

## Financial Markets

7.1 This chapter will cover developments in the money market, Government debt market and equity markets.

### Money Market

#### Call Money Market FY13

7.2 BB provided repo, special repo and Liquidity Support Facility (LSF) to the Primary Dealers (PDs) and non-PD banks against the eligible holding of treasury bills and bonds. BBs policy measures resulted in stable weighted average interest rate in the call money market ranging from 7.2 percent to 11.5 percent during FY13 (Table 7.1 and Chart 7.1). The weighted average interest rate ranged from 9.8 percent to 19.7 percent during FY12. During FY13 the average volume of trade in the call money market increased by Taka 367.7 billion, which was 36.1 percent higher than that of FY12.

#### Repo Auctions - FY13

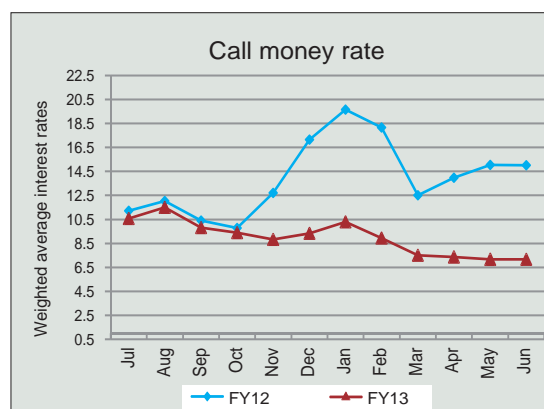
7.3 A repo deal is one where PDs and non-PDs make a contract to borrow money usually overnight at a pre-determined policy rate of BB against the collateral face value of Government treasury bills and bonds. The repo injects money in the system and provides banks necessary funds to maintain their very short term exposure. In order to achieve monetary policy objectives, BB lowered the repo and reverse repo rate by fifty basis points during FY13. The rate of interest for repo, special repo and Liquidity Support Facility

**Table 7.1 Volume of trade and weighted average interest rates in call money market**

Periods	Volume of trade (billion Taka)	Weighted average interest rates (%)	Volume of trade (billion Taka)	Weighted average interest rates (%)
	FY12		FY13	
July	781.86	11.21	1449.43	10.58
August	864.30	12.03	1096.70	11.51
September	1102.84	10.41	1483.71	9.81
October	1094.70	9.77	1432.07	9.40
November	1055.05	12.70	1308.25	8.82
December	853.01	17.15	1228.25	9.34
January	1090.13	19.66	1483.17	10.29
February	826.71	18.18	1411.82	8.95
March	1033.09	12.51	1138.88	7.50
April	1272.74	13.98	1431.53	7.35
May	1110.31	15.05	1478.48	7.15
June	1134.52	15.02	1689.53	7.17
<b>Average</b>	<b>1018.27</b>	<b>13.97</b>	<b>1385.98</b>	<b>8.99</b>

Source: Debt Management Department, Bangladesh Bank.

**Chart 7.1**



(LSF) was 7.25 percent, 10.25 percent and 7.25 percent respectively for 1-2 day tenor.

7.4 A total of 255 repo (including special repo and LSF) auctions were held during FY13. In all 6291 bids for Taka 24356.7 billion

were received, of which 6232 bids for a total of Taka 19275.7 billion were accepted. This pattern is very different from FY12 when 6500 bids for Taka 60242.3 billion were received, of which Taka 21943.1 billion was accepted (Table 7.2). The range of interest rate against the accepted bids was 7.25-10.75 percent per annum in FY13 as against 6.75-10.80 percent per annum in the previous year.

### Reverse Repo Auctions - FY13

7.5 During a reverse repo deal, BB absorbs ("mops up") liquidity from the banks. In case

of reverse repo BB does not provide any collateral to the banks. It applies the reverse repo to maintain intended level of liquidity in the market and to maintain reserve money targets on track. A total of 53 daily reverse repo auctions were held in FY13. In all 69 bids of 1-2 day and 5 bids of 3-7 day tenors for a total of Taka 138.7 billion were received and all the bids were accepted. During FY12 bids for 81.7 billion were received, of which all bids were accepted. The interest rate range against the accepted bids was 5.25-5.75 percent per annum during FY13 (Table 7.3).

**Table 7.2 Repo auctions-FY13**

Total No. of auctions held during the year	Tenor	Bids received		Bids accepted		Interest rate of the accepted bids (%)
		No. of bids	Face value (billion Taka)	No. of bids	Face value (billion Taka)	
255	1-Day/2-Day	5149	19608.69	5098	15560.39	7.25-10.75
	3-Day/8-Day	1142	4748.02	1134	3715.33	7.25-10.75
	<b>Total</b>	<b>6291</b>	<b>24356.71</b>	<b>6232</b>	<b>19275.72</b>	<b>7.25-10.75*</b>

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

### Bangladesh Bank Bill

7.6 Operations of Bangladesh Bank Bill was revived again as an Open Market Operation (OMO) tool. This was applied to 'sterilise' the impact of foreign exchange purchases. These BB bills have a 30 day maturity. The results of Bangladesh Bank bill auction in FY13 are shown at Table 7.4.

