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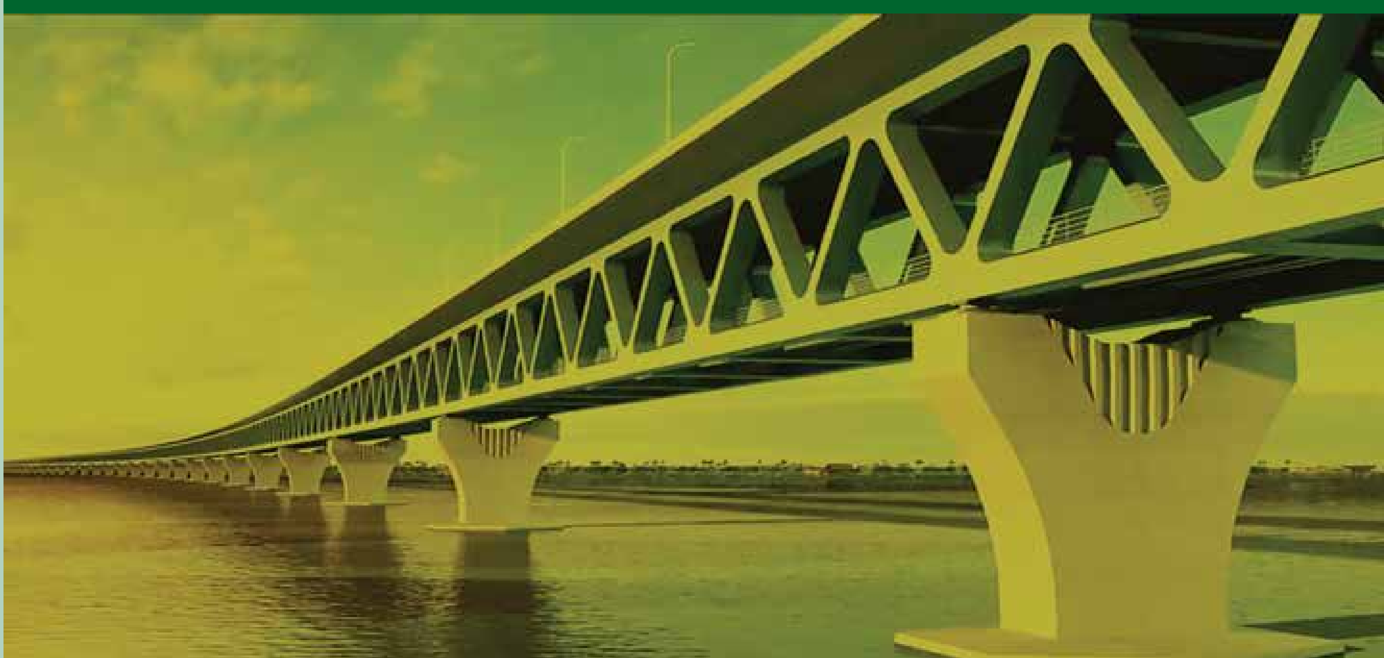

Bangladesh Bank

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FINANCIAL STABILITY REPORT 2021

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Bangladesh Bank

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Message from the Governor

The globe has been facing the challenges of rising inflation accompanied by a growing exchange rate pressure due to mounting international commodity price hikes amid supply-chain disruptions mainly emanated from the COVID-19 pandemic-related restrictions followed by the ongoing Russia-Ukraine war-induced sanctions and uncertainties. Rising energy prices and supply-chain disruptions have resulted in more broad-based inflation than anticipated, notably in the United States, many emerging markets, and developing economies. Following the economic recoveries and the subsequent normalization of respective policies, the United States and other developed countries have raised their interest rates which seem to pose significant impacts on emerging and developing economies through the trade, exchange rates, and global financial market channels. All these developments could have a bearing on the financial stability issues of Bangladesh.

Economic activities of the country have been showing signs of recovery as the COVID-19 pandemic situation improved, well-supportive by appropriate monetary and fiscal policies. Faster recovery in the industry and services sectors is evident, attributable to improved business confidence. The overall banking sector was resilient in 2021, as reflected by relatively increased growth of bank advances, a rise in profitability and availability of adequate liquidity in the system. The resilience was backed by the recovery in international trade, sustained remittance inflows, and speedy and effective implementation of fiscal stimulus with supportive policy measures from BB. It is expected that the economic activities, private sector credit and investment are likely to continue their growth trends in the coming days. BB will maintain its supportive policies to channel adequate funds to these productive sectors, including agriculture, CMSMEs, and export-oriented industries. BB also reaffirmed in its recent Monetary Policy Statement (MPS) that it will remain vigilant in taking necessary actions for containing inflationary pressures and maintaining the macro-financial stability of the economy. A well-organized, comprehensive, and concerted effort by all the economic agents is pivotal in this regard.

I believe this report will be able to provide the stakeholders with a broad understanding of the strengths, risks, and vulnerabilities of the financial system of Bangladesh. I appreciate the diligent efforts and dedication of the officials of the Financial Stability Department in preparing this report in a timely manner.

Fazle Kabir
Governor

Message from the Deputy Governor

A broad range of apt monetary and fiscal measures have helped the global economy to demonstrate a notable recovery in 2021. Nevertheless, there remain some challenges and uncertainties as inflation inflicting in several advanced economies, which may take a toll on the emerging market and developing economies leading towards a likely phase of monetary policy tightening. Besides, the ongoing Ukraine war may aggravate the situation even further. As forecasted by IMF, global growth would be slow in 2022 and 2023 compared to that of 2021. Such apprehension may exert some pressure again on international trade and the financial system.

Albeit the devastating impact of COVID-19 in almost all countries around the world, Bangladesh has largely been able to maintain a well-balanced GDP growth in both FY20 and FY21. Alongside the persistent recovery of the real sector, exports and wage earners' remittance experienced sizable growth. The gross foreign exchange reserve stood at USD 46.2 billion at end-December 2021, adequate to meet 6 months' import payment of goods on prospective basis given the fact that with improvement of pandemic situation, import of RMG related raw materials and capital machinery increased considerably. Banking sector recorded some developments in 2021 in terms of growth in credit and profitability, attributed to various conducive measures taken by Bangladesh Bank. The capital market remained broadly bullish, whereas financial institutions (FIs) and insurance sectors experienced mixed trends in soundness indicators. Importantly, banking and FIs sectors remained broadly resilient from a stress test point of view, except in the case of loan concentration to top large borrowers.

During the review year, Bangladesh Bank took a broad range of policy initiatives that have a significant bearing on the financial stability of the country; such as the issuance of guidelines on country risk management (GCRM) for banks, and interest rate risk in the banking book (IRRBB), revision in the guidelines on internal credit risk rating system (ICRRS) for banks, raising the leverage ratio requirement for banks as part of Basel III implementation with effect from 2023, issuance of agricultural and rural credit policy and program for the FY2021-22, and an initiative to develop a collateral information system. Bangladesh Bank has also been closely monitoring the ongoing global dynamics and aligning preemptive measures to keep our financial system stable and resilient.

Finally, I believe that this report will be able to provide the stakeholders with important insights about the strengths of and risks to the financial system as well as vulnerabilities thereto. I also believe that the report will be able to help the stakeholders devise preemptive and forward-looking measures. I commend the diligent effort and dedication of the officials of Financial Stability Department in preparing this report in a timely and betting manner.

Abu Farah Md. Nasser
Deputy Governor

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ACRONYMS

ACD	Agricultural Credit Department
ACRL	Alpha Credit Rating Limited
ACS	Automated Challan System
AD	Authorized Dealer
ADR	Advance-to-Deposit Ratio
AIIB	Asian Infrastructure Investment Bank
ATM	Automated Teller Machine
BACH	Bangladesh Automated Clearing House
BACPS	Bangladesh Automated Cheque Processing System
BB	Bangladesh Bank
BB RG	Bangladesh Bank Risk Grade
BBS	Bangladesh Bureau of Statistics
BCBS	Basel Committee on Banking Supervision
BDT	Bangladeshi Taka
BEFTN	Bangladesh Electronic Funds Transfer Network
BFIU	Bangladesh Financial Intelligence Unit
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BHBFC	Bangladesh House Building Finance Corporation
BKMEA	Bangladesh Knitwear Manufacturers and Exporters Association
BL	Bad and Loss
BRPD	Banking Regulations and Policy Department
BS	Balance Sheet
BSBL	Bangladesh Samabaya Bank Limited
BSEC	Bangladesh Securities and Exchange Commission
CAB	Current Account Balance
CAR	Capital Adequacy Ratio
CBS	Core Banking System
CCB	Capital Conservation Buffer
CDBL	Central Depository Bangladesh Limited
CFSI	Composite Financial Stability Index
CMSME	Cottage, Micro, Small and Medium Enterprise
COVID-19	Coronavirus Disease
CPI	Consumer Price Index
CRAB	Credit Rating Agency of Bangladesh Ltd.
CRAR	Capital to Risk-weighted Assets Ratio
CRISL	Credit Rating Information and Services Limited
CRR	Cash Reserve Ratio
CRSDL	Classified Rescheduled Loan
CSE	Chittagong Stock Exchange
CSR	Corporate Social Responsibility/ Claims Settlement Ratio

CY	Calendar Year
DF	Doubtful
DFIM	Department of Financial Institutions and Markets
DFS	Digital Financial Services
DID	Deposit Insurance Department
DIS	Deposit Insurance System
DITF	Deposit Insurance Trust Fund
DMD	Debt Management Department
DNSB	Deferred Net Settlement Batches
DOBB	Directives of Bangladesh Bank
DOS	Department of Off-site Supervision
DSE	Dhaka Stock Exchange
DSEX	DSE Broad Index
E-CAB	e-Commerce Association of Bangladesh (e-CAB)
ECAI	External Credit Assessment Institutions
ECC	Export Cash Credit
EFT	Electronic Fund Transfer
EM	Emerging Market
EPS	Earnings per Share
EU	European Union
EZS	Economic Zones
FC	Foreign Currency
FCB	Foreign Commercial Bank
FDD	Foreign Demand Draft
FDI	Foreign Direct Investment
FDR	Fixed Deposit Receipt
FE/FX	Foreign Exchange
FEPD	Foreign Exchange Policy Department
FI	Financial Institution
FID	Financial Inclusion Department
FOB	Free On Board
FRTMD	Forex Reserve and Treasury Management Department
FSD	Financial Stability Department
FSR	Financial Stability Report
FSV	Forced Sale Value
FY	Fiscal Year
GCC	Gulf Cooperation Council
GCRM	Guidelines on country risk management
GDP	Gross Domestic Product
GNPL	Gross Non-Performing Loan
GTF	Green Transformation Fund
GVA	Gross Value Added

GVC	Global Value Chain
HFT	Held-for-Trading
HHI	Herfindahl-Hirschman Index
HTM	Held-to-Maturities
HTPS	Hi-Tech Parks
IBFT	Internet Banking Fund Transfer
ICAAP	Internal Capital Adequacy Assessment Process
ICB	Investment Corporation of Bangladesh
ICRRS	Internal credit risk rating system
IDR	Investment to Deposit Ratio
IDRA	Insurance Development and Regulatory Authority
IMF	International Monetary Fund
IPO	Initial Public Offering
IRR	Interest Rate Risk
IRRBB	Interest rate risk in the banking book
ISAS	Institute of South Asian Studies
IT	Information Technology
ITES	Information Technology Enabled Services
JBC	Jibon Bima Corporation
KSA	Kingdom of Saudi Arabia
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
LIBOR	London Inter-Bank Offered Rate
LIM	Loan Against Imported Merchandise
LSF	Liquidity Support Facility
LTR	Loan Against Trust Receipt
MCR	Minimum Capital Requirement
MET	Monthly Economic Trends
MFI	Microfinance Institution
MFS	Mobile Financial Services
MFSPs	Mobile Financial Service Providers
MI	Market Infrastructure
MOU	Memorandum of Understanding
MPD	Monetary Policy Department
MPS	Monetary Policy Statement
MRA	Microcredit Regulatory Authority
MRWA	Market Risk-Weighted Assets
MT	Mail Transfer
NBFI	Non-Bank Financial Institution
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NFC	Non-Financial Corporation

NFCD	Non-Resident Foreign Currency Deposit
NII	Net Interest Income
NIM	Net Interest Margin
NNII	Net Non-Interest Income
NNPL	Net Non-Performing Loan
NOP	Net Operating Profit
NPL	Non-Performing Loan
NPSB	National Payment Switch Bangladesh
NSDP	National Summary Data Page
NSFR	Net Stable Funding Ratio
OBS	Off-Balance Sheet
OBU	Off-shore Banking Unit
OD	Overdraft
ORWA	Operational Risk-Weighted Assets
OTC	Over the Counter
P/E	Price-Earnings Ratio
PCB	Private Commercial Bank
PKSF	Palli Karma-Sahayak Foundation
POL	Petroleum, Oil and Lubricants
POS	Point of Sales
PSD	Payment Systems Department
PSE	Public Service Enterprise
PSO	Payment System Operator
PSOs	Payment System Operators
PSP	Payment Service Provider
PSPs	Payment Service Providers
QFSAR	Quarterly Financial Stability Assessment Report
QR	Quick Response
REER	Real Effective Exchange Rate
REPO	Repurchase Agreement
RFCD	Resident Foreign Currency Deposit Accounts
RM	Reserve Money
RMG	Ready-made Garments
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
RRR	Risk Retention Rate
RSDL	Rescheduled Loan
RTGS	Real Time Gross Settlement
RWA	Risk Weighted Assets
SB	Sonali Bank
SBC	Sadharon Bima Corporation

SDB	Specialized Development Bank
SFD	Sustainable Finance Department
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprise
SMESPD	SME & Special Programmes Department
SOCB	State-owned Commercial Bank
SREP	Supervisory Review Evaluation Process
SS	Sub-Standard
STD	Short-Term External Debt
T-bill	Treasury Bill
T-bond	Treasury Bond
TT	Telegraphic Transfer
TWS	Trader Work Station
UAE	United Arab Emirates
UK	United Kingdom
URSDL	Unclassified Rescheduled Loan
USA	United States of America
USD	US Dollar
VAT	Value Added Tax
WAR	Weighted Average Resilience
WB	World Bank
WIR	Weighted Insolvency Ratio
WTI	West Texas Intermediate

EXECUTIVE SUMMARY

This report contains the assessment of the recent challenges, and prospects of different segments of the financial system of Bangladesh to convey the stakeholders the state of overall financial stability of the economy. It discusses global as well as domestic macroeconomic environment along with the performance of banks and other financial intermediaries and their resilience to uphold stable financial ecosystem.

Global economy has been restoring gradually back to its pre-pandemic level through initiating a 6.1 percent GDP growth in 2021. Continued expansionary and accommodative monetary policy, strong fiscal support, and mass-scaled vaccine rollouts have helped cushioning the global economy from recessionary impact of emerging mutants of COVID-19. Against this backdrop, consumer confidence and investor sentiment in global market have improved. However, major 10-year government bond yields exhibited some extent of volatility with shifting market sentiments coupled with rising pressure on inflation. On equity front, major indices marked significant rise in market capitalization. Though ease in financial regulations and policies helped global financial stability risk well-contained in 2021, vulnerabilities may loom in medium-term with rising risk-taking behavior of the investors.

In the domestic facet, GDP of Bangladesh rebounded strongly in FY21 with the support of industry and service sectors. Despite affected severely in FY20, industry and service sectors revived firmly in FY21 amid the concern of new variants of COVID-19. Apt control measures and provision of vaccination to workers and professionals helped preserve the confidence of economic workforce. However, inflation posed some concern as it leapt up in 2021 due to spillovers of global price pressure. Despite multifaceted policy supports aimed at boosting private sector, credit growth to private sector from the banking system appeared to remain moderate due to slow credit demand and lesser risk appetite of the banks. As a result of lower private sector credit growth, financial cycle seems to be rendering no notable build-up of stability risk. Public sector credit grew at higher rate as compared to private sector credit growth, yet remained lower than the target implied in budgetary plan. External sector tilted to moderate risk with growing current account deficit and considerable rise in private sector short-term external debt. However, strong import growth that drove deep trade deficit appears to have made in production need and likely to facilitate future export growth. Remittance inflows moderated notably during 2021 due to negative remittance growth from Gulf Cooperation Council (GCC) countries. Real effective exchange rate (REER) index rose further owing to misalignment of nominal exchange rates with trading partners in respect to relative inflation. Net Foreign Direct Investment (FDI) improved moderately amid concern of making new investment in pandemic situation.

After experiencing an increasing trend in asset growth during 2019 and 2020, the banking sector experienced a modest growth of assets in 2021. The sector registered a 10.99 percent asset growth in 2021. Loans and advances, constituting the highest share of banking sector assets, grew by 12.74 percent. PCBs held a major proportion of earning assets (67.84 percent), which might strengthen the stability of the banking sector because of their relatively low NPL ratio. The return on equity (ROE) of the banking industry increased in 2021 while return on assets (ROA) remained mostly stable compared to those of 2020. The overall liquidity situation of the PCBs also improved. Compared to 2020, the concentration of assets within the top five (5) and top ten (10) banks increased marginally, in tandem with an increase in sector-wise loan concentration in 2021. In liability part, deposit growth slowed down to 10.0 percent.

Borrowing from banks and FIs, interbank deposit, and term deposit showed steady growth, whereas the growth of current deposit and savings deposit slowed down.

Asset quality of the banking sector slightly deteriorated as gross non-performing loan (NPL) ratio showed a marginal increase in 2021. The gross NPL ratio of the banking sector reached 7.9 percent in 2021 from 7.7 percent in 2020. At end-December, the net NPL ratio stood at -0.43 percent compared to -1.08 percent recorded in 2020. In 2021, the sector-wise NPL distributions did not show much concentration of NPL in any particular sector except the Trade and Commerce. The amount of loans rescheduled in the review year decreased compared to the preceding year. In 2021, all banks except four SOCBs and six PCBs maintained loan-loss provisions as per the regulatory requirement.

Capital to risk-weighted assets ratio (CRAR) of the banking industry decreased at end-December 2021. In the review year, CRAR of the banking industry stood at 11.08 percent compared to 11.64 percent of the previous period, still the ratio remained above the regulatory minimum capital requirement of 10.0 percent. In 2021, banking industry maintained a Capital Conservation Buffer (CCB) of 1.08 percent against the regulatory requirement of 2.5 percent. Noteworthy that PCBs and FCBs maintained both CRAR and CCB well above the regulatory requirement. Moreover, the banking sector maintained 4.18 percent leverage ratio, much higher than the regulatory minimum requirement mainly led by the high leverage ratios of PCBs and FCBs.

The liquidity situation in the banking industry remained buoyant during 2021. The banking sector's ADR had been well below the admissible limit across 2021 due to moderate credit demand. However, it increased slightly to 73.15 percent at end-December 2021 from 72.69 percent at end-December 2020. Call money rate remained low in 2021 albeit with an increasing trend with peak at 2.8 percent in November 2021. The rise of call money rate in the last three months of 2021 was partly because Bangladesh Bank mopped up some liquidity from the market in an effort to curb inflation. Further, the industry as a whole maintained liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) above the regulatory minimum requirement throughout the year 2021.

In the review year, the performance of Islamic Banks improved in terms of growth and capital adequacy indicators. At end-December 2021, the assets, liabilities, deposits, investments (loans and advances), and shareholders' equity of Islamic banks grew notably, partly attributable to the transformation of two conventional banks into Islamic banks. The asset quality indicator declined slightly as the net non-performing investment ratio increased marginally. Liquidity situation also slightly deteriorated but remained well above the regulatory threshold.

The overall risk of the banking sector demonstrated a slightly downward trend in 2021. The Risk-weighted assets (RWA) density ratio slightly decreased in 2021. Cumulatively, all the banks had 50.15 percent lending exposure in the corporate sector. Importantly, rated exposures increased for the corporate sector in 2021 that facilitated banks to maintain lower capital compared to that of the previous year. Credit risk exposed to the highest share of total banking sector risk. Special attention is required as credit RWA posted sizeable increase in 2021 compared to the previous year.

The banks and FIs would remain moderately resilient to different shock scenarios. The stress test results indicate that loan concentration to top large borrowers and considerable level of NPL in some banks could concern the overall financial stability. Proper corporate practice in following the guideline on large loan/single borrower exposure would be helpful to reduce the risks on banks' exposure to large corporate or to specific group, sector or region.

The uptrend in NPL, provisioning shortfall, decline in equities and profitability appear to pose some concerns for financial institutions (FIs) sector in 2021. During the review year, total assets of FIs declined slightly which was mainly attributable to decrease in FIs' loans and leases. As a source of fund, share of borrowings increased considerably against a significant decrease in shares of equity. Accordingly, FIs' liabilities to assets ratio got increased while aggregate capital adequacy ratio (CAR), measured in line with the Basel II capital standard, decreased. Moreover, asset quality of FIs remained a key concern as classified loans and leases ratio increased considerably in the review year, leading to a marked decline in the sector's profitability.

The capital market in Bangladesh remained bullish in 2021 as has been evident from the movements in major market indicators such as index value, market capitalization, daily average turnover, and P/E ratio in the Dhaka Stock Exchange (DSE)-the prime bourse in Bangladesh. Normalization of economy backed by mass vaccination, confidence of the investors and conducive policy initiatives from government and concerned regulators helped the capital market to remain buoyant in the review year. The role of banking sector remained crucial in the DSE as it has the third highest market capitalization. Banks' capital market exposures (both solo and consolidated) increased gradually during 2021. However, the capital market exposure of banks remained well below the regulatory limit which indicates that equity price shock may not pose major stability threat to the banking sector in the near-term.

In December 2021, the treasury auction yield curves for both short-term treasury bill and long-term treasury bond exhibited an upward trend compared to those of December 2020 and June 2021. The upward trends in yield curve reflect higher cost of government's borrowing. The secondary market for T-bonds was more active in 2021 than in 2020. Noteworthy, bond market in Bangladesh is dominated by government bond activities which are mostly based on primary auctions.

Money market was largely stable in 2021. For better liquidity management in the banking system, Bangladesh Bank (BB) bills were used in the second half of 2021. However, both call money borrowing rate and interbank repo rate found to be increasing during the second half of the review year.

The digitalized financial ecosystem continued evolving for efficient and safe payment infrastructure in Bangladesh. During the review year, internet banking transactions increased considerably compared to the previous year. Both volume and value of the interbank ATM, POS, and IBFT transactions through NPSB experienced substantial growth. During the year, MFS experienced massive growth, especially, in government payment, merchant payment, inward remittances and salary disbursement. As automation in the payment system may simultaneously pose cyber and operational risks, BB always remains vigilant over these issues to ensure a secured payment system.

During the review year, the foreign exchange (FX) market of Bangladesh was mostly stable. FX assets, liabilities, and contingent liabilities continued to grow in 2021. Again, L/C opening and settlement were observed notable growth in 2021. This started exerting some pressure on the FX market in the later part of 2021. However, with sustained inflows of wage earners' remittance along with timely intervention by BB in the FX market eased down the pressure to some extent. Consequently, no abrupt volatility was observed in the interbank (local) FX market. Again, FX reserve elevated to USD 46.15 billion at end December 2021, which appears adequate to cover 6 months' import of goods on a perspective basis and withstand probable short-term external shocks in the near future. However, increasing trend in point-to-point real effective exchange rate (REER) index since August 2021 reflects diminishing export competitiveness.

Insurance sector development in Bangladesh, measured in terms of insurance penetration ratio and insurance density ratio, remained low in 2021 despite increase in both total gross premium and total assets of the sector. Some key indicators of general insurance sector increased during the review year in terms of cash settlement, expense management and return on investment compared to the previous year. On the contrary, risk retention rate (RRR) deteriorated in 2021 compared to the same in 2020. Divergence between gross and net insurance premium was observed across different business types of general insurance sector in 2021 due to difference in risk retention rate. In 2021, some important indicators of life insurance sector deteriorated in comparison to the previous year. Insurance sector remained highly concentrated both in terms of asset size and gross premium which requires close monitoring and supervision. In brief, due to its limited exposure to different financial sectors, adverse shocks in insurance sector may not appear to be a big concern for the entire financial system's stability.

MFI sector in Bangladesh was reasonably stable during FY21. NPL ratio of the MFI sector is still low compared to banking sector. However, the ratio demonstrated an increasing trend during the last couple of years that warrants special attention. In FY21, ROA of MFIs decreased slightly, but ROE increased notably. MFI sector experienced a declining trend in donation-to-equity ratio due to decrease of donated funds and increase of equity from retained earnings and members' savings, which are vital for the long-term sustainability of this sector and for withstanding any financial shocks. However, high degree of market dominance by the top MFIs warrants close monitoring for the stability of this sector.

Overall, the supportive measures from government as well as financial sector regulators helped to keep financial system of Bangladesh resilient in 2021. However, geopolitical tension and price hike may pose some threats in the near future which need to be dealt with prudence.

Chapter 1

MACROECONOMIC DEVELOPMENTS

Continued expansionary and accommodative monetary policy, strong fiscal support, and subsiding COVID-19 infections boosted by vaccine rollouts have helped cushioning the global economy from recessionary impact of emerging mutants of COVID-19. Global economy has been restoring gradually back to its pre-pandemic state through initiating 6.1 percent GDP growth in 2021. Against this backdrop, consumer confidence and investor sentiment in global market have improved. However, major 10-year government bond yields exhibited some extent of volatility with shifting market sentiments led by pandemic uncertainties and rising pressure on inflation. On equity front, major indices marked significant rise in market capitalization on the support of continued accommodative monetary policy. Ease in financial regulations and policies helped global financial stability risk well-contained in 2021. However, vulnerabilities may loom in medium-term with rising risk-taking behavior of the investors.

In the domestic facet, GDP of Bangladesh rebounded strongly in FY21 with the support of industry and service sectors. However, inflation posed some concern as it leapt up in 2021 due to spillovers of global price pressure. Despite multifaceted policy supports aimed at boosting private sector, credit growth to private sector from the banking system appeared to remain moderate due to suboptimal credit demand and lesser risk appetite of the banks. Public sector credit growth rose in 2021 compared to 2020 but remained lower than the target implied in budgetary plan because of improved revenue collection and savings certificate sales. As a result of lower private sector credit growth, financial cycle seems to be rendering no notable build-up of stability risk.

External sector tilted to moderate risk with large current account deficit and considerable rise in private sector short-term external debt. However, strong import growth that largely led to deep trade deficit appears to have taken place in fulfilling production need and likely to enhance future export growth. Remittance inflows moderated notably during 2021 due to negative remittance growth from Gulf Cooperation Council (GCC) countries. Real effective exchange rate (REER) index rose further due to misalignment of nominal exchange rates with trading partners in respect to relative inflation. Net Foreign Direct Investment (FDI) improved moderately amid concern of making new investment in pandemic situation. Total external debt recorded a rise with short-term private sector external debt weighing much more in comparison with the past trend.

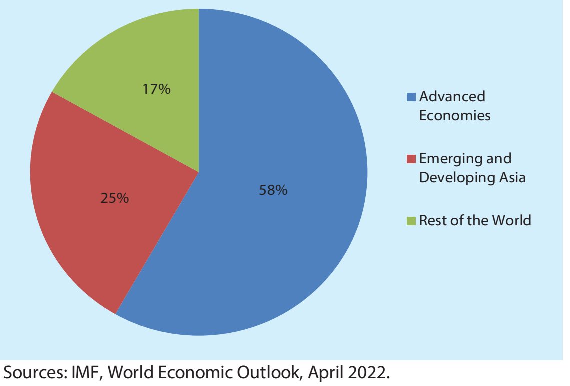
1.1 GLOBAL MACRO-ECONOMIC ENVIRONMENT

Global growth initiated momentum in 2021 amid the distress of evolving COVID-19 strains. Expansionary and accommodative monetary policies and robust fiscal supports aided the recovery of affected economies around the world. Economies those are closely tied to Bangladesh are forecasted to grow moderately but in a declining fashion till 2023. Policy rates across economies, except few emerging markets, remained favourable to creating an easy financial landscape for corporate sector. However, 10-year government bonds of major market displayed volatility mixed with pandemic concern and inflation uncertainty. Global equity market as represented by major stock indices also picked up significantly with expectation of continuing conducive monetary policy. However, soaring global oil price has been creating concern that it would develop further inflationary pressure on the economies.

1.1.1 GLOBAL MACROECONOMIC ENVIRONMENT

Global economy has been restoring gradually back to its pre-pandemic state. In 2021, the world GDP (in current price) stood at USD 94.93 trillion, picked up from USD 84.54 trillion in 2020. Advanced economies had a 58 percent share in world GDP, whereas share of emerging and developing Asian countries was 25 percent, and the rest of the world had a 17 percent share (Chart 1.1). In 2021, output growth in all major regions recovered significantly from a nosedive. Extensive vaccination and policy support in most of the countries, especially in bigger economies led to a substantial increase in global economic growth to 6.1 percent[1] . In particular, advanced economies, and economies of Emerging and Developing Asia recorded growth of 5.2 percent and 7.3 percent respectively.

CHART 1.1: GDP SHARE BY CATEGORIES OF ECONOMIES



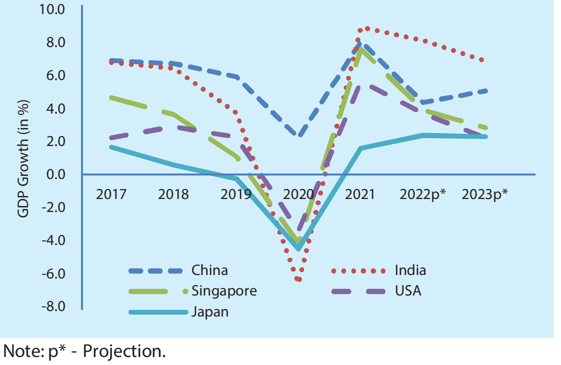
Sources: IMF, World Economic Outlook, April 2022.

CHART 1.2: WORLD GDP GROWTH

Note: P*-Projection.
Source: IMF, World Economic Outlook, April 2022.

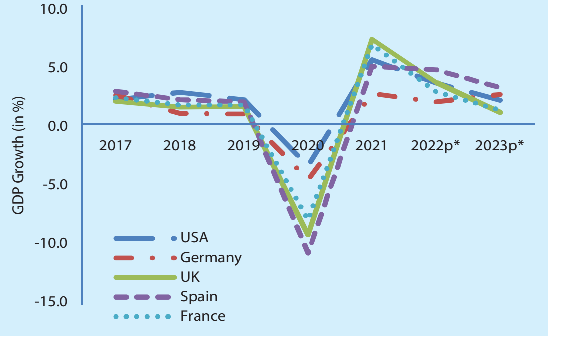
As the global economy bounced back, consumer confidence and global value chain has been reviving to their normalcy. Global economy is projected to grow positively till 2023 (Chart 1.2). Bangladesh is expected to maintain the growth benefit from its value chain due to global economic normalization with fading COVID-19 caseloads. Chart 1.3 suggests that faster recovery in 2021 and positive forecasted growth of top import partners of Bangladesh is expected to eliminate supply-side uncertainties. Further, export of Bangladesh seems to experience less extent of risk because of positive economic growth prospect of top export markets, i.e., the USA and some advance economies of Europe (Chart 1.4).

CHART 1.3: GDP GROWTH OF TOP IMPORT ORIGINATING COUNTRIES



Note: p* - Projection.
Source: IMF, World Economic Outlook, April 2022.

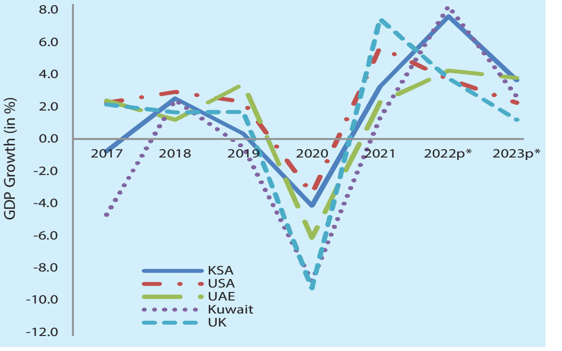
CHART 1.4: GDP GROWTH OF TOP EXPORT DESTINATION COUNTRIES



[1] See IMF's World Economic Outlook, April 2022.

Economic outlook of Gulf Cooperation Council (GCC) appears to be rosier on the back of faster inoculation against COVID-19 and a bullish turn in oil price in the global market. Fiscal and external imbalances of GCC countries have reduced through greater revenue earning from faster recovery of oil price in 2021. Further, OPEC+ oil production cut is set to be phased out in 2022. These developments set the background of increased consumption and investment in GCC countries and could positively induce the flow of remittance in Bangladesh from those Middle Eastern countries. However, top remittance-yielding countries, such as KSA, USA etc. were projected to have downward moderate growth that may exert downside risks to remittance inflow to Bangladesh (Chart 1.5).

CHART 1.5: GDP GROWTH OF TOP 5 REMITTANCE SOURCE COUNTRIES



Note: p*- Projection.
Source: IMF, World Economic Outlook, April 2022.

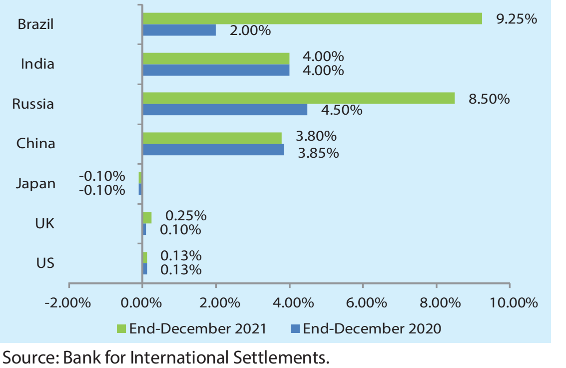
1.1.2 GLOBAL FINANCIAL MARKET ENVIRONMENT

Financial condition remained broadly accommodative and supportive to the economic recovery worldwide with continued monetary and fiscal policy support. However, some of the emerging markets, while remained accommodative, resorted to monetary tightening to lessen the respective inflationary pressure. Global long-term bond market showed some extent of volatility with shifting market sentiments amid pandemic uncertainties and rising pressure of inflation while equity prices marked up with expectation of sustaining monetary policy support. Though ease in financial regulations and policies have helped global financial stability risk well-contained in 2021, vulnerabilities may loom in medium-term with rising risk-taking behavior of the investors.

1.1.2.1 INTERNATIONAL INTEREST RATE ENVIRONMENT

Interest rates in most economies were streamlined to the strengthening economic recovery, particularly among advanced economies. Few emerging markets raised their policy rates with an apprehension of burgeoning inflation. Chart 1.6, presenting policy rates of some major economies, suggests that the US and Japan kept policy rates unchanged as of end-2021 compared to end-2020, while UK pushed the rate up by 15 basis points. Among emerging market economies, China lowered the policy rate by 5 basis points while India brought no change in policy rate compared to end-2020. However, Brazil and Russia made a large upward revision to their policy rates in the wake of swelling inflation.

CHART 1.6: POLICY RATE CHANGE OF SELECTED CENTRAL BANKS



Source: Bank for International Settlements.

1.1.2.2 DEVELOPMENT IN MAJOR FINANCIAL MARKETS

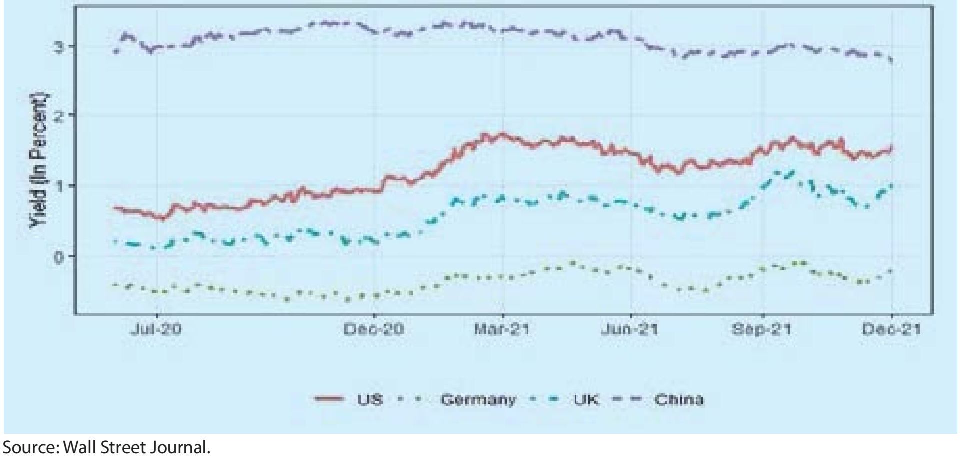
Equity prices made an uptick, driven by accommodative monetary policy and substantive corporate earnings. Major global indices such as S&P 500, NASDAQ Composite Index, EURO STOXX 50 and FTSE 100 Index registered substantial increase in indices of 26.9, 21.4, 21.0 and 14.3 percent respectively in 2021. On the other hand, Nikkei 225 experienced relatively small increase of 4.9 percent (Chart 1.7).

CHART 1.7: MOVEMENT OF MAJOR GLOBAL STOCK MARKET INDICES

Note: Base: 01 July 2020.
Source: Wall Street Journal.

The yield of the major international 10-year government bonds displayed mixed trends in 2021 (Chart 1.8). 10-year government bond yields in the USA, Germany and the UK, after having been very low throughout 2020, crept up in 2021 and exhibited volatility with tapering middle amid rising concern of new strains of COVID-19, but opted to rise in the ending part of the year taking into account the concern of persistent inflation. In contrast, Chinese 10-year government bond yield continued declining in 2021 in line with the stance of monetary easing by the respective authority.

CHART 1.8: YIELD OF 10-YEAR GOVERNMENT BONDS OF MAJOR ECONOMIES



Source: Wall Street Journal.

1.1.2.3 CRUDE OIL PRICES IN INTERNATIONAL MARKET

POL (petroleum, oil and lubricants) is considered as a major driver of global energy composition and played a crucial role in global economic dynamics. Global crude oil price grew markedly because demand for petroleum outran the supply in the face of business re-opening at a broader scale and relaxation in pandemic-related restrictions. At end 2021, crude oil price gradually increased to USD 83.2 per barrel from USD 52.0 at the beginning of the year, creating a knock-on effect on inflation. Increased oil price, in effect, increased the import and production costs, which contributed to push inflation up for other goods.

CHART 1.9: CRUDE OIL PRICE (WTI)*

Source: Federal Reserve Economic Data.

*West Texas intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing.

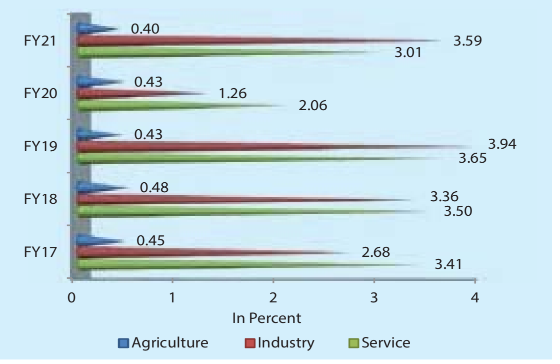
1. 2 DOMESTIC MACROECONOMIC DEVELOPMENT

After having a moderated growth in FY20, the economy of Bangladesh rebounded strongly in FY21 with the support of industry and service sectors. However, domestic inflation leapt up in 2021 because rise in agricultural and oil price in global market spilled into domestic market. Contrasting to the easy liquidity condition, private sector credit growth from the banking system remained moderate, marked below the target due to lower credit demand and lesser risk appetite of the banks. Public sector credit growth increased in 2021 compared to 2020 but lower than that projected in the budgetary plan. As a result of lower private sector credit growth, financial cycle renders no apparent stability risk as manifested by credit-to-GDP gap.

1.2.1 GDP GROWTH

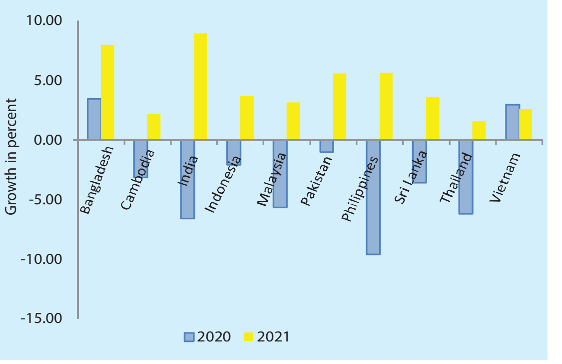
The economy of Bangladesh rebounded strongly in FY21. Industry and service sectors though got affected seriously in FY20, revived firmly in FY21 amid the concern of new variants of COVID-19. Proper control measures befitting to economic condition and provision of vaccination to workers and professionals helped preserve the confidence of economic workforce. In FY21, GDP recorded 6.9 percent growth backed by 10.29, 5.73 and 3.17 percent growth in manufacturing, service and agriculture sector respectively. The Gross Value Added (GVA) in Bangladesh recorded a 7.0 growth in FY21 than that in FY20. In total growth in GVA, industry and service sector contributed nearly 3.6 and 3.0 percent, whereas agriculture made 0.4 percent contribution (Chart 1.10). Among ten (10) Asian economies, Bangladesh recorded the second highest growth in GDP after India (Chart 1.11).

CHART 1.10: GROSS VALUE ADDED (GVA) OF BANGLADESH



Source: Bangladesh Bureau of Statistics.

CHART 1.11: GDP GROWTH OF SELECTED ASIAN ECONOMIES



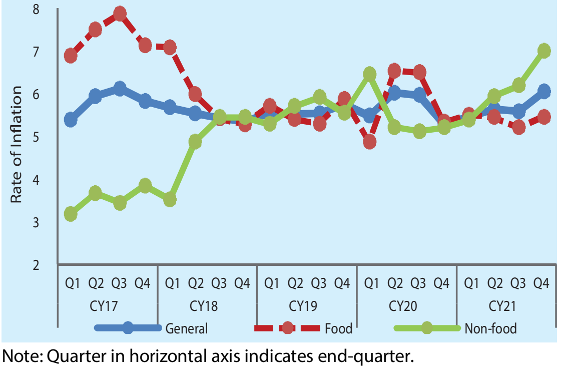
Source: World Economic Outlook, IMF; Economic Trends, BB.

1.2.2 INFLATION

The point-to-point CPI inflation (base: 2005-06=100) in Bangladesh leapt up to 6.05 percent in 2021 from 5.29 percent in 2020, driven largely by the non-food inflation.

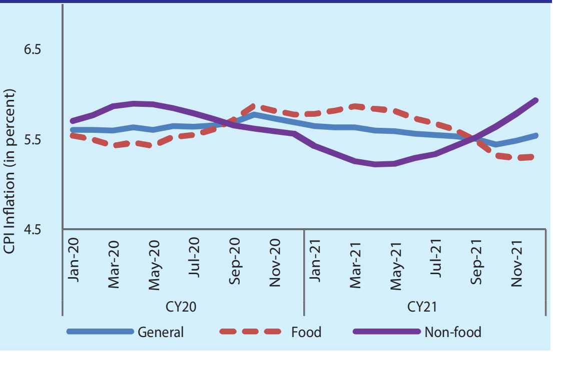
Chart 1.12 reveals that point-to-point food inflation rose to 5.46 percent at end-2021 from 5.34 percent at end-2020, relatively smaller increase compared to point-to-point non-food inflation, which increased by 1.79 percentage points. Sharp rise in global oil price fed into domestic oil price, thereby contributing to significant non-food inflation. Considering last 12-months' average, non-food inflation was more volatile than food inflation during 2021 (Chart 1.13). It is noteworthy that, 12-month average CPI (general) inflation stood at 5.54 percent at end-December 2021 which was 5.69 percent at end-December 2020. 12-month average food and non-food inflation reached 5.30 and 5.93 percent respectively at end-December 2021. The corresponding figure was 5.77 and 5.56 percent at end-December 2020 respectively.

CHART 1.12: END-QUARTER POINT-TO-POINT INFLATION AND ITS COMPONENTS



Note: Quarter in horizontal axis indicates end-quarter.
Source: Monthly Economic Trend, BB.

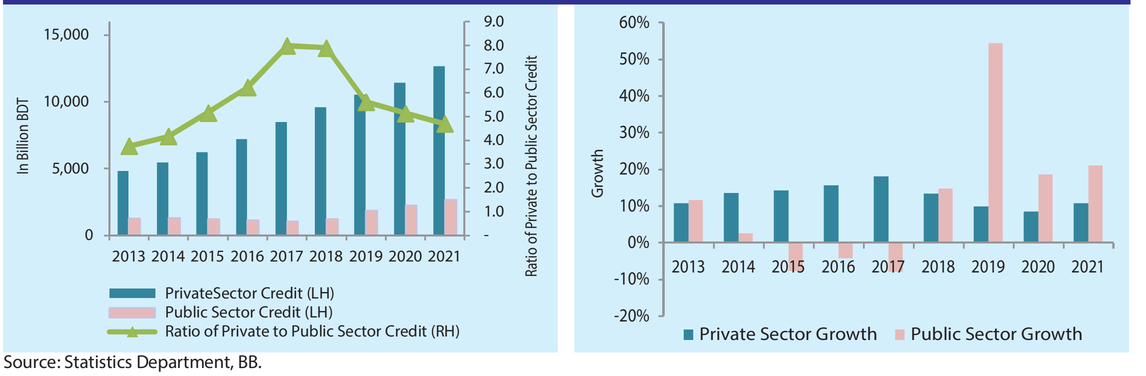
CHART 1.13: 12-MONTH AVERAGE CPI INFLATION



1.2.3 DOMESTIC CREDIT FROM BANKING SYSTEM

Total domestic credit from the banking sector increased by BDT 1686.1 billion in 2021 with private sector credit rising by BDT 1219.4 billion and public sector credit by BDT 466.7 billion (Chart 1.14). It is noteworthy that private sector credit growth was 10.7 percent in 2021, continuing its feeble growth even in favourable financial condition with multifarious policy support aimed to boost private sector. A cautious credit demand from COVID-19 inflicted economy coupled with reduced risk appetite of banks strangled the required growth.

CHART 1.14: DOMESTIC CREDIT FROM BANKING SYSTEM-COMPONENTS' SHARE AND GROWTH



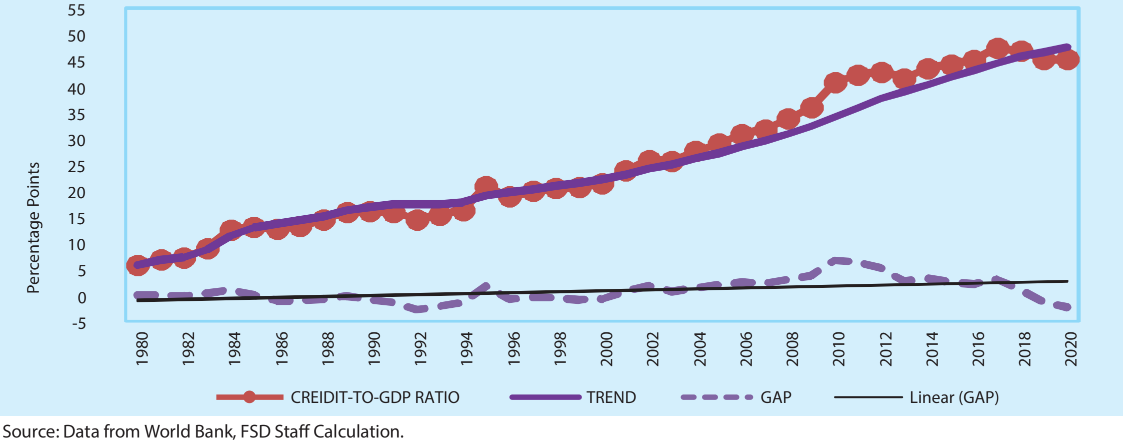
Source: Statistics Department, BB.

On the other hand, public sector credit[2] growth from the banking system posted 21.0 percent in 2021. However, the growth was lower than target implied in budgetary plan of the Government. Improved tax revenue collection and greater sales of national savings certificates may have led to lesser government borrowing from the banking system to finance the budget deficit (Chart 1.14).

1.2.4 CREDIT-TO-GDP GAP

The Credit-to-GDP gap has been estimated using the Hodrick-Prescott (HP) Filter approach following the guidance of the Basel Committee on Banking Supervision (BCBS)[3]. The estimated Credit-to-GDP gap data imply no significant excessive credit growth in the financial system of Bangladesh during the period of FY1980-2020. In most part of the estimation period, the Credit-to-GDP gap remained reasonably low except the period FY10-FY12 during which it crossed the level of 5 percentage points. Importantly, in FY20, the Credit-to-GDP gap widened in negative direction compared to FY19, still estimated data imply that there has been no apparent sign of stability threat to the financial system stability evolving from domestic credit flow to the private sector (Chart 1.15).

CHART 1.15: CREDIT-TO-GDP RATIO-ITS TREND AND THE GAP



Source: Data from World Bank, FSD Staff Calculation.

2 Public sector credit consists of gross credit to government netting of government deposit held in the banking system plus other public sector credit.

3 See Financial Stability Report 2018 of Bangladesh Bank for procedural details.

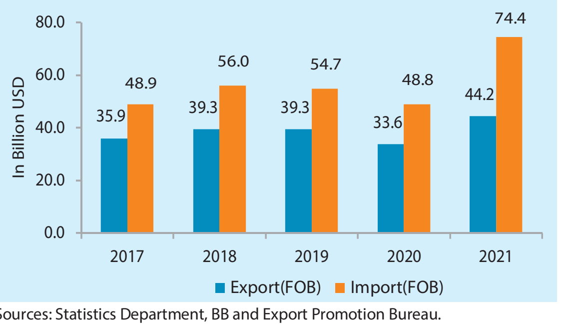
1.3 EXTERNAL SECTOR DEVELOPMENTS

Exports and imports recovered strongly in 2021 with imports being stronger than exports which led to a wider trade deficit compared to 2020. However, import appeared to be driven by strong investment and consumer demand which is expected to support export growth in future. Remittance inflows tapered off during 2021. With lesser support of remittance, current account balance (CAB) shifted to deep deficit in 2021 from positive balance in 2020. Real effective exchange rate (REER) index rose further due to misalignment of nominal exchange rates with trading partners with respect to relative inflation. Net Foreign Direct Investment (FDI) flow increased moderately amid concerns over making new investment during the pandemic situation. Total external debt soared with short-term private sector external debt weighing much more in 2021 compared to 2020.

1.3.1 EXPORT AND IMPORT

Export (FOB) and import (FOB) regained pace significantly in 2021 and nearly covered up the shrinkage of trade in 2020 caused by the looming pandemic. Export (FOB) rose by 31.6 percent, registering USD 44.2 billion in 2021 from USD 33.6 billion in 2020 and import (FOB) posted a marked 52.5 percent growth and stood at USD 74.4 billion from USD 48.8 billion (Chart 1.16). The substantial growth of import might have resulted largely from accrued import demand in 2020 unleashing in 2021 and could also be accounted to base effect to some extent.

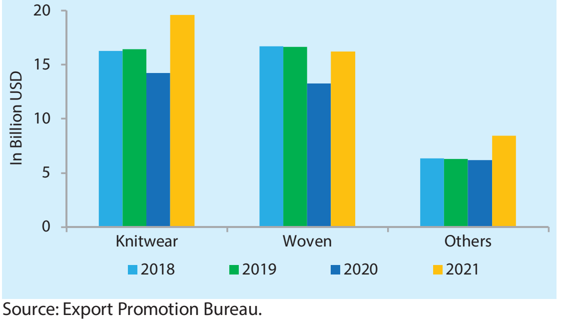
CHART 1.16: EXPORT AND IMPORT TREND OF BANGLADESH



Sources: Statistics Department, BB and Export Promotion Bureau.

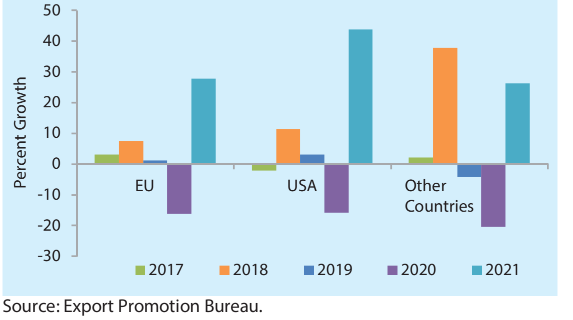
By commodity-wise breakdown, knitwear export picked up by 37.7 percent while woven garments increased by 22.5 percent (Chart 1.17). Region-wise export reveals that export to the USA rose markedly by 43.6 percent and that to European Union by 27.7 percent (Chart 1.18).

CHART 1.17: COMMODITY-WISE EXPORTS OF BANGLADESH



Source: Export Promotion Bureau.

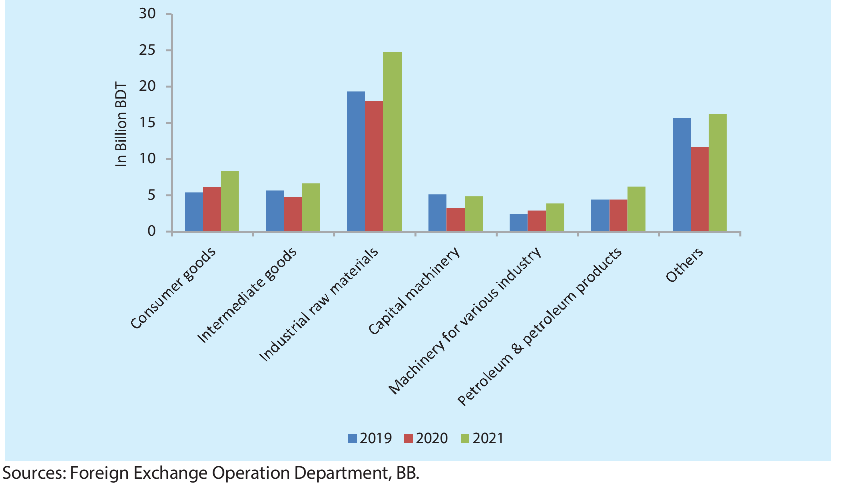
CHART 1.18: REGION-WISE EXPORT GROWTH OF RMG



Source: Export Promotion Bureau.

Chart 1.19 reveals that import in each category attained a significant rise in 2021. Imports of consumer goods, intermediate goods and industrial raw materials soared by 36.8 percent, 39.6 percent and 37.6 percent respectively in 2021 compared to 2020. Import of capital machinery that declined significantly in 2020 recovered almost to the same extent in 2021. Import of petroleum and petroleum products also moved up by 42.4 percent in 2021 against 1.5 percent negative growth in 2020. The magnitude of import in different category seems to indicate sharp recovery in both investment and consumption demands of the economy.

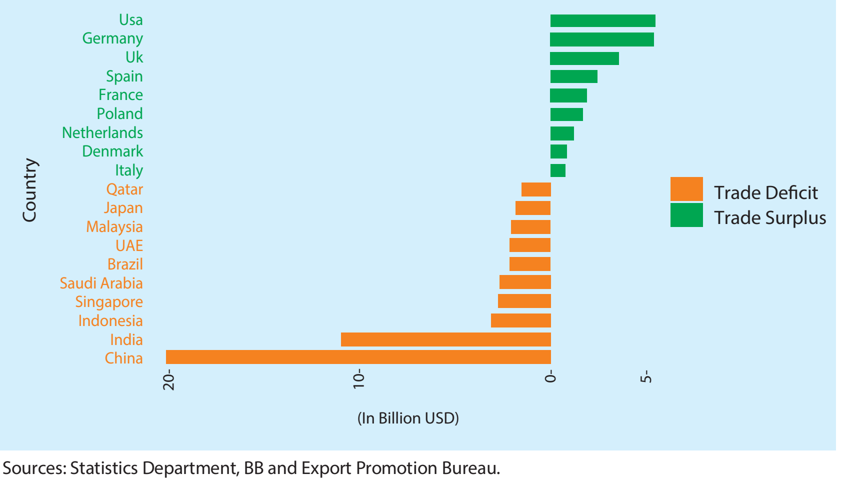
CHART 1.19: CATEGORY-WISE IMPORT TREND OF BANGLADESH



Sources: Foreign Exchange Operation Department, BB.

The net impact of export and import is reflected in trade balance. Chart 1.20 presents trade balance of Bangladesh with major trading partners in 2021. Bangladesh had sizeable trade deficit with China and India due to significant imports from these countries, implying their strategic importance in external sector of Bangladesh. However, trade surpluses across countries are more evenly distributed than trade deficits. The major countries with which Bangladesh have trade surplus were USA and most European countries, largely underpinned by RMG export. Going ahead, Bangladesh may face some downside risk to narrowing surpluses given the reduction of preferential treatment or withdrawal of trade term facilities on the ground of graduation to a developing economy from an LDC.

CHART 1.20: TRADE BALANCE WITH MAJOR TRADING PARTNERS OF BANGLADESH



Sources: Statistics Department, BB and Export Promotion Bureau.

[4] Import refers to import settlement.

[5] Trade Balance = Export (FOB)- Import Shipment.

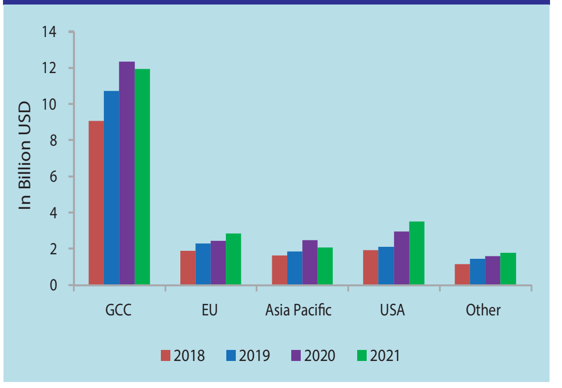
1.3.2 REMITTANCE

Wage earners' remittance plays a dominant role to the stability of external sector's balance of Bangladesh because of its contribution to offsetting trade deficit. However, remittance growth tapered off during 2021, contrasting the greater rate of remittance flow received during escalating period of COVID-19. Total wage earners' remittance flow recorded USD 22 billion, a minor increase from USD 21.7 billion in 2020 (Chart 1.21).

CHART 1.21: WAGE EARNERS' REMITTANCE INFLOW

Source: Statistics Department, BB.

CHART 1.22: BLOCK-WISE REMITTANCE



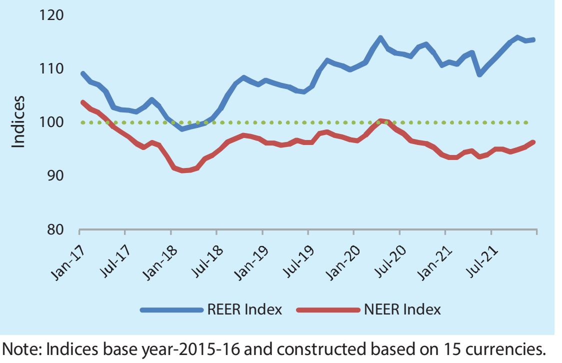
Source: Statistics Department, BB.

Block-wise remittance inflow presented in Chart 1.22 shows that remittance from Gulf Cooperation Council (GCC) countries, which accounts for major source of remittance inflow, declined by 3.5 percent. Asia Pacific countries, which yielded significant remittance during 2020, fell notably during 2021. Remittance growth from EU zone (17.5 percent) recovered considerably compared to 2020 and that from the USA (19 percent) demonstrated acceleration.

1.3.3 EXCHANGE RATE MOVEMENT

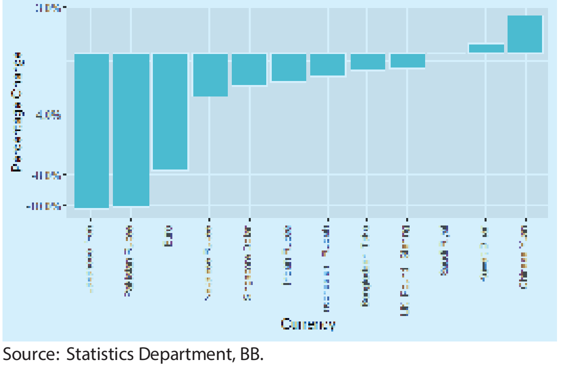
Exchange rate movement is critical to trade competitiveness of a country-with falling rate conducive to rising export and increasing rate favourable to growing import. Chart 1.23 presents that the Real Effective Exchange Rate (REER) index rose further during 2021 largely because nominal exchange rate of BDT was not adjusted in line with inflation differentials with partner countries.

CHART 1.23: EXCHANGE RATE MOVEMENT



Note: Indices base year-2015-16 and constructed based on 15 currencies.
Source: Statistics Department, BB.

CHART 1.24: NOMINAL CHANGE IN SELECTED CURRENCIES AGAINST USD IN 2021



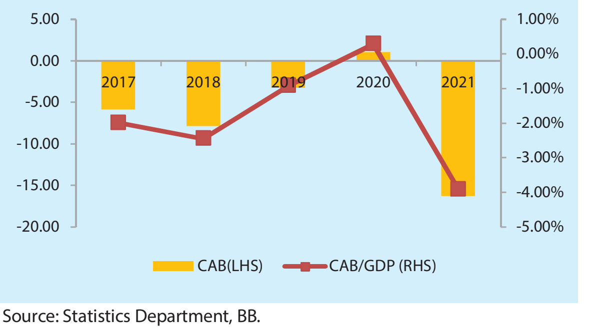
Source: Statistics Department, BB.

Chart 1.24 shows exchange rate change of some selected economies where most currencies were depreciated except Chinese Yuan and Kuwait Dinar. Further it gives the impression that nominal exchange rate of Bangladeshi Taka (BDT) was depreciated lesser than most of the currencies against USD. Euro, which is one of the major currencies of export earnings, was depreciated deeper than BDT, making exports from Bangladesh less attractive. Further, currencies of major import partners such as Indian Rupee, Japanese Yen, Singapore Dollar and Indonesian Rupiah were seen larger depreciation than BDT, which in this case induced greater imports to Bangladesh from those countries at lower cost.

