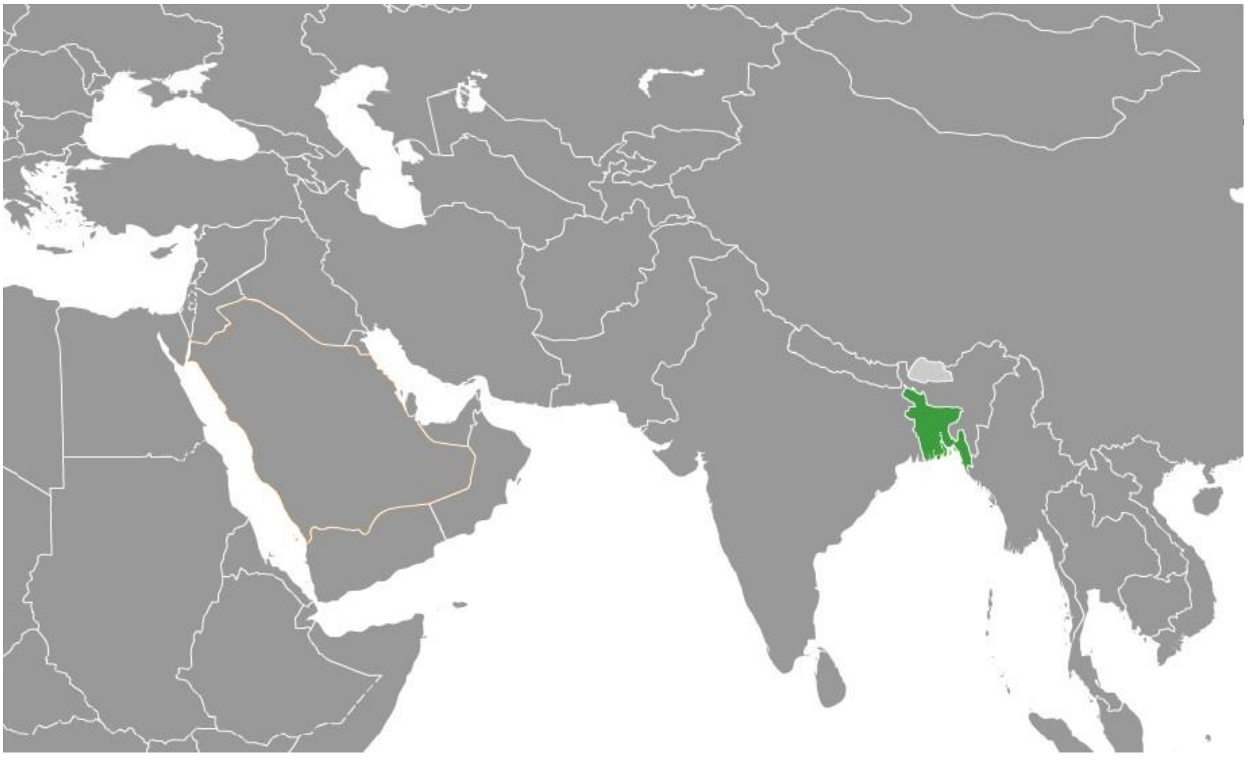

Bangladesh Economic Review

2019Q1

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5 May 2019

Economy at a Glance (FY18)

National Income

GDP growth (%)	7.86
Nominal GDP (USD bn)	274.1
Per Capita GDP (USD)	1,675
Per Capita GNI (USD)	1,751

Budget Detail

Revenue (BDT bn)	2,595
Expenditure (BDT bn)	3,715
Fiscal Deficit (% of GDP)	4.8
Tax Collection (% of GDP)	10.0

GDP Growth Drivers

Agriculture growth	1.52%
Industry growth	17.13%
Manufacturing growth	18.23%
Services growth	12.80%

* Growth figures are in nominal terms

Sovereign Rating

Moody's	Ba3 (Stable)
S&P	BB- (Stable)
Fitch	BB- (Stable)

Foreign Flows

Net Foreign Direct Investments (USD mn)	1,583
Foreign Portfolio Investments (USD mn)	365
Foreign Exchange Reserves (USD bn)	32.94
Exchange Rate (BDT per 1 USD)	83.73

Debt Profile

Total Public Debt (% of GDP)	34.0
Domestic Debt (% of GDP)	19.8
External Debt (% of GDP)	14.2

Inflation and Monetary Aggregates

General Inflation (12-month average) (%)	5.78
M2 growth (%)	9.2
Private sector credit growth (%)	16.94
Total Domestic credit growth (%)	14.71

