

Annual Report

2017-2018



Bangladesh Bank

Annual Report

(July 2017-June 2018)



BANGLADESH BANK

(The Central Bank of Bangladesh)

Letter of Transmittal
BANGLADESH BANK

Dhaka
03 January 2019

The 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 2017-2018. Audited Accounts of the Bank for the financial year was forwarded earlier on 28 August 2018.

Yours faithfully,



(Fazle Kabir)
Governor

Board of Directors

| | |
|---------------------------------|-----------|
| Mr. Fazle Kabir | Chairman |
| Mr. Md. Nojibur Rahman | Director |
| Mr. Md. Eunusur Rahman | Director |
| Mr. Mohammad Muslim Chowdhury* | 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. Kazi Sayedur Rahman** | Secretary |

* Mr. Mohammad Muslim Chowdhury was appointed as Director of the Board in place of Mr. Hedayetullah Al Mamoon with effect from 05 October 2017.

** Mr. Kazi Sayedur Rahman was made as the Secretary of the Bank and to the Board as well in place of Mr. Md. Mijanur Rahman Joddar with effect from 24 September 2017.

Governor

Fazle Kabir

Deputy Governors

Abu Hena Mohd. Razee Hassan

S.M. Moniruzzaman

Ahmed Jamal

Change Management Adviser

Md. Allah Malik Kazemi

Chief Economist

Dr. Faisal Ahmed

Executive Directors/ Economic Adviser

Dr. Md. Akhtaruzzaman

Debashish Chakraborty

Mohammad Masum Kamal Bhuiyan

Md. Serajul Islam

Md. Abdur Rahim

Joarder Israil Hossain

Md. Nazimuddin

A.N.M. Abul Kashem

Sheikh Abdullah

Md. Masud Biswas

Sheikh Azizul Haque

S.M. Rabiul Hassan

Ashok Kumar Dey

Md. Shah Alam

Kazi Sayedur Rahman

Laila Bilkis Ara

A. K. M. Fazlul Haque Mia*

Md. Azizur Rahman

Md. Sohrawardy

A.K.M. Fazlur Rahman

Mohd. Humayun Kabir

Sheikh Mozaffar Hossain

Md. Shafiqul Islam

Md. Eskandar Mian

Dr. Abul Kalam Azad

As on 30 June, 2018.

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

Departments* of the Head Office and Department Heads**

Accounts & Budgeting Department
Agricultural Credit Department
Bangladesh Bank Training Academy

Bangladesh Financial Intelligence Unit
Bankers Selection Committee Secretariat
Banking Regulation & Policy Department
Chief Economist's Unit
Common Services Department-1
Common Services Department-2
Credit Information Bureau
Department of Banking Inspection-1
Department of Banking Inspection-2
Department of Banking Inspection-3
Department of Banking Inspection-4
Department of Communications and Publications
Department of Currency Management
Department of Foreign Exchange Inspection
Department of Financial Institutions & Market
Deposit Insurance Department
Debt Management Department
Department of Off-site Supervision
Expenditure Management Department-1
Expenditure Management Department-2
Foreign Exchange Investment Department
Foreign Exchange Operation Department
Foreign Exchange Policy Department
Financial Integrity and Customer services Department
Financial Inclusion Department
Financial Institutions Inspection Department
Forex Reserve & Treasury Management Department
Financial Sector Support & Strategic Planning Department
Financial Stability Department
Governor's Secretariat

Human Resources Department-1
Human Resources Department-2
Internal Audit Department
Information Systems Development Department
Integrated Supervision Management Department
IT Operation & Communication Department
Law Department
Monetary Policy Department
Payment Systems Department
Research Department

Research Department-Library
Secretary's Department
Statistics Department

Security Management Department
SME & Special Programmes Department
Special Studies Cell
Sustainable Finance Department

Md. Forkan Hossain, General Manager
Manoj Kanti Bairagi, General Manager
Laila Bilkis Ara, Executive Director
Rokeya Akhter, General Manager
Swapn Kumar Roy, General Manager
A.B.M. Sadeque, General Manager
Dipankar Bhattacharjee, General Manager
Md. Mostafizur Rahman Sarder, General Manager
Md. Anwarul Islam, General Manager
Chandan Saha, General Manager
Md. Zakir Hossain Chowdhury, General Manager
Md. Mosharraf Hossain Khan, General Manager
Abu Farah Md. Naser, General Manager
Dr. Md. Ezazul Islam, General Manager
Md. Obaidul Hoque, General Manager
Md. Tafazzal Hossain, General Manager
Monsura Khatun, General Manager
Mohammad Ahmed Ali, General Manager
Muhammad Shah Alam, General Manager
Md. Eunus Ali, General Manager
Mohammad Mamunul Hoque, General Manager
G.M. Abul Kalam Azad, General Manager
Md. Sultan Masud Ahmed, General Manager
S.M. Hasan Reza, General Manager
A.K.M. Amjad Hussain, General Manager
Md. Abdul Hamid, General Manager
Syed Tariquzzaman, General Manager
Nurun Nahar, General Manager
Md. Shoaib Ali, General Manager
Mohammad Golam Haider, General Manager
Md. Rezaul Islam, General Manager
Md. Abu Taher, General Manager
Mohammad Khurshid Wahab, General Manager
Md. Zamal Mollah, General Manager
Md. Abul Bashar, General Manager
Md. Shahidul Islam, General Manager
Kazi Rafiqul Hassan, General Manager
Md. Ashraful Alam, General Manager
Dr. Md. Kabir Ahmed, General Manager
Nahida Begum, General Manager
Dr. Md. Habibur Rahman, General Manager
Noor-Un-Nahar, General Manager
Qazi Enayet Hussain, General Manager
Md. Sadrul Huda, General Manager®
Debdulal Roy, Systems Manager
Prokash Chandra Bhadra, General Manager
Mohammed Ishaque Miah, Systems Manager
A.K.M. Mohiuddin Azad, General Manager
Md. Julhas Uddin, General Manager
Lila Rashid, General Manager
Md. Abdul Awwal Sarker, General Manager
Asish Kumar Das Gupta, General Manager
Mahfuza Akther, General Manager
Dr. Sayera Younus, General Manager
Md. Mahbubur Rahman Khan, General Manager
Md. Khurshid Alam, General Manager
Mohammad Ballal Hossain, General Manager
Birendra Chandra Das, General Manager
Kazi Md. Nasir Uddin, General Manager
Lt. Col. (Retd) Md Shamimur Rahman, PSC, General Manager®
Shaikh Md. Salim, General Manager
Mohammad Murshid Alam, General Manager
Manoj Kumar Biswas, General Manager

* As per alphabetical arrangement.

** As of 30 June, 2018.

® Contractual Basis

- Note: 1) Parimal Chandra Chakraborty, General Manager, Md. Bozlar Rahman Mollah, General Manager, Main Uddin Ahmed, General Manager, Swapn Kumar Das and Md. Abdul Kayum, General Manager, Prokash Chandra Bairagi, 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 respectively.
- 2) Nirmal Kumar Sarker, General Manager, and Md. Abdul Hakim, General Manager are attached with HRD-1.

Branch Offices* and Office Heads**

| | |
|------------|---|
| Barishal | S.M. Rabiul Hassan, Executive Director Md. Anwar Hossain, General Manager |
| Bogura | Md. Masud Biswas, Executive Director Provash Chandra Mallick, General Manager Md. Shafiqul Islam, General Manager |
| Chattogram | Mohd. Humayun Kabir, Executive Director Rahena Begum, General Manager Md. Habibur Rahman, General Manager Md. Nurul Amin, General Manager |
| Khulna | Md. Eskandar Mian, Executive Director Md. Robiul Islam, General Manager Ashim kumar Majumder, General Manager |
| Motijheel | Dr. Abul Kalam Azad, Executive Director Md. Masum Patwary, General Manager Md. Awlad Hossain Chowdhury, Currency Officer, (General Manager) Dr. Maksuda Begum, Chief Medical Officer (General Manager) |
| Mymensingh | Kazi Aktarul Islam, General Manager |
| Rajshahi | A.K.M. Fazlur Rahman, Executive Director Nurun Nahar, General Manager A.F.M.Shahinul Islam, General Manager |
| Rangpur | Joarder Israil Hossain, Executive Director Md. Shahin Ul Islam, General Manager |
| Sadarghat | S.M. Abdul Hakim, General Manager |
| Sylhet | Md. Shah Alam, Executive Director Md. Shazzad Hossoin, General Manager Jiban Krishno Roy, General Manager |

* As per alphabetical arrangement.

** As of 30 June, 2018

Contents

| Chapters | Pages |
|------------------|---|
| Chapter-1 | Macroeconomic Performance and Prospects |
| | 1 |
| | Global Economic Outlook |
| | 1 |
| | Developments in the Bangladesh Economy |
| | 3 |
| | Growth Performance |
| | 4 |
| | Savings and Investment |
| | 4 |
| | Price Developments |
| | 5 |
| | Money and Credit Developments |
| | 5 |
| | Public Finance |
| | 6 |
| | External Sector |
| | 7 |
| | Near and Medium Term Outlook for Bangladesh Economy |
| | 9 |
| Chapter-2 | The Real Economy |
| | 11 |
| | Sectoral Growth Rate of GDP |
| | 11 |
| | Agriculture Sector |
| | 12 |
| | Industry Sector |
| | 12 |
| | Services Sector |
| | 13 |
| | Sectoral Share of GDP |
| | 14 |
| | GDP based on Expenditure |
| | 14 |
| | Savings and Investment |
| | 15 |
| | Growth Outlook |
| | 16 |
| Chapter-3 | Price and Inflation |
| | 17 |
| | Global Inflation Scenario |
| | 17 |
| | Consumer Prices in Bangladesh |
| | 17 |
| | Inflation in SAARC and Other Asian Countries |
| | 20 |
| | Wage Rate Trends |
| | 20 |
| | Near Term Inflation Outlook |
| | 20 |
| Chapter-4 | Money and Credit |
| | 22 |
| | Stance of Monetary and Credit Policy |
| | 22 |
| | Monetary Policy Performance |
| | 22 |
| | Money and Credit Situation |
| | 24 |
| | Reserve Money Developments |
| | 25 |
| | Income Velocity of Money |
| | 27 |
| | Bank Credit |
| | 27 |
| | Bank Deposits |
| | 27 |
| | Credit/Deposit Ratio |
| | 28 |
| | Scheduled Banks' Borrowing from Bangladesh Bank |
| | 28 |
| | Balances of Scheduled Banks with the BB and their Cash in Tills |
| | 28 |

Contents

| Chapters | Pages |
|--|-----------|
| Cash Reserve Requirement (CRR) | 28 |
| Statutory Liquidity Ratio (SLR) | 29 |
| Bank Rate | 29 |
| Interest Rates on Deposits and Lending | 29 |
| Liquidity Management Framework | 29 |
| Chapter-5 Banking Sector Performance, Regulation and Bank Supervision | 31 |
| Banking Sector Performance | 31 |
| Aggregate Balance Sheet | 32 |
| Capital Adequacy | 33 |
| Asset Quality | 33 |
| Management Soundness | 38 |
| Earnings and Profitability | 38 |
| Liquidity | 39 |
| CAMELS Rating | 40 |
| Operations of Banks in Urban and Rural Areas | 41 |
| Islamic Banking | 42 |
| Legal Framework and Prudential Regulations | 42 |
| Risk Based Capital Adequacy (RBCA) for Banks | 42 |
| Loan Classification and Loan-Loss Provisions | 44 |
| Loan Restructuring | 44 |
| Corporate Governance in Banks | 45 |
| Supervision of Banks | 45 |
| Off-site Monitoring of Banks | 45 |
| Banking Supervision Specialists (BSS) | 45 |
| Formation of Observer Cell | 46 |
| Risk Management Activities of Banks | 46 |
| On-site Inspection of Banks | 47 |
| Financial Stability and Macro-prudential Supervision | 51 |
| Banking Sector Infrastructure for Financial Stability and Risk Management | 52 |
| Deposit Insurance Systems in Bangladesh | 52 |
| Activities of Credit Information Bureau | 53 |
| Chapter-6 Sustainable Banking | 55 |
| Green Banking | 55 |
| Policy Initiatives | 55 |
| Green Finance | 56 |
| Environmental Risk Management (ERM) | 56 |

Contents

| Chapters | Pages |
|---|-----------|
| Climate Risk Fund | 57 |
| Online Banking and Energy Efficiency | 57 |
| BB's in House Environmental Management | 57 |
| BB's Refinance Schemes for Green Products/ Initiatives | 57 |
| Long Term Financing Facility (LTFF) under Financial Sector Support Project (FSSP) | 58 |
| Green Transformation Fund (GTF) | 59 |
| Refinance Scheme for Islamic Banks and Financial Institutions for Investment in Green Products/ Initiatives | 60 |
| Corporate Social Responsibility | 61 |
| CSR Activities of Banks and NBFIs | 61 |
| BB's Own CSR Activities | 62 |
| Financial Inclusion Activities | 62 |
| No Frill Accounts (NFAs) for Farmers and Under-privileged Group of the Society | 63 |
| School Banking | 63 |
| Banking for Working/Street Children | 64 |
| Agent Banking | 64 |
| BB Refinance Scheme for BDT 10 Account Holders | 65 |
| Small and Medium Sized Enterprise Development Project (SMEDP-2) | 65 |
| NRB Remittance | 65 |
| Financial Literacy | 65 |
| Alliance for Financial Inclusion (AFI) and Maya Declaration | 66 |
| Child and Youth International (CYFI) | 66 |
| Chapter-7 Performance, Regulation and Supervision of NBFIs | 67 |
| Assets | 68 |
| Investment | 68 |
| Deposits | 68 |
| Other Liabilities and Equity | 68 |
| Bond and Securitisation Activity | 69 |
| Performance and Rating of NBFIs | 69 |
| Capital Adequacy | 69 |
| Asset Quality | 69 |
| Management Efficiency | 69 |
| Earnings and Profitability | 69 |
| Liquidity | 70 |
| Sensitivity to Market Risk | 70 |
| Composite CAMELS Rating | 70 |
| Legal Reform and Prudential Regulations | 70 |

Contents

| Chapters | Pages |
|---|-----------|
| Capital Adequacy and Progress of BASEL Accord Implementation in NBFIs | 70 |
| Corporate Governance in NBFIs | 70 |
| Asset Classification and Provisioning | 71 |
| Loan Rescheduling Policy | 71 |
| Core Risk Management | 71 |
| Consumer Protection Regulations | 71 |
| Schedule of Charges | 71 |
| Guidelines on Products, Services and Commercial Paper of Financial Institutions in Bangladesh | 71 |
| Cost of Funds Index for NBFIs | 72 |
| Guideline on 'Code of Conduct for Banks and Non-Bank Financial Institutions' | 72 |
| Chapter-8 Financial Markets | 73 |
| Money Market | 73 |
| Call Money Market Activities in FY18 | 73 |
| Repo Auctions held in FY18 | 74 |
| Reverse Repo Auctions held in FY18 | 75 |
| Bangladesh Bank Bill Auctions held in FY18 | 75 |
| Government Securities Market | 75 |
| Government Treasury Bills Auctions | 75 |
| Bangladesh Government Treasury Bonds (BGTBs) Auctions | 78 |
| Bangladesh Government Islamic Investment Bond (Islamic Bond) | 79 |
| Capital Market | 80 |
| Capital Market Activities in FY18 | 80 |
| Primary Issuance | 81 |
| Secondary Market Activities | 81 |
| Non-resident Portfolio Investment | 81 |
| Activities of the Investment Corporation of Bangladesh | 82 |
| Scheduled Banks Investments in Capital Market Securities | 83 |
| Measures Supporting Capital Market Development | 83 |
| Credit Market | 83 |
| Scheduled Banks' Advances by Economic Purposes | 83 |
| Industrial Term Loans of Banks and Financial Institutions | 84 |
| Investment Promotion and Financing Facility Project II (IPFF II) | 85 |
| Equity and Entrepreneurship Fund (EEF) | 85 |
| Housing Finance | 86 |
| Foreign Exchange Market | 87 |

Contents

| Chapters | Pages |
|--|-----------|
| Chapter-9 Agriculture and MSME Finance | 89 |
| The Major Achievement of Agricultural Credit Programme in FY18 | 89 |
| Credit Disbursement to Agriculture | 90 |
| Credit Recovery | 91 |
| Sources of Agricultural Finance | 91 |
| Refinance Facility from Bangladesh Bank | 91 |
| Refinance Facility Under Government Guarantee | 91 |
| Refinance Scheme for Share-croppers | 92 |
| Refinance Scheme for Dairy Farming | 92 |
| Refinance Scheme for the Jute Sector | 92 |
| Demand Loan | 93 |
| Donor-financed Revolving Funds of Grameen Bank, Managed by Bangladesh Bank | 93 |
| Swedish International Development Authority (SIDA) Grant | 93 |
| Norwegian Agency for International Development (NORAD) Grant | 93 |
| Grameen Bank House Loan Scheme | 93 |
| Development Partner's Funded Agricultural Credit Related Project/ Programme Operated Under Bangladesh Bank Supervision | 93 |
| Small and Marginal Sized Farmers Agricultural Productivity Improvement and Diversification Financing Project (SMAP) | 93 |
| ADB Funded Northwest Crop Diversification Project (NCDP) | 94 |
| ADB Funded Second Crop Diversification Project (SCDP) | 94 |
| Marginal and Small Farm Systems Crop Intensification Project (MSFSCIP)-Kurigram District | 94 |
| Pre-finance Under Government Guarantee | 94 |
| Ansar-VDP Unnayan Bank | 94 |
| Karmasangsthan Bank | 95 |
| Financing Cottage, Micro, Small and Medium Enterprise (CMSMEs) | 95 |
| Target Based Disbursement for CMSME Credit | 96 |
| Refinance Schemes | 96 |
| BB's Refinance/ Pre-finance Facilities to Banks and NBFIs for Promoting CMSMEs | 97 |
| Refinance Scheme for Agro-based Product Processing Industries in Rural Area | 97 |
| Small Enterprise Refinance Scheme | 97 |
| Refinance Fund for New Entrepreneurs in Cottage, Micro and Small Enterprise (CMSE) Sector | 98 |
| Refinance Scheme for Islamic Shariah based Financing | 98 |
| JICA Funded FSPDSME Project's Two Step Re/Pre-finance Fund | 98 |
| Urban Building Safety Project (UBSP) | 99 |

Contents

| Chapters | Pages |
|--|------------|
| Small and Medium-Sized Enterprise Development Project (ADB Fund-2) | 99 |
| New Entrepreneurs Creation and Entrepreneurship Development | 100 |
| Implementation of New Projects | 100 |
| Local Finance Initiatives (LFI) Support to SMEs in Bangladesh | 100 |
| Steps Taken by Bangladesh Bank for Development of CMSMEs until June 2018 | 100 |
| Special Incentives for Women Entrepreneurs | 101 |
| Microcredit Operations of Grameen Bank and the Large MFIs | 102 |
| Chapter-10 Public Finance | 104 |
| FY18 Budget and Fiscal Outcome | 104 |
| Expenditure | 104 |
| Budget Deficit and its Financing in FY18 | 105 |
| Major Revenue Measures in FY18 Budget | 106 |
| Direct Tax | 106 |
| Taxes on Individual Income | 106 |
| Taxes on Corporate Income | 107 |
| Value Added Tax (VAT) | 107 |
| VAT Exemptions | 107 |
| VAT Impositions and Expansions | 108 |
| Custom Duties and Taxes | 108 |
| Proposed Budget for FY19 | 109 |
| Revenue Receipts | 110 |
| Expenditure | 111 |
| Deficit Budget and Its Financing in FY19 | 111 |
| Chapter-11 External Sector | 112 |
| External Trade and the Balance of Payments | 112 |
| Balance of Payment | 113 |
| Exports | 115 |
| Composition of exports | 115 |
| Destination of Exports | 116 |
| Export Development Fund (EDF) | 116 |
| Imports | 116 |
| Terms of Trade | 117 |
| Workers' Remittances | 117 |
| Foreign Aid | 118 |
| Foreign Exchange Market Operations and Exchange Rate Movements | 119 |
| Foreign Exchange Reserves | 120 |
| Reserve Management Strategy | 121 |

Contents

| Chapters | Pages |
|---|------------|
| Transactions under the Asian Clearing Union (ACU) | 121 |
| Transactions with the IMF | 121 |
| Major Changes in Foreign Exchange Regulations | 122 |
| Anti-money Laundering Surveillance | 125 |
| Legal Framework | 126 |
| Reporting Agencies and their Regulatory Regime | 126 |
| Receiving and Dissemination Suspicious Transaction Report (STR) | 126 |
| National Initiatives | 126 |
| International Cooperation | 127 |
| Impart Domestic Training and Workshop | 127 |
| Participation in Different International and Local Conference/Meeting/Workshops | 128 |
| Chapter-12 Payment and Settlement Systems | 129 |
| Functional Areas of Payment Systems | 129 |
| Bangladesh Automated Clearing House (BACH) | 129 |
| Bangladesh Automated Cheque Processing System (BACPS) | 129 |
| BACPS Transaction Status | 130 |
| Bangladesh Electronic Funds Transfer Network (BEFTN) | 130 |
| Transaction Status of Bangladesh Electronic Funds Transfer Network (BEFTN) | 130 |
| Mobile Financial Services(MFS) | 131 |
| National Payment Switch Bangladesh (NPSB) | 133 |
| Real-Time Gross Settlement (RTGS) | 133 |
| Payment Systems Operator (PSO) and Payment Service Providers (PSPs) | 134 |
| Legal and Regulatory Framework | 134 |
| Other Payment Systems Initiatives | 134 |
| Payment Systems oversight | 135 |
| Awareness Campaign | 135 |
| Chapter-13 Human Resources and Organisational Management | 136 |
| Appointment of New Directors in the Board | 136 |
| Executive Committee | 136 |
| Audit Committee of the Board | 136 |
| Executive Management Team (EMT) | 137 |
| New Appointment in Different Posts | 137 |
| Retirement, Voluntary Retirement, Resignation, Death, Compulsory Retirement, Removal and Suspension | 137 |
| Creation/Abolition of Posts | 137 |
| Sanctioned and Working Strength of Officials and Staff | 137 |
| Promotion | 138 |

Contents

| Chapters | Pages |
|---|------------|
| Number of Officers on Deputation/Lien | 138 |
| Reorganisation/Newly Established Departments of the Bank | 138 |
| Reward and Recognition | 138 |
| Welfare Activities and Approval of Scholarship | 138 |
| Foreign Training and Study | 138 |
| Domestic Training and Study | 139 |
| Training Courses, Workshops and Seminars Conducted by the Bangladesh Bank Training Academy (BBTA) | 139 |
| Financial Sector Support Project (FSSP) | 140 |
| Strengthening Financial Market Infrastructure | 141 |
| Strengthening Regulatory and Supervisory Capacity | 141 |
| Supporting Long Term Finance | 141 |
| Information and Communication Technology (ICT) | 142 |
| ICT Strategy Implementation | 142 |
| IT Security and Awareness Building | 142 |
| ICT Infrastructure Rebuilding | 142 |
| Information Systems Development | 142 |
| Chapter-14 Bangladesh Bank's Accounts for 2017-2018 | 144 |
| Income | 144 |
| Income from Foreign Currency Financial Assets | 144 |
| Income from Local Currency Financial Assets | 144 |
| Foreign Currency Revaluation Gain | 144 |
| Expenditure | 145 |
| Financial Cost | 145 |
| Other Expenses | 145 |
| Profit for the Year | 145 |
| Other Comprehensive Income | 145 |
| Profit Appropriation | 145 |
| Statement of Financial Position of Banking and Issue Department | 145 |
| Assets | 145 |
| Liabilities | 146 |
| Notes in Circulation | 146 |
| Equity | 146 |
| Foreign Currency Reserve | 146 |
| Consolidation | 146 |
| Auditors | 146 |
| Audited Financial Statements as at and for the Year Ended 30 June 2018 | 147 |

Contents

| Tables | Pages |
|---|-------|
| 1.1 World Economic Outlook Projections for 2018-19 | 1 |
| 1.2 Sectoral GDP growth rates (at FY06 constant prices) | 4 |
| 2.1 Sectoral Growth of Real GDP | 12 |
| 2.2 Sectoral Share of GDP | 13 |
| 2.3 GDP by Expenditure Groups | 14 |
| 3.1 Monthly Inflation in FY18 | 17 |
| 3.2 Annual Average CPI based Inflation | 18 |
| 3.3 Annual Average National Level CPI by Consumption Basket Sub-groups | 19 |
| 3.4 Inflation in SAARC and Other Asian Countries | 19 |
| 3.5 Trends of Wage Rate Indices | 20 |
| 3.6 Global Inflationary Situation | 21 |
| 4.1 Money and Credit Program and Component of Broad Money | 22 |
| 4.2 Actual and Programmed Growth of Reserve Money and its Components | 26 |
| 4.3 Income Velocity of Money | 27 |
| 4.4 Quarterly Position of Bank Credit | 28 |
| 4.5 Quarterly Position of Bank Deposits in FY18 | 28 |
| 4.6 Trends in Weighted Average Interest Rates of Scheduled Banks | 29 |
| 4.7 Liquidity Indicators-FY18 | 29 |
| 5.1 Banking Systems Structure, Assets and Deposits | 31 |
| 5.2 Capital to Risk Weighted Assets Ratio by type of Banks | 33 |
| 5.3(a) Gross NPL to Total Loans by type of Banks | 35 |
| 5.3(b) Ratio of Net NPLs to Total Loans by type of Banks | 35 |
| 5.4 Amount of NPLs by type of Banks | 35 |
| 5.5 Required Provision and Provision Maintained by the Banking Industry | 38 |
| 5.6 Comparative Position of Provision Adequacy by type of Banks | 39 |
| 5.7 Writing-off Bad Debts in Different Bank Categories | 40 |
| 5.8 Expenditure-Income Ratio by type of Banks | 40 |
| 5.9 Profitability Ratio by type of Banks | 41 |
| 5.10 Net Interest Margin by type of Bank | 41 |
| 5.11 Trends in Liquidity Ratio by type of Bank | 42 |
| 5.12 Comparative Positions of the Islamic Banking Sector | 43 |
| 5.13 Phase-in-Arrangement of Minimum Capital Requirements. | 44 |
| 5.14 The Recent Position of DITF | 52 |

Contents

| Tables | Pages |
|---|-------|
| 6.1 Direct Green Finance in FY18 | 56 |
| 6.2 Environmental Risk Rating of Banks and NBFIs in FY18 | 57 |
| 6.3 Utilisation of Green Fund in FY18 | 58 |
| 6.4 Disbursement Trend in BB Refinance Scheme for Green Products | 59 |
| 6.5 CSR Expenditure of Banks and NBFIs in FY18 | 61 |
| 6.6 Sector-wise Expenditure of BB's CSR Fund in FY18 | 62 |
| 6.7 Total Number of NFAs | 63 |
| 6.8 Total Balance of NFAs | 63 |
| 6.9 School Banking Account and Balance | 64 |
| 6.10 Working/street Children Account and Balance | 64 |
| 7.1 Trends in Structure of NBFIs | 67 |
| 7.2 Trends in Assets, Liabilities and Deposits of NBFIs | 68 |
| 7.3 Trends in Total Loan/Lease and Classified Loan/Leases | 69 |
| 7.4 Trends in Profitability of NBFIs | 70 |
| 8.1 Volume of Trade and Weighted Average Interest Rates in Call Money Market | 73 |
| 8.2 Repo Auctions – FY18 | 74 |
| 8.3 Auctions of Bangladesh Bank Bill – FY18 | 74 |
| 8.4 Auctions of Bangladesh Government Treasury Bills – FY18 | 75 |
| 8.5 Auctions of Bangladesh Government Treasury Bonds – FY18 | 78 |
| 8.6 Bangladesh Government Islamic Investment Bond | 79 |
| 8.7 Activities of Dhaka Stock Exchange (DSE) | 82 |
| 8.8 Activities of Chittagong Stock Exchange (CSE) | 82 |
| 8.9 Advances of Scheduled Banks by Economic Purposes | 83 |
| 8.10 Industrial Term Loans of Banks and Financial Institutions | 85 |
| 8.11 Outstanding Housing Loans | 86 |
| 9.1 Comparative Statement of Disbursement and Recovery of Agricultural Loan | 89 |
| 9.2 Agricultural Credit Performance by Banks | 90 |
| 9.3 Bangladesh Bank's Refinance Against Agricultural Loans (Under Government Guarantee) | 92 |
| 9.4 Disbursement of CMSME Credit by Banks and NBFIs | 95 |
| 9.5 Statement of Refinance on CMSMEs under Different Refinance Schemes of BB | 96 |
| 9.6 Refinancing under Small Enterprise Refinance Scheme | 97 |
| 9.7 Refinancing from New Entrepreneurs Refinance Fund | 98 |
| 9.8 CMSME Refinance Scheme for Islamic Shariah-Based Financing in "Agro-based Industries", "Small Entrepreneurs' (Including Women Entrepreneur)" and "New Entrepreneurs' in Cottage, Micro and Small Enterprise Sector" | 98 |
| 9.9 CMSME Refinancing from SMEDP Fund (ADB Fund-2) | 100 |
| 9.10 Microcredit Operation of Grameen Bank and Large MFIs | 102 |

Contents

| Tables | Pages |
|---|-------|
| 10.1 Government Revenue and Expenditure | 104 |
| 10.2 Composition of Revenue Receipts | 105 |
| 10.3 Sectoral Shares in ADP Expenditure | 106 |
| 10.4 Composition of Budget Financing | 106 |
| 10.5 Composition of Revenue Expenditure | 109 |
| 10.6 Composition of Social Sector Revenue Expenditure | 110 |
| 11.1 Composition of Merchandise Exports | 115 |
| 11.2 Composition of Merchandise Imports | 117 |
| 11.3 Trends in Terms of Trade of Bangladesh | 117 |
| 11.4 Foreign Aid Receipts and Debt Repayments | 120 |
| 11.5 Gross Foreign Exchange Reserves | 120 |
| 11.6 Receipts and Payments of Bangladesh under the ACU | 122 |
| 11.7 Outstanding Principal Liabilities Against the Facilities Received from the IMF | 122 |
| 12.1 Present Scenario of MFS in Bangladesh | 131 |
| 12.2 Number of Card, ATM and POS in Bangladesh | 134 |
| 13.1 Different Training Courses, Workshops and Seminars Organised by the Bangladesh Bank Training Academy during FY18 | 139 |
| 13.2 Statement on Information Systems and Related Tasks during FY18 | 143 |
| 14.1 Bangladesh Bank's Income | 144 |
| 14.2 Bangladesh Bank's Expenditure | 144 |
| Charts | |
| 1.1 Trends in Domestic Savings and Investment | 5 |
| 1.2 Trends in National CPI Inflation | 5 |
| 1.3 Trends in Growth of Monetary Aggregates | 6 |
| 1.4 Trends in Sources of Broad Money | 6 |
| 1.5 Trends in Revenue, Expenditure and Overall Budget Deficit | 7 |
| 1.6 Trends in Deficit Financing | 7 |
| 1.7 Trends in Balance of Payment | 8 |
| 1.8 Trends in Export and Import Growth | 8 |
| 1.9 Trends in NEER, REER (base: FY16=100, 15 currency basket) and BDT-USD Exchange Rate | 9 |
| 1.10 Recent Movements in NEER, REER (base: FY16=100, 15 currency basket) and BDT-USD Exchange Rate | 9 |

Contents

| Charts | Pages |
|---|-------|
| 2.1 Trends in Bangladesh Real GDP Growth | 11 |
| 2.2 Trends in Sectoral GDP Growth | 11 |
| 2.3 Trends in Domestic and National Savings | 14 |
| 2.4 Trends in Domestic Investment | 15 |
| 2.5 Trends in Domestic Savings and Investment | 15 |
| 2.6 Movements in GDP Growth and Investment | 15 |
| 3.1 Monthly CPI Inflation in FY18 (12-month average : FY06=100) | 17 |
| 3.2 Monthly CPI Inflation in FY18 (point to point : FY06=100) | 17 |
| 3.3 Core CPI Inflation (point to point) | 18 |
| 3.4 Rural CPI Inflation (12-month average : FY06=100) | 18 |
| 3.5 Urban CPI Inflation (12-month average : FY06=100) | 19 |
| 3.6 South Asian Inflationary Situation | 20 |
| 3.7 Growth Rate of Wage Index (FY11=100) | 21 |
| 4.1 Movements in the Components of Broad Money (M2) | 25 |
| 4.2 Movements in the Domestic Credit and its Components | 25 |
| 4.3 Programmes and Actual Developments of M2 and RM in FY18 | 26 |
| 4.4 Movement of GDP growth, M2 growth, Rate of Inflation and Income Velocity of Money | 27 |
| 4.5 Trends in Weighted Average Interest Rates of Scheduled Banks | 29 |
| 4.6 Liquidity Management Operations during FY18 | 30 |
| 5.1 Aggregate Industry Assets | 32 |
| 5.2 Aggregate Industry Liabilities | 32 |
| 5.3 Aggregate Capital Adequacy Position | 33 |
| 5.4 Aggregate Position of Gross NPLs to Total Loans | 35 |
| 5.5 Trends of Aggregate Position of Income and Expenditure in the Banking Industry | 38 |
| 5.6 Trends in Aggregate Profitability in the Banking Industry | 39 |
| 6.1 Share of Product-wise Green Finance in FY18 | 57 |
| 6.2 Product-wise Refinance Disbursement in FY18 | 60 |
| 6.3 Share of Sector-wise CSR Expenditure of Banks in FY18 | 62 |
| 6.4 Share of Sector-wise CSR Expenditure of NBFIs in FY18 | 62 |
| 7.1 Trends in Asset, Liability and their Ratios of NBFIs | 68 |
| 7.2 Investment Pattern of NBFIs as of 30 June 2018 | 68 |
| 7.3 Trends in NBFIs Total, Classified Loan/Leases and their Ratios | 69 |
| 8.1 Movements in Call Money Rate | 73 |
| 8.2 Trends in Market Behaviour of DSE in FY18 | 81 |
| 8.3 Sectoral Shares of Total Advances in FY18 | 84 |
| 8.4 Industrial Term Loans of Banks and Financial Institutions in FY18 | 84 |

Contents

| Charts | Pages |
|---|-------|
| 9.1 Targets for Agricultural Credit Disbursement in FY18 | 91 |
| 9.2 Actual Agricultural Credit Disbursement in FY18 | 91 |
| 10.1 Composition of Tax Revenue : FY18 | 105 |
| 10.2 Composition of Tax Revenue : FY19 | 106 |
| 10.3 Deficit Financing (Including Grants) : FY18 | 107 |
| 10.4 Deficit Financing (Including Grants) : FY19 | 110 |
| 11.1 Key Indicators of External Sector | 112 |
| 11.2 Trends in Trade, Current Account and Overall Balances | 113 |
| 11.3 Trends in Export Earnings | 113 |
| 11.4 Destinal Pattern of Exports in FY18 | 115 |
| 11.5 Trends in Import Recorded at Customs | 118 |
| 11.6 Country-wise Remittances Inflows in FY18 | 119 |
| 12.1 Number of Regular Value Cheque and Amount | 129 |
| 12.2 Number of High Value Cheque and Amount | 130 |
| 12.3 Number of Credit Entries and Amounts | 130 |
| 12.4 Number of Debit Entries and Amounts | 130 |
| 12.5 Market Share of Different Services in MFS in June 2018 | 131 |
| 12.6 Trends in Interbank ATM Transactions | 131 |
| 12.7 Trends in Interbank POS Transactions | 134 |
| 12.8 Trends in RTGS Transactions | 134 |
| 14.1 Trends in BB's Income, Expenditure and Profit | 145 |
| Boxes | |
| 4.1 Calculation of NEER and REER Indices in Bangladesh Bank | 23 |
| 5.1 Importance of Basel-III Liquidity Standard: LCR and NSFR | 34 |
| 5.2 Consequences of NPL on Banks' Profitability and Financial Stability | 36 |
| 8.1 Mechanism for Ensuring Financial Stability in Bangladesh | 76 |
| 8.2 Calculation of Housing Price Index (HPI) in Bangladesh | 80 |
| 11.1 Recent Widening of Current Account Deficit in Bangladesh: Causes and Consequences | 114 |
| 11.2 A Note on Introduction of International Factoring in Bangladesh | 119 |
| 12.1 Digital Currency | 132 |

Contents

| Appendices | | Pages |
|------------|---|-------|
| Appendix-1 | Chronology of Major Policy Announcements: FY18 | 231 |
| Appendix-2 | Bangladesh Bank's Research in FY18 | 241 |
| Appendix-3 | Bangladesh: Some Selected Statistics | 247 |
| Tables | | |
| I | Trends in Major Macroeconomic Indicators | 249 |
| II | Medium-Term Macroeconomic Framework : Key Indicators | 250 |
| III | Trends in Gross Domestic Product (GDP), Investment and Savings | 251 |
| IV | Trends in Growth and Sectoral Share of GDP (at FY06 constant prices) | 252 |
| V | Development of Government Budgetary Operation | 253 |
| VI | Trends in Money and Credit | 254 |
| VII | Consumer Price Index (CPI) and Rate of Inflation – National (base : FY96=100) | 255 |
| VIII | Quantum Index of Medium and Large-scale Manufacturing Industry (base :FY06=100) | 256 |
| IX | Trends in Reserve Money and Its Components | 257 |
| X | Trends in Reserve Money and Its Sources | 258 |
| XI | Trends in Deposits of Public and Private Sector | 259 |
| XII | Trends in Selected Statistics of Scheduled Banks | 260 |
| XIII | Movements in Selected Interest Rates (end period) | 261 |
| XIV | Government Borrowing Position from the Banking System | 262 |
| XV | Government Borrowing from other than Banks | 264 |
| XVI | Trends in Balance of Payments | 265 |
| XVII | Trends in Category-wise Exports | 266 |
| XVIII | Trends in Category-wise Imports | 267 |
| XIX | Sector-wise Comparative Statement of Opening, Settlement and Outstanding of Import LCs | 268 |
| XX | Trends in Foreign Exchange Reserves | 269 |
| XXI | Trends in BDT-USD Exchange Rates (Period Average) | 270 |
| XXII | Trends in Country-wise Workers' Remittances | 271 |
| XXIII | List of Scheduled Banks | 272 |
| XXIV | List of Financial Institutions | 274 |
| Appendix-4 | Banking Performance Indicators | 275 |
| I | Banking System Structure | 277 |
| II | Capital to Risk Weighted Assets Ratio by Type of Banks | 277 |

Contents

| Appendices | | Pages |
|----------------------------|---|-------|
| III | NPL Ratios by Type of Banks | 277 |
| IV | Ratio of Net NPLs to Total Loans by Type of Banks | 278 |
| V | Amount of NPLs | 278 |
| VI | Required Provision and Provision Maintained-All Banks | 278 |
| VII | Comparative Position of Provision Adequacy | 278 |
| VIII | Writing-off Bad Debts in Different Bank Categories | 279 |
| IX | Expenditure –Income Ratio by Type of Banks | 279 |
| X | Profitability Ratios by Type of Banks | 279 |
| XI | Net Interest Margin by Type of Banks | 280 |
| XII | Liquidity Ratio by Type of Banks | 280 |
| XIII | Branch, Deposit and Advance in The Banking System-Rural and Urban | 280 |
| Appendix-5 | Bangladesh Bank Library: New Dimension of Information Service | 281 |
| | List of Major Publications of Bangladesh Bank | 287 |

List of Abbreviations

| | | | |
|----------|--|--------|---|
| AAOIFI | Accounting and Auditing Organization for Islamic Financial Institutions | BPO | Bangladesh Post Office |
| A/C | Account | BPSSR | Bangladesh Payment and Settlement Systems Regulations |
| ACC | Anti-Corruption Commission | BRDB | Bangladesh Rural Development Board |
| A&BD | Accounts & Budgeting Department | BRPD | Banking Regulation & Policy Department |
| ACU | Asian Clearing Union | BSBL | Bangladesh Samabaya Bank Limited |
| ACUD | Asian Clearing Union Dollar | BSEC | Bangladesh Securities and Exchange Commission |
| ADB | Asian Development Bank | BSS | Banking Supervision Specialists |
| ADP | Annual Development Programme | CAB | Current Account Balance |
| ADs | Authorised Dealers | CAMD | Capital Adequacy and Market Discipline |
| AFI | Alliance for Financial Inclusion | CAMEL | Capital Adequacy, Asset Quality, Management, Earnings and Liquidity |
| AML | Anti Money Laundering | CAMELS | Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk |
| APG | Asia Pacific Group on Money Laundering | CAMLCO | Chief Anti Money Laundering Compliance Officer |
| ASEAN | Association of South East Asian Nations | CAR | Capital Adequacy Ratio |
| ATA | Anti-Terrorism Act | CBS | Core Banking Solution |
| ATDTL | Average Total Demand and Time Liabilities | CBSP | Central Bank Strengthening Project fund |
| ATDP | Agro- based Industries and Technology Development Project | CCB | Capital Conservation Buffer |
| ATM | Automated Teller Machine | CCB | Counter-cyclical Capital Buffer |
| BACH | Bangladesh Automated Clearing House | CDLC | Central Depository for Large Credit |
| BACPS | Bangladesh Automated Cheque Processing Systems | CDMC | Cash and Debt Management Committee |
| BB | Bangladesh Bank | CDMTC | Cash and Debt Management technical committee |
| BBQ | Bangladesh Bank Quarterly | CET1 | Common Equity Tier-1 |
| BBIN-MVA | Bangladesh, Bhutan, India and Nepal Motor Vehicle Agreement | CEU | Chief Economist's Unit |
| BBS | Bangladesh Bureau of Statistics | CFC | Chlorofluorocarbon |
| BBTA | Bangladesh Bank Training Academy | CFT | Combating the Financing of Terrorism |
| BCBS | Basel Committee on Banking Supervision | CIB | Credit Information Bureau |
| BDBL | Bangladesh Development Bank Limited | CID | Criminal Investigation Department |
| BDT | Bangladesh Taka | CIF | Cost, Insurance and Freight |
| BEZA | Bangladesh Economic Zones Authority | CIPC | Customers' Interests Protection Centre |
| BEFTN | Bangladesh Electronic Fund Transfer Network | CIT | Cheque Imaging and Transaction |
| BFIU | Bangladesh Financial Intelligence Unit | CMI | Capital Market Intermediaries |
| BGAPMEA | Bangladesh Accessories & Packaging Manufacturers & Exporters Association | CNY | Chinese Yuan Renminbi |
| BGIIB | Bangladesh Government Islamic Investment Bond | CP | Commercial paper |
| BGMEA | Bangladesh Garment Manufactures & Exporters Association | CPF | Contributory Provident Fund |
| BGTBs | Bangladesh Government Treasury Bonds | CPI | Consumer Price Index |
| BHBFC | Bangladesh House Building Finance Corporation | CRAR | Capital to Risk-weighted Asset Ratio |
| BHI | Bank Health Index | CRMR | Comprehensive Risk Management Report |
| BIMSTEC | Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation | CRO | Chief Risk Officer |
| BIC | Basel Implementation Cell | CRR | Cash Reserve Requirement |
| BIG-B | Bay of Bengal Industrial Growth Belt | CSE | Chittagong Stock Exchange |
| BIRP | Bank Intervention Resolution Plan | CSR | Corporate Social Responsibility |
| BKB | Bangladesh Krishi Bank | CTRs | Cash Transaction Reports |
| BKMEA | Bangladesh Knitwear Manufacturers and Exporters Association | DBI-1 | Department of Banking Inspection-1 |
| BLW | Bad Loss Write-off | DBI-2 | Department of Banking Inspection-2 |
| BoP | Balance of Payments | DBI-3 | Department of Banking Inspection-3 |
| BPC | Bangladesh Petroleum Corporation | 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 | FSR | Financial Stability Report |
| DITF | Deposit Insurance Trust Fund | FSSP | Financial Sector Support Project |
| DMD | Debt Management Department | FTA | Free Trade Agreement |
| DMS | Document Management System | FY | Financial Year (July- June) |
| DNFBP | Designated Non-Financial Business or Profession | GDE | Gross Domestic Expenditure |
| DNS | Deferred Net Settlement | GDP | Gross Domestic Product |
| DOS | Department of Off-site Supervision | GDS | Gross Domestic Savings |
| DSIB | Domestic Systematically Important Bank | GFSR | Global Financial Stability Report |
| DRR | Diagnostic Review Report | GHG | Green House Gas |
| DSE | Dhaka Stock Exchange | GIIB | Government Islamic Investment Bond |
| DSEX | Dhaka Stock Exchange Broad Index | GNI | Gross National Income |
| DSGE | Dynamic stochastic general equilibrium | GNS | Gross National Savings |
| DRS | Disaster Recovery Site | GPF | General Provident Fund |
| DvP | Delivery versus Payment | GoB | Government of Bangladesh |
| ECF | Extended Credit Facility | GTF | Green Transformation Fund |
| EDD | Environmental Due Diligence | GVA | Gross Value Added |
| EDF | Export Development Fund | H1 | First Half |
| EDW | Enterprise Data Warehouse | H2 | Second Half |
| EEF | Equity and Entrepreneurship Fund | HBFC | House Building Finance Corporation |
| EFT | Electronic Fund Transfer | HFT | Held for Trade |
| EGBMP | Enterprises Growth and Bank Modernisation Programme | HHI | Herfindahl-Hirschman Index |
| EI | Expenditure-Income | HHK | Hybrid Hoffman Kiln |
| ELA | Emergency Liquidity Assistance | HPI | House Price Index |
| EMT | Executive Management Team | HRD-1 | Human Resources Department-1 |
| EPB | Export Promotion Bureau | HRD-2 | Human Resources Department-2 |
| EPZ | Export Processing Zone | HTM | Held to Maturity |
| ERM | Environmental Risk Management | IAD | Internal Audit Department |
| ERP | Enterprise Resource Planning | IADI | International Association of Deposit Insurers |
| ERQ | Exporters' retention quota | IAMCL | ICB Asset Management Company Ltd |
| ERR | Environmental Risk Rating | IASB | International Accounting Standards Board |
| ESMF | Environmental and Social Management Framework | ICAAP | Internal Capital Adequacy Assessment Process |
| ESRM | Environmental and Social Risk Management | ICB | Investment Corporation of Bangladesh |
| ETP | Effluent Treatment Plant | ICML | ICB Capital Management Ltd |
| EU | European Union | ICT | Information and Communication Technology |
| EWS | Early Warning System | IDA | International Development Association |
| EZ | Economic Zone | IDCOL | Infrastructure Development Company Limited |
| FAO | Food and Agriculture Organisation | IDIPA | Information for Deposit Insurance Premium Assessment |
| FAQ | Frequently Asked Question | IESH | Inflation Expectation Survey of Households |
| FATF | Financial Action Task Force | IFRSs | International Financial Reporting Standards |
| FCBs | Foreign Commercial Banks | IFS | International Financial Statistics |
| FCK | Fixed Chimney Kiln | IFSB | Islamic Financial Services Board |
| FDC | Far Data Centre | ILF | Intraday Liquidity Facility |
| FDI | Foreign Direct Investment | IMF | International Monetary Fund |
| FDIPP | Foreign Direct Investment Promotion Project | IPFF | Investment Promotion & Financing Facility |
| FIs | Financial Institutions | IPO | Initial Public Offering |
| FICSD | Financial Integrity and Customer Service Department | IR | Insolvency Ratio |
| FLE | Financial Literacy Programme | ISMD | Integrated Supervision Management Department |
| FoB | Free on Board | ISO | International Organisation for Standardisation |
| FPM | Financial Projection Model | ISS | Integrated Supervision System |
| FRTMD | Forex Reserve & Treasury Management Department | ISTCL | ICB Securities Trading Company Ltd. |
| FSD | Financial Stability Department | IT | Information Technology |
| FSPDSME | Financial Sector Project for the Development of Small and Medium-sized Enterprise | ITM | Inter-bank Transaction Matrix |
| | | JICA | Japan International Cooperation Agency |
| | | JLP | Joint Learning Program |

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

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

Macroeconomic Performance and Prospects

Global Economic Outlook

1.1 The global economy continued to grow steadily in 2017, reaching 3.7 percent. However, the pace of growth was less than expected earlier. Growth in 2018 and 2019 is projected to remain at the level of 2017. Downside risks to the global growth stem from higher policy uncertainties including the rising global trade conflicts and the reversal of capital flows to emerging market economies. Meanwhile, the probability of upside surprises has receded. Advanced economies grew by 2.3 percent in 2017 and are expected to grow by 2.4 percent in 2018, and 2.1 percent in 2019. Emerging markets and developing economies grew by 4.7 percent in 2017 and are expected to maintain their growth in 2018 and 2019 at the level of 2017 (World Economic Outlook, October 2018).

1.2 U.S. growth is projected to increase from 2.2 percent in 2017 to 2.9 percent in 2018 due to continued fiscal stimulus. But the growth forecast for 2019 has been revised down to 2.5 percent due to the recently announced trade measures, including the tariffs imposed on USD 200 billion of US imports from China. U.K. growth is projected to moderate from 1.7 percent in 2017 to 1.4 percent in 2018 and 1.5 percent in 2019. Growth in the Euro area is forecast to 2.0 percent and 1.9 percent in 2018 and 2019, respectively, from 2.4 percent in 2017. Japan is projected to grow by 1.1 percent in 2018 and 0.9 percent in 2019 from 1.7 percent in 2017.

1.3 Among the emerging market and developing economies, the growth outlook of many oil exporters increased by higher oil prices while, growth outlook for Argentina,

**Table 1.1 World Economic Outlook
Projections for 2018-19**

| | (annual percentage change) | | | |
|--|----------------------------|------------|-------------|------------|
| | Actual | | Projections | |
| | 2016 | 2017 | 2018 | 2019 |
| World output | 3.3 | 3.7 | 3.7 | 3.7 |
| Advanced economies | 1.7 | 2.3 | 2.4 | 2.1 |
| United States | 1.6 | 2.2 | 2.9 | 2.5 |
| Euro area | 1.9 | 2.4 | 2.0 | 1.9 |
| Germany | 2.2 | 2.5 | 1.9 | 1.9 |
| France | 1.1 | 2.3 | 1.6 | 1.6 |
| Italy | 0.9 | 1.5 | 1.2 | 1.0 |
| Spain | 3.2 | 3.0 | 2.7 | 2.2 |
| United Kingdom | 1.8 | 1.7 | 1.4 | 1.5 |
| Japan | 1.0 | 1.7 | 1.1 | 0.9 |
| Canada | 1.4 | 3.0 | 2.1 | 2.0 |
| Other advanced economies ¹ | 2.3 | 2.8 | 2.8 | 2.5 |
| Emerging market and developing economies | 4.4 | 4.7 | 4.7 | 4.7 |
| Emerging and developing Asia | 6.5 | 6.5 | 6.5 | 6.3 |
| China | 6.7 | 6.9 | 6.6 | 6.2 |
| ASEAN-5 ² | 4.9 | 5.3 | 5.3 | 5.2 |
| South Asia | | | | |
| Bangladesh | 7.2 | 7.4 | 7.3 | 7.1 |
| India | 7.1 | 6.7 | 7.3 | 7.4 |
| Pakistan | 4.6 | 5.4 | 5.8 | 4.0 |
| Sri Lanka | 4.5 | 3.3 | 3.7 | 4.3 |
| World trade volume (goods and services) | 2.2 | 5.2 | 4.2 | 4.0 |
| Imports | | | | |
| Advanced economies | 2.4 | 4.2 | 3.7 | 4.0 |
| Emerging and developing economies | 1.8 | 7.0 | 6.0 | 4.8 |
| Exports | | | | |
| Advanced economies | 1.8 | 4.4 | 3.4 | 3.1 |
| Emerging and developing economies | 3.0 | 6.9 | 4.7 | 4.8 |
| Commodity prices (U.S. dollars) | | | | |
| Oil | -15.7 | 23.3 | 31.4 | -0.9 |
| Nonfuel | -1.5 | 6.8 | 2.7 | -0.7 |
| Consumer prices | | | | |
| Advanced economies | 0.8 | 1.7 | 2.0 | 1.9 |
| Emerging market and developing economies | 4.2 | 4.3 | 5.0 | 5.2 |
| South Asia | | | | |
| Bangladesh | 5.7 | 5.6 | 6.0 | 6.1 |
| India | 4.5 | 3.6 | 4.7 | 4.9 |
| Pakistan | 2.9 | 4.1 | 3.9 | 7.5 |
| Sri Lanka | 4.0 | 6.5 | 4.8 | 4.8 |

Source: World Economic Outlook Update, October 2018, IMF.

¹ Excludes the group of seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

² Indonesia, Malaysia, Philippines, Thailand, Vietnam.

Brazil, Iran, and Turkey decreased reflecting country-specific factors, geopolitical tensions and increased oil import payments. China's growth is projected to decline to 6.6 percent in 2018 and 6.2 percent in 2019, from 6.9 percent in 2017, reflecting the potential impact of recently announced trade measures by the

U.S. India's economic growth in 2018 and 2019 is expected to continue at 7.3 percent and 7.4 percent, respectively, from 6.7 percent growth in 2017. ASEAN-5 countries are projected to grow by 5.3 percent in 2018, unchanged from 2017 and then marginally decline to 5.2 percent in 2019.

1.4 Consumer prices are expected to increase across advanced and emerging market and developing economies in 2018, to a large extent reflecting the current rise in commodity prices. In advanced economies, inflation is expected to increase by 2.0 percent in 2018 from 1.7 percent in 2017. Similarly, inflation in emerging market and developing economies is expected to increase to 5.0 percent in 2018, up from 4.3 percent in 2017.

1.5 World trade volume growth is projected to decline from 5.2 percent in 2017 to 4.2 percent in 2018 and 4.0 percent in 2019. The growth rate of imports for advanced economies is expected to decline from 4.2 percent in 2017 to 3.7 percent in 2018 and 4.0 percent in 2018. In emerging markets and developing economies, growth rate of imports is projected to decrease from 7.0 percent in 2017 to 6.0 percent in 2018, and then further decline to 4.8 percent in 2019. Exports of advanced economies are expected to grow by 3.4 percent and 3.1 percent in 2018 and 2019 respectively, while those of emerging markets and developing economies are expected to grow by 4.7 percent and 4.8 percent respectively during the same period.

1.6 According to the October 2018 WEO, in the short-term, the balance of risks shifted to the downside. Meanwhile, given the tightening of financial conditions in some countries of the world, increased trade costs, the slower

pace of implementation of reforms and the weakening of growth activities, the potential for the upside surprises has receded. At the same time, several downside risks such as rising trade barriers and reversal of capital flows to emerging market economies with weaker fundamentals and higher political uncertainties, have become more pronounced or have partially materialized. In the medium term, risks to the growth outlook remains on the downside. The risks arise from a continued buildup of financial vulnerabilities, adoption of unsustainable macroeconomic policies in the face of restrained growth outlook, rising inequality, and the declining confidence in coordinated and durable policies.

1.7 According to the Global Financial Stability Report (GFSR) of October 2018, although financial conditions remain broadly accommodative and growth supportive in the near term, risks to the global financial stability have increased somewhat. A sharper tightening of financial conditions in advanced economies would increase short-term risks. An increase of concerns regarding policy credibility in emerging markets may lead to further capital outflows. An increase in the trade tension may weaken investors confidence. Political and policy uncertainty could also hamper market sentiment. Finally, advanced economy central banks may intensify the pace of monetary policy normalization in the face of rising inflation, which could lead to a sharper tightening of global financial conditions. In the medium-term, risks to global financial stability and growth remains higher. Over the years a number of risk factors that have built up could be exposed by a sudden tightening of financial conditions.

Developments in the Bangladesh Economy

1.8 Bangladesh economy continued to grow rapidly and achieved a record growth of 7.86 percent in FY18, over-performing the Government's FY18 growth target of 7.4 percent. The growth momentum was supported by strong domestic and external demand. A surge in remittance inflows at 17.3 percent, along with strong private sector credit growth boosted consumption demand. At the same time, higher growth in investment-related imports reflected robust investment demand. Export growth also maintained its momentum during this period. On the supply side, the growth impulse largely came from the industry and agricultural sectors. Bangladesh Bank projects GDP growth to range from 7.5-7.7 percent for FY19, assuming a continuation of domestic political calm and no further escalation of global trade-related conflicts. Annual average CPI inflation increased to 5.8 percent in June 2018, marginally higher than the 5.5 percent target ceiling for FY18. This increase in average CPI inflation was broadly tracking the food inflation dynamics driven by flood-related domestic shocks and higher global commodity prices, while non-food inflation witnessed a decreasing trend. Bangladesh Bank's projection shows average inflation for H1FY19 to be around 5.4-5.8 percent assuming no large domestic and external shocks. Looking ahead, inflation risks in FY19 from higher global commodity prices and exchange rate movements are on the upside. Bangladesh Bank's inflation expectation survey also confirms the upside risks, as around 70 percent of the respondent expected one-year-ahead average inflation to be above 6 percent, indicating the need for continued oversight management of monetary aggregates.

1.9 In FY18, Bangladesh Bank's monetary and financial policies embraced, alongside price and macro-financial stability objectives, inclusivity and environmental sustainability dimensions in pursuit of employment creation-focused inclusive growth support, in line with the government's SDG-focused sustainable development agenda. As liquidity condition tightened, BB reduced Cash Reserve Requirement (CRR) by 100 basis points to 5.5 percent and repo rates by 75 basis points to 6.0 percent with effect from April 2018. Moreover, to ease the liquidity conditions, BB increased available repo tenors to 7, 14 and 28 days. Inflationary risk concerns remained largely under control since broad money (M2) growth for FY18, the key determinant of inflation, moderated to 9.2 percent, well below the target of 13.3 percent. The FY19 monetary program targets domestic credit and M2 growth ceiling at 15.9 and 12.0 percent, respectively, sufficient to accommodate GDP growth of up to 7.8 percent and average annual CPI inflation of up to 5.8 percent. Private sector credit growth remained strong at 17.0 percent in June 2018, slightly above the target of 16.8 percent in FY18 but domestic credit growth reached 14.6 percent, well below the target of 15.8 percent.

1.10 External sector developments in FY18 have been dominated by import dynamics. Import growth in FY18, reached a high of 25.0 percent. Current account deficit widened to around 3 percent of GDP, despite a strong and broad-based rebound in remittances growth (17.3 percent) and a pick-up in overall export growth to around 6 percent, up from 1.7 percent a year ago. However, import decomposition in FY18 reflected a high import of capital goods, food imports due to flood-related weather

shocks and export-related intermediate goods. Overall BoP balance declined to (-)0.3 percent of GDP, leading to a decline in NFAs.

1.11 Foreign exchange reserves stood at USD 32.9 billion in June 2018, around 5 month of prospective imports. Bangladesh Bank expects that in FY19 remittance inflows and export growth will continue their recent performance. Import growth is expected to moderate, aided by better harvests and progress in some of the mega projects. Bangladesh Bank projects export, remittance and import growth in FY19 at around 8.0, 16.0 and 12.0 percent, respectively.

Growth Performance

1.12 According to the revised estimates by the Bangladesh Bureau of Statistics (BBS), gross domestic product (GDP) grew by 7.86 percent during FY18, compared to 7.3 percent in FY17. The sectoral GDP growth composition is presented in Table 1.2.

1.13 Agriculture sector contributed 14.2 percent of GDP and grew by 4.2 percent in FY18, compared to 3.0 percent growth in FY17, mainly supported by the growth of fishing, forest related services and animal farming sub-sector along with other sub-sectors.

1.14 Industry sector contributed 33.7 percent of GDP, and grew by 12.1 percent in FY18, up from 10.2 percent in FY17. This growth was supported by strong growth of manufacturing and construction sub-sectors.

1.15 The services sector accounts for the largest share of GDP, although the share is slowly decreasing. In FY18, 52.1 percent of GDP came from this sector which was 52.9 percent in FY17. In FY18, service sector grew by 6.4 percent, down from 6.7 percent growth in FY17.

Table 1.2 Sectoral GDP Growth Rates

| (at FY06 constant prices) | | | |
|---|------------------------|-------------------|-------------------|
| | FY09-FY18 (average) | FY17 ^R | FY18 ^R |
| 1. Agriculture | 3.7 | 3.0 | 4.2 |
| a) Agriculture and forestry | 3.1 | 2.0 | 3.5 |
| i) Crops and horticulture | 2.7 | 1.0 | 3.1 |
| ii) Animal farming | 2.9 | 3.3 | 3.4 |
| iii) Forest and related services | 5.4 | 5.6 | 5.5 |
| b) Fishing | 5.9 | 6.2 | 6.4 |
| 2. Industry | 9.3 | 10.2 | 12.1 |
| a) Mining and quarrying | 8.2 | 8.9 | 7.0 |
| b) Manufacturing | 9.9 | 11.0 | 13.4 |
| i) Large and medium scale | 10.3 | 11.2 | 14.3 |
| ii) Small scale | 8.0 | 9.8 | 9.3 |
| c) Electricity, gas and water supply | 9.2 | 8.5 | 9.2 |
| d) Construction | 8.1 | 8.8 | 9.9 |
| 3. Services | 6.0 | 6.7 | 6.4 |
| a) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods | 6.6 | 7.4 | 7.5 |
| b) Hotel and restaurants | 6.6 | 7.1 | 7.3 |
| c) Transport, storage and communication | 7.1 | 6.8 | 6.6 |
| d) Financial intermediations | 8.0 | 9.1 | 7.9 |
| e) Real estate, renting and other business activities | 4.2 | 4.8 | 5.0 |
| f) Public administration and defence | 8.4 | 9.2 | 8.5 |
| g) Education | 7.6 | 11.4 | 7.0 |
| h) Health and social works | 5.7 | 7.6 | 7.0 |
| i) Community, social and personal services | 3.3 | 3.6 | 3.7 |
| GDP (at FY06 constant market prices) | 6.4 | 7.3 | 7.9 |

^R Revised.

Source: Bangladesh Bureau of Statistics.

The growth of two major components of services sector - education and financial intermediations witnessed sharp decrease. Moreover, growth of financial intermediations, transport, storage and communication, public administration and defence and health and social works sub-sector decrease slightly. On the other hand, growth of hotel and restaurants, real estate, renting and business activities, wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods subsectors increased slightly in FY18.

Savings and Investment

1.16 Investment maintained its upward trend and reached at 31.2 percent of GDP in FY18, up from 30.5 percent in FY17. The ratio of private investment to GDP increased slightly

from 23.1 percent in FY17 to 23.3 percent in FY18. Similarly, the ratio of public investment to GDP increased to 8.0 from 7.4 percent over the same period (Chart 1.1).

1.17 Gross national savings as percentage of GDP declined to 27.4 percent in FY18 from 29.6 percent in FY17. Similarly, domestic savings as a percentage of GDP decreased from 25.3 percent to 22.8 percent during the same period. Investment at current market price grew (16.6 percent) much faster than the gross domestic savings (2.7 percent). Therefore, the domestic savings-investment gap as percentage of GDP increased to 8.4 percent in FY18 from 5.2 percent in FY17 (Chart 1.1).

Price Developments

1.18 Annual average CPI inflation has consistently declined from its recent peak of 7.4 percent at the end of FY14 to 5.4 percent at the end of FY17 but increased afterwards reaching at 5.8 percent at the end of FY18 (Chart 1.2). The increase in average CPI inflation is mainly driven by food inflation, while non-food inflation decreased slowly. Increased global commodity prices and weather related shocks raised food inflation above 7 percent in June 2018. However, core inflation, which excludes food and fuel components from the CPI basket, fell from 4.9 percent in June 2017 to 3.8 percent in June 2018.

Money and Credit Developments

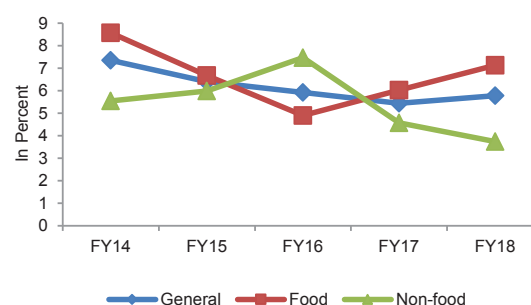
1.19 In FY18, monetary policy stance of Bangladesh Bank aimed at achieving price and macro-financial stability along with sustainable economic growth. Monetary policy stance was formulated with the target of keeping inflation below 5.5 percent as well as attaining

Chart 1.1 Trends in Domestic Savings and Investment



Source : Bangladesh Bureau of Statistics.

Chart 1.2 Trends in National CPI Inflation (12 month average : base FY06 = 100)



Source : Bangladesh Bureau of Statistics and Bangladesh Bank.

GDP growth rate at 7.4 percent. In FY18, Bangladesh Bank's policy rate was reduced by 75 basis points with repo rate at 6.0 percent while reverse repo rate remained unchanged at 4.75 percent.

1.20 Broad money (M2) recorded a lower growth of 9.2 percent in FY18 against the target growth of 13.3 percent and the 10.9 percent actual growth in FY17. The lower growth in broad money is driven by negative growth in net foreign assets (NFA) stemming from a sharp increase in imports. Net foreign assets considered as one of the components affecting

broad money decreased by 4.3 percent in FY18. Moreover, net domestic asset (NDA), another component of broad money, grew by 14.0 percent in FY18 from 10.7 percent in FY17, down from the targeted growth of 17.9 percent (Chart 1.3).

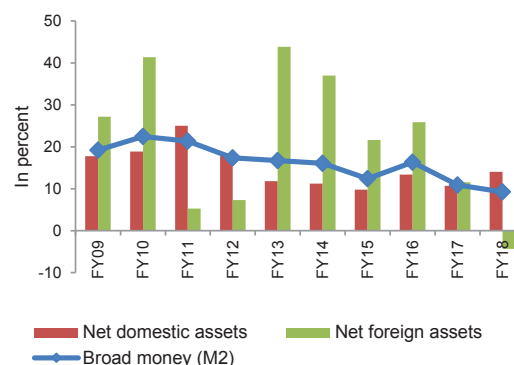
1.21 Domestic credit grew by 14.6 percent, below the targeted growth of 15.8 percent for FY18 but higher than the actual growth of 10.7 percent in FY17, mainly resulted from the negative growth of credit to the public sector from the banking system and strong growth of private sector credit.

1.22 Private sector credit grew by 17.0 percent in FY18, in line with the targeted growth of 16.8 percent for FY18 and higher than the actual growth of 15.7 percent in FY17. The downward trend of government borrowing from the banking system created a room for the private sector and supported by a buoyant domestic demand driven economic activities in agriculture, industry and service sector. Sources of broad money are shown in Chart 1.4.

1.23 Reserve Money (RM) grew by 4.0 percent in FY18 much lower than the programmed growth of 12.0 percent and actual growth of 16.3 percent in FY17. Reserve money growth slowed down relative to the programmed level due to the decrease in net foreign assets (NFA) and slow growth of net domestic assets (NDA).

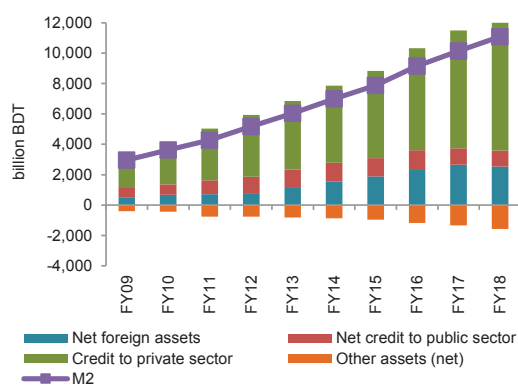
1.24 The weighted averages of interest rate on both bank advances and deposits increased slightly to 9.95 percent and 5.50 percent at the end of FY18, up from 9.56 percent and 4.84

Chart 1.3 Trends in Growth of Monetary Aggregates



Source : Monetary Policy Department, Bangladesh Bank.

Chart 1.4 Trends in Sources of Broad Money



Source : Monetary Policy Department, Bangladesh Bank.

percent respectively at the end of FY17. The spread narrowed to 4.45 percent in FY18 from 4.72 percent in FY17.

Public Finance

1.25 The main objective of the budget is to alleviate poverty, reduce inequalities and bring basic and qualitative changes in people's living standard. All these lead to sustained higher growth. Mobilization of resources and its appropriate allocation to different sectors together with the efficacy of policy frameworks can help achieve these targets.

1.26 According to the revised National Budget for FY18, the overall budget deficit (excluding grants) as a percentage of GDP increased from 3.46 percent in FY17 to 5.0 percent in FY18. The overall budget deficit (including grants) of 4.78 percent of GDP was largely financed by domestic sources, contribution of which increased slightly to 2.93 percent of GDP in FY18 from 2.83 percent of GDP in FY17. The Government's financing from the banking system increased from -0.42 percent of GDP in FY17 to 0.89 percent of GDP in FY18, while financing from the non-bank sources decreased from 3.26 to 2.05 percent of GDP over the same period (Chart 1.5 and 1.6).

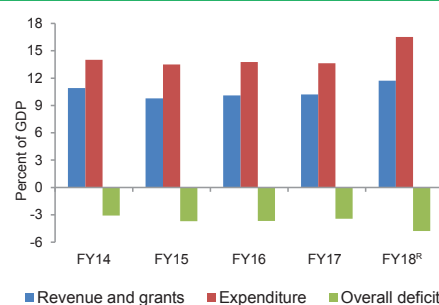
1.27 The growth of total revenue collection was revised downward to 28.9 percent from the budget in FY18 of 43.1 percent and the actual revenue growth of 16.3 percent in FY17. This downward revision was mainly stipulated by the weaker than expected tax revenue collection by the NBR in the original budget of FY18. Total revenue-GDP ratio decreased from 12.8 percent in the initial budget of FY18 to 11.5 percent in the revised budget but remained higher than 10.2 percent of FY17.

1.28 Public expenditure as a percentage of GDP increased from 13.6 percent in FY17 to 16.5 percent in the FY18 revised budget. It grew by 37.8 percent in the FY18 revised budget compared to 13.0 percent in FY17 actual budget. Operational expenditure in the FY18 revised budget stood at 8.6 percent of GDP which was 8.3 percent in FY17 actual budget (Chart 1.5).

External Sector

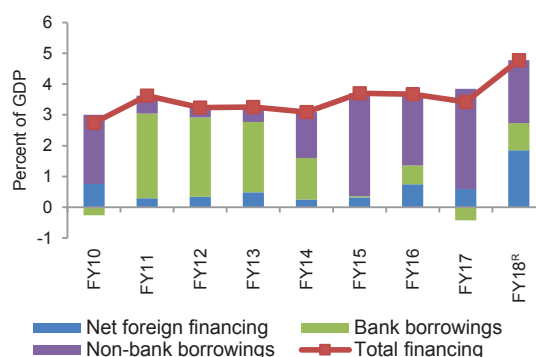
1.29 In FY18, imports grew much faster than exports. Export grew by 6.4 percent

Chart 1.5 Trends in Revenue, Expenditure and Overall Budget Deficit



^R Revised Budget
Source : Ministry of Finance.

Chart 1.6 Trends in Deficit Financing



^R Revised Budget
Source : Ministry of Finance.

while the growth of import payment was 25.2 percent. Exports stood at USD 36,205 million in FY18 which was USD 34,019 million in FY17. During the same period the total import payments increased to USD 54463 million from USD 43491 million in FY17. As imports grew faster than exports, trade deficit widened to USD 18,258 million during the period from USD 9472 million in FY17 (Chart 1.7). The services and income account along with primary and secondary income registered a surplus of USD 8,478 million. Remittance inflows increased by 17.3 percent at the end of FY18 compared with the negative growth of 14.5 percent in FY17. Current account balance further deteriorated

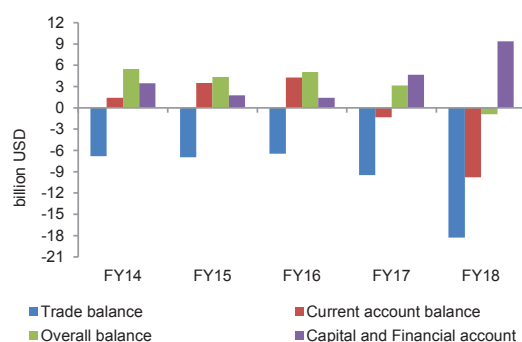
to USD (-) 9,780 million in FY18 from USD (-)1,331 million in FY17. The capital and financial account surplus increased to USD 9,368 million in FY18 from USD 4647 million in FY17. The overall balance of payments surplus turned into a deficit of USD (-) 885 million in FY18, which was USD 3,169 million in FY17 (Appendix-3 Table-XVI).

1.30 The growth of export (f.o.b) earnings increased to 6.4 percent in FY18 from 1.7 percent in FY17 (Chart 1.8). Export as a percentage of GDP slightly decreased to 13.2 percent from 13.6 over the same period. Among the major export items, agricultural products, cotton and cotton products, knitwear, home textile, jute goods, chemical products, woven garments, and footwear products experienced a higher growth in FY18, while petroleum bi-products, engineering products, leather and leather products, plastic products, raw jute, and frozen food, slowed down the pace of export performance as these items experienced a negative growth.

1.31 Imports (c.i.f) grew at a rate of 25.2 percent in FY18 compared with the 9.0 percent growth in FY17 (chart 1.8). Import payments as a percentage of GDP increased to 19.9 in FY18 from 17.4 in FY17. Import payments for food grains, milk and cream, spices, capital machinery, clinker, POL, oil seeds, fertilizer, textile & textile articles thereof, staple fiber, plastic and rubber articles thereof, raw cotton, and iron, steel & other base metals rose in FY18 compared to FY17 while those for pulses, crude petroleum and sugar declined during the same period.

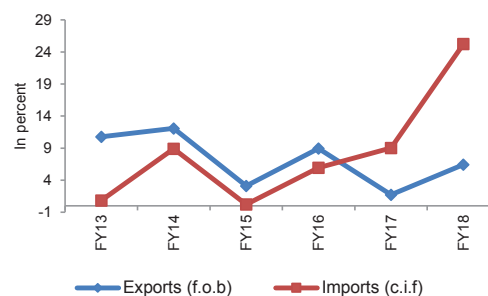
1.32 Gross international foreign exchange reserves stood at USD 32,943 million at the end of FY18, representing around 5 months

Chart 1.7 Trends in Balance of Payment



Source : Statistics Department, Bangladesh Bank.

Chart 1.8 Trends in Export and Import Growth



Source : Statistics Department, Bangladesh Bank, EPB.

of prospective imports, supported by a surplus in financial account and significant inflows of remittances.

1.33 Bangladesh Bank (BB) increased foreign exchange flexibility in line with the market forces while avoiding excessive volatility in foreign exchange market. In FY18, exchange rate depreciated by 3.6 percent due to higher demand for dollar following the declining trend of net foreign assets and high import growth. To avoid excessive fluctuations, BB sold foreign currency amounting to USD 2,311 million in FY18. Exchange rate stood at Taka 82.1 as of end June 2018 compared to Taka 79.1 as of end June 2017 (period average). The nominal effective exchange rate (NEER) of Taka,

calculated against a trade weighted 15 currency basket (base: FY16=100), depreciated by 4.5 percent in FY18. Similarly, the real effective exchange rate (REER) of Taka depreciated by 1.7 percent in FY18 (Chart 1.9 and 1.10).

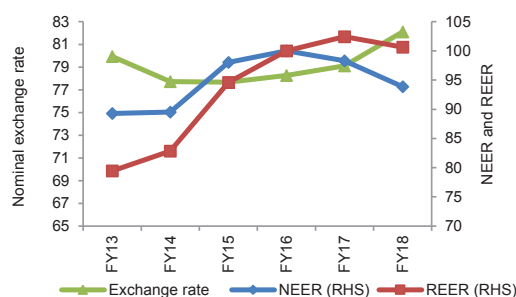
1.34 Outstanding external debt stock of Bangladesh increased to USD 33,110 million at the end of FY18 from USD 28,337 million at the end of FY17. Moreover, the outstanding external debt to GDP ratio increased to 12.1 percent from 11.3 percent during the same period. While total government outstanding debt-to-GDP ratio marginally increased to 27.9 percent in FY18 from 27.0 percent in FY17.

Near and Medium-Term Outlook for Bangladesh Economy

1.35 The Bangladesh economy experienced an impressive growth in FY18, aided by strong domestic and external demand, as reflected in the buoyant public and private investment and consumption, driven by higher exports, remittances and private sector credit growth. Import growth in FY18, however, reached a recent high of over 25 percent, reflecting a confluence of domestic and external factors: infrastructure-related imports, higher commodity and oil prices, a sharp increase in food imports after the floods last year, resulting in a current account deficit of around 3.6 percent of GDP. Supporting productive private sector investment is critical to sustaining the recent high levels of growth. At the same time, a significant increase in public investment is also necessary to maintain competitiveness and generate further productivity.

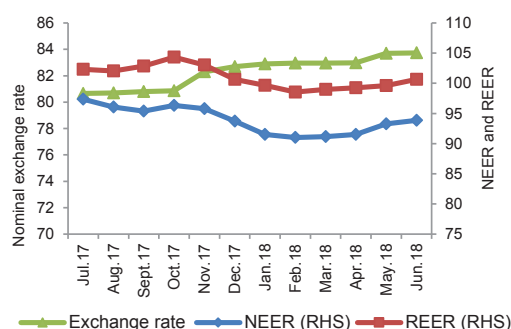
1.36 In light with the global growth prospects and potential risks in the context of global and domestic economic perspectives, GDP growth

Chart 1.9 Trends in NEER, REER (base: FY16=100, 15 currency basket) and BDT-USD Exchange Rate



Source : Monetary policy Department, Bangladesh Bank.

Chart 1.10 Recent Movements in NEER, REER (base: FY16=100, 15 currency basket) and BDT-USD Exchange Rate



Source : Monetary policy Department, Bangladesh Bank.

rate is set at 7.8 percent and inflation to 5.6 percent in the Proposed Budget Framework for FY19. Bangladesh Bank projects GDP growth to range from 7.5-7.7 percent for FY19, assuming a continuation of domestic political calm and no further escalation of global trade-related conflicts. Bangladesh Bank has been pursuing a monetary policy stance to maintain macroeconomic stability and to keep inflation at or the below the programmed level. The CPI inflation stood at 5.78 percent in FY18, while Bangladesh Bank's projection shows average annual inflation for H1 FY19 to be around 5.4-5.8. Looking ahead, domestic

and external risks, including from global trade tension, commodity prices, any election-related uncertainties, need to be closely monitored. In this regard, Bangladesh Bank will update its forecasts on a regular basis and accordingly monetary program to accommodate any significant changes.

