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Credit Rating Report

Provati Insurance Company Limited

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Ref No	ACRSL 29754/22
Company Name	Provati Insurance Company Limited
Assigned Ticker	PROVATIINS
Activity	Non-Life Insurance Business
Incorporated On	31 January 1996
Head Office	Khan Mansion (11th Floor), 107 Motijheel Commercial Area, Dhaka-1000, Bangladesh.

Rating Type	Corporate/Entity
Rating Validity	13-Sep-2023
Analyst(s)	ACRSL Analyst Team
Committee(s)	ACRSL Rating Committees

RATINGS SUMMARY

CREDIT RATING	CURRENT	PREVIOUS
Long-Term	AAA	AA+
Short-Term	ST-2	ST-2
Publishing Date	14-Sep-2022	20 Sep 2021

RATINGS EXPLANATION

AAA	**Long term:** Highest claims paying ability. Risk factors are negligible and almost risk free.
ST-2	**Short Term:** High claims paying ability. Protection factors are good and there is an expectation of variability in risk over time due to economic and/or underwriting conditions.

Rating Validity: This validity assumes no additional loan over that disclosed in FY21 [Ending December 31] audited/management certified balance sheet and that management has disclosed all material and adverse to financials since FY21.

EXECUTIVE SUMMARY:

Strengths:

- **PICL has a strong customer base and wide branch network which provide stable revenue source for the company** and help to increase its number of customer, branch and also to build good and long lasting relationship with customers. This captive customer base consists from different established sectors like Banks and NBFIs, Garments, Textile, Food industry and so on. The company holds many captive clients such as Walton Group, Rahmat Group, Bashundhara Group, Abdul Monem Ltd., Energy Pac, Beximco Limited and so on. This strong customer base and wide branch network help PICL to maintain strong operational and financial growth in FY21.

- **Gross premium growth rate:** Financial performance of PICL has been shown a growing trend. Gross premium stood at Tk. 924.58 MN in FY20 compared to Tk. 771.66 million in FY19 representing a growth 19.82%. Later, in FY21 gross premium of the company stood at BDT 1056.21 MN, representing a YoY growth rate of 14.24% from previous year. Operating income is mainly dominated by Fire, Marine Cargo, and Motor insurance. This growth is continuing over the last three years.

- **PICL has high level of financial flexibility** providing cushion against default. It has diversified revenue sources from multiple sectors and also builds up good reserve against exceptional losses. This contributes to PICL's financial flexibility and strong support base in case of financial stress.

Concerns:

- **Overall business activities of the country squeezed due to the COVID-19 pandemic and this has impacted the insurance sector as well.** During this pandemic situation, most of the industries faced serious difficulties of their existence. In near future, many of the entity may want to avoid exceptional cost as a part of cost cutting policy. On the other hand, many of the businesses may face loss or may face unexpected situation this may lead number of insurance claim which create pressure on exceptional reserve and other business operations. PICL should develop a policy plan to avoid unkind situation.

RATING RATIONALE

Key Rating Drivers:

We are assigning a long-term rating of "AAA" and a short-term rating of "ST-2" to Provati Insurance Company Limited (Hereafter the Company or PICL).

- **Decade long expertise and experienced technocrats has helped PICL to build a strong customer base.** Provati Insurance Company Limited (PICL) is one of the reputed insurance companies of the country. The company has been highly focused on its core business, insurance business. The company has captive customer base consisting of different companies. Major businesses of the company come from Banks and NBFIs, Garments, Textile, Food industry to name a few. Major captive client of the company includes, Walton Group, Rahmat Group, One Group, B.N.S Group, Sheikh Brothers, Nabil Group, Uttara Group, Shanta Group, BBS Cables, Rangdhunu Group, Bashundhara Group, Abdul Monem Limited, Energy Pac, Beximco Limited, Union Group, Kabir Group among others. The company is primarily staffed with professionals with long experience, qualified insurance technocrats and a team of skilled personnel. Apart from that PICL has developed a number of branch networks all over the country under direct weekly super vision from Head office to reach the number of customers throughout the country. Meanwhile the number of insured clients of PICL has been increasing gradually.
    - **Gross premium** of the company increased from BDT 771.66 MN in FY19 to BDT 924.58 MN in FY20, representing a YoY growth rate of 19.82%. Subsequently in FY21 the Gross premium of the company stood at BDT 1056.21 MN, representing a YoY growth rate of 14.24% due to most of the premium head show positive intensity, which is positive rating factor in our view.

- **Historically, PICL has maintained healthy loss reserve to total assets ratio,** which is a positive rating factor. During the last three years, the ratio reached from 21.10% in FY19 to 23.35% in FY20 later which increased to 23.60% in FY21. During last three years the ratio showed a positive intensity which indicate financial backup gradually is getting better against the total assets of the company during last three years.

- **PICL's balance sheet profile remained strong with substantial liquid assets providing cushion against claim**. PICL has maintained more healthy total assets as cash and bank balance over the last three years. This means PCIL's assets are highly liquid and can be used in case of large claims payment. Historically, PCIL has maintained a high cash & bank balance to total assets ratio, which is a positive rating factor.
    - **Cash & Bank Balance / Total Assets:** Historically, PICL has maintained a high cash & bank balance to total assets ratio during the last three years, which is a positive rating factor. The ratio was 51.56% in FY19, which increased to 58.93% in FY20 and further increased to 23.60% in FY21.

- **Liquid Asset / Net Claim:** Historically, PICL has maintained sufficient liquid asset to net claim ratio which is positive in our view. During last three years the ratio demonstrated a fluctuating trend but remains in comfortable position. The ratio was 3.80x in FY19, which went down to 2.85x in FY20 and further increased to 3.41x in FY21 but it's still high.
- **Overall Liquidity:** Historically, PICL has maintained a high overall liquidity ratio, which is positive in our view. The ratio stood at 4.28x in FY19 which increased to 5.37x in FY20 and remains 4.79x in FY21.
- **Balance of Funds / Total Assets:** Historically, PICL's Balance of funds to total assets ratio demonstrated a fluctuating trend, but remained at a comfort zone, which is a positive rating factor. The ratio stayed withing the range between 23.38% to 26.42% during FY19-FY21.

- **PICL's leverage in terms of Net Liability to Equity remains high over the years.** Over the last three years PICL's Net Liability to Equity ratio demonstrated a decreasing but remains high. The ratio was 44.32% in FY19 to 33.88% in FY20, subsequently in FY20 the ratio reached to 37.49%.
    - **Total Liability:** PICL's total liability was BDT 192.10 MN in FY19 to BDT 150.54 MN in FY20 and 227.36 MN in FY21.Company's liability increased at a CAGR of 8.79% during the same time.
    - **Total Equity:** PICL's total equity increased from BDT 562.54 MN in FY19 to BDT 627.01 MN in FY20 and BDT 776.33 MN in FY21, representing a CAGR of 17.48% during FY19-FY21.

ACRSL Research has a positive long-term outlook on Bangladesh's Insurance sector, a view that is driven by rising income levels, steady remittance, rapid urbanization, and expected overall economic growth.

- **IDRA's complete guideline will be a milestone for the insurance sector of Bangladesh.** IDRA is preparing insurance business guidelines and all the necessary regulations. When these rules and regulations will be implemented, then operation of insurance business will become more efficient and transparent just like banks now. IDRA is planning to provide central software where all the insurance companies (head office and all branches) will be able to use it simultaneously. Therefore, IDRA can monitor all transaction easily and can solve any discrepancy in a fast manner. This will be beneficial for all in long-term.

- **Increase in stock market exposure during this bear market would be a good strategy for long-term investment.** In this bearish trend, it is easy to buy good companies' share at a cheap price. By now all the insurance companies have absorbed the stock market collapse. Therefore, in future, in good economic condition when economic activity will increase, the stock market is expected to get back into track and show bullish trend. Then these investments will provide good return in form of capital gain and dividend.

- **The GDP of our country is increasing than the previous years which results in increase of per capital income.** So, this growing GDP and income holds bright prospects for insurance companies. The major problem is the incapability of our people to pay the premium charged by the insurance companies. With the growth in the income more and more people are now willing to take an insurance policy for safeguarding themselves from any danger.

- **There is a big opportunity lies ahead for the insurance companies as the population of our country are increasing day by day**. Although most of people of our country live under extreme poverty level and want to avoid insurance policy number of potential policy holders in Bangladesh is growing with growth of the population. There is somewhat relationship between growing populations with the number of public vehicles. As we know all public vehicle must have an insurance policy. So growing population also increase the motor insurance too. That is growth in population opens greater scope for every kind of insurance business that results in growing prospect for insurance companies.

- **People are now much more conscious about their safety.** So they are encouraged to take an insurance policy for making their life free from any unexpected occurrence. Increase in literacy rate is helping predominantly to create awareness among the people regarding taking insurance policy. Besides this insurance companies are also trying to eradicate the negative attitude of people towards the insurance company by organizing various programs such as seminars, programs including social responsibilities etc.

- **Micro insurance can be a great prospective area for the insurance business in our country**. Most of the people of our country are unable to have costly and long-term insurance policies. Micro insurance can be provided to individual personnel or to small business owners against little insurance premiums and with easy terms and conditions. When they will afford to minimize their risks at a lower price, they will take that opportunity and they will become to get used to it. This can cover a huge portion of the society who can be a prospective target market for this business.

- **Insurance companies can usually make more profit from investment activities than from their regular insurance business.** The private insurance companies are realizing this fact and playing role in the financial market. Insurance companies are making large investment in government bonds, ICB projects and in private sector business. There are opportunities to enhance profit through effective and efficient money management by employing capable and experienced personnel. Scope of investment expansion persists in the areas leasing, housing, health and money market.

- **Insurance is not just a tool of risk coverage.** It is also an attractive instrument of savings. The mixture of risk coverage with savings gives the opportunity for innovative product designing which means service diversification. In a dynamic insurance market one can expect to see new products being promoted at regular intervals. So far very little efforts have been taken to innovative and introduce need oriented insurance services in response to existing threats. The prospect of the insurance business in various sectors that affect our economy can be differentiated in the following way.

- **The economy of Bangladesh is predominantly an agrarian one, with most people engage in farming and fishing**. The uncertainty of agriculture due to crop failure caused by climate variation, drought, cyclone, flood and pests affects farmer income as well as government revenue. Furthermore, in the last few years commercialization has occurred in some sections of the agricultural sector. Increase in investment in the agricultural sector is creating a new opportunity for insurance industry. Various agricultural insurance services are becoming common these days. Demand for insurance protection against crop loans, livestock loans, fisheries loans and equipment loans are also increasing day by day.

- **Nowadays in Bangladesh the SME plays a important role in the economic development**. But they are deprived from taking loans from bank for large amount. If insurance business focuses this section in Bangladesh, they are able to contribute more in the economy. Thus, insurance business has a bright prospect in business sector in a developing country like Bangladesh.

ACRSL remains concerned over the near-to-intermediate term about PICL's exposure to the insurance sector. We have a long-term positive outlook on Bangladesh's Insurance sector, with near-to-intermediate term concerns, based on following analysis:

- **The general insurance market is not likely to remain suppressed in the long-term**. This is because general insurance market expansion and increase of insurance penetration in the country lies in tapping the hither to untapped segments of the market – personal lines business that has remained neglected so far.

- **A vast majority of people especially in rural areas are left outside the insurance coverage.** This mainly results from the unawareness among the people. Even a large portion of people don't have the minimum idea of insurance. People are not aware of the benefits from the insurance policy and a great number of people believe that insurance business is nothing but cheating and assume that insurance policy is quite unnecessary. This negative attitude from the people is lessening the importance of absorbing insurance policy in a large extent.

- **Most of the insurance companies in our country are located in urban areas and there are few branches in rural areas.** They think that they might have better scope for performing their business as the economic condition of the urban is better than the rural areas. They don't think that the large number of our population reside in rural areas and if branches are expanded in rural areas, then the business can thrive if proper motivation policy is taken to aware the mass people of the rural areas. Thus, this centralization policy acts as an obstruction for the growth of insurance business in our country.

- **Bangladesh is one of the poorest countries in the world and most of the people in this country live under extreme poverty level**. All of these people fight hard to earn their livelihood and are marginal in relation to the expenditure with the income. It is quite impossible for them to save some money for future need. Therefore, they are quite unable to give the amount to the insurer which is called as premium and regarded as safety or precautionary measures against any accident. The number of people who can bear the premium to the insurance company is very few in regard to those mentioned above. Therefore, the overall poor economic condition is creating obstacle to flourish the insurance business in Bangladesh.

- **Most of the insurance companies of our country are facing financial problems.** Recently government is trying to take initiative to close some of the insurance companies because they are not maintaining the minimum standards. They are investing their money in poor securities and business which is vulnerable regarding getting back the money with profit. As a result, most of the insurance companies are suffering from loss years after years and for poor financial condition the insurance companies are also unable to expand their branch which is a barrier for the growth of insurance business in Bangladesh.

- **Growing cost of business is another problem that insurance companies are facing now a day**. They urge that government tax, house rent, utility, commission fee, stationeries are growing day by day. But their businesses are not growing so fast with that rate. Besides this the policy holders are not willing to pay too much premium with growing cost that is hampering the strategies of insurance companies. So they are facing difficulties in running their business efficiently.

- **Lack of surveillance from government ministry encourages many insurance companies** to follow some unethical practices like make harassment to policy holder and showing less in the financial statement. This not only destroying the reputation of the well-known insurance companies but also creates negative impact in the mind of the people about insurance. Besides this government sometimes impose some conflicting rules and regulation without discussing with insurance companies governing body. It creates conflict among insurance companies with government and act as one of the main hindrances of growing insurance business.

- **Insurance companies perform their activities by recruiting marketing agent and they try to convince** the people to take a policy. Most of the cases the agents are not properly trained and they don't know the right process to catch potential people to make their policy holders. Therefore, these field level agents are unable to fulfill their target and act as a constraint in the insurance business.

- **Spread of insurance business in Bangladesh failed for lack of proper training** by the employees specially the field employees of insurance companies. Still there are not enough training center to provide proper training regarding insurance activities for the officials of insurance company. Though there is one insurance training center in Bangladesh it totally failed to achieve its target in insurance field.

- **Another main problem in the country is that the media is unconcerned to send the right message regarding insurance to the people.** As a result, a large portion of population is completely unaware about the insurance policy. Another problem is that the insurance company does not provide adequate information in the company's websites which can fulfill the queries of their potential customers and satisfy themselves to buy an insurance policy.

- **Some insurance companies create harassment on the policy holders or sometimes on the dependents of the policy holders when they want back their money after death or maturity**. The insurance companies show different causes in order to make delay to return back the money at expected time. Sometimes they are eager to pay less than the desired amount by creating various circumstances such as they try to say that the disaster of the subject matter of the policy is not responsible due to their activities. Besides this some field officials also create some illegal acts. They often try to give false information to the people for buying a policy. And these kinds of illegal acts create bad reputation to the insurance companies and hindrance the overall insurance business. Those who are harassed by the insurance companies discourage other not to take an insurance policy Lack of motivation program towards public.

- **To take an insurance policy there are great number of rules and regulations which must be compelled by the insured person.** And into those rules a vast number of complexities are present there. Therefore, the people are discouraged to take insurance policy because they think that the complexities will create extra pressure on their mind which may hamper other jobs.

Special Note: At the time of publication of this credit rating report by ARGUS Credit Rating Services Limited, audited financial statements until FY21 (ending December 31). Projections for until FY22-23 were arrived after taking into consideration subsequent events up to the date of reporting, management feedback, and industry insights.

1 CORPORATE PROFILE

1.1 Company Description

History: Provati Insurance Company Limited (PICL) was incorporated as a public limited company in 31st January 1996 upon getting permission from the Government for carrying out non-life insurance business. PICL's major underwriting business includes fire, marine, motor, and miscellaneous insurance business.

