Quarterly Review

October-December 2018 (Q2 of FY19)

Economic Situation in Bangladesh

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Innovative
Adaptable
Team Player
Proactive
Communication & Interpersonal Skills

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Contents

EXECUTIVE SUMMARY

General

1. One of the major objectives of the Government is to transform the country into a middle-income country (MIC) by 2021. In order to achieve this objective, the government will need to accelerate the rate of economic growth to about 10 per cent from the present 7.86 per cent, expand exports, and stimulate investment.

2. Bangladesh has plenty of opportunities to achieve these goals. The GDP growth in the current fiscal year is expected to exceed last year's 7.86 per cent. In the Monetary Policy Statement (MPS) for H2 of FY19, Bangladesh Bank forecasts GDP growth above 8.0 per cent in FY19. Development partners – World Bank and ADB – whose growth projections have nearly always been conservative have, however, predicted lower growth rates for the economy in the current fiscal year (FY19). World Bank's growth prediction is 7.0 per cent while that of ADB is 7.5 per cent.

Agriculture

3. The agriculture sector performed well in the quarter under review (Q2 of FY19). Thanks to favorable natural factors and official policy to ensure timely availability of inputs at affordable prices, the sector grew at a robust rate of 4.19 per cent in FY18 compared to a moderate 2.97 per cent in FY17.

Industry

4. Data on the country's industry sector are yet to be available for the quarter under review (Q2 of FY19). Despite the shortage of energy, both gas and power, the industry sector managed to grow by 12.06 per cent in FY18, exceeding the growth rate in the previous fiscal by 1.84 percentage points.

5. The manufacturing sub-sector recorded 13.40 per cent growth in FY18, which was 2.43 percentage points higher than the previous fiscal year's 10.97 per cent. Within manufacturing, the large and medium scale industries sub-sector performed better than in the previous fiscal, growing at 14.26 per cent in FY18, compared to 11.20 per cent in FY17. The small scale manufacturing industries, however, grew at a lower rate of 9.25 per cent in FY18 compared to 9.82 per cent in FY17.

Construction

6. Data on the country's construction sector are not available for the quarter under review. However, the sector grew by 9.92 per cent in FY18, compared to 8.77 per cent in FY17.

Power

7. The power supply situation improved in the quarter under review but the demand for power shot up, too. Total installed capacity rose to 17,965 mw in January 2019, but production remained low because of gas shortage and also because of shutting down of some power stations for maintenance.

Services

8. Full data on the nine sub-sectors of the broad services sector are not yet available to enable an understanding of how they have fared in the quarter under review (Q2 of FY19). However, data for FY18 indicate that several sub-sectors, viz., electricity, gas & water; hotel & restaurant; wholesale & retail trade; repair of motor vehicles; real estate, renting & business activities; and community, social & personal services performed well in FY18, compared to the previous fiscal (FY17). It is also evident from FY18 data that due to the sluggish investment situation in the country, the share of the services sector in GDP shrank by 0.73 percentage point to 52.11 per cent in FY18 from 52.84 per cent in the previous fiscal year and the growth of the services sector decreased by 0.30 percentage point to 6.39 per cent in FY18 from 6.69 per cent in FY17.

Money and Capital Market

9. Broad money (M2) growth dropped to 9.41 per cent at the end of December 2018 from 10.69 per cent recorded at the end of December 2017. Domestic credit, on the other hand, grew by 13.41 per cent at the end of December 2018, while a higher rate of growth of 14.48 per cent was recorded at the end of December 2017. The credit growth in December 2018 is also below the credit growth target of 15.80 per cent set in the monetary policy for the first half of the fiscal year.

10. Among components of domestic credit, private sector credit growth was 13.20 per cent during the period between December 2017 and December 2018, compared with a higher growth of 18.13 per cent during the period between December 2016 and December 2017. Private sector credit growth is also below the central bank's target of 16.8 per cent set for the first half of FY19 (MPS, H1 of FY19). Public sector credit, on the other hand, recorded 15.12 per cent growth at the end of December 2018, compared with a negative growth of 8.26 per cent at the end of December 2017.

11. Total liquid assets of scheduled banks stood lower at Tk.255,170 crore at the end of December 2018, compared

with Tk.264,267 crore at the end of June 2018. The minimum liquidity requirement of the scheduled banks was Tk.178,776 crore at the end of December 2018.

12. The interest rate spread in the banking sector slightly widened to 4.23 per cent at the end of December 2018 from 4.20 per cent in the immediate previous month (November 2018). The weighted average interest rate on deposits fell to 5.26 per cent in December 2018 from 5.30 per cent in November 2018, and the interest rate on lending also decreased to 9.49 per cent from 9.50 per cent.

13. The disbursement of industrial term loans during July-September of FY19 was 5.1 per cent lower than the amounts disbursed during the immediate previous quarter (April-June) of FY18. The recovery of industrial term loans also decreased by 16.1 per cent during July-September of FY19, compared to the recovery in the previous quarter (April-June of FY18).

14. In the quarter (Q2 of FY19) under review, the disbursement of agricultural credit and non-farm rural credit by banks increased slightly by 3.34 per cent compared to the disbursement in the corresponding period of the previous fiscal. In the first six months of the present fiscal (H1 of FY19), the disbursement of agricultural credit and non-farm rural credit decreased by 4.87 per cent. The recovery, however, increased by 23.66 per cent in Q2 of FY19 compared to the recovery in the corresponding period of the previous fiscal year.

15. The buoyancy in the stock markets continued at the end of the quarter under review on the back of a significant increase in the participation of retail investors.

Public Finance

16. During July-November of FY19, NBR's tax revenue collection stood 7.15 per cent higher at Tk.79,733 crore, compared to Tk.74,414 crore collected during the corresponding period of FY18. This collection was 21.60 per cent or Tk.21,973 crore short of the target. NBR will need to collect a further amount of Tk.216,468 crore in the remaining seven months to achieve the collection target of Tk.296,201 crore for the entire fiscal year.

17. The rate of implementation of the Annual Development Programme (ADP) in the first half of the current fiscal year was 27.45 per cent, which is slightly higher than the implementation rate in the corresponding half of the previous fiscal year (27.02%).

Export and Import

18. Export earnings (merchandise) in the first half (July-December) of the current fiscal year (FY19) were US$20.500 billion, registering 14.42 per cent growth over the export earnings of US$17.916 billion in the corresponding period of the previous fiscal year. The export earnings also exceeded the strategic target (US$18.785 billion) by 9.13 per cent.

19. Import payments (C&F) during July-November of FY19 stood at US$25.327 billion, which is 6.64 per cent higher than import payments during the corresponding months of FY18. Import payments increased mainly due to higher imports of petroleum & petroleum products and intermediate goods and also due to depreciation of the taka against all major currencies.

Remittances

20. Remittance inflows during the quarter under review (Q2 of FY19) increased slightly by 2.26 per cent to US$3.622 billion compared to US$3.542 billion in the corresponding quarter of the previous fiscal year.

Foreign Aid

21. Development partners disbursed US$1.870 billion of concessional loans and grants in July-November of FY19, which was 9.36 per cent higher than the amount received (US$1.710 billion) in the corresponding period of FY18. On the other hand, foreign aid commitment from development partners slumped by almost half in the first five months of the current fiscal year compared to the same period of the previous fiscal.

Foreign Direct Investment (FDI)

22. In the first five months of the present fiscal (July-November of FY19), the net FDI decreased by US$29 million or 4.47 per cent to US$620 million from US$649 million in the corresponding five months of FY18. FDI inflow in Bangladesh is low compared to that in many countries at similar level of development.

Balance of Payments (BoP)

23. Overall trade deficit eased by 12.46 per cent in the first five months of the current fiscal year, thanks to a rise in exports and a slowdown in imports. The deficit in trade in services, too, narrowed by 37.11 per cent in the same period. Inward remittances also increased during the period. Lower trade and services deficit and the uptrend in inward remittances significantly improved the current account balance though it still remained in the red. The current-account deficit was US$2.558 billion during the period under review, down from US$4.744 billion in the corresponding period of the previous fiscal. The financial account surplus, however, almost came down to a half (US$2.058 billion) during July-November of FY19 from US$4.096 billion in the same period of FY18. The

overall balance, however, posted a deficit of US$837 million in July-November of FY19 against a lower deficit of US$479 million during the corresponding months of FY18. The sharp fall in the country's financial account and capital account surpluses were primarily responsible for the widening of the balance of payments deficit.

Exchange Rate and Foreign Exchange Reserve

24. Between end-June of 2018 and end-December of 2018, the Taka depreciated by 0.24 per cent in terms of US dollar. Gross foreign exchange reserves stood at US$32.016 billion (with ACU liability of US$1.15 billion) as of end December 2018, compared to US$31.056 billion (with ACU liability of US$0.48 billion) at the end of the previous month. The current foreign exchange reserve (less ACU liability) is equivalent to 6.13 months' import payments.

Inflation

25. The general point to point inflation fell slightly by 0.02 percentage point to 5.35 per cent in December 2018 from 5.37 per cent in November 2018. The rate of inflation in December was at its lowest in 19 months on the back of a fall in prices of both food and non-food items. According to BBS, the lowest inflation rate was recorded at 5.39 per cent in March 2017. A year ago, in December 2017, the inflation rate was 5.83 per cent.

26. The food inflation came down by as little as 0.01 percentage point to 5.28 per cent in December 2018 from 5.29 per cent in the immediate past month of November but, year-on-year, food inflation in December 2018 fell by 1.85 percentage points from 7.13 per cent. On the other hand, non-food inflation decreased slightly by 0.04 percentage point to 5.45 per cent in December 2018 from 5.49 per cent in the previous month. Year-on-year, however, the non-food inflation increased by 1.60 percentage points from 3.85 per cent.

