

## Financial Markets

8.1 Bangladesh Bank continued its effort to develop a well-functioning financial market and maintaining its stability during FY15.

### Money Market

#### Call Money Market FY15

8.2 The banks including financial institutions maintained steady path in terms of interest rate throughout the year. 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. BB's prudential policy measures resulted stable weighted average interest rate in the call money market ranging from 5.8 percent to 8.6 percent during FY15 (Table 8.1 and Chart 8.1.). During the same year the average volume of trade in the call money market decreased by Taka 271.41 billion which was 18.9 percent lower than that in FY14. Both the volume of transaction and the weighted average interest rate in the call money market remained within the reasonable band with a declining trend in the 4th quarter of the year.

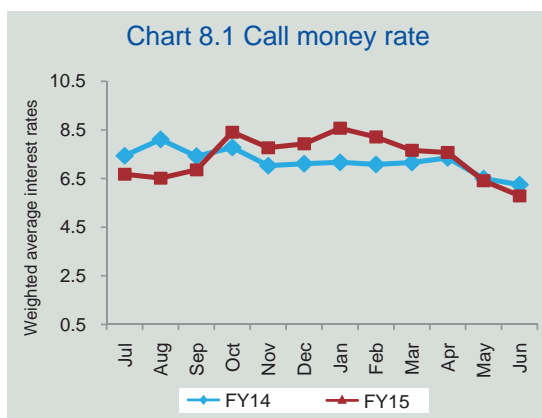
#### Repo Auctions - FY15

8.3 A repo deal is one where Primary Dealers (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

**Table 8.1 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 (%)
	FY14		FY15	
July	1640.98	7.44	1166.50	6.68
August	1066.39	8.11	1255.90	6.52
Sept.	1654.45	7.42	1569.31	6.86
Oct.	1532.19	7.78	1354.42	8.41
Nov.	1620.51	7.03	1381.52	7.77
Dec.	1565.09	7.11	1164.82	7.93
Jan.	1497.71	7.17	1242.59	8.57
Feb.	1477.28	7.08	1164.49	8.21
March	1403.11	7.16	1030.09	7.66
April	1362.92	7.35	859.14	7.57
May	1015.98	6.50	846.34	6.41
June	1408.72	6.25	953.3	5.79
<b>Average</b>	<b>1437.11</b>	<b>7.20</b>	<b>1165.70</b>	<b>7.37</b>

Source: Debt Management Department, Bangladesh Bank.



to maintain their very short term exposure. The rate of interest for repo, special repo and Liquidity Support Facility (LSF) remained unchanged at 7.25 percent, 10.25 percent and 7.25 percent respectively for 1-2 day tenor in FY15. Special repo rate is higher due to particular need of liquidity of the banks. In this

**Table 8.2 Repo auctions-FY15**

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)	
182	1-Day/2-Day	2304	3487.13	2304	3484.53	7.25-10.25
	3-Day/7-Day	679	1110.07	679	1108.87	7.25-10.25
	<b>Total</b>	<b>2983</b>	<b>4597.20</b>	<b>2983</b>	<b>4593.40</b>	<b>7.25-10.25*</b>

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

regard, banks apply for funds late hour usually after 2.0 PM in a business day. BB keeps this window open for the banks to maintain the liquidity at a desired level and to maintain a cautious stance of monetary policy.

It, therefore, encourages borrowing from the market first with a view to maintaining its lender of last resort (LOLR) stance. In FY15, the banks were provided a reasonable amount of repo funds through daily repo auctions.

8.4 A total of 182 repo auctions (including special repo and LSF auctions) were held during FY15. In all 2983 bids for Taka 4597.20 billion were received of which Taka 4593.40 billion were accepted. During FY14 a total 2102 bids for Taka 4352.95 billion were received, of which Taka 4258.33 billion were accepted. The volume of accepted bids increased by 7.87 percent during the FY15 (Table 8.2). The range of interest rate against the accepted bids was 7.25-10.25 percent per

annum in FY15, which was 7.25-10.75 percent per annum in the previous year too.

### Reverse Repo Auctions - FY15

8.5 In the operation of reverse repo deal, money is moped up from the banks to BB. 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 keep up reserve money and money multiplier on track. A total of 229 daily reverse repo auctions were held in FY15. In all 1027 bids of 1-2 day and 273 bids of 3-7 day tenors for a total of Taka 5477.62 billion were received and all the bids were accepted. During FY14, bids for 2444.36 billion were received and all the bids were accepted. The interest rate against the accepted bids was 5.25 percent per annum during FY15 (Table 8.3).

