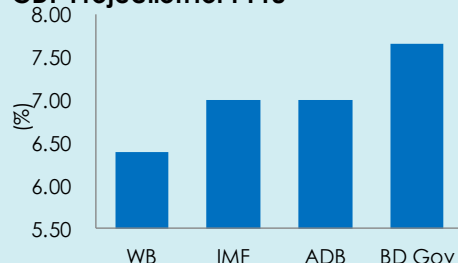


Private Sector Credit growth(%)	Public Sector Credit Growth (%)	P2P General Inflation (%)	Fixed Deposit Rate (%)	Weighted Avg Deposit Rate (%)	Weighted Avg Lending Rate (%)	IRS (%)	Current Account Balance (USD bn)
18.49	-14.24	5.68%	10.50%	5.18%	9.55%	4.37%	6.0bn

**Md Zarif Ibne Arif**

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**GDP Projection for FY18**


Source: Bangladesh Bank

**Key Macroeconomic Indicators**

Particulars (%)	Feb'17	Feb'18
Broad Money Growth	13.35%	9.78%
Domestic Credit Growth	11.93%	14.22%
Public Sector Credit Growth	-8.80%	-14.24%
Private Sector Credit Growth	15.88%	18.49%
Weighted Avg Deposit Rate	5.01	5.18
Weighted Avg Lending Rate	9.70	9.55
Interest Rate Spread	4.69	4.37
Particulars (%)	Mar'17	Mar'18
12M Average General Inflation	5.39%	5.82%
12M Average Food Inflation	5.20%	7.31%
12M Average Non-Food Inflation	5.67%	3.57%
P2P General Inflation	5.39%	5.68%
P2P Food Inflation	6.89%	7.09%
P2P Non-Food Inflation	3.18%	3.52%
Repo Rate	6.75%	6.75%
Reverse Repo Rate	4.75%	4.75%
Call Money Rate	3.66%	4.40%
Fixed Deposit Rate	7.00%	10.50%
Particulars (USD mn)	Jul-Mar'17	Jul-Mar'18
Export	25,946	27,451
Import (Jul-Feb)	27,731	33,696
Remittance	9,195	10,755
Current Account Balance	(1,382)	(6,000)

Source: Bangladesh Bank

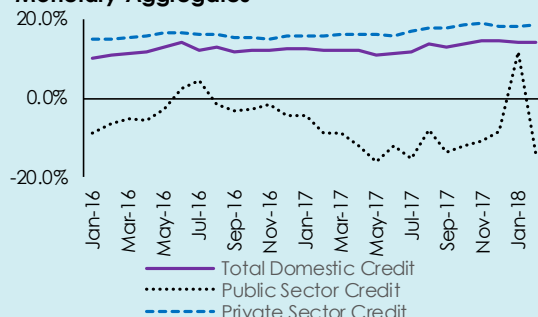
The government of Bangladesh and Bangladesh Bank (BB) has jointly intervened to retard the yearlong liquidity crisis which was hampering the aggregate economy with a sharp rise in interest rate. Liquidity crisis was a result of a non-optimal fiscal management by the government. Government has been exclusively relying on costlier National Savings Certificate (NSD) for last three years as a source of financing budget deficit instead of cheaper Bank borrowing. The persistent lower rate of return on fixed deposit of commercial banks compared to NSD made the savers reluctant to keep deposit with the banks. However, loan growth exceeded deposit growth in last 2 years as a result. This phenomenon led to plunge the liquidity balance in the banking system. Liquidity crisis became prevalent in the whole banking sector particularly in the private commercial banks (PCBs). Bangladesh bank revised down the Advance-Deposit-Ratio (ADR) ceiling to improve the liquidity situation in Jan'18. This triggered the fierce competition for deposit among banks. Interest rate sharply increased ~ 300bps in three to four months.

