QUARTERLY REVIEW

Issue 1 | July-September 2016

The Economic Situation in Bangladesh

MCCI
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METROPOLITAN CHAMBER OF COMMERCE & INDUSTRY, DHAKA

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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

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Issue 1 | July - September 2016 (Q1 of FY17)

Content

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 the FY16 revenue collection target compared to the previous fiscal year (FY15).

The country has 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 7.11 per cent in FY16, which is 0.56 percentage point above the GDP growth of 6.55 per cent achieved in the previous fiscal (FY15). 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

Agriculture is the most important sector in Bangladesh economy. In FY16, the sector employed about 47.5 per cent of the country's total labour force and accounted for about 15.35 per cent of its GDP. Given the government's strong commitment to support the growth of agriculture with timely availability of inputs and finance, the sector is expected to perform well in the present fiscal.

Industry

Data on the country's industry sector are not available for the quarter under review. However, in the past fiscal (FY16), the sector grew by 11.09 per cent, compared to 9.67 per cent in FY15. Besides, the share of the industry sector in GDP also increased by 1.12 percentage points to 31.54 per cent in FY16 from 30.42 per cent in FY15.

Bangladesh has an opportunity to become Asia's manufacturing hub as the country is maintaining high export growth and has a skilled workforce. The manufacturing sub-sector grew 11.69 per cent in FY16, 1.38 percentage points higher than the previous fiscal year's 10.31 per cent. Within manufacturing, the large and medium scale industries sub-sector performed much better than small scale industries, the former growing by 12.26 per cent in FY16, compared to 10.70 per cent in FY15. The small scale manufacturing industries grew by 9.06 per cent in FY16, compared to 8.54 per cent in FY15, according to BBS.

Construction

Data on the country's construction sector for Q1 of FY17 are yet to be available. In the immediate past fiscal (FY16), the sector grew by 8.56 per cent compared to 8.60 per cent in FY15. The real estate, renting and business activities performed better in the past fiscal when it recorded a 4.47 per cent growth compared to 4.40 per cent in FY15. In spite of the tremendous potential of the construction and real estate sector, however, certain factors like land value distortion, absence of secondary property market, asset securitization and sale of mortgages, and insufficiently developed backward linkage industries such as cement, ceramic, brick manufacturing industries, etc. adversely affected its development.

Power

Frequency of power outage across the country has of late been on the rise despite a substantial increase in the overall electricity generation. Businesses bear the brunt of frequent load shedding, which hampers industrial output, while residents suffer from the scorching heat during the pre-monsoon season. Unofficial estimate puts the current demand for electricity at around 10,000 mw. The maximum generation in 2016 was, however, 8,890 mw on 08 September 2016, which was also the maximum generation in BPDB's history. In October 2016, total installed capacity rose to 12,780 mw, and derated/present capacity rose to 12,185 mw, but production remained low because of gas shortage and also because some power stations were shut for maintenance.

Services

Data on the services sector for the first quarter of the present fiscal (Q1 of FY17) is yet to be available. In FY16, the sector witnessed a better performance compared to the previous fiscal. Despite sluggish investment, the services sector grew by 6.25 per cent in FY16 as against 5.80 per cent in FY15. Notable among the well-performing sub-sectors in FY16 are electricity, gas & water supply, transport, storage & communication, hotel & restaurant, wholesale & retail trade, real estate, renting & business activities, health & social works, education, community, social & personal services, and public administration & defence.

Money and Capital Market

Broad money (M2) recorded a higher growth of 14.59 per cent at the end of August 2016 compared to 12.94 per cent at the end of August 2015. Domestic credit, too, grew at a higher rate of 12.94

per cent at the end of August 2016, as against a much lower rate of 9.63 per cent at the end of August 2015.

Among components of domestic credit, private sector credit registered a higher rate of growth of 16.21 per cent during the period between August 2015 and August 2016, as against the lower growth rate of 12.69 per cent witnessed during the period between August 2014 and August 2015. Public sector credit, on the other hand, recorded a lower negative growth rate of 1.48 per cent at the end of August 2016, compared with the negative 2.06 per cent growth at the end of August 2015.

Total liquid assets of the scheduled banks increased by 4.23 per cent to Tk.273,331 crore as of end August 2016 from Tk.262,227 crore as of end June 2016. The minimum required liquid asset of the scheduled banks was Tk.149,817 crore as of end August 2016.

The interest rate spread in the banking sector narrowed further in the quarter under review. From 4.84 per cent in July 2016, the spread shrank to 4.80 per cent in August, and then to 4.76 per cent in September 2016.

The disbursement of industrial term loans during April-June of FY16 stood 8.3 per cent lower at Tk.16,755 crore, compared to Tk.18,265 crore during the immediate previous quarter (January-March of FY16). However, the recovery of industrial term loans increased by 2.7 per cent to Tk.12,771 crore during April-June of FY16, from Tk.12,436 crore in the previous quarter (January-March of FY16).

The Bangladesh Bank (BB) has set a target of Tk.17,550 crore for disbursement of agricultural credit and non-farm rural credit for FY17, which is 7.01 per cent higher than the target set for the previous fiscal year (Tk.16,400 crore). The disbursement of these credits in FY16 (Tk.17,646 crore) exceeded their annual target, thanks to stronger monitoring and supervision by BB. In Q1 of FY17, the disbursement of agricultural credit and non-farm rural credit by banks increased by 13.87 per cent to Tk.3,642.94 crore from Tk.3,199.23 crore in the corresponding quarter of the previous fiscal. The recovery of these credits also increased by 18.60 per cent to Tk.3,697.71 crore in Q1 of FY17 from Tk.3,117.67 crore in the corresponding quarter of the previous fiscal year.

The country's capital market marked a slight improvement around the end of the quarter under review. The turnover on Dhaka Stock Exchange (DSE) hit a fresh eight and a half month high as investors injected fresh funds into the market. Chittagong Stock Exchange (CSE) finished marginally higher with its Selective Categories Index (CSCX) advancing 23.66 points to settle at 8,785.86.

Public Finance

The National Board of Revenue (NBR) has set a revenue collection target of Tk.203,152 crore for FY17, which is about 15.19 per cent higher than the original target of Tk.176,370 crore and about 35.43 per cent higher than the revised target of Tk.150,000 crore for the previous fiscal year (FY16).

During July-August of FY17, the NBR collected Tk.22,015 crore, which was 19.9 per cent higher than the collection of Tk.18,356 crore in the corresponding period of FY16. NBR tax revenue collection in August 2016 stood at Tk.12,421 crore, which was 29.5 per cent higher than the collection of Tk.9,594 crore during the previous month of the same fiscal (July 2016).

The implementation of the Annual Development Programme (ADP) remained slow in the quarter under review despite a number of initiatives taken by government to accelerate implementation. The ADP implementation rate was just 8.75 per cent in July-September of FY17, as against 6.74 per cent in the corresponding period of the previous fiscal (FY16). According to IMED data, 54 ministries and divisions managed to spend only Tk.107.88 billion of the total allocation of Tk.1,233.46 billion.

Export and Import

Export earnings in Q1 of FY17 increased by 4.12 per cent to US$8.079 billion from US$7.759 billion in the corresponding quarter of the previous fiscal year. Improvements in the safety standard in the RMG sector and peaceful political situation perhaps contributed to the growth of export. Export earnings, however, fell 9.69 per cent short of the strategic target (US$8.946 billion).

Import payments (C&F) in July-August of FY17, for which Q1 data are available till now, stood at US$6,738 million, which is 7.41 per cent higher than import payments during the corresponding months of FY16. The value of Imports increased during the period because of the fall in commodity prices, including petroleum products, on the global market.

Remittances

Remittance inflow in Q1 of FY17 dropped by 17.82 per cent to US$3.23 billion compared to US$3.93 billion in the corresponding quarter of the previous fiscal. The drop in remittances was due to the decline in the income and savings of Bangladeshi expatriates working in the Middle-Eastern countries that suffered a huge slump in oil price.

Foreign Aid

The development partners made a commitment of US$12.03 billion in loans and grants for July-September of FY17. This includes Russia's single loan commitment of US$11.38 billion for Bangladesh's first nuclear power plant in Rooppur. In the corresponding period of FY16, the commitment of foreign assistance was only US$52.83 million, which was entirely grant. The disbursement of foreign aid, however, was US$501 million in Q1 of FY17, which is almost similar to the amount (US$502 million) disbursed during the corresponding period of FY16. Aid disbursement declined in Q1 of FY17 chiefly because of the slow implementation of development projects during the period.

Foreign Direct Investment (FDI)

Net foreign direct investment (FDI) in July-August of FY17 increased by 9.30 per cent to US$435 million from US$398 million in the corresponding period of FY16. Industry insiders consider this amount of FDI quite insufficient to meet the country's development needs. Bangladesh's low labour costs and efficient supply chain, especially in readymade garments industry, appear generally attractive to foreign investors, but of late they have adopted a 'go-slow' strategy in making fresh investments. They consider the underdeveloped infrastructure, shortage of power and energy, lack of consistency in policy, procedural bottlenecks, weak regulatory framework, scarcity of industrial lands, lack of proper coordination among government agencies, and political uncertainty as major impediments to new investment. The government needs to address these problems to attract more FDI in the country.

Balance of Payments (BoP)

Trade deficit increased slightly by 5.0 per cent in the first two months of FY17 due to lower export earnings alongside higher import payments. At the end of August 2016, the trade deficit stood at US$525 million compared to US$500 million at the end of August 2015. Growth of both imports and exports increased at an equal pace but trade deficit went up as the amount of import payments exceeded the amount of export earnings. As a result of a big fall in remittance, the surplus in the current account balance in the first two months fell to about half of (15.67%) last year's. In July-August of FY17, current account surplus was US$700 million, a big drop from last year's US$1,343 million. However, the overall surplus in the balance of payments was almost the same as in the past fiscal year. During July-August of FY17, the overall surplus stood at US$1.20 billion, while it was US$1.27 billion in the July-August of the last fiscal.

