Annual Report

2016-2017

Bangladesh Bank

Annual Report

(July 2016-June 2017)

BANGLADESH BANK

(The Central Bank of Bangladesh)

Letter of Transmittal

BANGLADESH BANK

Dhaka
26 December 2017

The Senior Secretary
Financial Institutions Division
Ministry of Finance
Government of the People's Republic of Bangladesh
Dhaka.

Dear Sir,

In terms of Article 40 (2) of the Bangladesh Bank Order, 1972 (P. O Number 127) I have the honour to submit to the Government of the People's Republic of Bangladesh the Annual Report of the Bangladesh Bank for the financial year 2016-2017. Audited Accounts of the Bank for the financial year was forwarded earlier on 30 August 2017.

Yours faithfully,

(Fazle Kabir)
Governor

Board of Directors

Mr. Fazle Kabir	Chairman
Mr. Hedayetullah Al Mamoon*	Director
Mr. Md. Nojibur Rahman	Director
Mr. Md. Eunusur Rahman	Director
Dr. Mrs. Rushidan Islam Rahman	Director
Dr. Jamaluddin Ahmed, FCA	Director
Mr. A. K. M Aftab ul Islam, FCA**	Director
Mr. Abu Hena Mohd. Razee Hassan	Director
Mr. Md. Mijanur Rahman Joddar***	Secretary

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* Mr. Hedayetullah Al Mamoon was appointed as Director of the Board in place of Mr. Mahbub Ahmed with effect from 09 March 2017.

** Mr. A. K. M Aftab ul Islam, FCA was appointed as Director of the Board with effect from 01 January 2017.

*** Mr. Md. Mijanur Rahman Joddar was made as the Secretary of the Board in place of Mr. Mohammad Naushad Ali Chowdhury with effect from 17 October 2016.

Governor

Fazle Kabir

Deputy Governors

Abu Hena Mohd. Razee Hassan

Shitangshu Kumar Sur Chowdhury

S.M. Moniruzzaman

Change Management Adviser

Md. Allah Malik Kazemi

Chief Economist

Dr. Faisal Ahmed

Executive Directors/Economic Adviser

Dr. Md. Akhtaruzzaman

Ahmed Jamal

Subhankar Saha

Mohammad Masum Kamal Bhuiyan

Md. Abdur Rahim

Muhammad Mijanur Rahman Joddar

Md. Nazimuddin

Md. Muslem Uddin

Sheikh Abdullah

Sheikh Azizul Haque

Sultan Ahmed

Ashok Kumar Dey

Kazi Sayedur Rahman

A. K. M. Fazlul Haque Mia*

Md. Golam Mostafa

Md. Sohrawardy

Mohd. Humayun Kabir

Md. Shafiqul Islam

Dr. Abul Kalam Azad

Debashish Chakrabortty

Md. Serajul Islam

Joarder Israil Hossain

A.N.M. Abul Kashem

As on 30 June, 2017.

* Executive Director (Specialized) and in charge of ICT (additional duty).

Departments* of the Head Office and Department Heads**

Accounts & Budgeting Department	A.K.M. Fazlur Rahman, General Manager
Agricultural Credit Department	Manoj Kanti Bairagi, General Manager
Bangladesh Bank Training Academy	Rokeya Akhter, General Manager
	A. K. M. Mohiuddin Azad, General Manager
	Swapan Kumar Roy, General Manager
	A.B.M. Sadeque, General Manager
	Md. Mostafizur Rahman Sarder, General Manager
	Md. Anwarul Islam, General Manager
	Chandan Saha, General Manager
Bangladesh Financial Intelligence Unit	Debaprosad Debnath, General Manager@
Bankers Selection Committee Secretariat	Md. Mosharraf Hossain Khan, General Manager
Banking Regulation & Policy Department	Abu Farah Md. Naser, General Manager
Chief Economist's Unit	Dr. Md. Ezazul Islam, General Manager
Common Services Department-1	Nahida Begum, General Manager
Common Services Department-2	Md. Tafazzal Hossain, General Manager
Credit Information Bureau	Monsura Khatun, General Manager
Department of Banking Inspection-1	Mohammad Ahmed Ali, General Manager
Department of Banking Inspection-2	Sheikh Mozaffar Hossain, General Manager
Department of Banking Inspection-3	Mohammad Yunus, General Manager
Department of Banking Inspection-4	Md. Elias Sikder, General Manager
Department of Communications and Publications	G.M. Abul Kalam Azad, General Manager
Department of Currency Management	Md. Sultan Masud Ahmed, General Manager
Department of Foreign Exchange Inspection	S.M. Hasan Reza, General Manager
Department of Financial Institutions & Market	Md. Shah Alam, General Manager
Deposit Insurance Department	Md. Abdul Hamid, General Manager
Debt Management Department	Md. Awlad Hossain Chowdhury, General Manager
Department of Off-site Supervision	S.M. Rabiul Hassan, General Manager
Expenditure Management Department-1	Md. Shoaib Ali, General Manager
Expenditure Management Department-2	Md. Zamal Mollah, General Manager
Foreign Exchange Investment Department	Md. Rezaul Islam, General Manager
Foreign Exchange Operation Department	Md. Abu Taher, General Manager
Foreign Exchange Policy Department	Md. Masud Biswas, General Manager
Financial Integrity and Customer services Department	A.K.M. Amjad Hussain, General Manager
Financial Inclusion Department	Md. Abul Bashar, General Manager
Financial Institutions Inspection Department	Md. Shahidul Islam, General Manager
Forex Reserve & Treasury Management Department	Md. Azizur Rahman, General Manager
Financial Sector Support & Strategic Planning Department	Md. Ashraful Alam, General Manager
Financial Stability Department	Dr. Md. Kabir Ahmed, General Manager
Governor's Secretariat	Dr. Md. Habibur Rahman, General Manager
Human Resources Department-1	Noor-Un-Nahar, General Manager
Human Resources Department-2	Qazi Enayet Hussain, General Manager
Internal Audit Department	Md. Sadrul Huda, General Manager@
Information Systems Development Department	Debdulal Roy, Systems Manager
Integrated Supervision Management Department	Prokash Chandra Bhadra, General Manager
IT Operation & Communication Department	Mohammed Ishaque Miah, Systems Manager
Law Department	Syed Tariquzzaman, General Manager
Monetary Policy Department	Md. Julhas Uddin, General Manager
Payment Systems Department	Lila Rashid, General Manager
Research Department	Md. Abdul Awwal Sarker, General Manager
	Asish Kumar Das Gupta, General Manager
	Mahfuza Akther, General Manager
	Dr. Sayera Younus, General Manager
	Md. Mahbubar Rahman Khan, General Manager
Secretary's Department	Md. Khurshid Alam, General Manager
Statistics Department	Roksana Begum, General Manager
	Md. Azizul Islam, General Manager
	Mohammad Ballal Hossain, General Manager
Security Management Department	Lt. Col. (Retd.) Md. Mahmudul Haque Khan Chowdhury, General Manager@
SME & Special Programmes Department	Shaikh Md. Salim, General Manager
Special Studies Cell	Mohammad Golam Haider, General Manager
Sustainable Finance Department	Monoj Kumar Biswas, General Manager

* As per alphabetical arrangement. ** As of 30 June, 2017.

@ Contractual Basis

Note: 1) Md. Bazlar Rahman Molla, General Manager, Nurun Nahar, General Manager, Main Uddin Ahmed, General Manager, Muhammad Shah Alam, General Manager, Md. Obaidul Hoque, General Manager, Md. Nazrul Islam, General Manager are on deputation with EEF Unit, Housing Fund, Microcredit Regulatory Authority, Bangladesh Institute of Bank Management, Institute of Bankers Bangladesh, The Security Printing Corporation Bangladesh Limited.

2) Md. Eskandar Mian, General Manager, Mohammad Murshid Alam, General Manager and Kazi Aktarul Islam, General Manager are attached with HRD-1.

Branch Offices* and Office Heads**

Barisal	Md. Sohrawardy, Executive Director
	Md. Anwar Hossain, General Manager
Bogra	Kazi Sayedur Rahman, Executive Director
	Provash Chandra Mallick, General Manager
Chittagong	Mohd. Humayun Kabir, Executive Director
	Rahena Begum, General Manager
	Md. Habibur Rahman, General Manager
Khulna	A.N.M. Abul Kashem, Executive Director
	Md. Robiul Islam, General Manager
	Ashim kumar Majumder, General Manager
Motijheel	Dr. Abul Kalam Azad, Executive Director
	Md. Masum Patwary, General Manager
	Mohammad Khurshid Wahab, Currency Officer, (General Manager)
	Dr. Mihir Kanti Chakroborty, Chief Medical Officer (General Manager)@
Mymensingh	Md. Zakir Hossain Chowdhury, General Manager
Rajshahi	Debashish Chakrabortty, Executive Director
	Laila Bilkis Ara, General Manager
	Nurun Nahar, General Manager
Rangpur	Joarder Israil Hossain, Executive Director
	Md. Shahin Ul Islam, General Manager
Sadarghat	Md. Eunus Ali, General Manager
Sylhet	Md. Serajul Islam, Executive Director
	Md. Shazzad Hossoin, General Manager

* As per alphabetical arrangement.
** As of 30 June, 2017
@ Contractual Basis.

Contents

Contents

Contents

Contents

Contents

Contents

Contents

Contents

Contents

Contents

Contents

Charts | Pages

Contents

Contents

Contents

List of Abbreviations

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
A/C	Account
ACC	Anti-Corruption Commission
A&BD	Accounts & Budgeting Department
ACU	Asian Clearing Union
ACUD	Asian Clearing Union Dollar
ADB	Asian Development Bank
ADP	Annual Development Programme
ADs	Authorised Dealers
AFI	Alliance for Financial Inclusion
AML	Anti Money Laundering
APG	Asia Pacific Group on Money Laundering
ASEAN	Association of South East Asian Nations
ATA	Anti-Terrorism Act
ATDTL	Average Total Demand and Time Liabilities
ATDP	Agro- based Industries and Technology Development Project
ATM	Automated Teller Machine
BACH	Bangladesh Automated Clearing House
BACPS	Bangladesh Automated Cheque Processing Systems
BB	Bangladesh Bank
BBQ	Bangladesh Bank Quarterly
BBIN-MVA	Bangladesh, Bhutan, India and Nepal Motor Vehicle Agreement
BBS	Bangladesh Bureau of Statistics
BBTA	Bangladesh Bank Training Academy
BCBS	Basel Committee on Banking Supervision
BDBL	Bangladesh Development Bank Limited
BDT	Bangladesh Taka
BEZA	Bangladesh Economic Zones Authority
BEFTN	Bangladesh Electronic Fund Transfer Network
BFIU	Bangladesh Financial Intelligence Unit
BGAPMEA	Bangladesh Accessories & Packaging Manufacturers & Exporters Association
BGIIB	Bangladesh Government Islamic Investment Bond
BGMEA	Bangladesh Garment Manufactures & Exporters Association
BGTBs	Bangladesh Government Treasury Bonds
BHBFC	Bangladesh House Building Finance Corporation
BHI	Bank Health Index
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BIC	Basel Implementation Cell
BIG-B	Bay of Bengal Industrial Growth Belt
BIRP	Bank Intervention Resolution Plan
BKB	Bangladesh Krishi Bank
BKMEA	Bangladesh Knitwear Manufacturers and Exporters Association
BLW	Bad Loss Write-off
BoP	Balance of Payments
BPC	Bangladesh Petroleum Corporation
BPO	Bangladesh Post Office
BPSSR	Bangladesh Payment and Settlement Systems Regulations
BRDB	Bangladesh Rural Development Board
BRPD	Banking Regulation & Policy Department
BSBL	Bangladesh Samabaya Bank Limited
BSEC	Bangladesh Securities and Exchange Commission
BSS	Banking Supervision Specialists
CAB	Current Account Balance
CAMD	Capital Adequacy and Market Discipline
CAMEL	Capital Adequacy, Asset Quality, Management, Earnings and Liquidity
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk
CAMLCO	Chief Anti Money Laundering Compliance Officer
CAR	Capital Adequacy Ratio
CBS	Core Banking Solution
CBSP	Central Bank Strengthening Project fund
CCB	Capital Conservation Buffer
CCB	Counter-cyclical Capital Buffer
CDLC	Central Depository for Large Credit
CDMC	Cash and Debt Management Committee
CDMTC	Cash and Debt Management technical committee
CET1	Common Equity Tier-1
CEU	Chief Economist's Unit
CFC	Chlorofluorocarbon
CFT	Combating the Financing of Terrorism
CIB	Credit Information Bureau
CID	Criminal Investigation Department
CIF	Cost, Insurance and Freight
CIPC	Customers' Interests Protection Centre
CIT	Cheque Imaging and Transaction
CMI	Capital Market Intermediaries
CNY	Chinese Yuan Renminbi
CP	Commercial paper
CPF	Contributory Provident Fund
CPI	Consumer Price Index
CRAR	Capital to Risk-weighted Asset Ratio
CRMR	Comprehensive Risk Management Report
CRO	Chief Risk Officer
CRR	Cash Reserve Requirement
CSE	Chittagong Stock Exchange
CSR	Corporate Social Responsibility
CTRs	Cash Transaction Reports
DBI-1	Department of Banking Inspection-1
DBI-2	Department of Banking Inspection-2
DBI-3	Department of Banking Inspection-3
DBI-4	Department of Banking Inspection-4
DC	Data Centre
DFEI	Department of Foreign Exchange Inspection
DFIM	Department of Financial Institutions & Market
DFIs	Development Finance Institutions

DIS	Deposit Insurance System
DITF	Deposit Insurance Trust Fund
DMD	Debt Management Department
DMS	Document Management System
DNFBP	Designated Non-Financial Business or Profession
DNS	Deferred Net Settlement
DOS	Department of Off-site Supervision
DSIB	Domestic Systematically Important Bank
DRR	Diagnostic Review Report
DSE	Dhaka Stock Exchange
DSEX	Dhaka Stock Exchange Broad Index
DSGE	Dynamic stochastic general equilibrium
DRS	Disaster Recovery Site
DvP	Delivery versus Payment
ECF	Extended Credit Facility
EDD	Environmental Due Diligence
EDF	Export Development Fund
EDW	Enterprise Data Warehouse
EEF	Equity and Entrepreneurship Fund
EFT	Electronic Fund Transfer
EGBMP	Enterprises Growth and Bank Modernisation Programme
EI	Expenditure-Income
ELA	Emergency Liquidity Assistance
EMT	Executive Management Team
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
ERM	Environmental Risk Management
ERP	Enterprise Resource Planning
ERQ	Exporters' retention quota
ERR	Environmental Risk Rating
ESMF	Environmental and Social Management Framework
ESRM	Environmental and Social Risk Management
ETP	Effluent Treatment Plant
EU	European Union
EWS	Early Warning System
EZ	Economic Zone
FAO	Food and Agriculture Organisation
FAQ	Frequently Asked Question
FATF	Financial Action Task Force
FCBs	Foreign Commercial Banks
FCK	Fixed Chimney Kiln
FDC	Far Data Centre
FDI	Foreign Direct Investment
FDIPP	Foreign Direct Investment Promotion Project
FIs	Financial Institutions
FICSD	Financial Integrity and Customer Service Department
FLE	Financial Literacy Programme
FoB	Free on Board
FPM	Financial Projection Model
FRTMD	Forex Reserve & Treasury Management Department
FSD	Financial Stability Department
FSPDSME	Financial Sector Project for the Development of Small and Medium-sized Enterprise
FSR	Financial Stability Report
FSSP	Financial Sector Support Project
FTA	Free Trade Agreement
FY	Financial Year (July- June)
GDE	Gross Domestic Expenditure
GDP	Gross Domestic Product
GDS	Gross Domestic Savings
GFSR	Global Financial Stability Report
GHG	Green House Gas
GIIB	Government Islamic Investment Bond
GNI	Gross National Income
GNS	Gross National Savings
GPF	General Provident Fund
GoB	Government of Bangladesh
GTF	Green Transformation Fund
GVA	Gross Value Added
H1	First Half
H2	Second Half
HBFC	House Building Finance Corporation
HFT	Held for Trade
HHI	Herfindahl-Hirschman Index
HHK	Hybrid Hoffman Kiln
HPI	House Price Index
HRD-1	Human Resources Department-1
HRD-2	Human Resources Department-2
HTM	Held to Maturity
IAD	Internal Audit Department
IADI	International Association of Deposit Insurers
IAMCL	ICB Asset Management Company Ltd
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
ICB	Investment Corporation of Bangladesh
ICML	ICB Capital Management Ltd
ICT	Information and Communication Technology
IDA	International Development Association
IDCOL	Infrastructure Development Company Limited
IDIPA	Information for Deposit Insurance Premium Assessment
IESH	Inflation Expectation Survey of Households
IFRSs	International Financial Reporting Standards
IFS	International Financial Statistics
IFSB	Islamic Financial Services Board
ILF	Intraday Liquidity Facility
IMF	International Monetary Fund
IPFF	Investment Promotion & Financing Facility
IPO	Initial Public Offering
IR	Insolvency Ratio
ISMD	Integrated Supervision Management Department
ISO	International Organisation for Standardisation
ISS	Integrated Supervision System
ISTCL	ICB Securities Trading Company Ltd.
IT	Information Technology
ITM	Inter-bank Transaction Matrix
JICA	Japan International Cooperation Agency
JLP	Joint Learning Program

JPY	Japanese Yen
KYC	Know Your Customer
KSA	Kingdom of Saudi Arabia
L/C	Letter of Credit
LAN	Local Area Network
LATR	Loan against Trust Receipt
LCR	Liquidity Coverage Ratio
LCAF	Letter of Credit Authorization Form
LEA	Law Enforcement Agencies
LFI	Local Finance Initiatives
LIBOR	London Interbank Offered Rate
LOLR	Lender of Last Resort
LSF	Liquidity Support Facility
LTF	Long Term Financing
LTFF	Long Term Financing Facility
M2	Broad Money
MANCOM	Management Committee
MC	Money Changers
MCR	Minimum Capital Requirements
MDGs	Millennium Development Goals
ME	Mutual Evaluation
MEI	Monthly Economic Indicators
MER	Mutual Evaluation Report
MFIs	Microfinance Institutions
MFS	Mobile Financial Services
MI	Market Infrastructure
ML	Money Laundering
MLT	Medium and Long Term
MMT	Million Metric Tons
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MPD	Monetary Policy Department
MPS	Monetary Policy Statement
MRA	Microcredit Regulatory Authority
MRMR	Monthly risk management report
MSCI	Morgan Stanley Capital International
MSFSCIP	Marginal and Small Farm System Crop Intensification Project
MSMEs	Micro, Small and Medium Enterprises
MTMF	Medium Term Macroeconomic Framework
NAFTA	North American Free Trade Agreement
NBFIs	Non-bank Financial Institutions
NBR	National Board of Revenue
NCDP	Northwest Crop Diversification Project
NDA	Net Domestic Assets
NDC	Near Data Centre
NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Assets
NFAs	No-Frill Accounts
NFCD	Non-Resident Foreign Currency Deposit
NGOs	Non-Governmental Organisations
NII	Net Interest Income
NIM	Net Interest Margin
NITA	Non-resident Investor Taka Account
NNPL	Net Non-performing Loans
NOC	No Objection Certificate
NPLs	Non-performing Loans
NPO	Non-profit organisation
NPS	National Payment Switch
NPSB	National Payment Switch, Bangladesh
NRB	Non-resident Bangladeshi
NSD	National Saving Directorate
NSC	National Saving Certificates
OBIEE	Business Intelligence Enterprise Edition
OCI	Other comprehensive income
OECD	Organisation for Economic Co-operation and Development
OIC	Organization of Islamic Cooperation
OMO	Open Market Operation
OPGSPs	Online Payment Gateway Service Providers
OTC	Over the Counter
PCBs	Private Commercial Banks
PDs	Primary Dealers
PFDS	Public Food Distribution System
PF	Proliferation Financing
PFI	Participating Financial Institution
PIAR	Pre-Inspection Assessment Report
PKSF	Palli Karma Sahayak Foundation
POL	Petroleum, Oil and Lubricants
POs	Partner Organisations
POS	Point of Sale
PPE	Property, plant and equipment
PPP	Public Private Partnership
PRGF	Poverty Reduction and Growth Facility
PSD	Payment Systems Department
PSO	Payment Systems Operator
QFSAR	Quarterly Financial Stability Assessment Report
QIIP	Quantum Index of Industrial Production
QRR	Quick Review Report
RAKUB	Rajshahi Krishi Unnayan Bank
RBCA	Risk Based Capital Adequacy
RCBC	Rizal Commercial Banking Corporation
RD	Research Department
REER	Real Effective Exchange Rate
Repo	Repurchase Agreement
RM	Reserve Money
RMD	Risk Management Division
RMG	Ready Made Garments
RMP	Risk Management Paper
RMU	Risk Management Unit
ROA	Return on Assets
ROE	Return on Equity
RPPI	Property Price Index
RTGS	Real Time Gross Settlement
RUIM	Removable User Identity Module
RWA	Risk Weighted Assets
S&P	Standard and Poor’s
SAARC	South Asian Association for Regional Cooperation

SC	Steering Committee
SCBs	State -owned Commercial Banks
SCDP	Second Crop Diversification Project
SD	Statistics Department
SDC	Swiss Agency for Development and Cooperation
SDGs	Sustainable Development Goals
SDR	Special Drawing Rights
SFD	Sustainable Finance Department
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission
SEIP	Skills for Employment Investment Programme
SEK	Swedish Krona
SGD	Singapore Dollar
SHOGORIP	Shashya Gudam Rin Prokalpa
SIM	Subscriber Identity Module
SLR	Statutory Liquidity Ratio
SMEs	Small and Medium-sized Enterprises
SMEDP	Small and Medium-sized Enterprise Development Project
SMESDP	Small and Medium-sized Enterprise Sector Development Project
SME&SPD	SME & Special Programmes Department
SPCBL	Security Printing Corporation (Bangladesh) Ltd.
SPM	Suspended Particulate Matter
SR	Saudi Riyal
SREP	Supervisory Review Evaluation Process
SRP	Supervisory Review Process
STRs	Suspicious Transaction Reports
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TA	Technical Assistance
TDTL	Total Demand and Time Liabilities
TF	Terrorist Financing
TFP	Total Factor Productivity
TM	Travel and Miscellaneous
TMSS	Thengamara Mohila Sabuj Sangha
TSL	Two Step Loan
TWS	Trader Work Station
UAE	United Arab Emirates
UBSP	Urban Building Safety Project
UK	United Kingdom
UNCDF	United Nations Capital Development Fund
US	United States
USA	United States of America
USD	US Dollar
VAR	Vector autoregression
VAT	Value Added Tax
VPN	Virtual Private Network
VSBK	Vertical Shaft Brick Kiln
WAN	Wide Area Network
WAR	Weighted Average Resilience
WAR-WIR	Weighted Average Resilience-Weighted Insolvency Ratio
WEO	World Economic Outlook
WFE	World Federation of Exchanges
WG	Working Group
WIR	Weighted Insolvency Ratio
WMA	Ways and Means Advance
WP	Working Paper
WTO	World Trade Organisation

Macroeconomic Performance and Prospects

Global Economic Outlook

1.1 The recovery in global growth continue to strengthening as expected, with global output projected to grow by 3.6 percent in 2017 and 3.7 percent in 2018 from the lowest 3.2 percent growth in 2016 since the global financial crisis. Advanced economies are expected to grow by 2.2 percent in 2017, 0.5 percentage points higher than in 2016, and moderate to 2.0 percent growth in 2018. Emerging markets and developing economies are projected to grow by 4.6 percent in 2017, 0.3 percentage points higher than in 2016, and rising to 4.9 percent in 2018. The growth forecasts are 0.1 percentage point higher in both 2017 and 2018 than the forecasts of World Economic Outlook (WEO), April 2017. The revisions reflect primarily the upward revisions in the euro area, Japan, emerging Asia, emerging Europe and Russia which more than offset downward revisions in the United States, the United Kingdom and India (World Economic Outlook, October 2017).

Table 1.1 World Economic Outlook projections for 2017-18

(annual percentage change)

	Actual		Projections	
	2015	2016	2017	2018
World output	**3.4**	**3.2**	**3.6**	**3.7**
Advanced economies	2.2	1.7	2.2	2.0
United States	2.9	1.5	2.2	2.3
Euro area	2.0	1.8	2.1	1.9
Germany	1.5	1.9	2.0	1.8
France	1.1	1.2	1.6	1.8
Italy	0.8	0.9	1.5	1.1
Spain	3.2	3.2	3.1	2.5
United Kingdom	2.2	1.8	1.7	1.5
Japan	1.1	1.0	1.5	0.7
Canada	0.9	1.5	3.0	2.1
Other advanced economies	2.1	2.2	2.6	2.5
Emerging market and developing economies	4.3	4.3	4.6	4.9
Emerging and developing Asia	6.8	6.4	6.5	6.5
China	6.9	6.7	6.8	6.5
ASEAN-5	4.9	4.9	5.2	5.2
South Asia				
Bangladesh	6.8	7.2	7.1	7.0
India	8.0	7.1	6.7	7.4
Pakistan	4.1	4.5	5.3	5.6
Sri Lanka	4.8	4.4	4.7	4.8
World trade volume (goods and services)	**2.8**	**2.4**	**4.2**	**4.0**
Imports				
Advanced economies	4.6	2.7	4.0	3.8
Emerging and developing economies	-0.9	2.0	4.4	4.9
Exports				
Advanced economies	3.8	2.2	3.8	3.6
Emerging and developing economies	1.8	2.5	4.8	4.5
Commodity prices (U.S. dollars)				
Oil	-47.2	-15.7	17.4	-0.2
Nonfuel	-17.5	-1.8	7.1	0.5
Consumer prices				
Advanced economies	0.3	0.8	1.7	1.7
Emerging market and developing economies	4.7	4.3	4.2	4.4
South Asia				
Bangladesh	6.2	5.7	5.7	5.8
India	4.9	4.5	3.8	4.9
Pakistan	4.5	2.9	4.1	4.8
Sri Lanka	2.2	4.0	6.0	5.0

Source: World Economic Outlook Update, October 2017, IMF.

1.2 United States growth forecast is revised downward by 0.1 and 0.2 percentage point for 2017 and 2018 respectively. This downward revision mainly uses baseline assumption of no policy change, given the significant policy uncertainty, while in April forecast it assumed a fiscal stimulus from anticipated tax cuts. United Kingdom growth forecast is also revised downward by 0.3 percentage point in 2017 compared to April forecast mainly because of slower than expected growth performance during the first two quarters of 2017. The slower growth is driven by the weaker growth in the private consumption as the Pound's depreciation reduced household real income. The growth forecast in euro area is 0.4 and 0.3 percentage point higher for 2017 and 2018, respectively, compare to April. This upward revision mainly reflects acceleration in exports and continued domestic demand growth. Growth of Japan is also revised upward driven by the strengthening of global demand and policy actions to sustain a supportive fiscal stance.

1.3 Growth forecast increased strongly in emerging and developing economies. These forecasts reflect an upward revisions by 0.1 percentage point for both 2017 and 2018, relative to April, primarily supported by a stronger growth projection in China. China's growth forecast reflects stronger-than-expected growth outturn in the first half of 2017 underpinned by previous policy easing and supply-side reforms. In the rest of emerging market and developing Asia, growth is expected to be vigorous and slightly higher than the April forecast. In India, data revisions and strong fiscal expansion by the government led to an upward revision of growth to 7.1 percent in 2016 from 6.8 percent growth in April. However, the growth forecast revised downward to 6.7 percent in 2017, reflecting still continued disruptions associated with the currency exchange initiative introduced, along with the transition costs related to the introduction of the national Goods and Service Tax in July 2017. Growth forecast is also revised upward for emerging Europe for 2017, indicating stronger growth in Turkey and other countries in the region. Growth in Russia is also revised upward for 2017 and 2018 relative to April, supported by stabilizing oil prices, easing financial conditions, and improved confidence after two years of recession.

1.4 Consumer prices in advanced economies are expected to increase by 1.7 percent in 2017 and 2018 from 0.8 percent increase in 2016. Similarly, consumer prices in emerging markets and developing economies are expected to grow by 4.2 percent in 2017 from 4.3 percent growth in 2016. It is projected to further rise by 4.4 percent in 2018.

1.5 World trade volume growth is projected to increase from 2.4 percent in 2016 to 4.2 percent in 2017 and then marginally decrease to 4.0 percent in 2018 (WEO, October 2017). The growth rate of imports for advanced economies is expected to increase from 2.7 percent in 2016 to 4.0 percent in 2017 and 3.8 percent in 2018. In emerging markets and developing economies, growth rate of imports is projected to increase from 2.0 percent in 2016 to 4.4 percent in 2017, and then to 4.9 percent in 2018. Exports of advanced economies are expected to grow by 3.8 percent and 3.6 percent in 2017 and 2018 respectively from 2.2 percent growth in 2016. Similarly, exports of emerging markets and developing economies are expected to grow by 4.8 percent and 4.5 percent during 2017 and 2018 respectively from 2.5 percent growth in 2016.

1.6 According to Global Financial Stability Report (GFSR) of October 2017, the global financial stability continues to strengthen supported by the extraordinary policy measures, regulatory developments and cyclical upturn in growth. In many advanced economies, banking sector indicators are improving as a result of progress made in resolving some fragile banks, whereas a number of institutions are restoring profitability by upgrading their business models. The momentum in global economic growth have boosted up market confidence as well as reduced short term risks to financial stability. Apart from these latest development, the continued accommodative monetary policy is also leading to risks in the form of rising asset valuation and higher leverage. Thus, financial stability risks are shifting from the banking sector to the nonbank sector. These developments along with the associated risks demand for the ultimate monetary policy normalization as well as avoidance of buildup of additional financial risks outside the banking system.

1.7 According to WEO of October 2017, in the near term, there exist two sided risks to the global growth forecast. On the positive side, momentum for economic recovery could last longer than expectation supported by strong consumer and business confidence and favourable financial conditions. On the downside, policy uncertainty remains a major source of concern emanating from the highly uncertain US regulatory and fiscal policies, the possible implementation of trade restrictions, and United Kingdom's negotiation with the EU on Brexit process. In the medium term, still there remains downside risks to the global growth. Potential sources of risks includes tightening of global financial conditions, persistently low inflation in advanced economies, financial disruption in emerging market economies, a policy shift toward protectionism. In addition, a number of noneconomic factors such as geopolitical risks, domestic political instability, lack of good governance, natural disaster resulting from the extreme weather, and terrorists activities and security issues, may hamper economic activities.

Developments in the Bangladesh Economy

1.8 Bangladesh economy grew by 7.28 percent in FY17, up from 7.1 percent in FY16. This growth was mainly supported by industry and services sectors. Based on the sectoral developments and econometric estimates, BB staff projects FY18 real GDP growth in the range of 7.1-7.4 percent. Annual average CPI inflation continued to decline and stood at 5.4 percent in June 2017, well below the 5.8 percent target ceiling for FY17. The declining trend in average CPI inflation is mainly driven by non-food inflation, while food inflation witnessed a sharp increase due to flash flood-related crop losses in the Northeastern haor regions in H2FY17. Based on the BB's analytical models and the recent economic developments, average inflation is projected to be within 5.3-5.6 percent in June 2017. Bangladesh Bank's projection also shows average inflation for H1FY18 to be around 5.5-5.9 percent. Looking ahead, given the domestic inflation dynamics, food price developments and tapering base effects, some price pressures may emerge during FY18 and will need to be monitored and contained carefully.

1.9 In FY17, Bangladesh Bank implemented its monetary policy stance to achieve price stability, alongside supporting inclusive output and employment growth. The monetary program for FY17 takes into account the recent economic and financial sector developments and will target a monetary growth path aiming at keeping average inflation below 5.8 percent. The monetary program framework is based on the ceilings for broad money and reserve money growth of 15.5 and 14.0 percent, respectively. This is consistent with domestic credit growth within 16.4 percent and private sector credit growth within 16.5 percent by June 2017. These are indicative ceilings deemed sufficient to accommodate projected GDP growth target, even allowing for some unforeseen extra growth spurt. The monetary program framework for FY18 is based on the ceiling for broad money and reserve money growth of 13.9 and 12.0 percent, respectively.

1.10 In FY17, growth of export fell sharply from 8.9 percent to 1.7 percent, while import witnessed a significant growth of 9.0 percent from 5.9 percent in FY16 leading to wider trade deficit. Remittance also declined sharply by 14.5 percent during FY17. Thus current account balance became negative of USD 1.5 billion although overall balance witnessed a surplus of USD 3.2 billion, mainly supported by the surplus of capital and financial account.

1.11 Foreign exchange reserves stood at USD 33.4 billion in June 2017, around 8 months of prospective import. Bangladesh Bank continued efforts to smooth out any large fluctuations in the exchange rate. As a result nominal BDT-USD exchange rate remained broadly stable.

Growth Performance

1.12 According to the provisional estimates released by the Bangladesh Bureau of Statistics (BBS), the economy grew by 7.28 percent during FY17, compared to 7.1 percent in FY16. The sectoral GDP growth is shown in Table 1.2.

1.13 Agriculture accounts for 14.7 percent of GDP and grew by 3.0 percent in FY17, up from 2.8 percent in FY16, mainly supported by the strong growth of all sub-sectors.

1.14 Industry accounts for 32.4 percent of GDP, and grew by 10.2 percent in FY17, down from 11.1 percent in FY16. This growth was supported by strong growth of construction sub-sector and manufacturing sector especially small scale industry.

1.15 The services sector accounts for the largest share (52.9 percent) of GDP and grew by 6.7 percent in FY17, compared to 6.3 percent in FY16. The growth of two major components of services sector - wholesale and retail trade repair of motor vehicles, motorcycles, and personal and household goods and transport, storage and communication largely contributed (1.95 and 1.5 percentage points respectively) to the overall service sector growth. Moreover, hotel and restaurants and transport, storage and communication sub-sector grew markedly by 7.1 and 6.8 percent, respectively. In addition, real estate, renting and other business activities and community, social and personal services subsectors grew faster in FY17.

Table 1.2 Sectoral GDP growth rates

(at FY06 constant prices)

	FY08-FY17 (average)	FY16[R]	FY17[R]
1. Agriculture	**3.8**	**2.8**	**3.0**
a) Agriculture and forestry	3.2	1.8	2.0
i) Crops and horticulture	2.9	0.9	1.0
ii) Animal farming	2.7	3.2	3.3
iii) Forest and related services	5.4	5.1	5.6
b) Fishing	6.0	6.1	6.2
2. Industry	**8.8**	**11.1**	**10.2**
a) Mining and quarrying	8.1	12.8	8.9
b) Manufacturing	9.3	11.7	11.0
i) Large and medium scale	9.6	12.3	11.2
ii) Small scale	7.7	9.1	9.8
c) Electricity, gas and water supply	9.5	13.3	8.5
d) Construction	7.8	8.6	8.8
3. Services	**5.9**	**6.3**	**6.7**
a) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	6.5	6.5	7.4
b) Hotel and restaurants	6.4	7.0	7.1
c) Transport, storage and communication	7.2	6.1	6.8
d) Financial intermediations	7.5	7.7	9.1
e) Real estate, renting and other business activities	4.1	4.5	4.8
f) Public administration and defence	8.3	11.4	9.2
g) Education	7.6	11.7	11.4
h) Health and social works	5.6	7.5	7.6
i) Community, social and personal services	3.3	3.3	3.6
GDP (at FY06 constant market prices)	**6.3**	**7.1**	**7.28**

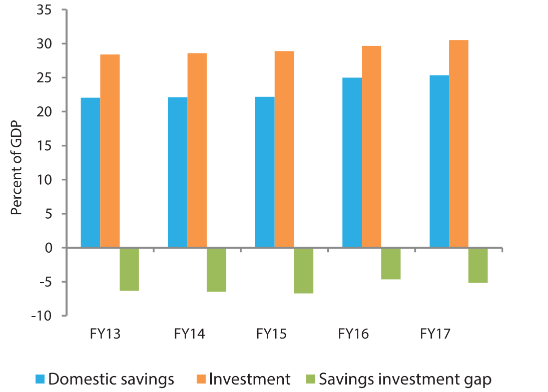
[R] Revised.
[P] provisional.
Source: Bangladesh Bureau of Statistics.

Savings and Investment

1.16 Investment relative to GDP increased marginally over the last few years. It increased to 30.51 percent in FY17 from 29.65 percent in FY16. Private investment increased shightly to 23.10 percent in FY17, from 22.99 percent in FY16, but public investment to GDP increased to 7.41 from 6.66 percent over the same period (Chart 1.1).

1.17 Gross national savings as percentage of GDP declined marginally to 29.64 percent in FY17 from 30.77 percent in FY16. In contrast, domestic savings as percentage of GDP improved from 24.98 percent to 25.33 percent over the same period. Gross domestic investments at current market prices grew faster than gross domestic savings (Chart 1.1). As a result, domestic saving-investment gap as percent of GDP widened up from 4.67 in FY16 to 5.18 FY17.

Chart 1.1 Trends of domestic savings Investment and savings-Investment gap

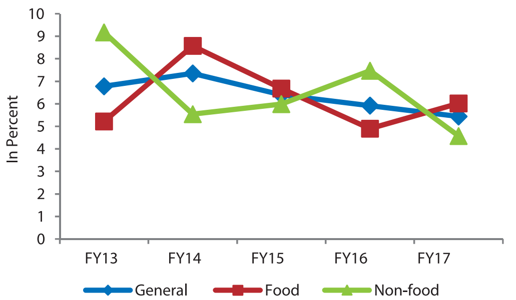


Source : Bangladesh Bureau of Statistics.

Price Developments

1.18 The declining trend of annual average CPI inflation, which started from a peak of 7.4 percent at the end of FY14 and reached 5.9 percent at the end of FY16, further fell to 5.4 percent at the end of FY17 (Chart 1.2). The declining trend in average CPI inflation in FY17 was mainly driven by non-food inflation, while food inflation witnessed a sharp increase due to flash flood-related crop losses in the Northeastern haor regions in FY17. In contrast, non-food price component of CPI declined due to subdued global inflation and favorable regional inflation rate. Moreover, core inflation, which excludes food and fuel components from the CPI basket, fell from 8.0 percent in June 2016 to 4.9 percent in June 2017.

Chart 1.2 Trends of National CPI inflation
(12 month average : base FY06 = 100)



Source : Bangladesh Bureau of Statistics and Bangladesh Bank.

Money and Credit Developments

1.19 In FY17, Bangladesh Bank pursued a monetary policy stance to ensure price stability, along with inclusive output and employment growth. The stance targeted a monetary growth path aiming at achieving above 7.0 percent real GDP growth and 5.8 percent annual average CPI inflation. In FY17, Bangladesh Bank's policy rate remained unchanged with repo rate at 6.75 percent and reverse repo rate at 4.75 percent.

1.20 Broad money (M2) grew by 10.9 percent in FY17, below the target growth of 15.5 percent and the 16.3 percent actual growth in FY16. The lower growth in broad money is driven by both net foreign asset (NFA) and net domestic asset (NDA). Growth of NFA declined sharply from 22.8 percent in FY16 to 11.5 percent. On the other hand, growth of net domestic asset also (NDA) decreased from 14.3 percent in FY16 to 10.7 percent in FY17 (Chart 1.3).

1.21 Domestic credit from the banking system grew by 11.2 percent, below the targeted growth of 16.4 percent for FY17 and actual growth of 14.4 percent in FY16. The lower than targeted growth in domestic credit mainly resulted from the negative growth of credit to the public sector, reflecting public financing mostly through NSD saving instruments and repayment of previous loans from the banking system by the government.

1.22 Private sector credit grew by 15.7 percent in FY17, slightly below the targeted growth of 16.5 percent for FY17 and the FY16 actual growth of 16.8 percent. The lower than targeted growth of private sector credit along with negative growth of public sector credit resulted to a lower growth of net domestic assets (NDA) of the banking system and stood at 10.7 percent in FY17 against the target of 17.3 percent and actual growth of 14.3 percent in FY16. Sources of broad money are shown in Chart 1.4.

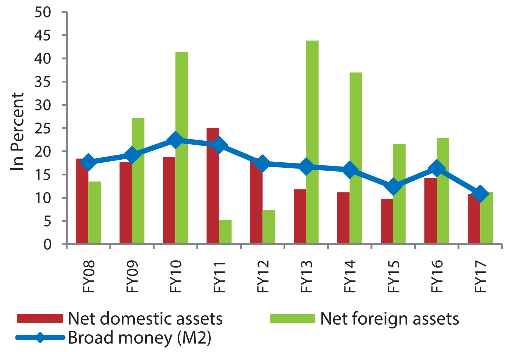
1.23 Reserve Money (RM) grew by 16.3 percent in FY17 which was higher than the projected growth of 14.0 percent and lower than the actual growth of 30.1 percent in FY16.

1.24 The weighted average interest rates on bank advances and deposits declined to 9.56 percent and 4.84 percent at the end of FY17 from 10.39 percent and 5.54 percent,respectively, at the end of FY16. The spread also narrowed slightly to 4.72 percent in FY17 from 4.85 percent over the same period of the preceding year.

Public Finance

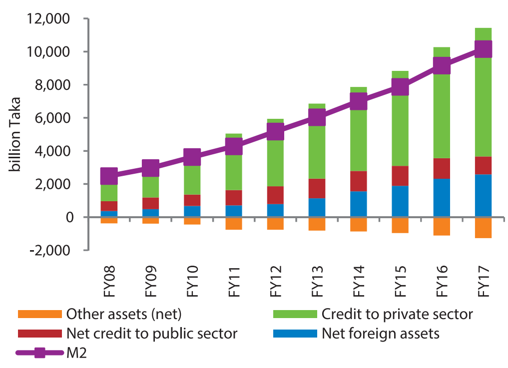
1.25 The Government has undertaken various reform initiatives such as automation, reduction of the rate of tax rebate, expansion of tax administration and expansion of tax net and

Chart 1.3 Trends of monetary aggregates
(Growth in percent)



Source : Monetary Policy Department, Bangladesh Bank.

Chart 1.4 Trends of sources of broad money



Source : Monetary Policy Department, Bangladesh Bank.

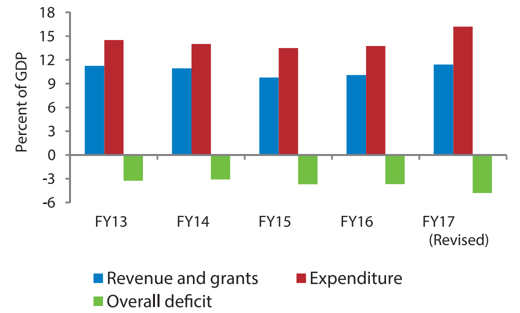
tax base under the National Board of Revenue (NBR) to streamline revenue collection. As a result, during FY17, the progress of NBR revenue collection was better than in the last few years.

1.26 According to the revised National Budget for FY17, the overall budget deficit (excluding grants) as percentage of GDP increased from 3.8 percent in FY16 to 5.0 percent in FY17. The overall budget deficit (including grants) increased to 4.8 percent of GDP in FY17 from 3.7 percent in FY16. The Government's financing from the banking system increased from 0.6 percent of GDP in FY16 to 1.2 percent of GDP in FY17, while financing from non- bank sources marginally increased from 2.3 to 2.4 percent of GDP over the same period (Chart 1.5 and 1.6).

1.27 The growth of total revenue collection was revised downward to 26.3 percent from the budget of 40.4 percent in FY17 and the actual revenue growth of 18.5 percent in FY16. The downward revision was mainly prompted by the weaker-than-expected tax revenue earnings by the NBR in the original budget of FY17. Total revenue-GDP ratio decreased from 14.0 percent in the original budget in FY17 to 12.6 percent in the revised budget but remained higher than the actual ratio of 10.0 percent of FY16.

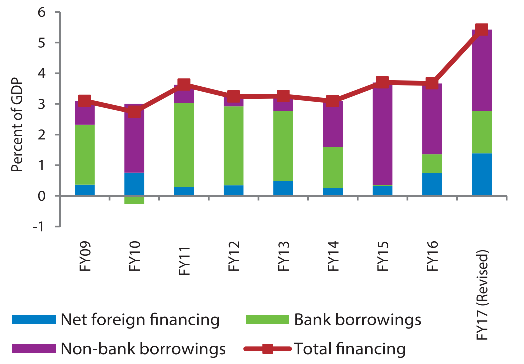
1.28 Public expenditure as percentage of estimated GDP increased from 13.8 percent in FY16 to 16.2 percent in FY17 revised budget. It grew by 33.0 percent in FY17 revised budget compared to 16.7 percent in FY16 actual budget. Current expenditure in FY17 revised budget stood at 10.3 percent of GDP which was 8.3 percent in FY16 actual budget (Chart 1.5).

Chart 1.5 Trends of revenue, expenditure and overall budget deficit
(as percent of GDP)



Source : Ministry of Finance.

Chart 1.6 Trends of deficit financing



Source : Ministry of Finance.

External Sector

1.29 Exports growth fell down to 1.7 Percent in FY17, while import growth increased to 9.0 percent. Exports stood at USD 34019 million in FY17 from USD 33441 million in FY16. During the same period the total import payments increased to USD 43491 million from USD 39901 million in FY16. As import grew faster than export, trade deficit widened to USD 9472 million over the same period from USD 6460 million in FY16 (Chart 1.7). The services and income account along with primary and secondary income registered a surplus of USD 7992 million. Current account balance turned negative USD 1480 million in FY17 from a surplus of USD 4262 million in FY16. The capital and financial account surplus widened to USD 4493 million in FY17 from USD 1408 million in FY16. The overall balance of payments surplus shrank to USD 3169 million in FY17, which was USD 5036 million in FY16 (Appendix-3 Table-XVI). Gross international foreign exchange reserves stood at USD 33.4 billion at the end of FY17 representing around 8 months of prospective import coverage.

1.30 The growth of export (f.o.b) earnings showed a sharp decline to 1.7 percent in FY17 from 8.9 percent in FY16 (chart 1.8).

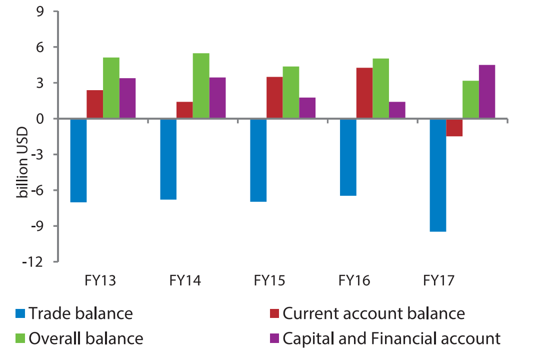
Consequently, export as percentage of GDP decreased to 14.0 in FY17 from 15.5 in FY16. Among the major export items, chemical products, plastic products, leather and leather products, cotton and cotton products, jute goods, home textile, footwear, and engineering products, experienced a higher growth in FY17, while frozen food, agricultural products, woven garments, petroleum bi-products, raw jute, and specialized textiles slowed down the pace of export performance as these items experienced a negative growth.

1.31 Imports (c.i.f) grew by 9.0 percent in FY17, up from 5.9 percent growth in FY16 (chart 1.8). Import payments as a percentage of GDP continued to decline in recent years and edged down to 17.4 in FY17 from 18.0 in FY16. Total import payments for food grains, milk and cream, spices, pulses, sugar, clinker, POL, plastic and rubber articles thereof, raw cotton, and iron, steel & other base metals rose in FY17 compared to FY16 while those for oil seeds, fertilizer, textile & textile articles thereof, and staple fiber declined during the same period.

1.32 Remittance inflows declined by 14.5 percent at the end of FY17 compared with the negative growth of 2.5 percent in FY16.

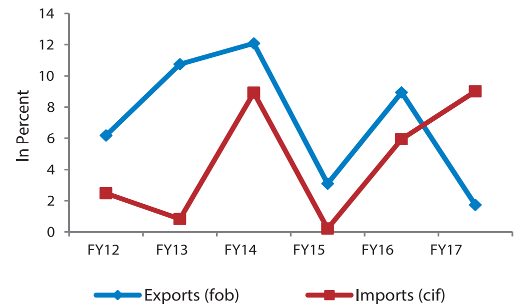
1.33 Bangladesh Bank closely monitors and take effective measures for the foreign exchange market to ensure that prices reflect market forces, while avoiding large fluctuations. As of end June FY17, BDT recorded depreciation of 2.81 percent in nominal terms against USD. It stood at BDT 80.59 as of end June 2017 compared to BDT 78.40 as of end June 2016. The nominal effective exchange rate (NEER) and real effective exchange rate (REER) of BDT calculated against a trade weighted 15 currency basket (base: FY16=100). NEER

Chart 1.7 Trends of balance of payment



Source : Statistics Department, Bangladesh Bank.

Chart 1.8 Trends of export and import growth



Source : Statistics Department, Bangladesh Bank, EPB.

index depreciated by 1.69 percent while REER index of BDT appreciated by 1.81 percent in FY17 (Chart 1.9 and 1.10).

1.34 Outstanding external debt stock of Bangladesh increased to USD 28566.3 million in FY17, up from USD 26305.7 million in FY16. However, the outstanding debt GDP ratio declined to 11.4 percent from 11.9 percent over the same period.

Near and Medium-Term Outlook for Bangladesh Economy

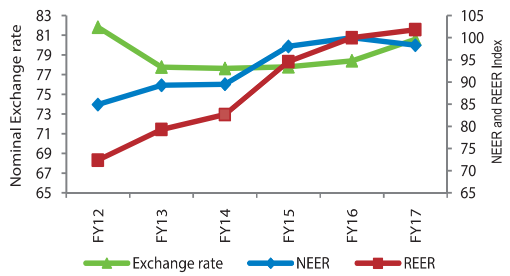
1.35 The near- and medium-term outlook for Bangladesh economy remains broadly positive, driven by favorable domestic and external factors. Overall Balance of Payments remain in surplus despite weaker export performances and remittance inflows. To reach the next phase of growth, Bangladesh needs to increase the level of private investment to create jobs and support growth. Public investment can crowd in private investments by easing infrastructure bottlenecks.

1.36 Looking ahead, global growth is expected to accelerate in 2017 and 2018. The improved outlook reflects faster growth both in advanced economies, and emerging and developing economies. Growth is projected to be stronger in developing Asia also.

1.37 Based on the prospects and the potential risks in the context of global and domestic economic perspectives, in the Proposed Budget Framework for FY18, GDP growth rate set at 7.4 percent and inflation to 5.5 percent. Bangladesh Bank has been pursuing a monetary policy stance to maintain macroeconomic stability and to keep inflation at the programmed level. The CPI inflation stood at 5.4 percent in FY17, while Bangladesh Bank's projection shows average annual inflation for H1 FY18 to be around 5.5-5.9. The risks to the growth outlook from the modest global growth and weaker remittance flows and the inflation risks from any rise in food price and its spillover into non-food inflation need to be closely monitored. In this regard, Bangladesh Bank will update its forecasts on a regular basis.

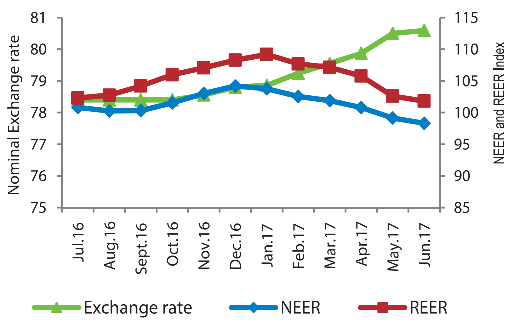
1.38 However, pragmatic policy support, along with the low and stable inflation accompanied by a favourable macroeconomic environment helped Bangladesh become a role model of sustainable finance. Regarding this, Bangladesh Bank's motivational efforts and supervisory surveillance will continue to focus on inclusive, productive use of credit; with particular attention to adequate credit flows to agriculture, SMEs, and environmentally caring 'green' output initiatives. These schemes would make finance and growth more sustainable.

Chart 1.9 Trends of NEER, REER (base: FY16=100.15 currency basket) and BDT-Dollar Exchange rate



Source : Monetary policy Department, Bangladesh Bank.

Chart 1.10 Monthly movements of NEER, REER (base: FY16=100.15 currency basket) and BDT-Dollar Exchange rate



Source : Monetary policy Department, Bangladesh Bank.

1.39 From a macro perspective, domestic demand growth is expected to remain robust over the near and medium-term reflecting demographics, investments and improving infrastructure and cost of doing business. As Bangladesh continues its middle income transitions, continued focus on easing infrastructure bottlenecks, improving cost of doing business and skills, increasing investment will help create more and better jobs in the years ahead.

The Real Economy

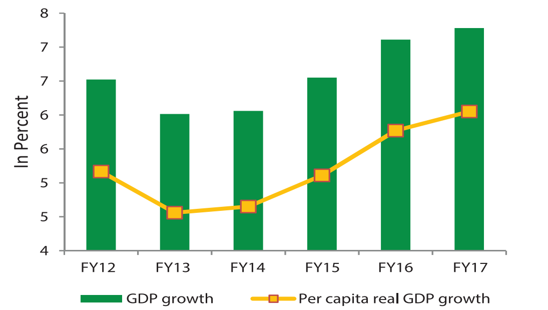
2.1 The key ingredient of impressive progress of Bangladesh is its resilient GDP growth which held steady at about 7 percent for a number of years. Bangladesh has achieved the status of lower middle income country and is expecting to upgrade to upper middle class statues by 2021. The government of Bangladesh has already formulated the 7th Five Year Plan for 2016-2020 to accelerate growth to 8.0 percent by 2020. The economy of Bangladesh has weathered global uncertainties well aided by strengthening investment and a recovery of exports. Growth has been stable and robust, social indicators have improved, inflation has declined, foreign exchange reserves have risen and fiscal deficits remained moderate.

2.2 Bangladesh has achieved a decade high broad based growth of 7.28 percent in FY17, up from 7.1 percent in FY16. The growth rate was above 6.0 percent since FY11 and has been continuing over 7 percent during the last two years which was mainly supported by industry and service sectors' growth (Table 2.1).

2.3 According to the Bangladesh Bureau of Statistics (BBS), GDP at current market price was BDT 19,758.2 billion for FY17 which was 14.0 percent higher than that of the preceding fiscal year. In FY17, per capita real GDP was estimated at BDT 58,602.6. In the same year, per capita nominal GDP and GNI were estimated at BDT 1,22,152 and 1,27,401 respectively (Chart 2.1).

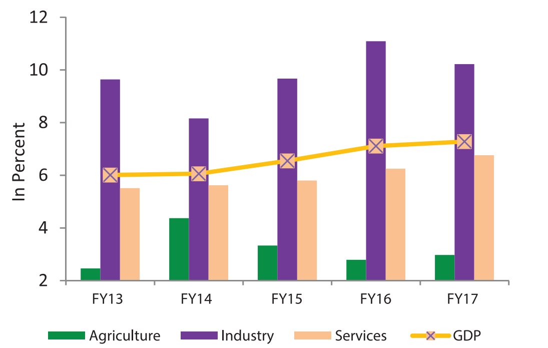
2.4 Industry, services, and agriculture sectors grew by 10.2, 6.7, and 3.0 percent respectively (Chart 2.2). Sectoral decomposition

Chart 2.1 Trends of Bangladesh Real GDP Growth



Source: BBS.

Chart 2.2 Trends of sectural Growth Rate



Source: BBS.

shows that the service sector appeared to occupy the largest share followed by industry and agriculture sector.

Agriculture Sector

2.5 The growth of agriculture sector as one of the important sector of GDP increased by 3.0 percent in FY17, up from 2.8 percent in FY16. This increase was mainly attributed to the favourable weather condition, continued government support, availability of inputs and higher disbursement of agricultural credit.

Moreover, all sub-sectors of agriculture has achieved higher growth in FY17 compared to the previous fiscal year. Notwithstanding the growth in agriculture sector, its share in total GDP declined as other sectors grew at a relatively faster rate. The share of agriculture sector in total GDP was 14.7 in FY17 as against 15.4 in FY16.

2.6 All the sub-sectors of agriculture showed higher growth in FY17 compared to the preceding year. Fishing registered the highest growth of 6.2 percent in FY17 against 6.1 percent in FY16. Forest and related services sub-sector recorded a growth of 5.6 percent in FY17, which was 5.1 percent in FY16. Animal farming and crops and horticulture subsectors achieved slightly higher growth of 3.3 and 1.0 percent in FY17 compared to 3.2 and 0.9 percent respectively in FY16.

Industry Sector

2.7 The overall growth in industry sector slightly declined to 10.2 percent in FY17 from 11.1 percent in FY16. The growths of different sub-sectors of industry sector have declined except construction and small scale industry sub-sector in FY17 compared to FY16 which contributed to fall in the overall growth of industry sector. Though these sub-sectors experienced growth deceleration, other sub-sector achieved higher growth rates. For example, growth of large and medium scale industry sub-sectors declined to 11.2 percent, followed by manufacturing sub-sector growth (11.0 percent). Among other sub-sectors, construction and small scale sub-sectors contained positive growth. Growth of construction increased to 8.8 percent in FY17 though there exists some depression situation for several years and growth of small scale sub-sectors increased to 9.8 percent.

Table 2.1 Sectoral GDP Growth

(In FY06 constant prices: percent)

	FY14	FY15	FY16	FY17
1. Agriculture	**4.4**	**3.3**	**2.8**	**3.0**
a) Agriculture and forestry	3.8	2.5	1.8	2.0
i) Crops and horticulture	3.8	1.8	0.9	1.0
ii) Animal farming	2.8	3.1	3.2	3.3
iii) Forest and related services	5.0	5.1	5.1	5.6
b) Fishing	6.4	6.4	6.1	6.2
2. Industry	**8.2**	**9.7**	**11.1**	**10.2**
a) Mining and quarrying	4.7	9.6	12.8	8.9
b) Manufacturing	8.8	10.3	11.7	11.0
i) Large and medium scale	9.3	10.7	12.3	11.2
ii) Small scale	6.3	8.5	9.1	9.8
c) Electricity, gas and water supply	4.5	6.2	13.3	8.5
d) Construction	8.1	8.6	8.6	8.8
3. Services	**5.6**	**5.8**	**6.3**	**6.7**
a) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	6.7	6.4	6.5	7.4
b) Hotel and restaurants	6.7	6.8	7.0	7.1
c) Transport, storage and communication	6.1	6.0	6.1	6.8
d) Financial intermediations	7.3	7.8	7.7	9.1
i) Monetary intermediation (banks)	8.3	8.5	8.9	10.0
ii) Insurance	1.6	4.0	0.5	2.1
iii) Other financial intermediation	3.6	4.7	4.5	9.1
e) Real estate, renting and business activities	4.3	4.4	4.5	4.8
f) Public administration and defence	6.9	9.8	11.4	9.2
g) Education	7.3	8.0	11.7	11.4
h) Health and social work	5.1	5.2	7.5	7.6
i) Community, social and personal services	3.3	3.3	3.3	3.6
Total GVA at constant basic price	**6.2**	**6.5**	**7.2**	**7.3**
GDP (at constant market price)	**6.1**	**6.6**	**7.1**	**7.28**

Source: BBS.

2.8 The growth of mining and quarrying subsector registered significant decline, from 12.5 percent in FY16 to 8.9 percent in FY17. Growth of manufacturing sub-sector also decreased to 11.0 percent from 11.7 percent over the same period.

2.9 The large and medium scale manufacturing, and small scale manufacturing sub-sector contributed about 82.8 and 17.2 percent respectively of the total output of the manufacturing sector. Quantum Index of Industrial Production (QIIP) showed a growth

Box 2.1 Infrastructure Financing in Bangladesh: Role of Sukuk

Sukuk means "legal instrument", "deed" or "check" in Arabic language, which refers to the Islamic Shariah-compliant equivalent of interest bearing conventional bond. Sukuk may be asset backed or asset-based security, which embodies the claim on the revenues generated from the underlying asset as well as the claim of ownership on the asset. Bahrain based Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines Sukuk as: "Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services, or (in the ownership of) the assets of particular projects or special investment activity".

Though both conventional bond and Sukuk are financial assets used in financing projects, there are some basic differences between the two. Since the charging of interest is strictly prohibited in Islamic Shariah, Sukuk are constructed by avoiding the accrual of interest and making fully compliant with the Islamic principles. Conventional bond is a debt instrument, which has a contractual debt obligation for a specified period with a fixed or floating interest rate whereas Sukuk is an equity instrument having no interest earnings or any debt obligation. Traditional bondholders are entitled to cash flows derived from the issuer's contractual commitment according to pre-agreed dates, interest, and principal repayment. Such bondholders bear no loss if issuer incurs loss. On the contrary, Sukuk holders have a right to the ownership of the underlying asset and are entitled to receive profits generated from the underlying real or tangible asset (partnership, lease, or sale) as well as they agreed to bear any loss if incurred. Conventional bonds can be used to finance any asset, business or project that complies with law of the country. But, Sukuk finances only those assets, business or projects which are complied with Islamic Shariah in addition to the law of the country.

Robust infrastructure accelerates economic growth and development of a country by facilitating production process, trade, connectivity, human resources and employment generation. Regarding this, Bangladesh is required to narrow down the infrastructure gaps to raise growth rate over 8 percent aiming at achieving upper middle-income country status by 2021. Bangladesh has been confronting with the fiscal deficit of around 5% of GDP, insufficient long-term fund from commercial banks, lack of suitable instruments in the capital market, low volume of external foreign aid/loan and FDI. In this backdrop, availability of the source of fund is required for Bangladesh to boost up investment in both private and public sectors. Since traditional sources of funds are inadequate, Bangladesh may issue Sukuk as alternative financing tool to attract specially the ethical investors, both from home and abroad. In this regard, a conducive environment is required for issuing and managing Sukuk. Moreover, to ensure proper operation of Sukuk market, it is imperative to develop a legal and regulatory infrastructure, strengthen Islamic Shariah governance and build a pool of specialised human resources.

of 9.7 percent in FY17 which was lower than the growth of 13.5 percent in the preceding year (Appendix-3,Table-VIII). Manufacture of coke and refined petroleum products and motor vehicles, trailers and semi trailers grew significantly (121.8 and 62.0 percent) in FY17. Production of manufacture of leather and related products, electrical equipment, pharmaceuticals and medicinal chemical, non-metallic and mineral product, fabricated metal product except machinery, and manufacture of textile registered higher growth in FY17 compared to FY16. Moreover, major industry group's production also increased except food products, manufacture beverages, basic metals and other transport equipment in FY17.

Services Sector

2.10 The services sector maintained its growth momentum and contributed 52.9 percent of the share in overall GDP. In FY17, the services sector accelerated its performance and grew by 6.7 percent. This growth was mainly driven by wholesale and retail trade; transport, storage and communication; financial intermediations; real estate, renting and business activities; and community, social and personal services sub-sectors. Among the sub-sectors containing positive growth, financial intermediation sub-sector recorded highest growth of 9.1 percent in FY17 from 4.5 percent in FY16. The wholesale and retail trade sub-sector grew at a rate of 7.4 percent in FY17 compared to 6.5 percent in FY16. The growth of transport, storage and communication sub-sector increased from 6.1 percent in FY16 to 6.8 percent in FY17. Real estate, renting and business activities sub-sector registered 4.8 percent growth in FY17 which was 4.5 percent in FY16. Community, social and personal services sub-sector grew by 3.6 in FY17 compared to 3.3 in FY16. Public administration and defence sub-sector fell at 9.2 percent in FY17 from 11.4 percent in FY16. Hotel and restaurants, health and social work sub-sectors slightly increased by 7.1 percent and 7.6 respectively. The education sub-sector posted overall highest growth of 11.4 percent in FY17 but it was lower than 11.7 percent growth of the previous period (Table 2.1).

Sectoral Composition of GDP

2.11 The sectoral composition of GDP has been changing day by day. Economic activity has shifted towards industry are service for years together. The contribution of the industry sector in GDP increased to 32.4 percent in FY17 (Table 2.2). This was mainly driven by the manufacturing and large & medium scale industries sub-sector whose share in GDP increased by 0.7 percentage points to 21.7 percent and 0.6 percentage points to 18.0 percent respectively in FY17.

Table 2.2 Sectoral GDP Shares

(at FY06 constant prices: percent)

	FY14	FY15	FY16	FY17
1. Agriculture	**16.5**	**16.0**	**15.4**	**14.7**
a) Agriculture and forestry	12.8	12.3	11.7	11.1
i) Crop and horticulture	9.3	8.9	8.4	7.9
ii) Animal farming	1.8	1.7	1.7	1.6
iii) Forest and related services	1.7	1.7	1.7	1.7
b) Fishing	3.7	3.7	3.7	3.6
2. Industry	**29.6**	**30.4**	**31.5**	**32.4**
a) Mining and quarrying	1.6	1.7	1.8	1.8
b) Manufacturing	19.5	20.2	21.0	21.7
i) Large and medium scale	16.0	16.6	17.4	18.0
ii) Small scale	3.5	3.6	3.6	3.7
c) Electricity, gas and water supply	1.4	1.4	1.5	1.5
d) Construction	7.0	7.2	7.3	7.4
3. Services	**54.0**	**53.6**	**53.1**	**52.9**
a) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	14.1	14.1	14.0	14.0
b) Hotel and restaurants	0.8	0.8	0.8	0.8
c) Transport, storage and communication	11.5	11.4	11.3	11.3
d) Financial intermediations	3.3	3.4	3.4	3.5
i) Monetary intermediation (banks)	2.8	2.8	2.9	3.0
ii) Insurance	0.4	0.4	0.3	0.3
iii) Other financial intermediation	0.2	0.2	0.2	0.2
e) Real estate, renting and business activities	7.0	6.8	6.6	6.5
f) Public administration and defence	3.4	3.5	3.6	3.7
g) Education	2.3	2.3	2.4	2.5
h) Health and social work	1.9	1.8	1.8	1.9
i) Community, social and personal services	9.8	9.5	9.2	8.9
Total GVA at constant basic price	**100.0**	**100.0**	**100.0**	**100.0**

Source: BBS.

2.12 The services sector's share in GDP declined slightly to 52.9 percent in FY17 as compared to 53.1 percent of the preceding fiscal year. However, the shares of public administration and defence, education and health and social work sub-sectors went up while those of real estate, renting and business activities and community, social and personal services sub-sectors went down (Table 2.2).

2.13 The share of agriculture declined to 14.7 percent in FY17 from 15.4 percent in FY16. This was mainly due to crop and horticulture, as the leading sub-sector comprising of 53.3 percent of agriculture, declined to 7.9 percent in FY17 from 8.4 percent in FY16 (Table 2.2).

GDP based on Expenditure

2.14 Expenditure-based GDP in FY17 increased by 14.0 percent to BDT 19758.2 billion as compared to BDT 17328.6 billion or 14.3 percent in FY16 (Table 2.3).

2.15 Gross Domestic Expenditure (GDE) reflects the aggregate demand originated by domestic economic activities, measured as the sum of consumption and investment and net export. Domestic demand was estimated at BDT 20781.9 billion at current market prices in FY17, 14.6 percent higher than that of FY16. Net export was estimated at BDT (-)1033.7 billion in FY17.

2.16 Total consumption expenditure and trade deficit accounted for 74.7 percent and 5.2 percent of GDE respectively in FY17. In nominal terms, investment increased by 17.3 percent outpacing the growth in consumption (13.5 percent).

Saving and Investment

2.17 As the main source of investment and GDP growth, Gross Domestic Savings (GDSs) at current market price stood at 25.3 percent of GDP in FY17, higher than 25.0 percent of GDP in the previous fiscal year (Chart 2.3).Gross National Savings (GNSs) decreased to 29.6 percent of GDP in FY17 from 30.8 percent in FY16.

2.18 Gross Domestic Savings (GDSs) and Gross National Savings (GNS) at current market prices increased by 15.6 and 9.8 percent respectively in FY17, lower than that in FY16. The domestic savings-investment gap as a percentage of GDP increased from 4.7 in FY16 to 5.2 in FY17 (Chart 2.5).

2.19 The recent higher GDP growth has been possible due mainly to among others, steadily higher investment particularly private investment. The share of private investment is around 75.7 percent of total investment. Investment as a share of GDP accelerated to 30.5 percent in FY17 from 29.7 percent in FY16 (Chart 2.4). It is noted that increase in investment–GDP ratio is highly correlated with higher GDP growth in Bangladesh (Chart

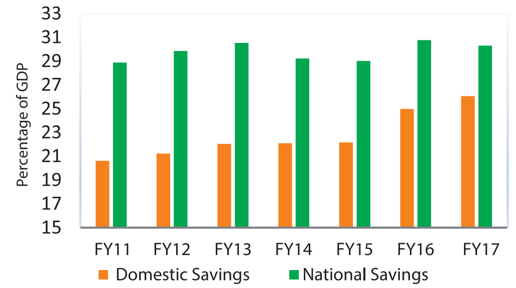
Table 2.3 GDP by Expenditure Groups

(at current market prices: billion BDT)

Particulars	FY14	FY15	FY16	FY17
Domestic demand(1+2)	14308.5	16177.9	18138.7	20781.9
Consumption(1)	10468.6	11799.2	13000.3	14753.6
Private	9751.4	10980.0	11979.2	13568.9
Government	717.2	819.2	1021.1	1184.7
Investment(2)	3839.9	4378.6	5138.4	6028.3
Private	2960.0	3344.7	3983.5	4563.6
Public	879.9	1033.9	1154.9	1464.7
Resource balance(3-4)	-878.1	-1123.6	-806.6	-1033.7
Exports(3)	2551.6	2627.9	2885.2	2970.9
Imports(4)	3429.7	3751.5	3691.8	4004.6
Gross domestic expenditure	13430.5	15054.3	17332.1	19748.2
Gross domestic product	13436.7	15158.0	17328.6	19758.2
Statistical discrepancy	6.3	103.8	-3.5	10.0

Source: BBS.

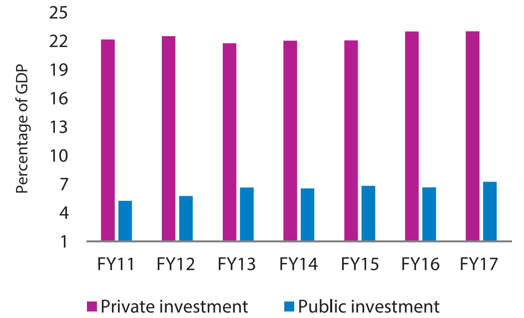
Chart 2.3 Trends of Domestic and National Savings



Source: BBS.

2.6). In this perspective, Bangladesh needs to increase private investment-GDP ratio upto 28 percent and total investment within the span of 35-38 percent to achieve 8.0 percent economic growth by 2020 (7th Five-year plan). Public investment has also been rising gradually from 6.6 percent in 2013 to 7.4 percent of GDP in 2017, whereas private investment has been hovering around 22-23% of GDP (Chart 2.4).

Chart 2.4 Trends of Domestic Investments

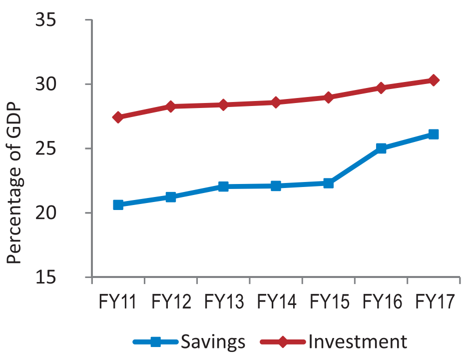


Source: BBS.

Growth Outlook

2.20 BB's monetary policy directions have prioritized to help achieve higher GDP growth at 7.4 percent in FY18 as targeted by the government. The expansion in real economic activity is expected to maintain the momentum and average inflation is likely to remain near the target level due to accommodative macroeconomic policies. The monetary programming framework for FY18 may provide sufficient financial accommodation for attainment of budgetary target. Robust private sector credit growth may support private investment and consumption though a sharp decline in remittance in the recent period slower the desired level.

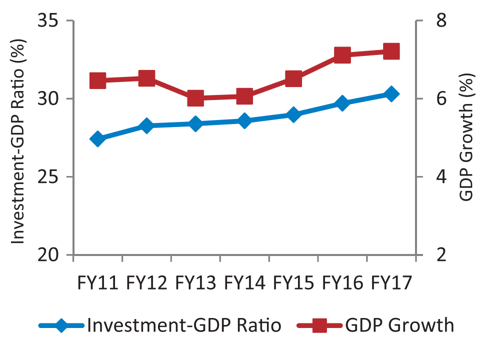
Chart 2.5 Trends of Domestic Savings and Investment



Source: BBS.

In Bangladesh the overall growth momentum mainly attributed by industry, services and agriculture sectors. Moreover, strong domestic demand and growing electricity generation remained buoyant in FY17. It is expected that accommodative monetary policy and accelerated different facilities particularly in industry and service sectors in the next few years, may help to achieve the desired economic growth.

Chart 2.6 Nexus and Trends of GDP Growth and Investment



Source: BBS.

Price and Inflation

Global Inflation Scenario

3.1 The increase in commodity prices, especially gasoline and other energy related products, has contributed to a recovery in global inflation. Headline consumer price inflation has softened since the spring as the boost to prices from the oil price recovery of 2016 has faded and the decline in oil prices (between March and July) has started to exert downward pressure. Expectations of consumer price inflation for the year have therefore diminished, especially in emerging market and developing economies. Core inflation has been generally soft. In most advanced economies, core inflation has failed to decisively increase toward central bank targets (World Economic Outlook, October 2017).

Consumer Prices in Bangladesh

3.2 Annual average Consumer Price Index (CPI) inflation showed mixed trend in FY17. The headline inflation rate stood at 5.44 percent in June 2017, while the Bangladesh Bank Monetary Policy Statement (MPS, January-June 2017) inflation forecast ranged between 5.3-5.6 percent. The average inflation was 5.92 percent in FY16 (Table 3.1, Chart 3.1). Inflation rate gradually declined since July 2016 until April 2017, as the rate increased in the remaining two months of FY17. Rising food inflation due to flash flood related crop losses in the Notheastern haor region from the middle of FY17 mainly accounted for the increase in headline inflation. The average non-food inflation kept declining throughout the whole FY17. The twelve month point-to-point inflation rate went up to 5.94 percent in June 2017 from 5.53 percent in June 2016.

3.3 Annual average food inflation stood at 4.76 percent in July 2016 and declined

Table 3.1 Monthly Inflation in FY17

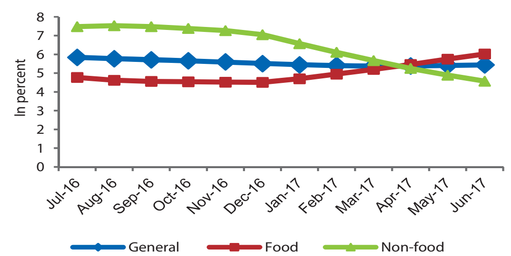
(12-month average : FY06=100)

Months	General	Food	Non-food
Jul 16	5.84	4.76	7.48
Aug 16	5.77	4.62	7.53
Sep 16	5.71	4.56	7.48
Oct 16	5.66	4.53	7.38
Nov 16	5.60	4.51	7.27
Dec 16	5.52	4.51	7.05
Jan 17	5.43	4.70	6.57
Feb 17	5.41	4.95	6.11
Mar 17	5.39	5.20	5.67
Apr 17	5.38	5.46	5.25
May 17	5.41	5.75	4.89
Jun 17	5.44	6.02	4.57

Source: Bangladesh Bureau of Statistics (BBS)

Chart 3.1 Monthly CPI Inflation in FY17

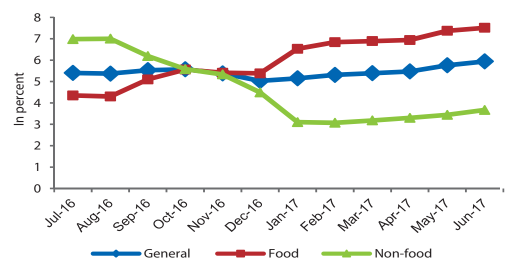
(12-month average : FY06=100)



Source: BBS.

Chart 3.2 Monthly CPI Inflation in FY17

(Point-to-point : FY06=100)



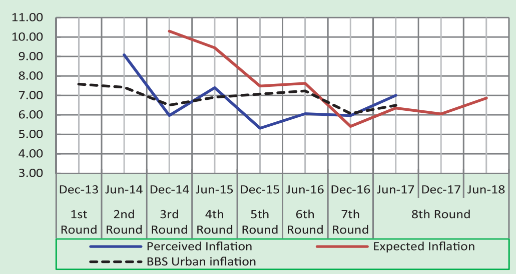
Source: BBS.

Box 3.1 Highlights on Inflation Expectation Survey of Households (IESH)

Inflation expectations play a key role in the conduct of modern monetary policy. Expectations drive people's behavior by influencing a wide range of economic decisions such as saving, investment, purchases of durable goods and wage negotiations. These decisions in turn affect real economic activity and actual inflation. As a result, inflation expectations represent an important link in the monetary transmission mechanism-especially through the term structure of interest rates—and greatly influence the central bank's ability to achieve price stability. It is crucial for a central bank to monitor inflation expectations, making sure that they remain well anchored and consistent with policy objectives.

Inflation expectation survey of Households (IESH) is significantly important to understand the expectations of households on current price level as well as their expectations on future price level. Moreover pricing behavior of producers and wage demand by workers are significantly affected by current and expected future inflation. Thus, considering the importance of IESH, Research Department (RD) of Bangladesh Bank (BB) has been conducting the 'Inflation Expectation Survey of Households (IESH)' on a half-yearly basis since December 2013. The sample size of BB's Inflation Expectation Survey (IES) is set at 1000. In addition, the survey captured 100 special respondents those treated as relevant professionals which include financial sector employees, members of business association, university teachers and researchers/think tanks. It covers only six metropolitan cities namely, Dhaka, Chittagong, Khulna, Sylhet, Rajshahi and Barisal.

Chart : Trends of Inflation Expectation: General



Results of the IESH, June 2017 (the 8th round) show (chart 1) that moderate inflationary pressure would be recorded for one year ahead. Around 77 percent respondents expected that general inflation, food and non-food would be 5-9 percent for one year ahead. However, the estimation of expected mean inflation of the survey for general is accounted for 6.86 percent for one year ahead (June 2018, Chart 1) and for food and non-food items are for 6.24 percent and 7.00 percent respectively.

It is observed that current inflation is closely moved towards 1-year expected inflation. This directional movement provides useful information to the policy makers. Inflation rate accounted in the IESH of BB followed the same direction of urban CPI (p-t-p) inflation of Bangladesh Bureau of Statistics (BBS). It is noted that the information obtained from the inflation expectation survey of BB are different from the formal measure of inflation indices of BBS. In IESH consumption baskets of each participant of the survey varies as per their personal requirements and perceptions. However, expected inflation revealed in the survey provides useful insights on directional movements of future inflation.

uninterruptedly till December 2016 to 4.51 percent. For the rest of the FY17, the average food inflation showed upward trend and ended up 6.02 percent in June 2017. On the other hand, the point-to-point food inflation had a mixed trend throughout FY17, starting with 4.35 percent in July 2016 and ending with 7.51 percent in June 2017. Both the point-to-point and average food inflation increased by a wide scale in FY17 compared to that in the preceding financial year.

3.4 Although annual average non-food inflation depicted declining trend for almost the whole FY17, the point-to-point non-food inflation had a mixed trend. At the beginning of FY17, the annual average non-food inflation increased to 7.53 percent in August 2016 from 7.48 percent in July 2016. Since August 2016, the average non-food inflation had a continuous fall till June 2017, the rate was recorded as 4.57 percent. The average non-food inflation rate was 7.47 percent in FY16. For the point-to-point non-food inflation, the rate peaked in August 2016 at 7.00 percent from 6.98 percent in July 2016. Throughout the rest of FY17, the point-to-point non-food inflation showed upward and downward trend and finally settling down at 3.67 percent in June 2017. The point-to-point non-food inflation in June 2017 was lower by 3.83 percentage point compared to 7.50 percent in June 2016 (Table 3.1, Chart 3.2).

3.5 Core inflation (non-food, non-fuel) on point-to-point basis declined by a large margin to 3.55 percent in June 2017 compared to 7.43 percent in July 2016. However, there were increases in core inflation for some months of FY17, 7.51 percent being the highest in August 2016. The core inflation rate for June 2016 was recorded as 8.21 percent (Chart 3.3).

3.6 In FY17, average rural inflation was much lower than the urban inflation. In June 2017, the annual average rural inflation rate was 4.95 percent, while it was 6.35 percent for urban inflation. The annual average rural inflation rate in June 2016 was 5.27 percent. The average rural food inflation increased to 5.55 percent in June 2017 from 4.20 percent in June 2016. To the contrary, the average rural non-food inflation fell to 3.88 percent in June 2017 compared to 7.25 percent in June 2016. (Table 3.1, Chart 3.4).

Table 3.2 Annual Average CPI based Inflation

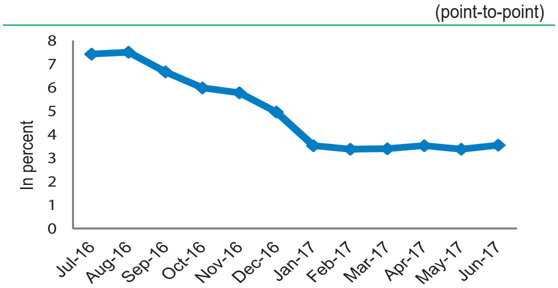
(FY06=100)

Group	Weight	FY14	FY15	FY16	FY17
a. National level					
General Index	100.00	195.08	207.58	219.86	231.82
		(7.35)	(6.40)	(5.92)	(5.44)
Food	56.18	209.79	223.80	234.77	248.90
		(8.57)	(6.68)	(4.90)	(6.02)
Non-food	43.82	176.22	186.79	200.74	209.92
		(5.54)	(5.99)	(7.47)	(4.57)
b. Rural					
General Index	100.00	196.90	209.10	220.12	231.02
		(7.07)	(6.20)	(5.27)	(4.95)
Food	61.41	207.72	221.02	230.31	243.08
		(8.11)	(6.40)	(4.20)	(5.55)
Non-food	38.59	179.69	190.13	203.92	211.83
		(5.21)	(5.81)	(7.25)	(3.88)
c. Urban					
General Index	100.00	191.72	204.76	219.37	233.29
		(7.89)	(6.80)	(7.13)	(6.35)
Food	46.52	214.85	230.56	245.66	263.09
		(9.66)	(7.32)	(6.55)	(7.10)
Non-food	53.48	171.61	182.32	196.50	207.38
		(6.01)	(6.24)	(7.77)	(5.54)

Note: Figures in parentheses represent annual inflation
Source: Bangladesh Bureau of Statistics (BBS).

Chart 3.3 Core CPI Inflation

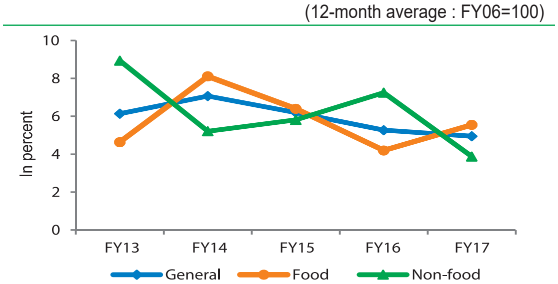
(point-to-point)



Source: Research Department, Bangladesh Bank.