### Government Securities Market

#### Government Treasury Bills Auctions

7.7 Treasury bills and bonds are short-term and long term obligations issued by Bangladesh Bank on behalf of the Government of Bangladesh. These are the indirect monetary instruments that the BB

uses for debt management purpose. The securities are issued through an auction process where the allotments are awarded to the bids which fill the notified issue amount ranging from the lowest to highest yield. Pro-rata partial allotments are made for bids at the cut-off-yield. The objectives of issuing these securities are two-fold. The first is to provide a mechanism for financing Government deficit, and managing excess liquidity prevailing in the market. In FY13, among 15 Primary Dealers (PDs), 3 financial institutions are not acting as PD. 12 PDs acted as underwriters and market makers with commitments to bid in auctions. Effective from August 2012, BB introduced new underwriting obligations for 12 PD banks and mandatory allocation for 25 non PD

Table 7.3 Reverse repo auctions-FY13

Total no. of auctions held during the year	Tenor	Bids received		Bids accepted		Interest rate of the accepted bids (%)
		No. of bids	Face value (billion Taka)	No. of bids	Face value (billion Taka)	
53	1-Day/2- Day	69	122.85	69	122.85	5.25-5.75
	3-Day/7- Day	5	15.86	5	15.86	5.25-5.75
	<b>Total</b>	<b>74</b>	<b>138.71</b>	<b>74</b>	<b>138.71</b>	<b>5.25-5.75*</b>

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

banks in auction of Government Treasury Bills and Bonds. According to the revised auction procedure, the 12 PD banks will assume 60 percent and 25 non PD banks will assume 40 percent of the unsubscribed amount of auction in proportion to their total demand and time liabilities (TDTL). Among the notified amount for the 12 PD banks, 50 percent will be distributed according to TDTL and the rest 50 percent will be distributed equally.

7.8 Weekly auctions of 91-day, 182-day and 364-day treasury bills continued to be main instruments for debt management of the Government during the year under report. The results of treasury bills auction in FY13 are summarised at Table 7.5. The auctions of 91-day, 182-day and 364-day's tenor bills were under-subscribed. Consequently, devolvement to PDs and non PDs had to continue. The weighted average yield of most of the treasury bills increased during FY13.

### Bangladesh Government Treasury Bonds (BGTBs) Auctions

7.9 Treasury Bonds, bearing half yearly interest coupons with tenors of 2-year, 5-year, 10-year, 15-year and 20-year are auctioned every month following preannounced auction calendar prepared by BB and the Ministry of Finance considering liquidity and macroeconomic indicators. In order to further

develop the yield curve and improve liquidity and assets-liabilities matching, a 2-year BGTB was introduced as a new instrument from 28 May 2013.

7.10 The coupon rate for the treasury bonds ranged from 10.98 percent to 12.48 percent in FY13. The coupon rates on all tenors of treasury bonds were increased during the period. This is shown in Table 7.6. The movements of the weighted average yield-to-maturity of all the treasury bonds are depicted in the Chart 7.2.

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

7.11 Government issues bond as guarantee against the pool of funds formed by the Islamic banks and individuals in order to develop money market in Islamic banking sector. However due to an under-developed Islamic bond market Government is unable to tap this segment for its domestic financing needs. The return of the bonds depends on profit or loss in line with the Islamic Shariah savings rate and related factors reflected in the balance sheet of the Islamic bank. The operations of 6-month, 1-year and 2-year Bangladesh Government Islamic Investment Bond (Islamic Bond) introduced in FY05 continued in FY13. This Government Bond is operated in accordance with the rules of

Table 7.4 Auctions of Bangladesh Bank bill - FY13

Tenor of bills	Bids offered		Bids accepted		Outstanding bills as of end June 2013 (billion Taka)	Weighted average yield (WAR) range* (%)	
	No.	Face value (billion Taka)	No.	Face value (billion Taka)		FY12	FY13
30-Day	246	186.48	240	183.73	24.99	-	7.10-9.41
<b>Total</b>	<b>246</b>	<b>186.48</b>	<b>240</b>	<b>183.73</b>	<b>24.99</b>	<b>-</b>	<b>7.10-9.41</b>

Source: Monetary Policy Department, Bangladesh Bank.  
\* Range of the weighted average annual yield of the accepted bids.