### Bangladesh Bank Bill

8.6 Operations of Bangladesh Bank Bill continued in FY15 as a tool of Open Market

**Table 8.3 Reverse repo auctions-FY15**

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)	
229	1-Day/2 Day	1027	4380.24	1027	4380.24	5.25
	3-Day/7 Day	273	1097.38	273	1097.38	5.25
	<b>Total</b>	<b>1300</b>	<b>5477.62</b>	<b>1300</b>	<b>5477.62</b>	<b>5.25*</b>

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

**Table 8.4 Auctions of Bangladesh Bank Bill - FY15**

Tenor of bills	Bids offered		Bids accepted		Outstanding bills as of end June, 15 (billion Taka)	Weighted average yield (WAR) range* (%)	
	No.	Face value (billion Taka)	No.	Face value (billion Taka)		FY14	FY15
	30-Day	194	168.63	194		168.63	14.43
<b>Total</b>	<b>194</b>	<b>168.63</b>	<b>194</b>	<b>168.63</b>	<b>14.43</b>	<b>5.30-7.70</b>	<b>5.24-6.00</b>

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

Operation (OMO) to sterilise and maintain liquidity of the banking system effectively. With a view to maintain stable interest rate and exchange rate position, BB prudently applies this instrument as and when required. The results of Bangladesh Bank bill auctions in FY15 are shown at Table 8.4.

### Government Securities Market

#### Government Treasury Bills Auctions

8.7 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 mainly for debt management purposes. 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 secondly managing excess liquidity prevailing in the market. In FY15, among 15 Primary Dealers (PDs), three non banks financial institutions did not act as PD. 12 PDs acted as underwriters and market makers with commitments to bid in auctions. Effective from August 2012 BB introduces new underwriting obligations and mandatory allocation for 12 PD banks and 25 non PD banks in auction of

government treasury bills and bonds. According to the revised auction procedure 12 PD banks will accept 60 percent and 25 non PD banks will accept 40 percent of the unsubscribed amount of auction considering their total demand and time liabilities (TDTL). Among 60 percent of the notified amount, 50 percent will be distributed among 12 PD banks according to TDTL and rest 50 percent will be distributed equally. In addition to the 12 PDs, eight new banks are also now acting as PD assuming fixed underwriting obligation.

8.8 Weekly auctions of 91-day, 182-day and 364-day treasury bills were also continued as main instruments for debt management of the Government during the year under report. The results of these treasury bills auctions in FY15 are summarised in Table 8.5. The auctions of 91-day, 182-day and 364-day's tenor bills were under-subscribed. Subsequently, devolvement amount to PDs and non PDs/ Bangladesh Bank decreased as compared to FY14. The weighted average yield of most of the treasury bills decreased during FY15.

8.9 Depending on the liquidity conditions in the money market, the weighted average yields of treasury bills of different maturities varied within modest ranges. The yields for various tenors as of end of June 2015 depicted somewhat a minimum range than the yields as of end of June 2014.

**Table 8.5 Auctions of Government Treasury Bills - FY15**

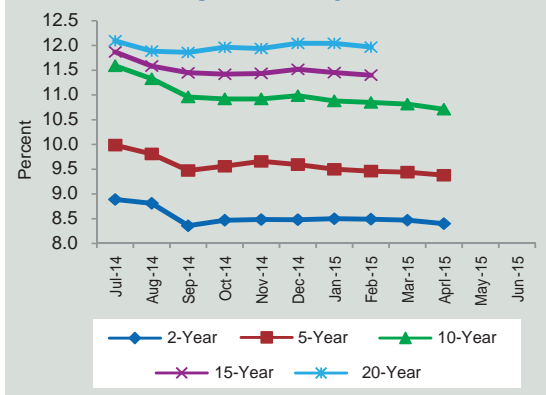
Tenor of bills	Bids offered		Bids accepted		Outstanding bills as of end June 15 (billion Taka)	Weighted average yield (WAR) range* (%)	
	No.	Face value (billion Taka)	No.	Face value (billion Taka)		FY14	FY15
91-Day	1527	778.47	487	346.33	78.13	6.82-8.68	5.37-7.77
182-Day	1074	412.01	432	166.40	79.00	7.43-10.24	6.31-8.08
364-Day	999	410.65	381	161.12	173.83	7.68-10.60	6.53-8.31
Devolvement to BB/PDs and non PDs				68.10			
<b>Total</b>	<b>3600</b>	<b>1601.13</b>	<b>1300</b>	<b>741.95</b>	<b>330.96</b>	<b>6.82-10.60</b>	<b>5.37-8.31</b>

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

8.10 During FY15, a total of 3600 bids amounting to Taka 1601.13 billion were received, of which 1300 bids amounting to Taka 741.95 billion (including Taka 68.10 billion as devolved amount) were accepted. The weighted average yield-to-maturity against the accepted bids ranged from 5.37 to 8.31 percent. In FY14, a total of 3784 bids amounting to Taka 1755.84 billion were received, of which Taka 865.77 billion was accepted.