27. A comparison of point to point inflation data for urban and rural areas in December of FY19 shows that the inflation rate was higher in urban areas than in rural areas.

THE REPORT

1.0 AGRICULTURE

Full data on agricultural production for the second quarter of the present fiscal (Q2 of FY19) is not available yet, as the harvesting of the three major crops – aman, aus and boro - will be spread over the coming months of the fiscal. Available data for the past fiscal (FY18) indicate that the sector employed about 40.6 per cent of Bangladesh's labour force and accounted for about 14.23 per cent of GDP. Due to favorable natural factors and strong government support in terms of timely availability of inputs, the sector achieved a considerably high growth of 4.19 per cent in FY18 compared to a modest 2.97 per cent growth in FY17.

1.1 Food Situation

Domestic Production

The Department of Agricultural Extension (DAE) has set the target of domestic food grains (rice and wheat) production at 37.746 million metric tons (mmt) in FY19, which is 2.47 per cent higher than the target in FY18 (36.835 mmt). This target is also 0.84 per cent higher than the actual production in FY18 (37.433 mmt). The crop-specific production targets in FY19 for aman, aus, boro and wheat are 14.134 mmt, 2.702 mmt, 19.623 mmt, and 1.287 mmt, respectively.

According to the latest monitoring report of DAE, the plantation of wheat crop is now almost complete. As on 15 January 2019, the area under wheat cultivation was 0.326 million hectare (mh), which is close to its target of 0.390 mh. In this cultivation season, the areas under aus and aman have already exceeded their respective targets of 1.125 mh and 5.643 mh by 0.02 mh and 0.233 mh. Aus production has been estimated by DAE at 2.920 mmt against its target of 2.702 mmt. The production condition of the aman season has been favorable now, and it is expected that the target of the aman crop will be achieved. Regarding boro, the preparation of seed bed is now complete and planting has already started. Production will depend on yield performance of the crop.

Food grains Import

As of 3 January 2019, about 49.30 thousand metric tons (tmt) of rice was imported by the public sector. The private sector imported about 58.20 tmt in that period. In the corresponding period of last year, about 512.10 tmt of rice was imported by the public sector, while the private sector imported about 1,810.90 tmt. Regarding other food grains, about 2,530.50 tmt of wheat was imported by the private sector in this period, while about 167.70 tmt of wheat was imported by the public sector. Over the same period of the previous year, a total of 3,344.60 tmt of wheat was imported by the private sector, while about 296.90 tmt of wheat was imported by the public sector.

Domestic Procurement

In order to stabilize farm price as well as provide price incentive to farmers, the government decided to procure (provisional) 600 tmt of parboiled aman rice from the domestic market in the ongoing aman procurement season at the rate of Tk.36 per kg. The drive began on 1 December 2018 and will continue till 28 February 2019. As of 3 January 2019, about 288 tmt of aman rice was procured and about 594 tmt was contracted. During the immediate past boro procurement season, the target was about 1.40 mmt in terms of rice at the rate of Tk.26.00 per kg for boro paddy, Tk.38.00 per kg for parboiled rice, and Tk.37.00 per kg for white rice from the domestic market.

Public Distribution

The government has enhanced its efforts to ease the hardship of poor households by distributing subsidized grains through the 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. For FY19, the distribution target through PFDS is about 2.87 mmt, while in FY18, some 2.12 mmt of food grains was actually distributed. As of 3 January 2019, a total of 1,310.40 tmt was distributed through PFDS, which is about 45.66 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 3 January 2019 stood at 1,368.50 tmt – 1,087.20 tmt in rice and 281.30 tmt in wheat.

Domestic Market Price

In the fortnight ending 3 January 2019, wholesale and retail prices of rice (Swarna) in Dhaka city markets decreased by 1.5 per cent and 4.1 per cent, to Tk.32 per Kg and Tk.35.50 per Kg, respectively. The wholesale and retail prices now are, respectively, 20.9 per cent and 19.5 per cent lower than what they were a year ago. Over the same period, the wholesale price of coarse flour (atta) in Dhaka city markets decreased by 0.6 per cent to Tk.25.7 per Kg but the retail price remained unchanged at Tk.28 per Kg. The wholesale price increased by 6.9 per cent, but the retail price was 3.4 per cent lower now than the prices that prevailed last year.

International Market Price

In the fortnight ending 4 January 2019, the prices of India 5% parboiled, and Thai 5% parboiled rice rose by 0.5 per cent, and 2.7 per cent, respectively, to US$380 per mt, and US$385 per mt. But the price of Vietnam 15% white, and Pakistan 5% parboiled rice fell by 2.4 per cent, and 1.3 per cent to US$361 per mt, and US$388 per mt, respectively. During the same period, the price of West Bengal coarse rice remained unchanged at US$342 per mt. However, the wholesale price of rice in Dhaka city fell by 2.2 per cent and stood at US$380 per mt. In the fortnight ending 4 January 2019, the prices of US Soft Red Winter (SRW), and US (HRW) wheat decreased by 3.0 per cent, and 6.5 per cent, respectively, to US$215 per mt, and US$231 per mt. But the price of Ukraine wheat increased by 0.2 per cent to US$237 per mt, whereas Russian wheat price remained unchanged at US$240 per mt. On the same date, Dhaka city wholesale wheat price increased by 0.3 per cent to US$321 per mt.

1.2 Fish and Animal Farming (Livestock and Poultry)

According to BBS data, fish and animal farming (livestock and poultry) sub-sectors accounted for about 5.09 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 3.56 per cent and 1.53 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 grew by 6.37 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.

According to a report of the Food and Agriculture Organization (FAO), Bangladesh was ranked third in 2018 in producing fish from inland water-bodies, behind China and India. The country was 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'. Also the country now holds the first position in Hilsa production. Around 70-75 per cent of world supply of Hilsa is now produced in Bangladesh. In the last nine years, Hilsa production increased by 67.79 per cent, rising from 298,000 metric tons in FY2008-09 to 500,000 metric tons in FY2017-18. The contribution of Hilsa in the country's total fish production is around 12 per cent and its contribution to GDP is more than 1.15 per cent. For all these reasons, the Department of Patent, Design and Trademark has provided Hilsa with geographical indication (GI) registration after going through tests and legal steps. Now Bangladesh will get all sorts of local and international commercial advantages from exporting high quality Hilsa.

According to Bangladesh Poultry Industries Coordination Committee (BPICC), the country's poultry industry now meets almost the entire local demand for meat and eggs. 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. The industry has thus an exportable surplus now. But Bangladesh could not yet export poultry due to the inability to maintain international standard. However, the country's poultry industry has started getting ready to export in the global market as it has introduced good international practices. Policy makers are working on guidelines for the local industry to fulfill protocols of the World Organization for Animal Health. It will help the local industry get international certificates for export, also amending the existing poultry policy to facilitate export to overseas markets. Besides, the government has also a plan to declare some areas as 'poultry industrial zones' for ensuring high bio-security and establishing world standard production procedures. Industry insiders are of the opinion that targeting markets in Myanmar, Malaysia, Middle-East and north-eastern states of India could be a good starter.

2.0 INDUSTRY

Data on the country's industry sector are yet to be available for the quarter under review. Despite the shortage of energy, both gas and power, the industry sector managed to grow by 12.06 per cent in FY18, exceeding the growth rate in the previous fiscal by 1.84 percentage points. As a result of its relatively higher growth, the share of the industry sector in GDP increased by 1.24 percentage points to 33.66 per cent in FY18 from 32.42 per cent in FY17.

2.1 Manufacturing Industries

Within the broad industry sector, the manufacturing sub-sector recorded 13.40 per cent growth in FY18, which was 2.43 percentage points higher than the previous fiscal year's 10.97 per cent. Within manufacturing, the large and medium scale industries sub-sector performed better than in the previous fiscal, growing at 14.26 per cent in FY18, compared to 11.20 per cent in FY17. The small scale manufacturing industries, however, grew at a lower rate in FY18 than in the previous years. This sub-sector grew at 9.25 per cent in FY18 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 (Q2 of FY19). However, according to BBS, the sector performed better, growing by 9.92 per cent in FY18, compared to 8.77 per cent in FY17. The real estate, renting and business activities, which are considered a separate category of the services sector but have close links with the construction sector, also performed better in FY18 when it marked a 4.98 per cent growth compared to 4.80 per cent in FY17. 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.

The real estate business has of late seen some improvement, thanks to property price corrections and falling interest rates on home loans. An increasing number of customers are placing new bookings as evidenced by the positive response of realtors and customers in the five-day 'REHAB Fair-2019' held in February 2019. Most of the realtors are selling flats and plots at a low profit margin to maintain their cash flows. The realtors hope that the recent cut in lending rates by banks and financial institutions might help raise the apartment sales further. Also government's recent move to offer low-cost home loans at the rate of 5.0 per cent to its employees would help the real estate sector to gain long-term stability. The real estate sector now accounts for about 7.0 per cent of the country's GDP, employing around a hundred thousand skilled people and 3.5 million others in the linkage industries, according to the REHAB (Real Estate and Housing Association of Bangladesh).

2.3 Power

The power supply situation improved in the quarter under review but the demand for power shot up, too. According to the Bangladesh Power Development Board website (www.bpdp.gov.bd), the demand for electricity was 7,112 mw as of 31 December 2018 and load shedding was zero. The maximum generation in 2018 (recorded on 19 September) was 11,573 mw. Total installed capacity rose to 17,965 mw in January 2019 and derated/present capacity rose to 17,422 mw, but production remained low because of gas shortage and also because of shutting of some power stations for maintenance.