Indicators	Comments	Rating Outlook
Quality of Top Management	Senior management of PICL comprises of industry experts and highly qualified personnel with over a decade of experience in the insurance sector. Similarly, professionalism on part of management contributes to brand recognition and operational controls. Moreover, the company's senior management has sound educational, business, social and financial backgrounds and networks. In effect, management proficiency contributes to brand and operating efficiency of PICL that is a positive rating factor.	Positive
Management Adaptation	Senior management brings change at PICL by building group momentum and actively mobilizing others to initiate change. At PICL, management has embedded a culture for change. Such a proactive management contributes to a positive rating outlook.	Positive
Management Structure	PICL's upper management has instituted strict, control mechanisms and a robust infrastructural set up focused on inhibiting negative implications of conflict of interests, as well as fraud, and focused on the smooth flow of operations and the company's long-term operational efficiency. For example, PICL utilizes Software for risk management, finance and accounting purpose. In effect, adherence to control mechanisms has contributed to strong internal controls and is a positive rating factor.	Positive
HR Policy	PICL has a structured HR Policy covering various employment policies, including, selection and recruiting policies, compensation, leave policies, among other factors for employees at all levels of the organization. Moreover, the company's HR policy also clearly delineates the job description and job responsibilities for each of its employees. This contributes to a positive factor.	Positive
Internal Controls	PICL's upper management has instituted strict, control mechanisms and a robust infrastructural set up focused on continuous risk assessment and compliance with laws and regulations. PICL's	Positive

	internal controls inhibit the negative implications of conflict of interests, as well as fraud at all levels of the organization. Similarly, the internal controls have been implemented to allow for a smooth flow of operations. Furthermore, accounting controls ensure the quality of accounting and financial information, particularly the conditions of under which the information is recorded, stored, and available. In effect, adherence to control mechanisms has contributed to strong internal controls and is a positive rating factor.	
Work Environment	PICL's work environment fosters teamwork and collaboration. A rewarding work environment has also contributed to higher job satisfaction, motivational, and productivity. Overall, this is contributing to a positive rating factor.	Positive

1.2 SHAREHOLDING STRUCTURE

The Board consists of 15 Members. The members of the Board of Directors of the Company hold very respectable position in society. They are from highly successful groups of business and industries in Bangladesh. Each member of the Board of Directors plays a significant role in the socio-economic domain of the country. The current Chairman is Md. Momin Ali and the Vice Chairman is Mr. Maroof Sattar Ali.

Table 1 Nature of Ownership/Shareholding Percentage

Shareholders	Number of Shares	% of Shares
Sponsor & Directors	10,435,884	30.030%
General Public	16,109,139	46.355%
Company	8,160,517	23.482%
Company (Foreign)	0	0.000%
NRB (Non-Residential Bangladesh)	46,379	0.133%
All Investor Accounts	10	0.000%

Table 2 Shareholding Directors are as follows:

Name	Designation	Share %
Mr. Md. Momin Ali	Chairman	2.01%
Maroof Sattar Ali	Vice Chairman	5.47%
Alhaj Mohammed Ali	Director	2.34%
Alhaj Md. Mofizur Rahman	Director	2.00%
Mohammad Ali Talukder	Director	2.00%
Al-Haj Shahdat Hussain	Director	2.00%
Mr. Shahjahan Kabir	Director	2.00%
Abdur Rahman Ansary	Director	2.00%
Sabrina Yeasmin	Director	2.03%
Md. Mahbubur Rahman, FCA	Independent Director	Nil
Professor. Dr. Md. Sayaduzzaman	Independent Director	Nil
Habib E Alam Chowdhury	Independent Director	Nil
Md. Rafiqul Islam	Independent Director	Nil
Mr. Pradip Kumar Das	Director	5.82%
Md. Habibur Rahman	Director	2.00%

Source: PICL's Annual Report

1.3 EXECUTIVES OF HEAD OFFICE

Name	Designation
Md. Zahedul Islam	Managing Director
Shakawat Hossain Mamun	Additional Managing Director & HIAC
Md. Saiful Islam (Azad)	Deputy Managing Director
Lt.Col (R) Md. Faridul Alam, PPM,psc	Asst. Managing Director
Md. Mizanur Rahman	Executive Vice President
Mahbub-ul-Alam	Executive Vice President
Mohammed Serajul Islam	Sr. Vice President & Company Secretary
Md. Rafiqul Islam	Sr. Vice President & CFO
Md. Karim Ullah	Vice President

1.4 OPERATIONS

Provati Insurance Company Limited operates through the Head Office located at Dhaka, Zonal Offices at Chittagong, Khulna and 56 branches throughout the country. The company's business operations are being carried out in the following areas:

- Underwriting fire insurance
- Underwriting marine (cargo & hull insurance)
- Underwriting miscellaneous insurance
- Underwriting motor insurance

1.5 INFORMATION TECHNOLOGY

IT has become indispensable for insurance companies in ensuring smooth operations and providing efficient service. PICL is planning to get Enterprise Resource Planning software (ERP); this will keep the company on the top edge in terms of IT.

Indicators	Presence/Absence
IT Development Team	Present
Accounting Software	Present
Server and Backup Support	Present
Data Security Policy	Present
Market Research Software	Absent

1.6 Human Resource Management

PICL continues to implement appropriate human resource management policies and practices to develop its employees, and to ensure their optimum contribution towards the achievement of corporate goals.

We found the company is employee friendly and efficient service rule and regulation policy. At the end of FY21, PICL has more than 817 employees. At PICL, Human Resources give the organization a competitive edge in terms of knowledge and experience. PICL continued their policy of recruiting the best people and implementing programs to develop and retain high quality human resources.

1.7 Market Share

Insurance market in Bangladesh remains extremely competitive due to existence and operation of a large number of companies, incommensurate with the size of the market.

Market Characteristics	Comment
Market Competition	Very high
Bargaining Power of Customers	High
Threat of New Entrants	Low
Marketing Approach	Aggressive

1.8 Products and Services

Currently, PICL offers insurance products under the following broad categories:

- Fire Insurance
- Marine Hull and Cargo Insurance
- Motor Vehicle Insurance
- Miscellaneous Accident Insurance

2 FINANCIAL RISK ANALYSIS

2.1 MACROECONOMIC PERFORMANCE

2.1.1 World Economic Outlook

Following more than two years of pandemic, spillovers from the Russian Federation's invasion of Ukraine are set to sharply hasten the deceleration of global economic activity, which is now expected to slow to 2.9 percent in 2022. The war in Ukraine is leading to high commodity prices, adding to supply disruptions, increasing food insecurity and poverty, exacerbating inflation, contributing to tighter financial conditions, magnifying financial vulnerability, and heightening policy uncertainty. Growth in emerging market and developing economies (EMDEs) this year has been downgraded to 3.4 percent, as negative spillovers from the invasion of Ukraine more than offset any near-term boost to some commodity exporters from higher energy prices. Despite the negative shock to global activity in 2022, there is essentially no rebound projected next year: global growth is forecast to edge up only slightly to a still-subdued 3 percent in 2023, as many headwinds—in particular, high commodity prices and continued monetary tightening are expected to persist. Moreover, the outlook is subject to various downside risks, including intensifying geopolitical tensions, growing stagflationary headwinds, rising financial instability, continuing supply strains and These risks underscore the importance of a forceful policy response. The global community needs to ramp up efforts to mitigate humanitarian crises caused by the war in Ukraine and conflict elsewhere and alleviate food insecurity, as well as expand vaccine access to ensure a durable end of the pandemic. Meanwhile, EMDE policy makers need to refrain from implementing export restrictions or price controls, which could end up magnifying the increase in commodity prices. With rising inflation, tightening financial conditions, and elevated debt levels sharply limiting policy space, spending can be reprioritized toward targeted relief for vulnerable households. Over the long run, policies will be required to reverse the damage inflicted by the dual shocks of the pandemic and the war on growth prospects, including preventing fragmentation in trade networks, improving education, and raising labour force participation.

Regional Prospects:

Russia's invasion of Ukraine is affecting EMDE regions to different degrees via impacts on global trade and output, commodity prices, inflation, and profit rates. The adverse spillovers from the war will be most severe for Europe and Central Asia, where output is forecast to sharply contract this year. Output growth is projected to slow this year in all other regions. except the Middle East and North Africa, where the benefits of higher energy prices for energy exporters are expected to outweigh those prices' negative impacts for other economies in the region. Risks for all EMDE regions are tilted to the downside and include intensifying geo-political tensions, rising inflation and food shortages, financial stress and rising borrowing costs, renewed outbreaks of COVID-19, and disruptions from disasters.

Global stagflation:

Global inflation has risen sharply from its lows in mid-2020, on rebounding global demand, supply bottlenecks, and soaring food and energy prices, especially since Russia's invasion of Ukraine. Markets expect inflation to peak in mid-2022 and then decline, but to remain elevated even after these shocks subside and monetary policies are tightened further. Global growth has been moving in the opposite direction: it has declined sharply since the beginning of the year and, for the remainder of this decade, is expected to remain below the average of the 2010s. In light of these developments, the risk of stagflation—a combination of high inflation and sluggish growth has risen. The recovery from the stagflation of the 1970s required steep increases in interest rates by major advanced-economy central banks to quell inflation, which triggered a global recession and a string of financial crises in EMDEs. If current stagflationary pressures intensify, EMDEs would likely face severe challenges again because of their less well-anchored inflation expectations, elevated financial vulnerabilities, and weakening growth fundamentals. This makes it urgent for EMDEs to shore up their fiscal and external buffers, strengthen their monetary policy frameworks, and implement reforms to reinvigorate growth.

Russia's invasion of Ukraine:

Implications for energy markets and activity. Russia's invasion of Ukraine has disrupted global energy markets and damaged the global economy. Compared with what took place in the 1970s, the shock has led to a surge in prices across a broader set of energy- related commodities. In energy-importing economies, higher prices will reduce real disposable incomes, raise production costs, tighten financial conditions, and constrain policy space. Some energy exporters may benefit from improved terms of trade and higher commodities production. However, on net, model-based estimates suggest that the war-driven surge in energy prices could reduce global output by 0.8 percent after two years. The experience of previous oil price shocks has shown that these shocks can provide an important catalyst for policies to encourage demand reduction, substitution to other fuels, and development of new sources of energy supply.

Global trade:

Goods trade slowed in the first half of 2022 as supply chains continued to be affected by the lingering effects of the pandemic, including disruptions in major Asian ports and lockdowns in key cities in China. In addition, Russia's invasion of Ukraine and its repercussions have led to severe physical and logistical dislocations that have magnified pre-existing bottlenecks. Russia and Ukraine account for a small share under 3 percent of global exports. However, many global industries rely on supplies of key commodities produced in the two countries, especially in Russia. Shortages and unprecedented increases in the prices of these inputs have rippled through global value chains (GVCs), leading to production standstills and elevated producer prices. At the same time, transport costs have increased, including in the wake of the war in Ukraine. Navigation and trade in the Black Sea have been materially disrupted, negatively affecting the transport of food and crude oil. Cargos and shipments held at

Russian and Ukrainian ports have been rerouted through longer and more expensive routes. Services trade has regained its pre-pandemic level, driven by a rebound in non-tourism services. While tourism activity has started to recover in advanced economies with high vaccination levels, it remains generally subdued in EMDEs, especially in tourism-reliant countries and in small states. The invasion is also weighing on tourism activity in countries that rely on tourists from Russia and Ukraine. Global trade growth is anticipated to slow to 4 percent in 2022 as the war in Ukraine further disrupts global value chains, global activity gradually shifts back toward the less trade intensive services sector, and international mobility moves toward pre-pandemic levels only gradually. This is a substantial downward revision relative to previous forecasts, largely because of higher transport costs and significant global value chain disruptions associated with the war. Global trade growth is expected to moderate to an average of 4.1 percent in 2023-24 as global demand for tradable goods continues to decelerate. Prolonged closures of factories and key ports in China as a result of COVID-19 lockdowns pose a significant downside risk to the near-term trade outlook. Delivery times could lengthen further, leading to new trade disruptions and global supply shortages, which could in turn severely affect production and activity in other countries. In addition, although some of the effects of the invasion of Ukraine could be mitigated by new trade linkages, a more protracted war and its long lasting

repercussions, such as persistent uncertainty, represent a substantial downside risk to the longer-term trade outlook, as it could lead to fragmentation in the global trade system.

Commodity markets:

Commodity prices surged in the first half of 2022, in part reflecting the effects of Russia's invasion of Ukraine, and following a broad-based rise that began in mid-2020 spurred by a rebound in demand amid constrained production for several commodities. The increase in prices was particularly pronounced for commodities of which Russia and Ukraine are large exporters, including energy and wheat, as the war resulted in major disruptions to production and trade. Prices of oil products, notably diesel and gasoline, rose much more than crude oil prices as a result of insufficient refining capacity and disruption to Russia's exports of refined oil products. The G7 and the EU announced they would ban or gradually phase out their imports of Russian oil, with similar measures taken for coal and natural gas. Several oil companies also the ultimate impact of the war on energy markets—and commodity markets more broadly—will depend on its duration and the extent of sanctions as a result of Russia's invasion. The International Energy Agency estimates that under current sanctions, Russia's oil exports could be temporarily reduced by 2.5 million barrels per day, about 30 percent of its current exports and about 3 percent of global supply. A combination of diversion of oil to other countries, use of strategic petroleum reserves, and potentially some additional production from OPEC would likely be sufficient to fill this shortfall. While some energy commodities are already being redirected to other countries, this process is constrained by the availability of physical transportation infrastructure. This is particularly the case for Russian natural gas, which depends on pipelines largely oriented toward Europe. Against this backdrop, energy prices are forecast to rise 52 percent in 2022, 47 percentage points higher than previously projected. Brent crude oil prices are forecast to average \$100/bbl—an upward revision of \$24/bbl. Sanctions imposed on Russia in response to the invasion are expected to have a lasting negative effect on the country's crude oil and natural gas production on account of the exit of foreign oil companies, lower investment, and reduced access to foreign technology. Prices are projected to moderate in 2023 as production rises elsewhere, including in the United States; however, they will remain much higher than previously forecast, and well above the average of the past five years. There is a material risk that energy prices could increase much more than expected. Disruption to Russia's energy exports, particularly natural gas, could be more severe than expected if bans are implemented more rapidly, or if there is less diversion of exports to other countries. For example, as a result of the invasion of Ukraine, the EU and the United States have proposed restricting the provision of shipping and insurance services related to the transport of Russian oil, which could materially reduce the scope for redirection of oil to other countries. In addition, inventories have fallen (and are set to decline further) and there are concerns that OPEC spare capacity may be lower than currently estimated, as evidenced by a sluggish supply response. U.S. shale faces several constraints on significantly increasing output, including shortages of labor and other inputs, as well as demands on the industry to focus on returning cash to shareholders. Furthermore, in contrast to previous oil price spikes when plentiful coal and natural gas enabled substitution away from oil, the prices of all fossil fuel energy sources are currently very high, which reduces the possibility of easing price pressures by substituting to cheaper fuels. Agricultural prices are forecast to rise 18 percent this year, above previous projections, reflecting weaker grain production in Ukraine as well as much higher input costs, including for fuel, chemicals, and fertilizers. Fertilizer prices are expected to increase by nearly 70 percent in 2022, due to soaring input costs, reduced production, and trade disruptions (World Bank 2022a). Russia and Ukraine are key exporters of wheat, together accounting for about one-quarter of global wheat exports. Russia is also the world's largest exporter of fertilizers and has instituted new quotas and restrictions on exports. About 90 percent of Ukraine's grain exports flow through Black Sea ports, which are not currently operational. Some wheat may be transported through road and railway corridors, but volumes will be sharply reduced because of infrastructure bottlenecks and safety concerns. Russia's invasion is likely to partially disrupt agricultural production in Ukraine for 2022, including for corn, barley, and sunflowers, which are typically planted during spring. In addition, there is a risk that Russian production of grains could be reduced by more limited access to imported agricultural inputs, such as seeds and pesticides. Accordingly, the projected 2022 price increase reflects a surge in wheat and corn prices that is partially offset by modest declines in the price of other major staples, including rice and soybeans, for which global supplies are currently adequate. Agricultural prices are forecast to moderate in 2023, reflecting increased supplies from the rest of the world, particularly for wheat in Canada and the EU. Nonetheless, agricultural commodity prices are expected to remain much higher than earlier projections, and well above their average over the previous five years. Prices could rise further if input costs are higher than expected; for example, an extended disruption to Russian fertilizer exports could impede future agricultural production in other large EMDE producers. Export bans are a further risk to agricultural prices, as exemplified by the fact that several countries have already implemented export bans on food commodities. These measures can have harmful consequences; for example, measures undertaken during the 2007-08 and 2010-11 food price spikes resulted in higher price volatility and were not effective in protecting vulnerable populations. Metal prices have continued to increase in 2022, adding to last year's substantial gains. Aluminum and nickel prices rose by about 30 percent due to the importance of Russia as an exporter, as well as a "short squeeze" on the nickel market. Metal prices are now expected to rise 12 percent in 2022, a significant upward revision from previous forecasts. Most prices are expected to moderate in 2023, reflecting increasing supply for example, nickel production is expected to increase in Indonesia. Me effects of the war in Ukraine are assumed to have less of a lasting impact on metal prices than on energy prices given that, with the exception of palladium and nickel, Russia has a more modest role as a global exporter.

