

Financial Markets

8.1 As the preceding years, Bangladesh Bank remained proactive to achieve efficiency, stability and transparency in the financial market in FY17. Liquidity situation in the banking system continued expose excess liquidity situation in FY17; at the same time, the banking industry remained well position to withstand any liquidity stress. This excess liquidity was moped up and sterilized with the cautious use of Bangladesh Bank Bills which contributed to maintained weighted average interest rate in the call money market as well as in exchange rate. Besides, BB prudently used various open market operation tools such as repo, special repo, and liquidity support facility in FY17 to meet instant liquidity requirements of the banks. During FY17, policy rates remained unchanged considering the downward trend of inflation as well as the sufficient liquidity of the banking system but if situation warrants, the policy rate may also adjusted in future.

Money Market

Call Money Market Activities in FY17

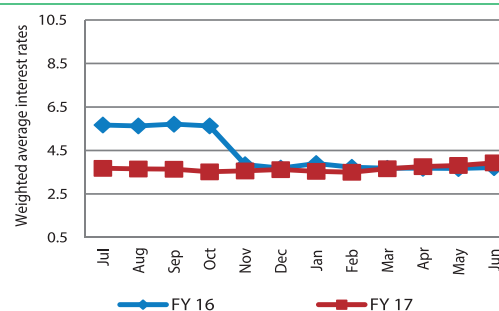
8.2 The money market in Bangladesh comprising banks and financial institutions demonstrate steadiness in FY17. BB provided Repo, special Repo and Liquidity Support Facility (LSF) to the primary dealers (PDs) and non-PD banks against their holdings of eligible treasury bills and bonds. BB's prudential policy measures resulted in a stable weighted average interest rate in the call money market ranging from 3.68 percent to 3.93 percent during FY17 (Table 8.1 and Chart 8.1.) During FY17, lower transaction in the average volume of money in

Table 8.1 Volume of Trade and Weighted Average Interest Rates in Call Money Market

Periods	Volume of trade (billion BDT)	Weighted average interest rates (%)	Volume of trade (billion BDT)	Weighted average interest rates (%)
	FY16		FY17	
July	852.12	5.67	959.82	3.68
August	1101.97	5.63	1132.23	3.65
September	1140.00	5.71	1076.02	3.64
October	911.25	5.63	998.26	3.52
November	1304.71	3.85	1037.34	3.56
December	1346.05	3.69	902.20	3.62
January	1191.46	3.90	1142.22	3.54
February	1207.64	3.73	1231.44	3.50
March	1267.39	3.68	1300.56	3.66
April	1250.74	3.68	1331.40	3.76
May	1516.96	3.67	1400.70	3.81
June	1421.10	3.71	1320.76	3.93
Average	1209.28	4.38	1152.75	3.66

Source: Debt Management Department, Bangladesh Bank.

Chart 8.1 Movements of Call Money Rate



Source: Monetary Policy Department, Bangladesh Bank.

the call money market is observed. The average volume of money transaction in the call money market decreased to BDT 1152.75 billion in FY17 which was 4.67 percent lower than that of FY16. 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 moderate trend keeping steady momentum in FY17.

Table 8.2 Repo Auctions, FY17

Total number of auctions held during the year	Tenor	Bids received		Bids accepted		Interest rate of the accepted bids (%)
		Number of bids	Face value (billion BDT)	Number of bids	Face value (billion BDT)	
6	1-Day/2-Day	3	0.35	3	0.35	6.75-9.75
	10-Day	3	0.81	3	0.81	6.75
	Total	6	1.16	6	1.16	6.75-9.75*

* Overall interest rate range of different tenors.

Source: Monetary Policy Department, Bangladesh Bank.

Repo Auctions held in FY17

8.3 Bangladesh Bank usually conducts various types of Repo auctions to provide overnight liquidity facility to banks at a pre-determined policy rate as against the collateral face value of government treasury bills and bonds to maintain their instant liquidity requirements. The rates of interest for Repo, Special Repo and Reserve Repo were 6.75 percent, 9.75 percent and 4.75 percent respectively in FY17. Repo rate and Reverse Repo rate remained unchanged at 6.75 percent and 4.75 percent during FY17 for achieving broad objective of monetary policy.

8.4 A total of six Repo auctions (including Special Repo and LSF auctions) were held during FY17 of which 6 bids for BDT 1.16 billion were received and all the bids were accepted. During FY16, total 10 bids for BDT 13.30 billion were received, of which BDT 13.05 billion was accepted. The volume of accepted amounts decreased by 91.11 percent during FY17 (Table 8.2) compared to FY16. The range of interest rate against the accepted bids was 6.75-9.75 percent per annum, which was 7.25-10.75 percent in FY16.

Reverse Repo Auctions held in FY17

8.5 In line with the broad objective of monetary policy, Bangladesh Bank continued to mop up liquidity from the banks through the Reverse Repo auctions to keep up Reserve Money and Money Multiplier on track. In case of Reverse Repo, BB abstained from providing any collateral to the banks. A total of 66 daily Reverse Repo auctions were held in FY17. In total 67 bids of 1-2 day and 10 bids of 3-7 day tenors for a total of BDT 84.60 billion were received but no bid was accepted (Table 8.3). During FY16 bids for BDT 14538.49 billion were received and BDT 11747.96 billion were accepted. The interest rate of Reverse Repo remained unchanged at 4.75 percent per annum since 14 January, 2016.