### Bangladesh Government Treasury Bonds (BGTBs) Auctions

8.11 Treasury Bonds, bearing half yearly interest coupons with tenors of 2-year, 5-year, 10-year, 15-year and 20-year are auctioned in every month following preannounced auction calendar prepared by BB and Ministry of Finance considering liquidity and macroeconomic indicators. In order to improve liquidity and assets- liabilities matching, auction of 2-year BGTB has been started auction as new instrument since 28 May 2013. The BGTB auction committee determined cut-off coupon rate which is used for bond pricing. The lowest yield rate bidders are needed to deposit premium amount to the BB in view of face value. Banks are eligible to use government treasury bills and BGTBs for statutory liquidity requirement (SLR) purpose in the form of held to maturity (HTM) and held

**Chart 8.2 Weighted average yield of BGTB in FY15**

for trade (HFT). HTM securities amortised at the end of the year to converge face value and HFT securities values are amortised weekly following marking to market method. These bills and bonds are eligible for secondary trading. 46 auctions of these instruments were held in FY15. A total of 1586 bids for Taka 414.81 billion were received and 480 bids for Taka 170.26 billion were accepted, of which Taka 20.87 billion was devolved on BB/PDs and non PDs. The amount of outstanding bonds increased by 12.32 percent from Taka 1026.27 billion at the end of June 2014 to Taka 1152.73 billion at the end of June 2015.

8.12 The weighted average yield-to-maturity for the treasury bonds ranged from 8.3594 percent to 12.0938 percent in FY15. The

**Table 8.6 Auctions of Bangladesh Government Treasury Bonds - FY15**

Tenor of bonds	Bids offered		Bids accepted		Outstanding bonds as of end June, 15 (billion Taka)	Yield range *(%)
	Number	Face value (billion Taka)	Number	Face value (billion Taka)		
2-Year Devolvement to BB/PDs and non PDs	300	85.35	88	34.99	97.06	8.3594-8.8896
5-Year Devolvement to BB/PDs and non PDs	378	116.71	151	49.40	324.20	9.3801-9.9871
10-Year Devolvement to BB/PDs and non PDs	440	131.70	141	40.28	440.44	10.7128-11.5898
15-Year Devolvement to BB/PDs and non PDs	225	41.27	44	12.82	157.16	11.4000-11.8700
20-Year Devolvement to BB/PDs and non PDs	243	39.78	56	11.90	133.87	11.8608-12.0938
<b>Total</b>	<b>1586</b>	<b>414.81</b>	<b>480</b>	<b>170.26</b>	<b>1152.73</b>	<b>8.3594-12.0938@</b>

\* Range of the weighted average annual yield of the accepted bids.  
 @ Weighted average annual yield of treasury bonds of different terms.  
 Source: Monetary Policy Department, Bangladesh Bank.

weighted average yield of treasury bonds decreased during the period (Table 8.6). The movements of the weighted average yield-to-maturity of all the treasury bonds are depicted in the chart 8.2.

8.13 It is mentionable that in FY14, bids for a total of Taka 461.87 billion were received and Taka 221.50 billion was accepted of which Taka 46.43 billion was devolved on BB/PDs and non PDs. The overall weighted average yield-to-maturity ranged from 8.5206 percent to 12.4800 percent in FY14.

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

8.14 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. Virtually government does not borrow money from this sector. 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

**Table 8.7 Bangladesh Government Islamic Investment Bond**

Particulars	(billion Taka)		
	FY13	FY14	FY15
i. Sale	107.13	121.34	135.84
ii. Financing	67.78	24.37	25.40
iii. Net outstanding	39.35	96.97	110.44

Source: Motijheel Office, Bangladesh Bank.

**Table 8.8 Disbursement & recovery of industrial term loans of banks and financial institutions**

Particulars	(billion Taka)		
	FY14	FY15	% Change
Disbursement	423.1	597.8	41.3
Recovery	418.0	475.4	13.7
Outstanding (end June)	841.1	1073.2	27.6

Source: SME and Special Programmes Department, BB.

Islamic Investment Bond (Islamic Bond) were introduced in FY05. It may be noted that 3-month Bangladesh Government Islamic Investment Bond has been introduced since 1 January 2015. This Government Bond is being operated in accordance with the rules of 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 of June 2015, the total

sale against this bond amounted to Taka 135.84 billion while balance of total amount of financing stood at Taka 25.40 billion and the net outstanding against the bond stood at Taka 110.44 billion. As of end of June 2014, the total sale against this bond was Taka 121.34 billion while the balance of total financing of Taka 24.37 billion and the net outstanding of Taka 96.97 billion. The overall transaction of this bond is summarised in Table 8.7.

## Capital Market

### Investment Financing in Bangladesh

8.15 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.

8.16 The amount of industrial term loans disbursed by banks and financial institutions stood at Taka 597.8 billion (Table 8.8), many-fold higher than the amount of Taka 7.3 billion raised by new capital issues through private placements and public offerings in the capital market in FY15. This indicates an overwhelming preference of bank finance in industrial investment financing.

8.17 The DSE broad index and the market capitalisation of Dhaka Stock Exchange Limited (DSE) were quite stable during July 2014 to February 2015.

