Quarterly
Financial Stability Assessment Report

Bangladesh Bank
Financial Stability Department

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This report is based on unaudited and provisional data of banks and financial institutions available up to June 30, 2020 unless stated otherwise.

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Message from the Governor

Since the onset of the COVID-19 pandemic in the early 2020, we have witnessed its devastating effects on social and economic life of billions of people across the globe, to an extent never seen before. The global economy experienced one of the most widespread disruptions and sharpest contractions in recent history, estimated to surpass those experienced during the global financial crisis of 2007-08. Governments, central banks and monetary authorities around the world have come up with unprecedented policy measures to mitigate human and economic casualties. Yet many advanced economies suffered severe contraction in their GDP growth, which slid down deeper into the negative, owing to stringent containment measures. Adverse spillovers from advance economies intertwined with domestic control measures rendered many emerging market and developing economies to endure sharp contraction as well.

After remaining buoyant during the first quarter of 2020, Bangladesh economy also endured substantial economic losses in the review quarter due to unparalleled containment measures taken to limit the spread of COVID-19 outbreak. Consequently, our real GDP growth plunged to 5.2 percent in FY20 from the target of 8.2 percent. Yet the growth was much higher than most of the emerging market and developing economies as well as the forecast of IMF and World Bank, thanks to Government's massive stimulus package along with Bangladesh Bank's prudent and timely policy supports extended to arrest the precipitous economic collapse. In spite of sustaining heavy supply-side disruptions, average annual inflation, though edged up slightly due to rise in food inflation, remained tolerable at end-June 2020. Prolonged worldwide lockdowns took a heavy toll on our export growth which recorded a sharper decline than imports and thus widened the country's current account deficit. However, the sign of pickup in exports near the end of the quarter is expected to ease the pressure on current account balance in the coming days. Riding on a steady inflow of wage earners' remittances and record financial inflows, our gross foreign exchange reserves peaked at USD 36.0 billion at end-June 2020, equivalent to meeting more than seven months' imports of goods and services.

The banking sector in Bangladesh largely appeared to be resilient, owing to our various policy measures to keep the credit intermediation and payment services smooth and uninterrupted. During the review period, the industry maintained a strong capital position, much higher than the minimum regulatory requirement. Because of easy monetary policy adopted by Bangladesh Bank, no abrupt volatility was observed in the liquidity situation. As debt servicing capacity of borrowers eroded amidst the COVID-19 crisis, banks' profitability was on a decline. While gross NPL ratio decreased mainly due to BB's policy relaxation to tackle adverse impacts of COVID-

19, strict monitoring of stressed assets would be key to maintain asset quality once the relaxation is over. We are optimistic that our policy supports to boost up private sector investment as well as adequate supply of funds for both businesses and banks would increase economic activities, create more job opportunities and subsequently dilute the strain of COVID-19 on financial system. Proper due diligence and good governance on the part of banks should provide the much needed impetus to this cause. We have to remain particularly vigilant about shocks coming from external sector so that adverse spillover effects from our heavily affected trading partners do not appear to be as risk for financial stability. Though the uncertainty over the spread and intensity of COVID-19 pandemic still hovers around the corner, I hope we will be able to overcome this crisis period with great responsibility, courage and unity as taught by our "Father of the Nation" many a time.

Finally, I expect that this report will be enlightening for the stakeholders in providing the most recent information about the country's macro-financial conditions. I appreciate the diligent efforts of my colleagues of the Financial Stability Department in preparing this report.

Fazle Kabir
Governor

Message from the Deputy Governor

During the review quarter, the global economy contracted further suffering heavy blows brought about by the ongoing COVID-19 pandemic. Many advanced as well as emerging market and developing countries are preparing themselves to tackle the uncertainties and challenges anticipated from 2nd wave of the pandemic while the magnitude and duration of the 1st wave are still unclear. Due to unprecedented containment measures, consequential stagnation or slowdown in economic activities around the globe resulted in heavy losses of income for households and businesses at home and abroad. This income shock in the external sector adversely affected the imports and exports of Bangladesh during the review period. On the domestic front, timely response from the government providing unprecedented scale of stimulus package along with prudent policy supports from Bangladesh Bank arrested a slump in domestic demand; moreover, a resilient agricultural sector and strong inflow of remittances helped retain the domestic demand to some extent. Thus, despite slowdown in economic activities, Bangladesh recorded a real GDP growth of 5.2 percent, higher than most other pandemic hit countries in the region and beyond. Besides, easy monetary policy, a tolerable inflation rate, a surplus in overall balance of payment, booming foreign exchange reserves and a competitive exchange rate – all these contributed to a moderate level of domestic macroeconomic stability.

Though the negative impacts on external sector, and slowdown in domestic sector have transmitted gradually to our financial sector, policy measures taken by Bangladesh Bank provided the much needed breathing space for continuous and smooth financial intermediation and uninterrupted settlement and payment services. In order to boost up consumption and investment demand, we have strictly monitored implementation of banks' lending rates at maximum 9 percent for all sectors (except credit cards), injected liquidity through lowering CRR and repo rate while enhanced ADR (IDR) and introduced/enhanced refinance schemes for large industries and service sectors, Cottage, Micro, Small and Medium Enterprises (CMSME) sector, Pre-Shipment Credit, agriculture sector, and low income professionals, farmers and micro businessmen, among other measures. We have adopted temporary moratorium on loan repayments and lenient loan classification policy to relive borrowers as well as banks/FIs in this difficult time so that economic recovery is not hampered due to business shutdown and job losses. Consequently, capital adequacy, assets quality, profitability and liquidity position of the banking sector were in a comfortable zone. However, banks need to ensure proper utilization and close monitoring of such easy funds to mitigate any possible stress on their asset quality, which may accumulate over time to threaten financial stability. Though the overall position of FIs was found resilient, deterioration in their asset quality remains a concern and warrants for stricter supervision on the part of both Bangladesh Bank and respective FIs. I believe Bangladesh Bank's continuous monetary and supervisory efforts to ride over the COVID-19 crisis would help restore the economy back in track in reasonable time.

I hope the stakeholders would find this quarterly update of the financial system stability helpful and insightful to understand the recent trends and emerging issues of interest. At the end, I would like to express my appreciation for the efforts put in by the officials of Financial stability Department in bringing out 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 Points
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
IDR	Investment Deposit Ratio
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 Enterprise
USA	United States of America
USD	United States Dollar
UK	United Kingdom

Executive Summary

The purpose of this report is to assess the resilience of the Bangladesh financial system to risks and vulnerabilities, both endogenous and exogenous, during the April-June quarter of the calendar year 2020 (CY20). The report also discusses different financial sector issues having implications for stability of the Bangladesh financial system.

Inflicted by continuing spread of COVID-19, global economy emerged with dismal fall in GDP in the second quarter of 2020. United States and most advanced economies in Europe have been most severely affected as they experienced decelerated output due to rising infected cases which reached the peak in those countries in the middle of the second quarter. With falling global demand, commodity prices, especially energy price, plummeted as a result of which inflation recorded strikingly low. Central banks in advance economies reduced the policy rate and expanded asset purchases, while emerging market and developing economies set out some unconventional monetary policies to elevate the investor confidence. Equity prices that saw a crash during the March retraced substantially, thanks to central banks' unprecedented actions for monetary easing in an effort to reinforce market sentiment. Global trade volume severely contracted as a consequence of inter-country supply and demand shocks stemming from strict control measures.

Domestic macro-financial situation recorded a moderate level of stability despite the prevalence of unprecedented suppressed economic activities. During the review quarter, annual average inflation increased by 0.1 percentage point, propelled by increase in food inflation. However, non-food inflation remained stable. Foreign exchange reserve, bolstered by booming foreign capital inflow, recorded a 10.6 percent increase from the preceding quarter to stand at USD 36.04 billion. With continuing spread of the virus and control measures throughout the world, external trade of Bangladesh was severely disrupted as reflected in 21.9 percent fall of import payment and shocking 51.3 percent drop in export receipts with respect to last quarter. Current account deficit expanded further, representing 0.74 percent of GDP. However, financial account improved substantially which eventually lead to the overall balance being 1.0 percent of GDP. Money market was characterized by fall in interest rate spread of banking industry and minor appreciation of Bangladesh Taka (BDT) against US dollar (USD).

Asset growth and profitability of the banking industry that were depressed in end-March 2020 due to uncertainties of COVID-19 improved in the review quarter with the resumption in economic activities, while asset quality, in terms of gross NPL, deteriorated marginally. The subdued 1.0 percent growth in total asset in end-March quarter has largely offset in end-June quarter through 4.5 percent increase of the same. Higher investment by banks in govt. securities and increased loan growth backed by substantial refinance scheme of Bangladesh Bank under Govt.'s stimulus packages led to such asset growth. Meanwhile, gross NPL ratio inched up by 0.2 percentage point at end-June 2020 from the previous quarter. However, net NPL remained in downward direction and reached 0.15 percent at end-June 2020. Despite profitability at end-June 2020 was found to be much better than end-March 2020 level, it was weaker than end-December 2019 level because of COVID-19, upsetting the both quarter of 2020.

Soundness indicators of financial institutions exhibited mixed performance in the review quarter. Profitability of the FI sector at end-June 2020 improved markedly compared to both end-March 2020 and end-2019 June. The annualized Return on Assets (ROA) and Return on Equity (ROE) at end-June 2020 stood at 0.57 percent and 5.32 percent respectively, which were 0.14 percent and 1.27 percent respectively at end-March and 0.21 percent and 1.75 percent at end-June 2019. On the gloomier side, classified loans and leases of FIs' soared by 26.61 percent from the previous quarter, elevating the ratio of classified loans and leases to 13.29 percent in end-June 2020 quarter from 10.97 percent in end-March 2020 quarter.

Overall capital position of banking sector as measured by *Capital to Risk-weighted Assets Ratio (CRAR)* lifted up by 28 basis points from the last quarter to post at 11.63 percent. At end-June 2020, 49 among total of 58 banks had CRAR above the minimum requirement 10 percent. Tier-1 capital ratio also increased by 30 basis points from 7.4 percent in the preceding quarter. However, both the capital ratios reduced compared to the end-June quarter of last year. There was also slight improvement in liquidity position as advance to deposit ratio stood at 76.2 percent which was 1.6 and 1.3 percentage points lower than that of end-March 2020 and end-June 2019 respectively.

Both capital adequacy ratio (CAR) and core capital (tier-1) ratio of FIs fell in the review quarter compared to the earlier quarter, with CAR being 16.42 percent against minimum requirement of 10.0 percent and core capital ratio being 14.63 percent against minimum requirement 5.0 percent. Pertinently, 27 out of 33 FIs maintained minimum CAR and 29 maintained core capital ratio. Aggregate liquidity of FIs stood at a new level as BB lowered the CRR requirement to 1.5 percent from 2.5 percent in pursuant to alleviate the shock of COVID-19 pandemic on market liquidity. Quantitatively, total cash reserve of the industry decreased by 25.4 percent from the end-March 2020 quarter, recording at BDT 6,148.2 million. Also, the amount of SLR maintained decreased by 4.6 percent from the previous quarter, but remained far above the minimum requirement.

Stress tests results based on end-June 2020 data exhibited a reasonable level of resilience of banks and FIs. Among the broad risk factors, credit risk remained to be the most prominent factor for the banks' capital adequacy. Stress scenarios defined by default of top borrowers would have the most adverse effect on banks' capital position in which case minor shock would result in CRAR of whole industry below minimum requirement. In terms of market risk factor, the banking industry is found to be resilient to exchange rate shock but slightly vulnerable to equity price and interest rate shocks. However, CRAR would lie above minimum requirement at any level of shock of these categories of market risk factor individually. Stress test results for FIs indicated that majority of them would remain resilient under different stress scenarios.

Resumed at 31st May 2020 after more than two months of shutdown, capital market remained bearish until end-June 2020. DSEX, the main index of the prime bourse DSE, was traded far below at end-June 2020 from its pre-COVID level. DSE turnover decreased to its historical low, i.e. BDT 49.23 billion during April-June 2020, largely attributable to long period of shutdown and dampened investor sentiment. Except pharmaceuticals & chemical sector, turnover in all other sectors was dried up significantly. Despite a trivial fall in overall market capitalization of DSE at end-June 2020 compared to end-March 2020, the impact was not uniform across different sectors. Pharmaceuticals & chemical, fuel & power and telecomunication sectors gained remarkable capitalization. Price to earnings ratio of DSE had a mere increase from end-March 2020. This reflected the fact that market outlook remained subdued by investors. CSE, the other bourse of capital market, represented almost the same scenario as DSE.

In the face of unprecedented challenges brought by COVID-19, Bangladesh Bank took some prompt and proactive measures during the review quarter to keep the financial sector optimally functional. Major steps adopted by BB are directing banks and NBFIs to implement stimulus packages for large industries and service sectors, issuing guidelines in regard to loans/investments from stimulus fund with minimum service charges for active export oriented industries, initiatives through instructing banks and NBFIs to activate financial incentive packages for Cottage, Micro, Small and Medium Enterprises (CMSME) sector, enhancement of refinance scheme of Cottage, Micro, Small and Medium Enterprises (CMSME) sector, initiation of refinance scheme for Pre-Shipment Credit, refinance scheme for low income professionals, farmers and micro businessmen, refinance scheme for agriculture sector, introduction of agricultural loan at concessional rate, lowering CRR and REPO rate, introduction of special REPO, enhancement of Advanced Deposit Ratio (ADR) and Investment-Deposit Ratio (IDR), relaxation of loan classification rule and modifications of foreign exchange regulations to ease and expedite foreign trade and commerce.

Chapter 1 : MACROECONOMIC DEVELOPMENTS

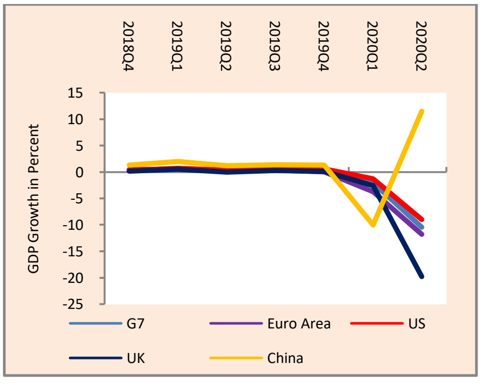
1.1 Global Macro-financial Situation

Global macro-financial system underwent sharp fall in GDP growth despite a benign financial condition in the second quarter of 2020. Continuing spread of the corona virus (COVID-19) weighed heavily on the economic activities across the world. Global trade and production attenuated significantly due largely to widespread lockdown, restriction on the mobility and work suspension.

1.1.1 Global GDP Growth

Most of the economies around the world experienced a drastic fall in GDP in the review quarter (2020Q2). Albeit stringent containment measures, GDP growth was severely impacted in the first quarter and the impact continued even in the second quarter in many of the economies. GDP in the Euro area (19 countries) stood at negative 11.8 percent recording a sharp decline from negative 3.7 percent of the preceding quarter. Besides, GDP growth in the United States dropped to negative 9.0 percent compared to negative 1.3 percent growth of the previous quarter while it was gloomiest in the United Kingdom, posting a negative 19.8 percent growth. Many emerging market and developing economies (EMDEs) also endured contraction in the face of domestic containment measures. However, China, where the virus broke out first, has been able to gain a V-shape recovery in the second quarter by posting 11.5 percent growth (Chart 1.1).

Chart 1. 1: Quarter-to-Quarter GDP Growth

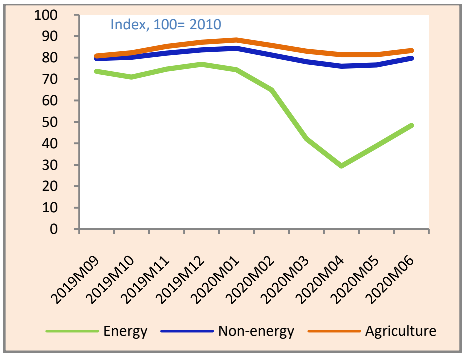


Source: OECD Stat.

1.1.2 Global Inflation Outlook

In line with the plunging global demand for commodities, inflation remained mostly muted in the review quarter. Steeper fall in energy price led to falling trend in commodity prices during the first quarter and bottomed out the trough in April (Chart 1.2). Oil prices demonstrated considerable decline, largely attributable to looming uncertainties and restrictions on travel amid widespread containment measures throughout the world. However, oil prices along-with other commodities began to recover in the last two months of the 2020Q2 with gradual resumption of economic activities.

Chart 1. 2 : Commodity Price Index

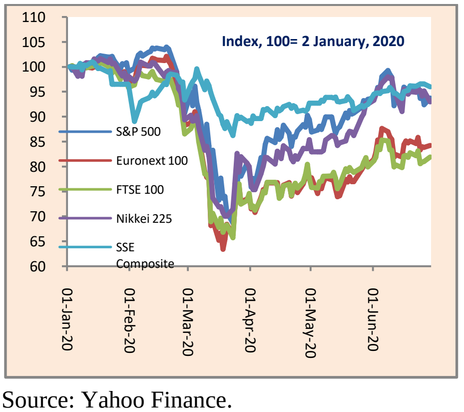


Source: World Bank.

1.1.3 Global Financial Condition

Financial condition in the review quarter was buoyant attributable largely to unprecedented central bank policy measures as well as fiscal support. High volatility in financial markets during Q1 has been stabilized in quarter Q2 as the concern among the market participants has subsided with the normalization of economies (Chart 1.3). Equity markets recouped the losses substantially after having been trough in March. Credit spread recorded a shrink, prompting a cheaper credit market.

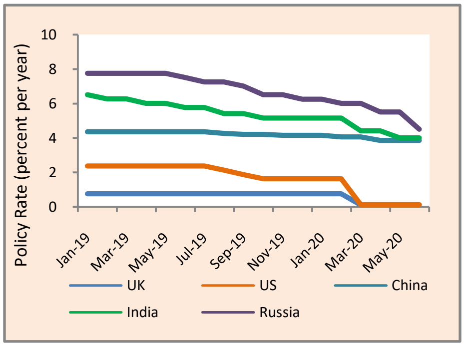
Chart 1. 3: Selected Equity Markets



Source: Yahoo Finance.

Central bank of advanced economies significantly eased policy rates and expanded asset purchases in a bid to contain the fallout in economic activities (Chart 1.4).