Exchange Rate and Foreign Exchange Reserve

Between end-June and end-September of 2016, the external value of the Taka remained unchanged in terms of US dollar, showing stability in the foreign exchange market. On the inter-bank market, the US dollar was quoted at Tk.78.4000. The volume of reserves increased as export earnings rose to withstand the pressure of import payments. The stable exchange rate of the Taka against the US dollar has encouraged the expatriate Bangladeshis to send home their earnings through official channels, which has also helped boost the reserve. The reserve rose to US$31.39 billion on 29 September 2016.

Inflation

In September 2016, the general point to point inflation rose by 0.16 percentage point to 5.53 per cent from 5.37 per cent in the previous month. The rise in prices of some food items, especially rice, on the domestic market pushed up the point-to-point inflation in September after registering a slight fall in the previous month.

The government has targeted to keep the inflation rate within 5.8 per cent in FY17, and the latest data show that it is still below the government target. In its latest monetary policy statement (July-December 2016), the central bank, too, aimed at keeping the inflation rate within the official target.

A comparison of inflation data for urban and rural areas shows that the inflation rate in September of FY17 was much higher in urban areas than in rural areas.

1.0 AGRICULTURE

Data on agricultural production for the first quarter of the present fiscal (Q1 of FY17) 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. However, the sector employed about 47.5 per cent of Bangladesh's total labour force and accounted for about 15.35 per cent of GDP in FY16. Due to low prices of paddy in the harvesting season, the sector recorded a lower growth of 2.79 per cent in FY16 compared to 3.33 per cent in FY15. Given the government's strong commitment to support the growth of agriculture with timely availability of inputs and finance, the sector is expected to perform well in the present fiscal.

1.1 Food Situation

Domestic Production

The target of domestic food grains (rice and wheat) production for FY17 was set by the Department of Agricultural Extension (DAE) at 36.50 million metric tons (mmt), which is 0.22 per cent higher than that of FY16 (36.42 mmt). Production targets for aman, aus, boro and wheat are 13.54 mmt, 2.46 mmt, 19.15 mmt, and 1.35 mmt, respectively. Farmers have already started harvesting early varieties of aman rice. It is worth noting that the actual production of food grains during FY16 stood at 36.06 mmt, just same as the level of previous year's production, but fell 0.99 per cent short of the FY16 target.

Food Grains Import

As of 29 September 2016, about 2.46 thousand metric tons (tmt) of rice was imported by the private sector. No rice was imported by the public sector. Over the same period of last year, private sector import of rice was 60.89 tmt, while there was no rice import by the public sector. Wheat however, up to the fortnight ending 29 September 2016, bulk of the wheat import, 1,135.87 tmt, was made by the private sector, while a much smaller quantity of 56.27 tmt was imported by the public sector. Over the same period of the previous year, a total of 150.96 tmt of wheat was imported by the public sector and 521.04 tmt by the private sector.

Domestic Procurement

To provide price incentive to farmers, government started procurement of 0.2 mmt of wheat at Tk.28.00 per kg from the domestic market. The procurement drive began on 10 April 2016 and closed on 20 July 2016. The target was almost fully achieved. Boro procurement started from 5 May 2016 and will continue up to 15 October 2016 (Revised). The procurement revised target was set at 0.70 mmt of paddy at Tk.23.00 per kg and 0.85 mmt of parboiled rice at Tk.32.00 per kg. As on 29 September 2016, about 670 tmt of boro paddy and about 450.0 tmt of rice were procured.

Public Distribution

The government has enhanced its efforts to ease the hardship of poor households by distributing subsidized grains through open market sale (OMS) and fair price card (FPC) channels. In FY17, the provisional target of food grains distribution was 2.97 mmt against the actual distribution of 2.064 mmt in FY16. Over the fortnight ending 29 September 2016, a total of 161.80 tmt food grains was distributed mainly through OMS (117.50 tmt), VGF (18 tmt), EP (15.70 tmt) and VGF (5.50 tmt). As of that date, a total of 428.70 tmt had been distributed through PFDS, which is about 14.43 per cent of the yearly target. The OMS drive, which was resumed in small scale - only rice in Dhaka and Chittagong Metropolitan areas, and atta all over the country - continues.

Public Stock

According to the Directorate General of Food, the public food grains stock, as of 29 September 2016, stood at 1,125.80 tmt – 751.70 tmt for rice and 374.10 tmt for wheat.

Domestic Market Price

In the fortnight ending 29 September 2016, wholesale and retail prices of rice (Swarna) in Dhaka city markets increased by 3.6 per cent and 2.8 per cent, to Tk.35.50 and Tk.36.50 per Kg,

respectively. The wholesale and retail prices now are, respectively, 28.9 per cent and 17.4 per cent higher than they were a year ago. Over the same period, the wholesale and retail prices of atta in Dhaka city markets decreased by 1.4 per cent and 2.0 per cent to Tk.20.95 and Tk.24.00 per Kg, respectively. The wholesale and retail prices are, respectively, 3.9 per cent and 12.9 per cent lower now than the prices prevailing last year.

International Market Price

In the fortnight ending 30 September 2016, the price of India 5% parboiled rice increased by 0.6 per cent to US$356 per mt but the prices of Thai 5% parboiled, Vietnam 15% white and Pakistan 5% parboiled rice decreased by 1.4 per cent, 0.9 per cent and 1.7 per cent, respectively, to US$360 per mt, US$320 per mt and US$350 per mt. But the price of West Bengal coarse rice increased by 0.8 per cent to US$360 per mt. However, the wholesale price of rice in Dhaka city stood at US$453 per mt (increased by 3.6%). In the fortnight ending 30 September 2016, the price of US Soft Red Winter (SRW) wheat increased by 0.4 per cent to US$159 per mt. Russian wheat price stood unchanged at US$168 per mt but Ukraine wheat price decreased by 0.6 per cent to US$169 per mt. On the same date, Dhaka city wholesale wheat price increased by 2.4 per cent to US$267.90 per mt.

1.2 Fisheries and Animal Farming (Livestock and Poultry)

According to BBS data, fisheries and animal farming (livestock and poultry) sub-sectors accounted for about 5.31 per cent of the GDP in FY16, of which the fish sector contributed around 3.65 per cent and the animal farming sector contributed 1.66 per cent. Nearly 17.1 million people are involved in the fish sector, while the animal farming sector has created job opportunities for around 6.5 million people.

Recently, the government is set to formulate a policy on fish biodiversity management in the cross-border rivers aiming to boost fish production and save the rare species of fishes from

extinction. To this effect, the Ministry of Fisheries and Livestock (MoFL) initiated a move to preserve the rare and indigenous species of freshwater fishes and increase their production. Bangladesh Fisheries Research Institute (BFRI) has been working on the issue. Bangladesh and India share 54 common rivers that are major sources of freshwater fishes. But indigenous species of freshwater fishes are in danger of extinction due to climate change, deposit of huge silts on the riverbeds, excessive use of chemicals in cropland and epizootic ulcerative syndrome (fish disease), according to BFRI. Bagda, tangra, bata and foli fishes have now become rare, and BFRI will frame a policy on fish biodiversity management in trans-boundary rivers to ensure restoration of migration routes of fishes and their safe breeding. The production of freshwater fish in the country is increasing day by day and the rate of fish production growth is over 0.1 million tons. If the present growth trend continues, it will be possible to attain self-sufficiency in freshwater fish production within next few years. The fisheries sector sees a financial transaction of over Tk.40 billion annually. The total demand for freshwater fish in the country is about 4.2 million tons and the country is now producing around 3.8 million tons of freshwater fishes, according to BFRI.

On the other hand, the poultry industry now meets almost all the local demand for meat and eggs, according to Bangladesh Poultry Industries Coordination Committee (BPICC). The industry is producing 1,500 mt of poultry meat per day against the target of 1,400 mt. It also produces 16 million eggs per day against the demand for 15 million, and almost 10 million pieces of chicken every week against the weekly demand for nearly 9 million pieces. As a result, the industry has now an exportable surplus. However, Bangladesh could not yet export poultry due to the inability to maintain international standard.

2.0 INDUSTRY

Data on the country's industry sector are not available for Q1 of FY17. However, the sector grew by 11.09 per cent in FY16, which was 9.67 per cent in FY15. Besides, the share of the industry sector in GDP also increased by 1.12 percentage points to 31.54 per cent in FY16 from 30.42 per cent in FY15. .

2.1 Manufacturing Industries

Bangladesh has an opportunity to become Asia's manufacturing hub as the country is maintaining high export growth and has a skilled workforce with competitive wages. There are 60.7 million people in the workforce, including all sectors like garments, agriculture, manufacturing and the services sectors (Labour Force Survey, 2013). Alone in garment sector, the number of workers is 4.4 million at present. Bangladesh's competitive advantage is its young workforce. The average age of most of the workers is below 40, which is a dividend for the country, according to industry insiders. However, the manufacturing sub-sector grew by 11.69 per cent in FY16, 1.38 percentage points higher than the previous fiscal year's 10.31 per cent. The large and medium scale industries sub-sector performed much better than small scale industries, the former growing by 12.26 per cent in FY16, compared to 10.70 per cent in FY15. The small scale manufacturing industries grew by 9.06 per cent in FY16, compared to 8.54 per cent in FY15, according to BBS.

Data on manufacturing industries are not available beyond June of the last fiscal (FY16). During July-June of FY16, the general index (Base: 2005-06=100) of industrial production of medium and large scale manufacturing industries rose to 268.11 points, registering a 12.08 per cent increase over 239.22 points during the corresponding period of FY15. According to industry insiders, industrial activity went down due to supply disruption and weaker consumer confidence caused by slower business activity. Among medium and large-scale manufacturing industries, general indices that recorded an increase in FY16 were: non-metalic mineral products (44.93%), chemicals & chemical products (19.66%), food products (13.28%), textile (13.11%), wearing apparel (11.14%), basic metals (8.40%), pharmaceuticals & medicinal chemical (1.95%), and fabricated metal products except machinery (0.19%). On the other hand, there was some decrease in the indices of leather & related products (12.81%), and tobacco products (8.07%).