According to the BPDB website, the total installed capacity in January 2019 (17,965 mw) comprised of coal 524 mw (2.92%), gas 9,963 mw (55.45%), HFO 4,062 mw (22.61%), HSD 2,026 mw (11.28%), Hydro 230 mw (1.28%), and imported 1,160 mw (6.46%).

According to the Ministry of Power, Energy and Mineral Resources (MoPEMR), at present 92 per cent of the country's population has access to electricity. Government has now set the goal of providing electricity to all citizens by 2021 and to that end 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 2030 and 60,000 mw by 2041. Government has recently inaugurated six power plants, which have added some 1,062 mw electricity to the national grid. Besides, it has opened nine grid sub-stations, extended power supply to Sandwip upazila in Chattogram through submarine cable, and has planned 100 per cent electrification of 12 upazilas.

The six power plants are - Sirajganj 282 mw Simple Cycle Power Plant, Bhola 225 mw Combined Cycle Power Plant, Chandpur 200 mw Power Plant, Ashuganj 150 mw Power Plant, Rupsha 105 mw Power Plant in Khulna, Julda 100 mw Power Plant (3rd unit) in Chattogram. The nine grid sub-stations are Ramganj, Barishal (North), Baraiyarhat, Shikalbaha, Jaldhaka, Sunamganj, Bianibazar, Rangamati and Matarbari. The 12 upazilas which came under 100 per cent electricity coverage are Harinakundu, Thakurgaon Sadar, Baliadangi, Goalanda, Kalukhali, Bamna, Lakhai, Shaistaganj, Ajmiriganj, Bahubal, Melandah and Islampur. According to MoPEMR, a total of 306 upazilas have so far been brought under 100 per cent electricity coverage.

In addition, recently government approved a 150 mw oil-fired power plant at the northern township of Syedpur to improve electricity supply there. The Syedpur power plant would meet the growing demand for electricity in the north for rapid industrialization and also boost the country's overall power generation capacity. Besides, the Executive Committee of the National Economic Council (ECNEC) has endorsed eight other power generation projects, involving a combined cost of Tk.164.33 billion, and also okayed two power-distribution projects for Rajshahi and Rangpur divisions to bring 0.415 million fresh customers under the coverage. The Northern Electricity Supply Company (NESCO) Limited will execute the projects – setting the distribution line, substations extension and rehabilitation – in Rajshahi and Rangpur by June 2022. Apart from these, government is planning a review of the power system master plan (PSMP) to pinpoint the electricity demand and the sources of energy to streamline the sector's growth in an efficient way. The Power Division under the MoPEMR already initiated its work on updating the PSMP of 2015.

3.0 SERVICES SECTOR

The broad services sector has nine sub-sectors, full data on which are not yet available to enable an understanding of how they have fared in the quarter under review (Q2 of FY19). Of the different sub-sectors, electricity, gas & water; hotel & restaurant; wholesale & retail trade, repair of motor vehicles; real estate, renting & business activities; and community, social & personal services have performed better in FY18 compared to the previous fiscal. According to the National Accounts Statistics of BBS, however, the share of the services sector in GDP shrank 0.73 percentage point to 52.11 per cent in FY18 from 52.84 per cent in the previous fiscal year. Due to the sluggish investment situation in the country, the growth of services sector decreased by 0.30 percentage point to 6.39 per cent in FY18 from 6.69 per cent in FY17.

4.0 MONETARY AND CREDIT DEVELOPMENTS

According to BB data, broad money (M2) recorded a lower growth of 9.41 per cent at the end of December 2018 compared to the 10.69 per cent growth achieved at the end of December 2017 (Table 1). Domestic credit, on the other hand, grew by 13.41 per cent at the end of December 2018, while a higher rate of growth of 14.48 per cent was recorded at the end of December 2017. The credit growth in December 2018 is also below the credit growth target of 15.80 per cent set in the monetary policy for the first half of the fiscal year.

Among components of domestic credit, private sector credit registered 13.20 per cent growth during the period between December 2017 and December 2018, compared with a higher growth of 18.13 per cent during the period between December 2016 and December 2017. Private sector credit growth is also below the central bank's target of 16.8 per cent set for the first half of FY19 (MPS, H1 of FY19). Public sector credit, on the other hand, recorded a growth of 15.12 per cent at the end of December 2018, compared with a negative growth of 8.26 per cent at the end of December 2017 (Table 1).

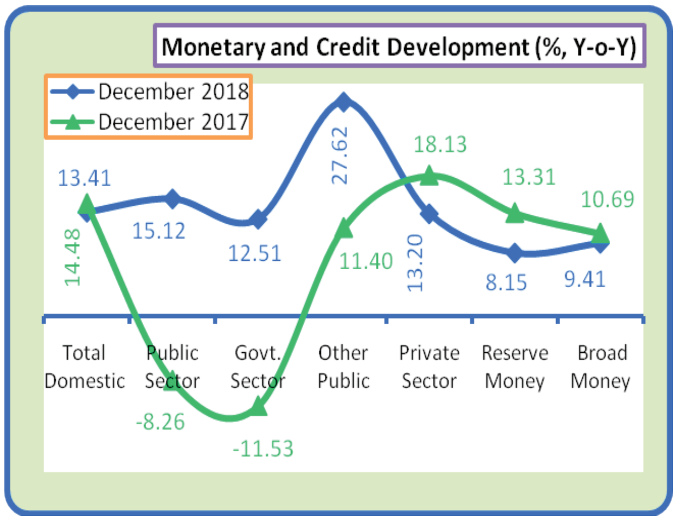


Table 1: Monetary and Credit Indicators

(Taka in crore)

Particulars	Outstanding Stock			% Changes in Outstanding Stock	
	December 2018P	December 2017R	December 2016R	Dec. 2018 over Dec. 2017	Dec. 2017 over Dec. 2016
Total Domestic Credit	1080308	952535	832039	13.41	14.48
Credit to Public Sector	121467	105513	115019	15.12	(-) 8.26
Net Credit to Government Sector	98180	87266	98639	12.51	(-) 11.53
Credit to Other Public Sector	23287	18247	16380	27.62	11.40
Credit to Private Sector	958841	847022	717020	13.20	18.13
Reserve Money (RM)	234658	216984	191498	8.15	13.31
Broad Money (M2)	**1155333**	**1056009**	**954054**	**9.41**	**10.69**

Note: P=Provisional; R=Revised

Source: Bangladesh Bank

Total liquid assets of scheduled banks stood lower at Tk.255,170 crore at the end of December 2018, compared with Tk.264,267 crore at the end of June 2018. The minimum liquidity requirement of the scheduled banks was Tk.178,776 crore at the end of December 2018 (Table 2).

Table 2: Liquidity Position of Scheduled Banks

(Taka in crore)

Bank Group	As of end June, 2018R	As of end December 2018P		
	Total Liquid Assets	*Total Liquid Assets*	*Minimum Required Liquid Assets*	*Excess Liquidity*
1	2	3	4	5 (3-4)
State owned banks	101322	85318	51659	33659
Private banks (other than Islamic)	111090	113887	93608	20279
Private banks (Islamic)	28150	28430	23203	5227
Foreign banks	22201	25973	8754	17219
Specialized banks*	1504	1562	1552	10
Total	**264267**	**255170**	**178776**	**76394**

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 December 2018, some 6.13 per cent was held in the form of Cash in tills and Balances with Sonali Bank, 23.24 per cent in the form of CRR, 6.36 per cent in the form of Excess Reserves, 3.68 per cent in the form of Balances with Bangladesh Bank in Foreign Currency and the remaining 60.59 per cent in the form of Unencumbered approved securities.

4.1 Interest Rate Developments

Among the central bank's prime rates, the repo rate was lowered down from 6.75 per cent 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).

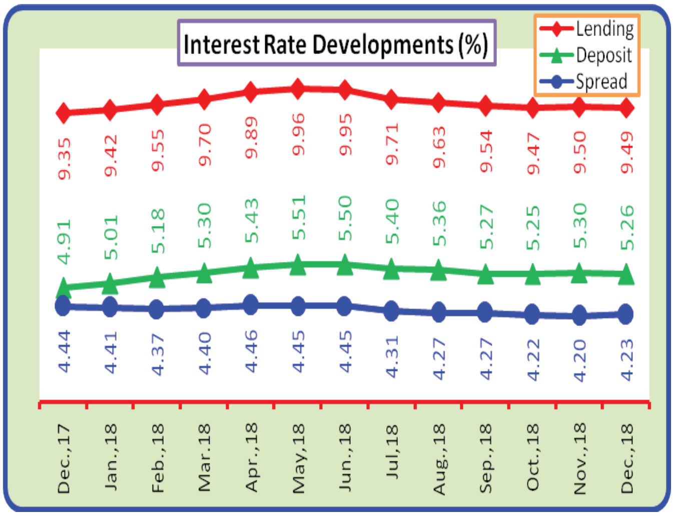
Table 3: Interest Rate (weighted average) movements in FY18 and July-September of FY19

(in per cent)

Month/Quarter	Repo	Reverse Repo	Lending Rate	Deposit Rate	Interest Rate Spread
FY18R					
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	9.95	5.50	4.45
FY19P					
July	6.00	4.75	9.71	5.40	4.31
August	6.00	4.75	9.63	5.36	4.27
September	6.00	4.75	9.54	5.27	4.27
October	6.00	4.75	9.47	5.25	4.22
November	6.00	4.75	9.50	5.30	4.20
December	6.00	4.75	9.49	5.26	4.23

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

Source: Bangladesh Bank



The interest rate spread in the banking sector increased to 4.23 per cent at the end of December 2018 from 4.20 per cent in the immediate previous month (November 2018). The weighted average interest rate on deposits fell to 5.26 per cent in December 2018 from 5.30 per cent in November 2018. The interest rate on lending also decreased to 9.49 per cent in December 2018 from 9.50 per cent in the immediate previous month.