Bangladesh Bank Bill Auctions held in FY17

8.6 In order to conduct effective management and sterilize liquidity of the banking system, operations of 7-day and 14-day Bangladesh Bank Bill were introduced in April, 2016 and 30-day Bangladesh Bank Bill which was revived in FY09 was also continued in FY17

Table 8.3 Reverse repo auctions-FY17

Total number of auctions held during the year	Tenor	Bids received		Bids accepted		Interest rates of the accepted bids (%)
		Number of bids	Face value (billion BDT)	Number of bids	Face value (billion BDT)	
66	1-Day/2 Day	67	73.90	-	-	-
	3-Day/7 Day	10	10.70	-	-	-
	Total	77	84.60	-	-	-

Source: Monetary Policy Department, Bangladesh Bank.

Table 8.4 Auctions of Bangladesh Bank Bill, FY17

Tenor of bill	Bids offered		Bids accepted		Outstanding bills as of end June 2017 (billion BDT)	Weighted average yield (WAR) range* (%)	
	Number	Face value (billion BDT)	Number	Face value (billion BDT)		FY16	FY17
7-Day	3062	8279.98	3060	8279.83	48.40	2.87-2.97	2.96-2.98
14-Day	678	2350.43	678	2350.43	129.75	2.93-2.98	2.50-2.98
30-Day	432	739.91	429	739.07	4.66	2.60-5.25	2.92-2.98
Total	4172	11370.32	4167	11369.33	182.81	2.60-5.25	2.50-2.98

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

as a tool of Open Market Operations (OMOs). With a view to maintaining stable interest rate and exchange rate, Bangladesh Bank strongly used these instruments efficiently in FY17. The results of Bangladesh Bank Bill auctions in FY17 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 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 FY17, a total of 20 Primary Dealer (PD) banks worked as underwriters and market makers with commitments to bid in auctions. Apart from that, the auction committee may also devolve the unsubscribed amount to Bangladesh Bank/PD and non PD banks considering the auction rate, market timing and macroeconomic situation. In FY17, the auction committee devolved necessary amount of money to BB curbing higher rate and signalling effective rate to the market with a view to financing to the government at a lower cost and keeping momentum in the weekly valuations of Government Treasury Bills for held for trade (HFT) and held to maturity (HTM) of securities.

8.8 Weekly auctions of 91-day, 182-day and 364-day Treasury Bills were continued

Table 8.5 Auctions of Government Treasury Bills, FY17

Tenor of bills	Bids offered		Bids accepted		Outstanding bills as of end June 2017 (billion BDT)	Weighted average yield (WAR) range* (%)	
	Number	Face value (billion BDT)	Number	Face value (billion BDT)		FY16	FY17
91-Day	1272	879.88	339	282.00	80.00	2.43-5.56	2.85-4.91
182-Day	592	367.57	159	122.71	80.00	3.22-6.30	3.10-5.41
364-Day	582	315.31	150	85.61	91.50	3.74-6.67	3.48-5.89
	Devolvement on BB			14.68			
Total	2446	1562.76	648	505.00	251.50	2.43-6.67	2.85-5.89

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

Box 8.1: State of Bond Market development in Bangladesh

The fixed income bond markets are useful for raising fund through bank borrowing. Development of markets for corporate bonds depends crucially on existence of a well functioning liquid markets in Treasury Bills and Treasury Bonds. The yield curve of Treasury Bills (T-Bills) and Treasury Bonds (T-Bonds) is used as pricing benchmark for corporate bond issues.

Ministry of Finance (MoF) and Bangladesh Bank (BB) are working together since 2003 towards bringing about vibrant well-functioning markets for primary issues and secondary trading in T-Bills and T-Bonds. T-Bills of 91, 182, and 364 days tenors and T-Bonds of 2, 5, 10, 15 and 20 years tenors are now in the market. Besides, work on introducing a Floating Rate T-Bond is also ongoing. BB also introduced reissuance process for BGTBs in 2013 that will prevent fragmentation of government debt instruments.

Substantial efforts have been initiated to strengthening the process for the primary issuance of government securities. The Cash and Debt Management Committee (CDMC) and the associated technical committee (CDMTC) oversee the management of the domestic borrowing requirement of government over the budgetary year. On this basis, the auction calendar and the distribution of the amounts and maturity of T-Bills and T-Bonds are set. Overtime, the yield of the range of government securities has become better aligned with market interest rate.

BB introduced the Primary Dealer (PD) system in 2003. The system has been enhanced with incentives and liquidity support against collateralized securities from the central bank. Bidding commitments for T-Bills and underwriting obligations for T-Bonds applicable to PDs were introduced in 2007 to strengthen their role as market makers in the government securities market. Besides, the tax and regulatory environment for government securities has been modified to support market development. The upfront tax on government securities was removed in 2014. Mark to market requirements in the accounting framework for government securities were introduced in 2008. The one-year lock-in criterion for overseas in investment BGTBs was waived in 2013 to attract more foreign investors to the bond markets.