The market behaviour was hampered during the second and third quarter of FY15 for a short period of time due to political unrest in the country. The DSEX and the market

capitalisation declined to Taka 4047.29 billion and Taka 2973.47 billion respectively at the end of April 2015 from Taka 4864.96 billion and Taka 3259.25 billion in December 2014. However, the market became stable at the end of FY15 as a result of some effective measures taken on the capital market. Bangladesh Bank proactively played a role to stabilise the capital market since the major debacle of 2010.

8.18 DSE launched the new trading system X-stream INET Matching Engine and DSE FlexTP Order Management System (OMS) on 11 December 2014. It inaugurated the Demonstration Programme of New Book Building Software and Data Transmission Software for New Public Issue Application Processes on 12 March 2015. DSE became an Affiliated Member of the World Federation of Exchanges (WFE) on 3 March 2015. Dhaka Stock Exchange (Listing) Regulations, 2015 was approved by the Bangladesh Securities and Exchange Commission on 30 June 2015 and the gazette was published on 12 July 2015. Market lot of shares have been converted to same number, 1 (one) for all listed companies in DSE from various market lots on 11 December 2014. So, now investors can buy or sell any number of shares in the secondary market of DSE & CSE.

### Capital Market Activities in FY15

#### Primary Issuance

8.19 21 companies raised new equity of Taka 7.3 billion in the capital market in FY15, higher than Taka of 6.6 billion raised by 12 companies in FY14. Of the new equity issued, Taka 1.7 billion rose through private placements and Taka 5.6 billion raised



through public placements. In FY14, equity issued through private and public placements were Taka 2.4 billion and Taka 4.2 billion respectively.

8.20 The volume of public offerings in FY15 was oversubscribed more than two times indicating a shortage of new securities in the primary market. Bonus shares worth of Taka 26.6 billion were issued by 130 companies against retained profits in FY15. This was lower than Taka 31.1 billion issued by 137 companies in FY14. On the other hand, right shares worth of Taka 6.0 billion were issued by five companies in FY15 which was higher than Taka 4.3 billion issued by six companies in FY14.

### Secondary Market Activities

8.21 As a percent of total market capitalisation, the manufacturing sector dominated the secondary market with 40.70 percent share, followed by the services and miscellaneous sector (36.08 percent), financial sector (23.0 percent) and corporate bonds (0.02 percent) at the end of FY15. In the DSE, market capitalisation inclusive of new issues increased by 10.3 percent to Taka 3247.3 billion or 21.5 percent of GDP (at current market price) at the end of FY15 from Taka 2943.2 billion at the end of FY14 (Chart 8.3). In the CSE, it increased by 13.2 percent to Taka 2588.1 billion or 17.1 percent of GDP at the end of FY15. However, the amount of turnovers in the secondary market decreased by 0.2 and 5.6 percent respectively in DSE and CSE in FY14. DSE broad index (DSEX) and CSE all-share price index also increased by 2.3 and 2.4 percent to 4583.1 and 14097.2 respectively in FY15 (Table 8.9 and 8.10).

Chart 8.3 Trends in market behaviour of DSE

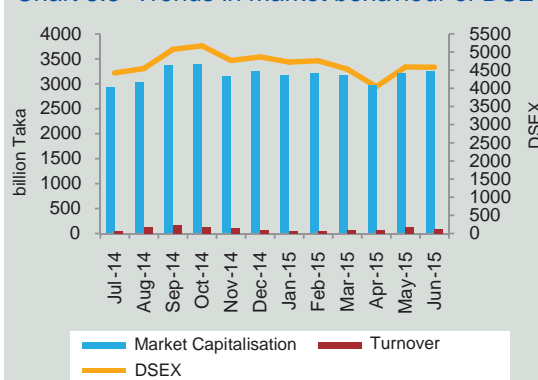


Table 8.9 Dhaka Stock Exchange (DSE) activities

Particulars	End June		
	FY13	FY14	FY15
No. of listed securities*	525	536	555
Issued equity and debt* (billion Taka)	983.6	1032.1	1092.0
Equity through private placement & IPOs (billion Taka)	12.2	6.6	7.3
Market capitalisation (billion Taka)	2530.2	2943.2	3247.3
Turnover in value (billion Taka)	857.1	1125.4	1123.5
Turnover in volume (no. in billion)	21.6	24.3	26.6
General Index / DSE Broad Index (DSEX) <sup>@</sup>	4104.7	4480.5	4583.1

\* = including companies, mutual funds, debentures and Government Treasury Bonds.  
 @ = DSE introduced the benchmark DSE broad index (DSEX) designed & developed by S&P Dow Jones from 28 January 2013. DSE general index has been phase out from the market on 1 August 2013.  
 Source: Dhaka Stock Exchange.