4.2 Industrial Term Loans

Data on industrial term loans are available only up to the first quarter (July-September) of FY19. According to BB data, the disbursement of industrial term loans during July-September of FY19 stood at Tk.19,112 crore, which was 5.1 per cent lower than the amount of Tk.20,141 crore disbursed during the immediate previous quarter (April-June) of FY18 (Table 4). The recovery of industrial term loans also decreased by 16.1 per cent to Tk.16,378 crore during the July-September of FY19, compared to Tk.19,520 crore recovered in the previous quarter (April-June of FY18).

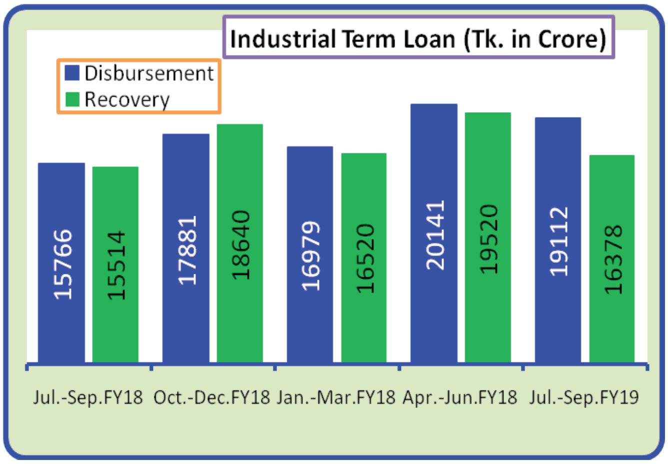


Table 4: Disbursement and Recovery of Industrial Term Loans

Quarter	Disbursement (Tk. in crore)				Recovery (Tk. in crore)			
	LSI	MSI	SSCI	Total	LSI	MSI	SSCI	Total
July-September of FY18R	11787	2435	1544	15766 (+14.6)	11381	2473	1660	15514 (+35.5)
October-December of FY18R	11932	3352	2597	17881 (+13.4)	13817	2712	2111	18640 (+20.1)
January-March of FY18R	12966	1871	2142	16979 (- 5.0)	12356	2131	2033	16520 (- 11.4)
April-June of FY18R	16033	2425	1683	20141 (+18.6)	15440	2168	1912	19520 (+18.2)
July-September of FY19P	15529	2049	1534	19112 (-5.1)	12553	2085	1740	16378 (-16.1)

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 Q1 (July-September 2018) of FY19. According to BB data, total SME loans by all banks and non-bank financial institutions (NBFIs) decreased by 4.22 per cent to Tk.182,083 crore at the end of September 2018 from Tk.190,106 crore at the end of September 2017. The disbursement of SME loans was 19.35 per cent of total loans disbursed by all banks and NBFIs at the end of September 2018 (Table 5).

Table 5: Outstanding Position of SME Loans

(Tk. in crore)

Quarter	Type of Loans	SOBs	PBs	FBs	SBs	NBFIs	Total
July-September of FY18[R]	Total Loans	131889	593843	48568	23194	54938	852432
	SME Loans	31766	145693	2632	889	9127	190106
	Percentage	(+24.1)	(+24.5)	(+5.4)	(+3.8)	(+16.6)	(+22.3)
October-December of FY18[R]	Total Loans	152753	813283	31039	23200	48476	1068751
	SME Loans	33685	155778	2400	962	9585	202410
	Percentage	(+22.1)	(+19.2)	(+7.7)	(+4.2)	(+19.8)	(+18.9)
January-March of FY18[R]	Total Loans	158538	642067	31646	22942	48715	903908
	SME Loans	31642	149048	2540	1052	9365	193647
	Percentage	(+19.96)	(+23.21)	(+8.03)	(+4.59)	(+19.22)	(+21.42)
April-June of FY18[R]	Total Loans	164164	767114	33941	24177	49855	1039251
	SME Loans	33415	147476	1996	1160	9467	193515
	Percentage	(+20.35)	(+19.22)	(+5.88)	(+4.80)	(+18.99)	(+18.62)
July-September of FY19[P]	Total Loans	153842	673430	33582	23886	56213	940953
	SME Loans	27028	142441	1959	1257	9397	182083
	Percentage	(+17.57)	(+21.15)	(+5.83)	(+5.26)	(+16.72)	(+19.35)
% change of SME loans at the end of September 2018 over end of September 2017		(-) 14.91	(-) 2.23	(-) 25.59	+ 41.41	+ 2.97	(-) 4.22

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: BB

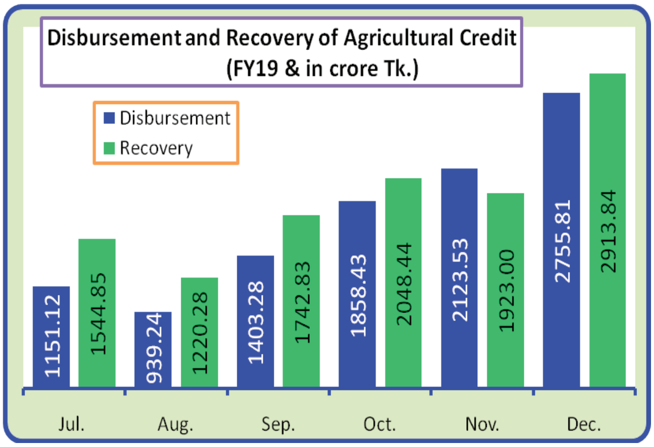
4.4 Agricultural Credit and Non-farm Rural Credit

In the quarter under review (Q2 of FY19), the disbursement of agricultural credit and non-farm rural credit by banks increased slightly by 3.34 per cent to Tk.6,738 crore from Tk.6,520 crore in the corresponding period of the previous fiscal (Table 6 and Figure). In the first six months of the present fiscal (H1 of FY19), the disbursement of agricultural credit and non-farm rural credit by banks decreased by 4.87 per cent to Tk.10,231 crore from Tk.10,756 crore over the corresponding period of the previous fiscal. The disbursement during the period was lower because of the ongoing cash crunch in banks. Also, defaulted loans and the poor rate of loan recovery could be among other reasons behind the slow disbursement of farm loans. All scheduled banks have achieved only 46.93 per cent of their annual agricultural loan disbursement target (Tk.21,800 crore) for FY19. The recovery, however, increased by 23.66 per cent to Tk.6,885 crore in Q2 of FY19 from Tk.5,568 crore in the corresponding period of the previous fiscal year. In H1 of FY19, the recovery also increased, year on year, by 12.45 per cent to Tk.11,393 crore from Tk.10,132 crore.

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

(in crore Taka)

Month	FY19[P]		FY18[R]	
	Disbursement	Recovery	Disbursement	Recovery
July	1151.12	1544.85	1574.07	1613.61
August	939.24	1220.28	1219.98	1252.17
September	1403.28	1742.83	1441.69	1698.03
Total of Q1	*3493.64 (- 17.52)*	*4507.96 (-1.22)*	*4235.74 (+22.99)*	*4563.81 (+28.83)*
October	1858.43	2048.44	1969.02	1614.34
November	2123.53	1923.00	2026.12	1965.00
December	2755.81	2913.84	2524.86	1988.67
Total of Q2	*6737.77 (+3.34)*	*6885.28 (+23.66)*	*6520.00 (+53.93)*	*5568.01 (+22.00)*
Total of H1 (July-Dec)	**10231.41 (-4.87)**	**11393.24 (12.45)**	**10755.74 (+8.28)**	**10131.82 (+12.68)**



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

Pre- and post-election buoyancy in the stock markets continued at the end of the quarter under review, thanks to a significant increase in the participation of retail investors. On 3 January 2019, the key index of Dhaka Stock Exchange, DSEX, rose by 1.71 per cent over the previous day and settled at 5,590.47, whereas the blue chip index, DS30, increased by 1.52 per cent to close at 1,941.99. Also, the index of Chittagong Stock Exchange (CSE) ended higher with its Selective Categories Index (CSCX) advancing 1.70 per cent to settle at 10,367 on 3 January 2019 from 10,194 on the previous trading day.

The net foreign investment at DSE fell drastically in the just-concluded year (2018) compared to the previous year. In 2018, net foreign investment dipped to negative Tk.593.47 crore, compared to positive Tk.1,704.95 crore during 2017. Foreign investors bought shares worth Tk.4,496.24 crore and sold shares worth Tk.5,089.71 crore in 2018. In contrast, overseas investors bought shares worth Tk.6,576.29 crore and sold shares worth Tk.4,871.34 crore in 2017.

