

## Financial Markets

8.1 Efforts have been continued to maintain transparency and stability of the financial market of the country during FY14. Bangladesh Bank remained cautious about financial market development and used policy tools for well-functioning of the financial market. The interest rates of call money and Govt. treasury bills and bonds were in downward trend during FY14. The capital market, as well as the foreign exchange market was quite stable during FY14.

### Money Market

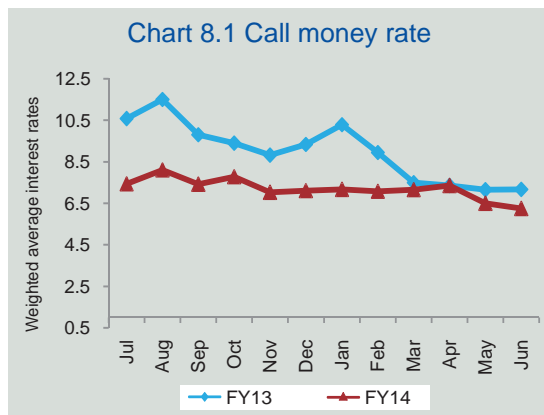
#### Call Money Market FY14

8.2 The banks including financial institutions observed steady growth path in terms of interest rate throughout the year. BB provided repo, special repo and Liquidity Support Facility (LSF) to the Primary Dealers (PDs) and non-PD banks against the eligible holding of treasury bills and bonds. BBs prudential policy measures resulted in stable weighted average interest rate in the call money market ranging from 6.3 percent to 8.1 percent during FY14 (Table 8.1 and Chart 8.1.). During FY14 the average volume of trade in the call money market increased by Taka 51.1 billion which was 3.7 percent higher than that of FY13. Both the volume of transaction in the call money market and the weighted average interest rate showed a balanced trend during FY14. However, a lower rate was observed in the 4th quarter of the year.

**Table 8.1 Volume of trade and weighted average interest rates in call money market**

Periods	Volume of trade (billion Taka)	Weighted average interest rates (%)	FY14	
			Volume of trade (billion Taka)	Weighted average interest rates (%)
	FY13		FY14	
July	1449.43	10.58	1640.98	7.44
August	1096.70	11.51	1066.39	8.11
September	1483.71	9.81	1654.45	7.42
October	1432.07	9.40	1532.19	7.78
November	1308.25	8.82	1620.51	7.03
December	1228.25	9.34	1565.09	7.11
January	1483.17	10.29	1497.71	7.17
February	1411.82	8.95	1477.28	7.08
March	1138.88	7.50	1403.11	7.16
April	1431.53	7.35	1362.92	7.35
May	1478.48	7.15	1015.98	6.50
June	1689.53	7.17	1408.72	6.25
<b>Average</b>	<b>1385.98</b>	<b>8.99</b>	<b>1437.11</b>	<b>7.20</b>

Source: Debt Management Department, Bangladesh Bank



### Repo Auctions - FY14

8.3 Repo auctions were continued in FY14 with a view to inject required money in the economy and to provide banks with necessary funds to maintain their very short term exposure. The rate of interest for repo, special

**Table 8.2 Repo auctions-FY14**

Total no. of auctions held during the year	Tenor	Bids received		Bids accepted		Interest rate of the accepted bids (%)
		No. of bids	Face value (billion Taka)	No. of bids	Face value (billion Taka)	
246	1-Day/2-Day	1611	3309.00	1611	3233.40	7.25-10.75
	3-Day/7-Day	491	1043.95	491	1024.93	7.25-10.75
	<b>Total</b>	<b>2102</b>	<b>4352.95</b>	<b>2102</b>	<b>4258.33</b>	<b>7.25-10.75*</b>

Source: Monetary Policy Department, Bangladesh Bank.  
\* Overall interest rates of different tenors.

repo and LSF remained unchanged at 7.25, 10.25 and 7.25 percent respectively for 1-2 day tenor. Special repo rate was higher due to particular need of liquidity of the banks. BB kept this window open for the banks to maintain the liquidity at a desired level, while pursuing a cautious monetary policy.

It, therefore, encourages borrowing from the market first with a view to maintaining its Lender of Last Resort (LOLR) stance. In FY14, BB provided the banks a reasonable amount of repo funds through daily repo auction.

8.4 A total of 246 repo auctions (including special repo and LSF auctions) were held during FY14. In all 2102 bids for Taka 4352.95 billion were received, of which Taka 4258.33 billion were accepted. During FY13 total 6291 bids for Taka 24356.71 billion were received, of which Taka 19275.72 billion was accepted. The volume of accepted bids decreased by 77.91 percent during the FY14 (Table 8.2).

The range of interest rate against the accepted bids was 7.25-10.75 percent per annum in FY14, which was same in the previous year.

### Reverse Repo Auctions - FY14

8.5 The reverse repo auctions are being used to mop up excess liquidity from the money market, to keep up reserve money and money multiplier on track. A total of 165 daily reverse repo auctions were held in FY14. In all 527 bids of 1-2 day and 123 bids of 3-7 day tenors for a total of Taka 2444.36 billion were received and all the bids were accepted. During FY13 bids for 138.71 billion were received, of which all bids were accepted. The interest rate against the accepted bids was 5.25 percent per annum during FY14 (Table 8.3).