The market infrastructure underpinning the government securities market has been significantly strengthened. The soundness of the market has been secured through the introduction of an automated Delivery versus Payment (DvP) settlement system in 2009. BB set up a Market Infrastructure (MI) Module in 2011. MI module is an electronic platform that BB uses for online auction and issue of T-Bills and T-Bonds; Repo operation, liquidity support to PDs etc. BB has also introduced Trader Work Station (TWS) under MI Module to facilitate online secondary dealing of securities at the end of 2012. With the installation of TWS, any individual/institution can participate in the secondary trading of government securities through PDs/ banks/financial institutions. BB has also introduced a web based platform (<http://gasom.bb.org.bd>), in August 2016 to make the entire submitted bid asked price/yield visible including details of government securities to the traders/investors in real time basis. In June 2017, total outstanding of T.Bill and T.Bond was BDT 1536.73 billion which is almost same as previous year. During FY16, volume of secondary trading was BDT 675 billion, whereas it was BDT 400 billion in FY17. Sale of saving scheme was BDT 537.12 billion in FY16 and BDT 751.35 billion in FY17.

to use those as the main instruments for debt management of the government in FY17. The results of Treasury Bills auctions in FY17 are

summarised at Table-8.5. The range of annual weighted average yields of most of the Treasury Bills decreased in FY17 as compared to FY16

Table 8.6 Auctions of Bangladesh Government Treasury Bonds, FY17

Tenor of bonds	Bids offered		Bids accepted		Outstanding bonds as of end June 2017 (billion BDT)	Yield range* (%)
	Number	Face value (billion BDT)	Number	Face value (billion BDT)		
2-Year	329	121.21	77	23.96	89.50	4.2340-6.5020
Devolvement on BB				7.54		
5-Year	405	127.49	166	40.06	312.70	5.0207-7.0452
Devolvement on BB				2.44		
10-Year	403	118.89	204	41.97	498.49	6.1772-7.4602
Devolvement on BB				1.04		
15-Year	268	58.72	95	16.45	208.66	7.1455-7.9700
Devolvement on BB				0.55		
20-Year	284	63.79	94	16.53	181.87	7.4815-8.4400
Devolvement on BB				0.48		
Total	1689	490.10	636	151.00	1291.22	4.2340-8.4400®

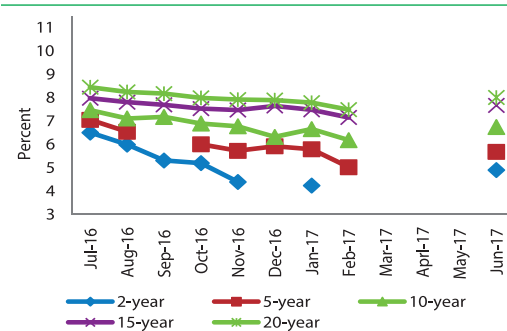
* Range of the weighted average annual yield of the accepted bids. ® Weighted average annual yield of treasury bonds of different terms.
Source: Monetary Policy Department, Bangladesh Bank.

due mainly to existence of affluent liquidity in the market while government borrowing from the banking system registered a very low position. Moreover, the higher amount of Treasury Bills of different tenors resulting lower amount of outstanding as year on year basis.

8.9 A total of 2446 bids amounting to BDT 1562.76 billion were received of which 648 bids amounting to BDT 505.00 billion (including BDT 14.68 billion as devolved amount) were accepted in FY17. The weighted average yield-to-maturity against the accepted bids ranged from 2.85 percent to 5.89 percent. In FY16, a total of 3212 bids amounting to BDT 1914.05 billion were received of which BDT 588.00 billion was accepted. It is noted that a test auction of 14-day Treasury Bill was held on November 16, 2016 with a view to matching assets-liabilities of banks.

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

Chart 8.2 Movements of Weighted Average Yield of BGTB in FY17

*From March-17 to May-17, BGTB auction was not performed according to auction calendar of FY17
Source: Monetary Policy Department, Bangladesh Bank.

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 has started from 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 do 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. Thirty two (32) auctions of these instruments were held in FY17. A total of 1689 bids for BDT 490.10 billion were received and 636 bids for BDT 151.00 billion were accepted of which BDT 12.05 billion was devolved on BB. The amount of outstanding bonds was marginally increased by 1.09 percent to BDT 1291.22 billion at the end of June 2017 from BDT 1277.26 billion at the end of June 2016.

8.12 The weighted average annual yield-to-maturity for the treasury bonds ranged from 4.2340 percent to 8.4400 percent and showed a declining trend in FY17 (Chart 8.2). The summary of auctions of Bangladesh Government Treasury Bonds during FY17 is given at Table 8.6.

8.13 It is mentionable that in FY16, bids for a total of BDT 777.26 billion were received and BDT 241.50 billion was accepted of which BDT 30.09 billion was devolved on BB/PDs and non PDs. The overall weighted average yield-to-maturity ranged from 4.1900 percent to 10.3548 percent in FY16.