1.37 Bangladesh Bank has pursued various initiatives to support the country's growth aspirations and supported market development agenda that can help better finance long-term investment. BB's continued focus on SMEs, agriculture and green initiatives, including Long Term Financing Facility and Green Transformation Fund (GTF). These schemes would make finance and growth more sustainable. Besides, given Bangladesh's young labor force, more and better jobs will need support from both the engines of growth-a

vibrant manufacturing-led export sector and output activities to meet domestic demand and create job. Furthermore, BB will continue to resort to intensive and intrusive supervision in ensuring that credit flows reach the priority sectors (agriculture, manufacturing, SMEs) that can create more and better jobs while protecting the environment.

1.38 The overall macroeconomic stability for Bangladesh economy has shown resilience despite domestic and external shocks. However, the ambitious target of building Bangladesh as a knowledge-based upper middle income country by 2030 or earlier and graduation of the country to a developed one by 2041 will require unwavering and continued reforms, given Bangladesh's integration with the global economy in an increasingly complex world.

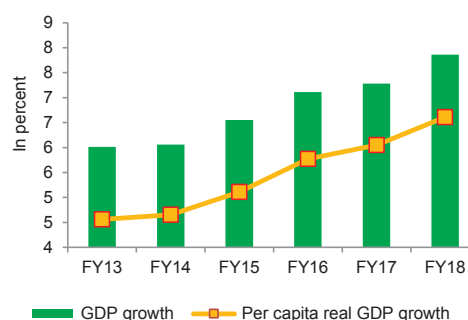
The Real Economy

2.1 The Bangladesh economy experienced an impressive growth in FY18, underpinned by strong domestic and external demand, as reflected in buoyant public and private investment and consumption, driven by higher exports, remittances and private credit growth. During the period, a good harvest of food production may offset some inflation risks from the pass-through effects of global oil and commodity prices. The sustained higher economic growth is necessary for graduation from LDC to lower middle income country. Recently, Bangladesh has graduated from the least developed country (LDC) status to lower middle income country and has successfully met all criteria for LDC graduation in the first review. It is expected that the country will be able to meet the criteria in the second review in 2021 and will finally graduate from the LDC status in 2024. To ensuring smooth graduation from the LDC status, the country needs to attract large volumes of private sector and foreign direct investment, improvement in physical and social infrastructures for the sustained growth.

2.2 Bangladesh has achieved a recorded GDP growth of 7.9 percent in FY18, up from 7.3 percent in FY17 (Chart 2.1). The robust growth mainly propelled by industry, agriculture and service sectors' activities. As the key sectors, industry, services and agriculture grew by 12.1, 6.4, and 4.2 percent respectively (Chart 2.2).

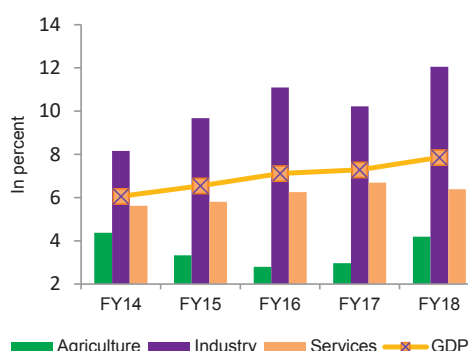
2.3 The data of Bangladesh Bureau of Statistics (BBS) showed that GDP at current market price was BDT 22504.8 billion for FY18 which was 13.9 percent higher than that of the preceding year. In FY18, per capita real GDP

Chart 2.1 Trends in Bangladesh Real GDP Growth



Source: Bangladesh Bureau of Statistics.

Chart 2.2 Trends in Sectoral GDP Growth



Source: Bangladesh Bureau of Statistics.

and GNI were estimated at BDT 62477 and BDT 65326 respectively. During the same period, per capita nominal GDP and GNI were estimated at BDT 137518 (USD 1675) and 143789 (USD 1751) respectively.

Sectoral Growth Rate of GDP

2.4 Growth decomposition shows that the industry sector appeared to attain the highest

growth followed by services and agriculture sector.

Agriculture Sector

2.5 The growth in agriculture sector increased to 4.2 percent in FY18 from 3.0 percent in FY17. This growth in agriculture sector mainly aided by favorable weather, higher crop prices, and timely supply of inputs and finance. Besides, almost all sub-sectors of agriculture have achieved higher growth in FY18, compared to the previous fiscal year. Moreover, the growth was supported by the strong growth in fishing (6.37 percent). Crop and horticulture activities, which account for more than half of the agricultural value added, attained a moderate growth (3.1 percent).

2.6 Fishing registered a growth of 6.4 percent in FY18 against 6.2 percent in FY17. Forest and related services sub-sector recorded a growth of 5.5 percent in FY18, which was 5.6 percent in FY17. Animal farming subsector achieved slightly higher growth of 3.4 percent in FY18 compared to 3.3 percent respectively in FY17.

Industry Sector

2.7 The industry sector, constituting around one-third of gross value-added (GVA) in the economy, grew by around 12.1 percent in FY18, up from 10.2 percent in FY17, led mainly by manufacturing and construction activities. The growth in all sub-sectors of industry sector has increased except mining and quarrying and small scale manufacturing sub-sector in FY18 compared to FY17. Mining and quarrying and small scale manufacturing sub-sectors have achieved 7.0 percent and 9.3 percent growth respectively in FY18.

2.8 The Growth in large and medium scale industry increased to 14.3 percent in FY18

Table 2.1 Sectoral Growth of Real GDP

(Base year: FY06)

| | FY15 | FY16 | FY17 | FY18 |
|---|------------|-------------|-------------|-------------|
| 1. Agriculture | 3.3 | 2.8 | 3.0 | 4.2 |
| a) Agriculture and forestry | 2.5 | 1.8 | 2.0 | 3.5 |
| i) Crops and horticulture | 1.8 | 0.9 | 1.0 | 3.1 |
| ii) Animal farming | 3.1 | 3.2 | 3.3 | 3.4 |
| iii) Forest and related services | 5.1 | 5.1 | 5.6 | 5.5 |
| b) Fishing | 6.4 | 6.1 | 6.2 | 6.4 |
| 2. Industry | 9.7 | 11.1 | 10.2 | 12.1 |
| a) Mining and quarrying | 9.6 | 12.8 | 8.9 | 7.0 |
| b) Manufacturing | 10.3 | 11.7 | 11.0 | 13.4 |
| i) Large and medium scale | 10.7 | 12.3 | 11.2 | 14.3 |
| ii) Small scale | 8.5 | 9.1 | 9.8 | 9.3 |
| c) Electricity, gas and water supply | 6.2 | 13.3 | 8.5 | 9.2 |
| d) Construction | 8.6 | 8.6 | 8.8 | 9.9 |
| 3. Services | 5.8 | 6.3 | 6.7 | 6.4 |
| a) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods | 6.4 | 6.5 | 7.4 | 7.5 |
| b) Hotel and restaurants | 6.8 | 7.0 | 7.1 | 7.3 |
| c) Transport, storage and communication | 6.0 | 6.1 | 6.8 | 6.6 |
| d) Financial intermediations | 7.8 | 7.7 | 9.1 | 7.9 |
| i) Monetary intermediation (banks) | 8.5 | 8.9 | 10.0 | 8.5 |
| ii) Insurance | 4.0 | 0.5 | 2.1 | 1.6 |
| iii) Other financial intermediation | 4.7 | 4.5 | 9.1 | 9.1 |
| e) Real estate, renting and business activities | 4.4 | 4.5 | 4.8 | 5.0 |
| f) Public administration and defence | 9.8 | 11.4 | 9.2 | 8.5 |
| g) Education | 8.0 | 11.7 | 11.4 | 7.0 |
| h) Health and social work | 5.2 | 7.5 | 7.6 | 7.0 |
| i) Community, social and personal services | 3.3 | 3.3 | 3.6 | 3.7 |
| Total GVA at constant basic price | 6.5 | 7.2 | 7.2 | 7.9 |
| GDP (at constant market price) | 6.6 | 7.1 | 7.3 | 7.9 |

Source: Bangladesh Bureau of Statistics.

from 11.2 percent FY17, growth in electricity, gas and water supply increased to 9.2 percent in FY18 from 8.5 percent in FY17 and growth in construction increased to 9.9 percent in FY18 from 8.8 percent FY17. The construction sector received a boost from the government's mega projects implementation. Growth in manufacturing sub-sector increased to 13.4 percent from 11.0 percent over the same period.

2.9 Quantum Index of industrial production (QIIP) showed a growth of 15.8 percent in FY18 which was higher than the growth of 11.2 percent in the preceding year (Appendix-3, Table-VIII). Production of manufacture of leather and related products and manufacture of machinery and equipment n.e.c grew significantly (50.5 and 35.0 percent) in FY18. Production of manufacture of food products, manufacture of tobacco products, manufacture of wearing apparels, manufacture of rubber and plastic products, manufacture of basic metals, manufacture of other transport equipment and manufacture of furniture registered higher growth in FY18 compared to FY17. Moreover, major industry group's production also increased except manufacture of beverages, manufacture of textile, manufacture of wood and products of wood and cork, manufacture of paper and paper products, printing and reproduction of recorded media, manufacture of coke and refined petroleum products, manufacture of chemicals and chemical products, manufacture of pharmaceuticals and medicinal chemical, manufacture of other non-metallic mineral products, manufacture of fabricated metal products except machinery, manufacture of computer, electronic and optical products, manufacture of electrical equipment and manufacture of motor vehicles, trailers and semi trailers in FY18.

Services Sector

2.10 Despite some moderation, the service sector, comprising more than half of GVA, registered a modest growth of 6.4 percent in FY18. Within the sector, larger growth impulse primarily came from the wholesale and retail trade, transport, and financial intermediation. The sub-sectors viz. wholesale and retail trade, transport, and financial intermediation grew by 7.5, 6.6, and 7.9 percent in FY18 compared to 7.4, 6.8, and 9.1 percent in FY17, respectively.

Table 2.2 Sectoral Share of GDP

(Base year: FY06)

| | FY15 | FY16 | FY17 | FY18 |
|---|-------------|-------------|-------------|-------------|
| 1. Agriculture | 16.0 | 15.4 | 14.7 | 14.2 |
| a) Agriculture and forestry | 12.3 | 11.7 | 11.1 | 10.7 |
| i) Crop and horticulture | 8.9 | 8.4 | 7.9 | 7.5 |
| ii) Animal farming | 1.7 | 1.7 | 1.6 | 1.5 |
| iii) Forest and related services | 1.7 | 1.7 | 1.7 | 1.6 |
| b) Fishing | 3.7 | 3.7 | 3.6 | 3.6 |
| 2. Industry | 30.4 | 31.5 | 32.4 | 33.7 |
| a) Mining and quarrying | 1.7 | 1.8 | 1.8 | 1.8 |
| b) Manufacturing | 20.2 | 21.0 | 21.7 | 22.9 |
| i) Large and medium scale | 16.6 | 17.4 | 18.0 | 19.1 |
| ii) Small scale | 3.6 | 3.6 | 3.7 | 3.8 |
| c) Electricity, gas and water supply | 1.4 | 1.5 | 1.5 | 1.5 |
| d) Construction | 7.2 | 7.3 | 7.4 | 7.5 |
| 3. Services | 53.6 | 53.1 | 52.9 | 52.1 |
| a) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods | 14.1 | 14.0 | 14.0 | 14.0 |
| b) Hotel and restaurants | 0.8 | 0.8 | 0.8 | 0.8 |
| c) Transport, storage and communication | 11.4 | 11.3 | 11.3 | 11.1 |
| d) Financial intermediations | 3.4 | 3.4 | 3.5 | 3.5 |
| i) Monetary intermediation (banks) | 2.8 | 2.9 | 3.0 | 3.0 |
| ii) Insurance | 0.4 | 0.3 | 0.3 | 0.3 |
| iii) Other financial intermediation | 0.2 | 0.2 | 0.2 | 0.2 |
| e) Real estate, renting and business activities | 6.8 | 6.6 | 6.5 | 6.3 |
| f) Public administration and defence | 3.5 | 3.6 | 3.7 | 3.7 |
| g) Education | 2.3 | 2.4 | 2.5 | 2.5 |
| h) Health and social work | 1.8 | 1.8 | 1.9 | 1.8 |
| i) Community, social and personal services | 9.5 | 9.2 | 8.9 | 8.5 |
| Total GVA at constant basic price | 100 | 100 | 100 | 100 |

Source: Bangladesh Bureau of Statistics.

Among the sub-sectors, Real estate, renting and business activities sub-sector increased to 5.0 percent in FY18 from 4.8 percent in FY17. Community, social and personal services sub-sector grew by 3.7 in FY18 compared to 3.6 percent in FY17. Public administration and defense sub-sector grew by 8.5 percent in FY18 compared to 9.2 percent in FY17. Hotel and restaurants sub-sector slightly increased to 7.3 percent in FY18 from 7.1 percent in FY17. The growth in education sub-sectors rose to 7.0 percent in FY18 from 11.4 percent in FY17.

which seems to be injurious to the society. Health and social work sub-sectors decreased to 7.0 percent in FY18 from 7.6 percent in FY17. Community, social and personal services sub-sectors increased to 3.7 percent in FY18 from 3.6 percent in FY17 (Table 2.1).

Sectoral Share of GDP

2.11 Sectoral share of GDP shows that the service sector appeared to be the largest share followed by industry and agriculture sector.

2.12 With the gradual upward trends of GDP, the sectoral composition of GDP has also been changing over the time. Contribution of agriculture sector has been declining and has shifted towards industry sector during the last several years which indicates that industrialization has increased in the country. However, the contribution of the industry sector in GDP increased to 33.7 percent in FY18 (Table 2.2). The increasing share was mainly supported by the manufacturing and large & medium scale industries sub-sector whose share in GDP increased by 5.1 percentage points to 22.9 percent and 5.9 percentage points to 19.1 percent respectively in FY18.

2.13 The services sectors' share in GDP declined slightly to 52.1 percent in FY18 as compared to 52.9 percent of the preceding fiscal year. However, the shares of transport, storage and communication; real estate, renting and business activities; health and social work; and community, social and personal services sub-sectors went down while those of wholesale and retail trade; hotel and restaurants; financial intermediations; public administration and defence; and education remained unchanged.

2.14 The share of agriculture slightly went down to 14.2 percent in FY18 from 14.7 percent

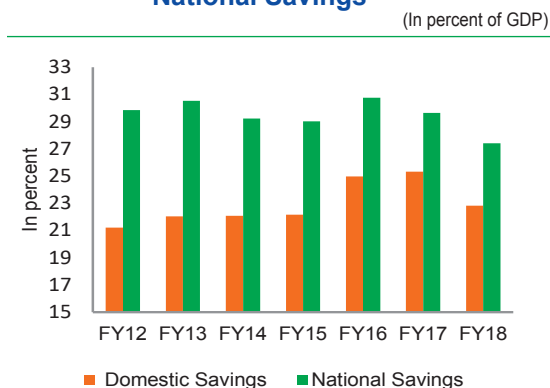
Table 2.3 GDP by Expenditure Groups (current market price)

(In billion BDT)

| Particulars | FY15 | FY16 | FY17 | FY18 |
|----------------------------|---------|---------|---------|---------|
| Domestic demand(1+2) | 16177.9 | 18138.7 | 20781.9 | 24395.2 |
| Consumption(1) | 11799.2 | 13000.3 | 14753.6 | 17365.9 |
| Private | 10980.0 | 11979.2 | 13568.9 | 15935.3 |
| Government | 819.2 | 1021.1 | 1184.7 | 1430.6 |
| Investment(2) | 4378.6 | 5138.4 | 6028.3 | 7029.4 |
| Private | 3344.7 | 3983.5 | 4563.6 | 5235.2 |
| Public | 1033.9 | 1154.9 | 1464.7 | 1794.2 |
| Resource balance(3-4) | -1123.6 | -806.6 | -1033.7 | -1945.1 |
| Exports(3) | 2627.9 | 2885.2 | 2970.9 | 3330.9 |
| Imports(4) | 3751.5 | 3691.8 | 4004.6 | 5276.0 |
| Gross domestic expenditure | 15054.3 | 17332.1 | 19748.2 | 22450.1 |
| Gross domestic product | 15158.0 | 17328.6 | 19758.2 | 22504.8 |
| Statistical discrepancy | 103.8 | -3.5 | 10.0 | 54.7 |

Source: Bangladesh Bureau of Statistics.

Chart 2.3 Trends in Domestic and National Savings



Source: Bangladesh Bureau of Statistics.

in FY17, mainly due to crop and horticulture, as the leading sub-sector comprising of 52.8 percent of agriculture, declined to 7.5 percent in FY18 from 7.9 percent in FY17 (Table 2.2).

GDP based on Expenditure

2.15 Expenditure-based GDP in FY18 soared by 13.7 percent to BDT 22450.1 billion as compared to BDT 19748.2 billion in FY17 (Table 2.3).

2.16 Gross Domestic Expenditure (GDE) reflected the aggregate demand originated by domestic economic activities, measured as the sum of consumption, investment and net export. Domestic demand was estimated at BDT 24395.2 billion at current market prices in FY18 which is 17.4 percent higher than that of FY17. Net export was estimated at at BDT (-) 1945.1 billion in FY18.

2.17 Total consumption expenditure and trade deficit accounted for 77.4 percent and 8.7 percent of GDE respectively in FY18. In nominal terms, investment increased by 16.6 percent lagging the growth in consumption (17.7 percent)

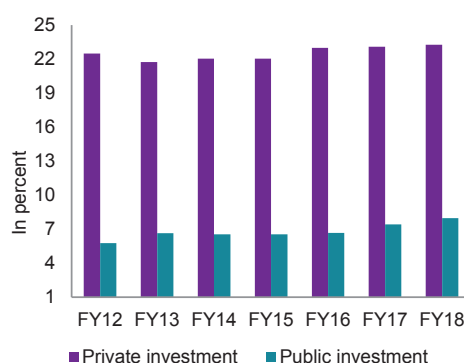
Savings and Investment

2.18 Gross Domestic Savings (GDSs) at current market price stood at 22.83 percent of GDP in FY18, lower than 25.3 percent of GDP in the previous fiscal year. Gross National Savings (GNSs) decelerated to 27.42 percent of GDP in FY18 from 29.6 percent in FY17 (Chart 2.3).

2.19 Investment as a percent of GDP accelerated to 31.23 percent in FY18 from 30.5 percent in FY17. Public investment to GDP ratio increased to 8.0 percent in FY18 from 7.4 in FY17. The ratio of private investment to GDP increased to 23.26 in FY18 from 23.1 in FY17 (Chart 2.4). It may be noted that private and public investment increased by 14.7 and 22.5 percent respectively in FY18 compared to in FY17.

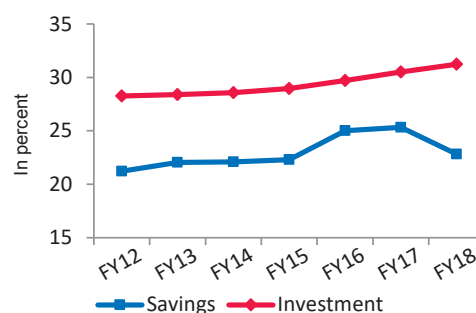
2.20 Gross Domestic Savings (GDSs) and Gross National Savings (GNS) at current market prices increased by 2.7 and 5.3 percent respectively in FY18. Domestic savings-investment gap as a percentage of GDP expanded from 5.2 in FY17 to 8.4 in FY18. The gap was addressed with the cushion of the net factor income and net current transfer (Chart 2.5).

Chart 2.4 Trends in Domestic Investments
(In percent of GDP)



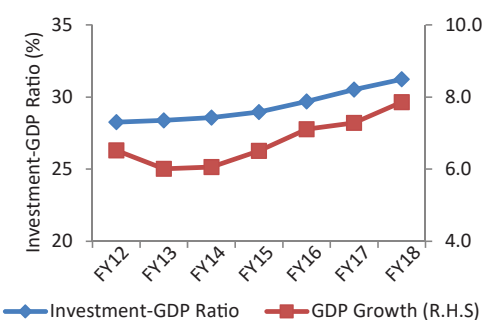
Source: Bangladesh Bureau of Statistics.

Chart 2.5 Trends in Domestic Savings and Investment
(In percent of GDP)



Source: Bangladesh Bureau of Statistics.

Chart 2.6 Movements in GDP Growth and Investment
(In percent)



Source: Bangladesh Bureau of Statistics.

2.21 It is pointed out that investment is highly correlated with GDP growth (Chart 2.6). It is observed from the chart that investment and GDP increased in the same direction in the recent years. In this regard, Bangladesh needs to increase private investment to 28 percent and total investment to 35-38 percent to achieve 8.0 percent economic growth by 2020.

Growth Outlook

2.22 BB's monetary policy initiatives have emphasised to achieve higher GDP growth. Looking ahead, growth outlook would likely remain relatively favorable in FY19. However,

downside risks to growth from global trade conflicts, monetary tightening in the advanced economies and any broad-based pick-up in emerging market vulnerabilities remain. On the other hand, output growth is expected to receive continued support from strong domestic demand. Moderation of inflationary pressures needs to be closely monitored to ensure inflation expectations remain well-anchored. Moreover, managing macro-financial stability in the face of a sizeable current account deficit, changing global and domestic liquidity conditions would require continued careful calibration.

Price and Inflation

Global Inflation Scenario

3.1 Higher energy prices lifted headline inflation rates in advanced, emerging market and developing economies in the first six months of 2018. Core inflation (excluding food and energy price) remained below central banks' targets in most advanced economies. Among emerging market and developing economies, excluding Venezuela's hyperinflation, core inflation was below the average of recent years but inched up in recent months (World Economic Outlook, October 2018).

Consumer Prices in Bangladesh

3.2 Annual average inflation based on Consumer Price Index (CPI) reported an upward trend throughout FY18 except for the last two months of the financial year under review. The headline inflation rate stood at 5.78 percent in June 2018, while the Bangladesh Bank Monetary Policy Statement (MPS, January-June 2018) had an inflation forecast range of 5.70-6.00 percent for the same period. The average inflation rate was 5.44 percent in FY17 (Table 3.1, Chart 3.1 and Appendix-3 Table VII). The average Inflation rate steadily inched up since July 2017 (5.45 percent) until April 2018 (5.83 percent). For the following two months of FY18 the inflationary pressure gradually eased. Rising food inflation was mainly responsible for the increase in headline inflation rate despite declining non-food inflation rate during the first half of the fiscal year. The non-food inflation rate had an upward trend for the remaining second half of the financial year.

Table 3.1 Monthly Inflation in FY18

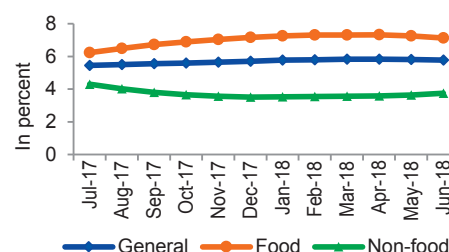
(12-month average : FY06=100)

| Months | General | Food | Non-food |
|--------|---------|------|----------|
| Jul 17 | 5.45 | 6.23 | 4.30 |
| Aug 17 | 5.50 | 6.48 | 4.03 |
| Sep 17 | 5.55 | 6.72 | 3.81 |
| Oct 17 | 5.59 | 6.89 | 3.66 |
| Nov 17 | 5.64 | 7.03 | 3.56 |
| Dec 17 | 5.70 | 7.17 | 3.51 |
| Jan 18 | 5.77 | 7.26 | 3.52 |
| Feb 18 | 5.79 | 7.30 | 3.54 |
| Mar 18 | 5.82 | 7.31 | 3.56 |
| Apr 18 | 5.83 | 7.32 | 3.58 |
| May 18 | 5.81 | 7.25 | 3.64 |
| Jun 18 | 5.78 | 7.13 | 3.74 |

Source: Bangladesh Bureau of Statistics.

Chart 3.1 Monthly CPI Inflation in FY18

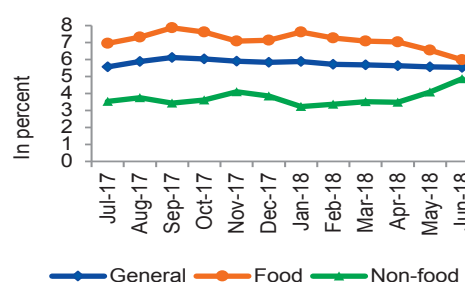
(12-month average : FY06=100)



Source: Bangladesh Bureau of Statistics.

Chart 3.2 Monthly CPI Inflation in FY18

(Point-to-point : FY06=100)



Source: Bangladesh Bureau of Statistics.

The twelve month point-to-point inflation rate stood at 5.54 percent in June 2018 compared to 5.94 percent in June 2017.

3.3 Annual average food inflation had a sustained rise during July 2017 (6.23 percent) to April 2018 (7.32 percent), which posted consecutive lower rates in the remaining two months of FY18. The average food inflation rate for May 2018 and June 2018 stood at 7.25 percent and 7.13 percent respectively. The average food inflation rate was 6.02 percent in June 2017. On the other hand, the annual point-to-point food inflation recorded a mixed trend during July 2017 (6.95 percent) to January 2018 (7.62 percent) followed by a declining trend for rest of the financial year, that is from February 2018 (7.27 percent) to June 2018 (5.98 percent). The point-to-point food inflation stood at 7.51 percent in June 2017 (Appendix-3 Table VII).

3.4 Annual average non-food inflation rate showed a declining trend during the first half of FY18, while it had a reverse direction for the rest of the financial year. The average non-food inflation rate stood at 4.30 percent in July 2017, which gradually fell to 3.51 percent in December 2017. Since January 2018, the average non-food inflation rate kept rising and reached 3.74 percent at the end of FY18. The average non-food inflation rate was 4.57 percent in FY17. On the other hand, annual point-to-point non-food inflation rate depicted mixed trend throughout FY18. The rate stood at 3.53 percent at the beginning of FY18 and finally settled at 4.87 percent in June 2018, with movement in both direction – increasing and decreasing – in the months between. The annual point-to-point non-food inflation rate in June 2018 was 1.2 percentage point higher than June 2017 rate of 3.67 percent point (Appendix-3 Table VII).

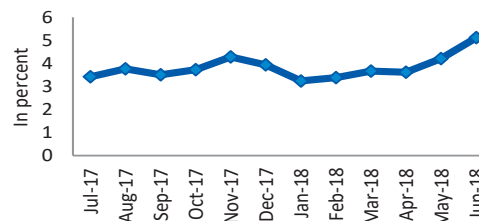
Table 3.2 Annual Average CPI based Inflation
(FY06=100)

| Group | Weight | FY15 | FY16 | FY17 | FY18 |
|--------------------------|--------|------------------|------------------|------------------|------------------|
| a. National level | | | | | |
| General Index | 100.00 | 207.58 (6.40) | 219.86 (5.92) | 231.82 (5.44) | 245.22 (5.78) |
| Food | 56.18 | 223.80 (6.68) | 234.77 (4.90) | 248.90 (6.02) | 266.64 (7.13) |
| Non-food | 43.82 | 186.79 (5.99) | 200.74 (7.47) | 209.92 (4.57) | 217.77 (3.74) |
| b. Rural | | | | | |
| General Index | 100.00 | 209.10 (6.20) | 220.12 (5.27) | 231.02 (4.95) | 244.17 (5.69) |
| Food | 61.41 | 221.02 (6.40) | 230.31 (4.20) | 243.08 (5.55) | 259.86 (6.90) |
| Non-food | 38.59 | 190.13 (5.81) | 203.92 (7.25) | 211.83 (3.88) | 219.21 (3.48) |
| c. Urban | | | | | |
| General Index | 100.00 | 204.76 (6.80) | 219.37 (7.13) | 233.29 (6.35) | 247.17 (5.95) |
| Food | 46.52 | 230.56 (7.32) | 245.66 (6.55) | 263.09 (7.10) | 283.19 (7.64) |
| Non-food | 53.48 | 182.32 (6.24) | 196.50 (7.77) | 207.38 (5.54) | 215.83 (4.07) |

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

Chart 3.3 Core CPI Inflation

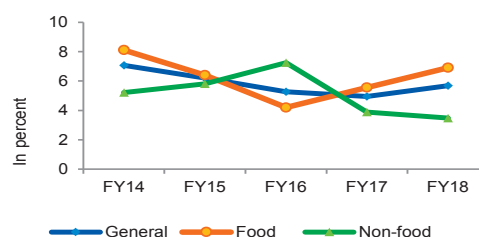
(point-to-point)



Source: Research Department, Bangladesh Bank.

Chart 3.4 Rural CPI Inflation

(12-month average : FY06=100)



Source: Bangladesh Bureau of Statistics.

3.5 Core inflation (non-food and non-fuel price) on point-to-point basis increased by a large margin to 5.11 percent in June 2018

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

(base: FY06=100)

| Group/sub-group | Weight | FY16 | FY17 | FY18 | % Change FY17 | % Change FY18 |
|--|--------|--------|--------|--------|---------------|---------------|
| General index | 100 | 219.86 | 231.82 | 245.22 | 5.44 | 5.78 |
| 1. Food, beverage and tobacco | 56.18 | 234.77 | 248.90 | 266.64 | 6.02 | 7.13 |
| 2. Non-food of which | 43.82 | 200.74 | 209.92 | 217.77 | 4.57 | 3.74 |
| i) Clothing & footwear | 6.84 | 233.52 | 243.56 | 255.24 | 4.30 | 4.80 |
| ii) Gross rent, fuel & lighting | 14.88 | 182.75 | 194.01 | 200.25 | 6.16 | 3.22 |
| iii) Furniture, furnishing, household equipment & operation | 4.73 | 227.53 | 235.85 | 249.68 | 3.66 | 5.86 |
| iv) Medical care & health expenses | 3.47 | 200.03 | 206.70 | 209.28 | 3.33 | 1.25 |
| v) Transport and communications | 5.8 | 201.60 | 210.78 | 218.80 | 4.55 | 3.80 |
| vi) Recreation, entertainment, education & cultural services | 4.28 | 171.01 | 177.56 | 183.65 | 3.83 | 3.43 |
| vii) Miscellaneous goods and services | 3.82 | 211.61 | 217.51 | 223.81 | 2.79 | 2.90 |

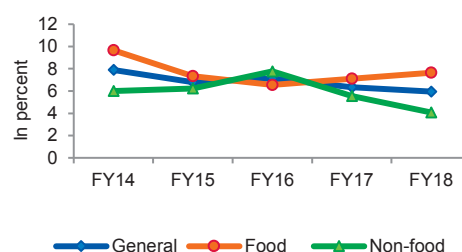
Source: Bangladesh Bureau of Statistics.

compared to 3.55 percent in June 2017 (Chart 3.3).

3.6 In FY18, average rural inflation was 0.26 percentage point lower than average urban inflation. In June 2018, the annual average rural inflation rate was calculated at 5.69 percent, while it was 5.95 percent for urban areas. The annual average rural inflation rate for FY17 stood at 4.95 percent. The average rural food inflation increased to 6.90 percent in June 2018 from 5.55 percent in June 2017. On the other hand, the average rural non-food inflation slid to 3.48 percent in June 2018 compared to 3.88 percent in June 2017 (Table 3.2, Chart 3.4 and Appendix-3 Table VII).

3.7 The annual average urban inflation declined to 5.95 percent in June 2018 from 6.35 percent in June 2017. The average urban food inflation rose to 7.64 percent in June 2018 from 7.10 percent in June 2017. On the other hand, the average urban non-food inflation slid to 4.07 percent in June 2018 from 5.54 percent in June 2017 (Table 3.2, Chart 3.5, Appendix-3 Table VII).

3.8 Total foodgrains production (rice and wheat) increased by 6.6 percent to 37.4 million metric tons in FY18 compared to 35.1

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

Source: Bangladesh Bureau of Statistics.

Table 3.4 Inflation in SAARC and Other Asian Countries #

| Countries | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------------------|------|------|------|------|--------------|
| 1. Bangladesh® | 7.4 | 6.4 | 5.9 | 5.4 | 5.5 (July) |
| 2. India | 6.6 | 4.9 | 4.9 | 3.3 | 4.3 (March) |
| 3. Pakistan | 7.2 | 2.5 | 3.8 | 4.1 | 5.8 (July) |
| 4. Nepal | 8.4 | 7.9 | 8.8 | 3.2 | 6.0 (March) |
| 5. Bhutan | 8.2 | 4.5 | 4.3 | 3.9 | - |
| 6. Sri Lanka | 2.8 | 3.8 | 4.0 | 7.7 | 2.5 (June) |
| 7. Maldives | 2.1 | 1.0 | 0.5 | 2.7 | -1.2 (March) |
| Other Asian Countries | | | | | |
| 8. Thailand | 1.9 | -0.9 | 0.2 | 0.7 | 1.5 (July) |
| 9. Singapore | 1.0 | -0.5 | -0.5 | 0.6 | 0.6 (June) |
| 10. Malaysia | 3.2 | 2.1 | 2.1 | 3.9 | 0.6 (June) |
| 11. Indonesia | 6.4 | 6.4 | 3.5 | 3.8 | 3.2 (August) |
| 12. Korea | 1.3 | 0.7 | 1.0 | 1.9 | 1.4 (August) |
| 13. Myanmar | 5.5 | 9.5 | 7.0 | 4.6 | 5.4 (March) |

- Not available

Sources: © BBS, Consumer Price Index (Base: FY06=100) and figures relate to financial year (July-June).

International Financial Statistics, October 2018.

million metric tons in FY17. Total government procurement of foodgrains stood at 1.5 million metric tons in FY18, lower by 0.1 million metric ton than that of FY17. Government and private

imports of foodgrains totalled at 9.8 million metric tons in FY18, which was about 4.0 million metric tons higher than FY17 foodgrains imports. The government distributed 2.1 million metric tons of foodgrains under its Public Food Distribution System (PFDS) in FY18, which was slightly lower than the preceding financial year's amount.

Inflation in SAARC and Other Asian Countries

3.9 Among the SAARC countries, Nepal had the highest inflation rate of 6.0 percent in March 2018 followed by Pakistan (5.8 percent, July 2018), Bangladesh (5.5 percent, July 2018) and India (4.3 percent, March 2018). Indonesia (3.2 percent, August 2018) and Sri Lanka (2.5 percent, June 2018) reported moderate inflation rates. Unlike other countries, Maldives had deflation (-1.2 percent) in March 2018 (Table 3.4 and Chart 3.6).

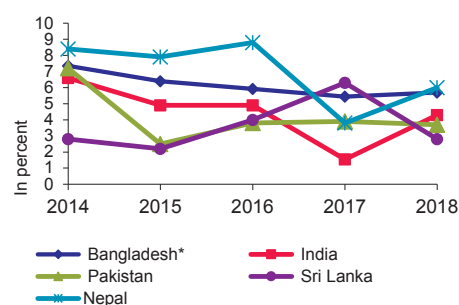
Wage Rate Trends

3.10 The growth of general wage rate index declined by 0.04 percentage point to 6.46 percent in FY18. The agriculture and industry sector indices had higher growth rates in FY18, whereas the services sector index growth retarded. The production sub-sector index reported the highest growth rate of 8.08 percent, while the construction sub-sector index scored the lowest growth rate of 5.75 percent in FY18 (Table 3.5, Chart 3.7).

Near Term Inflation Outlook

3.11 Inflation is expected to rise this year across both advanced, emerging market and developing economies largely reflecting recent increases in commodity prices. In advanced economies, it is projected to pick up to 2 percent

Chart 3.6 South Asian Inflationary Situation



Sources: BBS, figures relate to financial year (July-June) and IFS, October 2018.

Table 3.5 Trends of Wage Rate Indices

(base: FY11=100)

| | FY15 | FY16 | FY17 | FY18 |
|--------------|------------------|------------------|------------------|------------------|
| General | 124.69 (4.94) | 132.81 (6.52) | 141.46 (6.50) | 150.39 (6.46) |
| Agriculture | 124.51 (5.12) | 132.48 (6.41) | 141.22 (6.59) | 150.27 (6.41) |
| Agriculture | 124.46 (5.12) | 132.44 (6.42) | 141.19 (6.60) | 150.23 (6.40) |
| Fish | 126.85 (5.00) | 134.59 (6.12) | 143.19 (6.37) | 152.63 (6.61) |
| Industry | 124.38 (4.47) | 132.02 (6.16) | 140.27 (6.24) | 149.45 (6.55) |
| Construction | 124.84 (4.09) | 129.97 (4.18) | 137.43 (5.37) | 145.32 (5.75) |
| Production | 127.28 (4.44) | 136.18 (7.70) | 146.01 (7.22) | 157.81 (8.08) |
| Services | 126.15 (4.98) | 136.03 (7.86) | 145.01 (6.60) | 154.44 (6.51) |

Note: Figures in parentheses are annual percentage changes.

Source: Bangladesh Bureau of Statistics.

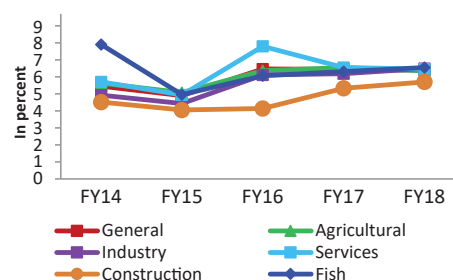
in 2018, from 1.7 percent in 2017. Inflation in emerging market and developing economies excluding Venezuela is expected to increase to 5.0 percent this year from 4.3 percent in 2017 (Table-3.6). Among advanced economies, core inflation will rise over the forecast horizon, with differentiation across countries mostly based on cyclical positions. Within the group of emerging market and developing economies, core inflation rates are expected to be more dispersed than among advanced economies. To a large extent, the dispersion reflects

variation in cyclical positions, anchoring of inflation expectations, and inflation targets.

3.12 Food and Agriculture Organization (FAO) in its biannual publication Food Outlook July 2018, reported that amid increased uncertainties from recent rising trade dispute, agricultural markets so far remained relatively stable thanks to generally good supply conditions across most commodities. The report also added that in the context of heightened food import bills, food markets would remain vulnerable, with weather shocks and external developments always difficult to predict. The world rice production is forecast to grow by 1.4 percent in 2018 to 511.4 million tons. Total world wheat production in 2018 is expected to be 736.1 million tons, 2.7 percent lower than 2017 production. The FAO food price index for June 2018 stood at 173.7, which was 175.3 in June 2017.

3.13 In FY19 national budget, the target for the average inflation rate was set at 5.6 percent. In the first five months of FY19 (November 2018), the average inflation rate was 5.58 percent, slightly above the annual target level. The average food and non food inflation rates for the same month were 6.37 and 4.38 percent respectively. Higher global commodity prices and exchange rate movements together pose upside risks to inflation in FY19. Inflation expectation survey (July, 2018) conducted by Bangladesh Bank also reveals the upside risks, about 70 percent of the respondents anticipate one-year-ahead average inflation to be above 6

Chart 3.7 Growth Rate of Wage Index (FY11=100)



Source: Bangladesh Bureau of Statistics.

Table 3.6 Global Inflationary Situation (Percentage change)

| | 2016 | 2017 | 2018 | 2019 ^P |
|--|------|------|------|-------------------|
| Advanced Economies | 0.8 | 1.7 | 2.0 | 1.9 |
| United States | 1.3 | 2.1 | 2.4 | 2.1 |
| Euro Area | 0.2 | 1.5 | 1.7 | 1.7 |
| Emerging Market and Developing Economies | 4.2 | 4.3 | 5.0 | 5.2 |
| Emerging and Developing Asia | 2.8 | 2.4 | 3.0 | 3.2 |
| Bangladesh | 5.7 | 5.6 | 6.0 | 6.1 |
| India | 4.5 | 3.6 | 4.7 | 4.9 |
| Sri Lanka | 4.0 | 6.5 | 4.8 | 4.8 |
| Pakistan | 2.9 | 4.1 | 3.9 | 7.5 |

^P Projection

Source: World Economic Outlook, October 2018.

percent. BBs projection shows that the average inflation rate would be around 5.4-5.8 percent in December 2018, assuming no severe domestic or external shocks. Looking ahead, inflation outlook would likely remain relatively favorable in FY19, assuming no significant pickup in election-related political tension. A good harvest of food production may offset some inflation risks from the pass-through effects of global oil and commodity prices. However, rising non-food inflation and inflation expectations may constrain any significant improvement in the inflation momentum.

Money and Credit

Stance of Monetary and Credit Policy

4.1 Monetary policy stance for FY18 aimed at attaining price and macro-financial stability along with sustainable economic growth. Like previous years, BB laid emphasis on inclusive, employment supportive and environment-friendly green initiatives for attaining sustainable economic growth, in tune with the government's SDG-focused sustainable development agenda. Accordingly, BB pursued monetary and credit policies and program to intensively engaging the financial sectors for fostering socially responsible financing in inclusive, employment supportive and eco-friendly green initiatives. BB undertook necessary macro-prudential measures for the 2nd half of monetary policy stance in FY18 that focused on sector composition and quality of credit flows without restricting access to credit for productive sectors. Macro-prudential steps to curb imprudent unproductive lending included closer surveillance on adherence to prescribed Asset-Liability Management (ALM) and Forex Risk Management guidelines, a new directive requiring banks to rationalize their Advance/Deposit Ratios to reduce their over exuberance in lending, and stricter end use surveillance on bank loans including import financing commitments.

Monetary Policy Performance

4.2 Monetary Policy stance for FY18 was formulated with the target of keeping inflation at 5.5 percent as well as attaining GDP growth rate at 7.4 percent. Buoyant domestic demand, investment and consumption activities driven by strong private sector credit growth as well as increasing imports, remittances and exports contributed gross domestic product

Table 4.1 Monetary and Credit Program and Component of Broad Money
(In billion BDT)

| Particulars | End June 2017 | End June 2018 | |
|---|--------------------|--------------------|--------------------|
| | Actual | Programme | Actual |
| 1. Net foreign assets | 2650.2 (+11.5) | 2653.8 (0.1) | 2537.6 (-4.2) |
| 2. Net domestic assets (a+b) | 7504.0 (+10.7) | 8850.8 (+17.9) | 8554.6 (+14.0) |
| a) Domestic Credit (i+ii) | 8842.4 (+11.2) | 10236.2 (+15.8) | 10131.5 (+14.6) |
| i) Credit to the public sector ¹ | 1081.8 (-13.0) | 1171.8 (+8.3) | 1055.3 (-2.5) |
| ii) Credit to private sector | 7760.6 (+15.7) | 9064.3 (+16.8) | 9076.2 (+17.0) |
| b) Other items (net) | -1338.4 | -1385.3 | -1576.9 |
| 3. Narrow money (i+ii) | 2394.2 (+13.0) | | 2541.3 (+6.1) |
| i) Currency outside banks | 1375.3 (+12.7) | | 1409.2 (+2.5) |
| ii) Demand deposits ² | 1018.9 (+13.5) | | 1132.2 (+11.1) |
| 4. Time Deposits | 7760.0 (+10.2) | | 8550.9 (+10.2) |
| 5. Broad money (1+2) or (3+4) | 10154.1 (+10.9) | 11504.6 (+13.3) | 11092.2 (+9.2) |

Figures in the parentheses indicate y-o-y percentage changes. P=Provisional
¹ Govt. lending fund is treated as deposit in calculating claims on Govt. (net).
² Demand deposits of monetary authority are excluded.

Source: Monetary Policy Department, Bangladesh Bank.

(GDP) to grow robustly at 7.86 percent in FY18 against the target of 7.4 percent set by the government, also remained up from 7.28 percent in FY17. From the analysis of sector wise GDP growth composition, it is observed that GDP experienced robust growth supported by higher growth in industry and service sector along with moderate growth in agriculture. Though GDP growth target was largely met in FY18, inflation target was slightly skipped in the FY18. Twelve month average inflation stood at 5.78 percent at the end of June 2018, up from 5.44 percent at the end of June 2017, also remained slightly above the target level of 5.50

Box 4.1 Calculation of NEER and REER Indices in Bangladesh Bank

Nominal Effective Exchange Rate (NEER) is the weighted average of bilateral nominal exchange rates of home currency against a basket of foreign currencies. It defines the extent by which the exchange rate of home currency relative to that of trading partner countries changes compared to a base year. However, the change in NEER does not reflect the change in the purchasing power of home currency, nor to what extent the competitiveness of goods produced in the home country changes during a specific period of time. To fulfill this deficiency, Real Effective Exchange Rate (REER) is calculated by many central banks in the world including Bangladesh Bank. Actually, REER is an index as like as NEER adjusted with relative price of home country with respect to the weighted average prices of trading partner countries. The weights used in calculation of both NEER and REER are determined on the basis of home country's total trade with regard to trading partners separately.

Bangladesh Bank (BB) is mandated by regulation to stabilize domestic monetary value and maintain a competitive external par value of Bangladesh Taka (BDT). Accordingly, Bangladesh Bank monitors the movement of exchange rate of BDT vis-à-vis foreign currencies of major trading partner countries to achieve monetary policy goals and to avoid undue volatility in the foreign exchange market. In this regard, Bangladesh Bank computes both NEER and REER indices (FY16=100) on daily and monthly basis respectively, against the currencies of 15 major trading partner countries including euro. The higher value of NEER/REER index indicates nominal/real appreciation and the lower value indicates nominal/real depreciation of BDT against the trading partners' currencies. Thus the REER index focuses the real competitiveness of Bangladesh's products in the international market, though there are some other factors like differentials of labour productivity and current account situation are very important for the competitiveness.

In practice, Bangladesh Bank uses the following equations (1-3) to calculate NEER and REER indices. In equation (1), ERI indicates the bilateral nominal exchange rate index, defined in equation (2). PC stands for partner country's currency and w_i stands for trade weight; i.e., the share of partner country in total trade (export plus import) of Bangladesh, where $\sum_{i=1}^{15} w_i = 1$.

$$NEER = \frac{ERI_{BDT}}{\prod_{i=1}^{15} (ERI_{PC})^{w_i}} \times 100 \dots (1)$$

$$ERI = \frac{ER_C}{ER_B} \times 100 \dots (2)$$

In equation (2), ER indicates bilateral nominal exchange rate, defined as the value of domestic currency in terms of U.S. Dollar, c and b stand for the current and base period respectively. In equation (3), CPI indicates the consumer price index, while BD stands for Bangladesh.

$$REER = NEER \times \frac{CPI_{BD}}{\prod_{i=1}^{15} (CPI_{PC})^{w_i}} \dots (3)$$

percent due to flood related disruptions at the beginning of the fiscal year, increase in global commodity prices as well as buoyant economic activities stemming from both domestic and external demand. It can be mentioned that though average annual inflation was marginally higher than the target level, still remained low by nearly 0.4-0.5 percent than the advanced and emerging economies.

4.3 Almost all the monetary aggregates remained in line or below the programmed paths indicate attainment of key objectives of monetary and credit program and policies for FY18. Reserve money, broad money (M2) and domestic credit regarded as the important anchors of monetary programming aiming at containment of CPI inflation grew by 4.0 percent, 9.2 percent and 14.6 percent respectively in FY18 remained well below the program ceilings. A large deficit in current account stemming from a significantly higher growth of imports contributed to negative growth (-4.2 percent) of net foreign assets (NFA) and, thereby, broad money remained below the program path. Domestic credit was broadly in line with the program path, experienced a robust growth of 14.6 percent due mainly to strong private sector credit growth. On the other hand, credit to public sector constituted negative growth (-2.5 percent) due to increased government's non-bank domestic borrowing through issuing high yield national saving certificates (NSCs). Strong private sector growth at around 17.0 percent, above the deposit growth of 10.3 percent, accompanied by liquidity withdrawals from the negative growth in NFAs and competition among the banks for deposit mobilization, given the high risk-free NSC rates, increased liquidity pressures in H2 FY18. As liquidity condition tightened, Reserve money, broad

money (M2) and domestic credit remained well below the program ceilings. BB reduced Cash Reserve Requirement (CRR) by 1 percent and repo rate by 75 basis points and re-fixed it at 6 percent from 6.75 percent and increased available repo tenors to 7, 14, 28 days while reverse repo rate remained unchanged at 4.75 percent. This led to subsequent improvements in liquidity conditions.

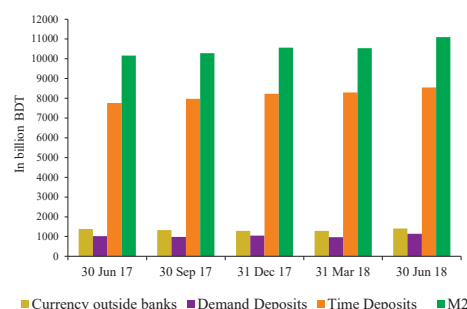
4.4 Despite having surplus in financial account, overall balance turned into deficit of USD 885 million in FY18 due to larger deficit in current account balance. In spite of having deficit in current account balance, foreign exchange reserve stood at USD 32.94 billion at the end of June 2018 supported by a remarkable surplus in financial account and significant amount of inflows of remittances. Against the backdrop of the higher demand for dollar following the declining trend of net foreign assets and high import growth, exchange rate depreciated by 3.70 percent against the US dollar. Besides, in order to maintain stability in the foreign exchange market BB intervenes in the foreign exchange market by selling foreign currency amounted to USD 2311 million in FY18. As a result, the comfortable amount of foreign exchange reserve and stability in the exchange rate boosting up the confidence of foreign investors which may support to growing Bangladesh economy at the expected level.

Money and Credit Situation

4.5 Following the growth supportive stance in monetary policy, broad money (M2) growth was programmed at 13.30 percent where growth in net foreign assets (NFA) and net domestic assets (NDA) were projected at 0.1 percent and 17.9 percent respectively in FY18. Broad money growth stood at 9.2 percent at

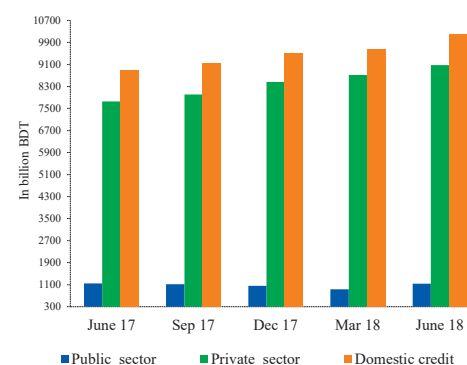
the end of June 2018 below the target level due to negative growth in net foreign assets stemming from an unprecedented increase in import. Net foreign assets considered as one of the components affecting broad money decreased by 4.2 percent in FY18. Moreover, NDA, another component of broad money, grew at 14.0 percent in FY18, down from the targeted growth, following a negative growth in credit to the public sector including government, while credit to private sector experienced a robust growth. Government borrowing from the banking system followed downward trend in FY18 due to increase in government's earning generating from soaring revenue income and a high receipts from net sale of national saving certificates. Despite, having a negative growth in credit to public sector, NDA experienced a robust growth of 14.0 percent, up from 10.7 percent in FY17 due mainly to strong private sector credit growth. As a result, both net domestic assets (NDA) as well as domestic credit experienced strong growth in FY18 owing to robust private sector credit growth. The downward trend of government borrowing from the banking system created a room for the private sector and supported by a buoyant domestic demand driven economic activities in agriculture, industry and service sector. Private sector credit grew robustly at 17.0 percent at the end of June 2018, up from the target level of 16.8 percent. However, domestic credit growth was in line with the program path and was sufficient to accommodate the inclusive output growth due to a significantly higher credit growth in the private sector along with high borrowing by the government from the non-bank sources. As a whole, both negative growth in net foreign assets and credit to public sector contributed broad money to grow moderately and helped

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



Source: Monetary Policy Department, Bangladesh Bank.

Chart 4.2 Movements in Domestic Credit and its Components



Source: Monetary Policy Department, Bangladesh Bank.

the economy to attain benign inflation outcome in FY18. The monetary program 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 at 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 BB bills along with Government's treasury bills and bonds were used to influence the level of RM.

4.7 In line with the projected broad money growth, monetary program set 12.0 percent growth of RM for FY18 while actual growth stood at 4.0 percent. Reserve money growth slowed down against the programmed level due to decrease in net foreign assets (NFA) and slow growth of net domestic assets (NDA). NFA of Bangladesh Bank decreased by BDT 92.4 billion in FY18 against the programmed increase of BDT 31.7 billion. Substantial decrease in NFA due to an unprecedented increase in imports as compared to remittances and exports has contributed significantly to keep reserve money below the program path. Net domestic assets (NDA) also slowed down to BDT 8.6 billion at the end of June 2018 against the targeted level of BDT 63.5 billion. Although BB's credit to public sector remained buoyant following the upward trend of government borrowing from BB, NDA substantially remained below the programmed level in FY18 due mainly to increased unclassified liabilities emerged from rescheduling of discount loans for specialized banks. Domestic credit of BB associated with its components increased by BDT 68.2 billion or 40.4 percent in FY18 against the targeted increase of BDT 20.0 billion or 11.9 percent. BB's credit to the deposit money banks also increased by 2.4 billion to BDT 55.4 billion at the end of June 2018 from the target level of BDT 53.0 billion. In spite of a substantial increase of BB's domestic credit, actual NDA was lower than the programmed level resulting from slower reduction of liabilities in other items (net). The slower reduction of liabilities in other item (net) along with reduction of NFA induced RM to grow at a slower pace than the program. Actual and programmed growth of RM during FY18 can be seen in Table 4.2. Actual developments of M2 and RM against their respective programmed paths can also be seen in Chart 4.3.

4.8 Money multiplier (M2/RM) increased to 4.76 in FY18 as compared to 4.53 in FY17.

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

(in Billion BDT)

| Particulars | End June 2017 | End June 2018 | |
|---|---------------|---------------|--------|
| | Actual | Programme | Actual |
| Net foreign assets ^{1/} | 2430.4 | - | 2430.4 |
| Net foreign assets ^{2/} | 2413.6 | 2445.3 | 2321.2 |
| Net domestic assets ^{1/} | -190.4 | - | -100.5 |
| Net domestic assets ^{2/} | -173.6 | 63.5 | 8.6 |
| Domestic Credit | 168.7 | 188.7 | 236.9 |
| | (-27.1) | (+11.9) | (40.4) |
| Credit to the public sector ^{3/} | 125.7 | 135.7 | 181.5 |
| | (-33.0) | (+8.0) | (44.4) |
| Credit to deposit money banks ^{4/} | 43.0 | 53.0 | 55.4 |
| | (-1.7) | (+23.3) | (28.8) |
| Other items (net) | -342.4 | -125.3 | -228.3 |
| Reserve money | 2240.0 | 2508.8 | 2329.8 |
| | (+16.3) | (+12.0) | (+4.0) |
| Currency issued | 1512.7 | 1744.1 | 1549.4 |
| | (+14.3) | (+15.3) | (+2.4) |
| Deposits of banks with BB ^{5/} | 727.3 | 764.6 | 780.4 |
| | (+20.6) | (+5.1) | (+7.3) |
| Money multiplier | 4.53 | 4.59 | 4.76 |

Note: Figures in the parentheses indicate y-o-y percentage changes.

^{1/} Excluding foreign currency clearing account balance and offshore bank account.

^{2/} Calculated from monetary survey data using end-period exchange rates.

^{3/} Calculated using constant exchange rates of end June 2017.

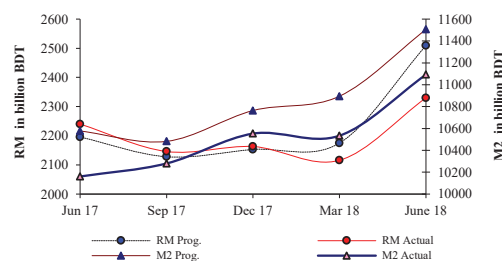
^{4/} Govt. lending fund is treated as deposit in calculating net credit to Govt.

^{5/} Considers only loans and advances to DMBs.

^{6/} 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 FY18



Source: Monetary Policy Department, Bangladesh Bank.

From analysis of the decomposition of money multiplier it can be mentioned that reserve-deposit ratio decreased to 0.095 in FY18 from 0.098 in FY17 and currency-deposit ratio also decreased to 0.146 in FY18 as compared to 0.157 in FY17. Both the decrease in reserve-deposit ratio and currency-deposit ratio stemming from increase in bank deposits relative

to cash holding as well as banks' reserves led to increase the money multiplier. Alternatively, it can be said that strong domestic production and investment activities led to decrease in cash holding and the provision of maintaining CRR of scheduled banks with BB at a reduced rate led to decrease bank reserves.

Income Velocity of Money

4.9 The income velocity of money (GDP/M2) increased to 2.03 in FY18 from 1.94 in FY17 (Table 4.3). The rate of increase in FY18 was 4.64 percent as against an increase of 2.65 percent in FY17. This means the growth of nominal income was faster than the growth of M2 for the two consecutive fiscal years following buoyancy in economic activities and a historically high growth of sales in national savings certificates (NSCs) which is not considered as component of M2¹. Alternatively, income velocity of money might have increased in the recent years after a continued declining trend since FY11 due to financial development and innovation. Movement of GDP growth, M2 growth, inflation and income velocity of money during FY12-FY18 are shown in Chart 4.4.

Bank Credit

4.10 Outstanding bank credit (excluding foreign bills and inter-bank items) during FY18 rose by BDT 1271.53 billion or 16.46 percent to BDT 8994.93 billion against the increase of 15.84 percent in FY17. The rise in the bank credit during FY18 was fuelled by rise in advances.

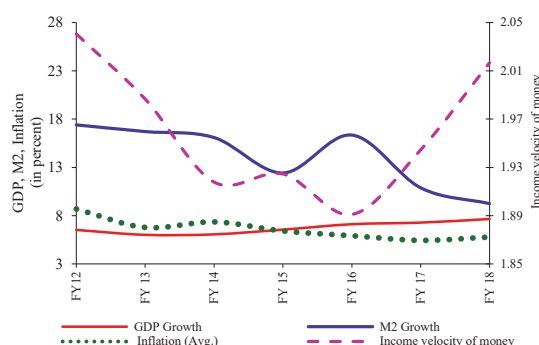
Advances increased by BDT 1278.99 billion or 17.20 percent in FY18 against the increase of 15.67 percent in FY17. Bills purchased and discounted decreased by BDT 7.46 billion or 2.58 percent in FY18 as compared to the increase of 20.35 percent in FY17. The quarterly

Table 4.3 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 | 5171.10 | 2.04 (-1.92) |
| FY13 | 11989.23 | 6035.06 | 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) |
| FY 18 | 22504.79 | 11099.81 | 2.03 (4.64) |

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

Chart 4.4 Movements in GDP Growth, M2 Growth, Rate of Inflation and Income Velocity of Money



Source: Monetary Policy Department, Bangladesh Bank.

position of bank credit and its components are given at Table 4.4

Bank Deposits

4.11 Bank deposits (excluding inter-bank items) increased by BDT 1015.61 billion or 10.78 percent to BDT 10440.95 billion during FY18 against 10.94 percent increase in FY17. The rise in total bank deposits was shared by all kinds of deposits. Demand deposits increased

¹ NSCs are considered as component of M3.

by BDT 113.32 billion or 11.12 percent to BDT 1132.17 billion in FY18 against 13.51 percent increase in FY17. Time deposits increased by BDT 790.89 billion or 10.19 percent to BDT 8550.87 billion in FY18 as compared to the increase of 10.24 percent in FY17. Government deposits increased by BDT 111.39 billion or 17.23 percent to BDT 757.90 billion in FY18 against the increase of 15.71 percent in FY17. Quarterly position of bank deposits may be seen at Table 4.5.

Credit/Deposit Ratio

4.12 The credit/deposit ratio of the scheduled banks excluding the specialized banks was 0.86 at the end of June 2018 which was 0.82 at the end of June 2017. 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 increased by BDT 79.36 billion or 32.53 percent to BDT 323.30 billion at the end of June 2018 against the increase of 32.66 percent at the end of June 2017. It may be noted that a robust credit growth against the moderate deposit growth trigger somewhat a liquidity tightening which influenced the scheduled banks' to borrow at a high rate from BB during the last two fiscal years.

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

4.14 Balances of scheduled banks with Bangladesh Bank increased by BDT 53.11 billion or 7.30 percent to BDT 780.43 billion at the end of June 2018 against the increase of 20.62 percent at the end of June 2017. Cash in

Table 4.4 Quarterly Position of Bank Credit
(In billion BDT)

| Outstanding as of | Advances | Bills | Total Credit |
|-------------------|--------------------|------------------|--------------|
| 30 June 17 | 7433.95 (96.25) | 289.45 (3.75) | 7723.40 |
| 30 Sep 17 | 7624.45 (96.32) | 291.00 (3.68) | 7915.45 |
| 31 Dec 17 | 8059.32 (96.20) | 318.20 (3.80) | 8377.52 |
| 31 Mar 18 | 8343.34 (96.64) | 290.22 (3.36) | 8633.56 |
| 30 June 18 | 8712.94 (96.86) | 281.99 (3.14) | 8994.93 |

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

Table 4.5 Quarterly Positions of Deposits*-FY18
(In billion BDT)

| Balances as of | Demand deposits | Time deposits | Govt. deposits | Total deposits |
|----------------|-----------------|---------------|----------------|----------------|
| 30 June 17 | 1018.85 | 7759.98 | 646.51 | 9425.34 |
| 30 Sep 17 | 978.13 | 7973.77 | 635.44 | 9587.34 |
| 31 Dec 17 | 1039.70 | 8222.09 | 659.67 | 9921.46 |
| 31 Mar 18 | 964.39 | 8288.41 | 710.10 | 9962.90 |
| 30 June 18 | 1132.17 | 8550.87 | 757.90 | 10440.95 |

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

tills of scheduled banks increased by BDT 2.90 billion or 2.11 percent to BDT 140.23 billion at the end of June 2018 against the increase of 34.23 percent as of end June 2017.

Cash Reserve Requirement (CRR)

4.15 The Cash Reserve Requirement (CRR) for the scheduled banks with the Bangladesh Bank has been decreased by 100 basis points to 5.5 percent of their total demand and time liabilities with effective from 15 April, 2018. BB reduced CRR to ease the liquidity tightening position considering the increased credit demand on the perspective of wider investment and production activities. It may be noted that banks are required to maintain CRR at the rate of 5.5 percent on bi-weekly average basis provided that the CRR would not be less than 5.0 percent in any day with effective from 15 April, 2018.

Statutory Liquidity Ratio (SLR)

4.16 According to the amendment of sub section (2) under section 33 of the Bank Company Act, 1991, it was decided that banks should have maintained SLR separately, (a) for the conventional banks the statutory liquid assets inside Bangladesh, which also includes excess reserves with Bangladesh Bank, will not be less than 13.0 percent of their total demand and time liabilities, and (b) for the shariah based Islami banks, this rate shall not be less than 5.5 percent. This became effective on February 01, 2014 and remained unchanged in FY18.

Bank Rate

4.17 The bank rate remained unchanged at 5.0 percent in FY18 which became effective on November 6, 2003.

Interest Rates on Deposits and lending

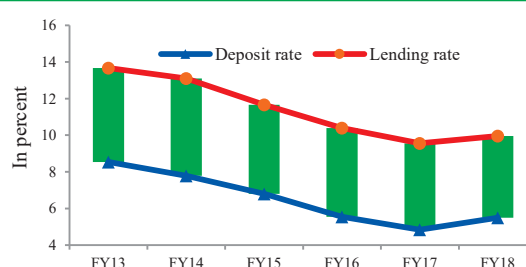
4.18 The weighted average interest rates on deposits followed downward trend from a pick of 8.54 percent in FY13 to 4.84 percent in FY17 which increased to 5.50 percent in FY18. Similarly, weighted average interest rates on lending rate gradually declined to 9.56 percent in FY17 from a pick of 13.67 percent in FY13 and marginally increased to 9.95 percent in FY18. Both weighted average interest rates on deposits and lending rate turned to upward in FY18 due to increased credit demand following buoyant domestic production and investment activities, elevated inflationary pressure in the domestic economy as well as tightening of financial condition in advanced and emerging economics. However, the spreads between lending and deposit rates also narrowed from above 5 percent in FY14 to 4.45 percent in FY18. Weighted average interest rates of scheduled banks on deposits and lending

Table 4.6 Trends in Weighted Average Interest Rates of Scheduled Banks

| Items | as of end June (percent) | | | | | |
|--------------|--------------------------|-------|-------|-------|------|------|
| | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
| Deposit rate | 8.54 | 7.79 | 6.80 | 5.54 | 4.84 | 5.50 |
| Lending rate | 13.67 | 13.10 | 11.67 | 10.39 | 9.56 | 9.95 |
| Spread | 5.13 | 5.31 | 4.87 | 4.85 | 4.72 | 4.45 |

Source: Monetary Policy Department, Bangladesh Bank.

Chart 4.5 Trends in Weighted Average Interest Rates of Scheduled Banks



Source: Monetary Policy Department, Bangladesh Bank.

Table 4.7 Liquidity Indicators-FY18

| As On | (In percent) | | | |
|---------------|--------------|--------|--------|-----------------|
| | ADR | LCR | NSFR | Call Money Rate |
| 30 June 2017 | 73.91 | 178.45 | 110.22 | 4.06 |
| 30 Sept 2017 | 74.84 | 172.19 | 110.13 | 3.86 |
| 31 Dec 2017 | 75.88 | 174.88 | 107.51 | 4.07 |
| 31 March 2018 | 77.03 | 167.40 | 108.95 | 4.56 |
| 30 June 2018 | 76.66 | 175.29 | 109.08 | 3.41 |

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

along with the spread during FY13 to FY18 are shown in Table 4.6 and Chart 4.5

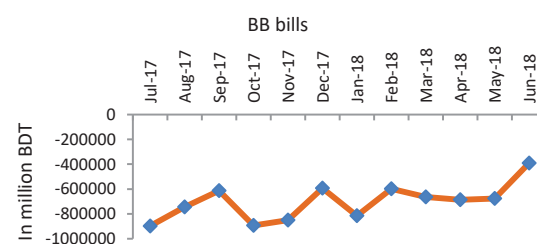
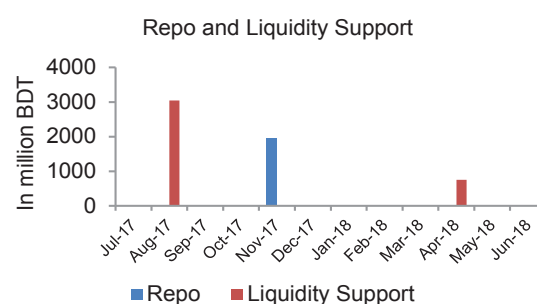
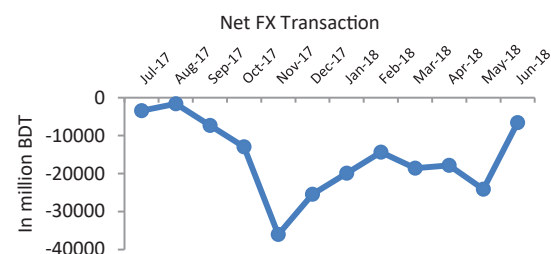
Liquidity Management Framework

4.19 Effective liquidity management in the banking system ensures the stability in the money market, long term interest rate as well as exchange rate and, thereby, promotes economic growth. Liquidity condition of the banking sector can be assessed by call money rate, Advance Deposit Ratio (ADR) ratio, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio

(NSFR). At the beginning of Q4FY18 rising demand for liquidity from strong private sector credit growth accompanied by the negative growth in NFAs caused tightening of liquidity conditions. As liquidity condition tightened, BB reduced Cash Reserve Requirement (CRR) by 100 basis points to 5.5 percent and repo rates by 75 basis points to 6.0 percent with effect from April 2018. Moreover, to ease the liquidity conditions, BB increased available repo tenors to 7, 14 and 28 days. Under this situation, banks can now borrow from BB for longer period. This will give banks and financial institutions a scope to recalibrate their liquidity position in case of adverse conditions. BB's policy measures led to improvements in liquidity conditions as reflected in the call money rate which came down from 4.40 percent in March to 3.41 percent in June 2018.

On the other hand, banking sector maintained the LCR much above the minimum requirement of 100 percent throughout FY18, indicating banks had high-quality and liquid asset that would cover the banks cash outflows for a minimum of 30 days. In FY18 banks also maintained the minimum regulatory requirement of holding NSFR that indicates they had enough funding for the whole year in any unfavorable situation (Table 4.7). It may be noted that excess liquidity in the banking system mop up and sterilize with careful use

Chart 4.6 Liquidity Management Operations during FY18



Source: Monetary Policy Department, Bangladesh Bank.

of Bangladesh Bank bills and government treasury bills and bonds. Liquidity management operations are graphically shown in Chart 4.6.

Banking Sector Performance, Regulation and Bank Supervision

5.1 The banking sector of Bangladesh experienced a moderate level of resilience in FY18. Bangladesh Bank persistently continues its efforts to uplift and ensures a sound and stable performance in the banking sector. In FY18, Bangladesh Bank (BB) adopted a number of policy measures to emphasize risk management and corporate governance in the banks, periodic review of stability of the individual bank as well as the whole banking system, monitoring of large borrowers, fraud-forgeries and strengthening internal control and compliance through self assessment of anti-fraud internal controls etc. Monitoring of investment in shares by the scheduled banks has been made stringent in light of the amendment brought in the Bank Company Act, 1991 (amended up to 2018). Risk Management Committee at the board level has been made mandatory, with regular evaluation. A revised Risk Management Guideline has already been put into effect for banks to improve resiliency. 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). Total number of 57 banks operated in 2017. The number of bank branches increased at the end of December 2017 to 9955 from 9654 of December 2016. (Appendix 4, Table 1). Information on the banking structure and activities by types of banks is shown in Table 5.1.

5.3 In 2017, the SCBs held 25.88 percent share of the total assets which was 27.61 in 2016. PCBs' share in the total assets increased from 65.03 percent in 2016 to 67.07 percent in 2017. The FCBs held 4.62 percent share in the total assets in 2017, showing a decline of 0.18 percentage points over the previous year. The DFIs' share in the total assets declined to 2.43 percent in 2017 from 2.58 percent in 2016 (Table 5.1).

5.4 Total deposits of the banks in 2017 rose to BDT 9874.89 billion from BDT 8933.92 billion in 2016, showing an increase of 10.53 percent. The SCBs' share in deposits decreased from 28.38

Table 5.1 Banking Systems Structure, Assets and Deposits

(In billion BDT)

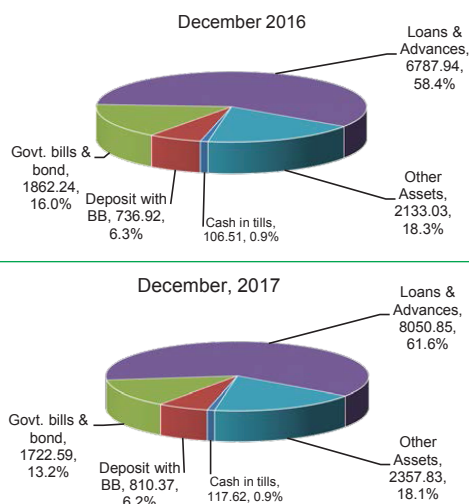
| Bank types | 2016 | | | | | | 2017 | | | | | |
|------------|-----------------|--------------------|--------------|---------------------------------------|----------|--------------------------------|-----------------|--------------------|--------------|---------------------------------------|----------|--------------------------------|
| | Number of banks | Number of branches | Total assets | Share in industry assets (in percent) | Deposits | Share in deposits (in percent) | Number of banks | Number of branches | Total assets | Share in industry assets (in percent) | Deposits | Share in deposits (in percent) |
| SCBS | 6 | 3710 | 3209.5 | 27.6 | 2535.4 | 28.38 | 6 | 3721 | 3379.5 | 25.88 | 2700.6 | 27.35 |
| DFIS | 2 | 1407 | 299.5 | 2.6 | 249.4 | 2.79 | 2 | 1407 | 317.6 | 2.43 | 273.3 | 2.77 |
| PCBS | 40 | 4467 | 7560.0 | 65.0 | 5788.0 | 64.79 | 40 | 4758 | 8758.3 | 67.07 | 6508.2 | 65.91 |
| FCBS | 9 | 70 | 557.6 | 4.8 | 361.1 | 4.04 | 9 | 69 | 603.9 | 4.62 | 392.8 | 3.98 |
| Total | 57 | 9654 | 11626.6 | 100 | 8933.9 | 100 | 57 | 9955 | 13059.3 | 100 | 9874.9 | 100 |

Note : All banks, except BKB and RAKUB, prepare their balance sheet on calendar year basis, and are obliged to submit their audited balance sheet at the end of every calendar year.

Source: BRPD and DOS, BB.

Chart 5.1 Aggregate Industry Assets

(In billion BDT)



Source: Department of Off-site Supervision (DOS), Bangladesh Bank

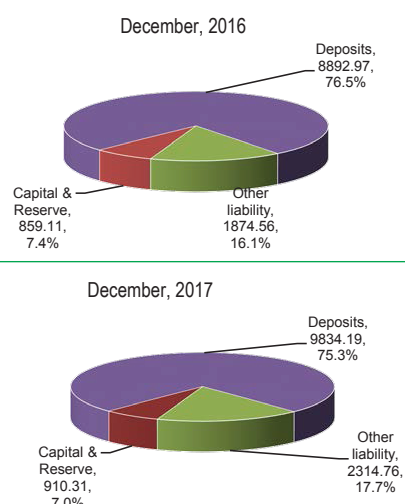
percent in 2016 to 27.35 percent in 2017. PCBs' deposits in 2017 amounted to BDT 6508.19 billion or 65.91 percent in the total deposit compared to BDT 5788.02 billion or 64.79 percent in 2016. FCBs' deposits in 2017 slightly increased by BDT 31.65 billion over the year 2016, although its contribution to total deposits decreased slightly. The DFIs' deposits in 2017 was BDT 273.32 billion against BDT 249.4 billion in 2016, showing an increase of 9.59 percent over the year (Table 5.1).

Aggregate Balance Sheet

5.5 Total industry assets in 2017 showed an increase of 12.34 percent over 2016. During this period, the SCBs' assets rose by 5.29 percent and that of the PCBs' increased by 15.85 percent. In 2017, loans and advances of BDT 8050.85 billion constituted the most significant portion (61.6 percent) in the sector's aggregate assets of BDT 13059.26 billion. Moreover, cash in tills including foreign currencies was BDT 117.62 billion; deposits with BB was BDT 810.37 billion; other assets was BDT 2357.83 billion and investment in

Chart 5.2 Aggregate Industry Liabilities

(In billion BDT)



Source: Department of Off-site Supervision (DOS), Bangladesh Bank

government bills & bonds was BDT 1722.59 billion during the same period (Chart 5.1).

5.6 Deposits continued to be the main sources of funds of the banking industry and constituted 75.3 percent (BDT 9834.19 billion) of total liability in 2017. Capital and reserves of the banks were BDT 910.31 billion (7.49 percent) in 2017 as compared to BDT 859.11 billion (7.40 percent) in 2016 (Chart 5.2).

The development of a sound banking sector is important for the sustainable development of an economy. Since banking sector is the main component of the overall financial system in Bangladesh, the health of the economy is closely related to the soundness of its banking system. BB has adopted many prudential policies for maintaining stability in the banking sector. The aggregate micro-prudential soundness indicators (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk) of the banking sector also known as Financial Stability Indicators are consider for measuring banking sector performance.

Capital Adequacy

5.7 Capital adequacy focuses on the total position of 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 & climate change etc. Under Basel-III, 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 SRP and SREP (Supervisory Review Evaluation Process, the central bank's assessment) dialogue. The aggregate amount of capital of the banking sector was BDT 280.58 billion as on December 2009 which increased to BDT 945.61 billion at the end of December 2017.

5.8 Table 5.2 shows the Capital to Risk Weighted Assets Ratio (CRAR) by type of banks. It is observed that on 31 December 2017, SCBs, DFIs, PCBs and FCBs maintained CRAR of 5.04, -35.45, 12.52 and 24.90 percent respectively. But individually, 4 SCBs, 3 PCBs and 2 DFIs could not maintain the minimum required CRAR. The CRAR of the banking industry as a whole was 10.83 percent at end of December 2017 as against 10.80 percent at the end of 2016. The CRAR of the industry was 10.0 percent at the end of June 2018 (Chart 5.3).

Asset Quality

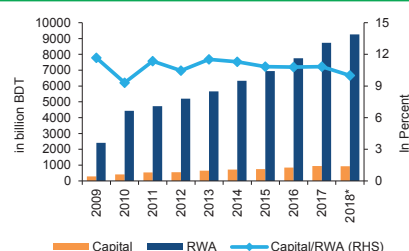
5.9 Loans and advances (61.6%) are the major components in the asset composition of all

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

| Bank types | (In percent) | | | | | | | | End June 2018 |
|------------|--------------|------|------|------|-------|-------|-------|-------|---------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | |
| SCBs | 8.9 | 11.7 | 8.1 | 10.8 | 8.3 | 6.4 | 5.9 | 5.0 | 2.0 |
| DFIs | -7.3 | -4.5 | -7.8 | -9.7 | -17.3 | -32.0 | -33.7 | -35.5 | -31.9 |
| PCBs | 10.1 | 11.5 | 11.4 | 12.6 | 12.5 | 12.4 | 12.4 | 12.5 | 12.2 |
| FCBs | 15.6 | 21.0 | 20.6 | 20.2 | 22.6 | 25.6 | 25.4 | 24.9 | 23.0 |
| Total | 9.3 | 11.4 | 10.5 | 11.5 | 11.3 | 10.8 | 10.8 | 10.8 | 10.0 |

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

Chart 5.3 Aggregate Capital Adequacy Position



*30 June 2018

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

commercial banks. The high concentration of loans and advances increases the vulnerability of assets to credit risk. However, investment of banks in bills, bonds, shares etc. also demonstrates somewhat concentration, which is 13.2 percent to total assets in 2017.

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 2017, the gross NPL of the banking sector stood at 9.31 percent. Table 5.3 (a) shows that PCBs had the lowest and SCBs had the highest gross NPLs. PCBs' gross NPLs was 4.87 percent, whereas those of SCBs, FCBs and DFIs were 26.52, 7.04 and 23.39 percent respectively at the end of December 2017.

5.11 The ratio of gross NPLs to total loans indicates a mixed trend in the banking system

Box 5.1 Importance of Basel-III Liquidity Standard: LCR and NSFR

The Basel Committee on Banking Supervision has developed two minimum standards for funding liquidity. These standards have been developed to achieve two separate but complementary objectives. The first objective is to promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high-quality liquid assets (HQLA) to survive a significant stress scenario lasting for one month. The Committee developed the Liquidity Coverage Ratio (LCR) to achieve this objective. The second objective is to promote resilience over a longer time horizon by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing basis. The Committee developed the Net Stable Funding ratio (NSFR) to achieve the second objective, which supplements the LCR and has a time horizon of one year.