### Bangladesh Bank Bill

8.6 Operations of Bangladesh Bank Bill continued in FY14 in order to sterilise and

**Table 8.3 Reverse repo auctions-FY14**

Total no. of auctions held during the year	Tenor	Bids received		Bids accepted		Interest rate of the accepted bids (%)
		No. of bids	Face value (billion Taka)	No. of bids	Face value (billion Taka)	
165	1-Day/2 Day	527	1974.99	527	1974.99	5.25
	3-Day/7 Day	123	469.37	123	469.37	5.25
	<b>Total</b>	<b>650</b>	<b>2444.36</b>	<b>650</b>	<b>2444.36</b>	<b>5.25*</b>

Source: Monetary Policy Department, Bangladesh Bank.  
\* Overall rates of different tenors

**Table 8.4 Auctions of Bangladesh Bank Bill - FY14**

Tenor of bills	Bids offered		Bids accepted		Outstanding bills as of end June, 14 (billion Taka)	Weighted average yield (WAR) range* (%)	
	No.	Face value (billion Taka)	No.	Face value (billion Taka)		FY13	FY14
30-Day	383	398.57	383	398.57	19.83	7.10-9.41	5.30-7.70
<b>Total</b>	<b>383</b>	<b>398.57</b>	<b>383</b>	<b>398.57</b>	<b>19.83</b>	<b>7.10-9.41</b>	<b>5.30-7.70</b>

Source: Monetary Policy Department, Bangladesh Bank.

\* Range of the weighted average annual yield of the accepted bids.

maintain liquidity of the banking system more effectively. With a view to maintain stable interest rate and exchange rate position, BB prudently applied this instrument during the period under report. The results of Bangladesh Bank bill auction in FY14 are shown in Table 8.4.

### Government Securities Market

#### Government Treasury Bills Auctions

8.7 Treasury bills and bonds are issued through an auction process where the allotments are awarded to the bids which fill the notified issue amount ranging from the lowest to highest yield. Pro-rata partial allotments are made for bids at the cut-off-yield. BB uses these indirect monetary policy instruments for debt management purposes. Treasury bills and bonds are actively used by BB to mop up excess liquidity and to provide a mechanism for financing government deficit. In FY14, among 15 Primary Dealers (PDs), 3 NBFIs are not acting as PD. 12 PDs acted as underwriters and market makers with commitments to bid in auctions. According to the revised auction procedure 12 PD bank will assume 60 percent and 25 non PD banks will assume 40 percent considering their Total Demand and Time Liabilities (TDTL) of the unsubscribed amount of auction.

8.8 Weekly auctions of 91-day, 182-day and 364-day treasury bills continued to be main instruments for debt management of the Government during the year under report. The results of treasury bills auction in FY14 are summarised in Table 8.5. The auctions of 91-day, 182-day and 364-day's tenor bills were under-subscribed. Subsequently, devolvement amount to PDs and non PDs/ Bangladesh Bank decreased in FY14 compared with FY13. The weighted average yield of all treasury bills decreased during FY14.

8.9 Depending on the liquidity conditions in the money market, the weighted average yields of treasury bills of different maturities varied within modest ranges. The yields for various tenors as of end June 2014 depicted somewhat a moderate range than the yields as of end June 2013.

8.10 During FY14, a total of 3784 bids amounting to Taka 1755.84 billion were received, of which 1385 bids amounting to Taka 865.77 billion (including Taka 121.39 billion as devolved amount) were accepted. The weighted average yield-to-maturity against the accepted bids ranged from 6.82 percent to 10.60 percent. In FY13 a total of 2283 bids amounting to Taka 924.34 billion were received, of which Taka 573.02 billion was accepted.

**Table 8.5 Auctions of Government treasury bills - FY14**

Tenor of bills	Bids offered		Bids accepted		Outstanding bills as of end June 14 (billion Taka)	Weighted average yield (WAR) range* (%)	
	No.	Face value (billion Taka)	No.	Face value (billion Taka)		FY13	FY14
91-Day	1568	892.86	519	363.09	99.02	8.13-11.40	6.82-8.68
182-Day	1145	449.88	461	201.52	117.00	9.83-11.42	7.43-10.24
364-Day	1071	413.10	405	179.77	215.75	10.13-11.54	7.68-10.60
Devolvement to BB/PDs and non PDs				121.39			
<b>Total</b>	<b>3784</b>	<b>1755.84</b>	<b>1385</b>	<b>865.77</b>	<b>431.77</b>	<b>8.13-11.54</b>	<b>6.82-10.60</b>

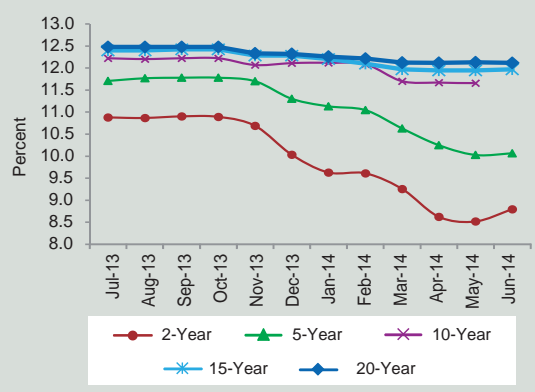
Source: Monetary Policy Department, Bangladesh Bank.

