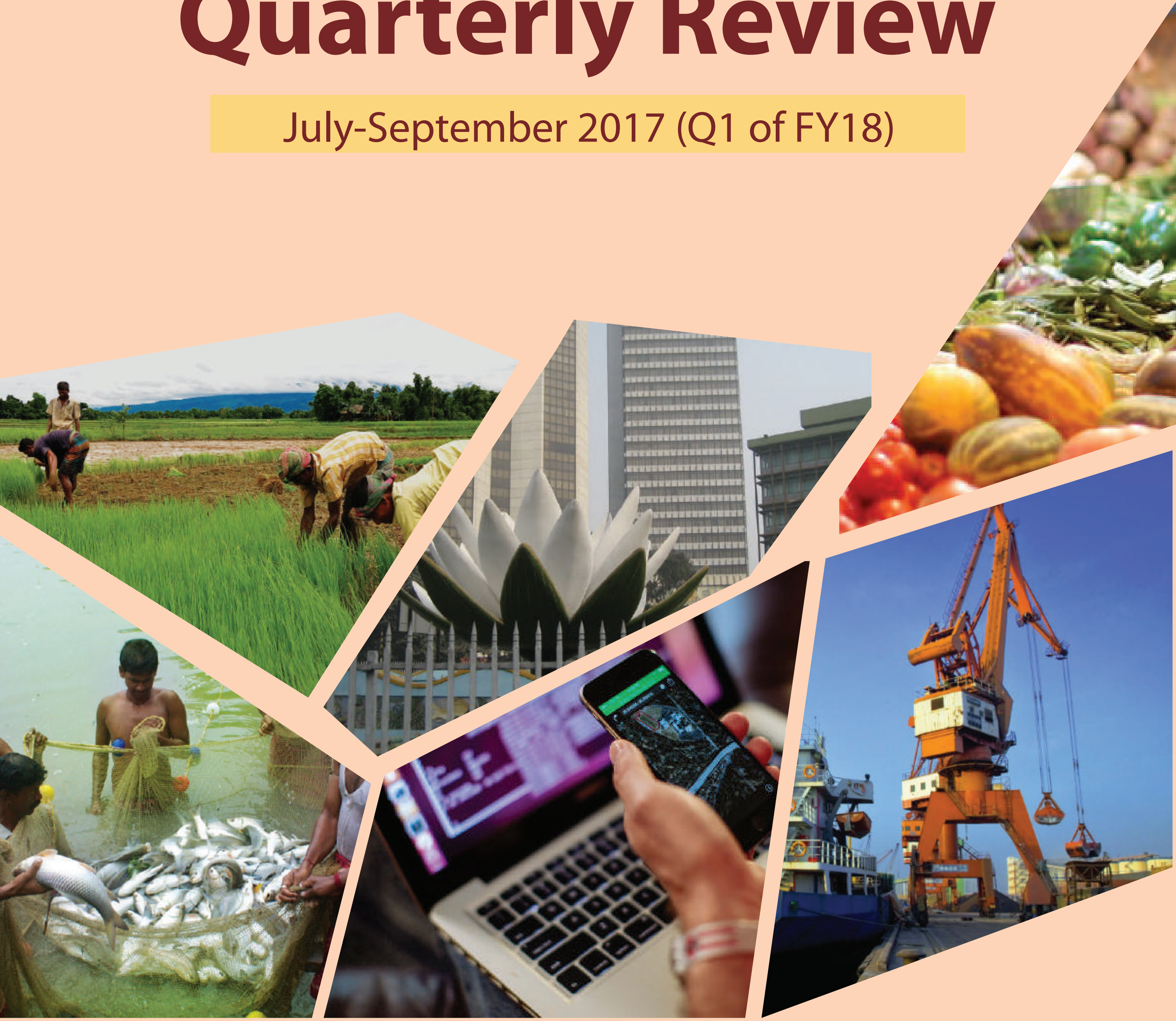
Quarterly Review

July-September 2017 (Q1 of FY18)



Economic Situation in Bangladesh

MCCI
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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

QUARTERLY REVIEW

July-September 2017 (Q1 of FY18)

Contents

EXECUTIVE SUMMARY

General

Bangladesh's economy is progressing well, but below its true potential, as infrastructure bottlenecks and shortage of power and energy generally prevent its performance at full capacity. However, the major macroeconomic indicators like per capita income, foreign currency reserve, import and export, and foreign direct investment show a strong positive trend alongside surpassing of the FY17 revenue collection target compared to the previous fiscal year (FY16).

The country achieved a stable average annual growth of 6.16 per cent during the last 12 years (2004-2015). According to BBS estimate, the economy grew at 7.24 per cent in FY17, which is 0.13 percentage point above the GDP growth of 7.11 per cent achieved in the previous fiscal (FY16). During the Seventh Five Year Plan (SFYP) period, Bangladesh plans to achieve 7.40 per cent GDP growth per annum and reach its goal of becoming a middle-income country by 2021. To achieve this target, it will need to significantly increase the rate of export growth, generate more investments, improve the overall infrastructure, in particular its roads, railways and port facilities, increase power and gas production, and remove all other infrastructure bottlenecks.

Agriculture

The agriculture sector employed about 47.5 per cent of Bangladesh's total labour force and accounted for about 14.79 per cent of GDP in the just concluded fiscal year (FY17). Due to strong government support in terms of timely availability of inputs and finance, the sector recorded a higher growth of 3.40 per cent in FY17 compared to 2.79 per cent in FY16.

Industry

The industry sector growth decelerated to 10.50 per cent in FY17 from the previous year's 11.09 per cent. However, the share of the industry sector in GDP increased by 0.94 percentage point to 32.48 per cent in FY17 from 31.54 per cent in FY16.

Manufacturing sub-sector grew by 10.96 per cent in FY17, 0.73 percentage point lower than the previous fiscal year's 11.69 per cent. The large and medium scale industries sub-sector grew by 11.32 per cent in FY17, compared to 12.26 per cent in FY16. The small scale manufacturing industries performed better than in the previous fiscal, growing by 9.21 per cent in FY17 as against 9.06 per cent in FY16.

Construction

The construction sub-sector performed better in FY17, growing at 9.32 per cent during the fiscal, compared to 8.56 per cent in FY16. The real estate, renting and business activities also performed better in the period when it marked a 4.78 per cent growth compared to 4.47 per cent in FY16.

Power

Frequency of power outages across the country has been on the rise in recent weeks despite a substantial increase in the country's overall electricity generation. Unofficial estimate puts the current demand for electricity at around 10,000 mw. The maximum generation in 2017 was 9,507 mw on 18 October 2017, which was also the maximum generation in BPDB's history. In October 2017, total installed capacity rose to 13,621 mw, and derated/present capacity to 12,922 mw, but production remained low because of gas shortage and also because of shutting down of some power stations due to maintenance.

Services

The services sector performed better in FY17 compared to the previous fiscal. Despite the sluggish investment situation prevailing in the quarter under review, the services sector growth increased by 0.25 percentage point to 6.50 per cent in FY17 from 6.25 per cent in FY16. Notable among the well-performing services sub-sectors in FY17 were wholesale & retail trade; hotel & restaurants; transport, storage & communication; real estate, renting & business activities; construction; and community, social & personal services.

Money and Capital Market

Broad money (M2) grew by 11.73 per cent at the end of August 2017 compared with the 14.59 per cent growth achieved at the end of August 2016. Domestic credit, on the other hand, recorded 13.66 per cent growth at the end of August 2017, while a lower rate of 12.94 per cent growth was recorded at the end of August 2016.

Among components of domestic credit, private sector credit registered a growth of 17.84 per cent during the period between August 2016 and August 2017, compared with a relatively lower growth of 16.21 per cent during the period between August 2015 and August 2016. Public sector credit, on the other hand, recorded a negative growth of 8.08 per cent at the end of August 2017, compared with the decrease of 1.48 per cent at the end of August 2016. Within public sector credit, however, credit to government (net) recorded a negative growth of 10.62 per cent, and credit to other public sector recorded a growth of 9.82 per cent, during the period.

Total liquid assets of scheduled banks stood at Tk.253,324 crore as of end August 2017 compared with Tk.267,194 crore as of end June 2017. The minimum required liquid asset of the scheduled banks was Tk.166,961 crore as of end August 2017.

Interest rates on bank deposits increased further in August 2017 following higher credit growth particularly in the private sector. The interest rate on deposits rose to 4.93 per cent in August from 4.89 per cent in July 2017. On the other hand, the interest rate on lending decreased to 9.46 per cent in August 2017 from 9.51 per cent in July 2017. Overall spread, however, decreased only slightly to 4.53 per cent in August 2017 from 4.62 per cent in the previous month as the banks slashed their interest rates on lending more than what they paid to their depositors.

The disbursement of industrial term loans during April-June of FY17 stood 12.9 per cent lower at Tk.13,752 crore, compared to Tk.15,783 crore during the immediate previous quarter (January-March) of FY17. However, the recovery of industrial term loans also decreased by 21.3 per cent to Tk.11,446 crore during April-June of FY17, compared to Tk.14,547 crore in the previous quarter.

The disbursement of agricultural credit and non-farm rural credit by banks increased by 22.99 per cent to Tk.4,235.74 crore in Q1 of FY18 from Tk.3,443.85 crore in the corresponding period of the previous fiscal. The improvement in disbursement was partly the result of strong monitoring by the BB and also holding of surplus liquidity by banks due to the dull business situation. The recovery also increased by 28.83 per cent to Tk.4,563.81 crore in Q1 of FY18 from Tk.3,542.39 crore in Q1 of FY17.

Investor participation significantly increased in the country's capital market in the first quarter (Q1) of the present fiscal year (FY18). Both Dhaka and Chittagong Stock Exchanges witnessed some increase both in the key index and turnover.

Public Finance

During July-August of FY18, the NBR's tax revenue collection was Tk.27,161 crore, which was 23.4 per cent higher than the collection of Tk.22,015 crore in the corresponding period of FY17, thanks to a boost in receipts in August 2017. NBR tax revenue collection in August 2017 stood at Tk.14,972 crore which was higher by Tk.2,783 crore or 22.8 per cent against the collection of Tk.12,189 crore during the previous month of the same fiscal (July 2017).

