Financial Stability Report

2022, Issue 13

Bangladesh Bank

- *This report is released in 2023 and is based on data and information available as of December 2022, unless stated otherwise.*
- *Feedback on this report may be given to gm.fsd@bb.org.bd.*
- *This report can be accessed through internet at https://www.bb.org.bd/en/index.php/publication/publictn/0/37*

Financial Stability Report
2022, Issue 13

Financial Stability Department
Bangladesh Bank
(The Central Bank of Bangladesh)

Data/Write up Support

Departments of Bangladesh Bank

Agricultural Credit Department
Bangladesh Financial Intelligence Unit
Banking Regulation and Policy Department
Credit Guarantee Department
Credit Information Bureau
Debt Management Department
Department of Financial Institutions and Markets
Department of Off-site Supervision
Deposit Insurance Department
Financial Inclusion Department
Financial Integrity and Customer Services Department
Financial Sector Support and Strategic Planning Department
Foreign Exchange Operation Department
Foreign Exchange Policy Department
Forex Reserve & Treasury Management Department
Integrated Supervision Management Department
Monetary Policy Department
Sustainable Finance Department
SME & Special Programmes Department
Statistics Department

Other Financial Sector Regulators

Bangladesh Securities and Exchange Commission
Insurance Development and Regulatory Authority
Microcredit Regulatory Authority

All Scheduled Banks of Bangladesh

Message from the Governor

The global economy is still suffering from post-pandemic slow economic recovery, heightened geopolitical tensions, and persistent high inflation. The advanced economies grew much slower than expected and are projected to grow even slower. To curb inflation, central banks around the world are being compelled to increase policy rates. The emerging market and developing economies (EMDEs) may face the possibility of capital flight if the advanced economies increase their policy rates further in the near future. A sudden reversal of cross-border capital flow could occur due to an increase in geopolitical tensions. Public debt as a ratio of GDP is expected to remain elevated. Policymakers appear to be in a great dilemma as real interest rates are rising across the world. With slow global economic growth, increasing borrowing costs, rising cost of living due to inflation and no immediate sign of ending of the ongoing Russia-Ukraine conflict, the road ahead may not be very smooth, particularly for the EMDEs.

Bangladesh economy demonstrated notable resilience amid prevailing uncertain geopolitical landscape and slow post-pandemic recovery. The economy grew by 7.1 percent during the financial year 2021-22 (FY22), supported by timely and prudent policy measures taken by the authorities. Robust growth in the industrial and service sectors as well as a modest contribution from the agricultural sector helped achieve this strong growth, well complimented by strong credit growth in the public and private sectors.

Despite remarkable progress, Bangladesh economy is still prone to a number of challenges. Like most other countries, inflation has emerged as a serious concern for macroeconomic stability. Moreover, the deficit in the balance of payments may result in the depletion of foreign exchange reserves further, leading to pressures on exchange rate. In this backdrop, Bangladesh Bank raised the policy rates as well as supplied a significant amount of foreign currency in the market. Also, Bangladesh Bank adopted the stance of discouraging luxury and non-essential imports, strengthened monitoring of import L/Cs, and eased relevant processes for faster repatriation of export proceeds and inward remittances. All these initiatives are expected to contribute to curbing inflationary pressures and alleviating concerns regarding exchange rate pressure in the coming days.

Bangladesh Bank remains vigilant in addressing abrupt liquidity stress and plays a decisive role in supplying adequate liquidity in the financial system through extending liquidity support using its various liquidity assistance windows. Indeed, Bangladesh Bank is committed to ensuring necessary flow of funds to the economy's productive and employment-generating sectors. Importantly, Bangladesh Bank is working diligently to address climate change issues by upgrading its Sustainable Finance Policy towards promoting a climate-friendly and green economy. For instance, Bangladesh Bank is currently operating several schemes under sustainable and green finance and it may continue to extend these initiatives further in the near future.

Bangladesh Bank has taken a number of measures for establishing a digital and cashless society as part of Government's vision of a "Smart Bangladesh". Bangladesh Bank has recently issued operational guidelines for setting up Digital Banks in the country. Moreover, Bangladesh Bank has provided necessary infrastructure as well as facilitated and eased transactions introducing various platforms namely Bangla QR, a QR code based payment method, and Binimoy, an interoperable digital transactions platform. By promoting digital banking and cashless transactions, Bangladesh Bank is committed to ensuring a more inclusive and sustainable payment environment. I earnestly urge all banks, non-bank financial institutions and other digital financial service providers to extend their best efforts in this regard.

I believe this report will be able to provide the stakeholders with valuable insights about the key trends in the financial system of Bangladesh, risks and vulnerabilities therein and resilience of the same to various endogenous and exogenous events. I commend the diligent efforts and dedication of the officials of the Financial Stability Department in preparing this report in a timely manner.

Abdur Rouf Talukder
Governor

Message from the Deputy Governor

COVID-19 pandemic, prolonged Russia-Ukraine conflict and other geopolitical dynamics put significant headwinds towards global economic outlook. Countries across regions are fighting against decade high stubborn inflationary pressures which are prompting the central banks and monetary authorities to shift to tightening of monetary policy. Abrupt depreciation of global currencies against US dollar is also uplifting the external borrowing cost of emerging economies. In tandem with looming global challenges, Bangladesh has also been subject to a number of stresses in 2022 having bearing for financial system stability of the country.

Despite downside risk to global financial stability and turmoil in some neighboring economies, Bangladesh economy remained mostly resilient, attributable to prompt initiatives taken by the Government, Bangladesh Bank and other relevant authorities. The real GDP grew by 7.10 percent in the financial year 2021-22, which is higher than the growth recorded in a number of peer and neighboring countries. During the review year, the gross foreign exchange reserve was adequate to meet globally accepted threshold of import payments.

The financial market of Bangladesh experienced some liquidity stress in 2022. Bangladesh Bank mostly curbed the stress through extending repo and other liquidity support facilities for banks. During the review year, banking sector of the country recorded some improvements in terms of profitability and capital adequacy while asset quality experienced minor deterioration. The FI sector too experienced some deterioration from profitability and capital adequacy standpoint. Nevertheless, both the banking and FIs sectors remained moderately resilient from stress testing point of view. It is noteworthy that the MFI sector demonstrated notable credit growth, albeit some deterioration in the key soundness indicators of both life and general insurance sector.

Amid mixed resilience in the financial system, Bangladesh may still face continued external shocks from prolonged geopolitical and other uncertainties. Therefore, boosting export diversification, enhancing wage earners' remittances inflow, attracting FDIs, curbing Non-Performing Loans (NPLs) in the banking sector and promoting investors' confidence might remain as some key challenges in the coming days. Cautious policy stance by the authorities, increased vigilance by financial sector regulators, and expected cooperation of stakeholders may help the country in overcoming these challenges and keeping the economy on track of accelerated growth trajectory.

Financial inclusion in Bangladesh has been significantly aided by Bangladesh Bank. In order to enhance the access to formal banking and financial services, Bangladesh Bank has been playing a crucial role in collecting banks' deposits from rural communities and non-resident Bangladeshis and channeling foreign remittances. As the supervisor of the financial system, Bangladesh Bank has been relentlessly endeavoring to provide essential direction and policy support to foster the country's financial stability. However, optimum outcomes of the stated measures largely depend on concerted efforts from all stakeholders. I urge all the financial stakeholders to foster an environment that promotes sustainable growth and resilience within our financial system.

The ongoing Russia-Ukraine conflict and geopolitical tensions across regions have created disruptions in global supply chains and led to increased import payments. These external factors have put pressure on the foreign exchange reserves of the country. To curb the volatility in foreign exchange market, Bangladesh Bank injected a notable amount of foreign currency in the market and increased its vigilance to restrict imports of luxurious and non-essential goods, and thereby attempted to ensure optimal use of reserves for productive sectors. I hope the banks and others concerned will remain frugal in case of transactions in foreign currency, keeping conformity with the austerity measures taken by the authorities.

I believe this report will be able to help the stakeholders in getting a comprehensive understanding about the strengths of the financial system of Bangladesh as well as risks and vulnerabilities thereto and devising pre-emptive and forward-looking measures. I appreciate the diligent efforts and dedication of the officials of Financial Stability Department in preparing this report in a timely and befitting manner.

Nurun Nahar
Deputy Governor

Table of Contents

List of Charts

List of Tables

List of Boxes

List of Appendices

ACRONYMS

ACC	Anti Corruption Commission
ACD	Agricultural Credit Department
ACRL	Alpha Credit Rating Limited
ACRSL	ARGUS Credit Rating Services Ltd.
ACS	Automated Challan System
AD	Authorized Dealer
ADR	Advance-to-Deposit Ratio
AGM	Annual General Meeting
AIIB	Asian Infrastructure Investment Bank
ALS	Assured Liquidity Support
AML-CFT	Ante Money Laundering and Combat Financial Terrorism
ATDTL	Average Total Demand and Time Liabilities
ATM	Automated Teller Machine
BACH	Bangladesh Automated Clearing House
BACPS	Bangladesh Automated Cheque Processing System
BASIS	Bangladesh Association of Software & Information Services
BB	Bangladesh Bank
BBQ	Bangladesh Bank Quarterly
BB RG	Bangladesh Bank Risk Grade
BBS	Bangladesh Bureau of Statistics
BCBS	Basel Committee on Banking Supervision
BD	Bangladesh
BDT	Bangladesh Taka
BDRAL	The Bangladesh Rating Agency Limited
BEFTN	Bangladesh Electronic Funds Transfer Network
BFIU	Bangladesh Financial Intelligence Unit
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BGTB	Bangladesh Government Treasury Bond
BHBFC	Bangladesh House Building Finance Corporation
BKMEA	Bangladesh Knitwear Manufacturers and Exporters Association
BL	Bad and Loss
BO	Beneficiary Owner
BOP	Balance of Payment
BRPD	Banking Regulations and Policy Department
BS	Balance Sheet
BSBL	Bangladesh Samabaya Bank Limited
BSEC	Bangladesh Securities and Exchange Commission
BSI	Banking Soundness Index
BTMA	Bangladesh Textile Mills Association
CAB	Current Account Balance

CAR	Capital Adequacy Ratio
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk
CBS	Core Banking System
CC	Cash Credit
CCB	Capital Conservation Buffer
CDBL	Central Depository Bangladesh Limited
CET	Common Equity Tier 1
CFSI	Composite Financial Stability Index
CGD	Credit Guarantee Department
CIT	Cheque Imaging and Truncation
CMSME	Cottage, Micro, Small and Medium Enterprise
COVID-19	Coronavirus Disease 2019
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
CRWA	Credit Risk-Weighted Assets
CSE	Chittagong Stock Exchange
CSR	Corporate Social Responsibility
CY	Calendar Year
DF	Doubtful
DOS	Department of Off-site Supervision
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
DP	Depository Participants
DSE	Dhaka Stock Exchange
DSEX	DSE Broad Index
ECC	Export Cash Credit
ECAI	External Credit Assessment Institutions
E-CAB	e-Commerce Association of Bangladesh (e-CAB)
ECRL	Emerging Credit Rating Ltd
EDF	Export Development Fund
EFT	Electronic Fund Transfer
EM	Emerging Market

EMDEs	Emerging Market and Developing Economies
EPS	Earnings per Share
ERQ	Exporters' Retention Quota
EU	European Union
EZs	Economic Zones
FATF	Financial Action Task Force
FC	Foreign Currency
FCBs	Foreign Commercial Banks
FDD	Foreign Demand Draft
FDI	Foreign Direct Investment
FDR	Fixed Deposit Receipt
FE/FX	Foreign Exchange
FEOD	Foreign Exchange Operation Department.
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
FTSE	The Financial Times Stock Exchange
FVI	Financial Vulnerability Index
FX	Foreign exchange
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
HV	High Value
IBFT	Internet Banking Fund Transfer
IBLF	ISLAMIC BANKS LIQUIDITY FACILITY
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
IFC	International Finance Corporation
IMF	International Monetary Fund
IPO	Initial Public Offering
IR	Insolvency Ratio
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
LCAF	Letter of Credit Authorization Form
LCR	Liquidity Coverage Ratio
LC	Letter of Credit
LDC	Least Developed Countries
LHS	Left Hand Side
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 Statements.
MRA	Microcredit Regulatory Authority
MRWA	Market Risk-Weighted Assets
MT	Mail Transfer
NASDAQ	National Association of Securities Dealers Automated Quotations
NBFI	Non-Bank Financial Institution
NCRL	National Credit Rating Ltd.
NDA	Net Domestic Assets
NDDP	Neuro-Developmental Disabled Person
NFA	Net Foreign Assets
NFC	Non-Financial Corporation
NFCD	Non-Resident Foreign Currency Deposit
NFSR	Net Stable Funding Ratio

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
NFSR	Net Stable Funding Ratio
OBO	Operation of Banks
OBS	Off-Balance Sheet
OBU	Off-shore Banking Unit
OD	Overdraft
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
ORWA	Operational Risk-Weighted Assets
OTC	Over the Counter
PC	Packing Credit
PCBs	Private Commercial Banks
PCR	Polymerase Chain Reaction
PD	Primary Dealers
P/E	Price-Earnings Ratio
PKSF	Palli Karma-Sahayak Foundation
POL	Petroleum, Oil and Lubricants
POS	Point of Sale
PPP	Public Private Partnership
PSD	Payment Systems Department
PSE	Public Service Enterprise
PSO	Payment System Operator
PSP	Payment Service Provider
QFSAR	Quarterly Financial Stability Assessment Report
QR	Quick Response
RECI	Regional Economic Climate Index
REER	Real Effective Exchange Rate
REPO	Repurchase Agreement
RFCD	Resident Foreign Currency Deposit Accounts
RHS	Right Hand Side
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
RV	Regular Value
RWA	Risk Weighted Assets
SAARC	South Asian Association for Regional Cooperation
SB	Sonali Bank
SBC	Sadharon Bima Corporation
SOCBs	State-owned Commercial Banks
SDBs	Specialized Development Banks
SFD	Sustainable Finance Department
SHQLA	Stock of High-Quality Liquid Assets
SLR	Statutory Liquidity Ratio
SMA	Special Mention Account
SME	Small and Medium Enterprise
SMESPD	SME & Special Programmes Department
SRP	Supervisory Review Process
SREUP	Safety Retrofits and Environmental Upgrades
SS	Sub-Standard
S&P	Standard & Poor's
STD	Short-Term External Debt
STED	Short-Term External Debt
TR	Trust Receipt
TT	Telegraphic Transfer
TWS	Trader Work Station
T-bill	Treasury Bill
T-bond	Treasury Bond
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
WEO	World Economic Outlook
WB	World Bank
WIR	Weighted Insolvency Ratio
WTI	West Texas Intermediate

EXECUTIVE SUMMARY

This report encompasses analyses on key trends in the financial system of Bangladesh and macro economy of the country. The report also reveals risks and vulnerabilities to the domestic financial system as well as resilience thereof to various adverse events and thus purports to enable the stakeholders to take pre-emptive measures well ahead of when the shock events materialize. To this end, the report has taken into account the global and domestic macroeconomic environments, the performance of banks and other financial intermediaries, and their ability to keep the financial ecosystem stable.

After rebounding from the COVID-19 pandemic in 2021, the global economy experienced slow growth in 2022. According to the IMF's most recent World Economic Outlook (WEO), global growth slowed sharply in 2022, and this slowdown is expected to persist in future. The GDP growth could be slower in nearly every region across the globe due to the wide-ranging downturn. Against this backdrop, the trend of the financial markets was very unpredictable to investors in 2022. Long-term government bond rates in the major economies were very volatile and finally surged at end-December 2022. Besides, global equity markets demonstrated sharp falls; by December, the major equity indices saw declines from the year's beginning. In addition, concerns about demand caused oil prices to fall from their peak in the middle of 2022. However, sharp depreciations of most of the international currencies against the US dollar might drive inflation further by making petroleum imports and subsequent manufacturing more expensive in terms of local currencies in the emerging market and developing economies (EMDEs).

Following the concern for inflationary pressure, the macroeconomic dynamics in the domestic sphere exhibited mixed trends in 2022. In addition to the slow global growth, rising import costs and notable depreciation of the local currency against the US dollar resulted in a rising food and non-food prices in the local markets in 2022. Despite the generally poor outlook for the world economy, there are some positive signals for the domestic economy, such as the strong and still favorable domestic demand, the thriving exports, and the steady expansion of the private sector. The Government's successful management of the effects of external adversities and the initiation of reform programs and containment measures helped Bangladesh retain its prosperous economic trajectory. Bangladesh achieved marked export proceeds in 2022: every important sector—including knitwear, woven goods, and others—performed well, helping to maintain a decent GDP growth forecast until 2024. Despite cautious measures of the central bank—such as a prohibition on ostentatious goods and a higher L/C margin for non-emergency imports—which helped stifle the bullish trend of import burden, the more expensive US dollars kept pushing up commodities' prices in the local market. Net FDI inflows fell somewhat in 2022 compared to that of 2021, with the United States accounting for the lion's share. The external debts, rising over the previous five years, experienced a slower growth in 2022 than in 2021. The trade deficit, slower increase in wage earners' remittances, and growing debt servicing adversely affected both the balance of payments and the foreign reserve of the country.

In 2022, the banking sector continued to register slowdown in asset growth that began in 2021. The sector registered a modest 7.50 percent asset growth in 2022 which is lower than that of the previous two years. Loans and advances, constituting the highest share of banking sector assets, grew by 13.50 percent. PCBs have a significant part of earning assets and a relatively low NPL ratio which may contribute to sustain the resilience of the banking industry. In 2022, the amount of net profit after taxes of the banking sector recorded a significant increase compared to that of 2021. The return on equity (ROE) of the banking industry increased significantly and return on assets (ROA) also increased compared to those of 2021. In comparison with the marginal decline in concentration of assets within a few banks, sector-wise loan concentration recorded an increase. The liability structure showed little variation in the review year with the deposit remaining as the largest part of it. Deposit growth slightly slowed down but it was still enough to support increased demand for loans and advances. When compared to 2021, Bangladeshi bank branches operating abroad had a significant decline in total assets, a modest increase in total liabilities, and a minor gain in net profit in 2022. Although the overseas branches are running successfully, vigilant monitoring is essential to ensure proper compliance with the requirements imposed by domestic and host countries.

Asset quality in the banking sector as a whole recorded slight deterioration in 2022, as the gross non-performing loan ratio (NPL ratio) increased marginally, mostly due to increases in NPL ratios of SOCBs, FCBs, and SDBs. Gross NPL ratio of the banking sector stood at 8.16 percent in 2022, which was 7.93 percent at end-2021. The net NPL ratio increased to -0.08 percent in December 2022, up from -0.43 percent the previous year. Except for Trade and Commerce, the sector-wise NPL distributions in 2022 did not reveal substantial concentration of NPL in any given industry. Rescheduled loans to total outstanding loans rose to 14.4 percent in the review year from 12.9 percent as of end-2021. Except for 4(four) PCBs, 3 (three) SOCBs, and 01 (one) SDB, all banks maintained required loan-loss provisions in 2022. The top five and ten banks had about 45.97 percent and 64.75 percent of aggregate NPLs respectively.

Capital to risk-weighted assets ratio (CRAR) and Tier-1 capital ratio of the banking industry increased by 75 and 95 basis points respectively at the end of December 2022, and remained well above the regulatory requirement. In the review year, CRAR of the banking industry stood at 11.83 percent compared to 11.08 percent of the previous period, still the ratio remained above the regulatory minimum capital requirement of 10.0 percent. In 2022, banking industry maintained a Capital Conservation Buffer (CCB) of 1.83 percent against the regulatory requirement of 2.5 percent. Noteworthy that PCBs and FCBs maintained both CRAR and CCB well above the regulatory requirement whereas SOCBs and SDBs clusters could not do the same. Furthermore, the SRP-SREP Dialogue, which is a key component of Pillar II of the Basel III framework, was found to be behind schedule. Moreover, the banking sector maintained a leverage ratio of 4.74 percent, much higher than the regulatory minimum requirement of 3.0 percent mainly led by the high leverage ratios of FCBs and PCBs.

The liquidity situation in the banking industry remained optimistic during 2022 except for PCBs (Islamic) cluster which fell short of the regulatory LCR level. The banking sector's ADR stayed below the admissible limit of 87 percent but showed steady upward progress across 2022 and increased to 79.0 percent at end-December from 73.15 percent at end-December 2021. Call money borrowing rate showed gradual rising trend after March 2022 and peaked at 5.7 percent in December 2022. The rising call money borrowing rate in 2022 was partially caused by Bangladesh Bank's interventions in the foreign exchange market, as well as high inflation, which increased money demand. Furthermore, the industry as a whole maintained liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) above the regulatory minimum requirement in 2022, except for the PCBs (Islamic) cluster, which fell short of the regulatory LCR level. Banking industry's stock of high-quality liquid assets showed a decline, primarily due to the decrease in the same of SOCBs, PCBs (Conventional), and PCBs (Islamic) clusters.

The Islamic banks in Bangladesh, as a whole, showed improvement in terms of return on assets (ROA) in 2022. But they registered lower growth in terms of total assets, investments (advances), deposits, and shareholders' equity. In addition, higher growth in total investments than the total deposits significantly increased the investment-deposit ratio (IDR) during the review year. Moreover, all capital-related indicators of this sector were much higher than the regulatory requirements. The overall asset quality of the Islamic banks marginally impaired during 2022. At end-December 2022, the Islamic banks, as a cluster, were able to maintain the minimum required NSFR; however, they failed to maintain the LCR in line with the Basel III standard.

Banking sector's risk showed a slightly upward trend in 2022. The Risk-weighted assets (RWA) density ratio increased marginally in the review period. On an aggregate basis, all the schedule banks provided more than half of the total lending exposure in the corporate sector. It is noteworthy that the rated exposures increased for the corporate sector in 2022 that facilitated banks to maintain lower capital compared to that of the previous year. Credit risk accounted for the highest share of total banking sector risk. Consequently, credit RWA needs to be closely monitored to mitigate the overall banking sector's risk.

Based on stress test results, as of end-December 2022, both the banking and FIs sectors appeared to be moderately resilient to various shock scenarios. Among a number of specified risk factors in the banking sector, credit risk appeared to be dominant in terms of its impact on the capital adequacy of the sector. The test results show that a 3 percent increase in NPLs has the highest impact on the banking sector's resilience in terms of capital adequacy, followed by the default of the top 03 large borrowers. The banking sector's CRAR would fall below the minimum requirement of 10 percent in response to a 3 percent increase in NPLs. In contrast, the banking sector's CRAR would remain above the minimum requirement for all of the market risk shock scenarios, except interest rate risk in which case the banking sector appeared to be slightly vulnerable. In the event of a combined shock, excluding defaults by top large borrowers and an increase in NPLs in the highest outstanding sector, the banking system's CRAR would fall to 7.44 percent, down from 11.83 percent before the shock. The results of the FIs sector stress tests show that 21 out of 35 FIs would remain resilient under stressed scenarios as of end-December 2022.

An uprising trend in the NPL ratio and maintaining of extra loan loss provisions in 2022 put strain on the income generation of the FI industry and may pose an elevated risk from the stability point of view. In 2022, the total assets of the FI industry exhibited an increase of 2.61 percent, mainly driven by an increase in investments, leases, and all other assets compared to the preceding year. Although the share of deposits, and equity increased, borrowings declined compared to the previous year. Accordingly, FIs' liabilities to assets ratio increased slightly. At end-December 2022, the provisional capital adequacy ratio (CAR) of the FIs sector along with ROA and ROE experienced a sizable decline compared to the preceding year. However, the industry maintained persistent liquidity as usual in the review year.

The decline in the DSE index's movements and the decreased turnover at the country's main stock exchange-the Dhaka Stock Exchange (DSE)-imply that Bangladesh's capital market remained largely bearish in 2022. The year 2022 began with a DSE broad index (DSEX) of 6,853.14 and market capitalization of BDT 5,470.91 billion. At end-December 2022, DSEX stood at 6,206.81 while market capitalization reached to BDT 7,609.37 billion. The role of banking sector remained crucial in the DSE as it has a sizable fraction of total market capitalization. Banks' capital market exposures, on both solo and consolidated basis, increased gradually during 2022 but remained well below the regulatory limit indicating no major stability threat posed to the banking sector from stock price shock.

In December 2022, the treasury auction yield curves for both short-term treasury bills and long-term treasury bonds shifted upward compared to December 2021 and June 2022. The upward trends in yield curve reflect higher cost of government's borrowing. The total amount of government securities traded in the secondary market decreased by 83.16 percent, reaching BDT 498.56 billion in 2022, indicating that the secondary market for T-bonds was less active than it was in 2021.

Money market faced no systemic liquidity stress in 2022. During the review year, Bangladesh Bank provided a sizable amount of liquidity to the banks through repo, special repo, and liquidity support facility (LSF). Nevertheless, the interbank repo and call money markets experienced relatively high turnover and cost of funds in 2022. Besides, due to low excess reserves in the banking system, no Bangladesh Bank (BB) bills were issued during the review year.

The financial infrastructure remained well supportive for smooth financial intermediation process. In 2022, the amount and number of transactions through BEFTN, NPSB, ATMs, debit cards, and internet banking increased considerably compared to the previous year. Furthermore, among scheduled commercial banks, the RTGS system began operating using inland foreign currency in addition to local currency during the review year. By the end of December 2022, all segments of MFS transactions had increased significantly over the previous year. During the review year, no significant systemic issues took place in the payment system of Bangladesh. Indeed, as a regulator, Bangladesh Bank continues to monitor cyber security threats at both the local and cross-border transaction levels, and also advises banks and financial institutions on proper precautionary measures.

Foreign exchange (FX) market of Bangladesh demonstrated a moderate level of stability during 2022 albeit modest fluctuation of exchange rate. The Bangladeshi Taka (BDT) was in a depreciating trend against the US dollar (USD) throughout the year. The REER also depreciated which contributed to enhancing the country's export competitiveness. As of end-December 2022, assets, liabilities, and contingent liabilities of the banking sector in foreign exchange (FX) decreased compared to those of the previous year. During the review period, L/C opening decreased slightly, but L/C settlement increased moderately which generated mild pressure on FX market despite having a substantial growth in export earnings. Besides, wage earners' remittances slightly declined during the review period. In 2022, BB sold a large amount of USD at different phases in the domestic FX market, as an indirect measure, to keep the nominal exchange rate as well as the FX market stable. Importantly, at end-December 2022, the international reserve stood at USD 33.75 billion; deemed to be adequate in terms of import coverage as well as withstanding plausible external shocks in the near future.

Insurance sector development in Bangladesh, measured in terms of insurance penetration ratio and insurance density ratio, remained moderate in 2022 despite increase in both total gross premium and total assets of the sector. During the review year, life insurance companies held most of the assets of the insurance sector and contributed a significant part of gross premiums of the sector. Some key indicators of general insurance sector deteriorated during the review year in terms of claims settlement, return on investment, investment to total assets ratio, and risk retention rate; while management expense ratio improved compared to 2021. Likewise, most of the important indicators of life insurance sector deteriorated in comparison to the previous year. Insurance sector remained highly concentrated within a few companies both in terms of asset size and gross premium which requires close monitoring and supervision. 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 mostly stable in 2022. The MFI sector experienced a notable credit growth in the review period. The sector's NPL ratio was low compared to that of the banking sector. However, the NPL ratio demonstrated an increasing trend during the last couple of years that necessitates special attention. In 2022, key profitability indicators of the MFI sector-ROA and ROE decreased moderately due to higher increase of non-performing loans. Besides, donation-to-equity ratio decreased gradually in the last five years which indicates the self dependency of the MFI sector. However, high degree of market concentration by the top MFIs calls for close supervision for the stability of this sector.

CHAPTER 1 : MACROECONOMIC DEVELOPMENTS

After rebounding from the COVID-19 pandemic in 2021, the global economy experienced slow growth in 2022. According to the IMF's most recent WEO, global growth slowed sharply in 2022, and this slowdown is expected to persist till 2024. The GDP growth will be slower in nearly every region across the globe due to the wide-ranging downturn. COVID-19's prolonged aftermaths, followed by the Russia-Ukraine conflict and monetary tightening in advanced economies, added substantial costs to the sluggish global growth. Against this backdrop, the trend of the financial markets was very unpredictable to investors in 2022. Long-term government bond yields in the major economies were very volatile and finally surged at end-December 2022. Besides, global equity markets demonstrated sharp falls. In addition, concerns about demand caused oil prices to fall from their peak in the middle of 2022. However, sharp depreciations of most of the international currencies against the US dollar along with higher import of petroleum might drive inflation further and subsequently manufacturing might be more expensive in terms of local currencies in the emerging market and developing economies.

Following the concern of inflationary pressure, the macroeconomic dynamics in the domestic sphere exhibited mixed trends in 2022. In tandem with the slow global growth, most of the trading partners of Bangladesh forecasted slower growth through 2024, which might adversely affect its anticipated growth. Apart from that food and non-food prices soared in the local markets in 2022. Despite the generally adverse global economic prognosis, there are also some encouraging signs for the domestic economy, such as the robust domestic demand, the flourishing exports, and the sustained growth of the private sector.

Bangladesh maintained its prosperous economic trajectory thanks to the Government's effective handling of the impacts of external adversities and the launching of reform and preventive measures. Bangladesh achieved a marked export proceeds in every important sectors including knitwear and woven goods in 2022, helping to maintain a decent GDP growth forecast until 2024. In 2022, the Bangladeshi Taka saw a considerable decline in value against the US dollar (USD). Despite prudent measures of the central bank, including restriction on opulent products and higher L/C margin for non-emergency imports, the costlier USD continued to put upward pressure on commodity prices in the local market. During the review year, net FDI inflow decreased slightly compared to that of 2021, with the USA accounting for the lion's share. The external debts experienced a slower growth in 2022 than that of the previous year. In sum, the trade deficit, slower increase in wage earners' remittances, and growing debt servicing adversely affected both balance of payments and foreign exchange reserves of the country.

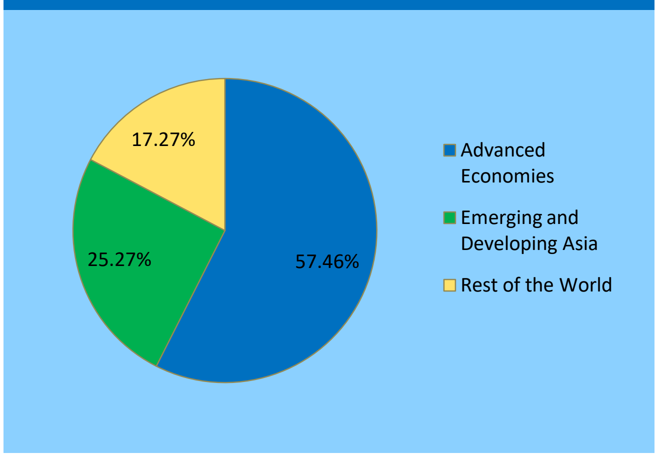
1.1 GLOBAL MACRO-ECONOMIC ENVIRONMENT

In response to stubbornly high inflation, monetary authorities in advanced economies hastened the pace of policy normalization in 2022. The rise of policy rates, particularly by the US Federal Reserve, boosted the value of the US dollar, resulting in capital outflows from various emerging and frontier market economies with weaker macroeconomic fundamentals. In the face of rising inflation and currency pressures, developing economies have also tightened policy, with notable regional variation. Economies having close link with Bangladesh are projected to expand slowly through 2024, potentially slowing the country's growth pace in the coming year. Apart from that, interest rates, government bond yields, and risky asset prices were markedly volatile in 2022, indicating greater policy and economic uncertainty for 2023. Furthermore, the US restriction on Russia's oil imports disrupted global petroleum flows and rendered prices unpredictable. Despite a downward trend in oil prices since July 2022, import costs and the corresponding pressure on other commodity prices might inflate in 2023 owing to a more expensive US dollar for developing nations like Bangladesh.

1.1.1 GLOBAL GROWTH SCENARIO AND OUTLOOK

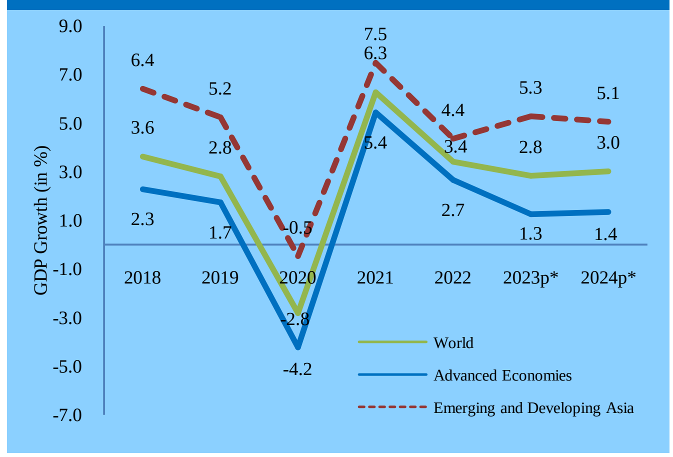
The IMF reported an overall slowdown in the global economy for 2022 in its April 2023 World Economic Outlook (WEO). The ongoing effects of the Russia-Ukraine conflict, particularly on food and energy prices; high inflation and tightening financial conditions due to policy normalization; and the lingering COVID-19 pandemic, with its associated supply chain disruptions, contributed to the deterioration in the global economy in 2022. The world GDP[1] stood at USD 100.22 trillion in 2022 narrowly picking up from USD 96.31 trillion in 2021. Advanced economies had around 58 percent share of world GDP, whereas the share of emerging and developing Asian countries was 25 percent, and the rest of the world had a 17 percent share (Chart 1.1). The output growth in all major regions experienced a downslide in 2022 from a restored position in 2021. In particular, global economic growth declined from 6.3 percent to 3.4 percent[2] during the review year; growths in advanced economies dropped from 5.4 percent to 2.7 percent, and the same in Emerging and Developing Asia reduced from 7.5 percent to 4.4 percent.

CHART 1.1: GDP SHARE BY CATEGORIES OF ECONOMIES



Sources: IMF, World Economic Outlook, April 2023.

CHART 1.2: WORLD GDP GROWTH



Note: p*- Projection.
Source: IMF, World Economic Outlook, April 2023.

Increased geopolitical tensions and the resulting cost-of-living issue, as well as policy divergence in many jurisdictions, weighed significantly on the growth pace of the global economy. IMF projected the world economy to expand slowly till 2023. Against this backdrop, Bangladesh is likely to experience a strained growth trend attributable to global economic suppression. According to Chart 1.3, the downturn in 2022 and the sluggish development of key import partners of Bangladesh may expose supply-side vulnerabilities. Moreover, export destinations of Bangladesh appeared to be experiencing demand shocks because of the weak economic development prospects of main export clients, including the United States and several advanced economies in Europe (Chart 1.4).

[1]At the current price.
[2]See IMF's World Economic Outlook, April 2023.

CHART 1.3: GDP GROWTH OF TOP IMPORT ORIGINATING COUNTRIES

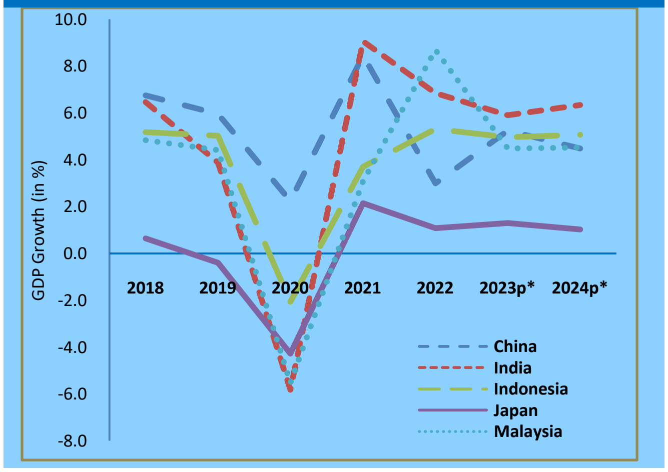
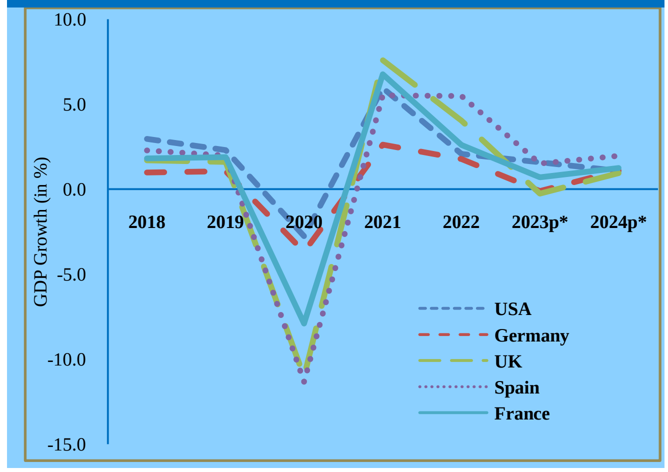


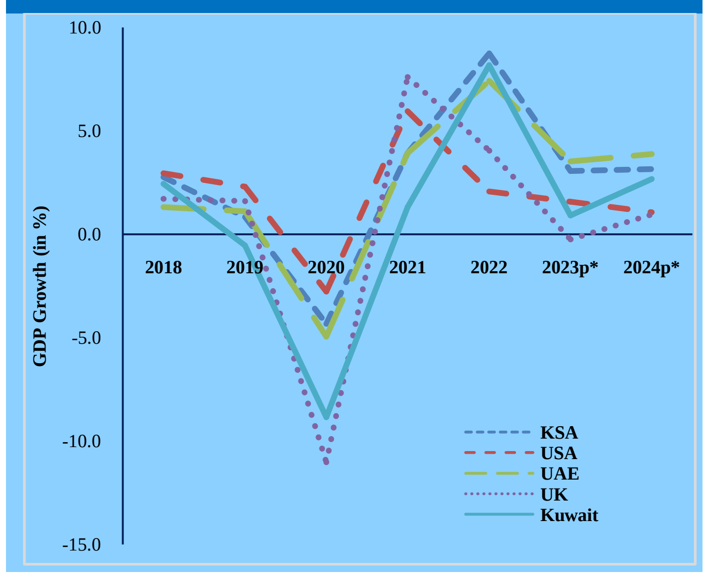
CHART 1.4: GDP GROWTH OF TOP EXPORT DESTINATION COUNTRIES



Note: p*- Projection.
Source: IMF, World Economic Outlook, April 2023.

In tandem with the recovery from oil price shocks induced by COVID-19, the Gulf Cooperation Council (GCC) economies enjoyed notable growth in 2022. However, decline in hydrocarbon prices again in the second half of 2022, due to the new obstacles related to the Russia-Ukraine conflict and tighter global financial conditions, are projected to have a negative impact on the GCC economies. The slowdown is also related to declining oil demand, which is predicted to fall from the high levels reached in 2022. Overall, this scenario could adversely affect the flow of remittance in Bangladesh from those Middle-east countries which are the major sources of wage earners' remittances. In addition, the predicted slow growth in the top remittance-yielding nations, including the United States, the United Kingdom, and others, may prompt downside risks to remittance inflow to Bangladesh (Chart 1.5).

CHART 1.5: GDP GROWTH OF TOP 5 REMITTANCE SOURCING COUNTRIES



Note: p*- Projection.
Source: IMF, World Economic Outlook, April 2023.

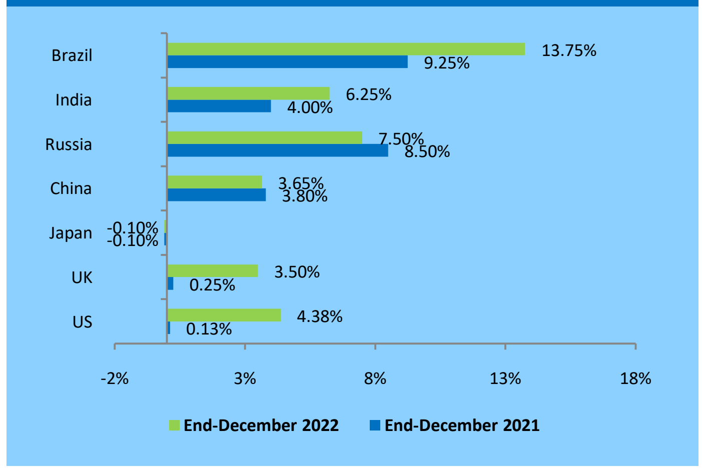
1.1.2 Global Financial Market Environment

To curb impulsive inflationary pressure, the major advanced countries and several emerging economies focused on monetary contraction in 2022. The United States Federal Reserve, in particular, was prompt in raising interest rates. Despite these tumultuous measures, trillions of dollars have been wiped off international equities, bond market tantrums, whip-sawing currencies and commodities in 2022. The key factors appeared to have been the Russia-Ukraine conflict, paired with high inflation as global economies emerged from the pandemic, while China remained constrained by it.

1.1.2.1 Interest Rate Environment

In 2022, global central banks raised interest rates at the fastest pace and on the widest scale in at least two decades, as policymakers went all-in to confront growing inflation. Among advanced economies, the USA and the UK raised their policy interest rates by 4.25 percentage points and 3.25 percentage points respectively at end-December 2022 (Chart 1.6). Few emerging markets also augmented their policy rates with an apprehension of burgeoning inflation, such as Brazil and India. On the contrary, Japan kept the policy rate same as of end-2022 compared to end-2021, while Russia and China lowered their policy rates by 100 and 15 basis points respectively.

CHART 1.6: POLICY RATES OF SELECTED CENTRAL BANKS

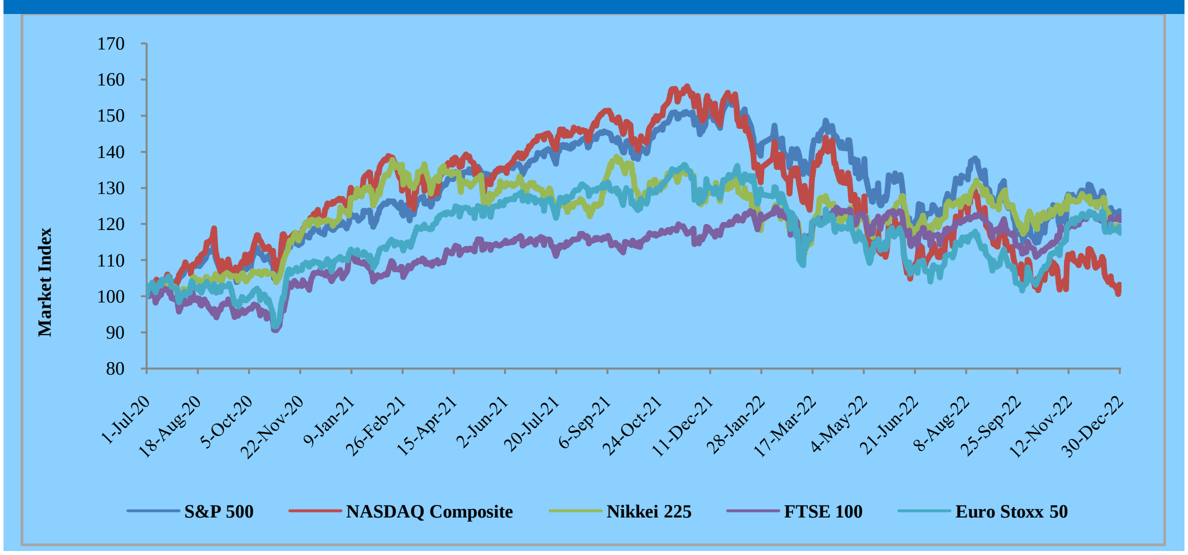


Source: Bank for International Settlements.

1.1.2.2 Development in Major Financial Markets

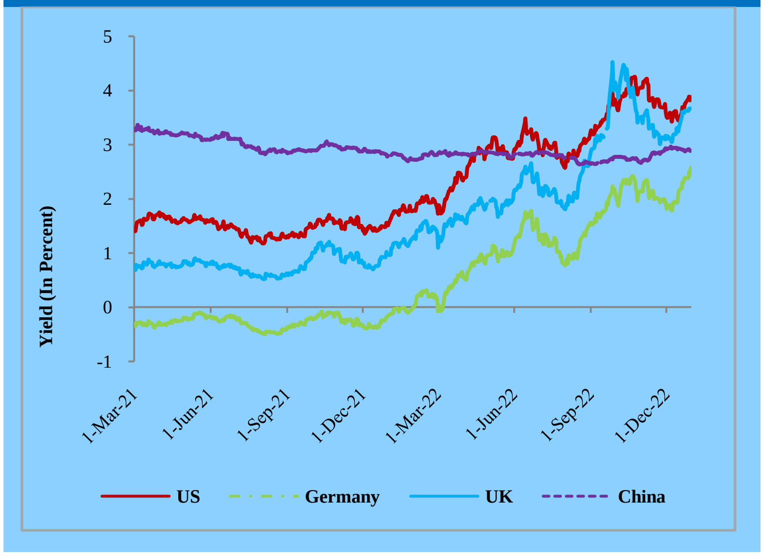
Rising geopolitical tensions, worldwide skyrocketing inflation, and soaring policy rates, particularly by the Federal Reserve and major European central banks, caused equity prices in the prime global bourses to plummet largely. The indices such as S&P 500, NASDAQ Composite, Nikkei 225, and Euro Stoxx 50 registered a substantial decrease of 19.7 percent, 33.5 percent, 9.4 percent, and 11.9 percent respectively at end-December 2022 compared to end-December 2021. Conversely, FTSE 100 recorded a small increase of 0.7 percent during the same period (Chart 1.7).

CHART 1.7: MOVEMENT OF MAJOR GLOBAL STOCK MARKET INDICES



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

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



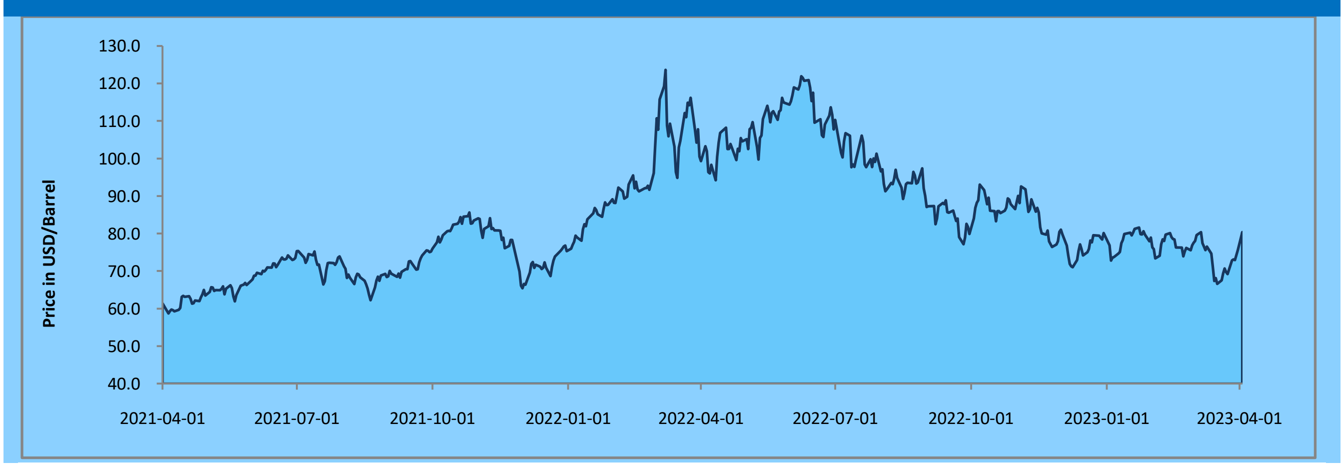
Source: Wall Street Journal.

After being stable in 2021, 10-year government bond yields increased sharply across the major economies in 2022. Bond yields in the United States, the United Kingdom, and Germany have recorded increase of 2.37 percentage points, 2.69 percentage points, and 2.75 percentage points respectively (Chart 1.8). The primary driving factors in those nations have been faster-than-expected inflation increases and swiftly changing monetary policy outlooks. It also points to significant worldwide spillovers from interest rate shocks in the United States. In contrast, the Chinese 10-year government bond yield increased by only 10 basis points in 2022, aligned with the relevant authority's attitude toward monetary easing.

1.1.2.3 Crude Oil Prices in International Market

Prices for POL (petroleum, oil, and lubricants) had a mixed trend in 2022. The US embargo on Russian energy imports appeared to have triggered disruption in global petroleum flows, which prompted soaring prices in the first half of 2022. Because of supply concerns, West Texas Intermediate (WTI) crude hit a record USD 123.6 per barrel on 8 March 2022. Prices, however, fell sharply in the second half due to the raising of interest rates by the central banks, fueling recessionary worries and weakening demand from China- the world's largest importer. The price of crude oil dropped to USD 76.4 per barrel by the end of 2022. In light of this, OPEC, the world's largest oil producer, announced plans to cut back on the volume of its primary output. On the other side, the US dollar strengthened when policy interest rates were raised to combat inflation. It could make dollar-denominated commodities like petroleum more expensive for holders of other currencies, which might, in turn, increase import and manufacturing costs as well as push inflation up for other goods. Hence, a projected tighter oil supply might be compensated with the lower fuel usage next year because of a worsening economic condition.

CHART 1.9: CRUDE OIL PRICE (WTI)*



Source: Federal Reserve Economic Data. (https://fred.stlouisfed.org/series/DCOILWTICO)
*West Texas intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing.

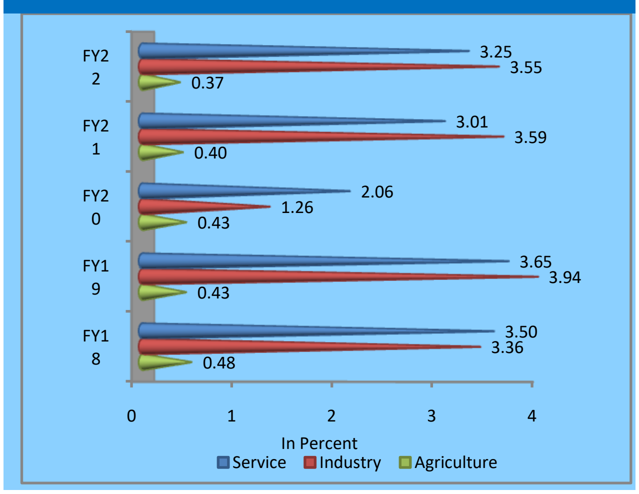
1. 2 DOMESTIC MACROECONOMIC DEVELOPMENT

The domestic macroeconomic dynamics demonstrated a mixed behavior in 2022. The manufacturing and service sectors supported the economy's steady growth despite multiple external shocks. However, domestic inflation elevated notably in 2022, partially due to the depreciation of the local currency against the USD, making imports costlier. Government borrowing from the banking system increased notably during the review period, whereas private sector investment growth was relatively low.

1.2.1 GDP GROWTH

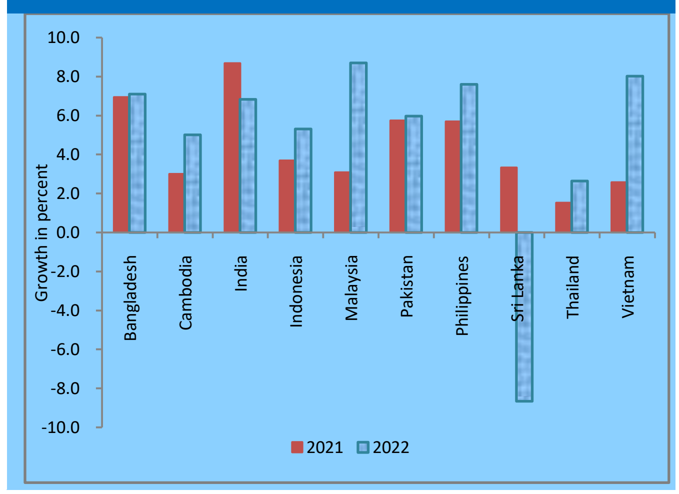
The economy of Bangladesh recorded notable growth in FY22[3]. Despite global geopolitical tensions and their impact on the external sector of Bangladesh, the domestic industry and service sectors continued their expansion in FY22. Prudent and prompt actions from the Government and the financial sector's authorities helped to carefully manage the external shocks and maintain the confidence of the economic workforce. In FY22, GDP recorded 7.1 percent growth backed by 9.86 percent, 6.26 percent, and 3.05 percent growth in manufacturing, service, and agriculture sectors respectively. In terms of Gross Value Added (GVA), Bangladesh added 7.2 percent more value to the economy in FY22 compared to that in FY21. In total GVA growth, industry and service sectors contributed nearly 3.55 percent and 3.25 percent respectively whereas agriculture sector made a 0.37 percent contribution (Chart 1.10). Among selected Asian economies shown in Chart 1.11, Bangladesh recorded the fourth highest real GDP growth in 2022.

CHART 1.10: GROSS VALUE ADDED (GVA) OF BANGLADESH



Source: Bangladesh Bureau of Statistics.

CHART 1.11: REAL GDP GROWTH OF SELECTED ASIAN ECONOMIES



Source: IMF World Economic Outlook, April 2023.

1.2.2 INFLATION

The rising inflationary pressure was a key concern in the domestic economy in 2022. Substantial depreciation of local currency against the US dollar and soaring import costs largely led to higher price of both food and non-food items. The 12-month average CPI inflation (base: 2005-06=100) reached 7.70 percent at end-December 2022 while food and non-food inflation stood at 7.75 percent and 7.62 percent respectively. The corresponding figures were 5.54 percent, 5.30 percent, and 5.93 percent respectively at end-December 2021 (Chart 1.12).

[3]FY Stands for Fiscal Year spanning July-June.

At end-December 2022, the point-to-point CPI general inflation (base: 2005-06=100) leapt up to 8.71 percent from 6.05 percent at end-December 2021. During the period, point-to-point food and non-food inflation ascended to 7.91 percent and 9.66 percent respectively compared to 5.46 percent and 7.00 percent at end-December 2021 (Chart 1.13).

CHART 1.12: 12-MONTH AVERAGE CPI INFLATION

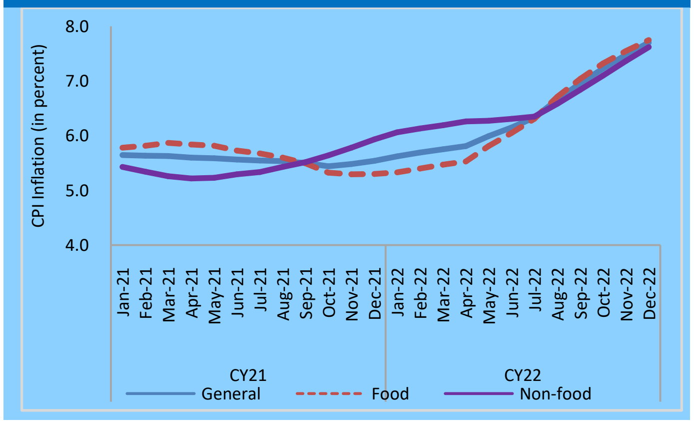
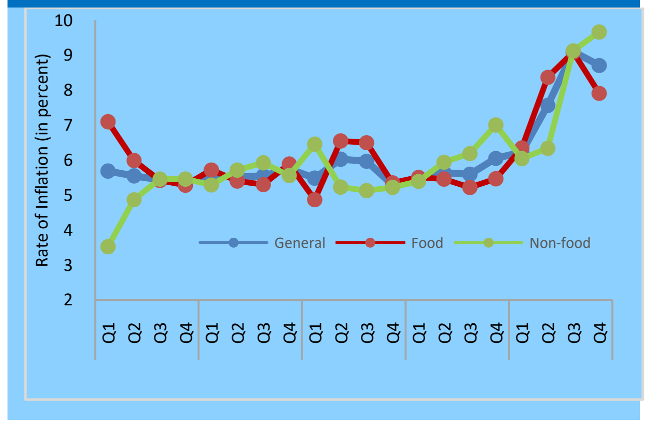


CHART 1.13: END-QUARTER POINT-TO-POINT INFLATION AND ITS COMPONENTS



Note: Horizontal axis indicates end-quarter.
Source: Monthly Economic Trend, BB.

1.2.3 Domestic Credit from Banking System

At end-December 2022, the domestic credit from the banking system reached BDT 17,617.62 billion, registering an increase of 14.98 percent compared to end-December 2021. Amongst the total credit, private sector credit grew by 12.89 percent and stood at BDT 14,261.33 billion, whereas public sector credit[4] escalated by 24.80 percent and reached BDT 3,356.29 billion. However, the ratio of the private sector to the public sector credit experienced a downward trend since 2017 and stood at 4.25 percent at end-December 2022 (Chart 1.14). Outpacing of private sector credit growth by the public sector credit growth might have some contractionary impact on domestic investment.

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

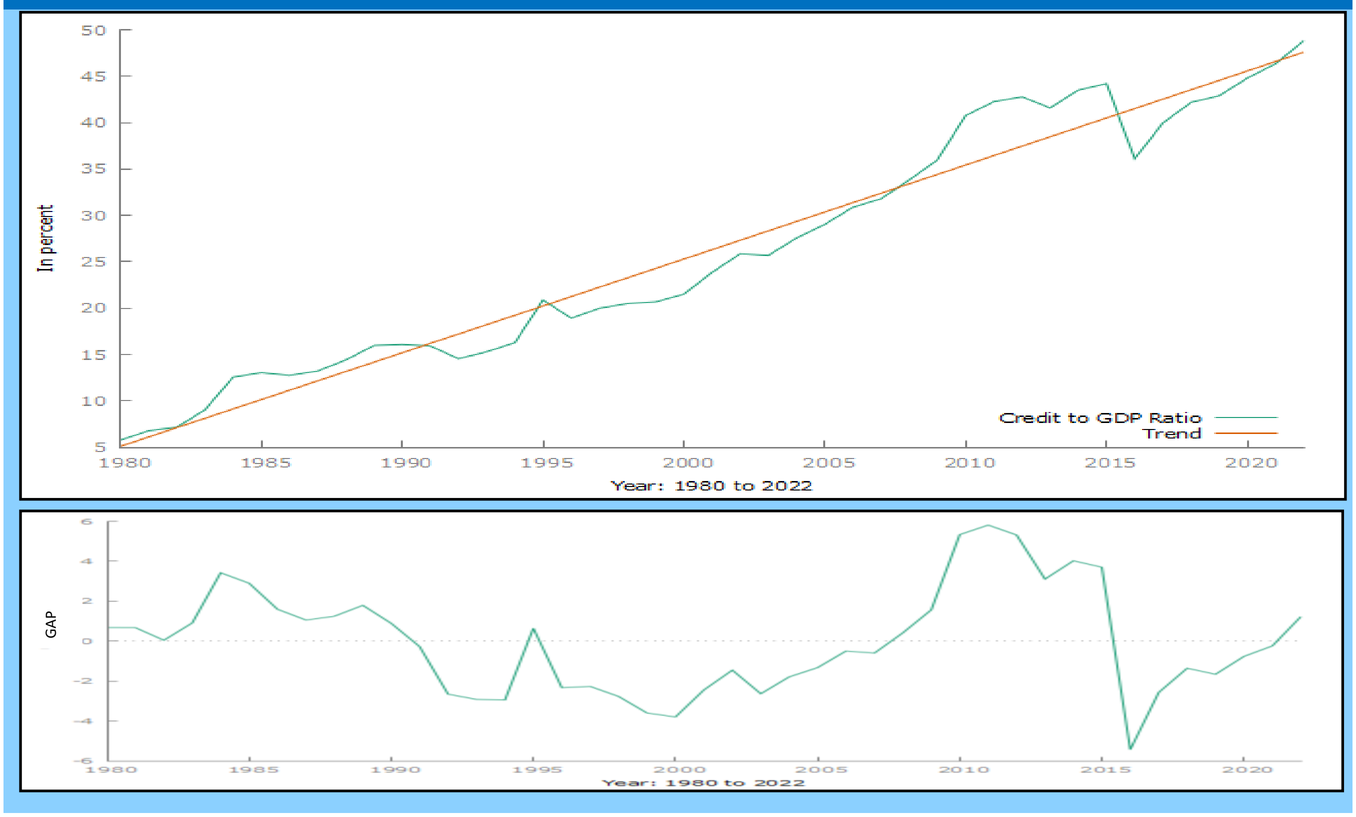
Source: Statistics Department, BB (for both charts).

[4]Public sector credit consists of gross credit to government netting of government deposits held in the banking system plus other public sector credits.

1.2.4 Credit-to-GDP Gap

The credit-to-GDP gap has been estimated using the Hodrick-Prescott Filter approach following the guidance of the Basel Committee on Banking Supervision (BCBS)[5]. The estimated credit-to-GDP gap data implies no significant excessive credit growth in the financial system of Bangladesh during the period of FY1980-FY2022. In most parts of the estimation period, the credit-to-GDP gap remained reasonably low except for the period FY2010-FY2012 during which it crossed the level of five percentage points. However, the credit-to-GDP ratio observed a sharp decline in 2016 mainly due to re-basing of GDP calculation. As a consequence, the credit-to-GDP gap fell considerably to the negative direction in 2016 which subsequently narrowed till 2021 before turning positive in 2022. Overall, the low credit-to-GDP gap implies that there has been no apparent sign of stability threat to the financial system emanating 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 (1980-2015); Monthly Economic Trend, BB (2016-2022); FSD Staff Calculation.

1.3 EXTERNAL SECTOR DEVELOPMENTS

The prolonged Russia-Ukraine conflict and higher policy rates maintained by advanced economies put some pressure on external sector of Bangladesh economy in 2022. Despite notable growth in export, higher import payment and declined remittance growth widened the demand-supply gap of US Dollar, resulting in a significant depreciation of BDT against the USD in 2022. Consequently, the current account balance (CAB) widened negatively, putting a strain on the overall balance of payment (BOP). Inflow of Foreign Direct Investment (FDI) remained stalled amid concerns over geopolitical tensions. External debt increased gradually with dominance from long-term public sector debt and short-term private sector debt inflows in the review year.

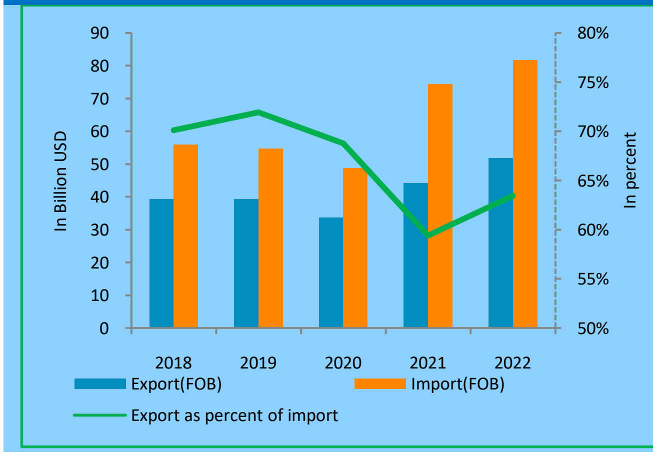
---

[5]See Financial Stability Report 2018 of Bangladesh Bank for procedural details.

1.3.1 EXPORT AND IMPORT

According to Chart 1.16, among the previous five years, both import and export (FOB) achieved a notably high growth in 2022. Export (FOB) rose by 17.2 percent, reaching USD 51.8 billion in 2022 from USD 44.2 billion in 2021. Import (FOB) posted 9.7 percent growth and stood at USD 81.7 billion from USD 74.4 billion (Chart 1.16). Although the growth of export outpaced the growth of import in 2022, export as a percent of import still remained relatively low (63.4 percent in 2022), indicating a high trade deficit. However, the share of export in percent of import increased in 2022 compared to the previous year.

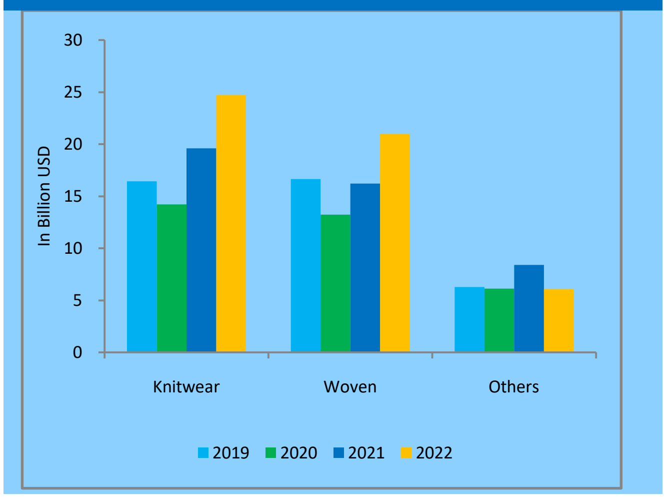
CHART 1.16: EXPORT AND IMPORT TREND OF BANGLADESH



Sources: Statistics Department, BB and Export Promotion Bureau.

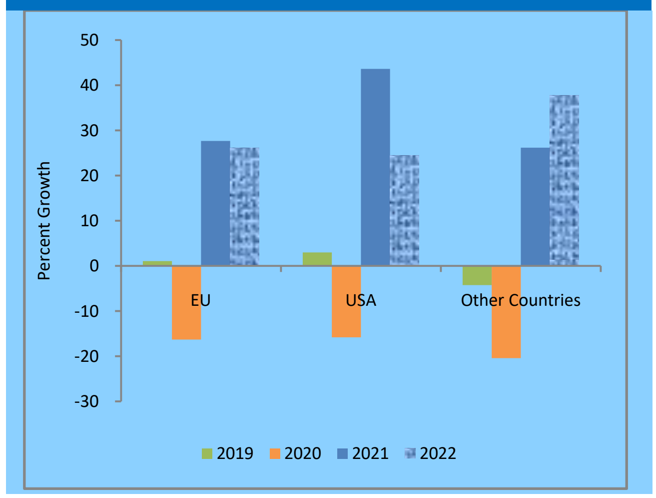
As per commodity-wise breakdown, knitwear exports led the total exports in 2022, climbing by 26.1 percent, followed by woven garment exports that increased by 29.5 percent compared to the previous year (Chart 1.17). Additionally, growth of exports of readymade garments (RMG) to the European Union and the USA increased by 26.1 percent and 24.5 percent respectively (Chart 1.18).

CHART 1.17: COMMODITY-WISE EXPORTS OF BANGLADESH



Source: Export Promotion Bureau.

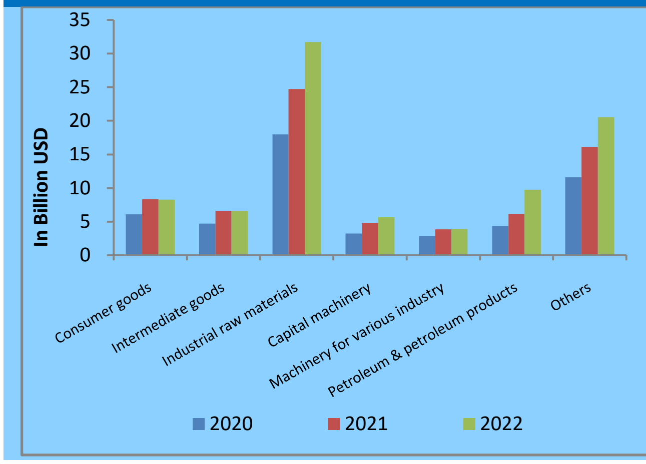
CHART 1.18: REGION-WISE EXPORT GROWTH OF RMG



Source: Export Promotion Bureau.