The LCR is intended to achieve resilience against potential liquidity disruptions over a 30 days horizon. It helps to ensure that banks have sufficient unencumbered, high quality liquid assets to offset the net cash outflows which can effectively encounter an acute short-term stress scenario. LCR is calculated in the following way:

$$LCR = \frac{\text{Stock of HQLA}}{\text{Total net cash out flows over the next 30 calendar days}}$$

The minimum standard for the LCR shall be ≥ 100 percent.

The NSFR requires a minimum amount of stable sources of funding at a bank relative to the liquidity profile of the assets, as well as the potential for contingent liquidity needs arising from off-balance sheet commitments, over a year horizon. The NSFR aims to limit over-reliance on short-term wholesale funding and encounter better assessment of liquidity risk across all on and off-balance sheet items. The NSFR is calculated in the following way:

$$NSFR = \frac{\text{Available Amount of Stable Funding (ASF)}}{\text{Required Amount of Stable Funding (RSF)}}$$

"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. This ratio should be greater than 100 percent indicating that available stable funding (ASF) should be greater than required stable funding (RSF). LCR and NSFR introduced in Bangladesh, in 2015.

Table.1 shows that, banking sector in Bangladesh maintained the LCR much above the minimum standard of 100 percent throughout FY18, indicating banks had high-quality and liquid asset that would cover the banks cash outflows for a minimum of 30 days. Banks also maintained the minimum standard of holding NSFR that indicates they had enough funding for the whole year in any unfavorable situation.

Table.1 LCR and NSFR during FY18

(In percent)

| As On | LCR | NSFR |
|-------------|--------|--------|
| 30 Jun 2017 | 178.45 | 110.22 |
| 30 Sep 2017 | 172.19 | 110.13 |
| 31 Dec 2017 | 173.43 | 107.54 |
| 31 Mar 2018 | 167.40 | 108.95 |
| 30 Jun 2018 | 175.29 | 109.08 |

Source: DOS, Bangladesh Bank.

during 2010-2017. It declined in 2011 and increased in 2012 (10.0 percent) and again declined in 2013 (8.9 percent). Afterward, the ratio jumped in 2014 (9.7 percent) and again declined in 2015 (8.8 percent). But the ratio

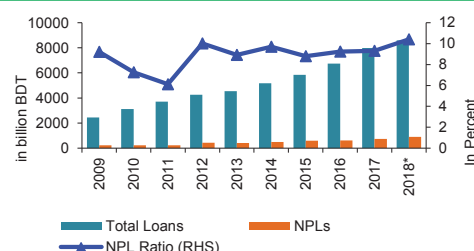
shows an upward trend in recent years mainly due to increase in total classified loans, defaulted outstanding and non-recovery of loans. At the end of June 2018, it stood at 10.41 percent (Chart 5.4).

5.12 The high level of NPLs in SCBs and DFIs continued due to substantial loans disbursed by them was on considerations other than commercial criteria. Poor assessment and inadequate follow-up and supervision of the loans disbursed by the SCBs and DFIs eventually consequence the current situation of poor quality assets. However, BB took various measures (i.e. loan classification, loan rescheduling, provisioning and write-off) to recovery the loan. Besides, BB has also taken steps with regard to internal restructuring of these banks to strengthen their loan recovery mechanism and write-off measures in recent years.

5.13 Table 5.3 (b) show that the ratio of net NPLs (net of provisions and interest suspense) to net total loans (net of provisions and interest suspense) was 2.2 percent in 2017 for the banking sector and it was 11.2 percent for SCBs. The table demonstrates that SCBs' and PCBs' non-performing portfolios increased in 2017 as compared to that of the previous year. The net NPLs were 11.2, 9.7, 0.2 and 0.7 percent for the SCBs, DFIs, PCBs and FCBs respectively at the end of December 2017. Net NPL of the industry was 2.7 percent at the end of June 2018.

5.14 Table 5.4 shows the amount of NPLs of the four types of banks since 2010 to 2017. The amount of NPLs of the SCBs increased from BDT 127.6 billion in 2008 to BDT 373.3 billion in 2017. The amount of NPLs of the PCBs stood at BDT 294.0 billion in 2017 up from BDT 64.3 billion in 2010. The amount of NPLs of the DFIs increased to BDT 54.3 billion in 2017 from BDT 37.3 billion in 2008. The amount of NPLs of the FCBs increased to BDT 21.5 billion in 2017 as against BDT 5.5 billion in 2010. The table also demonstrates that total NPLs of the banking sector have increased to BDT 743.0 billion in 2017 as compared to BDT 621.8 billion in 2016

Chart 5.4 Aggregate Position of NPLs to Total Loans



*Up to 30 June 2018

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

Table 5.3(a) Gross NPLs to Total Loans by Type of Banks

(in percent)

| Bank types | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | End June 2018 |
|------------|------|------|------|------|-------|------|------|------|---------------|
| SCBs | 15.7 | 11.3 | 23.9 | 19.8 | 22.23 | 21.5 | 25.1 | 26.5 | 28.2 |
| DFIs | 24.2 | 24.6 | 26.8 | 26.8 | 32.81 | 23.2 | 26.0 | 23.4 | 21.7 |
| PCBs | 3.2 | 2.9 | 4.6 | 4.5 | 4.98 | 4.9 | 4.6 | 4.9 | 6.0 |
| FCBs | 3.0 | 3.0 | 3.5 | 5.5 | 7.30 | 7.8 | 9.6 | 7.0 | 6.7 |
| Total | 7.3 | 6.1 | 10.0 | 8.9 | 9.7 | 8.8 | 9.2 | 9.3 | 10.4 |

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

Table 5.3 (b) Ratio of Net NPL to Total Loans by Type of Banks

(in percent)

| Bank types | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | End June 2018 |
|------------|------|------|------|------|------|------|------|------|---------------|
| SCBs | 1.9 | -0.3 | 12.8 | 1.7 | 6.1 | 9.2 | 11.1 | 11.2 | 11.7 |
| DFIs | 16.0 | 17.0 | 20.4 | 19.7 | 25.5 | 6.9 | 10.5 | 9.7 | 7.4 |
| PCBs | 0.00 | 0.2 | 0.9 | 0.6 | 0.8 | 0.6 | 0.1 | 0.2 | 0.8 |
| FCBs | -1.7 | -1.8 | -0.9 | -0.4 | -0.9 | -0.2 | 1.9 | 0.7 | 0.8 |
| Total | 1.3 | 0.7 | 4.4 | 2.0 | 2.7 | 2.3 | 2.3 | 2.2 | 2.7 |

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

Table 5.4 Amount of NPLs by Type of Banks

(in billion BDT)

| Bank types | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | End June 2018 |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|---------------|
| SCBs | 107.6 | 91.7 | 215.2 | 166.1 | 227.6 | 272.8 | 310.3 | 373.3 | 428.5 |
| DFIs | 49.7 | 56.5 | 73.3 | 83.6 | 72.6 | 49.7 | 56.8 | 54.3 | 52.4 |
| PCBs | 64.3 | 72.0 | 130.4 | 143.1 | 184.3 | 253.3 | 230.6 | 294.0 | 389.8 |
| FCBs | 5.5 | 6.3 | 8.5 | 13.0 | 17.1 | 18.2 | 24.1 | 21.5 | 22.7 |
| Total | 227.1 | 226.4 | 427.3 | 405.8 | 501.6 | 594.1 | 621.8 | 743.0 | 893.4 |

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

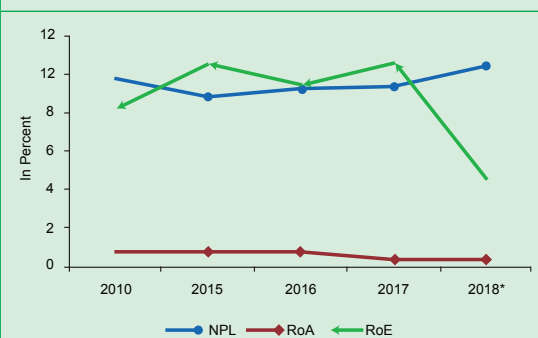
Box 5.2 Consequences of NPL on Banks' Profitability and Financial Stability

The recent rising trends of NPLs in the overall banking system in Bangladesh are major concerned for policymakers and the stakeholders, because high NPLs give huge stress in the banks to earn profit and weaken the financial stability. Chart -1 show the trends of NPLs and two key profitability indicators; the Returns on Assets (RoA) and Returns of Equity (RoE) during the 2014-2018. It is observed from the table that there is a negative relationship NPLs and RoA /RoE. The negative relationship between NPLs and banks' profitability is a major concern for the policymakers.

Consequences of NPL on banks' profitability

- Bank needs to keep higher provision as its NPL increases hence it pressure on, banks' profitability.
- Returns on Assets (RoA) and Returns of Equity (RoE) tend to fall down.
- Higher NPL would also compel the banks to extending their efforts in recovering the loans from those 'bad' borrowers. In this process, the operational expense (for recovery/litigation) is assumed to go up.

Chart 1 Trends of NPL, RoA, and RoE



*June, 2018.

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

- Vicious cycle: NPL results into economic slowdown as the borrowing firm/individual gradually loses its capability to generate enough earning to pay back the loan. Further injection of money to overcome the crisis is also halted as the borrower is marked as a defaulter in the regulator's record. Eventually, the firm moves into further dire state; and the probability of getting back the money is getting lower for the lending bank.
- Low public confidence: Higher NPL may also lower the public confidence on the bank. In that case, attracting deposit would get even harder which may result the cost of deposit (or borrowing) to increase. Once the cost of fund goes up, the profitability margin tends to shrink.

Consequences of NPL on financial stability

- Due to the irregularity (or stuck) in pay back from the NPLs, there is a strong tendency of sprouting up the liquidity mismatch that results into a higher liquidity risk for the bank.
- With increasing NPLs, Risk-weighted Assets (RWA) would increase; which, in turn, would create pressure on maintaining the regulatory capital adequacy requirement. As the FSR (2017) refers, increase in NPLs would have the most adverse impact on the banking sector's Capital-to-Risk weighted Asset Ratio (CRAR).

- Higher NPL has substantial impact in disturbing the overall resilience of the banking sector through disorienting the combined risk management efforts of the banks. FSR (2017) also reveals that under different stress scenarios, banking system finds itself resilient at interest rate, exchange rate and equity price shocks but remains vulnerable with credit defaults (i.e., NPLs), especially default of large borrowers.
- Higher NPLs in one or more banks would expose the risk of contagion (also referred to as systemic risk) to the banking system. Such financial difficulties at one or more banks may easily spill over to a large number of other banks, and subsequently, to the financial system as a whole.
- Moreover, the high level of NPLs would affect the micro (i.e., bank level) and macro (i.e., central bank/monetary authority) strategies in the lending sector, which makes the job of the policymakers even harder.

Bangladesh Bank revised the loan classification and provisioning policy and made it more stringent through Circular No.14 of 2012 in order to comply with the international best practices and Basel core principle and with a view to increasing the stability of the banking sector in the long run. Other relevant policy supports and intense monitoring are also followed for ensuring a better macro-prudential regulatory system in managing the non-performing loans in the banking sector of the country.

and the amount of NPLs has increased in SCBs and PCBs and has decreased in DFIs and FCBs in 2017 as compared to that of the previous year. The amount of NPLs of SCBs, DFIs, PCBs and FCBs stood at BDT 428.5, 52.4, 389.8 and 22.7 billion respectively at the end of June 2018.

5.15 Table 5.5 shows the aggregate amount of NPLs, the required loan loss provision and the actual provision maintained by the banks from 2010 to 2017. The Table shows that in aggregate, the banks continuously failed to maintain the required level of provision against their NPLs from 2010 to 2017. Banks maintained 103.0 percent in 2011. But in the recent years the provision maintenance ratio showed declining trend and in 2017 it stood at 84.7 percent.

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 of four types of banks as of end 2016, 2017 and 2018 is shown in Table 5.6.

5.17 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 by different bank categories is given in Table 5.7.

5.18 Out of 40 PCBs 35 PCBs were able to maintain the required provision at the end of December 2017, but the remaining five banks failed due to their poor asset portfolios and earning levels. The provision maintenance ratios of PCBs and FCBs show its increasing trend, whereas that of SCBs and DFIs show the declining trend in the recent years.

Management Soundness

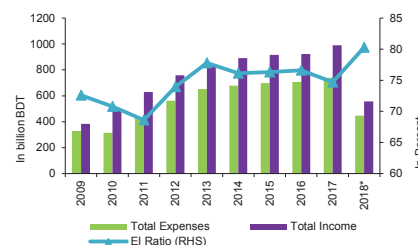
5.19 Sound management is the most important pre-requisite for the strength and growth of any financial institution. The total expenditure to total income, operating expenses to total expenses, earnings and operating expenses per employee and interest rate spread are generally used to determine management soundness. Technical competence and leadership of mid and senior level management, compliance with banking laws and regulations, adequacy, compliance of sound internal policies, ability to plan and respond to consideration to illustrate the quality of management.

5.20 As evident from Table 5.8, the expenditure-income (EI) ratio of the DFIs was the highest among the bank categories in 2017 which was mainly attributable to poor non-interest income and higher operating expenses. However, it decreased from 137.8 percent in 2016 to 124 percent in 2017. The EI ratio of the SCBs was 81.3 percent in 2017, the second highest, which could mainly be attributable to high administrative and operating expenses. In 2017, the EI ratio of PCBs and FCBs was 73.78 percent and 46.55 percent respectively, which slightly increased as compared to the previous year. At the end of June 2018, the EI ratio of SCBs and DFIs stood at 83.9 and 149.9 percent respectively whereas those of PCBs and FCBs stood at 78.4 and 44.3 percent respectively. Chart 5.5 shows the EI ratio in the overall banking industry.

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).

Chart 5.5 Trends in Aggregate Position of Income and Expenditure in the Banking Industry



*Up to 30 June 2018

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

Table 5.5 Required Provision and Provision Maintained by the Banking Industry
(In billion BDT)

| All Banks | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | End June 2018 |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|---------------|
| Amount of NPLs | 227.1 | 226.4 | 427.3 | 405.8 | 501.6 | 594.1 | 621.7 | 743.0 | 893.4 |
| Required Provision | 149.2 | 148.2 | 242.4 | 252.4 | 289.6 | 308.9 | 362.1 | 443.0 | 528.8 |
| Provision maintained | 142.3 | 152.7 | 189.8 | 249.8 | 281.6 | 266.1 | 307.4 | 375.3 | 448.9 |
| Excess(+)/ shortfall(-) | -6.9 | 4.6 | -52.6 | -2.6 | -7.9 | -42.8 | -54.7 | -67.7 | -79.9 |
| Provision maintenance ratio (%) | 95.4 | 103.0 | 78.3 | 99.0 | 97.2 | 86.1 | 84.9 | 84.7 | 84.9 |

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

5.22 Earnings as measured by ROA and ROE differ within the banking industry. Table 5.9 shows ROA and ROE of four types of banks during 2010-2017. Analysis of these indicators reveals that the ROA of the SCBs and DFIs was less than the industry average. The ROA of SCBs has improved slightly in 2017. PCBs' ROA shows a declining trend during 2011-2012 due to decreased net profit. After 2012 it shows a fluctuating trend. Though FCBs' ROA showed a decreasing trend from 2014, it still remains in strong position.

5.23 Table 5.9 also presents that ROE of the SCBs stood at 3.45 percent in 2017. It has improved as compared to 2016. ROE of DFIs is negative 3.07 percent. Though it has improved

from 2016 and it has always been negative in the previous years. ROE of PCBs is 12.01 percent in 2017 and it shows an increasing trend since 2013. ROE of FCBs has been declined since 2014 and it was 11.31 percent in 2017. Trends in aggregate profitability for all banks are given in chart 5.6.

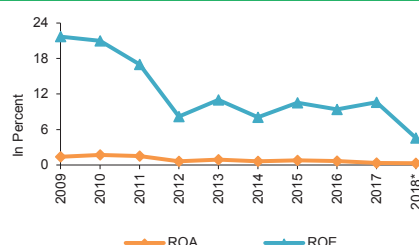
5.24 Table 5.10 shows that Net Interest Margin (NIM) of the banking industry stood at 3.13 percent in 2017 which was 3.27 percent in 2016. The NIM for the SCBs and DFIs inched up where as PCBs and FCBs inched down slightly in 2017 compared to 2016. Analysis of the indicator reveals that NIM for PCB and FCBs were higher than the industry average. NIM for SCBs was negative in 2013, afterwards it showed a mixed trend during 2014-2017. However, NIM for overall banking industry has been significantly high in 2014 afterwards it exhibit a downward trends (Table 5.10). At the end of June 2018, NIM of industry was 3.18 percent.

Liquidity

5.25 Maintaining a sound liquidity position is one of the significant indicators of bank's solvency. Without ensuring adequate liquidity the banking sector will fail to mobilize its resources for earnings profit and they maintain adequate liquidity for ensuring safety and security. The most useful indicators for evaluating the liquidity position in the banking sector are advance-deposit ratio (ADR), interbank call money rate, repo rates, liquidity coverage ratio (LCR) and net stable funding ratio (NSFR).

5.26 Overall advance deposit ratio (ADR) in the banking system moderated to 76.7 percent in Q4FY18 from 77.0 percent in Q3FY18, remaining below the maximum regulatory

Chart 5.6 Trends in Aggregate Profitability in the Banking Industry



*Up to 30 June 2018

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

Table 5.6 Comparative Position of Provision Adequacy by Types of Banks

(In billion BDT)

| Year | Items | SCBs | DFIs | PCBs | FCBs |
|--------------|---------------------------------|-------|-------|-------|-------|
| 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 | Required provision | 216.9 | 26.1 | 184.3 | 15.6 |
| | Provision maintained | 134.3 | 26.2 | 198.2 | 16.5 |
| | Provision maintenance ratio (%) | 61.9 | 100.4 | 107.5 | 105.8 |
| 2018 June | Required provision | 252.9 | 25.0 | 234.6 | 16.2 |
| | Provision maintained | 162.0 | 27.9 | 242.0 | 16.9 |
| | Provision maintenance ratio (%) | 64.1 | 111.6 | 103.2 | 104.3 |

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

ceiling¹. Banking sector maintained the LCR much above the minimum requirement of 100 percent throughout FY18, indicating banks had high-quality and liquid asset that would cover the banks cash outflows for a minimum of 30 days. In FY18, banks also maintained the minimum regulatory requirement of holding NSFR that indicates they had enough funding for the whole year in any unfavourable situation.

5.27 Table 5.11 shows that the FCBs have the highest liquidity ratios followed by the SCBs. There is an overall steady trend in the ratio of liquid assets to total assets of the banks during the last few years although the ratio for DFIs is zero as they do not need to maintain SLR.

¹ BB changed ADR in the banking system within a prescribed level to 83.5 percent and 89 percent for conventional and Islamic Shari'ah based banks respectively from January 2018 and instructed banks to bring down the ratio within the prescribed limit by 31 March 2019.

5.28 On the other hand, the scheduled commercial banks have to maintain a CRR (cash reserve ratio) averaging 5.5 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 5.0 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) for maintenance of the SLR.

5.29 Banking sector faced liquidity tightening conditions at the beginning of Q4FY18. As liquidity condition tightened, BB reduced Cash Reserve Ratio (CRR) by 100 basis points to 5.5 percent and repo rates by 75 basis points to 6.0 percent with effect from April 2018. This will give banks and financial institutions a scope to recalibrate their liquidity position in case of adverse situation. BB's policy measures led to improvements in liquidity conditions as reflected in the call money rate which came down from 4.56 percent in March to 3.41 percent in June 2018.

CAMELS Rating

5.30 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

Table 5.7 Writing-off Bad Debts by Types of Bank

(In billion BDT)

| Bank Types | 30 June 2011 | 30 June 2012 | 30 June 2013 | 30 June 2014 | 30 June 2015 | 30 June 2016 | 30 June 2017 | 31 Dec 2017 |
|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| SCBs | 82.4 | 72.9 | 107.2 | 154.8 | 210.3 | 220.4 | 224.4 | 226.2 |
| DFIs | 32.0 | 24.5 | 32.6 | 34.2 | 5.6 | 5.6 | 5.6 | 5.6 |
| PCBs | 77.1 | 64.9 | 109.7 | 127.7 | 155.5 | 189.4 | 216.7 | 239.9 |
| FCBs | 2.4 | 2.6 | 3.7 | 4.4 | 5.1 | 7.2 | 8.6 | 10.3 |
| Total | 193.9 | 164.9 | 253.3 | 321.1 | 376.5 | 423.2 | 455.3 | 482.0 |

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

Table 5.8 Expenditure-Income Ratio by Type of Banks

(In percent)

| Bank types | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | End June 2018 |
|------------|------|------|------|------|------|-------|-------|-------|---------------|
| SCBs | 80.7 | 62.7 | 73.2 | 84.1 | 84.1 | 84.5 | 90.2 | 81.3 | 83.9 |
| DFIs | 87.8 | 88.6 | 91.2 | 94.8 | 99.5 | 113.9 | 137.8 | 124.0 | 149.9 |
| PCBs | 67.6 | 71.7 | 76.0 | 77.9 | 75.8 | 75.5 | 73.5 | 73.8 | 78.4 |
| FCBs | 64.7 | 47.3 | 49.6 | 50.4 | 46.8 | 47.0 | 45.7 | 46.6 | 44.3 |
| Total | 70.8 | 68.6 | 74.0 | 77.8 | 76.1 | 76.3 | 76.6 | 74.7 | 80.3 |

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

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. A partial revision has been brought into the guidelines latest in 2016.

5.31 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 rating. HHI (Herfindahl-

Table 5.9 Profitability Ratio by Type of Banks

(In percent)

| Bank types | ROA | | | | | | | | | ROE | | | | | | | | |
|------------|------|------|-------|-------|-------|-------|-------|-------|-----------|------|------|--------|-------|--------|-------|--------|-------|-----------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 June | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 June |
| SCBs | 1.1 | 1.3 | -0.56 | 0.59 | -0.55 | -0.04 | -0.16 | 0.21 | -0.68 | 18.4 | 19.7 | -11.87 | 10.93 | -13.46 | -1.47 | -6.02 | 3.45 | -12.29 |
| DFIs | 0.2 | 0.1 | 0.06 | -0.40 | -0.68 | -1.15 | -2.80 | -0.62 | -1.62 | -3.2 | -0.9 | -1.06 | -5.81 | -5.97 | -5.79 | -13.88 | -3.07 | -8.44 |
| PCBs | 2.1 | 1.6 | 0.92 | 0.95 | 0.99 | 1.00 | 1.03 | 0.89 | 0.57 | 20.9 | 15.7 | 10.17 | 9.76 | 10.26 | 10.75 | 11.09 | 12.01 | 8.19 |
| FCBs | 2.9 | 3.2 | 3.27 | 2.98 | 3.38 | 2.92 | 2.56 | 2.24 | 2.75 | 17.0 | 16.6 | 17.29 | 16.93 | 17.67 | 14.59 | 13.08 | 11.31 | 13.65 |
| Total | 1.8 | 1.5 | 0.64 | 0.90 | 0.64 | 0.77 | 0.68 | 0.74 | 0.29 | 21.0 | 17.0 | 8.20 | 11.10 | 8.09 | 10.51 | 9.42 | 10.60 | 4.44 |

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

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 included as well. SME and Agriculture financing performance rating, Green banking and CSR performance rating, Spread rating are also considered in 'Management' part of CAMELS rating. 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 Adequacy, Asset Quality, 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.

5.32 According to December 2017 based CAMELS Rating, no bank was rated '1' or 'Strong'; the rating of 40 banks was '2' or

Table 5.10 Net Interest Margin by Type of Bank

(In percent)

| Bank types | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 June |
|------------|------|------|-------|------|------|------|------|-----------|
| SCBs | 3.66 | 1.18 | -0.32 | 1.96 | 1.62 | 1.75 | 1.98 | 2.13 |
| DFIs | 3.70 | 2.92 | 1.98 | 1.50 | 1.43 | 0.76 | 2.05 | 0.86 |
| PCBs | 3.19 | 3.06 | 2.77 | 4.11 | 3.85 | 3.89 | 3.52 | 3.52 |
| FCBs | 5.57 | 5.56 | 3.73 | 5.98 | 6.08 | 4.99 | 4.35 | 4.64 |
| Total | 3.48 | 2.79 | 2.02 | 3.56 | 3.28 | 3.27 | 3.13 | 3.18 |

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

'Satisfactory'; rating of 9 banks was '3' or 'Fair'; 7 banks were rated '4' or 'Marginal' and 1 bank received the rating of '5' or 'Unsatisfactory'.

5.33 BB had introduced Early Warning System (EWS) of supervision in March 2005 to address difficulties faced by the banks in any of the areas of CAMELS. Any bank found to have faced difficulty in any area operation, is brought under early warning category and monitored very closely to help improve its performance. Presently, there is no bank under EWS.

Operations of Banks in Urban and Rural Areas

5.34 As on 30 June 2018, 57 scheduled banks are operating with their 10114 number of branches throughout Bangladesh. The number of rural branches stood at 4890 (48.35 percent of total branches) at the end of June 2018 and the number of branches in urban areas was 5224 (51.65 percent of total branches) during the same period. The number of branches of SCBs is 1981 (52.95 percent) in rural areas and 1760 (47.04 percent) in urban areas. DFIs have

1113 (78.88 percent) branches in rural areas and 298 (21.12 percent) in urban areas. Private commercial banks have 1796 (36.74 percent) branches in rural areas and 3092 (63.26 percent) in urban areas. Foreign commercial banks are operating through 74 urban branches. The share of urban deposits to total deposits of the banking sector was 79.44 percent and the share of rural deposits to total deposits was 20.56 percent at the end of December 2017. On the other hand, the amount of advances given in urban areas constituted 89.41 percent to total advances of the banking industry and the amount of advances disbursed in rural areas represented only about 10.59 percent to total advances of the banking industry at the end of December 2017.

Islamic Banking

5.35 Islamic banking system introduced in Bangladesh in 1983. In FY18, 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. The Islamic banks have continued to show strong growth since its inception, as reflected by the increasing market share of the Islamic banking in terms of assets, financing and deposits of the total banking system. A brief picture of the performance of Islamic banks is given in Table 5.11. Total deposits of the Islamic banks and Islamic banking branches of the conventional banks stood at BDT 2119.5 billion at the end of December 2017 which accounted for 21.08 percent in total deposits (BDT10052.4 billion). Total credit of the Islamic banks and the Islamic banking branches of the conventional banks stood at BDT1958.2 billion at the end of December 2017, which accounted for 24.16 percent to total credit (BDT8106.1 billion) of the banking system of the country (Table 5.12).

Table 5.11 Trends in Liquidity Ratio by Types of Banks

| Bank types | (In percent) | | | | | | | | |
|------------|--------------|------|------|------|------|------|------|------|-----------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 June |
| SCBs | 27.2 | 31.3 | 29.2 | 44.3 | 42.0 | 41.4 | 40.0 | 30.4 | 31.7 |
| DFIs | 21.3 | 6.9 | 12.0 | 15.3 | 6.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| PCBs | 21.5 | 23.5 | 26.3 | 28.0 | 28.2 | 19.7 | 17.8 | 14.8 | 21.5 |
| FCBs | 32.1 | 34.1 | 37.5 | 46.2 | 56.9 | 51.8 | 48.2 | 43.8 | 46.8 |
| Total | 23.0 | 25.4 | 27.1 | 32.5 | 32.7 | 26.5 | 24.9 | 19.9 | 23.3 |

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

Legal Framework and Prudential Regulations

Risk Based Capital Adequacy (RBCA) for Banks

5.36 To comply with international best practices and 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. Under Pillar-1 (Minimum Capital Requirement) of Basel-III, Risk Weighted Assets (RWA) of banks is calculated against credit risk, market risk, and operational risk. BB announced the Roadmap for 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.

5.37 Banks were instructed to submit their Capital Adequacy Statements to BB following Basel-III accord from the quarter ended in March 2015. At the end of March 2018, Capital to Risk Weighted Assets Ratio (CRAR) of the banking industry stood at 10.11 percent while Common Equity Tier1 (CET1) was 6.98 percent which fulfilled Basel-III Minimum Capital Adequacy requirements. However, at individual level, out of 57 scheduled banks 10 (ten) and 8 (eight) banks failed to maintain CRAR and CET1 requirements respectively.

5.38 Banks are required to maintain a total capital conservation buffer (CCB) of 2.5 percent (Following the Phase-in-

Table 5.12 Comparative Position of The Islamic Banking Sector (as of end December 2017)
(In billion BDT)

| Particulars | Islamic banks | | Conventional banks* (Conventional+Islamic) | | Islamic banking | | All banking sector | |
|-------------------------------------|---------------|--------|---|------|-----------------|--------|--------------------|--------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| 1 | 2 | | 3 | | 4=2+3 | | 5 | |
| Number of banks | 8 | 8 | 16 | 16 | 24 | 24 | 57 | 57 |
| Deposits | 2019.6 | 1770.7 | 99.9 | 86.6 | 2119.5 | 1857.3 | 9874.9 | 8933.9 |
| Credits | 1860.1 | 1565.0 | 98.1 | 82.0 | 1958.2 | 1647.0 | 8106.1 | 6739.3 |
| Investment deposit ratio (IDR in %) | 87.8 | 86.3 | 79.8 | 84.2 | 87.7 | 86.7 | 75.9 | 71.9 |
| Liquidity: excess(+)/shortfall(-)** | 97.9 | 113.6 | 4.8 | 3.0 | 102.7 | 116.6 | 933.8 | 1259.5 |

*Conventional banks which have Islamic banking branches do not maintain SLR individually.

**The head offices of the respective banks maintain a combined SLR and liquidity position.

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

arrangements), comprised of Common Equity Tier 1 capital, above the regulatory minimum capital requirement of 10%, which has already come into effect since 2016. In 2018 CCB requirement is 1.875 percent. Banks should not distribute profit in case capital level falls below this range. CCB of the banking industry stood at 0.11 percent at the end of March 2018, which didn't fulfil CCB requirements. Besides, at individual level, 18 (eighteen) banks out of 57 scheduled banks failed to maintain CCB requirement during the period (Table 5.12).

5.39 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 introduced in 2015. In Bangladesh, the minimum requirement of Leverage ratio is 3 percent. Leverage Ratio of the banking industry stood at 4.34 percent at the end of March 2018, which fulfilled the minimum requirement. But, at individual level, 7 (seven) banks out of 57 scheduled banks failed to maintain Leverage Ratio requirement during the period. Instructions mentioned in the RBCA Guidelines are being adopted phase by phase, with full implementation of capital ratios by December 2019. Phase-in-arrangement of minimum capital requirements is depicted in Table 5.13. Under the new capital adequacy framework, all banks are required to maintain the following ratios on an ongoing basis:

- Common Equity Tier-1 (CET1) of at least 4.5 percent of the total RWA.
- Tier-1 capital will be at least 6.0 percent of the total RWA.
- 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.
- Minimum CRAR will be at least 10 percent of the total RWA.
- 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.

In addition to minimum CRAR, CCB of 2.5 percent of the total RWA is being introduced which has to be maintained in the form of CET-1.

5.40 The Supervisory Review Evaluation Process (SREP) of BB includes dialogue between BB and the bank's Supervisory Review Process (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, BB prepared a revised evaluation process document

in 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 practices, 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 2014. On the basis of the revised process document and return format, all banks submitted their ICAAP report based on 31 December 2017.

Loan Classification and Loan-Loss Provisions

5.41 BB has changed its policies on loan classification and loan-loss provisions near 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 implied a certain required level of provisioning for expected losses.

Loan Restructuring

5.42 Large borrowers contribute extensively to the socio-economic development and employment generation of the country,

Table 5.13 Phase-in-Arrangement of Minimum Capital Requirements.

| | (In Percent) | | | | |
|---|--------------|--------|-------|------------------------------------|------|
| | 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 | Migration to readjustment pillar-1 | |

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

that's why Bangladesh Bank recommended internationally best practiced restructuring policy support for the non-performing large borrowers. And to boost up the loan recovery endeavor of the banks, this large loan restructuring policy was issued on 29 Jan, 2015, which was valid only for those borrowers who applied on or before June 30, 2015 for having 'No Objection Certificate'. According to the policy, following criteria had to be fulfilled to avail the restructuring facility:

1. 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.
2. Minimum outstanding loan amount for restructuring shall be BDT 5.0 billion or above in aggregate, and
3. 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.

5.43 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 23.12 billion as installment from various borrowers up to December 2017.

Corporate Governance in Banks

5.44 BB has undertaken several measures in the recent years to establish 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 functions 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

5.45 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 accountable for conducting off-site supervision on banks as well as rating the banks' financial condition based on the different dimensions.

Off-site Monitoring of Banks

5.46 In recent time, off-site monitoring proved its indispensable requirement in case of supervising any bank. Off-site monitoring continued as a necessary complement to

on-site inspection in FY17, with its various tools and procedures for intensive and rapid analysis of the financial health of the banking sector. In continuation of the said endeavours, Department of Off-site Supervision (DOS) has undertaken some innovative initiatives to strengthen banking supervision.

Banking Supervision Specialists (BSSs)

5.47 In order to strengthen and intensify current banking supervision, BB has formed six Banking Supervision Specialist Sections under Department of Off-site Supervision in 2013. 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. They maintain extensive familiarity with condition, performance, risks, corporate governance and corporate structure of the concerned 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 get stronger and can achieve shock-resilient capacity.

5.48 Among these six BSSs, one is dedicated to monitor the state-owned commercial banks (SCBs) and the specialized banks while another one is concentrated only on the Islami sharia based banks and problem banks. Currently there is Memorandum of Understanding (MoU) with the SCBs and specialized banks and Directive of Bangladesh Bank (DOBB) with the problem banks. BSSs monitor the progress of (MoU) and DOBB and report the findings/progress of those banks immediately to the concerned senior management. For problem banks, concerned BSS intensively monitors the major financial indicators and managerial operations and takes instant actions if any irregularities found or makes recommendation if there is room for improvement. 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 (ICC) 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. On the other hand, BKB and RAKUB are also being monitored and reviewed under the MoUs. Preparation of MoUs for BKB and RAKUB for FY2018 is currently under process.

Formation of Observer Cell

5.49 In addition to the BSSs, Department of Off-site Supervision (DOS) also formed a new cell named "Observer Cell", in 2017, to appoint observers for any banks. In order to elevate good corporate governance, endorse proper credit disciplines and most importantly to protect depositors (people) interest, Bangladesh Bank can appoint, if required, an observer in the board of any bank and financial institution according to the Bank Company Act, 1991.

Risk Management Activities of Banks

5.50 Bangladesh Bank (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 progress to facilitate banks in adopting contemporary methods to identify, measure, monitor and control the risks existing in their institutions.

5.51 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 of time. 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.

5.52 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 revised the process for determining comprehensive risk management rating. According to the rating of December 2017, out of 57 scheduled banks, 18 banks were rated as low risk, 29 as moderate, 8 (eight) as high and the rest 2 (two) as critical-risk category bank.

5.53 BB revised Self- Assessment reporting format in FY 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 (5) 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. 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 in the concerned banks.

On-site Inspection of Banks

5.54 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 (FICSD) 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.

5.55 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" scale in ascending order. The on-site inspection

departments also monitor implementation of the suggestions or recommendations made in the inspection reports. 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.

5.56 The supervision of banks is based on the internationally accepted standards 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.

5.57 During FY18, DBI-1 conducted a total of 984 inspections, among which 663 comprehensive inspections and 232 core risk inspections were conducted on 29 banks to review the progress of implementation of the core risk guidelines (asset-liability management, credit risk management, information system security and internal control & compliance) 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 and Enterprise Data Warehouse (EDW) 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.

5.58 During FY18, DBI-2 conducted a total number of 933 inspections including 883 comprehensive inspections on 06 head offices, 123 big branches and 753 small branches of 06 state-owned Commercial Banks namely Sonali, Janata, Agrani, Rupali, Basic and BDBL. At the same time, a total number of 50 special inspections including 30 Core Risk Inspections were conducted on various branches and Head Offices of the 06 SCBs. The department also conducted comprehensive inspection on the Head office and 04 branches of ICB.

5.59 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 NBFIs. During FY18, DBI-3 conducted comprehensive inspections on 533 banks branches including 06 Head Offices, 32 big branches, 495 small branches including 212 SME service centers, SME/agriculture branches. In addition, a total number of 4 special inspections were conducted along with 34 inspections by this department during this period.

5.60 DBI-4 is entrusted with the responsibility of supervising the performance of 08 domestic Islamic Banks, 03 NRB banks (established by non-resident Bangladeshis) and 09 Foreign Commercial banks that are operating in the country with special emphasis on regulatory and supervisory compliances. During FY18, DBI-

4 conducted 325 inspections on banks' Head/country offices and branches. During the period, this department conducted comprehensive inspections on 114 branches and 20 Head/country offices of banks to examine the books of accounts and related financial documents/records of the banks with a view to evaluating their overall soundness and regulatory compliance status. During the period, DBI-4 also carried out core risk inspections on 20 branches and 20 Head/country offices of banks to review the implementation progress of core risk management guidelines as well as to evaluate and monitor risk management systems of those banks. Moreover, DBI-4 carried out Supervisory Review Evaluation Process (SREP) inspection on 20 branches and 20 Head/country offices to review the accuracy of the statement of ICAAP of the banks.

5.61 Besides these, DBI-4 conducted Anti money Laundering (AML) inspections on 10 branches of different banks. DBI-4 also conducted quick summary inspection on 97 branches and 11 Head offices (08 Islamic banks and 03 NRB banks). DBI-4 examined asset quality of the banks as of 31st December, 2017 and ensured reflection of the observations of this inspection in the annual financial statement of the banks. This is ensured through exchanging views in tri-partite meeting with concerned banks' management, external auditors and inspection teams before finalization of the financial statement. This department also conducted 24 special inspections on 14 branches and 10 Head/Country offices. On top of these, DBI-4 regularly monitors compliance and implementation progress of the recommendations made in the inspection report of the bank branches and Head/Country offices.

5.62 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 FY18, the department conducted a total of 68 comprehensive inspections on authorized dealer branches of banks, 10 comprehensive inspections on head office and 57 inspections on foreign exchange risk management of banks. The department also conducted 102 special inspections on foreign trade, foreign exchange related irregularities and 64 inspections on money changers.

5.63 BB always strives 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 FY2017-18, a total number of 5766 complaints were received by the department through the dedicated hot-line numbers, e-mails and traditional letters and among them 5733 complaints were resolved. Resolution rate is 99.42 percent. Besides, a total number of 116 special inspections were carried out on different commercial and specialized banks by this department during the period.

5.64 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. FICSD is not only providing services to settle customer complaints, it is also working to increase financial literacy awareness among public, so that they can gain confidence in the financial system.

5.65 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, disseminating information/intelligence thereon to relevant law enforcement agencies through executing the power and responsibilities under the provisions of Money Laundering Prevention Act, 2012 and Anti-Terrorism Act, 2009 (including the amendments). BFIU is also entrusted with the responsibility of exchanging information related to ML and TF with its foreign counterparts. The main objectives of BFIU is to establish an effective system for prevention of money laundering, combating financing of terrorism and proliferation of weapons of mass destruction by conducting both on-site and off-site supervision on AML/CFT activities of the reporting agencies in line with the empowerment imposed by section 23(1) (e) of Money Laundering Prevention Act (MLPA) 2012 and section 15(1)(e) of Anti Terrorism Act (ATA) 2009 (including amendments up to 2013) to supervise the activities of banks.

5.66 The BFIU has adopted risk-based approach to supervise the banks more effectively and to comply with FATF recommendations. Basically two types of onsite supervisions are

carried out by BFIU, namely i) System Check Inspection and ii) Special Inspection. In FY18 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, geographical, delivery channel or services/product risks. In order to identify the important risks faced by the banks and to mitigate those risks by choosing the appropriate response, BFIU considered the following four 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 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 inspections in 40 head offices and 54 branches of 56 banks during FY18.

5.67 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 programs 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 to boost up international efforts in this arena. Upto June, 2018 BFIU has signed 60 Memorandum of Understanding (MoU) to exchange information related to ML/TF with FIUs of other countries, among which 9 MoU have been signed in FY18.

Financial Stability and Macro Prudential Supervision

5.68 Financial Stability Department (FSD) is working relentlessly to build up a stable macro prudential framework that would shield the financial system from any adverse movement in the downturn phases of the economic and financial cycles. The department examines, assesses and quantifies plausible financial system risks and vulnerabilities, analyzes their outlook through some indicator as well as model based risk identification and monitoring toolkits. A number of macro prudential supervisory tools has been developed and are being used as early warning indicators. The department also performs some research works on globally recognized contemporary stability issues. Outcomes of the functioning risk assessment tools and research works are shared among supervision and operation related departments of BB to provide them with some important and significant inputs to strengthen the resilience of the overall banking sector.

5.69 An annual Financial Stability Report (FSR) is being published to evaluate the strength of banks and financial institutions (FIs) as a whole and to enhance risk awareness among the stakeholders of financial system. Quarterly Financial Stability Assessment

Reports (QFSAR) are also being published to provide the stakeholders with more frequent updates on key trends, risks and fragilities in the financial system of Bangladesh. Besides, Stress tests on banks are being conducted on quarterly basis to gauge the resilience of the banks on standalone basis as well as a whole banking sector to withstand plausible financial shocks. Aggregate stress test results are being published regularly in FSR and QFSAR.

5.70 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. The model conducts projections for next 12 (twelve) quarters about various aspects of the banking industry. Historical micro data along with current and expected financial sector and macroeconomic conditions are considered in formulating assumptions and stressed scenarios. It helps improve BB's risk assessment capacity for individual bank. FPM report is being generated on half yearly basis. Another tool named Interbank Transaction Matrix (ITM) is used for monitoring liquidity management of banks and FIs to find out any potential liquidity crisis in the market. ITM report is being generated on quarterly basis. Besides, dynamic analysis of the health of the banks is performed by the Bank Health Index (BHI) and HEAT map semi-annually to perform an analysis of the health of the banks from liquidity, solvency and earning perspective.

5.71 In order to remain vigilant against any adverse effect resulting from the failure of the Domestic Systemically Important Banks (D-SIBs), the department has been continuing to identify D-SIBs semiannually because the impact of the failure of a D-SIB will be significantly greater than that of a non-systemic bank. Besides, a framework for additional supervision mechanism has been developed to

supervise the D-SIBs, however, the framework has not been implemented yet. Another structured oversight framework to enhance credit discipline titled 'Central Database for Large Credit (CDLC)' has been developed to oversee the large exposures of Non Financial Corporation (NFC). The database will help identify assets in advance which may cause financial distress. Reports based on the analysis of CDLC are generated quarterly.

5.72 Bangladesh Systemic Risk Dashboard (BSRD) has been developed aiming to provide early warning signs of probable build-up of systemic risk in the financial system. It contains analyses on a set of qualitative and quantitative systemic risk indicators in the financial system of Bangladesh summarizing key risk factors namely macro risk, credit risk, funding and liquidity risk, market risk, profitability and solvency risk along with inter-linkages among them.

5.73 FSD is preparing a Composite Financial Stability Index (CFSI) on half yearly basis to measure overall stability of the Bangladesh Financial System. CFSI integrates eighteen indicators under three sub indices [(Banking Soundness Index (BSI), Financial Vulnerability Index (FVI) and Regional Economic Climate Index (RECI)]. The indicators covers the major soundness indicators of banking sector, financial sector, real sector and external sector to form a single composite indicator which indicates the stability condition of the financial system as well as any buildup of systemic stress.

5.74 Under the framework titled 'Coordinated Supervision framework for Bangladesh Financial System', a Coordination Council Technical Group (CCTG), a forum of financial sector regulators, has been formed to assist the Coordination Council in decision making. The CCTG met three times during 2017-18 with a view to exchanging ideas and information,

Table 5.14 The Recent Position of DITF

| Particulars | Unaudited figure (as on as on 31 December 2017) | Premium rate* | Coverage Amount |
|---|---|------------------|--------------------------------|
| Total fund | 64.03 billion BDT | --- | Up to |
| Total investment | 10549.98 billion BDT | --- | BDT 100 |
| Insurable deposit to total demand and time liabilities | 79.00% | --- | thousand |
| Covered deposit of total insurable deposit | 24.43% | --- | (Per bank Per Depositor) |
| Fully insured deposit | 88.66% | --- | |
| Sound bank categories | --- | 0.08% | |
| Early warning bank categories | --- | 0.09% | |
| Problem bank categories | --- | 0.10% | |

* Effective from 2013

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

and promoting cooperation among various regulators of the financial system. Moreover, Financial Stability Council (FSC), an apex body, has been established to avoid buildup of any systemic crisis that may threaten to jeopardize the financial stability of Bangladesh. It includes all the financial sector regulators (e.g., MoF, BB, BSEC, MRA, IDRA, Department of Cooperatives, RJSC etc.) and relevant government agencies such as National Board of Revenue (NBR) headed by the Minister of Finance (MoF). The prime responsibility of the FSC would be to take decision on resolution of domestic systemically important banks/ financial institutions (DSIBFs) which would go beyond the capacity of the individual regulators as well as the Coordination Council (CC).

Banking Sector Infrastructure for Financial Stability and Risk Management

Deposit Insurance Systems in Bangladesh

5.75 Deposit Insurance Systems (DIS) is a measure to protect bank depositors, especially the small depositors, from losses caused by a bank's inability to pay its debts when owing. The purpose of DIS is to 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. The indirect rationale for deposit insurance is to reduce the risk of a systemic crisis, for example, panic withdrawals of deposits from sound banks and breakdown of the payment systems. 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.

5.76 In Bangladesh, Deposit Insurance Scheme was first introduced in August, 1984 in the name of "The Bank Deposit Insurance Ordinance 1984". In July 2000, the Ordinance was replaced by an Act passed by Parliament called "Bank Amanat Bima Ain- 2000". Deposit Insurance systems in Bangladesh are now being administered by the said Act. In accordance with 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). The recent position of DITF is shown in Table 5.13.

5.77 The deposit insurance function in Bangladesh is limited to a pay-box function. It does not have any involvement in the supervision of its member banks and no role in the resolution of failed banks. In accordance with the "Bank Amanat Bima Ain- 2000"- the main functions are: collecting premium from all scheduled banks on half-yearly basis (30 June/31 December) and investing in the Government Securities and 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 said act, BB will pay to every depositor of that bank an amount equal to his/her deposits not exceeding BDT one hundred thousand.

5.78 To enhance the effectiveness of market discipline, BB has adopted a system of risk based deposit insurance premium rates applicable for all the banks effective from the half year January-June, 2007. From 2013, the premium rate has been increased. Moreover, proposal for the amendment of the current act to "Amanat Surakkha Ain" has already been sent to Ministry of Finance, which is now under consideration of MoF. Along with the banking systems BB has also taken initiative to bring the 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 the automation of premium calculation process and online submission of premium assessment information.

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

Activities of Credit Information Bureau

5.80 Credit Information Bureau (CIB) was set up in Bangladesh Bank (BB) on 18 August 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 banking industry. At present CIB online services are providing through New CIB Online solution software, which was developed by BB's internal resources and started its live operation on 01 October, 2015. It eliminated vendor dependency as well as reduced huge cost, which was incurred for

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, which ultimately make the loan processing activity faster.

5.81 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 & above and defaulted credit card information having outstanding amount of BDT 10,000 & above. The total number of borrowers was 1,794,703 at the end of April, 2018 while it was 1,274,612 during the same period of previous year. This number recorded an increase of around 41 percent comparing with the same of previous year. The Total number of classified borrowers in Banks/FIs was 240,660 at the end of April, 2018 which was approximately 13 percent higher compared to the same period of last year. In April, 2017 the number was 212,845.

5.82 The total outstanding amount of loans and advances of the banking and non-banking Financial Institution stood at BDT 922,576 crore (including BLW amount) in April, 2018 which recorded an increase of around 19 percent compared to the same period of last year. In April, 2017 the amount was BDT 775,269 crore. Furthermore, total classified outstanding

amount recorded an increase of around 25 percent in April, 2018 over the same period of last year. The classified amount was BDT 140,480 crore in April, 2018 while it was BDT 112,027 crore in April, 2017. Moreover from May 2018, CIB started to include credit information of borrowers having outstanding balance of BDT 1 and above of loans & advances. The total recorded number of borrowers in May, 2018 was 1,832,166, which was 2 percent higher than the previous month (April, 2018). 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 noted below:

i) Strengthen and make the existing CIB of Bangladesh Bank more informative by-

- a) Fine tune the newly developed CIB Online System;
- b) Increase credit history showed in CIB Report of a borrower to 24 months from 12 months;

ii) Develop Collateral/Security Information System to prepare a collateral/Security database of Immovable assets.

Memorandum of Understanding (MoU) has been signed on 08 August 2017 between Microcredit Regulatory Authority (MRA) and Bangladesh Bank to establish Credit Information Bureau for Micro Finance Institutions (MF-CIB).

Sustainable Banking

6.1. Bangladesh Bank (BB) has been integrating 'sustainability' into core banking practices through green banking, corporate social responsibility, financial inclusion and financial education. These environment oriented banking practices gradually created the concept of sustainable banking. Thus 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. 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. Sustainable banking mainly focuses on three broad categories—green banking, corporate social responsibility and financial inclusion.

Green Banking

6.2 Bangladesh Bank (BB) has been proactively guiding the banks and NBFIs for diverse sustainable banking initiatives since 2011. Regarding this green banking initiatives of BB broadly categorized into the following aspects: policy initiatives, monitoring of green banking activities of banks and NBFIs, refinance support from BB in diverse green products/ sectors, and BB's own initiatives for environmental management.

Policy Initiatives

6.3 Environmental Risk Management Guidelines for Banks and financial Institutions (FIs) was issued vide BRPD Circular No.01/2011 to assess environmental risk in their credit and Policy Guidelines for Green Banking for Banks vide BRPD Circular 02/2011. In 2012, Bangladesh Bank introduced a uniform reporting format for reporting green banking activities in a structured manner for banks. In 2013, Policy Guidelines for Green Banking was also issued (GBCSRD Circular No. 04/2013 and GBCSRD Circular Letter No. 05/2013) to the Financial Institutions (FIs) and the banks scheduled in 2013 where they were brought under the structured reporting system as well. To expedite the ongoing initiatives of banks and FIs at faster pace for sustaining the environment compatible to climate change risk, minimum target of direct green finance is set at 5% of the total funded loan disbursement/ investment from January 2016 onwards for all banks and FIs (GBCSRD Circular No. 04/2014). Recently, Bangladesh Bank instructed all banks and FIs to form Sustainable Finance Unit and Sustainable Finance Committee abolishing both Green Banking and CSR units (SFD Circular No. 02/2016). Guidelines on Credit Risk Management (CRM) for Banks issued vide BRPD Circular No. 04/2016 have incorporated in the evaluation of Environmental and Social Risks in the process of Credit Risk Management. On the contrary, 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

Table-6.1 Direct Green Finance in FY18

(In million BDT)

| Types of Bank/FI | Category of Green Finance | | | | | | | | Total |
|--------------------------|---------------------------|-------------------|--------------------|------------------|--------------------------------|---------------------------|---------------------|----------------|-----------------|
| | Renewable Energy | Energy Efficiency | Alternative Energy | Waste Management | Recycling & Recyclable Product | Green Brick Manufacturing | Green Establishment | Misc. | |
| SCBs (06) | 25.5 | 0.0 | 0.0 | 133.2 | 271.8 | 821.7 | 280.8 | 282.2 | 1815.2 |
| DFIs (02) | 7.7 | 0.3 | 0.0 | 0.0 | 0.0 | 36.0 | 0.0 | 1.5 | 45.4 |
| PCBs (40) | 2605.9 | 3156.0 | 9.0 | 34914.6 | 3471.3 | 9571.4 | 10331.0 | 1845.1 | 65904.3 |
| FCBs (09) | 192.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 192.6 |
| Bank's Total | 2,831.7 | 3,156.3 | 9.0 | 35,047.8 | 3,743.1 | 10,429.2 | 10,611.7 | 2,128.8 | 67,957.5 |
| FIs (34) | 523.9 | 1,080.6 | 0.0 | 308.8 | 124.1 | 560.1 | 658.3 | 133.8 | 3,389.6 |
| Grand Total | 3,355.6 | 4,236.9 | 9.0 | 35,356.6 | 3,867.2 | 10,989.2 | 11,270.0 | 2,262.6 | 71,347.2 |
| % of Total Green Finance | 4.7% | 5.9% | 0.0% | 49.6% | 5.4% | 15.4% | 15.8% | 3.2% | 100.0% |

Source: Sustainable Finance Department, Bangladesh Bank

Circular No. 02/2017 which was enforceable from January 01, 2018 replacing the Guidelines on ERM to all extent. A comprehensive list of product/initiatives of Green Finance for banks and FIs has been circulated in September 2017 (SFD Circular No. 04/2017). To monitor green banking policy & other regulations and to ensure the quality & uniformity of data provided by Banks & FIs, a new uniform reporting format of Quarterly Review Report on Green Banking Activities has been circulated for Banks & FIs in January 2018 (SFD Circular No. 01/2018).

Banks and FIs were 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 FIs shall allocate at least 10% of their Corporate Social Responsibility budget for "Climate Risk Fund" & this funding can be done in both ways- by providing grants or financing at reduced rate of interest (GBCSRD Circular No. 04/2015). Meanwhile, Banks & FIs have been instructed to set up Solid Waste Management System, Rainwater Harvesting and Solar Power Panel in their newly constructed or arranged building infrastructure (SFD Circular No. 01/2016). 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 (SFD Circular No 03/2016).

Green Finance

6.4 A total amount of BDT 71.35 billion has been disbursed directly as green finance during FY18 by 31 Banks out of 57 and 8 FIs out of 33. Product-wise green finance by banks & FIs are given in Table 6.1. Bank/FIs Sector-wise contribution of the total green finance shows that the PCBs played the main role (92.37 percent) followed by NBFIs (4.75 percent), SOCBs (2.54 percent) and Share of product-wise green finance demonstrated in Chart 6.1.

Environmental Risk Management (ERM)

6.5 Environmental Risk can be a facilitating element of credit risk because of its connectivity with environmental condition and climate change. Environmental & Social Risk Rating (ESRR) is obligatory above the threshold as mentioned in guidelines on ESRM for banks and NBFIs. All banks have conducted environmental & Social risk rating in FY18 (Excluding Shimanto Bank Ltd). The number of

projects rated by Environmental & Social Due Diligence (ESDD) during the year is 77,428. Total amount of BDT 2,821.40 billion disbursed in 66,930 rated projects in FY18 (Table 6.2).

Climate Risk Fund

6.6 Total amount of utilization from climate risk fund by banks and FIs were BDT 1,518.25 and 1.82 million respectively in FY18 (Table 6.3).

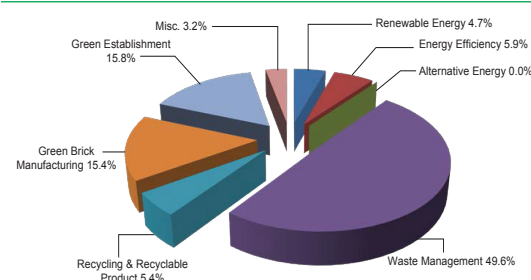
Online Banking and Energy Efficiency

6.7 57 banks (out of 57 banks) have online branches at the end of FY18. Online branches were 75.10 percent of total branches at the end of FY17 which was 87.35 percent at end of FY18. Green banking policy has pursued the banks to establish branches powered by solar energy. The number of branches powered by solar energy was 500 at the end of FY17 and the number stood at 546 at the end of FY18.

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 3,500 PCs. Bangladesh Bank has introduced open data initiative for all through its dynamic website which is updated at all time. Most of

Chart 6.1 Share of Product-wise Green Finance in FY18



Source: Sustainable Finance Department, BB.

Table 6.2 Environmental Risk Rating of banks and NBFIs in FY18

| Types of banks | No. of projects rated | No. of rated projects financed | Amount disbursed in rated projects (In million BDT) |
|---------------------|-----------------------|--------------------------------|---|
| SCBs | 5,629 | 4,876 | 49,778.36 |
| DFIs | 2 | 8 | 83.42 |
| PCBs | 66,850 | 57,753 | 2,541,599.98 |
| FCBs | 2,508 | 1,842 | 143,101.88 |
| Bank's Total | 74,989 | 64,479 | 2,734,563.65 |
| NBFIs | 2,439 | 2,451 | 86,833.13 |
| Grand Total | 77,428 | 66,930 | 2,821,396.78 |

Source: Sustainable Finance Department, BB.

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 also has started 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 one till FY18. Participatory Banks/Financial Institutions are allowed to charge maximum interest rate of 8-9 Percent on financing in green products/initiatives under the scheme. However, due to the consideration of Government's priority to 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' under the refinance scheme. The cumulative amount refinanced under the scheme up to June, 2018 stood at BDT 3797.25 million. In FY18, total disbursement under the BB's refinance increased by 91 percent to BDT 665.47 million which was BDT 348.80 million in FY17. It could be noted here that Green Industry is getting popular in Bangladesh and three Green Industry projects are financed by PFIs in FY18 under the scheme. The disbursement trend under this scheme and share of product wise disbursement from FY14 to FY18 is given Table 6.4 and chart 6.2 respectively.

6.10 ADB financed 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 resulting in reduced Green House Gas (GHG) and Suspended

Table 6.3 Utilisation of Green Fund in FY18
(in million BDT)

| Type of Bank/ FIs | Green Finance | Climate Risk Fund | Total |
|----------------------|-----------------|----------------------|-----------------|
| SCBs | 1,815.2 | 2.5 | 1,817.7 |
| DFIs | 45.4 | 0.0 | 45.4 |
| PCBs | 65,904.3 | 1,471.3 | 67,375.6 |
| FCBs | 192.6 | 44.4 | 237.1 |
| Bank's Total | 67,957.5 | 1,518.3 | 69,475.8 |
| FIs | 3,389.6 | 1.8 | 3,391.5 |
| Grand Total | 71,347.2 | 1,520.1 | 72,867.2 |

Source: Sustainable Finance Department, BB.

Particulate Matter (SPM). In this revolving relending disbursement Process, total amount of loan from ADB is around USD 50.00 million or equivalent BDT 400 Crore. The facility has two parts-Part A: USD 30.00 million or equivalent BDT is for conversion of Fixed Chimney Kiln (FCK) into Improved Zig-zag Kiln and Part B: around 20.00 million or equivalent BDT for establishing new Vertical Shaft Brick Kiln (VSBK), Hybrid Hoffman Kiln (HHK) and Tunnel Kiln. Bangladesh Bank has disbursed USD 22.75 million or equivalent BDT 177.39 Crore till June, 2018 to eight Participatory Financial Institutions (PFIs) against their financing in eleven sub-projects. The duration of the project is extended up to December 31, 2018.

Long Term Financing Facility (LTFF) under Financial Sector Support Project (FSSP)

6.11 BB intends 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). The main objective of this facility is to provide long term financing for private sector firms. The financing facility would be provided with a view to facilitate the development of economies and to promote socially and environmentally sustainable development outcomes. The

PFI will be responsible to ensure their borrowers to identify and mitigate the potential environmental and social risk associated with borrowers' proposed activities. The financing will be available to exporters, small and medium scale enterprises and other private sector firms (expected to be mainly manufacturing units) in the country. Estimated total fund of LTFF is USD 292.50 million (BDT 229,612.50), of which BB's contribution is USD 38.50 million (BDT 30,222.50) and IDA's contribution is USD 254.00 million (BDT 199,390.00) in FY18. This Financing would be offered for 3 to 10 years term in US dollar and provided to the PFIs authorized by BB to deal in foreign exchange on lending/refinancing to the private sector firms. So far total 31 PFIs have signed the Participatory agreement with Bangladesh Bank for this facility. This facility will be available for exporters, small and medium scale enterprises and other private sector firms in the country both on-lending and re-finance well as will extend financing towards the following areas:

- Purchase of capital machineries and equipment for up-gradation (including improvement in health and safety compliance), expansion or for newly set up manufacturing industries.
- Relocation of factories to designated industrial zones (other than EPZs/special zones);
- Purchase of ocean-going vessels and specialized transport vehicles supporting transportation of goods manufactured in the country.

An Environment and Social Management Framework (ESMF) has been developed to ensure the sustainability of financing to this facility.

Table 6.4 Disbursement Trend in BB Refinance Scheme for Green Products

| Product | (In million BDT) | | | | |
|------------------------------|------------------|-------|-------|-------|-------|
| | FY14 | FY15 | FY16 | FY17 | FY18 |
| Bio gas | 212.8 | 83.3 | 84.8 | 46.6 | 10.5 |
| Solar home system (SHS) | 32.2 | 87.5 | 114.7 | 35.3 | 0.0 |
| Solar irrigation pump | 17.9 | 26.5 | 0.6 | 0.0 | 0.0 |
| Solar assembly plant | 49.6 | 148.1 | 16.3 | 0.0 | 0.0 |
| Solar Mini-grid | 0.0 | 0.0 | 10.0 | 0.0 | 0.0 |
| Effluent treatment plant | 10.0 | 0.0 | 58 | 179.6 | 60.0 |
| HHK technology in brick kiln | 59.0 | 47.0 | 177.8 | 10.0 | 0.0 |
| Vermicompost | 0.0 | 1.1 | 1.6 | 1.3 | 0.0 |
| Green Industry | 0.0 | 0.0 | 400.0 | 0.0 | 500.0 |
| Safe Working Environment | 0.0 | 0.0 | 35.7 | 55.3 | 82.0 |
| Organic Manure from Slurry | 0.0 | 0.0 | 0.2 | 0.1 | 0.0 |
| Paper Waste Recycling | 0.0 | 0.0 | 20.0 | 20.0 | 0.0 |
| Energy Efficient Tech | 0.0 | 0.0 | 0.0 | 0.6 | 13.0 |
| Total | 381.5 | 393.5 | 919.7 | 348.8 | 665.5 |

Source: Sustainable Finance Department, BB.

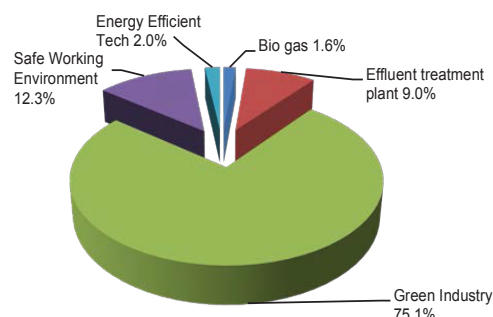
Green Transformation Fund (GTF)

6.12 In February 2016, BB has announced its intention to create a new longer term refinancing window naming Green Transformation Fund (GTF) of 200 million USD. With a view to fostering sustainable finance the fund will be used to ensure sustainable growth in export oriented textile leather and jute 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 management, Waste management, Resource efficiency and recycling, Renewable energy and Energy efficiency, Heat and temperature management, Air ventilation and circulation efficiency and Work environment improvement initiatives (FE Circular No. 02/2016). The disbursement from GTF up to FY18 is USD 130,477.00 in 2 projects.

Refinance Scheme for Islamic Banks and Financial Institutions for Investment in Green Products/Initiatives

6.13 In September 2014, Bangladesh Bank had introduced an “Islamic Refinance Fund” with the surplus liquidity of SLR of shariah based Islamic banks. To encourage the shariah based banks and non-bank financial institutions (NBFIs) to more involve in the renewable energy and environment friendly efforts Bangladesh Bank then launched a refinance scheme for Islamic banks and non-bank financial institutions (NBFIs) under renewable energy and eco-friendly sectors funded by “Islamic Refinance Fund” vide GBCSRD circular no.06 dated October 12, 2014. Over time, considering the modification in the country’s economic structural conditions, advanced technology, gradually raising demand for the eco-friendly products/initiatives and to accelerate the implementation of government’s different development plans (Perspective Plan of Bangladesh: 2010-2021, National Sustainable Development Strategy 2010-2021, 7th Five Year Plan : 2016-2020, Sustainable Development Goals) recently Bangladesh Bank has issued a integrated and comprehensive “master circular” vide SFD Circular No.02, dated April 05, 2018 by the revised and incorporated the existing circular and circular letters related to the refinance scheme for Islamic banks and non-bank financial institutions (NBFIs) under renewable energy and eco-friendly sectors. According to the SFD Circular No.02 (master circular) existing scheme will be named as “Refinance Scheme for Islamic Banks & Financial Institutions for Investment in Green Products/Initiatives.” This fund is available only for the Islamic banks and non-bank financial institutions (NBFIs). BB has enhanced the product range under this scheme from 50 to 51

Chart 6.2 Product-wise Refinance Disbursement in FY18



Source: Sustainable Finance Department, BB.

and segregated these products into 8 categories which include renewable energy, energy-efficient and energy-savings technology, alternative energy, waste management, recycling & recyclable product, environment friendly brick production, environment friendly installation and miscellaneous.

6.14 According to the master circular (SFD Circular No.02: “Refinance Scheme for Islamic Banks & Financial Institutions for Investment in Green Products/Initiatives.”) Mudaraba Savings Rate or Bank Rate which is lower will be considered as base rate for determining the profit rate at the beneficiary end. PFIs may impose/charge margin over base rate on the basis of investment tenure of the selective project to determine the actual profit rate (Mudaraba Savings Rate + Margin) at the beneficiary end for their direct financing to green products/initiatives which will be highest 8-9 percent. But in case of “Solar Irrigation Pumping System” the highest profit margin must be 2 percent for direct financing. Only term investment will be considered for refinance facility under this scheme Consultancy Costs, Repair/ Maintenance Expenses and Working Capital related Costs shall not be considered under the refinance scheme. Bangladesh

Bank will realize profit at Mudaraba Savings Rate or Bank Rate (currently 5 percent) which will be lower at the time of disbursement on refinanced investment amount. Profits of the refinance amount will be distributed among the PFI based on their investment ratio on the fund. Profit will be credited on the “Current/Principal Account” of the PFI maintained in the Motijheel office of the Bangladesh Bank. Bangladesh Bank will not receive any profit or any service/operational charge for operating the “Islamic Refinance Fund”.

6.15 PFIs will have to repay the refinanced fund with the profits quarterly. At the end of each year PFIs will be re-refinanced the outstanding balance of the selective project maintained at their beneficiary end. The PFIs, however, will be able to re-refinance till their investment period. The cumulative amount refinanced under the scheme up to June 2018 stood at BDT 278.97 million which was BDT 103.01 million at June 2017. Up to June 2018 Bangladesh Bank has collected BDT 2.64 million profit under this scheme which was BDT 0.93 million at the end of June 2017. Collected profit is credited to the current account of the invested banks that is maintaining with Bangladesh Bank. Total disbursement during FY18 was BDT 175.96 million and total profit collected during this period was BDT 1.71 million under refinance scheme for Islamic Banks & Financial Institutions for investment in Green Products/Initiatives.

Corporate Social Responsibility

6.16 On December 22, 2014 BB issued indicative guidelines 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

Table 6.5 CSR Expenditure of Banks and NBFIs in FY18

| Sectors | (In million BDT) | | | |
|--------------------------------|------------------|--------------------------|---------|--------------------------|
| | Banks | | NBFIs | |
| | Aomount | Sectoral Share (percent) | Aomount | Sectoral Share (percent) |
| Education | 3482.6 | 33.3 | 8.3 | 19.6 |
| Health | 443.0 | 4.2 | 6.0 | 14.2 |
| Humanitarian & disaster relief | 4821.7 | 46.1 | 9.3 | 22.0 |
| Environment | 78.4 | 0.8 | 2.9 | 6.9 |
| Cultural welfare | 294.6 | 2.8 | 6.3 | 14.9 |
| Infrastructural development | 18.2 | 0.2 | 2.2 | 5.2 |
| Income generating activities | 9.0 | 0.1 | 0.7 | 1.7 |
| Others | 1301.5 | 12.5 | 6.6 | 15.6 |
| Total | 10449.0 | 100.0 | 42.3 | 100.0 |

Source: Sustainable Finance Department, BB.

and end use monitoring process of CSR expenditures and activities. Besides on June 10, 2015 BB issued GBCSRD Circular Letter No. 06 for Reporting CSR activities undertaken by Banks and Financial Institutions.

CSR Activities of Banks and NBFIs

6.17 Total amount of CSR expenditure by Banks and NBFIs in FY18 was BDT 10,491.30 million while the amount was BDT 5,445.4 million in FY17, the sector- wise expenditure scenario of Banks and NBFIs are stated in Table 6.5. Banks contributed major share in humanitarian and disaster relief, education & others contributed to 46.1, 33.4 and 12.5 percent respectively of the total CSR activities. Expenditure on health, cultural welfare and environment in underprivileged area were 4.2, 2.8 and 0.8 percent respectively. Besides, only 0.2 percent of total CSR expenditure was made under infrastructural development. As income generating activities for the poor, banks expenditure in this area was insignificant. Share of expenditure in CSR programs of banks in FY18 are shown in Chart-6.3.

6.18 NBFIs reported direct CSR expenditure of BDT 42.3 million in FY18. The major

share of CSR expenditure by NBFIs went to humanitarian and disaster relief (22.0 percent) in FY18. However, they spent 19.6, 15.4, 14.9 and 14.2 percent of their total CSR expenditure in education, others, cultural welfare and health sectors respectively during the time period. Environment & infrastructural development in underprivileged area got less priority as they spent on these sectors 6.9 and 5.2 percent only in FY18. NBFIs spend on income generating activities for poor only 1.7 percent in FY18. Sectoral shares of CSR expenditure by NBFIs in FY18 are stated in Chart-6.4

BB's Own CSR Activities

6.19 BB has established “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. with a view to developing the backward sectors of Bangladesh and ensuring her sustainable development. Later the fund was extended to BDT 100 million in FY15. BB has sanctioned BDT 45.92 million in FY18 which was BDT 53.74 million (contribution from BB's profit and bank interest) in FY17 from the fund. The sector wise allocation in FY18 is reported in Table 6.6.

Financial Inclusion Activities

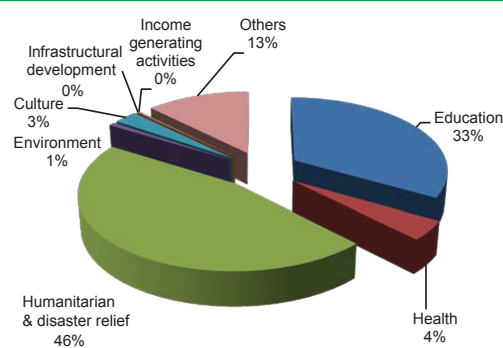
6.20 Financial inclusion emerges as one of the most effective tools among policy makers around the globe to ensure inclusive and sustainable economic development. Realizing the importance of financial inclusion, BB has been exploring and promoting innovative and successful policy initiatives to bring the financially

Table 6.6 Sector-wise Expenditure of BB's CSR Fund in FY18

| Sectors | Amount (In million BDT) |
|--|----------------------------|
| Education | 24.17 |
| Health | 6.75 |
| Humanitarian resources development/capacity building | 13.0 |
| Others | 2.0 |
| Total | 45.92 |

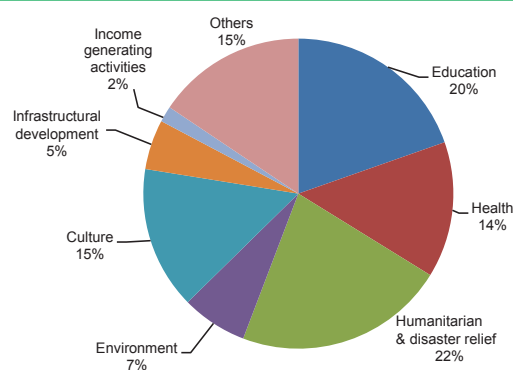
Source: Sustainable Finance Department, BB.

Chart 6.3 Share of Sector-Wise CSR Expenditure of Banks in FY18



Source: Sustainable Finance Department, BB.

Chart 6.4 Share of Sector-Wise CSR Expenditure of NBFIs in FY18



Source: Sustainable Finance Department, BB.

excluded people under the umbrella of financial inclusion. It has been working rigorously to ensure formal banking services to the poor and the under-privileged portion of the society through low cost digital financial services.

No Frill Accounts (NFAs) for Farmers and Under-privileged Group of the Society

6.21 To ensure banking services for the poor marginal farmers, BB instructed the SCBs and DFIs to open No-Frill Accounts (NFAs) for farmers in January 2010. BB has gradually issued instructions for opening different categories of NFAs other than farmers. BB also provided instruction to all banks to open NFAs for readymade garment workers and workers of small footwear & leather product industries. Since FY15, all banks are instructed to open NFAs for physically challenged persons.

6.22 Table 6.7 presents the number of NFAs opened by SCBs, DFIs, PCBs, and FCBs. Due to continuous initiatives from BB, the number of farmer's accounts reached to 9.32 million at the end of June 2018. Other than farmer's accounts, accounts opened by the hardcore poor, freedom fighters, and accounts under social safety net program increased significantly and reached at 2.48 million, 0.20 million, and 4.70 million respectively. Including all categories of NFAs, total number of accounts reached to 17.88 million. Table 6.8 shows the total balance of NFAs as on June 2018. Total balance of NFAs for farmers reaches at BDT 2.97 billion, while the balance of all categories of account reached at BDT 16.09 billion.

School Banking

6.23 As a part of financial inclusion drive, BB introduced school banking facilities in November 2010 and issued 'Guidelines for School Banking' in 2013. According to these guidelines, any student up to 18 years age can open school banking account through parents or legal guardian by depositing minimum BDT 100. Till June 2018, number of school banking accounts reached at 1539836 with a balance of BDT 14.19 billion (Table 6.9).

Table 6.7 Total Number of NFAs (as of June 2018)

| | SCBs | DFIs | PCBs | FCBs | Total |
|---|----------|---------|--------|------|----------|
| Farmers | 4768249 | 4066279 | 483029 | 0 | 9317557 |
| Hardcore poor | 1606584 | 857013 | 20235 | 0 | 2483832 |
| Freedom fighters | 195459 | 3039 | 2752 | 0 | 201250 |
| Social Safety net allowance | 3788224 | 911409 | 833 | 0 | 4700466 |
| Food & livelihood security | 59216 | 1969 | 28863 | 0 | 90048 |
| Poor rehabilitation under Religion Ministry | 1105 | 0 | 317 | 0 | 1422 |
| City corporation workers | 9703 | 0 | 39 | 0 | 9742 |
| RMG Workers | 51055 | 178 | 223472 | 51 | 274756 |
| Leather Industry Workers | 71 | 0 | 4058 | 76 | 4205 |
| National Service Program | 19357 | 11573 | 9105 | 0 | 40035 |
| Small Life insurance Program | 96735 | 6602 | 8177 | 0 | 111514 |
| Physically challenged | 143225 | 39375 | 94 | 0 | 182694 |
| Others | 408927 | 35751 | 18919 | 0 | 463597 |
| Total | 11147910 | 5933188 | 799893 | 127 | 17881118 |

Source: Financial Inclusion Department, BB.

Table 6.8 Total Balance of NFAs (as of June 2018)

| | (In billion BDT) | | | | |
|---|------------------|------|------|------|-------|
| | SCBs | DFIs | PCBs | FCBs | Total |
| Farmers | 0.72 | 0.86 | 1.39 | 0.00 | 2.97 |
| Hardcore poor | 0.43 | 2.36 | 0.04 | 0.00 | 2.83 |
| Freedom fighters | 2.05 | 0.01 | 0.06 | 0.00 | 2.12 |
| Social Safety net allowance | 2.04 | 3.12 | 0.00 | 0.00 | 5.17 |
| Food & livelihood security | 0.01 | 0.00 | 0.04 | 0.00 | 0.05 |
| Poor rehabilitation under Religion Ministry | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| City corporation workers | 0.01 | 0.00 | 0.00 | 0.00 | 0.01 |
| RMG Workers | 0.03 | 0.00 | 1.24 | 0.00 | 1.28 |
| Leather Industry Workers | 0.00 | 0.00 | 0.02 | 0.00 | 0.02 |
| National Service Program | 0.08 | 0.81 | 0.06 | 0.00 | 0.95 |
| Small Life insurance Program | 0.13 | 0.02 | 0.01 | 0.00 | 0.16 |
| Physically challenged | 0.11 | 0.09 | 0.00 | 0.00 | 0.20 |
| Others | 0.25 | 0.03 | 0.07 | 0.00 | 0.36 |
| Total | 5.86 | 7.31 | 2.93 | 0.00 | 16.10 |

Source: Financial Inclusion Department, BB.

Banking for Working/Street Children

6.24 BB relaxed the regulations for opening BDT 10 special accounts for the street and working children in 2014 to make them financially independent, safeguard their hard earned money, and secure their future. Up to June 2018, 19 banks signed bi-lateral agreement with different registered NGOs for offering the services. Concerned NGO is fully responsible for the operation of the accounts and the wellbeing of the account holder. Table 6.10 indicates that 4,684 accounts have been opened with a balance of BDT 3.39 million as on June 2018.

Agent Banking

6.25 Agent banking, among various initiatives of BB, is an emerging financial inclusion tool that provides unhindered access to the tailor-made financial products to the unprivileged, underserved and poor segment of the population especially from geographically remote locations which facilitates meeting their financial needs at affordable cost within their vicinity. 'Guidelines on Agent Banking' was issued in December 2013 and subsequently, a 'Guidance Note for Approved and Operation of Agent Banking Activities for Banks' was issued in June 2014 to accelerate safe, secured and smooth alternative delivery channel of financial services for the unbanked people. Finally, 'Prudential Guidelines for Agent Banking Operation in Bangladesh' was issued in 2017. Agents can offer a number of banking services, including cash deposit and withdrawal, fund transfer, utility bill payment and disbursement of salaries. To deepen inclusive growth, banks are instructed to maintain 2:1 ratio for opening rural and urban outlets. As on June 2018, 20 banks have got approval for agent banking

Table 6.9 School Banking Accounts and Balance (as of June 2018)

| Type of banks | Number of accounts | Balance (In billion BDT) |
|---------------|--------------------|--------------------------|
| SCBs | 436001 | 1.80 |
| DFIs | 127957 | 0.26 |
| PCBs | 973618 | 12.00 |
| FCBs | 2260 | 0.14 |
| Total | 1539836 | 14.20 |

Source: Financial Inclusion Department, BB.