The implementation rate of the ADP in the quarter under review was higher than in the same quarter of the previous year. In July-September of FY18, 57 ministries and divisions could spend Tk.167.55 billion or 10.21 per cent of the total allocation of Tk.1,640.85 billion. In the corresponding period of the last fiscal, Tk.107.89 billion was spent, which was 8.75 per cent of the total outlays (Tk.1,233.46 billion).

Export and Import

Export earnings (merchandise) in the first quarter of the current fiscal year (Q1 of FY18) grew by 7.23 per cent to US$8.663 billion from US$8.079 billion in the corresponding quarter of the previous fiscal year. The export earnings, however, fell short of the strategic target (US$8.916 billion) by 2.84 per cent.

Import payments (C&F) in the first two months (July-August) of FY18 stood at US$9,027 million, which is 33.95 per cent higher than import payments during the corresponding months of FY17. The value of Imports increased mainly because of a surge in rice import, increase in the prices of crude oil in the international market and substantial depreciation of the taka against all major currencies.

Remittances

Remittance inflows in Q1 of FY18 increased by 4.37 per cent to US$3.389 billion compared to US$3.247 billion in the corresponding quarter of the previous fiscal year.

Foreign Aid

The disbursement of foreign aid in July-September of FY18 increased significantly by 71.1 per cent to US$857.10 million from US$500.95 million in the same period of the previous fiscal year mainly due to Japan's huge contribution of US$305.78 million. On the other hand, the commitment of foreign aid was US$941.51 million in July-September of FY18. In the same period last fiscal, they confirmed US$12.03 billion worth of assistance where Russia alone signed a US$11.38 billion-loan deal with Bangladesh for bankrolling the Rooppur Nuclear Power Plant project.

Foreign Direct Investment (FDI)

In July-August of FY18, the net FDI increased by 9.59 per cent to US$320 million from US$2928 million in the same period of FY17.

Balance of Payments (BoP)

The trade deficit increased more than three times to US$1.810 billion in the first two months of FY18 due to lower export earnings, and higher import payments. The deficit in trade in services, too, widened in July-August of FY18. Because of higher trade and services deficit and the fall in primary income, the current account balance turned into a deficit in July-August of in FY18. The financial account, however, posted a sizeable surplus during July-August of FY18 - US$416 million, because of the higher inflow of foreign investment and comparatively low pressure on external debt repayment. The net inflow of FDI increased by 9.59 per cent to US$320 million in July-August of FY18. The overall balance posted a deficit of US$206 million in July-August against a surplus amount of US$1.176 billion during the corresponding months of FY17.

Exchange Rate and Foreign Exchange Reserve

Between end-June 2017 and end-September 2017, the Taka depreciated by 0.25 per cent in terms of US dollar. Gross foreign exchange reserves stood at US$32.817 billion (with ACU liability of US$0.56 billion) as of end September 2017, as compared to US$33.596 billion (with ACU liability of US$1.19 billion) as of end August 2017. The reserve (less ACU liability) is equivalent to import liability of 7.85 months.

Inflation

In September 2017, the general point to point inflation increased by 0.23 percentage point to 6.12 per cent from 5.89 per cent in the previous month (August). The inflation in September hit the two-year-high mainly due to an increase in the prices of some food and essential items.

The food inflation increased by 0.55 percentage point to 7.87 per cent in September 2017 from 7.32 per cent in August 2017. This was the highest in 38 months on the back of the massive production loss of the staple rice. Non-food inflation, however, fell by 0.31 percentage point to 3.44 per cent in September 2017 from 3.75 per cent in the previous month (August).

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

1.0 AGRICULTURE

Data on agricultural production for the first quarter of the present fiscal (Q1 of FY18) is yet to be available because the harvesting of the three major crops – aman, aus and boro - will be spread over the coming months of the fiscal. The sector employed about 47.5 per cent of Bangladesh's total labour force and accounted for about 14.79 per cent of GDP in FY17. Due to strong government support in terms of timely availability of inputs and finance, the sector recorded a higher growth of 3.40 per cent in FY17 compared to 2.79 per cent in FY16. However, production of crops fell in FY17 due to crop losses in the back-to-back disasters – flashfloods in haor areas and Chalan Beel in Natore, intense rainfall in almost all parts of the country and fungal disease blast attacks.

1.1 Food Situation

Domestic Production

The target of domestic food grains (rice and wheat) production for FY18 was set by the Department of Agricultural Extension (DAE) at 37.51 million metric tons (mmt), which is 2.51 per cent higher than that of FY17 (36.59 mmt). This target is also 5.10 per cent higher than the actual production in FY17 (35.69 mmt). The crop-specific production targets in FY18 for aman, aus, boro and wheat are 14.08 mmt, 2.40 mmt, 19.56 mmt, and 1.47 mmt, respectively.

Actual production in FY17 fell 2.46 per cent short of the target for the year due to early floods in the haor areas. Also, aus and aman production in FY18 suffered a setback due to heavy floods in the northwestern region of the county. However, according to DAE, the setback has largely been overcome by replantation through supply of seedlings and other support services to the farmers in the affected areas. The latest monitoring report of the DAE shows that the area achieved for aus and aman plantation was 10.92 lakh and 57.74 lakh hectares, respectively, which marginally exceeded the target area for the respective crops. Production will depend on yield performance of these two crops.

Food Grains Import

As of 12 October 2017, about 328 thousand metric tons (tmt) of rice was imported by the public sector. The private sector imported about 822.20 tmt in that period. Over the same period of last year, there was no rice import by the public sector, while the private sector import of rice was 2.50 tmt. Regarding other food grains, however, up to the fortnight ending 28 October 2017, about 1,785.50 tmt of wheat was imported by the private sector, while no wheat was imported by the public sector. Over the same period of the previous year, a total of 1,445.30 tmt of wheat was imported by the private sector, and the public sector imported about 80.70 tmt.

Domestic Procurement

In order to provide price incentive to farmers, boro procurement started from 2 May 2017 and continued up to 31 August 2017, when the procurement date was extended till 31 October 2017. The procurement target was set at 0.70 mmt of paddy at Tk.24.00 per kg, 0.70 mmt of parboiled rice at Tk.34.00 per kg and 0.10 mmt of white rice at Tk.33.00 per kg. As of 12 October 2017, about 275 tmt of boro rice was procured from the domestic market and a further 291.20 tmt was contracted.

Public Distribution

The government has enhanced its efforts to ease the hardship of poor households by distributing subsidized grains through public food distribution system (PFDS), mainly open market sale (OMS) and fair price card (FPC) channels. In FY18, the revised target of food grains distribution was 2.74 mmt as against the actual distribution of 2.24 mmt in FY17. Over the fortnight ending 12 October 2017, a total of 52.10 tmt food grains was distributed mainly through OMS (16.90 tmt), EP (9.90 tmt), VGF (8.10 tmt), VGD (6.60 tmt), and GR (3.30 tmt). As of that date, a total of 342.30 tmt was distributed through PFDS, which is about 12.50 per cent of the yearly target. The OMS drive has been continuing up to Upazila level all over the country.

Public Stock

According to the Directorate General of Food, the public food grains stock as of 12 October 2017 stood at 578.50 tmt – 397.50 tmt in rice and 181 tmt in wheat.

Domestic Market Price

In the fortnight ending 12 October 2017, wholesale and retail prices of rice (Swarna) in Dhaka city markets decreased by 6.7 per cent and 3.2 per cent, to Tk.41.50 per Kg and Tk.45 per Kg, respectively. The wholesale and retail prices now are, respectively, 17.1 per cent and 17.8 per cent higher than what they were a year ago. Over the same period, the wholesale and retail prices of atta in Dhaka city markets decreased by 2.0 per cent and 3.4 per cent to Tk.25 per Kg and Tk.28 per Kg, respectively. The wholesale and retail prices are, respectively, 18.5 per cent and 18.3 per cent higher now than the prices prevailed last year.

International Market Price

In the fortnight ending 13 October 2017, the prices of India 5% parboiled, and Thai 5% parboiled rice fell by 1.5 per cent, and 1.0 per cent, respectively, to US$403 per mt, and US$399 per mt. But the prices of Vietnam 15% white, and Pakistan 5% parboiled rice rose by 1.3 per cent, and 0.7 per cent, respectively, to US$378 per mt, and US$418 per mt. And, the price of West Bengal coarse rice increased by 1.0 per cent to US$386 per mt. However, the wholesale price of rice in Dhaka city fell by 5.8 per cent and stood at US$519 per mt. In the fortnight ending 13 October 2017, the price of US Soft Red Winter (SRW) wheat decreased by 3.7 per cent to US$176 per mt. But Russian and Ukraine wheat prices increased by 0.5 per cent, and 0.3 per cent, respectively, to US$196 per mt, and US$193 per mt. On the same date, Dhaka city wholesale wheat price decreased slightly by 0.4 per cent to US$314 per mt.

1.2 Fisheries and Animal Farming (Livestock and Poultry)

According to provisional estimates of BBS, fisheries and animal farming (livestock and poultry) sub-sectors accounted for about 5.21 per cent of the GDP in FY17, of which the fish sector contributed around 3.61 per cent and the animal farming sector contributed 1.60 per cent. Nearly 18.2 million people are involved in the fish sector, while the animal farming sector has created job opportunities for around 6.5 million people.

In FY17, Bangladesh's fish production recorded a 61.45 per cent increase in the last ten years. Fish production crossed the 4.0 million tons mark, thanks to the quick introduction of modern technology in local fish farming. Provisional estimates of BBS show that the country's inland and marine fish production together rose to 4.02 million tons in FY17 from 2.49 million tons, ten years ago, in FY07. In FY17, the production of inland fish (sweet water fish) was 3.32 million tons and the marine water fish was 0.697 million tons. BBS data show that fish production maintained a steep rise with nearly 6.0 per cent year-on-year average growth over the last few years. Five years ago in FY13, the inland and marine fish production in the country was 3.35 million tons, which rose to 3.54 million tons in FY14, 3.70 million tons in FY15, 3.87 million tons in FY16, and 4.02 million tons in FY17. Local farmers have adapted to the modern technology quickly resulting in a remarkable vertical extension of domestic fish production over the years within the limited water bodies. Besides, since FY10, the government has been offering various policy supports, including tax holiday, tax exemption on feed imports to fish farmers and fish industry people, which have contributed significantly to raising fish production. For example, the production of Hilsa fish, which accounts for one-tenth of total fish production, increased

to 0.5 million tons in FY17 from 0.4 million tons a year ago. The Department of Fisheries (DoF) has a target to increase the per capita fish intake to 60 grams by 2021 from the current level of 56 grams. Moreover, the DoF forecasts that fish production will cross the target of 4.2 million tons by 2021 as modern technology is helping higher production in the country's limited water bodies.