Chart 1. 4 : Policy rates of Central Banks

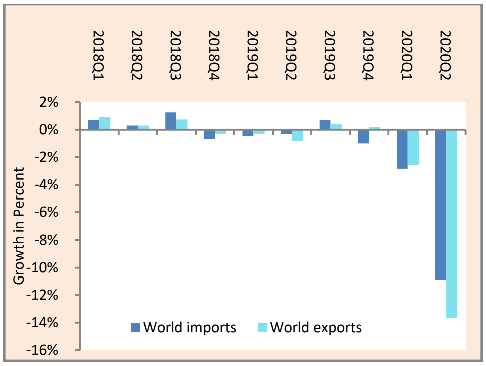


Source: BIS.

1.1.4 Global Trade and Production

Global trade recorded deceleration in 2020Q1 triggered by control measures in different territories of the world. The hardest impact was seen during Q2, posting 13.7 and 10.9 percent contraction in global export and import volume respectively (Chart 1.5). Concern over the ominous spread of COVID-19 and extensive border controls prompted the manufacturers to produce less, thereby creating supply shock. On the other side, a fall in income, emanated from unemployment and factory closures, created demand shock. These headwinds hurt the commodity transactions between the nations. However, a slight upturn in exports and imports in June 2020, largely attributable to the relaxing of both inland and border restrictive measures.

Chart 1. 5: Global Export and Import Volume



Source: CPB World trade monitor.

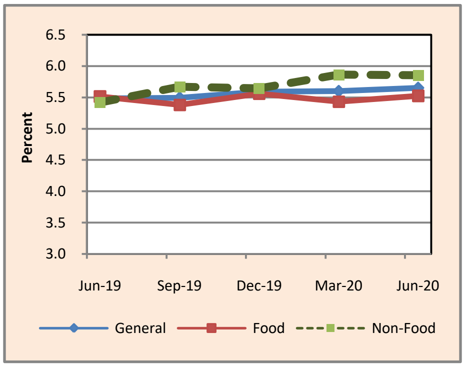
1. 2 Domestic Macroeconomic Situation

The domestic macro-financial system of Bangladesh showed a moderate level of stability in the review quarter. Stable inflation and an uptick in the flow of expatriates' remittance and reserve contributed to alleviating the pressure of the global recession amid the pandemic.

1.2.1 Inflation

At end-June 2020, annual average CPI inflation (base 2005-06=100) stood at 5.7 percent recording a minor increase compared to the position of 5.6 percent in the previous quarter and 5.5 percent in the end-June 2019. Food inflation increased to 5.5 percent from 5.4 percent of the preceding quarter, while non-food inflation remained the same at 5.9 percent in the March and June quarter 2020. It is to mention that at end-June 2019, food, and non-food inflation were 5.5 percent and 5.4 percent respectively (Chart 1.6).

Chart 1. 6: Inflation

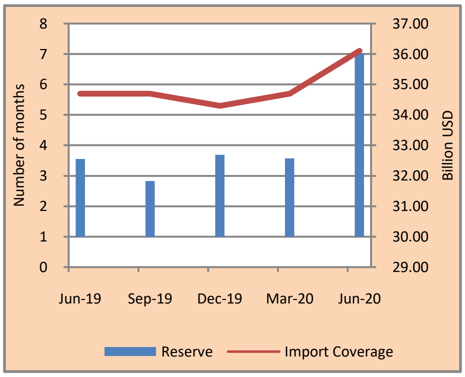


Source: Bangladesh Bureau of Statistics, Base 2005-06=100.

1.2.2 Foreign Exchange Reserve and its Import Coverage

At end-June 2020, the gross foreign exchange reserves reached USD 36.04 billion, recording a 10.6 percent increase from USD 32.57 billion of end-March 2020 and a 10.7 percent increase from end-June 2019. The reserve position was equivalent to meeting more than 7.1 months' imports payments (Chart 1.7).

Chart 1. 7: Foreign Exchange Reserves

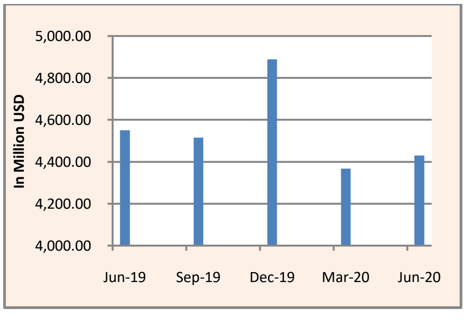


Source: Statistics Department, BB.

1.2.3 Wage Earners' Remittance

Remittance from Bangladeshi expatriates stood at USD 4,430.2 million during the review quarter, recording a decrease of 2.7 percent compared to that of the same period of the previous year. However, compared with the position of the first quarter of 2020, amid the pandemic, remittance inflow increased by 1.5 percent (Chart 1.8) in the second quarter of 2020.

Chart 1. 8: Wage Earners' Remittance

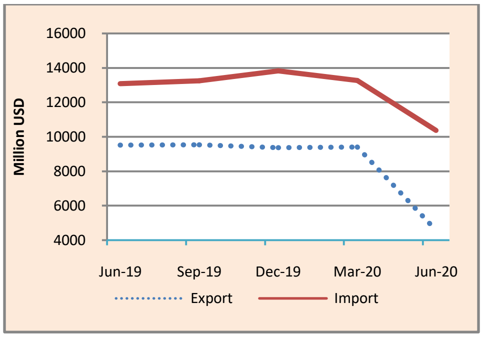


Source: Monthly Economic Trends, BB (various issues).

1.2.4 Imports and Exports

External trade experienced interruption due to restrictions on mobility imposed for containment of the spread of COVID-19. During the review quarter, aggregate import payment[1] decreased by 21.9 percent to USD 10,361 million from USD 13,264 million in the preceding quarter. On the other hand, export receipts registered USD 4,578 million, decrease by 51.3 percent from USD 9,408 million in the preceding quarter. Pertinently, in comparison with the same quarter of the previous year, export receipts and import payments decreased by 51.8 and 20.7 percent respectively (Chart 1.9).

Chart 1. 9: Exports and Imports (FOB)

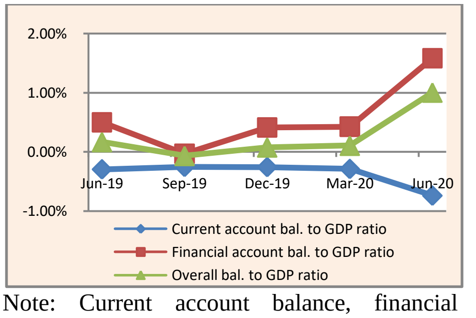


Source: Statistics Department, BB.

1.2.5 Current Account Balance

The current account balance[2] to GDP ratio stood at -0.74 percent as of end-June 2020 recording considerable decline compared to the same of the last few quarters. However, the financial account balance to GDP ratio showed an increase during the period. Consequently, the overall balance to GDP ratio improved notably at the end of the review quarter (Chart 1.10).

Chart 1. 10: Current Account Balance



Note: Current account balance, financial account balance and overall balance represent quarterly positions.
Source: Bangladesh Bank Quarterly.

[1] On FoB basis.

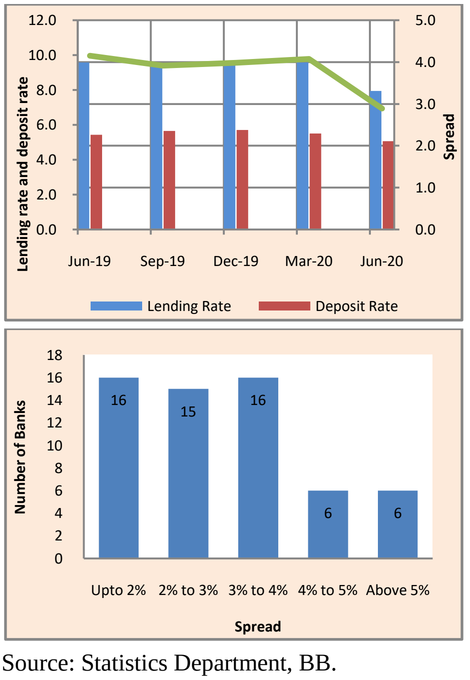
[2] During April-June 2020.

1.2.6 Interest Rate

At the end of June 2020, the weighted average lending and deposit rates were 8.0 percent and 5.1 percent respectively as opposed to 9.6 percent and 5.4 percent in June 2019 (Chart 1.11).

The spread between weighted average lending and deposit rates decreased to 2.9 percent at end-June 2020; spreads of 6 banks out of 59 banks were above 5.0 percent. Out of these 6 banks, 4 were in the category of FCBs while 2 were in the category of PCBs (Chart 11).

Chart 1. 11 Interest Rate

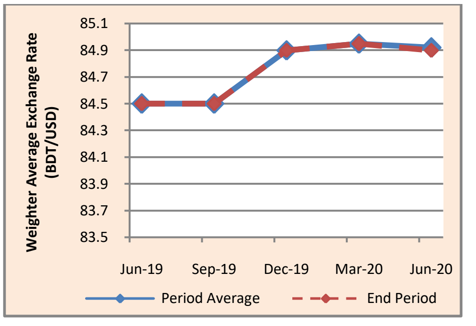


Source: Statistics Department, BB.

1.2.7 Exchange Rate[3]

Bangladesh Taka (BDT) slightly appreciated against US dollar (USD) in the review quarter. Exchange rate of BDT per USD stood at 84.9 in end-June 2020, which was 85.0 and 84.5 in March 2020 and June 2019 Quarter respectively (Chart 1.12).

Chart 1. 12: Exchange Rate

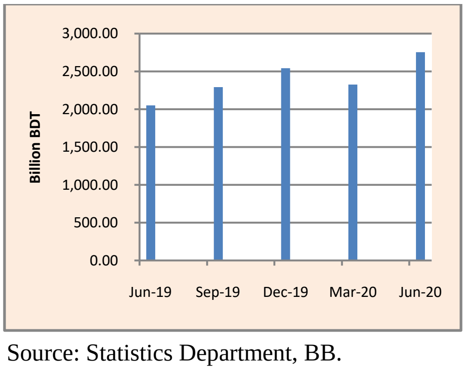


Source: Monthly Economic Trends, BB.

1.2.8 Credit to the Government (gross) by the Banking System

Credit to the Government (gross) by the banking system increased by 20.7 percent and stood at BDT 2806.20 billion at end-June 2020 in comparison with the same of the preceding quarter. However, it increased by 36.9 percent than that of the same period of the previous year (Chart 1.13).

Chart 1. 13: Credit to the Govt. (Gross) by the Banking System



Source: Statistics Department, BB.

[3] BDT per USD on weighted average basis.

Chapter 2 : BANKING SECTOR PERFORMANCE

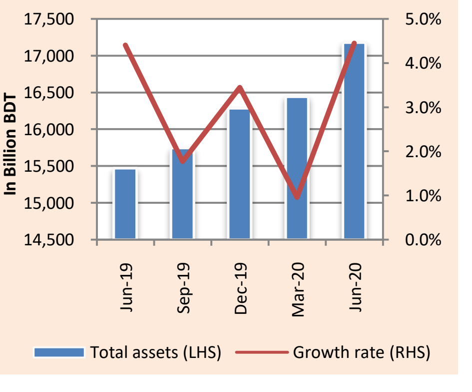
The banking sector[4] experienced a pickup in asset growth and profitability in the review quarter compared to those of the previous period. Though asset quality, measured by gross NPL ratio, deteriorated at end-June 2020 compared to the preceding period, the ratio remained lower than end-December 2019 position.

2.1 Assets Structure

The asset size[5] of the banking sector expanded by 4.5 percent in the review quarter compared to 1.0 percent in March 2020 quarter and 3.5 percent in December 2019 quarter (Chart 2.1). The aggregate assets reached BDT 17,178.1 billion at end-June 2020. Higher asset growth in the review period could be largely attributable to higher investment by banks in govt. securities and increased loan growth aided by large scale stimulus package including refinance scheme for COVID-19 affected economic sectors. Thus, the assets-to-GDP ratio stood at 61.4 percent at end-June 2020[6], which was 60.8 percent at end-June 2019. Mentionable that the slowdown in asset growth recorded in March 2020 quarter was primarily because of the slowdown in trade financing activities due to outbreak of COVID-19 in major trade partner countries.

A major share of the banking sector's assets (67.6 percent) as well as loans and advances (74.1 percent) were held by the PCBs (Chart 2.2). In the review quarter, PCBs' asset share declined marginally while their loan share increased compared to those of the preceding period. Holding the second largest market share, SCBs' asset share registered an increase while their loan share recorded a decrease during the same period.

Chart 2.1: Asset Size of the Banking Industry



Source: Financial Projection Model (FPM), FSD, BB.

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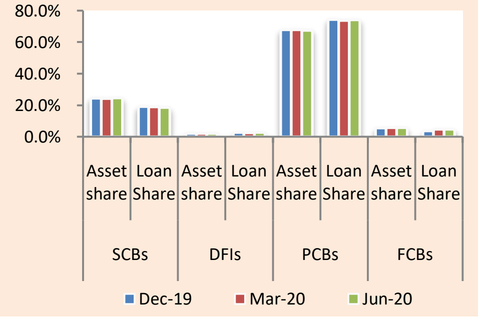
[4]Probashi Kallyan Bank (PKB) is excluded from the analyses of asset structure (section 2.1) and profitability (section 2.3) due to unavailability of data; however, it is included in the analysis of asset quality (section 2.2).
[5] Only scheduled banks are taken into account.
[6] GDP at current market price for the financial year 2019-20 is taken into account.

Chart 2.2: Group-wise Share of Banking Sector Assets and Loans/Advances



Source: FPM, FSD, BB.

Loans and advances, the largest segment among the asset items, constituted 65.6 percent of total assets in the review quarter (Table 2.1).

Table 2. 1: Asset Structure of the Banking Industry

Component of Assets	% of Total asset (as on Mar'20)	% of Total asset (as on Jun'20)	Change (PP)
Cash in hand	1.2%	1.0%	-0.2
Balance with BB and its Agent Bank	5.7%	5.4%	-0.3
Balance with other banks and FIs	4.7%	4.7%	0
Investment	15.0%	16.4%	1.4
Loans and Advances	66.9%	65.6%	1.0
Fixed Assets	1.6%	1.5%	-0.1
Other Assets	4.9%	5.4%	0.5
Non-banking Assets	0.0%	0.0%	0
Total Assets	100.0%	100.0%	

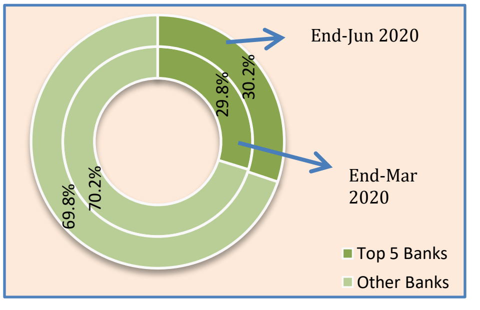
Note: PP-Percentage Point

Source: FPM, FSD, BB.

Though loans growth increased on Q-o-Q basis, share of loans and advances in total assets decreased compared to that of the preceding quarter. The share of investment showed a notable increase due to higher government borrowing through treasury securities as well as banks' strategy to reallocate investments in more risk-free and liquid assets in times of crisis like COVID-19 pandemic.

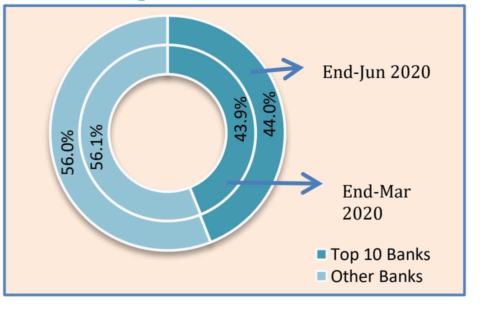
The asset concentration ratios of the top 5 and top 10 banks[7] increased slightly in the June 2020 quarter. The ratios stood at 30.2 percent and 44.0 percent at end-June 2020 which were 29.8 percent and 43.9 percent respectively at end-March 2020 (Chart 2.3 and 2.4).

Chart 2.3: Top 5 banks based on Assets Size



Source: FPM, FSD, BB.

Chart 2.4: Top 10 banks based on Assets Size



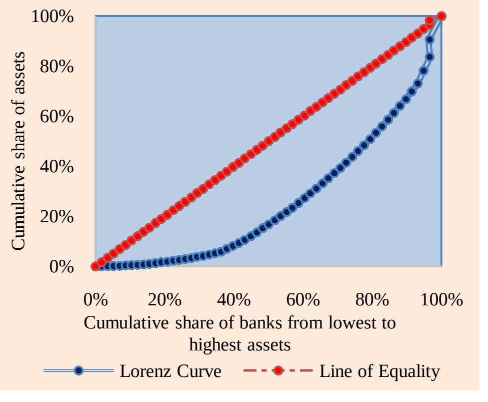
Source: FPM, FSD, BB.

Banking sector asset concentration has also been illustrated using Gini

[7]Asset concentration ratio of top 5/10 banks is defined as the ratio of total assets of top 5/10 banks over the total assets of the banking industry.

Coefficient calculated based on the Lorenz Curve (Chart 2.5). The position of the Lorenz Curve indicates the presence of a moderate concentration of assets in the banking industry. This is evident from the calculated Gini coefficient of 0.48 as well[8].

Chart 2.5: Banking Sector Asset Concentrations: Lorenz Curve

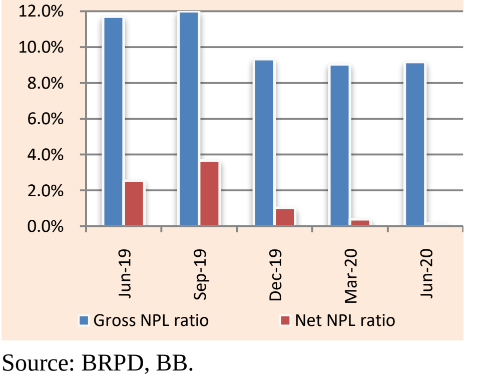


Source: FSD calculation.

2.2 Asset Quality

Gross non-performing loan (NPL) ratio[9] of the banking sector increased from 9.0 percent at end-March 2020 to 9.2 percent at end-June 2020 (Chart 2.6). However, the ratio found to be decreased from 9.3 percent and 11.7 percent recorded at end-December 2019 and end-June 2019 respectively. This marked improvement in asset quality may be attributable largely to relaxation of loan classification[10] allowed by Bangladesh Bank till end-December 2020 considering the adverse effects of COVID-19 pandemic on the economy of Bangladesh. Yet gross NPL ratio of SCBs and DFIs remained high while the same of PCBs and FCBs increased slightly in the review period. Nevertheless, net NPL ratio[11] continued its downward trend and reached 0.15 percent at end-June 2020 from 0.39 percent at end-March 2020. Though this significant improvement in net NPL ratio indicates improved resilience of the banking system, concern remains as impaired debt-servicing capacity of the borrowers due to COVID-19 pandemic may adversely affect the industry NPL scenario once the relaxation on loan classification is over.

