

Financial Markets

8.1 Bangladesh Bank (BB) continued its efforts to maintain transparency and stability in financial market of the country during FY16. BB remained cautious about financial market development and reacted with its repo market operation to ensure soundness of its monetary policy stance. As a result of BB's proactive role money markets were stable and liquid with the spread of call money rate (with policy rate) evolving steadily around the policy repo rate.

Money Market

Call Money Market FY16

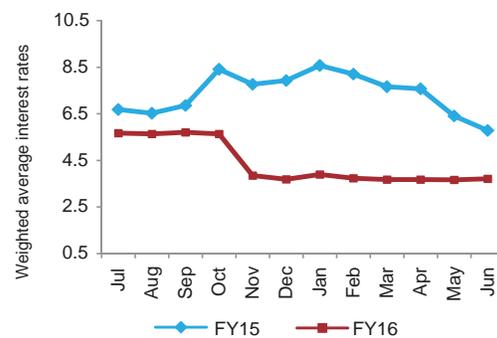
8.2 The money market in Bangladesh comprising banks and financial institutions passed through a steady growth path in FY16. BB provided repo, special repo and liquidity support facility (LSF) to the primary dealers (PDs) and non-PD banks against their holdings of eligible treasury bills and bonds. BBs prudential policy measures resulted in a stable weighted average interest rate in the call money market ranging from 3.67 percent to 5.71 percent with a minor fluctuations during FY16 (Table 8.1 and Chart 8.1.) During FY16 the monthly average volume of transaction in the call money market increased by Taka 43.58 billion which was 3.74 percent higher than that of FY15. Although the volume of transaction in the call money market was relatively low in the initial months but it steadily increased and weighted average interest rate showed a declining trend amid little fluctuations in FY16 and its

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 (%)
	FY15		FY16	
July	1166.50	6.68	852.12	5.67
August	1255.90	6.52	1101.97	5.63
September	1569.31	6.86	1140.00	5.71
October	1354.42	8.41	911.25	5.63
November	1381.52	7.77	1304.71	3.85
December	1164.82	7.93	1346.05	3.69
January	1242.59	8.57	1191.46	3.90
February	1164.49	8.21	1207.64	3.73
March	1030.09	7.66	1267.39	3.68
April	859.14	7.57	1250.74	3.68
May	846.34	6.41	1516.96	3.67
June	953.30	5.79	1421.10	3.71
Average	1165.70	7.37	1209.28	4.38

Source: Debt Management Department, Bangladesh Bank.

Chart 8.1 Call money rate



Source: Monetary Policy Department, Bangladesh Bank.

trend remained closely aligned to the policy repo rate.

Repo Auctions - FY16

8.3 Bangladesh Bank usually conducts various types of repo auctions to provide overnight liquidity facility to banks at a pre-

Table 8.2 Repo auctions in FY16

Total No. of auctions held during the year	Tenor	Bids received		Bids accepted		Interest rate of the accepted bids (%)
		Number of bids	Face value (billion Taka)	Number of bids	Face value (billion Taka)	
3	1-Day/2-Day	9	4.82	9	4.57	7.25-10.25
	10-Day	1	8.48	1	8.48	9.75
	Total	10	13.30	10	13.05	7.25-10.25*

* Overall interest rate range of different tenors.

Source: Monetary Policy Department, Bangladesh Bank.

determined policy rate as against the collateral face value of government treasury bills and bonds to maintain their instant liquidity requirements. Repo and reserve repo rates were reduced by 50 basis points and refixed at 6.75 percent and 4.75 percent respectively from 7.25 percent and 5.25 percent on 14 January 2016 while special repo rate remained unchanged at 9.75 percent for discouraging banks to borrow from BB and encouraging them to borrow from the market for achieving broad objective of monetary policy.

8.4 A total of three repo auctions (including special repo and LSF auctions) were held during FY16. In all 10 bids for Taka 13.30 billion were received, of which Taka 13.05 billion was accepted. During FY15 total 2983 bids for Taka 4597.20 billion were received, of which Taka 4593.40 billion was accepted. The volume of accepted amounts decreased by 99.72 percent during FY16 (Table 8.2). The

range of interest rate against the accepted bids was 7.25-10.25 percent per annum, which was same as previous fiscal year.