Chart 3.4 Rural CPI Inflation

(12-month average : FY06=100)



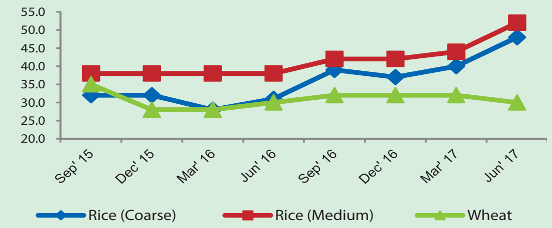
Source: BBS.

Box 3.2 Recent Flood and Rice Price Hike

Recent rice price increased tremendously, the highest ever in the history of Bangladesh. Earlier in April, the flash flood in haor basin comprised of seven districts in the country's north-eastern part damaged around 20,00,000 tons of Boro rice, later in last month, this year's monsoon flooding damaged around 6,00,000 hectares of Aman paddy field, projecting 15,00,000 tons of less rice production have worsened the situation all together. Both phases negatively impacted the market, sending prices up with uncontrollably shortage in stock of foodgrains. Besides, the millers and traders made hiking prices artificially by hoarding paddy and rice.

The retail prices of the rice (coarse) consumed mainly by low income people, increased up to Tk 48 per kg in September, 2017 and at the same time, price of rice (medium) increased to Tk 56 per kg consumed by middle income people are also affected. In comparison with the previous year, price of rice (coarse) rose by Tk 17 per kg and that of rice (medium) rose by Tk 14 per kg(Chart). The closing stock of foodgrains in July 2017 was 1.00 million metric tons (mmt).Public foodgrain stock gradually increased to 1.18 mmt in August and then started to decrease and reached only 0.38 mmt on 30th June 2017 as against 0.86 mmt on 30th June 2016. This was mainly due to lack of domestic supply for procurement program during Boro crop in May–June, 2017. The acute price hike adds to inflationary pressures as poor consumers will have to spend higher share of their limited income on food.

Chart: Movements of Rice and Wheat Prices (Per kg)



Source : Directorate of Agricultural Marketing.

The government has taken several initiatives to stem the price spiral. Bangladesh has imported around 675,000 tons of rice in this fiscal year, of which the government imported 155,000 tons with the rest coming from private traders. Moreover, government has signed separate agreements for importing 1 million ton of rice each from Vietnam and Thailand. The government also has taken a series of steps to improve the import situation, including slashing the duty on rice from 25% to 10% and withdrawing the 3% regulatory duty to encourage private traders to import more. The import duty was then halved to only 5%. In June, Bangladesh Bank instructed banks to allow private traders to import rice without any deposit against letters of credit or LC margin. In addition, government has launched Open Market Sale (OMS) of coarse rice at BDT 30 per Kilogram, to stabilize the market and ease the suffering of lower income groups. It is expected that, the price spiral is likely to stop within short time as a good amount of rice would be available in the market through import. In the medium term, there is a need to foster growth and to improve the purchasing power of food buyers. Agricultural trade policies require further reform in order to ensure an effective supply response.

3.7 The annual average urban inflation declined to 6.35 percent in June 2017 from 7.13 percent in June 2016. The average urban food inflation rose to 7.10 percent in June 2017 from 6.55 percent in June 2016. On the other hand, the average urban non-food inflation slid to 5.54 percent in June 2017 from 7.77 percent in June 2016 (Chart 3.5).

Table 3.3 Annual Average National Level CPI by Consumption Basket Sub-groups

(base: FY06=100)

Group/sub-group	Weight	FY15	FY16	FY17	% Change FY16	% Change FY17
General index	100	207.58	219.86	231.82	5.92	5.44
1. Food, beverage and tobacco	56.18	223.80	234.77	248.90	4.90	6.02
2. Non-food of which	43.82	186.79	200.74	209.92	7.47	4.57
i) Clothing & footwear	6.84	209.45	233.52	243.56	11.49	4.30
ii) Gross rent, fuel & lighting	14.88	171.80	182.75	194.01	6.37	6.16
iii) Furniture, furnishing, household equipment & operation	4.73	214.45	227.53	235.85	6.10	3.66
iv) Medical care & health expenses	3.47	181.09	200.03	206.70	10.46	3.33
v) Transport and communications	5.8	181.78	201.60	210.78	10.90	4.55
vi) Recreation, entertainment, education & cultural services	4.28	168.02	171.01	177.56	1.78	3.83
vii) Miscellaneous goods and services	3.82	204.21	211.61	217.51	3.62	2.79

Source: BBS.

3.8 Total foodgrains production in Bangladesh slightly increased in FY17. It was recorded as 36.4 million metric tons (provisional) in FY17 compared to 36.0 million metric tons in FY16. Total government procurement of food grains in FY17 was 1.6 million metric tons.

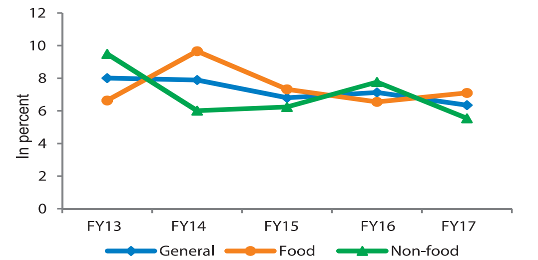
3.9 To reduce the hardship of poor households, government distributed foodgrains through monetised and non-monetised channels. The government distributed 2.2 million metric tons of foodgrains in FY17, which was 2.1 million metric tons in FY16.

3.10 Prices of major commodities in the international market increased in 2016 compared to those of the preceding year. In 2016 the prices of wheat and petroleum fell by 22.9 and 19.5 percent respectively. On the other hand, the prices of rice, cotton, soybean oil, palm oil and sugar rose by 2.2, 5.4, 7.3 13.2, and 40.2 percent respectively (Table 3.4, Chart 3.6).

Inflation in SAARC and Other Asina Countries

3.11 Among the SAARC countries, Sri Lanka had the highest inflation rate of 6.0 percent in May 2017 followed by Bhutan with 3.9 percent in June 2017. Pakistan (3.9 percent, June 2017), Nepal (3.8 percent, April 2017) and India

Chart 3.5 Urban CPI Inflation
(12-month average : base FY06=100)



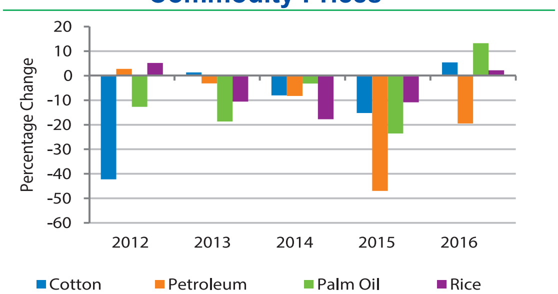
Source: BBS.

Table 3.4 Changes in International Prices of Major Commodities

Commodity	2013	2014	2015	2016	2017(May)
Rice	-10.6	-17.8	-10.9	2.2	0.74
Wheat	-3.8	-8.8	-23.5	-22.9	-6.98
Petroleum	-3.2	-8.3	-47.0	-19.5	14.32
Palm oil	-18.7	-3.2	-23.6	13.2	1.69
Soybean Oil	-12.2	-19.6	-17.3	7.3	-16.32
Cotton	1.3	-8.1	-15.3	5.4	26.03
Sugar	-17.2	-3.3	-22.9	40.2	-5.99

Source: International Financial Statistics (IFS), July 2017.

Chart 3.6 Changes in International Commodity Prices



Source: IFS.

(1.5 percent, June 2017) underwent moderate inflationary pressure (Table 3.5, Chart 3.7).

Wage Rate Trends

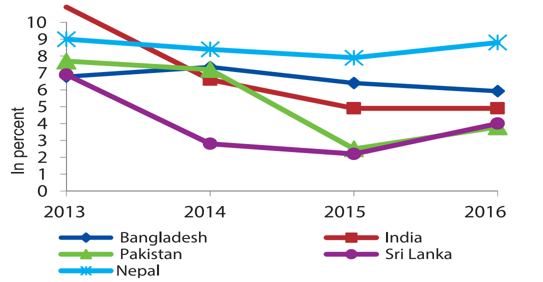
3.12 The growth of general wage rate index of Bangladesh declined by 0.02 percentage point to 6.50 percent in FY17. The agriculture and industry sector indices had higher growth rates in FY17, whereas the services sector index growth retarded. The production sub-sector index reported the highest growth rate of 7.22 percent while the construction sub-sector index scored the lowest growth rate of 5.37 percent in FY17 (Table 3.6, Chart 3.8).

Near Term inflation Outlook

3.13 Headline inflation rates are projected to increase in both advanced and emerging market and developing economies, though somewhat less briskly than anticipated in the April 2017 WEO, partly reflecting weaker-than-expected oil prices. In advanced economies, inflation is forecast to pick up from 0.8 percent in 2016 to 1.7 percent in 2017, reflecting the continued cyclical recovery in demand and the increase in commodity prices in the second half of 2016. Inflation in emerging market and developing economies is projected to remain roughly stable in 2017 and 2018 (at 4.2 percent and 4.4 percent, respectively—close to the 2016 estimate of 4.3 percent).

3.14 Food and Agriculture Organization (FAO) in its flagship publication Food Outlook November 2017, reports that the food commodity markets remains well supplied but the cost of importing food is set to rise by 6.0 percent from last year's level to reach USD 1.4 trillion in 2017. Sharp increases in freight rates, stronger import demand and firmer prices of

Chart 3.7 South Asian Inflationary Situation



Sources: BBS, figures relate to financial year (July-June).
IFS, August, 2017.

Table 3.5 Inflation in SAARC and Other Asian Countries #

Countries	2013	2014	2015	2016	2017
1.Bangladesh@	6.8	7.4	6.4	5.9	5.4
2. India	10.9	6.6	4.9	4.9	1.5 (June)
3. Pakistan	7.7	7.2	2.5	3.8	3.9 (June)
4. Nepal	9.0	8.4	7.9	8.8	3.8 (April)
5. Bhutan	7.0	8.2	4.5	4.4	3.9 (June)
6. Sri Lanka	6.9	2.8	2.2	4.0	6.0 (May)
7. Maldives	3.8	2.1	1.0	0.5	3.4 (June)
Other Asian countries					
8. Thailand	2.2	1.9	-0.9	0.2	0.0 (June)
9. Singapore	2.4	1.0	-0.5	-0.5	0.5 (June)
10. Malaysia	2.1	3.2	2.1	2.1	3.6 (June)
11.Indonesia	6.4	6.4	6.4	3.5	4.4 (June)
12. Korea	1.3	1.3	0.7	1.0	1.9 (June)
13.Myanmar	5.5	5.5	9.5	7.0	2.9 (June)

- Not available
Sources: @ BBS, Consumer Price Index (Base: FY06=100) and figures relate to financial year (July-June).
IFS, October 2017.

Table 3.6 Trends of Wage Rate Indices

(base: FY11=100)

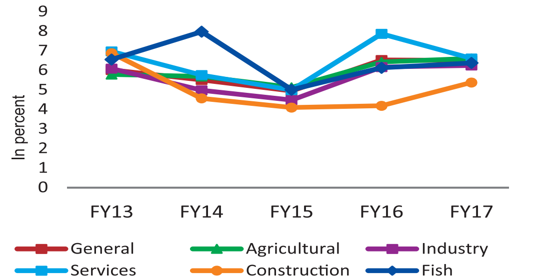
	FY14	FY15	FY16	FY17
General	118.82	124.69	132.81	141.46
	(5.50)	(4.94)	(6.52)	(6.50)
Agriculture	118.44	124.51	132.48	141.22
	(5.68)	(5.12)	(6.41)	(6.59)
Agriculture	118.40	124.46	132.44	141.19
	(5.64)	(5.12)	(6.42)	(6.60)
Fish	120.81	126.85	134.59	143.19
	(7.97)	(5.00)	(6.12)	(6.37)
Industry	119.07	124.38	132.02	140.27
	(4.97)	(4.47)	(6.16)	(6.24)
Construction	119.93	124.84	129.97	137.43
	(4.56)	(4.09)	(4.18)	(5.37)
Production	121.86	127.28	136.18	146.01
	(9.27)	(4.44)	(7.70)	(7.22)
Services	120.16	126.15	136.03	145.01
	(5.75)	(4.98)	(7.86)	(6.60)

Note: Figures in parentheses are annual percentage changes.
Source: BBS.

most food commodities are expected to elevate the global food import bill to its second highest level on record. FAO forecasts that world rice production in 2017 would be marginally below the 2016 record output of 501 million tonnes. Global wheat production in 2017 is forecast at 752.8 million tonnes, down slightly from 2016's output. The FAO food price index for June 2017 was 175.3, which was 7.0 percent lower than that for 2016.

3.15 In FY18 national budget, the target for the average inflation rate was set at 5.50 percent. At the end of October 2017, the average inflation rate of 5.45 percent was slightly below the annual target level. The average food and non food inflation for the same month were 6.89 and 3.66 percent respectively. Bangladesh Bank's latest inflation expectation survey reveals that one-year-ahead inflation expectation for June 2018 is above 6 percent. Based on the econometric estimate the projected average inflation rate for H1 FY18 lies around 5.5-5.9 percent. Looking ahead, given the domestic inflation dynamics, food price developments and tapering base effects, some price pressures may emerge during FY18. Subdued global inflation and favourable regional inflation may somewhat ease the emerging domestic inflationary pressure.

Chart 3.8 Growth Rate of Wage Index
(base:FY11=100)



Sources: BBS.

Table 3.7 Global inflationary situation

(Percentage change)

	2015	2016	2017	2018[P]
Advanced Economies	0.3	0.8	1.7	1.7
United States	0.1	1.3	2.1	2.1
Euro Area	0.0	0.2	1.5	1.4
Emerging Market and Developing Economies	4.7	4.3	4.2	4.4
Emerging and Developing Asia	2.7	2.8	2.6	3.2
Bangladesh	6.2	5.7	5.7	5.8
India	4.9	4.5	3.8	4.9
Sri Lanka	2.2	4.0	6.0	5.0
Pakistan	4.5	2.9	4.1	4.8

[P] Projection
Source: World Economic Outlook, October 2017.

Money and Credit

Stance of Monetary and Credit Policy

4.1 Monetary policy stance for FY17 was to achieve price stability alongside supporting sustainable output and employment growth. Bangladesh Bank (BB) made efforts to nudge the financial system toward addressing long-term sustainability concerns, by supporting an inclusive, employment generating, and environmentally sustainable growth. It is assumed that sustainable finance can help foster social cohesion and long-term macroeconomic stability, which are critical for a rapidly growing, manufacturing-led economy, with a relatively large, young population and with exposure to weather. Accordingly, BB pursued monetary and credit policies and programs to intensively engaging the financial sectors for fostering socially responsible financing in inclusive and eco-friendly green initiatives.

Monetary Policy Performance

4.2 Buoyant domestic demand driven economic activity in agriculture, manufacturing and service sectors, strong private sector credit growth supported by increasing import and consumption, momentum in public sector investment along with the macroeconomic and political stability throughout the year contributed GDP growth to outperform at 7.28 percent from the targeted 7.20 percent set by the government. On the other hand, annual average CPI inflation dipped down to 5.4 percent at the end of June 17, remained below the targeted level of 5.8 percent owing to eased in non-food inflation, aided by subdued global commodity prices and declining government's borrowing from the banking system. In the backdrop of moderate inflation outlook and ample liquidity condition in the banking system Bangladesh Bank kept policy rates (repo and reverse repo rates) unchanged at 6.75 and 4.75 percent respectively in FY17.

Table 4.1 Monetary and Credit Programme and Component of Broad Money

Particulars	End June 2016	End June 2017	
	Actual	Programme	Actual
1. Net foreign assets	2319.3	2552.5	2586.6
	(+22.8)	(+10.1)	(+11.5)
2. Net domestic assets (a+b)	6838.5	8024.4	7567.5
	(+14.3)	(+17.3)	(+10.7)
a) Domestic Credit (i+ii)	7954.0	9260.9	8842.4
	(+14.4)	(+16.4)	(+11.2)
i) Credit to the public sector[1]	1243.9	1443.6	1081.8
	(+3.3)	(+16.1)	(-13.0)
ii) Credit to private sector	6710.1	7817.3	7760.6
	(+16.8)	(+16.5)	(+15.7)
b) Other items (net)	-1115.5	-1236.5	-1274.8
3. Narrow money (i+ii)	2118.3		2394.2
	(+32.1)		(+13.0)
i) Currency outside banks	1220.7		1375.3
	(+38.8)		(+12.7)
ii) Demand deposits[2]	897.6		1018.9
	(+24.0)		(+13.5)
4. Time Deposits	7039.5		7760.0
	(+12.3)		(+10.2)
5. Broad money (1+2) or (3+4)	9157.8	10577.0	10154.1
	(+16.3)	(+15.5)	(+10.9)

Figures in the parentheses indicate y-o-y percentage changes.
[1] "Govt. lending fund" is treated as deposit in calculating claims on Govt. (net).
[2] Demand deposits with monetary authority are excluded.
Source: Monetary Policy Department, Bangladesh Bank.

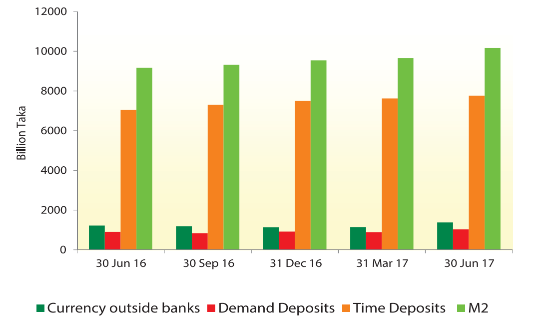
4.3 Monetary aggregates remained broadly in line with their programmed levels indicating attainment of key objectives of monetary and credit programme and policies for FY17. Broad money (M2) and domestic credit two important anchors of monetary programme grew by 10.9 and 11.2 percent respectively in FY17 remained well below the programme ceilings. Lower growth of net domestic asset (NDA) due mainly to a declining trend of net credit to the government from the banking system contributed to remain broad money below the targeted level. Throughout the FY17 Government's non-bank domestic borrowing in the costly route of high yield national saving certificates (NSCs) was non-inflationary, though afflicting banks with exuberant liquidity position. However, government's non-bank borrowing through issuing of NSCs created an extra-space for the private sector and as such private sector credit grew robustly at 15.7 percent remaining within the targeted ceiling of 16.5 percent in FY17 which was sufficient to support inclusive growth and employment generation.

4.4 Current account turned surplus to deficit in FY17 stemming from widened trade deficit and a negative growth in inward workers' remittances which weakened the value of domestic currency by depreciating around three percent against the US dollar (USD), the intervening currency. This depreciation of BDT helped to improve export competitiveness, after a prolonged appreciation pressure. In spite of having deficit in current account balance, foreign exchange reserve marked USD 33.49 billion at the end of June 2017 emanated from a remarkable surplus in financial account balance. The comfortable amount of foreign exchange reserve has bolstered the confidence of foreign investors on the strength and stability of the growing Bangladesh economy.

Money and Credit Situation

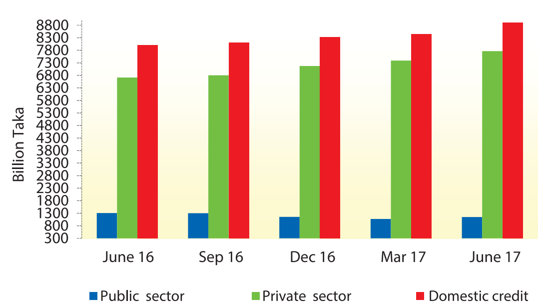
4.5 Following the growth supportive stance in monetary policy, broad money (M2) growth was programmed at 15.5 percent where growth in net foreign assets (NFA) and net domestic assets (NDA) were projected at 10.1 percent and 17.3 percent respectively in FY17 whereas

Chart 4.1 Movements of the Components of Broad Money (M2)



Source: Monetary Policy Department, Bangladesh Bank.

Chart 4.2 Movements of Domestic Credit and its Components



Source: Monetary Policy Department, Bangladesh Bank.

M2 actually grew by 10.9 percent due mainly to subdued growth in NDA. It may be noted that NDA grew at 10.7 percent against the targeted growth of 17.3 percent in FY17 due to a negative growth in credit to the public sector including Government sector. Instead of borrowing from the banking system, Government made repayment of its previous loans to the banking system owing to surge in earnings from soaring revenue income and unusually high receipts from net sale of national saving certificates contributed to negative growth of net credit to Government sector. Growth of credit to the public sector enterprises was also restrained and as such overall credit to public sector credit including Government declined by 13.0 percent at the end of June 2017 against the targeted increase of 16.1 percent and an actual growth of 3.3 percent in FY16. On the other hand, private sector credit grew by 15.7 percent at the end of June 2017 against the targeted growth ceiling of 16.5 percent supported by a buoyant domestic demand driven activities in agriculture, manufacturing and service sector. As a result, domestic credit grew by 11.2 percent against the targeted level of 16.4 percent in FY17 and actual 14.4 percent growth in FY16. Notwithstanding a declining trend in inward remittances and widening of trade gap, NFA grew by 11.5 percent in FY17 against the targeted growth rate of 10.1 percent and the actual growth of 22.8 percent in FY16. Moderate growth in broad money and overall domestic credit helped the economy to attain benign inflation outcome in FY17. The monetary programme vis-à-vis actual outcome and development of the components of broad money are presented in Table 4.1 and Chart 4.1 respectively. Movement of domestic credit and its components are also shown in Chart 4.2.

Reserve Money developments

4.6 Bangladesh Bank uses reserve money (RM) as an operating target to modulate liquidity consistent with the overall monetary projection. The weekly auctions of Bangladesh Bank's own instruments; i.e., various maturity of BB bills along with Government's treasury bills and bonds were used to influence the level of RM, while repo and reverse repo operations were applied for smoothing the money market.

4.7 In line with the projected broad money growth, monetary program set 14.0 percent growth of RM for FY17 while actual growth stood at 16.3 percent. It may be noted that RM grew by 30.1 percent in FY16. Lower growth in RM as compared to the previous year emerges from a subdued growth in net foreign assets (NFA)

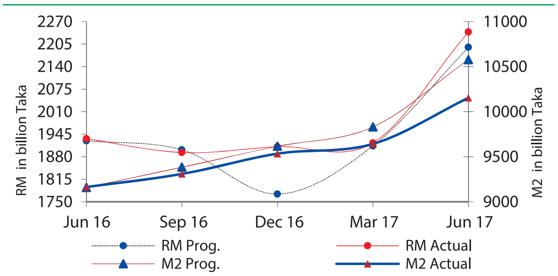
Table 4.2 Actual and Programmed Growth of Reserve Money and its Components

(Billion BDT)

Particulars	End June 2016	End June 2017	
	Actual	Programme	Actual
Net foreign assets[1/@]	2117.7	-	2430.4
Net foreign assets[2/@]	2105.6	2331.0	2350.0
Net domestic assets[1/]	-191.7	-	-190.4
Net domestic assets[2/]	-179.6	-135.4	-110.0
Domestic Credit	231.4	241.4	168.7
	(+61.1)	(+4.3)	(-27.1)
Credit to the public sector[3/]	187.7	197.7	125.7
	(+96.7)	(+5.3)	(-33.0)
Credit to deposit money banks[4/]	43.8	43.8	43.0
	(-9.3)	(+0.0)	(-1.7)
Other items (net)	-411.0	-376.8	-278.8
Reserve money	1926.0	2195.7	2240.0
	(+30.1)	(+14.0)	(+16.3)
Currency issued	1323.1	1552.2	1512.7
	(+34.8)	(+17.3)	(+14.3)
Deposits of banks with BB[5/]	603.0	643.5	727.3
	(+21.0)	(+6.7)	(+20.6)
Money multiplier	4.75	4.82	4.53

Note: Figures in the parentheses indicate y-o-y percentage changes.
@ Excluding foreign currency clearing account balance and offshore bank account.
1/ Calculated from monetary survey data using end-period exchange rates.
2/ Calculated using constant exchange rates of end June 2015.
3/ Govt. lending fund is treated as deposit in calculating net credit to Govt.
4/ Considers only loans and advances to DMBs.
5/ Excluding foreign currency clearing account balance and non-bank deposits.
Source: Monetary Policy Department, Bangladesh Bank.

Chart 4.3 Programmes and Actual Developments of M2 and RM in FY17



Source: Monetary Policy Department, Bangladesh Bank.

and a huge amount of repayment of previous loans of Government to the Bangladesh Bank. However, NFA of Bangladesh Bank increased by BDT 244.4 billion to BDT 2350.0 billion in FY17 against the programmed increase of BDT 225.4 billion. Domestic credit of BB associated with its components decreased by BDT 62.7

billion or (-) 27.1 percent against the targeted increase of BDT 10.0 billion or 4.3 percent originated mainly from negative credit growth in the public sector. BB's credit to the deposit money banks also marginally declined by 0.8 billion to BDT 43.0 billion in FY17 against the targeted amount of BDT 43.8 billion. However, in spite of declining domestic credit, liabilities in other items (net) reduced by BDT 132.2 billion due to making payments for previously held maturity-based BB bills which contributed to decline liabilities in net domestic assets (NDA) of BB amounting to BDT 69.6 billion and contributed to increase RM alongside the growth of NFA. Actual and programmed growth of RM during FY17 can be seen in Table 4.2. Actual developments of M2 and RM against their respective programmed levels can also be seen in Chart 4.3.

4.8 Money multiplier decreased to 4.53 in FY17 as compared to 4.75 in FY16. Reserve-deposit ratio increased to 0.098 in FY17 from 0.089 in FY16 and currency-deposit ratio also increased to 0.157 in FY17 as compared to 0.154 in FY16. Increase in both reserve-deposit ratio and currency-deposit ratio stemming from increase in cash holding by the people as well as banks' reserves relative to deposits led to decrease the money multiplier.

Income Velocity of Money

4.9 The income velocity of money (GDP/money supply) increased to 1.94 in FY17 from 1.89 in FY16 (Table 4.3). The rate of increase in FY17 was 2.65 percent as against a decrease of 1.56 percent in FY16. This means the growth of nominal income was faster than the growth of M2 in FY17 due mainly to a historically high growth of sales in national savings certificates (NSCs) which is not considered as component of M2[1]. The recent stock market vibrancy might have also contributed to a slow growth in M2 as some of the depositors might have withdrawn their bank deposits for investing stocks having good return especially when weighted average real interest rate on deposits remained negative in FY17. Alternatively, income velocity of money might have increased after a continued declining trend since FY11 which reflects the availability and the use of money substitutes, low demand for money as well as greater

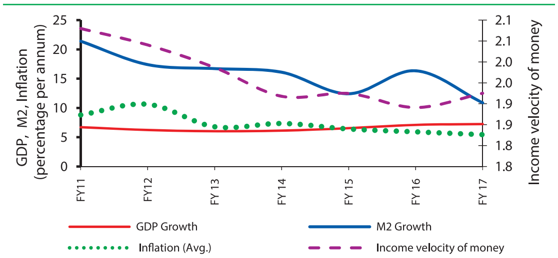
Table 4.3 GDP, Broad Money (M2) and Income Velocity of Money

(Billion BDT)

Year	GDP at current market prices	Broad Money (M2)	Income velocity of money
FY11	9158.29	4405.20	2.08 (-5.45)
FY12	10552.04	5171.09	2.04 (-1.92)
FY13	11989.23	6035.05	1.99 (-2.45)
FY 14	13436.74	7006.24	1.92 (-3.52)
FY 15	15158.02	7876.14	1.92 (0.00)
FY 16	17328.64	9163.78	1.89 (-1.56)
FY 17	19758.15	10160.76	1.94 (2.65)

Note: Figures in parentheses indicate percentage changes over previous fiscal year. Source: Monetary Policy Department, Bangladesh Bank.

Chart 4.4 Movement of GDP growth, M2 growth, rate of inflation and income velocity of money



Source: Monetary Policy Department, Bangladesh Bank.

1 NSCs are considered as component of M3.

economic activities using money substitutes due to financial development, financial innovation and technological up-gradation. Movement of GDP growth, M2 growth, inflation and income velocity of money during FY011-FY17 are shown in Chart 4.4.

Bank Credit

4.10 Outstanding bank credit (excluding foreign bills and inter-bank items) during FY17 rose by BDT 1055.95 billion or 15.84 percent to BDT 7723.40 billion against an increase of 16.16 percent in FY16. The rise in the bank credit during FY17 was driven by both advances and bills. Advances increased by BDT 1007.00 billion or 15.67 percent in FY17 against an increase of 16.14 percent in FY16. Bills purchased and discounted increased by BDT 48.95 billion or 20.35 percent in FY17 as compared to the increase of 16.62 percent in FY16. The quarterly position of bank credit and its components are given at Table 4.4.

Bank Deposits

4.11 Bank deposits increased by BDT 929.53 billion or 10.94 percent to BDT 9425.34 billion during FY17 against 13.84 percent increase in FY16. The rise in total bank deposits was shared by all kinds of deposits. Demand deposits increased by BDT 121.26 billion or 13.51 percent to BDT 1018.85 billion in FY17 against 24.00 percent increase in FY16. Time deposits increased by BDT 720.51 billion or 10.24 percent to BDT 7759.98 billion in FY17 as compared to the increase of 12.31 percent in FY16. Government deposits increased by BDT 87.76 billion or 15.71 percent to BDT 646.51 billion in FY17 against 18.59 percent increase in FY16. Quarterly position of bank deposits in FY17 may be seen at Table 4.5.

Table 4.4 Bank Credit -FY17 quarterly positions

(Billion BDT)

Outstanding as of	Advances	Bills	Total Credit
30 June 16	6426.95 (96.39)	240.50 (3.61)	6667.45
30 Sep 16	6512.96 (96.50)	236.52 (3.50)	6749.48
31 Dec 16	6886.49 (96.60)	242.43 (3.40)	7128.92
31 Mar 17	7075.89 (96.31)	271.22 (3.69)	7347.11
30 June17	7433.95 (96.25)	289.45 (3.75)	7723.40

Figure in parentheses indicate percentage shares of total bank credit
Source: Monetary Policy Department, Bangladesh Bank.

Table 4.5 Bank Deposits*-FY17 quarterly positions

(Billion BDT)

Balances as of	Demand deposits	Time deposits	Govt. deposits	Total deposits
30 June 16	897.59	7039.47	558.75	8495.81
30 Sep 16	826.20	7301.35	527.56	8655.11
31 Dec 16	906.61	7496.08	591.53	8994.22
31 Mar 17	878.59	7622.14	559.92	9060.65
30 June 17	1018.85	7759.98	646.51	9425.34

*Excluding inter bank and restricted deposits.
Source: Monetary Policy Department, Bangladesh Bank.

Credit/Deposit Ratio

4.12 The credit/deposit ratio of the scheduled banks, excluding the specialized banks was 0.82 at the end of June 2017 which was 0.78 at the end of June 2016. Increasing credit to deposit ratio indicates credit growth is higher than the deposit growth reflecting strong domestic demand driven economic activities as well as investment.

Scheduled banks' borrowing from Bangladesh Bank

4.13 Scheduled banks' borrowings from the Bangladesh Bank decreased by BDT 60.06 billion or 32.66 percent to BDT 243.94 billion at the end of June 2017 against the increase of 249.51 percent at the end of June 2016. It may be noted that scheduled banks' borrowings from

BB showed higher growth in FY16 as scheduled banks' borrowing from BB uder the Export Development Fund (EDF) has been started to shown under this head since January 2016.

Balances of Scheduled Banks with the BB and their Cash in Tills

4.14 Balances of scheduled banks with Bangladesh Bank increased by BDT 124.34 billion or 20.62 percent to BDT 727.34 billion at the end of June 2017 against the increase of 20.99 percent at the end of June 2016. Cash in tills of scheduled banks increased by BDT 35.02 billion or 34.23 percent to BDT 137.33 billion at the end of June 2017 against the increase of 0.17 percent as of end June 2016.

Cash Reserve Requirement (CRR)

4.15 The Cash Reserve Requirement (CRR) for the scheduled banks with the Bangladesh Bank remained unchanged at 6.50 percent of their total demand and time liabilities in FY17. It may be noted that banks are required to maintain CRR at the rate of 6.50 percent on average on bi-weekly basis provided that the CRR would not be less than 6.00 percent in any day with effective from June 24, 2014 which continued in FY17.

Statutory Liquidity Ratio (SLR)

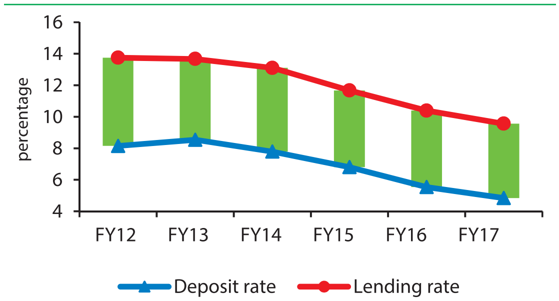
4.16 According to the amendment of sub section (2) under section 33 of the Bank Company Act, 1991, it is decided that banks should have maintained SLR separately, (a) for the conventional banks (excluding the three specialized banks- BDBL,RAKUB & BKB) the statutory liquid assets inside Bangladesh, which also includes excess reserves with Bangladesh Bank, shall not be less than 13.0 percent of their total demand and time liabilities,

Table 4.6 Trends of Weighted Average Interest Rates of Scheduled Banks

Items	as of end June (percent)					
	FY12	FY13	FY14	FY15	FY16	FY17
Deposit rate	8.15	8.54	7.79	6.80	5.54	4.84
Lending rate	13.75	13.67	13.10	11.67	10.39	9.56
Spread	5.60	5.13	5.31	4.87	4.85	4.72

Source: Monetary Policy Department, Bangladesh Bank.

Chart 4.5 Trends of weighted Average Interest Rates of Scheduled Banks



Source: Monetary Policy Department, Bangladesh Bank.

Table 4.7 Liquidity Indicators-FY17

(percent)

As on	ADR	Call money rate	Repo	LCR	NSFR
30 Jun 16	75.65	3.70	6.75	171.98	108.66
30 Sep 16	75.25	3.64	6.75	198.94	110.86
31 Dec 16	76.57	3.62	6.75	197.58	109.30
31 Mar 17	78.10	3.66	6.75	191.42	110.59
30 June17	78.87	3.93	6.75	178.45	110.22

Source: Monetary Policy Department and Department of Off-site Supervision, Bangladesh Bank.

and (b) for the shariah based Islami banks and branches of conventional banks operated on Islamic Shariah, this rate shall not be less than 5.5 percent. This became effective on February 01, 2014 and is remained unchanged in FY17.

Bank Rate

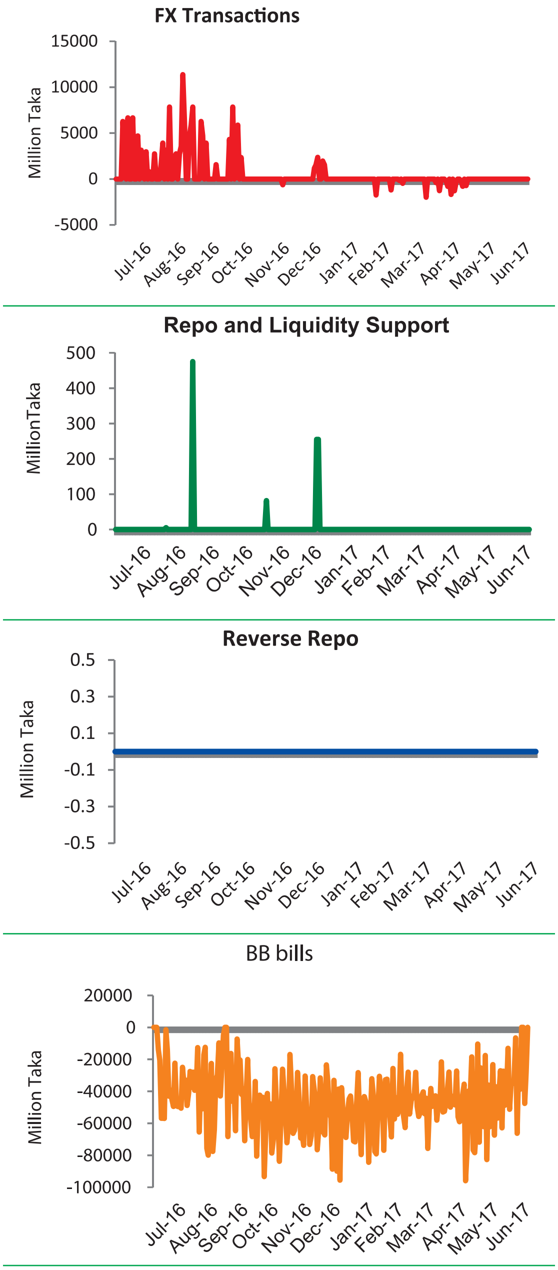
4.17 The bank rate remained unchanged at 5.0 percent in FY17 which became effective on November 6, 2003.

Interest Rates on Deposits and lending

4.18 The weighted average interest rates on deposits gradually declined from a pick of 8.54 percent in FY13 to 4.84 percent in

FY17. Similarly, following the downward trend weighted average interest rates on lending rate also gradually declined to 9.56 percent in FY17 from a pick of 13.75 percent in FY12. Favorable inflation performance, ample liquidity, access of foreign financing facilities at lower interest rate coupled with stringent loan practices by Bangladesh Bank contributed to decline in weighted average interest rates both on deposits and lending. The intermediation spreads between lending and deposit rates were above 5 percent up to FY14. Despite substantial decline of the lending and deposit rates, the intermediation spread gradually narrowed merely to 4.72 percent in FY17. Downward stickiness of the interest rate spread reflects provisioning costs on high non performing loan levels in banks with weak lending discipline, and aversion to competitive rate setting by more efficient banks with low non-performing loan levels. BB has directed the commercial banks to focus on attaining efficiency in credit disbursement and loan recovery, drive to recover default loan, increasing competition among the banks in order to reduce the interest rate spread, these would help banks to reduce interest rate on lending. Besides, Bangladesh Bank's supervisory oversight is strongly dissuading further squeezing of interest rates on bank deposits, and incipient signs of slow upward creep have emerged. Table 4.6 and Chart 4.5 contain weighted average interest rates of scheduled banks on deposits and lending along with the spread during FY12 to FY17.

Chart 4.6 Liquidity Management Operations during FY17



Source: Monetary Policy Department, Bangladesh Bank.

Liquidity Management framework

4.19 The liquidity situation is assessed mainly by the advance-deposit ratio (ADR) and call money rate (Table 4.7). It is observed that during FY17, ADR demonstrate increasing trend while call maney rate was stable at a low level. This is an encouraging sign for the Bangladesh economy. This indicates that most of the banks did not face any liquidity pressure during the reporting period. The call money rate continued to stable, indicating prevalence of no liquidity stress in the banking system. The newly introduced liquidity indicators[2] also demonstrate that all banks were well positioned to absorb any liquidity shock. Banking sector maintained LCRs[3] much above the minimum regulatory requirement of 100 percent throughout FY17. During this period, all banks were also able to maintain the minimum regulatory requirement of NSFR[4] (Table 4.7). In general, liquidity situation of the banking industry continued to indicate a position of excess liquidity in FY17. This excess liquidity was moped up and sterilized with the cautious use of Bangladesh Bank Bills which contributed stable weighted average interest rate in the call money market as well as exchange rate and real GDP growth rate. Besides, BB prudently used various open market operation tools such as repo, special repo, and liquidity support facility in FY17 to maintain instant liquidity requirements of banks. Government Treasury bills and bonds were also issued for the purpose of debt management and liquidity management operations. However, policy rates remained unchanged in FY17 considering the downward trend of inflation, subdued global inflation outlook as well as the ample liquidity position of the banking system. Liquidity management operations during FY17 are graphically shown in Chart 4.6.

2 Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NFSR) introduced in CY15.

3 LCR is defined as -Stock of high quality liquid assets /Total net cash outflows over the next 30 calendar days ≥ 100 percent.

4 The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100 percent on an on-going basis. “Available stable funding” is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year.

Banking Sector Performance, Regulation and Bank Supervision

5.1 Bangladesh Bank (BB) has been continuing its efforts to improve the performance of the banking sector and ensure a sound, efficient and resilient financial system. In FY 2016-17, BB has adopted a number of policy measures giving emphasis on risk management and corporate governance in the banks, periodic review of stability of the individual bank as well as the whole banking system, exercise of stress testing, monitoring of large borrowers, prevention of fraud-forgeries and strengthening of internal control and compliance system through self-assessment of anti-fraud internal controls etc. Monitoring of scheduled banks' investment in shares has been made stringent in light of the amendment brought in the Bank Company Act, 1991 (amended up to 2013). Performance of Risk Management Committee at the board level is being evaluated regularly to ensure proper risk management practice in the banks. The review of the guideline namely 'Risk Management Guideline for Banks' issued in 2012 is now in process to facilitate banks in adopting contemporary methods to deal with various risk issues prudently. Besides, all core risks management guidelines have been revised recently for timely identification, measurement, control, and monitoring of all existing and probable risks of banks.

Banking Sector Performance

5.2 The banking sector in Bangladesh comprises four categories of scheduled banks - State-Owned Commercial Banks (SCBs), State-Owned Development Financial Institutions (DFIs), Private Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs). One newly licensed private commercial bank has started its operation in 2016. Therefore, the number of scheduled banks increased to 57 in 2016 from 56 in 2015 and the number of bank branches increased to 9654 in December 2016 from 9397 in December 2015. At the end of June 2017, total number of bank branches increased further to 9720 (Appendix 4, Table1). Information on the banking structure is shown in Table 5.1.

5.3 In 2016, the SCBs held 27.60 percent share of the total assets which was 27.53 percent in 2015. PCBs' share of the total assets increased from 64.50 percent in 2015 to 65.02 percent in 2016. The FCBs held 4.80 percent share of the total assets in 2016, showing a decline of 0.35 percentage points over the previous year. The DFIs' share of the total assets was 2.58 percent in 2016 against 2.82 percent in 2015.

5.4 Total deposits of the banks in 2016

Table 5.1 Banking systems structure

(billion BDT)

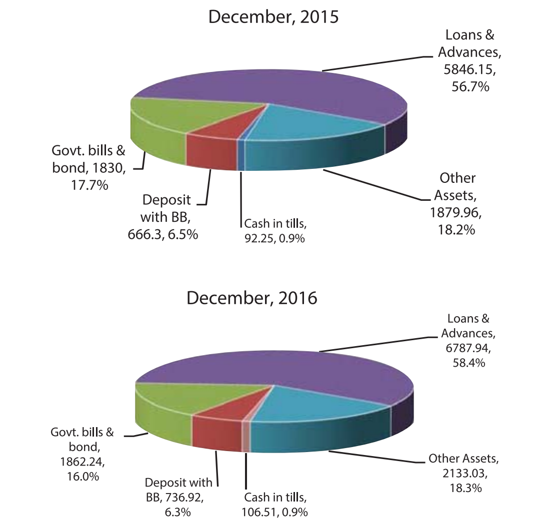
Bank types	2015						2016					
	Number of banks	Number of branches	Total assets	Share of industry assets	Deposits	Share of deposits	Number of banks	Number of branches	Total assets	Share of industry assets	Deposits	Share of deposits
SCBS	6	3690	2839.6	27.5	2254.8	28.44	6	3710	3209.5	27.6	2535.4	28.4
DFIS	2	1406	291.4	2.8	226.6	2.86	2	1407	299.5	2.6	249.4	2.8
PCBS	39	4226	6652.9	64.50	5110.4	64.46	40	4467	7560.0	65.0	5788.0	64.8
FCBS	9	75	530.8	5.2	336.8	4.25	9	70	557.6	4.8	361.1	4.0
Total	56	9397	10314.7	100.0	7928.6	100	57	9654	11626.6	100.0	8933.9	100.0

Note : Banks prepare their balance sheet on calendar year basis, and are obliged to submit their audited balance sheet at the end of every calendar year. That is why banks' performance-related figures are stated in calendar year basis.

Source : BRPD and DOS, BB.

Chart 5.1 Aggregate Industry Assets

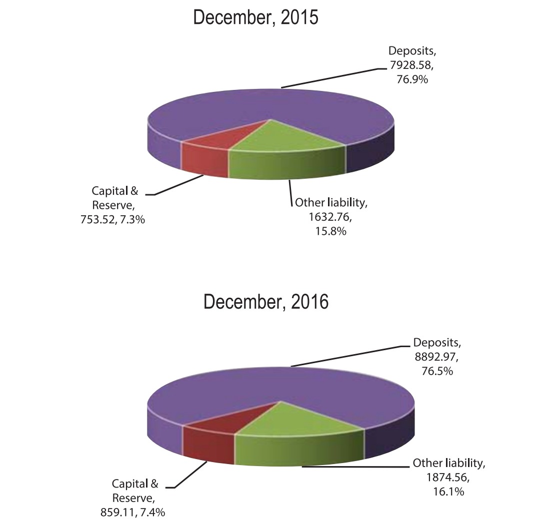
(Billion BDT)



Source: DOS, BB.

Chart 5.2 Aggregate Industry Liabilities

(Billion BDT)



Source: DOS, BB.

rose to BDT 8933.9 billion from BDT 7928.6 billion in 2015 showing an overall increase of 12.7 percent. The SCBs' share in total deposits slightly decreased from 28.4 percent in 2015 to 28.4percent in 2016. PCBs' deposits in 2016 stood at BDT 5788.0 billion or 64.8 percent of the total deposits compared to BDT 5110.4 billion or 64.5 percent in 2015. FCBs' deposits in 2016 slightly increased by BDT 24.4 billion over the year 2015 although, their contribution to total deposits decreased slightly. The DFIs' deposits in 2016 was BDT 249.4 billion against BDT 226.6 billion in 2015 showing an increase of 10.1 percent over the year.

Aggregate Balance Sheet

5.5 Total industry assets in 2016 showed an overall increase of 12.7 percent over 2015. During this period, the SCBs' assets increased by 13.0 percent and those of the PCBs increased by 13.6 percent. Loans and advances of BDT 6739.2 billion constituted the most significant portion (57.96 percent) of the sector's aggregate assets of BDT 11626.7 billion. Cash in hand including foreign currencies was BDT 106.5 billion; deposits with BB were BDT 736.9 billion; other assets were BDT 1904.4 billion and investment in government bills and bonds were BDT 2139.6 billion. (Chart 5.1 and chart 5.2).

5.6 Deposits continued to be the main sources of funds of the banking industry and constituted 76.8 percent (BDT 8933.9 billion) of total liability in 2016. Capital and reserves of the banks were BDT 837.7 billion (7.2 percent) in 2016 compared to BDT 753.5 billion (7.4 percent) in 2015.

Capital Adequacy

5.7 Capital adequacy focuses on the total position of the banks' capital and the protection of depositors and other creditors from the potential losses that a bank might incur. It helps absorbing all possible financial risks related to credit, market, operation, interest rate, liquidity, reputation, settlement, strategy, environment and climate change etc. Under Basel-III, the banks in Bangladesh are instructed to maintain the Minimum Capital Requirement (MCR) at 10.0 percent of the Risk Weighted Assets (RWA) or BDT 4.0 billion as capital, whichever is higher. Under the Supervisory Review Process (SRP), banks are directed to maintain a level of "adequate" capital which is higher than the minimum required capital and sufficient to cover for all possible risks in their business. This higher level of capital for the banks is usually determined and finalized through SP-SREP (Supervisory Review Evaluation Process, the central bank's assessment) dialogue. The amount of capital was BDT 205.8 billion as on 31 December 2008 which increased to BDT 837.58 billion at the end of December 2016, showing capital growth of 306.98 percent (chart 5.3).

5.8 Table 5.2 shows that on 31 December 2016, in aggregate, the SCBs, DFIs, PCBs and FCBs maintained CRAR of 5.86, -33.67, 12.36 and 25.37 percent respectively. However, individually, 3 SCBs, 2 PCBs and 2 DFIs failed to maintain the minimum required Capital to Risk Weighted Assets Ratio (CRAR). The CRAR of the banking industry as a whole was 10.80 percent at the end of December 2016 as against 10.84 percent at the end of December 2015. The CRAR of the industry was 10.86 percent at the end of June 2017 (chart 5.3).

Asset Quality

5.9 Loans and advances are the major components in the asset composition of all commercial banks. The high concentration of loans and advances increases the vulnerability of assets to credit risk.

5.10 The most important indicator to demonstrate the asset quality in the loan portfolio is the ratio of gross Non-Performing Loans (NPLs) to total loans and net NPLs to net total loans. At the end of December 2016, the gross NPL ratio to total loans of the banking sector stood at 9.23 percent. Table 5.3 shows that PCBs had the lowest and DFIs had the highest ratio of gross NPLs to total loans. SCBs' gross NPLs to total loans ratio was 25.05 percent

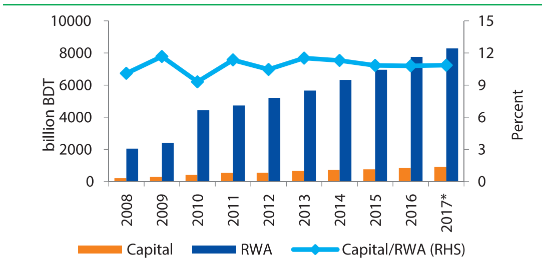
Table 5.2 Trends of Capital to Risk Weighted Assets Ratio by Type of Banks

(percent)

Bank types	2009	2010	2011	2012	2013	2014	2015	2016	End June 2017
SCBs	9.0	8.9	11.7	8.1	10.8	8.3	6.4	5.9	7.0
DFIs	0.4	-7.3	-4.5	-7.8	-9.7	-17.3	-32.0	-33.7	-32.8
PCBs	12.1	10.1	11.5	11.4	12.6	12.5	12.4	12.4	12.2
FCBs	28.1	15.6	21.0	20.6	20.2	22.6	25.6	25.4	23.3
Total	11.6	9.3	11.4	10.5	11.5	11.3	10.8	10.8	10.9

Source: Bangladesh Bank.

Chart 5.3 Trends of Aggregate Capital Adequacy Position



*30 June 2017
Source: Department of Off-site Supervision (DOS), BB.

and the NPL ratio of DFIs, PCBs and FCBs were 26.02, 4.58 and 9.56 percent respectively at end December 2016 (Table 5.3). The gross NPL ratios to total loans for the SCBs, PCBs, FCBs and DFIs were recorded as 26.84, 5.77, 7.89 and 23.79 percent respectively at the end of June 2017.

5.11 The ratio of NPL to total loans of all banks had shown an overall declining trend from its peak (34.9 percent) in 2000 up to 2011 (6.1 percent). Then, it increased in 2012 (10.0 percent) and decreased again in 2013 (8.9 percent). Afterward, the ratio increased in 2014 (9.69 percent) and again declined in 2015 (8.79 percent). In 2016, it increased to 9.23 percent due mainly to increase in total classified loans, defaulted outstanding and non-recovery of the interest charged on loans. At the end of June 2017, the ratio of NPL to total loans of the industry stood at 10.13 percent. (Chart 5.4)

Box 5.1 A note on Integrated Supervision System (ISS) in Bangladesh

Bangladesh Bank has developed/incorporated various monitoring tools and techniques to strengthen the supervision of banks and FIs time to time. Enterprise Data Warehouse (EDW) and Foreign Exchange Monitoring Dash Board are some of the milestones of BB's supervision strengthening endeavors. Considering some bitter experiences associated with financial scam that took place in the banking industries , BB has started a comprehensive supervision research in late 2012 to develop a more effective supervision and monitoring tool in order to strengthen its existing supervision system. Integrated Supervision System (ISS) is the outcome of that initiative. ISS Software was formally inaugurated by the honorable Governor on 8th October, 2013. Subsequently, mandatory ISS reporting of banks' head offices and branches started from March, 2014. As of 30 June 2017, 57 scheduled bank's head offices and total 9771 branches have come under ISS reporting coverage.

ISS is an Oracle Business Intelligence Enterprise Edition (OBIEE) based monitoring tool integrating the information of a bank's overall activities i.e. balance sheet exposure, off-balance sheet exposure, credit operation, foreign exchange business, money market operation and regulatory compliance related to their head office to root level branch operations. This web based tool has enabled integration of the existing multifold supervision mechanism of BB. ISS aims to ensure the supervision effectively at all level of supervision structure from BB to the branch management of a scheduled bank. ISS also aims to adopt risk-based supervision approach with a view to minimize the supervision frequency and increase supervision coverage and to facilitate effective and timely supervisory decision making process.

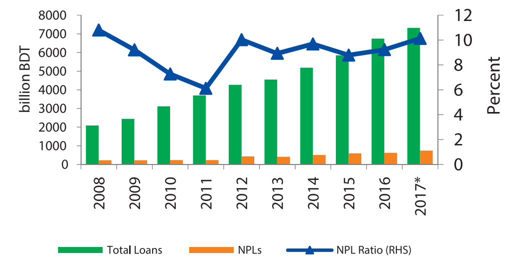
Functions of Integrated Supervision Management Department (ISMD) are directly mandated to ISS. During the FY2016-17, a total of 15 risk/observation reports (covering issues related with credit, foreign exchange and operational risk) on bank branches were generated using the data of ISS. Based on these reports, ISMD has given instructions to respective banks to take necessary action and banks' compliances to those instructions were ensured as well. Additionally, ISMD prepared reports named "Report for Bank's Observer" based on ISS data which were provided to the honorable Observers appointed to some problem banks by BB. During FY2016-17, ISMD continued its ISS data support role not only to Bank Inspection Departments (DBIs) for their selection of branches to conduct on-site inspections but also to their inspection teams. In these process ISMD, using ISS data, has assessed different level of risks that were anticipated to prevail on a number of branches of different banks and shared the assessment to respective DBIs for their action. Moreover, ISMD itself, under its jurisdiction, has conducted some risk based inspection on selective bank branches and their head offices. ISMD inspection teams have found various irregularities including manipulation of credit data and data on other sensitive issues. In order to support further development of BB's risk-based supervision activities, ISMD has developed Pre-Inspection Assessment Report (PIAR), an excel-based risk calculator of bank branch, which is mandatory to use for an on-site inspection team before starting their inspection on the selected branch. Development process of two more tools (PIAR for Bank's Head Office and PIAR for Foreign Exchange Inspection) is going on. Apart from these, initiative has been taken to prepare "Bank branch Risk Index" which is expected to be used in near future for selection of branch to conduct inspection by DBIs.

5.12 The SCBs and DFIs continue to have high level of NPLs due mainly to substantial loans provided by them on considerations other than commercial criteria. Poor appraisal and inadequate follow-up and supervision of the loans disbursed by the SCBs and DFIs in the past eventually resulted in these poor quality assets. Furthermore, these banks were reluctant to write-off the historically accumulated bad loans because of poor quality of collaterals. However, recovery of NPLs has witnessed some signs of improvement, mainly because of the steps taken with regard to internal restructuring of these banks to strengthen their loan recovery mechanism and write-off measures initiated in recent years.

5.13 Table 5.3 (a) and chart 5.4 show that in 2016, the ratio of net NPLs (net of provisions and interest suspense) to net total loans (net of provisions and interest suspense) was 2.3 percent for the banking sector and it was 11.1 percent for SCBs. The table illustrates that SCBs' and DFIs' non-performing portfolios have increased in 2016 as compared to that of the last year. The net NPLs to net total loans ratios were 10.5, 0.1, and 1.9 percent for the DFIs, PCBs and FCBs respectively at the end of December 2016. The ratios were 11.6, 8.8, 0.7 and 0.9 percent for SCBs, DFIs, PCBs and FCBs respectively at the end of June 2017.

5.14 Table 5.3 (b) and chart 5.5 show the amount of NPLs of the four types of banks since 2009 to 2016. The amount of NPLs of the SCBs increased from BDT 117 billion in 2009 to BDT 310.3 billion in 2016. The amount of NPLs of the PCBs stood at BDT 230.6 billion in 2016 increasing from BDT 61.7 billion in 2009. The amount of NPLs of the DFIs increased to BDT 56.8 billion in 2016 from BDT 42.1 billion in 2009. The amount of NPLs of the FCBs increased to BDT 24.1 billion in 2016 as against BDT 3.5 billion in 2009. The table also demonstrates that total NPLs of the banking sector have increased to BDT 621.8 billion in 2016 as compared to BDT 594.1 billion in 2015 and the amount of NPLs has increased in all types of banks except PCBs in 2016 as compared to the last year. The amount of NPLs of SCBs, DFIs, PCBs and FCBs stood at BDT 345.8, 55.2, 317.3 and 23.2 billion respectively at the end of June 2017.

Chart 5.4 Trends of Aggregate Position on NPLs to Total Loans



*Up to 30 June 2017
Source: Department of Off-site Supervision (DOS), BB.

Table 5.3 Trends of NPL Ratios by Type of Banks

(percent)

Bank types	2009	2010	2011	2012	2013	2014	2015	2016	End June 2017
SCBs	25.4	21.4	15.7	11.3	23.9	19.8	21.5	25.1	26.8
DFIs	25.5	25.9	24.2	24.6	26.8	26.8	23.2	26.0	23.8
PCBs	4.4	3.9	3.2	2.9	4.6	4.5	4.9	4.6	5.8
FCBs	1.9	2.3	3.0	3.0	3.5	5.5	7.8	9.6	7.9
Total	10.8	9.2	7.3	6.1	10.0	8.9	8.8	9.2	10.1

Source: Bangladesh Bank.

Table 5.3 (a) Ratio of net NPL to Total Loans by Type of Banks

(percent)

Bank types	2009	2010	2011	2012	2013	2014	2015	2016	End June 2017
SCBs	1.9	1.9	-0.3	12.8	1.7	6.1	9.2	11.1	11.6
DFIs	18.3	16.0	17.0	20.4	19.7	25.5	6.9	10.5	8.8
PCBs	0.5	0.00	0.2	0.9	0.6	0.8	0.6	0.1	0.7
FCBs	-2.3	-1.7	-1.8	-0.9	-0.4	-0.9	-0.2	1.9	0.9
Total	1.7	1.3	0.7	4.4	2.0	2.7	2.3	2.3	2.6

Source: Bangladesh Bank.

Table 5.3 (b) Amount of NPLs by Type of Banks

(billion BDT)

Bank types	2009	2010	2011	2012	2013	2014	2015	2016	End June 2017
SCBs	117.5	107.6	91.7	215.2	166.1	227.6	272.8	310.3	345.8
DFIs	42.1	49.7	56.5	73.3	83.6	72.6	49.7	56.8	55.2
PCBs	61.7	64.3	72.0	130.4	143.1	184.3	253.3	230.6	317.3
FCBs	3.5	5.5	6.3	8.5	13.0	17.1	18.2	24.1	23.2
Total	224.8	227.1	226.4	427.3	405.8	501.6	594.1	621.8	741.5

Source: Bangladesh Bank.

5.15 Table 5.4 and chart 5.6 show that, the banking sector continuously failed to maintain the required level of provision against their NPLs from 2009 to 2016 except the year 2009

Box 5.2: Corporate Governance in the Banking Sector

The primary objective of corporate governance should be safeguarding stakeholders' interest in conformity with public interest on a sustainable basis. Among stakeholders, particularly with respect to retail banks, shareholders' interest would be secondary to depositors' interest. Corporate governance determines the allocation of authority and responsibilities by which the business and affairs of a bank are carried out by its board and senior management, including how they • set the bank's strategy and objectives; • select and oversee personnel; • operate the bank's business on a day-to-day basis; • protect the interests of depositors, meet shareholder obligations, and take into account the interests of other recognised stakeholders; • align corporate culture, corporate activities and behaviour with the expectation that the bank will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations; and • establish control functions.

Accordingly, Bangladesh Bank has taken several supervisory initiatives in accordance with local & international regulatory frameworks. Among them, directives on formation and responsibilities of Board of Directors of a Bank-Company, Directives on appointment and responsibilities of Chief executive officer, Directives on appointment of advisor and consultant, Directives on Transactions with Bank-Related Persons and Directives on significant shareholders of a bank are worth mentioning. In 2013, Bangladesh Bank issued the BRPD circular no. 11 which is associated with the formation and responsibilities of Board of Directors. This circular includes such provisions as appointment of bank directors in terms of director's fit & proper criteria, dismissal, termination or removal of any director from the post, appointment of independent & alternate directors. This circular also includes provisions on responsibilities of Board in case of work-planning & strategic management, credit & risk management, internal control management, human resources management & development , financial management, appointment of CEO, board meeting as well as formation of different committees like executive committee, audit committee, risk management committee etc. Moreover, in 2014 Bangladesh Bank issued BRPD circular no. 4 regarding the related-party transactions for ensuring proper utilization of bank's fund and maintaining confidence of the depositors. As per this circular any loan facility or guarantee or security provided to a Director of a bank or to his relatives must be sanctioned by the Board of Directors of the bank and has to be specifically mentioned in the Balance sheet of the bank. In this case, prior approval from BB is required for providing funded facilities amounting BDT 5.00 million ro above and composite facilities comprising funded & non-funded facilities amounting BDT 10.00 million or above to a bank director, to his/her relatives, to his/her proprietorship/partnership firms and to any private or public company where he/she is acting as a director. Total amount of loans and advances guarantees and other credit facilities provided to a bank director, his/her proprietorship/partnership firms, any private or public company where he/she is acting as a director should not exceed 50% of the face value of shares of that bank held in directors own name. In addition, as per this circular Banks are obliged to comply a number of provisions relating to such transactions that are incorporated in Section 17, 18, 26Ga, 27 & 28 of the Bank Company Act, 1991 (Amended upto 2013).

and 2011. From 2012 to June 2017 banking sector showed shorfall in mainting provision and it showed increasing trend.

5.16 The main reason for the shortfall in provision was the inability of some SCBs and PCBs, including those in the problem bank category due to increase in classified loans, poor quality and inadequacy of collaterals, low profit and provision transfer for write-offs. On the other hand, the FCBs were in a much better position since they were able to keep adequate provisions. A comparative position of loan loss provisions at the end of 2015, 2016 and 2017(end June) is shown in Table 5.5.

5.17 37 out of 40 PCBs were able to maintain the required provision at the end of December 2016, but the remaining three failed due to their poor asset portfolios and earning levels.

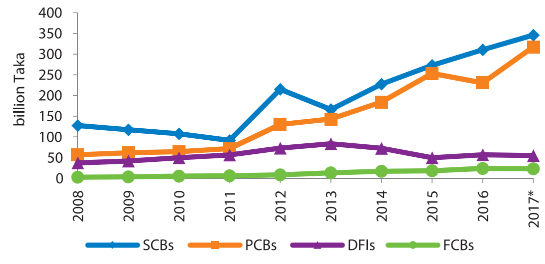
5.18 In order to rectify an unnecessarily and artificially inflated size of the balance sheet, a uniform guideline for write-off was introduced in 2003. Banks may write off bad/loss loans complying with the conditions covered by the guideline. The total amount of written-off loans from June 2010 to June 2016 by different bank categories is given in Table 5.6.

Management Soundness

5.19 It is difficult to draw any conclusion about the quality of management based solely on the quantitative indicators. Nevertheless, the total expenditure to total income, operating expenses to total expenses, earnings and operating expenses per employee, and interest rate spread are generally used to determine management soundness. Technical competence and leadership of mid and senior level management, compliance with rules/ regulations/plan and response to changing circumstances, etc. are taken into consideration in evaluating the quality of management.

5.20 As evident from Table 5.7 and Chart 5.7, in 2016 the expenditure-income (EI) ratio of the DFIs was the highest among the bank categories, which was mainly attributable to poor non-interest income and higher operating expenses. The EI ratio of the DFIs increased from 113.9 percent in 2015 to 137.8 percent in 2016. The EI ratio of the SCBs was 90.2 percent in 2016, the second highest, which could mainly be attributable to high administrative and operating expenses. In 2016, The EI ratio of PCBs and FCBs were 73.5 percent and 45.7 percent respectively, which decreased slightly in 2016 as compared to the previous year. At the end of June 2017, the EI ratio of SCBs and DFIs stood at 87.9 and 132.8 percent respectively whereas those of PCBs and FCBs stood at 74.5 and 45.5 percent respectively.

Chart 5.5 Comparative position of NPLs by type of banks



*Up to 30 June 2017
Source: Bangladesh Bank.

Table 5.4 Required provision and provision maintained –all banks

(billion BDT)

All Banks	2009	2010	2011	2012	2013	2014	2015	2016	End June 2017
Amount of NPLs	224.8	227.1	226.4	427.3	405.8	501.6	594.1	621.7	741.5
Required Provision	134.8	149.2	148.2	242.4	252.4	289.6	308.9	362.1	436.4
Provision maintained	137.9	142.3	152.7	189.8	249.8	281.6	266.1	307.4	374.5
Excess(+)/ shortfall(-)	3.1	-6.9	4.6	-52.6	-2.6	-7.9	-42.8	-54.7	-61.9
Provision maintenance ratio (%)	102.3	95.4	103.0	78.3	99.0	97.2	86.1	84.9	85.8

Source: Bangladesh Bank.

Earnings and Profitability

5.21 Although there are various indicators of earnings and profitability, the most representative and widely used one is return on assets (ROA), which is supplemented by return on equity (ROE) and net interest margin (NIM).

5.22 Earnings as measured by ROA and ROE differ greatly within the banking industry. Table 5.8 shows ROA and ROE by four types of banks over the period 2009-2017(June).

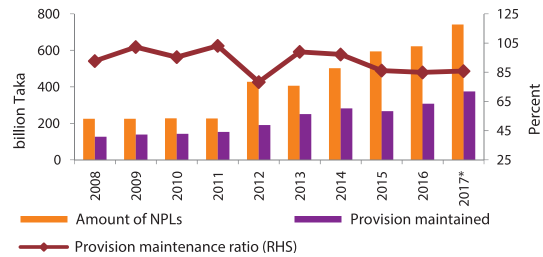
Analysis of these indicators reveals that the ROA of the SCBs and DFIs was negative and less than the industry average. ROA of the PCBs showed a consistently strong position up to 2010, but it was in a decreasing trend during 2011-2012 due to declining net profit. However, after 2012 it has been consistently increasing. The table also shows that though FCBs' ROA showed a decreasing trend from 2014, it remains in a strong position.

5.23 Table 5.8 also presents that ROE of the SCBs stood at -6.02 percent in 2016, but it has deteriorated as compared to -1.47 percent in the last year. ROE of the DFIs was also negative which stood at -13.88 percent in 2016. ROE of the PCBs increased to 11.09 percent in 2016 from 10.75 percent in 2015. ROE of the FCBs declined to 13.08 percent in 2016 from 14.6 percent in 2015. At the end of June 2017, ROE of SCBs, DFIs, PCBs and FCBs stood at -19.38,-814, 7.50 and 10.81 percent respectively. Trends of aggregate profitability of all banks are given in chart 5.8.

5.24 Aggregate net interest income of the banking industry in 2016 stood at BDT 328.66 billion which was BDT 292.90 billion in 2015 (Chart 5.9). NII of the SCBs increased to BDT 49.47 billion in 2016 from BDT 40.4 billion in 2015. NII of the DFIs decreased to BDT 0.93 billion in 2016 from BDT 1.7 billion in the last year. PCBs held the major portion (77.32 percent) of NII of the banking industry in 2016 like previous years. NII of the PCBs increased to BDT 254.11 billion from BDT 222.64 billion in the last year. NII of FCBs declined slightly from BDT 28.2 billion in 2015 to BDT 24.15 billion in 2016. The NII of the banking industry stood at BDT 165.42 billion at the end of June 2017. (Table 5.9)

5.25 SCBs have been able to increase their net interest income (NII) by reducing their cost

Chart 5.6 Provision adequacy position of all banks



*Up to 30 June 2017
Source: Bangladesh Bank.

Table 5.5 Comparative position of provision adequacy

(billion BDT)

Year	Items	SCBs	DFIs	PCBs	FCBs
2015	Required provision	140.4	26.4	126.0	16.1
	Provision maintained	94.7	28.4	126.6	16.5
	Provision maintenance ratio (%)	67.5	107.6	100.5	102.5
2016	Required provision	174.0	27.8	144.2	16.0
	Provision maintained	113.2	28.4	149.4	16.4
	Provision maintenance ratio (%)	65.1	102.2	103.6	102.5
2017 June	Required provision	205.3	27.8	186.1	17.1
	Provision maintained	131.7	28.8	196.3	17.7
	Provision maintenance ratio (%)	64.2	103.3	105.5	103.3

Source: Bangladesh Bank.

of funds from 2009 to 2011. In 2012, the NII of SCBs dropped, and deteriorated afterwards. The NII of the PCBs had been significantly high since 2009. Overall NII of the banking industry showed a consistently upward trend from 2009 to 2016 though it went reverse in 2013 due to lacklustre performance of the SCBs (Table 5.9).

Liquidity

5.26 Presently, the commercial banks have to maintain CRR (cash reserve ratio) averaging 6.5 percent daily on a biweekly basis against average total demand and time liabilities (ATDTL) of the second preceding month, with an obligation to maintain daily minimum 6.0 percent cash against the same ATDTL held by the bank. The current rate of SLR (statutory liquidity reserve) for conventional banks is 13.0 percent of ATDTL. In case of Islamic Shariah based commercial banks, the rate of SLR is 5.5 percent of their ATDTL. Three banks (two specialized banks and BDBL) are exempted from maintenance of SLR, but they have to maintain the CRR at the stated rate. The banks maintain CRR in cash with Bangladesh Bank. However, they are allowed to hold government approved securities (unencumbered portion) including Government Islamic Investment Bond (GIIB) for maintenance of the SLR.

5.27 Table 5.10 shows that in 2016 the FCBs have the highest liquidity ratios followed by the SCBs. It is observed that the liquidity ratio of the banking system show steady trend (percentage of liquid assets in total assets) during the last few years although the ratio for DFIs is zero as they do not need to maintain SLR.

CAMELS Rating

5.28 CAMELS rating is a supervisory tool to assess and review the financial soundness of the banking companies. It helps BB to remain always vigilant over the banks and identify those banking companies which have problems and require close supervision. The previous CAMELS rating guideline has been reviewed by the Department of Off-site Supervision with a view to assessing the banks' soundness more accurately, reflecting the banks' financial condition and management issues more pragmatically, making the guideline more country perspective oriented and making an effort to address good governance issues in the banking sector. The revised CAMELS rating guideline came into effect from 2013.

5.29 The revised CAMELS rating guideline has brought not only major changes in ratios or indicators but also modifications in the questionnaire for evaluation of qualitative issues. Basel-III principles related to capital adequacy have also been reflected in the guideline. Along with emphasizing best quality capital, investments in the capital market, the amount of off-balance sheet items in comparison to the capital of the banks, large loan exposures to capital, etc. are considered to calculate capital adequacy. HHI (Herfindahl-Hirschman Index) has been incorporated in the updated CAMELS rating guideline to analyze loan concentration, as a complement to percentages of classified loans and provisioning in the evaluation of asset quality. The amount of loan disbursed to different risk associated sectors has been

Table 5.6 Trends of Writing-off bad debts in different bank categories

(billion BDT)

Bank Types	30 June 2010	30 June 2011	30 June 2012	30 June 2013	30 June 2014	30 June 2015	30 June 2016	31 Dec 2016
SCBs	70.5	82.4	72.9	107.2	154.8	210.3	220.4	222.2
DFIs	31.8	32.0	24.5	32.6	34.2	5.6	5.6	5.6
PCBs	69.6	77.1	64.9	109.7	127.7	155.5	189.4	211.5
FCBs	2.1	2.4	2.6	3.7	4.4	5.1	7.2	8.1
Total	174.0	193.9	164.9	253.3	321.1	376.5	423.2	447.3

Source: Bangladesh Bank.

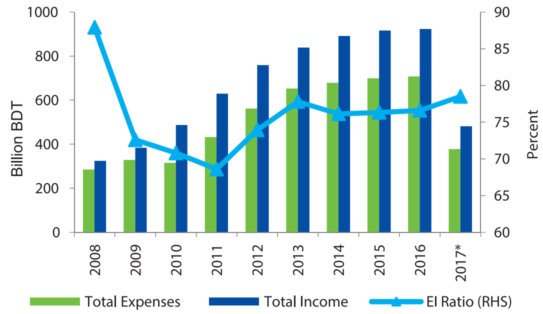
Table 5.7 Trends of Expenditure-income ratio by type of banks

(percent)

Bank types	2009	2010	2011	2012	2013	2014	2015	2016	End June 2017
SCBs	75.6	80.7	62.7	73.2	84.1	84.1	84.5	90.2	87.9
DFIs	112.1	87.8	88.6	91.2	94.8	99.5	113.9	137.8	132.8
PCBs	72.6	67.6	71.7	76.0	77.9	75.8	75.5	73.5	74.5
FCBs	59.0	64.7	47.3	49.6	50.4	46.8	47.0	45.7	45.5
Total	72.6	70.8	68.6	74.0	77.8	76.1	76.3	76.6	78.5

Source: Bangladesh Bank.

Chart 5.7 Trends of Aggregate position of income and expenditure - all banks



*Up to 30 June 2017
Source: Bangladesh Bank.

Table 5.8 Trends of Profitability ratio by type of banks

(percent)

Bank types	ROA									ROE								
	2009	2010	2011	2012	2013	2014	2015	2016	2017 June	2009	2010	2011	2012	2013	2014	2015	2016	2017 June
SCBs	1.0	1.1	1.3	-0.56	0.59	-0.55	-0.04	-0.16	-0.63	26.2	18.4	19.7	-11.87	10.93	-13.46	-1.47	-6.02	-19.38
DFIs	0.4	0.2	0.1	0.06	-0.40	-0.68	-1.15	-2.80	-1.60	-171.7	-3.2	-0.9	-1.06	-5.81	-5.97	-5.79	-13.88	-8.14
PCBs	1.6	2.1	1.6	0.92	0.95	0.99	1.00	1.03	0.68	21.0	20.9	15.7	10.17	9.76	10.26	10.75	11.09	7.50
FCBs	3.2	2.9	3.2	3.27	2.98	3.38	2.92	2.56	2.15	22.4	17.0	16.6	17.29	16.93	17.67	14.59	13.08	10.81
Total	1.4	1.8	1.5	0.64	0.90	0.64	0.77	0.68	0.34	21.7	21.0	17.0	8.20	11.10	8.09	10.51	9.42	4.66

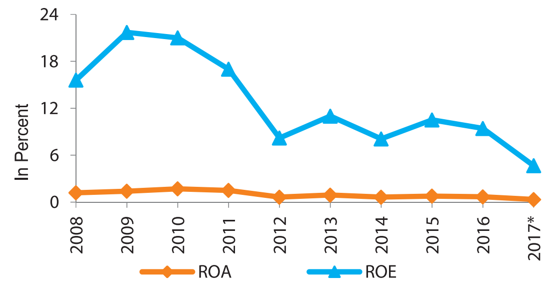
Source: Bangladesh Bank.

included as well. Under this rating system, banking companies are assigned two sets of ratings- (i) performance ratings, based on six individual ratings that address six components of CAMELS (capital, assets, management earnings, liquidity and sensitivity to market risk) and (ii) an overall composite rating based on a comprehensive assessment of the overall condition of the banking company. Both ratings are expressed by using a numerical scale of “1” to “5” in ascending order of supervisory concern, “1” representing the best rating, while “5” indicating the worst. Any bank rated 4 or 5, i.e., ‘Marginal’ or ‘Unsatisfactory’ under the composite CAMELS rating is generally identified as a problem bank, and the activities of these banks are closely monitored by BB. At present, there are two problem banks, which are under intensive monitoring of BB.

5.30 Bangladesh Bank has introduced the Early Warning System (EWS) since March 2005 to address the difficulties faced by the banks in any of the areas of CAMELS. Any bank found to have difficulty in any areas of operation, is brought under the Early Warning category and monitored very closely to help improve its performance. Presently, there is no bank under EWS.

5.31 According to June 2017 based CAMELS rating, no bank was rated '1' or 'Strong'; the rating of 41 banks was '2' or 'Satisfactory'; rating of 7 banks was '3' or 'Fair'; 6 banks were rated '4' or 'Marginal', 2 banks were rated '5' or 'Unsatisfactory' and the rest 1 bank was not rated due to inadequate duration of its operation.

Chart 5.8 Aggregate profitability-all banks



*Up to 30 June 2017

Source: Bangladesh Bank.

Table 5.9 Trends of Net interest income by type of bank

(billion BDT)

Bank types	2009	2010	2011	2012	2013	2014	2015	2016	2017 June
SCBs	12.1	19.8	34.3	14.9	-5.4	39.7	40.4	49.5	24.9
DFIs	1.9	6.2	4.9	4.7	3.8	2.1	1.7	0.9	3.9
PCBs	56.7	82.8	91.4	114.7	118.2	205.8	222.6	254.1	125.5
FCBs	10.7	13.0	16.1	19.6	15.8	26.6	28.2	24.2	11.1
Total	81.5	121.9	146.7	153.8	132.3	274.2	292.9	328.7	165.4

Source: Bangladesh Bank.

Operations of Banks in Urban and Rural Areas

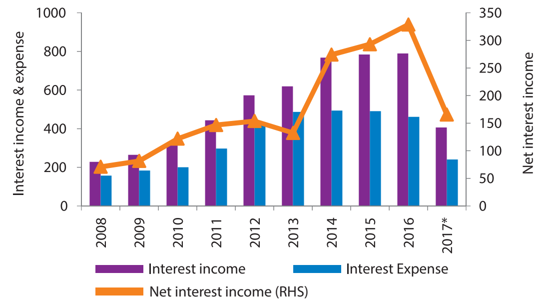
5.32 As on 30 June 2017, 57 scheduled banks are operating with their 9720 number of branches throughout Bangladesh. The number of rural branches stood at 5501 (56.60 percent of total branches) at the end of June 2017 (Appendix 4, Table XIII) and the number of branches in urban areas increased to 4219 (43.40 percent of total branches) during the same period. The number of branches of SCBs are 2341 (63.05 percent) in rural areas and 1372 (36.95 percent) in urban areas. DFIs have 1297 (92.2 percent) branches in rural areas and 110 (7.8 percent) in urban areas. Private commercial banks have 1863 (41.13 percent) branches in rural areas and 2666 (58.87 percent) in urban areas. Foreign commercial banks are operating through 71 urban branches. The share of urban deposits to total deposits of the banking sector was 79.50 percent and the share of rural deposits to total deposits was 20.50 percent at the end of December 2016. On the other hand, the amount of advances given in urban areas constituted 89.83 percent of total advances of the banking industry and the amount of advances disbursed in rural areas represent 10.17 percent of total advances of the banking industry at the end of December 2016.

Islamic Banking

5.33 Islamic banking system has been operating in Bangladesh since 1983. In FY17, out of 57 banks in Bangladesh, eight PCBs operated as full-fledged Islamic banks and 16 conventional banks (including three FCBs) were involved in Islamic banking through Islamic banking branches and windows. The Islamic banks have continued to show strong growth since its inception, as reflected by the increasing market share of the Islamic banking sector in terms of assets, financing and deposits compared to the total banking system. A brief analysis on the performance of Islamic banks is given in Table 5.11. It is evident from the Table-5.11 that, total deposits of the Islamic banks and Islamic banking branches and windows of the conventional banks stood at BDT 1857.3 billion at the end of December 2016 which accounted for 20.79 percent of total

Chart 5.9 Aggregate NII of the industry

Billion BDT



*Up to 30 June 2017
Source: Bangladesh Bank.

Table 5.10 Tends of Liquidity ratio by types of banks

(billion BDT)

Bank types	2009	2010	2011	2012	2013	2014	2015	2016	2017 June
SCBs	12.1	19.8	34.3	14.9	-5.4	39.7	40.4	40.0	38.4
DFIs	1.9	6.2	4.9	4.7	3.8	2.1	1.7	0.0	0.0
PCBs	56.7	82.8	91.4	114.7	118.2	205.8	222.6	17.8	16.5
FCBs	10.7	13.0	16.1	19.6	15.8	26.6	28.2	48.2	40.9
Total	81.5	121.9	146.7	153.8	132.3	274.2	292.9	24.9	23.1

Source: Department of Off-site Supervision (DOS), BB.

deposits (BDT 8933.92 billion). Total credit of the Islamic banks and the Islamic banking branches and windows of the conventional banks stood at BDT 1647.0 billion at the end of December 2016 which accounted for 24.44 percent of total credit (BDT 6739.3 billion) of the banking system of the country.

Legal Framework and Prudential Regulations

Risk Based Capital Adequacy (RBCA) for Banks

5.34 To comply with international best practices and to improve financial stability, Bangladesh Bank (BB) has commenced implementation of Basel III capital adequacy framework since January 2015 after successful completion of Basel-II in December 2014. According to Pillar-1 of Basel-III, RWA of banks is calculated against credit risk, market risk, and operational risk. BB announced the Roadmap for

Table 5.11 Comparative position of the Islamic banking sector (as of end December 2016)

(billion BDT)

Particulars	Islamic banks		Conventional banks*		Islamic banking sector		All bank	
	2016	2015	2016	2015	2016	2015	2016	2015
1	2		3		4=2+3		5	
Number of banks	8	8	16	16	24	24	57	56
Deposits	1770.7	1552.2	86.6	89.4	1857.3	1641.6	8933.9	8033.5
Credits	1565.0	1305.5	82.0	81.7	1647.0	1387.2	6739.271	5952.9
Investment deposit ratio (IDR in %)	86.3	83.2	84.2	75.6	86.7	82.7	71.85	70.98
Liquidity: excess(+)/shortfall(-)**	113.6	133.4	3.0	3.1	116.6	136.5	1259.5	1234.1

*Conventional banks having Islamic Banking Branches and windows.
**Conventional banks which have Islamic banking branches and windows do not maintain SLR individually, but their head offices of the respective banks maintain a combined SLR and liquidity position.
Source: BRPD and DOS, BB.

implementing Basel III in Bangladesh and issued Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III) in 2014.

5.35 Banks were instructed to submit their Capital Adequacy Statements/Reports to BB following new Basel-III accord from the quarter ended in March 2015. At the end of March 2016, CRAR of the banking industry stood at 10.6 percent while CET1 was 8.2 percent which fulfilled Basel-III capital adequacy requirements. However, at individual level, seven banks out of 56 scheduled banks failed to maintain CET1 and CRAR requirements as per Basel-III.

5.36 Banks are required to maintain a total capital conservation buffer (CCB) of 2.5 percent (Following the phase-in-arrangements), comprised of Common Equity Tier 1 capital, above the regulatory minimum capital requirement of 10 percent which has already come into effect since 2016. In 2017, CCB requirement is 1.25 percent. Bank should not distribute profit in case capital level falls below this range. CCB of the banking industry stood at 0.68 percent at the end March 2017, which did not fulfil CCB requirements. Besides, at individual level, 13 (thirteen) banks out of 57 scheduled banks failed to maintain CCB requirement during the period.