The general index of small scale manufacturing industry during the second quarter (October-December) of FY16 increased slightly by 1.93 per cent to 444.38 points from the index of 435.95 points during the first quarter (July-September) of FY16. However, the index during the second quarter of FY16 (444.38 points) increased by 7.86 per cent as compared to the same quarter of the previous fiscal year (412.00 points).

2.2 Construction

Data on the country's construction sector are not available for Q1 of FY17. However, in FY16, the sector grew by 8.56 per cent compared to 8.60 per cent in FY15, according to BBS. The real estate, renting and business activities performed better in the period when it marked a 4.47 per cent growth compared to 4.40 per cent in FY15. In spite of the tremendous potential of the construction and real estate sector, various factors adversely affected its development. The inhibiting factors are: land value distortion, absence of secondary property market, asset securitization and sale of mortgages, and backward linkage industries such as cement, ceramic, brick manufacturing industries, etc.

The real estate business saw an improvement in recent times, thanks to property price corrections, falling interest on home loans and return of political stability. The sector appears to be recovering in the last few months. The number of unsold ready apartments has now declined to 10,000 from 22,000 a couple of years back and the realtors hope that the recent cut in lending rates by banks and financial institutions would help raise the apartment sales further. In the wake of a comparatively-favorable business environment created for the sector, realtors started undertaking new apartment projects. 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 Real Estate and Housing Association of Bangladesh (REHAB).

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 are bearing the brunt of frequent load shedding as industrial output is being hampered, while residents are suffering from scorching heat during the fag end of the monsoon. As of 30 September 2016, total actual generation during day peak hours was 6,431 megawatt (mw) and during evening peak hours it was 8,739 mw. Unofficial estimate puts the current demand for electricity at around 10,000 mw. The

maximum generation in 2016 was 8,890 mw on 08 September 2016 and it was also the maximum generation in BPDB's history. In October 2016, total installed capacity rose to 12,780 mw, and derated/present capacity to 12,185 mw, but production remained low because of gas shortage and also because some power stations were shut for maintenance.

According to the BPDB website, the 12,780 mw installed capacity of power plants comprised of coal 250 mw (1.96%), gas 7,988 mw (62.50%), HFO 2,684 mw (21.00%), HSD 1,528 mw (11.96%), Hydro 230 mw (1.80%), and imported 100 mw (0.78%).

According to the Ministry of Power, Energy and Mineral Resources (MoPEMR), 76 per cent people of the country have already come under electricity coverage and the government has set the goal of providing electricity to all citizens by 2021. Also the government has undertaken a massive capacity expansion plan to have 24,000 mw capacity of power production in the country which can meet up the demand. The countrywide electricity generation has reached 14,500 mw while it was 3,268 mw at the beginning of 2009. The power system has been expanded to keep pace with the fast growing demand. According to the MoPEMR, the government is expecting to generate 16,000 mw electricity at the end of 2016, and has the vision to generate 24,000 mw by 2021.

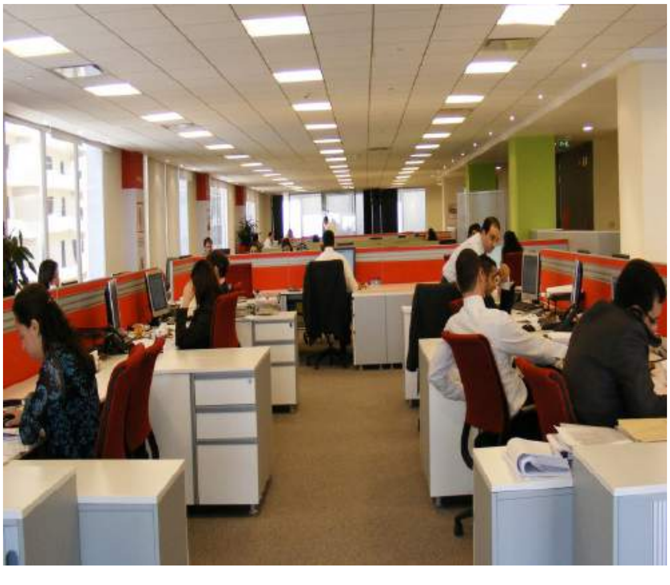
To increase the capacity expansion plan of power, the country has inked four agreements and a memorandum of understanding (MoU) with different local power sector entities during the visit of Chinese President. Chinese investments in Bangladesh's power and energy sector would be over US$5.32 billion. Of the total investments, a 1,320 mw coal-fired power plant at Paira, to be implemented by the state-run North West Power Generation Company Ltd (NWPGCL), would fetch US$1.984 billion. Improvement of electricity distribution system through underground line along with supervisory control and data acquisition (SCADA), to be implemented by the state-run Dhaka Power Distribution Company Ltd (DPDC), would bring US$1.35 billion. Besides, reliable and uninterrupted electricity transmission system expansion and automation, to be implemented by Power Grid Company Bangladesh Ltd (PGCB), would fetch US$1.14 billion. Single point mooring (SPM) project with double pipeline to carry crude and refined petroleum products from deep sea to onshore storage facility would get US$550 million. The MoPEMR inked a MoU with China on cooperation in energy and renewable energy sector.

Besides, private sector entities such as local business giants Beximco and Meghna also signed agreements with Chinese companies to produce a total of 3,500 mw of electricity in five years. The deals were part of the 13 agreements, worth US$13.6 billion, that were signed during Chinese President's two-day visit to Dhaka. Beximco Group would produce 2,180 mw, of which 1,980 mw would come from coal-fired plants and 200 mw from a solar power plant. Beximco and its Chinese partners will invest a total of US$3.2 billion to produce the power. The construction of the solar power plant will begin first, from March 2017 in Gaibandha and target to supply the electricity to the national grid from early 2019. For the solar power plant, Beximco signed the agreement with TBEA, a Chinese private power producer. Beximco will have an 80 per cent stake in the plant and TBEA will have 20 per cent. For coal-fired power plant, Beximco signed another agreement with Chinese state-owned company, Power China Resource, to build two units of 660 mw at Banshkhali and Boalkhali in Chittagong. At the Banshkhali plant, the local company will have a 25 per cent stake and the Chinese partner the rest and for the Boalkhali project, the equity distribution would be 80-20 in favour of Beximco. Beximco is in talks with companies from Indonesia and Mozambique to purchase coal for the power plants and aiming to supply electricity to the national grid within the next five years. Meanwhile, Meghna Group inked deals with Chinese state-owned Power Construction Corporation to produce 1,320 mw of electricity from two coal-fired power plants. The plants, each with generation capacity of 660 mw, would be set up at Daudkandi in Comilla at a cost of US$1.75 billion. The Chinese government will arrange the funding and the stake in the power plants will be mutually decided by the two parties. It might take at least two years for the plants' construction to take off.

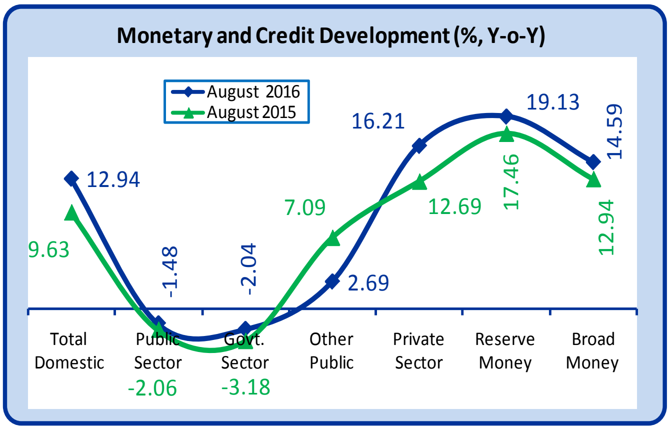
To reduce the average system interruption duration index and average system interruption frequency index in power distribution areas under the Bangladesh Power Development Board (BPDB), the government decided that there will be no overhead electricity cables in Dhaka city by 2025. Moreover, the government also planning to implement the same in six other major cities in a bid to improve the power supply situation after successful implementation of some underground electricity distribution lines in Dhaka city. These major six cities are: Chittagong, Comilla, Sylhet, Mymensingh, Rajshahi and Rangpur. Thus, the BPDB has taken an initiative to replace all overhead electricity distribution lines to underground ones in these six cities to increase the longevity and reliability of the power distribution system. These steps would play a vital role in fixing low voltage and load-shedding problems which the citizens of major cities have been facing for a long time. After implementation, people will get modern power supply facilities. Country's all power substations, transmission and distribution lines would be taken underground gradually, in phases.

2.4 Services Sector

Data on services sector for the first quarter of the present fiscal (Q1 of FY17) is yet to be available. However, in FY16 the sector witnessed, according to BBS, a better performance compared to the previous fiscal. Despite the sluggish investment situation prevailing in the country, the growth of services sector increased by 0.45 percentage point to 6.25 per cent in FY16 from 5.80 per cent in FY15. Notable among the well-performing sub-sectors in FY16 are electricity, gas & water supply, transport, storage & communication, hotel & restaurant, wholesale & retail trade, real estate, renting & business activities, health & social works, education, community, social & personal services, and public administration & defence.



It is noticeable that the share of the services sector in GDP, which was at its peak at 55.59 per cent in FY06, has been continuously declining thereafter, dropping to 53.12 per cent in FY16. Among the different services sub-sectors, the wholesale & retail trade held the highest share in GDP (13.99%) in FY16 compared to 14.08 per cent in FY15. The GDP shares of certain other sub-sectors in FY16 were: transport, storage & communication (11.31%), community, social & personal services (9.18%), construction (7.26%), real estate, renting & business activities (6.64%), public administration & defence (3.63%), financial intermediations (3.39%), and education (2.39%).



3.0 MONETARY AND CREDIT DEVLOPMENT

According to BB data, broad money (M2) recorded a higher growth of 14.59 per cent at the end of August 2016 compared with the 12.94 per cent growth achieved at the end of August 2015. Domestic credit, on the other hand, recorded 12.94 per cent growth at the end of August 2016, while a much lower rate of growth of 9.63 per cent was recorded at the end of August 2015.