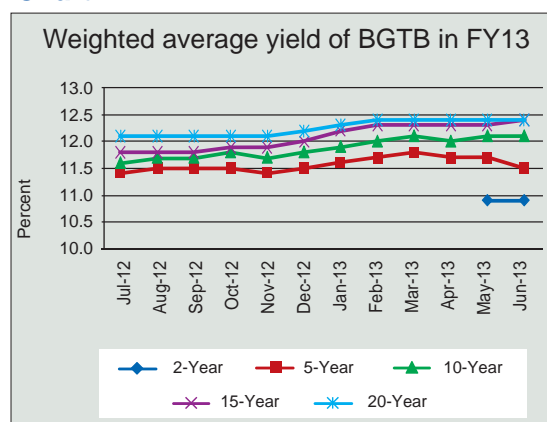
Islamic Shariah. As per the rules, Bangladeshi institutions, individuals and non-resident Bangladeshis who agree to share profit or loss in accordance to Islami Shariah may buy this bond. As of end June 2013, the total sale against this bond amounted to Taka 107.13 billion while balance of total amount of financing stood at Taka 67.78 billion and the net outstanding against the bond stood at Taka 39.35 billion. As of end June 2012, the total sale against this bond was Taka 31.48 billion against the balance of total financing of Taka 31.26 billion and the net outstanding of Taka 0.22 billion. The increased sale volume relates to the liquidity 'mopping up' needs of Bangladesh Bank which needed to sterilise its interventions in the foreign exchange market. The overall transaction of this bond are summarised in Table 7.7.

### Capital Market

#### Investment Financing in Bangladesh

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

Chart 7.2



7.13 The amount of industrial term loans disbursed by banks and financial institutions stood at Taka 425.3 billion, many-fold higher than the amount of Taka 12.2 billion raised by new capital issues through private placements and public offerings in the capital market in FY13. This indicates the overwhelming preference of bank finance in industrial investment financing.

7.14 The Dhaka Stock Exchange Limited launched its new two indices, which are known as the DSE Broad Index ("DSEX") and DSE 30 Index ("DS30") designed & developed by S&P Dow Jones on 28 January 2013. The National Parliament of Bangladesh passed "The Exchange Demutualisation Act, 2013" on 29 April 2013 which was gazetted on 2 May 2013. An

**Table 7.5 Auctions of Government treasury bills - FY13**

Tenor of bills	Bids offered		Bids accepted		Outstanding bills as of end June, 2013 (billion Taka)	Weighted average yield (WAR) range* (%)	
	No.	Face value (billion Taka)	No.	Face value (billion Taka)		FY12	FY13
	91-Day	1074	460.4	442		194.0	85.5
182-Day	627	247.7	260	109.4	83.5	7.26-11.41	9.83-11.42
364-Day	582	216.2	265	99.2	145.5	7.60-11.43	10.13-11.54
Devolvement to Bangladesh Bank/PD				170.4			
<b>Total</b>	<b>2283</b>	<b>924.3</b>	<b>967</b>	<b>573.0</b>	<b>314.5</b>	<b>7.01-11.43</b>	<b>8.13-11.54</b>

Source: Monetary Policy Department, Bangladesh Bank.  
\* Range of the weighted average annual yield of the accepted bids.

Appellate Board by retired Judges from High Court Division has been formed to settle the capital market related investors' claim. The surveillance software of international standard has been installed to ensure transparency and accountability in the capital market through strengthening the monitoring of transactions. The task of amending the 'Securities and Exchange Commission Act 1990' and Securities and Exchange Ordinance 1969" has been completed.

### Capital Market Activities in FY13

#### Primary Issuance

7.15 Fourteen companies raised new equity of Taka 12.2 billion in the capital market in FY13, lower than the Taka 16.4 billion raised by the fifteen companies in FY12. Of the new equity issued, Taka 1.0 billion was raised through private placements and Taka 11.2 billion raised through public placements. In FY12, equity issued through private and public placements were Taka 2.6 billion and Taka 13.8 billion respectively.

7.16 The volume of public offerings in FY13 was oversubscribed more than three times indicating a shortage of new securities in the primary market. Bonus shares worth of Taka

34.4 billion were issued in FY13 by one hundred and sixty one companies against retained profits. This was lower than Taka 43.0 billion issued in FY12 by one hundred and fifty seven companies.

#### Secondary Market Activities

7.17 As a percent of market capitalisation the financial sector dominated with 37.2 percent share, followed by services and miscellaneous (33.7 percent), manufacturing (28.8 percent) and corporate bonds (0.3 percent) at the end of June FY13. In Dhaka stock exchange (DSE), market capitalisation inclusive of new issues increased by 1.5 percent to Taka 2530.2 billion or 24.4 percent of GDP at the end of FY13 from Taka 2491.6 billion at the end of FY12 (Chart 7.3). In Chittagong Stock Exchange (CSE), it grew by 2.6 percent to Taka 1919.9 billion or 18.5 percent of GDP at the end of FY13 (Table 7.9 and 7.10).