5.37 In order to avoid building-up excessive on and off-balance sheet leverage in the banking system, a simple, transparent, non-risk based leverage ratio has been introduced since 2015. In Bangladesh, the minimum requirement of leverage ratio is 3 percent. Based on the results of the year 2015 and 2016, final adjustments to the definition and calibration of the leverage ratio may be made by BB at the end of 2017. Leverage ratio of the banking industry stood at 4.93 percent at the end March 2017, which fulfilled the minimum requirement. However, at individual level, 8 (eight) banks out of 57 scheduled banks failed to maintain leverage ratio requirement during the period. Instructions mentioned in the guidelines will be adopted phase by phase, with full implementation of capital ratios by December 2019. Phase-in-arrangement of minimum capital requirements is depicted in Table 5.12. Under the new capital adequacy framework, all banks will be required to maintain the following ratios on an ongoing basis:

i. Common Equity Tier-1 (CET1) of at least 4.5 percent of the total RWA.

ii. Tier-1 capital will be at least 6.0 percent of the total RWA.

iii. Additional Tier-1 capital can be admitted maximum up to 1.5 percent of the total RWA or 33.33 percent of CET-1, whichever is higher.

iv. Minimum Capital to risk-weighted Asset Ratio (CRAR) of 10 percent of the total RWA.

v. Tier-2 capital can be admitted maximum up to 4.0 percent of the total RWA or 88.89 percent of CET-1, whichever is higher.

vi. In addition to minimum CRAR, Capital Conservation Buffer (CCB) of 2.5 percent of the total RWA is being introduced which will be maintained in the form of CET-1.

5.38 The Supervisory Review Evaluation Process (SREP) of BB includes dialogue between BB and the bank's SRP team, followed by findings/evaluation of the bank's Internal Capital Adequacy Assessment Process (ICAAP). During the SRP-SREP dialogue, BB reviews and determines any additional capital that would be required for banks on the basis of quantitative as well as qualitative judgment. The first SREP dialogue was initiated in 2011. Afterwards, to facilitate the dialogue, BB prepared a revised evaluation process document in May 2013. Under the process document, BB provided guidance to calculate required capital against residual risk, credit concentration risk, interest rate risk, liquidity risk, reputational risk, settlement risk, strategic risk, appraisal of core risk management practice, environmental & climate change risk and other material risks in a specified format and to submit the same to BB. Information of banks' ICAAP is counter checked with the information available from both on-site inspection and off-site supervisory departments of BB. During the SRP-SREP dialogue, if the bank fails to produce their own ICAAP report backed by proper evidence and rigorous review regarding risk management, the SREP team of BB applies their prudence and also uses the available information from the inspection departments in determining the adequate capital. The process document has been further revised in May 2014. On the basis of the revised process document and return format, all banks submitted their ICAAP report based on 31 December 2015.

Table 5.12 Phase-in-arrangement of minimum capital requirements.

	2015	2016	2017	2018	2019
Minimum common equity Tier 1 (CET1) capital ratio	4.5	4.5	4.5	4.5	4.5
Capital conservation buffer (CCB)	-	0.625	1.25	1.875	2.5
Minimum CET1 plus CCB	4.5	5.125	5.75	6.375	7.0
Minimum Tier 1 capital ratio	5.5	5.5	6.0	6.0	6.0
Minimum total capital ratio	10.0	10.0	10.0	10.0	10.0
Minimum total capital plus CCB	10.0	10.625	11.25	11.875	12.5
Leverage ratio	3.0	3.0	3.0 readjustment	Migration to pillar-1	

Source: Bangladesh Bank.

Loan Classification and Loan-Loss Provisions

5.39 BB has changed its policies on loan classification and loan-loss provisions at the end of FY13. BB also introduced and clarified the difference between a "defaulted loan," which is a legal concept granting the bank the right to take certain actions against the borrower, and a "classified loan," which is an accounting concept that implies a certain required level of provisioning for expected losses.

Loan Restructuring

5.40 Loan restructuring policy for large borrowers having multiple bank exposures was revised. Considering the contribution of the large borrowers to the socio-economic development and employment generation of the country, and to support the loan recovery efforts of the banks, the Board of Directors of Bangladesh Bank recommended necessary policy support in line with international best practices for the affected large borrowers. Accordingly, large loan restructuring policy has been issued through and was valid till 30

June 2015. According to the policy, loans of a particular borrower or group in a bank, singly or in clubbed together form, shall be eligible for restructuring. Borrower having exposure in multiple banks may also be eligible for loan restructuring by forming a consortium. Minimum outstanding loan amount for restructuring shall be BDT 5.0 billion or above in aggregate. Under this policy, banks can provide restructuring facility to a particular loan account only once and the restructured loan shall have a maximum tenure of twelve years for term loan(s); in case of demand and/or continuous loan(s), the tenure shall be maximum six years. However, borrowers indulging in frauds and forgeries will not be eligible for loan restructuring. Under the large loan restructuring policy, BDT 145.7 billion has been restructured with the approval of Bangladesh Bank. Respective banks have recovered BDT 1.9 billion as down payment and BDT 11.83 billion as instalment from various borrowers up to June 2017. As most of the borrowers are enjoying moratorium period, the recovery of instalment from all borrowers have not yet been fully started.

Corporate Governance in Banks

5.41 BB has undertaken several measures in the recent years to establish good corporate governance in the banking sector. These include 'formation of Risk Management Committee at the Board of the banks', 'the constitution of audit committee of the Board, "fit and proper" test for appointment of chief executive officers of PCBs, enhanced disclosure requirements, etc. In continuation of the above reforms, the roles and functions of the board and management have been redefined and clarified with a view to specifying the function and powers of the management of the bank. In this connection, related clauses of the Bank Company Act 1991 have already been amended.

Supervision of Banks

5.42 With a view to promoting and maintaining soundness, solvency and systematic stability of the financial sector as well as protecting the interest of depositors, Bangladesh Bank (BB) carries out two types of supervision namely (i) off-site supervision and (ii) on-site supervision. Department of Off-site Supervision (DOS) of BB is responsible for conducting off-site supervision on banks.

Off-site Monitoring of Banks

5.43 Off-site monitoring continued as a necessary complement to on-site inspection in FY 2016-17, with its various tools and procedures for intensive and rapid analysis of the financial health of the banking sector. Recently, Department of Off-site Supervision (DOS) has undertaken some innovative initiatives to strengthen banking supervision.

Banking Supervision Specialists (BSSs)

5.44 In order to strengthen and intensify current banking supervision, BB has formed six Banking Supervision Specialist Sections in the Department of Off-site Supervision. Each section is headed by a Banking Supervision Specialist (BSS), at the Deputy General Manager level. Banking Supervision Specialist emphasizes more on analytical works. BSSs work as early signal providers for the banks they are assigned to. They maintain extensive familiarity with condition, performance, risks, corporate governance and corporate structure of the portfolio banks. They collect executive summary reports of comprehensive inspections carried out by the Departments of Banking Inspection and take actions accordingly. They maintain regular co-ordination with inspection departments to get update on recent supervisory developments. Junior Banking Supervision Specialists monitor treasury functions, capital adequacy, ADR, etc. of the banks. They prepare Diagnostic Review Report (DRR) on audited financial statements and Quick Review Report (QRR) at the required frequency which focus on major risks existing in the banks and provide possible solutions to problems. They also examine the meeting minutes of the Board of Directors and Executive/Audit Committee of the banks to detect the irregularities and violation of banking laws, circulars, etc. and accordingly, advise the banks to regularize the same so that major financial indicators as well as the internal control systems of the banks become strong and can achieve shock-resilient capacity.

5.45 BSSs monitor the progress of memorandum of understanding (MoU) with the SCBs and specialized banks and report the findings/progress of those banks immediately to the concerned senior management. To improve the standard of credit management and internal control system, BB is monitoring the compliance status of the implementation of Internal Control and Compliance Policy of four largest state-owned commercial banks (Sonali Bank Ltd., Janata Bank Ltd., Agrani Bank Ltd. and Rupali Bank Ltd.). The ICC policy is formulated by those SCBs with the approval of the respective BoD. Meanwhile, the government has injected BDT 10.0 billion to BASIC Bank Ltd., BDT 3.0 billion to Sonali Bank Ltd. and BDT 1.0 billion to Ruapli Bank Ltd in June 2017 as recapitalization. On the other hand, BKB and RAKUB are also being monitored and reviewed under the MoUs of FY17. Preparation of MoUs for BKB and RAKUB for FY18 is currently under process.

Risk Management Activities of Banks

5.46 BB has revised six core risk management guidelines to ensure robustness, efficiency and effectiveness of risk management systems for the banking sector. Besides, the review of the guideline namely 'Risk Management Guideline for Banks' issued in 2012 is now in process to facilitate banks in adopting contemporary methods to identify, measure, monitor and control the risks existing in their institutions.

5.47 Recently, to bring greater expertise and harmonization to risk management activities of all banks and exercise international best practices, the reporting format of risk management activities of banks has been revised and banks submit the report on half yearly basis according to the revised reporting format titled "Comprehensive Risk Management Report (CRMR)" instead of previous one. Various contemporary issues have been incorporated in the CRMR for the quantification of risk management process along with a questionnaire for some qualitative checking of the risk management activities of the banks. Moreover, to monitor the risk management activities more closely, a short reporting format named "Monthly Risk Management Report (MRMR)" has been introduced and banks are submitting those reports to DOS on monthly basis. Based on the CRMR and MRMR submitted by the banks, DOS regularly evaluates the risk management activities of each bank and provides constructive recommendations to improve their conditions. Banks have to execute all the recommendations and submit their compliance reports within a specified period. BB also instructed the banks to determine their risk appetite on a yearly basis for all possible measurable risk areas in line with the strategic planning of their bank and to submit the statement to DOS by the end of first quarter of every year after taking board approval. BB analyzes the statements and monitors its implementation status on regular basis.

5.48 BB determines the comprehensive risk management rating of each bank on half yearly basis based on available information in the CRMR, minutes of enterprise risk management committee (ERMC) and board risk management committee (BRMC) meetings, compliance status of BB instructions submitted by banks and other sources. This risk rating carries 15 percent weight in the management component of CAMELS rating. Therefore, a bank's risk management practices will have a significant effect on its CAMELS rating. Besides, a high and critical score of this rating is considered as a negative indicator, along with others, while giving approval/NOC for branch expansion, AD license, dividend declaration, etc. for banks. In 2016, BB has revised the process for determining comprehensive risk management rating. According to the rating of June 2017, out of 57 scheduled banks, 14 banks were rated as low risk, 32 as moderate, 8 as high, 2 as critical and the rest 1 was not rated due its inadequate duration of operation.

5.49 BB revised Self- Assessment reporting format in FY 2016-17 which was introduced in 2012 to keep the operational risk at a minimum level by strengthening the internal control and compliance system of a bank. The report is to be signed by MD/CEO and counter signed by the chairman of the audit committee of the board. This report comprises a questionnaire divided into five (05) sections - Internal Control and Compliance (ICC), General Banking and Operation, Loans and Advances, Foreign Exchange Operation, and Information and Communications Technology (ICT) and two statements containing detailed information regarding fraud-forgeries that have been detected within a specific reporting period as well as fraud-forgeries detected and unsettled up to the previous reporting period since the inception of the bank along with the action taken against those incidences. BB has revised the reporting format to make the questions more specific/effective and to ensure accountability of the management regarding their internal control system and instructed. The banks submit the report on half-yearly basis. BB analyzes these reports and provides proper instructions to the banks based on the findings. The information provided in the report is also sent to the on-site supervision departments for verification during on-site inspection.

On-site Inspection of Banks

5.50 As part of bank’s statutory function, currently seven departments of BB namely Department of Banking Inspection-1 (DBI-1), Department of Banking Inspection-2 (DBI-2), Department of Banking Inspection-3 (DBI-3), Department of Banking Inspection-4 (DBI-4), Department of Foreign Exchange Inspection (DFEI), Financial Integrity and Customer Services Department and Bangladesh Financial Intelligence Unit (BFIU) are conducting inspection activities. These seven departments conduct on-site inspection on SCBs, DFIs, PCBs (including banks under Islamic Shariah), FCBs and other institutions including Investment Corporation of Bangladesh (ICB) and money changers. These departments conduct different types of inspection which may be summarized in three major categories like (i) comprehensive/ regular/ traditional inspection, (ii) risk based system check inspection and (iii) special/surprise inspection.

5.51 The overall performance of the banks (such as capital adequacy, asset quality, liquidity, earnings, management competence, etc.) is evaluated in a comprehensive inspection. Based on their performance, banks are rated from “1” to “5” grades in ascending order. The on-site inspection departments also monitor implementation of the suggestions or recommendations made in the inspection reports. Risk based inspection is conducted to examine the compliance of the core risk management guidelines on Asset Liability Management, Credit/Investment Risk

Management, Internal Control & Compliance, and Information Systems Security issued by Bangladesh Bank. Special/surprise inspections are conducted to investigate complaints received from the depositors, public or institutions.

5.52 The supervision of banks is based on the internationally accepted standards for bank supervision set out by the Basel Committee for Banking Supervision. Under the continuous supervision/surveillance system, the overall financial condition of the banks operating in Bangladesh is monitored throughout the year on the basis of periodic on-site inspections conducted by the concerned departments of BB.

5.53 During FY17, DBI-1 conducted a total number of 1381 inspections, among which 835 comprehensive inspections and 224 core risk inspections were conducted on 28 banks to review the progress of implementation of the core risk guidelines issued by Bangladesh Bank. Head/country offices of the bank as well as one branch of each bank have been taken under the purview of the core risk inspection. Besides this, DBI-1 also conducts on-site inspection and off-site surveillance on risk areas of banks as determined from Integrated Supervision System (ISS) Software. DBI-1 attends in the special board meeting of the concerned banks in order to exchange views on the compliance of the inspection report of head offices. The department also arranges meeting of Supervision Committee bi-monthly basis, presided over by the Deputy Governor, in-charge of supervision, where different policy and operational issues covering supervision are discussed. Under the jurisdiction of DBI-1, the concerned banks are directed to sit in a tri-partite meeting with their Management Committee (MANCOM), inspection team of Bangladesh Bank and external auditors before finalization of the annual financial statements.

5.54 During FY17, DBI-2 conducted a total number of 937 comprehensive inspections on 06 head offices, 143 big branches and 788 small branches of 06 state-owned commercial banks. At the same time, a total number of 73 special inspections and 22 core risk based inspections were conducted on SCBs. The department conducted comprehensive inspection on 04 branches and the head office of ICB. DBI-2 also conducted one special inspection on 01 branch of ICB during the period.

5.55 DBI-3 has to conduct comprehensive inspection on specialized banks, namely Bangladesh Krishi Bank (BKB), Rajshahi Krishi Unnoyan Bank (RAKUB), Ansar-VDP Unnoyan Bank, Karma-Sangsthan Bank, Grameen Bank, Probashi Kallyan Bank and SME activities of all banks and NFIs. During FY17, DBI-3 conducted a total number of 763 comprehensive inspections on banks including 06 head offices, 757 branch offices including SME/agriculture. In addition, this department also conducted 06 risk-based inspections, 08 special inspections and 01 surprised inspection during the period.

5.56 DBI-4 is entrusted with the responsibility of supervising the performance of domestic 08 Islamic banks, 03 NRB banks (established by non-resident Bangladeshis) and 09 foreign private commercial banks that are operating in the country with special emphasis on regulatory and supervisory compliances. During FY17, DBI-4 conducted a total number of 238 inspections on banks' head/country offices and branches. During the period, DBI-4 conducted comprehensive inspections on 128 branches and on 20 head/country offices to evaluate their overall soundness and regulatory compliance status. Within this period, the department carried out core risk inspections on 20 branches and on 20 head/country offices. To review the accuracy of the statement of Internal Capital Adequacy Assessment Process (ICAAP) of banks, the department carried out Supervisory Review Evaluation Process (SREP) inspections on 20 branches and on 20 head/country offices.

5.57 Besides these, DBI-4 conducted Anti Money Laundering (AML) inspections on 10 branches of different banks under its jurisdiction. DBI-4 conducted quick summary inspection on 87 branches and on 11 head offices (08 Islami banks and 03 NRB banks). DBI-4 examined asset quality of the banks on the basis of 31st December, 2016 and ensured reflection of observation of this inspection in the annual financial statements of the banks. This is ensured through exchanging views in a tri-partite meeting among the concerned bank's management, external auditors and inspection team before finalization of financial statements. This department also regularly monitors implementation progress of the recommendations made in the inspection reports of bank branches and head /country offices.

5.58 Department of Foreign Exchange Inspection (DFEI) conducts inspection on foreign trade financing, treasury functions and foreign exchange risk management of banks, foreign exchange transactions of banks and money changers. In FY17, the department conducted a total of 127 comprehensive inspections on authorized dealer branches of banks, 10 comprehensive inspections on head office and 56 inspections on foreign exchange risk management of banks. The department also conducted 48 inspections on new authorized dealer branches of banks, a good number of special inspections on foreign trade and foreign exchange related irregularities and 31 inspections on money changers.

5.59 BB has always striven hard to ensure highest standards for fair banking practices, moral codes and corporate governance in the banking sector. With a view to achieving this objective, Financial Integrity and Customer Services Department (FICSD) of BB has continued its efforts to settle disputes/complaints received from customers successfully. As a part of customer/public awareness initiatives, the department has aimed to increase publicity in the print and electronic media. FICSD has also taken initiatives to settle issues related to frauds in ATM Card, MICR cheque and Mobile banking. FICSD has conducted special inspections on general banking, credit and foreign exchange transaction in various banks throughout the year and several actions were taken accordingly. During FY2016-17, a total number of 3359 complaints were received by the department through the dedicated hot-line numbers, e-mails and traditional letters and among them 3357 complaints were resolved. Resolution rate is 99.94 percent. Besides, a total number of 86 special inspections were carried out on different commercial and specialized banks by this department during the period.

5.60 FICSD has issued "Guideline on customer services and complaint management" in 2014 and banks were instructed to implement that guideline accordingly. FICSD monitors the implementation status by the banks regularly. In order to protect banking customer's rights, recently this department has amended the existing guideline and banks were advised to inform customers in case of changing interest rate on term loan before one month and to allow customers to exit bank without deducting any early settlement fee. No early settlement fee will be deducted in case of adjustment of continuous or demand loan before maturity. Charging of penalty will be considered on rational basis in case of overdue installments to be paid by the borrowers and the rate of penalty should not exceed 2 percent over existing rate. Banks were also advised not to receive blank cheque as collateral security against loans.

5.61 Bangladesh Financial Intelligence Unit

(BFIU) is the central agency of Bangladesh responsible for analyzing Suspicious Transaction Reports (STR), Cash Transaction Reports (CTR) and information related to money laundering (ML) and terrorist financing (TF) received from reporting agencies and other sources and disseminating information/ intelligence thereon to relevant law enforcement agencies. BFIU is also entrusted with the responsibility of exchanging information related to ML and TF with its foreign counterparts. The main objective of BFIU is to establish an effective system for prevention of money laundering, combating financing of terrorism and proliferation of weapons of mass destruction.

5.62 The BFIU has adopted risk-based approach to supervise the banks more effectively and to comply with FATF recommendation-1. Therefore, in FY17 supervisory activities were focused on banking sector and branches that are most vulnerable to money laundering or terrorist financing and are at highest risk of being non-compliant with legislative and regulatory requirements. While implementing risk based approach, BFIU took account of a number of risk factors faced by the branches including sectoral, client, geographic, delivery channel or services/product risks. In order to identify the important risks faced by banks and to mitigate those risks by choosing the appropriate response, BFIU considered the following four (4) types of risk assessments, namely (i) national risk assessment, (ii) sectoral risk assessment, (iii) risk assessment of the banks by the supervisory body (i.e. BFIU) and (iv) risk assessment prepared by the banks (about its customers, products/ services, countries and geographic areas, and distribution channels). AML/CFT system check inspections for branches are conducted on a 6 months cycle to oversee and ensure compliance. During the inspection, AML/CFT risk management procedures of the banks are also been examined. Branch inspections include review of capacity of compliance officers, CDD procedures, KYC procedures related to customers, Politically Exposed Persons (PEPs) and influential persons, record keeping, United Nations Security Council Resolution (UNSCR) sanctions monitoring process, STR identification, monitoring and reporting process, KYC procedure of beneficial owner(s) of a account(s), CTR monitoring, KYC for occasional/walk-in or one off customers transactions, transaction monitoring process, self-assessment and Independent Testing Procedures, Quarterly AML/CFT meeting, training records. BFIU has conducted system check inspection on 56 head offices as well as 114 branches of those banks during FY 2016-17. The rating awarded through AML/CFT system check inspection of the FY17 reveal that no branch of any bank got ‘Strong’ rating, whereas the majority of them got ‘Fair’ and ‘Marginal’. In the FY 2016-17, 3 banks were rated ‘Satisfactory’, 28 banks were rated ‘Fair’, 24 banks were rated ‘Marginal’ and one bank was rated ‘Unsatisfactory’.

5.63 BFIU continues its effort to create awareness among the officials of different reporting organizations and thus encourages the reporting organizations to conduct a number of training programmes for their officials. Besides, it has arranged workshops for other law enforcing agencies. Apart from these, BFIU has been maintaining continued engagement with all concerned international bodies such as APG, Egmont Group, FATF and BIMSTEC to boost international efforts in this arena.

Financial Stability and Macro Prudential Supervision

5.64 Financial Stability Department (FSD) is working relentlessly to build up a stable macro prudential framework that would shield the financial system from any adverse development in the downturn phases of the economic and financial cycles. The department has been publishing 'Financial Stability Report (FSR)'on yearly basis to evaluate the strength of banks and financial institutions (FIs) as a whole and contribute to enhance risk awareness among the stakeholders of the financial system. Another report called 'Quarterly Financial Stability Assessment Reports (QFSAR)' is also published by FSD to provide the stakeholders with more frequent updates on major trends in banking, FIs and capital market indicators. Besides, FSD conducts stress tests on quarterly basis to monitor the strength of the banks to withstand financial shocks and aggregate stress test results are published regularly in FSR and QFSAR.

5.65 FSD also use a number of macro prudential supervisory tools as early warning indicators. Financial Projection Model (FPM), a forecasting tool developed under the technical assistance from the World Bank, is used for projecting fluctuations in the financial markets by assuming hypothetical scenarios in the model. It helps improve BB's risk assessment capacity for individual bank. FPM report is generated on half-yearly basis. Another tool named 'Interbank Transaction Matrix (ITM)' is used by the department for monitoring liquidity management of banks and FIs to find any potential liquidity crisis in the market. ITM report is prepared on quarterly basis. Besides, the department has been preparing Bank Health Index (BHI) and Heat Map on a half-yearly basis to perform a dynamic analysis of the health of the banks from liquidity, solvency and earning perspectives.

5.66 The department has developed a framework for identifying and dealing with the Domestic Systemically Important Banks (DSIB) in its jurisdiction due to the underlying assumption that the impact of the failure of DSIBs will be significantly greater than that of a non-systemic bank. A new oversight framework titled 'Central Database for Large Credit (CDLC)' has been introduced by FSD to enhance financial discipline through monitoring the large exposures of banks and FIs in a more structured way. This will help to identify and manage the low quality assets well ahead of time before they appear as a cause to financial distress. Reports based on the analysis of CDLC are generated quarterly.

5.67 Bangladesh Systemic Risk Dashboard (BSRD) has been developed which is intended to serve as an early warning system capturing probable build-up of any systemic risk in the financial system. It contains a set of relevant qualitative and quantitative indicators of systemic risk. A tool named 'Composite Financial Stability Index (CFSI)' has been developed in order to measure financial stability. Taking into account the interconnectedness among different sectors of the economy, the index integrates the major soundness indicators of banking sector, financial sector, real sector and external sector to form a single composite indicator which will indicate the stability condition of the financial system as well as any build up of systemic stress. Under the framework titled 'Coordinated Supervision framework for Bangladesh Financial System', a Coordination Council Technical Group (CCTG) has been formed to assist the Coordination Council in decision-making. The CCTG met three times during 2016-17 with a view to exchanging ideas and information, and promoting cooperation among various regulators of the financial system.

Banking Sector Infrastructure for Financial Stability and Risk Management

Deposit Insurance Systems in Bangladesh

5.68 The Deposit Insurance Systems (DIS) is designed to minimize the risk of loss that the depositors may suffer due to keeping funds with a bank. The purpose of DIS is to help increase market discipline, reduce moral hazard in the financial sector and provide safety nets at the minimum cost to the public in the event of a bank failure. The direct rationale for deposit insurance is customer protection while the indirect rationale for deposit insurance is to reduce the risk of a systemic crisis; for example, panicked withdrawals of deposits from sound banks and thus breaking down of the payments system. From a global point of view, deposit insurance provides many benefits and, over the long term, appears to be an essential component of a viable modern banking system.

5.69 In Bangladesh, Deposit Insurance Scheme was first introduced in August 1984 in terms of "The Bank Deposit Insurance Ordinance 1984". In July 2000, the Ordinance was repealed by an Act of the Parliament called "The Bank Deposit Insurance Act 2000". At present, Deposit insurance systems in Bangladesh are being administered by the said Act. In accordance to the Act, Bangladesh Bank (BB) is authorized to carry out a fund called Deposit Insurance Trust Fund (DITF). The Board of Directors of BB acts as the Trustee Board for the DITF. The DITF is now being administered and managed under the guidance of the Trustee Board. In addition, Bangladesh Bank is a member of International Association of Deposit Insurers (IADI).

5.70 In accordance with the "The Bank Deposit Insurance Act 2000", the main functions of DITF are collecting premium from all scheduled banks on a half-yearly basis (end of June/end of December) and investing the proceeds in the Government Securities and REPO. The income derived from such investments is also credited to the DITF account for further investment. In case of winding up of an insured bank, as per the said act, BB will pay to every depositor of that bank an amount equal to his/her deposits not exceeding BDT100,000.

Table 5.13 The recent position of DITF

Particulars	Unaudited figure (as on as on 30 June 2017)	Premium rate*
Total fund	58.81 billion BDT	---
Total investment	58.81 billion BDT	---
Insurable deposit to total demand and time liabilities	83.47%	---
Covered deposit of total insurable deposit	24.86%	---
Fully insured deposit	88.91%	---
Sound bank categories	---	0.08%
Early warning bank categories	---	0.09%
Problem bank categories	---	0.10%

* Effective from 2013
Source: Bangladesh Bank.

5.71 To enhance the effectiveness of market discipline, BB has adopted a system of risk based deposit insurance premium rates applicable for all banks effective from 2007. From 2013, the premium rate has been increased. Moreover, proposal for the amendment of the current Act i.e. 'Deposit Protection Act' has already been sent to Ministry of Finance, which is now under consideration. There is a plan to bring depositors of NBFIs under the umbrella of DIS and increase the coverage limit in the amended act. At present, a software named 'Information for Deposit Insurance Premium Assessment (IDIPA)' has been introduced for assessing and calculating deposit insurance premium.

5.72 The effectiveness of DIS in reducing systemic risk would be increased if the public is well aware of its existence and scope. Therefore, BB has already issued a circular regarding public awareness and more information are available in the Bangladesh Bank website so that the public can be informed about the benefits and limitations of DIS on an ongoing basis.

Activities of Credit Information Bureau

5.73 Credit Information Bureau (CIB) was set up in Bangladesh Bank (BB) on August 18, 1992 with the objective of minimizing the extent of default loans. CIB has been providing its online services since 19 July, 2011. The online system of CIB is playing an important role to maintain a risk free lending procedure in the banking industry. At present, CIB is providing its online services through new CIB online solution, which was developed by BB's internal resources and started its operation on October 01, 2015. It has eliminated vendor dependency as well as reduced huge cost incurred by maintaining the previous online system. With the adoption of highly sophisticated ICT facilities, the performance of the CIB services has been improved significantly in terms of efficiency and quality. It has also appreciably reduced the time and physical movement for the banks/NBFIs in submission of credit information and CIB report generation process. Consequently, online services of CIB have made the loan processing activity faster.

5.74 The CIB database consists of detailed credit information in respect of borrowers, co-borrowers and guarantors. CIB database includes credit information of borrowers having outstanding amount of BDT 50,000 and above and defaulted credit card information having outstanding amount of BDT 10,000 and above. At the end of June 2017, the total number of borrowers was 13,17,664 while it was 11,01,046 during the same period of the previous year. This number recorded an increase of around 20 percent compared to the same of the previous year. The total number of classified borrowers in banks/FIs was 2,16,647 at the end of June, 2017 which is about 5 percent higher compared to the same period of the last year. In June, 2016 the number was 2,06,639.

5.75 The total outstanding amount of loans and advances of the banking and non-banking financial institutions stood at BDT 8612.67 billion (including BLW amount) in June, 2017 which recorded an increase of around 26 percent compared to the same period of the last year. In June 2016, the amount was BDT 6852.64 billion. Furthermore, total classified outstanding amount recorded an increase of around 24 percent in June 2017 over the same period of last year. The classified amount was BDT 1152.57 billion at the end of June, 2017 while it was BDT 929.55 billion in June, 2016.

Besides, Credit Information Bureau of Bangladesh Bank has undertaken several initiatives with a view to increasing the score of 'Depth of Credit Information Index', which is a part of 'Getting Credit' of Doing Business Report prepared by World Bank. The initiatives are described below:

i) Strengthening and making the existing CIB of Bangladesh Bank more informative through-

a) Fine tuning the newly developed CIB online system;

b) Increasing the coverage of credit information stored in CIB database submitted by banks/FIs. i.e resetting the threshold of outstanding loans and advance at BDT1 of a borrower;

c) Increasing credit history showed in CIB report of a borrower to 24 months from 12 months.

ii) Developing collateral/security information system to prepare a collateral/security database of immovable assets.

Sustainable Banking

6.1 Sustainable banking appeared in conventional financial service institutions with the management of environmental risks. The integration of sustainability into the banking sector has taken two key directions. Firstly, the pursuit of environmental and social responsibility in a bank's operations through environmental initiatives (such as recycling programs or improvements in energy efficiency) and socially responsible initiatives (such as support for cultural events, improved human resource practices and charitable donations). Secondly, the integration of sustainability into a bank's core businesses through the integration of environmental and social considerations into product design, mission policy and strategies. For example- the integration of environmental criteria into lending and investment strategy and the development of new products that provide environmental businesses with easier access to capital. BB has been pursuing policy and instructions in all possible areas of sustainable banking for banks and non-bank financial institutions (NBFIs) to ensure sustainable banking practices. Sustainable banking mainly focuses on three broad categories–green banking, corporate social responsibility and financial inclusion.

Green Banking

6.2 Generally Green banking includes: Sustainable banking, Ethical banking, Green mortgages, Green loans, Green credit cards, Green savings accounts, Green checking accounts, Green money market accounts, Mobile banking, online banking, Remote deposit, Waste Management, Roof Gardening, and Green Financing. Bangladesh Bank is the first central bank which has taken real initiatives, according to a definite agenda in its vision and mission to play a specific role in Green Banking by taking responsibility in safeguarding the planet from unusual weather patterns, rising greenhouse gas and declining air quality. Bangladesh is one of the most environmentally influenced country in the world. Keeping this in mind, Bangladesh Bank established a Green Banking Policy in 2011 for proactively guiding the banks and NBFIs for encouraging them to adopt risk management practices to safeguard against inevitable environmental concerns.

Table 6.1 Green finance in different Products in FY17

(million BDT)

Category of green finance	SCBs	DFIs	PCBs	FCBs	FIs	Total
Renewable energy	47.9	4.3	2202.5	330.1	1859	4443.8
Energy efficiency	0	2.1	3118.8	0	277.4	3398.3
Solid waste management	0	0	7.3	0	0	7.3
Liquid waste management	101.3	0	8678.2	15.3	282.4	9077.2
Alternative energy	0	0	132.7	0	0	132.7
Fire burnt brick	441.1	11.9	4646.6	0	1085.7	6185.3
Non fire block brick	1	0	192.6	0	0	193.6
Recycling & recyclable product	283.2	0	5813	0	180.2	6276.4
Green industry	481.8	0	4212.2	152.6	900.2	5746.8
Safety and security of factory	40	0	1438	53.3	46.5	1577.8
Misc.	9.7	0.6	10.3	0	0	20.6
Others	1478.4	0	126.3	0	1.2	1605.9
Total	2884.4	18.9	30578.5	551.3	4632.6	38665.7

Source: Sustainable Finance Department, BB.

Table 6.2 Direct and indirect green finance in FY17

(million BDT)

Types of banks	Direct green finance	Indirect green finance	Total green finance	Sector-wise contribution (percent)
SCBs	2884.4	4336.2	7220.6	1.3
DFIs	18.9	0	18.9	0.0
PCBs	30578.5	395366	425944.5	77.7
FCBs	551.3	100973.6	101524.9	18.5
FIs	4632.6	9275.1	13907.7	2.5
Total	38665.7	509950.9	548616.6	100.0

Source: Sustainable Finance Department, BB.

Policy Initiatives

6. 3 First policy instruction of BB regarding green banking was the issuance of guidelines on Environmental Risk Management (ERM) for all banks and NBFIs in January 2011. In February 2011, a policy guideline for green banking was issued to the scheduled banks. A policy guideline for green banking was issued to NBFIs in August 2013 and to the new banks (scheduled in 2013) in September 2013. To expedite the ongoing initiatives of banks and NBFIs at faster pace for sustaining the environment compatible to climate change risk, a minimum target of direct green finance has set at 5 percent of the total loan disbursement/investment from January 2016 onwards for all banks and NBFIs. Banks and NBFIs have been instructed to form a 'Climate Risk Fund' according to the above mentioned policy guidelines for green banking. To ensure the movement towards sustainability against the climate change, Banks and NBFIs shall allocate at least 10 percent of their corporate social responsibility budget for climate risk fund and this funding can be done in both ways—by providing grants or financing at reduced rate of interest. Meanwhile, banks and NBFIs have been instructed to set up solid waste management system, rainwater harvesting and solar power panel in their newly constructed or arranged building infrastructure. Alongside, Guidelines on Environmental and Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh along with an Excel-based Risk Rating Model have been issued vide SFD Circular No. 02/2017 which will be enforceable from January 01, 2018 replacing the Guidelines on ERM to all extent. Besides, by the direction of Honorable Prime Minister, and Bangladesh Bank's instruction in conformity with that, all the banks & FIs must ensure the establishment and activeness of Effluent Treatment Plant (ETP) during financing to all possible clients.

Table 6.3 Environmental risk rating of banks and NBFIs in FY17

Types of banks	No. of projects applicable for EDD	No. of projects rated	No. of rated projects financed	Amount disbursed in rated projects (million BDT)
SCBs	1,774	1,723	1,681	43,699.8
SDBs	20	14	20	828.1
PCBs	81,799	71,442	61,784	2,125,465.3
FCBs	2,735	2,117	2,012	156,449.2
Fis	2,592	2,721	2,949	112,638.3
Total	88,920	78,017	68,446	2,439,080.7

Source: Sustainable Finance Department, BB.

Green Finance

6.4 A total amount of BDT 548.6 billion was disbursed during FY17 by 50 banks and NBFIs involved in green finance. Sector-wise contribution of the total green finance shows that the PCBs played the main role (77.7 percent) followed by FCBs (18.5 percent), NBFIs (2.5 percent), and SCBs (1.3 percent). Product-wise and direct and indirect green finance by banks are given in Table 6.1 and Table 6.2 respectively.

Environmental Risk Management (ERM)

6.5 Environmental Risk can be regarded as a facilitating element of credit risk because of its connectivity with environmental condition and climate change. Environmental Risk Rating (ERR) is obligatory above the threshold as mentioned in guidelines on ESRM for banks and NBFIs. ERR is applicable for the projects as well as the credit facility that fall above the threshold limit. All banks have conducted environmental risk rating in FY17 (Excluding Shimanto Bank Ltd). The number of projects applicable for Environmental Due Diligence (EDD) during the year is 88920. Total amount of BDT 2439.1 billion disbursed in 68446 rated projects out of 78017 rated projects in FY17 (Table 6.3).

Climate Risk Fund and Green Marketing

6.6 Total amount of utilization from climate risk fund and for green marketing by banks were BDT 876.1 million and 48.2 million respectively in FY17. For the NBFIs total amount of utilization from climate risk fund was BDT 3.5 million and total expenditure for green marketing was BDT 2.0 million in FY17 (Table 6.4).

Table 6.4 Utilization of Green Fund in FY17

(in million BDT)

Type of Bank/FI	Green Finance	Climate Risk Fund	Marketing, Training and Capacity Building	Total
SCBs	7,220.6	2.5	4.5	7,227.5
DFIs	18.9	0.0	0.0	18.9
PCBs	425,944.4	823.7	43.7	426,811.9
FCBs	101,524.8	49.9	0.0	101,574.7
FIs	13,907.7	3.5	2.0	13,913.2
Total	548,616.3	879.6	50.2	549,546.1

Source: Sustainable Finance Department, BB.

Online Banking and Energy Efficiency

6.7 56 banks had executed their operations through online branches at the end of FY17. During the same period, 72.7 percent of total branches were made Online branches compared to 75.1 percent at the end of previous fiscal year. Green banking policy has pursued the banks to establish branches powered by solar energy. The number of branches powered by solar energy stood at 500 at the end of FY17 compared to the number of 493 at the end of FY16.

BB's In-house Environmental Management

6.8 BB installed solar power system on its rooftop for energy efficiency and chiller based central air conditioning system for reducing CFC emission. BB initiated the process to measure the Carbon Footprint of its own. E-Recruitment, Documentation Management System, Leave Management System, Online Salary and Account Statement, Personal file update system, Online Office Orders, Electronic pass for visitors and many others have been introduced through BB intranet. All the departments of Bangladesh Bank Head Office and its 10 (ten) Branch offices have already been brought under a computer network (LAN/WAN), connecting more than 3500 PCs. Bangladesh Bank has introduced open data initiative for all readers and researchers through its dynamic website which is updated at all time. Most of the regulatory reporting from banks and FIs are collected through web upload and Enterprise Data Warehouse (EDW) system. Bangladesh Automated Cheque Processing System (BACPS), Bangladesh Electronic Fund Transfer Network (BEFTN), Credit Information Bureau and Enterprise Resources Planning (ERP) have started online operation. Bangladesh Bank has also started e-tendering and e-procurement.

BB's Refinance Schemes for Green Products/Initiatives

6.9 A revolving refinance scheme amounting to BDT 2.0 billion was introduced in 2009 with a view to broaden financing avenue for green products or initiatives like solar energy, bio-gas plant, effluent treatment plant etc. Initially, six green products or initiatives were identified to extend the refinance facility under this scheme. Later on, considering the market demand and expert opinions from the technical advisory committee, Bangladesh Bank has enhanced the eligible green products/initiatives for refinance under the scheme from six to fifty since 2016. At present

Box 6.1 Achievement of Sustainable Development Goals (SDGs): Role of Bangladesh Bank

The Sustainable Development Goals (SDGs) are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. It generated 17 Sustainable Development Goals build on successes of the Millennium Development Goals (MDGs) while including new areas such as climate change, economic inequality, innovation, sustainable consumption, peace and justice, among other priorities. The SDGs are an inclusive agenda and poverty eradication is the heart of the 2030 Agenda. Bangladesh showed outstanding performance achieving MDGs particularly in the areas of eradicating extreme poverty, ensuring primary education, reducing child mortality, improving maternal health, developing environmental sustainability. As the consequences Government of Bangladesh has set goals upon phase wise plans for achieving SDGs and developed a mapping document involving all ministries, division and agencies by SDGs and target for fast track implementation.

Bangladesh Bank (BB) as the regulator of financial sector has already developed its own SDGs target mapping towards its implementation since 50 SDGs targets among 169 targets are directly or indirectly interlinked with BB's activities. According to 'Financing Strategy for SDGs (Addis Ababa Action Agenda), private sector financing carries significant role in implementing SDGs. BB has adopted pro-poor, inclusive and sustainable monetary policies and provided pro-poor, agricultural and SME credit policies and programs which direct sustainable credit flow for need based beneficiaries. No-frill accounts for beneficiaries of different social protection scheme of Government helps achieving substantial coverage of the poor and the vulnerable. BB has developed mobile financial services (MFS), agent banking, financial literacy and school banking and strengthened consumer protection in banking which have broaden the access to the financial services with new technology. Installation of Bangladesh Automated Clearing House, Bangladesh Electronic Fund Transfer Network and National Payment Switch are other remarkable events in the history of our financial sector. Green finance for waste water management, water recycling, renewable energy and energy efficiency has opened the pathways for substantially increase water-use efficiency and the share of renewable energy in the global energy mix and energy efficiency as well.

Gender sensitive governance policies and credit policies have been issued for banks and financial institutions to improve gender equality including women equal rights to economic resources, as well as access to ownership and control over land and other forms of property and financial services which ultimately develop women empowerment. Actions and programmes regarding database management efficiency significantly increase the availability of high-quality, timely and reliable data to develop measurements of progress on sustainable development that complement gross domestic product and support statistical capacity-building for the stakeholders. Bangladesh Bank plays a vital role to design policy guidelines and programs for stakeholders of financial sector of Bangladesh towards implementing the sustainable development goals. BB acts as bridge monitoring communication and coordination among concerned government agencies to implement the terminology and financing approaches of sustainable development.

total 51 green products/initiatives are eligible for refinancing facilities under this scheme. Inclusion of ‘Green Featuring Building’ as a new green product/initiative and reduction of interest rate at the customer end are the major recent policy initiatives of Bangladesh Bank in refinance scheme. Participatory Banks/ Financial Institutions are allowed to charge maximum interest rate of 8 - 9 percent instead of previous maximum 9 percent on financing in green products/initiatives under the scheme. However, due to put top priority on agriculture sector “Solar Irrigation Pumping System” is given priority over the conventional diesel and electricity run pumps. In accordance with the Government’s policy, Bangladesh Bank has set maximum interest rate at 7 percent for financing of Participatory Banks/Financial Institution in ‘Solar Irrigation Pumping System’ Products/initiative under the refinance scheme. The cumulative amount refinanced under the scheme up to June 2017 stood at BDT 3.1 billion. Total disbursement under the BB’s refinance scheme for green products/initiatives decreased by 62.0 percent to BDT 348.60 million in FY17 which was BDT 919.70 million in FY16. The disbursement trend under the scheme and product wise disbursment for FY17 is given in Table 6.5 and Chart 6.1 respectively.

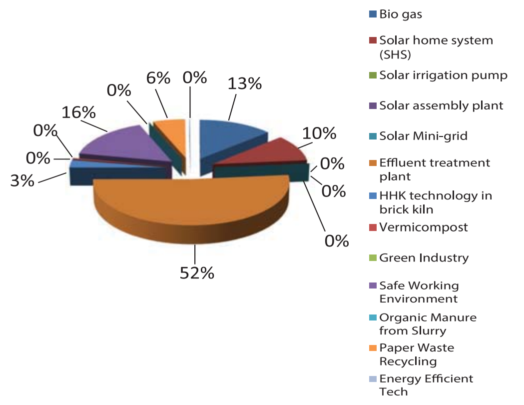
Table 6.5 Disbursement trend of BB refinance scheme for green products

(million BDT)

	FY13	FY14	FY15	FY16	FY17
Bio gas	113.6	212.8	83.3	84.8	46.6
Solar home system (SHS)	40.2	32.2	87.5	114.7	35.3
Solar irrigation pump	0.0	17.9	26.5	0.6	0.0
Solar assembly plant	122.7	49.6	148.1	16.3	0.0
Solar Mini-grid	0.0	0.0	0.0	10.0	0.0
Effluent treatment plant	57.4	10.0	0.0	58	179.6
HHK technology in brick kiln	172.2	59.0	47.0	177.8	10.0
Vermicompost	0.0	0.0	1.1	1.6	1.3
Green Industry	0.0	0.0	0.0	400.0	0.0
Safe Working Environment	0.0	0.0	0.0	35.7	55.3
Organic Manure from Slurry	0.0	0.0	0.0	0.2	0.1
Paper Waste Recycling	0.0	0.0	0.0	20.0	20.0
Energy Efficient Tech	0.0	0.0	0.0	0.0	0.6
Total	506.1	381.5	393.5	919.7	348.8

Source: Sustainable Finance Department, BB.

Chart 6.1 Product wise Refinance Disbursement in FY17



Source: Sustainable Finance Department, BB.

6.10 ADB supported revolving relending facility ‘Financing Brick Kiln Efficiency Improvement Project’ was established in Bangladesh Bank (BB) in 2012 with a view to improving the brick sector especially brick kilns through constructing more energy-efficient and environment friendly brick kilns resulting in reduced Green House Gas (GHG) and Suspended Particulate Matter (SPM). In this revolving relending disbursement process, total amount of loan from ADB is around USD 50.0 million or equivalent BDT. The facility has two parts, Part A: USD 30.0 million or equivalent BDT is for conversion of Fixed Chimney Kiln (FCK) into Improved Zigzag Kiln and Part B: around 20.0 million or equivalent BDT for establishing new Vertical Shaft Brick Kiln (VSBK), Hybrid Hoffman Kiln (HHK) and Tunnel Kiln. BB has disbursed USD 16.2 million equivalent BDT till June 2017 to five PFIs against their financing for eight subprojects. The validity of the project is fixed up to December 2018.

Box 6.2 Agent Banking in Bangladesh

Bangladesh Bank (BB) is exploring and promoting innovative financial inclusion policy initiatives to bring the financially excluded marginal populace under the umbrella of financial inclusion with a view to ensuring inclusive and sustainable development in the economy.

Agent banking, among various initiatives of BB, is an emerging financial inclusion tool that facilities the non-privileged, underserved and poor segment of the population especially from geographically remote location to unhindered access to the tailor made products that meets their financial needs at affordable cost within their vicinity.

'Guidelines on Agent Banking for the Banks' has been issued in December 2013 and subsequently, a 'Guidance Note for Approved and Operation of Agent Banking Activities for banks' has been issued in June 2014 to Accelerate safe, secured and smooth alternative delivery channel of financial services for the un-banked people. Agents can offers a number of banking services, including deposit and withdrawal of cash, fund transfer, bill payment, payment of benefits and salaries and however, are limited to only cash transactions. Banks have been instructed to maintain the ratio of 2:1 for opening of rural and urban outlets to deepen inclusive growth.

As of June 2017, 17 banks have got approval for agent banking services and 13 banks started commercial operation. Number of agent outlets increased from 2,601 to 3,224 and number of accounts increased from 0.54 million to 0.87 million during the period of December 2016 to June 2017. The total balance of these accounts was BDT 3.81 billion in December 2016 and reached to BDT 6.51 billion in June 2017. As of June 2017, expatriates have remitted foreign currency equivalent BDT 8.90 billion through these accounts.

The bottom line of the agent banking services for the financial services provider is improved performance at reduced cost in service delivery when agents are utilized as platform to compel the inclusive growth. For the clients, benefits of agent banking services will result in higher standard of living with increased per capita income culminating to financial and economic growth and development of the country.

Long term financing facility under Financial Sector Support Project (FSSP)

6.11 Bangladesh Bank (BB) has plan to provide long term financing for private sector firms, mainly midsize manufacturing firms under the Financial Sector Support Project (FSSP) financed by the International Development Association (IDA). This financing would be offered in US Dollars (USD) and provided to the Participating Financial Institutions (PFIs) authorized by BB to deal in foreign exchange for on lending/refinancing to the private sector firms. An Environmental and Social Management Framework (ESMF) has been developed to ensure the sustainability of financing of this facility.

Green Transformation Fund (GTF)

6.12 The latest step of BB in fostering sustainable finance is to create GTF. In February 2016, BB has announced its intention to create a new longer term refinancing window naming GTF of USD 200 million. The fund will be used to ensure sustainable growth in export oriented textile and leather sectors conducive to transformation of green economy in the country. It is intended to facilitate access to financing in foreign exchange by all manufacturer-exporters in export oriented textiles & textile products and leather manufacturing sectors to import capital machinery and accessories for implementing environment-friendly initiatives. The initiatives include water use efficiency in wet processing; water conservation and waste management, resource efficiency, recycling, and renewable energy and energy efficiency, heat and temperature management, air ventilation and circulation efficiency and work environment improvement initiatives.

Refinance Scheme for Islamic Shariah based financing under ''Renewable Energy and Environment Friendly Sectors''

6.13 In the banking sector, sustainable energy related development is taking place mainly in response to the initiatives undertaken by the Bangladesh Bank. To promote green financing, Bangladesh Bank has introduced two types of refinancing facility: (a) BB Refinance Scheme and (b) Refinance Scheme Funded by Sharia'h Based Banks and Financial Institutions (FIs). Bangladesh Bank introduced refinance Scheme under "Renewable Energy and Environment Friendly Sector'' in 2013 for banks and non-bank financial institutions (NBFIs) with the vision to promote renewable energy and other green financing. Banks and non-bank financial institutions (NBFIs) may avail refinance facility against their finance in the specified sectors. Bangladesh Bank also introduced refinance scheme funded by excess liquidity of sharia'h based financial institutions to facilitate the refinance for sharia'h based banks and non-bank financial institutions (NBFIs) in 2014. This refinance scheme aims to encourage the sharia'h based investors to be involved more in the renewable energy and environment friendly efforts, and strengthen the involvement of sharia'h based financing in this sector.

Table 6.6 Sectorwise Allocation of BB Disaster Management and Corporate Social Responsibility Fund in FY17

Sectors	million BDT
Education	27.9
Health	7.0
Environment	0.5
Human resources development/capacity building	2.8
Financial inclusion/ women empowerment	7.5
Others	8.0
Total	53.7

Source: Sustainable Finance Department, BB.

Islamic Refinance Fund

6.14 Islamic banks and non-bank financial institutions (NBFIs) hold more liquidity than they require as per Bangladesh Bank Regulations. Bangladesh Bank has opened Islamic Refinance Fund to utilize the excess liquidity to economic activities. This fund is available only for the Islamic banks and non-bank financial institutions (NBFIs) to invest in the SME and green finance sectors. The profits from the fund distributed among participating Islamic banks and non-bank financial institutions (NBFIs) based on their investment ratio on the fund.

Refinance Guideline

6.15 Bangladesh Bank has issued a guideline for Islamic banks and non-bank financial institutions (NBFIs) to refinance in "Renewable Energy and Environment Friendly Sector''. According to this guideline the interested Islamic banks and non-bank financial institutions (NBFIs) will have to sign separate participation agreement with the Sustainable Finance Department of Bangladesh Bank.

Participating Financial Institutions (PFIs) may invest 100 percent of their refinancing fund to the renewable energy and eco-friendly projects. The projects should be selected from the 50 green products time to time declared by Bangladesh Bank. The time frame for grace period and investment refund will also be set according to the directives of Bangladesh Bank. Bangladesh Bank has also set some conditions to the green financing under this scheme including that the classified investment of investors which must be less than 10 percent, investors should have capital adequacy stipulated by Bangladesh Bank and the policy of single party exposure limit must be ensured. Investors also take effective measures for risk management and prevent money laundering. If any Participating Financial Institution enjoys fund support from the refinance scheme by giving false information, the amount of fund provided will be revoked by debiting the current account of the PFI maintained in the Motijheel office of the Bangladesh Bank with profit doubling the prevailing rate in Mudaraba Saving Accounts.

Participating Financial Institutions

6.16 Four Islamic banks have signed participation agreement with the Sustainable Finance Department of Bangladesh Bank up to June, 2017. They are EXIM Bank Limited, Shahjajal Islami Bank Limited, First Security Bank Limited and Al-Arafah Islami Bank Limited. Alongside, Islami Finance and Investment Limited is the only islamic non-bank financial institutions (INBFI) who signed the participation agreement with Bangladesh Bank.

Present Status of Islamic Refinance Fund

6.17 Bangladesh Bank has already disbursed BDT 103.0 million in “Safe working

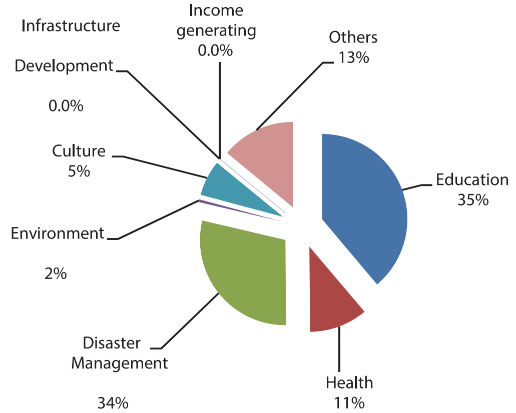
Table 6.7 CSR expenditure of banks and NBFIs

(million BDT)

Sectors	Banks		NBFIs	
	FY17	Sectoral Share (percent)	FY17	Sectoral Share (percent)
Education	1915.7	35.4	7.20	22.8
Health	566.2	10.5	2.80	8.9
Humanitarian & disaster relief	1836.6	33.9	7.20	22.8
Environment	99.1	1.8	3.20	10.1
Cultural welfare	286.7	5.3	2.40	7.6
Infrastructural development	7.1	0.1	0.00	0.00
Income generating activities	1.9	0.00	0.7	2.2
Others	700.5	13.0	8.10	25.6
Total	5,413.8	100	31.60	100

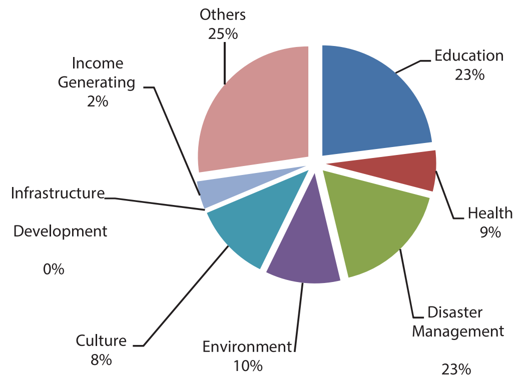
Source: Sustainable Finance Department, BB.

Chart 6.2 Sector-wise CSR expenditure of Banks in FY17



Source: Sustainable Finance Department, BB.

Chart 6.3 Sector-wise CSR expenditure of NBFIs in FY17



Source: Sustainable Finance Department, BB.

environment for factory" product from Islamic Refinance Fund under "Renewable Energy and Environment Friendly Sector'' through Al-Arafah Islami Bank Ltd. and Islamic Finance & Investment Ltd. Total BDT 84.3 million has recovered and BDT 0.9 million distributed from profit to the PFIs under this scheme.

Corporate Social Responsibility

6.18 On December 22, 2014 BB issued an indicative guideline for allocation and end use monitoring of CSR engagements of the financial sector. The guideline clearly states the administrative setup, budgetary allocation, expected range/coverage of CSR activities and end use monitoring process of CSR expenditures and activities.

BB's Own CSR Activities

6.19 BB has established its own ''Bangladesh Bank Disaster Management and Social Responsibility Fund'' by transferring BDT 50 million from its annual profit each year to conduct its own CSR activities in different areas such as education, health, environment, empowerment, human resources development, etc. Later the fund was extended to BDT 100 million in 2015. BB has sanctioned BDT 53.7 million (contribution from BB profit and bank interest) in FY17 from the fund which was BDT 75.9 million in FY16. The fund allocated for different sectors during FY17 is shown in Table 6.6.

CSR Activities of Banks and NBFIs

6.20 Total amount of CSR expenditure by Banks and NBFIs in FY17 stood at BDT 5.4 billion compared to the amount was BDT 5.6 billion in FY16. The sector-wise expenditure scenario of Banks and NBFIs are stated in Table 6.7.

Table 6.8 Total number of NFAs as of June 2017

	SCBs	DFIs	PCBs	FCBs	Total
Farmers	4694828	4042024	453212	0	9190054
Hardcore poor	1504316	770278	12585	0	2287179
Freedom fighters	196454	3034	1625	0	201113
Social Safety net allowance	3526159	892656	3091	0	4421906
Food & livelihood security	94528	1969	1285	0	97782
Poor rehabilitation under Religion Ministry	1105	0	172	0	1277
City corporation workers	9703	0	31	0	9734
RMG Workers	42889	178	187056	52	230143
Leather Industry Workers	71	0	3996	167	4234
National Service Program	18227	11571	3616	0	33414
Small Life insurance Program	90652	5393	2887	0	98932
Physically challenged	125707	34384	85	0	160176
Others	302641	28122	7737	0	338500
Total	10607280	5789609	677378	219	17074454

Source: Financial Inclusion Department, BB.

Table 6.9 Total balance of NFAs as of June 2017

(Billion BDT)

	SCBs	DFIs	PCBs	FCBs	Total
Farmers	0.66	0.81	1.16	0.0	2.64
Hardcore poor	0.34	2.34	0.02	0.0	2.70
Freedom fighters	1.61	0.0	0.05	0.0	1.66
Social Safety net allowance	1.19	2.34	0.0	0.0	3.53
Food & livelihood security	0.01	0.0	0.0	0.0	0.02
Poor rehabilitation under Religion Ministry	0.0	0.0	0.0	0.0	0
City corporation workers	0.0	0.0	0.0	0.0	0.01
RMG Workers	0.03	0.0	0.88	0.0	1.03
Leather Industry Workers	0.0	0.0	0.02	0.0	0.03
National Service Program	0.22	0.81	0.11	0.0	1.12
Small Life insurance Program	0.05	0.0	0.0	0.0	0.07
Physically challenged	0.08	0.06	0.0	0.0	0.15
Others	0.11	0.02	0.01	0.0	0.14
Total	4.32	6.40	2.26	0.0	13.11

Source: Financial Inclusion Department, BB.

6.21 Banks continued to maintain major share in education, health and disaster management which recorded to 35.4, 10.5 and 33.9 percent respectively of their total CSR activities. Expenditure on income generating activities, environment and infrastructural development in underprivileged area were 5.3, 1.8, and 0.1 percent respectively. As income generating activities for poor is relatively new concept, banks expenditure in this area was not significant. Sectorwise share of expenditure in CSR programs of Banks in FY17 are shown in Chart 6.2.

6.22 NBFIs reported CSR expenditure of BDT 31.6 million in FY17. The major share of CSR expenditure by NBFIs went to others sector (25.6 percent) in FY17. However, they spent 22.8, 10.1 and 22.8 percent of their total CSR expenditure in education, Environment and disaster management sectors respectively during this period. Health & Cultural affairs got less priority as they spent on these sectors 8.9 and 7.6 percent only in FY17. NBFIs did not spend for infrastructural development in underprivileged area but in income generating activities for poor only 2.2 percent in FY17. Sectoral shares of CSR expenditure by NBFIs in FY17 are stated in Chart 6.3.

Financial Inclusion Activities

6.23 Financial inclusion emerges as one of the most effective tools among policy makers around the globe to ensure inclusive and sustainable economic development. Considering the importance of financial inclusion, BB has extended formal banking services to less privileged people in urban and rural areas. BB has identified the target group of people and advised the banks for opening No-Frill Accounts (NFAs) for them.

Table 6.10 Number of School Banking Accounts and Balance as of June 2017

Type of banks	Number of accounts	Balance (billion BDT)
SCBs	408100	1.60
DFIs	130768	0.23
PCBs	793599	9.36
FCBs	1871	0.10
Total	1334338	11.28

Source: Financial Inclusion Department, BB.

No-Frill Accounts (NFAs) for Farmers and under-privileged group of the society

6.24 To ensure banking services for the poor marginal farmers, BB instructed the SCBs and DFIs to open NFAs for farmers in January 2010. Up to FY17, BB has gradually issued instructions to these banks for opening nine categories of NFAs other than farmer's account. BB has also instructed all the banks to open NFAs for RMG workers, workers of small footwear & leather product industries, and physically challenged persons.

6.25 The number of NFAs opened by the banks have been increased at the end of June 2017 compared to June 2016, due to continuous initiatives from the central bank. The number of farmers' accounts reached at 9.2 million by the end of June 2017 which was 8.9 million in previous year. As of end June 2016, sector-wise distribution of NFAs shows that the beneficiaries under social safety net programme opened 9190054 farmer's account, followed by hardcore poor (2287179 accounts), RMG workers (230143 accounts), BDT 10 account (338500 accounts) freedom fighters (201113 accounts), physically challenged persons (160176 accounts), small life insurance policy holder BDT 100 account (98932 accounts), food & livelihood security (97782 accounts), national service programme (33414 accounts), city corporation cleaning workers (9734 accounts) and distressed rehabilitation (1277 accounts). Thus, total number of all categories of accounts by the banks reached at 17074454. Total balance of NFAs for farmers reached at BDT 2.6 billion as of end June 2017. On the other hand, total balance of all categories of NFAs reached at BDT 13.1 billion. Total number of NFAs and balance for farmers and non-farmers as of end June 2017 are reported in Table 6.8 and 6.9 respectively.

School Banking

6.26 In order to broaden and deepen the base of financial inclusion through including the students under age of 18, BB has advised the banks to introduce school banking activities in 2010. Since then, banks have started to provide banking services to students through savings account and deposit scheme. The main objective of school banking is to promote savings behaviour among school goers and to introduce them with banking literacy and modern banking technology. To further extend the school banking services of the banks, BB has issued a comprehensive guideline in October 2013. Under this guideline, any school student aged 6-18 years can open school bank account through parents or legal guardians by depositing minimum BDT 100. Up to June 2017, total balance of school banking reached at BDT 11.3 billion against 1.3 million accounts. The updated status as of end June 2017 of school banking is reported in Table 6.10.

Banking for Working/Street Children

6.27 BB advised all the banks on 9 March 2014 to open custodial account with NGO with BDT 10 as minimum opening balance and without any service charge/fee to bring the working/street children under institutional financial support. These initiatives helps the street children to develop their savings habit and eventually step ahead towards better future. Concerned NGOs are fully responsible for the operation of the children accounts and the well-being of the account holders. Up to June 2016, 16 banks signed bi-lateral agreement with different registered NGOs for offering this services. Up to June 2017, the number of accounts reached at 4365 with balance of BDT 2.6 million. The status of working/street children programme as of end June 2017 is reported in Table 6.11.

Table 6.11 Number of Working/Street Children Accounts and Balance as of June 2017

Name of banks	Name of listed NGOs	Number of accounts	Total (Lac BDT)
Sonali Bank Ltd.	Uddipon	4	0.04
Janata Bank Ltd.	EBCR Project	150	0.75
Agrani Bank Ltd.	Uddipon	319	0.41
Rupali Bank Ltd.	Manab Sheba & Samajik Unnayan Sangostha, SUF	1021	9.65
Bangladesh Development Bank Ltd.	BRAC	211	0.23
Bangladesh Krishi Bank	Uddipon	163	0.30
Bank Asia Ltd.	Oporajeo Bangladesh, Uddipon BRAC	191	2.39
Mercantile Bank Ltd.	Oporajeo Bangladesh, Aid Bangladesh, Manab Sheba & Samajik Unnayan Sangostha	247	1.66
Mutual Trust Bank Ltd.	ASD	38	0.01
National Bank Ltd.	CPD	19	0.13
Social Islami Bank Ltd.	Shakti Bidyaloy	685	3.48
One Bank Ltd.	Prodipon, Shajida Foundation	227	1.78
Pubali Bank Ltd.	Oporajeo Bangladesh, BRAC, Nari Moitri	546	3.00
The City Bank Ltd.	Prodipon	154	1.30
Trust Bank Ltd.	Manab Sheba & Samajik Unnayan Sangostha	280	1.00
Al-Arafah Islami Bank Ltd.	ASD	77	0.31
Uttara Bank Ltd.	Poriborton	33	0.04
Total		4365	26.48

Source: Financial Inclusion Department, BB.

Agent Banking

6.28 BB issued Guidelines on Agent Banking in December 2013 to provide a safe and affordable banking services for the non-privileged, underserved and poor segment of the population especially from geographically remote location with a view to accelerate financial inclusion. As of June 2017, 17 banks have got approval for agent banking services and 13 banks started operation. Number of agent outlets increased from 2601 to 3224 and number of accounts increased from 0.54 million to 0.87 million till June 2017. The total balance of these accounts stood at BDT 6.5 billion in June 2017 compared to BDT 3.8 billion in December 2016. As of June 2017, expatriates had also remitted foreign currency equivalent to BDT 8.9 billion through these accounts.

BB Refinance Scheme for BDT 10 Account Holders

6.29 With a view to bringing the financially deprived grass root population under formal financial services and to gearing up the banking activities of BDT 10 accounts, BB constructed a revolving refinance fund of BDT 2.0 billion in May 2014. The Highest limit of refinance facility is BDT 50.0 thousand under this scheme and participating banks provide interest subsidy under certain conditions. Up to June 2017, approximately BDT 538.2 million has been disbursed under this scheme. Presently, 39 commercial banks have signed participation agreement with BB to disburse loans under this scheme.

NRB Database

6.30 In order to introduce a dynamic, interactive, and online database for the Non-resident Bangladeshi (NRB) remitters, BB has taken an initiative to collect the information of NRBs as their remittance has significant role to the economic development of Bangladesh. Gross remittance earnings decreased by 14.5 percent to USD 12.77 billion in FY17 from USD 14.93 billion in FY16. Any NRB can open an account in this database through BB website and upload his/her information. This database will play as a communication platform for BB as well as NRBs themselves. This database can facilitate and uphold investment information to NRBs, create awareness on proper remittance channel and method, and can be an important financial or economic avenues of government in which NRBs may participate. In addition, this database will promote to formulate policies of creating a Diaspora Network in order to use their skills and resources for the economic development of the home country. They can submit complaint, query or feedback through this database. Up to June 2017, 248 NRBs have registered in the NRB Database. At present, BB alongwith other stakeholders are taking initiatives to boost inward remittances through regular banking channel. BB has introduced "Bangladesh Bank Remittance Award" since 2013 to motivate and encourage the expatriates for sending more remittances through regular banking channels. In 2017, BB awarded 21 individuals as highest remitters in both skilled and unskilled categories, 5 highest bond investors, 4 NRB owned exchange houses as highest remitters and 5 highest remittance earning banks for the year 2016.

Financial Education

6.31 BB has taken various initiatives to bring the larger portion of financially excluded population under formal financial services. BB has developed a web-link titled "Financial

Literacy" in BB webpage to undertake diverse financial education initiatives since FY14. These include creation of a dynamic and interactive web portal, already prepared 2 television commercials and 10 radio broadcasting commercials, and awareness creating press layouts. This web-link contains story books, games, videos, text, a financial calculator for computing information on different financial services, products and delivery channels. BB is also working with the Ministry of Education to pace the financial literacy programme (FLE) in the school and college levels. To enhance financial literacy among mass people, BB instructed commercial Banks to launch slogans, jingles, pictures, symbols about financial literacy that may be printed on ATMs, bill-boards, opposite side of check books, deposit slips, and various publications of banks.

Alliance for Financial Inclusion (AFI) and Maya Declaration

6.32 Alliance for Financial Inclusion (AFI) is a worldwide network of financial inclusion policy makers. AFI's core mission is to empowering policymakers to increase access to quality financial services for the poorest populations. Presently the number of member institutions of AFI is 113 including central banks and financial regulatory institutions from 94 countries. Bangladesh Bank is a principal member institution of AFI since June 2009. Governor of BB is one of the esteemed members of the AFI Board of Directors. Ministry of Finance (MoF) and Microcredit Regulatory Authority (MRA) are the associate members of AFI.

6.33 Maya Declaration, an initiative to unlock the economic and social potential of the unbanked population through greater financial inclusion, was launched in 2011 at the AFI Global Policy Forum (GPF) in Riveria Maya, Mexico. BB signed the Maya Declaration on behalf of Bangladesh in September 2014 comprising 32 commitments on financial inclusion. Out of these, 16 have been achieved, so far, the rest are in well progress and some new commitments have been included this year. BB is broadly implementing the National Financial Inclusion Strategies (NFIS), guiding banks and financial institutions to launch appropriate financial products for the excluded people prioritizing youths, MSME sector, and women for greater financial inclusion. BB, MoF, and MRA are working together to ensure countrywide financial inclusion through the Maya Declaration commitments. Due to significant progress in financial inclusion, BB has been awarded with the AFI Policy Award in 2014 and AFI Member Zone Award in 2015. BB along with AFI is going to organize a Joint Learning Program (JLP) at Dhaka in December 2017.

Performance, Regulation and Supervision of NBFIs

7.1 Non Bank Financial Institutions (NBFIs) are playing crucial role by providing additional financial services that cannot be usually provided by the banks. The NBFIs, with more multifaceted products and services have taken their place in the competitive financial market to satisfy the changing demands of the customers. NBFIs also play an important role in the capital market as well as in real estate sector of Bangladesh. Like the banks, most of the NBFIs have separate subsidiaries to operate merchant banking activities. NBFIs are supervised by Bangladesh Bank following a risk-based supervisory system. NBFIs showed strong performance in terms of growth in assets and deposits during FY 17.

7.2 NBFIs have been given license and regulated under the Financial Institution Act, 1993. At present, the minimum paid up capital for NBFIs is BDT 1.0 billion as per the Financial Institution Regulation, 1994. NBFIs' business line is narrow in comparison with Banks in Bangladesh. NBFIs are allowed to take term deposit for three months and above.

7.3 Presently, out of 34 NBFIs, 3 are Government-owned, 12 are joint venture and the rest 19 are locally private-owned. The branch network of NBFIs increased to 246 as on 30 June 2017. The Structure of NBFIs is shown in Table 7.1.

Assets

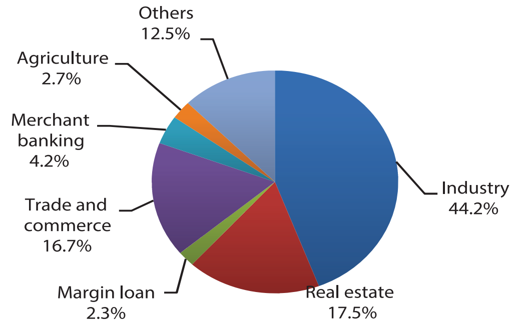
7.4 The asset of NBFIs increased substantially by 16.83 percent to 713.87 billion in December 2016 from BDT 611.04 billion in 2015. At the end of June 2017, assets of NBFIs increased to BDT 755.33 billion.

Table 7.1 Trends of Structure of NBFIs

	2011	2012	2013	2014	2015	2016	2017*
No. of NBFIs	31	31	31	31	32	33	34
Government-owned	2	3	3	3	3	3	3
Joint-venture	8	10	10	10	10	11	12
Private	20	18	18	18	19	19	19
New branches	53	8	7	20	15	14	21
Total branches	161	169	176	196	211	225	246

* As of 30 June 2017.
Source: Department of Financial Institutions and Markets, BB.

Chart 7.1 Investment pattern of NBFIs as of 30 June 2017



Source: Department of Financial Institutions and Markets, BB.

Investment

7.5 NBFIs are investing in different sectors of the economy, but their investments are mostly concentrated in industrial sector. Sector wise composition of NBFIs' investment at the end of June 2017 was as follows: industry 44.21 percent, real estate 17.53 percent, margin loan 2.25 percent, trade and commerce 16.68 percent, merchant banking 4.17 percent, agriculture 2.67 percent and others 12.49 percent.

7.6 NBFIs are allowed to invest in the capital market up to 25 percent of paid up capital and reserve as per section 16 of Financial Institution Act, 1993. In December 2016, all NBFIs' total investment in capital market was BDT 20.55 billion compared to BDT 19.35 billion in December 2015. Investment in capital market accounted for 2.88 percent of the total assets of all NBFIs. As of 30 June 2017, NBFIs total investment in capital market stood at BDT 19.90 billion.

Deposits

7.7 Total deposits of the NBFIs in December 2016 went up to BDT 382.43 billion (63.05 percent of total liabilities) from BDT 318.06 billion (62.48 percent of total liabilities) in 2015 showing an overall increase of 20.24 percent. At the end of June 2017, total deposit of NBFIs increased to BDT 418.85 billion.

Other Liabilities and Equity

7.8 The aggregate liability of the industry increased to BDT 713.87 billion in December 2016 from BDT 611.04 billion in 2015 while equity increased to BDT 107.41 billion compared with BDT 102.01 billion during the same period showing an overall increase by 16.83 percent and 5.29 percent respectively. At the end of June 2017, aggregate liability and equity increased to BDT 777.91 billion and BDT 109.63 billion respectively.

Bond and Securitisation Activity

7.9 The bond market in Bangladesh is yet to be modernized. There are few players with a limited number of instruments. NBFIs play a significant role for the development of bond market through issuing different types of Bonds. By taking NOC from the Department of Financial Institutions and Markets (DFIM) of BB, four instruments have been floated in the market up to June, 2017 namely (a) BDT 2.45 billion "IDLC Infrastructure and SME Zero Coupon Bond" issued by IDLC Finance Limited; (b) BDT 3.0 billion non-convertible zero coupon bonds issued by Lanka Bangla Finance Limited; (c) BDT 1.0 billion Fixed Rate Non-convertible Subordinated Bond issued by Reliance Finance Limited and BDT 1.5 billion zero coupon Bond issued by IPDC Finance Limited.

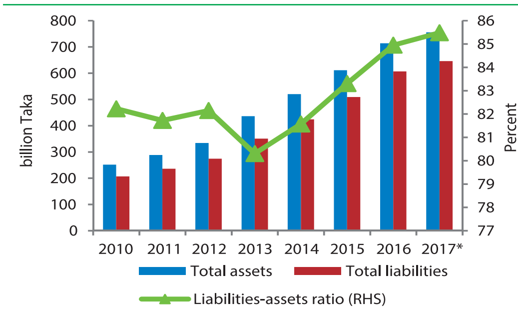
Table 7.2 Trends of Assets, liabilities and deposits of NBFIs

(billion BDT)

	2011	2012	2013	2014	2015	2016	2017*
Total assets	288.4	333.9	436.3	520.1	611.0	713.9	755.3
Total liabilities	235.7	274.3	350.4	424.2	509.0	606.46	645.7
Liabilities-assets ratio	81.7	82.2	80.3	81.5	83.3	84.95	85.5
Total deposit	112.6	145.4	198.3	238.5	318.1	382.43	418.9
Deposit as % of total liabilities	47.8	53.0	56.6	56.2	62.5	63.1	64.9

* As of 30 June 2017.
Source: Department of Financial Institutions and Markets, BB.

Chart 7.2 Trends of Assets, liabilities and their ratios of NBFIs



*As of 30 June 2017.
Source: Department of Financial Institutions and Markets, BB.

Performance and Rating of NBFIs

7.10 Like banks, the performance of NBFIs is also evaluated through the CAMELS rating which involves analysis and evaluation of the six crucial dimensions. The six indicators used in the rating system are capital adequacy, asset quality, management efficiency, earnings, liquidity and sensitivity to market risk.

Capital Adequacy

7.11 Capital adequacy focuses on the total position of NBFIs' capital and protects the depositors from the potential shocks of losses that a NBFI might incur. It helps absorb major financial risks related to credit, market, interest rate, etc. NBFIs in Bangladesh have been instructed under the Basel-III Accord to maintain Capital Adequacy Ratio (CAR) of not less than 10.0 percent with at least 5.0 percent in core capital. At the end of June 2017, out of 34 NBFIs, (two NBFIs are yet to come under this operation) 3 were evaluated as "1 or Strong", 17 were "2 or Satisfactory" , 10 were "3 or Fair", 1 were "4 or Marginal" and 1 were "5 or unsatisfactory" in the capital adequacy component of the CAMELS rating.

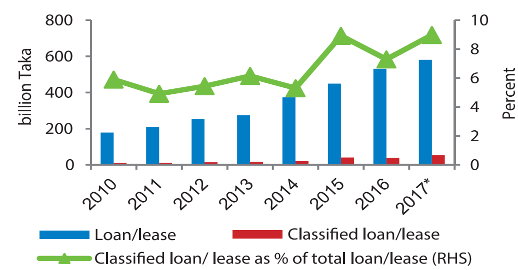
Table 7.3 Trends of Total loan/lease and classified loan/lease

(billion BDT)

	2011	2012	2013	2014	2015	2016	2017*
Loan/lease	209.7	252.1	273.6	372.8	448.5	530.7	582.43
Classified loan/lease	10.3	13.7	16.8	19.7	40.0	38.7	52.03
Classified loan/ lease as % of total	4.9	5.4	6.1	5.3	8.92	7.29	8.93

* As of 30 June 2017.
Source: Department of Financial Institutions and Markets, BB.

Chart 7.3 Trends of NBFIs total, classified loan/lease and their ratios



*As of 30 June 2017.
Source: Department of Financial Institutions and Markets, BB.

Asset Quality

7.12 This indicator intends to identify problems with asset quality in the loan portfolio is the ratio of gross non- performing loan/lease to total loan/lease. At the end of December 2016, the NPL for NBFIs was 7.29 percent. In the total asset composition of all NBFIs, the concentration of loans, lease and advances was 74.34 percent. At the end of June 2017, out of 34 NBFIs, 8 were evaluated as "2 or Satisfactory", 14 were "3 or Fair", 9 were "4 or Marginal" and 1 was "5 or unsatisfactory", in the asset quality component of the CAMELS rating matrix (The remaining two NBFIs are yet to come under this rating).

Management Efficiency

7.13 Sound management is the most important prerequisite for the growth of any NBFI. The total expenditure to total income, operating expenses to total expenses, earnings and operating expenses per employee and interest rate spread are generally used to understand management efficiency. At the end of June 2017, out of 34 NBFIs, 2 were evaluated as "1 or Strong", 20 were "2 or Satisfactory", 3 were "3 or Fair", 5 were "4 or Marginal" and 2 were "5 or unsatisfactory", in the Management Capacity component of the CAMELS rating. (The remaining two NBFIs are yet to come under this rating).

Earnings and Profitability

7.14 Earnings and profitability of an NBFI reflects its efficiency in managing resources and its long term sustainability. Among various measures of earnings and profitability, the best and widely used indicator is the return on assets (ROA) which is supplemented by return on equity (ROE). ROA and ROE of all the NBFIs in June 2017 were 1.04 and 6.90 respectively. At the end of June 2017, out of 34 NBFIs, 1 was evaluated as "1 or Strong", 17 were “2 or Satisfactory”, 10 were “3 or Fair” and 4 were “4 or Marginal” in the earnings and profitability component of the CAMELS rating. (The remaining two NBFIs are yet to come under this rating).

Liquidity

7.15 NBFIs are allowed to mobilize term deposit only. At present, term liabilities are subject to a statutory liquidity requirement (SLR) of 5.0 percent inclusive of average 2.5 percent (at least 2.0 percent in each day) cash reserve ratio (CRR) on bi-weekly basis. The SLR for the NBFIs operating without taking term deposit is 2.5 percent. The Infrastructure Development Company Limited (IDCOL) established by the Government of Bangladesh is exempted from maintaining the SLR. At the end of June 2017, out of 34 NBFIs, 16 were evaluated as “2 or Satisfactory”, 12 were “3 or Fair”, 2 were “4 or Marginal” and 2 were “5 or unsatisfactory”, in the liquidity position component of the CAMELS rating. (The remaining two NBFIs are yet to come under this rating).

Sensitivity to Market Risk

7.16 The sensitivity to market risk reflects the degree to which changes in interest rates or equity prices can adversely affect an NBFI’s asset-liability position, earnings and capital. When evaluating this sensitivity component, consideration should be given to management’s ability to identify, measure, and control market risk via the implementation of effective Core Risk Management System. Vulnerability of the NBFI in a stressed situation emanated from either an interest rate or equity price shock (or both) should be taken under consideration to evaluate sensitivity. For many NBFIs, the primary source of market risk arises from non-trading positions and their sensitivity to changes in interest rates. At the end of June 2017, out of 34 NBFIs, 2 were evaluated as "1 or strong", 11 were evaluated as “2 or Satisfactory”, 13 were “3 or Fair”, 5 were “4 or Marginal” and 1 was “5 or Unsatisfactory” in the sensitivity to market risk component of the CAMELS rating matrix (The remaining two NBFIs are yet to come under this rating).

Table 7.4 Trends of Profitability of NBFIs

(percent)

	2010	2011	2012	2013	2014	2015	2016	2017
Return on equity (ROE)	24.4	11.7	10.4	7.5	9.9	9.9	6.9	5.9
Return on asset (ROA)	4.3	2.1	1.9	1.5	1.8	1.8	1.0	0.8

Source: Department of Financial Institutions and Markets, BB.

Composite CAMELS Rating

7.17 At the end of June 2017, out of 34 NBFIs, the composite CAMELS rating of 1 was “1 or Strong”, 17 were “2 or Satisfactory”, 10 were “3 or Fair”, 2 were “4 or Marginal” and 2 were “5 or unsatisfactory” (The remaining two NBFIs are yet to come under this rating).

Legal Reform and Prudential Regulations

7.18 As part of the ongoing efforts some legal and regularity policy measures have been taken to improve the financial strength of NBFIs and to ensure the transparency in their operation. Some legal and policy measures have been continued in FY 2017.

Capital Adequacy and Progress of BASEL Accord Implementation in NBFIs

7.19 Basel-II has been implemented in the NBFIs since 1 January 2012. Prudential guidelines on capital adequacy and market discipline (CAMD) has been issued to promote international best practices and to make the capital of NBFIs more risk-based as well as more shock resilient. NBFIs have to follow the guidelines as statutory compliance. In this regard, a high-level Steering Committee (SC) headed by a Deputy Governor of BB comprising NBFIs' Chief Executive Officers has been formed for working on policy decisions. Furthermore, a Working Group (WG) headed by an Executive Director of BB has been assisting the SC in decision-making.

Corporate Governance in NBFIs

7.20 BB has taken some policy measures in order to put in place good corporate governance in NBFIs. BB has specified clearly the authority, responsibility and functions of the Board of Directors, Executive Committees, Audit Committees, Management and Chief Executive Officer of NBFIs. The number of Directors in the Board is ranges from 9 to 11. The Board sets and approves the vision/mission, annual strategic planning, key performance indicators, core risk management guidelines, etc. Chief Executive Officer is responsible to conduct day to day functions and materialization of the strategic business plan.

Asset Classification and Provisioning

7.21 NBFIs are required to maintain provision for expected losses on loans, advances, leases, investments considering aging analysis. Aging analysis of overdue loan/lease classifies them to standards, special mention accounts, sub-standards, doubtful and bad/losses, requiring the NBFIs to keep provision by 1percent, 5 percent, 20 percent, 50 percent and 100 percent respectively. At the end of June 2017, the total outstanding of loan/lease was BDT 580.4 billion of which NPL was BDT 52.1 billion (8.97 percent).

Loan Rescheduling Policy

7.22 For the purpose of rescheduling of loans/leases NBFIs must have to receive down payments from clients. NBFIs will take minimum of 15 percent, 30 percent, 50 percent of overdue amount or 10 percent, 20 percent, 30 percent of outstanding amount, whichever is lower, as down payment in cash for first time, second time and third time rescheduling respectively.

Core Risk Management

7.23 Guidelines on five core risk areas, namely, credit risk management, internal control and compliance, asset-liability management, prevention of money laundering and terrorist financing and information and communication technology (ICT) security have been issued for NBFIs. Besides, with a view to address and manage all the risks in a more prudent and organized way the 'Integrated Risk Management Guidelines for Financial Institutions' have also been issued to adopt improved policies and procedures in line with international best practices for their risk management framework. For this purpose, the Guidelines encompass all the probable risks that include credit risk, market risk, liquidity risk, operational risk, compliance risk, strategic risk, reputation risk, environmental risk, and money laundering risk.