External Sector

Total Exports (USD bn)	36.21
Total Imports (USD bn)	54.46
Total Remittance (USD bn)	14.98
Current Account Balance (% of GDP)	-3.6

Major Exports	USD mn
Ready-made Garments	22,578
Jute and Jute Products	906
Leather and Leather Products	709
Fish, Shrimp and Prawns	499

Major Imports	USD mn
Industrial raw materials	25,583
Capital machinery & goods	14,556
Food grains & other food items	6,913
Petroleum and fuel	4,017

Social Indicators

Literacy Rate (%)	72.76
Poverty Rate (%)	24.3
Education Expenditure (% of GDP)	2.09
Health Expenditure (% of GDP)	0.92

Demographics

Total Population (mn)	163.65
Population growth rate (%)	1.17
Total Labour force (mn)	63.5
Unemployment Rate (%)	4.2

Global growth moderated to a small extent at the end of 2018, but is expected to start to rise again from 2019. Regulatory crackdowns on the shadow banking system in China, trade war between China and the US, natural disasters in Japan and weaker-than-usual sentiment in Europe all caused a slowdown in global economic growth. However, a more accommodative Federal Reserve policy stance, economic stimulus in China and recovering market sentiment in 2019 is expected to lead to growth to recover in 2019 and beyond. Commodity prices fell at the end of 2018 due to waivers granted to major Iranian oil importers but expiration of waivers in May 2019 is expected to lead to volatile and higher energy prices in 2019.

The Bangladesh Bureau of Statistics (BBS) released provisional GDP growth figures for FY19 which showed GDP growth had reached 8.13%, the highest rate ever recorded in history. Industry grew at 17.61%, led my Manufacturing which grew at 19.28%. Construction grew at 15.78% in FY19. Service and Agriculture sectors grew at 12.1% and 9.13% respectively. The Agriculture, Industry and Service sectors account for 13.31%, 31.31% and 55.38% respectively.

General inflation remained subdued at 5.48%, squarely within central bank target range of 5.30%-5.60%. Food inflation decreased from 6.21% in December 2018 to 5.76% in March 2019, helped by adequate stocks of food grains along with a bumper harvest in early 2019. Non-food inflation, on the other hand, witnessed a rise from 4.51% in December 2018 to 5.03% in March 2019. Prospects for food inflation remain muted in the future due to adequate stocks of food grains amid healthy harvests, but non-food inflation is likely to rise even further as the BDT depreciates against the USD, driving up the cost of imported products while a planned domestic fuel price hike by the government causes a further spike in non-food inflation. Overall, inflation risks are tilted toward the higher side in coming months, but extensive government intervention is likely to keep inflation at around the 5.50% level.

Exports grew by 9.10% in the first quarter of 2019 compared to a year earlier. The depreciation of the BD, tariffs imposed on Chinese goods by the US and the completion of remediation works in the crucial RMG sector contributed to this rise. Export growth is likely to be continue to be robust for the coming months on further depreciation of the BDT.

Imports grew by a restrained 4% in the first 3 months of 2019 compared to a year ago. Depreciation of the BDT along with a slowdown in the government initiating new megaprojects caused import growth to slow down from the high rates seen in FY18.

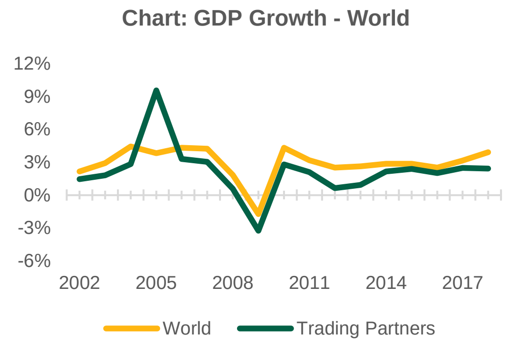
Remittance levels bounced back in the first 3 months of 2019, growing by 14% over the same period of the previous year. Factors contributing to this increase were the depreciation of the BDT, larger number of workers going abroad in recent years as well as better fiscal conditions in the destination countries where a majority of workers go to. Given the prospect for higher oil prices in the coming months, remittance levels are expected to continue to see strong growth in coming months.

The exchange rate depreciated by 0.42% in the first 3 months of 2019. Due to a continuing current account deficit, which hit USD 4.27 billion in March 2019, the BDT is expected to remain under continuous pressure. However, the current account deficit is lower than the same level experienced in FY18, which reflects a somewhat improved outlook for the BDT. Any capital account inflows would further reduce the pressure on the BDT.