#### Non-resident Portfolio Investment

7.18 Gross investment inflow in shares and securities of the stock exchanges by non-residents through Non-resident Investor Taka Account (NITA) increased to Taka 18.0 billion in FY13 from Taka 15.7 billion in FY12. Gross

**Table 7.6 Auctions of Bangladesh Government treasury bonds - FY13**

Tenor of bonds	Bids offered		Bids accepted		Outstanding bonds as of end June 13 (billion Taka)	Yield range *(%)
	Number	Face value (billion Taka)	Number	Face value (billion Taka)		
2-Year Devolvement to BB/PDs and non PDs	46	14.97	07	3.88	6.00	10.9449-10.9800
5-Year Devolvement to BB/PDs and non PDs	266	65.90	158	37.91	274.09	11.4800-11.8200
10-Year Devolvement to BB/PDs and non PDs	210	44.89	119	22.48	364.90	11.6500-12.1618
15-Year Devolvement to BB/PDs and non PDs	170	18.40	76	11.19	113.36	11.8500-12.4000
20-Year Devolvement to BB/PDs and non PDs	177	23.01	69	11.37	92.09	12.1200-12.4800
<b>Total</b>	<b>869</b>	<b>167.17</b>	<b>429</b>	<b>204.52</b>	<b>850.44</b>	<b>10.9449-12.4800@</b>

Source: Monetary Policy Department, Bangladesh Bank

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

@ Weighted average annual yield of treasury bonds of different terms.

outflow as repatriation of sale proceeds also increased to Taka 7.8 billion in FY13 from Taka 6.7 billion in FY12. From April 1992 to June 2013, the gross investment inflow stood at Taka 87.4 billion against gross outflow as repatriation of sale proceeds of Taka 75.1 billion.

### Activities of the Investment Corporation of Bangladesh

7.19 The Government has undertaken a series of measures to accelerate the pace of industrialisation and develop a well organised and vibrant capital market particularly securities market in Bangladesh through the enactment of the Investment Corporation of Bangladesh (ICB). ICB caters to the need of institutional support to meet the equity gap of the industrial enterprises. The scope of ICB's capital market development programme activities has been expanded through the formation and operation of the three subsidiaries of ICB namely the ICB Capital Management Ltd (ICML), the ICB Asset Management Company Ltd. (IAMCL) and the ICB Securities Trading Company Ltd.

**Table 7.7 Bangladesh Government Islamic Investment Bond**

Particulars	(billion Taka)		
	FY11	FY12	FY13
Sale	25.3	31.48	107.13
Financing	22.8	31.26	67.78
Net outstanding	2.5	0.22	39.35

Source: Motijheel office, Bangladesh Bank.

**Table 7.8 Disbursement & recovery of industrial term loans of banks and financial institutions**

Particulars	(billion Taka)		
	FY12	FY13	% Change
Disbursement	352.8	425.3	20.6
Recovery	302.3	365.5	20.9
Outstanding (end June)	802.3	903.3	12.6

Source: SME and Special Programmes Department, Bangladesh Bank.

(ISTCL). In order to help mobilise savings, encourage and broaden the base of investment, the ICML plays important role as underwriter of public issues of shares/debentures, portfolio manager, issue manager of investment account and placement services provider. During FY13, total investment made against the investors' accounts stood at Taka 4.7 billion while

deposit received stood at Taka 0.7 billion. The IAMCL emerged as one of the fast expanding asset management company of the country. Up to end June 2013, the company floated 12 closed-end and 3 open-end mutual funds. Besides, the company floated various regular and special types of mutual funds. The net investment in portfolios of the fifteen mutual funds of the company stood at Taka 30.3 billion and the market value of which stood at Taka 24.1 billion. The ISTCL emerged as the largest stockbroker in the country handling total turnover worth Taka 103.1 billion in FY13 which was 10.7 percent of total turnover of both DSE and CSE. The parent ICB itself sold unit certificates amounting Taka 0.8 billion against repurchase of unit certificates amounting Taka 0.2 billion in FY13. ICB received deposits of Taka 1.5 billion and approved loans of Taka 8.8 billion in investment accounts of investors in FY13. Total commitments for investment made by the ICB in FY13 stood at Taka 2.4 billion of which, pre-IPO placement of share stood at Taka 0.8 billion, investment in equity Taka 1.0 billion, purchase of debentures Taka 0.1 billion and bank guarantee Taka 0.5 billion. In FY12, the total amount of commitments was Taka 2.3 billion.

### Scheduled Banks Investments in Capital Market Securities

7.20 Holdings of capital market assets (equities, debentures) by scheduled banks stood at Taka 259.2 billion as of end June 2013 as against Taka 166.1 billion as of end June 2012. Outstanding advances of scheduled banks against shares and securities amounted to Taka 21.0 (provisional) billion as of end June 2013, which was Taka 9.1 billion as of end June 2012.