1.3.4 CURRENT ACCOUNT BALANCE

Sizable imports in 2021 drove current account balance (CAB) to the downside by USD 16.3 billion from a positive CAB of USD 1.05 billion in 2020 while the current account deficit averaged USD 6.45 billion in the last five years including 2021. Remittance that helps to cover the trade deficit for Bangladesh did not grow in 2021 on par with the import. As a result, CAB ran a large deficit equivalent to 3.9 percent of GDP. The increasing trend of real effective exchange rate (REER) seems to have an impact on the external sector competitiveness, giving rise to current account deficit. However, this large deficit may be attributed in part to the sharp recovery of economic activities and may not pose any significant threat as imports appear to support the productive sectors, by large.

CHART 1.25: TRENDS OF CURRENT ACCOUNT BALANCE



Source: Statistics Department, BB.

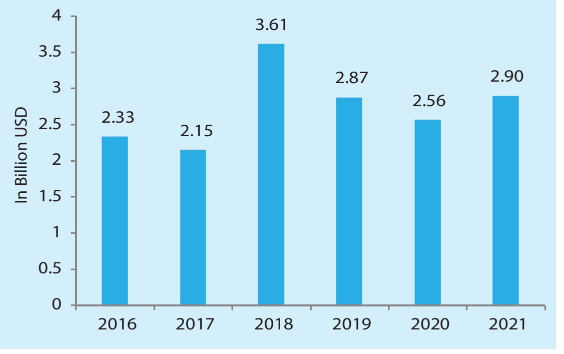
1.3.5 CAPITAL FLOW MOVEMENT

Capital flow to growing economy bears greater significance to meet the deficit of capital requirement for higher productivity. Among different components of capital flow, foreign direct investment (FDI) and external debt constitute the major part in Bangladesh.

1.3.5.1 FOREIGN DIRECT INVESTMENT

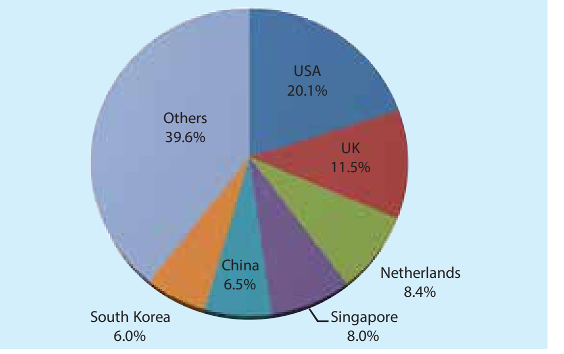
Net foreign direct investment (FDI) inflows to Bangladesh increased to USD 2.90 billion in 2021 from USD 2.56 billion of 2020, increasing by 13.28 percent (Chart 1.26). The trend of net FDI flow remained somewhat stalled in the last three years largely due to the fear of new strains of COVID-19 among the foreign investors. Chart 1.27 exhibits that the USA had largest FDI stock in Bangladesh as of 2021, contributing about 20.1 percent of total stock, followed by UK, Netherlands, Singapore, China, and South Korea with 11.5, 8.4, 8.0, 6.5, and 6.0 percent respectively. Pertinently, some of these countries were severely affected by COVID-19 and partially due to that remained less interested, in general, to invest more during the pandemic situation.

CHART 1.26: NET FDI INFLOW



Source: Statistics Department, BB.

CHART 1.27: MAJOR COUNTRY-WISE FDI STOCK IN 2021

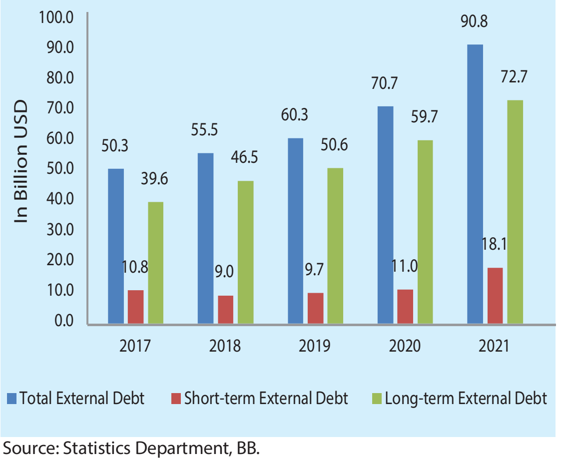


Source: Statistics Department, BB.

1.3.5.2 EXTERNAL DEBT

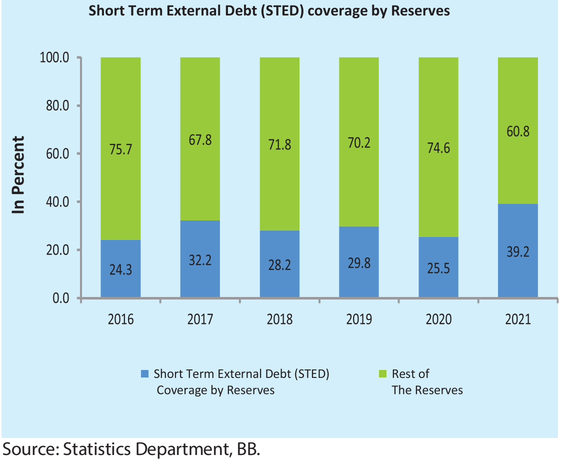
External debt has been playing an important role in economic growth of Bangladesh by largely meeting growing investment demand of the country. However, rising external debt may crystallize some risk to losing capital in future when bulk of debt servicing will be required on accumulated debt. External debt of Bangladesh has been rising since 2016 in tandem with notable economic growth. Chart 1.28 indicates that outstanding external debt scaled up by 28.4 percent in 2021, recording to USD 90.8 billion from USD 70.7 billion in 2020. Of two types of external debt, short-term external debt surged notably by 64.6 percent while long-term external debt increased by 21.8 percent. Though short-term external debt constitutes about 16 percent of total debt in 2020, the share of short-term external debt to the additional external debt flow in 2021 was 35 percent, of which 31.4 percent was private (Table 1.1). Growing short-term external debt may entail higher risk due to their potentiality of being reversed in the near-term and may, thereby, create sudden pressure on foreign exchange reserves. However, Bangladesh preserved an adequate level of foreign reserves well enough to contain any short-term debt reversal. As manifested by Chart 1.29, about 39.2 percent of reserves could cover withdrawal of total short-term debt. In 2021, private sector external debt recorded a strong increase compared to the increase in public sector external sector.

CHART 1.28: TERM-WISE OUTSTANDING BALANNCE OF EXTERNAL DEBT



Source: Statistics Department, BB.

CHART 1.29: SHORT-TERM EXTERNAL DEBT'S SHARE IN TOTAL RESERVES



Source: Statistics Department, BB.

TABLE 1.1: YEAR-WISE GROSS INFLOW OF EXTERNAL DEBT

(Amount in Billion USD)

	2017	2018	2019	2020	2021
Public Sector External Debt					
Short -term	0.20 (2.2%)	-0.13 (-2.6%)	-0.22 (-4.6%)	0.32 (3.1%)	0.77 (3.8%)
Long -term	5.80 (64.2%)	5.08 (97.9%)	4.42 (92.3%)	8.41 (81 %)	11.03 (54.8%)
Private Sector External Debt					
Short -term	2.73 (30.2%)	-1.60 (-30.9%)	0.93 (19.4%)	0.92 (8.9%)	6.33 (31.4%)
Long -term	0.30 (3.3%)	1.84 (35.5%)	-0.34 (-7.0%)	0.72 (7.0%)	1.99 (9.9%)

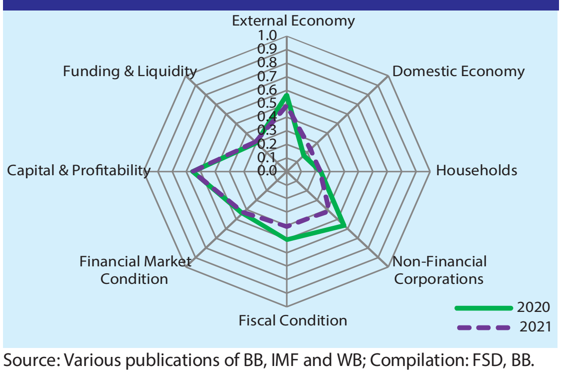
Note: Figures in parenthesis is share of external debt to total debt in respective category.
Source: Statistics Department, BB.

1.4 MAPPING FINANCIAL STABILITY

This chapter also presents a financial stability map, which shows that the domestic economy component deteriorated notably and the funding and liquidity condition squeezed slightly in 2021 compared to 2020. On the other hand, non-financial corporations and fiscal components improved significantly and the external economy and financial market components improved moderately. However, household sector, and capital and profitability components remained almost unchanged in the review year.

Since financial stability can be influenced through a variety of channels, mapping the state of the components of financial stability is critical in the context of Bangladesh. This is also critical because each financial crisis has had a unique impact on financial system stability, necessitating the development of a comprehensive framework to address all potential stability threats. In this context, this section presents the current stability map with the goal of analyzing potential stability threats to Bangladesh's macro-financial system by taking eight (8) broad components[6] into account: external economy, domestic economy, households, non-financial corporations, fiscal condition, financial market condition, capital and profitability, and funding and liquidity (Chart 1.33).

CHART 1.30: FINANCIAL STABILITY MAP (2020 AND 2021)



Source: Various publications of BB, IMF and WB; Compilation: FSD, BB.

[6] External economy component consists of 7 sub-indicators: real GDP growth of major trading partners, average inflation of top 5 countries from which Bangladesh imports, average unemployment rate in countries from which Bangladesh receives highest inward wage earners' remittances, international crude-oil price, 3-months LIBOR rate, current account deficit to GDP ratio, and reserve adequacy in months; (ii) Domestic economy component uses 4 sub-indicators, namely output gap, external debt to GDP, currency fluctuations, and consumer price index; (iii) Household component consists of 3 sub-indicators, namely, household debt to GDP, credit portfolio quality in household sector, and inward remittance to GDP ratio.; (iv) Non-financial corporation component covers 4 sub-indicators: NFC credit to GDP, NFC loans as proportion of banking sector loans, indebtedness of large NFCs, and credit portfolio quality of large NFCs; (v) Fiscal condition component uses 4 sub-indicators: Public debt to GDP, government budget deficit to GDP, sovereign risk premium, and tax revenue to GDP; (vi) Financial market consists of banking sector, financial institutions, and capital market. Eight (08) different sub-indicators have been used to assess this component: asset concentration of D-SIBs, Gross NPL ratio in banks, RWA density ratio, banking sector resilience map score, deposit covered by DITF, asset quality of FIs, P/E ratio in DSE, and DSEX value; (vii) Capital and profitability component uses 4 indicators: CRAR, Tier I capital to RWA, NIM and ROA; and (viii) Funding and liquidity component uses 3 sub-indicators: ADR, LCR, and NSFR.

Chart 1.30 illustrates the comparative financial stability condition of Bangladesh's macro-financial system in 2021 and 2020 through a stability map. The map has been developed by following the global best practices taking into account the features of Bangladesh's financial system[7]. The stability map depicts lower level risk in a few components such as domestic economy, households, and funding and liquidity condition. Compared to 2020, the stability situation markedly improved in *fiscal condition and non-financial corporation components while external economy and financial market condition components* improved slightly. On the downside, notable deterioration was evident in *domestic economy components* and a modest weakening in *funding and liquidity condition*. On the other hand, *households, and capital and profitability components* remained almost same in 2020 and 2021. Despite the fact that the current account deficit deepened and the oil price rose, the increase in output in major trading partners and the fall in unemployment in top remittance-source countries reduced the risk in the external economy component. In contrast, a notable deterioration in the domestic economy was observed, owing in part to the widening of the negative output gap. Lower level of debt accompanied by improved credit quality helped household sector to remain in comfort zone. The pool of NFCs, which was one of the riskier components for financial stability because of high concentration of bank exposure to large NFCs, improved markedly in 2021 through reducing their leverage and improving credit quality. Despite softened revenue collection, the fiscal condition improved due to narrowing of fiscal deficit and sovereign risk premium. Financial market front improved marginally with improvement in market sentiment of capital market. Capital and profitability component remained almost unchanged in 2021. In addition, the funding and liquidity slightly tightened in 2021 compared to 2020.

The detailed component-wise analysis is explained below while the scores are summarized in Appendix XLIX.

External economy component: Recovery in GDP growth of major trading partners coupled with easy financial condition and retention of migrant workers by top remittance-source countries contributed to lessening the risk in external sector in 2021. Substantial rise in oil price in the face of strong global demand strengthened the oil-exporting economies, creating space for new employment in those countries. However, oil spirals entails a different risk to inflating input cost of domestic production and rising price of imported goods both of which could make a toll on domestic inflation. Despite inflation remained besieged to some extent in major import partners of Bangladesh in 2021, bullish oil price may propogate into import price and may lead the current account deficit to persist going forward. In essence, the risk to the external sector appears to be lesser in 2021 compared to 2020.

Domestic economy component: The COVID-19 pandemic caused some imbalances in the domestic economy by distorting demand-supply dynamics, inevitably widening the negative output gap in 2021 compared to 2020. In addition, external debt racked up substantially owing to private sector short-term external debt and inflation and exchange rate volatility increase in 2021. Eventually, the domestic economy component faced challenges and subject

[7] It contains 8 components and 37 underlying indicators. Standardized scores for those indicators have been calculated using a formula: [Standardized Score = (xi-min)/(max-min)] where maximum and minimum values are incorporated using time series data, and in some cases, by assigning appropriate threshold values. Threshold values are selected using judgment, economic logic and experience of other countries. The component scores are calculated using weighted average of the indicators and component scores are plotted in the map (in a scale of 0 to 1). The components closer to the origin have values close to zero indicating lower risk while components further from the origin indicates higher risk and have value closer to one.

to slightly greater risk. Ensuring that inflation remained tamed and exchange rate is stable is crucial to gradual acceleration of the economy and reducing the risk to domestic sector.

Household Component: The quality of household credit portfolio improved in 2021, while remittance growth was muted. This diverging direction of two indicators held the household component almost in the same position in the risk scale.

Non-financial Corporation Component: Credit to non-financial corporation increased in 2021. Nevertheless, the risk to the financial system from this component lowered significantly in 2021 compared to 2020 because leverage and non-performing loan of large NFCs reduced to a greater extent.

Fiscal Condition Component: Though tax revenue collection as a share of GDP was softened in 2021, budget deficit narrowed significantly. Reduced budget deficit mitigated the need for debt by the Government. Further, flimsy sovereign risk premiums in 2021 favoured external borrowing at lower cost. Putting together, risk to the fiscal sector subsided notably.

Financial Market Component: Financial market condition exhibits mixed tendencies to risk dimension, ending up with modest improvement. Asset quality of both banking and FI sectors diminished. However, capital market was resilient with buoyant investor sentiment and easy liquidity condition.

Capital and Profitability Component: Capital adequacy ratio (CRAR) slid down in 2021 because of rise in NPL. However, Tier-1 capital ratio marginally improved. Banks' net interest income (NIM) increased notably but return on assets (ROA) fell slightly due to requirement of higher provision maintenance. On net, capital and profitability account presents little change in 2021 on the risk dimension.

Funding and Liquidity Component: Banking sector vulnerabilities in the face of pandemic stress appear to have been contained by easy liquidity condition and risk to this component seems to be low. However, liquidity was slightly tightened in 2021 compared to 2020 as manifested through rise in advance-to-deposit ratio (ADR), decline in liquidity coverage ratio (LCR) and net stable funding ratio (NSFR).

In a nutshell, financial stability map highlights that macro-financial condition of Bangladesh, on balance, improved due to marked improvement in fiscal condition and non-financial corporation in 2021 compared to 2020.

BOX 1.1: FINANCIAL STABILITY INDICATORS FOR DIFFERENT FINANCIAL MARKETS IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT GOALS (SDGs)

For moving towards a high-income country as envisaged in Bangladesh's Vision 2041, a visionary approach for sustainable transformation needs to be taken into consideration as sustainable growth is critical for connecting economic growth to the poor without harming the environment. Therefore, it is important to create an inclusive, safe, profitable, and rewarding financial system that supports sustainable growth and rapid income generation of all people and that provides required monetary-fiscal linkages to reach a high-income Bangladesh. Again, it is inevitable that the attainment of SDGs will be a far-fetched dream in absence of financial stability.

Against this backdrop, Bangladesh Bank has adopted and introduced a broad range of policy measures for the advancement of inclusive and sustainable growth, apart from the conventional central banking measures. Given the importance of the SDGs on economic development, the BB has incorporated SDGs' issues in its Strategic Plan: 2020-2024. Based on that mandate Financial Stability Department has prepared a document in December 2021 that envisaged an overview of the potential financial stability indicators of different financial markets in the context of SDGs. It is noteworthy that identifying the financial stability indicators in the context of SDGs is still a bit sparse throughout the world.

In this regard, major stability indicators were mainly considered rather than focusing on subtle stability channels. In other words, the stability indicators (of different financial segments namely banks, FIs, MFIs, MFS, capital market, and insurance sector in Bangladesh) which have either 'direct' or 'indirect but significant' linkages with the official list of SDGs and associated targets were covered in the document. Moreover, some fundamental indicators of real, external, and fiscal sectors were also covered as a complementary set of indicators, as financial stability has a deep connection with these sectors. In total, sixty financial stability indicators[8] were selected and the theoretical aspect of the selected indicators, as well as the rationale for the selection, has been illustrated in the document.

In the document, it was shown that there are some close conducive links between financial stability indicators and SDGs. However, there is still scope to augment this paper with further analyses in the future. These indicators can be considered as the key elements to assess the stability position of SDGs' aligned financial system and this assessment can be applied suitably in various analyses.

8 List of the indicators is given in the Appendix.

Chapter 2

BANKING SECTOR'S PERFORMANCE

In 2021, the banking sector of Bangladesh remained broadly stable. The sector registered modest asset growth although the growth decelerated somewhat compared to that of 2020. Deposit growth stood at to 10.0 percent during the review year indicating that banking system had enough deposit in support of the increased loan demand. During the year, the return on equity (ROE) of the banking industry increased while return on assets (ROA) remained mostly stable compared to those of 2020. Asset quality of the sector slightly deteriorated as gross non-performing loan (NPL) ratio showed a marginal increase in 2021.

In the review year, Capital to Risk-weighted Asset Ratio (CRAR) of the banking industry stood at 11.08 percent as opposed to 11.64 percent of the previous period, still the ratio well above the regulatory minimum capital requirement of 10.0 percent. Moreover, the banking sector maintained 4.18 percent leverage ratio during the review year, well above the regulatory minimum requirement.

The liquidity situation in the banking industry remained buoyant during 2021. The banking sector's advance to deposit ratio (ADR) had been well below the admissible limit throughout 2021 largely due to moderate credit demand. Call money rate remained low with an increasing trend, peaked at 2.8 percent in November 2021 and declined to 2.3 percent in December 2021. The industry also maintained liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) above the regulatory minimum requirement during the year 2021.

2.1 FINANCIAL SYSTEM OF BANGLADESH

The financial system of Bangladesh is broadly categorized into three different sectors based on the degree of regulation and organizational settings. These are the formal sector, semi-formal sector, and informal sector. The formal sector is mainly dominated by the banking sector and also includes non-bank financial institutions (FIs), capital market intermediaries, insurance companies, and microfinance institutions (MFIs). The semi-formal sector comprises of few specialized financial institutions which do not fall under the jurisdiction of financial sector regulators, rather they are regulated by different Acts or legal framework under different ministries or organizations of the Government, e.g., Bangladesh House Building Finance Corporation (BHBFC), Bangladesh Samabaya Bank Limited (BSBL), Investment Corporation of Bangladesh (ICB), Palli Karma Sahayak Foundation (PKSF), Grameen Bank, Non-governmental Organizations (NGOs), different cooperatives and credit unions, etc. Furthermore, Authorized Dealers (ADs), Mobile Financial Service (MFS) Providers and Payment Service Providers (PSPs) perform prospective roles in financial market development. The informal sector refers to mainly the private intermediaries that remained mostly unregulated.

Bangladesh Bank (BB), being the regulatory authority of the money market and foreign exchange market of the country, regulates and monitors the activities of all the scheduled banks and financial institutions (FIs). Currently, there are 6 state-owned commercial banks (SCBs), 3 specialized development banks (SBs), 43 domestic private commercial banks (Conventional and Islami Shari'ah-based banks), 9 foreign commercial banks (FCBs), and 35 financial institutions (FIs) operating in Bangladesh. Bangladesh Securities and Exchange Commission (BSEC) regulates and supervises the capital market comprising two stock exchanges - Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). At present, 66 merchant banks, 351 broker/dealers, 12 custodian banks, 8 credit rating agencies, 23 fund managers, 52 asset management companies, and 87 trustees are operating in the capital market of Bangladesh. Insurance companies and micro-finance institutions are regulated and supervised by the Insurance Development and Regulatory Authority (IDRA) and the Microcredit Regulatory Authority (MRA) respectively. At present, 81 insurance companies and 746 registered micro-finance institutions are functioning in Bangladesh. Cooperatives and credit unions are regulated by the Department of Cooperatives under the Ministry of Local Government, Rural Development and Co-operatives. Besides, the Ministry of Finance regulates Bangladesh House Building Finance Corporation (BHBFC) and the Investment Corporation of Bangladesh (ICB). Table 2.1 demonstrates the financial system structure of Bangladesh.

TABLE 2.1: FINANCIAL SYSTEM STRUCTURE OF BANGLADESH

<table>
<tr><th></th><th></th><th>Financial Market/ Infrastructure</th><th>Institutions</th><th>Numbers</th><th>Regulator</th></tr>
<tr><td rowspan="8">Financial System</td><td rowspan="6">Formal Sector</td><td rowspan="3">Money Market
Foreign Exchange Market
Payment and Settlement Systems</td><td>Banks</td><td>SCBs (6)
PCBs (43)
FCBs (9)
SBs (3)</td><td rowspan="3">Bangladesh Bank</td></tr>
<tr><td>FIs</td><td>Government-owned (3)
Others (32)</td></tr>
<tr><td>Others</td><td>ADs, Money changers, MFS providers, PSOs, PSPs, OPGSPs etc.</td></tr>
<tr><td>Capital Market</td><td>DSE
CSE
CDBL</td><td>Merchant banks (66)
Broker/dealers (351)
Custodian banks (12)
Credit rating agencies (8)
Fund managers (23)
Asset management companies (52)
Trustees (87)</td><td>BSEC</td></tr>
<tr><td>Insurance Market</td><td>Life
Non-Life</td><td>Govt. Owned (2)
Others (79)</td><td>IDRA</td></tr>
<tr><td>Micro Credit Market</td><td>MFIs</td><td>MFIs (746)</td><td>MRA</td></tr>
<tr><td>Semi-formal Sector</td><td colspan="4">BHBFC, BSBL, ICB, PKSF, Grameen Bank, Non-governmental Organizations (NGOs), cooperatives and credit unions, discrete government programs, etc.</td></tr>
<tr><td colspan="5">Informal Sector</td></tr>
</table>

2.2 ASSET STRUCTURE OF THE BANKING SECTOR

After experiencing an increasing trend in asset growth during 2019 and 2020, the banking sector posted a modest growth of assets in 2021.

The banking sector assets reached to BDT 20,429.28 billion in 2021, registering a moderate growth of 10.99 percent from that of 2020 (Chart 2.1). Noteworthy that there were 11.79 percent and 12.98 percent asset growth in 2019 and 2020 respectively.

Among the different banking clusters, FCBs had the highest growth rate in assets which is 12.31 percent followed by PCBs (11.23 percent), SBs (11.19 percent) and SOCBs (10.05

percent). However, all the four banking clusters registered decelerating asset growths in 2021 compared to 2020 (Chart 2.2). The rates of asset growth of SOCBs, SBs, PCBs, and FCBs shrank by 5.50, 4.17, 0.81, and 0.21 percentage points respectively in 2021.

CHART 2.1: TOTAL ASSET GROWTH: ANNUAL BASIS

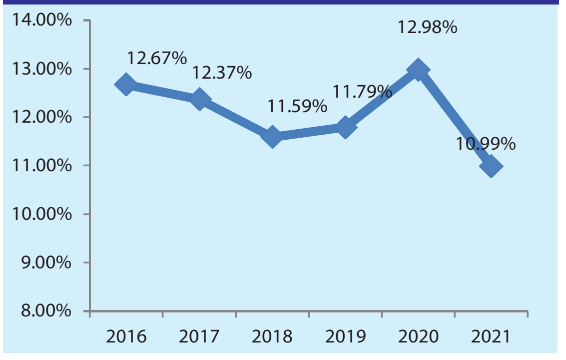
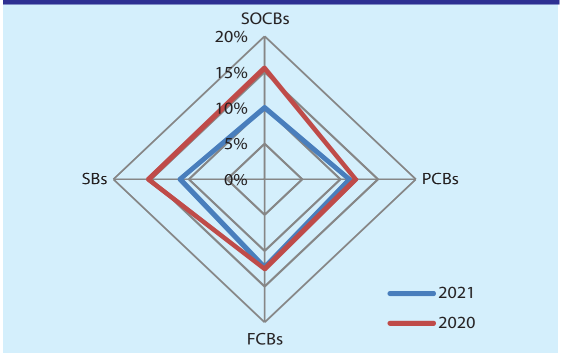


CHART 2.2: ASSET GROWTH OF BANKING CLUSTERS



Source: DOS, BB; Compilation: FSD, BB.

Considering the asset structure in 2021, loans and advances constituted the highest share of banking sector assets followed by investment. Loans and advances accounted for 64.83 percent (compared to 63.84 percent in 2020) of total assets while investment constituted 18.83 percent (17.98 percent in 2020) as depicted in Chart 2.3.

Chart 2.4 shows that the growth of loans and advances picked up in 2021 rendering a growth rate of 12.74 percent, which was 8.43 percent in the previous year. Recovery from the COVID-19 pandemic might have a positive impact on the demand for loans. The banking industry demonstrated reduction in its exposure to overall investment in Government securities and other securities compared to the last two years. In 2021, 16.21 percent growth took place in these investments while the figure was 28.12 and 31.96 percent in 2019 and 2020 respectively. Particularly, investment in Government securities increased by 9.74 percent in 2021 compared to that of the previous year whereas investment in other securities recorded a 27.60 percent growth in 2021 which was 9.22 percent in 2020.

Among different categories of banks, SBs and PCBs had higher shares of loans and advances (78.99 and 70.53 percent respectively) in their asset mix while the SOCBs possessed the lowest proportion (49.94 percent).

CHART 2.3: YEAR-WISE BANKING SECTOR ASSET STRUCTURE

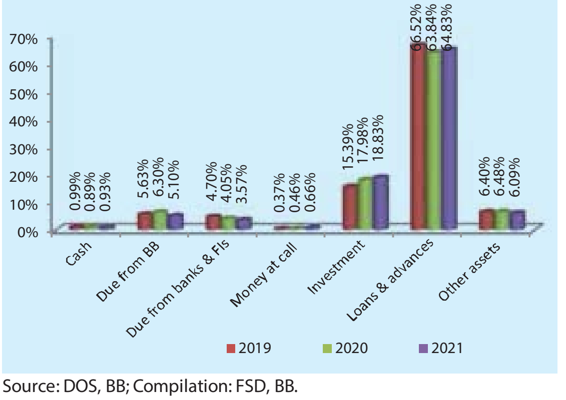
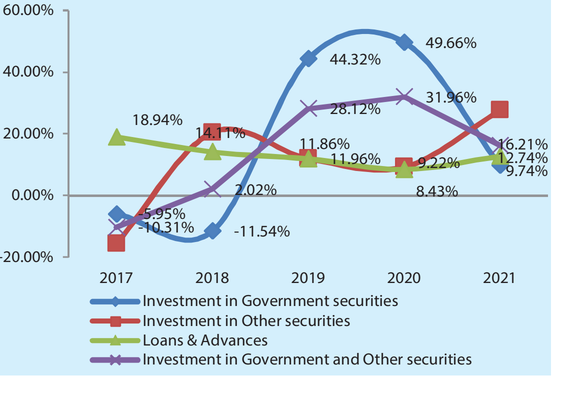


CHART 2.4: YEAR-WISE GROWTH OF LOANS AND ADVANCES AND INVESTMENT IN SECURITIES

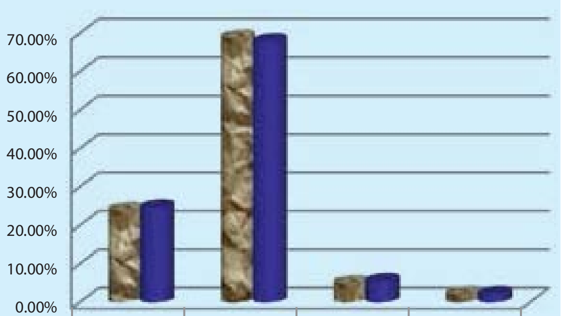


Source: DOS, BB; Compilation: FSD, BB.

PCBs held a major proportion of earning assets, which might strengthen the stability of the banking sector because of their relatively low NPL ratio. The overall liquidity situation of the PCBs also improved as their holding of the liquid asset increased.

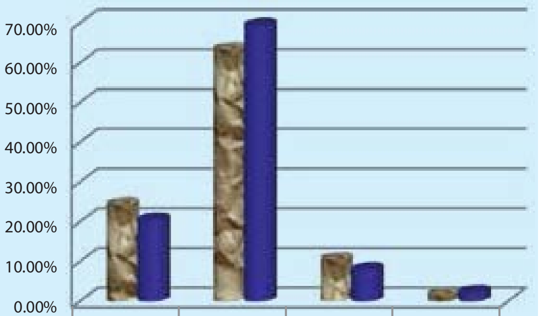
In 2021, the share of major earning assets of SOCBs and FCBs demonstrated a marginal increase while PCBs and SBs showed a marginal decline compared to 2020 positions (Chart 2.5). PCBs still held the highest market share of the earning asset (67.84 percent), followed by SOCBs (24.61 percent). Holding around 68 percent of earning assets by PCBs may reflect a positive sign for financial system stability as historically the PCBs, in aggregate, were able to manage better quality assets and higher capital to risk-weighted assets ratio among all clusters.

CHART 2.5: SHARE OF MAJOR EARNING ASSETS OF DIFFERENT CATEGORIES OF BANKS



	SOCBs	PCBs	FCBs	SBs
2020	24.01%	68.84%	5.00%	2.15%
2021	24.61%	67.84%	5.49%	2.06%

CHART 2.6: SHARE OF LIQUID ASSETS OF DIFFERENT CATEGORIES OF BANKS



	SOCBs	PCBs	FCBs	SBs
2020	24.35%	63.39%	10.52%	1.74%
2021	20.43%	69.40%	7.94%	2.23%

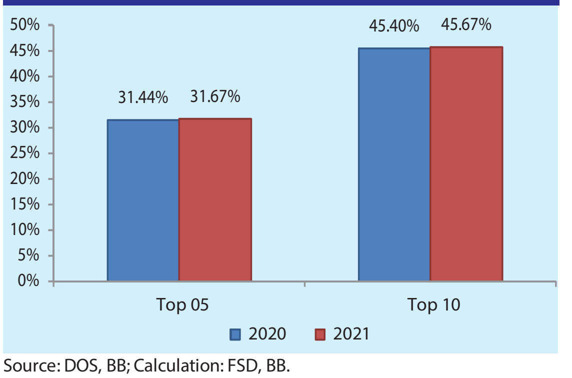
Source: DOS, BB; Compilation: FSD, BB (data of 2020 revised).

Chart 2.6 demonstrates the comparative analysis of market shares of liquid assets of different categories of banks. The chart shows PCBs' share increased significantly by 6.01 percentage points while SBs' share increased marginally by 0.49 percentage point in 2021. The shares of liquid assets declined for the SOCBs and FCBs in the reporting year compared to the previous year. The higher liquid asset holding should enable the respective banks to better manage their future liquidity issues in the process of recovery from the COVID-19 adversity.

Compared to 2020, the concentration of assets within a few banks increased marginally in 2021, in tandem with an increase in sector-wise loan concentration.

Chart 2.7 shows that concentrations of assets within the top five (05) and top ten (10) banks were 31.67 percent and 45.67 percent respectively as of end-December 2021 as compared to 31.44 percent and 45.40 percent at the end-December 2020. In 2021, the top ten banks were composed of six PCBs and four SOCBs.

CHART 2.7: TOP 5 AND TOP 10 BANKS BASED ON ASSET SIZE



Source: DOS, BB; Calculation: FSD, BB.

In the case of sector-wise loan concentration, the calculated Herfindahl-Hirschman Index (HHI) of 1434.29 points in 2021 indicates a marginal increase in concentration risk from 2020 when the index was 1430.37. In 2021, three sectors, namely Large Industries, Wholesale and Retail Trade (CC, OD, etc.) and Miscellaneous, had double-digit market shares, i.e., 27.13, 18.08 and 10.81 percent respectively while Import financing sector verged on two digits (Table 2.2). This scenario is very similar to that of 2020. A high market share (27.13 percent) of large industries' loans indicates that banks were more engaged in disbursing corporate loans.

TABLE 2.2: SECTOR-WISE LOAN CONCENTRATION IN 2021

(In billion BDT)

Sl.	Sector	Amount[P]	Percent of Total	HHI*
1	Large Industries	3283.68	27.13	735.82
2	Wholesale and Retail Trade (CC, OD etc.)	2188.70	18.08	326.90
3	Miscellaneous	1308.85	10.81	116.90
4	Import Financing (LIM, LTR, TR etc.)	1146.85	9.47	89.76
5	Small and Medium Industries	840.09	6.94	48.16
6	Service Industries	804.06	6.64	44.12
7	Export Financing(PC, ECC etc)	735.48	6.08	36.91
8	Agriculture	519.54	4.29	18.42
9	Other Construction	280.38	2.32	5.36
10	Housing (Residential) in Urban Area for Individual Person	278.62	2.30	5.30
11	Housing (Commercial) :-For Developer/Contractor	260.42	2.15	4.63
12	Infrastructure Development (Road, Culvert, Bridge,Tower etc.)	110.06	0.91	0.83
13	House Renovation/Repairing/Extension	75.73	0.63	0.39
14	Air Transport	60.93	0.50	0.25
15	Fishing	48.64	0.40	0.16
16	Lease Financing/Leasing	45.83	0.38	0.14
17	Road Transport (Excluding Personal Vehicle & Lease Finance)	42.07	0.35	0.12
18	Housing (Residential) in Rural Area for Individual Person	26.20	0.22	0.05
19	Water Transport (Excluding Fishing Boats)	23.23	0.19	0.04
20	Procurement by Government	17.05	0.14	0.02
21	Cottage Industries/Micro Industries	8.58	0.07	0.01
22	Water-works	0.25	0.00	0.00
23	Forestry and Logging	0.06	0.00	0.00
24	Sanitary Services	0.01	0.00	0.00
	Total Loans and advances	**12105.29**	**100.00**	**1434.29**

Notes: (1) P: Provisional; (ii) Figures shown in the table excludes Interbank, Money at call, Bills.
(iii) HHI = Herfindahl–Hirschman Index.
Source: Statistics Department, BB; Computation: FSD, BB.

2.3 NONPERFORMING LOANS, PROVISIONS, WRITTEN-OFF LOANS AND ADVANCES IN THE BANKING SECTOR

Asset quality slightly deteriorated in 2021 as gross nonperforming loan (NPL) ratio showed a marginal rise driven by increase in NPL positions of PCBs and FCBs. Net NPL ratio[9] also increased to -0.43 percent from -1.08 of the preceding year percent due to rise in gross NPL.

To address the adverse impact of COVID-19 on real sector as well as on banking sector and to limit the procyclical impact of loan-loss provisions and the regulatory capital requirement on lending, Bangladesh Bank instructed the scheduled banks not to change the classification status of the loans during 2020. In addition to that, BB has extended necessary policy supports to help the borrowers/banks. Partially due to the stated policy stance, the gross NPL ratio[10] in the banking sector demonstrated no notable changes during 2021 (Chart 2.8) and improved compared to 2019. However, compared to end-December 2020, NPL ratio slightly deteriorated in 2021, as gross NPL amount increased by BDT 145.40 billion following an increase of total loans by BDT 1430.22 billion (due to BB's policy supports new loan has been injected in the banking sector). The NPL ratio reached 7.9 percent in 2021 from 7.7 percent in 2020.

CHART 2.8: GROSS NPL OF BANKING INDUSTRY

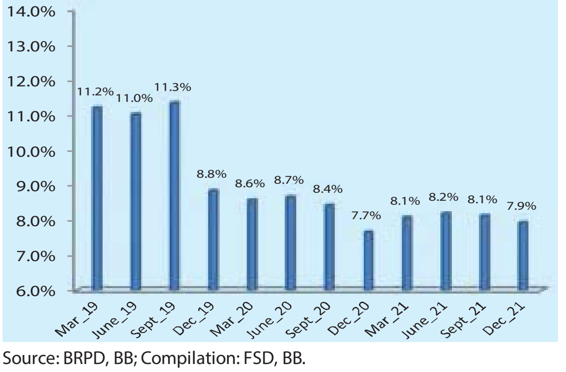
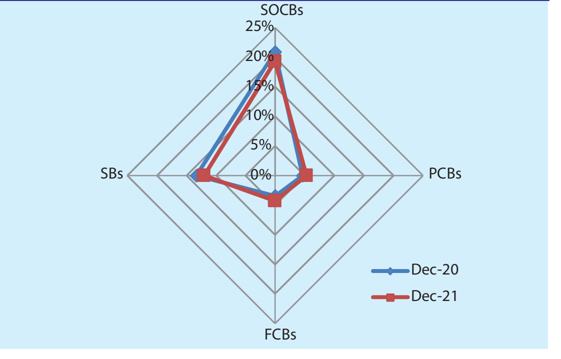


CHART 2.9: GROSS NPL OF BANKING CLUSTERS (DEC, 2020 AND DEC, 2021)



Source: BRPD, BB; Compilation: FSD, BB.

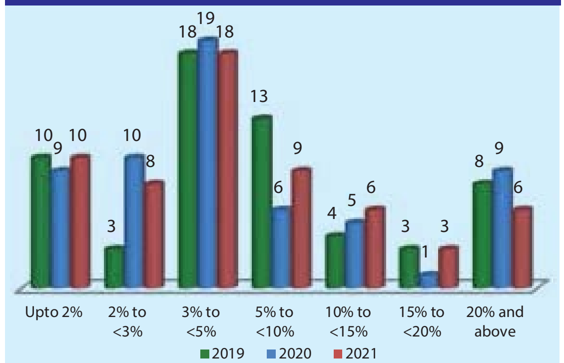
NPL ratio of SOCBs registered a decline of 1.6 percentage points and reached to 19.3 percent at end-December 2021 (Chart 2.9). SBs also demonstrated some improvement as their NPL ratio declined by 1.3 percentage points to reach 12.0 percent. Despite these improvements, the NPL ratios still remained high for both categories of banks especially for SOCBs. It is mentionable that SOCBs held 43.6 percent of total NPL of banking industry, for SBs the share was only 2.7 percent and for PCBs it was 49.9 percent. Unlike SOCBs and SBs, the NPL ratio of the FCBs and PCBs increased by 0.8 and 0.6 percentage points respectively and reached at 4.3 and 5.3 percent respectively at end-December 2021.

9 Net NPL ratio = (Gross NPLs - Loan-loss Provisions – Interest Suspense)/ (Total Loans Outstanding - Loan-loss Provisions – Interest Suspense)

10 Total classified loans as a percentage of total loans outstanding. In 2021, 2020 and 2019, loans and advances of both Domestic Banking Unit (DBU) and Offshore Banking Unit (OBU) are considered whereas in previous years only DBU loans and advances were considered in calculating NPL ratio.

Chart 2.10 presents the distribution of banks according to the NPL ratios. During 2019-2021, total number of banks has increased to 60 from 59[11]. It is observed that, in 2021, 36 banks maintained their NPL ratio below 5 percent, in 2020, the number was 38. All FCBs except one and all the PCBs except five recorded a single-digit gross NPL ratio as of December 2021. The number of banks having NPL ratio over 20.0 percent decreased by 3 indicating a relative improvement in their asset quality. Higher NPL ratios in a few banks did not appear to be a system-wide phenomenon.

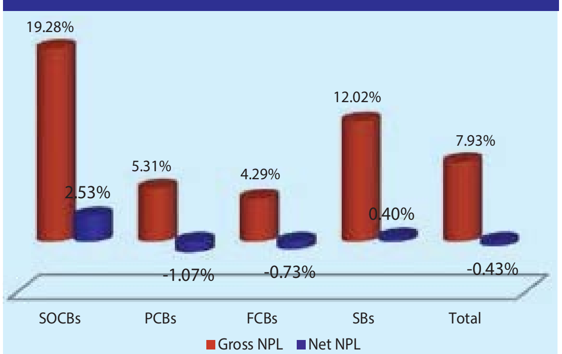
CHART 2.10: GROSS NPL RATIO OF BANKS INTO DIFFERENT BUCKETS



Source: BRPD, BB; Computation: FSD, BB.

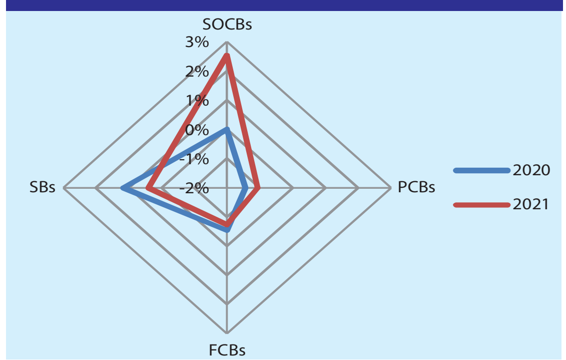
A total of 6 banks (2 SOCBs, 3 PCBs, and 1 FCB) had gross NPL ratio of 20 percent and above at end-2021. For the last couple of years, the banks having high NPL ratio could not bring down the same, creating concern for the soundness of these banks. The net nonperforming loan (net NPL) ratio increased to -0.43 percent at end-December 2021 compared to -1.08 percent recorded in the previous year mainly due to increase in gross NPLs (Chart 2.11).

CHART 2.11: GROSS AND NET NPL RATIO IN 2021



Source: BRPD, BB; Compilation: FSD, BB.

CHART 2.12: NET NPL RATIO OF BANKING CLUSTERS (2020 AND 2021)



Source: BRPD, BB; Compilation: FSD, BB.

Chart 2.12 shows the changes in net NPL ratio of different categories of banks. Though the PCBs held the largest share of the industry assets, their net NPL ratio remained negative in 2021. FCBs also had negative net NPL ratio. These banks seem to be resilient against any deterioration in their asset quality. Like above two clusters, the net NPL ratios in SBs also improved and declined to 0.4 percent. On the other hand, net NPL ratio of SOCBs deteriorated moderately and stood at 2.53 percent. Overall, to improve their financial health, these banks need to bring down their gross NPLs to a manageable level by adopting good governance and better risk management practices.

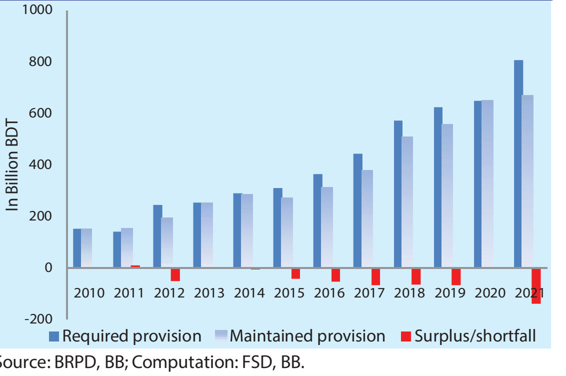
[11] Considering the availability of NPL data.

In 2021, all banks except four SOCBs and six PCBs maintained loan-loss provisions as per the regulatory requirement of BB. Top 5 and top 10 banks held nearly 43.5 percent and 62.5 percent of NPLs respectively.

The gross NPLs increased by BDT 145.40 billion from that of 2020 to reach at BDT 1032.7 billion in 2021. These NPLs required banks to maintain cumulative provisions of BDT 806.5 billion as of end-December 2021, against which banks maintained provisions amounting to BDT 666.5 billion (Chart 2.13) that is 3.04 percent higher than the previous year. The overall provision shortfall in the banking industry stood at BDT 140.1 billion from BDT 1.2 billion in 2020. Consequently, the provision maintenance ratio decreased to 82.6 percent in 2021 from 99.8 percent in 2020. Similarly, maintained provision to gross NPL ratio decreased from 72.9 percent to 64.5 percent during the period under review.

The deterioration in the provision maintenance ratio is largely attributable to provision shortfall of the SOCBs. Their provision shortfall rose to BDT 170.6 billion in 2021 compared to BDT 49.2 billion in 2020. Besides, 6 PCBs also had provision shortfall, though PCBs as a banking cluster had an aggregate provision surplus of BDT 23.5 billion in 2021. The provision shortfall of the banking industry increased in terms of aggregate amount but decreased in terms of number of banks in 2021.

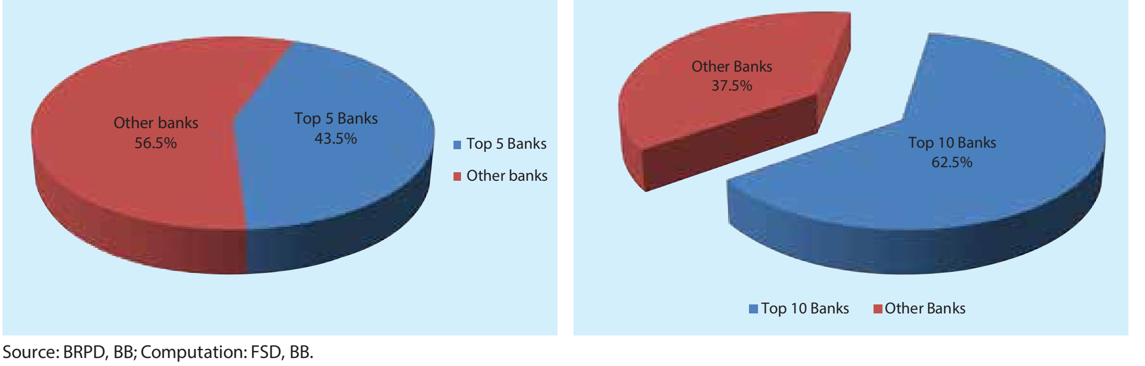
CHART 2.13: YEAR-WISE BANKING SECTOR LOAN LOSS PROVISIONS



Source: BRPD, BB; Computation: FSD, BB.

The gross NPL concentration ratios (based on the size of gross NPLs) of the top 5 and top 10 banks were 43.5 and 62.5 percent respectively as of end-December 2021 against the corresponding figures of 47.5 and 65.1 percent in 2020 (Chart 2.14). In 2021, in terms of gross NPL size, the top 10 banks comprised of 5 SOCBs, 4 PCBs, and 1 SDB. In terms of gross NPL ratio, among the top 10 banks, 5 were SOCBs, 3 PCBs and 1 from both SBs and FCBs.

CHART 2.14: TOP 5 AND TOP 10 BANKS BY GROSS NPL SIZE



Source: BRPD, BB; Computation: FSD, BB.

In 2021, the sector-wise NPL distributions did not show much concentration of NPL in any particular sector except Trade and Commerce.

Table 2.3 shows concentration of NPLs across different sectors of the economy in 2021. NPL concentration remained high in Trade and Commerce sector. The share of NPL in this sector (27.22 percent) was considerably high in comparison with the share of loans distributed in this sector (21 percent). Moreover, the gross NPL ratio of this sector was 2.48 percentage points higher than the industry gross NPL ratio. As loans in the Trade and Commerce sector occupied more than one-fifth of the banking sector loans and advances, this sector seems to pose a pocket of risk to the banking sector. Besides, the high gross NPL ratio (18.75 percent) in the Ship-building and the Ship-breaking sector remained another major concern which was 18.36 percent in the previous year.

TABLE 2.3: SECTOR-WISE NON-PERFORMING LOANS DISTRIBUTION (2021)

SL.	NAME OF SECTOR	IN BILLION BDT		IN PERCENT		
		TOTAL LOAN OUTSTANDING	GROSS NPL	GROSS NPL RATIO	SHARE OF LOANS EXTENDED	SHARE OF NPLS
1	**Agriculture**	505.38	39.72	7.86%	4.15%	3.90%
2	**Industrial (Manufacturing):**					
2.1	RMG	1452.61	119.45	8.22%	11.92%	11.72%
2.2	Textile	1036.35	92.81	8.96%	8.50%	9.11%
2.3	Ship building and Ship breaking	202.36	37.95	18.75%	1.66%	3.72%
24	Agro-Base Industry	806.97	82.40	10.21%	6.62%	8.08%
2.5	Other Industries (Large Scale)	1497.64	102.16	6.82%	12.29%	10.02%
2.6	Other Industries (Small, Medium and Cottage)	535.31	70.34	13.14%	4.39%	6.90%
2.7	Pharmaceutical Industry	124.44	3.58	2.87%	1.02%	0.35%
2.8	Leather and Leatherbased Industry	117.40	12.89	10.98%	0.96%	1.26%
3	**Industrial (Services):**					
3.1	Construction Loans	826.37	47.99	5.81%	6.78%	4.71%
3.2	Transport and Communication	211.98	16.98	8.01%	1.74%	1.67%
3.3	Other Service Industries	517.54	35.50	6.86%	4.25%	3.48%
4	**Consumer Credit:**					
4.1	Credit Card	70.78	5.50	7.77%	0.58%	0.54%
4.2	Autos (Car) Loan	20.75	0.39	1.88%	0.17%	0.04%
4.3	Housing Finance	245.42	8.39	3.42%	2.01%	0.82%
4.4	Personal	453.22	8.12	1.79%	3.72%	0.80%
5	**Trade and Commerce (Commercial Loans)**	2559.43	277.48	10.84%	21.00%	27.22%
6	**Credit to NBFI**	72.97	5.39	7.39%	0.60%	0.53%
7	**Loans to Capital Market**	83.46	1.31	1.57%	0.68%	0.13%
8	**Other Loans**	848.11	51.02	6.02%	6.96%	5.01%
	Total	**12188.50**	**1019.35**	**8.36%**	**100%**	**100%**

Source: Scheduled Banks and DOS, BB; Compilation: FSD, BB

'Bad and Loss' category of loans to gross NPL ratio increased marginally in 2021 compared to that of 2020 and remained high in 2021.

At end-December 2021, the share of Bad/Loss (B/L) loans in gross NPL increased to 88.2 percent compared to 86.9 percent in 2020. This high B/L loan ratio indicates that a major portion of the NPL has not been performing for a longer period. The other two categories of classified loans, sub-standard (SS) and doubtful (DF), constituted 7.8 percent (7.7 percent in 2020) and 4.1 percent (5.4 percent in 2020) of the total NPL respectively as shown in Chart 2.15.

CHART 2.15: GROSS NPL COMPOSITION IN 2021

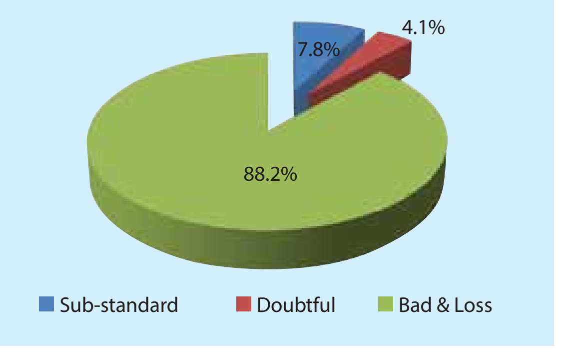
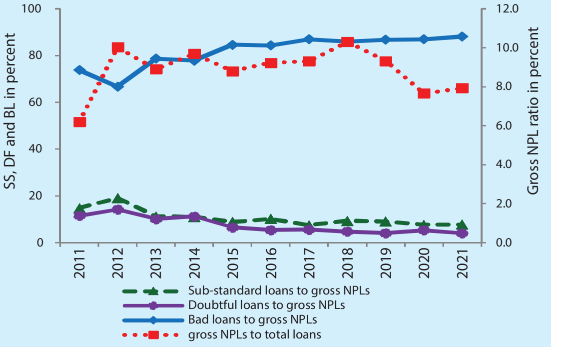


CHART 2.16: YEAR-WISE RATIOS OF THE THREE CATEGORIES OF NPLs



Source: BRPD, BB; Computation: FSD, BB.

Chart 2.16 illustrates that the proportion of bad and loss (B/L) loans has been demonstrating an increasing trend since 2012 and remained above 80 percent of the gross NPL over the years, implying slow recovery from bad loans. Higher B/L loans adversely affect profitability and capital base of the banks since banks have to maintain 100 percent provision against such loans. The total B/L loan of the banking sector stood at BDT 910.6 billion at end-2021 (BDT 772.0 billion at end-2020).

The outstanding balance of written-off loans stood at BDT 440.8 billion at end-December 2021.

Adversely classified loans of BDT 605.0 billion were written-off from the banks' balance sheet till December 2021[12] which was BDT 568.45 billion at the end of 2020. Indeed, written-off loans increased by BDT 36.5 billion during 2021. The cumulative written-off amount roughly accounted for 2.96 percent of the banking sector's on-balance sheet assets at end-December 2021. However, out of the total written-off loans, banks have been able to recover BDT 164.1 billion till end-December 2021 and thus the outstanding balance of written-off loans stood at BDT 440.8 billion where SOCBs, PCBs, FCBs and SBs accounted for BDT 175.3 billion, 251.0 billion, 10.9 billion and 3.6 billion respectively.[13]

BOX 2.1: PROCEDURE OF WRITING OFF OF LOANS/INVESTMENTS OF BANKS

During the normal course of business, some portion of loans/investments of banks might become non-performing and remain unadjusted for a longer period owing to various plausible risks. Those loans/investments may overstate the balance sheets by accumulating bad assets for years. Such exposures of banks are often required to be written off following standard procedures and internationally recognized norms.

Banks in Bangladesh are advised to write off their loans/investments complying with the prescribed policies[a] of Bangladesh Bank. According to the existing rules, a bank can write off only those loans/investments which have minimum chance of recovery and remained

[a] BRPD Circular No. 01/2019 dated 06 February 2019.

[12] Source: BRPD, BB. Provisional data has been used.

[13] Despite the loans being written off, the legal procedures against the defaulted borrowers continue and initiative persist by the banks for successful recovery of those loans.

classified as 'Bad/Loss' at least for three years. The concerned bank must have maintained 100 percent provision against that particular bad/loss loan/investment after adjusting interest suspense from the outstanding balance. If the maintained provision against such loans/investments is not enough, the additional required provision must be ensured by debiting current year's income of the concerned bank. However, a bank cannot write off any loan/investment partially.

Noteworthy that prior to the writing off of the loans/investments, it is mandatory for banks to file lawsuits against the respective defaulters. However, if lawsuit is not mandatory under the provisions of Money Loan Court Act 2003, banks can write off any loan up to BDT 0.2 million without filing any lawsuit. Besides, writing off of the loans/investments must be approved by the board of directors of the concerned bank. After writing off, the same amount must be kept aside from the balance sheet figure. Besides, that as per Section 28KA of Bank Company Act, 1991 (as amended up to 2018) there is no hindrance for taking legal steps for recovering the written off loan.

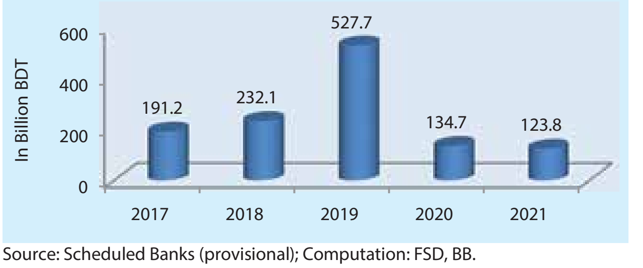
Banks have to maintain a separate ledger for the written-off loan/investment accounts and need to make a footnote to their balance sheets in accordance with section 38 of the Bank Company Act, 1991. Albeit written-off, the respective borrower will be treated as a loan defaulter unless and until he/she repays the full liability of the concerned loan/investment. Importantly, written-off loans/investments cannot be rescheduled or restructured; however, if such loans/investments remain under any exit plan, the concerned bank may fix repayment periods for those.

2.4 RESCHEDULED ADVANCES

The amount of loans rescheduled in the review year decreased compared to the preceding year. However, proper monitoring is required for recovery of such assets.

Total loans rescheduled in the banking sector in 2021 were BDT 123.8 billion which is lower than that in 2020 (Chart 2.17). It could be partly attributed to the better credit management by the banks and the BB's policy support. Due to the COVID-19 pandemic, Bangladesh Bank continued its relaxed loan classification and recovery policy[14] in 2021 which allowed banks to keep loans regular against partial payments.

CHART 2.17: YEAR-WISE RESCHEDULED LOANS



Source: Scheduled Banks (provisional); Computation: FSD, BB.

Chart 2.18 shows the trend of outstanding rescheduled loans as a percentage of total outstanding loans for the last 5 years. The chart shows that total outstanding rescheduled loans as a percentage of total outstanding loans decreased to 13.1 percent in 2021 after four consecutive years of increase. Noteworthy that, more than 80 percent of total outstanding rescheduled loans remained unclassified in 2021 (Chart 2.19). However, though the outstanding classified rescheduled loans as a percentage of total outstanding loans remained same at 2.6 percent compared to the previous year, the share of classified rescheduled loans outstanding in total outstanding rescheduled loans increased to 19.8 percent during the review year from that of the preceding year.

[14] BRPD Circular No. 19 dated 26 August 2021 and BRPD Circular Letter No. 51 dated 29 December 2021.

CHART 2.18: OUTSTANDING RESCHEDULED LOANS AS A PERCENTAGE OF TOTAL OUTSTANDING LOANS

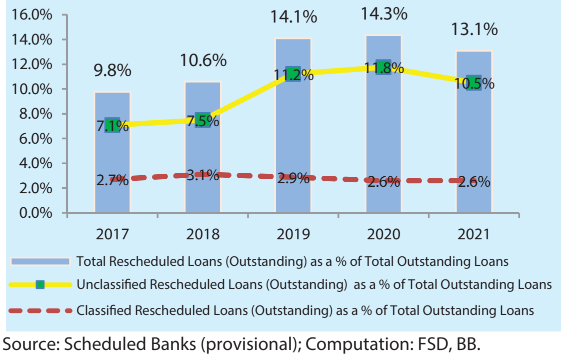
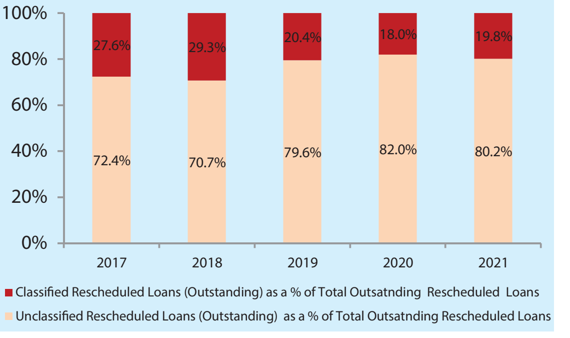


CHART 2.19: COMPOSITION OF OUTSTANDING RESCHEDULED LOANS



Source: Scheduled Banks (provisional); Computation: FSD, BB.

Chart 2.20 illustrates the sector-wise share of outstanding rescheduled loans at end-December 2021. Outstanding rescheduled loans in the industrial sector (regardless of the size of the industries) were 29.4 percent while RMG and textile sector accounted for 21.7 percent. Additionally, commercial loans, working capital, foreign trade, construction, agriculture and other non-specified sectors (including ship-building and ship-breaking, transportation and communication and consumer credit, etc.) shared 11.2 percent, 8.6 percent, 8.1 percent, 5.6 percent, 3.0 percent and 12.4 percent of the total outstanding rescheduled loans respectively.

CHART 2.20: SECTOR-WISE SHARE OF OUTSTANDING RESCHEDULED LOANS IN 2021

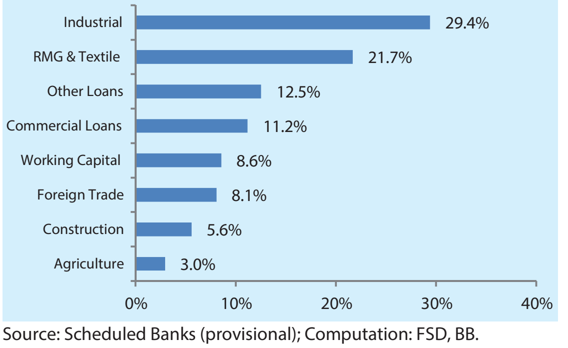
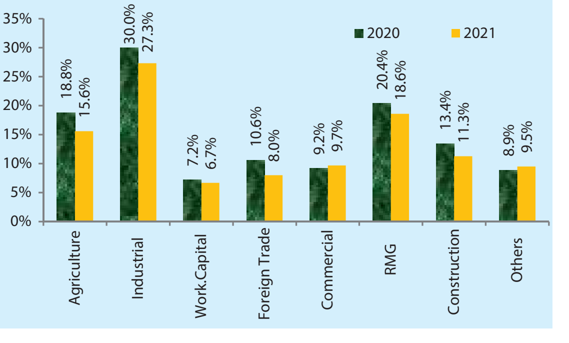


CHART 2.21: SECTOR-WISE OUTSTANDING RESCHEDULED LOANS TO TOTAL OUTSTANDING LOANS RATIO



Source: Scheduled Banks (provisional); Computation: FSD, BB.

The outstanding rescheduled loans to total outstanding loans ratio of the industrial sector ranked top among all the sectors (Chart 2.21) with 27.3 percent in 2021 followed by RMG, agriculture and construction with 18.6, 15.6 and 11.3 percent respectively. The outstanding rescheduled loans to total outstanding loans ratio in each of the remaining sectors was less than 10.0 percent. Chart 2.22 demonstrates the sector-wise classified rescheduled loans (CRSDL) ratio[15] for 2021 and 2020. There has been a general increase in classified outstanding rescheduled loan ratio across all sectors except agriculture and RMG sectors. The highest CRSDL ratio was observed in commercial loans, followed by foreign trade and construction sector.