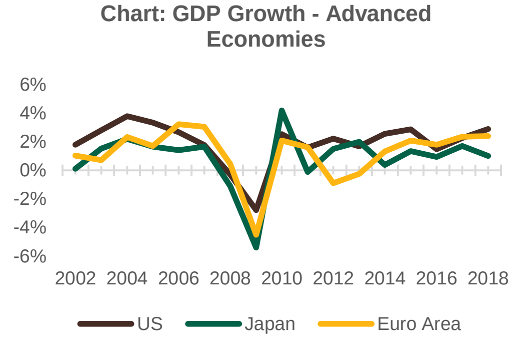
Domestic liquidity conditions tightened further in the first 3 months of 2019 due to increased public and private sector credit growth amid lukewarm increase in broad money growth. Public and private sector credit grew by 24.76% and 12.54% respectively, for an overall growth in domestic credit of 13.74%. In contrast, broad money (M2) growth stood at 10.37%. As a result, interest rates increased by an average of 12bps in March 2019 compared to one year ago. Looking forward, increa

Global Outlook: *Global growth to moderate in 2018 before accelerating again in 2019*

The global economic expansion is moderating due to a number of factors affecting the major economies. Regulatory reforms to rein in shadow banking in China led to tighter monetary conditions while the effect of tariffs imposed by the US continued to affect exports. Consumer and business sentiment in Europe slowed down, dragging down growth in Germany, which had already been affected by increased emissions standards for the automobile manufacturing sector. External demand in Asia softened as natural disasters disrupted economic activities in Japan while existing trade tensions continued to exact a toll. However, indications of a more accommodative monetary policy by the US Federal Reserve and the expectations of a US-China trade deal have led markets to become more optimistic in 2019.

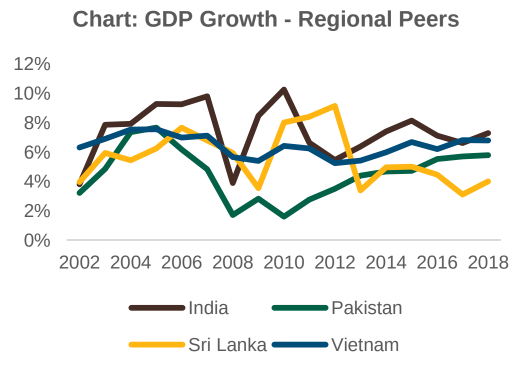


The IMF has forecast global growth to slow down from 3.6% in 2018 to 3.3% in 2019, before returning to 3.6% in 2020. Growth for 2018 was revised down by 10 basis points from the previous forecast reflecting weakness in the second half of the year. The IMF expects global growth to level off in the first half of 2019 and to grow from then onwards, driven by policy stimulus in China, improvement in global market sentiment, and a gradual easing of conditions in the stressed emerging markets like Argentina and Turkey.



Growth momentum in the US remained robust amid a tight labour market and strong growth in consumption. GDP growth stood at 2.6% for the third quarter of 2019, which was higher than the 2.2% consensus estimate. It followed a 3.4% growth in the prior three months. Meanwhile, unemployment rate stood at 3.6% while average hourly earnings rose 3.2% over the previous year.

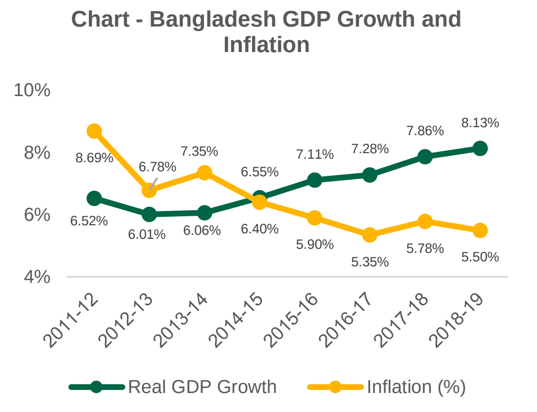
In China, regulatory tightening to rein in debt and shadow financial intermediation in order to increase sustainability of growth caused a slowdown in domestic investment. These regulatory measures occurred at the same time as pressure increased from diminishing export orders as a result of US tariffs in the second half of 2018. As a result, China's growth declined from 6.8% in the first half of 2018 to 6.0% in the second half of the year.