Among components of domestic credit, private sector credit registered a growth of 16.21 per cent during the period between August 2015 and August 2016, compared with the lower growth of 12.69 per cent during the period between August 2014 and August 2015. Public sector credit, on the other hand, recorded a negative growth of 1.48 per cent at the end of August 2016, compared with the decrease of 2.06 per cent at the end of August 2015. Within public sector credit, however, credit to government (net) recorded a negative growth of 2.04 per cent, and credit to other public sector recorded a growth of 2.69 per cent, during the period (Table 1).

Table 1: Monetary and Credit Indicators

Particulars	Outstanding Stock			% Changes in Outstanding Stock	
	August 2014^R	August 2015^R	August 2016^P	August 2015 over August 2014	August 2016 over August 2015
Total Domestic Credit	647225	709552	801359	9.63	12.94
Credit to Public Sector	134142	131375	129434	(-) 2.06	(-) 1.48
Net Credit to Government Sector	119492	115687	113324	(-) 3.18	(-) 2.04
Credit to Other Public Sector	14650	15688	16110	7.09	2.69
Credit to Private Sector	513083	578177	671925	12.69	16.21
Reserve Money (RM)	136837	160723	191466	17.46	19.13
Broad Money (M_2)	713086	805378	922883	12.94	14.59

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

Total liquid assets of the scheduled banks increased by 4.23 per cent and stood higher at Tk. 273,331 crore as of end August 2016 compared with Tk.262,227 crore as of end June 2016. The minimum required liquid asset of the scheduled banks was Tk.149,817 crore as of end August 2016 (Table 2).

Table 2: Liquidity Position of Scheduled Banks

(Taka in crore)

Bank Group	As of end June, 2016[R]	As of end August, 2016[P]		
	Total Liquid Assets	Total Liquid Assets	Minimum Required Liquid Assets	Excess Liquidity
1	2	3	4	5 (3-4)
State owned banks	108039	110497	46716	63781
Private banks (other than Islamic)	103585	109709	74189	35520
Private banks (Islamic)	29091	29714	19816	9898
Foreign banks	19972	21835	7531	14304
Specialized banks*	1540	1576	1565	11
Total	**262227**	**273331**	**149817**	**123514**

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 2016, some 3.90 per cent is held in the form of Cash in tills and Balances with Sonali Bank, 20.27 per cent in the form of CRR, 1.72 per cent in the form of Excess Reserves, 3.04 per cent in the form of Balances with Bangladesh Bank in Foreign Currency and the remaining 71.07 per cent in the form of Unencumbered approved securities.

3.1 Interest Rate Developments

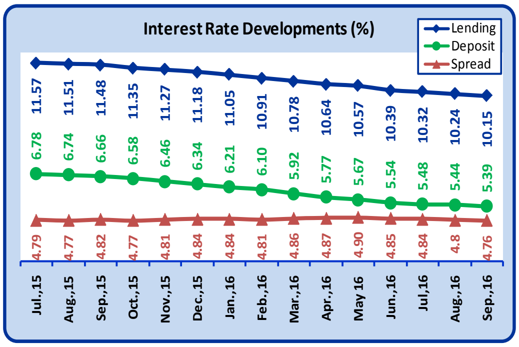
Bangladesh Bank (BB) employs repo, reverse repo, and BB bill rates as policy instruments for influencing financial and real sector prices. Effective from 1 February 2013, the repo and reverse repo rates remained unchanged at 7.25 per cent and 5.25 per cent, respectively, up to December 2015. The rates 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 FY16 and Q1 of FY17

(In per cent)

Month/ Quarter	Repo	Reverse Repo	Lending Rate	Deposit Rate	Interest Rate Spread
FY16[R]					
July	7.25	5.25	11.57	6.78	4.79
August	7.25	5.25	11.51	6.74	4.77
September	7.25	5.25	11.48	6.66	4.82
October	7.25	5.25	11.35	6.58	4.77
November	7.25	5.25	11.27	6.46	4.81
December	7.25	5.25	11.18	6.34	4.84
January	6.75	4.75	11.05	6.21	4.84
February	6.75	4.75	10.91	6.10	4.81
March	6.75	4.75	10.78	5.92	4.86
April	6.75	4.75	10.64	5.77	4.87
May	6.75	4.75	10.57	5.67	4.90
June	6.75	4.75	10.39	5.54	4.85
FY17[P]					
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	10.15	5.39	4.76

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



The country's scheduled banks cut their lending interest rates further in September 2016. According to BB data, the weighted average interest rate on lending in the banking sector declined to 10.15 per cent in September 2016 from 10.24 per cent in August 2016. The weighted average interest rate on lending had continued to decline throughout last year. It dropped from 11.57 per cent in July 2015 to 10.32 per cent in July 2016 (Table 3). The weighted average interest rate on bank deposits also decreased to 5.39 per cent in September 2016 from 5.44 per cent in August 2016. Majority of the banks had recently cut interest rates both on their deposits and lending. The country's businesspeople have adopted a 'wait and see' approach in regard to expanding their businesses by taking bank loans due to the sluggish business environment. Against this backdrop, the interest rate spread narrowed to 4.76 per cent in September 2016 from 4.80 per cent in the previous month. The spread was 4.84 per cent in July 2016.

3.2 Industrial Term Loans

Data on industrial term loans are available only up to the fourth quarter (April-June) of FY16. According to BB data, the disbursement of industrial term loans during April-June of FY16 stood 8.3 per cent lower at Tk.16,755 crore, compared to Tk.18,265 crore during the immediate previous quarter (January-March) of FY16 (Table 4). However, the recovery of industrial term loans increased by 2.7 per cent to Tk. 12,771 crore during April-June of FY16, compared to Tk.12,436 crore in the previous quarter (January-March of FY16).

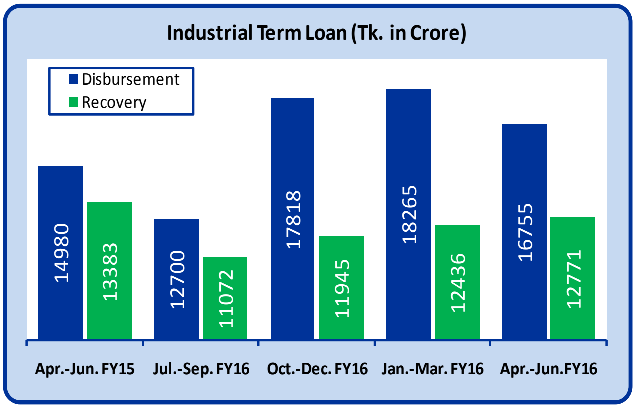


Table 4: Disbursement and Recovery of Industrial Term Loans

Quarter	Disbursement (Tk. in crore)				Recovery (Tk. in crore)			
	LSI	MSI	SSCI	Total	LSI	MSI	SSCI	Total
April-June of FY15[R]	11182	2497	1301	14980 (+12.2)	8434	3308	1641	13383 (+27.2)
July-September of FY16[P]	9493	2112	1095	12700 (-15.2)	7905	2013	1154	11072 (-17.3)
October-December of FY16[P]	13575	2237	2006	17818 (+40.3)	8203	1949	1793	11945 (+7.9)
January-March of FY16[P]	14264	2506	1495	18265 (+2.5)	9021	2029	1386	12436 (+4.1)
April-June of FY16[P]	11921	2493	2341	16755 (-8.3)	9088	2718	965	12771 (+2.7)

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: Bangladesh Bank

3.3 SME Loans

Data on SME loans are not available for Q1 of FY17. According to BB data, total SME loans by all banks and non-bank financial institutions (NBFIs) increased by 17.23 per cent to Tk.160,494 crore at the end of June 2016 from Tk.136,908 crore at the end of June 2015. The disbursement of SME loans was 23.6 per cent of total loans disbursed by all banks and NBFIs at the end of June 2016 (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 FY15[R]	Total Loans	103776	394357	23528	21425	40884	583970
	SME Loans	25477	103688	1862	835	5046	136908
	Percentage	(+24.5)	(+26.3)	(+7.9)	(+3.9)	(+12.3)	(+23.4)
July-Sept. of FY16[P]	Total Loans	112466	408056	23943	21112	42613	608190
	SME Loans	24518	105882	1912	846	5173	138331
	Percentage	(+21.8)	(+25.9)	(+8.0)	(+4.0)	(+12.1)	(+22.7)
Oct.-Dec. of FY16[P]	Total Loans	110529	428210	24399	21377	44848	629463
	SME Loans	29049	111429	1887	975	5453	148793
	Percentage	(+26.3)	(+26.0)	(+7.7)	(+4.6)	(+12.2)	(+23.6)
Jan.-Mar. of FY16[P]	Total Loans	112457	440555	24259	21377	46807	645455
	SME Loans	28831	114851	1863	970	5680	152195
	Percentage	(+25.6)	(+26.1)	(+7.7)	(+4.5)	(+12.1)	(+23.6)
April-June of FY16[P]	Total Loans	116837	465050	25881	22251	49309	679328
	SME Loans	29541	120891	1971	1700	6391	160494
	Percentage	(+25.3)	(+26.0)	(+7.6)	(+7.6)	(+13.0)	(+23.6)
% change of SME loans at the end of June 2016 over end of June 2015		+15.95	+16.59	+5.85	+103.59	+26.65	+17.23

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

3.4 Agricultural Credit and Non-farm Rural Credit

The Bangladesh Bank (BB) has set a target of Tk.17,550 crore for disbursement of agricultural credit and non-farm rural credit for FY17, which is 7.01 per cent higher than that of the previous fiscal year (Tk.16,400 crore). The disbursement of agricultural credit and non-farm rural credit in FY16 (Tk.17,646 crore) also surpassed their annual target as the BB strengthened its monitoring and supervision to the lenders from the very beginning of the fiscal.