Table 6.10 Working/Street Children Accounts and Balance (as of June 2018)

| 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 | 0.8 |
| Agrani Bank Ltd. | Uddipon | 341 | 0.6 |
| Rupali Bank Ltd. | Manab Sheba & Samajik Unnayan Sangostha, SUF | 973 | 10.8 |
| Bangladesh Development Bank Ltd. | BRAC | 80 | 0.1 |
| Bangladesh Krishi Bank | Uddipon | 163 | 0.4 |
| Bank Asia Ltd. | Oporajeo Bangladesh, Uddipon BRAC | 191 | 2.1 |
| Mercantile Bank Ltd. | Oporajeo Bangladesh, Aid Bangladesh, Manab Sheba & Samajik Unnayan Sangostha | 247 | 1.6 |
| Mutual Trust Bank Ltd. | ASD | 43 | 0.01 |
| National Bank Ltd. | CPD | 19 | 0.1 |
| Social Islami Bank Ltd. | Shakti Bidyaloy | 1038 | 8.2 |
| One Bank Ltd. | Prodipon, Shajida Foundation | 226 | 1.9 |
| Pubali Bank Ltd. | Oporajeo Bangladesh, BRAC, Nari Moitri | 544 | 4 |
| The City Bank Ltd. | Prodipon | 154 | 1.8 |
| Trust Bank Ltd. | Manab Sheba & Samajik Unnayan Sangostha | 280 | 1 |
| Al-Arafah Islami Bank Ltd. | ASD | 75 | 0.3 |
| Uttara Bank Ltd. | Poriborton | 76 | 0.1 |
| Prime Bank Ltd. | BRAC | 60 | 0.1 |
| Dutch-Bangla Bank Ltd. | Education & Development Foundation | 20 | 0.04 |
| Total | | 4684 | 33.99 |

Source: Financial Inclusion Department, BB.

services of which, 17 have started commercial operation. The number of agent outlets increased from 3,224 to 5,351 and the number of account holders increased from 0.87 million to 1.78 million during June 2017 to June 2018. Total balance of these accounts increased to BDT 20.12 billion in June 2018 from BDT 6.51 billion in June 2017. Till June 2018, expatriates have remitted foreign currency equivalent to BDT 35.14 billion through these accounts.

BB Refinance Scheme for BDT 10 Account Holders

6.26 With a view to bring the financially deprived grass root population under formal financial services and to gear up the banking activities of 10 BDT accounts, BB introduced a revolving refinance fund of BDT 2.0 billion in May 2014. The highest limit of refinance facility is BDT 50 thousand under this scheme. Only 10 BDT account holders can avail this facility via commercial banks without any collateral or service charges. Borrowers engaged in any kind of income generating activities such as, street vendors, farmers, boutiques, cobblers etc. can apply for this facility. Low rate of interest of this facility gives more breathing space for the low income groups. Till June 2018, approximately 959.5 million BDT has been disbursed by 40 participatory commercial banks who have signed agreement with BB to disburse credits under this scheme.

Small and Medium Sized Enterprise Development Project (SMEDP-2)

6.27 To broaden the scope of financial inclusion activities all over the country, BB is engaged with a new project named 'Second Small and Medium Sized Enterprise Development Project (SMEDP-2)' jointly funded by Asian Development Bank (ADB) and Government of

Bangladesh (GOB). Under this project, credit facility will be provided to cottage, micro, small and medium enterprises including women entrepreneurs residing outside of Dhaka and Chittagong Metropolitan areas with a view to enhance the scope of access to finance for this particular group. The Loan Agreement and Project Agreement of 'SMEDP-2 Project' was signed on 18 January 2017 between GOB and ADB with initial funding of USD 240.0 Million for providing development assistance under this refinance scheme. Under the supervision of Financial Institution Division of Ministry of Finance, BB will implement this project by June 2021 (fixed term). Till June 2018, approximately BDT 1.60 billion has been disbursed under this project by 20 private commercial banks and 12 Financial Institutions, who have signed participation agreement with BB under this project.

NRB Remittance

6.28 Gross remittance earning is increased by 17.3 percent from USD 12,769.45 million in FY17 to USD 14,981.69 million in FY18. At present, BB along with other stakeholders has taken initiatives to boost inward remittances through formal 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, Bangladesh Bank awarded 20 individuals as best remitters in both general professional and businessman categories, 9 best bond investors, 3 best NRB owned exchange houses as best remitters and 5 commercial banks to collect remittance for the year 2017 to recognize their contribution to the economy.

Financial Literacy

6.29 To bring the larger portion of financially

excluded population under formal financial services, BB has taken diverse financial literacy initiatives since 2014. BB has prepared two television commercials and ten radio broadcasting commercials. BB is also working with the Ministry of Education to pace the financial literacy programme among school level students. To enhance financial literacy among mass people, BB has instructed commercial banks to launch slogans, pictures and symbols on financial literacy that may be printed on ATM booths, bill boards, opposite side of check books, deposit slips and various publications of the banks.

Alliance for Financial Inclusion (AFI) and Maya Declaration

6.30 Alliance for Financial Inclusion (AFI) is a worldwide network of financial inclusion policy makers of 106 member institutions comprising central banks and/or financial regulatory institutions from 91 countries. Bangladesh Bank is a principal member of AFI since June 2009. At present, Governor of Bangladesh Bank is the Chair of the AFI Board of Directors.

6.31 Maya declaration was launched in September 2011 at the AFI Global Policy Forum in Riviera Maya, Mexico. BB signed the Maya Declaration on behalf of Bangladesh in

September 2014. Out of 37 targets committed by BB, 20 have been achieved till June 2018. Due to significant progress in financial inclusion, BB has been awarded with the AFI Policy Award in 2014. BB and AFI organized a joint learning program on “Digital Financial Services” during 04-08 December 2017 in Dhaka.

Child and Youth Finance International (CYFI)

6.32 BB became a partner of the Child & Youth Finance International (CYFI), a non-profit Dutch Foundation in 2015. Deputy Governor of BB is working as one of the members of the Supervisory Board of CYFI. The Global Inclusion Awards, a CYFI initiative, recognizes and honors those who successfully demonstrate innovation in financial, social and livelihood education, financial inclusion, and entrepreneurial support for children and youth at the national, regional and international levels. The 6th Global Inclusion Awards ceremony was organized by CYFI and the German G20 Presidency/German Federal Ministry for Economic Cooperation and Development (BMZ). Bangladesh as a country won the ‘Global Inclusion Award’ in 2017 by competing with 19 countries from five regions. The award was given to Bangladesh Bank for its sustainable and innovative financial inclusion and financial education initiatives.

Regulation, Performance and Supervision of NBFIs

7.1 Non-Bank Financial Institutions (NBFIs), have been playing a crucial role by providing additional financial services that is not 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 the country. Like the banks, most of the NBFIs have separate subsidiaries to operate merchant banking activities. NBFIs are supervised by Bangladesh Bank under a risk-based supervisory system. NBFIs showed strong performance in terms of growth in assets and deposits during FY18.

7.2 The authority of granting licenses to NBFIs and their control are vested in Bangladesh Bank by the Financial Institutions Act, 1993. As per the Financial Institutions Regulation, 1994 issued by Bangladesh Bank, the minimum paid up capital requirement for establishing a financial institution is BDT 1.0 billion. However, NBFIs' business line is narrow in comparison with banks. NBFIs cannot accept any such deposit as is repayable on demand through cheque, draft, or on order of the depositor. Therefore, they cannot provide operating account facilities like savings and current deposits, cash credits, overdrafts, etc. NBFIs may access public funds, either directly or indirectly through public deposits, commercial papers (CPs), debentures, and bank finance. However, they can only take term deposits with a minimum maturity of 3 months

Table 7.1 Trends in Structure of NBFIs

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018* |
|------------------|------|------|------|------|------|------|-------|
| No. of NBFIs | 31 | 31 | 31 | 32 | 33 | 34 | 34 |
| Government-owned | 2 | 3 | 3 | 3 | 3 | 3 | 3 |
| Joint-venture | 8 | 10 | 10 | 10 | 11 | 12 | 12 |
| Private | 20 | 18 | 18 | 18 | 19 | 19 | 19 |
| New branches | 8 | 7 | 20 | 15 | 14 | 30 | 8 |
| Total branches | 168 | 175 | 195 | 210 | 224 | 254 | 262 |

* As of 30 June 2018.

Source: Department of Financial Institutions and Markets, BB.

or more. They are not covered under the Deposit Insurance Scheme by the Bangladesh Bank. In addition, they are not allowed to deal in gold and foreign exchange. Nonetheless, they may obtain foreign currency loan from abroad subject to prior approval of the Bangladesh Bank. NBFIs are subject to the prudential guidelines/ limits such as income recognition, asset classification and provisioning norms; capital adequacy norms; single and group borrower exposure limits; prudential limits on capital market exposures; classification and valuation norms for the investment portfolio; CRR/ SLR requirements; accounting and disclosure norms and supervisory reporting requirements issued by Bangladesh Bank.

7.3 Presently there are 34 NBFIs operating in Bangladesh. Among these, 3 are government owned, 12 are joint ventures with foreign participation, and the rest 19 are locally private owned companies. The branch network of NBFIs increased to 262 as on 30 June 2018. Among the branches, 92 are set up in the district of Dhaka and the rest 170 are located in 34 districts across the country. The ownership structure of the NBFIs and their branch expansion related data are shown in Table 7.1.

Assets

7.4 The asset of NBFIs increased substantially by 17.82 percent to BDT 841.07 billion in December 2017 which was BDT 713.87 billion in December 2016. At the end of June 2018, total assets of NBFIs increased to BDT 870.30 billion (Table 7.2 and Chart 7.1).

Investment

7.5 NBFIs are investing in different sectors of the economy, but their investments are mostly concentrated in industrial sector. Among the total investment made by NBFIs 44.2 percent was in industry sector, 18.18 percent in real estate, 15.87 percent in trade and commerce, 3.81 percent in merchant banking, 2.91 percent in agriculture, 1.95 percent in margin loan and remaining 13.08 percent was in other sector at end of June 2018 (Chart 7.2).

7.6 NBFIs are allowed to invest in the capital market up to 25 percent of their paid up capital and reserve as per section 16 of Financial Institutions Act, 1993. In December 2017, all NBFIs' total investment in capital market was BDT 21.26 billion which was BDT 20.55 billion in December 2016. Investment in capital market accounted for 2.53 percent of the total assets of all NBFIs. As of 30 June 2018, NBFIs total investment in capital market stood at BDT 18.56 billion.

Deposits

7.7 Total deposits of the NBFIs increased to BDT 467.98 billion (64.41 percent of total liabilities) in December 2017 from BDT 382.43 billion (63.05 percent of total liabilities) in December 2016 showing an overall growth of 22.37 percent. At the end of June 2018, total deposit of NBFIs increased to BDT 480.1 billion (Table 7.2 and Chart 7.1).

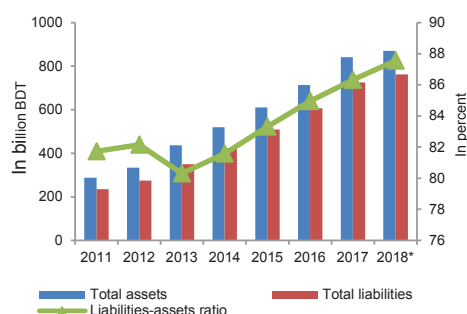
Table 7.2 Trends in Assets, Liabilities and Deposits of NBFIs

| | (billion BDT) | | | | | | |
|-----------------------------------|---------------|-------|-------|-------|--------|--------|--------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018* |
| Total assets | 333.9 | 436.3 | 520.1 | 611.0 | 713.9 | 841.07 | 870.30 |
| Total liabilities | 274.3 | 350.4 | 424.2 | 509.0 | 606.46 | 725.95 | 762.04 |
| Liabilities-assets ratio | 82.2 | 80.3 | 81.5 | 83.3 | 84.95 | 86.36 | 87.56 |
| Total deposit | 145.4 | 198.3 | 238.5 | 318.1 | 382.43 | 467.98 | 480.10 |
| Deposit as % of total liabilities | 53.0 | 56.6 | 56.2 | 62.5 | 63.1 | 64.41 | 63.00 |

* As of 30 June 2018.

Source: Department of Financial Institutions and Markets, BB.

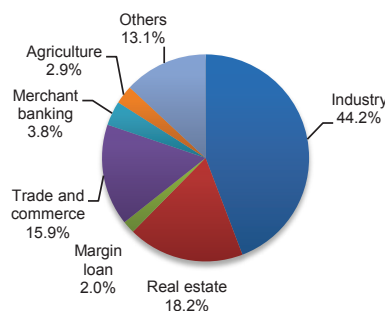
Chart 7.1 Trends in Assets, Liabilities and their Ratios of NBFIs



* As of 30 June 2018.

Source: Department of Financial Institutions and Markets, BB.

Chart 7.2 Investment Pattern of NBFIs (as of 30 June 2018)



Source: Department of Financial Institutions and Markets, BB.

Other Liabilities and Equity

7.8 Total liability of the industry increased to BDT 725.95 billion in December 2017 from BDT 606.46 billion in December 2016 while equity increased to BDT 115.12 billion

compared with BDT 107.44 billion during the same period showing an overall increase in liability by 19.7 percent and equity by 7.15 percent. At the end of June 2018, total liability and equity increased to BDT 762.04 billion and BDT 108.26 billion respectively.

Bond and Securitisation Activity

7.9 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, six instruments have been floated in the market up to June, 2018.

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 FI 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.

Asset Quality

7.12 This indicator intends to identify problems with asset quality in the loan portfolio. This is the ratio of gross non-performing loan/lease to total loan/lease. At the end of June

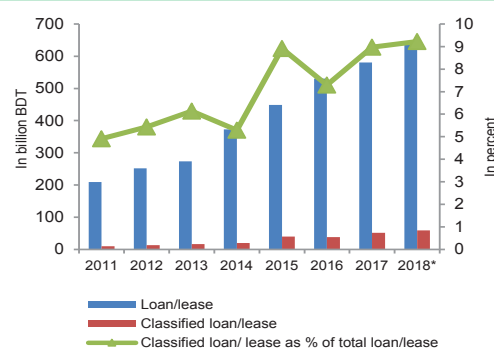
Table 7.3 Trends in Total Loan/Lease and Classified Loan/Lease

| | (In billion BDT) | | | | | | |
|--------------------------------------|------------------|-------|-------|-------|-------|-------|-------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Loan/lease | 252.1 | 273.6 | 372.8 | 448.5 | 530.7 | 580.4 | 641.9 |
| Classified loan/lease | 13.7 | 16.8 | 19.7 | 40.0 | 38.7 | 52.1 | 59.2 |
| Classified loan/ lease as % of total | 5.4 | 6.1 | 5.3 | 8.92 | 7.29 | 8.97 | 9.22 |

* As of 30 June 2018.

Source: Department of Financial Institutions and Markets, BB.

Chart 7.3 Trends in NBFIs' Total, Classified Loan/Lease and their Ratios



*As of 30 June 2018.

Source: Department of Financial Institutions and Markets, BB.

2018, the NPL for NBFIs was 9.22 percent. In the total asset composition of all NBFIs, the concentration of loans, lease and advances was 74.34 percent. The trends of the ratio of gross non-performing loan/lease to total loan/lease is presented in Table 7.3 and Chart 7.3.

Management Efficiency

7.13 Sound management is the most important prerequisite for the growth of any FI. 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.

Earnings and Profitability

7.14 Earnings and profitability of an FI 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 2018 were 0.32 and 2.50 respectively (Table 7.4).

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.

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 FI's asset-liability position, earnings and capital. When evaluating this sensitivity component, consideration is given to management's ability to identify, measure, and control market risk via the implementation of effective Core Risk Management System. Vulnerability of the FI 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.

Composite CAMELS Rating

7.17 At the end of December 2017, out of 34 NBFIs, in the composite CAMELS rating no FI got evaluation as "1 or Strong", 8 were evaluated as "2 or Satisfactory", 20 were "3 or Fair", 3 were "4 or Marginal" and 2 were "5 or

Table 7.4 Trends in Profitability of NBFIs

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018* |
|------------------------|------|------|------|------|------|------|-------|
| Return on equity (ROE) | 10.4 | 7.5 | 9.9 | 9.9 | 6.9 | 8.3 | 2.5 |
| Return on asset (ROA) | 1.9 | 1.5 | 1.8 | 1.8 | 1 | 1.14 | 0.32 |

* As of 30 June 2018.

Source: Department of Financial Institutions and Markets, BB.

Unsatisfactory". The remaining one FI is yet to come under this rating.

Legal Reform and Prudential Regulations

7.18 As part of the ongoing efforts, in FY18, some legal and regularity policy measures have been taken to improve the financial strength of NBFIs and to ensure the transparency in their operation.

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.

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 clearly specified the authority, responsibility and functions of the Board of Directors, Executive Committee, Audit Committee, Management and Chief Executive Officer of NBFIs. The number of Directors in the Board ranges from 9 to 11. The Board sets and approves the vision/ mission, annual strategic business plan, 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 1 percent, 5 percent, 20 percent, 50 percent and 100 percent respectively. At the end of June 2018, the total outstanding loan/ lease of NBFIs stood at BDT 641.9 billion of which NPL was BDT 59.2 billion which is 9.22 percent of total loan/ lease (Table 7.3). At the end of June 2018, the amount of provisioning was BDT 4.18 billion.

Loan Rescheduling Policy

7.22 For the purpose of rescheduling of loans/ leases NBFIs must 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 these, 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 internationally best practices for their risk management framework. The Guidelines encompass all the probable risks that include credit risk, market risk, liquidity risk, operational risk, compliance risk, strategic risk, reputational risk, environmental risk, and money laundering risk.

Consumer Protection Regulations

Schedule of Charges

7.24 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 clients can easily notice them. They are also advised to publish the same information in their websites. BB monitors these issues and NBFIs are required to submit semi-annual statements in these regard. No charge/ commission like commitment fee, supervision fee and cheque dishonor fee can be charged. A circular has been issued in the year 2018 to bring uniformity in the schedule of fees/ charges/ commissions against the loan/lease accounts by financial institutions and for the protection of customer interest.

Guidelines on Products, Services and Commercial Paper of Financial Institutions in Bangladesh

7.25 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 and services offered by NBFIs, which helps financial institutions to adapt with the changing environment and also to promote sound risk management system and bring discipline in launching new products and services. In order to set some regulations regarding commercial paper 'Guidelines on Commercial Paper for Financial Institutions' has been introduced. It has allowed financial institutions to get involved in commercial paper as investor, issuer, guarantor, and issuing and paying agent by fulfilling the terms and conditions as mentioned in the guidelines.

Cost of Funds Index for NBFIs

7.26 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 those statements, BB prepares an aggregate cost of funds index,

uploads that in the BB website and updates on 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 of the NBFIs. The cost of funds of NBFIs' was 7.89 percent in December 2017, which increased to 9.34 percent in June 2018.

Guidelines on 'Code of Conduct for Banks and Non-Bank Financial Institutions'

7.27 As part of formulation and implementation of National Integrity Strategy (NIS), a 'Code of Conduct for Banks and Non-Bank Financial Institutions' has been introduced in 2017 to increase the integrity, morality, efficiency and responsibilities of banks and financial institutions, and to ensure transparency in their products and services delivery and also to promote rationale behavior between/amongst banks, NBFIs and their stakeholders.

Financial Markets

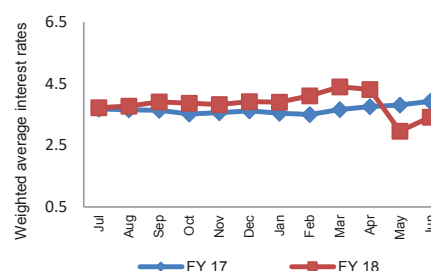
8.1 The financial system of Bangladesh is comprised of three broad fragmented sectors, Formal Sector, Semi-Formal Sector and the Informal Sector. The categorization is based on the extent of regulation in the sectors. The formal financial sector (financial market) is comprised of money market (comprising operations of the banking system, microcredit institutions, nonbank financial institutions and interbank foreign exchange market), the capital market (stock markets), bond market and the insurance market. Operational activities of these institutions in the formal financial sector are governed by a number of regulators such as Bangladesh Bank (banking system), Securities and Exchange Commission of Bangladesh (regulating the stock market operations), Insurance Regulatory Authority (for insurance institutions), and Microcredit Regulatory Authority (micro credit institutions). Ministry of Finance also has some oversight role in certain aspects. All these institutions play a crucial role in the country's money and capital markets including government securities and foreign exchange market. In FY18, the overall money market experienced a moderate liquidity pressure as evident from an upward movement in call money rate (Chart 8.1). In order to address the marginal liquidity crunch CRR was reduced from 6.50 percent to 5.50 percent with effect from April, 2018. For ensuring effective liquidity management the excess liquidity of the banking system was partly sterilization with cautious use of Bangladesh Bank Bills (tools of OMOs) which contribute moderate call money rate and balancing optimum inflation rate, real GDP growth and exchange rate.

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 (%) |
|-----------|-------------------------------|-------------------------------------|-------------------------------|-------------------------------------|
| | FY17 | | FY18 | |
| July | 959.82 | 3.68 | 1392.99 | 3.72 |
| August | 1132.23 | 3.65 | 1676.47 | 3.77 |
| September | 1076.02 | 3.64 | 1597.78 | 3.91 |
| October | 998.26 | 3.52 | 1696.76 | 3.87 |
| November | 1037.34 | 3.56 | 1256.19 | 3.82 |
| December | 902.20 | 3.62 | 1337.05 | 3.92 |
| January | 1142.22 | 3.54 | 1406.32 | 3.90 |
| February | 1231.44 | 3.50 | 1428.65 | 4.11 |
| March | 1300.56 | 3.66 | 1649.76 | 4.40 |
| April | 1331.40 | 3.76 | 1247.58 | 4.31 |
| May | 1400.70 | 3.81 | 1175.92 | 2.96 |
| June | 1320.76 | 3.93 | 1125.79 | 3.41 |
| Average | 1152.75 | 3.66 | 1415.94 | 3.84 |

Source: Debt Management Department, Bangladesh Bank.

Chart 8.1 Movements in Call Money Rate



Source: Monetary Policy Department, Bangladesh Bank.

Money Market

Call Money Market Activities in FY18

8.2 The money market in Bangladesh comprising banks and financial institutions experienced a balanced growth path in FY18. BB prudently used open market operations (OMOs) tools termed as Repo, Reverse Repo special Repo and Liquidity Support Facility

Table 8.2 Repo Auctions-FY18

| Total number of auctions held during the year | Tenor | Bids received | | Bids accepted | | Interest rate of the accepted bids (%) [®] |
|---|-------------|----------------|-----------------------------|----------------|-----------------------------|---|
| | | Number of bids | Face value (in billion BDT) | Number of bids | Face value (in billion BDT) | |
| 4 | 1-Day/2-Day | 2 | 3.04 | 2 | 3.04 | 6.75 |
| | 3-Day/7-Day | 3 | 2.79 | 3 | 2.69 | 6.75 |
| | Total | 5 | 5.83 | 5 | 5.73 | 6.75* |

* Overall interest rate range of different tenors.

® The current rate of repo is 6.00 percent effective from 15 April, 2018.

Source: Monetary Policy Department, Bangladesh Bank.

(LSF) to the Primary Dealers (PDs) and non-PD banks against their holdings of eligible treasury bills and bonds for managing liquidity. BBs scrupulous policy measures such as operations of BB Bills dried the market liquidity contributing stable weighted average interest rate in the call money market. During FY18, moderate penetration in the average volume of transaction in the call money market is observed. During the same period call money rate ranging from 2.96 percent to 4.40 percent (Table 8.1 and Chart 8.1.) The volume of transaction in the call money market was high in the initial months with moderate growth in third quarter. Following prudent monetary policy BB revised its policy rates (repo rate) in the last quarter of FY18. However, the volume of transaction was relatively low in the last quarter keeping steady momentum in rates in FY18. The average volume of interbank call money increased by BDT 263.19 billion, which was 22.83 percent higher comparing that of FY17.

Repo Auctions held in FY18

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 interest rate of repo was reduced at 6.00 percent from 6.75 percent with effect from April, 2018. Moreover, to ease the liquidity conditions, BB increased available repo tenors to 7, 14 and 28 days. The rates of interest for Repo, Special Repo and LSF were 6.00 percent, 9.75 percent and 6.00 percent respectively in FY18. Reverse Repo rate was unchanged at 4.75 percent in FY18 signalling maintenance of floor rate on deposit contributing for real return and to achieve broad objective of monetary policy.

8.4 A total of 4 Repo auctions were held during FY18. In all 5 bids for BDT 5.83 billion were received of which all the bids amounting

Table 8.3 Auctions of Bangladesh Bank Bill-FY18

| Tenor of bill | Bids offered | | Bids accepted | | Outstanding bills as of end June 2018 (in billion BDT) | Weighted average yield (WAR) range* (%) | |
|---------------|--------------|-----------------------------|---------------|-----------------------------|--|---|-----------|
| | Number | Face value (in billion BDT) | Number | Face value (in billion BDT) | | FY17 | FY18 |
| 7-Day | 2670 | 7253.30 | 2433 | 6418.31 | 80.50 | 2.96-2.98 | 0.14-2.98 |
| 14-Day | 487 | 2145.88 | 396 | 1856.06 | 7.45 | 2.50-2.98 | 0.10-2.98 |
| 30-Day | 208 | 154.78 | 208 | 154.78 | 0.00 | 2.92-2.98 | 2.96-2.98 |
| Total | 3365 | 9553.96 | 3037 | 8429.15 | 87.95 | 2.50-2.98 | 0.10-2.98 |

Source: Monetary Policy Department, Bangladesh Bank.

Table 8.4 Auctions of Government Treasury Bills-FY18

| Tenor of bills | Bids offered | | Bids accepted | | Outstanding bills as of end June 2018 (in billion BDT) | Weighted average yield (WAR) range* (%) | |
|-------------------|--------------|-----------------------------|---------------|-----------------------------|--|---|-----------|
| | Number | Face value (in billion BDT) | Number | Face value (in billion BDT) | | FY17 | FY18 |
| 91-Day | 1460 | 869.26 | 424 | 262.40 | 123.00 | 2.85-4.91 | 0.73-4.71 |
| 182-Day | 664 | 364.83 | 170 | 118.00 | 71.00 | 3.10-5.41 | 3.39-4.83 |
| 364-Day | 462 | 208.90 | 167 | 65.47 | 75.00 | 3.48-5.89 | 2.94-4.80 |
| Devolvement on BB | | | | 51.13 | | | |
| Total | 2586 | 1442.99 | 761 | 497.00 | 269.00 | 2.85-5.89 | 0.73-4.83 |

Source: Monetary Policy Department, Bangladesh Bank.

BDT 5.73 billion were accepted. During FY17 total 6 bids for BDT 1.16 billion were received and all bids were accepted. The volume of accepted amounts increased by BDT 4.57 billion during FY18 (Table 8.2). The interest rate against the accepted bids was 6.75 percent per annum, which was ranging 6.75-9.75 percent per annum in FY 17.

Reverse Repo Auctions held in FY 18

8.5 In line with the broad objective of monetary policy, Bangladesh Bank use Reverse Repo to mop up excess liquidity from the banks to keep the Reserve Money and Money Multiplier on track. In case of Reverse Repo, BB abstained from providing any collateral to the banks. In FY18, the interest rate of Reverse Repo (policy rate) was higher (4.75 percent) comparing BB Bills rate signalling the market to maintain floor rate on bank deposits due to buoyancy of liquidity. One bid for BDT 1.5 billion of daily Reverse Repo was held in FY18 but the bid was not accepted. During FY17 bids amounting BDT 84.60 billion were received but no bid was accepted. The interest rate of Reverse Repo was 4.75 percent per annum since 14 January, 2016.

Bangladesh Bank Bill Auctions held in FY18

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 revived in FY10 was also continued in FY18 as a tool of Open Market Operations (OMOs). With a view to maintaining stable interest rate and exchange rate, inflation and optimum return on bank deposits, Bangladesh Bank strongly used these instruments efficiently in FY18. The outcomes of Bangladesh Bank Bill auctions in FY18 are shown at Table-8.3.

Government Securities Market

Government Treasury Bills Auctions

8.7 Treasury bills and bonds are short-term and long-term debt instruments issued by Bangladesh Bank on behalf of the Government of Bangladesh. These are the indirect monetary instruments that the BB uses mainly for debt management purpose. The securities are issued through an auction process where the allotments are awarded to the bids which fill the notified issue amount ranging from the lowest to highest yield. Pro-rata partial allotments are made for bids at the cut-off-yield. The objectives of issuing these securities are two-fold. The first is to provide a mechanism for financing government budget deficit and secondly managing excess liquidity prevailing in the market. In FY18, a total of 20 Primary Dealers (PDs) banks worked as underwriters

Box 8.1 Mechanism for Ensuring Financial Stability in Bangladesh

The mechanism to ensure financial stability starts with identification and assessment of potential stability threats in the financial system. To this end, global and domestic macroeconomic conditions, key trends of financial institutions, financial markets, and financial infrastructure are extensively analyzed by Bangladesh Bank (BB) using various micro and macroprudential tools. After assessing the present conditions of the financial system and identifying imminent threats, BB uses prudential policy tools to protect the financial system against those threats. In general, microprudential initiatives are taken by various departments of BB to ensure safety and soundness of individual bank/ financial institutions while macroprudential instruments, usually initiated by Financial Stability Department (FSD), are used to achieve some specific goals which are critical for ensuring stability of the financial system.

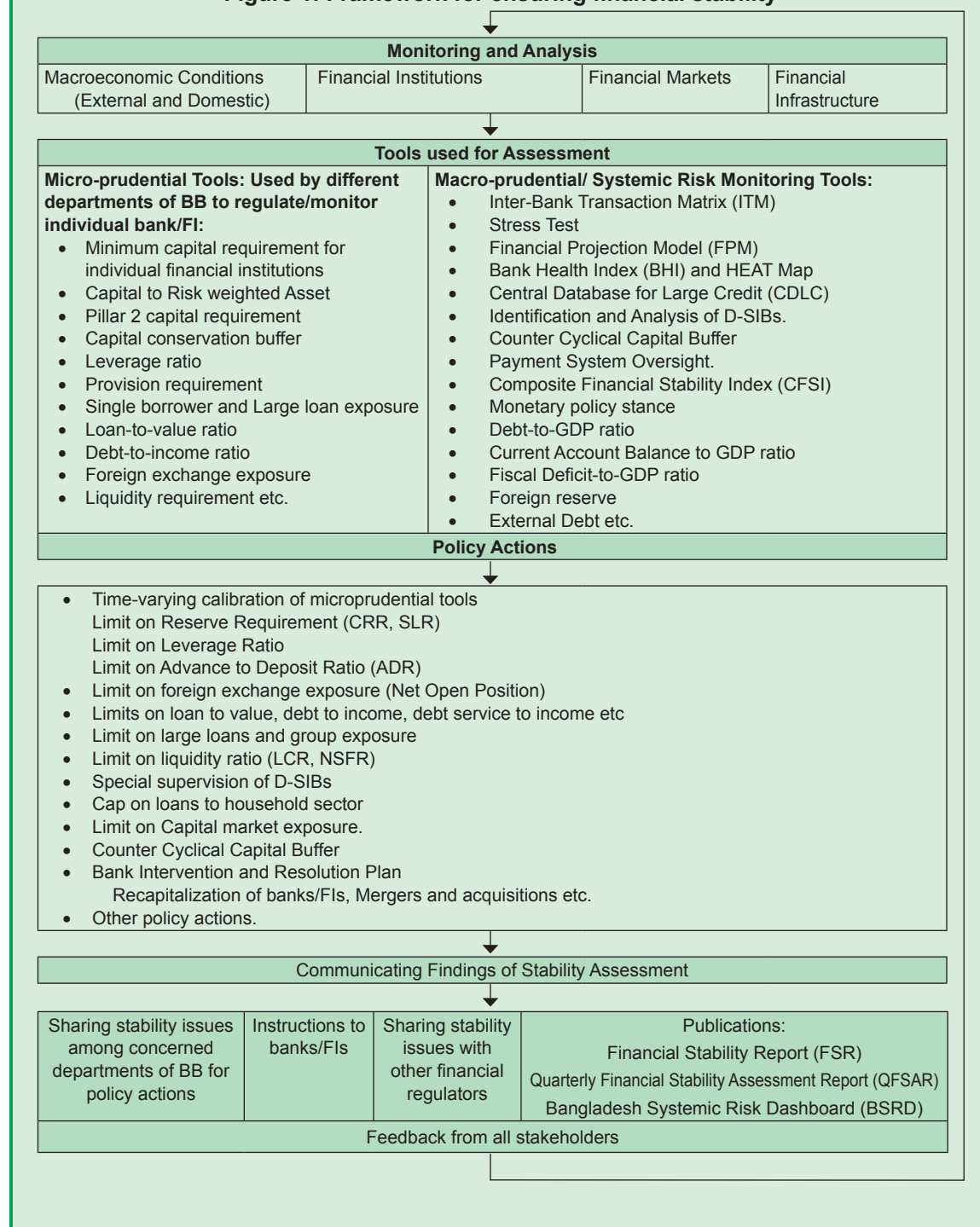
BB often alters reserve requirements and liquidity ratios to control money supply, credit growth and liquidity. Limit on advance-deposit (ADR) ratio and caps on various consumer financing schemes allow BB to prevent undesirable credit growth and excessive indebtedness of the household sector as these can trigger systemic crisis for the financial system. BB imposes prudential limit on investment in capital market from banks so that banking system does not overexposed to the capital market. Though BB has not introduced higher capital requirement for the Domestic Systemically Important Banks (D-SIBs) yet, still a number of departments of BB supervises these institutions in a coordinated manner to minimize the chance of triggering crisis from these institutions.

Countercyclical capital buffer has been introduced for taking measures against excessive credit growth to address pro-cyclicality of financial and business cycles. Inter-Bank Transaction Matrix (ITM) analyzes connectivity among all banks and financial institutions and is used to detect contagion risk among those institutions. Financial Projection Model (FPM) is used to project financial outlook of banking industry for the next 12 quarters based on historical analysis and a set of plausible assumptions. Bank Health Index is used to analyze the relative performance of banks in comparison with industry and peer group. Recently BB has started to analyze the indebtedness of large non-financial corporations (NFCs) and systemic implications from their failures. FSD also has formulated the identification methodology of D-SIBs and closely monitors them because failure of a D-SIB may entail high systemic consequences for the financial system. FSD also uses Composite Financial Stability Index to assess the long term performance of the banking industry.

What is more, BB conveys findings of its stability assessment among the related departments through internal noting/ reporting to adopt supervisory actions. Policy concerns are also shared with other financial sector regulators and top management of banks/ financial institutions. Moreover, BB keeps all other stakeholders informed about stability issues through various publications. The flagship publications of BB regarding financial stability are annual Financial Stability Report, Quarterly Financial Stability Assessment Report and Bangladesh Systemic Risk Dashboard. Lastly, BB regularly receives feedback from all stakeholders to review its financial stability stance to ensure stability of the financial system of Bangladesh.

A simplified framework of financial stability mechanism which is in practice at the moment has been shown in Figure 1.

Figure 1: Framework for ensuring financial stability



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 FY18, 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 to use those as the main instruments for debt management of the government in FY18. The results of Treasury Bills auctions in FY18 are summarised in Table 8.4. The range of annual weighted average yields of most of the Treasury Bills decreased in FY18 as compared to FY17 due mainly to an existence of affluent liquidity in the market while government's borrowing from the banking system registered a very low position. Moreover, the higher amount

of maturity comparing accepted amount of Treasury Bills of different tenors resulted lower amount of outstanding as year on year basis.

8.9 A total of 2586 bids amounting to BDT 1442.99 billion were received of which 761 bids amounting to BDT 497.00 billion (including BDT 51.13 billion as devolved amount) were accepted in FY18. The weighted average yield-to-maturity against the accepted bids ranged from 0.73 percent to 4.83 percent. In FY17, a total of 2446 bids amounting to BDT 1562.76 billion were received of which BDT 505.00 billion (including BDT 14.68 billion as devolved amount) were accepted.

Bangladesh Government Treasury Bonds (BGTBs) Auctions

8.10 Treasury Bonds bearing half yearly interest coupons with tenors of 2-year, 5-year, 10-year, 15-year and 20-year are auctioned in every month following a pre-announced auction calendar prepared by Bangladesh Bank in consultation 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-

Table 8.5 Auctions of Bangladesh Government Treasury Bonds-FY18

| Tenor of bonds | Bids offered | | Bids accepted | | Outstanding bonds as of end June 2018 (billion BDT) | Yield range* (%) |
|-------------------|--------------|-----------------------------|---------------|-----------------------------|---|------------------|
| | Number | Face value (in billion BDT) | Number | Face value (in billion BDT) | | |
| 2-Year | 429 | 202.46 | 143 | 58.14 | 100.50 | 3.4180-5.3274 |
| Devolvement on BB | | | | 10.86 | | |
| 5-Year | 404 | 121.73 | 221 | 53.58 | 287.70 | 5.6317-5.9836 |
| Devolvement on BB | | | | 3.42 | | |
| 10-Year | 499 | 149.86 | 249 | 63.87 | 518.49 | 6.7055-7.4140 |
| Devolvement on BB | | | | 4.13 | | |
| 15-Year | 258 | 70.16 | 85 | 27.22 | 238.66 | 7.2363-8.1943 |
| Devolvement on BB | | | | 2.78 | | |
| 20-Year | 274 | 70.47 | 133 | 25.21 | 208.87 | 7.8715-8.8178 |
| Devolvement on BB | | | | 1.79 | | |
| Total | 1864 | 614.68 | 831 | 251.00 | 1354.22 | 3.4180-8.8178* |

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

liabilities matching, the auction of 2-year BGTB has started from May, 2013.

8.11 The BGTB auction committee determined cut-off coupon rate used for bond pricing. Banks are eligible to use Government Treasury Bills and BGTBs for Statutory Liquidity Requirement (SLR) purpose in the form of Held To Maturity (HTM) and Held For Trade (HFT). HTM securities are amortised in order to converge at face value and HFT securities are traded following marking to market norms. These bills and bonds are eligible for trading in the secondary market using MI module of Bangladesh Bank. Thirty two auctions of these instruments were held in FY18. A total of 1864 bids for BDT 614.66 billion were received and 831 bids for BDT 251.00 billion were accepted of which BDT 1.79 billion was devolved on BB. The amount of outstanding bonds was increased by 4.88 percent to BDT 1354.22 billion at the end of June 2018 from BDT 1291.22 billion at the end of June 2017.

8.12 The weighted average annual yield-to-maturity for the treasury bonds ranged from 3.4180 percent to 8.8178 percent in FY18. The summary of auctions of Bangladesh Government Treasury Bonds during FY18 is given at Table 8.5.

8.13 It is noted that in FY17, 1689 bids for a total of BDT 490.10 billion were received and BDT 151.00 billion was accepted of which BDT 0.48 billion was devolved on BB. The overall weighted average yield-to-maturity ranged from 4.2340 percent to 8.4400 percent in FY17.

Bangladesh Government Islamic Investment Bond (Islamic Bond)

8.14 Government issues bond as guarantee against the pool of funds formed by the Islamic banks and individuals in order to develop

Table 8.6 Bangladesh Government Islamic Investment Bond

(in billion BDT)

| Particulars | FY 16 | FY 17 | FY 18 |
|-------------|--------|-------|-------|
| Sale | 122.94 | 84.01 | 92.95 |
| Financing | 37.80 | 54.70 | 81.20 |
| Net balance | 85.14 | 29.31 | 11.75 |

Source: Motijheel Office, Bangladesh Bank.

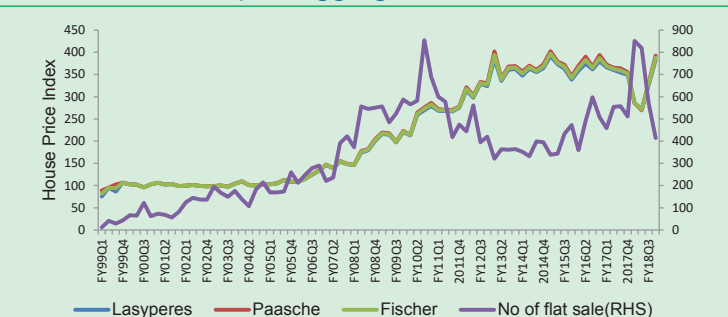
money market for smooth liquidity management of Islamic banks. Virtually government does not borrow money from this sector. The return of the bonds depends on investment in line with the Islamic Shariah savings rate and other related factors reflected in the balance sheet of the respective Islamic bank. The operation of 6-month Bangladesh Government Islamic Investment Bond was introduced in FY04. As a new tool 3-month Bangladesh Government Islamic Investment Bond was introduced in January, 2015. Bangladesh Government Islamic Investment Bond is operated in accordance with the rules of Islamic Shariah. As per the rules, Bangladeshi institutions, individuals and non-resident Bangladeshis who agree to share profit or loss in accordance with Islamic Shariah may buy these bonds. As of end June 2018, the total sale against this bond amounted to BDT 92.95 billion while balance of total amount of financing stood at BDT 81.20 billion and net balance against the bond stood at BDT 11.75 billion. As of end June 2017, the total sale against this bond was BDT 84.01 billion against the balance of total financing of BDT 54.70 billion and net balance of BDT 29.31 billion. The sale amount of Islamic Bonds was increased in FY18 due to higher amount of financing demand by the Islamic banks. The overall transaction of this bond are summarised in Table 8.6.

Box 8.2 Calculation of Housing Price Index (HPI) in Bangladesh

In recent years the nature of house price dynamics and their relationship with financial stability and monetary policy are highly concern among academics and policymakers. Policymakers need to identify the sources and nature of property price fluctuation in order to maintain price stability. Moreover, it is crucial for formulating monetary policy, financial regulatory purposes and financial stability. The Encouraged Set of Financial Soundness Indicators proposed by the IMF includes real estate prices, and the ratios of residential real estate loans and commercial real estate loans to total loans.

The house price affects the economy through three main channels. First, house prices affect private consumption through their impact on household wealth. Second, it affects housing investment and the construction industry, which tend to have relatively huge multiplier effect in the economy. Finally, these channels tend to be reinforced through the financial accelerator effect, as real estate use as collateral, thereby also affect the banks' balance sheet and their willingness to extend credit to the real economy. Therefore, in order to understand the price behavior of real estate market and its impact on the economy it is important to get a reliable estimate of house price movements.

Chart-1 Movements of Flat Sale and HPI in Different Weighted Average Methods (Base period 2004Q1) on Aggregate Level



Source: Delta Brac Housing Corporations Limited; Authors' calculation.

In order to gauge the price movement in the real estate market, Bangladesh Bank (BB) has undertaken a study to construct a housing price index (HPI). The study uses secondary data for the period FY99-FY18 from the mortgage lending by Delta Brac Housing Corporations Limited (DBH). Bangladesh Bank calculated the house price index in different weighted average methods on quarterly basis. According to BB's calculation, the price movements reveal that price increased rapidly during FY06-FY12. The price was more or less stable during FY13-FY17 and slightly declined during FY17Q4-FY18Q2 (Chart-1) may be due to most of the developer decreased flat price about 15-20 percent to boost up the sale of flat. However, it started to increase after FY18Q2 due to rising price of construction materials specially, price of rods and cement have risen significantly.

Capital Market

Capital Market Activities in FY18

8.15 Bangladesh Bank played a proactive role to stabilize 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. Bangladesh Securities and Exchange Commission (BSEC) has approved Chinese Consortium Shenzhen Stock Exchange (SZSE) and Shanghai Stock Exchange (SSE) as a strategic partner of DSE held on May 2018. Moreover, Dhaka Stock Exchange Limited

becomes a partner exchange of the United Nations Sustainable Stock Exchanges (SSE) initiatives on June 07, 2018.

8.16 Chart 8.2 shows that Dhaka Stock Exchange (DSE) broad index and the market capitalisation of DSE were increasing during July-November in FY18. However, both the index and the market capitalisation were decreasing during December-June in FY18. The DSEX and the market capitalisation increased to 6306.9 and BDT 4241.5 billion respectively at the end of November 2017 from 5656.1 and BDT 3801.0 billion in June 2017. The index and the market capitalisation came down to 5405.5 and BDT 3847.3 respectively at the end of FY18 (Chart 8.2).

Primary Issuance

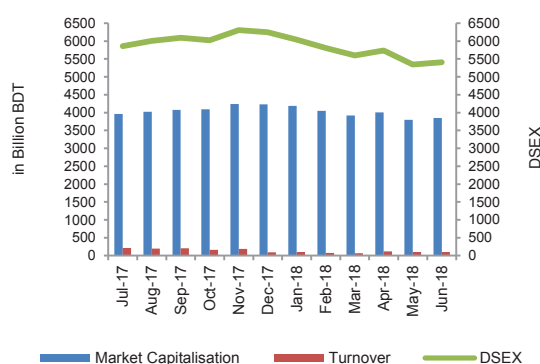
8.17 Nine companies have collected new equity of BDT 0.2 billion from the capital market through public placements in FY18, which was lower than BDT 0.4 billion collected by the 9 companies in FY17. In FY17, equity issued through private and public placements were BDT 0.1 billion and BDT 0.3 billion respectively.

8.18 The volume of public offerings was oversubscribed, more than 21 times in FY18, indicating a shortage of new securities in the primary market. Bonus shares worth BDT 42.8 billion were issued in FY18 by 148 companies against retained profits. This was higher than BDT 19.0 billion issued by 117 companies in FY17. On the other hand, right shares worth BDT 3.3 billion were issued in FY18 by three companies which were lower than BDT 8.6 billion issued by four companies in FY17.

Secondary Market Activities

8.19 As percentage of market capitalisation,

Chart 8.2 Trends in Market Behaviour of DSE in FY18



Source: Dhaka Stock Exchange.

secondary market are dominated by the manufacturing sector with 39.3 percent share followed by services and miscellaneous sector (34.1 percent), financial sector (26.4 percent) and corporate bonds (0.1 percent) at the end of FY18. In the DSE, market capitalisation inclusive of new issues increased by 1.2 percent to BDT 3847.3 billion, at the end of FY18 from BDT 3801.0 billion at the end of FY17 (Table 8.7) which is 17.2 percent of GDP (at current market price). In case of the CSE, it was also increased by only 0.33 percent to BDT 3123.5 billion at the end of FY18 which is 14.0 percent of GDP (at current market price). Amount of turnovers in the secondary market at DSE and CSE have decreased by 11.7 percent and 6.9 percent respectively in FY18 compared to FY17. DSE broad index (DSEX) also have decreased by 4.4 percent to 5405.46 while CSE all-share price index have increased by 6.3 percent to 16558.32 in FY18 (Table 8.7 and 8.8).

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 65.4 billion in FY18 from BDT 64.0 billion in FY17. On the other hand, gross investment outflow as repatriation of sale proceeds has increased to BDT 59.5 billion in FY18 from BDT 46.7 billion in FY17. From the beginning (April 1992) to June 2018, the gross investment inflow stood at BDT 350.6 billion against gross outflow of BDT 276.8 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 FY18, total investment against the investors' accounts stood at BDT 10.6 billion while deposit received stood at BDT 0.9 billion.

8.22 During FY18, the ICML provided underwriting assistance to the issues of shares and debentures of BDT 0.5 billion to 5 companies and performed the responsibilities of issue manager of 13 companies of BDT 5.0 billion.

8.23 The IAMCL emerged as one of the fast expanding asset management company of the country. The company has floated 9 closed-end and 13 open-end mutual funds up to end June 2018. Besides, the company has floated various regular and special types of mutual

Table 8.7 Activities of Dhaka Stock Exchange (DSE)

| Particulars | End June | | |
|---|----------|--------|--------|
| | FY16 | FY17 | FY18 |
| No. of listed securities* | 559 | 563 | 572 |
| Issued equity and debt* (billion BDT) | 1127.4 | 1165.5 | 1219.7 |
| Equity through private placement & IPOs (billion BDT) | 4.3 | 0.5 | 0.2 |
| Market capitalisation (billion BDT) | 3185.7 | 3801.0 | 3847.3 |
| Turnover in value (billion BDT) | 1072.5 | 1805.2 | 1590.9 |
| Turnover in volume (no. in billion) | 29.0 | 54.4 | 45.8 |
| DSE Broad Index (DSEX)@ | 4507.6 | 5656.1 | 5405.5 |

* 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 8.8 Activities of Chittagong Stock Exchange (CSE)

| Particulars | End June | | |
|---------------------------------------|----------|---------|---------|
| | FY16 | FY17 | FY18 |
| No. of listed securities* | 298 | 303 | 312 |
| Issued equity and debt* (billion BDT) | 566.1 | 606.6 | 656.9 |
| Market capitalisation (billion BDT) | 2506.1 | 3113.2 | 3123.5 |
| Turnover in value (billion BDT) | 78.1 | 118.1 | 109.9 |
| Turnover in volume (no. in billion) | 2.5 | 4.0 | 3.5 |
| All-share Price Index | 13802.6 | 15580.4 | 16558.3 |

* Including companies, mutual funds and debentures.

Source: Chittagong Stock Exchange

funds as well. The net investment in portfolios of the twenty-two mutual funds of the company stood at BDT 17.4 billion in FY18.

8.24 The ISTCL emerged as the largest stockbroker in the country with total turnover of BDT 154.7 billion in FY18 which was 10.0 percent of total turnover of both DSE and CSE. The parent ICB itself sold unit certificates amounting BDT 3.7 billion against repurchase of unit certificates amounting BDT 1.2 billion in FY18. The deposit received and loans approved by the ICB stood at BDT 0.9 billion and BDT 8.9 billion in investment accounts of investors in FY18. Total commitments for investment made by the ICB in FY18, stood at BDT 8.4 billion of which investment in equity was BDT 2.1 billion

and purchase of debentures was BDT 0.06 billion. The total amount of commitments was BDT 48.3 billion in FY17.

Scheduled Banks Investments in Capital Market Securities

8.25 Holdings of capital market assets (equities, debentures) excluding investment on Bangladesh Government Islamic Investment Bond (BGIIIB) by the scheduled banks stood at BDT 338.4 billion at the end of June 2018 as against BDT 286.0 billion at the end of June 2017. Outstanding advances of the scheduled banks against shares and securities amounted to BDT 36.6 billion at the end of June 2018, which was BDT 34.1 billion at the same period of the previous year.

Measures Supporting Capital Market Development

88.26 The Bangladesh Securities and Exchange Commission (BSEC) has taken several measures to protect investors' interest and strengthened the capital market during FY18. Some of the important measures are given below:

- In order to enhance the investment with multi asset trading, the investors' confidence and help remove the liquidity crisis from the market DSE, CSE and CDBL jointly working together to form Clearing and Settlement Company in line with the Bangladesh Securities and Exchange Commission (Clearing and Settlement) Rules, 2017.
- DSE has made a draft of Over the Counter Bulletin Board Regulation 2017 and submitted to BSEC in order to create opportunity of transacting the shares of

Table 8.9 Advances of Scheduled Banks by Economic Purposes

| Sector | (in billion BDT) | | |
|-----------------------------------|------------------|-------------------|----------|
| | End June | | |
| | FY17 | FY18 ^P | % change |
| Agriculture, forestry and fishing | 377.8 | 440.2 | 16.5 |
| Industry | 1293.9 | 1585.5 | 22.5 |
| Working capital financing | 1477.9 | 1811.2 | 22.6 |
| Construction | 652.5 | 797.8 | 22.3 |
| Transport & communication | 50.9 | 73.2 | 43.8 |
| Trade | 2584.1 | 2882.4 | 11.5 |
| Others | 779.7 | 879.8 | 12.8 |
| Grand Total | 7216.9 | 8470.1 | 17.4 |

^P Provisional

Source: Statistics Department, Bangladesh Bank.

non-listed companies by the OTC market.

- With a view to achieving sustainable development the post demutualized DSE is working to launch Exchange Traded Fund (ETF) to bring product diversity in the capital market.
- In line with the amendment of Bangladesh Securities and Exchange Commission (Public Issue) Rules, 2015, the IPO bidding process has been started through Electronic Subscription System (ESS) from September 05, 2017.

Credit Market

Scheduled Banks' Advances by Economic Purposes

8.27 The advances of scheduled banks by economic purposes showed an upward trend during FY18 (Table 8.9). Total amount of advances stood at BDT 8470.1 billion at the end of June 2018 which was 17.4 percent higher than the amount of BDT 7216.9 billion at the end of June 2017. In recent years, significant changes have been viewed in the trends in total bank advances classified by economic purpose. Of the total advances, transports and communication sector recorded a significant improvement by 43.8 percent

followed by working capital financing (22.6 percent), industrial sector (22.5 percent), construction sector (22.3 percent), agriculture, fishing & forestry (16.5 percent), trade (11.5 percent), and other sectors (12.8 percent) in FY18 compared to that of FY17.

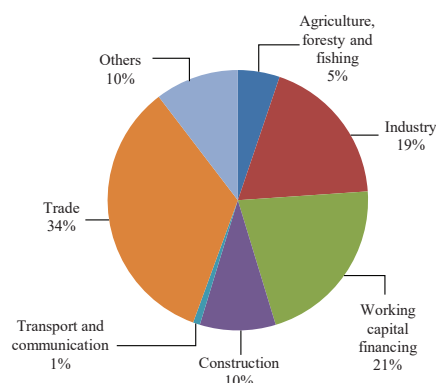
8.28 Sector-wise contributions of total advances show that the trade sector played the leading role (34.0 percent) followed by working capital financing (21.0 percent), advances for industry (19.0 percent), construction (10.0 percent), agriculture, fishing and forestry (5.0 percent), transport and communication (1.0 percent) and other sectors (10.0 percent) in FY18. Sector-wise contributions of total advances are reported in Chart 8.3.

Industrial Term Loans of Banks and Financial Institutions

8.29 Disbursement of industrial term loans by banks and financial institutions increased by 13.9 percent to BDT 707.7 billion in FY18. The recoveries also increased by 34.7 percent to BDT 701.9 billion in FY18. The outstanding balance showed a positive growth of 18.6 percent and stood at BDT 2028.4 billion as of end June 2018. However, the overdue increased by 32.3 percent in FY18 and as percentage of outstanding loans increased to 16.5 as of end June 2018 (Table 8.10).

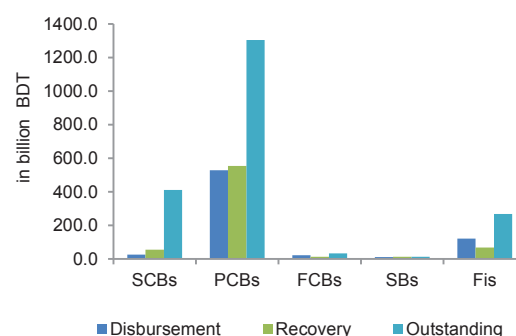
8.30 Private commercial banks (PCBs) had the major shares (64.3 percent) in the total outstanding loans amounting to BDT 2028.4 billion as of end June 2018, making them major players in industrial term lending (Table 8.10 and Chart 8.4). Though six SCBs and two specialised banks together had 20.9 percent shares of outstanding loans, with very high levels of overdue loans, their actual role

Chart 8.3 Sectoral Shares of total Advances in FY18



Source: Statistics Department, Bangladesh Bank.

Chart 8.4 Industrial Term Loans of Banks and Financial Institutions in FY18



Source: SME & SPD, Bangladesh Bank.

in current lending was quite minor, as they disbursed only BDT 36.8 billion (5.2 percent) out of total disbursed loans amounting to BDT 707.7 billion in FY18. In case of disbursement, PCBs had the major amount (BDT 528.9 billion) in FY18, followed by financial institutions (BDT 120.8 billion), SCBs (BDT 26.3 billion), foreign banks (BDT 21.2 billion) and specialised banks (BDT 10.5 billion).

8.31 The foreign banks had very low overdue loans (8.2 percent of outstanding) as of end June 2018. Overdue loans were also lower in financial institutions (10.9 percent) and private

Table 8.10 Industrial Term Loans of Banks and Financial Institutions

(in billion BDT)

| Lender | Disbursement | | Recovery | | Outstanding | | Overdue | | Overdue as % of outstanding | |
|--------------------------------|--------------|-------|----------|-------|-------------|--------|---------|-------|-----------------------------|------|
| | FY17 | FY18 | FY17 | FY18 | FY17 | FY18 | FY17 | FY18 | FY17 | FY18 |
| SCBs | 42.9 | 26.3 | 44.2 | 56.0 | 331.1 | 411.5 | 90.2 | 129.9 | 27.3 | 31.6 |
| PCBs | 465.3 | 528.9 | 391.4 | 553.9 | 1122.4 | 1304.5 | 134.0 | 166.5 | 11.9 | 12.8 |
| Foreign banks | 13.5 | 21.2 | 11.7 | 13.5 | 22.7 | 32.7 | 2.7 | 2.7 | 11.7 | 8.2 |
| Specialised banks (BKB, RAKUB) | 6.4 | 10.5 | 5.4 | 12.0 | 15.2 | 12.6 | 4.9 | 6.2 | 32.1 | 49.1 |
| Financial institutions | 93.4 | 120.8 | 68.3 | 68.8 | 218.5 | 267.2 | 20.9 | 29.0 | 9.5 | 10.9 |
| Total | 621.6 | 707.7 | 520.9 | 701.9 | 1709.9 | 2028.4 | 252.6 | 334.3 | 14.8 | 16.5 |

Source: SME and Special Programmes Department, Bangladesh Bank.

commercial banks (12.8 percent). Overdue loans of the specialised banks and the SCBs were very high (49.1 percent and 31.6 percent respectively) as of end June 2018. 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 Project II (IPFF II)

8.32 Investment Promotion and Financial Facility II Project (IPFF II) (July, 2017-June, 2022), a follow-up project of Investment Promotion and Financial Facility (IPFF) Project, has been taken up 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.

8.33 The estimated cost of IPFF II project is USD 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. Technical Assistance (TA) Component will be utilized in hiring consultants, capacity building for key stakeholders. Public-Private Partnership (PPP) Authority and Bangladesh Infrastructure Finance Fund Limited (BIFFL) would be among the project beneficiaries, receiving substantial TA support.

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 risky but prospective agro-based/food processing and IT sector projects. Under an agreement signed between Bangladesh Bank (BB) and Investment Corporation of Bangladesh (ICB), 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 22.3 billion has been released to the fund in different fiscal years. Up to 30 June 2018 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 15.3 billion at the end of FY18 against total fund disbursement of BDT 22.3 billion from the Government. Till now 295 EEF supported companies availed share buy-back facilities partially or fully to the tune of BDT 3.0 billion. Employment opportunity has been created for 54,000 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 2018 amounted to BDT 815.2 billion (Table 8.11), which was 9.6 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 8.11) with the largest amount of BDT 476.0 billion in outstanding housing loans as of end June 2018. The SCBs had the second largest amount of BDT 166.1 billion and other banks had BDT 22.9 billion in total outstanding of housing loans as of end June 2018. 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

Table 8.11 Outstanding Housing Loans

(in billion BDT)

| Lenders | Outstanding as of end June | | |
|--|----------------------------|-------|-------------------|
| | FY16 | FY17 | FY18 ^P |
| a. Specialised housing finance providers | 71.1 | 77.9 | 82.8 |
| i. HBFC | 30.1 | 29.9 | 30.1 |
| ii. Delta-Brac Housing Finance | 33.4 | 39.1 | 42.3 |
| iii. National Housing Finance | 7.6 | 8.9 | 10.4 |
| b. Banks | 449.5 | 533.2 | 665.0 |
| i. PCBs | 309.2 | 372.8 | 476.0 |
| ii. SCBs | 119.3 | 140.4 | 166.1 |
| iii. Other banks (foreign and specialised) | 21.0 | 20.0 | 22.9 |
| c. Other financial institutions | 51.9 | 63.8 | 66.7 |
| d. Micro-credit lenders | | | |
| Grameen Bank | -0.01 | 0.2 | 0.7 |
| Total | 572.5 | 675.1 | 815.2 |

^P Provisional.

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

of BDT 30.1 billion in outstanding housing loans as of end June 2018. The sources of Corporation's fund are paid-up capital provided 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 FY17 and FY18, BDT 2.8 billion and BDT 3.6 billion were disbursed out of recoveries of BDT 5.4 billion and BDT 5.1 billion respectively.

8.38 Grihayan Tahobil 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 2018, the Grihayan Tahobil has been released BDT 2.9 billion through 616 NGOs for rural housing programme which have covered 404 upazilas of 64 districts of the country and 75444 houses have already been constructed. As of end of June 2018, Tahobil has recovered BDT 1.7 billion against the total recoverable amount of BDT 1.8 billion and recovery rate is 97.6 percent.

8.39 In addition, a 12 storied women hostel has been constructed at Ashulia, Savar, Dhaka under the supervision of the Department of Women Affairs. For this project so far BDT 0.2 billion is released against the sanctioned amount of BDT 0.3 billion. A total of 744 women workers will avail the residence facility. Besides, Grihayan Tahobil has initiated for enhancing loan facilities to the member companies of BGMEA and BEPZA to build hostels/dormitories for the poor workers. Moreover, Grihayan Tahobil has sanctioned BDT 0.02 billion in favour of the project Ghore Fera Karmosuchi to be implemented by Bangladesh Krishi Bank. Grihayan Tahobil has also undertaken a plan to build houses for the Tea Garden workers of the country who are the most deprived segment of the society and this project will be implemented by the Ministry of Social Welfare. Apart from the housing loan activities Grihayan Tahobil 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 Foreign Exchange Market plays an important role by facilitating international trade and financial transactions. The players in the foreign exchange market of Bangladesh are the Bangladesh Bank, authorized dealers,

and customers. The Bangladesh Bank is empowered by the Foreign Exchange Regulation Act of 1947 to regulate the foreign exchange regime. It, however, does not operate directly and instead, regularly watches activities in the market and intervenes, if necessary, through commercial banks. From time to time it issues guidelines for market participants in the light of the country's monetary policy stance, foreign exchange reserve position, balance of payments, and overall macro-economic situation. The phenomenal growth of inter-bank transactions was due mainly to relaxation of exchange control regulations and expansion of the activities of the Bangladesh Foreign Exchange Dealers Association (BAFEDA) formed on 12 August 1993.

8.41 The interbank foreign exchange market is an important segment of the foreign exchange market. It is a wholesale market through which most currency transactions are channelled. It is mainly used for trading among bankers. The three main components of the interbank market are: the spot market, the forward market and future market.

8.42 Foreign Exchange Reserves is another significant part for stabilizing foreign exchange market. Foreign exchange reserves are the foreign assets held or controlled by the central banks. The reserves are generally used to finance the balance of payments imbalances or to control exchange rates. It is an important indicator for gauging an economies' ability to absorb external shock.

8.43 Bangladesh Bank (BB) introduced floating exchange rate since 2003. Under the managed floating exchange rate regime, banks are free to set their own rates for inter-bank

and customer transactions. Bangladesh Bank may purchase and sell US dollar as and when it deems necessary to maintain stability in the foreign exchange market.

8.44 In FY18, exchange rate depreciated by 3.7 percent due to higher demand for dollar following the declining trend of net foreign assets and high import growth. Exchange rate stood at BDT 82.1 as of end June 2018 compared to BDT 79.1 as of end June 2017 (period average). The large import bill has also

put an adverse impact on foreign exchange reserves. In FY18 Foreign Exchange Reserves stood at USD 32.9 billion which was USD 33.5 billion in FY17. On the other hand, the country's current account is already facing huge deficits for the higher import payments and it widened of 3.3 percent of GDP.

8.45 Bangladesh Bank closely monitors the foreign exchange market to avoid undue volatility in the exchange rate. To facilitate the foreign exchange liquidity, BB sold USD 2.31 billion in domestic inter-bank market in FY18.

Agricultural and MSME Finance

9.1 Agriculture is one of the most important priority sectors of Bangladesh economy. It is also the main source of rural employment generation of the country and it directly employs around 40.6 percent of the total workforce. The contribution of this sector to GDP is 14 percent (at the constant price of FY06). Besides, agriculture sector has been playing an important role in ensuring food security, meet up the nutrition demand, increase export earnings, and as a whole in the augmentation of total internal production of the country. In line with the government priority “Agricultural and rural credit policy and programme” is being implemented by Bangladesh Bank to ensure adequate flow of agricultural and rural credit properly, timely, in easier and hassle-free way at the farmers level. With a view to improving the socio-economic condition of the country alongwith an underscored role of the agriculture and rural sector, all scheduled banks have engaged in implementation of agricultural and rural credit policy and program. The role of the agriculture is immense even to encounter environmental calamity and the negative impact of climatic changes. During FY18, BDT 213.93 billion (104.87 percent of initial target) has been disbursed as agricultural and rural credit against the target of BDT 204.0 billion through all the scheduled banks (Table 9.1).

The Major Achievement of Agricultural Credit Programme in FY18

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

- Around 3.96 million farmers availed agricultural and rural credit of which 1.58 million women got BDT 63.09 billion from different banks.

Table 9.1 Comparative Statement of Disbursement and Recovery of Agricultural Loan*

| Disbursement | (in billion BDT) | | |
|--|------------------|---------------|---------------|
| | FY16 | FY17 | FY18 |
| 1. Disbursement (Target) | 164.00 | 175.50 | 204.00 |
| a) Crops loan (Other than tea) | 80.99 | 86.53 | 102.86 |
| b) Purchase and installation of irrigation equipment | 4.69 | 4.86 | 7.77 |
| c) Livestock | 16.94 | 21.53 | 27.10 |
| d) Marketing of agricultural goods | 2.19 | 2.36 | 3.52 |
| e) Fisheries | 16.78 | 19.03 | 23.11 |
| f) Poverty alleviation | 9.57 | 9.95 | 12.64 |
| g) Other agricultural activities | 32.84 | 31.24 | 27.00 |
| 2. Actual disbursement | 176.46 | 209.99 | 213.93 |
| a) Crops loan (Other than tea) | 86.95 | 100.61 | 103.37 |
| b) Purchase and installation of irrigation equipment | 2.60 | 3.01 | 2.74 |
| c) Livestock | 26.14 | 30.57 | 30.58 |
| d) Marketing of agricultural goods | 1.09 | 1.14 | 1.14 |
| e) Fisheries | 19.85 | 24.13 | 24.64 |
| f) Poverty alleviation | 15.59 | 18.85 | 21.50 |
| g) Other agricultural activities | 24.24 | 31.68 | 29.96 |
| 3. Term structure of loan disbursed | 176.46 | 209.99 | 213.93 |
| a) Short term | 144.22 | 171.07 | 178.66 |
| b) Longer term | 32.24 | 38.92 | 35.27 |
| 4. Recovery | 170.56 | 188.41 | 215.03 |
| 5. Due for Recovery | 227.90 | 254.70 | 286.64 |
| 6. Total Outstanding loan | 344.77 | 390.48 | 406.01 |
| 7. Overdue | 56.78 | 67.08 | 72.11 |
| 8. Overdue as Percent of outstanding | 16.47 | 17.18 | 17.76 |

* Excluding BRDB and BSBL

Source: Agricultural Credit Department, Bangladesh Bank.

- Around BDT 3.69 billion was disbursed among about 95 thousand farmers through 16,713 open credit disbursement programmes arranged by different banks.
- Around 3.07 million small and marginal farmers availed BDT 150.92 billion agricultural loans from different banks.
- About BDT 0.3 billion of agricultural and rural credit was disbursed among about 8339 farmers living in the less developed area like haor, char, etc.

- Around 9.22 million bank accounts were opened by farmers in the state-owned commercial banks with an initial deposit of BDT 10 only.
- In the three Hill Tract districts, more than BDT 0.61 billion was disbursed by BKB among 19,959 tribal farmers at only 5.0 percent interest rate.
- During FY18, 38 banks availed BDT 22.0 million as six percent interest subsidy against their disbursement and proper recovery of FY17, on the sector of import substitute crops (Pulse, Oilseed, Spices and Maize). BDT 0.91 billion was disbursed by banks on import substitute crops during FY18 and corresponding interest subsidy is under process to release as per policy.

Credit Disbursement to Agriculture

9.3 In recent years agricultural and rural finance programme have boosted up as the private commercial Banks (PCBs) and foreign commercial Banks (FCBs) along with state-owned commercial Bank(SCBs) came forward to disburse agricultural credit in the country. The actual disbursement of BDT 213.93 billion in FY18 against the disbursement target of

BDT 204.0 billion was 1.9 percent higher than the actual disbursement of BDT 209.99 billion in FY17. 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 and FY18.

9.4 About 83.51 percent of disbursement was short-term lending and the rest 16.49 percent was in the form of long-term loans for irrigation equipment, agricultural machinery, livestock etc. The credit for the production of crops constituted 57.85 percent of the total short-term loans during FY18 (Table 9.1).

9.5 The total outstanding loan in the agricultural sector for all banks in FY18 increased by BDT 15.53 billion or 3.97 percent to BDT 406.01 billion from BDT 390.47 billion in FY17 (Table 9.2).

9.6 Two specialized banks, BKB, RAKUB and six SCBs played the key role in the disbursement of agricultural and rural credit. The contribution of foreign and private commercial banks was also imperative in this regard. The SCBs, BKB, RAKUB, FCBs and the PCBs have exceeded their disbursement target by 12.58, 1.56, 1.87, 25.81 and 3.70 percent respectively in FY18 (Table 9.2). Apart

Table 9.2 Agricultural Credit Performance by Banks*

(in billion BDT)

| | FY14 | FY15 | FY16 | FY17 | FY18 | | | | | Total |
|---------------------|--------|--------|--------|--------|--------|--------|-------|--------|------|--------|
| | | | | | SCBs | BKB | RAKUB | PCBs | FCBs | |
| Disbursement Target | 145.95 | 155.50 | 164.00 | 175.50 | 30.10 | 49.00 | 16.80 | 103.27 | 4.83 | 204.00 |
| Actual disbursement | 160.37 | 159.80 | 176.50 | 209.99 | 33.89 | 49.76 | 17.11 | 107.09 | 6.08 | 213.93 |
| Recovery | 170.46 | 154.10 | 170.60 | 188.41 | 29.38 | 49.63 | 18.45 | 110.22 | 7.35 | 215.03 |
| Overdue | 76.12 | 67.29 | 56.78 | 67.08 | 30.35 | 23.9 | 14.27 | 3.59 | 0.00 | 72.11 |
| Outstanding | 346.33 | 329.40 | 344.80 | 390.48 | 103.05 | 154.61 | 43.79 | 101.41 | 3.14 | 406.01 |

*Excluding BRDB and BSBL

Source: Agricultural Credit Department, Bangladesh Bank.

from this, BRDB and BSBL disbursed BDT 9.61 billion from their own fund which raised the total disbursement to BDT 223.54 billion (including all banks) during FY18.

Credit Recovery

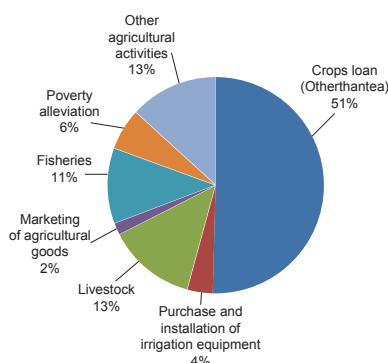
9.7 During FY18, recovery of agricultural Credit increased by 14.13 percent to BDT 215.03 billion from BDT 188.41 billion in FY17 due to close monitoring and intensive supervision of the banks. Consequently, the rate of recovery as percent of due for recovery of agricultural credit was 75.02 percent during FY18 which was higher than 73.97 percent in FY17 (Table 9.1).

9.8 The overdue as percentage of outstanding agricultural loan increased marginally from 17.18 percent in FY17 to 17.76 percent at the end of June 2018 (Table 9.1 and 9.2). However, it is important for banks to take appropriate measures to disburse credit to the right farmer for harvesting of right crop and to conduct intensive supervision to ensure smooth recovery from farmers.

Sources of Agricultural Finance

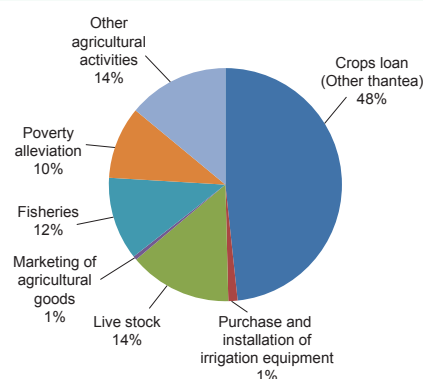
9.9 Two specialized banks (BKB and RAKUB) and six SCBs played key role in the disbursement of agricultural and rural finance. In addition to that, PCBs are playing significant role in the annual disbursement of agricultural loans. In FY18, two specialized banks (BKB and RAKUB) and six SCBs disbursed BDT 100.76 billion or 47.1 percent, PCBs BDT 107.09 billion or 50.06 percent and FCB BDT 6.08 billion or 2.84 percent respectively of the total disbursement of BDT 213.93 billion (Table 9.2). The SCBs' overdue loans as percentage of their agricultural outstanding loans stood at 29.49 percent at the end of FY18, while the overdue loans of RAKUB and BKB

Chart 9.1 Targets for Agricultural Credit Disbursement in FY18



Source: Agricultural Credit Department, Bangladesh Bank.

Chart 9.2 Actual Agricultural Credit Disbursement in FY18



Source: Agricultural Credit Department, Bangladesh Bank.

were recorded to 32.49 and 15.46 per cent respectively of their outstanding loans (Table 9.2). The PCBs' overdue loans as percentage of their outstanding loans stood at 3.53 percent at the end of FY18.

Refinance Facility from Bangladesh Bank Refinance facility under Government Guarantee

9.10 With a view to enriching country's economy and food security, BB has been continually supporting BKB and RAKUB by providing refinance facility under government guarantee. The rate of interest at the participating financial institution (PFI) level

**Table 9.3 Bangladesh Bank's Refinance Against Agricultural Loans
(under Government Guarantee)**

| Particulars | FY16 | | | FY17 | | | FY18 | | |
|-------------|-----------|-----------|-------------|-----------|-----------|-------------|-----------|-----------|-------------|
| | Refinance | Repayment | Outstanding | Refinance | Repayment | Outstanding | Refinance | Repayment | Outstanding |
| BKB | 0.00 | 8.09 | 26.85 | 0.00 | 2.40 | 24.99 | 0.00 | 1.94 | 23.05 |
| RAKUB | 0.00 | 3.30 | 7.92 | 0.00 | 1.20 | 7.48 | 3.00 | 0.50 | 9.98 |
| Total | 0.00 | 11.39 | 34.77 | 0.00 | 3.60 | 32.47 | 3.00 | 2.44 | 33.03 |

Source : Agricultural Credit Department, Bangladesh Bank

is 5.0 percent and ultimate borrower level is 9.0 percent and loan tenure is maximum 1 year. During FY18 RAKUB has availed BDT 3.0 billion refinance facility from Bangladesh Bank against their agricultural and rural credit finance. Details of refinance positions under government guarantee are shown in table 9.3.

Refinance Scheme for Share-croppers

9.11 With a view to improving the financial condition of landless share-croppers (land \leq 2.47 acres) BB has undertaken a special revolving refinance scheme of BDT 6.0 billion to provide without collateral, hassle-free and timely credit facility at the doorstep of landless share-croppers who have limited access to banks. The scheme started its operation in 2009 and initially its fund was BDT 5.0 billion. The rate of interest at the PFI level is 5.0 percent and the ultimate borrower level is 19.0 percent (declining method). The loan tenure is three years. This special refinance scheme is implemented by BRAC (NGO). During FY18, Bangladesh Bank has refinanced BDT 6.0 billion to BRAC for disbursing agricultural credit to about 0.17 million sharecroppers under this special refinance scheme.

Refinance Scheme for Dairy Farming

9.12 In order to ensure nutrition security for mass people of the country and to reduce

dependency on imported milk and milk products as well as to promote self-employment for unemployed youth, BB has introduced a Refinance Scheme for Milk Production and Artificial Insemination sector with a fund of BDT 2.0 billion since 2015. Fourteen participating banks and financial institutions entered into a participation agreement with Bangladesh Bank to avail refinance facility and interest subsidy. The banks and financial institutions get refinance from Bangladesh Bank against the disbursed amount. After recovery of the loans from the borrowers, the concerned banks or financial institutions will be eligible for 5.0 percent interest subsidy from the government against their disbursed amount subject to fulfillment of various terms and conditions. Up to FY18, the participating banks and financial Institutions have disbursed the entire amount of BDT 2.0 billion allocated for disbursement. A total of 18,429 borrowers benefitted from the scheme. During the period, a total of BDT 1.93 billion have been refinanced to the banks and financial institutions.

Refinance Scheme for the Jute Sector

9.13 In FY15, BB undertook a revolving 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 facility of BDT 0.68 billion against their disbursement to purchase

raw jute from 27 jute producers and exporters during FY18.

Demand Loan

9.14 Apart from different refinance scheme of BB and refinance against Government guarantee, a special type of finance is assisted by BB to meet up the regular agricultural credit flow. Those are demand loan by 90 days of maturity against Demand Promissory (DP) note. During FY18 BKB and RAKUB each availed BDT 3.0 billion of demand loan.

Donor-financed Revolving Funds of Grameen Bank, Managed by Bangladesh Bank

Swedish International Development Authority (SIDA) Grant

9.15 SIDA provided a grant of BDT 0.24 billion. This grant is governed as per Loan Agreement signed between the Government of Bangladesh and Grameen Bank on 30 November 1986. Grameen Bank repays the half-yearly installments of principal and revolving funds on 15 March and 15 September each year to Bangladesh Bank (BB), and BB revolves the repayment amount on the same day of payment made by Grameen Bank.

Norwegian Agency for International Development (NORAD) Grant

9.16 NORAD provided a grant of BDT 0.26 billion. This grant is governed as per Loan Agreement signed between the Government of Bangladesh and Grameen Bank on 4 August 1986. Grameen Bank repays the half-yearly installments of principal and revolving funds on 15 March and 15 September each year to Bangladesh Bank (BB), and BB revolves the repayment amount on the same day of payment made by Grameen Bank.

Grameen Bank House Loan Scheme

9.17 Netherland Government provided a grant of BDT 0.04 billion. This revolving grant is governed as per the Loan Agreement signed between the Bangladesh Bank (BB) and Grameen Bank on 24 November 1985. Under this scheme members of Grameen Bank get the loan for construction of houses. Grameen Bank repays the half-yearly installments revolving funds on 15 December each year to BB, and BB revolves the repayment amount on the same day of payment made by Grameen Bank.