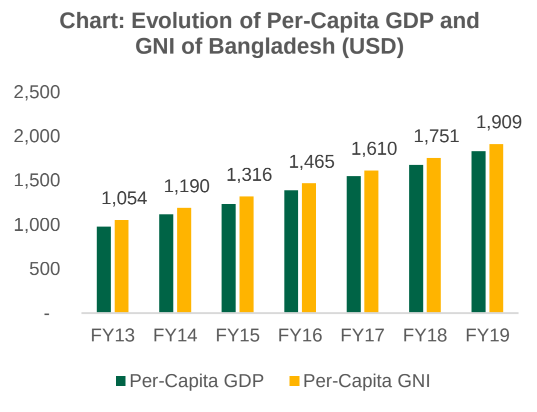
Global energy prices declined by 17% between October 2018 and April 2019 as oil prices dropped from a four-year peak of USD 81/bbl in October 2018 to USD 61/bbl in February 2019. The decision by the US to grant waivers to some major importers of Iranian oil was responsible for the fall. However, the US has signalled that it will no longer renew these waivers from May 2019, therefore oil prices are set to increase due to supply constrains and continuing growth.

Bangladesh Economy: *GDP Growth in FY19(P) crosses the 8% threshold*

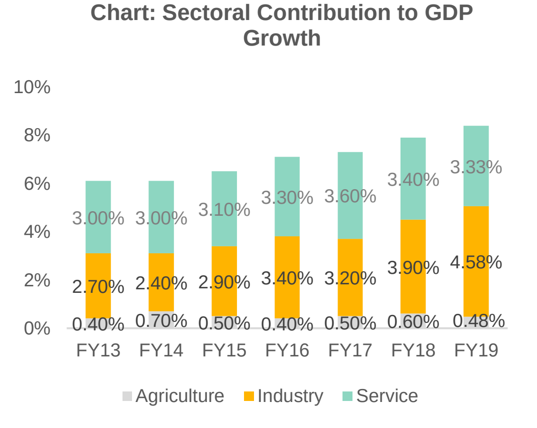
The Bangladesh economy recorded provisional growth rate of 8.13% for FY19. This exceeded the FY19 budget target of 7.80%. The growth recorded for FY19 is the highest growth rate ever recorded in Bangladesh's history, and has resulted in Bangladesh recording increasing GDP growth rates for 6 years running. The World Bank has projected Bangladesh to be among the world's five fasted growing major economies in 2019. Average GDP growth for the past 5 years currently stands at 7.39%.



In USD terms, the size of economy reached USD 302 billion in FY19. The per-capita GDP now stands at USD 1,827 and the per-capita income stands at USD 1,909, a 9.07% and 9.02% growth respectively, over the previous fiscal year.



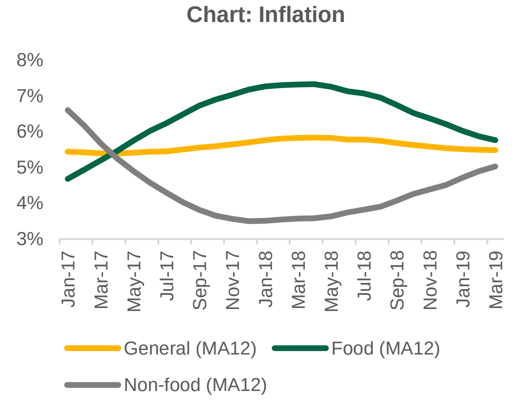
Political and macroeconomic stability was largely sustained in FY19, which allowed a broad-based pickup in economic activity and investment to continue the trend established in previous years. No economic, political or security crisis occurred during the FY19 period, leading to a continuation of the favorable situations for continued economic growth. General elections were held at the end of 2018, leading to the formation of a new government. The country managed to avoid any election-related instability, and the country is set to enjoy relative political calm for the next 5 years. The challenge for the government going forward will be to create quality jobs for the estimated 2 million new people joining the workforce annually.



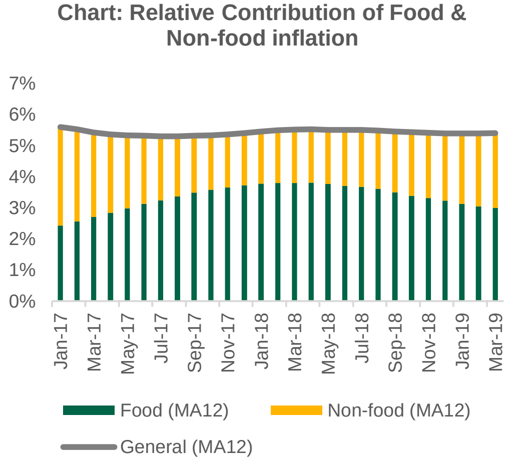
The industrial sector contributed the highest 4.58% to total GDP growth in FY19, underpinned by growth in manufacturing. This was a marked increase from the 3.90% contribution to GDP growth in FY18. The increasing importance of industry to the Bangladesh economy reflects the transformation of the economy from a primarily rural, agricultural-based economy to an urbanized, industrialized and export-based economy. The services sector was the second biggest contributor to economic growth, contributing 3.33% to GDP growth while the agricultural sector contributed a meager 0.48% to GDP growth.