Stress Testing

7.24 NBFIs have been conducting stress testing on quarterly basis since 2010. A new financial position indicator, insolvency ratio (IR), *artificial intelligence to auto-generate recommended action plan, rating scale of 1 to 5, zonal positioning (Green, Yellow & Red) through* weighted average resilience- weighted insolvency ratio (WAR-WIR) matrix have been included in the revised guideline for NBFIs. As per the new guideline, NBFIs carry out stress testing on quarterly basis. As of June 2017, out of 34 NBFIs 4 were in Green Zone, 17 were in Yellow Zone and the rest 12 were in the Red Zone. (The remaining one NBFI is yet to come under this rating).

Consumer Protection Regulations

Schedule of Charges

7.25 BB has rationalized the charges of some services to ensure the interest of depositors/ investors/customers and advised all NBFIs to display the complete schedule of charges in suitable places in their branches and head offices so that the current and potential clients can easily see them. They are also instructed to post the same information in their websites. BB monitors this issue and NBFIs are required to submit semi- annual statements in this regard. No charge/commission like commitment fee, supervision fee and cheque dishonor fee can be charged.

Guidelines on Products and Services of Financial Institutions in Bangladesh

7.26 Along with the banks, the financial institutions with their customized products and services have emerged as the competitive financial intermediaries to meet the growing and changing demands of customers. The “Guidelines on Products and Services of Financial Institutions in Bangladesh” has outlined the different characteristics of products. These guidelines protect clients’ interest as well as provide greater flexibility to financial institutions to adapt with changing environment. This also helps to promote of sound risk management system and bring discipline in launching new products and services.

Cost of Funds Index for NBFIs

7.27 NBFIs are regularly submitting their monthly statements of base rate and cost of funds to BB as per guideline published in 2013. On the basis of these statements, BB prepares an aggregate cost of funds index, uploads that in the BB website and updates on a monthly basis. The cost of funds index is used as an acceptable reference rate. The base rate system facilitates the interest rate determining process and ensures more transparency and accountability in the NBFIs.

Guidelines on Commercial Paper for Financial Institutions:

7.28 In order to set some regulations regarding commercial paper the ‘Guidelines on Commercial Paper for Financial Institutions’ has been introduced in 29 May, 2016. Financial Institutions are allowed to be involved in commercial paper as Investor, Issuer, Guarantor, and Issuing and Paying Agent by fulfilling the terms and conditions as mentioned in the guidelines.

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

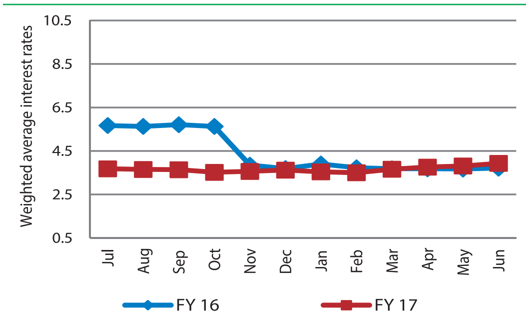
8.2 The money market in Bangladesh comprising banks and financial institutions demonstrate steadines in FY17. BB provided Repo, special Repo and Liquidity Support Facility (LSF) to the primary dealers (PDs) and non-PD banks against their holdings of eligible treasury bills and bonds. BB's prudential 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 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 8.1 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.

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.

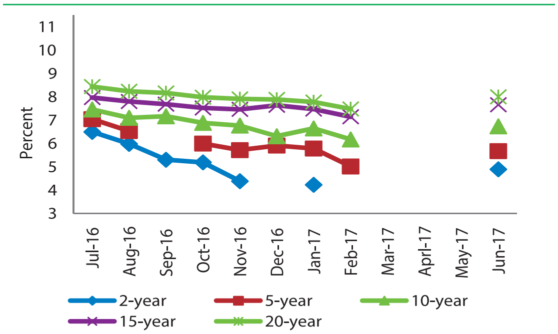
due mainly to existence of affluent liquidity in the market while government borrowing from the banking system registered a very low position. Moreover, the higher amount of Treasury Bills of different tenors resulting lower amount of outstanding as year on year basis.

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 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.

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.

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 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.

Table 8.7 Bangladesh Government Islamic Investment Bond

(billion BDT)

Particulars	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.

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.

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

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.

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 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,

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

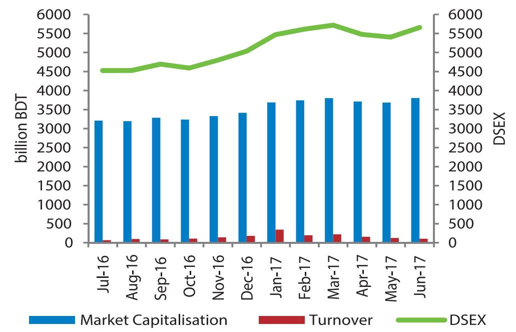
* Including companies, mutual funds, debentures and Government Treasury Bonds.
@ DSE introduced the benchmark DSE broad index (DSEX) designed and developed by S&P Dow Jones from January 2013.
Source: Dhaka Stock Exchange.

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.

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 (BGIIB) 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 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 8.10 Advances of Scheduled Banks by Economic Purposes

(billion BDT)

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.

Table 8.11 Industrial Term Loans of Banks and Financial Institutions

(billion BDT)

Lender	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).

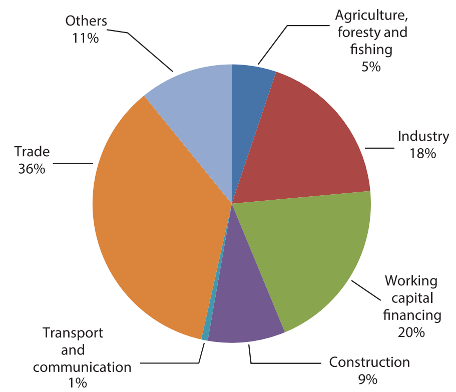
8.29 The financial institutions had very low overdue loans (9.5 percent of outstanding) as of end June 2017. Overdue loans were also lower in foreign banks (11.7 percent) and private commercial banks (11.9 percent). Overdue loans of the specialised banks and the SCBs were very high (32.1 percent and 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.

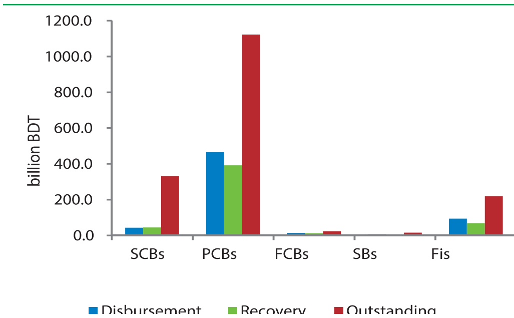
8.31 Under IPFF, Government approved private infrastructure development projects implementing on Public-Private Partnership (PPP) basis, have been financed through selected Participating Financial Institutions (PFIs). Infrastructure development projects, power, services, industry and social sectors are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

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.

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 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.

Table 8.12 Outstanding Housing Loans

(billion BDT)

Lenders	Outstanding as of end June		
	FY15	FY16	FY17P
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.

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.

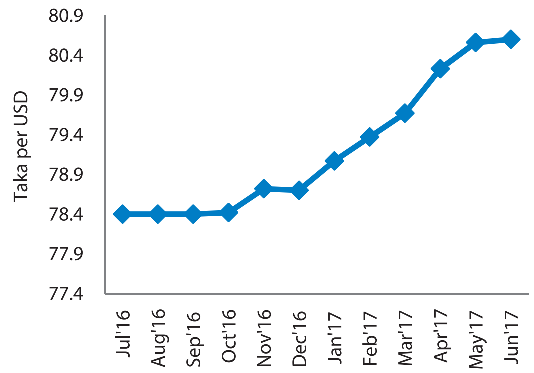
As of end of June 2017, Tahbil has recovered BDT 1.5 billion against the total recoverable amount of BDT 1.6 billion and recovery rate is 96.7 percent.

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 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).

Chart 8.6 Movements of BDT-USD exchange rate in FY17



Source: Monetary Policy Department, Bangladesh Bank.

Agricultural and MSME Finance

9.1 The role of agriculture sector is vital to meet up the county's employment generation, ensuring food security, export earnings and poverty reduction. During the last two decades, Bangladesh economy has achieved significant progress in terms of GDP growth, and remarkable transformation of changes in contribution of different sectors specially agriculture sector to the economy. At present, the contribution of agriculture sector to GDP is 14.8 percent and this sector employs around 47 percent of the labour force. In addition, the sector also provides raw material for micro, medium and small industries. However, agriculture sector plays a crucial role for development to its inter-linkages sector with the rest of the economy. Since, the sector is an engine to achieve the country's challenges for self sufficiency in food production and fostering sustainable economic development. The government has therefore accorded highest priority to agriculture and its allied sectors for adequate credit with low cost for smooth growth of these sectors. In line with Government efforts Bangladesh Bank also continued its proactive policy and program support to boost up agricultural production. Agriculture and rural credit policy and program has also been formulated accordingly. During FY17, efforts were also directed through its annual agricultural credit programme for flow of credit to agricultural and rural based off firm activities, SME and allied sectors. The actual credit disbursement of BDT 210.0 billion to agriculture sector exceeded the target of BDT 175.5 billion in FY17, through state owned banks, private commercial banks and specialized banks (Table-9.1).

Table 9.1 Comparative statement of disbursement and recovery of agricultural loan*

(billion BDT)

Disbursement	FY15	FY16	FY17
1. Disbursement (Target)	**155.50**	**164.00**	**175.50**
a) Crops loan (Other than tea)	75.69	80.99	86.53
b) Purchase and installation of irrigation equipment	3.39	4.69	4.86
c) Livestock	16.70	16.94	21.53
d) Marketing of agricultural goods	1.91	2.19	2.36
e) Fisheries	15.36	16.78	19.03
f) Poverty alleviation	11.37	9.57	9.95
g) Other agricultural activities	31.08	32.84	31.24
2. Actual disbursement	**159.78**	**176.46**	**209.99**
a) Crops loan (Other than tea)	76.04	86.95	100.61
b) Purchase and installation of irrigation equipment	2.38	2.60	3.01
c) Livestock	20.57	26.14	30.57
d) Marketing of agricultural goods	1.54	1.09	1.14
e) Fisheries	16.53	19.85	24.13
f) Poverty alleviation	14.81	15.59	18.85
g) Other agricultural activities	27.91	24.24	31.68
3. Term structure of loan disbursed	**159.78**	**176.46**	**209.99**
a) Short term	127.48	144.22	171.07
b) Longer term	32.30	32.24	38.92
4. Recovery	154.07	170.56	188.41
5. Due for Recovery	220.34	227.90	254.70
6. Total Outstanding loan	329.37	344.77	390.48
7. Overdue	67.29	56.78	67.08
8. Overdue as Percent of outstanding	20.43	16.47	17.18

* Excluding BRDB and BSBL
Source: Agricultural Credit Department, Bangladesh Bank.

Agricultural Credit Programme in FY17

9.2 The implementation of some important initiatives of this programme are as follows:

- Around 3.86 million farmers availed agricultural and rural credit of which 1.85 million women got BDT 62.41 billion from different banks.
- Around BDT 3.87 billion was disbursed among about 0.12 million farmers through 15,088 open credit disbursement programmes arranged by different banks.

- Around 2.97 million small and marginal farmers got BDT 149.30 billion agricultural loans from different banks.
- About BDT 0.4 billion of agricultural and rural credit was disbursed among about 8731 farmers living in the less developed area like haor, char, etc.
- Around 9.0 million bank accounts were opened by farmers in the state owned commercial banks with an initial deposit of BDT 10 only.
- An amount of BDT 0.81 billion was disbursed at 4.0 percent concessional interest rate for the production of certain crops like pulse, oilseed, spices, and maize for which the country continuously relies on import.
- In the three Hill Tract districts, more than BDT 0.48 billion was disbursed among 19,023 tribal farmers at only 5.0 percent interest rate.

Credit Disbursement to agriculture

9.3 In recent years, agriculture and rural finance programme seems to have boosted up as the private commercial banks (PCBs) and foreign commercial banks (FCBs) along with state-owned commercial banks (SCBs) came forward to disburse agricultural credit in the country. The actual disbursement of BDT 209.99 billion in FY17 against the disbursement target of 175.50 billion was 19.0 percent higher than the actual disbursement of BDT 176.5 billion in FY16. Table 9.1 shows the comparative position of overall disbursement and recovery of agricultural loan and Charts 9.1 and 9.2 show targets and actual disbursement of agricultural loan respectively in FY17.

9.4 About 81.5 percent of disbursement was short-term lending and the rest 18.5 percent was in the form of long-term loans for irrigation equipments, agricultural machinery, livestock etc. The credit for production of crops and poverty alleviation programmes constituted 58.8 and 11.0 percent respectively of the total short term loans during FY17 (Table 9.1).

9.5 The total outstanding loan in agricultural sector (including all banks) in FY17 increased by BDT 45.7 billion or 13.3 percent to BDT 390.5 billion from BDT 344.8 billion in FY16 (Table 9.2).

9.6 Two specialised banks– BKB, RAKUB and six SCBs played key role in disbursement of

Table-9.2 Agricultural credit performance by lenders*

(billion BDT)

	FY13	FY14	FY15	FY16	FY17					
					SCBs	BKB	RAKUB	PCBs	FCBs	**Total**
Disbursement Target	141.30	145.95	155.50	164.00	28.90	48.00	16.00	78.27	4.33	**175.50**
Actual disbursement	146.67	160.37	159.80	176.50	30.95	49.32	16.72	106.77	6.23	**209.99**
Recovery	143.62	170.46	154.10	170.60	28.96	53.78	17.12	83.46	5.09	**188.41**
Overdue	52.09	76.12	67.29	56.78	25.64	25.83	13.05	2.56	0.003	**67.08**
Outstanding	310.58	346.33	329.40	344.80	94.60	147.21	40.90	104.22	3.55	**390.48**
Overdue as % of outstanding	16.77	21.98	20.43	16.47	27.10	17.55	31.91	2.46	0.08	**17.18**

*Excluding BRDB and BSBL

Source: Agricultural Credit Department, Bangladesh Bank.

agricultural and rural finance. The contribution of foreign and private commercial banks was also imperative in this regard. The SCBs, BKB, RAKUB, FCBs and the PCBs have exceeded the disbursement target by 7.1, 2.8, 4.5, 43.9 and 36.4 percent respectively in FY17 (Table 9.2). Apart from this, BRDB and BSBL disbursed BDT 8.8 billion from their own fund which raised the total disbursement to BDT 218.8 billion (including all banks) during FY17.

Credit Recovery

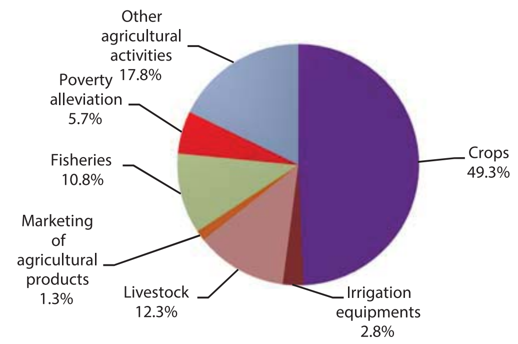
9.7 During FY17, recovery of agricultural credit increased by 10.5 percent to BDT 188.4 billion from BDT 170.6 billion in FY16 due to comprehensive support to agricultural production through subsidy on both input and output level. Consequently, rate of recovery as percent of due for recovery of agricultural credit was 73.97 percent during FY17 which was lower than 74.84 percent in FY16 (Table 9.1).

9.8 The overdue as percentage of outstanding agricultural loan increased from 16.5 percent in FY16 to 17.2 percent at the end of June 2017 (Table 9.1 and 9.2). It is important that banks should gear up their recovery drive matching with the harvesting seasons and strengthen incentive measures ensuring appropriate dissemination of information so that the recovery of agricultural loans improves further in the years ahead.

Sources of Agricultural Finance

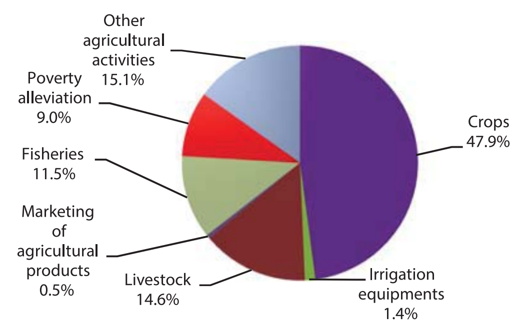
9.9 Recently, PCBs are playing the dominant role in financing agriculture sector. PCBs had the largest share in the annual disbursement of agricultural loans. In FY17, PCBs disbursed 50.8 percent of the total disbursement, followed by BKB (23.5 percent), SCBs (14.7 percent), RAKUB (8.0 percent) and

Chart 9.1 Targets for agricultural credit disbursement in FY17



Source: Agricultural Credit Department, Bangladesh Bank.

Chart 9.2 Actual agricultural credit disbursement in FY17



Source: Agricultural Credit Department, Bangladesh Bank.

FCBs (3.0 percent). The SCBs' overdue loans as percent of their agricultural outstanding loans stood at 27.1 percent at the end of FY17, while the overdue loans of RAKUB and BKB were recorded to 31.9 and 17.6 percent respectively of their outstanding loans (Table 9.2).The PCBs' overdue loans as percentage of their outstanding loans stood at 2.5 percent at the end of FY17.

Bangladesh Bank's Refinance against Agricultural Loans (Under Government Guarantee)

9.10 During FY17 no banks and financial institutions was provided refinance facilities

Table-9.3 Bangladesh Bank's refinance against agricultural loans (under Government gurantee)

(billion BDT)

Particulars	FY15			FY16			FY17		
	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding
BKB	5.00	9.06	28.34	0.00	8.09	26.85	0.00	2.40	24.99
RAKUB	2.00	4.79	11.11	0.00	3.30	7.92	0.00	1.20	7.48
BSBL	0.00	0.04	0.04	0.00	0.00	0.00	0.00	0.00	0.00
Total	7.00	13.89	39.49	0.00	11.39	34.77	0.00	3.60	32.47

Source : Agricultural Credit Department, Bangladesh Bank

against agricultural and Rural credit from Bangladesh Bank. An amount of BDT 3.60 billion was recovered against refinance due from different banks and financial institutions leaving an outstanding balance of BDT 32.47 billion as of 30 June, 2017 for future recovery. Details of Bangladesh Bank's refinance position(under government guarantee) are shown in the table 9.3. Beside the above refinance schemes some other agricultural related refinance schemes/ projects are operating through this department of BB those have been discussed below:

Special Refinance Scheme for Share-croppers

9.11 BB has undertook a special refinance scheme of BDT 6.00 billion to provide credit through BRAC to those share-croppers who have limited access to banks. In FY17, Bangladesh Bank has refinanced BDT 5.62 billion to BRAC for disbursing agricultural credit to about 0.15 million share croppers under this special refinance scheme.

Special Refinance Scheme for the Jute Sectors

9.12 In FY15, BB undertook a special refinance scheme of BDT 2.0 billion to provide working capital to jute goods manufacturing companies and jute exporters. A total of 18 banks availed this refinance facilities of BDT 1.73 billion against their disbursement to purchase raw jute from jute producers.

Special Refinance Scheme for Dairy Farming

9.13 An amount of BDT 2.00 billion has been launched under refinance scheme by BB for dairy milk production and artificial insemination. An amount of BDT 0.97 billion has been disbursed by the banks and financial institutions under this scheme in FY17. The interest rate at borrower level is 5.0 percent and the Government provides 5.0 percent cash subsidy against the credit to the disbursing banks. In FY17, BB has refinanced BDT 1.02 billion to concerned banks and financial institutions under this scheme.

Agricultural Credit Projects/Programmes under Bangladesh Bank Supervision

9.14 Some self and donor financed agricultural projects/programmes are implemented by Bangladesh Bank. A total amount of BDT 0.3 billion disbursed and BDT 0.15 billion was recovered under close monitoring and supervision of Bangladesh Bank in FY17. These projects include the Marginal and Small Farm System Crop Intensification Project (MSFSCIP), Shashya Gudam Rin Prokolpo (SHOGORIP), Northwest Crop Diversification Project (NCDP) and Second Crop Diversification Project (SCDP).

9.15 In FY17, a total amount of BDT 2.72 billion was disbursed under Small and Marginal Sized Farmers Agricultural Productivity Improvement and Diversification Financing Project (SMAP).

Table-9.4 Disbursement of SME Credit by Banks and NBFIs

(billion BDT)

Period	Sub-Categories			Total	Women Entrepreneur
	Trading	Manufacturing	Service		
FY17*	976.11	360.98	102.63	1439.72	45.07
FY16	818.85	330.99	141.38	1291.22	54.89
FY15	680.43	323.50	98.94	1102.87	39.68
FY14	594.41	250.87	60.77	906.05	36.43
FY13	518.41	233.04	42.02	793.46	24.72
FY12	379.19	183.84	35.09	598.12	23.11
FY11	365.83	154.36	32.37	552.56	20.07

* Provisional

Source : SME & Special Programmes Department, Bangladesh Bank

Credit to Small and Medium Scale Enterprises (SMEs)

9.16 Bangladesh Bank has formulated a comprehensive policy and programmes on SME named “SME Credit Policies and Programmes” due mainly to its crucial role in achieving sustainable inclusive growth. Detailed guidelines in this regards that includes all possible avenues of financing to SME by all banks and Non-bank Financial Institutions (NBFIs), which has been declared as international best practice for SME financing by Alliance for Financial Inclusion (AFI). Along with various supportive measures of BB, the sector gets momentum and continues to maintain robust performance.

9.17 A target based SME lending programme was initiated by Bangladesh Bank in 2010 under the “SME Credit Policies and Programmes”. The target is not imposed by the central bank, rather the banks and non-bank financial institutions (NBFIs) independently decided their target. A target of disbursing BDT 1135.0 billion was set for 2016 (January-December) which was higher by BDT 89.2 billion than that of 2015. In 2016, BDT 1419.4 billion was disbursed against a target of BDT 1135.0 billion. Under the same spirit, a target of disbursing BDT 1338.5 billion was set for 2017 (January-December) which was BDT 203.5

Chart 9.3 Trends of Target & Achievement of SME Loans

Source: Agricultural Credit Department, Bangladesh Bank.
*As end June, 2017

billion higher than the target set for 2016. In H1 of 2017 (January to June) BDT 835.1 billion was disbursed. Chart 9.3 depicts the target and achievement of SME credit by banks and non-bank financial institutions during 2010 to 2017.

9.18 In FY17, all banks and non-bank financial institutions disbursed a total amount of BDT 1439.7 billion among 697 thousands cottage, micro, small and medium sized enterprises (CMSMEs). Special emphasis has been given to bring the women entrepreneurs in the mainstream of development activities of the country. An amount of BDT 45.1 billion has been disbursed among 49 thousands women led SME enterprises in FY17 (Table 9.4). SME & Special Programmes Department (SME&SPD) of BB is working to facilitate this and monitoring the SME financing activities and development. For further development of this sector, Bangladesh Bank continued its refinancing facilities to banks and NBFIs for SMEs during FY17.

Bangladesh Bank's Refinance for SMEs

9.19 Bangladesh Bank, with the help of Government and different development partners, has been implementing eight different revolving refinance facilities for banks and NBFIs. At the end of June 2017, a total amount of BDT 66.3 billion was provided to different banks and NBFIs under refinance schemes against 55,229 enterprises. Table 9.5 shows the Bangladesh Bank's refinance facility to banks under different special schemes and programmes for SME development up to FY17.

Refinance Scheme for Agro-based Product Processing Industries

9.20 In order to boost up agro product processing industries in the areas outside divisional headquarters and Narayanganj town, Bangladesh Bank launched a scheme of BDT 1.0 billion in November 2001 out of its own fund. Responding to the huge demand of this fund, the size of the fund was increased to BDT 2.0 billion in 2012, BDT 4.0 billion in 2013 and later BDT 4.5 billion in 2015. Refinancing facilities are provided to banks and non bank financial institutions at the bank rate under the scheme. Till the end of June 2017, BDT 11.2 billion was disbursed under this scheme against 2584 enterprises on revolving basis (Table 9.5).

Refinance Fund for New Entrepreneurs under Cottage, Micro and Small Categories

9.21 In order to provide start-up capital to new cottage, micro and small enterprises, Bangladesh Bank has created a new fund amounting to BDT 1.0 billion from its own source. Under this fund, the prospective entrepreneurs selected and trained by recognized public and private training providers get financing facilities at 10 percent interest rate (bank rate +5 percent). At the end of June 2017, BDT 0.2 billion was refinanced to banks and non bank financial institutions against their financing to 340 new enterprises (Table 9.5).

Islamic Shariah based Refinance Scheme

9.22 With the objective of increasing the involvement of Islamic banks and non bank financial institutions in financing SMEs, a special refinance fund under Islamic Shariah mode was created in Bangladesh Bank in September 2014. Under this fund, Islamic banks and non bank financial institutions get refinance against their financing to agro based industries, small enterprises (including women led SMEs) and new entrepreneurs in cottage, micro and small industries sector. At the end of June 2017, BDT 3.6 billion was refinanced to banks and NBFIs against their financing to 553 enterprises (Table 9.5).

Refinance to Women Entrepreneurs

9.23 Bangladesh Bank is encouraging all banks and NBFIs to provide loan to women entrepreneurs at 9.0 percent (bank rate+4.00%) interest rate. A dedicated women entrepreneurs desk has been established in the SME&SPD of BB. All banks and NBFIs have been directed to do the same. They have also been instructed to reserve 15.0 percent of total SME funds exclusively for women entrepreneurs as well as provide credit to new women entrepreneurs under cottage, micro and small industries sectors. In addition, all banks and NBFIs have been directed to sanction loans at least BDT 2.5 million to women entrepreneurs with personal guarantee but without collateral under refinance facilities provided by BB. An amount of total BDT 20.3 billion was refinanced to women entrepreneurs at the end of June 2017 against 19,098 enterprises (Table 9.5).

New Entrepreneurs Creation and Entrepreneurs' Development

9.24 To scale up skills of young workers and new entrants in the labour market, the Government of Bangladesh has taken a project titled "Skills for Employment Investment Programme (SEIP)" with the assistance of Asian Development Bank (ADB) and Swiss Agency for Development and Cooperation (SDC). Aligned with this initiative Bangladesh Bank has also taken steps for creation and development of new entrepreneurs. To this end, Bangladesh Bank will provide market oriented job training to 10,200 people in the next three years to start their own SME business or be employed in the SME sector. As of June 2017, 5,164 trainees enrolled in different courses. Already 3,503 trainees received certificate after successful completion and 2,114 trained personnel have been employed in different sectors and a dedicated refinance scheme has already been created by BB to support those new entrepreneurs.

Implementation of New Projects

Urban Building Safety Project (UBSP)

9.25 With the intention of creating a safe working environment in the RMG sector a project named "Urban Building Safety Project" has been established under the 36th Japanese ODA package through a loan agreement signed on 13 December 2015 between the Government of Japan (represented by JICA)

Table 9.5 Statement of refinance on SMEs under different refinance schemes of BB

(billion BDT)

Name of the Fund	Budget/ Fund	Type of Enterprises	Refinance upto 30 June 2017		Remarks
			Number of Enterprises	Amount of refinance	
1. BB Fund	8.5	General	12,717	12.26	Ongoing
		Women Enterprises	18,268	19.35	
		Sub-Total	**30,985**	**31.61**	
2. EGBMP (IDA Fund)	1.16	-	3,160	3.13	Closed
3. SMESDP (ADB-1) Fund	2.02	General	3,134	3.18	Closed
		Women Enterprises	130	0.17	
		Sub-Total	**3,264**	**3.35**	
4. SMEDP (ADB-2) Fund	7.33	General	13,192	6.99	Closed
		Women Enterprises	453	0.48	
		Sub-Total	13,645	7.47	
5. JICA FSPDSME Fund	3.77	General	682	5.56	Refinicing continues using RFA
		Women Enterprises	16	0.16	
		Sub-Total	**698**	**5.72**	
6. Refinance Scheme for Agro-based product processing Industries	4.50	-	2,584	11.23	Ongoing
7. Refinance Scheme for new entrepreneurs	0.5	General	190	0.15	Ongoing
		Women Enterprises	150	0.03	
		Sub-Total	**340**	**0.18**	
8. Islamic Shariah based Refinance Fund	3.75	General	472	3.48	Ongoing
		Women Enterprises	81	0.11	
		Sub-Total	**553**	**3.59**	
Grand Total			**55,229**	**66.28**	
Refinance against Women Entrepreneurs			**19,098**	**20.30**	

Source: : SME & Special Programmes Department, Bangladesh Bank

and Government of Bangladesh. Under this agreement, JICA will provide JPY 12,086 million; of which JPY 4,129 million (equivalent BDT 2.7 billion) is earmarked for two step loan (TSL) purposes. The TSL component will be managed and implemented by SME&SPD of BB in accordance with approved operating guideline of the project.

Local Finance Initiatives (LFI)

9.26 A project named "Local Finance Initiatives (LFI) (FDIPP)" has been established under the finance of United Nations Capital Development Fund (UNCDF) with a view to support prospective women SME entrepreneurs in certain group for business development and making them eligible to avail loan facility from banking sector by providing collateral support. A Credit Guarantee Scheme under this pilot project is on the way.

Microcredit Operations of Grameen Bank and the Large MFIs

9.27 The success of Bangladesh Microfinance operation is now globally accepted issue. Microcredit provides the corridor of access to credit and has been playing the major role in rural finance. It is considered as a tool for poverty alleviation and income generation. In addition, it plays a productive role in the country's overall investment by increasing savings from remote areas. BB has taken strong pro-active measures to improve the access to credit and other financial services specially for the unbanked and poor segment of population of the country. ICT based new financial instruments (mobile banking) have changed the landscape of financial services by generating opportunities for the poor to access them in both rural and urban areas. More than a thousand of NGO-MFIs are operating in Bangladesh. The number of registered MFIs as well as the number of borrowers and savings per borrower has been steadily increasing. At the end of June 2017, 783 licensed MFIs and 167 provisional licensed MFIs provided microfinance services to 28.9 million people which was 27.58 million in FY16.

Table 9.6 Microcredit operations of the Grameen Bank and large MFIs

(billion BDT)

	FY15	FY16	FY17
1. Disbursement	**507.92**	**662.61**	**831.56**
i) Grameen Bank	139.18	169.33	207.89
ii) BRAC	172.57	218.51	266.63
iii) ASA	146.39	209.05	269.59
iv) TMSS	23.48	26.20	33.06
v) BURO Bangladesh	26.30	39.52	54.39
2. Recovery	**448.87**	**444.27**	**731.74**
i) Grameen Bank	135.63	181.00	182.70
ii) BRAC	150.82	193.60	238.98
iii) ASA	117.95	176.49	234.87
iv) TMSS	20.92	24.52	29.14
v) BURO Bangladesh	23.56	31.55	46.05
3. Outstanding Loans	**479.79**	**396.75**	**496.24**
i) Grameen Bank	91.29	109.39	134.57
ii) BRAC	193.46	127.83	155.48
iii) ASA	153.57	120.28	154.71
iv) TMSS	25.01	14.82	18.70
v) BURO Bangladesh	16.47	24.43	32.78
4. Loans Overdue	**6.91**	**7.47**	**7.80**
i) Grameen Bank	1.34	1.27	0.56
ii) BRAC	2.96	3.02	2.35
iii) ASA	1.89	2.38	3.67
iv) TMSS	0.35	0.33	0.56
v) BURO Bangladesh	0.38	0.48	0.66
5. Overdue as percentage of outstanding	**1.44**	**1.88**	**1.57**
i) Grameen Bank	1.47	1.16	0.41
ii) BRAC	1.53	2.36	1.51
iii) ASA	1.23	1.98	2.37
iv) TMSS	1.39	2.24	3.02
v) BURO Bangladesh	2.28	1.96	2.00

Source: Microcredit Regulatory Authority (MRA)

9.28 Palli Karma Sahayak Foundation (PKSF) has been established in line with the own thoughts and ideas of the Government of Bangladesh to broaden and smoothen microfinance process. Since its inception in May 1990, the PKSF has been working as an apex microcredit funding and capacity building organisation to alleviate poverty by providing microcredit to the poor through its partner organisations (POs). The loan given by PKSF to 274 POs was BDT 277.6 billion in FY17, which was BDT 31.2 billion or 12.7 percent higher than BDT 246.4 billion in FY16.

Roadmap for FY18

9.29 To attain the 7.4 percent GDP growth rate and to keep pace with the population growth, agriculture should grow at a constant rate of 4.0-4.5 percent per year. Therefore, the major challenges for Bangladesh's agriculture are to raise productivity and profitability, increase diversifications of production in line with consumption, maintain food safety and quality, expand irrigation and farm mechanisation and develop resilience to climate change impacts.

9.30 In view of this, Bangladesh Bank has announced its annual agricultural and rural credit policy and programme for FY18 with the disbursement target of BDT 204.0 billion which is 16.2 percent higher than the disbursement target of BDT 175.5 billion in FY17. BB also projected the target of SME lending at BDT 1338.5 billion till December 2017. In order to develop these sectors further greater focus has been placed on ensuring adequate flow of credit to various segments in both sectors that will lead the sectors towards sustainable development.

Public Finance

10.1 The national budget for FY17 was formulated by emphasizing on four factors i) maintaining macro-economic stability, ii) accelerating growth of per capita GNI, iii) making benefits of higher income more inclusive, and iv) ensuring sustainable and environment-friendly economic development. In the budget GDP growth target set at 7.2 percent and inflation set at 5.8 percent for FY17. For attaining this target, major steps were undertaken including -boosting public and private investment, development in agricultural sector, power and energy sector, communication sector and implementation of eight mega projects.

On the other hand, the broad objective of the proposed budget for FY18 is to ensure balanced and harmonized development of all sectors of the economy. This objective will be achieved by formulating annual budgets under a Medium Term Macroeconomic Framework (MTMF). Under this framework, income and expenditure ceilings, commensurate to all sectors of the economy. These ceilings are kept within a safe limit to sustain macroeconomic balance. Besides, in formulating the proposed FY18 budget, sustainable development goals (SDGs) as well as the targets of the 7th Five Year Plan have also taken into account.

In the Proposed Budget Framework for FY18, GDP growth rate set at 7.4 percent; the highest in the last four decades and inflation set at 5.5 percent. To accomplish the target, efforts have been underway to stimulating both public and private investment, increasing domestic and external demand, increasing aggregate supply, development in power and energy sector, communication sector, agriculture sector and food security. Additionally, measures for promoting total factor productivity, strengthening social safety net program for equitable distribution of income and ensuring environment-friendly development were included.

Table 10.1 Government revenue and expenditure

(billion BDT)

Items	FY16#	FY16 as % of GDP#	FY17*	FY17 as % of GDP*	FY18	FY18 as % of GDP
1. Total revenue	1729.5	10.0	2185.0	11.2	2879.9	13.0
a. Tax	1518.9	8.8	1922.6	9.8	2568.1	11.5
b. Non-tax	210.7	1.2	262.4	1.3	311.8	1.4
2. Total expenditure	2384.3	13.8	3171.7	16.2	4002.7	18.0
a. Current	1444.3	8.4	1781.5	9.1	2071.4	9.3
b. ADP	793.5	4.6	1107.0	5.7	1533.3	6.9
c. Others	146.5	0.8	283.2	1.4	398.0	1.8
3. Budget deficit	654.8	3.8	986.7	5.0	1122.8	5.0

Actual, * Revised.

Source : Budget in Brief, 2017-18, Ministry of Finance

10.2 In the budget for FY17, revenue target was set by considering various reform initiatives such as automation, curtailing tax exemption facility, rationalization of tax administration, widening tax net and tax base under the National Board of Revenue (NBR). As a result, in this fiscal year, the progress of NBR revenue collection has become better than the last few years. Budget deficit contained at 5.0 percent of GDP in the FY17 budget which is kept same in the proposed budget.

FY17 Budget and Fiscal Outcome

Revenue Receipts

10.3 In the revised budget for FY17 total revenue receipts stood at BDT 2185.0 billion, which was 10.0 percent lower than initial target. It was 26.3 percent higher than the actual revenue receipts in FY16. The tax revenue constituted 88.0 percent of the total revenue receipts, which was higher than 26.6 percent compared to the actual tax collected in FY16. The non-tax revenue of FY17 was 24.6 percent higher than that of FY16 (Table 10.1).

10.4 In the revised budget, total revenue receipts as percentage of GDP stood at 11.2 percent which was 10.0 percent in FY16. The total tax revenue receipts as percentage of GDP was 9.8 percent in FY17 which was 8.8 percent in the preceding fiscal year. Similarly, total non-tax revenue as percentage of GDP stood at 1.3 percent over the same period which was 1.2 percent in FY16.

Expenditure

10.5 The total expenditure in the revised budget for FY17 amounted to BDT 3171.7 billion (16.2 percent of GDP) which was 33.0 percent higher than the actual expenditure in FY16. The current expenditure in the revised budget for FY17 stood at BDT 1781.5 billion (9.1 percent of GDP) which was 23.3 percent higher than the actual expenditure of BDT 1444.3 billion in FY16 (Table-10.1).

10.6 In the revised budget for FY17, direct taxes on income and profit increased by 39.2 percent to BDT 627.5 billion from BDT 450.8 billion in FY16. Receipts from narcotics and liquor duty, taxes on income and profit, stamp duty (non judicial), land revenue, value added tax (VAT), import duty, other taxes and duties, supplementary duty, export duty and taxes on vehicle increased by 127.3, 39.2, 36.7, 35.4, 25.8, 21.2, 16.7, 13.0, 10.0 and 5.7 percent respectively in FY17 compared to those of FY16. However, excise duty decreased by 23.1 percent in revised budget for FY17 compared to that of FY16 (Table 10.2).

Table 10.2 Composition of revenue receipts

(billion BDT)

Items	FY16#	FY17*	FY18
1. Tax revenue	**1518.8**	**1922.6**	**2568.1**
A. NBR Tax revenue	**1462.4**	**1850.0**	**2481.9**
i) Taxes on income and profit	450.8	627.5	851.8
ii) Import duty	178.0	215.7	300.2
iii) Export duty	0.3	0.3	0.4
iv) Supplementary duty	261.3	295.2	384.0
v) Value Added Tax (VAT)	545.8	686.8	912.5
vi) Excise duty	15.6	12.0	16.0
vii) Other taxes and duties	10.7	12.5	16.9
B. Non NBR Tax revenue	**56.4**	**72.6**	**86.2**
i) Narcotics and liquor duty	0.7	1.5	0.9
ii) Taxes on vehicles	16.3	17.2	18.0
iii) Land revenue	8.3	11.2	12.7
iv) Stamp duty (non judicial)	31.2	42.7	54.7
2. Non-tax revenue	**210.7**	**262.4**	**311.8**
i) Administrative fees and charges	35.6	48.6	56.5
ii) Dividend and profit	31.7	37.1	54.0
iii) Interest	10.8	29.3	19.4
iv) Capital revenue	0.7	0.7	0.7
v) Receipts for services rendered	7.1	6.4	7.1
vi) Defence receipts	17.6	23.5	25.8
vii) Tolls and levies	7.7	9.2	10.1
viii) Fines, penalties and forfeiture	3.5	4.3	4.7
ix) Railway	8.6	15.1	20.0
x) Post offices	2.9	3.1	3.5
xi) Non commercial sales	5.3	5.7	6.1
xii) Rents, leases and recoveries	1.1	1.4	1.5
xiii) Other non-tax revenue and receipts	78.2	78.2	102.4
Total	**1729.5**	**2185.0**	**2879.9**

Actual, * Revised.
Source : Budget in Brief , 2017-18, Ministry of Finance

10.7 Under the non-tax revenue head, interest, railway, administrative fees and charges, defence receipts, rents, leases, and recoveries, fines, penalties and forfeiture, toll and levies, dividend and profit, and post offices increased by 172.7, 75.0, 36.4, 33.5, 22.7, 22.1, 18.9, 17.2, and 8.0 percent respectively in FY17 compared to those of FY16. On the contrary, capital revenue and receipts for services rendered declined by 7.0 and 9.3 percent respectively over the same period (Table-10.2). Composition of tax revenue for FY17 and FY18 are depicted in Chart-10.1 and Chart-10.2 respectively.

10.8 The Annual Development Programme (ADP) in the revised budget for FY17 amounted to BDT 1107.0 billion (5.7 percent of GDP) which was 39.5 percent higher than the actual ADP in FY16. In the revised budget for FY17, it is found that nearly, 39.4 percent of the total ADP was spent on the infrastructure sector (power, oil, gas and natural resources, transport and communication), 16.7 percent on the social sector (education and religious affairs and health, nutrition, population and family welfare), and 5.2 percent on agriculture sector (Table 10.3) respectively.

Financing FY17 Budget Deficit

10.9 Total deficit (excluding grants) in the revised budget for FY17 stood at BDT 986.7 billion (5.0 percent of the GDP) (Table 10.1). The domestic borrowing component of the deficit financing was BDT 699.0 billion (3.6 percent of the GDP) in FY17. Of this component, BDT 239.0 billion (1.2 percent of the GDP) was bank borrowing and BDT 460.0 billion (2.4 percent of the GDP) was non-bank borrowing mainly borrowing through net sales of national savings schemes (Chart 10.3). The foreign financing component (excluding grants) of the budget deficit was BDT 240.8 billion (1.2 percent of the GDP) (Table 10.4).

Major Revenue Measures in FY17 Budget

Direct Tax

10.10 Direct taxes on income and profit are considered as the principal source of Government revenue. It accounted for 32.6 percent share of the total tax revenue in the revised budget for FY17 compared with 29.7 percent in FY16. The margin changes on direct taxes in the national budget for FY17 included:

Taxes on Individual Income

- Tax exempted income limit for individual

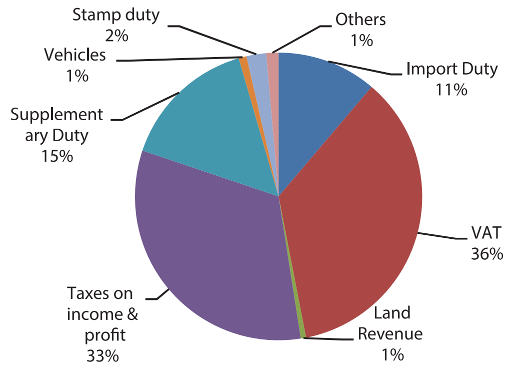
Table 10.3 Sectoral shares in ADP expenditure

(Percent)

Sectors	FY16*	FY17*	FY18
Agriculture	4.9	5.2	3.9
Transport	21.1	24.7	26.8
Education & religious	11.1	11.6	10.9
Physical planning, water supply & housing	12.2	13.0	9.8
Power	17.0	12.2	12.3
Rural development & institutions	9.9	9.7	8.6
Health, nutrition, population & family	6.1	5.1	6.7
Water resources	2.9	3.0	2.6
Industries	1.9	0.9	1.3
Oil, gas & natural resources	1.2	1.0	1.4
Communication	1.6	1.7	1.1
Others	10.2	11.9	14.8
Total	100	100	100

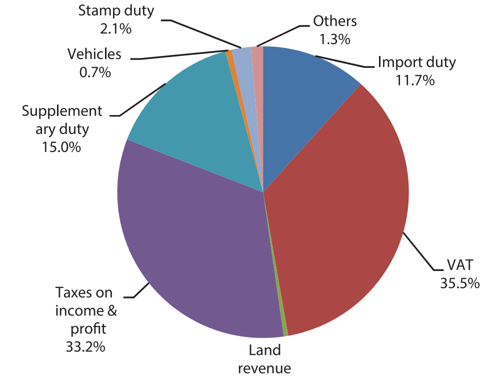
Actual, *Revised.
Source : Annual Development Programme, 2016-2017 and 2017-2018, Ministry of Planning

Chart 10.1 Composition of tax revenue* : FY17



* Revised.
Source: Budget in Brief 2016-17, Ministry of Finance.

Chart 10.2 Composition of Tax Revenue* : FY18



* Estimated.
Source: Budget in Brief 2017-18, Ministry of Finance.

taxpayer remained the same at BDT 250,000.

- Tax exemption threshold for women and senior citizens aged over 65 years remained the same at 300,000.
- Tax exempted income limit for physically challenged individual remained the same at BDT 375,000.
- Tax exempted income limit for war wounded gazetted freedom fighters remained the same at BDT 425,000.
- The tax-exempted turnover limit for SME enterprises has increased from BDT 3,000,000 to BDT 3,600,000.
- Perquisite limit for the employer of a disabled employee increased to BDT 2,500,000.
- Assessee investment limit of total personal income decreased to 20 percent from 30 percent.
- Tax rate for income of non-resident and income of Co-operative Society was fixed 30 percent and 15 percent respectively.

Taxes on Corporate Income

- Tax rates for publicly traded company and publicly traded bank, insurance and financial institutions remained the same at 25.0 percent and 40.0 percent respectively.
- Tax rates for non-publicly traded company and non-publicly traded bank, insurance and financial institutions remained the same at 35.0 percent and 42.5 percent respectively.
- Tax rate for publicly traded cigarette company remained the same at 45 percent.

Table 10.4 Composition of Budget Financing

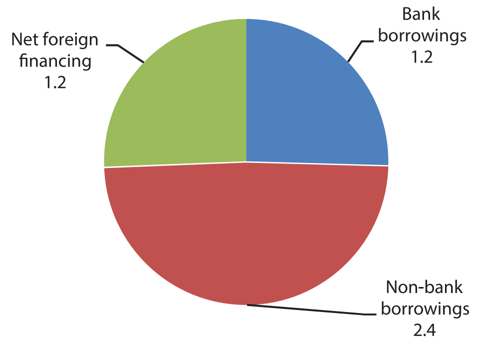
(Percent)

Items	FY16#	FY17*	FY18
Domestic Financing	507.3	699.0	603.5
Bank borrowing	106.1	239.0	282.0
Non-bank borrowing	401.2	460.0	321.5
Foreign financing (net)	128.7	240.8	464.2
Budget Deficit (including grants)	635.9	939.8	1067.7
Budget Deficit (excluding grants)	654.8	986.7	1122.8
GDP (Memorandum Item)	17295.7	19560.6	22236.0

#Actual, *Revised.
Source : Budget in Brief, 2017-18, Ministry of finance

Chart 10.3 Deficit Financing* (including grants): FY17

(Percentage of GDP)



* Revised.
Source: Budget in Brief, 2016-17, Ministry of Finance.

- Tax rate for bidi, zarda, chewing tobacco, gul or any other smokeless tobacco manufacturing company increased from 25 or 35 percent to 45 percent.
- Tax rate for publicly traded and non-publicly traded mobile phone operators remained the same at 40 percent and 45 percent respectively.
- Minimum tax rate for bidi, zarda, chewing tobacco, gul or any other smokeless tobacco producers; for mobile phone operators and for all other companies and firms was imposed at 1.0 percent, 0.75 percent and 0.6 percent from uniform rate of 0.3 percent on gross receipts of firms having yearly gross receipts of more than BDT 5,000,000 respectively.

- The tax rate of the RMG sector was reduced from 35 percent to 20 percent.
- Withholding tax rates for real estate sector was reduced to encourage people to buy small sized flats or apartments.

Value Added Tax (VAT)

10.11 In order to establish a modern, pro-investment, consumer and revenue friendly Value Added Tax system, a new VAT law titled 'Value Added Tax and Supplementary Duty Act, 2012' was enacted by the Parliament during FY12.

10.12 VAT is the main component of indirect taxes in Bangladesh. VAT representing 31.4 percent of total tax revenue increased by 25.8 percent to BDT 686.8 billion in FY17 compared to BDT 545.8 billion in FY16. The margin changes on VAT in the national budget for FY17 included:

VAT Exemptions

- Like exemption of VAT on the jute goods at the production and retail stage, jute goods procurement provider has been exempted from VAT as part of the Government's incentive package provided to the jute sector.
- Like exemption of VAT on natural rubber or latex, locally produced ribbed smoked sheets was exempted from VAT in order to provide incentive to the rubber sector.
- The ambulance services which carry patient and dead body has been kept out of VAT.
- Like exemption of VAT on rice huller and parts of rice huller, wheat crusher and parts of wheat crusher were made VAT free in order to encourage the local foundry and engineering industry.
- VAT was withdrawn on dyeing, printing, finishing and calendering of grey fabrics in order to give incentive to the textile sub-sector.
- The domestic heavy industry for local manufacturing of refrigerator, freedger and air conditioner was exempted from VAT in order to give incentive to these industries.
- VAT was withdrawn on palm oil and soya bean oil with a view to keeping the price of edible oil stable and within the buying capacity of the people (up to 30 June, 2017).
- The natural stone extracted from Maddhapara was made VAT free in order to encourage the use of locally extracted natural stone in Padma bridge and other projects.

VAT Impositions and Expansions

- Withdrawal of VAT exemption from hand-made loaf, bun, similar kinds of bread and cake, biscuit valuing up to BDT 100 per kg, shoes, slipper made of rubber, plastic valuing up to BDT 120 per pair, locally manufactured hard board, electric generator, travel agents, meditation service, fabrics woven by power loom, classified advertisement except condolence messages.
- Increasing supplementary duty rate to 50 percent from existing 48 percent and fixing lowest slab of cigarette at BDT 23 from existing BDT 18.

- Increasing supplementary duty rate to 62 percent and 64 percent from existing 61 percent and 63 percent on price of cigarette at BDT 45 and above respectively.
- Increasing supplementary duty rate to 30 percent and 35 percent from existing 25 percent and 30 percent on the price of 25 sticks of non-filter and 20 sticks of filter bidi respectively.
- Increasing supplementary duty rate to 100 percent from existing 60 percent on smokeless tobacco products (jarda and gul).
- Increasing supplementary duty rate to 5 percent from existing 3 percent on SIM card related services.
- Increasing the tax to BDT 7000, BDT 14000, BDT 20000 and BDT 28000 from BDT 3600, BDT 7200, BDT 10000 and 14000 at all points of supply, namely; import, production, service rendering and wholesale and retail sale depending on turnover and location respectively.
- Increasing the net VAT rate of garage and workshop from existing 7.5 percent to 10 percent.
- Increasing the net VAT rate of dockyard from existing 7.5 percent to 10 percent.
- Increasing the net VAT rate of construction services from existing 5.5 percent to 6.0 percent.
- Increasing the net VAT rate of transportation of petroleum products and other transport services from existing 2.25 percent and 7.5 percent to 4.5 percent and 10 percent respectively.
- Increasing the tariff value of coal, different kinds of paper and paper products, scrap/ ship scrap, CR coil, GP sheet, CI sheet, coloured CI sheet and different kinds of MS products ranging between 20-25 percent respectively.

Custom Duties and Taxes

10.13 With a view to providing protection to the domestic industries and maintaining competitiveness of Bangladesh economy, the existing customs duty slabs have been restructured and rationalised from time to time. Besides, to prevent smuggling and untrue declarations, inconsistent duty-tax structure has been corrected. Import duty increased by 21.2 percent to BDT 215.7 billion in FY17 compared to BDT 178.0 billion in FY16. The proposed changes on custom duties and taxes in the national budget for FY17 included:

- Continuation of the existing duty exemptions or concessions accorded to the essential commodities including edible oil, sugar, pulse, onion and garlic.
- Expansion, rationalization and continuation of the existing duty tax incentives given to the social, physical infrastructure and information technology sectors.
- Continuation of the duty tax concessions provided to the capital goods for the encouragement of industrial investment.
- Imposition of 25 percent and 10 percent customs duty instead of 10 percent and 5 percent on imported rice and rapeseed cake/soyacake respectively.
- Reduction of supplementary duty from 20 percent to 10 percent on milk, used for the preparation of milk product.

- Reduction of import duties to 1 percent on selected parts of locally manufactured machines used in agriculture.
- Continuation of the existing duty tax concessions to existing items along with some new items for continuous and sustainable development of the poultry sector.
- Concessionary facilities extend to other types of export oriented industries along with export oriented garments industries for fire equipment/ inputs of pre-fabricated building materials.
- Reduction of customs duty on boulders, crushed stone, ferro alloy, bars, rods, angles, fly ash, etc. in the construction industry sector.
- Reduction of duties and taxes on petroleum jelly, paraffin wax, raw rubber, rubber process oil, glossy starch, gum resin used in chemical industry sector.
- Increasing duties and taxes on talc powder, ECG and ultrasound paper, filter blocks made of pulp etc. in the chemical industry sector.
- Reduction of duty on urea resin, DOP, adhesive tape in rolls, fiber glass, inputs and parts of compressor in the electrical sector.
- Increasing duty on lamp holder, cable connector and busbar trunking system in the electrical sector.
- Reduction of duty to 15 percent from 25 percent and 5 percent from 10 percent on stripping chemical and flax fiber and spandex in the textile sector.

Table 10.5 Composition of revenue expenditure

(BDT billion)

Sectors	FY16#	FY17*	FY18
Social sector	703.5	893.6	1140.9
Public services	152.4	338.5	544.8
Interest on domestic debt	314.7	335.0	395.1
Defence	203.1	232.1	257.6
Public order and safety	164.5	207.3	228.5
Interest on foreign debt	16.5	18.6	19.5
Agriculture sector	178.8	200.3	244.3
Transport and communication	241.0	362.7	500.8
Development	185.9	248.5	277.0
Housing	38.6	51.7	37.3
Others	185.3	283.5	356.9
Total	2384.4	3171.7	4002.7

Actual, * Revised.
Source : Budget in Brief, 2017-18, Ministry of Finance

- Reduction of duty to 20 percent from 45 percent on motor cycle assembling.
- Reduction of duty on some of the inputs used for the manufacture of SIM cards, scratch cards, credit cards and other smart cards in the information technology sector.
- Reduction of customs duty at 15 percent from 25 percent on lubricant.

Budget for FY18

10.14 The budget of FY18 has been formulated aiming at higher GDP growth, lower inflation and gearing up investment. In the budget for FY18, the GDP growth target has been set at 7.4 percent, the inflation rate at 5.5 percent and the budget deficit is expected to be within 5.0 percent of GDP.

10.15 The total size of the budget for FY18 is set at BDT 4002.7 billion, which is 18.0 percent of the GDP and 26.2 percent higher than the revised budget for FY17. The total development expenditure target for FY18 stands at BDT 1533.3 billion, which is about 6.9 percent of GDP. This developmental expenditure turns out 38.5 percent higher than that of the revised budget of the previous fiscal year. In the ADP for FY18, about 17.5 percent of development outlay has been allocated to the human resource sector (education and health, nutrition, population and family welfare), 15.1 percent to overall agricultural sector (agriculture, rural development and institutions and water resources), 13.7 percent to power and energy sector, 26.8 percent to transport (roads, railway, bridges and others related to transport) sector, 9.8 percent to physical planning, water supply and housing sector and 17.1 percent to other sectors (Table 10.5).

10.16 Different ministries and divisions have been categorised into three main groups based on their allocation of business. These are social infrastructure, physical infrastructure and general services. In the proposed budget for FY18, about 29.3 percent of total outlay has been allocated for social infrastructure, of which 26.1 percent is set for human resources sector (education, health, science and technology and other related sectors). About 31.7 percent of total outlay of ADP has been allocated for physical infrastructure, of which 13.0 percent goes to wider agriculture and rural development, 11.9 percent to overall communication sector and 5.3 percent to power and energy sector. About 24.0 percent of total outlay of ADP has been allocated for general service sector. An allocation of 1.9 percent of total outlay has been made for PPP projects, financial assistance for different industries, subsidies and equity investment in state-owned commercial and financial institutions.

10.17 Apart from these three major categories, 10.4 percent of total outlay has been allocated for interest repayment and the rest 2.7 percent has been allocated for net lending and other expenditures. Like the preceding fiscal years, ADP allocation has been estimated with a view to giving priority to ensure regional parity, developing human resources and infrastructure, and securing quality of spending with achievement of results.

Revenue Receipts

10.18 The revenue receipts in FY18 is targeted to grow by 31.8 percent to BDT 2879.9 billion (13.0 percent of the GDP) compared to that of the revised budget for FY17. The tax and non-tax revenue receipts are expected to increase by 33.6 percent and 18.8 percent respectively compared to the revised budget for FY17. Total revenue-GDP ratio is projected to increase to 13.0 percent in the FY18 compared to 11.2 percent in FY17 (Table 10.1). Receipts from the direct taxes on income and profits is projected to increase by 35.7 percent in FY18 compared to the revised budget for FY17 while 33.3 percent growth is projected for indirect taxes (VAT, import duty, supplementary duty, and export duty). Among non-tax revenue sources, dividend and profit has been projected to increase by 45.5 percent in FY18 compared to the revised budget for FY17 (Table 10.2).

10.19 Receipts from other non-tax revenue and receipts such as railway; administrative fees and charges; post offices; rents, leases and recoveries; fines, penalties and forfeiture; tolls and levies; defence receipts are capital revenue expected to rise by 32.5, 16.4, 13.2, 11.9, 10.6, 9.8, 9.8 and 6.1, percent respectively in FY18. Receipts from interest are expected to decline by 33.9 percent in FY18 compared to the revised budget for FY17 (Table 10.2).

Expenditure

10.20 The total public expenditure in FY18 is expected to increase by 26.2 percent to BDT

4002.7 billion compared to the revised budget for FY17. The current expenditure is expected to grow by 16.3 percent, the ADP by 38.5 percent and other expenditure by 40.5 percent over the revised budget for FY17 (Table 10.1). The projected current expenditure for FY18 is set at BDT 2071.4 billion (Table 10.1). About 28.5 percent of the total expenditure has been allocated for the social sector (Table 10.5), of which the major portion of this sector (96.6 percent) will go to education and technology, social security and welfare programmes, and health sector (Table 10.6).

Table 10.6 Composition of social sector revenue expenditure

(BDT billion)

	FY16#	FY17*	FY18
Education & technology	399.1	502.9	654.4
Health	126.1	148.3	206.5
Recreation, culture and religious affairs	23.9	27.6	36.1
Labour and employment	1.3	2.9	2.6
Social security and welfare	153.2	211.8	241.3
Total	703.5	893.6	1140.9

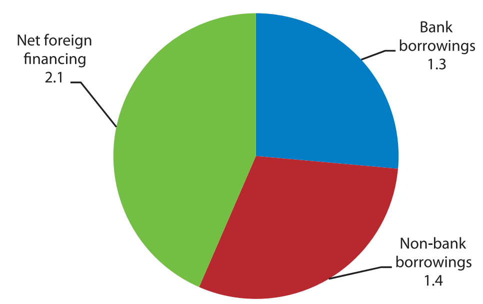
Actual, * Revised.
Source : Budget in Brief, 2017-18, Ministry of Finance

Deficit Budget and its Financing in FY18

10.21 The budget deficit (excluding grants) for FY18 is estimated at BDT 1122.8 billion which is BDT 136.1 billion higher than the revised budget for FY17. The projected budget deficit-GDP ratio for the FY18 is 5.0 percent which is the same as that of FY17. The deficit is expected to be financed through borrowing from domestic banks and non-bank sources to the tune of BDT 603.5 billion (2.7 percent of GDP) and external financing to the tune of BDT 464.2 billion (2.1 percent of GDP) in FY18 against BDT 699.0 billion (3.6 percent of GDP) and BDT 240.8 billion (1.2 percent of GDP) in the revised budget for FY17 (Charts 10.4) respectively. Of total domestic borrowing, BDT 282.0 billion is projected to be financed from the banking system and BDT 321.5 billion from non-banking sources (Table 10.4).

Chart 10.4 Deficit financing* (including grants) : FY18

(Percentage of GDP)



* Estimated.
Source: Budget in Brief 2017-18, Ministry of Finance.

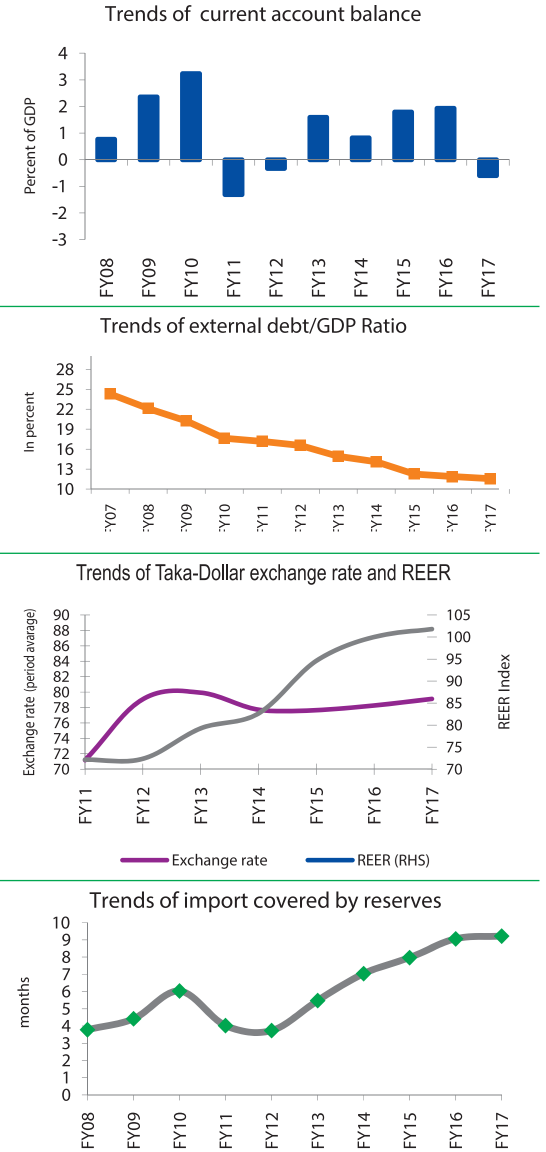
External Sector

External Trade and the Balance of Payments

11.1 In the light of relatively strong recovery of global economy and steadily progress of China on its One-Belt-One- Road initiative, Bangladesh economy also kept up its macroeconomic stability by pursuing proactive regulations and policies which helped bouyant activities in external sector in FY17. However, current account balance shifted from a surplus to a deficit due mainly to the trade balance deficit with lesser contribution of services and primary income account. In spite of current account deficit, financial account surplus was moved enough to maintaining a positive overall balance. During the period, the foreign reserves showed continued upward trend while foreign exchange market also displayed mixed trend.

11.2 Though the economy's growth momentum picked up, major external sector indicators showed mixed trends (Chart 11.1) in FY17. Current account balance as percentage of GDP decreased at 0.6 in FY17 against 1.9 in FY16. Decreasing trend of external debt GDP ratio still continued in FY17 and stood at 11.6 percent. In FY17, according to the new base (FY16=100, 15 currency basket) REER index appriciated by 1.81 percent in FY17, while nominal exchange rate depreciated by 1.1 percent (period average) at the end of June 17 and stood at BDT 79.12. The foreign exchange reserves stood at USD 33.41 billion during the same period, which was enough to cover about 8 months of import payments.

Chart 11.1 Key indicators of external sectors



Source:Bangladesh Bank.

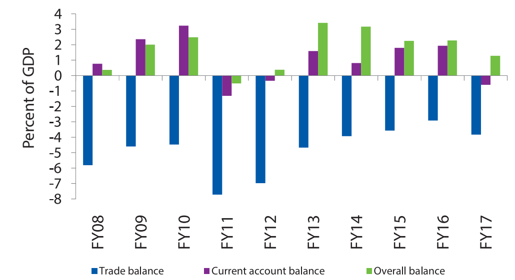
Balance of Payment

11.3 Bangladesh's balance of payments (BoP) recorded a surplus in FY17, despite unfavourable global economic condition. The BoP surplus was supported mainly by financial account. Current account showed a significant amount of deficit of USD 1480 million during FY17 which was a surplus of USD 4262 million in FY16. Large deficit in the services and primary income and decline in the secondary income led to be a significant downfall in the current account balance in FY17. The capital accounts surplus decreased to USD 314 million and the financial accounts surplus increased to USD 4179 million respectively in FY17. During the same period, overall balance recorded a surplus of USD 3169 million compared to USD 5036 million in FY16 (Chart 11.2 and Table XVI of Appendix-3.).

11.4 Trade Balance showed a record high deficit of 47 percent to USD 9472 million during FY17 as compared to the deficit of USD 6460 million during FY16. Higher growth of import along with a slight exports growth led to higher trade deficit. The deficit in the services account increased by 21.3 percent to USD 3284.0 million in FY17 from USD 2708.0 million in FY16. The deficit of primary income accounts also widened by 4.8 percent to USD 2007.0 million in FY17 from USD 1915.0 million in FY16. Secondary income decreased by 13.4 percent from USD 15345.0 million in FY15 to USD 13283.0 million in FY17. The workers' remittances fell by 14.5 percent in FY17. The net outcome of all these, the current account balance worsened significantly from a surplus of USD 4262 million in FY16 to a deficit of USD 1480 million deficit in FY17. (Table XVI of Appendix-3)

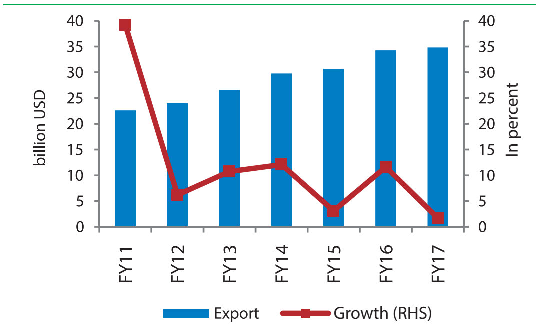
11.5 Foreign Direct Investment (FDI) is recognised as one of the important components of Bangladesh's foreign reserves in recent years. It contributes as the 2nd largest

Chart 11.2 Trends of trade, current account and overall balances



Source: Bangladesh Bank.

Chart 11.3 Trends of export earnings



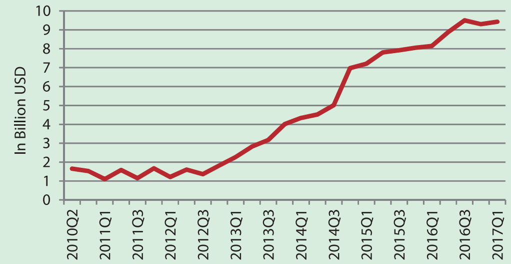
Source: Export Promotion Bureau.

component of financial account. As a potential source of foreign exchange reserves, FDI has been emphasised by the Government in its 7th five year plan assuming that USD 10.0 billion would be received and accordingly has undertaken various policies for adequate incentives in attracting foreign investors. For those initiatives, net FDI inflow increased significantly by 32.8 percent to USD 1706.0 million in FY17. Portfolio investment also increased significantly to USD 458 million in FY17 compared to the preceding year.

11.6 Merchandise exports (fob) increased by 1.7 percent to USD 34019.0 million and imports (fob) increased by 9.0 percent to USD 43491.0 million in FY17 (Chart 11.3 and 11.4). The balance of payments position is given in Table XVI of Appendix-3.

Box 11.1 Impact of Private Commercial Borrowing from Foreign Sources in Bangladesh

Chart : Trend of private sector foreign borrowing



Source: Statistics Department, Bangladesh Bank

Private foreign borrowing increased significantly during the last several years. The outstanding foreign loan by private sector stood at USD 9.43 billion (about 10.15 percent of total private credit and 4 percent of GDP) at the end of March 2017 from USD 1.65 billion (about 4.0 percent of total private credit and 2.0 percent of GDP) at June 2010 (Chart). This rising private foreign borrowing impacted on the financial market in various ways. Firstly, it reduced the wedge between domestic and foreign credit market for export oriented firms for cheaper financing. As a result, lending rate in domestic credit market faced competition with foreign interest rate which helped moderate domestic lending rate. Investment cost of a firm would decline and competitiveness would improve. The lending rate eased to single digit (9.7 percent) in FY17 from double digit (13.2 percent) in FY12. Secondly, private sector foreign borrowing helped to build up foreign exchange reserve to mitigate external shock in the economy and stabilize exchange rate during the last several years. On the other hand, it created foreign liability of the firms and created some risk in the financial system.

Nevertheless, closer monitoring of the opening up the process of borrowing from foreign sources will be essential in order to manage exposure to international capital market and vulnerability to economic contagion.

Exports

11.7 Export earnings increased slightly by 1.7 percent in FY17 to USD 34835.1 million from USD 34257.2 million in FY16 (Table 11.1). Apparels (woven garments and knitwear products) continued to occupy a very large share (above four fifths) of the export.

Composition of Exports

11.8 Readymade garments (woven and knitwear): Woven and knitwear products, which contributing about 81 percent of total export earnings, registered slight increase in receipts from USD 28094.2 million in FY16 to USD 28149.8 million in FY17. Knitwear products showed a growth of 3.0 percent in FY17 compared to FY16.

11.9 Leather: Export earnings from leather and leather products increased by 4.6 percent to USD 697.0 million in FY17 from USD 666.1 million in FY16.

11.10 Frozen food: The frozen foods sector comprises mainly of shrimps. Receipt from export of shrimp and fish decreased by 1.8 percent to USD 510.0 million in FY17 from USD 519.4 million in FY16.

11.11 Footwear: Export earnings from footwear products increased by 8.9 percent to USD 777.8 million in FY17 from USD 714.0 million in FY16.

11.12 Chemical Products: Export earnings from chemical products achieved a large growth of 13.2 percent to USD 140.0 million in FY17 against USD 123.7 million in FY16.

11.13 Tea: During the fiscal year export earnings from tea increased significantly to USD 4.5 million in FY17 from USD 1.8 million in FY16.

11.14 Jute goods (excluding carpets): In FY17, export earnings from jute goods increased by 6.5 percent to USD 794.6 million as against USD 746.4 million in FY16.

11.15 Raw jute: Raw jute valued at USD 167.8 million was exported in FY17, against USD 173.2 million in FY16.

Destination of Exports

11.16 One important feature of export diversification is the geographical diversity of export destination countries. Bangladesh's exports are now destined for some 200 countries. In FY17, 55.5 percent of exports were destined for the EU bloc while 20.3 percent entered into the NAFTA bloc. Export to the OIC, SAARC, ASEAN and other countries was 5.5, 2.4, 2.2 and 14.1 percent respectively of total exports in FY17 (Chart 11.4).

Export Development Fund (EDF)

11.17 The EDF commenced its operation in 1989 with the participation of International Development Association (IDA) and Government of Bangladesh (GOB) having an initial fund amounting to USD 30.16 million to provide foreign exchange refinance facilities to boost up the export sector. As export posted a significant growth, the volume of the EDF fund was enhanced by Bangladesh Bank from time to time. In November 2016, the fund was enhanced to USD 2.5 billion from USD 2.0 billion to meet the growing demand of the exporters.

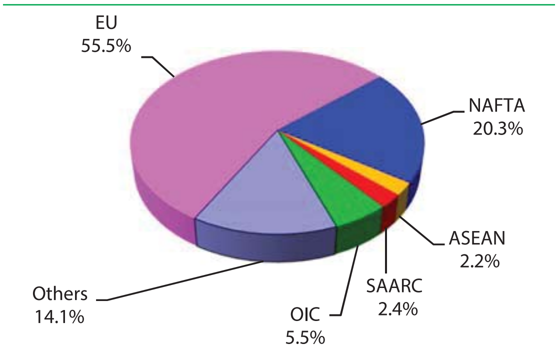
Table 11.1 Composition of merchandise exports

(million USD)

Items	FY16	FY17	% change
1) Raw jute	173.2	167.8	-3.1
2) Jute goods	746.4	794.6	6.5
3) Tea	1.8	4.5	150.0
4) Leather and leather products	666.1	697.0	4.6
5) Frozen shrimps and fish	519.4	510.0	-1.8
6) Woven garments	14738.7	14392.6	-2.3
7) Knitwear products	13355.4	13757.3	3.0
8) Chemical products	123.7	140.0	13.2
9) Petroleum by-product	297.0	243.8	-17.9
10) Engineering products	510.1	688.8	35.0
11) Specialised textiles	108.7	106.1	-2.4
12) Footwear	714.0	777.8	8.9
13) Others	2302.6	2554.8	11.0
Total	34257.2	34835.1	1.7

Source: Export Promotion Bureau.

Chart 11.4 Destinational pattern of exports in FY17



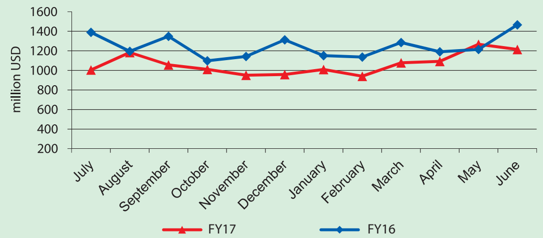
Source: Statistics Department, BB.

11.18 The exporters as well as deemed exporters can avail EDF loan for input imports against export LC/firm export contract/inland back to back L/C through Authorized Dealer (AD) banks. The EDF refinancing covers sectors like textile, garments, accessories/ packaging material, plastic goods, leather goods & footwear, ceramic wares, dyed yarn, agro-food processing, bicycle etc.

11.19 A borrower-wise maximum exposure limit is followed to streamline the credit discipline. At present, maximum USD 20.00 million is allowed to a single party except leather goods & footwear, ceramic wares, dyed yarn, agro-food processing, bicycle, accessories & packaging

Box 11.2 Recent Slowdown of Inflows of Foreign Remittance: Effects on the Bangladesh Economy and Way Out

Chart : Trends of Remittance Inflows



Source: Statistics Department, Bangladesh Bank

Remittance is the second largest source of foreign currency earnings of Bangladesh after exports. World Bank ranked Bangladesh 5th[1] as the stock of migrants and 8th[2] as the remittance earrings country in the world. Remittances plays an important role in the overall economy, particularly lowering poverty, improving current account balance, building up foreign exchange reserves and stabilizing exchange rate. The inflows of remittances show decreasing trend since FY16. Remittance earnings decreased by 14.5 percent and 2.5 percent in FY17 and FY16 respectively compared to the previous fiscal years. Monthly data on remittance inflows show that remittances decreased in every month during FY17 except the month of May as compared to those in FY16 (chart). Recent slowdown of remittance inflows is not just because of weakened demand for workers in major labor hosting countries, but also fall of oil revenues in Middle East countries, increase of digital hundi (using apps and softwares) and depreciation of foreign currencies against dollar in many labor importing countries.

The slowdown in remittances has some implications in the economy of Bangladesh. The repeated fall of remittances in last two years has affected the current account balance (CAB) negatively. CAB showed a significant amount of deficit of USD 1480 million in FY17 from a surplus of USD 4262 million in FY16. In foreign exchange market, the decline in remittances has partly led to an excess demand which pushed up depreciation of exchange rate. Exchange rate depreciated by 2.81% and 0.77% in FY17 and FY16 respectively. Remittances as a share of GDP also exhibits a declining trend in recent years due to decreasing growth, worsening its significant role on the economy. Remittances as percentage of GDP declined gradually from 8.2 in FY14 to 5.17 in FY17.

For boosting up remittances, Bangladesh Bank has recently taken some steps include simplifying the approval policy of drawing arrangements between foreign exchange houses and domestic banks, permitting banks to distribute remittances through countrywide different outlets of mobile operators, instructing banks to establish Remittance Help Desk in all branches, enhancing housing finance facilities for the expatriates, etc. All these steps alongwith the legal actions taken by the Government of Bangladesh in some source countries against using informal channel for sending remittance might have positive impact to increase remittance in formal channel to Bangladesh.

1 Migration and Remittances Factbook, 2016, World Bank.
2 Migration and Development Brief 27, April 2017, World Bank.

and plastic goods manufacturer. However, this limit is maximum USD 15.00 million for leather goods & footwear, ceramic wares, dyed yarn, agro-food processing, bicycle and USD 2.00 million for accessories and packaging and USD 1.00 million for plastic goods manufacturers.

11.20 The interest rate on Export Development Fund (EDF) is six month USD LIBOR+2.5 percent. Out of that, Bangladesh Bank's portion is LIBOR + 1 percent and the rest 1.5 percent is for commercial banks.

11.21 In general, the reimbursement from the EDF is initially made for a tenor of 180 days with a provision for further extension of 90 days, if required for delay in repatriation of related export proceeds of the exporter concerned.

11.21 On revolving basis, the total disbursement from EDF in FY17 stood at USD 5.34 billion which was USD 3.84 billion in FY16. The outstanding balance at the end of June 2017 stood at USD 2.46 billion which was USD 1.69 billion in the previous year.

Imports

11.22 Import (fob) in FY17 stood at USD 43491.0 million (Table 11.2) achieving a higher growth of 9.0 percent compared to USD 39901.0 million in FY16. Import of food grain recorded a significant growth of 21.2 percent in FY17 mainly due to increase of wheat import. Import (landed) for food grains stood at USD 1286.4 million in FY17 compared to USD 1061.8 million in FY16. Import of other food items increased by 19.9 percent to 4240.4 million in FY17 from USD 3536.0 million in FY16. Except negative growth of oil seeds (19.0 percent), all other items showed positive growth. Consumer and intermediate goods increased by

Table 11.2 Composition of merchandise imports

(based on customs records)

(million USD)

Items	FY16	FY17[P]	% changes
A. Food grains	1061.8	1286.4	21.2
1. Rice	112.8	89.3	-20.8
2. Wheat	949	1197.1	26.1
B. Other food items	3536	4240.4	19.9
1. Milk & cream	216	253.6	17.4
2. Spices	199.6	268.9	34.7
3. Oil seeds	534.1	432.4	-19.0
4. Edible oil	1450	1625.6	12.1
5. Pulses (all sorts)	479.9	671.4	39.9
6. Sugar	656.4	988.5	50.6
C. Consumer and intermediate goods	20432.3	21359.8	4.5
1. Clinker	573.9	643.8	12.2
2. Crude petroleum	385.8	477.6	23.8
3. POL	2275.4	2897.6	27.3
4. Chemical	1853.1	1975.5	6.6
5. Pharmaceutical products	237.2	245.6	3.5
6. Fertiliser	1116.9	737.4	-34.0
7. Tanning & dyeing extracts	586.7	606.7	3.4
8. Plastics & rubber articles thereof	1951.1	2220.3	13.8
9. Raw Cotton	2244.9	2528.9	12.7
10. Yarn	1968.7	1971.8	0.2
11. Textile & articles thereof	6220.5	6038	-2.9
12. Staple fibre	1018.1	1016.6	-0.1
D. Capital goods and others	18092.4	20118.6	11.2
1. Iron, steel & other base metal	3235.7	3771	16.5
2. Capital machinery	3555.5	3816.8	7.3
3. Others	11301.2	12530.8	10.9
Total Import (cif)	43122.5	47005.2	9.0
Of which EPZ	3286.9	3190.7	-2.9
Total Import (fob)	39901.0	43491.0	9.0

[P] Provisional
Source: Compiled by Statistics Department, BB using data of NBR.

4.5 percent to USD 21359.8 million in FY17 from USD 20432.3 million in FY16. All items of capital goods and others categories recorded a high growth of 11.2 percent to USD 20118.6 million in FY17 from USD 18092.4 million in FY16. Imports by EPZ decreased by 2.9 percent to USD 3190.7 million in FY17 compared to USD 3286.9 million in FY16.

Terms of Trade

11.23 The terms of trade was 87.11 in FY17 which was the same as in FY16. The growth of export price index and import price index remained same at 5.5 percent during the year (Table 11.3).

Workers' Remittances

11.24 For the external sector development finance, workers' remittance is an important phenomenon. To strengthening the current account balance of the country, the inflow of remittance from Bangladeshi nationals working abroad has been playing an essential role. The remittance registered an amount of USD 12591.0 million in FY17 which was 14.5 percent lower compared to USD 14717.0 million in FY16. The shortfall of remittance was mainly due to the decrease of oil revenues, increase of digital hundi (using apps and software) and fiscal tightening in the GCC countries. To encourage and in sending money in the formal channel, Bangladesh Bank has reduced the security deposit requirement for the exchange houses abroad to establish drawing arrangements with local banks. Presently, commercial banks have 1159 drawing arrangements with more than 250 exchange houses all over the world for collecting remittances. For better control on the remittance collection, establishment of exchange houses/branch offices abroad by local banks is being encouraged. Under this arrangement, some banks have already established 29 exchange houses/ subsidiaries abroad to collect remittances by their own.

11.25 In addition to their own bank branches and ATM booths, banks are now using the branch networks of the MFIs and Post Offices as the sub agent for remittance distribution. Remittances are also distributed through agent banking like Singer Bangladesh Limited outlets. Furthermore, Bangladesh Bank has established a separate department titled 'Financial Integrity and Customer Interest Protection Department' to handle any complaints and suggestions by the customers or any stakeholders at home and abroad to ensure smooth and hassle free services. Banks are instructed to ensure the delivery of remittance to the beneficiaries within 2 (two) working days.

11.26 There is always a high demand for loans by the NRBs. Bangladesh Bank recently allowed loan facility upto 75 percent of the bonds (Wage Earners Development Bond, US Dollar Investment Bond, US Dollar Premium Bond) holdings of NRBs. Moreover, housing loan for NRBs is also available from the commercial banks. Banks are instructed to open "Remittance Help Desk" in all branches for better remittance services.

11.27 Bangladesh receives the lion's share of remittances from the Middle East

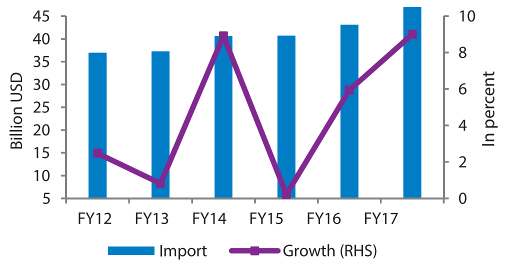
Table 11.3 Trends of Terms of Trade of Bangladesh

(FY06=100)

Year	Export price index	Import price index	Commodity terms of trade
FY08	116.34	131.42	88.53
FY09	125.13	140.35	89.16
FY10	132.64	148.32	89.43
FY11	146.41	166.51	87.93
FY12	151.71	176.44	85.98
FY13	163.04	189.62	85.98
FY14	172.09	200.37	85.89
FY15	182.40	212.37	85.89
FY16	195.95	224.94	87.11
FY17	206.76	237.36	87.11

Source: Bangladesh Bureau of Statistics.

Chart 11.5 Trends of Import Payments



Source: Compiled by Statistics Department, BB using data of NBR.

Box No. 11.3 A note on introduction of international factoring in Bangladesh

In open account method of trade transaction, the buyer usually pays the seller within 30-90 days after receiving the goods. Factoring is a method of financing the seller under open account against invoice during this interim period.

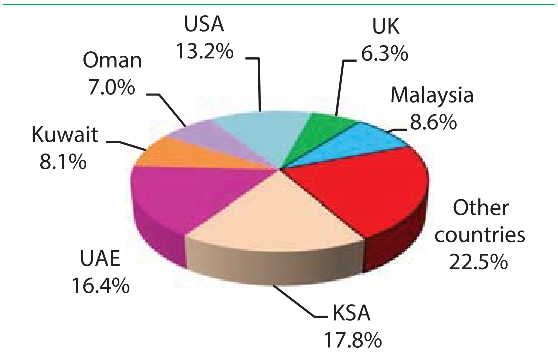
The prevailing Export Policy encourages factoring services for export financing. In 2015, an international seminar on factoring was arranged by the International Chamber of Commerce, Bangladesh and participated by different stakeholders. Following the seminar, Bangladesh Bank (BB), at the request of stakeholders, formed a Core Committee consisting of representatives from all the relevant stakeholders to formulate an effective factoring policy.