Commodity-wise import[6] trend in Bangladesh in the last three years demonstrates that the import of industrial raw materials had consistently captured the highest share in the overall import items (Chart 1.19). Alongside, most of the import items increased consistently in the review year. In 2022, imports of petroleum and petroleum products increased markedly by 58.1 percent, while industrial raw materials, capital machinery, and other items soared by 28.4 percent, 17.6 percent, and 27.3 percent respectively. However, the growth of imports of consumer and intermediate goods remained largely unchanged in 2022 compared to those of the previous year.

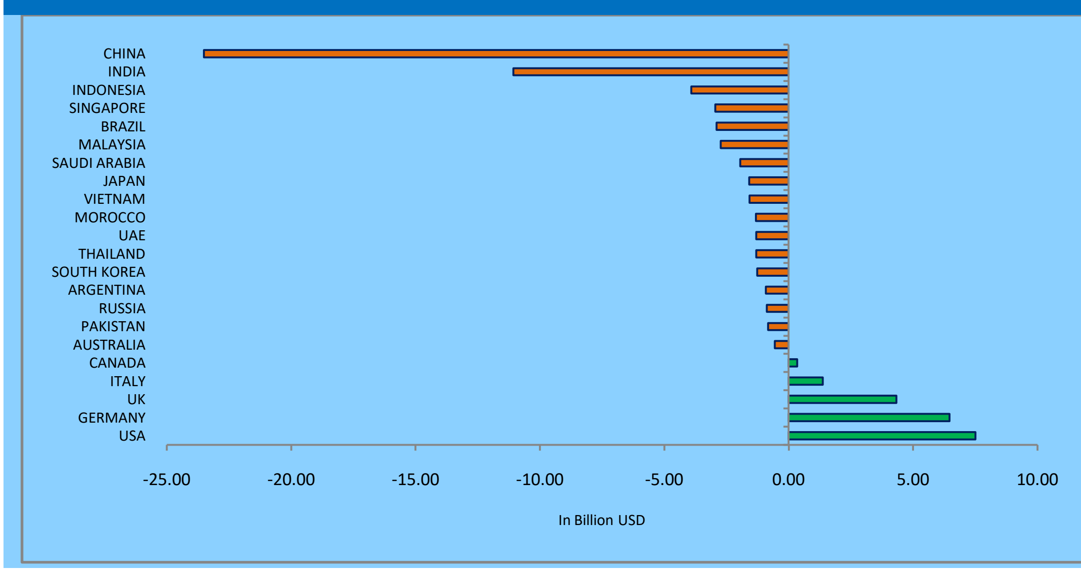
CHART 1.19: CATEGORY-WISE IMPORT TREND OF BANGLADESH



Sources: Foreign Exchange Operation Department, BB.

Chart 1.20 presents the trade balance[7] of Bangladesh with major trading partners in 2022. It depicts that Bangladesh had a sizeable trade deficit with China and India due to substantial imports from these countries. Higher concentration on some specific countries for import implies their strategic importance in the external sector of Bangladesh. However, trade surpluses across countries were more evenly distributed than trade deficits. The major countries with which Bangladesh had a surplus were the USA and some European countries, underpinned mainly by RMG export. Given any reduction in preferential treatment or elimination of trade term facilities due to graduating from LDC to developing economy, Bangladesh may have to face new challenges due to narrowing of the surpluses.

CHART 1.20: TRADE BALANCE WITH MAJOR TRADING PARTNERS OF BANGLADESH IN 2022



Sources: Statistics Department, BB and Export Promotion Bureau.

---

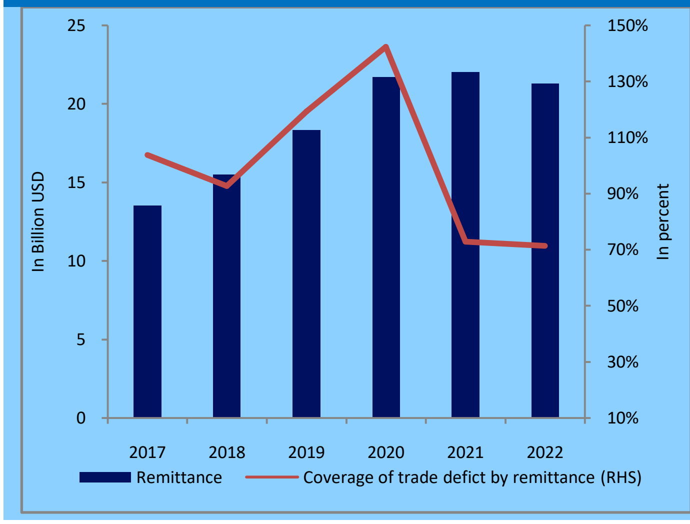
[6] Import refers to import settlement.

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

1.3.2 REMITTANCE

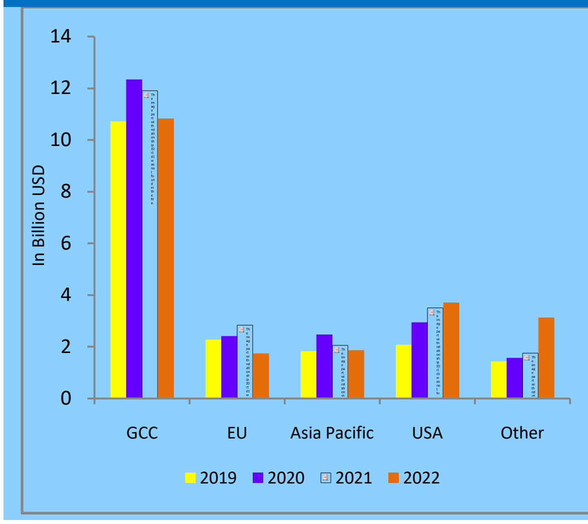
The wage earners' remittance, a vital component in reducing trade deficit of Bangladesh, aids substantially in stabilizing the external sector balance of the country. According to Chart 1.21, remittance decreased by 3.2 percent and reached USD 21.3 billion in 2022 after a consistent rise during 2017 to 2021. Also, the share of the trade deficit covered by remittances fell significantly in the last two years, reaching 71.3 percent in 2022. A large trade deficit over the previous two years, paired with sluggish remittance growth, has pushed trade-off downhill. However, curbing imports with recent policy initiatives and encouraging remittance inflow through legitimate channels might help to reverse the scenario in the coming days.

CHART 1.21: WAGE EARNERS' REMITTANCE INFLOW



Source: Statistics Department, BB.

CHART 1.22: BLOCK-WISE REMITTANCE



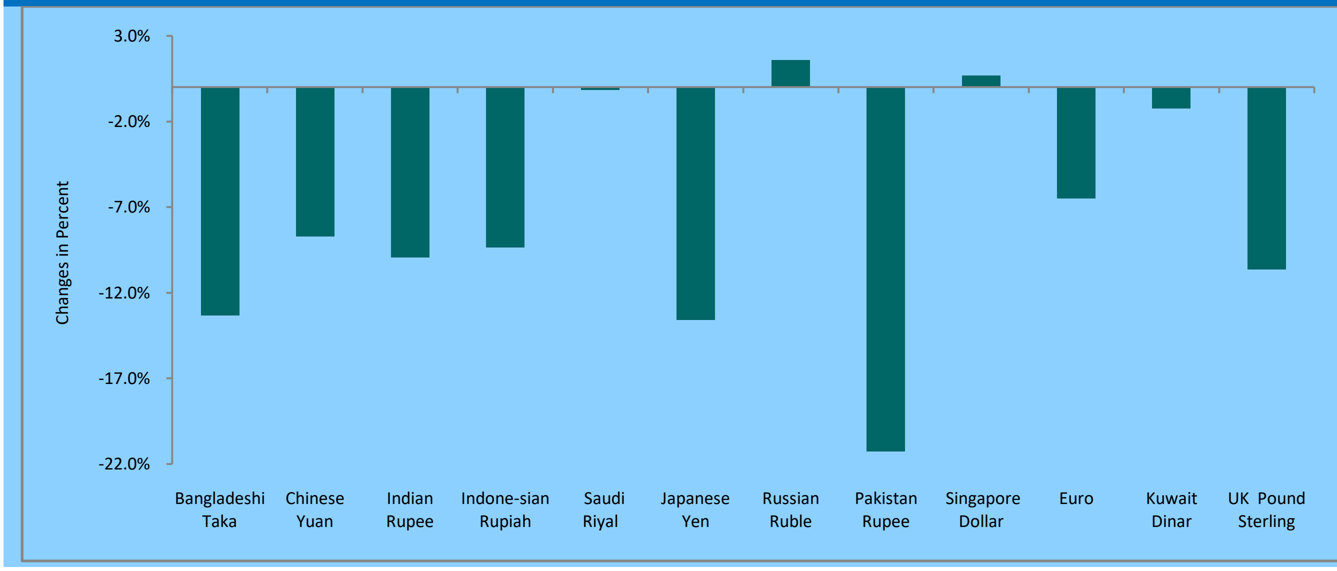
Source: Statistics Department, BB.

In the case of block-wise remittance inflows, despite occupying the lion's share (50.9 percent of total remittances in 2022), the contribution of the Gulf Cooperation Council (GCC) has gradually declined over the last three years (Chart 1.22). Likewise, remittances from the EU zone fell by 38.8 percent in 2022, compared to a 9 percent drop from the Asia Pacific region. However, remittances from the United States and other nations have posted increase in recent years.

1.3.3 EXCHANGE RATE MOVEMENT

In 2022, most global currencies depreciated notably against the US dollar. Bangladeshi Taka (BDT) was no exception, experiencing significant depreciation (13.3 percent). Chart 1.23 represents the change in the exchange rate against USD of some selected economies in 2022. Currencies of major import partners, including the Chinese Yuan, Indian Rupee, Japanese Yen, and Indonesian Rupiah, witnessed substantial depreciation. The value of the Euro and UK Pound Sterling, two vital currencies of export earnings, also plummeted deeply, making exports to those regions less appealing. However, currencies such as the Russian Ruble and the Singapore Dollar spotted a modest increase in 2022.

CHART 1.23: NOMINAL CHANGE IN SELECTED CURRENCIES AGAINST USD IN 2022

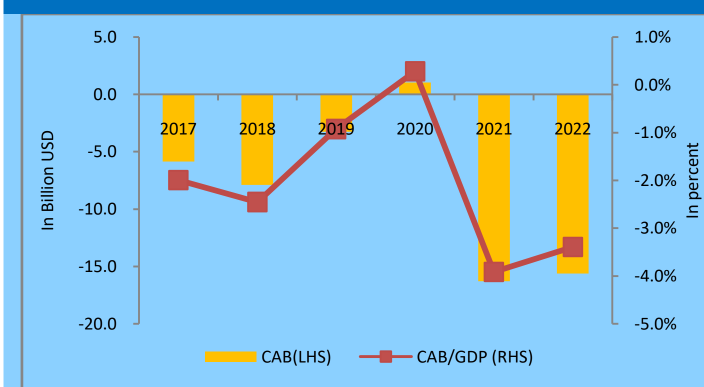


Source: Statistics Department, BB.

1.3.4 Current Account Balance

Current account balance (CAB) of Bangladesh remained negative in the last two years; however, it registered some improvement in 2022 compared to that of the preceding year. The large trade deficit owing to sizable imports and declined remittance growth in 2022 was largely responsible for CAB to remain negative (Chart 1.24). Although CAB-to-GDP improved slightly in 2022 (-3.40 percent) compared to -3.92 percent in 2021, it remained as a notable challenge for the overall BOP and the external sector of Bangladesh.

CHART 1.24: TRENDS OF CURRENT ACCOUNT BALANCE



Source: Statistics Department,BB.

1.3.5 Capital Flow Movement

Capital investment from developed economies plays a crucial role in developing economies like Bangladesh in filling up the capital gap needed for improving the productivity. Among other components, foreign direct investment (FDI) and external loans make up the majority of capital inflows in Bangladesh.

1.3.5.1 Foreign Direct Investment

The net foreign direct investment (FDI) inflows to Bangladesh remained somewhat stalled in the last four consecutive years, partially attributable to issue of confidence among foreign investors arising from the COVID-19 pandemic, the outbreak of the Russia-Ukraine conflict in February 2022, and depreciation of local currency against the USD. As Chart 1.25 indicates, the net FDI inflow in 2022 (up to September) was USD 2.66 billion, compared to an inflow of USD 2.90 billion in 2021. Chart 1.26 exhibits that the USA had the highest FDI stock in Bangladesh as of 2022, contributing around 19.4 percent of total FDI, followed by the UK, Singapore, China, Netherlands, and South Korea with 12.4 percent, 7.8 percent, 7.1 percent, 7.0 percent, and 6.9 percent respectively.

CHART 1.25: NET FDI INFLOW

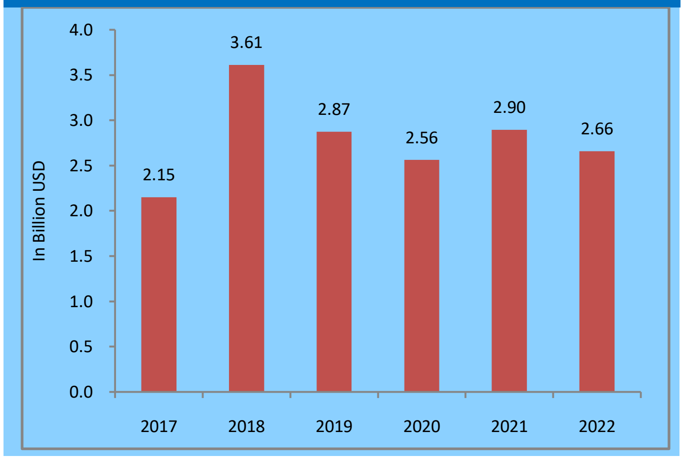
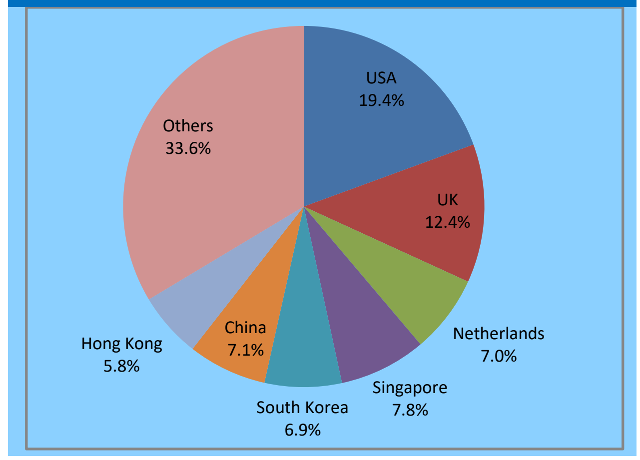


CHART 1.26: MAJOR COUNTRY-WISE FDI STOCK IN 2022



Note: For 2022, up to September data have been used in both charts.
Source: Statistics Department, BB.

1.3.5.2 External Debt

External debts of Bangladesh, both short-term and long-term, have steadily increased during the last five years, although the growth rate of the total external debt significantly decreased in 2022 compared to the preceding year. The short-term and long-term external debt increased by 2.4 percent and 6.9 percent respectively in 2022, while the overall amount of external debt increased by 6.0 percent over the previous year and stood at USD 96.2 billion (Chart 1.27).

CHART 1.27: TERM-WISE EXTERNAL DEBT STOCK

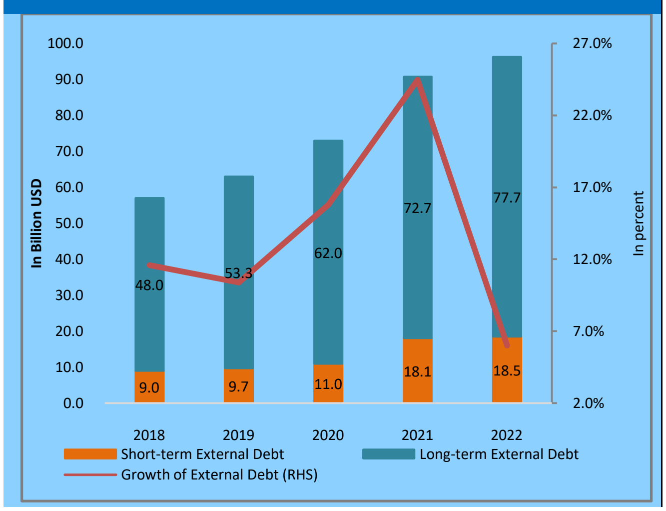
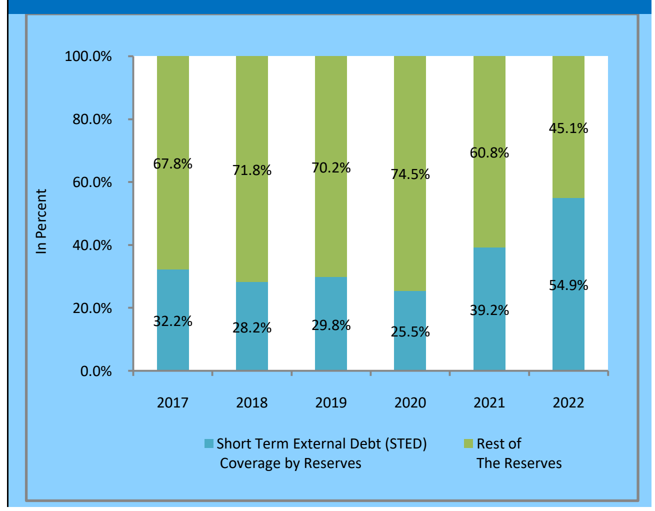


CHART 1.28: SHORT-TERM EXTERNAL DEBT AS PERCETAGE OF RESERVES



Source: Statistics Department,BB.

Source: Statistics Department,BB.

The gross inflow of external debt comprising of public sector external debt and private sector external debt, was USD 5.45 billion in 2022 as opposed to USD 17.85 billion inflow in 2021 (Table 1.1). It is noteworthy that out of gross inflow, the proportion of public sector and private sector debt inflow was 77.43 percent and 22.57 percent respectively. Pertinently, according to Chart 1.28, the short-term debt stock was equivalent to around 55.0 percent of the overall reserve at end-December 2022.

TABLE 1.1: YEAR-WISE GROSS INFLOW OF EXTERNAL DEBT

(Amount in Billion USD)

	2017		2018		2019		2020		2021		2022	
	Amount	**% Share**	**Amount**	**% Share**	**Amount**	**% Share**	**Amount**	**% Share**	**Amount**	**% Share**	**Amount**	**% Share**
Public Sector External Debt												
Short-term	0.20	2.12%	-0.13	-2.19%	-0.22	-3.72%	0.32	3.22%	0.77	4.31%	-0.51	-9.36%
Long-term	6.22	65.82%	5.82	98.15%	5.55	93.75%	7.97	80.26%	8.76	49.08%	4.73	86.79%
Sub-total	**6.42**	**67.94%**	**5.69**	**95.95%**	**5.33**	**90.03%**	**8.29**	**83.48%**	**9.53**	**53.39%**	**4.22**	**77.43%**
Private Sector External Debt												
Short-term	2.73	28.89%	-1.60	- 26.98%	0.93	15.71%	0.92	9.26%	6.33	35.46%	0.95	17.43%
Long-term	0.30	3.17%	1.84	31.03%	-0.34	-5.74%	0.72	7.25%	1.99	11.15%	0.28	5.14%
Sub-total	**3.03**	**32.06%**	**0.24**	**4.05%**	**0.59**	**9.97%**	**1.64**	**16.52%**	**8.32**	**46.61%**	**1.23**	**22.57%**
Total Inflow of External Debt	**9.45**	**100%**	**5.93**	**100%**	**5.92**	**100%**	**9.93**	**100%**	**17.85**	**100%**	**5.45**	**100%**

Source: NSDP, BB.

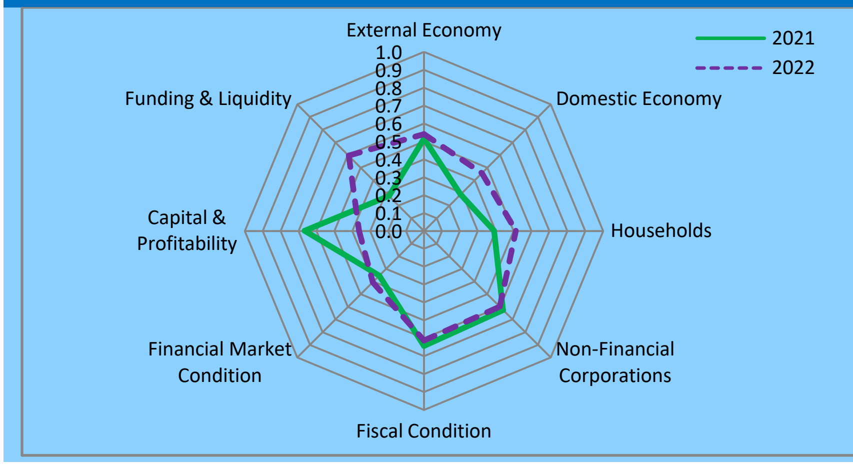
Economic growth of Bangladesh has been significantly aided by its external debt, which helps to finance the nation's expanding need for investments. However, rising external debt may entail some risks of surging cost of funds, if adverse movement in the exchange rate and deterioration in country's rating materialize, especially when the bulk of debt servicing will be required on the accumulated debt. Therefore, prudent and productive use of external debt must be ensured towards minimizing the risk from external sector front.

1.4 MAPPING FINANCIAL STABILITY

This section presents a financial stability map, which shows that the domestic economy, households, and funding and liquidity components deteriorated notably while the condition of external economy and financial market component declined slightly in 2022 compared to 2021. On the other hand, non-financial corporations, and fiscal condition components improved slightly, while capital and profitability component showed notable improvement.

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 stability map for 2022 to analyze potential stability threats to macro-financial system of Bangladesh by taking into account 8 (eight) broad components[8]: external economy, domestic economy, households, non-financial corporations, fiscal condition, financial market condition, capital and profitability, and funding and liquidity (Chart 1.29).

CHART 1.29: FINANCIAL STABILITY MAP (2021 AND 2022)



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

Chart 1.29 illustrates the comparative financial stability condition of macro-financial system of Bangladesh in 2022 and 2021 through a stability map. The map has been developed by following the global best practices considering the features of financial system of Bangladesh[9]. The stability map depicts notable outward shift in the risk scale across various components, including the domestic economy, households, funding and liquidity, whereas the *conditions of external economy and financial market component became slightly riskier* in 2022. Compared to 2021, the stability situation in *non-financial corporations, and fiscal condition components* improved slightly. On the other hand, *capital and profitability component showed a notable improvement*. Despite a slight reduction in the current account deficit, the external economy component appeared to be riskier in 2022. In contrast, a notable deterioration in the domestic economy was observed, partly attributable to increased inflation despite positive output gap. In 2022, the household credit portfolio became riskier due to increased household credit and a decrease in remittance growth. The pool of NFCs, which deemed to be one of the riskier components for financial stability because of high concentration of bank exposure to large NFCs, improved moderately in 2022 through reducing their leverage. Despite the expanded budget deficit, the fiscal condition improved due to increased tax revenue, reduction in public debt, low sovereign risk premiums. Financial market showed a modest level of risk with negative investor sentiment about capital market. Capital and

---

[8](i) External economy component consists of 7 sub-indicators: real GDP growth of major trading partners, average inflation of top 6 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.

[9]It contains 8 components and 37 underlying indicators. Standardized scores for those indicators have been calculated using a formula "Standardized Score = $(x_i\text{-min})/(\text{max-min})$", 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 indicates lower risk while the components further from the origin and closer to one indicates higher risk.

profitability component displayed marked favourable changes in terms of the risk dimension in 2022. The funding and liquidity component exhibited slight deterioration.

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

External economy component: Geopolitical tension and monetary tightening by advanced economies to control stubbornly high inflation added substantial costs to the sluggish global GDP growth, and high inflation-induced costly imports from major trading partners, combined with reduced wage earners' remittances from top remittance-source countries, pushed FX reserve adequacy of Bangladesh downward, contributing to an increase in external sector risk in 2022. Furthermore, the sizeable depreciation of local currencies against the US dollar, the relatively buoyant international oil price, and three-month LIBOR rates pushed inflation higher by making petroleum imports more expensive and weighing on domestic inflation. However, the slightly improved current account deficit had an easing effect on this component, owing to necessary policy support from Bangladesh Bank, such as selling of US dollar in local market to meet excess demand, import constraints for unnecessary and luxury items, import monitoring, reduction of exporters' retention quota (ERQ) limits, and restrictions on foreign travel. In comparison with 2021, the external economy component became a bit riskier in 2022.

Domestic economy component: In 2022, the domestic macroeconomic dynamics experienced a riskier outward shift. Domestic inflation increased significantly in 2022, owing primarily to the depreciation of the local currency against the USD, which increased the cost of imports. Despite a positive output gap, this eventually caused some imbalances in the domestic economy by distorting demand-supply dynamics in 2022 compared to 2021. Long-term public sector external debt increased significantly, and the exchange rate remained volatile throughout 2022. Eventually, the domestic economy component faced difficulties in balancing the distorted domestic demand-supply dynamics and was exposed to significantly higher risk. Maintaining a stable exchange rate and utilizing the full potential of domestic production are critical to the economy's gradual acceleration and lowering the risk to the economy.

Household component: In 2022, high inflation led to an increase in household credit to GDP. Additionally, the decline in remittance growth negatively affected the ability of households to repay their debts, resulting in a deterioration of the household credit portfolio. This deterioration was reflected in an increase in non-performing loans (NPLs) within the household sector. Overall, these trends largely made the household component riskier in 2022 compared to the previous period in terms of credit risk.

Non-financial corporation component: In 2022, credit extended to non-financial corporations (NFCs) increased. However, this component's risk to the financial system decreased slightly compared to 2021. This reduction in risk scale was primarily due to significant reduction in NFCs' leverage, as evidenced from a decrease in their debt-equity ratio. Despite a marginal increase in non-performing loans (NPLs) among the top 50 NFCs, the overall risk from this component diminished during 2022.

Fiscal condition component: In 2022, the budget deficit expanded considerably. However, the increased tax revenue collection as a percentage of GDP provided supportive financing for this deficit. Additionally, there was a reduction in public debt, which further contributed to managing the deficit. Moreover, favourable conditions such as low sovereign risk premiums allowed for external borrowing at a lower cost. Considering all these factors, the overall risk stemming from the fiscal condition component improved marginally in the review year.

Financial market component: In 2022, financial market condition indicators showed mixed trends in terms of risk. Overall, there was a modest level of risk in the financial market. Both the banking and financial institution (FI) sectors experienced a decline in asset quality. The capital market, represented by the DSE index, remained mostly bearish as it experienced a decline. This was partly attributable to the stressed liquidity condition in the financial market, higher returns on alternative investment instruments, and negative investor sentiment. These factors collectively contributed to the modest level of risk observed in the financial market component for 2022.

Capital and profitability component: In 2022, despite the increase in non-performing loans (NPLs), the capital adequacy ratio (CRAR) and Tier-1 capital ratio of banks showed a slight improvement. However, there was a decline in banks' net interest margin (NIM), while the return on assets (ROA) experienced a marginal increase compared to 2021. Overall, the capital and profitability component displayed a marked favourable movement in terms of the risk dimension in 2022.

Funding and liquidity component: In 2022, the liquidity of the banking sector experienced a notable tightening compared to 2021. This was evident from the increase of the advance-to-deposit ratio (ADR) and the gradual decrease in the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) in the first half of 2022. These changes imply a notable outward shift in the risk associated with the funding and liquidity component.

In a nut shell, the financial stability map indicates that the overall macro-financial condition of Bangladesh deteriorated in 2022. There was a notable outward shift in some key components namely the domestic economy, households, and funding and liquidity components, and slightly riskier shifts in the external economy and financial market condition components in 2022. This signifies increased risks and challenges in these areas compared to the previous year, having bearing for overall system stability of the country.

CHAPTER 2 : BANKING SECTOR'S PERFORMANCE

The banking sector of Bangladesh remained mostly stable exhibiting a modest asset growth in 2022, the review year. The deposit growth, albeit moderate decline compared to that of the preceding year, appeared to be well supportive for meeting increased demand for loans and advances. The asset quality of the banking sector declined slightly during the period. Both Capital to Risk-Weighted Assets Ratio (CRAR) and Tier-1 capital ratio of the banking industry increased moderately as of end-December 2022 compared to those of the preceding year, and remained well above the respective regulatory requirements. Because of the improved regulatory capital position of SOCBs, PCBs and FCBs, the industry's overall CRAR remained stable during the year. On the other hand, leverage ratio of the banking sector as a whole, in line with Basel III, stood at 4.74, notably above the regulatory minimum requirement, owing primarily to the elevated leverage ratios of FCBs and PCBs. The liquidity situation in the banking industry remained largely stable. Advance-to-deposit ratio (ADR) of the banking sector stayed below the admissible limit[10], even demonstrating an upward trend. Call money borrowing rate also showed a gradual rising trend. The industry as a whole maintained liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) above the regulatory minimum requirement, except the PCBs (Islamic) banking cluster.

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 led by the banking sector and also includes non-bank financial institutions (NBFIs), capital market intermediaries, insurance companies, and microfinance institutions (MFIs) having separate regulators respectively. The semi-formal sector is comprised of few specialized financial institutions, 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. Those institutions are regulated by different ministries or organizations of the Government under certain Acts or legal frameworks. Moreover, Authorized Dealers (ADs), Mobile Financial Service (MFS) Providers and Payment Service Providers (PSPs) perform designated 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, foreign exchange market and Payment and Settlement Systems of the country, regulates and monitors the activities of all the scheduled banks and non-bank financial institutions (NBFIs). Currently, there are 6 state-owned commercial banks (SOCBs), 3 specialized development banks (SDBs), 43 domestic private commercial banks (PCBs) (33 Conventional and 10 Islami Shari'ah-based banks), 9 foreign commercial banks (FCBs), and 35 non-bank financial institutions (NBFIs) 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, 67 merchant banks, 479 broker, 566 dealers, 24 custodian banks, 8 credit rating agencies, 25 fund managers, 58 asset management companies, and 234 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.

[10] 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).

At present, 81 insurance companies and 739 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

(As of end-December 2022)

		Financial Market Infrastructure	Institutions	Numbers	Regulator
Financial System	Formal Sector	Money Market Foreign Exchange Market Payment and Settlement Systems	Banks	SOCBs (6) SDBs (3) PCBs (43) FCBs (9)	Bangladesh Bank
			FIs	Government-owned (3) Others (32)	
			Others	ADs, Money changers, MFS providers, PSOs, PSPs, OPGSPs etc.	
		Capital Market	DSE CSE CDBL	Merchant banks (67) Brokers (479) Dealers (566) Custodian banks (24) Credit rating agencies (8) Fund managers (25) Asset management companies (58) Trustees (234)	BSEC
		Insurance Market	Life Non-Life	Govt. Owned (2) Others (79)	IDRA
		Micro Credit Market	MFIs	MFIs (739)	MRA
	Semi-formal Sector	BHBFC, BSBL, ICB, PKSF, and Grameen Bank, NGOs, cooperatives and credit unions, discrete government programs, etc.			
	Informal Sector				

2.2 ASSET STRUCTURE OF THE BANKING SECTOR

In 2022, the size of banking sector assets registered a modest increase compared to that of 2021, although, the growth rate of assets recorded a moderate decline.

Assets in the banking sector increased by 7.50 percent from that of 2021 and reached at BDT 21,962.39 billion in 2022 (Chart 2.1). It is noteworthy that asset growth in 2021 and 2020 was 10.99 percent and 12.98 percent respectively. FCBs had the highest asset growth of 11.44 percent among all the banking clusters, followed by

PCBs (9.60 percent), SDBs (7.66 percent), and SOCBs (0.92 percent) in 2022. However, compared to 2021, asset growth in every category of the four banking clusters slowed down in 2022 (Chart 2.2). Asset growth of SOCBs, SDBs, PCBs, and FCBs declined by 9.13, 3.53, 1.63, and 0.87 percentage points respectively in 2022.

CHART 2.1: TOTAL ASSET GROWTH: ANNUAL BASIS

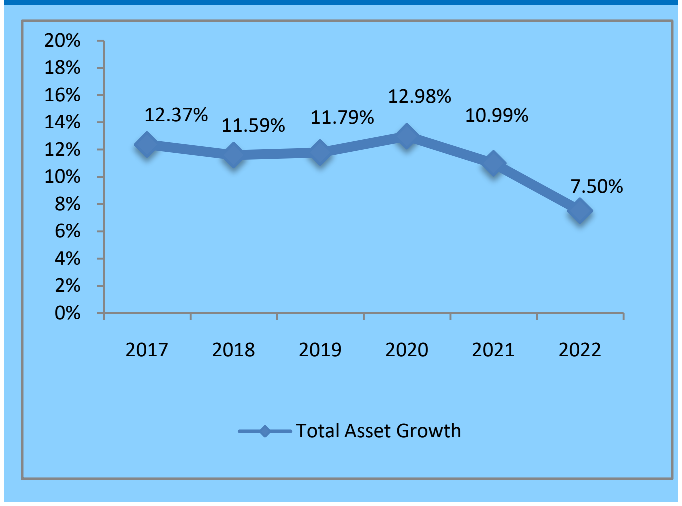
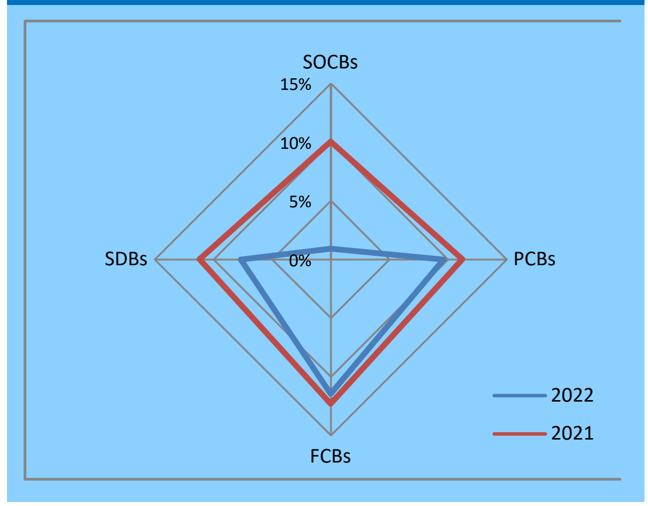


CHART 2.2: ASSET GROWTH OF BANKING CLUSTERS



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

Considering the asset structure of the banking sector in 2022, total loans and advances constituted the highest share followed by total investment. Total loans and advances accounted for 68.42 percent of total assets (compared to 64.83 percent in 2021) while total investment constituted 15.65 percent (18.83 percent in 2021) as depicted in Chart 2.3.

Chart 2.4 shows that total loans and advances recorded an increase of 13.45 percent, which was 12.74 percent in the previous year. Recovery from the COVID-19 pandemic might have a positive impact on the demand for loans. Moreover, normal economic activities got a stronger pace in this period. However, the banking industry demonstrated a decreased exposure in total investment (including Government and other securities) compared to the last two years. In 2022, banks' total investment declined by 10.62 percent while it grew by 16.21 and 31.96 percent in 2021 and 2020 respectively. It is noteworthy that investment in Government securities decreased by 9.96 percent in 2022 compared to that of the previous year. Likewise, investment in other securities recorded a decline of 11.62 percent in 2022 as opposed to 27.60 percent growth in 2021.

Among all the categories of banks, SDBs and PCBs had relatively higher shares of loans and advances (80.94 and 72.92 percent respectively) in their asset structure followed by SOCBs (58.65 percent), and FCBs (49.55 percent).

CHART 2.3: YEAR-WISE BANKING SECTOR ASSET STRUCTURE

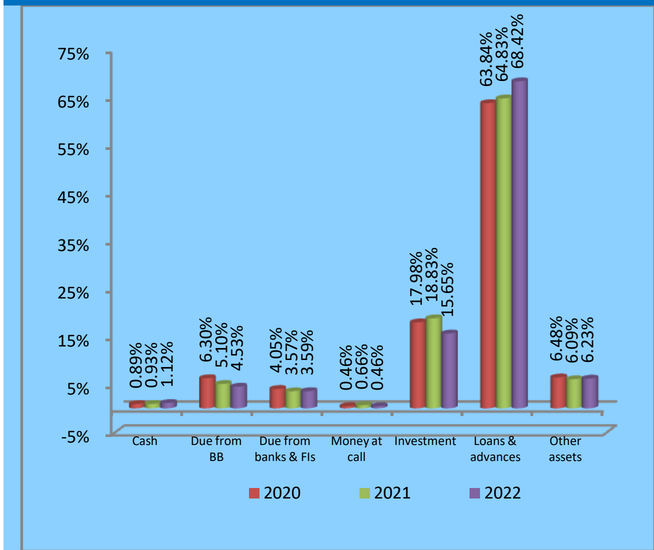
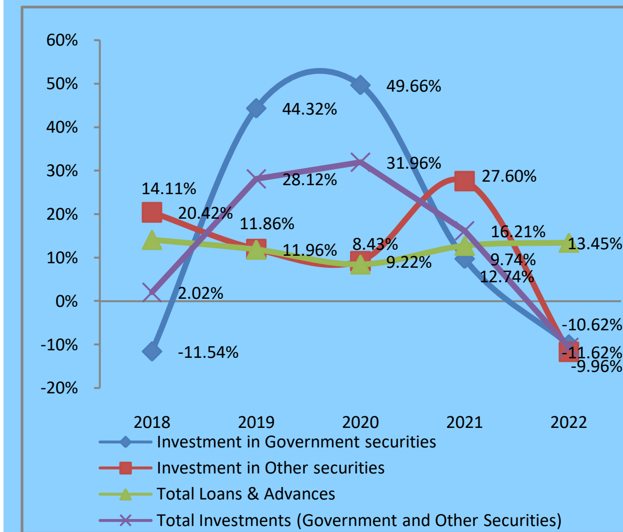


CHART 2.4: YEAR-WISE GROWTH OF LOANS AND ADVANCES AND INVESTMENT IN SECURITIES



Note: *Other Assets* includes *Fixed Assets* and *Non-banking Assets.*
Source: DOS, BB; compilation: FSD, BB.

PCBs had a larger share in the Earning Assets of the banking sector as a whole and relatively a low NPL ratio, which may contribute to sustain the resilience of the banking industry.

In 2022, the share of major earning assets of PCBs and SDBs, as a percentage of aggregate earnings assets of the banking industry, demonstrated a marginal increase while those of SOCBs and FCBs showed a slight decrease compared to their respective positions in 2021 (Chart 2.5). PCBs held the highest share of earning assets (69.62 percent), followed by SOCBs (22.98 percent). Holding the lion's share of earning assets by PCBs may reflect a positive sign for financial system stability as historically the PCBs, on an aggregate basis, were able to manage better asset quality, higher capital to risk-weighted assets, and return on assets than SOCBs and SDBs.

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

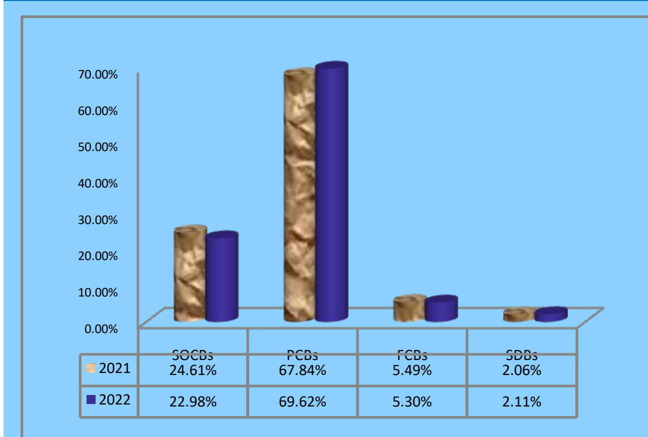
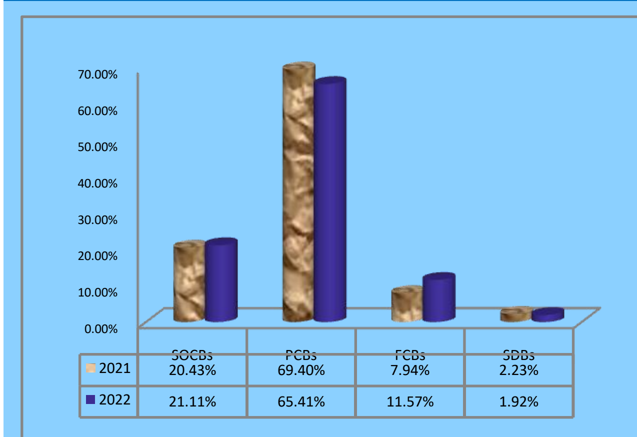


CHART 2.6: SHARE OF CASH, DUE FROM BB, DUE FROM OTHER BANKS AND FIs, AND MONEY AT CALL



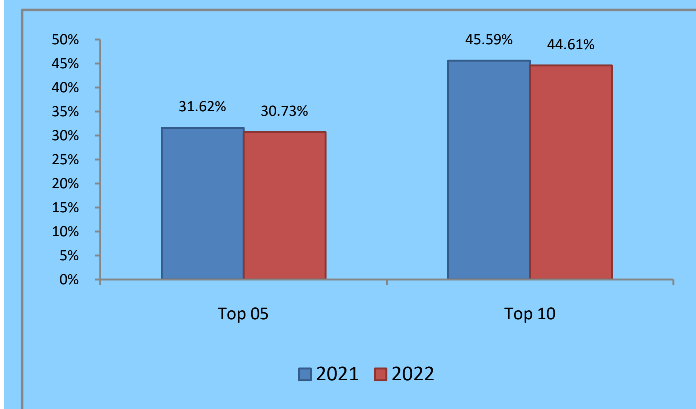
Source: DOS, BB; Compilation: FSD, BB.

Chart 2.6 demonstrates the aggregate shares in cash, due from BB, due from other banks and FIs, and money at call captured by different categories of banks, where the shares of these assets increased for the SOCBs and FCBs in 2022. On the other hand, PCBs' share decreased by 3.99 percentage points while SDBs' share decreased by 0.31 percentage point in the reporting year compared to the previous year. In the course of recovery from the COVID-19 pandemic, the increased holding of these assets may help the banks manage their future liquidity concerns.

In 2022, the concentration of assets within a few banks demonstrated a marginal decline in contrary to an increase in the sector-wise loan concentration compared to 2021.

According to Chart 2.7, the asset concentrations within the top five (05) and top ten (10) banks were 30.73 percent and 44.61 percent respectively, as on end-December 2022, compared to 31.62 percent and 45.59 percent at end-December 2021. In 2022, 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) ASSET SHARE IN THE BANKING INDUSTRY



Note: 60 banks were considered due to the availability of data
Source: DOS, BB; Calculation: FSD, BB (data of 2021 revised)

In the case of sector-wise loan concentration, the score of calculated Herfindahl-Hirschman Index (HHI) was 1437.21 points in 2022, which indicated a slight increase in concentration risk from 1434.29 points of 2021. In 2022, four sectors, namely Large Industries, Wholesale and retail trade (CC, OD, etc.), miscellaneous, and import financing (LIM, LTR, TR etc.) had double-digit shares, i.e., 26.45 percent, 18.24 percent, 12.34 percent and 10.13 percent respectively (Table 2.2). This scenario was very similar to that of 2021.

A high market share (26.45 percent) of large industries' loans indicates that banks were more engaged in disbursing corporate loans.

TABLE 2.2 : SECTOR-WISE LOAN CONCENTRATION IN 2022

SI.	Sector	Loans Amount[P] (in billion BDT)	Percent of Total (%)	HHI
1	Large Industries	3,670.15	26.45	699.48
2	Wholesale and Retail Trade (CC, OD etc.)	2,530.97	18.24	332.64
3	Miscellaneous	1,712.29	12.34	152.25
4	Import Financing (LIM, LTR, TR etc.)	1,405.57	10.13	102.59
5	Small and Medium Industries	890.98	6.42	41.22
6	Service Industries	854.97	6.16	37.96
7	Export Financing(PC, ECC etc)	829.86	5.98	35.76
8	Agriculture	617.79	4.45	19.82
9	Housing (Residential) in Urban Area for Individual Person	333.56	2.40	5.78
10	Other Construction	302.72	2.18	4.76
11	Housing (Commercial):For Developer/Contractor	257.12	1.85	3.43

SI.	Sector	Loans Amount[P] (in billion BDT)	Percent of Total (%)	HHI
12	Infrastructure Development (Road, Culvert, Bridge, Tower etc.)	94.98	0.69	0.48
13	House Renovation/Repairing/Extension	86.73	0.63	0.39
14	Air Transport	54.21	0.39	0.15
15	Lease Financing/Leasing	53.98	0.39	0.15
16	Fishing	51.85	0.37	0.14
17	Road Transport (Excluding Personal Vehicle & Lease Finance)	43.63	0.31	0.10
18	Housing (Residential) in Rural Area for Individual Person	36.06	0.26	0.07
19	Water Transport (Excluding Fishing Boats)	19.19	0.14	0.02
20	Cottage Industries/Micro Industries	15.48	0.11	0.01
21	Procurement by Government	14.47	0.11	0.01
22	Water-works	0.33	0.00	0.00
23	Sanitary Services	0.12	0.00	0.00
24	Forestry and Logging	0.03	0.00	0.00
	Total Loan and Advances	**13877.04**	**100.00**	**1437.21**

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

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

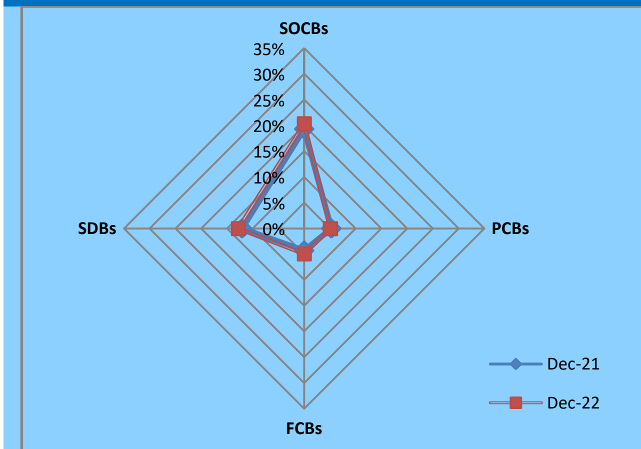
Asset quality of the banking sector as a whole slightly deteriorated in 2022 as gross nonperforming loan (NPL[11]) showed a marginal rise mostly driven by the increase in NPL ratios of SOCBs and SDBs. The net NPL ratio[12] also increased to -0.08 percent from -0.43 percent in the preceding year.

The banking sector gross reached to 8.16 percent at end-December 2022 which was 7.93 percent in the corresponding period of the previous year (Chart 2.8), Compared to end-December 2021, the gross NPL ratio increased by 0.23 percentage point at end-December 2022. Noteworthy that the gross NPL amount increased by BDT 173.83 billion following an increase of total outstanding of loans and advances by BDT 1,759.92 billion in the banking sector. Ensuring the proper monitoring of regular and rescheduled/restructured loans and the pace in recovery of NPLs may improve the asset quality of the banking industry. Nonetheless, external issues like prolongation of the Russia-Ukraine conflict and other geopolitical issues may result in slow business as well as impaired debt-servicing capacity of the borrowers, which might ultimately deteriorate the asset quality of the overall banking sector in Bangladesh.

[11]Total classified loans as a percentage of total loans outstanding. Loans and Advances of both Domestic Banking Unit (DBU) and Offshore Banking Unit (OBU) are considered in calculating NPL ratio.
[12]Net NPL ratio or net non-performing loan ratio = (Gross NPLs - Loan-loss Provisions – Interest Suspense) /(Total Loans Outstanding - Loan-loss Provisions-Interest Suspense).

CHART 2.8: GROSS NPL RATIO OF THE BANKING INDUSTRY

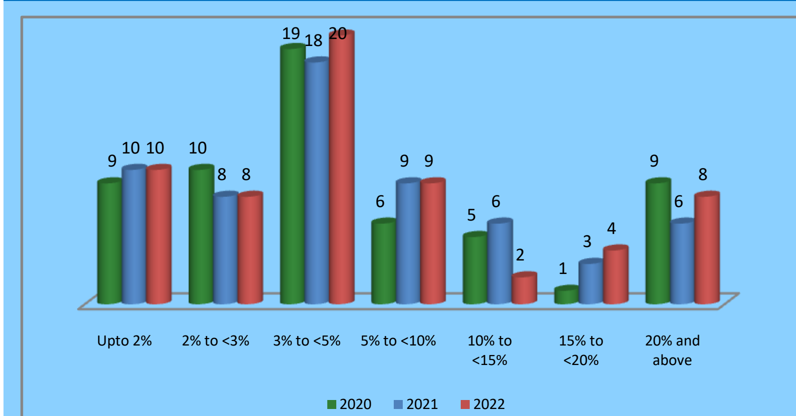
CHART 2.9: GROSS NPL RATIO OF BANKING CLUSTERS



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

The gross NPL ratio of SOCBs registered an increase of 1.0 percentage point compared to end-December 2021 and reached at 20.28 percent at end-December 2022 (Chart 2.9). FCBs and SDBs also demonstrated a slight increase in the NPL ratio. For FCBs and SDBs, the NPL ratios reached at 4.91 percent and 12.80 percent respectively. On the contrary, PCBs experienced an improvement in asset quality during the reporting year as they showed an overall decline in NPL ratio of 0.18 percentage point and reached at 5.13 percent at end-December 2022. It is worth mentioning that, SOCBs and PCBs both individually held equal share of the total NPL of the banking industry, around 46.8 percent, at end-December 2022. For FCBs and SDBs, the share stood at 2.53 and 3.90 percent respectively.

CHART 2.10: GROSS NPL RATIO OF BANKS INTO DIFFERENT BUCKETS



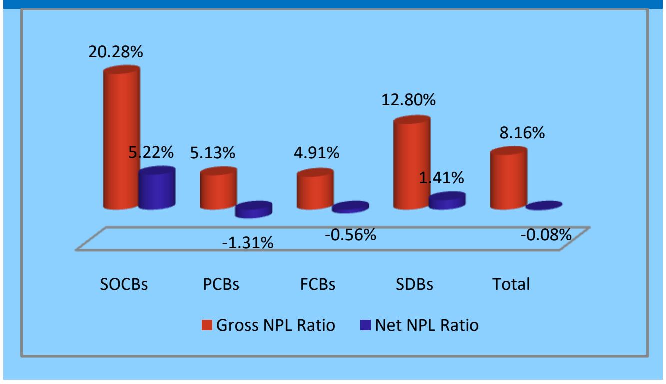
Source: BRPD, BB; Computation: FSD, BB.

The distribution of banks according to the NPL ratios is presented in Chart 2.10. In 2022, the total number of banks increased to 61 from 60[13]. It is observed that, in 2022, 38 banks maintained their NPL ratio below 5 percent, whereas, in 2021, this number was 36. All the FCBs, except one, and all the PCBs except five recorded single-digit gross NPL ratios at end-December 2022. From the stability point of view, a concern might have ground from the fact that out of 61 banks, 8 (3 SOCBs, 3 PCBs, 1 FCB, and 1 SDB) had NPL ratios over 20.0 percent.

[13]Considering the availability of NPL data.

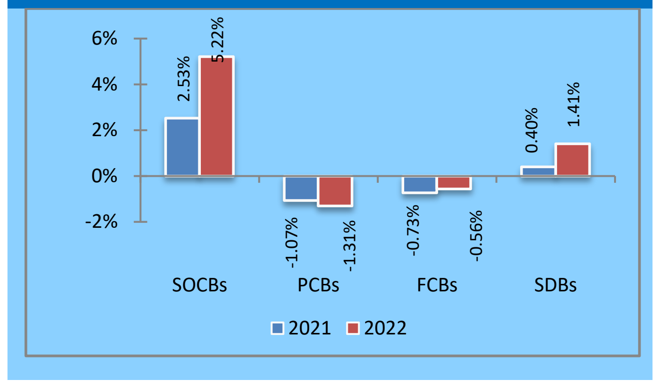
Likewise the trend in gross NPL ratio, the net NPL ratio slightly increased to -0.08 percent at end-December 2022 compared to -0.43 percent recorded in the previous year (Chart 2.11).

CHART 2.11: GROSS AND NET NPL RATIO IN 2022



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

CHART 2.12: NET NPL RATIO OF BANKING CLUSTERS

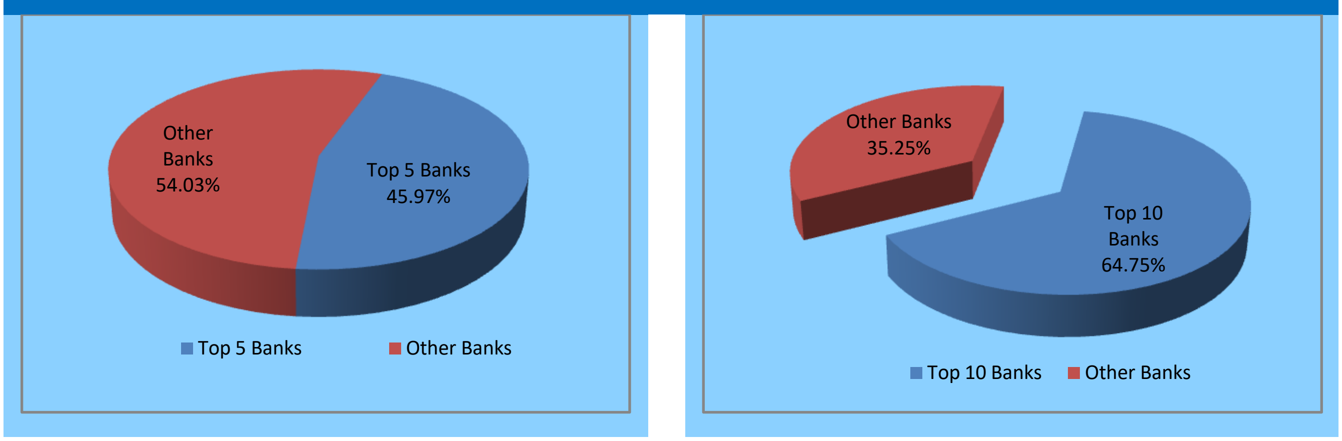


Source: BRPD, BB; compilation: FSD, BB.

Chart 2.12 shows the net NPL ratio of different categories of banks. Although the PCBs held the largest share of the industry assets, their net NPL ratio remained negative in 2022. FCBs also had a negative net NPL ratio. These banks seem to be resilient against a certain admissible level of deterioration in their asset quality. The net NPL ratios in SOCBs and SDBs stood at 5.22 percent and 1.41 percent respectively at the end-December 2022.

As of end-December 2022, the top 5 and top 10 banks' gross NPLs (based on the size of gross NPLs) stood at 45.97 percent and 64.75 percent respectively, which were 43.5 and 62.5 percent in 2021 respectively (Chart 2.14). In 2022, in terms of highest gross NPL size, the top 10 banks comprised of 5 SOCBs, 4 PCBs, and 1 SDB. On the other hand, in terms of gross NPL ratio, among the top 10 banks consisted of 5 SOCBs, 3 PCBs and 1 FCBs and 1 SDB.

CHART 2.13: TOP 5 AND TOP 10 BANKS' (BY GROSS NPL SIZE) SHARES IN NPLs



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

In 2022, the sector-wise NPL distributions did not show much concentration of NPL in any particular sector except industries (manufacturing).

Table 2.3 shows the concentration of NPLs across different sectors of the economy in 2022. NPL concentration remained high in the industries (manufacturing) sector. The share of NPL of this sector was considerably higher (55.10 percent) than all the other sectors, along with a lion's share of loans (49.27 percent) of the banking industry. Moreover, the gross NPL ratio of this sector was 0.97 percentage point higher than the industry gross

NPL ratio. As loans in the industries (manufacturing) sector occupied almost half of the banking sector's loans and advances, this sector seemed to pose a pocket of risk for the banking sector. Furthermore, the high gross NPL ratio (22.43 percent in 2022) in the Ship-building and Ship-breaking sub-sector remained another major concern, which was 18.75 percent in the previous year.

TABLE 2.3: SECTOR-WISE NON-PERFORMING LOANS DISTRIBUTION (IN 2022)						
Sl. No.	**Name of the Sectors**	**In Billion BDT**		**In Percent**		
		Total Loans Outstanding	**Gross NPL**	**Gross NPL Ratio**	**Share of Loans Extended**	**Share of NPLs**
1	**Agriculture**	550.67	35.01	6.36%	3.73%	2.90%
2	**Industries (Manufacturing)**	7,281.22	664.83	9.13%	49.27%	55.10%
2.1	RMG	1,703.90	189.46	11.12%	11.53%	15.70%
2.2	Textile	1,271.87	146.77	11.54%	8.61%	12.17%
2.3	Ship building and Ship breaking :	212.19	47.60	22.43%	1.44%	3.95%
24	Agro-Based Industry	1,026.99	91.41	8.90%	6.95%	7.58%
2.5	Other Industries (Large Scale)	2,091.59	96.09	4.59%	14.15%	7.96%
2.6	Other Industries (Small, Medium and Cottage)	631.31	74.14	11.74%	4.27%	6.14%
2.7	Pharmaceutical Industry	212.82	4.05	1.90%	1.44%	0.34%
2.8	Leather and Leather-based Industry	130.38	15.32	11.75%	0.88%	1.27%
3	**Industries (Services)**	1,689.43	112.89	6.68%	11.43%	9.36%
3.1	Construction Loans	898.51	56.61	6.30%	6.08%	4.69%
3.2	Transport and Communication	212.74	18.47	8.68%	1.44%	1.53%
3.3	Other Service Industries	578.18	37.82	6.54%	3.91%	3.13%
4	**Consumer Credit**	968.40	29.87	3.08%	6.55%	2.48%
4.1	Credit Card	82.55	6.44	7.81%	0.56%	0.53%
4.2	Auto (Car) Loans	24.80	0.35	1.42%	0.17%	0.03%
4.3	Housing Finance	277.36	13.39	4.83%	1.88%	1.11%
4.4	Personal	583.69	9.68	1.66%	3.95%	0.80%
5	**Trade and Commerce (Commercial Loans)**	2,888.87	289.02	10.00%	19.55%	23.96%
6	**Credit to NBFI**	110.53	3.75	3.39%	0.75%	0.31%
7	**Loans to Capital Market**	81.34	0.91	1.11%	0.55%	0.08%
7.1	Merchant Banks	39.71	0.51	1.29%	0.27%	0.04%
7.2	Other than Merchant Banks	41.63	0.39	0.95%	0.28%	0.03%
8	**Other Loans**	1,206.46	70.22	5.82%	8.16%	5.82%
	Total	14,776.92	1,206.49	8.16%	100.00%	100.00%
Source: Scheduled Banks and DOS, BB; Compilation: FSD, BB.						

The substantial high ratio of Bad/Loss loan to gross NPL continued in 2022 with a further slight increase compared to 2021.

At end-December 2022, the share of Bad and Loss (B/L) loans in gross NPL increased to 88.67 percent (Chart 2.14) compared to 88.17 percent in 2021. This high B/L loan ratio indicates that a major portion of the NPL has not been performing for a longer period. The total B/L loan of the banking sector stood at BDT 1,069.82 billion at end-December 2022 (BDT 910.58 billion at end-December 2021).

The other two categories of classified loans namely sub-standard (SS) and doubtful (DF) constituted 6.79 percent (7.77 percent in 2021) and 4.54 percent (4.06 percent in 2021) of the total NPLs respectively as shown in Chart 2.15.

CHART 2.14: GROSS NPL COMPOSITION IN 2022

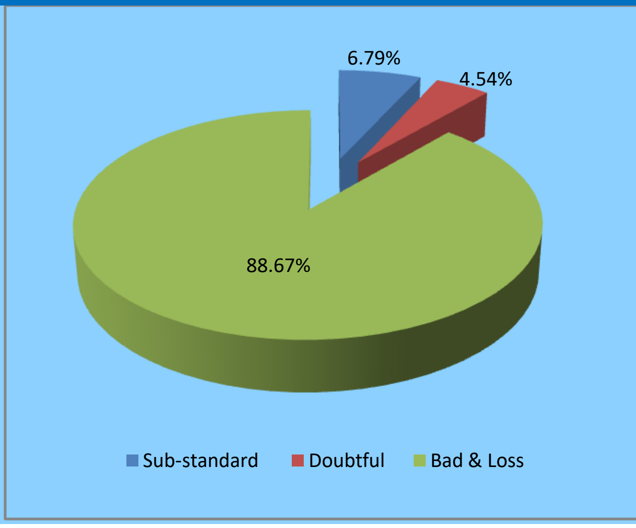
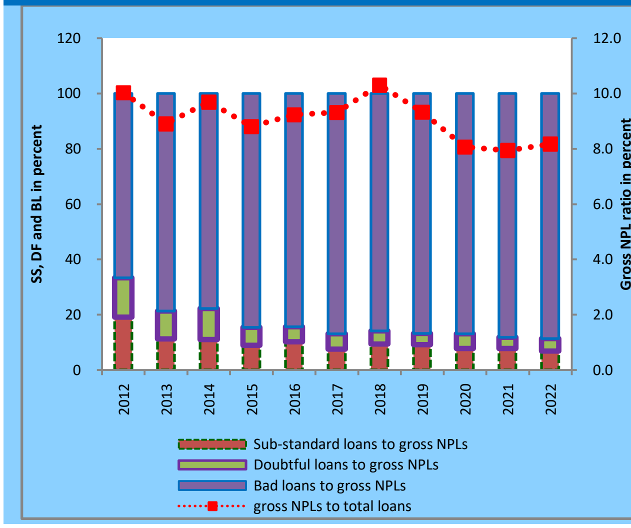


CHART 2.15: YEAR-WISE SHARES OF THE THREE CATEGORIES OF NPLs

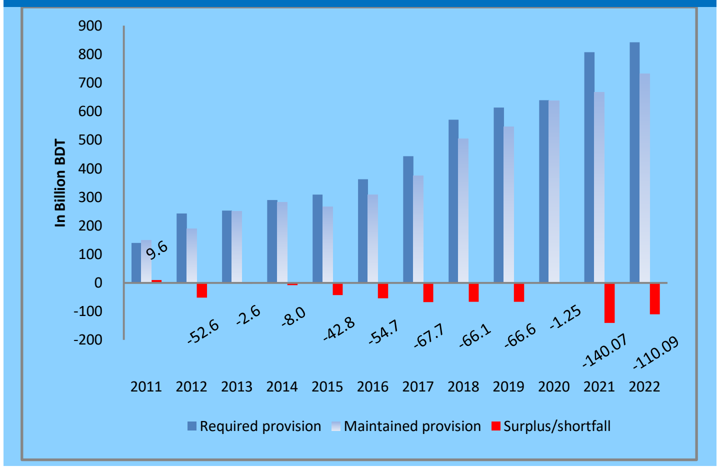


Source: BRPD, BB; computation: FSD, BB.

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, which may imply a slow recovery from bad loans. Higher B/L loans may adversely affect the profitability and the capital base of the banks since 100 percent provision is required to be maintained against such loans. ***In 2022, all the banks except four PCBs, three SOCBs and one SDB maintained loan-loss provisions as per the regulatory requirement of BB.***

The provision maintenance scenario improved in 2022. As of end-December 2022, the gross NPLs totaling BDT 1,206.57 billion imposed a loan-loss provision requirement of BDT 841.57 billion, against which the amount of provision maintained was BDT 731.48 billion (Chart 2.13). The provision maintained by the banks recorded a growth of 9.75 percent compared to the previous year. Thus, the overall provision shortfall stood at BDT 110.09 billion from BDT140.1 billion in 2021, recording an improvement during the period. Consequently, the provision maintenance ratio also increased to 86.92 percent in 2022 from 82.63 percent in 2021. However, the maintained provision to gross NPL ratio decreased from 64.53 percent (in 2021) to 60.63 percent at the end-December 2022.

CHART 2.16: YEAR-WISE BANKING SECTOR LOAN LOSS PROVISIONS



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

The different clusters of banking industry exhibited a mixed trend in improving the provision maintenance ratios. In 2021, the provision shortfall of SOCBs was BDT 170.55 billion, which came down to BDT 88.28 billion at end-December 2022. In contrast, the provision surplus of PCBs in 2021 accounting BDT 23.54 billion turned into a shortfall amounting to BDT 27.45 billion in 2022. For FCBs and SDBs, there was provision surplus in both the years with a marginal decline from 2021 to 2022 (from BDT 6.59 billion to BDT 5.6 billion for FCBs and BDT 0.34 billion to BDT 0.08 billion for SDBs).

Besides, from individual bank's perspective, four PCBs, three SOCBs and one SDB had provision shortfall; among these three categories only SDBs as a banking cluster had an aggregate provision surplus in 2022. Compared to the previous year, the provision shortfall of the banking industry decreased in terms of both aggregate amount and number of banks in 2022.

The outstanding balance of written-off loans stood at BDT 444.93 billion at end-December 2022.

The cumulative written-off loan amount reached to BDT 653.21 billion at end-December 2022[14] which was BDT 604.98 billion at end of 2021. The cumulative written-off loan amount roughly accounted for 2.97 percent of the banking sector's on-balance sheet assets at end-December 2022. However, out of the total written-off loans, banks have been able to recover BDT 208.28 billion till end-December 2022 and thus the net outstanding balance of written-off loans stood at BDT 444.93 billion where SOCBs, PCBs, FCBs and SDBs accounted for BDT 164.49 billion, BDT 265.68 billion, BDT 11.25 billion and BDT 3.51 billion respectively.[15]

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

[15]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.

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 a minimum chance of recovery and remained 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 the loans/investments must be approved by the board of directors of the related bank. After writing off, the same amount must be kept aside from the balance sheet figure. In addition, as per Section 28KA of Bank Company Act, 1991 (as amended up to 2018) there is no hindrance for retaining bank's claim and continuing legal steps in order to recover the written off loan.

Banks have to maintain a separate ledger for the written-off loan/investment accounts and 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 the entity 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 schedules for those loans.

a- BRPD Circular No. 01/2019 dated 06 February 2019.

2.4 RESCHEDULED ADVANCES

The total amount of loans rescheduled in the review year increased compared to the preceding year. However, most of the rescheduled loans remained unclassified.

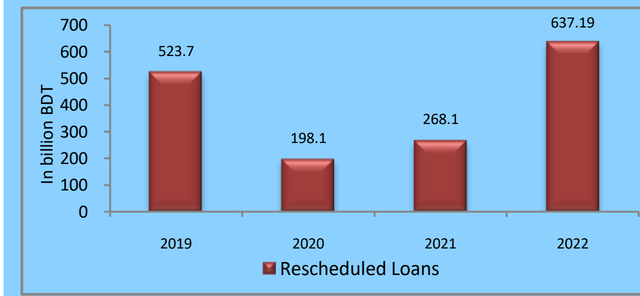
The banking sector's rescheduled loans in 2022 were BDT 637.2 billion which is notably higher than that of the preceding year. However, when compared with pre-COVID situation, rescheduled amount in the review year was not that much higher. Bangladesh Bank introduced a temporary relaxation policy[16] on rescheduled loans, allowing the banks to reschedule loans by taking reduced down payment and granting a relatively longer tenure to the borrower for repayment. Banks were also allowed to frame their own policy to reschedule loans based on the parameters set by Bangladesh Bank.

[16]BRPD Circular No. 16 dated 18 July 2022.

TABLE 2.4 : YEAR-WISE AMOUNT OF RESCHEDULED LOANS (LOANS RESCHEDULED IN A SINGLE YEAR)	
Year	**Amount** (In Billion BDT)
2019	523.7
2020	198.1
2021	268.1
2022	637.2

Note: Data for the period 2019-21 are revised.
Source: Scheduled Banks (provisional); computation: FSD, BB.