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

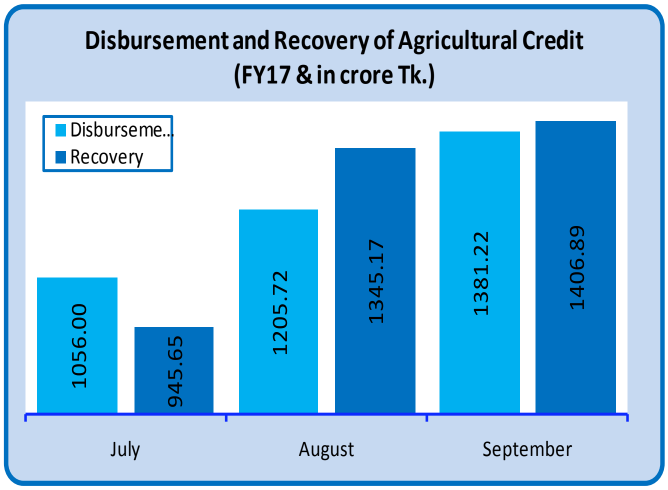
(Taka in crore)

Month	FY17P		FY16R	
	Disbursement	Recovery	Disbursement	Recovery
July	1056.00	945.65	856.91	790.33
August	12 05.72	1345.17	952.42	999.44
September	1381.22	1406.89	1389.90	1327.90
Total of Q1	**3642.94 (+13.87)**	**3697.71 (18.60)**	**3199.23 (+16.32)**	**3117.67 (-4.33)**

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

Source: Bangladesh Bank

In the quarter under review, the disbursement of agricultural credit and non-farm rural credit by banks increased by 13.87 per cent or Tk.443.71 crore to Tk.3,642.94 crore from Tk.3,199.23



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 also banks were now holding surplus liquidity due to the dull business situation. The recovery also increased by 18.60 per cent or Tk.580.04 crore to Tk.3,697.71 crore in Q1 of FY17 from Tk.3,117.67 crore in the corresponding period of the previous fiscal year.

4.0 CAPITAL MARKET

The country's capital market marked a slight improvement on 29 September 2016, the last day of the month. The turnover on Dhaka Stock Exchange (DSE) hit a fresh eight and a half month high as investors injected fresh funds into stocks. Turnover rose nearly 39 per cent to Tk.6.82 billion over the previous day, while the daily average turnover for the week stood at Tk.5.60 billion. The market rose as institutional investors, including some global fund managers, were active on both sides of the trading fence. Maintaining the previous day's gaining streak, the market started higher and at one point the general index crossed the 4,700-point

CHITTAGONG STOCK EXCHANGE LTD

level. But the index failed to remain at that level amid profit-taking at the final hour, although ultimately it closed somewhat higher. DSEX, the prime index of DSE, finished the last session of the week at 4,695.18, advancing 4.56 points or 0.09 per cent over the previous day. While large institutional trade raised the market turnover, the lower yield on fixed income investment also enticed the investors to inject fund in the capital market. However, the two other indices ended in the red. DS30, comprising blue chips, fell 0.69 point or 0.04 per cent to settle at 1,778.70. And the DSE Shariah Index (DSES) lost 0.24 point or 0.02 per cent to close at 1,125.86.

Chittagong Stock Exchange (CSE) also finished marginally higher with its Selective Categories Index (CSCX), advancing 23.66 points to settle at 8,785.86. The gainers beat the losers, as 132 issues closed higher, 76 closed lower, and 38 remained unchanged.

5.0 PUBLIC FINANCE

In FY17, the National Board of Revenue (NBR) has set a revenue collection target of Tk.203,152 crore, which is about 15.19 per cent higher than that of the previous fiscal year's original target (Tk.176,370 crore) and also about 35.43 per cent higher than the revised target of Tk.150,000 crore.

However, during July-August of FY17, for which data on revenue collection is available, the NBR collected Tk.22,015 crore, which was 19.9 per cent higher than the collection of Tk.18,356 crore in the corresponding period of FY16, thanks to a boost in receipts in August 2016 (Table 7). NBR tax revenue collection in August 2016 stood at Tk.12,421 crore which was higher by Tk.2,827 crore or 29.5 per cent against the collection of Tk.9,594 crore during the previous month of the same fiscal (July 2016).

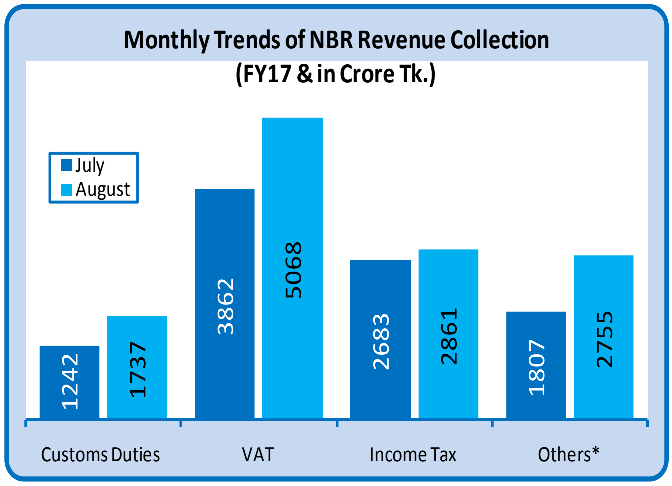


Table 7 : Government Tax Revenue Collection

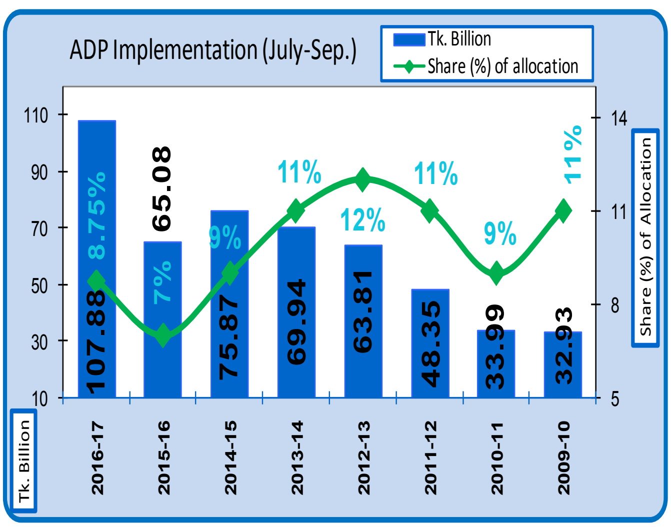
Month	Tax Revenue Collections (in crore Taka)						
	NBR					Non-NBR	Grand Total
	Customs Duties	VAT	Income Tax	Others*	Total		
FY16R							
July	1122	3529	2460	1617	8728	376	9104
August	1261	3780	2634	1953	9628	611	10239
July-Aug.	2383 (+4.0)	7309 (+1.9)	5094 (+23.7)	3570 (+16.5)	18356 (+10.3)	987 (+37.7)	19343 (+11.4)
FY17P							
July	1242	3862	2683	1807	9594	417	10011
August	1737	5068	2861	2755	12421	NA	NA
July-Aug.	2979 (+25.0)	8930 (+22.2)	5544 (+8.8)	4562 (+27.8)	22015 (+19.9)	NA	NA

Notes: P=Provisional; R=Revised; NA=Not Available; *=include supplementary duties and travel tax; **= July-April; 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 Acounts

5.1 PUBLIC EXPENDITURE

The implementation of the Annual Development Programme (ADP) failed to pick pace in the quarter under review, although the government took a number of initiatives to accelerate ADP implementation. These initiatives include: the creation of a Project Preparatory Fund (PDF) to facilitate quality at entry for timely and effective implementation of development projects; appointing Project Director (PD) through direct interviews by line ministries and divisions; assigning a dedicated official to each government agency for monitoring and evaluating respective projects; and delisting longstanding 'non-operational' projects from the ADP. Despite these initiatives, however, the implementation rate in July-September of FY17 was just 8.75 per cent mainly, due to the failure of large ministries and divisions. The low implementation rate can also be attributed to the poor implementing capacity of the concerned agency. The implementation rate was 6.74 per cent in the corresponding period of the previous fiscal (FY16).

According to Implementation Monitoring and Evaluation Division (IMED) data, 54 ministries and divisions could spend only Tk.107.88 billion of the total allocation of Tk.1,233.46 billion. Top 10 ministries and divisions, which got 73.05 per cent of the total allocation, on an average spent only 9.92 per cent affecting the overall implementation rate. 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 (15.21%), followed by the Local Government Division (15.12%), the Ministry of Primary & Mass Education (14.31%), the Ministry of Railway (8.79%), the Ministry of Education and the Ministry of Housing & Public Works (both 7.80%), the Bridge Division (4.33%), the Road Transport & Highways Division (3.21%), the Ministry of Water Resources (2.21%), and the Ministry of Health & Family Welfare (0.57%).



6.0 EXPORTS

The country's export earnings in the first quarter of the current fiscal year (Q1 of FY17) grew by 4.12 per cent to US$8.079 billion from US$7.759 billion in the corresponding quarter of the previous fiscal year (Table 8). The export earnings, however, fell short of the strategic target (US$8.946 billion) by 9.69 per cent. Monthwise, export earnings in September 2016 fell by 5.64 per cent to US$2.241 billion from US$2.375 billion in the same month of FY16 due to long Eid vacation. Exports in September also fell 18.06 per cent short of the strategic target (US$2.735 billion).

According to industry insiders, improvements in the safety standard in the RMG sector and peaceful political situation contributed to the growth of export. According to EPB data, the overall export growth was largely dependent on the RMG sector, which alone earned US$6.666 billion, or 82.51 per cent of total exports in Q1 of FY17, registering a 3.53 per cent growth from US$6.439 billion in Q1 of FY16.