Private sector credit disbursement bottomed in Jan'18 as a result (BDT 44.0bn). Being aware of the potential slowdown of aggregate business activity, Bangladesh Bank (BB) deliberately eased the monetary policy to some extent. The implementation time of revised ADR ceiling has been extended to Mar'19 instead of Dec'18. Cash Reserve Ratio (CRR) has been cut in Mar'18 (from 6.5% to 5.5%) which would free up BDT 45.7bn from the required reserve of PCBs. Banks are free to use this money in any form of investment (lending, buying treasury securities, depositing with other banks). Moreover, BB has cut the repo rate (the rate at which PCBs get loan from BB against the treasury securities) by 75bps after two (2) years and extended the borrowing period from 7 days to 28 days. Government also addressed to the liquidity issue very promptly. According to the revised decision taken by Ministry of Finance (MoF) in Mar'18, SoEs will be allowed to keep 50.0% (previous limit was 75.0%) of their cash with SCBs and the rest with PCBs. At maximum BDT 150bn would be added to PCBs existing BDT 6,160bn deposit book of PCBs as a result. These initiatives would ease the liquidity situation to some extent.

Current account balance stood at negative USD 6.0bn during Jul'17 – Feb'17. However, this deficit is still less than 2.5% of the GDP. This wide deficit resulted from huge growth of import and negative growth and marginal growth of remittance and export respectively. Import grew more than 20.0% during second quarter of FY18. We believe, remittance inflow would increase in coming months with favorable exchange rate, high domestic deposit rate, improved man power export and greater surveillance by government on informal channels. We believe, import growth would slightly slowdown from current level with adequate food production in upcoming harvesting season. However, soaring oil price is really a concern for our import. As, debt to GDP of Bangladesh is lowest among its peers, current account deficit can easily be financed by the financial account. BDT depreciated 4.7% during 2017, we believe, depreciation is still on card. BDT may depreciate another 2.0%-2.5% in 2018 to stable at BDT 85.0.

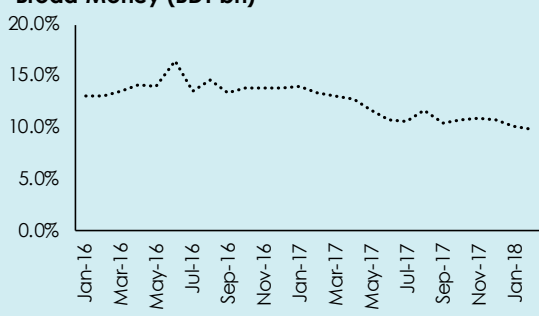
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### Monetary Aggregates



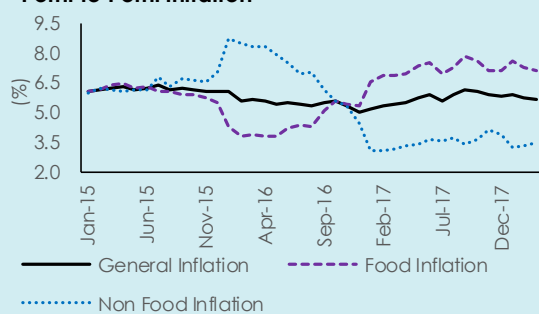
Source: Bangladesh Bank

### Broad Money (BDT bn)



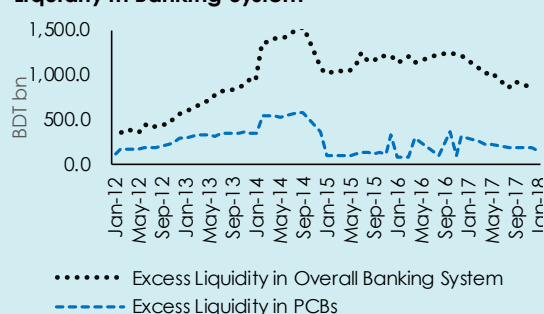
Source: Bangladesh Bank

### Point to Point Inflation



Source: Bangladesh Bank

### Liquidity in Banking System



Source: Bangladesh Bank

### Monetary Aggregates Posted Stable Growth

- Broad money experienced a single digit growth first time in last 2 years mainly driven by continuous de-growth of net foreign and domestic assets.
- Although public sector credit growth was negative (14.2% YoY), private sector credit contributing 90% of total domestic credit, received a buoyant growth (18.5%) in Feb'18. YoY Broad money growth remained the same as previous month as a result.