CHART 2.17: YEAR-WISE AMOUNT OF RESCHEDULED LOANS



The rescheduled loan ratio (RSDL)[17] increased to 14.4 percent at end-2022 from 12.9 percent at end-2021 (Chart 2.18). Out of the total outstanding rescheduled loan ratio, classified rescheduled loans ratio (CRSDL) and unclassified rescheduled loans ratio (URSDL) were 2.8 percent and 11.63 percent respectively (Chart 2.18). It is worth noting that more than 80 percent of total outstanding rescheduled loans remained unclassified as of end-2022. The proportions of CRSDL and URSDL remained fairly stable (Chart 2.19).

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

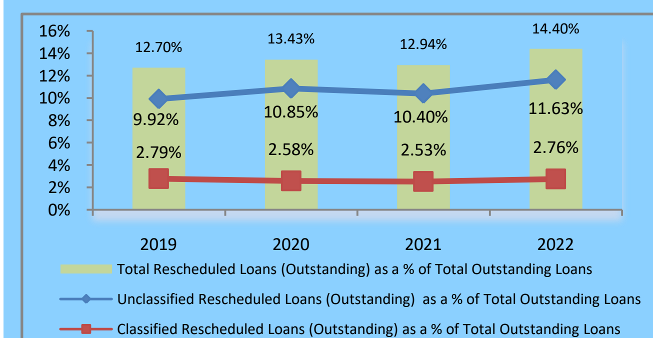
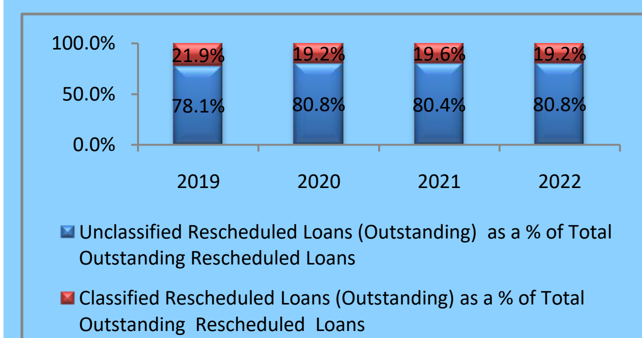


CHART 2.19: COMPOSITION OF RESCHEDULED LOANS OUTSTANDING



Note: Data for the period 2019-21 are revised.
Source: Scheduled Banks (provisional); computation: FSD, BB.

[17]Rescheduled Loans Outstanding (RSDL) Ratio= Total Rescheduled Loans Outstanding to Total Loans Outstanding;
Classified Rescheduled Loan (CRSDL) Ratio= Total Classified Rescheduled Loans Outstanding to Total Loans Outstanding;
Unclassified Rescheduled Loan (URSDL) Ratio= Total Unclassified Rescheduled Loans Outstanding to Total Loans Outstanding.

TABLE 2.5 : COMPOSITION OF RESCHEDULED LOANS OUTSTANDING

(Amount in Billion BDT)

Year	Total Rescheduled Loans Outstanding	Unclassified Rescheduled Loans Outstanding	Classified Rescheduled Loans Outstanding	Unclassified Portion of Total Rescheduled Loan Outstanding	Classified Portion of Total Rescheduled Loan Outstanding
2019	1,362.4	1,063.5	298.8	78.1%	21.9%
2020	1,556.3	1,257.0	299.3	80.8%	19.2%
2021	1,684.0	1,354.3	329.6	80.4%	19.6%
2022	2,127.8	1,719.2	408.6	80.8%	19.2%

Note: Data for the period 2019-21 are revised.
Source: Scheduled Banks (provisional); computation: FSD, BB.

Chart 2.20 illustrates the sector-wise share of rescheduled loans outstanding at end-2022. Most of the rescheduled loans were in the industrial sector (regardless of the size of the industries), and in RMG and textile sector having 31.7 and 20.5 percent of the total respectively (Chart 2.21).

As far as the sector-wise rescheduled loans outstanding to total loans outstanding ratio was concerned, Ship building and Ship breaking sectors ranked top among all the specified sectors with 33.8 percent in 2022 followed by industrial, RMG and textile, and agriculture with 29.2, 21.1, and 15.7 percent respectively (Chart 2.21). The share of rescheduled loans outstanding compared to total outstanding loans in each of the remaining sectors was less than 15.0 percent.

CHART 2.20: SECTOR-WISE SHARE OF OUTSTANDING RESCHEDULED LOANS IN 2022

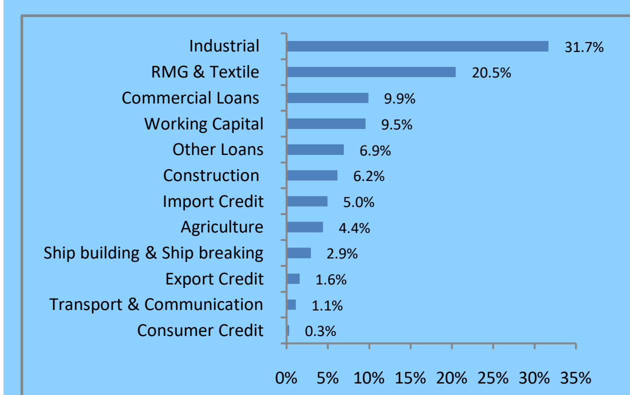
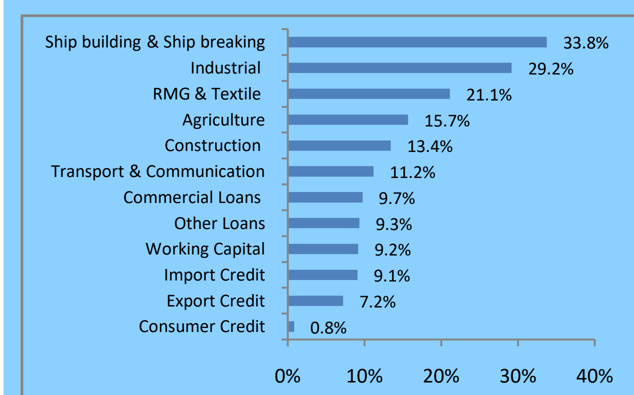


CHART 2.21: SECTOR-WISE OUTSTANDING RESCHEDULED LOANS TO TOTAL OUTSTANDING LOANS RATIO IN 2022



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

Chart 2.22 demonstrates the sector-wise classified rescheduled loans (CRSDL) ratio as of end-2021 and end-2022. There has been a general rise in classified outstanding rescheduled loan ratio across most of the sectors. The highest CRSDL ratio was observed in Ship building and Ship breaking sector followed by industrial, RMG and textile, and export credit sector.

In 2022, 61.4 percent of total rescheduled loans outstanding was in large industries. The shares of medium, small, micro and cottage, and other industries were 12.6, 7.3, 0.9, and 17.8 percent respectively (Chart 2.23).

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

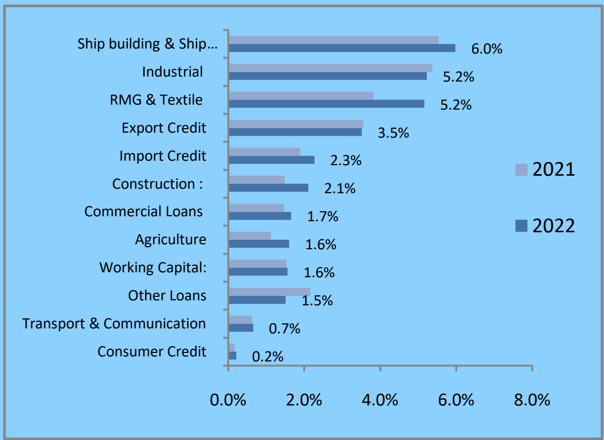
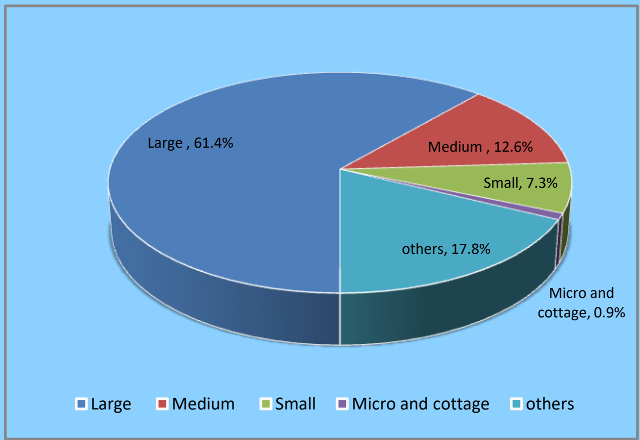


CHART 2.23: INDUSTRY-WISE SHARE OF OUTSTANDING RESCHEDULED LOANS IN 2022



Note: Data for 2021 are revised.
Source: Scheduled Banks (provisional); computation: FSD, BB.

Although most of the rescheduled loans outstanding was in large industries, the medium industries had the highest rescheduled loans outstanding to total loan outstanding of 23.1 percent, followed by large, small, other industries, and micro and cottage with 18.4, 9.9, 8.2, and 5.8 percent respectively (Chart 2.24). The industry-wise classified rescheduled loans (CRSDL) ratio improved for all types of industries in 2022 compared to the previous year except for large and medium industries (Chart 2.25).

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

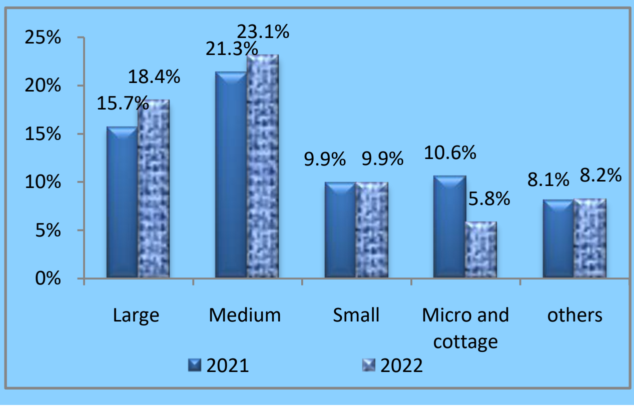
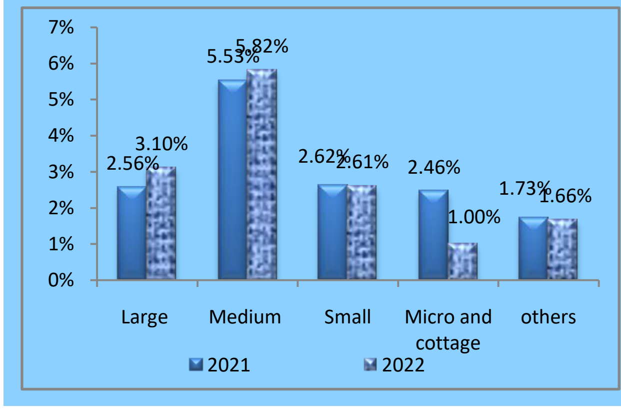


CHART 2.25: INDUSTRY-WISE CLASSIFIED RESCHEDULED LOANS (CRSDL) RATIO



Note: Data for 2021 are revised.
Source: Scheduled Banks (provisional); computation: FSD, BB.

Chart 2.26 exhibits that, as of end-2022, the PCBs held the highest amount of rescheduled loans outstanding in the banking industry followed by SOCBs. Indeed the PCBs got their rescheduled loans outstanding to total loans outstanding ratio augmented in 2022 more than the other bank clusters (Chart 2.27).

CHART 2.26: BANK CLUSTER-WISE COMPOSITION OF OUTSTANDING RESCHEDULED LOAN IN 2022

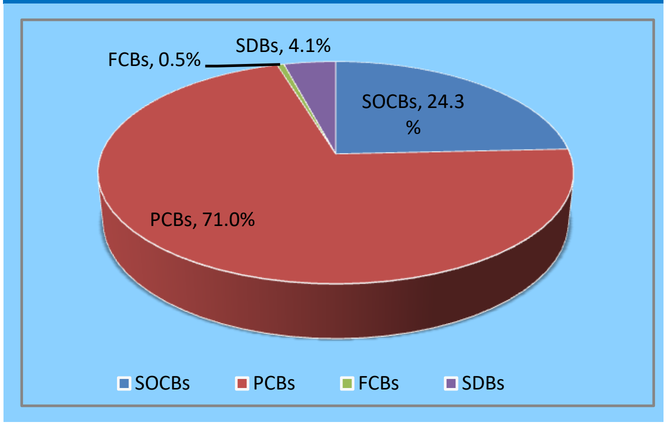
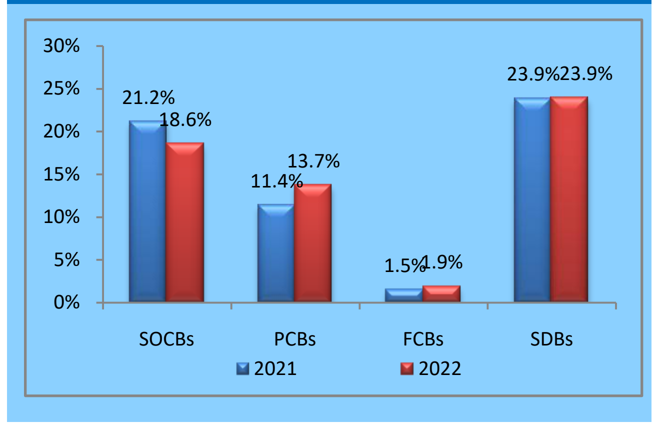


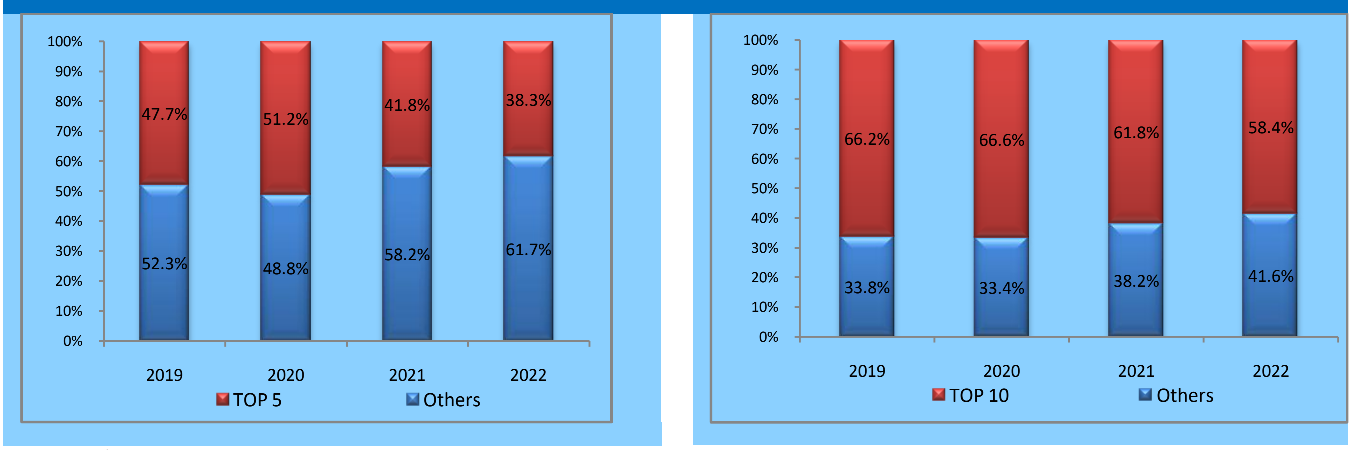
CHART 2.27: BANK CLUSTER-WISE OUTSTANDING RESCHEDULED LOANS TO TOTAL OUTSTANDING LOANS RATIO



Note: Data for 2021 are revised.
Source: Scheduled Banks (provisional); computation: FSD, BB.

Out of total outstanding rescheduled loans, the top 5 banks held 38.3 percent while the share of the top 10 banks was 58.4 percent. The top 5 banks comprised of 03 (three) PCBs and 02 (two) SOCBs and the top 10 banks consisted of 03 (three) SOCBs, 06 (six) PCBs, and 01(one) SDB (Chart 2.28).

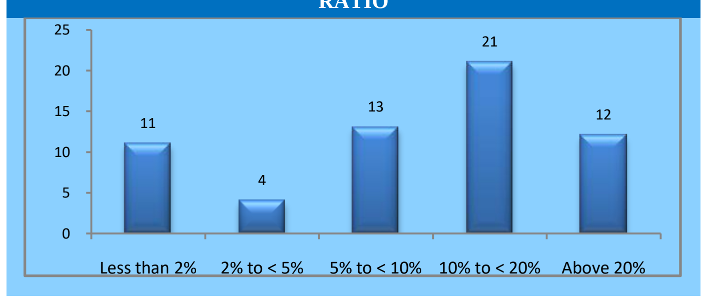
CHART 2.28: SHARE OF TOP 5 AND TOP 10 BANKS IN OUTSTANDING RESCHEDULED LOANS



Note: Data for the period 2019-21 are revised.
Source: Scheduled Banks (provisional); computation: FSD, BB.

Chart 2.29 shows the distribution of banks by rescheduled loans to total outstanding loans ratio. Most of the banks had a ratio less than 20 percent. Only 12 banks had ratio above that level and two of them were SOCBs.

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



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

2.5 LIABILITY STRUCTURE OF THE BANKING SECTOR

The liability structure showed little variation in the review year with the Deposit remaining as the largest part of it. Deposit growth slightly slowed down but it was still enough to support increased demand for loans and advances.

At end-December 2022, the total liabilities, excluding equity, of the banking sector stood at BDT 20,691.9 billion. The total deposits constituted 79.1 percent of total liabilities (Chart 2.30). Growth rates of the different parts of liabilities in CHART 2.31 shows that borrowing from banks and FIs recorded the highest growth of 28.5 percent while term and inter-bank deposits decreased by 0.1 and 10.6 percent respectively. Current and savings deposits grew by 7.0 and 10.2 percent respectively.

CHART 2.30: YEAR-WISE BANKING SECTOR LIABILITY STRUCTURE

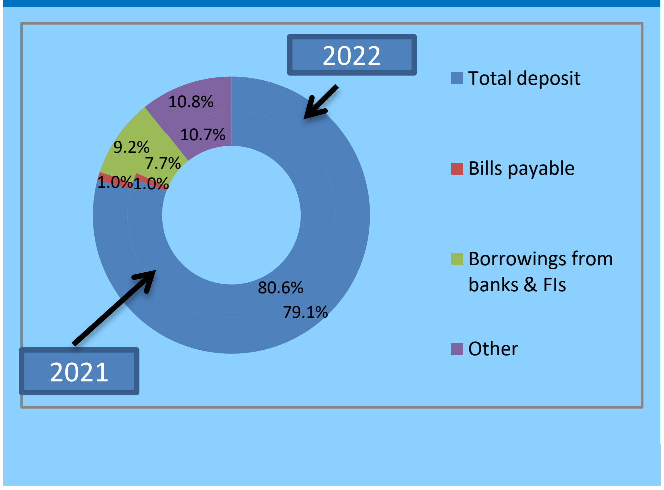
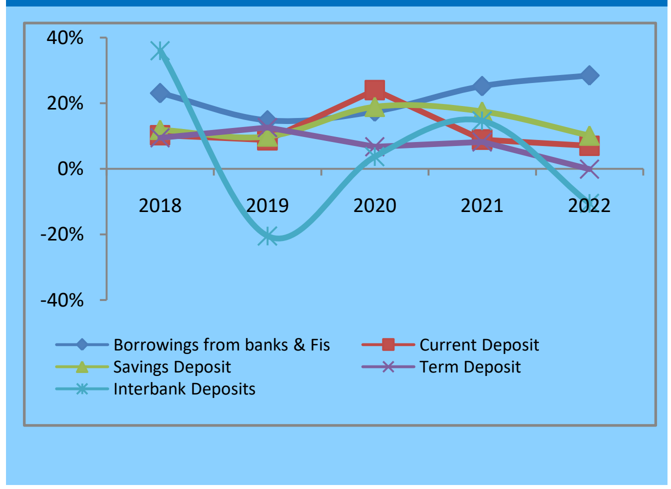


CHART 2.31: YEAR-WISE GROWTH OF DEPOSITS AND BORROWINGS FROM BANKS AND FIs



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

The banks were not found to suffer from shortage of deposit in meeting the aggregate amount of loan demand, although the gap between deposits and loans got slightly narrower during the review year. The loan growth was higher than the deposit growth (excluding inter-bank deposit) in 2022. Total loans and advances were BDT 15,026.1 billion registering a yearly growth of 13.5 percent and total deposits were BDT 16,029.5 billion with a growth rate of 5.6 percent. Higher loan growth-more than double of deposit growth-might entail stress in liquidity management of banks in the future.

CHART 2.32: YEAR-WISE LOANS AND DEPOSIT GROWTH

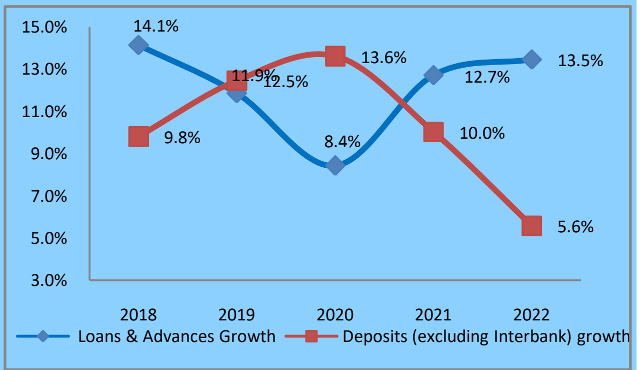
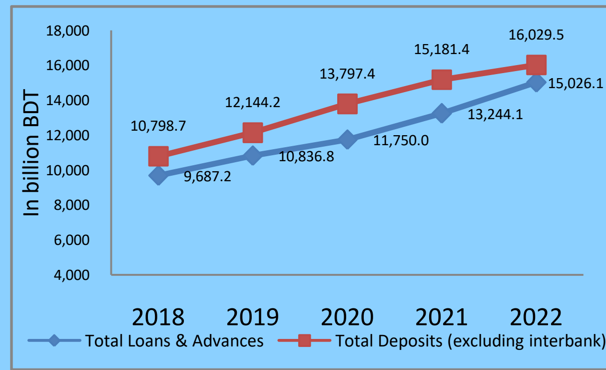


CHART 2.33: LOANS AND DEPOSITS OUTSTANDING



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

Chart 2.34 depicts the comparative representation of the deposit and loan growth of four banking clusters in 2022. SOCBs, SDBs, and PCBs had lower deposit growth but experienced high growth in loans and advances. In contrast, FCBs attained high growth in deposits but demand cautious in lending, as represented by negative growth in loans and advances.

Chart 2.35 shows the share of different kinds of deposits as of end-December 2022. Term deposits constituted almost half of the total deposits. Its share slightly decreased to 45.9 percent in 2022 (48.5 percent in 2021). Shares of current deposits, savings deposits, and other deposits were 22.2 percent, 23.8 percent, and 8.2 percent respectively. A higher proportion of term deposits provided banks with a more stable source of funding, thereby promoting funding stability for the banks.

CHART 2.34: GROWTH OF LOANS & ADVANCES AND DEPOSITS (EXCLUDING INTER-BANK) BY BANK CLUSTERS IN 2022

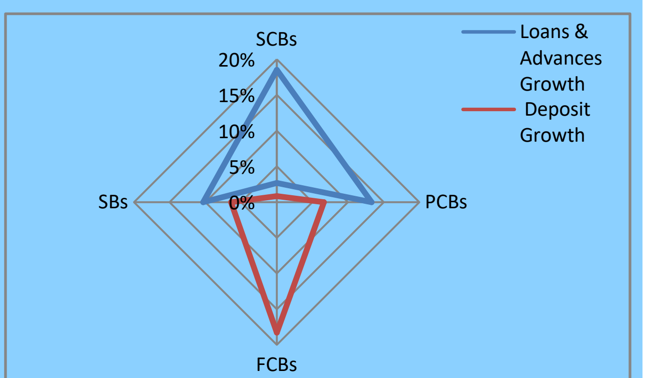
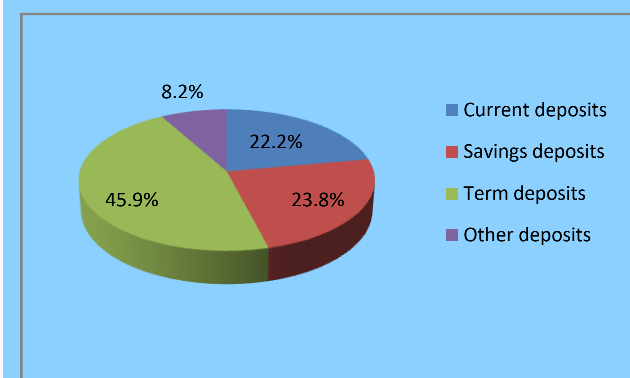


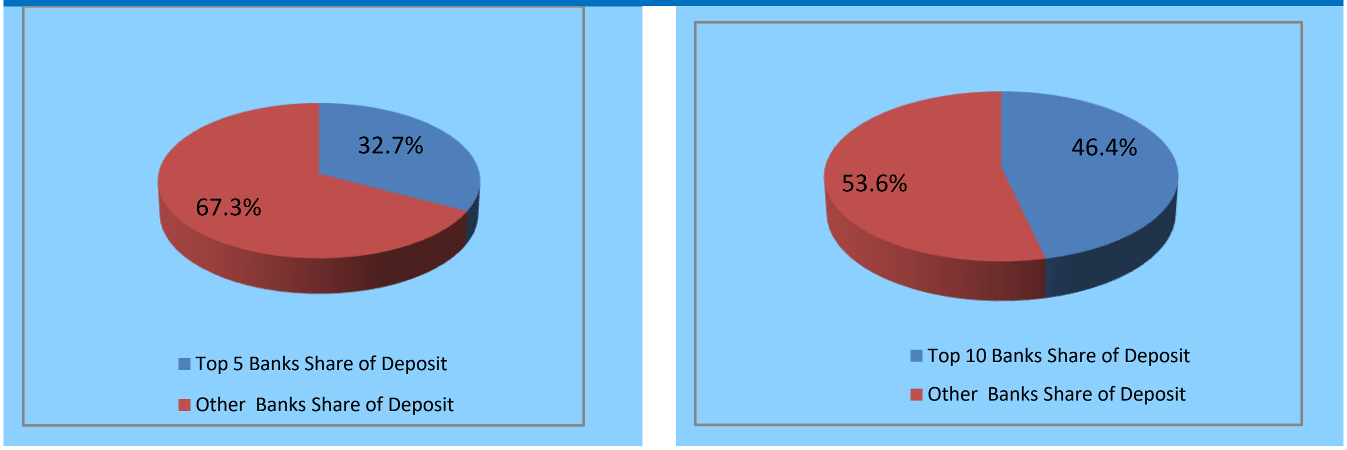
CHART 2.35: BANKING SECTOR'S DEPOSIT (EXCLUDING INTER-BANK) SHARE BY TYPES OF ACCOUNTS IN 2022



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

The top 5 banks possessed 32.7 percent of aggregate deposits (excluding interbank) whereas 46.4 percent of deposits were concentrated in 10 banks (Chart 2.36). Four (04) SOCBs and one (01) PCB were listed as the top five (5) in terms of deposit holding. Concentrations of deposits in the top 5 banks and top 10 banks were 34.2 Percent and 48.2 percent respectively in the previous years.

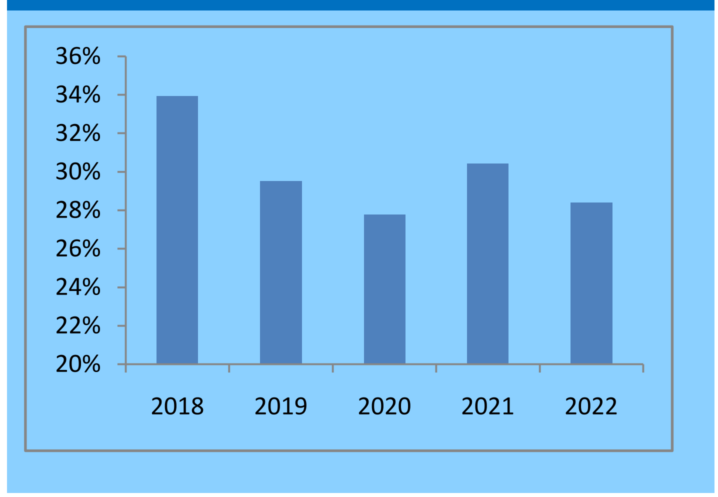
CHART 2.36: TOP 5 AND TOP 10 BANKS BASED ON SIZE OF DEPOSIT IN 2022



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

Off-Balance Sheet (OBS) items to on-balance sheet assets decreased from the previous year and stood at 28.4 percent in 2022 (CHART 2.37). The OBS items reached to BDT 6,234.9 billion at end of 2022 which was BDT 6,213.4 billion at end of 2021. Although the amount of OBS items slightly increased in 2022 compared to 2021, OBS items to on-balance sheet assets experienced a slight decline due to rise in on-balance sheet assets. Banking sector OBS amount involving L/C decreased by more than BDT 320 billion in 2022 mainly due to maintaining austerity in different phases of imports.

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



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

2.6 BANKING SECTOR DEPOSIT SAFETY NET

In pursuance of the existing law, every depositor will get an insurance coverage equal to the amount of his/her deposit but not exceeding BDT 100,000 in case of winding up of a bank. Under this coverage 91.1 percent of the total depositors are insured. However, 21.2 percent of the total deposits of the entire banking system are insured under Deposit Insurance Trust Fund (DITF) at end-December 2022.

Deposit Insurance System (DIS) is indispensable in developing and retaining depositors' trust and confidence towards the banking sector of the country, which is ultimately crucial for maintaining financial stability. The deposit insurance system in Bangladesh is now being administered by the "Bank Amanat Bima Ain, 2000". In accordance with 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 DITF. Main functions carried out by Bangladesh Bank are to collect premiums from all scheduled banks operating in Bangladesh on a half-yearly basis (June 30 and December 31); invest the funds in long-term (5-year and 10-year Bangladesh Government Treasury Bonds (BGTB)) and BB Bills; and reinvest the accumulated profit on invested securities to the mentioned sectors.

In case of winding up of an insured bank, BB will take necessary steps to pay each depositor of that bank, an amount equal to his/her deposits, which will not exceed BDT 1,00,000, as per the provision of "Bank Amanat Bima Ain, 2000". The following table shows the recent position of DITF.

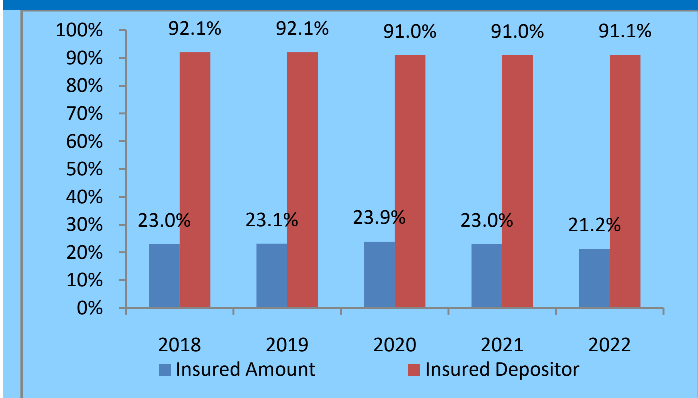
TABLE 2.6 : DEPOSIT INSURANCE TRUST FUND AND ITS COMPOSITION

In BDT Billion)

Particulars	2020	2021	2022
Insurable Deposits	11343.97	12379.20	13217.94
Insurance Premium (during the year)	6.79	7.93	8.66
Deposit Insurance Trust Fund Balance	101.15	116.39	133.33*
i. Investment	99.69	116.26	133.15
ii. Cash	1.46	0.13	0.13

*Deposit Insurance Trust Fund Balance in 2022 includes accrued interest.

CHART 2.38: SAFETY NET ON BANKING SECTOR DEPOSITS



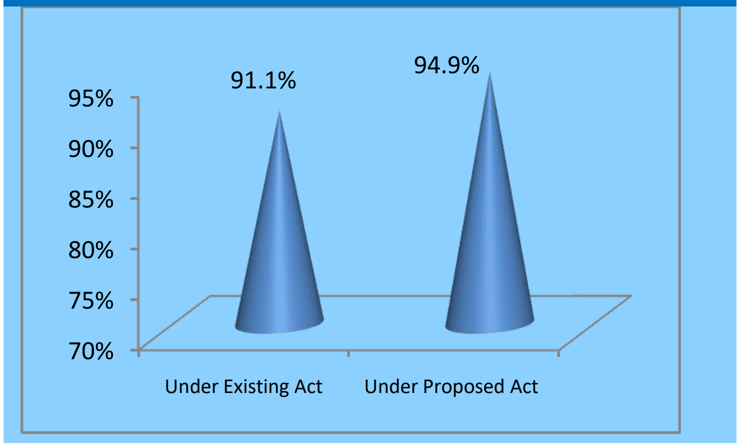
Source: DID, BB; Computation: FSD, BB

The scenario of deposit safety net is illustrated in Chart 2.38. The insured amount[18] of total insurable deposits has decreased slightly from 23.0 percent in 2021 to 21.2 percent in 2022 whereas the insurable deposits with the banks grew 6.8 percent. Importantly, approximately 91.1 percent of the total depositors (depositors with deposit amount up to BDT 100,000) of the entire banking system are fully insured within this deposit insurance system which indicates a comprehensive deposit safety net for the small depositors.

It is worth mentioning that the amendment of “Bank Amanat Bima Ain-2000’’ as “Amanat Surokkah Ain’’ got approved in the cabinet meeting on 20 February 2022, which was sent to the Parliament subsequently after the completion of legal vetting by the Ministry of Law. Currently, the draft bill of the 'Bank Deposit Insurance (Amendment) Act, 2022' is under process of approval at the end of the Government. Once the law becomes enacted the NBFIs may also come under the umbrella of Deposit Insurance System (DIS) along with the scheduled banks and the insurance coverage limit per depositor will get increased up to BDT 200,000 from the existing coverage limit of BDT 100,000.

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

CHART 2.39: PERCENTAGE OF PROTECTED BANK DEPOSITORS OUT OF TOTAL NUMBER OF BANK DIPOSITORS



Source: DID, BB; Computation: FSD, BB

Chart 2.39 shows the coverage of insured depositors considering protection coverage under the existing and proposed Act. The percentage of insured depositors may increase and reach to 94.9 percent of the total depositors of the banking sector subject to enhancement of the deposit insurance coverage limit per depositor to BDT 200,000 from existing limit of BDT 100,000.

As a robust and efficiently functioning Deposit Insurance System (DIS) largely promotes and contributes to the financial stability, the proposed DIS Act is expected to play a material role in ensuring deposit safety net for the financial system of the country.

Box 2.2: The Capacity of Existing DITF and its Forecast

As of end December-2022, the balance of Deposit Insurance Trust Fund (DITF) stood at BDT 133.33 billion. Charts B2.2.Y.1 and B2.2.Y.2 illustrate that the DITF balance, as of end-December 2022, will be enough to liquidate three (03) banks having highest Gross Non-Performing Loan (GNPL) ratio[19] in the banking industry. Only 2.5 percent of the current DITF balance would be required to liquidate the above three banks under the current insured deposit level of BDT 100,000. The current DITF balance will also remain 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 OF BDT 100,000.

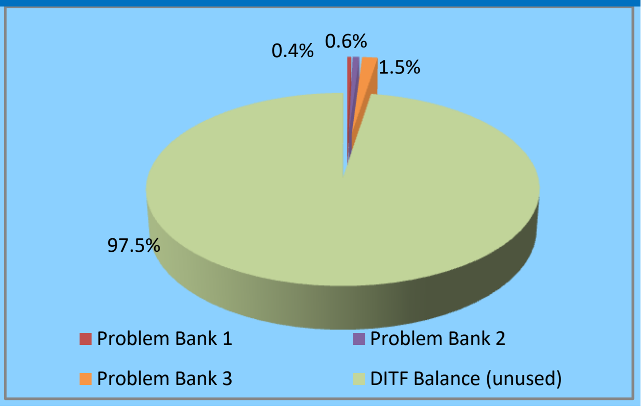
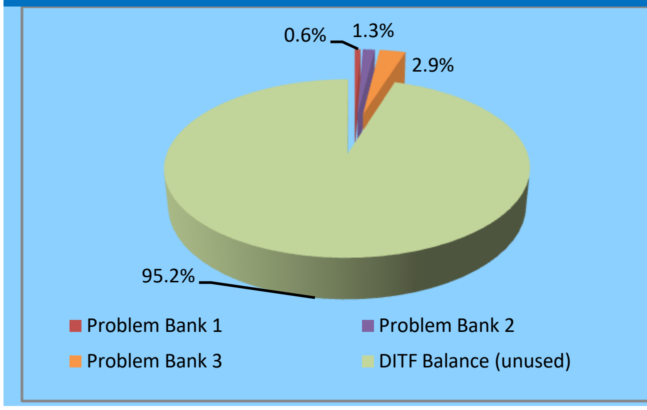


CHART B 2.2.Y.2: UTILIZATION OF FUND FROM DITF TO LIQUIDATE THREE PRIVATE COMMERCIAL BANKS AT INSURANCE LEVEL OF BDT 200,000.



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

Chart B2.2.Y.3 illustrates that the present balance of DITF would be able to compensate insured deposits (up to BDT 100,000 per depositor) of up to 31 small banks in the case of liquidation of a series of banks. 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 covered and 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.

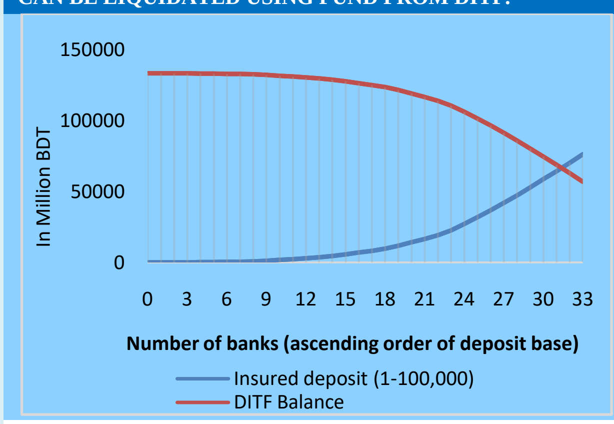
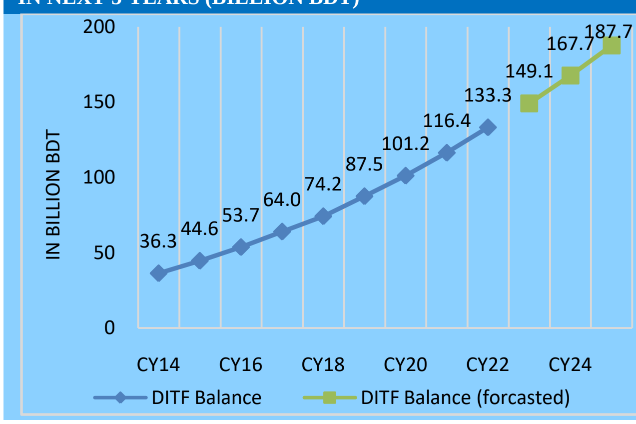


CHART B 2.2.Y.4: FORECASTED DEPOSITORS' SAFETY NET IN NEXT 5 YEARS (BILLION BDT)



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

After the inception of deposit insurance system in 1984, the DITF has steadily grown over time, reached to BDT 133.3 billion at end-December 2022. Assuming no bank failure and no requirement of fund for liquidation in next 3 years, the DITF fund may reach to over BDT 187 billion in 2025 (Chart B2.2.Y.4).

[19]Gross NPL to total loans ratio

2.7 BANKING SECTOR PROFITABILITY

In 2022, the amount of net profit after taxes of the banking sector recorded a significant increase compared to that of 2021.

Banking sector's operating profit[20]increased by 21.33 percent and stood at BDT 342.22 billion in 2022 from BDT 282.05 billion in 2021. Net profit[21]increased by 183.29 percent from BDT 50.22 billion in 2021 to BDT 142.26 billion in 2022. Besides, during the review year, the total maintained bad debt provisions recorded a decrease of 42.66 percent and stood at BDT 87.67 billion compared to BDT 152.90 billion in 2021.

The return on equity (ROE) of banking industry increased significantly in 2022 and return on assets (ROA) also increased compared to those of 2021.

The ROA of the banking sector increased to 0.62 percent in 2022 compared to 0.25 percent in 2021. On the other hand, the return on equity (ROE) increased significantly to 10.70 percent from 4.37 percent in 2021, recorded an increase of 6.33 percentage points during the period. In tandem with the improvement in assets quality as well as growth, the net income of the banking sector increased that led to a rise in ROE level in the review period.

CHART 2.40: BANKING SECTOR RETURN ON ASSETS (ROA)

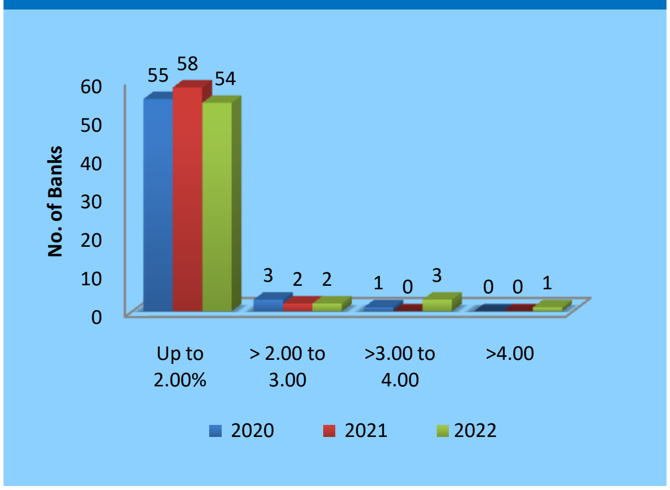
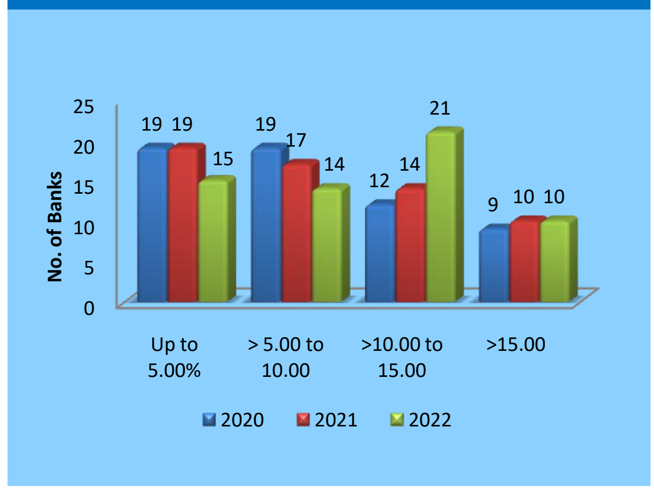


CHART 2.41: BANKING SECTOR RETURN ON EQUITY (ROE)



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

In the review year, ROA of 37 banks increased while the same declined for 23 banks. Similarly, ROE of 33 banks increased while the same decreased for 23 banks and the position of 4 banks remained same compared to 2021. Particularly, 90.0 percent of the banks had ROA below 2.0 percent (Chart 2.40) and 48.33 percent of the banks had ROE below 10.0 percent (Chart 2.41).

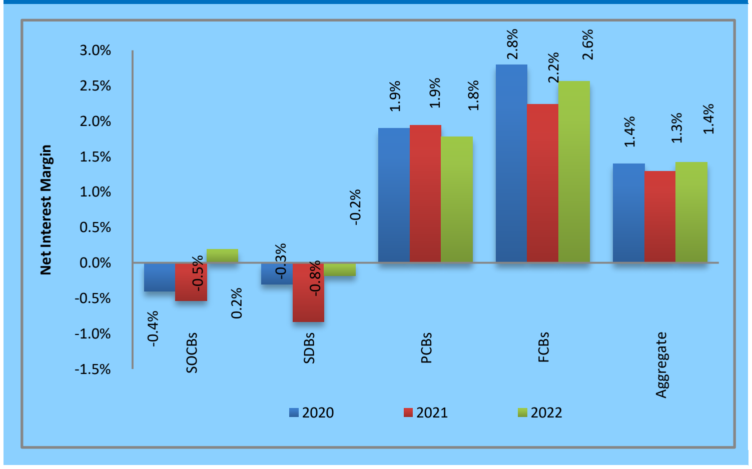
In 2022, the overall Net Interest Margin [22](NIM) of the banking industry decreased to 1.2 percent from 1.3 percent in 2021.

Both the interest income and interest expense increased by 10.88 percent and 8.28 percent respectively in 2022 in comparison to those in 2021. Similarly, non-interest income and non-interest expense increased by 16.33 percent and 13.44 percent respectively which led to an increase in the net operating income by 36.85 percent compared to the preceding year.

---

[20]Profit before provision and tax.
[21]Profit after provision and tax.
[22]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.

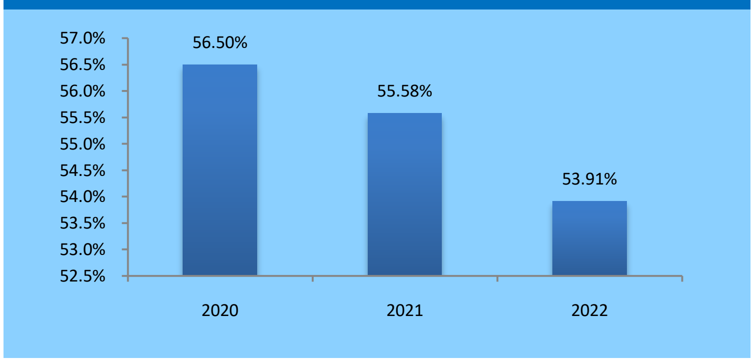
CHART 2.42: BANK TYPE WISE NET INTEREST MARGIN (NIM) CY2020-2022



Source: DOS, BB, compilation: FSD, BB.

The SOCBs' NIM turned into positive in 2022 as opposed to a negative figure of 2021. On the other hand, SDBs' NIM remained negative in both 2022 and 2021 though the ratio recorded some improvement in the review year compared to that of the preceding year. The NIM of PCBs decreased and stood at 1.8 percent which was 1.9 percent in preceding year. However, the NIM of FCBs increased to 2.6 percent in 2022 which was 2.2 percent in 2021. The NIM of the industry as a whole increased and stood at 1.4 percent in 2022 compared to 1.3 percent in 2021.

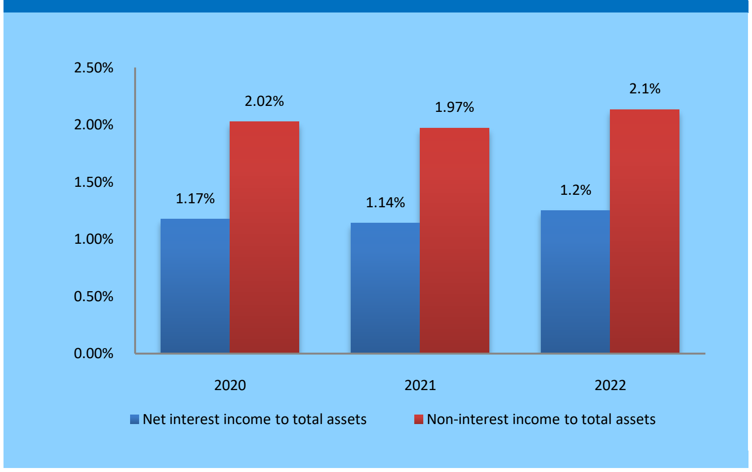
CHART 2.43: YEAR-WISE NON-INTEREST EXPENSE TO GROSS OPERATING INCOME RATIO CY 2020-2022



SOURCE: DOS, BB; compilation: FSD, BB.

In the review year, the non-interest expenses and gross operating income[23] increased by 13.44 percent and 16.95 percent respectively. However, the ratio of non-interest operating expenses to gross operating income registered a decrease of 1.67 percentage points from 55.58 percent in 2021 to 53.91 percent in 2022 (Chart 2.43).

CHART 2.44: BANKING SECTOR INCOME BY SOURCES



SOURCE: DOS, BB; COMPILATION: FSD, BB.

According to Chart 2.44, the ratio of net interest income to total assets increased to 1.2 percent in 2022 from 1.14 percent of 2021. Similarly, the ratio of non-interest income to total assets increased to 2.1 percent in 2022 from 1.97 percent of 2021. Moreover, from 2021 to 2022, both net interest income and non-interest income rose in terms of absolute amount.

[23]Net interest income + Non-interest income.

The interest rate spread withered by 21 basis points at end-December 2022 compared to that of end-December 2021.

At end-December 2022, the weighted average lending rate increased to 7.22[24] percent from 7.18 percent at end-December 2021. Similarly, the weighted average deposit rate registered an increase from 3.99 percent to 4.23 percent during the period. In consequence, the weighted average interest rate spread for the banks decreased from 3.20 percent in December 2021 to 2.99 percent in December 2022 (Chart 2.45).

Chart 2.46 shows the interest rate spreads of different categories of banks from January 2022 to December 2022. The Chart shows that the weighted average interest rate spread of the banking sector was hovering around 3.0 percent throughout 2022. 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 that of other bank clusters partially due to higher interest rate on consumer finance and credit card operation.

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

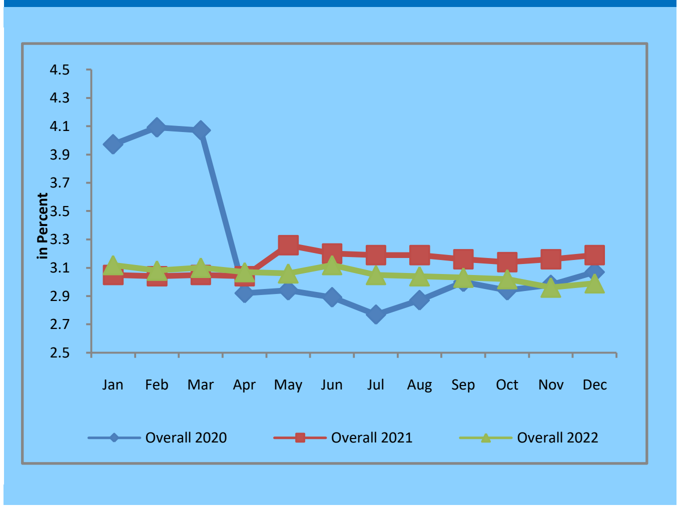
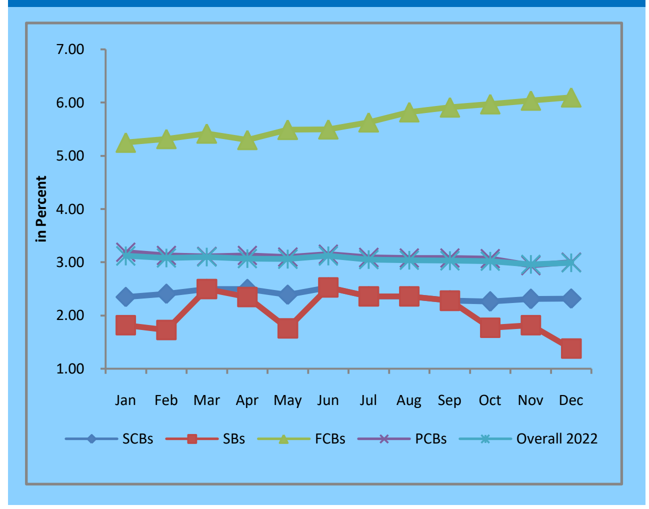


CHART 2.46: BANK CATEGORY-WISE MONTHLY WEIGHTED AVERAGE INTEREST RATE SPREAD FOR 2022



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

2.8 CAPITAL ADEQUACY

Banking industry's Capital to Risk-Weighted Assets Ratio (CRAR) and Tier-1 capital (core capital) ratio increased by 75 and 95 basis points respectively at end-December 2022, compared to those of 2021, remaining well above the regulatory requirement. Because of the improved regulatory capital position of SOCBs, PCBs, and FCBs, the industry's overall CRAR remained stable during this period. However, the CRAR position of SDBs deteriorated further and remained below the regulatory minimum required level. Likewise, the leverage ratios for all banking clusters, except for SDBs, increased. Besides, the banking sector as a whole maintained a leverage ratio well above the minimum regulatory requirement, owing primarily to the elevated leverage ratios of FCBs and PCBs. In addition, the liquidity situation in the banking industry remained sound in 2022, although Islamic banking cluster of PCBs posted a short fall in maintaining the minimum regulatory LCR.

CRAR of the banking industry increased by 75 basis points and stood at 11.83 percent at end-December 2022 compared to 11.08 percent of the previous year. The maintained ratio was above the minimum regulatory capital requirement of 10.0 percent of Risk Weighted Assets (RWA) in line with the Basel III capital framework and thus

[24]The number of percentage culled from Interest rate spread of Economic Data from BB Website.

provided support to the resilience of the banking sector. Among 61 scheduled banks, the number of CRAR-compliant banks remained unchanged at 50 at end-December 2022 and 2021. Besides, these 50 banks possessed a 71.71 percent share of total assets and a 70.41 percent share of total liabilities of the banking system as of end-December 2022. The asset share of the CRAR-compliant banks was 69.59 percent in the previous year (Chart 2.47).

CHART 2.47: ASSET AND LIABILITY SHARE OF BANKS BY CRAR AT END-DECEMBER 2022

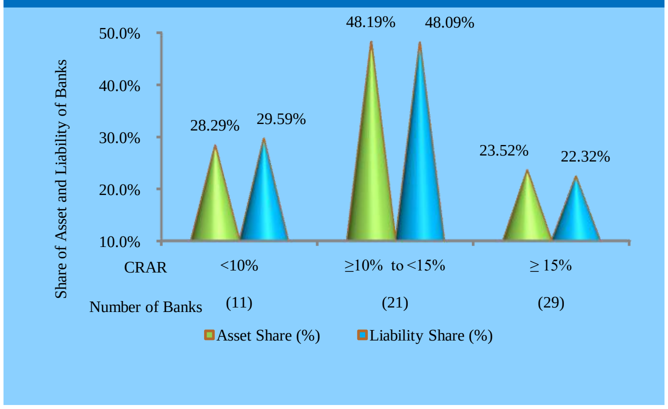
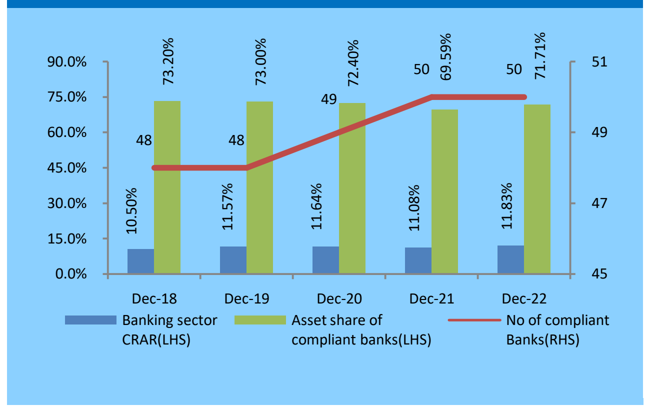
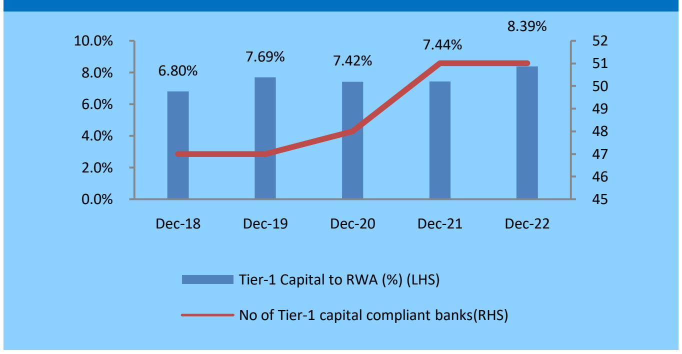


CHART 2.48: YEAR-WISE CRAR, CRAR COMPLIANT BANKS AND THEIR ASSET SHARE



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

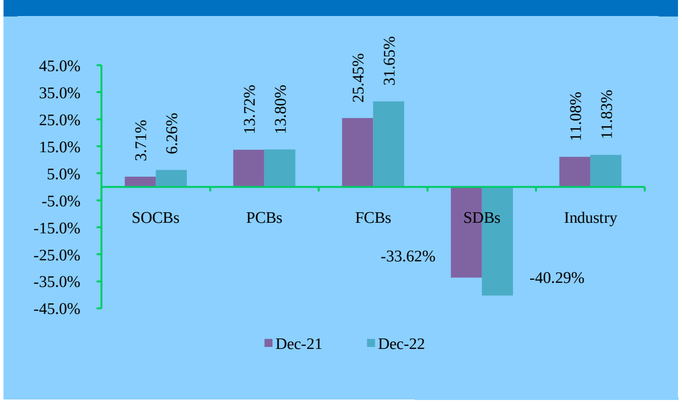
CHART 2.49: YEAR-WISE TIER-1 CAPITAL RATIO OF BANKS



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

The Tier-1 or core capital ratio of the banking sector increased by 95 basis points to reach 8.39 percent at end-December 2022, achieving the level further above the minimum regulatory requirement of 6.0 percent in line with Basel III framework. It is noteworthy that the ratio was 7.44 percent at end-December 2021. The number of Tier-1 capital-compliant banks remained at 51 at the end of December 2022 and 2021 (Chart 2.49).

CHART 2.50: CRAR BY BANKING GROUP

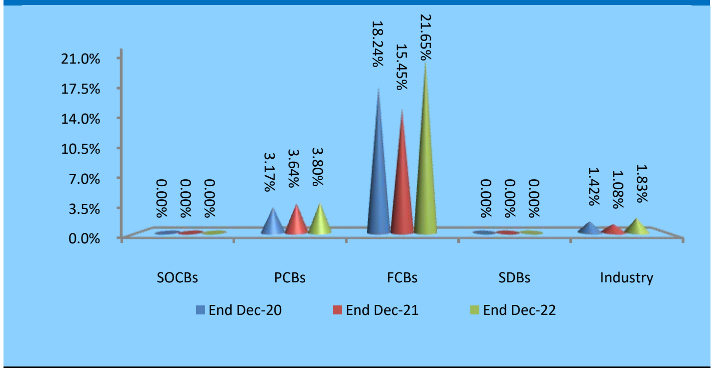


Source: DOS, BB; computation: FSD, BB.

Chart 2.50 presents a comparative analysis of CRAR of different banking clusters. CRARs of SOCBs, PCBs and FCBs increased by 2.55, 0.08, and 6.20 percentage points and reached 6.26, 13.80, and 31.65 percent respectively at end-December 2022 from that of end-December 2021. CRAR of SDBs declined further in the negative direction by 6.67 percentage points and reached negative 40.29 percent. Among all bank clusters, only PCBs and FCBs maintained CRAR well above the minimum regulatory requirement and SOCBs and SDBs need to improve their CRAR.

According to Basel III framework[25], apart from CRAR, banks must maintain a Capital Conservation Buffer (CCB) of 2.5 percent against total risk-weighted assets in the form of common equity tier-1 (CET-1) capital.

CHART 2.51: CCB BY BANKING CLUSTERS



Source: DOS, BB; computation: FSD, BB

The banking industry maintained a CCB of 1.83 percent at end-December 2022, which was 1.08 percent at end-December 2021. Although PCBs and FCBs maintained the CCB well above the minimum regulatory requirement, SOCBs and SDBs did not have any contributions in CCB (Chart 2.52). Statistically, the majority of the banks (44 out of 61) maintained the minimum required CCB in 2022.

Taking the cross-country scenario into account (Table 2.7), the capital adequacy of banks in Bangladesh was lower compared to that of neighboring countries during 2017 to 2022.

TABLE 2.7 : COMPARISON OF CAPITAL ADEQUACY AMONG THE NEIGHBORING COUNTRIES

Countries	CRAR (%)					
	2017	2018	2019	2020	2021	2022
India	13.9*	13.7*	15.1*	15.8*	16.6*	16.0*
Pakistan	15.8	16.2	17.0	18.6	16.7	16.6*
Sri Lanka	16.4R	16.2R	17.2R	17.1R	16.5R	15.3*
Bangladesh	10.8	10.5	11.6	11.6	11.08	11.83

* Data as of end-September, R-Revised.
Source: Financial Stability Report (various issues), Reserve Bank of India; Financial Stability Report, December 2022, 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

All banking clusters, except SDBs, saw an increase in leverage ratios, and the banking sector as a whole maintained a leverage ratio well above the minimum regulatory requirement, primarily owing to the elevated leverage ratios of FCBs and PCBs.

The Basel III framework introduced a simple, transparent, and non-risk-based leverage ratio to act as a credible supplementary measure to the risk-based capital framework to limit the accumulation of excessive on- and off-balance sheet leverage in the banking system. Against the minimum regulatory requirement of 3.0 percent, the banking sector maintained a leverage ratio of 4.74 percent at end-December 2022, which was 0.56 percentage point higher than that of end-December 2021 (Chart 2.52). Most importantly, all the banking clusters, except SDBs, experienced a rise in leverage ratios compared to those of end-December 2021. FCBs had the highest leverage ratio of 12.52 percent followed by PCBs with 5.71 percent in the review year. SOCBs' leverage ratio also got a rise, reaching at 2.18 percent, which was 0.42 percent at end-December 2021. The weaker leverage ratios of SOCBs and SDBs might become a concern for the banking sector as a whole since it may fade their

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

ability to withstand any potential near-term negative shock. Pertinently, the number of non-compliant banks in terms of leverage ratio remained unchanged in 2022 with respect to that of 2021 (Chart 2.53).

CHART 2.52: YEAR-WISE LEVERAGE RATIO OF BANK CLUSTERS

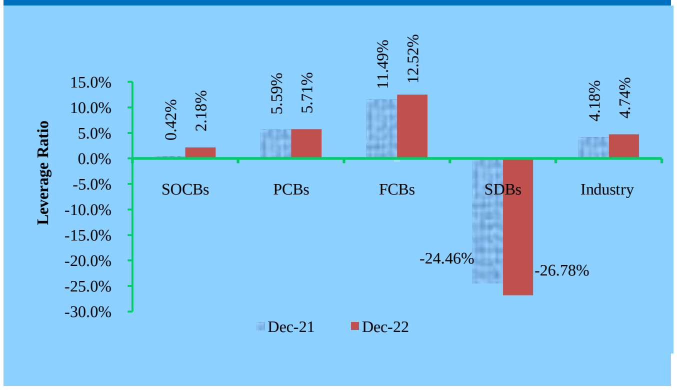
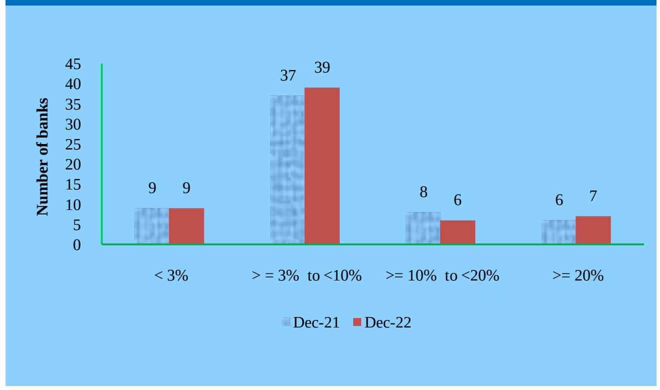


CHART 2.53: YEAR-WISE DISTRIBUTION OF BANKS' LEVERAGE RATIO



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

2.10 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

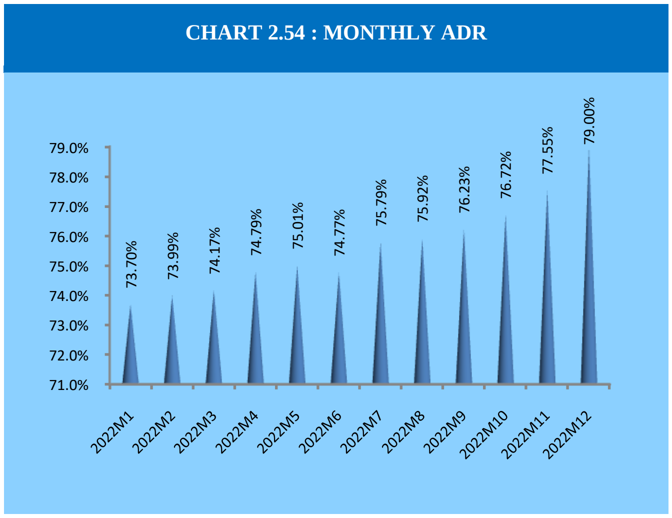
As a step towards the smooth functioning of Pillar II of Basel III, BB is working on the implementation of Internal Capital Adequacy Assessment Process (ICAAP) in Bangladesh. Banks evaluate their internal processes and strategies to ensure adequate capital covering all material risks through ICAAP. BB 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's functioning process, could not be arranged for the base year 2019 due to the COVID-19 pandemic. For the base year 2020, the SRP-SREP meetings with the banks were completed in August 2022 and the meeting for the year 2021 will be started soon. With the experience of the last three years' meetings held (base year of 2017, 2018 and 2020) with banks, it was found that the estimated additional capital requirement for residual risk emerged mainly due to documentation error which was among the risks associated with pillar II. Apart from that, strategic risks and appraisal of core risks management were the other foremost concerns for the banks.

2.11 BANKING SECTOR LIQUIDITY

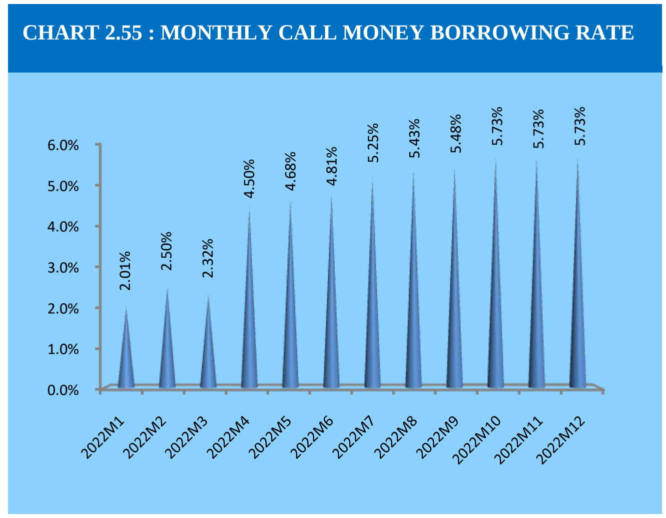
The banking industry, except the Islamic banks of the PCB cluster, maintained liquidity level considerably above the minimal regulatory standards of LCR and NSFR. Despite this fact, there was a decrease in the banking industry's HQLA, which was mostly due to the drop in SOCBs and PCBs in this line.

Banking industry experienced squeezed liquidity condition after first quarter of 2022 as indicated by gradual swelling of Advance-to-Deposit Ratio (ADR) and increasing call money rate. Chart 2.54 depicts that the banking sector's ADR stayed below the admissible limit[26] of 87 percent but showed steady upward progress across 2022. It is pertinent to mention here that the ratio increased to 79.00 percent at end-December 2022 from 73.15 percent at end-December 2021. With the gradual resumption of economic activities after the COVID-19 pandemic, the banking industry recorded elevated ADR to support businesses, which partially led to an increase in the call money rate in 2022. Call money borrowing rate showed gradual rising trend very similar to ADR after March, 2022 and peaked at 5.73 percent in December 2022 (Chart 2.55).