Development Partner's Funded Agricultural Credit Related Project/Programme Operated under Bangladesh Bank's Supervision

Small and Marginal Sized Farmers Agricultural Productivity Improvement and Diversification Financing Project (SMAP)

9.18 With a view to increase agricultural productivity and diversity of the small and marginal farmers of Bangladesh by financing agricultural loans and providing agricultural technical support service to farmers through Microfinance Institutions, this revolving pre-finance project formed and started its journey since 2015. Japan International Cooperation Agency (JICA) is the donor agency for this project and portion of government of Bangladesh of this project is contributed by Bangladesh Bank. The total Project cost is BDT 8.23 billion. The tenure of the project is 2014-2021. To avail pre-finance facility from the projects 11 participating Microfinance Institutions (PMFIs) signed an agreement with BB. During FY18 BDT 3.75 billion has been disbursed to 10 PMFIs and BDT 2.58 billion has been disbursed to 43,039 borrowers. Operations have already been started for developing 30 model branches,

which were picked up earlier from around 1400 branches that are operating for implementing SMAP. The vision of SMAP-PIU is to extract and incorporate all the distinctive activities of model branches in other branches. Besides disbursing credit, Technical Support Services (TSS), which is a unique part of the project, have been provided to borrowers of this project for familiarizing themselves with new scientific cultivation method, new agro-machinery and a new method of cattle rearing etc. Since the operation of this project 2.1 million borrowers have received TSS on different topics.

ADB Funded Northwest Crop Diversification Project (NCDP)

9.19 Northwest region of our country is the poorest and backward region where 62 percent of the populations live below poverty line. To promote the economic growth of that region and to reduce poverty through diversification and intensification of High-Value Crops (HVCs), this ADB funded project was initiated in 2001. Loan component of the project are 35.71 Million SDR. Initially the project implementation period was 2001 to 2009. But the project is still continuing from a revolving fund formed out of the proceed of the project. Project implementation area covers 61 Upazilas of 16 Districts of north-western Zone of Bangladesh. As of June 30, 2018, total fund of BDT 3.0 billion was disbursed to the borrower from beginning of the Project. The number of farmers covered by the project are 0.33 million.

ADB Funded Second Crop Diversification Project (SCDP)

9.20 The project was built on the successful activities of NCDP aiming to expand the activities

into new project areas. Loan component of the project is USD 26.0 million provided by ADB. The project starts its operation in 2011. For wholesale of credit the participation agreement signed between BB and BASIC Bank Ltd and Eastern Bank Ltd on 2011. Project implementation area covers 54 Upazilas of 25 Districts of north and south-western zone of Bangladesh. As of June 30, 2018, total fund of BDT 2.03 billion was disbursed to the borrower from beginning of the project. The number of farmers covered by the project are 0.2 million.

Marginal And Small Farm Systems Crop Intensification Project (MSFSCIP)-Kurigram District

9.21 The Project is financed by the International Fund for Agricultural Development (IFAD) and the Loan Component is BDT 140 million. The project is implementing at the 9 Thana of Kurigram District. Four PFI signed a participation agreement with BB. Initially, project Period was from 1987 to 1997, but refinancing is still going on from the revolving fund. PFI availed refinance from BB at bank rate. At the beneficiary level interest rate are determined by the PFI. As of June 30 2018, revolving fund account balance was BDT 60 million.

Pre-finance under government guarantee

Ansar-VDP Unnayan Bank

9.22 Bangladesh Bank provides pre-finance facility to Ansar-VDP Unnayan Bank for implementing its “Agricultural Credit Programme”. The objective of this facility is to extend credit facilities to the members of Ansar-VDP aimed towards poverty alleviation and expanding income generating activities. These loans are provided against government guarantee covering the loan amount and

interest accrued thereon. As of 30 June 2018, the outstanding principal of loans is BDT 2.25 billion. Bangladesh Bank provides these loans at bank rate (5.0 percent) and the maximum interest rate at borrower level is 9.0 percent. During FY18, 4158 beneficiaries have been benefitted from this programme.

Karmasangsthan Bank

9.23 Karmasangsthan Bank avails pre-finance facility time to time from Bangladesh Bank. These loans are provided against government guarantee covering the loan amount and interest thereon. From July, 2015 to June 2018 BDT 2.0 billion has been provided to Karmasangsthan Bank. Bangladesh Bank provides pre-finance at bank rate (5.0 percent) and Karmasangsthan Bank charges a maximum of 9.0 percent from the borrowers. The total number of beneficiaries was 5161 during FY18.

Financing Cottage, Micro, Small and Medium Enterprises (CMSMEs)

9.24 Cottage, Micro, Small and Medium Enterprises (CMSMEs) have been playing a significant role in employment generation, poverty reduction and overall economic growth of the country. Bangladesh Bank (BB) has established a new department named “SME & Special Programmes Department” (SMESPD)

in December 31, 2009 dedicated for CMSME development in Bangladesh. SMESPD started its journey towards the development of CMSMEs in Bangladesh by improving the existing environment in the banking sector through regulatory and policy interventions. Banks and Financial Institutions (NBFIs) have given much emphasis in financing to CMSMEs.

9.25 Moreover, BB has undertaken different refinance schemes to provide relatively low cost funding to encourage Banks and NBFIs in CMSME financing. To develop CMSME sector, BB has continued its refinance facilities in FY18 for Banks and NBFIs against their financing to CMSMEs. Currently, BB is providing refinance facilities to Banks and NBFIs from Refinancing Scheme for Agro-based Product Processing Industry; Refinancing Scheme for Small Enterprise; Refinancing Fund for New Entrepreneurs in Cottage, Micro and Small Industry; Refinancing Fund against Islamic Shariah-based Financing; Revolving Fund Account of JICA assisted Financial Sector Project for the Development of SME (FSPDSME) Fund and JICA assisted Urban Building Safety Project (UBSP). Banks and NBFIs have come forward for financing and development of CMSMEs under close monitoring and supervision of BB. In FY18, all banks and non-bank financial institutions (NBFIs) have disbursed an amount of BDT 1,558.09 billion

Table 9.4 Disbursement of CMSME Credit by Banks and NBNBFIs

(In billion BDT)

| Period | Sub-Categories | | | Total | Women Entrepreneur |
|--------|----------------|---------------|---------|---------|--------------------|
| | Trading | Manufacturing | Service | | |
| FY11 | 154.36 | 32.37 | 365.83 | 552.56 | 20.07 |
| FY12 | 183.84 | 35.09 | 379.19 | 598.12 | 23.11 |
| FY13 | 233.04 | 42.02 | 518.41 | 793.46 | 24.72 |
| FY14 | 251.29 | 60.60 | 594.47 | 906.36 | 36.51 |
| FY15 | 323.50 | 98.94 | 680.43 | 1102.87 | 39.68 |
| FY16 | 329.97 | 141.33 | 819.38 | 1290.68 | 54.88 |
| FY17 | 373.78 | 184.44 | 999.63 | 1557.85 | 45.96 |
| FY18* | 488.71 | 266.91 | 802.47 | 1558.09 | 121.74 |

* Provisional

Source : SME & Special Programmes Department, Bangladesh Bank

Table 9.5 Statement of Refinance on CMSMEs Under Different Refinance Schemes of BB (up to June 2018)

(in billion BDT)

| Name of Fund | Amount Refinance | | | | No. of Beneficiary (Sector wise) | | | |
|--|------------------|---------------|----------------|------------|----------------------------------|--------|---------|--------|
| | Working Capital | Mid Term Loan | Long Term Loan | Total Loan | Industry | Trade | Service | Total |
| 1. Refinance Scheme for Agro-based Industries in Rural Areas | 6.63 | 1.94 | 6.62 | 15.19 | 2,837 | - | - | 2,837 |
| 2. Small Ent. Refinance Scheme: | 8.45 | 18.67 | 7.83 | 34.95 | 11,580 | 17,087 | 4,809 | 33,476 |
| i) Bangladesh Bank Fund | 3.85 | 5.98 | 2.45 | 12.28 | 5,029 | 5,926 | 1,767 | 12,722 |
| ii) Bangladesh Bank Women Ent. Fund | 4.04 | 11.58 | 4.81 | 20.43 | 6,058 | 10,101 | 2,845 | 19,004 |
| iii) Bangladesh Bank Extension-Women Ent. Fund | 0.56 | 1.11 | 0.57 | 2.24 | 493 | 1,060 | 197 | 1,750 |
| 3. New Ent. Refinance Fund for CMSEs | 0.00 | 0.18 | 0.02 | 0.20 | 200 | - | 166 | 366 |
| 4. Islamic Shariah-based Refinance Fund | 3.42 | 0.38 | 0.96 | 4.76 | 134 | 473 | 30 | 637 |
| 5. JICA FSPDSME | 0.53 | 3.13 | 3.20 | 6.86 | 462 | 34 | 344 | 840 |
| 6. JICA UBSP | - | - | 0.04 | 0.04 | 1 | - | - | 1 |
| 7. IDA Fund (EGBMP) | 0.80 | 1.33 | 1.00 | 3.13 | 1,368 | 1,306 | 486 | 3,160 |
| 8. SMESDP (ADB-1) | 1.45 | 1.32 | 0.58 | 3.35 | 800 | 2,096 | 368 | 3,264 |
| 9. SMEDP (ADB-2) | 0.00 | 5.68 | 1.79 | 7.47 | 3,765 | 7,435 | 2,445 | 13,645 |
| Grand Total | 21.27 | 32.63 | 22.04 | 75.95 | 21,147 | 28,431 | 8,648 | 58,226 |

Source: : SME & Special Programmes Department, Bangladesh Bank

against 743,612 CMSMEs. On the other hand, 67,309 women led CMSME enterprises received financing of BDT 121.74 billion in FY18 from Banks and NBFIs which shows a promising 165 percent growth from FY17.

Target Based Disbursement for CMSME Credit

9.26 A target based lending to CMSMEs has been initiated since 2010. This intervention for engendering CMSME finance has been declared as international best practice for SME financing by Alliance for Financial Inclusion (AFI) in 2014. Banks and NBFIs have been disbursing credit to CMSMEs following their indicative target set on a calendar year (January-December) basis.

9.27 A target of disbursing BDT 1,610.32

billion in CMSME was set for 2018. During the first half (January-June) of 2018 Banks and NBFIs have disbursed BDT 775.48 billion as CMSME credit which is almost 48.2 percent of the set annual target for 2018. Table-9.4 reveals fiscal year wise disbursement of CMSME credit in three sub-categories: Manufacturing, Services and Trading.

Refinance Schemes

9.28 In addition to regular financing from their own fund, Banks and NBFIs are also making short to long term financing to CMSMEs through refinance schemes of BB. SMESPD of BB, with the help of government and different development partners, is implementing a total of six pre-finance/refinance schemes for Banks and NBFIs currently against their disbursed

CMSME credit. All these funds are of revolving nature. In addition to those, three other refinance schemes have been successfully completed. Table-9.5 summarizes refinancing information of SMESPD of BB up to June 2018. A total amount of BDT 75.95 billion has been provided to different Banks and NBFIs under different refinance/pre-finance schemes up to June, 2018 against 58,226 enterprises. Out of the total refinance, BDT 21.27 billion has been provided as working capital, BDT 32.63 billion as medium term loan, and BDT 22.04 billion as long term loan.

BB's Refinance/Pre-finance Facilities to Banks and NBFIs for Promoting CMSMEs

Refinance Scheme for Agro-based Product Processing Industries in Rural Area

9.29 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, BDT

4.5 billion in 2015 and later on BDT 7.0 billion in 2018. Under this fund, refinancing facilities are being provided to Banks and NBFIs at bank rate and beneficiary of CMSMEs are getting funds at preferential interest rate within 10 percent. An amount of BDT 15.19 billion has been disbursed under this scheme till the end of June, 2018 against 2,837 enterprises on revolving basis (Table-9.5).

Small Enterprise Refinance Scheme

9.30 Bangladesh Bank introduced a refinancing scheme named Small Enterprise Fund (SEF) of BDT 1.0 billion out of its own fund for supporting the development of small enterprises in the country. Later on, the size of the fund has been increased to BDT 8.5 billion. To meet the increasing demands by women entrepreneurs, refinancing facilities under their scheme were extended to the Banks and NBFIs at bank rate against their financing to the small entrepreneurs, usually left out by the formal sector financing. The scheme demonstrated a high market demand. Recovery against refinanced loan is being used as a revolving

Table 9.6 Refinancing Under Small Enterprise Refinance Scheme

(In billion BDT)

| Name of Fund | Amount Refinance (BDT in Billion) | | | | No. of Beneficiary (sector wise) | | | |
|-----------------------------|-----------------------------------|---------------|----------------|--------------|----------------------------------|---------------|--------------|---------------|
| | Working Capital | Mid Term Loan | Long Term Loan | Total Loan | Industry | Trade | Service | Total |
| A. BB Fund-General | | | | | | | | |
| 1 Bank (20) | 3.49 | 2.91 | 0.71 | 7.11 | 3,112 | 3,956 | 818 | 7,886 |
| 2 NBFIs (23) | 0.36 | 3.07 | 1.74 | 5.17 | 1,917 | 1,970 | 949 | 4,836 |
| Sub-Total | 3.85 | 5.98 | 2.45 | 12.28 | 5,029 | 5,926 | 1,767 | 12,722 |
| B. BB-Women | | | | | | | | |
| 1 Bank (33) | 3.54 | 5.56 | 2.45 | 11.54 | 3,681 | 7,504 | 1,919 | 13,104 |
| 2 NBFIs (22) | 0.50 | 6.02 | 2.36 | 8.88 | 2,377 | 2,597 | 926 | 5,900 |
| Sub-Total | 4.04 | 11.58 | 4.81 | 20.43 | 6,058 | 10,101 | 2,845 | 19,004 |
| C. BB Extension-2014 | | | | | | | | |
| 1 Bank (27) | 0.51 | 0.37 | 0.23 | 1.11 | 242 | 719 | 109 | 1070 |
| 2 NBFIs (17) | 0.05 | 0.74 | 0.34 | 1.13 | 251 | 341 | 88 | 680 |
| Sub-Total | 0.56 | 1.11 | 0.57 | 2.24 | 493 | 1,060 | 197 | 1,750 |
| Total | 8.45 | 18.67 | 7.83 | 34.95 | 11,580 | 17,087 | 4,809 | 33,476 |

Source: : SME & Special Programmes Department, Bangladesh Bank

Table 9.7 Refinancing from New Entrepreneurs Refinance Fund

(In billion BDT)

| Banks/NBFIS | Amount Refinance | | | | No. of Beneficiary (sector wise) | | | |
|--------------|------------------|---------------|----------------|--------------|----------------------------------|----------|------------|------------|
| | Working Capital | Mid Term Loan | Long Term Loan | Total Loan | Industry | Trade | Service | Total |
| 1 Banks (6) | 1.0 | 6.9 | 11.3 | 19.2 | 41 | - | 86 | 127 |
| 2 NBFIs (3) | 2.0 | 175.4 | 4.5 | 181.9 | 159 | - | 80 | 239 |
| Total | 3.0 | 182.3 | 15.8 | 201.1 | 200 | - | 166 | 366 |

Source: : SME & Special Programmes Department, Bangladesh Bank

fund for further financing to Cottage, Micro and Small Enterprise (CMSE) sector. Up to June 2018, BDT 34.95 billion has been refinanced under this fund against their financing to 33,476 enterprises (Table-9.5 and 9.6).

Refinance Scheme for New Entrepreneurs' in Cottage, Micro and Small Enterprise (CMSE) Sector

9.31 In order to provide start-up capital to new cottage, micro and small enterprises, Bangladesh Bank has created a new fund worth BDT 1.0 billion from its own source. Under this fund, the prospective entrepreneurs selected and trained by recognized public and private training providers have the opportunity to get up to BDT 2.5 million CMSE credit with collateral security and up to BDT 1.0 million CMSE credit without collateral security. Rate for such credit is limited at maximum 10 percent (Bank rate + maximum 5 percent spread). As of end June 2018, a total of 366 new entrepreneurs have been refinanced worth BDT 201.10 million from this scheme (Table-9.7).

Refinance Scheme for Islamic Shariah-Based Financing

9.32 With the objective of increasing the involvement of Islamic Banks and Islamic NBFIs in financing CMSMEs, a special refinance fund under Islamic Shariah mode was created in Bangladesh Bank in 2014. Under this fund, Islamic Banks and NBFIs will get refinance against their financing to "Agro-Based Industries", "Small Entrepreneurs' (including women entrepreneur)" and "New Entrepreneurs' in Cottage, Micro & Small Enterprise Sector". At the end of June 2018, BDT 4.76 billion has been refinanced to Banks and NBFIs against their financing to 637 enterprises (Table-9.8).

JICA funded FSPDSME Project's Two Step Re/Pre-finance Fund

9.33 A loan agreement was signed between JICA, Japan and the Government of Bangladesh (BFID, MOF as the representative)

Table 9.8 CMSME Refinance Scheme for Islamic Shariah-Based Financing in "Agro-Based Industries", "Small Entrepreneurs' (including Women Entrepreneur)" and "New Entrepreneurs' in Cottage, Micro and Small Enterprise Sector"

(In billion BDT)

| Banks/NBFIS | Amount Refinance | | | | No. of Beneficiary (sector wise) | | | |
|--------------|------------------|---------------|----------------|-------------|----------------------------------|------------|-----------|------------|
| | Working Capital | Mid Term Loan | Long Term Loan | Total Loan | Industry | Trade | Service | Total |
| 1 Banks (3) | 3.19 | 0.10 | 0.00 | 3.29 | 89 | 442 | 21 | 552 |
| 2 NBFIs (1) | 0.23 | 0.28 | 0.96 | 1.47 | 45 | 31 | 9 | 85 |
| Total | 3.42 | 0.38 | 0.96 | 4.76 | 134 | 473 | 30 | 637 |

Source: : SME & Special Programmes Department, Bangladesh Bank

in 2011 for SME development and financing. As per the loan agreement, BB is implementing the “Financial Sector Project for the Development of Small and Medium-Sized Enterprise (FSPDSME)-BD-P67” project. The objective of the project is to create a medium to long term financing market for SMEs especially for the productive investments. The Fund size is 5.0 billion Japanese Yen including a technical assistance component. A total of 25 Banks and 21 NBFIs signed Participating Agreements with BB. Refinancing or pre-financing facilities are being provided to Participating Financial Institutions (PFIs) at the bank rate for on lending to CMSME sub-projects of productive investment for medium to long-term duration at the market rate. As on June, 2018 BDT 0.69 billion has been refinanced against 840 enterprises (Table-9.5). In the backdrop of tragic incidence of Rana Plaza collapse a special initiative to finance the improvement of safe working environment of RMG and Knitwear sector workers was taken under the JICA assisted FSPDSME project. RMG and Knitwear factories which are members of BGMEA and/or BKMEA with labor employment of 100 - 2,000 provided that the factory building is owned by the applicant entrepreneur will get loan facility up to BDT 0.10 billion for the purpose of retrofitting, rebuilding and relocation of their factory buildings. This Two step loan (TSL) fund for RMG and Knitwear factories of FSPDSME scheme will support 100 percent of the sub-loan amount as pre-finance. Until the end of June, 2018 two RMG industries have been financed worth BDT 0.16 billion for retrofitting purposes. The FSPDSME project was completed successfully within the project period. Meanwhile, the project received full

allocation of TSL fund from JICA. Disbursement to accredited PFIs is, however, being continued utilizing the Revolving Fund Account (RFA) of the FSPDSME project.

Urban Building Safety Project (UBSP)

9.34 For the purpose of creating a safe working environment in the RMG sector through retrofitting, rebuilding and relocation of vulnerable RMG industries, the “Urban Building Safety Project” has been taken under the 36th Japanese ODA package. A loan agreement between the Government of Japan (represented by JICA) and Government of Bangladesh has been signed on December 13, 2015. Under this agreement JICA will provide JPY 12,086 million; of which JPY 4,129 million (equivalent to BDT 2.68 billion) is earmarked for two step loan (TSL) purposes. The TSL component will be managed and implemented by SMESPD, BB in accordance with approved operating guideline of the project. A total of 25 Banks and 10 NBFIs signed Participating Agreements with SMESPD, BB until June, 2018. As on June, 2018 BDT 0.04 billion has been refinanced against one enterprise (Table-9.5).

Small and Medium-Sized Enterprise Development Project (ADB Fund-2)

9.35 The Small and Medium-Sized Enterprise Development Project (SMEDP) was created in 2009 jointly by the contribution of ADB and Bangladesh Government. The objective of SMEDP is to provide credit facility for enhancing access to medium to long term financing to eligible SMEs. The total fund of the SMEDP was USD 95.0 million. Out of that, ADB provides USD 76.0 from its special fund and GoB (BB) provides USD 19.0 million which is transferred from the balance of the earlier ADB-1 (SMESDP) fund. Disbursement from this fund was completed

Table 9.9 CMSME Refinancing from SMEDP Fund (ADB Fund-2)

(In billion BDT)

| Banks/NBFIS | Amount Refinance | | | Total Loan | No. of Beneficiary (sector wise) | | | |
|--------------|------------------|---------------|----------------|-------------|----------------------------------|--------------|--------------|---------------|
| | Working Capital | Mid Term Loan | Long Term Loan | | Industry | Trade | Service | Total |
| 1 Banks (19) | - | 3.01 | 0.87 | 3.88 | 2,246 | 5,319 | 1,230 | 8,795 |
| 2 NBFIs (13) | - | 2.67 | 0.92 | 3.59 | 1,519 | 2,116 | 1,215 | 4,850 |
| Total | - | - | 5.68 | 1.79 | 3,765 | 7,435 | 2,445 | 13,645 |

Source: : SME & Special Programmes Department, Bangladesh Bank

in December, 2013 and BDT 7.47 billion was provided to Banks and NBFIs against 13,645 enterprises on revolving basis during the project period (Table-9.9). By June, 2018 BDT 7.42 billion has been recovered from PFIs.

New Entrepreneurs Creation and Entrepreneurship Development

9.36 BB is not only engaged for mainstreaming Banks and NBFIs in financing CMSME enterprises, but also has taken steps for creating of new entrepreneurs and entrepreneurship development. The Government of Bangladesh (GoB) has taken a project titled “Skills for Employment Investment Program (SEIP)” with the assistance of Asian Development Bank (ADB) and Swiss Agency for Development and Cooperation (SDC) to scale up skills of young workers and new entrants. As an implementing agency, SMESPD of BB will provide market oriented job training to 10,969 people by the end of December, 2018. As of June 2018, total 9,910 trainees have been enrolled in different courses. 7,840 trainees received certificate after successful completion and 4,600 trained personnel have been employed in different SME sectors and 1,431 have become self employed. It is expected that, majority of the trained people will start their own business; and a dedicated refinance scheme has already been in place to support those new entrepreneurs.

Implementation of New Projects

Local Finance Initiatives (LFI) Support to SMEs in Bangladesh

9.37 A pilot project in the name of “Local Finance Initiatives (LFI) - SME” has been initiated under the financing of United Nations Capital Development Fund (UNCDF). Objective of this project is to support prospective Women CMSME entrepreneurs in certain cluster for business development and making them eligible to avail loan facility from banking sector by providing collateral support. BB is implementing this project amounting to USD 0.2 million titled “Local Finance Initiative support to SMEs in Bangladesh (LFI-SMEs)” to facilitate a number of lagged behind Women SME entrepreneurs. BB has so far issued credit guarantee facility of BDT 6.8 million against disbursement of BDT 8.5 million by Participating Financial Institutions to six Women entrepreneurs.

Steps Taken by Bangladesh Bank for Development of CMSMEs until June 2018

9.38 Major initiatives of BB for promoting credit flow to CMSME sector are-

- CMSME credit disbursement target has been revised to 20 percent of total loan portfolio for 2017 which should be increased to 25 percent by 2021 with minimum 1.0 percent increment in each year.
- To ensure sector-wise distribution of overall CMSME credit portfolio, a target

for at least 40 percent for manufacturing, 25 percent for service and a maximum ceiling of 35 percent for trading has been instructed by BB to be achieved by all Banks/NBFIs within 2021.

- CMSMEs have been redefined in line with the National Industrial Policy-2016 and 'turnover' for trading concern has been added as an additional criterion for sector determination.
- Maximum credit limits for different type of CMSMEs have been imposed and 'Trading Industry' has been removed from medium and cottage category.
- Banks and NBFIs are instructed to provide three months grace period for one year term loan and three to six months grace period for medium to long term loan based on banker-customer relationship.
- To enhance CMSME activities, quarterly monitoring meeting is held with SME heads of Banks and NBFIs regularly. Also, CMSME monitoring cell has been established in all branches of BB. Banks and NBFIs are also performing three stages SME monitoring for better outcome.
- Expanding finance to Women Entrepreneurs in CMSME sector by extending credit facility without collateral security amounting up to BDT 2.5 million only against personal guarantee.
- New Entrepreneurs Refinance Scheme in CMSE Sector allows collateral security free financing more than BDT 1 million case to case basis and collateral security supported financing up to BDT 2.5 million for New Entrepreneurs.

- Cluster based financing to CMSMEs has been expedited. Banks and NBFIs are advised to formulate a cluster development policy for strengthening existing clusters and developing new clusters.

Special Incentives for Women Entrepreneurs

9.39 Sustainable economic development is barely possible without women empowerment. For mainstreaming women in economic activities, SME & SPD of BB has taken a number of policy initiatives to ensure women entrepreneurs to have financial facilities on simple terms and conditions. Some of the initiatives of BB are outlined below –

- To ensure loan facility for CMSE Women Entrepreneurs, at least 15 percent of total Small Enterprise Refinance Scheme has been allocated for them.
- Instructions have been given for establishing separate 'Women Entrepreneurs' Dedicated Help Desk' in each branch of every Bank and FI. If possible, they are also advised to employ a women official in the desk to provide suggestions and services towards women entrepreneurs regarding project preparation, loan application process etc.
- Instructions were given to Banks and NBFIs to consider sanctioning loan up to BDT 2.5 million to women entrepreneurs without collateral security but against personal guarantee under the refinance facilities provided by Bangladesh Bank.
- In order to include a large number of micro women entrepreneurs in the CMSME credit facilities, a policy of group-based lending has been initiated. Women entrepreneurs in the rural areas are getting benefit of such initiative.

- In order to engage women entrepreneurs in industry and manufacturing sectors, emphasis has been given on encouragement, training, cluster approach etc. and Banks and NBFIs have been advised accordingly.
- In order to expedite the process of women entrepreneurship development, recently BB has opened a separate “Women Entrepreneurs Development Unit” in its head office and branch offices. All Banks and NBFIs are also advised to open such unit.
- A maximum lending cap of 9 percent (Bank rate + Maximum 4 percent spread) has been imposed for financing to women led enterprises under all refinancing scheme.
- Banks and NBFIs have been instructed to provide credit to new women entrepreneurs under cottage, micro and small sectors.
- All Banks and NBFIs are advised to find out and train at least three (03) prospective CMSME Women entrepreneurs who have not received any financing yet per branch and finance at least one (01) of them.
- A UNCDF funded pilot project is currently in place to support women led CMSME Enterprise financing by providing credit guarantee against their borrowing under certain terms and conditions.

Microcredit Operations of Grameen Bank and the Large MFIs

9.40 The success of Bangladesh Microfinance operation is now globally accepted

Table 9.10 Microcredit Operations of Grameen Bank and Large MFIs
(In billion BDT)

| | FY16 | FY17 | FY18 |
|--|---------------|---------------|---------------|
| 1. Disbursement | 662.61 | 831.56 | 964.65 |
| i) Grameen Bank | 169.33 | 207.89 | 243.21 |
| ii) BRAC | 218.51 | 266.63 | 318.06 |
| iii) ASA | 209.05 | 269.59 | 296.81 |
| iv) TMSS | 26.20 | 33.06 | 43.23 |
| v) BURO Bangladesh | 39.52 | 54.39 | 63.34 |
| 2. Recovery | 444.27 | 731.74 | 906.22 |
| i) Grameen Bank | 181.00 | 182.70 | 225.59 |
| ii) BRAC | 193.60 | 238.98 | 285.76 |
| iii) ASA | 176.49 | 234.87 | 299.51 |
| iv) TMSS | 24.52 | 29.14 | 38.28 |
| v) BURO Bangladesh | 31.55 | 46.05 | 57.08 |
| 3. Outstanding Loans | 396.75 | 496.24 | 561.44 |
| i) Grameen Bank | 109.39 | 134.57 | 152.20 |
| ii) BRAC | 127.83 | 155.48 | 184.71 |
| iii) ASA | 120.28 | 154.71 | 161.99 |
| iv) TMSS | 14.82 | 18.70 | 23.50 |
| v) BURO Bangladesh | 24.43 | 32.78 | 39.04 |
| 4. Loans Overdue | 7.47 | 7.80 | 13.28 |
| i) Grameen Bank | 1.27 | 0.56 | 0.50 |
| ii) BRAC | 3.02 | 2.35 | 4.39 |
| iii) ASA | 2.38 | 3.67 | 6.35 |
| iv) TMSS | 0.33 | 0.56 | 0.74 |
| v) BURO Bangladesh | 0.48 | 0.66 | 1.30 |
| 5. Overdue as percentage of outstanding | 1.88 | 1.57 | 2.37 |
| i) Grameen Bank | 1.16 | 0.41 | 0.33 |
| ii) BRAC | 2.36 | 1.51 | 2.38 |
| iii) ASA | 1.98 | 2.37 | 3.92 |
| iv) TMSS | 2.24 | 3.02 | 3.13 |
| v) BURO Bangladesh | 1.96 | 2.00 | 3.33 |

Source: Microcredit Regulatory Authority (MRA)

issue. BB has taken strong pro-active role to improve the access to credit and other financial services specially for the unbanked and poor segment of population of the country through various financial inclusion initiatives. ICT based financial instruments (mobile banking) and introduction of agent banking have changed the landscape of financial service access to the poor in both rural and urban areas. More

than a thousand of NGO-MFIs are operating their activities in Bangladesh. The number of registered MFIs as well as number of borrowers and savings per borrower has been steadily increasing. At the end of June 2018, 705 licensed MFIs and 128 provisional licensed MFIs provided microfinance services to 30.5 million people which was 28.9 million in FY17.

9.41 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 modality. Since inception in May 1990, the PKSF has been working as an apex microcredit funding and capacity building organisation for alleviating poverty by providing microcredit to the poor through its partner organisations (POs). The loan given by PKSF to 177 POs was BDT 310.5 billion in FY18, which was BDT 32.93 billion or 11.87 percent higher than Taka 277.5 billion in FY17.

Public Finance

10.1 The fiscal strategy of Bangladesh for FY18 was centered on befitting the policy tools for a middle income country by managing the aggregate demand in the short term and bolster production capacity in the long term. While growth stimulating all large development projects have been brought under “First Track” monitoring and implementation process and strengthened the capacity of domestic resources mobilization in the medium term. At the same time, budget deficit has been kept at a reasonable as well as tolerable level at 5.0 percent of GDP in order to ensure greater macroeconomic stability.

FY18 Budget and Fiscal Outcome

10.2 In order to build an ideal tax system in the country, government has undertaken extensive reforms in tax policy and tax administration and will expect that the target of at least 50 percent of total tax revenue to be collected from direct tax by the next decade.

10.3 In the revised budget for FY18 total revenue receipts targeted BDT 2594.5 billion, which was 9.9 percent lower than initial target. It was 28.9 percent higher than the actual revenue receipts in FY17. The tax revenue constituted 89.5 percent of the total revenue receipts, which was 30.4 percent higher compared to the actual tax collected in FY17. The non-tax revenue of FY18 was 17.8 percent higher than that of FY17.

10.4 In the revised budget for FY18, total revenue receipts as percentage of GDP targeted 11.5 percent which was 10.2 percent in FY17. Total tax revenue receipts as percentage of GDP was 10.3 percent in FY18 which was 9.0 percent in the preceding fiscal year. Similarly,

Table 10.1 Government Revenue and Expenditure

| Items | (In billion BDT) | | | | | |
|-----------------------------|-------------------|-------------------------------------|-------------------|-------------------------------------|-------------------|-------------------------------------|
| | FY17 [#] | FY17 as % of GDP [#] | FY18 [*] | FY18 as % of GDP [*] | FY19 [@] | FY19 as % of GDP [@] |
| 1. Total revenue | 2012.1 | 10.2 | 2594.5 | 11.5 | 3392.8 | 13.4 |
| a. Tax | 1780.8 | 9.0 | 2322.0 | 10.3 | 3059.3 | 12.1 |
| b. Non-tax | 231.4 | 1.2 | 272.5 | 1.2 | 333.5 | 1.3 |
| 2. Total expenditure | 2695.0 | 13.6 | 3715.0 | 16.5 | 4645.7 | 18.3 |
| a. Operating | 1758.5 | 8.9 | 2105.8 | 9.4 | 2824.2 | 11.1 |
| b. ADP | 840.9 | 4.3 | 1483.8 | 6.6 | 1730.0 | 6.8 |
| c. Others | 95.6 | 0.5 | 125.4 | 0.6 | 91.6 | 0.4 |
| 3. Budget deficit | 682.9 | 3.5 | 1120.4 | 5.0 | 1252.9 | 4.9 |

[#] Actual, ^{*} Revised Budget, [@] Proposed Budget

Source : Budget in Brief, 2018-19, Ministry of Finance
Bangladesh Bureau of Statistics, BBS.

total non-tax revenue as percentage of GDP targeted 1.2 percent in FY18 which was same in FY17 (Table 10.1).

Expenditure

10.5 The total expenditure in the revised budget for FY18 amounted to BDT 3715.0 billion (16.5 percent of GDP) which was 37.8 percent higher than the actual expenditure in FY17. The operating expenditure in the revised budget for FY18 targeted BDT 2105.8 billion (9.4 percent of GDP) which was 19.7 percent higher than the actual operating expenditure of BDT 1758.5 billion in FY17 (Table-10.1).

10.6 In the revised budget for FY18, direct taxes on income and profit increased by 48.3 percent to BDT 777.4 billion from BDT 524.3 billion in FY17. Receipts from export duty, land revenue, value added tax (VAT), import duty, narcotics and liquor duty, other taxes and duties, supplementary duty, stamp duty (non judicial) and taxes on vehicle increased by 81.8, 43.0, 29.7, 27.8, 25.0, 11.5, 10.4, 6.8 and 5.3 percent respectively in FY18 compared to those of FY17. However, excise duty decreased by 7.1 percent in the revised budget for FY18

compared to that of FY17 (Table 10.2).

10.7 Under the non-tax revenue head, rents and leases, administrative fees and charges, receipts for service rendered, tolls and fines, penalties and forfeiture increased by 90.2, 42.3, 32.6, 11.2 and 4.9 percent respectively in FY18 compared to those of FY17. On the contrary, capital revenue, interest and dividend and profit declined by 79.7, 12.4 and 8.1 percent respectively over the same period (Table-10.2). Composition of tax revenue for FY18 and FY19 are depicted in Chart-10.1 and Chart-10.2 respectively.

10.8 The Annual Development Programme (ADP) in the revised budget for FY18 amounted to BDT 1483.8 billion (6.6 percent of GDP) which was 76.4 percent higher than the actual ADP in FY17 (Table 10.1). In the revised budget for FY18, nearly, 41.9 percent of the total ADP was spent on the infrastructure sector (power, oil, gas and natural resources, transport and communication), 16.0 percent on the social sector (education and religious affairs and health, nutrition, population and family welfare), and 3.6 percent on agriculture sector (Table 10.3).

Budget Deficit and its Financing in FY18

10.9 Total deficit (excluding grants) in the revised budget for FY18 stood at BDT 1120.4 billion (5.0 percent of the GDP) (Table 10.1). The domestic borrowing component of the deficit financing was BDT 660.2 billion (2.9 percent of the GDP) in FY18. Of this component, BDT 199.2 billion (0.89 percent of the GDP) was bank borrowing and BDT 461.0 billion (2.05 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)

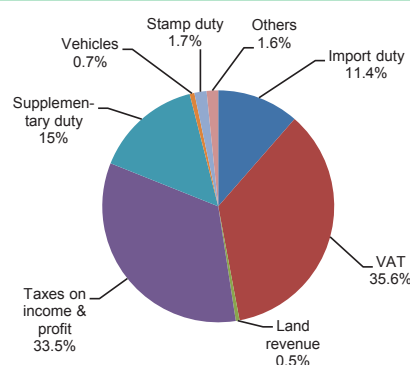
Table 10.2 Composition of Revenue Receipts
(in billion BDT)

| Items | FY17 [#] | FY18* [*] | FY19 [@] |
|---------------------------------------|-------------------|--------------------|-------------------|
| 1. Tax revenue | 1780.8 | 2322.0 | 3059.3 |
| A. NBR Tax revenue | 1716.4 | 2250.0 | 2962.0 |
| i) Taxes on income and profit | 524.3 | 777.4 | 1007.2 |
| ii) Import duty | 207.6 | 265.4 | 325.5 |
| iii) Export duty | 0.2 | 0.4 | 0.4 |
| iv) Supplementary duty | 314.9 | 347.7 | 487.7 |
| v) Value Added Tax (VAT) | 637.6 | 827.1 | 1105.6 |
| vi) Excise duty | 17.9 | 16.6 | 20.9 |
| vii) Other taxes and duties | 13.8 | 15.4 | 14.8 |
| B. Non NBR Tax revenue | 64.4 | 72.0 | 97.3 |
| i) Narcotics and liquor duty | 0.7 | 0.9 | 1.0 |
| ii) Taxes on vehicles | 14.7 | 15.5 | 14.3 |
| iii) Land revenue | 8.5 | 12.2 | 14.0 |
| iv) Stamp duty (non judicial) | 36.9 | 39.4 | 63.0 |
| v) Surcharge | 3.5 | 4.0 | 4.9 |
| 2. Non-tax revenue | 231.4 | 272.5 | 333.5 |
| i) Administrative fees and charges | 24.0 | 34.1 | 38.9 |
| ii) Dividend and profit | 32.3 | 29.7 | 34.0 |
| iii) Interest | 22.1 | 19.4 | 54.6 |
| iv) Capital revenue | 2.5 | 0.5 | 2.4 |
| v) Receipts for services rendered | 38.4 | 50.9 | 66.6 |
| vi) Tolls | 5.5 | 6.1 | 6.6 |
| vii) Fines, penalties and forfeiture | 6.1 | 6.4 | 6.0 |
| viii) Non commercial sales | 13.1 | 25.2 | 23.3 |
| ix) Rents and leases | 3.7 | 7.0 | 6.3 |
| x) Other non-tax revenue and receipts | 83.7 | 93.2 | 94.8 |
| Total | 2012.1 | 2594.5 | 3392.8 |

[#] Actual, ^{*} Revised Budget, [@] Proposed Budget.

Source : Budget in Brief, 2018-19, Ministry of Finance

Chart 10.1 Composition of Tax Revenue*-FY18



^{*} Revised Budget

Source: Budget in Brief 2018-19, Ministry of Finance.

of the budget deficit was BDT 415.7 billion (1.85 percent of the GDP) (Table 10.4).

Major Revenue Measures in FY18 Budget

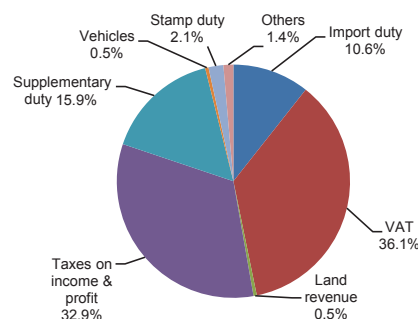
Direct Tax

10.10 Direct taxes on income and profit are considered as the principal source of Government revenue. It accounted for 33.5 percent share of the total tax revenue in the revised budget for FY18 compared with 29.4 percent in FY17. The marginal changes on direct taxes in the national budget for FY18 included:

Taxes on Individual Income

- Tax exempted income limit for individual taxpayer remained unchanged at BDT 2,50,000.
- Tax exemption threshold for women and senior citizens aged 65 years or above remained unchanged at BDT 3,00,000.
- Tax exempted income limit for physically challenged individual has increased to BDT 4,00,000.
- Tax exempted income limit for war wounded gazetted freedom fighters remained unchanged at BDT 4,25,000.
- Tax exempted threshold for the parents or legal guardians of a person with disability shall be higher by BDT 25,000.
- Tax rate for income of non-resident and income of Co-operative Society remained unchanged at 30 percent and 15 percent respectively.
- Existing minimum tax for a taxpayer who have income exceeding tax exemption threshold, except company taxpayer, BDT 5,000 for the residents of Dhaka North City Corporation, Dhaka South City Corporation and Chittagong City Corporation, BDT 4,000 for the residents

Chart 10.2 Composition of Tax Revenue*-FY19



* Proposed Budget

Source: Budget in Brief 2018-19, Ministry of Finance.

Table 10.3 Sectoral Shares in ADP Expenditure
(In Percent)

| Sectors | FY17* | FY18* | FY19® |
|--|-------|-------|-------|
| Agriculture | 5.2 | 3.6 | 4.1 |
| Transport | 24.7 | 25.3 | 26.3 |
| Education & religious | 11.6 | 9.6 | 9.6 |
| Physical planning, water supply & housing | 13.0 | 10.2 | 10.3 |
| Power | 12.2 | 15.1 | 13.3 |
| Rural development & institutions | 9.7 | 11.3 | 9.7 |
| Health, nutrition, population & family welfare | 5.1 | 6.5 | 6.9 |
| Water resources | 3.0 | 2.8 | 2.7 |
| Industries | 0.9 | 1.1 | 1.2 |
| Oil, gas & natural resources | 1.0 | 0.9 | 1.1 |
| Communication | 1.7 | 0.6 | 1.5 |
| Others | 11.9 | 13.2 | 13.5 |
| Total | 100 | 100 | 100 |

Actual, *Revised Budget, ®Proposed Budget

Source : Annual Development Programme, 2017-2018 and 2018-2019, Ministry of Planning

Table 10.4 Composition of Budget Financing

| Items | FY17* | FY18* | FY19® |
|-----------------------------------|---------|---------|---------|
| Domestic Financing | 559.9 | 660.2 | 712.3 |
| Bank borrowing | -83.8 | 199.2 | 420.3 |
| Non-bank borrowing | 643.6 | 461.0 | 292.0 |
| Foreign financing (net) | 116.0 | 415.7 | 500.2 |
| Budget Deficit (including grants) | 675.9 | 1075.8 | 1212.4 |
| Budget Deficit (excluding grants) | 682.9 | 1120.4 | 1252.9 |
| GDP (Memorandum Item) | 19758.2 | 22504.8 | 25378.5 |

*Actual, *Revised Budget, ®Proposed Budget

Source : Budget in Brief, 2018-19, Ministry of Finance.
Bangladesh Bureau of Statistics, BBS.

of any other city corporation and BDT 3,000 for the residents of any other area is kept unchanged.

Taxes on Corporate Income

The existing corporate tax rate is low in various sub-regional and regional comparisons

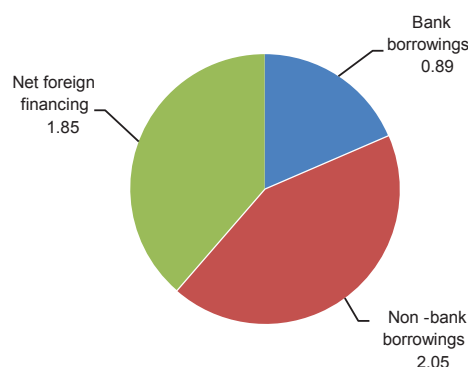
- Tax rates for publicly traded company and publicly traded bank, insurance and financial institutions remained unchanged at 25.0 percent and 40.0 percent respectively.
- Tax rates for non-publicly traded company and non-publicly traded bank, insurance and financial institutions remained unchanged at 35.0 percent and 42.5 percent respectively.
- Tax rate for merchant banks remained unchanged at existing 37.5 percent.
- Tax rate for cigarette, bidi, zarda, chewing tobacco or any other tobacco manufacturer remained unchanged at existing 45 percent.
- Tax rate for publicly traded and non-publicly traded mobile phone operators remained unchanged at 40 percent and 45 percent respectively.
- Tax on dividend income also remained unchanged at 20 percent.
- Tax rate on RMG export is reduced from 20 percent to 15 percent and for a RMG company having internationally recognized green building certificate is reduced to 14 percent.

Value Added Tax (VAT)

10.11 VAT is the main component of indirect taxes in Bangladesh. Contribution of VAT in the Government exchequer has increased in this fiscal year due to government has taken several reform initiatives in the tax administration and positive mindset of the taxpayers. VAT representing 35.6 percent of total tax revenue

Chart 10.3 Deficit Financing* (including Grants) : FY18

(Percent of GDP)



* Revised Budget
Source: Budget in Brief, 2018-19, Ministry of Finance.

increased by 29.7 percent to BDT 827.1 billion in FY18 compared to BDT 637.6 billion in FY17. The marginal changes on VAT in the budget for FY18 included:

VAT Exemptions

- In order to promote the growth of the domestic heavy industry, the existing VAT exemption facility to the local manufacturers of refrigerator and freezer has been extended up to 30 June 2019 as an incentive to the industry.
- The existing VAT exemption facility to the local manufacturers of air conditioner has been extended up to 30 June 2019 for encouraging the development of this industry.
- With a view to keeping the price of the edible oil stable and within the buying capacity of the consumers, the existing VAT exemption facility to palm oil and soya bean oil at the production and retail level has been extended up to 30 June 2019.

- Considering the importance of the fuel and power sector for industrialization and keeping the price stable, the existing VAT exemption facility to the local manufacturers of LPG cylinder has been extended up to 30 June 2019.

VAT Impositions and Expansions

- To discourage the consumption of tobacco, supplementary duty rate has been increased from existing 50 percent to 52 percent for every 10 sticks of local brand cigarette and the price of low segment of such brand has been fixed at BDT 27 instead of existing BDT 23.
- Supplementary duty rate has been increased to 55 percent for every 10 sticks of international brand cigarette and the price of low segment of such brand has been fixed at BDT 35.
- Customs duty has been increased to 25 percent from existing 10 percent as well as 100 percent supplementary duty has been imposed on Electronic Nicotine Delivery System (ENDS) and on its refill pack.
- Supplementary duty has been imposed by 10 percent at local supply on fast food in addition to applicable 15 percent VAT.
- Excise duty has been increased to BDT 2000 from existing BDT 1000 on airlines tickets for traveling to any Asian country (except SAARC countries) and to BDT 3000 from existing BDT 1500 for traveling to Europe, USA or any other country.
- Food supplement is now subject to 25 percent of supplementary duty.

- Supplementary duty rate has been increased to 25 percent from existing 20 percent on table/kitchenware made of stainless steel.

Custom Duties and Taxes

10.12 With a view to protect and expand domestic industry without harming it, to increase the capacity of international business, to avoid undervaluation and to quick assessment and clearance of imported goods revised budget for FY18 have been followed and internalized international “Best Practices”. For this purpose Customs-Business partnership have made stronger and effective. Import duty increased by 27.8 percent to BDT 265.4 billion in FY18 compared to BDT 207.6 billion in FY17. The proposed changes on custom duties and taxes in the national budget for FY18 include:

- Expansion of the existing 1 percent customs duty rate on few extra raw materials and components of agricultural sector to facilitate local manufacturers of such parts.
- To discourage tobacco production and consumption, 25 percent export duty has been imposed on tobacco.
- To ensure safety for the workers in the industries, 5 percent duty exemption facility was given to the goods required to establish fire fighting system.
- Reduction of customs duty rates as capital machinery on busbar trunking system and electrical panel imported by the lather industries.
- Extension of the existing duty exemption benefit to various raw materials used for the production of medicines including that of cancer.

- Reduction of customs duty rate from existing 10 percent to 5 percent on talc and crude mica and mica rifted into sheets or splitting and from 15 percent to 10 percent on alumina liner used in the ceramics industry.
- Increase of customs duty rate from existing 5 percent to 10 percent on the importation of complete solar module/ panel and fixing zero rate on the importation of the photovoltaic cell used for manufacturing these solar module/ panel.
- To facilitate local industries, customs duty rate has been reduced to 5 percent from existing 10 percent on zinc, callot and arsenic and antimony which are widely used raw materials in battery manufacturing industry.
- Reduction of customs duty on the machinery and parts required to assemble or manufacture various ICT products like cellular phone, laptops and pads.
- Reduction of customs duty rates from 10 percent to 5 percent on the raw materials required to produce LPG cylinder.
- Reduction of customs duty and taxes on hybrid motor vehicles to reduce pollution and fuel cost.
- Reduction of Customs Duty from 25 percent to 5 percent on Pepper, Cinnamon, Cardamoms, Seeds of Cumin.

Proposed Budget for FY19

10.13 In the proposed budget for FY19, GDP growth rate set at 7.8 percent which is the

Table 10.5 Composition of Revenue Expenditure
(In billion BDT)

| Sectors | FY17 [#] | FY18 [*] | FY19 [@] |
|--|-------------------|-------------------|-------------------|
| Social sector | 748.3 | 1054.4 | 1230.4 |
| Public services | 313.0 | 417.3 | 835.1 |
| Interest on domestic debt | 332.5 | 354.0 | 483.8 |
| Defence | 236.2 | 264.2 | 290.8 |
| Public order and safety | 196.9 | 239.8 | 265.9 |
| Interest on foreign debt | 18.4 | 25.2 | 29.6 |
| Agriculture sector | 168.9 | 210.3 | 262.6 |
| Transport and communication | 229.0 | 469.5 | 564.6 |
| Local government and rural development | 179.1 | 299.8 | 326.7 |
| Housing | 50.1 | 37.8 | 49.6 |
| Others | 222.6 | 342.5 | 306.5 |
| Total | 2695.0 | 3715.0 | 4645.7 |

[#]Actual, ^{*}Revised Budget, [@]Proposed Budget

Source : Budget in Brief, 2018-19, Ministry of Finance.

highest in the last four decades and inflation at 5.6 percent. Besides, proposed budget for FY19 incorporates various initiatives for achieving the sustainable development goals (SDG's) and necessary policy support to implement the 7th five year plan.

10.14 The total size of the budget for FY19 is set at BDT 4645.7 billion, which is 18.3 percent of the GDP and 25.1 percent higher than the revised budget for FY18. The total development expenditure target for FY19 stands at BDT 1730.0 billion, which is about 6.8 percent of GDP. This developmental expenditure turns out 16.6 percent higher than that of the revised budget of the previous fiscal year. In the ADP for FY19, about 16.5 percent of development outlay has been allocated to the human resource sector (education and health, nutrition, population and family welfare), 16.4 percent to overall agricultural sector (agriculture, rural development and institutions and water resources), 14.3 percent to power and energy sector, 26.3 percent to transport sector (roads, railway, bridges and others related to transport), 10.3 percent to physical sector planning, water supply and housing sector and 16.2 percent to other sectors (Table 10.5).

10.15 Different ministries and divisions have been categorized into three main groups based on their allocation of business. These are social infrastructure, physical infrastructure and general services. In the proposed budget for FY19, about 27.3 percent of total outlay has been allocated for social infrastructure, of which 24.4 percent is set for human resources sector (education, health, science and technology and other related sectors). About 31.0 percent of total outlay of ADP has been allocated for physical infrastructure, of which 12.7 percent goes to wider agriculture and rural development, 11.4 percent to overall communication sector and 5.4 percent to power and energy sector. About 25.3 percent of total outlay of ADP has been allocated for general service sector. An allocation of 4.8 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.

10.16 Apart from these three major categories, 11.1 percent of total outlay has been allocated for interest repayment and the rest 0.5 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

10.17 The revenue receipts in FY19 is targeted to grow by 30.8 percent to BDT 3392.8 billion (13.4 percent of the GDP) compared to that of the revised budget for FY18. The tax and non-tax revenue receipts are expected to increase by 31.8 percent and 22.4 percent

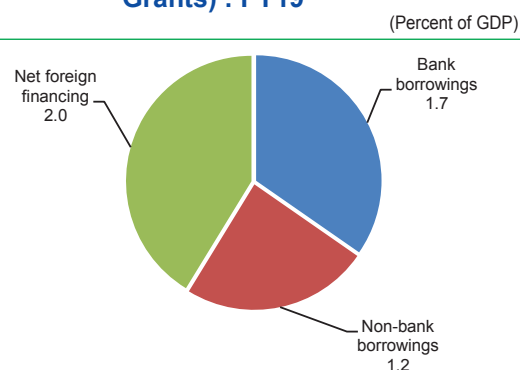
Table 10.6 Composition of Social Sector Revenue Expenditure

| | (In billion BDT) | | |
|---|------------------|--------|--------|
| | FY17* | FY18* | FY19® |
| Education & technology | 486.4 | 599.3 | 679.4 |
| Health | 66.2 | 200.1 | 233.8 |
| Recreation, culture and religious affairs | 32.4 | 34.1 | 43.4 |
| Labour and employment | 1.2 | 1.9 | 2.3 |
| Social security and welfare | 162.1 | 219.0 | 271.6 |
| Total | 748.3 | 1054.4 | 1230.4 |

*Actual, *Revised Budget, ®Proposed Budget

Source : Budget in Brief, 2018-19, Ministry of Finance.

Chart 10.4 Deficit Financing* (including Grants) : FY19



* Proposed Budget

Source: Budget in Brief 2018-19, Ministry of Finance.

respectively compared to the revised budget for FY18. Total revenue-GDP ratio is projected to increase to 13.4 percent in the FY19 compared to 11.5 percent in FY18 (Table 10.1). Receipts from the direct taxes on income and profits is projected to increase by 29.6 percent in FY19 compared to the revised budget for FY18 while 33.2 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 14.6 percent in FY19 compared to the revised budget for FY18 (Table 10.2).

10.18 Receipts from other non-tax revenue and receipts such as interest; receipts from

service rendered; administrative fees and charges and tolls and levies are expected to rise by 182.1, 30.6, 14.1 and 8.4 percent respectively in FY19. On the other hand, receipts from rent and leases; non commercial sales and fine, penalties and forfeiture are expected to decline by 9.7, 7.6 and 6.7 percent respectively in FY19 compared to the revised budget for FY18.

Expenditure

10.19 The total public expenditure in FY19 is expected to increase by 25.1 percent to BDT 4645.7 billion compared to the revised budget for FY18. The operating expenditure is expected to grow by 34.1 percent, the ADP by 16.6 percent but other expenditure is expected to decrease by 26.9 percent over the revised budget for FY18. The projected operating expenditure for FY19 is set at BDT 2824.2 billion (Table 10.1). About 26.5 percent of the total expenditure has been allocated for the social sector (Table 10.5), of which the major portion of this sector (96.3

percent) will go to education and technology, social security and welfare programs and health sector (Table 10.6).

Deficit Budget and its Financing in FY19

10.20 The budget deficit (excluding grants) for FY19 is estimated at BDT 1252.9 billion which is BDT 132.5 billion higher than the revised budget for FY18. The projected budget deficit-GDP ratio for the FY19 is 4.9 percent which was 5.0 percent for the previous fiscal year. The deficit is expected to be financed through borrowing from domestic banks and non-bank sources of BDT 712.3 billion (2.8 percent of GDP) and external financing of BDT 500.2 billion (2.0 percent of GDP) in FY19 (Chart 10.4) against BDT 660.2 billion (2.5 percent of GDP) and BDT 415.7 billion (1.8 percent of GDP) in the revised budget for FY18 respectively. Of the total domestic borrowing, BDT 420.3 billion is projected to be financed from the banking system and BDT 292.0 billion from non-banking sources (Table 10.4).

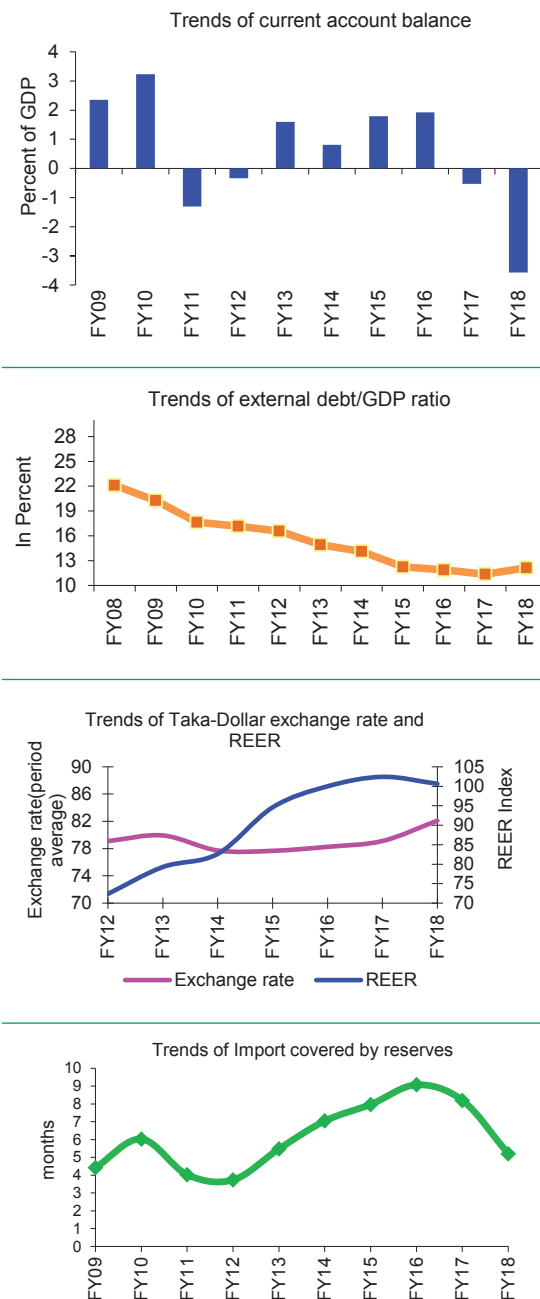
External Sector

External Trade and the Balance of Payments

11.1 Global economies trade situation as well as increasing oil price, and market pressures on the currencies of some economies still experienced unstable. As a consequence, the external sector of Bangladesh delves into a setback during FY18. Overall balance turned into a deficit due to massive current account deficit. Higher import growth along with a meagre exports growth led to higher trade deficit. As a result, current account deficit widened significantly. However, the sharp increase in import reflects higher demand for investment goods and food imports due to flood related weather shocks.

11.2 The current account deficit, which was 0.5 percent of GDP in FY17, expanded to 3.6 percent of GDP in FY18. Nominal exchange rate stood at BDT 82.1 as of end June 2018 compared to BDT 79.1 as of end June 2017 (period average). The nominal effective exchange rate (NEER) of BDT, calculated against a trade weighted 15 currency basket (base: FY16=100), depreciated by 4.5 percent in FY18. Similarly, the real effective exchange rate (REER) of BDT depreciated by 1.7 percent in FY18. Foreign exchange reserve stood at USD 32.94 billion at the end of June 2018; reserve coverage of imports decreased but remains broadly adequate at around 5.5 months prospective imports. Outstanding external debt stock of Bangladesh increased at the end of FY18. The external debt (public) to GDP ratio demonstrates decreasing trend but it started to increase from FY18 (12.1 percent) from 11.3 percent in FY17. The overall scenario of major external sector indicators in FY18, are shown in Chart 11.1.

Chart 11.1 Key Indicators of External Sectors



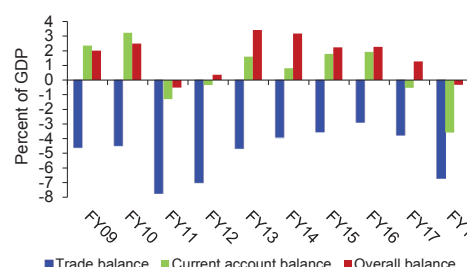
Source: Statistics Department, Bangladesh Bank.

Balance of Payment

11.3 The deficit of current account widened and stood at USD 9780 million during FY18 which was USD 1331 million in FY17. The current account deficit mainly occurred by the huge deficit in services and trade balance. However, the notable increase recorded in the financial account in FY18, with a surplus of USD 9076 million. The capital account surplus decreased to USD 292 million in FY18 from USD 400 million in FY17. During the same period, overall balance recorded a deficit of USD 885 million compared to a surplus of USD 3169 million in FY17 (Chart 11.2 and Table XVI of Appendix-3).

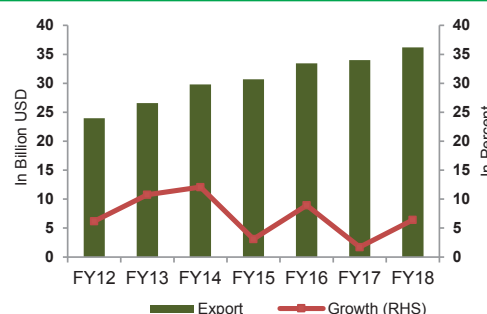
11.4 Trade Balance showed a higher deficit of USD 18258 million during FY18 compared to the deficit of USD 9472 million in FY17. Higher growth of import along with insufficient exports growth led to higher trade deficit. The services account deficit increased by 39.10 percent to USD 4573.7 million in FY18 from USD 3288.0 million in FY17. The deficit on the primary income account also widened (27.91 percent) to USD 2392.0 million in FY18 from USD 1870.0 million in FY17. Secondary income increased by 16.13 percent from USD 13299.0 million in FY17 to USD 15444.0 million in FY18. Workers' remittances increased by 17.33 percent in FY18 due to some progressive measures taken by Bangladesh Bank and the government for reducing the cost of remittances transfer and to encourage formal channel for sending remittances. The net outcome of all of these, the overall balance recorded a deficit of USD 885 million in FY18 compared to the surplus of USD 3169 million in FY17 (Table XVI of Appendix-3).

Chart 11.2 Trends in Trade, Current Account and Overall Balances



Source: Statistics Department, Bangladesh Bank.

Chart 11.3 Trends in Export Earnings



Source: Export promotion bureau.

11.5 Foreign Direct Investment (FDI) is recognized as one of the important components of Bangladesh's foreign exchange reserves in recent years. It contributes as the second largest component of the financial account. As a potential source of foreign exchange reserves, FDI need to be encouraged. For this reason, progressive measures have been taken to promote the financial openness and enhance the investment climate. FDI has been emphasized by the Government in its 7th five year plan and has undertaken various policies for adequate incentives in attracting foreign investors. However, net FDI inflow decreased slightly by 4.23 percent to USD 1583.0 million in FY18. Portfolio investment also decreased significantly by 20.13 percent to USD 365 million in FY18 compared to USD 457 of preceding year.

Box 11.1 Recent Widening of Current Account Deficit in Bangladesh: Causes and Consequences

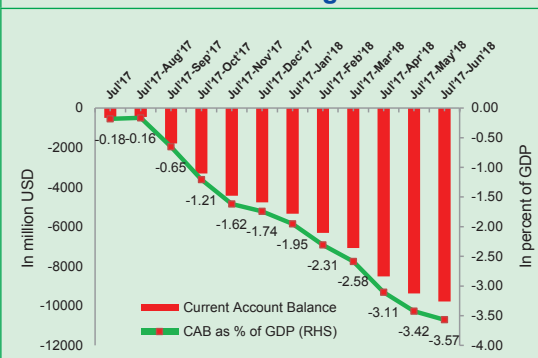
Bangladesh has experienced a record high in current account balance (CAB), a deficit of US\$ 9,780 million in FY18. As per Balance of Payment Manual 6 (BPM6), the components of current account balance are trade balance, net services, net income and unilateral transfers (remittances). In FY18 export grew by 6.4 percent while growth of import payment was 25.2 percent. As import grew faster than export current account deficit widened (Chart) to 3.6 percent (0.06 percent in FY17) of GDP despite a strong and broad based rebound in remittances growth (17.3 percent). Import decomposition in FY18 reflected a high import of capital goods (43.1 percent), food imports (140.9 percent) due to flood-related weather shocks. Additionally, import of fertilizer, oil seeds, iron, steel & other base metals, raw cotton, milk & cream, POL, yarn, clinker, chemicals, and staple fiber also experienced higher growth (36.4%, 32.1%, 28.1%, 27.9%, 26.9%, 26.0%, 19.2%, 18.9%, 17.2%, and 16.0% respectively).

The surge in import has put in pressure on the exchange rate and foreign exchange reserves. In FY18 BDT depreciated by 3.7 percent against US dollar. In order to maintain stability in the foreign exchange market BB intervenes in the foreign exchange market by selling foreign currency amounted to USD 2311 million in FY18. On the other hand, now the country has capacity of foreign exchange reserves for settling import payments for around six months which was eight months a year ago. Besides, in FY18, About 86 percent of CA deficit was financed by capital and financial account surplus. Such a deficit may potentially stimulate growth and development if the financial system is efficient and the foreign capital is used efficiently.

CAB may also be expressed as the difference between national savings and investment. A current account deficit reflects a low level of national savings relative to investment or a high rate of investment. Bangladesh has more investment opportunities than it could afford to undertake due to low level of savings, a current account deficit may be expected.

Now the question is whether CA deficit good or bad for Bangladesh? The answer depends on factors that increase the deficit at a given point of time. A deficit in CAB could be benefit, if the deficit stems from imports of capital machineries and raw materials for export-related intermediate goods to boost up economic growth. If the deficit implies an excess of investment over savings, it may point to the evaluation of rapidly growing economy. However, the net position of CA reflects the health of the economy in terms of competitiveness in the international market. Bangladesh should take necessary steps to increase export earnings and remittance to halt the upward trend of CA deficit at this moment.

Chart : Trends of Current Account Balance during FY18



Source: Statistics Department, Bangladesh Bank

11.6 Merchandise exports (fob) increased by 6.43 percent to USD 36205.0 million and imports (fob) increased by 25.23 percent to USD 54463.0 million in FY18 (Chart 11.3). The balance of payments position is given in Table XVI of Appendix-3.

Exports

11.7 Export earnings increased slightly by 5.81 percent to USD 36668.17 million in FY18 from USD 34655.9 million in FY17 (Table 11.1). Readymade Garments (woven garments and knitwear products) continued to occupy a lion share (above four fifths) of the total export.

Composition of Exports

11.8 Ready Made Garments (woven and knitwear): Woven and knitwear products, which fetch about 83.49 percent of total export earnings, registered an increase in receipts from USD 28149.8 million in FY17 to USD 30614.8 million in FY18. Woven and Knitwear products showed a higher growth of 7.2 and 10.4 percent respectively in FY18 compared to FY17.

11.9 Leather: During FY18 export earnings from leather and leather products decreased significantly to USD 519.9 million in FY18 from USD 697.0 million in FY17.

11.10 Frozen food: Earnings from frozen foods comprises mainly of shrimps, decrease during FY18. Receipt from export of shrimp and fish decreased by 4.7 percent to USD 467.0 million in FY18 from USD 490.1 million in FY17.

11.11 Footwear: Export earnings from footwear products increased by 4.1 percent to USD 809.7 million in FY18 from USD 777.8 million in FY17.

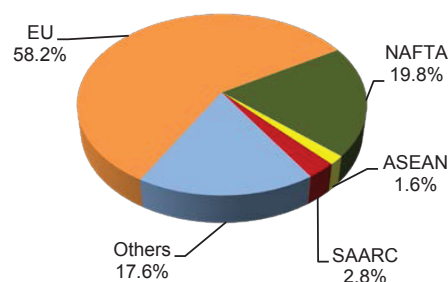
11.12 Chemical Products: Export earnings

Table 11.1 Composition of Merchandise Exports

| Items | (In million USD) | | |
|---------------------------------|------------------|---------|----------|
| | FY17 | FY18 | % change |
| 1) Raw jute | 167.8 | 155.7 | -7.2 |
| 2) Jute goods | 794.6 | 869.9 | 9.5 |
| 3) Tea | 4.47 | 2.8 | -38.0 |
| 4) Leather and leather products | 697.0 | 519.9 | -25.4 |
| 5) Frozen shrimps and fish | 490.1 | 467.0 | -4.7 |
| 6) Woven garments | 14392.6 | 15426.3 | 7.2 |
| 7) Knitwear products | 13757.3 | 15188.5 | 10.4 |
| 8) Chemical products | 140.0 | 150.7 | 7.7 |
| 9) Petroleum by-product | 243.8 | 33.7 | -86.2 |
| 10) Engineering products | 688.8 | 356.0 | -48.3 |
| 11) Specialised textiles | 106.1 | 110.0 | 3.7 |
| 12) Footwear | 777.8 | 809.7 | 4.1 |
| 13) Others | 2574.7 | 2578.1 | 0.1 |
| Total | 34835.1 | 36668.2 | 5.3 |

Source: Export Promotion Bureau.

Chart 11.4 Destinal Pattern of Exports in FY18



Source: Statistics Department, BB.

from chemical products achieved a growth of 7.7 percent to USD 150.7 million in FY18 against USD 140.0 million in FY17.

11.13 Tea: During FY18 export earnings from tea decreased drastically (38.0 percent) compared to the previous fiscal year's growth.

11.14 Jute goods (excluding carpets): Export earnings from jute goods increased by 9.5 percent to USD 869.9 million in FY18 against USD 794.6 million in FY17.

11.15 Raw jute: Raw jute valued at USD 155.7 million was exported in FY18, against USD 167.8 million in FY17.

Destination of Exports

11.16 One important feature of export diversification is the geographical diversity of export destination countries. By looking at the share of different regions, it is observed that over the years Bangladesh's exports to EU and Asia region increased but it decreased in American region. In FY18, 58.2 percent (55.5 percent in FY17) of exports were destined for the EU area while 19.8 percent (20.3 percent in FY17) entered into the NAFTA bloc. Exports to the SAARC, ASEAN and other countries were 2.8, 1.6 and 17.6 percent respectively of the total exports in FY18 (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 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 2017, the fund was enhanced to USD 3.00 billion from USD 2.50 billion to meet the growing demand of the exporters.

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 25.00 million is allowed to a single party except leather goods & footwear, ceramic wares, dyed yarn, agro-food processing, bicycle, accessories & packaging and plastic goods manufacturer. However, this limit is fixed at 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%. Out of that, Bangladesh Bank's portion is LIBOR + 1% and the rest 1.5% is for commercial banks. 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 FY18 stood at USD 5.76 billion which was USD 5.34 billion in FY17. The outstanding balance at the end of June, 2018 stood at USD 2.99 billion which was USD 2.46 billion in the previous year.

Imports

11.22 Imports recorded at customs (fob) in FY18 increased markedly from USD 43491 million in FY17 to USD 54463.2 million registering a growth of 25.2 percent. Import of food grain recorded a significant growth of 140.9 percent in FY18 mainly due to increase of rice import. Import (landed) for food grains stood at USD 3098.8 million in FY18 compared

to USD 1286.4 million in FY17. Import of other food items increased by 3.4 percent to 4385.3 million in FY18 from USD 4240.4 million in FY17. Except negative growth of pulse (all sorts, 35.4 percent) and sugar (7.6 percent), all other food items of imports showed positive growth. Consumer and intermediate goods increased by 17.2 percent to USD 34419.4 million in FY18 from USD 29371.2 million in FY17. All items of capital goods and others categories recorded a high growth of 30.6 percent to USD 21347.1 million in FY18 from USD 16347.6 million in FY17. Imports by EPZ increased by 17.7 percent to USD 3756.0 million in FY18 compared to USD 3190.7 million in FY17 (Table 11.2).

Terms of Trade

11.23 The terms of trade was 87.11 in FY18 which was the same as in FY17. The growth of export price index and import price index remained unchanged at 3.6 percent during the year (Table 11.3).

Workers' Remittances

11.24 Inward remittances from Bangladeshi nationals working abroad continued to play an important role in strengthening the current account balance. Remittance receipts increased by 17.3 percent to USD 14981.69 million in FY18 from USD 12769.45 million in FY17. Countries like Kingdom of Saudi Arabia (KSA) opened their labor market for Bangladesh in 2017 which helped to increase remittance inflows again. To ease the formal channel, Bangladesh Bank reduced the security deposit requirement for the exchange houses abroad to establish drawing arrangement with local banks. Presently, commercial banks

Table 11.2 Composition of Merchandise Imports

(based on customs records)

| (In million USD) | | | |
|---------------------------------------|---------|-------------------|-----------|
| Items | FY17 | FY18 ^P | % changes |
| A. Food grains | 1286.4 | 3098.8 | 140.9 |
| 1. Rice | 89.3 | 1604.5 | 1696.8 |
| 2. Wheat | 1197.1 | 1494.3 | 24.8 |
| B. Other food items | 4240.4 | 4385.3 | 3.4 |
| 1. Milk & cream | 253.6 | 321.7 | 26.9 |
| 2. Spices | 268.9 | 282.4 | 5 |
| 3. Oil seeds | 432.4 | 571.1 | 32.1 |
| 4. Edible oil | 1625.6 | 1863.2 | 14.6 |
| 5. Pulses (all sorts) | 671.4 | 433.9 | -35.4 |
| 6. Sugar | 988.5 | 913 | -7.6 |
| C. Consumer and intermediate goods | 21359.8 | 25202.2 | 18 |
| 1. Clinker | 643.8 | 765.7 | 18.9 |
| 2. Crude petroleum | 477.6 | 365.2 | -23.5 |
| 3. POL | 2897.6 | 3652.3 | 26 |
| 4. Chemical | 1975.5 | 2315 | 17.2 |
| 5. Pharmaceutical products | 245.6 | 252.7 | 2.9 |
| 6. Fertiliser | 737.4 | 1005.6 | 36.4 |
| 7. Tanning & dyeing extracts | 606.7 | 695 | 14.6 |
| 8. Plastics & rubber articles thereof | 2220.3 | 2525.1 | 13.7 |
| 9. Raw Cotton | 2528.9 | 3235.4 | 27.9 |
| 10. Yarn | 1971.8 | 2351 | 19.2 |
| 11. Textile & articles thereof | 6038 | 6859.5 | 13.6 |
| 12. Staple fibre | 1016.6 | 1179.7 | 16 |
| D. Capital goods and others | 20118.6 | 26179 | 30.1 |
| 1. Iron, steel & other base metal | 3771 | 4831.9 | 28.1 |
| 2. Capital machinery | 3816.8 | 5462.4 | 43.1 |
| 3. Others | 12530.8 | 15884.7 | 26.8 |
| Total Import (cif) | 47005.2 | 58865.3 | 25.2 |
| Of which EPZ | 3190.7 | 3756 | 17.7 |
| Total Import (fob) | 43491 | 54463.2 | 25.2 |

^P Provisional

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

Table 11.3 Trends in Terms of Trade of Bangladesh

(Base 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 | 206.61 | 237.18 | 87.11 |
| FY18 | 214.05 | 245.72 | 87.11 |

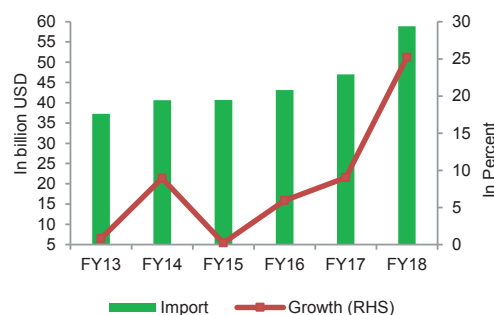
Source: Bangladesh Bureau of Statistics.

have 1214 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 Services Department' to handle any complaints and suggestions by the customers or any stakeholders at home and abroad to ensure the smooth and hassle free services. Banks are instructed to ensure the delivery of remittance to the beneficiaries within 2 (two) working days. However, the measures taken by the Government and the Bangladesh Bank for reducing cost of remittance transfer and curbing the role of unauthorized intermediaries in transferring remittances will continue to support inflows through the official channels.

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

Chart 11.5 Trends in Imports Recorded at Customs



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

11.27 Bangladesh receives a lion share of remittances from the Middle East countries. During FY18, the highest amount (17.3 percent) of remittances came from Saudi Arabia followed by the United Arab Emirates (UAE) (16.2 percent), United States of America (13.3 percent), Kuwait (8.0 percent), Malaysia (7.4 percent), United Kingdom (7.4 percent) and Oman (6.4 percent). All other countries contributed to 24.0 percent of total remittances over the same period. Country wise remittances inflows in FY18 is shown in Chart 11.6.

Foreign Aid

11.28 Total official foreign aid receipts increased by 66.6 percent to USD 6125.5 million in FY18 from USD 3677.3 million in FY17 (Table 11.4). Total foreign aid commitment during FY18 was USD 14875.8 million. Food Aid disbursement stood at USD 26.5 million in FY18, which was USD 28.8 million in FY17. The disbursement of project aid stood at USD 6099.0 million in FY18 which was USD 3648.5 million in FY17. Total outstanding official external debt as of 30 June 2018 stood at USD 33110.7 million (12.1 percent of GDP in FY18) against USD 28337.4 million as of 30 June 2017 (11.3 percent of GDP in FY17). Repayment of official external debt and services

Box 11.2 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.

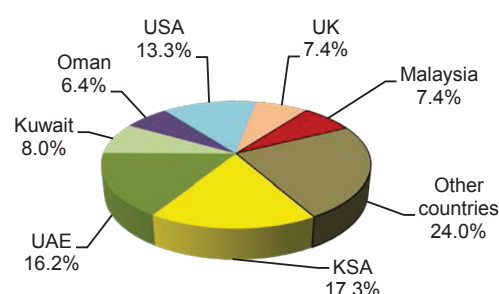
Accordingly, a meeting was held on July 13, 2017 where the requirement of bills of exchange in international trade under factoring mechanism was discussed in light of the Section 17 and 19 of the Stamp Act, 1899 and transport documents title to cargo. It was unanimously decided in the meeting that a 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.

amounted to USD 1391.7 million (excluding repurchases from the IMF) in FY18. This was USD 268.4 million or 23.9 percent higher than the repayment of USD 1123.3 million in FY17. Out of the total repayments, principal payments amounted to USD 1096.8 million while interest payments stood at USD 294.9 million in FY18, against USD 894.1 and USD 229.2 million respectively in FY17. The debt service payment as percentage of exports stood at 3.8 percent in FY18 which was 3.3 percent in FY17.

Foreign Exchange Market Operations and Exchange Rate Movements

11.29 Bangladesh Bank (BB) introduced floating exchange rate since 2003. Under the floating exchange rate regime, exchange rate

Chart 11.6 Country-wise Remittances Inflows in FY18



Source: Statistics Department, Bangladesh Bank.

is being determined based on market demand and supply of currencies. Bangladesh Bank intervenes in the foreign exchange market when deems necessary to maintain stability

in the market. In FY18 no purchase of foreign currency was required from domestic inter-bank foreign exchange market. On the other hand, to facilitate the foreign exchange liquidity, BB sold USD 2.31 billion in domestic inter-bank market during FY18.