Bangladesh Government Islamic Investment Bond (Islamic Bond)

8.14 Government issues bonds 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 government does not borrow money from this sector. The return of

Table 8.7 Bangladesh Government Islamic Investment Bond

Particulars	(billion BDT)		
	FY 15	FY 16	FY 17
Sale	135.84	122.94	84.01
Financing	25.40	37.80	54.70
Net balance	110.44	85.14	29.32

Source: Motijheel Office, Bangladesh Bank.

the bonds depends on investment in line with the Islamic Shariah savings rate and other related factors reflected in the balance sheet of the respective Islamic banks. The operation of 6-month Bangladesh Government Islamic Investment Bond was introduced in FY05. As a new tool 3-month Bangladesh Government Islamic Investment Bond was 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 Islamic Investment Bond is operated in accordance with the rules of Islamic Shariah. As per 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 2017, the total sale against this bond amounted to BDT 84.01 billion while balance of total amount of financing stood at BDT 54.70 billion and net balance against the bond stood at BDT 29.31 billion. As of end June 2016, the total sale against this bond was BDT 122.94 billion against the balance of total financing of BDT 37.80 billion and net balance of BDT 85.14 billion. Due to higher amount of financing demand by the Islamic banks, the amount of net balance stood at BDT 29.31 billion in FY17 comparing BDT 85.14 billion of FY16. The overall transactions of this bond are summarised in Table 8.7.

Box 8.2: Development of House Price Index in Bangladesh

The real estate sector is one of the main drivers of a nation's economic development and industrialization. Over time, this sector has emerged as a major area for creation of both physical and financial assets and constituted an increasing proportion of national wealth. As evident from FY2007-08, housing sector crash in the United States of America and other developed countries, the fortune of the real estate market not only serves as a guide to overall economic activity but also has implications for the overall health of a financial system. Thus, House Price Index (HPI)¹ is an important indicator for policy makers in framing monetary and fiscal policies. In addition, house price indices have a number of important uses: i) as a macro-economic indicator of economic growth; ii) for use in monetary policy and inflation targeting; iii) as an input to estimate the value of housing as a component of wealth; iv) as a financial stability or soundness indicator to measure risk exposure; v) as a deflator of the national accounts; and vi) as an input for the consumer prices. House price also affects bank lending and vice versa, which indicates, it may influence economic activities through private consumption of households, residential investment and credit allocation of the financial systems. Therefore, it is necessary to prepare an accurate measure of aggregate house price, because its volatility is also a concerned for banks as well as corporations.

Many Asian countries like India, Thailand, Mongolia, China, Philippine and Vietnam have started to calculate HPI continuously while Bangladesh is far behind this (Table-1). Like other countries, the housing sector is playing an important role in the economy and serving the fundamental human right of shelter of Bangladesh. It has a huge multiplier effect on economic activities and therefore, is a big driver of economic growth. It is one of the largest employment-generating sectors after agriculture and readymade garments sectors. Moreover, it also stimulates demand for ancillary industries, like steel, cement, tiles and sanitary ware, cable and electric ware, paint, glass, aluminum, brick, other building materials and consumer durables. Over the last few years, this sector has appeared as a crucial factor in the national economy, contributing around 8 percent of GDP while this sector along with its backward linkage industries contributed about 12-14 percent. In addition, this sector directly adds on an average nearly BDT 300 cores to the national exchequer every year.

Therefore, the increasing dominance of the sector, demand for setting up a mechanism which could track the movement of prices in the residential housing sector. Although the information on house prices is not readily available due to lack of transparency in the residential property market, this limited availability of price information is vital for identifying the nature of real estate price dynamics and their relationship with financial stability and monetary policy. In this backdrop, it is essential to calculate the House Price Index (HPI) of the housing sector in Bangladesh. In March 2016, Research Department of Bangladesh Bank has taken initiatives to construct 'Residential Property Price Index (RPPI)' for Bangladesh with the technical assistance of International Monetary Fund (IMF). Thereafter, Bangladesh Bank will calculate HPI on regular basis by applying Laspeyeres and Hedonic method by using information/data from authentic sources.

Country Experience			
Country	Method	Frequency	Starting Year
India	Laspeyres	Quarterly	2003
Thailand	Average, Stratification, hedonic	Quarterly	2009
Mongolia	Average, hedonic	Quarterly and monthly	2008 & 2013
China	Average	monthly	2011
Philippine	Sales Price Appraisal ratio	Quarterly	2015
Vietnam	Laspeyres	Quarterly	2015

¹ House Price Index (HPI) measures the price changes of residential housing. It is a statistical tool for measuring the relative change in real estate prices between two points of time.

Investment Financing in Bangladesh

Capital Market

8.15 Bangladesh Bank played a proactive role to stabilise the capital markets since the major debacle of 2010. In the exploration of economic advancement of the country, DSE is considered as the steersman of enrichment. DSE achieved the certificate of ISO 9001:2008 on October 30, 2016 by fulfilling all the requirements of International Organisation for Standardisation (ISO). DSE has also achieved full membership of the World Federation of Exchanges (WFE) on June 06, 2017 followed by the application for the full membership on January 19, 2015.