[15] Classified Rescheduled Loan (CRSDL) Ratio= Total Classified (Non-Performing) Rescheduled Loans Outstanding to Total Rescheduled Loans Outstanding.

CHART 2.22: SECTOR-WISE CLASSIFIED RESCHEDULED LOANS (CRSDL) RATIO

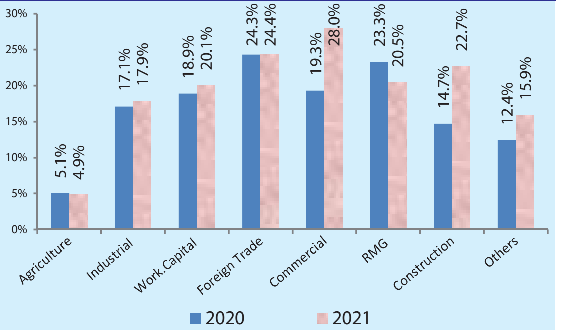
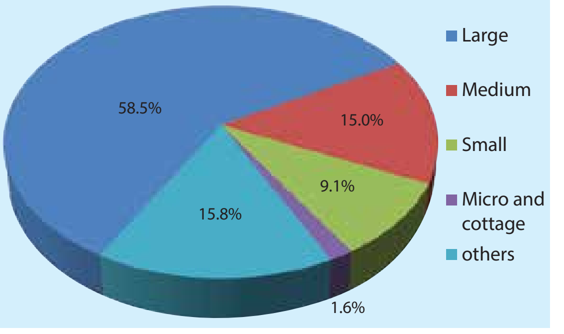


CHART 2.23: INDUSTRY-WISE SHARE OF OUTSTANDING RESCHEDULED LOANS IN 2021



Source: Scheduled Banks (provisional); Computation: FSD, BB.

Chart 2.23 exhibits the share of outstanding rescheduled loans for large, medium, small, micro & cottage, and other industries. As of end-December 2021, 58.5 percent of total outstanding rescheduled loans was under large industries. Shares of medium, small, micro and cottage, and other industries were 15.0 percent, 9.1 percent, 1.6 percent and 15.8 percent respectively.

Chart 2.24 illustrates the industry-wise outstanding rescheduled loans to total outstanding loans ratio at end-December 2021 and 2020. The highest ratio was observed in medium industries with 23.4 percent followed by large, small, micro and cottage, and other industries with 15.4, 11.2, 9.2, and 7.2 percent respectively. In 2021, the ratios in all industries except 'others' were lower than that of the previous year.

CHART 2.24: INDUSTRY-WISE OUTSTANDING RESCHEDULED LOANS TO TOTAL OUTSTANDING LOANS RATIO

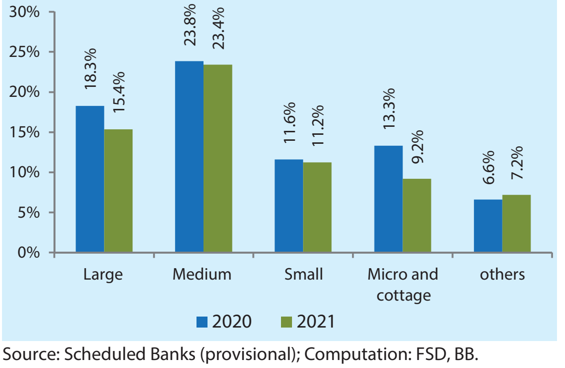
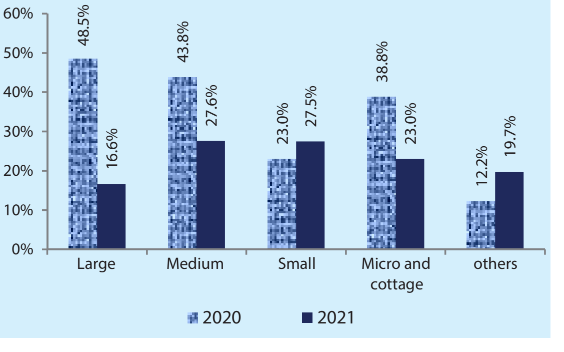


CHART 2.25: INDUSTRY-WISE CLASSIFIED RESCHEDULED LOANS (CRSDL) RATIO



Source: Scheduled Banks (provisional); Computation: FSD, BB.

Chart 2.25 illustrates the industry-wise classified rescheduled loans (CRSDL) ratio for the last two years. It shows that CRSDL ratio improved for all types of industries in 2021 compared to the previous year except 'small' and 'others'. Particularly, large industries observed a significant improvement over the previous year. Medium, small, micro and cottage, and other industries had CRSDL ratio of 27.6, 27.5, 23.0, and 19.7 percent respectively.

At end-December 2021, PCBs possessed the highest amount of outstanding rescheduled loans, which accounted for 65.0 percent of total outstanding rescheduled loans of the banking industry. During the same period, shares of SCBs, SBs, and FCBs in industry's aggregate rescheduled loans were 33.3, 1.2, and 0.5 percent respectively (Chart 2.26).

CHART 2.26: BANK CLUSTER-WISE COMPOSITION OF OUTSTANDING RESCHEDULED LOAN IN 2021

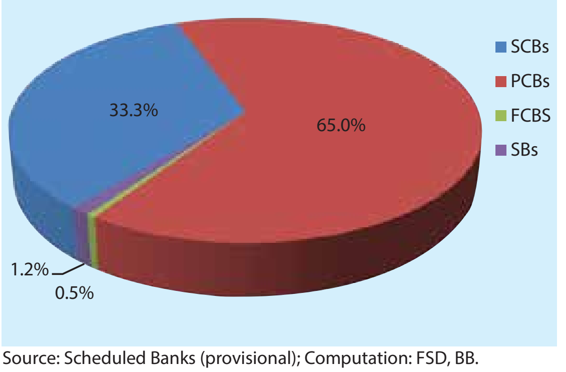
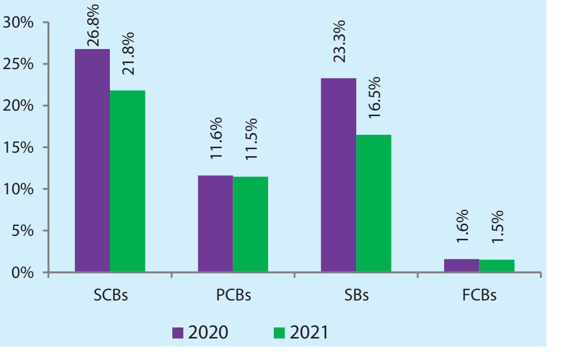


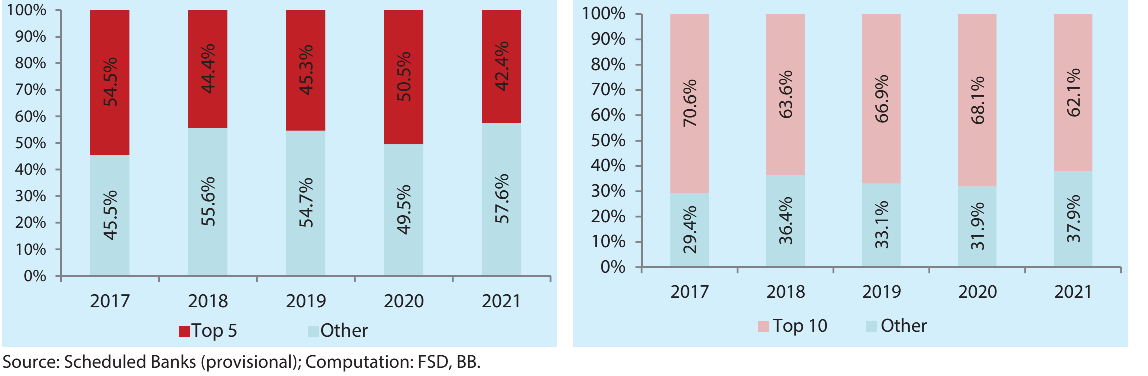
CHART 2.27: BANK CLUSTER-WISE OUTSTANDING RESCHEDULED LOANS TO TOTAL OUTSTANDING LOANS RATIO



Source: Scheduled Banks (provisional); Computation: FSD, BB.

However, Chart 2.27 reveals that the SCBs, at end-December 2021, ranked top with outstanding rescheduled loans to total outstanding loans ratio of 21.8 percent followed by SBs with 16.5 percent. The ratios were 11.5 percent and 1.5 percent respectively for PCBs and FCBs. This ratio decreased for all bank clusters in 2021 compared to 2020.

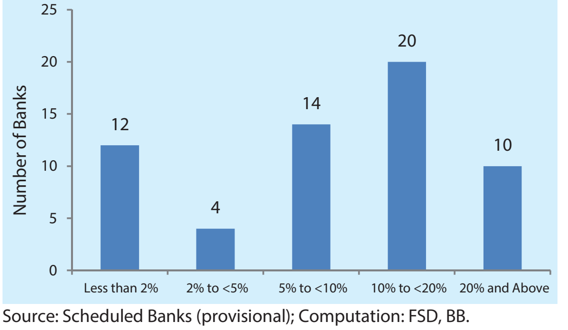
CHART 2.28: SHARE OF TOP 5 AND TOP 10 BANKS IN OUTSTANDING RESCHEDULED LOANS



Source: Scheduled Banks (provisional); Computation: FSD, BB.

Chart 2.28 highlights the concentration of outstanding rescheduled loans among the top 5 and top 10 banks. At end-December 2021, the top 5 banks held 42.4 percent of total outstanding rescheduled loans, while share of the top 10 banks was 62.1 percent. The top 5 banks comprised of three SCBs and two PCBs and the top 10 banks included five SCBs and five PCBs.

CHART 2.29: DISTRIBUTION OF BANKS BY OUTSTANDING RESCHEDULED LOANS TO TOTAL OUTSTANDING LOANS RATIO



Source: Scheduled Banks (provisional); Computation: FSD, BB.

Chart 2.29 shows the distribution of banks by outstanding rescheduled loans to total outstanding loans ratio. The ratio was between 5 to less than 10 percent for 14 banks of which all are PCBs except one foreign bank. The ratio was less than two percent for 12 banks, comprised of four PCBs, seven FCBs and one SB. In 2021, 30 banks had rescheduled loans ratio below 10.0 percent and 30 banks had it 10 percent and above.

2.5 LIABILITY STRUCTURE OF THE BANKING SECTOR

Deposit growth slowed down to 10.0 percent during the review year. However, banking system had enough deposit in support of the increased loan demand. The loan growth rate turned around and rose up to 12.7 percent suggesting increased economic activities after being affected by the onset of COVID-19 pandemic. Banks should focus on the deposit growth to support the adequate credit supply and to remain resilient from any liquidity stress in future.

At end-December 2021, the total liabilities of the banking sector stood at BDT 19,279.1 billion. The total deposit constitutes 80.6 percent of total liabilities at end-December 2021, which was 81.6 percent in 2020 (Chart 2.30). In 2021, the amount of total deposits increased by 10.1 percent (13.4 percent in 2020). However, after netting off interbank deposit, deposit growth stood at 10.0 percent. As deposit growth slowed down notably, banks need to give extra attention in asset-liability management.

CHART 2.30: YEAR-WISE BANKING SECTOR LIABILITY STRUCTURE

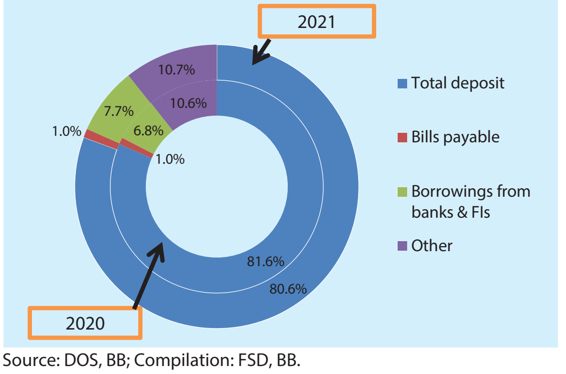
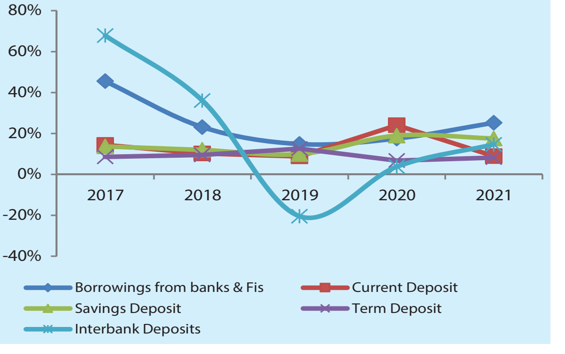


CHART 2.31: YEAR-WISE GROWTH OF DEPOSITS AND BORROWINGS FROM BANKS AND FIs



Source: DOS, BB; Compilation: FSD, BB.

Chart 2.31 shows growth rates of various deposit categories including borrowing from banks and FIs. Borrowing from banks and FIs, interbank deposit, and term deposit showed greater growth in 2021 than 2020; whereas the growth of current deposit and savings deposit slowed down in 2021. Borrowing from banks and FIs recorded the highest growth of 25.2 percent in 2021 (17.5 percent in 2020) while savings, interbank and term deposits grew by 17.5 percent (18.9 percent in 2020), 14.6 percent (3.7 percent in 2020) and 8.2 percent (6.7 percent in 2020) respectively (Chart 2.31). Current deposit grew by 8.9 percent (24.0 percent in 2020). As most of the banks had enough liquidity they invested the excess fund with other banks which resulted in positive growth in interbank lending and deposit.

The loan growth turned around in 2021 and rose to 12.7 percent. In contrast, deposit growth (excluding interbank) slowed down to 10.0 percent during the review year (Chart 2.32).

CHART 2.32: YEAR-WISE LOANS AND DEPOSIT GROWTH

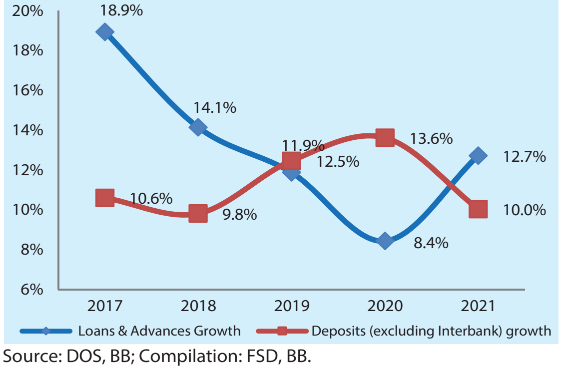
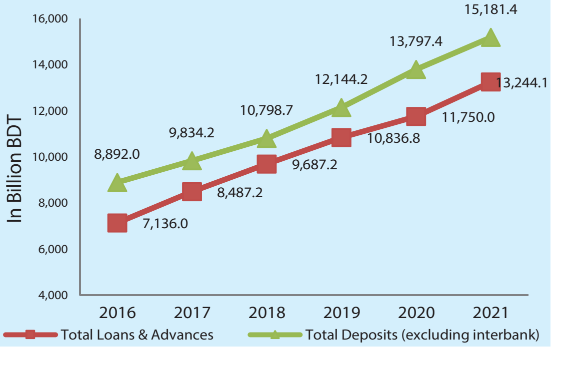


CHART 2.33: LOANS AND DEPOSITS OUTSTANDING



Source: DOS, BB; Compilation: FSD, BB.

Gap between outstanding deposits and loans slightly narrowed to BDT 1,937.3 billion in 2021 which was BDT 2,047.4 billion in 2020 (Chart 2.33). However, aggregate amount of deposit was sufficient to meet the aggregate amount of loan demand. Nevertheless, banks should focus on the deposit growth to support the adequate credit supply and to remain resilient from any liquidity stress in future.

Chart 2.34 compares the deposit and loan growth of four banking clusters in 2021. Both SCBs and FCBs had lower deposit growth than loan growth, whereas SBs and PCBs had higher deposit growth compared to loan growth.

CHART 2.34: GROWTH OF LOANS & ADVANCES AND DEPOSITS BY BANK CLUSTERS IN 2021

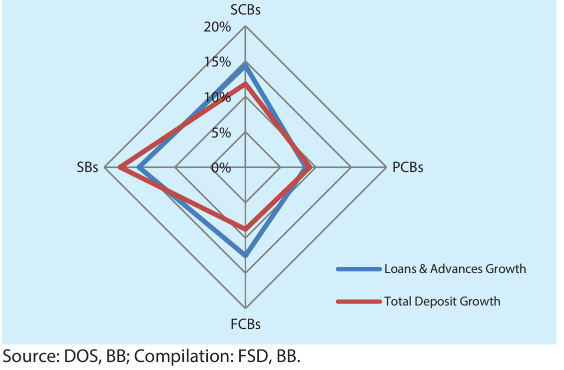
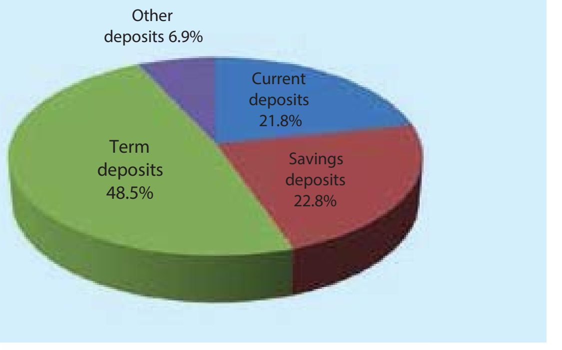


CHART 2.35: BANKING SECTOR'S DEPOSIT SHARE BY TYPES OF ACCOUNTS IN 2021

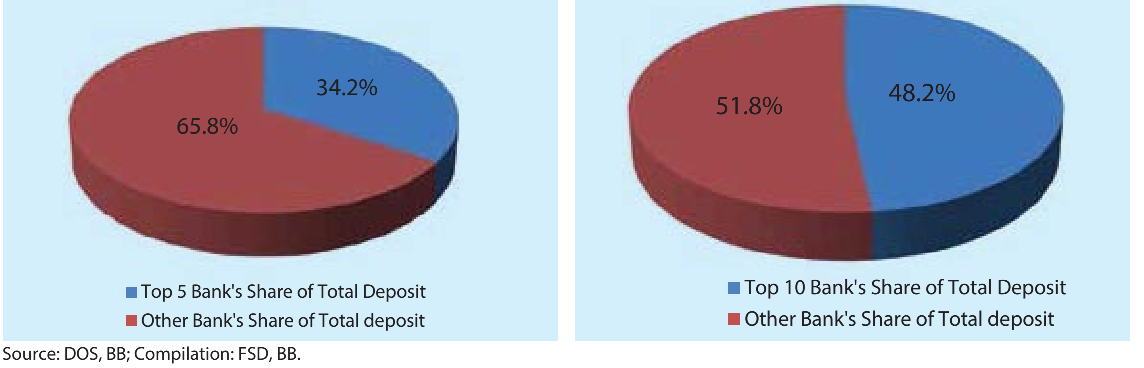


Source: DOS, BB; Compilation: FSD, BB.

Chart 2.35 shows the share of different kinds of deposits (excluding interbank deposits) at end-December 2021. Term deposit constituted almost half of the total deposits. Its share increased slightly to 48.5 percent in 2021 (48.2 percent in 2020). Shares of current deposit, savings deposit, and other deposits were 21.8 percent, 22.8 percent, and 6.9 percent respectively. A higher proportion of term deposit provided banks with a more stable source of funding, thereby promoting financial stability.

The concentration of deposits (excluding interbank) in the top five (5) and top ten (10) banks in 2021 increased compared to those of 2020 (Chart 2.36). These banks accounted for 34.2 percent and 48.2 percent of total deposits respectively in 2021 compared to 33.2 percent and 47.4 percent in 2020. Four (4) SCBs and one (1) PCB were listed as the top five (5) in terms of deposit holding.

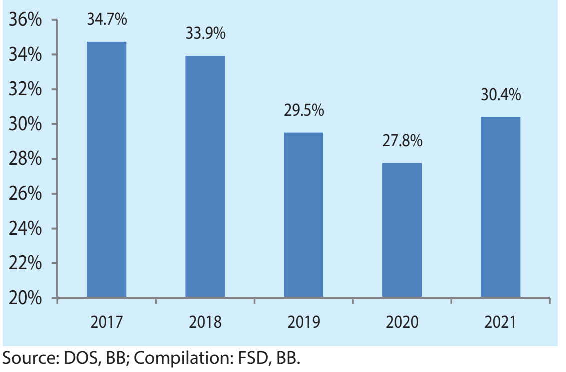
CHART 2.36: TOP 5 AND TOP 10 BANKS BASED ON SIZE OF DEPOSIT IN 2021



Source: DOS, BB; Compilation: FSD, BB.

The off-balance sheet (OBS) items to on-balance sheet assets ratio moved upward in 2021 compared to that of the preceding year.

CHART 2.37: OFF-BALANCE SHEET ITEMS TO ON-BALANCE SHEET ASSETS RATIO



Source: DOS, BB; Compilation: FSD, BB.

OBS items to on-balance sheet assets ratio went up at 30.4 percent in 2021 (Chart 2.37). Besides, the OBS items reached to amount of BDT 6,213.4 billion at end of 2021 which was BDT 5,111.9 billion at end of 2020. This rise in off balance sheet item are generally associated with credit, liquidity and counterparty risks which needs proper monitoring.

2.6 BANKING SECTOR DEPOSIT SAFETY NET

As per the existing law, under Deposit Insurance Trust Fund (DITF), every depositor will get an insurance coverage equal to his/her deposit up to BDT 100,000 in case of winding up of a bank. This insured amount stood at 23.0 percent of the total insurable deposits of the entire banking system at end-December 2021. Under this coverage 91.0 percent of the total depositors of the banking sector are fully insured.

Deposit insurance system (DIS) plays a crucial role in terms of financial stability by protecting interest of depositors, particularly small depositors, in case of closure or liquidation of a bank. It also increases public confidence in the banking system. The deposit insurance system in Bangladesh is administered by the *"Bank Amanat Bima Ain, 2000"*. In accordance to the Act, Bangladesh Bank (BB) is authorized to carry out a fund called Deposit Insurance Trust Fund (DITF) and the Board of Directors of BB acts as the Trustee Board of the DITF. This fund is formed mainly with the premiums received from its member banks and income from investing it in different government securities. All the scheduled banks are members of this scheme and their premium rate is determined on the basis of their health. Under the existing deposit safety net program, maximum BDT 100,000 of each depositor of every bank is guaranteed in case of liquidation of a bank.

It is worth mentioning that the amendment of "Bank Amanat Bima Ain-2000" as "Amanat Surokkah Ain" has been approved in the cabinet meeting and it will be sent to the Parliament for final approval. On this proposed amendment, the FIs will come under the umbrella of Deposit Insurance System (DIS) along with the scheduled banks while the per depositor coverage limit will increase up to BDT 200,000.

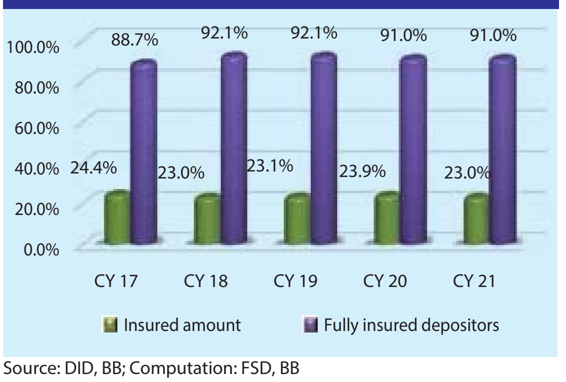
The amount at the DITF reached BDT 116.39 billion at end-December 2021 which was 15.1 percent higher than that of 2020 (Table 2.4). Despite having steady progression of premium collection and investment income, the existing balance of DITF stood at only 0.94 percent of the insurable deposits of the banking system at end-December 2021. The recent position of DITF is shown below:

TABLE 2.4: DEPOSIT INSURANCE TRUST FUND AND ITS COMPOSITION

(In BDT Billion)

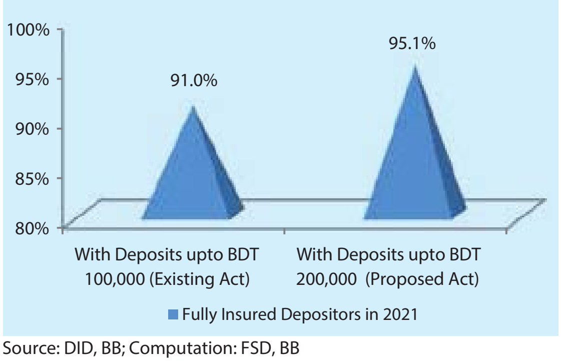
Particulars	2017	2018	2019	2020	2021
Insurable Deposits	8334.27	9051.76	10164.92	11343.97	12379.20
Insurance Premium (during the year)	5.07	5.49	6.01	6.79	7.93
Deposit Insurance Trust Fund Balance	**64.02**	**74.28**	**87.48**	**101.15**	**116.39**
i. Investment	63.98	74.24	87.42	99.69	116.26
ii. Cash	0.04	0.04	0.06	1.46	0.13
Source: DID, BB.					

CHART 2.38: SAFETY NET ON BANKING SECTOR DEPOSITS



Source: DID, BB; Computation: FSD, BB

CHART 2.39: PROTECTION OF DEPOSITORS ON ENHANCEMENT OF INSURED DEPOSIT COVERAGE LEVEL



Source: DID, BB; Computation: FSD, BB

The scenario of deposit safety net is illustrated in Chart 2.38. The insured amount[16] of total insurable deposits has decreased slightly from 23.9 percent in 2020 to 23.0 percent in 2021. The insurable deposits with the banks grew by 9.1 percent in 2021 whereas the growth was 11.6 percent in 2020. Notably, the deposit insurance system provides comprehensive deposit safety net for the small depositors with 91.0 percent of the total depositors of the entire banking system are fully insured.

Chart 2.39 shows the coverage of fully insured depositors considering the relevant existing and proposed Act. If the proposed Act is implemented and the deposit insurance coverage limit per depositor is extended from BDT 100,000 to BDT 200,000 the percentage of fully insured depositors may increase to 95.1 percent.

Financial system in Bangladesh is mainly dominated by the banking sector. Under the deposit insurance safety net, majority of the depositors (91 percent) of the banking system of Bangladesh are fully insured. However, it is expected that proposed Act will play a great role to enhance the deposit safety, thereby contributing to the financial stability.

[16] The insured amount refers to the aggregate figure of the deposits up to BDT 100,000 per depositor of each bank.

BOX 2.2: THE CAPACITY OF EXISTING DITF AND ITS FORECAST

As of end-December 2021, the balance of Deposit Insurance Trust Fund (DITF) stood at BDT 116.39 billion. The capacity of the DITF supports adequately for the liquidation of any single bank. Chart B2.2.Y.1 and B2.2.Y.2 illustrate that the fund from the DITF will be enough to liquidate three (03) PCBs chosen based on the highest Gross Non-Performing Loan (GNPL) ratio[17] in the banking industry at end-December 2021. Deposit amount of these three banks remained between BDT 8.9 billion to BDT 29.6 billion, while their present insured deposit amount remained between BDT 0.5 billion to BDT 2.03 billion. Only 2.9 percent of the current DITF balance will be required to liquidate the above three PCBs under the current insured deposit level up to BDT 100,000. The current DITF balance would also be sufficient in case the insured deposit level is doubled to BDT 200,000.

CHART B 2.2.Y.1: UTILIZATION OF FUND FROM DITF TO LIQUIDATE THREE PRIVATE COMMERCIAL BANKS AT CURRENT INSURANCE LEVEL UP TO BDT 100,000.

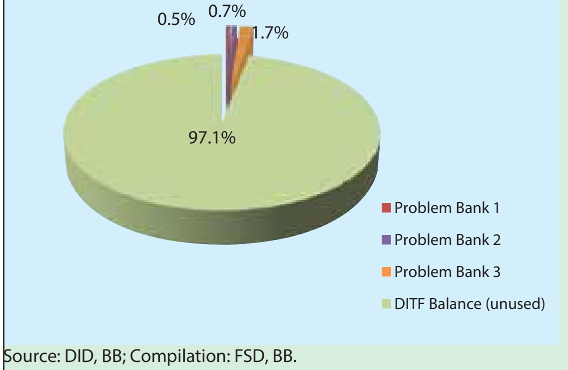
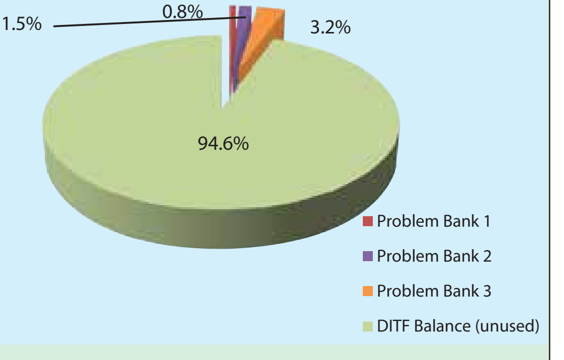


CHART B 2.2.Y.2: UTILIZATION OF FUND FROM DITF TO LIQUIDATE THREE PRIVATE COMMERCIAL BANKS AT INSURANCE LEVEL UP TO BDT 200,000.



Source: DID, BB; Compilation: FSD, BB.

Chart B2.2.Y.3 illustrates that the present balance of DITF will be able to compensate up to 39 small banks' insured deposits (up to BDT 100,000 per depositor) in the case of either single bank liquidation or a series of banks' liquidation. Here, the banks are arranged in an ascending order of their corresponding deposit size, irrespective of the category. However, depositors of a significant number of banks may not be fully compensated (hypothetical scenario) with the current balance of DITF due to the larger deposit bases of those banks.

CHART B 2.2.Y.3: OPTIMUM NUMBER OF SMALL BANKS CAN BE LIQUIDATED USING FUND FROM DITF

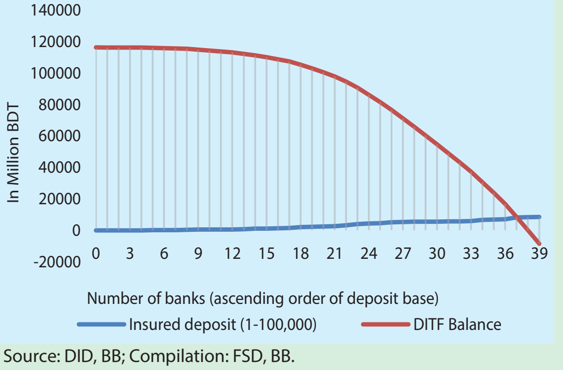
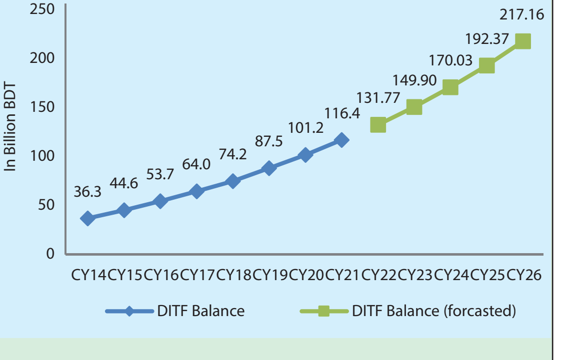


CHART B 2.2.Y.4: FORECASTED DEPOSITORS' SAFETY NET IN NEXT 5 YEARS (BILLION BDT)



Source: DID, BB; Compilation: FSD, BB.

After the incorporation of deposit insurance system in 1984, the DITF has grown over time, reached to BDT 116.39 billion at end-December 2021. Assuming no bank failure and no requirement of fund for liquidation in next 5 years, the DITF fund may reach to BDT 217.16 billion in 2026 (Chart B2.2.Y.4).

[17] Gross NPL to total loans ratio.

2.7 BANKING SECTOR PROFITABILITY

In 2021, the amount of net profit after taxes of the banking sector recorded an increase compared to that of 2020.

Banking sector's operating profit[18] increased by 10.17 percent and stood at BDT 282.05 billion in 2021 from BDT 256.01 billion in 2020. Net profit[19] increased by 7.93 percent from BDT 46.53 billion in 2020 to BDT 50.22 billion in 2021. Besides, during the review year, the total maintained bad debt provisions recorded an increase of 21.33 percent and stood at BDT 152.90 billion compared to BDT 126.02 billion in 2020.

The return on equity (ROE) of banking industry increased in 2021 while return on assets (ROA) remained stable compared to those of 2020.

The ROA of the banking sector remained almost same (0.25 percent) in 2021 compared to that in 2020. On the other hand, the return on equity (ROE) increased to 4.37 percent from 4.28 percent in 2020, recorded an increase of 9 basis points during the period.

CHART 2.40: BANKING SECTOR RETURN ON ASSETS (ROA)

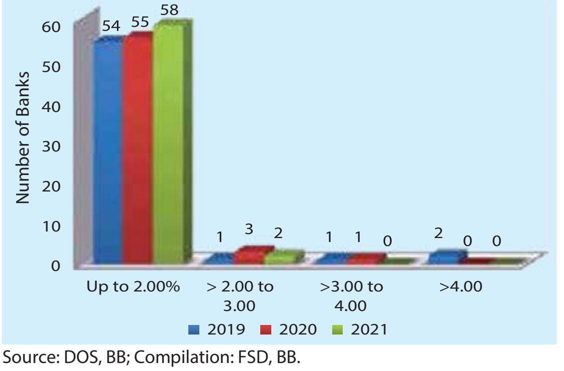
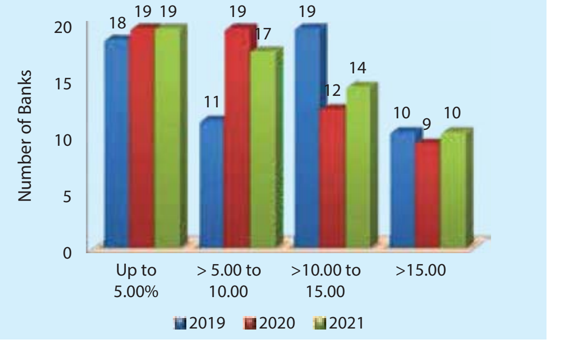


CHART 2.41: BANKING SECTOR RETURN ON EQUITY (ROE)



Source: DOS, BB; Compilation: FSD, BB.

In the review year, ROA of 28 banks increased while it declined in 32 banks. Similarly, ROE of 31 banks increased and that of 25 banks decreased while the position of 4 banks remained same compared to 2020. Particularly, 96.67 percent of the banks had ROA below 2.0 percent (Chart 2.40) and 60.00 percent of the banks had ROE equal to or less than 10.0 percent (Chart 2.41).

In 2021, the overall Net Interest Margin[20](NIM) of the banking industry decreased to 1.3 percent from 1.4 percent in 2020.

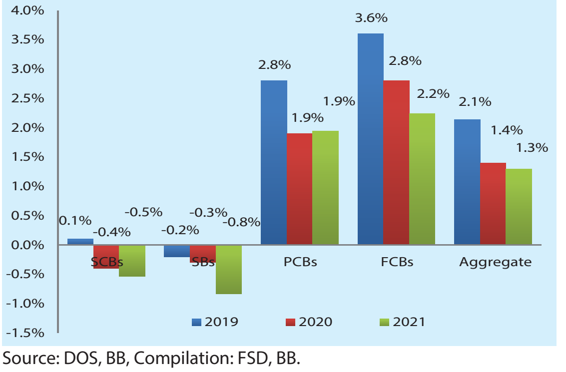
Both the interest income and interest expense decreased by 4.06 percent and 7.82 percent respectively in 2021 with respect to those in 2020. In contrast, non-interest income and non-interest expense increased by 7.92 percent and 6.24 percent respectively which led to increase in the net operating income by 21.63 percent compared to the preceding year.

[18] Profit before provision and tax.

[19] Profit after provision and tax.

[20] Net interest margin is a measure of the difference between the interest income generated and the amount of interest paid out to their lenders, relative to the amount of interest earning assets.

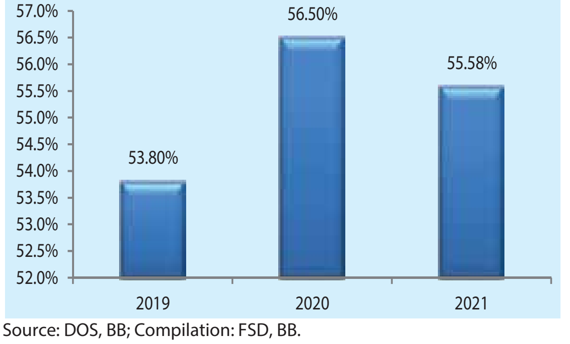
CHART 2.42: BANK TYPE WISE NET INTEREST MARGIN (NIM)



Source: DOS, BB, Compilation: FSD, BB.

The SCBs and SBs recorded negative NIM in 2021 and 2020. The NIM of PCBs remained same which was 1.9 percent in both the review year and preceding year. The NIM of FCBs decreased and stood at 2.2 percent in 2021 (Chart 2.42). It is worth mentioning that the interest income for FCBs was much higher compared to their interest expense, whereas the interest income from loans barely exceeded interest expense on deposits for the SCBs and SBs. In aggregate, the industry's NIM stood at 1.3 percent in 2021 as compared to 1.4 percent in 2020.

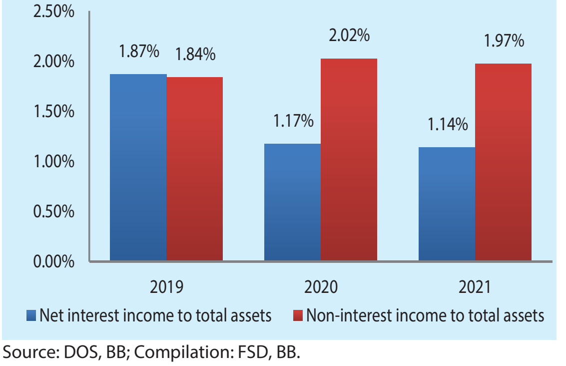
CHART 2.43: NON-INTEREST EXPENSE TO GROSS OPERATING INCOME RATIO



Source: DOS, BB; Compilation: FSD, BB.

The non-interest expenses and gross operating income[21] increased by 8.26 percent and 7.98 percent respectively in the review year. However, the ratio of non-interest operating expenses to gross operating income registered a decrease of 0.92 percentage points from 56.50 percent in 2020 to 55.58 percent in 2021 (Chart 2.43).

CHART 2.44: BANKING SECTOR INCOME BY SOURCES



Source: DOS, BB; Compilation: FSD, BB.

Chart 2.44 depicts that the change in net interest income to total assets in 2021 was very insignificant compared to 2020. Small change so far occurred in terms of non-interest income to total assets between 2020 and 2021. But in terms of absolute amount both net interest income and non-interest income increased from 2020 in 2021.

The interest rate spread widened by 10 basis points at end-December 2021 compared to that of end-December 2020.

At end December 2021, the weighted average lending rate decreased to 7.18 percent from 7.60 percent at end December 2020 while the weighted average deposit rate registered a decrease from 4.50 percent to 3.99 percent during the same period. In consequence, the weighted average interest rate spread for the banks increased from 3.10 percent in December 2020 to 3.20 percent in December 2021 (Chart 2.45).

[21] Gross operating Income= Net interest income + Non-interest income.

CHART 2.45: BANKING SECTOR MONTHLY WEIGHTED AVERAGE OVERALL INTEREST RATE SPREAD

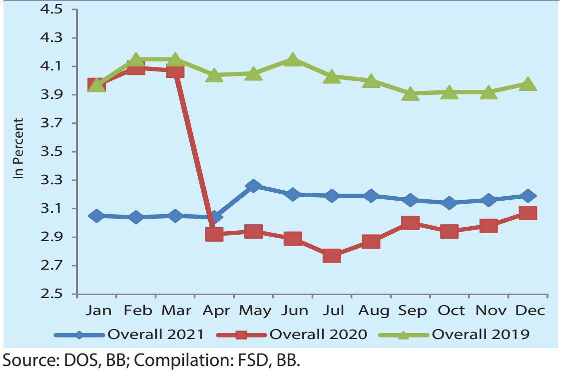
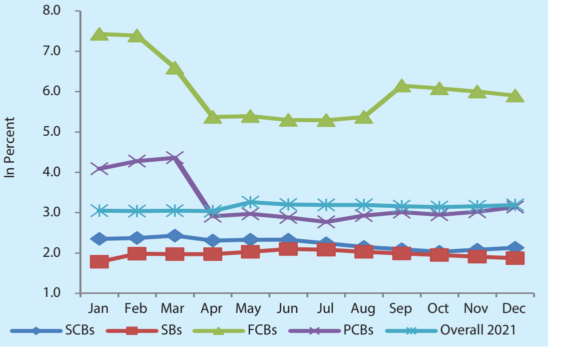


CHART 2.46: BANK CATEGORY-WISE MONTHLY WEIGHTED AVERAGE INTEREST RATE SPREAD FOR 2021



Source: DOS, BB; Compilation: FSD, BB.

Chart 2.46 shows the interest rate spreads of different categories of banks from January 2021 to December 2021. The Chart shows that the weighted average interest rate spread of the banking sector was hovering around 3.0 percent throughout 2021. Spreads of SCBs and SBs were below 3.0 percent while the spread of PCBs remained around 3.0 percent. The spread of FCBs continued to remain higher than other bank clusters largely due to higher interest rate on consumer finance and credit card operation as they extended their retail products regularly.

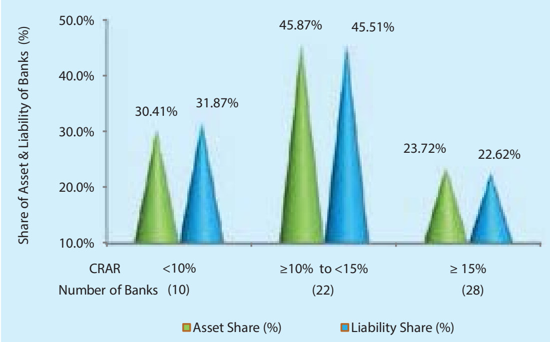
2.8 CAPITAL ADEQUACY

Although Tier-1 capital ratio[22] of the banking industry increased slightly, capital to risk-weighted assets ratio (CRAR) recorded minor decline by 56 basis points at end-December 2021 due to deterioration of asset quality; still the ratio remained above the regulatory requirement. High regulatory capital position of FCBs and PCBs helped to keep overall CRAR of the industry steady during this period. Specially, during 2021, relatively higher earnings under non-interest income heads along with temporary relaxation in loan classification and required specific provision policy resulted in higher net income which, in turn, increased capital base of PCBs and FCBs despite the decrease in interest income from loans. However, CRAR position of the SCBs and SBs deteriorated further and stayed below the minimum regulatory standard.

CRAR of the banking industry slightly decreased to 11.08 percent at end-December 2021 compared to 11.64 percent of the previous period. Nevertheless, it was above the regulatory minimum capital requirement of 10.0 percent and thus provided support to the resilience of the banking sector. At end-December 2021, the number of CRAR-compliant banks increased to 50 from 49 of end-December 2020. These 50 banks possess 69.58 percent share of total assets and 68.13 percent share of total liabilities of the banking system. Conversely, ten (10) CRAR-non-compliant banks held 30.42 percent share of assets and 31.87 percent share of liabilities (Chart 2.47). The asset share of the CRAR-compliant banks was 72.40 percent in the previous year (Chart 2.48).

[22] Refers as Tier-1 capital to risk-weighted assets ratio.

CHART 2.47: ASSET AND LIABILITY SHARE OF BANKS BY CRAR AT END-DECEMBER 2021



Source: DOS, BB; Computation: FSD, BB.

CHART 2.48: YEAR-WISE CRAR, CRAR COMPLIANT BANKS AND THEIR ASSET SHARE

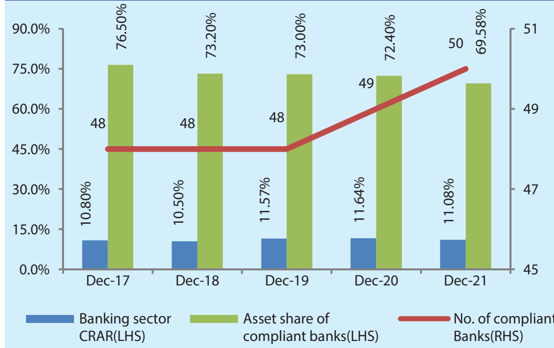
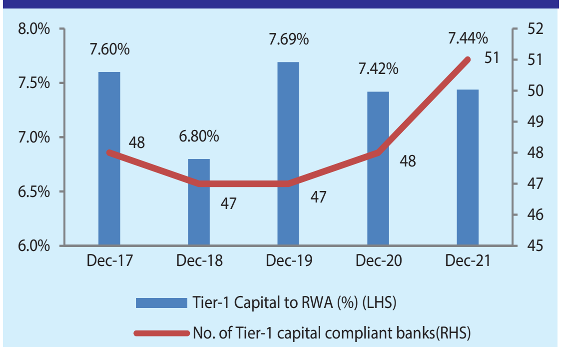


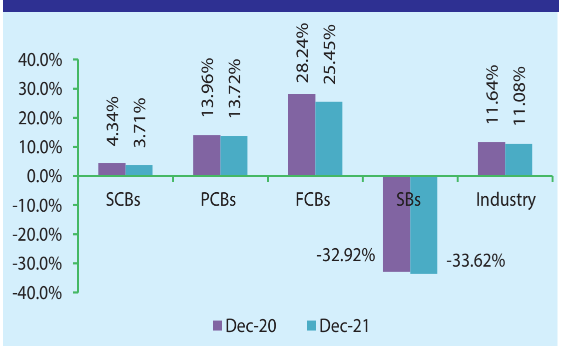
CHART 2.49: YEAR-WISE TIER-1 CAPITAL RATIO OF BANKS



Source: DOS, BB; Computation: FSD, BB.

The Tier-1 capital ratio, the core component of CRAR, of the banking sector increased marginally at end-December 2021 to 7.44 percent from 7.42 percent at end-December 2020, achieving the level further above the regulatory minimum requirement of 6.0 percent. The number of Tier-1 capital compliant banks increased to 51 compared to 48 at the end of the preceding period (Chart 2.49)

CHART 2.50: CRAR BY BANKING GROUP AT END-DECEMBER 2020 AND 2021



Source: DOS, BB; Computation: FSD, BB.

Chart 2.50 presents a comparative analysis of CRAR of different banking groups. CRARs of both SCBs and PCBs decreased by 63 and 24 basis points (bps) from end-December 2020 and reached to 3.71 percent and 13.72 percent respectively at end-December 2021. CRAR of FCBs decreased by 279 basis points, yet remained well above the minimum regulatory requirement and CRAR of SBs declined further in the negative territory. Under the pandemic situation, the CRARs of all banking clusters have eroded somewhat which needs to be addressed for strengthening the resilience of the banking system.

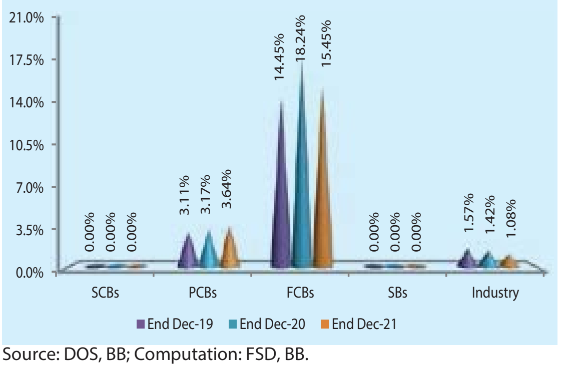
In line with the Basel III framework[24], banks are required to maintain a Capital Conservation Buffer (CCB) of 2.5 percent against the total risk-weighted assets in the form of common equity tier-1 (CET-1) capital above the minimum regulatory capital requirement (CRAR) of 10.0 percent. Against this requirement, the banking industry maintained a CCB of 1.08 percent as

[23] 100 basis points is equivalent to 1 percentage point.

[24] CCB requirement for banks in Bangladesh started from early 2016 in a step-up manner and full implementation commenced in early 2019 with CCB requirement of 2.5 percent above the regulatory MCR of 10.0 percent.

of end-December 2021 (Chart 2.51). It was 1.42 percent at end-December 2020. Although PCBs and FCBs maintained the CCB well above the minimum regulatory requirement, SCBs and SBs drew down the industry's CCB (Chart 2.51). However, majority of the banks (44 out of 60) maintained the minimum required CCB in 2021 while the number was 40 out of 59 banks in 2020.

CHART 2.51: CCB BY BANKING GROUP



Source: DOS, BB; Computation: FSD, BB.

Chart 2.51 shows that PCBs and FCBs maintained CCB above the minimum requirement as of end-December 2021. At end-December 2021, CCBs of PCBs increased and reached at 3.64 percent while that of FCBs declined to 15.45 percent. However, SCBs and SBs could not maintain CCB as they could not even meet minimum capital requirement of 10.0 percent as cluster.

Taking the cross-country scenario into account (Table 2.5), the capital adequacy of Bangladesh's banking sector was low compared to the ratios of neighboring countries in 2021.

TABLE 2.5: COMPARISON OF CAPITAL ADEQUACY AMONG THE NEIGHBORING COUNTRIES

Countries	CRAR (%)				
	2017	2018	2019	2020	2021
India	13.9*	13.7*	15.1*	15.8*	16.6*
Pakistan	15.8	16.2	17	18.6	16.7
Sri Lanka	15.2	15.1	16.5	16.5	16.5**
Bangladesh	10.8	10.5	11.6	11.6	11.08

* Data as of end-September, **Provisional.

Source: Financial Stability Report (various issues), Reserve Bank of India; Financial Stability Report, December 2021, State Bank of Pakistan; Quarterly Compendium: Statistics of the Banking System, Central Bank of Sri-Lanka (https://www.cbsl.gov.lk/en/statistics/statistical-tables/financial-sector); and DOS, BB.

2.9 LEVERAGE RATIO

Although all the banking clusters experienced decline in leverage ratios[25], banking sector, as a whole, maintained a leverage ratio well above the regulatory minimum requirement led primarily by high leverage ratios of FCBs and PCBs.

To limit the build-up of excessive on- and off-balance sheet leverage in the banking system, the Basel III framework introduced a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital framework. Against the regulatory minimum requirement of 3.0 percent, banking sector maintained a leverage ratio of 4.18 percent at end-December 2021 which is 6 basis points lower than the one maintained at end-December 2020 (Chart 2.52). Most importantly, all the banking clusters experienced

[25] Leverage ratio = (Tier-1 capital after related deductions)/ (Total exposure after related deductions).

decline in leverage ratios with respect to those of end-December 2020 except PCBs. FCBs maintained the highest leverage ratio of 11.49 percent followed by PCB of 5.59 percent in the review year. SCBs' leverage ratio moves downward and stood at 0.42 percent compared to 0.56 percent recorded at end-December 2020, which hampered their ability in withstanding any potential near-term negative shock. Moreover, their weakening leverage ratio raises concern for the banking sector as a whole since SCBs account for substantial banking sector exposures. Pertinently, the number of non-compliant banks in terms of leverage ratio remained unchanged in 2021 with respect to 2020 (Chart 2.53).

CHART 2.52: YEAR-WISE LEVERAGE RATIO OF BANK CLUSTERS

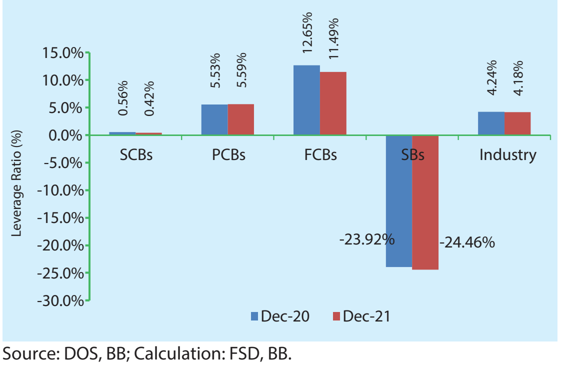
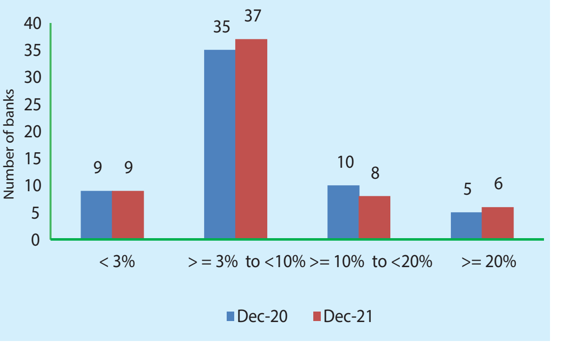


CHART 2.53: YEAR-WISE DISTRIBUTION OF BANKS' LEVERAGE RATIO



Source: DOS, BB; Calculation: FSD, BB.

2.10 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

As a step towards implementation of Pillar II of Basel III, BB is working for implementation of Internal Capital Adequacy Assessment Process (ICAAP) in Bangladesh. Banks evaluate their internal processes and strategies to ensure adequate capital covering all material risks through ICAAP. BB reviews and evaluates banks' ICAAP reports and their strategies during its Supervisory Review Evaluation Process (SREP) inspection. SRP-SREP Dialogue, which is another major part of Pillar II Implementation process, could not take ground due to COVID-19 pandemic for last two years. Initiatives have already been taken for this year's Pillar-II implementation. With the experience of the last three years meetings (base year of 2016, 2017 and 2018 respectively) with banks, it was found that the estimated additional capital requirement for residual risk arose mainly due to documentation error which was the highest among the pillar II risks. Apart from that, strategic risks and appraisal of core risks management were the other major concerns for the banks.

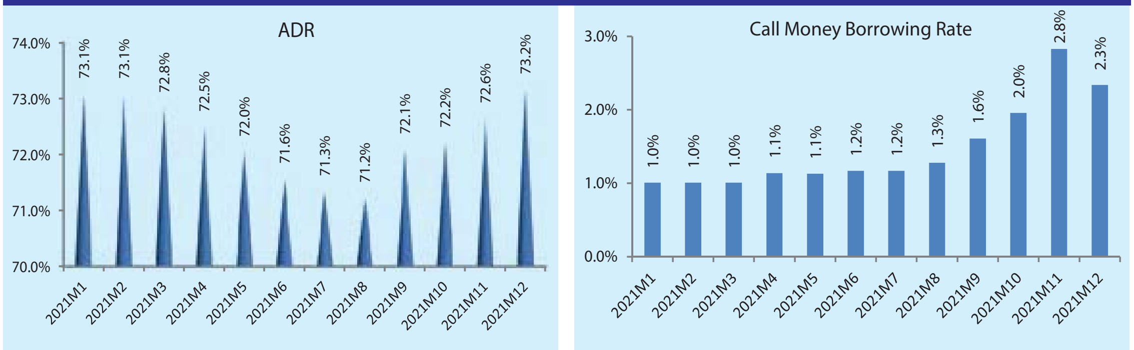
2.11 BANKING SECTOR LIQUIDITY

The liquidity situation in the banking industry remained buoyant during 2021.

Banking industry experienced easy liquidity condition throughout 2021 as indicated by their lower than usual advance-to-deposit ratio (ADR) and call money rate. Chart 2.54 depicts that the banking sector's ADR had been well below the admissible limit[26] of 87 percent across 2021 mainly due to moderate credit demand. However, it increased to 73.15 percent at end-December 2021 from 72.69 percent at end-December 2020 (see Appendix). Month-wise ADR demonstrated a downward trend till August but went up after that in 2021.

[26] Banks were instructed in April 2020 to rationalize their ADR within maximum 87.0 percent for conventional banks and 92.0 percent for Islamic Shari'ah based banks respectively (ref.: DOS Circular no.02 dated 12 April 2020).

CHART 2.54 : MONTHLY ADR AND CALL MONEY BORROWING RATE



Source: DOS, BB.

Source: DMD, BB.

Banking industry registered elevated excess liquidity in 2021, partly attributable to reduced CRR set to 4 percent in April 2020. As a result, call money rate remained low in 2021, yet an increasing trend is evident in latter half and peaked at 2.8 percent in November 2021 and declined to 2.3 percent in December 2021. The rise of call money rate in the last three months of 2021 was partly due to Bangladesh Bank's mopping up of some liquidity from the market in an effort to curb the rising inflation.

CHART 2.55: BANKS' CLUSTER-WISE ADR

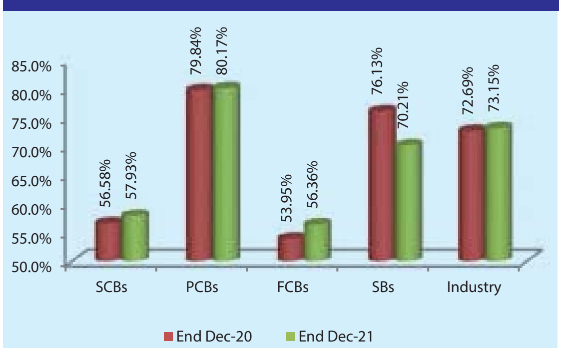
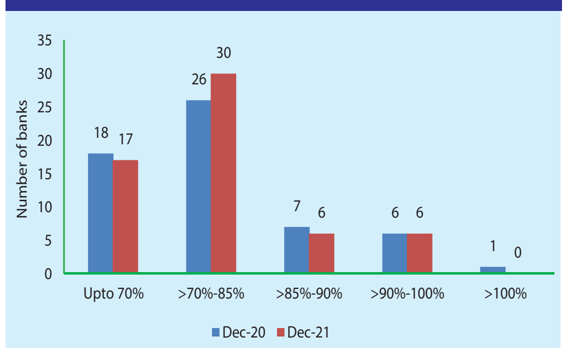


CHART 2.56: DISTRIBUTION OF BANKS IN TERMS OF ADR



Source: DOS, BB.

Chart 2.55 exhibits that ADRs of all bank clusters increased except that of the SBs, which saw 5.92 percentage points decrease in 2021 from 76.13 percent. Among the clusters, PCBs maintained the highest ADR as usual and their ADR increased by 0.33 percentage point in 2021 compared to that of the preceding year. In case of SCBs and FCBs, such increase accounted for 1.35 and 2.41 percentage points respectively as the credit growths in those cluster were more prominent than the rest. The number of banks with 90.0 percent or higher ADR, was 6 (six) in 2021 (Chart 2.56).

All banking clusters as well as the industry as a whole maintained liquidity coverage ratio (LCR[27]) and net stable funding ratio (NSFR[28]) above the regulatory minimum requirement[29] throughout the year 2021 (Chart 2.57 and 2.58). The industry average of LCR decreased from 224.8 percent at end-December 2020 to 193.60 percent at end-December 2021. However, the

[27] LCR measures a bank's need for liquid assets in a stressed environment over the next 30 calendar days.

[28] NSFR measures a bank's need for liquid assets in a stressed environment over one year period.

[29] Minimum requirement: 100 percent for LCR; more than 100 percent for NSFR.

ratio was sufficient enough to meet up the short-term obligations for next 30 calendar days under hypothetical financial stressed scenario. Among the bank clusters, SCBs maintained the highest LCR, posting at 384.91 percent on average in 2021. On the other hand, the NSFR of the banking industry remained same at 110.1 percent at end-December 2021 as that of at end-December 2020. The ratio indicates the banking industry had enough stable funds to finance its long-term assets following the existing regulatory requirement.

CHART 2.57: BANKS' CLUSTER-WISE MONTHLY LCR

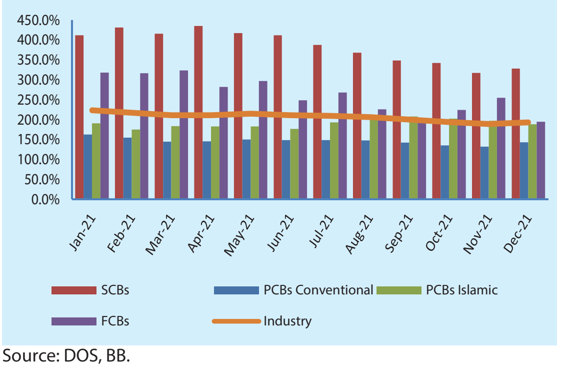
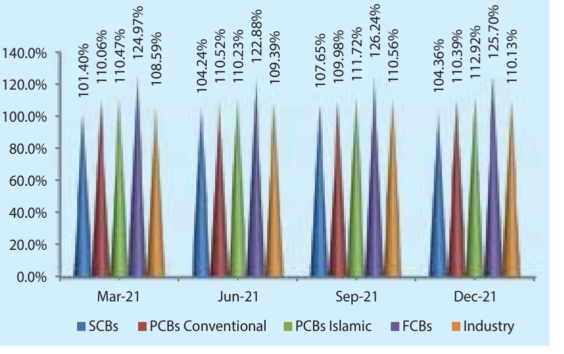


CHART 2.58: BANKS' CLUSTER-WISE QUARTERLY NSFR



Source: DOS, BB.
NB:SBs(BDBL, BKB, PKB and RAKUB) are exempted from maintaining regulatory LCR and NSFR.

In addition, on bi-weekly average basis, both conventional and Islamic Shari'ah-based banks were able to maintain the minimum required Cash Reserve Ratio (CRR) as of end-December 2021. Both types of banks were also compliant in fulfilling the minimum required Statutory Liquidity Ratio (SLR) of 13 percent and 5.5 percent respectively.

2.12 PERFORMANCE OF LOCAL BANKS' BRANCHES OPERATING ABROAD

The performance of branches of the scheduled banks operating abroad was almost stable in 2021. Two SOCBs (Sonali and Janata Bank Ltd) and one PCB (AB Bank Ltd) have been performing their overseas banking services through 7 full-fledged overseas branches in different locations of the UAE and India. On the other hand, 20 banks have been providing overseas banking services for collecting foreign remittances and other activities through 25 exchange houses, 7 representative offi ces and 5 subsidiary companies during 2021.

The net profit of the overseas branches of 3 (three) banks in 2021 was USD 4.30 million which was USD 0.04 million less than that of 2020. In the review year, the customers' deposit of overseas branches increased by 23.37 percent and recorded to USD 275.50 million from USD 223.31 million of the previous year. Besides, loans and advances increased by USD 11.76 million and stood at USD 94.32 million in 2021.