Table 8.10 Chittagong Stock Exchange (CSE) activities

Particulars	End June		
	FY13	FY14	FY15
No. of listed securities*	266	276	292
Issued equity and debt* (billion Taka)	428.6	470.7	529.8
Market capitalisation (billion Taka)	1919.9	2286.7	2588.1
Turnover in value (billion Taka)	102.0	102.2	96.5
Turnover in volume (no. in billion)	2.8	2.7	2.7
All-share Price Index	12738.2	13766.2	14097.2

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

### Non-resident Portfolio Investment

8.22 Gross investment inflow in shares and securities of the stock exchanges by non-residents through Non-resident Investor Taka Account (NITA) increased to Taka 47.8 billion in FY15 from Taka 41.3 billion in FY14. Gross investment outflow as repatriation of sale proceeds also increased to Taka 28.6 billion in FY15 from Taka 14.5 billion in FY14. From the beginning (April 1992) to June 2015, the gross investment inflow stood at Taka 176.5 billion against gross outflow as repatriation of sale proceeds of Taka 116.7 billion.

### Activities of the Investment Corporation of Bangladesh

8.23 The Investment Corporation of Bangladesh (ICB) has been established with the aim of accelerating the pace of industrialisation and developing a well organised & vibrant capital market particularly securities market in Bangladesh. ICB's capital market development programme activities have 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. (ISTCL). During FY15, total investment made against the investors' accounts stood at Taka 8.0 billion while deposit stood at Taka 0.6 billion. The IAMCL emerged as one of the fast expanding asset management company of the country. Up to end June 2015, the company floated 10 closed-end and five open-end mutual funds. Besides, the company floated various regular and special types of mutual funds. The net investment in portfolios of 15 mutual funds of the company stood at Taka 34.9 billion and the market value stood at Taka 27.3 billion. The ISTCL emerged as the largest stockbroker in the country handling total

turnover worth Taka 119.8 billion in FY15 which was 9.8 percent of total turnover of both DSE and CSE. The parent ICB itself sold unit certificates amounting Taka 1.9 billion against repurchase of unit certificates amounting Taka 0.3 billion in FY15. ICB received deposits of Taka 0.9 billion and approved loans of Taka 11.6 billion in investment accounts of investors in FY15. Total commitments for investment made by the ICB in FY15 stood at Taka 28.5 billion of which investment in equity was Taka 0.5 billion and purchase of debentures was Taka 0.1 billion. The total amount of commitments was Taka 28.8 billion in FY14.

### Scheduled Banks Investments in Capital Market Securities

8.24 Holdings of capital market assets (equities, debenture) excluding investment on Bangladesh Government Islamic Investment Bond (BGIIB) by scheduled banks stood at Taka 202.1 billion as of end of June 2015 as against Taka 169.0 billion as of end of June 2014. Outstanding advances of scheduled banks against shares and securities amounted to Taka 30.4 billion as of end of June 2015, which was Taka 30.7 billion as of end of June 2014.

### Measures Supporting Capital Market Development

8.25 The Securities and Exchange Commission (SEC) undertook several measures to protect investor's interest and strengthen the capital market during FY15. Some important measures are as follows:

- 156 market intermediary institutions have been given registration certificates (with renew).
- An order was issued regarding maintaining of provision against the unrecovered



losses due to revaluation in the portfolios of stock broker/stock dealer and merchant bankers on 12 January 2015.

- Ten percent gain tax on profit from the investment in capital market by foreign institutions and non-resident Bangladeshi has been withdrawn.
- The rate of source income tax as brokerage commission on the traded value of buying and selling shares has been reduced to 0.05 percent from 0.10 percent.
- A report has been finalised in order to develop the risk management regarding Risk Based Supervision and Risk Based Capital of market intermediaries.
- With a view to ensuring more transparency of the audit activities of the enlisted companies, a guideline has been formulated to include in the panel of auditors.

8.26 The measures declared in the national budget of FY16 in support of further development of the capital market include:

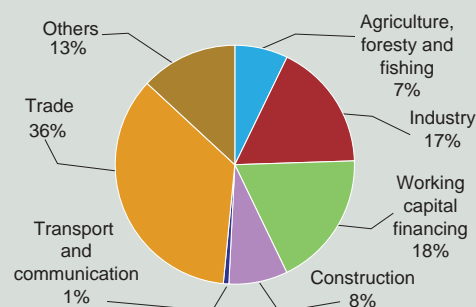
- With a view to attract more companies in the capital market for its continual expansion and strengthening, government has proposed to decrease tax rate from 42.5 percent to 40.0 percent for publicly traded banks, insurance and financial institutions.
- At the same time, the government has also proposed to decrease tax rate from 27.5 percent to 25.0 percent for publicly traded companies.
- Government has proposed to fix the threshold of tax exemption of dividend income distributed only by listed

**Table 8.11 Advances of scheduled banks by economic purposes** (billion Taka)

Sector	End June		
	FY14	FY15 <sup>P</sup>	% change
1. Agriculture, forestry and fishing	259.5	398.1	53.4
2. Industry	793.9	959.3	20.8
3. Working capital financing	859.7	1018.6	18.5
4. Construction	407.3	440.4	8.1
5. Transport & communication	53.1	41.2	-22.4
6. Trade	1849.2	1961.3	6.1
7. Others	473	725.4	53.4
<b>Grand Total</b>	<b>4695.7</b>	<b>5544.3</b>	<b>18.1</b>

Source: Statistics Department, Bangladesh Bank. P = Provisional

**Chart 8.4 Sectoral shares of total advances: FY15**



companies to Taka 25 thousand instead of existing provision of Taka 20 thousand by any company.