8.16 The Dhaka Stock Exchange (DSE) broad index and the market capitalisation of DSE were stable during July-October of FY17. Both the index and the market capitalisation were increasing during November-March of FY17. The DSEX and the market capitalisation increased to BDT 5719.6 and BDT 3798.3 billion respectively at the end of March 2017 from BDT 4507.6 and BDT 3185.7 billion in June 2016 (chart 8.9).

Capital Market Activities in FY17

Primary Issuance

8.17 Nine companies have collected new equity of BDT 0.4 billion from the capital market in FY17, which was lower than BDT 4.3 billion collected by 11 companies in FY16. Of which, BDT 0.1 billion collected through private placements and BDT 0.3 billion collected through public placements. In FY16, equity issued through private and public placements

Table 8.8 Activities of Dhaka Stock Exchange (DSE)

Particulars	End June		
	FY15	FY16	FY17
No. of listed securities*	555	559	563
Issued equity and debt* (billion BDT)	1092.0	1127.4	1165.5
Equity through private placement & IPOs (billion BDT)	7.3	4.3	0.4
Market capitalisation (billion BDT)	3247.3	3185.7	3801.0
Turnover in value (billion BDT)	1123.5	1072.5	1805.2
Turnover in volume (no. in billion)	26.6	29.0	54.4
DSE Broad Index (DSEX)@	4583.1	4507.6	5656.1

* 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.

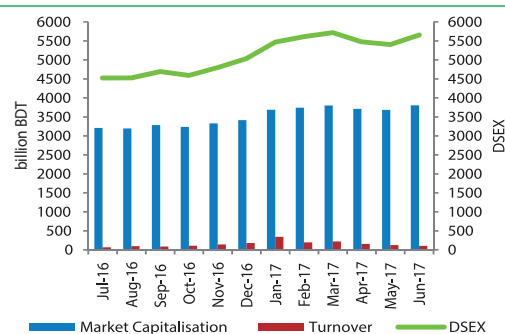
Table 8.9 Activities of Chittagong Stock Exchange (CSE)

Particulars	End June		
	FY15	FY16	FY17
No. of listed securities*	292	298	303
Issued equity and debt* (billion BDT)	529.8	566.1	606.6
Market capitalisation (billion BDT)	2588.1	2506.1	3113.2
Turnover in value (billion BDT)	96.5	78.1	118.1
Turnover in volume (no. in billion)	2.7	2.5	4.0
All-share Price Index	14097.2	13802.6	15580.4

* Including companies, mutual funds and debentures.

Source: Chittagong Stock Exchange

Chart 8.3 Trends in Market Behaviour of DSE



Source: Dhaka Stock Exchange.

were BDT 0.8 billion and BDT 3.5 billion respectively.

8.18 The volume of public offerings was oversubscribed, more than 14 times in FY17,

indicating a shortage of new securities in the primary market. Bonus shares worth BDT 19.0 billion were issued in FY17 by 117 companies against retained profits. This was lower than BDT 22.7 billion issued by 109 companies in FY16. On the other hand, right shares worth BDT 8.6 billion were issued in FY17 by four companies which were higher than BDT 2.2 billion issued by two companies in FY16.

Secondary Market Activities

8.19 As percentage of market capitalisation, secondary market are dominated by the manufacturing sector with 38.7 percent share followed by services and miscellaneous sector (33.9 percent), financial sector (27.2 percent) and corporate bonds (0.18 percent) at the end of FY17. In the DSE, market capitalisation inclusive of new issues increased by 19.3 percent to BDT 3801.0 billion at the end of FY17 from BDT 3185.7 billion at the end of FY16 (Chart 8.3) which was 19.4 percent of GDP (at current market price). In case of the CSE, it was also increased by 24.2 percent to BDT 3113.2 billion at the end of FY17 which was 15.9 percent of GDP (at current market price). Besides, amount of turnovers in the secondary market at DSE and CSE has increased by 68.3 percent and 51.2 percent respectively in FY17 compared to that of FY16. DSE broad index (DSEX) and CSE all-share price index have increased by 25.5 percent and 12.9 percent to 5656.1 and 15580.4 respectively in FY17 as well (Table 8.8 and 8.9).

Non-Resident Portfolio Investment

8.20 Gross investment inflow in shares and securities of the stock exchanges by non-Residents through Non-resident Investors'

BDT Account (NITA) increased to BDT 64.0 billion in FY17 from BDT 44.8 billion in FY16. On the other hand, gross investment outflow as repatriation of sale proceeds has decreased to BDT 46.7 billion in FY17 from BDT 52.4 billion in FY16. From the beginning (April 1992) to June 2017, the gross investment inflow stood at BDT 285.2 billion against gross outflow of BDT 217.3 billion as repatriation of sale proceeds.