The first meeting of the Core Committee attended by the representatives of all stakeholders was held on 18 August, 2015. According to the decision of the meeting, a Technical Committee consisting of seven members was formed to prepare a report with specific recommendations about factoring by consulting all the stakeholders. Upon receipt, the report was published on BB website as draft guidelines on factoring to be reviewed by the banks and all the concerned stakeholders. To conduct an in-depth discussion about the opinions and observations provided by the banks, a meeting of the Core Committee was held on June 13, 2017. The Committee decided to discuss the practical difficulties of factoring with the officials of the trade services departments banks conducting majority of import and export trade.

Accordingly, a meeting was held on July 13, 2017 where the requirement of bills of exchange in international trade under factoring mechanism was discussed in light of the Section 17 and 19 of the Stamp Act, 1899 and transport documents title to cargo. It was unanimously decided in the meeting that a legal expert be consulted on the matter of applicability of stamp duty on invoice assignment under factoring and comments for stakeholders (BGMEA & BKMEA) could be sought. The subsequent steps would be taken after receiving the opinion of the legal expert and from BGMEA & BKMEA.

countries. During FY17, the highest amount (17.8 percent) of remittance came from Saudi Arabia followed by the United Arab Emirates (UAE) (16.4 percent), United States of America (13.2 percent), Malaysia (8.6 percent), Kuwait (8.1 percent), Oman (7.0 percent) and United Kingdom (6.3 percent). All other countries contributed to 22.5 percent of total remittances over the same period. Country wise wage earners' remittances during FY17 is shown in Chart 11.6

Chart 11.6 Country wise Wage earners' remittances in FY17



Source: Bangladesh Bank.

Foreign Aid

11.28 Total official foreign aid receipts decreased by 0.9 percent to USD 3531 million in FY17 from USD 3564 million received in FY16 (Table 11.4). Total foreign aid commitment during FY17 was USD 17849 million. Food Aid disbursement stood at USD 20 million in FY17, which was USD 32 million in FY16. The disbursement of Project Aid stood at USD 3512 million in FY17 which was USD 3532 million in FY16. Total outstanding official external debt as of 30 June 2017 stood at USD 28566 million (11.4 percent of GDP in FY17) against USD 26306 million as of 30 June 2016 (11.9 percent of GDP in FY16). Repayment of official external debt and services amounted to USD 1144 million (excluding repurchases from the IMF) in FY17. This was USD 93.8 million or 8.9 percent higher than the repayment of USD 1051 million in FY16. Out of the total repayments, principal payments amounted to USD 913 million while interest payments stood at USD 231 million in FY17, against USD 848 and USD 202 million respectively in FY16. The debt service payment as percentage of exports stood at 3.4 percent in FY17 which was 2.0 percent in FY16.

Foreign Exchange Market Operations and Exchange Rate Movements

11.29 The domestic foreign exchange market remained stable up to the first quarter of the FY17 and Bangladesh BDT started to depreciate against US Dollar from the second quarter due to downturn of wage earners remittance and export receipts vis-à-vis growth of import payments. At the beginning of FY17, exchange (end period) rate was BDT 78.40 and at end June it stood at BDT 80.59, resulting 2.81 percent depreciation of BDT against USD. To minimize the abrupt movement of exchange rate, as a facilitator in the market, Bangladesh Bank (BB) intervened in the domestic foreign exchange market through buying US Dollar from the scheduled commercial banks and selling US Dollar to ensure the legitimate payment of the scheduled commercial banks. As a result, the scenario started to change from November 2016. However, with prudent management and oversight of Bangladesh Bank, stability and smooth operation of the market was maintained with adequate liquidity throughout FY17. In FY17, BB purchased USD 1.93 billion from domestic inter-bank foreign exchange market with a view to ensure stability of exchange rate of BDT by absorbing excess liquidity as against USD 4.13 billion in the previous fiscal year. To meet the payment obligations of government and others, BB also sold USD 0.18 billion in the domestic inter-bank market during FY17 whereas no sale of foreign currency was required in FY16.

Table 11.4 Foreign aid receipts and debt repayments*

(million USD)

Particulars	FY15	FY16R	FY17P
1. Receipts	3043	3564	3531
i) Food aid	38	32	20
ii) Project aid	3006	3532	3512
2. Repayments (MLT)	1097	1051	1144
i) Principal	909	848	913
ii) Interest	188	202	231
3. Outstanding external debt as of end June	23901	26306	28566
4. Outstanding debt as percentage of GDP	12.3	11.9	11.4
5. External debt services (MLT) as percentage of exports	2.2	2.0	3.4

P Provisional, R Revised.
*Excluding transactions with the IMF.
Source: Economic Relations Division, Ministry of Finance.

Table 11.5 Trends of Gross foreign exchange reserves of the Bangladesh Bank

(End month, million USD)

Months	FY13	FY14	FY15	FY16	FY17
July	10570	15534	21384	25469	30039
August	11435	16252	22070	26175	31165
September	11252	16155	21837	26379	31386
October	12340	17346	22313	27058	31895
November	11754	17106	21590	26408	31371
December	12751	18095	22310	27493	32092
January	13077	18119	22042	27139	31724
February	13848	19151	23032	28059	32557
March	13971	19295	23053	28266	32215
April	14829	20370	24072	29106	32519
May	14531	20268	23708	28803	32246
June	15315	21508	25026	30168	33407

Source: Accounts and Budgeting Department, BB.

Foreign Exchange Reserves

11.30 The gross foreign exchange reserves held by BB comprises foreign exchanges, holdings of gold and Special Drawing Rights (SDR) with the IMF. At the beginning of FY17, foreign exchange reserves was 30.13 billion which grew steadily (10.89 percent) throughout the year and touched the mark of USD 33 billion on 21 June 2017 and reached at USD 33.41 billion at the end of FY17. BB applies its best efforts to ensure optimum return from forex reserve investment by diversifying the foreign asset portfolio in bonds (issued by sovereign, supranational and highly reputed foreign commercial banks), treasury bills and notes of US Government and in short term deposits with internationally reputed foreign commercial banks. BB also participates in Repo operation of New York Fed which attracts reasonable returns with very low level of risk. Apart from these, BB provides foreign currency support from reserves to exporters to bolster export through Export Development Fund (EDF). In addition, with the assistance of International Development Association (IDA), BB provides long term financing needs of the manufacturing sector of Bangladesh by a separate window named Long Term Financing Facility (LTTF).

Reserve Management Strategy

11.31 BB's reserve management strategy and operational procedures influence strongly in both the developments of domestic and international financial markets as well as various key aspects of the macroeconomic policy stances (such as- monetary policy framework, the exchange rate policy & regime, external debt position and geo-political scenario). Currently, reserve management operations are carried out following the Reserve Management Guidelines (RMG) approved by the Board of Directors of BB.

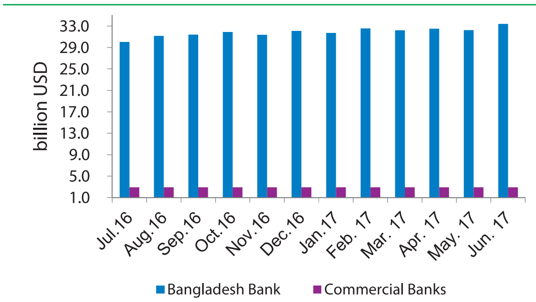
Table 11.6 Receipts and payments of Bangladesh under the ACU

(million USD)

Head of transaction	FY15	FY16	FY17	% change
1. Receipts (Export)	115.49 (8.99)	127.79 (10.02)	183.60 (14.80)	43.67
2. Payments (Import)	5748.87 (447.26)	5579.88 (437.46)	5996..92 (483.34)	7.47
Net: Surplus (+)/ Deficit (-)	-5633.38 (-438.28)	-5452.09 (-427.44)	-5813.32 (-468.55)	6.63

1 ACUD = 1 USD; 1 USD = 80.5988 BDT.
Note: Figures in parentheses indicate BDT in billion.

Chart 11.7 Movements of Liquid foreign exchange holdings abroad in FY17



Source: Bangladesh Bank.

Table 11.7 Outstanding principal liabilities against the facilities received from the IMF

(million SDR)

Facility	Outstanding Principal liabilities as of end June 2016	Amount Drawn/ purchased during FY17	Installment repayment in FY17	Outstanding Principal liabilities as of end June 2017
PRGF, June 2003	3.38	0.00	3.38	0.00
ECF , April 2012	639.96	0.00	0.00	639.96
Total :	643.33	0.00	3.38	639.96

Source: Forex Reserve and Treasury Management Department, BB.

Reserves are held to provide external stability, to ensure smooth payment obligations and to maintain stability of the domestic currency. To contain counterparty risks at minimum, BB has invested its reserves with a number of internationally reputed central and commercial banks having strong credit rating assigned by the international rating agencies (Standard and Poor's, Moody's & Fitch). With a view to minimizing exchange rate risk and ensuring the value of reserves, currency composition has been diversified among the major currencies and is being reviewed periodically to keep pace with developments in monetary and exchange rate policy of international arena. Reserves have been divided into two distinct tranches viz: liquidity and investment tranche to meet payment obligations of government and others by maintaining adequate liquidity as well as to achieve overall duration to generate optimum return.

11.32 Investment duration and currency benchmark, as set out in the RMG, are carefully followed to minimize interest rate and exchange rate risks, while reserve management and investment functions have been segregated among three independent reporting units viz., Front Office, Middle Office and Back Office to mitigate operational risks. However, in line with the stipulated liquidity restrictions and market & credit risk limits, BB diversified its portfolio investments into gold, Treasury bills, repos, short-term deposits, and high-rated sovereign, supranational, and corporate bonds. BB has always been maintaining a prudent and vigilant approach regarding placement of funds in reputed overseas commercial banks and investments in securities out of its foreign exchange reserves.

Transactions under the Asian Clearing Union (ACU)

11.33 Total transactions of Bangladesh under the Asian Clearing Union (ACU) during FY17 decreased in terms of net volume compared with the preceding year. Receipts significantly increased from ACUD 127.79 million (BDT 10.02 billion) to ACUD 183.60 million (BDT 14.80 billion) and import payments decreased from ACUD 5579.88 million (BDT 437.46 billion) to ACUD 5996.92 million (BDT 483.34 billion) with the ACU member countries during FY17. The ACU transaction scenario shows that the overall position of Bangladesh remained a net debtor during FY17. The debtor position of Bangladesh decreased by ACUD 361.23 million or 6.63 percent to ACUD 5813.32 million (BDT 468.55 billion) in FY17 compared to ACUD 5452.09 million (BDT 427.44 billion) in the preceding year. Receipts and payments of Bangladesh under ACU arrangement during the last three years are shown in Table 11.6.

Transactions with the IMF

11.34 The IMF Executive Board approved a three-year arrangement equivalent to a total of SDR 640.0 million for Bangladesh under the Extended Credit Facility (ECF) in April 2012. The IMF has released 6th installment (amount of SDR 182.85 million) of ECF in FY16 while the outstanding principal liabilities of ECF stood at SDR 639.96 million as on June 30, 2017. Under the PRGF loan facility, Bangladesh repaid the total outstanding amount and made the PRGF liability zero at the end of the FY17. The total principal outstanding liabilities to the IMF at the end of June 2017 stood at SDR 639.96 million and total service charges paid to the IMF during FY17 amounted to SDR 0.96 million (Table 11.7). At the end of FY17, IMF allocation of SDR stood at SDR 510.4 million and quota was SDR 1066.60 million. Holding of SDR with IMF at the end of FY17 was SDR 968.93 million.

Changes in Foreign Exchange Regulations

11.35 Bangladesh Bank in its ongoing endeavor to further ease the foreign exchange regulations embarked upon the following notable changes during FY17:

- **Release of foreign exchange to private sector participants for attending seminars, conference, workshops etc. abroad:** The limit of releasable foreign exchange to private sector participants for attending seminars, conferences, workshops, training, etc. abroad on per diem basis has been enhanced to USD 350 for SAARC member countries or Myanmar and USD 400 for other countries.

- **Payments through Asian Clearing Union (ACU): As the payment :** Channel for processing 'ACU Euro' transactions has been suspended by some correspondents, Authorised Dealers are advised to suspend operations in 'ACU Euro' temporarily. Accordingly, permission has been given to all eligible current account transactions in 'ACU Euro' to be settled outside the ACU mechanism until further notice.

- **Repatriation of export proceeds through Online Payment Gateway Service Providers:** The maximum limit per transaction of the repatriation of service export related payment through Online Payment Gateway Service Providers (OPGSPs) has been enhanced from USD 2000 to USD 5000.

- **Release of foreign exchange against cost of agent services of legal process under The USA PATRIOT Act of 2001:** Authorised Dealers can remit towards cost of agent services of legal process under the USA PATRIOT Act of 2001 to open a nostro account in the USA.

- **Facilitating establishment of Drawing Arrangement between the Exchange House abroad and the Bank operating in Bangladesh:** To facilitate the establishment of drawing arrangement between the exchange house abroad and the bank operating in Bangladesh, the minimum limit for security deposit to establish drawing arrangement by Electronic Fund Transfer (EFT) method has been decreased from USD 25000 to USD 10000 in foreign currency and from BDT 500,000 lakh to BDT 200,000 lakh.

- **Issuance of International Debit/ Prepaid Card against balances held in Foreign Currency Accounts of Export Processing Zones (EPZs) and Economic Zones (EZs) Enterprise:** In order to enhance the scope of business travel abroad by officials of enterprises located in EPZs and EZs, card issuing banks are allowed to issue International Debit/Prepaid card upto three (3) top tier officials of concerned enterprise against balances held in foreign currency accounts. EPZs and EZs enterprises can avail such card facility from one card issuing bank only.

- **Access of short term foreign currency borrowing by Type A industries in Export Processing Zones (EPZs)/ Economic Zones (EZs):** Type A industries in Export Processing Zones (EPZs)/

Economic Zones (EZs) are allowed to access short term foreign currency loans from parent companies/shareholders abroad and other Type A subsidiaries/ associates operating in EPZs/EZs.

- **Use of balances held in Exporter's Retention Quota Accounts:** In order to keep minimum involvement of Authorised Dealers (AD's) own fund for settlement of import, ADs maintaining Exporter's Retention Quota (ERQ) accounts are allowed to transfer fund from ERQ accounts to other ADs of same exporters or their subsidiaries/sister concerns for settlement of import payment. The transferable fund can be used only for the settlement of import payments.

- **Opening of Non-Resident Foreign Currency Deposit Accounts:** Non-resident Bangladesh nationals (NRBs), after their return to Bangladesh, are allowed to open Non-Resident Foreign Currency Deposit (NFCD) accounts with ADs to credit their retirement benefits, periodical pensions, superannuation benefits etc. as per employment agreement with employers while on service abroad. The balances held in the accounts can be used for settlement of legitimate payment abroad.

- **Remitting fee on account of medical check-up for migrant workers:** ADs are allowed to remit the fee to the Bank Account of the beneficiaries on account of registration fee for medical check-up services to migrant workers subject to production of invoices specifying details of the check-up by persons and deduction of applicable taxes.

- **Validity of Letter of Credit Authorization Form (LCAF):** To facilitate the remittances for import payment against expired LCAF which are restricted without obtaining its revalidation, ADs are allowed to effect remittances within 30 months of LCAF issuance against import of capital machinery without obtaining its revalidation. Revalidation of LCAF will not be required for remittances against import out of fund held in foreign currency accounts of importers maintained under general or special authorisation from Bangladesh Bank.

- **Re-conversion of unspent BDT into foreign exchange by foreign tourists:** In order to facilitate the re-conversion by foreign tourists, any licensed Money Changers (MC) whether it encashed earlier or not are allowed to reconvert the unspent Bangladesh BDT belonged to the tourist within the permissible limit.

- **Issuance of shares in favour of non-residents by debit to non-resident BDT accounts of overseas branches and correspondents:** Authorised Dealers maintain non-resident BDT accounts in the names of their overseas branches and correspondents against inward remittance in convertible foreign currencies are allowed to issue shares in favour the non-residents by debiting the non-resident BDT accounts. ADs will issue certificate in support of the payment from such account for purchase of shares in Bangladeshi companies.

- **Issuance of guarantee on behalf of non-residents in favour of residents in Bangladesh:** Authorised Dealer banks are allowed to issue guarantee, bid bond or performance bond in local currency against BDT equivalent on behalf of a non-resident firm/company favouring residents in Bangladesh provided a back to back foreign currency guarantee with suitable coverage for exchange rate fluctuation from counter guarantee issuing banks abroad.

- **Lending in BDT working capital loans to foreign owned/controlled companies in Bangladesh:** To widen the scope of BDT working capital loans for foreign owned/controlled companies operating in Bangladesh, resident persons/companies are allowed to purchase commercial papers (CPs) issued by such companies.

- **Foreign exchange transactions for IT/ Software firms:** Besides, usage from the usual exporters' retention quota (ERQ), remittable limit of IT/Software firms to meet their bonafide expenses has been enhanced from USD 25000 to USD 30000 in a calendar year. Within the limit of USD 30000, the limit for payment through international cards has also been enhanced from USD 2500 to USD 6000.

- **Purchase by Bangladesh residents of BDT bonds issued by foreign owned/ controlled companies in Bangladesh:** Individuals and institutions resident in Bangladesh are allowed to purchase BDT bonds issued with permission from the Bangladesh Securities and Exchange Commission by foreign owned/controlled companies in Bangladesh.

- **Repatriation of ICT related service income through international card:** Authorized Dealers (ADs) are permitted to issue and repatriate inward remittances against ICT related services through international card against the services provided by individual developers/ freelancers.

- **Use of balances held in exporter's retention quota (ERQ) accounts:** ADs are allowed to use balances held in ERQ accounts or by fund of unencumbered foreign currency transferred from ERQ accounts maintained with other ADs of the same borrowers on account of repayment of foreign loan. Such remittances may also be effective by nominated ADs out of fund transferred from ERQ accounts of borrowers' subsidiaries/sister concerns.

- **Release of foreign exchange for study abroad:** For study of Bangladeshi students, ADs are allowed to release foreign exchange in permissible courses abroad in favour of the designated intermediary payment processing entity provided. They can remit their fees, charges, etc. according to their designated entity.

- **Operations of BDT Accounts for enterprizes of Export Processing Zones (EPZs) and Economic Zones (EZs):** Besides, encashment from FC accounts, BDT accounts of Type B & Type C industrial units of EPZs are allowed to be credited with authorised payment received in BDT. This clarification is also applicable for transactions in BDT accounts by Type B and Type C enterprizes of EZs.

Anti-money Laundering Surveillance

11.36 To achieve the financial stability in the modern economy, Money Laundering (ML) operations and financial crimes has become an important issue, due to the increasing instruments and vast activities of financial sector. Money Launderers attempt to conceal their real identity to financial sectors with their polished, articulated and disarming behaviour convert their dirty money into white money. Therefore, strong Anti Money Laundering and Combating the Financing of Terrorism (AML & CFT) measures prevent money launderers to abuse financial channels.

Being the national central agency and coordinator of all kinds of AML/CFT activities, Bangladesh Financial Intelligence Unit (BFIU) has taken a number of initiatives in order to prevent Money Laundering and combat against Terrorism Financing during FY17. Notable of them are mentioned below:

Reporting Agencies and their Regulatory Regime

- For all scheduled banks, BFIU has revised Uniform Account Opening Form that includes a new format for Know Your Customer (KYC), Transaction Profile, Customer's Risk Grading and Account Opening Form.
- BFIU has drafted Uniform Account Opening Form for all Insurance Companies which is going to be circulated within a short span of time.
- BFIU is in the process of revising its Master Circular (BFIU Circular No. 10) for banks incorporating some technical gaps mentioned in Mutual Evaluation Report (MER), 2016 of Asia Pacific Group on Money Laundering (APG).

Receiving and Dissemination of Suspicious Transaction Report (STR)

11.37 BFIU received 1655 Suspicious Transaction Reports (STRs) and 272 complaints during FY17. Out of those BFIU disseminated 282 to LEAs for further actions. BFIU has been monitoring the status of these cases from time to time.

National Initiatives

- BFIU along with all stakeholders conducted ML & TF risk assessment on Mobile Financial Services.
- BFIU with the technical assistance from World Bank conducted risk assessment on Financial Inclusion Product like School Banking, 10 BDT Farmer's Account and Account for Street Children.
- National Board of Revenue (NBR), Anti-Corruption Commission (ACC) and Ministry of Home Affairs (MoHA) have taken initiatives to formulate risk assessment of 'Smuggling and Trade Based ML', 'Corruption and Public Procurement' and 'TF including Foreign Terrorist Fighter' respectively with the help of BFIU as per recommendations mentioned in Bangladesh MER, 2016.

International Cooperation

- BFIU has signed 51 (till June, 2017) Memorandum of Understanding (MoU) so far to exchange of information related to ML/TF with FIUs of other countries, among them 8 (eight) MoU have been signed in FY17 (Surinam, Canada, Cyprus, Portugal, Finland, Egypt, Poland and Iceland).

- During FY17, BFIU has received 17 requests from the FIU of different countries and provided the information accordingly. BFIU also made 31 requests to the FIU of different countries.

Awareness Building Programmes

- Bangladesh Financial Intelligence Unit has continued its effort to create awareness among the officials of different reporting organisations. It has encouraged the banks to conduct a number of training programmes for their officials on AML/CFT in 56 districts and provided its support to make the programme successful.

- To encourage and provide its support to other reporting organisations, BFIU has organised Chief Anti Money Laundering Compliance Officers (CAMLCO) Conference for all banks, all financial institutions and Capital Market Intermediaries (CMI), regional conferences/ trainings for banks, joint training programmes for insurance companies and CMIs, and workshops/ trainings for law enforcement agencies (LEAs), regulators and other stakeholders in FY17.

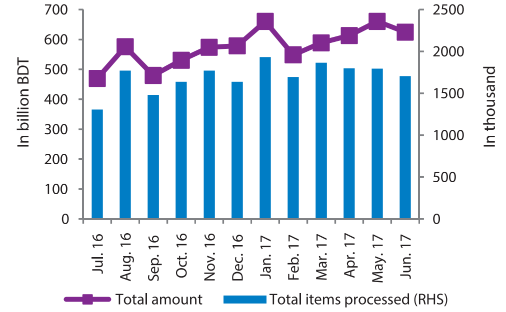
Participation in different International and local conference/meeting/workshops

11.38 For prevention of money laundering (ML) and combating terrorist financing (TF) and proliferation financing (PF) BFIU, as the central agency of the country, has been maintaining continued engagement with all the international bodies such as APG, Egmont Group, FATF and BIMSTEC to boost international efforts in this arena. Bangladesh actively participated in various international initiatives undertaken by these organisations and other foreign FIUs in FY17. Furthermore, as the main coordinating agency for prevention of ML, TF and PF, BFIU actively participated in a number of local conference/ meeting/ workshops arranged by other government agencies.

Payment and Settlement Systems

12.1 Efficient payment and settlement systems promote economic development and growth. Payment and settlement systems play a crucial role in the management of a market economy and in the effective implementation of monetary policy. The healthy growth of the financial market infrastructure is achieved through safe and efficient payment and settlement systems ensuring fast and secured transfer of money and financial instruments using modern technological innovations. By delivering the financial services in the rural and remote areas, it also helps the financial inclusions and boosts up the economic momentum and development thereby.

Chart 12.1 Number of regular value cheque and amount



Source: Payment Systems Department, Bangladesh Bank.

Functional Areas of Payment Systems

12.2 Bangladesh Bank has undertaken various efforts to upgrade existing payment systems with focus on the capacity building necessary to define a long-term strategy for payments in Bangladesh. Considering the importance of having a state- of-the-art of payment and settlement systems for Bangladesh, Payment Systems Department (PSD) of Bangladesh Bank (BB) has been working for the development of country's payment systems since 2006. In this context, Bangladesh Bank has gradually developed payment systems strategy, automated cheque processing system, electronic funds transfer, national payment switch, real time gross settlement, mobile financial services, e-commerce, m-commerce, legal & regulatory framework and appropriate oversight policy for the safe, efficient and smooth operation of technology based payment systems in alignment with international standard. It will enhance faster economic growth and provide for all citizens of Bangladesh an easy access to banking system.

Traditional Payments Scenario

12.3 The earlier traditional paper-based payment systems was semi-automated, time-consuming and risk-prone. The system was not at par with international best practices. Four payment and settlement systems had been in operation in Bangladesh prior to BACH inception. The instruments like cheques, bank drafts, pay orders, dividend & refund warrants, etc. were being cleared through the manual clearing houses. Apart from such non-cash payment instruments, credit card and debit card transactions through ATMs and POS are becoming popular specially, in the urban areas.

Payment Platforms Operating at Present

12.4 Bangladesh Automated Cheque Processing System (BACPS) started its live operation since October 07, 2010 as the first step of modern electronic payment and settlement systems in the country. Later on, Electronic Funds Transfer, National Payment Switch Bangladesh (NPSB), e-Commerce, Mobile Financial Services, m-Commerce and Real Time Gross Settlement (RTGS) system joined the BACPS to further modernize the payment and settlement systems. These payment platforms are briefly described in the following sections.

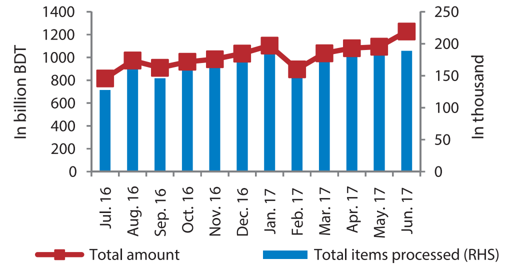
Bangladesh Automated Clearing House (BACH)

12.5 BACH has two components - the Automated Cheque Processing System and the Electronic Funds Transfer. Both the systems operate in batch processing mode. Transaction instruments or instructions received from the banks during the day are processed at a pre-fixed time and settled through a single multilateral netting figure on each individual bank's respective book maintained with the Bangladesh Bank. A Virtual Private Network (VPN) between the participating commercial banks and the Data Centre (DC) & Disaster Recovery Site (DRS) of Bangladesh Bank has been serving as a link for communication among the participants for necessary information relating to BACH. Digital Certificates are issued by BACH authority ensuring data communication.

Bangladesh Automated Cheque Processing System (BACPS)

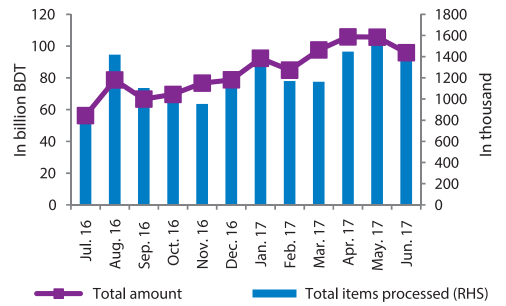
12.6 BACPS uses the Cheque Imaging and Truncation (CIT) technology for clearing the paper-based instruments, i.e. cheque, pay order, dividend & refund warrants, etc electronically. The system is based on a centralized processing centre located in Dhaka and in designated clearing regions and supports both intra-regional and inter-regional clearing .

Chart 12.2 Number of high value cheque and amount



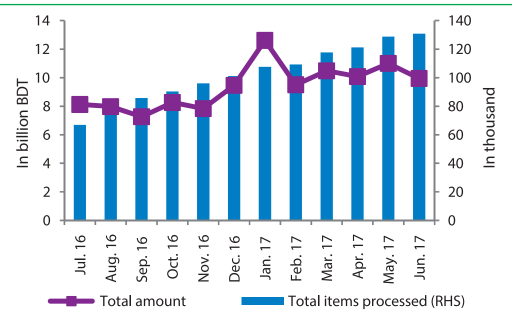
Source: Payment Systems Department, Bangladesh Bank.

Chart 12.3 Number of credit entries and amount



Source: Payment Systems Department, Bangladesh Bank.

Chart 12.4 Number of debit entries and amount



Source: Payment Systems Department, Bangladesh Bank.

The system not only represents the most cost effective solution for cheque processing throughout the country but also conforms to the international best practices in clearing and settling.

BACPS Transaction Status

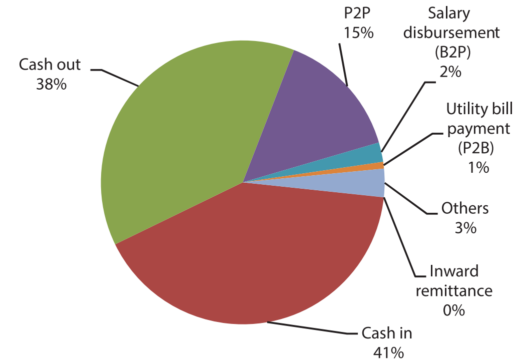
12.7 During FY 2017, total 20.40 million regular and 2.09 million high value cheques and other instruments valued at BDT 6903.23 billion and BDT 12119.36 billion respectively were cleared. The clearing cycle has been brought down to t+1 for regular value cheques and t+0 for high value cheques throughout the country. Chart 12.1 and Chart 12.2 show the trends of the number of instruments and amount cleared in respect of regular and high value cheques respectively in FY17.

Bangladesh Electronic Funds Transfer Network (BEFTN)

12.8 BEFTN started its 'Live Operation with credit transactions from February 28, 2011 with a view to encouraging paper-less electronic payment methods for secured, faster & cost-effective transactions specially at the corporate levels. Later the network started its operations with debit transactions from 15 September, 2011.

BEFTN has become the faster and efficient means of inter-bank clearing system over the existing paper-based system. A wide variety of credit transfers, such as, payroll, foreign and domestic remittances, social security, company dividends, retirement benefits, expense reimbursements, bill payments, corporate payments, government tax payments, veterans payments, government licence fees and person to person payments as well as debit transfers, such as, mortgage payments, membership dues, loan repayments, insurance premiums, utility bill payments, company cash concentration, government tax payments, government licences fees are settled under the network. Till June 30, 2017, officials of 57 ministries are receiving their salary through this system. Besides, salary of the officials of other government agencies of Chittagong and Rajshahi Divisions are being distributed through EFT.

Chart 12.5 Market share of different services in MFS in June 2017



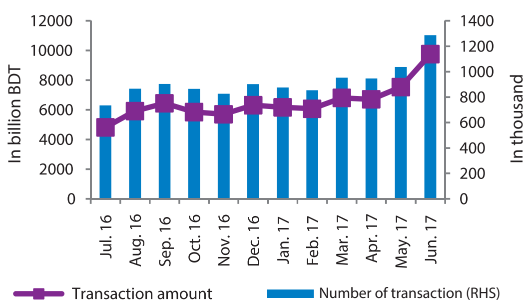
Source: Payment Systems Department, Bangladesh Bank.

Table 12.1 Present scenario of MFS in Bangladesh

Months	No. Agent (in thousand)	No. of registered customers (in million)	No. of transaction (in million)	Transaction amount (in billion)
July 16	610.00	36.58	119.53	176.4
Aug 16	633.29	37.31	123.63	203.4
Sep 16	641.11	37.98	117.68	194.7
Oct 16	671.34	38.95	128.50	206.9
Nov 16	690.00	39.60	129.57	219.3
Dec 16	710.03	41.08	133.73	232.1
Jan 17	724.76	41.93	139.63	251.3
Feb 17	696.72	49.85	133.95	222.9
Mar 17	717.05	50.43	151.78	250.5
Apr 17	734.71	51.38	151.08	250.2
May 17	746.48	52.68	152.05	261.7
Jun 17	758.57	53.70	181.93	300.1

Source: Payment Systems Department, Bangladesh Bank.

Chart 12.6 Trends of interbank ATM Transaction



Source: Payment Systems Department, Bangladesh Bank.

Transaction Status of BEFTN

12.9 During FY17, total 14.9 million EFT credit transactions valuing BDT 1,008.5 billion and 1.2 million EFT debit transactions valuing BDT 112.5 billion have been completed through BEFTN. During this period, a positive or increasing trend in credit as well as debit transactions in respect of number and amount has been observed. Chart 12.3 and Chart 12.4 show the trend of EFT credit and debit transactions respectively in FY17.

Mobile Financial Services (MFS)

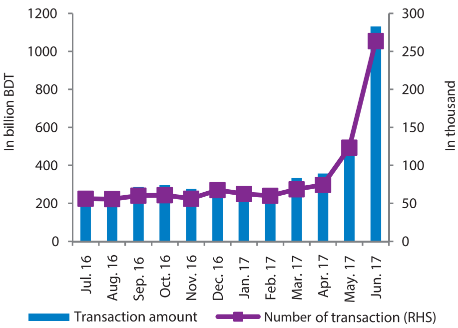
12.10 Rapid countrywide expansion of mobile phone networks and massive modernization of the country's payment systems and financial sector IT infrastructure have opened up opportunities for innovating cost efficient mobile phone based off-branch financial services delivery to the underserved population segments. Utilizing the opportunity, Mobile Financial Services, since inception in 2011, experienced a remarkable growth. MFS becomes a key driver of financial inclusion in transferring money from urban to rural, from privileged to under privileged to fuel the rural economy and in unblocking the advancement opportunities for the unserved and the underserved.

As of June 30, 2017, total 24 banks and 1 subsidiary have been permitted to provide MFS, whereas 16 Banks and one Subsidiary are in operation. Bangladesh Bank permits only bank-led MFS providers to operate in the country.

The permitted Mobile Financial Services in broad categories are as follows:

- Disbursement of Inward foreign remittances (Only the domestic part of transaction, no cross border transaction is permitted);

Chart 12.7 Trends of interbank POS transaction



Source: Payment Systems Department, Bangladesh Bank.

- Cash-in and cash-out using mobile account through agents, bank branches, ATMs and Mobile operator's outlets;
- Person to business payments. e.g. utility bill payments, merchant payments;
- Business to person payments. e.g. salary disbursement, dividend and refund warrant payments, vendor payments, etc;
- Government to person payments. e.g. elderly allowances, subsidies, etc;
- Person to Government Payments e.g. Tax, Levy payments;
- Person to Person Payments (One registered mobile account to another registered mobile account);
- Other Payments like microfinance, overdrawn facility, insurance premium, DPS, etc.

It is crucial for Mobile Financial Services Providers to be enabled technologically to deliver the services and to make the mass people aware of the possible benefits of the system. Massive campaign, wide span network of agents, any time-any place- anywhere nature of the service makes it a household service to most of the people. But Over the Counter (OTC) transactions, fraudulent activities ignited from the lack of knowledge of the customers, high price of the services, and absence of interoperability are areas seeking more careful supervision from regulator and internal control and compliance from operators. With a view to overcoming the concerns mentioned above and providing an orderly, enabling and competitive environment for optimal utilization of the new windows of opportunity for extension of the outreach of mobile financial services, Bangladesh Bank is revisiting the existing guidelines, rules and regulations.

Other information relating MFS

12.11 Bangladesh Post Office (BPO) introduced the "Post e-Pay" service from 5 September 2011 which will gradually be launched in all branches (9886) of the post office in phases with the help of the mobile operators' countrywide network. Clients have to register themselves with the post office to get the services.

As of 30 June, 2017, a total of 0.758 million agents are serving 53.7 million registered customers. And the number of agents and customers are growing. Under the umbrella of Mobile Financial Services (MFS), Inward remittances, Cash-in, Cash-out, P2P transactions, B2P transactions, P2B transactions, etc. are being provided.

National Payment Switch Bangladesh (NPSB)

12.12 In order to facilitate interbank electronic payments originating from different channels like Automated Teller Machines (ATM), Point of Sales (POS) and Internet, etc., Bangladesh Bank introduced National Payment Switch Bangladesh (NPSB) on December 27, 2012. The main objective of NPSB is to act as a mother switch and to connect all child switches (owned and operated either by bank or a non bank entity) ultimately to create a common platform for the switches which settle the electronic payment in Bangladesh. At present, 53 banks are operating card based electronic payment process in Bangladesh. Among those, interbank ATM transactions of 51 banks and POS transactions of 48 banks are being routed through NPSB. Other banks are also likely to join NPSB soon. The number and volume of the interbank ATM and POS transactions through NPSB are growing rapidly. There are sharp rises in transactions in ATM and POS in last couple of months after accommodating branded chip cards' transactions through NPSB. Considering the risks of card-based payments, banks have been advised to introduce chip and PIN, second factor authentication, in the system. Initiatives have been taken to make the internet banking and mobile financial services interoperable under the NPSB. Chart 12.6 and 12.7 show the trends of NPSB interbank ATM and POS transactions in terms of number and amount till 30 June, 2017.

Payment Systems Department (PSD) of Bangladesh Bank is working closely with all banks and stakeholders towards the achievement of digital payment systems as well as digital Bangladesh. NPSB is contributing in popularizing card-based electronic payment in Bangladesh. As a result, number of cards and various card-based payment terminals are growing very fast. Table 12.2 shows growth of card, ATM and POS in Bangladesh.

To ensure safe, efficient and digital payment system, PSD is also working on to formulate and publish national chip specification, NPSB operating manuals, ATM operating guidelines and other regulatory framework.

Real Time Gross Settlement (BD-RTGS) system

12.13 BD-RTGS system went into operation during October 2015 with a vehicle to settle large value time critical payment in the country.

As an electronic payment and settlement system RTGS system is used to facilitate transfer of funds from one account of a bank to that of another bank on a real-time and on gross basis. Settlement in 'real time' means transaction is not subjected to any waiting period. 'Gross settlement' means the transaction is booked in central bank's account on one to one basis without netting with any other transaction. Transactions are settled as soon as they are executed. System is designed to settle high value (more than or equal to 1, 00,000 BDT) local currency transactions as well as domestic foreign currency transactions. It is worthwhile to mention that more than 7000 online branches of 55 scheduled banks are currently connected to this system out of existing 11000 bank branches of 57 banks in the country. The system is currently allowed to handle only local currency transactions and domestic foreign currency transactions are expected to be executed soon. This system also facilitates all other Deferred Net Settlement (DNS) system file to settle the net position in the CBS account. Government initiatives have been taken under ASYCUDA to collect the customs duties through RTGS system and to facilitate the customs clearance process. Trend of the transactions with RTGS in FY 2017 is shown in chart 12.8.

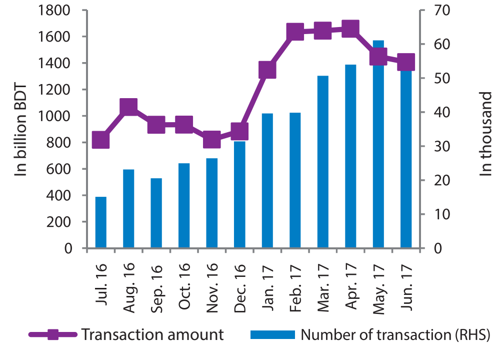
Table 12.2 Number of Card, ATM and POS in Bangladesh

(Thousands)

Terminal	As on 30 April 2016	As on 30 April 2017	Growth (%)
Card	9,852.4	11,513.6	16.9
ATMs	8.3	9.2	10.2
POS	30.4	34.9	14.9

Source: Payment Systems Department, Bangladesh Bank.

Chart 12.8 Trends of RTGS transaction



Source: Payment Systems Department, Bangladesh Bank.

Payment Systems Operator (PSO) and Online Payment Gateway Service Providers (OPGSPs)

12.14 As a growing economy, e-commerce and online purchases are gradually getting popular and increasing in the country. Online Payment Gateway Service Providers (OPGSPs) play a crucial role for settling the payment leg of e-commerce and online purchases. Considering the market demand, Bangladesh Bank has permitted 05 (five) organizations to work as Payment Systems Operator (PSO) to facilitate the payment leg of the e-commerce and online purchases. Banks are now allowed to offer the facility of receiving remittances against small value service exports in non-physical form such as data entry/data process, off-shore IT service, business process outsourcing etc. The exporters of the above services will be able to receive their overseas payments through the OPGSPs.

Legal and Regulatory Frameworks

12.15 BB published a number of legal and regulatory documents to provide legal and regulatory support for electronic transfer of funds. Existing legal and regulatory frameworks of payment and settlement systems of Bangladesh are mentioned below:

- "Bangladesh Automated Cheque Processing Systems (BACPS) Operating Rules and Procedures" was published on 11 January, 2010.
- "Guidelines on Mobile Financial Services for the banks" was published on 22 September, 2011.
- "Guidelines on Agent Banking for the Banks" was published on 09 December, 2013.
- "Bangladesh Payment and Settlement Systems Regulations (BPSSR), 2014" was published on 15 May, 2014.
- "Bangladesh Electronic Funds Transfer Network (BEFTN) Operating Rules" was published on 15 May, 2014.

Other Payment Systems Initiatives

12.16 In order to fulfill the ever-growing demand for faster and efficient payment methods, the Payment Systems Department (PSD) of Bangladesh Bank has been working closely with the international organizations to develop a safe, secured and efficient payment infrastructure for the country following the international best practices. Bangladesh Bank has finalized the draft Payment and Settlement Systems Act 2017 which is now under process to be sent to the respective ministry for approval. In addition, PSD is working closely with the government organizations for introducing online VAT payment system. In this continuation, a new initiative has been undertaken with IFC of World Bank Group.

Awareness Raising Campaign

12.17 Bangladesh Bank has been taking initiatives for raising awareness on the new electronic payment systems like automated cheque processing, electronic funds transfer, national payment switch, real time gross settlement and mobile financial services. BB has organized seminars and workshops for officials of all commercial banks, Government offices and industry alliances. Besides, BB has been working to popularize electronic funds transfer network among the stakeholders like Chamber of Commerce, Stock Exchanges, Bangladesh Security and Exchange Commission, Central Depository Bangladesh Limited, National Board of Revenue, etc. PSD has arranged several seminar, rally and road-show at different divisional cities as a part of awareness raising campaign.

12.18 Electronic payment and settlement systems has already proved its potential by offering fast, secure and cost-effective financial services. Specially, paper-less EFT transactions are gaining increased popularity among the corporate bodies, stock exchange members and industry alliances. The mobile financial services, m-commerce and e-commerce have significantly changed the financial services landscape of the country. NPSB will increase end-user centric electronic payments and broaden the landscape for financial transactions in the country. These electronic modes of payments have already improved operational efficiency, increased transaction frequency and brought stability and flexibility in all spheres of the financial market. Implementation of RTGS has taken the country's Payment and Settlement Systems to international standard.

Human Resources and Organisational Management

13.1 The initiatives taken to improve and manage the human resources of Bangladesh Bank, functions of different committee of the board including BB governance and IT activities have been highlighted in this Chapter.

Appointment of New Directors in the Board

13.2 Mr. Hedayetullah Al Mamoon was appointed as Director to the Board in place of Mr. Mahbub Ahmed with effect from 09 March 2017. Mr. A. K. M Aftab ul Islam, FCA was appointed as Director of the Board with effect from 01 January 2017. Mr. Md. Mijanur Rahman Joddar, Executive Director was nominated Secretary to the Board in place of Mr. Mohammad Naushad Ali Chowdhury with effect from 17 October 2016. The Board of Bangladesh Bank for the FY17 has partly been reconstituted but yet to be completed. Awaiting for one more member of the Board to be appointed. Seven meetings of the Board of Directors were held during FY17.

Executive Committee[1]

13.3 Under section 12(1) of Bangladesh Bank Order, 1972 (President's Order No. 127 of 1972) the Executive Committee is presently constituted as follows:

Mr.Fazle Kabir	Chairman
Mr. Md. Eunusur Rahman	Member
Dr. Mrs. Rushidan Islam Rahman	Member
Mr. Abu Hena Mohd. Razee Hassan	Member
Mr. Md. Mijanur Rahman Joddar	Secretary

During FY17, 01 (One) meeting of the Executive committee was held.

Audit Committee of the Board

13.4 In line with the international best practices for strengthening good governance, an Audit Committee was formed by the Board of Directors on 12 August, 2002 comprising four non-executive directors to assist the Board in discharging its oversight responsibilities on financial reporting, internal control and compliance and the auditing process. The present Audit Committee of the Board was constituted on 19 February 2017. Within March, 2016 to February, 2017, no Audit Committee was constituted. During FY17, one meeting of the Audit Committee was held.

The member of the Audit committee is presently are as follows:

Mr. Md. Nojibur Rahman	Convener
Mr. Md. Eunusur Rahman	Member
Dr. Jamaluddin Ahmed, FCA	Member
Mr. A. K. M Aftab ul Islam, FCA	Member

In accordance with the Internal Audit Department Charter approved by the Audit Committee of the Board of Directors of the BB, the Internal Audit Department (IAD) identified 58 auditable units (departments/ offices/ units/ cells) and prepared audit plan for FY17. Audits identified as high risk, were conducted four times a year in 11 auditable units, twice a year in 9 auditable units, once a year in 3 auditable units and twice a year in the 2 auditable units and once a year in the rest of 33 auditable units identified as medium or low risk. The audit reports were placed to the Governor and the Audit Committee of the Board. One meeting

1 The present Executive committee (EC) was consituted on 19 February, 2017. Before that, their was no EC from January 2016 to February 2017.

of the Audit Committee was held during FY17. The guidance/ directives/recommendations received by the IAD from the Governor and the Audit Committee were conveyed to the relevant auditable units for implementation. Progress reports on implementation of these guidance/ directives/ recommendations were placed to the meeting of the Audit Committee.

Executive Management Team

13.5 The Executive Management Team (EMT) is consisted with the Governor, Deputy Governors, Economic Adviser and all Executive Directors. Among others, the EMT reviews the implementation status of Bank's overall activities. Eight meetings of the EMT were held during FY17.

New Appointment in Different Posts

13.6 A total of 226 officials/ staffs were appointed in different posts during FY17. New appointments during FY17 were as follows:

Assistant Director (Research)	4
Assistant Director (Statistics)	9
Assistant Director (Engineering Electrical)	5
Assistant Director (Ex Cadre-Law)	2
Medical Officer	2
Assistant Programmer	9
Assistant Maintenance Engineer	5
Officer	172
Staff	18
Total	226

Retirement, Voluntary Retirement, Resignation, Death, Compulsory Retirement, Removal and Suspension

13.7 The number of official/ staff of the Bank under retirement/ voluntary retirement/ resignation/ removal/ suspension/ death during FY17 was as under:

Retirement	231
Voluntary Retirement	17
Resignation	14
Death	15
Compulsory Retirement	-
Removal	1
Suspension	3
Total :	281

Creation/ Abolition of Posts

13.8 In FY17, 52 new posts of officials and 11 posts of staffs were created. Considering the importance of the job, 210 posts of officials were upgraded during this period. The posts from which these were upgraded were abolished during the process. At the end of the year, the total number of sanctioned post stood at 8770 compared to 8707 in the previous year.

Sanctioned and Working Strength of Officials and Staff

13.9 The sanctioned and working strength of officials and staff as on 30 June 2017 were as follows:

Category	Sanctioned strength	Working strength	Vacant
Class-I	5296	3861	1435
Class-II	1019	273	746
Class-III	1864	1258	606
Class-IV	591	272	319
Total	8770	5664	3106

During FY17, working strength of officials (Class-I & Class-II) decreased by 0.05 percent to 4134 from 4136 and that of staffs (Class-III & Class-IV) decreased by 3.77 percent to 1530 from 1590. At the end of the fiscal year, the ratio of officials to staff remained about 2.7:1. About 35.42 percent of the sanctioned posts remained vacant as on 30 June 2017.

Promotion

13.10 During FY17, 797 Officials and 325 staffs were promoted to their next higher grade. In FY17, 19.28 percent of the officials and 21.24 percent of the staffs working in the Bank were awarded promotion.

Number of Officers on Deputation/ Lien

13.11 At the end of FY17, 67 officials of the Bank were deputated at different institutions both in the country and abroad.16 officials were on lien, of which 4 were working in the country and 12 abroad.

Reorganization/ Newly Established Departments of the Bank

13.12 During FY17, a cell named “Integrity Strategy Implementation Cell” under Secretary’s Department and a Desk named “JICA Desk” were established under Forex Reserve and Treasury Management Department. A Section named “Stock Market Monitoring Section” under Department of Financial Institutions and Market was also established to monitor stock market related activities of Non-Bank Financial Institutions (NBFI’s) working in Bangladesh.

Reward and Recognition

13.13 In FY17, a total number of 23 officials were declared as the winners of “Bangladesh Bank Employees’ Recognition Award 2014” for their outstanding performances as per ‘Bangladesh Bank Employees Recognition & Reward Policy-2013’. Among them 6 officials (four as individuals and two as a team) were awarded with gold medals, while 17 officials from 5 different teams were awarded with silver medals. Besides, all the winners received Letter of Appreciation signed by the honourable Governor. Later, awards were handed over to the winners through a formal award giving ceremony in presence of high officials of the Bank and family members of the winners.

Welfare Activities and Approval of Scholarship

13.14 During FY17, an amount of BDT 5.79 million was provided to the children of the officials and staffs as scholarship and BDT 0.10 million was given as medical assistance from the Karmachary/ Karmakarta Kallan Tahbil, was established under the auspicious of the Governor. Besides, an amount of BDT 94.87 million was allotted to Bangladesh Bank schools, mosques, clubs, day care and freedom fighters welfare units etc. to carry out their recreation and welfare activities.

Foreign Training and Study

13.15 A number of 338 officials of the Bank participated in different training courses/ seminars/ workshops in abroad during FY17. Moreover, 27 officials were undergone on deputation /study leave in abroad.

Domestic Training and Study

13.16 During FY17, a total of 123 officials of the Bank participated in different training courses/ seminars/ workshops within the country organised by different institutions (other than the BBTA). Moreover, 17 officials were allowed to leave for higher study within the country during FY17.

Training courses, workshops, and seminars Conducted by the Bangladesh Bank Training Academy (BBTA)

13.17 With a view to attain objectives of transforming itself a world-class center into excellence for imparting quality training to the officers of Bangladesh Bank as well as commercial banks, financial institutions and Government and non-government organizations, Bangladesh Bank Training Academy (BBTA) conducts a wide range of activities to add values to knowledge management process, apart from training, different types of seminars, workshops and outreach programmes are also arranged by BBTA. In view of enhancing the capacity of the faculty members and updating them with the changing knowledge frontiers in various fields relating to economics, finance and banking BBTA also arrange various programs for the trainers with the help of trained personnel of advanced and specialized institutions both at home and abroad. Keeping these in mind, BBTA conducted a total of 128 training courses, workshops and seminars during FY17 of which 71 of them were held at the BBTA premises and 57 were held at other offices of Bangladesh Bank. A total of 6346 participants participated in the following mentioned courses. The courses conducted by the BBTA during FY17 are shown in Table 13.1.

Table 13.1 Different training courses, workshops and seminars organized by the Bangladesh Bank Training Academy during FY17

Sl. no	Subjects	Number of courses	Number Of Participants
1	2	3	4
A.	**Foundation Course**	**3**	**187**
1)	Foundation Course (AD) - 33rd Batch	1	60
2)	Foundation Course (AD) - 34th Batch	1	60
3)	Foundation Course (AD) - 35th Batch	1	67
B.	**Other Training Courses**	**116**	**5484**
i)	**For Officials of the Bangladesh Bank**	**53**	**1971**
1)	Audit Checklist of Guidelines on ICT Security for Banks and NBFIs	1	24
2)	Bangladesh Bank Intranet System	1	22
3)	Banking Laws and Regulations	1	24
4)	Citizen Services Innovation	2	45
5)	Core Risk Management	1	21
6)	Currency Management, Payment & Settlement Systems in Bangladesh	1	26
7)	Financial Inclusion & Sustainable Financing	1	29
8)	Financial Stability Analysis	1	22
9)	Financing Agriculture and Rural Development	1	22
10)	Foreign Trade & Foreign Exchange	1	23
11)	Human Resource Management in Bangladesh Bank	1	25
12)	ICT Risk Management	1	32
13)	In-Service Training	1	27
14)	International Trade Financing	1	23
15)	Introduction to Foreign Exchange & Foreign Trade	1	27
16)	IT Security and Awareness	20	1152
17)	Leadership Development	1	27
18)	Leadership, Team Building & Negotiation skills	1	28
19)	Monetary Policy Formulation and Implementation Process in Bangladesh Bank	1	24
20)	Personal Grooming and Social Etiquette	1	28
21).	Presentation Skill for Enhancing Managerial Performance	1	25
22)	Prevention of Fraud/Forgery in Credit Card/Internet Banking/Mobile Banking	1	31
23)	Procurement Management in BB	1	31
24)	Public Debt Management and Debt Securities Market in Bangladesh	2	45
25)	Research Methodology and Data Analysis	1	16
26)	Safety, Security and Disaster Management	1	29
27)	Stress Testing	1	20
28)	Training Course on ERP-FICO Module	1	18
29)	Training Course on ERP-HR and MM Module	1	27
30)	Training of Trainers	1	24
31)	UCP 600 & Other Important ICC Publications	1	29
32)	Understanding Economic Indicators	1	25
ii)	**For Officials of Commercial Banks**	**63**	**3513**
1)	Bank Fraud Detection	1	35
2)	Capital Adequacy for Banks according to BASEL III	3	99
3)	CIB Business Rules and Online Systems	6	565
4)	Classification, Provisioning and Rescheduling of Loans	3	150
5)	Credit Risk Management	1	26
6)	Detection, Disposal of Forged & Mutilated Notes	4	225
7)	Foreign Direct Investment and External Debt Reporting	5	193

8)	Foreign Exchange & Foreign Trade	1	38
9)	Foreign Exchange Transaction Reporting	3	139
10)	Good Governance in Banks	1	25
11)	Guideline on ICT Security for Banks & NBFIs	6	233
12)	Integrated Supervision System (ISS)	4	445
13)	Integrated Supervision System (ISS) Reporting	2	216
14)	Internal Audit & Control	1	27
15)	Introduction to Foreign Exchange & Foreign Trade	2	79
16)	Islamic Banking & Finance	1	29
17)	Money & Banking Data Reporting	6	224
18)	NBFI Statistics Reporting	1	74
19)	Online Foreign Exchange Transaction Reporting	2	77
20)	Policy/Directives and Current issues of BB	1	40
21)	Prevention of Money Laundering and Terrorist Financing	7	318
22)	Training Course on AML/CFT	2	256
C.	**Workshops/ Seminars/ Lecture Sessions**	**7**	**614**
1)	Executive Development Seminar	4	363
2)	Integrity and Anticorruption in Financial Sector	1	141
3)	Orientation Program for Economic Reporters' Forum	1	70
4)	Prevention of Money Laundering and Terrorist Financing	1	40
D.	**International Training Courses/ Seminars**	**2**	**61**
1)	International Training Course on "Agricultural Financing & Rural Development" Jointly organized by BBTA, CICTAB (India) and Milk Vita	1	25
2)	International Diploma on Macroeconomic Modeling and Forecasting	1	36
Grand total (A+B+C+D)		**128**	**6346**

Source: Bangladesh Bank Training Academy.

Financial Sector Support Project

13.18 The Financial Sector Support Project (FSSP) is being implemented with the assistance of International Development Association (IDA) to improve financial market infrastructure, regulatory oversight capacity of Bangladesh Bank and access to long term financing for manufacturing sector in Bangladesh for ensuring stability and greater resilience of the financial sector. The project has been commenced on 01 July 2015 and will end on 31 March 2021.The total approved project cost is USD 350.00 million of which IDA will provide USD 300.00 million and Bangladesh Bank will provide USD 50.00 million. Fund received total amount of USD 108.23 million from IDA, out of which USD 94.76 million has been disbursed and from BB USD 15.13 million has been disbursed up to June, 2017.

13.19 The project will be implemented through three major components over the project term. The components are (a) Developing key financial market infrastructure through benchmarking with international best practices, (b) Strengthening the capacity of the regulator to comply with international standards and accords on banking sector supervision and regulation, (c) Serving as a catalyst for developing a financial market in long-term finance market segment. Specific objectives of these components are as follows:

Strengthening Financial Market Infrastructure

13.20 This component aims to improve financial IT infrastructure of the country further, specially focusing on: (a) development of payment and settlement system to ensure a large scale shift to electronic payments in Bangladesh, specially the Government payments, (b) expanding and modernizing Credit Information Bureau (CIB) by including credit information of the micro-finance sector and increasing reliability of credit reporting system, (c) strengthening the systems of BFIU by integrating with systems of other stakeholders thereby leading to safety and integrity of the financial systems and (d) strengthening the IT governance and IT management of the Bangladesh Bank to organize a robust and secured financial platform for advanced financial market. Till June, 2017, 03 consultants have been recruited and 04 IT packages have been procured under this component.

Strengthening Regulatory and Supervisory Capacity

13.21 The project expects to provide technical assistance towards development and adoption of comprehensive risk-based integrated approach to banking regulation and supervision, which would include related documentation and training. Currently, rules based approach is in place to regulate and supervise the banking system. However, the risk based approach evolves the supervisory process toward one that is more anticipatory. Technical support also provided by appointing national and international individual adviser/consultant(s) or firm(s) to help building the system and develop the capacity to review and strengthen prudential regulations in future. Under this component, Mr. Glenn Stephen Tasky has completed his mission as Resident Macro Prudential Regulation Specialist.

Supporting Long Term Finance

13.22 This prime component of the project will provide long term funds, which would be channeled by BB to eligible participating financial institutions (PFIs) based on eligibility criteria for lending. The fund will be available, on demand to the manufacturing enterprises for procurement of capital machineries, equipment and other needs of industry for setting up of new firm, expansion and/or up-gradation. The project would extend technical assistance to support PFIs to build appraisal skills (including on assessing safeguards risks) and to funded borrowers. The PFI agreement has been signed with 31 scheduled banks and USD 192.83 million has been sanctioned from which USD 100.09 million has been disbursed till June, 2017. Besides, contracts have been awarded to Eng. Md. Eftekharul Alam as Environmental Regulations Compliance Specialist (National) (BB-S4) and Mr. Md. Ahsan Ullah as Advisor for Long Term Project Financing.

On successful implementation of the project, it is expected that the IT infrastructure of the financial market will be strengthened, the regulatory and supervisory capacity of the central bank will migrate to a more advanced level and an additional production capacity will be created which increase real output of the country.

Information and Communication Technology (ICT)

13.23 During FY17, Information Systems Development Department (ISDD) has performed its regular software development and data processing activities through existing information systems.

ICT Strategy

13.24 In FY17, ISDD has formulated ICT strategy 2017-2021 for Bangladesh Bank. Bangladesh Bank ICT strategy covers all facets of technology management including cost management, human resources management, hardware and software management, vendor management, risk management, cyber security management and all other considerations for the enterprise ICT infrastructure and usage within Bangladesh Bank. It aims to put infrastructure in place to ensure effective and secured communication system for information sharing among BB officials and other stakeholders. For each area of this Plan, a set of objectives is defined. Considering the cutting edge change in technology, attempt is underway to predict possible changes for the longer period. A total of 55 strategic goals have been identified in the ICT Strategy to ensure overall of resilience of Bangladesh Bank during 2017-2021.

IT Security and Awareness

13.25 To build more secured ICT infrastructure, as a part of remediation plan, several security devices and technology have been deployed in Bangladesh Bank to secure mail systems, web based applications etc. Besides, training on IT security awareness has been introduced and related training materials have been developed in association with other departments, to build IT security awareness among the Bangladesh Bank officials.

ICT Infrastructure Rebuilding

13.26 Renovation Process of Data Centre (DC) and Disaster Recovery (DR) is under implementations by FSSP Project. Renovation/ reconstruction of Data Centre (DC), Near Data Centre (NDC) & Disaster Recovery Site (DRS)/ Far Data Centre (FDC) is going on in full swing since January 2017. Under this initial, 70% tasks of DC, NDC, DRS rebuilding have been completed and migration of ICT systems was going on information Systems and related tasks have been completed during FY17 as shown in Table 13.2:

Table 13.2 Statement on Information Systems and related tasks during FY17

Sl. No.	Name of the Software/ Information Systems	Brief description of
1	2	3
1.	EDW Intelligent Web Portal	Through this web portal, all branches and Head office of all banks and non-bank financial institutions have been submitting all the data through RITs of Enterprise Data Warehouse (EDW).
2.	Mobile Apps "Banking Information" for ATM booth/ branches geo location and services.	As part of exploring innovative idea for convenience of mass people of Bangladesh, a mobile "Banking Information" and web application have been developed. Using the apps anyone may know the geographical location and exact address of ATM booth, trace out the specific Bank's Branch Agent Banking Information or ATM booth by using map, find out the nearest ATM location (within certainradius) and nearest bank's branch information, acceptable information, acceptable list of cards (Own/ VISA/Master/Other bank) accepted by a specific ATM booth and the services provided by a specific bank's branch. Result of any search is available in two views: a) Map View b) List View Using this app, anyone can search prize-bond draw result. In addition, Sanchaypatra related FAQ and Forms, CIB, National Payment Switch Bangladesh (NPSB), BEFTN, RTGS related information, Note security Features, Foreign Exchange Transaction, Mobile Financial Services and SME activities related information is now available.
3.	Project Accounting Systems for FSSPD	Project Accounting System is used for managing financial sector support project (financed by World Bank) of Bangladesh Bank. In this system, there are options to set component, activity wise budget for any time period and also option to calculate contract wise cost. It is very easy to calculate VAT and AIT using this system.
4.	Long Term Financing (LTF) under FSSPD	A web based module is developed under e-Refinance System to manage Long Term Financing Facility under Financial Sector Support Project of Bangladesh Bank. There are options to entry application data for the scheme, sanction and disbursement process along with the Amortization Schedule preparation, repayment process, provision calculations and also various report generation facilities as required.

Source: Information Systems Development Department, BB.

Bangladesh Bank's Accounts for 2016-2017

14.1 Financial results of Bangladesh Bank for FY17 has been prepared in accordance with International Financial Reporting Standards (IFRSs) approved by the International Accounting Standards Board (IASB). Executive summary of Accounts of Bangladesh Bank (excluding SPCBL) is represented below.

Income

14.2 The total operating income of the Bank (excluding foreign currency revaluation gain/loss) for FY17 increased by BDT 4.19 billion (11.96 percent) to BDT 39.21 billion compared to BDT 35.02 billion in FY16. With foreign currency revaluation, total operating income of the Bank increased by BDT 79.83 billion (276.90 percent) to BDT 108.66 billion compared to BDT 28.83 billion in FY16. The sources of income are set out in table 14.1.

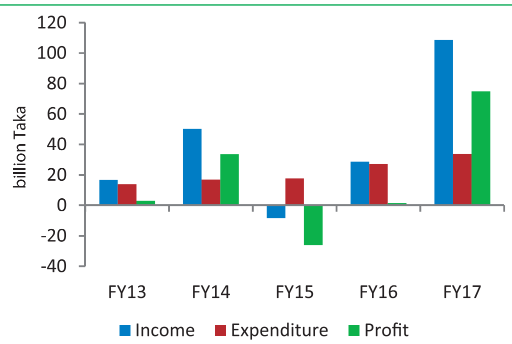
Table 14.1 Sources of BB's Income

(billion BDT)

	FY17	FY16
Operating Income		
A. Income from foreign currency financial assets	**28.14**	**18.97**
Interest income	27.49	17.45
Commission and discounts	0.65	1.51
B. Income from local currency financial assets	**11.07**	**16.05**
Interest income	10.09	9.70
Commission & discounts	0.77	0.79
Dividend income & misc.	0.15	0.12
Other Income	0.06	5.45
Total : (A+B)	**39.21**	**35.02**
C. Foreign exchange revaluation gain/(loss)	**69.45**	**(6.19)**
Realised gain/(loss)	0.95	(0.85)
Unrealised gain/(loss)	68.50	(5.34)
Total : (A+B+C)	**108.66**	**28.83**

Parenthesis indicate negative/loss.
Source: Accounts and Budgeting Department, Bangladesh Bank

Chart 14.1 Trends of BB's income, expenditure and profit



Source: Accounts and Budgeting Department, Bangladesh Bank.

Income from Foreign Currency Financial Assets

14.3 During FY17, Bank's income from the foreign currency financial assets increased by BDT 9.17 billion (48.34 percent) to BDT 28.14 billion compared to BDT 18.97 billion in FY16 due to increase in weighted average interest rate on investment of foreign currency.

Income from Local Currency Financial Assets

14.4 Bank's income from local currency financial assets decreased by BDT 4.98 billion (31.03 percent) to BDT 11.07 billion in FY17 compared to BDT 16.05 billion in FY16. This can be mainly attributed to the significant decrease in interest income earned from Loans and Advances to the Government .

Foreign Currency Revaluation Gain

14.5 During FY17, the Bank made a gain of BDT 69.45 billion on foreign currency revaluation. The efficient management of the Foreign Currency Reserve is the reason behind the increased gain.

Expenditure

14.6 Total expenditure of the Bank increased by BDT 6.49 billion (23.77percent) to BDT

33.79 billion in FY17 compared to BDT 27.30 billion in FY16. The increse in expenditure was mainly due to increase in note printing cost and employees post retirement benefit expenses. The details of expenditure are shown in the Table 14.2.

Table 14.2 Bangladesh Bank's Expenditure

(billion BDT)

Particulars	FY16	FY 17
A. Financial cost	**12.48**	**15.62**
Expenses on foreign currency financial liabilities	**0.54**	**1.09**
Interest on foreign currency financial liabilities	0.32	0.86
Commission & other expenses on foreign currency financial liabilities	0.22	0.23
Expenses on local currency financial liabilities	**11.94**	**14.53**
Interest expense on local currency financial liabilities	8.02	9.44
Commission & other local currency financial liabilities	3.92	5.09
B. Other expenses	**14.82**	**18.17**
Note printing	3.32	4.31
General & administrative expenses	11.50	13.86
Total expenditure (A+B)	**27.30**	**33.79**

Source: Accounts and Budgeting Department, Bangladesh Bank

Financial Cost

14.7 Financial cost increased by BDT 3.14 billion (25.16 percent) to BDT 15.62 billion in FY17 compared with BDT 12.48 billion in FY16 due mainly to increase in interest payments on foreign and local currency financial liabilities.

Other Expenses

14.8 Other expenses increased by BDT 3.35 billion (22.60 percent) to Tk. 18.17 billion in FY17 compared to BDT 14.82 billion in FY16 due mainly to increase in general and administrative cost.

Profit for the Year

14.9 Operating profit of the Bank (excluding foreign currency revaluation gain/loss) is BDT 5.42 billion in FY17 compared to operating profit amounting BDT 7.72 billion in FY16. Operating Profit of the Bank (including foreign currency revaluation gain/loss) is BDT 74.87 billion in FY17 compared to operating profit amounting BDT 1.53 billion in FY16.

Other Comprehensive Income

14.10 During the year, the Bank made revaluation loss amounting to BDT 6.95 billion on gold, silver and financial instruments. This revaluation loss was taken into other comprehensive income and subsequently transferred to the reserve account. Revaluation loss arose due to decrease in value of gold, silver and financial instruments in the international market after revaluation.

Profit Appropriation

14.11 Out of BDT 5.42 billion profit, an amount of BDT 0.55 billion were transferred to statutory funds, BDT 0.10 billion to Bangladesh Bank Disaster Management and Social Responsibility Fund and BDT 0.33 billion to asset renewal & replacement reserve. After adjusting of BDT 0.42 billion, BDT 4.51 billion was transferred to the Government account which was BDT 2.27 billion less from BDT 6.78 billion in FY16.

Combined Balance Sheet of Banking and Issue Department

Assets

14.12 Foreign currency financial assets increased by BDT 339.39 billion (13.68 percent) to BDT 2819.69 billion in FY17 compared to BDT 2,480.30 billion in FY2015-2016 due to increase in foreign reserves.

14.13 Local currency financial assets decreased by BDT 69.94 billion (20.78 percent) to BDT 266.65 billion in FY17 compared to BDT 336.59 billion in FY16 due mainly to decrease in loans to Government in various forms and other local currency financial assets.

14.14 Non financial assets of the Bank decreased by BDT 0.24 billion to BDT 41.89 billion in FY17 from BDT 42.13 billion in FY16.

Liabilities

14.15 Foreign currency financial liabilities increased by BDT 25.87 billion (6.85 percent) to BDT 403.67 billion in FY17 from BDT 377.80 billion in FY16 due mainly to increase in deposits from bank and financial institutions in foreign currency. Local currency financial liabilities increased by BDT 182.57 billion (7.81 percent) to BDT 2519.50 billion in FY17 compared to BDT 2336.93 billion in FY16 due to increase in notes in circulation and deposits from banks and financial institution in local currency.

Notes in Circulation

14.16 Notes in circulation increased by BDT 189.99 billion (14.53 percent) to BDT 1497.29 billion in FY17 compared to BDT 1307.30 billion in FY16. For the liabilities of notes in circulation (amounting to BDT 1497.29 billion) BDT 7.63 billion was backed by gold and silver, BDT 1390.00 billion by approved foreign currency (balance held outside Bangladesh), BDT 64.92 billion by Bangladesh Government securities, BDT 4.86 billion by Bangladesh BDT coins and BDT 29.88 billion by other domestic assets.

Equity

14.17 Total equity of the Bank increased by BDT 60.78 billion to BDT 205.06 billion in FY17 compared to BDT 144.28 billion in the previous year. The equity of the bank is enumerated below:

i. Capital of the bank remain unchanged at BDT 0.03 billion;

ii. Retained earnings decreased by BDT 1.85 billion to BDT 4.93 billion in FY17 compared to BDT 6.78 billion in FY16;

iii. Revaluation reserve increased by BDT 61.31 billion to BDT 126.80 billion in FY17 compared to BDT 65.49 billion in FY16;

iv. Currency fluctuation reserve increased by BDT 0.95 billion to BDT 26.76 billion in FY17 compared to BDT 25.81 billion in FY16;

v. Balance of statutory fund increased by BDT 0.55 billion to BDT 16.67 billion in FY17 compared to BDT 16.12 billion in FY16;

vi. Non statutory fund decreased to BDT 14.15 billion in FY17 from BDT 14.17 billion in FY16.

vii. Other reserves decreased to BDT 11.47 billion in FY17 from BDT 11.63 billion in FY16.

viii. General reserve remained unchanged to BDT 4.25 billion.

Foreign Currency Reserve

14.18 Foreign currency reserve increased by BDT 329.30 billion (13.92 percent) to BDT 2694.49 billion in FY17 compared to BDT 2365.19 billion in FY16.

Consolidation

14.19 During the year, the accounts of Security Printing Corporation (Bangladesh) Ltd. (SPCBL), a 100 percent owned subsidiary of Bangladesh Bank has been consolidated with the accounts of Bangladesh Bank.

Auditors

14.20 The financial statements of Bangladesh Bank for FY17 were audited as per International Standards on Auditing (ISA) by A. Qasem & Co. and Syful Shamsul Alam & Co., Bangladesh, Chartered Accountants.

BANGLADESH BANK

AUDITED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED 30 JUNE 2017

Independent Auditors' Report

To the Government of the People's Republic of Bangladesh

Opinion

We have audited the accompanying separate and consolidated financial statements (together referred to as "financial statements") of Bangladesh Bank ("the Bank") and its subsidiary ("the Group") which comprise the separate and consolidated statements of financial position as at June 30, 2017, the separate and consolidate statements of profit or loss and other comprehensive income, separate and consolidated statement of changes in equity and separate and consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at June 30, 2017, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Emphasis of Matter

We draw attention to Note 10 to the financial statements, where management discloses why it believes Taka 5,224 million (original Taka 6,365 million and subsequently Taka 1,141 million was recovered on November 17,2016) of the Bank's funds paid out through unauthorized transactions in February 2016 are recoverable. Our opinion is not qualified in respect of this matter.

Basis for Opinion

We conducted our audit in accordance with International Standard on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters in our report.

1. Foreign Investments

The Bank's assets held in foreign investments amount to Taka 2,304.81 billion, equivalent to 73% of the Bank's total assets, which is significantly material to the financial statements. These investments are held with overseas commercial banks for periods of more or less than one year in different types of investment categories. The valuation and presentation of the foreign investments in the financial statements pose significant audit risk.

Our audit procedures to address the risks of material misstatement relating to foreign investments, which was considered to be a significant risk, included:

- Assessed the design and tested the operating effectiveness of management's control in assessing the carrying value of foreign investments.
- Sent direct confirmation to the related banks to confirm the balances of SAP. Upon receipt of the confirmation necessary reconciliations were made.
- Detailed analysis was carried out of exchange rates used, valuation processes, recalculation of interest income, and evaluated recognition, measurement, presentation and disclosures in the financial statements, in accordance with the related IFRSs.

The Bank's disclosures about foreign investments are included in Note 5.

2. Balances with International Monetary Fund (IMF)

The Bank's assets held with International Monetary Fund (IMF) as on the closing date amounted to Taka 213.84 billion, equivalent to 7% of total assets, which is material to the financial statements. The quota amount of SDR 533.30 million was increased by 25% on 22 February 2016 through payment of foreign currency debiting directly from government account. Due to the unique structure and terms, the valuation of these assets are based on the Bank's own internal models.

The Bank has issued IMF Securities (promissory notes) against the membership subscription with IMF and has been allocated SDR on the basis of member's quota. Liabilities with IMF represents around 8% of the total liabilities of the Bank. The valuation of liabilities with International Monetary Fund (IMF) was considered significant to our audit as that gives rise to foreign currency translation requirements and periodic interest accruals.

Our audit procedures to address the risks of material misstatement relating to assets held with International Monetary Fund, included checking the SDR amount from IMF website using security password and procedures and subequently testing the exchange rates used to translate the amount at the closing date. In addition, our procedures included examination of relevant documents of IMF and interest accrued on SDR Allocation during the year and re-computation to confirm the amount of liabilities with IMF using the prevailing conversion rate as per IAS 21.

The Bank's disclosures about assets held with International Monetary Fund are included in Note 6.01 and Liabilities with International Monetary Fund (IMF) in Note 6.02

3. Valuation of Gold & Silver

Bangladesh Bank maintains gold & silver as stock and investment, equivalent Taka 45.19 billion, which is one of the asset backing for Notes in Circulation. The valuation of those gold and silver are carried out in line with the international market which is subject to market volatility and other external economic factors. Given the unique nature of the asset, the valuation methodology adopted and associated risks, it was considered significant to our audit.

Our audit procedures included reviewing the valuation methodology adopted and carrying out physical verification of gold & silver on a sample basis. Our procedures also included recalculation of gold and silver value in line with prevailing market rate and assessment of asset backing for Notes in Circulation.

The Bank's disclosures about valuation process of gold & silver are included Note 3.12.

4. Foreign Currency Loans to Banks

The Bank's assets held with foreign currency loans to banks amounted to Taka 206.29 billion, equivalent to 7% of total assets, which is material to the financial statements.

Our audit procedures to address the risk of material misstatement relating to Foreign Currency Loans to Banks, included:

- Evaluated the assets held with EDF and LTF Investment (both IDA and BB Source) in Taka using the exchange rate prevailing at 30 June 2017. Therefore we matched the calculated figure with the amounts disclosed in the financial statements of the Bank for the year ended 30 June 2017 testing the effectiveness of controls over the existence of EDF loan through external confirmations from respective banks.
- Checked whether the interest calculation is automated or not. We observed that EDF interests are calculated automatically in TCS and e-Refinance software and subsequently confirmed the balance of interest from TCS and e-Refinance software.

The Bank's disclosures about Foreign Currency Loans to Banks are included in Note 9.

5. Transactions with Government of Bangladesh

Bangladesh Bank is primarily responsible for managing banking transactions on behelf of Government of Bangladesh including loans and donations received from foreign entities, collection and administration of funds of various ministries and the national exchequer. Given the unique nature as well as the high volume of transactions undertaken by Bangladesh Bank with and for the Government of Bangladesh, it was considered significant to our audit.

The Bank's assets held as Loans to the Government of Bangladesh amounted to Taka 138.72 billion, equivalent to 4% of total assets, which is material to the financial statements. These investments are held with the Government of Bangladesh which have a period of both less or more than one year.

Our audit procedures to address the risk of material misstatement relating to Loans to the Government of Bangladesh included:

- Assessed the design and tested the operating effectiveness of management's control in assessing the carrying value of Loans to the Government of Bangladesh.
- Detailed analysis of auction rates, valuation processes, recalculation of interest income, presentation and disclosures in the financial statements in accordance with the related IFRSs.

The Bank's disclosures about Loans to the Government of Bangladesh are included in Note 13.

6. Notes in Circulation

Bangladesh Bank is responsible for issuing bank notes of various denominations that has to be backed up by different assets as identified in the Bangladesh Bank Order, 1972. Notes in Circulation amounted to Taka 1,497.28 billion, equivalent to 48% of total liabilities & equity of the Bank, which is material to the financial statements. Given the unique nature and the compliance requirements for issuing notes, it was considered significant to our audit.

Our audit procedures included communicating with the concerned department to understand the note issue process and carrying out physical inspection of assets held at the Bank premises against notes in circulation on a sample basis. Our procedures also included an assessment of the asset backing maintained by Bangladesh Bank in line with section 30 of the Bangladesh Bank Order, 1972 and reviewed the process to determine the demand for notes and the ordering process for printing notes.

The Bank's disclosures about Notes in Circulation are included in Note 21.

Other Matters

The financial statements of Bangladesh Bank for the year ended 30 June 2016 were audited by Rahman Rahman Huq, Chartered Accountants and A. Qasem & Co., Chartered Accountants, who expressed an unmodified opinion with an emphasis of matter on those statements on 29 August 2016.

The financial statements of subsidiary company of the Bank namely The Security Printing Corporation (Bangladesh) Limited has been audited by Aziz Halim Khair Choudhury, Chartered Accountants as at and for the year ended 30 June 2017. The financial statements of the subsidiary company have been properly reflected in the Bank's consolidated financial statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated and Separate Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually, or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or condition that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statement represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial

statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonable be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulations precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequence of doing so would reasonable be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In Accordance with the Terms of Reference (ToR) issued by the Ministry of Finance-Financial Institutions Division, we also report the Following:

- Nothing has come to our attention which indicates that the IT based accounting systems generated information are not free from error and noncompliance;
- Nothing has come to our attention which indicates that charging of depreciation on Dead-Stock (Capital Assets) and immovable properties are not in line with applicable financial reporting framework;
- Internal control measures undertaken by the Bank appeared to be adequate with immaterial control deficiencies as identified in the Management Report;
- We have reviewed the compliance of audit observation of previous year and reported on the same in the Management Report;
- We have checked the authenticity of financial information and data supplied to the International Monetary Fund (IMF) by the Bank; and
- We have reviewed the compliance of decisions taken by the Board of Directors of the Bank.

A. Qasem & Co.
Chartered Accountants
Bangladesh

Syful Shamsul Alam & Co.
Chartered Accountants
Bangladesh

BANGLADESH BANK

Consolidated Statement Of Financial Position As at 30 June 2017

Particulars	Notes	2017 Taka '000	2016 Taka '000
ASSETS			
Foreign currency financial assets			
Foreign currency accounts	4	34,888,457	45,017,497
Foreign investments	5	2,304,806,144	2,034,674,417
Assets held with International Monetary Fund	6.01	213,841,975	208,949,924
Gold and silver	7	11,383,556	7,278,889
Claims from gold transactions	8	33,811,041	38,849,350
Foreign currency loans to banks	9	206,294,007	132,234,324
Other foreign currency financial assets	10	14,662,058	13,292,207
Total foreign currency financial assets		**2,819,687,238**	**2,480,296,608**
Local currency financial assets			
Taka coin and cash balances	11	16,613,648	16,684,618
Securities purchased under agreement to resell	12	-	8,480,000
Loans to the Government of Bangladesh	13	138,717,001	199,109,179
Local currency investments	14	4,835,300	5,361,392
Local currency loans to banks, financial institutions and employees	15	106,179,145	105,593,068
Other local currency financial assets	16	2,692,763	3,794,147
Total local currency financial assets		**269,037,857**	**339,022,404**
Total financial assets		**3,088,725,095**	**2,819,319,012**
Non-financial assets			
Property, plant and equipment	17	49,353,172	48,877,467
Intangible assets	18	316,051	310,986
Other non-financial assets	19	7,802,065	8,049,643
Total non-financial assets		**57,471,288**	**57,238,096**
Total assets		**3,146,196,383**	**2,876,557,108**
LIABILITIES & EQUITY			
LIABILITIES			
Foreign currency financial liabilities			
Deposits from banks and financial institutions	20	172,154,298	147,635,399
Liabilities with International Monetary Fund	6.02	231,519,873	230,167,566
Total foreign currency financial liabilities		**403,674,171**	**377,802,965**
Local currency financial liabilities			
Notes in circulation	21	1,497,287,018	1,307,303,718
Deposits from banks and financial institutions	22	733,927,114	608,937,407
Short term borrowings	23	182,618,016	263,401,402
Other local currency financial liabilities	24	106,937,816	159,202,708
Total local currency financial liabilities		**2,520,769,964**	**2,338,845,235**
Total liabilities		**2,924,444,135**	**2,716,648,200**
EQUITY			
Capital	25	30,000	30,000
Retained earnings	32	15,427,459	15,759,609
Revaluation reserves	26	132,246,680	71,492,208
Currency fluctuation reserve	27	26,763,473	25,812,199
Statutory funds	28	16,667,046	16,117,046
Non statutory funds	29	14,147,191	14,167,170
Other reserves	30	11,469,899	11,630,176
General reserve	31	5,000,500	4,900,500
Total equity		**221,752,248**	**159,908,908**
Total liabilities and equity		**3,146,196,383**	**2,876,557,108**

The accompanying notes from 1 to 49 form an integral part of these financial statements.

A.K.M. Fazlur Rahman General Manager Accounts & Budgeting Department	Abu Hena Mohd. Razee Hassan Deputy Governor	Fazle Kabir Governor

These financial statements are to be read in conjunction with the Independent Auditors' Report, which is set out on page 1.

BANGLADESH BANK

Separate Statement Of Financial Position As at 30 June 2017

Particulars	Notes	2017 Taka '000	2016 Taka '000
ASSETS			
Foreign currency financial assets			
Foreign currency accounts		34,888,457	45,017,497
Foreign investments	5	2,304,806,144	2,034,674,417
Assets held with International Monetary Fund	6.01	213,841,975	208,949,924
Gold and silver	7	11,383,556	7,278,889
Claims from gold transactions	8	33,811,041	38,849,350
Foreign currency loans to banks	9	206,294,007	132,234,324
Other foreign currency financial assets	10	14,662,058	13,292,207
Total foreign currency financial assets		**2,819,687,238**	**2,480,296,608**
Local currency financial assets			
Taka coin and cash balances	11.01	4,897,629	4,514,122
Securities purchased under agreement to resell	12	-	8,480,000
Loans to the Government of Bangladesh	13	138,717,001	199,109,179
Local currency investments	14.01	15,945,000	16,715,000
Local currency loans to banks, financial institutions and employees	15.01	104,815,819	104,337,052
Other local currency financial assets	16.01	2,277,941	3,432,361
Total local currency financial assets		**266,653,390**	**336,587,714**
Total financial assets		**3,086,340,628**	**2,816,884,322**
Non-financial assets			
Property, plant and equipment	17.01	38,650,495	38,277,961
Intangible assets	18	316,051	310,986
Other non-financial assets	19.01	2,923,214	3,545,143
Total non-financial assets		**41,889,760**	**42,134,090**
Total assets		**3,128,230,388**	**2,859,018,412**
LIABILITIES & EQUITY			
LIABILITIES			
Foreign currency financial liabilities			
Deposits from banks and financial institutions	20	172,154,298	147,635,399
Liabilities with International Monetary Fund	6.02	231,519,873	230,167,566
Total foreign currency financial liabilities		**403,674,171**	**377,802,965**
Local currency financial liabilities			
Notes in circulation	21	1,497,287,018	1,307,303,718
Deposits from banks and financial institutions	22	733,927,114	608,937,407
Short term borrowings	23	182,618,016	263,401,402
Other local currency financial liabilities	24.01	105,664,349	157,291,212
Total local currency financial liabilities		**2,519,496,497**	**2,336,933,739**
Total liabilities		**2,923,170,668**	**2,714,736,704**
EQUITY			
Capital	25	30,000	30,000
Retained earnings	32.01	4,928,228	6,782,579
Revaluation reserves	26.01	126,803,383	65,492,038
Currency fluctuation reserve	27	26,763,473	25,812,199
Statutory funds	28	16,667,046	16,117,046
Non statutory funds	29	14,147,191	14,167,170
Other reserves	30	11,469,899	11,630,176
General reserve	31.01	4,250,500	4,250,500
Total equity		**205,059,720**	**144,281,708**
Total liabilities and equity		**3,128,230,388**	**2,859,018,412**

The accompanying notes from 1 to 49 form an integral part of these financial statements.