Financial developments:

Rising inflation has led to expectations of faster monetary policy tightening across the world. Advanced-economy bond yields have risen markedly, and measures of equity volatility have seen a sustained increase, weighing on valuations of risky assets. Since the beginning of the year, U.S. and euro area stocks have fallen about 13 percent and 12 percent, respectively. The invasion triggered an initial appreciation of the U.S. dollar against EMDE currencies that was larger than appreciations related to the 2013 taper tantrum and previous conflict-related events involving oil exporters. It has since strengthened further, increasing the cost of servicing dollar denominated liabilities globally. In Russia, financial markets initially suffered significant dislocations following the invasion of Ukraine. Russian financial asset prices have since stabilized, though yields on Russia's dollar denominated sovereign debt continue to indicate a prominent risk of default. Negative effects on global banks appear largely contained, however, reflecting limited balance-sheet exposures. Credit default swap spreads on the sovereign debt of countries neighboring Ukraine have also increased notably. Overall, EMDE financial conditions have reached their tightest level since the start of the pandemic, as investor risk appetite has been sapped by the war in Ukraine, lockdowns in China, a weaker growth outlook, and higher interest rates in advanced economies. Equity and debt flows to EMDEs turned sharply negative in March, while bond issuance in the first quarter of 2022 across EMDEs was weaker than in any first quarter since 2016. Whereas ECA and regions with substantial numbers of commodity importers (such as EAP and SAR) have experienced sizable short-term debt and equity outflows, regions with large numbers of commodity exporters (such as LAC and MENA) have seen more resilient flows. Since the invasion, sovereign spreads have increased on average across EMDEs, but by considerably more among commodity importers relative to commodity exporters.

Major economies:

Recent developments and outlook 5e recovery in advanced economies is being dampened by surging energy prices and supply chain disruptions, which have been aggravated by Russia's invasion of Ukraine. Growth is expected to decline markedly in 2022—especially in the euro area, which has closer economic links with Russia. Monetary policy support is expected to be withdrawn at a notably faster pace than previously anticipated, especially in the United States. Authorities in China have significantly eased macroeconomic policy to cushion the ongoing slowdown.

Advanced economies:

Growth in advanced economies slowed during the first half of 2022, reflecting the war in Ukraine, pandemic resurgences at the turn of the year, persistent supply chain disruptions, reduced fiscal support, and tightening financial conditions. Russia's invasion of Ukraine has increased financial market volatility, policy uncertainty, and supply chain strains, especially in the euro area. Moreover, its effect on energy prices is weighing significantly on disposable

income and profit margins, and thus on activity, and is raising inflation to multi decade highs. Given rapid increases in energy and food prices
and a broadening of inflation across components, major central banks are expected to tighten monetary policy at a faster pace than previously
anticipated. The effects of the invasion and of policy tightening are likely to exert a significant drag on output. Growth in advanced economies is projected to slow markedly in 2022, to 2.6 percent, as spillovers associated with the war weigh on near term activity, especially in the euro area. Growth is then expected to continue to moderate, averaging 2.1 percent in 2023-24, as macroeconomic policy support is unwound further and pent-up demand is exhausted. A worsening war in Ukraine is the major risk clouding the outlook, as it could destabilize an already fraught geopolitical situation, trigger additional increases in energy and food prices, exacerbate inflationary pressures, further tighten financial conditions, and prolong policy uncertainty. In the United States, activity lost momentum in the first half of this year, owing to the short-lived hit from the Omicron wave, tighter financing conditions, and the economic effects of Russia's invasion of Ukraine. Although the direct impact of the invasion has been contained so far, owing to limited trade and financial linkages, it is heightening inflationary pressures, which have already been more pronounced than in other advanced economies. With inflation well above target, the Federal Reserve began to raise policy rates in March; in all, markets expect policy rates to reach 2.5 percent by end-2022—an increase of almost 170 basis point from December market expectations. U.S. growth is forecast to slow to 2.5 percent in 2022, 1.2 percentage points below previous projections, reflecting sharply higher energy prices, tighter financial conditions, and additional supply disruptions caused by the invasion of Ukraine. Growth is expected to moderate further to an average of 2.2 percent in 2023-24, as continued withdrawal of fiscal support and monetary policy tightening weighs further on activity. Although inflation is expected to peak around mid-2022 and gradually decline thereafter, it is envisioned to remain above its 2 percent target over the forecast horizon owing to persistent wage pressures from a tight labor market. Activity in the euro area decelerated in the first half of 2022, mainly on account of Russia's invasion of Ukraine and an earlier resurgence of COVID-19. Key members of the euro area are particularly dependent on energy imports from Russia—including imports of gas, which account for about 35 percent of total gas imports into the area. Beyond energy, direct trade exposures to Russia are small, which limits the direct impact of sanctions. However, indirect effects through distressed supply chains, increased financial strains, and declines in consumer and business confidence have dented activity. Surging energy and food prices have contributed to a sharp rise in inflation, which reached a record-high of 5.8 percent in February 2022.Euro area growth is projected to slow to 2.5 percent in 2022, as additional supply shocks caused by the invasion of Ukraine weigh on activity. Me outlook has been revised down by 1.7 percentage points this year, as the war leads to higher energy prices, continued supply disruptions, and tighter financial conditions. Energy subsidies in several major euro area members, albeit distortive, are expected to slightly cushion the impact of high energy costs on household consumption. Growth is projected to moderate further to an average of 1.9 percent in 2023-24, as the European Central Bank tightens
monetary policy and lingering repercussions of the war continue to weigh on activity. Activity in Japan has slowed in the first half of 2022, amid subdued domestic demand and unfavorable external conditions. Growth is expected to be 1.7 percent this year, 1.2 percentage points below previous forecasts, reflecting a larger-than-expected drag from COVID-19, a deterioration in the terms of trade caused by the war in Ukraine, and weaker exports. Growth is forecast to slow over 2023-24, as pent-up demand is exhausted.

China:

Activity has slowed sharply due mainly to COVID-19 outbreaks and strict lockdowns, with growth in consumer spending particularly subdued. Trade and manufacturing investment have lost momentum, owing to supply disruptions and the negative impact of the war in Ukraine. While the contraction of real estate investment moderated at the start of the year, it has deepened again due to pandemic-related restrictions. Policy action has been pursued to cushion the slowdown. Me People's Bank of China has implemented policy rate and reserve requirement cuts, relaxed regulations on bank loans for low cost rental housing, and allowed commercial banks to lower mortgage rates. Following last year's sharp fiscal consolidation, policy has eased and infrastructure investment has rebounded. China is expected to grow 4.3 percent in 2022 and 5.2 percent in 2023. Me forecast for this year has been downgraded 0.8 percentage point, reflecting larger-than-expected damage from COVID-19 and related lockdowns. Higher commodity prices will reduce the current account surplus and push up inflation toward target. To mitigate the impact of the lingering pandemic and worsening terms of trade, fiscal, monetary, and regulatory policies are envisioned to be more supportive than previously expected. Me outlook is subject to significant risks. Repeated COVID-19 outbreaks and strict lockdowns across major cities would curtail the recovery of consumption and services activity, disrupt supply chains, and weigh on investor confidence.2 In addition, renewed stress in the housing sector would further reduce real estate investment and government revenues, affect the solvency of developers and local government financing vehicles, and weigh on house prices and consumer spending.

EMDE (Emerging Market and Developing Economies) outlook:

The war in Ukraine is weighing on aggregate Emerging market and developing economies (EMDE) growth prospects owing to higher inflation and input costs, disruptions to trade, weaker confidence, and a steep rise in policy uncertainty. These will add to pre-existing headwinds to growth, including rising inflationary pressures and tightening financial conditions, the ongoing removal of fiscal and monetary policy support, and softening external demand. EMDE growth is expected to roughly halve in 2022, to 3.4 percent—far weaker than its annual average of 4.8 percent over 2011-19—a downgrade of 1.2 percentage points relative to previous projections. This downward revision reflects, to a significant degree, deep recessions in Russia and Ukraine. Excluding these two countries, the EMDE growth forecast for 2022 has been downgraded by 0.5 percentage point, as improved growth prospects in energy exporters partly offset broad-based downgrades in other EMDEs. Forecasts for 2022 growth have been lowered in nearly 70 percent of EMDEs, including most commodity-importing economies. EMDE growth is anticipated to firm to an average of 4.3 percent in 2023-24, as the lingering effects of the war abate. Me near-term outlook for EMDE private consumption has weakened, driven in part by higher prices and the erosion of real incomes. EMDE households' exposure to commodity price shocks has risen in recent years, as an increasing proportion of spending is on basic necessities, including food and energy. Me weakness in private consumption also reflects job losses in economies affected by the war as well as those highly dependent on remittances from Russia. Investment, which was already expected to be subdued, is likely to be further weakened by soft investor confidence, higher interest rates and heightened uncertainty about growth prospects and policy, especially in economies perceived as less creditworthy. Increases in extractive investment are expected to be limited by investor concerns regarding the significant volatility in commodity prices and heightened geopolitical uncertainty. EMDE exports are expected to be dampened by a sharp slowdown in growth in advanced economies and continued strains on global supply chains. Me spike in commodity prices and disruption to exports from Russia and Ukraine are anticipated to hinder production in some large manufacturing economies, as their value chains are especially exposed to intermediate goods and services from these countries. On balance, recent increases in commodity prices are a drag on aggregate EMDE activity. On the one hand, the increase in energy prices will improve fiscal space, current account positions, and incomes of some commodity exporters. On the other hand, the increase in commodity prices will raise production costs for firms and weaken purchasing power among households in commodity importers, which account for more than two-thirds of EMDE GDP. For agricultural and metal commodity exporters, sharply higher input costs—including fuel as well as fertilizers, for which Russia is a key exporter—are expected to limit the gains from higher commodity prices. Although the pandemic is weighing less heavily on the near-term outlook, it is still expected to have lasting effects on long-term growth across EMDEs, and many of these effects will be compounded by the war. Me adverse impact on human capital, investor confidence, fixed capital formation, and supply chains from these two crises will weigh on long-term growth prospects. As a result, EMDE potential growth is expected to be below 4 percent over 2022-30 a sharp slowdown from about 5 percent in the 2010s.

LICs (Low income Country) outlook:

Growth in LICs is anticipated at 4.1 percent in 2022 and 5.3 percent in 2023. Despite improving terms of trade in commodity exporters, the forecast for this year has been downgraded 0.8 percentage point, in part reflecting sharp increases in global food and fuel prices due to the invasion of Ukraine—growth in more than four-fifths of LICs has been revised down. In many LICs, where households on average spend over 40 percent of their budget on staple foods, food price inflation remains stubbornly high, eroding real incomes and weighing on consumption. Higher fertilizer prices are expected to make agricultural production even more costly, which will lower agricultural output for many LICs. Elevated levels of conflict and violence are also dampening growth and investment in some LICs. Me outlook for LICs is clouded by various risks. Median inflation in LICs is approaching 11 percent—its highest reading in five years—and is expected to continue to rise in the near term. Many LICs are at risk of worsening food insecurity and malnutrition if grain imports from Russia and Ukraine are further disrupted.

Global outlook:

The war in Ukraine has steepened the projected slowdown in global activity in addition to causing a deep recession in the ECA region, the economic effects of the war are spilling over across the globe through commodity prices, financial conditions, trade patterns, migration flows, and confidence. The invasion of Ukraine represents an additional supply shock to a global economy still recovering from the pandemic. The associated physical and logistical disruptions and the ensuing sharp rise in commodity prices are driving inflation higher and weighing on activity, exacerbating the pre-existing strains from the pandemic on the global economy. The war has also eroded confidence and heightened risk aversion, contributing to weaker trade and investment as firms seek to hedge against adverse outcomes. Global growth is expected to slow sharply from 5.7 percent in 2021 to 2.9 percent in 2022 as a result of deep recessions in Russia and Ukraine, adverse global spillovers from the war in Ukraine, the fading of pent-up demand, and the withdrawal of policy support amid high inflation. Despite the negative shock to global activity in 2022, there is essentially no rebound projected next year. Global growth is forecast to edge up only slightly, to a still-subdued 3 percent in 2023, as many headwinds—in particular, high commodity prices and continued monetary tightening—are expected to persist. In 2024, global growth is projected to remain at 3 percent, as activity converges to its long-run potential pace. The cumulative losses to global activity relative to its pre-pandemic trend are expected to continue mounting, especially among EMDE commodity importers. High global consumer price inflation is envisioned to persist for longer than previously assumed as a result of surging commodity prices and lingering.

Risks to the outlook:

The underlying assumptions for the baseline forecast are subject to significant uncertainty. Russia's invasion of Ukraine and its implications are increasing the probability of negative tail risks, many of which are interlinked. Widening geopolitical turmoil could further destabilize global economic activity and, in the longer term, cause global trade, investment, and financial networks to fragment. The drag on activity from persistent supply disruptions and very high commodity prices may cause the global economy to become mired in stagflation, with low growth and high inflation. Rising price pressures could require substantially more monetary tightening than currently expected. Food shortages could weigh heavily on the most vulnerable and spark social unrest. Although the economic impact of new outbreaks of COVID-19 has faded over the course of the pandemic, the appearance of new, more virulent variants could lead to the reintroduction of disruptive control measures. If several of these downside risks were to materialize simultaneously, model-based quantifications suggest that global growth could fall more sharply in 2022 and nearly halve in 2023 declining to 2.1 percent and 1.5 percent, respectively.

Intensifying geopolitical tensions:

Russia's invasion of Ukraine has led to a global weakening of confidence and a rise of policy uncertainty. The situation could worsen in a variety of ways, including through the spread of hostilities over a larger geographical area. It could also take the form of widespread state sponsored cyber-attacks on public infrastructure or financial systems, which could disrupt telecommunications, power grids, water supply, oil and gas pipelines, transportation networks, and critical manufacturing sectors. Such developments could have substantial destabilizing effects on the global economy, significantly heighten uncertainty and further erode confidence, and trigger additional sanctions or major retaliatory responses. The existing refugee crisis could worsen. Global refugee levels were already historically high in recent years. The invasion of Ukraine—a country with more than twice the population of the Syrian Arab Republic (44 million versus 18 million)—has already caused nearly 7 million more to seek safety abroad. The sudden arrival of a large number of newcomers in host countries will put pressure on public finances and the delivery of basic services.

Global trade and financial networks could fragment if the war and its dislocating effects persist—especially if continued hostilities prompt. the implementation of large-scale trade embargoes. The demonstrated impact of sanctions on the Russian economy may prompt some other countries to self-isolate and protect themselves from similar measures in the future. This could involve raising barriers to free trade and developing parallel payment systems independent of the U.S. dollar. The pace of global economic integration has slowed substantially in recent years, and an outright reversal could result in less specialization, fewer economies of scale, less competition, and the slower spread of innovations. This could slow output and income growth and add to inflation pressures.