Chart 2.6: NPL Ratio of the Banking Industry



Source: BRPD, BB.

Chart 2.7 illustrates that the number of banks having gross NPL ratio of 10

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[8] A value of zero expresses perfect equality whereas a value of one refers to perfect inequality.

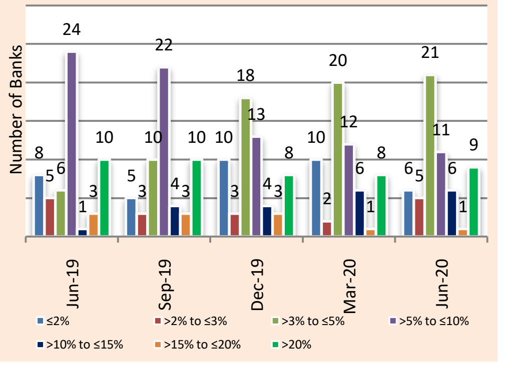
[9] Ratio of nonperforming loans to total loans.

[10] BRPD circular no. 04/2020, 13/2020 and 17/2020.

[11] Ratio of NPLs net of specific loan loss provisions and interest suspense to total loans net of specific loan loss provisions and interest suspense.

percent or higher increased in June 2020 quarter compared to March 2020 as well as December 2019 quarter.

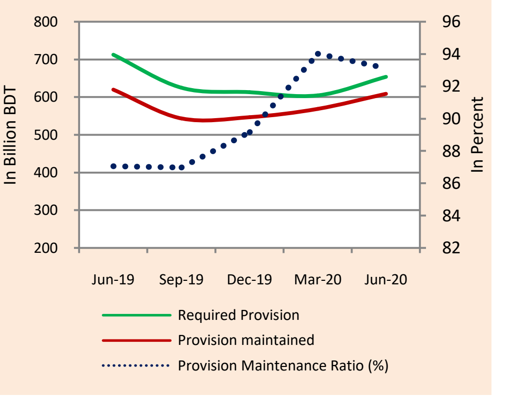
Chart 2.7: Distribution of banks by NPL ratio



Source: BRPD, Compilation: FSD, BB.

The provision maintenance ratio slightly decreased to 93.1 percent at end-June 2020 from 94.0 percent at end-March 2020, but was significantly higher than end-December 2019 position (89.2 percent) (Chart 2.8). The required provision increased by BDT 49.1 billion in the review period as gross NPL amount increased in the same period. Because of this, provision maintenance ratio declined at end-June 2020 despite increase in maintained provision by BDT 40.3 billion.

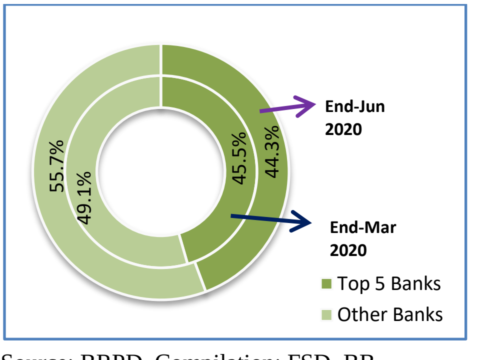
Chart 2.8: Banking Sector Loan Loss Provision



Source: BRPD, BB.

NPL concentration in Top 5 and Top 10 banks slightly decreased in June 2020 quarter. Based on gross NPL volume, 44.3 percent and 63.1 percent of the NPLs were concentrated in the Top 5 and Top 10 banks[12] respectively at end-June 2020 compared to the corresponding figures of 45.5 percent and 63.4 percent respectively at end-March 2020 (Chart 2.9 and 2.10).

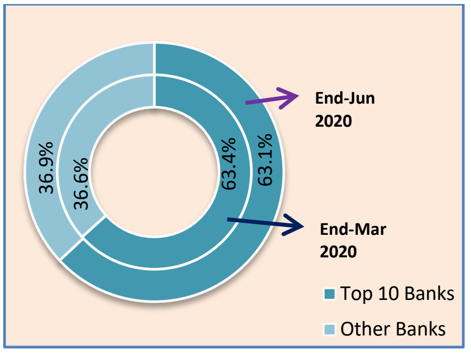
Chart 2.9: Top 5 Banks based on NPL



Source: BRPD, Compilation: FSD, BB.

[12] Ranked in terms of Gross NPL amount.

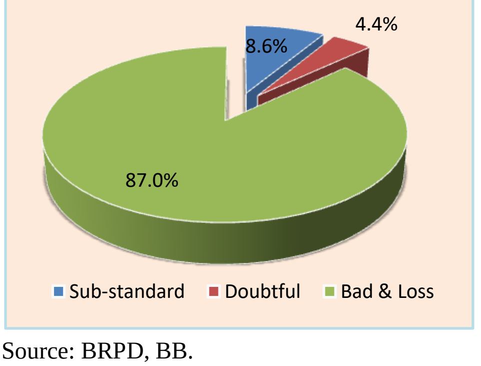
Chart 2.10: Top 10 Banks based on NPL



Source: BRPD, Compilation: FSD, BB.

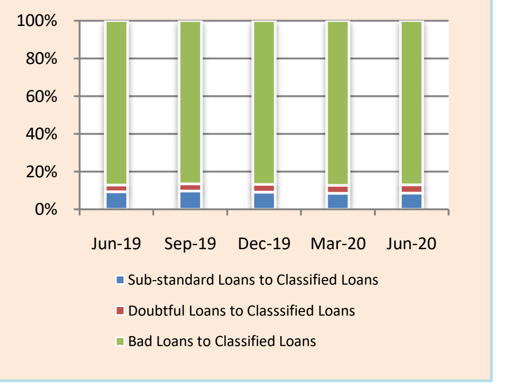
During the review quarter, bad and loss loans accounted for 87.0 percent of gross NPL amount while sub-standard and doubtful loans shared 8.6 percent and 4.4 percent respectively (Chart 2.11). The consistent high proportion of bad and loss loans in recent quarters, as shown in Chart 2.12, indicates lack of due diligence in credit management and recovery initiatives. Moreover, higher share of bad and loss loans adversely affects profitability and capital adequacy of the banks as banks have to maintain 100 percent provision against these loans.

Chart 2.11: NPL Composition at end-June 2020



Source: BRPD, BB.

Chart 2.12: NPL Composition over the Quarters



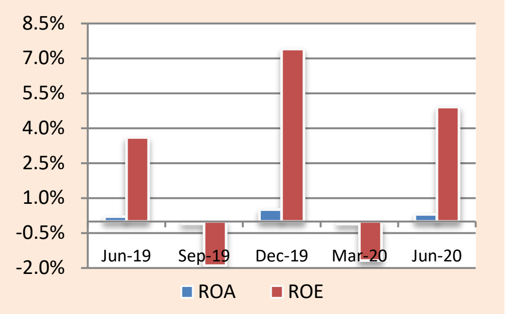
Source: BRPD, BB.

2.3 Profitability[13]

In the review quarter, the profitability of the banking sector increased compared to that of the preceding quarter; however, profitability decreased substantially when compared to the position of December 2019 quarter owing primarily to marked decline in net income (profit) as banks' income was impacted by COVID-19 pandemic. The deterioration of PCBs' net income (profit) position largely affected the industry profitability adversely during the quarter.

[13] Here profitability is measured by return on asset (ROA) and return on equity (ROE).

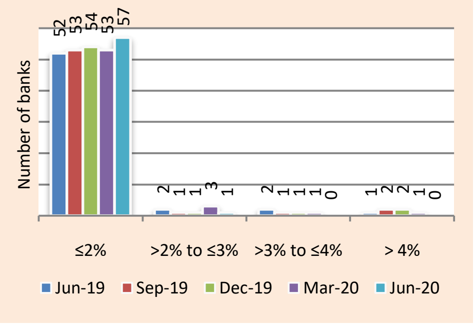
Chart 2.13: ROA and ROE of the Banking Sector



Source: DOS, BB (for June 2020 and December 2019) and FPM, FSD, BB (for other quarters).

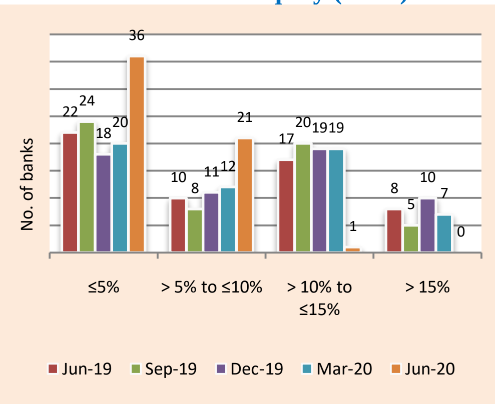
As Chart 2.13 illustrates, ROA came down to 0.3 percent during the June 2020 quarter from 0.5 percent during December 2019 quarter, though it was higher than -0.1 percent recorded in March 2020 quarter. Similarly, ROE decreased to 4.9 percent from 7.4 percent of the December 2019 quarter, but increased from -1.7 percent of March 2019 quarter. The distribution of ROA and ROE ratios of the banks (Chart 2.13 and 2.14) shows that ROA of most of the banks remained below the 2 percent level while ROE remained below the 5 percent level for a large number of banks.

Chart 2.14: Distribution of Banking Sector Return on Assets (ROA)



Source: DOS, BB (for June 2020) and FPM, FSD, BB (for other quarters).

Chart 2.15: Distribution of Banking Sector Return on Equity (ROE)



Source: DOS, BB (for June 2020) and FPM, FSD, BB (for other quarters).

Chapter 3 : FINANCIAL INSTITUTIONS' PERFORMANCE

The key financial soundness indicators elucidate the mixed performance of FIs in this quarter. Policy relaxation by Bangladesh Bank to restore the resilience capacity of the FIs during the COVID-19 pandemic has induced most of the FIs to earn higher profitability though the aggregated asset quality has deteriorated from the last quarter as well as from the same quarter of the last year. Overall, deposit and capital position from the last year have reduced while the liquidity positions of some of the FIs were mismatched due to non-recovery of their huge accumulated non-performing loans since long. However, Bangladesh Bank, as regulator, has been intensifying its supervision and taking frequent measures to streamline the situation.

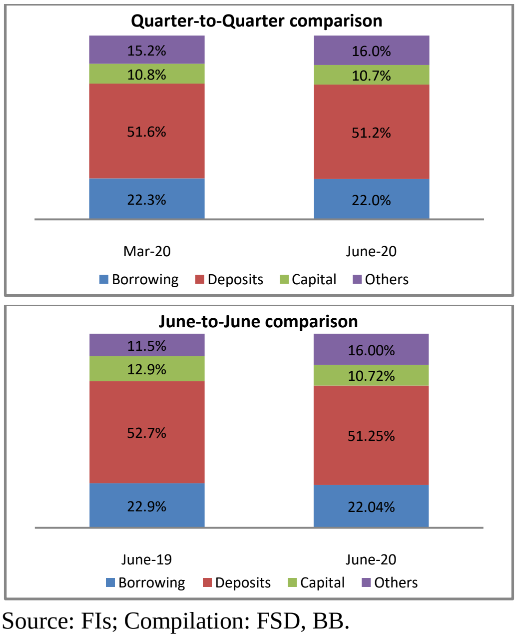
3.1 Growth of Assets and Liabilities

At end-June 2020, total assets amounted to BDT 859.94 billion, which is slightly lower than the end-March 2020 amount of BDT 861.01 billion. On end-June 2019, total assets amounted to BDT 867.84 billion. Hence, the size of the industry has experienced an overall decline of 0.91 percent on a June-to-June basis. During this period, assets of 10 FIs were increased while the assets of 23 FIs were declined.

3.2 Source of Fund: Composition and contribution

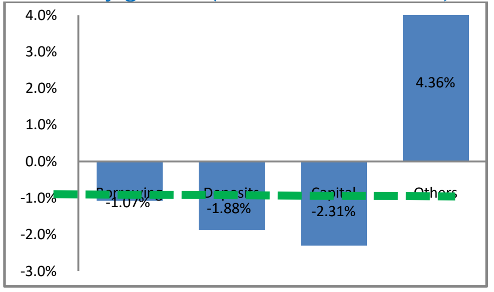
At end-June 2020, borrowings, deposits, capital, and other liabilities respectively constituted 22.04 percent, 51.25 percent, 10.72 percent, and 16.00 percent of the sources of funds for the FIs (Chart 3.1). In comparison with the previous quarter, the share of other liabilities was increased by 0.76 percentage point, whereas borrowing, deposit, and capital were decreased by 0.27, 0.39, and 0.09 percentage point respectively. On a June-to-June basis, the share of other liabilities increased by 4.50 percentage points, while the shares of borrowing, deposit, and capital increased by 0.87, 1.41, and 2.21 percentage points respectively.

Chart 3.1: Compositions of Sources of Fund



Source: FIs; Compilation: FSD, BB.

Chart 3. 2: Contributions of components in Liability growth (June 2019-June 2020)



Source: FIs; Compilation: FSD, BB.

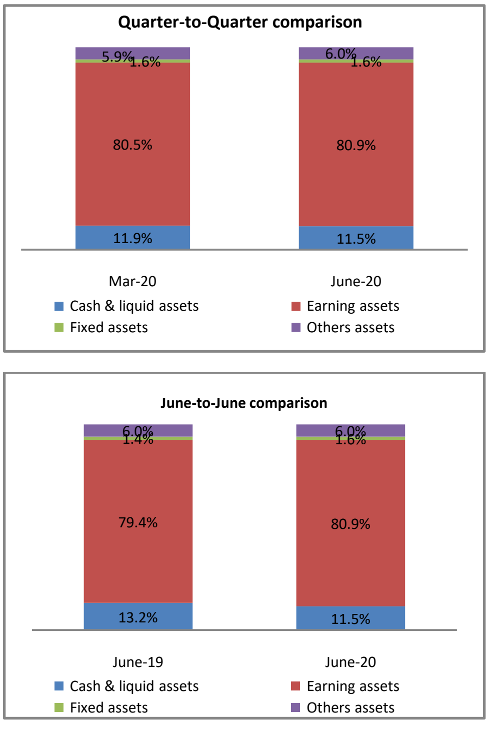
The decline in liabilities on June-to-June is largely attributed by a 2.31 percent decline in capital due to adjustment of cumulative loss by the weak FIs. Declining borrowing and deposit also adversely affected the 0.91 percent decline in total liabilities with negative contributions of 1.07 and 1.88 percent respectively. Other liabilities, in contrast, contributed 4.36 percent of the growth in total liabilities.

3.3 Assets: Composition and Contribution

Total earning assets (i.e., loans, leases, and investment) of FIs constituted 80.9 percent of total assets at end-June 2020. The rest of *Total Assets* composed of cash and liquid assets, fixed assets, and other assets; shares of these components are 11.5 percent, 1.6 percent, and 6.0 percent respectively (Chart 3.3).

When compared with end-March 2020 positions, the share of earning assets increased by 0.4 percentage point, whereas the share of cash and liquid assets decreased by 0.4 percentage point. On a June-to-June basis, the share of cash and liquid asset decreased by 1.7 percentage points while the shares of earning asset and fixed assets increased by 1.5 and 0.1 percentage points respectively.

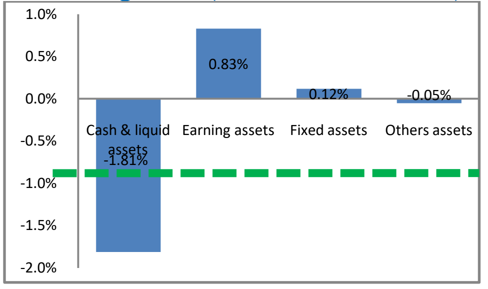
Chart 3. 3: Composition of Assets



Source: FIs; Compilation: FSD, BB

The decline in total assets on a June-to-June basis is largely attributed by a 1.81 percent decline in cash and liquid assets. The other assets also have adverse impact of 0.05 percent; conversely, the earning assets growth positively contributed with 0.83 percent in total assets growth while fixed assets growth contributed to 0.12 percent.

Chart 3. 4: Contributions of components in Assets growth (June 2019-June 2020)



Source: FIs; Compilation: FSD, BB.

3.4 Changes in the Components of Liabilities and Assets

As Table 3.1 refers, the amount of deposit decreased in 27 FIs during June 2019-June 2020 period, which seems to be a concern for the industry. However, 25 FIs were able to increase their capital base during this period by keeping their positive earnings growth. 13 FIs have increased their dependency on borrowing to achieve their business targets.

Table 3. 1: Changes in Components of Liability (June 2019-June 2020)

	Borrow	Deposit	Capital	Others Liab.	Total Liab.
Increase	13	6	25	23	10
Decrease	20	27	8	10	23

Note: Liab.- Liabilities.

Data also reveals that cash and liquid asset has been decreased in 26 FIs; indicating that a liquidity situation in this sector is getting a bit worsened. To overcome this situation, FIs may strategize action plans to increase their deposit base and recover the NPLs.

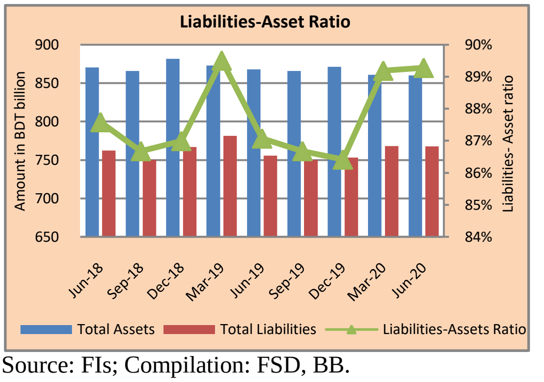
Table 3. 2: Changes in Components of Asset in FIS (June 2019 - June 2020)

	Cash & liquid assets	Earning assets	Fixed assets	Others assets	Total Asset
Increase	7	13	13	21	10
Decrease	26	20	20	12	23

3.5 Liabilities-Assets Ratio

The liabilities to assets ratio stood at 89.28 percent at the end-June 2020, which is 9 basis points higher than the previous quarter. The marked increase in other liabilities and a decrease in the cash and liquid assets mainly resulted in this rise of liabilities-to-asset ratio.

