstanding Position of SME Loans

(Tk. in crore)

Quarter	Type of Loans	SOBs	PBs	FBs	SBs	NBFIs	Total
January-March of FY17[R]	Total Loans SME Loans Percentage	125046 29930 (+23.9)	523442 134136 (+25.6)	26616 2276 (+8.6)	21842 849 (+3.9)	51193 7374 (+14.4)	748139 174565 (+23.3)
April-June of FY17[R]	Total Loans SME Loans Percentage	128833 31260 (+24.3)	550089 139925 (+25.4)	29403 2501 (+8.5)	23194 851 (+3.7)	53618 8169 (+15.2)	785137 182706 (+23.3)
July-September of FY18[P]	Total Loans SME Loans Percentage	131889 31766 (+24.1)	593843 145693 (+24.5)	48568 2632 (+5.4)	23194 889 (+3.8)	54938 9127 (+16.6)	852432 190106 (+22.3)
October-December of FY18[P]	Total Loans SME Loans Percentage	152753 33685 (+22.1)	813283 155778 (+19.2)	31039 2400 (+7.7)	23200 962 (+4.2)	48476 9585 (+19.8)	1068751 202410 (+18.9)
January-March of FY18[P]	Total Loans SME Loans Percentage	158538 31642 (19.96)	642067 149048 (23.21)	31646 2540 (8.03)	22942 1052 (4.59)	48715 9365 (19.22)	903908 193647 (21.42)
% change of SME loans at the end of March 2018 over end of March 2017		+5.72	+11.12	+11.60	+23.91	+27.00	+10.93

Notes: P=Provisional, R=Revised; SOBs= State Owned Banks, PBs= Private Banks, FBs= Foreign Banks, SBs= Specialized Banks, NBFIs= Non-bank Financial Institutions; Figures in parentheses indicate SME loans as percentage of total loans
Source: Bangladesh Bank

4.4 Agricultural Credit and Non-farm Rural Credit

The disbursement of agricultural credit and non-farm rural credit by all scheduled banks in the first eleven months (July-May) of FY18 stood at Tk.19,624 crore, which was just 3.63 per cent higher than the amount (Tk.18,936 crore) disbursed in the corresponding months of FY17 (Table 6). In these eleven months of FY18, banks disbursed 96.20 per cent of their annual disbursement target of Tk.20,400 crore. In comparison, the disbursement in the corresponding eleven months of the previous fiscal year was 107.90 per cent of the annual target of Tk.17,550 crore for that year. The disbursement during the period remained lower than the actual target because of the ongoing cash crunch in banks. Also, defaulted loans and the poor rate of loan recovery could be among major reasons behind the comparatively slow disbursement of farm loans. However, the recovery increased by 17.27 per cent to Tk.19,524 crore in July-May of FY18, compared to Tk.16,649 crore in the corresponding period of the previous fiscal year.

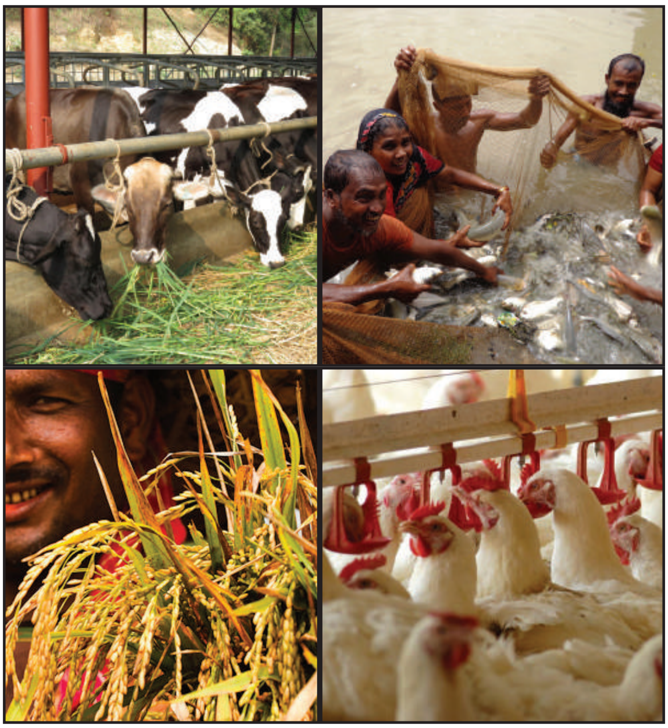
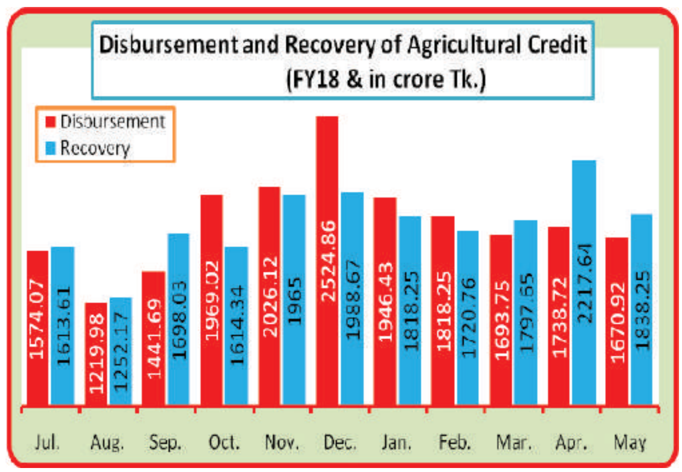


Table 6: Disbursement and Recovery of Agricultural Credit and Non-farm Rural Credit

(in crore Taka)

Month	FY18[P]		FY17[R]	
	Disbursement	Recovery	Disbursement	Recovery
July	1574.07	1613.61	1056.00	945.65
August	1219.98	1252.17	1006.63	1189.85
September	1441.69	1698.03	1381.22	1406.89
Total of Q1	**4235.74 (+22.99)**	**4563.81 (+28.83)**	**3443.85 (+7.65)**	**3542.39 (+13.62)**
October	1969.02	1614.34	**1828.86**	**1584.44**
November	2026.12	1965.00	**2298.36**	**1842.59**
December	2524.86	1988.67	**2361.98**	**2021.89**
Total of Q2	**6520.00 (+0.47)**	**5568.01 (+2.19)**	**6489.20 (+16.89)**	**5448.92 (+2.74)**
January	1946.43	1818.25	2225.66	1823.74
February	1818.25	1720.76	1770.74	1501.14
March	**1693.75**	**1797.65**	**1880.97**	**1648.77**
Total of Q3	**5458.43 (-7.13)**	**5336.66 (+7.30)**	**5877.37 (+44.28)**	**4973.65 (+17.80)**
April	1738.72	2217.64	1434.27	1378.34
May	**1670.92**	**1838.25**	**1690.88**	**1305.79**
Total of July-May	**19623.81 (+3.63)**	**19524.37 (+17.27)**	**18935.57 (+22.67)**	**16649.09 (+8.69)**

Notes: P=Provisional, R=Revised; Figures in parentheses indicate the percentage change over the same period of the previous fiscal year
Source: Bangladesh Bank



5.0 CAPITAL MARKET

Dhaka stocks edged lower at the end in the just-concluded financial year (FY18). Between 1 July 2017 and 28 June 2018, the benchmark index of the Dhaka Stock Exchange (DSE), DSEX, lost 251 points or 4.44 per cent to close at 5,405. The other two indices of the DSE, the DS30 index, comprising blue chips, also fell by 21.86 points to finish at 1,960 but the DSES, the shariah-based index, rose by 0.34 points to settle at 1,264. Also, the Chittagong Stock Exchange (CSE) ended lower with its Selective Categories Index (CSCX), falling by 163 points to settle at 10,009.