\* Range of the weighted average annual yield of the accepted bids.

### Bangladesh Government Treasury Bonds (BGTBs) Auctions

8.11 Treasury Bonds, bearing half yearly interest coupons with tenors of 2-year, 5-year, 10-year, 15-year and 20-year are auctioned in every month following preannounced auction calendar prepared by BB and ministry of finance considering liquidity and macroeconomic indicators. In order to improve liquidity and assets-liabilities matching, 2-year BGTB as a new instrument started auction since 28 May 2013. Banks are eligible to use Government treasury bills and BGTBs for Statutory Liquidity Requirement (SLR) purpose. These bills and bonds are eligible for secondary trading. 59 auctions of these instruments were held in FY14. A total of 1975 bids for Taka 461.87 billion were received and 621 bids for Taka 221.50 billion were accepted, of which Taka 46.43 billion was devolved on BB/PDs and non PDs. The amount of outstanding bonds was increased by 20.68 percent to Taka 1026.27 billion at the end of June 2014 from Taka 850.43 billion at the end of June 2013. The overall transaction of all the BGTBs are summarised in Table 8.6.

8.12 The weighted average yield-to-maturity for the treasury bonds ranged from 8.5206 percent to 12.4800 percent in FY14.

**Chart 8.2 Weighted average yield of BGTB in FY14**

The weighted average yield of treasury bonds decreased during the period (Table 8.6). The movements of the weighted average yield-to-maturity of all the treasury bonds are depicted in the Chart 8.2.

8.13 In FY13, bids for a total of Taka 167.17 billion were received and Taka 204.52 billion was accepted of which Taka 117.69 billion was devolved on BB/PDs and non PDs. The overall weighted average yield-to-maturity ranged from 10.9449 percent to 12.4800 percent in FY13.

### Bangladesh Government Islamic Investment Bond (Islamic Bond)

8.14 Government issues bond as guarantee against the pool of funds formed by the

**Table 8.6 Auctions of Bangladesh Government treasury bonds - FY14**

Tenor of bonds	Bids offered		Bids accepted		Outstanding bonds as of end June, 14 (billion Taka)	Yield range *(%)
	Number	Face value (billion Taka)	Number	Face value (billion Taka)		
2-Year	422	133.31	90	47.56	63.00	8.5206-10.9039
Devolvement to BB/PDs and non PDs				9.44		
5-Year	499	145.60	144	52.86	301.18	10.0287-11.7800
Devolvement to BB/PDs and non PDs				19.14		
10-Year	391	83.26	162	27.78	404.66	11.6598-12.2200
Devolvement to BB/PDs and non PDs				12.72		
15-Year	337	49.19	113	23.56	140.36	11.9417-12.4200
Devolvement to BB/PDs and non PDs				3.44		
20-Year	326	50.51	112	23.31	117.07	12.1169-12.4800
Devolvement to BB/PDs and non PDs				1.69		
<b>Total</b>	<b>1975</b>	<b>461.87</b>	<b>621</b>	<b>221.50</b>	<b>1026.27</b>	<b>8.5206-12.4800@</b>

Source: Monetary Policy Department, Bangladesh Bank

\* Range of the weighted average annual yield of the accepted bids.

@ Weighted average annual yield of treasury bonds of different terms

Islamic banks and individuals in order to develop money market in Islamic banking sector. Virtually Government does not borrow money from this sector. The return of the bonds depends on profit or loss in line with the islamic shariah savings rate and related factors reflected in the balance sheet of the islamic bank. The operations of 6-month, 1-year and 2-year Bangladesh Government Islamic Investment Bond (Islamic Bond) which introduced in FY05 continued in FY14. This Government bond is operated in accordance with the rules of islamic shariah. Bangladeshi institutions, individuals and non-resident Bangladeshis who agree to share profit or loss in accordance with islami shariah are eligible to buy this bond. As of end June 2014 the total sale against this bond amounted to Taka 121.34 billion while balance of total amount of financing stood at Taka 24.37 billion and the net outstanding of the bond stood at Taka 96.96 billion. As of end June 2013 the total sale of this bond was Taka 107.13 billion against the balance of total financing of Taka 67.78 billion and the net outstanding of Taka 39.35 billion. This is shown in Table 8.7.

**Table 8.7 Bangladesh Government Islamic investment bond**

Particulars	(billion Taka)		
	FY12	FY13	FY14
i. Sale	31.48	107.13	121.34
ii. Financing	31.26	67.78	24.37
iii. Net outstanding	0.22	39.35	96.96

Source: Motijheel Office, Bangladesh Bank.