2.12.1 ASSETS STRUCTURE OF OVERSEAS BRANCHES

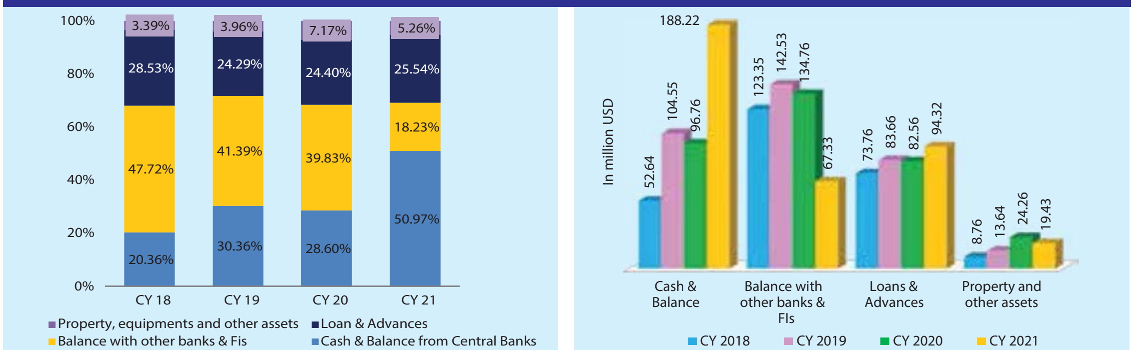
In 2021, Bangladeshi bank branches operating abroad recorded a moderate increase in total assets than that of the previous year.

Chart 2.59 illustrates the asset composition of Bangladeshi bank branches operating abroad. In 2021, the aggregate asset of 7 overseas branches was USD 369.29 million or BDT 31.69 billion[30] (approx) which is 0.16 percent of the total asset (USD 238.10 billion) of the banking

[30] BDT is converted to USD with the exchange rate as on 31.12.2021 which is published in Monthly Economic Trend of BB.

industry of Bangladesh. In 2021, a notable increase of 94.52 percent was observed in overseas branches' cash and balance kept with the central bank and stood at USD 188.22 million. Loans and advances also increased by 14.24 percent and stood at USD 94.32 million.

CHART 2.59: CHANGE IN ASSET COMPOSITION OF BANGLADESHI BANK BRANCHES OPERATING ABROAD



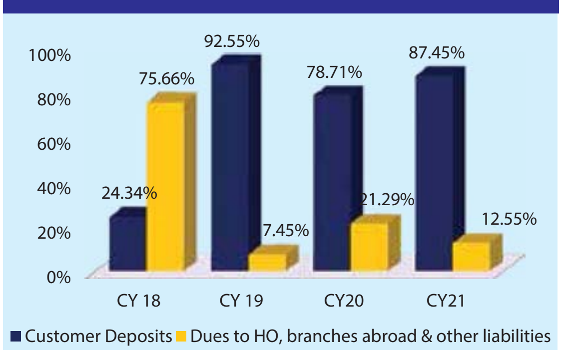
Source: Department of Off-site supervision; Compilation: FSD, BB.

On the other hand, balance with other banks and FIs decreased by 50.04 percent and reached at USD 67.33 million. Property, equipments and other assets decreased by 19.92 percent which contains merely 5.26 percent of the assets of these branches in 2021. Overall, the total asset of these overseas branches in 2021 was 9.15 percent higher than that of the previous year.

2. 12.2 LIABILITIES STRUCTURE OF OVERSEAS BRANCHES

In 2021, total liabilities of the overseas branches slightly increased in comparison with 2020.

CHART 2.60: COMPOSITION OF LIABILITIES OF BANKS OPERATING ABROAD



Source: DOS, Compilation: FSD, BB.

The total liabilities of the overseas branches of Bangladeshi banks was USD 315.03 million or BDT 27.03 billion in 2021 which was USD 31.32 million higher than the previous year. The amount of customers' deposits consisting of 87.45 percent of the total liabilities in the review year increased by 23.37 percent which is equivalent to USD 52.20 million. The other liabilities reduced by 34.56 percent in the review year and stood at USD 39.52 million or nearly BDT 3.39 billion.

2.12.3 OPERATIONAL PERFORMANCE OF OVERSEAS BRANCHES

In 2021, the net profit of the overseas branches decreased slightly compared to the previous year.

At end-December 2021, the aggregate net profit from the overseas branches of three Bangladeshi banks was USD 4.30 million which is 1.0 percent less than that of the previous calendar year. The Return on Asset (ROA) reduced from 1.28 percent to 1.16 percent.

2.12.4 RISKS FROM OVERSEAS BANKING OPERATION

Sound financial condition of the overseas branches largely depends on the condition of the

host country. Although the overseas branches are expected to operate in a smooth way but to avoid any potential risk, a prudent monitoring is required to ensure branches' proper compliance with the regulations imposed by the regulators of the both home and host countries.

As the overall financial health and banking activities of overseas branches occupied a very insignificant portion of parent banks' aggregate balance sheet exposures, no significant financial threat was observed during 2021. In addition, those branches were also brought under the AML-CFT regime for strengthening their overall compliance culture.

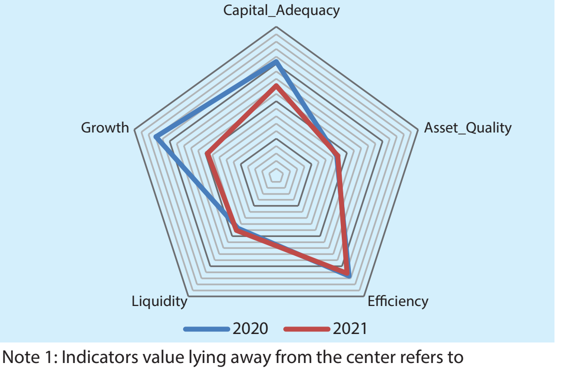
2.13 ISLAMIC BANKING

All Islamic Banks in Bangladesh, except 1 (one), found resilient as their capital adequacy and liquidity ratios remained above the regulatory requirements in 2021. However, out of ten(10) Islamic banks, 6(six) were able to maintain a capital conservation buffer (CCB) of 2.5 percent or more in addition to the minimum capital to risk-weighted assets ratio of 10.0 percent. In addition, asset quality improved marginally during 2021. The risk of deviation from the Shari'ah principles in designing and selling financial products may always pose an additional reputational risk for this type of bank.

In line with the conventional banks, Islamic banking in Bangladesh plays a very crucial role in mobilizing deposits and financing key sectors of the economy. Since its inception in 1983, this Shari'ah-based banking system is receiving growing attention for its 'equity-based and (fixed) interest-free' banking philosophy and now holds more than one-fifth of total assets held by the entire banking sector of the country. Currently, a total of 10 (ten) full-fledged Islamic banks with 1671 branches are operating in Bangladesh (as of end-December, 2021). Besides, 9 (nine) conventional banks operating through 41 Islamic banking branches and 14 conventional banks operating through 368 Islamic banking windows are providing Islamic banking services.

Chart 2.61 shows the spider-web diagram of Islamic banks in terms of various stability indicators, namely capital adequacy, assets quality, efficiency, liquidity, and growth. Compared to 2020, the performance of Islamic banks in 2021 improved in terms of growth, and capital adequacy indicators. The change of two[31] conventional private commercial banks to Islamic banks might largely be responsible for improved growth parameters in 2021 whereas the capital adequacy indicator improved due to increased additional tier-1 capital and the leverage ratios. The asset quality indicator declined slightly as the net non-performing investment ratio increased marginally. Efficiency remained almost the same as before. However, the liquidity situation slightly deteriorated but remained well above the regulatory threshold.

CHART 2.61: STABILITY MAP OF ISLAMIC BANKING



Note 1: Indicators value lying away from the center refers to higher risk.
Note 2: Excluding Islamic banking branches/windows of conventional banks.
Source: DOS, BB; computation: FSD, BB.

[31] NRB Global Bank Ltd and Standard Bank Ltd via BRPD Circular Letter No: 61 & 63 dated 31/12/2020.

2.13.1GROWTH OF ISLAMIC BANKING

As of end-December 2021, more than one-fifth of the banking sector assets were held by 10 (ten) Islamic banks. And, based on assets size, 3 (three) of them were in the list of top 10 (ten) banks in the overall banking industry signaling their systemic presence in the financial system of Bangladesh. However, the total assets in the Islamic banking sector are moderately concentrated as 4 banks holding 70.9 percent of it.

Chart 2.62 shows the aggregate market share of Islamic banks in terms of total investments, deposits, shareholders' equity, and total assets. The aggregate market share of Islamic banks in 2021(excluding Islamic banking branches/windows of conventional banks) increased compared to those in 2020 as two conventional banks changed to Islamic banks in 2021. At end-December 2021, Islamic banks held 22.1 percent (20.1percent in 2020) of total assets, 23.5 percent (21.6 percent in 2020) of total deposits, and 25.8 percent (24.0 percent in 2020) of total investments (i.e., loans and advances) of the overall banking system. The share of shareholders' equity was 17.8 percent in 2021compared to 15.4 percent in 2020.

CHART 2.62: TREND OF MARKET SHARE OF ISLAMIC BANKS BASED ON INVESTMENT, DEPOSITS, EQUITY, AND ASSETS

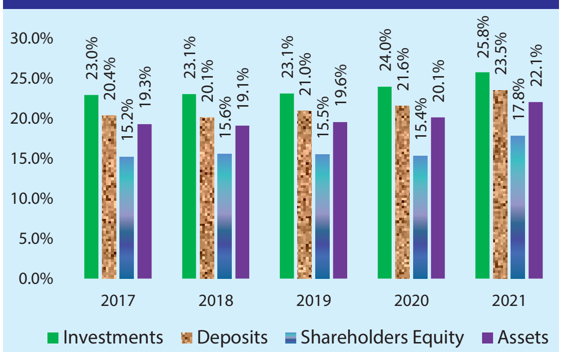
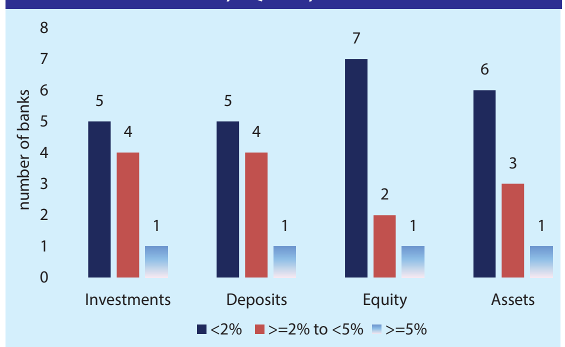


CHART 2.63: DISTRIBUTION OF ISLAMIC BANKS IN 2021 BASED ON MARKET SHARE IN INVESTMENT, DEPOSITS, EQUITY, AND ASSETS



Note: Excluding Islamic banking branches/windows of conventional banks
Source: DOS, BB; Computation: FSD, BB.

Chart 2.63 shows the distribution of the bank-wise market share of Islamic banks in terms of total assets, equity, deposits, and investments in the total banking sector. From the chart, it is observed that the investments, deposits, equity, and assets of the Islamic banking sector are somewhat concentrated as most banks have holdings less than 2.0 percent in those parameters. Six Islamic banks jointly held only 6.5 percent of total banking assets and, in terms of Islamic banking assets, the percentage is only 29.5. On the contrary, 4 banks jointly held 70.5 percent of total Islamic banking assets and 3 of them held the position in the top 10 (ten) banks in the overall banking industry in terms of total assets. It is also mentionable that the top one (1) Islamic bank held 36.3 percent in terms of total Islamic banking assets showing its systemic importance in the Islamic banking sector as well as the overall banking sector.

2.13.2 CAPITAL POSITION OF ISLAMIC BANKS

At the end of 2021, the aggregate CRAR of the Islamic banks remained almost the same as in 2020. However, both the capital conservation buffer and leverage ratios increased noticeably as a result of increased additional tier-1 capital. All Islamic banks except one maintained the minimum CRAR and leverage ratios set by the Bangladesh Bank. However, 6 (six) Islamic banks out of 10 (ten) were able to maintain the minimum capital conservation buffer (CCB).

Chart 2.64 presents the trend of aggregate CRAR along with its components of the Islamic banks from 2017 to 2021. It is evident that the aggregate CRAR of Islamic banks remained almost the same compared to the previous year. However, there was a shuffle between additional tier-1 capital and tier-2 capital referring that the tier-2 capital ratio decreased by almost the same basis points as the increase observed in additional tier-1 capital. It seems that some banks raised funds through issuing perpetual bonds or similar instruments that qualify for additional tier-1 capital and used the proceeds to redeem a portion of the subordinated bond to avail of the benefits of floating interest rate.

CHART 2.64: AGGREGATE CRAR OF ISLAMIC BANKS

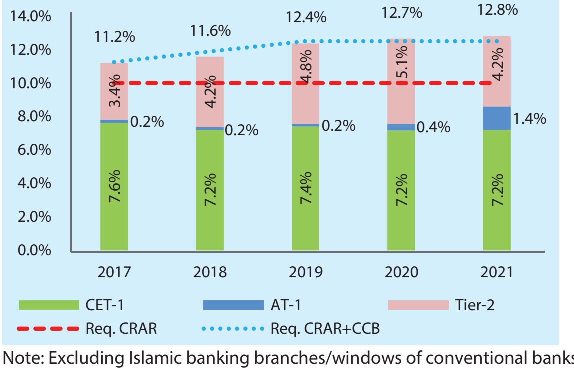
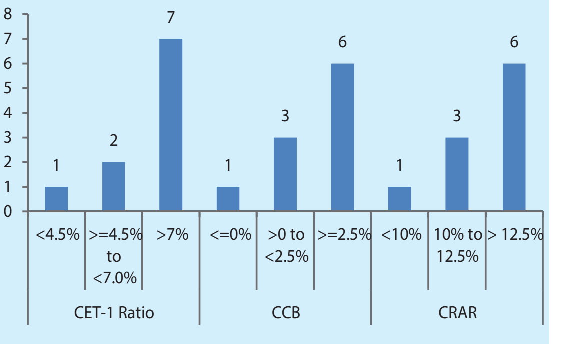


CHART 2.65: DISTRIBUTION OF ISLAMIC BANKS IN MAINTAINING CRAR IN 2021



Note: Excluding Islamic banking branches/windows of conventional banks
Source: DOS, BB; Computation: FSD, BB.

Chart 2.65 shows the number of banks that maintained the different tiers of CRAR in different ranges. In 2021, 6 (six) out of 10 (ten) Islamic banks were able to maintain the minimum CET-1, CRAR, and CCB ratio while 3 (three) out of 10 (ten) were able to maintain only CET-1 and CRAR and covered partially of CCB requirement. Notably, 1 (one) bank failed to maintain any of the three requirements for long and currently operating under a reconstruction scheme.

In addition to maintaining the minimum risk-weighted measure, the bank has to maintain a leverage ratio of 3.0 percent (at least) to prevent building up excessive on- and off-balance sheet exposures. Chart 2.66 shows that the leverage ratio of Islamic banks increased noticeably to 4.8 percent in 2021 from 4.2 percent in 2020 as a result of increasing Tier-1 capital, especially, the additional tier-1 capital.

CHART 2.66: AGGREGATE LEVERAGE RATIO OF ISLAMIC BANKS

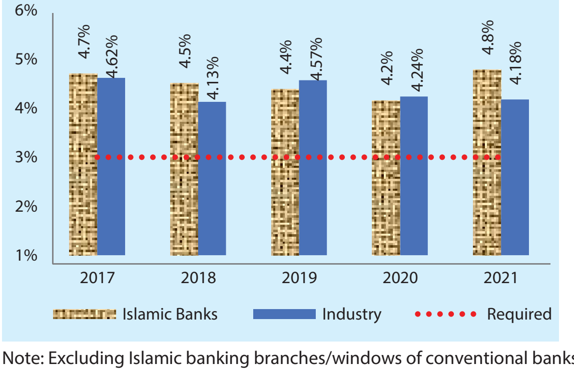
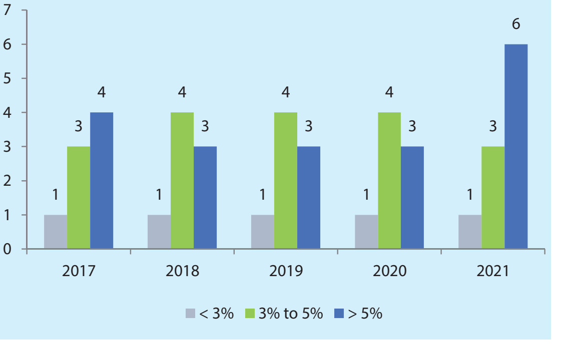


CHART 2.67: DISTRIBUTION OF BANKS IN MAINTAINING LEVERAGE RATIO



Note: Excluding Islamic banking branches/windows of conventional banks
Source: DOS, BB; Computation: FSD, BB.

Chart 2.67 shows the distribution of leverage ratio of Islamic banks. At end of 2021, it is found that out of 10 (ten), 9 (nine) Islamic banks were able to maintain the leverage ratio at or above the required level.

2.13.4 ASSET QUALITY OF ISLAMIC BANKS

Islamic banks showed a better performance in managing assets quality compared to the banking industry in terms of both classified investments to total investments ratio and net classified investments to total investment ratio in 2021. The unclassified rescheduled investment to total investments ratio also remains below the industry average as before and decreased slightly in 2021.

Chart 2.68 demonstrates a comparison of the ratios of gross classified investments (GNPL), net classified investments (NNPL), and unclassified rescheduled investments (URSDL) from 2020 to 2021 between Islamic banks and the banking industry. All three indicators, the GNPL ratio, NNPL ratio, and URSDL ratio showed better performance of Islamic banks as they remained below the industry level in both periods. However, *the GNPL ratio remained the same as in 2020 as a result of almost equal growth observed in both total investments (loans and advances) outstanding and GNPL amount*. Though increased, the NNPL ratios of Islamic banks remained negative while the URSDL ratio decreased during the same period compared to the previous year.

CHART 2.68: GNPL, NNPL, AND URSDL RATIO OF BANK (2020 &2021)

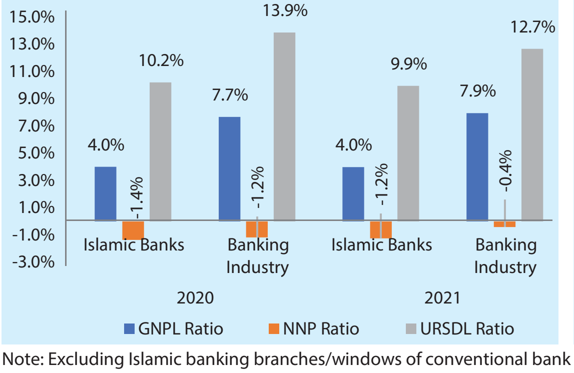
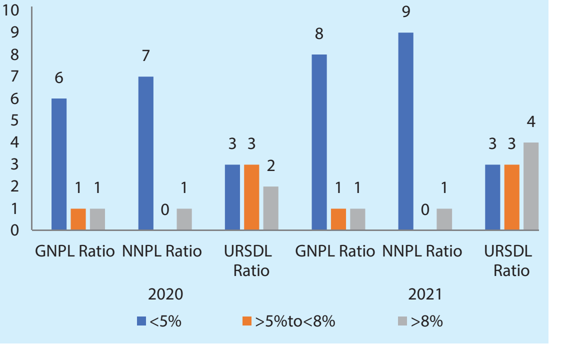


CHART 2.69: DISTRIBUTION OF ISLAMIC BANKS BY GNPL, NNPL, AND URSDL RATIO (2020 &2021)



Note: Excluding Islamic banking branches/windows of conventional bank
Source: DOS, BB; Computation: FSD, BB.

Chart 2.69 shows that in 2021, 8 (eight) out of 10 (ten) banks had a GNPL ratio below 5.0 percent, rest 2(two) banks had a GNPL ratio of more than 5.0 percent. In 2020, the number was 6 (six) in less than 5 percent category and 2 (two) in more than 5 percent category. For the NNPL ratio, 7 (seven) banks were able to maintain the NNPL ratio below 5.0 percent in 2020. In 2021, the number is 9 (nine). In 2020, 5 (five) banks had their URSDL ratio of more than 5.0 percent while in 2021 the number increased to 7 (seven).

2.13.5 OPERATIONAL EFFICIENCY OF ISLAMIC BANKS

Though profit payment (interest expenses) in terms of total assets decreased moderately, the return on assets (ROA) of Islamic banks declined by 1 basis point and reached 0.45 percent in the review year compared to the previous year as the growth observed in investment income (interest income) from investments(loans)failed to keep pace with the growth of total assets.

Chart 2.70 shows the trend of ROA of the Islamic banking industry along with the distribution of Islamic banks over the last five years. Though cyclical in nature, the aggregate ROA of Islamic banks is gradually declining since 2017 which might be a matter of concern. In 2020, 5 (five) out of 8 (eight) Islamic banks, were able to earn a ROA more than the average return earned by the Islamic banking industry. Now in 2021, however, 5 (five) banks out of 10 (ten) were able to earn more than the average return signaling a slight deterioration in operational efficiency of the Islamic banking segment in 2021. It is mentionable that out of 10 (ten) Islamic banks, 8 (eight) were able to earn return more than the average banking industry return.

CHART 2.70: TREND OF RETURN ON ASSET (ROA) OF ISLAMIC BANKS

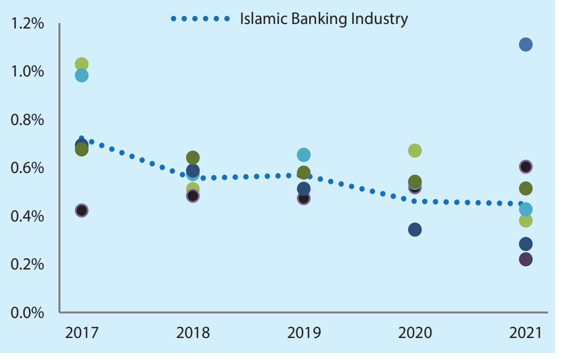
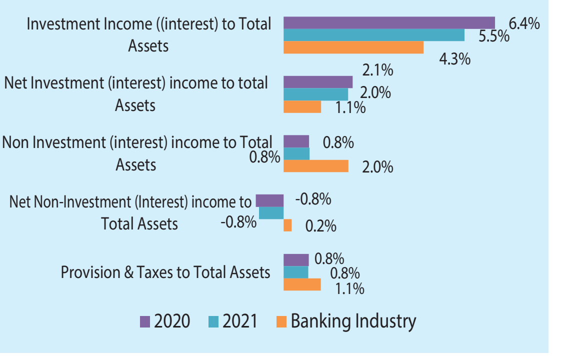


CHART 2.71: SELECTED RATIOS FOR ISLAMIC BANKS



Note: Excluding Islamic banking branches/windows of conventional bank
Source: DOS, BB; Computation: FSD, BB.

Chart 2.71 shows the components of Islamic banks' income which give some insight into declining ROA in the review year. From the chart, it is visible that the investment income (interest income) to total assets declined moderately compared to those of the previous year. However, Net investment (interest) income did not decrease to the same extent as investment income (interest income) as profit payment (interest expenses)to depositors also declined moderately. On the other hand, the non-investment income to total assets ratio of Islamic banks was only 0.8 percent as compared with the industry average of 2.0 percent, representing lower-income sourcing mainly from the bonds as Shari'ah-compliant SLR eligible instruments or the same are not widely available in the market and Islamic banks are allowed to maintain their SLR at a concessional rate compared to that of the conventional banks. Both net non-investment income to total assets and provision and taxes to total assets remained almost the same as before meaning it is only the investment income that was solely responsible for the low return on assets earned in 2021. Despite the significant growth observed in investments (loans) (21.1 percent) as well as in total assets (21.6 percent) in 2021, the prolonged COVID-19 situation together with restriction[32] on transferring investment income to income accounts without partial recovery of Investments (loans)might be the reasons for low investment (interest) income in the review year compared to 2020.

2.13.6 LIQUIDITY SITUATION OF ISLAMIC BANKS

In 2021, most of the Islamic banks maintained adequate liquidity to meet up their regulatory requirements of Cash Reserve Ratio (CRR) and Statutory Liquidity Requirement (SLR). They also kept Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) in line with the Basel III standard. In addition, the Investment-Deposit Ratio (IDR) is also found within the regulatory limit.

In addition to maintaining the minimum required CRR of 4.0 percent and SLR of 5.5[33] percent on a bi-weekly average basis as regulatory requirements, Islamic banks, as a whole, were able to maintain the minimum required level of LCR throughout the reporting period (Chart 2.72). In 2021, Islamic banks maintained an LCR of 188.5 percent, a bit lower than the industry

[32] Please refer to BRPD circular Letter No. 50, dated December 14, 2021 and BRPD circular Letter No. 53, dated December 30, 2021
[33] Refer to MPD Circular No. 02, dated-10/12/2013, and MPD Circular No. 01, dated-23/06/2014.

average of 193.6 percent. However, the LCR of Islamic banks at end-2021declined noticeably compared to the end-2020.

CHART 2.72: LCR MAINTAINED BY THE BANKING INDUSTRY AND ISLAMIC BANKS

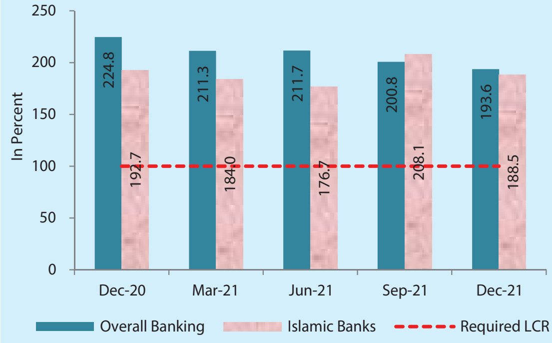
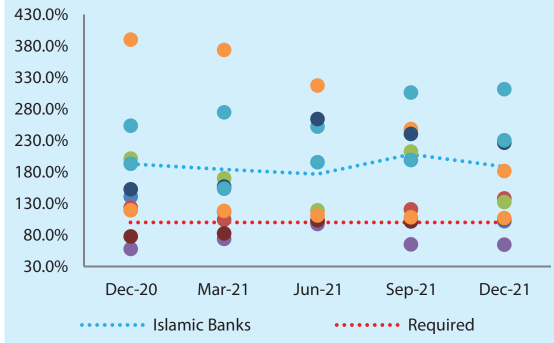


CHART 2.73: BANK-WISE LCR MAINTENANCE SCENARIO OF ISLAMIC BANKS



Source: DOS, BB; Computation: FSD, BB.

Chart 2.73 shows the distribution of Islamic banks in terms of maintaining the LCR in the last five quarters. Out of 10 (ten) Islamic banks, 9 (nine) banks maintained more than 100.0 percent of LCR.

In the case of NSFR (Chart 2.74), Islamic banks, in aggregate, were able to maintain 113.0 percent, which is higher than the industry average of 110.1 percent in the review year. However, compared to NSFR at the end-2020, NSFR at the end-2021 remained unchanged.

CHART 2.74: NSFR MAINTAINED BY THE BANKING INDUSTRY AND ISLAMIC BANKS

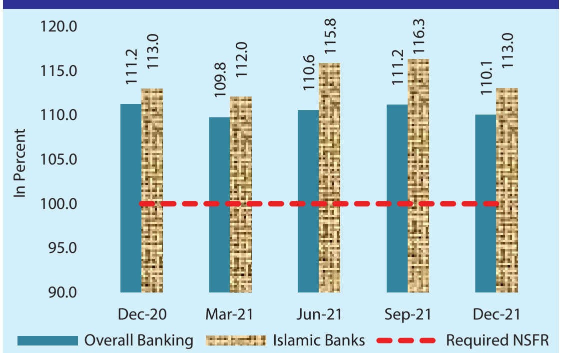
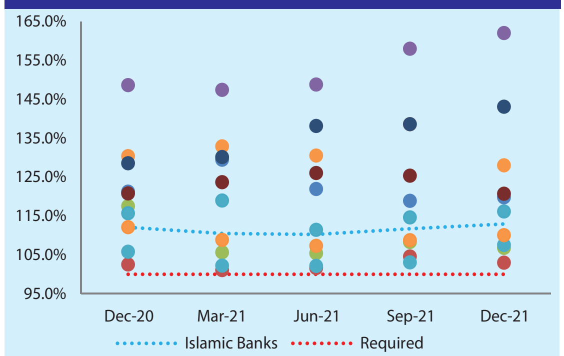


CHART 2.75: ISLAMIC BANK-WISE NSFR MAINTENANCE SCENARIO



Source: DOS, BB; Computation: FSD, BB.

Chat 2.75 demonstrates the number of Islamic banks maintaining NSFR. It was found that all the Islamic banks were able to maintain the ratio at the required level.

The aggregate Investment-Deposit Ratio (IDR) of Islamic banks was 84.7 percent at end-2021against the permissible level of 92.0 percent. It was 84.4 percent at end-2020.

Chart 2.76 demonstrates that the IDR of Islamic banks was 84.7 percent in 2021 which was higher than that of the overall banking industry. It is mentionable that Islamic banks are allowed to accommodate more investment (in the share of deposit) than conventional banks owing to their lower requirement of SLR.

CHART 2.76: IDR OF ISLAMIC BANKS

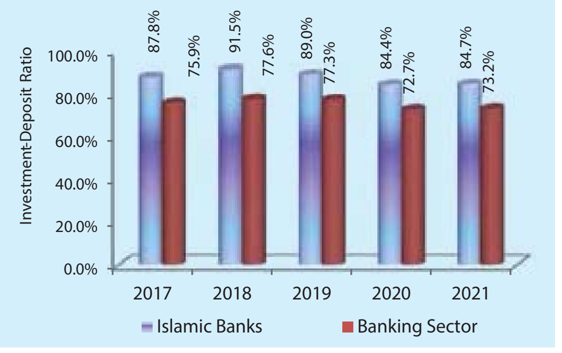
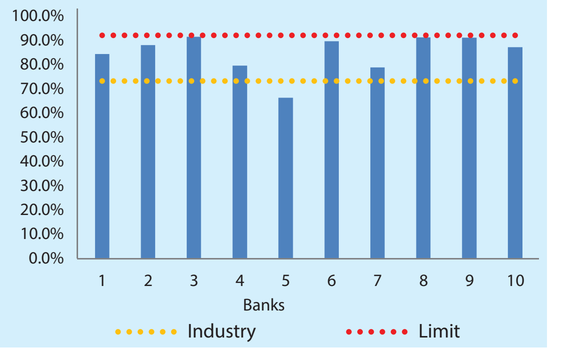


CHART 2.77: DISTRIBUTION OF IDR OF ISLAMIC BANKS



(Excluding Islamic branches & Windows of conventional banks)

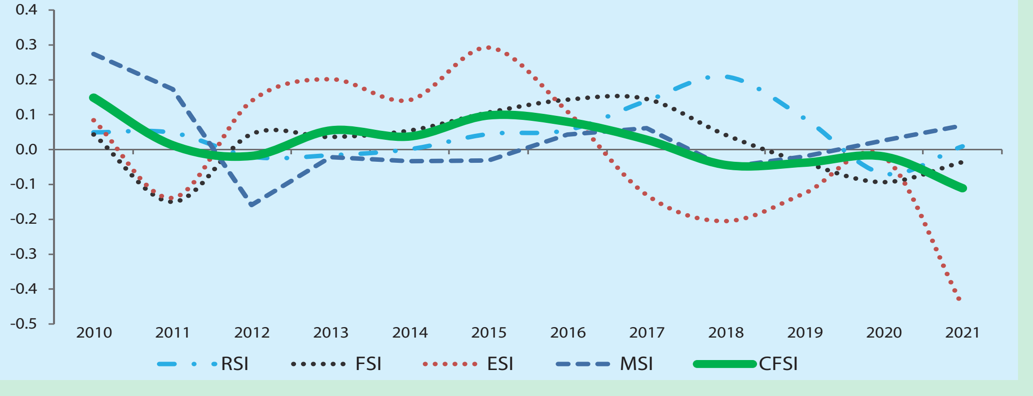
Source: DOS, BB.

Chart 2.77 shows the distribution of IDR of Islamic banks at the end-2021, which denotes that no Islamic bank crossed the permissible level of IDR in the review year.

BOX 2.3: COMPOSITE FINANCIAL STABILITY INDEX (CFSI): DECEMBER 2021

The composite financial stability index (CFSI) is used to measure the financial stability situation of an economy as well as to monitor the build-up of any systemic risk(s) in the macro-financial system in terms of the stability of four main sectors of the economy: namely, real sector, external sector, fiscal sector, and financial and monetary sector. More specifically, this is a tool developed to measure the volatility in the different sectors of the economy and their impact on the overall financial system. It is an aggregated form of twenty different indicators under four sub-indices: Real Sector Index (RSI), Fiscal Sector Index (FSI), External Sector Index (ESI), and the Financial and Monetary Sector Index (MSI). Using semi-annual/annual data, this index has been developed and updated on a regular basis. In this current version, the movement of CFSI has been plotted for the period spanning December 2010 to December 2021.

CHART B2.2.1: COMPOSITE FINANCIAL STABILITY INDEX (CFSI)



Notes: Regime of CAR calculation changed twice: Basel I to Basel II in 2010 and to Basel III in 2015; Minimum capital requirement (in amount) for banks increased (BDT 2 billion in 2007 and BDT 4 billion in 2011); From June 2013, the base year of CPI was changed (from 1995-96=100 to 2005-06=100).

The CFSI shows that the extent of aggregated financial stability of Bangladesh at end-December 2021 had a slight downward trend as compared to December 2020 primarily affected by the subdued performance of the external sector. Though the real sector and fiscal sector started to strengthen (from a stability perspective) since the end of 2020, the fiscal sector remain below it's long-run industry average. An increase in current account deficit coupled with increased external debt and declined export competitiveness (measured through REER) mainly forced ESI to decline reasonably in 2021. On the contrary, moderate growth in industrial production (measured through the quantum Index) of the large and medium scale manufacturing industry along with lower inflation compared to 2020 induced the RSI to move upward. Though the borrowing of government has been increased, tax revenue also increased; leading the FSI to move upward. Low call money rate, moderate growth in DSEX coupled with increased credit growth kept the MSI upward in 2021.

Chapter 3

BANKING SECTOR RISKS

In 2021, the overall risk of the banking sector, measured by the Risk-Weighted Assets (RWA) density ratio, demonstrated a slight downward trend. RWA for credit risk in nominal amount showed a relatively higher rise than those of market and operational risk. Cumulatively, all the banks have 50.15 percent lending exposure in the corporate sector. Importantly, rated exposures increased for the corporate sector in 2021. For this, banks got the flexibility to maintain lower capital compared to that of the previous year. Presently the overall Capital to Risk-weighted Asset Ratio (CRAR) of the banking sector stood at 11.08 percent against the required level of 10 percent. Though this existing level of CRAR seems to be adequate to withstand any reasonable risk in the future, a proactive effort is necessary to raise the capital base of the banks over time.

This chapter discusses various risks associated with the banking sector's assets as per the BASEL III capital framework. Banks are categorized into five different groups based on their inherent features, ownership structure, and business models. Table 3.1 demonstrates this categorization and the respective share of each category in the overall banking sector's assets as of December 2021.

TABLE 3.1: GROUPING OF BANKS FOR RISK ANALYSIS

Bank Group	Description of the group	Number of banks	Share in total banking sector assets (in Percent)
Group 1	Private commercial banks (Long-standing conventional banks)	22	42.7%
Group 2	State-owned and Private commercial banks under special attention[34]	11	27.3%
Group 3	Private commercial banks (Full-fledged Islamic banks)	7	20.3%
Group 4	Foreign commercial banks	9	5.6%
Group 5	Fourth-generation[35] private commercial banks	11	4.2%
Source: Department of Off-site Supervision (DOS), Bangladesh Bank.			

3.1 OVERALL RISK PROFILE OF THE BANKING SECTOR

Table 3.2 and Chart 3.1 shows the trend in Risk-Weighted Assets (RWA) density ratio[36], the ratio of RWA to total assets, of different groups of banks during the period 2017-2021. Mentionable, the higher density ratio reflects that banks are exposed to more risky assets. The industry's RWA density ratio has slightly decreased from 61.6 percent in 2020 to 61.1 percent in 2021. Among the specified categories, Groups 1, 4, and 5 have a higher RWA density ratio. The ratio increased for Group 2 while it decreased for the rest of the groups in 2021.

[34] Banks operating under Memorandum of Understanding (MOU) or Directives of Bangladesh Bank (DOBB).

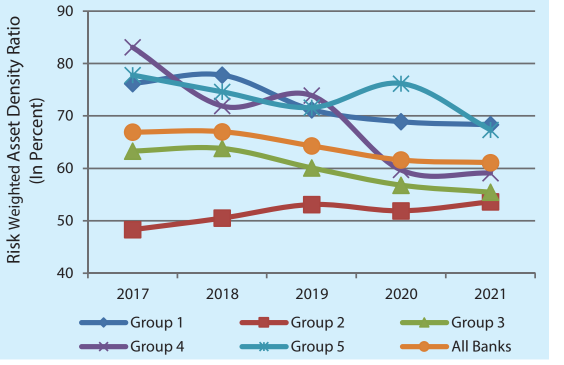
[35] Banks granted license in 2013 onward to operate as scheduled banks in Bangladesh.

[36] The RWA density ratio is a simple and quick measure of weighted average relative risk of a bank's on- and off-balance sheet exposures.

TABLE 3.2: RISK-WEIGHTED ASSET DENSITY RATIO (BANK GROUPS)

(In Percent)						
Banks Group	2016	2017	2018	2019	2020	2021
Group 1	79.9	76.2	77.8	71.2	68.9	68.3
Group 2	46.9	48.3	50.5	53.1	51.9	53.6
Group 3	64.1	63.3	63.8	60.1	56.8	55.5
Group 4	77.3	83.1	71.9	73.9	59.7	59.1
Group 5	77.1	77.8	74.6	71.6	76.2	67.4
All Banks	66.7	66.9	67	64.3	61.6	61.1

CHART 3.1: TRENDS OF RISK-WEIGHTED ASSET DENSITY RATIO

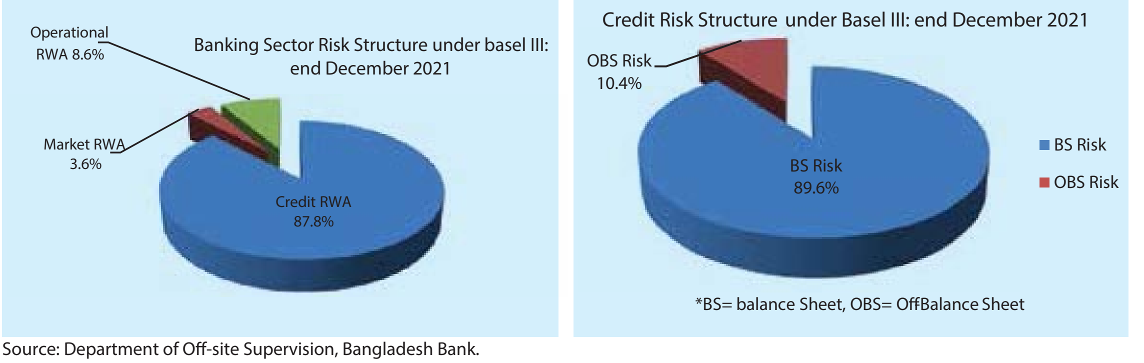


Source: Data - DOS; Calculation – Financial Stability Department (FSD), Bangladesh Bank.

3.2 OVERALL INDUSTRY RISK STRUCTURE IN BANKS

As per BASEL III, banks' RWAs are broadly attributed to credit, operational, and market risks.[37] Credit Risk-Weighted Assets (CRWA) amount to BDT 10971.75 billion in 2021, which is 11.17 percent higher than that of 2020. Operational Risk-Weighted Assets (ORWA) also increased from BDT 1030.50 billion to BDT 1069.89 billion, i.e., by 3.82 percent during this period. Market Risk-Weighted Assets (MRWA) increased by 5.58 percent and stood at BDT 450.72 billion in 2021. The CRAR of the banking industry decreased from 11.64 percent at the end-December 2020 to 11.08 percent at the end-December 2021, which was still above the Minimum Capital Requirement (MCR) of 10.0 percent.

CHART 3.2: OVERALL RISK AND CREDIT RISK STRUCTURE



Source: Department of Off-site Supervision, Bangladesh Bank.

Chart 3.2 shows the share of RWA attributed to credit, operational, and market risks. The credit risk-weighted asset was 87.8 percent of the total RWA of the banking system as of December 2021, whereas the RWA associated with the market and operational risks were 3.6 and 8.6 percent respectively. The chart also shows that 89.6 percent of the credit risk was derived from balance sheet exposures. In 2021, RWA for market risk and operational risk as a ratio of total RWA decreased by 0.2 and 0.5 percentage point respectively. But credit risk as a ratio of total RWA increased by 0.7 percentage points.

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[37] Credit risk can be defined as the probability of loss (due to non-recovery) emanating from the credit extended, as a result of the non-fulfillment of contractual obligations arising from unwillingness or inability of the counter-party or for any other reason.

Market risk can be defined as the risk of loss in on-and off-balance sheet positions arising from movements in market prices.

Operational Risk can be defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk.

3.3 CREDIT RISK STRUCTURE IN BANKS

In 2021, the credit risk of the top 5 banks accounted for 25.5 percent of the total credit risk of the banking system, while about 40.4 percent of credit risk was assumed by the top 10 banks (Table 3.3). The concentration of credit risk within the top 5 banks decreased by 0.1 percentage points compared with 2020. The share of credit risk in terms of overall industry risk was 22.4 percent in 2021 as compared to 22.3 percent in 2020.

TABLE 3.3: CREDIT RISK IN THE BANKING INDUSTRY UNDER BASEL III (END-DECEMBER 2021)

Banks	Share in industry's credit risk	Share in overall industry risk
Top 5	25.5%	22.4%
Top 10	40.4%	35.5%
All banks	100.0%	87.8%
Source: Department of Off-site Supervision, Bangladesh Bank.		

The category-wise analysis of credit risk (Table 3.4) reveals that the industry's credit risk is mostly concentrated in Group 1 and Group 2. The combined share of these two groups is 71.3 percent of industry credit risk. Group 1 (22 banks), possessing 42.7 percent of total assets, contained about half of the industry credit risk (47.7 percent) and 47.7 percent of overall industry risk. Group 2 (11 banks), on the other hand, holds 27.3 percent of the assets but contains about one-fifth of the industry credit risk (23.6 percent) and 24.0 percent of the overall industry risk. Full-fledged Islamic banks, foreign commercial banks, and fourth-generation private commercial banks respectively shared 19.0, 5.2, and 4.6 percent of the industry's credit risk.

TABLE 3.4: CATEGORY-WISE DISSECTION OF CREDIT RISK IN THE BANKING SYSTEM (DECEMBER 2021)

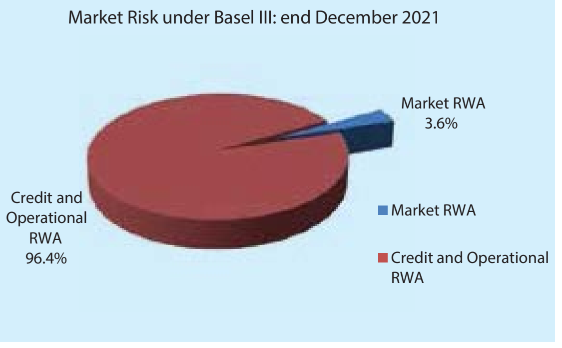
Bank Group	Share in industry's credit risk	Share of credit risk in overall industry risk	Share of total RWA
Group 1	47.7%	41.9%	47.7%
Group 2	23.6%	20.7%	24.0%
Group 3	19.0%	16.7%	18.4%
Group 4	5.2%	4.5%	5.4%
Group 5	4.6%	4.1%	4.6%
Total	100%	87.8%	100%
Source: Department of Off-site Supervision, Bangladesh Bank.			

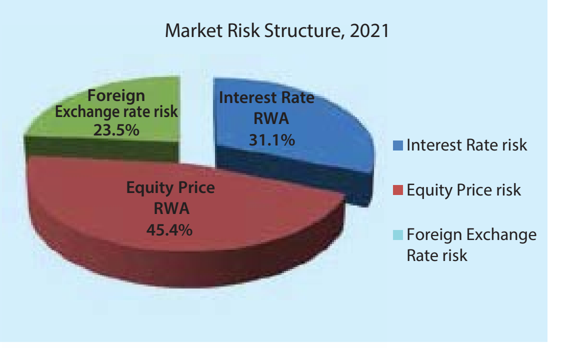
3.4 MARKET RISK STRUCTURE IN BANKS

Basel III framework describes market risks as the risks of interest rate, price-sensitive instruments, and equities in the trading book, foreign exchange risk, and commodities risk. Market risks, therefore, comprise interest rate, equity price, and foreign exchange rate risks.

Chart 3.3 illustrates overall industry risk as well as the composition of different types of market risks in banks. Market risk has a small share, i.e., 3.6 percent of the overall industry risks (left panel). Notably, this risk has decreased in terms of its share in the total banking sector's risk (3.8 percent in 2020) but this risk has increased in risk-weighted assets' nominal amount (5.6 percent increase in 2021). Within market risk, the share of equity price risk was almost half, i.e., 45.4 percent while foreign exchange rate risk and interest rate risk contributed 23.5 percent and 31.1 percent respectively (right panel). While equity price risk was in an increasing trend, foreign exchange risk and interest rate risk were in decreasing trend (Equity price risk, foreign exchange rate risk, and interest rate risk were respectively 37.0, 28.8, and 34.1 percent in 2020).

CHART 3.3: MARKET RISK COMPOSITION





Source: Data-Department of Off-site Supervision; Calculation-FSD.

Table 3.5 demonstrates that banks in the categories of Group 1 and Group 2 were jointly exposed to 87.9 percent of the total interest rate risk in the segment of market risk in 2021, which was 85.8 percent in 2020. The equity price risk of these two groups stood at 83.9 percent in 2021 as compared to 87.5 percent in 2020. Moreover, the banks under Group 1 and Group 2 possess 62.0 percent of the industry's total foreign exchange rate risks- a notable decrease from 77.8 percent in the previous year. However, Group 3, consisting of all the Islamic banks, possessed 18.4 percent of the exchange rate risks in 2021 indicating an increasing trend since 2020, which was 15.8 percent.

TABLE 3.5: CATEGORY-WISE DISSECTION OF MARKET RISK IN THE BANKING SYSTEM

Banks	Share in industry's interest rate risk	Share in industry's equity price risk	Share in industry's Exchange rate risk
Group 1	36.0%	53.7%	40.8%
Group 2	51.9%	30.2%	21.2%
Group 3	0.0%	9.7%	18.4%
Group 4	4.4%	0.0%	15.0%
Group 5	7.7%	6.5%	4.6%
Total	100%	100%	100%

Source: Data-DOS; Calculation-FSD.

The banks under Group 4 and Group 5 (combined industry share of which are less than 10 percent in terms of assets) were found to be less exposed to market risk in the banking system.

3.4.1 INTEREST RATE RISK (IRR)

The share of interest rate risk (IRR) in the total RWA of the banking system decreased slightly from 1.3 percent in 2020 to 1.1 percent in 2021. The RWA associated with interest rate risk increased by 3.8 percent from the previous year. IRR risk weighted assets contributed 31.1 percent of the market RWA in 2021, which was 34.1 percent in the previous year. The banks' capital charge for interest rate risk was BDT 14.02 billion in 2021, which was BDT 14.56 billion in 2020.

[38] Interest rate risk can be defined as potential risk to interest sensitive assets and liabilities of a bank's on- and off-balance sheet items arising out of adverse or volatile movements in market interest rate.

Table 3.6 shows that the top 5 banks' interest rate risk constituted 62.2 percent of industry interest rate risk in 2021. Four SOCBs and one conventional PCB are ranked in the top 5 in terms of capital charges for IRR in the banking system. In comparison to 2020, Interest Rate RWA to Industry's total RWA remains the same for the top 5 banks and decreases for the top 10 banks in 2021. The IRR shares for the top 5 banks and top 10 banks increased in 2021 while their shares in market risk slightly varied in 2021, compared to corresponding figures of 2020.

TABLE 3.6: INTEREST RATE RISK IN THE BANKING SYSTEM

Banks	Share of Interest rate risk	Share of Interest rate risk in market risk	Share of Interest rate risk in overall industry risk
Top 5	62.2%	19.3%	0.7%
Top 10	78.6%	24.4%	0.9%
All Banks	100.0%	31.1%	1.1%
Source: Data-Department of Off-site Supervision; Calculation-FSD.			

3.4.2 EQUITY PRICE RISK

The RWA assigned to equity price risk[39] constituted 1.6 percent of the total RWA of the banking system and 45.4 percent of the total market risk as of December 2021. The banks' capital charge for equity price risk was BDT 20.47 billion at the end of December 2021, which is almost 4.66 billion higher than the previous year (15.81 billion in 2020).

TABLE 3.7: EQUITY PRICE RISK IN THE BANKING SYSTEM

Banks	Share of Equity price risk	Share of Equity price risk in market risk	Share of Equity price risk in overall industry risk
Top 5	32.9%	14.9%	0.5%
Top 10	55.3%	25.1%	0.9%
All Banks	100.0%	45.4%	1.6%
Source: Data-Department of Off-site Supervision; Calculation-FSD.			

Table 3.7 shows that the top 5 banks constituted 32.9 percent of industry equity price risk in 2021. Two SCBs and three PCBs were ranked in the top 5 in terms of capital charges for equity price risk in the banking system. In comparison with 2020, the share of equity price RWA in the industry's total RWA remain almost the same for the top 5 banks (from 0.50 percent to 0.54 percent) while it increased for the top 10 banks (from 0.80 percent to 0.91 percent) in 2021.

3.4.3 FOREIGN EXCHANGE RATE RISK

The RWA assigned to foreign exchange rate risk[40] constituted 0.8 percent of the total RWA of the banking system while the share was 23.5 percent of the aggregate market risk as of December 2021. The banks' capital charge for exchange rate risk decreased to BDT 10.6 billion at the end-December 2021 from 12.3 billion at the end-December 2020.

[39] Equity price risk is the potential risk of reduction in profitability or capital caused by adverse movements in the values of equity securities, owned by the banks, whether traded or non-traded, or taken as collateral securities for credits extended by the bank. Equity risk, at its most basic and fundamental level, is the financial risk involved in holding equities in a particular investment.

[40] Foreign Exchange rate risk can be defined as the variability of a firm's earnings or economic value due to changes in the exchange rate.

Table 3.8 shows that the top 5 and top 10 banks were exposed to 35.5 and 52.8 percent of the industry's exchange rate risk in 2021 respectively. The shares recorded at 53.6 percent and 70.1 percent in 2020. Shares of exchange rate risk in market risk as well as overall risk for the top 5 banks and top 10 banks decreased in 2021 as compared to the previous year.

TABLE 3.8: EXCHANGE RATE RISK IN THE BANKING SYSTEM

Banks	Exchange rate risk	Share of Exchange rate risk in market risk	Share of Exchange rate risk in overall industry risk
Top 5	35.5%	8.3%	0.3%
Top 10	52.8%	12.4%	0.4%
All Banks	100.0%	23.5%	0.8%
Source: Data-Department of Off-site Supervision; Calculation-FSD.			

3.5 OPERATIONAL RISK

The RWA assigned to operational risk[41] was 8.6 percent of the total RWA of the banking industry in end-December 2021. The required capital charge for operational risk as of December 2021 was BDT 106.99 billion, which was BDT 3.9 billion higher than that of the previous year.

TABLE 3.9: OPERATIONAL RISK UNDER BASEL III IN THE BANKING INDUSTRY

Banks	Share in industry's operational risk	Share in overall industry risk
Top 5	26.5%	2.3%
Top 10	43.9%	3.8%
All Banks	100.0%	8.6%
Source: Data-Department of Off-site Supervision; Calculation-FSD.		

Table 3.9 reveals that the top 5 and top 10 banks were exposed to 26.5 and 43.9 percent respectively of the industry's operational risk in 2021. These shares were slightly higher in the previous year.

TABLE 3.10: CATEGORY-WISE DISSECTION OF OPERATIONAL RISK IN THE BANKING SYSTEM

Banks	Share in industry's operational risk	Share in overall industry risk
Group 1	48.58%	4.16%
Group 2	23.47%	2.01%
Group 3	16.44%	1.41%
Group 4	7.72%	0.66%
Group 5	3.79%	0.32%
Total	100.00%	8.56%
Source: Data-Department of Off-site Supervision; Calculation-FSD.		

Table 3.10 depicts the category-wise operational risk in 2021. It reveals that banks in the categories of Group 1 and Group 2 are jointly exposed to 72.1 percent of the industry's operational risk. The shares of operational risk in the overall industry risk for the bank groups remained almost the same as that of 2020.

[41] Operational Risk can be defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk.

3.6 SECTORAL EXPOSURES AND RISK

Table 3.11 shows that banks have 50.15 percent lending exposure to the corporate sector. Around 22 percent of total asset claim is on the Government securities and balance with Bangladesh Bank while 18.08 percent of the credit is supplied to the Retail and SMEs sector.

TABLE 3.11: SECTORAL EXPOSURES OF BANKS AND RISKS (END-DECEMBER 2021)

(Amount in Billion BDT)

Sector/Borrower	Total Exposures of Credit	Share of Exposure	Total RWA	RWA Density Ratio[42]
Government & BB	3373.07	21.60%	0.00	0.0%
PSE	199.98	1.28%	56.53	28.3%
Banks & FIs	1387.42	8.89%	365.18	26.3%
Corporate	7831.06	50.15%	4862.28	62.1%
Retails & SMEs	2823.12	18.08%	2082.31	73.8%

Source: Data-Department of Off-site Supervision; Calculation-FSD.

Table 3.11 also reveals that among the sectors, the Retail and SMEs sector's credit exposures had the highest RWA Density Ratio of 73.8 percent, because almost all the retail and SME loans are provided for trading purposes, where collateral securities are minimum and higher risk weights are assigned for such businesses as per Basel norms. Corporate lending exposures had an RWA Density Ratio of 62.1 percent while the placement and lending to Banks and FIs had a lower RWA Density Ratio of 26.3 percent in 2021.

3.7 CREDIT RISK MITIGANTS

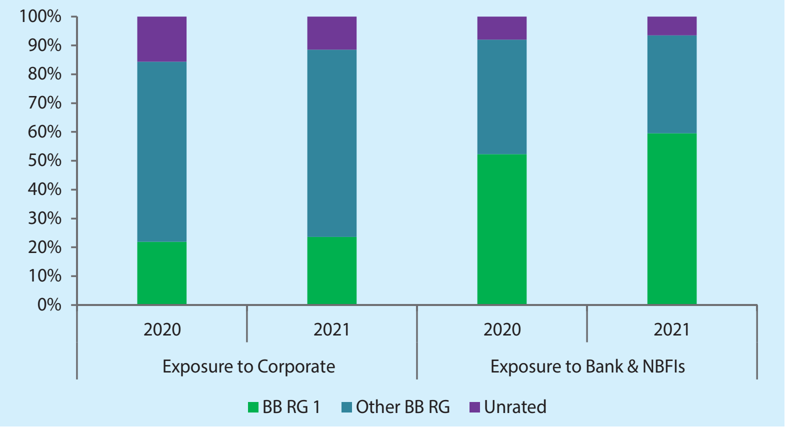
The rated exposures for both the corporate sector and the banks and financial institutions (FIs) increased in 2021. More specifically, the percentage of best-rated exposures (BB RG 1) increased for both the corporate sector and the Banks and FIs Sector.

In Bangladesh, banks' exposures to non-financial corporations (NFCs) and other banks and financial institutions are rated by External Credit Assessment Institutions (ECAIs) to determine the RWA and minimum capital requirements against the credit risks as per Basel principles. The higher risk weights are allocated for unrated exposures; therefore, banks are encouraged to bring more exposures under ECAIs' rating for mitigating the credit risks effectively. The better the ratings of the exposures, the less likely the banks are exposed to default risk/counterparty risk. Chart 3.4 shows the rated and unrated exposures to NFCs and banks and FIs in 2020 and 2021.

Both the total exposure of the banking system to the corporate sector and exposure to banks and NBFIs have increased in 2021 as compared to 2020. The overall exposure to the corporate sector was BDT 7831.06 billion at the end-December 2021, recording an increase of BDT 971.64 billion from the exposure in 2020. It is evident from Chart 3.4 that the overall rated exposure of the banking system to corporate sectors increased. In December 2021, the total rated exposure was 88.52 percent, and overall, the best-rated exposure was 23.67 percent.

[42] RWA Density Ratio = Exposures of Credit / RWA

CHART 3.4: BANKS' EXPOSURES TO CORPORATE AND BANKS & NBFIs



Source: Data-Department of Off-site Supervision; Calculation-FSD.

Among the rated exposure, the best-rated exposure (BB RG 1) increased by 1.7 percentage points and other BB RGs by 2.4 percentage points in December 2021as compared to those of December 2020. The overall credit exposure to banks and FIs was BDT 1387.42 billion in December 2021, which was BDT 250.53 billion higher than the exposure in December 2020. Chart 3.4 suggests that the total rated exposures to banks and FIs are notably high and experienced a slight increase in 2021. In 2021, 59.59 percent of matured credit exposures to banks and FIs received BB RG1, rendering a 7.3 percentage points increase from 2020. However, the other BB-rated exposures to banks and FIs decreased by 5.7 percentage points in 2021 compared to 2020.

CHAPTER 4

BANK AND FI RESILIENCE

Bangladesh Bank (BB) conducts quarterly stress tests on Banks and FIs to assess their resilience throughout the year under different plausible shock scenarios. This hypothetical test is used as a risk management tool to instruct Banks/FIs for taking safety measures in respect of capital maintenance and liquidity management against any potential adverse economic and financial condition. This chapter analyzes the results of stress tests on Banks and FIs as well as banking and FI sector based on the data as of end-December 2021. Stress test results indicate that both sectors would remain moderately resilient to different shock scenarios.

4.1 BANKING SECTOR RESILIENCE

Stress test on bank is conducted through sensitivity analysis, incorporating impacts of the minor shock scenario for credit risk, market risk and liquidity risk. Under each scenario, the after-shock Capital to Risk-weighted Assets Ratio (CRAR) is compared with the minimum regulatory requirement of 10 (ten) percent[43] with Capital Conservation Buffer (CCB) of 2.5 percent.

At end-December 2021, in the pre-shock scenario, 49 scheduled banks out of 59 were found compliant and appeared to be resilient in maintaining the minimum regulatory requirement of CRAR of 10 percent, while after adjustment of cumulative loss and provision shortfall. In addition, under Basel III capital accord, maintaining CCB of 2.50 percent with existing CRAR of 10 percent, 44 banks were found resilient. Table 4.1 depicts the CRAR level of banks at pre-shock scenario.

TABLE 4.1 : CAPITAL ADEQUACY SCENARIO OF THE BANKING SECTOR

CRAR (%)	Number of Banks
< 10%	10
≥ 10% but < 12.50%	5
≥ 12.50%	44

4.1.1 STRESS ON CAPITAL DUE TO CREDIT RISK

a) Sensitivity test for credit risk has been conducted to assess the impact of different shocks on banks' capital adequacy position. The proposed capital position has been ascertained by applying the shock of 3 percent increase in gross NPL[44] ratio. The increase of NPL adversely impact on risk weighted assets for which banks are required to maintain additional capital to absorb the shock. The existing and after-shock CRAR are exhibited in the Table 4.2, which indicates that the banking sector's CRAR would have declined to the level of 9.41 percent from existing level of 11.06 percent. Under this stress scenario, 3 out of 49 compliant banks would likely become non-compliant in maintaining minimum capital adequacy requirement (10%).

[43] The results are based on the unaudited data for the calendar year ended at December 2021.

[44] NPL (Non-performing loan) means aggregate of loans in the substandard, doubtful, and bad/loss category.

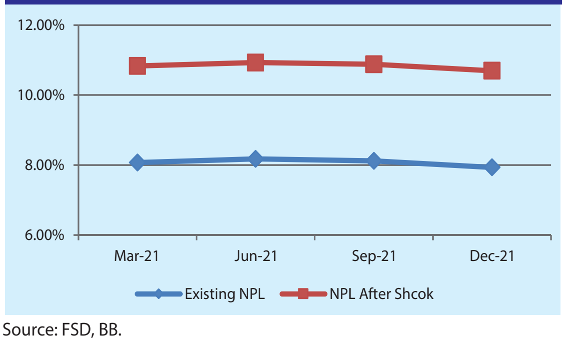
TABLE 4.2 : STRESS TESTS FOR CREDIT RISK: INCREASE IN NPLS

(In Percent)

Pre-shock Scenario	Gross NPL Ratio	Required Minimum CRAR	Maintained CRAR
Banking System	7.93	10.00	11.06
Stress Scenario			
	Gross NPL Ratio	**Required Minimum CRAR**	**After shock CRAR**
Minor Shock: Increase in NPLs by 3%	10.70	10.00	9.41

Source: FSD, BB.

CHART 4.1: PROBABLE NPL RATIO AFTER MINOR SHOCK



Source: FSD, BB.

In Chart 4.1, existing NPL ratios of 4 quarters of 2021 are illustrated with a blue solid line whereas the stressed NPL ratio under 3% increase in NPLs scenario for the same period are depicted with a red solid line. Under the minor shock scenario, the banking sector's gross NPL ratio of December 2021 is likely to rise to the level of 10.70 percent from the existing level of 7.93 percent. The rise of NPL negatively affected the overall capital adequacy position of the banking sector.

b) The second test is for credit concentration risk of banks, which examine the effect on capital adequacy in case of bank-wise default of the top 3 large individual/group borrowers (Table 4.3). Minor shock result shows that the capital adequacy of the banking system would decrease to 9.31 percent from existing 11.06 percent, while 15 out of 49 compliant banks would likely become non-compliant in maintaining minimum capital adequacy requirement (10%).