Foreign investment at the DSE hit a seven-year low in FY18 as foreign investors continued cashing their investments since February 2018. The net foreign investment stood at only Tk.0.718 billion in FY18, plummeting by 96.83 per cent or Tk.21.967 billion from Tk.22.685 billion in FY17. The net foreign investment in FY18 was the lowest since the market crash in FY11.

6.0 PUBLIC FINANCE

Data on NBR's tax revenue collection are available for 11 months up to May of the current fiscal (FY18), which data on non-NBR revenue are available only up to March of the fiscal. According to provisional data of the National Board of Revenue (NBR), total NBR tax revenue collection during July-May of FY18 increased by 17.91 per cent to Tk.179,626 crore, compared to the 13.94 per cent growth and collected of Tk.152,340 crore during the corresponding period of FY17. On the other hand, the collection of non-NBR revenue, which account for less than 4.0 per cent of the government's total revenue, increased by 25.86 per cent in the first 9 months of FY18, compared to a mere 6.14 per cent growth in the corresponding 9 months of the previous fiscal (Table 7).

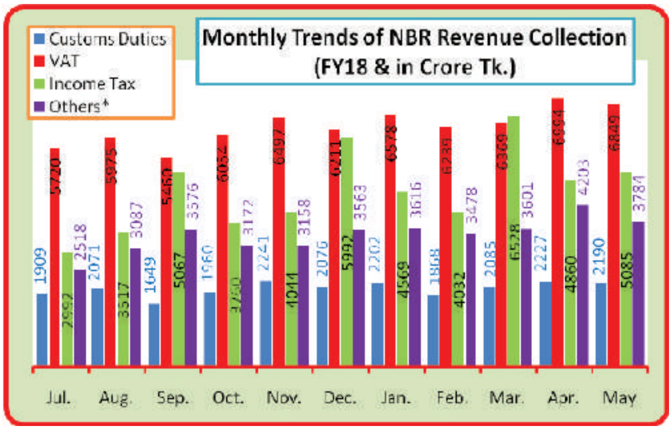


Table 7: : Government Tax Revenue Collection

Month	Tax Revenue Collections (in crore Taka)						
	NBR					Non-NBR	Grand Total
	Customs Duties	VAT	Income Tax	Others*	Total		
FY18ᴾ							
July	1909	5720	2992	2518	13139	1305	14444
August	2071	5975	3517	3087	14650	530	15180
September	1649	5460	5067	3576	15752	388	16140
October	1960	6054	3760	3172	14946	565	15511
November	2241	6497	4044	3158	15940	529	16469
December	2076	6211	5992	3563	17842	468	18310
January	2202	6578	4569	3616	16965	591	17556
February	1868	6239	4032	3478	15617	493	16110
March	2085	6369	6528	3601	18583	563	19146
Total of July - March	**18061**	**55103**	**40501**	**29769**	**143434 (+17.35)**	**5432 (+25.86)**	**148866 (+17.64)**
April	2227	6994	4860	4203	18284	NA	NA
May	2190	6849	5085	3784	17908	NA	NA
Total of July - May	**22478**	**68946**	**50446**	**37756**	**179626 (17.91)**	**NA**	**NA**
FY17ᴿ							
July	1228	3760	3067	1799	9853	417	10270
August	1733	4967	2579	2751	12030	523	12553
September	1448	4830	4473	2844	13595	373	13968
October	1560	5119	2790	2898	12367	482	12849
November	1787	5409	3177	2818	13191	472	13663
December	1893	5449	5492	2822	15655	465	16120
January	2063	5776	4318	3321	15478	526	16004
February	1730	5132	3586	2794	13242	436	13678
March	1851	5797	5923	3242	16813	623	17436
Total of July - March	**15293**	**46239**	**35405**	**25286**	**122223 (+15.92)**	**4316 (+6.14)**	**126539 (+15.56)**
April	1880	5786	3817	3207	14690	634	15324
May	1998	5899	4184	3346	15427	574	16001
Total of July - May	**19171**	**57924**	**43406**	**31839**	**152340 (+13.94)**	**5524 (+9.10)**	**157864 (+13.77)**

Notes: P=Provisional; R=Revised; NA=Not Available; *=include supplementary duties and travel tax;
Figures in brackets indicate percentage changes over the corresponding period of the preceding year.
Sources: BB, NBR and Office of the Controller General of Accounts

Earlier, the NBR had set a revenue collection target of Tk.248,190 crore for FY18, which is about 22.17 per cent higher than the original target (Tk.203,152 crore) of the previous fiscal year, about 34.16 per cent higher than the revised target of Tk.185,000 crore, and also about 34.15 per cent higher than the actual collection of Tk.185,004 crore in FY17. Recently, the NBR revised down the revenue collection target to Tk.225,000 crore, which is about 21.62 per cent higher than the revised target, and also about 21.62 per cent higher than the actual collection in the previous fiscal (FY17).

6.1 Public Expenditure

The implementation rate of the Annual Development Programme (ADP) in the first eleven months of the just-concluded fiscal year (FY18) was slightly lower than in the corresponding period of the previous fiscal year (FY17). According to the Implementation Monitoring and Evaluation Division (IMED) data, the ADP implementation rate was 62.81 per cent in July-May of FY18, compared to 64.72 per cent in the corresponding months of FY17. The government thus needed to spend more than 37 per cent of the ADP fund very hurriedly in the remaining one month of the fiscal, obviously sacrificing the quality of public expenditure projects.

Fifteen large ministries and divisions, which together received 85.67 per cent of the total development budget, were implementing some mega projects, including the Padma Bridge, metro rail, and some large power plants. Among these large ministries and divisions, project implementation by the Power Division was the highest (91.93%), followed by the Ministry of Science and Technology (75.13%), the Ministry of Housing and Public Works (74.25%), the Local Government Division (70.86%), the Information and Communication Technology Division (61.09%), the Road Transport and Highways Division (60.76%), the Energy and Mineral Resources Division (59.01%), the Health Service Division (57.93%), the Ministry of Water Resources (55.49%), the Ministry of Shipping (52.52%), the Secondary and Higher Education Division (51.15%), and the Prime Minister's Office (50.57%). Implementation agencies that spent less than 50 per cent of their respective ADP budgets are: the Ministry of Primary and Mass Education (48.27%), the Bridges Division (42.09%), and the Ministry of Railways (30.81%).