- Withdrawal of the existing provision of 10 percent deduction at source on income from share market by any company or partnership firm.
- It is proposed to withdraw the provision of deducting the tax at source at the rate of 5 percent on the interest of Treasury Bond and Treasury Bill at the time of purchasing the same under section 51 for the development of Bond Market.
- Besides, under section 46B, tax holiday in some cases has been extended up to

**Table 8.12 Industrial term loans of banks and financial institutions**

Lender	(billion Taka)									
	Disbursement		Recovery		Outstanding		Overdue		Overdue as % of outstanding	
	FY14	FY15	FY14	FY15	FY14	FY15	FY14	FY15	FY14	FY15
SCBs	13.9	30.8	29.6	23.0	194.7	225.6	31.6	37.5	16.2	16.6
PCBs	325.2	462.9	316.1	357.7	593.6	774.0	50.5	68.5	8.5	8.9
Foreign banks	12.8	16.3	14.8	18.8	21.9	17.8	1.7	2.3	7.8	13.2
Specialised banks/DFIs* (BDBL, BKB, RAKUB, BASIC)	13.2	10.5	9.0	23.8	53.9	49.8	17.2	27.9	31.9	56.0
Financial institutions	58.0	77.3	48.5	52.1	139.8	164.3	8.2	12.0	5.9	7.3
<b>Total</b>	<b>423.1</b>	<b>597.8</b>	<b>418.0</b>	<b>475.4</b>	<b>1003.9</b>	<b>1231.4</b>	<b>109.2</b>	<b>148.2</b>	<b>10.9</b>	<b>12.0</b>

\* BDBL & BASIC are categorised as SCBs in FY15.

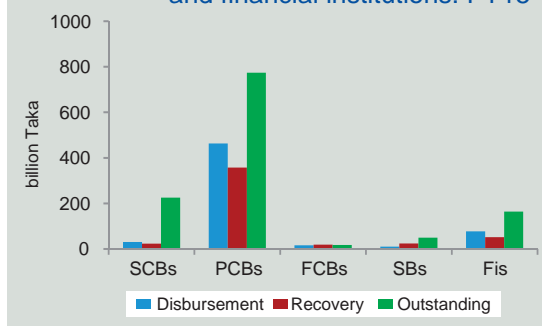
Source: SME and Special Programmes Department, Bangladesh Bank.

June 2019 and [para 33, Part-A, Sixth Schedule], tax exemption applicable to ICT company has been extended from June 2019 to June 2024.

## Credit Market

### Advances of Scheduled Banks by Economic Purposes

8.27 Most of the advances of scheduled banks by economic purposes showed an upward trend during FY15 (Table 8.11). Total advances of scheduled banks by economic purposes stood at Taka 5544.3 billion at the end of June 2015 which was 18.1 percent higher than the total advances of Taka 4695.7 billion at the end of June 2014. In recent years, significant changes have been taken place in the trends in total bank advances classified by economic purposes. Of the total advances, agriculture, fishing and forestry sector increased significantly (53.4 percent) followed by industry sector (20.8 percent), working capital financing sector (18.5 percent), construction sector (8.1 percent), trade sector (6.1 percent), and other sector (53.4 percent), while advances to transports and communication sector decreased by 22.4 percent in FY15 compared to FY14. Sector-wise contribution of total advances shows that

**Chart 8.5 Industrial term loans of banks and financial institutions: FY15**

the trade sector played the main role (36.0 percent) followed by working capital financing sector (18.0 percent), advances for industry sector (17.0 percent), construction sector (8.0 percent), agriculture, fishing and forestry sector (7.0 percent), transport and communication sector (1.0 percent) and other sectors (13.0 percent) in FY15. Sector-wise contribution of total advances is reported in Chart 8.4.

### Industrial Term Loans of Banks and Financial Institutions

8.28 Disbursement of industrial term loans by banks and financial institutions increased by 41.3 percent to Taka 597.8 billion. However, the recoveries increased by 13.7 percent to Taka 475.4 billion in FY15. The

outstanding loans showed a positive growth of 22.7 percent and stood at Taka 1231.4 billion as of end of June 2015. However, the overdue loan increased by 35.7 percent in FY15 and it as a percent of outstanding loan increased to 12.0 as of end of June 2015 (Table 8.12).

8.29 Private commercial banks (PCBs) had the major shares (62.9 percent) of the total Taka 1231.4 billion outstanding loans as of end of June 2015, making them major players in industrial term lending (Table 8.12 and Chart 8.5). Though six SCBs and two specialised banks together had 22.4 percent shares of outstanding loans, but with a very high level of overdue loans, their actual role in current lending was quite minor, as they disbursed only Taka 41.3 billion (6.9 percent) out of total Taka 597.8 billion in FY15. In case of disbursement, PCBs had the major share holders (Taka 462.9 billion) in FY15, followed by financial institutions (Taka 77.3 billion), SCBs (Taka 30.8 billion), foreign banks (Taka 16.3 billion) and two specialised banks (Taka 10.5 billion).

