Quarterly

Financial Stability Assessment Report

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Bangladesh Bank

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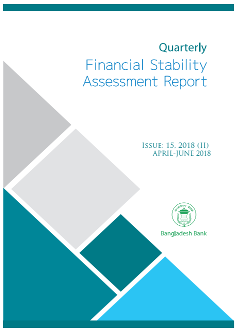
April-June 2018

Financial Stability Department
Bangladesh Bank



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This report is based on unaudited and provisional data of banks and financial institutions available up to June 30, 2018 unless stated otherwise in the relevant chapters/sections.

Web link of this report: https://www.bb.org.bd/pub/index.php

MESSAGE FROM THE GOVERNOR

A new uncertainty around the global development prospect has emerged from the international trade situation, which may be amplified by protectionist measures of advanced countries. Due to growing interconnectedness, an escalated trade tension between larger economies might increase the cost of production of consumer goods and daily essentials that might affect the purchasing power of people worldwide. Amid intensifying trade tensions, heightened geopolitical risks, more volatile energy prices, and the possibility of interest rate hike in the US can dent the process of attracting more foreign investments in economies like ours. Hence, all of these recent developments should be duly taken into account by the stakeholders as these can affect the business environment in Bangladesh through export, import and wage earners' remittance channels.

A resilient and sound financial system is of utmost importance in maintaining the sustainable economic growth of Bangladesh. Being the central bank of the country, an assessment of the state of financial stability along with the identification of underlying risks and conveying its findings to the stakeholders is of paramount importance to us. To this end, Bangladesh Bank started publishing Financial Stability Assessment Report from late 2014 with an aim to transmit its assessment of the stability and resilience of the financial system to the stakeholders on a more frequent interval. This is the 15th issue of the report which stipulates that financial system of Bangladesh was mostly resilient during April-June 2018, attributable to the growth-supportive policy stances of the financial sector regulators, strong fiscal discipline as well as the pivotal role played by the financial intermediaries.

Nevertheless, there remains no room for us to remain complacent about recent stability situation. The level of current account deficit may pose as a near-term risk. However, this risk is likely to die out over time due to the considerable increase in investment and infrastructure development. On the other hand, managing credit concentration among the largest borrowers, reducing lending rates further by increasing efficiency, addressing cyber-security issues and bringing down non-performing loans have to be dealt with due diligence.

I hope this report will enlighten financial system stakeholders with valuable information and facilitate financial stability initiatives. I thank the officials of Financial Stability Department of Bangladesh Bank for their valuable contribution in bringing this report to light.

Fazle Kabir
Governor

MESSAGE FROM THE DEPUTY GOVERNOR

In the global perspective, growth has strengthened in a number of advanced and emerging market economies during the review quarter. Also, global trade has demonstrated strong recovery. However, increasing oil prices pushed up the headline inflation in some advanced and emerging market economies except the case of China, India, Japan and the UK. Besides, gradual policy normalization in the US along-with appreciation of US dollar during the review quarter coincided with a weakening of capital flows to emerging economies. What is more, ongoing geopolitical tensions and protectionist policies in a few advanced economies might jeopardize the recovery of global growth if those result in severe trade tension.

On domestic front, stable inflation, increase in foreign exchange reserve and rise in wage earners' remittance contributed to the moderate level of stability of the financial system. On aggregate basis, banking sector profitability, measured in terms of equity, liquidity and asset quality improved during the review quarter. FI sector profitability too demonstrated uptrend. However, there are downside risks regarding banking sector capital adequacy and asset quality of the FI sector.

Several initiatives were taken by Bangladesh Bank and the Government during the review quarter that have implications to macro-financial stability of the country. Rationalisation of interest rate on deposit and lending, re-fixation of cash reserve ratio and repo rate, relaxation in general provision requirement for banks in few cases, issuance of floating rate treasury bond, changes in the foreign exchange regulations, resetting tenure of repo instruments, amendment in prudential regulations for consumer financing, instructions to banks to ensure proper utilisation of loan, developing collateral information system are instances of notable initiatives.

Bangladesh Bank has been implementing global best practices regarding capital, provisioning, liquidity, leverage, governance and risk management to its possible best extent. Also, Bangladesh Bank has been strengthening its regulatory and supervisory landscape relentlessly. Nevertheless, it may not always be possible well ahead to assess or quantify the magnitude of some shocks, especially the external ones, due to their inherent randomness and multifaceted dimension. Recent escalation of trade tensions, gradual policy normalization by a number of advanced economies might create uncertainty in the financial and business environment of banks and financial institutions. Bearing this in mind, stakeholders need to remain watchful always regarding adverse developments in the global financial system and take preemptive measures accordingly.

I hope this report will assist the stakeholders of the financial systems to have a precise view of financial conditions and enable them to contribute to maintaining the stability of the financial system. Finally, I would like to commend the dedication and efforts of the officials of Financial Stability Department and other contributing departments of Bangladesh Bank in preparing this report.

Ahmed Jamal

Deputy Governor

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Acronyms

ADs	Authorised Dealers
ADR	Advance-to-Deposit Ratio
B/L	Bad and Loss
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BDT	Bangladesh Taka
BPS	Basis Point
BRPD	Banking Regulation and Policy Department
CAR	Capital Adequacy Ratio
CPI	Consumer Price Index
CRAR	Capital to Risk-weighted Asset Ratio
CRR	Cash Reserve Ratio
CSE	Chittagong Stock Exchange
CY	Calendar Year
DFIs	Development Finance Institutions
DFIM	Department of Financial Institutions and Markets
DOS	Department of Off-site Supervision
DSE	Dhaka Stock Exchange
EMEs	Emerging Market Economies
FCBs	Foreign Commercial Banks
FIs	Financial Institutions
FOB	Free on Board
FSD	Financial Stability Department
FSV	Forced Sale Value
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Domestic Product
GFET	Guidelines for Foreign Exchange Transactions
IS	Interest Suspense
NPL	Non-performing Loan
PCBs	Private Commercial Banks
P/E	Ratio Price Earnings Ratio
QFSAR	Quarterly Financial Stability Assessment Report
ROA	Return on Assets
ROE	Return on Equity
RWA	Risk-weighted Assets
SCBs	State-owned Commercial Banks
SLR	Statutory Liquidity Requirement
SME	Small and Medium-sized Enterprise
TSL	Two-Step Loan
USA	United States of America
USD	United States Dollar
UK	United Kingdom
WAR	Weighted Average Resilience
WIR	Weighted Insolvency Ratio

Executive Summary

This report conveys the assessment of Bangladesh Bank on the resilience of the domestic financial system to risks and vulnerabilities during the April-June quarter of the calendar year 2018. The report also discusses different financial sector issues having implications to stability of the Bangladesh financial system.

The global macroeconomic situation remained favourable during the review quarter. Most of the advanced and emerging market economies including UK, USA, Japan and China witnessed strengthened GDP growth during the review quarter, largely attributable to expansionary fiscal policy, robust credit growth and strong global demand growth. During the same period, rising oil prices pushed up the headline inflation in a number of advanced and emerging market economies except China, India, Japan and UK in which the same recorded a decline. Global trade demonstrated strong recovery on the back of improved investment condition in the commodity exporting countries, recovery in investments in advanced economies and robust domestic demand in emerging market and developing economies. Gradual policy normalization by the US Federal Reserve along with the appreciation of US dollar during the review quarter coincided with a weakening capital flows to emerging economies which reflected a downside risk to emerging market and developing economies. Moreover, geopolitical tensions and protectionist policies in a number of jurisdictions may threaten to jeopardize the recovery of global growth.

The domestic macroeconomic situation demonstrated moderate level of stability during the review quarter. Annual average inflation remained stable at 5.8 percent during the review quarter; food inflation declined while non-food inflation edged up due to upward pressure in global oil prices. In the review quarter, import payments recorded an increase of 1.3 percent compared to that of the preceding quarter; though export receipts decreased by 3.2 percent, wage earners' remittance increased by 10.2 percent during the same period. The value of Bangladesh Taka (BDT) adjusted downward against US dollar to maintain export competitiveness. Gross foreign exchange reservesstood at USD 32.9 billion at end-June 2018, equivalent to meeting more than four months' imports. The interest rate spread widened marginally as both weighted average lending and deposit rates increased. During the review quarter, gross government borrowing from the banking system increased.

The banking sector demonstrated reasonable level of resilience in the review quarter. The balance sheet size of the banking sector increased by 5.2 percent and stood at 62.3 percent of the gross domestic product (GDP) at end-June 2018. Loans and advances which continued to secure the largest share of total assets experienced a decline in its share by 40 basis points (bps) during the review quarter. Non-performing loans net of specific loan loss provisions and interest suspense to total loans decreased to 2.7 percent from 3.3 percent of end-March 2018. Yet, the share of bad and loss loans in the non-performing loan portfolio recorded an increase of 80 bps over the previous quarter. Provision maintenance ratio improved and concentration of NPL in top 5 and top 10 banks reduced during the quarter. Key profitability indicators, return on assets (ROA) remained unchanged while return on equity (ROE) increased marginally compared to the preceding quarter. Though risk-weighted asset of the banking industry recorded an increase, capital to risk weighted asset ratio (CRAR) remained mostly unchanged. During the review quarter, banking sector liquidity improved as advance-to-deposit ratio (ADR) decreased. Besides, the banking industry maintained a leverage ratio notably higher than the regulatory minimum requirement on both solo and consolidated basis.

Financial Institutions (FIs) sector exhibited a mixed trend. During the review quarter, deposits comprising 55.4 percent of total funds remained the major source of financing for FIs and loans and leases with 73.7 percent dominated the asset composition. Liabilities to assets ratio increased at end-June 2018 as share of capital declined as a source of fund. FIs' classified loans and leases ratio increased by 40 bps to reach 9.2 percent at the end of June quarter. Increase in classified assets along with risk-weighted assets (RWA) for credit risks caused FIs' capital adequacy ratio (CAR) to decline by 90 bps and stood at 12.8 percent at end-June 2018. However, the maintained CAR was notably higher than the regulatory requirement of 10 percent. ROA remained unchanged while ROE increased slightly. During the quarter, FIs sector had sufficient liquidity as evident from the sector's adequate CRR and SLR position.

The banking and FIs sectors demonstrated mixed resilience under stressed scenario. During the review quarter, stress tests on banks indicate that credit risk remained the dominant risk for banks under different level of shock scenarios. Among them, increase in NPLs and default of top borrowers would have major adverse impacts on the banking sector CRAR. Among the market risks, interest rate shock would have put stress on the aggregate CRAR. However, individual bank and the banking system, as a whole, appeared to remain resilient against other market risks as well as liquidity risks. Stress test on FIs reveals that a majority of them remain resilient in the event of stress scenarios as of end-June 2018.

The domestic capital market continued to demonstrate price correction. Both bourses of the country, DSE and CSE, witnessed an increase in turnover during the review quarter compared to the previous quarter. However, all key indices of both bourses along with market capitalization and price/earnings ratio recorded decline during the quarter. This situation reflects a decline in share prices, in general, at both bourses. Market capitalization as a percentage of GDP also decreased from 19.2 percent at end-June 2017 to 17.1 percent at end-June 2018. A depressed performance of the banking sector, one of the top two sectors in terms of market capitalization, largely contributed to this decline in market capitalization during the review quarter.

Bangladesh Bank (BB) took a number of initiatives during the review quarter to smoothen financial intermediations and to ensure discipline in the financial system. During the review quarter, some of the important initiatives taken by the BB/Government were re-fixation of cash reserve ratio (CRR) and repo rate to ease liquidity condition, resetting the tenure of repo instruments, development of collateral information system to bring discipline in loan sanctioning process, exemption from maintaining general provisions by banks against selected off-balance sheet items, amendment in prudential regulations for consumer financing (credit card), rationalization of deposit and lending rates to reduce interest rate spread, restrictions on increase of interest rate of flexible rate loans, issuance of Floating Rate Treasury Bond (FRTB) for better management of Govt.'s financial needs, and changes in foreign exchange regulations to smoothen the foreign exchange market in Bangladesh.

Chapter-1

Macroeconomic Developments

1.1 Global Macroeconomic Situation

Global growth has strengthened during the review quarter attributable to a notable rebound of global trade, supported by strong momentum, favourable market sentiment and accommodative financial conditions.

1.1.1 Global GDP Growth

Global growth is projected to stand at 3.9 percent in both 2018 and 2019. The rate of expansion peaked in some major economies (Chart 1.1). GDP growth rate in the UK, USA, Japan, China, OECD and G20 countries[1] increased in the review quarter, Q2 of 2018, attributable to expansionary fiscal policy, robust credit growth and high global demand. However, growth in Euro area and European Union remained same to 0.4 percent (Chart 1.2) in comparison with the same of the preceding quarter.

1.1.2 Global Inflation Outlook [2] :

Largely reflecting supply shortfalls, global oil prices rose by 16 percent between February 2018 and early June 2018. This increase has lifted headline inflation in a number of advanced and emerging market economies. Pertinently, inflation on a quarterly basis, recorded an upward trend in G20 countries, US, European Union, Euro area while the same recorded a decline in China, India, Japan, and United Kingdom (Chart 1.3).

1.1.3 Global Trade Condition

Global trade has gained a strong recovery after two years of weakness. The improved investment growth rates in commodity exporting countries and recovery in advanced economy investment, and increased domestic demand caused the strong trade growth in emerging markets and developing economics. Germany, Japan, the United Kingdom, and the United States contributed strongly to the recovery in exports. The rebound in imports reflects, to a large extent, an import recovery among commodity exporting countries.

1.1.4 Global Credit

China has been demonstrating a higher credit-to-GDP gap during the last couple of quarters. At end-March 2018, the country's credit-to-GDP gap was 14.9, higher than 12.7 recorded at end-December 2018. Pertinently, India, UK, USA and Euro Area has negative Credit-to-GDP gap in end-March 2018 quarter.

1.1.5 Exchange Rate and Capital Flow

The US dollar has strengthened by over 5 percent in real effective terms since February 2018 while euro, Japanese yen, and British pound sterling remained broadly unchanged. In contrast, currencies of some emerging markets have depreciated notably. For instance, Turkish Lira has weakened by around 10 percent, due to concerns about financial and macroeconomic imbalances. The Brazilian real has depreciated by over 10 percent. The currencies of the largest emerging market economies in Asia have remained broadly in line with their levels in February 2018, while, Chinese Renminbi recorded a moderate depreciation. Capital flows to emerging economies demonstrated a weakening trend in the second quarter after a strong start to the year, with a pickup in non-resident sales of portfolio debt securities.

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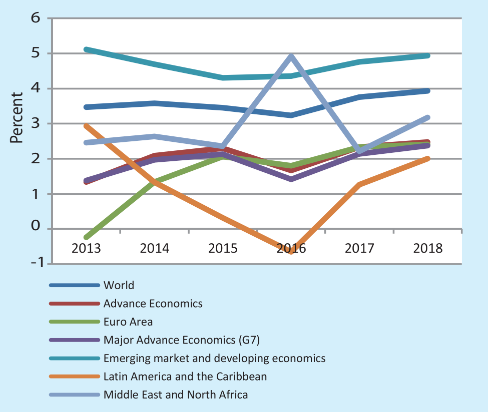
1 Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States, and the European Union

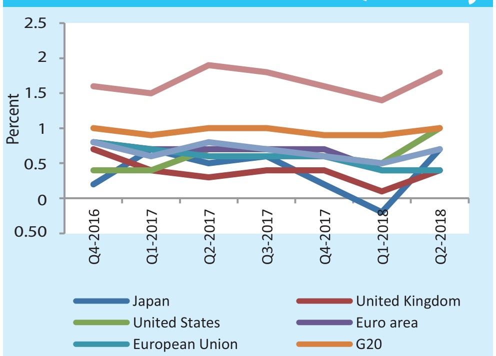
2 For subsection 1.1.1 through 1.1.6, see IMF's world economic outlook update, released in July 2018.

Chart 1.1 GDP Growth-Yearly



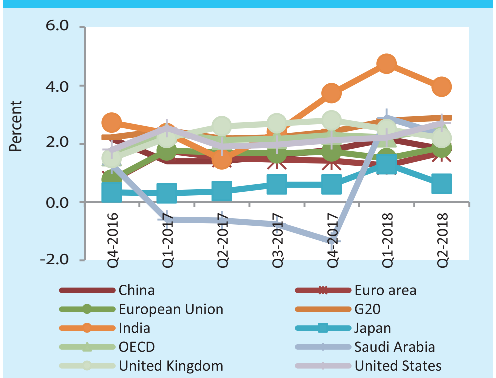
Source: IMF, World Economic Outlook Database, April 2018. 2018 data are projected.