7.0 EXPORTS

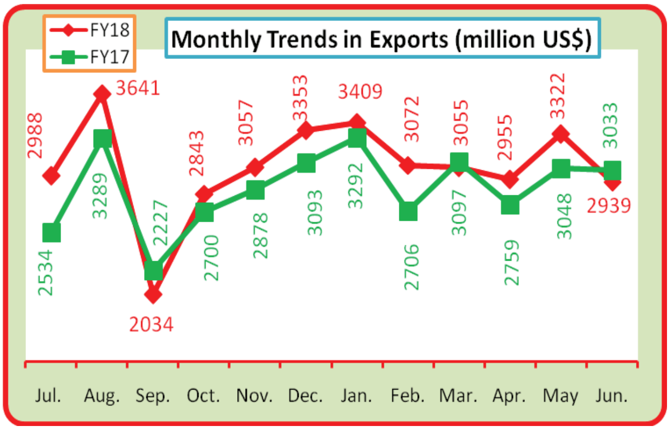
According to EPB's provisional data, the country's export earnings in the just-concluded financial year (FY18) grew by only 5.81 per cent to US$36.668 billion from US$34.656 billion in the previous fiscal year (Table 8). Export earnings were also 2.22 per cent short of the strategic target (US$37.500 billion). Despite moderate growth of readymade garment (RMG) products (by 8.76%), the drop in exports of non-RMG items like leather and leather goods contributed to the lower growth in overall export earnings. RMG exports accounted for 83.49 per cent of total exports in FY18, compared to 81.23 per cent in the corresponding period of the previous fiscal year. In fact, export earnings in the quarter under review (Q4 of FY18) grew by 4.25 per cent which was the lowest growth rate, compared to other quarters of the fiscal, viz., 4.85 per cent in Q3; 6.71 per cent in Q2 and 7.61 per cent in Q1. And in June 2018, year-on-year, exports witnessed a negative growth rate of 3.10 per cent. Exports in June (US$2.939 billion) were also below the monthly strategic target of US$3.623 billion. According to experts, the country must strive hard to diversify its exports, in terms of both products and markets, otherwise the US$50 billion export target by 2021 would be difficult to achieve.

Table 8: Monthly Trends in Exports (Goods)

Month	Exports (million US$)		Change (%)
	FY18P	FY17R	
July	2988	2534	17.92
August	3641	3289	10.70
September	2034	2227	(-) 8.67
Total of Q1	**8663**	**8050**	**7.61**
October	2843	2700	5.30
November	3057	2878	6.22
December	3353	3093	8.41
Total of Q2	**9253**	**8671**	**6.71**
January	3409	3292	3.55
February	3072	2706	13.53
March	3055	3097	(-) 1.36
Total of Q3	**9536**	**9095**	**4.85**
April	2955	2759	7.10
May	3322	3048	8.99
June	2939	3033	(-) 3.10
Total of Q4	**9216**	**8840**	**4.25**
Total of Q1 – Q4	**36668**	**34656**	**5.81**

Notes: P=Provisional; R=Revised

Sources: EPB



EPB's export data for July-June of FY18 shows positive export growth by a number of products, such as woven garments, knitwear, jute & jute goods, agricultural products, paper & paper products, cotton & cotton products, home textile, specialized textiles, chemical products, other footwear, ceramic products, and man-made filaments & staple fibres, while the export of frozen & live fish, leather & leather products, plastic products, rubber, engineering products, petroleum bi products, other manufactured products, headgear/cap, ships, boats & floating structures, and carpet shows negative growth compared to the previous fiscal.

EPB data showed that export earnings from RMG sector in FY18 grew by 8.76 per cent to US$30.615 billion from US$28.150 billion in FY17. The 8.76 per cent annual growth of RMG exports, however, appears too low to be able to achieve the export target of US$50 billion by 2021. In order to achieve that lofty goal, the RMG exports will need to attain a growth of more than 12.0 per cent a year. Within the sector, woven RMG exports and knitwear exports increased this fiscal year by 7.18 per cent and 10.41 per cent, respectively, exceeding their respective targets by 2.43 per cent and 0.59 per cent. Apparel experts stressed the need for policy support from the government, including lowering the bank interest rate, in order to accelerate the growth of RMG exports. They also called on entrepreneurs to go for value-added diversified items and enhance efficiency and productivity in order to be competitive in the international market.

Among other major items, exports of jute & jute goods and agricultural products earned posted 6.56 per cent and 21.79 per cent increase, respectively, this fiscal year. Export earnings from home textile increased by 10.01 per cent, and chemical products exports grew by 7.86 per cent this fiscal. On the other hand, export earnings from leather & leather products in FY18 fell by 11.99 per cent, and those of frozen & live fish exports fell by 3.42 per cent in FY18 from the last fiscal. Export earnings from engineering products also fell by 48.33 per cent in July-June of FY18 from the same period of FY17.

As regards the country's export destinations, Germany has overtaken the United States, for the first time, as the largest export market for Bangladesh's RMG in the just concluded fiscal year (FY18). RMG export to Germany in FY18 stood at US$5.58 billion as against US$5.35 billion in earnings from the US market. A respectable growth (8.77%) of RMG export to Germany in FY18, compared to a paltry 2.88 per cent growth in the US market, occurred due to strong economic activities in Germany, and preferential treatment received by Bangladeshi exporters. As a result, Europe's largest economy, Germany, became the largest market for Bangladeshi garment products, surpassing the world's largest economy, the United States of America.

Of all of Bangladesh's export products are considered, however, the United States still remained Bangladesh's largest export market in FY18. EPB data show that the country's export earnings from the US in FY18 stood at US$5.98 billion, which is 2.40 per cent higher than the earnings in FY17 (US$5.84 billion). Export to Germany grew by 7.68 per cent to US$5.89 billion in FY18 from US$5.47 billion in FY17. Because of the generalized system of preference Bangladesh gets from the EU countries, Bangladesh's export to almost all major EU countries, notably France, Spain and Poland, continued to grow in FY18. Export earnings from the UK, the third highest export destination for Bangladesh, in FY18 increased by 11.48 per cent. In Asian markets, export earnings from China slumped by 26.80 per cent, which those from Japan grew by 11.88 per cent. Export earnings from India grew by 29.87 per cent to US$873.27 million in FY18 from US$672.40 million in FY17. RMG export to India in the period grew by a robust 114.68 per cent to US$278.67 million, according to the EPB data.