### Inflation Eased From Last Month

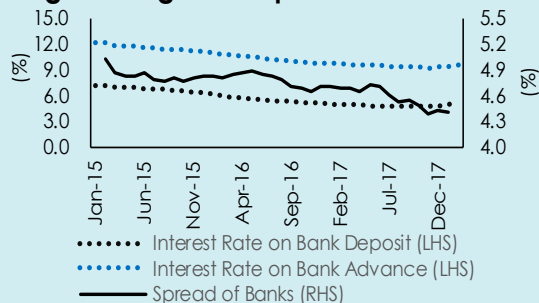
- Point to point general inflation continued the declining trend in Mar'18 (5.68%) mainly driven by normalized food inflation. Food inflation spiked in 2017 due to the prolonged flood and uptick of global commodity price. However, food import is still going on heavily as Ramadan is imminent.
- Mar'18 food inflation (7.09%) was lowest in last 8 months.
- Non-food inflation moved within a very narrow band (3.23% - 3.85%) during last 4 months. Non-food inflation was Mar'18 in 3.52%.

### Liquidity Condition Would Improve in Few Months

- Excess liquidity in the banking system declined to BDT 777bn in Jan'18 against BDT 1,221bn in Dec'17.
- Liquidity crisis is particularly acute among Private commercial banks (PCBs). Excess liquidity in the PCBs has been reduced to BDT 160bn from BDT 311bn last year.
- Bangladesh Bank (BB) has recently reduced the limit of Cash Reserve Ratio (CRR) from 6.5% to 5.5%. This would reduce the minimum required liquid assets of PCBs by BDT 45.7bn. Moreover, after two years, repo rate has been cut by 75bps and also borrowing tenure has been extended from 7 days to 28 days.
- Previously, State Owned Enterprises (SoEs) were allowed to deposit maximum 75.0% of total cash with SCBs and the rest with PCBs and other banks. Recently, government has revised down the maximum limit to 50.0%. Maximum BDT 150bn would add to existing BDT 6,160bn deposit book.

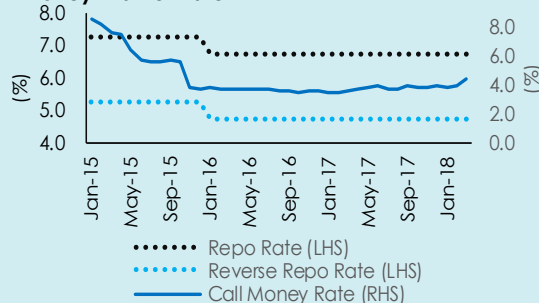
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### Avg. Lending and Deposit Rates