Chart 1.2 GDP Growth-Quarterly



Source: OECD.

Chart 1.3 Global Inflation



Source: IMF, World Economic Outlook Database, April 2018

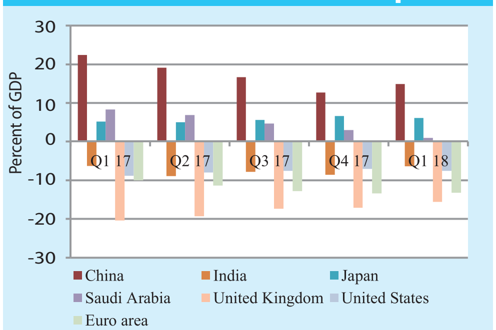
1.1.6 Financial Conditions in Advanced Economies

The US Federal Reserve continued the course of gradual policy normalization. It increased the target range for the federal funds rate by

Chart 1.4 Global Trade

Source: IMF, World Economic Outlook Database, April 2018.

Chart 1.5 Credit to GDP Gap ratio



Note: Based on total credit to the private non-financial sector, as % of GDP.

Source: BIS

25 basis points in June. Also gave signal of two additional rate hikes in 2018 and three in 2019. On the other hand, the ECB announced that it will taper its monthly asset purchases from the current Euro 30 billion to Euro 15 billion in October 2018, with an anticipated end to the program on December 31, 2018. Equity prices in advanced economies are generally higher than their February-March levels. After the February spike, volatility has subsided while risk appetite has been strong.

1.1.7 Financial Conditions in Emerging Markets

Central banks in emerging market economies-including Argentina, India, Indonesia, Mexico, and Turkey have raised policy rates, responding to inflation and exchange rate pressures. Long-term yields have also increased recently while spread recorded a modest decline.

1. 2 Domestic Macroeconomic Situation

Macro-financial system of Bangladesh has been able to demonstrate moderate level of stability during the review quarter, attributable to stable inflation, increase in foreign exchange reserve and wage earners remittance.

1.2.1 Inflation

At end-June 2018, annual average CPI inflation (base: 2005-06=100) remained unchanged at 5.8 percent with respect to that of the previous quarter, though slightly increased from 5.4 percent of end-June 2017. Food inflation decreased to 7.1 percent from 7.3 percent of the preceding quarter, while non-food inflation rose to 3.7 percent from 3.6 percent recorded at end-March 2018 (Chart 1.6).

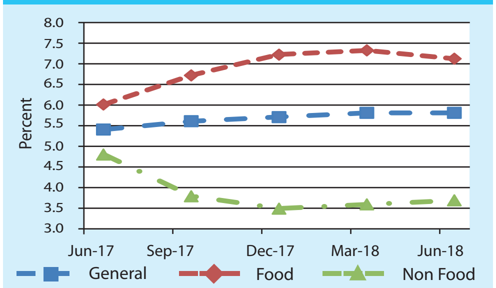
1.2.2 Foreign Exchange Reserve and its Import Coverage

At end-June 2018, the gross foreign exchange reserves reached at USD 32.9 billion recording an increase of 1.5 percent from USD 32.4 billion of end-March 2018 (Chart 1.7). The reserve position was equivalent to meeting more than four months' imports of goods and services[3].

1.2.3 Wage Earners' Remittance

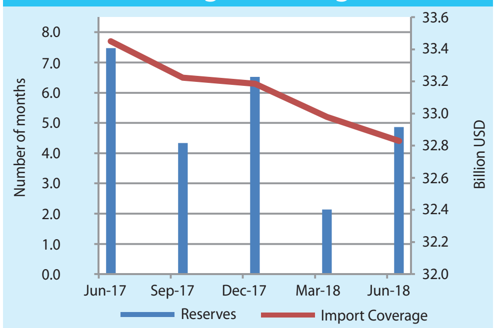
Remittance from Bangladeshi nationals, working abroad, stood at USD 4,220.7 million during the review quarter, recording an increment of 10.2 percent compared to USD 3,829.3 million of the preceding quarter. The remittance in the review quarter was 18.1 percent higher than that of the same period of the previous calendar year (Chart 1.8).

Chart 1.6 Inflation



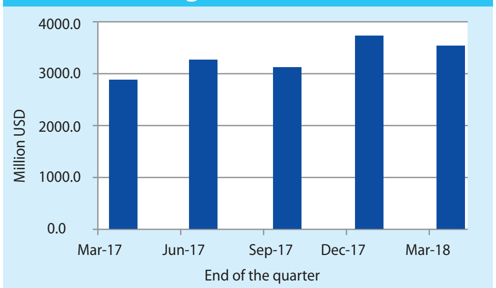
Source: Bangladesh Bureau of Statistics, Base 2005-06=100.

Chart 1.7 Foreign Exchange Reserves



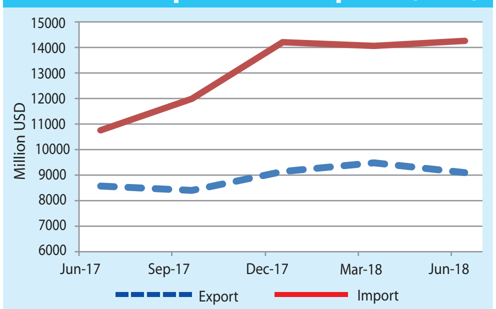
Source: Statistics Department, BB.

Chart 1.8 Wage Earners' Remittance



Source: Monthly Economic Trends, BB (various issues).

Chart 1.9 Exports and Imports (FOB)



Source: Statistics Department, BB.

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3 Compiled on the basis of import (shipment) data received from NBR website.

5 On FOB basis.
Note: P = provisional

1.2.4 Imports and Exports

In the review quarter, aggregate import payment[4] increased by 1.3 percent and 27.3 percent from USD 13,986.0 million of the preceding quarter and USD 11,123.0 million of the same quarter of CY17 respectively. On the other hand, export receipts decreased by 3.2 percent from USD 9,412.0 million of the preceding quarter. However, compared with June quarter of 2017, export receipts increased by 4.8 percent.

1.2.5 Interest Rate

The spread between weighted average lending and deposit rates increased to 4.5 percent with respect to that of end-March 2018; spreads of 11 out of 57 banks were above 5.0 percent. Out of these 11 banks, 7 and 4 were in the category of FCBs and PCBs respectively.

Pertinently, in March 2018, the weighted average lending and deposit rates were 9.95 percent and 5.5 percent respectively compared to 9.7 percent and 5.3 percent of March 2018, and 9.5 percent and 4.8 percent of June 2017.

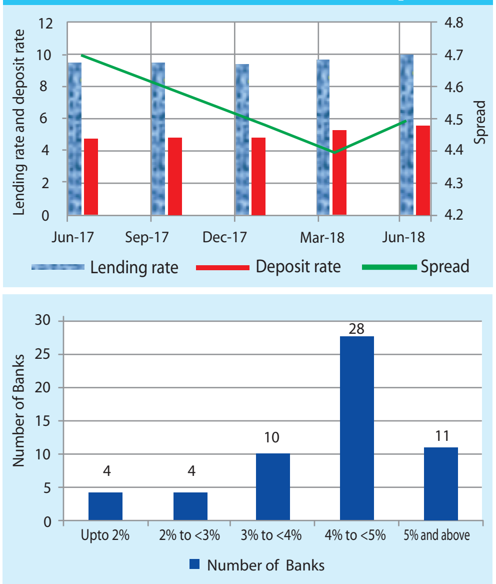
1.2.6 Exchange Rate[5]

The exchange rate of Bangladesh Taka against US dollar, recording a depreciation, stood at 83.70 in June 2018 from 82.96 in March 2018. The rate was BDT 80.59 per USD in June 2017.

1.2.7 Credit to the Government (Gross) by the Banking System

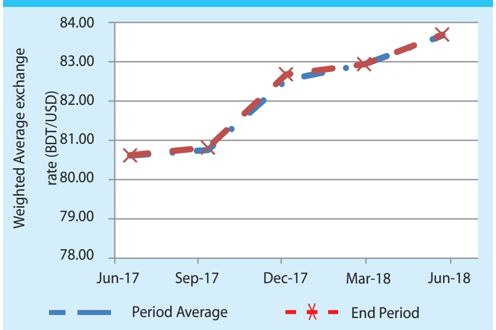
Credit to the Government (gross) by the banking system increased by 15.8 percent and 5.7 percent respectively from the position of end-March 2018 and end-June 2017.

Chart 1.10 Interest Rate Spread



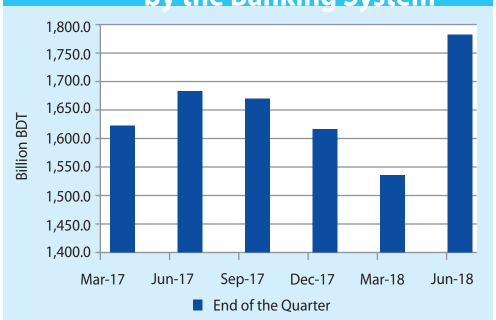
Source: Statistics Department, BB.

Chart 1.11 Exchange Rate



Source: Monthly Economic Trends, BB (Various issues).

Chart 1.12 Credit to the Govt. (Gross) by the Banking System



Source: Monthly Economic Trends, BB (Various issues).

[5] BDT per USD on weighted average basis.

Box-1: An Insight into the External Debt of Bangladesh

After the global financial crisis (GFC) of 2007-2008, a number of advanced countries resorted to large scale quantitative easing programs to boost up their economic activities. However, after a long period, US monetary policy surprises-particularly recent rise in federal fund rate, pronouncement of further rise of the same in the current calendar year as well as in 2019, rise in UK policy rate, and tapering of European Central Bank's asset purchase program might create tensions among emerging market economies, prompting them to follow the stance of monetary tightening. Amid this environment, prospective inflow of external debt to Bangladesh is likely to decline while existing debts may also be affected. In this perspective, this study analyzes current external debt situation of Bangladesh from financial stability standpoint.

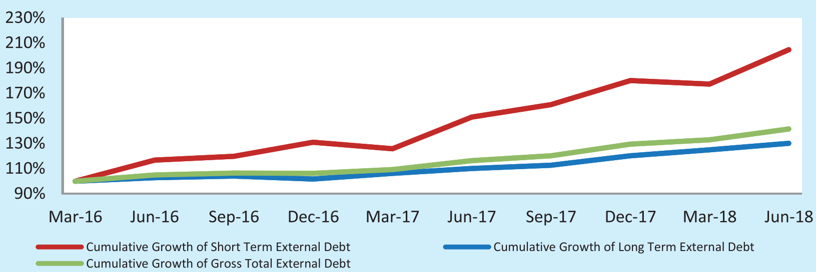
The amount of external debt in Bangladesh has been rising rapidly for last couple of years. It has increased to 141 percent from USD 38,886 million at end-March 2016 to USD 54,737 million at end-June 2018. This growth largely came from the high growth rate of short-term external debt. Indeed, cumulative growth of short-term external debt has increased to 205 percent in June 2018 from March 2016. Pertinently, short-term external debt accounted for 22 percent of total external debt in June 2018.

Generally, rapid growth of short-term foreign debt is considered as an early indicator of potential vulnerability. However, current share of short-term debt to total debt portfolio seems to be considerably low.

Chart B 1.1 External Debt Position of Bangladesh

Data Source: National Summary Data Page (NSDP)- Bangladesh, Bangladesh Bank Website. FSD Staff Calculation

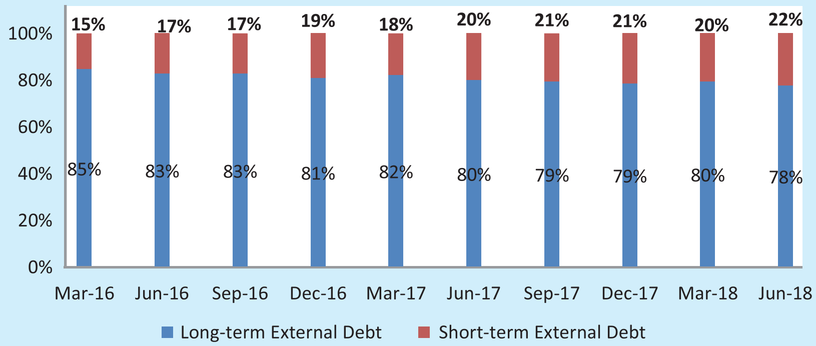
Chart B 1.2 Cumulative Growth of External Debt



Base : March 2016 = 100

Data Source: National Summary Data Page (NSDP)- Bangladesh, Bangladesh Bank Website. FSD Staff Calculation.

Chart B1.3 Gross External Debt Composition in Bangladesh

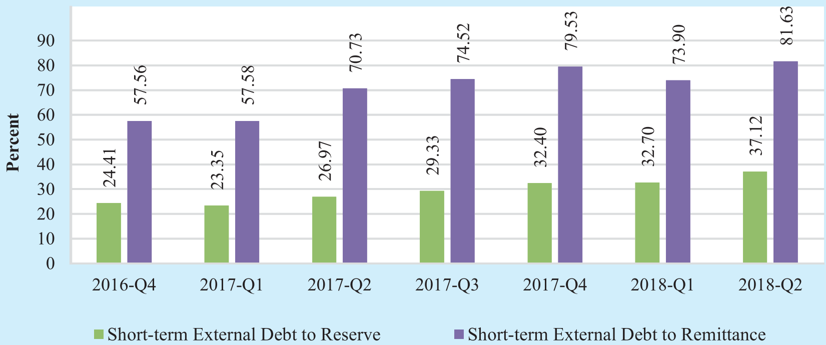


Data Source: National Summary Data Page (NSDP)- Bangladesh, Bangladesh Bank Website. FSD Staff Calculation.

The current external debt-to-GDP ratio too seems to be low as well; in financial year 2017-18, external debt-to-GDP ratio stood was 20 percent while short-term external debt-to-GDP ratio was 4.44 percent.

Short-term external debt in excess of short-term liquidity, as measured by holdings of foreign reserves, increases countries' vulnerability to adverse financial shocks. As of June 2018, the short-term external debt to foreign exchange reserve ratio in Bangladesh was 37 percent. As a matter of comparison, Thailand, Indonesia, Korea and Malaysia had short-term debt to foreign reserve of 99.69 percent, 176.59 percent, 203.23 percent, and 40.98 percent prior to the Asian Financial Crises, much higher than the current ratio of Bangladesh. Interestingly, short-term external debt to remittance ratio stood at 81.63 percent at end-June 2018, implying that such debt can be fully off-set by yearly remittance inflow.

Chart B1.4 Short-term External Debt to Reserve and Remittance



Note : Remittance refers to figures of four quarters up to corresponding quarter.
Source: Data Source: National Summary Data Page (NSDP)- Bangladesh, Bangladesh Bank Website. FSD Staff Calculation.

Usually, foreign lenders and speculators get ready to act once the outstanding foreign short-term external debt exceeds the country's foreign exchange reserves. Though it is still far from the point where sentiment of foreign lenders can precipitate a financial stress by sudden call back of their debt, resilience of Bangladesh financial system to withstand external shock needs to be enhanced.

In sum, current external debt-to-GDP ratio of Bangladesh is still low. Current level of international reserve is adequate to redeem the short-term external debt obligation. Nevertheless, since short-term external debt is growing rapidly, utilization of the same needs to be monitored prudently so that it cannot turn out to be a source of distress.

Box 2: USA-China Trade Tension:
Possible Impact on Bangladesh Economy

The ongoing US-China trade tension has raised concern as well as opportunity for many emerging economies including Bangladesh. Given the current account scenario of the country, it appears to be important to understand its possible impacts on our economy particularly from financial stability point of view. However, it is somewhat early to forecast the exact impact of this trade tension as its related parties, probable track, intensity and duration are still not very much clear. But, based on available information that we have now, an attempt has been made to guess some possible impacts on the external health of the economy.