TABLE 4.3 : STRESS TESTS FOR CREDIT RISK: DEFAULT OF TOP LARGE BORROWERS

(In Percent)

Pre-Shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.06
Stress Scenario		**After-Shock CRAR**
Minor Shock: Default of top 3 large borrowers		9.31

Source: FSD, BB.

c) The third test has been conducted on the sectoral concentration of banks' credit risk to examine the effect on capital adequacy in case of an additional percentage of the highest exposed sector's loans directly downgraded to bad/loss (Table 4.4). If an additional 3 percent of the highest exposed sector's loans directly downgraded to bad/loss, the banking sector's CRAR would likely to decrease to 10.89 percent from existing 11.06 percent. Under this stress scenario, only 2 out of 49 compliant banks would likely become non-compliant in maintaining minimum capital adequacy requirement (10%).

TABLE 4.4 : STRESS TESTS FOR CREDIT RISK: INCREASE IN NPLS OFTHE HIGHEST EXPOSED SECTOR

(In Percent)

Pre-shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.06
Stress Scenario		**After-Shock CRAR**
Minor Shock: 3% of performing loans of highest exposed sector directly downgraded to bad/loss		10.89

Source: FSD, BB.

d) The fourth test (Table 4.5) deals with the fall in the forced sale value (FSV) of mortgaged collateral. Minor shock has been applied on the FSV of mortgaged collateral assuming its value would decline by 10 percent under minor stress scenario. Shock result depicts small impact on banking sector's CRAR and only 2 out of 49 compliant banks would likely become non-compliant to maintain minimum capital requirement.

TABLE 4.5 : STRESS TESTS FOR CREDIT RISK: FALL IN THE FSV OF MORTGAGED COLLATERAL

(In Percent)

Pre-Shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.06
Stress Scenario		**After-Shock CRAR**
Minor Shock: 10% fall in the forced sale value (FSV) of mortgaged collateral		10.53

Source: FSD, BB.

e) The fifth test (Table 4.6) assumes negative shifts in the existing NPL categories, due to some adverse economic events for the banks, which might result in additional provision requirement. For the minor shock scenario, 5 percent of the substandard loans downgraded to doubtful, and 5 percent of the doubtful loans downgraded to the bad/loss category. Shock result depicts that the capital adequacy of the banking system would decrease to 10.43 percent from existing 11.06 percent, while only 2 out of 49 compliant banks would likely become non-compliant in maintaining minimum capital adequacy requirement (10%).

TABLE 4.6 : STRESS TESTS FOR CREDIT RISK: NEGATIVE SHIFT IN NPL CATEGORIES

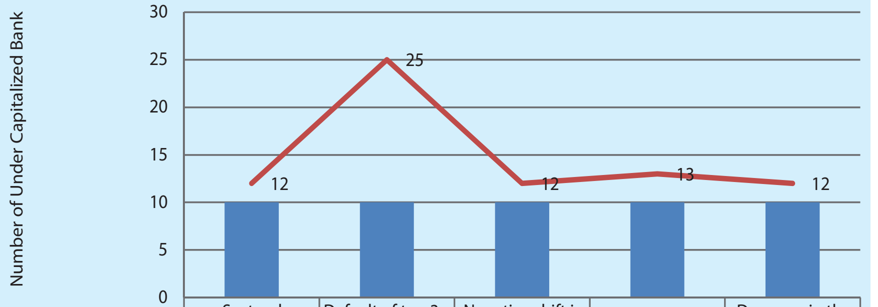
(In Percent)

Pre-Shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.06
Stress Scenario		**After-Shock CRAR**
Minor Shock: 5% negative shift in the NPLs categories		10.43

Source: FSD, BB.

f) The stress test results indicate that the credit risk is the major risk for the banks in terms of its impact on CRAR. The sensitivity analysis on the banking sector's credit portfolio and its impact on the capital adequacy reveals that the sector is moderately resilient with different types of credit shocks except shock for the default of top 3 borrowers and 3% increase in NPLs (Chart 4.2 and 4.3). When shock is applied for the default of top 3 borrowers on the data of end-December 2021, along with the 10 under capitalized banks, additional 15 banks would become non-compliant in maintaining minimum required capital (10%). Besides, additional 3 banks would become non-compliant for 3% increase in NPLs (Chart 4.2). Similarly, if CCB requirement is considered, additional 13 and 12 banks would not be able to maintain minimum capital requirement with CCB (12.50%) for the shocks of default of top 3 large borrowers and increase in NPLs by 3% respectively (Chart 4.3). Hence, the stress test results identify that the default of top large borrowers is likely to have the highest impact on the banking sectors' resilience in terms of capital, which is followed by the increase in NPLs.

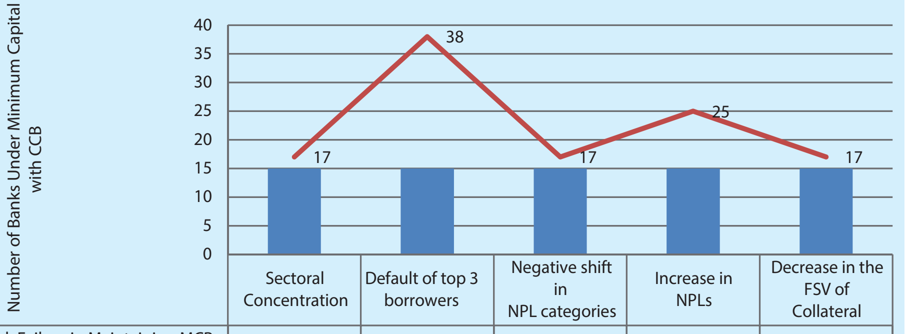
CHART 4.2: STRESS TESTS: MINOR SHOCK ON DIFFERENT CREDIT RISK FACTORS



	Sectoral Concentration	Default of top 3 borrowers	Negative shift in NPL categories	Increase in NPLs	Decrease in the FSV of Collateral
Before Shock Failure in Maintaining MCR	10	10	10	10	10
Failure in Maintaining MCR with Stress	12	25	12	13	12

Note: MCR-Minimum Capital Requirement.
Source: FSD, BB.

CHART 4.3: STRESS TESTS: MINOR SHOCK ON DIFFERENT CREDIT RISK FACTORS (WITH CCB)



	Sectoral Concentration	Default of top 3 borrowers	Negative shift in NPL categories	Increase in NPLs	Decrease in the FSV of Collateral
Before Shock Failure in Maintaining MCR with CCB	15	15	15	15	15
Failure in Maintaining MCR with CCB under Stress	17	38	17	25	17

Source: FSD, BB

4.1.2 LIQUIDITY RISK MANAGEMENT

The liquidity stress test[45] considers excessive[46] withdrawal of demand and time deposits both in local and foreign currency. A bank is considered to be adequately-liquid if it can survive (after maintaining SLR[47]) for 5 consecutive business days under a stressed situation. Standardized shocks are 2, 4 and 6 percent withdrawal of deposits, in excess of bank's normal withdrawal of deposit. At end-December 2021, the banking sector as a whole would likely to

[45] A liquidity stress test shows how many days a bank and the banking sector would be able to survive in a situation of liquidity drain without resorting to liquidity from outside (other banks, financial institutions or central bank).

[46] Higher than usual.

[47] SLR= Statutory Liquidity Requirement.

remain resilient against liquidity stress scenarios of 2, 4 and 6 percent additional withdrawal of deposits.

4.1.3 SENSITIVITY TO MARKET RISK

The banking sector is found to be fairly resilient in terms of different market shocks[48]. This sector, as a whole, would remain compliant in maintaining the minimum capital requirement under the minor level shock on interest rate, exchange rate and equity price (Table 4.7, 4.8 and 4.9). However, 1 out of 49 compliant banks would likely become non-compliant to maintain minimum capital requirement for equity price shock.

TABLE 4.7 : STRESS TESTS: INTEREST RATE RISK

(In Percent)

Pre-Shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.06
Stress Scenario		**After-Shock CRAR**
Minor Shock: 1% increase in deposit interest rate		10.42

Source: FSD, BB.

TABLE 4.8 : STRESS TESTS: EXCHANGE RATE RISK

(In Percent)

Pre-Shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.06
Stress Scenario		**After-Shock CRAR**
Minor Shock: Currency appreciation/depreciation by 5%		11.03

Source: FSD, BB.

TABLE 4.9 : STRESS TESTS: EQUITY PRICE RISK

(In Percent)

Pre-Shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.06
Stress Scenario		**After-Shock CRAR**
Minor Shock: Fall in the equity prices by 10%		10.74

Source: FSD, BB.

4.1.4 CALCULATION OF COMBINED STRESS TEST

In case of combined shock (Summation of shock results of Increase in NPLs, Fall in the FSV of Collateral, Negative Shift in NPL categories, Interest Rate Shock, FEX Currency Shock and Equity Price Shock), the banking sector's CRAR would likely to decrease to 7.24 percent from existing 11.06 percent (Table 4.10).

TABLE 4.10 : STRESS TESTS: COMBINED SHOCK

(In Percent)

Pre-shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.06
Stress Scenario		**After-Shock CRAR**
Combined Minor Shock		7.24

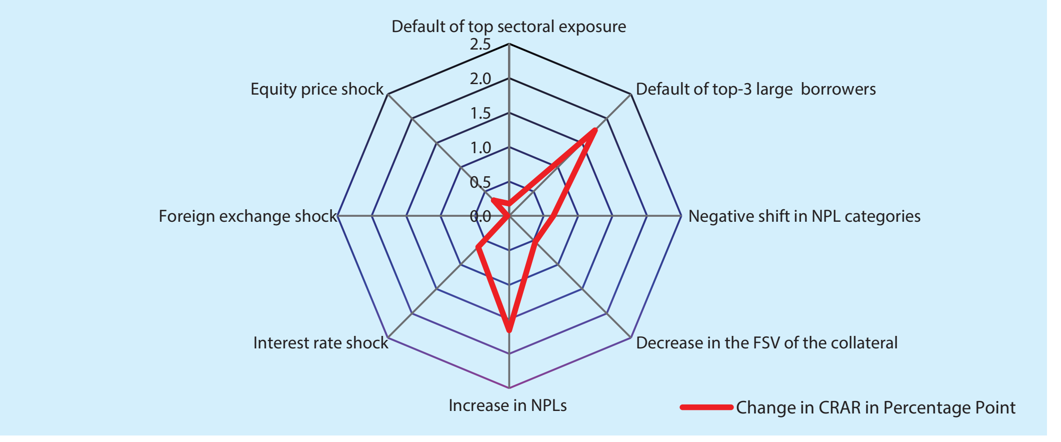
Source: FSD, BB.

[48] Market risk shocks: Interest rate, exchange rate and equity price movements.

4.1.5 BANKING SECTOR RESILIENCE AT A GLANCE

The banking sector seems to be resilient in maintaining minimum regulatory requirements for most of the minor level credit and market shocks scenario. However, the banking sector would likely become non-resilient against top large borrowers and increase in NPL related shock scenarios (Chart 4.4).

CHART 4.4:BANKING SECTOR RESILIENCE IN DIFFERENT SHOCK SCENERIOS (AT MINOR LEVEL SHOCK)



Source: FSD, BB.

4.2 RESILIENCE OF THE FINANCIAL INSTITUTIONS

Stress test on the financial institutions (FIs) is conducted to assess the resilience of an FI as well as FIs sector with different shock scenarios for credit risk, interest rate risk, equity price risk and liquidity risk.

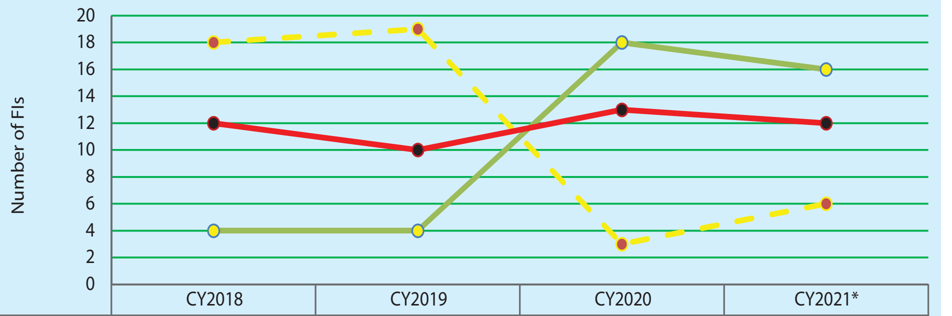
FIs are mainly vulnerable for different types of credit risk. Generally, the Infection Ratio (NPL to loan ratio) is taken as the main measure for ascertaining the sensitivity of the different segments of credit risk. For stress testing, there are four areas of credit risk namely: increase in NPLs, Downward shift in all Categories (except BL), Increase in NPLs' due to shifting of all loan disbursed in 2 sectors under B/L category and Increase in NPLs' due to all loan outstanding of top large borrowers turned in B/L category. If the regulatory capital of the FIs completely erodes to the zero level due to deterioration of NPL levels is called the Critical Infection Ratio. The ratio of Infection Ratio to the Critical Infection Ratio is used to calculate the Insolvency Ratio (IR). The IR is used to identify the significant percentage of FI's moves towards insolvency. To derive the Weighted Insolvency Ratio (WIR), the weights for 50.0 percent, 30.0 percent and 20.0 percent are given on after-shock IR in respect of minor, moderate and major level shocks respectively.

On the other hand, resilience levels for interest rate, credit and equity price shocks of the FIs are set with the minimum Capital Adequacy Ratio (CAR). Whereas, resilience level for liquidity shock is measured by asset-liability maturity bucket. In the stress test, it is checked whether an FI has adequate capital base and adequate liquidity after the shock impact. Then the Weighted Average Resilience (WAR) of FI is calculated based on the weights of 10.0 percent for interest rate, 60.0 percent for credit, 10.0 percent for equity price and 20.0 percent for liquidity irrespective of three levels of shock scenarios.

Both the WAR and WIR of FIs are measured in a scale of 1 to 5 (best to worst) grades. Then, WAR is categorized as either A (for grade 1) or B (for grade 2 and 3) or C (for grade 4 and 5) zone and

WIR is categorized as either 1 (for grade 1) or 2 (for grade 2 and 3) or 3 (for grade 4 and 5) zone. Finally, the WAR-WIR Matrix expresses the overall financial strength and resilience of an FI as either Sound (for WAR-WIR Matrix A1, A2) or Moderate (for WAR-WIR Matrix A3, B1, B2) or Weak (for WAR-WIR Matrix B3, C1, C2, C3)[49].

CHART 4.5: STRESS TESTS ON FINANCIAL INSTITUTIONS



	CY2018	CY2019	CY2020	CY2021*
Green/Sound	4	4	18	16
Yellow/Moderate	18	19	3	6
Red/Weak	12	10	13	12

* According to DFIM Circular Letter No.09, Dated 21/12/2020, the overall rating category of FIs changed to Sound, Moderate and Weak.
Source: DFIM, BB.

FIs Stress test results, based on the data as of end-December 2021, reveal that 16 out of 34 FIs are in Sound condition and 6 FIs are in Moderate condition (Chart 4.5). Hence, 22 FIs would have performed as resilient institutions as of end-December 2021. On the other hand, 12 out of 34 FIs are in Weak condition during the same period. Overall, a majority of the FIs would remain resilient in the appearance of different shock scenarios.

The combined results of stress test for banking sector indicate that the capital adequacy of the banking system would fall to 7.24 percent from existing 11.06 percent. In addition, stress test results of FIs reveal that, 22 out of 34 FIs would likely to become resilient under stress scenarios. Hence, the banking and FIs systems would remain moderately resilient to different shock scenarios. However, loan concentration to top large borrowers and considerable level of NPL in some banks and FIs could increase the risk to the overall financial stability. Proper corporate practice to follow the guideline on large loan/single borrower exposure would be helpful to reduce the risks on banks' exposure to large corporate or to specific group, specific sector or specific region.

[49] According to DFIM Circular Letter No.09, dated 21/12/2020, the overall rating category of FIs revised to *Sound, Moderate* and *Weak*. Previously both WAR and WIR categorized as *Green*, *Yellow* and Red zone. Then the WAR-WIR matrix also expressed overall rating of FIs as Green (GG), Yellow (GY, YG, YY, RY) and Red (GR, YR, RY, RR).

Chapter 5

FINANCIAL INSTITUTION'S PERFORMANCE

Like the banks, Financial Institutions (FIs) play a significant role in the economy through fostering production, economic growth and employment generation. FIs offer several financial services such as term financing, SME financing, factoring, syndicating financing, equity financing, merchant banking, venture capital and working capital financing. Moreover, FIs offer several unique facilities such as asset-based lending that requires limited collateral security considered a special advantage for new and potential enterprises, especially SMEs and sales & service related delivery making a connection between supplier and purchaser playing a crucial role in promoting the business activities.

As of end-December 2021, 35 FIs are operating in Bangladesh. Out of 35 FIs, 3 (three) are fully government-owned, 19 (nineteen) are privately-owned local companies and the remaining 13 (thirteen) are established jointly under local and foreign participation. In the review period, FIs operate their business activities in Bangladesh with the help of 279 urban and 24 rural branches.

5.1 PERFORMANCE OF FIs

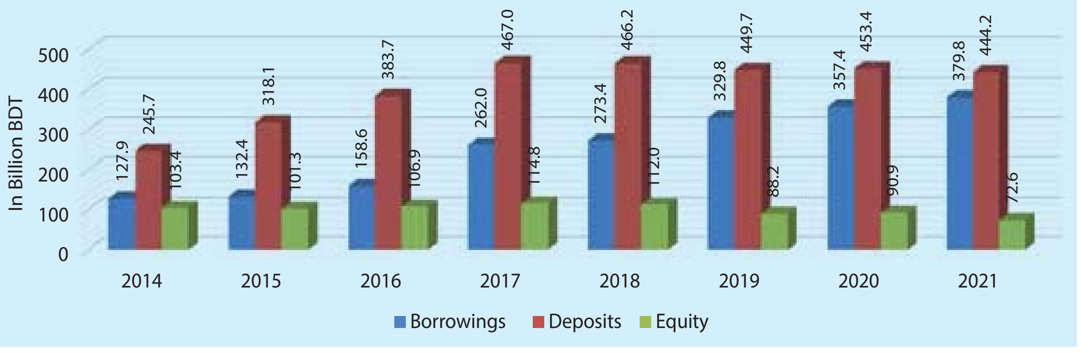
Along with onsite inspection, Bangladesh Bank uses several offsite tools such as stress testing and CAMELS rating to assess the performances of FIs. Bangladesh Bank applies the CAMELS rating system comprised of six broad performance indicators: capital adequacy, asset quality, management efficiency, earnings, liquidity, and sensitivity to market risk. The report appraises the performance of the FIs based on their sources of funds, assets composition, liability-asset ratio, asset quality and profitability. Besides, capital adequacy and liquidity measures are analyzed in the final sections.

5.1.1 SOURCES OF FUND

In order to operate the activities smoothly, FIs use several sources of funds such as share capital, bond, borrowing from banks, other financial institutions and foreign sponsors, term deposits, money at call, and placement from banks and other FIs. Chart 5.1 shows the different sources of fund used by the FIs[50] since 2014[51]. As of end-December 2021, deposits, borrowings, and equity constituted BDT 444.20 billion, BDT 379.80 billion, and BDT 72.60 billion (chart 5.1) equivalent to 49.5 percent, 42.4 percent and 8.1 percent of total funds respectively. These shares were 50.3 percent, 39.6 percent and 10.1 percent respectively at end-December 2020. It is to be noted that borrowings increased by 6.3 percent while the equity and deposits declined by 20.1 percent and 2.0 percent respectively in the review year as compared with those of the preceding period.

[50] Uttara Finance and Investments Ltd. and People's Leasing and Financial Services Limited are excluded from the discussion.
[51] Some data of the year 2019 were revised by DFIM

CHART 5.1: FIs' BORROWINGS, DEPOSITS AND EQUITY TREND



Source: Department of Financial Institutions and Markets, Bangladesh Bank.

5.1.2 ASSETS COMPOSITION

Assets of FIs are comprised of cash in hand, balance with BB, balance with other Banks & FIs, money at call & short notice, investment in govt. securities and other sources, loans & leases, fixed assets and other assets and non- financial assets. Among different components of assets, only cash & balance with BB and other Banks/FI increased in the review period compared to the preceding period (chart 5.2)[52]. At end-December 2021, aggregate assets of the FI industry reached BDT 896.56 billion registering a decline of 0.6 percent from that of the end-December 2020. The share of loans and leases to total assets was 72.4 percent as of end-December 2021, which was 74.4 percent as of end-December 2020. In 2021, no significant changes in cash balances were found in the FIs compared to the preceding period. Other components such as investments and all other assets (including fixed and non-financial assets) were 2.3 percent and 7.2 percent of total assets respectively in 2021. Fixed asset increased by 2.4 percent, while non-financial assets decreased by 39.3 percent. FIs' total assets to GDP ratio[53] accounted for 3.0 percent in 2021 which was 3.2 percent in the previous calendar year (Chart 5.3).

CHART 5.2: FIs' ASSET COMPOSITION

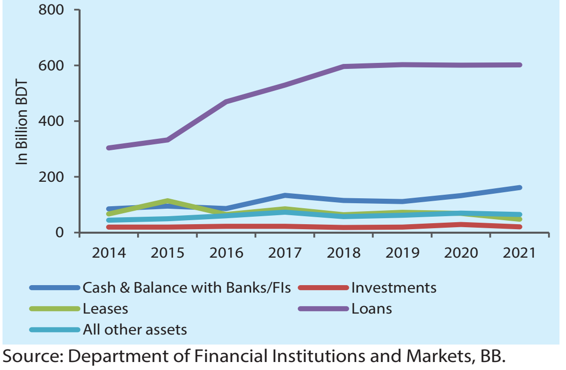
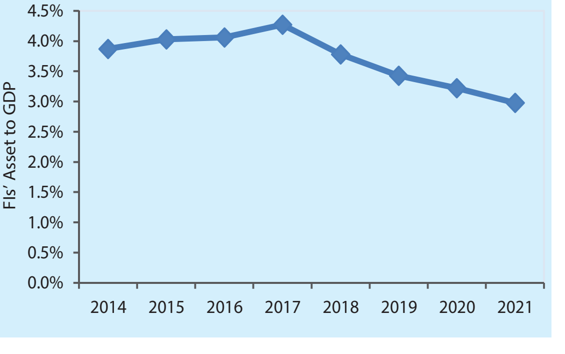


CHART 5.3: FIs' TOTAL ASSET TO GDP RATIO



Source: Department of Financial Institutions and Markets, BB.

[52] Data on assets composition for the year 2019 have been revised by DFIM.

[53] June based GDP figure is used.

TABLE 5.1: FIs' SECTOR-WISE LOANS AND LEASES AS OF END DECEMBER 2021*

SL	Major sectors	Amount (in billion BDT)	Percent	HHI**
1	**Trade and Commerce**	92.3	13.8%	191.0
2	**Industry:**			
	A) Garments and Knitwear	40.0	6.0%	35.9
	B) Textile	33.4	5.0%	25.0
	C) Jute and Jute-Products	2.8	0.4%	0.2
	D) Food Production and Processing Industry	29.5	4.4%	19.5
	E) Plastic Industry	6.9	1.0%	1.1
	F) Leather and Leather-Goods	2.8	0.4%	0.2
	G) Iron, Steel and Engineering	33.8	5.1%	25.6
	H) Pharmaceuticals and Chemicals	16.1	2.4%	5.8
	I) Cement and Allied Industry	15.7	2.4%	5.5
	J) Telecommunication and IT	11.2	1.7%	2.8
	K) Paper, Printing, and Packaging	12.5	1.9%	3.5
	L) Glass, Glassware and Ceramic Industry	8.1	1.2%	1.5
	M) Ship Manufacturing Industry	4.4	0.7%	0.4
	N) Electronics and Electrical Products	8.0	1.2%	1.4
	O) Power, Gas, Water, and Sanitary Service	65.5	9.8%	96.2
	P) Transport and Aviation	26.0	3.9%	15.2
3	**Agriculture**	16.4	2.5%	6.0
4	**Housing**	119.2	17.8%	318.6
5	**Others**			
	A) Merchant Banking	20.0	3.0%	9.0
	B) Margin Loan	8.1	1.2%	1.5
	C) Others	95.1	14.2%	202.8
	TOTAL	667.8	100.0%	968.7

*People's Leasing and Financial Services Limited is excluded from the discussion.
**Herfindahl-Hirschman Index (HHI)
Source: Department of Financial Institutions and Markets, Bangladesh Bank.

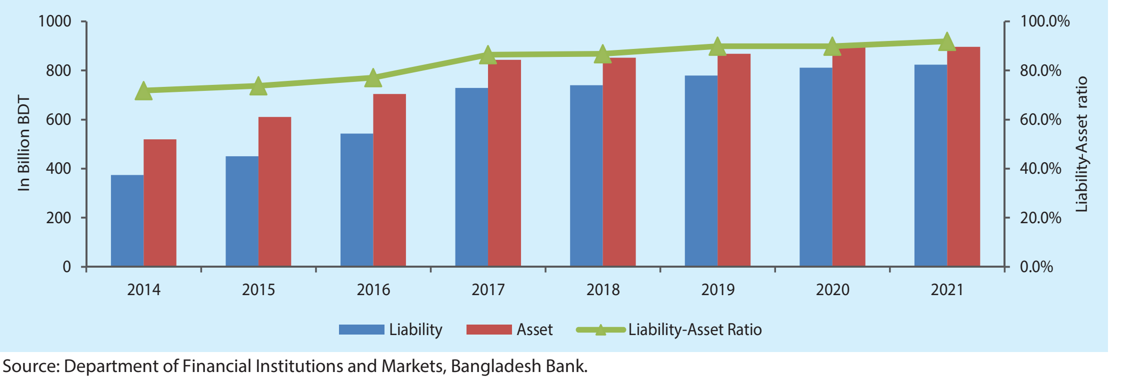
The aggregate value of the Herfindahl-Hirschman Index (HHI), as shown in Table 5.1, was 968.7, which indicates that FIs' loans and leases were competitive[54] during 2021. In addition, the index was 980.6 in 2020 indicating a slight improvement in competitive concentration in the industry. FIs' loans and leases were concentrated in the two major sectors namely the housing sector and trade and commerce sector, which accounted for17.8 percent and 13.8 percent of total loans and leases respectively.

[54] HHI lying below 1500 points indicates 'competitive' concentration revealing that the sectors are fairly treated in terms of credit distribution by the FIs and no significant monopolistic distribution is evident.

5.1.3 LIABILITY-ASSET RATIO

The liability-asset ratio has been increasing gradually since 2014, indicating a lower equity contribution in the industry (chart 5.4). The liability-asset ratio reached 91.9 percent at end-December 2021, 2.0 percentage points higher than the preceding period.

CHART 5.4: LIABILITY-ASSET RATIO OF FI INDUSTRY



Source: Department of Financial Institutions and Markets, Bangladesh Bank.

5.1.4 ASSET QUALITY

As of the end-December 2021, total non-performing loans and leases increased sharply from BDT 100.58 billion to BDT 130.17 billion representing a poor performance on asset quality management of the FIs[55]. Eventually, the ratio of non-performing loans and leases to total loans and leases jumped from 15.0 percent in 2020 to 19.3 percent in 2021 (chart 5.5). Among the FIs, eleven (11) had their NPL ratio higher than 19.3 percent; 5 FIs had the ratio over 10 percent but below 19.3 percent while 10 FIs were able to maintain their NPL ratio below 5 percent. In 2021, although FIs needed to maintain BDT 73.94 billion for provisions against outstanding loans and leases, they could maintain only BDT 62.91 billion leading to a provision shortfall of BDT 11.03 billion in the industry (chart 5.6). Moreover, a coverage ratio of total non-performing loans and leases reached at 48.3 percent in end-December 2021 while it was only 44.1 percent at end-December 2020. Six FIs, out of 35, could not maintain the required provision as per regulatory guidelines in the review period.

CHART 5.5: FIs' CLASSIFIED LOANS AND LEASES

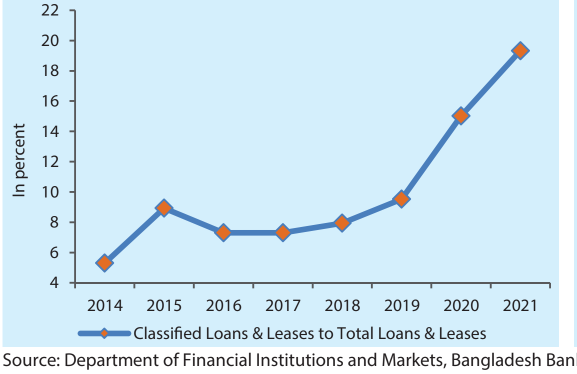
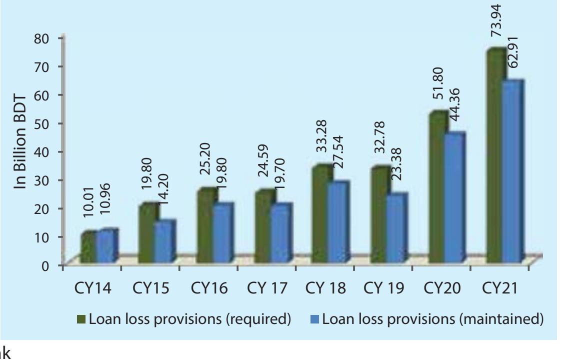


CHART 5.6: FIs' LOAN LOSS PROVISIONING



Source: Department of Financial Institutions and Markets, Bangladesh Bank

[55] People's Leasing and Financial Services Limited are excluded from the discussion.

5.1.5 PROFITABILITY

Due to high NPLs, the overall profitability of the FIs as of December 2021 was largely affected as compared to that of 2020. Despite investment income and operating income increased by 34.3 percent and 10.2 percent respectively in 2021, profit before taxes declined 53.3 percent to BDT 4.08 billion compared to BDT 8.75 billion in 2020 owing to substantial loan loss provision (chart 5.7)[56]. As a result the sector recorded a net loss amounting BDT 2.02 billion, which is a concern for the sector.

Like at the end-December 2019, net profit after tax showed a negative balance in 2021 indicating a critical issue for the industry. Consequently, the key profitability measures such as return on assets (ROA) and return on equity (ROE) declined sharply in 2021 compared to the preceding period. The ROA and the ROE were -0.2 percent and -2.8 percent respectively at end-December 2021 (chart 5.8). As Non-Performing Loans increased sharply, FIs could not show encouraging performance on ROA and ROE in 2021.

CHART 5.7: FIs' TREND OF INCOME AND EXPENSE

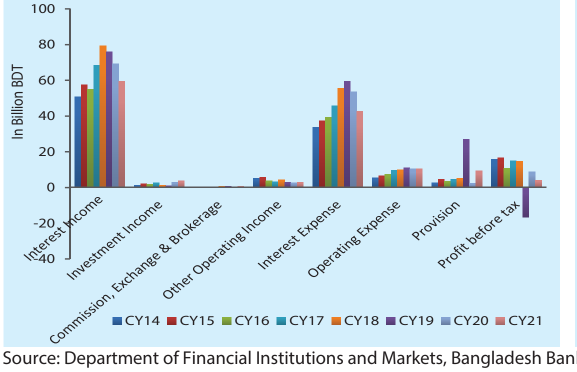
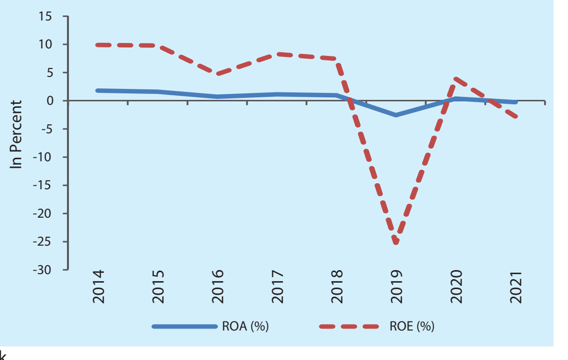


CHART 5.8: FIs' PROFITABILITY TREND

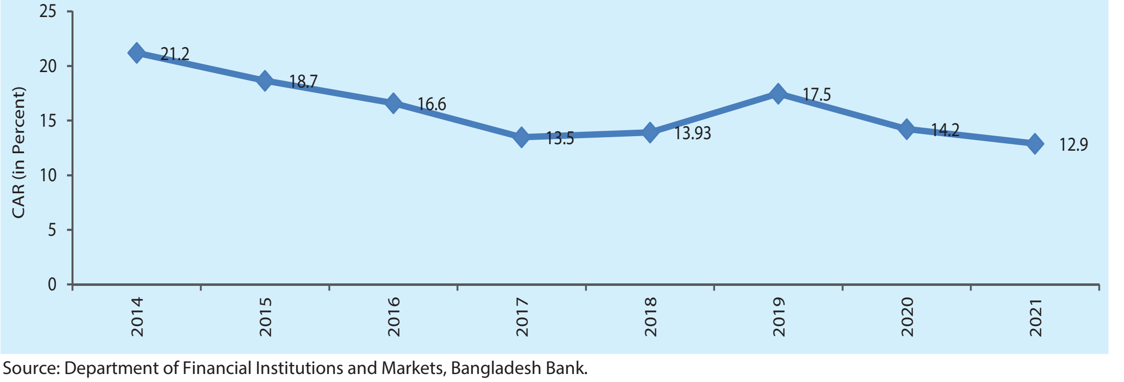


Source: Department of Financial Institutions and Markets, Bangladesh Bank.

5.2 CAPITAL ADEQUACY

The minimum capital adequacy ratio (CAR) for the FIs is 10 percent as per the Basel II standard. The CAR of the FIs was 12.9 percent at the end-December 2021, moderately lower as compared to 14.2 percent recorded at the end-December 2020 (chart 5.9). Nevertheless, the industry's CAR remains higher than the required threshold level.

CHART 5.9: FIs' CAPITAL ADEQUACY RATIO (CAR)



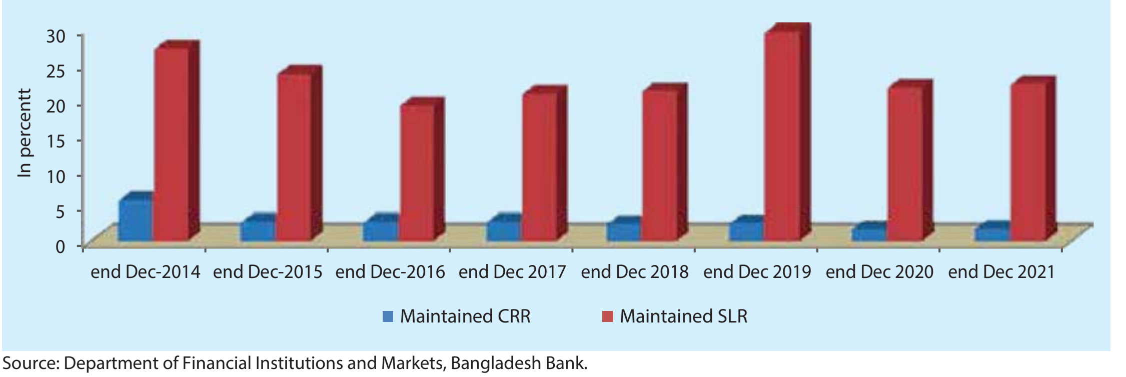
Source: Department of Financial Institutions and Markets, Bangladesh Bank.

[56] Some data on FIs' aggregate income statement has been recalculated by DFIM for 2019

5.3 LIQUIDITY

The extents of CRR and SLR maintained by the FIs are considered key indicators of liquidity in the industry. At end-December 2020, the FIs sector maintained a 1.6 percent of CRR and 21.6 percent of SLR. On the other hand, both CRR and SLR increased to 1.7 percent and 22.1 percent respectively at end-December 2021remaining in the comfort zone[57] (chart 5.10).

CHART 5.10: FIs' CRR AND SLR



Source: Department of Financial Institutions and Markets, Bangladesh Bank.

The overall analysis depicts that the borrowing of FIs slightly increased, whereas both deposits and equity decreased in 2021 compared to 2020. As the size of the equity declined sharply by 20.1 percent, the risk to this sector increased considerably. In addition, the concentration index measured by HHI reveals the absence of moderate or high concentration in the industry. In the review period, leases declined sharply by 30.5 percent although loans remained almost the same. Moreover, investments including government securities and other forms of investments decreased significantly by 27.9 percent, a growing concern for the FIs. Continuous increase in NPL and booking of extra loan loss provision leads to deterioration in income generation, which declines operating effi ciency also and may pose elevated risk from the stability point of view. As a result, at end-December 2021, both ROA and ROE sharply declined, to -0.2 percent and -2.8 percent from 0.4 percent and 3.9 percent respectively at the end-December 2020. Although capital adequacy ratio (CAR) of this industry decreased compared to the preceding period, it still remained above the minimum regulatory requirement of 10 percent. In the review year, the industry also maintained a consistency in liquidity management as usual.

[57] The minimum requirements for CRR and SLR are 1.5 percent and 5 percent respectively (vide DFIM circular no. 03/2020)

Chapter 6

MONEY AND CAPITAL MARKET

The financial markets of Bangladesh remained largely stable in 2021. Money market liquidity was sufficient throughout the year. Bangladesh Bank (BB) provided liquidity support into the financial system on rare occasions. Capital market also experienced a rise in index and market capitalization with higher turnover during the review year. Banks' participation in the capital market increased steadily during the review year.

6.1 MONEY MARKET

Money market was largely stable in 2021. Issuance of BB Bill and minimal liquidity support by the central bank signifies the sufficient liquidity in the financial market. However, both call money borrowing rate and interbank repo rate found to be increasing during the second half of the review year.

6.1.1 BANGLADESH BANK (BB) BILLS

Bangladesh Bank (BB) bills were used in the second half of the review year. The primary issuance of government treasury bills of different maturities was BDT 1,115.12 billion in aggregate.

Bangladesh Bank (BB) bills were used in the second half of 2021 for sterilization purpose and for liquidity management in the banking system. BB bills worth BDT 689.72 billion were issued in 2021 where 07, 14 and 30- day BB bills were BDT 146.03 billion, BDT 216.28 billion and BDT 327.41 billion respectively (Chart 6.1).

CHART 6.1: VOLUME OF BB-BILLS ISSUANCE IN 2021

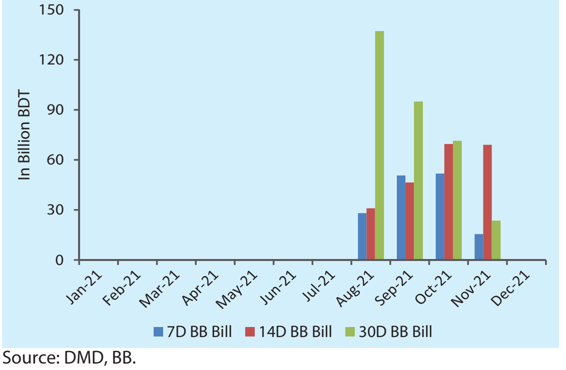
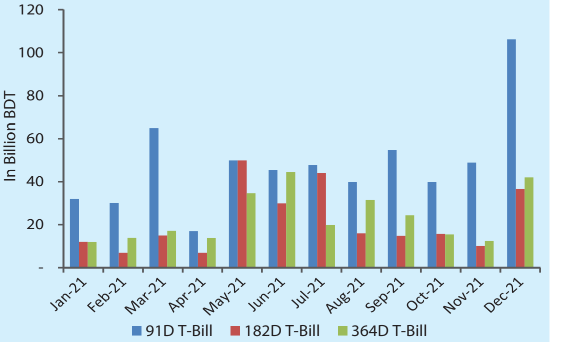


CHART 6.2: VOLUME OF T-BILLS ISSUANCE IN 2021



Source: DMD, BB.

Chart 6.2 exhibits the month-wise issuance of primary T-bills for each maturity during 2021. T-bills worth of BDT 576.29 billion, BDT 257.78 billion, and BDT 281.04 billion with maturities of 91, 182, and 364 days respectively were issued throughout the year. Noteworthy, 14-day T-Bills were not issued in the review year.

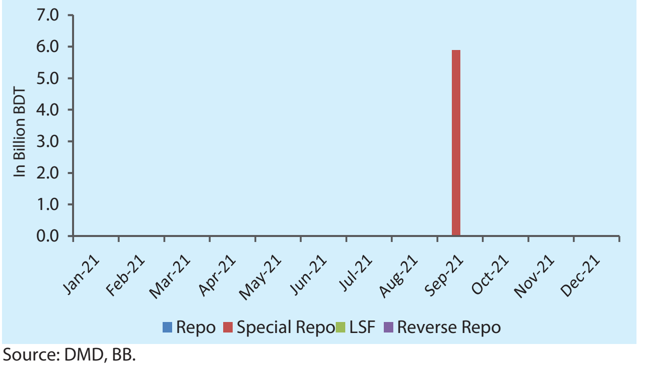
91-day T-bills remained as the most common instruments for the Government, as these provide more flexibility for managing public fund than longer-term ones. T-bill issuance was lowest (BDT 37.73 billion) in the month of April 2021 whereas December 2021 observed the highest issuance of T-bills amounting to BDT 184.80 billion.

6.1.2 REPO WITH BANGLADESH BANK

The financial system did not seem to face any abrupt liquidity pressure as there is only one instance of using BB's special repo facility during 2021.

Chart 6.3 shows that banks and financial institutions (FIs) did not enter into any repo, reverse repo and liquidity support facility (LSF) arrangement with BB in 2021. However, they availed special repo worth BDT 5.89 billion in September 2021. This indicates that there was adequate liquidity in the financial system.

CHART 6.3: MONTHLY TURNOVER OF REPO, SPECIAL REPO, LSF, AND REVERSE REPO IN 2021



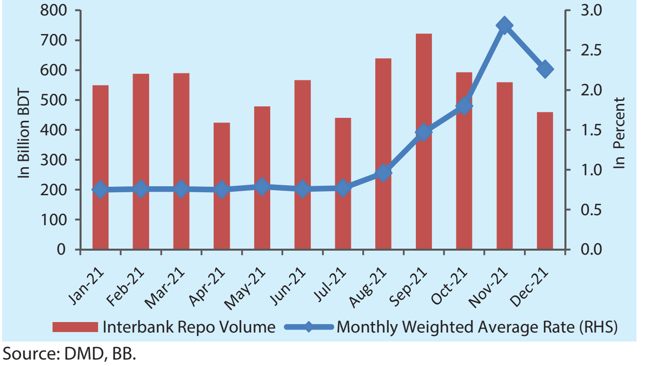
Source: DMD, BB.

6.1.3 INTERBANK REPO

Interbank Repo rate, after remaining stable in the first half of the 2021, increased gradually during the second half of the review year.

The volume of interbank repo transactions in 2021 was BDT 6608.23 billion, showed a 10.21 percent decline compared to the amount of BDT 7,359.4 billion in 2020. The interbank repo rate, after remaining stable in the first half of the 2021 increased gradually in the second half the year and finally reached to 2.26 percent (See Chart 6.4).

CHART 6.4: INTERBANK REPO TURNOVER AND INTER BANK REPO RATE IN 2021



Source: DMD, BB.

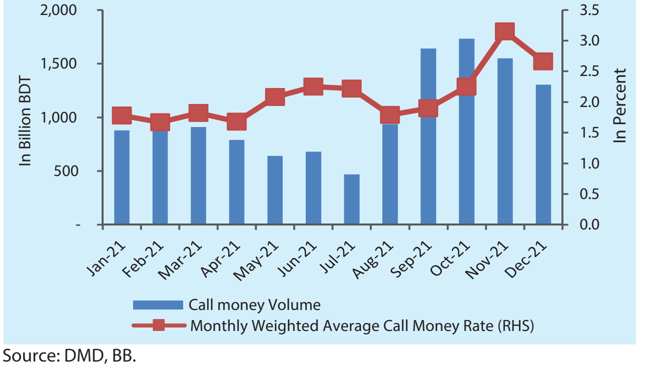
6.1.4 INTERBANK CALL MONEY MARKET[58]

Both call money borrowing volume and call money rate were relatively higher during September to December 2021.

The call money market plays a significant role in day-to-day liquidity management of the financial sector in Bangladesh. The call money rate, unlike the interbank repo rate, includes a risk premium for being an unsecured type of instrument.

Chart 6.5 shows the month-wise call money borrowing volume along with the weighted average call money rate. In December 2021, the call money rate

CHART 6.5: CALL MONEY BORROWING VOLUME AND MONTHLY WEIGHTED AVERAGE CALL MONEY RATE IN 2021



Source: DMD, BB.

58 Interbank call money only includes exposures of scheduled banks and FIs with each other. Assets or liabilities with non-scheduled financial institutions are excluded from this discussion.

stood at 2.66 percent which was 1.8 percent at end-December 2020. In terms of total transaction volume, the call money borrowing was BDT 12,502.28 billion in 2021 which was BDT 14,205.61 billion in 2020.

6.2 BOND MARKET

A dynamic and active bond market is crucial for better supplement as well as management of banks' liquidity, government debt, and monetary policy. Besides, a vibrant bond market strengthens financial stability by effectively tackling the maturity mismatch problem of bank-based financing. In Bangladesh, the bond market is primarily dominated by government bonds with low product variations while the activities are mostly based on the primary auction.

In 2021, long-term treasury bonds worth BDT 698.8 billion were issued. The value of treasury bonds sold in 2021 for different maturities is exhibited in Table 6.1. 2-year Treasury bond was the highest sold bonds in the market as its share was 28.5 percent of the total auction sales. Treasury bond issuance was lowest (BDT 28 billion) in April 2021 whereas it was highest (BDT 111.5 billion) in July 2021.

TABLE 6.1: VOLUME OF T-BONDS AUCTION SALES IN 2021

Tenure	Volume (In BDT Billion)	Share of Total Auction Sales (In Percent)
2Y T-Bonds	199.2	28.5%
5Y T-Bonds	185.6	26.6%
10Y T-Bonds	190.0	27.2%
15Y T-Bonds	67.0	9.6%
20Y T-Bonds	56.9	8.1%
Total	**698.8**	**100%**

Source: DMD, BB.

Chart 6.6 exhibits the mandatory devolvement of treasury securities in auction sales during the review year. Devolvement took place in two cases on Bangladesh Bank (BB) in March and May 2021. However, one instance of devolvement was observed in November 2021 on Primary Dealers (PD).

CHART 6.6: VOLUME OF TREASURY SECURITIES AUCTION SALES – MANDATORY DEVOLVEMENT, 2021

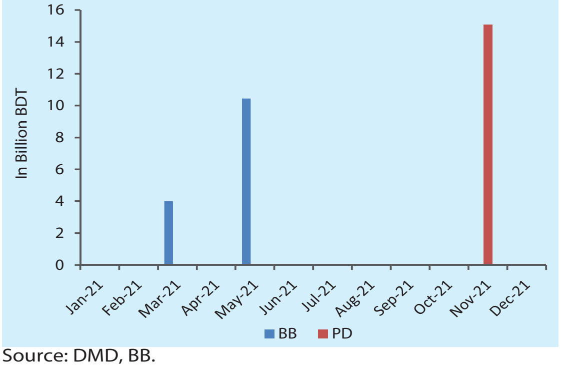
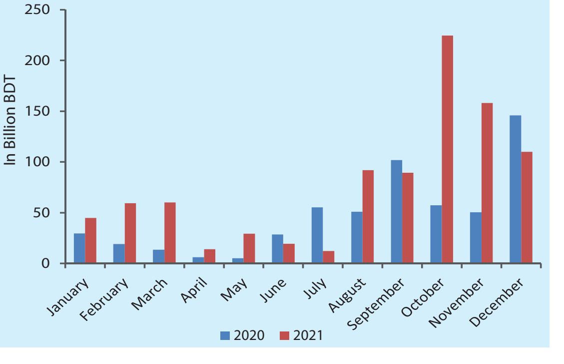


CHART 6.7: MONTHLY VOLUME OF SECONDARY TRADE



Source: DMD, BB.

The secondary market for T-bonds was more active in 2021 than in 2020. The total volume of government securities traded in the secondary market was BDT 913.15 billion during the review year which was BDT 563.98 billion in 2020. The trend in monthly secondary trade in 2021 is displayed in Chart 6.7. It shows that the higher monthly trading volumes took place during the second half of the review year.

The Over-the-Counter (OTC) mechanism of Market Infrastructure (MI) module (an automated auction and trading platform for G-Securities) was mainly used for trading. The volume of secondary trade using the Trader Work Station (TWS) mechanism was insignificant.

BOX 6.1: YIELD CURVE

In December 2021, the treasury auction yield curves for both short-term treasury bill and long-term treasury bond exhibited an upward trend compared to those of the December 2020 and June 2021. However, the rise was larger for short-term yield which made the yield curve flattening. This upward yield curve reflects the higher cost of government borrowing.

CHART B6.1.1: TREASURY BILL YIELD CURVE

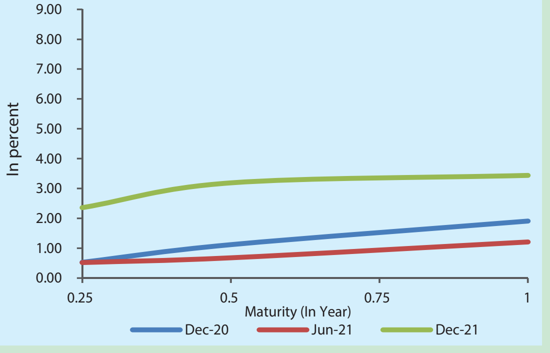
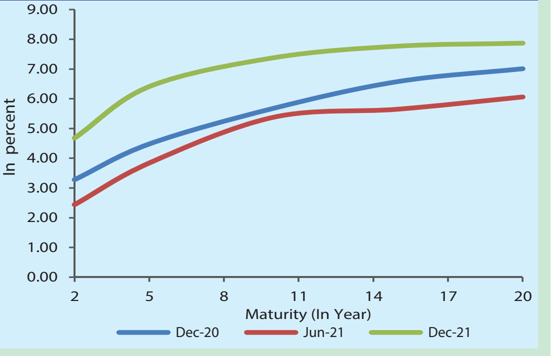


CHART B6.1.2: TREASURY BOND YIELD CURVE



Source: Major Economic Indicators, January 2022 Issue, BB.

Generally, a flattening yield curve indicates an early sign for economic slowdown and a lower expected inflation rate. However, in the absence of a vibrant secondary bond market, such indication from the primary market yield curve may not be reasonably conceivable.

6.3 CAPITAL MARKET

The capital market in Bangladesh remained bullish in 2021 for the second consecutive year as evident from movements in major market indicators such as index value, market capitalization, daily average turnover, and P/E ratio in the Dhaka Stock Exchange (DSE)-the prime bourse in Bangladesh.

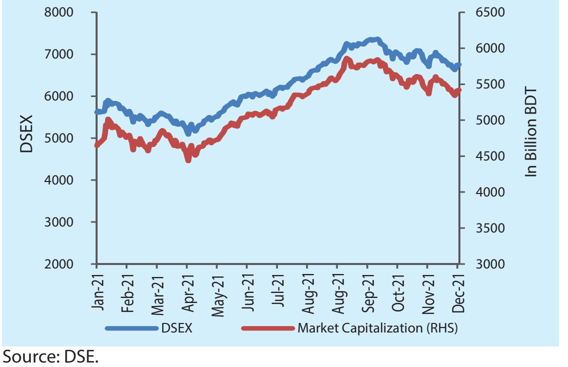
The DSE Broad Index (DSEX) increased by 25.08 percent in 2021. Also, the market capitalization of DSE increased by 20.96 percent. The daily average turnover increased to BDT 14.7 billion in 2021 from BDT 6.5 billion in 2020. Moreover, dividend yield increased to 4.3 percent in the review year from 3.16 percent from the previous year.

6.3.1 MAJOR INDEX AND MARKET CAPITALIZATION

Chart 6.8 shows that DSE broad index (DSEX) reached at 6756.66 at end-December 2021 gaining 1354.59 points during the review year. Similarly, market capitalization of DSE increased by BDT 939.66 billion and reached to BDT 5421.96 billion during 2021. The rising index coupled with the increased market capitalization indicates the uptrend in capital market during the review year.

Chart 6.9 exhibits the candlestick chart for the DSEX Index which reveals the investors' sentiments and behaviors from the different patterns of the opening index, highest index, lowest index, and closing index. Higher market confidence of the investors is reflected in the consecutive second long green candle since 2020. However, the difference between the highest and lowest value of DSEX was maximum in 2021 since its inception in 2013.

CHART 6.8: DSEX INDEX AND MARKET CAPITALIZATION IN 2021



Source: DSE.

CHART 6.9: DSEX (2013 To 2021)

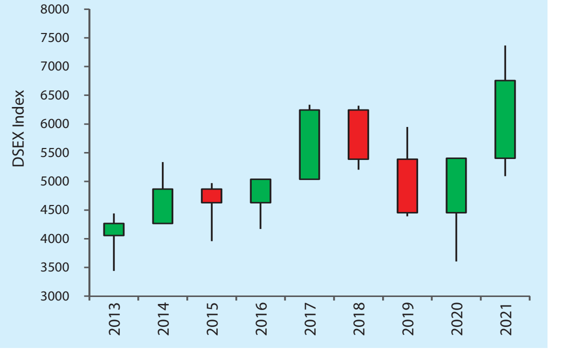
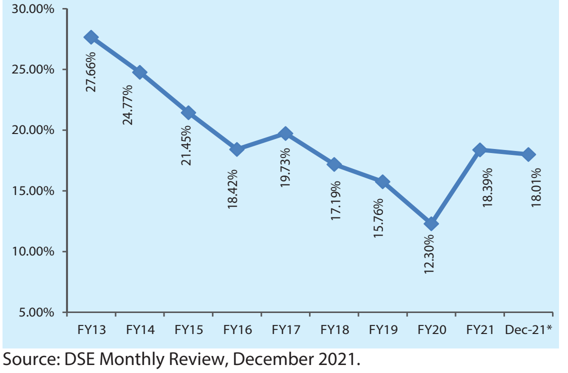


CHART 6.10: MARKET CAPITALIZATION TO GDP RATIO



Source: DSE Monthly Review, December 2021.

* The GDP of FY 2020-21 is considered for the calculation of the market capitalization ratio in December 2021.

Total market capitalization as a percentage of GDP is an important indicator exhibiting the depth of a country's capital market. Chart 6.10 shows that the market capitalization to GDP ratio rebounded in 2021. It reached to 18.39 percent in FY21 as opposed to 12.30 percent of FY20. The year-end (December 2021) market capitalization to GDP ratio, however, slightly decreased to 18.01 percent.

More high-quality stocks should be promoted and listed to provide additional depth into this market so that it could not only facilitate the long-term financing demand but also ensure a strong footing for the financial stability of Bangladesh.

6.3.2 DAILY AVERAGE TURNOVER

Daily average turnover, an important factor of capital market, indicates the capital market liquidity. Higher daily average turnover indicates better liquidity in the market and usually preferred by the investors. Chart 6.11 shows the trend in daily average turnover since 2013. It exhibits that the daily average turnover increased to BDT 14.7 billion in 2021 from BDT 6.5 billion in 2020 reflecting a significant increase in liquidity into the market. Further, Chart 6.12 shows the month-wise liquidity condition of the DSE during 2021. It depicts that highest daily average turnover was observed in August, 2021 while March, 2021 experienced the lowest daily average turnover.

CHART 6.11: YEAR-WISE DAILY AVERAGE TURNOVER

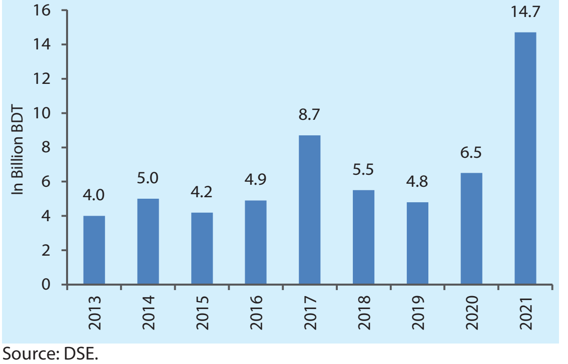
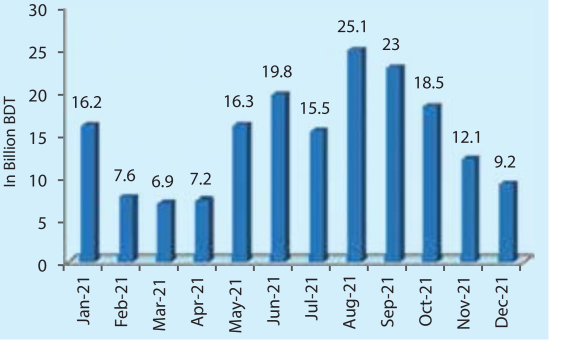


CHART 6.12: MONTH-WISE DAILY AVERAGE TURNOVER OF 2021



Source: DSE.

6.3.3 MARKET CAPITALIZATION DECOMPOSITION

Charts 6.13 and 6.14 demonstrate the sectoral share in market capitalization in 2020 and 2021 respectively. As usual, the manufacturing sector dominates the market capitalization in 2021 capturing 43.9 percent of the total market share which was 42.6 percent of total market share in 2020. The key reasons for such an increase were the strong growth in market capitalization of food and allied products, pharmaceuticals and chemicals, engineering and textile industries.

CHART 6.13: DECOMPOSITION OF MARKET CAPITALIZATION (END DEC- 2020)

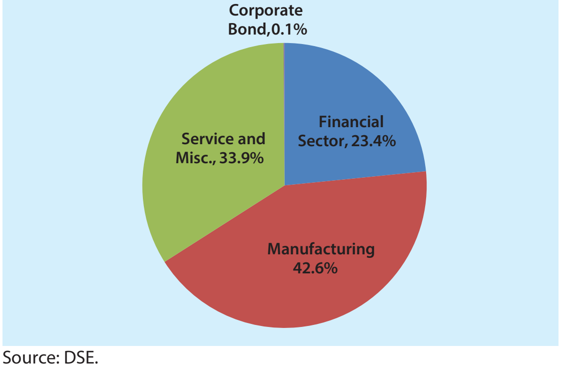
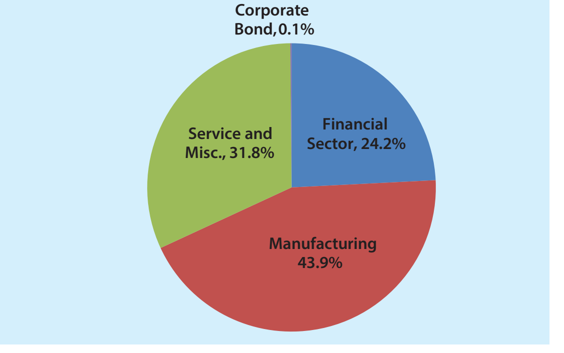


CHART 6.14: DECOMPOSITION OF MARKET CAPITALIZATION (END DEC- 2021)



Source: DSE.

The second largest share, 31.8 percent of the market capitalization was contributed by the service and miscellaneous sector in 2021 which was 33.9 percent in 2020. Fuel and power, telecommunication and miscellaneous subsector were the key contributors in this sector.

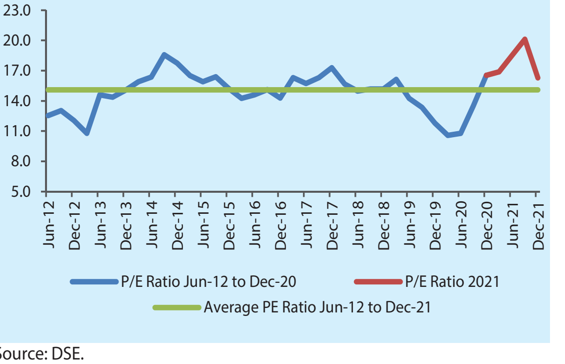
The market share of the financial sector increased to 24.2 percent in 2021 from 23.4 percent in 2020 largely attributable to the growth in banks. Moreover, insurance and financial institutions also played a positive role to capture the higher share of market capitalization. The share of corporate bond sector stood at 0.13 percent in 2021 which was at 0.10 percent in 2020.

6.3.4 PRICE-EARNINGS (P/E) RATIO

Chart 6.15 shows the trend in overall weighted average price-earnings (P/E)[59] ratio of the DSE since June-2012. The market P/E ratio indicates whether the market is overvalued or undervalued.

The overall weighted average price-earnings (P/E) ratio of the DSE was 16.3 in December 2021 which was 16.5 in December 2020. However, price-earnings (P/E) ratio of the DSE was relatively higher at end-June 2021 (18.5) and end-September 2021 (20.12).

CHART 6.15: MARKET PRICE EARNINGS RATIO



Source: DSE.

[59] The current market price of the stock divided by its earnings per share (EPS) is known as the price-earnings (P/E) ratio which shows how much investors are paying for each unit of earnings.

6.3.5 INITIAL PUBLIC OFFERING (IPO), RIGHT SHARE AND BONUS SHARE

CHART 6.16: CAPITAL INCREASED BY THE SECURITIES TRADED AT DSE

Source: DSE Monthly Review, December 2021.

An increase in initial public offerings (IPOs) deepens the stock market through increasing market capitalization. Chart 6.16 shows the trend in increase in capital resulting from IPOs, rights shares, and bonus shares. In the review year, capital increase was driven by an increased volume of Bonus share but held back by lower issuance of IPO and Right share as compared to 2020. Altogether, the capital increased by BDT 52.3 billion in 2021 which was lower than the previous year (BDT 79.2 billion).

6.3.6 DIVIDEND AND YIELD

Table 6.2 shows the number of companies that declared cash dividends increased to 258 in 2021 from 237 in 2020. On the other hand, the number of companies which declared stock dividend declined to 85 in 2021 from 94 in the previous year. Also, the number of companies that did not declare any dividend remained same to 46 both in 2020 and 2021.