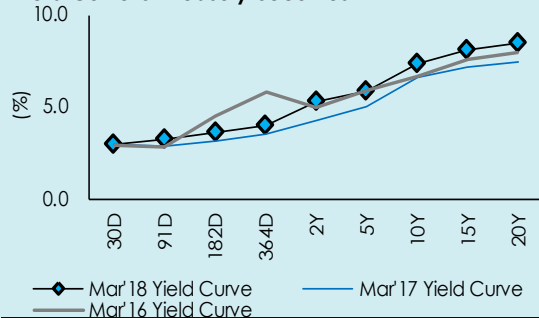
Source: Bangladesh Bank

### Money Market Rate



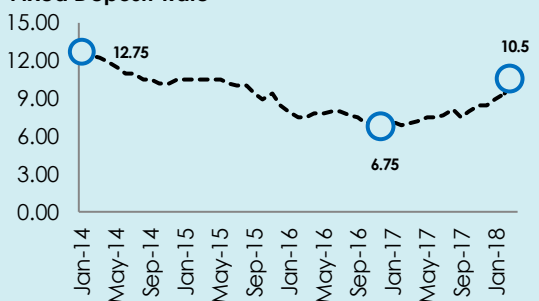
Source: Bangladesh Bank

### Yield Curve of Treasury Securities



Source: Bangladesh Bank

### Fixed Deposit Rate



Source: Bangladesh Bank

### Soaring Interest Rate Would Moderate with Flow of Liquidity

- In one year, weighted average deposit rate of banks increased by 10bps in Feb'18. However, weighted average deposit rate is a lagging indicator in depicting the reality of demand and supply of money.
- Spread of the banking sector narrowed down to 4.37% in Feb'18, lowest in last 3 years.
- In one year, weighted average deposit rate of NBFIs increased by 21bps in Jan'18. Spread narrowed by more than 100bps during the same period under review.
- Fixed deposit rate of PCBs jacked to 10.5% in Jan'18 from 6.75% a year ago. This sharp uptick can be characterized by the recent liquidity crisis. However, a point to be noted that in liquidity crisis situation, banks tend to report fixed deposit rate conservatively.
- Weighted average call money rate was recorded highest in last 2.5 years (4.4%). However, there seems to be a ceiling on the call money rate as the rate is less reactive to the liquidity situation of the market.
- During Mar'17 to Mar'18, Yield of treasury securities increased by 30bps to 100bps among various maturities.
- Consistently in last few years, loans and advances outgrew deposit amid the abundant liquidity in the banking system. However, the situation reversed as government continuously relied more on NSD over bank borrowing as a source of budget financing. The outstanding balance of NSD exceeded that of borrowing from banking system in Dec'17.
- Addressing the recent liquidity crisis, Bangladesh bank (BB) accommodated the crisis through revising down the CRR by 100bps and policy rate by 75bps. Revised CRR would reduce the need to maintain the required liquid asset. On the other hand, reduced repo rate would enable the banks to borrow from BB at a lower rate collateralizing the treasury securities.
- We believe interest rate would restore downward from current level as liquidity would continue to flow to the financial system, driven by incremental deposit from SoE's, reduced CRR and cheap source of fund from money market.

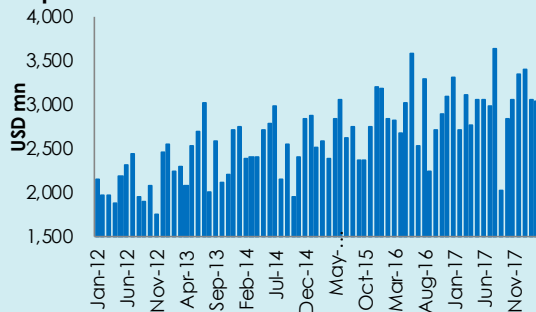
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### Industrial Production Index

Particulars	Weight (%)	Nov-17	YoY Growth (%)
Leather and related products	4%	298.0	73.4%
Food products	11%	541.0	64.9%
Pharmaceuticals and chemical	8%	552.8	51.0%
Tobacco products	3%	194.5	39.3%
Textile	14%	190.5	22.6%
Non-Metallic mineral products	7%	384.1	19.5%
Fabricated metal products	2%	279.4	15.0%
Wearing apparel	35%	380.4	13.4%
Basic metals	3%	187.6	13.4%
Chemicals and chemical products	4%	107.8	1.1%
Others	8%	256.5	-7.7%
<b>General Index</b>	<b>100%</b>	<b>347.6</b>	<b>25.4%</b>

Source: Bangladesh Bank

### Export Scenario



Source: Bangladesh Bank

### Major Export Destinations

Rank	Countries	Export (USD mn)	% of Total Export
1	GERMANY	4,449	18.2%
2	UNITED STATES	4,415	18.1%
3	UNITED KINGDOM	3,047	12.5%
4	SPAIN	1,847	7.6%
5	FRANCE	1,439	5.9%
6	ITALY	1,162	4.8%
7	NETHERLANDS	922	3.8%
8	JAPAN	848	3.5%
9	CANADA	830	3.4%
10	POLAND	723	3.0%
11	BELGIUM	674	2.8%
12	INDIA	617	2.5%
13	AUSTRALIA	556	2.3%
14	DENMARK	523	2.1%
15	CHINA	507	2.1%