Reverse Repo Auctions - FY16

8.5 In line with the broad objective of monetary policy, Bangladesh Bank continues to mop up liquidity from the banks through the reverse repo auctions in order to keep up reserve money and money multiplier on track. In case of reverse repo, BB does not provide any collateral to the banks. A total of 215 daily reverse repo auctions were held in FY16. In total 1797 bids of 1-2 day and 472 bids of 3-7 day tenors for a total of Taka 14538.49 billion were received and Taka 11747.96 billion was accepted. During FY15 bids for Taka 5477.62 billion were received and all bids were accepted. The interest rate against the accepted bids was 5.25 percent which changed at 4.75 percent per annum since 14 January, 2016 (Table 8.3).

Table 8.3 Reverse repo auctions in FY16

Total no. of auctions held during the year	Tenor	Bids received		Bids accepted		Interest rate of the accepted bids (%)
		Number of bids	Face value (billion Taka)	Number of bids	Face value (billion Taka)	
215	1-Day/2 Day	1797	11482.89	1479	9263.59	5.25
	3-Day/7 Day	472	3055.60	401	2484.37	5.25
	Total	2269	14538.49	1880	11747.96	5.25*

* Overall rates of different tenors.

@ The current rate of reverse repo is 4.75 percent effective from 14 January 2016. But no bid was accepted at this rate in FY16.

Source: Monetary Policy Department, Bangladesh Bank.

Table 8.4 Auctions of Bangladesh Bank Bill in FY16

Tenor of bills	Bids offered		Bids accepted		Outstanding bills as of end June 2016 (billion Taka)	Weighted average yield (WAR) range* (%)	
	Number	Face value (billion Taka)	Number	Face value (billion Taka)		FY15	FY16
7-Day	438	1475.78	434	1473.68	27.80	-	2.87-2.97
14-Day	147	420.34	143	419.09	161.35	-	2.93-2.98
30-Day	1369	1958.45	1143	1683.40	74.63	5.24-6.00	2.60-5.25
Total	1954	3854.57	1720	3576.17	263.78	5.24-6.00	2.60-5.25

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

Bangladesh Bank Bill

8.6 Operations of 7-day and 14-day Bangladesh Bank Bill were introduced in April, 2016 and 30-day Bangladesh Bank Bill which revived in FY 09 was also continued in FY16 as a tool of Open Market Operations (OMOs) in order to effective management and sterilise liquidity of the banking system. With a view to maintaining stable interest rate and exchange rate, Bangladesh Bank vigorously used these instruments in FY16. The results of Bangladesh Bank Bill auctions in FY16 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 debt instruments 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 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 budget deficit and secondly managing excess liquidity prevailing in the market. In FY 16, out of total 15 Primary Dealers (PDs), a total of 12 PD banks 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

Table 8.5 Auctions of Bangladesh Government Treasury Bills in FY16

Tenor of bills	Bids offered		Bids accepted		Outstanding bills as of end June 2016 (billion Taka)	Weighted average yield (WAR) range* (%)	
	Number	Face value (billion Taka)	Number	Face value (billion Taka)		FY15	FY16
91-Day	1590	1066.55	382	312.20	83.00	5.37-7.77	2.43-5.56
182-Day	823	479.40	201	136.80	55.50	6.31-8.08	3.22-6.30
364-Day	799	368.10	295	122.94	129.50	6.53-8.31	3.74-6.67
Devolvement to BB/PDs and non PDs				16.06			
Total	3212	1914.05	878	588.00	268.00	5.37-8.31	2.43-6.67

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

Table 8.6 Auctions of Bangladesh Government Treasury Bonds in FY16

Tenor of bonds	Bids offered		Bids accepted		Outstanding bonds as of	
	Number	Face value (billion Taka)	Number	Face value (billion Taka)	end June 2016 (billion Taka)	Yield range *(%)
2-Year	498	171.13	141	50.84	98.06	4.1900-7.6205
Devovement to BB/PDs and non PDs				7.16		
5-Year	529	177.38	167	52.56	331.70	5.0443-8.5573
Devovement to BB/PDs and non PDs				7.44		
10-Year	541	166.44	163	51.21	490.97	5.9500-9.7511
Devovement to BB/PDs and non PDs				6.79		
15-Year	370	121.19	77	27.11	191.66	7.1848-10.0262
Devovement to BB/PDs and non PDs				7.39		
20-Year	432	141.12	118	29.69	164.87	7.5757-10.3548
Devovement to BB/PDs and non PDs				1.31		
Total	2370	777.26	666	241.50	1277.26	4.1900-10.3548[@]