Chart 7.3

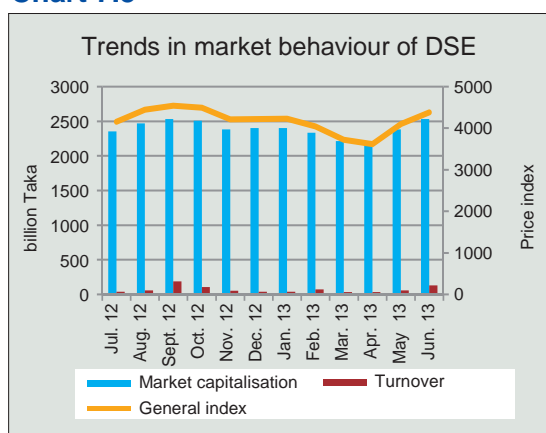


Table 7.9 Dhaka Stock Exchange (DSE) activities

Particulars	End June		
	FY11	FY12	FY13
No. of listed securities*	490	511	525
Issued equity and debt* (billion Taka)	806.8	933.6	983.6
Equity through private placement & IPOs (billion Taka)	27.9	16.4	12.2
Market capitalisation (billion Taka)	2853.9	2491.6	2530.2
Turnover in value (billion Taka)	3259.2	1171.5	857.1
Turnover in volume (no. in billion)	19.7	18.6	21.6
General Index	6117.2	4572.9	4385.8

Source: Dhaka Stock Exchange  
\* = including companies, mutual funds, debentures and Government Treasury Bonds.

Table 7.10 Chittagong Stock Exchange (CSE) activities

Particulars	End June		
	FY11	FY12	FY13
No. of listed securities*	220	251	266
Issued equity and debt* (billion Taka)	302.9	375.2	428.6
Market capitalisation (billion Taka)	2237.6	1871.6	1919.9
Turnover in value (billion Taka)	3.2	134.9	102.0
Turnover in volume (no. in billion)	2.7	2.5	2.8
All-share Price Index	17059.5	13736.4	12738.2

Source: Chittagong Stock Exchange  
\* = including companies, mutual funds and debentures.

### Measures Supporting Capital Market Development

7.21 The Securities and Exchange Commission (SEC) undertook several measures to bring long-term stability and strengthen the capital market during FY13:

- The task of enactment of law (Law no.-45, 2012) has been completed to amend the 'Securities and Exchange Commission Act, 1993' in order to empower and strengthen the capital market controlling authority 'Bangladesh Securities and Exchange Commission (SEC)'.
- 'Securities and Exchange Commission (Private Placement of Debt Securities) Rules, 2012' has been framed to develop private placement in debt securities.
- With a view to develop the transparency of the capital market all omnibus accounts have been converted into separate Beneficiary Owners (BO) accounts from 28 February 2013.
- To develop the mutual fund in the capital market, 'Securities and Exchange Commission (Mutual Fund) Rules, 2001' has been amended.
- Corporate governance guidelines have been updated in order to establish good governance in the listed companies.
- A directive of maintaining the provision against unrealised loss by the stock broker/stock dealer and merchant banker has been declared on 27 February 2013.
- The limit for the long-term margin loan has been determined and an order in this regard has been declared on 30 September 2012.

7.22 The measures declared in the national budget of FY14 in support of further development of the capital market included:

- Continue the existing provision of exemption of tax on gains from transactions of shares by individual taxpayers in addition to other fresh incentives. For that end, government proposed to rescind the existing provision of charging 3 percent tax on the premium over the face value of shares of a company.
- Repeal the provision of charging 0.05 percent tax at source on the total income from bond sale and also allow 15 percent tax rebate on investment in private alongside public mutual fund.
- Increase the threshold of tax-exempted income from dividend to Taka 10 (ten) thousand from Taka 5 (five) thousand.

### Credit Market

#### Advances of Scheduled Banks by Economic Purposes

7.23 Total advances of scheduled banks by economic purposes showed an upward trend during FY13 (Table 7.11). Total advances of scheduled banks by economic purposes stood at Taka 4248.1 billion at the end of June 2013 which is 10.0 percent higher than the total advances of Taka 3859.3 billion at the end of June 2012. In recent years, significant changes have been taken place in the trends in total bank advances classified by economic purpose. Of the total advances, construction sector recorded the significant improvement by 20.6 percent followed by working capital financing (14.1 percent),



transport and communication sector (13.6 percent), industry sector (12.8 percent), agriculture, forestry and fishing sector (9.7 percent), trade sector (6.8 percent), and other sectors 3.6 percent in FY13 as compared to FY12. Sector-wise contribution of total advances shows that the trade sector plays the main role (37.5 percent) and industry sector is second (21.1 percent), followed by advances for working capital financing (13.4 percent), construction (9.1 percent), agriculture, forestry and fishing (5.4 percent), transport and communication sector (2.1 percent) and other sectors (11.4 percent) in FY13. Sector-wise contribution of total advances is reported in Chart 7.4.