Bangladesh, one of the largest fish producing countries in the world, meets a major portion of protein by domestic fish production. According to the United Nations' Food and Agriculture Organisation (FAO), Bangladesh is the fourth largest inland fish producer in the world after China, India and Myanmar. According to the DoF, Bangladesh has become almost self-sufficient in fish production, which will help overcome the malnutrition problem of the younger generation. The DoF is implementing different programs for increasing export earning, alleviating poverty and cutting animal protein deficiency from the fisheries sources. It also works to increase production in internal open water, close water, and extended tidal water bodies across the country. Besides, the government has formulated the Fisheries Resource Plan (2009-2021) to fulfill the target of achieving food sufficiency, employment generation and poverty alleviation for a prosperous future of the country under the Vision 2021. Moreover, the formulation of an action plan is underway to achieve the sustainable development goals (SDGs). According to a recent FAO forecast, Bangladesh would be the top nation among four other fish farming countries in the world by 2022 through successful fish farming.

According to industry insiders, the present size of the country's poultry industry is worth Tk.250 billion. The production of meat, eggs, day-old chicks, feeds, medicine and other ingredients has to be doubled to meet Bangladesh's protein demand by 2021. The poultry sector needs huge investment, capacity building and policy and fiscal support to achieve Vision 2021 ensuring adequate protein supply to the people. Bangladesh will require raising per capita egg consumption to 90 pieces annually from the current 51 pieces and meat consumption to 7.5 kg from current 4.5 kg by 2021. Besides, the demand for day-old chicks (DOC) will grow to 980 million pieces from the current 504 million, poultry feed to 6.0 million tons from the current 3.6 million tons, and medicine market to Tk.71.17 billion from the current Tk.33.30 billion annually. According to the Bangladesh Poultry Industries Central Council (BPICC), the local industry could produce nearly 8.21 billion pieces of eggs, 775,000 tons of meat, 3.6 million tons of feed, and medicines worth Tk.33.30 billion, which are not enough to meet the demand in 2021. The sector needs more investment, fiscal and policy support of the government to double growth in production of poultry and allied products aimed at fulfilling the Vision 2021 target.

2.0 INDUSTRY

Data on the country's industry sector are yet to be available for the quarter under review. However, the sector grew by 10.50 per cent in the immediate past fiscal (FY17), compared to 11.09 per cent in FY16. Besides, the share of the industry sector in GDP increased by 0.94 percentage point to 32.48 per cent in FY17 from 31.54 per cent in the previous fiscal year.

2.1 Manufacturing Industries

There are 62.1 million people in the country's total workforce, employed in sectors like garments, agriculture, manufacturing and the services sectors (Quarterly Labour Force Survey, 2015-16). In the garments sector alone, the number of workers at present is 4.4 million. Bangladesh's competitive advantage lies in its young workforce. The average age of most of the workers is below 40, which is a dividend for the country.

The manufacturing sub-sector grew by 10.96 per cent in FY17, compared to the previous fiscal year's 11.69 per cent. The large and medium scale industries sub-sector grew by 11.32 per cent in FY17, compared to 12.26 per cent in FY16. The small scale manufacturing industries performed better than the previous fiscal, grew by 9.21 per cent in FY17 from 9.06 per cent.

Data on manufacturing industries are not available beyond April 2017. During July-April of FY17, the general index of industrial production of medium and large scale industries (Base: 2005-06=100) rose to 287.08 points, registering a 9.91 per cent increase over 261.20 points during the corresponding period of FY16. According to industry sources, industrial activity went down due to disruption in the supply of power and gas in some industrial units and weaker consumer confidence caused by slower business activity. Among medium and large-scale manufacturing industries, general indices that recorded an increase in July-April of FY17 were: leather & related products (51.34%), non-metalic mineral products (32.46%), pharmaceuticals & medicinal chemical (28.38%), textile (23.23%), fabricated metal products except machinery (22.53%), chemicals & chemical products (11.99%), tobacco products (7.35), and wearing apparel (3.11%). On the other hand, there was some decrease in the indices of basic metals (17.09%), and food products (3.90%).

The general index of small scale manufacturing industry during the second quarter (October-December) of FY17 increased slightly by 0.95 per cent to 483.36 from 478.84 during the first quarter (July-September) of FY17. However, the index during the second quarter of FY17 (483.36 points) increased by 8.77 per cent as compared to the same quarter of the previous fiscal year.

2.2 Construction

Data on the country's construction sector are not available for Q1 of FY18. However, according to BBS, the sector grew by 9.32 per cent in FY17, compared to 8.56 per cent in FY16. The real estate, renting and business activities also performed better in FY17 when it marked a 4.78 per cent growth compared to 4.47 per cent in FY16. In spite of the tremendous potential of the construction and real estate sector, factors like land value distortion, and absence of secondary property market, asset securitization and sale of mortgages, and backward linkage industries such as cement, ceramic, brick manufacturing industries, etc. adversely affected its development.

In recent times, however, real estate business saw an improvement, 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 flow. The realtors hope that the recent cut in lending rates by banks and financial institutions would help raise the apartment sales further.

On the other hand, the prices of key construction materials, including steel rods and bricks, have marked a significant rise in recent times, triggering anxiety among the realtors. The price of rods has been constantly increasing for the last several months mainly due to the high cost of raw materials. Moreover, the congestion of cargoes at Chittagong seaport has led to an increase in transport cost. The disruption in gas supply to some steel mills was also responsible for the price hike. As a result, the price of rods increased by a range between Tk.4,000 and Tk.5,000 per tonne in the last three to four months. The 500W grade rods were being sold at a range between Tk.57,500 and Tk.58,000 per tonne recently, which ranged between Tk.52,000 and Tk.53,000 in early June. A surge in the price of raw materials in the global market was another reason for the rod price hike in the local market. Meanwhile, the price of bricks and sand also rose in recent weeks due to the rise in transport cost and other disruptions following the flood. The cement price has, however, remained stable.

2.3 Power

Frequency of power outages across the country has been on the rise in recent weeks despite a substantial increase in the country's overall electricity generation. Businesses were bearing the brunt of frequent load shedding while industrial output was being hampered and residents were suffering from the scorching heat during the quarter under review. As of 29 September 2017, total actual generation during day peak hours was 5,548 megawatt (mw) and during evening peak hours it was 8,187 mw. Unofficial estimate puts the current demand for electricity at around 10,000 mw. The maximum generation in 2017 was 9,507 mw on 18 October 2017 and it was also the maximum generation in BPDB's history. In October 2017, total installed capacity rose to 13,621 mw, and derated/present capacity rose to 12,922 mw, but production remained low because of gas shortage and also because of shutting down of some power stations for maintenance.

According to the BPDB website, the 13,621 mw installed capacity of power plants comprised of coal 250 mw (1.84%), gas 8,529 mw (62.62%), HFO 2,794 mw (20.51%), HSD 1,158 mw (8.5%), Hydro 230 mw (1.69%), and imported 660 mw (4.84%).

To produce more power, local conglomerate United Group recently won a build-operate-own (BOO) contract to build another 200 mw furnace oil-fired power plant in Mymensingh. According to the contract, United Group will have to set up the plant within nine months of signing the contract. The plant will run at 80 per cent plant factor with 12 per cent discount factor. To purchase all the electricity produced at the plant over the next 15 years, the government will pay Tk.176.40 billion.

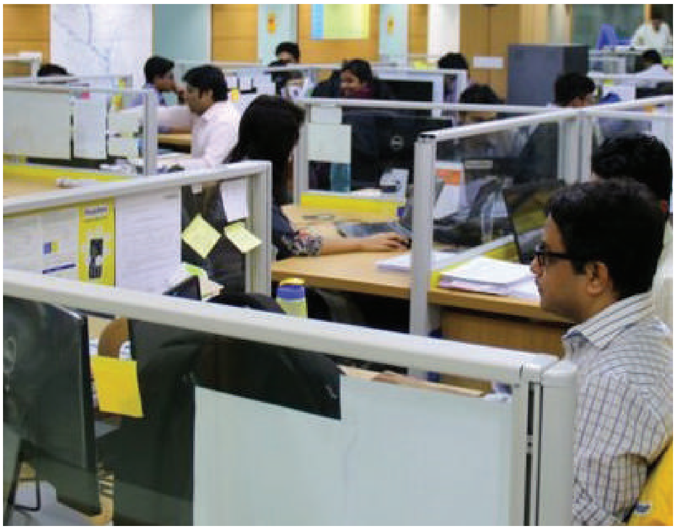
The first commercial project of rooftop solar power generation is expected to produce electricity in the city from June 2018 as Dhaka Power Distribution Company Ltd (DPDC) has awarded a build-own-operate basis (BOO) contract to the Bengal Group to buy electricity from the maiden project at Tk.9.80 per unit. According to DPDC, the rooftop solar project was now in progress and residents were expected to get electricity from June next year according to the schedule. The capacity of the rooftop solar project is 750 kilowatt. Matsaya Bhaban at Ramna, Shikkha Bhaban at Abdul Gani Road, and Shilpakala Acedemy at Segunbaghicha are among the six government buildings which will be brought under the project. The DPDC has arranged the rooftops of these buildings under a long term rent and handed over those to the Bengal Group to set up rooftop solar panels. Many believe that the project will be commercially viable as the commercial rate of electricity tariff is almost the same.