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

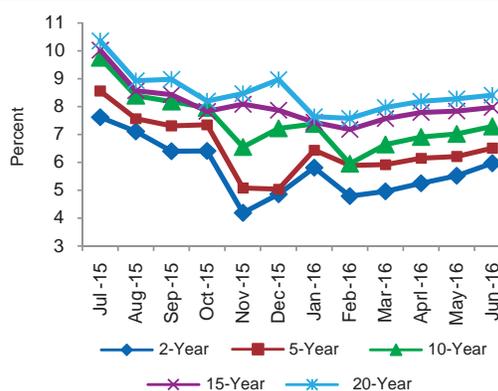
@ Weighted average annual yield of treasury bonds of different terms.

Source: Monetary Policy Department, Bangladesh Bank.

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). Of 60 percent of the notified amount 50 percent will be distributed among 12 PD banks according to TDTL and the rest 50 percent will be distributed equally. In addition to the 12 PD banks, currently eight new banks are also acting as PD assuming fixed underwriting obligations. Apart from that, the auction committee may also devolve the unsubscribed amount to Bangladesh Bank considering the auction rate, market timing and macroeconomic situation.

8.8 Weekly auctions of 91-day, 182-day and 364-day treasury bills were continued to use those as the main instruments for debt management of the Government in FY16. The results of treasury bills auctions in FY16 are summarised at Table-8.5. The range of annual weighted average yields of most of the treasury bills sharply decreased in FY16 as compared to FY15 due mainly to an existence

Chart 8.2 Weighted average yield of BGTB in FY16



Source: Monetary Policy Department, Bangladesh Bank.

of excess liquidity situation in the market while Government's borrowing from the banking system was very low.

8.9 A total of 3212 bids amounting to Taka 1914.05 billion were received, of which 878 bids amounting to Taka 588.00 billion (including Taka 16.05 billion as devolved amount) were accepted. The weighted average yield-to-maturity against the accepted bids ranged from 2.43 percent to 6.67 percent. In FY15 a total of 3600 bids

amounting to Taka 1601.13 billion were received, of which Taka 741.95 billion was accepted.

Bangladesh Government Treasury Bonds (BGTBs) Auctions

8.10 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 a pre-announced auction calendar prepared by Bangladesh Bank in collaboration with the Ministry of Finance of the Government of the People's Republic of Bangladesh considering liquidity situation and status of macroeconomic indicators. In order to improve liquidity and assets-liabilities matching the auction of 2-year BGTB started since 28 May 2013.

8.11 The BGTB auction committee determined cut-off coupon rate used for bond pricing. 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 for trade (HFT). HTM securities are amortised in order to converge at face value and HFT securities are traded following marking to market method. This bills and bonds are eligible for trading in the secondary market. Forty eight (48) auctions of these instruments were held in FY16. A total of 2370 bids for Taka 777.26 billion were received and 666 bids for Taka 241.50 billion were accepted, of which Taka 30.09 billion was devolved on BB, PDs and non PDs. The amount of outstanding bonds was increased by 10.80 percent from Tk. 1152.73 billion at the end of June 2015 to Taka 1277.26 billion at the end of June 2016.

8.12 The weighted average annual yield-to-maturity for the treasury bonds ranged from 4.1900 percent to 10.3548 percent in FY16. The summary of auctions of Bangladesh Government Treasury Bonds during FY16 is given at Table 8.6. The movements of the weighted average annual yield-to-maturity of all the treasury bonds are depicted in the Chart 8.2 which shows a declining trend in FY16.

8.13 It is mentionable that in FY15, bids for a total of Taka 414.81 billion were received and Taka 170.26 billion was accepted, of which Taka 20.87 billion was devolved on BB/PDs and non PDs. The overall weighted average yield-to-maturity ranged from 8.3594 percent to 12.0938 percent in FY15.