TABLE 6.2: COMPARISON OF DIVIDEND AND YIELD (2017-2021)

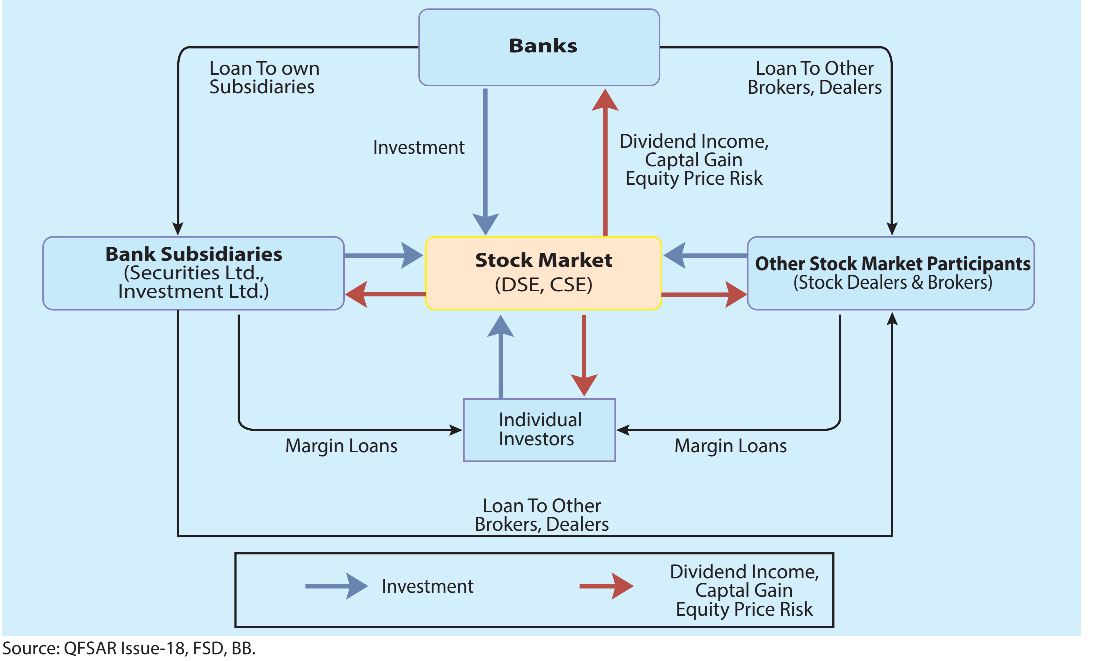
Particulars	2017	2018	2019	2020	2021
No. of companies declared cash dividend	187	179	213	237	258
No. of companies declared stock dividend	142	154	132	94	85
No. of companies which did not declare any dividend	36	28	29	46	46
Yield (%)	3.25	3.58	5.03	3.16	4.03
Source: DSE Monthly Review, December 2021.					

Dividend yield shows improvement in the review year as it increased to 4.03 percent compared to 3.16 percent in 2020. Since dividend yield is one of the important indications of returns for the investors, regular dividend payment by the companies is crucial for attracting investors and a sound capital market. However, the dividend yield in DSE is lower than the returns of other alternative investments, for example, the rate of Sanchayapatra or Fixed Deposit rate of banks and NBFIs.

6.3.7 INTERLINK BETWEEN BANKING SECTOR AND STOCK MARKET

The linkage between the banking sector and the stock market is crucial from the financial stability viewpoint. Chart 6.17 shows how banks and capital markets are inter-linked. Inter-linkages may arise from the banks' investment in the capital market on a solo (only bank) as well as the consolidated basis (i.e., banks along with their subsidiaries). Banks' solo-basis investment in the capital market constitutes their investment in shares, mutual funds, bonds/debentures, and placements. Additionally, loans to own subsidiaries in the capital market, loans to others for merchant banking and brokerage activities, loans to stock dealers are also considered as banks' solo-basis investment exposures. For consolidated exposure, investment in shares, mutual funds, bonds/debentures, placement shares, and margin/bridge loans by subsidiary companies of the bank are taken into account.

CHART 6.17: SCHEMATIC VIEW OF INTER-LINKAGE BETWEEN BANKS AND CAPITAL MARKET



Source: QFSAR Issue-18, FSD, BB.

Generally, dividend, interest income, and capital gain are the main earnings of the banks from such investment at the cost of bearing equity price risk. So, the performance of the capital market may have a considerable impact on the banks as banks may incur losses from their investment exposures and the risk is higher for higher exposure in the capital market.

Charts 6.18 and 6.19 show that banks' capital market exposures (both solo and consolidated) gradually increased during 2021. However, the capital market exposure of banks remained well below the regulatory limit[60] which indicates that equity price shock may not pose any major stability threat to the banking sector in the near-term.

CHART 6.18: TREND IN CAPITAL MARKET EXPOSURES (SOLO) OF BANKS

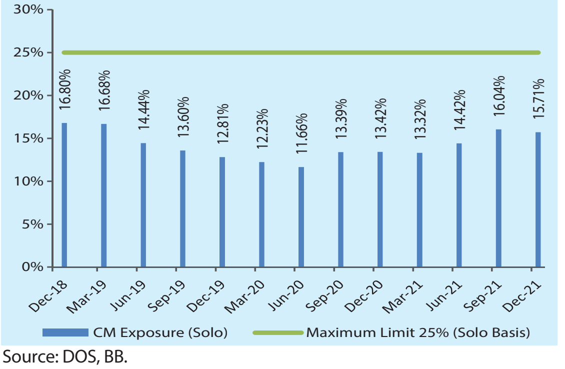
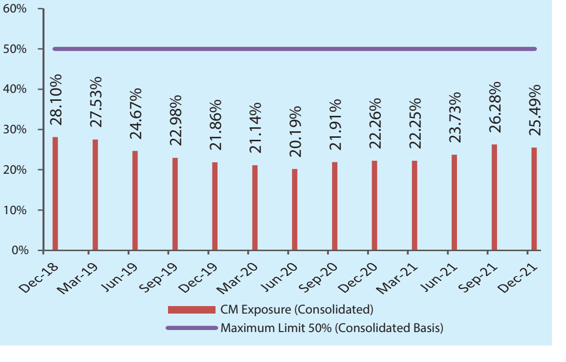


CHART 6.19: TREND IN CAPITAL MARKET EXPOSURES (CONSOLIDATED) OF BANKS



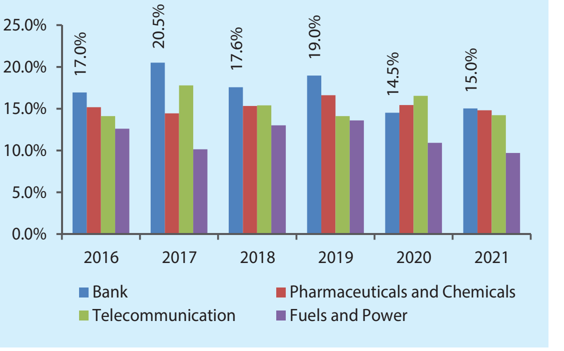
Source: DOS, BB.

There is another perspective of this inter-linkage. As most private commercial banks (PCBs) are listed in the DSE and the banking sector comprises one of the largest segments in this market, the performance of those listed banks (for instance, measured by CRAR, NPL, ROA, or ROE) may significantly influence the overall outcome (e.g., index, market capitalization) of the capital market through their share price channel.

[60] The maximum allowable limit to investment in the capital market is 25 percent and 50 percent of the prescribed capital (sum of paid-up capital, statutory reserve, retained earnings and share premium) on solo and consolidated basis respectively.

Chart 6.20 shows the market capitalization of four major sectors in DSE over the last six years. It depicts that the banking sector held the highest share of market capitalization from 2016 to 2021, except 2020, reflecting the dominance of the banking sector in DSE. The share increased to 15 percent in 2021 from 14.5 percent in 2020. Higher share of the banking sector in the stock market elucidates that any stress on the banking sector may adversely affect the market through a contagion effect. Both market capitalization and index may fall sharply due to fall in the bank's share price.

CHART 6.20: MAJOR SECTORS' MARKET CAPITALIZATION IN DSE



Source: DSE Monthly Review, December 2021.

Chapter 7

FINANCIAL INFRASTRUCTURE

A well established financial infrastructure plays a very crucial role for better functioning of bank/financial institutions. It promotes financial activities ensuring safety and security as well as enables efficient allocation of funds and creates better opportunities for users to diversify their portfolio in a cost effective way. It also improves the financial system by incorporating updated technologies along with judicious rules and regulations. It ensures fair competition among the market participants. Organized financial infrastructures ensure the liquidity in the financial market by flowing fund efficiently and thereby enhance financial sector stability. Any failure or disruption of financial infrastructure due to inefficient use of technology could strike at the foundations of financial market and cause prevalent economic tension leading to systemic risk. As a regulator of the financial system of Bangladesh, Bangladesh Bank has been working relentlessly for introducing state-of-the-art payment platforms and instruments to avoid any domestic or cross border risk that may lead to systemic shock to the financial system. To foster smooth functioning of the financial markets, BB has established several sophisticated payment system platforms with innovative technologies consistent with the global standards. BB is also enhancing its supervision for the smooth functioning of financial infrastructure through formulation of effective regulations and ensuring compliance culture among concerned stakeholders.

7.1 ELECTRONIC BANKING OPERATIONS

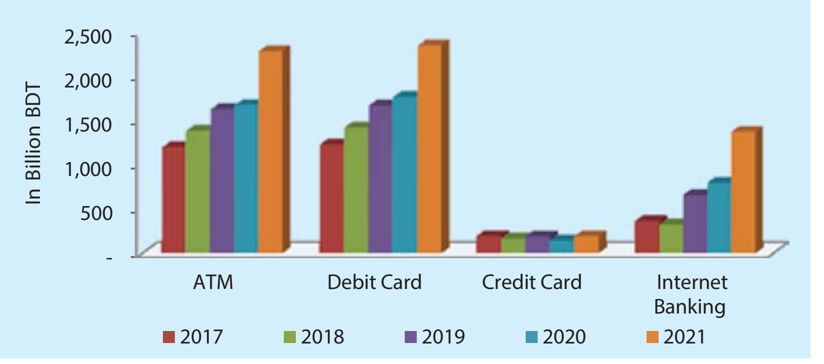
Electronic banking services are a range of banking and other services or facilities that use electronic equipment for channeling financial services. Banks of Bangladesh are the pioneer in initiating digitalized services in financial sector. Due to digitalization banks can easily reach customers in a numerous ways to provide banking services. The banking industry in Bangladesh has gone through substantial transformation from manual to electronic banking for the last two decades. Both breadth and depth of the banking industry have widened manifold through this transformation. Indeed, banks have automated their branch network, developed corporate intranet system, digitized internal communication and introduced Core Banking System (CBS) to deliver intranet banking, online banking and e-payment gateway and also have smoothened transaction process by using electronic payment and settlement systems that eventually helped to increase country's economic activities to a greater extent.

TABLE 7.1: ONLINE BANKING SCENARIO IN 2021

Type of Bank	No. of ATMS	Total Branches	No. of Branches with online coverage	Percent of Online Branches
SOCBs	312	4235	4235	100%
SDBs	8	1468	1468	100%
PCBs	12107	4918	4918	100%
FCBs	140	66	66	100%
Total	12567	10687	10687	100%

Source: Payment Systems Department, BB

CHART 7.1: TOTAL VOLUME OF ELECTRONIC BANKING TRANSACTION



Source: Payment Systems Department (PSD), BB.

Chart 7.1 illustrates that both ATMs and debit card have much higher and almost similar level of transaction volume compared to credit card and internet banking. In fact, most of the ATM transactions are operated through debit card, only a very small portion of ATM withdrawal is done through credit card. Other prominent uses of debit and credit card are for payment by POS machine and online banking. It is mentionable that all the platforms of electronic banking have recorded a moderate growth. However, internet banking transaction increased highest among all other transaction in 2021 than that of 2020.

7.2 NATIONAL PAYMENT SWITCH BANGLADESH (NPSB)

National Payment Switch Bangladesh (NPSB) was introduced by Bangladesh Bank in December 2012 to facilitate interbank electronic payments originating from different channels, such as Automated Teller Machine (ATM), Point of Sales (POS), and Internet Banking Fund Transfer (IBFT). Out of 61 scheduled banks, currently, 54 banks are connected to NPSB for their ATM transactions and 53 banks are connected to settle their POS transactions through NPSB. Moreover, 33 banks are now delivering IBFT services through NPSB. In January 2021, Bangladesh Bank has introduced uniform QR specifications termed 'Bangla QR' to promote QR code-based payments through NPSB as a safety measure against cyber threat. Both volume and value of the interbank ATM, POS, and IBFT transactions through NPSB are growing continuously.

In 2021, approximately 45.77 million transactions worth BDT 495.10 billion were settled through NPSB. Both transaction number and payment amount settled through NPSB increased by 40.69 percent and 76.83 percent respectively from those of the previous year[61].

7.3 BANGLADESH AUTOMATED CLEARING HOUSE (BACH)

BACH is the first major milestone of BB towards digitalizing the payments landscape of the country. It is an automated interbank clearing facility for retail payments that clears both paper and instruction-based payments via Bangladesh Automated Cheque Processing System (BACPS) and Bangladesh Electronic Fund Transfer Network (BEFTN). Both the systems operate in batch processing mode; transactions received from the banks during the day are processed at a pre-fixed time and settled through a single multilateral netting figure on respective bank's clearing account maintained with BB.

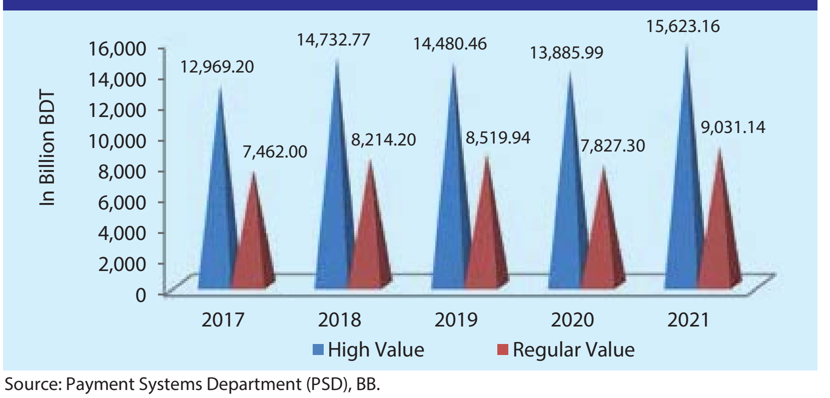
[61] This calculation employed revised data of transaction number and payment amount settled through NPSB in 2020 provided by Payment Systems Department (PSD), Bangladesh Bank.

7.3.1 BANGLADESH AUTOMATED CHEQUE PROCESSING SYSTEM (BACPS)

For clearing paper-based instruments (i.e. cheque, pay order, dividend & refund warrants, etc.) electronically, Bangladesh Bank inaugurated Bangladesh Automated Cheque Processing System (BACPS) that uses cheque Imaging and Truncation technology. Electronic cheque presentment technique has made the reconciliation faster by preventing fraud. It has brought the whole country under a single clearing umbrella by providing faster service than before. BACPS operation is governed by the 'Bangladesh Automated Cheque Processing System (BACPS) V 2.0 operating Rules and Procedures'. BACPS has two clearing sessions, namely, (i) High Value (Cheque amount BDT 0.5 million and above); and (ii) Regular Value (any amount below BDT 0.5 million). *In 2021, more than 2 million High Value and about 18.5 million Regular Value cheques were cleared through BACPS amounting to BDT 15,623.16 billion, and BDT 9,031.15 billion respectively.*

Due to the outbreak of covid-19 both high value and regular value cheque processing activities were decreased in 2020. However, after the normalization of covid-19 situation both high value and regular value transaction increased significantly.

CHART 7.2: AUTOMATED CHEQUE CLEARING OPERATIONS



Source: Payment Systems Department (PSD), BB.

7.3.2 BANGLADESH ELECTRONIC FUNDS TRANSFER NETWORK (BEFTN)

BEFTN is the central clearing system that facilitates the distribution and settlement of electronic credit and debit transactions among all participating banks. This Network operates in a real-time batch processing mode. A wide range of credit transfers such as salary payment, foreign and domestic remittances, social safety net payments, interest, and principal payment of Sanchayapatra, company dividends, retirement benefits, etc. are settled through EFT credits, while utility bill payments, loan repayments, insurance premiums, corporate to corporate payments are accommodated by EFT debit. The system has reduced paper based transactions and to settle electronic payment in an efficient way. Recently an upgraded version of the Bangladesh Electronic Funds Transfer Network (BEFTN) module has been launched which facilitates settlement of electronic fund transfer twice a day.

In 2021, 170.53 million EFT credit and about 4.58 million EFT debit transactions were settled through BEFTN, and its amount was BDT 4,422.08 billion and BDT 878.84 billion respectively.

7.4 REAL TIME GROSS SETTLEMENT (RTGS) SYSTEM

Bangladesh Bank launched Real Time Gross Settlement (BD-RTGS) system on 29th October 2015 to facilitate instant interbank transaction as part of inclusive digitalization initiative that work in a safe, secured and efficient way. Due to RTGS, high value payment has become faster and safer than before as the transfer of funds takes place from one account of a bank to that of another bank on a real-time and gross basis. Real-time refers transactions are settled as soon as they are executed. Gross Settlement means the transaction is booked on the Central Bank's account on one to one basis without netting any other transaction. Needless to say, the minimum limit of a transaction is BDT 1, 00,000 whereas there is no limit in case of government payment.

Currently, the RTGS system is operating only in local currency inside the country. Replacing paper-based transaction systems, the RTGS system is becoming popular day by day. **It is worthwhile to mention that almost all the branches of scheduled banks are currently connected to this system. In 2021, the total number and amount of transactions were 4,629,512 and BDT 23,570.65 billion respectively.**

The system is currently integrated with VAT Online Payment, Customs Duty E-Payment, and Automated Challan System (ACS) etc. Beside these individual interbank transactions, there is an option to settle all other Deferred Net Settlement Batches (DNSB) such as BACPS, BEFTN or NPSB through RTGS system. BD-RTGS is also linked to BB Core Banking Solution. Bangladesh Bank has provided a participating module to the entire schedule banks for seamless communication between BB-RTGS and the participants.

7.5 MOBILE FINANCIAL SERVICES (MFS)

To achieve sustainable growth through an inclusive economy, it is very important to build a strong and digitally-enabled financial eco-system. With the help of modern technological development and enhanced penetration of mobile phone users, Bangladesh has emerged as a digitally advanced nation by materializing MFS. Currently, 10 banks and 3 subsidiary companies are providing MFS as an alternative payment channel in the financial sector. These MFS providers are expanding their areas of function through agents/bank branches/ATMs/mobile operator outlets, and facilitating person to person transactions, business to person transactions, payment of various incentives/allowance provided by the government, merchant payments and other transactions including micro-finance and insurance premium payments.

The growth of transactions through MFS is portrayed in Table 7.2 below:

TABLE 7.2: THE GROWTH OF TRANSACTION THROUGH MFS

(In billion BDT)

Category	2020	2021	Growth
Inward Remittance	1.35	2.14	58.52%
Cash-In Transaction	173	225	29.45%
Cash-Out Transaction	154	188	21.56%
P2P transaction	170	202	18.86%
Salary Disbursement (B2P)	20.94	24.87	18.77%
Utility Bill Payment (P2B)	8.34	11.58	38.85%
Merchant Payment	21.47	34.53	60.83%
Government Payment	0.41	1.14	178.05%
Others	15.33	23.35	52.32%
Total (in billion BDT)	565.57	711.73	25.84%

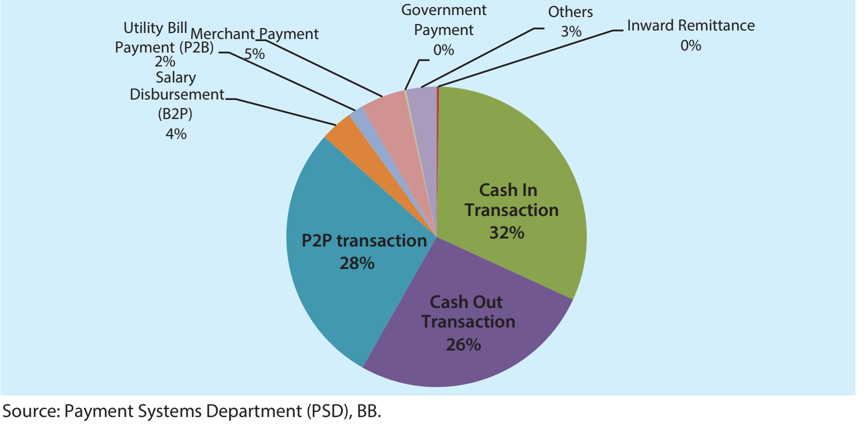
Source: Payment Systems Department (PSD), BB.

Government payment showed massive growth (178.05 percent) in 2021. The growth of Merchant payment was 60.83 percent. However, Inward remittance, utility bill payment, cash-in transaction and others has attained satisfactory growth during 2021.

As of December 2021, the total number of MFS agents is 11, 23,458 and the number of registered clients is 111.5 million, out of which the number of active accounts is about 41.1 million. In December 2021, a total amount of around BDT 711.73 billion was transacted through MFS in around 340.90 million transactions (See Appendix XLV). The average transaction volume per day is approximately BDT 1.94 billion through almost 0.93 million transactions.

The share of Merchant payment, Salary Disbursement, and other payments increased (Chart 7.3) in 2021. However, in 2021 the share of merchant payment increased 3 percentage point compared to 2020 and share of salary disbursement increased 2 percentage point compared to previous year. On the other hand, the share of cash out transaction and P2P transaction decreased compared to the previous year.

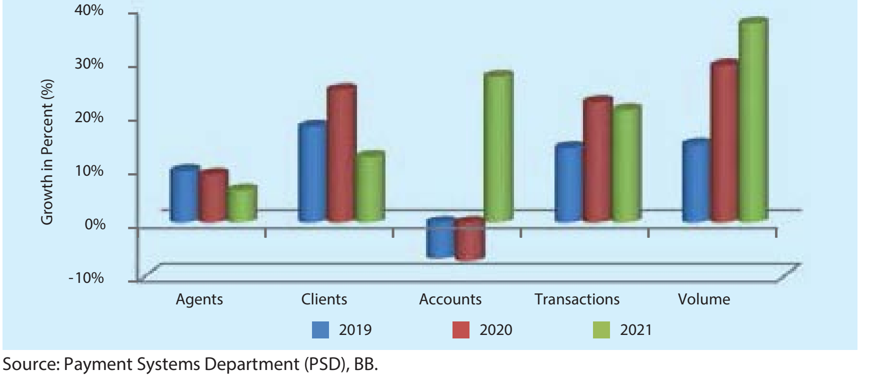
CHART 7.3: CATEGORY-WISE SHARE OF TRANSACTIONS OF MFS OF 2021



Source: Payment Systems Department (PSD), BB.

Chart 7.4 depicts that in 2021 the number of total accounts and volume of total transactions has increased compared to the 2020. However, the number of agents, clients and transactions has decreased compared to the 2020.

CHART 7.4: GROWTH OF MFS



Source: Payment Systems Department (PSD), BB.

To forward digital payment service, BB also issued licenses to non-bank MFS providers, Payment System Operators (PSO) and Payment Service Providers (PSP). These non-bank service providers together with scheduled banks are contributing to rapid growth of the e-commerce and m-commerce industry in Bangladesh. These payment gateways have eased different types of payments like e-commerce and m-commerce purchases, utility, and other bill payments. People are being more attracted to online payments than traditional offline or Over-the-counter (OTC) payments. At present, MFS Providers, PSP, and PSO along with 6 (six) scheduled banks are providing payment gateways services. To bring Mobile Financial Services

(MFS) under proper regulation Bangladesh Bank has amended the "Mobile Financial Services (MFS) Regulations, 2018" and issued a circular on 15 February, 2022. The regulation was named as "Mobile Financial Services (MFS) Regulations, 2022" and it was advised all the MFS service providers to follow the regulations.

7.6 PAYMENT SYSTEM OVERSIGHT

Payment system oversight is an essential function of central banks around the world for effective supervision of payment, clearing and settlement systems which is an important precondition for central banks' ability to contribute to financial stability. In domestic context, Bangladesh Bank (BB) also has payment systems oversight framework to achieve the objectives of safe and efficient payment systems by monitoring and assessing existing and planned payment systems and applying policy changes as and when necessary. To strengthen and modernize its oversight activities, BB worked closely with different stakeholders and came up with "Payment Systems Oversight Policy Framework-2019" which has been duly approved and enforced with effect from January-2019.

This policy framework is facilitating effective oversight of payment systems, instruments, procedures and all the related parties having licensed from BB. As per the payment systems oversight framework, Bangladesh Bank monitors the activities of payment systems and market participants by collecting data off-site and also performs on-site inspection. The area of oversight is also being extended to review the legal and regulatory framework of existing payment systems, setting standards, ensuring fair access, protecting consumer rights etc. As a part of oversight, individual operational risk framework of payment platforms has been enforced. Assessment is done using various analytical tools on the collected data; potential risks are identified and reports are prepared accordingly. Various measures have been taken so far for the betterment of the payment ecosystem.

In addition, realizing the importance of digital finance, Bangladesh Bank has established an office, Regulatory FinTech Facilitation Office (RFFO), to enable more innovations in financial sector that promote use of technology in providing sustainable financial services. RFFO facilitates innovative FinTech ideas by providing regulatory assistance to apply those as pilot projects. Since 2018, credit cardholders had been allowed to make payment by Near Field Communication (NFC) or contactless payment service[62]. Later, the maximum payment limit for debit and prepaid cards through NFC technology has recently increased from BDT 3000 to BDT 5000 to evade the COVID-19 pandemic induced disruption in continuation of uninterrupted banking and payment services[63]. Recently, debit and prepaid cards with EMV chip technology are also given permission, along with the initially permitted credit cards, for accessing NFC service considering the easy accessibility and wide spreading popularity of this service[64].

7.7 POTENTIAL RISKS TO PAYMENT SYSTEMS OF BANGLADESH

As security threat is evolving with flourishing payment systems of Bangladesh, BB has enhanced its vigilance over cyber security threats and also instructed the banks and FIs to take adequate precautionary measures. Despite such efforts, some incidents of fraud and forgery occurred but not at all significant to pose any threat to the stability of the financial system.

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[62] PSD Circular No. 03, issued on 12/07/18 by Payment Systems Department (PSD), Bangladesh Bank (BB).

[63] PSD Circular No. 04, issued on 04/04/21by PSD, BB.

[64] PSD Circular Letter No. 01, issued on 22/03/22 by PSD, BB.

Chapter 8

FOREIGN EXCHANGE MARKET

During the review year, the foreign exchange (FX) market of Bangladesh was mostly stable. FX assets and liabilities of banking sector, constituting a small portion of aggregated assets and liabilities of the sector, continued to grow in 2021. FX contingent liabilities, a major component of banking sector off-balance sheet exposures, also experienced a remarkable increase due to sizeable opening of import L/Cs in CY21. Again, notable settlement of import L/Cs was observed which exerted pressure on the FX market despite a substantial growth in export earnings. However, balanced direct intervention by BB in the FX market eased down the liquidity need to some extent. Consequently, no abrupt volatility was observed in the interbank (local) FX market. Again, FX Reserve rose marginally to USD 46.15 billion at end December 2021, which appears adequate to cover 6 months import of goods on a perspective basis and withstand probable short-term external shocks in the near future. However, increasing trend in real effective exchange rate (REER) index since August 2021 reflects diminishing trade competitiveness.

8.1 FOREIGN EXCHANGE ASSETS, LIABILITIES AND CONTINGENT LIABILITIES

A steady growth trend was observed in foreign exchange assets and liabilities of banking sector, standing at USD 24.4 billion and USD 22.8 billion respectively at end-December 2021. However, FX assets and liabilities size account for a small portion of total assets and liabilities of the banking sector. Contingent liabilities increased in the review period after two consecutive decreases in 2019 and 2020.

Chart 8.1 reveals the increasing trend of the total FX assets and liabilities of the banking sector. Analysis of FX asset structure shows that a significant rise in 'Foreign Currency Bills Purchased', 'Investment in OBU' and 'other assets' resulted in an aggregate increase in FX asset by 21.26 percent in 2021 over 2020. On the liabilities side, 'other liabilities' and 'Back-to-Back L/Cs' are the two main items with 76.10 and 10.90 percent shares respectively as of end-December 2021. Increase in the liabilities side by 23.29 percent mainly attributed by a significant growth of 27.62 percent in 'other liabilities'.

CHART 8.1: CHANGES IN FX ASSETS AND LIABILITIES

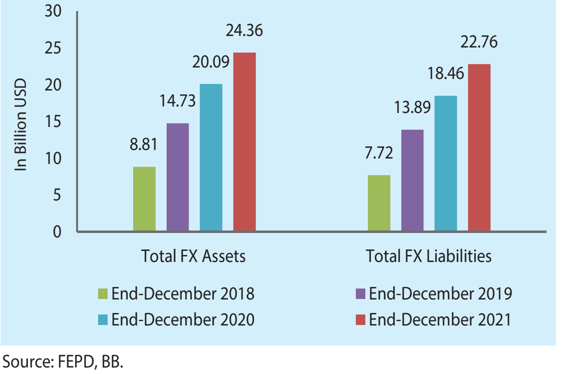
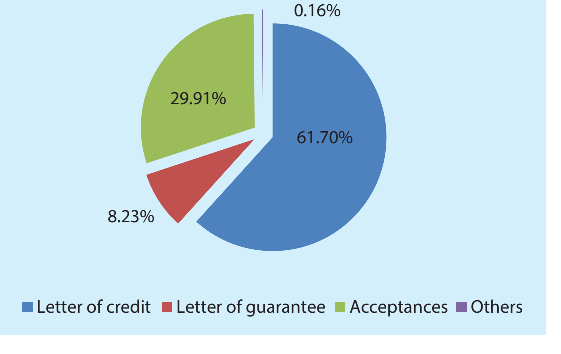


CHART 8.2: COMPONENTS OF FX CONTINGENT LIABILITIES (END-DECEMBER 2021)



Source: FEPD, BB.

Structure of FX contingent liabilities, consisting of off-balance sheet items with probable future liability implications, is displayed in Chart 8.2. Notable growth was observed in 'Letter of Credit (L/C)' and 'Acceptances', the major components of contingent liabilities in FX, attributed to a 32.15 percent increase in FX contingent liabilities held by the banking sector.

This increase in contingent liabilities implies increasing requirement for foreign currency (FC) to meet probable future payment obligations.

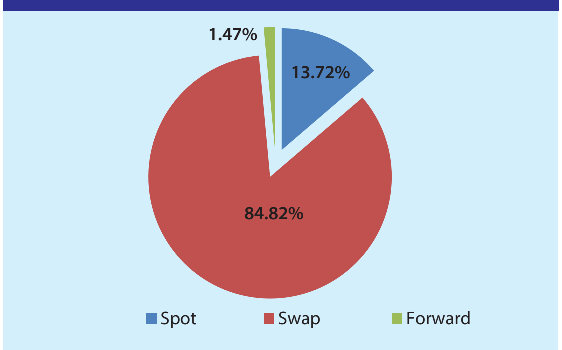
8.2 INTERBANK (LOCAL) FX TURNOVER

Interbank (local) FX turnover observed a significant annual growth of 25.85 percent and recorded as USD 43.67 billion in 2021. FX net open position (NOP) continued to remain well below the approved limit[65] set by BB.

Interbank (local) FX market has continued to be dominated by swap transactions with 84.82 percent share followed by spot transactions with 13.72 percent share in 2021 (Chart 8.3). The swap market's dominance reflects market participants' preference for its flexibility in managing FX liquidity risk.

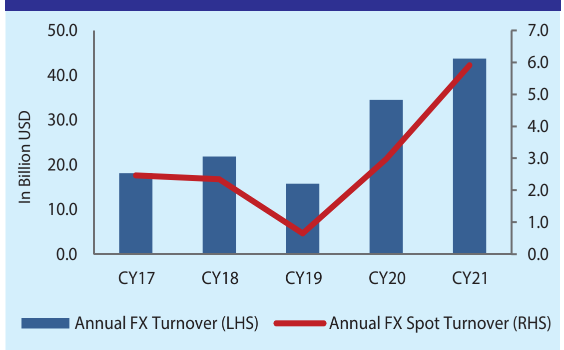
In 2021, both annual FX and annual FX spot turnovers increased (Chart 8.4). The cumulative transaction volume of interbank (local) FX market has increased by 25.85 percent from previous calendar year and stood at USD 43.67 billion. This upward shift is resulted from an increase by 19.43 percent in swap transactions, along with almost doubled spot transactions.

CHART 8.3: COMPONENTS OF INTERBANK FX TURNOVER



Source: FRTMD, BB.

CHART 8.4: ANNUAL FX AND FX SPOT TURNOVER



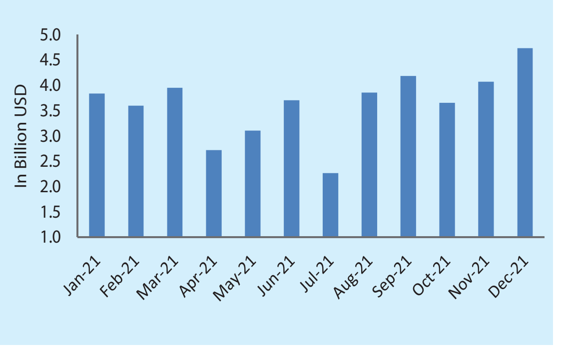
Source: FRTMD, BB.

Moreover, throughout 2021, monthly FX turnover followed an increasing trend except in April, July and October (Chart 8.5). However, the overall FX NOP[66] of the banking industry has declined from USD 1.54 billion at end-December 2020 to USD 1.03 billion at end-December 2021 indicating reduction in exposure of the foreign exchange risk in the review period. The balance reached its highest and lowest point in April and November in 2021 respectively with USD 1.53 billion and USD 0.86 billion (Chart 8.6). However, the FX NOP remained well below the approved limit set by BB.

[65] Approved limit of NOP is currently set as 20 percent of Tier-1 and Tier-2 capital of a bank by FEPD, BB. Total Regulatory capital as on 31-Dec-21 (Provisional) was USD 16.14 billion. Therefore, FX NOP at end-December 2021 remained well below the approved limit.

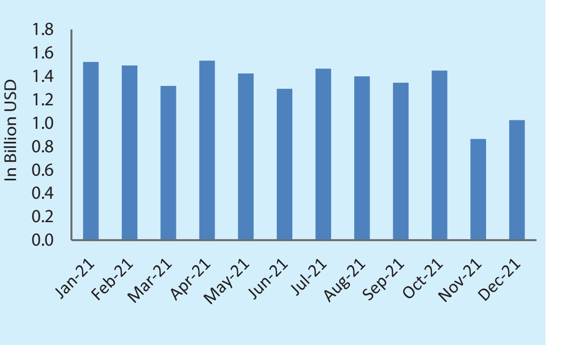
[66] Overall NOP in FX or overall net exchange position is the difference between the total of the net long and short position.

CHART 8.5: MONTHLY FX TURNOVER



Source: FRTMD, BB.

CHART 8.6: FX NET OPEN POSITION



Source: FEPD, BB.

8.3 ADEQUACY OF FX RESERVES

Different reserve adequacy metrics deteriorated slightly in 2021 compared to 2020. Yet, the existing reserves position was adequate to defend plausible adverse circumstances, assessed in terms of meeting some recognized international benchmarks[67].

Gross FX reserves posted USD 46.15 billion at end-December 2021, recording 6.92 percent higher than that of 2020 and appears adequate to meet the criteria of the three individual benchmarks of reserve adequacy (Chart 8.7). This implies that financial system of Bangladesh may expect to remain resilient to probable external sector vulnerabilities. Firstly, the reserve was adequate to cover 6 months of prospective imports of goods (Chart 8.8).

CHART 8.7: FX RESERVES ADEQUACY MEASURES

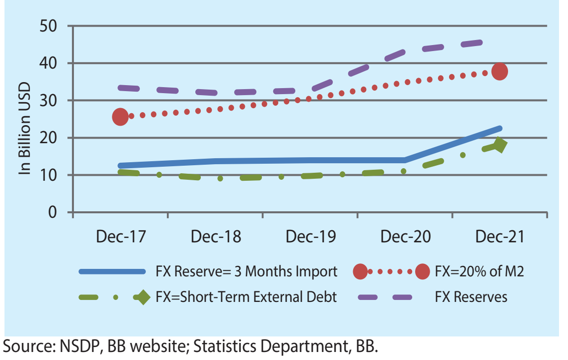
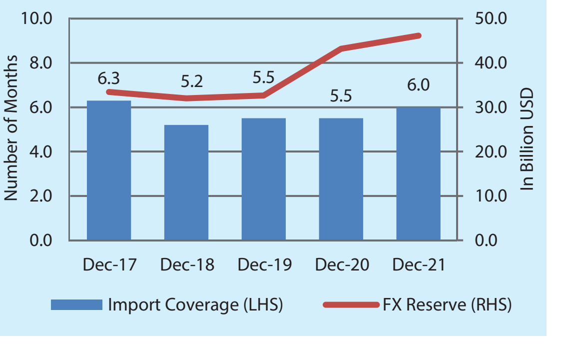


CHART 8.8: IMPORT COVERAGE OF FX RESERVE



Source: NSDP, BB website; Statistics Department, BB.

Secondly, at end December 2021, the FX reserve to M2 ratio (broad money) fell slightly to 24.43 percent (Chart 8.9), still remained above the international benchmark. Thirdly, the ratio of short-term external debt (STD) to FX reserves has increased from 25.45 percent in 2020 to 39.19 percent in 2021, attributed to a significant increase in STD. However, capacity of the FX reserves to cover this short-term external debt remained robust (Chart 8.10).

[67] Among the different benchmarks for measuring FX reserve adequacy three mostly used benchmarks are: (i) sufficient FX reserve to cover at least three months' import payments, (ii) reserves equal to 20 percent of M2, and (iii) reserves sufficient to cover external debt becoming due within 12 months (short-term external debt). For details see Islam, M.S. (2009), "An Economic Analysis of Bangladesh's Foreign Exchange Reserves", ISAS Working Paper No. 85, Singapore, September.

CHART 8.9: RESERVES TO M2 RATIO

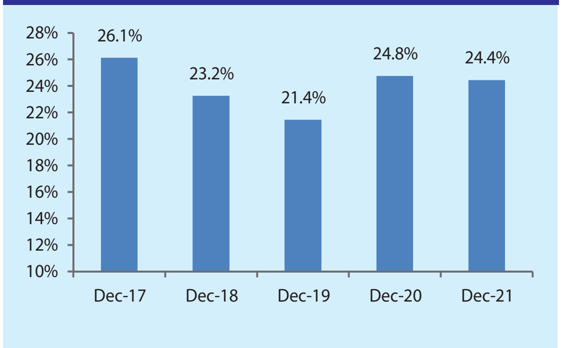
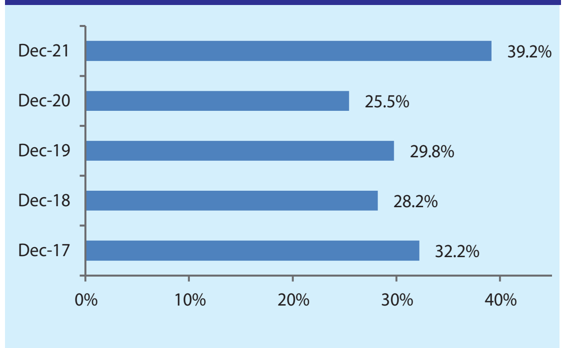


CHART 8.10: SHORT-TERM EXTERNAL DEBT TO RESERVE RATIO



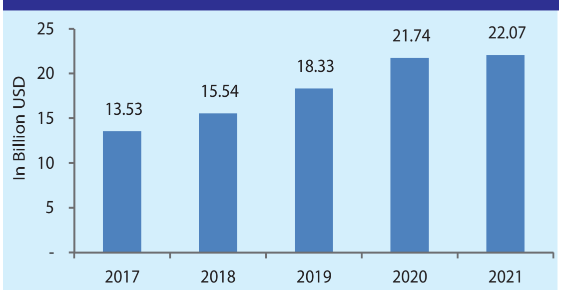
Source: NSDP, BB website; Statistics Department, BB.

8.4 WAGE EARNERS' REMITTANCE

Wage earners' remittances reached a new high in 2021, despite the fact that the growth rate was significantly lower than that of the previous year.

Wage earners' remittance inflow increased from USD 21.74 billion in 2020 to USD 22.07 billion in 2021. This sustained remittance inflow helped maintain stability in the supply side of the FX market, thereby strengthening resilience to external shocks (Chart 8.11).

CHART 8.11: WAGE EARNERS' REMITTANCE



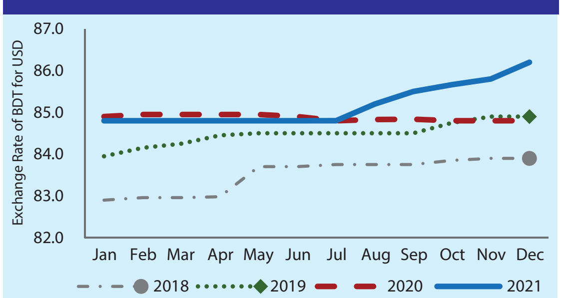
Source: Monthly Economic Trend, Statistics Department, BB.

However, the growth rate declined from 18.60 percent in 2020 to 1.52 percent in the review year partly due to ex post effect of suppressed workers' migration to overseas for employment during pandemic related restrictions world-wide i.e. during 2020.

8.5 EXCHANGE RATE MOVEMENT

Nominal exchange rate remained stable in the first half and slightly depreciated in the second half of the review year.

CHART 8.12: EXCHANGE RATE MOVEMENT



Source: Monthly Economic Trend, Statistics Department, BB.

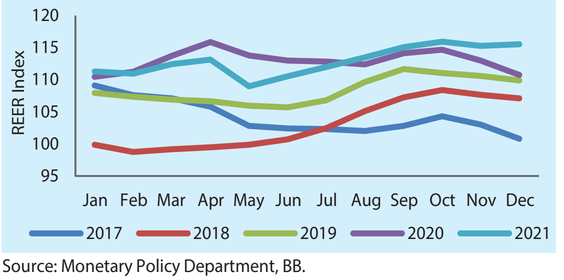
Nominal exchange rate was mostly stable in 2021 with depreciation in the monthly average exchange rate of BDT to USD from 84.80 at end December 2020 to 86.20 at end December 2021(Chart 8.12). During the review year, the maximum exchange rate of BDT 86.20 per USD was recorded in December while from January to July the minimum rate of BDT 84.80 per USD was recorded.

8.6 MOVEMENT OF REAL EFFECTIVE EXCHANGE RATE (REER)

Real effective exchange rate (REER) index remained in an appreciated position throughout the second half of 2021 after some fluctuations in the first half.

The year 2021 started with a relatively lower REER value at 111.29 in January. Thereafter, a mentionable drop of 4 percent took place in REER in May followed by a relatively rising movement throughout the rest of the period. Since September 2021, the REER index remained stable at around 115 and became 115.76 in December 2021.

CHART 8.13: REER MOVEMENT



Source: Monetary Policy Department, BB.

This elevation in REER and its consistent score of above 100 implies weakening of country's trade competitiveness[68] with partner economies. An analysis of last four years' REER movements reveals similar fluctuating but rising pattern. Especially, appreciation of REER in the last two consecutive years might have resulted from the contraction of trade competitiveness of the country.

8.7 CURRENT ACCOUNT AND FX

A notable positive growth momentum in import L/C opening and settlement along with a substantial increase in export were observed in 2021.

On the supply side, imports increased significantly resulting from acceleration in consumption, upsurge of global commodity prices, public and private investment (mostly intermediate and capital goods including petroleum and oil) for industries[69]. USD 86.18 billion worth import L/C was opened, of which USD 67.56 billion worth L/Cs were settled during 2021, leaving USD 18.61 billion worth import L/C outstanding. This suggests that the FX reserve will face some pressure in future due to additional contingent liabilities created in 2021(Chart 8.14).

On the other hand, in 2021, total export proceed was marked USD 44.42 billion which was 31.60 percent higher than that of the previous year (Chart 8.15). Major export-oriented sectors of Bangladesh such as woven garments, knitwear products, engineering products, chemical products, plastic products, leather and leather products, home textiles, agricultural product and frozen and live fish started recovering from the disruptions induced by COVID-19 pandemic resulting into an elevation in export earnings.

Despite a substantial increase in export earning, the trade deficit increased from USD 15.24 billion in 2020 to USD 30.2 billion in 2021 due to a more substantial increase of 52.36 percent in import.

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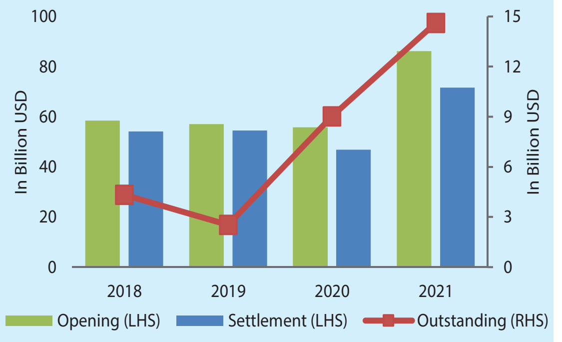
[68] REER index is a combination of 15 currencies in a basket with the base year set at 2015-16=100; it is a measure that adjusts the nominal exchange rate for differences in domestic inflation and those of the country's main trading partners. An index value of around 100 is considered as fair, a REER index below 100 is supportive for the current account while exceeding that fair mark is considered as unsupportive and indicates trade deficit. (https://databank.worldbank.org/metadataglossary/world-development-indicators/series/PX.REX.REER).

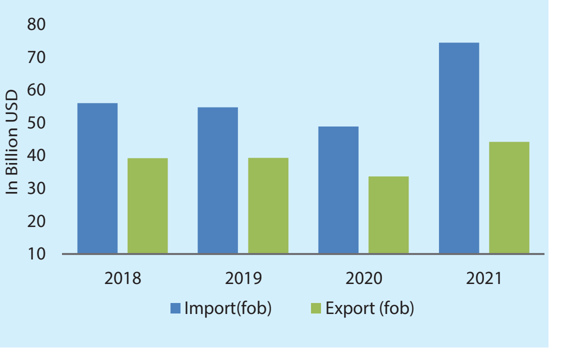
[69] Monetary Policy Statement- Fiscal Year 2021-22 by MPD, BB (https://www.bb.org.bd/monetaryactivity/mps/mps_fy2021-22.pdf)

CHART 8.14: IMPORT L/C OPENING, SETTLEMENT AND OUTSTANDING



Source: FEOD, BB.

CHART 8.15: TREND OF FOREIGN TRADE



Source: Statistics Department, BB.

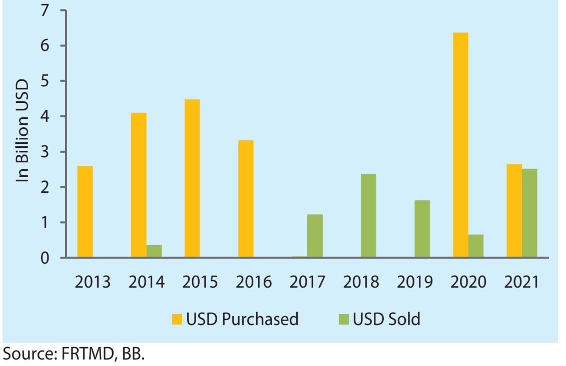
8.8 INTERVENTION[70] IN FX MARKET BY BB

Bangladesh Bank purchased USD 2.66 billion and sold USD 2.52 billion to manage the FX market liquidity in 2021.

BB purchased USD 2.66 billion during January to July 2021 to support stabilization of BDT against USD. However, since August 2021, FX market started experiencing some liquidity shortages with growing import payments and flimsy growth of remittance. To ensure enough liquidity BB had sold USD 2.48 billion since August 2021 (Chart 8.16). On balance, this resulted in net purchase USD 0.14 billion in 2021, which was 5.71 billion[71] in the previous year.

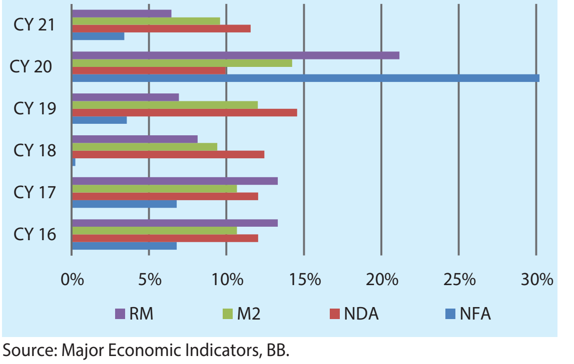
This is reflected in a subsequent decline in growing trajectory of Net Foreign Assets (NFA) in 2021. The reported growth of NFA was 3.41 percent which was 30.22 percent in 2020 (Chart 8.17). Reserve Money (RM) registered significantly lower growth of 6.45 percent in 2021 from 21.18 percent in 2020. Net Domestic Asset (NDA) experienced a moderate growth of 11.57 percent in 2021over 9.94 percent in 2020 (Chart 8.17). M2 growth slowed as well.

CHART 8.16: INTERVENTION IN FX MARKET BY BB



Source: FRTMD, BB.

CHART 8.17: NDA, NFA, RM AND M2 GROWTH MOVEMENT



Source: Major Economic Indicators, BB.

[70] Bangladesh operates a floating exchange rate regime with a de facto crawl-like stabilized arrangement (IMF, "Annual Report on Exchange Rate and Exchange Restrictions 2018"). BB conducts necessary interventions into the FX market to maintain the exchange rate stability when it deems necessary.

[71] Throughout 2020, BB purchased a record high amount of USD to wipe out excess FX liquidity resulting from higher flow of remittance and lower imports amid the corona virus pandemic and managed abnormal appreciation of BDT. As remittance started declining and imports were increasing in 2021, BB has reduced buying and increased selling to halt slide of BDT's exchange rate against USD.

Chapter 9

INSURANCE SECTOR IN BANGLADESH

Insurance provides protection against financial loss and also facilitates financial intermediation. Moreover, insurance coverage against the loss acts as an insulator, particularly during crisis periods. As such, prudent risk management by insurance business contributes to financial stability.

Unlike banks and many other financial institutions, insurance companies (particularly life insurance) accumulate long-term liabilities which make them less prone to liquidity risk. Therefore, they can go for investing in long-term assets such as bonds, fixed deposit receipts (FDR) and equities. Thus insurance sector is interlinked with other segments of financial market, such as bond market, banks and FIs, and capital market. Therefore, prudent investment decision is important; otherwise the insurance sector would become vulnerable and may transmit risks to other interconnected sectors of the economy.

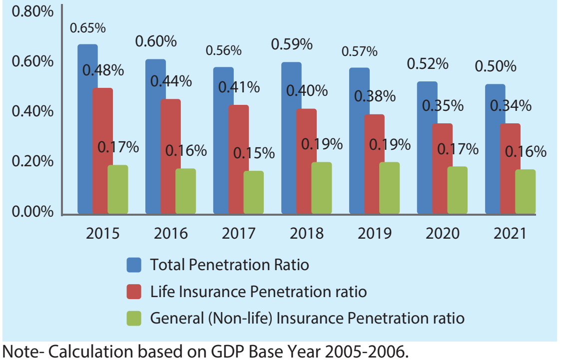
Currently, 35 life insurance companies (including a foreign company and a public sector company) and 46 general (non-life) insurance companies (including a public sector company) are operating in Bangladesh. Insurance Development and Regulatory Authority (IDRA) established in 2010 to regulate and supervise the insurance industry in Bangladesh.

Insurance sector development in Bangladesh, measured by insurance penetration ratio and insurance density ratio, remained low in 2021[72] despite increase in both total gross premium and total assets of the insurance sector. Some key indicators of general insurance sector during the review year experienced improvement whereas some important indicators of life insurance sector observed deterioration in 2021 compared to the previous year. Insurance sector remained highly concentrated within the sector and interconnected with other financial markets. So, close monitoring and supervision is required for the sake of financial system stability.

9.1 INSURANCE SECTOR DEVELOPMENT: PENETRATION AND DENSITY

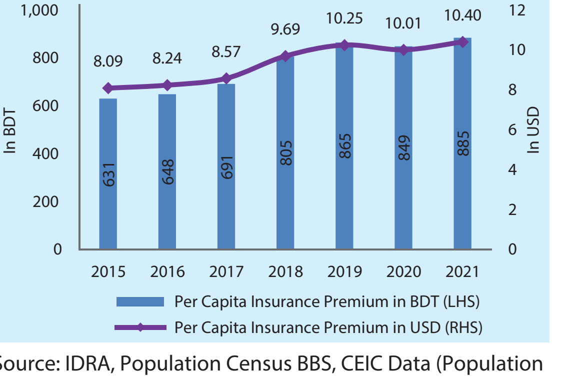
Insurance penetration ratio decreased slightly while insurance density ratio increased in 2021 compared to the previous year.

CHART 9.1: INSURANCE PENETRATION RATIO



Note- Calculation based on GDP Base Year 2005-2006.
Sources: i) IDRA ii) Monthly Economic Trends, Statistics Department, BB; Calculation: FSD, BB.

CHART 9.2: INSURANCE DENSITY RATIO



Source: IDRA, Population Census BBS, CEIC Data (Population Data of 2021); Calculation: FSD, BB.

[72] The analysis of insurance sector for 2021 was based on the unaudited statements of the insurance companies which were provided by IDRA. For analysis of life insurance sector, 33 out of 35 life insurance companies are considered as data of the other two companies were unavailable. Data for 2020 are revised (denoted as [R]) in some cases as audited statements are available for those companies.

The level of development of insurance sector in an economy can be measured by the ratio of gross insurance premium in a particular year to the GDP, known as insurance penetration ratio. Chart 9.1 shows the downward trend in insurance penetration ratio in Bangladesh during 2015-2021. The penetration ratio was 0.50 percent at end-December 2021 which was 0.52 percent at end-December 2020. The slower growth of insurance premium compared to GDP growth resulted in downward penetration ratio.

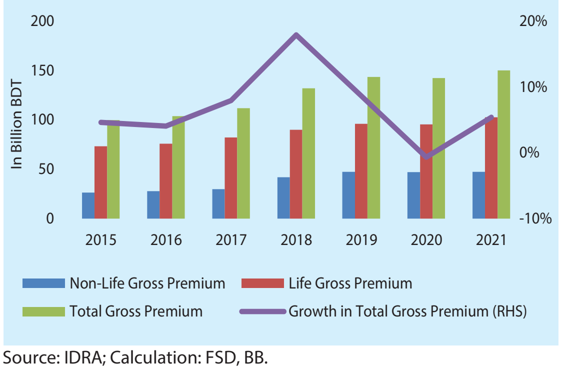
Nevertheless, insurance density ratio (i.e., average per capita spending on gross insurance premium) increased to USD 10.40 in 2021 from USD 10.01 in 2020 (chart 9.2). Despite this increase, the insurance density ratio of the country appears low as majority of people in Bangladesh remain outside the insurance coverage mainly due to lower savings rate and lack of financial literacy.

9.2 PREMIUM GROWTH AND ASSET SIZE

Both total gross premium and total assets of the insurance sector increased during the review year. Life insurance maintained more than two thirds of the total gross premium and approximately three fourths of total assets.

Chart 9.3 exhibits the trend in gross premium (in terms of both amount and percent) of the insurance industry in Bangladesh. It shows that total gross premium of insurance sector experienced a 5.36 percent increase and reached to BDT 149.82 billion in 2021 from BDT 142.20 billion in 2020. Noteworthy, the life insurance companies contributed 68.45 percent of the total gross premium in 2021. Also, the growth rate of total gross premium had been fluctuating and did not keep pace with the GDP growth resulting in lower penetration ratio.

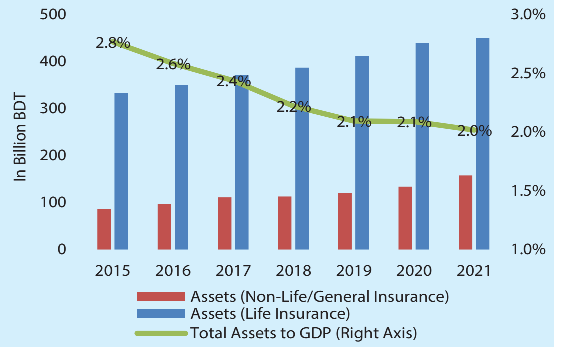
CHART 9.3: TREND IN GROSS PREMIUM AND ITS GROWTH



Source: IDRA; Calculation: FSD, BB.

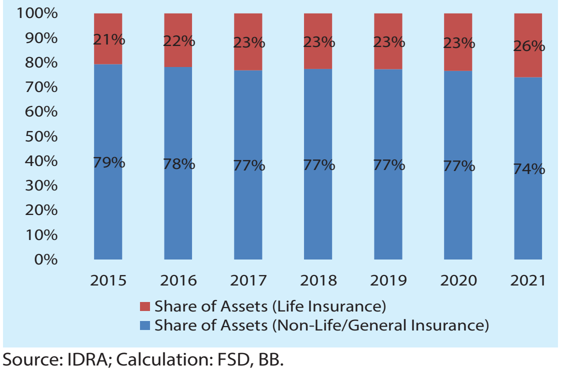
Chart 9.4 exhibits the trend in insurance sector's assets (in amount and relative to GDP) from 2015 to 2021. In 2021, assets of life insurance and non-life/general insurance stood at BDT 449.79 billion and BDT 157.44 billion respectively compared to BDT 438.72[R] billion and BDT 133.85[R] billion respectively in the preceding year. Overall, total assets of insurance sector increased by 6.1 percent and stood at BDT 607.23 billion in 2021. Despite this overall growth, insurance sector's total assets to GDP slightly declined to 2.0 percent in 2021 from 2.1 percent in 2020. Noteworthy, assets of the life insurance companies constituted 74 percent of the total assets of the insurance sector in 2021 (Chart 9.5). However, assets of the non-life insurance companies increased its share in total assets to 26 percent in 2021 from 23 percent in 2020.

CHART 9.4: TREND IN INSURANCE SECTOR ASSETS



Calculation based on GDP Base Year 2005-2006
Source: IDRA; Calculation: FSD, BB.

CHART 9.5: SHARE OF INSURANCE SECTOR'S TOTAL ASSET



Source: IDRA; Calculation: FSD, BB.

9.3 KEY INDICATORS OF GENERAL INSURANCE SECTOR

Some key indicators of general insurance sector increased during the review year in terms of cash settlement, expense management and return on investment compared to the previous year. On the contrary, risk retention rate (RRR) deteriorated in 2021 compared to the same in 2020.

Table 9.1 demonstrates some key indicators of general insurance companies in Bangladesh for 2021 and 2020. Claims settlement ratio (CSR) means the percent of claims settled by insurance provider in a year out of the total claims. The claims settlement ratio was 41.49 percent in 2021 compared to 31.60 percent in 2020. Generally, higher claims settlement ratio makes the non-life insurance provider more reliable. Management expense ratio of general insurance companies decreased to 41.05 percent in the review year from 45.75 percent in 2020, which eventually contributed positively to the profitability.

Besides, return on investment (ROI) indicates an improvement in the profitability of the insurance sector in 2021 compared to the previous year as it increased to 6.44 percent from 4.90 percent. Investment to total assets ratio remained almost same in 2021 at 51.11 percent compared to 2020.

However, risk retention rate (RRR) of general insurance sector increased to 62.36 percent in 2021 from the preceding year (55.53 percent) indicating lower risk sharing among the insurance companies which might be a concern from financial stability perspective.

TABLE 9.1: KEY NDICATORS-GENERAL/ NON-LIFE INSURANCE

Indicators	2020	2021
Claims Settlement Ratio	31.60%	41.49%
Management Expense Ratio	45.75%^{R}	41.05%
Return on Investment	4.90%^{R}	6.44%
Investment to Total Assets Ratio	51.10%	51.11%
Risk Retention Rate	55.53%^{R}	62.36%

Source: IDRA; Calculation: FSD, BB.

9.4 COMPARISON AMONG DIFFERENT CATEGORIES OF GENERAL INSURANCE

Divergence between gross and net insurance premium was observed across different business types of general insurance sector in 2021 due to difference in risk retention rate.

In Bangladesh, services of general insurance are categorized as fire, marine, motor, and miscellaneous insurance. Chart 9.6 illustrates the category-wise gross and net premium in 2021. The chart shows that fire insurance was the highest source of gross premium in 2021, followed by marine, miscellaneous and motor insurance. However, marine insurance took the top position based on the net premium followed by fire, miscellaneous and motor. Chart 9.7 shows the risk retention rate by business category. It exhibits that risk retention rate differs in different insurance categories. Risk retention was highest for motor (89.5 percent) followed by marine (76.8 percent), miscellaneous (66.5 percent) and fire insurance (42.4 percent). Noteworthy, the overall risk retention rate for the general insurance was 62.4 percent in 2021.

CHART 9.6: GROSS AND NET PREMIUM BY BUSINESS IN 2021

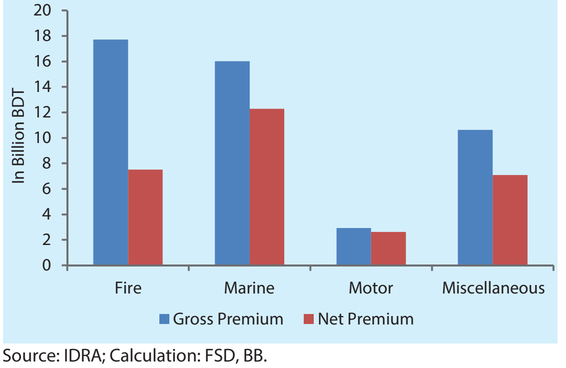
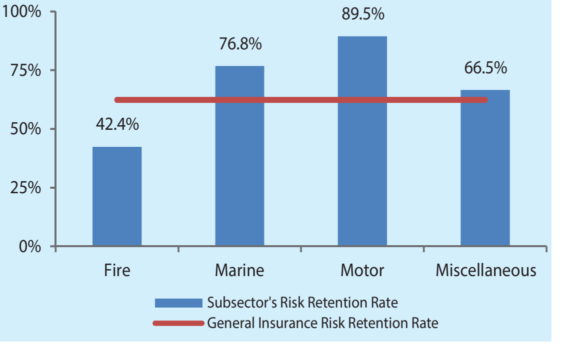


CHART 9.7: RISK RETENTION RATE BY BUSINESS IN 2021



Source: IDRA; Calculation: FSD, BB.