Source: Bangladesh Bank

### Industrial Production Continues Double Digit Growth

- General industrial production index registered 25.4% YoY growth in Nov'17.
- RMG and textile which comprise almost 85% of total export basket, comprise almost 50% of the total production basket. Production of wearing apparel and textile products registered double digit YoY growth in Jun'17, Sep'17 and Nov'17.
- Leather and leather product is the second largest constituent of the export basket. In Nov'17, leather and leather product production almost doubled from last year.

### Export Registers Sub-Optimal Growth

- Government revised down the export growth target for FY18. Export growth target for FY18 was 7.6% against that of 17.1% in previous year.
- During Jul-Mar'17, export posted a YoY growth of 5.8%.
- RMG, jute & jute goods, home textile and cotton & cotton goods met Jul-Mar'18 strategic export target whereas leather and leather product, chemical, engineering and footwear product failed to meet Jul-Mar'18 strategic export target.

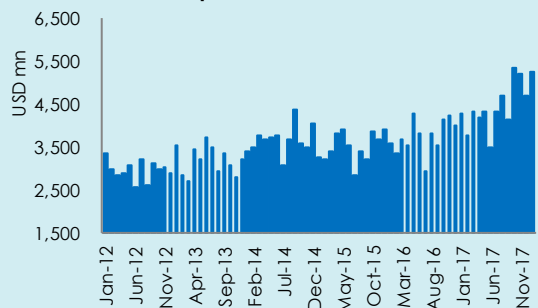
### Industrial Production Index

#	Product	Weight	Strategic Target for Jul'17-Mar'18 (USD mn)	Export Performance for Jul'17-Mar'18 (USD mn)	Strategic Target Achieved %
1	RMG	83.18%	22,163	22,834	103.0%
2	Leather & Leather Products	3.09%	1,014	849	83.7%
3	Jute & Jute goods	2.98%	775	818	105.5%
4	Home Textile	2.44%	646	670	103.7%
5	Engineering Products	0.93%	644	256	39.8%
6	Other Footwear	0.68%	198	187	94.4%
7	Other mfd Products	0.59%	220	161	73.2%
8	Headgear/Cap	0.51%	165	141	85.5%
9	Chemical Products	0.39%	115	106	92.2%
10	Cotton & Cotton Product	0.35%	90	96	106.7%

Source: Bangladesh Bank

Private Sector Credit growth(%)	Public Sector Credit Growth (%)	P2P General Inflation (%)	Fixed Deposit Rate (%)	Weighted Avg Deposit Rate (%)	Weighted Avg Lending Rate (%)	IRS (%)	Current Account Balance (USD bn)
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### Custom Based Import



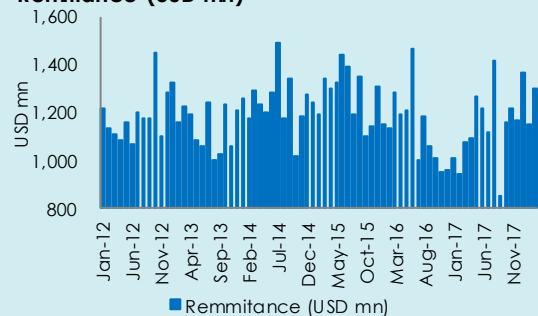
Source: Bangladesh Bank

### Import of Capital Machinery including EPZs

SI	Particulars	Jan'18 (USD mn)	% of Total
1	Capital machinery	561	10.3%
2	Machinery for industries	503	9.3%
	<b>Total</b>	<b>5,433</b>	<b>100.0%</b>