6.0 PUBLIC FINANCE

Data on the collection of tax revenue are available only for NBR-taxes, and that also for the period up to November of the current fiscal (FY19). No data is available for non-NBR taxes as well as for non-tax revenues. According to NBR's provisional data, its revenue collection during July-November of FY19 stood at Tk.79,733 crore, which is 7.15 per cent higher than the amount of Tk.74,414 crore collected during the corresponding period of FY18 (Table 7 and Figure). The collection in July-November of FY19 fell 21.60 per cent or Tk.21,973 crore short of the respective target. The NBR will have to collect a further amount of Tk.216,468 crore within the remaining seven months to achieve the revenue target of Tk.296,201 crore in the fiscal year ending in June 2019. Of the three main sources of NBR tax, collection of income tax grew 10.99 per cent year-on-year to Tk.21,510 crore in July-November of the current fiscal year. The collection of customs duty increased by only 0.41 per cent, while the collection of VAT, the biggest source of revenue from domestic businesses, increased by 10.08 per cent year-on-year until November of the current fiscal year.

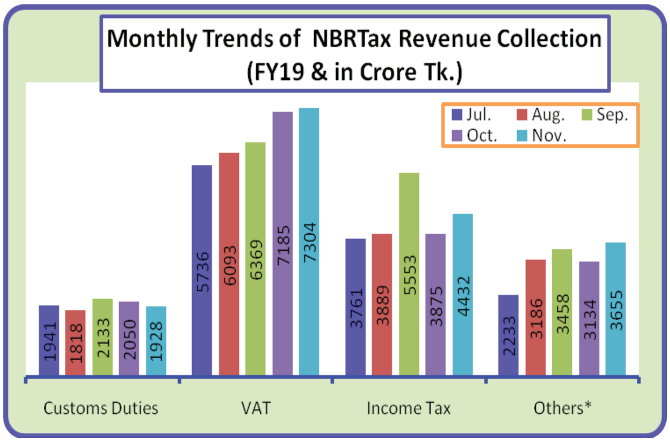


Table 7: Government Tax Revenue Collection

Month	Tax Revenue Collections (in crore Taka)						
	NBR					Non-NBR	Grand Total
	Customs Duties	VAT	Income Tax	Others*	Total		
FY19P							
July	1941	5736	3761	2233	13671	NA	NA
August	1818	6093	3889	3186	14986	NA	NA
September	2133	6369	5553	3458	17513	NA	NA
October	2050	7185	3875	3134	16244	NA	NA
November	1928	7304	4432	3655	17319	NA	NA
Total of July-Nov.	**9870 (0.41)**	**32687 (10.08)**	**21510 (10.99)**	**15666 (1.00)**	**79733 (7.15)**	**NA**	**NA**
FY18R							
July	1909	5807	2992	2518	13226	1305	14531
August	2071	5975	3517	3087	14650	530	15180
September	1649	5460	5067	3576	15752	388	16140
October	1960	6054	3760	3173	14947	564	15511
November	2241	6397	4044	3157	15839	529	16368
Total of July-Nov.	**9830 (26.53)**	**29693 (20.17)**	**19380 (6.06)**	**15511 (18.31)**	**74414 (16.52)**	**3316 (46.14)**	**77730 (17.54)**

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

6.1 Public Expenditure

The implementation rate of the Annual Development Programme (ADP) in the first half of the current fiscal year was slightly higher than the corresponding half of the previous fiscal, in terms of both percentage and absolute volume. According to the Implementation Monitoring and Evaluation Division (IMED) data, 57 ministries and divisions spent Tk.496.45 billion or 27.45 per cent of the total allocation of Tk.1,808.69 billion. In the corresponding period of the last fiscal, Tk.443.31 billion was spent, which was 27.02 per cent of the total outlays (Tk.1,640.85 billion). The use of foreign aid (project aid) in H1 of FY19 was lower in terms of both percentage and absolute amount. In this period, foreign aid spending was Tk.178.34 billion, which was 10.46 per cent lower than the amount spent in the corresponding half of the previous fiscal (Tk.199.18 billion). On the other hand, spending of local funds (including GoB funds) in H1 of FY19 was Tk.318.10 billion, compared to Tk.244.13 billion during the same period a year earlier.

Fifteen large Ministries and Divisions, which together received 79.57 per cent of the total development budget, on an average, spent only Tk.430.01 billion or 29.88 per cent in H1 of the current fiscal. These ministries and divisions 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 Energy and Mineral Resources Division was the highest (55.55%), followed by the Ministry of Science and Technology (47.03%), the Power Division (45.44%), the Ministry of Shipping (36.63%), the Ministry of Housing and Public Works (32.32%), the Local Government Division (31.21%), the Ministry of Primary and Mass Education (24.70%), the Health Service Division (22.84%), the Posts and Telecommunications Division (22.43%), the Ministry of Disaster Management and Relief (21.68%), and the Road Transport and Highways Division (21.46%). Implementation agencies that spent less than 20 per cent of their respective ADP budgets are: the Bridges Division (19.93%), the Secondary and Higher Education Division (16.68%), the Ministry of Water Resources (16.39%), and the Ministry of Railways (9.80%).

7.0 EXPORTS

Export earnings (merchandise) in the first half (July-December) of the current fiscal year (FY19) was US$20.500 billion, registering 14.42 per cent growth over the export earnings of US$17.916 billion in the corresponding period of the previous fiscal year. The export earnings exceeded the strategic target (US$18.785 billion) by 9.13 per cent. While the continued weakening of the Taka against the U.S. dollar contributed to the increase in exports, political stability, government's policy support, improvements in safety measures in the apparel sector, and the US-China tariff war that forced global brands to change their sourcing destination to Bangladesh are some of the other factors that boosted exports. Export earnings in the quarter under review (Q2 of FY19) grew year-on-year by 14.11 per cent. In December 2018 alone, export receipts rose by 2.18 per cent (Table 8 and Figure).

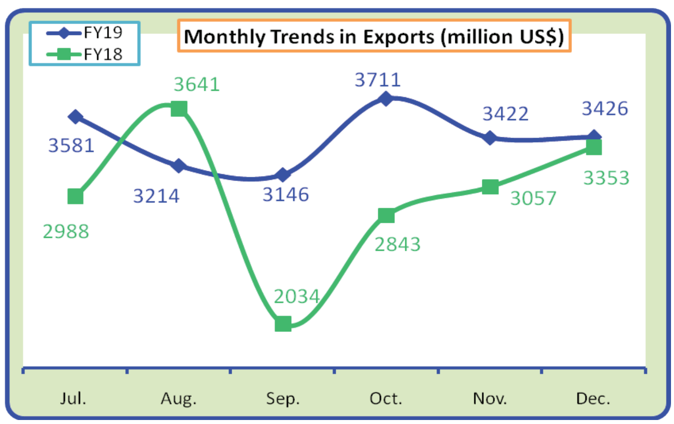
According to EPB data, the overall export growth was largely driven by the RMG sector, which alone fetched US$17.085 billion, or 83.34 per cent of total exports in H1 of FY19, registering a 15.65 per cent growth over US$14.773 billion in H1 of FY18. The country's major export products were knitwear, woven garments, agricultural products, cotton & cotton products, home textile, frozen & live fish, headgear/cap, other manufactured products, engineering products, chemical products, man-made filaments & staple fibres, petroleum bi-products, and plastic products, all of which showed positive growth, while leather & leather products, other footwear, and jute & jute goods, showed negative growth during H1 of FY19.

Table 8: Monthly Trends in Exports (Goods)

Month	Exports (million US$)		Change (%)
	FY19^P	FY18^R	
July	3581	2988	19.85
August	3214	3641	(-) 11.73
September	3146	2034	54.67
Total of Q1	9941	8663	14.75
October	3711	2843	30.53
November	3422	3057	11.94
December	3426	3353	2.18
Total of Q2	10559	9253	14.11
Total of H1 (July-Dec.)	**20500**	**17916**	**14.42**

Notes: P=Provisional; R=Revised

Sources: EPB

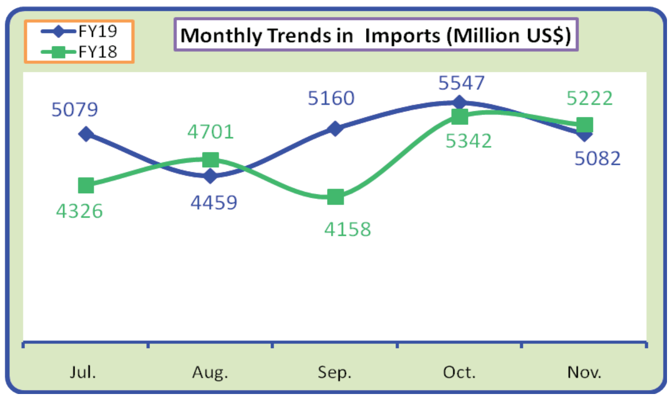


Country wise, export earnings from the United States (US), the single largest export destination for Bangladesh, grew by 18.98 per cent to US$3.454 billion in the first half of FY19 from US$2.903 billion in the corresponding period of the previous fiscal. RMG exports to the US market grew by 18.85 per cent to US$3.09 billion from US$2.60 billion. Exports to Germany, the second largest export destination, registered a 9.88 per cent growth to US$3.124 billion in H1 of FY19, of which export earnings from RMG stood at US$2.95 billion, depicting a 10.94 per cent growth over the corresponding period of FY18. Exports to the United Kingdom (UK), the third largest destination, increased a paltry 3.13 per cent to US$2.044 billion in the first half of FY19 from US$1.982 billion in the same period of FY18. The low growth of exports to UK was due to dwindling demand following Brexit. Export earnings from Spain increased by 7.36 per cent, from France 12.28 per cent, and from Italy 6.42 per cent.

On the other hand, export earnings from neighboring India posted an 84.01 per cent growth to US$665.94 million in July-December of FY19 from US$361.91 million in July-December of FY18. It was mainly the RMG exports that drove the earnings growth from India. RMG exports to that country witnessed a staggering 143.32 per cent growth to US$270.86 million from US$111.32 million. Growth in export earnings from two promising Asian markets - Japan and China - also turned around in the period after experiencing ordinary performance in the last few months. The overall export to Japan and China grew by 35.29 per cent and 35.81 per cent, respectively.