The DPDC has undertaken another project to use its own office and sub-station buildings in the city to generate electricity of another 750 kilowatt in the same way. The DPDC had earlier installed a rooftop plant at Bangladesh Secretariat's Cabinet Division building on a pilot basis. Besides, DESCO, the power distribution company, operating in north-western and eastern parts of the city, has undertaken another project to generate rooftop power from the government's buildings. The buildings include Uttara Haji Camp, Bangladesh Institute of Bank Management (BIBM) Building and Indoor Stadium in Mirpur. The power distribution companies have initiated such rooftop solar projects as part of the government's plan to generate 10 per cent electricity by 2020 in line with the United Nations' Sustainable Development Goals (SDGs). The goal no-7 of the SDGs is to ensure access to green and modern energy for the people. Under the theme, the government has already finalized a national plan to generate 3,168 mw power from renewable energy sources by 2021. Of this, about 1,000 mw of electricity will come from the rooftops of buildings in Dhaka city.

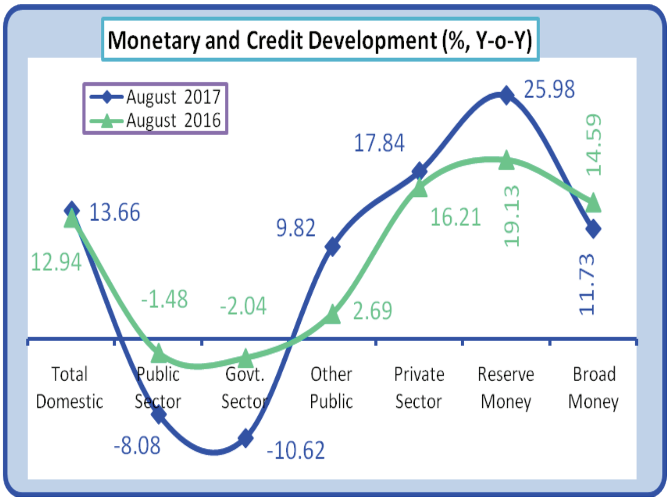
3.0 SERVICES SECTOR

Data on services sector for the first quarter of the present fiscal (Q1 of FY18) is yet to be available. However, in FY17 the sector witnessed, according to BBS, a better performance compared to the previous fiscal. Despite the sluggish investment situation in the country, the growth of services sector increased by 0.25 percentage point to 6.50 per cent in FY17 from 6.25 per cent in FY16. Notable among the well-performing sub-sectors in FY17 are wholesale & retail trade; hotel & restaurants; transport, storage & communication; real estate, renting & business activities; construction; and community, social & personal services.

It is worth noting that the share of the services sector in GDP, which was at its peak at 55.59 per cent in FY06, has been steadily declining thereafter, dropping to 52.73 per cent in FY17. Among the different services sub-sectors, the wholesale & retail trade held the highest share in GDP (13.94%) in FY17 compared to 13.99 per cent in FY16. The GDP shares of certain other sub-sectors in FY17 were: transport, storage & communication 11.25 per cent; community, social & personal services 8.86 per cent; construction 7.39 per cent; real estate, renting & business activities 6.48 per cent; public administration & defence 3.72 per cent; financial intermediations 3.41 per cent; and education 2.48 per cent.



4.0 MONETARY AND CREDIT DEVELOPMENTS



According to BB data, broad money (M2) grew by 11.73 per cent at the end of August 2017 compared with the 14.59 per cent growth achieved at the end of August 2016. Domestic credit, on the other hand, recorded 13.66 per cent growth at the end of August 2017, while a lower rate of growth of 12.94 per cent was recorded at the end of August 2016.

Among components of domestic credit, private sector credit registered a growth of 17.84 per cent during the period between August 2016 and August 2017, compared with a relatively lower growth of 16.21 per cent during the period between August 2015 and August 2016. Public sector credit, on the other hand, recorded a negative growth of 8.08 per cent at the end of August 2017, compared with the decrease of 1.48 per cent at the end of August 2016. Within public sector credit, however, credit to government (net) recorded a negative growth of 10.62 per cent, and credit to other public sector recorded a growth of 9.82 per cent, during the period (Table 1).

Table 1: Monetary and Credit Indicators

Particulars	Outstanding Stock (Taka in crore)			% Changes in Outstanding Stock	
	August 2015R	August 2016R	August 2017P	August 2016 over August 2015	August 2017 over August 2016
Total Domestic Credit	**709552**	**801359**	**910786**	**12.94**	**13.66**
Credit to Public Sector	131375	129434	118979	(-) 1.48	(-) 8.08
Net Credit to Government Sector	115687	113324	101287	(-) 2.04	(-) 10.62
Credit to Other Public Sector	15688	16110	17692	2.69	9.82
Credit to Private Sector	578177	671925	791807	16.21	17.84
Reserve Money (RM)	**151834**	**182719**	**230196**	**20.34**	**25.98**
Broad Money (M2)	**805378**	**922883**	**1031152**	**14.59**	**11.73**

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

Total liquid assets of scheduled banks stood lower at Tk.253,324 crore as of end August 2017 compared with Tk.267,194 crore as of end June 2017. The minimum required liquid asset of the scheduled banks was Tk.166,961 crore as of end August 2017 (Table 2).

Table 2: Liquidity Position of Scheduled Banks

(Taka in crore)

Bank Group	As of end June, 2017R	As of end August, 2017P		
	Total Liquid	Total Liquid Assets	Minimum Required Liquid Assets	Excess Liquidity
1	2	3	4	5 (3-4)
State owned banks	109029	98630	50274	48356
Private banks (other than Islamic)	107163	104012	84928	19084
Private banks (Islamic)	29188	28568	22332	6236
Foreign banks	20122	20492	7738	12754
Specialized banks*	1692	1722	1689	33
Total	**267194**	**253324**	**166961**	**86363**

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 August 2017, some 4.88 per cent was held in the form of Cash in tills and Balances with Sonali Bank, 24.38 per cent in the form of CRR, 3.43 per cent in the form of Excess Reserves, 2.85 per cent in the form of Balances with Bangladesh Bank in Foreign Currency and the remaining 64.46 per cent in the form of Unencumbered approved securities.

4.1 Interest Rate Developments

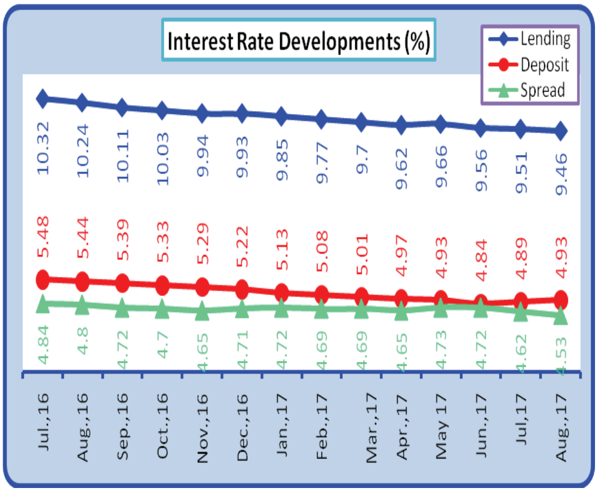
Bangladesh Bank (BB) employs repo, reverse repo, and BB bill rates as policy instruments for influencing financial and real sector prices. Between 1 February 2013 and 13 January 2016, the repo and reverse repo rates remained unchanged at 7.25 per cent and 5.25 per cent, respectively. The rates were lowered down to 6.75 per cent and 4.75 per cent, respectively, with effect from 14 January 2016 (Table 3).

Table 3: Interest Rate (weighted average) movements in FY17 and July-August 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

Notes: P=Provisional, R=Revised, NA=Not Available
Source: Bangladesh Bank



Interest rates on bank deposits increased further in August 2017 following higher credit growth particularly in private sector. The interest rate on deposits rose to 4.93 per cent in August from 4.89 per cent in July 2017 (Table 3). The rising trend in deposit rates recorded in the last couple of months after the containing of fall since January 2015, when weighted average interest rate on deposits was 7.26 per cent. Most banks receive deposits offering higher interest rates to increase their deposit growth more than that of credits, according to BB. Currently, bank deposits recorded slower growth than that of credits as depositors feel discouraged from keeping their money with the banks mainly due to 'the lowest' interest rates. On the other hand, the interest rate on lending decreased to 9.46 per cent in August 2017 from 9.51 per cent in July 2017. Overall spread, however, decreased slightly to 4.53 per cent in August 2017 from 4.62 per cent in the previous month as the banks slashed their interest rates on lending more than that of deposits.

4.2 Industrial Term Loans

Data on industrial term loans are available only up to the fourth quarter (April-June) of FY17. According to BB data, the disbursement of industrial term loans during April-June of FY17 stood 12.9 per cent lower at Tk.13,752 crore, compared to Tk.15,783 crore during the immediate previous quarter (January-March) of FY17 (Table 4). The recovery of industrial term loans also decreased by 21.3 per cent to Tk.11,446 crore during April-June of FY17, compared to Tk.14,547 crore in the previous quarter (January-March of FY17).

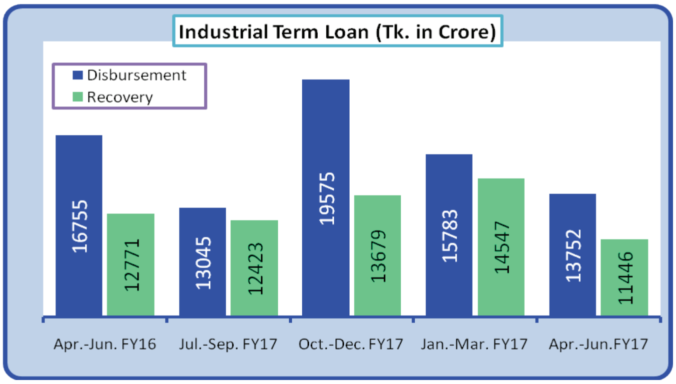


Table 4: Disbursement and Recovery of Industrial Term Loans

Quarter	Disbursement (Tk. in crore)				Recovery (Tk. in crore)			
	LSI	MSI	SSCI	Total	LSI	MSI	SSCI	Total
April-June of FY16R	11921	2493	2341	16755 (-8.3)	9088	2718	965	12771 (+2.7)
July-September of FY17R	9929	1977	1139	13045 (-22.1)	8757	2393	1273	12423 (-2.7)
October-December of FY17P	14175	3068	2332	19575 (+50.1)	9846	2137	1696	13679 (+10.1)
January-March of FY17P	11875	2297	1611	15783 (-19.4)	11069	2186	1292	14547 (+6.3)
April-June of FY17P	10303	1781	1668	13752 (-12.9)	8190	1992	1264	11446 (-21.3)

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 for Q1 of FY18. According to BB data, total SME loans by all banks and non-bank financial institutions (NBFIs) increased by 13.88 per cent to Tk.182,706 crore at the end of June 2017 from Tk.160,494 crore at the end of June 2016. The disbursement of SME loans was 23.3 per cent of total loans disbursed by all banks and NBFIs at the end of June 2017 (Table 5).