Bangladesh Government Islamic Investment Bond (Islamic Bond)

8.14 The Government issues bond as guarantee against the pool of funds formed by the Islamic banks and individuals in order to develop money market for smooth liquidity management of Islamic banks. Virtually the 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 respective Islamic bank. The operations of 6-month Bangladesh Government Islamic Investment Bond (Islamic Bond) introduced in FY05. As a new tool 3-month Bangladesh Government Islamic Investment Bond has been introduced on 1 January 2015. It may be noted that the auction of 1-year and 2-year Islamic Bonds have been suspended since 1 January 2015.

This Government Bond is 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 with Islamic Shariah may buy these bonds. As of end June 2016 the total sale against this bond amounted to Taka 122.94 billion while balance of total amount of financing stood at Taka 37.80 billion and net outstanding against the bond stood at Taka 85.14 billion. As of end June 2015 the total sale against this bond was Taka 135.84 billion against the balance of total financing of Taka 25.40 billion and net outstanding of Taka 110.44 billion. The overall transaction of this bond are 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 the banks and financial institutions stood at Taka 655.4 billion, many-fold higher than the amount of Taka 4.3 billion raised by new capital issues through private placements and public offerings in the capital market in FY16. This indicates overwhelming dominance of bank finance in industrial financing.

Table 8.7 Bangladesh Government Islamic Investment Bond

Particulars	(billion Taka)		
	FY14	FY15	FY16
Sale	121.34	135.84	122.94
Financing	24.37	25.40	37.80
Net outstanding	96.97	110.44	85.14

Source: Motijheel Office, Bangladesh Bank.

8.17 The DSE broad index and the market capitalisation of Dhaka Stock Exchange Limited (DSE) were quite stable during July-February of FY16. The market was declining during the third quarter of FY16. The DSEX and the market capitalisation declined to 4195.7 and Taka 2999.9 billion respectively at the end of April 2016 from 4507.6 and Taka 3185.7 billion in June 2016. However, the market became stable at the end of FY16 as a result of effective measures taken on the capital market. Bangladesh Bank proactively played a role to stabilise the capital markets since the major debacle of 2010.

8.18 DSE launched "DSE Info" mobile application on 15 November 2015. It also launched "DSE-Mobile on 9 March 2016. DSE launched "Up-gradation of Listed Securities page in DSE Website" on 7 April 2016 and "New Book Building Software (BBS)" on 26 May 2016. 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.

Capital Market Activities in FY16

Primary Issuance

8.19 Eleven companies raised new equity of Taka 4.3 billion in the capital market in

FY16, which is lower than Taka 7.3 billion raised by the 21 companies in FY15. Of the new equity issued, Taka 0.8 billion raised through private placements and Taka 3.5 billion raised through public placements. In FY15, equity issued through private and public placements were Taka 1.7 billion and Taka 5.6 billion respectively.

8.20 The volume of public offerings in FY16 was oversubscribed more than 16 times indicating a shortage of new securities in the primary market. Bonus shares worth Taka 22.7 billion were issued in FY16 by 109 companies against retained profits. This was lower than Taka 26.6 billion issued in FY15 by 130 companies. On the other hand, right shares worth Taka 2.2 billion were issued in FY16 by two companies which was lower than Taka 6.0 billion issued in FY15 by five companies.

Secondary Market Activities

8.21 As percentage of market capitalisation, the manufacturing sector dominated the secondary market with 42.61 percent share followed by services and miscellaneous sector (32.58 percent), financial sector (24.59 percent) and corporate bonds (0.22 percent) at the end of FY16. In the DSE, market capitalisation inclusive of new issues decreased by 1.9 percent to Taka 3185.7 billion or 18.4 percent of GDP (at current market price) at the end of FY16 from Taka 3247.3 billion at the end of FY15 (Chart 8.3). In the CSE, it was also decreased by 3.2 percent to Taka 2506.1 billion or 14.5 percent of GDP at the end of FY16. In addition, the amount of turnovers in the secondary market

Table 8.8 Dhaka Stock Exchange (DSE) activities

Particulars	End June		
	FY14	FY15	FY16
No. of listed securities*	536	555	559
Issued equity and debt* (billion Taka)	1032.1	1092.0	1127.4
Equity through private placement & IPOs (billion Taka)	6.6	7.3	4.3
Market capitalisation (billion Taka)	2943.2	3247.3	3185.7
Turnover in value (billion Taka)	1125.4	1123.5	1072.5
Turnover in volume (no. in billion)	24.3	26.6	29.0
DSE Broad Index (DSEX) [®]	4480.5	4583.1	4507.6