8.0 IMPORTS

Import payments (C&F) during the first five months (July-November of FY19), for which H1 data are available till now, stood at US$25.327 billion, which is 6.64 per cent higher than import payments during the corresponding months of FY18 (Table 9 and Figure). Import payments increased mainly due to higher imports of petroleum & petroleum products and intermediate goods. The depreciation of the taka against all major currencies also contributed to higher import payments than before.



According to Bangladesh Bank (BB) data, the settlement of import Letters of Credit (LCs) increased by 9.49 per cent to US$22.546 billion during July-November of FY19 compared to US$20.592 billion in the corresponding period of the previous fiscal. The import of petroleum and petroleum products increased significantly by 59.59 per cent to US$1.788 billion during July-November of FY19 from US$1.121 billion during July-November of FY18. Apart from petroleum and petroleum products, the import of intermediate goods, industrial raw materials, and machinery for miscellaneous industries pushed up the country's overall imports in the period (July-November of FY19). The opening of fresh import LCs, however, decreased substantially by 30.96 per cent to US$24.681 billion in the first five months of FY19 from US$35.751 billion in the corresponding period of the previous fiscal.

Table 9: Monthly Trends in Custom based Imports

Month	Imports (million US$)		Change (%)
	FY19^P	FY18^R	
July	5079	4326	17.41
August	4459	4701	(-) 5.15
September	5160	4158	24.10
October	5547	5342	3.84
November	5082	5222	(-) 2.68
Total of July-November	**25327**	**23749**	**6.64**

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

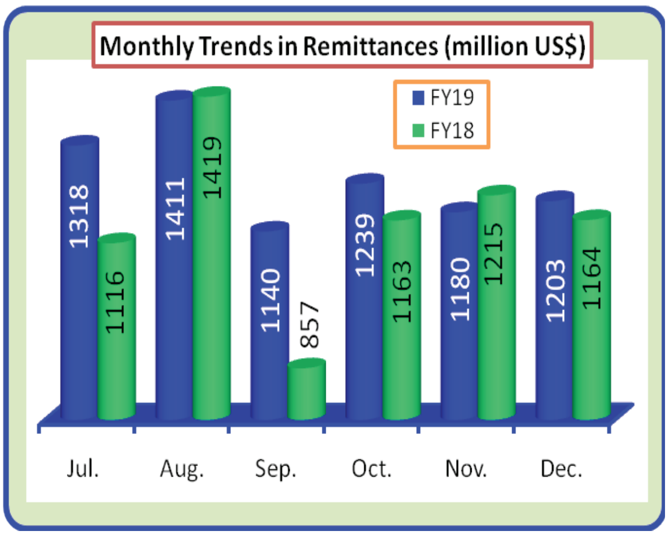
9.0 REMITTANCES

Remittance inflows during the quarter under review (Q2 of FY19) increased only slightly by 2.26 per cent, compared to the robust 14.06 per cent growth in the previous quarter of the fiscal (Table 10 and Figure). Also, the growth of remittances was not much encouraging in the first six months of the current fiscal year (July-December of FY19) when remittance inflow increased only by 8.03 per cent.

Table 10: Monthly Trends in Remittances

Month	Remittances (million US$)		Change (%)
	FY19[P]	FY18[R]	
July	1318	1116	18.10
August	1411	1419	(-) 0.56
September	1140	857	31.51
Total of Q1	***3869***	***3392***	***14.06***
October	1239	1163	6.53
November	1180	1215	(-) 2.88
December	1203	1164	3.35
Total of Q2	***3622***	***3542***	***2.26***
Total of H1 (July-Dec.)	**7491**	**6934**	**8.03**

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



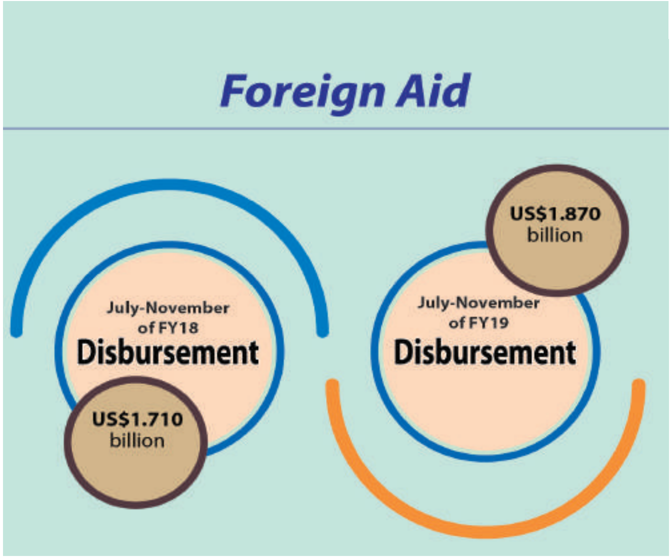
Most private commercial banks along with state-owned ones of the country are involved in sending inward remittances from different overseas countries. Currently, 29 exchange houses operate across the globe with 1,223 drawing arrangements set up abroad - mainly in the Middle East, the United Kingdom, Japan, Canada, Australia, Malaysia, Singapore, Italy and the United States.

10.0 FOREIGN AID

According to the Economic Relations Division (ERD) of the Ministry of Finance, development partners disbursed US$1.870 billion of concessional loans and grants in July-November of FY19, which was 9.36 per cent higher than the amount received (US$1.710 billion) in the corresponding period of FY18. The amount is about a fourth of the total target of US$7.5 billion for the entire fiscal year. Out of US$1.870 billion, the government received US$1.811 billion in loans and US$0.059 billion in grants. On the other hand, foreign aid commitment from development partners slumped by almost half in the first five months of the current fiscal year compared to the same period of the previous fiscal. Foreign aid commitment in FY19 was US$3.82 billion, down from US$6.71 billion in the previous year. Out of US$3.82 billion commitment, development partners confirmed US$3.24 billion as loans and the remainder (US$0.58 billion) as grants.

Bangladesh takes Official Development Assistance (ODA) mainly from multilateral organizations or countries that 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.

During the first five months of the current fiscal year, the government repaid US$604.10 million worth of loans, of which US$152.30 million was by way of interest and US$451.80 million toward repayment of principal. In the corresponding period of the last fiscal, Bangladesh repaid a total of US$524.80 million - US$113.40 million in interest and US$411.40 million as repayment of principal.



11.0 FOREIGN DIRECT INVESTMENT (FDI)

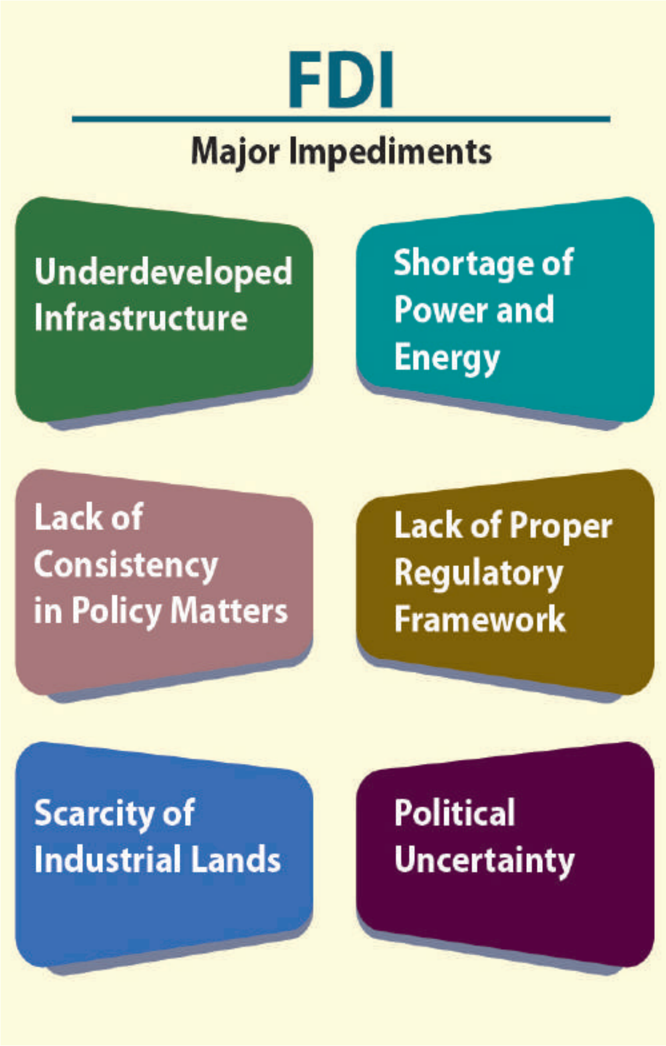
In the first five months of the present fiscal (July-November of FY19), the net foreign direct investment (FDI) in Bangladesh fell by US$29 million or 4.47 per cent to US$620 million from US$649 million in the corresponding five months of FY18 (Table 11). On the other hand, the gross inflow of FDI during the period under review increased by US$79 million or 6.90 per cent to US$1,224 billion from US$1.145 billion in the corresponding five months of FY18. Bangladesh's low labor costs are generally believed to be attractive to foreign investors, but yet net FDI in the country is low, compared to many countries at similar stage of development, because foreign investors hesitate to make fresh investments 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.