Table-B2.1
Foreign Trade Exposure of Bangladesh to USA, China & India

	China	USA	India
Import (% of Total Import)	25.2	2.8	15.2
Export (% of Total Export)	3.0	15.3	2.3

Source: Bangladesh Bank

The Table B2.1 shows that China, US and India are Bangladesh's major trade partners. China is the Bangladesh's highest import partner. Major imports from China are cotton, electronics products, man-made staple fibres, knitted fabrics, iron and steel, plastic & paper products, chemicals, fertilizers etc. In contrast, Bangladesh's export to China is quite small suggesting that exogenous shock from China is likely to have bigger impact through import channel.

On the other hand, USA is one of our major export destinations. Bangladesh's main export to US are readymade garments, fish-shrimps-prawns, home textiles, jute and jute products, leather and leather products, handicrafts and others. (Bangladesh runs trade surplus with US as the size of import from the latter country is quite small and the main imported items are oil seeds and miscellaneous grains, cotton, iron and steel, medical equipments, cereals, pharmaceutical products etc.) Apparently, major exogenous shock from US may transmit into Bangladesh economy through export channel. In this scene, India's response comes into play a role for Bangladesh as it is her major import partner after China.

Table B2.2 illustrates that about 7% of Bangladesh's total current exports are *identical* and around 5% of them are *similar* to the tariff-imposed Chinese products. In other words, around 88% of Bangladesh's aggregate current export is unrelated to Chinese products under US tariff. Nevertheless, as effective price of the *identical* and *similar* Chinese export products in US market would be higher, Bangladesh is likely to gain competitive advantage for this segment of export products subject to successfully addressing the issues like infrastructural changes, competition from other countries, financing readiness from financial sectors, skilled labor shortage, depreciation of Chinese currency etc. China is also trying to retain its share through various measures. Depreciation of Chinese currency against USD since April, 2018 could partially offset the tariff hike against China. But as the US tariff rate will be as high as 25% from January, 2019 whereas Chinese RMB depreciates approximately 10% (see Table B2.3), the competitive advantage on price may remain for other countries including Bangladesh assuming that RMB will not depreciate further. However, if China and other competing countries in US market depreciate their own currencies, Bangladesh may lose its competitive advantage without depreciating BDT against US Dollar. On the other hand, China's strategy to maintain the market share through productivity gain cannot be ignored. For Bangladesh, productive capacity change may be somewhat difficult for the time being. But different alternative management may be possible, for example, by increasing production shift, coordinating with small-manufacturers etc. Competition from other countries may be managed through lobbying, marketing, and maintaining time in order delivery. Financing readiness may be managed by more financial sector discipline, especially in ADR, credit growth rate and interest rate spread. Shortage of skilled labor may be managed by pay-rise, outsourcing etc.

Table B2.2
Similarity of Bangladesh's Import-Export with Chinese Products under US Tariff

	Chinese Export under US Tariff (6831 Products amounting $250 Billion, 49% of Chinese Export to US)
Bangladesh Export[6]	**Potential Export to US Market** ➢ Identical Products[7]: 75 Items ($2.27 Billion of Bangladesh's Export covering around 7% of total export) ➢ Similar Products[8]: 117 Items ($1.76 Billion of Bangladesh's Export covering around 5% of total export)
Bangladesh Import[9]	**Potential Import from Chinese Market** ➢ Identical Products: 179 Items ($17.36 Billion of Bangladesh's Import covering around 33% of total import) ➢ Similar Products: 213 Items ($19.13 Billion of Bangladesh's Import covering around 37% of total import)

Source: BB's Foreign Exchange Transaction Monitoring Dashboard (Data-01.07.2017-30.06.2018), US tariff lists on Chinese products (2018) and Chinese tariff lists on US products (2018).

6 Top 500 export items in terms of value (which covered approximately 98% of the total export) are taken from dashboard and those are matched with the final tariff lists of USA on Chinese products. HS Code of both list are then matched to find the identical or similar export of Bangladesh and Chinese exports under US tariff.

7 Identical Products are termed to those products whose first 8 digits of the HS Codes from left are same.

8 Similar Products are termed to those products whose first 6 digits of the HS Codes from left are same.

9 Top 495 import items in terms of value (which covered approximately 90% of the total import are taken from dashboard and those are matched with the final tariff lists of USA on Chinese products. HS Code of both list are then matched to find the identical or similar import of Bangladesh and Chinese exports under US tariff.

Table B2.3

Country	Currency	Approximate Depreciation since April, 2018 against USD*	Apparel Market Share in US**
China	CHY	10%	33.7%
India	INR	13%	4.6%
Indonesia	IDR	10%	5.7%
Mexico	MXN	5%	4.5%
Vietnam	VND	2%	14.4%
Bangladesh	BDT	1%	6.3%

Source: *FSD Staff Calculation.
**Office of Textile and Apparel, U.S.

Furthermore, the country is likely to gain from recent considerable devaluation of Indian Rupee. In particular, lower import price of cotton may help to boost up RMG export. China's exports amounting $250 billion (11% of China's total export), which is under US tariff has to find its new market through price reduction to clear them. In that case, domestic market will face tougher competition from China, though lower import cost will have beneficial effect on our external balance.

In sum, given the current scenario, overall impact on external balance appears to be favourable, though it is too early to assess the dynamic effect of US-China trade tension on Bangladesh economy.

Banking Sector Performance

Improvement in asset quality, stable profitability and increase in asset size contributed to the reasonable level of stability during the review quarter.

2.1 Assets Structure

The balance sheet size of the banking sector[10] stood at BDT 14,004.0 billion at end-June 2018, recording an increase of 5.2 percent from BDT 13,326.1 billion[11] of end-March 2018 and 13.3 percent from BDT 12,370.3 billion of end-March 2017. Maximum portion of the banking industry's assets were held by the PCBs. It is worth noting that banking sector assets-to-GDP ratio stood at 62.3 percent at end-June 2018[12] which was 67.4 percent at end-March 2018 [13].

Loans and advances, the largest segment among the asset items, constituted 65.4 percent of total assets during the review quarter. Major portion of loans and advances were extended by the PCBs. However, the share of loans and advances, as a percentage of total assets, decreased by 40 basis points at end-June 2018, compared with that of end-March 2018.

The share of banks' assets with Bangladesh Bank increased by 50 basis points while balances with other banks and financial institutions increased by 40 basis points compared to that of end-March 2018. The share of other assets decreased by 20 basis points. Besides, the share of investments in government and other securities decreased by 30 basis points.

[10] Taking into account only scheduled banks (57).

[11] Revised.

[12] Taking into account GDP at current market price for the financial year 2017-18.

[13] Taking into account GDP at current market price for the financial year 2016-17.

R-Revised.

The asset concentration ratios of Top 5 and Top 10 banks against the total banking system assets were 30.9 percent and 44.5 percent respectively at end-June 2018 (Chart 2.5 and 2.6).

Banking sector asset concentration has also been illustrated using Lorenz Curve and Gini Coefficient. The position of the Lorenz Curve, shown in Chart 2.7, indicates the presence of a moderate concentration in assets of the banking industry. The calculated Gini coefficient of 0.474 also supports the presence of moderate concentration in asset. It is worth noting that, there has been no major change in asset concentration in the banking sector compared with end-March 2018.

2.2 Asset Quality

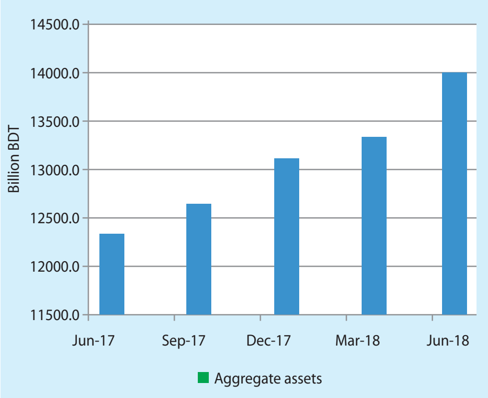
Non-performing loans net of specific loan loss provisions and interest suspense to total loans decreased to 2.7 percent from 3.3 percent of end-March 2018 and increased from 2.6 percent of end-June 2017. However, the gross NPL ratio[14] stood at 10.4 percent at end-June 2018, decreasing by 40 basis points from 10.8 percent of end-March 2018 and increasing by 30 basis points from 10.1 percent of end-June 2017. Furthermore, non-performing loans net of specific loan loss provisions and interest suspense to regulatory capital decreased to 22.7 percent from 27.6 percent of end-March 2018 and 22.4 percent of end-June 2018. Pertinently, 13 banks had double-digit gross NPL ratios both at end-June CY18 and end-June CY17.

The provision maintenance ratio, at end-June 2018, slightly increased to 84.9 percent from 83.8 percent recorded at end-March 2018 and 85.8 percent at end-June 2017 (Chart 2.10).

[14] Non-performing loan to total loan ratio.

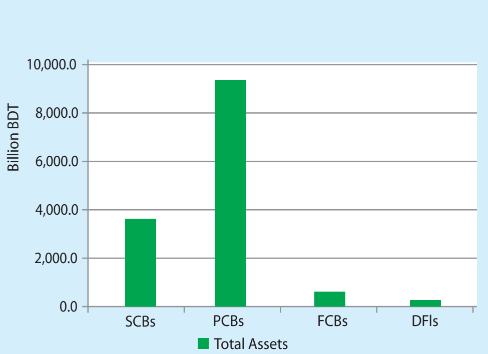
Based on NPL, 47.1 percent and 62.6 percent of the non-performing loans were concentrated in the Top 5 and Top 10 banks[15] respectively at end-June 2018 (Chart 2.11 & 2.12).

Chart 2.1 Asset Size of the Banking Industry



Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

Chart 2.2 Bank Cluster-wise Assets at End-June 2018

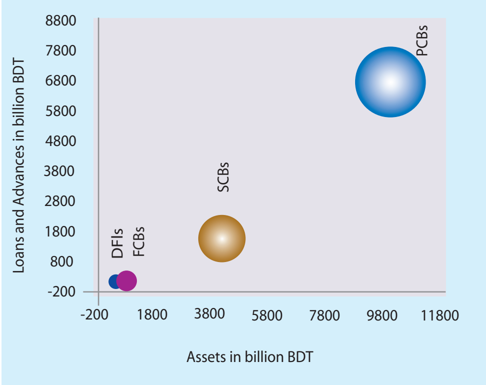


Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

During the review quarter, the ratio of bad and loss loans to total classified loans stood at 83.9 percent while sub-standard and doubtful loans constituted 8.1 percent and 8.0 percent of total NPLs respectively. Importantly, the proportion of bad and loss loans and doubtful loans increased by 0.8 and 1.3 percentage points respectively while that of sub-standard loans decreased by 2.1 percentage points compared to those of the previous quarter.

15 Ranked in terms of Gross NPL amount.

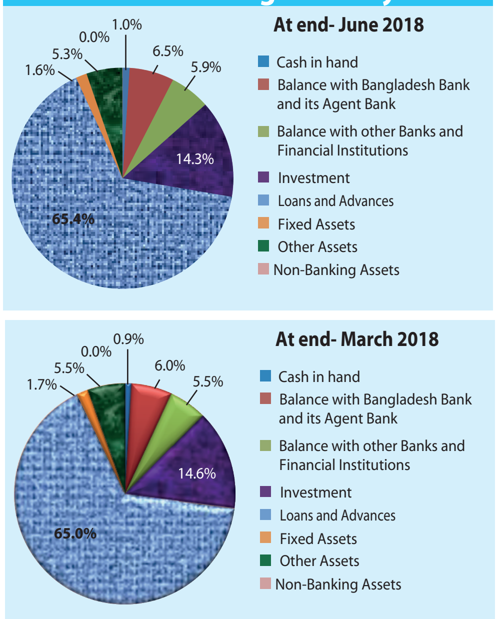
Chart 2.3 Banking Sector Assets and Loans/ Advances : End-June 2018



Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

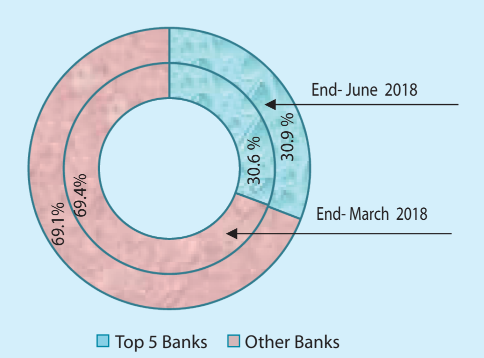
Note: PCB-Private Commercial Bank,
SCB-State-owned Commercial Bank,
FCB- Foreign Commercial Bank,
DFI-Development Finance Institutions.

Chart 2.4 Asset Structure of the Banking Industry



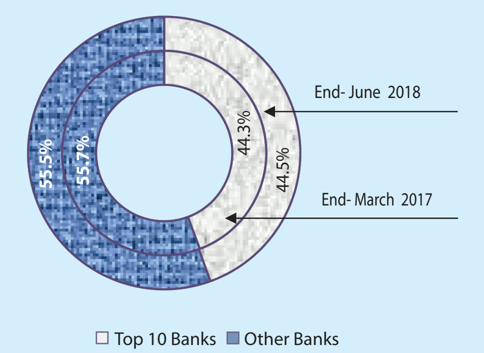
Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

Chart 2.5 Top 5 banks based on Assets Size



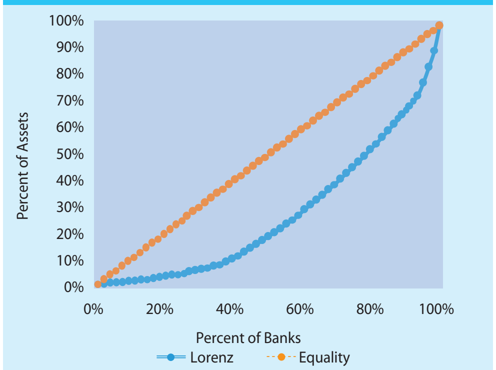
Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

Chart 2.6 Top 10 banks based on Assets Size



Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

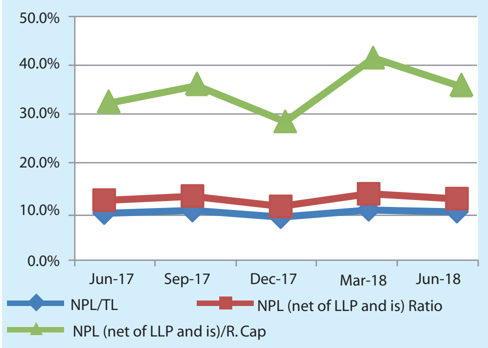
Chart 2.7 Banking Sector Asset Concentration: Lorenz Curve



Note: Assets are displayed from lowest to highest (ascending order) from the origin.

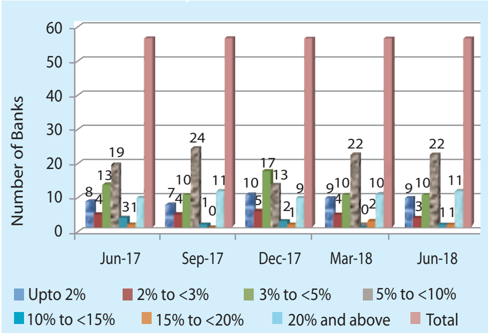
Source: FSD Staff calculation.

Chart 2.8 NPL Ratio of the Banking Industry



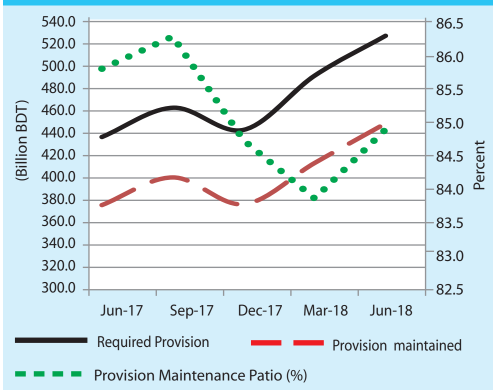
Source: BRPD, BB.

Chart 2.9 Distribution of banks by NPL ratio



Source: BRPD, Compilation FSD.

Chart 2.10 Banking Sector Loan Loss Provision

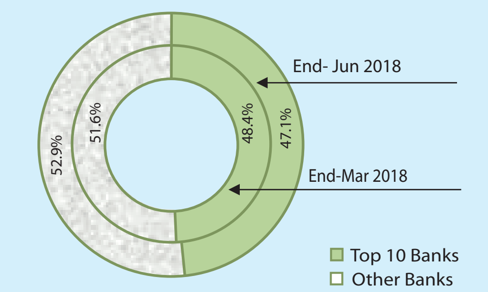


Source: BRPD, BB.