**Table 8.8 Disbursement & recovery of industrial term loans of banks and financial institutions**

Particulars	(billion Taka)		
	FY13	FY14	% Change
Disbursement	425.3	423.1	-0.5
Recovery	365.4	418.0	14.4
Outstanding (end June)	903.4	1003.9	11.1

Source: SME and Special Programmes Department, BB.

## Capital Market

### Investment Financing in Bangladesh

8.15 The dominance of term loans in investment financing implies low equity stake and risk exposure of the owners, with disproportionately high incidence of risk on the lending banks and financial institutions, including liquidity risk arising from the funding of these long-term loans with typically short-term deposits.

8.16 The amount of industrial term loans disbursed by banks and financial institutions stood at Taka 423.1 billion (Table 8.8), many-fold higher than the amount of Taka 6.6 billion raised by new capital issues through private placements and public offerings in the capital market in FY14. This indicates the overwhelming preference of bank finance in industrial investment financing.

8.17 The price index and the market capitalisation of Dhaka Stock Exchange Limited (DSE) have been quite stable during FY14 as a result of the effective measures taken from time to time. Under the Exchanges Demutualisation Act.-2013, the demutualisations of ownership and management from trading rights have been completed and finally the DSE and the Chittagong Stock Exchange Limited (CSE) emerged as demutualised exchange from 21 November 2013. DSE Regulations, 2013 (Settlement Guarantee Fund) was published in the Gazette on 4 December 2013. DSE launched DSEX Shariah Index; designed & developed by S&P Dow Jones on 20 January 2014. State of the Art Surveillance Software "Instant-Watch" developed by Swedish company "TRAPETS-AB" has been launched on 11 February 2014. DSE has made agreements with NASDAQ OMX on 21 March 2014 and has replaced its existing trading system in order to make it more flexible.

8.18 A Memorandum of Understanding (MoU) was signed between CSE and DSE on 21 August 2013 to establish a clearing company which would help to trade derivatives, commodity etc. as new products in the market CSE and DSE introduced T+2

pay out settlement cycle of securities of A, B, G & N category in place of T+3 with effect from 3 November 2013. The advantage of faster settlement may lead to increase in turnover value and volume of trade which will help to increase market liquidity as well as bring more transparency in the market. The CSE and The National Stock Exchange of India (NSE) signed a MoU in August 2013 by which will help CSE to get NSE's co-operation and expertise for its development issues.

### Capital Market Activities in FY14

#### Primary Issuance

8.19 Twelve companies raised new equity of Taka 6.6 billion in the capital market in FY14, lower than Taka 12.2 billion raised by the fourteen companies in FY13. Of the new equity issued, Taka 2.4 billion rose through private placements and Taka 4.2 billion raised through public placements. In FY13, equity issued through private and public placements were Taka 1.0 and 11.2 billion respectively.

8.20 The volume of public offerings in FY14 was over-subscribed more than eleven times indicating a shortage of new securities in the primary market. Bonus shares worth of Taka 31.1 billion were issued in FY14 by one hundred and thirty seven companies against retained profits. This was lower than Taka 34.4 billion issued in FY13 by one hundred and sixty one companies.

#### Secondary Market Activities

8.21 As a percent of market capitalisation the manufacturing sector dominated with 53.8 percent share, followed by services and miscellaneous (29.1 percent), financial



(17.1 percent) and corporate bonds (0.02 percent) as at the end of June FY14. In the DSE, market capitalisation inclusive of new issues increased by 16.3 percent to Taka 2943.2 billion or 21.8 percent of GDP at the end of FY14 from Taka 2530.2 billion at the end of FY13 (Chart 8.3). In the CSE, it was increased by 19.1 percent to Taka 2286.7 billion or 16.9 percent of GDP at the end of FY14. The amount of turnovers in the secondary market is also increased by 31.3 and 0.2 percent respectively at DSE and CSE in FY14. DSE broad index (DSEX) and CSE all-share price index are also increased by 9.2 and 8.1 percent to 4480.5 and 13766.2 respectively during the year (Table 8.9 and 8.10).

### Non-resident Portfolio Investment

8.22 Gross investment inflow in shares and securities of the stock exchanges by non-residents through Non-resident Investor Taka Account (NITA) increased to Taka 41.3 billion in FY14 from Taka 18.0 billion in FY13. Gross investment outflow as repatriation of sale proceeds also increased to Taka 14.5 billion in FY14 from Taka 7.8 billion in FY13. From the beginning (April 1992) to June 2014 the gross investment inflow stood at Taka 128.7 billion against gross outflow as repatriation of sale proceeds of Taka 89.6 billion.