Activities of the Investment Corporation of Bangladesh

8.21 The Investment Corporation of Bangladesh (ICB) was established with aim at accelerating the pace of industrialisation and developing a well organised and vibrant capital market particularly securities market in Bangladesh. ICB's activities on capital market development programme have been expanded through the formation and operation of the three subsidiary Companies namely the ICB Capital Management Ltd (ICML), the ICB Asset Management Company Ltd. (IAMCL) and the ICB Securities Trading Company Ltd. (ISTCL). During FY17, total investment against the investors' accounts stood at BDT 10.8 billion while deposit stood at BDT 0.9 billion. The IAMCL emerged as one of the fast expanding asset management company of the country. The company has floated 10 closed-end and 13 open-end mutual funds up to end June 2017. Besides, the company has floated various regular and special types of mutual funds as well. The net investment in portfolios of the twenty-three mutual funds of the company stood at BDT 17.0 billion in FY17.

8.22 The ISTCL emerged as the largest stockbroker in the country with total turnover of BDT 210.3 billion in FY17 which was 10.9

percent of total turnover of both DSE and CSE. The parent ICB itself sold unit certificates amounting BDT 2.7 billion against repurchase of unit certificates amounting BDT 1.3 billion in FY17. The deposit received and loans approved by the ICB stood at BDT 1.5 billion and BDT 16.2 billion in investment accounts of investors in FY17. Total commitment for investment made by the ICB in FY17, stood at BDT 48.7 billion of which investment in equity was BDT 20.8 billion and purchase of debentures was BDT 13.9 billion. The total amount of commitment was BDT 13.5 billion in FY16.

Scheduled Banks Investments in Capital Market Securities

8.23 Holdings of capital market assets (equities, debentures) excluding investment on Bangladesh Government Islamic Investment Bond (BGIIIB) by the scheduled banks stood at BDT 286.0 billion at the end of June 2017 as against BDT 238.6 billion at the end of June 2016. Outstanding advances of the scheduled banks against shares and securities amounted to BDT 34.2 billion at the end of June 2017 which was BDT 39.7 billion at the same period of the previous year.

Measures Supporting Capital Market Development

8.24 The Bangladesh Securities and Exchange Commission (BSEC) has taken several measures to protect investors' interest and strengthen the capital market during FY17. Some of the important measures are given below:

- In order to meet the capital needs of start-ups and new companies in the capital market, Bangladesh Securities

and Exchange Commission (Alternative Investment) Rules, 2015 has been formulated.

- With a view to bringing transparency in the transactions of the capital market, a modern surveillance system has been installed.
- In order to establish a Small Cap Platform to facilitate capital formation of small and medium enterprises, Bangladesh Securities and Exchange Commission (Qualified Investor Offer by Small Capital Companies) Rules, 2016 has been formulated.
- Bangladesh Securities and Exchange Commission (EFT) Rules, 2016 has also been formulated to launch a new product Exchange Traded Fund (EFT).
- Besides, to enhance technical and professional capacities of stock exchange, Bangladesh Securities and Exchange Commission will continue the initiatives to find strategic partners under the demutualization law.

Credit Market

Scheduled Banks' Advances by Economic Purposes

8.25 The advances of scheduled banks by economic purposes showed an upward trend during FY17 (Table 8.10). Total amount of advances stood at BDT 7216.85 billion at the end of June 2017 which was 16.1 percent higher than the amount of BDT 6215.57 billion at the end of June 2016. In recent years, significant

changes have been viewed in the trends in total bank advances classified by economic purpose. Of the total advances, industrial sector recorded a significant improvement by 26.0 percent followed by construction sector (20.0 percent), trade (15.5 percent), transports and communication (14.3 percent), working capital financing (13.3 percent), Agriculture, fishing, forestry (8.6 percent) and other sectors (9.3 percent) in FY17 compared to that of FY16.

8.26 Sector-wise contributions of total advances show that the trade sector played the leading role (36.0 percent) followed by working capital financing (20.0 percent), advances for industry (18.0 percent), construction (9.0 percent), agriculture, fishing and forestry (5.0 percent), transport and communication (1.0 percent) and other sectors (11.0 percent) in FY17. Sector-wise contributions of total advances are reported in Chart 8.4.

Industrial Term Loans of Banks and Financial Institutions

8.27 Disbursement of industrial term loans by banks and financial institutions decreased by 5.2 percent to BDT 621.6 billion in FY17. However, the recoveries increased by 8.0

Table 8.10 Advances of Scheduled Banks by Economic Purposes

Sector	End June		
	FY16	FY17 ^P	% change
Agriculture, forestry and fishing	343.61	373.26	8.6
Industry	1052.30	1326.30	26.0
Working capital financing	1286.95	1457.67	13.3
Construction	541.96	650.46	20.0
Transport & communication	47.62	54.45	14.3
Trade	2225.93	2570.75	15.5
Others	717.20	783.97	9.3
Grand Total	6215.57	7216.85	16.1

^P Provisional

Source: Statistics Department, Bangladesh Bank.

percent to BDT 520.9 billion. The outstanding balance showed a positive growth of 17.0 percent and stood at BDT 1709.9 billion as of end June 2017. However, the overdue increased by 28.3 percent in FY17 and as percentage of outstanding loans increased to 14.8 percent as of end June 2017 (Table 8.11).