Inflation: *Inflation holds stable at the 5.50% level*

General Inflation remained stable around the 5.50% mark for the first 3 months of 2019. General inflation for January, February and March was 5.51%, 5.49% and 5.48% respectively. Food inflation fell in the first 3 months of 2019, from 6.21% in December 2018 to 5.76% in March 2019. The fall in food inflation was due to bumper food grain harvests easing the supply situation. Non-food inflation, on the other hand, witnessed a rising trend in the first 3 months of 2019, rising from a level of 4.51% in December 2018 to 5.03% in March 2018.



The Monetary Policy Statement for H2 FY19 set the inflation projection at 5.30%-5.60%. The actual inflation rate of 5.50% is squarely within the targets, suggesting that the central bank has succeeded in meeting its inflation target.



The outlook for food inflation is muted, as the Boro harvest season has largely passed without any flooding or major disruptions. Stocks of food are also adequate, and therefore the chances of rise in food grain price is muted. However, the month of Ramadan is set to start from May 2019, which is traditionally associated with a rise in food prices and hence rise in food inflation.

The outlook for non-food inflation, on the other hand, is biased towards the upside. The government is likely to hike fuel and gas prices, which will have a ripple effect in increasing non-food inflation rates. Depreciation of the BDT is also likely to increase costs of imported goods, which is likely to increase non-food inflation.

As a result of the twin offsetting expectations for food and non-food inflation, general inflation is expected to remain roughly in the 5.5% range for the near future.

Money and Credit: *Public sector credit shoots up to 25% in Feb-19*

Domestic credit growth increased by an average of 13.8% in the 3 months leading up to February 2019 as both public and private sector credit growth edged up after the new government assumed power. Domestic credit growth is still below the central bank target of 15.9% set in the H2FY19 monetary policy statement. Broad Money (M2) and Reserve Money (RM) growth stood at 10.37% and 7.69% respectively as against MPS targets of 12.0% and 7.0% respectively.

Private sector investment started to pick up in FY18, driving private sector credit growth to a record 16.94% in FY18, exceeding the central bank target of 16.90%. The central bank subsequently reduced the Advance-to-Deposit ratio (ADR) of banks in order to restrain the private sector credit growth. This led to private sector credit growth coming down to 13.20% in December 2018, well below the central bank target of 16.80%. Tight liquidity situation in the banking system has led to private sector credit growth falling further to 12.54% in February 2019. Until the liquidity situation eases, the low levels of private sector credit growth are expected to continue.

Public sector credit growth saw sharp rise since April 2018, to stand at 24.76% in February 2019. Public sector credit growth had been backsliding since FY15 due to the government's reliance on National Savings Certificates (NSCs) instead of bank borrowing to finance its operations. NSC instruments offer a guaranteed fixed interest rate which is higher than rates available for deposits in banks and financial institutions. However, the government as imposed some prudential regulations on the purchase of NSCs by the public, which as led the government to sharply increase its borrowing from the banking system since the end of 2018. This growth in public sector credit growth is set to continue as the government borrows additional money in order to finance its infrastructure projects.

Net Foreign Assets (NFA) growth stood at 1.18% in February 2019 due to the current account deficit constraining growth in foreign exchange reserves. Net Domestic Asset (NDA) growth stood at 13.42% in February 2019, due to domestic credit growth of 13.74%. Until the current account deficit is reversed, NFA growth is expected to remain low, and lead to tightened monetary conditions.