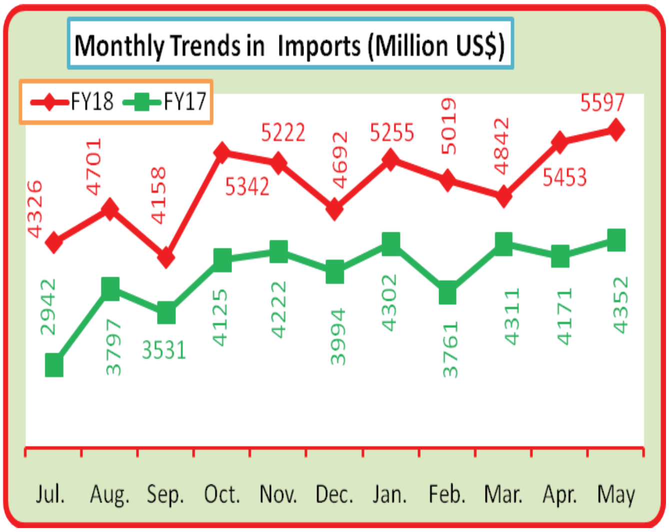
8.0 IMPORTS

Import payments (C&F) in the first eleven months (July-May) of FY18, for which data are available, stood at US$54.607 billion, which is 25.51 per cent higher than import payments during the corresponding months of FY17 (Table 9). Import payments increased mainly due to higher imports of consumer goods, fuel oil and capital machinery to meet the growing demands of the local market. In May 2018, imports stood at US$5.597 billion, which is 28.61 per cent higher than imports in May 2017.

Table 9: Monthly Trends in Imports

Month	Imports (million US$)		Change (%)
	FY18[P]	FY17[R]	
July	4326	2942	47.04
August	4701	3797	23.81
September	4158	3531	17.76
October	5342	4125	29.50
November	5222	4222	**23.69**
December	4692	3994	**17.48**
January	5255	4302	**22.15**
February	5019	3761	**33.45**
March	4842	4311	**12.32**
April	5453	4171	**30.74**
May	5597	4352	**28.61**
Total of July-May	**54607**	**43508**	**25.51**

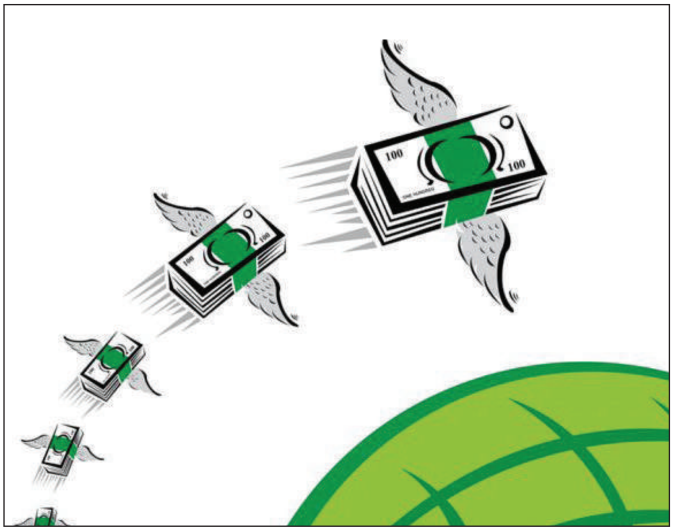
Notes: P=Provisional; R=Revised
Source: Bangladesh Bank



According to Bangladesh Bank (BB) data, the settlement of import Letters of Credit (LCs) increased by 16.56 per cent to US$47.786 billion during July-May of FY18 compared to US$40.998 billion in the corresponding period of the previous fiscal. The import of consumer goods increased significantly by 56.23 per cent to US$7.263 billion during July-May of FY18 from US$4.649 billion during July-May of FY17. Apart from consumer goods, the imports of petroleum & petroleum products, industrial raw materials, and intermediate goods pushed up the country's overall imports in the period (July-May of FY18). The opening of fresh import LCs also increased by 48.25 per cent to US$65.405 billion in the first eleven months of FY18 from US$44.119 billion in the corresponding period of the previous fiscal.

9.0 REMITTANCES

The flow of inward remittance in the just-concluded fiscal year (FY18) increased by 17.12 per cent to US$14.959 billion from US$12.772 billion in FY17. The increase occurred following the upward trend in fuel oil prices in the international market. Also, the depreciation trend of the local currency against the US dollar and the increased demand for funds by the families of the expatriates ahead of the *Eid-ul-Azha* festival led to an increase in the flow of inward remittances in recent months. Besides, the strengthened surveillance of BB to check 'hundi' has also contributed to raise the remittance inflow. The central bank earlier took a series of measures to encourage the expatriate Bangladeshis to send their earnings home through the formal banking channel to help boost the country's foreign exchange reserve.

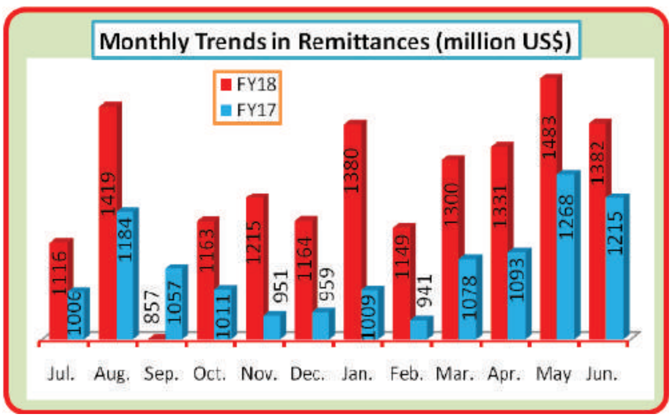


Remittances in the quarter under review (Q4 of FY18) rose by 17.34 per cent to US$4.196 billion from US$3.576 billion in Q4 of FY17, while year-on-year, remittances also rose by 13.74 per cent in June 2018 (Table 10).

Table 10: Monthly Trends in Remittances

Month	Remittances (million US$)		Change (%)
	FY18P	FY17R	
July	1116	1006	10.93
August	1419	1184	19.85
September	857	1057	(-) 18.92
Total of Q1	**3392**	**3247**	**4.47**
October	1163	1011	15.03
November	1215	951	27.76
December	1164	959	21.38
Total of Q2	**3542**	**2921**	**21.26**
January	1380	1009	36.77
February	1149	941	22.10
March	1300	1078	20.59
Total of Q3	**3829**	**3028**	**26.45**
April	1331	1093	21.77
May	1483	1268	16.96
June	1382	1215	13.74
Total of Q4	**4196**	**3576**	**1 7.34**
Total of July-June	**14959**	**12772**	**17.12**