8.30 The NBFIs had very low overdue loans (7.3 percent of outstanding loans) as of end of June 2015. Overdue loans were also low for private commercial banks (8.9 percent) and foreign banks (13.2 percent). Overdue loans of the specialised banks and the SCBs were very high (56.0 and 16.6 percent respectively) as of end of June 2015.

8.31 Since BKB and RAKUB are agriculture sector lenders, they have insignificant role in industrial term lending.

### **Investment Promotion and Financing Facility (IPFF)**

8.32 "Investment Promotion and Financing Facility (IPFF) Project" is an on-lending

based Technical Assistance (TA) project which is formed to supplement the resource of the Bangladesh financial markets to provide long term finance for infrastructure and other investment projects and to promote the role of private sector entrepreneurs in the development of capital projects, specially infrastructure. The project with two phases has been implemented so far by BB. Under IPFF, Government approved private infrastructure development projects implementing on Public-Private Partnership (PPP) basis have been financed through selected participating financial institutions (PFIs). Infrastructure development projects, power, services, industry and social sectors are considered eligible for IPFF financing. At least 25 percent of 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 in the second phase. 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 year tenure starting from January 2007 to December 2011. IPFF 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 2015.

It is worth mentioning here that 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. All the power plants are contributing power to the national grid.

Under the second phase of IPFF, USD 171.1 million was disbursed for three central water treatment plants, an inland container depot, a nationwide fibre optic cable installation project and four power generation projects having capacity of 356 MW till June 2015.

### Equity and Entrepreneurship Fund (EEF)

8.33 Equity and Entrepreneurship Fund (EEF) was formed by the Government with budgetary allocation of Taka 1.0 billion in FY01 to encourage investments in the risky but prospective agro-based/food processing and IT sector projects. A sub agency agreement regarding the transfer of operational activities of EEF was signed on 1 June 2009 between Bangladesh Bank (BB) and ICB. Under this agreement ICB 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 18.3 billion has been released to the fund out of total budgetary allocation of Taka 30.0 billion in different fiscal years. Up to 30 June 2015 with the project cost of Taka 66.8 billion, a total of 1726 projects (including 1621 agro-based/food processing projects and 105 IT projects) got EEF sanction at different stages of disbursement. Cumulative equity disbursement stood at Taka 11.5 billion at the end of FY15 against total fund disbursement of Taka 18.3 billion from the Government. Till now, 127 EEF supported companies have availed share buy-back facilities partially or fully to the tune of Taka 1.8 billion. Employment opportunity has been created for 40,600 people in the EEF assisted projects. World class softwares developed under EEF assisted ICT projects are being used in the

**Table 8.13 Outstanding housing loans**

Lenders	Outstanding as of end June (billion Taka)		
	FY13	FY14	FY15 <sup>P</sup>
<b>a. Specialised housing</b>			
<b>finance providers</b>	55.2	59.4	63.6
i) HBFC	28.0	29.7	30.3
ii) Delta-Brac Housing			
Finance	24.4	26.4	28.7
iii) National Housing			
Finance	2.8	3.3	4.6
<b>b. Banks</b>	349.0	358.0	395.5
i) PCBs	229.8	231.8	266.0
ii) SCBs	73.1	95.6	108.5
iii) Other banks (foreign and specialised)	46.1	30.6	21.0
<b>c. Other financial institutions</b>	16.7	23.2	30.8
<b>d. Micro-credit lenders</b>			
Grameen Bank	0.04	0.04	0.02
<b>Total</b>	<b>420.9</b>	<b>440.6</b>	<b>489.9</b>

P= provisional.  
Sources: Department of Financial Institutions and Markets, Statistics Department, Bangladesh Bank, and Grameen Bank.

domestic market and these are being exported also.

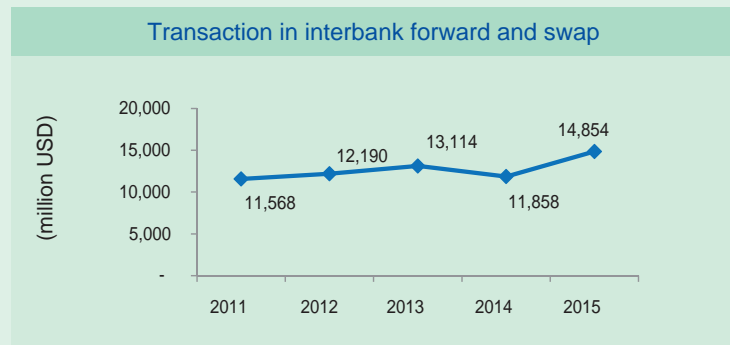
### Housing Finance

8.34 Total outstanding housing loans from banks and financial institutions as of end of June 2015 amounted to Taka 489.9 billion (Table 8.13), which was 8.8 percent of total credit to the private sector.