Chart 3. 5: FIs' Liabilities-Assets Ratio

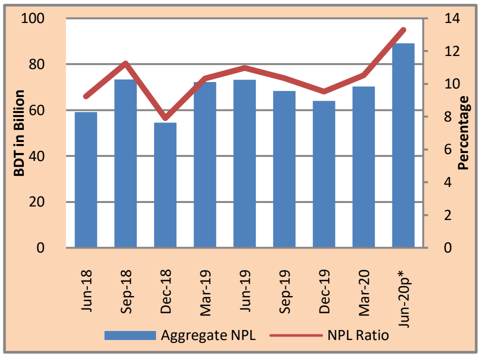


Source: FIs; Compilation: FSD, BB.

3.6 Asset Quality

FIs' classified loans and leases significantly increased by 26.61 percent from the previous quarter. It stood at BDT 89.06 billion at end-June 2020 from BDT 70.34 billion at end-March 2020. The ratio of classified loans and leases increased to 13.29 percent at end-June 2020, which is 2.78 percentage points higher than the previous quarter and 2.32 percentage points higher from June 2019.

Chart 3. 6: FIs' Non-performing Loans



Source: DFIM, BB.
P*=provisional data.

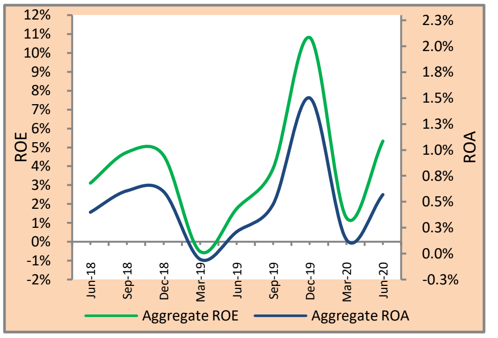
Net NPL ratio (after netting off interest suspense and provisions) was 8.16 percent at end-June 2020, which is 2.63 percentage points higher from March 2020, and 2.12 percentage points higher from June 2019. Adequacy of provision was 49.2 percent at end-June 2020 which is 11.8 percentage points lower than that of end-March 2020. Seven FIs have provision short falls in this quarter.

3.7 Profitability

The Return on Assets (ROA) and Return on Equity (ROE) at end-June 2020 stood at 0.57 percent and 5.32 percent respectively compared to 0.14 percent and 1.27 percent respectively recorded in the last quarter and 0.21 percent and 1.75 percent in the same quarter of 2019[14].

[14]Here profitability indicators, ROA and ROE, are annualized from quarterly ratios.

Chart 3. 7 : FIs' ROA and ROE

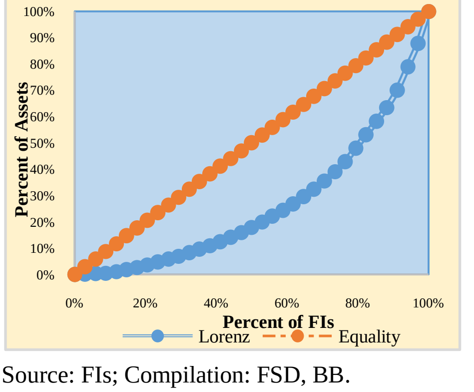


Source: FIs; Compilation: FSD, BB.

3.8 FI Sector's Asset Concentration

FI sector's asset concentration has been illustrated using the Lorenz curve and Gini Coefficient. As depicted in Chart 3.8, the position of the Lorenz Curve implies the presence of a moderate concentration in the assets of the FI sector. The calculated Gini coefficient of end-June 2020 is 0.50 which is 1 basis point higher than end-March 2020. To tackle the industry's rising inequalities (in terms of asset size), the smaller FIs should meticulously design their strategies to grow faster and make the industry more equitable and competitive over time.

Chart 3. 8: FIs asset concentration: Lorenz Curve



Source: FIs; Compilation: FSD, BB.

Chapter 4 : Banking Sector Capital Adequacy and Liquidity

Banking sector's capital position improved from the previous quarter. Capital to Risk-weighted Assets Ratio (CRAR) of the banks increased by 28 basis points. *Out of 58 banks, 49 banks maintained minimum capital requirements, while 37 banks maintained minimum capital conservation buffer. Liquidity position of the banking industry slightly improved as advance-to-deposit ratio (ADR) decreased by 1.6* percentage points.

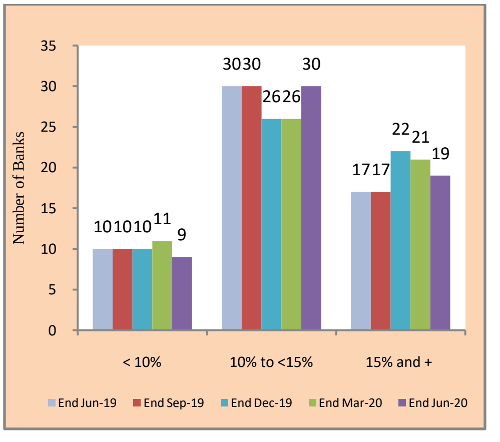
4.1 Capital Adequacy

In the review quarter, 49 out of 58 banks maintained CRARs of 10.0 percent or higher in line with Pillar 1 of the Basel III capital framework (Chart 4.1). Among the CRAR compliant banks 30 banks were within the range of 10-15 percent and their assets accounted for nearly 67.4 percent of the total banking industry's assets at end-June 2020 (Chart 4.2).

Banking sector's aggregate CRAR stood at 11.63 percent[15], which was respectively 28 basis points higher and 11 basis points lower than the ratio recorded at the end of March 2020 and June 2019. Tier-1 capital ratio followed the same trend. Tier-1 capital ratio increased to 7.7 percent from 7.4 percent of the previous quarter and decreased slightly from 8.1 percent of June 2019. However, Tier-1 ratio was considerably higher than the minimum regulatory requirement of 6.0 percent.

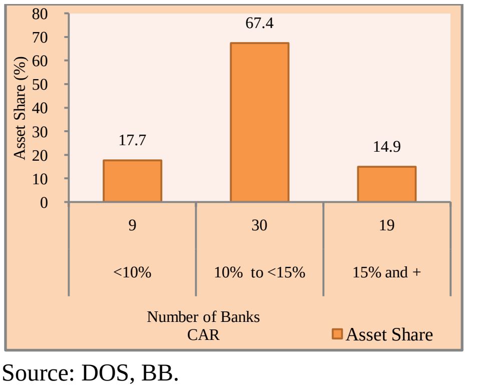
FCBs maintained higher CRAR while CRAR of the DFIs was negative in the review quarter (Chart 4.4).

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 2020



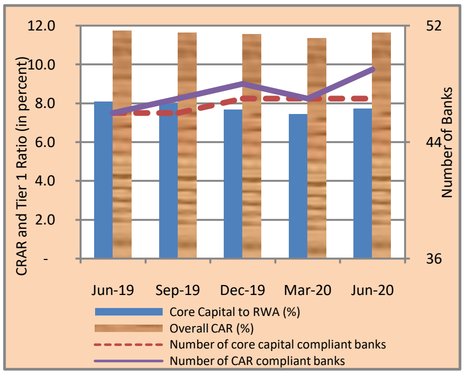
Source: DOS, BB.

At end-June 2020, risk-weighted assets, arising from credit risks, accounted for 88.1 percent of the total industry's risk-weighted assets under

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

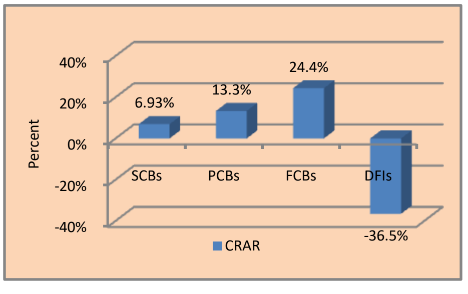
Pillar 1 of the Basel III capital adequacy framework. The proportion of credit risk weighted assets was 88.3 percent in the previous quarter and 88.1 percent at end-June 2019. Next positions were held by operational and market risks respectively (Chart 4.5).

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



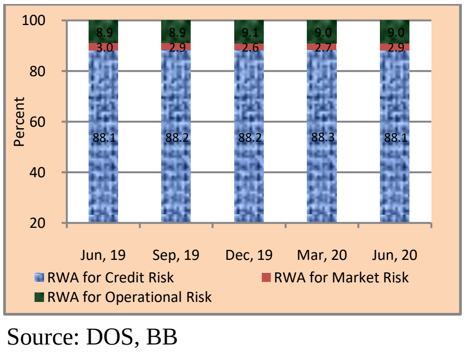
Source: DOS, BB.

Chart 4.4: Bank Cluster-wise CRAR at End-June 2020



Source: DOS, BB.

Chart 4.5: Distribution of Risk Weighted Assets



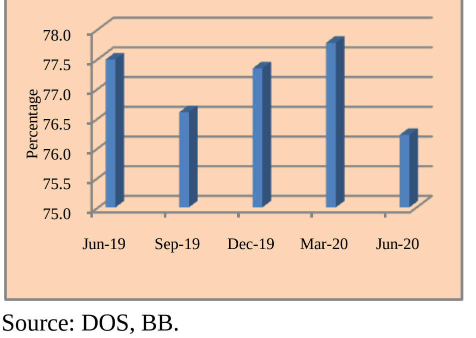
Source: DOS, BB

In the review quarter, against the regulatory requirement of 2.50 percent, 37 out of 58 banks maintained the minimum required capital conservation buffer (CCB) on solo basis. In consolidated basis, 16 out of 36 banks fulfilled this regulatory requirement. However, the aggregate figure of CCB of the banking sector was 1.63 and 1.84 percent on solo and consolidated basis respectively.

4.2 Liquidity

Advance to Deposit Ratio (ADR) of the overall banking industry stood at 76.2 percent which was 1.6 and 1.3 percentage points lower than that of end-March 2020 and end-June 2019 respectively (Chart 4.6).

Chart 4.6: Banking Sector Advance-to-Deposit Ratio

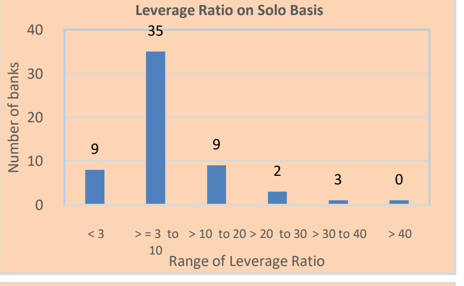


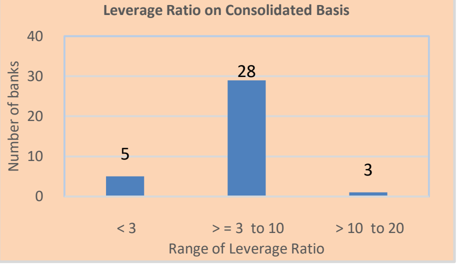
Source: DOS, BB.

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[16]. At end-June 2020, banking industry's leverage ratio was 4.84 percent on solo basis; 48 out of 57 banks maintained a leverage ratio of 3.0 percent or higher (Chart 4.7). On consolidated basis, 30 out of 36 banks fulfilled the regulatory requirement. FCBs maintained higher leverage ratio compared to other banking clusters.

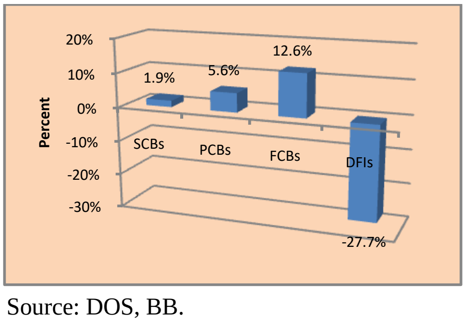
Chart 4.7: Leverage ratio of banks at End-June 2020





Source: DOS, BB.

Chart 4.8 Bank Cluster-wise Leverage ratio at End-June 2020



Source: DOS, BB.

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

Chapter 5 : FINANCIAL INSTITUTIONS: CAPITAL ADEQUACY AND LIQUIDITY

The Capital maintenance position of the FIs has slightly decreased though overall Capital Adequacy Ratio (CAR) exists over the required limit during the quarter under review. FIs seemed to have adequate liquidity, the Cash Reserve Ratio (CRR) of FIs showed a declining trend as the FIs were allowed by BB to maintain lower level of CRR during COVID period. However, Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) of FIs exhibited higher level than the regulatory requirements.

5.1 Capital Adequacy

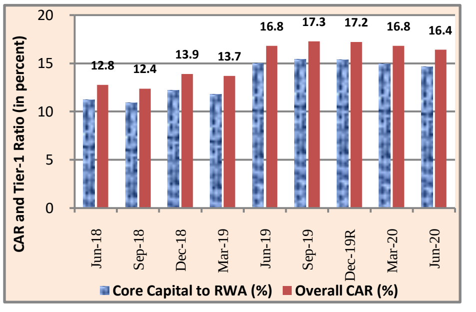
Capital adequacy ratio (CAR) of the FIs slightly decreased from 16.81 percent of end-March 2020 to 16.42p[17] percent at end-June 2020. This ratio was well above the minimum regulatory requirement of the Basel II framework.[18] Core capital (Tier-1) to Risk Weighted Asset (RWA) ratio decreased by 0.35 percentage point from the previous quarter and stood at 14.63 percent. However, 29 out of 33 FIs managed to maintain core capital ratio, while 27 succeeded to maintain overall CAR.

[17] P=Provisional

[18] FIs are required to maintain a capital adequacy ratio (CAR) of 10.0 percent with at least 5.0 percent in Tier-1 as per the Basel II framework.

Chart 5.1 shows the trend in core capital to RWA ratio and CAR since June 2018.

Chart 5. 1 : Capital Adequacy Ratio of FIs in Bangladesh



Source: DFIM, BB.

R=Revised data from DFIM.

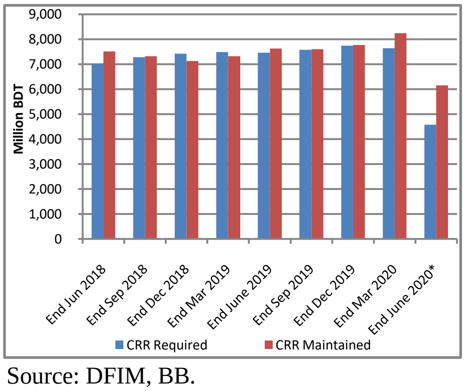
5. 2 Liquidity

At the end of June 2020, the aggregate amount against CRR maintained by the FIs was BDT 6,148.2 million compared to BDT 8,244.0 million at end–March 2020 i.e. 25.4 percent decreased during last three months. This adjustment made by the FIs due to relaxation of CRR requirements from 2.5% to 1.5% by BB[19]. Overall, FIs has maintained a surplus amount of BDT 1,565.5 million in the context of CRR, which was BDT 600.4 million at end-March 2020. The amount of SLR maintained was BDT 89.66 billion against the required amount of BDT 21.39 billion. The amount of SLR maintained decreased by 4.6 percent from the previous quarter.

[19] DFIM circular no. 3, dated 21/06/2020

Chart 5.2 and Chart 5.3 demonstrated the trend in CRR and SLR position of FIs since June 2018.

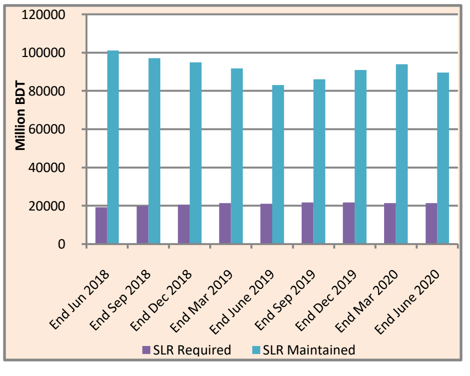
Chart 5. 2: Cash Reserve Ratio (CRR) of FIs in Bangladesh



Source: DFIM, BB.

Note: *According to DFIM circular no. 3, 21/06/2020, FIs CRR requirement reduces to 1.5% from 2.5%.

Chart 5. 3: Liquidity Ratio (SLR) of FIs in Bangladesh

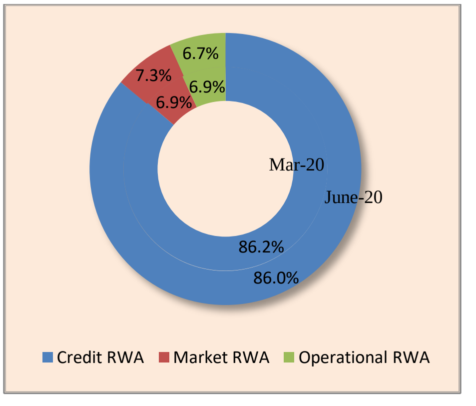


Source: DFIM, BB.

5.3 Risk Weighted Asset (RWA)

RWA for credit, market and operational risks constituted 86.0 percent, 7.3 percent and 6.7 percent respectively in terms of overall RWA calculated by the FIs as on end-June 2020 (Chart 5.4). Among the three components of RWA, the share of RWA for market risks increased by 0.4 percentage points, whereas RWA for both credit risk and operational risk decreased by 0.2 percentage points from the previous quarter.

Chart 5. 4 : Different components of Risk Weighted Asset (RWA) of FIs in Bangladesh



Source: DFIM, BB.

Chapter 6 : STRESS TEST AND RESILIENCE OF THE BANKING AND FIS SECTORS

6.1 Stress Tests

Bangladesh Bank conducts stress tests on banks and Financial Institutions (FIs) on quarterly basis to ascertain their resilience under different plausible shock scenarios. This chapter contains the results of stress tests on banks and FIs as well as on the banking and FI systems based on the data of end-June 2020

6.2 Stress Tests on Banks

Stress tests on banks are conducted through sensitivity analysis, incorporating impacts of the shock scenarios for credit risk, market risk and liquidity risk. Under each scenario, the after-shock Capital to Risk-Weighted Assets Ratio (CRAR) is compared with the minimum regulatory requirement of 10 (ten) percent[20]. Particular attention is paid to credit risk, which is the major risk in the banking sector.

6.2.1 Individual Shocks

Banking sector's Capital to Risk- Weighted Asset ratio (CRAR) is 10 percent. Out of 58 banks, 9 banks' pre-shock CRARs were below the minimum regulatory requirement. As a result, the remaining 49 banks were considered for the analyses based on end-June 2020 data. The following sub-sections present details of the shocks and the associated outcomes.