Stagflation:

The current multi decade high levels of inflation, combined with sharply slowing growth, raise concerns that the global economy is entering a period of stagflation reminiscent of the 1970s. In the 1970s, large supply shocks amid accommodative monetary and fiscal policies resulted in prolonged stagflation. The policy tightening in the early 1980s to contain high inflation played a major role in triggering a global recession in 1982 and set off a string of EMDE debt crises. The current juncture resembles the 1970s in several key aspects. First, supply disruptions driven by the pandemic and the recent supply shock dealt to global energy prices by the war in Ukraine resemble the oil shocks in 1973 and 1979-80. In fact, the increase in energy prices over the past two years has been the largest since the 1973 oil crisis. Second, global growth is decelerating sharply, with the current slowdown even more pronounced than the one following the 1975 recession. Third, then and now, monetary policy was highly accommodative in the run-up to these shocks, with interest rates negative in real (inflation adjusted) terms for an extended period. Fourth, with EMDE debt at multi decade highs now, a rise in global borrowing costs may trigger financial crises, as it did in the early 1980s. The stagflation experience of the 1970s is a reminder that there is a considerable risk that inflation will remain high or continue to rise. The supply bottlenecks and rising commodity prices that have contributed to elevated inflation could persist in the near term as a result of renewed pandemic-related lockdowns or continued commodity market disruptions. In the longer term, inflation may remain elevated as many of the factors that have contributed to low inflation in recent decades are slowing or in outright retreat. The growth of global value chains and the global labor force has fallen, the productivity gains from the reallocation of resources away from agriculture have waned, and technological progress. In addition, the commitment among some policy makers to disciplined fiscal and monetary policy frameworks could soften. A long side the possibility of elevated inflation, global activity could remain anemic. Growth is already slowing, including in the world's major economies. The United States is withdrawing policy accommodation, the euro area is suffering substantial spillovers from the invasion of Ukraine, and activity in China is being hindered by difficulties in the real estate sector and lockdowns to control COVID-19. Growth could remain feeble for a prolonged period, as many of its structural determinants have weakened. Demographics represent a growing headwind to potential growth. Labor productivity has slowed considerably since the global financial crisis, largely as a result of weakness in both investment and total factor productivity. The pandemic has left deep scars in the form of lower investment, lower human capital, and a retreat from global supply chains, all of which are likely to dampen potential growth in the longer term.

Financial stress across EMDEs:

The current environment of elevated inflation and rising interest rates poses risks to the financial stability of many EMDEs. The increased cost of inputs, particularly energy, and of credit could trigger economic slowdowns, widen current account deficits, and generate significant financing gaps. Rising interest rates could result in fiscal pressures, widespread corporate defaults, and feeble global investment. These risks are particularly acute given that debt in many EMDEs has been on a decade-long upward trend capped by a broad-based surge during the pandemic, with increasingly tight inter linkages between the health of the government balance sheet and that of the banking system. The most vulnerable EMDEs are those that could struggle to roll over debt in the face of significantly higher debt service obligations, or that hold large shares of debt that is denominated in foreign currencies, held by nonresidents, short-term, or subject to variable rates. Historically, financial crises in EMDEs have been more likely when the U.S. Federal Reserve pivots toward a more aggressive tightening stance, as it is currently doing to rein in inflation well above levels seen at the beginning of previous hiking cycles. Some previous episodes of higher U.S. interest rates, such as the taper tantrum of 2013, have been followed by increased financial market volatility in EMDEs, including currency depreciation, rising bond spreads, portfolio outflows, equity price collapses, and liquidity shortages. EMDE central banks may be forced to tighten monetary policy to stem capital outflows at the expense of domestic activity, as has occurred in the past. More generally, central banks around the world may accelerate the pace of tightening if the current period of persistent and elevated inflation causes expectations to become de-anchored. Policy rates have been increasing at a far slower pace than prices, suggesting that policy continues to be accommodative. In the near term, expectations of additional price increases could become baked into wage and price setting behavior, resulting in persistent above-target inflation. The process of resetting inflation expectations to match central bank targets through tighter monetary policy has been costly in the past. The evidence that the Phillips curve may have flattened in recent decades highlights the risk that central banks will have to engage in significantly tighter monetary policy to contain inflation. Past banking crises have often been preceded by credit booms and relaxed macro prudential oversight, leading to high debt levels, currency and maturity mismatches, and concentrated credit risks. The health of bank balance sheets may be overstated because of the zero-risk weight given to sovereign securities. Strains may also emerge in market segments that are more opaque. For example, in many economies the nonbank financial sector has a high level of interconnectedness with other parts of the financial system, and can potentially spread vulnerability through a high degree of leverage and liquidity mismatches. Tightening credit conditions or the unwinding of debt forbearance measures introduced during the pandemic could trigger disruptive financial sector dynamics.

Widespread food shortages:

Agricultural prices have been increasing significantly as a result of weaker grain production from Ukraine alongside higher costs for critical agricultural inputs such as fuel, chemicals, and fertilizers. Food shortages will result in millions of people being pushed into food insecurity and extreme poverty, particularly poor urban households in LICs that spend large shares of their income on food. This will likely have adverse long-term consequences, as malnutrition causes persistent damage to human capital and insufficient access to agricultural inputs can lock an economy in a state of widespread, low productivity subsistence farming. Further increases in the prices of food and agricultural inputs would magnify these risks. Droughts, floods, wildfires, and other extreme events made more likely by climate change could further stress food systems. Events leading to sudden food production losses have become more frequent in recent decades, and they have had more severe impacts in areas where climate change has already slowed the growth of agricultural productivity and where the global poor are more concentrated. Food accounts for about half of consumption baskets and 20 percent of goods imports in LICs, on average; accordingly, even modest disruption to food supplies or increases in food prices can worsen food crises and contribute to severe inflationary pressures. LICs and EMDEs that import significant quantities of agricultural products from Russia and Ukraine are particularly vulnerable to disruption to the production and transportation of key commodities. Food production is also at risk of being poorly distributed. Smaller producers such as subsistence farmers may lack the resources (or access to financial markets) required to purchase costly inputs. Low domestic yields combined with weak fiscal positions and the high cost of shipping may put adequate food stocks beyond the reach of poorer countries. Food shortages have significant negative consequences in both the near and long term. In the near term, food shortages can contribute to rising social unrest. Rising food prices can also cause fiscal balances to deteriorate, particularly in the presence of subsidies, which can either crowd out other spending or increase debt-related risks. In the long term, malnutrition has substantial human and economic costs that can persist for decades.

Growth under alternative downside scenarios:

A global macroeconomic projection model was used to further assess the impact of some key downside risks on the global economy.4 These risks include widespread financial stress caused by faster U.S. monetary tightening, an intensification of geopolitical tensions in Europe, and recurring COVID-19 outbreaks in China. In the first scenario, the Federal Reserve would unexpectedly accelerate the pace of monetary policy tightening in response to resilient domestic demand, surging wage inflation, and rising inflation expectations. Policy rates would rise to 4 percent by the first quarter of 2023 about 1.5 percentage points higher than currently expected, and enough to bring real rates into positive territory and stay at about that level for several quarters. A rapid tightening of global financial conditions would ensue, triggering widespread financial stress across EMDEs. Several major EMDEs would experience large scale capital outflows and soaring bond spreads, ultimately forcing authorities to accelerate fiscal consolidation efforts. On net, EMDEs would experience much larger headwinds to activity than advanced economies, with EMDE growth reduced by 0.5 and 0.9 percentage point in 2022 and 2023, respectively, relative to baseline forecasts. In the second scenario, Russia would respond to escalating EU sanctions by announcing an immediate ban on all energy exports to EU member countries starting in the third quarter. Further, sanctions by the United States and the EU targeting shipping companies or third parties purchasing Russian oil could reduce the potential for trade diversion of Russian exports to other countries. The sudden implementation of the ban, combined with additional sanctions in response to Russia's invasion of Ukraine, would severely disrupt global energy supply routes. The resulting disruption to energy exports would be largest for natural gas, then oil, and lastly, coal. The price of these commodities would spike in 2022 Q3 and remain elevated over the remainder of the scenario horizon, reflecting both precautionary buying and lower global supplies. Meanwhile, uncertainty about geopolitical developments would also spike, contributing to a decline in consumer confidence across Europe (World

Bank 2022d). In this scenario, growth would slow sharply in advanced economies—particularly in the euro area—while EMDEs would face notable headwinds from higher energy prices and weaker foreign demand. In the third scenario, China would experience COVID-19 resurgences of steadily decreasing severity through the second half of 2022 and into 2023. Containing the spread of COVID-19 would require strict but short-lived lockdowns across several major cities. Pandemic control measures would sharply reduce private consumption and have adverse effects on domestic investment and regional trade networks. After each short-lived resurgence, activity would bounce back in the subsequent quarter as restrictions are lifted. Overall, pandemic resurgences and associated restrictions would lower growth relative to baseline in China by 0.5 percentage point in 2022 and 0.3 percentage point in 2023. Broader spillovers to EMDEs and advanced economies would be generally contained, owing to the short-lived nature of the shock. There is a distinct possibility that all three scenarios materialize simultaneously. Each scenario layer would add headwinds to growth (of varying magnitudes) to advanced economies and EMDEs. Advanced economies—in particular the euro area—would be hard hit by soaring energy prices in addition to headwinds from faster Federal Reserve tightening and the pandemic induced slowdown in China. Altogether, the three scenarios would see advanced-economy growth slow below 1 percent in 2023, compared to 2.2percent in the baseline forecast. Meanwhile, EMDEs would experience outsized impacts from the China COVID-19 shock in 2022 and acute financial stress amid faster Federal reserve tightening in 2023. The layered shocks would reduce EMDE growth by 1.2 and 1.6 percentage points in 2022 and 2023, respectively, all but eliminating the projected rebound from the effects of the war in Ukraine. The combined scenarios would entail a sharp global downturn with the global economy only narrowly avoiding an annual recession next year.7 Global growth would slow abruptly from 5.7 percent in 2021 to 2.1 percent in 2022 and 1.5 percent in 2023 0.8 and 1.5 percentage points slower than the baseline forecast in 2022 and 2023, respectively.

Inflation between the 1970s and the pandemic:

Prior to the pandemic, many studies focused on the remarkable decline in inflation over the past five decades. Global inflation fell from a peak of 16.9 percent in 1974 to 2.3 percent in 2019. This trend decline was broad based, covering both advanced economies and EMDEs. Between 1974 and 2019, inflation in advanced economies declined from 15.3 percent in 1974 to 1.3 percent in 2019, while in EMDEs, it declined from 17.5 percent to 2.6 percent.
These declines were driven by a sharper focus by monetary authorities on price stability as the primary objective of monetary policy and also by rapid globalization and the liberalization of product, labor, and financial markets. In fact, inflation declined so much over the 1990s and 2000s, the period sometimes dubbed “The Great Moderation,” that deflation had become a major concern in some advanced economies by the early 2000s. In 2019, before the COVID-19 pandemic struck, inflation was below target ranges in almost all inflation targeting advanced economies. In about half of inflation-targeting EMDEs, inflation remained within target ranges in every year of the period 2012-2019. Since early 2020, global inflation has been highly volatile. In the early stages of the pandemic, between January and April 2020, global inflation declined by about 1 percentage point amid a collapse in demand and plunging oil prices. In May 2020, however, global inflation started to pick up with a rebound in oil and food prices and a recovery of activity following the easing of the lockdowns that had been introduced during the first wave of the pandemic. The surge in commodity prices resulting from Russia’s invasion of Ukraine and supply

disruptions due to renewed pandemic outbreaks and movement restrictions in China have further pushed up food and energy prices, and inflation more broadly. The most recent data, for April 2022, show inflation at multiyear highs: globally, at 7.8 percent, its highest level since 2008. Inflation in advanced economies is now at its highest level since 1982, up from near-zero during April-December 2020; inflation in EMDEs is at 9.4 percent, its highest level since 2008, up from a multi decade low in May 2020. As of April this year, inflation was above target in all advanced economies and almost 90 percent of inflation targeting EMDEs . Among EMDE regions, the increase in inflation this year has been most pronounced in Europe and Central Asia (ECA) as a result of rebounding demand in advanced-economy Europe, disruptions driven by Russia's invasion of Ukraine, and the commodity price surge. In contrast, in East Asia and the Pacific (EAP), where recurring lockdowns have been implemented, inflation has also risen but has remained within most central banks' target ranges.

Drivers of recent inflation developments:

To disentangle the quantitative importance of different forces driving global inflation, a factor augmented VAR. The model is applied to three global variables inflation, output growth, and oil price growth all expressed as month-on-month growth rates 6. The exercise is repeated for advanced economies and EMDEs separately, and for headline CPI inflation, core CPI inflation, and PPI inflation. The PPI tends to have larger tradable content than the headline CPI, whereas the core CPI tends to have smaller tradable content than the headline CPI The estimation results document how drivers of inflation have shifted since January 2020 and disturbances associated with demand, supply and oil prices have affected different inflation measures. While demand shocks were the dominant force in pushing inflation down in the first half of 2020, oil price shocks and supply shocks have become more influential in pushing inflation up since early 2021, especially for core inflation and CPI in advanced economies.

Inflation prospects in the near term:

The recent rise in inflation has led to a reassessment of near-term inflation prospects. Global inflation is expected to peak in about mid-2022 and to decline to about 3 percent in mid-2023. This, however, would still be about 1 percentage point above its average in 2019. Russia's invasion of Ukraine has resulted in further increases in near-term inflation expectations because Russia and Ukraine are major exporters of many commodities. The war-driven supply shortages and shipping disruptions have added to price increases in commodity markets, on top of the sharp price rises since mid-2020, and to global inflationary pressures. Concerns about persistently above target inflation have already prompted central banks in most advanced economies and many EMDEs to tighten monetary policy amid a sharp growth slowdown. Despite this tightening, as of May 2022, real policy rates (adjusted by actual inflation) remain deeply negative in the average advanced economy (-5.2 percent) and in the average EMDE (-3.2 percent).

Risks to inflation projections:

There are material risks that inflation could rise higher or remain elevated for longer than currently projected. If supply disruptions persist or commodity prices continue to climb in the event of a protracted war in Ukraine, for example, or recurring pandemic outbreaks and movement restrictions in China inflation could remain above central banks' target ranges in many countries. If inflation remains elevated, the risk will also grow those expectations of higher inflation become baked into wage and price setting behavior. Financial market-based inflation expectations have already risen with Russia's invasion of Ukraine and the supply disruptions arising from pandemic outbreaks and control measures in major EMDEs, and there are concerns that a more significant un anchoring of inflation expectations could occur that would force major advanced economy central banks to tighten policy by more than currently anticipated, slowing growth and even tipping some economies into recession.

2.1.2 Bangladesh Economy

Economic Growth: Bangladesh has made a strong economic recovery from the COVID-19 pandemic, but growth faces new headwinds as global commodity prices increase amid the uncertainty created by the war in Ukraine. In Bangladesh, a rebound of manufacturing and service sector activities led strong growth in FY21 and in the first half of FY22. In the medium term, GDP growth is expected to remain strong. Headline inflation rose to 6.2 percent in February 2022, driven by a rise in both food and non-food prices. The war in Ukraine and associated sanctions may lead to a higher current account deficit and rising inflation as global commodity prices surge. Public debt remains sustainable, and the March 2022 joint World Bank-IMF Debt Sustainability Analysis assessed that Bangladesh remained at low risk of external and public debt distress. Bangladesh economy was growing consistently high over a decade crossing 7.0 percent milestone in FY 2015-16 and 8.0 percent milestone in FY2018-19, however, the COVID-19 pandemic reduced the growth rate to 3.45 percent in FY2019-20. The economy grew by 6.94 percent in FY 2020-21. According to the provisional estimates of BBS, the GDP growth stood 7.25 percent in FY 2021-22, 0.05 percent higher than the target rate and 0.31 percent higher than the previous fiscal year. Medium-term forecasts for GDP growth rates are 7.5 percent in FY 2022-23, 7.8 percent in FY 2023-24 and 8.0 percent in FY 2024-25.

GDP, Per capita GDP and GNI: According to the final estimate, the volume of GDP at current market prices reached at Tk. 35,30,184.8 crore in FY 2020-21, which was Tk. 31, 70,469.4 crore in FY 2019-20. In nominal term GDP growth was 11.35 percent. GDP is provisionally estimated Tk. 39,76,462 crore in FY2021-22, Tk. 4,46,278 crore higher than previous fiscal year. Per capita GDP is estimated to be US$2,723 in FY 2021-22. Medium-term GDP forecasts are Tk. 44,12,849 crore in FY 2022-23, Tk. 49.49,712 crore in FY 2023-24, and Tk. 55,59,517 crore in FY 2024-25. As per the final estimate, per capita GDP in FY 2020-21 was US$2,462, US$ 228 up from the previous fiscal year. Per capita gross national income increased to US$2,591 in FY 2020-21, US$ 265 up from FY 2019-20. The per capita gross national income is provisionally estimated to US$ 2,824 in FY 2021-22, US$ 233 higher than previous fiscal year.