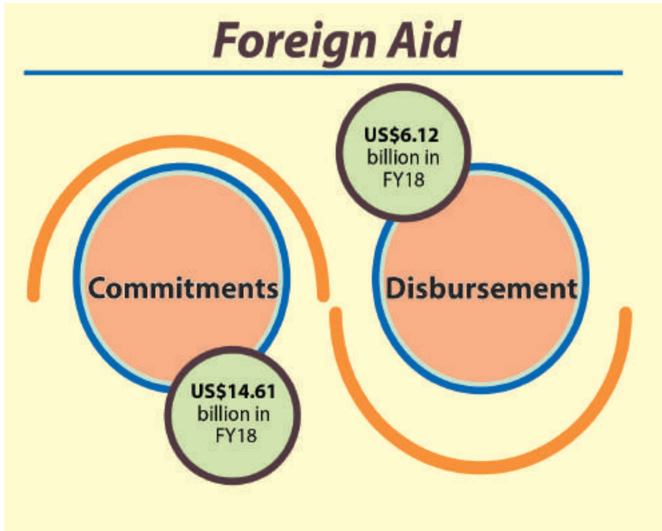
Notes: P=Provisional; R=Revised
Source: Bangladesh Bank



Most private commercial banks along with state-owned ones try to increase the flow of inward remittances from different overseas countries. Currently, 29 exchange houses are operating across the globe with 1,205 drawing arrangements set up abroad - mainly in the Middle East, the United Kingdom, Japan, Canada, Australia, Malaysia, Singapore, Italy and the United States.

10.0 FOREIGN AID

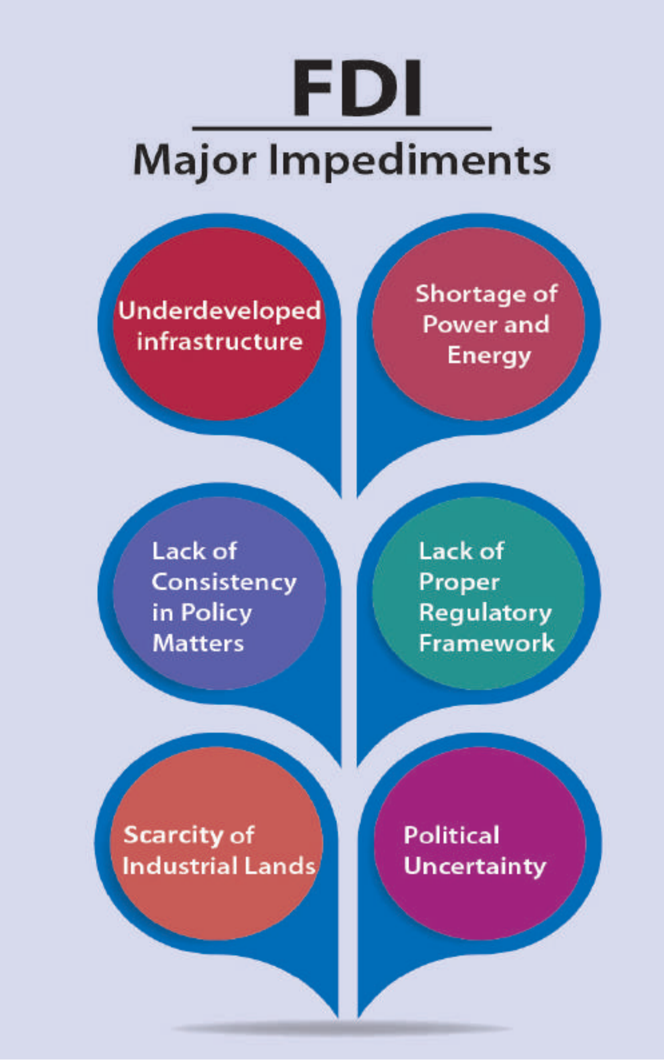
According to the Economic Relations Division (ERD) provisional data, the disbursement of foreign aid in the just-concluded fiscal year (FY18) increased by a whopping 66.76 per cent to a record US$6.12 billion from US$3.67 billion in the previous fiscal year. The government received US$5.78 billion worth of concessional loan and US$340.05 million in grant during the period between July 2017 and June 2018. On the other hand, development partners' commitments of foreign aid stood at US$14.61 billion in FY18, as against US$17.96 billion in the previous fiscal year. Some big credit deals, including a US$4.5 billion loan package agreement with India, a contract with China for US$2.7 billion in loan for the Padma bridge railway link project, and a US$1.83 billion package from Japan, were signed in FY18, which contributed to the rise in aid commitment.



The amount of foreign aid inflow was quite close to the revised target of US$6.40 billion during FY18. The original target was US$7.0 billion, up by 35 per cent from the past year's. Later, in the last quarter of FY18, the government slashed the original aid target due to slow implementation of some foreign-aided projects.

11.0 FOREIGN DIRECT INVESTMENT (FDI)

In the first eleven months of the present fiscal (July-May of FY18), the net foreign direct investment (FDI) decreased by US$70 million or 4.18 per cent to US$1.606 billion from US$1.676 billion in the corresponding 11 months of FY17 (Table 11). FDI inflow in Bangladesh is low compared to many countries at similar level of development. Bangladesh's low labor costs are generally believed to be attractive to foreign investors, but yet they hesitate to make fresh investments in the country because of the country's underdeveloped infrastructure, and such other impediments as the shortage of power and energy, lack of consistency in policy and regulatory framework, scarcity of industrial lands, corruption, and political uncertainty. The government needs to address these impediments to attract more FDI in the country. According to a government estimate, the country needs to attract average annual FDI inflow of 6 to 7 billion US dollars to graduate to an upper middle income country by 2021.



Government urged foreign entrepreneurs to invest in Bangladesh as the country gives them maximum facilities, including tax holiday and hundred per cent repatriation of capital and profits. There is ample scope to invest in every sector, including in export processing zones (EPZs) run by Bangladesh Export Processing Zone Authority (BEPZA) and Bangladesh Economic Zones Authority (BEZA). The biggest economic zone, spread over 1,150 acres of land, is now ready to invest local and international investors at Mirersarai in Chattogram. Recently, Chinese steel giant Kunming Iron and Steel Holding Company (KISC) decided to invest US$2.3 billion in a steel manufacturing project at Mirersarai. This is the largest investment in manufacturing in this country. KISC makes the investment through its subsidiary company Chinese Yunnan Yongle Overseas Investment Co Limited and a consortium of 17 private companies, including Nitol group, Unique Group and BSRM named 'Star Infrastructure Development Consortium Limited' is acting as the local partner of Kunming. The company aims to produce 2.0 million tonnes integrated iron and steel production annually. A coal-fired 167 mw power plant, transfer platform in deep sea and private jetty, device and machine manufacture, logistics and distributions, cement and building materials and steel structure fabrication will be developed under the project. BEZA gives 1,000 acres of land and the project will create jobs for 30,000 people. Moreover, Singaporeans are keen to invest in power, IT, tourism and education sectors in Bangladesh. A team of investors based in Singapore has sought 3,000 acres of land at Mirersarai from the government to establish a special economic zone for the businesses.