### Industrial Term Loans of Banks and Financial Institutions

7.24 Disbursement of industrial term loans by banks and financial institutions increased by 20.5 percent to Taka 425.3 billion. The recoveries also increased by 20.9 percent to Taka 365.5 billion in FY13. The outstanding balance showed a positive growth of 12.6 percent as of end June 2013. However, the overdue increased by 45.0 percent in FY13 and as a percent of outstanding also increased to 11.9 as of end June 2013 (Table 7.12).

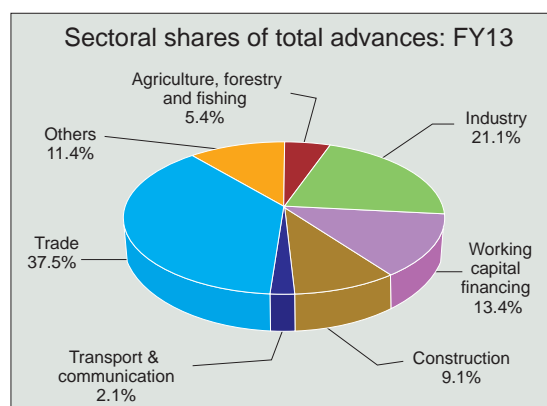
7.25 Private commercial banks (PCBs) had the major share (58.7 percent) of the total Taka 903.3 billion outstanding loans as of end June 2013, making them major players in industrial term lending (Table 7.12 and Chart 7.5). Though four SCBs and four state-owned specialised banks together had 26.8 percent shares of outstanding loans, but with very high levels of overdue loans, their actual role

**Table 7.11 Advances of scheduled banks by economic purposes** (billion Taka)

Sector	End June		
	FY12	FY13	% change
1. Agriculture, forestry and fishing	209.3	229.7	9.7
2. Industry	796.3	898.3	12.8
3. Working capital financing	500.1	570.5	14.1
4. Construction	320.3	386.3	20.6
5. Transport & communication	79.7	90.5	13.6
6. Trade	1491.3	1593.6	6.8
7. Others	462.3	479.2	3.6
<b>Grand Total</b>	<b>3859.3</b>	<b>4248.1</b>	<b>10.0</b>

Source: Statistics Department, Bangladesh Bank.

**Chart 7.4**



in current lending is quite minor, as they disbursed only Taka 71.8 billion (16.9 percent) out of total Taka 425.3 billion in FY13. PCBs disbursed the most (Taka 287.2 billion) in FY13, followed by SCBs (57.2 billion), financial institutions (Taka 48.8 billion), foreign banks (Taka 17.5 billion) and state-owned four specialised banks (Taka 14.6 billion).

7.26 The foreign banks had very low overdue loans (4.4 percent) as of end June 2013. These compare with private commercial banks (10.0 percent) and financial institutions (7.2 percent). Overdue loans of the SCBs

Table 7.12 Industrial term loans of banks and financial institutions

Lender	(billion Taka)									
	Disbursement		Recovery		Outstanding		Overdue		Overdue as % of outstanding	
	FY12	FY13	FY12	FY13	FY12	FY13	FY12	FY13	FY12	FY13
SCBs	61.8	57.2	56.5	54.5	174.7	192.8	27.0	39.0	15.5	20.2
PCBs	224.9	287.2	194.6	247.5	469.1	530.1	33.6	52.9	7.2	10.0
FCBs	12.9	17.5	10.4	14.3	17.1	22.6	0.5	1.0	2.9	4.4
Specialised banks (BDBL, BKB, RAKUB, BASIC)	15.2	14.6	8.5	9.5	39.6	49.6	5.5	6.4	13.9	13.0
Financial institutions	38.0	48.8	32.3	39.6	101.8	108.3	7.3	7.8	7.2	7.2
<b>Total</b>	<b>352.8</b>	<b>425.3</b>	<b>302.3</b>	<b>365.5</b>	<b>802.3</b>	<b>903.3</b>	<b>73.9</b>	<b>107.1</b>	<b>9.2</b>	<b>11.9</b>

Source: Agricultural and Special Studies Department, Bangladesh Bank.  
P= Provisional.