Sectoral Growth: According to the final estimate of BBS, the growth of agriculture sector increased to 3.17 percent in the FY 2020-21, slightly lower than 0.25 percentage point from FY 2019-20. During the same period, industry sector grew by 10.29 percent, which was 3.16 percent in the previous fiscal year. The service sector grew by 5.73 percent in FY 2020-21, 1.8 percentage point up from the previous fiscal year. According to the provisional estimate of BBS, the growth rate of agriculture sector stood 2.20 percent in FY 2021-22, 0.97 percentage point lower than the previous fiscal year. Within the agriculture sector, the growth rate of forests and related services estimated highest growth rate of 5.37 percent in FY 2021-22. The contribution of the broad agricultural sector to the GDP stood at 11.50 percent in FY 2021-22, 0.57 percentage point lower than the previous fiscal year. Industrial sector is estimated to have 10.44

percent growth in FY 2021-22, 0.15 percentage point higher than the previous fiscal year. The contribution of industries to GDP became 37.07 percent, which is 1.06 percentage point higher than the previous fiscal year. Services sector is estimated to have 6.31 percent growth in FY 2021-22, 0.58 percentage point higher than FY 2020-21. Human health and social work activities' is estimated to experience the highest growth rate of 9.78 percent followed by wholesale and retail trade, transportation and storage, accommodation and food services activities; financial and insurance activities, professional, scientific and technical activities, education and other service sectors would grow significantly over FY 2020-21. The contribution of broad service sector to the GDP stood at 51.44 percent in FY 2021-22, 0.29 percentage point lower than the previous fiscal year.

Consumption Expenditure: In GDP measured by expenditure method, consumption expenditure especially private consumption occupies the major share. Over more than a decade, consumption as domestic demand has been over 70 percent of GDP. As per the final estimate of BBS the contribution of consumption expenditure to GDP is 74.66 percent in FY 2020-21 of which private consumption is 68.78 percent and government consumption is 5.88 percent. BBS provisionally estimated that the contribution of consumption expenditure to the GDP will be 78.44 percent of which private consumption 72.77 percent and general government consumption 5.67 percent in FY 2021-22, 3.78 percentage point higher than the previous fiscal year.

Inflation: Inflation in FY 2020-21 stood 5.56 percent, 0.09 percentage point lower than FY 2019-20, which is slightly higher than the target rate of inflation. As the economic damages created by COVID-19 pandemic is triggered by war in Ukraine, like all other countries of the world an upward trend of price level is being observed in Bangladesh. The inflation rate is targeted to be 5.8 percent for the FY 2021-22.

Revenue Mobilisation: In FY 2020-21, Tk. 3,28,984 crore (9.3 % of GDP) revenue was collected of which NBR tax revenue is Tk. 2,63,226 crore, non-NBR tax revenue is Tk. 6,066 crore and non-tax revenue is Tk. 59,192 crore. The revised revenue mobilisation target is set Tk. 3,89,000 crore in FY 2021-22, which is 9.9 percent of the estimated GDP. Of them, revenue to be collected from NBR sources is Tk. 3,30,000 crore (8.4% of GDP), tax revenue from non-NBR sources is Tk. 16,000 crore (0.4% of GDP) and non-tax revenue is Tk. 43,000 crore (1.1% of GDP). Revenue received during July-March of FY 2021-22 is Tk. 2,74,381 (70.53 % of target) crore of which NBR revenue is Tk. 2,42,930 crore and non-NBR revenue is Tk. 31,451 crore.

Savings and Investment: During FY 2020-21, domestic savings decreased to 25.34 percent of GDP, 1.74 percentage point lower than the previous year. Likewise, national savings as percent of GDP decreased to 30.79 percent in FY 2020-21, 0.63 percentage point lower than FY 2019-20. Gross domestic savings is provisionally estimated to be 21.56 percent of GDP in FY 2021-22, 3.78 percentage point lower than previous fiscal year. Gross national savings is estimated to be 25.45 percent of GDP, 5.34 percentage point lower than previous fiscal year. The contribution of investment to GDP decreased to 31.02 percent in FY 2020-21, 0.29 percentage point lower than the previous fiscal year. Of 31.02 percent contribution to GDP, private investment is 23.70 percent while public investment is 7.32 percent. Public investment as a percentage of GDP has slightly increased and private investment as a percentage of GDP has slightly decreased compared to the previous fiscal year. Investment is estimated to be

31.68 percent of GDP of which private investment is 24.06 percent and public investment is 7.62 percent in FY 2021-22. Overall investment is 66 basis points higher than last fiscal year.

Government Expenditure: According to the revised budget, the total expenditure target for FY 2021-22 has been set Tk. 5,93,500 crore, which is 15.1 percent of GDP. Of this, operating expenditure is Tk. 3,85,950 crore (9.8% of GDP) and development expenditure is Tk. 2,07,550 crore (5.3% of GDP). As per the provisional estimates of iBAS++, the total expenditure up to March 2022 in FY 2021-22 was Tk. 2,62,041 crore, of which operating expenditure was Tk. 1,94,336 crore and development expenditure was Tk. 63,411 crore. A new Budget and Accounting Classification System (BACS) has been introduced from F 2018-19 with a view to upgrading government financial management to an international standard. In addition to civil administration, defence and railway budget and accounting process have been brought under the iBAS ++ software developed by local experts. In order to make this system more dynamic, activities will be undertaken for consolidation and integration among them. To simplify the development project fund release process, project directors have been given the full authority in FY 2019-20 to utilise project fund without seeking approval from any authority.

Monetary Policy and Monetary Management: Monetary policy stance and the monetary and **credit** programmes have been announced for FY2021-22 with key objective to continue on-going recovery process disrupted by COVID-19pandemic through expansionary tools while maintaining stability in general price level. The FY 2021-22 monetary programme is primarily set to support 7.2 percent real GDP growth and containment of average inflation at 5.3 percent. To ensure the availability of less costly funds for banks and rationalising the policy rates' corridor **(**the gap between the repo and reverse repo rates), the repo and reverse repo interest rates have slashed down by 50 basis points and 75 basis points to 4.75 percent and 4.00 percent respectively with effect from 30 July 2020. However, 360-day repo facility with effect from 13 May 2020 is also introduced. The Bank Rate which remained unchanged for the last 17 years (since 2003) has also been slashed down by 100 basis points to 4.00 percent to rationalise it with the current interest rate regime. CRR has been reduced from 5.5 percent to 4.0 percent for domestic banking operations, from 5.5 percent to 2.0 percent for offshore banking operations, and from 2.5 percent to 1.5 percent for financial institutions (FIs).

Interest Rate: In order to enhance international competitiveness, flourish productive sector and reduce classified loans the rate of interest has been rationalised limiting it to single digit except credit card. As a result, during COVID-19 pandemic productive sectors did not face much problem and the weighted average lending and deposit rates show downward movement. The weighted average lending rate of commercial banks decreased continuously and stood at 7 percent. The interest rate spread reduced to 3 percent from 5 percent.

Capital Market: In DSE total number of listed securities has increased from 609 in June 2021 to 623 in April 30, 2022. Total Market Capitalisation of all listed securities increased from Tk. 5,14,282.1 crore in June 2021, to Tk. 5,36,961 crore in April, 30, 2022. DSE Broad Index has increased from 6,150.48 points in June 2021 to 6,655.66 points in April 2022, 8.21 percent higher. In CSE total number of listed securities increased from 349 in June 2021 to 378 in April 30, 2022. Total Market Capitalisation of all listed securities increased from Tk. 4,38,425.7

crore in June 2021, to Tk. 4,64,876.3 crore in April, 30, 2022. CSE Broad Index has increased from 17,439.76 points in June 2021 to 19,474.45 points in April 2022, 11.66 percent higher.

Exports: In FY 2020-21 total export earnings increased by 12.77 percent to US$ 40.11 billion over the previous fiscal year. During July to March of FY 2021-22 export earnings stood US$ 43.7 billion, which is 32.43 percent higher than the export earnings of the same period in the previous fiscal year. Exports receipt is estimated to cross US$ 50 billion in fiscal year 2021-22. During this period, commodity-wise growth of export earning shows that, export earnings from almost all the products have increased compared to the last fiscal year except jute and building materials. The government initiatives to facilitate exports are enhanced during COVID-19. Export incentives are extended to new products.

Import: The total import payments in FY 2020-21 stood at US$ 61.7 billion, 10.74 percent higher than the previous fiscal year. Up to March of FY 2021-22, total import payments stood US$ 71.41 billion, 42.24 percent higher than the same period of the previous fiscal year. Imports payments is estimated to be around US$ 80 billion in fiscal year 2021-22.

Balance of Payments (BoP): Trade deficit of Bangladesh stood US$ 22.8 billion in FY 2020-21 compared to US$ 17.9 billion in FY 2019-20. Trade deficit rose by 27.67 percent in FY 2020-21, largely due to the higher import payments largely resulted from high commodity prices worldwide. During that time, current account balance deficit stood at US$ 3.8 billion on the back of robust remittance inflows compared to US$ 4.7 billion deficit in the previous fiscal year. Trade deficit during July-February of FY 2021-22 has become US$ 22.3 billion compared to US$ 12.4 billion during the same period of the last fiscal year.

Foreign Exchange Reserve: Foreign Exchange Reserve Foreign exchange reserve of Bangladesh reached a record height of US$ 48 billion on 24 August 2021 largely due to huge inward remittances and export earnings. However, as the import keeps increasing the volume of foreign exchange reserve decreased by about US$ 4 billion since 24 August 2021. At the end of April of FY 2021-22 the foreign exchange reserve stood US$ 44.1billion.

Exchange Rate: Bangladeshi currency Taka experienced an overall 1.9 percent depreciation against US dollar in July-April FY 2021-22 compared to that of the FY 2020-21. The weighted average inter-bank rate stood at Taka 86.45 per US$ on 30 April,2022, which was Taka 84.80 per US$ on 30 April, 2021.

2.1.3 Short & Medium Term Prospect of Bangladesh Economy

The Medium-term Macroeconomic Framework (MTMF), 2021-22 to 2024-25, has been formulated taking into account the recent dynamics of the global economy and the impacts on the domestic sector. While the global economy was recovering from COVID-19 impairment, the war in Ukraine is triggering the loss of lives and livelihood in the war zone and supply bottlenecks in the rest of the world. Countries are administering mass vaccinations and implementing incentive packages to address the unintended effects of the coronavirus on public health, global growth and commodity markets. Government of Bangladesh has been implementing 28 incentives worth of Tk. 1,87,679 crores. Bangladesh successfully managed repeated waves of COVID-19 with minimum loss of lives. As of 4 May 2022, 70.18 percent population have been fully vaccinated. In the medium term, the government will put emphasis on full economic recovery from the fallout of COVID-19, address the issues arisen from war in Ukraine, implementing 8th Five Year Plan, the 2030 agenda-SDGs, second perspective plan (2021-2041), 'Delta Plan 2100', and 'Blue Economy' strategies. Government is keen to restore the pre-pandemic economic high growth trajectory. Bangladesh became able to achieve 6.94 percent GDP growth against revised target of 6.1 percent in the MTMF. GDP growth is estimated 7.25 percent in 2021-22 and has been projected to gradually rise to 7.5, 7.8 and 8.0 percent respectively in FY 2022-23, FY2023-24 and FY 2024-25. Inflation is estimated to be 5.8 percent in FY 2021-22, which is expected to gradually decrease in the next three fiscal years reaching 5.5 percent in FY 2024-25. Gross investment is forecasted to be between 31.5 to 33.6 percent of GDP in the next three fiscal years. Out of this, investment in the public sector will be between 6.6 to 7 percent and investment in the private sector will be between 25.4 to 28 percent of GDP.As per the MTMF, the estimated revenue mobilisation for FY 2021-22 will be 9.8 percent of GDP and projection is made that the revenue will lie between 9.8 percent to 10.6 percent of GDP in between FY 2022-23 to FY 2024-25. Public outlay is estimated to be 15.1 percent of GDP in FY 2021-22. It is projected that the outlay will be between 15.4 to 15.6 percent of GDP in following three years. In FY 2021-22, the revised budget deficit is estimated to be 5.1 percent of GDP. The budget deficit is projected to be 5.5 to 5 percent of GDP in FY 2022-23 to FY 2024-25. This will a little bit higher than the target rate of keeping budget deficit within 5 percent of GDP due to increased government spending aimed at restoring the economy COVID-19 fall out and other global setbacks. The target is to keep the private sector credit flow at 14.8 percent in FY 2021-22, which is expected to increase to 15 to 16 percent of GDP in the next three fiscal years. Export is estimated to grow by 34.1 percent in 2021-22 and projected to grow at a rate of 20 to 18 percent in the following three fiscal years. Import growth is estimated to be 30 percent in FY 2021-22 and projected to be 12 percent in FY 2022-23, 14 percent in FY 2023-24 and 14.5 percent in FY 2024-25. Remittances is estimated to be 5.5 percent of GDP in FY 2021-22 and projected to be between 5.7 to 5.4 percent in the following three fiscal years. Considering strong domestic demand, fiscal expansion, rebound of export, improved Covid situation, restoration of lives and livelihood, full resumption of economic activities, implementation of COVID-19 incentive packages, completion of few mega projects including Padma bridge, it is expected the economy of Bangladesh will continue to grow at pace of pre-pandemic growth path.

2.2 BANKING SECTOR SCENARIO OF BANGLADESH

Banking is the backbone of national economy. All sorts of economic and financial activities revolve round the axis of the bank. As the industry produces goods and commodities, so does the bank create and controls money-market and promotes formation of capital. From this point of view, banking-a technical profession- can be termed as industry. Services to its customers are the products of banking industry besides being a pivotal factor in promoting capital formation in the country. As all economic and fiscal activities revolve round this important 'Industry, the role of banking can hardly be over emphasized.

The banking sector displayed a mixed performances at the end of Q3FY22 compared to theQ2FY22, as reflected by a rise in the ratio of non-performing loans (NPLs), an improvement in capital to risk-weighted asset ratio (CRAR), an accelerating trend in the growth of both bank's deposits and advances, a widening in provision shortfall, and sustained ample liquidity in the banking system.

The ratio of gross NPLs to total loans further went up to 8.53 percent at the end of Q3FY22 from7.93 percent at the end of Q2FY22 and 8.07 percent at the end of Q3FY21, mostly driven by weaker loan repayment by borrowers in addition to withdrawing relaxed loan classification policy. The gross NPLs ratio to total loan for state-owned commercial banks (SCBs) grew to 20.01 percent followed by private commercial banks (PCBs) to 5.84 percent and foreign commercial banks to 4.53 percent at the end ofQ3FY22 from that of 19.28 percent, 5.31 percent and 4.29 percent respectively at the end of Q2FY22Consequently, provisioning maintained against classified loans further worsened as reflected by widening provision shortfall at the end Q3FY22Moreover,net NPL ratio improved to -0.70 percent at the end of Q3FY22 from that of -0.43 percent at the end ofQ2FY22.

The profitability of the banks improved during the H2FY21 than that of H2FY20, as reflected by an uptick in both Return on Assets (RoA) and Return on Equity (RoE). The development in RoA and RoE was partly due to a fall in interest expenditure (11.6 %) originated from the prevailing lower interest rate on deposits, and a rise in the non-interest income (26.0 %) during the last two-quarters of FY21.Consequently, the RoA and the RoE of the banking sector went up to 0.50 percent and 8.26 percent inH2FY21 from that of 0.42 percent and 6.68 percent respectively in H2FY20. The RoA and RoE for SCBs showed a steady rise from 0.04 percent and 0.81 percent in H2FY20 to 0.13 percent and 2.94 percent inH2FY21, respectively. Profitability of the PCBs' also saw a modest rise, RoA and RoE increased to 0.68percent and 10.12 percent in H2FY21 from that of 0.58 percent and 8.48 percent at the end of H2FY20respectively. However, FCBs encountered a fall in both RoA and RoE from 2.19 percent and 13.80percent in H2FY20 to 1.48 percent and 9.26 percent inH2FY21 respectively.

The growth momentum of bank's advances kept escalating for the past four consecutive quarters and reached 13.2 percent (y-o-y) at the end of Q3FY22 from 11.1 percent (y-o-y) at the end of Q2FY22, reflecting the growing demand for credit owing to returning economic activities to the pre-pandemic level. On the other hand, the growth of bank's deposit started improving after dropping for last 3consecutive quarters and stood at 10.2 percent at the end of Q3FY22 from 9.7 percent at the end ofQ2FY22. Consequently, the overall advance deposit ratio (ADR) edged up to 74.2 percent at the end ofQ3FY22, which is 1.0 percentage point up from previous quarter and remained broadly stable.