In order to encourage foreign entrepreneurs to invest in Bangladesh, government pursues the most liberal investment policy in South Asia. It gives legal protection to FDI; offers incentives like generous tax holiday and concessionary duty on import of machinery; allows duty free import of raw materials, 100 per cent foreign equity, and full repatriation of dividend and capital on exit. Other advantages include a young, committed and easily trainable workforce, a highly competitive wage structure, cheaper costs of setting business, access to a large duty free quota free market, low cost electricity and water, good credit rating of the country, minimum risk factors, and fast technology adaptability. Also, the country's strategic location makes it an emerging hub for regional connectivity, foreign investments and global outsourcing. Bangladesh is ready to put in more efforts to develop its physical infrastructure, improve connectivity, and encourage high-tech for a sustainable double digit growth.

Besides, the government is working to create some 10 million employments and boost export earnings by around US$40 billion through establishing 100 economic zones (EZs) under Bangladesh Economic Zones Authority (BEZA) across the country by 2030. The government already approved some 79 EZs, including 56 public and 23 private economic zones. Also, the government approved 600 industrial enterprises for setting up industries in eight export processing zones (EPZs), namely, Chattogram, Dhaka, Cumilla, Mongla, Ishwardi, Uttara-Nilphamari, Adamjee and Karnaphuli.

Also, BEPZA made a plan to develop land for 250 industrial units in the first phase of the project by June 2021. Some 15 or 20 investors have already shown their interest to get plots in the economic zone. One of them, Singapore-based Wilmar and India's Adani Group will invest US$400 million in a joint venture to establish an industrial park in the Mirsarai economic zone to produce agro-based foods and allied products. Some 11 industrial units will be set up on 100 acres of land, the lease agreement for which was signed recently among Wilmar, Adani Group and BEZA. The industrial park, which will go into operation within next three years, will create about 3,500 jobs. It will also have a waste refinery plant adopting sophisticated technology, logistic yard and warehouse. The investment will enhance competitiveness of local manufacturers and help consumers to get quality products.

Three other companies including a Chinese agency have already started setting up their factories in Mirsarai Economic Zone. Mirsarai Economic Zone is a part of Bangabandhu Sheikh Mujib Industrial City spreading on 30,000 acres of land in Chattogram's Mrisarai and Sitakundu and Feni's Sonagazi upazila. Besides, the country's largest private economic zone, Sirajganj Economic Zone Ltd (SEZL), may open for entrepreneurs within this year. The zone is expected to create employment opportunities for five lakh people and bring in over US$2 billion in investments. Its architectural layout designates space for 400 industries. The economic zone has already caught the attention of some foreign investors from China, South Korea, Japan, Italy and the US, while some local investors also expressed interest to set up factories, mostly textile.



Moreover, BEZA already awarded pre-qualification licences for the establishment of 18 private economic zones. Till date, it has handed over final licences for seven private economic zones to go into operation. BEZA recently gave pre-qualification certificate to private-run Hosendi Economic Zone located at Hosendi union under Gazaria upazila in Munshiganj district. The zone is being established on 108 acres of land on the bank of Meghna River, adjacent to Dhaka-Chattogram highway. Tk.10,000 crore has been invested initially for building 10 industrial units in the zone.

Another enterprise, City Group received a pre-qualification licence from the BEZA to set up an economic zone on 108 acres of land in Munshiganj's Gazaria. City Group is expecting to generate around 15,000 direct employments through the zone in the next five years. Industries expected to open plants in the zone include those of food and beverage and shipbuilding.

Hamid Group, a Bangladeshi conglomerate, will set up an economic zone on 153 acres of land in Mymensingh, aiming to give an impetus to the country's economy. BEZA issued a pre-qualification licence to Hamid Group recently. The proposed Hamid Economic Zone (HEZ) is expected to attract foreign investment in several sectors such as food processing, light engineering, furniture, cosmetics and leather footwear. Like Japanese automobile brand Honda which has already started manufacturing motorcycles in privately run Abdul Monem Economic Zone, HEZ will also help attract such renowned brands in Bangladesh. The HEZ will be established at Trishal by the Dhaka-Mymensingh highway on 153 acres of land, which will be expanded to 300 acres in the future. The HEZ will host 67 industrial units in various sectors, including readymade garments (RMG), chemical, ceramic products, plastic and leather footwear. The HEZ is expected to create more than 38,000 employments.

A fund would be set up with owners, buyers and workers of the companies operating in the country's eight EPZs. The 'owners-buyers-workers' fund aims to meet expenses with regard to emergency support, social safety net and other development and administrative requirements. The fund will have contributions from each purchase order, donation from buyers, government, foreign individual or companies, a certain amount from workers and profit from the fund's investment.

12.0 BALANCE OF PAYMENTS

According to Bangladesh Bank data, overall trade deficit narrowed in the first five months of the current fiscal year, thanks to a rise in exports and a slowdown in imports. The deficit eased by 12.46 per cent to US$6.659 billion during July-November of FY19 from US$7.607 billion in the corresponding period of the previous fiscal year (Table 11). Year-on-year, merchandise exports grew by 16.75 per cent while merchandise imports grew by 6.64 per cent in these five months. The deficit in trade in services, too, year-on-year shrank by 37.11 per cent in the same period of FY19. Lower trade and services deficit led to a significant improvement in the current account balance during July-November of FY19. The current-account deficit narrowed to US$2.558 billion during the period under review from US$4.744 billion in the corresponding period of the previous fiscal.

Table 11: Balance of Payments

(in million US$)

Items	July-November of FY19P	July-November of FY18R	% Changes 2 over 3
1	2	3	4
Trade Balance	**(-) 6659**	**(-) 7607**	**(-) 12.46**
Exports f.o.b (including EPZ)*	16773	14366	16.75
Of which: Readymade Garments	14186	11962	
Imports f.o.b (including EPZ)*	23432	21973	6.64
Services	**(-) 1261**	**(-) 2005**	**(-) 37.11**
Credit	2879	1696	
Debit	4140	3701	
Primary Income	**(-) 1101**	**(-) 1003**	**9.77**
Credit	65	42	
Debit	1166	1045	
Of which: Official Interest Payment	309	199	
Secondary Income	**6463**	**5871**	**10.08**
Official Transfers	9	14	
Private Transfers	6454	5857	
Of which: Workers' Remittances inflows	6288	5769	9.00
Current Account Balance	**(-) 2558**	**(-) 4744**	**(-) 46.08**
Capital Account	**49**	**94**	
Capital Transfers	49	94	
Financial Account	2058	4096	(-) 49.76
Foreign Direct Investment (gross inflows)	1224	1145	
Of which; Foreign Direct Investment net inflows**	620	649	(-) 4.47
Portfolio Investment (net)	40	177	
Of which: Investment by NRBs	99	125	
Other Investment (net)	1398	3270	
Errors and Omissions	**(-) 386**	**75**	**(-) 614.67**
Overall Balance	**(-) 837**	**(-) 479**	**74.74**

Notes: P=Provisional; R=Revised; * = Both exports and imports are compiled on the basis of shipment data

** = Disinvestment, repayments of loans & 4 loss have been deducted as per BPM6 and it includes in financial account calculation instead of gross FDI

Source: Bangladesh Bank

The financial account surplus has, however, shrunken by a half – from US$4.096 billion to US$2.058 billion – during this period, despite an increasing trend in gross FDI. Despite a significant improvement in the current account balance, the deficit in the overall balance increased to US$837 million in July-November of FY19 from a deficit of US$479 million during the corresponding months of FY18. A sharp fall in the country's capital and financial account surplus was primarily responsible for the widening of the overall balance of payments deficit.

13.0 EXCHANGE RATE

Between end-June of 2018 and end-December of 2018, the Taka depreciated by 0.24 per cent in terms of US dollar. On the inter-bank market, the US dollar was quoted at Tk.83.7000 at the end of June 2018 and Tk.83.9000 at the end of December 2018 (Table 12).

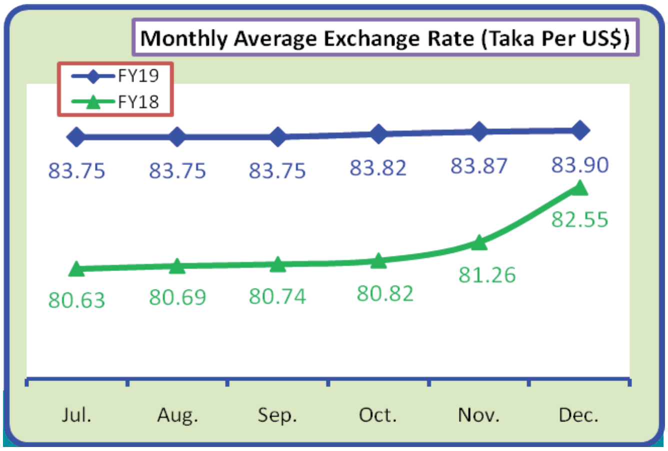
Table 12: Monthly Exchange Rate

Month	FY19P (Taka per US$)		FY18R (Taka per US$)	
	Month Average	End Month	Month Average	End Month
June	-	-	83.7010	83.7000
July	83.7472	83.7500	80.6262	80.6598
August	83.7500	83.7500	80.6937	80.7000
September	83.7500	83.7500	80.7354	80.8000
October	83.8167	83.8500	80.8202	80.8810
November	83.8735	83.9000	81.2550	82.3000
December	83.9000	83.9000	82.5520	82.7000

Note: i) P=Provisional; R=Revised

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

Source: Bangladesh Bank



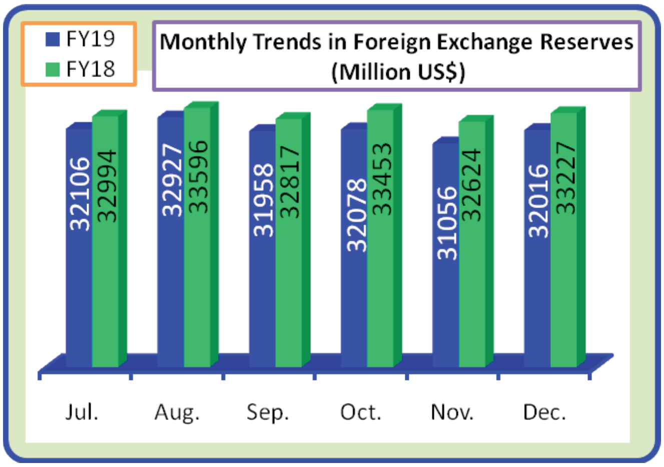
Bangladesh Bank's gross foreign exchange reserves stood at US$32.016 billion (with ACU liability of US$1.15 billion) as of end December 2018, as compared to US$31.056 billion (with ACU liability of US$0.48 billion) at the end of the previous month. The current foreign exchange reserve (less ACU liability) is equivalent to 6.13 months' import payments (Table 13 and Figure).