Table 5: Outstanding Position of SME Loans

(Taka in crore)

Quarter	Type of Loans	SOBs	PBs	FBs	SBs	NBFIs	Total
April-June of FY16P	Total Loans SME Loans Percentage	116837 29541 (+25.3)	465050 120891 (+26.0)	25881 1971 (+7.6)	22251 1700 (+7.6)	49309 6391 (+13.0)	679328 160494 (+23.6)
July-September of FY17P	Total Loans SME Loans Percentage	119061 29685 (+24.9)	469025 121393 (+25.9)	25650 2027 (+7.9)	22251 958 (+4.3)	46914 6595 (+14.1)	682901 160658 (+23.5)
October-December of FY17P	Total Loans SME Loans Percentage	123836 29774 (+24.0)	503053 132954 (+26.4)	25149 2413 (+9.6)	21842 594 (+2.7)	48853 6904 (+14.1)	722733 172639 (+23.9)
January-March of FY16P	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 FY16P	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)
% change of SME loans at the end of June 2017 over end of June 2016		+5.82	+15.74	+26.89	-49.94	+27.82	+13.88

Notes: P=Provisional, R=Revised; SOBs= State Owned Banks, PBs= Private Banks, FBs= Foreign Banks, SBs= Specialized Banks,
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 Bangladesh Bank (BB) has set a target of Tk.20,400 crore for disbursement of agricultural credit and non-farm rural credit for FY18, which is 16.24 per cent higher than that of the previous fiscal year (Tk.17,550 crore). The disbursement of agricultural credit and non-farm rural credit in FY17 (Tk.20,999 crore) also surpassed their annual target as the BB strengthened its monitoring and supervision from the very beginning of the fiscal.

In the quarter under review, the disbursement of agricultural credit and non-farm rural credit by banks increased by 22.99 per cent or Tk.791.89 crore to Tk.4,235.74 crore from Tk.3,443.85 crore in the corresponding period of the previous fiscal (Table 6). The improvement in disbursement was partly the result of strong monitoring by the BB and partly because of holding surplus liquidity by banks due to the dull business situation. In this backdrop, the central bank has recently asked banks to increase disbursement of agricultural credit and non-farm rural credit to boost the private sector credit growth. Of the Tk.4,235.74 crore disbursed, eight state-owned commercial banks (SCBs) disbursed Tk.1,475 crore while the remaining Tk.2,760.74 crore was given by the private commercial banks (PCBs) and foreign commercial banks (FCBs). The recovery also increased by 28.83 per cent or Tk.1,021.42 crore to Tk.4,563.81 crore in Q1 of FY18 from Tk.3,542.39 crore in the corresponding period of the previous fiscal year.

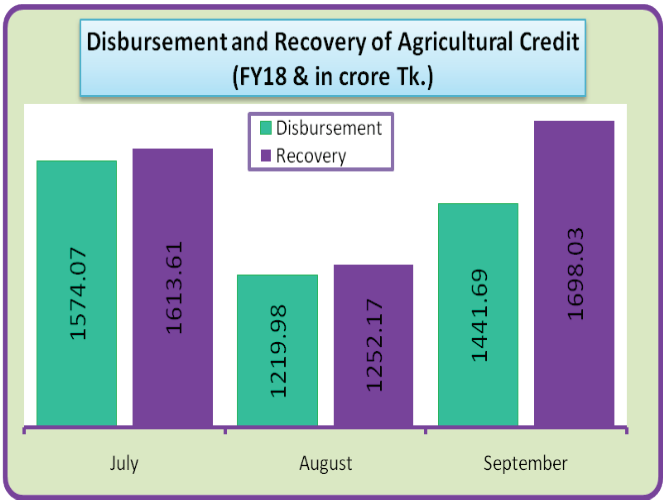
Table 6: Disbursement and Recovery of Agricultural Credit and Non-farm Rural Credit

(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)**

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

Investor participation significantly increased in the country's capital market in the first quarter (Q1) of the present fiscal year (FY18). On 28 September 2017, the last trading day of the quarter, the key index of Dhaka Stock Exchange, DSEX, rose by 0.22 per cent over the previous day and settled at 6,092.84. Whereas the shariah-based index, DSES, and the blue chip index, DS30, lost, respectively, by 0.32 per cent to close at 1,345.86 and by 0.02 per cent to 2,177.61. Of the 331 issues traded, 131 advanced, 160 declined and 40 remained unchanged on DSE and the turnover stood at Tk.6.25 billion. Also, the Chittagong Stock Exchange (CSE) ended marginally higher with its Selective Categories Index (CSCX) advancing 0.12 per cent to settle at 11,412.65. Of 241 issues traded, 83 advanced, 135 declined and 23 remained unchanged and the turnover stood at Tk.2.93 billion.

Net foreign investment in the DSE marked an increase, encouraged by positive macroeconomic indicators coupled with declining interest rate, stable exchange rate and a peaceful political situation. Banks are the foreign investors' preferred sector, but non-bank financial institutions, power and energy, pharmaceuticals, multinationals, telecoms and IT also drew their attention. Investors include Morgan Stanley, JPMorgan, Goldman Sachs and BlackRock, among others. Known as portfolio investment, total foreign investment accounted for nearly 1.0 per cent of DSE's total market capitalization that stood at Tk.4,083 billion at the close of trade on 03 October 2017.

6.0 PUBLIC FINANCE

The National Board of Revenue's revenue collection target for the current fiscal year (FY18) is Tk.248,190 crore, which is about 22.17 per cent higher than that of the previous fiscal year's original target (Tk.203,152 crore), 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 collected amount of Tk.185,004 crore in FY17. Of the total FY18 target of Tk.248,190 crore, the NBR will have to collect the highest amount of Tk.91,000 crore in VAT, followed by Tk.87,190 crore in income tax and Tk.70,000 crore in customs duty.

In the first two months (July-August) of FY18 for which data on revenue collection is available, the NBR collected Tk.27,161 crore, which was 23.4 per cent higher than the collection in the corresponding period of FY17 (Tk.22,015 crore) (Table 7).

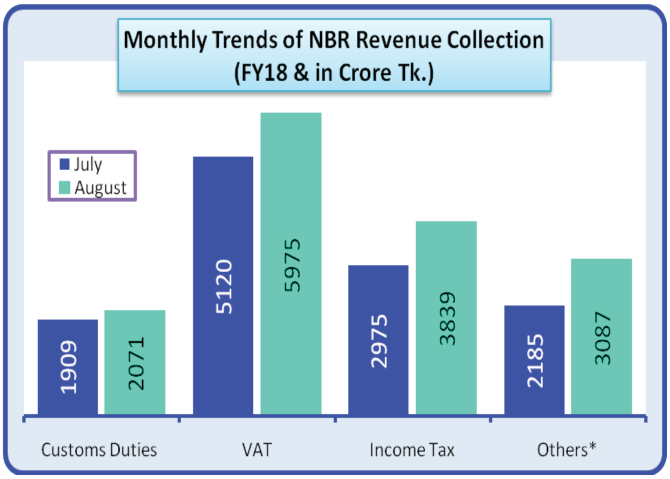


Table 7: Government Tax Revenue Collection

Month	Tax Revenue Collections (in crore Taka)						
	NBR					Non-NBR	Grand Total
	Customs Duties	VAT	Income Tax	Others*	Total		
FY18P							
July	1909	5120	2975	2185	12189	NA	NA
August	2071	5975	3839	3087	14972	NA	NA
Total of July-August	3980 (+33.6)	11095 (+24.2)	6814 (+22.9)	5272 (+15.6)	27161 (+23.4)	NA	NA
FY17R							
July	1242	3862	2683	1807	9594	417	10011
August	1737	5068	2861	2755	12421	523	12944
Total of July-August	2979 (+25.0)	8930 (+22.2)	5544 (+8.8)	4562 (+27.8)	22015 (+19.9)	940 (-4.7)	22955 (+18.7)

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: Bangladesh Bank, NBR and Office of the Controller General of Accounts

6.1 Public Expenditure

The implementation rate of the Annual Development Programme (ADP) in the quarter under review was higher than that in the previous year, thanks to a greater use of foreign aid. This implementation rate is the best in last five years. The previous first quarter best was 10 per cent in FY14, according to the Implementation Monitoring and Evaluation Division (IMED) data. In July-September of FY18, 57 ministries and divisions could spend Tk.167.55 billion or 10.21 per cent of the total allocation of Tk.1,640.85 billion. In the corresponding period last fiscal, Tk.107.89 billion was spent, which was 8.75 per cent of the total outlays (Tk.1,233.46 billion). The use of foreign aid (project aid) this year was higher both in terms of percentage and absolute amount. In Q1 of FY18, foreign aid spending was Tk.77.72 billion, which was almost double the amount spent a year earlier. On the other hand, spending of local funds in the quarter under review was Tk.89.83 billion, compared to Tk.75.15 billion during the same period a year earlier.

Fifteen large ministries and divisions, which together received 80.83 per cent of the total development budget, on an average spent only Tk.153.59 billion or 11.58 per cent. These ministries and divisions were implementing some mega projects including Padma Bridge, metro rail and power plants. Among these large ministries and divisions, the performance of the Power Division was the best (29.07%), followed by the Road Transport and Highways Division (17.04%), the Local Government Division (14.36%), the Ministry of Agriculture (13.79%), the Secondary and Higher Education Division (10.47%), the Information and Communication Technology Division (8.17%), the Ministry of Housing and Public Works (6.46%), the Health Service Division (5.76%), the Ministry of Primary and Mass Education (4.02%), the Energy and Mineral Resources Division (3.91%), the Bridges Division (3.81%), the Ministry of Water Resources (1.99%), the Ministry of Railways (1.85%), the Ministry of Shipping (1.25%) and the Ministry of Science and Technology (0.04%).