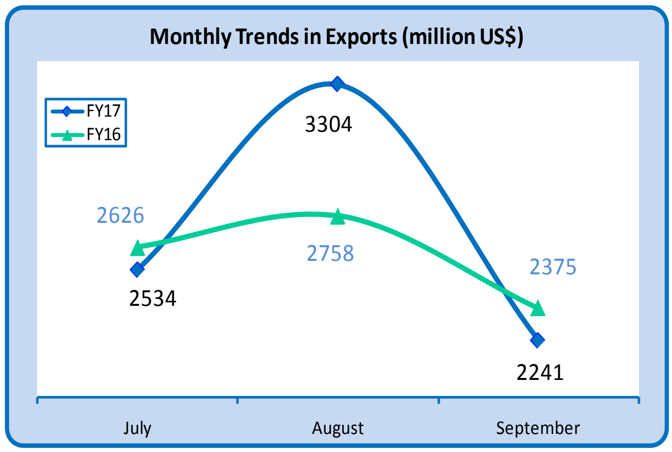


Table 8: Monthly Trends in Exports

Month	Exports (million US$)		Change (%)
	FY17^P	FY16^R	
July	2534	2626	(-) 3.50
August	3304	2758	19.80
September	2241	2375	(-) 5.64
Total of Q1	**8079**	**7759**	**4.12**

Notes: P=Provisional; R=Revised Sources: Export Promotion Bureau and Bangladesh Bank

An analysis of EPB's export data for July-September of FY17 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 and cotton products petroleum bye products, chemical products, frozen & live fish, and computer services, experienced positive growth, while agricultural products, jute & jute goods, engineering

products, man-made filaments & staple fibres, home textile, and specialized textiles showed negative growth compared to the corresponding period in the previous fiscal.

Export earnings from knit and woven RMG in July-September of FY17 grew by 3.53 per cent to US$6.666 billion from US$6.439 billion in the corresponding period of the previous fiscal. The earnings from RMG exports, however, fell 9.24 per cent short of the strategic target of US$7.345 billion. Knitwear exports grew by 4.65 per cent to US$3.401 billion in Q1 of FY17 compared to US$3.250 billion in the same period of FY16. Knit exports also fell short of the target (US$3.426 billion) by 0.73 per cent. Export earnings from woven items in the said quarter stood at US$3.265 billion, showing a 2.38 per cent growth. These earnings, however, fell short of the first quarter target (US$3.919 billion) by 16.69 per cent. Frozen and live fish exports grew by 14.17 per cent to US$137 million, from US$120 million in the same period of the last fiscal. Earnings from leather and leather products in Q1 of FY17 grew by 16.85 per cent to US$319 million compared to US$273 million in the same period of the last fiscal. On the other hand, export earnings from home textile fell by 3.11 per cent to US$156 million in July-September of FY17 from US$161 million in the corresponding period of the previous fiscal. Export earnings from Jute and jute goods also fell by 0.97 per cent to US$205 million in Q1 of FY17 from US$207 million in the same period of FY16. Agricultural products witnessed a negative growth of 8.27 per cent to US$122 million during Q1 of FY17 from US$133 million in the corresponding period of the previous fiscal.

Country wise, export earnings from the United States (US) and the United Kingdom (UK), the top two destinations for the country's exports, declined in Q1 of FY17 due to a downward trend in the demand for RMG items in US and UK markets. Total export earnings in July-September of FY17 from the US, the single largest export destination for Bangladesh, fell by 10 per cent to US$1.40 billion from US$1.55 billion in the same period of FY16, while RMG exports to that country fell by 12.04 per cent to US$1.26 billion from US$1.43 billion. Exports to the UK, the third largest destination, declined by 2.47 per cent to US$843.78 million in Q1 of FY17 from US$867.60 million in the same period of FY16, and RMG export to UK fell by 2.23 per cent to US$780.52 million from US$798.37 million. According to exporters, shipment suspension during long holidays for religious festivals, and a fall in demand for RMG products in US and UK markets resulted in the negative growth of Bangladesh's exports to these markets. On the other hand, export earnings from Germany, the second largest destination, grew by 18.22 per cent to US$1.37 billion in July-September of FY17 from US$1.16 billion in the same period of FY16.

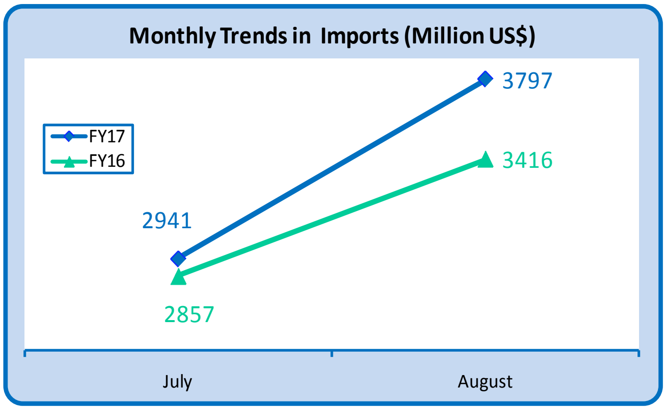
7.0 IMPORTS

Import payments (C&F) in the first two months (July-August) of FY17, for which Q1 data are available till now, stood at US$6,738 million, which is 7.41 per cent higher than import payments during the corresponding months of FY16 (Table 9). The value of Imports increased during the period because of the falling trend in commodity prices, including petroleum products, on the global market. In August 2016, imports increased by 11.15 per cent over the same month of 2015. Imports in August 2016 also increased by 29.11 per cent over the immediate past month of the fiscal (July 2016) because of higher demand for most of the importable items.

Table 9 : Monthly Trends in Imports

Month	Imports (million US$)		Change (%)
	FY17[P]	FY16[R]	
July	2941	2857	2.94
August	3797	3416	11.15
Total of July-August	**6738**	**6273**	**7.41**

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



According to Bangladesh Bank (BB) data, the settlement of import Letters of Credit (LCs) increased by 1.63 per cent to US$9,341 million during July-September of FY17 compared to US$9,191 million in the corresponding period of the previous fiscal. The opening of fresh LCs against imports also increased by 3.46 per cent to US$10,443 million in Q1 of FY17 from US$10,094 million in the corresponding period of the previous fiscal. However, the settlement of LCs in September 2016 fell by 13.05 per cent to US$2,986 million from US$3,434 million in August 2016. The

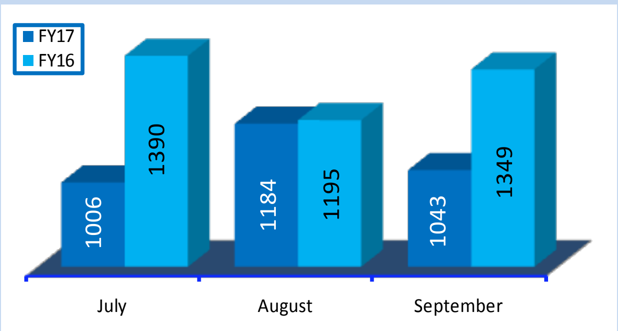
opening of LCs also fell by 7.38 per cent to US$3,528 million in September 2016 from US$3,809 million of the previous month (August 2016). Lower imports for the RMG sector, including those of capital machinery, pushed down the country's overall imports in September 2016. The long vacation on the occasion of Eid-ul-Azha also contributed to a decline in September imports.

8.0 REMITTANCES

Remittance inflow in the first quarter of the current fiscal year (Q1 of FY17) dropped by 17.82 per cent to US$3.23 billion compared to US$3.93 billion in the corresponding quarter of the previous fiscal year. The drop in remittances was due to the decline in the income and savings of Bangladeshi expatriates living in the Middle-Eastern countries that suffered a huge slump in oil price. Experts fear a further shrinkage of remittances in the coming days as manpower export to the gulf countries may decline due to the persistently uncertain political situation in the Middle East. Overall development activities in the Middle-Eastern countries are being squeezed gradually because of lower prices of fuel oils on the global market as well as the declining exchange value of the US dollar. As such, unlike previously, commercial banks in Bangladesh are not very keen now to collect inward remittances due mainly to the lower demand for the greenback on the local inter-bank foreign-exchange market.

Month wise, the remittances y-o-y decreased during all the three months of the quarter under review. Remittances fell by 22.68 per cent y-o-y in September 2016. Migrant workers sent home

Monthly Trends in Remittances (million US$)



US$1.04 billion in September compared to US$1.35 billion in the same month a year ago in 2015, which is a deviation from the usual trend before an Eid festival. The amount of remittance was also 11.91 per cent lower than the previous month's (August) receipts of US$1.18 billion. The monthly inward remittances in July and August also posted disappointing figures of US$1.01 billion and US$1.18 billion, respectively, down from US$1.39 billion and US$1.20 billion in the corresponding two months of FY16 (Table 10).

Table 10 : Monthly Trends in Remittances

Month	Remittances (million US$)		Change (%)
	FY17^P	FY16^R	
July	1006	1390	(-) 27.63
August	1184	1195	(-) 0.92
September	1043	1349	(-) 22.68
Total of Q1	**3233**	**3934**	**(-) 17.82**

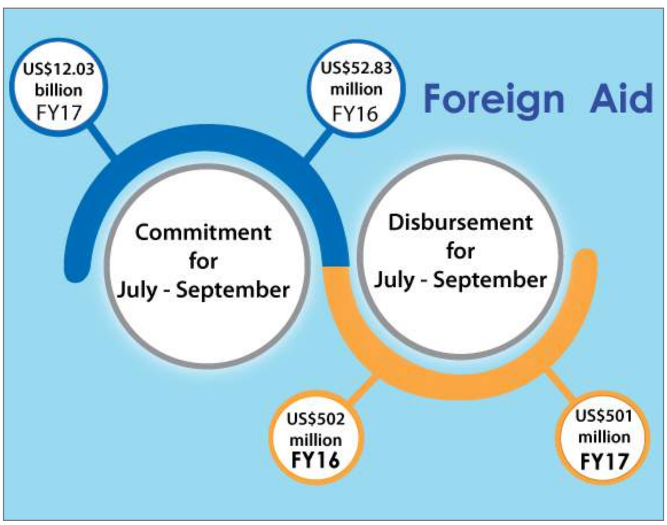
Notes: P=Provisional; R=Revised Source: Bangladesh Bank

Most private commercial banks along with the state-owned ones try to increase the flow of inward remittances from different overseas countries. Currently, 30 exchange houses operate across the world, setting up 1,152 drawing arrangements abroad, to expedite the remittance inflow. Moreover, the BB has already sent letters to 12 commercial banks advising them to take effective measures to strengthen their remittance efforts. The BB earlier took a series of measures to encourage the expatriates to send their money home through the formal banking channel, instead of through illegal 'hundi' system. In September 2016, private commercial banks (PCBs) channeled US$712.12 million of remittances, the state-owned commercial banks (SCBs) channeled US$308.95 million, foreign commercial banks (FCBs) US$10.94 million, and specialized banks (SBs) US$11.00 million. Among the PCBs, the Islami Bank Bangladesh Ltd. channeled the highest amount of remittance (US$252.58 million), while, among the SCBs, the Agrani Bank Limited channeled the highest amount of US$113.90 million.