9.5 KEY INDICATORS OF LIFE INSURANCE SECTOR

In 2021, some important indicators of life insurance sector deteriorated in comparison to the previous year.

Table 9.2 represents some key indicators of life insurance companies in Bangladesh for 2021 and 2020. Overall, life insurance companies' claims settlement ratio decreased to 68.79 percent in 2021 from 88.32 percent in 2020, which would not be encouraging for the life insurance policy holders. Moreover, management expense ratio of life insurance companies increased to 32.08 percent in the review year. Also, return on investment in 2021 was lower (7.60 percent) than the previous year (7.70 percent).

However, investment to total assets ratio of life insurance companies improved to 84.27 percent in 2021 which was 83.58 percent in 2020. And, risk retention rate remained at 99.50 percent in 2021. The smaller size of life insurance policy in Bangladesh is one of the main barriers to attract foreign reinsurers which may cause to such high rate of retention.

TABLE 9.2: KEY INDICATORS-LIFE INSURANCE

Indicators	2020	2021
Claims Settlement Ratio	88.32%	68.79%
Management Expense Ratio	31.38%[R]	32.08%
Return on Investment	7.70%	7.60%
Investment to Total Assets Ratio	83.58%	84.27%
Risk Retention Rate	99.49%	99.50%
Source: IDRA; Calculation: FSD, BB.		

9.6 CONCENTRATION IN INSURANCE SECTOR

Insurance sector remained highly concentrated both in terms of asset size and gross premium which requires close monitoring and supervision.

Table 9.3 demonstrates that both the general and life insurance sectors were highly concentrated among top 5 companies in terms of asset size and gross premium. Noteworthy, in case of general insurance sector, assets and gross premiums are concentrated into a single public sector insurance company. Since insurance market is highly concentrated into top five insurers, these companies warrant close monitoring and supervision as they might create systemic risk.

TABLE 9.3: CONCENTRATION OF ASSET AND GROSS PREMIUM IN INSURANCE COMPANIES IN 2021

Concentration in Life Insurance		
	Asset Size	**Gross Premium**
Total sector (In BDT billion)	449.79	102.55
Top 5 insurance companies' (In BDT billion)	349.42	64.87
Concentration in top five companies	77.68%	63.23%
Concentration in Jibon Bima Corporation (JBC)*	5.54%	6.40%
Concentration in General Insurance		
	Asset Size	**Gross Premium**
Total sector (In BDT billion)	157.44	47.27
Top 5 insurance companies' (In BDT billion)	81.55	22.85
Concentration in top five companies	51.80%	48.34%
Concentration in Sadharon Bima Corporation (SBC)*	28.99%	22.3%

*Jibon Bima Corporation (JBC) and Sadharon Bima Corporation (SBC) are the public sector insurance companies.
Source: IDRA; Calculation: FSD, BB.

9.7 INTERCONNECTEDNESS BETWEEN INSURANCE AND OTHER SECTORS

Insurance sector is very much interconnected with banks & financial institutions, capital market and bond market through its investment. Any stress on those markets may impact negatively to the insurance market.

Investment portfolio of life and general insurance companies are exhibited in Chart 9.8 and Chart 9.9 respectively. Government Bonds captured major portion of investment portfolio of life insurance followed by investment in other assets (more than 60 percent of other assets is FDR), real estate, capital market and debenture (Chart 9.8). On the contrary, investment portfolio of general insurance companies shows greater weight in FDR (more than 90 percent other assets is FDR) followed by capital market, real estate, government bonds and debenture (Chart 9.9).

CHART 9.8: INVESTMENT PORTFOLIO OF LIFE INSURANCE

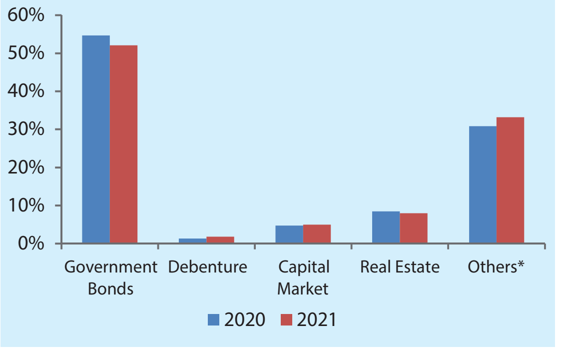
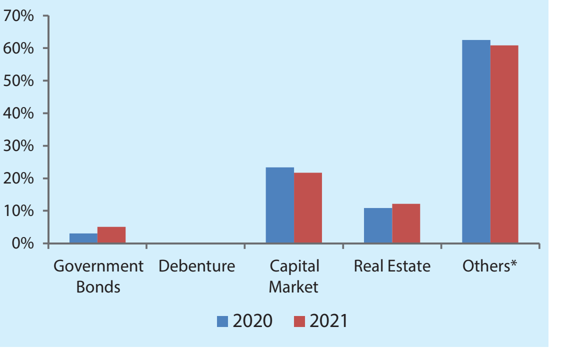


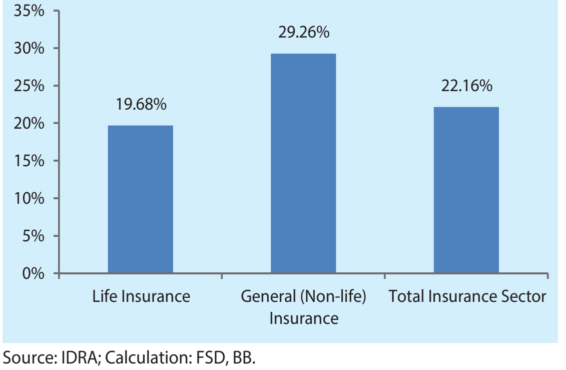
CHART 9.9: INVESTMENT PORTFOLIO OF GENERAL INSURANCE



Note: * Other Investment includes FDR.
Source: IDRA; Calculation: FSD, BB.

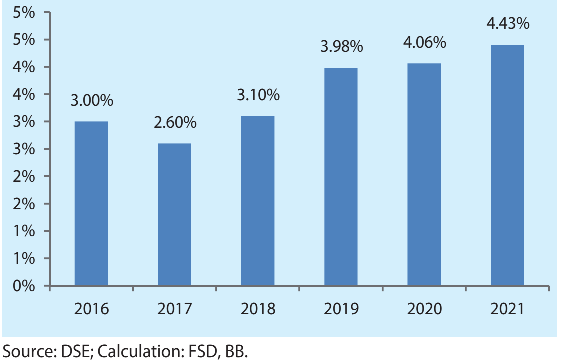
Insurance companies earn a large portion of their interest income by maintaining fixed deposits with banks and FIs. Around 22 percent of the total assets of the insurance sector was deposited to banks and financial institutions as fixed deposit in 2021 (Chart 9.10) which is equivalent to only 1.83 percent of the total fixed deposits held with the banking sector in 2021. So, unexpected withdrawal of fixed deposits by the insurance companies may not emanate any substantial risk for the banking sector. On the contrary, any crisis in the banking and FI sectors could create adverse shock on insurance sector as the significant portion of their assets will be affected by that. As a consequence, it may create huge pressure on the insurance companies to meet their obligation in due time.

CHART 9.10: FIXED DEPOSIT AS A PERCENT OF TOTAL ASSETS IN 2021



Source: IDRA; Calculation: FSD, BB.

CHART 9.11: INSURANCE SECTOR'S YEAR-END MARKET CAPITALIZATION IN DSE



Source: DSE; Calculation: FSD, BB.

Similarly, investment in share market by the insurance companies is exposed to equity price risk. So, poor performance of stock market may put stress on insurance sector's investment. But stress on insurance market may have limited impact on the stock market as market capitalization of insurance sector in Dhaka Stock Exchange (DSE) was 4.43 percent only in 2021 (Chart 9.11).

Chapter 10

MICROFINANCE INSTITUTIONS (MFIs)

Microfinance institutions (MFIs) are playing a vital role in eradicating poverty as well as socio-economic development by providing various financial services to the low income people. As a regulator, Microcredit Regulatory Authority (MRA) is responsible to adopt policies and ensure transparency and accountability in the activities of MFIs. During FY21, 746 licensed MFIs provided various types of financial services to 35.1 million individuals where more than 90 percent of the beneficiaries were women. MFIs have been maintaining persistent growth in terms of own capital, savings, and loans disbursement to the members. Considering their small market share and low NPL ratio, the MFIs do not assume any significant threat towards the financial stability of the economy.

10.1 ACTIVITIES OF MICROFINANCE INSTITUTIONS (MFIs)

Microfinance institutions (MFIs) in Bangladesh conduct their activities all over the country. The major products are general microcredit, micro-enterprise loans, loans for ultra-poor, agricultural loans, seasonal loans, loans for disaster management, and saving schemes for the members.

In FY21, this sector provided financial services to 35.1 million individuals and micro enterprises, an increase of 5.4 percent from FY20. In this period, number of the employees and branches increased by 2.7 percent and 0.3 percent respectively compared to those of FY20. Though the total number of licensed MFIs is growing gradually for the last four fiscal years (FY17 to FY20), it decreased to 1.7 percent in FY21 compared to FY20. Though the licenses of 13 MFIs have been cancelled due to non-compliances in FY21, the number of members of this sector has increased by 5.4 percent during this period (Chart 10.1).

At the end of FY21, outstanding balances of loans and savings of this sector stood at BDT 949.8 billion and BDT 422.4 billion respectively, which are 6.8 percent and 13.0 percent higher than those of FY20 (Chart 10.2).

CHART 10.1: NUMBER OF LICENSED INSTITUTIONS, BRANCHES, EMPLOYEES AND MEMBERS

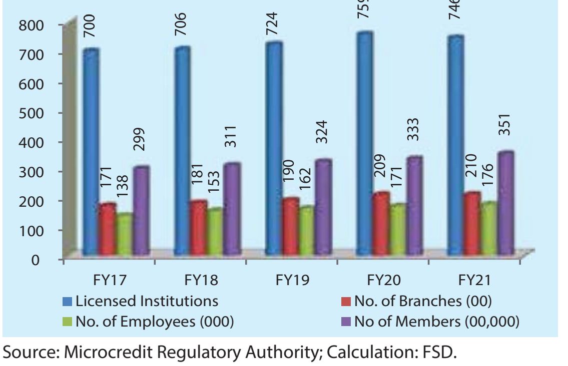
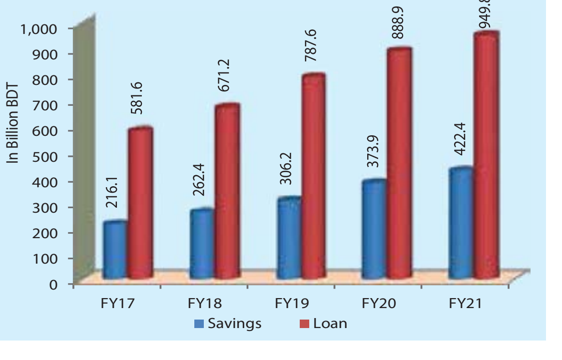


CHART 10.2: SAVINGS AND LOAN SCENARIO OF MFIs SECTOR



Source: Microcredit Regulatory Authority; Calculation: FSD.

Chart 10.3 illustrates that number of members and borrowers of MFIs have been progressively increasing over time. In particular, these numbers have been increased by 1.81 million and 1.65 million respectively in FY21 from the preceding fiscal year.

After a decline in borrowers-to-members ratio throughout FY17 to FY20, the ratio has been increased by 66 basis points and reached at 79.16 percent in FY21 (Chart 10.4).

CHART 10.3: TREND OF SECTOR OUTREACH

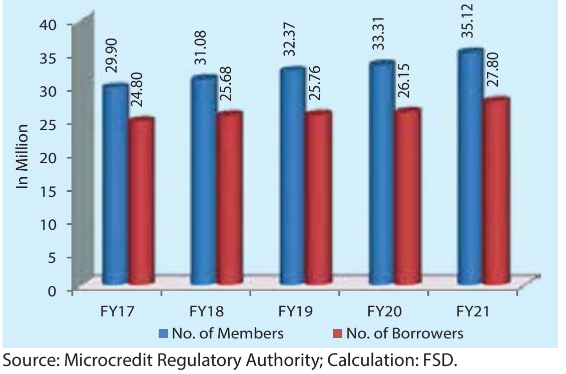
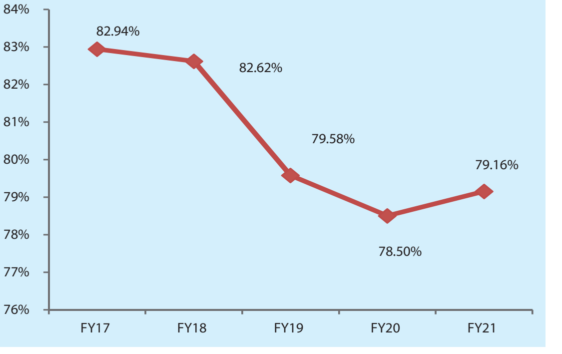


CHART 10.4: BORROWERS-TO-MEMBERS RATIO



Source: Microcredit Regulatory Authority; Calculation: FSD.

The average loans and savings per institution showed an increasing trend over the last five fiscal years (Chart 10.5). They have increased by 8.71 percent and 14.94 percent respectively in FY21 from the preceding fiscal year.

Similar trend was observed for per branch growth of loans and savings. In particular, the average loans and savings per branch were BDT 45.33 million and BDT 20.16 million respectively, which were 6.56 percent and 12.66 percent higher than the corresponding figures of FY20 (Chart 10.6).

CHART 10.5: AVERAGE LOANS AND SAVINGS PER INSTITUTION

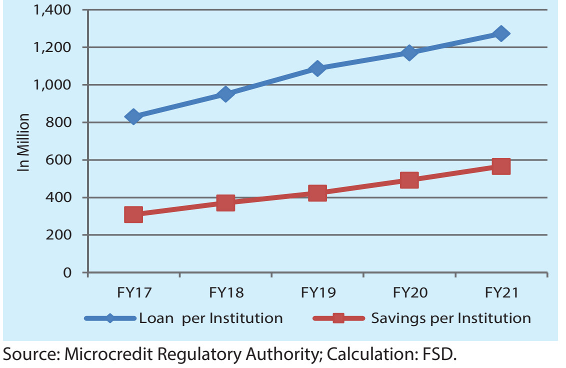
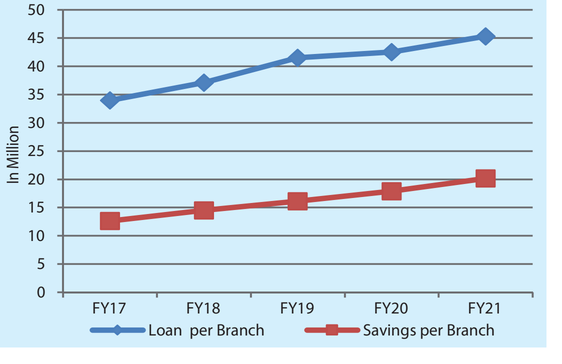


CHART 10.6: AVERAGE LOANS AND SAVINGS PER BRANCH



Source: Microcredit Regulatory Authority; Calculation: FSD.

Chart 10.7 portrays an upward trend in average size of loans and savings per borrower and per member in the last five fiscal years. In FY21, the average loan per borrower was 0.50 percent higher than the previous fiscal year. Likewise, the average savings per member was 7.15 percent higher than the previous reporting period.

CHART 10.7: AVERAGE LOAN PER BORROWER AND SAVINGS PER MEMBER

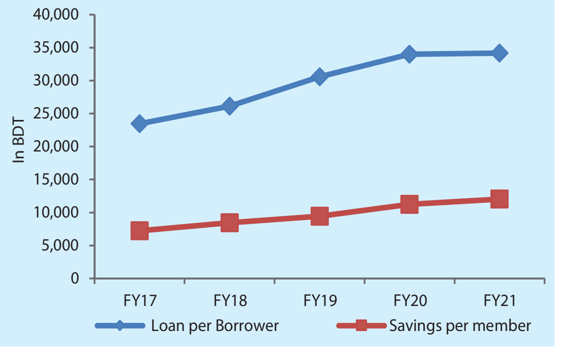
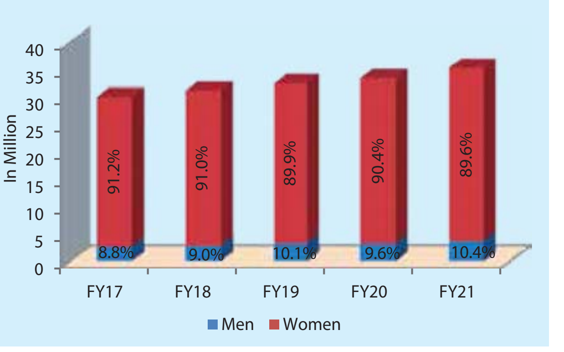


CHART 10.8: STRUCTURE OF MEMBERSHIP



Source: Microcredit Regulatory Authority; Calculation: FSD.

Chart 10.8 illustrates that membership composition of the MFI sector is mostly dominated by female members (89.6 percent). The number of male members, is, however, growing at a faster rate of 13.7 percent in FY21 and reached to 3.65 million. The proportion of male members has increased by 0.8 percentage point in this year.

Presently, out of 31.47 million female members, 25.2 million members (80.08 percent) and out of 3.65 million male members, 2.6 million members (71.23 percent) are availing credit facilities from respective MFIs which indicates that, in proportion, female's access to microcredit is considerably higher than their male counterpart.

10.2 LOAN STRUCTURE

Chart 10.9 shows the distribution of outstanding loans in different loan sizes. In FY21, disbursed loans in the ranges of BDT up to 50,000; BDT 50,001 to 100,000; BDT 100,001 to 300,000 and above BDT 300,000 represented 41.63 percent, 24.74 percent, 19.78 percent and 13.85 percent respectively.

Chart 10.10 shows that the proportionate shares of total loans given in the ranges of BDT up to 50,000 and BDT 1,00,001 to 3,00,000 decreased by 2.28 percentage points and 1.68 percentage points respectively. On the other hand, the proportionate shares of total loans provided in the ranges of BDT 50,001 to 1,00,000 and above BDT 3,00,000 increased by 2.04 percentage points and 1.92 percentage points respectively. Indeed, increase in larger size of loans indicates the increased capacity of the borrowers which also reflects the improved socio-economic scenario of the economy, in large.

CHART 10.9: OUTSTANDING LOAN STRUCTURE IN FY21

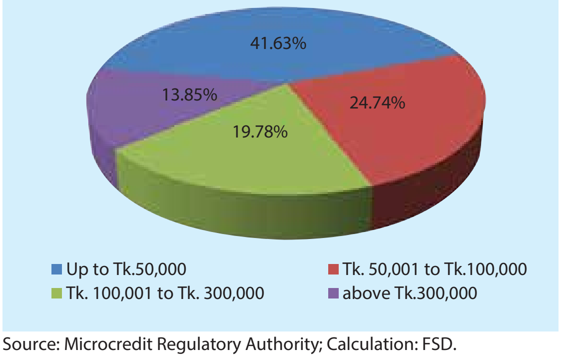
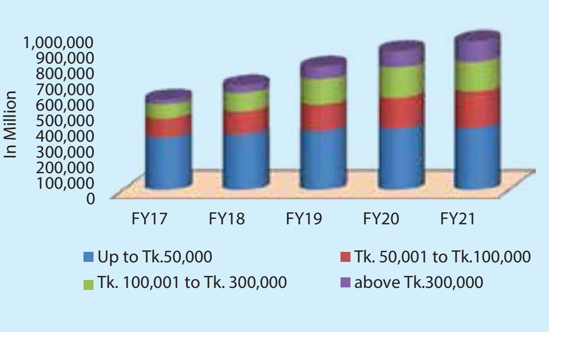


CHART 10.10: OUTSTANDING LOAN STRUCTURAL TREND



Source: Microcredit Regulatory Authority; Calculation: FSD.

Chart 10.11 shows the composition of the number of members borrowing loans in different loan sizes. In FY21, 20.72 million members (6.58 percent higher than that of FY20) availed the loans in the range of Up to BDT 50,000 and this segment constituted 74.53 percent of total borrowers. Moreover, in comparison with FY20, the number of members' borrowing in the ranges BDT 50,001 to 100,000, BDT 1,00,001 to 3,00,000 and above BDT 3,00,000 increased by 14.98 percent, 52.98 percent and 29.17 percent respectively during FY21 (Chart 10.12). These reveal that households' demand for higher amount of microcredit is increasing over the years.

CHART 10.11: LOAN RECIPIENTS' COMPOSITION IN FY21

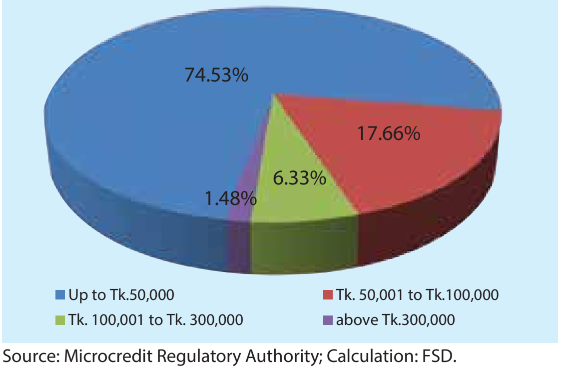
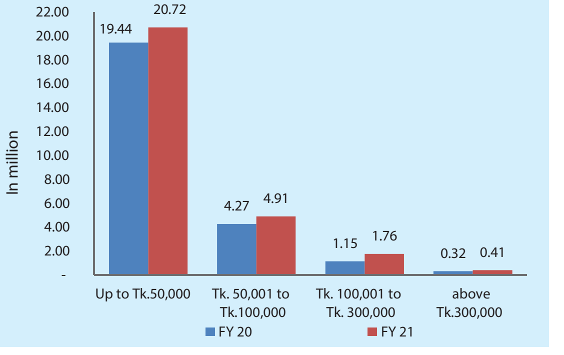


CHART 10.12 LOAN RECIPIENTS COMPARISON BETWEEN FY20 AND FY21



Source: Microcredit Regulatory Authority; Calculation: FSD.

Chart 10.13 portrays the increasing trend of non-performing loan (NPL) in MFI sector in the last five fiscal years. In FY21, NPL ratio of the MFI sector stood at 4.77 percent. In FY21, total NPL amount rose to BDT 45.28 billion, which is BDT 15.78 billion higher than that of FY20 (Chart 10.14). Notably, in FY21, total outstanding loan in MFIs sector has increased by 6.84 percent while the NPL ratio has increased by 1.45 percentage point compared to FY20. Although the ratio is moderately low compared to the NPL ratio of the banking and FIs sectors, increasing trend of NPL of this sector requires close surveillance and monitoring.

CHART 10.13: NON-PERFORMING LOAN RATIO

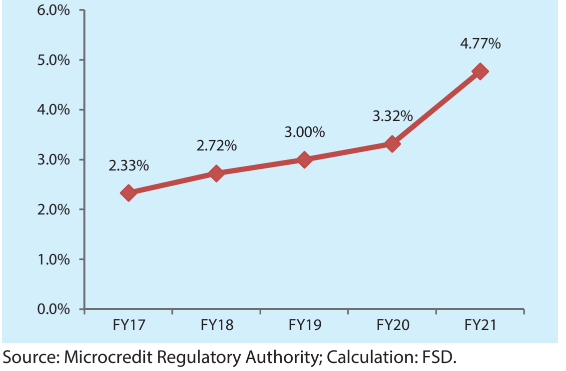
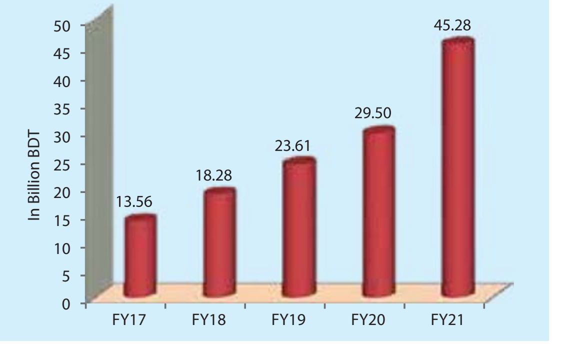


CHART 10.14: TREND OF NON-PERFORMING LOAN



Source: Microcredit Regulatory Authority; Calculation: FSD.

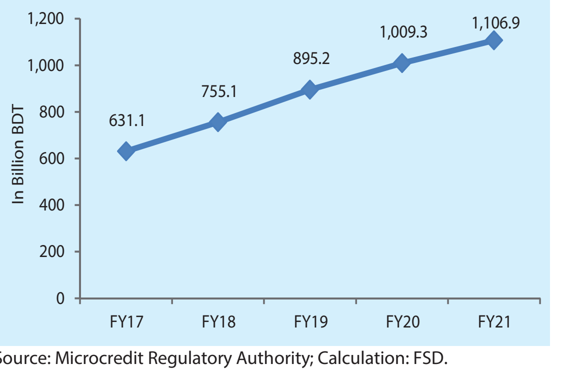
10.3 SOURCES OF FUNDS AND ITS COMPOSITION

Chart 10.15 indicates that aggregate fund of MFIs was BDT 1,106.9 billion at end FY21, which was 9.7 percent higher than that of FY20. This expansion was mainly attributable to:

(i) Increase of equity by 16.1 percent;
(ii) Significant increase in members' savings by 13.0 percent;
(iii) Increase borrowings from PKSF by 38.3 percent; and
(iv) Increase in other loans by 38.3 percent.

The total fund[73] of MFIs sector has increased by 1.75 times during the last five fiscal years. During this period, the MFIs sector enjoyed an average growth of 15.15 percent in total funds and it is still growing significantly (9.7 percent growth was registered in reporting year compared with previous year).

CHART 10.15: TOTAL FUND OF MFIs



Source: Microcredit Regulatory Authority; Calculation: FSD.

In FY21, equity, savings from members and loans from commercial banks constituted 36.14 percent, 38.31 percent and 15.22 percent of total funding of the MFIs respectively. Loans from PKSF, donors' fund, other loans and other sources constituted 6.52 percent, 0.53 percent, 1.64 percent and 1.64 percent respectively (Chart 10.16). Marginal contribution (0.53 percent) of donors in MFIs' fund demonstrates that once donor-dependent MFIs have now become almost self-reliant.

Chart 10.17 demonstrates the contribution of capital as a source of funds slightly increased from 34.04 percent in FY20 to 36.14 percent in FY21. During the same period, the contribution of member savings increased from 37.09 percent to 38.31 percent. However, the contribution of loans from commercial banks in FY21 decreased to 15.22 percent from 19.46 percent in the previous period.

CHART 10.16: MAJOR SOURCES OF FUND IN FY21

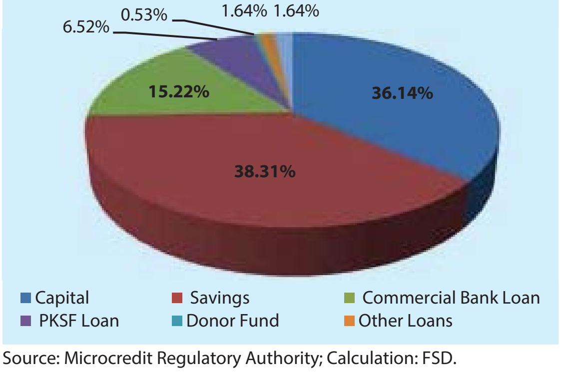
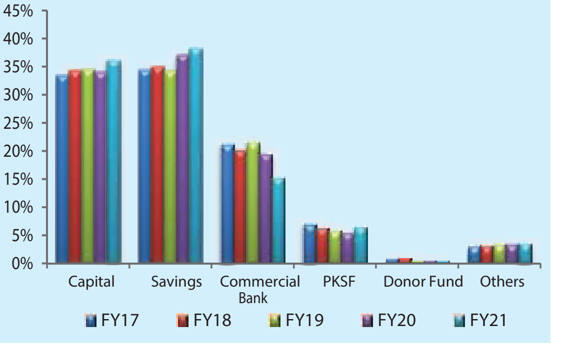


CHART 10.17: TREND OF MAJOR SOURCES OF FUND



Source: Microcredit Regulatory Authority; Calculation: FSD.

10.4 OPERATIONAL SUSTAINABILITY OF MFIs

Return on assets (ROA) and return on equity (ROE) are two major indicators of operational sustainability of MFIs. In FY21, ROA of MFIs decreased slightly to 5.01 percent with corresponding figure of 5.03 percent in FY20. ROE increased sharply to 19.00 percent in FY21 compared to the preceding period's figure of 11.78 percent (Chart 10.18). Notably, ROE of MFIs sector increased due to significant increase in net income in FY21 since regularization of loan recovery after FY20.

[73] The total fund mainly comprises MFIs' own capital, savings, loans from commercial banks, loans from PKSF, donors' fund, loans from government and others' loans.

A decreasing trend in donation-to-equity ratio (dependency ratio) of this sector indicates that strong improvement in self-sustainability has been prevailing since FY18 (Chart 10.19).

CHART 10.18: OPERATIONAL SUSTAINABILITY

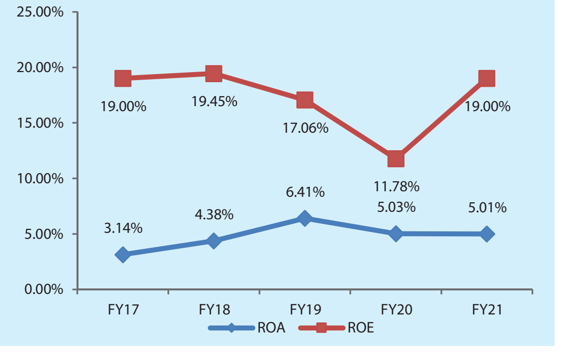
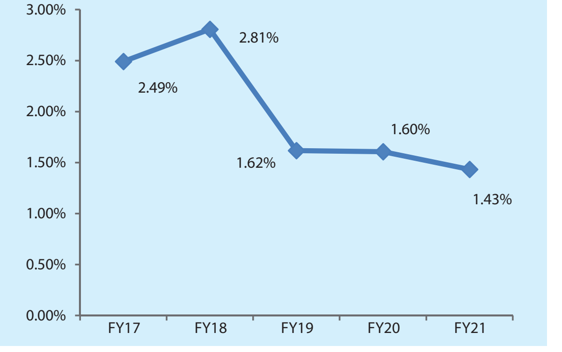


CHART 10.19: FINANCIAL DEPENDENCY



Source: Microcredit Regulatory Authority.

The amount of donated funds slightly decreased in FY21, but the equity increased from retained earnings and members' savings were substantial, which are needed for the long-term sustainability of this sector, and for withstanding any financial shocks.

The microfinance sector is highly concentrated in terms of loans, savings and number of members in a small number of institutions. The top 10 MFIs mobilized 72.02 percent of total savings of the members, while 69.27 percent of the MFI sector's outstanding loans pertained to them as of end FY21. They provided financial services to 61.28 percent of total members of MFIs. For top 20 MFIs, the corresponding figures are 79.27, 77.64 and 69.73 percent respectively (Chart 10.20).

The high degree of market dominance by the top MFIs indicate that their financing activities need to be monitored closely, otherwise deterioration of their performance may pose a threat to the stability of this sector.

CHART 10.20: CONCENTRATION OF MFI SECTOR IN TERMS OF LOANS, SAVINGS AND MEMBERS HELD BY TOP 10 IN FY21

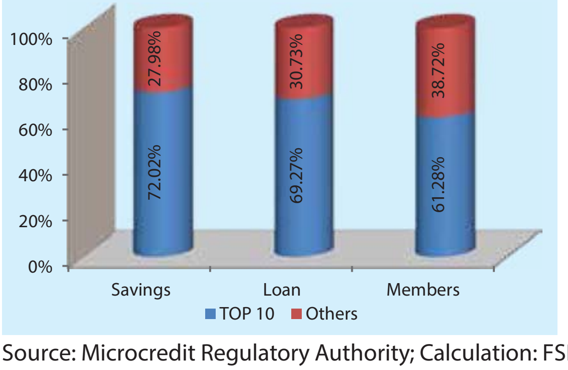
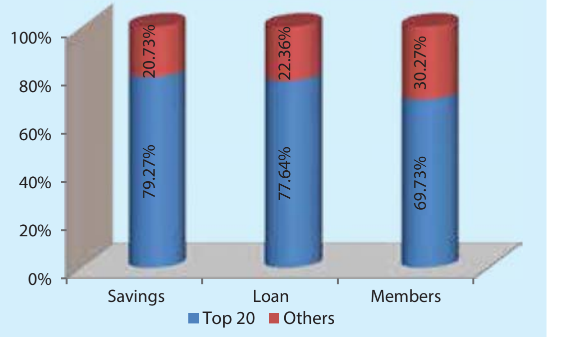


CHART 10.21: CONCENTRATION OF MFI SECTOR IN TERMS OF LOANS, SAVINGS AND MEMBERS HELD BY TOP 20 IN FY21



Source: Microcredit Regulatory Authority; Calculation: FSD.

MFI sector in Bangladesh was reasonably stable during FY21. NPL ratio of the MFI sector is quite low compared to banking sector but it has been increasing during the last couple of years especially in FY21. For a stable and sound microfinance sector, increasing trend in NPL ratio deserves special attention. The demand for microfinance is increasing gradually. Since a large number of micro-finance institutions are working in providing credit to the marginal people, a borrower may take opportunity to borrow fund from multiple MFIs. If the borrower selection and their credit needs are not made prudently, overlapping of loans of borrowers may create credit trap in the long run, which may raise the sector's NPL ratio further. In order to ensure the transparency and accountability of microfinance sector, the e-regulatory system has been established through which MFIs can directly send their information to the MRA database on monthly, half-yearly and annual basis. Now it is time to structure Credit Information Bureau (CIB) for MFIs which may help to monitor and mitigate the NPLs over time.

Chapter 11

DEVELOPMENTS IN THE FINANCIAL SYSTEM

To rebound the economy from pandemic-induced disruptions and ensure a resilient financial system, the Government along with the Bangladesh Bank and other financial regulators continued their policy supports along with timely regulatory and supervisory initiatives. Some notable initiatives are mentioned below:

11.1 ASSESSMENT OF FINANCIAL STABILITY BY BANGLADESH BANK

The Financial Stability Department (FSD) of Bangladesh Bank (BB) has pointed out the major strengths, risks and vulnerabilities of the financial system of Bangladesh throughout the year 2021 and has disseminated these to stakeholders through the Financial Stability Report (FSR) and Quarterly Financial Stability Assessment Report (QFSAR). Importantly, the last two QFSARs assessed the resilience of the financial system of Bangladesh towards risks and vulnerabilities from both endogenous and exogenous perspectives. Besides, relevant qualitative and quantitative indicators of systemic risks in the context of Bangladesh's financial system have been enumerated in the seminal publication of the Bangladesh Systemic Risk Dashboard (BSRD).

11.2 REGULATIONS AND POLICIES FOR BANKING SECTOR

A) SPECIAL FACILITIES FOR INSTITUTIONS IN THE LEATHER SECTOR THAT ARE RELOCATED

Considering the sufferings of borrowers and reducing the sector's default loans, BB introduced a loan rescheduling and one-time exit policy with simplified terms for the tanneries that relocated to the leather industrial city at Savar, Dhaka. Under the policy, the tannery owners who are unable to continue their business can avail one-time exit policy with a minimum 2 percent down payment. The tenure of repaying the loan will be maximum of 3 or 5 years depending on the outstanding balance. The tannery owners who are able to continue their business at the relocated site will get a loan rescheduling or restructuring facility for a maximum of 10 years with a minimum 2 percent down payment. [Ref: BRPD Circular No. 01 dated: 06/01/2021]

B) REFINANCE SCHEME FOR CINEMA HALL OWNER

To bring back the glory of the film industry of Bangladesh by constructing modern cinema halls and renovating old ones, BB formed a special refinance scheme worth BDT 10.0 billion vide BRPD Circular 04, dated: 14/02/2021. Under the scheme, the cinema hall owners in metropolitan areas will get loans from the fund at 5 percent interest and those outsides of the metropolitan areas will get a 4.5 percent interest rate with a maximum 8 years repayment period. Each type of borrower will get a maximum of BDT 50 million which later enhanced to BDT 100 million [Ref: BRPD Circular Letter 49, dated: 09/12/2021].

C) RELAXATION OF GUIDELINES ON THE INTERNAL CREDIT RISK RATING SYSTEM

Considering the adverse impact of the pandemic on the country's overall business activities, BB brought down the ceiling of marginal internal credit risk rating score to 55 percent from 60 percent. [Ref: BRPD Circular Letter No. 14, dated: 23/02/2021]

D) GUIDELINES ON COUNTRY RISK MANAGEMENT (GCRM) FOR BANKS

BB has prepared *Guidelines on Country Risk Management (GCRM) for Banks* in line with international best practices under principle 21 of *Basel Core Principles (BCPs) for Effective Banking Supervision 2012*. To comply with the international best practices and to keep the banking industry more resilient to shocks, all the scheduled banks are directed to take necessary measures and maintain appropriate provisions against the country risk as per the instructions set out in this guidelines. The GCRM sets out the minimum requirements and supervisory perspective of BB to ensure that banks have adequate policies and processes in place to identify, measure, evaluate, monitor, report, control, and mitigate country risks in their placements, lending, and investments. [Ref: BRPD Circular No. 07, Date: 13 April, 2021]

E) GUIDELINES ON INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Effective management of Interest Rate Risk in the Banking Book (IRRBB) is crucial as the liabilities and assets portfolio of the banking industry are affected by the adverse movements in interest rates. For managing the IRRBB issue, BB has prepared *Guidelines on Interest Rate Risk in the Banking Book (IRRBB)* in line with international best practices as per the *Basel Core Principles (BCPs) for Effective Banking Supervision 2012*. Banks are advised to make adequate and reliable arrangements for the adoption of this guidelines by developing and formulating IRRBB policy, processes, and procedures; determining the impact of interest rates by analyzing both earnings and economic value perspectives on the balance sheet structure. Notably, excessive IRRBB, if not managed properly, may pose a substantial threat to a bank's capital base and/or future earnings. [Ref: BRPD Circular No. 06, Date: 13 April, 2021]

F) RE-FIXATION OF INTEREST RATE OF AGRICULTURAL AND RURAL CREDIT

To ensure availability of credit for the farmers at reduced rate and to ensure increased agricultural productivity, BB has revised the maximum interest rate from 9 percent to 8 percent for rural and agricultural credit. [Ref: BRPD Circular No. 08, Date: 22 April, 2021]

G) SPECIAL CSR ACTIVITIES UNDER CORPORATE SOCIAL RESPONSIBILITY (CSR) OF BANKS TO MITIGATE COVID-19 CRISIS

As the COVID-19 pandemic pushed the poverty level up, the use of CSR funds for the distressed communities has become crucial. BB instructed the banks for the allocation of additional funds in CSR activities to help pandemic-hit communities. To implement this special CSR program, banks are advised to allocate an additional 1.0 percent of their net profit from the 2020 with the existing CSR allocation for the 2021. Additional CSR funding for the 2021 would be adjustable in the next three years. The allocated amount must be spent for the people living in slums, the unemployed and homeless people for their daily needs including health expenses. Banks have to ensure that the allocation of CSR funds is not highly concentrated in any particular area. [Ref: BRPD Circular No. 09, Date: 26 April, 2021]

H) RESCHEDULING OF SHORT-TERM AGRICULTURAL CREDIT

As the farmers may be unable to repay the bank loans regularly due to the ongoing COVID-19 pandemic, BB has issued a circular on a special loan rescheduling facility for short-term agricultural credit. Under this facility, banks are allowed to reschedule the short-term agricultural loans for a period of maximum of two years by relaxing the down payment obligations based on the bank-customer relationship. Banks are also allowed to issue new loans to the farmers even after rescheduling existing ones and there will be no requirement for the down payment in the disbursement of new loans. Besides, if there is any certificate case, banks are allowed to reschedule loans by withdrawing or settling the cases upon mutual understanding. [Ref: BRPD Circular No. 10, Date: 01 June, 2021]

I) POLICY FOR POST-IMPORT FINANCING (PIF)

BB issued a detailed policy guideline on Post-Import Financing (PIF) facilitating importers to pay the cost of imported items within the stipulated time. Importers are given facilities to repay the loans after selling their imported products, within three months for consumer products and six months for industrial raw materials. Under the new policy, all the scheduled banks shall set up a special 'PIF Monitoring Unit' to oversee loan disbursement and recovery under PIF. Under the PIF facility, the banks shall follow BB's credit risk management guidelines and internal credit risk rating system guidelines along with compliance with specific guidelines on sanction of such loans approved by the board of directors. [Ref: BRPD Circular No. 12, Date: 13 June, 2021]

J) INCLUSION OF INDUSTRIES LOCATED OUTSIDE BEZA/BEPZA/HI-TECH PARK UNDER STIMULUS PACKAGES

Since the onset of the COVID-19 outbreak, different stimulus packages were announced to revive the productions and activities of the industries. Earlier, only type "A", "B", and "C" industries of BEZA/BEPZA/Hi-Tech Park were eligible to avail the facilities. Now BB has instructed all scheduled banks and NBFIs to include those industries with 100 percent foreign/joint (i.e., local and foreign) ownership located outside of BEZA/ BEPZA/ Hi-Tech Park in the financial stimulus packages. [Ref.: BRPD circular letter no. 36, Date: 12 July, 2021]

K) STIMULUS PACKAGE AS WORKING CAPITAL LOANS/INVESTMENTS TO PAY SALARIES – ALLOWANCES FOR THE WORKERS OF HOTEL/MOTEL/THEME-PARK OF TOURISM SECTOR

On 13 July 2021, the Honorable Prime Minister announced a stimulus package amounting to BDT 10.0 billion for the pandemic-affected tourism sector to pay salaries and allowances of the workers and staff of hotels/motels/theme-parks through the banking channel. In line with the government's announcement, BB has issued several instructions for banks to provide loans from their own source at an 8.0 percent interest rate. Out of the 8.0 percent interest rate, the government would provide 4.0 percent as interest subsidy while the rest of 4.0 percent would be borne by the borrowers. The tenure of the facility is 01 (one) year. [Ref: BRPD Circular No. 16, Date: 15 July, 2021]

L) RATIONALIZATION OF RATE OF INTEREST/PROFIT ON DEPOSIT

BB has issued a circular regarding the rationalization of the deposit rate of scheduled banks. In this connection, banks are instructed to determine the rate of deposit (with a period of three months and above) not below the inflation rate to encourage savings and also to uphold the purchasing power of the depositors. [Ref.: BRPD circular no. 17, Date: 08 August, 2021]

M) IMPLEMENTATION OF BASEL III IN BANGLADESH

To implement BASEL III, BB has instructed scheduled banks to increase the leverage ratio gradually to 4.0 percent by 2026 from the current 3.0 percent level. This increased leverage ratio will enhance the quality of capital and thus improve the stability of the overall financial sector. [Ref.: BRPD Circular No. 18, Date: 18 August, 2021]

N) POLICY FOR NON-BANKING ASSET (NBA)

Bangladesh Bank has issued a circular regarding non-banking asset policy. The policy describes the assessment of the value of assets, inclusion of non-banking assets into bank account by loan adjustment, inclusion of non-banking assets against write-off loans, discharge of defaulters after adjustment of entire loan, the sale and use of non banking assets, disclosure, accounting, reporting, etc. The scheduled banks are instructed to assess the value of the non-banking assets very meticulously. This policy would help bringing better discipline in management of banks' non-banking assets. [Ref.: BRPD Circular No. 22, Date: 20 September, 2021]

O) POLICY REGARDING THE OPERATION OF DORMANT ACCOUNT

To avoid customer harassment and follow uniform policies by all banks, BB issued policy regarding the operation of dormant account. According to the policy, the current, savings and special notice deposit (SND) accounts would become inoperative if clients don't carry out any transaction for six months in a row. Besides, the current and SND accounts will be treated as dormant six months after they become inoperative. The inoperative savings accounts will have to be considered as dormant after 18 months. The banks have to transfer the interest or profits to the dormant accounts if there have been any deposits. Clients will have to submit an application to the branch manager if they want to activate their dormant account. If an account remains dormant for five years, clients will have to fill up a new KYC form to activate accounts. [Ref.: BRPD Circular No. 23, Date: 28 December, 2021]

11.3 POLICIES FOR NON-BANK FINANCIAL INSTITUTIONS (NBFIs)

A) LOAN/LEASE/INVESTMENT RESCHEDULING FOR FINANCIAL INSTITUTIONS

BB has issued a master circular intending to tighten loan rescheduling rules for Non-Bank Financial Institutions (NBFIs) while aiming to ensure better transparency and effectiveness in rescheduling activities. NBFIs are allowed to reschedule a loan for a maximum of three times. If a borrower fails to repay the loan even after rescheduling loans three times, will be considered as a *habitual defaulter*. BB has also tightened rules for booking interest income and provisioning of the rescheduled loan/lease/investment of NBFIs. [Ref: DFIM Circular No. 09, Date: 14 September, 2021]

B) CLASSIFICATION AND PROVISIONING OF 'OTHER ASSETS' OF FINANCIAL INSTITUTIONS

BB issued a circular regarding the classification and provisioning of 'Other Assets' of financial institutions. According to the circular, all unadjusted prepaid entries, unadjusted prepaid legal expenses, protested bills, and other expenses or losses of NBFIs will be treated as 'Other Assets', even though these are not real assets. Any prepaid expenses for salary and allowances, traveling, entertainment, advertisement, and business development, etc. that remain unadjusted for 12 (twelve) months or beyond and/or any expenses/losses shown in 'Other Assets' will be classified as 'Bad and Loss'. Unadjusted Prepaid Legal Expenses which are unsettled may be shown as 'Doubtful' but settled actions must be shown as 'Bad and Loss'. If there is any possibility of recovery of Protested Bill, it will be classified as 'Doubtful' in qualitative judgment but if there is no possibility of recovery, it will be treated as 'Bad and Loss'. NBFIs must keep 100 percent provision against 'Bad and Loss' and 50 percent provision against 'Doubtful' classification. [Ref: DFIM Circular No. 10, Date: 03 October, 2021]

C) ENSURING PROPER UTILIZATION OF LOAN

BB issued a circular asking all NBFIs to ensure the proper utilization of loans. According to the circular, NBFIs have to monitor the loans by NBFIs to ensure the use of the fund for which the loan was sanctioned. Besides, if a loan is disbursed in installments, the subsequent installment can be disbursed after ensuring that the previous installment was fully used in the mentioned sector. NBFIs have to include the aspect of proper utilization and monitoring of loans in the internal credit policies and ensure that a loan is not used to repay another loan. Actions have to be taken by NBFIs if any fund diversion is detected during monitoring while serious irregularities have to be reported to BB immediately. [Ref: DFIM Circular No. 02, Date: 28 February, 2021]

D) MASTER CIRCULAR: LOAN/LEASE CLASSIFICATION AND PROVISIONING

To assess the quality of loan/lease based on prescribed objective and subjective criteria and ensure maintenance of required provision for anticipated losses against different classification of loan/lease, Bangladesh Bank issued a master circular on *Loan/Lease Classification and Provisioning* to be followed by Financial Institutions (FIs). The circular updated the reporting process of loan/lease classification with revised CL templates and made the provisioning more inclusive. According to the circular, Financial Institutions (FIs) will classify Short Term Finance, Lease Finance, Term Finance, Housing Finance, Financing to Subsidiaries and/or Sister Concerns, Brokerage House, Merchant Banks and Stock Dealers and similar Shariah based financing be those termed in any name on quarterly basis. Financial Institutions will submit Loan/Lease Classification and Provisioning Statement within 30 (Thirty) days after the end of the each quarter in Bangladesh Bank. [Ref: DFIM Circular No. 04, Date: 26 July, 2021]

11.4 DEVELOPMENTS IN AGRICULTURAL AND RURAL CREDIT

A) AGRICULTURAL AND RURAL CREDIT POLICY AND PROGRAM FOR THE FY2021-2022

BB has announced the annual agricultural and rural credit policy and program for the Financial Year (FY) 2021-2022 considering the pandemic situation to ensure proper credit flows to the agricultural sector which, in turn, will help to achieve the prime objectives of Sustainable Development Goals (SDGs) i.e., eradication of poverty, ensure safe and nutritious food and develop the rural economy. Agri-credit target for the scheduled banks is set at BDT 283.91 billion for the 2021-2022 fiscal year, which is 7.98 percent higher than the previous year's target. [Ref.: ACD Circular No. 01, Date: 29 July, 2021]

B) REFINANCE SCHEME FOR AGRICULTURE SECTOR

BB formed a refinance scheme of BDT 30 billion from its own source to refinance agricultural loans for crops and grain cultivation, fruits and flower cultivation, fisheries, poultry and livestock sector, Agri machinery/equipment purchase and also for seed production. Under the scheme, the farmers/farms get credit at a maximum 4.0 percent interest rate from the banks and the banks get refinance at a 1.0 percent interest rate from BB. Banks can sanction loans amounting up to BDT 200,000 to each grass-root level farmer without any collateral. The maturity of the crop loan to the farmers will be maximum of 12 months and for other loans, it will be 18 months (with 3 months grace period). [Ref.: ACD Circular No. 02, Date: 14 September, 2021]

11.5 DEVELOPMENTS IN COTTAGE, MICRO, SMALL AND MEDIUM ENTERPRISE (CMSME) FINANCING

A) INCLUSION OF TERM LOAN/INVESTMENT ALONG WITH WORKING CAPITAL UNDER THE EXISTING CREDIT GUARANTEE SCHEME

Under the existing Credit Guarantee Scheme (CGS), cottage, micro and small (CMS) enterprises will get term loans/investments along with working capital [Ref: SMESPD circular letter no. 03, dated 01 February, 2021]

B) ESTABLISHMENT OF REFINANCE FUND TITLED START-UP FUND

To provide loans to the start-up entrepreneurs, BB instructed all scheduled banks to form their start-up funds. This revolving fund will be formed by banks transferring 1.0 percent of their annual net profits since the end-December 2020 and will continue for the next five years. Besides, the banks are allowed to access BDT 5.0 billion refinancing funds formed by BB. The entrepreneurs aged between 21 to 45 years are eligible to get the credit amounts to a maximum of BDT 10.0 million from the BB's start-up fund with the interest rate not exceeding 4.0 percent. [Ref: SMESPD Circular No. 04, Date: 29 March, 2021; SMESPD Circular Letter No. 04, Date: 19 April, 2021 and SMESPD Circular Letter No. 05, Date: 26 April, 2021]

C) ADDITIONAL REFINANCE FUND FOR COVID-19 AFFECTED COTTAGE, MICRO, SMALL AND MEDIUM ENTERPRISES (CMSME) SECTOR

To support credit expansion and adequacy in liquidity for CMSMEs, a loan agreement amounting to USD 300 million (BDT 25.20 billion) was signed between the Government of the People's Republic of Bangladesh (GoB) with the Asian Infrastructure Investment Bank (AIIB) on February 26, 2021. BB has been assigned the responsibility to carry out the said project. [Ref: SMESPD Circular No. 06, Date: 23 June, 2021]

D) CMSME LOANS/ ADVANCES FOR WOMEN ENTREPRENEURS

BB has set the target for the banks and Non-Bank Financial Institutions (NBFIs) to provide at least 15 percent of CMSME loans/ advances to women entrepreneurs within 2024 to encourage women entrepreneurs for taking CMSME initiatives. Banks and NBFIs can avail the refinance facility at a 0.5 percent interest rate from Bangladesh Bank and customers can get the same at a 5.0 percent interest rate. Furthermore, to encourage the recovery of CMSME loans provided to women entrepreneurs, BB has declared 1.0 percent of the loan amount as a cash incentive both for banks/ NBFIs and women entrepreneurs for the loans disbursed from 1 July 2021 to 31 December 2024. [Ref: SMESPD Circular Letter No.-09, Date: 04 August 2021; SMESPD Circular No. 08, Date: 17 August, 2021]

E) REDETERMINING OF LOAN/INVESTMENT LIMIT UNDER CREDIT GUARANTEE SCHEME FOR COTTAGE, MICRO AND SMALL ENTERPRISES (CMSE)

The loan/investment limit under Credit Guarantee Scheme to the Cottage, Micro, and Small Enterprises (CMSE) has been re-fixed at a minimum of BDT 25 thousand and a maximum of BDT 10.0 million instead of the previous minimum of BDT 200 thousand and a maximum of BDT 5.0 million respectively. [Ref: SMESPD Circular Letter No.-11, Date: 30 December 2021]

11.6 DEVELOPMENTS IN FOREIGN EXCHANGE REGULATIONS/TRANSACTIONS

A) REPATRIATION FACILITIES BY MFSPs TO ITES (INFORMATION TECHNOLOGY ENABLED SERVICES) EXPORTERS

To facilitate small value ITES exports, it has been decided to allow Mobile Financial Service Providers (MFSPs) licensed by Bangladesh Bank for repatriation of export proceeds in association with internationally recognized OPGSPs/digital wallets and/or aggregators having an operation in multiple countries. [Ref: FE circular no. 06, dated 10 February 2021]

B) FINANCING FACILITIES FROM STIMULUS PACKAGES TO INDUSTRIES OPERATING IN EPZS/EZS/HTPS

Type A and Type B industries operating in different zones may access finance in Bangladeshi Taka from concerned stimulus packages. Likewise, Type C industries will be eligible for financing in Taka from stimulus packages as admissible to such industries outside zone areas. [Ref: FE Circular letter no. 02, dated 24 February 2021]

C) SETTLEMENT OF PAYMENT AGAINST ADMISSIBLE INLAND TRANSACTIONS IN FOREIGN EXCHANGE

Given the ongoing situation, it has been decided that Authorized Dealers (ADs) may continue settlement of payments through their NOSTRO accounts against the eligible inland foreign exchange transactions. [Ref: FE circular letter no. 06, dated 04 April 2021]

D) RELEASE OF FOREIGN EXCHANGE FOR ONLINE STUDY ABROAD

Considering the ongoing situation, it has been decided that ADs may continue outward remittances on account of study abroad under online teaching arrangements for another two semesters/sessions subject to observance of usual regulatory instructions. [Ref: FE Circular letter no. 09, dated 13 April 2021]

E) REMITTANCE FACILITIES TO E-COMMERCE TRADERS

To facilitate e-commerce trade in the country, it has been decided that ADs may allow annual remittance facilities of USD 10,000 or its equivalent to a member firm of the e-Commerce Association of Bangladesh (e-CAB) for meeting bonafide current expenses abroad through traditional banking channels or cards. [Ref: FE Circular no. 17, dated 02 May 2021]

F) GREEN TRANSFORMATION FUND (GTF)

To facilitate customer/borrowers on a wider scale under the GTF program, the conditions stipulated in the paragraphs 3(a) and 3(b) of the FE Circular No. 02, dated 14 January 2016 have been relaxed for the state-owned commercial banks (SCBs) to consider their application in this regard. [Ref: FE Circular letter no. 23, dated 05 September 2021]

11.7 PROGRESS IN PAYMENT SYSTEMS

A) PUBLICATION OF GUIDELINES FOR 'BANGLA QR' CODE-BASED PAYMENTS

To make QR code-based transactions interoperable, BB has prepared the "Bangla QR Code" structure under the name of "National QR Code Standard for Retail Payments in Bangladesh'. Recently, BB published the guidelines for 'Bangla QR' based payments to promote the use of low-cost QR code-based payments throughout the country along with the regulatory framework about branding, merchant on-boarding, fees and charges, dispute management, etc. for the participants. [Ref: PSD Circular No. 01, Date: 06 January 2021]

B) GUIDELINES FOR TRUST FUND MANAGEMENT IN PAYMENT AND SETTLEMENT SERVICES

To ensure the safety of the fund and protecting the interest of stakeholders, the authorized Mobile Financial Services (MFS), Payment Service Providers (PSP), and Payment System Operators (PSO) are instructed to follow the referred guidelines. In case of providing payment and/or settlement services, the mentioned entities are required to maintain a Trust Fund titled 'Trust cum Settlement Account' with any scheduled bank against the payment and/or settlement obligation created by the entity to its customers and/or participants. The relevant clauses of these guidelines shall also be applicable for scheduled banks that open and maintain the 'Trust Cum Settlement Account' for the Trustee. [Ref: PSD Circular No. 06, Date: 06 May 2021]

C) FUND RELEASE POLICY FOR DIGITAL COMMERCE ENTERPRISES

To protect customer interests and retain customer confidence in the fast-growing e-commerce industry, the banks, Mobile Financial Service providers, Payment Service Providers, and Payment System Operators are instructed to release customers' money followed by the confirmation of product delivery. No payment will be made until a customer receives a product or takes any service. Merchants will not use the proceeds of sales for other purposes except to meet their own liabilities. Moreover, merchants will have to maintain the same amount of money in their accounts with financial service providers equal to the liabilities unpaid. However, payment and/or settlement for digital merchants delivering services like food, grocery and medicine, ride-sharing, mobile recharge, utility, education fee, hotel, and ticket booking, or similar daily essentials and emergency goods/services can be done immediately or within five days as on the existing process considering the extent of risks, service standards, and business relationship. For the entities which have trade licenses and are operating at showrooms along with the e-commerce business, the PSPs are allowed to continue the existing settlement process based on their judgment if such e-commerce platforms deliver products or services immediately or within 7 (seven) days. [Ref: PSD Circular No. 08, Date: 30 June 2021]

D) PROHIBITION OF RECEIVING CUSTOMERS' MONEY DIRECTLY TO THE DIGITAL COMMERCE ENTERPRISES' BANK ACCOUNT

Some digital commerce organizations, by averting the government's "Digital Commerce Operation Guidelines 2021" and BB'S directives, had been receiving advance payments against goods and services at their own accounts. In such a situation, BB has instructed all scheduled banks not to receive advance payments against goods and services directly to the company's account or the accounts of persons involved in the organization. Banks are also instructed to perform due diligence in operating the accounts of such organizations by carefully examining their transactions and risk profiles. [Ref: PSD Circular Letter No. 13, Date: 29 August 2021]

11.8 DEVELOPMENTS IN OFF-SITE SUPERVISION

A) CONTITUTION OF SPECIAL FUND FOR CAPITAL MARKET AND INVESTMENT POLICY

To increase the investable asset in the capital market, BB has issued a circular with some additional instructions in reference to the previous DOS Circular No. 01/2020. Earlier BB instructed all the scheduled banks to form a special fund of BDT 2.00 billion each to invest in the capital market. Now the new circular allows the use of this fund for investment in 100% asset-backed green 'Sukuk' bonds issued by private sectors for renewable power projects. [Ref.: DOS Circular Letter No. 39, Date: 27 September 2021]

B) REFIXATION OF MAXIMUM LIMIT OF HOLDING APPROVED SECURITIES IN HELD-TO-MATURITY (HTM) PORTFOLIO

Based on the assessment of the current liquidity condition and level of market risk in the banking sector, the maximum limit of holding approved Securities in a Held-to-Maturities (HTM) portfolio for both the primary and non-primary dealer are increased by 10 percentage points. That is, for all non-primary dealer banks, the limit is 120% of SLR and for all primary dealer banks, the limit is 135% of SLR. However, the enhanced HTM limit shall be restored to its previous state within next two years (2023 and 2024). Mentionable, the transfer of approved securities from the Held-for-Trading (HFT) to the HTM category is generally not permitted. [Ref.: DOS Circular Letter No. 42, Date: 07 October 2021]

11.9 POLICY AND ACTIONS TAKEN ON DEBT MANAGEMENT

PROVIDING LIQUIDITY SUPPORT TO PRIMARY DEALERS

To create a vibrant securities market for government securities and to provide long term liquidity support to the holder of such securities, Primary Dealers shall be facilitated with liquidity support for 3 (three) months at a stretch from the date of issuing treasury bills and treasury bonds against the devolved and purchased treasury bills/bonds from primary auctions. [Ref.: DMD Circular Letter No. 7, Date: 23 December 2021]

11.10 POLICIES FOR SUSTAINABLE FINANCE

A) TARGET AND ACHIEVEMENT OF SUSTAINABLE FINANCE & GREEN FINANCE BB has instructed all scheduled banks and NBFIs to set the annual target of 15% for sustainable finance and 2% for green finance. These targets will be determined based on net outstanding loans and advance balance (excluding staff loan, total classified loan, and credit card loan from total outstanding loans/advances balance) as of December 31 of the previous year. [Ref: SFD Circular no. 01, dated 11 January, 2021; SFD Circular letter no. 03, dated 04 August, 2021]

B) REFINANCE FUND FOR TECHNOLOGY DEVELOPMENT/UP-GRADATION OF EXPORT-ORIENTED INDUSTRIES

In light of the 'Export Policy 2018-21', BB has launched a refinance scheme of BDT 10.0 billion for technology developments and upgradation of export-oriented industries. [Ref: SFD Circular No. 02, dated 17 January 2021]

11.11 INITIATIVES FOR FINANCIAL INCLUSION

REFINANCE SCHEME FOR THE COVID-19 AFFECTED LOW-INCOME PROFESSIONALS, FARMERS AND SMALL BUSINESSES

BB launched a refinance scheme of BDT 30 billion to generate sufficient income for the COVID-19 affected low-income professionals, farmers and micro/small businesses. This facility is being implemented through Banks and Micro Finance Institutions (MFIs). Banks get the fund from BB at a 0.5 percent interest rate, while they lend it to MFIs at 3.0 percent and MFIs disburse the loan to the affected groups at a maximum of 9.0 percent interest. Banks may also lend to small entrepreneurs at 7% interest. [Ref.: FID Circular No. 02, Date: 28 October 2021]

11.12 BFIU'S INITIATIVES TO MAINTAIN THE STABILITY OF THE FINANCIAL SYSTEM

SIGNING MOU WITH OTHER COUNTRIES

In the year 2021, BFIU signed a Memorandum of Understanding (MoU) with the Financial Intelligence Unit (FIU) of the United Arab Emirates (UAE). With this, BFIU has signed a total of 78 (Seventy-Eight) MoUs with the FIUs of different countries/jurisdictions. These MoUs extend the horizon of sharing information related to money laundering, terrorist financing, and proliferation financing with other FIUs around the world.