8.28 Private commercial banks (PCBs) had the major shares (65.6 percent) in the total outstanding loans amounting to BDT 1122.4 billion as of end June 2017, making them major players in industrial term lending (Table 8.11 and Chart 8.5). Though six SCBs and two specialised banks together had 20.3 percent shares of outstanding loans, with very high level of overdue loans, their actual role in current lending was quite minor, as they disbursed only BDT 49.3 billion (7.9 percent)

Table 8.11 Industrial Term Loans of Banks and Financial Institutions

Lender	(billion BDT)									
	Disbursement		Recovery		Outstanding		Overdue		Overdue as % of outstanding	
	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17
SCBs	29.3	42.9	25.3	44.2	253.3	331.1	47.6	90.2	18.8	27.3
PCBs	496.8	465.3	353.5	391.4	917.2	1122.4	95.6	134.0	10.4	11.9
Foreign banks	22.0	13.5	22.5	11.7	30.7	22.7	3.5	2.7	11.5	11.7
Specialised banks (BKB, RAKUB)	7.6	6.4	17.4	5.4	65.7	15.2	30.2	4.9	46.0	32.1
Financial institutions	99.7	93.4	63.6	68.3	194.2	218.5	20.0	20.9	10.3	9.5
Total	655.4	621.6	482.3	520.9	1461.0	1709.9	196.9	252.6	13.5	14.8

Source: SME and Special Programmes Department, Bangladesh Bank.

out of total disbursed loans amounting to BDT 621.6 billion in FY17. In case of disbursement, PCBs had the major amount (BDT 465.3 billion) in FY17, followed by financial institutions (BDT 93.4 billion), SCBs (BDT 42.9 billion), foreign banks (BDT 13.5 billion) and specialised banks (BDT 6.4 billion).

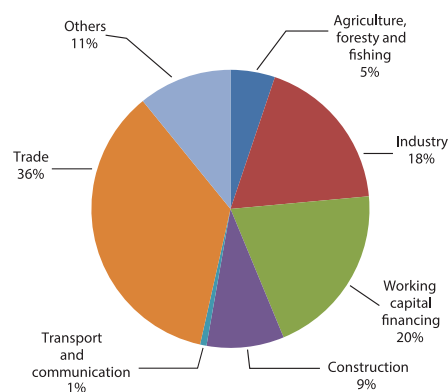
8.29 The financial institutions had very low overdue loans (9.5 percent of outstanding) as of end June 2017. Overdue loans were also lower in foreign banks (11.7 percent) and private commercial banks (11.9 percent). Overdue loans of the specialised banks and the SCBs were very high (32.1 percent and 27.3 percent respectively) as of end June 2017. Since two specialised banks— BKB and RAKUB are basically agriculture sector lenders, their role in industrial term lending is insignificant.

Investment Promotion and Financing Facility (IPFF)

8.30 Investment Promotion and Financing Facility (IPFF) Project is an on-lending based Technical Assistance (TA) project which was instituted 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 infrastructure. The project with two phases has been implemented so far by Bangladesh Bank.

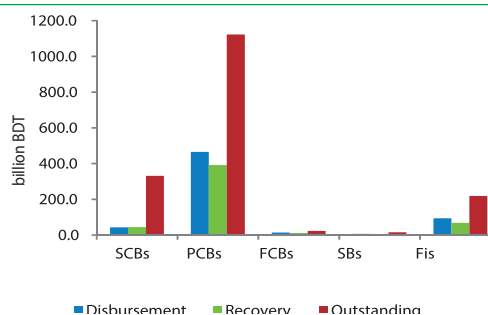
8.31 Under IPFF, Government approved private infrastructure development projects implementing on Public-Private Partnership (PPP) basis, have been financed through selected Participating Financial Institutions (PFIs). Infrastructure development projects, power, services, industry and social sectors

Chart 8.4 Sectoral Shares of Total Advances in FY17



Source: Bangladesh Bank.

Chart 8.5 Industrial Term Loans of Banks and Financial Institutions in FY17



Source: Bangladesh Bank.

are considered as 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 and the tenure of the project was extended upto December 2016.

8.32 It is worth mentioning that IPFF has been able to disburse 100 percent (BDT 24.4 billion equivalent to USD 320.14 million) of its on-lending component to Power Generation, Port Development, Water Supply and Distribution, Information Technology and Social Sector till December 2016. Of which BDT 16.5 billion equivalent to USD 219.3 million were disbursed to twelve power plants having capacity of 589 MW. All the power plants contributing power to the national grid of BDT 3.1 billion equivalent to USD 39.2 million were disbursed to an inland container depot, one jetty and one dry dock, BDT 2.9 billion equivalent to USD 37.6 million were disbursed to one nationwide telecommunication transmission network project and one nationwide optical fiber network, BDT 1.6 billion equivalent to USD 20.6 million were disbursed to one hospital and BDT 0.3 billion equivalent to USD 3.4 million were handed over to three water treatment plants.