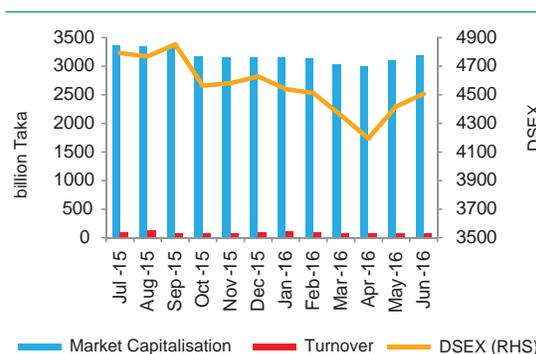
* Including companies, mutual funds, debentures and Government Treasury Bonds.
[®] DSE introduced the benchmark DSE broad index (DSEX) designed and developed by S&P Dow Jones from January 2013.
 Source: Dhaka Stock Exchange.

Table 8.9 Chittagong Stock Exchange (CSE) activities

Particulars	End June		
	FY14	FY15	FY16
No. of listed securities*	276	292	298
Issued equity and debt* (billion Taka)	470.7	529.8	566.1
Market capitalisation (billion Taka)	2286.7	2588.1	2506.1
Turnover in value (billion Taka)	102.2	96.5	78.1
Turnover in volume (no. in billion)	2.7	2.7	2.5
All-share Price Index	13766.2	14097.2	13802.6

* Including companies, mutual funds and debentures.
 Source: Chittagong Stock Exchange

Chart 8.3 Trends in market behaviour of DSE



Source: Dhaka Stock Exchange.

is decreased by 4.5 and 19.1 percent respectively at DSE and CSE in FY16 compared to FY15. DSE broad index (DSEX) and CSE all-share price index were also decreased by 1.6 percent and 2.1 percent to 4507.6 and 13802.6 respectively in FY16 (Table 8.8 and 8.9).

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) decreased to Taka 44.8 billion in FY16 from Taka 47.8 billion in FY15. Gross investment outflow as repatriation of sale proceeds has increased to Taka 52.4 billion in FY16 from Taka 28.6 billion in FY15. From the beginning (April 1992) to June 2016 the gross investment inflow stood at Taka 221.3 billion against gross outflow as repatriation of sale proceeds of Taka 170.5 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).

8.24 During FY16, total investment made against the investors' accounts stood at Taka 6.3 billion while deposit received stood at Taka 0.4 billion. The IAMCL emerged as one of the fast expanding asset management company of the country. Up to end June 2016, the company floated 10 closed-end and 6 open-end mutual funds. Besides, the company floated various regular and special types of mutual funds. The net investment in portfolios of the sixteen mutual funds of the company stood at Taka 14.2 billion.

8.25 The ISTCL emerged as the largest stockbroker in the country handling total turnover worth Taka 114.5 billion in FY16 which was 9.9 percent of total turnover of both DSE and CSE. The parent ICB itself sold unit certificates amounting Taka 3.8 billion against repurchase of unit certificates amounting Taka 1.0 billion in FY16. ICB received deposits of Taka 1.2 billion and approved loans of Taka 9.2 billion in investment accounts of investors in FY16. Total commitments for investment made by the ICB in FY16 stood at Taka 31.1 billion, of which investment in equity was Taka 0.8 billion and purchase of debentures was Taka 1.2 billion. The total amount of commitments was Taka 27.7 billion in FY15.

Scheduled Banks Investments in Capital Market Securities

8.26 Holdings of capital market assets (equities, debenture) excluding investment on Bangladesh Government Islamic Investment Bond (BGIIB) by scheduled banks stood at Taka 238.6 billion as of end of June 2016 against Taka 202.1 billion as of end of June 2015. Outstanding advances of scheduled

banks against shares and securities amounted to Taka 39.7 billion as of end of June 2016, which was Taka 30.4 billion as of end of June 2015.