Source: Bangladesh Bank

### Remittance (USD mn)



Source: Bangladesh Bank

### Major Remittance Destinations (Feb'18)

SI	Country	USD mn		Number of people Left	
		Feb'18	Feb'17	Feb'18	Feb'17
1	KSA	195.0	159.8	37,726	52,256
2	UAE	172.6	153.1	174	337
3	USA	141.4	118.3	na	na
4	Kuwait	98.5	75.3	2,081	3,428
5	Malaysia	97.5	71.8	8,398	142
6	UK	82.1	75.9	1	0
7	Others	75.2	65.0	788	413
8	Oman	74.2	67.6	5,685	8,665
9	Qatar	69.3	42.2	6,854	8,590
10	Italy	47.8	36.0	0	0
	<b>Total</b>	<b>1,148.5</b>	<b>936.2</b>	<b>61,707</b>	<b>85,038</b>

Source: Bangladesh Bank

### Import Remains Buoyant riding on Food and Capital Machinery

- Import continues strong growth during Jul'-Feb'18 (YoY 26.6%).
- Rice import has been increasing continuously since Jul'18, currently accounting for 4.8% of total import basket against 0.15% a year ago. Import of rice might slow down within one-and-a-half month with the arrival of newly harvested rice.
- Import of capital machinery, comprising almost 20% of the total import basket would remain resilient as a number of mega projects are on the run.
- Recent rise in oil price resulted in the increase in the import of petroleum products.

### Composition of Import Basket

SI	Particulars	Jan'17 BDT mn	% of Total	Jan'18 BDT mn	% of Total
1	EPZ	1,082.1	33.0%	1,348.7	32.6%
2	Capital machinery	266.2	8.1%	379.0	9.2%
3	Textile & articles	306.9	9.4%	342.6	8.3%
4	Iron & Steel	233.7	7.1%	278.7	6.7%
5	Petroleum Products	176.6	5.4%	258.9	6.3%
6	Cotton	202.6	6.2%	225.1	5.4%
7	Rice	4.9	0.1%	199.8	4.8%
8	Chemicals	128.5	3.9%	162.4	3.9%
9	Plastic & Rubber articles	143.3	4.4%	158.7	3.8%
10	Yarn	103.8	3.2%	131.7	3.2%
	<b>Total Import</b>	<b>3,281.7</b>	<b>100.0%</b>	<b>4,138.8</b>	<b>100.0%</b>

Source: Bangladesh Bank

### Remittance is One Light of Hope for Current Account Balance

- Remittance inflow has been quite healthy in recent months. During Jul-Mar'18 remittance grew YoY 17.0%.
- Depreciation of BDT is a key incentive factor for remittance. BDT depreciated 4.7% during 2017.
- Recent high interest rates on FDR by PCBs also incentivized the remittance inflow in last few months.
- Increase in oil price would revive the aggregate business activities of gulf region and hence improved remittance.
- However, manpower export in major remittance destinations slowed down as compared to last year.
- In a positive note, increased vigilance over the informal channels would have a positive impact on the remittance outlook.



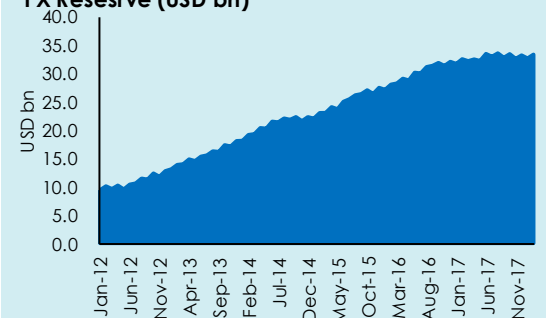
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### Balance of Payment Account (USD mn)

Particulars	Jul'17-Dec'17	Jul'17-Jan'18
Trade balance	(8,628)	(10,123)
Services	(2,282)	(2,585)
Primary income	(1,005)	(1,167)
Secondary income	(7,148)	8,528
<b>Current account balance</b>	<b>(4,767)</b>	<b>(5,347)</b>
Capital account	162	164
Financial account	4,664	4,744
Errors and omissions	(413)	(595)
<b>Overall Balance</b>	<b>(354)</b>	<b>(1,034)</b>
FDI (net)	1,030	1,105
FPI (net)	209	312
MLT (net)	532	641