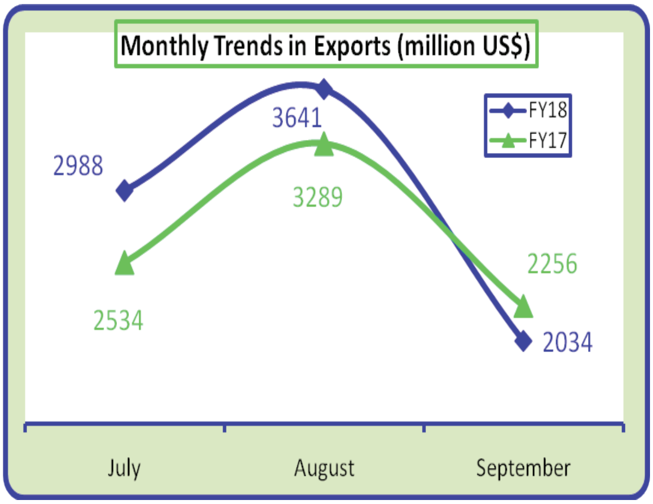
7.0 EXPORTS

The country's export earnings (merchandise) in the first quarter of the current fiscal year (Q1 of FY18) grew by 7.23 per cent to US$8.663 billion from US$8.079 billion in the corresponding quarter of the previous fiscal year (Table 8). The export earnings, however, fell short of the strategic target (US$8.916 billion) by 2.84 per cent.

Table 8: Monthly Trends in Exports

Month	Exports (million US$)		Change (%)
	FY18P	FY17R	
July	2988	2534	17.92
August	3641	3289	10.70
September	2034	2256	(-) 9.84
Total of Q1	**8663**	**8079**	**7.23**

Notes: P=Provisional; R=Revised
Sources: EPB and BB



According to industry insiders, improvements in the safety standard in the RMG sector and peaceful political situation contributed to the growth of export in Q1 of FY18. According to EPB data, the overall export growth was largely dependent on the RMG sector, which alone earned US$7.144 billion, or 82.47 per cent of total exports during the quarter, registering a 7.17 per cent growth from US$6.666 billion in Q1 of FY17.

An analysis of EPB's export data for July-September of FY18 shows that the country's major export products, i.e., woven garments, knitwear, leather & leather products, other footwear, headgear/cap, other manufactured products, plastic products, cotton & cotton products, home textile, chemical products, frozen & live fish, agricultural products, and jute & jute goods, showed positive growth while engineering products, man-made filaments & staple fibres, petroleum bi products, and specialized textiles showed negative growth compared to the corresponding period in the previous fiscal.

Export earnings from RMG (knit and woven) in July-September of FY18 grew by 7.17 per cent to US$7.144 billion from US$6.666 billion in the corresponding period of the previous fiscal. The earnings from RMG exports, however, fell 0.38 per cent short of the strategic target of US$7.171 billion. Knitwear exports grew by 10.17 per cent to US$3.747 billion in Q1 of FY18 compared to US$3.401 billion in the same period of FY17. Knit exports also exceeded the strategic target (US$3.590 billion) by 4.37 per cent. Export earnings from woven items in the said quarter stood at US$3.397 billion, showing a 4.04 per cent growth. These earnings, however, fell short of the first quarter target (US$3.581 billion) by 5.14 per cent. Frozen and live fish exports grew by 22.63 per cent to US$168 million, from US$137 million in the same period of the last fiscal. Export earnings from agricultural products stood at US$148 million, showing a 21.31 per cent growth. Jute and jute goods exports grew by 15.12 per cent to US$236 million from US$205 million in the same period of the last fiscal. Export earnings from home textile stood at US$194 million in July-September of FY18, grew by 24.36 per cent from US$156 million in the corresponding period of the previous fiscal. Earnings from leather and leather products in Q1 of FY18 grew by 1.88 per cent to US$325 million compared to US$319 million in the same period of the last fiscal. On the other hand, export earnings from engineering products fell by 22.04 per cent to US$69.32 million in Q1 of FY18 from US$88.92 million in the same period of FY17. Specialized textiles, another potential sector, witnessed a negative growth of 5.62 per cent to US$21.31 million during Q1 of FY18 from US$22.58 million in the corresponding period of the previous fiscal.

Country wise, export earnings from the United States (US), the single largest export destination for Bangladesh, grew by 3.57 per cent to US$1.45 billion in the first quarter of FY18 from US$1.40 billion in the corresponding period of the previous fiscal, while RMG exports to the market grew by 3.17 per cent to US$1.30 billion from US$1.26 billion.

Exports to Germany, the second largest export destination, however, registered a minimal 0.73 per cent growth to US$1.38 billion in Q1 of FY18 from US$1.37 billion in the same period of FY17, and export earnings from RMG stood US$1.29 billion in the market with 0.85 per cent growth over the corresponding period of FY17.

Exports to the UK, the third largest destination, grew by 22.07 per cent to US$1.03 billion in the first quarter of FY18 from US$843.78 million in the same period of FY17, while earnings from apparel products fetched US$962.27 million with 23.28 per cent growth.

Bangladesh's export earnings from Spain was US$611.03 million, depicting 24.24 per cent growth, US$408.13 million from France showing 6.19 per cent growth, US$344.59 million from Italy with 12.24 per cent growth, and US$283.33 million from Canada showing 13.33 per cent growth. On the other hand, export earnings from two promising markets –Japan and China– dropped in the first quarter of the current financial year compared with the same period of the last fiscal. Export earnings from Japan fell by 8.68 per cent to US$245.27 million from US$268.57 million, while earnings from China fell by 16.95 per cent to US$162.72 million from US$195.93 million.

8.0 IMPORTS

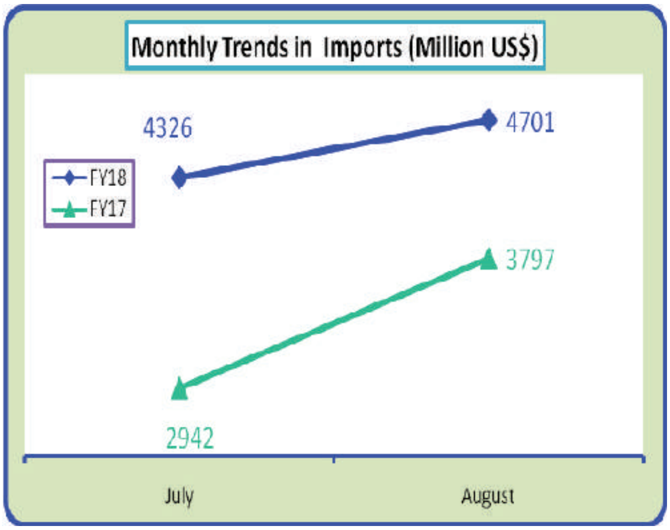
Import payments (C&F) in the first two months (July-August) of FY18, for which data are available till now, stood at US$9,027 million, which is 33.95 per cent higher than import payments during the corresponding months of FY17 (Table 9). The value of Imports increased during the period mainly because of the surge in rice import, increase in the prices of crude oil in the international market, and substantial depreciation of the taka against all major currencies.

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
Total of July-August	**9027**	**6739**	**33.95**

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

According to Bangladesh Bank (BB) data, the settlement of import Letters of Credit (LCs) increased by 12.34 per cent to US$8,041 million during July-August of FY18 compared to US$7,158 million in the corresponding period of the previous fiscal. The opening of fresh LCs also increased by 38.78 per cent to US$10,132 million in the first two months of FY18 from US$7,301 million in the corresponding period of the previous fiscal.



However, the settlement of LCs in August 2017 fell by 1.26 per cent to US$3,995 million from US$4,046 million in July 2017. On the other hand, the opening of LCs increased by 15.12 per cent to US$5,422 million in August 2017 from US$4,710 million of the previous month (July 2017). Lower imports for the RMG sector, including those of capital machinery, pushed down the country's overall imports in August 2017.

9.0 REMITTANCES

Remittance inflows in the first quarter of the current fiscal year (Q1 of FY18) increased by 4.37 per cent to US$3.389 billion compared to US$3.247 billion in the corresponding quarter of the previous fiscal year (Table 10). The increase in remittance was mainly due to the rise in inflow in the first two months of the quarter. In September 2017, the remittances were the lowest in seven years. The main reason for the drop in September is the economic scenario in the Gulf Cooperation Council (GCC) economies, which host the majority of migrant workers from Bangladesh, but which are yet to improve despite the slight pick-up in oil price in recent days. Global oil price slump is a major reason for the downward trend in remittance inflow. The political situation in the European countries is not favorable either, which also hit the country's inflow of remittance. Besides, the growing popularity of digital 'hundi' among migrant workers to send money home is another reason for the lower official remittance figures in recent times.