2.3 Profitability

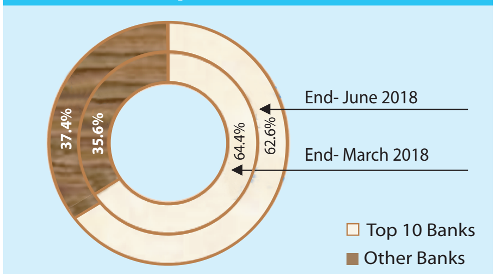
In the review quarter, return on assets (ROA) and return on equity (ROE) of the banking sector stood at 0.3 percent and 5.3 percent respectively against 0.3 percent and 5.0 percent of the preceding quarter, and 0.3 percent and 3.7 percent respectively of the same quarter of the previous year[16]. Almost 86.0 percent of the banks' ROA was up to 2.0 percent. On the other hand, 57.9 percent of the banks' ROE was higher than 5.0 percent.

Chart 2.11 Top 5 Banks based on NPL



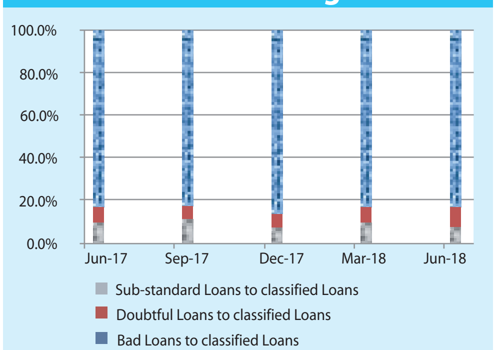
Source: BRPD, Compilation FSD.

Chart 2.12 Top 10 Banks based on NPL



Source: BRPD, Compilation FSD.

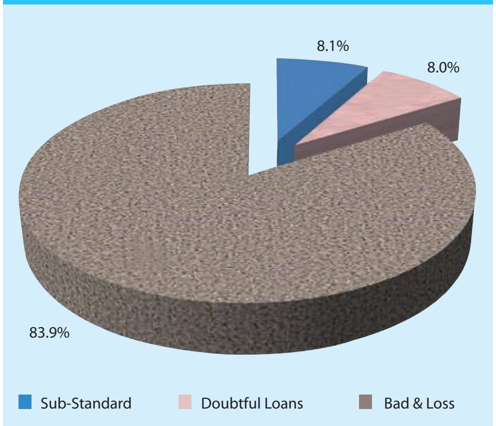
Chart 2.13 Proportion of NPL Categories



Source: BRPD, BB.

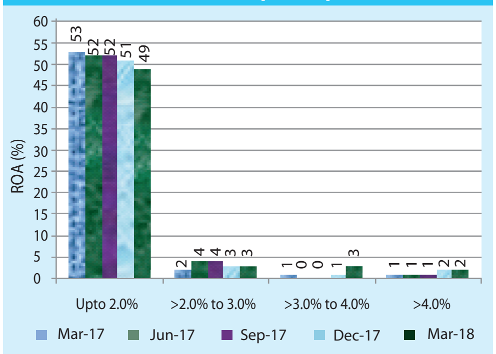
16 The figures are annualised form of quarterly ratios.

Chart 2.14 NPL Composition of Banks



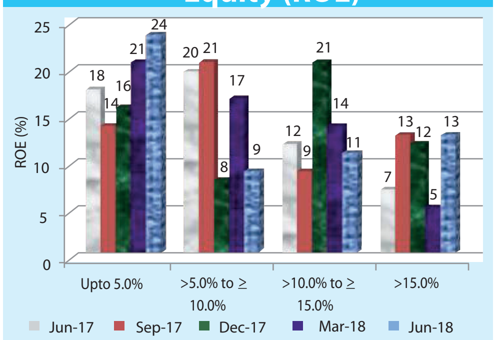
Source: BRPD, BB.

Chart 2.15 Distribution of Banking Sector Return on Assets (ROA)



Source: Compilation (Aggregate P/L account of banking industry): FSD, BB.

Chart 2.16 Distribution of Banking Sector Return on Equity (ROE)



Source: Compilation (Aggregate P/L account of banking industry): FSD, BB.

Chapter-3

Financial Institutions' Performance

Financial institutions displayed mixed performances in the review quarter. Gross non-performing loans ratio recorded minor increase whereas return on assets remained almost unchanged when compared with those of the preceding quarter.

3.1 Sources of Funds

At end-June 2018, borrowings, deposits, capital and other liabilities constituted 21.5 percent, 55.4 percent, 12.4 percent and 10.7 percent of the FIs' sources of funds respectively. In comparison with end-March 2018, the shares of borrowings and capital decreased by 0.7 percentage point and 1.2 percentage points respectively whereas the same of deposits and other liabilities increased by 0.9 percentage point and 1.0 percentage point respectively.

3.2 Assets Composition

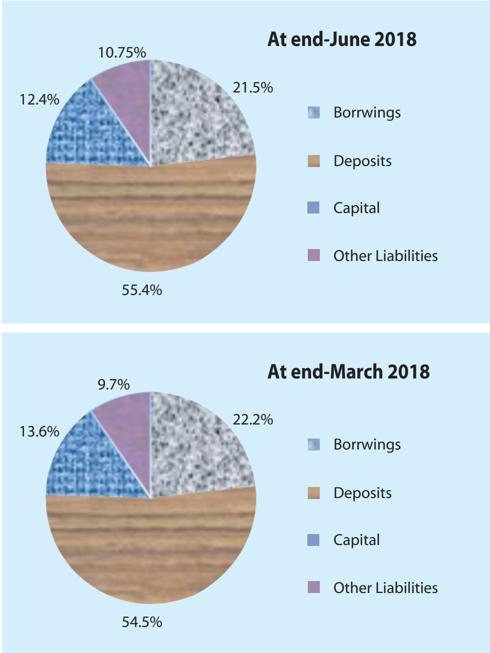
Loans and leases constituted 73.7 percent of total assets of the FIs at end-June 2018. Cash and balances with banks/FIs, investments, fixed assets and other assets comprised 15.1 percent, 2.2 percent, 1.3 percent and 7.8 percent of total assets respectively.

When compared with end-March 2018 positions, the share of loans and leases decreased by 0.3 percentage point. Share of cash and balances with other banks/FIs increased by 0.4 percentage point, the proportion of investments decreased by 0.1 percentage point, while the share of fixed assets remained almost same and the share of other assets increased by 0.2 percentage points.

3.3 FI's Liability-Asset Ratio

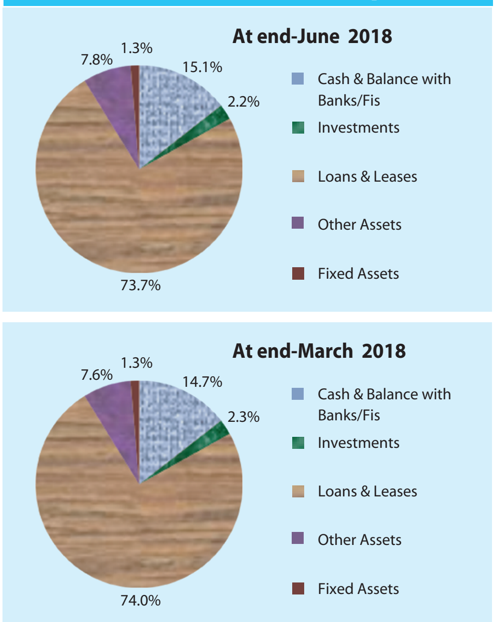
The liabilities-assets ratio stood at 87.6 percent which is 20 basis points higher than the liabilities-assets ratio of 86.4 percent recorded at the end of the previous quarter.

Chart 3.1 FIs' Sources of Fund



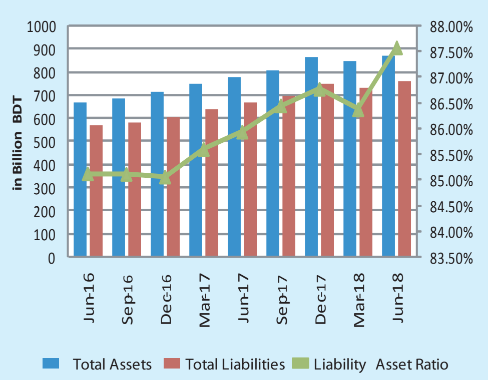
Source: FIs; Compilation: FSD, BB.

Chart 3. 2 FIs' Assets Composition



Source: FIs; Compilation: FSD, BB.

Chart 3.3 FIs' Liability-Asset Ratio



Source: FIs; Compilation: FSD, BB.

3.4 Asset Quality

FIs' classified loans and leases, increasing by 6.5 percent, stood at BDT 59.2 billion from 55.6 billion of end-June 2018. The ratio of classified loans and leases to total loans and leases rose to 9.2 percent at end-June 2018, 0.4 percentage points higher than the ratio of 8.8 percent recorded at end-March 2018

3.5 Profitability

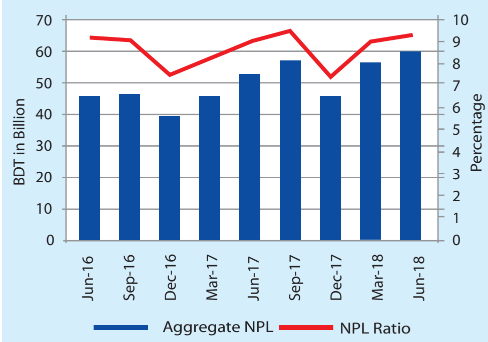
FIs' return on assets (ROA) and return on equity (ROE) stood at 0.4 percent and 3.1 percent respectively in the review quarter compared to 0.4 percent and 2.9 percent respectively recorded in the preceding quarter.

Those ratios were 0.8 percent and 5.8 percent respectively in the same quarter of the previous year [17].

3.6 FI Sector's Asset Concentration

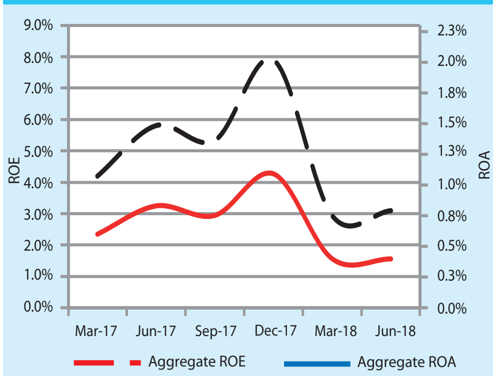
FI sector's asset concentration has been illustrated using Lorenz curve and Gini Coefficient. As depicted in Chart 3.6, the position of Lorenz Curve implies the presence of lower concentration in the assets of the FI sector. The calculated Gini coefficient of 0.4 also supports the presence of aforementioned type of concentration.

Chart 3.4 FIs' Non-performing Loans and Leases



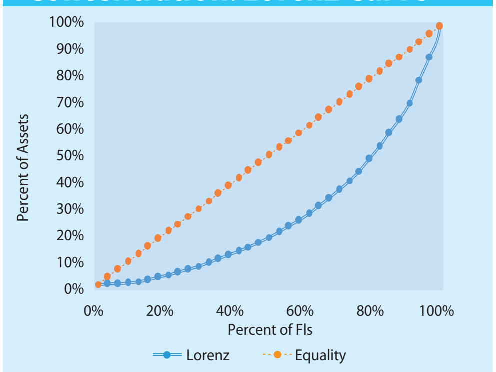
Source: DFIM, BB.

Chart 3.5 FIs' ROA and ROE



Source: FIs; Compilation: FSD, BB.

Chart 3.6 FI Sector's Asset Concentration: Lorenz Curve



Source: FSD, Staff Calculation.

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[17] Here profitability indicators-ROA and ROE- are annualized from quarterly ratios.

Chapter-4

Banking Sector Liquidity and Capital Adequacy

Banking sector capital to risk-weighted assets ratio (CRAR) slightly decreased with respect to that of the previous quarter. However, majority of the banks were able to maintain minimum capital to risk weighted ratio (CRAR) and capital conservation buffer. Moreover, the advance-to-deposit ratio (ADR) of banks decreased slightly.

4.1 Capital Adequacy

In the review quarter, 47 out of 57 banks maintained CRARs of 10.0 percent or higher in line with Pillar 1 of the Basel III capital framework (Chart 4.1). Importantly, CRARs of 30 banks were within the range of 10-15 percent and their assets accounted for nearly 62.7 percent of the total banking industry's assets at end-June 2018. (Chart 4.2)

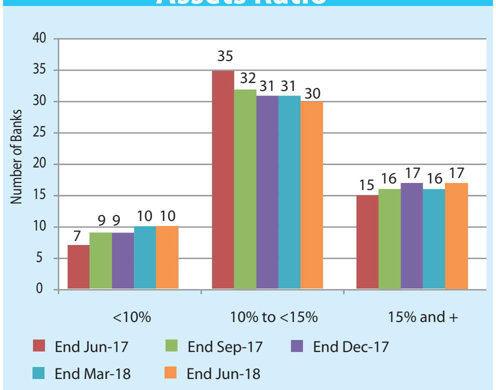
The banking sector aggregate CRAR stood at 10.0 percent , which is 11 basis points and 86 basis points lower than the ratio recorded at end-March 2018 and end-June 2017 respectively. Similar trend was observed in case of Tier-1 capital ratio too. Tier-1 capital ratio slightly decreased to 6.8 percent from 7.0 percent of the previous quarter and 7.8 percent of end-June 2017. Still, the ratio was considerably higher than the minimum regulatory requirement of 6.0 percent.

FCBs maintained higher CRAR while CRAR of the DFIs was negative in the review quarter (Chart 4.4).

[18] In the review quarter, minimum required CRAR was 10 percent.

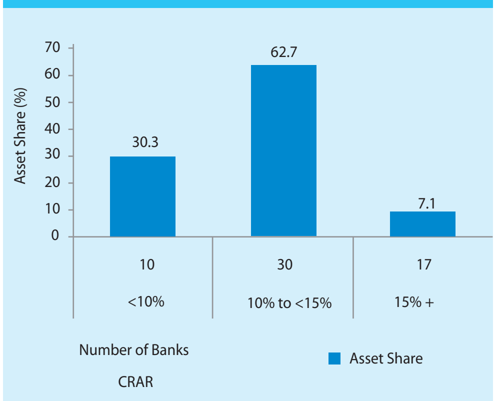
At end-June 2018, risk-weighted assets, arising from credit risks, accounted for 87.8 percent of the industry's total risk-weighted assets under Pillar 1 of the Basel III capital adequacy framework. What is more, the proportion of credit risk weighted assets was 88.1 percent as in the previous quarter and 87.7 percent at end-June 2017. Next positions were held by operational and market risks respectively (Chart 4.5).

Chart 4.1 Banking Sector Capital to Risk- Weighted Assets Ratio



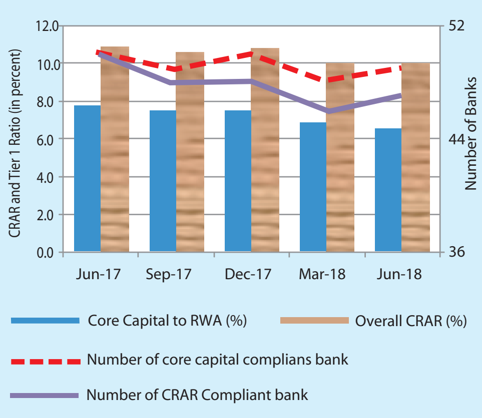
Source: DOS, BB.

Chart 4.2 Assets Share of Banks based on CRAR at End-June 2018



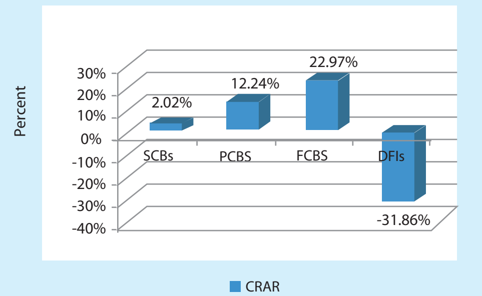
Source: DOS; Compilation FSD.BB.

Chart 4.3 Tier-1 Capital Ratio and Overall CRAR of the Banking Industry



Source: DOS, BB.