9.0 FOREIGN AID

According to the Economic Relations Division (ERD) of the Ministry of Finance, development partners made a commitment of US$12.03 billion in loans and grants for July-September of FY17. This includes Russia's single US$11.38 billion loan commitment for Bangladesh's first nuclear power plant in Rooppur. In the corresponding period of FY16, the commitment of foreign assistance was only US$52.83 million, which was entirely grant. Out of US$12.03 billion, development partners confirmed US$12.0 billion as loans and the rest US$0.03 billion as grants. However, the government has targeted to receive external assistance worth US$6.0 billion in FY17. The disbursement of foreign aid, however, was US$501 million in Q1 of FY17, which is almost similar to the amount disbursed during the corresponding period of FY16. In July-September of FY16, development partners disbursed US$502 million in foreign assistance. The disbursement in Q1 of FY17 inched down because of the slow implementation of development projects during the period. Out of US$501 million, the government received US$427.64 million in loans and US$73.36 million in grants. Some major donors, including World Bank (WB), Asian Development Bank (ADB), Islamic Development Bank (IDB), Japan, the UK's DFID, India and Russia disburse concessional loans every year for development projects in Bangladesh. Earlier, the government had set the target of foreign aid disbursement for FY17 at US$5.05 billion, up from US$4.36 billion in the past fiscal year.

According to the ERD, the government had to pay back US$232.14 million by way of interest and principal for its total outstanding loans during July-September of FY2017, as against US$237.70 million in the same period of FY16.



10.0 FOREIGN DIRECT INVESTMENT (FDI)

In the first two months of the present fiscal (July-August of FY17), the net foreign direct investment (FDI) increased by 9.30 per cent to US$435 million from US$398 million in the same period of FY16 (Table 11). Industry insiders consider this amount of FDI quite insufficient to meet the country's development needs. Bangladesh's low labour costs and efficient supply chain, especially in readymade garments industry, appear generally attractive to foreign investors, but of late they have adopted a 'go-slow' strategy in making fresh investments. They consider the underdeveloped infrastructure, shortage of power and energy, lack of consistency in policy, procedural bottlenecks, lack of proper regulatory framework, scarcity of industrial lands, lack of coordination among government agencies, and political uncertainty as major impediments to new investment. 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.

During the recent visit of the Chinese President, a total of 27 agreements and memorandum of understandings (MoUs) were signed between China and Bangladesh. Chinese investments in Bangladesh's power and energy sector would be over US$5.32 billion, as the country has inked four agreements and a MoU with different local power sector entities. Of the total investments, a 1,320-megawatt (MW) coal-fired power plant at Paira, to be implemented by the state-run North West Power Generation Company Ltd. (NWPGCL), would get US$1.984 billion. Improvement of electricity distribution system through underground line along with supervisory control and data acquisition (SCADA), to be implemented by the state-run Dhaka Power Distribution Company Ltd. (DPDC), would bring US$1.35 billion. Besides, reliable and uninterrupted electricity transmission system expansion and automation, to be implemented by Power Grid Company Bangladesh Ltd. (PGCB), would fetch US$1.14 billion. Single point mooring (SPM) project with double pipeline to carry crude and refined petroleum products from deep sea to onshore storage facility would get US$550 million. The Ministry of Power, Energy and Mineral Resources inked a MoU with China on cooperation in energy and renewable energy sector. Besides, a private sector entity inaugurated construction activities of a Chinese-backed 1,320-MW coal-fired power plant in Chittagong.

11.0 BALANCE OF PAYMENTS

Trade deficit increased slightly by 5.0 per cent in the first two months of FY17 due to lower export earnings alongside higher import payments. At the end of August 2016, the trade deficit stood at US$525 million compared to US$500 million at the end of August 2015. Growth of both imports and exports increased at an equal pace but trade deficit went up as the amount of import payments exceeded export earnings. Imports increased by 7.43 per cent but exports rose by 7.65 per cent but in terms of actual amount exports raked in US$5.71 billion during July-August of FY17 while import cost rose to US$6.24 billion. In the case of imports, food import rose by 53.98 per cent in the first two months when rice imports dropped by 91.67 per cent but wheat imports soared by 115.58 per cent. Import of intermediate goods rose by 10.12 per cent, consumer goods import by 8.41 per cent, and capital goods increased by 17.43 per cent, according to BB data (Table 11).

As a result of a big fall in remittance, the surplus in the current account balance in the first two months fell to about half of (15.67%) last year's. In July-August of FY17, the current account surplus was US$700 million, a big drop from last year's US$1,343 million. However, the overall surplus in the balance of payments was almost the same as in the past fiscal year. During July-August of FY17, the overall surplus stood at US$1.20 billion, while it was US$1.27 billion in the July-August of the last fiscal.

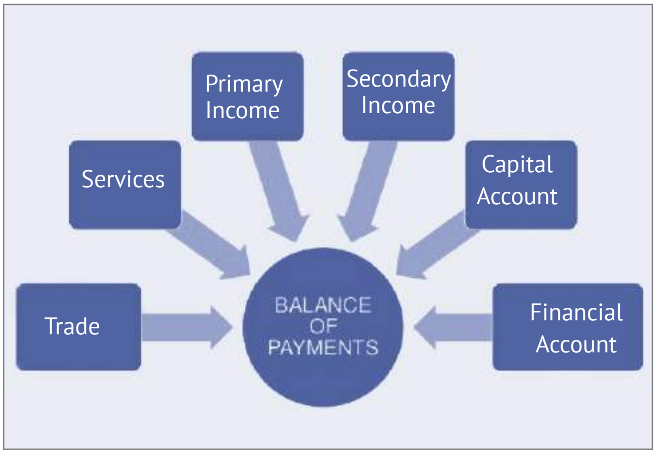


Table 11 : Balance of Payments

(In million US$)

Items	July-August of FY17P	July-August of FY16R	Change
Trade Balance	(-) 525	(-) 500	(-) 25
Exports f.o.b (including EPZ)*	5710	5304	
Of which: Readymade Garments	4844	4485	
Imports f.o.b (including EPZ)*	6235	5804	
Services	(-) 556	(-) 350	(-) 206
Credit	505	587	
Debit	1061	937	
Primary Income	(-) 466	(-) 440	(-) 26
Credit	11	15	
Debit	477	455	
Of which: Official Interest Payment	65	74	
Secondary Income	2247	2633	(-) 386
Official Transfers	2	4	
Private Transfers	2245	2629	
Of which: Workers' Remittances (current a/c portion)	2147	2546	(-) 399
Current Account Balance	700	1343	(-) 643
Capital Account	24	47	
Capital Transfers	24	47	
Financial Account	422	(-) 261	683
Foreign Direct Investment (net)	435	398	37
Portfolio Investment (net)	5	19	
Of which: Workers' Remittances (financial a/c portion)	42	39	
Other Investment (net)	(-) 18	(-) 678	
Errors and Omissions	49	137	(-) 88
Overall Balance	1195	1266	(-) 71

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

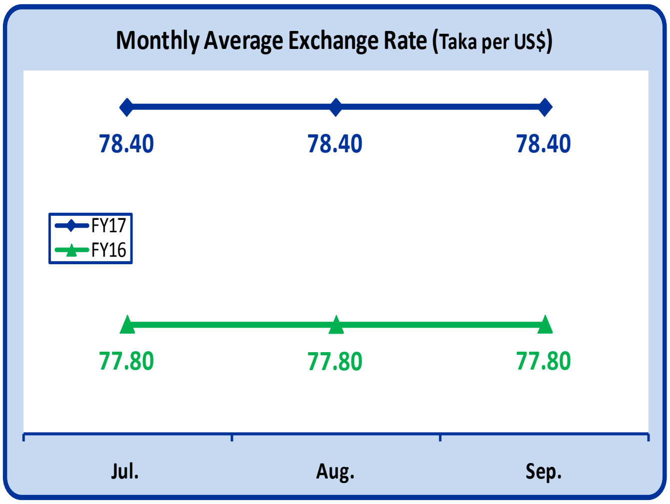
12.0 EXCHANGE RATE

Between end-June and end-September of 2016, the external value of the Taka remained unchanged in terms of US dollar, showing stability in the foreign exchange market. On the inter-bank market, the US dollar was quoted at Tk. 78.4000 (Table 12).

Table 12 : Monthly Exchange Rate

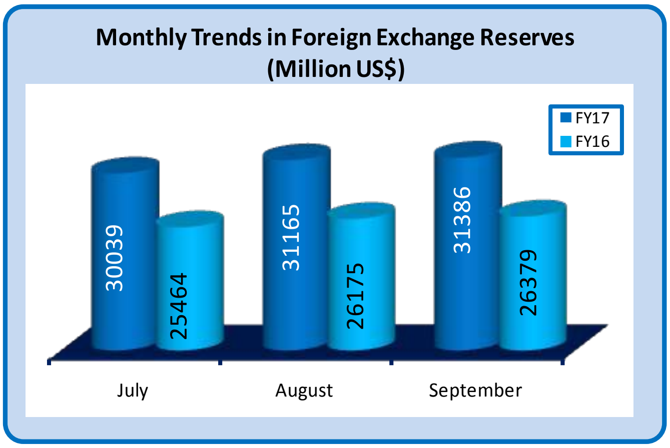
Month	FY17^P (Taka per US$)		FY16^R (Taka per US$)	
	Month Average	End Month	Month Average	End Month
June	-	-	78.4000	78.4000
July	78.4000	78.4000	77.8007	77.8000
August	78.4000	78.4000	77.8000	77.8000
September	78.4000	78.4000	77.8008	77.8000

Note: i) P=Provisional; R=Revised ii) Exchange rate represents the mid-value of buying and selling rates Source: Bangladesh Bank



13.0 FOREIGN EXCHANGE RESERVES

BB's gross foreign exchange reserves (Forex) crossed US$31 billion mark on 20 September 2016 and rose to US$31.39 billion on 29 September 2016, the last working day of the month (Table 13). The volume of reserves increased as export earnings rose to withstand the pressure of import payments. The stable exchange rate of the Taka against the US dollar has encouraged the expatriate Bangladeshis to send home their earnings through official channels, which has also helped boost the reserve. However, the BB made a routine payment of US$815 million to the Asian Clearing Union (ACU) against imports during the July-August of FY17. After the payment, the country's reserves came down to US$30.84 billion on 15 September 2016 from US$31.50 billion of the previous working day. Bangladesh will be able to settle around nine months' import bills with the existing forex reserves.