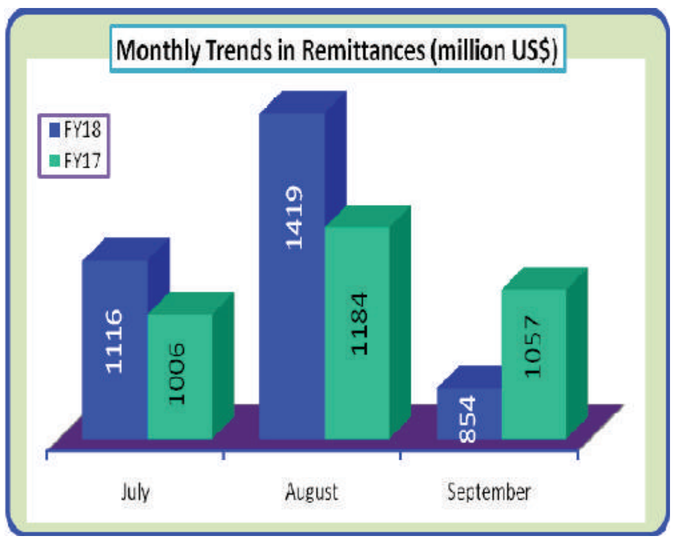
Table 10: Monthly Trends in Remittances

Month	Remittances (million US$)		Change (%)
	FY18P	FY17R	
July	1116	1006	10.93
August	1419	1184	19.85
September	854	1057	(-) 19.21
Total of Q1	**3389**	**3247**	**4.37**

Notes: P=Provisional; R=Revised

Source: Bangladesh Bank

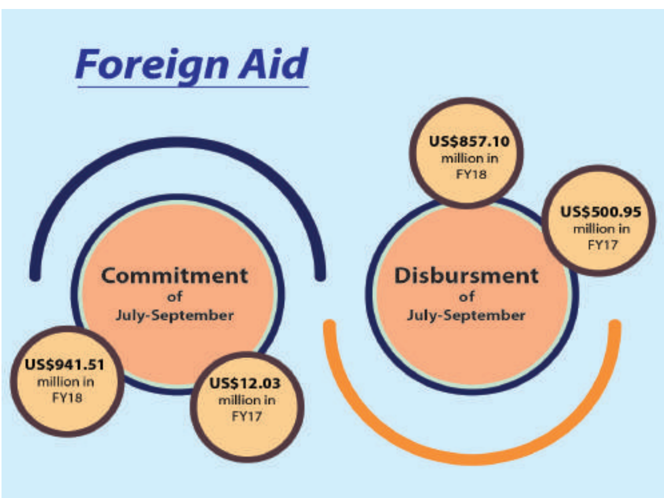
There is, however, a good news from Bangladesh Bank that remittance rebounded in October, the first month of the second quarter of the current fiscal, after hitting a seven-year low in the previous month, bringing a sigh of relief for the government. The reason for the jump in October's inflow is that the various initiatives taken by the government and the central bank to encourage expatriate Bangladeshis to send their money through formal banking channels, instead of the illegal digital 'hundi' system in recent times, have finally started to bear fruit. Moreover, as part of the promotional measures for ensuring better remittance services, the central bank has asked banks to recruit agents abroad to collect remittances from migrant workers and also instructed them to open 'help desk' at each branch concerned. Also, BB asked banks to take measures for improving the quality of remittance services so that the NRBs are encouraged to send their hard-earned money home through formal channel.



10.0 FOREIGN AID

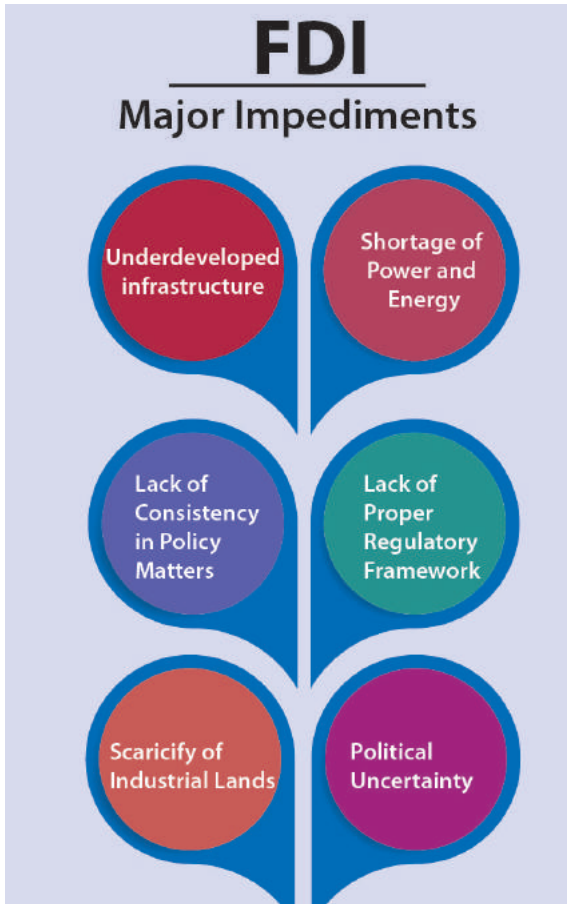
According to the Economic Relations Division (ERD) provisional data, the disbursement of foreign aid in July-September of FY18 increased significantly by 71.1 per cent to US$857.10 million from US$500.95 million in the previous fiscal year. The big jump in aid receipts can be attributed mainly to Japan's huge contribution of US$305.78 million. The government considers Japan's record-highest contribution to the total aid flow a breakthrough after the Holey Artisan café attack in July 2016. Also, the World Bank disbursed US$200 million, the Asian Development Bank US$144.55 million and China disbursed UD$102.25 million in Q1 of FY18. Out of the total aid disbursement of US$857.10 million, US$780 million came as medium and long-term loans while the remaining US$77.10 million came in the form of grants. Meanwhile, development partners' commitment of foreign aid declined to US$941.51 million in July-September of FY18. In the same period last fiscal, they confirmed US$12.03 billion worth of assistance where Russia alone signed an US$11.38 billion-loan deal with Bangladesh for bankrolling the Rooppur Nuclear Power Plant project. Out of the US$941.51 million of aid commitment, government received US$862.74 million as concessional loans and US$78.77 million as grants from the development partners. According to the ERD, the government paid back US$333.45 million by way of interest and principal for its total outstanding loans during July-September of FY18. Aid repayment in the corresponding period of FY17 was much lower - US$258.74 million.

In the current fiscal year (FY18), the government has a plan to mobilize a record US$7.0 billion in concessional loans and grants from different bilateral and multilateral development partners to implement development works. In the previous fiscal, the target was US$5.2 billion. Bangladesh mainly takes Official Development Assistance (ODA) from multilateral organizations or countries, which provide soft loans or grants. The country's largest development partner is the World Bank (WB). Other development partners include the Asian Development Bank (ADB), Japan, the Islamic Development Bank (IDB), China, the United Nations (UN), the UK's DFID, Russia, Germany, and India.



11.0 FOREIGN DIRECT INVESTMENT (FDI)

In the first two months of the present fiscal (July-August of FY18), the net foreign direct investment (FDI) increased by 9.59 per cent to US$320 million from US$292 million in the same period 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, and political uncertainty. The government needs to address these impediments to attract more FDI in the country in order to achieve the target of graduating to a middle-income country by 2021.



To provide entrepreneurs with all necessary permissions for investments from a single window, the Bangladesh Investment Development Authority (BIDA) will launch a one-stop service centre in December 2017. According to BIDA, it has already prepared the One-Stop Service Act, which would be placed before the Jatiya Sangsad soon for approval. After getting the approval, the single-point service centre would be established at the BIDA office, Agargaon in Dhaka with financial support from the World Bank and the International Finance Corporation. The services from the centre would also be faster than before as the centre will share the experience of many other countries that have already opened one-stop services to expedite investments, including FDI.

12.0 BALANCE OF PAYMENTS

According to Bangladesh Bank data, overall trade deficit widened more than three times to US$1.810 billion in the first two months of FY18 compared to US$525 million at the end of August 2016 due to lower export earnings alongside higher import payments (Table 11). Merchandise exports grew by 14.57 per cent while merchandise imports grew by 33.95 per cent in these two months. The disparate growth in imports visa-a-vis exports had the effect of widening the trade deficit. The deficit in trade in services, too, widened to US$778 million in July-August of FY18 from US$551 million in the same period of FY17. Because of higher trade and services deficit and the fall in primary income, the comfortable surplus of US$812 million in the current account prevailing in the previous fiscal's first two months turned into a deficit of US$451 million in the corresponding two months in FY18.

The financial account, however, posted a sizeable surplus during July-August of FY18 - US$416 million, compared to US$252 million in the same period of FY17. Higher inflow of foreign investment and comparatively low pressure on external debt repayment contributed to the improvement in the financial account. The BoP data show that the net inflow of FDI increased by 9.59 per cent to US$320 million in July-August of FY18 while portfolio investment jumped by more than thirteen times to US$66 million during the period. Other investment (net), too, recorded a surplus of US$30 million as against a deficit of US$45 million in the previous fiscal. The overall balance, however, posted a deficit of US$206 million in July-August against a surplus amount of US$1.176 billion during the corresponding months of FY17.

Table 11: Balance of Payments

(in million US$)

Items	July-August of FY18P	July-August of FY17R	Change
Trade Balance	**(-) 1810**	**(-) 525**	**(-) 1285**
Exports f.o.b (including EPZ)*	6542	5710	
Of which: Readymade Garments	5524	4844	
Imports f.o.b (including EPZ)*	8352	6235	
Services	**(-) 778**	**(-) 551**	**(-) 227**
Credit	662	534	
Debit	1440	1085	
Primary Income	**(-) 430**	**(-) 360**	**(-) 70**
Credit	12	11	
Debit	442	371	
Of which: Official Interest Payment	74	66	
Secondary Income	**2567**	**2248**	**319**
Official Transfers	0	2	
Private Transfers	2567	2246	
Of which: Workers' Remittances (current a/c portion)	2479	2147	332
Current Account Balance	**(-) 451**	**812**	**(-) 1263**
Capital Account	2	24	
Capital Transfers	2	24	
Financial Account	**416**	**252**	**164**
Foreign Direct Investment (gross inflows)	510	470	
Of which: Foreign Direct Investment (net inflows)**	320	292	28
Portfolio Investment (net)	66	5	
Of which: Workers' Remittances (financial a/c portion)	55	42	
Other Investment (net)	30	(-) 45	
Errors and Omissions	**(-) 173**	**88**	**(-) 261**
Overall Balance	(-) 206	1176	(-) 1382

Notes: P=Provisional; R=Revised; * = Both exports and imports 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-September of 2017, the Taka depreciated by 0.25 per cent in terms of the U.S. dollar. On the inter-bank market, the U.S. dollar was quoted at Tk.80.5995 at the end of June 2017 as against Tk.80.8000 at the end of September 2017 (Table 12).

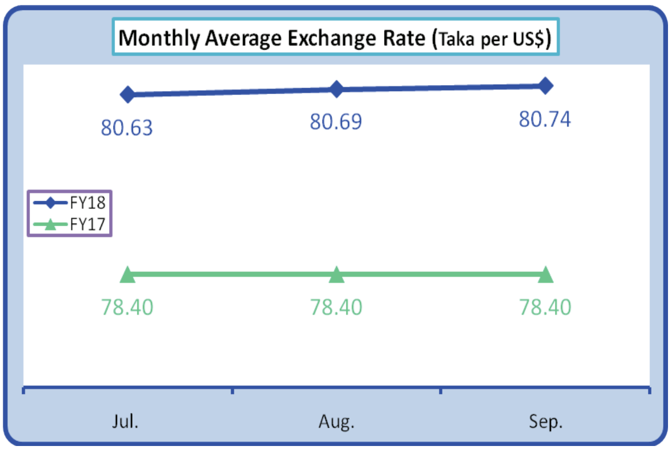
Table 12: Monthly Exchange Rate

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

Note: i) P=Provisional; R=Revised, NA=Not Available

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$32.817 billion (with ACU liability of US$0.56 billion) as of end September 2017, as compared to US$33.596 billion (with ACU liability of US$1.19 billion) as of end August 2017 (Table 13). The foreign exchange reserve (less ACU liability) will help meet the country's import liability for 7.85 months. [To arrive at this figure, the monthly import value of US$4.11 billion based on the average of the previous 12 months (September 2016-August 2017) has been considered.]