The surplus liquidity in the banking sector moderated to BDT 1999.7 billion at the end ofQ3FY22 from BDT 2167 billion at the end of Q2FY22, partly due to mop-up some liquidity through foreign exchange market intervention. As a result, the excess liquidity- the excess of CRR and SLR as a percent of total demand and time liabilities (TDTL)- went down to12.5 percent at the end of Q3FY22from 13.8 percent at the end of Q2FY22 and remained adequate.

Monetary policy remained accommodative. Bangladesh Bank (BB) adopted accommodative monetary policies in response to the COVID-19 pandemic in FY20, reducing the cash reserve ratio to 4 percent (from5.5 percent) and the repo rate to 4.75 percent (from 6 percent) and increasing the advance-to-deposit ratio (ADR) to 87 percent (from 85 percent). Recently in FY2022 Bangladesh Bank elevated its interest or policy rate by .25 points, which now stands at 5%. This is a significant development that is expected to raise the cost of lending and reduce inflation. This means that banks will have to take funds from the central bank at the new repurchase agreement rate of 5%.

Ahead of full-fledged reopening of economic activities in post-pandemic era, banking sector is expected to play a greater role in rebounding the economic vibrancy. On this trajectory, the sector may encounter some challenges in allocating credits to productive sectors and targeted borrowers. In addition, the volatility in the foreign exchange market and managing the stressed loan may put further pressure on the banking sector in coming quarters. On the other hand, a number of refinance scheme introduced by BB would help the CMSMEs to access funds from the banking system. Improvement in corporate governance, speeding up surveillance and monitoring would remain as priorities for better financial discipline and stability in the banking sector in coming quarters.

2.2.1 Regulatory Risk Analysis

As part of regulatory risk analysis, ACRSL considers the following factor:

> **IDRA's recent circulars, particularly withdrawing all special premium rates since August 2011 have created strong reaction** from the large clients. It has also created significant aversion among the large clients. At present large clients are reviewing their insurance position and inclined to go for minimum insurance covers to keep their insurance costs down. As a result, this may negatively affect the growth of general insurance in Bangladesh

2.3 COMPANY SPECIFIC RISK ANALYSIS

2.3.1 Management Analysis

Effective and efficient management have been the key to PICL's growth and the company's present market position. ARGUS Credit Rating Services Limited (ACRSL) looks at the following factors as part of management analysis in order to determine SIL's business mix, operating efficiency, and overall strengths:

i. Organizational structure
ii. Dependence of management team on one or more person
iii. Coherence of the team
iv. Independence of the management from the Board of Directors
v. Good track record of the management to date

2.3.2 Internal Controls and Risk Management

Insurance business involves assumption of risks of many types – physical as well as moral. Physical risks are identified as those caused by natural catastrophes, accidental losses and manmade disasters. The key to proper management of insurance business risks is to endure proper selection of risks as well as of the client through a vetting process known as underwriting. General insurance companies closely follow country's economic development and any slowdown in the economic activities as these has adverse impact on the insurance industry's growth. PICL, being aware of these business risks, practices the following to protect its interests:

- Selection of risks which have the potential of making underwriting profit
- Diversification into many segments of business – product wise as well as client wise.
- The company maintains a conservative reserving policy and its various technical reserves have been created to adequately cater to unforeseen development in the future.

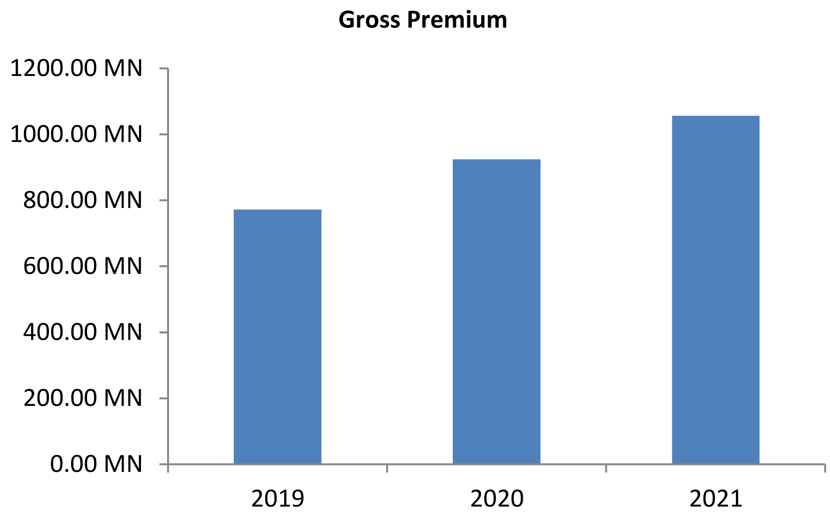
3 FINANCIAL RISK ANALYSIS

3.1 Operating Performance Analysis

Indicators	2019	2020		2021		Observations	Bias
Gross Premium Growth	58.97%	19.82%	↑	14.24%	↑	Gross premium growth of PICL demonstrated a positive increasing trend since recent years.	Positive
Net Premium Growth	68.44%	18.01%	↑	7.73%	↑	Net Premium Growth of PICL demonstrated a positive increasing trend since recent years.	Positive
Claims Ratio	24.24%	35.04%	↑	36.96%	↑	Claims ratio of PICL demonstrated an increasing trend.	Neutral
Expense Ratio	52.68%	53.03%	↑	55.93%	↑	Expense ratio of PICL demonstrated an increasing trend over the last 3 years.	Negative
Combined Ratio	76.93%	88.07%	↑	92.89%	↑	Combined ratio of PICL demonstrated an increasing trend over the last 3 years.	Negative
Retention Ratio	82.76%	81.51%	↓	76.86%	↓	Retention Ratio of PICL demonstrated a downward trend.	Negative

3.1.1 Gross Premium

	FY19	FY20	FY21
Gross Premium (in BDT)	771.66 MN	924.57 MN	1056.57 MN

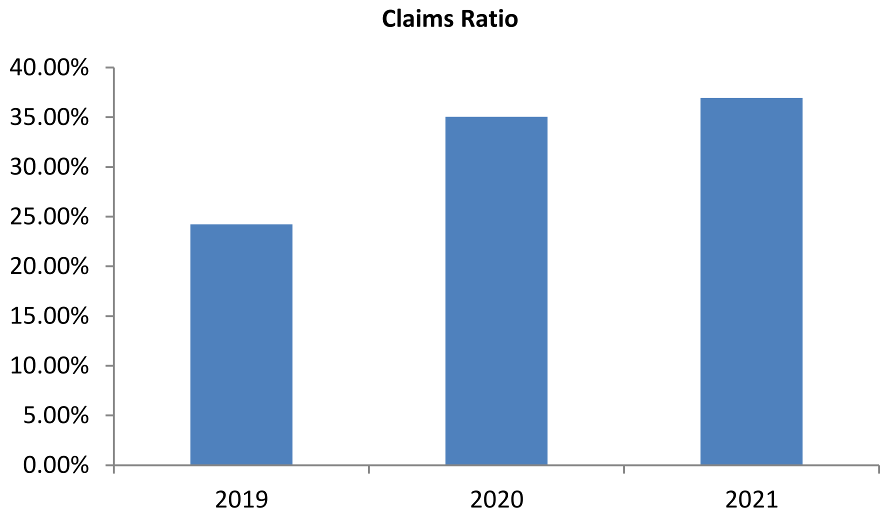


Historical Trend: Between FY19 to FY21, PICL's gross premium demonstrates an increasing trend. The gross premium of PICL increased from BDT 711.66 MN in FY19 to BDT 924.57 MN in FY20 and further increased to BDT 1056.57 MN in FY21, representing a CAGR of 16.99%.

Looking forward: ACRSL has a positive bias on PICL's gross premium trajectory. PICL's management assumes that their qualified marketing team will be able to increase its present market share.

3.1.2 Claims Ratio

	FY19	FY20	FY21
Claims Ratio	24.24%	35.04%	36.96%

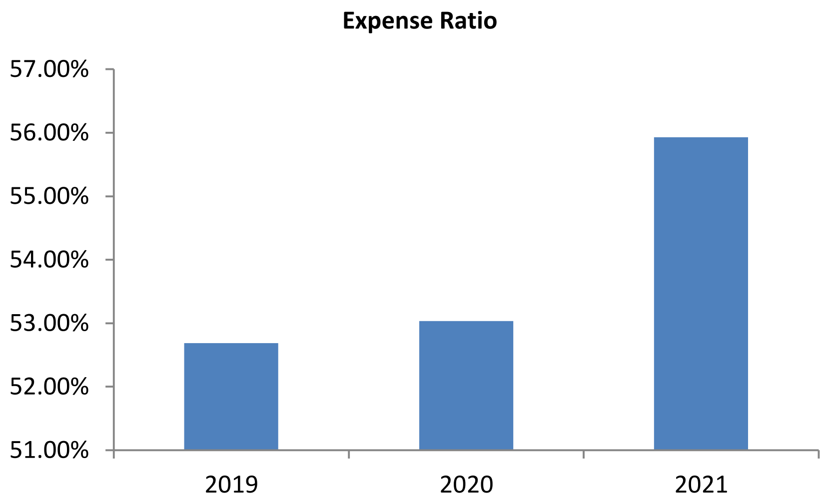


Historical Trend: Historically, PICL's claims ratio demonstrated an upward trend, which is negative in our view. The claims ratio of PICL stood at 24.24% in FY19 which increased to 35.04% in FY20 and further increased to 36.96% in FY21.

Looking forward: Given the increasing gross premium the company should be able to diversify its underwriting risk based on regular survey and other risk management tools. However, we note that the company's claims ratio is also affected by disaster, accident, and other natural causes, which are notoriously difficult to predict. We expect the claim ratio will remain at comfort zone with effective risk management policy.

3.1.3 Expense Ratio

	FY19	FY20	FY21
Expense Ratio	52.68%	53.03%	55.93%



Historical Trend: Historical Trend: Between FY19 to FY20, PICL's expense ratio demonstrated an increasing fluctuating trend. During FY19-FY21, expense ratio increased from 52.68% in FY19 to 53.03% in FY20. Later, during the period of FY20-FY21, the expense ratio slightly increased to 55.93%.

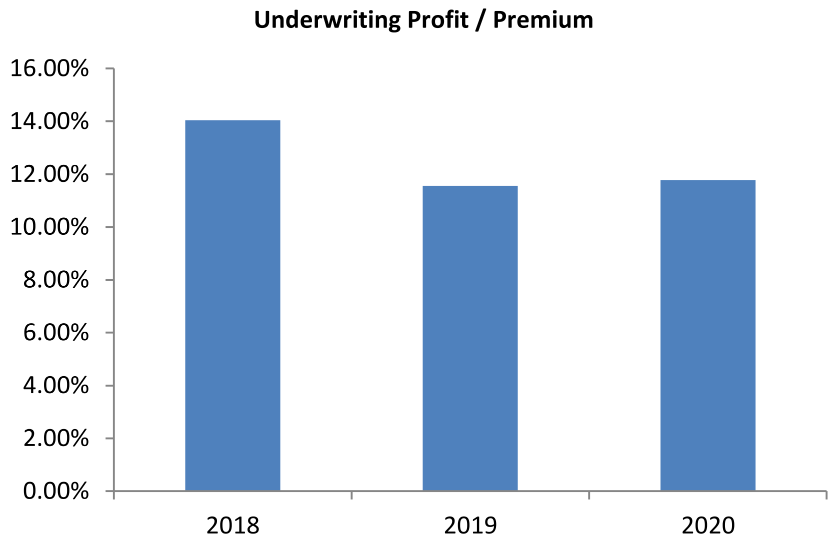
Looking Forward: ACRSL has a negative bias on PICL's expense ratio for FY22. Given the historical trend, ACRSL research projects that PICL's management expense ratio may follow a gradual increasing trend.

3.2 Profitability Analysis

Indicators	2019	2020		2021		Observations	Bias
Underwriting Profit / Premium	11.56%	11.78%	↑	11.24%	↓	Underwriting profit to premium demonstrated a fluctuating trend	Neutral
Investment Yield	5.66%	6.09%	↑	10.59%	↑	Investment Yield of PICL has demonstrated an increasing trend during last three years	Positive
Net Profit / Premium	11.06%	12.21%	↑	18.39%	↑	Net profit to premium of PICL demonstrated an increasing trend over the last 3 years.	Positive
Net Profit / Total Income	10.06%	10.90%	↑	15.27%	↑	Net profit to total income of PICL demonstrated an increasing trend over the last 3 years.	Positive
ROE	12.53%	14.67%	↑	19.23%	↑	ROE has demonstrated an increasing trend over the last 3 years.	Positive
ROA	6.60%	8.06%	↑	10.72%	↑	ROA has demonstrated an increasing trend over the last 3 years.	Positive

3.2.1 Underwriting Profit / Premium

	FY19	FY20	FY21
Underwriting Profit / Premium	11.56%	11.78%	11.24%



Historical Trend: PICL historically has maintained a fluctuating trend underwriting profit to net premium ratio. During FY19-FY20, the ratio increased from 11.56% to 11.78%. But the ratio slightly decreased to 11.24% in FY21.

Looking Forward: ACRSL has a neutral bias on SIL's underwriting profit to premium ratio for FY22 and onwards. We anticipate, PICL will be able to increase its net premium in FY22 and report a stable net claim amount.

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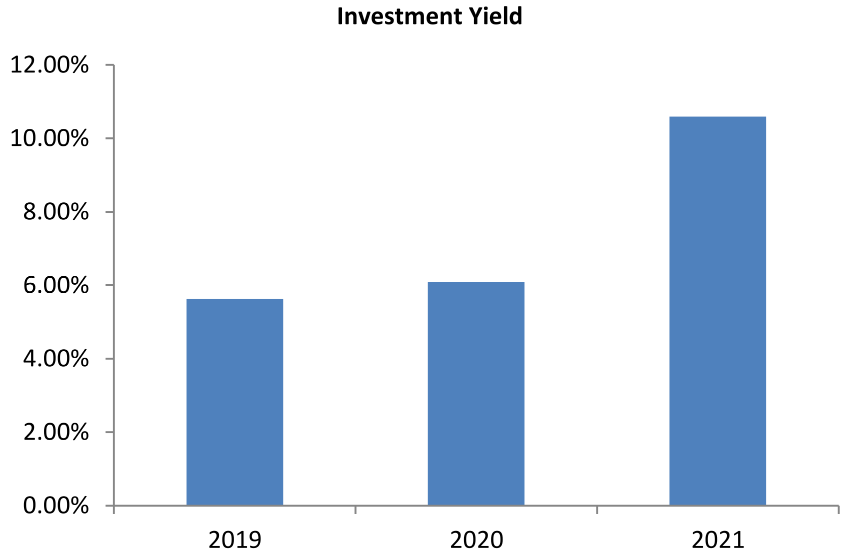
3.2.2 Investment Yield

	FY19	FY20	FY21
Investment Yield	5.66%	6.09%	10.59%

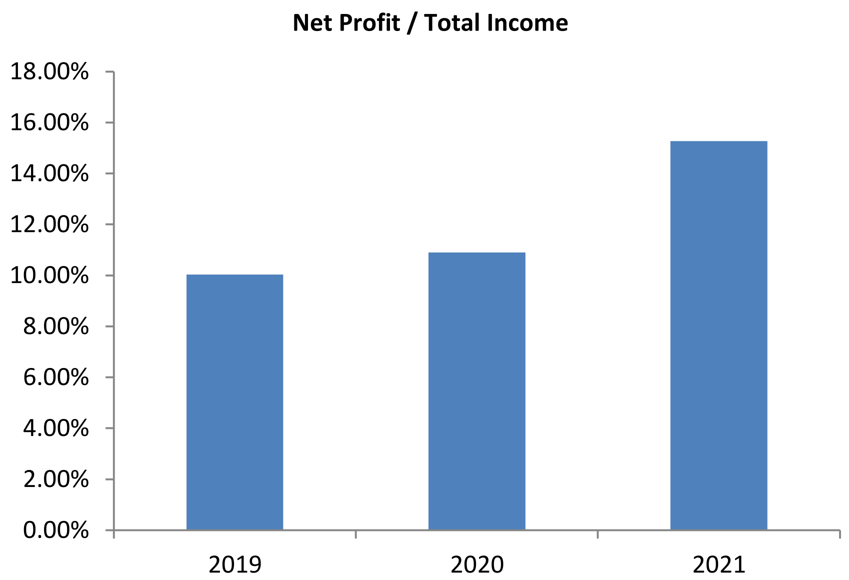


Historical Trend: Historically PICL has maintained a moderate investment yield. During FY19-FY20, the ratio increased from 5.66% to 6.09%. Subsequently in FY21, yield from investment increased to 10.59%.