Chart: M2 & RM Growth

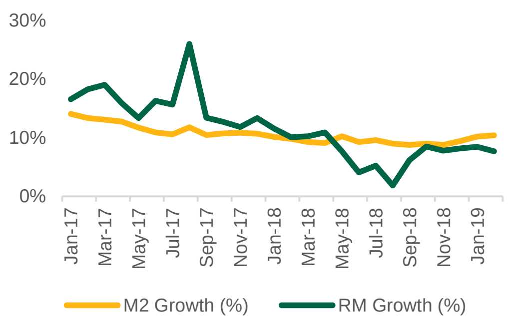


Chart: Public & Private Credit Growth

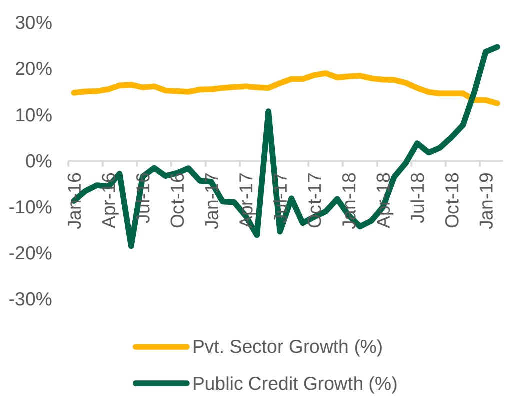
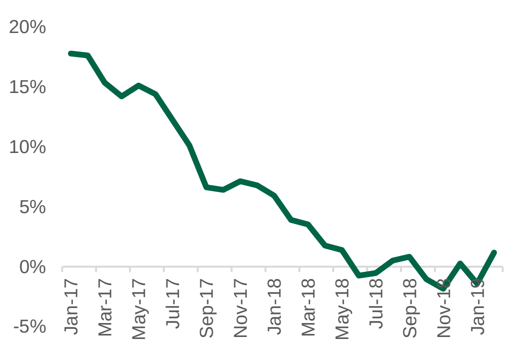


Chart: NFA Growth



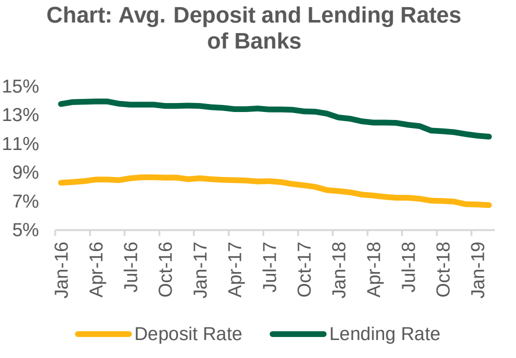
Interest Rates: *Interest rates on the rise amid tight liquidity*

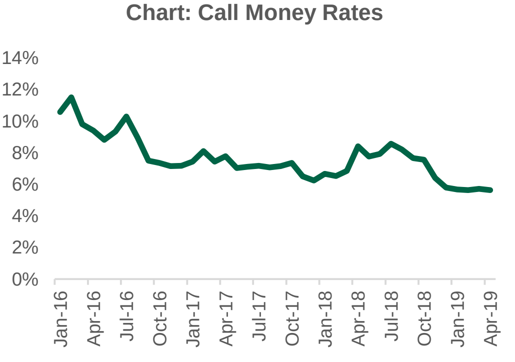
Interest rates saw a slight upward move in the first quarter of 2019. Deposit rates increased from 5.26% to 5.30% in February while lending rates remained at around the 9.50% level in the December 2018 – February 2019 period. Bank interest rates has been on a declining trend for the past 6 years, with lending rates coming down from 13.75% in June 2012 to 9.47% in October 2018. However, that trend has started to reverse as excess liquidity in the banking system has been extinguished by strong private sector credit growth while the current account deficit has been causing tighter liquidity conditions. Looking forward, the tight liquidity conditions are expected to persist due to the current account deficit, and this is expected to lead to an upward movement of interest rates in the coming months.

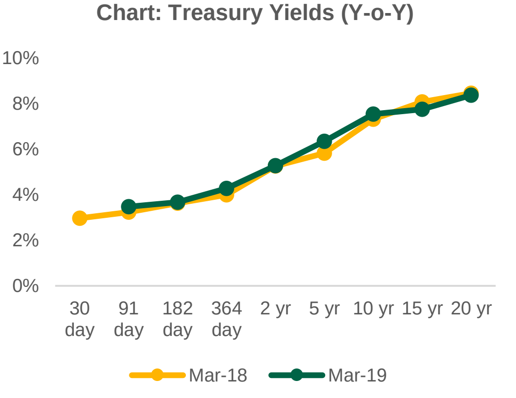
The spread between deposits and advances have continued their downward trend in the first quarter of 2019. The spread reached a record low of 4.15% in February 2019. The decreasing spread is due to increased competition between lenders and greater operational efficiencies. Going forward, the spread is likely to have reached a bottom and is likely to remain at around the 4% range for the next few months.