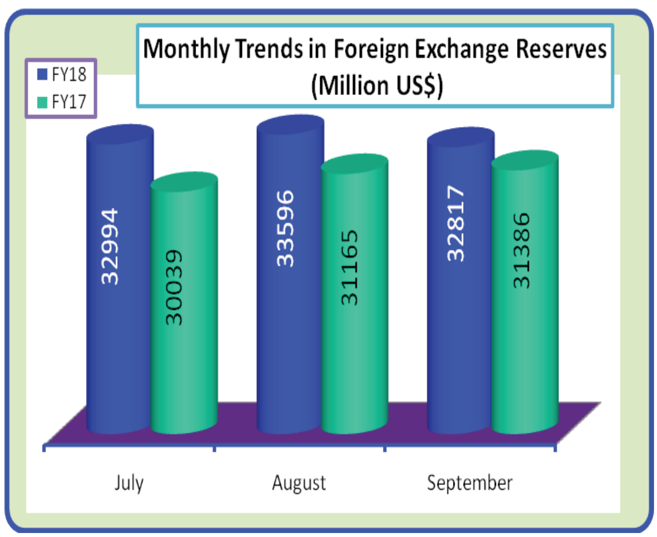
Table 13: Monthly Trends in Foreign Exchange Reserves

Month	Foreign Exchange Reserve (million US$)	
	FY18^P	FY17^R
July	32994	30039
August	33596	31165
September	32817	31386

Notes: P=Provisional; R=Revised

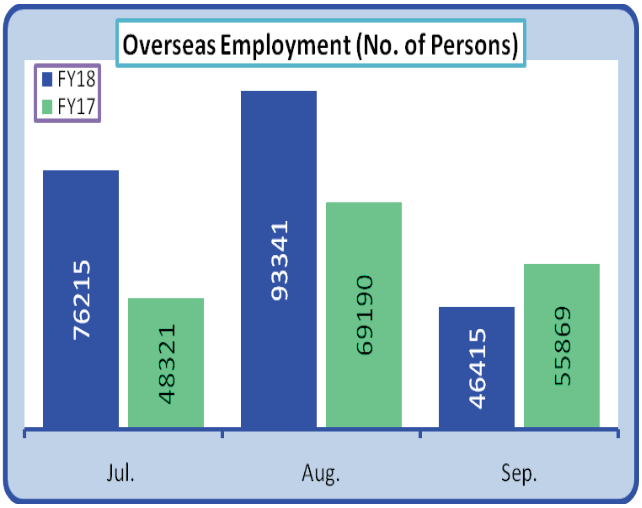
Source: Bangladesh Bank

A healthy reserve allows a country to get higher credit rating and helps the private sector get loans from foreign sources at low interest rates. Also, the current reserves will help keep the Taka stable against the US dollar and provide a more favorable economic environment.



15.0 OVERSEAS EMPLOYMENT SITUATION

Manpower export from Bangladesh remained subdued in the last few years as the country faced difficulties following the suspension of labor import by various Middle-Eastern countries. Both public and private sectors are now trying to expand manpower export to certain other countries, including Thailand and Japan. Manpower demand from the Kingdom of Saudi Arabia (KSA), Kuwait, Qatar, Oman, Jordan and Bahrain has shrunk. As the key destinations like United Arab Emirates (UAE) and Malaysia are not increasing their manpower import, the scope of overseas employment has become limited. Only 215,971 workers from Bangladesh entered the international markets with jobs during the quarter under review (July-September of FY18). The number of emigrants was 247,517 during the previous quarter. At present, there are more than 11 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.



Since 1991 when Bangladeshi female workers started going abroad for jobs, the number of oversees jobs for female workers has gradually decreased. Some 23,596 female workers entered the international markets with jobs during the quarter under review, a 31.34 per cent decrease from 34,364 in the previous quarter (April-June of FY17). Female workers, mostly housemaids and garment workers, are employed mainly in KSA, Jordan, UAE, Oman, Lebanon and Qatar.

16.0 PRICE SITUATION

In September 2017, the general point to point inflation in the country rose by 0.23 percentage point to 6.12 per cent from 5.89 per cent in August 2017 (Table 14). The inflation in September hit the two-year-high mainly due to an increase in the prices of some food and essential items. According to BBS, the highest inflation rate was recorded at 6.19 per cent two years ago in October 2015. The rate of inflation started to pick up in July 2017, when it was 5.57 per cent. A year ago, in September 2016, the inflation rate was 5.53 per cent.

The food inflation increased by 0.55 percentage point to 7.87 per cent in September 2017 from 7.32 per cent in August 2017. This was the highest in 38 months on the back of the massive production loss of the staple rice. On the other hand, the non-food inflation fell by 0.31 percentage point to 3.44 per cent in September 2017 from 3.75 per cent in August 2017.

A comparison of point to point inflation data for rural and urban areas in September of FY18 shows that the general inflation rate was higher in rural areas (6.21%) than in urban areas (5.95%). Food inflation in September was also higher in rural areas (7.97%) than in urban areas (7.63%), while, non-food inflation was lower in rural areas (2.98%) than in urban areas (4.08%).

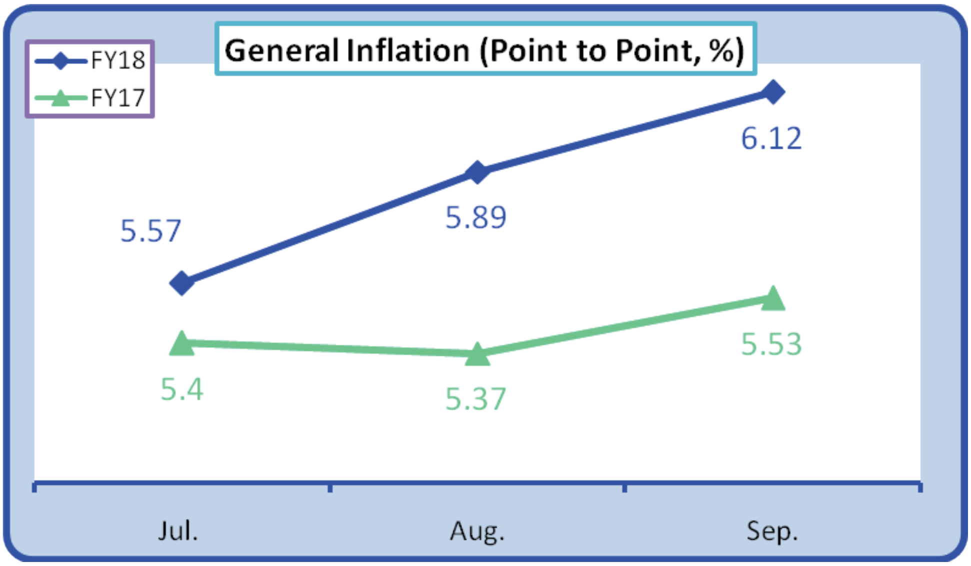


Table 14: Monthly Trends in Inflation (Base: 2005-06=100)

(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
FY18^{P}									
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
FY17^{R}									
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

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

Source: Bangladesh Bureau of Statistics

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 second quarter of the present fiscal year (Q2 of FY18). These projections are presented in Table 15.

Table 15: Projection on Some Selected Indicators in Q2 of FY18

Indicators	FY17									FY18		
	Jan.	Feb.	Mar.	April	May	June	July	August	Sept.	**Oct.**	**Nov.**	**Dec.**
Export (million US$)	3312	2726	3110	2776	3069	3044	2988	3641	2034	**2780**	**2990**	**3110**
Import (million US$)	4302	3761	4311	4171	4352	3499	4326	4701	**4840**	**4980**	**5060**	**5150**
Remittance (million US$)	1009	941	1078	1093	1268	1212	1116	1419	854	**1150**	**1220**	**1330**
Forex Reserve (million US$)	31724	32557	32215	32519	32246	33407	32994	33596	32817	**33650**	**33110**	**33850**
Inflation, Point to Point (per cent)	5.15	5.31	5.39	5.47	5.76	5.94	5.57	5.89	6.12	**6.18**	**5.80**	**5.70**

Notes: January – September 2017: actual figures except September value of Import; October – December 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. Therefore, export, import, and remittances can be expected to increase. The foreign exchange reserve will fall somewhat in November due to the payment to the Asian Clearing Union (ACU) against imports. The rate of inflation is likely to go up in October because of the probable rise in some essential commodities, and then it may go down.

18.0 CONCLUDING OBSERVATIONS

In the quarter under review (Q1 of FY18), the overall economic situation was positive as indicated by steady improvements in the major economic indicators. The economy is progressing well, despite the presence of some risk factors viz., marginal growth in remittances, slower growth in the export receipts, and a higher rate of inflation. The country, however, experienced stable growth. Inflation, though a bit higher, was under control; the exchange rate remained stable; and foreign exchange reserves rose to a comfortable level.

During July-September of FY18, agriculture, manufacturing and services sectors - all performed well, but continuous government support of various types will be needed to sustain their growth. Infrastructure deficits and gas and power supply problems are now undermining the performance of all productive sectors of the economy. Government should adopt adequate steps to overcome these problems, and achieve and maintain political stability, which are essential for creating an investment-friendly climate, so crucial to achieve higher economic growth.

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 thet 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 certificate of origin, through conducting economic research and sector surveys, offering trade and investment facilitation services, legal services, information management and dissemination, and with 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. MCCI has a long history of joint collaboration and corporate understanding. It interacts regularly with major international trade bodies and many private sector organizations located all over the world.