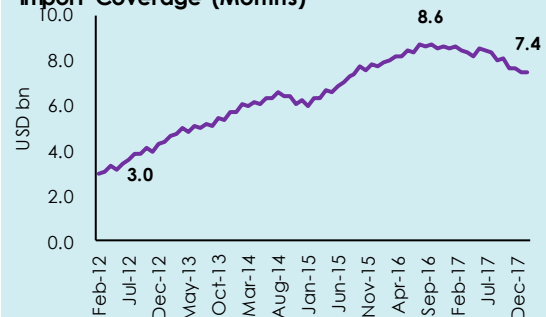
Source: Bangladesh Bank

### FX Reserive (USD bn)



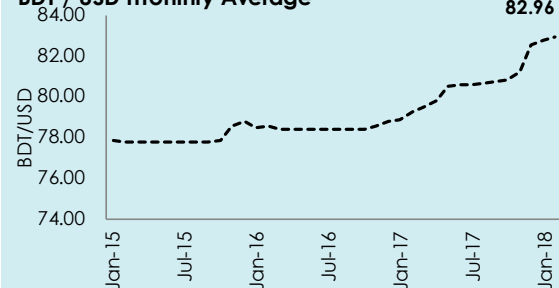
Source: Bangladesh Bank

### Import Coverage (Months)



Source: Bangladesh Bank

### BDT / USD monthly Average



Source: Bangladesh Bank

### Balance of Payment Deficit Widens

- Current account deficit marks record negative in during Jan-Mar'18 (USD 6.0bn).
- Bangladesh has made its the highest ever Asian Clearing Union (ACU) payment for import in Jul'-Feb'18 (USD 1.5bn).
- Soaring oil price in recent months has a hedging impact on the current account balance to some extent. In one hand, import cost of petroleum products would increase (constituting 6.5% of the import basket) and on the other hand, remittance flow from gulf region would flourish with the improvement of their economy (oil based economy).
- In Bangladesh, both the Current account deficit and the external debt as a percent of GDP are one of the lowest in South Asia (27.7% and 2.5%).
- We believe, financial account will back up the deficit of current account through consistent inflow of Foreign Direct Investment (FDI grew 7.3% YoY in Jan'18) and Medium Term Loan (MLT).

### Foreign Exchange Reserve Growth Slows Down

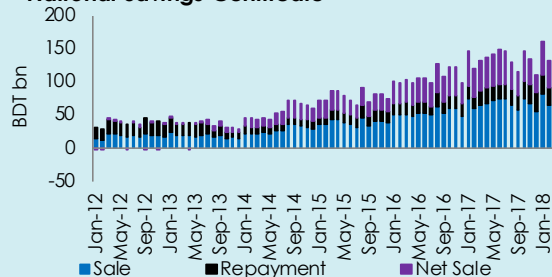
- Foreign exchange reserve (FX reserve) grew at a CAGR of 22.1% from Feb'12-Feb'18. FX reserve received only a 2.5% YoY growth in Feb'18.
- In Feb'18, BB has included the asset, lying with International Monetary Fund (IMF) in the form of its currency-SDR (special drawing rights), in the country's foreign exchange reserve calculation.
- The slowdown of FX reserve growth was mainly attributable to the high import growth for food, capital machinery and petroleum products.
- However, the existing FX reserve is adequate for covering 7.4 months of import which was only 3.0 months in Feb'12.

### Depreciation of BDT is Still on Card

- BDT depreciated 4.7% during 2017. BDT depreciated another 0.2% YTD.
- As we expect current account deficit would persist (although slow down), we believe BDT/USD exchange rate would depreciate 2.0% to 2.5% during 2018.