Chart 4. 4 Bank Cluster-wise CRAR at End-June 2018



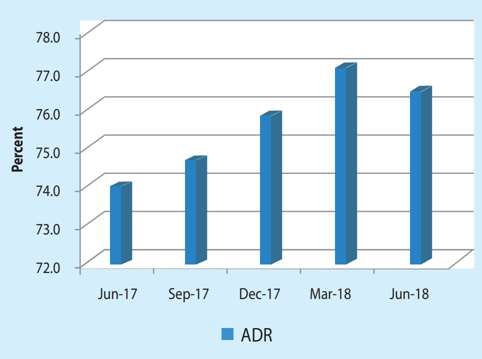
Source: DOS, BB.

Chart 4. 5 Distribution of Risk Weighted Assets

Source: DOS, BB.

In the review quarter, against the regulatory requirement of 1.875 percent, 41 out of 57 banks have been able to maintain the minimum required capital conservation buffer (CCB) on solo basis. However, in case of consolidated basis, 24 out of 36 banks fulfilled this regulatory requirement. The aggregate figure of CCB of the banking sector, in the stated quarter, was 0.00 percent and 0.43 percent on solo and consolidated basis respectively.

Chart 4.6 Banking Sector Advance-to-Deposit Ratio

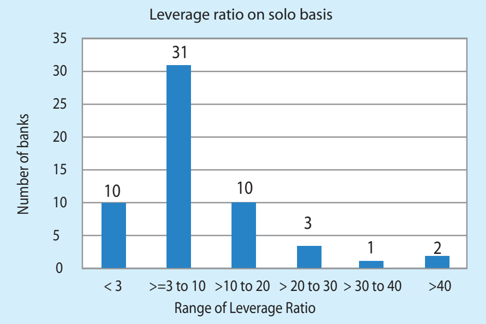


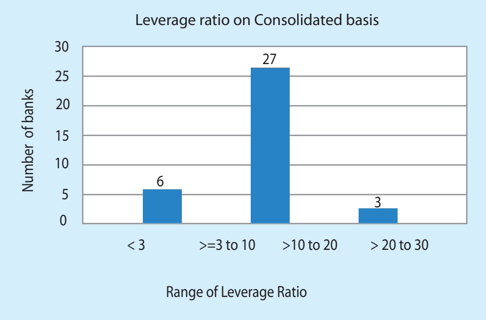
Source: DOS, BB.

4.2 Liquidity

During the review quarter, Advance to Deposit Ratio (ADR) of the overall banking industry stood at 76.7 percent, 0.4 percentage points lower than that of end-March 2018 and 2.8 percentage points higher than that of end-June 2017 (Chart 4.6).

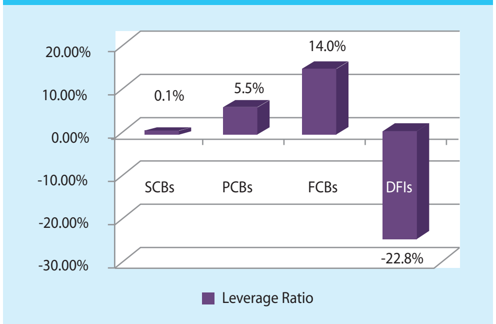
Chart 4.7 Leverage ratio of banks at End-June 2018





Source: DOS, BB.

Chart 4. 8 Bank Cluster-wise Leverage ratio at End-June 2018



Source: DOS, BB.

4.3 Leverage ratio

In the review quarter, banking industry fulfilled the minimum leverage ratio requirement of 3.0 percent, on both solo and consolidated basis[19]. At end-June 2018, banking industry's leverage ratio was 4.1 percent on solo basis; 47 out of 57 banks maintained a leverage ratio of 3.0 percent or higher (Chart 4.7). However, in case of consolidated basis, 30 out of 36 banks were able to fulfill the regulatory requirement. FCBs maintained higher leverage ratio compared to other banking clusters; next position was held by PCBs.

[19] In line with Basel III guidelines issued by Bangladesh Bank vide BRPD Circular No. 18 dated December 21,2014.

Financial Institutions' Liquidity and Capital Adequacy

During the review quarter, the FIs sector did not demonstrate any shortfall in cash reserve ratio (CRR) and statutory liquidity ratio (SLR); however, capital adequacy ratio (CAR) decreased compared to that of the previous quarter.

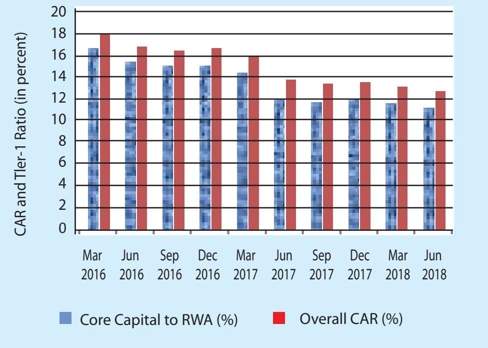
5.1 Capital Adequacy

In the review quarter, capital adequacy ratio (CAR) of the FIs sector stood at 12.8 percent, decreasing slightly from 13.7 percent of the March quarter of CY18. Importantly, the maintained CAR was well above the minimum regulatory requirement of 10.0 percent. In addition, the Tier-1 capital ratio was recorded at 11.3 percent against the minimum regulatory requirement of 5.0 percent. Pertinently, the maintained Tier-1 capital ratio was 0.2 percentage point lower than the ratio recorded at end-March 2018.

5. 2 Liquidity

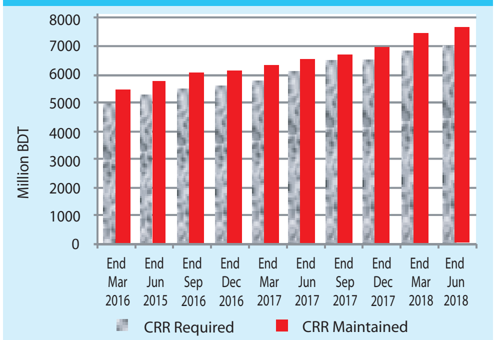
As of end-June 2018, the aggregate amount of maintained CRR was BDT 7,508.0 million as compared to BDT 7,358.7 million recorded at end-March 2018, scoring an increment of 2.0 percent. On the other hand, at end-June 2018, the amount of maintained SLR was BDT 101.1 billion against the required amount of BDT 19.2 billion. During the review quarter, the FIs sector had no CRR and SLR shortfall.

Chart 5.1 Capital Adequacy Ratio of FIs Sector



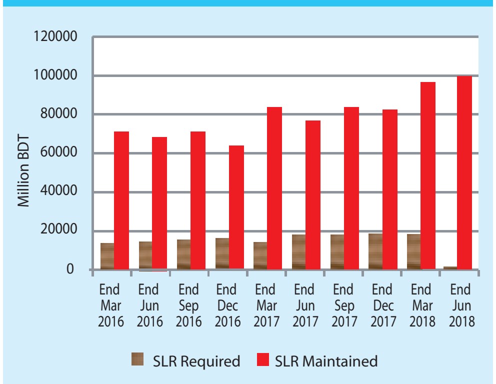
Source: DFIM, BB.

Chart 5.2 FIs' CRR



Source: DFIM, BB.

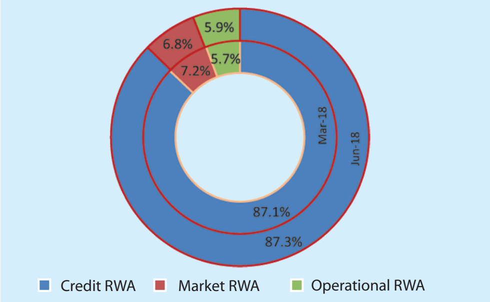
Chart 5.3 FIs' SLR



Source: DFIM, BB.

In the overall risk weighted assets (RWA) of the FIs sector, RWA for credit, market and operational risks were 87.3 percent, 6.8 percent and 5.9 percent respectively at end-June 2018. These figures were 87.1 percent, 7.2 percent and 5.7 percent at end-March 2018 (Chart 5.4).

Chart 5.4 Capital Adequacy Ratio of FI Sector



Source: DFIM, BB.

Chapter-6

Stress Test and Resilience of the Banking and FI Sectors

6.1 Stress Test

Bangladesh Bank conducts stress tests on banks and Financial Institutions (FIs) on quarterly basis. Key results of the tests are placed in the annual financial stability report as well as quarterly financial stability assessment report of Bangladesh Bank.

6.2 Stress Test on Banks[20]

Stress test on banks, based on data as of end-June 2018, is conducted through sensitivity analysis, incorporating impacts of the shock scenarios for credit risk, market risk and liquidity risk.

6.2.1 Individual Shocks

Banking sector's capital to risk weighted asset ratio (CRAR) was 10 percent. Out of 57 banks, 10 banks' pre-shock CRARs were below the minimum regulatory requirement of 10.0 percent. That is why the remaining 47 banks were considered for the analyses based on end-June 2018 data. The following sub-sections contain details of the shocks and the associated outcomes.

6.2.1.1 Credit Risk

a) **Increase in Non-performing Loans (NPL):** If NPLs increased by 3, 9 and 15 percent, then 7, 25 and 35 banks respectively would fail to maintain the minimum required CRAR.

b) **Increase in NPL due to Default of Top Large Borrowers:** If 3, 7 and 10 largest borrowers of each bank in the industry defaulted, then 24, 33 and 38 banks respectively would have become non-compliant in maintaining the minimum required CRAR.

c) **Fall in the Forced Sale Value (FSV) of Mortgaged Collateral:** If FSV of mortgaged collateral declined by 20 and 40 percent, then it would make 1 and 6 banks respectively non-compliant in maintaining the minimum required CRAR.

d) **Negative Shift in the NPL Categories:** If NPL categories shifted downward by 10 and 15 percent, then 10 and 15 banks respectively would have become non-compliant in maintaining the minimum required CRAR.

e) **Increase in NPL in Highest Outstanding Sector:** In the event of minor, moderate and major shocks, 1, 3 and 8 banks respectively would fall below the minimum regulatory requirement.

6.2.1.2 Market Risk

The banking industry[21] found to be resilient to exchange rate shock but vulnerable to equity price and interest rate shock:

a) **Interest Rate Risk:** In the event of interest rate shock of 1, 2 and 3 percent, 1, 1 and 4 banks respectively would fail to maintain the minimum required CRAR.

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[20] The analyses here are based on the data as of end-March 2018 unless stated otherwise.

[21] Only scheduled banks have been considered here.

Table 6.1 Stress test on the Banking Sector Based on Data as of End-June 2018	
Shocks[22]	**Banking Sector (%)**
Pre-shock CRAR	10.00
CRAR after shock (%)	
Credit Risks:	
Increase in NPLs:	
Shock-1: 3%	9.00
Shock-2: 9%	6.52
Shock-3: 15%	2.63
Increase in NPLs due to default of top large borrowers	
Shock-1: Top 3 borrowers	8.31
Shock-2: Top 7 borrowers	6.77
Shock-3: Top 10 borrowers	5.90
Fall in the FSV[23] of mortgaged collateral	
Shock-1: 10%	9.33
Shock-2: 20%	8.65
Shock-3: 40%	7.27
Negative shift in the NPL categories	
Shock-1: 5%	9.30
Shock-2: 10%	7.39
Shock-3: 15%	5.93
Increase in NPLs in highest outstanding sectors	
Sector concentration 1[24] (Performing loan directly downgraded to B/L[25])	
Shock-1: 3%	9.93
Shock-2: 9%	9.80
Shock-3: 15%	9.66
Sector concentration 2[26] (Performing loan directly downgraded to B/L)	
Shock-1: 3%	9.86
Shock-2: 9%	9.58
Shock-3: 15%	9.29
Market Risks	
Interest rate risk (Change in interest rate)	
Shock-1: 1%	9.66
Shock-2: 2%	9.32
Shock-3: 3%	8.98
Exchange rate risk (Currency appreciation/depreciation)	
Shock-1: 5%	9.97
Shock-2: 10%	9.95
Shock-3: 15%	9.92
Equity price risk (Fall in equity prices)	
Shock-1: 10%	9.76
Shock-2: 20%	9.52
Shock-3: 40%	9.04
Combined Shock	
Shock-1	7.02
Shock-2	1.35
Shock-3	6.23

22 Shock-1 = Minor, Shock-2 = Moderate, Shock-3 = Major.
23 FSV = Forced Sale Value.
24 Sector with highest outstanding.
25 B/L = Bad/Loss.
26 Sector with second highest outstanding.

b) Exchange Rate Risk: In the event of currency appreciation or depreciation by 5, 10 and 15 percent, no bank would fall below the minimum regulatory requirement.

c) Equity Price Risk: In the event of minor shocks, no bank would fall below the minimum regulatory requirement. However, due to moderate and major shocks, 1 bank would fall below the minimum regulatory requirement.

In sum, if minor, moderate and major individual credit and market shocks were applied, banking sector would fail to maintain minimum regulatory requirement. Furthermore, increase in NPLs and default of top 3 large borrowers would have major adverse impact on the banking sector capital adequacy.

6.2.2 Combined Shock[27]

In the event of minor, moderate and major combined shocks, 16, 34 and 40 banks respectively would be undercapitalized.

6.2.3 Liquidity Shock

The individual banks and the banking system as a whole seemed to remain resilient against specified liquidity stress scenarios at end-June 2018.

Table 6.2 Liquidity Risk in the Banking Sector: End-June 2018

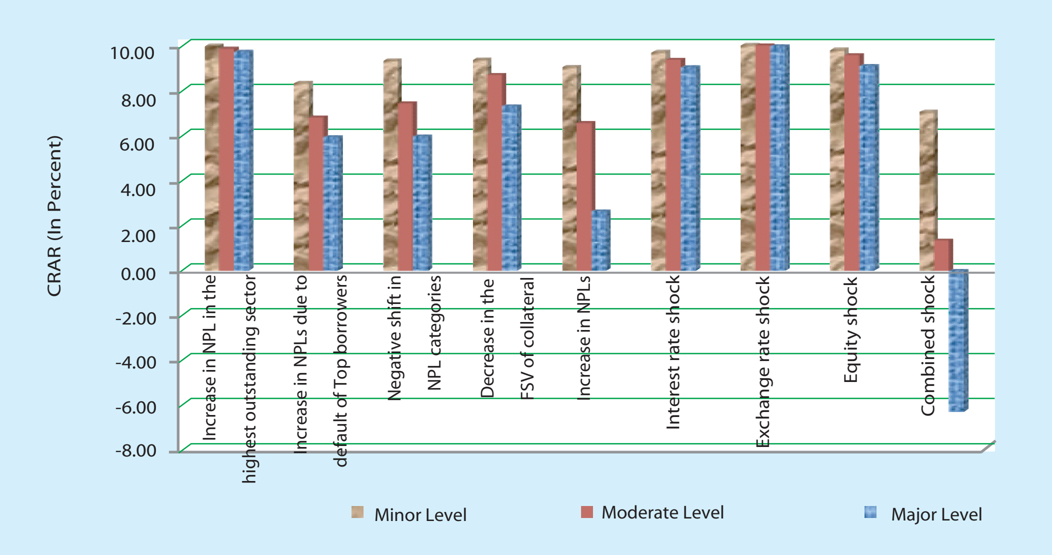
Liquidity Stress*	Stress Scenarios		
	Minor	Moderate	Major
Day 1	1	1	1
Day 2	1	1	1
Day 3	1	1	1
Day 4	1	1	1
Day 5	1	1	1

* Consecutive 5 working days.

Note: '1' indicates that the system is liquid and '0' not liquid.

Source: FSD, BB.