A.K.M. Fazlur Rahman General Manager Accounts & Budgeting Department	Abu Hena Mohd. Razee Hassan Deputy Governor	Fazle Kabir Governor

These financial statements are to be read in conjunction with the Independent Auditors' Report, which is set out on page 1.

BANGLADESH BANK
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2017

Particulars	Notes	2017 Taka '000	2016 Taka '000
INCOME			
Income on foreign currency financial assets			
Interest income	33	27,488,594	17,454,853
Commission and discounts	34	650,076	1,513,917
Total income on foreign currency financial assets		**28,138,670**	**18,968,770**
Income from local currency financial assets			
Interest income	36	10,968,626	10,854,932
Commission and discounts	37	765,733	787,996
Sales to other parties by subsidiary		1,709,097	1,969,620
Other income		99,165	5,475,624
Total income from local currency financial assets		**13,542,621**	**19,088,172**
Total income		**41,681,291**	**38,056,942**
EXPENSES			
Expenses on foreign currency financial liabilities			
Interest expense	35	(859,304)	(318,753)
Commission and other expenses		(228,401)	(219,169)
Total expenses on foreign currency financial liabilities		**(1,087,705)**	**(537,922)**
Expenses on local currency financial liabilities			
Interest expense	39	(9,444,872)	(8,019,538)
Commission and other expenses	40	(5,085,749)	(3,917,654)
Total expenses on local currency financial liabilities		**(14,530,621)**	**(11,937,192)**
Other expenses			
General and administrative expenses	41	(18,951,460)	(15,658,727)
Total other expenses		**(18,951,460)**	**(15,658,727)**
Total expenses		**(34,569,786)**	**(28,133,841)**
Foreign currency revaluation gain/(loss) - unrealised		68,501,409	(5,343,169)
Foreign currency revaluation gain/(loss) - realised		951,274	(851,744)
Profit before tax		**76,564,188**	**3,728,188**
Current tax expense		(582,990)	(832,054)
Deffered tax income/(expense)		(45,236)	68,717
Profit for the year		**75,935,962**	**2,964,851**
Items that may be subsequently reclassified to profit or loss			
Other comprehensive income			
Gold revaluation gain/(loss)		(1,485,280)	5,513,437
Silver revaluation gain/(loss)		(19,161)	19,057
Revaluation gain/(loss) on financial instruments		(5,447,919)	2,049,023
Total other comprehensive income		**(6,952,360)**	**7,581,517**
Total comprehensive income for the year		**68,983,602**	**10,546,368**

The accompanying notes from 1 to 49 form an integral part of these financial statements.

A.K.M. Fazlur Rahman General Manager Accounts & Budgeting Department	Abu Hena Mohd. Razee Hassan Deputy Governor	Fazle Kabir Governor

These financial statements are to be read in conjunction with the Independent Auditors' Report, which is set out on page 1.

BANGLADESH BANK

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

Particulars	Notes	2017 Taka '000	2016 Taka '000
INCOME			
Income on foreign currency financial assets			
Interest income	33	27,488,594	17,454,853
Commission and discounts	34	650,076	1,513,917
Total income on foreign currency financial assets		**28,138,670**	**18,968,770**
Income from local currency financial assets			
Interest income	36.01	10,093,085	9,698,335
Commission and discounts	37	765,733	787,996
Dividend income		150,000	120,000
Other income	38	64,187	5,446,684
Total income from local currency financial assets		**11,073,005**	**16,053,015**
Total income		**39,211,675**	**35,021,785**
EXPENSES			
Expenses on foreign currency financial liabilities			
Interest expense	35	(859,304)	(318,753)
Commission and other expenses		(228,401)	(219,169)
Total expenses on foreign currency financial liabilities		**(1,087,705)**	**(537,922)**
Expenses on local currency financial liabilities			
Interest expense	39	(9,444,872)	(8,019,538)
Commission and other expenses	40	(5,085,749)	(3,917,654)
Total expenses on local currency financial liabilities		**(14,530,621)**	**(11,937,192)**
Other expenses			
Note printing expenses		(4,311,107)	(3,318,647)
General and administrative expenses	41.01	(13,864,291)	(11,502,946)
Total other expenses		**(18,175,398)**	**(14,821,593)**
Total expenses		**(33,793,724)**	**(27,296,707)**
Foreign currency revaluation gain/(loss) - unrealised		68,501,409	(5,343,169)
Foreign currency revaluation gain/(loss) - realised		951,274	(851,744)
Profit for the year		**74,870,634**	**1,530,165**
Items that may be subsequently reclassified to profit or loss			
Other comprehensive income			
Gold revaluation gain/(loss)		(1,485,280)	5,513,437
Silver revaluation gain/(loss)		(19,161)	19,057
Revaluation gain/(loss) on financial instruments		(5,447,919)	2,049,023
Total other comprehensive income		**(6,952,360)**	**7,581,517**
Total comprehensive income for the year		**67,918,274**	**9,111,682**

The accompanying notes from 1 to 49 form an integral part of these financial statements.

A.K.M. Fazlur Rahman General Manager Accounts & Budgeting Department	Abu Hena Mohd. Razee Hassan Deputy Governor	Fazle Kabir Governor

These financial statements are to be read in conjunction with the Independent Auditors' Report, which is set out on page 1.

BANGLADESH BANK
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2017

Taka '000

Particulars	Non - distributable											Distributable	Equity
		Revaluation reserves							Other reserves				
	Capital	Gold and silver	Foreign currency accounts	Financial Instruments	Property, plant & equipment	Currency fluctuation reserve	Statutory funds	Non-statutory funds	Asset renewal & replacement reserve	Interest reserve	General reserve	Retained earnings	
Balance as at 1 July 2015	**30,000**	**10,652,011**	**14,570,195**	**4,507,599**	**40,474,443**	**26,663,944**	**15,567,046**	**14,219,468**	**3,325,985**	**8,011,691**	**4,800,500**	**17,210,948**	**160,033,830**
Dividend paid for 2014-2015	-	-	-	-	-	-	-	-	-	-	-	(9,568,603)	(9,568,603)
Total comprehensive income for the year	-	5,532,494	(5,343,169)	2,049,023	-	(851,744)	-	-	-	-	-	9,159,764	10,546,368
Utilisation of funds[1]	-	-	-	-	-	-	-	(152,298)	-	-	-	-	(152,298)
Adjustment against revaluation	-	-	-	(950,389)	-	-	-	-	-	-	-	-	(950,389)
Appropriation of profit to other funds	-	-	-	-	-	-	550,000	100,000	292,500	-	100,000	(1,042,500)	-
Balance as at 30 June 2016	**30,000**	**16,184,505**	**9,227,026**	**5,606,233**	**40,474,443**	**25,812,200**	**16,117,046**	**14,167,170**	**3,618,485**	**8,011,691**	**4,900,500**	**15,759,609**	**159,908,908**
Adjustment against due from government	-	-	-	-	-	-	-	-	-	-	-	(13,219)	(13,219)
Dividend paid for 2015-2016	-	-	-	-	-	-	-	-	-	-	-	(6,769,360)	(6,769,360)
Prior Year Adjustment[2]	-	-	-	-	(479,559)							479,559	-
Total comprehensive income for the year	-	(1,504,441)	68,501,409	(5,447,919)	-	951,274	-	-	-	(489,577)	-	6,972,856	68,983,602
Utilisation of funds[1]	-	-	-	-	-	-	-	(119,979)	-	-	-	-	(119,979)
Adjustment against revaluation	-	-	-	(237,704)	(77,314)	-	-	-	-	-	-	77,314	(237,704)
	-	-	-	-	-	-	550,000	100,000	329,300	-	100,000	(1,079,300)	-
Balance as at 30 June 2017	**30,000**	**14,680,064**	**77,728,435**	**(79,390)**	**39,917,570**	**26,763,474**	**16,667,046**	**14,147,191**	**3,947,785**	**7,522,114**	**5,000,500**	**15,427,459**	**221,752,248**

1. Please refer to note no. 29.
2. The amount represents differences between charging of depreciation on revalued value and original cost of assets upto 2015-2016 of SPCBL.

BANGLADESH BANK
SEPARATE STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2017

Taka '000

Particulars	Non - distributable											Distributable	Equity
	Capital	Revaluation reserves				Currency fluctuation reserve	Statutory funds	Non-statutory funds	Other reserves		General reserve	Retained earnings	
		Gold and silver	Foreign currency accounts	Financial Instruments	Property, plant & equipment				Asset renewal & replacement reserve	Interest reserve			
Balance as at 1 July 2015	**30,000**	**10,652,011**	**14,570,195**	**4,507,599**	**34,474,273**	**26,663,944**	**15,567,046**	**14,219,468**	**3,325,985**	**8,011,691**	**4,250,500**	**9,568,604**	**145,841,316**
Dividend paid for 2014-2015	-	-	-	-	-	-	-	-	-	-	-	(9,568,603)	(9,568,603)
Total comprehensive income for the year	-	5,532,494	(5,343,169)	2,049,023	-	(851,744)	-	-	-	-	-	7,725,078	9,111,682
Utilisation of funds[1]	-	-	-	-	-	-	-	(152,298)	-	-	-	-	(152,298)
Adjustment against revaluation	-	-	-	(950,389)	-	-	-	-	-	-	-	-	(950,389)
Appropriation of profit to other funds	-	-	-	-	-	-	550,000	100,000	292,500	-	-	(942,500)	-
Balance as at 30 June 2016	**30,000**	**16,184,505**	**9,227,026**	**5,606,233**	**34,474,273**	**25,812,200**	**16,117,046**	**14,167,170**	**3,618,485**	**8,011,691**	**4,250,500**	**6,782,579**	**144,281,708**
Adjustment against due from government	-	-	-	-	-	-	-	-	-	-	-	(13,219)	(13,219)
Dividend paid for 2015-2016	-	-	-	-	-	-	-	-	-	-	-	(6,769,360)	(6,769,360)
Total comprehensive income for the year	-	(1,504,441)	68,501,409	(5,447,919)	-	951,274	-	-	-	(489,577)	-	5,907,528	67,918,274
Utilisation of funds[1]	-	-	-	-	-	-	-	(119,979)	-	-	-	-	(119,979)
Adjustment against revaluation	-	-	-	(237,704)	-	-	-	-	-	-	-	-	(237,704)
Appropriation of profit to other funds	-	-	-	-	-	-	550,000	100,000	329,300		-	(979,300)	-
Balance as at 30 June 2017	**30,000**	**14,680,064**	**77,728,435**	**(79,390)**	**34,474,273**	**26,763,474**	**16,667,046**	**14,147,191**	**3,947,785**	**7,522,114**	**4,250,500**	**4,928,228**	**05,059,720**

1. Please refer to note no. 29.

BANGLADESH BANK

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

Particulars	2017 Taka '000	2016 Taka '000
Cash flows from operating activities		
Interest received	24,358,906	18,615,066
Interest paid	(10,208,307)	(8,318,207)
Received from customer	436,401	1,971,391
Fees, commission and other income received	1,453,924	7,748,249
Commission and discounts paid	(5,314,150)	(4,136,823)
Payments to employees,suppliers, govt. etc.	(17,434,196)	(17,976,114)
Funds advanced from/(to) banks and employees	(1,340,199)	1,534,682
(Increase)/decrease in other assets	2,601,925	(8,911,482)
Currency issued	189,983,300	333,670,269
Increase/(decrease) in other liabilities	(51,984,548)	(15,138,567)
Net cash from operating activities	**132,553,056**	**309,058,464**
Cash flows from investing activities		
Investment income received	12,695,204	9,650,570
(Increase)/decrease in foreign treasury bills and bonds	(448,659,670)	(1,092,335)
(Increase)/decrease in other investments	(75,530,888)	(5,414,378)
(Increase)/decrease in Government securities	60,392,178	(86,819,594)
(Increase)/decrease in foreign currency investment	69,452,683	(6,194,913)
(Increase)/decrease in investments in debenture	526,092	907,697
Additions to property, plant and equipment	(2,629,210)	(653,261)
Disposal of property, plant and equipment	1,133,493	3,549
Settlement of liabilities with IMF	(3,588,727)	(15,110,058)
Net cash used in investing activities	**(386,208,845)**	**(104,722,723)**
Cash from financing activities		
Dividend paid to the Government of Bangladesh	(6,782,579)	(9,568,603)
Net cash (used in)/from financing activities	**(6,782,579)**	**(9,568,603)**
Net increase/(decrease) in cash and cash equivalents	**(260,438,368)**	**194,767,138**
Cash and cash equivalents as at 1 July	347,055,359	152,288,221
Cash and cash equivalents as at 30 June	**86,616,991**	**347,055,359**
Cash and cash equivalents include		
Foreign currency accounts	34,888,457	45,017,497
Foreign investments with maturity of three months or less	1,123,741,424	1,296,827,378
Taka coin and cash balances	16,613,649	16,684,618
Securities purchased under agreement to resell	-	8,480,000
Foreign currency deposits from banks and financial institutions	(172,081,409)	(147,615,325)
Short term borrowings	(182,618,016)	(263,401,402)
Deposits from banks and financial institutions	(733,927,114)	(608,937,407)
Cash and cash equivalents as at 30 June	**86,616,991**	**347,055,359**

BANGLADESH BANK

SEPARATE STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

Particulars	2017 Taka '000	2016 Taka '000
Cash flows from operating activities		
Interest received	24,352,651	18,611,320
Interest paid	(10,208,307)	(8,318,207)
Fees, commission and other income received	1,419,217	7,748,403
Commission and discounts paid	(5,314,150)	(4,136,823)
Payments to employees and suppliers	(16,537,559)	(13,564,188)
Funds advanced from/(to) banks and employees	(1,232,889)	1,663,972
(Increase)/decrease in other assets	2,601,925	(8,911,482)
Currency issued	189,983,300	333,670,269
Increase/(decrease) in other liabilities	(51,984,548)	(15,138,567)
Net cash from operating activities	**133,079,640**	**311,624,697**
Cash flows from investing activities		
Dividends received	150,000	120,000
Investment income received	11,878,955	8,692,802
(Increase)/decrease in foreign treasury bills and bonds	(448,659,670)	(1,092,335)
(Increase)/decrease in other investments	(75,530,888)	(5,414,378)
(Increase)/decrease in Government securities	60,392,178	(86,819,594)
(Increase)/decrease in foreign currency investment	69,452,683	(6,194,913)
(Increase)/decrease in investments in debenture	770,000	1,080,000
Additions to property, plant and equipment	(1,158,103)	(562,091)
Disposal of property, plant and equipment	12,620	3,395
Settlement of liabilities with IMF	(3,588,727)	(15,110,058)
Net cash used in investing activities	**(386,280,952)**	**(105,297,172)**
Cash from financing activities		
Dividend paid to the Government of Bangladesh	(6,782,579)	(9,568,603)
Net cash (used in)/from financing activities	(6,782,579)	(9,568,603)
Net increase/(decrease) in cash and cash equivalents	(259,983,891)	196,758,922
Cash and cash equivalents as at 1 July	334,884,862	138,125,940
Cash and cash equivalents as at 30 June	**74,900,971**	**334,884,862**
Cash and cash equivalents includes		
Foreign currency accounts	34,888,457	45,017,497
Foreign investments with maturity of three months or less	1,123,741,424	1,296,827,377
Taka coin and cash balances	4,897,629	4,514,122
Securities purchased under agreement to resell	-	8,480,000
Foreign currency deposits from banks and financial institutions	(172,081,409)	(147,615,325)
Short term borrowings	(182,618,016)	(263,401,402)
Deposits from banks and financial institutions	(733,927,114)	(608,937,407)
Cash and cash equivalents as at 30 June	**74,900,971**	**334,884,862**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

1 Reporting entity

Bangladesh Bank ("the Bank"), a body corporate, is the Central Bank of Bangladesh, established on the 16th day of December, 1971 under the Bangladesh Bank Order, 1972 (P.O. No. 127 of 1972). The Bank is domiciled in Bangladesh and the head office of the Bank is situated at Motijheel C/A, Dhaka-1000.

The Bank has 10 (ten) branch offices situated at the following locations:

Location	Address
Motijheel Office	Motijheel C/A, Dhaka-1000
Chittagong Office	Notun/617, Shahid Sohrawardi Road, Chittagong
Rajshahi Office	Natore Road, Majhi Hata, Boalia, Rajshahi-6000
Bogra Office	Holding - 1683, Thonthonia, Bogra-5800
Rangpur Office	Bangladesh Bank Rangpur Office, Rangpur-5400
Khulna Office	1, Ratan Sen Road, Khulna-9100
Barishal Office	Deen Bondhu Sen Road, Barishal-8200
Sylhet Office	VIP Road, Taltola, Sylhet-3100
Sadarghat Office	Bahadurshah Road, Sadarghat, Dhaka-1000
Mymensingh Office	29, Durgabari Road, Mymensingh-2200

The Bank has exclusive agency arrangement with Sonali Bank Limited for carrying out certain specific treasury related functions across the country. As at 30 June 2017, 605 branches of Sonali Bank Limited were engaged in daily treasury functions under the referred agency arrangement with the Bank.

As per the Article 7A of the Bangladesh Bank Order, 1972, functions of the Bank among others include:

- to formulate and implement monetary policy;
- to formulate and implement intervention policies in the foreign exchange market;
- to give advice to the Government on the interaction of monetary policy with fiscal and exchange rate policy, on the impact of various policy measures on the economy and to propose legislative measures it considers necessary or appropriate to attain these.
- to hold and manage the official foreign reserves of Bangladesh;
- to promote, regulate and ensure a secure and efficient payment system including the issue of bank notes; and
- to regulate and supervise banking companies and financial institutions.

The Bank also acts as the banker to the Government as per Article 16(18) of the Bangladesh Bank Order, 1972.

The entire share capital of the Bank had been allotted to the Government of Bangladesh as per Article 4(2) of the Bangladesh Bank Order, 1972.

The Bank has a fully owned subsidiary company named The Security Printing Corporation (Bangladesh) Ltd. ("SPCBL" or "the subsidiary") which was formed on 22nd April, 1992 for the purpose of printing and supplying of currency notes. The Bank and its subsidiary are collectively referred to as "the Group". Refer to note 3.01 and 14.01.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

2 Basis of preparation of the financial statements

2.01 Statement of compliance

The consolidated and separate financial statements of the Group and the Bank respectively have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The compliance status of these IFRSs is as follows:

	Compliance status
IAS 1: Presentation of Financial Statements	Complied
IAS 2: Inventories	Complied
IAS 7: Statement of Cash Flows	Complied
IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors	Complied
IAS 10: Events after the Reporting Period	Complied
IAS 11: Construction Contracts	Not applicable
IAS 12: Income Taxes	Complied
IAS 16: Property, Plant and Equipment	Complied
IAS 17: Leases	Complied
IAS 18: Revenue	Complied
IAS 19: Employee Benefits	Complied
IAS 20: Accounting for Government Grants and Disclosure of Government Assistance	Complied
IAS 21: The Effects of Changes in Foreign Exchange Rates	Complied
IAS 23: Borrowing Costs	Complied
IAS 24: Related Party Disclosures	Complied
IAS 26: Accounting and Reporting by Retirement Benefit Plans	Not applicable
IAS 27: Separate Financial Statements	Complied
IAS 28: Investment in Associates and Joint Ventures	Not applicable
IAS 32: Financial Instruments: Disclosure and Presentation	Complied
IAS 33: Earnings Per Share	Not applicable
IAS 34: Interim Financial Reporting	Not applicable
IAS 36: Impairment of Assets	Complied
IAS 37: Provisions, Contingent Liabilities and Contingent assets	Complied
IAS 38: Intangible Assets	Complied
IAS 39: Financial Instruments: Recognition and Measurement	Complied
IAS 40: Investment Property	Not applicable
IAS 41: Agriculture	Not applicable
IFRS 1: First time Adoption of International Financial Reporting Standards	Complied
IFRS 2: Share based Payment	Not applicable
IFRS 3: Business Combinations	Complied
IFRS 4: Insurance Contracts	Not applicable
IFRS 5: Non-current Assets Held for Sale and Discontinued Operations	Not applicable
IFRS 6: Exploration for and Evaluation of Mineral Resources	Not applicable
IFRS 7: Financial Instruments: Disclosures	Complied
IFRS 8: Operating Segments	Not applicable
IFRS 10: Consolidated Financial Statements	Complied
IFRS 11: Joint Arrangements	Not applicable
IFRS 12: Disclosure of Interests in Other Entities	Complied
IFRS 13: Fair Value Measurement	Complied
IFRS 14: Regulatory Defferals Accounts	Not applicable

Bangladesh Bank : Notes to the Financial Statements
As at and for the year ended 30 June 2017

2.02 Basis of measurement

The financial statements are prepared on a historical cost basis except for the following material items in the consolidated and separate statements of financial position ("the statement of financial position"):

Basis of measurement	Material items
Fair Value (FV)	Gold and silver Claims from gold transactions;
	Property, plant and equipment(PPE)
	US Dollar Treasury bills, foreign bonds
	Government Treasury bills and bonds; Bangladesh House Building Finance Corporation (BHBFC) debentures; ICB Islamic Bank Limited shares.
Present Value (PV)	Liability for the defined benefit obligation

2.03 Functional and presentation currency

The financial statements are presented in Bangladesh Taka (Taka/Tk/BDT), which is the Group's functional and presentation currency. Except as indicated, financial information presented in Bangladesh Taka has been rounded off to the nearest thousand.

2.04 Relationship between Issue Department and Banking Department

Under the Bangladesh Bank Order, 1972, issue of bank notes shall be conducted by the Bank in an Issue Department, which shall be separated and kept wholly distinct from the Banking Department. Accordingly, the Issue Department is solely concerned with the note issue and the assets backing the issue. The Banking Department comprises all other activities of the Bank. The separation into departments is made within the Bank and reports on both the Banking and Issue Departments (together referred as "statement of affairs") are made internally and submitted to the Ministry of Finance throughout the year at weekly interval. The annual financial statements are prepared on a combined basis to include all the assets and liabilities of the Bank. The assets backing the note issue as at the year end are disclosed in note 21.

2.05 Use of estimates and judgments

Preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected.

Estimates, judgments and assumptions are made for impairments of loans, fair value of securities, assessment of fair value hierarchy, fair valuation of property, plant and equipment, economic lives of assets for calculation of depreciation and for calculation of provision for post retirement benefits like pension, gratuity and leave encashment and assumptions used in the actuarial valuations of defined benefit plans.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

2.06 Comparatives

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors requires an entity to correct material prior period errors retrospectively by restating the comparative amounts for prior period presented in which the error occurred. While preparing the consolidated financial statements as at 30 June, 2017, an amount of Taka 479,558 thousands, as prior year adjustment of the SPCBL, was identified.

3 Significant accounting policies

Accounting policies set out below have been applied consistently to all periods presented in these financial statements by the Group entities. Certain comparative amounts have been reclassified to conform with the current year's presentation.

3.01 Basis of consolidation

The consolidated financial statements have been prepared in accordance with International Accounting Standard-27, "Separate Financial Statements" and International Financial Reporting Standard (IFRS)-10 " Consolidated Financial Statements".

Subsidiary

The Security Printing Corporation (Bangladesh) Ltd. (SPCBL) is the wholly owned subsidiary of the Bank. It is responsible for printing and supplying the Bank with bank notes based on the requirements from time to time. SPCBL sells these notes to the Bank at a specified mark-up agreed beforehand between the Bank and SPCBL. SPCBL is also engaged in printing of security products for other parties besides the Bank.

Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with the subsidiary are eliminated to the extent of the Group's interest in the subsidiary. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.02 Foreign currency transactions

Foreign currency transactions are translated into Taka at the rates ruling on the dates of transactions in compliance with IAS 21 : The Effects of Changes in Foreign Exchange Rates. Foreign currency denominated monetary assets and liabilities are translated to the functional currency at the exchange rate at the reporting date. Foreign currency denominated non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Foreign currency gains and losses are reported in profit or loss on a net basis as either exchange gain or loss depending on whether foreign currency movements are in a net gain or net loss position. At the reporting date the exchange rate of Taka against major foreign currencies held by the Group used in preparing the financial statements was as follows:

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

Foreign currency	Exchange rates (in Taka)	
	2017	2016
US Dollar	80.5988	78.4000
Australian Dollar	61.9482	58.4080
Canadian Dollar	62.1808	60.6670
EURO	92.0680	87.0554
Pound Sterling	104.9799	104.3190
CNY	11.8905	11.7569
JPY	0.7174	0.7593
SDR	112.1452	109.6659
SGD	58.5747	58.2121
SEK	9.5639	9.2701

3.03 Foreign exchange gain/loss

Realised foreign exchange gain/loss is calculated using average cost methodology. At the end of each month, the change in the average cost balance is calculated on a currency by currency basis by applying (a) where there is a net increase in the currency position, the increase to the average value is the average rate for the month multiplied by the currency amount of the increase and (b) where there is a net decrease in the currency position, the decrease to the average value is calculated by applying the opening average rate to the carrying amount of the decrease. The difference between the book value at the period end exchange rate and the average value by currency is determined. The balance is considered as realised revaluation reserve.

The difference between realised revaluation reserve account and the ledger balance is accounted as unrealised exchange gain/loss for the period and is recognised in the statement of profit or loss for the year. Subsequently the realised and unrealised gain/loss have been transferred to currency fluctuation reserve and foreign currency revaluation reserve respectively in the statement of financial position.

3.04 Financial assets and liabilities

Financial assets comprise among others foreign currency accounts, foreign investments, assets held with International Monetary Fund (IMF), gold and silver, claims on gold transactions, foreign currency loans to banks, other foreign currency financial assets, Taka coin and cash balances, securities purchased under agreement to resell, loans to Government of Bangladesh, local currency investments, local currency loans to banks, financial institutions and employees and other local currency financial assets.

Financial liabilities comprise deposits from banks and financial institutions in both local and foreign currencies, liabilities with IMF, notes in circulation, short term borrowings and other local currency financial liabilities.

Bangladesh Bank : Notes to the Financial Statements
As at and for the year ended 30 June 2017

(a) Recognition and initial measurement

Loans and advances are initially recognised in the Statement of Financial Position on the date they are originated. Regular purchases or sales of financial assets are recognised or derecognised, as applicable, on the settlement date at which the assets are received or, as the case may be, delivered by the Group. All other financial assets and liabilities are initially recognised when the Group becomes a party to the contractual provision of the instruments. Financial assets and liabilities are initially measured at fair value.

(b) Classification and subsequent measurement

Classification of financial assets and liabilities for the purpose of measurement subsequent to initial recognition in accordance with IAS 39 Financial Instruments: Recognition and Measurement is made in the following manner:

(1) Financial assets and financial liabilities at fair value through profit or loss.

Financial assets or financial liabilities at fair value through profit or loss are either:

- classified as held for trading; or
- designated by the Group as at fair value through profit or loss upon initial recognition.

Financial assets or financial liabilities are classified as held for trading if:

- they are acquired or incurred principally for the purpose of selling or purchasing them in the near term;
- on initial recognition they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
- they are derivatives (except for derivatives that are financial guarantee contracts or designated and effective hedging instruments).

The Group designates financial assets and liabilities at fair value through profit or loss in the following circumstances:

- designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- assets or liabilities contain embedded derivatives that significantly modifies the cash flow that would otherwise be required under the contract.

(2) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to held to maturity other than:

- those that are upon initial recognition designated as at fair value through profit or loss;
- those that are designated as available for sale; and
- those that meet the definition of loans and receivables.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

A sale or reclassification of a more than an insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassification after the Group has collected substantially all of the asset's original principal; and
- sales or reclassification attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

(3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- those that the Group intends to sell immediately or in near term, which are classified as held for trading, and those that the Group has, upon initial recognition, designated as at fair value through profit or loss;
- those that the Group has, upon initial recognition, designated as available for sale; or
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

Loans and receivables are initially measured at fair value plus transaction cost directly attributable to the acquisition of the financial assets, and subsequently measured at their amortised cost using the effective interest method.

Taka coin and cash balances, foreign currency accounts, short term investments with overseas commercial banks, assets held with IMF, foreign currency loans to banks, interest receivable, ways and means advances, overdraft block and current loans to Government of Bangladesh, securities purchased under agreement to resell, local currency loans to banks, financial institutions and employees and other local currency financial assets are classified as loans and receivables.

(4) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that the Group has designated as available for sale or has not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss or (d) trading assets and liabilities.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

Treasury bills and bonds of the Government of Bangladesh, foreign bonds, US dollar treasury bills, investment in debentures, Swift shares, gold and silver, claims from gold transactions and shares of ICB Islamic Bank Limited are classified as available-for-sale financial assets. Swift shares are measured at cost as there is no quoted market price for these shares.

Shares of The Security Printing Corporation (Bangladesh) Ltd. (SPCBL) are measured at cost in the separate financial statement of the Bank in accordance with IAS 27 *Separate Financial Statements.*

(5) Financial liabilities carried at amortised cost

Short-term borrowings, notes in circulation, deposits from banks and financial institutions and liabilities with IMF are classified as financial liabilities carried at amortised cost.

(c) Amortised cost measurement principles

Amortised cost of a financial asset or liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, minus any reduction for impairment or uncollectibility.

Effective interest method is a method of calculating the amortised costs of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability on initial recognition. When calculating effective interest rate, the Group estimates the cash flows considering all contractual terms of the financial instruments, and any revisions to these estimates are recognised in profit or loss. The calculation includes amounts paid or received that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums and discounts.

(d) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if transactions for the assets or liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in the profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(e) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised in other comprehensive income (OCI). When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in OCI is transferred to the statement of profit or loss. Gains and losses arising from a change in the fair value of financial assets and financial liabilities classified as at fair value through profit or loss are recognised in the statement of profit or loss. Gains and losses on subsequent measurement of loans and receivables and held to maturity financial instruments are recognised in the statement of profit or loss.

Bangladesh Bank : Notes to the Financial Statements
As at and for the year ended 30 June 2017

(f) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the statement of profit or loss.

Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, claims from gold transactions and repurchase transactions. Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Available-for-sale financial assets and financial assets held for trading are de-recognised when sold and corresponding receivables from the buyer for the payment are recognised when the asset is delivered to the buyer.

Held-to-maturity instruments and loans and receivables are de-recognised on the day they are repaid in full by the debtor or are deemed to be completely uncollectible.

(g) Identification and measurement of impairment

Financial assets not carried at fair value through profit or loss are reviewed at each reporting date to determine whether there is objective evidence of impairment. Financial assets are impaired when objective evidence demonstrates that a loss event has an impact on the future cash flows that can be estimated reliably.

Evidence of impairment is considered at both a specific asset level and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of the borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the statement of profit or loss.

(h) Off-setting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when and only when the Group has a legal right to set off the amounts and it intends to settle on a net basis.

Income and expenses are presented on a net basis only when permitted under IFRS or for gains and losses arising from a group of similar transactions such as in the Group's trading activities.

3.05 Foreign currency accounts

Foreign currency accounts comprise balances held in the current accounts maintained with different central banks and foreign commercial banks in the designated foreign currency. These are measured at each reporting date by translating to the functional currency at the exchange rates prevailing on that date. Gains and losses arising upon translation are recognised in the statement of profit or loss and are subsequently transferred from retained earnings to revaluation reserve - foreign currency accounts and currency fluctuation reserve (refer to note 3.03 for accounting policy on foreign exchange gain/loss).

3.06 Foreign investments

Foreign investments comprise short term interest bearing deposits held with overseas commercial banks for periods less than 1(one) year in designated foreign currencies, overnight investment, foreign currency treasury bills purchased at a discount and interest bearing foreign bonds. The carrying amount of these investments in foreign currency at each reporting date is translated to the functional currency at the exchange rate on that date. Gains and losses arising upon translation are recognised in the statement of profit or loss and are subsequently transferred to revaluation reserve - foreign currency accounts.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

3.07 Other foreign currency financial assets

Other foreign currency financial assets comprise swift shares, dividend thereof and accrued interest. Swift shares have no quoted market price, and are measured at cost.

3.08 Taka coin and cash balances

Taka coin and cash balances represents the face value of unissued one, two and five Taka coins and notes held by the Bank purchased from the Government at respective face values, cash and cash equivalents held with SPCBL and cash deposit with Sonali Bank Limited, Mymensingh branch.

3.09 Loans to the Government of Bangladesh

Loans to the Government of Bangladesh (the Government) consist of "Ways and Means" advances, as well as credit facilities in the form of overdraft (block and current), and Government treasury bills and bonds.

Ways and Means Advance (WMA)

When total payments to the Government exceed total deposits from the Government, the excess of payment over receipt, with a limit not exceeding Tk.40,000 million (2016: Tk. 40,000 million), is treated as WMA with interest being charged thereon at the reverse repo rate. WMA is realised only after full recovery of Government overdraft-current account balance.

Overdraft - current and block

Government borrowing in excess of the Tk. 40,000 million limit set for WMA are recognised as overdraft-current with a limit not exceeding Tk. 40,000 million (2016: Tk. 40,000 million). Interest is charged thereon at a rate one percent higher than the reverse repo rate. Any recovery or surplus realised by the Bank from the Government is first applied to the overdraft-current account balance. Any surplus remaining after full recovery of overdraft-current account balance is then adjusted against WMA.

Overdraft block was formerly known as Government treasury bills. At the beginning of the financial year 2006-2007 the balance of Government treasury bills was transferred to overdraft-block account. From the financial year 2007 and onwards an amount of Taka 15,000 million has been repaid every year by the Government. Interest is charged thereon at the rate of 91 day treasury bill.

Treasury bills and bonds

Government treasury bills and bonds are the securities which are purchased and held by the Bank when commercial banks and financial institutions do not purchase those from the Government. These are measured at fair value at each statement of financial position date.

3.10 Local currency investments

Group investment comprises investment in debenture of Bangladesh House Building Finance Corporation(BHBFC), shares of the ICB Islamic Bank Ltd and short term deposit with local commercial banks . Investment in debentures and shares are measured at fair value.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

3.11 Local currency loans to banks, financial institutions and employees

These comprise loans to nationalised, private, and specialised commercial banks, other scheduled banks and financial institutions and loans to the Bank employees. These are reported net of allowances for loan impairment losses if any.

3.12 Gold and silver

Physical gold and silver are stored at Motijheel branch of the Bank. These are stated at market value. Valuation gains and losses are recognised in OCI and are reported under gold and silver revaluation reserves in the statement of changes in equity.

In managing its investment portfolio, the Bank lends part of its gold holdings to first-class foreign financial institutions. It receives interest in return. Gold lending transactions are effected on a secured basis. The gold price risk remains with the Bank. Gold loans are entered in the statement of financial position under 'claims from gold transactions' and measured at market value. The interest accrual is recognised under 'Interest income - foreign currency operations'.

3.13 Property, plant and equipment (PPE)

(a) Recognition and measurement

Items of PPE are initially recognised at cost and subsequently carried at revalued amounts, being fair values at the date of the revaluation, less subsequent accumulated depreciation and impairment losses if any.

Land and buildings, appearing as items of PPE are used for its operating, administrative and staff's residence purposes.

(b) Revaluation

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in OCI and accumulated in equity under the heading of revaluation reserve. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss. However, the decrease is recognised in OCI to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in OCI reduces the amount accumulated in equity under the heading of revaluation surplus.

The Bank revalued its land as at 30 June 2014 and other items of PPE were revalued as at 1 July 2009 by an independent valuer. The Bank has a policy to revalue all items of property, plant and equipment every five years. The Bank has formulated new policy on recognition and measurement of PPE based on which revaluation in under process.

The Subsidiary's property, plant and equipment were revalued as at 1 July 2013 by an independent valuer. The revalued property, plant and equipment reflecting the fair values of the assets are incorporated in the consolidated financial statements.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

Significant methods and assumptions for revaluation of items of property, plant and equipment were as follows:

(i) Land was revalued on a reasonable approximation basis. The valuer applied their knowledge of recorded land sales in the respective areas to land measurement established at last valuation;

(ii) Buildings, capital work in progress, electrical installation and gas installation were revalued on the basis of fair values of materials, labour and direct overheads used in construction and installation; and

(iii) Mechanical equipment, fixture and fittings and motor vehicles were revalued on the basis of replacement costs.

(c) Subsequent costs

Cost of replacing a part of PPE is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of PPE are recognised in the statement of profit or loss as incurred.

(d) Capital work in progress

Capital work in progress is recognised when it is incurred and depreciated after the completion of the project.

(e) Depreciation

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to allocate the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss, unless the amount is included in the cost of another asset. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

Class of Property, plant and equipment (PPE)	Bank	SPCBL
Building and other construction	5%	2.5% - 20%
Mechanical and office equipment	10%	5% - 20%
Computer and networking	20%	-
Fixture and fittings	10%	10%
Motor vehicles	20%	20%
Electrical installation	20%	-
Gas installation	20%	-
Low Value Assets	100%	-
Security Equipment	20%	-
Currency Museum and Artifacts	5%	-

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

(f) Borrowing cost capitalisation

The Bank capitalises borrowing costs in accordance with the provision of IAS 23: Borrowing Costs as part of the cost of assets that are directly attributable to the acquisition, construction, or production of a qualifying asset if following conditions are met:

- It is probable that they will result in future economic benefits to the entity;
- The costs can be measured reliably.

If borrowing costs do not meet both the criteria, they are recognized as expenses. For the purpose of capitalisation, a qualifying assets is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

(g) Impairment

The carrying value of the Bank's property, plant and equipment and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of that asset or its cash-generating unit exceeds its recoverable amount. Impairment losses, if any, are recognized in the profit and loss account. For the assets that have indefinite useful life, the recoverable amount is estimated at each balance sheet date. The recoverable amount of asset is the greater of net selling price and value in use. The estimated future cash flows are discounted to their present value using discount rate that reflects the current market assessment of the time value of money and the risk specific to the asset. For an asset that does not generate significantly independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.14 Intangible assets and their amortisation

Software acquired by the Group is measured at cost less accumulated amortisation and accumulated impairment losses if any.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Software is amortised on a straight line basis in profit or loss over its estimated useful life, from the date that it is available for use.

The estimated useful life of software for the current and comparative periods is five years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.15 Securities borrowing, lending business and repurchase transactions

In course of its financial market operations, the Bank engages in repurchase agreements involving Government treasury bills and bonds (which is used as a collateral for repurchase transactions). When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the financial statements. Similarly, when commercial banks sell a financial asset to the Bank and simultaneously enter into an agreement to repurchase the asset at a fixed price on a future date, the agreement is accounted for as a loan, and the underlying asset is not recognised in the financial statements.

3.16 Employee benefits

Employee benefits are all forms of consideration given by the entity in exchange for service rendered by an employee. Employee benefits are recognised as:

(a) a liability (accrued expense) when an employee has provided service in exchange for employee benefits to be paid in the future; and

(b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

3.17 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus, medical allowances or any others are charged as expenses in the statement of profit or loss.

3.18 Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment. The Group operates a number of post-employment benefit plans and recognises expenses for these plans in the statement of profit or loss.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

(a) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

(i) Contributory Provident Fund (CPF)

Bank and employees contribute to the fund, which invests in various securities. The Bank commits a return of 13% on the balance of the contributed amount. In the event that the return from securities is lower than the committed return of 13%, the shortfall, if any, would be paid by the Bank and is recognised in the statement of profit or loss. Bank's obligations for contributions to the above fund are recognised as an expense in the statement of profit or loss as incurred.

(b) Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

(i) General Provident Fund (GPF)

Employees contribute at various rates (within 5-25%) of their basic salaries to the fund. No contributions are made by the Bank for the above fund. The provident fund invests in various securities and the Bank has committed a return of 13% (2016: 13%). Any shortfall in the return from investments is funded by the Bank by charging in its statement of profit or loss.

(ii) Pension scheme

Employees are entitled to pension amounting to maximum of 90% (2016: 90%) of their last basic salary. 50% of the pension amount is paid as a lump sum computed at the rate of Tk. 230 (2016: Tk. 230) per Tk. 1 surrendered from the pension. Employees may choose to surrender the remaining 50% for a lump sum payment computed at the rate of Tk. 115 (2016: Tk. 115) per Tk.1 or to receive their pension monthly over the remaining lifetime.

All employees irrespective of joining date are entitled to medical allowance in cash (Tk. 1,500 per month upto age 65 years and Tk. 2,500 after 65 years) even after retirement as prescribed by the government.

The Bank actuarially valued its pension liabilities as at 30 June 2012. The calculation was performed by a qualified actuary using the projected unit credit method. Actuarial gains or losses arising from the change in defined benefit obligation are recognised in other comprehensive income. Based on the new National Pay Scale-2015, actuarial valuation process is underway following the "Public Procurement Act-2016 (PPA)" and is expected to be in effect in next financial year.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

(iii) Gratuity scheme

The Bank actuarially valued its gratuity scheme and measured its liability for defined benefit obligation as at 30 June 2012. The calculation was performed by a qualified actuary using the projected unit credit method. Actuarial gains or losses arising from the change in defined benefit obligation are recognised in the statement of profit or loss and other comprehensive income.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the statement of profit or loss when the plan amendment or curtailment occurs.

(iv) Leave encashment

Those employees who have unutilised leave up to one year or more at the time of retirement age of 59 are allowed to leave with salary for one year. The remaining unutilised leave is encashed (maximum eighteenth months). Employees are not allowed to encash their unutilised leave until reaching retirement age.

3.19 Other long-term employee benefits

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related service. All employees after retirement are entitled a maximum of Taka 1,000 per year in the form of medicine.

3.20 Provisions

Provisions are recognised in respect of restructuring, redundancy and legal claims arising from past events where it is probable that an outflow of resources will be required to settle the obligations and the amount can be reliably estimated.

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations a reliable estimate can be made of the amount of the obligation.

A legal obligation is an obligation that derives from a contract, legislation or other operation of law. A constructive obligation is an obligation that derives from an entity's actions such as by an established pattern of past practice, published policies etc. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the amount of provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate and any changes in the estimates are applied prospectively.

Bangladesh Bank : Notes to the Financial Statements
As at and for the year ended 30 June 2017

3.21 Notes in circulation

Bank notes issued by the Bank represents a claim on the Bank in favour of the holder. The liability for bank notes in circulation is recorded at face value in the financial statements.

3.22 Government grants

Government grants are recognised at fair value when there is reasonable assurance that the Group will comply with the conditions attached to them and the grants will be received. Grants related to purchase of assets are treated as deferred income and allocated to the statement of profit or loss over the useful lives of the related assets.

3.23 Interest income and expenses

Interest income and expenses are recognised in the statement of Profit or Loss and Other Comprehensive Income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

Interest income and expenses include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

3.24 Commission and discounts

Commission income arises on instruments issued by the Group, long outstanding entries of the sundry accounts, sale proceeds of sundry items, car and bus fares realised from the staff and other miscellaneous items.

3.25 Dividend income

Dividend income is recognised in the separate financial statements of the Bank when the right to receipt of income is established.

3.26 Income tax

(a) Bangladesh Bank

The Bank is not subject to income taxes on any of its income, stamp duties, and customs duties on gold, silver, coins, currency notes, security papers and any other goods that may be specified by the Government as per Article 73, 74 and 75 of Bangladesh Bank Order, 1972.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

(b) Subsidiary

The Subsidiary is subject to income tax. Income tax on the profit or loss for the year comprises of current tax and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity. Present applicable income tax rate is 35%.

Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiary to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

3.27 Subsequent events

Events after the reporting date that provide additional information about the Group's position at the reporting date or those that indicate the going concern assumption is not appropriate are reflected in the financial statements. Events after the reporting period which are not adjusting events are disclosed in the notes when material in compliance with IAS 10 Events after the Reporting Period. Up to the date the financial statements were authorized for issue, no events have occurred which require to disclose in the financial statements.

3.28 New accounting standards and changes in accounting policy

The Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these financial statements. The various amendments to standards, including any consequential amendments to other standards, with the date of initial application of 1 January 2017 have been considered. However, these amendments have no material impact on the financial statements of the Group.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. However, the Group has not early applied the following new standards in preparing these financial statements.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

(a) IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of the financial instruments, a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is yet to assess the potential impact of IFRS 9 on its financial statements.

(b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and BFRI 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is yet to assess the potential impact of IFRS 15 on its financial statements.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

	2017 Taka '000	2016 Taka '000

4 Foreign currency accounts

Represents the equivalent accumulated value of different foreign currencies held with other central banks and balances of deposits with foreign commercial banks.

	2017 Taka '000	2016 Taka '000
Balance held with		
Other central banks	16,795,787	19,919,793
Foreign commercial banks	18,092,670	25,097,704
Total	**34,888,457**	**45,017,497**

5 Foreign investments

	2017 Taka '000	2016 Taka '000
Overnight investment	214,600,368	136,235,070
Short term deposits with overseas commercial banks	928,877,704	1,115,920,187
US Dollar treasury bills	79,806,111	15,654,912
Foreign bonds	1,081,521,961	766,864,248
Total	**2,304,806,144**	**2,034,674,417**

6 International Monetary Fund related assets and liabilities

6.01 Assets held with International Monetary Fund

	2017 Taka '000	2016 Taka '000
Quota	119,614,070	116,969,649
Quota(IMF) paid by Government*	(14,546,567)	(14,546,567)
SDR holding	108,661,765	106,516,991
Interest receivable on SDR holding	112,707	9,851
Total	**213,841,975**	**208,949,924**

*The amount represents 25% of increased quota amount (SDR 533.30 million) which was paid in foreign currency debiting directly from government account. The quota increase was effected in 2016.

6.02 Liabilities with International Monetary Fund

	2017 Taka '000	2016 Taka '000
IMF securities	100,851,183	102,024,849
IMF-1 and IMF-2 account	1,607,087	1,612,895
SDR allocation	57,239,454	55,974,033
IMF Extended Credit Facility (ECF)	71,768,423	70,181,802
Loan under the Poverty Reduction and Growth Facility (PRGF)	-	369,245
Interest payable	53,726	4,742
Total	**231,519,873**	**230,167,566**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

Bangladesh has been a member of the International Monetary Fund ("IMF") since 1972. The Bank also acts as both the fiscal agent and the depository for the IMF. As fiscal agent, Bangladesh Bank is authorised to carry out all operations and transactions with the IMF. As depository, Bangladesh Bank maintains the IMF's currency holdings and ensures that the assets and liabilities of IMF membership are properly reflected in its accounts and presented in its financial statements.

The quota of Bangladesh is its membership subscription. Quota is the amount of money that each IMF member country is required to contribute to the IMF. A member must pay its subscription in full upon joining the fund; up to 25 percent must be paid in SDRs or widely accepted currencies such as the US Dollar, the EURO, the YEN or the Pound Sterling, while the rest is paid in the member's own currency. The subscription is granted mainly by the issue of promissory notes in favour of the IMF and partly paid in reserve assets, partly by the Government of Bangladesh and partly by deposits to the IMF account maintained with the Bank.

Special Drawing Rights (SDR) are allocated by the IMF to members on the basis of members' quota at the time of the SDR allocation. Bangladesh Bank pays interest on its SDR allocations and earns interest on its holdings of SDR.

Bangladesh Bank has revalued IMF Securities, IMF 1 & 2 Account using the SDR exchange rate prevailing as on 30th April, 2017 to agree with the balances shown in the financial statements of IMF. The other three accounts namely SDR Allocation, IMF Extended Credit Facility and Loan under the Poverty Reduction & Growth Facility were translated to Taka at the exchange rate ruling at 30 June 2017.

		2017 Taka '000	2016 Taka '000
7	**Gold and silver**		
	Gold	11,157,332	7,033,504
	Silver	226,224	245,385
	Total	**11,383,556**	**7,278,889**
8	**Claims from gold transactions**	**33,811,041**	**38,849,350**

These represent claims against gold loan to Standard Chartered Bank, London and HSBC, London for 3 to 12 months. However, The Bank has in total 449,127.44 troy ounce of gold and 168,728.15 troy ounce of silver under its holding. Remaining amount excluding the claims from transacttions is the physical gold that are held at site by Bank of England, London and own vault of Bangladesh Bank.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

		2017 Taka '000	2016 Taka '000
9	**Foreign currency loans to banks**		
	Export Development Fund (EDF) Dollar investment	198,295,935	132,234,324
	LTFF Investment under FSSP-BB Source A/C	1,047,747	-
	LTFF Investment under FSSP-IDA Source A/C	6,950,325	-
	Rupali Bank Karachi*	10,823	10,508
	Less: Provision for loan losses (for Rupali Bank Karachi)	(10,823)	(10,508)
	Total	**206,294,007**	**132,234,324**

*This non-convertible account was created in 1979 on request of Bangladesh Bank. The purpose of creating the account is to adjust some unadjusted export bills prior to our independence. The principal amount of this account can not be remitted, transferred and converted. But the interest can be transferred after paying tax and complying the rules of the State Bank of Pakistan.

		2017 Taka '000	2016 Taka '000
10	**Other foreign currency financial assets**		
	Swift shares	80	80
	Interest receivable	9,437,834	6,926,757
	Other recievable*	5,224,144	6,365,370
	Total	**14,662,058**	**13,292,207**

Bank has bought one share of SWIFT as part of membership of the said organization. Face value of the share is equivalent to Taka 80,474.57.

* In February 2016, several unauthorised transactions were processed by Federal Reserve Bank of New York resulting in Taka 6,365 million (Taka equivalent of USD 81.19 million) being paid out of the Bank's account held with it into third party accounts held with Rizal Commercial Banking Corporation, The Philippines (RCBC). Despite instructions from the Bank to halt onward payments, RCBC allowed those account holders to pay out a significant portion of these monies to other recipients.

The Bank has initiated procedures to recover the heisted amount. On the basis of mutual legal assistance request of Bangladesh Bank, now the Philippine Department of Justice has been extending all sorts of legal assistance along with appointing government lawyer in the Phillipine court on behalf of Bangladesh for recovery of the heisted amount of Bangladesh. Furthermore, the Bangko Sentral ng Pilipinas has fined RCBC Taka 1,650 million (Taka equivalent of Peso 1,000 million) in connection with the above transactions. Current year the Bank has recovered Taka 1,141.23 million (Taka equivalent of USD 14.54 million) in addition to earlier recovered Taka 5.36 million (Taka equivalent of USD 0.07 million) in the last year. Bangladesh Bank, Federal Reserve Bank of New York & Federal Bureau of Investigation of USA are also working on it collaboratively. The Bank's management concurs with external legal counsel who is confident of recovery. Considering the above facts, remaining unrecovered amounts are being reported as other foreign currency financial assets in these financial statements since the recovery process is underway.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

		2017	2016
11	**Consolidated Taka coin and cash balances**	**Taka '000**	**Taka '000**
	Taka coin	4,857,974	4,497,610
	Cash balances (separate)	39,655	16,512
	Cash balances (SPCBL)	11,716,019	12,170,496
	Total	**16,613,648**	**16,684,618**
11.01	**Taka coin and cash balances**		
	Taka coin	4,857,974	4,497,610
	Cash balances	39,655	16,512
	Total	**4,897,629**	**4,514,122**

Taka coin and cash balances represents the face value of unissued one, two and five Taka coins and notes held by the Bank purchased from the Government at respective face values, cash and cash equivalents held by SPCBL and cash deposit with Sonali Bank Limited, Mymensingh branch.

12	**Securities purchased under agreement to resell**	**-**	**8,480,000**

When commercial banks sell financial assets to the Bank entering into agreement to repurchase the asset at a fixed price on a future date, the agreement is accounted for as a loan, and the underlying asset is not recognized in the financial statements.

13	**Loans to the Government of Bangladesh**		
	Ways and means advance (WMA)	30,155,600	40,000,000
	Overdraft - current (ODC)	-	40,315,900
	Overdraft - block (ODB)	56,850,000	71,850,000
	Treasury bills	8,116,472	15,628,805
	Treasury bonds	43,594,929	31,314,474
	Total	**138,717,001**	**199,109,179**
14	**Consolidated local currency investments**		
	Short term money market investments*	878,712	634,804
	Debenture - BHBFC	3,945,000	4,715,000
	Shares- ICB Islamic Bank Limited**	7,452	7,452
	Others	4,136	4,136
	Total	**4,835,300**	**5,361,392**

*These represent the total amount of term deposits by SPCBL with different local commercial banks.

**SPCBL holds 745,200 shares of Tk.10 each of ICB Islamic Bank Ltd. (Formerly the Oriental Bank Ltd.) as per Bangladesh Bank Circular No - BRPD (R-1) 651/9(10)/2007-446 dated 2 August 2007.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

14.01 Local currency investments

	2017 Taka '000	2016 Taka '000
Debenture - BHBFC	3,945,000	4,715,000
Investment in subsidiary	12,000,000	12,000,000
Total	**15,945,000**	**16,715,000**

15 Consolidated local currency loans to banks, financial institutions and employees

(i) Local currency loans to banks and financial institutions

	2017 Taka '000	2016 Taka '000
State owned banks:		
Commercial banks	4,764,329	3,999,640
Specialised banks*	27,959,832	29,431,830
	32,724,161	**33,431,470**
Provision for impairment (Note 15.a)	(480,559)	(64,362)
	32,243,602	**33,367,108**
Other banks and financial institutions:		
Private banks	3,146,800	2,903,250
Other loans and advances	29,578,717	28,549,486
	32,725,517	**31,452,736**
Interest receivable	7,731,998	8,237,801
Total (i)	**72,701,117**	**73,057,645**

(ii) Local currency loans and advances to employees

	2017 Taka '000	2016 Taka '000
Loans and advances to employees	33,996,229	32,805,304
Provision for loan losses (Note 15.b)	(518,201)	(269,881)
Total (ii)	**33,478,028**	**32,535,423**
Total loans (i+ii)	**106,179,145**	**105,593,068**

15.01 Local currency loans to banks, financial institutions and employees

(i) Local currency loans to banks and financial institutions

	2017 Taka '000	2016 Taka '000
State owned banks:		
Commercial banks	4,764,329	3,999,640
Specialised banks*	27,959,832	29,431,830
	32,724,161	**33,431,470**
Provision for impairment (Note 15.a)	(480,559)	(64,362)
	32,243,602	**33,367,108**
Other banks and financial institutions:		
Private banks	3,146,800	2,903,250
Other loans and advances	29,578,717	28,549,486
	32,725,517	31,452,736
Interest receivable	7,731,998	8,237,801
Total (i)	**72,701,117**	**73,057,645**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

	2017	2016
(ii) Local currency loans and advances to employees	**Taka '000**	**Taka '000**
Loans and advances to employees	32,632,903	31,549,288
Provision for loan losses (Note 15.b)	(518,201)	(269,881)
Total (ii)	**32,114,702**	**31,279,407**
Total loans (i+ii)	**104,815,819**	**104,337,052**

*Specialised banks include banks catering the specific needs of different economic sectors as described below:

Banks	Specialized Sectors
Bangladesh Krishi Bank	Agricultural
Rajshahi Krishi Unnayan Bank	Agricultural

15.a Provision for impairment

	2017	2016
Opening balance	64,362	140,427
Charges/(Released) during the year	416,197	(76,065)
Total	**480,559**	**64,362**

15.b Provision for loan losses

	2017	2016
Opening balance	269,881	549,357
Charged/(Released) during the year	248,320	(279,476)
Total	**518,201**	**269,881**

Provision for impairment is an asset type account which is kept against possible future loss on interest from loans. The released amount is due to write back of provision of rescheduled demand loan.

Provision for loan losses is also an asset type account maintained for adjusting loss (both principal and interest) from staff advance.

16 Consolidated other local currency financial assets

	2017	2016
Unutilised Financial Sector Support Project (FSSP) Fund (Note 24.04)	1,085,413	2,546,112
Interest receivables (Bangladesh bank)	1,192,528	886,249
Interest receivables (SPCBL)	414,822	361,786
Total	**2,692,763**	**3,794,147**

16.01 Other local currency financial assets

	2017	2016
Unutilised Financial Sector Support Project (FSSP) Fund (Note 24.04)	1,085,413	2,546,112
Interest receivables	1,192,528	886,249
Total	**2,277,941**	**3,432,361**

Interest receivables include interest receivable on Government Treasury bills and bonds, Debenture-HBFC etc.

Bangladesh Bank : Notes to the Financial Statements
As at and for the year ended 30 June 2017

17 Property, Plant and Equipment

Consolidated

i) 30 June 2017

Taka '000

Particulars	Land	Building and other construction	Mechanical and office equipment	Computer and networking	Fixture and fittings	Motor vehicles	Electrical installation	Gas installation	Security equipment	Low value assets	Capital work in progress	Total
Cost												
As at 1 July 2016	36,551,304	5,237,826	4,311,750	1,825,721	1,156,624	258,604	419,464	2,012	19,172	57,235	3,719,895	53,559,607
Addition during the year	-	50,924	354,354	32,673	47,572	17,773	54,628	-	20,821	3,397	791,490	1,373,631
Transfers during the year	-	109,411	1,120,629	-	-	-	17,744	-	2,325	-	(1,250,110)	-
Disposals during the year	-	-	(8,351)	(5,624)	-	-	(253)	-	-	(1,818)	-	(16,046)
As at 30 June 2017	**36,551,304**	**5,398,162**	**5,778,383**	**1,852,769**	**1,204,195**	**276,377**	**491,584**	**2,012**	**42,319**	**58,813**	**3,261,275**	**54,917,192**
Accumulated depreciation												
As at 1 July 2016	-	1,453,961	1,097,048	1,597,872	125,109	199,059	165,673	1,241	239	41,937	-	4,682,140
Charge for the year	-	271,724	268,915	110,689	114,117	35,171	76,144	243	4,905	15,997	-	897,905
Disposals during the year	-	-	(8,350)	(5,613)	-	-	(253)	-	-	(1,809)	-	(16,025)
As at 30 June 2017	**-**	**1,725,685**	**1,357,613**	**1,702,949**	**239,227**	**234,230**	**241,563**	**1,484**	**5,144**	**56,125**	**-**	**5,564,020**
Net book value												
As at 30 June 2017	36,551,304	3,672,477	4,420,770	149,820	964,968	42,147	250,021	528	37,175	2,688	3,261,275	49,353,172
As at 30 June 2016	36,551,304	3,783,865	3,214,702	227,848	1,031,515	59,545	253,791	771	18,933	15,298	3,719,895	48,877,467

Land includes Taka 27,539 million of leasehold land, all on standard terms of thirty to ninety-nine years.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

ii) 30 June 2016

Taka '000

Particulars	Land	Building and other construction	Mechanical and office equipment	Computer and networking	Fixture and fittings	Motor vehicles	Electrical installation	Gas installation	Security equipment	Low value assets	Capital work in progress	Total
Cost												
As at 1 July 2015	36,551,304	5,063,845	4,230,264	1,797,945	176,453	243,028	268,980	2,016	-	-	1,626,590	49,960,425
Addition during the year	-	15,642	119,890	15,278	31,188	19,185	119,543	-	19,172	528	3,311,532	3,651,959
Transfers during the year	-	158,341	-	16,282	999,641	-	43,964	-	-	-	(1,218,227)	-
Disposals during the year	-	-	(37,136)	(243)	(9,388)	(3,597)	(2,413)	(1)	-	-	-	(52,777)
Reclassification	-	(2)	(1,268)	(3,542)	(41,270)	(12)	(10,611)	(3)	-	56,707	-	-
As at 30 June 2016	**36,551,304**	**5,237,826**	**4,311,750**	**1,825,721**	**1,156,624**	**258,604**	**419,464**	**2,012**	**19,172**	**57,235**	**3,719,895**	**53,559,607**
Accumulated depreciation												
As at 1 July 2015	-	1,191,118	906,995	1,322,263	89,227	169,192	130,204	998	-	-	-	3,809,997
Charge for the year	-	262,844	228,237	278,847	65,390	33,474	46,003	247	239	6,244	-	921,525
Disposals during the year	-	-	(37,116)	(194)	(6,070)	(3,596)	(2,405)	(1)	-	-	-	(49,382)
Reclassification	-	(1)	(1,068)	(3,043)	(23,438)	(11)	(8,129)	(3)	-	35,692	-	-
As at 30 June 2016	**-**	**1,453,961**	**1,097,048**	**1,597,872**	**125,109**	**199,059**	**165,673**	**1,241**	**239**	**41,937**	**-**	**4,682,140**
Net book value												
As at 30 June 2016	36,551,304	3,783,865	3,214,702	227,848	1,031,515	59,545	253,791	771	18,933	15,298	3,719,895	48,877,467
As at 30 June 2015	36,551,304	3,872,727	3,323,269	475,682	87,226	73,836	138,776	1,018	-	-	1,626,590	46,150,428

Land includes Taka 17,080 million of leasehold land, all on standard terms of thirty to ninety-nine years.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

17.01 Property, Plant and Equipment

Separate

i) 30 June 2017

Taka '000

Particulars	Land	Building and other construction	Mechanical and office equipment	Computer and networking	Fixture and fittings	Motor vehicles	Electrical installation	Gas installation	Security equipment	Low value assets	Capital work in progress	Total
Cost												
As at 1 July 2016	32,892,704	4,022,749	1,143,203	1,825,721	1,117,415	232,015	419,464	2,012	19,172	57,235	593,608	42,325,298
Addition during the year	-	50,924	11,030	32,673	46,690	11,500	54,628	-	20,821	3,397	791,463	1,023,127
Transfers during the year	-	109,411	-	-	-	-	17,744	-	2,325	-	(129,481)	-
Disposals during the year	-	-	(4,924)	(5,624)	-	-	(253)	-	-	(1,818)	-	(12,620)
As at 30 June 2017	**32,892,704**	**4,183,084**	**1,149,309**	**1,852,769**	**1,164,105**	**243,515**	**491,584**	**2,012**	**42,319**	**58,813**	**1,255,591**	**43,335,805**
Accumulated depreciation												
As at 1 July 2016	-	1,279,805	691,206	1,597,873	89,741	179,620	165,673	1,242	239	41,937	-	4,047,336
Charge for the year		212,792	84,525	110,689	112,977	32,299	76,144	243	4,905	15,997		650,571
Disposals during the year		-	(4,924)	(5,613)	-	-	(253)	-	-	(1,809)		(12,598)
As at 30 June 2017	**-**	**1,492,597**	**770,807**	**1,702,949**	**202,718**	**211,919**	**241,564**	**1,485**	**5,144**	**56,125**	**-**	**4,685,309**
Net book value												
As at 30 June 2017	32,892,704	2,690,487	378,502	149,820	961,387	31,596	250,020	527	37,175	2,688	1,255,591	38,650,495
As at 30 June 2016	32,892,704	2,742,944	451,997	227,848	1,027,674	52,395	253,791	770	18,933	15,298	593,608	38,277,962

Land includes Taka 27,539 million of leasehold land, all on standard terms of thirty to ninety-nine years.

Bangladesh Bank : Notes to the Financial Statements
As at and for the year ended 30 June 2017

ii) 30 June 2016

Taka '000

Particulars	Land	Building and other construction	Mechanical and office equipment	Computer and networking	Fixture and fittings	Motor vehicles	Electrical installation	Gas installation	Security equipment	Low value assets	Capital work in progress	Total
Cost												
As at 1 July 2015	32,892,704	3,851,836	1,110,080	1,797,945	137,746	220,288	268,980	2,016	-	-	1,574,417	41,856,012
Addition during the year	-	12,574	36,140	15,278	30,686	15,336	119,543	-	19,172	528	237,418	486,676
Transfers during the year	-	158,341	-	16,282	999,641	-	43,964	-	-	-	(1,218,227)	-
Disposals during the year	-	-	(1,749)	(243)	(9,388)	(3,597)	(2,413)	(1)	-	-	-	(17,390)
Reclassification	-	(2)	(1,268)	(3,542)	(41,270)	(12)	(10,611)	(3)	-	56,707	-	-
As at 30 June 2016	**32,892,704**	**4,022,749**	**1,143,203**	**1,825,721**	**1,117,415**	**232,015**	**419,464**	**2,012**	**19,172**	**57,235**	**593,608**	**42,325,298**
Accumulated depreciation												
	-	1,075,587	611,900	1,322,263	54,930	151,613	130,204	999	-	-	-	3,347,497
Charge for the year	-	204,218	82,103	278,847	64,320	31,614	46,003	247	239	6,244	-	713,835
Disposals during the year	-	-	(1,729)	(194)	(6,070)	(3,596)	(2,405)	(1)	-	-	-	(13,995)
Reclassification	-	(1)	(1,068)	(3,043)	(23,438)	(11)	(8,129)	(3)	-	35,692	-	-
As at 30 June 2016	**-**	**1,279,805**	**691,206**	**1,597,873**	**89,741**	**179,620**	**165,673**	**1,242**	**239**	**41,937**	**-**	**4,047,337**
Net book value												
As at 30 June 2016	32,892,704	2,742,944	451,997	227,848	1,027,674	52,395	253,791	770	18,933	15,298	593,608	38,277,961
As at 30 June 2015	32,892,704	2,776,249	498,180	475,682	82,816	68,675	138,776	1,017	-	-	1,574,417	38,508,515

Land includes Taka 17,080 million of leasehold land, all on standard terms of thirty to ninety-nine years.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

		2017 Taka '000	2016 Taka '000
18	**Intangible assets**		
	Intangible asset at cost	1,392,030	1,372,978
	Accumulated amortisation	(1,204,888)	(1,074,976)
	Capital work in progress	128,909	12,984
	Total	**316,051**	**310,986**

Balance represents the accumulated value of Enterprise Resources Planning (ERP), Core Banking Solutions (CBS), Enterprise Data Warehouse (EDW), Real Time Gross Settlement (RTGS), Bangladesh Automated Clearing House (BACH), Bangladesh Electronic Fund Transfers Network (BEFTN), Credit Information Bureau (CIB) and Bank's in-house built software.

		2017 Taka '000	2016 Taka '000
19	**Consolidated other non-financial assets**		
	Prepayments and advances	1,408,111	1,118,496
	Stock	5,483,846	6,358,400
	Sundry debtors	910,109	572,747
	Total	**7,802,065**	**8,049,643**
19.01	**Other non-financial assets**		
	Prepayments and advances	2,881,746	3,500,890
	Stock (Printed books, forms and papers, office supplies and stock of medicine)	41,468	44,253
	Total	**2,923,214**	**3,545,143**
20	**Deposits from banks and financial institutions**		
	Foreign currency deposits from commercial banks	89,879,045	71,333,857
	Asian Clearing Union (ACU)	82,202,364	76,275,538
	Interest payable on ACU	72,889	26,004
	Total	**172,154,298**	**147,635,399**
21	**Notes in circulation**		
	Notes in circulation	1,497,287,073	1,307,303,830
	Cash in hand	(55)	(112)
	Total	**1,497,287,018**	**1,307,303,718**

Notes in circulation represents currency issued having a claim on Bangladesh Bank. The denomination of notes in circulation as at 30 June was as follows:

Denomination	Number in pieces	2017	2016
10 Taka note	1,313,099,525	13,130,995	12,713,681
20 Taka note	572,851,450	11,457,029	10,846,478
50 Taka note	276,133,389	13,806,669	11,795,416
100 Taka note	825,549,867	82,554,987	77,416,722
500 Taka note	1,181,543,080	590,771,540	532,824,877
1000 Taka note	785,565,853	785,565,853	661,706,656
Total	**4,954,743,164**	**1,497,287,073**	**1,307,303,830**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

	2017 Taka '000	2016 Taka '000

Liability for notes in circulation is recorded at its face value in the statement of financial position. In accordance with Article 30 of Bangladesh Bank Order, 1972, this liability is supported by the following assets:

	2017 Taka '000	2016 Taka '000
Gold	7,403,264	7,033,504
Silver	226,224	245,385
Approved foreign exchange	1,390,000,000	1,210,000,000
Bangladesh Government securities	64,920,173	43,647,893
Shares	-	12,000,000
Taka coin	4,857,974	4,497,610
Other loans and advances	29,879,438	29,879,438
Total	**1,497,287,073**	**1,307,303,830**

22 Deposits from banks and financial institutions

	2017 Taka '000	2016 Taka '000
State owned commercial banks	205,978,567	155,859,879
Government specialised banks	17,012,936	15,848,188
Private banks	468,964,745	400,449,820
Foreign banks	35,340,860	30,806,924
Financial institutions	6,594,308	5,944,039
Other banks	35,698	28,557
Total	**733,927,114**	**608,937,407**

Deposits from banks and financial institutions comprise required reserve deposits Cash Reserve Ratio (CRR) calculated at a rate of 6.5% (2016: 6.5%) on the bank's liability base, together with balances held for settlement purposes.

23 Short term borrowings

	2017 Taka '000	2016 Taka '000
Bangladesh Bank bills	182,618,016	263,401,402
Total	**182,618,016**	**263,401,402**

Securities sold under agreement to repurchase and Bangladesh Bank bills are instruments used by the Bank to withdraw liquidity from the market. The balances at the year end reflect market conditions at that date.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

24 Consolidated other local currency financial liabilities

	2017 Taka '000	2016 Taka '000
Government deposits	5,087	5,078
Other deposits (Note 24.02)	42,154,704	99,471,207
Bank notes adjusting account - demonetised Pakistani notes	3,230	3,230
Sundry creditors account	4,376,993	3,422,430
Interest suspense account	741	737
Deposits from donor agencies	25,971,295	24,529,182
Inter branch adjustments (suspense)	(265,218)	(376,565)
Credit guarantee scheme for small industrial investors	248,808	248,808
Provision for pension*	8,693,786	7,599,787
Provision for gratuity*	2,083,081	1,880,884
Provision for leave encashment	1,582,432	1,615,301
Small and medium enterprise fund - Government	1,178,896	1,772,064
Loan from Govt of Bangladesh - Central Bank Strengthening Project (Note-24.03)	2,592,453	2,649,828
Loan from Govt of Bangladesh-Fin. Sector Support Project (Note-24.04)	8,602,549	2,561,267
DFID -RPP Project	-	2,357
Small and medium enterprise fund ADB-2	279,702	7,332,907
Deferred tax liability	1,110,023	1,064,787
Others - subsidiary	1,286,747	1,661,805
Fund for small investor affected in capital market	7,032,507	3,757,614
Total	**106,937,816**	**159,202,708**

24.01 Other local currency financial liabilities

	2017 Taka '000	2016 Taka '000
Government deposits	5,087	5,078
Other deposits (Note 24.02)	42,154,704	99,471,207
Bank notes adjusting account - demonetised Pakistani notes	3,230	3,230
Sundry creditors account	5,827,915	4,560,216
Interest suspense account	741	737
Deposits from donor agencies	25,971,295	24,529,182
Inter branch adjustments (suspense)	(265,218)	(376,565)
Credit guarantee scheme for small industrial investors	248,808	248,808
Provision for pension*	8,693,786	7,599,787
Provision for gratuity*	1,908,033	1,677,236
Provision for leave encashment	1,429,861	1,496,259
Small and medium enterprise fund - Government	1,178,896	1,772,064
Loan from Govt of Bangladesh - Central Bank Strengthening Project (Note-24.03)	2,592,453	2,649,828
Loan from Govt of Bangladesh-Fin. Sector Support Project (Note-24.04)	8,602,549	2,561,267
DFID -RPP Project	-	2,357
Small and medium enterprise fund ADB-2	279,702	7,332,907
Fund for small investor affected in capital market	7,032,507	3,757,614
Total	**105,664,349**	**157,291,212**

*Refer to note 45 for details.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

		2017	2016
		Taka '000	Taka '000

24.02 Other deposits comprise Bangladesh Government special islamic bonds fund deposit, employees provident fund deposit, liquidator bank deposit, schedule bank's insurance fund deposit, security deposit, employees co-operative societies deposits and other sundry deposits.

24.03 Central Bank Strengthening Project fund (CBSP) - Liability

Government of Bangladesh (GoB) signed a Credit Agreement with the International Development Association (IDA) for a Project named Central Bank Strengthening Project (CBSP). The related Credit Reference is IDA 3792 BD and the Project was meant for "Improvement of efficiency of the Bank through functional reforms and large scale automation of its' business process". Subsequent to this agreement, a subsidiary loan agreement was signed between GoB and the Bank to this effect for execution of the project. The total cost of the project was Tk. 3,892 million (USD 55.60 million), of which IDA provided Tk. 3,060 million (USD 43.71 million) through Government and the rest Tk. 832 million (USD 11.88 million) was funded by the Bank. The project started in late 2003 and was completed on 30 April 2013.

The Bank has to repay the principal and the interest amount of the loan to Government within a tenure of 30 years starting from December 01, 2013 to June 01, 2043 as per revised schedule

24.04 Financial Sector Support Project (FSSP)

Government of Bangladesh (GoB) signed a credit agreement with the International Development Association (IDA) for a Project named Financial Sector Support Project (FSSP) for amount of SDR 213,400,000. The related credit reference is 5664 BD and the Project was meant for "Improvement of the recipient's financial market infrastructure, the regulatory and oversight capacity of the project implementing entity and access to long term financing for private firms in Bangladesh". Subsequent to this agreement, a subsidiary loan agreement was signed between GoB and Bangladesh Bank on August 27, 2015 to this effect for execution of the Project. The Project is scheduled to close on September 30, 2020.

The subsidiary loan will be denominated in Taka and the Bank has to repay the principal and the interest amount of the loan to Government within a tenure of 38 years including a grace period of 6 years for each disbursement from the proceeds of the credit.

25	**Capital**	**30,000**	**30,000**

The entire capital of the Bank stands vested in and allocated to the Government as per Article 4(1) and 4(2) of the Order.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

		2017 Taka '000	2016 Taka '000
26	**Consolidated revaluation reserves**		
	Revaluation reserve - gold and silver (Note 26.02)	14,680,065	16,184,506
	Revaluation reserve - foreign currency accounts (Note 26.03)	77,728,435	9,227,026
	Revaluation reserve - property, plant and equipment (Note 26.04)	39,917,570	40,474,443
	Revaluation reserve - financial instruments (Note 26.05)	(79,390)	5,606,233
	Total	**132,246,680**	**71,492,208**
26.01	**Revaluation reserves**		
	Revaluation reserve - gold and silver (Note 26.02)	14,680,065	16,184,506
	Revaluation reserve - foreign currency accounts (Note 26.03)	77,728,435	9,227,026
	Revaluation reserve - property, plant and equipment (Note 26.04)	34,474,273	34,474,273
	Revaluation reserve - financial instruments (Note 26.05)	(79,390)	5,606,233
	Total	**126,803,383**	**65,492,038**

26.02 Revaluation reserve - gold and silver

The Bank accounts for the gain/loss on revaluation of gold and silver in the statement of profit or loss and other comprehensive income subsequently transferred to a separate account - revaluation reserve-gold and silver, which forms part of equity.

26.03 Revaluation reserve - foreign currency accounts

The Bank accounts for the unrealised gain/loss on revaluation of foreign currency to the statement of profit or loss and other comprehensive income subsequently transferred to a separate account - revaluation reserve-foreign currency, which forms part of equity.

26.04 Revaluation reserve - property, plant and equipment

The Group accounts for the gain/loss on revaluation of property, plant and equipment in the statement of profit or loss and other comprehensive income subsequently transferred to a separate account - revaluation reserve - property, plant and equipment, which forms part of equity.

26.05 Revaluation reserve - financial instruments

The Bank accounts for the gain/loss on revaluation of financial instruments in the statement of profit or loss and other comprehensive income subsequently transferred to a separate account - revaluation reserve- financial instrument, which forms part of equity.

		2017	2016
27	**Currency fluctuation reserve**	**26,763,473**	**25,812,199**

The Bank credited the realised gain on revaluation of foreign currencies to the statement of profit or loss and other comprehensive income and transferred the same to a separate account - currency fluctuation reserve account, which forms part of equity.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

		Note	2017 Taka '000	2016 Taka '000
28	**Statutory funds**			
	Rural credit fund	28.01	6,000,000	5,800,000
	Agricultural credit stabilisation fund	28.02	6,000,000	5,800,000
	Export credit fund	28.03	1,300,000	1,300,000
	Industrial credit fund	28.04	2,487,852	2,337,852
	Credit guarantee fund	28.05	879,194	879,194
	Total		**16,667,046**	**16,117,046**

Statutory funds were created and maintained as per provisions of the Bangladesh Bank Order, 1972 and appropriations from profits are made in consultation with the Government of Bangladesh.

28.01 Rural credit fund

This fund was created as per Article 60(1) of Bangladesh Bank Order, 1972 for making of short term, medium term and long term loans and advances to co-operative bank, scheduled bank and rural credit agencies. An appropriation of Taka 200 million was made for this fund during the year.

28.02 Agricultural credit stabilisation fund

This fund was created as per Article 61 of Bangladesh Bank Order, 1972 for making of loans and advances to apex co-operative banks. An appropriation of Taka 200 million was made for this fund during the year.

28.03 Export credit fund

As per Article 63 of Bangladesh Bank Order, 1972 this fund was created for making of medium term and short term loans and advances to scheduled banks and other credit institutions for financing export from Bangladesh. No appropriation was made for this fund during the year.

28.04 Industrial credit fund

As per Article 62 of Bangladesh Bank Order, 1972 the fund was created for making of short term and medium term loans and advances to co-operative banks. An appropriation of Taka 150 million was made for this fund during the year.

28.05 Credit guarantee fund

As per clause 24 of Article 16 of Bangladesh Bank Order, 1972 the Fund was created by appropriating profit every year as per decision of the Board of Directors to cover the loss sustained by scheduled banks for making small loans to cottage industries. No appropriation was made for this fund during the year.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

		Note	2017 Taka '000	2016 Taka '000
29	**Non statutory funds**			
		29.01	7,000,000	7,000,000
	Housing refinance fund		5,570,000	5,570,000
	Human resources development fund	29.02	277,191	297,170
	Monetary management fund	29.03	200,000	200,000
	Rural agri product processing industries refinance fund	29.04	1,000,000	1,000,000
	Disaster management and social responsibility fund	29.05	100,000	100,000
	Total		**14,147,191**	**14,167,170**

29.01 Small and medium enterprise fund

This fund was created as per clause 24 of Article 16 of the Bangladesh Bank Order, 1972 for refinancing facilities to the schedule banks and financial institutions against loans and advances given to the small enterprise sector and housing refinance scheme. Appropriation to those funds are made as per decision of the Board.

29.02 Human resources development fund

Human resources development fund was created as per clause 2(n) of Article 82 of Bangladesh Bank Order,1972 and decision taken by the Board of the Bank for development of efficiency of the Bank's officials by conducting seminar, symposium, training etc. at home and abroad. Appropriation to this fund was made from the dividend payable to Government for the year 2010-2011.

29.03 Monetary management fund

Monetary management fund was created as per decision of the Board of the Bank for sound and smooth operation of monetary policy activities. Appropriation to this fund was made from the dividend payable to Government for the year 2010-2011.

29.04 Rural agri product processing industries refinance fund

This fund was created in 2001 for the purpose of financing rural agri product processing industries. Under this scheme, there are 37 agri product processing industries sectors. This fund plays an important role for developing the agri product sectors in Bangladesh. Government of The People's Republic of Bangladesh declared this sector as "Thrust sector" in "National Industry Policy 2010" by giving priority for development and expansion of agri based industries.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

	2017 Taka '000	2016 Taka '000

29.05 Disaster management and social responsibility fund

This fund was created by the approval of Board of Directors (6th meeting of 2013), minutes no. -BD-341(2013-06)/50 on 17 June, 2013. Primarily, the fund, Tk. 50 million as donation, was collected from Bangladesh Bank's 2012-2013 profit and subsequently Tk. 50 million will be deducted from each year's profit transferring the amount to this fund. From financial year 2014-2015, Tk. 100 million has been contributed deducting from each year's profit.

30 Other reserves

	2017 Taka '000	2016 Taka '000
Asset renewal and replacement reserve (30.01)	3,947,785	3,618,485
Interest reserve (30.02)	7,522,114	-
Total	**11,469,899**	**3,618,485**

30.01 Asset renewal and replacement reserve

Every year an amount equivalent to depreciation charge against buildings and installations is transferred to this fund during profit appropriation.

30.02 Interest reserve

It was introduced in the financial year 2006-2007 as per decision of the Board and represents the interest accrued against the overdue loan of Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank.

31 Consolidated general reserve

	2017 Taka '000	2016 Taka '000
Bangladesh Bank (separate) (Note 31.01)	4,250,500	4,250,500
The Security Printing Corporation (Bangladesh) Ltd. (SPCBL)	750,000	650,000
Total	**5,000,500**	**4,900,500**

31.01 General reserve

	2017 Taka '000	2016 Taka '000
General reserve	**4,250,500**	**4,250,500**

As per Article 59 of Bangladesh Bank Order, 1972 securities having value of Tk. 30 million was allocated by the Government and held by the Bank as the general reserve. Further an amount of Taka 4,220.5 million was transferred to the reserve from general provision over the years.