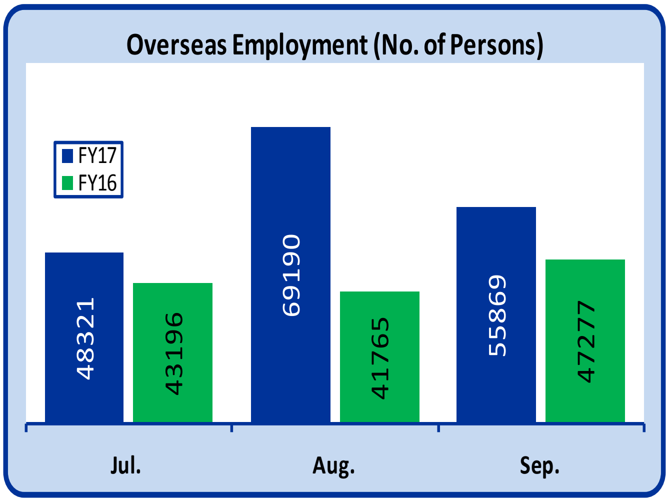


A healthy reserve allows a country to get higher credit rating and helps its private sector to get loans from foreign sources at low interest rates. Also, the current reserves will help keep the Taka stable against the US dollar and provide a more favourable economic environment.

Table 13 : Monthly Trends in Foreign Exchange Reserves

Month	Foreign Exchange Reserve (million US$)	
	FY17P	FY16R
July	30039	25464
August	31165	26175
September	31386	26379

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



14.0 OVERSEAS EMPLOYMENT SITUATION

Manpower export of the country remained subdued in the last few years as unstable situation was prevailing in different Middle-Eastern countries. It faced difficulties following the suspension of labour import by various Middle-Eastern countries while both public and private sectors are trying to expand manpower export to certain other countries, including Thailand and Japan. Manpower demand from the Kingdom of Saudi Arabia (KSA) has also shrunken recently, according to market operators. As the key destinations like United Arab Emirates (UAE) and Malaysia are not hiring manpower at the desired level, the number of overseas employment is still lower than the expected level. Only 173,380 workers from Bangladesh entered the international markets with jobs during the quarter under review. Of them, 48,321 went in July, 69,190 in August and 55,869 in September, according to Bureau of Manpower, Employment and Training (BMET). The number of emigrants was 182,027 during the previous quarter. At present, there are nearly 10 million Bangladesh is working in 161 countries, mostly in the Middle East. Their contribution accounts for about 60 per cent of the country's foreign currency reserves.

Bangladeshi female workers started to go abroad for job in 1991. In recent times, the number of oversees jobs for female workers has gradually decreased. Some 20,992 female workers entered the international markets with jobs during the quarter under review as against 34,913 female workers that moved out during the previous quarter (April-June of FY16). The overseas employment of female workers decreased by 39.87 per cent. Female workers, mostly housemaids and garment workers, were being employed in KSA, UAE, Jordan, Oman, Lebanon and Qatar.

Recently Malaysia has reopened its job market for Bangladeshi workers in three sectors, namely manufacturing, construction and agriculture. According to the Ministry of Expatriates Welfare and Overseas Employment, nearly 0.20 million workers can get jobs in the country within one year. The workers will be sent through private recruitment companies. They have sent a list of 745 recruitment agencies to Malaysia. Employers will send demands of workers to the recruiting agencies online and if employers bear key expenses like levy, the migration cost of a worker might be around Tk.50,000 to secure job in that Southeast Asian country. Wages will vary from Tk.17,000 to Tk.19,000 for each worker. Bangladesh and Malaysia signed a memorandum of understanding for recruiting Bangladeshi workers in February last. Currently around 600,000 Bangladeshis work in Malaysia, mainly in construction and plantation sectors.

The Shoura Council of the Kingdom of Saudi Arabia (KSA) has reportedly approved the recruitment of male domestic workers from Bangladesh. The move would benefit both countries

and improve bilateral relations after a long-standing ban on Bangladeshi workers in several professions. The Kingdom would encourage companies to come to Dhaka to provide training to male domestic workers, similar to the current arrangement for females. The Kingdom began recruiting domestic workers from the country in February last year and hosts 62,000 housemaids in its 1.3 million-strong Bangladeshi workforce.

15.0 PRICE SITUATION

In September 2016, the general point to point inflation in Bangladesh rose by 0.16 percentage point to 5.53 per cent from 5.37 per cent in August 2016 (Table 14). The rise in prices of some food items, especially staple rice, on the domestic market mainly pushed up the point-to-point inflation in September after registering a slight fall in the previous month. A year back, in September 2015, inflation maintained a higher trend, rising to 6.24 per cent. The food inflation, however, increased by 0.80 percentage point to 5.10 per cent in September 2016 from 4.30 per cent in August 2016. On the other hand, the non-food inflation fell by 0.81 percentage point to 6.19 per cent in September 2016 from 7.00 per cent in August 2016.

The government has targeted to keep the inflation rate within 5.8 per cent in FY17, and the latest monthly data show that it is now below the government target. In its latest monetary policy statement (July-December 2016), the central bank, too, aimed at keeping the inflation rate within the official target. The recent trend shows that the price situation is in a safe zone.

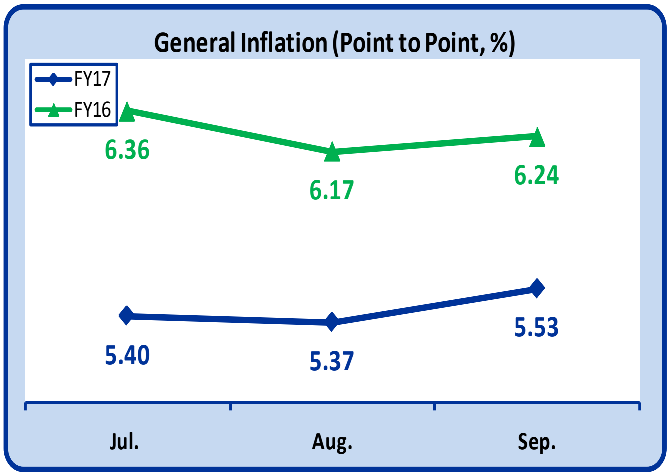


Table 14: Monthly Trends in Inflation (Base: 2005-06=100)

(In 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
FY17[P]									
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
FY16[R]									
July	6.36	6.07	6.80	5.88	5.43	6.69	7.28	7.58	6.96
August	6.17	6.06	6.35	5.76	5.42	6.41	6.94	7.56	6.26
September	6.24	5.92	6.73	5.86	5.26	6.99	6.96	7.47	6.37

Notes: i) P=Provisional, R=Revised; ii) Food includes food, beverages and tobacco
Source: Bangladesh Bureau of Statistics

A comparison of prices data for urban and rural areas in September of FY17 (general point to point) shows that the inflation rate was much higher in urban areas than in rural areas. Thus, the point to point general, food and non-food inflation in rural areas in September were 4.63 per cent, 4.27 per cent and 5.31 per cent, respectively, while these inflation rates in urban areas were 7.21 per cent, 7.03 per cent and 7.42 per cent, respectively.

16.0 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 FY17). These projections are presented in Table 15.

Table 15: Projection on Some Selected Indicators in Q2 of FY17

Indicators	FY16						FY17					
	Jan.	Feb.	Mar.	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.
Export (million US$)	3186	2854	2831	2682	3027	3593	2534	3304	2241	**2710**	**3075**	**3300**
Import (million US$)	3577	3343	3632	3527	4242	3816	2941	3797	**4350**	**4680**	**4890**	**5070**
Remittance (million US$)	1151	1136	1286	1191	1214	1466	1006	1184	1043	**1050**	**1180**	**1310**
Forex Reserve (million US$)	27139	28059	28266	29106	28803	30168	30039	31165	31386	**31900**	**31620**	**31790**
Inflation, Point to Point (per cent)	6.07	5.62	5.65	5.61	5.45	5.53	6.36	6.17	6.24	**6.30**	**6.15**	**6.05**

Notes: January – September 2016: actual figures except September value of Import; October – December 2016: projections (figures in bold)
Sources: BB, BBS and the Chamber's own calculation

It is assumed that the relatively calm political situation that currently prevails will continue in the second quarter of the present fiscal year (Q2 of FY17). Therefore, both exports and imports can be expected to increase. Remittances may increase with new opportunities for job creation in the Middle East and South-east Asia. 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 can be expected to go up in October because of the probable rise in oil prices, following the anticipated production cuts in the oil-exporting countries.

17.0 CONCLUDING OBSERVATIONS

In the quarter under review (Q1 of FY17), the overall economic situation in the country was positive as indicated by steady improvements in the major economic indicators. Although the progress made was below potential, the country experienced stable growth; inflation was under control; the exchange rate remained stable; and foreign exchange reserves rose to a comfortable level. The international rating agencies have given stable ratings to Bangladesh as they have done for a number of years now. Development partners are now speaking highly about Bangladesh's recent achievements and further prospects.

During July-September of FY17, agriculture, manufacturing and services sectors have 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 preserve 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.