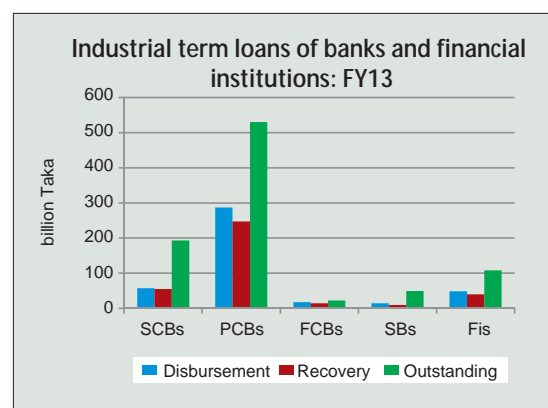
and the state-owned specialised banks were very high (20.2 percent and 13.0 percent) as of end June 2013.

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

### Investment Promotion and Financing Facility (IPFF)

7.28 Bangladesh Bank (BB) has been implementing a project named "Investment Promotion & Financing Facility (IPFF) Project" on behalf of Finance Division, Ministry of Finance as per Administration Agreements (AA) signed on 21 August 2006 (for first phase) and on 7 July 2010 (for second phase) between BB and Finance Division. IPFF is an on-lending based Technical Assistance (TA) project to supplement the resource of the Bangladesh financial markets to provide long term finance for infrastructure and other investment projects beyond the capacity of local financial institutions and to promote the role of private sector entrepreneurs in the

Chart 7.5



development of capital projects, specially infrastructure. Under IPFF, Government-approved private infrastructure development projects, implemented on Public-Private Partnership (PPP) basis are being financed through selected participating financial institutions (PFIs). The eligible sectors for financing under IPFF are power generation, transmission, distribution and services; port development (sea, river and land); environmental, industrial and solid waste management; highways and expressways including flyovers; water supply and distribution, sewerage and drainage; industrial estates and park development; social sector

including health and education; and information technology etc. One of the main features of the project in the second phase is that at least 25 percent cost of any approved project is to be borne by the entrepreneurs' own sources as equity and at least 15 percent of the project cost is to be borne by the PFI. The remaining 60 percent may be financed by IPFF. The PFIs are supposed to bear all the commercial risks associated with debt financing. As per Agreement total cost of the project was USD 60.00 million with a 5 years tenure starting from January 2007 to December 2011. IPFF has disbursed 100 percent of its on-lending component within 4th year of the project resultantly additional fund of USD 307.00 million (IDA USD 257.0 million and GoB USD 50.0 million) was sanctioned extending the tenure of the project up to December 2014.

IPFF has been able to disburse 100 percent (Taka 4.2 billion equivalent to USD 57.5 million) of its on-lending component to 7 small power plants having capacity of 178 MW within 4th year of the project tenure in the first phase. The power plant which have been financed under IPFF are Doreen Power House and Technologies Limited (Three power plants 22MW each), Doreen Power Generation System Limited (11MW), Regent Power (22MW), and two power plants of United Power (one in Chittagong EPZ having a capacity of 44 MW and the other in Dhaka EPZ having a capacity of 35 MW). So far, Taka 0.3 billion has been disbursed in the second phase; of which Taka 0.1 billion has been disbursed to establish a Water Treatment Plant in Chittagong Export Processing Zone.

### **Equity and Entrepreneurship Fund (EEF)**

7.29 Equity and Entrepreneurship Fund (EEF) was formed by the Government in FY01 through budgetary allocation of Taka 1.0 billion to encourage investments in the risky but prospective agro-based/food processing and IT sector projects. The fund is maintained by the Bangladesh Bank though ICB which is now performing the operational activities of EEF while EEF Unit of Bangladesh Bank is doing the activities relating to policy making, fund management and performance monitoring. So far Taka 15.3 billion has been released to the fund by the Government out of total budgetary allocation of Taka 24.0 billion in different fiscal years. Up to 30 June 2013 with the project cost of Taka 52.2 billion, a total of 1285 projects (including 1207 agro-based/food processing projects and 78 IT projects) got EEF sanction and are at different stages of disbursement. Cumulative equity disbursement stood at Taka 8.5 billion at the end of FY13 against total fund disbursement of Taka 15.3 billion from the Government. Till now 65 (sixty five) EEF supported companies availed share buy-back facilities partially or fully to the tune of Taka 1.2 billion. So far 13 (thirteen) EEF supported projects have paid dividend/interest to the tune of Taka 0.02 billion to EEF.

### **Housing Finance**

7.30 Total housing loans from banks and financial institutions as of end June 2013 amounted to Taka 421.1 billion (Table 7.13), which was 10.3 percent of total credit to the private sector.

7.31 In recent years, significant changes have been taking place in total housing loan portfolios. Of the total, private sector banks with ample deposit resources have been expanding their housing loan portfolios, and now have dominant market position (Table 7.13) with the largest share of Taka 229.8 billion in outstanding housing loans as of end June 2013. The SCBs have the second largest share of Taka 73.1 billion and other banks Taka 46.1 billion in outstanding housing loans as of end June 2013. Besides, two private sector specialised housing finance companies also provide a significant amount loan. They supply fund for their operations by taking long term deposits including some contractual deposit schemes.