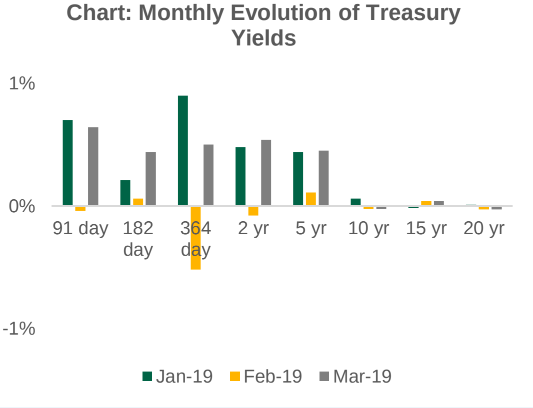
Call money rates have increased slightly to remain at the 4.00%-4.50% level in the first quarter of 2019. Weighted average call money rates (borrowing) stood at 4.12%, 4.36% and 4.54% for the first 3 months of 2019. The increasing trend in call money rates is a result of tighter liquidity conditions in the money market. Call money rates could have been even higher if not for the intensive surveillance by the central bank which constrains banks and financial institutions from relying too much on this financing source.

The yield curve in March 2019 shows that yields for almost all maturities increased against one year ago. The only exception was yield for the 15 year T-bond, which fell by 33 bps. The yield curve illustrates a parallel upward shift, reflecting continuing strong economic growth and domestic credit growth outpacing . The yield curve is likely to continue its parallel shift upwards as robust domestic credit growth along with constrained M2 growth lead to a general rise in interest rates.





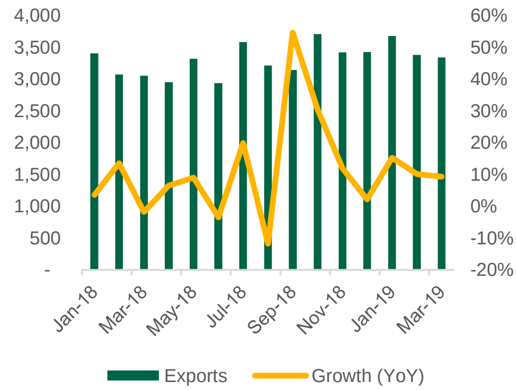




External Sector: ***Exports and Remittance bounce back while Imports restrained***

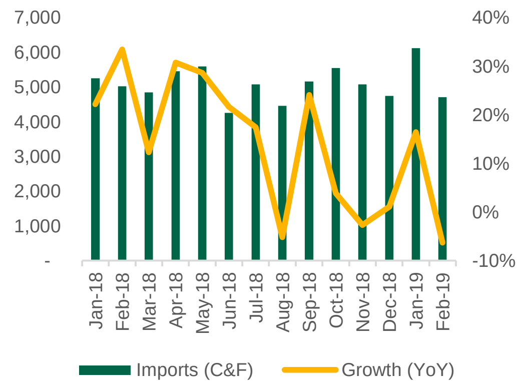
Exports for the first 3 months of 2019 totalled USD 10.4 bn, a 9.10% growth over the same period of 2018. Monthly export growth for the first 3 months of 2019 stood at 15.29%, 10.12% and 9.35% respectively. A few favourable factors led to the increase in exports. The depreciation of the BDT led to exports becoming relatively more competitive in export markets, while additional US tariffs on Chinese exports opened up an opportunity for Bangladeshi exports to the US. Favourable world economic growth also contributed to increasing demand for exports, while the completion of the RMG factory remediation works ensured that Bangladeshi exporters were able to take full advantage of the opportunity. Looking forward, with the BDT forecast to continue to depreciate, exports are expected to continue to grow. A resolution of the US-China trade war and the potential for slowdown in the US and EU economies pose downside risks to exports.

Chart: Monthly Exports (USD mn)



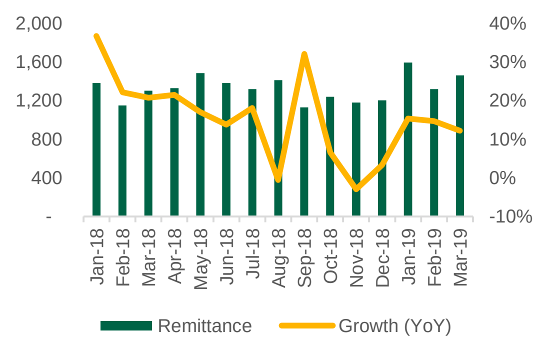
Imports saw a relatively low 4% growth in the 3 months up to February 2019 compared to the same period in February 2018. Monthly export growth for December 2018, January 2019 and February 2019 stood at 1.11%, 16.48% and -6.28% respectively. This restrained import performance can be attributed to the depreciation of the BDT, causing imports to be relatively more expensive. At the same time, bumper rice harvests have resulted in reduced requirement to import food grains, while reduction in international oil prices have reduced the fuel import bill. The government has also restrained its appetite for mega-projects in the FY19 budget, choosing to focus on finishing the existing projects rather than starting any new ones. The combined effects of the above factors have resulted in a slowdown in imports, thus reducing the pressure on the current account.