6.2.1.1 Credit Risk

A variety of sensitivity tests for credit risk have been conducted to assess the impact of different shocks on banks' capital adequacy. Generally, the ratio of gross NPL to total gross loans is considered as the main measure of credit risk based on the assumption that credit risk is associated with the quality of loan portfolio of the banking industry.

a) **Increase in Non-performing Loans (NPL):** This test assess the impact of downgrading a portion of the total performing loans directly to bad & loss category having 100% provisioning requirement. Therefore, if NPLs increased by 3, 9 and 15 percent then 5, 30 and 36 banks respectively would fail to maintain the minimum required CRAR.

b) **Increase in NPL due to Default of Top Large Borrowers:** This test is based on assuming that a number of top borrowers (default of 3 or 7 or 10 borrowers) of a bank may become defaulter due to various reasons. In all cases the performing loans of the respective borrowers are assumed to be directly downgraded to bad/loss category creating a requirement of 100% provision. Therefore, if 3, 7 and 10 large borrowers of each bank defaults, then

[20] This hypothetical test is an early alert tool used by Bangladesh Bank to instruct banks/FIs the severity of risk dimensions in adverse economic & financial conditions. The present exercise only highlights the impacts of such shocks and ignores any probable severe shock caused by the COVID-19 pandemic or any future policy support extended to the banks associated with the same.

23, 35 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:** This test assesses the stress on capital if the forced sale of mortgage collateral decreases. In this regard, if FSV of mortgaged collateral declines by 10, 20 and 40 percent, then it would make 2, 2 and 5 banks respectively non-compliant in maintaining the minimum required CRAR.

d) **Negative Shift in the NPL Categories:** This scenario is constituted assuming that negative shifts in the existing NPLs categories take place due to some unfavorable events in the country or outside the country creating shocking events for the bank which results in some more provision requirements. If NPL categories shift downward by 5, 10 and 15 percent, then 2, 10 and 11 banks respectively would have become non-compliant in maintaining the minimum required CRAR.

e) **Increase in NPL in Highest Outstanding Sector:** This measures the concentration risk particularly in 2 sectors where the bank has the highest investment or exposure. If 3, 9 and 15 percent of performing loan of highest outstanding sector directly downgraded to B/L category; then 3, 5 and 7 banks respectively would fall below the minimum regulatory requirement.

6.2.1.2 Market Risk

The banking industry is found to be resilient to exchange rate shock but slightly vulnerable to equity price and interest rate shock:

a) **Interest Rate Risk:** In the event of deposit interest rate increase by 1, 2 and 3 percent; 3, 5 and 6 banks respectively would fail to maintain the minimum required CRAR.

b) **Exchange Rate Risk:** In the event of currency depreciation by 5, 10 and 15 percent; 1, 1 and 2 banks respectively would fail to maintain the minimum required CRAR.

c) **Equity Price Risk:** In the event of decrease in equity price by 10, 20 and 40 percent; 2, 3 and 3 banks would fall below the minimum regulatory requirement.

Table 6. 1: Stress test on the Banking Sector based on Data as of End-June 2020

Shocks[21]		Banking Sector (%)
Pre-shock CRAR		**11.63**
CRAR after-shock (%)		
Credit Risks:		
Increase in NPLs:		
	Shock-1: 3%	**10.26**
	Shock-2: 9%	**7.08**
	Shock-3: 15%	**2.56**
Increase in NPLs due to default of top large borrowers		
	Shock-1: Top 3 borrowers	**9.77**
	Shock-2: Top 7 borrowers	**8.33**
	Shock-3: Top 10 borrowers	**7.32**
Fall in the FSV[22] of mortgaged collateral		
	Shock-1: 10%	**11.09**
	Shock-2: 20%	**10.54**
	Shock-3: 40%	**9.42**
Negative shift in the NPL categories		
	Shock-1: 5%	**10.99**
	Shock-2: 10%	**10.42**
	Shock-3: 15%	**9.28**
Increase in NPLs in highest outstanding sectors		
	Sector concentration 1[23] ***(Performing loan directly downgraded to B/L[24])***	
	Shock-1: 3%	**11.48**
	Shock-2: 9%	**11.17**
	Shock-3: 15%	**10.86**
	Sector concentration 2[25] ***(Performing loan directly downgraded to B/L)***	
	Shock-1: 3%	**11.54**
	Shock-2: 9%	**11.37**
	Shock-3: 15%	**11.19**
Market Risks		
Interest rate risk (change in interest rate)		
	Shock-1: 1%	**11.18**
	Shock-2: 2%	**10.73**
	Shock-3: 3%	**10.28**
Exchange rate risk (Currency appreciation/depreciation)		
	Shock-1: 5%	**11.59**
	Shock-2: 10%	**11.54**
	Shock-3: 15%	**11.50**
Equity price risk (Fall in equity prices)		
	Shock-1: 10%	**11.40**
	Shock-2: 20%	**11.18**
	Shock-3: 40%	**10.72**
Combined Shock		
	Shock-1	**8.36**
	Shock-2	**3.34**
	Shock-3	**-4.40**

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

6.2.2 Combined Shock

This test assesses the bank's performance by aggregating the results of credit shock (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. In the event of minor, moderate and major combined shocks; 12, 37 and 40 banks respectively would be undercapitalized.

6.2.3 Liquidity Shock

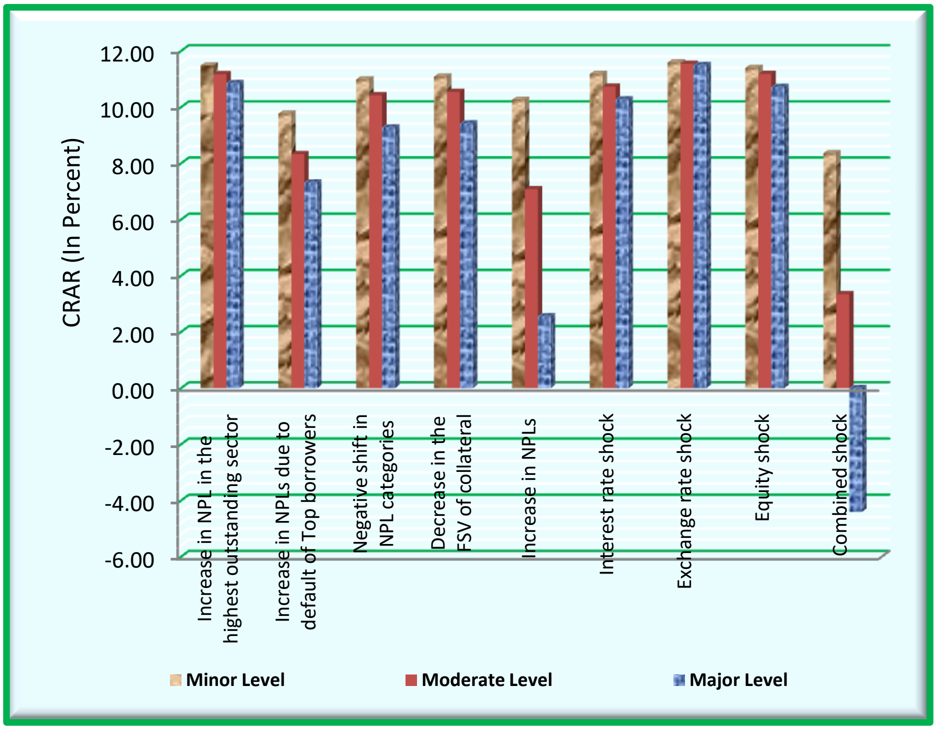
The liquidity test shows how many days a bank would be able to survive in the event of additional liquidity withdrawal of 2, 4 and 6 percent without resorting to liquidity from outside (other banks or the central banks). This test considers excessive withdrawal of demand and time deposits both in local and foreign currencies. The banking system as a whole seemed to remain resilient against specified liquidity stress scenarios at end-June 2020. But 1 Specialized Development Bank may face some liquidity hardness in the event of more than 4% increase in average daily withdrawal of deposit.

Table 6. 2:Liquidity Risk in the Banking Sector: End-June 2020

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

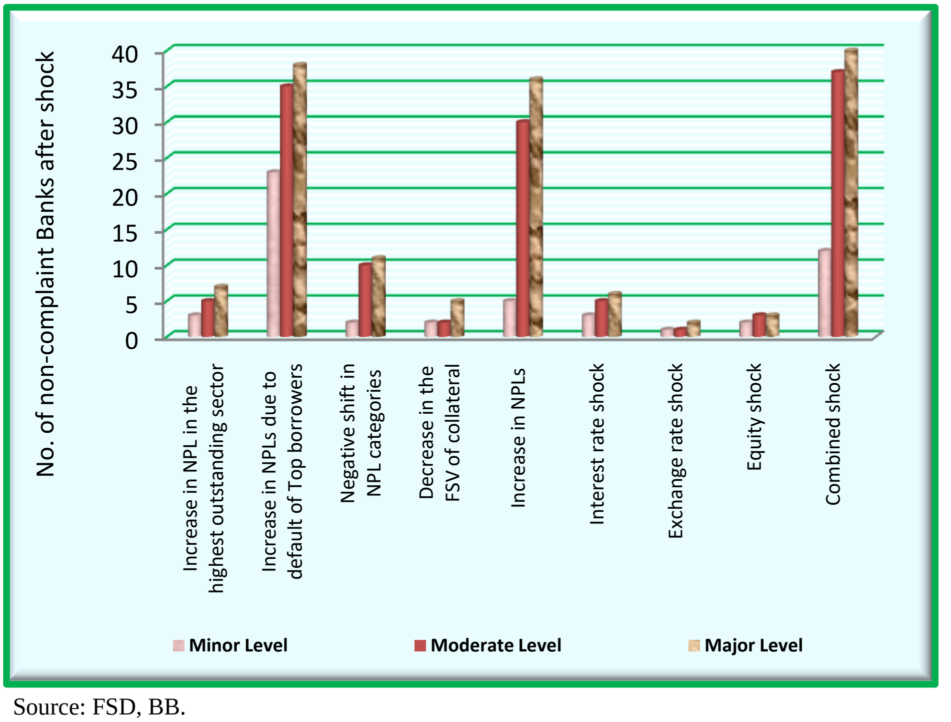
*Consecutive 5 working days.
Note: '1' indicates that the system is liquid and '0' not liquid. Source: FSD, BB.

Chart 6.1: Banking Sector CRAR at Different Shock Scenarios: June 2020



Source: FSD, BB.

Chart 6. 2: Number of Non-compliant Banks at Different Shock Scenarios: June 2020



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 2020, out of 33 FIs, 4, 18, and 11 were positioned in Green, Yellow, and Red zones respectively on the basis of stress test result.

Table 6. 3: Stress Testing: Zonal Position of FIs

(Number of FIs)

Quarter	Green	Yellow	Red
End-Jun 2018	3	18	13
End-Sep 2018	4	18	12
End-Dec 2018	4	17	13
End-Mar 2019	4	17	13
End-June 2019	4	18	11*
End-Sep 2019	4	19	10
End-Dec 2019	4	19	10
End-Mar 2020	4	17	13
End-June 2020	4	18	11*

Source: DFIM, BB.

*From June-2019, 33 FIs were considered due to one FI being in Liquidation process.

Chapter 7 : CAPITAL MARKET DEVELOPMENT

Both of the bourses of the country were impacted notably by COVID-19 pandemic during April-June, 2020 quarter.[26]

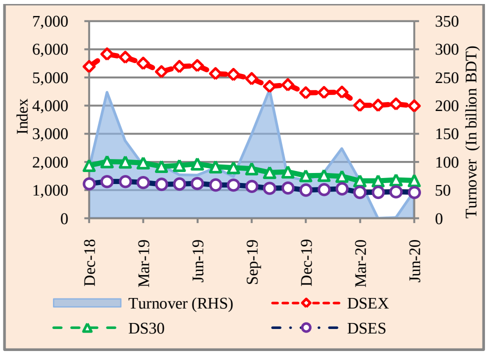
7.1 Dhaka Stock Exchange (DSE)

7.1.1 DSE Performance

At end-June 2020, the main index of DSE-DSEX-decreased by 0.5 percent whereas two other important indices-DS30 and DSES increased by 0.8 percent and 0.5 percent respectively compared to those of end-March 2020. It suggets that the overall market remained depressed compared to the market of pre-COVID-19 time (before March, 2020). However, investors somewhat tended to prefer fundamentally strong and Shari'ah based stocks amid the uncertainities led by COVID-19. Chart 7.1 illustrates the DSE performance for the period of December 2018 to June 2020.

DSE turnover decreased to BDT 49.23 billion during April-June, 2020 from BDT 270.8 billion during the previous quarter, resulting in 81.8 percent decrease. Each sector, except for Corporate Bond, experienced a decreased turnover during this pandemic-hit quarter.

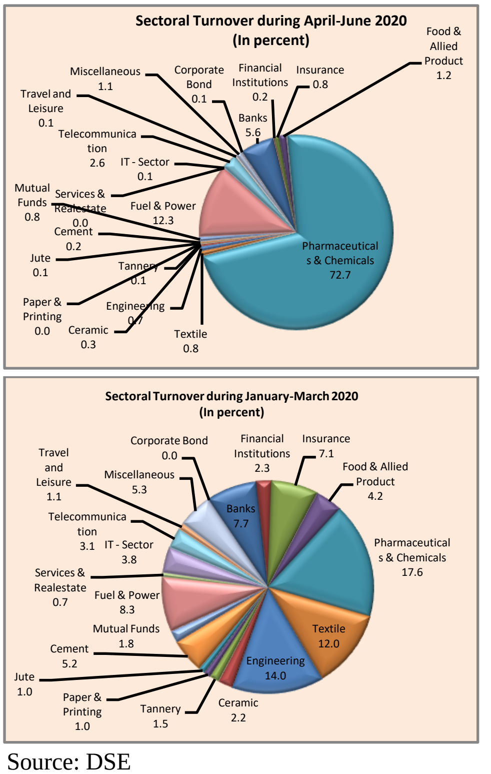
Chart 7. 1: DSE Performance



Source: DSE.

7.1.2 Sectoral Turnover

Chart 7.2: Sectoral Turnover at DSE



Source: DSE

[26] Trading was suspended during 29-31 March, April & May (except 31 May, 2020) due to governemnt general holiday (to tackle the Covid-19 pandemic).

Chart 7.2 shows that pharmaceutical sector alone constituted around 73 percent of the total turnover of DSE during the reviewed quarter. Fuel & power and banking sector captured 12.3 and 5.6 percent share of the total turnover of DSE respectively. These three sectors together comprised more than 90 percent of the total turnover of DSE implying the dismal conditions of other sectors in the review quarter compared to the previous quarter.

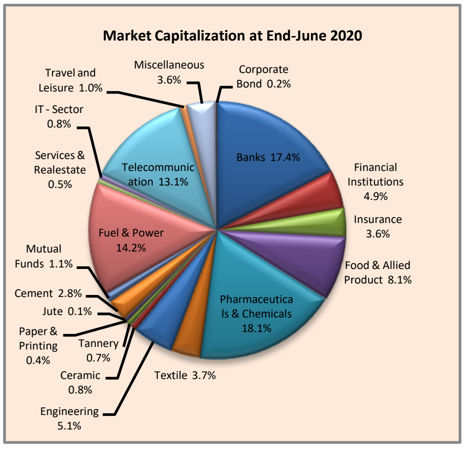
Pertinently, turnover values of every sector except for corporate bonds decreased during April-June 2020 quarter compared to that of January-March 2020 quarter. Some of the most heavily eroded sectors in terms of value were- engineering, textile, insurance, bank, fuel & power, cement, miscellaneous, food and allied, IT, telecommunication sectors.

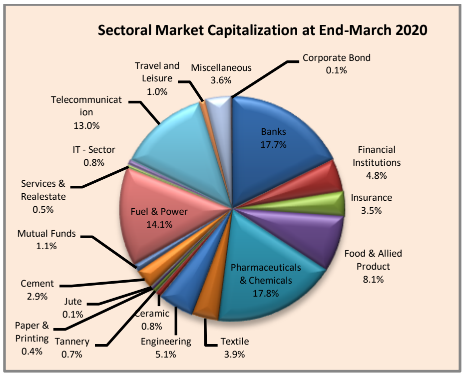
7.1.3 Market Capitalization

At end-June 2020, the market capitalization stood at BDT 3,119.7 billion, which was 0.1 percent lower than BDT 3,122.3 billion at end-March 2020. Chart 7.3 illustrates that at end-June 2020, the pharmaceuticals sector captured the highest market capitalization with 18.1 percent share of the total market capitalization. Bank, Fuel & Power and Telecommunication followed with 17.4 percent, 14.2 percent, and 13.1 percent respectively.

At the end-March 2020, the contributions of the aforementioned sectors were 17.8 percent, 17.7 percent, 14.1 percent, and 13.0 percent respectively.

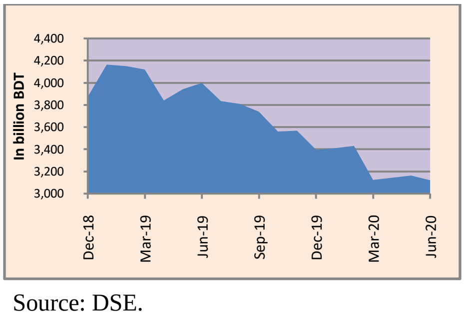
Chart 7. 3: Market Capitalization at DSE





Source: DSE

Chart 7.4: Market Capitalization Trend of DSE



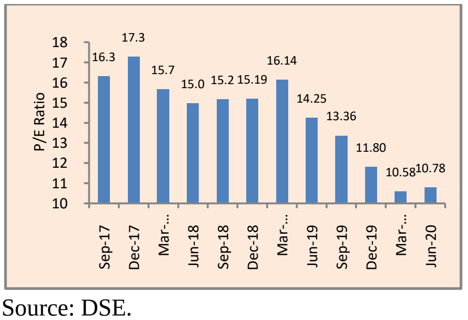
Source: DSE.

Chart 7.4 shows trends in market capitalization since December 2018. Market capitalization has been gradually falling during this period. Also, as a percentage of GDP, DSE market capitalization stood at 11.2 percent at end-June 2020 compared to that of 12.3 percent at end-March 2020.[27]

7.1.4 Price/Earnings (P/E) Ratio

At the end of the reporting quarter, P/E ratio was 10.8, slightly higher than that of the previous quarter's position. However, Chart 7.5 shows the trend of P/E ratio since September 2017 which is gradually falling. Usually, the falling P/E ratio implies that share price becomes attractive and vice versa.