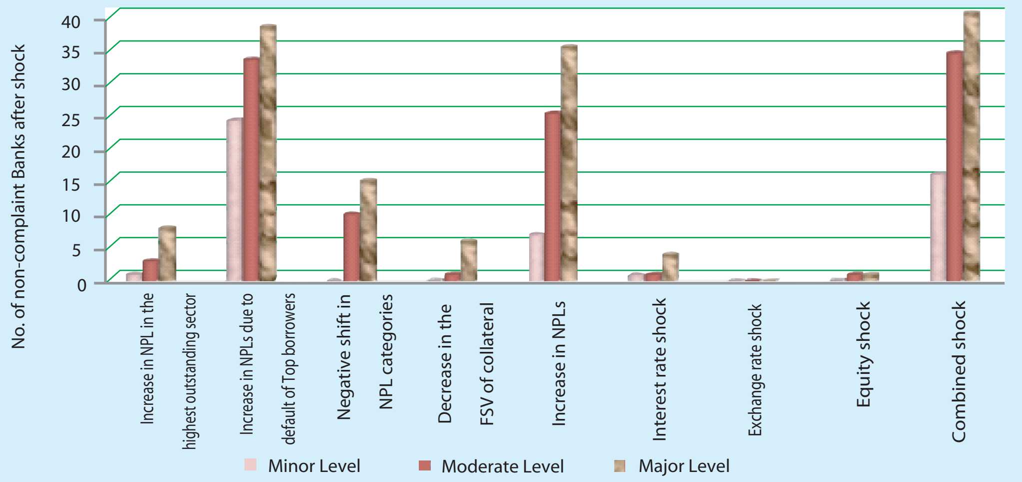
Chart 6.1 Banking Sector CRAR at Different Shock Scenarios: June 2018



Source: FSD, BB.

27 Combined shock comprised of aggregate stress results of increase in NPLs, negative shifts in NPL categories, decrease in the FSV of the mortgaged collateral, exchange rate shock, equity price shock and interest rate shock.

Chart 6.2 Number of Non-compliant Banks at Different Shock Scenarios: June 2018



Source: FSD, BB.

6.3 Stress Test on FIs

Bangladesh Bank also conducts stress tests on FIs based on a simple sensitivity analysis, in which four risk factors- credit, interest rate, equity price and liquidity - are analyzed.

At end-June 2018, out of 34 FIs, 3, 18, and 13 were positioned in Green, Yellow, and Red zones respectively on the basis of stress test result.

Table 6.3 Stress Tests: Zonal Position of FIs (Number of FIs)

Quarter	Green	Yellow	Red
End-Mar 2017	4	18	11
End-Jun 2017	4	17	12
End-Sep 2017	3	17	13
End-Dec 2017	4	19	10
End-Mar 2018	5	17	12
End-Jun 2018	3	18	13

Source: DFIM, BB.

Chapter-7

Capital Market Development

In the review quarter, most of the domestic capital market indicators in both bourses demonstrated a scenario of price correction with respect to the positions of the preceding quarter.

7.1 Dhaka Stock Exchange (DSE)

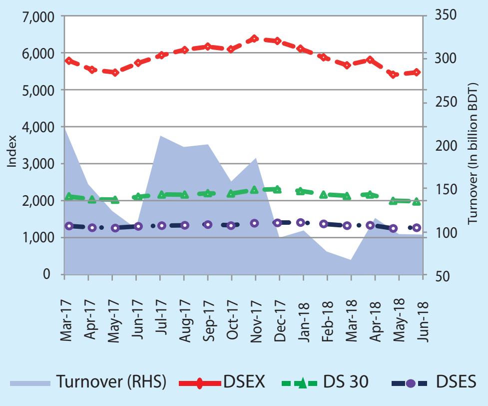
7.1.1 DSE Performance

DSE turnover increased from BDT 244.7 billion during January-March 2018 quarter to BDT 307.9 billion during April-June 2018 quarter, registering a rise of 25.9 percent. This increased turnover was largely attributed to the trading of the shares of fuel and power, textile, engineering and miscellaneous sectors. The turnover of the banking sector depressed further during the quarter. An overall downtrend in DSE turnover was observed since November 2017 along with falling DSE indices. At the end of June 2018, key DSE indices, such as, DSEX, DS30 and DSES dropped by 3.4 percent, 6.9 percent and 3.9 percent respectively compared to those of end-March 2018.

7.1.2 Sectoral Turnover

Like the previous quarter, more than 60 percent of total DSE turnover was shared among five sectors-engineering (14.8 percent), textile (13.6 percent), pharmaceuticals and chemicals (13.0 percent), banking (12.2 percent), and fuel and power (10.4 percent) sectors in the review quarter (Chart 7.2). The share of banking sector turnover continued its declining trend and reached 12.2 percent during the June quarter from 17.0 percent of March 2018 quarter and 33.7 percent of December 2017 quarter.

Chart 7.1 DSE Performance



Source: DSE; compilation: FSD, BB.

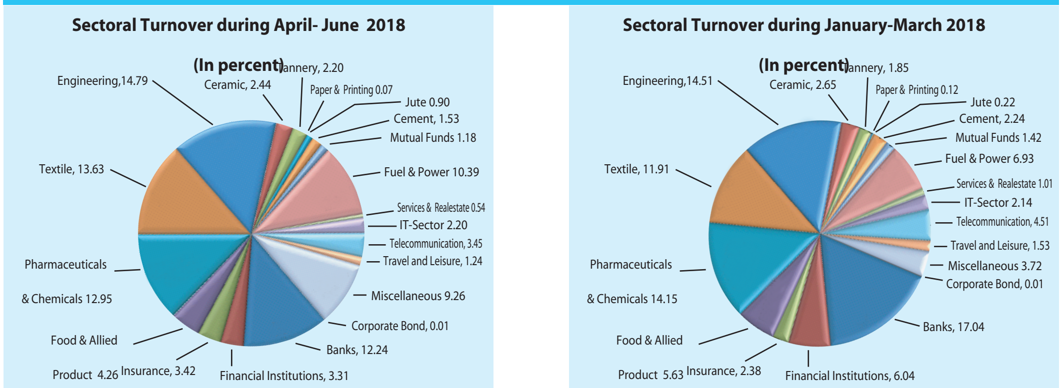
7.1.3 Market Capitalization

At end-June 2018, the market capitalization stood at BDT 3,847.4 billion, which is 1.8 percent lower than BDT 3,917.2 billion recorded at end-March 2018. An overall downward trend is observed in market capitalization since November 2017 as was the case for DSEX (Chart 7.3). At end-June 2018, the banking sector secured the top position with 17.4 percent share in total market capitalization followed by 16.6 percent and 16.0 percent of telecommunication sector, and pharmaceuticals and chemicals sector respectively. At the end of the preceding quarter, telecommunication sector was the top contributor with 18.9 percent share in total market capitalization while the banking sector contributed 18.1 percent.

As a percentage of GDP[28], DSE market capitalization stood at 17.1 percent at the end of June 2018 compared to 19.2 percent at the end of June 2017. During this period, annual growth of market capitalization was only 1.2

[28] GDP at current market price is used to calculate this ratio; provisional GDP figure is used for 2017-18 period.

Chart 7.2 Sectoral Turnover at DSE



Source: DSE; compilation: FSD, BB.

Source: DSE; compilation: FSD, BB.

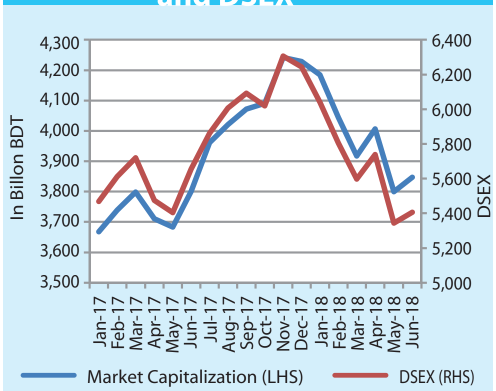
percent while nominal GDP growth was 13.9 percent. Shortage of quality shares along with infrequent issuance of new IPOs and lack of a vibrant corporate bond market remained largely the obstacles towards the expansion of the capital market in Bangladesh.

7.1.4 Price/Earnings (P/E) Ratio

The market P/E ratio decreased by 0.7 percentage points during the quarter and stood at 15.0 at end-June 2018. This is the lowest since December 2016 when the ratio was 14.3. Chart 7.4 illustrates that the long-term relationship between DSE broad index (DSEX) and market P/E ratio has been positive. As DSEX incorporates the price information of the shares listed at DSE, the movement in market price per share captured by P/E ratio is reflected in the index. Accordingly, a fall in share price, in general, was observed since the end of December 2017.

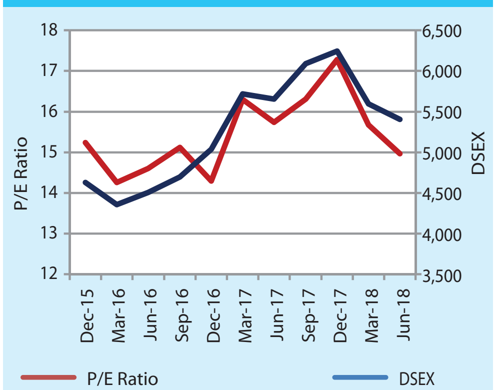
At end-June 2018, the highest P/E ratio was recorded by the jute sector (122.1) followed by the cement sector (34.6). The mutual funds sector recorded the lowest P/E ratio (7.6) closely followed by the banking sector (8.8). The P/E ratio of the banking sector was also lower than 8.9 and 9.1 of end-March 2018 and end-June 2017 respectively. Thus, the market price of the shares of the banking sector appeared to be falling since June 2017,

Chart 7.3 Market Capitalization and DSEX



Source: DSE; compilation: FSD, BB.

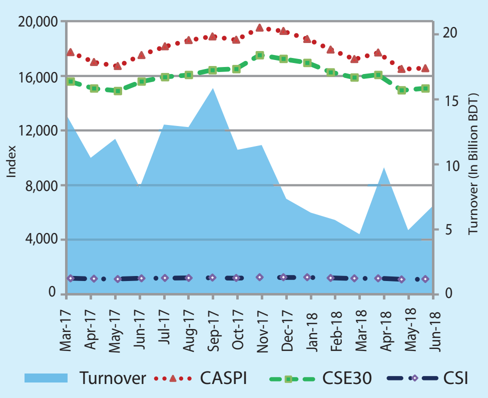
Chart 7.4 P/E Ratio and DSEX



Source: DSE

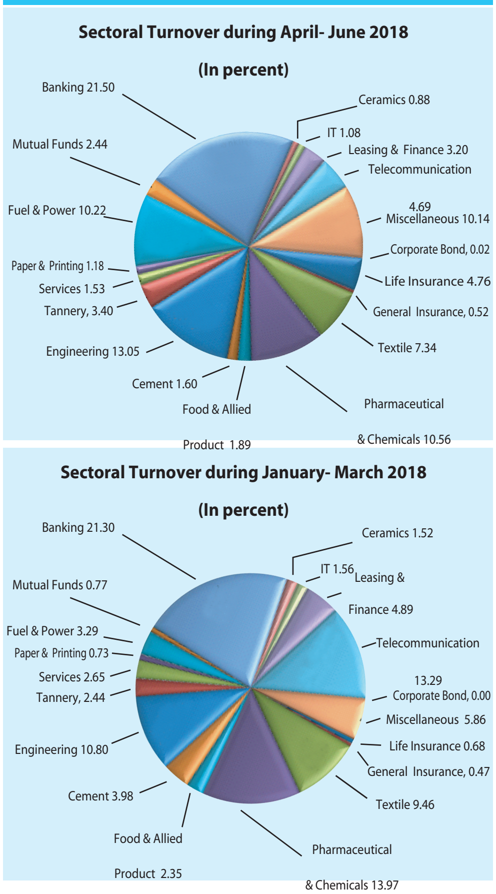
impacting the turnover value and market capitalization of the banking sector as well as reflecting a depressed investor sentiment towards the banking sector.

Chart 7.5 CSE Performance



Source: DSE; compilation: FSD, BB.

Chart 7.6 Sectoral Turnover at CSE



Source: CSE; compilation: FSD, BB.

7.2 Chittagong Stock Exchange (CSE)

7.2.1 CSE Performance

Similar to DSE, CSE turnover increased by 29.0 percent from BDT 16.7 billion in the preceding quarter to BDT 21.5 billion in the review quarter. Increased turnover in fuel and power sector, miscellaneous sectors and banking sector mainly pushed up the CSE turnover during the quarter. Like DSE, CSE turnover and key CSE indices displayed an overall downtrend since November 2017. At the end of June 2018, key CSE indices such as CASPI[29], CSE30 and CSI[30] continued its decreasing trend and recorded 10.7 percent, 7.9 percent and 6.8 percent drop respectively compared to those of end-March 2018. The influence of the 30 companies listed in CSE30 was noticeable from its movement with CASPI (Chart 7.5).

7.2.2 Sectoral Turnover

Banking sector continued to record the highest turnover at CSE during the review quarter. Contribution of the banking sector to CSE turnover increased slightly from 21.3 percent during March 2018 quarter to 21.5 percent during June 2018 quarter (Chart 7.6). In descending order, engineering, pharmaceuticals and chemicals, fuel and power, and miscellaneous sectors rounded up the top five sectors at CSE in terms of turnover during the review quarter.

7.2.3 Market Capitalization

At end-June 2018, the market capitalization at CSE stood at BDT 3,123.5 billion, which is 2.8 percent lower than the end-March 2018 position of BDT 3,213.3 billion. Like DSE, an overall downtrend was observed in market capitalization along with CSE all share price index (CASPI) since November 2017 (Chart 7.7).

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[29] CASPI refers to CSE All Share Price Index.

[30] CSI refers to CSE Shari'ah Index.

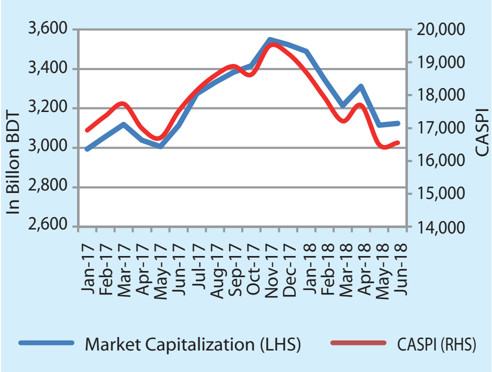
7.2.4 Price/Earnings (P/E) Ratio

The market P/E ratio decreased by 3.6 percentage points and reached 14.9 at end-June 2018. The highest P/E ratio was recorded by paper and printing sector (36.1) followed by ceramics sector (28.9). Mutual funds and banking sectors were the two sectors with the lowest P/E ratios of 5.4 and 8.5 respectively.

7.3 Capital Market and Financial Stability

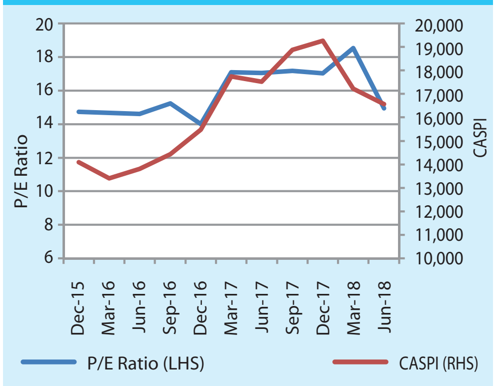
A vibrant and liquid capital market is crucial for the stability of the financial system. As it turned out, the two main bourses of the country have been bearish since November 2017. The banking sector which has been the dominant force in the Bangladesh financial sector was largely the driving force for the buoyant capital market for the most part of 2017. However, rising non-performing loans in the banking sector and liquidity stress in few banks near the end of 2017 could have reversed the investors' sentiment, which was reflected in a falling turnover, market capitalization and P/E ratio of the banking sector. As banking sector is one of the top two contributors to market capitalization, decreased trading of the shares of this sector weighed down largely the overall performance of the capital market. Nevertheless, the market liquidity increased moderately during the review quarter as evident from an increased turnover while the daily average volatility of the price index during the quarter (70.0) remained below the long-term daily average (82.9) as well as the daily average of the previous quarter (101.2) (Chart 7.9).

Chart 7.7 Market Capitalization and CASPI



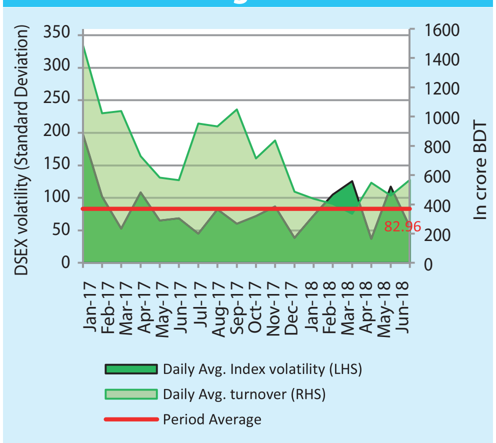
Source: CSE; compilation: FSD, BB.