8.35 In recent years, significant changes have taken 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 the dominant market position (Table 8.13) with the largest amount of Taka 266.0 billion in outstanding housing loans as of end of June 2015. The SCBs had the second largest amount of Taka 108.5 billion and other banks had Taka 21.0 billion in outstanding

**Box 8.1****Financial Derivative Market of Bangladesh**

Financial market of Bangladesh is still in its nascent stage. In fact, no derivative security has been developed for the capital market. There are very few derivatives for the money/foreign exchange market. These are currency forward and swap, mainly, to hedge exchange rate risk and fund management respectively. However, interest rate swap and commodity hedging from abroad are also allowed subject to prior Bangladesh Bank permission against specific underlying transactions. Derivative transactions in foreign exchange are guided by country's foreign exchange regulations. Though a large number of deregulatory measures have been taken, capital account transactions are yet to be made convertible. Gradual and cautious steps for opening the external sector have benefitted us so far. Our foreign exchange and money market were unaffected during the last financial crisis due mainly to their limited integration with international market. The figure presented below depicts a very small volume with modest and stable growth of interbank derivative transactions (swap and forward) in USD over the last five calendar years (Source : FRTMD, BB).



Derivatives if well managed can contribute to a country's economic development by making various risks at minimal level. Due to the recent debacle in capital market, slow growing FDI, volatile international commodity market, scarcity of investment opportunities due to underdeveloped equity market, investors/other businessmen of Bangladesh are interested for innovative and versatile financial products such as derivatives for hedging and market expansion. Some studies have suggested that derivative securities can strengthen capital market of an emerging country like Bangladesh, both in terms of risk mitigation and creating alternative investment vehicles by reducing exchange rate and commodity price volatility. However, there are some prerequisites for setting up a derivative markets in Bangladesh. These include development of financial system, legal framework, customer awareness, stable exchange rate, foreign exchange liberalisation, efficient payment system with credibility and transparency, etc. Besides, a coordinated effort of Government and regulatory bodies (central bank, securities and exchange commission, tax authorities, etc.) is essential to develop a derivative market in Bangladesh.

housing loans as of end of June 2015. Besides, two private sector specialised housing finance companies also provide a significant amount of loan. They supply fund for their operations by taking long term deposits including some contractual deposit schemes.

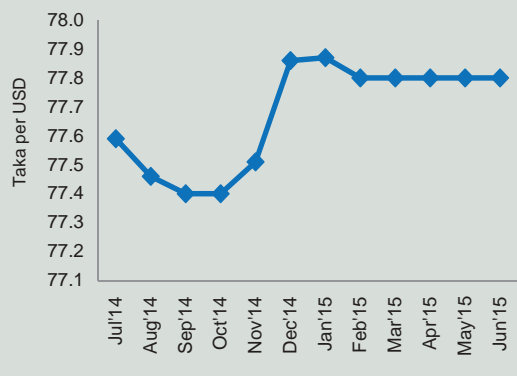
8.36 The state-owned House Building Finance Corporation (HBFC) had Taka 30.3 billion in outstanding housing loans as of end of June 2015. The sources of Corporation's fund are paid-up capital by the Government and the proceeds as received by selling Government guaranteed interest bearing

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 low interest debentures bought by the SCBs and the BB. The HBFC has been constrained to rely on recoveries of past loans for new lending after defraying operating and debt servicing costs. Consequently, its new lending amount has declined. In FY14 and FY15, Taka 3.9 and 2.7 billion were disbursed out of recoveries of Taka 4.6 billion and Taka 4.8 billion respectively.

8.37 Grihayan Tahbil created by the Government of Bangladesh, provide 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 for a recovery period up to 10 years. Up to June 2015, the Grihayan Tahbil released Taka 1.9 billion against allocation of Taka 2.9 billion through 513 NGOs for rural housing programme which covered 450 upazilas of 64 districts of the country and 61614 houses were constructed. As on end of June 2015, Tahbil recovered Taka 1.2 billion against the total recoverable amount of Taka 1.3 billion and recovery rate was 91.9 percent.

In addition, a dormitory/women hostel for the poor female workers is being constructed at Ashulia of Savar Upzilla under the supervision

**Chart 8.6 Taka-US Dollar exchange rate: FY15**



of the Department of Women Affairs at the cost of Taka 0.2 billion financed by Grihayan Tahabil where a total of 744 women workers will get the residence facility.

#### Foreign Exchange Market

8.38 Bangladesh Bank closely monitors the foreign exchange market to avoid undue volatility in the exchange rate. BB engages in market interventions if it deems necessary.

8.39 In FY15, Taka experienced a depreciation of 0.22 percent against US dollar compared to 0.18 percent appreciation in FY14 due mainly to BB's interventions in the foreign exchange market to maintain stability. The weighted average inter-bank rate stood at Taka 77.80 per USD as on 30 June 2015 against Taka 77.63 per USD as on 30 June 2014 (Chart 8.6).