Chart 7. 5 : DSE P/E Ratio

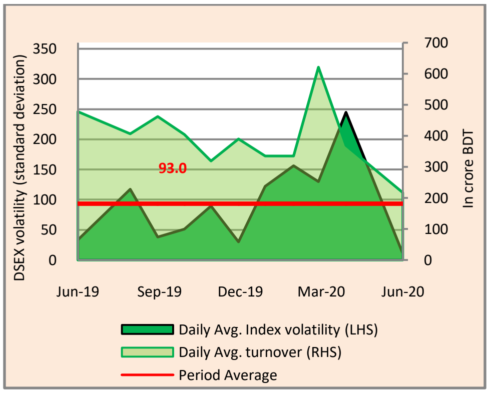


Source: DSE.

At end-June of 2020, Jute sector (31.7) registered the highest P/E ratio followed by the Travel and Leisure (25.6) and Paper & Printing (23.8). Conversely, the banking sector recorded the lowest P/E ratio (6.7) followed by Fuel & Power (9.5), and Telecommunication (9.6).

7.1.5 Index Volatility and Market Liquidity

Chart 7. 6 : DSEX Volatility and Daily Average Turnover[28]



Source: DSE, FSD Staff Calculation

As observed in Chart 7.6, relatively less volatile episodes in DSEX are associated with episodes of high market liquidity (i.e., turnover). Between June 2019 and June 2020, the highest volatility in DSEX was registered in March 2020 amid the uncertainty about the future led by the spread of pandemic across the world. The average index volatility was record low of 10.8 in June 2020, and record high of 244.8 in March 2020 during the last five years. However, the average volatility was 93.0 during the periods for volatility estimation.

[27]GDP at current market price for 2018-19 period is used to calculate the ratio of end-March 2020 and GDP at current market price for 2019-20 period is used to calculate the ratio of end-June 2020.

[28] April 2020 and May 2020 have been dropped from the calculation, as there was no trading in April and May (except 31 May, 2020) due to general government holiday.

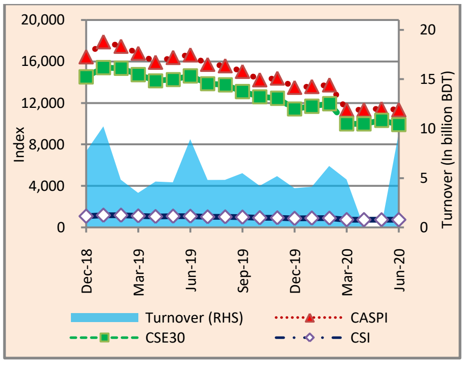
7.2 Chittagong Stock Exchange (CSE)

7.2.1 CSE Performance

Chart 7.7 presents the CSE performance for the period of December 2018 to June 2020.

At end-June 2020, the key CSE indices, such as CASPI25 & CSI26 increased by 0.04 percent & 0.5 percent respectively, whereas CSE30 decreased by 0.5 percent compared to those of end-March 2020 and remained low compared to pre-COVID-19 time (before March 2020).

Chart 7. 7 : CSE Performance



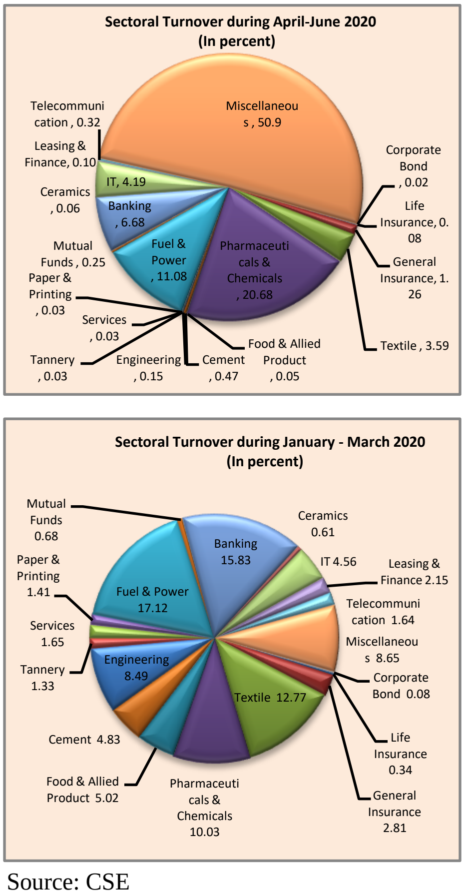
Source: CSE.

CSE turnover decreased by 36.7 percent to BDT 9.56 billion during April-June 2020 from BDT 15.1 billion in the January-March 2020 quarter. Primarily, the sharp drop in quarterly turnover may have taken place due to the panic of the pandemic.

7.2.2 Sectoral Turnover

Chart 7.8 shows the sectoral turnover scenario during April-June, 2020 and January-March 2020. Miscellaneous sector (50.9 percent) recorded the highest share of total CSE turnover followed by Pharmaceuticals & Chemicals (20.7 percent), Fuel & Power (11.1 percent), Banking (6.7 percent), and IT (4.2 percent).

Chart 7. 8: Sectoral Turnover at CSE



Source: CSE

During January-March 2020, turnover of the above mentioned sectors constituted 8.4 percent, 15.8 percent, 14.9 percent, 18.5 percent and 0.8 percent of the total turnover respectively.

Besides, during the review quarter, turnover of Leasing & Finance, Life

Insurance, and General Insurance recorded 0.1 percent, 0.1 percent, and 1.3 percent respectively which were 5.2 percent, 2.1 percent, and 1.7 percent of the total turnover respectively in the preceding quarter.

7.2.3 Market Capitalization

At end-June 2020, the market capitalization in CSE stood at BDT 2,447.6 billion, which is 0.1 percent higher than the end-June 2020 position of BDT 2,445.7 billion, remained steady at low-level compared to pre-COVID-19 time (before March,2020).

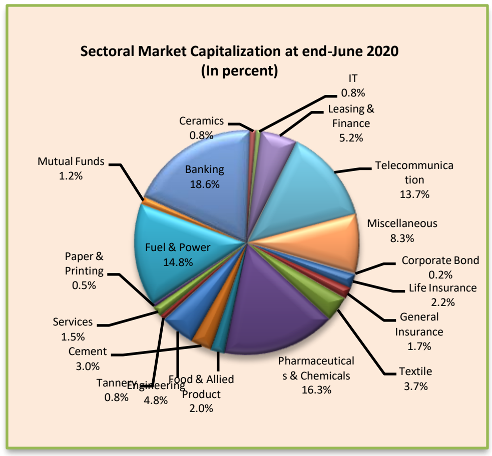
Chart 7.9 illustrates that at end-June 2020, the Banking sector secured the top position with 18.6 percent share in the total market capitalization followed by Pharmaceuticals & Chemicals, Fuel & Power, Telecommunications, and Miscellaneous with 16.3 percent, 14.8 percent, 13.7 percent, and 8.3 percent respectively.

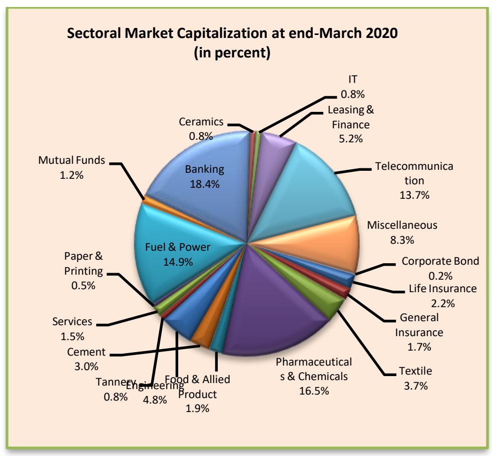
The contributions of the above mentioned sectors were 18.4 percent, 16.5 percent, 14.9 percent, 13.7 percent, and 8.3 percent respectively at end-March 2020, largely remained same.

Chart 7.10 shows trends in market capitalization of CSE since December 2018. Likewise DSE, market capitalization has been gradually declining during this period.

Besides, CSE market capitalization to GDP ratio stood at 8.8 percent at end June 2020 compared to that of 9.6 percent at end-March 2020.[29]

Chart 7. 9: Sectoral Market Capitalization at CSE

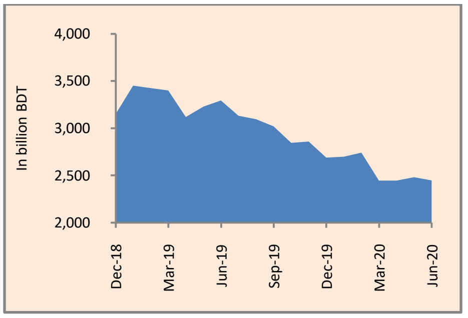




Source: CSE

[29]GDP at current market price for 2018-19period is used to calculate the ratio of end-March 2020 and GDP at current market price for 2019-20 period is used to calculate the ratio of end-June 2020.

Chart 7. 10: Trend in Market Capitalization of CSE

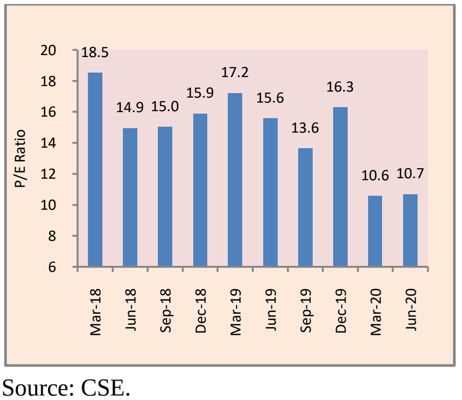


Source: CSE.

7.2.4 Price/Earnings (P/E) Ratio

The market P/E ratio of CSE slightly increased to 10.7 at end-June 2020 from 10.6 at end-March 2020 (Chart 7.11).

Chart 7. 11: CSE P/E Ratio



Source: CSE.

At the end of the review quarter, the highest P/E ratio was registered by Paper & Printing sector (28.1) followed by Information Communication & Technology sector (22.9) and Cement sector (21.0). The lowest P/E ratio was recorded by Banking (7.3) followed by Fuel & Power (8.8) and Engineering sector (9.1). Besides, P/E ratio of Leasing & Finance, and General Insurance were 16.6 and 10.3 respectively.

7.3 Capital Market and Financial Stability

A deep and vibrant capital market is crucial for financing economic growth. However, market-capitalization to GDP demonstrated falling trend during the last couple of quarters.

This situation may prompt the entrepreneurs to rely on long-term financing from the banking sector which may in turn increase maturity mismatch for banks.

The P/E ratios of both bourses do not indicate that market is overvalued or any irrational exuberance of the investors during the reported quarter.

Chart 7. 12: Trend in Capital Market Exposures of Banks

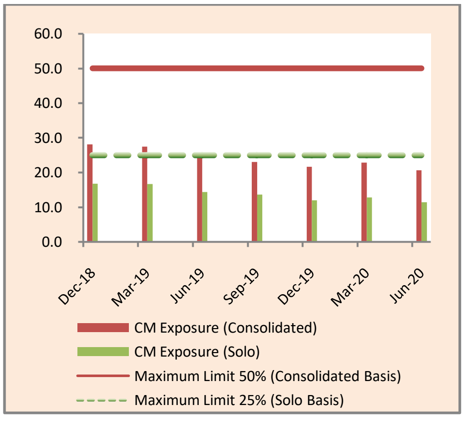


Chart 7.12 shows the trend in capital market exposures of banks in both solo and consolidated basis.

In the review quarter, banks' aggregate investment in the capital market was much below the allowable limit set by Bangladesh Bank.[30] Therefore, any adverse shock on stock price individually does not tend to pose any stability threat to the financial sector in the near-term. However, the strain on the banking sector may exert a negative impact on the stock market as the banking sector constitutes a considerable share of market capitalization and turnover in both bourses.

[30]Maximum allowable limit to investment in capital market: 25% and 50% of total prescribed capital components on solo and consolidated basis respectively (DOS Circular No.-02/2013 and DOS Circular Letter No.-07/2014).

Chapter 8 : RECENT STABILITY INITIATIVES OF BANGLADESH BANK

Like other economies, the Bangladesh economy is facing an unprecedented shock due to the worldwide outbreak of the COVID-19 pandemic. With a view to overcoming the possible negative impacts of the pandemic on the economy, Bangladesh Bank has taken different instant and proactive measures which facilitate the attainment of 5.2 percent GDP growth in FY 2019-20 amidst this pandemic. During the second quarter (April-June)of the calendar year 2020, Bangladesh Bank's different policy initiatives conducive to resilient domestic financial system stability are highlighted below:

8.1 Stimulus package for large industries and service sectors:

On April 05, 2020, Prime Minister Sheikh Hasina announced the stimulus package of BDT 300 billion for providing working capital to large industries and service sectors hit hard by the onslaught of the corona virus across the world. In line with the government's announcement, Bangladesh Bank (BB) has issued several instructions. Banks and Non Bank Financial Institutions (NBFIs) are instructed to provide loan from their own source of fund based on banker-customer relationship at 9 percent interest rate. Out the 9 percent interest rate, government would provide 4.5 percent interest as interest subsidy and the rest 4.5 percent would be provided by the borrower. The tenure of the facility will be 03 (three) years, but a borrower will avail the interest subsidy only for 01 (one) year period. Later, on 23 April, 2020, Bangladesh Bank formed a BDT 150 billion revolving refinance scheme from its own source for a period of 03(three) years with an aim to motivate banks and NBFIs to implement stimulus packages and to ease their liquidity condition. They would get 50 percent fund from BB as refinance at 4 percent interest rate against the loan disbursed to affected large industries and service sectors.

[Ref: BRPD Circular No. 08 dated 12.04.2020; BRPD Circular No. 10 dated 23.04.2020]

8.2 Loans/Investments from stimulus fund with minimum service charge for active Export-Oriented Industries:

With an aim to revive the export-oriented industries affected by the cancelled or deferred export orders due to the spread of corona virus pandemic worldwide, the Bangladesh government announced a stimulus package of BDT 50 billion from its budget to pay salaries and allowances to workers and staffs for up to three months (April-June, 2020) on March 25, 2020. Bangladesh Bank issued guidelines in line with this stimulus package. Industries that export at least 80 percent of their products, B & C type industries[31] located in Export Processing Zone (EPZ), Economic Zone (EZ) &High Tech Park and have already paid salary up to February, 2020 were eligible for this fund. Banks disbursed this interest free loan at 2 percent service charge. Repayment period is 02 (two) years including 06 (six) months grace period. Bangladesh Bank exempted banks from the provision of section 26 kha (1) of the Bank Company Act, 1991 in regard to single borrower exposure limit. Banks disbursed the salaries to the workers' bank/MFS accounts directly instead of giving to their owners.

[Ref: BRPD Circular No. 07 dated 02.04.2020; BRPD Circular Letter No. 14 dated 08.04.2020; BRPD Circular Letter No. 15 dated 11.04.2020; BRPD Circular Letter No. 19 dated 15.04.2020; BRPD Circular Letter No. 21 dated 27.04.2020]

8.3 Financial incentive package for Cottage, Micro, Small and Medium Enterprises (CMSME) sector:

In line with the government announcement of the stimulus package of BDT 200 billion for providing working capital to Cottage, Micro, Small and Medium Enterprises (CMSME) to help them tackle the ongoing crisis caused by COVID-19 pandemic, Bangladesh Bank has issued several instructions. Banks and NBFIs are instructed to provide loan from their own source of fund based on banker-customer relationship at 9 percent interest rate. Out of 9 percent interest, government would provide 5 percent interest as subsidy and the rest 4percentwould be provided by the borrower. The tenure of the facility will be 03 (three) years. Considering high operational cost of CMSME loan, BB has created a revolving refinance scheme of BDT 100 billion, half of the stimulus package which would help to motivate banks and NBFIs to implement stimulus package and to ease their liquidity condition. BB would refinance 50 percent of their disbursed loan to affected CMSME at 4 percent interest rate..

[Ref: SMESPD Circular No. 01 dated 13.04.2020; SMESPD Circular No. 02 dated 26.04.2020; SMESPD Circular Letter No. 03 dated 12.05.2020]

8.4 Enhancement of refinance scheme of Cottage, Micro, Small and Medium Enterprises (CMSME) sector:

Bangladesh Bank (BB) has enhanced the fund size of the three refinancing schemes from its own source along with relaxation of interest rate and conditions with an aim to patronize and aid the sustainable revival of corona virus hit Cottage, Micro, Small and Medium enterprises (CMSMEs).

[31] B-Local and foreign joint venture companies; C-100% local owned companies.

The size of the "Small Enterprise Refinance Scheme", the "Refinance Scheme for Setting up Agro Based Product Processing Industries in Rural Areas" and the "Refinance Scheme for New Entrepreneurs in Cottage, Micro and Small Enterprise Sector" have been increased from BDT 8.5 billion to BDT 15 billion, from BDT 7 billion to BDT 14 billion and from BDT 0.50 billion to BDT 1 billion respectively. The banks and financial institutions will get loans from these three schemes from BB at 3 percent interest rate and distribute them among the borrowers at 7 percent interest rate.

[Ref: SMESPD Circular Letter No. 02 dated 07.05.2020]

8.5 Refinance scheme for Pre-Shipment Credit:

Bangladesh Bank has created the revolving "Pre-Shipment Credit Refinance Scheme" of BDT 50 billion for accelerating the country's economy by providing pre-shipment export credit to the export-oriented industries. The duration of this facility is 03 (three) years, but each customer will get this facility for a period of maximum 01 (one) year. Banks will provide the loan at a maximum interest rate of 6 percent and get 100 percent refinance from Bangladesh Bank at 3 percent interest rate.

[Ref: BRPD Circular No. 09 dated 13.04.2020]

8.6 Refinance Scheme for low income professionals, farmers and micro businessmen:

Bangladesh Bank has launched a revolving refinance scheme of BDT 30 billion for the COVID-19 affected low income professionals, farmers, micro/small businesses to help them cope with negative impact of the pandemic. This facility would be disbursed through Micro Finance Institutions (MFIs) in order to ensure that they reach grassroots level which will also facilitate inclusive economic development. The client level interest rate on loan has been fixed up to 9percent which is much lower than the rates usually provided by the MFIs. The scheduled banks will pay 1 percent interest to Bangladesh Bank against their withdrawals for this facility and they will provide the same to MFIs at 3.5 percent interest.

[Ref: FID Circular No. 01 dated 20.04.2020]

8.7 Refinance Scheme for Agriculture Sector:

Bangladesh Bank has formed a refinance scheme of BDT 50 billion from its own fund for horticulture, fisheries, poultry, dairy and livestock to offset the agricultural fallout of the corona virus. This loan will be provided to farmers/farms at 4 percent interest rate by banks and banks will get refinance at 1 percent interest rate from BB. The tenure of loans will be

18 months with a grace period of six months.