[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).

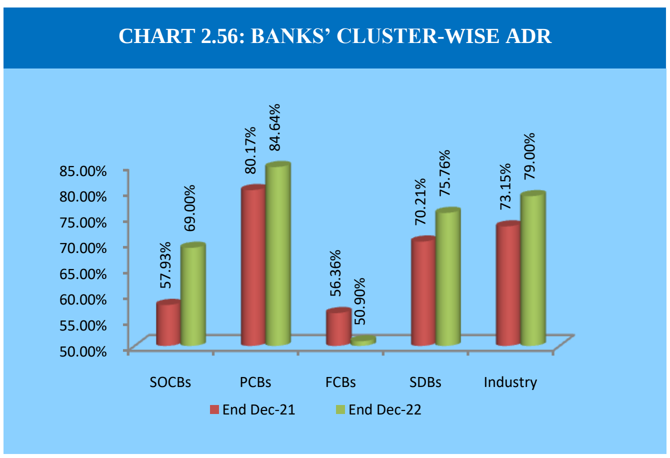


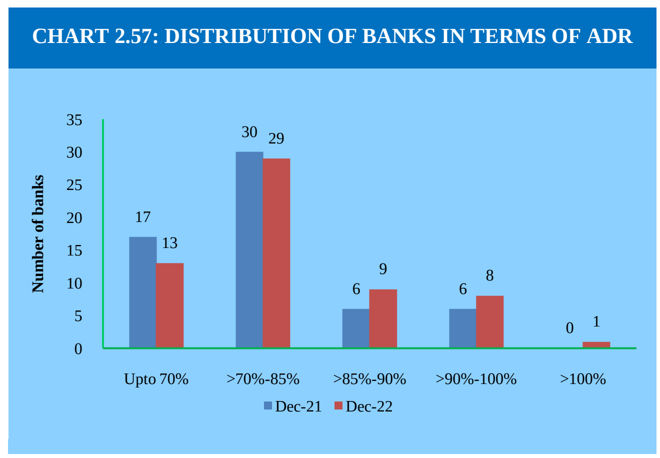
Source: DOS, BB.



Source: DMD, BB.

Chart 2.56 exhibits that ADRs of all bank clusters increased except that of the FCBs, which saw 5.46 percentage points decline in 2022 from 56.36 percent in 2021. Among all the clusters, PCBs maintained the highest ADR and their ADR increased by 4.47 percentage points in 2022 compared to that of the preceding year. In case of SOCBs and SDBs, such increase accounted for 11.07 and 5.55 percentage points respectively. The number of banks with ADRs of 90.0 percent or higher increased to 9 (nine) in 2022 from 6 (six) in 2021 (Chart 2.57).





Source: DOS, BB. (for both charts)

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 minimum regulatory requirement[29] throughout the year 2022 (Charts 2.58 and 2.59). However, the LCR of the banking industry at end-December 2022 decreased to 153.97 percent from 193.60 percent at end-December 2021. In spite of that, under a hypothetical financial stress scenario, the ratio was sufficient to meet the short-term obligations for the next 30 calendar days. FCBs maintained the highest LCR among the four bank clusters, posting 255.26 percent at end-December 2022, followed by SOCBs at 232.02 percent, while PCBs (Islamic) fell short of the regulatory LCR level. On the other hand, the NSFR of the banking industry slightly increased and reached 110.22 percent at end-December 2022.

[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.

CHART 2.58: BANKS' CLUSTER-WISE MONTHLY LCR

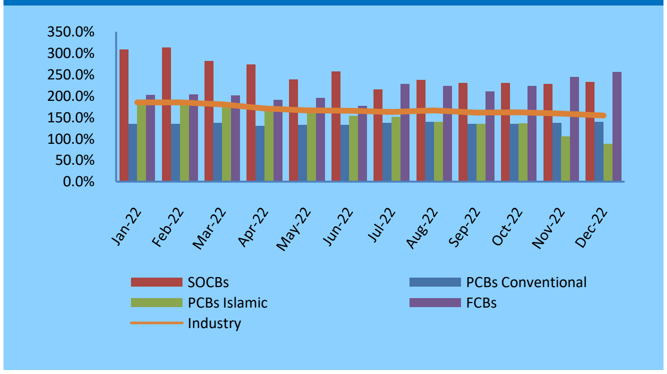
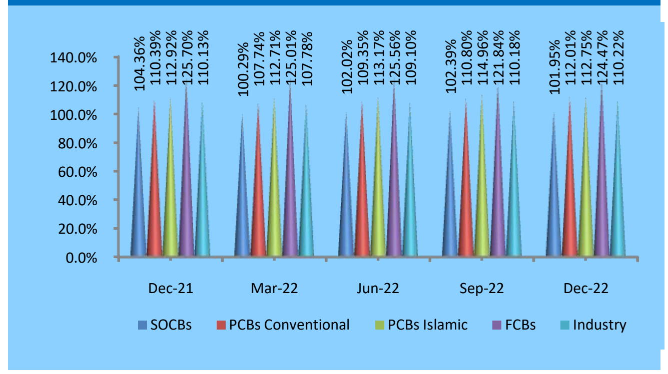


CHART 2.59: BANKS' CLUSTER-WISE QUARTERLY NSFR

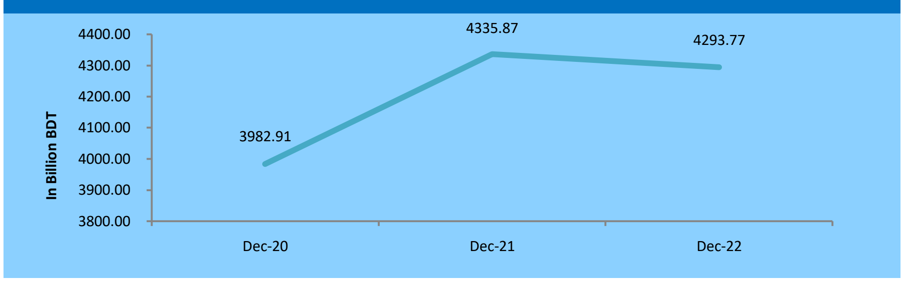


Source: DOS, BB.

Note:SDBs (BDBL, BKB, PKB and RAKUB) are exempted from maintaining regulatory LCR and NSFR.

Furthermore, both conventional and Islamic Shari'ah-based banks were able to maintain the minimum required Cash Reserve Ratio (CRR) as of end-December 2022 on a bi-weekly average basis. In addition, both types of banks met the minimum required Statutory Liquidity Ratio (SLR) of 13.0 and 5.5 percent respectively. Although the banking industry's liquidity ratios fulfilled the regulatory requirements, there was a minor liquidity risk concern in terms of stock of high-quality liquid assets (SHQLA[30]), as illustrated in Chart 2.60, which shows a 1.0 percent or BDT 42.10 billion decline in 2022. The decline in banking industry's SHQLA was mostly caused by the fall in SHQLA of the SOCBs, PCBs (Conventional), and PCBs (Islamic) clusters.

CHART 2.60: BANKING INDUSTRYS' STOCK OF HIGH QUALITY LIQUID ASSETS AT END-DECEMBER



Source: DOS, BB.

2.12 PERFORMANCE OF BRANCHES OF LOCAL BANKS OPERATING ABROAD

In the review year, the performance of branches of Bangladeshi banks operating abroad was mostly fluctuating. Two SOCBs (Sonali and Janata Bank Ltd) and one PCB (AB Bank Ltd) have been performing their international banking services through 7 full-fledged overseas branches in different locations of the UAE and India. On the other hand, 20 Bangladeshi banks have been providing overseas banking services for collecting foreign remittances and other activities through 28 exchange houses, 5 representative offices and 6 subsidiary companies abroad during 2022.

The net profit of the overseas branches of 3(three) banks in 2022 was USD 5.30 million which was USD 1.00 million higher than that of 2021. In the review year, the customers' deposit of overseas branches increased by 24.73 percent and recorded to USD 343.64 million from USD 275.50 million compared to the previous year. Besides, loans and advances increased by USD 3.90 million and stood at USD 98.22 million in 2022.

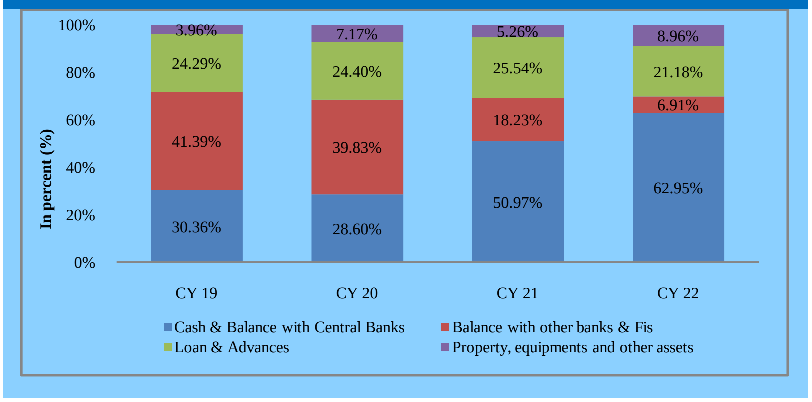
[30]SHQLA of the banking industry includes Cash on hand (local and foreign currency), Balance with BB (local and foreign currency, excluding lien part) and un-encumbered approved securities (excluding lien part).

2.12.1 ASSETS STRUCTURE OF OVERSEAS BRANCHES

In 2022, Bangladeshi bank branches operating abroad recorded a notable increase in total assets than that of the previous year.

The asset composition of Bangladeshi Bank branches operating abroad is illustrated in Chart 2.61. In 2022, the aggregate assets of 7 overseas branches was USD463.82 million or approximately BDT 43.13 billion[31] which was 0.18 percent of the total asset (USD 255.97 billion) of the banking industry of Bangladesh. In 2022, a notable increase of 55.12 percent was observed in cash and balance kept with the central bank and stood at USD 291.96 million. Loans and advances also increased by 4.14 percent and stood at USD 98.22 million. However, balance with other banks and FIs decreased by 52.37 percent and reached at USD 32.07 million. Property, equipments and other assets increased by 113.94 percent and stood at USD 41.56 million. Overall, the total asset of these overseas branches in 2022 was 25.60 percent higher than that of the previous year.

CHART 2.61: CHANGE IN ASSET COMPOSITION OF BANGLADESHI BANK BRANCHES OPERATING ABROAD

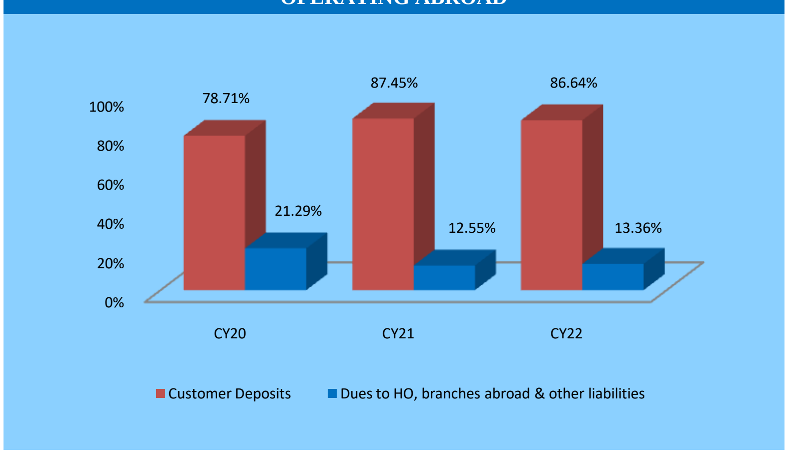


Source: Department of Off-site supervision; Compilation: FSD, BB.

2. 12.2 LIABILITIES STRUCTURE OF OVERSEAS BRANCHES

In 2022, total liabilities of the overseas branches moderately increased in comparison with 2021.

CHART 2.62: COMPOSITION OF LIABILITIES OF BANKS OPERATING ABROAD



Source: DOS; Compilation: FSD, BB.

The total liabilities of the overseas branches of Bangladeshi banks was USD 396.63 million or BDT 36.88 billion in 2022 which was USD 81.60 million higher than that of the previous year. The amount of customers' deposits, consisting of 86.64 percent of the total liabilities (Chart 2.62) increased by 24.73 percent in the review year, which was equivalent to USD 68.13 million. The other liabilities increased by 34.08 percent in the review year and stood at USD 52.99 million or nearly BDT 4.92 billion.

[32]BDT is converted to USD with the exchange rate as on 31.12.2022, which is published in Monthly Economic Trend of BB.

2.12.3 OPERATIONAL PERFORMANCE OF OVERSEAS BRANCHES

In 2022, the net profit of the overseas branches moderately increased compared to the previous year.

At end-December 2022, the aggregate net profit of the overseas branches of three Bangladeshi banks was USD 5.30 million which was 23.28 percent higher than that of the previous calendar year. However, the return on asset (ROA) decreased to 1.14 percent from 1.28 percent partially due to an increase in the total asset during the review period. The ROA of Janata Bank Limited, UAE operation was 0.87 percent during 2022. On the other hand, ROA of AB Bank Limited and Sonali Bank Limited in India were 2.65 percent and 2.31 percent respectively.

2.12.4 RISKS FROM OVERSEAS BANKING OPERATION

Sound financial condition of the overseas branches depends not only on Bangladesh economy but also the condition of the host country. Although the overseas branches are operating in a smooth way but to avoid any potential risk, a prudent monitoring is required to ensure the branches' proper compliance with the regulations imposed by the regulators of 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 2022. In addition, those branches were also brought under the AML-CFT regime for strengthening their overall compliance culture.

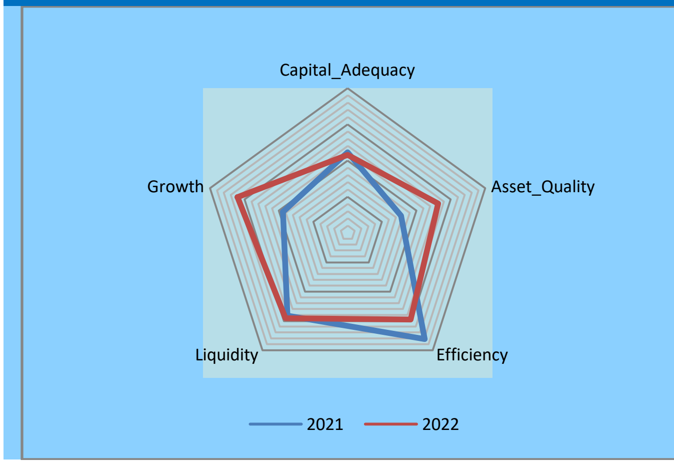
2.13 ISLAMIC BANKING

The Islamic banks in Bangladesh, as a whole, showed improved performance in terms of return on assets (ROA) in 2022. But they registered lower growth in total assets, investments (advances), deposits, and shareholders' equity. Comparatively higher growth in total investments than the total deposits significantly increased the investment deposit ratio (IDR). However, the overall liquidity condition of the Islamic banking cluster seems moderately resilient since the cluster was able to maintain the regulatory requirement of IDR and net stable funding ratio (NSFR). In addition, all capital-related indicators of this cluster were much higher than the regulatory requirements. The overall asset quality of the Islamic banks marginally impaired during 2022.

The Islamic banking cluster in Bangladesh, along with the conventional banks, plays a vital role in mobilizing deposits and financing key sectors of the economy. This Shari'ah -based banking system is receiving growing attention for its *'equity-based and (fixed) interest-free'* banking philosophy since its inception in 1983. At end-December 2022, a total of 10 (ten) full-fledged Islamic banks with 1654 branches were operating in Bangladesh. In addition, 11 (eleven) conventional banks operating through 23 Islamic banking branches and 14 conventional banks operating through 535 Islamic banking windows were providing Islamic banking services.

Chart 2.63 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 2021, the performance of Islamic banks improved in 2022 in terms of efficiency and capital adequacy indicators. The efficiency indicator mainly improved due to the betterment of return on asset (ROA) and net non-interest income (NNII). On the other hand, the performance of the Islamic banks deteriorated in terms of asset quality, growth, and liquidity indicators. The increase in non-performing and rescheduled investment ratios is largely responsible for the deterioration of asset quality in 2022, whereas the growth indicator degraded due to the slower growth of assets, deposits, investments, and equity of Islamic banks during 2022.

CHART 2.63: STABILITY MAP OF ISLAMIC BANKING



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

2.13.1 GROWTH AND MARKET SHARE OF ISLAMIC BANKS

At end-December 2022, aggregate investments, deposits, shareholders' equity, and assets of Islamic banks experienced a slower growth. Particularly, the growth rate of total deposits was only 2.9 percent in 2022, which was 20.1 percent in 2021. As a result, the market share of Islamic banks decreased in terms of total deposits and shareholders' equity in 2022 compared to those in 2021.

Chart 2.64 shows the growth trend of Islamic banks in terms of total investments, deposits, shareholders' equity, and assets. The figure indicates a downward growth of Islamic banks in 2022 compared to 2021. At end-December 2022, Islamic banks' aggregate investments (i.e., loans and advances) grew by 15.6 percent (21.1 percent in 2021), total deposits grew by 2.9 percent (20.1 percent in 2021), shareholders' equity grew by 10.0 percent (21.9 percent in 2021), and total assets grew by 10.3 percent (21.6 percent in 2021) compared to those in 2021.

Chart 2.65 shows the aggregate market share of Islamic banks in terms of total investment, deposits, shareholders' equity, and assets. The aggregate market share of Islamic banks in 2022 (excluding Islamic banking branches/windows of conventional banks) increased marginally in terms of total investments and total assets compared to those in 2021. At end-December 2022, Islamic banks held 22.6 percent (22.1 percent in 2021) of total asset, and 26.3 percent (25.8 percent in 2021) of total investments of the overall banking system. On the other hand, the market share of Islamic banks decreased slightly in terms of total deposits and shareholders' equity in 2022. The share of Islamic banks' total deposits and shareholders' equity reduced to 22.6 percent and 17.7 percent respectively in 2022 compared to 23.5 percent and 17.8 percent in 2021.

CHART 2.64: TREND OF GROWTH OF ISLAMIC BANKS

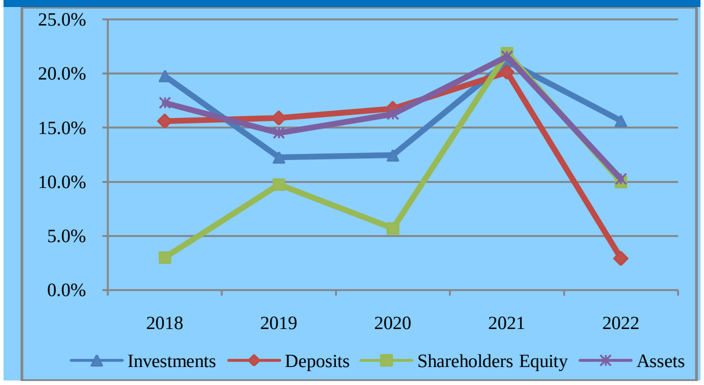
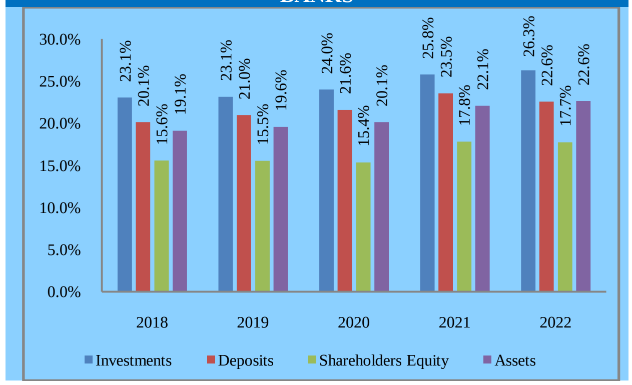


CHART 2.65: TREND OF MARKET SHARE OF ISLAMIC BANKS



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

2.13.2 CAPITAL POSITION OF ISLAMIC BANKS

At end-December 2022, the Islamic banking cluster, as a whole, was able to maintain the minimum regulatory requirements of capital to risk-weighted assets ratio (CRAR), the capital conservation buffer (CCB), and the leverage ratio. The CRAR marginally decreased but the ratio slightly increased in 2022 compared to those of the previous year. All Islamic banks, except one, were able to maintain the minimum required CRAR and leverage ratios while 6 (six) out of 10 (ten) Islamic banks were able to maintain the minimum required CCB.

Chart 2.66 demonstrates the trend of required and maintained CRAR of the Islamic banks as well as the banking sector. It is evident from the chart that the aggregate CRAR of the Islamic banks declined slightly from the previous year. However, the aggregate CRAR of the Islamic banks was well above the required level of CRAR as well as CRAR with CCB. Moreover, CRAR of the Islamic banking cluster was higher than the CRAR of the banking sector.

Chart 2.67 presents the number of banks that maintained the different tiers of regulatory capital in specified ranges. In 2022, 9 (nine) out of 10 (ten) Islamic banks were able to maintain the minimum Common Equity Tier-1 (CET-1) capital, while 6 (six) banks were able to maintain CRAR plus CCB requirements. Notably, 1 (one) Islamic bank could not maintain any of the three requirements for a long period, which is currently operating under a reconstruction scheme.

CHART 2.66: AGGREGATE CRAR OF ISLAMIC BANKS

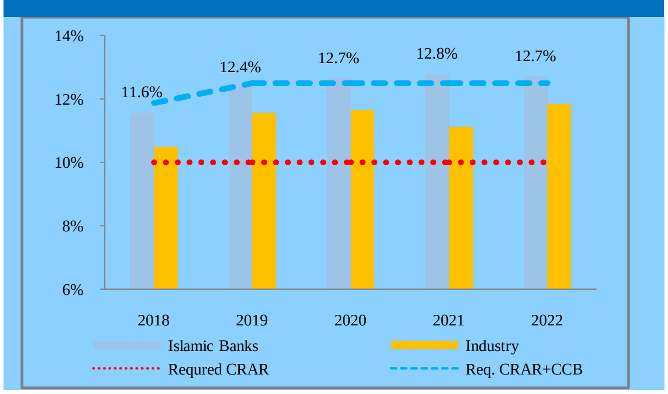
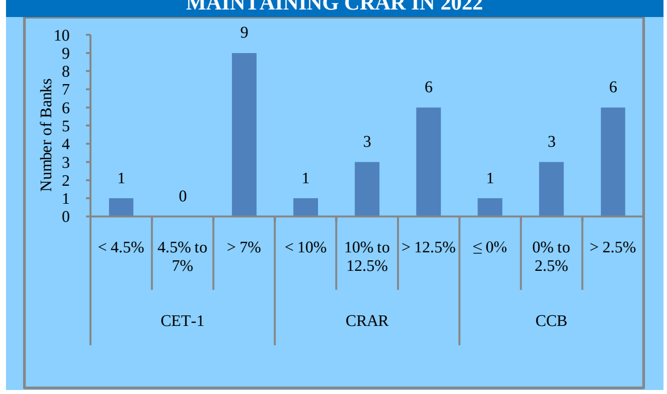


CHART 2.67: DISTRIBUTION OF ISLAMIC BANKS IN MAINTAINING CRAR IN 2022



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

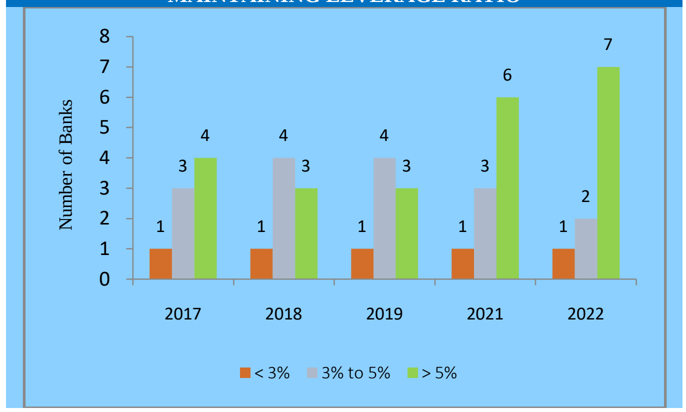
In addition to the minimum total capital plus capital conservation buffer, a bank has to maintain a leverage ratio of 3.0 percent (at least) to prevent build up excessive on- and off-balance sheet exposures.

Chart 2.68 presents the trend of the leverage ratio of Islamic banks as well as the banking sector. In 2022, the leverage ratio of the Islamic banks increased to 4.9 percent from 4.8 percent in 2021. An increase in Tier-1 capital and a decrease in off-balance sheet exposures of Islamic banks mainly contributed to the improvement in the leverage ratio. It is worth noting that the leverage ratio of the Islamic banks is higher than that of the banking sector in 2022 as in the previous year.

Chart 2.69 shows the trend of distribution of leverage ratio of Islamic banks. At end-December 2022, 9 (nine) out of 10 (ten) Islamic banks were able to maintain the minimum required leverage ratio.

CHART 2.68: AGGREGATE LEVERAGE RATIO OF ISLAMIC BANKS AND BANKING INDUSTRY

CHART 2.69: DISTRIBUTION OF ISLAMIC BANKS IN MAINTAINING LEVERAGE RATIO



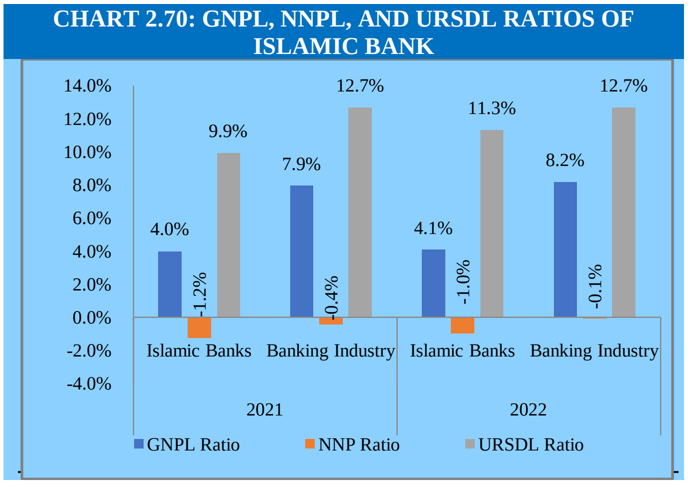
Note: Excluding Islamic banking branches/windows of conventional banks.
Source: DOS, BB; computation: FSD, BB.

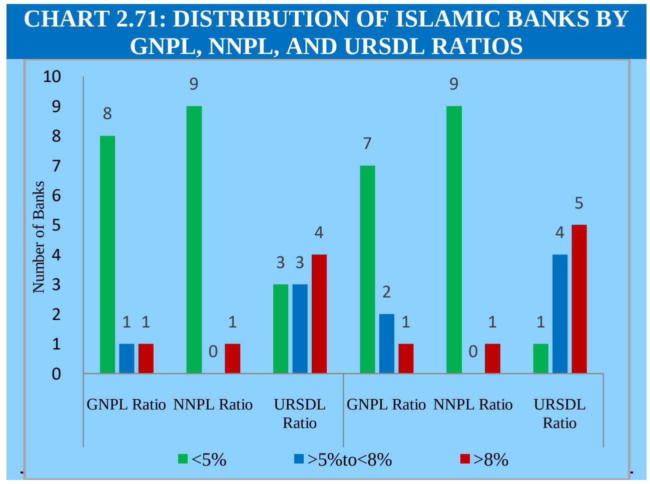
2.13.3 ASSET QUALITY OF ISLAMIC BANKS

The performance of Islamic banks in terms of gross non-performing investments (GNPL) ratio, net non-performing investments (NNPL) ratio, and unclassified rescheduled investments (URSDL) ratios remained well compared to the banking industry in 2022. However, the distribution of the Islamic banks by GNPL and URSDL slightly deteriorated in 2022 compared to 2021.

Chart 2.70 shows a comparison of gross classified investments (GNPL), net classified investments (NNPL), and unclassified rescheduled investments (URSDL) ratios of the Islamic banks and the banking industry in 2021 and 2022. The Islamic banks showed better performance compared to the banking industry in terms of all three ratios as the ratios remained below the industry level in both periods. However, the performance of the Islamic banks in terms of these ratios deviated a little in 2022 compared to 2021.

Chart 2.71 depicts the distribution of the Islamic banks by GNPL, NNPL, and URSDL in 2021 and 2022. The chart indicates that the distribution of banks for NNPL remained the same in 2022 as in 2021. However, the distribution of banks by GNPL and URSDL impaired a bit in 2022 compared to 2021 since some banks moved from the lower percentage bucket (less than 5 percent) to the higher.





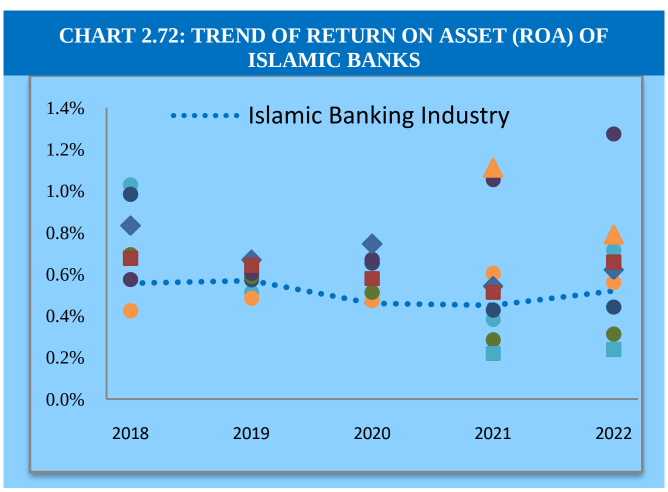
Note: Excluding Islamic banking branches/windows of conventional bank.
Source: DOS, BB; computation: FSD, BB.

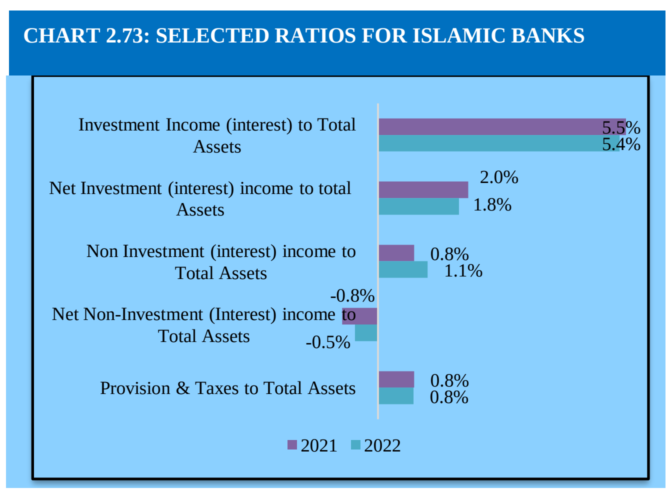
2.13.4 Operational Efficiency of Islamic Banks

Despite slight decline in investment income (profit income) to total assets in 2022, the aggregate return on assets (ROA) of the Islamic banks increased by 7 basis points and reached to 0.52 percent in the review year. This improvement in ROA was mainly driven by improvement in the non-investment income.

Chart 2.72 demonstrates the trend of the aggregate ROA of the Islamic bank along with the distribution of Islamic banks over the last five years. The aggregate ROA of the Islamic banks increased to 0.52 percent in 2022 from 0.45 percent in 2021. 6 (six) out of 10 (ten) Islamic banks were able to earn more ROA than the average return earned by the Islamic banking industry in 2022 as in 2021. It is mentionable that the ROA of 1(one) Islamic bank was negative in 2022.

Chart 2.73 presents the income components of Islamic banks, which indicates a marginal decline in the investment income (interest income) and net investment income (interest income net of interest expense) to total assets compared to those of the previous year. However, the non-investment income to total assets ratio of the Islamic banks increased moderately in the review year. Similarly, net non-investment income also increased in 2022, which indicates a higher income earned from commissions, fees, and Shari'ah-based bonds in 2022 compared to 2021. Provision and taxes to total assets remained the same as the previous year.





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

2.13.5 LIQUIDITY SITUATION OF ISLAMIC BANKS

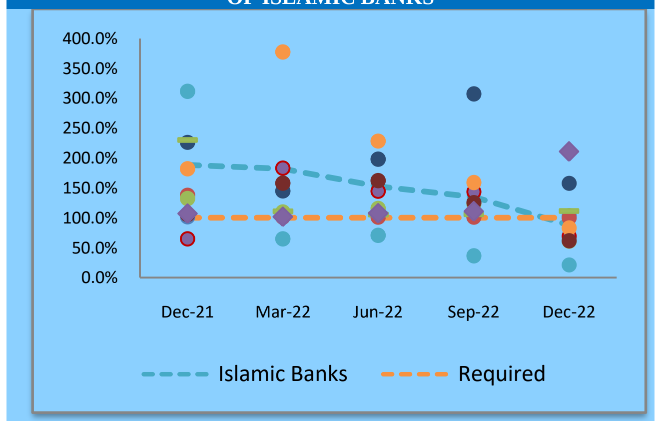
At end-December 2022, the Islamic banks, as a whole, were able to maintain the minimum required Net Stable Funding Ratio (NSFR), but could not maintain the Liquidity Coverage Ratio (LCR) in line with the Basel III standard. In addition, the Investment-Deposit Ratio (IDR) was also within the regulatory limit but registered a significant increase during the review year.

Chart 2.74 indicates that the maintained LCR of the Islamic banks, as a whole, decreased gradually during the year 2022 and finally stood at 87.7 percent at end-December 2022, which was considerably lower than the minimum regulatory requirement of 100 percent and the industry average of 154.0 percent.

Chart 2.75 demonstrates the distribution of Islamic banks in terms of maintaining LCR, which depicts that exactly half of the Islamic banks managed to maintain the regulatory requirement at end-December 2022.

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

CHART 2.75: BANK-WISE LCR MAINTENANCE SCENARIO OF ISLAMIC BANKS



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

In the case of NSFR, Islamic banks, in aggregate, were able to maintain 112.8 percent**,** which was higher than the required level of 'above 100 percent' and the industry average of 110.2 percent in the review year (Chart 2.76). However, the ratio in Islamic banks declined by 20 basis points at end-December 2022 compared to the same period in the previous year.

Chart 2.77 shows the distribution of Islamic banks in terms of maintaining the NSFR, which indicates that all the Islamic banks were able to maintain the required NSFR of 'more than 100 percent' at end-December 2022.

CHART 2.76: NSFR MAINTAINED BY THE BANKING INDUSTRY AND ISLAMIC BANKS

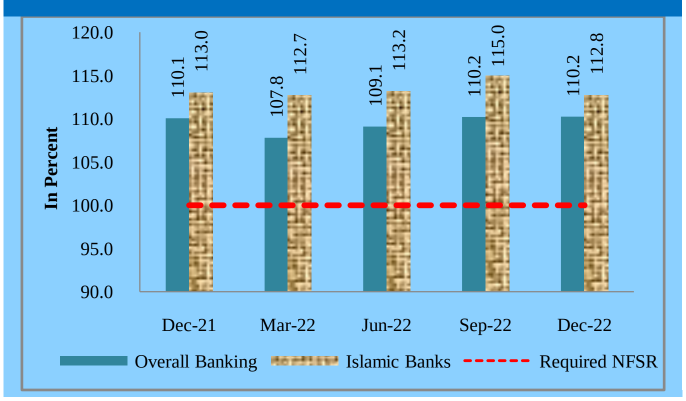
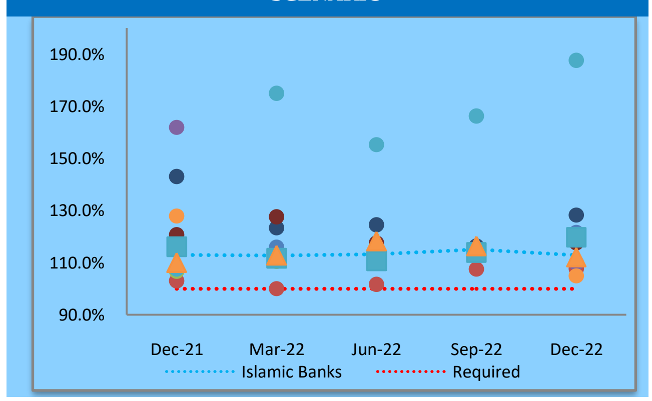


CHART 2.77: ISLAMIC BANK-WISE NSFR MAINTENANCE SCENARIO



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

Chart 2.78 presents the trend of investment (advance) deposit ratio (IDR) of Islamic banks. The aggregate IDR increased to 91.4 percent in 2022 from 84.7 percent in 2021. The higher investment growth (15.6 percent) compared to lower deposit growth (2.9 percent) during the year 2022 was partially responsible for this notable increase in IDR.

Chart 2.79 shows the distribution of the Islamic banks in terms of IDR at end-December 2022, which indicates that 6 (Six) Islamic banks crossed the permissible level (92 percent) of IDR in the review period.

CHART 2.78: IDR OF ISLAMIC BANKS

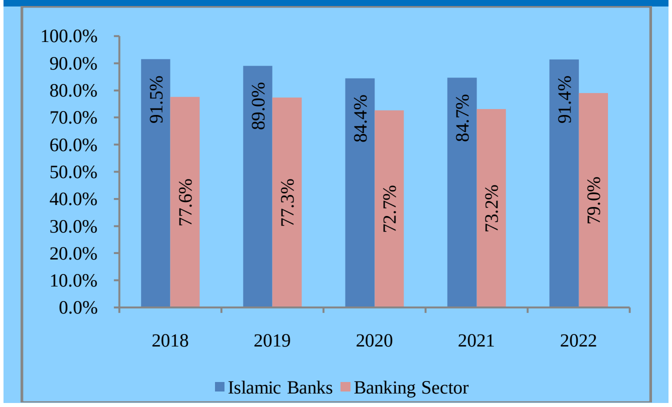


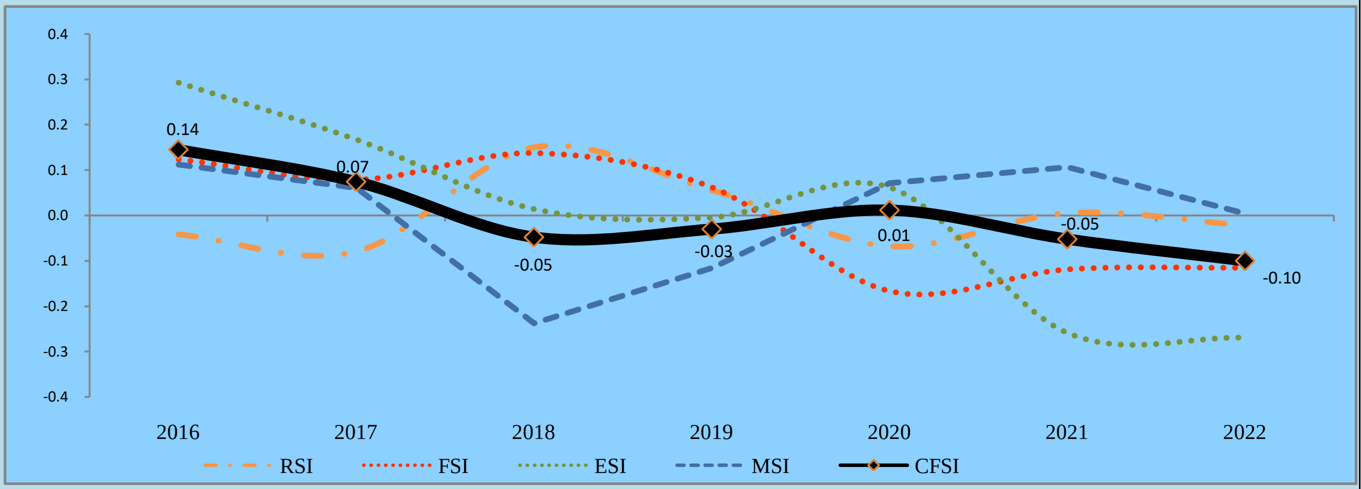
CHART 2.79: DISTRIBUTION OF IDR OF ISLAMIC BANKS IN DECEMBER 2022

Notes: 1. Excluding Islamic branches and Windows of conventional banks; 2. Banks are not in ordinal.
Source: DOS, BB.

Box 2.3: Composite Financial Stability Index (CFSI): December 2022

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, fiscal sector, external 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 aggregate form of nineteen 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 2016 to December 2022.

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



Notes: 1) Regime of Capital Adequacy Ratio (CAR) calculation changed twice: Basel I to Basel II in 2010 and to Basel III in 2015; 2) Minimum paid-up capital requirement (in amount) for banks increased (BDT 2 billion in 2007 and BDT 4 billion in 2011); 3) From June 2013, the base year of CPI was changed (from 1995-96=100 to 2005-06=100); 4) GDP base year is 2015-16.

The CFSI shows that the financial system of Bangladesh at end-December 2022 depicted a downward trend compared to December 2021, partially attributable to subdued performance of the financial and monetary sector (Chart B2.2.1). The Real sector and External sector depicted a slightly downward trend during the review period whereas the fiscal sector was in a mostly stable position. An immoderate fall in capital market return (-8.1 percent in 2022 compared to 25.1 percent in 2021) and a higher call money rate (4.7 percent in 2022 compared to 2.1 percent in 2021) caused the financial and monetary sector to decline mostly compared to end-December 2021. Improvement in the current account deficit and increase in export competitiveness (measured through REER) did not let the external sector fall as much as the decrease in foreign currency reserve and increase in import payment that were supposed to take place. The external sector was in a better position compared to June 2022 based data for CFSI report largely due to several proactive measures taken by Bangladesh Bank and the Government. Despite higher GDP growth (7.1 percent) and higher agricultural production growth (3.3 percent), higher inflation and lower growth of industrial production (measured through the quantum index of industrial production) appeared to have served as impediment to move the real sector upward. Increase in government borrowing on the one hand and increase in tax revenue on the other have helped the fiscal sector to remain broadly stable.

CHAPTER 3 : BANKING SECTOR RISKS

The overall banking sector risk, measured by the Risk-weighted assets (RWA) density ratio, demonstrated a slight upward trend in 2022. The growth of RWA for credit risk was higher than that of market and operational risks in terms of nominal amounts. On aggregate basis, all the banks have 53.88 percent lending exposure in the corporate sector. It is noteworthy that the rated exposures increased for the corporate sector in 2022. As a result, banks gained the flexibility to maintain lower capital compared to the preceding year. The overall Capital to Risk-weighted Asset Ratio (CRAR) of the banking sector was in increasing trend and was also well above the required level. Though the current level of CRAR appears to be adequate to withstand any plausible shock in the near future, it may not sustain if the central bank withdraws the accommodative provisioning stance in near future. Therefore, some preemptive measures need to be taken to raise the capital base of the banks over time.

This chapter analyses various risks related to the assets of the banking sector and the subsequent distribution of capital in line with 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 aggregate assets of the banking sector as of December 2022.

TABLE 3.1: GROUPING OF BANKS FOR RISK ANALYSIS

Bank group	Description of the group	Number of banks	Share of total banking sector assets
Group 1	Private commercial banks (Long-standing conventional banks)	21	42.08%
Group 2	State-owned and Private commercial banks under special attention[32]	11	25.79%
Group 3	Private commercial banks (Full-fledged Islamic Shari'ah banks excluding one bank under special attention)	9	22.56%
Group 4	Foreign commercial banks	9	5.75%
Group 5	Fourth-generation[33] private commercial banks	11	3.82%
	TOTAL	61	100.00%

Source: Department of Off-site Supervision, BB.

3.1 OVERALL RISK PROFILE

Risk-weighted assets (RWA) density ratios[34], the ratio of RWA to total assets, of different groups of banks are shown in Table 3.2. The trends in the ratios during the period 2018-2022 are displayed in Chart 3.1. Mentionable, banks with higher density ratio are exposed to more risky assets. RWA density ratio for this sector increased slightly from 61.11 percent in 2021 to 61.17 percent in 2022. Groups 1 and 5 had a higher RWA density ratio among the specified categories. In addition, the ratio increased for Groups 2, 3, and 5, while it decreased for the rest of the groups in 2022.

[32]Banks operating under Memorandum of Understanding (MOU) or Directives of Bangladesh Bank (DOBB).
[33]Banks granted license in 2013 onward to operate as scheduled banks in Bangladesh.
[34]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.

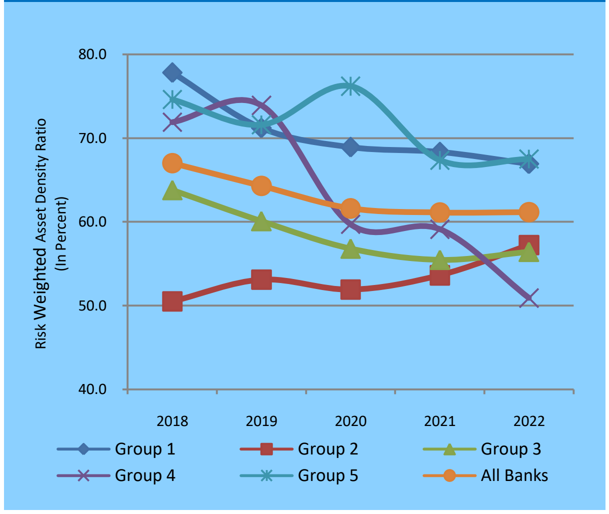
TABLE 3.2: RISK-WEIGHTED ASSET DENSITY RATIO (BANK GROUPS)

In Percent

Banks Group	2018	2019	2020	2021	2022
Group 1	77.80	71.20	68.90	68.33	66.91
Group 2	50.50	53.10	51.90	53.61	57.22
Group 3	63.80	60.10	56.80	55.46	56.42
Group 4	71.90	73.90	59.70	59.11	50.90
Group 5	74.60	71.60	76.20	67.36	67.49
All Banks	67.00	64.30	61.60	61.11	61.17

Source: Data- DOS; Calculation -FSD, Bangladesh Bank.

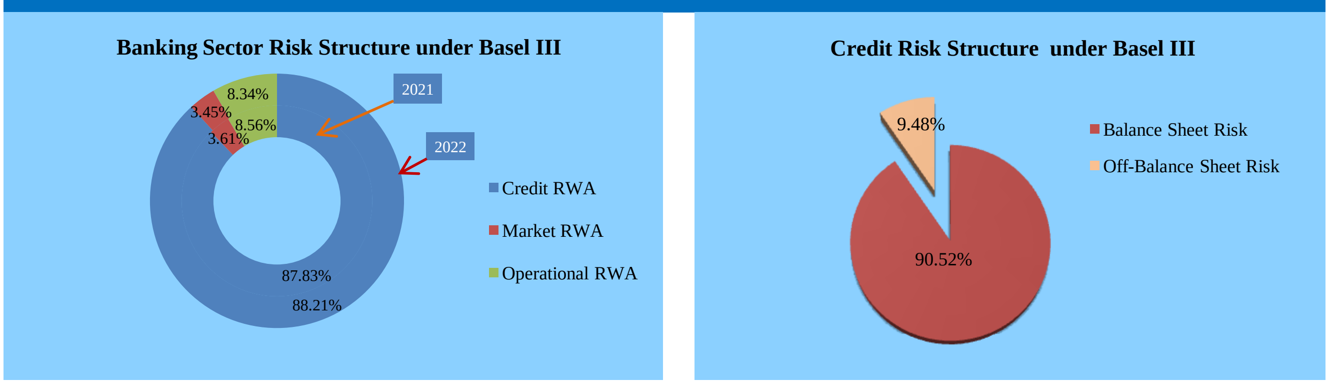
CHART 3.1: TRENDS OF RISK-WEIGHTED ASSET DENSITY RATIO



3.2 OVERALL RISK STRUCTURE

Banks' RWAs are broadly attributed to credit, market and operational risks[35] as per BASEL III capital framework. At end-December 2022, Credit Risk-Weighted Assets (CRWA) of the banking industry was BDT 11,851.02 billion, which was 8.01 percent higher than that of end-December 2021. Operational Risk-Weighted Assets (ORWA) increased by 4.66 percent and reached to BDT 1,119.76 billion during this period. Market Risk-Weighted Assets (MRWA) also increased by 2.83 percent and stood at BDT 463.46 billion in 2022. The CRAR of the banking industry increased from 11.08 percent at end-December 2021 to 11.83 percent at end-December 2022, which was above the minimum capital requirement (MCR) of 10.0 percent.

CHART 3.2: CREDIT RISK AND OVERALL RISK STRUCTURE AT END-DECEMBER 2022



Source: DOS, BB.

At end-December 2022, the credit risk-weighted asset was 88.21 percent of the total RWA, whereas the RWA associated with the market and operational risks were 3.45 percent and 8.34 percent respectively. In the review period, credit risk-weighted assets as a ratio of total RWA increased by 0.39 percentage point, whereas market risk-weighted assets and operational risk-weighted assets as a ratio of total RWA decreased by 0.16 percentage

[35]**Credit risk** can be defined as the probability of loss (due to non-recovery) emanating from the credit extended, due to 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.

point and 0.22 percentage point respectively compared to the preceding period (Chart 3.2). Notably, the market risk decreased in terms of its share in the overall banking sector's risk whereas the risk increased in terms of risk-weighted assets' nominal amount. Importantly, the chart displays that 90.52 percent of the credit risk was derived from balance sheet exposures.

3.3 CREDIT RISK STRUCTURE

The credit risk of top 5 banks accounted for 26.10 percent of the total credit risk of the banking system, while about 41.18 percent of credit risk contained by top 10 banks at end-December 2022. The share of credit risks in terms of overall industry risk in top 5 and top 10 banks were 23.03 percent and 36.33 percent respectively (Table 3.3). The concentration of credit risk within the top 5 and top 10 banks increased by 0.60 percentage point and 0.78 percentage point respectively, compared to that of 2021.

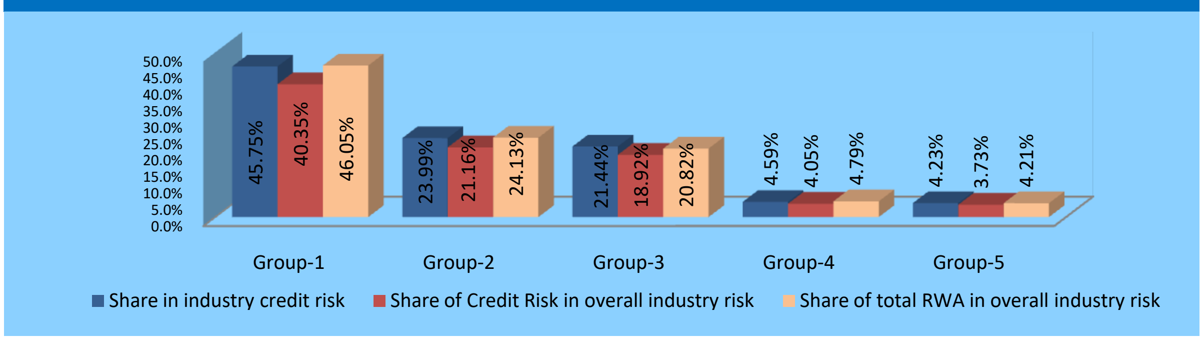
TABLE 3.3: CREDIT RISK IN THE BANKING INDUSTRY UNDER BASEL III (END-DECEMBER 2022)

Banks	Share in industry credit risk	Share in industry overall risk
Top 5	26.10%	23.03%
Top 10	41.18%	36.33%
All Banks	100.00%	88.22%

Source: DOS, BB.

Category-wise credit risk analysis revealed that the industry’s credit risk remained concentrated mostly in Groups 1 and 2. The combined share of these two groups is 69.74 percent of industry credit risk. Group 1 (21 banks), possessing 42.08 percent of total assets, contained about half of the industry credit risk (45.75 percent) and 46.05 percent of overall industry risk. On the other hand, Group 2 (11 banks), held 25.79 percent of the assets but contained about one-fifth of the industry credit risk (23.99 percent) and 24.13 percent of the overall industry risk. Group 3 (9 banks), comprised of full-fledged Islamic banks, held 22.56 percent of the total assets, contained 21.44 percent of the industry credit risk, and 20.82 percent of the overall industry risk (Table 3.1 and Chart 3.3). Foreign commercial banks (Group 4) and fourth-generation private commercial banks (Group 5) shared 4.59 percent and 4.23 percent of the industry’s credit risk, whereas 4.79 percent and 4.21 percent of the overall industry risk respectively.

CHART 3.3: CATEGORY-WISE DISSECTION OF CREDIT RISK IN THE BANKING SYSTEM (END-DECEMBER 2022)



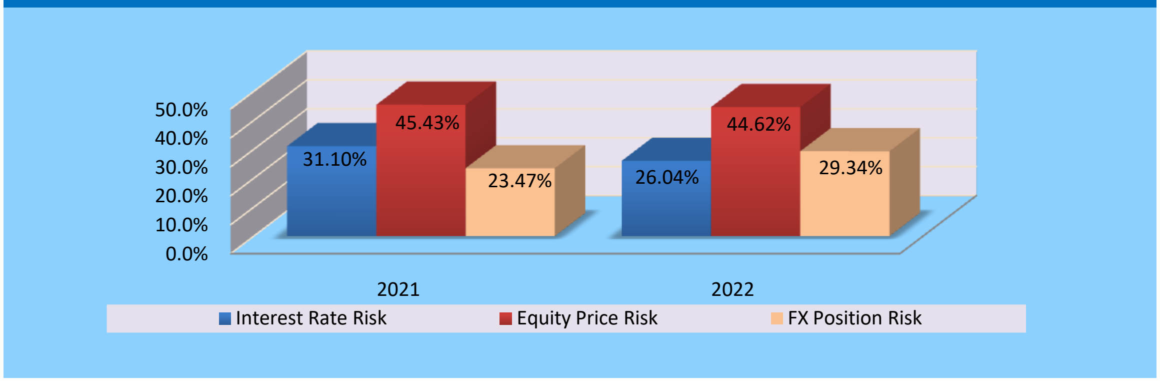
Source: DOS, BB.

3.4 MARKET RISK STRUCTURE

According to Basel III framework, market risk is the risk of losses in on and off-balance sheet positions arising from movement in market prices. Market risk positions are risk pertaining to interest related instruments and equities in the trading book; and foreign exchange risk and commodity risk throughout the book (both in the banking and trading book).

Composition of different types of market risks in banks as of end-December 2021 and end-December 2022 is illustrated in Chart 3.4. Within market risk, the share of equity price risk was almost half, i.e., 44.62 percent while foreign exchange rate risk and interest rate risk contributed 29.34 percent and 26.04 percent respectively (Chart 3.4). Although equity price risk and interest rate risk decreased in 2022, foreign exchange risk increased during the period.

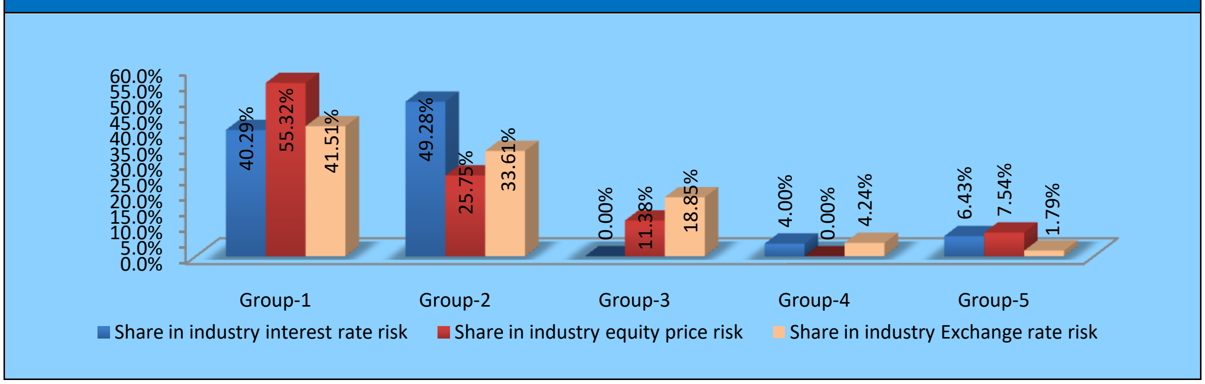
CHART 3.4: MARKET RISK COMPOSITION



Source: DOS, BB.

The banks in the category of Groups 1 and 2 were jointly exposed 89.57 percent of the total interest rate risk in the segment of market risk at the review period, which was 87.90 percent in 2021. The equity price risk of these two groups stood at 81.07 percent in 2022 compared to 83.90 percent in 2021. Moreover, the banks under Groups 1 and 2 possessed 75.12 percent of the industry's total foreign exchange rate risks, a notable increase from 62.0 percent in the preceding year. Besides, banks under Group 3 possessed 18.85 percent of the exchange rate risks in 2022, indicating an increasing trend (18.4 percent in 2021). The banks under Groups 4 and 5, containing less than 10 percent share of total assets, were found to be less exposed to market risk in the banking system (Chart 3.5).

CHART 3.5: CATEGORY-WISE DISSECTION OF MARKET RISK IN THE BANKING SYSTEM (END-DECEMBER 2022)



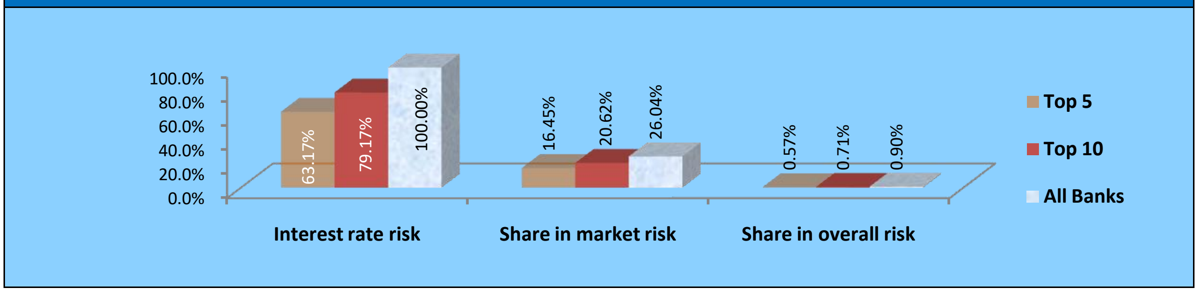
Source: Data-DOS; Calculation-FSD, BB.

3.4.1 INTEREST RATE RISK (IRR)

The share of interest rate risk (IRR)[36] in the total RWA of the banking system decreased slightly from 1.1 percent in 2021 to 0.90 percent in 2022. The RWA associated with interest rate risk decreased by 13.88 percent and stood at BDT 120.69 billion in 2022. IRR contributed 26.04 percent of the market RWA in 2022, which was 31.1 percent in 2021. The banks' capital charge for interest rate risk was BDT 12.07 billion in 2022, as opposed to BDT 14.02 billion recorded in 2021.

The top 5 banks' interest rate risk constituted 63.17 percent of industry interest rate risk in 2022. Three SOCBs and two conventional PCBs were ranked in the top 5 in terms of capital charges for IRR in the banking system. In the review period, interest rate risk contained 26.04 percent of the market risk of which top 10 banks held 20.62 percent (Chart 3.6). Compared to 2021, interest rate RWA to industry's total RWA for top 5 banks decreased from 0.70 percent to 0.57 percent and decreased from 0.90 percent to 0.71 percent for the top 10 banks in 2022. The IRR shares for the top 5 and top 10 banks increased while their shares in market risk slightly decreased in the review period, compared to the preceding period.

CHART 3.6: INTEREST RATE RISK IN THE BANKING SYSTEM (END-DECEMBER 2022)



SOURCE: DEPARTMENT OF OFF-SITE SUPERVISION, CALCULATION: FSD, BB.

3.4.2 EQUITY PRICE RISK

The RWA assigned to equity price risk[37] constituted 1.54 percent of the total RWA of the banking system and 44.62 percent of the total market risk at end-December 2022. The banks' capital charge for equity price stood at BDT 20.68 billion in December 2022 compared to BDT 20.47 billion in 2021.

TABLE 3.4: EQUITY PRICE RISK IN THE BANKING SYSTEM (END-DECEMBER 2022)

Banks	Equity Price risk	Share in market risk	Share in overall risk
Top 5	32.17%	14.36%	0.50%
Top 10	54.42%	24.28%	0.84%
All Banks	100.00%	44.62%	1.54%

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

The top 5 banks constituted 32.17 percent of industry equity price risk in 2022. Two SOCBs and three PCBs were ranked in the top 5 in terms of capital charges for equity price risk in the banking system. In the review period,

[36] Interest rate risk can be defined as a 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.

[37] 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.

equity price risk contributed the highest portion (44.62 percent) of market risk (Table 3.4). In comparison with 2021, the share of equity price RWA in the industry's total RWA remained almost the same for the top 5 banks (0.54 percent in 2021), while it decreased for the top 10 banks in 2022 (0.91 percent in 2021).

3.4.3 Exchange Rate Risk

The RWA assigned to exchange rate risk[38] constituted 1.01 percent of the total RWA of the banking system while its share in market risk was 29.34 percent in 2022. The banks' capital charge for exchange rate risk increased to BDT 13.60 billion at end-December 2022 from BDT 10.60 billion at end-December 2021.

The top 5 and top 10 banks were exposed to 43.81 percent and 67.96 percent of the industry's exchange rate risk in 2022, which were 8.31 percentage points and 15.16 percentage points higher respectively compared to the preceding period (Table 3.5). Noteworthy that, shares of exchange rate risk in market risk and overall risk for the top 5 banks and top 10 banks increased in 2022 compared to 2021.

TABLE 3.5: EXCHANGE RATE RISK IN THE BANKING SYSTEM (END-DECEMBER 2022)

Banks	Exchange rate risk	Share in market risk	Share in overall risk
Top 5	43.81%	12.85%	0.44%
Top 10	67.96%	19.93%	0.69%
All Banks	100.00%	29.34%	1.01%

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

3.5 OPERATIONAL RISK

The RWA assigned to operational risk was 8.34 percent of the total RWA of the banking industry at end-December 2022. The required capital charge for operational risk as of December 2022 was BDT 111.97 billion, which was BDT 4.99 billion or 4.66 percent higher than that of the preceding year.

CHART 3.7: OPERATIONAL RISK IN THE BANKING INDUSTRY IN LINE WITH BASEL III

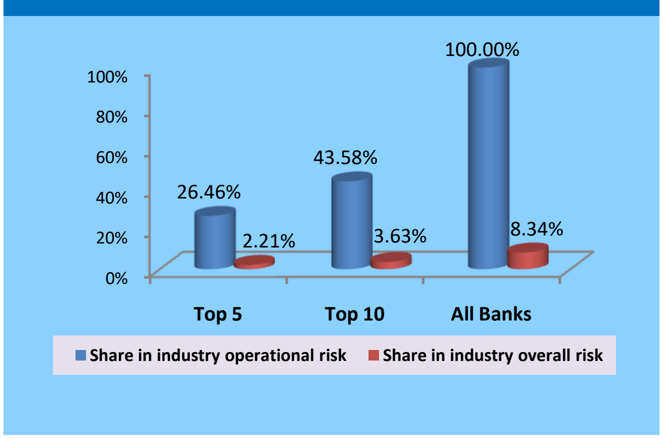
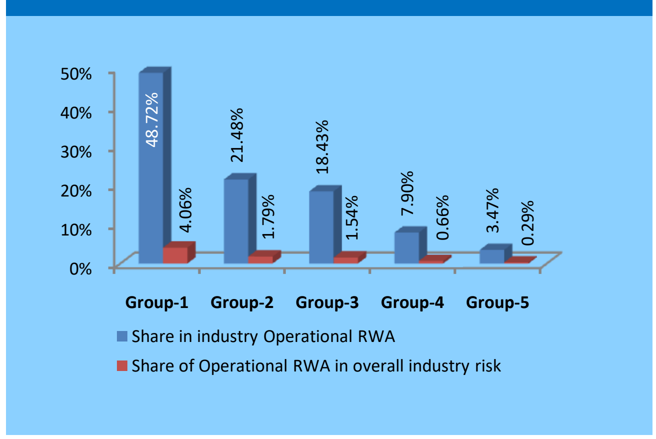


CHART 3.8: CATEGORY-WISE DISSECTION OF OPERATIONAL RISK IN THE BANKING SYSTEM



Source: Data- DOS; Calculation -FSD, Bangladesh Bank.

[38] Exchange rate risk refers to the variability of a firm's earnings or economic value due to changes in the exchange rate.

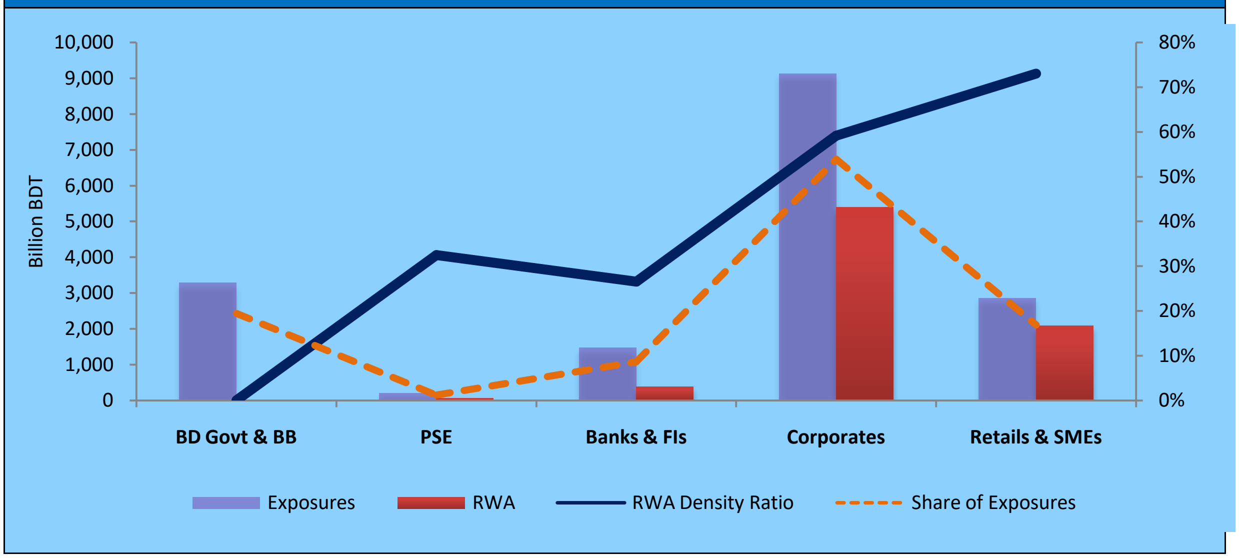
The top 5 and top 10 banks were exposed to 26.46 and 43.58 percent respectively of the industry's operational risk in 2022, which were 0.04 percentage point and 0.23 percentage point lower respectively compared to the preceding period (Chart 3.7).

The category-wise operational risk revealed that the banks in Groups 1 and 2 were jointly exposed to 70.19 percent of the industry's operational risk (Chart 3.8). The shares of operational risk in the overall industry risk for the bank groups remained almost the same as that of 2021.

3.6 SECTORAL EXPOSURES AND RISK

Banks' exposure to the corporate sector was 53.88 percent at end-December 2022. Around 20 percent of total exposure was Government Securities and Balance with Bangladesh Bank while 16.88 percent of the exposure was extended to the Retail and SMEs sector (Chart 3.9).

CHART 3.9: SECTORAL EXPOSURES OF BANKS AND RISKS (END-DECEMBER 2022)



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

It is also evident that among the sectors, the Retail and SMEs sector's credit exposures had the highest RWA Density Ratio of 73.04 percent, as the retail and SME loans were mainly provided for trading purposes, where collateral securities were at the minimum level and higher risk weights were assigned for such businesses as per Basel norms. Corporate lending exposures had a RWA Density Ratio of 59.15 percent while the placement and lending to Banks and FIs had a lower RWA Density Ratio of 26.52 percent in 2022 (Chart 3.9).