Chart: Monthly Imports (C&F)



Remittance levels have bounced back since November 2018, growing at an average of 14% in the first 3 months of 2019. Monthly remittance levels for the first 3 months of 2019 stood at USD 1.59, 1.32 and 1.46 bn respectively. The main drivers of the increased remittance levels was the depreciation of the BDT. Greater numbers of workers going abroad and better fiscal conditions in the work destinations also played a part in boosting remittance levels. Looking forward, higher prices of oil, further depreciation of BDT and continuing growth in workers going abroad is expected to lead to increasing remittance levels.

Chart: Remittance (USD mn)



Exchange Rate: *BDT depreciates by 0.42%, forex reserves stable at USD 32 billion*

BDT depreciated 0.42% in the first 3 months of 2019, from 83.9 per USD in December 2018 to 84.25 in March 2019. The depreciation was due to the persistent current account deficit, which increased from USD 3.08 bn in December 2018 to USD 4.27 bn in February 2019.

Bangladesh Bank has been providing support to the BDT, injecting USD 2.3 bn in FY18 and a further USD 435 mn in the first four months of FY19, which has reduced the tendency for a sharp depreciation. The monetary policy for the second half of FY18 hinted at the central bank allowing greater exchange rate flexibility during the period. This raised speculation that after the general elections, the government would allow the exchange rate to depreciate at a faster rate. However, the central bank continued to support the BDT, resulting in a very slight depreciation of the exchange rate despite a high current account deficit. The central bank is likely to continue supporting the exchange rate in coming months to prevent any sharp depreciation in the BDT owing to the need of the government to finish implementation of a large number of infrastructure projects which require import of a large amount of construction materials and capital machinery.

Among peer countries, the Pakistani Rupee (PKR) has seen the highest depreciation owing to a balance of payments crisis, depreciating by 15% since October 2018. The CNY and INR both recovered their value to some extent in early 2019 after having undergone depreciation in 2018. The INR stayed stable at INR 69.6/USD while the CNY appreciated by 2% to stand at 6.73 per USD at the end of April 2019.

Foreign exchange reserves of Bangladesh has been under strain due to a continuing current account deficit, which has seen forex reserves come down from a level of USD 33 bn in June 2018 to USD 31.7 bn in March 2019. The forex reserve has been fluctuating between USD 31-32 bn for the past six months. Due to a narrowing current account deficit and a depreciating exchange rate, the forex reserves are likely to stay at the USD 31-32 billion range for the next few months.

Chart: BDT/USD Exchange Rate

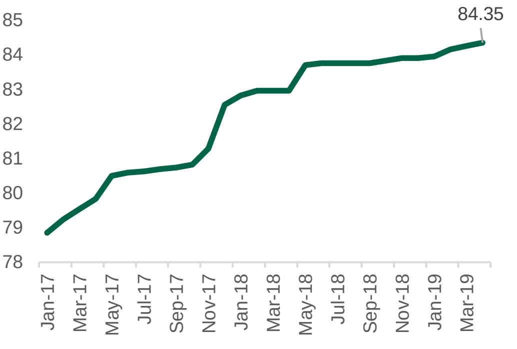


Chart: Peer Currencies vs USD (Rebased)

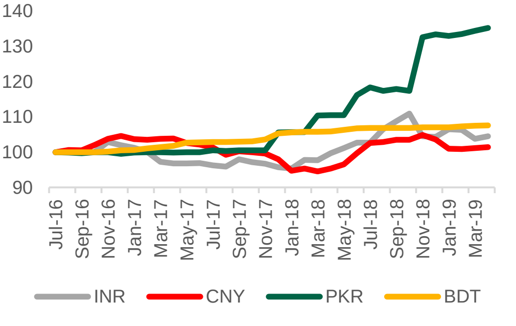
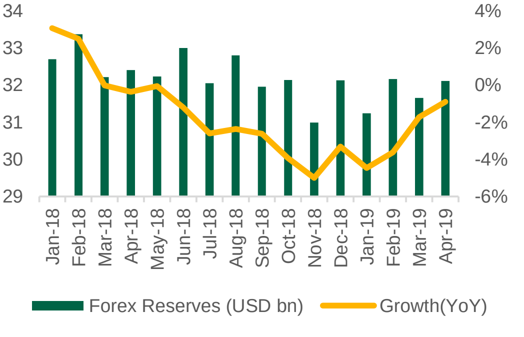


Chart: Foreign Exchange Reserves (USD bn)



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