Measures Supporting Capital Market Development

8.27 The Bangladesh Securities and Exchange Commission (BSEC) undertook several measures to protect investor's interest and strengthen the capital market during FY16. Some important measures are as follows:

- Issuance of guidelines for conversion from close-end mutual fund to open-end mutual fund on 8 July 2015.
- BSEC established its own training centre on 17 November 2015 to impart training on the capital market related areas.
- BSEC started separate investment education programme for women.
- A Memorandum of Understanding (MoU) on bilateral cooperation and technical assistance between the BSEC and Securities and Exchange Board of India (SEBI) was signed at the Prime Minister's Office on 22 November 2015.
- Order regarding publication of price sensitive information was published in the Bangladesh Gazette on 15 February 2016.
- A guideline for issuance of financial derivatives was issued on 20 June 2016.
- Promulgation of Bangladesh Securities and Exchange Commission (exchange traded fund) Rules, 2016.

Table 8.10 Advances of scheduled banks by economic purposes (billion Taka)

Sector	End June		% change
	FY15	FY16 ^P	
Agriculture, forestry and fishing	294.5	343.6	16.7
Industry	955.1	1052.3	10.2
Working capital financing	988.3	1286.9	30.2
Construction	440.3	542.0	23.1
Transport & communication	40.6	47.6	17.3
Trade	1956.7	2225.9	13.8
Others	686.1	717.2	4.5
Grand Total	5361.5	6215.6	15.9

^P Provisional

Source: Statistics Department, Bangladesh Bank.

Credit Market

Advances of Scheduled Banks by Economic Purposes

8.28 All of the advances of scheduled banks by economic purposes showed an upward trend during FY16 (Table 8.10). Total advances of scheduled banks by economic purposes stood at Taka 6215.6 billion at the end of June 2016 which was 15.9 percent higher than the total advances of Taka 5361.5 billion at the end of June 2015. In recent years, significant changes have been taken place in the trends in total bank advances classified by economic purposes. Of the total advances, working capital financing sector recorded the significant improvement by 30.2 percent followed by construction sector (23.1 percent), transports and communication sector (17.3 percent), agriculture, forestry and fishing sector (16.7 percent), trade sector (13.8 percent), industry sector (10.2 percent), and other sectors (4.5 percent) in FY16 compared to FY15.

8.29 Sector-wise contribution of total advances shows that the trade sector played

the dominant role (36.0 percent) followed by working capital financing sector (20.0 percent), advances for industry (17.0 percent), construction (9.0 percent), agriculture, fishing and forestry (6.0 percent), transport and communication sector (1.0 percent) and other sectors (11.0 percent) in FY16. Sector-wise contribution of total advances is shown in Chart 8.4.

Industrial Term Loans of Banks and Financial Institutions

8.30 Disbursement of industrial term loans by banks and financial institutions increased by 9.6 percent to Taka 655.4 billion. However, the recoveries increased by 1.4 percent to Taka 482.3 billion in FY16. The outstanding balance showed a positive growth of 18.6 percent and stood at Taka 1461.0 billion as of end June 2016. However, the overdue increased by 32.9 percent in FY16 and as percentage of outstanding loans increased to 13.5 as of end June 2016 (Table 8.11).

8.31 Private commercial banks (PCBs) had the major share (62.8 percent) in the total outstanding loans amounting to Taka 1461.0 billion as of end June 2016, making them

major players in industrial term lending (Table 8.11 and Chart 8.5). Though six SCBs and two specialised banks together had 21.8 percent shares of outstanding loans, with very high levels of overdue loans, their actual role in current lending is quite minor, as they disbursed only Taka 36.9 billion (5.6 percent) out of total disbursed loans amounting to Taka 655.4 billion in FY16. In the case of disbursement, PCBs had the major amount (Taka 496.8 billion) in FY16, followed by financial institutions (Taka 99.7 billion), SCBs (Taka 29.3 billion), foreign banks (Taka 22.0 billion) and specialised banks (Taka 7.6 billion).

8.32 The financial institutions had very low overdue loans (10.3 percent of outstanding) as of end June 2016. These were also low for private commercial banks (10.4 percent) and foreign banks (11.5 percent). Overdue loans of the specialised banks and the SCBs were very high (46.0 percent and 18.8 percent respectively) as of end June 2016. Since two specialised banks- BKB and RAKUB are basically agriculture sector lenders, their role in industrial term lending is insignificant.