3.7 CREDIT RISK MITIGANTS

The rated exposures for the corporate sector increased, however those for the banks and financial institutions (FIs) decreased in 2022. More specifically, the percentage of best-rated exposures (BB Rating 1) increased for the corporate sector but decreased for 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 applied for unrated exposures; therefore, banks are encouraged to bring more exposures under ECAIs' rating to mitigate the credit risks effectively. The better the ratings of the exposures, the less likely the banks are exposed to default risk/counterparty risk. The rated and unrated exposures of NFCs, Banks, and FIs in 2021 and 2022 are illustrated in Chart 3.10.

Total exposure to the corporate sector increased, whereas those to Banks and NBFIs decreased in 2022 compared to 2021. The overall exposure to the corporate sector was BDT 9,135.64 billion at end-December 2022, recording an increase of BDT 1,304.58 billion from that of 2021. Chart 3.10 exhibits that the overall rated exposure of the banking system to corporate sectors increased. In December 2022, the total rated exposure was 89.77 percent, where the best-rated exposure was 26.01 percent.

CHART 3.10: BANKS' EXPOSURES TO CORPORATE AND BANKS & NBFIs

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

Among the rated exposures, the BB Rating 1 for the corporate sector increased by 2.34 percentage points and decreased by 6.00 percentage points for the Banks and FIs sector in December 2022 compared to those of December 2021. However, the other BB Rating for the corporate sector decreased by 1.09 percentage points and increased by 5.19 percentage points for the Banks and FIs sector in December 2022 compared to those of December 2021. The overall credit exposure to Bank and FIs was BDT 1,467.25 billion in December 2022, which was BDT 79.83 billion higher than that of December 2021. The above chart suggests that the total rated exposure to Banks and FIs was notably high compared to the total unrated exposures. In 2022, 53.59 percent of matured credit exposures to Banks and FIs acknowledged as BB Rating 1, rendering a 6.00 percentage points decrease from 2021. However, the other BB-rated exposures to Banks and FIs increased by 5.19 percentage points in 2022 compared to 2021.

CHAPTER 4 : BANK AND FI RESILIENCE

Bangladesh Bank (BB) conducts stress tests on banks and FIs on a quarterly basis to assess their resilience under different plausible shock scenarios. This hypothetical test is a useful risk management tool for letting the banks and FIs take preemptive measures in respect of capital maintenance and liquidity management against any probable adverse economic and financial conditions. This chapter analyzes the results of stress tests on banks and FIs as well as the banking and FI sectors based on the data as of end-December 2022. Results of the test indicate that both the sectors would remain moderately resilient to different shock scenarios.

4.1 BANKING SECTOR RESILIENCE

Stress test on banks is conducted through sensitivity analysis, incorporating impacts of minor shock scenario for credit risk, market risk, and liquidity risk. The after-shock Capital to Risk-weighted Assets Ratio (CRAR) under each shock scenario is compared with the minimum regulatory requirement of 10 (ten) percent[39] with a Capital Conservation Buffer (CCB) of 2.5 percent, in line with Basel III.

At end-December 2022, in the pre-shock scenario, 11 scheduled banks out of 61 could not maintain the minimum required CRAR of 10 percent. Moreover, additional 5 banks were not able to maintain the CCB of 2.50 percent with an existing CRAR of 10 percent. Table 4.1 shows the distribution of maintained CRAR of banks in the pre-shock scenario.

TABLE 4.1 : CAPITAL ADEQUACY SCENARIO OF THE BANKING SECTOR BEFORE ANY SHOCK

CRAR	Number of Banks
< 10%	11
≥ 10% but < 12.50%	5
≥ 12.50% but < 15.00%	16
≥ 15.00% but <20.00%	14
≥20.00%	15

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

4.1.1 SENSITIVITY TO CREDIT RISK

The sensitivity analysis of the banking sector's credit portfolio reveals that the sector is moderately resilient in terms of capital adequacy. The banking sector would be able to maintain the minimum required CRAR of 10 percent for all of the credit risk-related shocks except the shock for the increase in NPLs. Moreover, 4 and 11 banks, in addition to the existing 11 under-capitalized banks before the shock scenario, would not be able to maintain the minimum required CRAR for the 3 percent increase in NPLs and default of the top 3 borrowers of each bank.

A sensitivity test for credit risk has been conducted to assess the impact of different shocks on banks' capital adequacy position. Table 4.2 represents the after-shock CRAR of the banking sector for different credit shock scenarios, which indicates a notable improvement in the banking sector resilience compared to the previous year. The banking sector would be able to maintain the minimum required capital of 10 percent for different types of credit shocks except for the shock of a 3 percent increase in NPLs.

[39]The results are based on the unaudited data for the calendar year ended December 2022.

TABLE 4.2 : CAPITAL ADEQUACY SCENARIO OF THE BANKING SECTOR FOR CREDIT RISK

(In Percent)

Description	December 2020	December 2021	December 2022
Required minimum CRAR	10.00	10.00	10.00
Pre-shock CRAR	11.57	11.06	11.83
After-Shock CRAR of different Credit Risks			
Increase in NPLs by 3%	10.12	9.41	9.82
Default of top 3 borrowers	9.53	9.31	10.11
Negative shift in the NPLs categories by 5%	10.97	10.43	11.09
10% fall in the forced sale value (FSV) of mortgaged collateral	11.07	10.53	11.17
3% of performing loans of the highest exposed sector directly downgraded to bad/loss	11.43	10.89	11.62

Source: Data from Banks; Calculation: FSD, BB.

Chart 4.1 depicts the number of banks, which would fail to maintain the minimum required CRAR of 10 percent due to different shocks of credit risk. The figure shows that 11 banks, in addition to the existing 11 under-capitalized ones before the shock scenario, would become non-compliant in maintaining the minimum required CRAR for the default of the top 3 borrowers of each bank. Besides, additional 4 banks would become non-compliant for a 3 percent increase in NPLs.

Chart 4.2 depicts the number of banks, which would fail to maintain the CCB of 2.50 percent with an existing CRAR of 10 percent due to different shocks of credit risk. In this case, additional 21 and 8 banks would not be able to maintain minimum capital requirement with CCB (12.50 percent) for the shock of default of the top 3 large borrowers and increase in NPLs by 3 percent respectively. Hence, the stress test results indicate that a significant number of banks would fail to maintain the minimum required CRAR for the default of top large borrowers, which would be followed by an increase in NPLs.

CHART 4.1: NUMBER OF NON-COMPLIANT BANKS IN TERMS OF CRAR

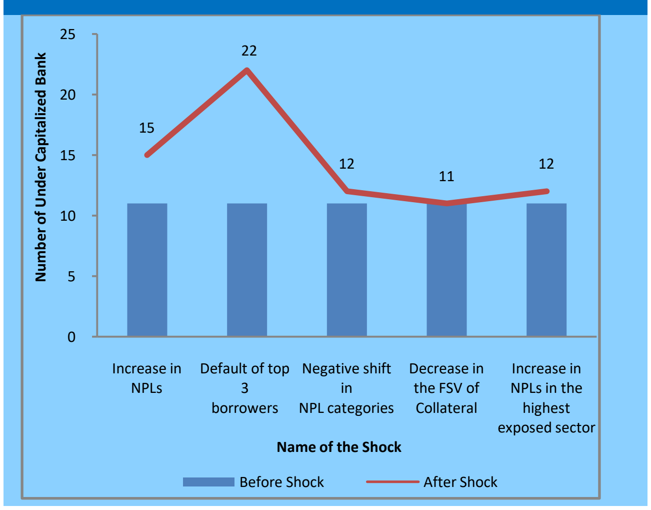
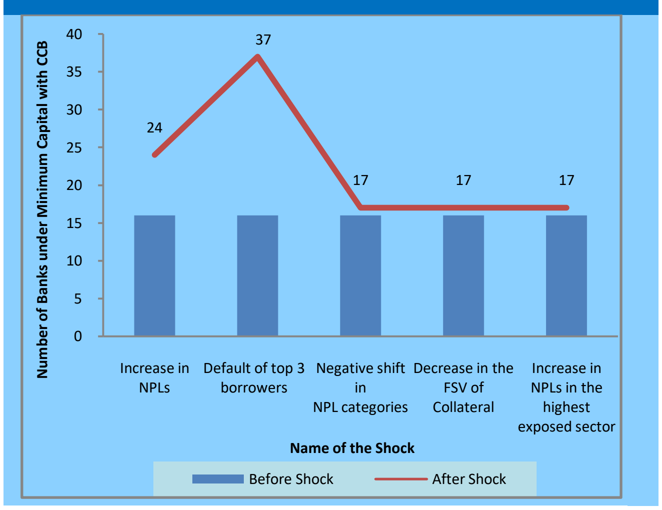


CHART 4.2: NUMBER OF NON-COMPLIANT BANKS IN TERMS OF CRAR WITH CCB



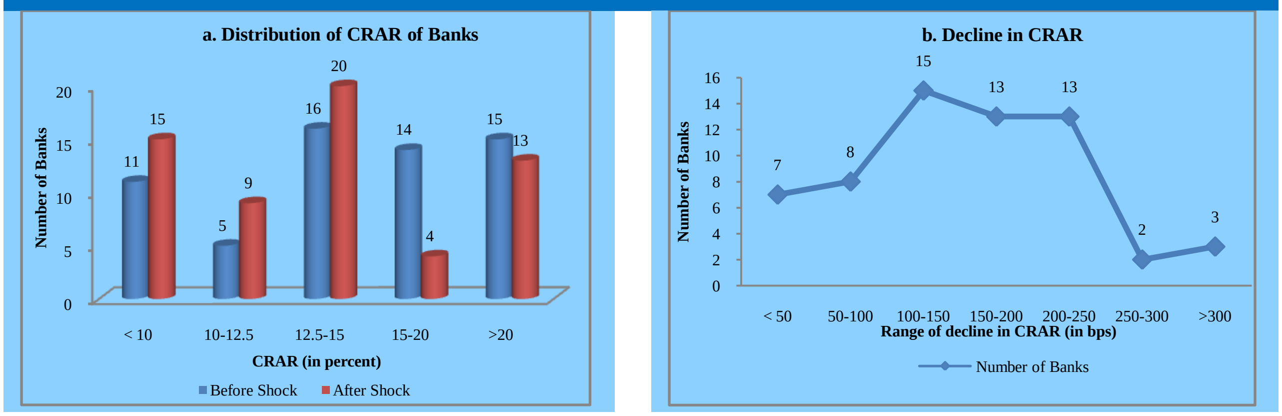
Source: Data from Banks; Compilation: FSD, BB.

The following subsections describe the details of the credit shocks and the associated results:

a) Stress test on banks' overall performing loans, considering a 3 percent increase in NPLs, indicates a significant impact on the capital adequacy ratios of an individual bank as well as the banking sector. The pre-shock and after-shock CRAR are exhibited in Table 4.2, which indicates that the banking sector's CRAR would have declined to 9.82 percent from an existing level of 11.83 percent for a 3 percent increase in NPLs at end-December 2022, if the shock materialized.

Under this stress scenario, additional 04 banks would become non-compliant in maintaining the minimum capital requirement of 10 percent. In addition, a significant number of banks would experience a notable decline in the CRAR. In particular, 5 banks would experience more than 250 basis points decline in the CRAR for a 3 percent increase in NPLs (Chart 4.3 a, and b).

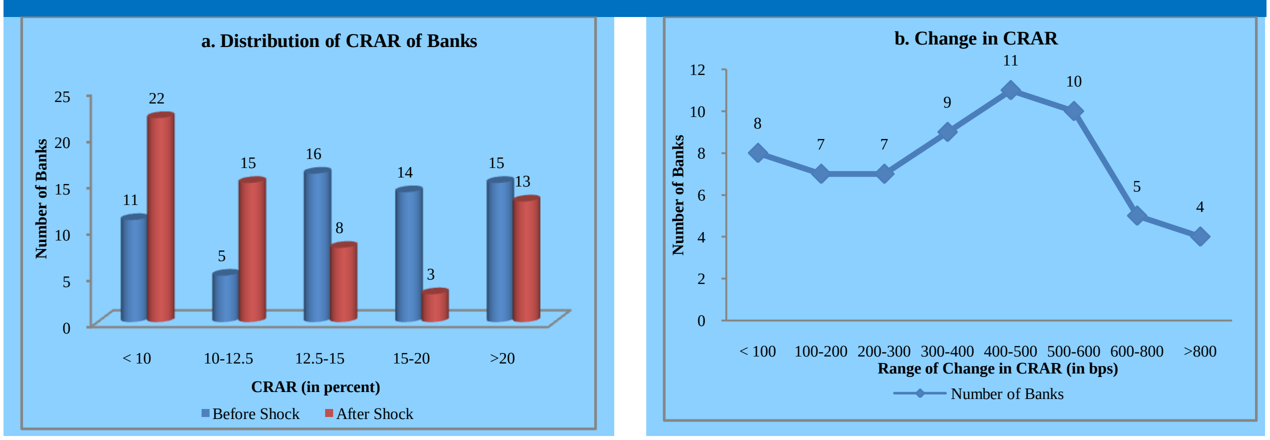
CHART 4.3: INCREASE IN NPLs



Source: Data from Banks; Compilation: FSD, BB.

b) Stress test on banks' credit concentration, considering the default of the top 3 large borrowers, shows that the banking sector would remain resilient at end-December 2022 with an after-shock CRAR of 10.11 percent (Table 4.2). However, stress test results of this shock indicate a significant impact on the capital adequacy ratio of an individual bank. Under this stress scenario, additional 11 banks would become non-compliant in maintaining the minimum required CRAR. Moreover, a significant number of banks would experience a notable decline in the CRAR. In particular, 19 banks would experience more than 5.0 percentage points (i.e., 500 basis points) decline in the CRAR for this shock (Chart 4.4 a, and b).

CHART 4.4: DEFAULT OF TOP LARGE BORROWERS



Source: Data from Banks; Compilation: FSD, BB.

c) Stress test results for other credit risk-related shocks namely negative shift in NPL categories, decrease in the forced sale value (FSV) of mortgaged collateral, and increase in NPLs in the highest exposed sector would not have a notable impact on the capital adequacy ratio of the banking sector. For the above three shocks, the banking sector would remain compliant in maintaining the minimum required capital of 10 percent (Table 4.2). However, additional 01 bank would become non-compliant in maintaining the minimum required CRAR for negative shift in NPL categories, and increase in NPLs in the highest exposed sector (Chart 4.1).

4.1.2 Sensitivity to Market Risk

The banking sector is found to be fairly resilient in terms of different market risk-related shocks namely interest rate, exchange rate, and equity price. The banking sector, as a whole, would remain compliant in maintaining the minimum required CRAR of 10 percent under different types of market risk. However, additional 01 bank would become non-compliant in maintaining the minimum CRAR for a 1 percent increase in interest rate (Table 4.3).

TABLE 4.3 : CAPITAL ADEQUACY SCENARIO OF THE BANKING SECTOR FOR MARKET RISK

(In Percent)

Description	December 2022	
	CRAR	Number of non-compliant banks due to shocks
Required minimum CRAR	**10.00**	
Pre-shock CRAR	**11.83**	
After-Shock CRAR of different Market Risks		
1% increase in interest rate	**11.22**	**01**
Change in foreign exchange rate by5%	**11.76**	**-**
Fall in equity prices by 10%	**11.53**	**-**

Source: Data from Banks; Calculation: FSD, BB.

4.1.3 Impact 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, Exchange Rate Shock, and Equity Price Shock*), the banking sector's CRAR would likely decrease to 7.44 percent from existing 11.83 percent (Table 4.4).

TABLE 4.4 : STRESS TEST RESULT OF COMBINED SHOCK

(In Percent)

Pre-shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	**10.00**	**11.83**
Stress Scenario		**After-Shock CRAR**
Combined Minor Shock		**7.44**

Source: Data from Banks; Calculation: FSD, BB.

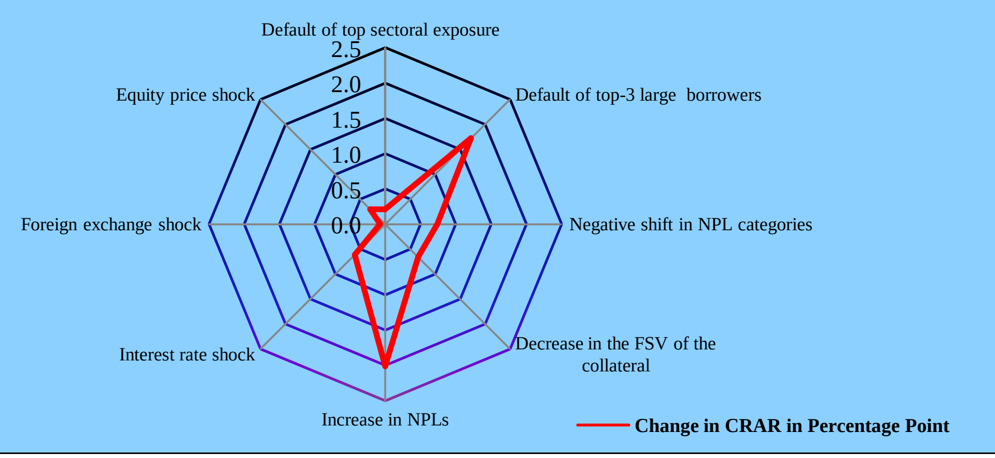
4.1.4 Liquidity SHOCK

The liquidity stress test evaluates the ability of a bank to withstand a liquidity run caused by excessive withdrawal of demand and time deposits both in local and foreign currency. A bank is considered to be liquid if it can survive (after maintaining SLR[40]) for 5 consecutive business days under a stressed situation of 2 percent excess withdrawal of deposits compared to normal withdrawal. At end-December 2022, all individual banks as well as the banking sector would likely remain resilient against liquidity stress scenario.

4.1.5 BANKING SECTOR RESILIENCE AT A GLANCE

The banking sector appears to be resilient in maintaining minimum regulatory requirements for most of the credit and market shock scenarios. However, the banking sector would likely become vulnerable to the increase in NPLs and default of the top large borrowers-related shock scenarios (Chart 4.5). The stress test results also indicate that credit risk is the major risk for the banking sector in terms of its impact on the CRAR.

CHART 4.5: BANKING SECTOR RESILIENCE IN DIFFERENT SHOCK SCENARIOS



Source: Data from Banks; Compilation: FSD, BB

4.2 RESILIENCE OF THE FINANCIAL INSTITUTIONS

The financial institutions (FIs) sector would remain moderately resilient in stressed conditions. The stress test results on FIs reveal that 21 out of 35 FIs would remain resilient under stress scenarios.

FIs are mainly vulnerable to different types of credit risks namely: increase in NPLs, downward shift in NPL categories, increase in NPLs due to the default of top 2 sectors' loan, and increase in NPLs due to the default of top large borrowers. Generally, the Infection Ratio (NPL to loan ratio) is taken as the main measure to ascertain the sensitivity of the different types of credit risk. Then the Insolvency Ratio (IR) of an FI is calculated based on the Infection Ratio. To derive the Weighted Insolvency Ratio (WIR), 50.0 percent, 30.0 percent, and 20.0 percent weights are given on after-shock IR in respect of minor, moderate, and major level shocks respectively.

At the same time, resilience levels for interest rate, credit, and equity price shocks of the FIs are set with the minimum Capital Adequacy Ratio (CAR). Whereas, the resilience level for liquidity shock is measured by the asset-liability maturity bucket. 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.

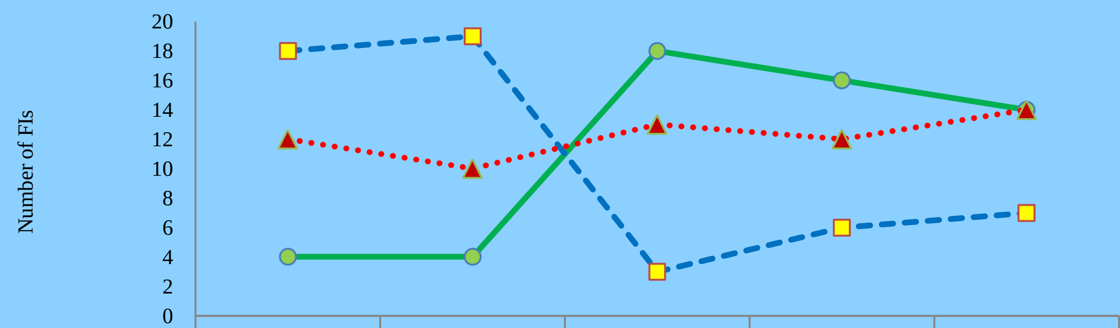
Both the WAR and WIR of FIs are measured on a scale of 1 to 5 (best to worst) grades, which are then used to determine the three zones of WAR (A or B or C) and WIR (1or 2 or 3). Finally, the WAR-WIR Matrix expresses

[40]SLR= Statutory Liquidity Requirement.

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)[41].

At end-December 2022, the stress test results of FIs indicates that 14 out of 35 FIs were in Sound condition and 7 were in Moderate condition (Chart 4.6). Hence, 21 FIs would have performed as resilient institutions as of end-December 2022. In contrast, 14 out of 35 FIs were in Weak condition during the same period.

CHART 4.6: STRESS TESTS ON FINANCIAL INSTITUTIONS



	CY2018	CY2019	CY2020*	CY2021	CY2022
Green/Sound	4	4	18	16	14
Yellow/Moderate	18	19	3	6	7
Red/Weak	12	10	13	12	14

*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; Compilation: FSD, BB

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

CHAPTER 5 : FINANCIAL INSTITUTIONS' PERFORMANCE

Financial institutions (FIs) support economic growth, job creation, and production, all of which have a substantial impact on the economy. FIs provide a range of financial services such as term financing, SME financing, factoring, syndicating financing, equity financing, merchant banking, venture capital, and working capital financing. Additionally, FIs provide some distinctive services, such as asset-based lending with limited security requirements, which is a special benefit for new and potential businesses, particularly SMEs, and sales and service-related delivery, which creates a connection between the supplier and the customer and is essential for promoting business activities.

In Bangladesh, as of end-December 2022, 35 FIs are in operation. Out of 35 FIs, 3 (three) are fully government-owned, 19 (nineteen) privately-owned local companies, and the remaining 13 (thirteen) are established jointly under local and foreign participation. During the review year, FIs used a total of 274 branches to carry out their business operations in Bangladesh.

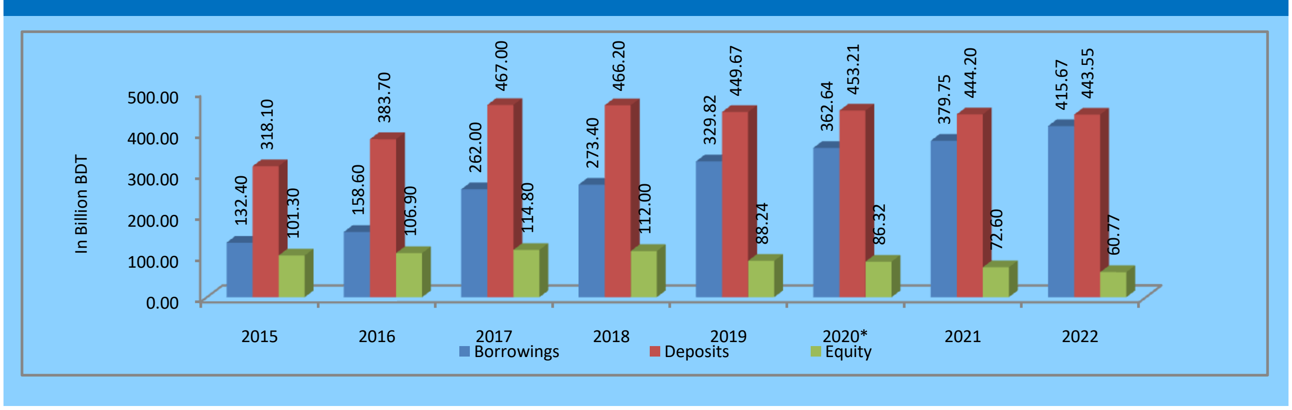
5.1 PERFORMANCE OF FIs

Along with the onsite inspection, Bangladesh Bank uses several off-site 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. This chapter analyses 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 position are illustrated in the final sections[42].

5.1.1 SOURCES OF FUND

FIs can raise funds from several sources such as share capital, bond, borrowing from banks, other FIs and foreign sponsors, term deposits, money at call, and placement from banks and other FIs to operate their businesses. The various funding sources of the FIs are depicted in Chart 5.1. In the overall sources of fund of the FIs, deposits, borrowings, and equity were BDT 443.55 billion, BDT 415.67 billion, and BDT 60.77 billion respectively, indicating 48.21 percent, 45.18 percent, and 6.61 percent of total funds as of end-December 2022 (Chart 5.1).

CHART 5.1: FIs' SOURCES OF FUNDS



Note: * - Revised
Source: Department of Financial Institutions and Markets, Bangladesh Bank.

[42]NBFIs' Aggregate Balance Sheet and Aggregate Income Statement exclude information of International Leasing and Financial Services Ltd.

These shares were 49.5 percent, 42.4 percent, and 8.1 percent respectively at end-December 2021. It is to be noted that borrowings increased by 9.46 percent; while equity and deposits declined by 16.29 percent and 0.15 percent respectively, in the review year compared to those of the preceding year.

5.1.2 ASSETS COMPOSITION

Assets of FIs are comprised of cash in hand, balance with BB, balance with other banks and FIs, money at call and short notice, investment in government securities, other investments, loans and leases, fixed assets, other assets and non-financial assets. Among different components of assets, investments, leases and all other assets increased in the review year compared to the preceding year (Chart 5.2). The total assets of the FI industry reached BDT 920.00 billion at end-December 2022, an increase of 2.61 percent from the preceding year.

As of end-December 2022, the share of loans and leases to total assets was 72.4 percent, the same as it was at end-December 2021. Cash, balance with BB, balance with others banks and FIs, money at call shared 16.15 percent of total assets in the reporting year which decreased by 1.87 percentage points compared to end-December 2021. Similarly, loans accounted 63.32 percent of total asset in end-December 2022 which was 3.75 percentage points lower compared to end-December 2021. Investments, leases, and all other assets (including fixed and non-financial assets) constituted 3.67 percent, 9.10 percent, and 7.76 percent of total assets in 2022 respectively. Both fixed assets and non-financial assets increased by 15.56 percent and 8.93 percent respectively in the reporting year. FIs' total assets to GDP[43] ratio accounted for 3.03 percent in 2022 which was 3.2 percent in the previous calendar year (Chart 5.3).

CHART 5.2: FIs' ASSET COMPOSITION

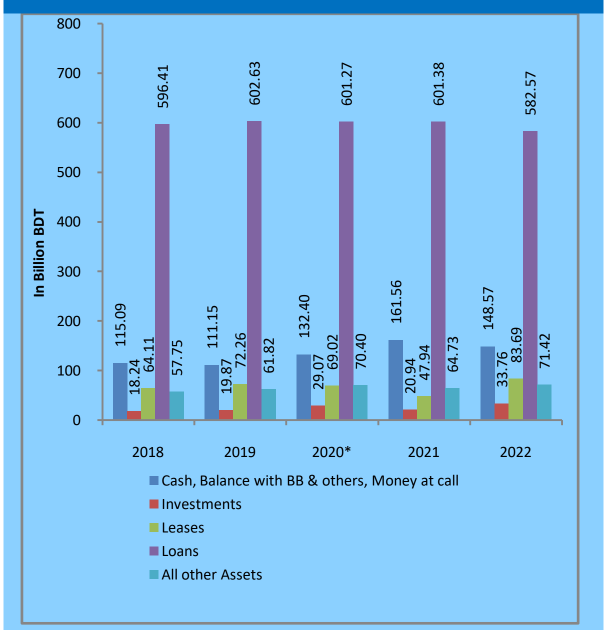
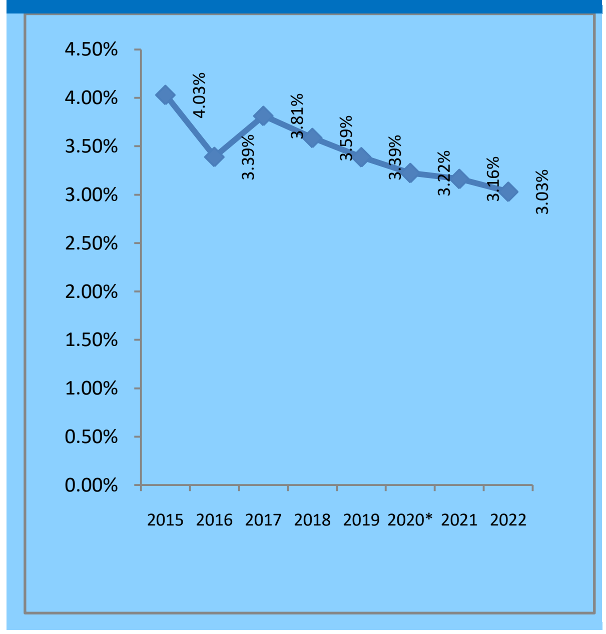


CHART 5.3: FIs' TOTAL ASSETS TO GDP RATIO



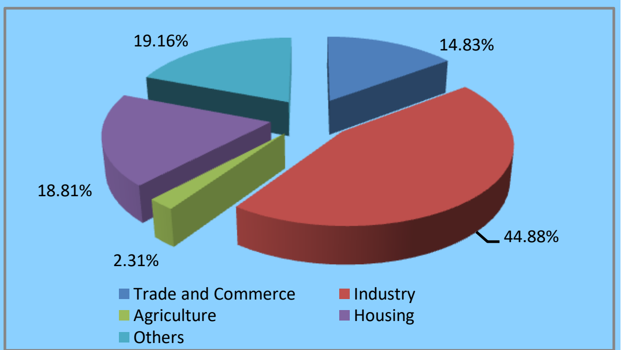
Note: * Restated.
Source: Department of Financial Institutions and Markets, Bangladesh Bank; Bangladesh Bureau of Statistics (Cited in Monthly Economic Trends, BB).

[43]GDP is the Gross Domestic Product of Bangladesh at constant market price (Base: 2015-16) and June based GDP figure is used.

5.1.3 SECTOR-WISE CONCENTRATION OF LOANS AND LEASES

The loans and leases of FIs are mostly concentrated in the industry sector followed by others, housing and trade and commerce sector.

CHART 5.4: FIs' SECTOR-WISE SHARE



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

The industry sector shared 44.88 percent of loans and leases of FIs at end-December 2022 whereas the others, housing, and trade and commerce sectors accounted for 19.16 percent, 18.81 percent, and 14.83 percent respectively (Chart 5.4). The agriculture sector accounted for only 2.31 percent of loans and leases of FIs during the period.

Table 5.1 displays FIs' loans and leases in different sub-sectors of the industry sector as of the end-December 2022.

TABLE 5.1: FIs' LOANS AND LEASES IN SUB-SECTORS OF INDUSTRY SECTOR AS OF END-DECEMBER 2022

Sl. No.	Sub-sector of Industry Sector	Amount in Billion BDT	Percentage Share	HHI*
A)	Garments and Knitwear	43.74	13.84%	191.55
B)	Textile	36.15	11.44%	130.87
C)	Jute and Jute-Products	2.67	0.84%	0.71
D)	Food Production and Processing Industry	25.58	8.09%	65.45
E)	Plastic Industry	8.59	2.72%	7.40
F)	Leather and Leather-Goods	3.73	1.18%	1.39
G)	Iron, Steel and Engineering	32.56	10.30%	106.09
H)	Pharmaceuticals and Chemicals	15.53	4.91%	24.11
I)	Cement and Allied Industry	17.83	5.64%	31.81
J)	Telecommunication and Information Technology	12.75	4.03%	16.24
k)	Paper, Printing and Packaging	11.63	3.68%	13.54
L)	Glass, Glassware and Ceramic Industry	6.13	1.94%	3.76
M)	Ship Manufacturing Industry	5.13	1.62%	2.62
N)	Electronics and Electrical Products	8.37	2.65%	7.02
O)	Power, Gas, Water and Sanitary Service	59.91	18.95%	359.10
P)	Transport and Aviation	25.81	8.17%	66.75
	Industry Total	316.11	100.00%	1028.41

Note: * - 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 1028.41, indicating that FIs' loans and leases were competitive[44] in the sub-sectors of the Industry sector during 2022. Among the Industry sub-sectors, FIs' loans and leases were concentrated in the two major sectors namely the power, gas,

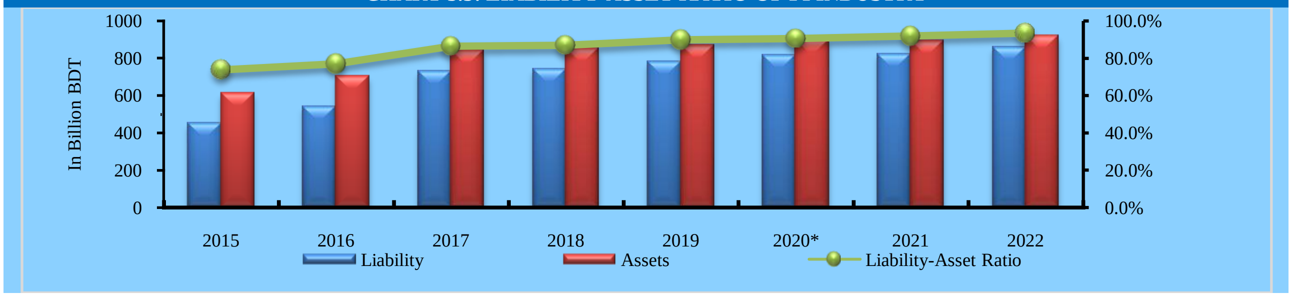
[44] HHI lying below 1500 points indicates 'competitive' concentration revealing that the sectors are fairly treated in terms of credit distribution by the FIs and no significant monopolistic distribution is evident.

water, and sanitary service sub-sector and garments and knitwear sub-sector, which accounted for 18.95 percent and 13.84 percent of total loans and leases in the industry sector respectively.

5.1.4 LIABILITY-ASSET RATIO

Since 2015, the liability-asset ratio of the FIs sector has gradually increased, reflecting a smaller industry equity contribution (Chart 5.5). At end-December 2022, the liability-to-asset ratio stood at 93.4 percent, which was 1.49 percentage points higher than that of the previous year.

CHART 5.5: LIABILITY-ASSET RATIO OF FI INDUSTRY



* Revised.

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

5.1.5 ASSET QUALITY

Aggregate non-performing loans and leases of FIs increased to BDT 168.21 billion as of end-December 2022 from BDT 130.17 billion of end-December 2021. The proportion of non-performing loans and leases to all loans and leases outstanding i.e. NPL ratio, eventually increased considerably from 19.33 percent of 2021 to 23.88 percent in 2022 (Chart 5.6). Out of 35 FIs, 16 had their NPL ratio higher than FI sector's overall NPL ratio, whereas only eight (08) FIs were able to maintain their NPL ratio below 5 percent.

The industry experienced a provision shortfall of BDT 10.53 billion in 2022 against the required provisions of BDT 100.82 billion (Chart 5.7). Additionally, the coverage ratio of all non-performing loans and leases rose to 53.68 percent at end-December 2022 from 48.31 percent at end-December 2021. At the end of the review year, eight (08) FIs were able to maintain the required provision in accordance with regulatory standards.

CHART 5.6: FIs' CLASSIFIED LOANS AND LEASES

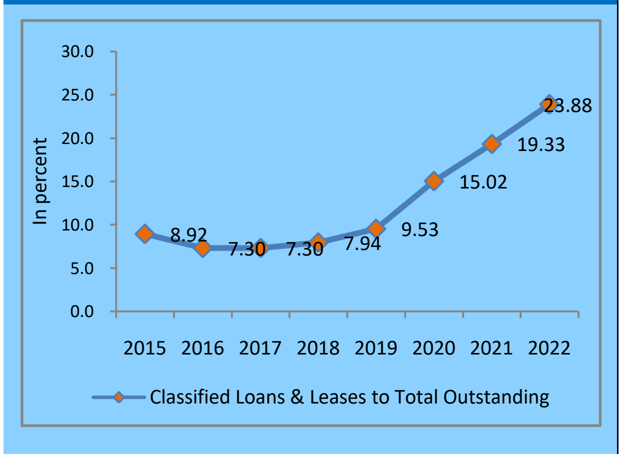
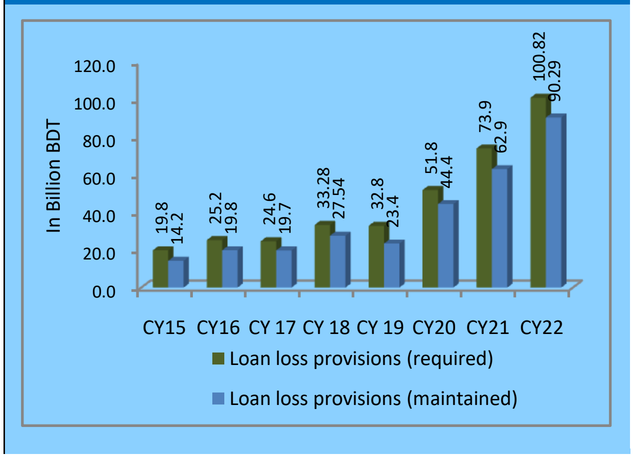


CHART 5.7: FIs' LOAN LOSS PROVISIONING



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

5.1.6 PROFITABILITY

High NPLs had a significant negative impact on the overall profitability of the FIs as of December 2022, which led to overall negative profit before taxes of the industry. In the review year, profit before taxes was negative BDT 8.84 billion, a BDT 12.93 billion decrease from the preceding year (Chart 5.8). This decline is partially attributable to net loss of BDT 11.71 billion, which appears to be rather alarming for the sector. However, other operating income increased by 110.12 percent during the period.

Like end-December 2021, net profit after tax was negative in 2022, signaling a challenging situation for the sector. As a result, compared to 2021, the main profitability indicators, such as Return on Assets (ROA) and Return on Equity (ROE), both experienced significant decline. The ROA and the ROE were -1.27 percent and -19.26 percent respectively, at end-December 2022 (Chart 5.9). FIs could not record encouraging ROA and ROE performance in 2022 largely due to the notable decline in asset quality.

CHART 5.8: FIs' TREND OF INCOME AND EXPENSE

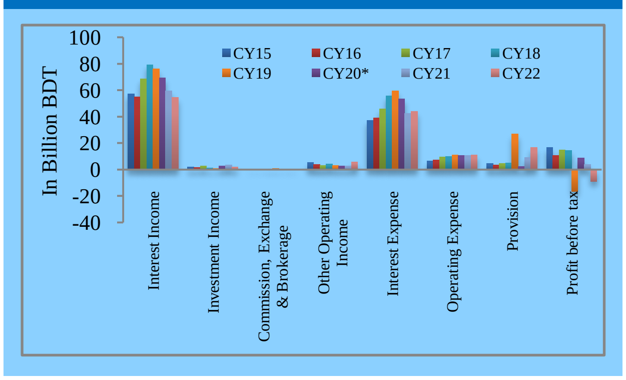
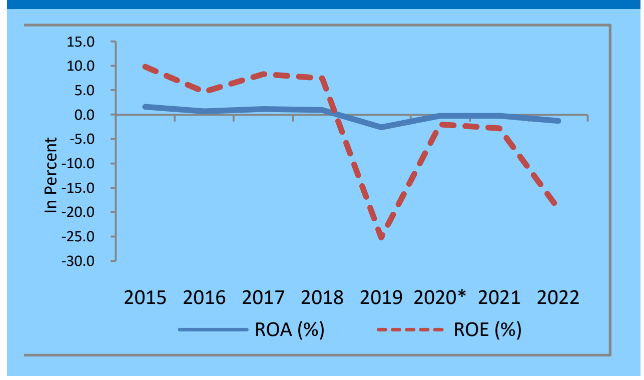


CHART 5.9: FIs' PROFITABILITY TREND

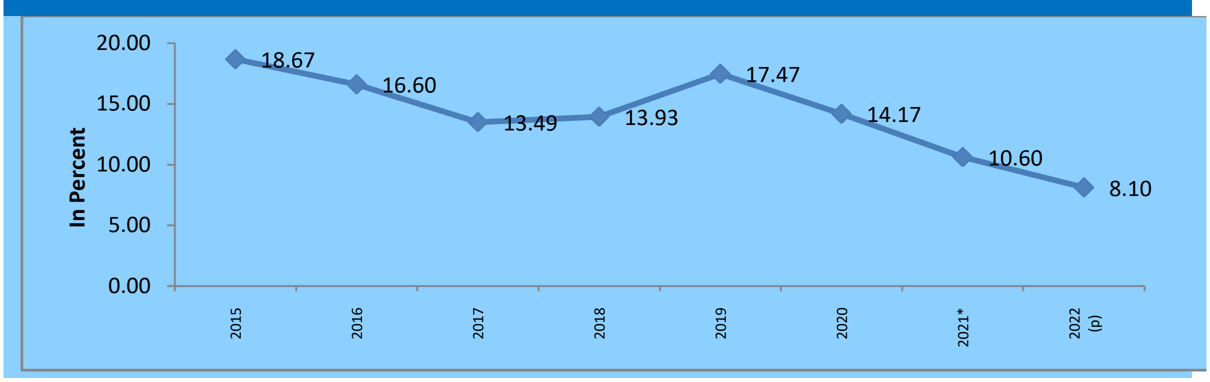


Notes: * - Revised.
Source: Department of Financial Institutions and Markets, Bangladesh Bank.

5.2 CAPITAL ADEQUACY

An FI should maintain a Capital Adequacy Ratio (CAR) of at least 10 percent as per the Basel II standard. At end-December 2022, the provisional CAR of the FIs, excluding People's Leasing and Financial Services Limited, was 8.10 percent (Chart 5.10). However, the provisional CAR of all 35 FIs at end-December 2022 was 2.88. Thus, in the reporting year, according to the provisional data, capital maintenance of FI sector was much below the threshold level due to significantly low level of CAR of an individual FI.

CHART 5.10: FIs' CAPITAL ADEQUACY RATIO (CAR)

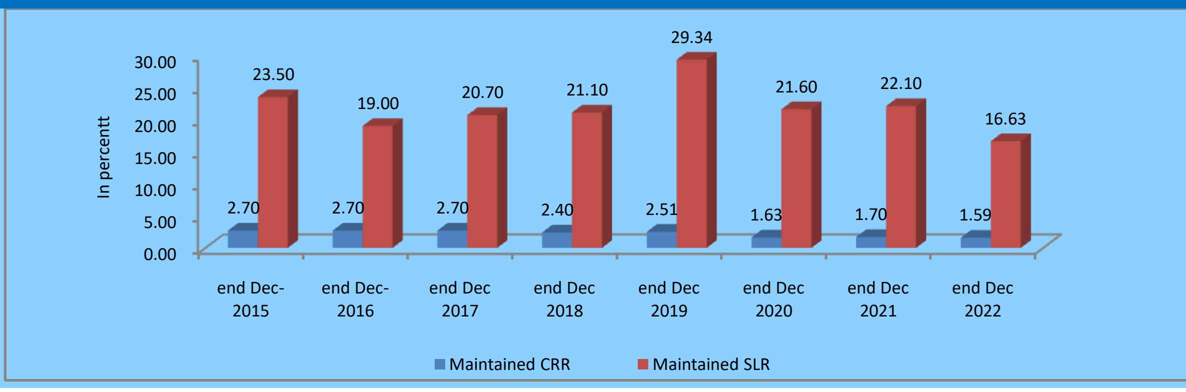


Notes: * Restated; P - Provisional.
Source: Department of Financial Institutions and Markets, Bangladesh Bank.

5.3 LIQUIDITY

Key indications of industry liquidity are considered to be the extent of CRR and SLR that the FIs maintain. At end-December 2021, the FIs sector maintained a 1.70 percent of CRR and 22.10 percent of SLR. Noteworthy that, both CRR and SLR decreased to 1.59 percent and 16.63 percent respectively, at end-December 2022, still remaining in the comfort zone[45] (Chart 5.11).

CHART 5.11: 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 2022 compared to 2021. The decline in the equity by 16.29 percent is a matter of concern for the FI industry. On the other hand, the share of loans and leases remained unchanged in 2022 compared to the previous year. The loans and leases of FIs are mostly concentrated in the Industry sector; however, the concentration index measured by HHI reveals the absence of moderate or high concentration in the Industry sub-sectors. An uprising trend in the NPL ratio and booking of extra loan loss provisions lead to deterioration in income generation and may pose an elevated risk from the stability point of view. As a result, at end-December 2022, both ROA and ROE recorded sizable decline to -1.27 percent and -19.26 percent from -0.23 percent and -2.79 percent respectively at end-December 2021. The plummet in the Capital Adequacy Ratio (CAR) of this industry may exert a threat to the stability of the sector. In the review year, the industry maintained persistent liquidity as usual. Thus the overall analysis demonstrates that the FIs need to improve asset quality, profitability, and capital adequacy for better financial health of the industry.

[45]The minimum requirements for CRR and SLR are 1.5 percent and 5 percent (2.5 percent for non-deposit taker) respectively as per DFIM circular no. 03/2020.

CHAPTER 6 : MONEY AND CAPITAL MARKET

The financial markets of Bangladesh experienced some liquidity stress in the review year. Notable liquidity support by Bangladesh Bank along with high interbank repo and call money rates indicate the prevalence of liquidity stress in the money and financial markets. Government borrowing by primary auction and mandatory devolvement of treasury securities were also relatively high during 2022. Contemporaneously, the capital market remained mostly bearish as the DSE index and turnover declined. The sluggishness in the stock market could partly be attributed to liquidity stress in the banking system and a relatively higher return on alternative instruments like the National Savings Certificates.

6.1 MONEY MARKET

Bangladesh Bank provided notable amount of liquidity into the market, allowing the financial system to be affluent in terms of cash flows. Besides, both the turnover and the cost of funds in the interbank repo and call money markets were relatively high during 2022. Nonetheless, no Bangladesh Bank (BB) bills were issued throughout the review year.

6.1.1 GOVERNMENT TREASURY BILLS (T-BILLS) AND BANGLADESH BANK (BB) BILLS

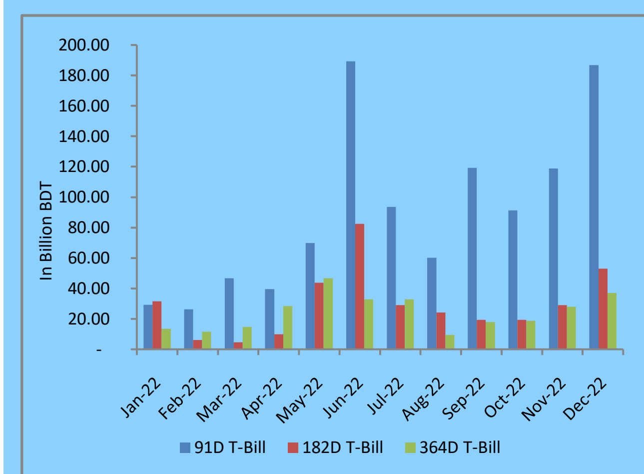
The primary issuance of government treasury bills of different maturities increased in 2022 compared to the previous year while there was no instance of using Bangladesh Bank (BB) bills partly due to low excess reserve in the banking system.

Borrowing of the Government through issuance of treasury bills of different maturities increased by 53.8 percent in 2022 compared to the preceding year. In aggregate, the primary issuance of treasury bills in different maturities was BDT 1,714.77 billion in 2022, which was BDT 1,115.12 billion in the previous year.

Chart 6.1 exhibits the month-wise issuance of primary T-bills for each maturity during 2022. T-bills worth BDT 1,070.66 billion, BDT 352.39 billion, and BDT 291.72 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 the most common short-term borrowing instruments for the Government, as they offer greater flexibility in managing public finances than longer-term securities. T-bill issuance was the lowest (BDT 44.16 billion) in February 2022 whereas June 2022 observed the highest issuance of T-bills amounting to BDT 304.45 billion.

CHART 6.1: VOLUME OF T-BILLS ISSUANCE IN 2022



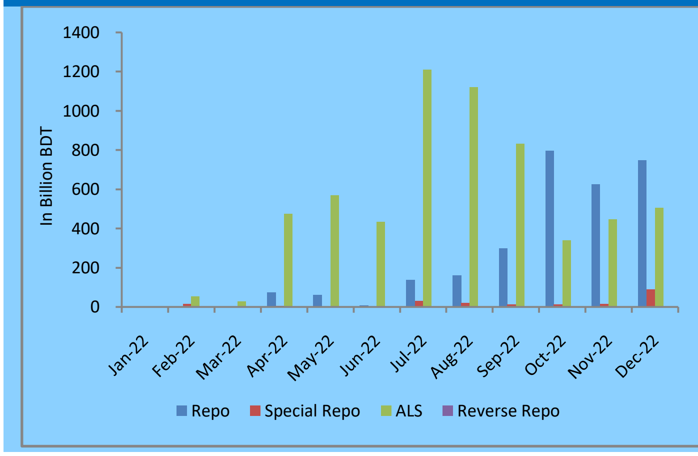
Source: DMD, BB.

The banking system experienced a declining trend of excess reserves in the review year, partly attributable to Bangladesh Bank's intervention in the foreign exchange market through selling of US dollars to banks. As a result, the banking system was not heaving with excess liquidity and hence the issuance of BB bills was not required for sterilization purpose.

6.1.2 Repo with Bangladesh Bank

Banks and financial institutions (FIs) availed a significant amount of liquidity through Repo, Special Repo, and liquidity support facility (LSF) from Bangladesh Bank in 2022.

CHART 6.2: MONTHLY TURNOVER OF REPO, SPECIAL REPO, ALS, AND REVERSE REPO IN 2022



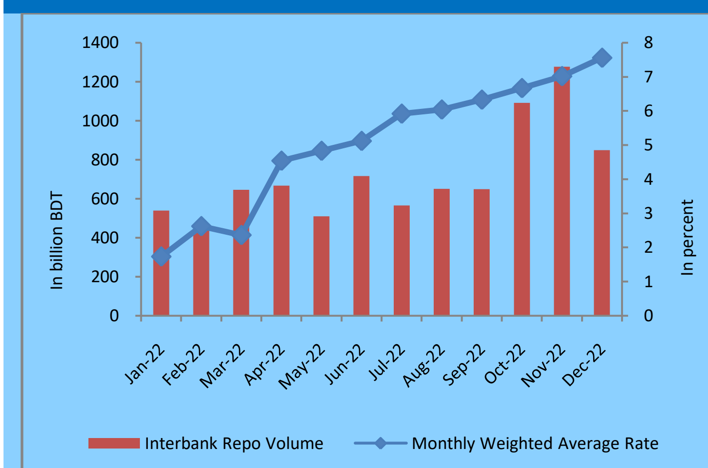
Source: DMD, BB.

To accommodate adequate liquidity in the financial system of the country, Bangladesh Bank provided BDT 9,105.44 billion to banks and non-bank financial institutions through Repo, Special Repo, and Assured Liquidity Support (ALS) during 2022. A total of BDT 6,008.07 billion was issued through ALS whereas BDT 2,903.81 billion and BDT 193.57 billion were issued through Repo and Special Repo respectively. Chart 6.2 demonstrates the monthly turnover of Repo, Special Repo, ALS, and Reverse Repo. In 2022, the monthly volume of Repo and Special Repo was highest in October (BDT 796.41 billion) and December (BDT 88.05 billion) respectively whereas the monthly volume of ALS was highest in July with BDT 1,210.42 billion. Besides, the aggregate highest monthly volume of Repo, Special Repo, and ALS was also recorded in July 2022 with BDT 1,376.61 billion. However, there was no instance of using reverse repo in the review year.

6.1.3 Interbank Repo

Interbank repo transactions and rates both emerged considerably throughout the review year.

CHART 6.3: INTERBANK REPO TURNOVER AND INTERBANK REPO RATE IN 2022



Source: DMD, BB.

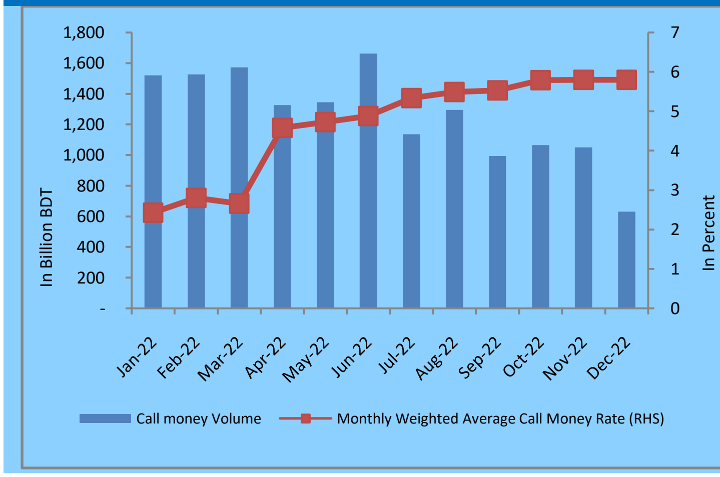
The total turnover of interbank repo increased by 30.18 percent in 2022 and reached BDT 8,602.53 billion compared to BDT 6,608.23 billion in 2021. The monthly weighted average interbank repo rate also exhibited an uptrend and rose to 7.56 percent in December 2022 from 2.26 percent in December 2021. Chart 6.3 depicts the month-wise turnover of interbank repo along with the monthly weighted average interbank repo rate. The highest volume of interbank repo took place in November 2022 with BDT 1,277.32 billion while the lowest volume was in February 2022 with BDT 440.49 billion. The monthly weighted average interbank repo rate was lowest in January 2022 (1.73 percent) which reached its peak in December 2022 (7.56 percent).

6.1.4 INTERBANK CALL MONEY MARKET[46]

The call money rate increased notably in April 2022 and maintained an upward trend until the end of the year.

The volume of call money transactions increased by 20.97 percent in 2022 compared to the previous year. The total turnover of interbank call money was BDT 15,124.33 billion in 2022, which was BDT 12,502.28 billion in 2021. Chart 6.4 illustrates the monthly turnover of call money and its weighted average interest rate during 2022. The highest volume of call money transactions was recorded in June 2022 with BDT 1,662.44 billion and the lowest volume was in December 2022 (BDT 631.52 billion). Besides, funds from the call money market became costlier since the second quarter of 2022. The monthly weighted average call money rate was 2.43 in January 2022 and remained mostly stable during the first quarter of the year. Later, the rate moved up in April 2022 and continued to increase till November 2022 which ends at 5.8 percent in December 2022.

CHART 6.4: CALL MONEY BORROWING VOLUME AND MONTHLY WEIGHTED AVERAGE CALL MONEY RATE IN 2022



Source: DMD, BB.

6.2 BOND MARKET

The issuance of T-bonds with different maturities expanded, although the lion's share of the overall sales was of bonds with relatively shorter terms. Additionally, a substantial amount of securities were auctioned off in 2022 as part of mandatory devolvement. In addition, secondary market of the government securities was less active in the review year than the previous year.

The long-term Treasury bond issuance in different maturities increased by 9.54 percent in 2022 compared to 2021. The aggregate auction sale of T-bonds in 2022 was BDT 765.4 billion, which was BDT 698.8 billion in 2021. Table 6.1 exhibits the auction sales of treasury bonds for different maturities in 2022. The table shows that relatively low-tenured bonds captured the lion's share of total sales. Amongst the total bond issuance in 2022, 74.0 percent was within 10 years of maturity, in which 2-year bonds possessed the highest share (25.3 percent). The issuance of treasury bonds was lowest in February 2022 (BDT 26.63 billion) and highest in June 2022 (BDT 117.25 billion).

TABLE 6.1: VOLUME OF T-BONDS AUCTION SALES IN 2022

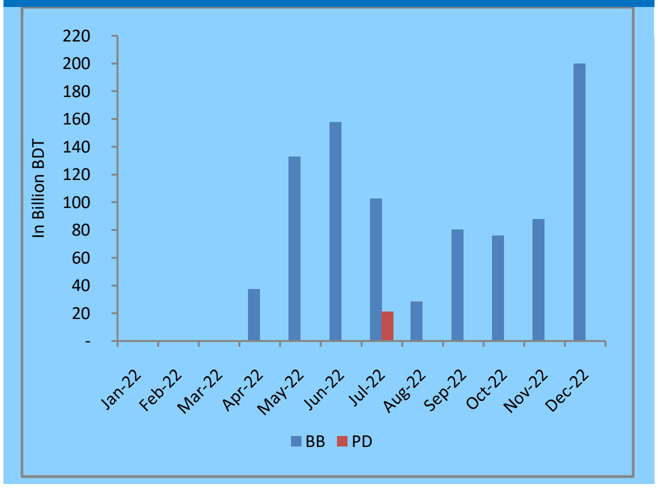
Tenure	Volume (In Billion BDT)	Share of Total Auction Sales (In Percent)
2Y T-Bonds	193.8	25.3
5Y T-Bonds	190.0	24.8
10Y T-Bonds	183.0	24.0
15Y T-Bonds	92.9	12.1
20Y T-Bonds	105.7	13.8
Total	**765.4**	**100**

Source: DMD, BB.

[46]Interbank call money only includes exposures of scheduled banks and FIs with each other. It excludes assets or liabilities with non-scheduled financial institutions from this discussion.

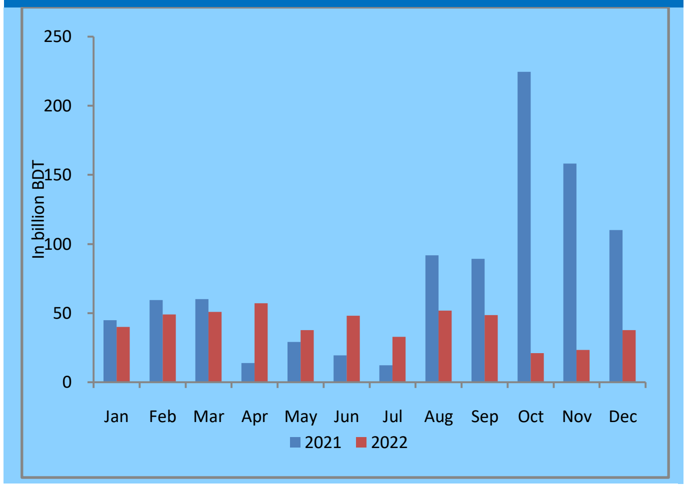
To rationalize the yield of treasury securities and maintain adequate fund flow for the Government, mandatory devolvement of BDT 922.73 billion took place in auction sales during the review year. Chart 6.5 illustrates the month-wise mandatory devolvement of treasury securities in auction sales during 2022. Amongst the total devolvement, 97.7 percent (BDT 901.66 billion) was on Bangladesh Bank and the remaining 2.3 percent (BDT 21.07 billion) was on Primary Dealers (PD). Notably, no devolvement took place in the first quarter of 2022 while the highest devolvement was made in December 2022 (BDT 199.70 billion).

CHART 6.5: VOLUME OF TREASURY SECURITIES AUCTION SALES – MANDATORY DEVOLVEMENT, 2022



Source: DMD, BB.

CHART 6.6: MONTHLY VOLUME OF SECONDARY TRADE



Source: DMD, BB.

Unlike in 2021, the secondary market for treasury securities appeared to be less active in 2022. The total volume of government securities traded in the secondary market declined by 83.16 percent and stood at BDT 498.56 billion during the review year from BDT 913.15 billion in 2021. Chart 6.6 demonstrates the month-wise turnover of secondary trade in 2021 and 2022. In 2022, the highest volume of monthly trading took place in April 2022 (BDT 57.18 billion) while the lowest volume was recorded in October 2022 (BDT 21.15 billion).

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

Box 6.1:Yield Curve

The Treasury auction yield curves for both short-term treasury bills and long-term treasury bonds shifted upward in December 2022 compared to December 2021 and June 2022. However, the shifting was wider for short-term yields, particularly in T-bonds, causing the yield curve to flatten. The increasing cost of government borrowing is reflected in this upward shift in the yield curves.

Chart B6.1.1: Treasury Bill Yield Curve

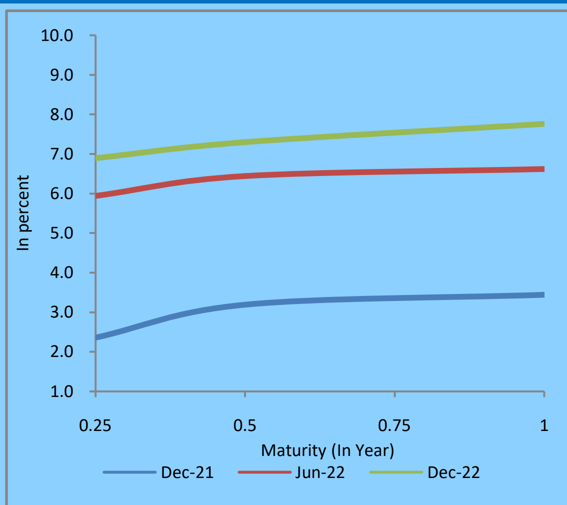
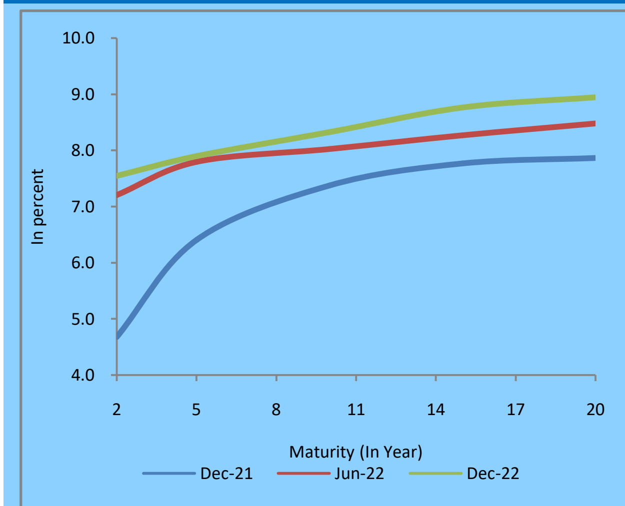


Chart B6.1.2: Treasury Bond Yield Curve



Source: Major Economic Indicators, January 2023 Issue, BB.

A flattening yield curve, in general, represents an early indication of an economic downturn and a lower predicted inflation rate. However, in the absence of a vibrant secondary bond market, such a primary market yield curve indicator may be implausible.

6.3 CAPITAL MARKET

In the review year, the capital market of Bangladesh was bearish as evident from the movement of major market indicators like the index, daily average turnover, and P/E ratio of the Dhaka Stock Exchange (DSE)-the prime bourse of the country.

DSE Broad Index (DSEX) decreased by 8.14 percent in 2022 compared to that in 2021. Also, the daily average turnover declined by 34.69 percent during the period. However, the market capitalization of DSE increased by 40.3 percent mainly due to the listing of 250 government securities on 10 October 2022. Moreover, the dividend yield decreased to 3.9 percent in the review year from 4.3 percent of the preceding year.

6.3.1 Major Index and Market Capitalization

In the first quarter of 2022, the DSE broad index (DSEX) saw an upward trend, which took a downward turn in late February 2022 due to the uncertainty brought on by Russia–Ukraine conflict. The DSEX reached its peak at 7,105.69 around the midpoint of January 2022 and then continually dropped and ended the year with an index of 6,206.81. Up to the sixth of October 2022, the market capitalization likewise exhibited a downward trend; but, on the tenth of October, it had a significant increase, mainly as a result of the listing of 250 government securities on the trading platform, with a market value of BDT 3,140.14 billion. At the end of 2022, the market's overall capitalization was BDT 7,609.37 billion (Chart 6.7).

Chart 6.8 reveals the investors' sentiments and behaviors from the different patterns of the opening, highest, lowest, and closing index. The long red candlestick in 2022 indicates that the stock price moved lower during the period reflecting the bearish market confidence of the investors. The gap between the highest and lowest index of DSE was 1,125.2 in the review year.

CHART 6.7: DSEX INDEX AND MARKET CAPITALIZATION IN 2022

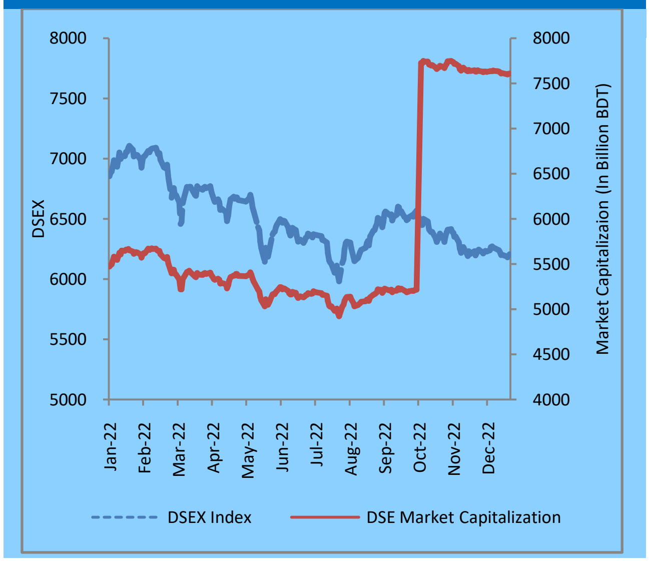
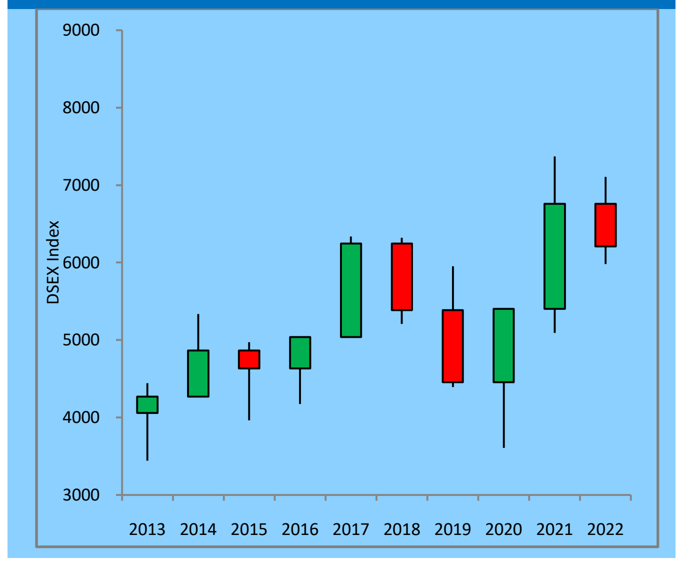
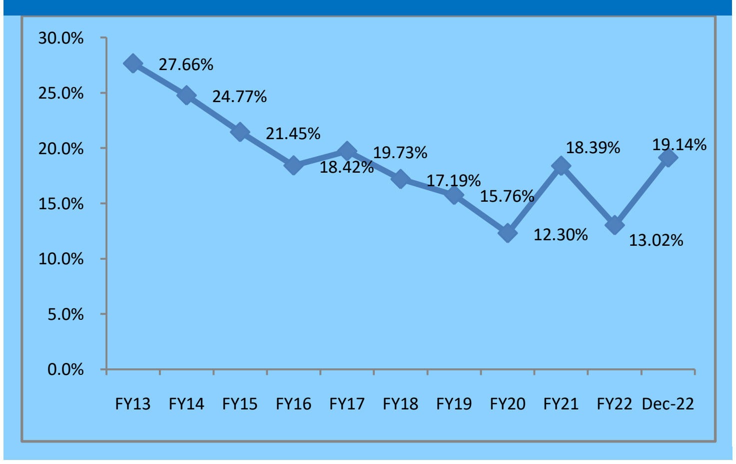


CHART 6.8: DSEX (2013 To 2022)



Source: DSE.