8.33 A follow-on project titled IPFF-II Project has been taken by the government of Bangladesh (with the financial support of the World Bank) with a view to creating a sustainable platform for long-term financing in infrastructure and further strengthening skills and abilities of the private sector to fill up the substantial infrastructure gap in Bangladesh. The estimated cost of IPFF-II project is US\$ 416.70 million (IDA USD 356.7 million and the government of Bangladesh USD 60.0 million). The eligible sectors for financing under IPFF-II Project will include power, port development, environmental, industrial & solid

waste management, highways & expressways, airports, water supply & distribution, industrial estates & parks, social sector and information technology. The proposed tenure of IPFF-II Project is 5 years, i.e. from July 2017 to June 2022. Currently this project is awaiting approval from the Government of Bangladesh.

Equity and Entrepreneurship Fund (EEF)

8.34 Equity and Entrepreneurship Fund (EEF) was formed by the government with budgetary allocation of BDT 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 formulation, fund management and performance monitoring.

8.35 So far BDT 20.3 billion has been released to the fund in different fiscal years. Upto 30 June 2017, with the project cost of BDT 78.5 billion, a total of 2063 projects (including 1923 agro-based/food processing projects and 140 IT projects) got EEF sanction at different stages of disbursement involving EEF support of BDT 36.8 billion. Cumulative equity disbursement stood at BDT 14.3 billion at the end of FY17 against total fund disbursement of BDT 20.3 billion from the government. Till now 205 EEF supported companies availed share buy-back facilities partially or fully to the tune of BDT 2.6 billion. Employment opportunity has been created for 52,000 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.

Housing Finance

8.36 Total outstanding of housing loans from banks and financial institutions as of end June 2017 amounted to BDT 660.2 billion (Table 8.12) which was 9.1 percent of total credit to the private sector. In recent years, significant changes have taken place in total housing loan portfolios. Private 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 BDT 367.1 billion in outstanding housing loans as of end June 2017. The SCBs had the second largest amount of BDT 142.1 billion and other banks had BDT 20.1 billion in total outstanding of housing loans as of end June 2017. 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.

8.37 The state owned House Building Finance Corporation (HBFC) had an amount of BDT 29.9 billion in outstanding housing loans as of end June 2017. 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

Table 8.12 Outstanding Housing Loans

(billion BDT)

Lenders	Outstanding as of end June		
	FY15	FY16	FY17 ^P
a. Specialised housing finance providers	63.5	70.5	77.1
i. HBFC	30.2	30.1	29.9
ii. Delta-Brac Housing Finance	28.7	33.4	39.0
iii. National Housing Finance	4.6	7.0	8.2
b. Banks	392.0	450.0	529.3
i. PCBs	262.3	309.2	367.1
ii. SCBs	108.7	119.3	142.1
iii. Other banks (foreign and specialised)	21.0	21.0	20.1
c. Other financial institutions	30.8	42.9	53.5
d. Micro-credit lenders			
Grameen Bank	0.02	0.07	0.3
Total	486.3	563.5	660.2

^P Provisional.

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

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 FY16 and FY17, BDT 2.5 billion and BDT 2.8 billion were disbursed out of recoveries of BDT 5.2 billion and BDT 5.5 billion respectively.

8.38 Grihayan Tahbil 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 2017, the Grihayan Tahbil has been released BDT 2.14 billion through 514 NGOs for rural housing programme which have covered 403 upazilas of 63 districts of the country and 67882 houses have already been constructed. Moreover, 102 new NGOs have been enlisted to build houses.

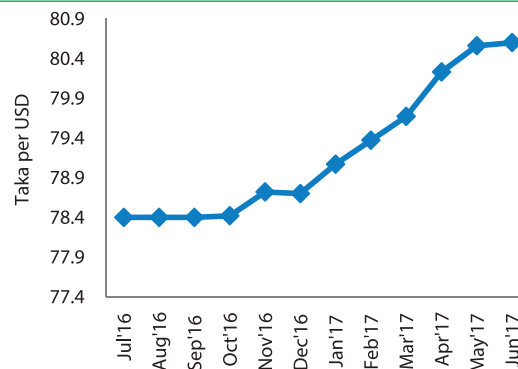
As of end of June 2017, Tahbil has recovered BDT 1.5 billion against the total recoverable amount of BDT 1.6 billion and recovery rate is 96.7 percent.

8.39 In addition, a dormitory/women hostel for the poor female workers is being constructed at Ashulia of Savar upzilla under the supervision of the Department of Women Affairs at the cost of BDT 0.2 billion which is financed by Grihayan Tahbil where a total of 744 women workers will get the residence facility. Apart from the housing loan activities Grihayan Tahbil disbursed BDT 0.1 billion as a grant to the poor people who are affected by natural calamities like Sidr, Ila, etc.

Foreign Exchange Market

8.40 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. In FY17, BDT experienced a depreciation of 2.81

Chart 8.6 Movements of BDT-USD exchange rate in FY17



Source: Monetary Policy Department, Bangladesh Bank.

percent against US dollar compared to 0.77 percent depreciation in FY16 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 BDT 80.59 per USD as of 30 June 2017 (end period) against BDT 78.40 per USD as on 30 June 2016 (Chart 8.6).