Table 8.11 Industrial term loans of banks and financial institutions

Lender	(billion Taka)									
	Disbursement		Recovery		Outstanding		Overdue		Overdue as % of outstanding	
	FY15	FY16	FY15	FY16	FY15	FY16	FY15	FY16	FY15	FY16
SCBs	30.8	29.3	23.0	25.3	225.6	253.3	37.5	47.6	16.6	18.8
PCBs	462.9	496.8	357.7	353.5	774.0	917.2	68.5	95.6	8.9	10.4
Foreign banks	16.3	22.0	18.8	22.5	17.8	30.7	2.3	3.5	13.2	11.5
Specialised banks (BKB, RAKUB)	10.5	7.6	23.8	17.4	49.8	65.7	27.9	30.2	56.0	46.0
Financial institutions	77.3	99.7	52.1	63.6	164.3	194.2	12.0	20.0	7.3	10.3
Total	597.8	655.4	475.4	482.3	1231.4	1461.0	148.2	196.9	12.0	13.5

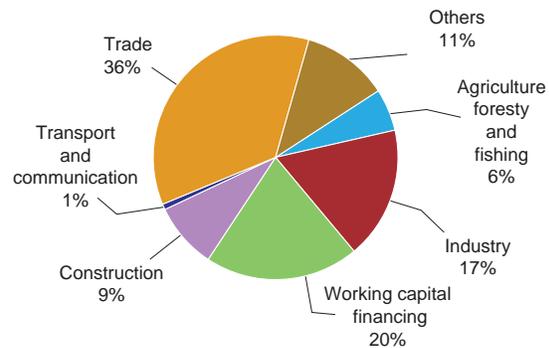
Source: SME and Special Programmes Department, Bangladesh Bank.

Investment Promotion and Financing Facility (IPFF)

8.33 "Investment Promotion and Financing Facility (IPFF) Project" is an on-lending based Technical Assistance (TA) project which was 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.

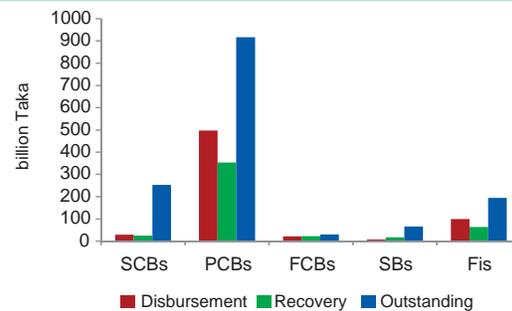
8.34 Under IPFF, Government approved private infrastructure development projects implementing on Public-Private Partnership (PPP) basis have been financed through selected participating financial institutions (PFIs). Infrastructure development projects, power, services, industry and social sectors are 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 five 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 307.0 million (IDA USD 257.0 million and the Government of Bangladesh USD 50.0 million) was sanctioned extending the tenure of the project up to December 2016.

Chart 8.4 Sectoral shares of total advances in FY16



Source: Bangladesh Bank.

Chart 8.5 Industrial term loans of banks and financial institutions in FY16



Source: Bangladesh Bank.

8.35 It is worth mentioning here that IPFF has been able to disburse 100 percent (Taka 4.2 billion equivalent to USD 61.3 million) of its on lending component to seven 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 218.5 million has been disbursed for three central water treatment plants, an inland container depot, a nationwide fibre optic cable installation project, five power generation projects having capacity of 411 MW and a jetty project till June 2016.

Equity and Entrepreneurship Fund (EEF)

8.36 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 has been signed on 1 June 2009 between Bangladesh Bank (BB) and Investment Corporation of Bangladesh (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.

8.37 So far Taka 20.3 billion has been released to the fund out of total budgetary allocation of Taka 30 billion in different fiscal years. Up to 30 June 2016 with the project cost of Taka 73.2 billion, a total of 1915 projects (including 1794 agro-based/food processing projects and 121 IT projects) got EEF sanction at different stages of disbursement. Cumulative equity disbursement stood at Taka 13.0 billion at the end of FY16 against total fund disbursement of Taka 20.3 billion from the Government. Till now 175 EEF supported companies availed share buy-back facilities partially or fully to the tune of Taka 2.2 billion. Employment opportunity has been created for 46,000 people in the EEF assisted projects. World class software developed by EEF assisted ICT projects are being used in the domestic market and these are also being exported. Rural infrastructures have also been developed due to implementation of the EEF agro-based projects.