Table 13: Monthly Trends in Foreign Exchange Reserves

Month	Foreign Exchange Reserve (million US$)	
	FY19P	FY18R
July	32106	32994
August	32927	33596
September	31958	32817
October	32078	33453
November	31056	32624
December	32016	33227

Notes: P=Provisional; R=Revised

Source: Bangladesh Bank



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 been on the decline. As key destinations like United Arab Emirates (UAE) and Malaysia are not increasing their manpower import, the scope of overseas employment has become limited.

In September 2018, Malaysia stopped hiring workers from Bangladesh due to an allegation of syndication and human trafficking in the recruitment process. Experts and sector insiders have predicted that the country's manpower export may shrink further in the coming years due to poor demand for less-skilled workers in major markets. The situation calls for urgent measures to develop skilled manpower in the country. Experts in manpower business underscores the need for formulating a long-term policy with restructuring the education and training systems that would facilitate improving the workers' skills to a standard suitable for the job destinations. They also recommend taking measures to diversify job markets. Only 178,788 workers from Bangladesh entered the international job markets during the quarter under review (October-December of FY19). The number of emigrants was 163,391 during the previous quarter. At present, there are more than 12 million mostly unskilled Bangladeshis working in 168 countries. Their contribution accounts for bulk of the country's foreign exchange earnings and foreign currency reserves.

Since 1991 when Bangladeshi female workers started going abroad for jobs, the number of oversees jobs for female workers has gradually increased. Some 28,632 female workers entered the international markets with jobs during the quarter under review against 16,292 that moved out during the previous quarter (July-September FY19). 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 by 0.02 percentage point to 5.35 per cent in December 2018 from 5.37 per cent in November 2018 (Table 14). The rate of inflation in December was at its lowest in 19 months on the back of a fall in prices of both food and non-food items. According to BBS, the lowest inflation rate was recorded at 5.39 per cent in March 2017. In December 2017, the inflation rate was 5.83 per cent.

The food inflation came down by as little as 0.01 percentage point to 5.28 per cent in December 2018 from 5.29 per cent in the immediate past month of November but, year-on-year, food inflation in December 2018 fell by 1.85 percentage points from 7.13 per cent. On the other hand, non-food inflation decreased slightly by 0.04 percentage point to 5.45 per cent in December 2018 from 5.49 per cent in the previous month. Year-on-year, however, the non-food inflation increased by 1.60 percentage points from 3.85 per cent. BBS data also shows that prices of food items such as sugar, edible oil, fish, vegetables, egg, rice, pulses dropped, while house rents and costs of clothing, household goods, fuel, medical and transportation services, and education increased.

The government has targeted to keep the average inflation rate up to 5.6 per cent, which is also mentioned in the Bangladesh Bank's latest monetary policy statement for January-June 2019 (H2 of FY19).

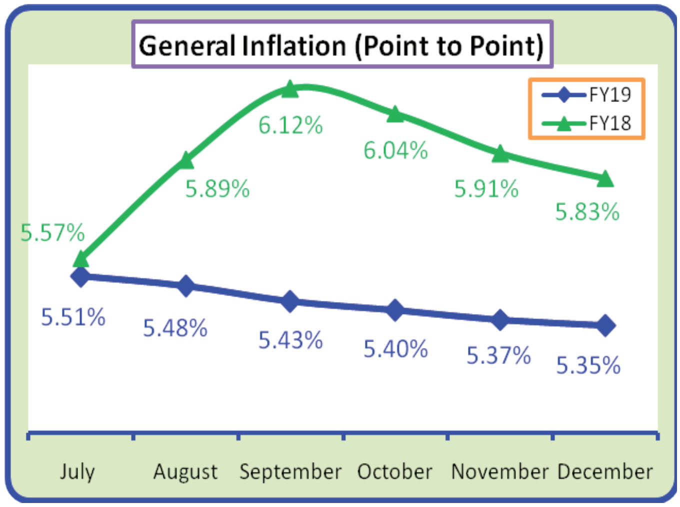
Table 14: Monthly Trends in Inflation (Base: 2005-06=100)

(Per cent)

Period	Point to Point-All (General)			Point to Point-Rural			Point to Point-Urban		
	General	Food	Non-food	General	Food	Non-food	General	Food	Non-food
FY19P									
July	5.51	6.18	4.49	5.04	5.34	4.49	6.37	8.08	4.50
August	5.48	5.97	4.73	5.05	5.34	4.51	6.28	7.39	5.04
September	5.43	5.42	5.45	4.99	4.86	5.22	6.23	6.65	5.74
October	5.40	5.08	5.90	4.87	4.52	5.53	6.38	6.35	6.41
November	5.37	5.29	5.49	4.91	4.84	5.06	6.21	6.32	6.09
December	5.35	5.28	5.45	4.91	4.84	5.05	6.14	6.27	5.99
FY18R									
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

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

A comparison of point to point inflation data for urban and rural areas in December of FY19 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 December were 4.91 per cent, 4.84 per cent, and 5.05 per cent, respectively, while in urban areas these inflation rates were 6.14 per cent, 6.27 per cent, and 5.99 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 third quarter of the present fiscal year (Q3 of FY19). These projections are presented in Table 15.

Table 15: Projection on Some Selected Indicators in Q3 of FY19

Indicators	FY18			FY19								
	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.	**Jan.**	**Feb.**	**Mar.**
Export (million US$)	2955	3322	2939	3581	3214	3146	3711	3422	3426	**3510**	**3580**	**3630**
Import (million US$)	5453	5597	5790	5079	4459	5160	5547	5082	**5100**	**5190**	**5280**	**5360**
Remittance (million US$)	1331	1505	1382	1318	1411	1140	1239	1180	1203	**1500**	**1590**	**1720**
Forex Reserve (million US$)	33096	32349	32943	32106	32927	31958	32078	31056	32016	**31000**	**32890**	**31050**
Inflation, Point to Point (per cent)	5.63	5.57	5.54	5.51	5.48	5.43	5.40	5.37	5.35	**5.32**	**5.45**	**5.55**

Notes: April – December 2018: Actual figures except Import value of December; January – March of FY19: projections (figures in bold)
Sources: BB, BBS and the Chamber's own calculation

Assuming that the peaceful political situation that currently prevails will continue in the coming days- export, import, and remittances could be expected to increase. The foreign exchange reserve will fall somewhat in January and March, which is a regular annual feature occasioned by payments to the Asian Clearing Union (ACU) for imports. The rate of inflation is likely to go up from January because of the probable rise in some essential commodities, including fuel.

18.0 CONCLUDING OBSERVATIONS

The overall economic situation in the country was positive in the quarter under review (Q2 of FY19) 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 export receipts, and a lower rate of investment specially FDI. Inflation was under control, the exchange rate remained stable, and foreign exchange reserves rose to a comfortable level.

During July-December of FY19, the agriculture sector performed well, but continuous government support with inputs and finance will be needed to sustain the sector's growth. Infrastructure deficits and gas and power supply problems were undermining the performance of the manufacturing sector. Government will, therefore, need to adopt suitable measures to remove these bottlenecks in order to support the growth of the country.

In addition, the government will need to improve the country's road and rail infrastructure, develop port facilities, increase power and gas production, and remove other infrastructure bottlenecks and such impediments as the delay in the execution of development projects, lack of skilled manpower and insufficiency of industrial land.

Policymakers should take careful note of significant downside risks, both domestic and external, to a sustained revival of the country's investment and growth prospects in the medium term:

- The domestic risks relate to the government's ability to keep current and planned reforms from going off-track and to maintain fiscal discipline. A stalling or reversal of policy reforms could see significantly lower investment and economic growth.
- Domestic challenges that could complicate the situation further are fiscal slippages and rising inflation as well as delays in structural reforms to address balance sheet issues in the banking and non-financial corporate sectors. High levels of non-performing loans in the banking sector could impede a pickup in investment if left unaddressed.
- Large fiscal deficits, inability to maintain fiscal discipline, low tax-GDP ratios, and weak capital spending are some of the key risks that a developing country like Bangladesh can seldom ignore. The financing of public private partnerships also remains a challenge.
- Other downside risks like the problems of poor governance, corruption in administration, labor indiscipline, and high cost of credit are also major impediments to investment and growth in Bangladesh.
- Finally, there are the challenges of rising geo-political tensions and the *Rohingya* refugee crisis that will need to be met.

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.