### Activities of the Investment Corporation of Bangladesh

8.23 The Investment Corporation of Bangladesh (ICB) has been established with the aim of accelerating the pace of industrialisation and developing a well organised and vibrant capital market particularly securities market in Bangladesh. ICB's capital market development programme

Chart 8.3 Trends in market behaviour of DSE



Table 8.9 Dhaka Stock Exchange (DSE) activities

Particulars	End June		
	FY12	FY13	FY14
No. of listed securities*	511	525	536
Issued equity and debt* (billion Taka)	933.6	983.6	1032.1
Equity through private placement & IPOs (billion Taka)	16.4	12.2	6.6
Market capitalisation (billion Taka)	2491.6	2530.2	2943.2
Turnover in value (billion Taka)	1171.5	857.1	1125.4
Turnover in volume (no. in billion)	18.6	21.6	24.3
Broad Index (DSEX)@	4572.9	4104.7	4480.5

Source: Dhaka Stock Exchange.

\* = including companies, mutual funds, debentures and Government Treasury Bonds.

@ = DSE introduced the benchmark DSE broad index (DSEX) designed & developed by S&P Dow Jones from 28 January 2013. DSE general index has been phase out from the market on 01 August 2013.

Table 8.10 Chittagong Stock Exchange (CSE) activities

Particulars	End June		
	FY12	FY13	FY14
No. of listed securities*	251	266	276
Issued equity and debt* (billion Taka)	375.2	428.6	470.7
Market capitalisation (billion Taka)	1871.5	1919.9	2286.7
Turnover in value (billion Taka)	134.9	102.0	102.2
Turnover in volume (no. in billion)	2.5	2.8	2.7
All-share price index	13736.4	12738.2	13766.2

Source: Chittagong Stock Exchange.

\* = including companies, mutual funds and debentures.

activities have been expanded through the formation and operation of the three subsidiaries of ICB namely the ICB Capital Management Ltd (ICML), the ICB Asset Management Company Ltd. (IAMCL) and the ICB Securities Trading Company Ltd. (ISTCL). During FY14, total investment made against the investors' accounts stood at Taka 8.7 billion while deposit received stood at Taka 0.8 billion. The IAMCL emerged as one of the fast growing asset management company of the country. Up to end June 2014, the company floated 11 closed-end and 4 open-end mutual funds. Besides, the company floated various regular and special types of mutual funds. The net investment in portfolios of the fifteen mutual funds of the company stood at Taka 32.0 billion and the market value of which stood at Taka 26.3 billion. The ISTCL emerged as the largest stockbroker in the country handling total turnover worth Taka 135.0 billion in FY14 which was 11 percent of total turnover of both DSE and CSE. The parent ICB itself sold unit certificates amounting Taka 1.0 billion against repurchase of unit certificates amounting Taka 0.2 billion in FY14. ICB received deposits of Taka 0.2 billion and approved loans of Taka 1.4 billion in investment accounts of investors in FY14. Total commitments for investment made by the ICB in FY14 stood at Taka 17.7 billion of which, investment in equity was Taka 17.1 billion and purchase of debentures was Taka 0.6 billion. The total amount of commitments was Taka 18.5 billion in FY13.

#### **Scheduled Banks Investments in Capital Market Securities**

8.24 Holdings of capital market assets (equities, debenture) excluding investment on Bangladesh Government Islamic Investment

Bond (BGIB) by scheduled banks stood at Taka 169.0 billion as of end June 2014 as against Taka 153.0 billion as of end 2013. Outstanding advances of scheduled banks against shares and securities amounted to Taka 27.5 billion as of end 2014, which was Taka 21.0 billion as of end June 2013.

#### **Measures Supporting Capital Market Development**

8.25 The Securities and Exchange Commission (SEC) undertook several measures to bring long-term stability and strengthen the capital market during FY14:

- Equity Research Publications have been opened by Bangladesh Securities and Exchange Commission (BSEC) in order to ensure access to information of investors, academicians and policy makers. Accordingly 'Bangladesh Securities and Exchange Commission (Research Analysis) Rules, 2013 has been formulated which was published in the Gazette dated 22 August 2013.
- In order to settle the capital market related cases rapidly, a special tribunal has been formed by the government under sub-section (1) of Section 25B of 'Securities and Exchange Ordinance, 1969' which was published in the Gazette on 7 January 2014.
- In order to ensure more transparency of the audit activities of the enlisted companies, Securities and Exchange Rules, 1987 has been revised by incorporating the rule of conducting special audit to the companies through the auditors appointed by the Commission. This revised rule was published in the Bangladesh Gazette on 22 May 2014.



- Regarding guidelines about evolution of assets of the companies applied to IPO, a notification has been issued on 18 August 2013 which was published in the Bangladesh gazette on 11 January 2014.
- Regarding right issue of share, it has been made compulsory to comply with the Corporate Governance Guidelines. A notification has been issued on 18 August 2013 which was published in the Bangladesh Gazette on 11 January 2014.
- Bangladesh Securities and Exchange Commission (BSEC) was a general member of the world's securities and future market regulating organisation 'International Organization of Securities Commissions' (IOSCO) since 1995. Later on, it gained full membership on 22 December 2013 by fulfilling all conditions of IOSCO. As a result BSEC has been promoted to 'A' category member from 'B' category. The commission would gain international status which would enable it to work with various working committee of the international regulatory organisation.