[Ref: ACD Circular No. 01 dated 13.04.2020]

8.8 Agricultural loan at concessional interest rate:

In order to ensure enhanced production and supply of food grains amid the COVID-19 pandemic, Bangladesh Bank has issued a circular lowering the interest rate of agricultural loan for all crops and grains to 4 percent from 9percenteffective from 01 April, 2020 to 30 June, 2021. Farmers would get loans at 4 percent interest rate. Bangladesh Bank would provide the remaining 5 percent interest to banks as subsidy.

[Ref: ACD Circular No. 02 dated 27.04.2020]

8.9 Re-fixation of Cash Reserve Ratio (CRR) and Repurchase Agreement (REPO) Rate:

With a view to speed up recovery of the corona virus pandemic-hit economy, Bangladesh Bank has cut different key policy rates to ensure the availability of less costly funds for banks and NBFIs responsible to implement the government announced stimulus packages. Cash Reserve Ratio (CRR) was initially reduced from 5 percent to 4.5 percent (daily basis) and from 5.5 percent to 5 percent (bi-weekly average basis) on 23 March, 2020 with a further reduction to 3.5 percent and 4 percent, respectively on 09 April, 2020, effective from April 15, 2020. CRR of Non-Bank Financial Institutions (NBFIs) has also been re-fixed at 1.0 percent (daily basis) and 1.5 percent (by-weekly average basis) effective from June1, 2020. Repurchase agreement (REPO) rate has been reduced to 5.25 percent from 5.75 percent on 09 April, 2020.

[Ref: MPD circular No. 3 dated 09.04.2020; MPD circular No. 4 dated 09.04.2020; DFIM circular No. 3 dated 21.06.2020]

8.10 Introduction of 360 days Special REPO:

Bangladesh Bank has introduced a special REPO with a tenure of 360 days to match with the higher period of loans to be disbursed under different stimulus packages.

[DMD circular No. 02 dated 13.05.2020]

8.11 Enhancement of Advanced-Deposit Ratio (ADR) and Investment-Deposit Ratio (IDR):

In order to facilitate the implementation of the various stimulus packages announced to revive the economic activities affected badly by the COVID-19 pandemic, Bangladesh Bank has raised the advanced-to-deposit ratio (ADR) for conventional banks to 87 percent from 85 percent and investment-deposit ratio (IDR) for Islamic banks to 92 percent from 90 percent effective from April 15, 2020.

[Ref: DOS Circular no. 02 dated 12.04.2020]

8.12 Revised policy for Off-shore Banking Operation of the banks:

Bangladesh Bank has amended its previous circular regarding the policy for Off-shore Banking Operation (OBO) of banks with a view to reducing the cost of fund and making the operation of Off-shore Banking Unit (OBU) more attractive. For OBO, banks are required to maintain minimum 2.0 (two) percent Cash Reserve Ratio (CRR) with Bangladesh Bank on bi-weekly average basis with a provision of minimum 1.5 (one and half) percent on daily basis of the average total demand and time liabilities (ATDTL) of OBO effective from July 01, 2020. Now banks would be able to transfer up to 30percentof their total regulatory capital to OBU. Previously this limit was 20 percent. The revised guidelines also allowed the OBUs to lend the juristic persons not resident in Bangladesh upon compliance with other relevant requirements.

[Ref: BRPD Circular Letter No. 31 dated 18.06.2020]

8.13 Revised Loan Classification Policy:

Considering negative impact of the corona virus on the country's trade and business, Bangladesh Bank has relaxed the loan classification policy by extending the timeframe during which failure to repay a loan would not be considered as default. The classification status of loans would not be changed till September 30, 2020 and would remain the same as on January 01, 2020. But, if the classification of the loan is improved, it would be upgraded by this time.

[Ref: BRPD Circular No. 13 dated 15.06.2020]

8.14 Transfer of interest income to blocked account.

Bangladesh Bank has instructed the banks to transfer the interest/profit imposed on the balance of 31st march 2020 for the period of 1st April 2020 to 31st may 2020 in interest free blocked account to mitigate the adverse business condition arising due to COVID-19 pandemic. Later BB has issued guidelines allowing banks to transfer the interest to their earnings and also provided instructions for interest waiver for the month of April and May, 2020 as on balance of 31 March, 2020. Under these guidelines, borrowers would enjoy full interest waiver facility up to BDT 0.1 million, 2 percent interest waiver for the credit above BDT 0.1 million to BDT 1 million and 1percentinterest waiver for the credit above BDT 1 million. Admissible amount of interest waiver for each borrower would be maximum

BDT 1.2 million. The government will reimburse the waived amount to banks through the central bank.

[Ref.: BRPD circular no-11 dated 03 May 2020, BRPD circular letter no 23 dated 04 May, 2020 and BRPD circular no. 12 dated 10-06-2020]

8.15 Restriction on dividend distribution:

Bangladesh Bank has issued new guidelines for banks' dividend distribution for 2019 based on their capital adequacy ratio. Banks are instructed not to distribute cash dividend before September 30, 2020 with an aim to ease their liquidity condition enhancing capital amidst the corona virus pandemic. Later, Bangladesh Bank has relaxed the rules for the individual investors to protect their interest allowing dividend distribution to them before September 30, 2020.

[Ref: DOS Circular no. 03 dated 11.05.2020; DOS Circular Letter no. 19 dated 07.06.2020]

8.16 Simplification of import of essential child food:

Due to the ongoing pandemic, there is a possibility of supply crisis of essential child foods. In this regard banks are advised to charge a margin not excess of 5 percent to open LC's for importing child foods.

[Ref: BRPD circular letter no.12 dated 04/04/2020]

8.17 Changes in the Foreign Exchange Regulations/ Transactions:

BB has made a number of changes in its foreign exchange regulations/ transactions. Some key changes are stated below:

i) Interest rate on borrowing from Export Development Fund (EDF):

To facilitate export trade amidst the COVID-19 outbreak, Bangladesh Bank has decided to charge interest rates at 1 percent p.a. from ADs on EDF loans, while ADs will charge interest at 2.0 percent p.a. from manufacturer-exporters for disbursements until further instructions. The size of the EDF has been enhanced to USD 5.0 billion.

[Ref.: FE circular no. 18 dated07-04-2020]

ii) Introduction of Euro in Green Transformation Fund:

Bangladesh Bank has issued a circular introducing EURO 200.00 (two hundred) million Green Transformation Fund (GTF) along with the existing USD 200.00 (two hundred) million to set up environment friendly infrastructure. Accordingly, participating ADs will now be in a position to draw loans in Euro from GTF at EURIBOR plus 1.00 percent for the admissible purposes. In case of EURIBOR remaining in negative territory, ADs will be charged only at 1.00 percent against their borrowing from the fund. As usual, ADs shall determine their mark-up above the borrowing cost within the specified range of 1.00 to 2.00 percent. Financing on long term basis (5 to 10 yrs) from GTF in Euro will be admissible to all manufacturing industrial enterprises for importing of environment friendly & energy efficient/green capital machinery and accessories. This GTF in Euro is also to widen the scope to import (only Buyer's Credit) industrial raw materials used in all manufacturing enterprises including both export-oriented and deem exporters.

[Ref.: FE Circular No. 20 dated 15-04-2020]

iii) Working capital loans from abroad by foreign owned/controlled companies:

Given the prevailing COVID-19 pandemic related disruptions, it has been decided that foreign owned/controlled companies operating in Bangladesh irrespective of sectors may access short-term working capital loans, for the tenure of one year extendable to another one year, from their parent companies/shareholders abroad to meet actual needs for payments of 3-month wages and salary to staff regardless of their length of engagement in manufacturing or services output activities.

[Ref.: FE circular letter no. 19 dated 03-05-2020]

iv) Cash incentives against remittance sent in legitimate way:

The government has introduced 2 percent cash incentive on remittance sent by expatriate Bangladeshis through legal channel aiming to enhancement of remittance. BB has relaxed the condition to lift up the flow of remittance amid the pandemic. Now Expatriate Bangladeshis will get 2 percent incentives without showing any paper on remittance up to $5,000 and for more than $5,000, necessary papers need to be submitted within 2 months instead of previous 15 days.

[Ref.: FE circular letter no. 20 dated 12-05-2020]

v) Enhancement of loan limit from Export Development Fund (EDF):

Authorized Dealers (ADs) may borrow maximum USD 25.00 million from EDF against their foreign currency financing to member mills of BGMEA and BTMA for input procurement. BB has now enhanced the existing limit of USD 25.00 million to USD 30.00 million for refinancing from EDF.

[Ref: FE Circular No. 21 dated17/05/2020]

vi) Issuance of letters of credit (LCs) with realization clause:

With a view to facilitating export trade during COVID-19 pandemic, it has been decided that input procurements under back-to-back LCs/usance LCs may be issued with realization clause on behalf of exporters operating outside specialized zones with some provisions.

[Ref.: FE circular letter no. 22 dated 11-06-2020]

vii) Discounting of direct and deemed export bills in foreign exchange out of own sources:

To facilitate the transactions, Bangladesh bank has decided that ADs may discount usance export (direct and deemed) bills in foreign exchange out of their own sources provided that the fund is not committed for otherwise use.

[Ref.: FE circular no. 23 dated 21-06-2020]

viii) Transfer of shares and repatriation of sales proceeds of shares in favor of non-residents in private/public limited companies not listed with stock exchanges:

For simplifying the working procedure of valuation approach in repatriation of sales proceed of non-resident equity investment in non listed companies, Authorized Dealers (ADs) may remit the sales proceeds of shares regardless of amount. But to do so fair value of the proceed must be determined by the management of the target companies through net asset value (NAV) approach, based on latest audited financial statements submitted together with tax returns. Repatriation of sales proceeds of shares up to BDT 10.00 million equivalent foreign currencies without valuation reports from independent entities is possible without permission from Bangladesh Bank. For remitting more than BDT 10 million to BDT 100 million, ADs must follow the valuation process prescribed in FEID circular no-1, dated may 06, 2020.In that case, ADs must submit post facto report to Bangladesh bank within 30 days of remittances.

[Ref.: FEID circular letter no. 01 dated 18-06-2020]

8.18 Refinance scheme for environment friendly products/initiatives/projects.

The amount of fund under refinance scheme for environment friendly products, initiatives and projects has been increased to BDT 4 billion from BDT 2 billion considering its increasing demand. In line with this the area of the products, initiatives and projects has also been increased quantitatively and qualitatively.

[Ref: SFD Circular No. 02 dated 30.04.2020]

8.19 Instructions regarding money laundering, terrorist financing and proliferation financing:

Money laundering, terrorist financing and proliferation financing are some of the major threats to the stability and the integrity of the financial system. In this regard, Bangladesh Financial Intelligence Unit (BFIU) has issued several instructions for the schedule banks, such as, compliance structure, customer selection guidelines, general instructions for branches and subsidiaries abroad, monitoring transactions, submission of cash transaction report (CTR) and suspicious transaction report (STR), wire transfer, prevention of financing of terrorism and financing of proliferation of weapons of mass destruction, in line with the Money Laundering Prevention Act, 2012 and Anti Terrorism Act, 2009.

[Ref.: BFIU circular no. 26 dated 16-06-2020]

8.20 Stimulus package of BDT 12.50 billion for the poor people:

In order to save the livelihood of the distressed families from the COVID-19 outbreak, the Bangladesh government announced a stimulus package of BDT 12.50 billion which was disbursed to 5.0 million poor people through mobile financial services (MFIs). In line with this, Bangladesh Bank instructed all scheduled banks, mobile financial services provider/postal directorate to take appropriate measures to ensure their uninterrupted transaction along with available money supply.

[Ref: PSD circular no. 04 dated 13-05-2020]

8.21 Guidelines for White Label ATM and Merchant Acquiring Services:

In order to spread ATM (Automated Teller Machine) and POS (Point of Sales) services in the rural part of the country, Bangladesh Bank has allowed non-bank private sector entities for setting up necessary infrastructure in the country for providing services to the customers of banks, MFSs, PSPs and any other institution as approved by BB. In this connection, "Guidelines for White Label ATM and Merchant Acquiring Services" has been issued by Bangladesh Bank.

[Ref: PSD circular no. 05 dated 31-05-20]

8.22 Instructions regarding implementation of stimulus packages:

Bangladesh Bank has instructed all scheduled banks to take appropriate measures for successful implementation of the stimulus packages announced by the government to recover the economy from the downfall of the COVID-19. For this purpose, banks are instructed to set up separate help desks, settle the loan applications within the shortest possible period, ensure active participation of all levels of officials of head office, branches and sub-branches in the process of disbursing loan. Overall monitoring of the loan packages should be done under the direct supervision of Chief Executives of banks.

[Ref: BRPD Circular Letter No. 32 dated 18.06.2020]

8.23 Other measures:

In the context of economic downfall caused by the COVID-19, Bangladesh Bank has taken different measures like conducting banking operation during general holidays, waiver of late payment fee/charge of credit card bill & DPS, special incentives for the employees working at the bank premises during general holidays for COVID-19 pandemic, allocation of CSR fund in health sector badly affected by the COVID-19, extension of usance period of raw materials, chemical fertilizers etc.

Appendix I CPI Inflation (12 month Average)

(Percent)

Month	Inflation (General)	Inflation (Food)	Inflation (Non-Food)
Sep-18	5.7	6.7	4.2
Dec-18	5.5	6.2	4.5
Mar-19	5.5	5.8	5.0
Jun-19	5.5	5.5	5.4
Sep-19	5.5	5.4	6.7
Dec-19	5.6	5.6	5.6
Mar-20	5.6	5.4	5.9
Jun-20	5.7	5.5	5.9

Base: 2005-06=100

Appendix II Foreign Exchange Reserve

(Amount in million USD)

Month-end	International Reserve
Sep-18	31,960.0
Dec-18	32,020.0
Mar-19	31,750.0
Jun-19	32,550.0
Sep-19	31,830.0
Dec-19	32,690.0
Mar-20	32,570.0
Jun-20	36,040.0

Appendix III Wage Earners' Remittance

(Amount in million USD)

Quarter	Amount
Jun-18	4,220.7
Sep-18	3,868.9
Dec-18	3,626.5
Mar-19	4,373.6
Jun-19	4,550.7
Sep-19	4,514.6
Dec-19	4,888.58
Mar-20	4,366.89
Jun-20	4,430.19

Appendix IV Exports and Imports

(Amount in million USD)

Quarter	Aggregate Exports (F.O.B)	Aggregate Imports (F.O.B)
Jun-18	9,107.0	14,163.0
Sep-18	9,747.0	13,599.0
Dec-18	10,416.0	14,224.0
Mar-19	10,276.0	14,544.0
Jun-19	9,506.0	13,072.0
Sep-19	9,535.0	13,252.0
Dec-19	9360.0	13814.0
Mar-20	9408.0	13264.0
Jun-20	4578.0	10361.0

Appendix V Interest Rate (Weighted Average) Spread

(In percent)

Period	Lending Rate	Deposit Rate	Spread
Sep-18	9.5	5.3	4.2
Dec-18	9.5	5.3	4.2
Mar-19	9.5	5.4	4.1
Jun-19	9.6	5.4	4.2
Sep-19	9.6	5.7	3.9
Dec-19	9.7	5.7	4.0
Mar-20	9.6	5.5	4.1
Jun-20	8.0	5.1	2.9

Appendix VI Weighted Average Exchange Rate

(BDT/USD)

Quarter	Period Average	End Period
Dec-17	82.55	82.70
Mar-18	82.96	82.96
Jun-18	83.72	83.70
Sep-18	83.75	83.75
Dec-18	83.90	83.90
Mar-19	84.21	84.25
Jun-19	84.50	84.50
Sep-19	84.50	84.50
Dec-19	84.90	84.90
Mar-20	85.00	85.00
Jun-20	84.92	84.90

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

(Amount in billion BDT)

Period	Amount
Jun-18	1,780.9
Sep-18	1,778.4
Dec-18	1,838.2
Mar-19	1,810.1
Jun-19	2,049.9
Sep-19	2,292.0
Dec-19	2542.27
Mar-20	2325.35
Jun-20	2806.20

Appendix VIII Asset Structure of the Banking Industry

(Amount in billion BDT)

Property and Assets	30-09-2019	31-12-2019	31-03-2020	30-06-2020
Cash in hand	163.4	161.6	192.7	164.2
Balance with Bangladesh Bank and its Agent Bank	833.8	916.1	942.3	930.8
Balance with other banks and financial Institutions	827.5	826.4	770.1	799.8
Investment	2380.6	2508.0	2,465.1	2,815.5
Loans and Advances	10449.9	10834.0	11,008.3	11,271.4
Fixed Assets	236.8	237.8	261.1	258.2
Other Assets	847.8	800.1	801.7	933.6
Non-banking assets	4.6	4.7	4.6	4.6
Total Assets	15,744.4	16,288.7	16,445.9	17,178.1

Note: R-revised.