CHART 6.9: MARKET CAPITALIZATION-TO-GDP RATIO



Source: DSE Monthly Review, December 2022.

Total market capitalization-to-GDP ratio is a vital indication of the depth of a country's capital market. Chart 6.9 exhibits the market capitalization-to-GDP ratio till December 2022[47]. The chart shows that the market capitalization to GDP ratio dropped to 13.02 percent in FY22 from 18.39 percent in FY21. However, the ratio spiked to 19.14 percent at end-December 2022 mainly due to a substantial increase in market capitalization brought on by the listing of 250 government securities on the trading platform.

Pertinently, promoting and listing high-quality stocks provide additional depth into the market and facilitate the long-term financing demand. In addition, it also ensures a solid footing for the financial stability of Bangladesh.

[47]The GDP of FY22 is considered for the calculation of the market capitalization ratio in December 2022.

6.3.2 Daily Average Turnover

Capital market liquidity, measured by daily average turnover, is a crucial factor of the capital market for signaling the investors' preference for the market. The DSE market was not that much liquid in 2022. The daily average turnover declined by 34.69 percent in the review year compared to the previous year. According to Chart 6.10, the daily average turnover declined significantly from BDT 14.7 billion in 2021 to BDT 9.6 billion in 2022, showing a substantial reduction in market liquidity. Further, Chart 6.11 shows the month-wise liquidity condition of the DSE during 2022. It depicts that daily average turnover experienced a declining trends till the end of the year, with some exceptions in August and September. The highest daily average turnover was recorded in September while December experienced the lowest daily average turnover.

CHART 6.10: YEAR-WISE DAILY AVERAGE TURNOVER

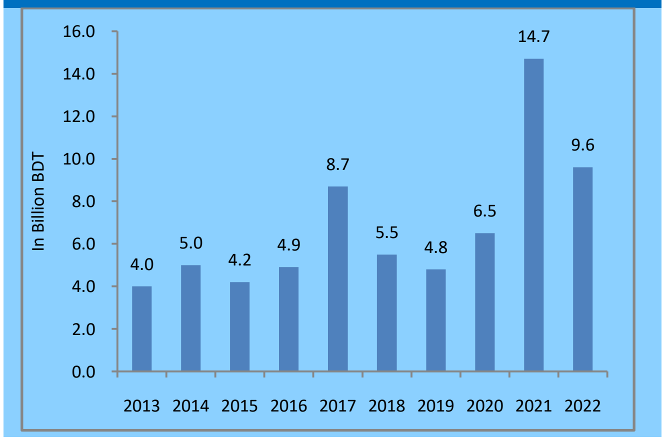
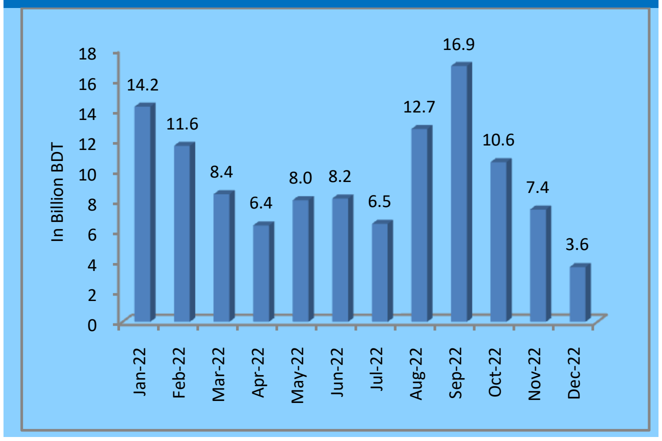


CHART 6.11: MONTH-WISE DAILY AVERAGE TURNOVER IN2022



Source: DSE.

6.3.3 Market Capitalization Decomposition

The manufacturing sector topped the DSE's broad sectors in terms of market capitalization, followed by the service and miscellaneous sector. The sectoral shares of market capitalization in 2021 and 2022 are depicted in Charts 6.12 and 6.13 respectively.

CHART 6.12: DECOMPOSITION OF MARKET CAPITALIZATION (END DEC- 2021)

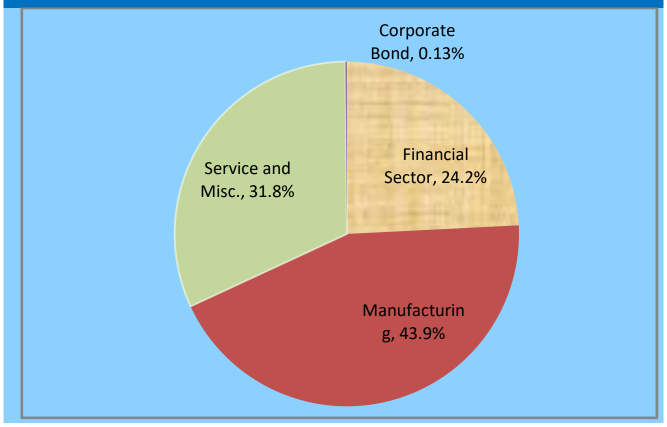
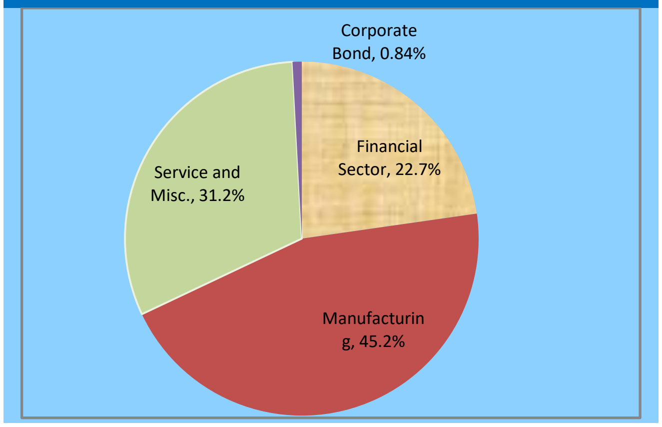


CHART 6.13: DECOMPOSITION OF MARKET CAPITALIZATION (END DEC- 2022)



Source: DSE.

The dominance of the manufacturing sector in total market capitalization increased to 45.2 percent in 2022 from 43.9 percent in 2021. The dominance of this sector was mainly supported by the sub-sectors like pharmaceuticals and chemicals (16.29 percent), engineering (11.75 percent), and food and allied products (8.47 percent).

The share of market capitalization in the service and miscellaneous sector decreased slightly in 2022 than in 2021. This sector was primarily contributed by the sub-sectors like telecommunication (13.0 percent), fuel and power (10.0 percent), and miscellaneous (4.9 percent).

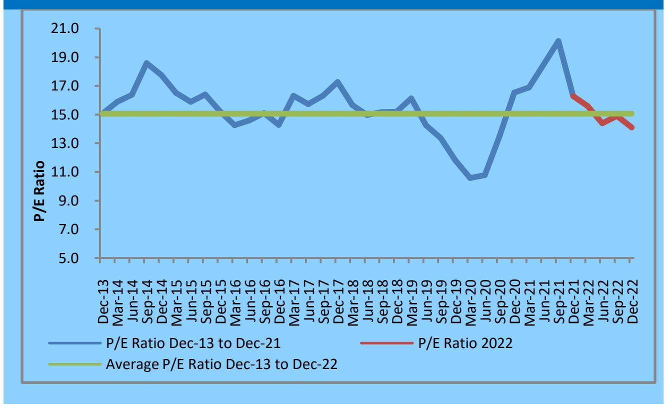
The share of market capitalization in the financial sector also decreased in 2022 than in 2021. This sector was broadly dominated by the banking sub-sector which contributed 14.91 percent of total market capitalization. Notably, corporate bonds' share in total market capitalization in the DSE was insignificant, although it grew from 0.13 percent in 2021 to 0.84 percent in 2022.

6.3.4 Price-Earnings (P/E) Ratio

The weighted average price-earnings (P/E)[48] ratio of DSE declined by 13.38 percent at end-December 2022 compared to end-December 2021. Chart 6.14 exhibits the trend of the overall weighted average price-earnings (P/E) ratio of the DSE since December 2013. The market P/E ratio observed an increasing trend from June 2020 to September 2021 which later continued declining trend till end-December 2022.

The overall weighted average price-earnings (P/E) ratio of the DSE stood at 14.11 at end-December 2022 which was 16.29 at end-December 2021.

CHART 6.14: MARKET PRICE-EARNINGS RATIO

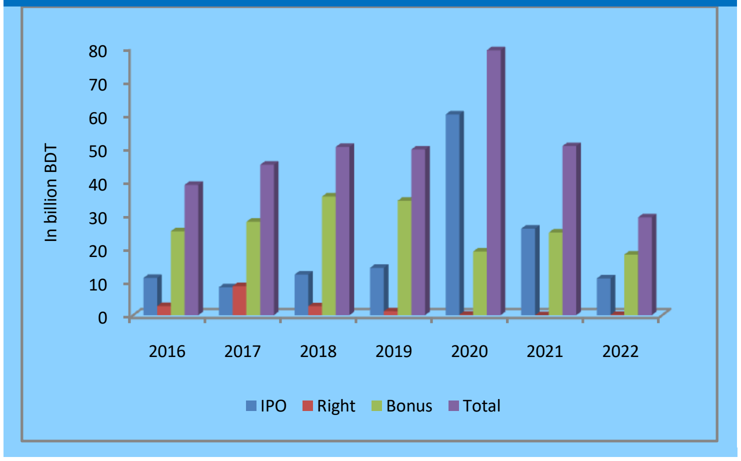


Source: DSE.

[48]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), Rights Share, and Bonus Share

CHART 6.15: IPO, RIGHTS SHARE AND BONUS SHARE AT DSE



Source: DSE Monthly Review, December 2022.

During the review year, an overall BDT 29.23 billion capital was raised in the DSE through IPOs, rights shares, and bonus shares. Chart 6.15 depicts the progress in increasing stock at DSE by issuing such securities since 2016. Bonus shares provided the most to total capital in 2022 (61.95 percent), followed by IPOs (37.68 percent), with rights shares contributing the least (0.38 percent). However, overall capital raising fell by 42.18 percent in 2022 compared to 2021[49].

6.3.6 Dividend and Yield

Amongst the companies listed at DSE, 265 declared cash dividends in 2022. Besides, 57 companies announced stock dividends. However, 43 companies did not confirm any payouts; out of them, 31 did not conduct annual general meetings (AGM) in 2022. Table 6.2 shows the dividend declaration scenario by listed companies of DSE during the last five years. The table exhibits that dividend declaration in cash followed an increasing trend from 2018 to 2022.

TABLE 6.2: COMPARISON OF DIVIDEND AND YIELD (2018-2022)

Particulars	2018	2019	2020	2021*	2022
Number of companies declared cash dividend	179	213	237	261	265
Number of companies declared stock dividend	154	132	94	56	57
Number of companies which did not declare any dividend	28	29	46	63	43
Yield (%)	3.58	5.03	3.16	4.07	3.93
Source: DSE Monthly Review, December 2022.					

Note: * Some data of 2021 have been revised.

The dividend yield decreased to 3.93 percent in 2022 from 4.07 percent in 2021. Since dividend yield is one of the vital indications of returns for investors, regular dividend payment by the companies is crucial for attracting investors and ensuring stability in the capital market. However, the dividend yield in DSE was lower than the returns of other alternative investments, such as the rates of National Savings Certificates or Term Deposit Rates of banks and NBFIs.

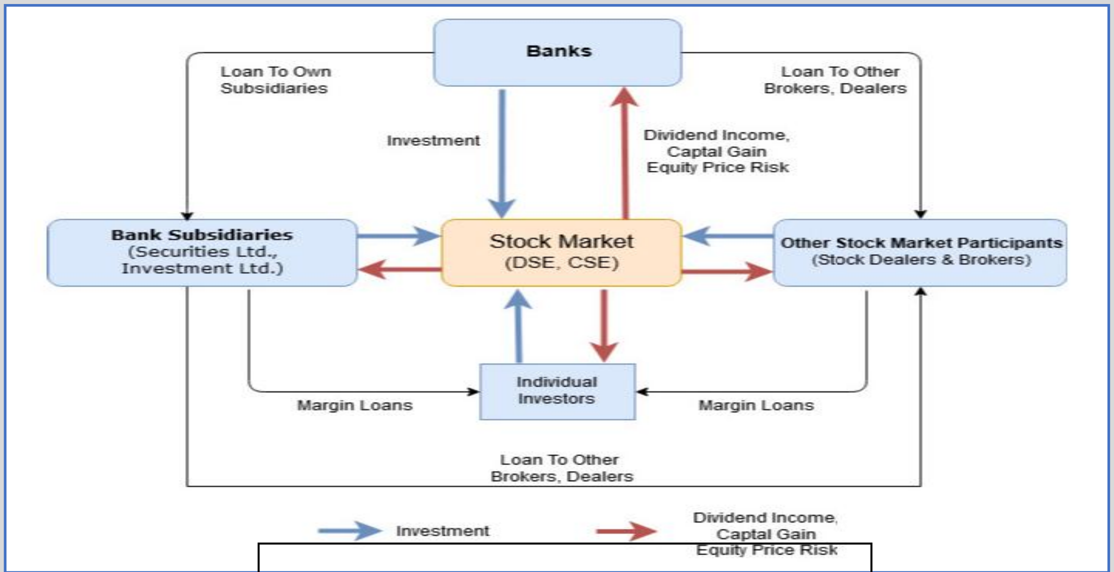
6.3.7 Interlink Between Banking Sector and Stock Market

The linkage between the banking sector and the stock market is pivotal from the financial stability standpoint. Chart 6.16 shows how banks and capital markets are inter-linked. Inter-linkages arise from the banking sector's investment in the capital market on both solo (only banks) and consolidated basis (i.e., banks and their subsidiaries).

---

[49]Some data of 2021 have been revised in DSE Monthly Review, December 2022.

CHART 6.16: SCHEMATIC VIEW OF INTER-LINKAGE BETWEEN BANKS AND CAPITAL MARKET



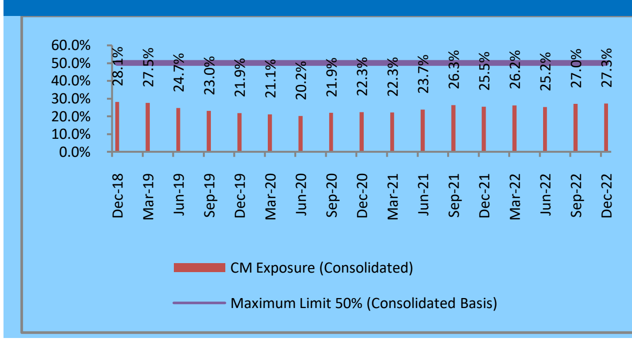
Source: QFSAR Issue-18, FSD, BB.

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, and loans to stock dealers are also considered in calculating 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 banks are taken into account. Generally, dividends, interest income, and capital gain are the main earnings of the banks from such investments at the cost of bearing equity price risk. So, the performance of the capital market may have a considerable impact on the banks as they may incur losses from their investment exposures and the risk could be high for higher exposure in the capital market.

In 2022, banks' capital market exposures (solo and consolidated) rose progressively, as seen in Charts 6.17 and 6.18. The exposures, however, remained considerably below the statutory limit[50], suggesting that an immediate stability issue from a stock price shock may not materialize for the banking industry.

CHART 6.17: TREND IN CAPITAL MARKET EXPOSURES (SOLO) OF BANKS

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

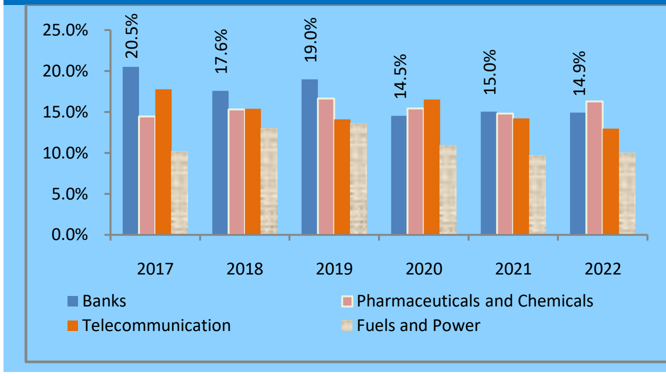


Source: DOS, BB.

[50]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.

This interconnectedness may be examined from a different angle. Since the majority of private commercial banks (PCBs) are listed on the DSE and the banking industry is one of the market's prime segments, the performance of the listed PCBs—as determined by metrics like CRAR, NPL, ROA, or ROE—may have a significant impact on the market's overall performance (such as the index or market capitalization) through the share price channel.

CHART 6.19: MAJOR SECTORS' MARKET CAPITALIZATION IN DSE



Source: DSE Monthly Review, December 2022.

Chart 6.19 depicts the market capitalization of four key DSE sectors during the last six years. Except for 2020, the banking industry held the major portion of market capitalization during 2017 to 2021. The stake fell slightly to 14.9 percent in 2022 from 15 percent in 2021. Although the banking sector's share in total market capitalization gradually declined over time, it still accounts for a sizable fraction of total market capitalization.

A substantial share of the banking sector in the stock market demonstrates that any stress on the banking sector may adversely affect the market via contagion effect. The market capitalization and index may decline sizably if the banks' share prices experience a downturn in the market.

CHAPTER 7 : FINANCIAL INFRASTRUCTURE

A strong financial infrastructure is the key for containing systemic risk and growth of any financial system. It helps minimize contagion effect at any stressed market scenario. Considering payment systems as crucial part of financial infrastructure, Bangladesh Bank, as mandated supervisor of country's payment systems, has been working relentlessly to provide necessary guidance and policy support in introducing modern payment platforms and tools to mitigate or contain any domestic or cross-border risk that may lead to systemic shock to the financial system. Indeed, financial infrastructure like payment systems is heavily reliant on sophisticated technology. However, any malfunction or disruption of financial infrastructure due to inefficient use of technology could hit the base of financial market and may create systemic risk and economic turbulence. To promote smooth functioning of the financial markets, Bangladesh Bank has initiated a number of sophisticated payment platforms, such as National Payment Switch Bangladesh (NPSB), Bangladesh Automated Cheque Processing System (BACPS), Bangladesh Electronic Funds Transfer Network (BEFTN), Real Time Gross Settlement (RTGS) and interoperable Digital Transaction Platform (Binimoy) that may enhance electronic transaction and payment systems. At the same time, Bangladesh Bank has issued licenses to the commercial entities to operate Mobile Financial Services (MFS), Payment Service Provider (PSP), Payment System Operator (PSO) etc. which are playing pivotal role for the enhancement of payment services for the customers.

7.1 ELECTRONIC BANKING OPERATIONS

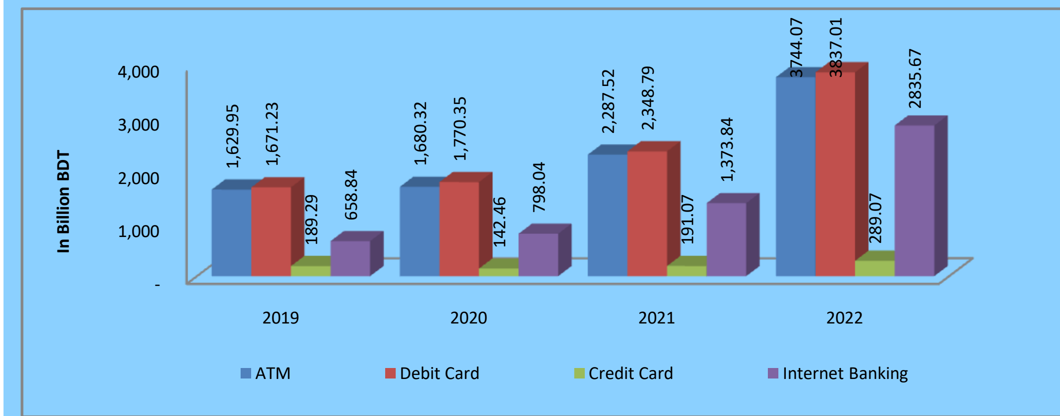
Electronic banking service is a system of banking operations in which funds are transferred through exchange of electronic messages rather than exchange of cash, cheque, or other types of paper documents. Banking sector is the harbinger for initialization of digital services in Bangladesh. Banks can smoothly reach to huge number of clients in several ways and provide banking services through the digital approach. The banking industry in Bangladesh has gone through an enormous transformation from manual to electronic banking solution for the last two decades. To carry out internet banking, online banking and e-payment services promptly, banks have automated their branch network, developed corporate intranet system, digitized internal communication, introduced core banking solution (CBS) and also have smoothen transaction process by using electronic payment and settlement systems that eventually helped increase country's economic activities manifold. At end-December 2022, almost 100 percent of total bank branches provided online banking services in Bangladesh (Table: 7.1). This achievement is a great milestone for the banking industry to obtain "cashless as well as smart Bangladesh".

TABLE 7.1: ONLINE BANKING SCENARIO AS OF DECEMBER, 2022

Bank Clusters	Number of ATMs	Total Branches	Number of Branches with Online Coverage	Percent of Online Branches
SOCBs	393	3823	3822	99.97
SDBs	12	1523	1523	100.00
PCBs	12906	5730	5730	100.00
FCBs	123	63	63	100.00
Total	**13434**	**11139**	**11138**	**99.99**

Source: Statistics Department, BB.

CHART 7.1: TOTAL VOLUME OF ELECTRONIC BANKING TRANSACTIONS



Source: Payment Systems Department (PSD), BB

Chart 7.1 shows that except credit card transaction volumes in 2020, the volume of all types of electronic banking transactions increased gradually during 2019 to 2022. In 2022, the volume of transactions using ATMs, debit cards, and internet banking was much higher and almost similar level of transactions compared to credit cards. However, growth of transactions volume through internet banking enhanced at a higher rate than those of ATMs, debit cards and credit cards in 2022 compared to the previous year.

7.2 NATIONAL PAYMENT SWITCH BANGLADESH

Since December 2012, Bangladesh Bank has commenced National Payment Switch Bangladesh (NPSB) to gear up the card-based payment networks substantially and promoted merchant payments across the country through different delivery channels like Automated Teller Machine (ATM), Point of Sales (POS), internet banking and Bangla QR. Out of 61 scheduled banks, currently 57 banks are connected to NPSB for their ATM transactions while 55 banks are connected to settle their POS transactions through NPSB. Moreover, Internet Banking Fund Transfer (IBFT) through NPSB has started in November, 2017 in which 48 banks are now connected. In January 2021, Bangladesh Bank has launched uniform QR specifications termed as ‘Bangla QR’ to promote QR code-based payments through NPSB. The number and volume of the interbank ATM, POS, IBFT and Bangla QR code-based transactions through NPSB are growing gradually.

In the review period, 72.48 million transactions amounting BDT 973.93 billion had been settled through NPSB recording a growth of 58.33 percent and 96.71 percent in terms of number and amount of transactions respectively[51].

7.3 BANGLADESH AUTOMATED CLEARING HOUSE

Bangladesh Automated Clearing House (BACH) is the first automated national payment and settlement system in Bangladesh. It has continued its significance in country’s payment and settlement system over the last decade by reducing time, cost and risks of payment and settlement in the country. BACH consists of two payment system components: Bangladesh Automated Cheque Processing System (BACPS), and Bangladesh Electronic Funds Transfer Network (BEFTN). BACPS is a paper based Cheque clearing system whereas BEFTN is an inter-bank electronic funds transfer system. Both the systems operate in batch processing and Deferred Net Settlement

[51]NPSB data of 2022 includes Bangla QR code-based number of transactions and amount of transactions.

(DNS) mode. The BACH system receives transactions through instruments or instructions from the member banks in 24/7 basis and these transactions are processed and settled at a pre-fixed time.

7.3.1 Bangladesh Automated Cheque Processing System

Bangladesh Bank launched Bangladesh Automated Cheque Processing System (BACPS) that applies the Cheque Imaging and Truncation (CIT) technology for the purpose of clearing of paper-based instruments e.g., cheque, pay order, dividend, refund warrants, etc. electronically. With the electronic cheque presentment system, the whole country has been brought under single clearing umbrella by providing faster service than before. 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 2022, the amount of High Value (HV) and Regular Value (RV) transactions increased by 3.12 percent and 11.72 percent respectively compared to preceding year.

CHART 7.2: AUTOMATED CHEQUE CLEARING OPERATIONS DURING 2019-2022

Source: Payment Systems Department (PSD), BB.

Chart 7.2 illustrates that the total amount of High Value (HV) and Regular Value (RV) transactions were BDT 16,110 billion and BDT 10,090 billion respectively while the number of transactions of HV and RV were 2.5 million and 20.0 million respectively during the review year. Both HV and RV transactions amount demonstrated an increasing trend during the period 2020-2022.

7.3.2 Bangladesh Electronic Funds Transfer Network

Bangladesh Electronic Funds Transfer Network (BEFTN) is the country's first paperless electronic inter-bank funds transfer system. It operates as a processing and delivery center for the distribution and settlement of electronic credit and debit transactions among the participating banks. This network runs on a real-time batch processing mode. It processes credit transactions such as salary payment, foreign and domestic remittances disbursement, interest and principal payment of savings certificate, social safety net payments, company dividends, bill payments, corporate payments, government tax payments, person to person payments, retirement benefits etc. and also settles debit transactions such as utility bill payments, loan repayments, insurance premium payments, club/association payments, EMI payments etc. Most of the government payments are processed through BEFTN.

In 2022, about 195.27 million EFT credit and 5.35 million EFT debit transactions were settled through BEFTN, and its amount was BDT 5,143.31 billion and BDT 1,077.79 billion respectively.

7.4 REAL TIME GROSS SETTLEMENT SYSTEM

As part of digitalization initiative, Bangladesh Bank launched Real Time Gross Settlement (RTGS) system in 2015 to facilitate safe, secured and efficient interbank payment system. This mechanism has opened a new horizon in the payment ecosystem, accommodating instant settlement of large value and time critical payments in the country. As an electronic settlement system, it ensures transfer of funds from one account of a bank to that of another bank on real-time and gross basis. Along with customers transaction, RTGS system are facilitating financial institution's transaction, inland foreign currency transaction, customs duty e-Payment, VAT e-Payment and other important Government's payments. Pertinently, the minimum limit of a transaction is BDT 1,00,000 whereas there is no limit in case of government payment and inland foreign currency transactions. Presently, around 11,138 online branches of 60 scheduled commercial banks and 18 Non-Bank Financial Institutions (NBFI) are connected to RTGS system. Indeed, RTGS system has brought an immense change in the financial sector and set up an epoch-making example in the arena of Bangladesh economy.

Initially, RTGS system was operated only in local currency. Later on, inland foreign currency transaction among scheduled commercial banks has been inaugurated in September, 2022. In 2022, around 7.98 million transactions of local currency were settled through RTGS system with the amount of BDT 51,564.32 billion. Noteworthy, 1,56,636 transactions in USD valuing 5,179.00 million, 54 transactions in Euro valuing 15.82 million and 8 transactions in GBP valuing 0.20 million were settled through RTGS system during September-December, 2022.

7.5 MOBILE FINANCIAL SERVICES

To build Bangladesh as a digitally advanced nation with the help of modern technological development and to achieve the sustainable growth through inclusive economy, the Mobile Financial Services (MFS) was introduced in 2011. Currently, 09 banks and 03 subsidiary companies and 01 digital financial service provider of the Bangladesh Postal Department (Nagad) are providing MFS in the financial sector. MFS providers are expanding their areas of function through agents/bank branches/ATMs/mobile operator outlets; and facilitating person to person transactions, person to business transactions, business to person transactions, inward remittance disbursement, payment of various incentives/allowance provided by the government, merchant payments and other transactions including micro-finance and insurances premium payment. Moreover, because of the remarkable expansion of online based e-commerce industry, many micro and small entrepreneurs in individual level and sellers use MFS channel for easy and fast payment, which is a very constructive notion for the future growth of this sector.

At end-December, 2022, the total number of MFS agents was 1.56 million and the number of registered clients was 190.8 million, out of which the number of active clients was 57.4 million. The total amount of BDT 10,159 billion was transacted through 4,736 million MFS transactions in 2022. The average transaction volume per day was BDT 27.83 billion through 12.97 million transactions.

The growth of transactions amount through MFS is depicted in Table 7.2.

TABLE 7.2: THE GROWTH OF TRANSACTION AMOUNT THROUGH MFS IN 2022

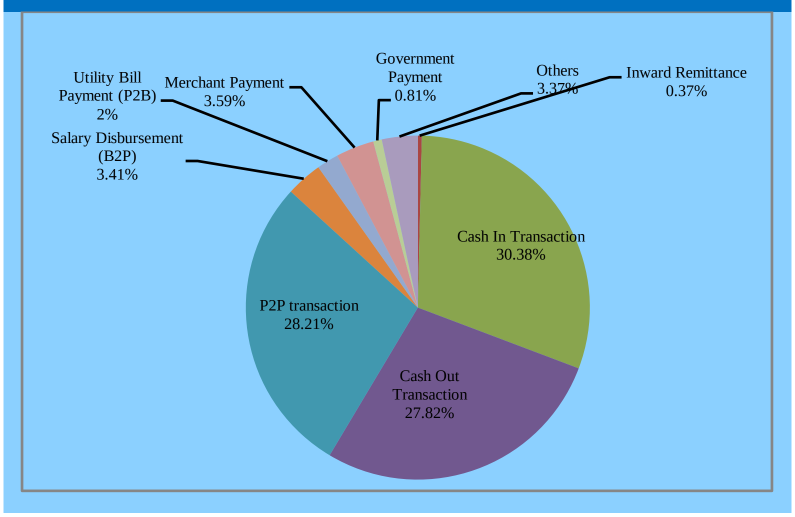
(In billion BDT)

Category	2021	2022	Growth
Inward Remittance	26	38	46.15%
Cash In Transaction	2,295	3086	34.47%
Cash Out Transaction	2,024	2826	39.62%
Person to Person transaction (P2P)	2,298	2866	24.72%
Salary Disbursement (B2P)	292	346	18.49%
Utility Bill Payment (P2B)	132	208	57.58%
Merchant Payment	344	365	6.10%
Government Payment	51	82	60.59%
Others	239	342	43.10%
Total	**7701**	**10159**	**31.92%**

Source: Payment Systems Department (PSD), BB.

Table 7.2 shows that at the end of December 2022, all the segments of MFS transactions experienced substantial growth compared to the preceding year. The growth of government payment, utility bill payment, inward remittance and cash out transaction through MFS were 60.59 percent, 57.58 percent, 46.15 percent and 39.62 percent respectively. However, other segments like cash-in transaction, person to person transaction and salary disbursement also recorded satisfactory growth in 2022.

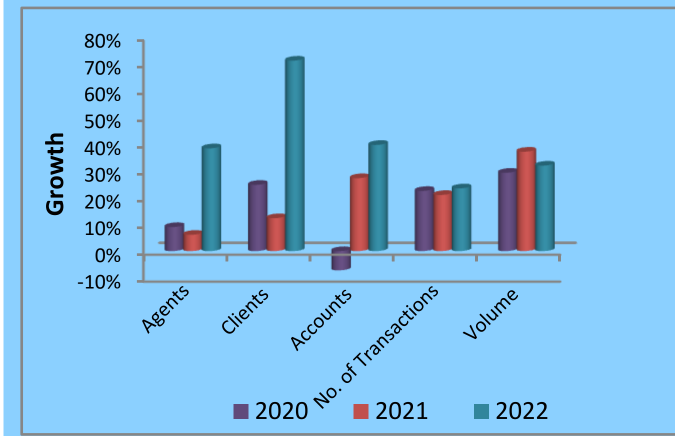
CHART 7.3: CATEGORY-WISE SHARE OF TRANSACTIONS OF MFS IN 2022



Source: Payment Systems Department (PSD), BB.

It appears from Chart 7.3 that cash in, person to person (P2P), and cash out transactions together occupied 86.41 percent share of total MFS transactions in 2022, which indicates that people utilize MFS mostly as a cash transfer service. Among different categories of MFS, the highest amount took place in 'Cash In' (30.38 percent) followed by 'Person to Person' transactions (28.21 percent) in the review year.

CHART 7.4: GROWTH OF MFS DURING 2020-2022



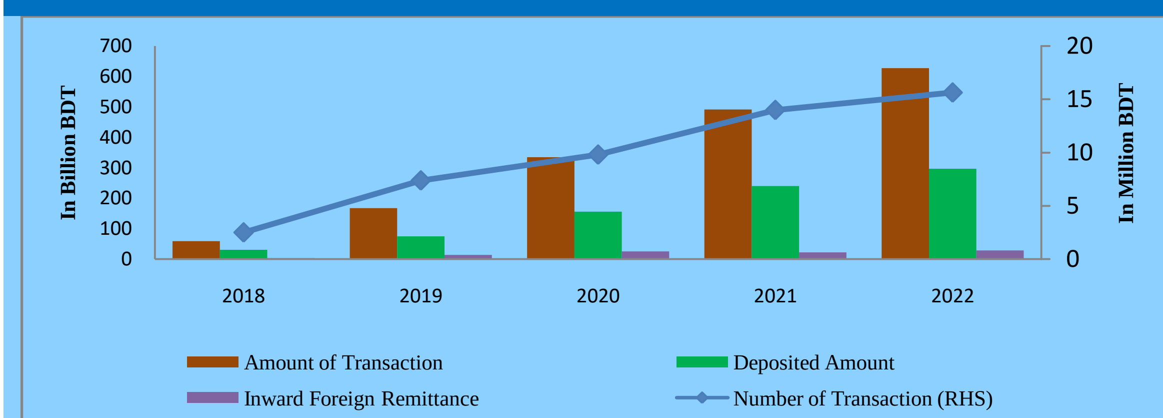
Source: Payment Systems Department (PSD), BB.

Chart 7.4 portrays that in 2022, all key aspects of MFS had positive growth compared to 2021. Among all categories of MFS, the highest growth took place in number of registered clients (71.12 percent) followed by number of active accounts (39.66 percent) in 2022.

7.6 AGENT BANKING ACTIVITIES

Bangladesh Bank commenced agent banking in Bangladesh in 2013 with a view to supporting financial services to the unbanked, underserved and poor segments of the population, especially those from the geographically dispersed locations. Clients can avail various banking services including deposits, loans, foreign remittances, and payment services such as utility bills, taxes, and government social safety net benefits through agent banking outlets. This model is becoming popular as a part of extending financial inclusion in Bangladesh. The need for establishment of branch banking is becoming squeezed gradually and due to that, agent banking encourages marginal and low-income segment of customers to get banking services through a cost-effective delivery channel as well as in a convenient way. Up to December 2022, Bangladesh Bank has permitted 31 banks for operating agent banking activities through 20,836 outlets operated by 15,226 agents. At the end of December 2022, around 17.48 million accounts were opened through agent banking, out of which 8.42 million were female accounts.

CHART 7.5: TRANSACTIONS THROUGH AGENT BANKING DURING 2018-2022



Source: Statistics Department, BB.

Chart 7.5 demonstrates that number of agent banking transactions, amount of transactions, amount of deposit and amount of inward foreign remittance had been growing progressively during 2018-2022. At the end of December 2022, the total amount of deposit, inward foreign remittance and transaction amount through agent banking stood at BDT 296.87 billion, BDT 28.91 billion and BDT 627.61 billion respectively. The amount of inward foreign remittances and deposit amount increased significantly by 30.87 percent and 23.90 percent respectively in 2022 compared to the previous year. Thus, the agent banking plays an important role to channel foreign remittances of the non-resident Bangladeshis as well as collect deposit especially from rural unbanked people under the umbrella of formal banking services.

7.7 OVERSIGHT OF PAYMENT SYSTEMS

Payment systems' oversight is a specialized form of supervision of payment, clearing, and settlement systems operated by central banks around the globe. It also supervises all other non-bank payment institutions like Mobile Financial Services (MFS), Payment Service Providers (PSPs) and Payment System Operators (PSOs) operating in the country. Bangladesh Bank's oversight activity always strives to achieve the objectives of the safety, security and efficiency of payment systems by monitoring and assessing payment systems and inducing policy changes when deemed necessary. Effective oversight is the means of stabilizing financial infrastructure by identifying and well-managing payment systems' associated risks. As per the payment systems' oversight framework, Bangladesh Bank focuses on the following activities:

a) Collecting onsite and off-site data from systems and participants regarding day-to-day operation, financial flow and transaction pattern, risk exposures, risk management procedures and practices, back-up and business continuity plan, disruptions and disputes, etc. for monitoring;

b) Checking compliance of systems and participants with applicable rules and regulations, identifies the gap, and comes up with recommendations with time to time follow up;

c) Analyzing the weakness of systems, participants, or schemes and identifies the areas that need improvements or intervention of Bangladesh Bank;

d) Analyzing trends of systems and participants data and calculating the market share of each to prioritize the segment for monitoring; and

e) Facilitating 'Self-Assessment' of systems and participants based on regulatory requirements and international standards.

7.8 POTENTIAL RISKS TO PAYMENT SYSTEMS OF BANGLADESH

Clients always prefer a safe, secure and efficient payment system to route their transactions quickly. As payment systems of Bangladesh are evolving using technology and innovation widely, security continues to be a major concern. In this perspective, Bangladesh Bank increases its monitoring to mitigate cyber security threats both at local and cross-border transaction levels and also instructs the banks and FIs to take adequate precautionary measures. Despite such efforts, some sporadic incidents of fraud and forgery occurred through ATM, debit card, credit card, POS, cheques/pay order, internet banking etc. during the review year, which did not pose any significant threat to the stability of the financial system.

CHAPTER 8 : FOREIGN EXCHANGE MARKET

Foreign exchange (FX) market of Bangladesh demonstrated a moderate level of stability albeit modest fluctuation of exchange rate during 2022. The Bangladeshi Taka (BDT) was in a depreciating trend against the US Dollar (USD) throughout the year. The REER also depreciated which contributed to enhancing the country's export competitiveness. As of end-December 2022, assets, liabilities and contingent liabilities of banking sector in FX decreased compared to those of the previous year. During the review period, L/C opening decreased slightly, but L/C settlement increased moderately which generated mild pressure on FX market despite having a substantial growth in export earnings. Besides, wage earners' remittances slightly declined during the review period. In 2022, Bangladesh Bank (BB) sold a large amount of USD at different phases in the domestic FX market, as an indirect measure, to keep the nominal exchange rate as well as the FX market stable. However, the reserve position (USD 33.75 billion) deemed to be adequate in terms of import coverage and ability to withstand probable external shocks in the near future.

8.1 FOREIGN EXCHANGE ASSETS, LIABILITIES AND CONTINGENT LIABILITIES

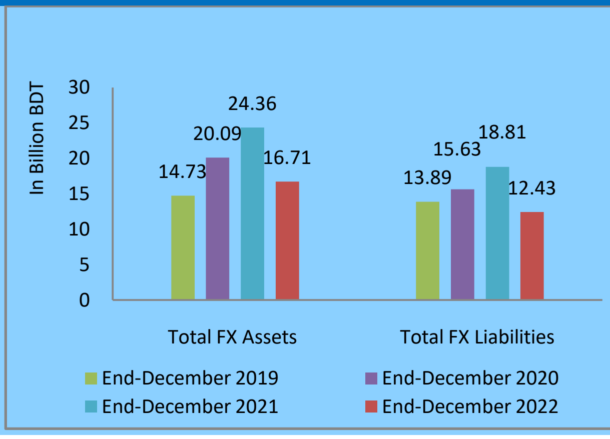
Both FX assets and liabilities decreased in 2022 compared to 2021. Off-balance sheet items denominated in FX also decreased during the period. However, Foreign exchange (FX) denominated assets and liabilities constituted only around 7.53 percent and 5.95 percent of total banking sector assets and liabilities respectively in 2022, thereby appeared to pose no immediate stability threats to the financial system.

Foreign Exchange (FX) denominated assets of the banking sector are mainly comprised of debit balance in Nostro accounts, cash holdings, BB FC clearing account, foreign currency bills purchased, investment in off-shore banking units (OBUs) and others. At end-December 2022, banks' total FX assets decreased by 31.42 percent and stood at USD 16.71 billion from USD 24.36 billion at end-December 2021 (Chart 8.1). The notable decline of FX asset in 2022 was mainly attributed to downfall in FC cash holding, investment in off-shore banking units, foreign currency bills purchased and others.

On the other hand, FX denominated liabilities are mainly composed of credit balances in Nostro accounts, back-to-back letter of credits (L/Cs), Foreign Currency (FC) accounts, balances in customer accounts such as non-resident foreign currency deposit (NFCD), resident foreign currency deposit (RFCD), exporters' retention quota (ERQ), foreign demand draft (FDD), telegraphic transfer (TT) and mail transfer (MT payables) and others. Pertinently, FX liabilities registered a sizable decrease of 33.95 percent from USD 18.81 billion at end-December 2021 to USD 12.43 billion at end-December 2022 (Chart 8.1). Decrease in the liabilities was largely attributed to decline in the components of exporters' retention quota, FDD, TT, MT and others. Besides, other liabilities and Back-to-Back L/Cs are the two main items that held shares of 53.09 percent and 20.79 percent respectively as of end-December 2022.

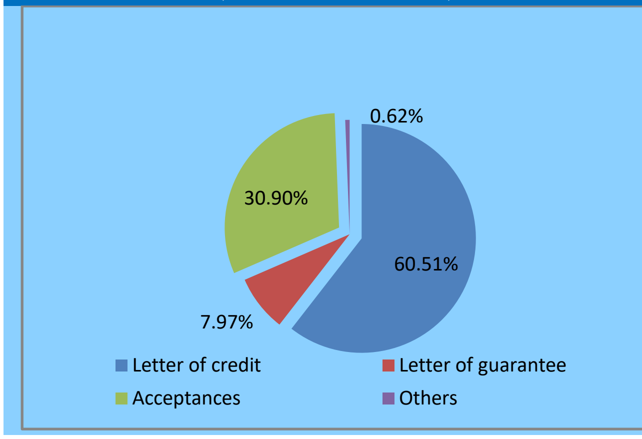
FX contingent liabilities consist of four major components such as L/Cs, letter of guarantees, acceptances and others. Among them, L/Cs and acceptances in FC together held more than 90 percent shares as of end-December 2022 (Chart 8.2). In 2022, FX contingent liabilities of the banking sector decreased by 12.36 percent, which was mainly due to decrease in the segments of L/Cs, letter of guarantees, and acceptances. Decline in the volume of exposure of off-balance sheet items in foreign currency indicates lower demand for foreign currency for future payment settlements, which may contribute to stability in the foreign exchange market in future.

CHART 8.1: CHANGES IN FX ASSETS AND LIABILITIES



Source: FEPD, BB.

CHART 8.2: COMPONENTS OF FX CONTINGENT LIABILITIES (END-DECEMBER 2022)



Source: FEPD, BB.

8.2 INTERBANK (LOCAL) FX TURNOVER

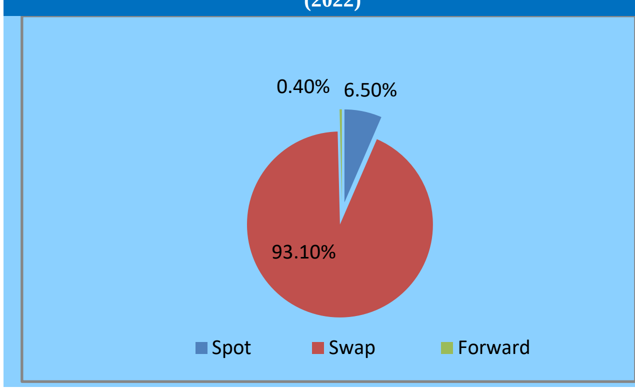
Interbank (local) FX turnover, led by swap transactions, observed an annual decrease of 14.03 percent and stood at USD 37.05 billion in 2022.

The volume of swap transactions largely dominated the interbank (local) FX market with 93.10 percent share followed by spot transactions with 6.50 percent share in 2022 (Chart 8.3). This is due to the fact that swap transactions were more flexible in FX liquidity management.

Almost 100 percent of swap transactions were executed in USD. In 2022, both annual FX and annual FX spot turnovers decreased and recorded at USD 37.05 billion and USD 2.41 billion respectively (Chart 8.4). On the other hand, the monthly average turnover of interbank (local) FX transactions was USD 3.09 billion in 2022, which was USD 3.64 billion in 2021. Moreover, throughout the year 2022, monthly FX turnover followed a decreasing trend with some exceptions (Chart 8.5).

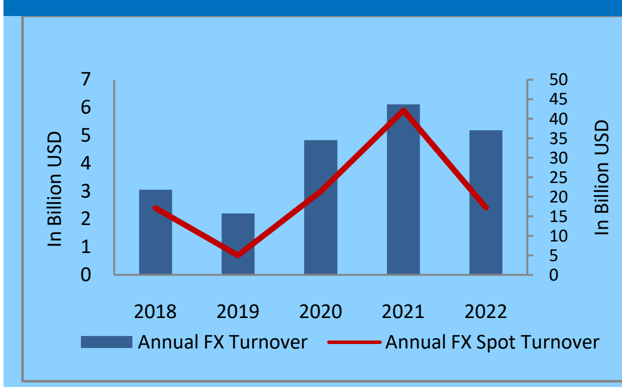
The overall FX net open position declined to USD -142.9 million at end-December 2022 compared to USD 1,025.85 million at end-December 2021.The highest balance of USD 791.00 million was recorded at end-April 2022, while the lowest balance of USD -515.43 million was observed at end-November 2022. It indicates that FX market experienced moderate pressure especially in the last quarter of 2022.

CHART 8.3: COMPONENTS OF INTERBANK FX TURNOVER (2022)



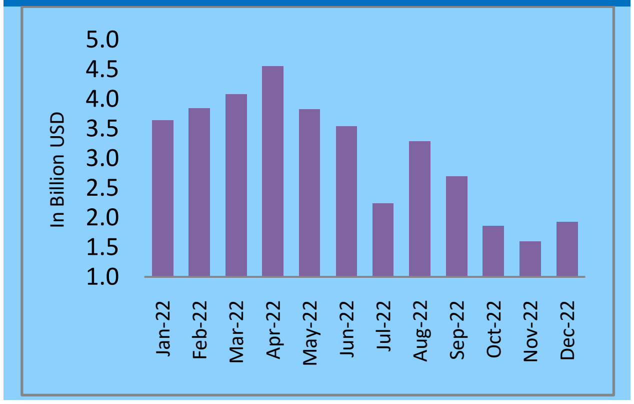
Source: FRTMD, BB.

CHART 8.4: ANNUAL FX AND FX SPOT TURNOVER



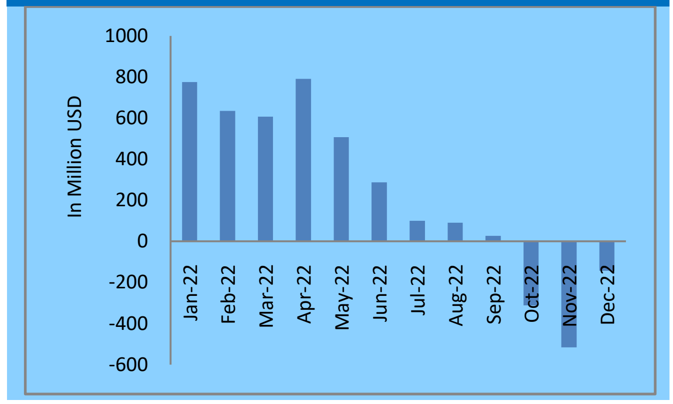
Source: FEPD, BB.

CHART 8.5: MONTHLY FX TURNOVER (2022)



Source: FRTMD, BB.

CHART 8.6: FX NET OPEN POSITION (2022)



Source: FEPD, BB.

8.3 ADEQUACY OF FX RESERVES

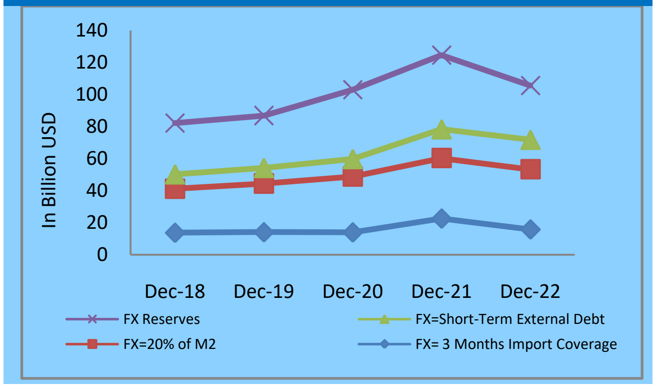
At end-December 2022, gross foreign exchange reserve appeared to be sufficient to withstand probable external shocks.

Adequacy of FX reserves is an important parameter in assessing an economy's ability to absorb external vulnerabilities and shocks. Gross FX reserves stood at USD 33.75 billion at end-December 2022. This amount is deemed to be sufficient to withstand probable external shocks in the foreseeable future[52].

The gross foreign exchange reserves decreased by 26.87 percent from USD 46.15 billion at end-December 2021 to USD 33.75 billion at end-December 2022. This decline in FX reserves is partially attributable to Bangladesh Bank's attempt for securing availability of USD for import payment settlements as well as to ease the deficiency of USD in the market with a view to keeping the FX market stable. Though FX reserves declined at end-December 2022, it was sufficient to cover around 5.5 months' of prospective import of goods (Chart 8.8), which was higher than the international benchmark of meeting three months' import payments. However, with continuous rising trend of commodity prices in the global markets as well as lingering of Russia-Ukraine war, FX reserve and nominal exchange rate may face a challenge in the near future. Also, in terms of reserves to M2 (broad money) criteria, Bangladesh had marginal shortfall of the required level of reserves. The ratio of reserves to M2 was 18.0 percent in 2022 while the acceptable benchmark is 20 percent (Chart 8.9). The ratio of short-term external debt (STED) to FX reserves increased from 39.2 percent in 2021 to 54.9 percent in the review period due to decline in FX reserve. As the ratio is less than 100 percent, Bangladesh appeared to have adequate reserve to cover the external debts, which would come due in next 12 months (Chart 8.10).

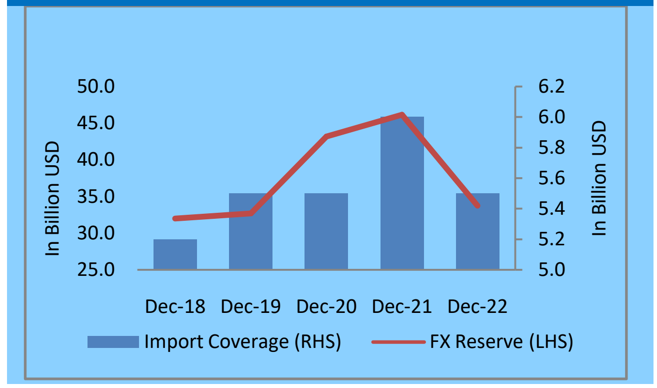
[52]Among the different benchmarks for measuring FX reserve adequacy, three mostly used benchmarks are: (i) sufficient FX reserve to cover at least three months' import payments, (ii) reserves equal to 20 percent of M2, and (iii) reserves sufficient to cover external debt becoming due within 12 months (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 8.7: FX RESERVE ADEQUACY MEASURES



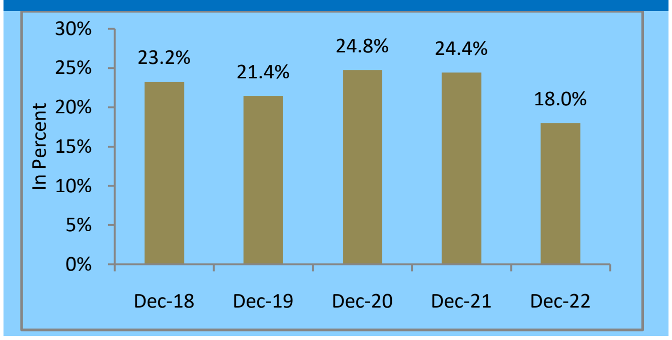
Source: NSDP, BB website; Statistics Department, BB.

CHART 8.8: IMPORT COVERAGE OF FX RESERVE



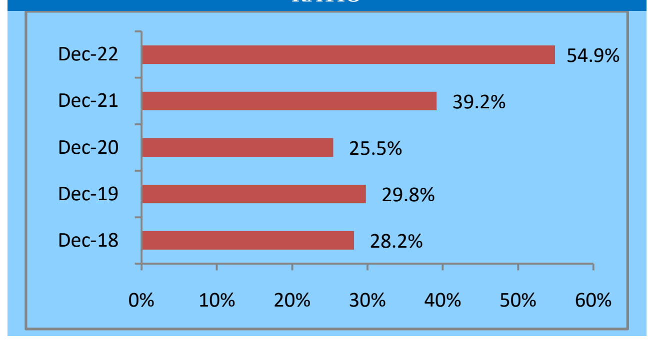
Source: Statistics Department, BB

CHART 8.9: RESERVES TO M2 RATIO



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

CHART 8.10: SHORT-TERM EXTERNAL DEBT TO RESERVE RATIO



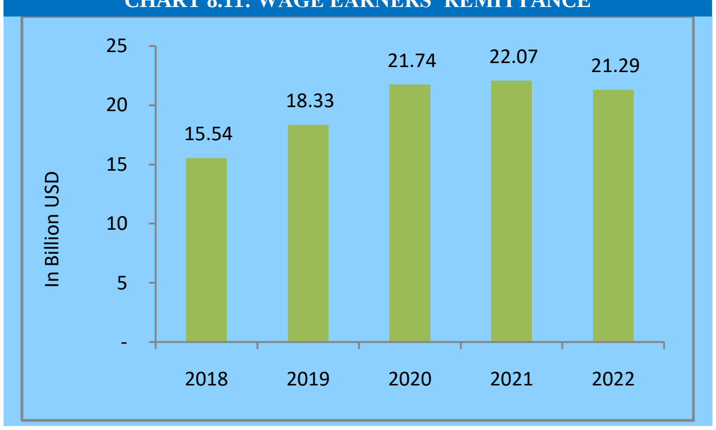
Source: NSDP, BB website; Statistics Department, BB.

8.4 WAGE EARNERS' REMITTANCE

Though there were some fluctuations in monthly inflow, aggregate wage earners' remittances slightly decreased in the review year than that of the previous year.

The remittance inflow fell by USD 0.78 billion (3.53 percent) and reached to USD 21.29 billion in 2022 from USD 22.07 billion in 2021 (Chart 8.11). The highest amount of remittance (USD 2.09 billion) inflow was recorded in July 2022 while the lowest amount (USD 1.49 billion) was registered in February 2022.

CHART 8.11: WAGE EARNERS' REMITTANCE



Source: Monthly Economic Trend, BB.

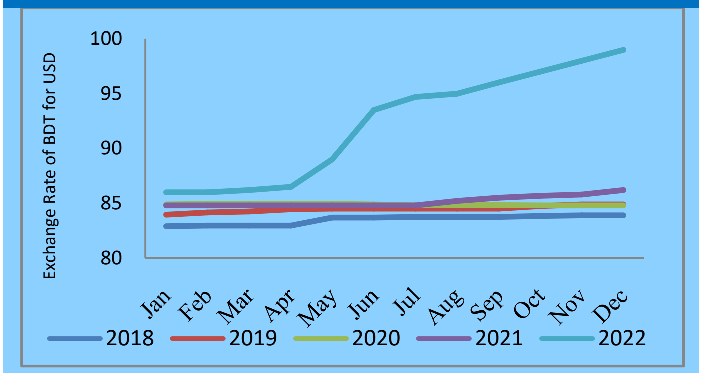
The decline in remittance inflow was partially due to the economic downturn in the countries hosting the wage earners. However, Bangladesh Bank along with Government continued to undertake a lot of initiatives to increase the remittance inflow. In order to prevent remittance inflow through informal channels (hundi) as well as encourage inflow of remittance through formal/banking channel, Government introduced 2.0 percent cash incentive on 1 July 2019 and it was further increased to 2.5 percent on 1 January 2022.

Noteworthy that remittance inflow helps to maintain stability in the FX market, thereby strengthening resilience to external vulnerabilities.

8.5 EXCHANGE RATE MOVEMENT

Nominal exchange rate experienced a moderate level of depreciation during the review year.

CHART 8.12: EXCHANGE RATE MOVEMENT (BDT/USD)



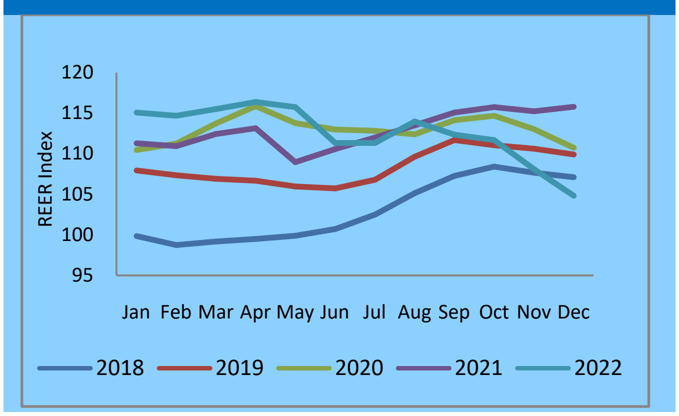
Source: Monthly Economic Trend, BB.

The nominal exchange rate portrayed an upward movement in the review year. The monthly average nominal USD-BDT exchange rate experienced increasing trend mainly after the second quarter of 2022. The maximum exchange rate (BDT 99.0 per USD) was recorded at end-December 2022 while the minimum (BDT 86.0 per USD) was registered at end-January and February 2022 (Chart 8.12).

8.6 MOVEMENT OF REAL EFFECTIVE EXCHANGE RATE (REER)

Given the nominal depreciation of BDT and the movement of USD against other major currencies, real effective exchange rate (REER) index[53] also experienced depreciation, providing an additional support in export competitiveness in 2022.

CHART 8.13: REER MOVEMENT



Source: Monetary Policy Department, BB.

After three consecutive years (2019-2021) of appreciation, REER index registered a depreciation of 9.46 percent during the review year. The index steadily fluctuated during January to August, 2022 and started to decline and reached to 104.81 at the end of the year (Chart 8.13). This situation seems to be supportive for export growth as well as production but it might create some discomforts for the importers.

8.7 OPENING AND SETTLEMENT OF LETTER OF CREDIT (L/C)

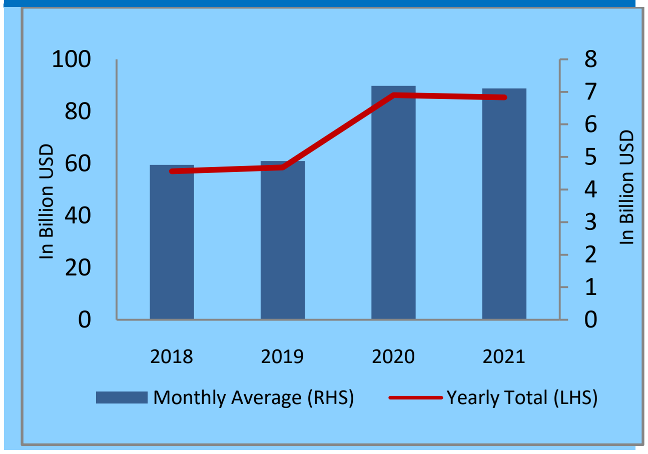
Though L/C opening decreased slightly, L/C settlement remained high in the review year which appeared to have increased pressure on foreign exchange market from the demand side.

In 2022, the L/C opening for import decreased by 1.04 percent from USD 86.18 billion in 2021 and stood at USD 85.28 billion (Chart 8.14). On the other hand, the L/C settlement increased by 22.57 percent and reached USD

[53]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").

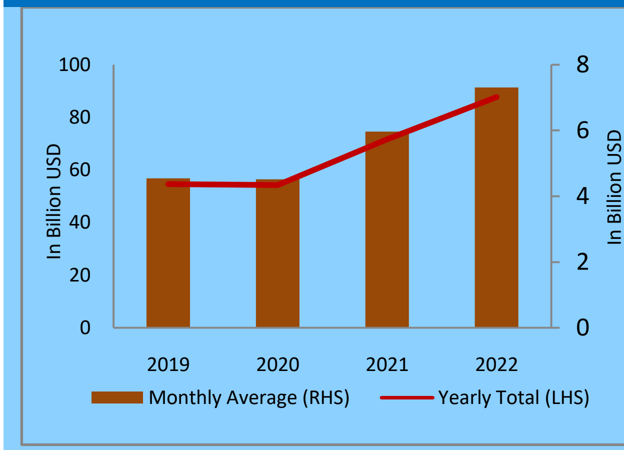
87.71 billion in 2022 from USD 71.56 billion in 2021 (Chart 8.15). The higher amount of L/C settlement created some pressures on foreign exchange and thus aggravated the demand for USD.

CHART 8.14: L/C OPENING



SOURCE: FEOD, BB.

CHART 8.15: L/C SETTLEMENT



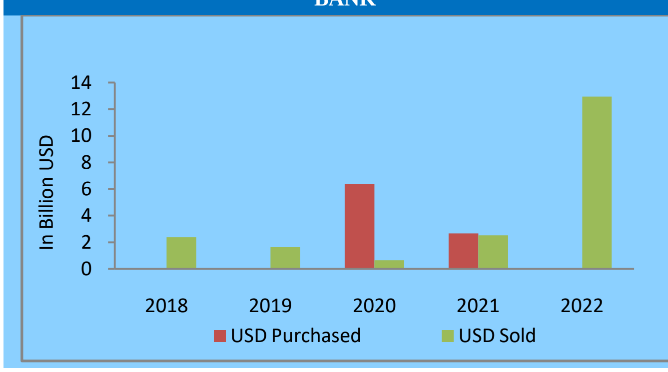
SOURCE: FEOD, BB.

8.8 INTERVENTION IN FX MARKET BY BB

Bangladesh Bank sold USD 12.94 billion to retain and manage the FX market stability in 2022.

Though the magnitude of the exchange rate in Bangladesh depends on the demand and supply of FX, it occasionally becomes necessary for Bangladesh Bank to intervene into the foreign exchange market for the sake of maintaining stability in the nominal exchange rate, inflation and prices of commodities particularly daily essentials. In 2022, Bangladesh Bank sold USD 12.94 billion to support the foreign exchange market of Bangladesh, which was USD 2.52 billion in 2021 (Chart 8.16).

CHART 8.16: INTERVENTION IN FX MARKET BY BANGLADESH BANK



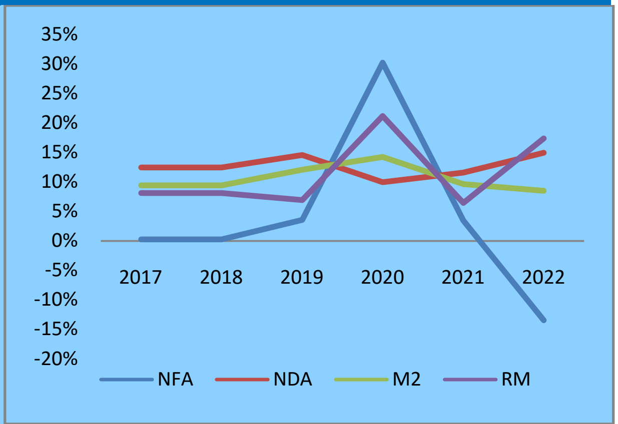
Source: FRTMD, BB.

During the review year, BB did not purchase any USD from the local market. Higher import payments as well as lower export receipts and inward foreign remittances appeared to have generated substantial pressures from the demand side in foreign exchange market during the review year. Therefore, central bank had to inject foreign currency in the local market to maintain the exchange rate stability.

This intervention in the FX market might have impact on money supply and subsequently on price level, interest rate and liquidity of the financial system. Due to exchange rate volatility, declining of wage earners’ remittance and higher import payments, Net Foreign Assets (NFA) decreased by 13.48 percent in 2022. BB sold substantial amount of USD in 2022 to ease the FX market condition which increased Net Domestic Assets (NDA) by 14.95 percent for maintaining the proposed level (9 percent)[54] of reserve money (Chart 8.17).

[54]Monetary Policy Statements (MPS) for July-December, 2022

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



SOURCE: MAJOR ECONOMIC INDICATORS, BB.

The reserve money (RM) growth (17.41 percent) remained above the proposed level at the end of December 2022, mainly due to higher demand for cash resulted from price hike in the domestic market largely originated from the price hike of imported items from exporting countries. In contrast, the broad money growth (8.47 percent) remained well below the program level (10 percent) at the end of December 2022 due to huge fall of net foreign assets in the banking system resulted from a wide deficit in the overall balance of payments.

CHAPTER 9 : INSURANCE SECTOR IN BANGLADESH

Insurance provides protection against uncertainties and potential financial losses by managing and transferring risks. It also facilitates financial intermediation. Moreover, insurance coverage against potential losses acts as an insulator, particularly during crisis periods. As such, prudent risk management by insurance business contributes to financial stability.

Insurance sector is intertwined with other segments of financial market, such as bond market, banks and FIs, and capital market. 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 invest in long-term assets such as bonds, fixed deposit receipts (FDR) and equities. These investments channel necessary funds into the economy; ensuring economic growth, and providing liquidity and stability in the financial system. 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, regulates and supervises the insurance sector in Bangladesh.

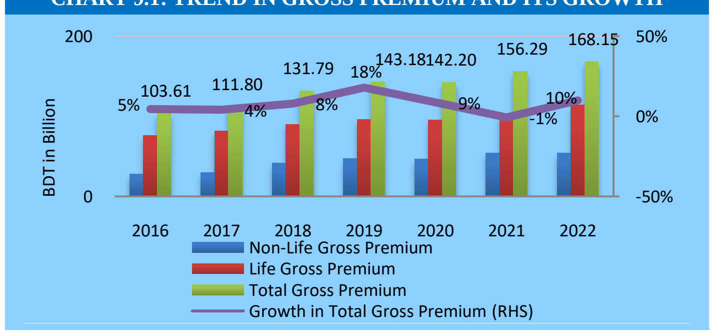
Insurance sector development in Bangladesh, measured by insurance penetration ratio and insurance density ratio, remained low in 2022[55] *despite increase in both total gross premium and total assets of the insurance sector. Most of the key indicators of the insurance sector experienced deterioration in 2022 compared to the previous year. Insurance sector remained highly concentrated within a few companies and is interconnected with other financial markets. So, close monitoring and supervision of the companies are required for the sake of financial system stability.*

9.1 PREMIUM GROWTH AND ASSET SIZE

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

Chart 9.1 exhibits the trend in gross premium (in terms of both amount and percent) of the insurance industry in Bangladesh. Total gross premium of insurance sector reached to BDT 168.15 billion in 2022 from BDT 156.29 billion in 2021, registering a 7.59 percent increase. It is noteworthy that the life insurance companies contributed 67.81 percent of the total gross premium in 2022.