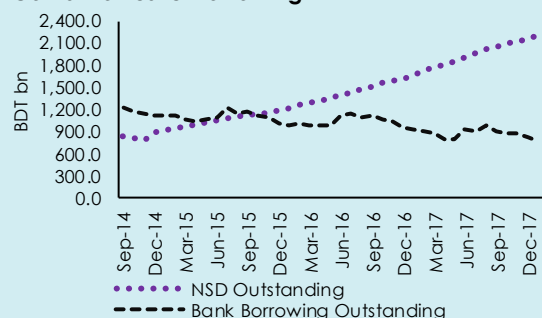
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18.49	-14.24	5.68%	10.50%	5.18%	9.55%	4.37%	6.0bn

### National Savings Certificate



Source: Bangladesh Bank

### Gov't Domestic Borrowing



Source: Bangladesh Bank

### Fiscal Implementation Has Been Slow This Year

- Government revised down the total expenditure of FY18 budget from BDT 4,000bn to BDT 3,771bn.
- During Jul-Dec'17, the overall budget implementation has been slower compared to Jul-Dec'16.
- Although the net sale of NSD has been slower during Feb'18, the outstanding balance of NSD as compared to government's bank borrowing has been quite high.
- The outstanding balance of NSD exceeded that of government's bank borrowing in Sep'15.
- In Jan'18, the outstanding balance of NSD and government's bank borrowing was BDT 2,202bn and BDT 768bn respectively.

### Budget Implementation (BDT bn)

Particulars	Target FY17	Jul-Dec'17		%	Target FY18	Jul-Dec'18		%
	BDT bn	BDT bn	Achieved	BDT bn	BDT bn	Achieved		
<b>Total tax Revenue</b>	<b>1,922.61</b>	<b>787.40</b>	<b>41.0%</b>	<b>2,568.12</b>	<b>789.81</b>	<b>30.8%</b>		
NBR Tax Revenue	1,850.00	760.08	41.1%	2,481.90	754.06	30.4%		
Income tax	627.54	221.30	35.3%	851.76	208.44	24.5%		
VAT	686.75	290.66	42.3%	912.54	288.36	31.6%		
Import Tax	215.72	95.09	44.1%	300.24	99.19	33.0%		
Export Duty	0.34	0.15	44.1%	0.44	0.21	47.7%		
Excise Duty	12.00	2.95	24.6%	15.99	3.80	23.8%		
Supplementary Duty	295.20	144.87	49.1%	384.02	149.04	38.8%		
Other Taxes	12.46	5.06	40.6%	16.91	5.03	29.7%		
Non-NBR	72.61	27.32	37.6%	86.22	35.75	41.5%		
<b>Non-Tax</b>	<b>262.39</b>	<b>102.27</b>	<b>39.0%</b>	<b>311.79</b>	<b>92.22</b>	<b>29.6%</b>		
Total Revenue	2,185.01	889.67	40.7%	2,879.91	882.03	30.6%		
<b>Foreign Grants</b>	<b>46.94</b>	<b>1.30</b>	<b>2.8%</b>	<b>45.65</b>	<b>0.19</b>	<b>0.4%</b>		
Total Expenditure	3,171.72	955.42	30.1%	3,771.78	944.98	25.1%		
ADP	1,107.00	224.27	20.3%	1,488.51	214.15	14.4%		
Foreign Borrowing	240.77	3.24	1.3%	418.14	18.86	4.5%		
Domestic Borrowing	699.04	61.21	8.8%	(1,131.82)	43.87	-3.9%		
Bank Borrowing (net)	239.04	(85.25)	-35.7%	(1,131.82)	(45.91)	4.1%		
Non Bank Borrowing	460.00	146.46	31.8%	-	89.78	na		
<b>NSD</b>	<b>450.00</b>	<b>229.62</b>	<b>51.0%</b>	<b>-</b>	<b>215.35</b>	<b>na</b>		

Source: Bangladesh Bank

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Recommendation	Rating	Expected absolute returns (%) over 12 months
BUY	A+	More than 25%
	A	Between 20% and 25%
	A-	Between 15% and 20%
HOLD	B+	Between 10% and 15%
	B	Between 5% and 10%
	B-	Between 0% and 5%
SELL	C+	Between 0% and -5%
	C	Between -5% and -10%
	C-	Less than -10%



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