Chart 7.8 CSE P/E Ratio and CASPI



Source: CSE

Chart 7.9 DSEX Volatility and Daily Average DSE Turnover



Chapter-8

Recent Stability Initiatives of Bangladesh Bank

During April-June quarter of the calendar year 2018, Bangladesh Bank (BB) took a number of initiatives having implications to domestic financial system stability. Some of them are discussed below:

8.1 Rationalization of Rate of Interest on deposit and Lending

Under the current trend of rising interest rates of loans and advances, BB has instructed all banks to reduce the interest rate spread to 4 percent from the previous ceiling of 5 percent for all loans including SME loans and excluding loans to consumer and credit card loans.

8.2 Rate of interest on existing loan accounts

In order to stabilize the fluctuation of interest rates on commercial and personal loans, scheduled banks are allowed to increase the interest rate on flexible-rate loans only once a year (BRPD Circular No. 5 dated 30/05/2018). Under the new directives, banks are required to issue a notice period of three months before effecting any such change. Moreover, interest rate on terms loans cannot be increased more than 0.5 percent at each instance and no more than 1 percent in case of working capital and other loans and advances at each instance.

8.3 Re-fixation of Cash Reserve Ratio (CRR) and Repo rate

BB has re-fixed the Cash Reserve Ratio (CRR) from previous average of 6.5 percent to average of 5.5 percent of total demand and time liabilities of a bank on a bi-weekly average basis. Moreover, the CRR on a daily basis has been reduced to 5.0 percent of total demand and time liabilities instead of previous 6.0 percent. The repo rate has also been reduced from the 6.75 percent to 6.0 percent while the reverse-repo rate would remain unchanged at 4.75 percent. The revised rate came into effect from 15 April, 2018.

8.4 Relaxing banks' general provisioning

BB has exempted banks from maintaining general provision against two off-balance sheet exposures. Previously, banks were required to maintain 1 percent provision of the Off-Balance Sheet item-Bills for Collection. Now, banks are not required to maintain any provision against Bills for Collection. Banks are also allowed not to maintain any provision against guarantees which they have issued and if those guarantees have counter-guarantee from government(s)/Multilateral Development Bank(s)/international bank (s) provided that the Multilateral Development Bank/international bank has rating of 1 pursuant to Guidelines on Risk-based Capital Adequacy.

8.5 Schedule of fee/charges/commission for FIs

BB has issued new directives in order to protect customers' interest and unify the charges, fees and commissions imposed by FIs. Under the new directives FIs can charge a maximum of BDT 200.00 for a loan application while charges for documentation and processing, CIB report, stamps, legal advice and security valuation, etc. will be collected at actual cost. Late fees or fine for delayed payment of loan installments must not be more than 2 percent of the applicable interest/profit rate. FIs have to provide a one-month notice period to clients before increasing interest rate on loans and leases and if a client wants to repay or transfer his or her credit facility within the stipulated one month or if it is a micro or cottage enterprise, there will be no early settlement fee. However, a maximum of 2 percent of outstanding balance of loans and leases can be applied as early settlement fee otherwise. Likewise, clients are entitled to get two-half yearly account statement free of cost and if a client requires further a maximum of BDT 200.00 can be charged for each instance.

8.6 Issuance of Floating Rate Treasury Bond (FRTB)

The Government of Bangladesh has issued a new investment bonds having a floating rate. The objective behind introducing FRTBs is to meet the government's own rising financial need and diversify debt profile of the government. FRTBs will be linked to short-term reference rate and will have minimal exposure to interest rate risk.

8.7 Amendment in Prudential Regulations for Consumer Financing (Credit Card).

To remove the inconsistency in terms of age limit of customers stipulated in the Prudential Guidelines for Consumer Financing & Small Enterprise Financing, BB has revised the Credit Card PPG Guideline No.2-Age (BRPD Circular no-07/2004). Accordingly, a prospective customer shall have to be 18 years of age or above to be eligible for a primary credit card. The age bar is same for supplementary cardholders except for students who are directly dependent on the principal cardholders.

8.8 Changes in the Foreign Exchange Regulations

During the review quarter, BB brought a number of changes in its foreign exchange regulations that are stated below:

i) In addition to current provision that allows exporters to retain export proceeds in foreign currency for a period of 30 days to settle import payments within this time, any unencumbered balances held in such pool shall also be useable to meet import payments of subsidiaries/sister concerns of exporters at the request of exporters within the stipulated time.

ii) The limit for financing the procurement of input in foreign currency for member factories/mills of BGMEA and BTMA has been enhanced from existing USD 20 million to USD 25 million.

iii) National Board of Revenue (NBR) vide its order no. 288/2017/Customs/529 dated December 21, 2017 made relevant amendment in the Customs (Economic Zones) Procedures, 2017 to waive export/import formalities for transactions between enterprises operating in Domestic Processing Area (DPA) of EZs and in Tariff Area (TA) of Bangladesh. In accordance with the revised order, it has been decided to allow such transactions to be settled in Taka without observance of regulatory procedures such as EXP Form for export and IMP Form for import. To support the transactions by EZ enterprises irrespective of their ownership status, their liabilities for imports and other permissible expenses may be settled out of the fund held in their Taka accounts.

iv) To facilitate smooth operations of branches of foreign banking companies operating in Bangladesh, Authorized Dealers are allowed to remit head office expenses without prior approval from BB subject to observance of some instructions which is issued by the head office to their branches in accordance with standard practices.

v) In order to promote Business-to-Customer export by hosting goods on e-Commerce website accessible through internet to foreign buyers, ADs are allowed to provide acquiring services to eligible exporters for repatriation of export proceeds against sales orders of exportable goods received on e-Commerce website subject to compliance of some operational procedures.

vi) ADs are allowed to issue guarantee in Taka or equivalent convertible foreign currency on behalf of foreign owned/controlled companies operating in Bangladesh, favouring concerned authorities in Bangladesh against foreign back to back guarantee acceptable to them subject to observance of some instructions.

vii) LCAFs issued under 360 days deferred payment basis for the import of HR coil, Scrap, Pig iron and Sponge iron for manufacturing of flat and long steel to be used in own factories of steel industries shall remain valid for remittances for 18 months following the month of issuance.

8.9 Lending facility to Ship Building Industry

To address the liquidity problems in the ship-building industry BB has allowed the banks to transfer the outstanding loans of ship-building enterprises up to December 2017 to transfer to separate block accounts. The outstanding balances of block accounts will enjoy a tenor of ten years with a moratorium period of 3 years. The loans will be repaid in quarterly installments at reduced interest rates. The same facility will also be extended to loans which have already been rescheduled.

8.10 Resetting the Tenure of Repo Instruments

BB has introduced overnight repurchase agreement (repo) facility to improve in addition to existing tenure of 7-, 14-, and 28-day in order to improve liquidity in the money market. For intervening holidays, the tenure of repo will automatically be extended by the number of holidays involved. The overnight repo rate has been fixed at 6 percent per annum. The rate of other instruments will be higher than that of the overnight repo instrument.

8.11 Guidelines for cash withdrawal through cheque of illiterate customer

To promote financial inclusion and encourage illiterate customers to enjoy the services of formal banking system, BB has issued new guidelines which have set standards for filling-up Know Your Customer forms of illiterate customers and standards and procedures for performing banking transactions. BB has also supplemented the above guideline with the use of technologies like biometrics, iris recognition, facial recognition, etc., to facilitate transactions by illiterate customers.

8.12 Ensuring proper utilization of loan

To ensure proper end-use of the loans disbursed to borrowers, BB has instructed the scheduled banks to ensure due-diligence and enhance monitoring of the loans. BB has specifically directed the banks not to disburse additional installments of sanctioned loans unless they are satisfied that the previously disbursed installments have been used for declared purposes. Banks have been advised to identify the causes and take proper remedial actions if such instances of improper use of funds are identified.

8.13 Refraining from offering high interest rate through mobile phone messaging to collect deposit

BB has issued a circular prohibiting the use of short message service (SMS) to attract deposits at lucrative interest rates from prospective clients stating the practice undesired and embarrassing.

8.14 Resetting the threshold of submission of Credit Information

To monitor and strengthen credit discipline in the banking sector, BB instructed that information of all loans including credit cards having outstanding balance of Taka 1 (one) and above has to be uploaded to the CIB database by banks and financial institutions on a monthly basis.

8.15 Developing Collateral Information system

BB has taken an initiative to develop a database of collaterals offered to banks and financial institutions as security against loans and advances. The move is aimed at preventing and curbing fraudulent activities and corruption arising from mortgaging same property unlawfully against more than one loan sanctioned by banks and financial institutions. Banks and FIs have been asked to upload information of collateral securities against their loans and advances on a quarterly basis.

Table I : CPI Inflation (12 month Average)

(Percent)

Month	Inflation (General)	Inflation (Food)	Inflation (Non-Food)
Mar-17	5.4	5.2	5.7
Jun-17	5.4	6.0	4.6
Sep-17	5.6	6.7	3.8
Dec-17	5.7	7.2	3.5
Mar-18	5.8	7.3	3.6
Jun-18	5.8	7.1	3.7

Base: 2005-06=100

Table II Foreign Exchange Reserve

(Amount in million USD)

Month-end	International Reserve
Jun-16	30,168.2
Sep-16	31,385.9
Dec-16	32,092.0
Mar-17	32,215.0
Jun-17	33,493.0
Sep-17	32,816.6
Dec-17	33,226.9
Mar-18	32,403.0
Jun-18	32,916.0

Table III Wage Earners' Remittance

(Amount in million USD)

Quarter	Amount
Jun-16	3,871.5
Sep-16	3,245.8
Dec-16	2,921.1
Mar-17	3,027.7
Jun-17	3,574.9
Sep-17	3,387.9
Dec-17	3,541.3
Mar-18	3,828.6
Jun-18	4,220.7

Table IV Exports and Imports

(Amount in million USD)

Quarter	Aggregate Exports (F.O.B)	Aggregate Imports (F.O.B)
Jun-16	9,088.0	10,720.0
Sep-16	7,909.0	9,502.0
Dec-16	8,501.0	10,645.0
Mar-17	8,920.0	11,448.0
Jun-17	8,689.0	11,123.0
Sep-17	8,549.0	12,199.0
Dec-17	9,137.0	14,115.0
Mar-18	9,412.0	13,986.0
Jun-18	9,107.0	14,163.0

Table V Interest Rate (Weighted Average) Spread

(In Percent)

Period	Lending Rate	Deposit Rate	Spread
Jun-16	10.4	5.5	4.9
Sep-16	10.1	5.4	4.7
Dec-16	9.9	5.2	4.7
Mar-17	9.7	5.0	4.7
Jun-17	9.5	4.8	4.7
Sep-17	9.5	4.9	4.6
Dec-17	9.4	4.9	4.5
Mar-18	9.7	5.3	4.4
Jun-18	9.9	5.5	4.4

Table VI Weighted Average Exchange Rate

(BDT/USD)

Quarter	Period Average	End Period
Jun-16	78.4000	78.4000
Sep-16	78.4000	78.4000
Dec-16	78.8040	78.7022
Mar-17	79.5000	79.7000
Jun-17	80.5900	80.6000
Sep-17	80.7400	80.8000
Dec-17	82.5500	82.7000
Mar-18	82.9600	82.9600
Jun-18	83.7000	83.7300

Table VII Credit to the Government (Gross) by the Banking System

(Amount in billion BDT)

Period	Amount
Jun-16	1,804.8
Sep-16	1,807.7
Dec-16	1,691.1
Mar-17	1,615.1
Jun-17	1,684.5
Sep-17	1,666.0
Dec-17	1,620.0
Mar-18	1,538.1
Jun-18	1,780.9

Table VIII Asset Structure of the Banking Industry

(Amount in billion BDT)

Property and Assets	30-09-2017	31-12-2017	31-03-2018	30-06-2018
Cash in hand	115.8	117.6	123.1[R]	143.9
Balance with Bangladesh Bank and its Agent Bank	756.7	833.1	796.4[R]	910.7
Balance with other banks and financial institutions	601.4	684.7	738.0[R]	825.7
Investment	1,991.3	1,918.9	1,945.0[R]	2,003.8
Loans and Advances	8,004.5	8,050.8	8,769.0[R]	9,166.2
Fixed Assets	226.3	226.7	223.8[R]	227.3
Other Assets	772.3	715.8	727.1[R]	733.6
Non-banking assets	3.5	3.7	3.7[R]	3.7
Total Assets	**12,608.6**	**13,059.3**	**13,326.1[R]**	**14,014.9**

R=Revised

Table IX Banking Sector Assets & NPL Concentration (June-2018)

(Amount in billion BDT)

Assets	Top 5 Banks	Other Banks	Top 10 Banks	Other Banks
Amount	4,325.0	9,689.9	6,234.6	7,780.3
Share (%)	30.9	69.1	44.5	55.5
NPL	**Top 5 banks**	**Other banks**	**Top 10 banks**	**Other banks**
Amount	420.5	472.9	559.6	333.8
Share (%)	47.1	52.9	62.6	37.4

Table X Banking Sector NPL Ratio

(Amount in billion BDT)

Quarter	Aggregate NPL	Gross NPL Ratio (NPL/TL) (%)	NPL (net of LLP and IS) Ratio (%)	NPL (net of LLP and IS)/ Reg. Cap. (%)
Jun-16	633.7	10.1	2.8	21.1
Sep-16	657.3	10.3	2.8	20.8
Dec-16	621.7	9.2	2.3	18.0
Mar-17	734.1	10.5	2.9	22.7
Jun-17	741.5	10.1	2.6	19.7
Sep-17	803.1	10.7	2.9	22.4
Dec-17	743.0	9.3	2.2	17.2
Mar-18	885.9	10.8	3.3	27.6
Jun-18	893.4	10.4	2.7	22.7

Table XI Distribution of Banks by NPL Ratio

Range	Number of Banks as at end				
	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Up to 2.0%	8	7	10	9	9
2.0% to <3.0%	4	4	5	4	3
3.0% to <5.0%	13	10	17	10	10
5.0% to <10.0%	19	24	13	22	22
10.0% to <15.0%	3	1	2	0	1
15.0% to <20.0%	1	0	1	2	1
20.0% & above	9	11	9	10	11
Total 57	**57**	**57**	**57**		**57**

Table XII Banking Sector Loan Loss Provisions

(Amount in billion BDT)

Period	Required Provision	Provision Maintained	Provision Maintenance Ratio (%)
Jun-16	361.8	317.3	87.7
Sep-16	372.3	328.5	88.2
Dec-16	362.1	307.4	84.9
Mar-17	419.2	366.9	87.5
Jun-17	436.4	374.5	85.8
Sep-17	463.1	399.7	86.3
Dec-17	443.0	375.3	84.7
Mar-18	492.4	412.8	83.8
Jun-18	528.8	448.9	84.9

Table XIII Banking Sector Classified Loans Ratios

(In percent)

Period	Classified Loans To Total Loans	Sub-Standard Loans To Classified Loans	Doubtful Loans To Classified Loans	Bad Loans To Classified Loans
Jun-16	10.1	11.8	8.3	79.9
Sep-16	10.3	11.6	6.0	82.4
Dec-16	9.2	10.2	5.4	84.4
Mar-17	10.5	11.1	6.8	82.1
Jun-17	10.1	10.2	6.8	83.1
Sep-17	10.7	12.0	6.0	82.0
Dec-17	9.3	7.5	5.5	87.0
Mar-18	10.8	10.2	6.7	83.1
Jun-18	10.4	8.1	8.0	83.9

Table XIV Classified Loan Composition (End-June 2018)

(Amount in billion BDT)

Particulars	Amount	Percent Of Total
Sub-Standard	72.4	8.1
Doubtful	71.8	8.0
Bad & Loss	749.3	83.9
Total	**893.4**	**100.0**

Table XV Banking Sector ROA Range

Quarter	ROA Range			
	Up to 2.0%	> 2.0% to ≤ 3.0%	> 3.0% to ≤ 4.0%	> 4.0%
Jun-16	49	3	3	1
Sep-16	49	4	3	0
Dec-16	48	7	1	1
Mar-17	51	4	1	1
Jun-17	53	2	1	1
Sep-17	52	4	0	1
Dec-17	52	4	0	1
Mar-18	51	3	1	2
Jun-18	49	3	3	2

Note: ROAs have been annualized from respective quarterly ratios.