32 Consolidated retained earnings

	2017 Taka '000	2016 Taka '000
Opening balance	15,759,609	17,210,948
Adjustment against due from Government	(13,219)	-
Prior Year Adjustment	479,559	-
Appropriation of profit to other funds	(979,300)	(942,500)
Dividend paid	(6,769,360)	(9,568,603)
Transferred to general reserve	(100,000)	(100,000)
Adjustment against revauation	77,314	-
Profit for the period	6,972,856	9,159,764
Closing balance	**15,427,459**	**15,759,609**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

		2017 Taka '000	2016 Taka '000
32.01	**Retained earnings**		
	Opening balance	6,782,579	9,568,604
	Adjustment against due from Government	(13,219)	-
	Appropriation of profit to other funds	(979,300)	(942,500)
	Dividend paid	(6,769,360)	(9,568,603)
	Profit for the period	5,907,528	7,725,078
	Closing balance	**4,928,228**	**6,782,579**
33	**Interest income**		
	Loans to banks	4,378,742	2,466,751
	Short term deposits with commercial banks	10,078,214	5,053,776
	Bonds	12,243,124	9,601,163
	US Dollar treasury bills	380,093	147,671
	Claims from gold transactions	90,065	138,034
	Others	318,356	47,458
	Total	**27,488,594**	**17,454,853**
34	**Commission and discounts**		
	Commission on foreign currency operations	189,060	97,838
	Others	461,016	1,416,079
	Total	**650,076**	**1,513,917**
35	**Interest expenses on foreign currency financial liabilities**		
	Deposits	416,894	171,894
	Asian Clearing Union (ACU)	288,887	102,734
	IMF	153,523	30,355
	Central Bank Strengthening Project	-	13,770
	Total	**859,304**	**318,753**
36	**Consolidated interest income on local currency financial assets**		
	Securities purchased under agreement to resell	21,254	3,395
	Government securities	3,184,242	790,378
	Loans and advance to Government	2,502,143	4,160,462
	Debentures	207,511	249,466
	Loans to banks financial institution and employees	4,250,297	4,555,890
	Short term money market deposits	803,178	1,095,341
	Total	**10,968,626**	**10,854,932**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

		2017 Taka '000	2016 Taka '000
36.01	**Interest income**		
		21,254	3,395
	Government securities	3,184,242	790,378
	Loans and advance to Government	2,502,143	4,160,462
	Debentures	207,511	249,466
	Loans to banks financial institution and employees	4,177,935	4,494,634
	Total	**10,093,085**	**9,698,335**
37	**Commission and discounts**		
	Commission income from Government	11,048	8,885
	Miscellaneous commission income	754,685	779,111
	Total	**765,733**	**787,996**
38	**Other income**		
	Exchange A/C (local income)	36	44
	Exchange A/C-Remittance Sold (local)	2	2
	Exchange A/C-T T discount (local)	16	123
	Exchange earned account	458	685
	Gain on asset sale or derecognition	244	2,893
	Miscellaneous - write back of provision	-	355,542
	Grant income	2,357	134,672
	Cost reimbursement of 5 TK note	-	4,952,529
	Penal Interest	61,074	194
	Total	**64,187**	**5,446,684**
39	**Interest expense**		
	Bangladesh Bank bills	9,395,598	5,529,753
	Securities sold under agreement to repurchase	-	2,489,785
	Interest Expense- FSSP	49,274	-
	Total	**9,444,872**	**8,019,538**
40	**Commission and other expenses**		
	Agency charges (Note 40.01)	4,966,800	3,485,956
	Under writing commission on treasury bills & bonds (Note 40.02)	116,207	418,212
	Other expenses	2,742	13,486
	Total	**5,085,749**	**3,917,654**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

	2017 Taka '000	2016 Taka '000

40.01 Agency charges

Agency charges paid to Sonali Bank Limited for acting as agent of Bangladesh Bank.

40.02 Under writing commission on treasury bills & bonds

Underwriting commission paid to primary dealers for issuing Govt. treasury bill and bond.

41 Consolidated general and administrative expenses

	2017 Taka '000	2016 Taka '000
Staff costs (Note 41 (a))	11,346,929	9,646,922
Depreciation	897,905	921,525
Amortisation (intangible assets)	129,912	209,608
Directors' fees	962	1,017
Audit fees	8,594	8,544
Stationery	103,377	119,873
Rent, electricity etc.	352,485	349,738
Remittance of treasure	45,171	43,709
Donations	216,749	165,446
Telephone	102,450	98,309
Repairs & maintenance	255,413	337,659
Materials	3,127,665	2,516,328
Provision for Workers' Profit Participation Fund	97,029	122,001
Income tax and Value Added Tax	555,126	432,867
Miscellaneous	1,711,692	685,181
Total	**18,951,460**	**15,658,727**

41 (a) Staff costs

	2017 Taka '000	2016 Taka '000
Salary	2,722,620	2,699,637
House rent	988,873	539,223
Contribution to contributory provident fund	990,401	599,046
Pension and gratuity	3,322,100	2,917,100
Leave encashment	520,000	212,005
General and incentive bonus	1,210,144	1,255,310
Medical expenses	344,795	313,849
Training	136,131	176,478
Travel expenses	309,517	290,645
Lunch	289,251	318,526
Other staff costs	513,097	325,103
Total	**11,346,929**	**9,646,922**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

	2017 Taka '000	2016 Taka '000

41.01 General and administrative expenses

	2017 Taka '000	2016 Taka '000
Staff costs (Note 41.01(a))	10,443,141	8,932,882
Depreciation	650,571	713,835
Amortization	129,912	209,608
Directors' fee	382	647
Audit fee	8,294	8,294
Stationery	100,918	117,843
Rent	251,382	243,341
Remittance of treasure	44,759	43,371
Donations	196,082	151,193
Telephone	101,782	97,430
Repairs	238,750	312,077
Miscellaneous	1,698,318	672,425
Total	**13,864,291**	**11,502,946**

41.01(a) Staff costs

	2017 Taka '000	2016 Taka '000
Salary	2,433,162	2,454,807
House rent	988,873	539,223
Contribution to contributory provident fund	767,951	397,543
Pension and gratuity	3,322,100	2,917,100
Leave encashment	470,000	184,500
General and incentive bonus	1,079,788	1,137,041
Medical expenses	337,407	304,961
Training	135,602	175,737
Travel expenses	296,576	279,917
Lunch	255,219	283,348
Other staff costs	356,463	258,705
Total	**10,443,141**	**8,932,882**

42 Financial instruments-Fair values and risk management

42.1 a. Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

Consolidated

i) 30 June 2017 Taka '000

Particulars	Carrying amount						Fair value			
	Loans and receivables	Held-to-maturity	Fair value through profit or loss	Available-for-sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
US Dollar Treasury bills	-	-	-	79,806,111	-	79,806,111	79,806,111	-	-	79,806,111
Foreign bonds	-	-	-	1,081,521,961	-	1,081,521,961	1,081,521,961	-	-	1,081,521,961
Gold and silver	-	-	-	11,383,556	-	11,383,556	11,383,556	-	-	11,383,556
Claims from gold transaction	-	-	-	33,811,041	-	33,811,041	33,811,041	-	-	33,811,041
Treasury bills	-	-	-	8,116,472	-	8,116,472	-	8,116,472	-	8,116,472
Treasury bonds	-	-	-	43,594,929	-	43,594,929	-	43,594,929	-	43,594,929
Swift shares	-	-	-	80	-	80	-	-	80	80
Debenture - House Building Finance Corporation	-	-	-	3,945,000	-	3,945,000	-	3,945,000	-	3,945,000
Share of ICB Islamic Bank Limited	-	-	-	7,452	-	7,452	7,452	-	-	7,452
	-	-	-	**1,262,186,602**	-	**1,262,186,602**	**1,206,530,120**	**55,656,401**	**80**	**1,262,186,602**
Financial assets not measured at fair value										
Taka coin and cash balances	16,613,648	-	-	-	-	16,613,648	-	-	-	-
Foreign currency accounts	34,888,457	-	-	-	-	34,888,457	-	-	-	-
Overnight investment	214,600,368	-	-	-	-	214,600,368	-	-	-	-
Short term deposits with overseas commercial banks	928,877,704	-	-	-	-	928,877,704	-	-	-	-
Asset held with IMF	213,841,975	-	-	-	-	213,841,975	-	-	-	-
Foreign currency loans to banks	206,294,007	-	-	-	-	206,294,007	-	-	-	-
Interest receivable	9,437,834	-	-	-	-	9,437,834	-	-	-	-
Other recievable	5,224,144	-	-	-	-	5,224,144	-	-	-	-
Ways and means advance	30,155,600	-	-	-	-	30,155,600	-	-	-	-
Overdraft - block	56,850,000	-	-	-	-	56,850,000	-	-	-	-
Short term money market investments	882,848	-	-	-	-	882,848	-	-	-	-
Loan to commercial banks	4,764,329	-	-	-	-	4,764,329	-	-	-	-
Loan to specialised banks	27,959,832	-	-	-	-	27,959,832	-	-	-	-
Loan to private banks	3,146,800	-	-	-	-	3,146,800	-	-	-	-
Other loans and advances	29,578,717	-	-	-	-	29,578,717	-	-	-	-
Interest receivable	7,731,998	-	-	-	-	7,731,998	-	-	-	-
Loans and advances to employees	33,478,028	-	-	-	-	33,478,028	-	-	-	-
Other local currency financial assets	2,692,763	-	-	-	-	2,692,763	-	-	-	-
	1,827,019,051	-	-	-	-	**1,827,019,051**	-	-	-	-
Financial liabilities measured at fair value										
Nil	-	-	-	-	-	-	-	-	-	-
Financial liabilities not measured at fair value										
Liabilities with IMF	-	-	-	-	231,519,873	231,519,873	-	-	-	-
Foreign currency deposits by commercial banks	-	-	-	-	89,879,045	89,879,045	-	-	-	-
Asian Clearing Union (ACU)	-	-	-	-	82,275,253	82,275,253	-	-	-	-
Notes in circulation	-	-	-	-	1,497,287,018	1,497,287,018	-	-	-	-
Local currency deposits from banks and financial institutions	-	-	-	-	733,927,114	733,927,114	-	-	-	-
Short term borrowings	-	-	-	-	182,618,016	182,618,016	-	-	-	-
	-	-	-	-	2,817,506,319	2,817,506,319	-	-	-	-

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

Consolidated

ii) 30 June 2016 Taka '000

Particulars	Carrying amount						Fair value			
	Loans and receivables	Held-to-maturity	Fair value through profit or loss	Available-for-sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
US Dollar Treasury bills	-	-	-	15,654,912	-	15,654,912	15,654,912	-	-	15,654,912
Foreign bonds	-	-	-	766,864,248	-	766,864,248	766,864,248	-	-	766,864,248
Gold and silver	-	-	-	7,278,889	-	7,278,889	7,278,889	-	-	7,278,889
Claims from gold transaction	-	-	-	38,849,350	-	38,849,350	38,849,350	-	-	38,849,350
Treasury bills	-	-	-	15,628,805		15,628,805		15,628,805		15,628,805
Treasury bonds	-	-	-	31,314,474	-	31,314,474	-	31,314,474	-	31,314,474
Swift shares	-	-	-	80	-	80	-	-	80	80
Debenture - House Building Finance Corporation	-	-	-	4,715,000	-	4,715,000	-	4,715,000	-	4,715,000
Share of ICB Islamic Bank Limited	-	-	-	7,452	-	7,452	7,452	-	-	7,452
	-	-	-	**880,313,211**	-	**880,313,211**	**828,654,851**	**51,658,279**	**80**	**880,313,211**
Financial assets not measured at fair value										
Taka coin and cash balances	16,684,618	-	-	-	-	16,684,618	-	-	-	-
Foreign currency accounts	45,017,497	-	-	-	-	45,017,497	-	-	-	-
Overnight investment	136,235,070	-	-	-	-	136,235,070	-	-	-	-
Short term deposits with overseas commercial banks	1,115,920,187	-	-	-	-	1,115,920,187	-	-	-	-
Asset held with IMF	208,949,924	-	-	-	-	208,949,924	-	-	-	-
Foreign currency loans to banks	132,234,324	-	-	-	-	132,234,324	-	-	-	-
Interest receivable	6,926,757	-	-	-	-	6,926,757	-	-	-	-
Other recievable	6,365,370	-	-	-	-	6,365,370	-	-	-	-
Ways and means advance	40,000,000	-	-	-	-	40,000,000	-	-	-	-
Overdraft - block	71,850,000	-	-	-	-	71,850,000	-	-	-	-
Overdraft - current	40,315,900	-	-	-	-	40,315,900	-	-	-	-
Securities purchased under agreement to resell	8,480,000	-	-	-	-	8,480,000	-	-	-	-
Short term money market investments	634,804	-	-	-	-	634,804	-	-	-	-
Loan to commercial banks	3,999,640	-	-	-	-	3,999,640	-	-	-	-
Loan to specialised banks	29,431,830	-	-	-	-	29,431,830	-	-	-	-
Loan to private banks	2,903,250	-	-	-	-	2,903,250	-	-	-	-
Other loans and advances	28,549,486	-	-	-	-	28,549,486	-	-	-	-
Interest receivable	8,237,801	-	-	-	-	8,237,801	-	-	-	-
Loans and advances to employees	32,535,423	-	-	-	-	32,535,423	-	-	-	-
Other local currency financial assets	3,794,147	-	-	-	-	3,794,147	-	-	-	-
	1,939,066,027	-	-	-	-	**1,939,066,027**	-	-	-	-
Financial liabilities measured at fair value										
Nil	-	-	-	-	-	-	-	-	-	-
Financial liabilities not measured at fair value										
Liabilities with IMF	-	-	-	-	230,167,566	230,167,566	-	-	-	-
Foreign currency deposits by commercial banks	-	-	-	-	71,333,857	71,333,857	-	-	-	-
Asian Clearing Union (ACU)	-	-	-	-	76,275,538	76,275,538	-	-	-	-
Notes in circulation	-	-	-	-	1,307,303,718	1,307,303,718	-	-	-	-
Local currency deposits from banks and financial institutions	-	-	-	-	608,937,407	608,937,407	-	-	-	-
Short term borrowings	-	-	-	-	263,401,402	263,401,402	-	-	-	-
	-	-	-	-	2,557,419,488	2,557,419,488	-	-	-	-

Bangladesh Bank : Notes to the Financial Statements
As at and for the year ended 30 June 2017

Separate

i) 30 June 2017 — Taka '000

Particulars	Carrying amount						Fair value			
	Loans and receivables	Held-to-maturity	Fair value through profit or loss	Available-for-sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
Financial assets measured at fair value										
US Dollar Treasury bills	-	-	-	79,806,111	-	79,806,111	79,806,111	-	-	79,806,111
Foreign bonds	-	-	-	1,081,521,961	-	1,081,521,961	1,081,521,961	-	-	1,081,521,961
Gold and silver	-	-	-	11,383,556	-	11,383,556	11,383,556	-	-	11,383,556
Claims from gold transaction	-	-	-	33,811,041	-	33,811,041	33,811,041	-	-	33,811,041
Treasury bills	-	-	-	8,116,472	-	8,116,472	-	8,116,472	-	8,116,472
Treasury bonds	-	-	-	43,594,929	-	43,594,929	-	43,594,929	-	43,594,929
Swift shares	-	-	-	80	-	80	-	-	80	80
Investment in subsidiary	-	-	-	12,000,000	-	12,000,000	-	-	12,000,000	12,000,000
Debenture - House Building Finance Corporation	-	-	-	3,945,000	-	3,945,000	-	3,945,000	-	3,945,000
	-	**-**	**-**	**1,274,179,150**	**-**	**1,274,179,150**	**1,206,522,669**	**55,656,401**	**12,000,080**	**1,274,179,150**
Financial assets not measured at fair value										
Taka coin and cash balances	4,897,629	-	-	-	-	4,897,629	-	-	-	-
Foreign currency accounts	34,888,457	-	-	-	-	34,888,457	-	-	-	-
Overnight investment	214,600,368	-	-	-	-	214,600,368	-	-	-	-
Short term deposits with overseas commercial banks	928,877,704	-	-	-	-	928,877,704	-	-	-	-
Asset held with IMF	213,841,975	-	-	-	-	213,841,975	-	-	-	-
Foreign currency loans to banks	206,294,007	-	-	-	-	206,294,007	-	-	-	-
Interest receivable	9,437,834	-	-	-	-	9,437,834	-	-	-	-
Other recievable	5,224,144	-	-	-	-	5,224,144	-	-	-	-
Ways and means advance	30,155,600	-	-	-	-	30,155,600	-	-	-	-
Overdraft - block	56,850,000	-	-	-	-	56,850,000	-	-	-	-
Loan to commercial banks	4,764,329	-	-	-	-	4,764,329	-	-	-	-
Loan to specialised banks	27,959,832	-	-	-	-	27,959,832	-	-	-	-
Loan to private banks	3,146,800	-	-	-	-	3,146,800	-	-	-	-
Other loans and advances	29,578,717	-	-	-	-	29,578,717	-	-	-	-
Interest receivable	7,731,998	-	-	-	-	7,731,998	-	-	-	-
Loans and advances to employees	32,114,702	-	-	-	-	32,114,702	-	-	-	-
Other local currency financial assets	2,277,941	-	-	-	-	2,277,941	-	-	-	-
	1,812,642,036	**-**	**-**	**-**	**-**	**1,812,642,036**	**-**	**-**	**-**	**-**
Financial liabilities measured at fair value										
Nil	-	-	-	-	-	-	-	-	-	-
Financial liabilities not measured at fair value										
Liabilities with IMF	-	-	-	-	231,519,873	231,519,873	-	-	-	-
Foreign currency deposits by commercial banks	-	-	-	-	89,879,045	89,879,045	-	-	-	-
Asian Clearing Union (ACU)	-	-	-	-	82,202,364	82,202,364	-	-	-	-
Notes in circulation	-	-	-	-	1,497,287,018	1,497,287,018	-	-	-	-
Local currency deposits from banks and financial institutions	-	-	-	-	733,927,114	733,927,114	-	-	-	-
Short term borrowings	-	-	-	-	182,618,016	182,618,016	-	-	-	-
	-	-	-	-	2,817,433,430	2,817,433,430	-	-	-	-

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

Separate

ii) 30 June 2016 Taka '000

Particulars	Carrying amount: Loans and receivables	Carrying amount: Held-to-maturity	Carrying amount: Fair value through profit or loss	Carrying amount: Available-for-sale	Carrying amount: Other financial liabilities	Carrying amount: Total	Fair value: Level 1	Fair value: Level 2	Fair value: Level 3	Fair value: Total
Financial assets measured at fair value										
US Dollar Treasury bills	-	-	-	15,654,912	-	15,654,912	15,654,912	-	-	15,654,912
Foreign bonds	-	-	-	766,864,248	-	766,864,248	766,864,248	-	-	766,864,248
Gold and silver	-	-	-	7,278,889	-	7,278,889	7,278,889	-	-	7,278,889
Claims from gold transaction	-	-	-	38,849,350	-	38,849,350	38,849,350	-	-	38,849,350
Treasury bills	-	-	-	15,628,805	-	15,628,805	-	15,628,805	-	15,628,805
Treasury bonds				31,314,474		31,314,474		31,314,474		31,314,474
Swift shares	-	-	-	80	-	80	-	-	80	80
Investment in subsidiary	-	-	-	12,000,000	-	12,000,000	-	-	12,000,000	12,000,000
Debenture - House Building Finance Corporation	-	-	-	4,715,000	-	4,715,000	-	4,715,000	-	4,715,000
	-	-	-	**892,305,759**	-	**892,305,759**	**828,647,399**	**51,658,279**	**12,000,080**	**892,305,759**
Financial assets not measured at fair value										
Taka coin and cash balances	4,514,122	-	-	-	-	4,514,122	-	-	-	-
Foreign currency accounts	45,017,497	-	-	-	-	45,017,497	-	-	-	-
Overnight investment	136,235,070	-	-	-	-	136,235,070	-	-	-	-
Short term deposits with overseas commercial banks	1,115,920,187	-	-	-	-	1,115,920,187	-	-	-	-
Asset held with IMF	208,949,924	-	-	-	-	208,949,924	-	-	-	-
Foreign currency loans to banks	132,234,324	-	-	-	-	132,234,324	-	-	-	-
Interest receivable	6,926,757	-	-	-	-	6,926,757	-	-	-	-
Other recievable	6,365,370	-	-	-	-	6,365,370	-	-	-	-
Ways and means advance	40,000,000	-	-	-	-	40,000,000	-	-	-	-
Overdraft - block	71,850,000	-	-	-	-	71,850,000	-	-	-	-
Overdraft - current	40,315,900	-	-	-	-	40,315,900	-	-	-	-
Securities purchased under agreement to resell	8,480,000	-	-	-	-	8,480,000	-	-	-	-
Loan to commercial banks	3,999,640	-	-	-	-	3,999,640	-	-	-	-
Loan to specialised banks	29,431,830	-	-	-	-	29,431,830	-	-	-	-
Loan to private banks	2,903,250	-	-	-	-	2,903,250	-	-	-	-
Other loans and advances	28,549,486	-	-	-	-	28,549,486	-	-	-	-
Interest receivable	8,237,801	-	-	-	-	8,237,801	-	-	-	-
Loans and advances to employees	31,279,407	-	-	-	-	31,279,407	-	-	-	-
Other local currency financial assets	3,432,361	-	-	-	-	3,432,361	-	-	-	-
	1,924,642,925	-	-	-	-	**1,924,642,925**	-	-	-	-
Financial liabilities measured at fair value										
Nil	-	-	-	-	-	-	-	-	-	-
Financial liabilities not measured at fair value										
Liabilities with IMF	-	-	-	-	230,167,566	230,167,566	-	-	-	-
Foreign currency deposits by commercial banks	-	-	-	-	71,333,857	71,333,857	-	-	-	-
Asian Clearing Union (ACU)	-	-	-	-	76,275,538	76,275,538	-	-	-	-
Notes in circulation	-	-	-	-	1,307,303,718	1,307,303,718	-	-	-	-
Local currency deposits from banks and financial institutions	-	-	-	-	608,937,407	608,937,407	-	-	-	-
Short term borrowings	-	-	-	-	263,401,402	263,401,402	-	-	-	-
	-	-	-	-	2,557,419,488	2,557,419,488	-	-	-	-

As at 30 June 2017 and 30 June 2016, the Group holds level 3 financial instruments only on Swift shares. Management believes that the fair value of these shares is equal to its carrying amount. A Level 3 reconciliation table has not been disclosed as no change in fair value of investment from last year.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

42.1 b. Measurement of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). Fair value have been based on management assumptions according to the portfolio of the asset and liability base.

Fair value of foreign securities available-for-sale is based on quoted market prices, at the financial position date (2016: foreign securities available-for-sale at fair value). Local currency financial investments includes shares in SPCBL with a value of Taka 12,000,000,000 (2016: Taka 12,000,000,000) & Debentures of HBFC with a value of Taka 3,945,000,000 (2016: Taka 4,715,000,000) for which fair value cannot be reliably determined as they are not traded in the active market and there are no similar instruments with similar characteristics. Management believes that the fair value of these shares are their carrying value.

Loans to Government (overdraft-block and current) are carried at cost as the interest accrued is recovered on a daily basis. Treasury bills and bonds are classified as available-for-sale and are carried at fair value. Loans to banks, financial institutions and employees are carried at amortized cost and are net of provisions for impairment. The fair value approximates their carrying value.

42.2 Financial Risk Management

The Group has exposure to the following risks arising from financial instruments :

I. Credit risk
II. Liquidity risk
III. Market risk
IV. Operational risk

Risk management framework

International Financial Reporting Standard "IFRS 7 - Financial Instruments: Disclosures" requires disclosure of information relating to both recognised and unrecognised financial instruments, their significance and performance, accounting policies, terms and conditions, net fair values and risk information- the Group's policies for controlling risks and exposures.

The Bank is involved in policy-oriented activities. Therefore, the Bank's risk management framework differs from the risk management framework for most other financial institutions. The main financial risks to which the Bank is exposed include credit risk, foreign exchange risk and interest rate risk. In the management of foreign reserves, minimising liquidity risk is the prime consideration in order to ensure the availability of currency as required. Like most central banks, the nature of the Bank's operations create exposure to a range of operational and reputational risks also.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

The Bank's management seeks to ensure that strong and effective risk management and control systems are in place for assessing, monitoring and managing risk exposure. Experienced staff conducts the Bank's local currency, foreign currency reserves management, and foreign exchange dealing operations in accordance with a clearly defined risk management framework, including limits and delegated authorities set by the Governor.

The Bank is subject to an annual audit by two external auditors who are appointed by the Government as prescribed in Article 65 (1) of the Bangladesh Bank Order, 1972. Auditing arrangements are overseen by the Audit Committee of the Board to monitor the financial reporting and audit functions within the Bank and the Committee reviews the internal audit functions as well. Audit Committee reports to the Board of Directors on its activities.

The overall risk management framework is designed to strongly encourage the sound and prudent management of the Bank's risk. The Bank seeks to ensure that the risk management framework is consistent with financial market best practices. Risk tables in this note are all based on the Bank's portfolio as reported in its statement of financial position.

I. Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is monitored and managed regularly. Bangladesh Bank's maximum exposure to credit risk in relation to each class of recognized financial assets, is the carrying amount of those assets as indicated in the statement of financial position. Bangladesh Bank's exposure is to highly rated counter-parties and its credit risk is very low, with mitigates to credit risk including both the Bank's rigorous monitoring activities and, in many cases, guarantees from the government.

a. Concentration of credit exposure

The Group's significant end-of-year concentrations of credit exposure, based on the country/ region in which the issuers' parent was located, were as follows:

Taka '000

Particulars	2017		2016	
	Consolidated	Separate	Consolidated	Separate
Bangladesh	679,598,187	677,213,720	490,742,051	488,307,361
Other Asian countries	919,220,699	919,220,699	508,556,752	508,556,752
United States of America	715,436,328	715,436,328	553,473,258	553,473,258
Europe	361,921,076	361,921,076	348,938,013	348,938,013
Australia	412,103,737	412,103,737	100,229,192	100,229,192
Others	445,068	445,068	817,379,746	817,379,746
Total	**3,088,725,095**	**3,086,340,628**	**2,819,319,012**	**2,816,884,322**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

b. Credit exposures by credit rating

Following tables represents the Group's foreign currency financial assets (excluding foreign currency loans to banks) mainly based on Moody's credit rating of the issuer (or equivalent Moody's rating in case of rating by other agencies). For long term deposits Aaa is the highest quality rating possible and indicates that the entity has an exceptional credit quality and have the smallest degree of risk; Aa is excellent credit quality but are rated lower than Aaa. Aa1 indicates the higher end of Aa category, Aa2 indicates mid range ranking of Aa category and Aa3 indicates lower end of Aa category. For short term deposits P-1 indicates banks rated prime -1 for deposits, and offers superior credit quality and a very strong capacity for timely payment of short-term deposit obligations; ST-1 indicates the highest capacity for timely repayment of obligations; ST-2 indicates a strong capacity for timely repayment of obligations and ST-3 indicates average capacity for timely repayment of obligations.

However, the Group's local currency financial assets along with foreign currency loans to banks are based on credit rating from Credit Rating Information and Services Limited, Credit Rating Agency of Bangladesh Limited, Emerging Credit Rating Limited, National Credit Rating Limited, Alpha Credit Rating Limited, ARGUS Credit Rating Services Limited etc. which were preferred by respective institutions.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

Consolidated

Taka '000

Particulars	Credit Rating	2017 Amount	2017 % of financial assets	2016 Amount	2016 % of financial assets
i) Foreign currency financial assets					
Foreign currency accounts	P-1	34,888,457	1.13%	45,017,497	1.60%
Overnight investment	P-1	214,600,368	6.97%	136,235,070	4.84%
Short term deposits with overseas commercial banks	P-1	928,877,704	30.18%	1,115,920,187	39.68%
US Dollar treasury bills	P-1	79,806,111	2.59%	15,654,912	0.56%
Foreign bonds	Aaa	792,445,237	25.75%	459,707,614	16.35%
Foreign bonds	Aa1, Aa2, Aa3	147,859,930	4.80%	175,465,367	6.24%
Foreign bonds	A1, A2,A3	54,051,238	1.76%	28,993,607	1.03%
Foreign bonds	B1, Ba1, Baa1, Baa2, Baa3	87,165,556	2.83%	102,697,661	3.65%
Foreign currency loans to banks	A	4,334,870	0.14%	12,872,134	0.46%
Foreign currency loans to banks	Aaa to Aa	163,725,585	5.32%	118,090,758	4.20%
Foreign currency loans to banks	Baa,Ba, B	2,894,115	0.09%	1,271,431	0.05%
Foreign currency loans to banks	Unrated	35,339,436	1.15%	-	0.00%
Claims from gold transactions	Aa2	33,811,041	1.10%	38,849,350	1.38%
Assets held with International Monetary Fund	Unrated	213,841,975	6.95%	208,949,924	7.43%
Other foreign currency financial assets	Unrated	14,662,058	0.48%	13,292,207	0.47%
Total		**2,808,303,681**	**91.26%**	**2,473,017,719**	**87.94%**
ii) Local currency financial assets					
Loans to the Government of Bangladesh	Ba3	138,717,001	4.51%	199,109,179	7.08%
Securities purchased under agreement to resell	A+	-	0.00%	8,480,000	0.30%
Local currency investments	-	4,835,300	0.16%	5,361,392	0.19%
Loans to banks, financial institutions	A	3,496,481	0.11%	17,468,686	0.62%
Loans to banks, financial institutions	Aaa to Aa	14,538,830	0.47%	15,669,742	0.56%
Loans to banks, financial institutions	Ba to B	198,047	0.01%	156,363	0.01%
Loans to banks, financial institutions	Baa	270,741	0.01%	224,165	0.01%
Loans to banks, financial institutions	Unrated	54,197,018	1.76%	39,538,689	1.41%
Loans to employees	-	33,478,028	1.09%	32,535,423	1.16%
Other local currency financial assets	-	2,692,763	0.09%	3,794,147	0.13%
Taka coin and cash balances	-	16,613,648	0.54%	16,684,618	0.59%
Total		**269,037,857**	**8.74%**	**339,022,404**	**12.06%**
Total financial assets (i+ii)		**3,077,341,538**	**100.00%**	**2,812,040,123**	**100.00%**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

Separate

Taka '000

Particulars	Credit Rating	2017 Amount	2017 % of financial assets	2016 Amount	2016 % of financial assets
i) Foreign currency financial assets					
Foreign currency accounts	P-1	34,888,457	1.13%	45,017,497	1.60%
Overnight investment	P-1	214,600,368	6.98%	136,235,070	4.85%
Short term deposits with overseas commercial banks	P-1	928,877,704	30.21%	1,115,920,187	39.72%
US Dollar treasury bills	P-1	79,806,111	2.60%	15,654,912	0.56%
Foreign bonds	Aaa	792,445,237	25.77%	459,707,614	16.36%
Foreign bonds	Aa1, Aa2, Aa3	147,859,930	4.81%	175,465,367	6.25%
Foreign bonds	A1, A2,A3	54,051,238	1.76%	28,993,607	1.03%
Foreign bonds	B1, Ba1, Baa1, Baa2, Baa3	87,165,556	2.83%	102,697,661	3.66%
Foreign currency loans to banks	A	4,334,870	0.14%	12,872,134	0.46%
Foreign currency loans to banks	Aaa to Aa	163,725,585	5.32%	118,090,758	4.20%
Foreign currency loans to banks	Baa,Ba, B	2,894,115	0.09%	1,271,431	0.05%
Foreign currency loans to banks	Unrated	35,339,436	1.15%	-	0.00%
Claims from gold transactions	Aa2	33,811,041	1.10%	38,849,350	1.38%
Assets held with International Monetary Fund	Unrated	213,841,975	6.95%	208,949,924	7.44%
Other foreign currency financial assets	Unrated	14,662,058	0.48%	13,292,207	0.47%
Total		**2,808,303,681**	**91.33%**	**2,473,017,719**	**88.02%**
ii) Local currency financial assets					
Loans to the Government of Bangladesh	Ba3	138,717,001	4.51%	199,109,179	7.09%
Securities purchased under agreement to resell	A+	-	0.00%	8,480,000	0.30%
Local currency investments	Unrated	15,945,000	0.52%	16,715,000	0.59%
Loans to banks, financial institutions	A	3,496,481	0.11%	17,468,686	0.62%
Loans to banks, financial institutions	Aaa to Aa	14,538,830	0.47%	15,669,742	0.56%
Loans to banks, financial institutions	Ba to B	198,047	0.01%	156,363	0.01%
Loans to banks, financial institutions	Baa	270,741	0.01%	224,165	0.01%
Loans to banks, financial institutions	Unrated	54,197,018	1.76%	39,538,689	1.41%
Loans to employees	-	32,114,702	1.04%	31,279,407	1.11%
Other local currency financial assets	-	2,277,941	0.07%	3,432,361	0.12%
Taka coin and cash balances	-	4,897,629	0.16%	4,514,122	0.16%
Total		**266,653,390**	**8.67%**	**336,587,714**	**11.98%**
Total financial assets (i+ii)		**3,074,957,071**	**100%**	**2,809,605,433**	**100%**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

c. Collateral held and other credit enhancements, and their financial effect

The Group holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

Taka '000

Particulars	2017		2016	
	Amount	% of financial assets	Amount	% of financial assets
i) Foreign currency financial assets				
Foreign currency loans to banks	206,294,007	None	132,234,324	None
Claims from gold transactions	33,811,041	None	38,849,350	None
Assets held with International Monetary Fund	213,841,975	None	208,949,924	None
ii) Local currency financial assets				
Loans to the Government of Bangladesh	138,717,001	None	199,109,179	None
Securities purchased under agreement to resell	-	Marketable securities	8,480,000	Marketable securities
Local currency loans to banks, financial institutions and employees	106,179,145	- Government guarantee - Bank guarantee - Demand Promissory Note - Employee provident fund, gratuity fund and Mortgage of property	105,593,068	- Government guarantee - Bank guarantee - Demand Promissory Note - Employee provident fund, gratuity fund and Mortgage of property

II. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To mitigate this risk, the Group has diversified funding sources and assets are managed with liquidity in mind.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

The table below summaries the maturity profile of the Group's financial assets and liabilities based on the contractual repayment date determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date. Assets and liabilities will mature within the following periods:

Consolidated

30 June 2017 Taka '000

Particulars	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Foreign currency financial assets					
Foreign currency accounts	34,888,457	-	-	-	-
Foreign investments	447,570,929	676,170,495	420,910,825	760,153,895	-
Assets held with International Monetary Fund	108,661,765	112,707	-	-	105,067,503
Gold and silver	11,383,556	-	-	-	-
Claims from gold transactions	18,486,546	-	15,324,495	-	-
Foreign currency loans to banks	24,516,575	64,029,534	109,793,481	4,073,765	3,880,653
Total	**645,507,828**	**740,312,736**	**546,028,801**	**764,227,660**	**108,948,156**
Local currency financial assets					
Taka coin and cash balances	16,613,648	-	-	-	-
Loans to the Government of Bangladesh	33,485,678	-	26,993,379	59,584,179	18,653,765
Local currency investments	-	-	1,528,712	2,280,000	1,026,588
Local currency loans to banks, financial institutions and employees	1,747,393	10,052,759	17,814,893	31,234,056	45,330,045
Total	**51,846,719**	**10,052,759**	**46,336,984**	**93,098,235**	**65,010,398**
Total financial assets	**697,354,547**	**750,365,495**	**592,365,785**	**857,325,894**	**173,958,553**
Foreign currency financial liabilities					
Deposits from banks and financial institutions	172,154,298	-	-	-	-
Liabilities with International Monetary Fund	1,607,087	53,726	2,050,530	44,086,352	183,722,179
Total	**173,761,385**	**53,726**	**2,050,530**	**44,086,352**	**183,722,179**
Local currency financial liabilities					
Notes in circulation	1,497,287,018	-	-	-	-
Deposits from banks and financial institutions	733,927,114	-	-	-	-
Short term borrowings	182,618,016	-	-	-	-
Other local currency financial liabilities	16,673,961	1,110,023	30,605,947	30,003,124	24,683,650
Total	**2,430,506,109**	**1,110,023**	**30,605,947**	**30,003,124**	**24,683,650**
Total financial liabilities	**2,604,267,494**	**1,163,749**	**32,656,477**	**74,089,476**	**208,405,829**
Maturity gap	**(1,906,912,947)**	**749,201,746**	**559,709,308**	**783,236,418**	**(34,447,274)**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

30 June 2016 Taka '000

Particulars	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Foreign currency financial assets					
Foreign currency accounts	45,017,497	-	-	-	-
Foreign investments	656,864,021	661,490,116	186,315,608	553,265,034	-
Assets held with International Monetary Fund	106,526,842	-	-	-	102,423,081
Gold and silver	7,278,889	-	-	-	-
Claims from gold transactions	19,188,519	-	19,816,850	-	-
Foreign currency loans to banks	15,881,064	48,795,700	67,557,561	-	-
Total	**850,756,833**	**710,285,815**	**273,690,019**	**553,265,034**	**102,423,081**
Local currency financial assets					
Taka coin and cash balances	16,684,618	-	-	-	-
Securities purchased under agreement to resell	8,480,000	-	-	-	-
Loans to the Government of Bangladesh	82,617,694	5,744,999	23,599,171	71,315,974	15,831,340
Local currency investments	-	260,000	3,424,804	650,000	1,026,588
Local currency loans to banks, financial institutions and employees	3,022,886	4,981,491	22,491,874	37,467,864	37,628,954
Total	**110,805,199**	**10,986,490**	**49,515,848**	**109,433,838**	**54,486,882**
Total financial assets	**961,562,031**	**721,272,306**	**323,205,867**	**662,698,872**	**156,909,964**
Foreign currency financial liabilities					
Deposits from banks and financial institutions	147,635,399	-	-	-	-
Liabilities with International Monetary Fund	1,612,895	4,742	369,245	45,116,910	183,063,773
Total	**149,248,294**	**4,742**	**369,245**	**45,116,910**	**183,063,773**
Local currency financial liabilities					
Notes in circulation	1,307,303,718	-	-	-	-
Short term borrowings	608,937,407	-	-	-	-
Deposits from banks and financial institutions	263,401,402	-	-	-	-
Other local currency financial liabilities	8,268,212	580,378	88,067,545	32,716,273	29,570,300
Total	**2,187,910,739**	**580,378**	**88,067,545**	**32,716,273**	**29,570,300**
Total financial liabilities	**2,337,159,033**	**585,120**	**88,436,790**	**77,833,183**	**212,634,073**
Maturity gap	**(1,375,597,002)**	**720,687,185**	**234,769,077**	**584,865,689**	**(55,724,109)**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

Separate

30 June 2017 Taka '000

Particulars	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Foreign currency financial assets					
Foreign currency accounts	34,888,457	-	-	-	-
Foreign investments	447,570,929	676,170,495	420,910,825	760,153,895	-
Assets held with International Monetary Fund	108,661,765	112,707	-	-	105,067,503
Gold and silver	11,383,556	-	-	-	-
Claims from gold transactions	18,486,546	-	15,324,495	-	-
Foreign currency loans to banks	24,516,575	64,029,534	109,793,481	4,073,765	3,880,653
Total	**645,507,828**	**740,312,736**	**546,028,801**	**764,227,660**	**108,948,156**
Local currency financial assets					
Taka coin and cash balances	4,897,629	-	-	-	-
Loans to the Government of Bangladesh	33,485,678	-	26,993,379	59,584,179	18,653,765
Local currency investments	-	-	650,000	2,280,000	13,015,000
Local currency loans to banks, financial institutions and employees	1,747,393	10,052,759	17,814,893	31,234,056	43,966,719
Total	**40,130,701**	**10,052,759**	**45,458,272**	**93,098,235**	**75,635,483**
Total financial assets	**685,638,529**	**750,365,495**	**591,487,073**	**857,325,895**	**184,583,639**
Foreign currency financial liabilities					
Deposits from banks and financial institutions	172,154,298	-	-	-	-
Liabilities with International Monetary Fund	1,607,087	53,726	2,050,530	44,086,352	183,722,179
Total	**173,761,385**	**53,726**	**2,050,530**	**44,086,352**	**183,722,179**
Local currency financial liabilities					
Notes in circulation	1,497,287,018	-	-	-	-
Deposits from banks and financial institutions	733,927,114	-	-	-	-
Short term borrowings	182,618,016	-	-	-	-
Other local currency financial liabilities	18,124,883	-	29,319,200	30,003,124	24,356,030
Total	**2,431,957,031**	**-**	**29,319,200**	**30,003,124**	**24,356,030**
Total financial liabilities	**2,605,718,416**	**53,726**	**31,369,730**	**74,089,476**	**208,078,209**
Maturity gap	**(1,920,079,887)**	**750,311,769**	**560,117,343**	**783,236,419**	**(23,494,570)**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

30 June 2016 Taka '000

Particulars	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Foreign currency financial assets					
Foreign currency accounts	45,017,497	-	-	-	-
Foreign investments	656,864,021	661,490,116	186,315,608	553,265,034	-
Assets held with International Monetary Fund	106,526,842	-	-	-	102,423,081
Gold and silver	7,278,889	-	-	-	-
Claims from gold transactions	19,188,519	-	19,816,850	-	-
Foreign currency loans to banks	15,881,064	48,795,700	67,557,561	-	-
Total	**850,756,833**	**710,285,815**	**273,690,019**	**553,265,034**	**102,423,081**
Local currency financial assets					
Taka coin and cash balances	4,514,122	-	-	-	-
Securities purchased under agreement to resell	8,480,000	-	-	-	-
Loans to the Government of Bangladesh	82,617,694	5,744,999	23,599,171	71,315,974	15,831,340
Local currency investments	-	260,000	2,790,000	650,000	13,015,000
Local currency loans to banks, financial institutions and employees	3,018,886	4,973,491	22,459,874	37,235,787	36,649,014
Total	**98,630,703**	**10,978,490**	**48,849,044**	**109,201,761**	**65,495,355**
Total financial assets	**949,387,535**	**721,264,306**	**322,539,063**	**662,466,795**	**167,918,436**
Foreign currency financial liabilities					
Deposits from banks and financial institutions	147,635,399	-	-	-	-
Liabilities with International Monetary Fund	1,612,895	4,742	369,245	45,116,910	183,063,773
Total	**149,248,294**	**4,742**	**369,245**	**45,116,910**	**183,063,773**
Local currency financial liabilities					
Notes in circulation	1,307,303,718	-	-	-	-
Short term borrowings	608,937,407	-	-	-	-
Deposits from banks and financial institutions	263,401,402	-	-	-	-
Other local currency financial liabilities	9,405,999	580,378	85,352,343	32,716,273	29,247,609
Total	**2,189,048,526**	**580,378**	**85,352,343**	**32,716,273**	**29,247,609**
Total financial liabilities	**2,338,296,820**	**585,120**	**85,721,588**	**77,833,183**	**212,311,382**
Maturity gap	**(1,388,909,284)**	**720,679,185**	**236,817,475**	**584,633,612**	**(44,392,946)**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

III. Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

a) Currency risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In Bangladesh Bank, foreign exchange reserve management and investment functions are guided by an Investment Committee. Decision of the Investment Committee and dealing practices approved by the Investment Committee serve as operational guidelines for Bangladesh Bank's reserve management and investments. The guidelines are directed towards managing different types of risks, while earning a reasonable return. There is an approved benchmark for investment in terms of currency composition, portfolio duration and proportion of different assets within a band. Dealers/portfolio managers afford best to comply with this benchmark and continually rebalance the investment portfolio to follow the benchmark daily/weekly as approved by the Investment Committee.

Foreign currency monetary assets and liabilities

30 June 2017

Taka '000

Particulars	US$ equivalent	Gold and Silver equivalent	EURO equivalent	GBP equivalent	Japanese Yen equivalent	Canadian $ equivalent	Australian $ equivalent	Chinese Yuan Renminbi equivalent	SDR equivalent	Others equivalent
Assets										
Held in other Central Banks and cash deposit abroad	14,508,076	-	2,975,869	3,176,438	10,760,074	468,696	421,410	2,165,595	-	412,298
Overnight investment	213,917,275	-	683,093	-	-	-	-	-	-	-
Short term deposits in overseas commercial banks	761,182,426	-	920,889	66,286,395	-	30,898,426	41,411,848	26,346,595	-	1,831,124
Treasury bills	79,806,111									
Foreign bonds	935,352,757	-	97,074,539	34,921,721	-	4,365,810	7,396,778	2,410,355	-	-
Loan to other banks	206,294,007	-	-	-	-	-	-	-	-	-
Claims from gold transaction	-	33,811,041	-	-	-	-	-	-	-	-
Interest receivable	12,813,607	40,765	1,063,451	333,880	-	66,328	211,220	130,629	-	2,178
Asset held with IMF	-	-	-	-	-	-	-	-	213,841,975	-
Total	**2,223,874,261**	**33,851,806**	**102,717,841**	**104,718,434**	**10,760,074**	**35,799,260**	**49,441,256**	**31,053,174**	**213,841,975**	**2,245,600**
Liabilities										
Deposits from other banks, financial institutions and ACU	170,440,209	-	1,382,443	322,402	9,059	185	-	-	-	-
Liabilities to IMF	-	-	-	-	-	-	-	-	231,519,873	-
Total	**170,440,209**	**-**	**1,382,443**	**322,402**	**9,059**	**185**	**-**	**-**	**231,519,873**	**-**
Net	**2,053,434,052**	**33,851,806**	**101,335,398**	**104,396,032**	**10,751,015**	**35,799,075**	**49,441,256**	**31,053,174**	**(17,677,898)**	**2,245,600**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

30 June 2016

Taka '000

Particulars	US$ equivalent	Gold and Silver equivalent	EURO equivalent	GBP equivalent	Japanese Yen equivalent	Canadian $ equivalent	Australian $ equivalent	Chinese Yuan Renminbi equivalent	SDR equivalent	Others equivalent
Assets										
Held in other Central Banks and cash deposit abroad	22,476,916	-	5,936,796	4,066,716	8,998,235	388,288	464,468	1,994,396	-	691,682
Overnight Investment	135,663,360	-	571,710	-	-	-	-	-	-	-
Short term deposits in overseas commercial banks	956,731,836	-	2,612,643	72,797,255	-	31,301,524	34,335,407	16,614,019	-	1,527,504
Treasury bills	15,654,912	-	-	-	-	-	-	-	-	-
Foreign bonds	660,054,396	-	85,860,561	6,884,624	-	2,481,245	7,895,976	3,687,446	-	-
Loan to other banks	132,234,324	-	-	-	-	-	-	-	-	-
Claims from gold transaction	-	38,849,350	-	-	-	-	-	-	-	-
Interest receivable	5,280,073	86,334	1,163,462	71,982	-	51,528	223,416	48,538	9,851	1,425
Asset held with IMF	-	-	-	-	-	-	-	-	208,940,073	-
Total	**1,928,095,817**	**38,935,684**	**96,145,171**	**83,820,576**	**8,998,235**	**34,222,585**	**42,919,267**	**22,344,398**	**208,949,924**	**2,220,610**
Liabilities										
Deposits from other banks, financial institutions and ACU	146,217,472	-	1,080,051	328,135	9,563	179	-	-	-	-
Liabilities to IMF	-	-	-	-	-	-	-	-	230,167,566	-
Total	**146,217,472**	**-**	**1,080,051**	**328,135**	**9,563**	**179**	**-**	**-**	**230,167,566**	**-**
Net	**1,781,878,345**	**38,935,684**	**95,065,120**	**83,492,442**	**8,988,673**	**34,222,406**	**42,919,267**	**22,344,398**	**(21,217,642)**	**2,220,610**

Currency risk sensitivity analysis

During the year, if the Taka had weakened 10 per cent against the principal currencies in its foreign reserves portfolio with all other variables held constant, profit for the year would have been Tk. 6,934 million higher, (2016: Tk.477 million). Conversely, if the Taka had strengthened 10 per cent against the same currencies with all other variables held constant, the Bank would have experienced a decrease of profit for the year of Tk. 6,934 million, (2016: Tk.477 million). Profit/Loss is very sensitive to changes in exchange rate movements. The bank as part of its core functions holds substantial foreign currency assets.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

b) Interest rate risk

Interest rate risk is the risk of loss arising from changes in interest rates. The Group is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. Since the primary objective of the Bank is to achieve and maintain price stability, it determines at its own discretion the monetary policy that it will implement and the monetary policy instruments that is going to use in order to achieve and maintain price stability. Bank's interest sensitivity position based on contractual re-pricing arrangements as on 30 June 2017 is presented below. It includes the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing of maturity dates. The table below summaries all financial instruments in their re-pricing period, which is equivalent to the remaining term of maturity:

Consolidated

30 June, 2017

Taka '000

Particulars	Balance as at 30 June 2017	Re-pricing period				Weighted average interest
		0 to 3 months	3 to 12 months	1 to 5 years	over 5 years	
Assets						
Foreign currency financial assets						
Foreign currency accounts	34,888,457	34,888,457	-	-	-	0.08%
Foreign investments	2,304,806,144	1,123,741,424	420,910,825	760,153,895	-	1.33%
Assets held with International Monetary Fund	213,841,975	108,774,472	-	-	105,067,503	0.59%
Claims from gold transactions	33,811,041	18,486,546	15,324,495	-	-	0.20%
Foreign currency loans to banks	206,294,007	88,546,108	109,793,481	4,073,765	3,880,653	2.45%
Total Foreign currency financial assets	**2,793,641,624**	**1,374,437,007**	**546,028,801**	**764,227,660**	**108,948,156**	
Local currency financial assets						
Loans to the Government of Bangladesh	138,717,001	33,485,678	26,993,379	59,584,179	18,653,765	5.08%
Local currency investments	4,835,300	-	1,528,712	2,280,000	1,026,588	2.16%
Local currency loans to banks, financial institutions and employees	106,179,145	11,800,152	17,814,893	31,234,056	45,330,045	4.42%
Total Local currency financial assets	**249,731,446**	**45,285,830**	**46,336,984**	**93,098,235**	**65,010,398**	
Liabilities						
Foreign currency financial liabilities						
Deposits from banks and financial institutions	172,154,298	172,154,298	-	-	-	0.76%
Liabilities with International Monetary Fund	231,519,873	1,660,813	2,050,530	44,086,352	183,722,179	0.59%
Total foreign currency financial liabilities	**403,674,171**	**173,815,111**	**2,050,530**	**44,086,352**	**183,722,179**	
Local currency financial liabilities						
Short term borrowings	182,618,016	182,618,016	-	-	-	2.96%
Total local currency financial liabilities	**182,618,016**	**182,618,016**	**-**	**-**	**-**	

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

30 June, 2016

Taka '000

Particulars	Balance as at 30 June 2016	Re-pricing period 0 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Weighted average interest
Assets						
Foreign currency financial assets						
Foreign currency accounts	45,017,497	45,017,497	-	-	-	0.08%
Foreign investments	2,034,674,417	1,296,827,377	190,264,395	547,582,644	-	1.37%
Assets held with International Monetary Fund	208,949,924	106,526,842	-	-	102,423,081	0.05%
Claims from gold transactions	38,849,350	19,118,547	19,730,803	-	-	0.39%
Foreign currency loans to banks	132,234,324	64,676,763	67,557,561	-	-	1.89%
Total Foreign currency financial assets	**2,459,725,512**	**1,532,167,026**	**277,552,759**	**547,582,644**	**102,423,081**	
Local currency financial assets						
Securities purchased under agreement to resell	8,480,000	8,480,000	-	-	-	9.36%
Loans to the Government of Bangladesh	199,109,179	88,362,693	23,599,171	71,315,974	15,831,340	4.92%
Local currency investments	5,361,392	260,000	3,424,804	650,000	1,026,588	2.08%
Local currency loans to banks, financial institutions and employees	105,593,068	8,004,377	22,491,874	37,467,864	37,628,954	4.20%
Total Local currency financial assets	**318,543,639**	**105,107,071**	**49,515,848**	**109,433,838**	**54,486,882**	
Liabilities						
Foreign currency financial liabilities						
Deposits from banks and financial institutions	147,635,399	147,635,399	-	-	-	0.42%
Liabilities with International Monetary Fund	230,167,566	1,617,637	369,245	45,116,910	183,063,773	0.05%
Total foreign currency financial liabilities	**377,802,965**	**149,253,036**	**369,245**	**45,116,910**	**183,063,773**	
Local currency financial liabilities						
Short term borrowings	263,401,402	263,401,402	-	-	-	5.67%
Total local currency financial liabilities	**263,401,402**	**263,401,402**	**-**	**-**	**-**	

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

Separate

30 June, 2017 Taka '000

Particulars	Balance as at 30 June 2017	Re-pricing period				Weighted average interest
		0 to 3 months	3 to 12 months	1 to 5 years	over 5 years	
Assets						
Foreign currency financial assets						
Foreign currency accounts	34,888,457	34,888,457	-	-	-	0.08%
Foreign investments	2,304,806,144	1,123,741,424	420,910,825	760,153,895	-	1.33%
Assets held with International Monetary Fund	213,841,975	108,774,472	-	-	105,067,503	0.59%
Claims from gold transactions	33,811,041	18,486,546	15,324,495	-	-	0.20%
Foreign currency loans to banks	206,294,007	88,546,108	109,793,481	4,073,765	3,880,653	2.45%
Total Foreign currency financial assets	**2,793,641,624**	**1,374,437,007**	**546,028,801**	**764,227,660**	**108,948,156**	
Local currency financial assets						
Loans to the Government of Bangladesh	138,717,001	33,485,678	26,993,379	59,584,179	18,653,765	5.08%
Local currency investments	15,945,000	-	650,000	2,280,000	13,015,000	2.16%
Local currency loans to banks, financial institutions and employees	104,815,819	11,800,152	17,814,893	31,234,056	43,966,719	4.41%
Total Local currency financial assets	**259,477,820**	**45,285,830**	**45,458,272**	**93,098,235**	**75,635,484**	
Liabilities						
Foreign currency financial liabilities						
Deposits from banks and financial institutions	172,154,298	172,154,298	-	-	-	0.76%
Liabilities with International Monetary Fund	231,519,873	1,660,813	2,050,530	44,086,352	183,722,179	0.59%
Total foreign currency financial liabilities	**403,674,171**	**173,815,111**	**2,050,530**	**44,086,352**	**183,722,179**	
Local currency financial liabilities						
Short term borrowings	182,618,016	182,618,016	-	-	-	2.96%
Total local currency financial liabilities	**182,618,016**	**182,618,016**	**-**	**-**	**-**	

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

30 June, 2016

Taka '000

Particulars	Balance as at 30 June 2016	Re-pricing period				Weighted average interest
		0 to 3 months	3 to 12 months	1 to 5 years	over 5 years	
Assets						
Foreign currency financial assets						
Foreign currency accounts	45,017,497	45,017,497	-	-	-	0.08%
Foreign investments	2,034,674,417	1,296,827,377	190,264,395	547,582,644	-	1.37%
Assets held with International Monetary Fund	208,949,924	106,526,842	-	-	102,423,081	0.05%
Claims from gold transactions	38,849,350	19,118,547	19,730,803	-	-	0.39%
Foreign currency loans to banks	132,234,324	64,676,763	67,557,561	-	-	1.89%
Total Foreign currency financial assets	**2,459,725,512**	**1,532,167,026**	**277,552,759**	**547,582,644**	**102,423,081**	
Local currency financial assets						
Securities purchased under agreement to resell	8,480,000	8,480,000	-	-	-	9.36%
Loans to the Government of Bangladesh	199,109,179	88,362,693	23,599,171	71,315,974	15,831,340	4.92%
Local currency investments	16,715,000	260,000	2,790,000	650,000	13,015,000	2.08%
Local currency loans to banks, financial institutions and employees	104,337,052	7,992,377	22,459,874	37,235,787	36,649,014	4.45%
Total Local currency financial assets	**320,161,231**	**96,615,071**	**48,849,044**	**109,201,761**	**65,495,355**	
Liabilities						
Foreign currency financial liabilities						
Deposits from banks and financial institutions	147,635,399	147,635,399	-	-	-	0.42%
Liabilities with International Monetary Fund	230,167,566	1,617,637	369,245	45,116,910	183,063,773	0.05%
Total foreign currency financial liabilities	**377,802,965**	**149,253,036**	**369,245**	**45,116,910**	**183,063,773**	
Local currency financial liabilities						
Short term borrowings	263,401,402	263,401,402	-	-	-	2.96%
Total local currency financial liabilities	**263,401,402**	**263,401,402**	**-**	**-**	**-**	

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

Interest rate risk sensitivity analysis

During the year, if interest rates had been 100 basis points higher with all other variables constant, profit for the year would have been Tk. 30,466 million higher (2016: Tk. 25,114 million), arising mainly as a result of higher interest income on financial assets. Conversely, if interest rates had been 100 basis point lower with all other variables held constant, profit for the year would have been Tk. 30,466 million lower (2016: Tk. 25,114 million) arising mainly as a result of lower interest income on financial assets. Profit is very sensitive to changes in interest rates as interest is the principal source of income of the bank.

IV. Operational risks

Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from human error, failure of internal processes and systems, legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

Managing operational risk is seen as an integral part of the day to day operations and management which includes explicit consideration of both the opportunities and the risks of all business activities. Operational risk management includes Bank-wide corporate policies that describe the standard required for staff and specific internal control systems designed for the various activities of the Group. Compliance with corporate policies and departmental internal control systems are managed by the management of the department and an active internal audit function.

43 Contingent liabilities

The Bank had contingent liabilities for guarantees outstanding as at 30 June 2017 amounting to Taka 20,149.70 million (2016: Taka 35,280.17 million) in favour of International Islamic Trade Finance Corporation which are secured by counter guarantees from the Government of Bangladesh.

44 Operating segments

The Bank's operation is concentrated in one geographical area - Bangladesh and as such comprise a single operating segment for the purpose of IFRS 8, the relevant standard for such segmentation. While the Bank is required by the Bangladesh Bank Order to report revenue and expenses by references to the functions carried out by the Bank viz. Issue and Banking department, these activities do not constitute separate operating segments for the purpose of IFRS 8.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

45 Actuarial valuation of defined benefit plans

Most recent actuarial valuation was performed in the year 2011-12 by an independent actuarial firm. According to the valuation report, the estimated obligation of the pension fund as at 30 June 2012 was Taka 4,745,764 thousands and for gratuity fund was Taka 1,069,800 thousands. For subsequent years, the obligations were calculated based on the recommendation made by the actuarial firm.

As at 30 June 2017 the obligation for pension fund and gratuity fund was calculated to Taka 8,693,786 thousand and Taka 1,908,033 thousand respectively. The balance of the funds is as under:

Taka '000

Particulars	Pension plans		Gratuity plans	
	2017	2016	2017	2016
Amounts recognised in the reporting date				
Balance at the beginning of the year	7,599,787	6,618,747	1,677,236	1,470,184
Paid during the year	(1,823,101)	(1,936,060)	(129,803)	(153,548)
Current year's contribution/transfer	2,917,100	2,917,100	360,600	360,600
Balance of the fund	**8,693,786**	**7,599,787**	**1,908,033**	**1,677,236**

Actuarial assumptions

Particulars	Pension plans		Gratuity plans	
	2017	2016	2017	2016
Discount rate	11.50%	11.50%	11.50%	11.50%
Salary growth rate	8%	8%	8%	8%

The assumptions regarding future mortality rate are based on the published statistics and mortality tables of the FA 1975-78 (based on experience collected from UK insurers).

Sensitivity

If the discount rate had been 100 basis points lower with all other variables constant, contribution for pension fund and gratuity fund for the year would have been Taka 75.99 million and Taka 16.77 million higher respectively, arising mainly as a result of lower discount income. Conversely, if discount rate had been 100 basis point higher with all other variables held constant, contribution for the same during the year would have been Taka 75.99 million and Taka 16.77 million lower arising mainly as a result of higher discount income. Discount rate is very sensitive for calculation of contribution.

46 Capital commitments

As at 30 June 2017, the Bank had outstanding capital commitments of Taka. 274.01million with respect to different civil, mechanical and electrical engineering purchase. (2016: 172.68 million).

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

47 Related parties transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the case of the Bank, related parties, as defined in IAS 24 : Related Parties Disclosure, include directors and officers of the Bank, and companies of whom they are principal owners and key management personnel. Banking transactions are entered into with related parties on agreed terms and conditions on an arms length basis.

Bank is fully owned by the Government of Bangladesh. Government has interests in various entities such as state owned banks, specialised banks and corporations. Bank deals with these entities on the directives of the government in line with its monetary policy objectives.

The outstanding as at the reporting date and average balances during the year with respect to related parties included in the statement of financial position are as follows:

Taka '000

	2017		2016	
	Outstanding	Average	Outstanding	Average
Outstanding balances with the government of Bangladesh				
Ways and means advance	30,155,600	35,077,800	40,000,000	32,177,200
Overdraft - block (refer note 13)	56,850,000	64,350,000	71,850,000	79,350,000
Overdraft - current	-	20,157,950	40,315,900	20,157,950
Treasury bills	8,116,472	11,872,639	15,628,805	7,814,403
Treasury bonds	43,594,929	37,454,702	31,314,474	16,199,830
Other assets (interest receivable)	1,083,918	911,281	738,645	384,068
	139,800,919	**169,824,371**	**199,847,824**	**156,083,450**
Other liabilities				
Deposits	5,087	5,082	5,078	5,055
Loan from government of Bangladesh	11,195,002	8,203,049	5,211,095	3,966,415
	11,200,089	**8,208,131**	**5,216,173**	**3,971,470**
Balances related to subsidiary (SPCBL)				
Other assets (Prepayments and advances)	2,160,790	2,691,532	3,222,274	3,674,776
Other liabilities (Sundry creditors)	1,402,749	1,270,268	1,137,787	1,236,453

The income and expenses in respect of related parties included in the statement of profit or loss are as follows:

Taka '000

	2017	2016
Income and expenses related to government		
Interest income	5,686,385	4,950,840
Commission received	11,048	8,885
	5,697,433	**4,959,725**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

Expenses	2017 Taka '000	2016 Taka '000
Agency charges	4,966,800	3,485,956
Under writing commission on treasury bills and bonds	116,207	418,212
	5,083,007	**3,904,168**
Income and expenses related to subsidiary (The Security Printing Corporation)		
Dividend income	150,000	120,000
Note printing expenses	4,311,107	3,318,647
Key management personnel		
Salaries, wages and other benefits (refer note 47.06)	4,852	4,175

47.01 Transactions with Government and Government controlled enterprises

In the normal course of its operations, the Bank enters into transactions with related parties. Related parties include the Government of Bangladesh; as ultimate owner of the Bank, various Government departments, and Government controlled enterprises/entities. All transactions are carried out with reference to market rates. Transactions entered into include:

(a) Acting as the fiscal agent, banker and financial advisor of the Government; the Bank is the depository of the Government and or its agents or institutions and provides banking services to Government and Government departments and corporations;

(b) Acting as the agent of the Government or its agencies and institutions, provide guarantees, participate in loans to Government or related institutions and foreign reserve;

(c) The Bank does not ordinarily collect any commission, fees, or other charges for services which it renders to the Government and related entities;

(d) Acting as the agent of the Government, the Bank issues securities of Government, purchases any unsubscribed portion of any issue and amounts set aside for the Bank; and

(e) As the agent of the Government manages public debt and foreign reserves.

During the year, the Bank received an amount of Taka 3,529,290 million (in 2016: Tk. 3,142,387 million) and paid Taka 3,479,130 million (in 2016: 3,198,349 million) on behalf of the Government. As at 30 June 2017, total outstanding balance was Taka 139,800 million.

(f) Assets under management:

	2017	2016
Japan Debt Relief Grant	**107,727**	**1,098,314**

The Bank acts as agent on behalf of Government of Bangladesh for managing the Japan Debt Relief Grant.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

47.02 Transactions with entities in which the Bank has significant investments

During the year, the Bank received debenture interest from House Building Finance Corporation (HBFC) amounting to Tk. 207.51 million which included in the interest income.

47.03 Transactions with controlled entities

During the year, as a part of it's business operations the Bank incurred expense of Taka 4,311.11 million (2016: Taka 3,318.65 million) as note printing cost was paid to The Security Printing Corporation (Bangladesh) Ltd. which is included in the statement of profit or loss of the Bank. It is a 100% owned subsidiary of the Bank. This transactions are eliminated in preparing consolidated financial statements. During the year, The Security Printing Corporation (Bangladesh) Ltd. paid dividend amounting to Taka 150 million (2016: 120 million) as per decision of their Board.

47.04 Transactions with retirement benefit plans

During the year, the Group was not required to contribute any amount to the retirement benefit plans (consisting of contribution to pension plans including widow/widowers), as sufficient reserve is available as per the actuarial valuation report. Amounts of balances held in the financial statements maintained by these retirement benefit plans are given in note 45.

47.05 Board of Directors of Bangladesh Bank and Key Management Personnel as on 30 June, 2017

Name	Chairman/ Members of the Board of Directors	Executive Committee members	Audit committee members
Mr. Fazle Kabir - appointed as the Chairman of the Board of Directors for a period of four years from March 20, 2016 and also holds the post of Governor of the Bangladesh Bank.	Chairman	Chairman	-
Mr. Hedayetullah Al Mamoon - appointed as a Director of the Board of Bangladesh Bank from March 09, 2017 to until further order and holds the post of Senior Secretary, Finance Division, Ministry of Finance, Govt. of the People's Republic of Bangladesh.	Member	-	-

Bangladesh Bank : Notes to the Financial Statements
As at and for the year ended 30 June 2017

Name	Chairman/ Members of the Board of Directors	Executive Committee members	Audit committee members
Mr. Md. Nojibur Rahman - appointed as a Director of the Board of Bangladesh Bank from January 25, 2015 to until further order and holds the post of Senior Secretary, Internal Resources Division & Chairman, National Board of Revenue, Government of the People's Republic of Bangladesh.	Member	-	Convenor
Mr. Md. Eunusur Rahman - appointed as a Director of the Board of Bangladesh Bank from March 21, 2016 to until further order and also holds the post of Secretary, Financial Institution Division, Ministry of Finance, Govt. of the Peoples Republic of Bangladesh.	Member	Member	Member
Dr. Mrs. Rushidan Islam Rahman - appointed as a Director of the Board of Bangladesh Bank from March 13, 2016 for a period of three years.	Member	Member	-
Dr. Jamaluddin Ahmed, FCA - appointed as a Director of the Board of Bangladesh Bank from March 13, 2016 for a period of three years.	Member	-	Member
Mr. A. K. M. Aftab ul Islam, FCA - appointed as a Director of the Board of Bangladesh Bank from January 01, 2017 for a period of three years.	Member	-	Member
Mr. Abu Hena Mohd. Razee Hassan - appointed as a Director of the Board of Bangladesh Bank on April 10, 2016 and also holds the post of Deputy Governor, Bangladesh Bank.	Member	Member	-
Number of meetings held during the year	**7**	**1**	**1**

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2017

47.06 Remuneration of members of the Board of Directors and Key management personnel

Members of the Board of Directors received remuneration totalling Tk. 382,190.00 (2016: Tk.647,010.00) and the Governor received salary totalling Tk. 1,218,400.00 (2016: Tk. 1,029,170.80). In addition, the Governor availed a free furnished house for his residence and full time transport facility. Other key management personnel of the Bank received salary totalling Tk. 3,251,221.29 (2016: Tk. 3,145,798.87) and in addition, they availed official residence as well as transport.

48 Events after the reporting date

Subsequent to the statement of financial position date, no events have occurred which require adjustments to/or disclose in the financial statements.

49 Directors' responsibility for financial reporting

The Board of Directors approved the financial statement on 27, August 2017.

Appendix-1

Chronology of Major Policy Announcements: FY17

Chronology of Major Policy Announcements: FY17

A. Policy Announcements on Banking and Financial Sector Development

July 2016
- Agricultural and Rural Credit Policy and Program for FY17 have been announced by the Bangladesh Bank.

July 2016
- Scheduled banks can disburse agricultural and rural credit under agent banking in addition to their ongoing agricultural credit disbursement system. A circular has been issued indicating how to carry out agricultural and rural credit activities under agent banking.

July 2016
- In order to further expand agricultural credit disbursement, the perspective of intorducing Agent Banking guideline by Bangladesh Bank, the scheduled banks which are running Agent Banking, can participate in the agriculture and rural financing activities through Agent Banking along with existing agricultural credit disbursement system.

  a. Agent booth will play role in receiving loan applications, conducting primarily scrutinisation, disbursement and collection of agricultural and rural credit from borrowers. However, loan application processing, approval and necessary supervision activities has to be carry out by the bank.

  b. Agriculture and rural credit can be disbursed in the sectors and subsectors under Bangladesh bank's agriculture and rural credit policy. Bank should strive to disburse 60% of their disbursement target including disbursement through agent banking in crop sector.

  c. Interest rate ceiling of Bangladesh Bank's agricultural and rural credit policy will be applicable for disbursing agricultural and rural credit through Agent Banking system.

  d. In addition to the prevailing interest rate maximum 0.50% service charge (including VAT) can be collected from the customer. Banks will debit this service charge to the Agent's account by cutting it from borrowers account. i.e agents are not authorized to receive service charges directly from borrowers.

August 2016
- In order to provide credit under refinance scheme on milk production and artificial breeding, no complementary collateral will be required. However, other existing rules and guidelines of Bangladesh Bank concerning this credit facility will remain effective.

September 2016	•	To strengthen the private building safety of RMG factories (Retrofitting, Rebuilding, Relocation and Fire safety) through short to long term finance, Bangladesh Bank has launched teh "Urban Building Safety Project" with the assistance of JAPAN International Cooperation Agency (JICA). The fund size of the Two Step Loan project (TSL) is 4129 million Japanese Yen. To get the fund, RMG factories should be located in Dhaka, Narayangonj and Gazipur District and Chittagong city. Under the Fund, PFIs willl be provided with refinance or pre-finance for lending. An end-borrower can get the loan amout up to BDT 350 million at the maximum interest rate of 6%.
October 2016	•	Thirty two contracted banks have been advised to submit quarterly report instead of monthly progress report regarding disbursement of loans against self declared target under refinance scheme of Tk. 200 crores for 10 Taka account holders.
December 2016	•	Bangladesh Bank (BB) has taken initiatives to ensure a stable and environment-friendly banking and overall CSR activities to support the Sustainable Development Goals (SDGs). To achieve the goal more fruitfully and efficiently, BB has instructed the banks and financial institutions to set up a separate 'Sustainable Financial Unit' (may be in name of department/ cell/division) in the head offices of banks and financial institutions. The BB advised the banks and financial institutions to form a 'Sustainable Finance Committee' led by a senior most Deputy Managing Director for monitoring and planning sustainable banking and financing related activities.
December 2016	•	Guidelines on core banking solution features and controls have been issued to formulate a uniform set of instructions that should be accommodated as minimum requirement but not limited to in any Core Banking Solution (CBS).
December 2016	•	All commercial banks and financial institutions have to make sure for all type of their loans and advances that potential borrowers should compulsorily install and monitor Effluent Treatment Plant (ETP) where applicable. This Instruction will also be applicable for all existing financing.
January 2017	•	In order to prevent malpractice in Mobile Financial Services (MFS) and to ensure discipline and appropriate utilization of MFS, Bangladesh Bank has reset the regular and monthly transaction number and limit. Bangladesh Bank has also imposed restriction for maintaining one MFS account against National Identity Card (NID) with MFS provider.
January 2017	•	Statutory liquidity of any financial institutions will be calculated based on cash in tills, balances with Bangladesh Bank (BB), balances with other banks/FIs, unencumbered Bangladesh Treasury Bills and Treasury Bonds and assets that approved by government gazette notification or approved by Bangladesh Bank.

January 2017	•	From 01 February 2017, financial institutions can borrow money from call money markets upto 30 percent of its equity. Earlier, borrowing limit was determined based on net asset and limited to 15 percent of net asset.
January 2017	•	All insurance companies are instructed to nominate a high official as Chief Anti Money Laundering Compliance Officer (CAMLCO). Now it is furthermore clarified that high official will stand for immediate 2(two) designations below of Chief Executive Officer. This is expected that CAMLCO will be well informed about the prevailing laws, rules, regulations and guidelines regarding Money Laundering and prevention of financing terrorist activities.
January 2017	•	In order to ensure proper physical and mental grow-up of employee's child and safeguard them thoroughly, the scheduled banks are advised to follow the policy for building Child Day Care Centre for their employees without any gender discrimination whose spouse are working in banks/others institutions.
February 2017	•	In order to incorporate environmental risk in overall credit/investment management and to fortify the risk management process, Bangladesh Bank has issued "Guidelines on Environmental and Social Risk Management (ESRM)" along with an Excel-based Risk Rating Model for banks and financial institutions. It will replace the previous issued 'Guidelines on Environmental Risk Management (ERM)' and will be enforceable from 01 January 2018.
February 2017	•	Recently it is observed that declining rapidly, banks' interest/profit rate on deposit stood at below 5 percent as compared to that of lending rate. In this perspective, the banks have to narrow the intermediation spread to contain downward trend of credit interest/profit rate with pay attention to different sides of management efficiency including default loan recovery instead of contraction in deposit rate/profit rate.
March 2017	•	If it is proved in the internal investigation that the bank officials are involved in the event of fraud and forgery of money by counterfeiting of cheque from clients' account the banks must have to fulfill the clients' demand readily.
March 2017	•	The participatory financial institutions of refinance scheme for Green Products have to sign an agreement with the Sustainable Finance Department of Bangladesh Bank. Those who are already in an agreement, they have to implement the changed agreement within 3 months.
April 2017	•	To make Bangladesh self-sufficient in milk, Bangladesh Bank has taken initiatives to disburse credit in milk production and artificial breeding at 5% interest rate under the refinance scheme for milk and artificial breeding. However, as the performances of most of the banks are not satisfactory in this regard, Bangladesh Bank urged the banks to disburse the remaining amount by June 30, 2017.

April 2017

- Recent flood has affected the farmers and crops in the Haor areas in Bangladesh. To combat this situation all scheduled banks have been advised to take the following initiatives immediately:

  a. To continue the agricultural production in the flood affected areas, new loan should be disbursed in Ropa–Amon cultivation along with other crops and fish sector considering the actual demand and loan disbursement emphasizing on Robi grain and import substitute crops (pulse, oil seeds, spices and corn) under grace interest.

  b. Until the situation develops, loan recovery for the affected farmers should be postponed, rescheduled through regulaizing of loan by easy installment/ relaxing the condition for down payment.

  c. In case of unrecovered loan rather than making a new certificate sue, attempts should be taken on the basis of banker-customer relationship through balance confirmation certificate, Token money, etc to stop the loan from getting lapsed. Persuasion of filled certificate case should be postpond and should be settled through Solenaman.

  d. Banks are instructed to take necessary steps for disbursing credit for poultry and livestock rearing, production and puchasing of food for livestock, etc done in the house yard of flood affected farmers.

April 2017

- To motivate women entrepreneurs in business and produce productive investment activities, all banks and financial institutions have been instructed to limit their lending interest rate to 9% (Bank rate+maximum 4% spread) for financing to women led enterpises under "Small Enterprise Refinance Scheme". Earlier, the maximum lending interest rate was 10% (Bank rate+maximum 5% spread).

April 2017

- Considering the existing market price and the increasing demand for consumer goods, it has been decided to make changes in 'Regulation for Credit Cards' and 'Regulations for Personal Loans Including loans for the purchase of consumer durables' of prudential regulations for consumer financing. Banks are also instructed to provide consumer finance such a way that, in any case, the growth rate in total loans under 'Consumer Financing' must not exceed the growth rate of banks' total loans.

May 2017

- Amendment of prudential regulation for small enterprises financing for the purpose of smooth repayment procedure against disbursed loans, banks are advised to follow the guidelines:

  a. A letter of authority from the client(s) shall be taken for debiting client(s) account for repayment of loan installment(s) as per loan agreement.

  b. A memorandum of deposit of cheques shall be taken from the concerned client.

  c. Fully prepared and valid signed post dated cheques shall be taken for each installment stipulating amount and date as per repayment schedule. As per noted that procedure of Loan Repayment System including with credit contract between banks and customers.

May 2017 • Bangladesh Bank is working relentlessly to moderate country's payments, clearing and settlement system. As part of this effort, Bangladesh Automated Clearing House (BACH) was introduced in the country during 2010, Mobile Financial Services and National Payment Switch Bangladesh (NPSB) during 2011 and 2012 respectively while Real Time Gross Settlement (RTGS) System in the year 2015. However, due to inadequate infrastructual readiness and lack of awareness campaign on the part of the participating banks have resulted unsatisfoctory level of usages of these electronic payment systems. Through this circular Bangladesh Bank instructed the banks to upgrade their techinical infrastructure, including introduction of internet banking, by the end of 2017 to reap msximum benefit out of the initiatives undertaken by the central bank while they also have been instructed to couduct training, workship and awareness campaign for their staffs as well as for their clients.

June 2017 • After death of the account holder (s) (death of all members in case of joint account), financial institutions can pay deposited money to the nominee or the nominees nominated by the account holder. Depositors are allowed to eliminate previously nominated nominee/nominees by nominating new nominee/nominees in any time. Accordingly the depositors (single or joint) may also specify the persons who will receive the money after their death in case of minor nominee/nominees.

June 2017 • To stabilize the rice price volatility which has arisen for recent flood in Haor areas, heavy rainfall in different areas of the country and other natural calamities, banks have been advised to open LCs for rice import at zero margins on banker-customer relationship basis upto 31 December 2017 for ensuring adequate rice supply.

June 2017 • Considering the downward trend in lending and deposit interest rates, Bangladesh Bank has reduced the maximum ceiling of interest rate on agricultural and rural credit to 9 percent from 10 percent effective from 01 July 2017.

B. Policy Announcements on Monetary Sector Development

December 2016 • Wage Earner Development Bond, US Dollar Investment Bond and US Dollar Premium Bond can be used as collateral while availing credit facility. This circular addresses few conditions that banks should comply with while sanctioning loan keeping Wage Earner Development Bond, US Dollar Investment Bond and US Dollar Premium Bond as collateral.

April 2017	•	Any bank-company cannot invest more than 5 percent of its total value from paid-up capital, share premium, statutory outstanding and retained earnings in bonds or debentures of any other company approved by Bangladesh Securities and Exchange Commission. Previously the limit was constrained to 10 percent. In addition, the circular has also stated other instructions which need to be followed investing in bonds/debentures.
		C. Policy Announcements on External Sector Development
July 2016	•	The limit of releasable foreign exchange to private sector participants for attending overseas seminars, conferences, workshops, trainings, etc. on per diem basis, has been enhanced to USD 350 for SAARC member countries or Myanmar and USD 400 for other countries.
July 2016	•	As the payment channel for processing 'ACU Euro' transactions has been suspended by some correspondents, Authorised Dealers are advised to suspend operations in 'ACU Euro' temporarily. Accordingly, permission has been given to all eligible current account transactions in 'ACU Euro' to be settled outside the ACU mechanism until further notice.
August 2016	•	The maximum limit per transaction of the repatriation of service export related payment through Online Payment Gateway Service Providers (OPGSPs) has been enhanced from USD 2,000 to USD 5,000.
November 2016	•	The Government of Bangladesh has signed a financing agreement on June 30, 2015 with the International Development Association (IDA) regarding implementation of the Financial Sector Support Project (FSSP). The objective of the project is to improve financial market infrastructure of the country, regulatory and oversight capacity of Bangladesh Bank and access to long term financing mainly for manufacturing firms in Bangladesh. Bangladesh Bank has also signed a project agreement with the IDA to carry out the tasks for implementation of the project. Under the arrangement, Bangladesh Bank will provide long term financing in foreign currency mainly for small and medium scale manufacturing enterprises in the country. The financing would be provided to the eligible banks for on lending/refinancing to the eligible firms.
December 2016	•	From January, 2017 AD banks need not to submit the Form C as per Appendix -5/6 of the GFET, 2009, Volume -1 with the monthly/periodic returns to Bangladesh Bank. However, ADs shall have to preserve the printed copy of Form C (with related documents) at their own custody for 05 (five) years for record and inspection of Bangladesh Bank.
December 2016	•	Under the USA Patriot Act of 2001 to open a Nostro Account in the USA, Authorized Dealers can remit towards cost of agent services of legal process

December 2016	•	To facilitate the establishment of drawing arrangement between the exchange house abroad and the bank operating in Bangladesh the minimum limit for security deposit by Electronic Fund Transfer (EFT) method has been decreased from USD 25,000 to USD 10,000 in foreign currency and from Taka 5 lakhs to 2 lakhs.
January 2017	•	In order to enhance the scope of business travel abroad by officials of enterprises located in EPZs and EZs, card issuing banks are allowed to issue International Debit/Prepaid card upto three (3) top tier officials of concerned enterprises against balances held in foreign currency accounts. EPZs and EZs enterprises can avail such card facility from one card issuing bank only.
January 2017	•	Type-A industries in Export Processing Zones (EPZs)/ Economic Zones (EZs) are allowed to access short term foreign currency loans from parent companies/shareholders abroad and other Type-A subsidiaries/ associates operating in EPZs/EZs.
January 2017	•	In order to keep minimum involvement of Authorized Dealers (AD's) own fund for settlement of import payment, ADs maintaining Exporters' Retention Quota (ERQ) accounts are allowed to transfer fund from ERQ accounts to other ADs of same exporters or their subsidiaries/sister concerns for settlement of import payment. The transferable fund can be used only for the settlement of import payments.
January 2017	•	Non-Resident Bangladeshis (NRBs) are allowed to open Non-Resident Foreign Currency Deposit (NFCD) accounts with Authorized Dealer banks at home to credit their retirement benefits, periodical pensions, superannuation benefits etc. as per employment agreement with employers while on service abroad. The balances held in the accounts can be used for settlement of legitimate payment abroad.
February 2017	•	ADs are allowed to remit the registration fee to the bank accounts of the beneficiaries for medical check-up of migrant workers, the fee in case of invoices specifying details of the check-up by persons and deduction of applicable taxes.
February 2017	•	ADs may effect import payment within 30 months of issuance of LCAF against import of capital machinery. Revaluation of LCAF will not be required for such remittances against import out of fund held in importer's foreign currency accounts maintained under general or special authorization from Bangladesh Bank.

February 2017	•	In order to facilitate the reconversion by the foreign tourists, any licensed Money Changers (MC) whether it encashed earlier or not are allowed to reconvert the unspent Bangladesh Taka belong to the tourist within the permissible limit.
March 2017	•	For issuing shares in favor of the non-residents by debit to the non-resident Taka accounts, ADs maintained non-resident Taka accounts in the names of their overseas branches and correspondents against inward remittance in convertible foreign currencies. ADs will issue certificate in support of the payment from such account for purchase of shares in Bangladeshi companies.
March 2017	•	Authorized Dealer banks are allowed to issue guarantee, bid bond or performance bond in local currency against taka equivalent on behalf of a non-resident firm/company favoring residents in Bangladesh provided a back to back foreign currency guarantee with suitable coverage for exchange rate fluctuation from counter guarantee issuing banks' abroad.
March 2017	•	To make wider the scope of Taka working capital loans for foreign owned/controlled companies operating in Bangladesh, resident persons/ companies are allowed to purchase commercial papers (CPs) issued by such companies.
April 2017	•	Besides usage from the usual exporters' retention quota (ERQ), limit for remittable amount of IT/Software firms to meet their bonafide expenses, has been enhanced from USD 25,000 to USD 30,000 in a calendar year. Within this limit, the limit for payment through international cards has also been enhanced from USD 2,500 to USD 6,000.
April 2017	•	Individuals and institutions resident in Bangladesh are allowed to purchase Taka bonds issued by foreign owned/controlled companies in Bangladesh along with the permission of Bangladesh Securities and Exchange Commission.
May 2017	•	Authorized Dealers (ADs) are permitted to issue and repatriate inward remittances against ICT related services through international card against the services provided by individual developers/freelancers.