11.30 The domestic foreign exchange market experienced a bit contrasting picture during FY18 compared to previous years. The market showed a depreciating trend of BDT against USD from the beginning of the FY18. In FY18 significant import growth (mostly capital machinery, food grain and fuel) resulted in additional demand for foreign exchange which created depreciating pressure. In FY17, exchange rate was 79.12 and at the end of June 2018 it stood at 82.10, resulting in a 3.8 percent depreciation of BDT, which was 2.7 percent in the previous year. Thus, careful liquidity management and proper supervision of Bangladesh Bank ensured stability with adequate liquidity in the foreign exchange market in FY18.

Foreign Exchange Reserves

11.31 The gross foreign exchange reserves held by BB comprises major currencies (G-7), gold and Special Drawing Rights (SDR). At the begging of FY18 foreign exchange reserves was USD 32.99 billion which slightly decreased to USD 32.94 billion at the end of the year (Table 11.5). BB applies 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

Table 11.4 Foreign Aid Receipts and Debt Repayments*

| Particulars | (In million USD) | | |
|--|------------------|-------------------|-------------------|
| | FY16 | FY17 ^R | FY18 ^P |
| 1. Receipts | 3563.6 | 3677.3 | 6125.5 |
| i) Food aid | 31.9 | 28.8 | 26.5 |
| ii) Project aid | 3531.7 | 3648.5 | 6099.0 |
| 2. Repayments (MLT) | 1050.6 | 1123.3 | 1391.7 |
| i) Principal | 848.5 | 894.1 | 1096.8 |
| ii) Interest | 202.1 | 229.2 | 294.9 |
| 3. Outstanding external debt as of end June | 26305.7 | 28337.4 | 33110.7 |
| 4. Outstanding debt as percentage of GDP | 11.9 | 11.3 | 12.1 |
| 5. External debt services (MLT) as percentage of exports | 3.1 | 3.3 | 3.8 |

^P Provisional, ^R Revised.

*Excluding transactions with the IMF.

Source: Economic Relations Division, Ministry of Finance.

Table 11.5 Gross Foreign Exchange Reserves
(End month, in million USD)

| Months | FY14 | FY15 | FY16 | FY17 | FY18 |
|-----------|-------|-------|-------|-------|-------|
| July | 15534 | 21384 | 25469 | 30039 | 32994 |
| August | 16252 | 22070 | 26175 | 31165 | 33596 |
| September | 16155 | 21837 | 26379 | 31386 | 32817 |
| October | 17346 | 22313 | 27058 | 31895 | 33453 |
| November | 17106 | 21590 | 26408 | 31371 | 32624 |
| December | 18095 | 22310 | 27493 | 32092 | 33227 |
| January | 18119 | 22042 | 27139 | 31724 | 32695 |
| February | 19151 | 23032 | 28059 | 32557 | 33369 |
| March | 19295 | 23053 | 28266 | 32215 | 32402 |
| April | 20370 | 24072 | 29106 | 32519 | 33096 |
| May | 20268 | 23708 | 28803 | 32246 | 32349 |
| June | 21508 | 25026 | 30168 | 33493 | 32944 |

Source: Accounts and Budgeting Department, BB.

participates in Repo operation of New York Fed which yields reasonable returns with a very low level of risk. Apart from these, BB provides foreign exchange support from reserves to exporters to bolster export through Export Development Fund (EDF) and Green Transformation Fund (GTF). In addition, with the assistance of International Development Association (IDA), BB provides long term funds to the manufacturing sector of Bangladesh by a separate window named Long Term Financing Facility (LTFF). Apart from that BB also participates in the syndications of ITFC (a sister concern of IDB) as an investment partner.

Reserve Management Strategy

11.32 The reserve management strategy and operational procedures of BB are influenced strongly by developments in both the domestic & international financial markets as well as various key aspects of the macroeconomic policy stances. The most relevant elements of policy framework are: 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. Reserves are held to absorb external shocks, to ensure smooth payment obligations and to maintain stability of the domestic currency. To contain counterparty risks at minimum, BB has invested reserves in a number of internationally reputed central and commercial banks having strong credit ratings 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 the developments in the monetary and exchange rate policies of international arena. Reserves have been divided into two distinct tranches viz: liquidity tranche 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 returns.

11.33 Investment duration and currency benchmark, as set out in the RMG, are carefully followed to minimize interest rate risks 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, T-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 with reputed overseas commercial banks and investments in securities out of its foreign exchange reserves.

Transactions under the Asian Clearing Union (ACU)

11.34 During FY18, total transactions of Bangladesh under the Asian Clearing Union (ACU) increased substantially in terms of net volume compared with the preceding year. Receipts increased significantly from ACUD 183.60 million in FY17 (BDT 14.80 billion) to ACUD 189.21 million (BDT 15.84 billion) in FY18 and import payments also increased significantly from ACUD 5996.92 million in FY17 (BDT 483.34 billion) to ACUD 8088.52 million (BDT 677.18 billion) with the ACU member countries during FY18. The ACU transaction scenario shows that the overall position of Bangladesh remained a net debtor during FY18. The debtor position of Bangladesh decreased by ACUD 361.23 million or 6.63 percent to ACUD 7899.31 million (BDT 661.34 billion) in FY18 compared to ACUD 5813.32 million (BDT 468.54 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

11.35 The IMF Executive Board approved a total amount of SDR 639.958 million a three-

years arrangement for Bangladesh under the Extended Credit Facility (ECF) in April 2012. Bangladesh had received the full amount of ECF. The total amount of repayment under ECF stood at SDR 18.6734 million during FY18. The total principal outstanding liability of ECF to the IMF is SDR 621.673 million at the end of FY18 (Table 11.7). The service charge paid to the IMF amounted to SDR 3.452 million in FY18. At the end of FY18, 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 FY18 was SDR 946.57 million.

Major Changes in Foreign Exchange Regulations

11.36 During FY18, to ease the foreign exchange regulations, Bangladesh Bank has taken some policy measures. The notable changes on exchange arrangements during FY18 are given below:

- **Foreign Exchange Transactions by the Units of Export Processing Zones (EPZs) in Bangladesh:** 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. 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 shall be applicable for such entities also.
- **Operations of BDT Accounts for enterprises of Export Processing**

Table 11.6 Receipts and Payments of Bangladesh Under the ACU

| (In million USD) | | | | |
|----------------------------------|-----------------------|-----------------------|------------------------|----------|
| Head of transaction | FY16 | FY17 | FY18 | % change |
| 1. Receipts (Export) | 127.79 (10.02) | 183.60 (14.80) | 189.21 (15.84) | 3.06% |
| 2. Payments (Import) | 5579.88 (437.46) | 5996.92 (483.34) | 8088.52 (677.18) | 34.88% |
| Net: Surplus (+)/ Deficit (-) | -5452.09 (-427.44) | -5813.32 (-468.54) | -7,899.31 (-661.34) | 35.88% |

1 ACUD = 1 USD; 1 USD = 83.7217 BDT.

Note: Figures in parentheses indicate BDT in billion.

Table 11.7 Outstanding Principal Liabilities Against the Facilities Received from the IMF

| (In million SDR) | | | | |
|------------------|---|--|--------------------------------|---|
| Facility | Outstanding Principal liabilities as of end June 2017 | Amount Drawn/ purchased upto June 2018 | Installment repayment in FY'18 | Outstanding Principal liabilities as of end June 2018 |
| ECF April, 2012 | 639.96 | 639.96 | 18.67 | 621.673 |

Source: Forex Reserve and Treasury Management Department, BB.

Zones (EPZs) and Economic Zones (EZs):

To encashment from foreign currency (FC) accounts and BDT accounts of Type B & Type C industrial units of EPZs are allowed to be credited with authorized payment received in BDT. This clarification is also applicable for transactions in BDT accounts by Type B and Type C enterprises of EZs.

- **Use of share capital and authorized loans through foreign currency/ local currency accounts by industrial enterprises operating in Export Processing Zones (EPZs):** Equity from foreign shareholders of 'Type A' and 'Type B' enterprises and authorized loan received in foreign currency from external sources by EPZ enterprises are permitted to be credited in their FC accounts. 'Type C' enterprises of EPZs are allowed to obtain foreign exchange from ADs to settle obligations for importing capital

machinery by the conversion of equivalent equity and/or authorized loan received in local currency. Similarly, 'Type B' enterprises are allowed to convert their local equity/authorized loan received in local currency into foreign exchange to settle obligations for importing capital machinery if equity/authorized foreign loan received from abroad falls short to meet such obligations.

- **BDT loans to Non-Resident Bangladeshi (NRBs) working abroad:** BDT loans to Non-Resident Bangladeshi (NRBs) working abroad for housing finance facility has been enhanced to a maximum debt equity ratio of 75:25 from existing debt equity ratio of 50:50.
- **Release of foreign exchange for study abroad:** ADs are allowed to release foreign exchange to make some required payments such as health coverage/ health insurance/ medical insurance fee of overseas students for permissible courses as a pre-requisite of visa/ admission. This type of fees is mandatory for visa/admission in permissible courses supported by documentary evidence from the concerned educational institution for the overseas students.
- **Issuance of bank guarantees against import under buyer's credit:** To facilitate short term import finance, Authorized Dealers (ADs), on behalf of industrial importers, are allowed to issue repayment bank guarantees without Bangladesh Bank approval favouring International Islamic Trade Finance Corporation (IITFC) extending short term buyer's credit up to 180 days for import

of industrial raw materials for own use by importers, on sight basis.

- **Release of foreign exchange on account of Overseas Allowance in favour of the cockpit and cabin crews of Biman Bangladesh Airlines Ltd.:** ADs and Licensed Money Changers are allowed to release foreign exchange on account of overseas allowances of the cockpit and cabin crews of Biman Bangladesh Airlines Ltd.
- **Import and export of Bangladeshi currency notes:** An outgoing/ incoming passenger is allowed to carry with at the time of departure from/arrival into Bangladesh upto BDT 10000 which was BDT 5000 earlier.
- **To avail 360 days deferred payment facility to import 4 (four) basic raw materials of steel industry for their own use:** Import of HR Coil, scrap, pig iron & sponge iron used for manufacturing of flat steel and long steel under steel industries for being used in own factories on upto 360 days usance basis is allowed.
- **Family remittance facility for foreign nationals who are resident in and have income in Bangladesh:** Foreign nationals who are resident in and have income in Bangladesh are permitted to make monthly remittances to the country of their domicile out of their current savings up to 75% of their net income to cover their commitments abroad. Besides their country of domicile, such monthly remittances are also allowed to send to other countries where the family members live in as declared by them in the prescribed application form.

- **Regarding Imports of Spare Parts Under Deferred Payment LCs.:** LCAFs issued for the import of Spare Parts will remain valid for remittances for 30 months following the month of issuance. Authorized Dealers (ADs) are allowed to open LCs on behalf of industrial units to import necessary spare parts of capital machineries for own industrial use up to 360 days usance basis. For such deferred payment imports, the prices must be internationally competitive and all in cost including usance interest must not exceed 6% p.a.
- **Application of Bangladesh Investment Development Authority Act, 2016 for remittance on account of payment of royalty, fees for technical knowledge or technical assistance and franchise fees:** Private sector industrial enterprises approved by Bangladesh Investment Development Authority (BIDA) are allowed to release foreign exchange on account of royalty, fees for technical knowledge or technical assistance and franchise fees to foreign persons or institutes in accordance with the prescribed manner as defined by BIDA through AD banks.
- **Collection of demurrage, detention, handling or equivalent charges by the foreign shipping lines/ their agents as source of fund for calculation of their remittable surplus:** In view of scope of wider sources of fund in Bangladesh, the legitimate charges (charges of demurrage, detention, handling or equivalent charges) in addition to freight charges are also allowed to consider for calculation of remittable surplus of foreign shipping lines/their agents working in Bangladesh subject to deduction of taxes and commission.
- **Payments through Asian Clearing Union (ACU):** To facilitate transactions under ACU mechanism, along with 'ACU Dollar', ADs are advised to resume transactions in 'ACU Euro' to settle current account transactions among ACU member countries and 'Japanese Yen (JPY)' has also been incorporated as a settlement currency in ACU mechanism.
- **Outward remittance facilities for exporters:** To facilitate export trade in meeting urgent needs, ADs are allowed to provide remittance facilities to the exporters for bonafide service payments to beneficiary's bank account abroad upto USD 5,000 or equivalent, subject to observance of some specific terms and conditions.
- **Drawing of shipping documents:** If the shipment is made against full payment received in advance through normal banking channel in that case ADs can allow carrier companies to draw railway receipts, bills of lading, airway bills and other documents of title to cargo to the order of importer or other designated parties as per stipulations of export letter of credit/valid sales contract. In this context, designated AD shall issue a certificate to the exporter to be produced to the carrier company, enabling them to draw the shipping documents accordingly.
- **Use of balances held in single pool for 30 days:** Exporters are allowed to use the unencumbered balances held in the single pool within 30 days to

meet the import payments of exporters' subsidiaries/sister concerns.

- **Enhancement of loan limit from Export Development Fund (EDF):** The limit of the loan from EDF against the foreign currency financing of input procurement for member mills of BGMEA and BTMA has been enhanced from USD 20.00 million to USD 25.00 million.
- **Foreign Exchange Transactions by the Enterprises of Economic Zones (EZs) in Bangladesh:** National Board of Revenue (NBR) amended the customs (Economic Zones) Procedures, 2017 to waive export/import formalities for transactions between enterprises operating in Domestic Processing Area (DPA) of EZs and in Tariff Area (TA) of Bangladesh. In accordance with the revised order, it has been decided to allow such transactions to be settled in BDT without observance of regulatory procedures such as EXP Form for export and IMP Form for import. To support the transactions by EZ enterprises irrespective of their ownership status, their liabilities for imports and other permissible expenses may be settled out of the fund held in their BDT accounts.
- **Remittance on account of head office expenses by branches of foreign banking companies operating in Bangladesh:** To facilitate smooth operations of branches of foreign banking companies in Bangladesh, ADs are allowed to remit head office expenses without prior approval from Bangladesh Bank subject to observance of some instructions which is allocated by the head office to their branches in accordance with standard practices.

- **Business-to-consumer export through sales orders received on internet:** In order to promote business-to-consumer export by hosting goods on e-Commerce website accessible through internet to foreign buyers, ADs are allowed to provide acquiring services to eligible exporters for repatriation of export proceeds against sales orders of exportable goods received on e-Commerce website subject to observe some operational procedures.
- **Issuance of guarantee on behalf of foreign owned/controlled companies in favour of residents against foreign back to back guarantee:** ADs are allowed to issue guarantee in BDT or equivalent convertible foreign currency on behalf of foreign owned/controlled companies operating in Bangladesh, favouring concerned authorities in Bangladesh against foreign back to back guarantee acceptable to them subject to observance of some instructions.
- **Validity of LCAF for importation of HR coil, scrap, pig iron & sponge iron under deferred payment basis:** LCAs issued for the import of HR coil, scrap, pig iron & sponge iron for manufacturing of flat and long steel for being used in own factories of steel industries under 360 days deferred payment basis shall remain valid for remittances for 18 months following the month of issuance.

Anti-money Laundering Surveillance

11.37 To achieve the financial stability in the modern economy, Money Laundering (ML) operations and financial crimes has become an important issue, due to huge innovation of instruments and vast activities of financial

sector. Money launderers attempt to conceal their real identity to financial sectors with their polished, articulated and disarming behavior 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 anti-money laundering and combating financing of terrorism (AML & CFT) activities, Bangladesh Financial Intelligence Unit (BFIU) has taken a number of initiatives in order to prevent money laundering and combat financing of terrorism during FY18. Notable of them are mentioned below:

Legal Framework

- Under the Mutual Legal Assistance in Criminal Matters Act, 2012, Bangladesh Government has determined the 'Ministry of Home Affairs' as the Central Authority to receive requests for assistance from any foreign State and to make a request to the foreign State for giving the assistance.

Reporting Agencies and their Regulatory Regime

- BFIU issued a comprehensive circular for commercial banks for prevention of money laundering, terrorist financing and proliferation financing of weapons of mass destruction.
- BFIU issued a comprehensive circular for the institutions engaged in the mobile financial services for prevention of money laundering, terrorist financing.
- BFIU issued a circular letter for Insurance Companies to use a uniform Know Your Customer (KYC) profile form.

- BFIU has developed a Risk Based Supervision Manual for Reporting Organizations (ROs) and this will help to better implement the risk based on-site supervision and off-site supervision of ROs.
- Apart from banks, financial institutions, money changers of Bangladesh have been given user ID of goAML software to submit Suspicious Transaction Report (STR) and Suspicious Activity Report (SAR) in real time.

Receiving and Dissemination of Suspicious Transaction Report (STR)

11.38 BFIU received 3865 Suspicious Transaction Reports (STRs) and 546 requests for banking related information from law enforcement agencies during FY18. Out of those BFIU disseminated 678 to LEAs for further actions and 475 requests has been answered with proper banking information. BFIU has been monitoring the status of these cases from time to time.

National Initiatives

- National Board of Revenue (NBR) of Bangladesh and Bangladesh Financial Intelligence Unit (BFIU) has signed a Memorandum of Understanding (MoU) on 4 February 2018 to exchange information related to AML & CFT and increase cooperation between the organizations.
- BFIU has also taken initiatives to sign MoU with Anti-Corruption Commission (ACC), Bangladesh Police, Department of Narcotics Control (DNC), Bangladesh Securities and Exchange Commission (BSEC) and the Insurance Development and Regulatory Authority (IDRA).

- National Money Laundering and Terrorist Financing Risk Assessment Report of Bangladesh have been reviewed jointly by the Anti-Corruption Commission (ACC), Bangladesh Police and BFIU.
- A committee has been formed by Financial Institutions Division, Ministry of Finance to formulate the National Strategy Paper on Anti-Money Laundering and Combating Terrorist Financing for the year of 2018-2020. The committee is headed by the Head of BFIU and Deputy Governor of Bangladesh Bank.

International Cooperation

- BFIU has signed 60 (till June, 2018) Memorandum of Understanding (MoU) so far to exchange of information with FIUs of other countries, among them 9 (nine) MoU have been signed in FY18 with FIUs of Monaco, Venezuela, Solomon Islands, Vanuatu, Papua New Guinea, New Zealand, Tanzania, Namibia and Cuba.
- During FY18, BFIU received 28 (twenty eight) requests from the FIU of different countries for ML & TF related information and provided the information accordingly. BFIU also made 56 requests to the FIU of different countries.
- BFIU is providing Technical Assistance (TA) to the FIUs of Bhutan and Maldives for getting Egmont group membership as the co-sponsor with the FIUs of Korea and Sri Lanka respectively.
- BFIU has provided 3 (three) expert assessors to APG to assess AML & CFT measures of Indonesia, Chinese Taipei and Solomon Island.

Impart Domestic Training and Workshop

- BFIU and UN Counter-Terrorism Implementation Task Force/ UN Counter Terrorism Center (CTITF-UNCTC) arranged a workshop on 'Promoting Regional Cooperation on Targeted Financial Sanctions' for BIMSTEC member countries.
- BFIU organized 3 days Chief Anti Money Laundering Compliance Officers (CAMLCO) Conference for all Banks, in which 114 senior compliance officers were attended. The conference focused on regional ML/TF risk & vulnerabilities for banks;
- BFIU organised two days Chief Anti Money Laundering Compliance Officers (CAMLCO) Conference for Non-bank Financial Institutions, in which 76 senior compliance officers were attended. The conference focused on corporate governance of the financial institutions;
- BFIU organised two regional conferences and 11 regional training for banks and 732 branch compliance officers were attended those programmes;
- BFIU organized training programme through Bangladesh Bank Training Academy (BBTA) for Financial Institutions (FIs), Capital market Intermediaries (CMIs), Insurance Companies and DNFBPs. 78 participants from FIs, 180 participants from CMIs, 50 participants from insurance companies and 90 participants from DNFBPs were attended those training programmes;
- Bangladesh Institution of Bank Management (BIBM) arranged 12 AML

& CFT Training programme and BFIU provided required resources persons for those programme;

- BFIU also provided required resource persons on 56 occasions while reporting organizations arranged training on AML & CFT issues.
- UNODC (TPB) has arranged a workshop on targeted financial sanction focus on proliferation financing for Government officials; the organisation has also arranged a workshop for relevant custom officials of Bangladesh; UNODC (TPB) also has arranged a workshop on targeted financial sanction for the private sector of Bangladesh;
- BFIU trained 300 investigators of Criminal Investigation Department (CID) of Bangladesh Police about anti money laundering and combating financing of terrorism;

- 20 BFIU officials have attended 'Basic Intelligence Course on Combating Financing of Terrorism' organised by Directorate General of Forces Intelligence (DGFI);

Participation in Different International and Local Conference/Meeting/Workshops

11.39 For acquiring knowledge and build expertise on 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, BIMSTEC, UNODC, World Bank, IMF, etc.. Bangladesh actively participated in various international initiatives undertaken by these organizations and other foreign FIUs in FY18. 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.

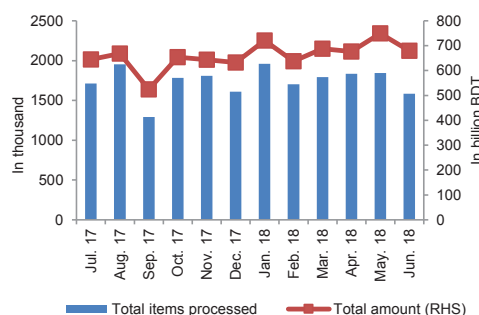
Payment and Settlement Systems

12.1 Payment system is one of the most vital financial market infrastructures of a country. An efficient payment and settlement system ensures smooth circulation of money and thereby promote economic growth. Payment and settlement systems also play crucial role in the implementation of monetary policy. Modern Payment Systems infrastructure enables the services to be delivered in the rural and remote areas which in turn paves the way for financial inclusions and boost the economic development.

Functional Areas of Payment Systems

12.2 Considering the importance of payment and settlement systems for Bangladesh, Payment Systems Department (PSD) of Bangladesh Bank works in three broad areas, i.e. Operation, Policy and Regulation, Oversight. At present, Bangladesh Bank operates four major national interbank payment systems; out of which three systems are for retail value (RV) -Bangladesh Automated Cheque Processing System (BACPS), Bangladesh Electronic Funds Transfer Network (BEFTN), National Payment Switch Bangladesh (NPSB) and one is for high value (HV)- Bangladesh Real Time Gross Settlement (BD-RTGS) system. In parallel, it licenses and regulates services such as mobile financial services, e-money services, and internet based payment gateway services for facilitating e-commerce transactions while it oversees payment system operations. All the activities of the department are focused to ensure that the country's payment systems are safe, efficient and are aligned with the international best practice standards.

Chart 12.1 Number of Regular Value Cheque and Amount



Source: Payment Systems Department, Bangladesh Bank.

Bangladesh Automated Clearing House (BACH)

12.3 Established in 2010, BACH operates two interbank payment systems - the Bangladesh Automated Cheque Processing System (BACPS) and the Bangladesh Electronic Funds Transfer Network (BEFTN). Both the systems operate in batch processing and Deferred Net Settlement (DNS) mode. The central BACH system receives transactions (through instruments or instructions) from the member banks in 24/7 basis while these are processed and settled at a pre-fixed time. After each clearing cycle a single multilateral netting figure on each participating bank is settled by posting it to their respective books of account maintained with Bangladesh Bank. The system is based on a centralized processing centre at Motijheel, Dhaka and a disaster recovery site at Mirpur, Dhaka.

Bangladesh Automated Cheque Processing Systems (BACPS)

12.4 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. This electronic cheque presentment technique made possible to bring the whole country under single clearing umbrella. The clearing cycle has been brought down to t+1 for regular value cheques and t+0 for high value cheques.

BACPS Transaction Status

12.5 During the last fiscal year ended on June 30, 2018, 20.87 million regular value and 2.32 million high value cheques and other instruments were cleared valuing Taka 7918.29 billion and Taka 13965.08 billion respectively. Chart 12.1 and Chart 12.2 show the trends of instruments and amount cleared with respect to regular and high value cheques respectively in FY18.

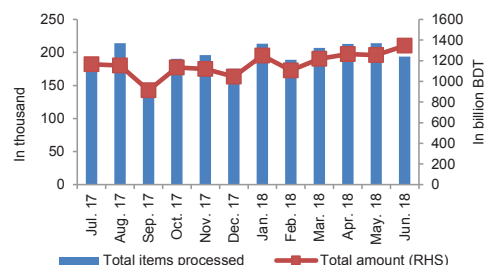
Bangladesh Electronic Funds Transfer Network (BEFTN)

12.6 BEFTN started its Live Operation on February, 2011 with a view to establish a paper-less electronic payment method for secured & cost-effective transaction. BEFTN is a faster and efficient alternative to paper-based clearing and settlement system. A wide range of credit transfers, such as, salary payment, foreign and domestic remittances, social security payments, company dividends, retirement benefits could be settled through EFT credits while utility bill payments, loan repayments, insurance premiums, corporate to corporate payments could be accommodated in EFT debits. Bangladesh Government is an early adopter of the EFT network, currently; salaries of most govt. officials are being paid through this system.

Transaction Status of Bangladesh Electronic Funds Transfer Network (BEFTN)

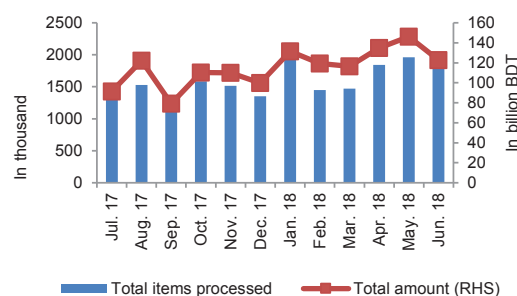
12.7 During FY18, 19.65 million EFT credit

Chart 12.2 Number of High Value Cheque and Amount



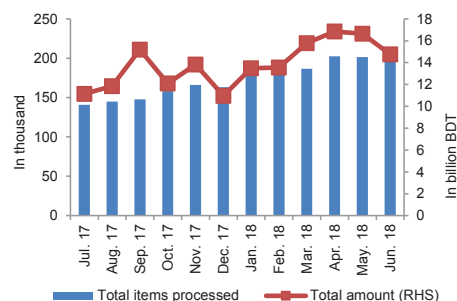
Source: Payment Systems Department, Bangladesh Bank.

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.

transactions valuing Taka 1384.07 billion and a total of 2.07 million EFT debit transactions valuing Taka 166.15 billion have been completed through BEFTN. During this period, a positive or increasing trend in credit as well as debit transactions with respect to number

and amount has been observed. Chart 12.3 and Chart 12.4 show the trend of EFT credit and debit transactions respectively in FY18.

Mobile Financial Services (MFS)

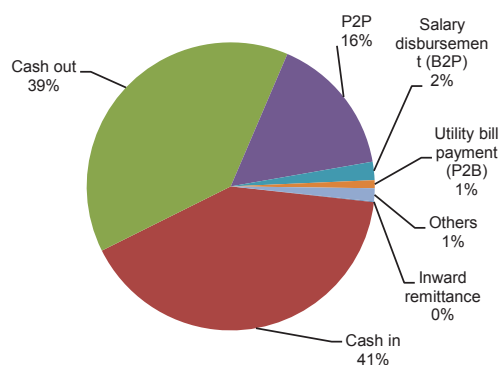
12.8 Rapid countrywide expansion of Mobile phone network as well as exponential growth in the number of subscribers has opened up opportunities for introducing innovative mobile phone based off-branch financial services. Utilizing this opportunity, Mobile Financial Services, since its inception in 2011, has been experiencing a remarkable growth. MFS becomes a key driver of financial inclusion through providing services for the unbanked population segment and in unblocking the advancement opportunities for the underserved section of the society.

As of June 30, 2018, 28 banks and 1 subsidiary have been permitted to provide MFS, whereas 17 Banks and 1 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:

- Cash-in and cash-out using mobile account through agents, bank branches and ATMs.
- Disbursement of Inward foreign remittances (Only the domestic part of transaction, no cross border transaction is permitted)
- Person to business payments. e.g. utility bills, merchant payments.
- Business to person payments. e.g. salary disbursement, dividend/interest and refund payments.

Chart 12.5 Market Share of Different Services in MFS in June 2018



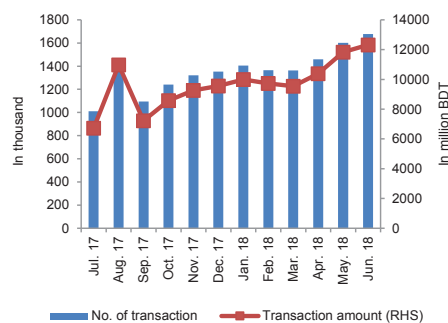
Source: Payment Systems Department, Bangladesh Bank.

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) |
|---------|-------------------------|--|---------------------------------|---------------------------------|
| Jul. 17 | 772.11 | 54.43 | 152.31 | 233.69 |
| Aug. 17 | 767.77 | 57.00 | 175.72 | 321.83 |
| Sep. 17 | 773.28 | 57.73 | 147.64 | 215.50 |
| Oct. 17 | 774.89 | 57.76 | 164.36 | 276.34 |
| Nov. 17 | 777.18 | 58.57 | 158.58 | 275.73 |
| Dec. 17 | 786.46 | 58.80 | 166.32 | 285.71 |
| Jan. 18 | 787.49 | 58.97 | 171.28 | 303.96 |
| Feb. 18 | 796.73 | 59.65 | 162.08 | 284.45 |
| Mar. 18 | 804.61 | 60.15 | 181.01 | 313.39 |
| Apr. 18 | 811.07 | 60.63 | 178.42 | 311.99 |
| May. 18 | 820.35 | 61.32 | 185.48 | 328.23 |
| Jun. 18 | 829.78 | 61.08 | 192.59 | 332.13 |

Source: Payment Systems Department, Bangladesh Bank.

Chart 12.6 Trends in Interbank ATM Transactions



Source: Payment Systems Department, Bangladesh Bank.

Box 12.1 Digital Currency

The advent of information and communication technology has created the opportunity to make financial transactions through electronic money and without involving physical (fiat) currency. Electronic money is generally issued by Financial Institutions against fiat money, such as Debit or Credit card. Digital wallet or e-wallet is a recent innovation which is a store value product for electronic money, introduced by Fintech/Banks to make digital payments easier.

With the evolution of electronic money, world has seen the rise and decline of a new type of assets called digital currency or crypto currency. The specialty of this currency is that, it is not backed by any fiat currency and is not issued by a legitimate authority (i.e. bank or central bank), rather it is controlled mainly by third party IT companies and sometimes termed as private money. 'Bitcoin' is the most prominent and talked-about crypto currency in the world. The value of each unit of this crypto currency stood nearly \$ 19,000 during end 2017 which loose almost two-third of its value within next six months time. Though, these types of digital assets are termed as 'currency', however, as per functionality, these types of assets do not possess the characteristics of a currency (i.e. unit of account, medium of exchange, store of value, etc.).

The financial industry including the central banks worldwide is more interested on the technology behind the cryptocurrency which is called 'Blockchain', which possess characteristics to be able to emerge as a better alternative to the existing centralized record keeping technique. This system works in combination of components including peer-to-peer networking, distributed data storage, and cryptography that, among other things, can potentially change the technology of storage, recordkeeping, and transfer of assets are done today.

Blockchain is an application based on Distributed Ledger Technology (DLT) where the solution is designed to work in open source and in a distributed mode and enable nodes (i.e. computer systems) in a network to securely store records collectively, propose new changes (i.e. transaction), validate changes, synchronized and store records among the nodes. In a DLT environment, the financial records are housed in decentralized ledgers that are jointly administered by all members of the network. Computer coding and algorithms enable a transaction to be aggregated in 'blocks' and are added to a 'chain' of existing blocks using cryptographic signature. There is no possibility to post illegitimate transaction in a blockchain environment, if anyone wants to manipulate a block, s/he would be required to manipulate previous blocks, those are the basis for the current one and the manipulation needed to be done to all or maximum number of nodes simultaneously.

In recent years, especially in developed world, digital transaction has grown exponentially and the use of fiat currency has shrunken. Therefore, general people are increasingly depriving of using central bank's money. This phenomenon spurs the possibility for the introduction of a central bank issued digital currency. Scandinavian country like Sweden is in the forefront in this endeavor of issuing Central Bank Digital Currency (CBDC). CBDC or Digital Base Money scheme may be compared with current banknote system which is a claim on the Central Bank. This proposition has two major implications. On one hand, it would make the digital money (i.e. deposit) safer and therefore preferable however, the depositors' may be deprived of the incentive (i.e. interest). On the other hand, it will make central bank a competitor to commercial banks and could affect commercial banks' deposit base adversely and thereby its ability to make loans and advances. Impact assessment of a free-floating digital currency on the economic stability requires further examination. On technical side, caution should be taken while designing, implementing the new platform and integrating the same with legacy systems considering all associated risk elements.

- Government to person payments. e.g. elderly allowances, social safety net.
- 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.

As of June 30, 2018, a total of 830 thousand agents are serving 61.08 million registered customers with a continuous growth in number and in geographical location (Table 12.1). Chart 12.5 describes the position of market share of different types of Mobile Financial Services during FY 2018.

National Payment Switch Bangladesh (NPSB)

12.9 In order to facilitate interbank electronic payments originating from different payments 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 or shared (owned and operated either by bank or non-bank entity) gradually, to create a common electronic platform for the switches in Bangladesh. At present, 53 banks are operating card business in Bangladesh. Among those, interbank ATM transactions of 51 banks and POS transactions of 50 banks are being routed through NPSB. Moreover, Internet Banking Fund Transfer (IBFT) has been started

in November, 2017. Now, NPSB is processing IBFT transactions of 13 banks. In addition, other banks are also likely to join IBFT transactions through NPSB soon. The number and volume of the interbank ATM, POS transactions and Internet Banking through NPSB are growing fast. Chart 12.6 and 12.7 show the trends of NPSB interbank ATM and POS transaction number and associated amount till 30 June, 2018.

Payment Systems Department (PSD) of Bangladesh Bank is working closely with all banks and stakeholders towards digital payment systems as well as digital Bangladesh. NPSB is contributing to popularize card based electronic payment in Bangladesh. As a result, number of cards and several 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 to formulate and publish national chip specification, NPSB Operating Manuals, ATM Operating Guidelines and other regulatory frameworks.

Real Time Gross Settlement (RTGS)

12.10 By introducing BD-RTGS in October 2015, BB has opened a new horizon in the payment ecosystem accommodating instant settlement of large value and time critical payments in the country. The system is designed to settle high value (BDT 1, 00,000 ≤) local currency transactions as well as domestic foreign currency transactions. More than 7,000 online branches of 55 scheduled banks are now connected to this system out of existing 11,000 branches of 57 schedule banks. The system is currently handling only local currency transactions. Domestic foreign currency

transactions are expected to be included soon. Trend of the transactions with RTGS in FY 2018 is shown in chart 12.8.

Payment Systems Operator (PSO) and Payment Service Providers (PSPs)

12.11 Internet payments and e-commerce are gradually getting popular in the country. Payment System Operator (PSO)s, especially those who offer merchant aggregation and payment gateway services play crucial role for settling payments for e-commerce transactions. Considering the market demand, Bangladesh Bank has permitted 05 (five) non-bank entities to work as PSO while BB licensed a PSP to provide e-wallet services in the market.

Legal and Regulatory Frameworks

12.12 BB published a number of legal and regulatory guidelines to support the electronic transaction in the country. Existing legal and regulatory framework of payment and settlement systems of Bangladesh are mentioned below:

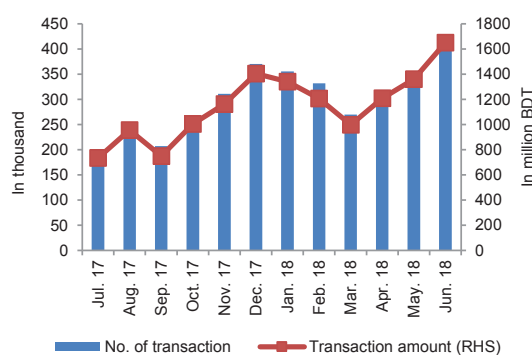
- “Bangladesh Automated Cheque Processing Systems (BACPS) Operating Rules and Procedures” was published on January 11, 2010.
- “Bangladesh Electronic Funds Transfer Network (BEFTN) Operating Rules” was published on Aug.10, 2010.
- “Guidelines on Mobile Financial Services for the banks” was published on September 22, 2011.
- “Bangladesh Payment and Settlement Systems Regulations (BPSSR), 2014” was published on May 15, 2014.
- “Bangladesh Real Time Gross Settlement (BD-RTGS) System Rules” published during September 2015.

Table 12.2 Number of Card, ATM and POS in Bangladesh

| Terminal | As on 30 June 2017 | As on 30 June 2018 | Growth (%) |
|----------|--------------------|--------------------|------------|
| Card | 11,943,650 | 13,734,605 | 15.0 |
| ATMs | 9,246 | 9,747 | 5.4 |
| POS | 36,288 | 41,130 | 13.3 |

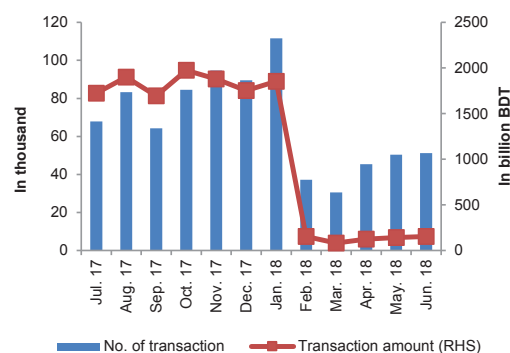
Source: Payment Systems Department, Bangladesh Bank.

Chart 12.7 Trends in Interbank POS Transactions



Source: Payment Systems Department, Bangladesh Bank.

Chart 12.8 Trends in RTGS Transactions



Source: Payment Systems Department, Bangladesh Bank.

Other Payment Systems Initiatives

12.13 In order to fulfil the ever-growing demand for faster and efficient payment methods, Payment Systems Department (PSD) has been working closely with the international organizations to develop safe, secured and efficient national payments infrastructure conforming to the international best practices.

Bangladesh Bank has finalized the draft National Payment and Settlement Systems Act 2018 which is now under review of the concerned ministry. In addition, PSD is working closely with the government to automate various kinds of government payments and receipts including payroll, social security payments and receiving of VAT, Tax, Customs duty, etc.

Payment System Oversight

12.14 Oversight is a form of Payment System surveillance. This specialized function ensures safety and efficiency of national payments infrastructures and induces change(s) where necessary. Bangladesh Bank emphasized on monitoring and assessment of current systems, participants and instruments. As part of monitoring, information is being collected from payments platforms and participants on a regular basis. In parallel BB collects template-based onsite data and conducts inspections as well. Assessment is done on the basis of collected data where various analytical tools are being used and reports are being prepared thereby.

Awareness Campaign

12.15 Bangladesh Bank took various initiatives for raising awareness on the new

electronic payment systems introduced in the country. BB has organized seminars and workshops for officials of commercial banks, Government offices and industry alliances. Besides, BB has been working to popularize electronic payment among the stakeholders like Chamber of Commerce, Stock Exchanges, Bangladesh Security and Exchange Commission, National Board of Revenue, etc. BB has arranged several seminars, rally and road-shows at different divisional cities as a part of this awareness campaign.

12.16 Electronic payment and settlement systems has already proved its potential by offering fast, secured and cost-effective financial services. Especially, paper-less electronic transactions are gaining popularity among the corporate bodies, stock exchange members and industry alliances. The mobile financial services have significantly changed the financial services landscape of the country and contributed toward financial inclusion. NPSB is expected to increase end-user centric electronic payments and broaden the horizon for digital financial transactions in the country. Implementation of BD-RTGS has taken the country's Payment and Settlement Systems into new height. 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.

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. Mohammad Muslim Chowdhury was appointed as Director to the Board with effect from 05 October 2017. Mr. Kazi Sayedur Rahman, Executive Director was made as the Secretary of the Bank and to the Board as well with effect from 24 September 2017. The Board of Bangladesh Bank for the FY18 has partly been reconstituted but yet to be completed and awaiting for one more member of the Board to be appointed. During FY18, eight meetings of the Board of Directors were held.

Executive Committee

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. Kazi Sayedur Rahman, Executive Director was made as the Secretary of the Bank and to the Executive Committee as well with effect from 24 September 2017. Four meetings of the Executive Committee were held during FY18.

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 of the Board who are not BB officials to assist the Board in discharging its oversight responsibilities on financial reporting, internal control and compliance and the auditing process.

The members of the Audit committee are as follows :

| | |
|---------------------------------|----------|
| Mr. Md. Eunusur Rahman | Convener |
| Dr. Mrs. Rushidan Islam Rahman | Member |
| Dr. Jamaluddin Ahmed, FCA | Member |
| Mr. A. K. M Aftab ul Islam, FCA | Member |

Mr. Md. Eunusur Rahman was appointed as convener of the Audit Committee in place of Mr. Md. Nojibur Rahman with effect from 30 January 2018. Dr. Mrs. Rushidan Islam Rahman was appointed as member of the Audit Committee with effect from 30 January 2018. Eight meetings of the Audit Committee were held during the FY18.

13.5 According to the Internal Audit Department Charter approved by the Audit Committee of the Board of Directors of BB, Internal Audit Department (IAD) in FY18 identified 58 auditable units (departments/ offices/ units/ cells) and prepared the audit plan for FY18. Programmes were conducted four times a year in the 11 auditable units, twice a year in 9 auditable units and once a year in 3 auditable units identified as high risk, and twice a year in 2 auditable units and once a year in other 33 auditable units identified as medium or low risk. The audit reports were placed before the Governor and the Audit Committee of the Board. Seven meetings of the Audit Committee were held during FY18.

The guidance/ directives/ recommendations received by 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 before the meetings of the Audit Committee.

Executive Management Team

13.6 The Executive Management Team (EMT) consists of Governor, 03 Deputy Governors, all Executive Directors and Economic Adviser. This team reviews the implementation status of Bank's overall activities. Five meetings of the Executive Management Team were held during FY18.

New Appointment in Different Posts

13.7 A total of 261 officials/ staffs have been appointed in different posts during FY18. New Appointments during FY18 were as follows:

| | |
|--|-----|
| Assistant Director | 150 |
| Assistant Director (Research) | 11 |
| Assistant Director (Statistics) | 19 |
| Assistant Director (Engineering-Civil) | 6 |
| Assistant Director (Ex Cadre-Library) | 2 |
| Medical Officer | 3 |
| Assistant Programmer | 19 |
| Assistant Keeper | 1 |
| Guide | 1 |
| Staff | 49 |
| Total | 261 |

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

13.8 The number of official/ staff of the Bank retired/ resigned/ died/ compulsory retired/

removed/ suspended during the FY18 was as under :

| | |
|------------------------|-----|
| Retirement | 231 |
| Voluntary retirement | 3 |
| Resignation | 12 |
| Death | 10 |
| Compulsory Retirement | 1 |
| Removal | 4 |
| Suspension | 6 |
| Dismissal From Service | 2 |
| Total | 269 |

Creation/ Abolition of Posts

13.9 In FY18, 196 new posts of officials and 50 posts of staffs were created. Considering the importance of the job, 54 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 period the total number of sanctioned post stood at 9,016 as compared to 8,770 of the previous year.

Sanctioned and Working Strength of Officials and Staff

13.10 The sanctioned, working strength and vacant post of officials and staff of the Bank as on 30 June, 2018 were as follows:

| Category | Sanctioned strength | Working strength | Vacant |
|-----------|---------------------|------------------|--------|
| Class-I | 5,477 | 3,922 | 1,555 |
| Class-II | 1,034 | 192 | 842 |
| Class-III | 1,890 | 1,327 | 563 |
| Class-IV | 615 | 300 | 315 |
| Total | 9,016 | 5,741 | 3,275 |

During FY18, working strength of officials (Class-I & Class-II) decreased by .48 percent to 4,114 from 4,134 and that of staffs (Class-III & Class-IV) increased by 6.34 percent to 1,627 from 1,530. At the end of the period, the ratio of officials to staff remains nearly 2.70:1.

About 36.33 percent of the sanctioned posts remained vacant on 30 June, 2018.

Promotion

13.11 672 officials and 314 staffs were promoted to their next higher grade during FY18. In FY18, 16.33 percent of the officials and 19.30 percent of the staffs working in the Bank were awarded promotion.

Number of Officers on Deputation/ Lien

13.12 At the end of the FY18, 59 officials of the Bank were working on deputation at different institutions of the country and abroad. On 30 June 2018, 16 officials were on lien of which 4 were working within the country and 12 abroad.

Reorganization/ Newly Established Departments of the Bank

13.13 During FY18, a cell named "Foreign Investment & External Debt Management Cell" and an unit named "OFCs Survey Unit" were established under Statistics Department. A unit named "Problem and Weak Financial Institutions Monitoring Unit" under Department of Financial Institutions and Market was also established to monitor activities of problem and weak non-bank financial institutions (NBFIs) working in Bangladesh.

Reward and Recognition

13.14 Like other years, in FY18, a total number of 22 talented officials were declared as the winners of "Bangladesh Bank Employees' Recognition Award 2015" for their outstanding performances. Among them 5 officials were awarded with gold medals individually, while 17 officials from 5 different teams were awarded with silver medals. All the winners received

Letter of Appreciation signed by the honorable Governor. 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.

13.15 Besides, Dr. Azizur Rahman Khan and Dr. Mahabub Hossain (posthumous) were jointly honoured with the "Bangladesh Bank Award 2017" in recognition of their contribution to the economy. Each of the awardee got a gold medal, a Bangladesh Bank crest and cash amount of Taka two lac. Honourable Finance Minister handed over the awards at a ceremony, held at Bangladesh Institute of Bank Management (BIBM).

Welfare Activities and Approval of Scholarship

13.16 During the FY18, an amount of BDT 4.97 million has been provided to the children of the officials and staffs as scholarship and BDT 0.10 million has been given as medical assistance from the Karmachary/ Karmakarta Kallan Tahbil, established under the auspicious of the Governor. Besides, during the FY18, an amount of BDT 100.34 million has been 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

13.17 During the FY18, a total of 518 officials of the Bank participated in different training courses/ seminars/ workshops. Moreover, 40 officials were on deputation/ leave for higher study abroad.

Domestic Training and Study

13.18 During the FY18, a total of 243 officials of the Bank participated in different local training courses/ seminars/ workshops organized by different institutions (Other than BBTA) within the country. Moreover, 15 officials were allowed to participate in higher study within the country.

Training Courses, Workshops and Seminars Conducted by Bangladesh Bank Training Academy (BBTA) during FY18

13.19 Bangladesh Bank Training Academy (BBTA) conducts a wide range of activities to attain the objective of transforming itself a world-class centre of excellence for imparting quality training to the officers of Bangladesh Bank, commercial banks, financial institutions and government and non-government organizations. Apart from training different types of seminars, workshops are also arranged by BBTA to add values to knowledge management process. 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 arranges various programs for the trainers with the help of the trained personnel of advanced and specialised institutions at home and abroad. BBTA conducted a total of 188 training courses, workshops and seminars during FY18 of which 138 were held at the BBTA premises and 50 were held at other offices of Bangladesh Bank. A total of 8461 participants participated in the above mentioned courses. The courses conducted by the BBTA during FY18 are shown in Table 13.1.

Table 13.1 Different Training Courses, Workshops and Seminars Organised by the Bangladesh Bank Training Academy during FY18

| Sl. no | Subjects | Number of courses | Number Of Participants |
|-----------|---|-------------------|------------------------|
| 1 | 2 | 3 | 4 |
| A. | Foundation Courses | 4 | 203 |
| 1) | Foundation Training Course (AD-Specialised) | 1 | 36 |
| 2) | Foundation Training Course (Officer) –6th Batch | 1 | 61 |
| 3) | Foundation Training Course (Officer) –7th Batch | 1 | 60 |
| 4) | Foundation Training Course (Officer) –8th Batch | 1 | 46 |
| B. | Other Training Course | 169 | 7316 |
| i) | For the Officials of Bangladesh Bank | 100 | 3539 |
| 1) | Audit Checklist of Guideline on ICT Security for Banks & NBFIs | 1 | 31 |
| 2) | Banking Laws and Regulations | 2 | 76 |
| 3) | Bangladesh Bank Intranet System | 1 | 19 |
| 4) | Basic H/W & S/W Troubleshooting | 2 | 42 |
| 5) | Business Etiquette & Personal Grooming | 3 | 80 |
| 6) | Core Banking Software of BB | 2 | 32 |
| 7) | Currency Management, Payment & Settlement Systems in Bangladesh | 1 | 28 |
| 8) | Data Analysis using MS Office | 2 | 37 |
| 9) | Early Warning System | 1 | 27 |
| 10) | Enterprise Resource Planning (ERP)- HR Module | 1 | 17 |
| 11) | Financial Inclusion & Sustainable Financing | 1 | 30 |
| 12) | Financial Stability Analysis | 1 | 30 |
| 13) | Financing in Agriculture and Rural Development | 2 | 45 |
| 14) | Foreign Exchange Inspection | 2 | 50 |
| 15) | Foreign Exchange & Foreign Trade | 1 | 24 |
| 16) | General Competencies of On-Site Inspectors | 1 | 27 |
| 17) | ICT Risk Management | 3 | 86 |
| 18) | In-Service Training | 1 | 28 |
| 19) | Innovation in Public Service | 2 | 47 |
| 20) | IT Auditing | 1 | 28 |
| 21) | IT Security and Awareness | 43 | 2042 |
| 22) | Leadership Development | 1 | 25 |
| 23) | Micro Financing | 1 | 28 |
| 24) | Monetary Policy Formulation and Implementation Process in Bangladesh Bank | 2 | 59 |
| 25) | Online Monitoring through ISS, EDW | 2 | 53 |
| 26) | Policy Dialogue to Improve Supervisory Tools and Techniques | 1 | 33 |

| | | | | |
|--|------------|-------------|--|--|
| 27) Presentation Skill for Enhanced Managerial Performance | 2 | 59 | | |
| 28) Procurement Management in BB | 1 | 26 | | |
| 29) Public Debt Management and Debt Securities Market in Bangladesh | 1 | 29 | | |
| 30) Research Methodology and Data Analysis | 1 | 23 | | |
| 31) Safety, Security and Disaster Management | 1 | 33 | | |
| 32) SMEs Financing: Policies & Strategies and Women Entrepreneurship Development | 1 | 23 | | |
| 33) Techniques of Bank & NBFIs Inspection and Report writing | 1 | 22 | | |
| 34) TOT on BASEL-III | 1 | 33 | | |
| 35) Trade Based Money Laundering | 1 | 31 | | |
| 36) Training Course on ERP-MM Module | 1 | 24 | | |
| 37) UCP 600 & Other Important ICC Publications | 3 | 77 | | |
| 38) Understanding and Analysis of Financial Statement of Bank | 3 | 86 | | |
| 39) Understanding Economic Indicators | 2 | 49 | | |
| ii) For the officials of Commercial Banks | 69 | 3777 | | |
| 1) Capital Adequacy for Banks according to BASEL III | 1 | 26 | | |
| 2) CIB Business Rules and Online Systems | 6 | 540 | | |
| 3) Classification, Provisioning and Rescheduling of Loans | 8 | 375 | | |
| 4) Credit Risk Management | 2 | 53 | | |
| 5) Customer Services in Banks | 1 | 33 | | |
| 6) Detection, Disposal of Forged & Mutilated Notes and Malpractices in Banks | 5 | 365 | | |
| 7) Environmental Risk Management & Green Financing | 1 | 26 | | |
| 8) Foreign Direct Investment and External Debt Reporting | 3 | 93 | | |
| 9) Foreign Exchange & Foreign Trade | 3 | 120 | | |
| 10) Foreign Exchange Transaction Reporting | 6 | 233 | | |
| 11) Good Governance in Banks & NBFIs | 1 | 28 | | |
| 12) Guideline on ICT Security for Banks & NBFIs | 4 | 128 | | |
| 13) Integrated Supervision System (ISS) Reporting | 6 | 522 | | |
| 14) Internal Audit & Control | 1 | 25 | | |
| 15) Money & Banking Data Reporting | 4 | 155 | | |
| 16) Prevention of Money Laundering and Terrorist Financing | 7 | 252 | | |
| 17) Reporting System of E-Commerce and E-Banking | 5 | 203 | | |
| 18) SME Customer Advocacy and Business Plan Analysis | 1 | 32 | | |
| 19) Training Course on AML/CFT | 4 | 568 | | |
| C. Workshops/Seminars/Lecture Sessions | 14 | 915 | | |
| 1) Central Banking: Present & Future Challenges | 1 | 29 | | |
| 2) Current Payment Systems in Bangladesh - An Overview | 1 | 87 | | |
| 3) Detection, Disposal of Forged & Mutilated Notes | 1 | 31 | | |
| 4) Emerging Threats in IT Security in Bangladesh Financial Sector & Control Measures | 1 | 110 | | |
| 5) Fire Prevention, Extinction and Safety Measures | 1 | 179 | | |
| 6) Integrity and Anticorruption in Financial Sector | 2 | 242 | | |
| 7) Key Activities & Current Issues of Bangladesh Bank | 3 | 83 | | |
| 8) Lecture Session on Monetary Policy | 1 | 47 | | |
| 9) Workshop on SDG | 1 | 38 | | |
| 10) Workshop on Innovative Idea | 1 | 37 | | |
| 11) Workshop on Implementation of the Portal Developed for Savings Certificate Reimbursement Section | 1 | 32 | | |
| D. International Training Courses/ Seminars | 1 | 27 | | |
| 1) International Training Course on "Agricultural Financing & Rural Development" Jointly organized by BBTA, CICTAB (India) and Milk Vita | 1 | 27 | | |
| Grand Total (A+B+C+D) | 188 | 8461 | | |

Source: Bangladesh Bank Training Academy.

Financial Sector Support Project (FSSP)

13.20 The Financial Sector Support Project (FSSP) is being implemented with the assistance of International Development Association (IDA) to improve financial market infrastructure, regulatory and 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 350.0 million of which IDA will provide USD 300.0 million and Bangladesh Bank will provide USD 50.0 million. Fund received total amount of USD 263.3 million from IDA, out of which USD 151.5 million has been disbursed and from BB USD 23.9 million has been disbursed up to June 2018.

13.21 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

13.22 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 of the Government payments, (b) expanding and modernizing Credit Information Bureau (CIB) by including credit information of the Microfinance 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 lay a robust and secured financial platform for advanced financial market. Necessary capacity building and knowledge transfer initiatives will also be taken to make the officials of the central bank and its associated organizations to embrace the new technologies and align their regular functions with the technology based new processes. Till June 2018, three consultants have been recruited and four IT packages have been procured to construct three data centers under

this component. Already one data center and one near data center has been established and partially operative at present. Construction of one disaster recovery center (DRS) is ongoing at BB Rajshahi Office.

Strengthening Regulatory and Supervisory Capacity

13.23 The project expects to provide technical assistance towards the development and adoption of the 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. This component will help BB to migrate to a risk-based approach to supervision to discharge its responsibilities to ensure a safe and sound banking system. Technical support will also be provided by appointing national and international individual advisor/ 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, Resident Macro Prudential Regulation Specialist has completed his mission.

Supporting Long Term Finance

13.24 One of the deficiencies of the current financial market structure is inadequate sources of long term fund to meet the demand of the productive sector of the country. As a result, the financing need for long term investments is met with relatively shorter maturity funds creating maturity mismatch both at banks and investors book. Hence there is a demand for long term financing for the manufacturing sectors for

maintaining growth through upgradation of technology and production lines and improve compliance with the international standards on social and environmental practices. This prime component of the project will provide long term funds, especially in USD, 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 the industry for setting up of new firm, expansion and upgradation. 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 228.9 million has been sanctioned from which USD 163.4 million has been disbursed till June 2018. Besides, an Environmental Regulations Compliance Specialist (National) and an Advisor for Long Term Project Financing have been appointed under this component.

13.25 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 more advanced level and an additional production capacity will be created which will result in increase of real output in the country.

Information and Communication Technology (ICT)

13.26 During FY18, Information Systems Development Department (ISDD) has performed its regular software development and data processing activities through existing applications software as well as performed various IT systems procurement and

implementation activities like security product & setup, Email security expansion, arrange UPS & switch in server room of branch offices, ensured product delivery for Data center package, Network package, storage and server packages. Following Information Systems and related tasks have been completed during this period:

ICT Strategy Implementation

13.27 During FY18, ISDD has implemented several ICT strategies as per the defined strategy in ICT strategy 2017-2021 for Bangladesh Bank.

IT Security and Awareness Building

13.28 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 the IT Systems. Besides, training on IT security awareness is a continuous process and which is going on in association with other departments to build IT security awareness among the Bangladesh Bank officials.

ICT Infrastructure Rebuilding

13.29 Renovation Process of Data Center (DC) and Disaster Recovery (DR) is under process carrying out by FSSP Project. Renovation/ reconstruction of Near Data Centre (NDC) & Disaster Recovery Site (DRS)/ Far Data Centre (FDC) is going on in full swing. By this time, 95 percent tasks of DC has been completed. 80 percent tasks NDC, DRS rebuilding has been completed and migration of ICT systems is going on.

Information Systems Development

13.30 Information Systems and related tasks have been completed during FY18 as shown in Table 13.2.

Table 13.2 Statement on Information Systems and Related Tasks during FY18

| Sl. No. | Name of the Software/ Information Systems | Brief description of |
|---------|--|---|
| 1 | 2 | 3 |
| 1. | Urban Building Safety Project Systems (UBSP) | <p>The objective of the Project is to strengthen the building safety in Urban Cities by financing loans for building safety for private buildings through Participating Financial Institutions (PFI), and by improving the building safety for public buildings, thereby contributing to improvement of the social vulnerability of urban cities.</p> <p>The Two Step Loan (TSL) Project is an on-lending loan scheme to provide short to long-term loans to strengthen the RMG factories and private buildings through the accredited PFIs. JICA provides the Loan funds in Japanese Yen (JPY) to the Government of Bangladesh (hereinafter referred to as "GOB") represented by its Ministry of Finance (hereinafter referred to as "MOF").</p> <p>There are options to entry application data for the scheme, sanction and disbursement process along with the Authorization Schedule preparation, repayment process, provision calculations and also various report generation facilities as required.</p> <p>All the refinance schemes of Bangladesh Bank are incorporated in this system. In the last year, three new modules/ schemes have added as (i) SMEDP2, (ii) SMAP, and (iii) GTF. We have done the following enhancements in this system for different modules:</p> <p>Grihayan Tahabil: Active Loans from 30 jun 17 are entered by Grihayan Tahabil officials and all necessary modifications are done for data entry and report generation by ISDD.</p> <p>LTFF: This module keeps all data regarding fund management of Long Term Financing Facility project and generates various reports.</p> |
| 2. | E-refinance system of Bangladesh Bank | |

SMEDP2: This module keeps all data regarding fund management of SMEDP-2 project and generates various reports.

SMAP: This module keeps all data regarding fund management of Small And Marginalized Farm-Sized Agricultural Productivity Improvement And Diversification Financing Project and generates various reports.

GTF: This module keeps all data regarding fund management of Green Transformation Fund project and generates various reports.

3. Enterprise Data Warehouse (EDW) Web Portal

EDW Web Portal updated with new features for both internal and external stakeholders and validation imposed on the fly. The feature includes a fresh new look and feel, user friendly redesigned UI and management capability at business user end.

New data components as per new requirements from different departments added and hence designed new mappings, reports and dashboards. OBU (Offshore Banking Unit) and OFCs (Other Financial Corporations) data are two challenges we are working about, for the coming days.

Integrated Supervision System (ISS) coverage expanded as required from ISMD. Now it covers Financial Institutions as well as banks. New dashboards and reports designed for FIs.

4. Mobile Apps "Banking Information" for adding new other services.

As part of exploring innovative idea for convenience of mass people of Bangladesh, a mobile "Banking Information" and web application has been developed.

Recently, we have incorporated two new features as (i) Agent Banking information, and (ii) Prize bond result searching option in Mobile Apps "Banking Information".

5. Voucher Processing System

Through this web-based software, Account & Budgeting Department is processing their several types of voucher regularly from multiple user end.

Source: Information Systems Development Department, BB.

Bangladesh Bank's Accounts for 2017-2018

14.1 Financial statements of Bangladesh Bank for FY18 have been prepared in accordance with International Financial Reporting Standards (IFRSs) approved by the International Accounting Standards Board (IASB). Executive summary of Financial statements of Bangladesh Bank (excluding its subsidiary-SPCBL) is represented below.

Income

14.2 The total operating income of the Bank (excluding foreign currency revaluation gain/loss) for FY18 increased by BDT 14.54 billion (37.08 percent) to BDT 53.75 billion compared to BDT 39.21 billion in FY17. On the other hand total operating income of the bank including FC revaluation increased by BDT 33.82 billion (31.12 percent) to BDT 142.48 than that of previous year. The sources of income are set out in table 14.1.

Income from Foreign Currency Financial Assets

14.3 During FY18, Bank's income from the foreign currency financial assets increased by BDT 15.18 billion (53.94 percent) to BDT 43.32 billion compared to BDT 28.14 billion in FY17 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 0.64 billion (5.78 percent) to BDT 10.43 billion in FY18 compared to BDT 11.07 billion in FY17. This can be attributed to the decreased interest income from Banks, Financial Institutions and Employees.

Table 14.1 Bangladesh Bank's Income

(In billion BDT)

| | FY18 | FY17 |
|---|---------------|---------------|
| Operating Income | | |
| A. Income from foreign currency financial assets | 43.32 | 28.14 |
| Interest income | 43.06 | 27.49 |
| Commission and discounts | 0.26 | 0.65 |
| B. Income from local currency financial assets | 10.43 | 11.07 |
| Interest income | 9.18 | 10.09 |
| Commission & discounts | 0.72 | 0.77 |
| Dividend income & misc. | 0.30 | 0.15 |
| Other Income | 0.23 | 0.06 |
| Total : (A+B) | 53.75 | 35.02 |
| C. Foreign exchange revaluation gain/(loss) | 88.73 | 69.45 |
| Realised gain/(loss) | 2.00 | 0.95 |
| Unrealised gain/(loss) | 86.73 | 68.50 |
| Total : (A+B+C) | 142.48 | 108.66 |

Source: Accounts and Budgeting Department, Bangladesh Bank

Table 14.2 Bangladesh Bank's Expenditure

(In billion BDT)

| Particulars | FY 18 | FY17 |
|---|--------------|--------------|
| A. Financial cost | 14.57 | 15.62 |
| Expenses on foreign currency financial liabilities | 2.34 | 1.09 |
| Interest on foreign currency financial liabilities | 2.17 | 0.86 |
| Commission & other expenses on foreign currency financial liabilities | 0.22 | 0.23 |
| Expenses on local currency financial liabilities | 12.23 | 14.53 |
| Interest expense on local currency financial liabilities | 5.61 | 9.44 |
| Commission & other local currency financial liabilities | 6.62 | 5.09 |
| B. Other expenses | 31.26 | 18.17 |
| Note printing | 4.28 | 4.31 |
| General & administrative expenses | 26.98 | 13.86 |
| Total expenditure (A+B) | 45.83 | 33.79 |

Source: Accounts and Budgeting Department, Bangladesh Bank

Foreign Currency Revaluation Gain

14.5 During FY18, the Bank made a gain of BDT 88.73 billion on foreign currency revaluation. The efficient management of the Foreign Currency reserve is the reason behind this gain.

Expenditure

14.6 Total expenditure of the Bank increased by BDT 12.04 billion (35.63 percent) to BDT 45.83 billion in FY18 compared to BDT 33.79 billion in FY17. Bank kept provision for retirement benefit BDT 10.60 billion and incurred higher interest payment against FC Liability. The details of expenditure are shown in the Table 14.2.

Financial Expenses

14.7 Financial expenses decreased by BDT 1.05 billion (6.72 percent) to BDT 14.57 billion in FY18 compared to BDT 15.62 billion in previous FY17. This was mainly due to decrease in interest payments on local currency financial liabilities.

Other Expenses

14.8 Other expenses increased by BDT 13.09 billion (72.04 percent) to BDT 31.26 billion in FY18 compared to BDT 18.17 billion in FY17. Such significant increase was due to provision for employee benefit and impairment loss in compliance with IFRS.

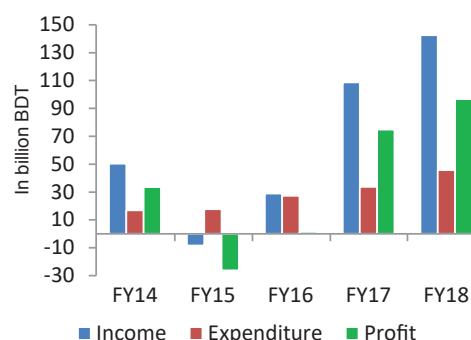
Profit for the Year

14.9 Operating profit of the Bank (excluding foreign currency revaluation gain/loss) is BDT 7.92 billion in FY18 compared to BDT 5.42 billion in FY17. Operating Profit of the Bank (including foreign currency revaluation gain/loss) is BDT 96.65 billion in FY18 compared to BDT 74.87 billion in previous year. BB's income, expenditure and profit are shown in Chart 14.1.

Other Comprehensive Income

14.10 During the year, the Bank incurred revaluation loss amounting to BDT 12.62 billion on gold, silver, financial instruments and Property, Plant & Equipment (PP&E). This revaluation loss was transferred to the reserve

Chart 14.1 Trends in BB's Income, Expenditure and Profit



Source: Accounts and Budgeting Department, Bangladesh Bank.

account. Revaluation loss arose mainly due to decrease in value of financial instruments in the international market.

Profit Appropriation

14.11 Out of BDT 7.92 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 0.38 billion to asset renewal & replacement reserve. BDT 0.01 billion was adjusted against dues from Government. After this adjustment BDT 6.89 billion was transferred to the Government account which was BDT 2.38 billion more than FY17.

Statement of Financial Position of Banking and Issue Department

Assets

14.12 Foreign currency financial assets increased by BDT 52.03 billion (1.85 percent) to BDT 2,871.72 billion in FY18 compared to BDT 2,819.69 billion in FY17 due to increase in EDF investment.

14.13 Local currency financial assets increased by BDT 89.94 billion (33.73 percent) to BDT 356.59 billion in FY18 compared to BDT 266.65 billion in FY17. The result was mainly

due to increase in loans to Government in various forms and other local currency financial assets.

14.14 Non financial assets of the Bank decreased by BDT 1.89 billion to BDT 40.00 billion in FY18.

Liabilities

14.15 Foreign currency financial liabilities increased by BDT 51.80 billion (12.83 percent) to BDT 455.47 billion in FY18 from BDT 403.67 billion in FY17. This was mainly due to increase in deposits from bank and financial institutions in foreign currency.

14.16 Local currency financial liabilities increased by BDT 8.85 billion (0.35 percent) to BDT 2,528.35 billion in FY18 compared to BDT 2,519.50 billion in FY17 due to increase in notes in circulation and deposits from banks and financial institution in local currency.

Notes in Circulation

14.17 Notes in circulation increased by BDT 36.84 billion (2.46 percent) to BDT 1,534.13 billion in FY18 compared to BDT 1,497.29 billion in FY17. Notes in circulation (BDT 1,534.13 billion) were backed BDT 7.97 billion by gold and silver, BDT 1,470.00 billion by approved foreign currency reserve, BDT 21.31 billion by Bangladesh Government securities, BDT 4.97 billion by Bangladesh coins and BDT 29.88 billion by other domestic assets.

Equity

14.18 Total equity of the Bank increased by BDT 79.44 billion to BDT 284.50 billion in FY18 compared to BDT 205.06 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 increased by BDT 1.97 billion to BDT 6.90 billion in FY18 compared to BDT 4.93 billion in FY17;
- iii. Revaluation reserve increased by BDT 74.54 billion to BDT 201.34 billion in FY18 compared to BDT 126.80 billion in FY17;
- iv. Currency fluctuation reserve increased by BDT 2 billion to BDT 28.76 billion in FY18 compared to BDT 26.76 billion in FY17;
- v. Balance of statutory fund decreased by BDT 0.95 billion to BDT 15.72 billion in FY18 compared to BDT 16.67 billion in FY17 as fund was reallocated from Industrial Credit Fund to Rural Agri-product Processing Industries Refinance Fund;
- vi. Non statutory fund increased to BDT 15.65 billion from BDT 14.15 billion;
- vii. Other reserves increased to BDT 11.85 billion from BDT 11.47 billion;
- viii. General reserve of the bank remain unchanged at BDT 4.25 billion.

Foreign Currency Reserve

14.19 Foreign currency reserve increased by BDT 58.59 billion (2.17 percent) to BDT 2,758.08 billion in FY18 compared to BDT 2,699.49 billion in FY17.

Consolidation

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

Auditors

14.21 The financial statements of Bangladesh Bank for FY18 were audited as per International Standards on Auditing (ISA) by Syful Shamsul Alam & Co., Chartered Accountants, Bangladesh and ACNABIN, Chartered Accountants, Bangladesh.

BANGLADESH BANK

AUDITED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED 30 JUNE 2018

Independent Auditors' Report

To the Government of the People's Republic of Bangladesh

Opinion

We have audited the accompanying consolidated and separate financial statements (together referred to as "financial statements") of Bangladesh Bank ("the Bank") and its subsidiary ("the Group"), which comprise the consolidated and separate statements of financial position as at 30 June 2018, the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate 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 30 June 2018, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as explained in Note - 2.01.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated and Separate 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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following matters:

1. In Note-2.01 to the financial statements, the Bank discloses the compliance status of International Financial Reporting Standards.
2. In Note - 10 to the financial statements, the Bank discloses why it believes BDT 5,224 million of the Bank's funds paid out through unauthorized transactions in February 2016 are recoverable.
3. In Note -16.1, 17 & 25.04 to the financial statements, the Bank includes revaluation reserve which relates to the revaluation of its 1,591 non-financial assets (any item of PPE or intangible asset having cost/ revalued amount of over Tk.100,000) on 31 January 2018. However, the Bank has accounted for revaluation gain of BDT. 618,038,580 against BDT. 607,730,782 as per the Revaluation Report, resulting in an excess revaluation reserve of BDT. 10,307,797 due to non-adjustment of 53 revalued assets in its financial statements. Additionally, net revaluation gain has been accounted for in the Other Comprehensive Income instead of recognising the loss on revaluation separately in Profit & Loss, which is a non-compliance of para 40 of IAS-16.

In addition to above, the Bank has not considered the remaining life of the revalued assets as suggested by the independent valuer. Finally, the Bank has not transferred excess depreciation arising out of the increased value of the revalued assets, which is a non-compliance of para-41 of IAS-16.

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 amounted to BDT2.271.95 billion, equivalent to 70% 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 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:

- Assessment of the design and testing of the operating effectiveness of management's control in assessing the carrying value of foreign investments.
- Sending of direct confirmation to the related banks to confirm the balances of SAP. Upon receipt of the confirmation necessary reconciliations were made.
- Detailed analysis of exchange rates used and valuation processes, recalculation of interest income, and evaluation of 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 3.06 and Note 5 to the financial statements.

2. Balances with International Monetary Fund (IMF)

The Bank's assets held with International Monetary Fund (IMF) as on the closing date amounted to BDT 223.65 billion, equivalent to 7% of total assets, which is material to the financial statements. Due to the unique structure, terms and valuation of these assets, it was considered significant to our audit.

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 subsequently testing the exchange rates used to translate this amount at the closing date. Furthermore, we reviewed the basis of computation of interest income on SDR Holding and the transactions undertaken during the year. 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 to the financial statements.

3. Valuation of Gold & Silver

Bangladesh Bank maintains gold & silver as stock and investment, equivalent to BDT 47.25 billion, which is one of the asset backing for Notes in Circulation. The valuation of these 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 issuing balance confirmations and 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 gold & silver are included in Note 3.12, Note 7 and Note 8 to the financial statements.

4. Foreign Currency Loans to Banks

The Bank's assets held with foreign currency loans to banks amounted to BDT 264.53 billion, equivalent to 8% 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:

- Testing the effectiveness of controls over the existence of loans through external confirmations from respective banks and evaluation of the assets held with EDF, LTFF and GTF Investments —(both IDA and BB Source) in BDT using the exchange rate prevailing at 30 June 2018. We also matched the calculated figure with the amounts disclosed in the financial statements of the Bank for the year ended 30 June 2018.
- Checking as to 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 against the General Ledgers.

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

5. Transactions with Government of Bangladesh

Bangladesh Bank is primarily responsible for managing banking transactions on behalf 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 BDT 217.67 billion, equivalent to 7% 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:

- Assessment of the design and testing of 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 3.09 and Note 12 to the financial statements.

6. Notes in Circulation

Bangladeshi banknotes on issue relate directly to one of the Bangladesh Bank's key roles, the issuance of currency, as defined in the Bangladesh Bank Order-1972 and is a key audit matter due to:

- high interest to the users of the financial statements;
- the balance is significant relative to the Bangladesh Bank's Statement of Financial Position; and
- complexity in assessing the accuracy of the liability for Bangladeshi banknotes on issue that are placed in circulation in the economy.

The balance of Bangladeshi banknotes on issue represents the value of all bank notes on issue in Bangladesh and the liability is measured at face value of all Bangladeshi bank notes issued less any bank notes cancelled/ destroyed.

To audit the Bangladeshi banknotes on issue, we performed the following audit procedures:

- Tested those general controls which are relevant to the accurate recording of the issuance and return of bank notes within the system responsible for recording the balance of Bangladeshi banknotes on issue.
- We performed a comparison of current year movements against prior year patterns. We also performed a trend analysis on Bangladeshi banknotes on issue against prior periods focusing on the number of notes issued by denomination.
- 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.
- 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.

The Bank's disclosures about Notes in Circulation are included in Note 20 to the financial statements.

Other Matters

- The financial statements of Bangladesh Bank for the year ended 30 June 2017 were audited by A. Qasem & Co., Chartered Accountants and Syful Shamsul Alam & Co., Chartered Accountants, who expressed an unmodified opinion with an emphasis of matter on those statements on 23 August 2017; and
- The financial statements of the subsidiary, The Security Printing Corporation Bangladesh Limited has been audited jointly by us and has been properly reflected in the 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 scepticism 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 reasonably 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 reasonably 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, Government of the People's Republic of Bangladesh, 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 except for the matters as identified in the Management Report;
- 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 except for the matters disclosed in the Emphasis of Matters paragraph;
- 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.

ACNABIN

Chartered Accountants
Bangladesh

28 AUG 2018

Dated, Dhaka, Bangladesh.

Syful Shamsul Alam & Co.