8.26 The measures declared in the national budget of FY15 in support of further development of the capital market included:

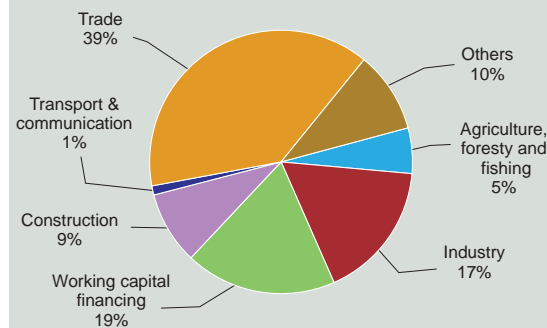
- With a view to maintaining stability in capital market together its continual expansion and strengthening, government proposed to offer tax exemption facilities for 5 years in graduated rate for demutualised stock exchange.
- The expenditure limit of Corporate Social Responsibility (CSR) has been raised from

**Table 8.11 Advances of scheduled banks by economic purposes** (billion Taka)

Sector	End June		% change
	FY13	FY14 <sup>P</sup>	
1. Agriculture, forestry and fishing	229.7	262.4	14.2
2. Industry	898.3	797.3	-11.2
3. Working capital financing	570.5	874.7	53.3
4. Construction	386.3	419.6	8.6
5. Transport & communication	90.5	52.6	-41.9
6. Trade	1593.6	1821.6	14.3
7. Others	479.2	467.7	-2.4
<b>Grand Total</b>	<b>4248.1</b>	<b>4695.9</b>	<b>10.5</b>

Source: Statistics Department, Bangladesh Bank. P = Provisional

**Chart 8.4 Sectoral shares of total advances: FY14**



Taka 80 million to Taka 120 million in order to get tax exemption facility.

- The limit of tax-exempted dividend income has been extended from Taka 10 (ten) thousand to Taka 15 (fifteen) thousand.
- The minimum tax on business turnover has been decreased from 0.50 percent to 0.30 percent in order to bring some benefit for non-profitable organisations.
- The formation of clearing company is under process. Once the clearing company is formed, the launching of derivatives market will be easier and foreign investors will be attracted through forming Settlement Guarantee Fund.

**Table 8.12 Industrial term loans of banks and financial institutions**

Lender	(billion Taka)									
	Disbursement		Recovery		Outstanding		Overdue		Overdue as % of outstanding	
	FY13	FY14	FY13	FY14	FY13	FY14	FY13	FY14	FY13	FY14
SCBs	57.2	13.9	54.5	29.6	192.8	194.7	39.0	31.6	20.2	16.2
PCBs	287.2	325.2	247.5	316.1	530.1	593.6	52.9	50.5	10.0	8.5
Foreign banks	17.5	12.8	14.3	14.8	22.6	21.9	1.1	1.7	4.9	7.8
Specialised banks (BDBL, BKB, RAKUB, BASIC)	14.6	13.2	9.5	9.0	49.6	53.9	6.4	17.2	12.9	31.9
Financial institutions	48.8	58.0	39.6	48.5	108.3	139.8	7.8	8.2	7.2	5.9
<b>Total</b>	<b>425.3</b>	<b>423.1</b>	<b>365.4</b>	<b>418.0</b>	<b>903.4</b>	<b>1003.9</b>	<b>107.2</b>	<b>109.2</b>	<b>11.9</b>	<b>10.9</b>

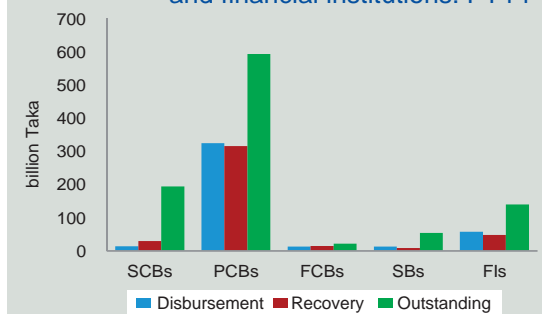
Source: SME and Special Programmes Department, Bangladesh Bank.

## Credit Market

### Advances of Scheduled Banks by Economic Purposes

8.27 Most of the advances of scheduled banks by economic purposes showed an upward trend during FY14 (Table 8.11). Total advances of scheduled banks by economic purposes stood at Taka 4695.9 billion at the end of June 2014 which was 10.5 percent higher than the total advances of Taka 4248.1 billion at the end of June 2013. In recent years, significant changes have been taken place in the trends in total bank advances classified by economic purpose. Of the total advances, working capital financing sector recorded the significant improvement by 53.3 percent followed by trade sector (14.3 percent), agriculture, fishing and forestry sector (14.2 percent), and construction sector (8.6 percent), while advances to transports and communication sector decreased by 41.9 percent followed by industry sector (11.2 percent), and other sectors (2.4 percent) in FY14 as compared to FY13. Sector-wise contribution of total advances shows that the trade sector plays the main role (39 percent) followed by working capital financing sector (19.0 percent), advances for industry (17.0 percent), construction (9.0 percent),

**Chart 8.5 Industrial term loans of banks and financial institutions: FY14**



agriculture, fishing and forestry (5.0 percent), transport and communication sector (1.0 percent) and other sectors (10.0 percent) in FY14. Sector-wise contribution of total advances is reported in Chart 8.4.