7.32 The state owned House Building Finance Corporation (HBFC) has the third largest share of Taka 28.2 billion in outstanding housing loans as of end June 2013. The sources of Corporation's fund are paid-up capital by the Government and the proceeds as received by selling Government guaranteed interest bearing debentures to different organisations. The second mode of funding has been unavailable in recent years. In the past, the HBFC funded its housing loans by issuing of low interest debentures bought by the SCBs and the Bangladesh Bank. Though in FY04, the corporation got approval from the Government to sell debenture amounting Taka 1.0 billion, but till today it could not sell them. So, sufficient surplus cash fund could not be generated from the Corporation's own cash in-flow after payments of debenture installments, Government debts, operational expenses and income tax. The HBFC has been constrained

**Table 7.13 Outstanding housing loans**

(billion Taka)			
Lenders	Outstanding as of end June		
	FY11	FY12	FY13 <sup>P</sup>
<b>a. Specialised housing</b>			
<b>finance providers</b>	48.3	51.3	55.4
i) HBFC	25.1	25.8	28.2
ii) Delta-Brac Housing			
Finance	20.7	23.1	24.4
iii) National Housing			
Finance	2.5	2.4	2.8
<b>b. Banks</b>	220.6	286.8	349.0
i) PCBs	147.6	191.8	229.8
ii) SCBs	53.0	63.4	73.1
iii) Other banks (foreign			
and specialised)	20.3	31.6	46.1
<b>c. Other financial institutions</b>	11.3	13.8	16.7
<b>d. Micro-credit lenders</b>			
Grameen Bank	0.09	0.06	0.04
<b>Total</b>	<b>280.3</b>	<b>352.0</b>	<b>421.1</b>
Sources: Department of Financial Institutions and Markets Statistics Department, Bangladesh Bank, and Grameen Bank. P= provisional.			

to rely on recoveries of past loans for new lending after defraying operating and debt servicing costs. Consequently, its new lending has been small. In FY12 and FY13, Taka 3.0 billion and Taka 4.3 billion were disbursed out of recoveries of Taka 4.2 billion and Taka 4.7 billion respectively.

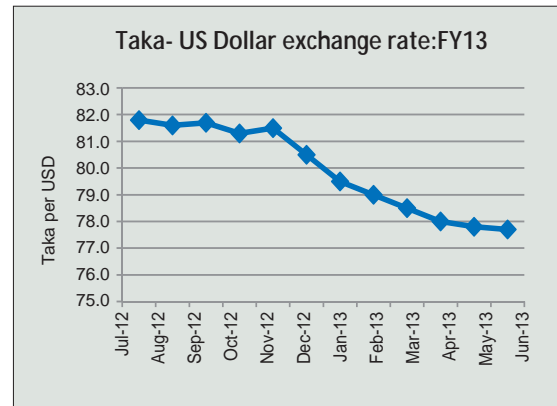
7.33 The Grameen Bank provides housing loans to its members in rural areas. Some NGOs also have small involvement in lending to housing. Out of funds, *Grihayan Tahbil* created by the Government of Bangladesh, which provides housing loan to the NGOs at the rate of 2.0 percent simple interest who in turn provides housing credit to the rural poor at the rate of 6.0 percent simple interest for a period up to 10 years. Up to June 2013, the *Grihayan Tahbil* has been released Taka 1.6

billion against allocation of Taka 3.0 billion through 523 NGOs for rural housing programme which have covered 450 upazilas of 64 districts of the country and 55978 houses have already been constructed. In addition, for the target people those are adversely affected by different natural calamities, Taka 0.1 billion has been released as grant as per decision by the authority concerned. As on June 2013, *Tahbil* has recovered Taka 1.1 billion against the total recoverable amount of Taka 1.2 billion and recovery rate is 88.5 percent. Since its beginning in FY98, the *Tahbil* received an amount of Taka 1.6 billion from the GoB up to end of June 2013.

### Foreign Exchange Market

7.34 Bangladesh floated its exchange rate for Taka with effect from 31 May 2003. Under this exchange rate regime, exchange rate is being determined on the basis of demand and supply of the respective currencies. Authorised Dealer banks are now free to set their own rates for interbank and customer

**Chart 7.6**



transactions. However, in order to achieve its monetary policy goal and to avoid undue volatility in the foreign exchange market, Bangladesh Bank closely monitors the market and, if necessary, engages in market interventions.

7.35 In FY13, Taka experienced an appreciation of 5.2 percent against US dollar compared to 10.0 percent depreciation in FY12. The weighted average inter-bank rate stood at Taka 77.8 per USD as of 30 June 2013 against Taka 81.8 per USD as on 30 June 2012.