Chartered Accountants

| BANGLADESH BANK Consolidated Statement Of Financial Position As at 30 June 2018 | | | | |
|---|-------|----------------------|-----------------------------------|-----------------------------------|
| Particulars | Notes | 2018 Taka '000 | 2017 (Restat- ed) Taka '000 | 2016 (Restat- ed) Taka '000 |
| ASSETS | | | | |
| Foreign currency financial assets | | | | |
| Foreign currency accounts | 4 | 46,318,237 | 34,888,457 | 45,017,497 |
| Foreign investments | 5 | 2,271,947,298 | 2,304,806,144 | 2,034,674,417 |
| Assets held with International Monetary Fund | 6.01 | 223,651,193 | 213,841,975 | 208,949,924 |
| Gold and silver | 7 | 23,992,347 | 11,383,556 | 7,278,889 |
| Claims from gold transactions | 8 | 23,254,853 | 33,811,041 | 38,849,350 |
| Foreign currency loans to banks | 9 | 264,534,094 | 206,294,007 | 132,234,324 |
| Other foreign currency financial assets | 10 | 18,024,960 | 14,662,058 | 13,292,207 |
| Total foreign currency financial assets | | 2,871,722,982 | 2,819,687,238 | 2,480,296,608 |
| Local currency financial assets | | | | |
| Taka coin and cash balances | 11 | 15,235,267 | 16,613,648 | 16,684,618 |
| Securities purchased under agreement to resell | | - | - | 8,480,000 |
| Loans to the Government of Bangladesh | 12 | 217,670,210 | 138,717,001 | 199,109,179 |
| Local currency investments | 13 | 6,729,972 | 4,831,164 | 5,357,256 |
| Local currency loans to banks, financial institutions and employees | 14 | 108,990,048 | 106,179,145 | 105,593,068 |
| Other local currency financial assets | 15 | 11,075,508 | 2,696,899 | 3,798,283 |
| Total local currency financial assets | | 359,701,005 | 269,037,857 | 339,022,404 |
| Total financial assets | | 3,231,423,987 | 3,088,725,095 | 2,819,319,012 |
| Non-financial assets | | | | |
| Property, plant and equipment | 16 | 48,070,487 | 47,747,324 | 47,271,620 |
| Intangible assets | 17 | 244,387 | 316,051 | 310,986 |
| Other non-financial assets | 18 | 6,165,052 | 7,802,066 | 8,049,643 |
| Total non-financial assets | | 54,479,926 | 55,865,441 | 55,632,249 |
| Total assets | | 3,285,903,913 | 3,144,590,536 | 2,874,951,261 |
| LIABILITIES & EQUITY | | | | |
| LIABILITIES | | | | |
| Foreign currency financial liabilities | | | | |
| Deposits from banks and financial institutions | 19 | 210,767,642 | 172,154,298 | 147,635,399 |
| Liabilities with International Monetary Fund | 6.02 | 244,700,108 | 231,519,873 | 230,167,566 |
| Total foreign currency financial liabilities | | 455,467,750 | 403,674,171 | 377,802,965 |
| Local currency financial liabilities | | | | |
| Notes in circulation | 20 | 1,534,131,824 | 1,497,287,018 | 1,307,303,718 |
| Deposits from banks and financial institutions | 21 | 787,946,162 | 733,927,114 | 608,937,407 |
| Short term borrowings | 22 | 87,947,138 | 182,618,016 | 263,401,402 |
| Other local currency financial liabilities | 23 | 119,389,539 | 106,398,960 | 158,750,420 |
| Total local currency financial liabilities | | 2,529,414,663 | 2,520,231,108 | 2,338,392,946 |
| Total liabilities | | 2,984,882,413 | 2,923,905,279 | 2,716,195,911 |
| EQUITY | | | | |
| Capital | 24 | 30,000 | 30,000 | 30,000 |
| Retained earnings | 31 | 18,838,181 | 16,018,300 | 16,770,502 |
| Revaluation reserves | 25 | 205,079,608 | 130,588,848 | 69,327,757 |
| Currency fluctuation reserve | 26 | 28,761,325 | 26,763,473 | 25,812,199 |
| Statutory funds | 27 | 15,717,046 | 16,667,046 | 16,117,046 |
| Non statutory funds | 28 | 15,645,941 | 14,147,191 | 14,167,170 |
| Other reserves | 29 | 11,848,899 | 11,469,899 | 11,630,176 |
| General reserve | 30 | 5,100,500 | 5,000,500 | 4,900,500 |
| Total equity | | 301,021,500 | 220,685,257 | 158,755,350 |
| Total liabilities and equity | | 3,285,903,913 | 3,144,590,536 | 2,874,951,261 |
| The accompanying notes from 1 to 48 form an integral part of these financial statements. | | | | |
| <div> <div> Md. Forkan Hossain General Manager Accounts & Budgeting Department </div> <div> Abu Hena Mohd. Razee Hassan Deputy Governor </div> <div> Fazle Kabir Governor </div> </div> | | | | |
| 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 2018

| Particulars | Notes | 2018 Taka '000 | 2017 Taka '000 |
|---|-------|----------------------|----------------------|
| ASSETS | | | |
| Foreign currency financial assets | | | |
| Foreign currency accounts | 4 | 46,318,237 | 34,888,457 |
| Foreign investments | 5 | 2,271,947,298 | 2,304,806,144 |
| Assets held with International Monetary Fund | 6.01 | 223,651,193 | 213,841,975 |
| Gold and silver | 7 | 23,992,347 | 11,383,556 |
| Claims from gold transactions | 8 | 23,254,853 | 33,811,041 |
| Foreign currency loans to banks | 9 | 264,534,094 | 206,294,007 |
| Other foreign currency financial assets | 10 | 18,024,960 | 14,662,058 |
| Total foreign currency financial assets | | 2,871,722,982 | 2,819,687,238 |
| Local currency financial assets | | | |
| Taka coin and cash balances | 11.01 | 4,990,420 | 4,897,629 |
| Loans to the Government of Bangladesh | 12 | 217,670,210 | 138,717,001 |
| Local currency investments | 13.01 | 15,945,000 | 15,945,000 |
| Local currency loans to banks, financial institutions and employees | 14.01 | 107,412,881 | 104,815,819 |
| Other local currency financial assets | 15.01 | 10,573,535 | 2,277,941 |
| Total local currency financial assets | | 356,592,046 | 266,653,390 |
| Total financial assets | | 3,228,315,028 | 3,086,340,628 |
| Non-financial assets | | | |
| Property, plant and equipment | 16.01 | 39,232,410 | 38,650,495 |
| Intangible assets | 17 | 244,387 | 316,051 |
| Other non-financial assets | 18.01 | 527,330 | 2,923,214 |
| Total non-financial assets | | 40,004,127 | 41,889,760 |
| Total assets | | 3,268,319,155 | 3,128,230,388 |
| LIABILITIES & EQUITY | | | |
| LIABILITIES | | | |
| Foreign currency financial liabilities | | | |
| Deposits from banks and financial institutions | 19 | 210,767,642 | 172,154,298 |
| Liabilities with International Monetary Fund | 6.02 | 244,700,108 | 231,519,873 |
| Total foreign currency financial liabilities | | 455,467,750 | 403,674,171 |
| Local currency financial liabilities | | | |
| Notes in circulation | 20 | 1,534,131,824 | 1,497,287,018 |
| Deposits from banks and financial institutions | 21 | 787,946,162 | 733,927,114 |
| Short term borrowings | 22 | 87,947,138 | 182,618,016 |
| Other local currency financial liabilities | 23.01 | 118,325,488 | 105,664,349 |
| Total local currency financial liabilities | | 2,528,350,612 | 2,519,496,497 |
| Total liabilities | | 2,983,818,362 | 2,923,170,668 |
| EQUITY | | | |
| Capital | 24 | 30,000 | 30,000 |
| Retained earnings | 31.01 | 6,902,868 | 4,928,228 |
| Revaluation reserves | 25.01 | 201,344,214 | 126,803,383 |
| Currency fluctuation reserve | 26 | 28,761,325 | 26,763,473 |
| Statutory funds | 27 | 15,717,046 | 16,667,046 |
| Non statutory funds | 28 | 15,645,941 | 14,147,191 |
| Other reserves | 29 | 11,848,899 | 11,469,899 |
| General reserve | 30.01 | 4,250,500 | 4,250,500 |
| Total equity | | 284,500,793 | 205,059,720 |
| Total liabilities and equity | | 3,268,319,155 | 3,128,230,388 |

The accompanying notes from 1 to 48 form an integral part of these financial statements.

Md. Forkan Hossain
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 2018

| Particulars | Notes | 2018 Taka '000 | 2017 Taka '000 |
|--|-------|---------------------|---------------------|
| INCOME | | | |
| Income on foreign currency financial assets | | | |
| Interest income | 32 | 43,054,899 | 27,488,594 |
| Commission and discounts | 33 | 262,991 | 650,076 |
| Total income on foreign currency financial assets | | 43,317,890 | 28,138,670 |
| Income from local currency financial assets | | | |
| Interest income | 35 | 10,144,512 | 10,968,626 |
| Commission and discounts | 36 | 716,480 | 765,733 |
| Sales to other parties by subsidiary | | 1,646,693 | 1,709,097 |
| Other income | | 244,860 | 99,165 |
| Total income from local currency financial assets | | 12,752,545 | 13,542,621 |
| Total income | | 56,070,435 | 41,681,291 |
| EXPENSES | | | |
| Expenses on foreign currency financial liabilities | | | |
| Interest expense | 34 | (2,171,398) | (859,304) |
| Commission and other expenses | | (166,411) | (228,401) |
| Total expenses on foreign currency financial liabilities | | (2,337,809) | (1,087,705) |
| Expenses on local currency financial liabilities | | | |
| Interest expense | 38 | (5,610,358) | (9,444,872) |
| Commission and other expenses | 39 | (6,621,333) | (5,085,749) |
| Total expenses on local currency financial liabilities | | (12,231,691) | (14,530,621) |
| Other expenses | | | |
| General and administrative expenses | 40 | (32,038,984) | (18,951,460) |
| Total other expenses | | (32,038,984) | (18,951,460) |
| Total expenses | | (46,608,484) | (34,569,786) |
| Foreign currency revaluation gain/(loss) - unrealised | | 86,732,597 | 68,501,409 |
| Foreign currency revaluation gain/(loss) - realised | | 1,997,852 | 951,274 |
| Profit before tax | | 98,192,400 | 76,564,188 |
| Current tax expense | | (626,737) | (582,990) |
| Deferred tax income/(expense) | | (23,200) | 41,331 |
| Profit for the year | | 97,542,463 | 76,022,529 |
| Items that may be subsequently reclassified to profit or loss | | | |
| Other comprehensive income | | | |
| Gold revaluation gain/(loss) | | 2,050,689 | (1,485,280) |
| Silver revaluation gain/(loss) | | 1,914 | (19,161) |
| Revaluation gain/(loss) on financial instruments | | (15,287,469) | (5,447,919) |
| Property, plant and equipment revaluation gain | | 618,039 | - |
| Total other comprehensive income | | (12,616,828) | (6,952,360) |
| Total comprehensive income for the year | | 84,925,635 | 69,070,169 |

The accompanying notes from 1 to 48 form an integral part of these financial statements.

Md. Forkan Hossain
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 2018

| Particulars | Notes | 2018 Taka '000 | 2017 Taka '000 |
|--|-------|---------------------|---------------------|
| INCOME | | | |
| Income on foreign currency financial assets | | | |
| Interest income | 32 | 43,054,899 | 27,488,594 |
| Commission and discounts | 33 | 262,991 | 650,076 |
| Total income on foreign currency financial assets | | 43,317,890 | 28,138,670 |
| Income from local currency financial assets | | | |
| Interest income | 35.01 | 9,186,887 | 10,093,085 |
| Commission and discounts | 36 | 716,480 | 765,733 |
| Dividend income | | 300,000 | 150,000 |
| Other income | 37 | 227,417 | 64,187 |
| Total income from local currency financial assets | | 10,430,784 | 11,073,005 |
| Total income | | 53,748,674 | 39,211,675 |
| EXPENSES | | | |
| Expenses on foreign currency financial liabilities | | | |
| Interest expense | 34 | (2,171,398) | (859,304) |
| Commission and other expenses | | (166,411) | (228,401) |
| Total expenses on foreign currency financial liabilities | | (2,337,809) | (1,087,705) |
| Expenses on local currency financial liabilities | | | |
| Interest expense | 38 | (5,610,358) | (9,444,872) |
| Commission and other expenses | 39 | (6,621,333) | (5,085,749) |
| Total expenses on local currency financial liabilities | | (12,231,691) | (14,530,621) |
| Other expenses | | | |
| Note printing expenses | | (4,280,495) | (4,311,107) |
| General and administrative expenses | 40.01 | (26,981,836) | (13,864,291) |
| Total other expenses | | (31,262,331) | (18,175,398) |
| Total expenses | | (45,831,831) | (33,793,724) |
| Foreign currency revaluation gain/(loss) - unrealised | | 86,732,597 | 68,501,409 |
| Foreign currency revaluation gain/(loss) - realised | | 1,997,852 | 951,274 |
| Profit for the year | | 96,647,292 | 74,870,634 |
| Items that may be subsequently reclassified to profit or loss | | | |
| Other comprehensive income | | | |
| Gold revaluation gain/(loss) | | 2,050,689 | (1,485,280) |
| Silver revaluation gain/(loss) | | 1,914 | (19,161) |
| Revaluation gain/(loss) on financial instruments | | (15,287,469) | (5,447,919) |
| Property, plant and equipment revaluation gain | | 618,039 | - |
| Total other comprehensive income | | (12,616,828) | (6,952,360) |
| Total comprehensive income for the year | | 84,030,464 | 67,918,274 |

The accompanying notes from 1 to 48 form an integral part of these financial statements.

Md. Forkan Hossain
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 2018

| Particulars | Non - distributable | | | | | | | | | | | Taka '000 | | | |
|---|---------------------|-----------------|---------------------------|-----------------------|-----------------------------|-------------------------------------|------------------|------------------------------|-----------------|----------------------|-------------------|-------------|-----------------|---------------|--|
| | Capital | Gold and silver | Revaluation reserves | | | | | Currency fluctuation reserve | Statutory funds | Non- statutory funds | Other reserves | | General reserve | Distributable | |
| | | | Foreign currency accounts | Financial Instruments | Property, plant & equipment | Asset renewal & replacement reserve | Interest reserve | | | | Retained earnings | Equity | | | |
| | | | | | | | | | | | | | | | |
| Balance as at 1 July 2016 | 30,000 | 16,184,505 | 9,227,026 | 5,606,233 | 40,474,443 | 25,812,199 | 16,117,046 | 14,167,170 | 3,618,485 | 8,011,691 | 4,900,500 | 15,759,609 | 159,908,908 | | |
| Prior year adjustments : | | | | | | | | | | | | | | | |
| Revaluation surplus wrongly credited in 2013-2014 | - | - | - | - | (1,605,847) | - | - | - | - | - | - | - | (1,605,847) | | |
| Recognition of Deferred Tax Liability for capital gain on land previously not recognised | - | - | - | - | (109,758) | - | - | - | - | - | - | - | (109,758) | | |
| Transfer to R/E for depreciation against revalued assets during 2014-2015 | - | - | - | - | (479,031) | - | - | - | - | - | - | 479,031 | - | | |
| Reversal of deferred tax liability against depreciation charged on revaluation reserve for the period from 2013-2014 to 2015-2016 | - | - | - | - | 30,186 | - | - | - | - | - | - | (30,186) | - | | |
| Reversal of deferred tax liability for wrong accounting base | - | - | - | - | - | - | - | - | - | - | - | 562,047 | 562,047 | | |
| Balance as at 1 July 2016 (restated) | 30,000 | 16,184,505 | 9,227,026 | 5,606,233 | 38,309,992 | 25,812,199 | 16,117,046 | 14,167,170 | 3,618,485 | 8,011,691 | 4,900,500 | 16,770,502 | 158,755,350 | | |
| 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) | - | 7,059,423 | 69,070,169 | | |
| Utilisation of funds | - | - | - | - | - | - | - | (119,979) | - | - | - | - | (119,979) | | |
| Adjustment against revaluation(restated) | - | - | - | (237,704) | (50,254) | - | - | - | - | - | - | 50,254 | (237,704) | | |
| Appropriation of profit to other funds | - | - | - | - | - | - | 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) | 38,259,738 | 26,763,473 | 16,667,046 | 14,147,191 | 3,947,785 | 7,522,114 | 5,000,500 | 16,018,300 | 220,685,256 | | |
| Adjustment against due from government | - | - | - | - | - | - | - | - | - | - | - | (417,799) | (417,799) | | |
| Dividend paid for 2016-2017 | - | - | - | - | - | - | - | - | - | - | - | (4,510,430) | (4,510,430) | | |
| Prior Year Adjustment | - | - | - | - | - | - | - | - | - | - | - | 15,026 | 15,026 | | |
| Total comprehensive income for the year | - | 2,052,603 | 86,732,597 | (15,287,469) | 618,039 | 1,997,852 | - | - | - | - | - | 8,812,014 | 84,925,635 | | |
| Reallocation | - | - | - | - | - | - | (1,500,000) | 1,500,000 | - | - | - | - | - | | |
| Utilisation of funds | - | - | - | - | - | - | - | (101,250) | - | - | - | - | (101,250) | | |
| Adjustment against revaluation | - | - | - | 425,062 | (50,070) | - | - | - | - | - | - | 50,070 | 425,062 | | |
| Appropriation of profit to other funds | - | - | - | - | - | - | 550,000 | 100,000 | 379,000 | - | 100,000 | (1,129,000) | - | | |
| Balance as at 30 June 2018 | 30,000 | 16,732,667 | 164,461,032 | (14,941,797) | 38,827,707 | 28,761,325 | 15,717,046 | 15,645,941 | 4,326,785 | 7,522,114 | 5,100,500 | 18,838,181 | 301,021,500 | | |

BANGLADESH BANK
SEPARATE STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2018

| Particulars | Non - distributable | | | | | | | | | | Distributable | | Taka '000 | |
|---|---------------------|----------------------|---------------------------|-----------------------|-----------------------------|------------------------------|-------------------|---------------------|-------------------------------------|------------------|------------------|--------------------|-----------|--------|
| | Capital | Revaluation reserves | | | | Currency fluctuation reserve | Statutory funds | Non-statutory funds | Other reserves | | General reserve | Retained earnings | | Equity |
| | | Gold and silver | Foreign currency accounts | Financial Instruments | Property, plant & equipment | | | | Asset renewal & replacement reserve | Interest reserve | | | | |
| 30,000 | 16,184,505 | 9,227,026 | 5,606,233 | 34,474,273 | 25,812,199 | 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 | - | - | - | - | - | - | (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 | 26,763,473 | 16,667,046 | 3,947,785 | 7,522,114 | 4,250,500 | 4,928,228 | 205,059,720 | | |
| Adjustment against due from government | - | - | - | - | - | - | - | - | - | - | (417,799) | (417,799) | | |
| Dividend paid for 2016-2017 | - | - | - | - | - | - | - | - | - | - | (4,510,430) | (4,510,430) | | |
| Prior Year Adjustment | - | - | - | - | - | - | - | - | - | - | 15,026 | 15,026 | | |
| "Total comprehensive income for the year" | - | 2,052,603 | 86,732,597 | (15,287,469) | 618,039 | 1,997,852 | - | - | - | - | 7,916,843 | 84,030,464 | | |
| Reallocation | - | - | - | - | - | (1,500,000) | 1,500,000 | - | - | - | - | - | | |
| Utilisation of funds | - | - | - | - | - | - | (101,250) | - | - | - | - | (101,250) | | |
| Adjustment against revaluation | - | - | - | 425,062 | - | - | - | - | - | - | - | 425,062 | | |
| Appropriation of profit to other funds | - | - | - | - | - | 550,000 | 100,000 | 379,000 | - | - | (1,029,000) | - | | |
| Balance as at 30 June 2018 | 30,000 | 16,732,667 | 164,461,032 | (14,941,797) | 35,092,312 | 28,761,325 | 15,717,046 | 4,326,785 | 7,522,114 | 4,250,500 | 6,902,868 | 284,500,793 | | |

Taka '000

BANGLADESH BANK
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

| Particulars | 2018 Taka '000 | 2017 Taka '000 |
|---|---------------------|----------------------|
| Cash flows from operating activities | | |
| Interest received | 37,850,490 | 24,358,906 |
| Interest paid | (7,594,520) | (10,208,307) |
| Received from customer | 1,800,959 | 436,401 |
| Fees, commission and other income received | 1,220,044 | 1,453,924 |
| Commission and discounts paid | (6,787,743) | (5,314,150) |
| Payments to employees, suppliers, govt. etc. | (29,626,952) | (17,434,196) |
| Funds advanced from/(to) banks and employees | (9,860,271) | (1,340,199) |
| (Increase)/decrease in other assets | (162,266) | 2,601,925 |
| Currency issued | 36,844,805 | 189,983,300 |
| Increase/(decrease) in other liabilities | 12,574,915 | (51,984,548) |
| Net cash from operating activities | 36,259,461 | 132,553,056 |
| Cash flows from investing activities | | |
| Investment income received | 20,131,769 | 12,695,204 |
| (Increase)/decrease in foreign treasury bills and bonds | (13,065,761) | (448,659,670) |
| (Increase)/decrease in other investments | (67,571,373) | (75,530,888) |
| (Increase)/decrease in Government securities | (78,953,209) | 60,392,178 |
| (Increase)/decrease in foreign currency investment | 88,730,449 | 69,452,683 |
| (Increase)/decrease in investments in debenture | (2,112,648) | 526,092 |
| Additions to property, plant and equipment | (651,669) | (2,629,210) |
| Disposal of property, plant and equipment | 5,117 | 1,133,493 |
| Settlement of liabilities with IMF | 3,329,148 | (3,588,727) |
| Net cash used in investing activities | (50,158,178) | (386,208,845) |
| Cash from financing activities | | |
| Dividend paid to the Government of Bangladesh | (4,928,229) | (6,782,579) |
| Net cash (used in)/from financing activities | (4,928,229) | (6,782,579) |
| Net increase/(decrease) in cash and cash equivalents | (18,826,946) | (260,438,368) |
| Cash and cash equivalents as at 1 July | 86,616,991 | 347,055,359 |
| Cash and cash equivalents as at 30 June | 67,790,045 | 86,616,991 |
| Cash and cash equivalents include | | |
| Foreign currency accounts | 46,318,237 | 34,888,457 |
| Foreign investments with maturity of three months or less | 1,092,679,226 | 1,123,741,424 |
| Taka coin and cash balances | 15,235,267 | 16,613,649 |
| Foreign currency deposits from banks and financial institutions | (210,549,385) | (172,081,409) |
| Short term borrowings | (87,947,138) | (182,618,016) |
| Deposits from banks and financial institutions | (787,946,162) | (733,927,114) |
| Cash and cash equivalents as at 30 June | 67,790,045 | 86,616,991 |

BANGLADESH BANK
SEPARATE STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

| Particulars | 2018 Taka '000 | 2017 Taka '000 |
|---|---------------------|----------------------|
| Cash flows from operating activities | | |
| Interest received | 37,850,490 | 24,352,651 |
| Interest paid | (7,594,520) | (10,208,307) |
| Fees, commission and other income received | 1,204,360 | 1,419,217 |
| Commission and discounts paid | (6,787,743) | (5,314,150) |
| Payments to employees and suppliers | (28,115,976) | (16,537,559) |
| Funds advanced from/(to) banks and employees | (9,646,430) | (1,232,889) |
| (Increase)/decrease in other assets | (162,266) | 2,601,925 |
| Currency issued | 36,844,805 | 189,983,300 |
| Increase/(decrease) in other liabilities | 12,574,915 | (51,984,548) |
| Net cash from operating activities | 36,167,634 | 133,079,640 |
| Cash flows from investing activities | | |
| Dividends received | 300,000 | 150,000 |
| Investment income received | 19,257,158 | 11,878,955 |
| (Increase)/decrease in foreign treasury bills and bonds | (13,065,761) | (448,659,670) |
| (Increase)/decrease in other investments | (67,571,373) | (75,530,888) |
| (Increase)/decrease in Government securities | (78,953,209) | 60,392,178 |
| (Increase)/decrease in foreign currency investment | 88,730,449 | 69,452,683 |
| (Increase)/decrease in investments in debenture | - | 770,000 |
| Additions to property, plant and equipment | (624,949) | (1,158,103) |
| Disposal of property, plant and equipment | 3,359 | 12,620 |
| (Increase)/decrease in settlement with IMF | 3,329,148 | (3,588,727) |
| Net cash used in investing activities | (48,595,178) | (386,280,952) |
| Cash from financing activities | | |
| Dividend paid to the Government of Bangladesh | (4,928,229) | (6,782,579) |
| Net cash (used in)/from financing activities | (4,928,229) | (6,782,579) |
| Net increase/(decrease) in cash and cash equivalents | (17,355,773) | (259,983,891) |
| Cash and cash equivalents as at 1 July | 74,900,971 | 334,884,862 |
| Cash and cash equivalents as at 30 June | 57,545,198 | 74,900,971 |
| Cash and cash equivalents includes | | |
| Foreign currency accounts | 46,318,237 | 34,888,457 |
| Foreign investments with maturity of three months or less | 1,092,679,226 | 1,123,741,424 |
| Taka coin and cash balances | 4,990,420 | 4,897,629 |
| Foreign currency deposits from banks and financial institutions | (210,549,385) | (172,081,409) |
| Short term borrowings | (87,947,138) | (182,618,016) |
| Deposits from banks and financial institutions | (787,946,162) | (733,927,114) |
| Cash and cash equivalents as at 30 June | 57,545,198 | 74,900,971 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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 |
| Chattogram Office | Notun/617, Shahid Sohrwardi Road, Chittagong |
| Rajshahi Office | Natore Road, Majhi Hata, Boalia, Rajshahi-6000 |
| Bogura 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 2018, 632 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 13.01.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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: 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 | Not applicable |
| 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 Deferrals Accounts | Not applicable |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

* This year 1,591 Fixed assets have been revaluated on 31 January, 2018 based on an independent valuer, S.F.Ahmed & Co. After getting the report by end of June, 2018, we are in process of updating the fixed asset module in SAP based on the valuation report to comply with IAS 16. Total procedure will be completed by FY19.

** Bangladesh Bank has revalued IMF Securities Account using the SDR exchange rate prevailing as on 30th April, 2018 to agree with the balances shown in the financial statements of IMF.

*** Gold owned by the Bank is majorly invested internationally. The whole amount is considered as part of its International reserve. In addition, gold is regarded as asset back up against circulation as per BB order. Since it is part of international reserve and not used as a commodity which is traded during the normal course of business, gold is fair valued and the gains or losses are transferred to the Statement of Profit or Loss and Other Comprehensive Income.

**** The Bank holds 11,998,994 shares in SPCBL out of total 12,000,000 shares. However, Bangladesh Bank is the beneficial owner of all these shares. In a strict sense, the non-controlling interest (NCI) comes to BDT 2,390,986 only as on 30 June, 2018. Since the NCI is not material, and according to the commercial substance the beneficial owner is the Bank, the Bank does not recognise non-controlling interest.

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; |
| 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 20.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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.

2.06 Comparative information

In presentation of the financial statements, comparative information in respect of the previous year have been given in accordance with IAS-1 & IAS-8. The narrative and descriptive information have been given in notes to the financial statements, where relevant, for the understanding of the current year's financial statements.

2.07 Restatement/Reclassification

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 for the year ended 30 June, 2018, such prior period errors of SPCBL were identified. And accordingly, comparative figures have been restated.

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.

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".

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

Subsidiary

The Security Printing Corporation (Bangladesh) Ltd. (SPCBL) is the subsidiary of the Bank. The Bank holds 11,998,994 shares in SPCBL. For compliance with the requirements of the minimum number of seven shareholders of a public limited company as per The Companies Act-1994, 1000 shares were allotted to the Governor of Bangladesh Bank, and, Deputy Governor of Bangladesh bank, Managing Director of The SPCBL, Secretary of Financial Institution Division of Ministry of Finance, Additional secretary of Ministry of Home Affairs, Joint Secretary of Internal Resources Division and Director General of Bangladesh Postal Department were allotted one share each. However, Bangladesh Bank is the beneficial owner of all these shares. In a strict sense, The non-controlling interest (NCI) comes to BDT 2,390,986 only as on 30 June, 2018. Since the NCI is not material, and according to the commercial substance the beneficial owner is the Bank, the Bank does not recognise non-controlling interest. SPCBL is responsible for printing and supplying the Bank with bank notes based on the requirements from time to time. It 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 2018

| Foreign currency | Exchange rates (in Taka) | |
|-------------------|--------------------------|---------|
| | 2018 | 2017 |
| US Dollar | 83.722 | 80.599 |
| Australian Dollar | 61.971 | 61.948 |
| Canadian Dollar | 63.764 | 62.181 |
| EURO | 97.812 | 92.068 |
| Pound Sterling | 110.571 | 104.980 |
| CNY | 12.620 | 11.891 |
| JPY | 0.757 | 0.717 |
| SDR | 117.763 | 112.145 |
| SGD | 61.443 | 58.575 |
| SEK | 9.358 | 9.564 |

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 2018

(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 2018

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.

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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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.

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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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.

(f) De-recognition

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 de-recognition that is created or retained by the Group is recognised as a separate asset or liability. On de-recognition 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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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.

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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

(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.

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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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 BDT.40,000 million (2017: BDT. 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 BDT. 40,000 million limit set for WMA are recognised as overdraft-current with a limit not exceeding BDT. 40,000 million (2017: BDT. 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 FY07 the balance of Government treasury bills was transferred to overdraft-block account. From the financial year 2007 and onwards an amount of BDT 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.

3.11 Local currency loans to banks, financial institutions and employees

These comprise loans to state owned, 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'.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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 subsequently other items of PPE were revalued as at 31 January 2018 by an independent valuer, S.F. Ahmed & Co. 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, furniture and fixtures, mechanical equipment, motor vehicles, computer & networking, artifacts and currency museum, intangible assets, electrical installation and gas installation were revalued using a combination of approaches which include depreciated replacement cost for building and civil construction and market considerations for other assets.

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.

(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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

(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% | - |

(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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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.

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

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

- (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.

(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% (2017: 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% (2017: 90%) of their last basic salary. 50% of the pension amount is paid as a lump sum computed at the rate of BDT. 230 (2017: Tk. 230) per BDT. 1 surrendered from the pension. Employees will receive their pension monthly over the remaining lifetime against remaining 50% of the pension amount .

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

All employees irrespective of joining date are entitled to medical allowance in cash (BDT. 1,500 per month upto age 65 years and BDT. 2,500 after 65 years) even after retirement as prescribed by the government.

The Bank actuarially valued its pension liabilities as at 30 June 2016. 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.

(iii) **Gratuity scheme**

The Bank actuarially valued its gratuity scheme and measured its liability for defined benefit obligation as at 30 June 2016. 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 BDT 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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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.

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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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.

(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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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 made any early adoption of the following new standards in preparing these financial statements.

(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 de-recognition 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 2018

| | 2018 BDT '000 | 2017 BDT '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. | | |
| Balance held with | | |
| Other central banks | 19,720,963 | 16,795,787 |
| Foreign commercial banks | 26,597,274 | 18,092,670 |
| Total | 46,318,237 | 34,888,457 |
| 5 Foreign investments | | |
| Overnight investment | 235,616,222 | 214,600,368 |
| Short term deposits with overseas commercial banks | 837,176,395 | 928,877,704 |
| US Dollar treasury bills | 82,138,522 | 79,806,111 |
| Foreign bonds | 1,117,016,159 | 1,081,521,961 |
| Total | 2,271,947,298 | 2,304,806,144 |
| 6 International Monetary Fund related assets and liabilities | | |
| 6.01 Assets held with International Monetary Fund | | |
| Quota | 125,605,909 | 119,614,070 |
| Quota(IMF) paid by Government* | (14,546,567) | (14,546,567) |
| SDR holding | 112,393,962 | 108,661,765 |
| Interest receivable on SDR holding | 197,889 | 112,707 |
| Total | 223,651,193 | 213,841,975 |
| *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 | | |
| IMF securities | 109,682,417 | 100,851,183 |
| IMF-1 and IMF-2 account | 1,604,981 | 1,607,087 |
| SDR allocation | 60,106,792 | 57,239,454 |
| IMF Extended Credit Facility (ECF) | 73,210,323 | 71,768,423 |
| Interest payable | 95,595 | 53,726 |
| Total | 244,700,108 | 231,519,873 |

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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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, 2018 to agree with the balances shown in the financial statements of IMF. The other three accounts namely SDR Allocation, IMF Extended Credit Facility etc. were translated to Taka at the exchange rate ruling at 30 June 2018.

7 Gold and silver

| | 2018 BDT '000 | 2017 BDT '000 |
|--|-------------------|-------------------|
| Gold | 23,764,209 | 11,157,332 |
| Silver | 228,138 | 226,224 |
| Total | 23,992,347 | 11,383,556 |
| 8 Claims from gold transactions | 23,254,853 | 33,811,041 |

These represent claims against gold loan to 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 transactions is the physical gold that are held at site by Bank of England, London and own vault of Bangladesh Bank.

9 Foreign currency loans to banks

| | | |
|---|--------------------|--------------------|
| Export Development Fund (EDF) Dollar investment | 251,151,388 | 198,295,935 |
| LTFF Investment under FSSP | 13,371,782 | 7,998,072 |
| Green Transformation Fund | 10,924 | - |
| Rupali Bank Karachi* | 9,674 | 10,823 |
| Less: Provision for loan losses (for Rupali Bank Karachi) | (9,674) | (10,823) |
| Total | 264,534,094 | 206,294,007 |

*This non-convertible account was created in 1979 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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| | 2018 BDT '000 | 2017 BDT '000 |
|---|-------------------|-------------------|
| 10 Other foreign currency financial assets | | |
| Swift shares | 80 | 80 |
| Interest receivable | 12,800,736 | 9,437,834 |
| Other receivable* | 5,224,144 | 5,224,144 |
| Total | 18,024,960 | 14,662,058 |

Bank has bought one share of SWIFT as part of membership of the said organization. Face value of the share is equivalent to BDT 80,474.57.

* In February 2016, several unauthorised transactions were processed by Federal Reserve Bank of New York resulting in BDT 6,365 million (BDT 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 Philippine court on behalf of Bangladesh for recovery of the heisted amount of Bangladesh. Furthermore, the Bangko Sentral ng Pilipinas has fined RCBC BDT 1,650 million (BDT equivalent of Peso 1,000 million) in connection with the above transactions. The Bank has recovered BDT 1,141.23 million (taka equivalent of USD 14.54 million) in the last year(FY17) in addition to earlier recovered BDT 5.36 million (BDT equivalent of USD 0.07 million). Account frozen order and asset preservation order has been issued by respective Philippine court as well as civil forfeiture case is under process against stolen monies. 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.

| | | |
|--|-------------------|-------------------|
| 11 Consolidated Taka coin and cash balances | | |
| Taka coin | 4,970,100 | 4,857,974 |
| Cash balances (separate) | 20,320 | 39,655 |
| Cash balances (SPCBL) | 10,244,847 | 11,716,019 |
| Total | 15,235,267 | 16,613,648 |

11.01 Taka coin and cash balances

| | | |
|---------------|------------------|------------------|
| Taka coin | 4,970,100 | 4,857,974 |
| Cash balances | 20,320 | 39,655 |
| Total | 4,990,420 | 4,897,629 |

Taka coin and cash balances represent 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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| | 2018 BDT '000 | 2017 BDT '000 |
|---|--------------------|--------------------|
| 12 Loans to the Government of Bangladesh | | |
| Ways and means advance (WMA) | 40,000,000 | 30,155,600 |
| Overdraft - current (ODC) | 27,839,100 | - |
| Overdraft - block (ODB) | 41,850,000 | 56,850,000 |
| Treasury bills | 48,816,816 | 8,116,472 |
| Treasury bonds | 59,164,294 | 43,594,929 |
| Total | 217,670,210 | 138,717,001 |
| 13 Consolidated local currency investments | | |
| Short term money market investments* | 2,777,520 | 878,712 |
| Debenture - BHBFC | 3,945,000 | 3,945,000 |
| Shares- ICB Islamic Bank Limited** | 7,452 | 7,452 |
| Total | 6,729,972 | 4,831,164 |
| *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. | | |
| 13.01 Local currency investments | | |
| Debenture - BHBFC | 3,945,000 | 3,945,000 |
| Investment in subsidiary | 12,000,000 | 12,000,000 |
| Total | 15,945,000 | 15,945,000 |
| 14 Consolidated local currency loans to banks, financial institutions and employees | | |
| (i) Local currency loans to banks and financial institutions | | |
| State owned banks: | | |
| Commercial banks | 4,325,171 | 4,764,329 |
| Specialised banks* | 39,620,579 | 27,959,832 |
| | 43,945,750 | 32,724,161 |
| Provision for impairment (Note 14.a) | (7,015,005) | (480,559) |
| | 36,930,745 | 32,243,602 |
| Other banks and financial institutions: | | |
| Private banks | 3,100,500 | 3,146,800 |
| Other loans and advances | 31,724,743 | 29,578,717 |
| | 34,825,243 | 32,725,517 |
| Interest receivable | 701,194 | 7,731,998 |
| Total (i) | 72,457,182 | 72,701,117 |
| (ii) Local currency loans and advances to employees | | |
| Loans and advances to employees | 37,069,631 | 33,996,229 |
| Provision for loan losses (Note 14.b) | (536,765) | (518,201) |
| Total (ii) | 36,532,866 | 33,478,028 |
| Total loans (i+ii) | 108,990,048 | 106,179,145 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| | 2018 BDT '000 | 2017 BDT '000 |
|--|--------------------|--------------------|
| 14.01 Local currency loans to banks, financial institutions and employees | | |
| (i) Local currency loans to banks and financial institutions | | |
| State owned banks: | | |
| Commercial banks | 4,325,171 | 4,764,329 |
| Specialised banks* | 39,620,579 | 27,959,832 |
| | 43,945,750 | 32,724,161 |
| Provision for impairment (Note 14.a) | (7,015,005) | (480,559) |
| | 36,930,745 | 32,243,602 |
| Other banks and financial institutions: | | |
| Private banks | 3,100,500 | 3,146,800 |
| Other loans and advances | 31,724,743 | 29,578,717 |
| | 34,825,243 | 32,725,517 |
| Interest receivable | 701,194 | 7,731,998 |
| Total (i) | 72,457,182 | 72,701,117 |
| (ii) Local currency loans and advances to employees | | |
| Loans and advances to employees | 35,492,464 | 32,632,903 |
| Provision for loan losses (Note 14.b) | (536,765) | (518,201) |
| Total (ii) | 34,955,699 | 32,114,702 |
| Total loans (i+ii) | 107,412,881 | 104,815,819 |

*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 |

14.a Provision for impairment

| | | |
|------------------------------------|------------------|----------------|
| Opening balance | 480,559 | 64,362 |
| Charges/(Released) during the year | 6,534,446 | 416,197 |
| Total | 7,015,005 | 480,559 |

14.b Provision for loan losses

| | | |
|------------------------------------|----------------|----------------|
| Opening balance | 518,201 | 269,881 |
| Charged/(Released) during the year | 18,564 | 248,320 |
| Total | 536,765 | 518,201 |

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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| | 2018 BDT '000 | 2017 BDT '000 |
|--|-------------------|------------------|
| 15 Consolidated other local currency financial assets | | |
| Unutilised Financial Sector Support Project (FSSP) | 9,325,855 | 1,085,413 |
| Fund (Note 24.04) | | |
| Interest receivables (Bangladesh bank) | 1,247,680 | 1,192,528 |
| Interest receivables (SPCBL) | 497,837 | 414,822 |
| Others | 4,136 | 4,136 |
| Total | 11,075,508 | 2,696,899 |
| 15.01 Other local currency financial assets | | |
| Unutilised Financial Sector Support Project (FSSP) | 9,325,855 | 1,085,413 |
| Fund (Note 24.04) | | |
| Interest receivables | 1,247,680 | 1,192,528 |
| Total | 10,573,535 | 2,277,941 |

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 2018

16 Property, Plant and Equipment

Consolidated

30 June 2018

| Particulars | Land | Building and other construction | Mechanical and office equipment | Computer and networking | Fixture and fittings | Motor vehicles | Electrical installation | Gas installation | Security equipment | Artifacts & Currency Museum | Low value assets | Capital work in progress | Total |
|-------------------------------------|-------------------|---------------------------------|---------------------------------|-------------------------|----------------------|----------------|-------------------------|------------------|--------------------|-----------------------------|------------------|--------------------------|-------------------|
| Cost | | | | | | | | | | | | | |
| As at 1 July 2017 | 36,551,304 | 5,398,161 | 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 |
| Addition during the year | - | 65,153 | 24,539 | 47,832 | 40,449 | 17,282 | 2,512 | - | 12,169 | 40 | 4,829 | 402,124 | 616,929 |
| Transfers during the year | - | 98,986 | 9,910 | 132,228 | - | - | 16,926 | - | - | - | - | (258,050) | - |
| Disposals during the year | - | (4,286) | - | - | (2,796) | (7,715) | - | - | - | - | - | - | (14,797) |
| Revaluation Adjustment | - | 776,287 | (66,115) | (749) | (92,500) | 42,768 | (7,040) | 404 | - | - | - | - | 653,055 |
| As at 30 June 2018 | 36,551,304 | 6,334,301 | 5,746,716 | 2,032,080 | 1,149,348 | 328,712 | 503,982 | 2,416 | 54,488 | 40 | 63,642 | 3,405,349 | 56,172,379 |
| Accumulated depreciation | | | | | | | | | | | | | |
| As at 1 July 2017 | - | 1,725,685 | 1,357,613 | 1,702,949 | 239,227 | 234,230 | 241,564 | 1,485 | 5,144 | - | 56,125 | - | 5,564,022 |
| Prior year revaluation adjustment | - | 461,263 | 1,144,584 | - | - | - | - | - | - | - | - | - | 1,605,847 |
| Restated Balance as at 1 July 2017 | - | 2,186,948 | 2,502,197 | 1,702,949 | 239,227 | 234,230 | 241,564 | 1,485 | 5,144 | - | 56,125 | - | 7,169,869 |
| Charge for the year | - | 321,432 | 302,638 | 81,924 | 119,583 | 25,855 | 78,349 | 241 | 9,961 | 1 | 4,219 | - | 944,202 |
| Disposals during the year | - | (1,779) | - | - | (2,796) | (7,605) | - | - | - | - | - | - | (12,180) |
| As at 30 June 2018 | - | 2,506,602 | 2,804,835 | 1,784,872 | 356,013 | 252,481 | 319,913 | 1,726 | 15,105 | 1 | 60,344 | - | 8,101,892 |
| Net book value | | | | | | | | | | | | | |
| As at 30 June 2018 | 36,551,304 | 3,827,699 | 2,941,881 | 247,208 | 793,335 | 76,231 | 184,069 | 690 | 39,383 | - | 3,298 | 3,405,349 | 48,070,487 |
| As at 30 June 2017(Adjusted) | 36,551,304 | 3,211,213 | 3,276,186 | 149,820 | 964,969 | 42,147 | 250,020 | 527 | 37,175 | - | 2,688 | 3,261,275 | 47,747,324 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

30 June 2017

| Particulars | Land | Building and other construction | Mechanical and office equipment | Computer and networking | Fixture and fittings | Motor vehicles | Electrical installation | Gas installation | Security equipment | Artifacts & Currency Museum | 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 | 5,398,161 | 5,776,383 | 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 | 1,242 | 239 | - | 41,937 | - | 4,682,141 |
| 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 | 241,564 | 1,485 | 5,144 | - | 56,125 | - | 5,564,021 |
| Net book value | | | | | | | | | | | | | |
| As at 30 June 2017 | 36,551,304 | 3,672,476 | 4,420,770 | 149,820 | 964,969 | 42,147 | 250,020 | 527 | 37,174 | - | 2,688 | 3,261,275 | 49,353,170 |
| As at 30 June 2016 | 36,551,304 | 3,783,865 | 3,214,702 | 227,848 | 1,031,515 | 59,545 | 253,791 | 771 | 19,933 | - | 15,298 | 3,719,895 | 48,877,467 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

16.01 Property, Plant and Equipment Separate

30 June 2018

| BDT '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 | Artifacts & Currency Museum | Low value assets | Capital work in progress | Total |
| Cost | | | | | | | | | | | | | |
| As at 1 July 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 |
| Addition during the year | - | 63,672 | 15,203 | 47,832 | 39,634 | 8,282 | 2,512 | - | 12,169 | 40 | 4,829 | 396,037 | 590,209 |
| Transfers during the year | - | 98,986 | 9,910 | 132,228 | - | - | 16,926 | - | - | - | - | (258,050) | - |
| Disposals during the year | - | (4,286) | - | - | - | (4,685) | - | - | - | - | - | - | (8,971) |
| Revaluation Adjustment | - | 776,287 | (66,115) | (749) | (92,500) | 42,768 | (7,040) | 404 | - | - | - | - | 653,055 |
| As at 30 June 2018 | 32,892,704 | 5,117,742 | 1,108,307 | 2,032,080 | 1,111,238 | 289,880 | 503,982 | 2,416 | 54,488 | 40 | 63,642 | 1,393,578 | 44,570,098 |
| Accumulated depreciation | | | | | | | | | | | | | |
| As at 1 July 2017 | - | 1,492,597 | 770,807 | 1,702,949 | 202,718 | 211,919 | 241,564 | 1,485 | 5,144 | - | 56,125 | - | 4,685,308 |
| Charge for the year | - | 262,462 | 81,748 | 81,924 | 118,373 | 21,456 | 78,349 | 241 | 9,961 | 1 | 4,219 | - | 658,733 |
| Disposals during the year | - | (1,779) | - | - | - | (4,575) | - | - | - | - | - | - | (6,354) |
| As at 30 June 2018 | - | 1,753,281 | 852,554 | 1,784,873 | 321,091 | 228,800 | 319,913 | 1,726 | 15,105 | 1 | 60,344 | - | 5,337,687 |
| Net book value | | | | | | | | | | | | | |
| As at 30 June 2018 | 32,892,704 | 3,364,461 | 255,753 | 247,207 | 790,147 | 61,080 | 184,069 | 690 | 39,383 | 39 | 3,298 | 1,393,578 | 39,232,410 |
| 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 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

30 June 2017

| Particulars | Land | Building and other construction | Mechanical and office equipment | Computer and networking | Fixture and fittings | Motor vehicles | Electrical installation | Gas installation | Security equipment | Artifacts & Currency Museum | Low value assets | Capital work in progress | Total |
|---------------------------------|-------------------|---------------------------------|---------------------------------|-------------------------|----------------------|----------------|-------------------------|------------------|--------------------|-----------------------------|------------------|--------------------------|-------------------|
| BDT '000 | | | | | | | | | | | | | |
| 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 | 19,933 | - | 15,298 | 593,608 | 38,277,961 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| | 2018 BDT '000 | 2017 BDT '000 |
|--|----------------------|----------------------|
| 17 Intangible assets | | |
| Intangible asset at cost | 1,392,184 | 1,392,030 |
| Revaluation Adjustment | (35,016) | - |
| Accumulated amortisation | (1,276,276) | (1,204,888) |
| Capital work in progress | 163,495 | 128,909 |
| Total | 244,387 | 316,051 |
| 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. | | |
| 18 Consolidated other non-financial assets | | |
| Prepayments and advances | 1,000,995 | 1,408,111 |
| Stock | 3,955,514 | 5,483,846 |
| Sundry debtors | 1,208,543 | 910,109 |
| Total | 6,165,052 | 7,802,066 |
| 18.01 Other non-financial assets | | |
| Prepayments and advances | 478,109 | 2,881,746 |
| Stock (Printed books, forms and papers, office supplies and stock of medicine) | 49,221 | 41,468 |
| Total | 527,330 | 2,923,214 |
| 19 Deposits from banks and financial institutions | | |
| Foreign currency deposits from commercial banks | 104,744,648 | 89,879,045 |
| Asian Clearing Union (ACU) | 105,804,737 | 82,202,364 |
| Interest payable on ACU | 218,257 | 72,889 |
| Total | 210,767,642 | 172,154,298 |
| 20 Notes in circulation | | |
| Notes in circulation | 1,534,131,899 | 1,497,287,073 |
| Cash in hand | (75) | (55) |
| Total | 1,534,131,824 | 1,497,287,018 |

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 | 2018 | 2017 |
|----------------|----------------------|----------------------|----------------------|
| 10 Taka note | 1,400,816,267 | 14,008,163 | 13,130,995 |
| 20 Taka note | 630,715,155 | 12,614,303 | 11,457,029 |
| 50 Taka note | 304,702,137 | 15,235,107 | 13,806,669 |
| 100 Taka note | 870,679,244 | 87,067,924 | 82,554,987 |
| 500 Taka note | 1,225,844,330 | 612,922,165 | 590,771,540 |
| 1000 Taka note | 792,284,237 | 792,284,237 | 785,565,853 |
| Total | 5,225,041,370 | 1,534,131,899 | 1,497,287,073 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| | 2018 BDT '000 | 2017 BDT '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:

| | | |
|----------------------------------|----------------------|----------------------|
| Gold | 7,740,874 | 7,403,264 |
| Silver | 228,138 | 226,224 |
| Approved foreign exchange | 1,470,000,000 | 1,390,000,000 |
| Bangladesh Government securities | 21,313,349 | 64,920,173 |
| Taka coin | 4,970,100 | 4,857,974 |
| Other loans and advances | 29,879,438 | 29,879,438 |
| Total | 1,534,131,899 | 1,497,287,073 |

21 Deposits from banks and financial institutions

| | | |
|------------------------------|--------------------|--------------------|
| State owned commercial banks | 256,628,110 | 205,978,567 |
| Government specialised banks | 22,796,467 | 17,012,936 |
| Private banks | 460,678,535 | 468,964,745 |
| Foreign banks | 40,316,085 | 35,340,860 |
| Financial institutions | 7,508,276 | 6,594,308 |
| Other banks | 18,689 | 35,698 |
| Total | 787,946,162 | 733,927,114 |

Deposits from banks and financial institutions comprise required reserve deposits Cash Reserve Ratio (CRR) calculated at a rate of 5.5% (2017: 6.5%) on the bank's liability base, together with balances held for settlement purposes.

22 Short term borrowings

| | | |
|-----------------------|-------------------|--------------------|
| Bangladesh Bank bills | 87,947,138 | 182,618,016 |
| Total | 87,947,138 | 182,618,016 |

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.

23 Consolidated other local currency financial liabilities

| | | |
|--|------------|------------|
| Government deposits | 5,020 | 5,087 |
| Other deposits (Note 24.02) | 21,266,466 | 42,154,704 |
| Bank notes adjusting account - demonetised Pakistani notes | 3,230 | 3,230 |
| Sundry creditors account | 5,369,090 | 4,376,993 |
| Interest suspense account | 105,556 | 741 |
| Deposits from donor agencies | 36,030,744 | 25,971,295 |
| Inter branch adjustments (suspense) | (324,219) | (265,218) |
| Credit guarantee scheme for small industrial investors | 248,808 | 248,808 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| | 2018 BDT '000 | 2017 BDT '000 |
|---|--------------------|--------------------|
| Provision for pension* | 18,115,072 | 8,693,786 |
| Provision for gratuity* | 1,977,221 | 2,083,081 |
| Provision for leave encashment | 2,179,883 | 1,582,432 |
| Small and medium enterprise fund - Government | 1,178,896 | 1,178,896 |
| Loan from Govt of Bangladesh - Central Bank Strengthening Project (Note-24.03) | 2,535,077 | 2,592,453 |
| Loan from Govt of Bangladesh-Fin. Sector Support Project (Note-23.04) | 21,534,142 | 8,602,549 |
| Small and medium enterprise fund ADB-2 | 48,177 | 279,702 |
| Deferred tax liability(prior year balance restated) | 594,368 | 571,167 |
| Others - subsidiary | 1,203,471 | 1,286,746 |
| Fund for small investor affected in capital market | 7,318,537 | 7,032,507 |
| Total | 119,389,539 | 106,398,960 |

23.01 Other local currency financial liabilities

| | | |
|---|--------------------|--------------------|
| Government deposits | 5,020 | 5,087 |
| Other deposits (Note 23.02) | 21,266,466 | 42,154,704 |
| Bank notes adjusting account - demonetised Pakistani notes | 3,230 | 3,230 |
| Sundry creditors account | 6,440,782 | 5,827,915 |
| Interest suspense account | 105,556 | 741 |
| Deposits from donor agencies | 36,030,744 | 25,971,295 |
| Inter branch adjustments (suspense) | (324,219) | (265,218) |
| Credit guarantee scheme for small industrial investors | 248,808 | 248,808 |
| Provision for pension* | 18,115,072 | 8,693,786 |
| Provision for gratuity* | 1,872,395 | 1,908,033 |
| Provision for leave encashment | 1,946,804 | 1,429,861 |
| Small and medium enterprise fund - Government | 1,178,896 | 1,178,896 |
| Loan from Govt of Bangladesh - Central Bank Strengthening Project (Note-23.03) | 2,535,077 | 2,592,453 |
| Loan from Govt of Bangladesh-Fin. Sector Support Project (Note-23.04) | 21,534,142 | 8,602,549 |
| Small and medium enterprise fund ADB-2 | 48,177 | 279,702 |
| Fund for small investor affected in capital market | 7,318,537 | 7,032,507 |
| Total | 118,325,488 | 105,664,349 |

*Refer to note 44 for details.

23.02 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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

23.03 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 BDT. 3,892 million (USD 55.60 million), of which IDA provided Tk. 3,060 million (USD 43.71 million) through Government and the rest BDT. 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

23.04 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.

| | 2018 BDT '000 | 2017 BDT '000 |
|--|--------------------|--------------------|
| 24 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. | | |
| 25 Consolidated revaluation reserves | | |
| Revaluation reserve - gold and silver (Note 25.02) | 16,732,667 | 14,680,065 |
| Revaluation reserve - foreign currency accounts (Note 25.03) | 164,461,032 | 77,728,435 |
| Revaluation reserve - property, plant and equipment (Note 26.04) (restated) | 38,827,706 | 38,259,738 |
| Revaluation reserve - financial instruments (Note 25.05) | (14,941,797) | (79,390) |
| Total | 205,079,608 | 130,588,848 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| | | 2018 BDT '000 | 2017 BDT '000 |
|--|-------------|---------------------------|---------------------------|
| 25.01 Revaluation reserves | | | |
| Revaluation reserve - gold and silver (Note 25.02) | | 16,732,667 | 14,680,065 |
| Revaluation reserve - foreign currency accounts (Note 25.03) | | 164,461,032 | 77,728,435 |
| Revaluation reserve - property, plant and equipment (Note 25.04) | | 35,092,312 | 34,474,273 |
| Revaluation reserve - financial instruments (Note 25.05) | | (14,941,797) | (79,390) |
| Total | | <u>201,344,214</u> | <u>126,803,383</u> |
| 25.02 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. | | | |
| 25.03 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. | | | |
| 25.04 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. | | | |
| 25.05 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. | | | |
| 26 Currency fluctuation reserve | | <u>28,761,325</u> | <u>26,763,473</u> |
| 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. | | | |
| 27 Statutory funds | Note | | |
| Rural credit fund | 27.01 | 6,200,000 | 6,000,000 |
| Agricultural credit stabilisation fund | 27.02 | 6,200,000 | 6,000,000 |
| Export credit fund | 27.03 | 1,300,000 | 1,300,000 |
| Industrial credit fund | 27.04 | 1,137,852 | 2,487,852 |
| Credit guarantee fund | 27.05 | 879,194 | 879,194 |
| Total | | <u>15,717,046</u> | <u>16,667,046</u> |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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.

27.01 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.

27.02 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.

27.03 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.

27.04 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.

27.05 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.

| | | 2018 | 2017 |
|---|-------------|-------------------|-------------------|
| | | BDT '000 | BDT '000 |
| 28 Non statutory funds | Note | | |
| Small and medium enterprise fund | 28.01 | 7,000,000 | 7,000,000 |
| Housing refinance fund | | 4,660,000 | 5,570,000 |
| Human resources development fund | 28.02 | 275,941 | 277,191 |
| Monetary management fund | 28.03 | 200,000 | 200,000 |
| Rural agri product processing industries refinance fund | 28.04 | 3,410,000 | 1,000,000 |
| Disaster management and social responsibility fund | 28.05 | 100,000 | 100,000 |
| Total | | 15,645,941 | 14,147,191 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

28.01 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.

28.02 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.

28.03 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.

28.04 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.

28.05 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, BDT. 50 million as donation, was collected from Bangladesh Bank's 2012-2013 profit and subsequently BDT. 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.

| | 2018 BDT '000 | 2017 BDT '000 |
|---|-------------------|-------------------|
| 29 Other reserves | | |
| Asset renewal and replacement reserve (29.01) | 4,326,785 | 3,947,785 |
| Interest reserve (29.02) | 7,522,114 | 7,522,114 |
| Total | 11,848,899 | 11,469,899 |

29.01 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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| | 2018 BDT '000 | 2017 BDT '000 |
|---|-------------------|-------------------|
| 29.02 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. | | |
| 30 Consolidated general reserve | | |
| Bangladesh Bank (separate) (Note 30.01) | 4,250,500 | 4,250,500 |
| The Security Printing Corporation (Bangladesh) Ltd. (SPCBL) | 850,000 | 750,000 |
| Total | 5,100,500 | 5,000,500 |
| 30.01 General reserve | 4,250,500 | 4,250,500 |
| As per Article 59 of Bangladesh Bank Order, 1972 securities having value of BDT. 30 million was allocated by the Government and held by the Bank as the general reserve. Further an amount of BDT 4,220.5 million was transferred to the reserve from general provision over the years. | | |
| 31 Consolidated retained earnings | | |
| Opening balance | 16,018,300 | 16,770,502 |
| Prior year adjustment | 15,026 | - |
| Adjustment against due from Government | (417,799) | (13,219) |
| Appropriation of profit to other funds | (1,029,000) | (979,300) |
| Dividend paid | (4,510,430) | (6,769,360) |
| Transferred to general reserve | (100,000) | (100,000) |
| Adjustment against revaluation | 50,070 | 50,254 |
| Profit for the period | 8,812,014 | 7,059,423 |
| Closing balance | 18,838,181 | 16,018,300 |
| 31.01 Retained earnings | | |
| Opening balance | 4,928,228 | 6,782,579 |
| Prior year adjustment | 15,026 | - |
| Adjustment against due from Government | (417,799) | (13,219) |
| Appropriation of profit to other funds | (1,029,000) | (979,300) |
| Dividend paid | (4,510,430) | (6,769,360) |
| Profit for the period | 7,916,843 | 5,907,528 |
| Closing balance | 6,902,868 | 4,928,228 |
| 32 Interest income | | |
| Loans to banks | 7,988,057 | 4,378,742 |
| Short term deposits with commercial banks | 14,476,611 | 10,078,214 |
| Bonds | 18,461,611 | 12,243,124 |
| US Dollar treasury bills | 1,129,345 | 380,093 |
| Claims from gold transactions | 67,886 | 90,065 |
| Others | 931,390 | 318,356 |
| Total | 43,054,899 | 27,488,594 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| | 2018 BDT '000 | 2017 BDT '000 |
|---|-------------------|-------------------|
| 33 Commission and discounts | | |
| Commission on foreign currency operations | 51,214 | 189,060 |
| Others | 211,777 | 461,016 |
| Total | 262,991 | 650,076 |
| 34 Interest expenses on foreign currency financial liabilities | | |
| Deposits | 780,046 | 416,894 |
| Asian Clearing Union (ACU) | 931,236 | 288,887 |
| IMF | 447,795 | 153,523 |
| Central Bank Strengthening Project | 12,321 | - |
| Total | 2,171,398 | 859,304 |
| 35 Consolidated interest income on local currency financial assets | | |
| Securities purchased under agreement to resell | 3,990 | 21,254 |
| Government securities | 3,412,587 | 3,184,242 |
| Loans and advance to Government | 2,398,663 | 2,502,143 |
| Debentures | 195,572 | 207,511 |
| Loans to banks financial institution and employees | 3,250,065 | 4,250,297 |
| Short term money market deposits | 883,636 | 803,178 |
| Total | 10,144,512 | 10,968,626 |
| 35.01 Interest income | | |
| Securities purchased under agreement to resell | 3,990 | 21,254 |
| Government securities | 3,412,587 | 3,184,242 |
| Loans and advance to Government | 2,398,663 | 2,502,143 |
| Debentures | 195,572 | 207,511 |
| Loans to banks financial institution and employees | 3,176,075 | 4,177,935 |
| Total | 9,186,887 | 10,093,085 |
| 36 Commission and discounts | | |
| Commission income from Government | 10,821 | 11,048 |
| Miscellaneous commission income | 705,659 | 754,685 |
| Total | 716,480 | 765,733 |
| 37 Other income | | |
| Exchange A/C (local income) | 24 | 36 |
| Exchange A/C-Remittance Sold (local) | 2 | 2 |
| Exchange A/C-T T discount (local) | 4 | 16 |
| Exchange earned account | 559 | 458 |
| Gain on asset sale or de-recognition | 2,529 | 244 |
| Grant income | - | 2,357 |
| Penal Interest | 224,300 | 61,074 |
| Total | 227,417 | 64,187 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| | 2018 BDT '000 | 2017 BDT '000 |
|---|-------------------|-------------------|
| 38 Interest expense | | |
| Bangladesh Bank bills | 5,504,539 | 9,395,598 |
| Interest Expense- FSSP | 105,819 | 49,274 |
| Total | 5,610,358 | 9,444,872 |
| 39 Commission and other expenses | | |
| Agency charges (Note 39.01) | 6,462,772 | 4,966,800 |
| Under writing commission on treasury bills & bonds (Note 39.02) | 142,190 | 116,207 |
| Other expenses | 16,371 | 2,742 |
| Total | 6,621,333 | 5,085,749 |
| 39.01 Agency charges | | |
| Agency charges paid to Sonali Bank Limited for acting as agent of Bangladesh Bank. | | |
| 39.02 Under writing commission on treasury bills & bonds | | |
| Underwriting commission paid to primary dealers for issuing Govt. treasury bill and bond. | | |
| 40 Consolidated general and administrative expenses | | |
| Staff costs (Note 40 (a)) | 18,359,097 | 11,346,929 |
| Depreciation | 944,202 | 897,905 |
| Amortisation (intangible assets) | 71,388 | 129,912 |
| Directors' fees | 1,142 | 962 |
| Audit fees | 8,869 | 8,594 |
| Stationery | 78,921 | 103,377 |
| Rent, electricity etc. | 388,151 | 352,485 |
| Remittance of treasure | 45,982 | 45,171 |
| Donations | 209,917 | 216,749 |
| Telephone | 108,122 | 102,450 |
| Repairs & maintenance | 375,154 | 255,413 |
| Materials | 3,057,144 | 3,127,665 |
| Provision for Workers' Profit Participation Fund | 97,111 | 97,029 |
| Income tax and Value Added Tax | 558,029 | 555,126 |
| Miscellaneous | 7,735,754 | 1,711,692 |
| Total | 32,038,983 | 18,951,460 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| | 2018 BDT '000 | 2017 BDT '000 |
|--|-------------------|-------------------|
| 40 (a) Staff costs | | |
| Salary | 2,714,446 | 2,722,620 |
| House rent | 997,361 | 988,873 |
| Contribution to contributory provident fund | 383,431 | 990,401 |
| Pension and gratuity | 10,600,000 | 3,322,100 |
| Leave encashment | 955,947 | 520,000 |
| General and incentive bonus | 983,097 | 1,210,144 |
| Medical expenses | 404,608 | 344,795 |
| Training | 199,568 | 136,131 |
| Travel expenses | 361,067 | 309,517 |
| Lunch | 301,829 | 289,251 |
| Other staff costs | 457,743 | 513,097 |
| Total | 18,359,097 | 11,346,929 |
| 40.01 General and administrative expenses | | |
| Staff costs (Note 40.01(a)) | 17,477,989 | 10,443,141 |
| Depreciation | 658,732 | 650,571 |
| Amortization | 71,388 | 129,912 |
| Directors' fee | 663 | 382 |
| Audit fee | 8,294 | 8,294 |
| Stationery | 75,898 | 100,918 |
| Rent | 277,807 | 251,382 |
| Remittance of treasure | 45,425 | 44,759 |
| Donations | 188,543 | 196,082 |
| Telephone | 107,521 | 101,782 |
| Repairs | 353,116 | 238,750 |
| Miscellaneous | 7,716,459 | 1,698,318 |
| Total | 26,981,835 | 13,864,291 |
| 40.01(a) Staff costs | | |
| Salary | 2,425,619 | 2,433,162 |
| House rent | 997,361 | 988,873 |
| Contribution to contributory provident fund | 178,990 | 767,951 |
| Pension and gratuity | 10,600,000 | 3,322,100 |
| Leave encashment | 853,400 | 470,000 |
| General and incentive bonus | 903,498 | 1,079,788 |
| Medical expenses | 394,688 | 337,407 |
| Training | 198,462 | 135,602 |
| Travel expenses | 347,359 | 296,576 |
| Lunch | 266,211 | 255,219 |
| Other staff costs | 312,401 | 356,463 |
| Total | 17,477,989 | 10,443,141 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

41 Financial instruments-Fair values and risk management

41.1 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.

BDT '000

| Particulars | 30 June 2018 | | | | | Fair value | | |
|---|-----------------------|------------------|-----------------------------------|--------------------|-----------------------------|----------------------|---------------|-------------|
| | Loans and receivables | Held-to-maturity | Fair value through profit or loss | Carrying amount | | Total | Level 1 | Level 2 |
| | | | | Available-for-sale | Other financial liabilities | | | |
| Financial assets measured at fair value | | | | | | | | |
| US Dollar Treasury bills | - | - | - | 82,138,522 | - | 82,138,522 | 82,138,522 | - |
| Foreign bonds | - | - | - | 1,117,016,159 | - | 1,117,016,159 | 1,117,016,159 | - |
| Gold and silver | - | - | - | 23,992,347 | - | 23,992,347 | 23,992,347 | - |
| Claims from gold transaction | - | - | - | 23,254,853 | - | 23,254,853 | 23,254,853 | - |
| Treasury bills | - | - | - | 48,816,816 | - | 48,816,816 | 48,816,816 | - |
| Treasury bonds | - | - | - | 59,164,294 | - | 59,164,294 | 59,164,294 | - |
| Swift shares | - | - | - | 80 | - | 80 | 80 | - |
| Debtenture - House Building Finance Corporation | - | - | - | 3,945,000 | - | 3,945,000 | 3,945,000 | - |
| | | | | 1,358,328,071 | - | 1,358,328,071 | 1,246,401,881 | 111,926,110 |
| Financial assets not measured at fair value | | | | | | | | |
| Taka coin and cash balances | 15,235,267 | - | - | - | - | 15,235,267 | - | - |
| Foreign currency accounts | 46,318,237 | - | - | - | - | 46,318,237 | - | - |
| Overnight investment | 235,616,222 | - | - | - | - | 235,616,222 | - | - |
| Short term deposits with overseas commercial banks | 837,176,395 | - | - | - | - | 837,176,395 | - | - |
| Asset held with IMF | 223,651,193 | - | - | - | - | 223,651,193 | - | - |
| Foreign currency loans to banks | 264,534,094 | - | - | - | - | 264,534,094 | - | - |
| Interest receivable | 12,800,736 | - | - | - | - | 12,800,736 | - | - |
| Other receivable | 5,224,144 | - | - | - | - | 5,224,144 | - | - |
| Ways and means advance | 40,000,000 | - | - | - | - | 40,000,000 | - | - |
| Overdraft - block | 41,850,000 | - | - | - | - | 41,850,000 | - | - |
| Overdraft - current | 27,839,100 | - | - | - | - | 27,839,100 | - | - |
| Short term money market investments | 2,777,520 | - | - | - | - | 2,777,520 | - | - |
| Share of ICB Islamic Bank Limited | 7,452 | - | - | - | - | 7,452 | - | - |
| Loan to commercial banks | 4,325,171 | - | - | - | - | 4,325,171 | - | - |
| Loan to specialised banks | 33,006,271 | - | - | - | - | 33,006,271 | - | - |
| Loan to private banks | 3,100,500 | - | - | - | - | 3,100,500 | - | - |
| Other loans and advances | 31,324,046 | - | - | - | - | 31,324,046 | - | - |
| Interest receivable | 701,194 | - | - | - | - | 701,194 | - | - |
| Loans and advances to employees | 36,532,866 | - | - | - | - | 36,532,866 | - | - |
| Other local currency financial assets | 11,075,508 | - | - | - | - | 11,075,508 | - | - |
| | 1,873,095,915 | | | | | 1,873,095,915 | | |
| Financial liabilities measured at fair value | | | | | | | | |
| Nil | - | - | - | - | - | - | - | - |
| Financial liabilities not measured at fair value | | | | | | | | |
| Liabilities with IMF | - | - | - | - | - | - | - | - |
| Foreign currency deposits by commercial banks | - | - | - | - | 244,700,108 | 244,700,108 | - | - |
| Asian Clearing Union (ACU) | - | - | - | - | 104,744,648 | 104,744,648 | - | - |
| Notes in circulation | - | - | - | - | 106,022,995 | 106,022,995 | - | - |
| Local currency deposits from banks and financial institutions | - | - | - | - | 1,534,131,824 | 1,534,131,824 | - | - |
| Short term borrowings | - | - | - | - | 787,946,162 | 787,946,162 | - | - |
| | | | | | 87,947,138 | 87,947,138 | - | - |
| | | | | | 2,865,492,875 | 2,865,492,875 | | |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| 30 June 2017 | | | | | | | | | | BDT 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 |
| Debtenture - 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 | 1,262,186,601 |
| 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 receivable | 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 (restated) | 878,712 | - | - | - | - | 878,712 | - | - | - | - |
| 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 | 2,696,899 | - | - | - | - | 2,696,899 | - | - | - | - |
| | 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 | - | - | - | - |
| Foreign currency deposits by commercial banks | - | - | - | - | - | 89,879,045 | - | - | - | - |
| Asian Clearing Union (ACU) | - | - | - | - | - | 82,202,364 | - | - | - | - |
| Notes in circulation | - | - | - | - | - | 1,497,287,018 | - | - | - | - |
| Local currency deposits from banks and financial institutions | - | - | - | - | - | 733,927,114 | - | - | - | - |
| Short term borrowings | - | - | - | - | - | 182,618,016 | - | - | - | - |
| | - | - | - | - | - | 2,817,433,430 | - | - | - | - |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

Separate

| | | 30 June 2018 | | | | | BDT '000 | | |
|---|-----------------------|------------------|-----------------------------------|----------------------|----------------------|----------------------|--------------------|-------------------|----------------------|
| Particulars | Loans and receivables | Held-to-maturity | Carrying amount | | Total | Level 1 | Fair value | | Total |
| | | | Fair value through profit or loss | Available-for-sale | | | Level 2 | Level 3 | |
| Financial assets measured at fair value | | | | | | | | | |
| US Dollar Treasury bills | - | - | - | 82,138,522 | 82,138,522 | 82,138,522 | - | - | 82,138,522 |
| Foreign bonds | - | - | - | 1,117,016,159 | 1,117,016,159 | 1,117,016,159 | - | - | 1,117,016,159 |
| Gold and silver | - | - | - | 23,992,347 | 23,992,347 | 23,992,347 | - | - | 23,992,347 |
| Claims from gold transaction | - | - | - | 23,254,853 | 23,254,853 | 23,254,853 | - | - | 23,254,853 |
| Treasury bills | - | - | - | 48,816,816 | 48,816,816 | 48,816,816 | - | - | 48,816,816 |
| Treasury bonds | - | - | - | 59,164,294 | 59,164,294 | 59,164,294 | - | - | 59,164,294 |
| Swift shares | - | - | - | 80 | 80 | 80 | - | 80 | 80 |
| Investment in subsidiary | - | - | - | 12,000,000 | 12,000,000 | 12,000,000 | - | - | 12,000,000 |
| Debtenture - House Building Finance Corporation | - | - | - | 3,945,000 | 3,945,000 | 3,945,000 | - | - | 3,945,000 |
| | - | - | - | 1,370,328,071 | 1,370,328,071 | 1,246,401,881 | 111,926,110 | 12,000,080 | 1,370,328,071 |
| Financial assets not measured at fair value | | | | | | | | | |
| Taka coin and cash balances | 4,990,420 | - | - | - | 4,990,420 | - | - | - | - |
| Foreign currency accounts | 46,318,237 | - | - | - | 46,318,237 | - | - | - | - |
| Overnight investment | 235,616,222 | - | - | - | 235,616,222 | - | - | - | - |
| Short term deposits with overseas commercial banks | 837,176,395 | - | - | - | 837,176,395 | - | - | - | - |
| Asset held with IMF | 223,651,193 | - | - | - | 223,651,193 | - | - | - | - |
| Foreign currency loans to banks | 264,534,094 | - | - | - | 264,534,094 | - | - | - | - |
| Interest receivable | 12,800,736 | - | - | - | 12,800,736 | - | - | - | - |
| Other receivable | 5,224,144 | - | - | - | 5,224,144 | - | - | - | - |
| Ways and means advance | 40,000,000 | - | - | - | 40,000,000 | - | - | - | - |
| Overdraft - block | 41,850,000 | - | - | - | 41,850,000 | - | - | - | - |
| Overdraft - current | 27,839,100 | - | - | - | 27,839,100 | - | - | - | - |
| Loan to commercial banks | 4,325,171 | - | - | - | 4,325,171 | - | - | - | - |
| Loan to specialised banks | 33,006,271 | - | - | - | 33,006,271 | - | - | - | - |
| Loan to private banks | 3,100,500 | - | - | - | 3,100,500 | - | - | - | - |
| Other loans and advances | 31,324,046 | - | - | - | 31,324,046 | - | - | - | - |
| Interest receivable | 701,194 | - | - | - | 701,194 | - | - | - | - |
| Loans and advances to employees | 34,955,699 | - | - | - | 34,955,699 | - | - | - | - |
| Other local currency financial assets | 10,573,535 | - | - | - | 10,573,535 | - | - | - | - |
| | 1,857,986,957 | - | - | - | 1,857,986,957 | - | - | - | - |
| Financial liabilities measured at fair value | | | | | | | | | |
| Nil | - | - | - | - | - | - | - | - | - |
| Financial liabilities not measured at fair value | | | | | | | | | |
| Liabilities with IMF | - | - | - | - | - | - | - | - | - |
| Foreign currency deposits by commercial banks | - | - | - | 244,700,108 | 244,700,108 | - | - | - | - |
| Asian Clearing Union (ACU) | - | - | - | 104,744,648 | 104,744,648 | - | - | - | - |
| Notes in circulation | - | - | - | 106,022,995 | 106,022,995 | - | - | - | - |
| Local currency deposits from banks and financial institutions | - | - | - | 1,534,131,824 | 1,534,131,824 | - | - | - | - |
| Short term borrowings | - | - | - | 787,946,162 | 787,946,162 | - | - | - | - |
| | - | - | - | 87,947,138 | 87,947,138 | - | - | - | - |
| | - | - | - | 2,865,492,875 | 2,865,492,875 | - | - | - | - |

Bangladesh Bank : Notes to the Financial Statements As at and for the year ended 30 June 2018

| 30 June 2017 | | | | | | | | | | BDT 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 |
| Investment in subsidiary | - | - | - | 12,000,000 | - | 12,000,000 | 12,000,000 | - | - | 12,000,000 |
| Debtenture - House Building Finance Corporation | - | - | - | 3,945,000 | - | 3,945,000 | 3,945,000 | - | - | 3,945,000 |
| | - | - | - | 1,274,179,150 | - | 1,274,179,150 | 1,206,522,668 | 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 receivable | 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 | - | - | - | - |
| Foreign currency deposits by commercial banks | - | - | - | - | - | 89,879,045 | - | - | - | - |
| Asian Clearing Union (ACU) | - | - | - | - | - | 82,202,364 | - | - | - | - |
| Notes in circulation | - | - | - | - | - | 1,497,287,018 | - | - | - | - |
| Local currency deposits from banks and financial institutions | - | - | - | - | - | 733,927,114 | - | - | - | - |
| Short term borrowings | - | - | - | - | - | 182,618,016 | - | - | - | - |

As at 30 June 2018 and 30 June 2017, 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 2018

41.1 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 (2017: foreign securities available-for-sale at fair value). Local currency financial investments includes shares in SPCBL with a value of BDT 12,000,000,000 (2017: BDT 12,000,000,000) & Debentures of HBFC with a value of BDT 3,945,000,000 (2017: BDT 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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

41.2 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.

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 counterparties 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.