Besides, a growing number of entrepreneurs are joining the queue to establish private economic zones, tempted by the tax breaks and a host of other benefits offered by the government. Some 43 entrepreneurs have so far applied to the BEZA for licences to set up economic enclaves on their land. The BEZA awarded the final licences to six and pre-qualification licences to 17. The remaining 20 applicants are awaiting approval from the BEZA governing board headed by the Prime Minister.

The BEZA started its journey at the end of 2010 and came up with various incentives to lure local and foreign investors to economic zones, which are being developed under four types of arrangements. These are: by the government itself, under public-private partnership arrangement, by private sector players, and under government-to-government contracts. Under the package, an economic zone developer will enjoy a ten-year tax holiday, duty-free import benefit and exemption from land registration fees, stamp duty and local government taxes. Companies setting up factories inside the economic zones will avail duty-free import of raw materials and bonded warehouse benefits to make products for both domestic and international markets. There will be no bar on repatriation of capital and profit as well as foreign exchange. Above all, electricity, gas and other connections will be easier to get in the economic zones.

12.0 BALANCE OF PAYMENTS

The country's trade deficit worsened by US$7.865 billion, increasing by 84 per cent to US$17.228 billion in July-May of FY18 from US$9.363 billion in July-May of FY17. The deficit increased due to low export receipts but large import payments (Table 11). According to BB data, the deficit in services trade also increased by 35.85 per cent or by US$1.077 billion to US$4.081 billion in these eleven months. Higher deficits in goods and services trade pushed up the current account deficit during the period under review despite an uptrend in inward remittances. The current account deficit rose to US$9.379 billion during July-May of FY18 from US$2.216 billion in the corresponding period of the previous fiscal year. Inward remittance increased by 17.09 per cent to US$13.331 billion in the first eleven months of FY18 from US$11.385 billion in the corresponding period of FY17, but it was too small to bring about any noticeable improvement in the current account balance. The widening current account deficit put the external balance of payments with the rest of the world under substantial pressure. Economists have been cautioning against the potential risks of widening deficit in the last few months.

The financial account recorded a sizeable surplus of US$8.035 billion during July-May of FY18, compared to US$4.217 billion in the corresponding period of FY17. Higher inflow of other investment (net) in the form of medium- and long-term loans led to a sizeable surplus in the financial account. However, the gross inflow of foreign direct investment (FDI) decreased by 7.36 per cent to US$2.607 billion during July-May of FY18 from US$2.814 billion in July-May of FY17. On the other hand, net FDI inflow decreased by 4.18 per cent to US$1.606 billion from US$1.676 billion while net portfolio investment increased by 10.49 per cent from US$324 million to US$358 million during the 11-month period. The overall balance recorded a big decline from the surplus of US$2.682 billion in July-May of FY17 to a deficit of US$970 million in July-May of FY18.

Table 11: Balance of Payments

(in million US$)

Items	July-May of FY18^{P}	July-May of FY17^{R}	Change
Trade Balance	**(-) 17228**	**(-) 9363**	**(-) 7865**
Exports f.o.b (including EPZ)*	33296	30890	2406
Of which: Readymade Garments	28129	25625	
Imports f.o.b (including EPZ)*	50524	40253	10271
Services	**(-) 4081**	**(-) 3004**	**(-) 1077**
Credit	4119	3366	
Debit	8200	6370	
Primary Income	**(-) 2040**	**(-) 1844**	**(-) 196**
Credit	98	70	
Debit	2138	1914	
Of which: Official Interest Payment	486	363	
Secondary Income	**13970**	**11995**	**1975**
Official Transfers	46	42	
Private Transfers	13924	11953	
Of which: Workers' Remittances (current a/c portion)	13331	11385	1946
Current Account Balance	**(-) 9379**	**(-) 2216**	**(-) 7163**
Capital Account	263	288	
Capital Transfers	263	288	
Financial Account	**8035**	**4217**	**3818**
Foreign Direct Investment (gross inflows)	2607	2814	
Of which; Foreign Direct Investment (net)**	1606	1676	(-) 70
Portfolio Investment (net)	358	324	
Of which: Workers' Remittances (financial a/c portion)	266	170	
Other Investment (net)	6071	2217	
Errors and Omissions	111	393	(-) 282
Overall Balance	**(-) 970**	**2682**	**(-) 3652**

Notes: P=Provisional; R=Revised; * = Both exports and impor ts are compiled on the basis of shipment data, ** = Disinvestment, loss and repayments of intracompany loans have been deducted from gross inflows as per BPM6

Source: Bangladesh Bank

13.0 EXCHANGE RATE

Between end-June of 2017 and end-June of 2018, the Taka depreciated by 3.85 per cent in terms of US dollar. The Taka depreciated mainly due to a large increase in the current account deficit. On the inter-bank market, the US dollar was quoted at Tk.83.7000 at the end of June 2018 and Tk.80.5995 at the end of June 2017 (Table 12).

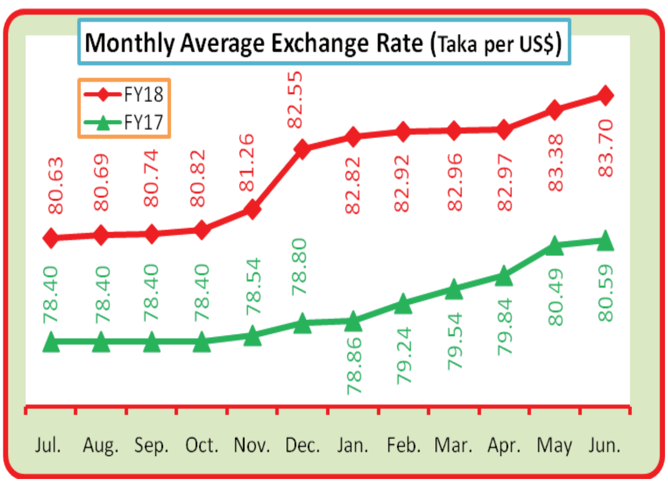
Table 12: Monthly Exchange Rate

Month	FY18^P (Taka per US$)		FY17^R (Taka per US$)	
	Month Average	End Month	Month Average	End Month
June	-	-	80.5850	80.5995
July	80.6262	80.6598	78.4000	78.4000
August	80.6937	80.7000	78.4000	78.4000
September	80.7354	80.8000	78.4000	78.4000
October	80.8202	80.8810	78.4010	78.4161
November	81.2550	82.3000	78.5417	78.7233
December	82.5520	82.7000	78.8030	78.7004
January	82.8150	82.9000	78.8573	79.0741
February	82.9196	82.9600	79.2353	79.3700
March	82.9600	82.9600	79.5398	79.6797
April	82.9746	82.9800	79.8376	80.2300
May	83.3846	83.7000	80.4896	80.5609
June	83.7010	83.7000	80.5850	80.5995

Note: i) P=Provisional; R=Revised

ii) Exchange rate represents the mid-value of buying and selling rates

Source: Bangladesh Bank



14.0 FOREIGN EXCHANGE RESERVES

Bangladesh Bank's gross foreign exchange reserves stood at US$32.916 billion (with ACU liability of US$1.26 billion) as of end June 2018, as compared to US$32.349 billion (with ACU liability of US$0.71 billion) at the end of the previous month. The current foreign exchange reserves (less ACU liability) is equivalent 6.54 months' import payments (Table 13).