### Industrial Term Loans of Banks and Financial Institutions

8.28 Disbursement of industrial term loans by banks and financial institutions decreased by 0.5 percent to Taka 423.1 billion. However, the recoveries increased by 14.4 percent to Taka 418.0 billion in FY14. The outstanding balance showed a positive growth of 11.1 percent and stood at Taka 1003.9 billion as of end June 2014. However, the overdue increased by 1.8 percent in FY14 and as a percent of outstanding decreased to 10.9 as of end June 2014 (Table 8.12).

8.29 Private commercial banks (PCBs) had the major shares (59.1 percent) of the total Taka 1003.9 billion outstanding loans as of end June 2014, making them major players in industrial term lending (Table 8.12 and Chart 8.5). Though four SCBs and four specialised banks together had 24.8 percent shares of outstanding loans, but with very high levels of overdue loans, their actual role in current lending is quite minor, as they disbursed only Taka 27.1 billion (6.4 percent) out of total Taka 423.1 billion in FY14. In case of disbursement, PCBs had the major share holders (Taka 325.2 billion) in FY14, followed by financial institutions (Taka 58.0 billion), SCBs (Taka 13.9 billion), four specialised bank (Taka 13.2 billion) and foreign banks (Taka 12.8 billion).

8.30 The financial institutions had very low overdue loans (5.9 percent of outstanding) as of end June 2014. These were also low for private commercial banks (8.5 percent) and foreign banks (7.8 percent). Overdue loans of the specialised banks and the SCBs were very high (31.9 and 16.2 percent respectively) as of end June 2014.

8.31 Since BKB and RAKUB are agriculture sector lenders, they have insignificant role in industrial term lending. The specialised industrial sector lenders with extremely high overdue have concentrated on recovery in the recent years.

### **Investment Promotion and Financing Facility (IPFF)**

8.32 "Investment Promotion and Financing Facility (IPFF) Project" is an on-lending based Technical Assistance (TA) project to supplement the resource of the Bangladesh financial markets to provide long term finance for infrastructure and other investment

projects beyond the capacity of local financial institutions and to promote the role of private sector entrepreneurs in the development of capital projects, specially infrastructure. The project with two phases has been implemented by BB on behalf of Finance Division, Ministry of Finance as per Administration Agreements. Under IPFF, Government approved private infrastructure development projects, implemented on Public-Private Partnership (PPP) basis, financed through selected participating financial institutions (PFIs). Infrastructure development projects, power, services, industry and social sectors are considered eligible for IPFF financing. At least 25 percent of cost of any approved project is to be borne by the entrepreneurs' own sources as equity and at least 15 percent of the project cost is to be borne by the PFI in the second phase. The remaining 60 percent may be financed by IPFF. The PFIs are supposed to bear all the commercial risks associated with debt financing. As per Agreement total cost of the project was USD 60.00 million with a 5 years tenure starting from January 2007 to December 2011. IPFF has disbursed 100 percent of its on-lending component within 4th year of the project resultantly additional fund of USD 307.00 million (IDA USD 257.0 million and GoB USD 50.0 million) was sanctioned extending the tenure of the project up to December 2015.

It is worth mentioning here that IPFF has been able to disburse 100 percent (Taka 4.2 billion equivalent to USD 57.5 million) of its on-lending component to 7 small power plants having capacity of 178 MW within 4th year of the project tenure in the first phase. All the power plants are contributing power to the national grid.

Under the second phase of IPFF, USD 67.6 million has been disbursed for three central water treatment plants, two power generation projects having capacity of 105 MW and an inland container depot till June 2014.

### Equity and Entrepreneurship Fund (EEF)

8.33 Equity and Entrepreneurship Fund (EEF) was formed by the Government with budgetary allocation of Taka 1.0 billion in FY01 to encourage investments in the risky but prospective agro-based/food processing and IT sector projects. A sub agency agreement regarding the transfer of operational activities of EEF has been signed on 1 June 2009 between Bangladesh Bank (BB) and Investment Corporation of Bangladesh (ICB). Under this agreement ICB is now performing the operational activities of EEF while EEF Unit of Bangladesh Bank is doing the activities relating to policy making, fund management and performance monitoring. So far Taka 18.3 billion has been released to the fund out of total budgetary allocation of Taka 27.0 billion in different fiscal years. Up to 30 June 2014 with the project cost of Taka 60.7 billion, a total of 1543 projects (including 1443 agro-based/food processing projects and 100 IT projects) got EEF sanction at different stages of disbursement. Cumulative equity disbursement stood at Taka 10.2 billion at the end of FY14 against total fund disbursement of Taka 18.3 billion from the Government. Till now 85 (eighty five) EEF supported companies availed share buy-back facilities partially or fully to the tune of Taka 1.5 billion. Employment opportunity has been created for 17,000 people in the EEF assisted projects. World class software developed by EEF assisted ICT project is being used throughout the country.