CHART 9.1: TREND IN GROSS PREMIUM AND ITS GROWTH



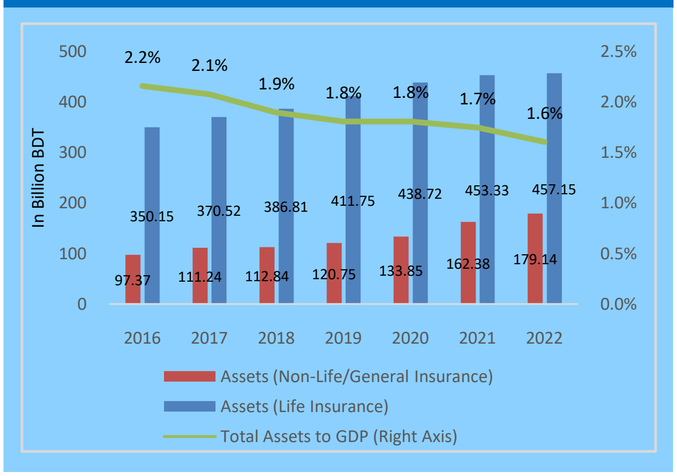
Source: IDRA; Calculation: FSD, BB.

Chart 9.2 exhibits the trend in insurance sector's

[55]The analysis of insurance sector for 2022 was based on the unaudited statements of the insurance companies which were provided by IDRA. Data for 2021 are revised (denoted as **R**) in some cases as audited statements are available for those companies.

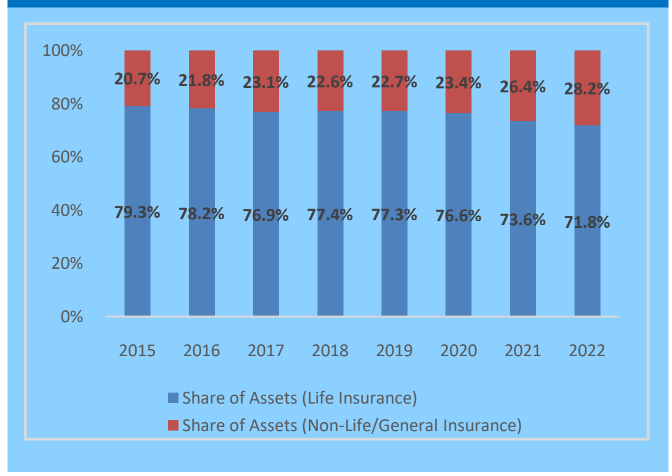
assets (in amount and relative to GDP) from 2016 to 2022. In 2022, assets of life insurance and non-life (general) insurance companies stood at BDT 457.15 billion and BDT 179.14 billion respectively compared to BDT 453.33[R] billion and BDT 162.38[R] billion respectively in the preceding year. Overall, total assets of insurance sector increased by 3.3 percent and stood at BDT 636.29 billion in 2022. Despite this overall growth, insurance sector's total assets to GDP slightly declined to 1.6 percent in 2022 compared to 1.7 percent in 2021. Noteworthy, assets of the life insurance companies constituted 71.8 percent of the total assets of the insurance sector in 2022 (Chart 9.3). However, assets of the non-life insurance companies increased its share in total assets to 28.2 percent in 2022 from 26.4 percent in 2021.

CHART 9.2: TREND IN INSURANCE SECTOR ASSETS



Calculation based on GDP Base Year 2015-2016
Source: IDRA; Calculation: FSD, BB.

CHART 9.3: BREAKDOWN OF TOTAL ASSETS BY TYPE OF COMPANIES

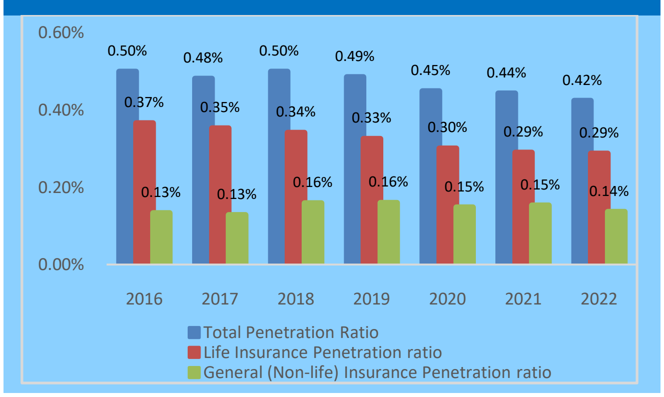


Source: IDRA; Calculation: FSD, BB.

9.2 INSURANCE SECTOR DEVELOPMENT: PENETRATION AND DENSITY

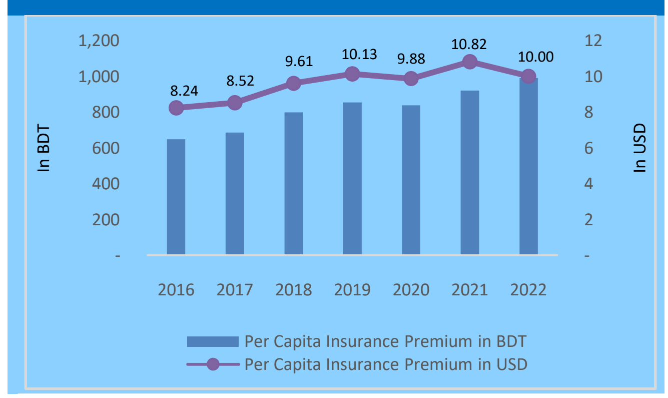
Both insurance penetration ratio[56] and insurance density ratio[57] decreased slightly in 2022 compared to those of the previous year.

CHART 9.4: INSURANCE PENETRATION RATIO



Note- Calculation based on GDP Base Year 2015-2016.
Sources: IDRA; Calculation: FSD, BB.

CHART 9.5: INSURANCE DENSITY RATIO



Source: i) IDRA; ii) Monthly Economic Trends, BB; iii) Statistical Yearbook of Bangladesh 2021, BBS; and Population and Housing Census 2022, BBS. Calculation: FSD, BB.

---

[56] Gross insurance premium in a particular year to GDP
[57] Average per capita spending on gross insurance premium

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 9.4 shows the downward trend in insurance penetration ratio in Bangladesh during 2015-2022. The penetration ratio was 0.42 percent at end-December 2022, which was 0.44 percent at end-December 2021. Relatively slower growth of insurance premium compared to GDP growth resulted in a downward penetration ratio during the review year.

The insurance density ratio, i.e., average per capita spending on gross insurance premium of the country is low as majority of people in Bangladesh remain outside the insurance coverage mainly due to lower savings rate and lack of financial literacy. The ratio decreased to USD 10.00 in 2022 from USD 10.82 in 2021 (Chart 9.5).

9.3 KEY INDICATORS OF GENERAL INSURANCE SECTOR

Key indicators of general insurance sector showed mixed performance during the review year. Management expense ratio improved, while claims settlement ratio, return on investment, risk retention rate and investment to total assets ratio worsened compared to the previous year.

Table 9.1 demonstrates some key indicators of general insurance companies in Bangladesh. 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 decreased to 33.44 percent, 5.87 percentage points less than that of 2021. Generally, higher claims settlement ratio makes the non-life insurance provider more reliable. Return on investment (ROI) decreased to 5.65 percent in 2022 compared to the previous year's 7.66 percent which resulted in an overall decrease in profitability. Investment to total assets ratio decreased slightly to 47.40 percent, which was 48.74 percent in 2021. Moreover, risk retention rate (RRR) of general insurance sector increased to 55.10 percent in 2022 from 49.77 percent in the preceding year, indicating lower risk sharing among the insurance companies. However, Management expense ratio of general insurance companies decreased to 42.24 percent in the review year from 46.45 percent in 2021.

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

Indicators	2021	2022
Claims Settlement Ratio	39.31% R	33.44%
Management Expense Ratio	46.45% R	42.24%
Return on Investment	7.66% R	5.65%
Investment to Total Assets Ratio	48.74% R	47.40%
Risk Retention Rate	49.77% R	55.10%
Source: IDRA; Calculation: FSD, BB.		

Note: R=Revised.

9.4 COMPARISON AMONG DIFFERENT CATEGORIES OF GENERAL INSURANCE

Gross and net insurance premium diverged across different business types of general insurance sector in 2022 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 2022. The chart shows that fire insurance was the highest source of gross premium in 2022, followed by marine, miscellaneous and motor insurance. However, marine insurance held 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 the highest for motor (92.9 percent) followed by marine (74.6 percent), fire insurance (52.1 percent) and miscellaneous (21.6 percent). Noteworthy, the overall risk retention rate for the general insurance was 55.10 percent in 2022.

CHART 9.6: GROSS AND NET PREMIUM BY BUSINESS IN 2022

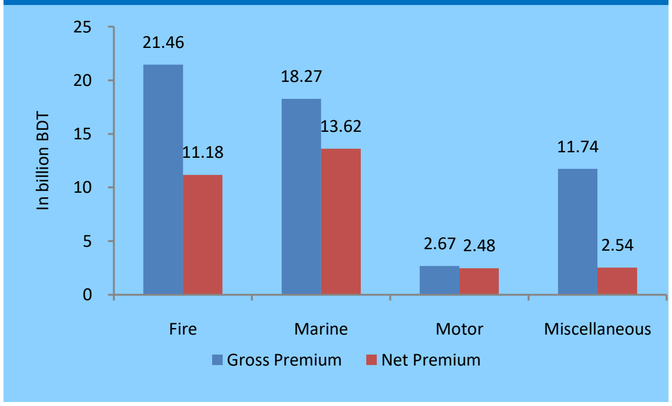
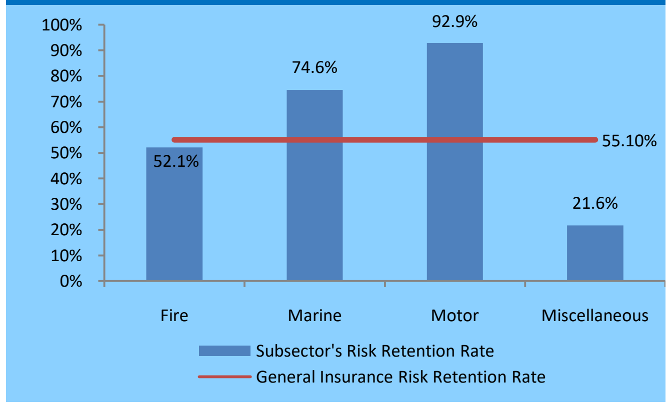


CHART 9.7: RISK RETENTION RATE BY BUSINESS IN 2022



Source: IDRA; Calculation: FSD, BB.

9.5 KEY INDICATORS OF LIFE INSURANCE SECTOR

In 2022, most of the important indicators of life insurance sector deteriorated compared to preceding year.

Table 9.2 presents some key indicators of life insurance companies in Bangladesh for 2021 and 2022. Management expense ratio of life insurance companies increased to 32.52 percent in the review year. Also, return on investment in 2022 was lower (7.39 percent) than that of the previous year (7.56 percent). Moreover, investment to total assets ratio of life insurance companies fell to 83.11 percent in 2022, which was 83.91 percent in 2021. And, risk retention rate increased slightly to 99.48 percent in 2022 compared to 99.42 in 2021. The smaller size of life insurance policy in Bangladesh is one of the main barriers to attract foreign reinsurers which may be the cause of such high risk retention rate.

However, claims settlement ratio of life insurance companies increased by 9.13 percentage points to reach 66.97 percent in 2022, offering enhanced credibility and reliability of the life insurance companies, which would be encouraging for the life insurance policy holders.

TABLE 9.2: KEY INDICATORS-LIFE INSURANCE

Indicators	2021	2022
Claims Settlement Ratio	57.84% R	66.97%
Management Expense Ratio	32.26% R	32.52%
Return on Investment	7.56% R	7.39%
Investment to Total Assets Ratio	83.91% R	83.11%
Risk Retention Rate	99.42% R	99.48%
Source: IDRA; Calculation: FSD, BB.		

Note: R=Revised

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 2022

Concentration in Life Insurance		
	Asset Size	Gross Premium
Total sector (In Billion BDT)	456.08	114.02
Top 5 insurance companies (In Billion BDT)	352.10	69.84
Concentration in top five companies	77.20%	61.26%
Concentration in Jibon Bima Corporation (JBC)*	5.89%	6.69%
Concentration in General Insurance		
	Asset Size	Gross Premium
Total sector (In Billion BDT)	179.14	54.13
Top 5 insurance companies (In Billion BDT)	103.45	26.63
Concentration in top five companies	57.75%	49.19%
Concentration in Sadharon Bima Corporation (SBC)*	36.72%	30.15%

*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 and financial institutions, capital market and bond market through its investment. Any stress on those markets may have negative impact on 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 FDR with Banks and FIs, other investments, real estate and capital market (Chart 9.8). On the contrary, investment portfolios of general insurance companies showed greater weight in FDR with Banks and FIs followed by capital market, real estate and government bonds (Chart 9.9).

CHART 9.8: INVESTMENT PORTFOLIO OF LIFE INSURANCE

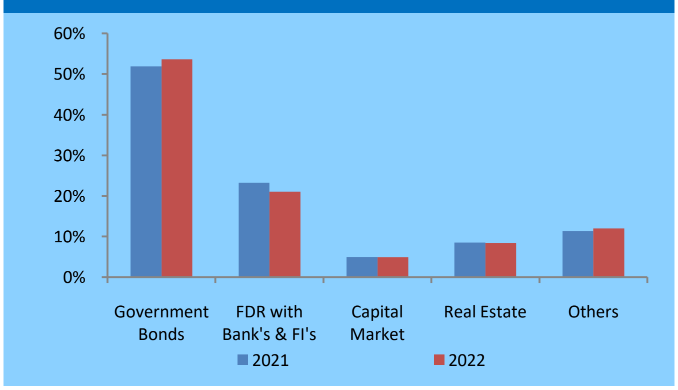
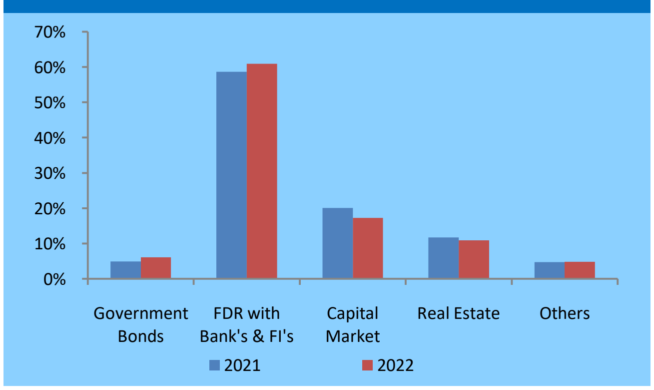


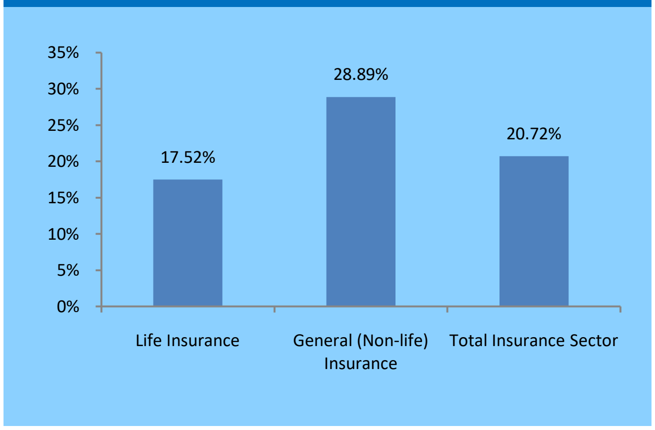
CHART 9.9: INVESTMENT PORTFOLIO OF GENERAL INSURANCE



Source: IDRA; Calculation: FSD, BB.

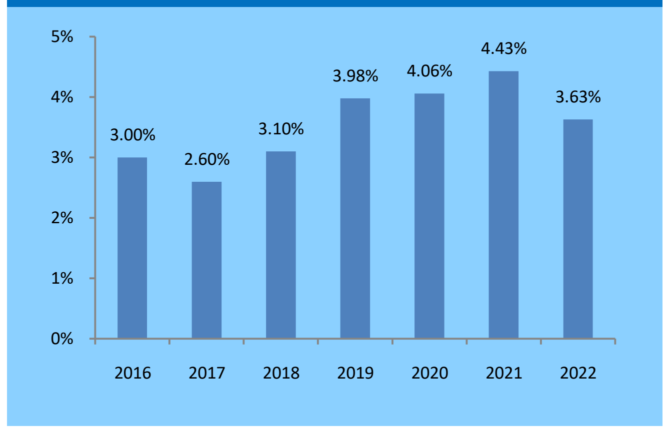
Insurance companies earn a large portion of their interest income by maintaining fixed deposits with banks and FIs. More than 20 percent of the total assets of the insurance sector was deposited at banks and FIs as fixed deposit in 2022 (Chart 9.10) which was equivalent to only 1.82 percent of the total fixed deposits held with the banking sector in 2022. So, sudden and unexpected withdrawal of fixed deposits by insurance companies may not pose any significant risk to the banking sector. Conversely, any crisis in the banking and FI sectors could have a negative impact on the insurance sector as a substantial portion of their assets would be affected.

CHART 9.10: FIXED DEPOSIT AS A PERCENT OF TOTAL ASSETS IN 2022



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 aggregate market capitalization of the listed insurance companies in Dhaka Stock Exchange (DSE) was only 3.63 percent in 2022 (Chart 9.11).

CHAPTER 10 : MICROFINANCE INSTITUTIONS (MFIs)

Microfinance Institutions (MFIs) are making notable contribution to the socio-economic development of Bangladesh and playing a pivotal role to eradicate poverty by providing various financial services to the marginal income people. Since its inception, Microcredit Regulatory Authority (MRA) has been working relentlessly for the overall development of microfinance sector of the country by adopting prudent regulations and policy measures. During FY22, 739 licensed MFIs provided different types of financial services to 38.27 million individuals where around 90 percent of the beneficiaries were women. In FY22, MFIs had been continuing steady growth in terms of own capital, savings and loans disbursement to the members. Soundness of microfinance sector is a crucial part to promote the financial stability of the economy.

10.1 ACTIVITIES OF MICROFINANCE INSTITUTIONS (MFIs)

Microfinance institutions (MFIs) provide different types of financial services 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.

This sector provided financial services to 38.27 million individuals and micro enterprises in the country during the fiscal year (FY) 2021-2022 (FY22), an increase of 8.97 percent from FY21. In this period, number of the employees and branches increased by 17.62 percent and 12.35 percent respectively compared to those of FY21. The total number of licensed MFIs had been decreasing gradually in FY21 to FY22, whereas the licenses of 7(Seven) MFIs were cancelled in FY22 due to non-compliance issues. The number of members, employees and branches of this sector increased during the review period (Chart 10.1).

At the end of FY22, outstanding balances of loans and savings of this sector stood at BDT 1241.36 billion and BDT 496.24 billion respectively, which were 30.69 percent and 17.48 percent higher than those of FY21 (Chart 10.2).

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

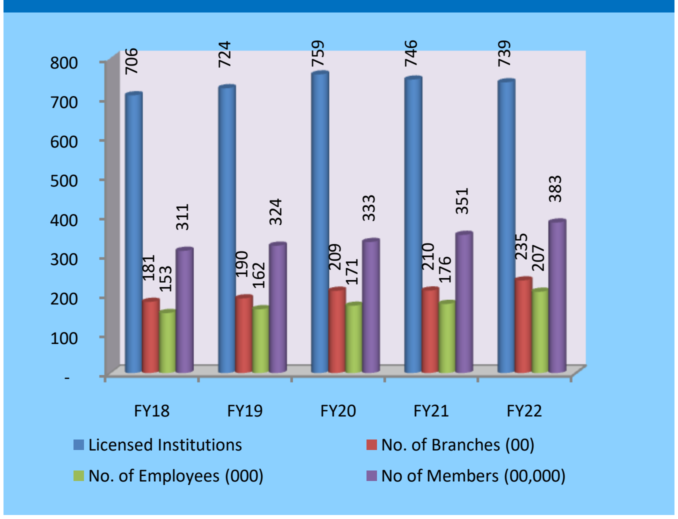
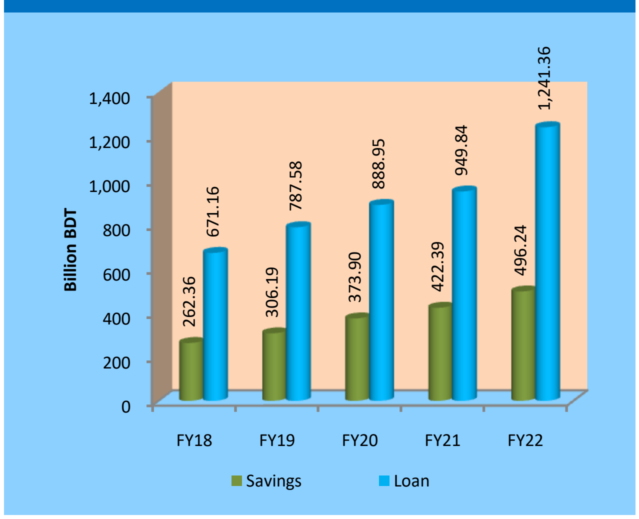


CHART 10.2: SAVINGS AND LOAN SCENARIO OF MFIs SECTOR



Source: Microcredit Regulatory Authority; Calculation: FSD.

The number of borrowers and members of MFIs have been increasing progressively over time. In particular, these numbers increased by 2.04 million and 3.15 million respectively in FY22 compared to the preceding fiscal year (Chart 10.3).

After a decline in borrowers-to-members ratio throughout FY18 to FY20, the ratio increased slightly in FY21 and then again decreased by 1.18 percentage points and reached at 77.97 percent in FY22 (Chart 10.4).

CHART 10.3: TREND OF SECTOR OUTREACH

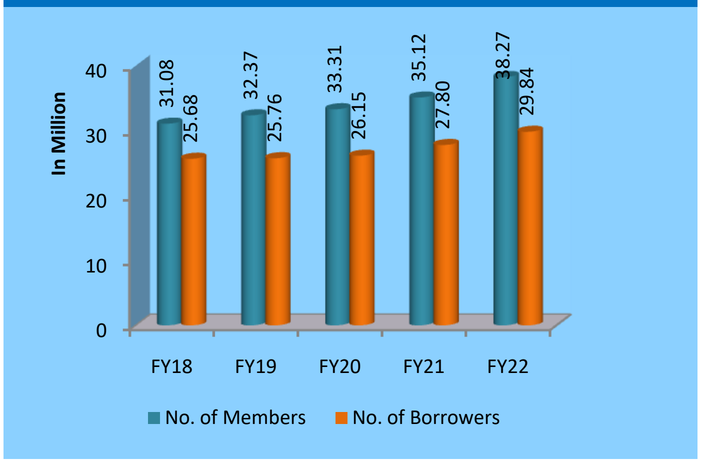
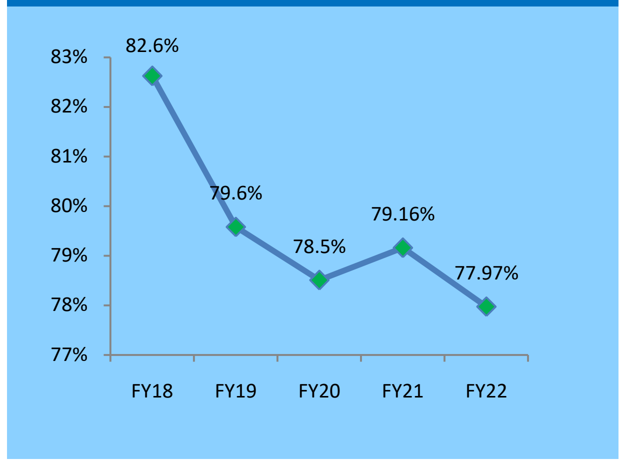


CHART 10.4: BORROWERS-TO-MEMBERS RATIO



Source: Microcredit Regulatory Authority; Calculation: FSD

The average loans and savings per institution demonstrated an increasing trend over the last five fiscal years. Those increased by 31.93 percent and 18.60 percent respectively during FY22 from the preceding fiscal year (Chart 10.5).

Similar trend was witnessed for per branch growth of loans and savings. In particular, the average loans and savings per branch were BDT 52.73 million and BDT 21.08 million respectively, which were 16.33 percent and 4.57 percent higher than the corresponding figures of FY21 (Chart 10.6).

CHART 10.5: AVERAGE LOANS AND SAVINGS PER INSTITUTION

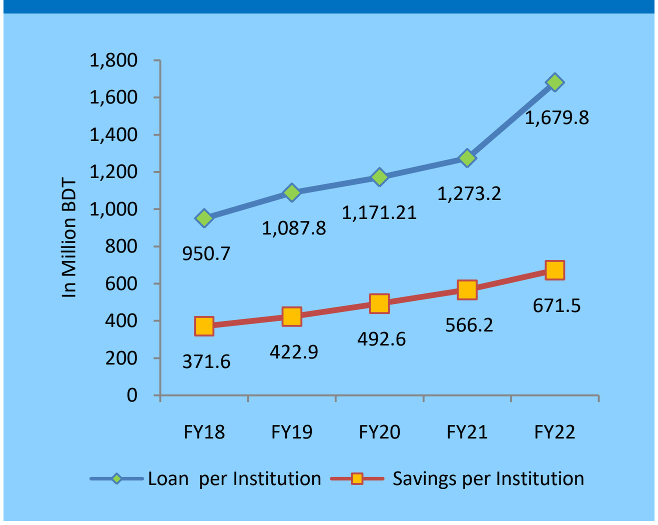
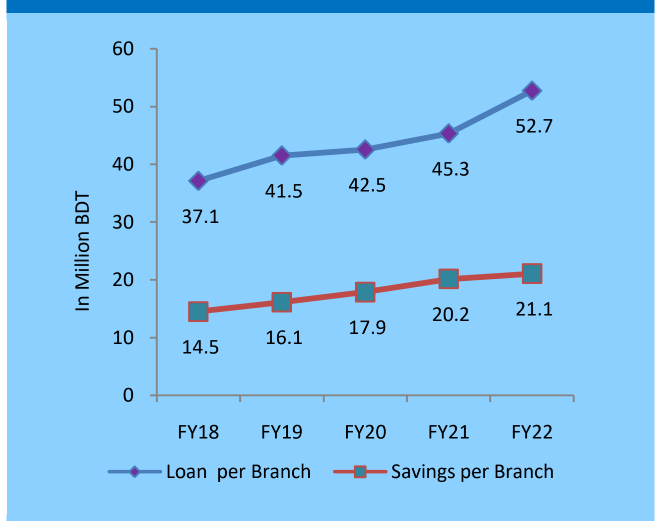


CHART 10.6: AVERAGE LOANS AND SAVINGS PER BRANCH



Source: Microcredit Regulatory Authority; Calculation: FSD.

The average size of loans and savings per borrower and per member demonstrated an upward trend in the last five financial years. In FY22, the average loan per borrower and the average savings per member were 21.76 percent and 7.81 percent higher than the previous financial year (Chart 10.7).

CHART 10.7: AVERAGE LOAN PER BORROWER AND SAVINGS PER MEMBER

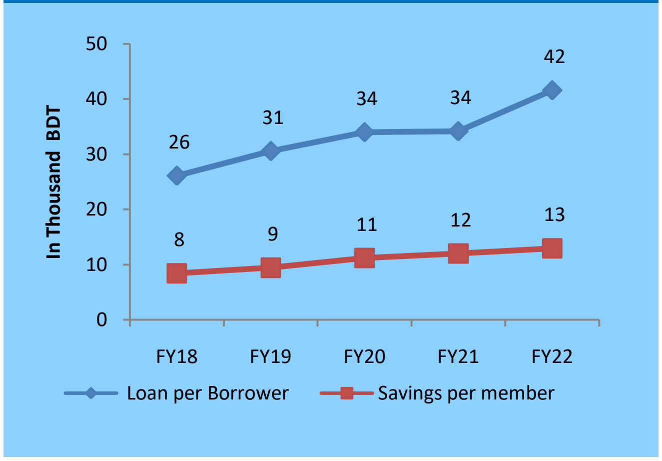
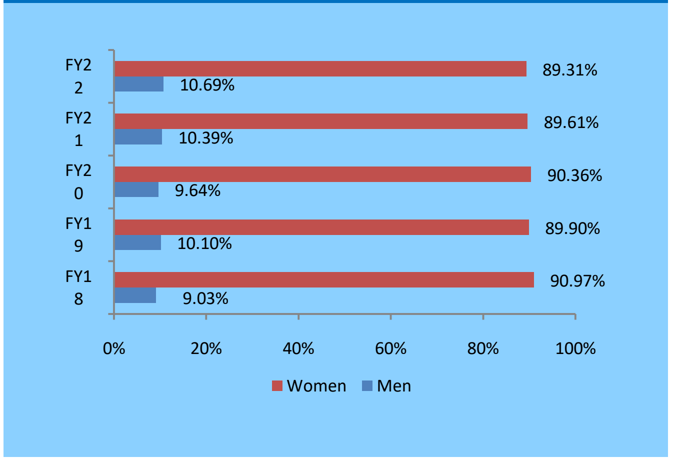


CHART 10.8: STRUCTURE OF MEMBERSHIP



Source: Microcredit Regulatory Authority; Calculation: FSD.

Membership composition of the MFI sector was mostly dominated by female members (89.31 percent). However, the number of male members grew by 12.05 percent in FY22 and reached to 4.09 million. The proportion of female members decreased by 0.29 percentage point in FY22 (Chart 10.8).

In FY22, out of 34.18 million female members, 26.96 million (78.88 percent) took credit facilities from respective MFIs. On the other hand, out of 4.09 million male members, 2.88 million (70.42 percent) availed the credit facilities. It indicates that in aggregate, females' access to microcredit was considerably higher than their male counterpart.

10.2 LOAN STRUCTURE

The distribution of outstanding loans in four different loan sizes is shown in Chart 10.9. Outstanding 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 32.62 percent, 28.68 percent, 24.61 percent and 14.08 percent shares respectively in FY22.

The proportionate share of total loans given in the ranges of BDT up to 50,000 decreased by 9.04 percentage points. On the other hand, the proportionate shares of total loans provided in the ranges of BDT 50,001 to 1,00,000; BDT 100,001 to 300,000; and above BDT 3,00,000 increased by 3.95 percentage points, 4.85 percentage points, and 0.24 percentage point respectively (Chart 10.10). These indicators imply that households' demand for higher amount of microcredit is increasing over the years.

CHART 10.9: OUTSTANDING LOAN SHARE IN FY22

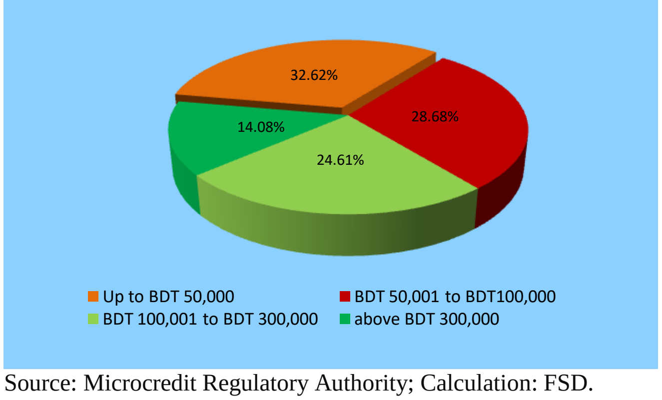
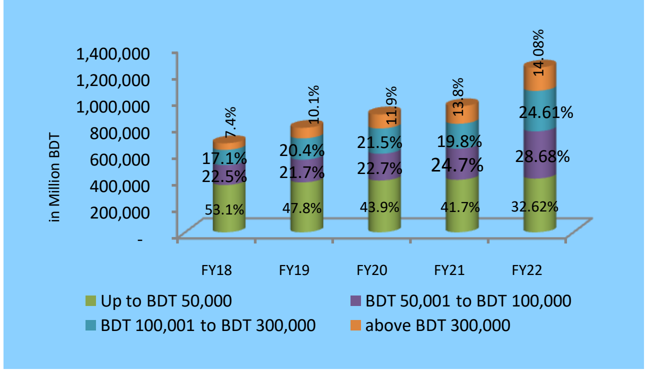


CHART 10.10: OUTSTANDING LOAN STRUCTURAL TREND



Source: Microcredit Regulatory Authority; Calculation: FSD.

As shown in Chart 10.11, 22.25 million members availed loans in the range of up to BDT 50,000 which was 7.38 percent higher than that of FY21 and this segment constituted 74.56 percent of total borrowers in FY22. Moreover, in comparison with FY21, the number of members' borrowing in the ranges BDT 50,001 to 100,000 and BDT 1,00,001 to 3,00,000 increased by 7.33 percent and 10.23 percent respectively whereas the number of members' borrowing in the ranges of above BDT 3,00,000 decreased by 7.32 percent in FY22 (Chart 10.12).

CHART 10.11: LOAN RECIPIENTS' COMPOSITION IN FY22

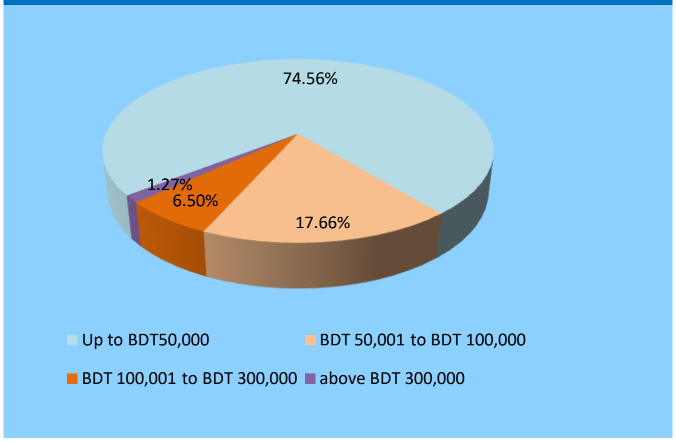
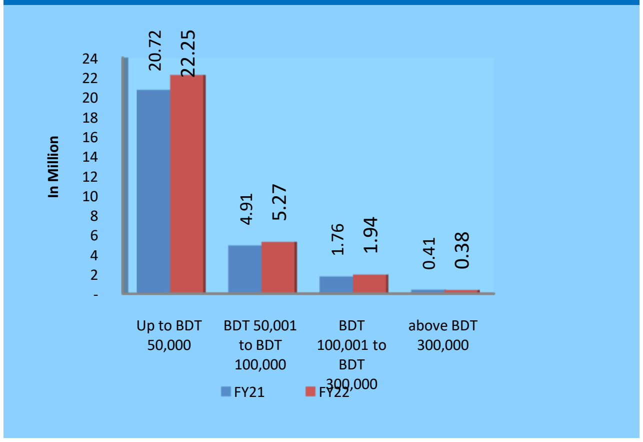


CHART 10.12 LOAN RECIPIENTS COMPARISON BETWEEN FY21 AND FY22



Source: Microcredit Regulatory Authority; Calculation: FSD.

MFIs' non-performing loan (NPL) ratio over the last five fiscal years demonstrated an increasing trend and stood at 6.74 percent in FY22 (Chart 10.13). Total NPL amount rose to BDT 83.70 billion in FY22, which was BDT 38.42 billion (84.85 percent) higher than that of FY21 (Chart 10.14). Notably, total outstanding loan in MFIs sector increased by 30.69 percent while the NPL ratio increased by 1.98 percentage points in FY22 compared to FY21. Due to increasing trend in the NPL ratio of MFIs sector in the last couple of years, adequate measures need to be taken for keeping the sector sound and stable in the near future.

CHART 10.13: NON-PERFORMING LOAN RATIO

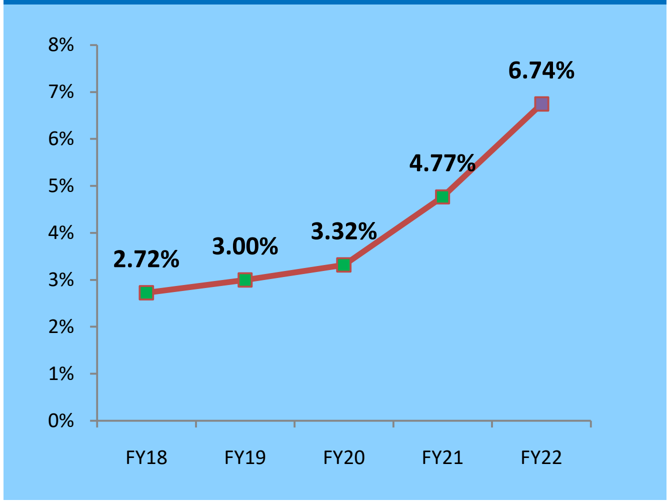
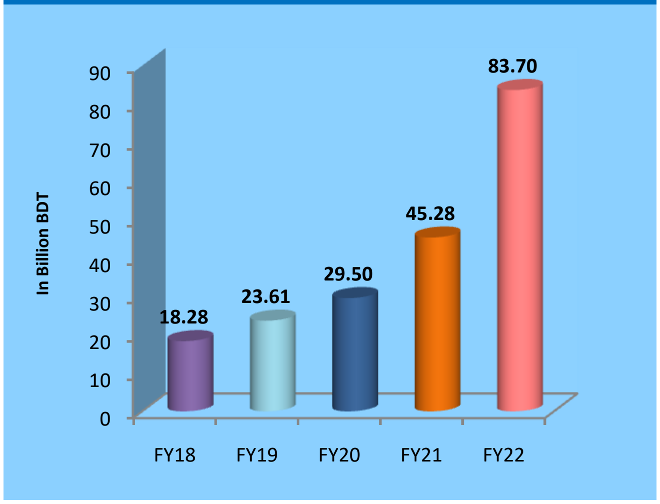


CHART 10.14: TREND OF NON-PERFORMING LOAN

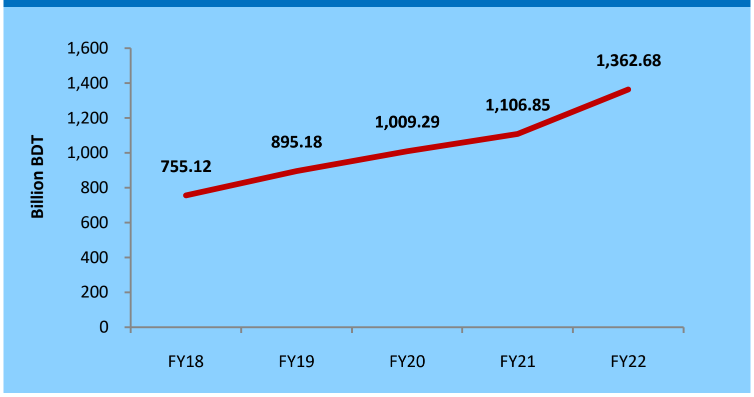


Source: Microcredit Regulatory Authority; Calculation: FSD.

10.3 SOURCES OF FUNDS AND ITS COMPOSITION

The aggregate fund of MFIs was BDT 1,362.68 billion at end-FY22, which was 23.11 percent higher than that of FY21 (Chart 10.15). This expansion was largely attributable to increase in equity, members' savings, borrowings from Palli Karma-Sahayak Foundation (PKSF) and commercial banks etc.

CHART 10.15:TOTAL FUND OF MFIs



Source: Microcredit Regulatory Authority; Calculation: FSD

The total fund[58] of MFIs sector had increased 1.80 times during the last five fiscal years. During the review period, the MFIs sector enjoyed an average growth of 16.09 percent in total funds and it is still growing significantly.

In FY22, equity, savings from members and loans from commercial banks comprised of 31.29 percent, 36.42 percent and 17.74 percent of total funding of the MFIs respectively. Loans from PKSF, donors' fund, other loans and other sources constituted 6.32 percent, 0.24 percent, 3.24 percent and 4.75 percent respectively (Chart 10.16). During the last five fiscal years, donors fund have been decreasing gradually which indicates that once donor-dependent MFIs have now become mostly self-reliant.

The contribution of capital as a source of funds shrank from 36.00 percent in FY21 to 31.29 percent in FY22. During the same period, the contribution of member savings declined from 38.16 percent to 36.42 percent. However, the contribution of loans from commercial banks in FY22 enhanced to 17.74 percent from 15.16 percent in the previous period (Chart 10.17).

CHART 10.16: SOURCES OF FUND IN FY22

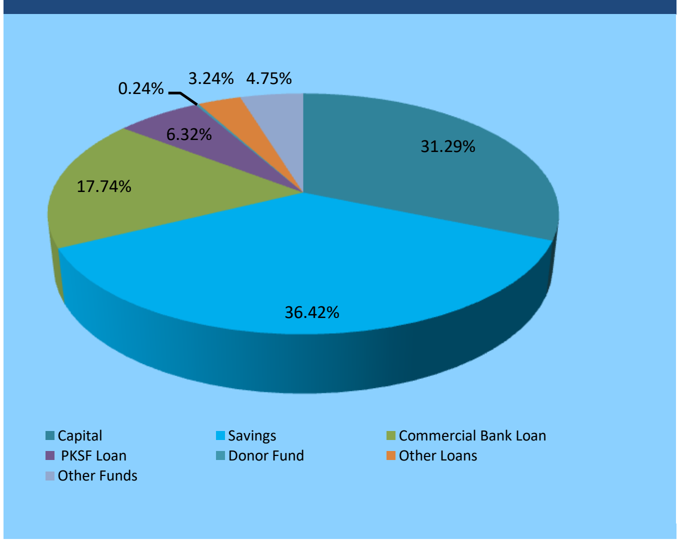


CHART 10.17: TREND OF SOURCES OF FUND (FY18-FY22)

Source: Microcredit Regulatory Authority; Calculation: FSD.

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

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 FY22, ROA of MFIs decreased to 2.89 percent from 5.01 percent in FY21. ROE also decreased significantly to 11.75 percent in FY22 compared to the preceding period's figure of 19.00 percent (Chart 10.18). The decrease in ROA and ROE of MFIs sector could largely be attributed to higher increase of non-performing loans in FY22.

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

CHART 10.18:OPERATIONAL SUSTAINABILITY

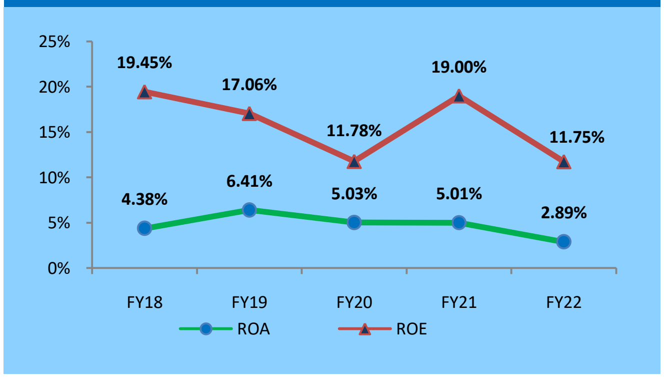
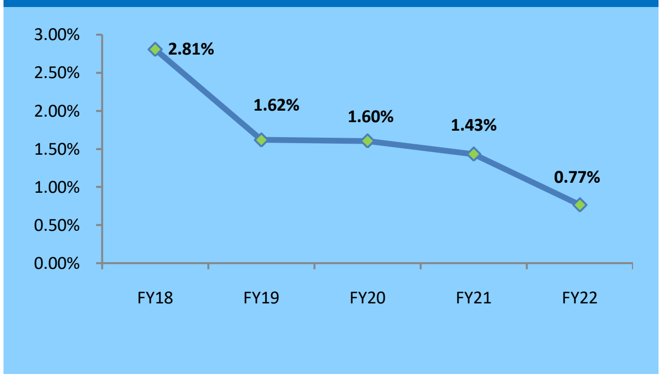


CHART 10.19: FINANCIAL DEPENDENCY



Source: Microcredit Regulatory Authority

The amount of donated funds largely decreased in FY22, but the equity increase from retained earnings and members' savings were substantial, which are necessitated for the long-term sustainability of this sector, and for withstanding any financial shocks.

The microfinance sector in terms of loans, savings and number of members is highly concentrated in a small number of institutions. The top 10 MFIs provided financial services to 60.62 percent of total members and those MFIs mobilized 69.43 percent of total savings of the members, while 67.19 percent of the total outstanding loans pertained to them as of end-FY22 (Chart 10.20). For top 20 MFIs, the corresponding figures were 69.38 percent, 78.09 percent, and 76.86 percent respectively (Chart 10.21).

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 adversely affect this sector.

CHART 10.20: CONCENTRATION OF MFI SECTOR IN TERMS OF LOANS, SAVINGS AND MEMBERS HELD BY TOP 10 IN FY22

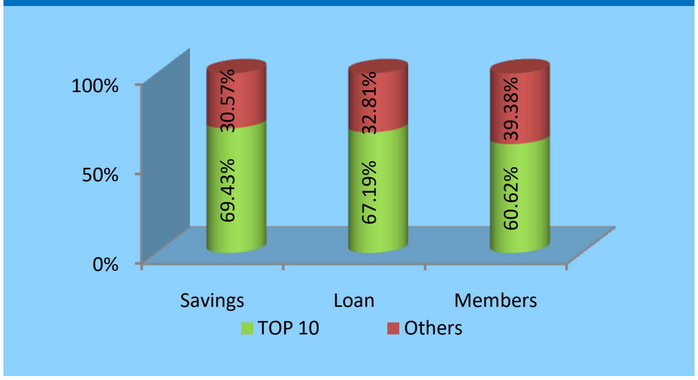
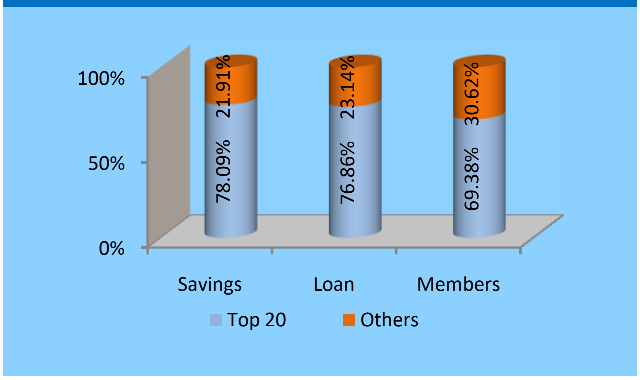


CHART 10.21: CONCENTRATION OF MFI SECTOR IN TERMS OF LOANS, SAVINGS AND MEMBERS HELD BY TOP 20 IN FY22



Source: Microcredit Regulatory Authority; Calculation: FSD.

MFI sector in Bangladesh was reasonably stable during FY22. Though NPL ratio of the MFI sector is a little bit lower compared to banking sector but it has been increasing at a faster rate during the last few years especially in FY22, which requires special attention for a stable and sound microfinance sector. The demand for microfinance is increasing gradually. Since a large number of micro-finance institutions are working with a view to providing credit to the marginal people, a client may borrow fund from different MFIs. Moreover, overlapping loans to individual borrowers can eventually lead to a credit trap and increase the sector's NPL ratio. The e-regulatory system has been launched by MRA with the aim of ensuring transparency and accountability of microfinance sector where MFIs can directly report their information to the database on monthly, half-yearly and annual basis. Now it is high time to structure Credit Information Bureau (CIB) for MFIs which may help monitor and reduce NPLs over time.

CHAPTER 11 : DEVELOPMENTS IN THE FINANCIAL SYSTEM

During the review year, the Government along with Bangladesh Bank and other financial regulators continued policy supports, and regulatory and supervisory initiatives towards alleviating the impacts of geopolitical tension emerged from Russia-Ukraine conflict, recovering the economy from COVID-19 induced disruptions, and improving resilience of the domestic financial system. Some notable initiatives are briefly stated below:

11.1 ASSESSMENT OF FINANCIAL STABILITY BY BANGLADESH BANK

During the review year, Bangladesh Bank revealed the major trends in the financial system of Bangladesh, as well as strengths, risks and vulnerabilities therein, through annual Financial Stability Report (FSR) and Quarterly Financial Stability Assessment Report (QFSAR). Besides, trends in key qualitative and quantitative indicators of systemic risks in the context of Bangladesh financial system have been revealed through a seminal publication, titled 'Bangladesh Systemic Risk Dashboard (BSRD)'.

11.2 REGULATIONS AND POLICIES FOR BANKING SECTOR

A) SINGLE BORROWER AND LARGE LOAN EXPOSURE LIMIT

To strengthen credit risk management of banks by limiting concentrated exposures and thereby improving the stability of the banking sector further, Bangladesh Bank has issued a circular on "Single borrower and large loan exposure limit". [Ref: BRPD Circular No. 01, Date: 16 January 2022]

B) RECOVERY PLANS FOR BANKS

Severe stress events often threaten the financial and operational potency and viability of a bank. To cope up with such stressful events, Bangladesh Bank has issued a circular to guide the banks to develop recovery plan for preparing their respective responses to the potential shocks in advance so that they can act promptly and effectively in the event of a stress situation. Stress could be an isolated event, market-wide, systemic event, or all of the three. Banks will have to submit their recovery plans according to the prescribed guideline to Bangladesh Bank. [Ref: BRPD Circular No. 03, Date: 24 February 2022]

C) RESCHEDULING OF SHORT-TERM AGRICULTURAL CREDIT

In the recent global economic context, the upturn in price of various agricultural inputs and transportation costs has contributed significantly in increasing the overall import expenses. To address the increase in the prices of agricultural products in the domestic market by ensuring sufficient supply of those products, banks have been instructed to reschedule short-term agricultural loans for a maximum period of 03(three) years with a grace period of 06 (six) months from the date of rescheduling by relaxing the conditions of accepting down payments. After rescheduling, the borrowers of the stated sector can be given fresh loans without collecting any money afresh. This facility is also applicable to short-term agricultural credit that has already been rescheduled. [Ref: BRPD Circular No. 05, Date: 19 April 2022]

D) POLICY FOR POST IMPORT FINANCING

In order to consolidate the national economy through sustainable development of agriculture and other important sectors of the country, "Post-Import Financing-(PIF)" policies have been issued by Bangladesh Bank with the aim of keeping the country's overall import activities stable in the long -term. [BRPD Circular Letter No.12, Date: 26 April 2022]

E) ENHANCEMENT OF WORKING CAPITAL LIMIT

In the recent global economic context, the cost of production is increasing due to increase in the price of various materials including raw materials and the increase in transportation costs in the international market which hinders the production process. In this context, Bangladesh Bank has directed the schedule banks to increase the existing working capital limit to a reasonable level for the interim period in favour of the customers to improve their financial capacity subject to bank-customer relationship. [Ref: BRPD Circular No.07, Date: 27 April 2022]

F) REFINANCE SCHEME FOR PRE-SHIPMENT CREDIT TO MITIGATE THE CRISIS DUE TO NOVEL CORONA VIRUS

A policy of BDT 50 billion refinancing fund was issued by Bangladesh Bank with the aim of earning foreign currency and bringing dynamism in the economy by providing pre-shipment loan assistance to export-oriented industries affected by the Covid-19 pandemic. Loans will be provided from the fund at a maximum interest rate of 3.5 percent at customer level in favour of any exporter or export-oriented organization; interest will be charged at the rate of 0.5 percent on the refinancing facility taken by the banks from Bangladesh Bank. Besides, if three consecutive export proceeds become unrealized, the concerned exporter will not get any new benefit under this fund. [Ref: BRPD Circular No. 08, Date: 18 May 2022]

G) REFINANCE SCHEME FOR SHIP BUILDING INDUSTRY

The Government has formulated the Ship building Industry Policy-2021 with the goal of sustainable development of the ship industry, increasing export earnings and employment, and gradual reduction of import dependency to improve the socio-economic status of the country. In light of this policy, a refinancing scheme of BDT 20 billion has been formed by Bangladesh Bank to develop, operate and expand the ship building industry by providing loans/investments at relatively low interest/profits. [Ref: BRPD Circular No. 09, Date: 26 May 2022]

H) REFINANCE SCHEME FOR DIGITAL NANO LOAN

In order to support the aim of the Government of People's Republic of Bangladesh of building "Digital Bangladesh", a refinance scheme of BDT 01(one) billion has been formed by Bangladesh Bank with the objective of making the digital micro credit available to disadvantaged and marginalized communities at a lower cost. The fund under this scheme will be revolving in nature and the tenure of this fund will be 03 (three) years. Initially, BDT 0.5 billion will be disbursed from the scheme and the remaining BDT 0.5 billion will be disbursed subject to ensuring the proper utilization of the loans disbursed in the first phase. [BRPD Circular No.11, Date: 02 June 2022]

I) L/C MARGIN ON IMPORT FINANCING

Considering the global economic downturn from COVID-19 and prolonged Russia-Ukraine conflict, BB tightened the country's imports by increasing L/C Margin of luxurious products to ensure stability of the country's monetary and credit management. Under the new circular, sedan car, sport utility vehicle and multi-purpose vehicle, gold and gold-ornaments, precious metal, pearl, readymade garments, leather goods, jute goods, cosmetics, furniture and decoration items, fruits and flowers, non-cereal food, processed food and drinks, alcoholic drinks and tobacco or alternatives of these items and other luxurious products' imports will be subject to 100 percent cash L/C margin. [Ref: BRPD Circular Letter No. 25, Date: 04 July 2022]

J) MASTER CIRCULAR ON LOAN RESCHEDULING AND RESTRUCTURING

As the impact of COVID-19 appears to persist for a longer period and global economy faces instability due to geopolitical tension, BB issued new master circular on loan rescheduling and restructuring for proper management of classified loans and ensuring stability in the financial sector. The new policy will enable banks to strengthen their own monitoring and make them more active and careful about allowing their borrowers to reschedule loans. Under the new policy, BB set the benchmark for different rescheduling parameters and aspects, and banks can tighten the requirements, if necessary. Later, BB made some conditions of the master circular more stringent by an amendment on 03 August 2022. [Ref: BRPD Circular No.16, Date: 18 July 2022; and BRPD Circular Letter No. 33, Date: 03 August 2022]

K) FORMULATION AND IMPLEMENTATION OF CITIZEN CHARTER

Bangladesh Bank instructed all banks to formulate and implement Citizen Charter to ensure transparency and discipline in banking services, easy access to information for all, increase participation of people in banking activities, and establish accountability of officials of banks. [Ref: BRPD Circular No. 17, Date: 10 October 2022]

L) POLICY FOR POST IMPORT FINANCING

For facilitating international trade and commerce and increasing foreign investment, BB has issued a Circular Letter in support of BRPD Circular Letter No. 12 dated on 26 April 2022. [Ref: BRPD Circular Letter No. 41, Date: 26 October 2022]

M) PRE-FINANCE FACILITIES FOR SHARI'AH-BASED ISLAMIC BANKS FOR PROVIDING WORKING CAPITAL LOAN

BB has issued a circular letter in support of BRPD Circular No. 08 and 10, dated 12 April 2020 and 13 April 2020 respectively, for ensuring pre-finance facilities for providing working capital to the affected large Industries and Service sector by the outbreak of Covid-19 through Restricted Mudaraba Term Deposit by Shari'ah-based Islamic banks. [Ref: BRPD Circular Letter No. 42, Date: 26 October 2022]

11.3 POLICIES FOR NON- BANK FINANCIAL INSTITUTIONS (NBFIs)

A) COMPONENTS OF CAPITAL MARKET INVESTMENT OF FINANCIAL INSTITUTIONS

In Financial Institutions Act 1993, section 16 states about the maximum limit of holding other companies' shares/debentures by a financial institution. But which factors should be considered as the capital market investment is not clearly stated in the Act. To clarify the ambiguity, Bangladesh Bank has issued a circular stating specific factors that should be considered in calculating the approved limit of capital market investment. [DFIM Circular No. 03, Date: 15 February 2022]

B) SPECIAL POLICY ON LOAN REPAYMENT THROUGH ONE-TIME EXIT

Due to the adverse impact of COVID-19 and other unmanageable issues, borrowers were affected which, in turn, hindered the loan recovery activities of financial institutions. To improve loan recovery activities while increasing liquidity flow and accelerating financial conditions, Bangladesh Bank has instructed that those who are not inclined to continue their business can repay the loan within one year by paying a nominal amount of money as a down payment initially. [Ref: DFIM Circular No. 04, Date: 15 February 2022]

C) SPECIAL POLICY ON LOAN REPAYMENT THROUGH ONE TIME EXIT

According to the stated policy many customers failed to consolidate their 'bad' classified loan due to the failure of submitting their application on time. To facilitate those customers as well as improve the liquidity condition of financial institutions, time to submit application has been extended up to 31 July 2022 under "One Time Exit Policy". [DFIM Circular Letter No. 10, Date: 16 June 2022]

D) APPOINTMENT OF DIRECTORS IN FINANCIAL INSTITUTIONS

To ensure the involvement of qualified and proper personnel in non-bank financial institutions (FIs), BB formulated the terms and conditions for appointing directors at financial institutions. According to the new circular, the FIs will have to obtain approval from BB for the appointment, removal or dismissal of FIs' directors. The details of eligibility criteria, terms for non-qualification and maximum tenure of FIs' directors are included in the new circular. [Ref: DFIM Circular No. 09, Date: 29 August 2022]

E) MASTER CIRCULAR ON LOAN RESCHEDULING AND RESTRUCTURING OF NBFIs

The economy has been suffering from prolonged COVID-19 pandemic and Russia-Ukraine conflict. In order to enhance cash flow in various segments of the economy especially in small, medium and large industries, BB relaxed the loan rescheduling and restructuring policy for FIs. The new policy aims to ease the loan repayment of affected FIs' borrowers and enhance proper management of classified loans. FIs will assess the borrowers' business cash flows, financial statements, due diligence, existence of the institution, securities and proper utilization of the loans before rescheduling the loans. [Ref: DFIM Circular No.10, Date: 04 September 2022]

F) REGARDING INTEREST WAIVER AND LOAN WRITE-OFF OF SUBSIDIARY/ASSOCIATE COMPANIES OF FIs

To safeguard discipline in financial institutions, BB tightened the policy regarding loan disbursement, interest waiver and write-off of subsidiaries owned by the FIs. According to the new policy, the FIs will be required to have approval from BB before disbursement of any loans to their subsidiaries, interest waivers and loan write-offs. The new policy will restrict FIs from excessive investments in their subsidiary companies violating the Financial Institutions Act, 1993. [Ref: DFIM Circular No.12, Date: 29 September, 2022]

11.4 DEVELOPMENTS IN AGRICULTURE AND RURAL CREDIT

A) REFINANCE SCHEME OF BDT 5 BILLION TO CREATE EMPLOYMENT AND TO ELIMINATE POVERTY FOR THE PEOPLE WHO HAVE GOT BACK HOME DUE TO THE COVID-19 PANDEMIC

Considering the adverse impact of the second phase of COVID-19 on the economy, Bangladesh Bank has announced a scheme of BDT 5 billion to create employment and eliminate poverty, especially for the people who have returned to the villages. The tenure of the scheme is up to 31 December 2024. Under the scheme, the interest rate will be a maximum of 6 percent (simple interest rate) at the borrower level and banks will get refinance facility from Bangladesh Bank at 5 percent interest rate. [Ref: ACD Circular No. 01, Date: 03 January 2022]

B) AGRICULTURE LOAN FACILITY FOR THE FLOOD AFFECTED FARMERS

Due to sudden flood in north and north-eastern regions of the country, the farmers of those areas were affected severely. So, to deal with the damage faced by the farmers in those areas and to keep them aligned with production, Bangladesh Bank instructed the banks to provide new credit promptly without realizing the previously disbursed loans. In addition, the recovery of agricultural loans from the affected farmers of those areas will be suspended for the next 06 (six) months from the date of issuance of the circular. [Ref: ACD circular No. 03, Date: 05 June 2022]

C) AGRICULTURAL AND RURAL CREDIT POLICY AND PROGRAM FOR THE FY 2022-2023

To achieve Government's three prime objectives of Sustainable Development Goals (SDGs) i.e. eradication of poverty, ensuring safe and nutritious food, and good health and well-being, Bangladesh Bank formulated the annual Agricultural and Rural Credit Policy and Program for the financial year 2022-2023 for ensuring considerable amount of credit in the rural area. [Ref: ACD Circular No. 04, Date: 28 July 2022]

D) REFINANCE SCHEME OF BDT 50 BILLION FOR AGRICULTURE SECTOR TO ENSURE FOOD SECURITY

Due to recent disruption in supply chain emerged from COVID-19 shock and Russia-Ukraine conflict, food price recorded hike in many countries which may cause crisis of food globally. In this perspective, BB formed a special refinance scheme worth BDT 50 billion to ensure smooth credit flow with low interest rate in agricultural sector and thus to increase agricultural production for ensuring food security of the country. [Ref: ACD Circular Letter No. 07, Date: 17 November 2022]

E) FORMATION OF BANGLADESH BANK AGRICULTURAL DEVELOPMENT COMMON FUND (BBADCF)

To increase agricultural production, BB has formed a fund with the part of agricultural and rural credit that could not be disbursed by banks against their targets. The banks will have to deposit their undistributed portion of agricultural and rural credit based on their yearly target in this fund and will get interest at 2 percent rate from BB. On the other hand, BB will allocate credit from this fund based on the demand of banks at 2 percent interest rate with 18 months repayment schedule. [Ref: ACD Circular No. 08, Date: 19 December 2022]

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

A) REGARDING CREDIT GUARANTEE FACILITY FOR MARGINAL/LANDLESS FARMERS, LOW-INCOME PROFESSIONALS, SCHOOL BANKING ACCOUNT HOLDERS, AND SMALL TRADERS WHO HAVE ACCOUNTS OF BDT 10/50/100

Due to the COVID-19, income-generating activities of marginal people have been affected. Besides, the second wave of the pandemic has stymied the recovery of economic activities. In this backdrop, to facilitate and continue the economic activities of low-income/marginal people along with the account holders of BDT 10, Bangladesh Bank has issued a circular with the objective of broadening the area of loan facilities and easing the regulations of borrowing for the marginal people. [SMESPD Circular No. 01, Date: 23 January 2022]

B) REFINANCE SCHEME AGAINST FINANCING TO COTTAGE, MICRO, SMALL AND MEDIUM ENTERPRISES

To ensure low-cost and easy financing for Cottage, Micro, Small and Medium Enterprises (CMSME) sector and boost the economic growth of the country, BB formed a refinance scheme of BDT 250 billion with a primary tenure of three years. Under the scheme, banks and financial institutions will get refinancing from BB at 2 percent interest and they can charge a maximum of 7 percent interest from their customers. Entrepreneurs under CMSME clusters will get high priority in receiving loans under the scheme. The tenure of loan under the scheme will be maximum of five years including six months grace period. [Ref: SMESPD Circular No. 04, Date: 19 July 2022]

C) CLUSTER FINANCING IN CMSME SECTOR

To emphasize the importance of Cottage, Micro, Small and Medium Enterprises (CMSME) sector towards the advancement of the economy, BB introduced guidelines on cluster financing in CMSME sector. Under the new policy, BB instructed all banks and financial institutions to disburse at least 50 percent of their CMSME loans to 19 'high-priority' and 'priority' clusters. An entrepreneur will also be able to borrow from multiple banks without exceeding the maximum credit limit as mentioned in the circular. [Ref: SMESPD Circular No. 05, Date: 14 August 2022]

11.6 DEVELOPMENTS IN FOREIGN EXCHANGE REGULATIONS/TRANSACTIONS

A) INCREASE IN THE RATE OF CASH INCENTIVE AGAINST WAGE EARNERS' REMITTANCE THROUGH LEGAL CHANNEL

Considering the importance of foreign remittance sent by non-resident workers in the overall development of standard of living of the common people, increasing foreign currency reserve, generating employment and economic development of Bangladesh, the Government has announced cash incentive of 2.5 percent instead of 2 percent to stimulate the non-resident workers to send their remittance through the legal channels. [FE Circular Letter No. 01, Date: 02 January 2022]

B) PAYMENT IN FOREIGN CURRENCY AGAINST LOCAL SUPPLY OF GOODS UNDER INTERNATIONAL TENDER

To keep the flow of foreign currencies uninterrupted and to hold the exchange rate stable, Bangladesh Bank has issued a circular modifying paragraph 35 of chapter 7 of Guidelines for Foreign Exchange Transactions 2018 (GFET-2018), volume-1 mentioning that Authorized Dealers (ADs) may establish letter of credits (L/Cs) in foreign currency favoring local contractors to execute work orders provided under the international tender. Such L/Cs established in foreign currencies shall be settled through FC clearing accounts of the bank concerned maintained with Bangladesh Bank. Besides, foreign exchange thus received may be retained for up to thirty days to settle import payment obligations of the clients as mentioned in paragraph 42(ii) of the stated document. [Ref: FE Circular Letter No. 09, Date: 02 March 2022]

C) RETENTION OF EXPORT PROCEEDS IN FOREIGN EXCHANGE

To facilitate trade as well as to stabilize the foreign currency exchange rate, Bangladesh Bank has issued a circular mentioning that export proceeds received in advance as declared on Advance Received Voucher (ARV) following paragraph 20, chapter 8 of GFET may be retained in foreign exchange as per paragraph 41 or 42 of chapter 7 of the GFET depending on the nature of import bills. [Ref: FE Circular No. 04, Date: 14 March 2022]

D) EXPORT INCENTIVE/CASH SUBSIDY AGAINST EXPORT OF AGRICULTURAL AND AGRO-PROCESSED PRODUCT

In order to get the incentive/cash subsidy against export of agricultural and agro-processed product, exporters are advised to submit the physical verification certificate issued by the concerned customs authority along with the application. This instruction will be applicable for goods shipped from the date of issuance of this circular. [FE Circular No. 05, Date: 18 April 2022]

E) SCREENING OF UNDERLYING EXPORT SHIPMENTS THROUGH VESSEL/CONTAINER TRACKING

To ensure safety of export transactions, Bangladesh Bank has instructed the ADs to conduct the tracking of shipments in all cases through tracking system recognized by competent authority for relevant trade transactions. [FE Circular No. 07, Date: 20 April 2022]

F) INSURANCE COVERAGE AGAINST FINANCING TO EXPORTERS

In order to safeguard their financing against bill discounting on recourse basis, Bangladesh Bank advised the Authorized Dealers (ADs) to take appropriate insurance coverage available from insurance companies locally as an extra comfort subject to consent from exporters in this regard. Appropriate insurance cover may also be adopted against funded or non-funded facilities to exporters at pre-shipment stage. However, financing safeguard by insurance coverage will not give ADs waiver from realization of export proceeds. [FE Circular letter No. 12, Date: 24 April 2022]

G) ENCASHMENT OF VALUE ADDED PORTION OF REPATRIATED EXPORT PROCEEDS

In order to ensure cash support to exporters for meeting working capital needs in BDT, Bangladesh Bank advised ADs to make Taka fund available to exporters through encashment of value added portion within the next business day on receipt of export proceeds in nostro accounts of designated ADs. [FE Circular letter No. 17, Date: 29 May 2022]

H) REPAYMENT GUARANTEES BY IMPORTERS AGAINST SHORT-TERM IMPORT FINANCE UNDER BUYER'S CREDIT

To facilitate short-term import finance under buyer's credit, it has been decided that importers may extend guarantees like corporate guarantee, personal guarantee, third party guarantee and so on to foreign lenders making payments to suppliers under buyer's credit against admissible imports on sight letters of credit. [Ref: FE Circular No. 12, Date: 13 July 2022]

I) ONLINE REPORTING OF IMPORT INFORMATION TO BB PORTAL

As part of import monitoring, ADs are advised to submit import information to Bangladesh Bank Online Import Monitoring System (OIMS) 24 hours prior to opening letters of credit (L/Cs) based on proforma invoices/purchase contracts. The reporting requirement for the stated transactions will be for import value of USD 5.00 million and above or its equivalent, excluding imports by the Government. ADs shall finalize the report on completion of opening of the concerned L/Cs. [Ref: FE Circular Letter No. 24, Date: 14 July 2022]

J) SETTLEMENT OF IMPORT LIABILITIES OUT OF EXPORT PROCEEDS

To bring flexibility in trade transactions, it has been decided to increase the retention time to 30 days from 15 days for utilization of the fund to settle import liabilities of relevant exporters. The fund may also be transferable to other ADs, within this prescribed time of 30 days, for settlement of import payments and/or EDF liabilities against admissible bulk imports of relevant exporters. Before transferring funds, ADs need to satisfy themselves of payment obligations with documentary evidence. ADs transferring the fund will make foreign exchange available to relevant ADs through foreign currency clearing accounts maintained with Bangladesh Bank. [Ref: FE Circular Letter No. 32, Date: 06 September 2022]

K) FOREIGN EXCHANGE TRANSACTIONS FOR MERCHANTING TRADE

To diversify export, BB formulated "Merchanting Trade" policy which will allow traders to buy goods and services from another country and export those to a third country. Regulatory instructions applicable to exports (except EXP Form) and imports (except IMP Form) shall be complied with for export-leg and import-leg respectively, with reporting routine on Form C (at export-leg) and Form TM (at import-leg). ADs shall satisfy themselves with the bonafides of the transactions, including adherence to KYC and AML/CFT guidelines while handling such transactions. The counterparties to merchanting trades shall be from FATF compliant countries. [Ref: FE Circular No. 22, Date: 14 September 2022]

L) PRICE VERIFICATION OF IMPORT TRANSACTIONS

Given the prevailing global commodity market trends, Authorized Dealers (ADs) are advised to adhere to regulatory requirements for verification of import prices and price competitiveness. [Ref: FE Circular Letter No. 36, Date: 10 October 2022]

M) ENCASHMENT CERTIFICATE AGAINST INWARD REMITTANCES ON ACCOUNT OF INFORMATION TECHNOLOGY ENABLED SERVICES (ITES) EXPORTS

It has been decided that ADs maintaining settlement accounts may issue encashment certificates in support of remittances on request from Mobile Financial Service Providers (MFSPs) electronically. The above mentioned certificate is intended to be used for Income Tax purpose only. (Ref: FE Circular No. 31, Date: 16 November 2022)

N) EXTENSION OF USANCE PERIOD AGAINST IMPORTS OF INDUSTRIAL RAW MATERIALS

Given the ongoing situation, the usance period for imports of industrial raw materials has been extended to 360 days from 180 days effective till June 30, 2023. However, the extended usance period will not be applicable for imports under EDF loans. (Ref: FE Circular No. 18, Date: 20 July 2022; and FE Circular No. 32, Date: 16 November 2022)

O) WORKING CAPITAL LOANS TO INDUSTRIAL ENTERPRISES OPERATING IN DOMESTIC PROCESSING AREAS (DPAS) OF ECONOMIC ZONES (EZS)

To facilitate meeting working capital needs, it has been decided that Type A and Type B industrial enterprises of Economic Zones (EZs) operating for marketing their products for domestic market only, having no sources of income in foreign currency, are allowed to access to working capital loans in BDT from domestic banking system. (Ref: FE Circular No. 33, Date: 28 November 2022)

P) INWARD WAGE REMITTANCES BY MOBILE FINANCIAL SERVICE PROVIDERS (MFSPS)

To bring wider flexibility, licensed Mobile Financial Service Providers (MFSPs) will be allowed to repatriate wage earners' remittance in association with internationally recognized Online Payment Gateway Service Providers (OPGSPs)/banks/digital wallets/card schemes and/or aggregators abroad (hereinafter referred to as approved/licensed foreign payment service providers, foreign PSPs). [Ref: FE Circular No. 34, Date: 29 November 2022]

11.7 PROGRESS IN PAYMENT SYSTEMS

A) BANGLADESH MOBILE FINANCIAL SERVICES (MFS) REGULATIONS, 2022

As per Article 7A(e) and Article 82 of the Bangladesh Bank Order, 1972 and Section 26 (cha) of the Bank Company Act, 1991, Bangladesh Bank has issued a revised regulation titled "Bangladesh Mobile Financial Services (MFS) Regulations, 2022". The new regulations will replace the previously issued "Bangladesh Mobile Financial Services (MFS) Regulations, 2018" and shall come into effect immediately. [PSD Circular No. 04, Date: 15 February 2022]

B) PROVIDING PERMISSION FOR CARD-BASED PAYMENTS THROUGH CONTACTLESS PAYMENT SERVICE USING NFC TECHNOLOGY

As Near Field Communication (NFC) technology transactions have become easy and dynamic, contactless payment services through credit card have become popular nowadays. To introduce digital financial transactions, Bangladesh Bank has issued a circular introducing NFC technology for debit and pre-paid cards limiting BDT 3000 per transaction. [PSD Circular Letter No. 01, Date: 22 March 2022]

C) REDEFINING THE LIMIT OF ONLINE FUND TRANSFER FROM ONE BANK ACCOUNT TO ANOTHER BANK ACCOUNT AND CANCELLATION OF THE MAXIMUM NUMBER OF DAILY TRANSACTIONS OF INTERNET BANKING FUND TRANSFER (IBFT) THROUGH NPSB

Payment or collection of e-commerce products/services through online banking transactions using internet and smart phones are becoming popular day by day among the people. In this perspective, Bangladesh Bank has instructed the banks to set the limit of online money transfer according to their own risk guidelines and transaction profile of the customers. [PSD Circular Letter No. 03, Date: 28 April 2022]

D) INTER-DISTRIBUTOR CASH MANAGEMENT OF MOBILE FINANCIAL SERVICES (MFS) PROVIDER

To facilitate e-money and cash funds transfer during weekends and public holidays, BB introduced inter-distributor cash management system for Mobile Financial Services (MFS) providers. Under the new provision, MFS providers would be able to roll out an inter-distributor fund transfer during weekends and public holidays. The transactions have to be made digitally and a distributor is allowed to make transactions amounting to a maximum of BDT 5 million per day through the system. [Ref: PSD Circular No. 14, Date: 04 September 2022]

11.8 POLICY AND ACTIONS TAKEN ON DEBT MANAGEMENT

GUIDELINES AND OPERATING PROCEDURE OF ISLAMIC BANKS LIQUIDITY FACILITY (IBLF)

To aid the liquidity management and deepen the financial system, Bangladesh Bank introduced a new financial instrument, namely, 'Islamic Banks Liquidity Facility (IBLF)' for Shari'ah-based banking system in Bangladesh. This facility will provide short-term liquidity in the Shari'ah based banks operating in Bangladesh. (Ref: DMD Circular No. 03, Date: 05 December 2022)

11.9 POLICIES FOR SUSTAINABLE FINANCE

A) POLICY GUIDELINES ON CORPORATE SOCIAL RESPONSIBILITY FOR BANKS AND FINANCIAL INSTITUTIONS

Bangladesh Bank has prepared a guideline for banks and financial institutions (FIs) on corporate social responsibility (CSR). The guideline has been issued to promote equitable and sustainable development by maintaining consistent higher growth of the economy and narrow down the inequality of society as well as preventing environmental degradation. [SFD Circular No. 01, Date: 09 January 2022]

B) POLICY ON GREEN BOND FINANCING FOR BANKS AND FIs

To facilitate investment in green projects and help attaining sustainable development goals (SDGs) of the country, BB formulated policy on Green Bond Financing for banks and FIs. The bond will facilitate sustainable investment by banks and financial institutions with focus on climate change mitigation and adaptation, energy and resource efficiency, and a green economy. The policy outlined the procedure of green-bond issuance as well as financing by banks and FIs with a number of eligibility criteria and stressed assessment, verification and certification as well as monitoring, reporting, disclosure and rating. [Ref: SFD Circular No. 05, Date: 20 September 2022]

C) GREEN TRANSFORMATION FUND (GTF) IN BDT FOR EXPORT AND MANUFACTURING-ORIENTED INDUSTRIES

BB has launched a refinance scheme of BDT 50 billion to promote green economy in the country by accelerating sustainable growth of productive and export-oriented industries. [Ref: SFD Circular Letter No. 07, Date: 07 December 2022]

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

A) INSTRUCTIONS TO BE FOLLOWED BY INSURANCE COMPANIES FOR PREVENTION OF MONEY LAUNDERING, TERRORIST FINANCING AND PROLIFERATION FINANCING

BFIU issued a revised circular for the insurance companies to take necessary actions for prevention of money laundering, terrorist financing and proliferation financing. [Ref: BFIU Circular Letter No. 27, Date: 18 April 2022]

B) REGARDING ACCOUNT OPENING IN THE SCHEDULED BANKS BY NON-RESIDENT BANGLADESHIS

BFIU issued a circular letter amending the requirements of attestation of customers' documents by respective Bangladeshi embassies while opening account in the scheduled banks by Non-Resident Bangladeshis (NRBs). [Ref: BFIU Circular Letter No. 01, Date: 27 July 2022]

11.11 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 (Land, Flat, Building and Capital Machineries). In this database, information on collateral that is mortgaged against sanctioned loans/advances of banks/Non-bank Financial Institutions (NBFIs) will be stored. The main purpose of developing such a system is to prevent fraud/forgery arising from mortgaging unlawfully the same property against new loans sanctioned by banks/FIs.