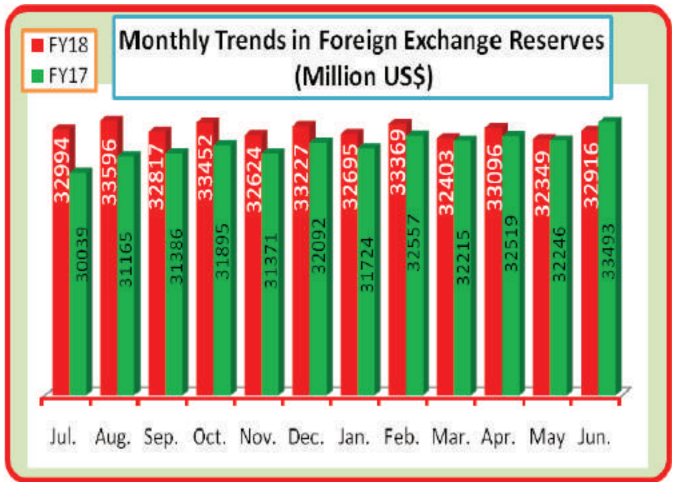


Table 13: Monthly Trends in Foreign Exchange Reserves

Month	Foreign Exchange Reserve (million US$)	
	FY18^P	FY17^R
July	32994	30039
August	33596	31165
September	32817	31386
October	33452	31895
November	32624	31371
December	33227	32092
January	32695	31724
February	33369	32557
March	32403	32215
April	33096	32519
May	32349	32246
June	32916	33493

Notes: P=Provisional; R=Revised

Source: Bangladesh Bank

15.0 OVERSEAS EMPLOYMENT SITUATION

Bangladesh is keen to boost manpower export in the coming months, with the opening of opportunities for sending more local workers to Japan, Malaysia, United Arab Emirates (UAE) and the Kingdom of Saudi Arabia (KSA). These countries have recently announced to employ more workers from Bangladesh. Japan has agreed to recruit technical interns from Bangladesh in a deal seen crucial for the country's overseas employment sector.

The KSA has lifted the ban on the recruitment of Bangladeshi workers after seven years. Besides, both public and private sectors are trying to expand manpower export to certain other countries, including Thailand and Mauritius. Yet, the number of Bangladeshi workers working overseas is much lower than the potential. Only 188,049 workers from Bangladesh entered the international markets with jobs during the quarter under review (April-June of FY18). The number of such emigrants was 204,201 during the previous quarter. At present, there are more than 11.8 million Bangladeshis working in 162 countries, mostly in the Middle East. Their contribution accounts for about 60 per cent of the country's foreign currency reserves.

Bangladeshi female workers started going abroad for jobs since 1991. Some 28,135 female workers entered the international markets with jobs during the quarter under review as against 28,636 that moved out during the previous quarter (January-March of FY18). Female workers, mostly housemaids and garment workers, are employed mainly in KSA, UAE, Jordan, Oman, Lebanon and Qatar.

16.0 PRICE SITUATION

The general point to point inflation fell slightly by 0.03 percentage point to 5.54 per cent in June 2018 from 5.57 per cent in May 2018 mainly because of the fall in food prices (Table 14). Year-on-year, the inflation rate in June of FY18 decreased by 0.40 percentage point from 5.94 per cent. Food inflation decreased by 0.58 percentage point to 5.98 per cent in June 2018 from 6.56 per cent in the immediate past month of May but, year-on-year, food inflation decreased by 1.53 percentage points from 7.51 per cent. On the other hand, non-food inflation increased by 0.79 percentage point to 4.87 per cent in June 2018 from 4.08 per cent in the previous month while year-on-year, the non-food inflation increased by 1.20 percentage points from 3.67 per cent. BBS data also shows that prices of food items such as egg, sugar, edible oil, fish, vegetables, pulses dropped, while house rents and costs of clothing, household goods, fuel, medical and transportation services, and education increased.

Besides, the average annual inflation in the just-concluded financial year (FY18) increased by 0.34 percentage point to 5.78 per cent from 5.44 per cent in the previous fiscal year. The rate of annual average inflation also remained higher than the government's target of 5.5 per cent in FY18.

Table 14: Monthly Trends in Inflation (Base: 2005-06=100)

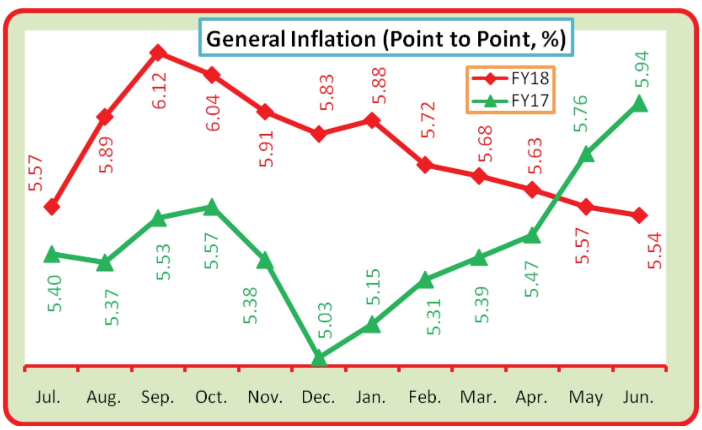
(Percent)