11.13 DEVELOPMENT IN CREDIT INFORMATION

INITIATIVE TO DEVELOP A COLLATERAL INFORMATION SYSTEM

CIB has started developing a Collateral Information System to prepare a Collateral Database of immovable assets (e.g., land, flat, building, and capital machineries). In this database, information on collateral that is mortgaged against sanctioned loans/advances of banks or NBFIs will be stored. The main purpose of developing such a system is to prevent fraud/forgery arising from unlawfully mortgaging the same property against new loans sanctioned by banks/FIs.

11.14 LAWS/ORDERS/NOTIFICATIONS/DIRECTIVES/GUIDELINES ISSUED BY BANGLADESH SECURITIES AND EXCHANGE COMMISSION (BSEC)

The BSEC issued several securities laws/orders/notifications/directives/guidelines during the year 2021. Some of the key initiatives are as follows:

i. Commission issued an Order No. BSEC/Surveillance/2020-975/210 on 06 May 2021 for regulating the share price movement. In this order, certain directions regarding circuit breakers for newly listed companies have been imposed.

ii. BSEC issued Directive No. BSEC/CMRRCD/2009-193/18 on 03 May 2021 to create scope for foreign investment in the securities market. In this directive, it is stated that any foreign company, either public or private, shall be eligible to be a sponsor of any mutual fund either single or jointly with any local eligible sponsor.

iii. Commission issued a Directive No. BSEC/CI/IPO-312/2021-313 on 20 January 2021 to introduce allotment of IPO shares to the general public on a Pro-rata basis instead of a Lottery.

iv. BSEC issued a Notification No. BSEC/CMRRCD/2021-391/20/Admin/121 on 01 June 2021 to stabilize the capital/securities market ensuring liquidity to the market by way of buying and selling of listed securities, lending and borrowing of listed securities, and providing short-term loan to the capital market intermediaries.

v. BSEC issued a Notification no. BSEC/CMRRCD/2009-193/23/Admin/123 on 30 June 2021, imposing some more conditions regarding bonus shares and declaration of dividend to the issuer of listed securities or issuer of securities trading at Over-the-counter (OTC) platform or at Alternative Trading Board.

11.15 DEVELOPMENTS IN MICRO CREDIT OPERATIONS

Microcredit Regulatory Authority (MRA) has taken different measures for the development of micro-credit operations during the year 2021. Some of the key initiatives are as follows:

National Database of Microfinance:

MRA established a National Database where all the players in the microfinance sector of Bangladesh such as licensed MFIs, banks, and government micro-finance providers can provide information from their branch/district level online. Using this system uniform data of the microfinance sector can be stored.

MF-CIB (Credit Information Bureau for Microfinance):

The establishment of a Credit Information Bureau (CIB) for the microfinance sector is at its final stage now. Through this system, MFIs will send information regarding the loan, deposits, etc. of about 35.1 million clients online and also get client credit history as per existing regulations allowed by MRA. As a result, the overlapping problem of the sector can be mitigated which would help to mitigate the operational risk of the MFIs.

11.16 DEVELOPMENTS IN THE INSURANCE SECTOR

The Insurance Development and Regulatory Authority (IDRA) took different initiatives during the year 2021 toward forming an inclusive insurance sector:

i. IDRA has taken various initiatives in 2021 to bring professionalism and corporate compliance in the management of insurance companies such as commission trade control of non-life insurance companies, reducing the commission tier of life insurance companies from 6 to 5, mandatory bank account transactions of non-life insurance companies, etc.

ii. Policies have been formulated to control the rate of lapse policy in the life insurance.

iii. "Bangabandhu Shiksha Bima" scheme has been piloted for 2 years with IDRA's funding by providing insurance coverage to the school-going students of more than 60 educational institutions. This will help to continue their studies in case of the death or physical disability of their parents.

iv. "Bangabandhu Sportsmen's Comprehensive Insurance" has been introduced for the protection of players and sportsmen.

v. Corporate Governance Guidelines has been prepared to ensure good governance.

BOX 11.1: SUKUK ISSUANCE IN BANGLADESH

In order to enhance the Shariah-complaint investment options for Shariah-based Islamic Banks and Financial Institutions as well as to expand the Shariah-compliant finance (both public and private), Bangladesh introduced its maiden 'Sukuk' in 2020 which is expected to have some positive implications for the financial stability of Bangladesh.

Currently, Shariah-based Islamic Banks and Financial Institutions hold a significant[74] market share of the financial sector. However, as they cannot invest in interest-bearing government securities due to Shariah-compliance issues, they have very limited instruments for maintaining their Statutory Liquidity Requirement (SLR) and other long-term investments. This has impact on both their liquidity management and profitability as well and thus might have unintended effects on the financial stability. Against this backdrop, Sukuk represents a viable alternative investment instrument to interest-bearing bonds. Moreover, it can be a financing instrument as well and can mobilize long-term funds to finance infrastructure and development projects.

In this regard, MoF and Bangladesh Bank took initiative to issue Shariah-based instruments like Sukuk in the financial market. Bangladesh Bank, in the role of Special Purpose Vehicle (SPV) as well as trustee, issued the first *Ijarah Sukuk* on 29 December 2020 on behalf of the Government of Bangladesh against the project "Safe water supply to the whole country". This Sukuk was issued in two tranches; each amounting BDT 40 billion. The response of the investors in the Sukuk auction was promising as they were oversubscribed. The second Sukuk of BDT 50 billion against the "Need-based Government Primary School Development Project" has been issued on 30 December 2021.

The key advantages of Sukuk issuance, in brief, can be summarized as below:

- Provide Islamic banks and FIs a suitable Shariah-compliant investment opportunity;
- Facilitate intention of government for Shariah-based financing;
- Encourage the private sector to issue Sukuk;
- Provide alternative investment facilities to Shariah inclined investors;
- Provide flexibility to the government for financing its larger project at a competitive price.

In summary, if the financial market can provide sufficient Sukuk for Shariah-based Islamic Banks and Financial Institutions, which is already set out, it will increase Islamic banks' flexibility to manage their liquidity and profitability which eventually have impact on the financial stability. Also, Sukuk could play a positive role in the safety of the Islamic banks' depositors as an added instrument of SLR. In addition, sukuk will create more opportunities for Islamic banks to invest in government projects and thus can contribute to national development. Thus, introducing sukuk in the Bangladesh's financial market would have a far-reaching impact on financial stability of Bangladesh.

[74] At end-December 2021, Islamic banks hold 22.1 percent of total assets, 23.5 percent of total deposits and 25.8 percent (24.0 percent in 2020) of total investments (i.e., loans and advances) of the overall banking system.

APPENDIX

APPENDIX I: WORLD GDP GROWTH

In percentage

Particulars	2016	2017	2018	2019	2020	2021	2022p*	2023p*
World	3.3	3.7	3.6	2.9	-3.1	6.1	3.6	3.6
Advanced Economies	1.8	2.5	2.3	1.7	-4.5	5.2	3.3	2.4
Emerging and Developing Asia	6.8	6.6	6.4	5.3	-0.8	7.3	5.4	5.6

Source: World economic outlook, April 2022.

Note: p* = Projection.

APPENDIX II: GDP GROWTH OF TOP IMPORT ORIGINATING COUNTRIES

In percentage

Country Name	2016	2017	2018	2019	2020	2021	2022p*	2023p*
China	6.9	6.9	6.8	6.0	2.2	8.1	4.4	5.1
India	8.3	6.8	6.5	3.7	-6.6	8.9	8.2	6.9
Singapore	3.6	4.7	3.7	1.1	-4.1	7.6	4.0	2.9
USA	1.7	2.3	2.9	2.3	-3.4	5.7	3.7	2.3
Japan	0.8	1.7	0.6	-0.2	-4.5	1.6	2.4	2.3

Source: World economic outlook, April 2022.

Note: p* = Projection.

APPENDIX III: GDP GROWTH OF TOP EXPORT DESTINATION COUNTRIES

In percentage

Country Name	2016	2017	2018	2019	2020	2021	2022p*	2023p*
USA	1.7	2.3	2.9	2.3	-3.4	5.7	3.7	2.3
Germany	2.2	2.7	1.1	1.1	-4.6	2.8	2.1	2.7
UK	2.3	2.1	1.7	1.7	-9.3	7.4	3.7	1.2
Spain	3.0	3.0	2.3	2.1	-10.8	5.1	4.8	3.3
France	1.0	2.4	1.8	1.8	-8.0	7.0	2.9	1.4

Source: World economic outlook, April 2022.

Note: p* = Projection.

Appendix IV: GDP growth of Top Remittances Generating Countries

In percentage

Country Name	2016	2017	2018	2019	2020	2021	2022p*	2023p*
KSA	1.7	-0.7	2.5	0.3	-4.1	3.2	7.6	3.6
USA	1.7	2.3	2.9	2.3	-3.4	5.7	3.7	2.3
UAE	3.1	2.4	1.2	3.4	-6.1	2.3	4.2	3.8
Kuwait	2.9	-4.7	2.4	-0.5	-8.8	1.3	8.2	2.6
UK	2.3	2.1	1.7	1.7	-9.3	7.4	3.7	1.2

Source: World economic outlook, April 2022.

Note: p* = Projection.

Appendix V: Gross Value Added (GVA) of Bangladesh at constant price

In million BDT

Sectors	2017	2018	2019	2020	2021
Agriculture	2,884,380	2,986,618	3,083,999	3,189,501	3,290,754
Industry	6,982,905	7,694,869	8,590,037	8,900,231	9,815,808
Service	11,307,474	12,048,523	12,877,439	13,383,891	14,151,080
Total GVA at constant price	21,174,759	22,730,010	24,551,475	25,473,623	27,257,642
GVA growth rate (%)	6.54	7.34	8.01	3.76	7.00

Source: Bangladesh Bureau of Statistics.

Appendix VI: Domestic Credit

In million BDT

Year	2017	2018	2019	2020	2021
Domestic credit to the private sector	8,460.88	9,588.51	10,531.52	11,413.03	12,632.48
Domestic credit to the public sector	1,059.02	1,214.99	1,874.47	2,222.73	2,689.41
					In Percentage
Growth of Domestic Credit to the private sector	18.00	13.30	9.80	8.40	10.70
Growth of Domestic Credit to the public sector	-7.9	14.7	54.3	18.6	21.8

Notes: (1) Domestic Credit to the Private Sector refers to the credit provided to the private sector by the banking system.

(2) Domestic Credit to the Public Sector refers to the credit provided to the public sector by the banking system.

Source: Monthly Economic Trend, BB (Various issues).

Appendix VII: Banking Sector Aggregate Balance Sheet

Particulars	(Amount in Billion BDT)					Change (%)	
	2017	2018	2019	2020	2021	2019 to 2020	2020 to 2021
Property & Assets							
Cash in Hand (including FC)	117.6	139.7	161.6	164.7	189.5	1.9	15.1
Balance with BB & SB (including FC)	833.1	858.4	916.1	1,159.9	1,042.3	26.6	(10.1)
Balance with other Banks & FIs	684.7	852.0	765.5	746.2	729.0	(2.5)	(2.3)
Money at Call & Short Notice	71.5	62.1	60.3	83.9	133.9	39.1	59.6
Investments							
Government	1,104.7	977.2	1,410.3	2,110.7	2,316.4	49.7	9.7
Others	814.2	980.4	1,097.7	1,198.9	1,529.8	9.2	27.6
Total Investment	**1,918.9**	**1,957.3**	**2,508.0**	**3,309.6**	**3,846.1**	**32.0**	**16.2**
Loans & Advances							
Loans, CC, OD etc.	8,050.8	9,229.0	10,310.1	11,239.9	12,522.4	9.0	11.4
Bills purchased & Discounted	436.4	458.2	523.9	510.7	721.7	(2.5)	41.3
Total Loans & Advances	**8,487.2**	**9,687.2**	**10,836.8**	**11,750.0**	**13,244.1**	**8.4**	**12.7**
Fixed Assets	226.7	228.9	237.8	266.9	280.6	12.2	5.1
Other Assets	715.8	783.2	800.1	920.4	959.9	15.0	4.3
Non-banking Assets	3.7	3.9	4.7	4.5	3.9	(4.3)	(14.4)
Total Assets	**13,059.3**	**14,572.9**	**16,291.5**	**18,406.0**	**20,429.3**	**13.0**	**11.0**
Liabilities							
Borrowings from other Banks/FIs/Agents	711.1	875.2	1,004.7	1,180.3	1,477.9	17.5	25.2
Deposits & Other Accounts:							
Current Deposit	2,048.1	2,257.9	2,455.4	3,044.9	3,317.1	24.0	8.9
Savings Deposit	2,015.1	2,255.4	2,478.2	2,947.5	3,463.7	18.9	17.5
Fixed/Term Deposit	5,174.2	5,664.5	6,376.4	6,804.1	7,360.8	6.7	8.2
Inter-bank Deposit	285.1	387.8	308.4	319.9	366.7	3.7	14.6
Other Deposits	596.9	620.9	834.1	1,001.0	1,039.9	20.0	3.9
Total Deposit	**10,119.0**	**11,186.5**	**12,452.6**	**14,117.3**	**15,548.2**	**13.4**	**10.1**
Bills Payable	138.0	145.9	174.3	177.7	193.6	2.0	8.9
Other Liabilities	1,180.6	1,434.3	1,637.0	1,837.0	2,059.4	12.2	12.1
Total Liabilities	**12,148.9**	**13,641.9**	**15,268.6**	**17,312.3**	**19,279.1**	**13.4**	**11.4**
Capital/Shareholder's Equity	910.3	931.0	1,022.9	1,093.7	1,150.2	6.9	5.2
Total Liabilities & Shareholder's Equity	**13,059.3**	**14,572.9**	**16,291.5**	**18,406.0**	**20,429.3**	**13.0**	**11.0**
Off-balance Sheet Items	4,535.5	4,940.6	4,807.9	5,111.9	6,213.4	6.3	21.5

Source: Department of Off-site Supervision, BB.

APPENDIX VIII: BANKING SECTOR AGGREGATE SHARE OF ASSETS						
(Amount in Billion BDT)						
Particulars	**2019**	**% of Total Assets**	**2020**	**% of Total Assets**	**2021**	**% of Total Assets**
Property & Assets						
Cash in Hand (including FC)	161.6	1.0	164.7	0.9	189.5	0.9
Balance with BB & SB (including FC)	916.1	5.6	1,159.9	6.3	1,042.3	5.1
Balance with other Banks & FIs	765.5	4.7	746.2	4.1	729.0	3.6
Money at Call & Short Notice	60.3	0.4	83.9	0.5	133.9	0.7
Investments						
Government	1,410.3	8.7	2,110.7	11.5	2,316.4	11.3
Others	1,097.7	6.7	1,198.9	6.5	1,529.8	7.5
Total Investment	**2,508.0**	**15.4**	**3,309.6**	**18.0**	**3,846.1**	**18.8**
Loans & Advances						
Loans, CC, OD etc.	10,310.1	63.3	11,239.9	61.1	12,522.4	61.3
Bills purchased & Discounted	523.9	3.2	510.7	2.8	721.7	3.5
Total Loans & Advances	**10,836.8**	**66.5**	**11,750.0**	**63.8**	**13,244.1**	**64.8**
Fixed Assets	237.8	1.5	266.9	1.5	280.6	1.4
Other Assets	800.1	4.9	920.4	5.0	959.9	4.7
Non-banking Assets	4.7	0.0	4.5	0.0	3.9	0.0
Total Assets	**16,291.5**	**100.0**	**18,406.0**	**100.0**	**20,429.3**	**100.0**

Source: Department of Off-site Supervision, Bangladesh Bank.

APPENDIX IX: BANKING SECTOR AGGREGATE SHARE OF LIABILITIES						
(Amount in Billion BDT)						
Particulars	**2019**	**% of Total Liabilities**	**2020**	**% of Total Liabilities**	2021	**% of Total Liabilities**
Liabilities						
Borrowings from other Banks/FIs/Agents	1004.7	6.6	1,180.3	6.8	1,477.9	7.7%
Deposits & Other Accounts:						
Current Deposit	2,455.4	16.1	3,044.8	17.6	3,317.1	17.2
Savings Deposit	2,478.2	16.2	2,947.5	17.0	3,463.7	18.0
Fixed/Term Deposit	6,376.4	41.8	6,804.1	39.3	7,360.8	38.2
Inter-bank Deposit	308.4	2.0	319.9	1.8	366.7	1.9
Other Deposits	834.1	5.5	1,001.0	5.8	1039.9	5.4
Total Deposit	**12,452.6**	**81.6**	**14,117.3**	**81.5**	**15,548.2**	**80.6**
Bills Payable	174.3	1.1	177.7	1.0	193.6	1.0
Other Liabilities	1,637.0	10.7	1,837.0	10.6	2,059.4	10.7
Total Liabilities	**15,268.6**	**100.0**	**17,312.3**	**100.0**	**19279.1**	**100.0**

Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix X: Banking Sector Aggregate Income Statement

Particulars	(Amount in Billion BDT)				*Change (%)*	
	2018	**2019**	**2020**	**2021**	**2019 to 2020**	**2020 to 2021**
Interest Income	871.1	1001.7	907.8	870.6	(9.4)	(4.1)
Less: Interest Expense	593.7	698.1	692.4	638.2	(0.8)	(7.8)
Net Interest Income	277.4	303.6	215.4	232.4	(29.1)	7.9
Non-Interest/Investment Income	279.0	299.5	373.0	402.5	24.5	7.9
Total Income	556.4	603.1	588.4	634.9	(2.4)	7.9
Operating Expenses	294.5	324.7	332.3	352.9	2.4	6.2
Profit before Provision	261.9	278.4	256.1	282.1	(8.0)	10.1
Total Provision	146.2	114.8	126.0	152.9	9.8	21.4
Profit before Taxes	115.7	163.7	130.1	129.2	(20.5)	(0.7)
Provision for Taxation	79.8	93.9	83.4	78.9	(11.2)	(5.4)
Profit after Taxation/Net Profit	35.9	69.8	46.6	50.2	(33.2)	7.8

Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix XI: Interbank Repo Volume, Interbank Repo Rate and Call Money Rate

Month	Interbank Repo Volume (in Billion BDT)	Interbank Repo Rate (%)	Call Money Volume (in Billion BDT)	Call Money Rate (%)
January 2021	549.29	0.75	877.80	1.78
February 2021	587.08	0.76	970.67	1.67
March 2021	589.83	0.76	910.73	1.82
April 2021	424.32	0.75	789.83	1.68
May 2021	478.82	0.79	641.77	2.08
June 2021	566.55	0.76	679.43	2.25
July 2021	440.11	0.77	468.18	2.22
August 2021	638.59	0.96	936.65	1.79
September 2021	722.21	1.47	1,642.29	1.9
October 2021	592.20	1.80	1,731.56	2.25
November 2021	559.54	2.81	1,549.37	3.15
December 2021	459.70	2.26	1,303.99	2.66

Source: DMD, BB.

Appendix XII: Yields on Treasury Securities			
Securities	December 2020	June 2021	December 2021
91 Day T-Bill	0.53%	0.52%	2.36%
182 Day T-Bill	1.12%	0.68%	3.19%
364 Day T-Bill	1.91%	1.21%	3.44%
2 Years T-Bond	3.28%	2.44%	4.68%
5 Years T-Bond	4.48%	3.84%	6.41%
10 Years T-Bond	5.68%	5.38%	7.38%
15 Years T-Bond	6.58%	5.65%	7.77%
20 Years T-Bond	7.01%	6.06%	7.87%

Source: Major Economic Indicators, January 2022 Issue, Bangladesh Bank.

Appendix XIII: Equity Market Development			
Quarter-end	DSEX Index	Market Capitalization (in Billion BDT)	Market P/E ratio
Mar-21	5728.16	4,589.02	16.89
Jun-21	6150.48	5,142.82	18.50
Sep-21	7329.04	5,815.43	20.12
Dec-21	6756.66	5,421.96	16.29

Source: Dhaka Stock Exchange Website.

Appendix XIV: Banking Sector Deposits Breakdown excluding Interbank Deposit in 2021		
		(Amount in Billion BDT)
Current Deposits	3,317.1	21.8%
Saving Deposits	3,463.7	22.8%
Term Deposits	7,360.8	48.5%
Other Deposits	1,039.9	6.9%
Total Deposits	**15,181.5**	**100.0%**

Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix XV: Banking Sector Selected Ratios

(In percentage)

Ratio	2017	2018	2019	2020	2021
ROA	0.7	0.3	0.5	0.3	0.3
ROE	10.4	4.4	7.4	4.3	4.4
Net Interest Margin	2.0	2.2	2.1	1.1	1.3
Interest Income to Total Assets	5.4	5.9	6.1	4.9	4.3
Net- Interest Income to Total Assets	1.7	1.9	1.9	1.2	1.1
Non-Interest Income to Total Assets	2.2	1.9	1.8	2.0	2.0
Non-interest Expense to Gross Operating Income	52.4	52.0	52.8	55.1	55.6
CRAR	10.8	10.5	11.6	14.4	11.1
Tier-1 Capital to RWA ratio	7.6	6.8	7.7	9.7	7.4
Gross NPL to Total Loans Outstanding	9.3	10.3	9.3	8.1	7.9
Gross NPL to Capital	81.6	101.4	92.1	80.7	74.6
Maintained Provision to Gross NPL	50.5	53.7	57.9	72.2	64.5

Source: Department of Off-site Supervision and Banking regulation and Policy Department, Bangladesh Bank.

Appendix XVI: Banking Sector ROA & ROE

ROA (%)	Number of Banks		ROE (%)	Number of Banks	
	2020	2021		2020	2021
Up to 2.0	55	58	Up to 5.0	19	19
> 2.0 to 3.0	3	2	> 5.0 to 10.0	19	17
>3.0to 4.0	1	0	>10.0 to 15.0	12	14
>4.0	0	0	>15.0	9	10

Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix XVII: Banking Sector Capital to Risk-Weighted Assets ratio (CRAR) - Solo Basis (2021)

Range	Number of Banks
<10%	10
>=10% to <15%	22
>=15% to <20%	15
>=20%	13
Total	**60**

Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix XVIII: Banking Sector Year-wise ADR at end-December	
	(In percentage)
Year	**Advance-Deposit Ratio (ADR)**
2016	**71.9**
2017	**75.9**
2018	**77.6**
2019	**77.3**
2020	**72.7**
2021	**73.2**

Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix XIX: Banking Sector ADR (2021)	
Range	**Number of Banks**
Up to 70%	17
> 70% to 85%	30
> 85% to 90%	6
>90% to 100%	6
>100%	0
Total	**59**

Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix XX: Year-wise Banking Sector LCR and NSFR at end-December		
		(In percentage)
Year	**LCR**	**NSFR**
2016	197.6	109.3
2017	174.9	107.5
2018	173.3	109.4
2019	200.5	111.2
2020	224.8	110.1
2021	193.6	110.1

Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix XXI: Banking Sector Leverage ratio - Solo BASIS (2021)	
Range	Number of Banks
< 3%	9
> = 3% to <10%	37
>= 10% to <20%	8
>= 20%	6
Total	60

Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix XXII: Overseas Branches' Aggregate Share of Assets & Liabilities

Amount in million USD

Assets	2020	% of Total Assets	2021	% of Total Assets	Liabilities	2020	% of Total Liabilities	2021	% of Total Liabilities
Cash & Balance from Central Banks	96.76	28.60%	188.22	50.97%	Customer Deposits	223.31	78.71%	275.50	87.45%
Balance with other Banks & FIs	134.76	39.83%	67.33	18.23%	Dues to head office & branches abroad & other liabilities	60.40	21.29%	39.52	12.55%
Loans & Advances	82.56	24.40%	94.32	25.54%	Total Liabilities	283.71	100.00%	315.03	100.00%
Property & Equipment and other assets	24.26	7.17%	19.43	5.26%	Capital/ Equity	54.63	-	54.27	-
Total Assets	**338.34**		**369.29**		**Total Liabilities & Equities**	**338.34**		**369.29**	

Source: Scheduled banks of Bangladesh.

Appendix XXIII: FIs' Aggregate Balance Sheet

(Amount in Billion BDT)

Items	CY17	CY18	CY19	CY20	CY21
Property & Assets:					
Cash in hand	0.02	0.02	0.03	0.01	0.01
Balance with other banks & FIs	133.6	115.1[R]	110.4[R]	131.4	160.1
Money at call and short notice	0.4	0.8	0.7	1.07	1.4
Investment in Government securities	0.5	0.5	1.0	7.4	1.1
Other investments	21.7	17.7[R]	18.9[R]	21.6	19.8
Total loans and leases	614.6	660.5[R]	674.8[R]	670.2	649.3
Fixed assets	11.5	12.1[R]	14.2[R]	14.1	14.5
Other assets	59.2	41.5[R]	46.5[R]	53.7	48.9
Non-financial assets	2.5	3.3[R]	1.2[R]	2.2	1.4
Total assets	**843.9**	**851.6[R]**	**867.7[R]**	**901.7**	**896.5**
Liabilities & Equity:					
Borrowing from other banks & FIs	185.8	182.7[R]	198.3[R]	210.0	229.6
Deposits	467.1	466.3[R]	449.7[R]	453.4	444.2
Other liabilities	76.2	90.7[R]	131.5[R]	147.4	150.1
Total liabilities	**729.1**	**739.7[R]**	**779.5[R]**	**810.8**	**823.9**
Shareholders' Equity (Capital)	114.8	111.9[R]	88.2[R]	90.9	72.6
Total liabilities & shareholders' equity	**843.9**	**851.6[R]**	**867.7[R]**	**901.7**	**896.5**

Source: Department of Financial Institutions and Markets, Bangladesh Bank.
R = Revised.

APPENDIX XXIV: FIs' AGGREGATE INCOME STATEMENT

(Amount in Billion BDT)

Items	CY17	CY18	CY19	CY20	CY21
Interest Income	68.5	79.4	76.1[R]	69.4	59.4
Less: Interest expense	(45.8)	(55.7)	(59.5)[R]	(53.5)	(42.7)
Net interest income (Net II)	**22.8**	**23.7**	**16.6[R]**	**15.9**	**16.7**
Investment income	2.7	1.2	1.1[R]	2.8	3.7
Add: Commission, exchange and brokerage	0.5	0.7	0.8[R]	0.4	0.6
Add: Other operating income	3.3	4.2	3.0[R]	2.7	2.9
Non-interest income (Non-II)	**6.5**	**6.1**	**4.9[R]**	**5.9**	**7.2**
Total operating income (Net II + Non-II)	**29.3**	**29.8**	**21.5[R]**	**21.8**	**23.9**
Operating expenses	(9.7)	(10.1)	(11.1)[R]	(10.6)	(10.5)
Profit before provisions	**19.7**	**19.7**	**10.4[R]**	**11.2**	**13.4**
Total provisions	(4.6)	(5.1)	(26.9)[R]	(2.4)	(9.3)
Profit before taxes	**15.1**	**14.6**	**(16.5)[R]**	**8.8**	**4.1**
Tax provisions	(5.6)	(6.3)	(5.7)[R]	(5.2)[R]	(6.1)
Net profit after taxes	**9.5**	**8.3**	**(22.2)[R]**	**3.6[R]**	**(2.0)**

Source: Department of Financial Institutions and Markets, Bangladesh Bank.
R = Revised.

APPENDIX XXV: FIs' LIQUIDITY POSITION AT END-DECEMBER

(Amount in Billion BDT)

Items	CY 17	CY 18	CY 19	CY 20	CY 21
Total liabilities	394.5	451.1	483.9	500.1	527.9
Total term deposits	260.5	296.9	309.8	324.2	347.2
Industry CRR(required)	6.5	7.4	7.7	4.9	5.2
Industry CRR(maintained)	7.1	7.1	7.5	5.7	6.0
Industry SLR(required)	18.0	20.5	21.7	22.6	23.8
Industry SLR(maintained)	81.5	94.9	90.9	108.0	116.4

Source: Department of Financial Institutions and Markets, Bangladesh Bank.

Appendix XXVI: FIs' Other Information					
					(Amount in Billion BDT)
Items	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**
Tier-I Capital	87.3	92.6	113.3	89.4	78.7
Tier-II Capital	11.0	13.2	13.3	13.4	13.4
Total Capital	**98.3**	**105.8**	**126.6**	**102.8**	**92.1**
Classified loans & leases	45.2	54.6	64.0	100.5	130.2
Loan loss provisions (required)	24.6	33.3	32.8	51.8	73.9
Loan loss provisions (maintained)	19.7	27.5	23.4	44.4	62.9
Loan loss provisions surplus/(shortfall)	**(4.9)**	**(5.8)**	**(9.4)**	**(7.4)**	**(11.0)**
Number of Government-owned FIs	3	3	3	3	3
Number of local FIs	19	19	18	18	19
Number of FIs under foreign joint venture	12	12	12	12	13
Total number of FIs	**34**	**34**	**33**	**33**	**35**
Number of branches	254	269	276	277	303

Source: Department of Financial Institutions and Markets, Bangladesh Bank.

Appendix XXVII: FIs' Summary Performance Indicators					
					(In percentage)
Indicators	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**
Profitability & Efficiency					
Return on Assets (ROA)	1.1	1.0[R]	1.5	0.4	(0.2)
Return on Equity (ROE)	8.3	7.4	10.8	3.9	(2.8)
Net Interest Margin (NIM)	2.9	3.2	2.5[R]	2.4	2.6
Asset Quality:					
Classified Loans and Leases to Total Loans and Leases	7.3	7.9	9.5	15.0	19.3
Capital Adequacy:					
Capital Adequacy Ratio (CAR)	13.5	13.9	17.5	14.2	12.9
Liquidity:					
SLR maintained	20.7	21.1	18.8	21.6	22.1
CRR maintained	2.7	2.4	2.5	1.6	1.7

Source: Department of Financial Institutions and Markets, Bangladesh Bank.

R = Revised.

Appendix XXVIII: FIs' Sector-wise Distribution of Loans and Leases

(Shares in percentage)

Sectors	CY17	CY18	CY19	CY20	CY21
Trade and Commerce	13.5	15.3	13.9	13.6	13.8
Housing	15.0	19.2	19.3	18.9	17.8
Power, Gas, Water, and Sanitary Service	7.9	8.8	9.7	10.5	9.8
Textile	4.0	4.9	4.5	4.6	5.0
Iron, Steel and Engineering	5.2	5.1	5.0	4.8	5.1
Transport and Aviation	8.9	4.0	4.3	3.9	3.9
Food Production and Processing Industry	3.6	4.3	4.0	4.2	4.4
Garments and Knitwear	4.8	4.7	5.2	6.0	6.0
Margin Loan	1.7	2.0	2.3	1.2	1.2
Merchant Banking	3.3	3.7	3.4	3.2	3.0
Agriculture	2.6	3.1	2.3	2.8	2.5
Others (including other sectors with minor share)	29.5	24.9	26.1	26.3	27.5

Source: Department of Financial Institutions and Markets, Bangladesh Bank.

Appendix XXIX: Automated Cheque Clearing Operations

Category	CY19		CY20		CY21	
	Number (in thousands)	Amount in billion BDT	Number (in thousands)	Amount in billion BDT	Number (in thousands)	Amount in billion BDT
High Value (HV)	2401.00	14480.50	2055.00	13886.00	2311.00	15623.16
Regular Value (RV)	20362.00	8519.90	16668.00	7827.3	18501.00	9031.14

Source: Payment Systems Department (PSD), BB.

Appendix XXX: Volume of Electronic Banking Transactions

Year	2017	2018	2019	2020	2021
ATM	1,194.71	1,385.30	1,629.95	1,680.32	2,287.52
Debit Card	1,230.80	1,420.76	1,671.23	1,770.35	2,348.79
Credit Card	192.09	164.59	189.29	142.46	191.07
Internet Banking	364.82	324.67	658.84	798.04	1,373.84

Source: Payment Systems Department (PSD), BB.

Appendix XXXI: Banking Sector Assets, Deposits & NPL Concentration (2021)

(Amount in Billion BDT)

Assets*	Top 5 Banks	Other Banks	Top 10 Banks	Other Banks
Amount (in billion BDT)	5,780.7	12,625.3	8,346.6	10,059.4
Share (%)	31.4%	68.6%	45.3%	54.7%
Deposit**	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount (in billion BDT)	4,583.4	9,214.0	6,543.0	7,254.4
Share (%)	33.2%	66.8%	47.4%	52.6%
NPL***	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount (in billion BDT)	449.3	483.4	645.2	387.6
Share (%)	43.5%	56.5%	62.5%	37.5%

Source: Department of Off-site Supervision & Banking Regulation and Policy Department, Bangladesh Bank.

* Based on assets in descending order; **Based on deposits in descending order excluding interbank deposits; ***Based on nonperforming loans in descending order.

Appendix XXXII: Banking Sector Loan Loss Provisions

(Amount in Billion BDT)

Year	Required Provision	Provision Maintained	Surplus/(Shortfall)
2013	252.4	249.8	-2.6
2014	289.6	281.7	-8.0
2015	308.9	266.1	-42.8
2016	362.08	307.4	-54.7
2017	442.953	375.3	-67.7
2018	570.44	504.29	-66.1
2019	623.35	555.04	-68.3
2020	648.02	646.78	-1.24
2021	806.54	666.47	-140.07

Source: Banking Regulation and Policy Department, Bangladesh Bank.

Appendix XXXIII: Banking Sector Year-wise Gross NPL Ratio & Its Composition

(In percentage)

Year	Gross NPL to Total Loans Outstanding	Sub-Standard Loans to Gross NPL	Doubtful Loans to Gross NPL	Bad Loans to Gross NPL
2011	6.2	14.8	11.5	73.8
2012	10.0	19.1	14.2	66.7
2013	8.9	11.2	10.1	78.7
2014	9.7	11.0	11.2	77.8
2015	8.8	8.9	6.5	84.6
2016	9.2	10.2	5.4	84.4
2017	9.3	7.5	5.5	87.0
2018	10.30	9.35	4.7	85.9
2019	9.32	9.10	4.10	86.80
2020	7.66	7.67	5.33	87.00
2021	7.93	7.77	4.06	88.17

Source: Banking Regulation and Policy Department, Bangladesh Bank.

Appendix XXXIV: Banking sector NPL Composition (2021)				
				(Amount in Billion BDT)
Particulars	**Amount**		**% of Gross NPL**	
	CY20	**CY21**	**CY20**	**CY21**
Sub-Standard	68.0	80.2	7.7	7.8
Doubtful	47.3	41.9	5.3	4.1
Bad & Loss	772.0	910.6	87.0	88.1
Total	887.3	1032.7	100.0	100.0

Source: Banking Regulation and Policy Department, Bangladesh Bank.

	Appendix XXXV: Microcredit Finance Sector					
	Particulars	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
1	Total Number of Licensed institutions	700	706	724	759	746
2	Number of Branches	17,120	18,196	18,977	20,898	20,955
3	Number of Employees	139,526	153,919	162,175	171,110	175,741
4	Number of Members(in Millions)	29.9	31.22	32.37	33.31	35.12
5	Number of Borrowers(in Millions)	25.98	25.39	25.76	26.15	27.8
6	Outstanding loan disbursed by licensed institutions (in Billions)					
	Top 10 MFIs	417.26	477.38	562.51	639.7	657.89
	Top 20 MFIs	461.08	528.33	622.35	707.03	737.42
7	Outstanding Saving Balance of the licensed institutions (in Billions)					
	Top 10 MFIs	157.05	188.36	215.56	269.1	304.21
	Top 20 MFIs	172.61	207.43	239.03	297.88	334.82
8	Return on Asset (ROA)	3.14%	4.38%	6.41%	5.03%	5.01%
9	Return on Equity(ROE)	19.00%	19.45%	17.06%	11.78%	19.00%
10	Amount of Outstanding Loan (BDT in Billion)					
	Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
	Upto 4,000 Taka	5.74	7.32	7.83	3.19	2.53
	Upto 4,000 Taka to 10,000 Taka	27.95	25.94	25.90	20.03	17.25
	Upto 10001 Taka to 30,000 Taka	170.00	169.15	169.57	165.27	175.80
	Upto 3,0001 Taka to 50,000 Taka	133.68	153.70	173.17	201.92	199.82
	50001 Taka to 1,00,000 Taka	117.64	150.84	170.67	201.73	234.94
	1,00,001 Taka to 3,00,000 Taka	94.79	114.63	160.94	190.75	187.87
	3,00,001 Taka and Above	31.81	49.57	79.50	106.05	131.50
11	Total Amount of Outstanding Loan (BDT in Billion)	583.62	673.90	787.58	888.64	949.84
12	Total Amount of Loan Disbursed (BDT in Billion)	1,045.78	1,201.91	1,403.20	1,362.75	1,512.09
13	Total Amount of Loan Recover (BDT in Billion)	876.85	1,112.21	1,250.90	1,329.88	1,397.12
14	Defaulted Loan (BDT in Millions)	13,556.27	18,281.12	23,612.79	29,512.29	45,285.47
15	Particulars of Loan Recipients' of MFIs					

	Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
	Upto 4,000 Taka	1.07	1.04	0.93	0.75	0.88
	Upto 4,000 Taka to 10,000 Taka	3.75	3.3	2.58	2.6	1.97
	Upto 10001 Taka to 30,000 Taka	11.9	11.53	11.35	10.04	10.01
	Upto 3,0001 Taka to 50,000 Taka	4.71	5.51	5.97	6.05	7.86
	50001 Taka to 1,00,000 Taka	2.4	3.11	3.46	4.27	4.91
	1,00,001 Taka to 3,00,000 Taka	0.84	1.03	1.22	1.15	1.76
	3,00,001 Taka and Above	0.12	0.17	0.24	0.32	0.41
16	Total Number of loan recipients (BDT in Millions)	24.8	25.39	25.76	26.15	27.8
17	Average Loan per Recipient	23,486.00	26,130.00	30,562.52	33,982.41	34,162.41

Source: Microcredit Regulatory Authority.

Appendix XXXVI: Banking Sector Month-wise Deposit & Advance Rate (2021)

Month	Deposit Rate	Advance Rate	Overall Spread
January	4.51	7.56	3.05
February	4.46	7.48	3.02
March	4.40	7.45	3.05
April	4.36	7.40	3.04
May	4.14	7.40	3.26
June	4.13	7.33	3.20
July	4.11	7.30	3.19
August	4.05	7.24	3.19
September	4.08	7.24	3.16
October	4.01	7.15	3.14
November	3.99	7.15	3.16
December	3.99	7.18	3.19

Source: Bangladesh Bank Website.

Appendix XXXVII: Islamic Banks' Aggregate Balance Sheet

Particulars	*(Amount in billion BDT)*				Change (%) 2019 to 2020	Change (%) 2020 to 2021
	2018	**2019**	**2020**	**2021**		
Property & Assets						
Cash in Hand (including FC)	27.0	29.6	32.4	41.7	9.5	28.8
Balance with BB and SB (including FC)	162.2	199.4	339.7	385.2	70.4	13.4
Balance with other Banks and FIs	124.9	160.3	145.6	162.8	(9.2)	11.8
Money at Call and Short Notice	0	0	14.3	18.3	∞	28.2
Investments						-
Government	49.6	76.0	91.0	134.7	19.7	48.0
Others	69.8	92.9	119.4	171.6	28.6	43.7
Total Investments	**119.4**	**168.9**	**210.4**	**306.4**	**24.6**	**45.6**
Investments & Advances						-

Investments & Advances	2117.8	2397.2	2696.2	3282.2	12.5	21.7
Bills Purchased and Discounted	115.1	109.5	122.5	132.4	11.9	8.1
Total Investments and Advances	2232.9	2506.7	2818.8	3414.7	12.4	21.1
Fixed Assets	37.3	43.6	44.6	55.7	2.3	25.0
Other Assets	79.5	79.1	100.9	122.4	27.5	21.3
Non-banking Assets	1.1	1.1	0.9	0.9	(16.8)	-
Total Assets	**2784.4**	**3188.8**	**3,707.6**	**4,508.0**	**16.3**	**21.6**
Liabilities						-
Borrowings from other Banks/FIs/Agents	182.0	172.2	201.4	285.4	17.0	41.7
Deposits & Other Accounts						-
Current Deposit	118.3	250.1	312.3	411.0	24.9	31.6
Savings Deposit	437.1	478.1	583.8	766.9	22.1	31.4
Fixed/Term Deposit	1375.4	1503.8	1,720.5	2,015.6	14.4	17.1
Interbank Deposit	116.3	105.8	109.2	114.3	3.2	4.7
Other Deposit	204.8	271.3	321.3	352.5	18.4	9.7
Total Deposits	**2251.9**	**2609.1**	**3,047.1**	**3,660.4**	**16.8**	**20.1**
Bills Payable	18.0	26.2	23.3	31.3	(11.0)	34.3
Other Liabilities	187.7	222.0	267.7	326.2	20.6	21.8
Total Liabilities	**2639.6**	**3029.4**	**3,539.6**	**4,303.3**	**16.8**	**21.6**
Capital/Shareholder's Equity	**144.8**	**159.4**	**167.9**	**204.7**	**5.4**	**21.9**
Total Liabilities & Shareholder's Equity	**2784.4**	**3188.8**	**3,707.6**	**4,508.0**	**16.3**	**21.6**
Off-balance Sheet Items	**523.9**	**580.7**	**623.9**	**774.9**	**7.4**	**24.2**

Source: Department of Off-site Supervision, Bangladesh Bank.

APPENDIX XXXVIII: ISLAMIC BANKS' AGGREGATE INCOME STATEMENT

Particulars	***(Amount in billion BDT)***				Change (%) 2019 to 2020	Change (%) 2020 to 2021
	2018	**2019**	**2020**	**2021**		
Profit Income	209.5	241.4	238.6	248.6	(1.1)	4.2
Less: Profit Expenses	135.4	158.7	160.7	160.0	1.3	(0.4)
Net Profit Income	**74.1**	**82.7**	**77.9**	88.6	**(5.8)**	13.7
Non-Profit/Investment Income	25.7	30.2	28.8	35.6	(4.7)	23.6
Total Income	**99.9**	**112.8**	**106.7**	124.1	**(5.4)**	16.3
Operating Expenses	49.4	57.3	60.2	69.4	5.1	15.3
Profit before Provision	**50.5**	**55.5**	**46.5**	54.7	**(16.3)**	17.7
Total Provision	15.6	16.7	11.3	13.7	(32.5)	21.7
Profit before Taxes	**34.9**	**38.8**	**35.2**	41.0	**(9.2)**	16.4
Provision for Taxation	19.4	20.7	18.2	20.7	(12.3)	14.1
Profit after Taxation (i.e., Net Profit)	**15.5**	**18.2**	**17.1**	20.3	**(6.2)**	18.9

Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix XXXIX: Share of Islamic Banks in the Banking Sector (2021)			
			(Amount in billion BDT)
Particulars	**All Banks**	**Islamic Banks**	**Share of Islamic Banks (%)**
Property & Assets			
Cash in hand	189.5	41.7	22.0
Due from BB and other banks/FIs	1,771.2	548.0	30.9
Money at Call and Short Notice	133.9	18.3	13.7
Investments in securities	3,846.1	306.4	8.0
Investments (Loans and advances)	13,244.1	3,414.7	25.8
Fixed Assets	280.6	55.7	19.9
Other Assets	959.9	122.4	12.7
Non-Banking Assets	3.9	0.9	23.7
Total Assets	20,429.3	4,508.0	22.1
Liabilities			
Due to financial institutions	1,477.9	285.4	19.3
Total deposits	15,548.2	3,660.4	23.5
Bills Payable	193.6	31.3	16.2
Other liabilities	2,059.4	326.2	15.8
Total Liabilities	19,279.1	4,303.3	22.3
Capital/Shareholder's Equity	1,150.2	204.7	17.8
Total Liabilities & Shareholder's Equity	20,429.3	4,508.0	22.1
Off-balance Sheet Items	6,213.4	774.9	12.5

Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix XL: Selected Ratios of Islamic Banks and the Banking Sector (2021)		
		(In percentage)
Ratio	**Overall Banking Sector**	**Islamic Banking Sector**
ROA	0.2	0.5
ROE	4.4	9.9
Net Profit Margin	1.3	2.3
Profit (Interest) Income to Total Assets	4.3	5.5
Net-profit (Interest) Income to Total Assets	1.1	2.0
Non-Profit (Interest) Income to Total Assets	2.0	0.8
Investment (Advance)-Deposit Ratio	73.2	84.7
CRAR	11.1	12.8
Classified Investment (Advances) to Investments	7.9	4.0
Classified Investment (Advances) to Capital	89.8	67.0

*Data on ICB Islamic Bank Ltd. is excluded for Islamic Banking Sector.
Source: Department of Off-site Supervision, and Banking Regulation and Policy Department, Bangladesh Bank.

Appendix XLI: Islamic Banks' CRAR (2021)

CRAR	Number of Islamic Banks
Below 10%	1
10% to 12.5%	3
>12.5%	6
Total	10

Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix XLII: Islamic Banks' Leverage Ratio (2021)

Leverage ratio	Number of Islamic Banks
Below 3%	1
3% to 5%	3
>5%	6

Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix XLIII: Islamic Bank's Investment (Advance)-Deposit Ratio (as of end-December 2021)

(Amount in billion BDT)

Items	**Islamic Banks**	**Islamic Branches/Windows**	**Islamic Banking Sector**
Deposits (Excluding Interbank)	3,640.7	215.3	3,856.0
Investments* (Excluding Interbank)	3,326.4	154.7	3,481.1
IDR	84.7	63.1	83.5

*Credits are termed as investments in Islamic Banking.

Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix XLIV: Methodology of Performance map of Islamic Banks

The performance map presents an overall assessment of changes in underlying conditions and risk factors measured through five composite indices namely growth, asset quality, profitability, liquidity and efficiency during a period. The ratios used for constructing each composite index are showing in Table 1.

Table 1: Ratios used for constructing the Performance map of Islamic Banks

Dimension	Ratio			
Growth	Growth in investments, Deposits, Equity and Total Assets		Change in Market share in terms of investments, Deposits, Equity and Total Assets	
Capital Adequacy	CRAR	CCB Ratio	Leverage Ratio	CET-1 Ratio
Asset Quality	GNPL Ratio	NNPL Ratio	RSDL Ratio	
Efficiency	ROA ratio	NII Ratio	NNII Ratio	
Liquidity	LCR	NSFR	IDR	

Each composite index takes values between zero and 1where a higher value means the risk in that dimension is high. Therefore, an increase in the value of the index in any particular dimension indicates an increase in risk in that dimension for that period as compared to other periods. Each index is normalized by using the following formula:

$$\frac{X_t - \min(X_t)}{\max(X_t) - \min(X_t)}$$

Where, $X_t$is the value of the ratio at time t. A composite index of each dimension is calculated as a weighted average of normalized ratios used for that dimension where the weights are based on subjective judgment.

Appendix XLV: Foreign Exchange (FX) Assets At End-December

In Billion USD

Period	Debit Balance in Nostro A/c	BB Clearing Account	Investment in OBU	Cash holding	FC Bills Purchased	Others	Total
2018	1.7	0.8	2.3	0.0	0.8	3.2	8.8
2019	1.7	0.9	2.2	0.0	1.1	8.8	14.7
2020	1.9	1.6	3.1	0.1	1.1	12.4	20.1
2021	1.9	0.7	3.5	0.0	1.9	16.4	24.4

*Aggregate assets of banking sector as on 31 December 2021 was USD 238.10 billion.

Source: Foreign Exchange Policy Department, Bangladesh Bank.

Appendix XLVI: Foreign Exchange (FX) Liabilities At End-December

In Billion USD

Period	Credit balance in Nostro A/c	NFCD	RFCD	ERQ	FC A/c	FDD, TT, MT payable	Back-to-Back L/Cs	Others	Total
2018	0.2	0.1	0.1	0.5	1.4	0.0	1.7	3.7	7.7
2019	0.1	0.0	0.1	0.5	1.5	0.0	1.7	9.9	13.9
2020	0.2	0.1	0.1	0.6	1.8	0.0	2.2	13.6	18.5
2021	0.1	0.1	0.1	0.7	2.0	0.0	2.5	17.3	22.8

*Aggregate Liabilities of banking sector as on 31 December 2021 was USD 224.70 billion.

Source: Foreign Exchange Policy Department, Bangladesh Bank.

Appendix XLVII: Foreign Exchange (FX) Contingent Liabilities At End-December

In Billion USD

Period	Letter of credit	Letter of guarantee	Acceptances	Others	Total
2018	39.8	5.0	16.1	0.6	61.5
2019	35.1	5.6	14.2	2.0	56.8
2020	31.1	4.6	14.9	0.3	51.0
2021	41.6	5.5	20.2	0.1	67.4

Source: Foreign Exchange Policy Department, Bangladesh Bank.

Appendix XLVIII: Interbank FX Turnover by Components

In Billion USD

Period	Spot			Swap			Forward			Total
	USD	Non-USD	Total	USD	Non-USD	Total	USD	Non-USD	Total	
Total CY 2020	2.9	0.1	3.0	30.6	0.0	30.6	0.5	0.2	0.7	34.3
Total CY 2021	5.6	0.3	5.9	36.6	0.0	36.6	0.6	0.0	0.6	43.1

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank.

Appendix XLIX: Annual FX Turnover

In Billion USD

Particulars	CY17	CY18	CY19	CY20	CY21	Growth (%)
Annual FX Spot Turnover	2.5	2.4	0.7	3.0	5.9	99.05%
Annual FX Turnover	18.1	21.8	15.7	34.5	43.7	26.62%

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank.

APPENDIX L: NET OPEN POSITION IN FX AT END-DECEMBER

In Billion USD

Period	Total of the Net Long Position	Total of the Net Short Position	Overall Net Exchange Position
2019	1.0	-0.1	0.9
2020	1.6	-0.1	1.5
2021	1.2	-0.1	1.0

Source: Foreign Exchange Policy Department, Bangladesh Bank.

APPENDIX LI: RESERVE ADEQUACY

In Billion USD

Particulars	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Import in December	4.2	4.6	4.7	4.6	7.5
Import Coverage (Reserve in Months of Prospective Imports)	6.3	5.2	5.5	5.5	6.0
M2 (In USD)	127.9	137.7	152.5	174.4	188.9
Reserves/M2	0.3	0.2	0.2	0.2	0.2
Reserve	33.4	32	32.7	43.2	46.2
FX Reserve	33.4	32.0	32.7	43.2	46.2
STD	10.8	9	9.7	11	18
STD/Reserve	0.3	0.3	0.3	0.3	0.4
FX= 3 Months Import Coverage	12.5	13.7	14.0	13.9	22.5
FX=20% of M2	25.6	27.5	30.5	34.9	37.8
FX=Short-Term External Debt	10.8	9.0	9.7	11.0	18.1
FX Reserves	33.4	32.0	32.7	43.2	46.2
Estimated FX Reserves (applying the benchmarks)	48.8	50.2	54.2	59.8	78.4
Excess	-15.4	-18.2	-21.5	-16.6	-32.2

Source: Statistics Department, Bangladesh Bank.

APPENDIX LII: WAGE EARNERS' REMITTANCE

In Billion USD

Particulars	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Total	13.5	15.5	18.3	21.7	22.1
Growth (in percent)	-	14.82%	17.96%	18.60%	1.52%

Source: Statistics Department, Bangladesh Bank.

Appendix LIII: Exchange Rate Movement

In Billion USD

Period	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	79.1	79.4	79.7	80.2	80.6	80.6	80.7	80.7	80.8	80.9	82.3	82.7
2018	82.9	83.0	83.0	83.0	83.7	83.7	83.8	83.8	83.8	83.9	83.9	83.9
2019	84.0	84.2	84.3	84.5	84.5	84.5	84.5	84.5	84.5	84.8	84.9	84.9
2020	84.9	85.0	85.0	85.0	85.0	84.9	84.8	84.8	84.8	84.8	84.8	84.8
2021	84.8	84.8	84.8	84.8	84.8	84.8	84.8	85.2	85.5	85.7	85.8	86.2

Source: Statistics Department, Bangladesh Bank.

Appendix LIV: REER Movement

In Billion USD

Period	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	109.1	107.6	107.1	105.8	102.8	102.4	102.3	102.0	102.8	104.3	103.0	100.8
2018	99.9	98.8	99.2	99.5	99.9	100.7	102.5	105.1	107.3	108.4	107.7	107.1
2019	107.9	107.3	106.9	106.7	105.9	105.7	106.8	109.6	111.7	111.0	110.6	109.9
2020	110.5	111.2	113.7	115.9	113.8	113.0	112.8	112.4	114.1	114.7	113.0	110.7
2021	111.3	110.9	112.4	113.1	109.0	110.6	112.0	113.5	115.1	115.8[e]	115.2[e]	115.8[e]

Source: Monetary Policy Department, Bangladesh Bank.

Appendix LV: Import Letter of Credit (L/C)

In Billion USD

Particulars	CY 2018	CY 2019	CY 2020	CY 2021
Opening	58.5	57.0	55.8	86.2
Settlement	54.2	54.5	46.8	71.6
Outstanding	4.3	2.5	9.0	14.6

Source: Foreign Exchange Operation Department, Bangladesh Bank.

Appendix LVI: Intervention In FX Market By BB (CY 2013-CY2021)

In Billion USD

CY	2013	2014	2015	2016	2017	2018	2019	2020	2021
USD Purchased	2.6	4.1	4.5	3.3	0.1	0.0	0.0	6.4	2.7
USD Sold	0.0	0.4	0.0	0.0	1.2	2.4	1.6	0.7	2.5

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank.

Appendix LVII: I Intervention In FX Market By BB (CY 2021)													
In Million USD													
Months	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total 2021**
USD Purchased	307	419	220	457	762	281	205	0	0	5	0	0	2656
USD Sold	30	0	0	0	0	5	0	305	641	518	568	451	2518

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank.

Appendix LVIII: Monthly Export (FOB)														
In Billion USD														
CY	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**	**Growth Rate**
2017	3.3	2.7	3.1	2.8	3.0	3.0	3.0	3.6	2.0	2.8	3.1	3.4	35.9	9.5%
2018	3.4	3.1	3.1	3.0	3.3	2.9	3.6	3.2	3.1	3.7	3.4	3.4	39.3	0.2%
2019	3.7	3.4	3.3	3.0	3.8	2.8	3.9	2.8	2.9	3.1	3.1	3.5	39.3	-14.6%
2020	3.6	3.3	2.7	0.5	1.5	2.7	3.9	3.0	3.0	2.9	3.1	3.3	33.6	31.6%
2021	3.4	3.2	3.1	3.1	3.1	3.6	3.5	3.4	4.2	4.7	4.0	4.9	44.2	9.5%

Source: Statistics Department, Bangladesh Bank and Export Promotion Bureau.

Appendix LIX : Monthly Import (FOB)														
In Billion USD														
CY	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**	**Growth Rate**
2017	3.87	3.39	3.88	3.75	3.92	3.15	2.95	3.60	2.01	2.81	3.01	3.32	39.6	-2.2%
2018	4.73	4.52	4.36	4.91	5.04	3.83	3.75	4.08	3.61	4.64	4.56	4.16	52.2	31.6%
2019	4.67	4.46	4.30	4.83	4.97	3.80	4.85	3.77	4.63	4.88	4.06	4.86	54.1	3.7%
2020	4.94	4.37	3.96	2.64	3.27	4.45	3.91	3.52	4.30	4.05	4.46	4.98	48.9	-9.7%
2021	6.69	5.15	5.70	5.79	5.68	6.45	4.76	6.09	6.47	6.58	7.27	7.80	74.4	52.3%

Source: Statistics Department, Bangladesh Bank

Appendix LX: Financial Stability MAP						
Components	Major Indicators	Standardized Scores (0 to 1 Scale)		Change w.r.t. 2020	Latest Value of the indicator[1]	Comment
		2020[2]	2021			
External Economy	Trading partners' real GDP growth (export weighted)	0.974	.022	↑	(5.32) percent	Reverse ratio[3]. Score = 1- standardized score
	Import Weighted average Inflation (In countries from which Bangladesh makes highest import)	0.358	0.305	↓	2.61 percent	
	Weighted average unemployment rate (Source countries with highest inward remittance for Bangladesh)	1.000	0.690	↓	4.92 percent	
	International Oil Price	0.235	0.690	↑	$108.36/barrel in M4/2022. Oil price increased in early 2021.	
	3-months LIBOR rate	0.199	0.015	↓	0.21 percent	
	Current account deficit to GDP	0.499	0.847	↑	-1.56 percent in Q4/2021	
	Reserve Adequacy (Import coverage in months)	0.750	0.740	↑	5.6months	Reverse ratio.
	Overall component Score	0.562	0.487	↓		
Domestic Economy	Output gap	-0.10	-0.30	↑	1.3 percent	
	External debt to GDP	0.189	0.218	↑	21.8 percent	
	Exchange rate fluctuations (REER)	0.094	0.131	↓	115.76	REER value

[1] The cut-off date for latest value of any indicator is 31[st] December, 2021. Updated values after that date have been used in explaining future outlook of the stability map but not in constructing the map. For some indicators, where end-December, 2021 data are not available at the time of index preparation, data from end-June 2021 have been used.

[2] Some indicators for 2020 have been re-estimated. In some cases, threshold values used for standardizing the indicators have also been modified from the previous publication (FSR-2020).

[3] Reverse ratio is used when higher value of an indicator is desirable for financial stability. The reverse ratio ensures that higher values of such indicators are placed closer to the origin of the stability map. Final standardized scores are stated in the appendix after converting the original scores using the reverse ratio.

Appendix LX : Financial Stability MAP (Contd.)						
Components	Major Indicators	Standardized Scores (0 to 1 Scale)		Change w.r.t. 2020	Latest Value of the Indicator	Comment
		2020	2021			
Domestic Economy	Inflation	0.262	0.245	↓	6.05 percent	Point to Point for end 2021
	Overall component Score	0.165	0.233	↑		
Households	Household borrowing to GDP	0.159	0.163	↓	5.72 percent using FY21 GDP with base-2015 16	
	Household Credit quality (H.H NPL to H.H Loans)	0.171	0. 108	↓	3.4 percent	
	Inward Remittance to GDP	0.370	0.426	↓	5.3 percent using FY21 GDP with base-2015 16	Reverse ratio.
	Overall component Score	0.235	0.234	↓		
Non-Financial Corporation	NFC credit to GDP	0.293	0.315	↑	28.4 percent using FY21 GDP with base 2015-16	
	NFC loans to Banking Sector Loans	0.738	0.699	↓	17.5 percent	
	D/E ratio of large NFCs	0.952	0.511	↓	115 percent	
	Credit portfolio quality	0.271	0.137	↓	3.42 percent	
	Overall component Score	0.563	0.416	↓		
Fiscal Condition	Public debt to GDP	0.241	0.243	↑	39.90 percent	
	Sovereign Risk Premium	0.481	0.162	↓	0.16 percent	

Appendix LX : Financial Stability MAP (Contd.)						
Components	**Major Indicators**	**Standardized Scores (0 to 1 Scale)**		**Change w.r.t. 2020**	**Latest Value of the Indicator**	**Comment**
		2020	**2021**			
Fiscal Condition	Govt. budget balance to GDP	0.503	0.303	↓	3.70 percent using FY21 GDP with base 2015-16	
	Tax revenue to GDP	0.740	0.793	↑	7.64 percent	Reverse ratio
	Overall component Score	0.504	0.407	↓		
Financial Market	Asset Concentration of top 3 D-SIBs to Industry Assets	0.280	0.284	↓	28.37 percent	
	Gross NPL of Banking Sector	0.231	0.271	↓	7.9 percent	
	RWA density ratio	0.635	0.618	↓	61.15 percent	
	Banking Sector resilience map	0.349	0.360	↑	0.72 out of 2	
	Deposit covered by DITF	0.761	0.770	↑	23 percent	Reverse ratio.
	NPL FIs	0.642	1.00	↑	19.33 percent	Weights for FI and capital market indicators are finalized using their proportional size in the financial
	Price Earnings Ratio	0.718	0.512	↓	16.29 times. Reverse ratio up to a certain level	

Components	Major Indicators	Standardized Scores (0 to 1 Scale)		Change w.r.t. 2020	Latest Value of the Indicator	Comment
		2020	2021			
Financial Market						system (Bank + FI + Capital Market)
	DSEX	0.532	0.275	↓	6756.66 points	Reverse ratio.
	Overall component Score	0.440	0.427	↓		
Capital & Profitability	CRAR	0.344	0.568	↑	11.08 percent	Reverse ratio
	TIER 1	0..680	0.664	↓	7.4 percent	Reverse ratio
	NIM	0.752	0.545	↓	2.49 percent	Reverse ratio
	ROA	0.853	0.854	↑	0.3 percent	Reverse ratio
	Overall component Score	0.657	0.658	↓		
Funding & Liquidity	ADR	0.556	0.568	↓	73.15 percent	
	LCR	0.128	0.154	↑	193.60 percent	Reverse ratio
	NSFR	0.208	0.202	↑	110.13 percent	Reverse ratio
	Overall component Score	0.300	0.311	↑		

Appendix LXI : List of indicators used to prepare CFSI		
Category	Indicator	
Real Sector Index (RSI)	GDP growth rate	RSI1
	Agricultural Production	RSI2
	Quantum Index of Production	RSI3
	Domestic Credit to GDP	RSI4
Fiscal ector Index (FSI)	Fiscal balance to GDP	BS5
	Government debt to GDP	BS6
	Tax Revenue to GDP	BS7
External Sector Index (ESI)	External debt to GDP ratio	ESI1
	Reserve to External Debt	ESI2
	Current Account Balance to GDP	ESI3
	Import- (export+remittance) +portfolio investment to Reserve	ESI4
	REER	ESI5
Monetary and Financial Sector Index (MFI)	Domestic Credit Growth	MFI1
	Performing Loan Ratio	MFI2
	CRAR	MFI3
	ROA	MFI4
	Capital Market return	MFI5
	Call money market	MFI6

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