**Table 8.13 Outstanding housing loans**

(billion Taka)			
Lenders	Outstanding as of end June		
	FY12	FY13	FY14 <sup>P</sup>
<b>a. Specialised housing</b>			
<b>finance providers</b>	51.9	55.7	59.7
i) HBFC	25.8	28.0	29.6
ii) Delta-Brac Housing Finance	23.6	24.9	26.8
iii) National Housing Finance	2.5	2.8	3.3
<b>b. Banks</b>	286.8	349.0	366.8
i) PCBs	191.8	229.8	235.6
ii) SCBs	63.4	73.1	100.1
iii) Other banks (foreign and specialised)	31.6	46.1	31.1
<b>c. Other financial institutions</b>	19.2	20.8	27.7
<b>d. Micro-credit lenders</b>			
Grameen Bank	0.06	0.04	0.04
<b>Total</b>	<b>358.0</b>	<b>425.5</b>	<b>454.2</b>

Sources: Department of Financial Institutions and Markets, Statistics Department, Bangladesh Bank, and Grameen Bank.  
P= provisional.

### Housing Finance

8.34 Total outstanding housing loans from banks and financial institutions as of end June 2014 amounted to Taka 454.2 billion (Table 8.13), which was 9.7 percent of total credit to the private sector.

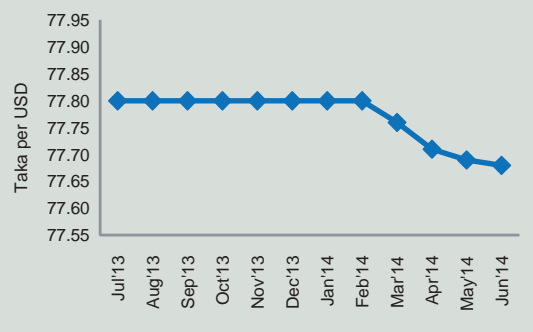
8.35 In recent years, significant changes have taken place in total housing loan portfolios. Of the total, private banks with ample deposit resources have been expanding their housing loan portfolios, and now have dominant market position (Table 8.13) with the largest share of Taka 235.6 billion in outstanding housing loans as of end June 2014. The SCBs have the second largest share of Taka 100.1 billion and other banks Taka 31.1 billion in outstanding housing loans as of end June 2014. Besides, two private sector specialized housing finance

companies also provide a significant amount of loan. They supply fund for their operations by taking long term deposits including some contractual deposit schemes.

8.36 The state owned House Building Finance Corporation (HBFC) has the third largest share of Taka 29.6 billion in outstanding housing loans as of end June 2014. The sources of Corporation's fund are paid-up capital by the Government and the proceeds as received by selling Government guaranteed interest bearing debentures to different organisations. The second mode of funding has been unavailable in recent years. In the past the HBFC funded its housing loans by issuing low interest debentures bought by the SCBs and the Bangladesh Bank. The HBFC has been constrained to rely on recoveries of past loans for new lending after defraying operating and debt servicing costs. Consequently, its new lending amount has declined. In FY13 and FY14 Taka 4.3 billion and Taka 3.9 billion were disbursed out of recoveries of Taka 4.5 billion and Taka 4.6 billion respectively.

8.37 *Grihayan Tahbil* created by the Government of Bangladesh, provides housing loan to the NGOs at the rate of 2.0 percent simple interest who in turn provides housing credit to the rural poor at the rate of 6.0 percent simple interest for a period up to 10 years. Up to June 2014, the *Grihayan Tahbil* has been released Taka 1.7 billion against allocation of Taka 2.6 billion through 513 NGOs for rural housing programme which have covered 450 upazilas of 64 districts of the country and 58797 houses have already been constructed. In addition, for the target people those are adversely affected by

Chart 8.6 Taka-US Dollar exchange rate: FY14



different natural calamities, Taka 0.1 billion has been released as grant as per decision by the authority concerned. As on June 2014, *Tahbil* has recovered Taka 1.1 billion against the total recoverable amount of Taka 1.3 billion and the recovery rate is 86.6 percent. In addition, a dormitory/women hostel for the poor female workers is being constructed at ashulia of savar upzilla under the supervision of the department of women affairs at the cost of Taka 0.2 billion which is financed by Grihayan Tahabil where a total of 744 women workers will get the residence facility.

### Foreign Exchange Market

8.38 Bangladesh Bank closely monitors the foreign exchange market to avoid undue volatility in the exchange rate. BB engages in market interventions if it deemed necessary.

8.39 In FY14, Taka experienced a appreciation of 0.18 percent against US dollar compared to 5.20 percent appreciation in FY13 mainly due to BB's interventions in the foreign exchange market to maintain stability as well as to ensure external competitiveness. The weighted average inter-bank rate stood at Taka 77.63 per USD as of 30 June 2014 against Taka 77.77 per USD as on 30 June 2013 (Chart 8.6).