Period	Point to Point-All			Point to Point-Rural			Point to Point-Urban		
	General	Food	Non-food	General	Food	Non-food	General	Food	Non-food
FY18P									
July	5.57	6.95	3.53	5.41	6.86	2.84	5.86	7.15	4.48
August	5.89	7.32	3.75	5.88	7.39	3.19	5.91	7.18	4.51
September	6.12	7.87	3.44	6.21	7.97	2.98	5.95	7.63	4.08
October	6.04	7.62	3.61	6.14	7.71	3.24	5.86	7.40	4.12
November	5.91	7.09	4.10	5.93	7.07	3.83	5.89	7.15	4.47
December	5.83	7.13	3.85	5.84	7.08	3.54	5.82	7.22	4.25
January	5.88	7.62	3.23	5.90	7.40	3.13	5.86	8.13	3.37
February	5.72	7.27	3.36	5.64	6.94	3.25	5.87	8.02	3.50
March	5.68	7.09	3.52	5.63	6.77	3.52	5.76	7.80	3.51
April	5.63	7.03	3.49	5.59	6.76	3.44	5.70	7.63	3.57
May	5.57	6.56	4.08	5.07	5.62	4.07	6.48	8.69	4.08
June	5.54	5.98	4.87	5.07	5.25	4.76	6.38	7.63	5.03
FY2017-18	**5.78**	**7.13**	**3.74**	**5.69**	**6.90**	**3.48**	**5.95**	**7.63**	**4.08**
FY17R									
July	5.40	4.35	6.98	4.54	3.59	6.26	7.00	6.11	7.98
August	5.37	4.30	7.00	4.41	3.40	6.28	7.15	6.39	7.99
September	5.53	5.10	6.19	4.63	4.27	5.31	7.21	7.03	7.42
October	5.57	5.56	5.58	4.87	4.89	4.83	6.87	7.09	6.63
November	5.38	5.41	5.33	4.75	4.83	4.60	6.56	6.74	6.35
December	5.03	5.38	4.49	4.46	4.78	3.88	6.07	6.74	5.35
January	5.15	6.53	3.10	4.92	6.28	2.52	5.57	7.11	3.91
February	5.31	6.84	3.07	5.14	6.66	2.46	5.62	7.22	3.91
March	5.39	6.89	3.18	5.19	6.72	2.49	5.76	7.28	4.14
April	5.47	6.94	3.30	5.24	6.73	2.61	5.88	7.41	4.24
May	5.76	7.37	3.44	5.57	7.18	2.77	6.11	7.78	4.37
June	5.94	7.51	3.67	5.65	7.20	2.94	6.49	8.21	4.67
FY2016-17	**5.44**	**6.02**	**4.61**	**4.96**	**5.54**	**3.91**	**6.37**	**7.10**	**5.60**

Notes: i) P=Provisional, R=Revised; ii) Food includes food, beverages and tobacco

Source: Bangladesh Bureau of Statistics

A comparison of point to point inflation data for urban and rural areas in June of FY18 shows that the inflation rate was higher in urban areas than in rural areas. Thus, the point to point general, food, and non-food inflation in rural areas in June were 5.07 per cent, 5.25 per cent, and 4.76 per cent, respectively, while these rates in urban areas were 6.38 per cent, 7.63 per cent, and 5.03 per cent, respectively.



17.0 CHAMBER'S PROJECTION ON SOME SELECTED ECONOMIC INDICATORS

On the basis of observations in the preceding nine months, this Chamber has made its own projections on some selected economic indicators for the first quarter of the present fiscal year (Q1 of FY19). These projections are presented in Table 15.

Table 15: Projection on Some Selected Indicators in Q1 of FY19

Indicators	FY18									FY19		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	April	May	June	July	August	Sept.
Export (million US$)	2843	3057	3353	3409	3072	3055	2955	3322	2939	**3260**	**3320**	**3390**
Import (million US$)	5342	5222	4692	5255	5019	4842	5453	5597	**5790**	**5950**	**6050**	**6220**
Remittance (million US$)	1163	1215	1164	1380	1149	1300	1331	1483	1382	**1550**	**1590**	**1680**
Forex Reserve (million US$)	33452	32624	33227	32695	33369	32403	33096	32349	33173	**32960**	**33500**	**33290**
Inflation, Point to Point (per cent)	6.04	5.91	5.83	5.88	5.72	5.68	5.63	5.57	5.54	**5.65**	**5.80**	**5.85**

Notes: July – March of FY18: actual figures except March value of Import; April – June of FY18: projections (figures in bold)
Sources: BB, BBS and the Chamber's own calculation

It is assumed that the peaceful political situation that currently prevails will continue in the coming days. Export, import, and remittances will therefore increase. The foreign exchange reserve is likely to fall in July and September due to the payment to the Asian Clearing Union (ACU) against imports. The rate of inflation can be expected to go up in the coming months because of increased demand ahead and during the Eid-ul-Azha.

18.0 CONCLUDING OBSERVATIONS

Bangladesh's impressive growth and its journey towards higher development trajectory have been globally admired. As per the provisional estimate of BBS, the GDP growth in the just-concluded fiscal (FY18) is 7.65 per cent, up from 7.28 per cent in the previous fiscal (FY17). However, although the economy is progressing well, the achievements remain below their true potential. Inadequate infrastructure, lack of investor confidence in the economy that discourages making fresh investment, and shortage of power and energy are now major impediments to the growth of the economy. These impediments must be removed to restore the confidence of the foreign investors as well as the country's own business and investor community.

In the quarter under review (Q4 of FY18), some risk factors such as power and gas shortage and weak infrastructure appeared as major obstacles to the expansion of economic activity as they disrupt industrial production and also discourage new investment. There are other downside risks like the poor implementation of public investment programs (only 62.81% of the ADP has reportedly been implemented in the first eleven months of FY18), the growing requirement of subsidy payments by the state to different public sector agencies including the state-owned banks, and growing income inequalities. The corruption-ridden banking sector is perhaps the biggest downside risk now, which will call for strict vigilance by the central bank and the Ministry of Finance to bring discipline to the sector.

However, the overall economic situation is positive as indicated by steady improvements in the major economic indicators. Steady progress in the agriculture sector, moderately good growth in industry despite the crisis in the power sector, the decline in the inflation rate, macroeconomic stability, the build-up of a comfortable foreign exchange reserve, and good progress in achieving the SDGs boost people's confidence in the country's ability to attain accelerated economic growth and emerge as a middle income country by the turn of the present decade.

A Brief Profile of MCCI, Dhaka

Founded in 1904, the Metropolitan Chamber of Commerce and Industry, Dhaka (MCCI) is the oldest and the pre-eminent trade organization of Bangladesh. Its membership roll encompasses leading commercial and large industrial organizations of the country, including public sector corporations and local as well as multinational companies. Presently, almost all major enterprises of the manufacturing and service sector are among its members. The Chamber provides a wide range of professional services to its members.

The Chamber's services, developed over a long period, are comprehensive and cover specialized areas such as taxation, import-export, tariff and non-tariff measures, investment, WTO matters and other national and international economic and commercial concerns. The Chamber maintains a secretariat manned by professional staff. It offers secretarial services to the Bangladesh Employers' Federation (BEF), the lone national level organization of employers in the country dealing with industrial relations, occupational safety and health, workplace cooperation, skills development, labor law and other labor-related issues.

The Chamber's policy recommendations and inputs related to ongoing reforms have gained wide acceptance amongst government and policy makers. MCCI has earned recognition at home and abroad by offering services such as issuing certificates of origin, and, through conducting economic research and sector surveys, offering trade and investment facilitation services, legal services, information management and dissemination, and publications related to trade and commerce.

The Chamber is represented in many Advisory Councils as well as Committees formed by various ministries of the government of Bangladesh. MCCI also maintains effective working relations with development partners, e.g., the World Bank Group, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the Asian Development Bank (ADB), Japan External Trade Organization (JETRO), Japan International Cooperation Agency (JICA), the Asia Foundation, etc. MCCI has a long history of joint collaboration. It interacts regularly with major international trade bodies and many private sector organizations located all over the world.