Looking Forward: ACRSL has a Neutral bias on PICL's investment yield for FY22. PICL has already absorbed the shock of stock market collapse; we are expecting that the company will be able to report better income from share market going forward. We anticipate PICL will be able to increase its investment income to some extent in FY22.

3.2.3 Net Profit / Total Income

	FY19	FY20	FY21
Net Profit / Total Income	10.06%	10.90%	15.27%



Historical Trend: PICL historically has demonstrated an increasing net profit to total income ratio. The ratio of PICL increased from 10.06% in FY19 to 10.90% in FY20. But it increased to 15.27% in FY21.

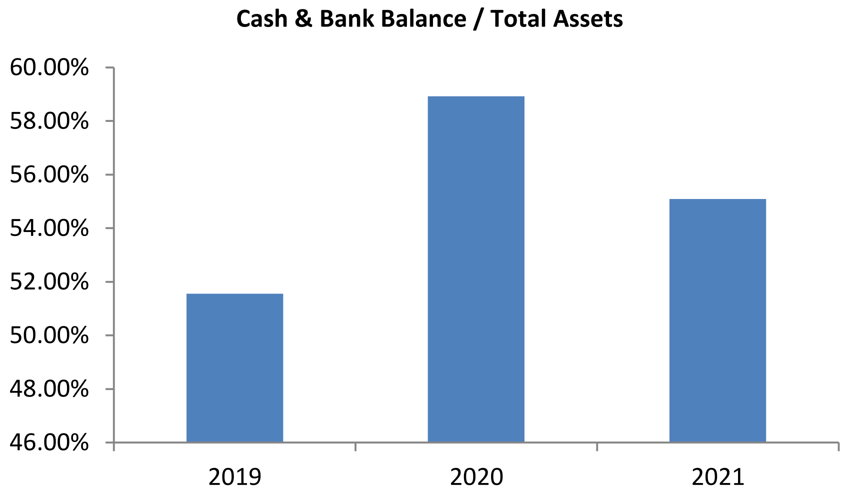
Looking Forward: ACRSL has a neutral bias on PICL's net profit to total income ratio for FY22. We anticipate PICL will be able to manage its net profit to total income ratio lessen its agency commission and management expense, as the regulatory authority IDRA said no extra commission for insurance going forward; which may increase its net profit after tax in the coming years.

3.3 LIQUIDITY ANALYSIS

Indicators	2019	2020		2021		Observations	Biased
Cash & Bank Balance / Total Assets	51.56%	58.93%	↑	55.09%	↓	Cash & bank balance to total assets demonstrates a fluctuating trend over the last three years	Negative
Liquid Asset / Net Claim	3.80x	2.85x	↓	3.41x	↑	Liquid asset to net claim demonstrates an increasing trend recently.	Positive
Overall Liquidity	4.28x	5.37x	↑	4.79x	↓	Overall liquidity of PICL demonstrates a fluctuating trend.	Neutral

3.3.1 Cash & Bank Balance / Total Assets

	FY19	FY20	FY21
Cash & Bank Balance / Total Assets	51.56%	58.93%	55.09%

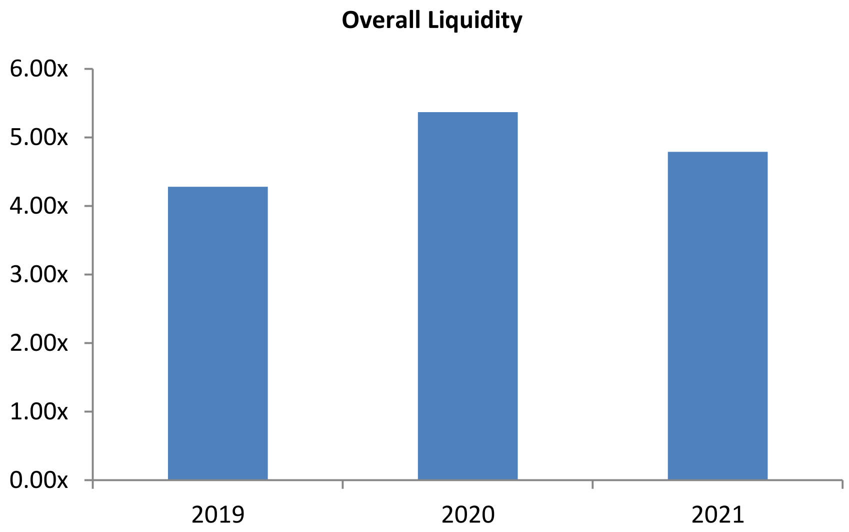


Historical Trend: Historically, PICL has maintained a high cash & bank balance to total assets, which is positive. During last three years, the ratio demonstrates a fluctuating trend. The ratio of PICL increased from 51.56% in FY19 to 58.93% in FY20. Subsequently, the ratio slightly decreased to 55.09% in FY21.

Looking Forward: ACRSL has a positive bias on PICL's cash & bank balance to total assets ratio for FY22.We are assuming that PICL will be able to report positive growth in net premium, thus, balance of funds will increase. Therefore, we are expecting PICL to report an increasing balance of funds to total assets ratio in the near future.

3.3.2 Overall Liquidity

	FY19	FY20	FY21
Overall Liquidity	4.28x	5.37x	4.79x



Historical Trend: Historically, PICL has maintained a high overall liquidity ratio, which is positive. During the last three years, the ratio demonstrates an increasing trend. The ratio of PICL increased from 4.28x in FY19 to 5.37x in FY20 and further decreased to 4.79x in FY21.

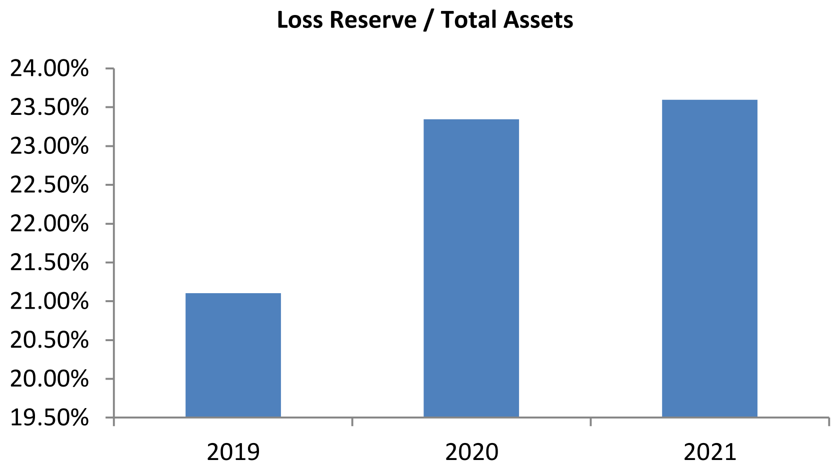
Looking Forward: ACRSL has a positive bias on PICL's overall liquidity ratio for FY22. Given insurance business's unpredictable liabilities demand. We are assuming that PICL's net liabilities will be within a stable range in the near future. Hence, we are expecting PICL to report a stable overall liquidity ratio going forward.

3.4 Balance Sheet Analysis

Indicators	2019	2020		2021		Observations	Bias
Net Premium / Total Equity	113.52%	120.19%	↑	104.57%	↓	Net premium to total equity demonstrates an overall fluctuating trend, the ratio decreased recently.	Negative
Net Liabilities / Total Equity	44.32%	33.88%	↓	37.49%	↑	Net liabilities to total equity demonstrate a fluctuating trend over the last 3 years.	Negative
Loss Reserve / Total Assets	21.10%	23.35%	↑	23.60%	↑	Loss reserve to total assets demonstrates an increasing trend.	Positive
Balance of Funds / Total Assets	23.24%	26.42%	↑	23.38%	↑	Balance of funds to total assets demonstrates an overall fluctuating trend.	Neutral
Total Asset Growth	14.11%	6.89%	↓	22.11%	↑	Total asset growth of PICL demonstrated a fluctuating trend over the last 3 years	Neutral

3.4.1 Loss Reserve / Total Assets

	FY19	FY20	FY21
Loss Reserve / Total Assets	21.10%	23.35%	23.60%

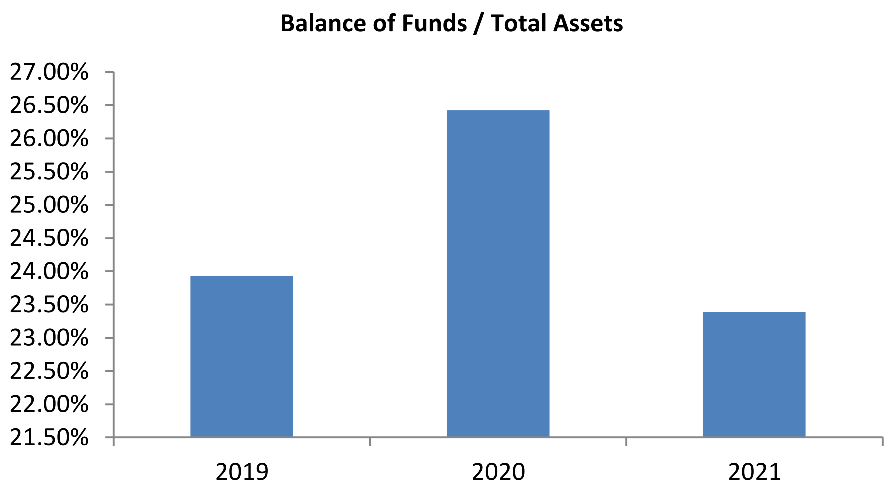


Historical Trend: Historically, PICL has maintained a high loss reserve to total assets ratio which is positive. During the last three years, the ratio demonstrates an increasing trend. Between FY19-FY20, the ratio increased from 21.10% to 23.35%. Subsequently, during FY20-FY21, the ratio slightly increased to 23.60%.

Looking Forward: ACRSL has a positive bias on PICL's loss reserve to total assets ratio for FY22. We anticipate PICL will be able to increase its net premium going forward, hence, a portion of net premium will be added to loss reserve to enjoy the related tax rebate. Therefore, we are expecting PICL to report a stable loss reserve to total assets ratio.

3.4.2 Balance of Funds / Total Assets

	FY19	FY20	FY21
Balance of Funds / Total Assets	23.94%	26.42%	23.38%



Historical Trend: Historically, PICL has maintained sufficient balance of funds to total assets ratio. During the last three years, the ratio demonstrates an overall fluctuating trend. The ratio of PICL increased from 23.94% in FY19 to 26.42% in FY20. Subsequently in FY21 the ratio increased to 23.38%.

Looking Forward: ACRSL has a positive bias on PICL's balance of funds to total assets for FY22. We are assuming that PICL will be able to report positive growth in net premium, thus, balance of funds will increase. Therefore, we are expecting PICL to report an increasing balance of funds to total assets ratio in the near future.

4 CORPORATE GOVERNANCE

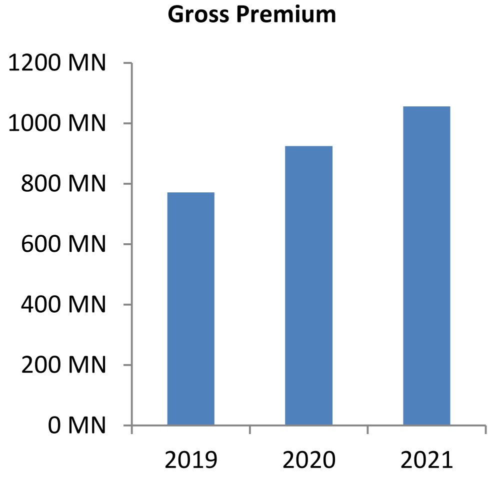
Board Practice	Presence/Absence
Existence of Board Charter	Present
Existence of Committees for audit and remuneration	Present
Separate CEO and Chairperson	Present
Procedures to review/address external audit findings	Present

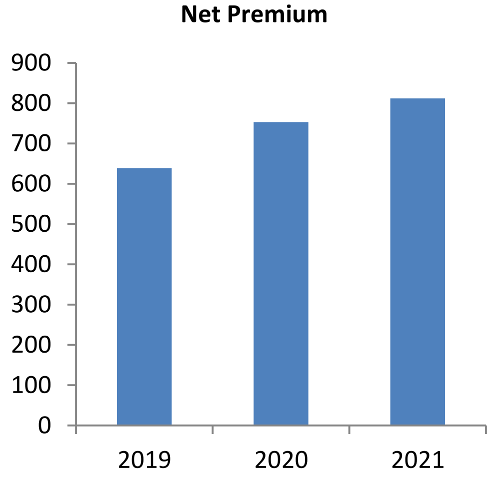
Code of Ethics/Conduct	Presence/Absence
Commitment to legal and regulatory compliance	Present
Policies to prohibit facilitation payments and bribes	Present
Guidelines on giving and receiving gifts	Absent
Training and/or communication on code of ethics	Present

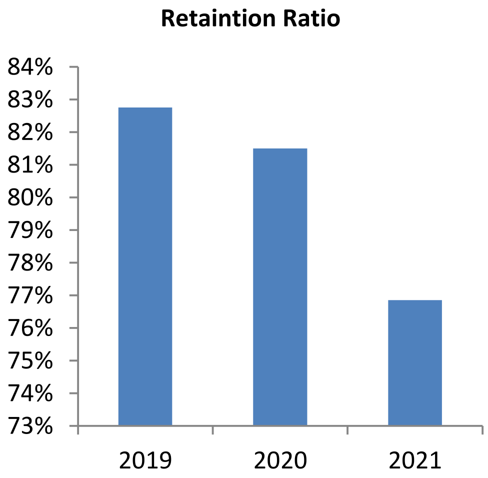
Business Value and Risk Management	Presence/Absence
Demonstrated commitment to work towards long term sustainability	Present
Demonstrated commitment to address social, ethical and environment	Present
Procedures to identify potential risks and opportunities	Present
Risk Management and Internal Control Systems	Present
Research and Development Team	Present