11.12 DEVELOPMENT IN CREDIT GUARANTEE SCHEMES

CREDIT GUARANTEE FACILITY AGAINST TERM LOAN TO CMSME SECTOR

To ensure the successful implementation of BDT 250 billion refinancing scheme launched through SMESPD Circular No. 04/2022, a credit guarantee policy was issued by Credit Guarantee Department (CGD). This policy provides credit guarantee facilities against the working capital and term loans of Cottage, Micro, Small, and Medium-sized Enterprises (CMSMEs), who are unable to provide collateral. This is intended to encourage financial institutions to provide credit to these small businesses. [Ref: CGD Circular Letter No. 02, Date: 10 August 2022]

11.13 DEVELOPMENT IN FINANCIAL INCLUSION

FINANCIAL LITERACY GUIDELINES FOR BANKS AND FINANCIAL INSTITUTIONS

Financial literacy of mass people is pivotal to implement the Government's Vision-2041 and sustainable development target announced by the United Nations (UN) as well as the national financial inclusion strategy. If the mass people can be well-informed about the financial products and services, then it will help to achieve the financial inclusion target. In that perspective, Bangladesh Bank has issued a guideline for banks and financial institutions to extend their umbrella of financial inclusion by providing sufficient information and knowledge about their products and services to the mass people. [Ref: FID Circular No. 01, Date: 27 March 2022]

11.14 LAWS/ORDER/NOTIFICATION/DIRECTIVE/GUIDELINE ISSUED BY BANGLADESH SECURITIES AND EXCHANGE COMMISSION (BSEC)

The BSEC issued a number of securities laws/order/notification/directive/guideline during the year 2022. Some of the key initiatives are as follows:

i) Directive No. BSEC/CMRRCD/2009-193/33 dated 23 March 2022 regarding amendment to the Directive on Public Offer and Direct Listing of perpetual bond (Directive No. BSEC/CMRRCD/2009-193/19 Dated23 May 2021);

ii) Order No. BSEC/CMRRCD/2009-193/43 dated 21 September 2022 pertaining to the investment limit in the secondary market for eligibility as Qualified Investor (QI);

iii) Notification regarding issuance of capital through bonus shares or stock dividend vide BSEC/CMRRCD/2009-193/46/Admin/138 dated, 03 October 2022, Gazetted on 06 November 2022;

iv) Directive No. BSEC/CMRRCD/2001-193/48 dated 13 November 2022 concerning extension of time to fulfill the requirement of maintenance of minimum Net Worth by Merchant Bankers;

v) Order No. BSEC/CMRRCD/2001-07/49 dated 15 November 2022 regarding transaction of listed securities by the clients of block market at 10 percent lower than the floor price under the existing circuit breaker system.

11.15 DEVELOPMENTS IN MICRO CREDIT OPERATIONS

Microcredit Regulatory Authority (MRA) has taken several steps to attain its goal of ensuring sustainable expansion of this sector and sustainable poverty alleviation. Some of the key initiatives taken in 2022 are as follows:

(a) WEB-BASED DIGITAL MAP

A digital mapping of MFIs' access points/branches has been introduced to determine the geographical and demographic locations of the MRA licensed MFIs' offices with their images, latitudes, longitude, and addresses. Using this digital platform, people can easily find the branches of the MFIs around them and come to know about their services which will help to broaden financial inclusion as well as reduce poverty.

(b) e-LICENSING

MRA is currently receiving all the new license applications and issuing licenses to the eligible MFIs using its e-licensing platform. In addition, MRA is providing required approvals/permissions to the MFIs through this online platform within shortest possible time for ensuring corruption free and client-friendly services to the stakeholders.

(c) e- LIBRARY, e-CLIPPING, e-ARCHIVING AND MRA INFO

In November 2022, the governor of the Bangladesh Bank and chairman of MRA Governing board launched four different electronic services containing information of MRA and the microfinance sector prepared by the MRA. These are MRA Library Automation Application, e-clipping, e-Archiving and MRA info mobile applications.

11.16 DEVELOPMENTS IN INSURANCE SECTOR

During the review year a number of initiatives were taken for the development of the insurance sector. Some notable ones are as follows:

i) Insurance Development and Regulatory Authority (IDRA) introduced a new insurance product named "Bangabandhu Suraksha Bima for Neuro-Developmental Disabled Person (NDDP)". The policy offers health insurance with sum insured up to BDT 0.1 million to people having 4 types of neuro-developmental disabilities like autism, down syndrome, intellectual disabilities and cerebral palsy. The Honourable Prime Minister Sheikh Hasina, Member of Parliament launched this product on the National Insurance Day of 2022;

ii) Since the formation of IDRA, 9 rules and 16 regulations have been promulgated. Whereas, 18 rules and regulations have been drafted in 2022, which are at the various stages of finalization;

iii) IDRA took a number of initiatives in 2022 to ensure corporate compliance in the management of insurance companies, i.e., reducing ceiling on commission of non-life insurance companies from 6 to 5, discouraging risky investments of life funds and prohibiting insurance companies from providing financial benefits to CEOs beyond what is prescribed by the regulation;

iv) Tariff cost has been reduced for doing business in non-life sector;

v) In order to ensure transparency and financial discipline in the business of life insurance companies, a circular has been issued instructing life insurance companies to establish separate actuarial department with full time staff;

vi) A draft of Corporate Governance Guidelines has been prepared to ensure good governance in the insurance sector;

vii) Under the Bangladesh Insurance Sector Development Project, a number of RegTech and SupTech softwares are currently being developed to strengthen the monitoring and evaluating the activities of Insurance Sector/Companies;

viii) To enhance professionalism in the insurance sector, two scholarships have been awarded to two individuals, under IDRA, SBC and JBC Scholarship, to study MSc in Actuarial Science at City University, UK.

APPENDIX

APPENDIX I: WORLD GDP GROWTH								
								In percentage
Particulars	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023p***	**2024p***
World	3.8	3.6	2.8	-2.8	6.3	3.4	2.8	3.0
Advanced Economies	2.5	2.3	1.7	-4.2	5.4	2.7	1.3	1.4
Emerging and Developing Asia	6.6	6.4	5.2	-0.5	7.5	4.4	5.3	5.1

Source: World economic outlook, April 2023.
Note: p* = Projection.

APPENDIX II: GDP GROWTH OF TOP IMPORT ORIGINATING COUNTRIES								
								In percentage
Country Name	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023p***	**2024p***
China	6.9	6.8	6.0	2.2	8.5	3.0	5.2	4.5
India	6.8	6.5	3.9	-5.8	9.1	6.8	5.9	6.3
Indonesia	5.1	5.2	5.0	-2.1	3.7	5.3	5.0	5.1
Japan	1.7	0.6	-0.4	-4.3	2.1	1.1	1.3	1.0
Malaysia	5.8	4.8	4.4	-5.5	3.1	8.7	4.5	4.5

Source: World economic outlook, April 2023.
Note: p* = Projection.

APPENDIX III: GDP GROWTH OF TOP EXPORT DESTINATION COUNTRIES								
								In percentage
Country Name	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023p***	**2024p***
USA	2.2	2.9	2.3	-2.8	5.9	2.1	1.6	1.1
Germany	2.7	1.0	1.1	-3.7	2.6	1.8	-0.1	1.1
UK	2.4	1.7	1.6	-11.0	7.6	4.0	-0.3	1.0
Spain	3.0	2.3	2.0	-11.3	5.5	5.5	1.5	2.0
France	2.4	1.8	1.9	-7.9	6.8	2.6	0.7	1.3

Source: World economic outlook, April 2023.
Note: p* = Projection.

APPENDIX IV: GDP GROWTH OF TOP REMITTANCES GENERATING COUNTRIES								
								In percentage
Country Name	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023p***	**2024p***
KSA	-0.1	2.8	0.8	-4.3	3.9	8.7	3.1	3.1
USA	2.2	2.9	2.3	-2.8	5.9	2.1	1.6	1.1
UAE	0.7	1.3	1.1	-5.0	3.9	7.4	3.5	3.9
UK	2.4	1.7	1.6	-11.0	7.6	4.0	-0.3	1.0
Kuwait	-4.7	2.4	-0.6	-8.9	1.3	8.2	0.9	2.7

Source: World economic outlook, April 2023.
Note: p* = Projection.

APPENDIX V: GROSS VALUE ADDED (GVA) OF BANGLADESH AT CONSTANT PRICE					
					In million BDT
Sectors	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Agriculture	2,986.62	3,084.00	3,189.50	3,290.75	3,391.25
Industry	7,694.87	8,590.04	8,900.23	9,815.81	10,783.22
Service	12,048.52	12,877.44	13,383.89	14,151.08	15,036.46
Total GVA at constant price	22,730.01	24,551.48	25,473.62	27,257.64	29,210.94
GVA growth rate (%)	7.34	8.01	3.76	7.00	7.17

Source: Bangladesh Bureau of Statistics.

APPENDIX VI: DOMESTIC CREDIT					
					In million BDT
Year	**2018**	**2019**	**2020**	**2021**	**2022**
Domestic credit to the private sector	9,588.51	10,531.52	11,413.03	12,632.48	14,261.34
Domestic credit to the public sector	1,214.99	1,874.47	2,222.73	2,689.41	3,356.29
					In Percentage
Growth of Domestic Credit to the private sector	13.30	9.80	8.40	10.70	12.89
Growth of Domestic Credit to the public sector	14.70	54.30	18.60	21.80	24.80

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							
	(Amount in Billion BDT)					*Change (%)*	
Particulars	**2018**	**2019**	**2020**	**2021**	**2022**	**2020 to 2021**	**2021 to 2022**
Property and Assets							
Cash in Hand (including FC)	139.7	161.6	164.7	189.5	246.4	15.1	30.0
Balance with BB & SB (including FC)	858.4	916.1	1,159.9	1,042.3	995.8	(10.1)	(4.5)
Balance with other Banks & FIs	852.0	765.5	746.2	729.0	788.8	(2.3)	8.2
Money at Call & Short Notice	62.1	60.3	83.9	133.9	100.1	59.7	(25.2)
Investments							
Government	977.2	1,410.3	2,110.7	2,316.4	2,085.7	9.7	(10.0)
Others	980.4	1,097.7	1,198.9	1,529.8	1,352.1	27.6	(11.6)
Total Investment	**1,957.3**	**2,508.0**	**3,309.6**	**3,846.1**	**3,437.8**	**16.2**	**(10.6)**
Loans & Advances							
Loans, CC, OD etc.	9,229.0	10,310.1	11,239.9	12,522.4	14,320.2	11.4	14.4
Bills purchased & Discounted	458.2	523.9	510.7	721.7	705.9	41.3	(2.2)
Total Loans & Advances	**9,687.2**	**10,836.8**	**11,750.0**	**13,244.1**	**15,026.1**	**12.7**	**13.5**
Fixed Assets	228.9	237.8	266.9	280.6	289.6	5.1	3.2
Other Assets	783.2	800.1	920.4	959.9	1,073.9	4.3	11.9
Non-banking Assets	3.9	4.7	4.5	3.9	3.9	(13.5)	1.6
Total Assets	**14,572.9**	**16,291.5**	**18,406.0**	**20,429.3**	**21,962.4**	**11.0**	**7.5**

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

APPENDIX VIII: BANKING SECTOR AGGREGATE SHARE OF ASSETS						
(Amount in Billion BDT)						
Particulars	**2020**	**% of Total Assets**	**2021**	**% of Total Assets**	**2022**	**% of Total Assets**
Property & Assets						
Cash in Hand (including FC)	164.7	0.9	189.5	0.9	246.4	1.1
Balance with BB & SB (including FC)	1,159.9	6.3	1,042.3	5.1	995.8	4.5
Balance with other Banks & FIs	746.2	4.1	729.0	3.6	788.8	3.6
Money at Call & Short Notice	83.9	0.5	133.9	0.7	100.1	0.5
Investments						
Government	2,110.7	11.5	2,316.4	11.3	2085.7	9.5
Others	1,198.9	6.5	1,529.8	7.5	1352.1	6.2
Total Investment	**3,309.6**	**18.0**	**3,846.1**	**18.8**	**3437.8**	**15.7**
Loans & Advances						

Loans, CC, OD etc.	11,239.9	61.1	12,522.4	61.3	14320.2	65.2
Bills purchased & Discounted	510.7	2.8	721.7	3.5	705.9	3.2
Total Loans & Advances	**11,750.0**	**63.8**	**13,244.1**	**64.8**	**15026.1**	**68.4**
Fixed Assets	266.9	1.5	280.6	1.4		
Other Assets	920.4	5.0	959.9	4.7	289.6	1.3
Non-banking Assets	4.5	0.0	3.9	0.0	1073.9	4.9
Total Assets	**18,406.0**	**100.0**	**20,429.3**	**100.0**	**3.9**	**0.0**

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

APPENDIX IX: BANKING SECTOR AGGREGATE SHARE OF LIABILITIES

(Amount in Billion BDT)

Particulars	2020	% of Total Liabilities	2021	% of Total Liabilities	2022	% of Total Liabilities
Liabilities						
Borrowings from other Banks/FIs/Agents	1,180.3	6.8	1,477.9	7.7%	1,898.7	9.2%
Deposits & Other Accounts:						
Current Deposit	3,044.8	17.6	3,317.1	17.2	3,550.7	17.2
Savings Deposit	2,947.5	17.0	3,463.7	18.0	3,815.5	18.4
Fixed/Term Deposit	6,804.1	39.3	7,360.8	38.2	7,354.0	35.5
Inter-bank Deposit	319.9	1.8	366.7	1.9	328.0	1.6
Other Deposits	1,001.0	5.8	1039.9	5.4	1309.3	6.3
Total Deposit	**14,117.3**	**81.5**	**15,548.2**	**80.6**	**16,357.5**	**79.1**
Bills Payable	177.7	1.0	193.6	1.0	206.6	1.0
Other Liabilities	1,837.0	10.6	2,059.4	10.7	2,229.1	10.8
Total Liabilities	**17,312.3**	**100.0**	**19,279.1**	**100.0**	**20,691.9**	**100.0**

Source: Department of Off-site Supervision, Bangladesh Bank

APPENDIX X: BANKING SECTOR AGGREGATE INCOME STATEMENT

Particulars	(Amount in Billion BDT)				*Change (%)*	
	2019	2020	2021	2022	2020 to 2021	2021 to 2022
Interest Income	1001.7	907.8	870.6	965.4	(4.1)	10.9
Less: Interest Expense	698.1	692.4	638.2	691.1	(7.8)	8.3
Net Interest Income	303.6	215.4	232.4	274.3	7.9	18.0
Non-Interest/Investment Income	299.5	373.0	402.5	468.2	7.9	16.3
Total Income	603.1	588.4	634.9	742.5	7.9	16.9
Operating Expenses	324.7	332.3	352.9	400.3	6.2	13.4
Profit before Provision	278.4	256.1	282.1	342.2	10.1	21.3
Total Provision	114.8	126.0	152.9	87.7	21.4	(42.7)
Profit before Taxes	163.7	130.1	129.2	254.5	(0.7)	97.1
Provision for Taxation	93.9	83.4	78.9	112.3	(5.4)	42.2
Profit after Taxation/Net Profit	69.8	46.6	50.2	142.3	7.8	183.3

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

APPENDIX XI: BANKING SECTOR ASSETS, DEPOSITS & NPL CONCENTRATION (2022)				
				(Amount in Billion BDT)
Assets*	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount (in billion BDT)	6,749.7	15,212.6	9,796.9	12,165.5
Share (%)	30.7%	69.3%	44.6%	55.4%
Deposit**	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount (in billion BDT)	5,249.5	10,780.0	7,434.2	8,595.2
Share (%)	32.7%	67.3%	46.4%	53.6%
NPL***	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount (in billion BDT)	554.6	651.9	781.3	425.3
Share (%)	46.0%	54.0%	64.8%	35.2%

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 XII: BANKING SECTOR LOAN LOSS PROVISIONS			
			(Amount in Billion BDT)
Year	**Required Provision**	**Provision Maintained**	**Surplus/(Shortfall)**
2013	52.4	249.8	-2.6
2014	89.6	281.7	-8.0
2015	08.9	266.1	-42.8
2016	62.08	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
2022	841.57	731.48	-110.09

Source: Banking Regulation and Policy Department, Bangladesh Bank.

APPENDIX XIII: 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
2022	8.16	6.79	4.54	88.67

Source: Banking Regulation and Policy Department, Bangladesh Bank.

APPENDIX XIV: BANKING SECTOR NPL COMPOSITION (2022)

(Amount in Billion BDT)

Particulars	Amount		% of Gross NPL	
	CY21	**CY22**	**CY21**	**CY22**
Sub-Standard	80.2	81.93	7.77	6.79
Doubtful	41.9	54.81	4.06	4.54
Bad & Loss	910.6	1,069.82	88.17	88.67
Total	1,032.7	1,206.57	100.0	100.00

Source: Banking Regulation and Policy Department, Bangladesh Bank.

APPENDIX XV: BANKING SECTOR SELECTED RATIOS

(In percentage)

Ratio	2018	2019	2020	2021	2022
ROA	0.3	0.5	0.3	0.3	0.62
ROE	4.4	7.4	4.3	4.4	10.7
Net Interest Margin	2.2	2.1	1.1	1.3	1.4
Interest Income to Total Assets	5.9	6.1	4.9	4.3	4.39
Net- Interest Income to Total Assets	1.9	1.9	1.2	1.1	1.24
Non-Interest Income to Total Assets	1.9	1.8	2	2	2.13
Non-interest Expense to Gross Operating Income	52	52.8	55.1	55.6	53.91

CRAR	10.5	11.6	14.4	11.1	11.83
Tier-1 Capital to RWA ratio	6.8	7.7	9.7	7.4	8.39
Gross NPL to Total Loans Outstanding	10.3	9.3	8.1	7.9	8.16
Gross NPL to Capital	101.4	92.1	80.7	74.6	75.91
Maintained Provision to Gross NPL	53.7	57.9	72.2	64.5	60.63

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	
	2021	**2022**		**2021**	**2022**
Up to 2.0	**58**	**54**	**Up to 5.0**	**19**	**15**
> 2.0 to 3.0	**2**	**2**	**> 5.0 to 10.0**	**17**	**14**
>3.0to 4.0	**0**	**3**	**>10.0 to 15.0**	**14**	**21**
>4.0	**0**	**1**	**>15.0**	**10**	**10**

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

APPENDIX XVII: BANKING SECTOR MONTH-WISE DEPOSIT & ADVANCE RATE (2022)

Month	Deposit Rate	Advance Rate	Overall Spread
January	4.01	7.13	3.12
February	4.02	7.1	3.08
March	4.01	7.11	3.1
April	4.02	7.09	3.07
May	4.02	7.08	3.06
June	3.97	7.09	3.12
July	4.04	7.09	3.05
August	4.07	7.11	3.04
September	4.09	7.12	3.03
October	4.13	7.15	3.02
November	4.22	7.18	2.96
December	4.23	7.22	2.99

Source: Bangladesh Bank Website.

Appendix XVIII: Banking Sector Capital to Risk-Weighted Assets ratio (CRAR) - Solo Basis (2022)	
Range	Number of Banks
<10%	11
>=10% to <15%	21
>=15% to <20%	14
>=20%	15
Total	**61**

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

Appendix XIX: Banking Sector Year-wise ADR at end-December	
(In percentage)	
Year	**Advance-Deposit Ratio (ADR)**
2017	**75.9**
2018	**77.6**
2019	**77.3**
2020	**72.7**
2021	**73.2**
2022	**79.0**

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

Appendix XX: Banking Sector ADR (2022)	
Range	**Number of Banks**
Up to 70%	13
> 70% to 85%	29
> 85% to 90%	9
>90% to 100%	8
>100%	1
Total	60

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

Appendix XXI: Year-wise Banking Sector LCR and NSFR at end-December		
(In percentage)		
Year	**LCR**	**NSFR**
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**
2022	**153.97**	**110.22**

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

APPENDIX XXII: BANKING SECTOR LEVERAGE RATIO - SOLO BASIS (2022)	
Range	Number of Banks
< 3%	9
> = 3% to <10%	39
>= 10% to <20%	6
>= 20%	7
Total	61

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

APPENDIX XXIII: Banking Industry's SHQLA at end-December			
(In Billion BDT)			
Clusters\Years	**2020**	**2021**	**2022**
SOCBs	1394.6	1585.0	1560.8
PCBs Conventional	1792.1	1814.9	1800.5
PCBs Islamic	541.1	654.1	625.9
FCBs	255.2	281.9	306.5
Banking Industry*	3982.9	4335.9	4293.8
Change in Percent	34.9%	8.9%	-1.0%

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

*Industry figure excludes BDBL, BKB, PKB and RAKUB (SDBs) as exempted from LCR & NSFR requirement.

APPENDIX XXIV: OVERSEAS BRANCHES' AGGREGATE SHARE OF ASSETS & LIABILITIES									
Amount in million USD									
Assets	**2021**	**% of Total Assets**	**2022**	**% of Total Assets**	**Liabilities**	**2021**	**% of Total Liabilities**	**2022**	**% of Total Liabilities**
Cash & Balance from Central Banks	188.22	50.97%	291.96	62.95%	Customer Deposits	275.5	87.45%	343.63	86.64%
Balance with other Banks & FIs	67.33	18.23%	32.06	6.91%	Dues to head office & branches abroad & other liabilities	39.52	12.55%	52.99	13.36%
Loans & Advances	94.32	25.54%	98.22	21.18%	Total Liabilities	315.03	100.00%	396.63	100.00%
Property & Equipment and other assets	19.43	5.26%	19.7	4.25%	Capital/ Equity	54.27	-	67.2	-
Total Assets	**396.29**		**463.83**		**Total Liabilities & Equities**	**396.29**		**463.83**	

Source: Scheduled banks of Bangladesh.

APPENDIX XXV: ISLAMIC BANKS' AGGREGATE BALANCE SHEET						
Particulars	*(Amount in billion BDT)*				Change (%) 2020 to 2021	Change (%) 2021 to 2022
	2019	**2020**	**2021**	**2022**		
Property & Assets						
Cash in Hand (including FC)	29.6	32.4	41.7	52.3	28.8	25.2
Balance with BB and SB (including FC)	**199.4**	**339.7**	**385.2**	**257.2**	**13.4**	**(33.2)**
Balance with other Banks and FIs	160.3	145.6	162.8	196.2	11.8	20.5
Money at Call and Short Notice	**0**	**14.3**	**18.3**	**8.0**	**28.2**	**(56.4)**
Investments						
Government	**76.0**	**91.0**	**134.7**	**109.8**	**48.0**	**(18.5)**
Others	92.9	119.4	171.6	170.3	43.7	(0.8)
Total Investments	**168.9**	**210.4**	**306.4**	**280.1**	**45.6**	**(8.6)**
Investments & Advances						
Investments & Advances	**2,397.2**	**2,696.2**	**3,282.2**	**3,739.8**	**21.7**	**13.9**
Bills Purchased and Discounted	109.5	122.5	132.4	208.7	8.1	57.6
Total Investments and Advances	**2,506.7**	**2,818.8**	**3,414.7**	**3,948.5**	**21.1**	**15.6**
Fixed Assets	43.6	44.6	55.7	56.3	25.0	1.1
Other Assets	**79.1**	**100.9**	**122.4**	**171.1**	**21.3**	**39.8**
Non-banking Assets	1.1	0.9	0.9	0.9		
Total Assets	**3,188.8**	**3,707.6**	**4,508.0**	**4,970.7**	**21.6**	**10.3**
Liabilities						
Borrowings from other Banks/FIs/Agents	**172.2**	**201.4**	**285.4**	**579.0**	**41.7**	**102.8**
Deposits & Other Accounts						
Current Deposit	**250.1**	**312.3**	**411.0**	**412.3**	**31.6**	**0.3**
Savings Deposit	478.1	583.8	766.9	802.5	31.4	4.6
Fixed/Term Deposit	**1,503.8**	**1,720.5**	**2,015.6**	**2,002.4**	**17.1**	**(0.7)**
Interbank Deposit	105.8	109.2	114.3	152.6		
Other Deposit	**271.3**	**321.3**	**352.5**	**397.5**	**4.7**	**33.5**
Total Deposits	**2,609.1**	**3,047.1**	**3,660.4**	**3,767.3**	**9.7**	**12.8**
Bills Payable	**26.2**	**23.3**	**31.3**	**37.5**	**20.1**	**2.9**
Other Liabilities	222.0	267.7	326.2	361.8	34.3	19.7
Total Liabilities	**3,029.4**	**3,539.6**	**4,303.3**	**4,745.5**	**21.8**	**10.9**
Capital/Shareholder's Equity	**159.4**	**167.9**	**204.7**	**225.1**	**21.6**	**10.3**
Total Liabilities & Shareholder's Equity	**3,188.8**	**3,707.6**	**4,508.0**	**4,970.7**	**21.9**	**10.0**
Off-balance Sheet Items	**580.7**	**623.9**	**774.9**	**807.2**	**21.6**	**10.3**

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

Appendix XXVI: Islamic Banks' Aggregate Income Statement						
Particulars	(Amount in billion BDT)				Change (%) 2020 to 2021	Change (%) 2021 to 2022
	2019	**2020**	**2021**	**2022**		
Profit Income	**241.4**	**238.6**	**248.6**	**266.3**	**4.2**	**7.1**
Less: Profit Expenses	158.7	160.7	160.0	177.0	(0.4)	10.6
Net Profit Income	**82.7**	**77.9**	**88.6**	**89.3**	**13.7**	**0.9**
Non-Profit/Investment Income	30.2	28.8	35.6	54.7	23.5	53.8
Total Income	**112.8**	**106.7**	**124.1**	**144.0**	**16.3**	**16.0**
Operating Expenses	57.3	60.2	69.4	80.4	15.3	15.8
Profit before Provision	**55.5**	**46.5**	**54.7**	**63.6**	**17.7**	**16.3**
Total Provision	16.7	11.3	13.7	13.3	21.3	(2.7)
Profit before Taxes	**38.8**	**35.2**	**41.0**	**50.3**	**16.5**	**22.7**
Provision for Taxation	20.7	18.2	20.7	24.5	13.8	18.3
Profit after Taxation (i.e., Net Profit)	**18.2**	**17.1**	**20.3**	**25.8**	**18.7**	**27.2**

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

Appendix XXVII: Share of Islamic Banks in the Banking Sector (2022)			
			(Amount in billion BDT)
Particulars	**All Banks**	**Islamic Banks**	**Share of Islamic Banks (%)**
Property & Assets			
Cash in hand	264.4	52.3	21.2
Due from BB and other banks/FIs	1,784.6	453.4	25.4
Money at Call and Short Notice	100.1	8.0	8.0
Investments in securities	3,437.8	280.1	8.1
Investments (Loans and advances)	15,026.1	3,948.5	26.3
Fixed Assets	289.6	56.3	19.5
Other Assets	1,073.9	171.1	15.9
Non-Banking Assets	3.9	0.9	23.4
Total Assets	21,962.4	4,970.7	22.6
Liabilities			
Due to financial institutions	1,898.7	579.0	30.5
Total deposits	16,029.5	3,614.7	22.6
Bills Payable	206.6	37.5	18.1
Other liabilities	2,557.2	514.4	20.1

Total Liabilities	20,691.9	4,745.5	22.9
Capital/Shareholder's Equity	1,270.5	225.1	17.7
Total Liabilities & Shareholder's Equity	21,962.4	4,970.7	22.6
Off-balance Sheet Items	6,234.9	807.2	12.9

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

APPENDIX XXVIII: SELECTED RATIOS OF ISLAMIC BANKS AND THE BANKING SECTOR (2022)

(In percentage)

Ratio	Overall Banking Sector	Islamic Banking Sector
ROA	0.6	0.5
ROE	10.7	11.5
Net Profit Margin	1.4	2.0
Profit (Interest) Income to Total Assets	4.4	5.4
Net-profit (Interest) Income to Total Assets	1.2	1.8
Non-Profit (Interest) Income to Total Assets	2.1	1.1
Investment (Advance)-Deposit Ratio	79.0	91.4
CRAR	11.8	12.7
Classified Investment (Advances) to Investments	8.2	4.1
Classified Investment (Advances) to Capital	95.0	72.1

*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 XXIX: ISLAMIC BANKS' CRAR (2022)

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 XXX: ISLAMIC BANKS' LEVERAGE RATIO (2022)

Leverage ratio	Number of Islamic Banks
Below 3%	1
3% to 5%	2
>5%	7
Total	10

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

APPENDIX XXXI: ISLAMIC BANK'S INVESTMENT (ADVANCE)-DEPOSIT RATIO (AS OF END-DECEMBER 2022)			
(Amount in billion BDT)			
Items	**Islamic Banks**	**Islamic Branches/Windows**	**Islamic Banking Sector**
Deposits (Excluding Interbank)	3,736.5	276.2	4,012.7
Investments* (Excluding Interbank)	3,780.1	208.7	3,988.8
IDR	93.17%	68.82%	91.44%

*Credits are termed as investments in Islamic Banking.
Source: Department of Off-site Supervision, Bangladesh Bank.

APPENDIX XXXII: 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	**Ratios**			
Growth	Growth in Total Assets, Investments, Deposits, and Shareholders' Equity		Change in Market share in terms of Total Assets, Investments, Deposits, and Shareholders' Equity	
Capital Adequacy	CRAR	CCB Ratio	Leverage Ratio	
Asset Quality	GNPL Ratio	NNPL Ratio	RSDL Ratio	
Liquidity	LCR	NSFR	IDR	
Efficiency	ROA ratio	NII Ratio	NIM Ratio	NNII Ratio

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 XXXIII: FIS' AGGREGATE BALANCE SHEET					
(Amount in Billion BDT)					
Items	**CY18**	**CY19**	**CY20**	**CY21**	**CY22**
Property & Assets:					
Cash in hand	0.02	0.03	0.01	0.01	0.02
Balance with other banks & FIs	115.1[R]	110.4[R]	131.32	160.12	138.99
Money at call and short notice	0.8	0.7	1.07	1.43	9.55
Investment in Government securities	0.5	1.0	7.40	1.11	11.80
Other investments	17.7[R]	18.9[R]	21.67	19.83	21.96
Total loans and leases	660.5[R]	674.8[R]	670.30	649.32	666.26

Fixed assets	12.1[R]	14.2[R]	14.76[R]	14.45	16.70
Other assets	41.5[R]	46.5[R]	54.17[R]	48.90	53.27
Non-financial assets	3.3[R]	1.2[R]	1.47[R]	1.38	1.45
Total assets	**851.6[R]**	**867.7[R]**	**902.16[R]**	**896.56**	**920.00**
Liabilities & Equity:					
Borrowing from other banks & FIs	182.7[R]	198.3[R]	210.60	229.64	250.44
Deposits	466.3[R]	449.7[R]	453.21	444.20	443.55
Other liabilities	90.7[R]	131.5[R]	152.03[R]	150.11	165.23
Total liabilities	**739.7[R]**	**779.5[R]**	815.84[R]	823.96	859.22
Shareholders' Equity (Capital)	111.9[R]	88.2[R]	86.32[R]	72.60	60.77
Total liabilities & shareholders' equity	**851.6[R]**	**867.7[R]**	902.16[R]	896.56	920.00

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

APPENDIX XXXIV: FIs' AGGREGATE INCOME STATEMENT

(Amount in Billion BDT)

Items	CY18	CY19	CY20	CY21	CY22
Interest Income	79.4	76.1[R]	68.89[R]	59.4	54.52
Less: Interest expense	(55.7)	(59.5)[R]	(53.66)[R]	(42.7)	(44.06)
Net interest income (Net II)	**23.7**	**16.6[R]**	15.22[R]	**16.7**	10.47
Investment income	1.2	1.1[R]	2.80	3.7	2.16
Add: Commission, exchange and brokerage	0.7	0.8[R]	0.51[R]	0.6	0.48
Add: Other operating income	4.2	3.0[R]	2.75	2.9	6.01
Non-interest income (Non-II)	**6.1**	**4.9[R]**	6.06[R]	**7.2**	8.66
Total operating income (Net II + Non-II)	**29.8**	**21.5[R]**	21.28[R]	**23.9**	19.12
Operating expenses	(10.1)	(11.1)[R]	(10.68)[R]	(10.5)	(11.19)
Profit before provisions	**19.7**	**10.4[R]**	10.60[R]	**13.4**	7.94
Total provisions	(5.1)	(26.9)[R]	(7.29)[R]	(9.3)	(16.78)
Profit before taxes	**14.6**	**(16.5)[R]**	3.31[R]	**4.1**	(8.84)
Tax provisions	(6.3)	(5.7)[R]	(5.03)[R]	(6.1)	(2.87)
Net profit after taxes	**8.3**	**(22.2)[R]**	(1.72)[R]	**(2.0)**	(11.71)

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

APPENDIX XXXV: FIS' LIQUIDITY POSITION

(Amount in Billion BDT)

Items	End-Dec 18	End-Dec 19	End-Dec 20	End-Dec 21	End-Dec 22
Total liabilities	451.1	483.9	500.1	527.9	559.06
Total term deposits	296.9	309.8	324.2	347.2	358.02
Industry CRR(required)	7.4	7.7	4.9	5.2	5.37
Industry CRR(maintained)	7.1	7.5	5.7	6.0	5.69
Industry SLR(required)	20.5	21.7	22.6	23.8	25.15
Industry SLR(maintained)	94.9	90.9	108.0	116.4	92.97

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

APPENDIX XXXVI: FIS' OTHER INFORMATION

(Amount in Billion BDT)

Items	CY18	CY19	CY20	CY21	CY22
Tier-I Capital	92.6	113.3	89.90[R]	78.69	6.50
Tier-II Capital	13.2	13.3	13.50[R]	13.37	12.76
Total Capital	**105.8**	**126.6**	**103.40**[R]	**92.06**	**19.26**
Classified loans & leases	54.6	64.0	100.5	130.2	168.21
Loan loss provisions (required)	33.3	32.8	51.8	73.9	100.82
Loan loss provisions (maintained)	27.5	23.4	44.4	62.9	90.30
Loan loss provisions (surplus/shortfall)	**(5.8)**	**(9.4)**	**(7.4)**	**(11.0)**	**(10.53)**
Number of Government-owned FIs	3	3	3	3	3
Number of local FIs	19	18	18	19	19
Number of FIs under foreign joint venture	12	12	12	13	13
Total number of FIs	**34**	**33**	**33**	**35**	**35**
Number of branches	269	276	277	303	274

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

APPENDIX XXXVII: FIS' SUMMARY PERFORMANCE INDICATORS

(In percentage)

Indicators	CY18	CY19	CY20	CY21	CY22
Profitability & Efficiency					
Return on Assets (ROA)	1.0[R]	1.5	(0.19)[R]	(0.23)	(1.27)
Return on Equity (ROE)	7.4	10.8	(1.99)[R]	(2.79)	(19.26)

Net Interest Margin (NIM)	3.2	2.5R	1.69R	1.87	1.14
Asset Quality:					
Classified Loans and Leases to Total Loans and Leases	7.9	9.5	15.03R	19.33R	23.88
Capital Adequacy:					
Capital Adequacy Ratio (CAR)	13.9	17.5	14.17R	12.90	8.10*
Liquidity:					
SLR maintained	21.1	18.8	21.60	22.10	16.63
CRR maintained	2.4	2.5	1.63R	1.70	1.59

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

APPENDIX XXXVIII: FIS' SECTOR-WISE DISTRIBUTION OF LOANS AND LEASES

(Shares in percentage)

Major Sectors	CY20	CY21	CY22
Trade and Commerce	13.62	13.12	14.83
Industry	47.48	46.26	44.88
Agriculture	2.48	2.34	2.31
Housing	18.91	18.74	18.81
Others	17.50	19.53	19.16
Grand Total	100.00	100.00	100.00

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

APPENDIX XXXIX: FI'S DISTRIBUTION OF LOANS AND LEASES IN DIFFERENT SUB-SECTORS OF INDUSTRY SECTOR

(Shares in percentage)

Sub-sector of Industry Sector	CY20	CY21	CY22
Garments and Knitwear	12.56	12.98	13.84
Textile	9.73	11.18	11.44
Jute and Jute-Products	1.06	1.52	0.84
Food Production and Processing Industry	8.92	8.32	8.09
Plastic Industry	2.17	2.38	2.72
Leather and Leather-Goods	0.85	0.89	1.18
Iron, Steel and Engineering	10.21	10.83	10.30
Pharmaceuticals and Chemicals	5.26	5.06	4.91
Cement and Allied Industry	5.15	5.00	5.64
Telecommunication and Information Technology	3.75	3.64	4.03
Paper, Printing and Packaging	3.56	4.16	3.68
Glass, Glassware and Ceramic Industry	2.19	2.34	1.94
Ship Manufacturing Industry	1.40	1.46	1.62
Electronics and Electrical Products	2.80	2.48	2.65

Power, Gas, Water and Sanitary Service	22.21	20.65	18.95
Transport and Aviation	8.20	7.12	8.17
Industry Total	100.00	100.00	100.00

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

Appendix XL: 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-22	539.15	1.73	1520.69	2.43
February-22	440.49	2.62	1526.68	2.80
March-22	645.89	2.36	1571.75	2.66
April-22	667.26	4.54	1326.88	4.58
May-22	510.22	4.83	1345.46	4.73
June-22	715.97	5.12	1662.44	4.88
July-22	565.62	5.92	1135.57	5.34
August-22	651.60	6.04	1294.62	5.49
September-22	648.38	6.33	993.91	5.53
October-22	1091.42	6.67	1064.15	5.79
November-22	1277.32	7.02	1050.67	5.80
December-22	849.20	7.56	631.52	5.80

Source: DMD, BB.

Appendix XLI: Yields on Treasury Securities

			(In percent)
Securities	December, 2021	June, 2022	December, 2022
91 Day T-Bill	2.36	5.94	6.90
182 Day T-Bill	3.19	6.44	7.30
364 Day T-Bill	3.44	6.62	7.76
2 Years T-Bond	4.68	7.21	7.55
5 Years T-Bond	6.41	7.80	7.9
10 Years T-Bond	7.38	8.03	8.33
15 Years T-Bond	7.77	8.27	8.77
20 Years T-Bond	7.87	8.48	8.95

Source: Major Economic Indicators, January 2023 Issue, Bangladesh Bank.

Appendix XLII: Equity Market Development			
Quarter-end	DSEX Index	Market Capitalization (in Billion BDT)	Market P/E ratio
Mar-22	6757.84	5394.15	15.60
Jun-22	6376.94	5177.82	14.40
Sep-22	6512.89	5199.14	14.90
Dec-22	6206.81	7609.37	14.11

Source: Dhaka Stock Exchange Website.

Appendix XLIII: Automated Cheque Clearing Operations						
Category	CY20		CY21		CY22	
	Number (in thousands)	Amount in billion BDT	Number (in thousands)	Amount in billion BDT	Number (in thousands)	Amount in billion BDT
High Value (HV)	2.07	13,886	2.31	15,623	2.52	16,110
Regular Value (RV)	16.67	7,827	18.50	9,031	20.00	10,090

Source: Payment Systems Department (PSD), BB.

Appendix XLIV: Volume of Electronic Banking Transactions					
					In Billion BDT
Year	2018	2019	2020	2021	2022
ATM	1,385.30	1,629.95	1,680.32	2,287.52	3,744.07
Debit Card	1,420.76	1,671.23	1,770.35	2,348.79	3,837.01
Credit Card	164.59	189.29	142.46	191.07	289.07
Internet Banking	324.67	658.84	798.04	1,373.84	2,835.67

Source: Payment Systems Department (PSD), BB.

Appendix XLV: Foreign Exchange (FX) Assets							
							In Million USD
Period	**Debit Balance in Nostro A/c**	**BB Clearing Account**	**Investment in OBU**	**Cash holding**	**FC Bills Purchased**	**Others**	**Total**
End-December 2019	1721.30	938.83	2235.87	23.18	1061.65	8752.50	14733.33
End-December 2020	1911.12	1573.13	3082.29	50.79	1128.14	12345.22	20090.69
End-December 2021	1910.65	689.22	3485.65	28.86	1858.90	16388.92	24362.20
End-December 2022	2370.02	783.05	3130.78	14.38	1495.81	8914.27	16708.31

Source: Foreign Exchange Policy Department, Bangladesh Bank.

APPENDIX XLVI: FOREIGN EXCHANGE (FX) LIABILITIES

In Million 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
End-December 2019	135.27	39.65	84.56	446.16	1528.64	34.92	1735.21	9885.41	13889.82
End-December 2020	145.58	50.76	111.46	548.97	1790.32	37.63	2205.96	10739	15629.68
End-December 2021	142.44	56.92	105.24	666.38	1950.25	37.24	2482.22	13374.34	18815.03
End-December 2022	203.83	112.48	138.67	486.96	2284.3	19.26	2584.06	6598.27	12427.83

Source: Foreign Exchange Policy Department, Bangladesh Bank.

APPENDIX XLVII: FOREIGN EXCHANGE (FX) CONTINGENT LIABILITIES

In Million USD

Period	Letter of credit	Letter of guarantee	Acceptances	Others	Total
End-December 2019	35064.93	5579.98	14207.46	1976.86	56829.23
End-December 2020	31141.22	4635.85	14870.87	316.36	50964.3
End-December 2021	41551.93	5542	20145.49	107.43	67346.86
End-December 2022	35714.74	4702.98	18238.44	364.69	59020.85
Growth in percent (2021 to 2022)	-14.05%	-15.14%	-9.47%	239.47%	-12.36%
Component 2022 (in percent)	60.51%	7.97%	30.90%	0.62%	100.00%

Source: Foreign Exchange Policy Department, Bangladesh Bank.

APPENDIX XLVIII: INTERBANK FX TURNOVER BY COMPONENTS

In Million USD

Period	Spot			Swap			Forward		
	USD	Non-USD	Total	USD	Non-USD	Total	USD	Non-USD	Total
Total 2021	5608.68	303.31	5911.99	36547.80	10.00	36557.80	599.50	32.70	632.20
Jan-22	35.40	282.27	317.67	3290.00	0.00	3290.00	0.00	30.55	30.55
Feb-22	46.85	450.13	496.98	3317.00	0.00	3317.00	2.00	27.00	29.00
Mar-22	23.55	523.74	547.29	3480.00	2.00	3482.00	20.00	24.02	44.02
Apr-22	21.55	418.57	440.12	4072.00	0.00	4072.00	13.50	23.41	36.91
May-22	5.13	6.45	11.58	3810.00	0.00	3810.00	0.00	0.00	0.00
Jun-22	136.13	2.27	138.40	3400.00	0.00	3400.00	2.00	0.00	2.00
Jul-22	10.76	10.11	20.87	2209.71	0.00	2209.71	5.00	0.00	5.00
Aug-22	36.33	1.02	37.35	3248.00	0.00	3248.00	0.00	0.00	0.00
Sep-22	111.07	0.00	111.07	2579.00	0.00	2579.00	0.00	0.00	0.00

Oct-22	108.12	4.71	112.83	1742.50	0.00	1742.50	0.00	0.00	0.00
Nov-22	49.37	15.03	64.40	1534.60	0.00	1534.60	0.00	0.00	0.00
Dec-22	84.51	26.34	110.85	1812.50	0.00	1812.50	0.00	0.00	0.00
Total CY 2022	668.77	1740.64	2409.41	34495.31	2.00	34497.31	42.50	104.98	147.48
Component (%)			6.50%			93.10%			0.40%
Change from 2021	-88.08%	473.88%	-59.25%	-5.62%	-80.00%	-5.64%	-92.91%	221.04%	

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank.

APPENDIX XLIX: ANNUAL FX TURNOVER

In Billion USD

Particulars	2018	2019	2020	2021	2022
Annual FX Spot Turnover	2.40	0.70	3.00	5.90	2.41
Annual FX Turnover	21.80	15.70	34.25	43.10	37.05

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank.

APPENDIX L: MONTHLY FX TURNOVER

In Billion USD

Particulars	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Total
FX Turnover	3.64	3.84	4.07	4.55	3.82	3.54	2.24	3.29	2.69	1.86	1.60	1.92	37.05

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank.

Period	Total of the Net Long Position	Total of the Net Short Position	Overall Net Exchange Position
End-December 2020	1613.59	-72.48	1541.12
End-December 2021	1167.89	-142.04	1025.85
Jan-22	1106.03	-329.97	776.06
Feb-22	1042.61	-407.93	634.69
Mar-22	999.63	-392.61	607.02
Apr-22	1075.08	-284.09	791
May-22	964.77	-457.49	507.27
Jun-22	894.69	-607.83	286.86
Jul-22	823.47	-723.98	99.49
Aug-22	763.39	-672.72	90.67
Sep-22	727.83	-700.53	27.3
Oct-22	570.44	-881.86	-311.43
Nov-22	584.11	-1099.54	-515.43
Dec-22	618.96	-761.86	-142.9

Source: Foreign Exchange Policy Department, Bangladesh Bank.

APPENDIX LI: ANNUAL GROWTH IN PERCENT					
Particulars	**2018**	**2019**	**2020**	**2021**	**2022**
NFA	0.26%	3.56%	30.22%	3.41%	-13.48%
NDA	12.46%	14.56%	9.94%	11.57%	14.95%
M2	9.41%	12.04%	14.23%	9.60%	8.47%
RM	8.15%	6.93%	21.18%	6.45%	17.41%

Source: Major Economic Indicators, Bangladesh Bank.

APPENDIX LII: RESERVE ADEQUACY					
					In billion USD
Particulars	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**	**Dec-22**
Import in December	4.5	4.6	4.7	7.4	5.2
Import Coverage (Reserve in Months of Prospective Imports)	5.2	5.5	5.5	6.0	5.5
M2	137.7	152.4	174.3	188.9	187.7
Reserves/M2	0.2	0.2	0.2	0.2	0.1
FX Reserve	32.0	32.7	43.2	46.2	33.70
STD	9	9.7	11	18	18.5
STD/Reserve	0.3	0.3	0.3	0.4	0.5
FX= 3 Months Import Coverage	13.7	14.0	13.9	22.5	15.74
FX=20% of M2	27.5	30.5	34.9	37.8	37.55
FX=Short-Term External Debt	9.0	9.7	11.0	18.1	18.53
Estimated FX Reserves (applying the benchmarks)	50.2	54.2	59.8	78.4	71.82
Excess/Shortage	-18.2	-21.5	-16.6	-32.2	-38.07

Source: Statistics Department, Bangladesh Bank.

APPENDIX LIII: WAGE EARNERS' REMITTANCE					
					In Billion USD
Particulars	**2018**	**2019**	**2020**	**2021**	**2022**
Total	15.54	18.33	21.74	22.07	21.29
Growth (in percent)	-	17.96%	18.60%	1.52%	-3.55%

Source: Statistics Department, Bangladesh Bank.

APPENDIX LIV: EXCHANGE RATE MOVEMENT												
Period	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2018	82.90	83.00	83.00	83.0	83.70	83.70	83.80	83.80	83.80	83.90	83.90	83.90
2019	84.00	84.20	84.30	84.5	84.50	84.50	84.50	84.50	84.50	84.80	84.90	84.90
2020	84.90	85.00	85.00	85.0	85.00	84.90	84.80	84.80	84.80	84.80	84.80	84.80
2021	84.80	84.80	84.80	84.8	84.80	84.80	84.80	85.20	85.50	85.70	85.80	85.80
2022	86.00	86.00	86.20	86.5	89.00	93.50	94.70	95.00	96.00	97.00	98.00	99.00

Source: Statistics Department, Bangladesh Bank.

APPENDIX LV: REER MOVEMENT

Period	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2018	99.86	98.75	99.19	99.49	99.87	100.70	102.47	105.11	107.27	108.39	107.65	107.10
2019	107.92	107.34	106.92	106.66	105.94	105.70	106.79	109.64	111.66	111.03	110.6	109.89
2020	110.45	111.23	113.71	115.86	113.78	112.99	112.82	112.38	114.10	114.67	113.00	110.73
2021	111.29	110.94	112.41	113.12	108.97	110.55	112	113.47	115.08	115.75	115.21	115.76
2022	115.06	114.67	115.49	116.38	115.74	111.3	111.31	113.97	112.36	111.66	108.09	104.81

Source: Monetary Policy Department, Bangladesh Bank.

APPENDIX LVI: IMPORT LETTER OF CREDIT (LC)

In Billion USD

	CY	2019	2020	2021	2022
In Billion USD	**Opening**	57.03	55.81	86.18	85.28
(Growth in percent)			-2%	54%	-1%
In Billion USD	**Settlement**	54.51	46.79	71.56	87.71
(Growth in percent)			-14%	53%	23%
Contingent Liabilities related to Import LC	**Outstanding**	2.53	9.02	14.61	-2.43

Source: Foreign Exchange Operation Department, Bangladesh Bank.

APPENDIX LVII: INTERVENTION IN FX MARKET BY BB (CY 2015-CY2022)

In Million USD

End of CY/ Month	2015	2016	2017	2018	2019	2020	2021	2022
USD Purchased	4551.00	3881.00	45.00	0.00	0.00	6368.00	2656.00	0.00
USD Sold	0.00	8.00	1231.00	2292.00	1621.00	664.00	2483.00	12939.56

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank.

APPENDIX LVIII: I INTERVENTION IN FX MARKET BY BB (CY 2022)

In Million USD

Months	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
USD Purchased	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
USD Sold	559.00	257.00	742.00	876.00	1031.00	1673.70	1136.40	1357.00	1068.90	1410.70	1395.00	1432.86

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank.

	Appendix LIX: Microcredit Finance Sector					
	Particulars	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
1	Total Number of Licensed institutions	706	724	759	746	739
2	Number of Branches	18,196	18,977	20,898	20,955	23,543
3	Number of Employees	153,919	162,175	171,110	175,741	206,713
4	Number of Members(in Millions)	31.22	32.37	33.31	35.12	38.27
5	Number of Borrowers(in Millions)	25.39	25.76	26.15	27.8	29.84
6	Outstanding loan disbursed by licensed institutions (in Billions BDT)					
	Top 10 MFIs	477.38	562.51	639.7	657.89	834.05
	Top 20 MFIs	528.33	622.35	707.03	737.42	954.15
7	Outstanding Saving Balance of the licensed institutions (in Billions BDT)					
	Top 10 MFIs	188.36	215.56	269.1	304.21	344.56
	Top 20 MFIs	207.43	239.03	297.88	334.82	387.50
8	Return on Asset (ROA)	4.38%	6.41%	5.03%	5.01%	2.89%
9	Return on Equity(ROE)	19.45%	17.06%	11.78%	19.00%	11.75%
10	Amount of Outstanding Loan (in Billion BDT)					
	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
	Up to 50,000 Taka	356.11	376.48	390.41	395.70	404.96
	50001 Taka to 1,00,000 Taka	150.84	170.67	201.73	234.94	356.06
	1,00,001 Taka to 3,00,000 Taka	114.63	160.94	190.75	187.70	305.54
	3,00,001 Taka and Above	49.57	79.50	106.05	131.50	174.80
11	Total Amount of Outstanding Loan (in Billion BDT)	671.16	787.58	888.64	949.84	1,241.36
12	Total Amount of Loan Disbursed (in Billion BDT)	1,201.91	1,403.20	1,362.75	1,512.09	1,918.80
13	Total Amount of Loan Recover (in Billion BDT)	1,112.21	1,250.90	1,329.88	1,397.12	1,652.69
14	Defaulted Loan (in Million BDT)	18,281.12	23,612.79	29,512.29	45,285.47	83,700.12
15	Particulars of Loan Recipients' of MFIs					
	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
	Up to 50,000 Taka	21.38	20.84	19.45	20.72	22.25
	50001 Taka to 1,00,000 Taka	3.11	3.46	4.27	4.91	5.27
	1,00,001 Taka to 3,00,000 Taka	1.03	1.22	1.15	1.76	1.94
	3,00,001 Taka and Above	0.17	0.24	0.32	0.41	0.38
16	Total Number of loan recipients (in Millions BDT)	25.68	25.76	25.18	27.8	29.84
17	Average Loan per Recipient	26,130.00	30,562.52	35,299.09	34,162.41	41,740.72

Source: Microcredit Regulatory Authority.

Appendix LX: List of indicators used to prepare CFSI for 2022		
Category	Indicator	
Real Sector Index (RSI)	GDP growth rate	RSI1
	Agricultural Production	RSI2
	Quantum Index of Production	RSI3
	Inflation	RSI4
	Domestic Credit to GDP	RSI5
Fiscal Sector Index (FSI)	Fiscal balance to GDP	FSI1
	Government debt to GDP	FSI2
	Tax Revenue to GDP	FSI3
External Sector Index (ESI)	External debt to GDP ratio	ESI1
	Reserve to External Debt	ESI2
	Current Account Balance to GDP	ESI3
	Real effective exchange rate (REER)	ESI4
	Net international investment position (NIIP)	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 rate	MFI6

APPENDIX LXI: FINANCIAL STABILITY MAP						
Components	**Major Indicators**	**Standardized Scores (0 to 1 Scale)**		**Change w.r.t. 2021**	**Latest Value of the indicator[59]**	**Comment**
		2021[60]	**2022**			
External Economy	Trading partners' real GDP growth (export weighted)	0.000	0.203	↑	2.99 percent	Reverse ratio[61]= 1- standardized score
	Import Weighted average Inflation (In countries from which Bangladesh makes highest import)	0.305	0.350	↑	2.97 percent	
	Weighted average unemployment rate (Source countries with highest inward remittance for Bangladesh)	0.690	0.569	↓	4.00 percent	
	International Oil Price	0.551	0.900	↑	$80.92/barrel in December/2022. Oil price increased till August/2022.	
	3-months LIBOR rate	0.393	0.475	↑	4.738 percent in December/2022.	
	Current account deficit to GDP	1.000	0.564	↓	-0.275 percent in Q4/2022.	
	Reserve Adequacy (Import coverage in months)	0.665	0.678	↑	5.5 months in December/2022.	Reverse ratio.
	Overall component Score	**0.515**	**0.540**	↑		
Domestic Economy	Output gap	0.200	0.500	↑	2.53 percent.	
	External debt to GDP	0.221	0.240	↑	23.95 percent in Q4/2022.	
	Exchange rate fluctuations (REER)	0.558	0.554	↓	104.81 for December/2022.	REER value
	Inflation	0.245	0.495	↑	8.71 percent in December/2022.	Point to Point for end 2022.
	Overall component Score	**0.289**	**0.457**	↑		
Households	Household borrowing to GDP	0.754	0.767	↑	5.82 percent using FY22 GDP with base 2015-16.	
	Household Credit quality (H.H NPL to H.H Loans)	0.000	0.276	↑	4.83 percent for 2022.	

[59]The cut-off date for latest value of any indicator is 31st December, 2022. 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, 2022 data are not available at the time of index preparation, data from end-June 2022 have been used.
[60]Some indicators for 2021 have been re-estimated. In some cases, threshold values used for standardizing the indicators have also been modified from the previous publication (FSR-2021).
[61]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 LXI: Financial Stability Map (Contd.)						
Components	**Major Indicators**	**Standardized Scores (0 to 1 Scale)**		**Change w.r.t. 2021**	**Latest Value of the indicator[59]**	**Comment**
	Inward Remittance to GDP	0.422	0.497	↑	5.24 percent using FY22 GDP with base 2015-16.	Reverse ratio.
	Overall component Score	**0.392**	**0.513**	↑		
Non-Financial Corporation	All NFC's credit to GDP	1.000	0.994	↓	28.2 percent in December/2022 using FY22 GDP with base 2015-16.	
	Top 50-NFC's loans to Banking Sector Loans	0.863	0.879	↑	17.8 percent in December/2022.	
	D/E ratio of All NFCs	0.491	0.364	↓	85 percent in December/2022.	
	Credit portfolio quality of Top 50 NFC's	0.147	0.159	↑	3.71 percent in December/2022.	
	Overall component Score	**0.625**	**0.599**	↓		
Fiscal Condition	Public debt to GDP	1.000	0.888	↓	39.09 percent	
	Sovereign Risk Premium	0.443	0. 112	↓	-3.25 percent in December/2022.	
	Govt. budget balance to GDP	0.197	0.546	↑	4.76 percent using FY22 GDP with base 2015-16	
	Tax revenue to GDP	0.850	0.770	↓	7.76 percent	Reverse ratio
	Overall component Score	**0.643**	**0.612**	↓		
Financial Market Condition	Asset Concentration of top 3 D-SIBs to Industry Assets	0.284	0.275	↓	27.49 percent in December/2022.	
	Gross NPL of Banking Sector	0.052	0.058	↑	8.16 percent in December/2022.	
	RWA density ratio	0.611	0.612	↑	61.17 percent in December/2022.	
	Banking Sector resilience map	0.720	0.790	↑	0.79 in December/2022.	
	Deposit covered by DITF	0.770	0.788	↑	21.19 percent	Reverse ratio.
	NPL of FIs	0.695	0.958	↑	23.88 percent in December/2022.	
	Price Earnings Ratio	0.401	0.630	↑	14.11 times in December/2022.	Reverse ratio used up to a certain level. Weights for FI and capital market indicators are finalized using their proportional size in the financial system (Bank + FI + Capital Market)
	DSEX	0.221	0.275	↑	6376.9 points in December/2022.	Reverse ratio.
	Overall component Score	**0.354**	**0.405**	↑		

APPENDIX LXII: FINANCIAL STABILITY MAP (CONTD.)						
COMPONENTS	MAJOR INDICATORS	STANDARDIZED SCORES (0 TO 1 SCALE)		CHANGE W.R.T. 2021	LATEST VALUE OF THE INDICATOR	COMMENT
		2021	2022			
Capital & Profitability	CRAR	0.568	0.268	↓	11.83 percent in December/2022.	Reverse ratio
	TIER 1	0.699	0.000	↓	8.39 percent in December/2022.	Reverse ratio
	NIM	0.544	0.548	↑	2.47 percent in December/2022.	Reverse ratio
	ROA	0.854	0.639	↓	0.62 percent	Reverse ratio
	Overall component Score	**0.666**	**0.364**	↓		
Funding & Liquidity	ADR	0.364	1.000	↑	79.00 percent in December/2022.	
	LCR	0.261	0.574	↑	153.97 percent in December/2022.	Reverse ratio
	NSFR	0.202	0.195	↓	110.22 percent in December/2022.	Reverse ratio
	Overall component Score	0.277	0.594	↑		

This report is prepared by Financial Stability Department, Bangladesh Bank, Head Office, Motijheel, Dhaka-1000, Bangladesh.

The report is released in 2023 and is based on data and information available as of December 2022, unless stated otherwise.

The report can be accessed through internet at https://www.bb.org.bd/en/index.php/publication/publictn/0/37

Feedback on the report may be given to gm.fsd@bb.org.bd.