May 2017	•	FE Circular No. 21, dated 11 May, 2017 has been issued by replacing FE Circular No. 22, dated August 09, 2016 regarding Foreign Exchange Transactions by the Enterprises of Economic Zones (EZs) in Bangladesh. Through this circular, developers and other service providing enterprises exclusively formed and registered to serve a particular EZ has also given the same status of the industrial enterprises established in different EZs. With some exceptions in the foreign exchange regulations for the enterprises of the Export Processing Zones (EPZs), this FE circular has also been applicable for the enterprises of the EZs in Bangladesh. In some cases enterprises of the EZs has given more extra incentive for investment.
May 2017	•	ADs are allowed to use balances held in ERQ accounts or by fund of unencumbered foreign currency transferred from ERQ accounts maintained with other ADs of the same borrowers on account of repayment of foreign loan. Such remittances may also be effected by nominated ADs out of fund transferred from ERQ accounts of borrowers' subsidiaries/ sister concerns.
May 2017	•	To release foreign exchange for study of Bangladeshi students in permissible courses abroad, it has now been decided that, ADs are allowed to remit fees, charges etc. through their designated entity which is clearly mentioned in the admission documents (I-20, Admission Acceptance Letter etc.) of the concerned main educational institution.
June 2017	•	Besides industrial units, EPZ developers and different service providing units (water supply/treatment, dust management, cleaning, effluent treatment plant, etc.) are allowed to operate in EPZs to serve the industrial units therein. To facilitate such developers/service providers of EPZs, EPZ developers and different service providing companies of EPZs, exclusively formed and registered to serve a particular EPZ will be treated as industrial units of EPZs. Existing foreign exchange regulations applicable for EPZ units (as mentioned in GFET, FE Circulars, FE Circular Letters, etc.) shall be applicable for such entities as well.
June 2017	•	Besides encashment from FC accounts, Taka accounts of Type B & Type C industrial units of EPZs are allowed to be credited with authorized payment received in Taka. This clarification is also applicable for transactions in Taka accounts by Type B and Type C enterprizes of EZs.

Appendix-2

Bangladesh Bank's Research in FY17

A. Summary of Recent Research Activities in Bangladesh Bank and a Near/Medium Term Agenda

Some of the key outputs of Research Department (RD), Monetary Policy Department (MPD) and Chief Economist's Unit (CEU) are summarised here. Besides, some other analytical/research work in other parts of BB are also mentioned briefly. All are grouped under the following categories: (a) synthesis analysis of overall and topic-specific developments in the Bangladesh economy; (b) empirical research on specific economic/financial sector issues; and (c) development of new analytical tools and capacity building.

B. Synthesis Analysis/Reports related to the Bangladesh Economy and their Frequencies

1. BB Annual Report: First draft prepared by Research Department with inputs from other Departments.
2. Monetary Policy Statement (MPS): A bi-annual announcement of policy stance along with an update of half yearly economic developments - Jointly prepared by CEU and MPD.
3. Bangladesh Bank Quarterly (BBQ): An analysis of the past quarters economic developments along with a near term outlook – prepared by CEU.
4. Monthly Economic Indicators (MEI): A monthly update on key macroeconomic indicators - prepared by MPD.
5. Quarterly Financial Stability Assessment Report (QFSAR): An analysis of the past quarters financial changes, risk assessment and development - prepared by FSD.
6. Financial Stability Report (FSR): An annual basis review of the core indicators of financial stability in the Bangladesh economy and assessment of the resilience of domestic financial system as well as significant development in the financial system based on the financial data of previous year - prepared by FSD.
7. Quarterly Review Report on Green Banking Activities of Banks & Financial Institutions and Green Refinance Activities of Bangladesh Bank - prepared by Sustainable Finance Department (SFD).
8. Background papers for National Budget document and 'Economic Review of Bangladesh' an annual publication of Ministry of Finance - prepared by Research Department.
9. Preparation of manuscript of the book titled "Activities of Banks, Insurances, and Financial Institutions" prepared by Research Department and published by the MoF (yearly).
10. Foreign Direct Investment (FDI) in Bangladesh: A half-yearly survey report - prepared by SD.
11. Half-Yearly CSR Reports of Banks and Financial Institutions: A half-yearly report - prepared by SFD.

12. Development of Islamic Banking in Bangladesh: A quarterly update on the Islamic banking performance in Bangladesh - prepared by RD.
13. Quarterly Report on Remittance Inflows: A quarterly report on the inflow of remittances in Bangladesh - prepared by RD.
14. Quarterly Review on RMG: A quarterly review on the development of RMG sector in Bangladesh - prepared by RD.
15. Quarterly Analysis on Government Revenue Receipts: A quarterly analysis on the revenue earnings by the Government of Bangladesh - prepared by RD.
16. Monthly Report on Government Borrowing from Domestic Sources: A report prepared by RD.
17. Monthly Report on Agricultural and Rural Financing: A report prepared by RD.
18. Outstanding Principal Liabilities against the Facilities Received from the IMF: A yearly report prepared by RD.
19. Bangladesh Systemic Risk Dash Board: A bi-annual report prepared by FSD.

Empirical Analysis of Specific Economic/Financial Sector Issues in FY17

(i) Monetary policy / inflation related

1. Effectiveness of Monetary Transmission Channels in Bangladesh: Evidence from a Floating Exchange Rate Regime (BB Working Paper, WP No. 1607, RD).
2. Forecasting Inflation and Output in Bangladesh: Evidence from a VAR Model (BB Working Paper, WP No. 1610, RD).
3. Technical Stock Valuation of a Company: Bangladesh Perspective (BB Working Paper, WP No. 1620, MPD).
4. The Interrelationship between Money Supply and Nominal GDP in Bangladesh (BB Working Paper, WP No. 1622, MPD).
5. Responses of Inflation and Output to Shocks in Monetary policy: A case study with Bangladesh using the DSGE model (BB Working Paper, WP No. 1701, RD)

(ii) Financial sector related

1. Nexus between Bank's Liquidity and Profitability in Bangladesh: An Empirical Overview (BB Working Paper, WP No. 1612, RD).
2. Examining the Interaction between the Policy rate and Lending rate in Bangladesh (BB Working Paper, WP No. 1613, MPD).
3. Is the Capital Market of Bangladesh Efficient? (BB Working Paper, WP No. 1614, CEU).
4. Examining the Need for an Adjustment of the Bank Rate and Other Policy Rates in Bangladesh (BB Working Paper, WP No. 1616, CEU and MPD).

5. Are we Greening the Economy? Recent Trends of Green Financing in Bangladesh (BB Working Paper, WP No. 1618, RD).
6. Analysing the Behavior of the Interest Rate Spread in Bangladesh (BB Working Paper, WP No. 1619, RD).
7. Are Mobile Financial Services Promoting Financial Inclusion in Bangladesh? An Assessment Study (BB Working Paper, WP No. 1623, RD).
8. Islamic Microfinance as a Tool of Financial Inclusion in Bangladesh, Journal of Islamic Economics, Banking and Finance, Vol-13, No.1, January-March, 2017.
9. Green Banking in Bangladesh: An Assessment of Policies and Programs, Thoughts on Economics, The Quarterly Journal of Islamic Economics Research Bureau, 25(01), 51-65, October-December 2016.
10. Impact Assessment of Agricultural Credit Program for the Sharecroppers in FY16 Implemented by BRAC under Refinancing Scheme of Bangladesh Bank (Special Research Work: SRW No. 1701, RD)
11. Is there a Relationship between Liquidity and Profitibility in the Banking Sector of Bangladesh: A Panel data Analysis (BB Policy Note, PN No. 1702, RD)

(iii) External sector related

1. Revisiting the Marshall-Lerner Condition in the Bangladesh Economy: A Cointegration Approach (BB Working Paper, WP No. 1608, MPD).
2. Does the Import of Capital Goods Spur Manufacturing Output Growth in Bangladesh? (BB Working Paper, WP No. 1611, RD).
3. Trade Financing and Loan against Trust Receipt (LATR) in Banking System of Bangladesh: Policy Implication (BB Working Paper, WP No. 1621, RD and CEU).
4. The Determinants of Demand for International Reserves of Bangladesh, Journal of the Institute of Bankers Bangladesh, Vol-61, No.2, July-December, 2014 (Published in 2016).

(iv) Real sector related

1. Public and Private Investment Nexus in Bangladesh: Crowding-in or out? (BB Working Paper, WP No. 1609, CEU).
2. The Impact of Geographic Surroundings on Economic Growth: A Panel Data Approach (BB Working Paper, WP No. 1615, RD and MPD).
3. Savings and Income Inequality in Bangladesh (BB Working Paper, WP No. 1617, RD and MPD).
4. Forecasting Output Growth of Bangladesh (for MPS, CEU).

C. Development of New Analytical Tools and Capacity Building

- BBTA Journal on 'Thoughts on Banking and Finance' has been published since 2012. Till date, volume-5, issue-1 of the Journal has been published whose Executive Editor is a GM of Research Department deputed to Bangladesh Bank Training Academy (BBTA).

Appendix -3

Bangladesh: Some Selected Statistics

Table-I Trends of Major Macroeconomic Indicators

Indicators	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16[R]	FY17[R]
1	2	3	4	5	6	7	8	9	10	11
1. GDP growth (at FY06 constant market prices)	6.0	5.1	5.6	6.5	6.5	6.0	6.1	6.6	7.1	7.3
2. Growth of broad money (M2)	17.6	19.2	22.4	21.3	17.4	16.7	16.1	12.4	16.4	10.9
3. Growth of GDP deflator (base: FY06=100)	7.9	6.8	7.1	7.9	8.2	7.2	5.7	5.9	6.7	6.3
4. CPI Inflation Rate*	9.9	6.7	7.3	8.8	8.7	6.8	7.4	6.4	5.9	5.4
5. Foreign exchange reserves (million USD)	6149	7471	10750	10912	10364	15315	21508	25025	30168	33407
6. Net foreign assets (billion BDT)	373.2	474.6	670.7	695.3	742.8	1120.7	1552.9	1885.6	2319.3	2586.6
7. Exchange rate (BDT/Dollar)	68.6	68.8	69.2	71.2	79.1	79.9	77.7	77.7	78.3	79.1
8. REER index as of end June**	86.0	91.3	97.7	72.2	72.4	72.3	82.7	94.6	100.0	101.8
9. Per capita GDP in BDT (at current market prices)	43719	48359	53961	61198	69614	78009	86266	96004	108378	122152
(As percentage of GDP)										
10. Domestic savings	19.2	20.3	20.8	20.6	21.2	22.0	22.1	22.2	25.0	25.3
11. Investment	26.2	26.2	26.3	27.4	28.3	28.4	28.6	28.9	29.7	30.5
12. Revenue income	9.6	9.1	9.5	10.2	10.9	10.7	10.4	9.6	10.0	11.1
13. Revenue expenditures	8.3	8.7	8.4	8.5	8.5	8.3	8.2	7.9	8.3	9.0
14. Revenue surplus (+) / Revenue deficit (-)	1.3	0.4	1.1	1.7	2.4	2.4	2.2	1.8	1.6	2.0
15. Annual Development Programme (ADP)	3.6	2.8	3.2	3.6	3.6	4.1	4.1	4.0	4.6	5.6
16. Other expenditures	3	1.1	1.1	1.9	2.4	2.1	1.7	1.6	0.8	1.4
17. Total expenditures	14.9	12.5	12.7	14	14.5	14.5	14.0	13.5	13.8	16.1
18. Overall budget deficit (excluding grants)	5.3	3.4	3.2	3.9	3.6	3.8	3.6	3.9	3.8	5.0
19. Overall budget deficit (including grants)	4.6	3.1	2.8	3.6	3.2	3.3	3.1	3.7	3.7	4.8
20. Financing of overall budget deficit (a+b)@	4.6	3.1	2.8	3.6	3.2	3.3	3.1	3.7	3.7	4.8
a. Net foreign financing	1.4	0.4	0.8	0.3	0.3	0.5	0.2	0.3	0.7	1.2
b. Net domestic financing (i+ii)	3.2*	2.7	2	3.3	2.9	2.8	2.8	3.4	2.9	3.5
i. Bank borrowings	1.7	1.9	-0.3	2.7	2.6	2.3	1.4	0.03	0.6	1.2
ii. Non-bank borrowings	0.3	0.8	2.3	0.6	0.3	0.5	1.5	3.3	2.3	2.3
21. Government debt outstanding (i+ii)	37.1	35.9	32.3	32.4	31.8	30.4	29.6	27.7	27.7	27.1
i. Domestic debt	15	15.5	14.7	15.2	15.2	15.5	15.5	15.5	15.8	15.7
ii. External debt#	22.1	20.4	17.6	17.2	16.6	14.9	14.1	12.2	11.9	11.4
22. Current account balance : surplus(+)/deficit(-)	0.8	2.4	3.2	-1.3	-0.3	1.6	0.8	1.8	1.9	-0.6

[R] Revised, [e] estimated.
* base: FY96=100 up to FY11 and FY06=100 from FY12 and onwards.
** base: FY01=100 up to FY10 with 10 currency basket and FY16=100 from FY11 and onwards with 15 currency basket.
@ Including non-cash bond (liabilities of BPC) of Taka 75.23 billion.
\# Excluding IMF loan.
Source: Bangladesh Bank, Bangladesh Bureau of Statistics, Bangladesh Economic Review, 2017 and Budget in Brief (various issues).

Table-II Medium-Term Macroeconomic Framework: Key Indicators

	Actual					Projection		
Indicators	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
1	2	3	4	5	6	7	8	9
Real Sector								
Real GDP Growth (%)	6.0	6.1	6.6	7.1	7.3	7.4	7.6	8.0
CPI inflation (%)	6.8	7.4	6.4	5.9	5.4	5.5	5.5	5.4
Gross investment (% of GDP)	28.4	28.6	28.9	29.7	30.5	31.9	32.8	34.5
Private	21.8	22.0	22.1	23.0	23.1	23.2	23.9	25.4
Public	6.6	6.6	6.8	6.7	7.4	8.7	8.9	9.0
Fiscal Sector (% of GDP)								
Total revenue	10.7	10.5	9.6	10.0	11.2*	13.0	13.5	14.1
Tax revenue	9.0	8.6	8.5	8.8	9.8*	11.5	12.2	12.8
Non-tax revenue	1.7	1.8	1.1	1.2	1.4*	1.5	1.3	1.3
Total expenditure	14.6	14.0	13.5	13.5	16.2*	18.0	18.4	19.1
Annual Development Programme (ADP)	4.1	4.1	4.0	4.4	5.7*	6.9	7.0	7.1
Overall balance	-3.9	-3.6	-3.8	-3.6	-5.0*	-5.0	-5.0	-5.0
Financing								
Domestic financing	2.8	2.8	3.4	2.9	3.6*	2.7	3.4	3.4
External financing (net)	1.1	0.7	0.5	0.7	1.5*	2.4	1.5	1.6
Monetary and Credit (% change)								
Domestic credit	11.0	11.6	10.0	14.2	11.2	16.5	17.2	17.4
Credit to the private sector	10.8	12.3	13.2	16.8	15.7	16.5	16.8	17.0
Broad money (M2)	16.7	16.1	12.4	16.3	10.9	15.6	15.8	16.1
External sector								
Exports f.o.b (% change)	10.8	12.1	3.1	8.9	1.7	11.0	12.0	12.0
Imports f.o.b (% change)	0.8	8.9	3.0	5.9	9.0	12.0	12.0	12.0
Remittances (% change)	11.6	-1.6	8.5	-2.5	-14.5	5.0	11.0	11.0
Current account balance (% of GDP)	1.6	0.8	1.8	1.9	-0.6	-2.1	-2.1	-2.0
Gross foreign exchange reserve (USD billion)	15.3	21.5	25.0	30.2	33.4	33.2	33.8	35.1
Gross foreign exchange reserve (months of imports)	4.6	5.9	7.0	7.9	8.0	6.0	5.5	5.1
GDP at current market prices (billion BDT)	11989	13437	15158	17329	19758	22173	25154	28589

Source: Bangladesh Economic Review, 2017
* According to Revised Budget of FY17.

Table-III Trends of Gross Domestic Product (GDP), Investment and Savings

(Billion BDT)

Items/Sectors	FY10	FY11	FY12	FY13	FY14	FY15	FY16[R]	FY17[R]
1	2	3	4	5	6	7	8	9
1. GDP (at current market prices)	7975.4	9158.3	10552	11989.2	13436.7	15158.0	17328.6	19758.2
2. Gross investment at current prices	2093.3	2511.3	2982.2	3403.7	3839.9	4378.7	5138.4	6028.3
a) Private	1720.5	2029.8	2374.2	2607.5	2960.0	3344.7	3983.5	4563.6
b) Public	372.8	481.5	608	796.2	879.9	1033.9	1154.9	1464.7
3. Gross domestic savings at current prices	1659.7	1888.4	2239.1	2642.4	2968.2	3358.8	4328.3	5004.6
4. Gross national savings at current prices	2348.2	2644.8	3150.5	3660.0	3927.0	4398.8	5332.2	5857.1
5. Sectoral GDP (at FY06 constant prices)								
i. Agriculture	**1065.1**	**1112.6**	**1146.1**	**1174.4**	**1225.7**	**1266.5**	**1301.8**	**1340.5**
a) Agriculture and forestry	849	882.1	903.3	916.6	951.5	974.8	992.3	1011.7
1. Crops and horticulture	624.9	649	660.4	664.3	689.4	702.0	708.1	714.9
2. Animal farming	119.1	122.2	125.5	128.9	132.6	136.7	141.0	145.7
3. Forest and related services	105	110.8	117.5	123.4	129.6	136.1	143.1	151.1
b) Fishing	216.1	230.5	242.8	257.8	274.2	291.7	309.5	328.8
ii. Industry	**1552**	**1692**	**1851.6**	**2030.1**	**2195.7**	**2408.0**	**2675.1**	**2948.7**
a) Mining and quarrying	95.6	99.1	105.9	115.8	121.3	132.9	150.0	163.3
b) Manufacturing	996.7	1096.5	1205.7	1329.9	1446.5	1595.7	1782.2	1977.7
1. Large and medium scale	796.3	884.8	980	1084.4	1185.4	1312.3	1473.1	1638.2
2. Small scale	200.4	211.8	225.7	245.6	261.1	283.4	309.1	339.5
c) Power, gas and water supply	74.1	84	92.9	101.3	105.9	112.4	127.4	138.2
d) Construction	385.5	412.4	447.1	483	522.1	567.0	615.5	669.5
iii. Services	**3177.2**	**3374.7**	**3596.6**	**3794.9**	**4008.4**	**4240.9**	**4505.8**	**4807.3**
a) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	812.2	866.5	924.6	981.7	1047.8	1114.3	1186.7	1274.2
b) Hotel and restaurants	43.4	46.1	49	52.2	55.7	59.5	63.7	68.2
c) Transport, storage and communication	640.1	694.1	757.6	805.1	853.8	904.7	959.7	1024.6
d) Financial intermediations	167.1	184.6	211.8	231.1	247.9	267.2	287.9	314.1
e) Real estate, renting and business activities	440.8	457.9	475.9	495.1	516.1	538.9	563.0	590.0
f) Public administration and defence	188.8	205.5	221	235.4	251.6	276.4	308.0	336.2
g) Education	129.3	136.6	147.2	156.5	167.8	181.3	202.5	225.5
h) Health and social work	113.6	120.8	125.4	131.4	138.0	145.2	156.1	168.0
i) Community, social and personal services	641.9	662.6	684.2	706.4	729.6	753.5	778.4	806.5
Total GVA at constant basic price	**5794.3**	**6179.2**	**6594.3**	**6999.4**	**7429.8**	**7915.4**	**8482.7**	**9096.5**
Tax less subsidy	276.7	284.2	290.6	299.6	311.6	333.2	352.7	382.5
GDP (at FY06 constant market prices)	**6071**	**6463.4**	**6884.9**	**7299**	**7741.4**	**8248.6**	**8835.4**	**9479.0**

[R] Revised.
Source: Bangladesh Bureau of Statistics (BBS).

Table-IV Trends of Growth and Sectoral Share of GDP (at FY06 constant prices)

Sectors	FY10	FY11	FY12	FY13	FY14	FY15	FY16[R]	FY17[R]
1	2	3	4	5	6	7	8	9
Growth in percent								
i. Agriculture	**6.2**	**4.5**	**3.0**	**2.5**	**4.4**	**3.3**	**2.8**	**3.0**
a) Agriculture and forestry	6.6	3.9	2.4	1.5	3.8	2.5	1.8	2.0
1. Crops and horticulture	7.6	3.9	1.8	0.6	3.8	1.8	0.9	1.0
2. Animal farming	2.5	2.6	2.7	2.7	2.8	3.1	3.2	3.3
3. Forest and related services	5.3	5.6	6.0	5.0	5.0	5.1	5.1	5.6
b) Fishing	4.6	6.7	5.3	6.2	6.4	6.4	6.1	6.2
ii. Industry	**7.0**	**9.0**	**9.4**	**9.6**	**8.2**	**9.7**	**11.1**	**10.2**
a) Mining and quarrying	8.2	3.6	6.9	9.4	4.7	9.6	12.8	8.9
b) Manufacturing	6.7	10	10.0	10.3	8.8	10.3	11.7	11.0
1. Large and medium scale	6.3	11.1	10.8	10.7	9.3	10.7	12.3	11.2
2. Small scale	8.2	5.7	6.6	8.8	6.3	8.5	9.1	9.8
c) Electricity, gas and water supply	10.0	13.4	10.6	9.0	4.5	6.2	13.3	8.5
d) Construction	7.2	7.0	8.4	8.0	8.1	8.6	8.6	8.8
iii. Services	**5.5**	**6.2**	**6.6**	**5.5**	**5.6**	**5.8**	**6.3**	**6.7**
a) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	5.9	6.7	6.7	6.2	6.7	6.4	6.5	7.4
b) Hotel and restaurant	6.0	6.2	6.4	6.5	6.7	6.8	7.0	7.1
c) Transport, storage and communication	7.6	8.4	9.2	6.3	6.1	6.0	6.1	6.8
d) Financial intermediations	6.3	10.4	14.8	9.1	7.3	7.8	7.7	9.1
e) Real estate, renting and other business activities	3.9	3.9	3.9	4.0	4.3	4.4	4.5	4.8
f) Public administration and defence	8.2	8.8	7.5	6.5	6.9	9.8	11.4	9.2
g) Education	5.2	5.6	7.8	6.3	7.3	8.0	11.7	11.4
h) Health and social work	6.8	6.3	3.8	4.8	5.1	5.2	7.5	7.6
i) Community, social and personal services	3.2	3.2	3.3	3.3	3.3	3.3	3.3	3.6
GDP (at constant market prices)	**5.6**	**6.5**	**6.5**	**6.0**	**6.1**	**6.6**	**7.1**	**7.28**
Sectoral share (percent of GDP)								
i. Agriculture	**18.4**	**18.0**	**17.4**	**16.8**	**16.5**	**16.0**	**15.4**	**14.7**
a) Agriculture and forestry	14.7	14.3	13.7	13.1	12.8	12.3	11.7	11.1
1. Crops and horticulture	10.8	10.5	10.0	9.5	9.3	8.9	8.4	7.9
2. Animal farming	2.1	2.0	1.9	1.8	1.8	1.7	1.7	1.6
3. Forest and related services	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.7
b) Fishing	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.6
ii. Industry	**26.8**	**27.4**	**28.1**	**29.0**	**29.6**	**30.4**	**31.5**	**32.4**
a) Mining and quarrying	1.7	1.6	1.6	1.7	1.6	1.7	1.8	1.8
b) Manufacturing	17.2	17.8	18.3	19	19.5	20.2	21.0	21.7
1. Large and medium scale	13.7	14.3	14.9	15.5	16.0	16.6	17.4	18.0
2. Small scale	3.5	3.4	3.4	3.5	3.5	3.6	3.6	3.7
c) Electricity, gas and water supply	1.3	1.4	1.4	1.5	1.4	1.4	1.5	1.5
d) Construction	6.7	6.7	6.8	6.9	7.0	7.2	7.3	7.4
iii. Services	**54.8**	**54.6**	**54.5**	**54.2**	**54.00**	**53.6**	**53.1**	**52.9**
a) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	14.0	14.0	14.0	14.0	14.1	14.1	14.0	14.0
b) Hotel and restaurant	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.8
c) Transport, storage and communication	11.1	11.2	11.5	11.5	11.5	11.4	11.3	11.3
d) Financial intermediations	2.9	3.0	3.2	3.3	3.3	3.4	3.4	3.5
e) Real estate, renting and other business activities	7.6	7.4	7.2	7.1	7.0	6.8	6.6	6.5
f) Public administration and defence	3.3	3.3	3.4	3.4	3.4	3.5	3.6	3.7
g) Education	2.2	2.2	2.2	2.2	2.3	2.3	2.4	2.5
h) Health and social work	2.0	2.0	1.9	1.9	1.9	1.8	1.8	1.9
i) Community, social and personal services	11.1	10.7	10.4	10.1	9.8	9.5	9.2	8.9
Total GVA at constant basic price	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[R] Revised.

Source: Bangladesh Bureau of Statistics.

Table- V Trends of Government Budgetary Operation

(Billion BDT)

Description	FY11	FY12	FY13	FY14	FY15	FY16	FY17[R]	FY18 (Budget)
1	2	3	4	5	6	7	8	9
1. Revenue and foreign grants	950.5	1182.6	1350.1	1467.3	1482.9	1748.4	2231.9	2935.0
i. Revenues	929.9	1146.9	1281.3	1403.7	1459.7	1729.5	2185.0	2879.9
a) Tax revenue	795.5	952.3	1074.5	1160.3	1288.0	1518.9	1922.6	2568.1
b) Non-tax revenue	134.4	194.7	206.8	243.4	171.7	210.7	262.4	311.8
ii. Foreign grants	20.6	35.7	68.8	63.6	23.2	18.9	46.9	55.0
2. Expenditures	1282.7	1524.3	1740.1	1882.1	2043.8	2384.3	3171.7	4002.7
i. Non-development revenue expenditure	774.7	893.0	993.8	1105.7	1189.9	1444.3	1781.5	2071.4
ii. Non-development capital expenditure	53.9	71.6	49.4	104.4	105.3	123.8	147.8	268.8
iii. Loans & advances (net)	72.5	140.6	169.6	77.2	90.5	10.6	76.9	68.8
iv. Annual Development Programme	332.8	375.1	494.7	553.3	603.8	793.5	1107.0	1533.3
v. Other expenditures	48.7	44.0	32.6	41.5	54.3	12.1	58.5	60.4
3. Overall deficit (excluding grants)	352.8	377.4	458.9	478.3	584.2	654.8	986.7	1122.8
4. Overall deficit (including grants)	332.2	341.7	390.1	414.8	560.9	635.9	939.8	1067.7
5. Financing	332.2	341.7	390.1	414.9	560.8	636.0	939.8	1067.7
i. Foreign borrowing - net	26.3	36.3	58.1	33.5	49.1	128.7	240.8	464.2
Foreign borrowing	80.6	95.1	133.0	119.4	119.9	195.5	315.9	553.1
Amortisation	-54.3	-58.9	-74.9	-85.9	-70.8	-66.9	-75.1	-88.9
ii. Domestic borrowing - net	305.9	305.4	331.9	381.4	511.7	507.3	699.0	603.5
Borrowing from banking system (net)	252.1	271.9	274.6	181.7	5.1	106.1	239.0	282.0
Non-bank borrowing (net)	53.8	33.5	57.3	199.7	506.6	401.2	460.0	321.5
Memorandum item : GDP*	7875.0	9147.8	10379.9	11810.0	15136.0	17295.7	19560.6	22236.0

[R] Revised Budget.
*Estimate of the finance division at current market prices
Source : Budget in brief 2012-2013, 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18, MoF.

Table-VI Trends of Money and Credit*

(Billion BDT)

Particulars	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
1	2	3	4	5	6	7	8	9
1. Broad money (M2)	3630.3	4405.2	5171.1	6035.1	7006.2	7876.1	9163.8	10160.8
2. Total domestic credit	3378.3	4308.9	5149.7	5717.4	6379.1	7015.3	8012.8	8906.7
A) Government sector	670.7	901.8	1070.7	1195.8	1302.7	1269.3	1302.7	1146.1
i) Government (net)@	542.5	732.3	917.3	1101.2	1175.3	1102.6	1142.2	973.3
ii) Other public sector	128.1	169.5	153.4	94.6	127.4	166.7	160.5	172.8
B) Private sector	2707.6	3407.1	4079.0	4521.6	5076.4	5746.0	6710.1	7760.6
3. Broad money (M2) as % of GDP (at current market prices)	52.3	48.1	49.0	50.3	52.1	52.0	52.9	51.4
4. M3 as % of GDP (at current market prices)	61.8	55.7	55.9	56.7	59.0	60.0	62.1	62.4
Growth in percent								
1. Broad money (M2)	22.4	21.3	17.4	16.7	16.1	12.4	16.3	10.9
2. Total domestic credit	17.8	27.5	19.5	11.0	11.6	10.0	14.2	11.2
A) Government sector	-2.7	34.5	18.7	11.7	8.9	-2.6	2.6	-12.0
i) Government (net)@	-6.5	35.0	25.3	20.1	6.7	-6.2	3.6	-14.8
ii) Other public sector	17.3	32.3	-9.5	-38.4	34.7	30.9	-3.7	7.7
B) Private sector	24.2	25.8	19.7	10.8	12.3	13.2	16.8	15.7
3. M3	23.0	18.9	15.6	15.3	16.5	14.8	18.3	14.6

* Figures correspond to end June

@ Includes adjustment of bonds issued by the Government.

Notes: (1) Government securites and treasury bills are shown at cost price from June 2002 onwards.
(2) Advances are on gross basis.

Sources: (1) Statistics Department, Bangladesh Bank.
(2) Bangladesh Bureau of Statistics.

Table - VII : Consumer Price Index (CPI) and Rate of Inflation - National (base: FY96=100)

Period	Twelve-month average basis						Twelve-month point to point basis					
	General		Food		Non-food		General		Food		Non-food	
	Index	Annual rate of inflation	Index	Annual rate of inflation	Index	Annual rate of inflation	Index	Annual rate of inflation	Index	Annual rate of inflation	Index	Annual rate of inflation
Weight*	100.00		58.84		41.16		100.00		58.84		41.16	
FY07	176.04	7.20	184.16	8.11	165.79	5.90	184.89	9.20	194.19	9.82	173.19	8.34
FY08	193.54	9.94	206.78	12.28	176.26	6.32	203.45	10.04	221.57	14.10	179.32	3.54
FY09	206.43	6.66	221.64	7.19	186.67	5.91	208.02	2.25	222.13	0.25	189.98	5.94
FY10	221.53	7.31	240.55	8.53	196.84	5.45	226.11	8.70	246.29	10.88	199.94	5.24
FY11	241.02	8.80	267.83	11.34	205.01	4.15	249.11	10.17	277.11	12.51	211.39	5.73
Weight**	100.00		56.18		43.82		100.00		56.18		43.82	
FY12	170.19	8.69	183.65	7.72	152.94	10.21	170.33	5.55	179.74	2.56	158.27	10.21
FY13	181.73	6.78	193.24	5.22	166.97	9.17	184.04	8.05	194.58	8.26	170.53	7.75
FY14	195.08	7.35	209.79	8.57	176.22	5.54	196.86	6.97	210.15	8.00	179.82	5.45
FY15	207.58	6.40	223.80	6.68	186.79	5.99	209.17	6.25	223.43	6.32	190.88	6.15
FY16	219.86	5.92	234.77	4.90	200.74	7.47	220.74	5.53	232.87	4.23	205.19	7.50
FY17	231.82	5.44	248.90	6.02	209.92	4.57	233.86	5.94	250.35	7.51	212.72	3.67
FY17												
Jul-16	220.82	5.84	235.60	4.76	201.86	7.48	224.13	5.40	237.69	4.35	206.75	6.98
Aug-16	221.78	5.77	236.43	4.62	202.99	7.53	226.57	5.37	241.89	4.30	206.93	7.00
Sep-16	222.78	5.71	237.43	4.56	204.00	7.48	230.27	5.53	247.88	5.10	207.69	6.19
Oct-16	223.80	5.66	238.53	4.53	204.91	7.38	231.85	5.57	250.64	5.56	207.75	5.58
Nov-16	224.78	5.60	239.60	4.51	205.79	7.27	231.18	5.38	249.41	5.41	207.81	5.33
Dec-16	225.71	5.52	240.66	4.51	206.54	7.05	231.53	5.03	249.29	5.38	208.76	4.49
Jan-17	226.66	5.44	241.95	4.70	207.07	6.57	234.34	5.15	251.86	6.53	211.88	3.10
Feb-17	227.65	5.41	243.29	4.95	207.60	6.11	234.40	5.31	251.93	6.84	211.92	3.07
Mar-17	228.65	5.39	244.65	5.20	208.14	5.67	235.29	5.39	253.32	6.89	212.18	3.18
Apr-17	229.67	5.38	246.02	5.46	208.71	5.25	235.58	5.47	253.60	6.94	212.48	3.30
May-17	230.73	5.41	247.44	5.75	209.29	4.89	232.83	5.76	248.94	7.37	212.18	3.44
Jun-17	231.82	5.44	248.90	6.02	209.92	4.57	233.86	5.94	250.35	7.51	212.72	3.67

*base: FY96=100, **base: FY06=100.
Source: BBS

Table VIII Quantum Index of Medium and Large-Scale Manufacturing Industry (base: FY06=100)

SL	Major Industry Group	Weight	FY14	FY15	FY16	FY17[P]
1.	General Index of Manufacturing	100.00	213.22	236.11	267.88	293.82
2.	Food products	10.84	241.52	333.07	385.10	373.53
3.	Beverages	0.34	243.19	230.06	269.75	257.61
4.	Tobacco products	2.92	149.65	147.37	135.48	139.57
5.	Textile	14.07	139.68	122.81	138.9	168.39
6.	Wearing apparels	34.84	293.70	304.76	338.73	343.73
7.	Leather and related products	4.40	147.83	140.48	125.44	192.36
8.	Wood and products of wood and cork	0.33	243.39	269.88	301.72	325.26
9.	Paper and paper products	0.33	151.95	174.68	181.08	183.67
10.	Printing and reproduction of recorded media	1.83	127.73	140.91	147.83	155.62
11.	Coke and refined petroleum products	1.25	92.76	96.79	94.03	208.55
12.	Chemicals and chemical products	3.67	80.41	77.49	92.6	104.04
13.	Pharmaceuticals and medicinal chemical	8.23	230.60	290.98	319.26	421.68
14.	Rubber and plastic products	1.56	263.84	292.69	338.14	359.79
15.	Other non-metallic mineral products	7.12	144.18	182.78	258.34	341.85
16.	Basic metals	3.15	150.20	187.13	202.85	174.04
17.	Fabricated metal products except machinery	2.32	164.33	182.30	200.53	246.01
18.	Computer, electronic and optical products	0.15	105.46	148.37	231.89	244.82
19.	Electrical equipment	0.73	132.06	164.56	214.12	342.77
20.	Machinery and equipment n.e.c	0.18	172.68	204.89	279.14	406.37
21.	Motor vehicles, trailers and semi trailers	0.13	205.84	178.83	331.63	537.35
22.	Other transport equipment	0.73	152.88	340.12	592.41	551.62
23.	Furniture	0.88	101.12	116.35	132.02	151.44

[P] Provisional
Source: Bangladesh Bureau of Statistics (BBS).

Table-IX Trends of Reserve Money and its Components

(Billion BDT)

Year (End June)	Currency notes and coins with the public	Cash in tills of the scheduled banks	Balances of scheduled banks with the Bangladesh Bank*	Balances of other financial institutions with the Bangladesh Bank	Reserve money
1	2	3	4	5	6=(2+3+4+5)
2001	114.8	13.5	61.0		189.3
2002	125.3	13.5	66.8	0.1	205.7
2003	139.0	14.4	60.8	0.1	214.3
2004	158.1	14.8	65.6	0.2	238.7
2005	185.2	18.1	70.4	0.4	274.1
2006	228.6	20.3	90.1	0.5	339.5
2007	266.4	21.4	105.7	0.7	394.2
2008	326.9	29.6	118.1	1.1	475.6
2009	360.5	34.0	231.6	1.4	627.5
2009	461.6	43.1	234.7	2.1	741.4
2011	548.0	57.3	290.1	2.0	897.3
2012	584.2	64.8	326.6	2.4	978.0
2013	675.5	78.2	368.0	3.1	1124.9
2014	769.1	85.8	440.0	3.9	1298.8
2015	879.4	102.1	498.4	4.9	1484.8
2016	1220.7	102.3	603.0	6.0	1932.0
2017	1375.3	137.3	727.3	6.7	2246.6

* Balances of DMBs with BB excluding foreign currency clearing account balances since June'2002 and Reserve Money has been revised accordingly.
Source: Statistics Department, Bangladesh Bank.

Table-X Trends of Reserve Money and its Sources

(Billion BDT)

Year (End June)	Bangladesh Bank's claims on					Net foreign assets	Other assets (net)	Reserve money
	Government (net)	Scheduled banks	Other official entities and financial institutions	Private sectors	Total			
1	2	3	4	5	6=(2+3+4+5)	7	8	9=(6+7+8)
2001	101.1	43.7	13.0	9.9	167.7	48.1	-26.5	189.3
2002	128.3	47.3	12.8	10.1	198.5	72.3	-65.1	205.7
2003	73.5	48.5	12.8	11.4	146.2	118.1	-49.9	214.4
2004	118.5	58.5	12.4	12.4	201.8	135.4	-98.5	238.7
2005	156.7	61.3	11.1	13.4	242.5	146.9	-115.3	274.1
2006	249.8	63.4	10.1	14.3	337.6	186.4	-184.5	339.5
2007	259.3	64.4	9.9	15.8	349.4	287.7	-242.9	394.2
2008	259.3	73.3	9.5	17.0	359.1	328.1	-211.6	475.6
2009	284.7	68.5	8.5	20.2	381.9	432.3	-186.7	627.5
2010	214.7	66.1	8.3	25.9	315.0	611.8	-185.4	741.4
2011	317.1	186.1	7.8	31.4	542.4	613.4	-258.5	897.3
2012	378.5	226.3	11.8	36.0	652.6	689.3	-363.9	978.0
2013	270.7	102.2	13.5	41.8	428.2	1032.5	-335.8	1124.9
2014	38.4	62.8	12.0	42.7	156.0	1475.0	-332.2	1298.8
2015	8.1	56.6	21.6	46.4	132.7	1774.0	-421.9	1484.8
2016	133.7	60.2	20.2	49.7	263.8	2189.0	-520.8	1932.0
2017	129.9	50.6	21.6	49.8	251.9	2513.3	-518.6	2246.6

Source: Statistics Department, Bangladesh Bank.

Table-XI Trends of Deposits of Public and Private Sector

(Billion BDT)

Year (End June)	Demand deposits [1/]			Time deposits [1/]		
	Public [2/]	Private	Total	Public [2/]	Private [3/]	Total
1	2	3	4	5	6	7
2001	26.4	100.9	127.3	131.8	557.0	688.8
2002	23.7	108.2	131.9	134.9	653.3	788.2
2003	26.5	118.1	144.6	157.3	763.9	921.2
2004	27.1	136.0	163.1	184.2	865.9	1050.1
2005	35.2	158.9	194.1	223.3	1008.4	1231.7
2006	38.1	183.9	222.0	255.1	1212.9	1468.0
2007	42.2	218.8	261.0	298.7	1409.8	1708.5
2008	49.5	254.9	304.4	364.8	1647.6	2012.4
2009	57.5	280.3	337.8	442.7	2005.6	2448.3
2010	61.8	393.0	454.8	537.1	2374.5	2911.6
2011	87.8	439.3	527.1	677.0	2900.4	3577.4
2012	103.4	471.0	574.4	845.1	3480.7	4325.8
2013	112.1	517.8	629.9	954.8	4144.2	5099.0
2014	115.3	600.2	715.5	1080.9	4828.4	5909.3
2015	119.2	683.6	802.8	1376.5	5283.7	6660.2
2016	139.2	853.4	992.6	1638.3	5871.4	7509.7
2017	192.1	971.5	1163.6	1781.0	6480.8	8261.8
			Share in Percent			
2001	20.7	79.3	100	19.1	80.9	100
2002	18.0	82.0	100	17.1	82.9	100
2003	18.3	81.7	100	17.1	82.9	100
2004	16.6	83.4	100	17.5	82.5	100
2005	18.1	81.9	100	18.1	81.9	100
2006	17.1	82.9	100	17.4	82.6	100
2007	16.2	83.8	100	17.5	82.5	100
2008	16.3	83.7	100	18.1	81.9	100
2009	17.0	83.0	100	18.1	81.9	100
2010	13.6	86.4	100	18.4	81.6	100
2011	16.7	83.3	100	18.9	81.1	100
2012	18.0	82.0	100	19.5	80.5	100
2013	17.8	82.2	100	18.7	81.3	100
2014	16.1	83.9	100	18.3	81.7	100
2015	14.8	85.2	100	20.7	79.3	100
2016	14.0	86.0	100	21.8	78.2	100
2017	16.5	83.5	100	21.6	78.4	100

[1/] Exclude inter-bank items.
[2/] Include government deposit.
[3/] Include wage earners' deposits.
Source: Statistics Department, Bangladesh Bank.

Table-XII Trends of Selected Statistics of Scheduled Banks

(Billion BDT)

Particulars	30 June 2010	30 June 2011	30 June 2012	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
1	2	3	4	5	6	7	8	9
1. Bank deposits (exclude inter-bank items)	**3368.7**	**4104.8**	**4900.4**	**5729.7**	**6625.7**	**7463.4**	**8496.3**	**9425.9**
(A) Demand deposits	416.2	481.1	510.6	557.4	643.4	723.8	897.6	1018.9
(B) Time deposits	2750.4	3374.2	4073.8	4799.0	5589.8	6268.0	7039.5	7760.0
(C) Restricted deposits	0.3	0.3	0.2	0.8	0.3	0.4	0.5	0.5
(D) Government deposits	201.8	249.2	315.7	372.5	392.2	471.2	558.7	646.5
2. Borrowings from the Bangladesh Bank	58.5	178.3	216.6	94.4	55.3	48.2	183.9	243.9
3. Cash in tills	43.1	57.3	64.8	78.2	85.8	102.1	102.3	137.3
4. Balances with the Bangladesh Bank including FCD	294.2	384.0	472.4	453.4	558.5	568.5	672.9	815.9
5. Balances with other banks in Bangladesh	94.1	104.3	120.2	159.4	168.8	159.3	206.6	285.8
6. Money at call and short notice	36.5	29.4	57.4	53.0	49.9	25.3	51.7	65.4
7. Total investment @	**552.2**	**754.3**	**967.3**	**1361.1**	**1698.8**	**1744.3**	**1798.7**	**1787.5**
(A) Government securities & treasury bills *	487.9	639.1	831.7	1208.1	1493.3	1524.2	1536.7	1476.5
(B) Others	64.3	115.3	135.5	153.0	205.5	220.1	262.0	311.0
8. Bank credit (exclude inter-bank items and foreign bills)	**2720.6**	**3409.3**	**4056.6**	**4372.0**	**4882.2**	**5533.4**	**6428.3**	**7456.1**
(A) Advances in Bangladesh **	2579.9	3198.9	3818.1	4172.9	4688.7	5333.1	6187.8	7166.6
(B) Inland bills purchased and discounted	140.7	210.4	238.5	199.0	193.5	200.3	240.5	289.4
9. Credit/deposit ratio (excluding specialised banks)	0.8	0.8	0.8	0.8	0.7	0.7	0.8	0.8

@ Include treasury bills/bonds issued by the government and all other investment (share/debenture, reverse repo etc.)
* Government securities and treasury bills are shown at cost price.
** Advances are on gross basis.
Source: Statistics Department, Bangladesh Bank.

Table-XIII Movements in Selected Interest Rates (end period)

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
1	2	3	4	5	6	7	8	9
Bank rate	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Treasury bill rates*								
28-day	-	-	-	-	-	-	-	-
91-day	2.2	5.6	5.7	8.4	6.9	5.4	3.9	3.8
182-day	3.6	5.5	6.2	10.2	7.5	6.4	4.7	4.3
364-day	4.6	6.2	6.2	10.4	8.0	6.8	5.2	4.5
Call money rates*								
Borrowing	6.6	10.9	15.0	7.2	6.3	5.8	3.7	3.9
Lending	6.6	10.9	15.0	7.2	6.3	5.8	3.7	3.9
Scheduled banks rates*								
Deposits	6.0	7.3	8.2	8.5	7.8	6.8	5.5	4.9
Advances	11.3	12.4	13.8	13.7	13.1	11.7	10.4	9.6

* Weighted average
Source: Statistics Department, Bangladesh Bank.

Table-XIV Government Borrowing Position from the Banking System

(Billion BDT)

Sl. No.	Particulars	Objectives	Outstanding as on 30 June 16	Outstanding as on 30 June 17[p]
1	2	3	4	5
A.	**Bangladesh Bank**			
1	Ways and Means Advances	To increase Government cash balance	40.00	30.16
2	Overdraft		40.32	0.00
3	Overdraft Block		71.85	56.85
4	Devolvement		46.79	50.31
	a) Treasury Bills		15.63	8.12
	b) Treasury Bonds		31.16	42.20
5	Government Currency Liabilities		20.26	20.26
6	Advances to Autonomous and Semi-autonomous Bodies		0.00	0.00
7	Accrued Interest R		0.74	1.08
8	Government Deposits@/(-)		-0.47	-0.29
9	BB's Balances of GIIB Fund (-)		-85.90	-30.00
A.	**Total : (1 +...+ 9)***		**133.58**	**128.38**
B.	**Deposit Money Banks (DMBs)**			
1.	**Government Treasury Bills**		240.61	235.19
	i) Treasury Bills (Less than 1 year)	To increase Government cash balance	240.61	235.19
2.	**Bangladesh Govt. Treasury Bonds (BGTB)**		1008.30	997.58
	i) 2-years Bangladesh Govt.Treasury Bonds[1/]	To increase long-term investment of different banks, non-bank financial institutions and employees GF of different companies	85.22	71.09
	ii) 5-years Bangladesh Govt.Treasury Bonds		263.37	245.04
	iii) 10-years Bangladesh Govt.Treasury Bonds		385.96	387.76
	iv) 15-years Bangladesh Govt.Treasury Bonds		153.65	162.85
	v) 20-years Bangladesh Govt.Treasury Bonds		120.11	130.86
3.	**Others Treasury Bonds**		**138.88**	**119.98**
	i) 6, 7 &10-years (BJMC&BTMC) interest free Treasury Bond-2016, 2017 &20202/	To repay the loan of BJMC & BTMC	6.78	3.39
	ii) 25-years (Jute)Treasury Bond-2018 bearing 5.0 percent interest3/	To compensate for the liquidation of jute sector credit	0.53	0.30
	iii) 25-years (Jute) Treasury Bond-2019 bearing 5.0 percent interest4/	To compensate for the liquidation of jute sector credit	0.37	0.20
	iv) 25-years (Jute) Treasury Bond-2020 bearing 5.0 percent interest5/	To reimburse one-third of the debt due to jute mills' loan write-off by the private banks.	0.12	0.09
	v) 7-years to 15-years (BPC) Treasury Bond bearing 5.0 percent interest	To repay the loan of Bangladesh Petroleum Corporation	29.23	29.23
	vi) 5-years and 6-years (BPC) Treasury Bond bearing 7.0 percent interest 6/	To repay the loan of Bangladesh Petroleum Corporation	21.00	9.50
	vii) 5-years to 13-years BJMC Treasury Bond bearing 5.0 percent interest 7/	To repay the loan of BJMC	21.50	17.92
	viii) 7-years SPTB-2020 bearing 7.0 percent interest	To increase Government cash balance	20.00	20.00

Table-XIV Government Borrowing Position from the Banking System

(Billion BDT)

Sl. No.	Particulars	Objectives	Outstanding as on 30 June 16	Outstanding as on 30 June 17[P]
1	2	3	4	5
	ix) 8-years SPTB-2021 bearing 7.0 percent interest		20.00	20.00
	x) 10-years SPTB-2023 bearing 7.0 percent interest		19.35	19.35
4.	**Sub-Total : (1+2+3)**		**1387.78**	**1352.75**
5.	Prize Bond/Income Tax Bond		0.31	0.26
6.	Government's other Securities		0.03	0.04
7.	Advances to Food Ministry		5.49	2.91
8.	Advances to Other Ministries		14.54	16.58
9.	Advances to Auto./Semi-Autonomous Bodies		19.08	14.16
10.	Accrued Interest		29.09	34.53
11.	Deposits of Ministries and Departments (-)		-218.06	-266.30
12.	Deposits of Auto./Semi-Autonomous Bodies (-)		-340.69	-380.21
13.	SBs's Balances of GIIB Fund (i+ii)		84.15	30.97
	i) Investment to GIIB Fund		121.89	83.77
	ii) Borrowing from GIIB Fund (-)		-37.75	-52.80
B.	**Total : (4+…+13)**		**981.72**	**805.68**
	Grand Total : A+B		**1115.30**	**934.05**

Notes: @/ Including other deposits.

* Including GIIB Fund. R=Revised, P=Provisinal.

1/ 2 year Bangladesh Government Treasury Bond was introduced in May 2013.

2/ An amount of Tk. 338.9 crore was paid in January 2017 against the outstanding of Tk. 677.9 crore in June 2016

3/ An amount of Tk. 23.6 crore was paid in November 2016 against the outstanding of Tk. 53.2 crore in June 2016

4/ An amount of Tk. 16.4 crore was paid in June 2017 against the outstanding of Tk. 36.9 crore in June 2016

5/ An amount of Tk. 2.7 crore was paid in July 2016 against the outstanding of Tk. 11.6 crore in June 2016

6/ An amount of Tk. 1150.0 crore was paid upto December 2016 against the outstanding of Tk. 2100 crore in June 2016

7/ An amount of Tk. 358.4 crore was paid in October 2016 against the outstanding of Tk. 2150.4 crore in June 2016

Source: Debt Management Department and Statistics Department, Bangladesh Bank

Table-XV Government Borrowing from Other than Banks

(Billion BDT)

Sl. No.	Particulars	FY16 Sale	FY16 Repayment Principal	FY16 Repayment Interest	FY16 Net Sale	FY17 Sale	FY17 Repayment Principal	FY17 Repayment Interest	FY17 Net Sale
1	2	3	4	5	6 = (3-4)	7	8	9	10 = (7-8)
	NSD Instruments								
1.	Defence Savings Certificate	0.00	0.05	0.05	-0.05	0.00	0.02	0.03	-0.02
2.	5-year Bangladesh Savings Certificate	61.99	24.11	9.82	37.88	65.64	15.33	5.53	50.31
3.	3-year Savings Certificate	0.00	0.11	0.00	-0.11	0.00	0.00	0.00	0.00
4.	Bonus Savings Certificate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5.	6-month interest bearing Savings Certificate	0.00	0.01	0.00	-0.01	0.00	0.00	0.00	0.00
6.	Family Savings Certificate	191.50	44.38	48.99	147.13	278.04	68.28	77.89	209.76
7.	3-month interest bearing Savings Certificate	142.74	58.44	24.87	84.31	209.98	65.40	39.19	144.58
8.	Jamanat Savings Certificate	0.00	0.05	0.00	-0.05	0.00	0.00	0.00	0.00
9.	Pensioner Savings Certificate	34.65	16.99	7.73	17.66	55.21	13.73	11.23	41.48
10.	Post Office Savings Bank	88.06	50.04	13.07	38.02	127.14	60.10	18.54	67.04
	a) General Account	17.46	14.44	0.42	3.02	23.56	19.36	2.83	4.19
	b) Fixed Account	70.60	35.59	12.65	35.00	103.59	40.74	15.72	62.85
	c) Bonus Account	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
11.	Postal Life Insurance	0.70	0.95	0.01	-0.25	0.87	0.86	0.24	0.02
12.	Prize Bond	0.69	0.48	0.14	0.21	0.82	0.40	0.20	0.42
13.	Wage Earners' Development Bond	12.28	2.03	5.52	10.26	11.05	1.88	4.60	9.17
14.	3-year National Investment Bond	0.00	0.01	0.00	-0.01	0.00	0.01	0.00	-0.01
15.	USD Premium Bond	0.46	0.41	0.25	0.05	0.15	0.25	0.16	-0.10
16.	USD Investment Bond	4.05	2.18	1.07	1.87	2.44	0.92	0.55	1.52
17.	**Total : (1+...+16)**	**537.12**	**200.24**	**111.51**	**336.89**	**751.35**	**227.17**	**158.17**	**524.17**

Sl. No.	Particulars	Outstanding as on 30 June 2016	Net Changes	Outstanding as on 30 June 2017	Net Changes
18.	Govt. Treasury Bills/Bonds	240.93	5.17	253.65	12.72
	i) Government Treasury Bills	3.12	-5.72	2.21	-0.92
	ii) Bangladesh Govt. Treasury Bonds (BGTBs)	237.81	10.90	251.45	13.63
	a) 2-year Bangladesh Government Treasury Bonds	4.69	-3.97	3.72	-0.97
	b) 5-year Bangladesh Government Treasury Bonds	60.90	2.20	57.78	-3.11
	c) 10-year Bangladesh Government Treasury Bonds	98.22	10.06	102.91	4.69
	d) 15-year Bangladesh Government Treasury Bonds	30.63	2.07	37.88	7.26
	e) 20-year Bangladesh Government Treasury Bonds	43.38	0.54	49.15	5.77
19.	**Total Non-bank Government Borrowing (net) : (17+18)**		**342.06**		**536.89**

Sources: National Savings Directorate, Debt Management Department, Bangladesh Bank.

Table-XVI Trends of Balance of Payments*

(Million USD)

Item	FY11	FY12	FY13	FY14	FY15[R]	FY16[R]	FY17[P]
1	2	3	4	5	6	7	8
Trade balance	**-9935**	**-9320**	**-7009**	**-6794**	**-6965**	**-6460**	**-9472**
Export f.o.b.(including EPZ)	22592	23989	26567	29777	30697	33441	34019
Of which : Readymade garments (RMG)	17914	19090	21516	24492	25491	28094	28150
Import f.o.b (including EPZ)	32527	33309	33576	36571	37662	39901	43491
Services	**-2612**	**-3001**	**-3162**	**-4096**	**-3186**	**-2708**	**-3284**
Credit	2573	2694	2830	3115	3084	3523	3621
Debit	5185	5695	5992	7211	6270	6231	6905
Primary income	**-1454**	**-1549**	**-2369**	**-2635**	**-2252**	**-1915**	**-2007**
Credit	124	193	120	131	76	74	82
Debit	1578	1742	2489	2766	2328	1989	2089
Of which : Official interest payments	345	373	476	427	366	382	397
Secondary Income	**12315**	**13423**	**14928**	**14934**	**15895**	**15345**	**13283**
Official transfers	103	106	97	83	75	67	44
Private transfers	12212	13317	14831	14851	15820	15278	13239
of which: Workers' remittances	11513	12734	14338	14116	15170	14717	12591
Current account balance	**-1686**	**-447**	**2388**	**1409**	**3492**	**4262**	**-1480**
Capital account	**642**	**482**	**629**	**598**	**496**	**464**	**314**
Capital transfers	642	482	629	598	496	464	314
Financial account	**651**	**1436**	**2770**	**2855**	**1267**	**944**	**4179**
Foreign direct investment (gross inflows)[@]	---	---	---	---	2525	2502	2985
Of which: FDI net inflows	775	1191	1726	1474	1172	1285	1706
Portfolio investment	109	240	368	937	379	139	458
Other investment	-233	5	676	444	-284	-480	2015
MLT loans (excluding suppliers credit)	1032	1539	2085	2404	2472	3033	3174
MLT amortization payments	739	789	906	1018	910	849	895
Other long term loans (net)	-101	79	-150	477	-35	-110	-193
Other short term loans (net)	531	242	-193	-838	-105	-435	992
Other assets[#]	-661	---	---	---	---	---	---
Trade credit (net)	-135	-1118	-250	-340	-2508	-2101	-1185
Commercial Bank	-160	52	90	-241	802	-18	122
Assets	452	443	396	898	86	347	178
Liabilities	292	495	486	657	888	329	300
Errors and omissions	**-263**	**-977**	**-659**	**621**	**-882**	**-634**	**156**
Overall balance	**-656**	**494**	**5128**	**5483**	**4373**	**5036**	**3169**
Reserve assets	**656**	**-494**	**-5128**	**-5483**	**-4373**	**-5036**	**-3169**
Bangladesh Bank	656	-494	-5128	-5483	4373	5036	3169
Assets	-481	293	5196	5933	4249	5322	3208
Liabilities	175	-201	68	450	-124	286	39

[R] Revised [P] Provisional

Note: Customs record is used to calculate Import f.o.b.

* This classification is based on BPM6 manual.

[@] Gross inflows of FDI are reported from FY15.

[#] Other assets has been discontinued from FY12 and onwards as per recommendation of IMF.

Source: Statistics Department, Bangladesh Bank.

Table-XVII Trends of Category-wise Exports

(Million USD)

Items	FY11	FY12	FY13	FY14	FY15	FY16^R	FY17^P
1	2	3	4	5	6	7	8
A. Frozen food	**625**	**598.4**	**543.8**	**638.2**	**568.1**	**535.8**	**526.5**
1. Fish	133.5	108.1	58.0	52.5	49.1	47.1	44.0
2. Shrimps	477.8	471.7	454.9	550.2	509.7	448.6	446.0
3. Others	13.7	18.6	30.9	35.6	9.2	40.1	16.3
B. Agricultural products	**333.9**	**402.7**	**535.7**	**615.1**	**586.1**	**596.1**	**553.2**
1. Vegetables	71.7	77.4	110.3	147.6	103.2	104.3	81.0
2. Tobacco	70.9	68.7	60.2	58.7	68.5	55.0	46.6
3. Cut flower	42.9	50.5	41.4	39.3	11.4	4.7	1.0
4. Fruits	37.7	57.2	71.9	61.8	38.5	20.2	2.7
5. Others	110.7	148.9	251.9	307.7	364.5	411.8	422.8
C. Manufactured products	**21969.3**	**23300.8**	**25947.8**	**28923.4**	**30054.9**	**33125.4**	**33755.5**
1. Petroleum bi-products	260.7	275.4	314	162.3	77.6	297.0	243.8
2. Chemical products	104.8	103.0	93.0	93.2	111.9	123.7	140.0
3. Plastic products	68.8	88.7	84.5	85.7	100.6	89.0	117.0
4. Leather & Leather products (Other than Leather Footwear)	353.2	429.7	561.4	745.6	646.7	666.2	697.0
5. Cotton & cotton products	135.0	113.0	125.0	115.6	107.04	102.76	109.49
6. Raw jute	357.3	266.3	229.9	126.4	111.6	173.2	167.8
7. Jute goods	757.7	701.1	800.7	698.1	757.0	746.4	794.6
8. Specialized textiles	164.6	138.8	124.5	108.8	107.0	108.7	106.1
9. Knitwear	9482.1	9486.4	10475.9	12049.8	12426.8	13355.4	13757.3
10. Woven garments	8432.4	9603.3	11039.9	12442.1	13064.6	14738.7	14392.6
11. Home textile	788.8	906.1	791.5	792.5	804.3	753.0	799.1
12. Footwear*	297.8	335.5	419.3	550.1	673.3	714.0	777.8
13. Engineering products	309.5	375.5	367.5	366.6	447.0	510.1	688.8
14. Others	512.0	577.5	676.7	586.5	619.5	747.2	964.0
Total (A+B+C)	**22928.2**	**24301.9**	**27027.4**	**30186.6**	**31208.9**	**34257.2**	**34835.1**
Of which exports from EPZ	2800.9	3425.5	3828.8	4480.27	4957.79	5439.33	5213.59

R Revised, P Provisional

* Leather footwear also included in the total footwear.

Source : Export Promotion Bureau.

Table-XVIII Trends of Category-wise Imports

(Million USD)

Items	FY12	FY13	FY14	FY15	FY16[R]	FY17[P]
1	2	3	4	5	6	7
A. Food Grains	**822**	**576.6**	**906.2**	**1490.6**	**1061.8**	**1286.4**
1. Rice	226.8	15.7	102.8	508.0	112.8	89.3
2. Wheat	595.2	560.9	803.4	982.6	949.0	1197.1
B. Other Commodities	**36162.8**	**36713.2**	**39710.2**	**39213.1**	**42060.7**	**45718.8**
1. Milk & cream	224.1	230.1	280.3	277.2	216.0	253.6
2. Spices	87.5	78.8	107.0	182.4	199.6	268.9
3. Oil seeds	258.6	358	453.6	374	534.1	432.4
4. Edible oil	3526.8	3016.9	2946.3	923.8	1450.0	1625.6
5. Pulses (all sorts)	275.7	485.9	318.6	434.3	479.9	671.4
6. Sugar	1349.1	779.5	852.2	788.7	656.4	988.5
7. Clinker	532	569.3	633.2	638.4	573.9	643.8
8. Crude petroleum	304	60.7	72.3	316.0	385.8	477.6
9. POL	2972.9	3005.5	3371.5	2075.7	2275.4	2897.6
10. Chemicals	1334.8	1411.6	1577.5	1723.7	1853.1	1975.5
11. Pharmaceutical products	185	197.5	210.8	136.9	237.2	245.6
12. Fertiliser	1370	1265.2	940.9	1338.9	1116.9	737.4
13. Dyeing and tanning materials	378.1	445.3	543.1	599.0	586.7	606.7
14. Plastics and rubber articles thereof	1508.8	1577.3	1822.2	2052.3	1951.1	2220.3
15. Raw cotton	1966.2	2255.4	2464.3	2295.5	2244.9	2528.9
16. Yarn	1495.5	1675.4	1816.9	1851.2	1968.7	1971.8
17. Textile & textile articles thereof	4382.3	5071.1	5360.5	5742.0	6220.5	6038.0
18. Staple fibre	779.4	877.9	1010.1	1078.0	1018.1	1016.6
19. Iron, steel & other base metals	2586.4	2865.2	2899.4	3265.0	3235.7	3771.0
20. Capital machinery	2394.3	2250.0	2819.1	3320.5	3555.5	3816.8
21. Others	8251.3	8236.6	9210.4	9799.5	11301.2	12530.8
Total Imports c.i.f.	**36984.8**	**37289.8**	**40616.4**	**40703.7**	**43122.5**	**47005.2**
Total Imports f.o.b.	**33309**	**33576.0**	**36571.0**	**37662.0**	**39901.0**	**43491.0**
Of Which Import by EPZ	2115.7	2444.7	3077.0	3138.1	3286.9	3190.7

[R] Revised, [P] Provisional

Source: Compiled by Statistics Department of Bangladesh Bank using the data of National Board of Revenue (NBR)

Table-XIX Sector-wise Comparative Statement of Opening, Settlement and Outstanding of Import LCs

(Million USD)

Sectors/ Commodities	FY16 Fresh LCs opening	FY16 Settlement of LCs	FY16 Outstanding LCs at the end of the year	FY17 Fresh LCs opening	FY17 Settlement of LCs	FY17 Outstanding LCs at the end of the year	% Changes during FY17 over FY16 Fresh LCs opening	% Changes Settlement of LCs	% Changes Outstanding LCs at the end of the year
1	2	3	4	5	6	7	8	9	10
A. Consumer goods	4808.7	4600.7	1713.2	6076.2	5023.2	2278.2	26.4	9.2	33.0
% of Total	11.1	11.5	7.1	12.6	11.4	10.1			
a) Food grains (rice & wheat)	1087.3	1116.8	295.2	1478.6	1147.7	521.1	36.0	2.8	76.5
b) Other than food grain	3721.5	3484.0	1418.0	4597.6	3875.4	1757.1	23.5	11.2	23.9
B. Intermediate goods	3835.4	3351.0	1865.0	3974.1	3721.4	1688.2	3.6	11.1	-9.5
% of Total	8.9	8.4	7.7	8.3	8.4	7.5			
C. Industrial raw materials	16828.1	15668.2	7884.0	17725.9	16220.0	6537.7	5.3	3.5	-17.1
% of Total	38.8	39.1	32.4	36.8	36.6	29.0			
D. Petroleum and Petroleum products	2197.8	2441.7	764.2	2573.0	2522.2	544.2	17.1	3.3	-28.8
% of Total	5.1	6.1	3.1	5.4	5.7	2.4			
E. Capital machinery	4802.1	3533.5	6146.4	5308.2	4854.6	6055.4	10.5	37.4	-1.5
% of Total	11.1	8.8	25.3	11.0	11.0	26.8			
F. Machinery for miscellaneous industry	4254.9	4304.8	2095.2	4950.0	4617.0	1937.1	16.3	7.3	-7.5
% of Total	9.8	10.7	8.6	10.3	10.4	8.6			
G. Others	6608.3	6176.3	3839.8	7518.7	7314.4	3515.3	13.8	18.4	-8.5
% of Total	15.2	15.4	15.8	15.6	16.5	15.6			
Total :	**43335.3**	**40076.2**	**24307.8**	**48125.9**	**44272.8**	**22556.2**	**11.1**	**10.5**	**-7.2**
Of which, back to back	7462.8	6925.7	3303.6	7673.4	7014.2	2650.5	2.8	1.3	-19.8

Source: Foreign Exchange Operation Department, Bangladesh Bank.

Table-XX Trends of Foreign Exchange Reserves

Year (End June)	Total reserves	
	million Taka	million USD
1	2	3
2000	81,466	1,602
2001	73,831	1,307
2002	90,858	1,583
2003	141,753	2,470
2004	163,241	2,705
2005	186,769	2,930
2006	242,914	3,484
2007	349,314	5,077
2008	421,377	6,149
2009	515,945	7,471
2010	747,121	10,750
2011	809,996	10,912
2012	848,071	10,364
2013	1,190,896	15,315
2014	1,669,665	21,508
2015	1,946,601	25,025
2016	2,365,189	30,168
2017	2,699,492	33,493

Source : Accounts & Budgeting Department, Bangladesh Bank.

Table-XXI Trends of Taka-US Dollar Exchange Rates (period average)

Year	Taka per USD
1	2
FY00	50.31
FY01	53.96
FY02	57.43
FY03	57.90
FY04	58.94
FY05	61.39
FY06	67.08
FY07	69.03
FY08	68.60
FY09	68.80
FY10	69.18
FY11	71.17
FY12	79.10
FY13	79.93
FY14	77.72
FY15	77.67
FY16	78.26
FY17	79.12

Source: Statistics Department, Bangladesh Bank.

Table-XXII Trends of Country-wise Workers Remittances

(Million USD)

Countries	FY11	FY12	FY13	FY14	FY15	FY16	FY17
1	2	3	4	5	6	7	8
Saudi Arabia	3290.03	3684.36	3829.45	3118.88	3345.23	2955.55	2267.22
UAE	2002.63	2404.78	2829.40	2684.86	2823.77	2711.74	2093.54
UK	889.60	987.46	991.59	901.23	812.34	863.28	808.16
Kuwait	1075.75	1190.14	1186.93	1106.88	1077.78	1039.95	1033.31
USA	1848.51	1498.46	1859.76	2323.32	2380.19	2424.32	1688.86
Italy	215.58	244.75	233.23	269.59	260.16	351.31	510.78
Qatar	319.36	335.26	286.89	257.53	310.15	435.61	576.02
Oman	334.31	400.93	610.11	701.08	915.26	909.65	897.71
Singapore	202.33	311.46	498.79	429.11	443.44	387.24	300.99
Germany	25.64	34.99	25.81	26.94	21.16	25.89	31.75
Bahrain	185.93	298.46	361.70	459.39	554.34	489.99	437.14
Japan	15.21	22.16	21.18	17.06	16.30	22.09	22.92
Malaysia	703.73	847.49	997.43	1064.68	1381.53	1337.14	1103.62
Other countries	541.72	582.74	728.86	867.77	975.25	977.40	997.43
Total :	**11650.33**	**12843.44**	**14461.13**	**14228.32**	**15316.90**	**14931.16**	**12769.45**

Source : Statistics Department, Bangladesh Bank.

Table-XXIII List of Scheduled Banks

(As on 30 June 2017)

1. State owned/government controlled banks (6+2=8)

1.1 State owned commercial banks (6)

Agrani Bank Limited
Bangladesh Development Bank Limited
BASIC Bank Limited
Janata Bank Limited
Rupali Bank Limited
Sonali Bank Limited

1.2 Specialised banks (2)

Bangladesh Krishi Bank
Rajshahi Krishi Unnayan Bank

2. Private commercial banks (40)

AB Bank Limited
Al-Arafah Islami Bank Limited
Bangladesh Commerce Bank Limited
Bank Asia Limited
BRAC Bank Limited
Dhaka Bank Limited
Dutch-Bangla Bank Limited
Eastern Bank Limited
Export Import (EXIM) Bank of Bangladesh Limited
First Security Islami Bank Limited
ICB Islamic Bank Limited
International Finance Investment and Commerce (IFIC) Bank Limited
Islami Bank Bangladesh Limited
Jamuna Bank Limited
Meghna Bank Limited
Mercantile Bank Limited
Midland Bank Limited
Modhumoti Bank Limited
Mutual Trust Bank Limited
National Bank Limited
National Credit and Commerce Bank Limited
NRB Bank Limited
NRB Commercial Bank Limited
NRB Global Bank Limited

Table-XXIII (contd.) List of Scheduled Banks

(As on 30 June 2017)

One Bank Limited
Prime Bank Limited
Pubali Bank Limited
Shahjalal Islami Bank Limited
Shimanto Bank Limited
Social Islami Bank Limited
South Bangla Agriculture and Commerce Bank Limited
Southeast Bank Limited
Standard Bank Limited
The City Bank Limited
The Farmer's Bank Limited
The Premier Bank Limited
Trust Bank Limited
Union Bank Limited
United Commercial Bank Limited
Uttara Bank Limited

3. Foreign commercial banks (9)

Bank Al-Falah Limited
Citibank N.A
Commercial Bank of Ceylon PLC
Habib Bank Limited
National Bank of Pakistan
Standard Chartered Bank
State Bank of India
The Hongkong and Shanghai Banking Corporation (HSBC) Limited
Woori Bank

Source: Banking Regulation and Policy Department, Bangladesh Bank.

Table-XXIV List of Financial Institutions*

(As on 30 June 2017)

1.	Agrani SME Financing Company Limited
2.	Alliance Leasing and Finance Company Limited
3.	Bangladesh Finance & Investment Company Limited
4.	Bangladesh Industrial Finance Company Limited
5.	Bangladesh Infrastructure Finance Fund Limited
6.	Bay leasing & Investment Limited
7.	CAPM Venture Capital & Finance Limited
8.	Delta Brac Housing Finance Corporation Limited
9.	Fareast Finance & Investment Limited
10.	FAS Finance & Investment Limited
11.	First Finance Limited
12.	GSP Finance Company (Bangladesh) Limited
13.	Hajj Finance Company Limited
14.	IDLC Finance Limited
15.	Industrial & Infrastructure Development Finance Company Limited
16.	Infrastructure Development Company Limited
17.	International Leasing & Financial Services Limited
18.	IPDC Finance Limited
19.	Islamic Finance & Investment Limited
20.	LankaBangla Finance Limited
21.	Meridian Finance and Investment Limited
22.	MIDAS Financing Limited
23.	National Finance Limited
24.	National Housing Finance & Investment Limited
25.	Peoples Leasing & Financial Services Limited
26.	Phoenix Finance & Investment Limited
27.	Premier Leasing & Finance Limited
28.	Prime Finance & Investment Limited
29.	Reliance Finance Limited
30.	Saudi Bangladesh Industrial & Agricultural Investment Company Limited
31.	The UAE- Bangladesh Investment Company Limited
32.	Union Capital Limited
33.	United Finance Limited
34.	Uttara Finance & Investment Limited

* Licensed by the Bangladesh Bank under Financial Institutions Act, 1993.
Note: Ranked alphabetically.
Source: Department of Financial Institutions and Market.

Appendix-4

Banking Performance Indicators

(Table: I-XIII)

Table I Information of the Banking system structure

(billion BDT)

Bank type	2017 (June)					
	Number of banks	Number of branches	Total assets	Share of industry assets	Deposits	Share of deposits
SCBs	06	3713	3339.79	26.99	2654.14	28.31
DFIs	02	1407	313.49	2.53	263.58	2.81
PCBs	40	4529	8136.32	65.76	6080.05	64.85
FCBs	09	71	582.33	4.72	377.60.71	4.03
Total	**57**	**9720**	**12371.94**	**100.0**	**9375.38**	**100.0**

Source: Bangladesh Bank

Table II Trends of Capital to risk weighted assets ratio by type of banks

(Percent)

Banks type	2009	2010	2011	2012	2013	2014	2015	2016	2017 June
SCBs	9.0	8.9	11.7	8.1	10.8	8.3	6.4	5.9	7.0
DFIs	0.4	-7.3	-4.5	-7.8	-9.7	-17.3	-32.0	-33.7	-32.8
PCBs	12.1	10.1	11.5	11.4	12.6	12.5	12.4	12.4	12.2
FCBs	28.1	15.6	21.0	20.6	20.2	22.6	25.6	25.4	23.3
Total	**11.6**	**9.3**	**11.4**	**10.5**	**11.5**	**11.3**	**10.8**	**10.8**	**10.9**

Source: Bangladesh Bank

Table III Trends of NPL ratios by type of banks

(Percent)

Bank type	2009	2010	2011	2012	2013	2014	2015	2016	2017 June
SCBs	21.4	15.7	11.3	23.9	19.8	22.2	21.5	25.1	26.8
DFIs	25.9	24.2	24.6	26.8	26.8	32.8	23.2	26.0	23.8
PCBs	3.9	3.2	2.9	4.6	4.5	4.9	4.9	4.6	5.8
FCBs	2.3	3.0	3.0	3.5	5.5	7.3	7.8	9.6	7.9
Total	**9.2**	**7.3**	**6.1**	**10.0**	**8.9**	**10.0**	**8.8**	**9.2**	**10.1**

Source: Bangladesh Bank

Table IV Trends of Ratio of net NPL to total loans by type of banks

(Percent)

Bank type	2009	2010	2011	2012	2013	2014	2015	2016	2017 June
SCBs	1.9	1.9	-0.3	12.8	1.7	6.1	9.2	11.1	11.6
DFIs	18.3	16.0	17.0	20.4	19.7	25.5	6.9	10.5	8.8
PCBs	0.5	0.00	0.2	0.9	0.6	0.8	0.6	0.1	0.7
FCBs	-2.3	-1.7	-1.8	-0.9	-0.4	-0.9	-0.2	1.9	0.9
Total	**1.7**	**1.3**	**0.7**	**4.4**	**2.0**	**2.7**	**2.3**	**2.3**	**2.6**

Source: Bangladesh Bank

Table V Trends of Amount of NPLs by types of banks

(billion BDT)

Bank type	2009	2010	2011	2012	2013	2014	2015	2016	2017 June
SCBs	117.5	107.6	91.7	215.2	166.1	227.6	272.8	310.3	345.8
DFIs	42.1	49.7	56.5	73.3	83.6	72.6	49.7	56.8	55.2
PCBs	61.7	64.3	72.0	130.4	143.1	184.3	253.3	230.6	317.3
FCBs	3.5	5.5	6.3	8.5	13.0	17.1	18.2	24.1	23.2
Total	**224.8**	**227.1**	**226.4**	**427.3**	**405.8**	**501.6**	**594.1**	**621.8**	**741.5**

Source: Bangladesh Bank

Table VI Trends of Required provision and provision maintained-all banks

(billion BDT)

All Banks	2009	2010	2011	2012	2013	2014	2015	2016	2017 June
Amount of NPLs	224.8	227.1	226.4	427.3	405.8	501.6	594.1	621.7	741.5
Required Provision	134.8	149.2	148.2	242.4	252.4	289.6	308.9	362.1	436.4
Provision maintained	137.9	142.3	152.7	189.8	249.8	281.6	266.1	307.4	374.5
Excess(+)/Shortfall(-)	3.1	-6.9	4.6	-52.6	-2.6	-7.9	-42.8	-54.7	-61.9
Provision maintenance ratio (%)	102.3	95.4	103.0	78.3	99.0	97.2	86.1	84.9	85.8

Source: Bangladesh Bank

Table VII Comparative position of provision adequacy

(billion BDT)

Year	Items	SCBs	SBs	PCBs	FCBs
2014	Required provision	128.6	37.1	108.7	15.3
	Provision maintained	135.3	14.7	115.3	16.2
	Provision maintenance ratio (%)	105.2	39.6	106.1	105.9
2015	Required provision	140.4	26.4	126.0	16.1
	Provision maintained	94.7	28.4	126.6	16.5
	Provision maintenance ratio (%)	67.5	107.6	100.5	102.5
2016	Required provision	174.0	27.8	144.2	16.0
	Provision maintained	113.2	28.4	149.4	16.4
	Provision maintenance ratio (%)	65.1	102.2	103.6	102.5
2017 June	Required provision	205.3	27.8	186.1	17.1
	Provision maintained	131.7	28.8	196.3	17.7
	Provision maintenance ratio (%)	64.2	103.3	105.5	103.3

Source: Bangladesh Bank

Table VIII Trends of Writing-off bad debts by type of banks categories

(billion BDT)

Bank type	30 June 09	30 June 10	30 June 11	30 June 12	30 June 13	30 June 14	30 June 15	30 June 16	31 Dec 16
SCBs	64.5	70.5	82.4	72.9	107.2	154.8	210.3	220.4	222.2
DFIs	31.8	31.8	32.0	24.5	32.6	34.2	5.6	5.6	5.6
PCBs	54.7	69.6	77.1	64.9	109.7	127.7	155.5	189.4	211.5
FCBs	2.0	2.1	2.4	2.6	3.7	4.4	5.1	7.2	8.1
Total	**153.0**	**174.0**	**193.9**	**164.9**	**253.3**	**321.1**	**376.5**	**423.2**	**447.3**

Source: Bangladesh Bank

Table IX Trends of expenditure-income ratio by type of banks

(Percent)

Bank types	2009	2010	2011	2012	2013	2014	2015	2016	2017 June
SCBs	75.6	80.7	62.7	73.2	84.1	84.1	84.5	90.2	87.9
DFIs	112.1	87.8	88.6	91.2	94.8	99.5	113.9	137.8	132.8
PCBs	72.6	67.6	71.7	76.0	77.9	75.8	75.5	73.5	74.5
FCBs	59.0	64.7	47.3	49.6	50.4	46.8	47.0	45.7	45.5
Total	**72.6**	**70.8**	**68.6**	**74.0**	**77.8**	**76.1**	**76.3**	**76.6**	**78.5**

Source: Bangladesh Bank

Table X Trends of Profitability ratios by types of banks

(Percent)

Bank types	Return on assets (ROA)									Return on equity (ROE)								
	2009	2010	2011	2012	2013	2014	2015	2016	2017 June	2009	2010	2011	2012	2013	2014	2015	2016	2017 June
SCBs	1.0	1.1	1.3	-0.6	0.6	-0.6	-0.04	-0.16	-0.63	26.2	18.4	19.7	-11.9	10.9	-13.6	-1.5	-6.0	-19.4
DFIs	0.4	0.2	0.1	0.1	-0.4	-0.7	-1.2	-2.80	-1.60	-171.7	-3.2	-0.9	-1.1	5.8	-5.97	-5.8	-13.9	-8.1
PCBs	1.6	2.1	1.6	0.9	1.0	1.0	1.0	1.03	0.68	21.0	20.9	15.7	10.2	9.8	10.3	10.8	11.1	7.5
FCBs	3.2	2.9	3.2	3.3	3.0	3.4	2.9	2.56	2.15	22.4	17.0	16.6	17.3	16.9	17.7	14.6	13.1	10.8
Total	**1.4**	**1.8**	**1.5**	**0.6**	**0.9**	**0.6**	**0.8**	**0.68**	**0.34**	**21.7**	**21.0**	**17.0**	**8.2**	**11.0**	**8.1**	**10.5**	**9.4**	**4.7**

Source: Bangladesh Bank

Table XI Net interest income by types of banks

(billion BDT)

Bank types	2009	2010	2011	2012	2013	2014	2015	2016	2017 June
SCBs	12.1	19.8	34.3	14.9	-5.4	39.7	40.4	49.5	24.9
DFIs	1.9	6.2	4.9	4.7	3.8	2.1	1.7	0.9	3.9
PCBs	56.7	82.8	91.4	114.7	118.2	205.8	222.6	254.1	125.5
FCBs	10.7	13.0	16.1	19.6	15.8	26.6	28.2	24.2	11.1
Total	**81.5**	**121.9**	**146.7**	**153.8**	**132.3**	**274.2**	**292.9**	**328.7**	**165.4**

Source: Bangladesh Bank

Table XII Liquidity ratio by type of banks

(percent)

Bank types	2009	2010	2011	2012	2013	2014	2015	2016	2017 June
SCBs	25.1	27.2	31.3	29.2	44.3	42	41.4	40.0	38.4
DFIs	9.6	21.3	6.9	12.0	15.3	6.6	0.0	0.0	0.0
PCBs	18.2	21.5	23.5	26.3	28	28.2	19.7	17.8	16.5
FCBs	31.8	32.1	34.1	37.5	46.2	56.9	51.8	48.2	40.9
Total	**20.6**	**23.0**	**25.4**	**27.1**	**32.5**	**32.7**	**26.5**	**24.9**	**23.1**

Source: Bangladesh Bank

Table XIII Trends of Branch, deposit and advance in the banking system-rural and urban

(billion BDT)

Year	Number of branch[1]			Deposit[2]			Advance[2]		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
2000	3659	2460	6119	160.6	549.2	709.8	100.1	493.5	593.6
2001	3680	2502	6182	160.2	656.3	816.5	97.2	590.6	687.8
2002	3693	2538	6231	177.6	753.2	930.8	100.0	667.7	767.7
2003	3694	2526	6220	190.8	883.3	1074.1	102.5	744.8	847.3
2004	3724	2579	6303	192.0	1023.8	1215.8	103.4	847.9	951.3
2005	3764	2638	6402	218.3	1197.6	1415.9	117.6	999.7	1117.3
2006	3834	2728	6562	241.5	1445.8	1687.3	128.4	1163.3	1291.7
2007	3894	2823	6717	263.0	1689.1	1952.1	130.1	1335.6	1465.7
2008	3981	2905	6886	306.2	2009.8	2316.0	148.5	1667.0	1815.5
2009	4136	3051	7187	369.9	2424.0	2793.9	169.6	1920.9	2090.5
2010	4393	3265	7658	436.9	2942.3	3379.2	206.9	2367.5	2574.4
2011	4551	3410	7961	536.0	3579.9	4115.9	254.5	2958.3	3212.8
2012	4760	3562	8322	853.1	4011.0	4864.1	405.6	3453.7	3859.3
2013	4962	3723	8685	1117.1	4988.2	6105.3	450.6	3987.8	4438.4
2014	5150	3890	9040	1326.0	5605.2	6931.1	505.1	4571.2	5076.3
2015	5187	3944	9131	1575.1	6364.7	7939.8	571.3	5227.3	5798.6
2016	4188	5466	9654	1843.9	7150.3	8994.1	680.0	6006.6	6686.6
2017[p]	5501	4219	9720	1907.3	7497.0	9404.3	726.7	6490.1	7218.8

[P] Provisional data as of end June.

Source: 1. Bangking Regulation and Policy Department, BB.
2. Statistics Department, BB.

List of Major Publications of Bangladesh Bank

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2. Monetary Policy Statement*

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3. Quarterly Financial Stability Assessment Report

MONTHLY

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2. Bangladesh Bank Parikroma

*There is no hard copy for sale, only softcopy available in website

Source: Department of Communications and Publications (DCP), Bangladesh Bank.

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