Table XVI Banking Sector ROE Range

Quarter	ROE Range			
	Up to 5.0%	> 5.0% to ≤ 10.0%	> 10.0% to ≤ 15.0%	> 15.0%
Jun-16	17	17	13	9
Sep-16	14	20	14	8
Dec-16	11	12	16	18
Mar-17	22	17	12	6
Jun-17	18	20	12	7
Sep-17	14	21	9	13
Dec-17	16	8	21	12
Mar-18	22	17	14	4
Jun-18	21	17	12	7

Notes: ROEs have been annualized from respective quarterly ratios .

Table XVII Banking Sector ROA and ROE

Ratio	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
ROA	0.8	0.1	0.3	0.4	0.8	0.3^R	0.3
ROE	10.8	1.2	3.7	5.9	10.9	5.0^R	5.3

Notes: 1. The figures are annualized from respective quarterly ratios; e.g.

(a) annualized ROA of 1^{st} quarter of 2018 = (Profit in 1^{st} quarter of 2018 x 4/Total asset at the end of 1^{st} quarter of 2018) x 100.

(b) annualized ROA of 2nd quarter of 2018 = ((Profit in 1^{st} quarter of 2018+Profit in 2^{nd} quarter of 2018) x 2/Average of assets at the end of 1^{st} and 2^{nd} quarters of 2018) x 100.

(c) Annualized ROA of 4^{th} quarter of 2017 = (Aggregate of profits in four quarters of 2017/Average of total assets at the end of four quarters of 2017) x100.

(d) Similar method applied for annualizing quarterly ROE.

2. R-Revised.

Table XVIII FIs' Borrowing, Deposit and Capital

(Amount in billion BDT)

Particulars	Dec-2017	Mar-2018	Jun-2018
Borrowings	121.4	188.4	187.0
Deposits	527.7	462.8	482.1
Capital	114.5	115.6	108.1
Other Liabilities	102.1	82.1	93.3
Total	**865.7**	**848.9**	**870.5**

Table XIX FIs' Asset Composition

(Amount in billion BDT)

Particulars	December-2017	March-2018	June-2018
Cash & Balance with Banks/FIs	130.0	124.9	131.1
Investments	22.1	19.8	19.0
Loans & Leases	613.0	628.5	641.5
Other Assets	63.8	64.3	68.0
Fixed Assets	36.8	11.4	11.3
Total	**865.7**	**848.9**	**870.5**

Table XX FIs' Classified Loans and Leases

(Amount in billion BDT)

Quarter	Aggregate NPL	Aggregate NPL to total loan (%)
Dec-15	40.0	8.9
Mar-16	41.8	8.9
Jun-16	45.1	9.0
Sep-16	45.6	8.9
Dec-16	39.3	7.4
Mar-17	45.0	8.1
Jun-17	52.0	8.9
Sep-17	55.9	9.4
Dec-17	45.2	7.3
Mar-18	55.6	8.8
Jun-18	59.2	9.2

Table XXI FIs' ROA & ROE

(In percent)

Quarter	Aggregate ROA	Aggregate ROE
Jun-16	0.8	5.5
Sep-16	0.9	6.0
Dec-16	0.8	5.4
Mar-17	0.6	4.2
Jun-17	1.0	7.4
Sep-17	0.5	3.6
Dec-17	2.0	15.2
Mar-18	0.4	2.9
Jun-18	0.4	3.1

Note: The displayed ratios are annualized figures from respective quarterly ratios.

Table XXII Banking Sector CAR/CRAR Distribution

CAR	Number Of Banks (At End Period)						
	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
< 10%	7	9	7	9	9	10	10
10% to ≤15%	33	32	35	32	31	31	30
15% +	17	16	15	16	17	16	17

Table XXIII Banking Sector Asset Share based on CRAR as at end-June 2018

CRAR	Number of banks & their asset size		Asset share (%)
	Number of banks	Asset size (in billion BDT)	
<10%	10	4,240.4	30.3
10% to ≤ 15%	30	8,784.3	62.7
15% +	17	990.2	7.1
Total	**57**	**14,014.9**	**100.0**

Table XXIV Tier-1 Capital Ratio and Overall CAR/CRAR of the Banking Industry

Particulars	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Core Capital to RWA (%)	7.6	7.9	7.8	7.8	7.5	7.5	7.0	6.8
Number of core capital compliant banks	49	50	49	50	49	50	48	49
Overall CAR (%)	10.3	10.8	10.7	10.9	10.7	10.8	10.1	10.0
Number of CAR compliant banks	47	50	48	50	48	48	47	47
No. of banks in the industry	56	57	57	57	57	57	57	57

Table XXV Distribution of Risk Weighted Assets of the Banking Industry

(Amount in billion BDT)

Particulars	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
RWA for Credit Risk	7,262.4	7,439.9	7698.2	7933.1	8131.3
RWA for Market Risk	301.6	297.9	292.9	278.6	325.2
RWA for Operational Risk	718.6	724.4	743.4	796.3	800.9
Total RWA	**8,282.5**	**8,462.2**	**8,734.5**	**9,008.0**	**9,257.4**

Table XXVI Banking Sector Regulatory Capital Position (Solo Basis)

(Amount in billion BDT)

Period	Minimum Capital Requirement	Total Regulatory Capital
Sep-16	783.4	776.9
Dec-16	808.1	837.6
Mar-17	820.9	844.2
Jun-17	857.0	899.6
Sep-17	873.6	901.0
Dec-17	901.5	945.6
Mar-18	927.3	911.1
Jun-18	951.3	925.8

Table XXVII Banking Sector Advance-to-Deposit Ratio (ADR)

(In percent)

Period	ADR (%)
Sep-15	69.8
Dec-15	71.0
Mar-16	71.5
Jun-16	71.6
Sep-16	71.1
Dec-16	71.9
Mar-17	73.4
Jun-17	73.9
Sep-17	74.8
Dec-17	75.9
Mar-18	77.0
Jun-18	76.7

Table XXVIII Bank Cluster-wise ADR at end-June 2018

(In percent)

Bank wise	ADR (%)
SCBs	54.8
PCBs	85.6
FCBs	73.7
DFIs	78.0
Industry	76.7

Table XXIX FIs' CRR & SLR

(Amount in billion BDT)

Quarter End	Aggregate CRR			Aggregate SLR		
	Required	Maintained	Surplus/Shortfall	Required	Maintained	Surplus/Shortfall
Jun 2016	5,312.6	5,829.6	517.0	14,570.9	69,361.9	54,791.0
Sep 2016	5,576.8	6,115.4	538.6	15,122.4	71,110.0	55,987.6
Dec 2016	5,805.0	6,177.7	372.8	15,514.5	64,958.2	49,443.7
Mar 2017	5,939.4	6,400.4	461.0	14,313.4	83,290.4	68,977.0
Jun 2017	6,158.8	6,509.6	350.8	16,880.2	76,950.7	60,070.5
Sep 2017	6,485.2	6,658.6	173.4	17,645.4	83,334.0	65,688.6
Dec 2017	6,512.1	6,968.4	456.3	17,981.9	81,455.7	63,473.8
Mar 2018	6,751.9	7,358.6	606.7	18,180.7	96,227.1	78,046.4
Jun 2018	7,015.2	7,508.0	492.8	19,246.2	101,073.8	81,827.6

Table XXX Capital Adequacy Ratio of FI Sector

Particulars	End Mar-17	End Jun-17	End Sep-17	End Dec-17	End Mar-18	End Jun-18
Eligible Capital to RWA (%)	16.0	13.7	13.3	13.5	13.0	12.8

Table XXXI Overall Risk-weighted Assets and Tier 1 Capital of FI Sector

(Amount in billion BDT)

Particulars	End Mar-17	End June-17	End Sep-17	End Dec-17	End Mar-18	End June-18
Risk Weighted Assets (RWA)						
Credit RWA	543.8	579.3	592.6	622.5	666.8	665.5
Market RWA	55.3	54.2	61.5	62.9	54.8	51.9
Operational RWA	42.4	42.7	42.8	43.1	43.9	45.0
Total RWA	**641.5**	**676.2**	**696.9**	**728.5**	**765.5**	**762.5**
Capital						
Core Capital (Tier -1)	92.2	92.7	82.4	87.3	88.2	85.8
Supplementary Capital	10.2	10.4	10.6	11.0	11.5	11.6
Eligible Capital	102.4	103.1	93.0	98.3	99.7	97.4

Table XXXII Banking Sector's After Shock CRAR at Different Shock Scenarios

(Based on data as of end-Jun 2018)

Shocks	CRAR after Shock (%)		
	Minor Level	Moderate Level	Major Level
Increase in NPL in the highest outstanding sector	9.93	9.80	9.66
Increase in NPLs due to default of Top borrowers	8.31	6.77	5.90
Negative shift in NPL categories	9.30	7.39	5.93
Decrease in the FSV of collateral	9.33	8.65	7.27
Increase in NPLs	9.00	6.52	2.63
Interest rate shock	9.66	9.32	8.98
Exchange rate shock	9.97	9.95	9.92
Equity shock	9.76	9.52	9.04
Combined shock	7.02	1.35	-6.23

Table XXXIII Number of Non-complaint Banks at Different Shock Scenarios

(Based on data as of end-June 2018)

Shocks	No. of Banks		
	Minor Level	Moderate Level	Major Level
Increase in NPL in highest outstanding sector	1	3	8
Increase in NPLs due to default of Top borrowers	24	33	38
Negative shift in NPL categories	0	10	15
Decrease in the FSV of collateral	0	1	6
Increase in NPLs	7	25	35
Interest rate shock	1	1	4
Exchange rate shock	0	0	0
Equity shock	0	1	1
Combined shock	16	34	40

Table XXXIV DSE Performance

Month	(In billion BDT)		Index		
	Turnover	Market Capitalization	DSEX	DSE 30	DSES
Jan-17	342.32	3,668.12	5,468.34	1,993.15	1,268.28
Feb-17	194.04	3,739.30	5,612.70	2,025.83	1,305.64
Mar-17	217.70	3,798.31	5,719.61	2,090.76	1,303.72
Apr-17	153.18	3,710.93	5,475.55	2,016.14	1,263.91
May-17	122.58	3,683.02	5,403.12	2,005.19	1,251.39
Jun-17	101.56	3,801.00	5,656.05	2,083.80	1,296.74
Jul-17	209.29	3,961.34	5,860.65	2,143.51	1,315.20
Aug-17	195.89	4,020.91	6,006.43	2,138.73	1,322.10
Sep-17	199.44	4,072.08	6,092.84	2,177.62	1,345.86
Oct-17	156.97	4,090.27	6,019.59	2,168.03	1,316.25
Nov-17	184.22	4,241.50	6,306.86	2,270.14	1,381.51
Dec-17	92.38	4,228.95	6,244.52	2,283.23	1,390.67
Jan-18	100.72	4,185.13	6,039.78	2,238.95	1,398.48
Feb-18	76.80	4,044.39	5,804.94	2,146.38	1,361.05
Mar-18	67.15	3,917.19	5,597.44	2,106.02	1,314.65
Apr-18	114.95	4,006.29	5,739.23	2,143.55	1,324.95
May-18	96.68	3,799.60	5,343.88	1,975.00	1,238.31
Jun-18	96.36	3,847.35	5,405.46	1,959.95	1,263.79

Table XXXV CSE Performance

Month	(In billion BDT)		Index		
	Turnover	Market Capitalization	DSEX	DSE 30	DSES
Jan-17	20.07	2,992.95	16,937.97	14,768.35	1,150.34
Feb-17	11.88	3,057.80	17,375.73	15,064.53	1,185.02
Mar-17	13.77	3,118.87	17,738.31	15,583.38	1,188.16
Apr-17	10.51	3,038.78	16,993.94	15,078.78	1,150.63
May-17	11.95	3,005.92	16,707.07	14,897.02	1,131.42
Jun-17	8.22	3,113.24	17,516.71	15,580.37	1,178.39
Jul-17	13.04	3,273.16	18,148.44	15,918.75	1,200.62
Aug-17	12.85	3,332.30	18,604.76	16,068.52	1,207.35
Sep-17	15.86	3,382.72	18,881.60	16,424.84	1,227.25
Oct-17	11.11	3,416.79	18,633.29	16,501.17	1,203.48
Nov-17	11.47	3,548.35	19,508.77	17,517.22	1,253.13
Dec-17	7.35	3,522.97	19,268.04	17,235.59	1,251.61
Jan-18	6.30	3,488.26	18,691.23	16,953.17	1,250.24
Feb-18	5.74	3,345.60	17,926.43	16,262.77	1,208.50
Mar-18	4.63	3,213.30	17,215.11	15,875.16	1,166.32
Apr-18	9.78	3,311.71	17,693.30	16,069.06	1,186.82
May-18	4.94	3,115.49	16,491.10	14,940.48	1,103.12
Jun-18	6.78	3,123.52	16,558.51	15,092.77	1,120.37

Table XXXV Sectoral Turnover of DSE

(In percent)

Broad Sector	SECTOR	% of Total Turnover	
		2018Q1	2018Q2
Financial Sector	Banks	17.04	12.24
	Financial Institutions	6.04	3.31
	Insurance	2.38	3.42
Manufacturing	Food & Allied Product	5.63	4.26
	Pharmaceuticals & Chemicals	14.15	12.95
	Textile	11.90	13.63
	Engineering	14.51	14.79
	Ceramic	2.65	2.44
	Tannery	1.85	2.20
	Paper & Printing	0.12	0.07
	Jute	0.22	0.90
	Cement	2.24	1.53
Service & Miscellaneous	Mutual Funds	1.42	1.18
	Fuel & Power	6.93	10.39
	Services & Real estate	1.01	0.54
	IT - Sector	2.14	2.20
	Telecommunication	4.51	3.45
	Travel and Leisure	1.53	1.24
	Miscellaneous	3.72	9.26
Bond	Corporate Bond	0.01	0.01
	Total	**100.00**	**100.00**

Note: 2018Q1 = March quarter 2018, 2018Q2 = June quarter 2018

Table XXXVII Sectoral Turnover of CSE

(In percent)

Broad Sector	SECTOR	% of Total Turnover	
		2018Q1	2018Q2
Financial Sector	Banks	21.30	21.50
	Leasing & Finance	4.89	3.20
	Life Insurance	0.68	4.76
	General Insurance	0.47	0.52
Manufacturing	Food & Allied Product	2.35	1.89
	Pharmaceuticals & Chemicals	13.97	10.56
	Textile	9.46	7.34
	Engineering	10.80	13.05
	Ceramic	1.52	0.88
	Tannery	2.44	3.40
	Paper & Printing	0.73	1.18
	Cement	3.98	1.60
Service & Miscellaneous	Fuel & Power	3.29	10.22
	Services	2.65	1.53
	IT	1.56	1.08
	Telecommunication	13.29	4.69
	Mutual Funds	0.77	2.44
	Miscellaneous	5.86	10.14
Bond	Corporate Bond	0.00	0.02
	Total	**100.00**	**100.00**

Note: 2018Q1 ≡ March quarter 2018, 2018Q2 ≡ June quarter 2018

Table XXXVIII Price/Earnings Ratio of Capital Market

Quarter	DSE Price/Earnings Ratio	CSE Price/Earnings Ratio
Dec-15	15.2	14.7
Mar-16	14.3	14.7
Jun-16	14.6	14.6
Sep-16	15.1	15.2
Dec-16	14.3	14.0
Mar-17	16.3	17.1
Jun-17	15.7	17.1
Sep-17	16.3	17.2
Dec-17	17.3	17.0
Mar-18	15.7	18.5
Jun-18	15.0	14.9

Table XXXIX DSE Broad Index (DSEX) Volatility and DSE Turnover

Month	Daily Average Index Volatility[31]	Daily Average DSE Turnover (In crore BDT)
Jan-17	198.10	1,488.35
Feb-17	101.90	1,021.31
Mar-17	52.73	1,036.67
Apr-17	108.67	729.42
May-17	64.96	583.72
Jun-17	68.47	564.24
Jul-17	45.06	951.34
Aug-17	82.29	932.82
Sep-17	60.22	1,049.69
Oct-17	71.92	713.52
Nov-17	86.65	837.35
Dec-17	38.55	486.23
Jan-18	73.12	437.92
Feb-18	104.96	404.19
Mar-18	125.61	335.75
Apr-18	36.92	547.37
May-18	117.22	460.36
Jun-18	55.87	566.81

31 Measured by average of daily standard deviation of DSEX during each month.

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