Table 8.12 Outstanding housing loans

Lenders	Outstanding as of end June		
	FY14	FY15	FY16 ^P
(billion Taka)			
a. Specialised housing finance providers	59.3	63.6	70.4
i. HBFC	29.7	30.3	30.1
ii. Delta-Brac Housing Finance	26.4	28.7	33.4
iii. National Housing Finance	3.2	4.6	6.9
b. Banks	358.0	392.0	449.5
i. PCBs	231.8	262.3	309.2
ii. SCBs	95.6	108.7	119.3
iii. Other banks (foreign and specialised)	30.6	21.0	21.0
c. Other financial institutions	23.2	30.8	42.9
d. Micro-credit lenders			
Grameen Bank	0.04	0.02	0.07
Total	440.5	486.4	562.9

^P Provisional.

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

Housing Finance

8.38 Total outstanding housing loans from banks and financial institutions as of end June 2016 amounted to Taka 562.9 billion (Table 8.12), which was 9.1 percent of total credit to the private sector.

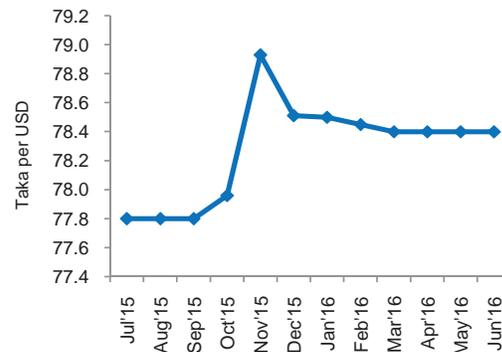
8.39 In recent years, significant changes have taken place in total housing loan portfolios. Private sector banks with ample deposit resources have been expanding their housing loan portfolios. These banks had the dominant market position (Table 8.12) with the largest amount of Taka 309.2 billion in outstanding housing loans as of end June 2016. The SCBs had the second largest amount of Taka 119.3 billion and other banks had Taka 21.0 billion in total outstanding housing loans as of end June 2016. Besides, two private sector specialised housing finance companies also provide a significant amount of loans. They supply fund for their operations by taking long term deposits including some contractual deposit schemes.

8.40 The state owned House Building Finance Corporation (HBFC) had an amount of Taka 30.1 billion in outstanding housing loans as of end June 2016. 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 Bangladesh Bank. 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 FY15 and FY16, Taka 2.7 billion and Taka 2.5 billion were disbursed out of recoveries of Taka 4.8 billion and Taka 5.2 billion respectively.

8.41 *GrihayanTahbil* created by the Government of Bangladesh, provides housing loan to the NGOs at the minimum rate of 1.5 percent simple interest who in turn provides housing credit to the rural poor at the rate of 5.5 percent simple interest for a recovery period up to 10 years. Up to June 2016, the *GrihayanTahbil* has been released Taka 2.0 billion through 513 NGOs for rural housing programme which have covered 403 upazilas of 63 districts of the country and 65436 houses have already been constructed. Moreover, 102 new NGOs have been enlisted to build houses. As of end of June 2016, Tahbil has recovered Taka 1.4 billion against the total recoverable amount of Taka 1.5 billion and recovery rate is 94.9 percent.

8.42 In addition, a dormitory/women hostel for the poor female workers is being

Chart 8.6 Taka-US Dollar exchange rate in FY16



Source: Monetary Policy Department, Bangladesh Bank.

constructed at Ashulia of Savar *Upzilla* under the supervision of the Department of Women Affairs at the cost of Taka 0.2 billion which is financed by *GrihayanTahabil* where a total of 744 women workers will get the residence facility. Apart from the housing loan activities *GrihayanTahabil* disbursed Taka 0.01 billion as a grant to the poor people who are affected by natural calamities like *Sidr, Ila*, etc.

Foreign Exchange Market

8.43 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.

8.44 In FY16, Taka experienced a depreciation of 0.77 percent against US dollar compared to 0.22 percent depreciation in FY15 due mainly to BB's interventions in the foreign exchange market to maintain stability as well as to ensure external competitiveness. The weighted average inter-bank rate stood at Taka 78.40 per USD as of 30 June 2016 against Taka 77.80 per USD as of 30 June 2015 (Chart 8.6).