Appendix IX Banking Sector Assets & NPL Concentration (Jun-2020)

(Amount in billion BDT)

ASSETS	***TOP 5 BANKS***	***OTHER BANKS***	***TOP 10 BANKS***	***OTHER BANKS***
Amount	5,179.8	11,998.3	7,563.4	9,614.7
Share (%)	30.2%	69.8%	44.0%	56.0%
NPL	**Top 5 banks**	**Other banks**	**Top 10 banks**	**Other banks**
Amount	42,575.6	53,541.1	60,610.6	35,506.1
Share (%)	44.3%	55.7%	63.1%	36.9%

Appendix X Banking Sector NPL Ratio

(Amount in billion BDT)

Quarter	Aggregate NPL	Gross NPL Ratio (NPL/TL) (%)	Net NPL (net of LLP and IS) Ratio (%)
Jun-18	893.40	10.41%	2.66%
Sep-18	886.01	11.45%	3.33%
Dec-18	939.11	10.30%	2.18%
Mar-19	1,108.74	11.87%	3.02%
Jun-19	1,124.25	11.69%	2.53%
Sep-19	1,162.88	11.99%	3.66%
Dec-19	943.30	9.32%	1.02%
Mar-20	925.11	9.03%	0.39%
Jun-20	961.17	9.16%	0.15%

Appendix XI Distribution of Banks by NPL Ratio

Range	Number of Banks as at end				
	Jun-19	Sep-19	Dec-19	Mar-20	June-20
Up to 2.0%	8	5	10	10	6
2.0% to <3.0%	5	3	3	2	5
3.0% to <5.0%	6	10	18	20	21
5.0% to <10.0%	24	22	13	12	11
10.0% to <15.0%	1	4	4	6	6
15.0% to <20.0%	3	3	3	1	1
20.0% & above	10	10	8	8	9
Total	**57**	**57**	**59**	**59**	**59**

Appendix XII Banking Sector Loan Loss Provisions

(Amount in billion BDT)

PERIOD	*REQUIRED PROVISION*	*PROVISION MAINTAINED*	*PROVISION MAINTENANCE RATIO (%)*
Jun-18	528.8	448.9	84.9
Sep-18	564.9	483.6	85.6
Dec-18	570.4	504.3	88.4
Mar-19	670.7	582.1	86.8
Jun-19	712.4	620.2	87.1
Sep-19	624.6	543.3	87.0
Dec-19	613.1	546.6	89.2
Mar-20	604.9	568.8	94.0
Jun-20	654.0	609.0	93.1

Appendix 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-18	10.4	8.1	8.0	83.9
Sep-18	11.5	9.8	7.0	83.2
Dec-18	10.3	9.4	4.7	85.9
Mar-19	11.9	9.6	4.4	86.0
Jun-19	11.7	9.3	3.6	87.1
Sep-19	12.0	9.7	3.8	86.5
Dec-19	9.32	9.1	4.1	86.8
Mar-20	9.03	8.5	4.2	87.3
Jun-20	9.16	8.6	4.4	87.0

Appendix XIV Classified Loan Composition (End-June 2020)

(Amount in billion BDT)

PARTICULARS	AMOUNT	PERCENT OF TOTAL
Sub-Standard	82.66	8.6%
Doubtful	42.29	4.4%
Bad & Loss	836.21	87.0%
Total	961.17	100.0

Appendix 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-18	50	4	1	2
Sep-18	52	2	2	1
Dec-18	51	4	0	2
Mar-19	52	3	0	2
Jun-19	52	2	2	1
Sep-19	53	1	1	2
Dec-19	54	1	1	2
Mar-20	53	3	1	1
Jun-20	57	1	0	0

Notes: ROAs have been annualized from respective quarterly ratios.

Appendix 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-18	21	17	12	7
Sep-18	21	17	12	7
Dec-18	14	13	23	7
Mar-19	24	15	15	3
Jun-19	22	10	17	8
Sep-19	24	8	20	5
Dec-19	18	11	19	10
Mar-20	20	12	19	7
June-20	36	21	1	0

Notes: ROEs have been annualized from respective quarterly ratios.

Appendix XVII Banking Sector ROA and ROE

Ratio	Jun-19	Sep-19	Dec-19	Mar-20	Mar-20
ROA	**0.2**	**-0.1**	**0.5**	**-0.1**	**0.3**
ROE	**3.6**	**-1.9**	**7.4**	**-1.7**	**4.9**

Notes: The figures are annualized from respective quarterly ratios; e.g.
(a) annualized ROA of 1st quarter of 2020= (Profit in 1st quarter of 2020 x 4/Total asset at the end of 1st quarter of 2020) x 100.
(b) annualized ROA of 2nd quarter of 2020 = ((Profit in 1st quarter of 2020+Profit in 2nd quarter of 2020) x 2/Average of assets at the end of 1st and 2nd quarters of 2020) x 100.
(c) ROA of 2019 =Profits in 2019/Assets at end-December 2019) x100.
(d) Similar method applied for annualizing quarterly ROE.

Appendix XVIII FIs' Borrowing, Deposit and Capital

(Amount in billion BDT)

Particulars	Jun-2019	June-20
Borrowings	198.8	189.50
Deposits	457.0	440.68
Capital	112.2	92.15
Other Liabilities	99.8	137.61
Total	**867.8**	**859.94**

Appendix XIX FIs' Asset Composition

(Amount in billion BDT)

Particulars	Jun-2019	June-2020
Cash & liquid assets	114.67	98.96
Earning assets	688.93	696.14
Fixed assets	12.53	13.57
Others assets	51.71	51.27
Total	867.84	859.94

Appendix XX FIs' Classified Loans and Leases

(Amount in billion BDT)

Quarter	Aggregate NPL	Aggregate NPL to total loan (%)
Dec-17	45.2	7.3
Mar-18	55.6	8.8
Jun-18	59.2	9.2
Sep-18	74.9	11.2
Dec-18	54.6	7.9
Mar-18	72.2	10.3
Jun-19	73.2	11.0
Sep-19	68.4	10.4
Dec-19	63.99	9.53
Mar-20	70.34	10.51
Jun-20	89.06	13.29

Appendix XXI FIs' ROA & ROE

(In percent)

Quarter	Aggregate ROA	Aggregate ROE
Jun-18	0.4	3.1
Sep-18	0.6	4.4
Dec-18	0.6	4.6
Mar-19	-0.05	-0.5
Jun-19	0.2	1.8
Sep-19	0.48	3.9
Dec-19	1.50	10.8
Mar-20	0.14	1.27
Jun-20	0.57	5.32

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

Appendix XXII Banking Sector CRAR Distribution

CAR	*NUMBER OF BANKS (AT END PERIOD)*						
	Dec-18	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**
< 10%	9	9	10	10	**10**	**11**	**9**
10% to ≤15%	27	31	30	30	**26**	**26**	**30**
15% +	21	17	17	17	**22**	**21**	**19**

Appendix XXIII Banking Sector Asset Share based on CRAR as at end-September 2019

CRAR	**Number of banks & their asset size**		**Asset share (%)**
	Number of banks	**Asset size (in billion BDT)**	
<10%	9	3,040.31	**17.70**
10% to ≤15%	30	11,577.85	**67.40**
15% +	19	2,559.94	**14.90**
Total	**58**	**17178.10**	**100.00**

Appendix XXIV Tier-1 Capital Ratio and Overall CRAR of the Banking Industry

Particulars	**Sep-18**	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**
Core Capital to RWA (%)	7.0	6.8	7.7	8.1	7.9	7.7	7.4	7.7
Number of core capital compliant banks	47	47	49	46	46	47	47	47
Overall CRAR (%)	10.9	10.5	11.4	11.7	11.6	11.57	11.35	11.63
Number of CRAR compliant banks	48	48	48	46	47	48	47	49
No. of banks in the industry	57	57	57	57	57	58	58	58

Appendix XXV Distribution of Risk Weighted Assets of the Banking Industry

(Amount in billion BDT)

Particulars	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
RWA for Credit Risk	88.1	88.2	88.2	88.3	88.1
RWA for Market Risk	3.0	2.9	2.6	2.7	2.9
RWA for Operational Risk	8.9	8.9	9.1	9.0	9.0
Total RWA	100.0	100.0	100.0	100.0	100.0

Appendix XXVI Banking Sector Regulatory Capital Position (Solo Basis)

(Amount in billion BDT)

Period	Minimum Capital Requirement	Total Regulatory Capital
Sep-17	873.6	901.0
Dec-17	901.5	945.6
Mar-18	927.3	911.1
Jun-18	951.3	925.8
Sep-18	959.9	1018.4
Dec-18	1000.1	1025.6
Mar-19	1019.0	1136.6
Jun-19	1030.7	1183.7
Sep-19	1046.7	1189.2
Dec-19	1073.0	1211.3
Mar-20	1110.4	1232.1
Jun-20	1114.0	1267.1

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

Period	ADR (%)
Sep-17	74.8
Dec-17	75.9
Mar-18	77.0
Jun-18	76.7
Sep-18	76.4
Dec-18	77.6
Mar-19	78.3
Jun-19	77.5
Sep-19	76.6
Dec-19	77.3
Mar-20	77.8
Jun-20	76.2

Appendix XXVIII Bank Cluster-wise CRAR at end-June 2020

Bank wise	CRAR (%)
SCBs	6.9
PCBs	13.3
FCBs	24.4
DFIs	-36.5

Appendix XXIX FIs' CRR & SLR

(Amount in million BDT)

Quarter End	Aggregate CRR			Aggregate SLR		
	Required	Maintained	Surplus/ Shortfall	Required	Maintained	Surplus/ Shortfall
Jun-18	7,015.2	7,508.0	492.8	19,246.2	101,073.8	81,827.6
Sep-18	7,279.0	7,324.2	45.2	19,904.2	97,088.2	77,184.0
Dec-18	7,422.5	7,131.8	-290.7	20,508.7	94,986.1	74,477.4
Mar-19	7,484.7	7,323.8	-160.9	21,364.2	91,740.4	70,576.2
Jun-19	7,465.3	7,634.6	169.3	20,997.8	83,144.0	62,146.2
Sep-19	7,583.3	7,608.0	24.7	21,775.7	86,058.3	64,282.6
Dec-19	7,744.3	7,768.3	24.0	21,662.6	90,889.7	69,227.1
Mar-20	7,643.6	8,244.0	600.4	21,403.1	94,000.5	72,597.4
Jun-20	4,582.7	6,148.2	1,565.5	21,387.3	89,661.2	68,273.9

* 33 FIs were considered (*Peoples leasing and Financial Services Ltd. excluded)*

Appendix XXX Capital Adequacy Ratio of FI Sector

Particulars	End Sep-18	End Dec-18	End Mar-19	End Jun-19	End Sep-19	End Dec-19	End Mar-20	End Jun-20
Eligible Capital to RWA (%)	12.4	13.9	13.7	16.8	17.3	17.2	16.8	16.4

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

(Amount in billion BDT)

Particulars	End Jun-18	End Sep-18	End Dec-18	End Mar-19	End Jun-19	End Sep-19	End Dec-19	End Mar-20	End Jun-20
Risk Weighted Assets (RWA)									
Credit RWA	665.5	670.4	659.3	648.1	631.6	635.3	631.1	638.9	639.0
Market RWA	51.9	53.2	51.8	49.1	48.23	51.6	54.7	50.9	54.1
Operational RWA	45.1	47.3	48.3	51.2	50.11	49.6	49.9	51.5	50.2
Total RWA	**762.5**	**770.9**	**759.4**	**748.4**	**729.9**	**736.5**	**735.7**	**741.3**	**743.3**
Core Capital (Tier -1)	85.8	84.1	92.5	88.6	109.5	113.5	113.2	111.1	108.7
Supplementary Capital	11.6	11.4	13.2	13.6	13.21	13.7	13.4	13.5	13.3
Eligible Capital	**97.4**	**95.5**	**105.7**	**102.2**	**122.7**	**127.2**	**126.6**	**124.6**	**122.0**

* 33 FIs were considered (*Peoples leasing and Financial Services Ltd. excluded)*

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

(Based on data as of end-June 2020)

Shocks	CRAR after Shock (%)		
	Minor Level	**Moderate Level**	**Major Level**
Increase in NPL in the highest outstanding sector	11.48	11.17	10.86
Increase in NPLs due to default of Top borrowers	9.77	8.33	7.32
Negative shift in NPL categories	10.99	10.42	9.28
Decrease in the FSV of collateral	11.09	10.54	9.42
Increase in NPLs	10.26	7.08	2.56
Interest rate shock	11.18	10.73	10.28
Exchange rate shock	11.59	11.54	11.50
Equity shock	11.40	11.18	10.72
Combined shock	8.36	3.34	-4.40

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

(Based on data as of end-June-2020)

Shocks	No. of Banks		
	Minor Level	Moderate Level	Major Level
Increase in NPL in highest outstanding sector	3	5	7
Increase in NPLs due to default of Top borrowers	23	35	38
Negative shift in NPL categories	2	10	11
Decrease in the FSV of collateral	2	2	5
Increase in NPLs	5	30	36
Interest rate shock	3	5	6
Exchange rate shock	1	1	2
Equity shock	2	3	3
Combined shock	12	37	40

Appendix XXXIV DSE Performance

Month	*(In billion BDT)*		Index		
	Turnover	Market Capitalization	DSEX	DS30	DSES
Jan-19	223.48	4163.60	5821.01	2007.96	1310.60
Feb-19	137.79	4150.74	5711.83	1998.65	1314.64
Mar-19	93.92	4119.65	5491.91	1967.21	1275.45
Apr-19	93.92	3839.85	5202.85	1846.67	1205.15
May-19	77.16	3941.64	5377.75	1876.60	1214.26
June-19	76.50	3998.16	5421.62	1929.09	1244.69
July-19	89.47	3834.78	5138.79	1827.91	1181.20
Aug-19	73.98	3808.46	5095.78	1800.06	1183.44
Sep-19	148.10	3738.54	4947.64	1759.97	1138.70
Oct-19	70.20	3559.38	4682.90	1627.75	1075.48
Nov-19	74.11	3567.04	4731.44	1647.71	1082.16
Dec-19	67.03	3395.51	4452.93	1513.35	999.83
Jan-20	80.72	3408.93	4469.66	1524.04	1028.29
Feb-20	124.28	3429.83	4480.23	1492.37	1044.91
Mar-20	66.46	3122.35	4008.29	1330.83	920.69
Apr-20*	*	*	*	*	*
May-20	1.43	3,161.80	4060.45	1365.37	951.60
Jun-20	47.80	3119.76	3989.09	1340.98	925.08

*No transaction took place.

Appendix XXXV CSE Performance

Month	(In billion BDT)		Index		
	Turnover	Market Capitalization	CASPI	CSE30	CSI
Jun-18	6.78	3,123.52	16,558.51	15,092.77	1,120.37
Jul-18	12.56	3,139.76	16,296.11	14,284.23	1,114.27
Aug-18	6.11	3,267.22	17,244.19	15,059.11	1,136.06
Sep-18	10.67	3,168.92	16,483.29	14,720.68	1,099.18
Oct-18	5.90	3,190.65	16,191.65	14,499.72	1,077.34
Nov-18	5.28	3,099.68	16,182.32	9,810.66	1,072.84
Dec-18	7.67	3,146.83	16,449.51	14,500.66	1,076.78
Jan-19	10.22	3,450.03	17,890.92	15,405.79	1,162.04
Feb-19	15.21	3,424.32	17,473.49	15,346.03	1,157.71
Mar-19	3.48	3,399.04	16,803.16	14,724.32	1,120.20
Apr-19	4.63	3,118.26	15,912.87	14,146.92	1,048.61
May-19	4.55	3,227.77	16,375.76	14,272.06	1,060.01
Jun-19	8.92	3,293.30	16,634.21	14,589.68	1,088.92
Jul-19	4.79	3,131.68	15,725.46	13,875.83	1,026.42
Aug-19	4.80	3,094.94	15,580.60	13,730.71	1,023.33
Sep-19	5.47	3,019.73	15,046.73	13,081.32	981.22
Oct-19	4.19	2,844.96	14,221.79	12,612.80	920.16
Nov-19	5.17	2,858.60	14,392.43	12,443.51	928.84
Dec-19	3.96	2,688.87	13,505.70	11,439.82	859.03
Jan-20	4.10	2,698.44	13,586.41	11,676.85	882.72
Feb-20	6.20	2,741.10	13,742.96	11,912.38	901.18
Mar-20	4.84	2,445.71	11,328.00	9,975.51	729.30
Apr-20	0.00	2,445.71	11,328.00	9,975.51	729.30
May-2	0.03	2,481.50	11,469.02	10,320.39	750.34
Jun-20	9.53	2,447.56	11,332.59	9,925.12	733.27

Appendix XXXVI Sectoral Turnover of DSE

BROAD SECTOR	SECTOR	% OF TOTAL TURNOVER	
		2019Q1	2019Q2
Financial Sector	Banks	7.7	5.6
	Financial Institutions	2.3	0.2
	Insurance	7.1	0.8
Manufacturing	Food & Allied Product	4.2	1.2
	Pharmaceuticals & Chemicals	17.6	72.7
	Textile	12.0	0.8
	Engineering	14.0	0.7
	Ceramic	2.2	0.3
	Tannery	1.5	0.1
	Paper & Printing	1.0	0.0
	Jute	1.0	0.1
	Cement	5.2	0.2
Service & Miscellaneous	Mutual Funds	1.8	0.8
	Fuel & Power	8.3	12.3
	Services & Real estate	0.7	0.0
	IT Sector	3.8	0.1
	Telecommunication	3.1	2.6
	Travel and Leisure	1.1	0.1
	Miscellaneous	5.3	1.1
Bond	Corporate Bond	0.0	0.1
Total		**100.00**	**100.00**

Note: 2020Q1≡ March quarter 2020, 2020Q2≡ June quarter 2020.

Appendix XXXVII Sectoral Turnover of CSE

BROAD SECTOR	SECTOR	% OF TOTAL TURNOVER	
		2020Q1	2020Q2
Financial Sector	Banks	0.3	0.1
	Leasing &Finance	2.8	1.3
	Life Insurance	12.8	3.6
	General Insurance	10.0	20.7
Manufacturing	Food & Allied Product	5.0	0.1
	Pharmaceuticals & Chemicals	4.8	0.5
	Textile	8.5	0.2
	Engineering	1.3	0.0
	Ceramic	1.7	0.0
	Tannery	1.4	0.0
	Paper & Printing	17.1	11.1
	Cement	0.7	0.2
Service & Miscellaneous	Fuel & Power	15.8	6.7
	Services	0.6	0.1
	IT	4.6	4.2
	Telecommunication	2.2	0.1
	Mutual Funds	1.6	0.3
	Miscellaneous	8.6	50.9
Bond	Corporate Bond	0.1	0.0
Total		**100.00**	100.00

Note: 2020Q1≡ March quarter 2020, 2020Q2≡ June quarter 2020.

Appendix XXXVIII Price/Earnings Ratio of Capital Market

Quarter	DSE P/E Ratio	CSE P/E Ratio
Jun-18	15.0	14.9
Sep-18	15.2	15.0
Dec-18	15.2	15.9
Mar-19	16.1	17.2
Jun-19	14.3	15.6
Sep-19	13.4	13.6
Dec-19	11.80	16.3
Mar-20	10.58	10.6
Jun-20	10.78	10.7

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

Month	Daily Average Index Volatility[32]	Daily Average DSE Turnover (In crore BDT)
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
Jul-18	31.09	848.95
Aug-18	102.72	638.62
Sep-18	77.41	740.51
Oct-18	76.62	553.78
Nov-18	25.71	583.69
Dec-18	46.22	483.65
Jan-19	134.96	971.64
Feb-19	34.47	765.51
Mar-19	79.52	494.30
Apr-19	100.79	349.08
May-19	53.13	367.44
Jun-19	33.37	478.13
Jul-19	117.31	406.68
Aug-19	38.06	462.36
Sep-19	51.18	404.54
Oct-19	89.5	319.1
Nov-19	30.04	390.05
Dec-19	122.17	335.14
Jan-20	156.18	335.10
Feb-20	129.89	621.39
Mar-20	244.81	369.20
Apr-20	*	*
May-20	*	*
June-20	10.78	217.28

*No transaction took place in the month.

[32] Measured by average of daily standard deviation of DSEX during each month.