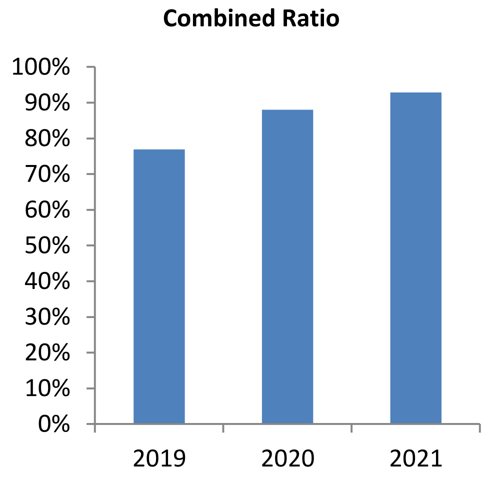
5 CHARTS

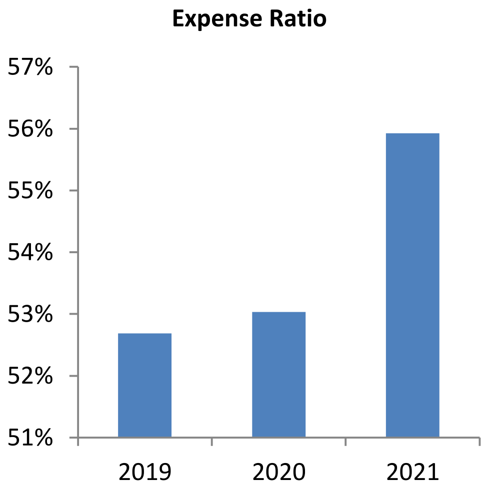
5.1 Operating Performance Analysis

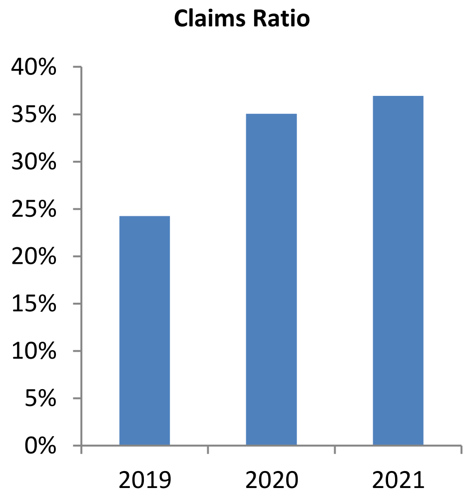






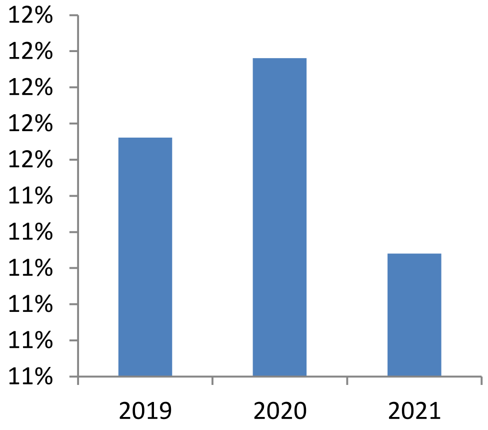




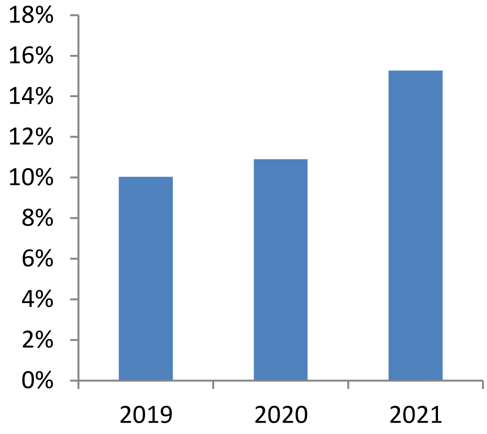


5.2 PROFITABILITY ANALYSIS

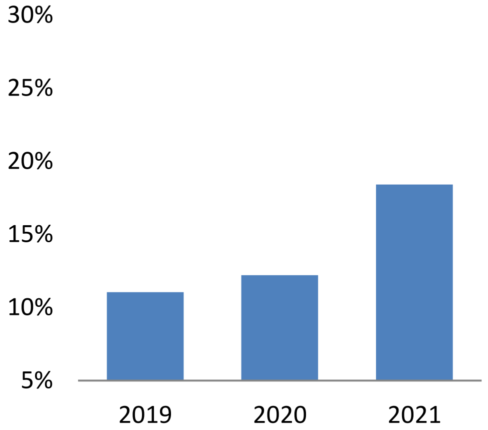
Underwriting Profit / Premium



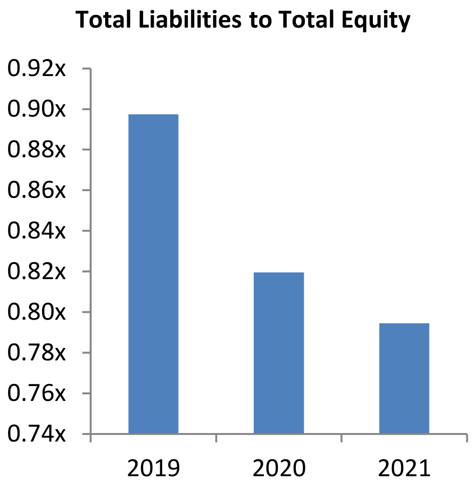
Net Profit / Total Income

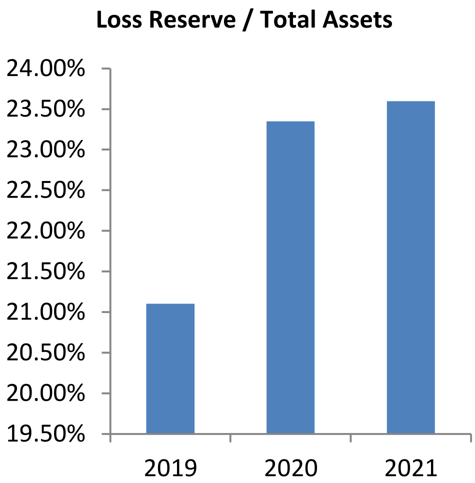


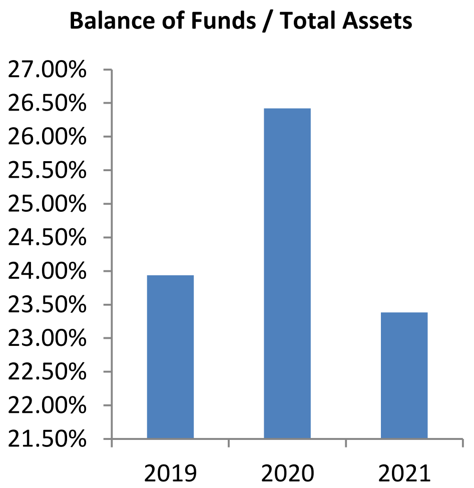
Net Profit/ Premium

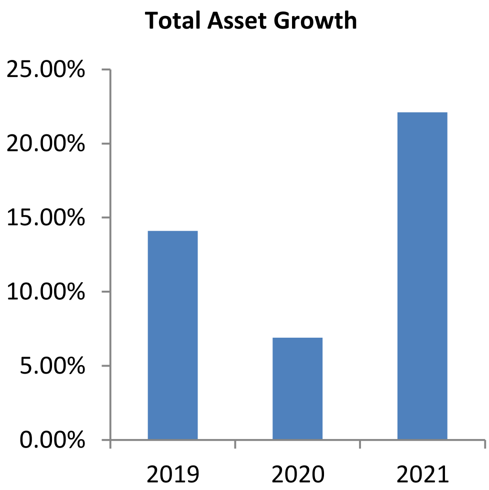


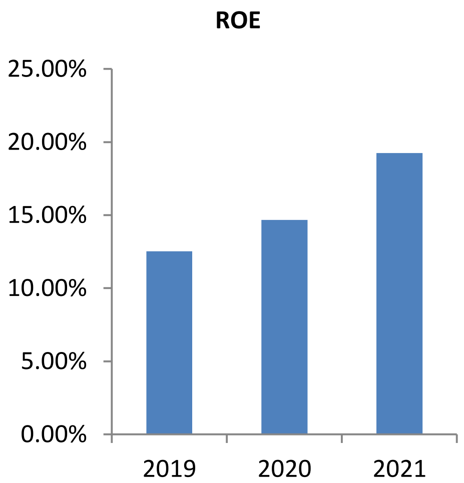
5.3 Balance Sheet Analysis

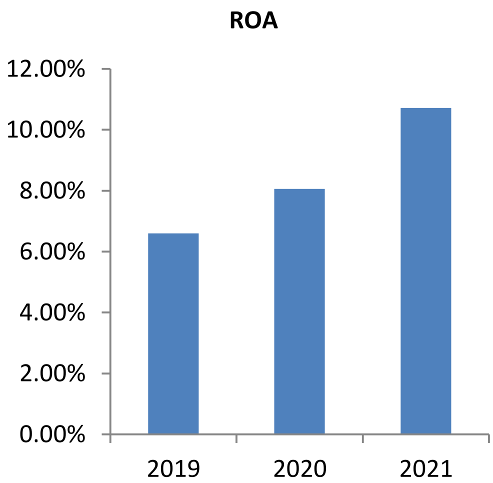




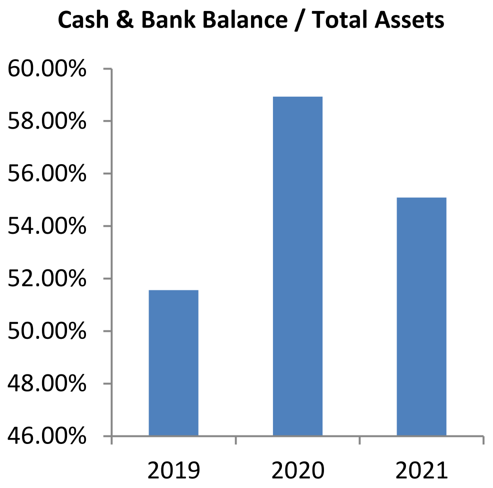


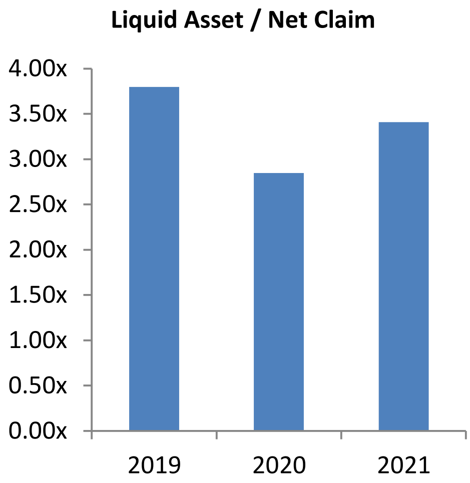


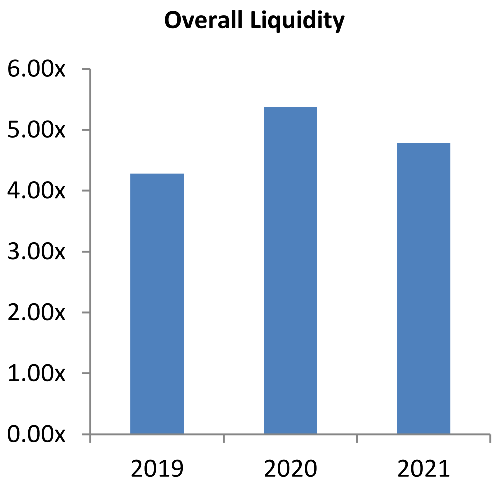




5.4 LIQUIDITY ANALYSIS







Appendix A: Summary of Financial Metrics

*in BDT MN

Balance Sheet Metrics	2019	2020	2021
Paid-Up Capital	297.03	297.03	347.52
Total Reserve	225.24	266.37	328.74
Total Equity	562.54	627.01	776.33
Balance of Funds	255.48	301.46	325.77
Liabilities & Provisions	192.10	150.54	227.36
Investments	37.82	79.80	254.91
Cash & Bank Balance	550.33	672.35	767.54
Fixed Assets	146.99	169.19	186.27
Total Assets	**1,067.33**	**1,140.91**	**1,393.15**

Income Statement Metrics	2019	2020	2021
Interest Income	30.93	39.12	34.73
Investment Income	1.77	4.77	67.99
Net Premium	638.62	753.61	811.83
Net Claims	154.81	264.08	300.03
Commission	115.75	138.69	157.95
Management Expenses	220.71	260.97	295.09
Underwriting Profit	73.83	88.78	91.25
Net Profit Before Tax	91.96	118.07	176.08
Net Profit After Tax	70.66	92.01	149.33

Consolidated Rev. Account Metrics	2019	2020	2021
Gross Premium	771.66	924.57	1056.21
Re-insurance Premium	133.04	170.97	244.38
Net Premium	638.62	753.61	811.83
Commission on Re-insurance	30.28	44.90	57.81
Agency Commission	115.75	187.52	201.03
Last year's Unexpired Risk	151.68	255.48	301.46
Net Claims	154.81	264.08	300.03
Management Expenses	220.71	260.97	296.09
Reserve for Unexpired Risk	255.48	301.46	325.77
Underwriting Profit	73.83	88.78	91.25

Source: PICL Annual Reports FY19 to FY21

Appendix B: Summary of Analytics

Indicators	2019	2020	2021
Total Income Growth	62.34%	20.27%	15.83%
Gross Premium Growth	58.97%	19.82%	14.24%
Net Premium Growth	68.44%	18.01%	7.73%
Retention Ratio	82.76%	81.51%	76.86%
Claims Ratio	24.24%	35.04%	36.96%
Expense Ratio	52.68%	53.03%	55.93%
Combined Ratio	76.93%	88.07%	92.89%
Underwriting Profit / Premium	11.56%	11.78%	11.24%
Investment Yield	5.63%	6.09%	10.59%
Net Profit / Premium	11.06%	12.21%	12.21%
Net Profit / Total Income	10.04%	10.90%	15.27%
Net Profit Growth	34.12%	30.55%	62.29%
Cash & Bank Balance / Total Assets	51.56%	58.93%	55.09%
Liquid Asset / Net Claim	3.80x	2.85x	3.41x
Overall Liquidity	4.28x	5.37x	4.79x
Net Premium / Total Equity	113.52%	120.19%	104.57%
Net Liabilities / Total Equity	44.32%	33.88%	37.49%
Total Liabilities / Total Equity	89.73%	81.96%	79.45%
Loss Reserve / Total Assets	21.10%	23.35%	23.60%
Balance of Funds / Total Assets	23.94%	26.42%	23.60%
Investments in Share / Total Assets	2.28%	8.74%	19.31%
Total Asset Growth	14.11%	6.89%	22.11%
ROA	6.62%	8.06%	10.72%
ROE	12.53%	14.67%	19.23%

Source: ACRSL Research

APPENDIX C: LONG TERM RATING DETAILS

ACRSL INSURANCE RATINGS (LONG TERM)

Rating	Definition
AAA Triple A (Highest Safety)	Highest claims paying ability. Risk factors are negligible and almost risk free.
AA+, AA, AA- Double A (Very High Safety)	Very high claims paying ability. Protection factors are strong. Risk is modest, but may vary slightly over time due to underwriting and/or economic condition.
A+, A, A- Single A (High Safety)	High claims paying ability. Protection factors are good and there is an expectation of variability in risk over time due to economic and/or underwriting conditions.
BBB+, BBB, BBB- Triple B (Adequate Safety)	Good claims paying ability. Protection factors are good. Changes in underwriting and/or economic conditions are likely to have impact on capacity to meet policyholder obligations than insurers in higher rated categories.
BB+, BB, BB- Double B (Moderate Safety)	Average claim paying ability. Protection factors are average. The companies are deemed likely to meet these obligations when due. But changes in underwriting and/or economic conditions are more likely to weaken the capacity to meet policyholder obligations than insurers in higher rated categories.
B+, B, B- Single B (Inadequate Safety)	Inadequate Claim paying ability. Protection factors are weak. Changes in underwriting and/or economic conditions are very likely to further weaken the capacity to meet policyholder obligations than insurers in higher rated categories.
CCC+, CCC, CCC- Triple C (Risky)	Uncertain claims paying ability. The companies may not meet these obligations when due. Protection factors are very weak and vary widely with changes in economic and/or underwriting conditions.
CC+, CC, CC- Double C (Vulnerable)	Poor claims paying ability. Adverse underwriting or economic conditions would lead to lack of ability on part of insurer to meet policyholder obligations.
C+, C, C- Single C (Near to Default)	Very high risk that policyholders' obligations will not be paid when due. Present factors cause claim paying ability to be vulnerable to default or very likely to be default. Timely payment of policyholder obligations possible only if favorable economic and underwriting conditions emerge.
D Single D (Default)	Insurance companies rated in this category are adjudged to be currently in default or likely to be in default soon.

APPENDIX D: SHORT TERM RATING DETAILS

ACRSL INSURANCE RATINGS (SHORT TERM)

ST-1	**Highest Grade** Very high claims paying ability. Protection factors are strong. Risk is modest, but may vary slightly over time due to underwriting and/or economic condition.
ST-2	**High Grade** High claims paying ability. Protection factors are good and there is an expectation of variability in risk over time due to economic and/or underwriting conditions.
ST-3	**Good Grade** Good claims paying ability. Protection factors are good. Changes in underwriting and/or economic conditions are likely to have impact on capacity to meet policyholder obligations than insurers in higher rated categories.
ST-4	**Satisfactory Grade** Average claim paying ability. Protection factors are average. The companies are deemed likely to meet these obligations when due. But changes in underwriting and/or economic conditions are more likely to weaken the capacity to meet policyholder obligations than insurers in higher rated categories.
ST-5	**Non-Investment Grade** Inadequate Claim paying ability. Protection factors are weak. Changes in underwriting and/or economic conditions are very likely to further weaken the capacity to meet policyholder obligations than insurers in higher rated categories
ST-6	**Default** Insurance companies rated in this category are adjudged to be currently in default.