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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:

BDT '000

| Particulars | 2018 | | 2017 | |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
| | Consolidated | Separate | Consolidated | Separate |
| Bangladesh | 665,728,728 | 662,619,769 | 679,598,187 | 677,213,720 |
| Other Asian countries | 522,369,335 | 522,369,335 | 919,220,699 | 919,220,699 |
| United States of America | 756,983,743 | 756,983,743 | 715,436,328 | 715,436,328 |
| Europe | 448,120,706 | 448,120,706 | 361,921,076 | 361,921,076 |
| Australia | 119,335,868 | 119,335,868 | 412,103,737 | 412,103,737 |
| Others | 718,885,607 | 718,885,607 | 445,068 | 445,068 |
| Total | 3,231,423,987 | 3,228,315,028 | 3,088,725,095 | 3,086,340,628 |

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 2018

Consolidated

BDT '000

| Particulars | Credit Rating | 2018 | | 2017 | |
|--|---------------------------|---------------|-----------------------|---------------|-----------------------|
| | | Amount | % of financial assets | Amount | % of financial assets |
| i) Foreign currency financial assets | | | | | |
| Foreign currency accounts | P-1 | 46,318,237 | 1.44% | 34,888,457 | 1.13% |
| Overnight investment | P-1 | 235,616,222 | 7.35% | 214,600,368 | 6.96% |
| Short term deposits with overseas commercial banks | P-1 | 837,176,395 | 26.10% | 928,877,704 | 30.12% |
| US Dollar treasury bills | P-1 | 82,138,522 | 2.56% | 79,806,111 | 2.59% |
| Foreign bonds | Aaa | 790,190,231 | 24.64% | 792,445,237 | 25.69% |
| Foreign bonds | Aa1, Aa2, Aa3 | 149,787,316 | 4.67% | 147,859,930 | 4.79% |
| Foreign bonds | A1, A2,A3 | 68,797,910 | 2.14% | 54,051,238 | 1.75% |
| Foreign bonds | B1, Ba1, Baa1, Baa2, Baa3 | 108,240,702 | 3.37% | 87,165,556 | 2.83% |
| Foreign currency loans to banks | A | 29,176,195 | 0.91% | 4,334,870 | 0.14% |
| Foreign currency loans to banks | Aaa to Aa | 233,910,792 | 7.29% | 170,675,910 | 5.53% |
| Foreign currency loans to banks | Baa,Ba, B | 1,321,338 | 0.04% | 2,894,115 | 0.09% |
| Foreign currency loans to banks | Unrated | 125,768 | 0.00% | 35,339,436 | 1.15% |
| Claims from gold transactions | Aa2 | 23,254,853 | 0.73% | 33,811,041 | 1.10% |
| Assets held with International Monetary Fund | Unrated | 223,651,193 | 6.97% | 213,841,975 | 6.93% |
| Other foreign currency financial assets | Unrated | 18,024,960 | 0.56% | 14,662,058 | 0.48% |
| Total | | 2,847,730,634 | 88.79% | 2,815,254,006 | 91.28% |
| ii) Local currency financial assets | | | | | |
| Loans to the Government of Bangladesh | Ba3 | 217,670,210 | 6.79% | 138,717,001 | 4.50% |
| Local currency investments | - | 6,729,972 | 0.21% | 4,835,300 | 0.16% |
| Loans to banks, financial institutions | A | 19,728,171 | 0.62% | 3,496,481 | 0.11% |
| Loans to banks, financial institutions | Aaa to Aa | 19,264,225 | 0.60% | 14,538,830 | 0.47% |
| Loans to banks, financial institutions | Ba to B | 133,727 | 0.00% | 198,047 | 0.01% |
| Loans to banks, financial institutions | Baa | 218,436 | 0.01% | 270,741 | 0.01% |
| Loans to banks, financial institutions | Unrated | 33,112,624 | 1.03% | 54,197,018 | 1.76% |
| Loans to employees | - | 36,532,866 | 1.14% | 33,478,028 | 1.09% |
| Other local currency financial assets | - | 11,075,508 | 0.35% | 2,692,763 | 0.09% |
| Taka coin and cash balances | - | 15,235,267 | 0.47% | 16,613,648 | 0.54% |
| Total | | 359,701,006 | 11.21% | 269,037,857 | 8.72% |
| Total financial assets (i+ii) | | 3,207,431,640 | 100.00% | 3,084,291,863 | 100.00% |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

Separate

| BDT '000 | | | | | |
|--|---------------------------|---------------|-----------------------|---------------|-----------------------|
| Particulars | Credit Rating | 2018 | | 2017 | |
| | | Amount | % of financial assets | Amount | % of financial assets |
| i) Foreign currency financial assets | | | | | |
| Foreign currency accounts | P-1 | 46,318,237 | 1.45% | 34,888,457 | 1.13% |
| Overnight investment | P-1 | 235,616,222 | 7.35% | 214,600,368 | 6.96% |
| Short term deposits with overseas commercial banks | P-1 | 837,176,395 | 26.13% | 928,877,704 | 30.14% |
| US Dollar treasury bills | P-1 | 82,138,522 | 2.56% | 79,806,111 | 2.59% |
| Foreign bonds | Aaa | 790,190,231 | 24.66% | 792,445,237 | 25.71% |
| Foreign bonds | Aa1, Aa2, Aa3 | 149,787,316 | 4.67% | 147,859,930 | 4.80% |
| Foreign bonds | A1, A2,A3 | 68,797,910 | 2.15% | 54,051,238 | 1.75% |
| Foreign bonds | B1, Ba1, Baa1, Baa2, Baa3 | 108,240,702 | 3.38% | 87,165,556 | 2.83% |
| Foreign currency loans to banks | A | 29,176,195 | 0.91% | 4,334,870 | 0.14% |
| Foreign currency loans to banks | Aaa to Aa | 233,910,792 | 7.30% | 170,675,910 | 5.54% |
| Foreign currency loans to banks | Baa,Ba, B | 1,321,338 | 0.04% | 2,894,115 | 0.09% |
| Foreign currency loans to banks | Unrated | 125,768 | 0.00% | 35,339,436 | 1.15% |
| Claims from gold transactions | Aa2 | 23,254,853 | 0.73% | 33,811,041 | 1.10% |
| Assets held with International Monetary Fund | Unrated | 223,651,193 | 6.98% | 213,841,975 | 6.94% |
| Other foreign currency financial assets | Unrated | 18,024,960 | 0.56% | 14,662,058 | 0.48% |
| Total | | 2,847,730,634 | 88.87% | 2,815,254,006 | 91.35% |
| ii) Local currency financial assets | | | | | |
| Loans to the Government of Bangladesh | Ba3 | 217,670,210 | 6.79% | 138,717,001 | 4.50% |
| Local currency investments | Unrated | 15,945,000 | 0.50% | 15,945,000 | 0.52% |
| Loans to banks, financial institutions | A | 19,728,171 | 0.62% | 3,496,481 | 0.11% |
| Loans to banks, financial institutions | Aaa to Aa | 19,264,225 | 0.60% | 14,538,830 | 0.47% |
| Loans to banks, financial institutions | Ba to B | 133,727 | 0.00% | 198,047 | 0.01% |
| Loans to banks, financial institutions | Baa | 218,436 | 0.01% | 270,741 | 0.01% |
| Loans to banks, financial institutions | Unrated | 33,112,624 | 1.03% | 54,197,018 | 1.76% |
| Loans to employees | - | 34,955,699 | 1.09% | 32,114,702 | 1.04% |
| Other local currency financial assets | - | 10,573,535 | 0.33% | 2,277,941 | 0.07% |
| Taka coin and cash balances | - | 4,990,420 | 0.16% | 4,897,629 | 0.16% |
| Total | | 356,592,047 | 11.13% | 266,653,390 | 8.65% |
| Total financial assets (i+ii) | | 3,204,322,681 | 100% | 3,081,907,396 | 100% |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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 | 2018 | | 2017 | |
|---|-------------|--|-------------|--|
| | Amount | Principal type of Collateral | Amount | Principal type of Collateral |
| i) Foreign currency financial assets | | | | |
| Foreign currency loans to banks | 264,534,094 | None | 206,294,007 | None |
| Claims from gold transactions | 23,254,853 | None | 33,811,041 | None |
| Assets held with International Monetary Fund | 223,651,193 | None | 213,841,975 | None |
| ii) Local currency financial assets | | | | |
| Loans to the Government of Bangladesh | 217,670,210 | None | 138,717,001 | None |
| Local currency loans to banks, financial institutions and employees | 108,990,048 | - Government guarantee - Bank guarantee - Demand Promissory Note - Employee provident fund, gratuity fund and Mortgage of property" | 106,179,145 | "-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 2018

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 2018 | | | | | BDT '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 | 46,318,237 | - | - | - | - |
| Foreign investments | 535,139,985 | 557,539,241 | 441,203,797 | 738,064,276 | - |
| Assets held with International Monetary Fund | 112,393,962 | 197,889 | - | - | 111,059,342 |
| Gold and silver | 23,992,347 | - | - | - | - |
| Claims from gold transactions | 23,254,853 | - | - | - | - |
| Foreign currency loans to banks | 125,768 | 337,820 | 252,241,801 | 6,632,545 | 5,196,159 |
| Total | 741,225,152 | 558,074,950 | 693,445,597 | 744,696,821 | 116,255,500 |
| Local currency financial assets | | | | | |
| Taka coin and cash balances | 15,235,267 | - | - | - | - |
| Loans to the Government of Bangladesh | 70,240,948 | 29,956,089 | 38,997,585 | 51,432,929 | 27,042,659 |
| Local currency investments | - | - | 5,057,520 | 650,000 | 1,022,452 |
| Local currency loans to banks, financial institutions and employees | 5,176,473 | 9,330,724 | 19,141,365 | 32,948,569 | 42,392,917 |
| Total | 90,652,688 | 39,286,814 | 63,196,471 | 85,031,498 | 70,458,028 |
| Total financial assets | 831,877,840 | 597,361,764 | 756,642,068 | 829,728,319 | 186,713,528 |
| Foreign currency financial liabilities | | | | | |
| Deposits from banks and financial institutions | 210,767,642 | - | - | - | - |
| Liabilities with International Monetary Fund | 1,604,981 | 1,172,219 | 6,459,745 | 51,677,899 | 183,785,264 |
| Total | 212,372,623 | 1,172,219 | 6,459,745 | 51,677,899 | 183,785,264 |
| Local currency financial liabilities | | | | | |
| Notes in circulation | 1,534,131,824 | - | - | - | - |
| Deposits from banks and financial institutions | 787,946,162 | - | - | - | - |
| Short term borrowings | 87,947,138 | - | - | - | - |
| Other local currency financial liabilities | 21,724 | 1,748,347 | 13,689,487 | 49,125,991 | 54,803,990 |
| Total | 2,410,046,848 | 1,748,347 | 13,689,487 | 49,125,991 | 54,803,990 |
| Total financial liabilities | 2,622,419,471 | 2,920,567 | 20,149,232 | 100,803,890 | 238,589,254 |
| Maturity gap | (1,790,541,631) | 594,441,198 | 736,492,836 | 728,924,429 | (51,875,725) |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| 30 June 2017 | | | | | BDT '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 | 645,507,827 | 740,312,737 | 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 | 51,846,720 | 10,052,759 | 46,336,983 | 93,098,235 | 65,010,398 |
| Total financial assets | 697,354,547 | 750,365,495 | 592,365,784 | 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 | - | - | - | - |
| Short term borrowings | 182,618,016 | - | - | - | - |
| Deposits from banks and financial institutions | 733,927,114 | - | - | - | - |
| 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 | 1,163,748 | 32,656,477 | 74,089,476 | 208,405,829 |
| Maturity gap | (1,906,912,947) | 749,201,747 | 559,709,307 | 783,236,418 | (34,447,275) |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

Separate

30 June 2018

BDT '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 | 46,318,237 | - | - | - | - |
| Foreign investments | 535,139,985 | 557,539,241 | 441,203,797 | 738,064,276 | - |
| Assets held with International Monetary Fund | 112,393,962 | 197,889 | - | - | 111,059,342 |
| Gold and silver | 23,992,347 | - | - | - | - |
| Claims from gold transactions | 23,254,853 | - | - | - | - |
| Foreign currency loans to banks | 125,768 | 337,820 | 252,241,801 | 6,632,545 | 5,196,159 |
| Total | 741,225,152 | 558,074,950 | 693,445,597 | 744,696,821 | 116,255,500 |
| Local currency financial assets | | | | | |
| Taka coin and cash balances | 4,990,420 | - | - | - | - |
| Loans to the Government of Bangladesh | 70,240,948 | 29,956,089 | 38,997,585 | 51,432,929 | 27,042,659 |
| Local currency investments | - | - | 2,280,000 | 650,000 | 13,015,000 |
| Local currency loans to banks, financial institutions and employees | 5,176,473 | 9,330,724 | 19,141,365 | 32,948,569 | 40,815,750 |
| Total | 80,407,841 | 39,286,814 | 60,418,950 | 85,031,498 | 80,873,409 |
| Total financial assets | 821,632,993 | 597,361,764 | 753,864,547 | 829,728,320 | 197,128,909 |
| Foreign currency financial liabilities | | | | | |
| Deposits from banks and financial institutions | 210,767,642 | - | - | - | - |
| Liabilities with International Monetary Fund | 1,604,981 | 1,172,219 | 6,459,745 | 51,677,899 | 183,785,264 |
| Total | 212,372,623 | 1,172,219 | 6,459,745 | 51,677,899 | 183,785,264 |
| Local currency financial liabilities | | | | | |
| Notes in circulation | 1,534,131,824 | - | - | - | - |
| Deposits from banks and financial institutions | 787,946,162 | - | - | - | - |
| Short term borrowings | 87,947,138 | - | - | - | - |
| Other local currency financial liabilities | 1,093,416 | 1,153,979 | 12,486,016 | 49,125,991 | 54,466,085 |
| Total | 2,411,118,540 | 1,153,979 | 12,486,016 | 49,125,991 | 54,466,085 |
| Total financial liabilities | 2,623,491,163 | 2,326,198 | 18,945,761 | 100,803,890 | 238,251,349 |
| Maturity gap | (1,801,858,170) | 595,035,565 | 734,918,786 | 728,924,430 | (41,122,440) |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

30 June 2017

BDT '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 | 645,507,827 | 740,312,737 | 546,028,801 | 764,227,660 | 108,948,156 |
| Local currency financial assets | | | | | |
| Taka coin and cash balances | 4,897,629 | - | - | - | - |
| Securities purchased under agreement to resell | 33,485,678 | - | 26,993,379 | 59,584,179 | 18,653,765 |
| Loans to the Government of Bangladesh | - | - | 650,000 | 2,280,000 | 13,015,000 |
| Local currency investments | 1,747,393 | 10,052,759 | 17,814,893 | 31,234,056 | 43,966,719 |
| Local currency loans to banks, financial institutions and employees | 40,130,701 | 10,052,759 | 45,458,271 | 93,098,235 | 75,635,483 |
| Total | 685,638,528 | 750,365,495 | 591,487,072 | 857,325,894 | 184,583,639 |
| 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 | 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 | - | - | - | - |
| Short term borrowings | 182,618,016 | - | - | - | - |
| Deposits from banks and financial institutions | 733,927,114 | - | - | - | - |
| 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 | (1,920,079,888) | 750,311,770 | 560,117,342 | 783,236,418 | (23,494,570) |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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 2018 | 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 | BDT '000 |
|--------------------|---|----------------------|----------------------------|--------------------|--------------------|-------------------------|------------------------|--------------------------|----------------------------------|---------------------|-------------------|-----------|
| Assets | | | | | | | | | | | | |
| | Held in other Central Banks and cash deposit abroad | 25,836,132 | - | 4,085,196 | 2,728,622 | 11,132,560 | 1,285,480 | 388,268 | 464,189 | - | - | 397,790 |
| | Overnight investment | 233,767,731 | - | 1,848,491 | - | - | - | - | - | - | - | - |
| | Short term deposits in overseas commercial banks | 649,545,955 | - | - | 81,696,382 | - | 31,929,179 | 40,061,957 | 32,010,370 | - | - | 1,932,552 |
| | Treasury bills | 82,138,522 | - | - | - | - | - | - | - | - | - | - |
| | Foreign bonds | 969,503,992 | - | 104,474,530 | 27,850,824 | - | 3,788,155 | 9,952,204 | 1,446,454 | - | - | - |
| | Loan to other banks | 264,534,093 | - | - | - | - | - | - | - | - | - | - |
| | Claims from gold transaction | - | 23,254,853 | - | - | - | - | - | - | - | - | - |
| | Interest receivable | 10,783,926 | 40,579 | 1,064,803 | 318,908 | - | 99,134 | 287,694 | 202,920 | - | - | 2,772 |
| | Asset held with IMF | - | - | - | - | - | - | - | - | 223,651,193 | - | - |
| | Total | 2,236,110,352 | 23,295,432 | 111,473,020 | 112,594,736 | 11,132,560 | 37,101,947 | 50,690,123 | 34,123,933 | 223,651,193 | 2,333,115 | |
| Liabilities | | | | | | | | | | | | |
| | Deposits from other banks, financial institutions and ACU | 207,416,668 | - | 2,988,668 | 354,831 | 7,284 | 191 | - | - | - | - | - |
| | Liabilities to IMF | - | - | - | - | - | - | - | - | 244,700,108 | - | - |
| | Total | 207,416,668 | - | 2,988,668 | 354,831 | 7,284 | 191 | - | - | 244,700,108 | - | |
| | Net | 2,028,693,684 | 23,295,432 | 108,484,353 | 112,239,905 | 11,125,276 | 37,101,756 | 50,690,123 | 34,123,933 | (21,048,915) | 2,333,115 | |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| 30 June 2017 | | | | | | | | | | |
|---|--------------------|----------------------------------|--------------------|-------------------|-------------------------------|---------------------------|-----------------------------|--|-------------------|----------------------|
| 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 | 2,223,874,260 | 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 | 2,053,434,051 | 33,851,806 | 101,335,398 | 104,396,033 | 10,751,015 | 35,799,075 | 49,441,256 | 31,053,174 | (17,677,898) | 2,245,600 |

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. 8,873 million higher, (2017: Tk.6,934 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. 8,873 million higher, (2017: Tk.6,934 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 2018

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 2018 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, 2018 | | | | | | BDT '000 |
|---|-------------------------------|-------------------|-------------------|-----------------|-----------------|---------------------------------|
| Particulars | Balance as at 30 June 2018 | 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 | 46,318,237 | 46,318,237 | - | - | - | 0.22% |
| Foreign investments | 2,271,947,298 | 1,092,679,226 | 441,203,797 | 738,064,276 | - | 2.23% |
| Assets held with International Monetary Fund | 223,651,193 | 112,591,851 | - | - | 111,059,342 | 0.98% |
| Claims from gold transactions | 23,254,853 | 23,254,853 | - | - | - | 0.18% |
| Foreign currency loans to banks | 264,534,094 | 463,588 | 252,241,801 | 6,632,545 | 5,196,159 | 3.17% |
| Total Foreign currency financial assets | 2,829,705,675 | 1,275,307,755 | 693,445,598 | 744,696,821 | 116,255,501 | |
| Local currency financial assets | | | | | | |
| Loans to the Government of Bangladesh | 217,670,210 | 100,197,037 | 38,997,585 | 51,432,929 | 27,042,659 | 5.37% |
| Local currency investments | 6,729,972 | - | 5,057,520 | 650,000 | 1,022,452 | 3.12% |
| Local currency loans to banks, financial institutions and employees | 108,990,048 | 14,507,197 | 19,141,365 | 32,948,569 | 42,392,917 | 3.76% |
| Total Local currency financial assets | 333,390,230 | 114,704,234 | 63,196,470 | 85,031,498 | 70,458,028 | |
| Liabilities | | | | | | |
| Foreign currency financial liabilities | | | | | | |
| Deposits from banks and financial institutions | 210,767,642 | 210,767,642 | - | - | - | 1.10% |
| Liabilities with International Monetary Fund | 244,700,108 | 2,777,200 | 6,459,745 | 51,677,899 | 183,785,264 | 0.44% |
| Total foreign currency financial liabilities | 455,467,750 | 213,544,842 | 6,459,745 | 51,677,899 | 183,785,264 | |
| Local currency financial liabilities | | | | | | |
| Short term borrowings | 87,947,138 | 87,947,138 | - | - | - | 0.18% |
| Total local currency financial liabilities | 87,947,138 | 87,947,138 | - | - | - | |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

30 June, 2017

BDT '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 | - | 1.37% |
| Assets held with International Monetary Fund | 213,841,975 | 108,774,472 | - | - | 105,067,503 | 0.05% |
| Claims from gold transactions | 33,811,041 | 18,486,546 | 15,324,495 | - | - | 0.39% |
| Foreign currency loans to banks | 206,294,007 | 88,546,108 | 109,793,481 | 4,073,765 | 3,880,653 | 1.89% |
| Total Foreign currency financial assets | 2,793,641,624 | 1,374,437,008 | 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 | 4.92% |
| Local currency investments | 4,831,164 | - | 1,528,712 | 2,280,000 | 1,026,588 | 2.08% |
| Local currency loans to banks, financial institutions and employees | 106,179,145 | 11,800,152 | 17,814,893 | 31,234,056 | 45,330,045 | 4.20% |
| Total Local currency financial assets | 249,727,310 | 45,285,830 | 46,336,983 | 93,098,235 | 65,010,398 | |
| Liabilities | | | | | | |
| Foreign currency financial liabilities | | | | | | |
| Deposits from banks and financial institutions | 172,154,298 | 172,154,298 | - | - | - | 0.42% |
| Liabilities with International Monetary Fund | 231,519,873 | 1,660,813 | 2,050,530 | 44,086,352 | 183,722,179 | 0.05% |
| 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 | - | - | - | 5.67% |
| 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 2018

Separate

| 30 June, 2018 | | | | | | BDT '000 |
|---------------|-------------------------------|-------------------|-------------------|-----------------|-----------------|---------------------------------|
| Particulars | Balance as at 30 June 2018 | 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 | 46,318,237 | 46,318,237 | - | - | - | 0.22% |
| Foreign investments | 2,271,947,298 | 1,092,679,226 | 441,203,797 | 738,064,276 | - | 2.23% |
| Assets held with International Monetary Fund | 223,651,193 | 112,591,851 | - | - | 11,059,342 | 0.98% |
| Claims from gold transactions | 23,254,853 | 23,254,853 | - | - | - | 0.18% |
| Foreign currency loans to banks | 264,534,094 | 463,588 | 252,241,801 | 6,632,545 | 5,196,159 | 3.17% |
| Total Foreign currency financial assets | 2,829,705,675 | 1,275,307,754 | 693,445,597 | 744,696,821 | 116,255,500 | |

Local currency financial assets

| | | | | | | |
|---|--------------------|--------------------|-------------------|-------------------|-------------------|-------|
| Loans to the Government of Bangladesh | 217,670,210 | 100,197,037 | 38,997,585 | 51,432,929 | 27,042,659 | 5.37% |
| Local currency investments | 15,945,000 | - | 2,280,000 | 650,000 | 13,015,000 | 3.12% |
| Local currency loans to banks, financial institutions and employees | 107,412,881 | 14,507,197 | 19,141,365 | 32,948,569 | 40,815,750 | 3.75% |
| Total Local currency financial assets | 341,028,091 | 114,704,235 | 60,418,951 | 85,031,498 | 80,873,409 | |

Liabilities

Foreign currency financial liabilities

| | | | | | | |
|---|--------------------|--------------------|------------------|-------------------|--------------------|-------|
| Deposits from banks and financial institutions | 210,767,642 | 210,767,642 | - | - | - | 1.10% |
| Liabilities with International Monetary Fund | 244,700,108 | 2,777,200 | 6,459,745 | 51,677,899 | 183,785,264 | 0.44% |
| Total foreign currency financial liabilities | 455,467,750 | 213,544,842 | 6,459,745 | 51,677,899 | 183,785,264 | |

Local currency financial liabilities

| | | | | | | |
|---|-------------------|-------------------|----------|----------|----------|-------|
| Short term borrowings | 87,947,138 | 87,947,138 | - | - | - | 0.18% |
| Total local currency financial liabilities | 87,947,138 | 87,947,138 | - | - | - | |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| 30 June, 2017 | | | | | | BDT '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 | 1,374,437,008 | 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 | 11,800,151.85 | 17,814,893 | 31,234,056 | 43,966,719 | 4.41% |
| Total Local currency financial assets | 259,477,820 | 45,285,830 | 45,458,271 | 93,098,235 | 75,635,483 | |
| 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 | 733,927,114 | - | - | - | 2.96% |
| Total local currency financial liabilities | 182,618,016 | 733,927,114 | - | - | - | |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

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 BDT. 31,106 million higher (2017: BDT. 30,466 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. 31,106 million lower (2017: BDT. 30,466 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.

42 Contingent liabilities

The Bank had contingent liabilities for guarantees outstanding as at 30 June 2018 amounting to BDT 66,977.63 million (2017: BDT 20,149.70 million) in favour of International Islamic Trade Finance Corporation & others which are secured by counter guarantees from the Government of Bangladesh.

43 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 2018

44 Actuarial valuation of defined benefit plans

Most recent actuarial valuation was performed as at 30 June 2016 basis by an independent actuarial firm, AIR Consulting. According to the valuation report, the estimated obligation of the pension fund as at 30 June 2016 was BDT 15,494,646 thousands and for gratuity fund was BDT 1,217,791 thousands. As the firm submits the final report, necessary accumulated provisions recorded in the current year. For subsequent years, the obligations shall be calculated based on the recommendation made by the actuarial firm.

As at 30 June 2018 the obligation for pension fund and gratuity fund was calculated to BDT 18,115,072 thousands and BDT 1,872,395 thousands respectively. The balances of the funds are as under:

| Particulars | BDT '000 | | | |
|---|-------------------|------------------|------------------|------------------|
| | Pension plans | | Gratuity plans | |
| | 2018 | 2017 | 2018 | 2017 |
| Amounts recognised in the reporting date | | | | |
| Balance at the beginning of the year | 8,693,786 | 7,599,787 | 1,908,033 | 1,677,236 |
| Paid during the year | (1,330,214) | (1,823,101) | (35,637) | (129,803) |
| Current year's contribution/transfer | 10,751,500 | 2,917,100 | - | 360,600 |
| Balance of the fund | 18,115,072 | 8,693,786 | 1,872,395 | 1,908,033 |

Actuarial assumptions

| Particulars | Pension plans | | Gratuity plans | |
|--------------------|---------------|--------|----------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| Discount rate | 7.50% | 11.50% | 6.10% | 11.50% |
| Salary growth rate | 5% | 8% | 5% | 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 BDT 167.55 million and BDT 16.47 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 BDT 167.55 million and BDT 16.47 million lower arising mainly as a result of higher discount income. Discount rate is very sensitive for calculation of contribution.

45 Capital commitments

As at 30 June 2018, the Bank had outstanding capital commitments of BDT. 512.96 million with respect to different civil, mechanical and electrical engineering purchase. (2017: BDT 274.01 million).

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

46 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 the 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:

BDT '000

| | 2018 | | 2017 | |
|---|--------------------|--------------------|--------------------|--------------------|
| | Outstanding | Average | Outstanding | Average |
| Outstanding balances with the government of Bangladesh | | | | |
| Ways and means advance | 40,000,000 | 35,077,800 | 30,155,600 | 35,077,800 |
| Overdraft - block (refer note 13) | 41,850,000 | 49,350,000 | 56,850,000 | 64,350,000 |
| Overdraft - current | 27,839,100 | 13,919,550 | - | 20,157,950 |
| Treasury bills | 48,816,816 | 28,466,644 | 8,116,472 | 11,872,639 |
| Treasury bonds | 59,164,294 | 51,379,611 | 43,594,929 | 37,454,702 |
| Other assets (interest receivable) | 1,118,948 | 1,101,433 | 1,083,918 | 911,281 |
| | 218,789,158 | 179,295,038 | 139,800,919 | 169,824,372 |
| Other liabilities | | | | |
| Deposits | 5,020 | 5,054 | 5,087 | 5,082 |
| Loan from government of Bangladesh | 2,535,077 | 6,865,040 | 11,195,002 | 8,203,049 |
| | 2,540,097 | 6,870,093 | 11,200,089 | 8,208,131 |
| Balances related to subsidiary (SPCBL) | | | | |
| Other assets (Prepayments and advances) | 66,885 | 1,113,837 | 2,160,790 | 2,691,532 |
| Other liabilities (Sundry creditors) | 1,068,396 | 1,235,573 | 1,402,749 | 1,270,268 |

The income and expenses in respect of related parties included in the statement of profit or loss are as follows:

BDT '000

| | 2018 | 2017 |
|--|------------------|------------------|
| Income and expenses related to government | | |
| Interest income | 5,811,250 | 5,686,385 |
| Commission received | 10,821 | 11,048 |
| | 5,822,070 | 5,697,433 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

| | 2018 Taka '000 | 2017 Taka '000 |
|--|-------------------|-------------------|
| Expenses | | |
| Agency charges | 6,462,772 | 4,966,800 |
| Under writing commission on treasury bills and bonds | 142,190 | 116,207 |
| | 6,604,962 | 5,083,007 |
| Income and expenses related to subsidiary (The Security Printing Corporation) | | |
| Dividend income | 300,000 | 150,000 |
| Note printing expenses | 4,280,495 | 4,311,107 |
| Key management personnel | | |
| Salaries, wages and other benefits (refer note 47.06) | 5,311 | 4,852 |

46.01 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 BDT 3,811,440 million (in 2017: BDT. 3,529,290 million) and paid BDT 3,849,124 million (in 2017: 3,479,130 million) on behalf of the Government. As at 30 June 2018, total outstanding balance was BDT 217,670 million.

- (f) Assets under management:

| | | |
|--------------------------------|----------------|----------------|
| Japan Debt Relief Grant | 113,614 | 107,727 |
|--------------------------------|----------------|----------------|

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 2018

46.02 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 BDT. 195.57 million which included in the interest income.

46.03 Transactions with controlled entities

During the year, as a part of its business operations the Bank incurred expense of BDT 4,280.50 million (2017: BDT 4,311.11 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 an amounting to BDT 300 million (2017: 150 million) as per decision of their Board.

46.04 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 44.

46.05 Board of Directors of Bangladesh Bank and Key Management Personnel as on 30 June, 2018

| 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. Mohammad Muslim Chowdhury - appointed as a Director of the Board of Bangladesh Bank from October 05, 2017 to until further order and holds the post of 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 2018

| 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 | - | - |
| 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, Banking and Financial Institution Division, Ministry of Finance, Govt. of the Peoples Republic of Bangladesh. | Member | Member | Convenor |
| 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 | 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 | 8 | 4 | 8 |

Bangladesh Bank : Notes to the Financial Statements

As at and for the year ended 30 June 2018

46.06 Remuneration of members of the Board of Directors and Key management personnel

Members of the Board of Directors received remuneration totalling BDT. 663,120.00 (2017: BDT.382,190.00) and the Governor received totalling BDT. 1,218,400.00 (2017: BDT. 1,218,400.00). 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 totalling BDT. 3,429,900.00 (2017: BDT. 3,251,221.29) and in addition, they availed official residence as well as transport.

47 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.

48 Directors' responsibility for financial reporting

The Board of Directors approved the financial statement on 28, August 2018.

Appendix-1

Chronology of Major Policy Announcements: FY18

Chronology of Major Policy Announcements: FY18

A. Policy Announcements on Banking and Financial Sector Development

- | | |
|----------------|--|
| July 2017 | <ul style="list-style-type: none"> With a view to achieving self-sufficiency in food production, reducing poverty and maintaining good health along with keeping the minimum growth at 4 to 4.5 percent in agriculture sector and shifting the country to a middle income country within the year of 2021, Bangladesh Bank has announced the Agricultural and Rural Credit Policy and Program for FY18. The disbursement target of agricultural and rural credit has been fixed at BDT 20400.0 crore for FY18, which is 16.24 percent higher than that of the previous fiscal year. |
| August 2017 | <ul style="list-style-type: none"> Considering the operational and technical problems faced by the banks in implementing the guidelines on credit card operations, to make easier implementation of the guidelines and to enhance the appropriate use of credit cards through proper understanding, Bangladesh Bank has amended few sections of the guidelines. |
| August 2017 | <ul style="list-style-type: none"> With a view to promoting cashless secured transaction and considering the cost of operation of the credit card business, Bangladesh bank has advised the scheduled banks to maintain 2 percent general provision against all unclassified credit card loans under consumer financing instead of earlier 5 percent. |
| September 2017 | <ul style="list-style-type: none"> In order to make environment friendly and easy to understand financing and to accelerate the implementation of the Perspective Plan of Bangladesh 2010-21, National Sustainable Development Strategy 2010-21 and Sustainable Development Goals and to ensure easier flow of private sector credit to environment friendly products, Bangladesh Bank has published an eligible products list of green financing for the banks and financial institutions from their own sources. |
| September 2017 | <ul style="list-style-type: none"> Considering the importance and increasing demand for agent banking, with a view to streamlining the agent banking operation, enhancing the financial inclusion and bringing the banking services at the door-step of rural marginal people, Bangladesh Bank has introduced a prudential guidelines for agent banking operation in Bangladesh. |
| September 2017 | <ul style="list-style-type: none"> In order to encounter the risk of money laundering and terrorist financing, Bangladesh Bank has issued a Uniform KYC Profile Form for insurance company according to Money Laundering Prevention Act, 2012 and Anti-terrorism Act, 2009. |

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- September 2017 • With a view to encouraging the participation of the scheduled banks in disbursing agricultural and micro-credits, Bangladesh Bank has amended general provision for all unclassified credit (irregular and regular) under short-term agricultural and micro-credits. In line with this amendment, now all scheduled banks will maintain 1 percent general provision instead of 2.5 percent against all unclassified short-term agricultural and micro-credits.
- September 2017 • Considering the immense prospect of country's tourism sector and to contribute in the development of this sector, all scheduled banks are advised to enhance the expenditure in tourism sector under their Corporate Social Responsibility (CSR) activities.
- October 2017 • Based on the demand for credit at field level and total loans and advances of the banks and the target for the previous year along with the ability and efficiency to disbursing credit in agriculture and rural sector, Bangladesh Bank has revised the provision for loans and advances disbursed by all private and foreign commercial banks in agriculture and rural sector.
- October 2017 • In order to encourage and promote the cottage, micro and small entrepreneurs specially women entrepreneurs in business and accelerate economic development of the country, Bangladesh Bank has instructed all scheduled banks and non-bank financial institutions to provide three months grace period against one year loan and 3-6 months for medium and long term loans based on banker-customer relationship. Grace periods will be treated as an extra tenure of loans.
- November 2017 • With a view to ensuring proper and systematic utilization of Mobile Financial Services (MFS) and preventing the misuse of MFS, the customers of MFS have to maintain outstanding balance of maximum Taka three lakh in their mobile financial account from the beginning of 2018.
- November 2017 • With the objective of implementing the strategy of virtuousness in the financial sector, Bangladesh Bank has issued a code of conduct for banks and Non-Bank Financial Institutions (NBFIs). In line with the conduct guidance, banks and NBFIs have to issue their own code of conduct and their day-to-day activities will be done according to this conduct from January 2018.
- November 2017 • With a view to enhancing the financial services to cottage, micro, small & medium Industries, a refinance scheme equivalent to USD 240.0 million has been formed with the financial support of Asian Development Bank and the People's Republic of Bangladesh.

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- | | |
|---------------|--|
| December 2017 | <ul style="list-style-type: none"> • In order to improve the operation of Islamic Refinance Fund Account which has been formed, for agro-processors, small enterprise, renewable energy and environment-friendly ventures, Bangladesh Bank has advised that Islamic banks and Financial Institutions (FIs) can invest the fund for one year instead three months. The fund has to return to the Bangladesh Bank every year including profit in the cumulative installments. |
| January 2018 | <ul style="list-style-type: none"> • Bangladesh Bank has advised that under Islamic Shariah based refinancing fund, the participating business entity will be given refinancing facility for one year which will be renewable until the investment period of principal financing of the project is active and unclassified. The refinancing fund, withdrawn from Bangladesh Bank will be repaid regularly including its profit in quarterly basis. |
| January 2018 | <ul style="list-style-type: none"> • Bangladesh Bank has advised that with consent from account holders, accounts opened under school banking scheme should be converted into general accounts when the students (A/C holder) become more than 18 years old. Besides, scheduled banks providing banking services to students through mobile financial services or collect government scholarship/ allowances will take initiatives to open accounts for them under school banking scheme. |
| February 2018 | <ul style="list-style-type: none"> • With a view to promoting growth in the real estate sector through banks' participation in Housing Finance, Bangladesh Bank has advised that scheduled banks have to maintain 1 percent general provision instead of 2 percent against all unclassified housing finance under consumer financing. |
| February 2018 | <ul style="list-style-type: none"> • According to Constitution of the Peoples Republic of Bangladesh's Bangla Language Circulation Act, 1987 and to fulfill customers' requirements, Bangladesh Bank has advised the scheduled banks to prepare loan sanctioning papers in Bangla. The loan sanctioning documents may be prepared in English along with Bangla. |
| April 2018 | <ul style="list-style-type: none"> • A circular has been announced on refinance scheme for Islamic banks and financial institutions for investment in green products. |
| April 2018 | <ul style="list-style-type: none"> • Bangladesh Bank has announced a circular on reducing rate of interest against loans to ship building industry of Bangladesh and providing long term repayment facility. |

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|-----------|---|
| May 2018 | <ul style="list-style-type: none"> • In order to promote financial inclusion, risk-free and easy transactions of illiterate customers, Bangladesh bank has issued guidelines on cash withdrawal through cheque of illiterate customers. |
| May 2018 | <ul style="list-style-type: none"> • Recently it has been observed that the various lending interest rates of commercial banks are increasing continuously. In this context, in order to rationalize rate of interest on lending for different sectors including productive sector, Bangladesh Bank has advised the scheduled banks to narrow the intermediation spread between the 4 percent, excluding credit card and consumer credit. |
| June 2018 | <ul style="list-style-type: none"> • To remove the inconsistency in terms of age limit of customers stipulated in the Prudential Guidelines for Consumer Financing, Small Enterprise Financing and Guidelines on Credit Card Operations of Banks, Bangladesh Bank has decided to replace the Credit Card PPG Guideline No.2-Age (BRPD Circular no-07/2004). The required age for primary and supplementary card holders has been set at 18 years and above, which may be relaxed to 16 years for students who are directly dependent on the principal cardholders. |
| June 2018 | <ul style="list-style-type: none"> • Bangladesh Bank has announced a circular on refraining from offering high interest rate on deposit through mobile phone messaging to collect deposit. |

B. Policy Announcements on Monetary Sector Development

- | | |
|--------------|---|
| January 2018 | <ul style="list-style-type: none"> • Similar to other countries, in order to make redemption profile homogeneous and to reduce the number of treasury bond, buy-back of government securities has been approved by the Finance Division, Ministry of Finance, Government of the Peoples' Republic of Bangladesh. Bangladesh Bank will accomplish this activity on behalf of the government of Bangladesh. |
| March 2018 | <ul style="list-style-type: none"> • Bangladesh Bank has advised that Bangladeshi nationals residing abroad can use the Taka fund credited in their non-resident Taka account or in resident Taka accounts of their beneficiaries received through inward remittances via normal banking channel or authorized exchange house channel to purchase Wage Earner Development Bond (WEDB) in accordance with the instructions of Wage-Earner Development Bond Rules, 1981. |
| April 2018 | <ul style="list-style-type: none"> • Bangladesh Bank has advised that all scheduled banks in Bangladesh (including Shariah based banks) will have to maintain 5.5 percent CRR with Bangladesh Bank on bi-weekly average basis with a provision of minimum 5.0 percent on daily basis of their average total demand and time liabilities. |

- April 2018 • The existing Repo interest rate of Bangladesh Bank has been reduced by 75 basis points and re-fixed at 6.0 percent from 6.75 percent while Reverse Repo rate to remain unchanged at 4.75 percent.

C. Policy Announcements on External Sector Development

- July 2017 • To boost Foreign Direct Investment (FDI) in Bangladesh, Bangladesh Bank has advised all Authorized Dealer Banks to set up at least one dedicated FDI help desk comprising of competent officials in the head offices and or main branches of Authorized Dealers in Dhaka and Chittagong.
- July 2017 • In order to enhance housing finance facility to NRBs working abroad, Bangladesh Bank has decided that NRBs may avail housing finance facility at a maximum debt equity ratio of 75:25 instead of existing debt equity ratio of 50:50.
- July 2017 • To support hundred percent export-oriented factories, Bangladesh Bank has advised that Authorized Dealers (ADs) must ensure issuance of domestic letter of credit and make payment in foreign currency in case of back-to-back LCs. In case of domestic input purchase from the local traders/suppliers the mode of payments should be in local currency instead of foreign currency.
- August 2017 • To encourage export of the country, Bangladesh Bank has decided to provide export subsidy cash incentive for FY18. Different rates of subsidy/ cash incentive have been allocated for the exports of different types of commodities.
- August 2017 • In order to encourage ADs to use Green Transformation Fund for export oriented textile & textile products and leather manufacturing industries, Bangladesh Bank has decided that reduced interest at six-month USD LIBOR plus 1.0 percent shall be charged to ADs instead of existing six-month USD LIBOR plus 2.25 percent against financing.
- August 2017 • To facilitate short term import financing, Bangladesh Bank has advised that Authorized Dealers (ADs) may, on behalf of industrial importers, issue repayment bank guarantees without Bangladesh Bank approval favouring International Islamic Trade Finance Corporation extending short term buyers' credit up to 180 days for import of industrial raw materials for own use by importers, on sight basis, subject to adherence to all applicable credit norms and prudential parameters including single borrower exposure limit. In case of invocation of the guarantees, ADs shall report Bangladesh Bank giving full details of the circumstances leading to invocation and copy of bill of entry relevant to the concerned imports.

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- September 2017 • Bangladesh Bank has advised that producer and exporters of RMG/textile who had purchased yarn from the listed mills of BTMA can avail cash incentives against their RMG export.
 - October 2017 • To facilitate smooth repatriation of wage earners' remittances, Bangladesh bank has advised all banks to accept emolument like retirement benefits, death benefits, insurance payments etc through normal banking channel with different types of instruments like cheque, foreign demand draft, etc. In case of incapability due to valid reasons, beneficiaries should be informed in written form with a copy to Bangladesh Bank.
 - October 2017 • Bangladesh Bank has advised that manufacturers of export oriented jute products can also avail foreign currency loans from Green Transformation Fund (GFT) for importing capital machinery and other accessories along with eligible textile & leather product exporters.
 - October 2017 • From now, any individual can carry Bangladeshi Taka worth of ten thousand in cash instead of five thousand on arrival or to departure from Bangladesh.
 - November 2017 • Bangladesh Bank has revised the interest rate for the Long Term Financing Facility (LTFF) regarding the Financial Sector Support Project (FSSP). Now banks would have to pay interest at a rate between 2.0 percent and 3.0 percent in excess of LIBOR (London Inter Bank Offered Rate) for the tenures of five to ten years.
 - November 2017 • Foreign nationals who are resident in and have income in Bangladesh are permitted to make monthly remittances to the country of their domicile out of their current savings up to 75 percent of their net income as per declaration by them in the prescribed application form.
 - November 2017 • Bangladesh Bank has decided that Authorized Dealers (ADs) on behalf of importers who failed to submit the bill of entry/ certified invoices within stipulated or allowed extended period may open new LCs as the tune of up to USD 200 or equivalent to other foreign currencies without prior approval of Bangladesh Bank.
 - November 2017 • Bangladesh Bank has advised the Authorized Dealers to observe the following instructions before execution of outward remittance of royalty, technical knowhow or technical assistance fees, operational services fees, and marketing commission etc.
 - a. To ensure that the authority for remittances as per approval letter issued by Bangladesh Investment Development Authority (BIDA).

- b. To ensure that applicable taxes payable on remittable amounts have duly been deducted and paid.
 - c. To satisfy the genuineness of the relevant documents and immediately contact with BIDA in case of any doubt.
 - d. To preserve customer-wise documents for eventual examination by Bangladesh Bank inspection team and report the transactions to Bangladesh Bank.
- November 2017 • In order to increase the foreign remittance inflow, Bangladesh Bank has advised all scheduled banks to allocate budget for the purpose of training to develop the efficiency of wage-earners and opening and maintenance of wage-earners bank account under Corporate Social Responsibility (CSR).
- December 2017 • In order to increase country's inflow of remittances and facilitate investment of foreign remittance in Wage-Earner Development Bond (WEDB)/USD Premium Bond (DPB)/USD Investment Bond (DIB), Bangladesh Bank has advised all Authorized Dealer (AD) branches of scheduled banks located in divisions/ districts/ upazilas to take necessary steps for active participation to sale/issue, encashment and re-issue of WEDB, USDIB & USDPB.
- December 2017 • Bangladesh Bank has prepared a master circular on Export Development Fund (EDF) to bring ease in operations of EDF a revised operational procedure through compilation of existing instructions and its subsequent relevant circulars at one place with required modifications.
- January 2018 • To facilitate transactions under ACU mechanism, Bangladesh Bank has advised the ADs to resume transactions in 'ACU Euro' along with 'ACU Dollar' to settle current account transactions among ACU member countries. Accordingly, 'Japanese Yen (JPY)' has been incorporated as a settlement currency in ACU mechanism.
- January 2018 • An amendment of FE Circular no. 22 issued on 20 November 2011 has been published regarding cash incentive provided against advance export payment received through Telegraphic Transfer (TT). The amendment now allows new market explorations assistance for export payment received from countries other than the exported country subject to establishment of valid relationship between the ordering country and importer destination country/ payee country. From the date of issuance of this circular, this amendment will be applicable for cash incentives provided against goods to be shipped.

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- | | |
|---------------|---|
| February 2018 | <ul style="list-style-type: none"> • In order to promote export, government has decided to provide cash incentive against export of frozen shrimp and other fish. Any required relevant material such as protective glaze will be treated as part and parcel of the export goods. |
| February 2018 | <ul style="list-style-type: none"> • In order to promote country's export trade, government has decided to provide subsidy against export of software, ITES (Information Technology Enabled Services) and hardware. This facility will be applicable for the export of goods and services from FY18. |
| February 2018 | <ul style="list-style-type: none"> • In order to promote country's export trade, government has decided to provide subsidy against export of footwear made of synthetic and fabrics. This facility will be applicable for the goods to be shipped from FY18. |
| February 2018 | <ul style="list-style-type: none"> • To promote country's export trade, government has decided to provide export subsidy against export of locally manufactured accumulator battery (HS code: 8507.10 and 8507.20). This facility will be applicable for goods to be shipped from FY18. |
| February 2018 | <ul style="list-style-type: none"> • To facilitate export trade for meeting urgent requirement, it has been decided that ADs may allow remittance facilities to exporters for bonafide service payments to beneficiary's bank account abroad up to USD 5,000 or equivalent, subject to a few conditions. |
| May 2018 | <ul style="list-style-type: none"> • A circular with instruction regarding online VAT registration number or Business Identification Number (BIN) under Value Added Tax Act, 1991 has been issued. |
| May 2018 | <ul style="list-style-type: none"> • For the purpose of commercial importing of ophthalmic medical equipment with Intraocular Lens, the essential instrument of eye treatment, Letter of Credit (LC) can be opened by banks on 90 days deferred payment basis. |
| May 2018 | <ul style="list-style-type: none"> • To promote export earnings, Authorized Dealers' loan limit from Export Development Fund (EDF) against their foreign currency financing of input procurement for member mills of BGMEA and BTMA has now been enhanced to USD 25.0 million from USD 20.0 million. |
| June 2018 | <ul style="list-style-type: none"> • To promote export by hosting goods on e-commerce website accessible through internet to foreign buyers, it has been decided that ADs may provide acquiring services to eligible exporters for repatriation of export proceeds against sales orders of exportable goods received on e-commerce website. This facility shall only be available for small value export not exceeding USD 5000 per transaction. |

Appendix-2
Bangladesh Bank's Research in FY18

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), Governor Secretariat (GS) and Chief Economist's Unit (CEU) are summarised here. Besides, some other on-going 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.

A. Synthesis Analysis/ Reports related to 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 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 SFD.
8. Background Papers for National Budget document and 'Economic Review of Bangladesh' an annual publication of Ministry of Finance - prepared by RD.
9. Preparation of manuscript of the book titled 'Report of Financial Institutions 2017-2018' prepared by RD 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. Developments 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.

B. Empirical Analysis of Specific Economic/ Financial Sector Issues in FY18

(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. Yield Curve of Bangladesh and Burning Economic Issues. *BBTA Journal: Thoughts on Banking and Finance*, Volume 5, Issue 1, January-June, 2016. Published in August, 2017(MPD).
3. Estimating Neutral Real Interest Rate in Bangladesh (Policy Note, Bangladesh Bank Quarterly, January-March, 2018, CEU).

(ii) Financial Sector Related

1. Profit maximizing behavior of banks in Bangladesh. *The Journal of Developing Areas*, Volume 51, Number 3, Summer 2017, pp.123-138 (Article) (GS).
2. Promoting Financial Inclusion in the SAARC Region - published in the SAARC FINANCE web portal (<http://saarcfinance.org/PromotingFinancial.pdf>) (CEU).
3. Bank Deposit Dynamics in Bangladesh (Policy Note, Bangladesh Bank Quarterly, January-March, 2018, CEU).
4. An Impact Study on 'Mobile Financial Service (MFSSs) in Bangladesh' (A Joint Research by Bangladesh Bank and University of Dhaka, December 2017).
5. Modeling and Estimating Volatility in the Dhaka Stock Market, *BBTA Journal: Thoughts on Banking and Finance*, Volume 5, Issue 2, July-December, 2016 (MPD).
6. Technical Stock Valuation of a Company: Bangladesh Perspective. Article published in the *Janata Bank Journal of Money, Finance and Development*, volume 4, number 1, June 2017. Published in November, 2017 (MPD).

7. Study on Credit Risk Arising in the Banks from Loan Sanctioned Against Inadequate Collateral. Field Survey report, (Special Research Work: SRW No. 1702, RD).

(iii) External Sector Related

1. Modeling the Consequences of Emerging Markets Slowdown in the Aftermath of Global Financial Crisis: A G-Cubed Approach. ASA University Review, Vol: 11, No: 2, 43-56 (GS).
2. Capital Machinery Import and Industrial Output Growth in Bangladesh: A Cointegration Analysis. Bank Parikrama, Journal of Banking & Finance, Volume XLII, Nos. 3 & 4, September & December 2017 (Forthcoming) (GS).
3. Capital Flight Affecting Determinants in Bangladesh : An Econometric Estimation (Journal of Economics, Commerce and Management, Year: 2018, Volume: V, Issue: 8) (CEU).
4. Revisiting Marshall- Lerner Condition in the Bangladesh Economy: A Cointegration Approach. BBTA Journal: Thoughts on Banking and Finance, Volume 5 Issue 1, January-June, 2016 (MPD).
5. Utilisation of Workers' Remittances in Bangladesh - A Report Based on the Survey Conducted in 2014, (Special Research Work: SRW No. 1703, RD).

(iv) Real Sector Related

1. Food Insecurity and Conflict Events in Africa (Peace Economics, Peace Science and Public Policy, Year: 2018, Volume: 24, Issue: 2, Publisher: DE GRUYTER, Berlin, Germany (CEU).
2. Public and Private Investment Nexus in Bangladesh: Crowding -in or out? The Journal of Developing Areas, Volume: 52, Number 4, Fall 2018 (CEU).
3. Women Entrepreneurship Development in Bangladesh: A Descriptive Study on Challenges and Prospects (Society & Change Journal of Social Science, Volume: XI, No.4, October-December 2017, ISSN :1997-1052 (Print), 227-202X (Online)) (CEU).
4. Estimating Output Gap in Bangladesh (Policy Note, Bangladesh Bank Quarterly, October-December, 2017, CEU).
5. SME Finance and Inclusive Growth: Bangladesh Perspective (BIBM Research Monograph 28, September 2017, CEU).
6. Survey on MSME Financial Inclusion Indicators, 2016. Field Survey report (Special Research Work: SRW No. 1801, RD).

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-2 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 in Major Macroeconomic Indicators

| Indicators | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 ^R | FY18 ^P |
|--|-------|-------|-------|-------|--------|--------|--------|--------|-------------------|-------------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 1. GDP growth (at FY06 constant market prices) | 5.1 | 5.6 | 6.5 | 6.5 | 6.0 | 6.1 | 6.55 | 7.11 | 7.28 | 7.86 ^R |
| 2. Growth of broad money (M2) | 19.2 | 22.4 | 21.3 | 17.4 | 16.7 | 16.1 | 12.4 | 16.4 | 10.9 | 9.2 |
| 3. Growth of GDP deflator (base: FY06=100) | 6.8 | 7.1 | 7.9 | 8.2 | 7.2 | 5.7 | 5.9 | 6.7 | 6.3 | 5.6 ^R |
| 4. CPI Inflation Rate* | 6.7 | 7.3 | 8.8 | 8.7 | 6.8 | 7.4 | 6.4 | 5.9 | 5.4 | 5.8 |
| 5. Foreign exchange reserves (billion USD) | 7.5 | 10.8 | 10.9 | 10.4 | 15.3 | 21.5 | 25.0 | 30.2 | 33.5 | 32.9 |
| 6. Net foreign assets (billion BDT) | 474.4 | 670.5 | 695.3 | 742.8 | 1120.7 | 1552.9 | 1885.6 | 2319.3 | 2650.2 | 2537.6 |
| 7. Exchange rate (BDT/Dollar) | 68.80 | 69.18 | 71.17 | 79.10 | 79.93 | 77.72 | 77.67 | 78.26 | 79.12 | 82.10 |
| 8. REER index as of end June** | 91.3 | 97.7 | 72.32 | 72.52 | 79.44 | 82.84 | 94.62 | 100.00 | 102.43 | 100.65 |
| 9. Per capita GDP in BDT (at current market prices) | 48359 | 53961 | 61198 | 69614 | 78009 | 86266 | 96004 | 108378 | 122152 | 137518 |
| (As percentage of GDP) | | | | | | | | | | |
| 10. Domestic savings | 20.3 | 20.8 | 20.6 | 21.2 | 22.0 | 22.1 | 22.2 | 25.0 | 25.3 | 22.8 |
| 11. Investment | 26.2 | 26.3 | 27.4 | 28.3 | 28.4 | 28.6 | 28.9 | 29.7 | 30.5 | 31.2 |
| 12. Revenue income | 9.1 | 9.5 | 10.2 | 10.9 | 10.7 | 10.4 | 9.6 | 10.0 | 10.2 | 11.5 |
| 13. Revenue expenditures | 8.7 | 8.4 | 8.5 | 8.5 | 8.3 | 8.2 | 7.9 | 8.3 | 8.3 | 8.6 |
| 14. Revenue surplus (+) / Revenue deficit (-) | 0.4 | 1.1 | 1.7 | 2.4 | 2.4 | 2.2 | 1.8 | 1.6 | 1.9 | 2.9 |
| 15. Annual Development Programme (ADP) | 2.8 | 3.2 | 3.6 | 3.6 | 4.1 | 4.1 | 4.0 | 4.6 | 4.3 | 6.6 |
| 16. Other expenditures | 1.1 | 1.1 | 1.9 | 2.4 | 2.1 | 1.7 | 1.6 | 0.8 | 0.5 | 0.6 |
| 17. Total expenditures | 12.5 | 12.7 | 14 | 14.5 | 14.5 | 14.0 | 13.5 | 13.8 | 13.6 | 16.5 |
| 18. Overall budget deficit (excluding grants) | -3.4 | -3.2 | -3.9 | -3.6 | -3.8 | -3.6 | -3.9 | -3.8 | -3.4 | -5.0 |
| 19. Overall budget deficit (including grants) | -3.1 | -2.8 | -3.6 | -3.2 | -3.3 | -3.1 | -3.7 | -3.7 | -3.4 | -4.8 |
| 20. Financing of overall budget deficit (a+b) [®] | 3.1 | 2.8 | 3.6 | 3.2 | 3.3 | 3.1 | 3.7 | 3.7 | 3.4 | 4.8 |
| a. Net foreign financing | 0.4 | 0.8 | 0.3 | 0.3 | 0.5 | 0.2 | 0.3 | 0.7 | 0.6 | 1.8 |
| b. Net domestic financing (i+ii) | 2.7 | 2.0 | 3.3 | 2.9 | 2.8 | 2.8 | 3.4 | 2.9 | 2.8 | 2.9 |
| i. Bank borrowings | 1.9 | -0.3 | 2.7 | 2.6 | 2.3 | 1.4 | 0.03 | 0.6 | -0.4 | 0.9 |
| ii. Non-bank borrowings | 0.8 | 2.3 | 0.6 | 0.3 | 0.5 | 1.5 | 3.3 | 2.3 | 3.3 | 2.0 |
| 21. Government debt outstanding (i+ii) | 35.9 | 32.3 | 32.4 | 31.8 | 30.4 | 29.6 | 27.7 | 27.7 | 27.0 | 27.9 |
| i. Domestic debt | 15.5 | 14.7 | 15.2 | 15.2 | 15.5 | 15.5 | 15.5 | 15.8 | 15.7 | 15.8 |
| ii. External debt [#] | 20.4 | 17.6 | 17.2 | 16.6 | 14.9 | 14.1 | 12.2 | 11.9 | 11.3 | 12.1 |
| 22. Current account balance : surplus(+)/deficit(-) | 2.4 | 3.2 | -1.3 | -0.3 | 1.6 | 0.8 | 1.8 | 1.9 | -0.5 | -3.6 |

^R Revised, ^P Provisional

*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 BDT 75.23 billion.[#] Excluding IMF loan.

Source: Bangladesh Bank, Bangladesh Bureau of Statistics, Bangladesh Economic Review, 2018 and Budget in Brief (various issues).

Table-II Medium-Term Macroeconomic Framework: Key Indicators

| Indicators | Actual | | | | | Projection | | |
|--|--------|-------|-------|-------|-------------------|------------|-------|-------|
| | FY14 | FY15 | FY16 | FY17 | FY18 ^P | FY19 | FY20 | FY21 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Real Sector | | | | | | | | |
| Real GDP Growth (%) | 6.1 | 6.6 | 7.1 | 7.3 | 7.9 | 7.8 | 8.0 | 8.2 |
| CPI inflation (%) | 7.4 | 6.4 | 5.9 | 5.4 | 5.8 | 5.6 | 5.6 | 5.5 |
| Gross investment (% of GDP) | 28.6 | 28.9 | 29.7 | 30.5 | 31.2 | 33.5 | 34.4 | 35.3 |
| Private | 22.0 | 22.1 | 23.0 | 23.1 | 23.3 | 24.8 | 25.5 | 26.2 |
| Public | 6.6 | 6.8 | 6.7 | 7.4 | 8.0 | 8.7 | 8.9 | 9.0 |
| Fiscal Sector (% of GDP) | | | | | | | | |
| Total revenue | 10.5 | 9.6 | 10.0 | 10.2 | 11.5* | 13.4 | 13.8 | 14.2 |
| Tax revenue | 8.6 | 8.5 | 8.8 | 9.1 | 10.3* | 12.1 | 12.5 | 12.9 |
| Non-tax revenue | 1.8 | 1.1 | 1.2 | 1.2 | 1.2* | 1.3 | 1.3 | 1.3 |
| Total expenditure | 14.0 | 13.5 | 13.8 | 13.6 | 16.5* | 18.4 | 18.8 | 19.2 |
| Annual Development Programme (ADP) | 4.1 | 4.0 | 4.6 | 4.3 | 6.6* | 6.8 | 7.1 | 7.2 |
| Overall balance | -3.6 | -3.9 | -3.8 | -3.4 | -5.0* | -5.0 | -5.0 | -5.0 |
| Financing | | | | | | | | |
| Domestic financing | 2.8 | 3.4 | 2.9 | 2.8 | 2.9* | 3.5 | 3.5 | 3.4 |
| External financing (net) | 0.2 | 0.3 | 0.7 | 0.6 | 1.8* | 1.5 | 1.6 | 1.6 |
| Monetary and Credit (% change) | | | | | | | | |
| Domestic credit | 11.6 | 10.0 | 14.2 | 11.2 | 14.7 | 15.6 | 17.3 | 18.6 |
| Credit to the private sector | 12.3 | 13.2 | 16.8 | 15.7 | 16.9 | 16.5 | 16.7 | 16.9 |
| Broad money (M2) | 16.1 | 12.4 | 16.3 | 10.9 | 9.2 | 14.6 | 14.8 | 14.9 |
| External sector | | | | | | | | |
| Exports f.o.b (% change) | 12.1 | 3.1 | 8.9 | 1.7 | 6.4 | 10.0 | 11.0 | 12.0 |
| Imports f.o.b (% change) | 8.9 | 3.0 | 5.9 | 9.0 | 25.2 | 13.0 | 14.0 | 14.0 |
| Remittances (% change) | -1.6 | 7.7 | -2.5 | -14.5 | 17.3 | 13.0 | 14.0 | 14.0 |
| Current account balance (% of GDP) | 0.8 | 1.8 | 1.9 | -0.5 | -3.6 | -2.0 | -2.3 | -2.4 |
| Gross foreign exchange reserve (USD billion) | 21.5 | 25.0 | 30.2 | 33.5 | 32.9 | 33.3 | 32.8 | 32.2 |
| Gross foreign exchange reserve (months of imports) | 5.9 | 6.6 | 7.8 | 8.0 | 5.2 | 6.0 | 5.2 | 4.5 |
| GDP at current market prices (billion BDT) | 13437 | 15158 | 17328 | 19758 | 22504 | 25378 | 28859 | 32905 |

^R Revised, ^P Provisional

*According to Revised Budget of FY18

Sources: Bangladesh Economic Review, Ministry of Finance, 2018 & BBS.

Table-III Trends in Gross Domestic Product (GDP), Investment and Savings

(Billion BDT)

| Items/Sectors | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 ^R | FY18 ^R |
|---|---------------|---------------|---------------|---------------|---------------|---------------|-------------------|-------------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 1. GDP (at current market prices) | 9158.3 | 10552 | 11989.2 | 13436.7 | 15158.0 | 17328.6 | 19758.2 | 22504.8 |
| 2. Gross investment at current prices | 2511.3 | 2982.2 | 3403.7 | 3839.9 | 4378.7 | 5138.4 | 6028.3 | 7029.4 |
| a) Private | 2029.8 | 2374.2 | 2607.5 | 2960.0 | 3344.7 | 3983.5 | 4563.6 | 5235.2 |
| b) Public | 481.5 | 608 | 796.2 | 879.9 | 1033.9 | 1154.9 | 1464.7 | 1794.2 |
| 3. Gross domestic savings at current prices | 1888.4 | 2239.1 | 2642.4 | 2968.2 | 3358.8 | 4328.3 | 5004.6 | 5138.9 |
| 4. Gross national savings at current prices | 2644.8 | 3150.5 | 3660.0 | 3927.0 | 4398.8 | 5332.2 | 5857.2 | 6170.2 |
| 5. Sectoral GDP (at FY06 constant prices) | | | | | | | | |
| i. Agriculture | 1112.6 | 1146.1 | 1174.4 | 1225.7 | 1266.5 | 1301.8 | 1340.5 | 1396.6 |
| a) Agriculture and forestry | 882.1 | 903.3 | 916.6 | 951.5 | 974.8 | 992.3 | 1011.7 | 1046.9 |
| 1. Crops and horticulture | 649 | 660.4 | 664.3 | 689.4 | 702.0 | 708.1 | 714.9 | 736.8 |
| 2. Animal farming | 122.2 | 125.5 | 128.9 | 132.6 | 136.7 | 141.0 | 145.7 | 150.6 |
| 3. Forest and related services | 110.8 | 117.5 | 123.4 | 129.6 | 136.1 | 143.1 | 151.1 | 159.5 |
| b) Fishing | 230.5 | 242.8 | 257.8 | 274.2 | 291.7 | 309.5 | 328.8 | 349.7 |
| ii. Industry | 1692 | 1851.6 | 2030.1 | 2195.7 | 2408.0 | 2675.1 | 2948.7 | 3304.3 |
| a) Mining and quarrying | 99.1 | 105.9 | 115.8 | 121.3 | 132.9 | 150.0 | 163.3 | 174.7 |
| b) Manufacturing | 1096.5 | 1205.7 | 1329.9 | 1446.5 | 1595.7 | 1782.2 | 1977.7 | 2242.7 |
| 1. Large and medium scale | 884.8 | 980 | 1084.4 | 1185.4 | 1312.3 | 1473.1 | 1638.2 | 1871.8 |
| 2. Small scale | 211.8 | 225.7 | 245.6 | 261.1 | 283.4 | 309.1 | 339.5 | 370.9 |
| c) Power, gas and water supply | 84 | 92.9 | 101.3 | 105.9 | 112.4 | 127.4 | 138.2 | 150.9 |
| d) Construction | 412.4 | 447.1 | 483 | 522.1 | 567.0 | 615.5 | 669.5 | 736.0 |
| iii. Services | 3374.7 | 3596.6 | 3794.9 | 4008.4 | 4240.9 | 4505.8 | 4807.3 | 5114.4 |
| a) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods | 866.5 | 924.6 | 981.7 | 1047.8 | 1114.3 | 1186.7 | 1274.2 | 1369.1 |
| b) Hotel and restaurants | 46.1 | 49 | 52.2 | 55.7 | 59.5 | 63.7 | 68.2 | 73.2 |
| c) Transport, storage and communication | 694.1 | 757.6 | 805.1 | 853.8 | 904.7 | 959.7 | 1024.6 | 1092.1 |
| d) Financial intermediations | 184.6 | 211.8 | 231.1 | 247.9 | 267.2 | 287.9 | 314.1 | 338.9 |
| e) Real estate, renting and business activities | 457.9 | 475.9 | 495.1 | 516.1 | 538.9 | 563.0 | 590.0 | 619.4 |
| f) Public administration and defence | 205.5 | 221 | 235.4 | 251.6 | 276.4 | 308.0 | 336.2 | 364.6 |
| g) Education | 136.6 | 147.2 | 156.5 | 167.8 | 181.3 | 202.5 | 225.5 | 241.3 |
| h) Health and social work | 120.8 | 125.4 | 131.4 | 138.0 | 145.2 | 156.1 | 168.0 | 179.8 |
| i) Community, social and personal services | 662.6 | 684.2 | 706.4 | 729.6 | 753.5 | 778.4 | 806.5 | 836.0 |
| Total GVA at constant basic price | 6179.2 | 6594.3 | 6999.4 | 7429.8 | 7915.4 | 8482.7 | 9096.5 | 9815.3 |
| Tax less subsidy | 284.2 | 290.6 | 299.6 | 311.6 | 333.2 | 352.7 | 382.5 | 409.1 |
| GDP (at FY06 constant market prices) | 6463.4 | 6884.9 | 7299 | 7741.4 | 8248.6 | 8835.4 | 9479.0 | 10224.4 |

^R Revised.

Source: Bangladesh Bureau of Statistics (BBS).

Table-IV Trends in Growth and Sectoral Share of GDP (at FY06 constant prices)

| Sectors | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 ^R | FY18 ^R |
|---|--------------|--------------|--------------|--------------|--------------|--------------|-------------------|-------------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Growth in percent | | | | | | | | |
| i. Agriculture | 4.5 | 3.0 | 2.5 | 4.4 | 3.3 | 2.8 | 3.0 | 4.2 |
| a) Agriculture and forestry | 3.9 | 2.4 | 1.5 | 3.8 | 2.5 | 1.8 | 2.0 | 3.5 |
| 1. Crops and horticulture | 3.9 | 1.8 | 0.6 | 3.8 | 1.8 | 0.9 | 1.0 | 3.1 |
| 2. Animal farming | 2.6 | 2.7 | 2.7 | 2.8 | 3.1 | 3.2 | 3.3 | 3.4 |
| 3. Forest and related services | 5.6 | 6.0 | 5.0 | 5.0 | 5.1 | 5.1 | 5.6 | 5.5 |
| b) Fishing | 6.7 | 5.3 | 6.2 | 6.4 | 6.4 | 6.1 | 6.2 | 6.4 |
| ii. Industry | 9.0 | 9.4 | 9.6 | 8.2 | 9.7 | 11.1 | 10.2 | 12.1 |
| a) Mining and quarrying | 3.6 | 6.9 | 9.4 | 4.7 | 9.6 | 12.8 | 8.9 | 7.0 |
| b) Manufacturing | 10 | 10.0 | 10.3 | 8.8 | 10.3 | 11.7 | 11.0 | 13.4 |
| 1. Large and medium scale | 11.1 | 10.8 | 10.7 | 9.3 | 10.7 | 12.3 | 11.2 | 14.3 |
| 2. Small scale | 5.7 | 6.6 | 8.8 | 6.3 | 8.5 | 9.1 | 9.8 | 9.3 |
| c) Electricity, gas and water supply | 13.4 | 10.6 | 9.0 | 4.5 | 6.2 | 13.3 | 8.5 | 9.2 |
| d) Construction | 7.0 | 8.4 | 8.0 | 8.1 | 8.6 | 8.6 | 8.8 | 9.9 |
| iii. Services | 6.2 | 6.6 | 5.5 | 5.6 | 5.8 | 6.3 | 6.7 | 6.4 |
| a) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods | 6.7 | 6.7 | 6.2 | 6.7 | 6.4 | 6.5 | 7.4 | 7.5 |
| b) Hotel and restaurant | 6.2 | 6.4 | 6.5 | 6.7 | 6.8 | 7.0 | 7.1 | 7.3 |
| c) Transport, storage and communication | 8.4 | 9.2 | 6.3 | 6.1 | 6.0 | 6.1 | 6.8 | 6.6 |
| d) Financial intermediations | 10.4 | 14.8 | 9.1 | 7.3 | 7.8 | 7.7 | 9.1 | 7.9 |
| e) Real estate, renting and other business activities | 3.9 | 3.9 | 4.0 | 4.3 | 4.4 | 4.5 | 4.8 | 5.0 |
| f) Public administration and defence | 8.8 | 7.5 | 6.5 | 6.9 | 9.8 | 11.4 | 9.2 | 8.5 |
| g) Education | 5.6 | 7.8 | 6.3 | 7.3 | 8.0 | 11.7 | 11.4 | 7.0 |
| h) Health and social work | 6.3 | 3.8 | 4.8 | 5.1 | 5.2 | 7.5 | 7.6 | 7.0 |
| i) Community, social and personal services | 3.2 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.6 | 3.7 |
| GDP (at constant market prices) | 6.5 | 6.5 | 6.0 | 6.1 | 6.6 | 7.1 | 7.3 | 7.9 |
| Sectoral share (As Percent of GDP) | | | | | | | | |
| i. Agriculture | 18.0 | 17.4 | 16.8 | 16.5 | 16.0 | 15.4 | 14.7 | 14.2 |
| a) Agriculture and forestry | 14.3 | 13.7 | 13.1 | 12.8 | 12.3 | 11.7 | 11.1 | 10.7 |
| 1. Crops and horticulture | 10.5 | 10.0 | 9.5 | 9.3 | 8.9 | 8.4 | 7.9 | 7.5 |
| 2. Animal farming | 2.0 | 1.9 | 1.8 | 1.8 | 1.7 | 1.7 | 1.6 | 1.5 |
| 3. Forest and related services | 1.8 | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 | 1.6 |
| b) Fishing | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 | 3.6 | 3.6 |
| ii. Industry | 27.4 | 28.1 | 29.0 | 29.6 | 30.4 | 31.5 | 32.4 | 33.7 |
| a) Mining and quarrying | 1.6 | 1.6 | 1.7 | 1.6 | 1.7 | 1.8 | 1.8 | 1.8 |
| b) Manufacturing | 17.8 | 18.3 | 19 | 19.5 | 20.2 | 21.0 | 21.7 | 22.9 |
| 1. Large and medium scale | 14.3 | 14.9 | 15.5 | 16.0 | 16.6 | 17.4 | 18.0 | 19.1 |
| 2. Small scale | 3.4 | 3.4 | 3.5 | 3.5 | 3.6 | 3.6 | 3.7 | 3.8 |
| c) Electricity, gas and water supply | 1.4 | 1.4 | 1.5 | 1.4 | 1.4 | 1.5 | 1.5 | 1.5 |
| d) Construction | 6.7 | 6.8 | 6.9 | 7.0 | 7.2 | 7.3 | 7.4 | 7.5 |
| iii. Services | 54.6 | 54.5 | 54.2 | 54.00 | 53.6 | 53.1 | 52.9 | 52.1 |
| a) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods | 14.0 | 14.0 | 14.0 | 14.1 | 14.1 | 14.0 | 14.0 | 14.0 |
| b) Hotel and restaurant | 0.8 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| c) Transport, storage and communication | 11.2 | 11.5 | 11.5 | 11.5 | 11.4 | 11.3 | 11.3 | 11.1 |
| d) Financial intermediations | 3.0 | 3.2 | 3.3 | 3.3 | 3.4 | 3.4 | 3.5 | 3.5 |
| e) Real estate, renting and other business activities | 7.4 | 7.2 | 7.1 | 7.0 | 6.8 | 6.6 | 6.5 | 6.3 |
| f) Public administration and defence | 3.3 | 3.4 | 3.4 | 3.4 | 3.5 | 3.6 | 3.7 | 3.7 |
| g) Education | 2.2 | 2.2 | 2.2 | 2.3 | 2.3 | 2.4 | 2.5 | 2.5 |
| h) Health and social work | 2.0 | 1.9 | 1.9 | 1.9 | 1.8 | 1.8 | 1.9 | 1.8 |
| i) Community, social and personal services | 10.7 | 10.4 | 10.1 | 9.8 | 9.5 | 9.2 | 8.9 | 8.5 |
| 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 Development of Government Budgetary Operation

(Billion BDT)

| Description | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 ^R | FY19 (Budget) |
|---|---------------|----------------|----------------|----------------|----------------|----------------|-------------------|------------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 1. Revenue and foreign grants | 1182.6 | 1350.1 | 1467.3 | 1482.9 | 1748.4 | 2019.1 | 2639.1 | 3433.3 |
| i. Revenues | 1146.9 | 1281.3 | 1403.7 | 1459.7 | 1729.5 | 2012.1 | 2594.5 | 3392.8 |
| a) Tax revenue | 952.3 | 1074.5 | 1160.3 | 1288.0 | 1518.9 | 1780.8 | 2322.0 | 3059.3 |
| b) Non-tax revenue | 194.7 | 206.8 | 243.4 | 171.7 | 210.7 | 231.4 | 272.5 | 333.5 |
| ii. Foreign grants | 35.7 | 68.8 | 63.6 | 23.2 | 18.9 | 7.0 | 44.6 | 40.5 |
| 2. Expenditures | 1524.3 | 1740.1 | 1882.1 | 2043.8 | 2384.3 | 2695.0 | 3715.0 | 4645.7 |
| i. Non-development revenue expenditure | 893.0 | 993.8 | 1105.7 | 1189.9 | 1444.3 | 1644.9 | 1938.3 | 2516.7 |
| ii. Non-development capital expenditure | 71.6 | 49.4 | 104.4 | 105.3 | 123.8 | 113.6 | 167.5 | 307.5 |
| iii. Loans & advances (net) | 140.6 | 169.6 | 77.2 | 90.5 | 10.6 | 26.0 | 33.4 | 21.2 |
| iv. Annual Development Programme | 375.1 | 494.7 | 553.3 | 603.8 | 793.5 | 840.9 | 1483.8 | 1730.0 |
| v. Other expenditures | 44.0 | 32.6 | 41.5 | 54.3 | 12.1 | 69.6 | 92.0 | 70.3 |
| 3. Overall deficit (excluding grants) | 377.4 | 458.9 | 478.3 | 584.2 | 654.8 | 682.9 | 1120.4 | 1252.9 |
| 4. Overall deficit (including grants) | 341.7 | 390.1 | 414.8 | 560.9 | 635.9 | 675.9 | 1075.8 | 1212.4 |
| 5. Financing | 341.7 | 390.1 | 414.9 | 560.8 | 636.0 | 675.9 | 1075.8 | 1212.4 |
| i. Foreign borrowing - net | 36.3 | 58.1 | 33.5 | 49.1 | 128.7 | 116.0 | 415.7 | 500.2 |
| Foreign borrowing | 95.1 | 133.0 | 119.4 | 119.9 | 195.5 | 188.0 | 510.4 | 605.9 |
| Amortisation | -58.9 | -74.9 | -85.9 | -70.8 | -66.9 | -72.0 | -94.7 | -105.7 |
| ii. Domestic borrowing - net | 305.4 | 331.9 | 381.4 | 511.7 | 507.3 | 559.9 | 660.2 | 712.3 |
| Borrowing from banking system (net) | 271.9 | 274.6 | 181.7 | 5.1 | 106.1 | -83.8 | 199.2 | 420.3 |
| Non-bank borrowing (net) | 33.5 | 57.3 | 199.7 | 506.6 | 401.2 | 643.6 | 461.0 | 292.0 |
| Memorandum item : GDP* | 9147.8 | 10379.9 | 11810.0 | 15158.0 | 17328.6 | 19758.2 | 22504.8 | 25378.5 |

^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, 2017-18 and 2018-19, MoF.

Table-VI Trends in Money and Credit*

(Billion BDT)

| Particulars | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 ^P |
|---|--------|--------|--------|--------|--------|--------|---------|-------------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 1. Broad money (M2) [@] | 4405.2 | 5171.1 | 6035.1 | 7006.2 | 7876.1 | 9163.8 | 10160.8 | 11099.8 |
| 2. Total domestic credit [@] | 4308.9 | 5149.7 | 5717.4 | 6379.1 | 7015.3 | 8012.8 | 8906.7 | 10216.4 |
| A) Government sector | 901.8 | 1070.7 | 1195.8 | 1302.7 | 1269.3 | 1302.7 | 1146.1 | 1140.9 |
| i) Government (net) ^{@@} | 732.3 | 917.3 | 1101.2 | 1175.3 | 1102.6 | 1142.2 | 973.3 | 948.9 |
| ii) Other public sector | 169.5 | 153.4 | 94.6 | 127.4 | 166.7 | 160.5 | 172.8 | 192.0 |
| B) Private sector | 3407.1 | 4079.0 | 4521.6 | 5076.4 | 5746.0 | 6710.1 | 7760.6 | 9075.5 |
| 3. Broad money (M2) as % of GDP (at current market prices) | 48.1 | 49.0 | 50.3 | 52.1 | 52.0 | 52.9 | 51.4 | 49.6 |
| 4. M3 as % of GDP (at current market prices) | 55.7 | 55.9 | 56.7 | 59.0 | 60.0 | 62.1 | 62.4 | 61.4 |
| Growth in percent | | | | | | | | |
| 1. Broad money (M2) [@] | 21.3 | 17.4 | 16.7 | 16.1 | 12.4 | 16.3 | 10.9 | 9.2 |
| 2. Total domestic credit [@] | 27.5 | 19.5 | 11.0 | 11.6 | 10.0 | 14.2 | 11.2 | 14.7 |
| A) Government sector | 34.5 | 18.7 | 11.7 | 8.9 | -2.6 | 2.6 | -12.0 | -0.5 |
| i) Government (net) ^{@@} | 35.0 | 25.3 | 20.1 | 6.7 | -6.2 | 3.6 | -14.8 | -2.5 |
| ii) Other public sector | 32.3 | -9.5 | -38.4 | 34.7 | 30.9 | -3.7 | 7.7 | 11.1 |
| B) Private sector | 25.8 | 19.7 | 10.8 | 12.3 | 13.2 | 16.8 | 15.7 | 16.9 |
| 3. M3 | 18.9 | 15.6 | 15.3 | 16.5 | 14.8 | 18.3 | 14.6 | 11.4 |

^P Provisional[@] Figures correspond to end June^{@@} Includes adjustment of bonds issued by the Government.

Sources: Statistics Department, Bangladesh Bank & BBS.

**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 |
| FY18 | 245.22 | 5.78 | 266.64 | 7.13 | 217.77 | 3.74 | 246.82 | 5.54 | 265.33 | 5.98 | 223.09 | 4.87 |
| <u>FY17</u> | | | | | | | | | | | | |
| Jul-17 | 232.86 | 5.45 | 250.28 | 6.23 | 210.53 | 4.30 | 236.61 | 5.57 | 254.20 | 6.95 | 214.05 | 3.53 |
| Aug-17 | 233.97 | 5.50 | 251.75 | 6.48 | 211.18 | 4.03 | 239.92 | 5.89 | 259.60 | 7.32 | 214.68 | 3.75 |
| Sep-17 | 235.15 | 5.55 | 253.38 | 6.72 | 211.77 | 3.81 | 244.36 | 6.12 | 267.38 | 7.87 | 214.84 | 3.44 |
| Oct-17 | 236.31 | 5.59 | 254.97 | 6.89 | 212.40 | 3.66 | 245.86 | 6.04 | 269.73 | 7.62 | 215.26 | 3.61 |
| Nov-17 | 237.45 | 5.64 | 256.44 | 7.03 | 213.11 | 3.56 | 244.85 | 5.91 | 267.10 | 7.09 | 216.33 | 4.10 |
| Dec-17 | 238.58 | 5.70 | 257.92 | 7.17 | 213.78 | 3.51 | 245.03 | 5.83 | 267.06 | 7.13 | 216.79 | 3.85 |
| Jan-18 | 239.73 | 5.77 | 259.52 | 7.26 | 214.35 | 3.52 | 248.13 | 5.88 | 271.05 | 7.62 | 218.73 | 3.23 |
| Feb-18 | 240.84 | 5.79 | 261.05 | 7.30 | 214.94 | 3.54 | 247.81 | 5.72 | 270.25 | 7.27 | 219.04 | 3.36 |
| Mar-18 | 241.96 | 5.82 | 262.54 | 7.31 | 215.56 | 3.56 | 248.65 | 5.68 | 271.27 | 7.09 | 219.64 | 3.52 |
| Apr-18 | 243.06 | 5.83 | 264.03 | 7.32 | 216.18 | 3.58 | 248.85 | 5.63 | 271.42 | 7.03 | 219.90 | 3.49 |
| May-18 | 244.14 | 5.81 | 265.39 | 7.25 | 216.90 | 3.64 | 245.80 | 5.57 | 265.27 | 6.56 | 220.83 | 4.08 |
| Jun-18 | 245.22 | 5.78 | 266.64 | 7.13 | 217.77 | 3.74 | 246.82 | 5.54 | 265.33 | 5.98 | 223.09 | 4.87 |

*base: FY96=100, **base: FY06=100.

Source: Bangladesh Bureau of Statistics.

Table-VIII Quantum Index of Medium and Large-Scale Manufacturing Industry (base: FY06=100)

| Sl. No. | Major Industry Group | Weight | FY15 | FY16 | FY17 | FY18 ^P |
|---------|---|--------|--------|--------|--------|-------------------|
| 1. | General Index of Manufacturing | 100.00 | 236.11 | 267.88 | 297.89 | 344.89 |
| 2. | Food products | 10.84 | 333.07 | 385.1 | 410.42 | 501.03 |
| 3. | Beverages | 0.34 | 230.06 | 269.75 | 257.61 | 240.41 |
| 4. | Tobacco products | 2.92 | 147.37 | 135.48 | 139.57 | 164.37 |
| 5. | Textile | 14.07 | 122.81 | 138.9 | 168.39 | 195.19 |
| 6. | Wearing apparels | 34.84 | 304.76 | 338.73 | 343.74 | 388.62 |
| 7. | Leather and related products | 4.40 | 140.48 | 125.44 | 194.13 | 292.22 |
| 8. | Wood and products of wood and cork | 0.33 | 269.88 | 301.72 | 325.26 | 339.52 |
| 9. | Paper and paper products | 0.33 | 174.68 | 181.08 | 183.67 | 185.38 |
| 10. | Printing and reproduction of recorded media | 1.83 | 140.91 | 147.83 | 155.62 | 162.22 |
| 11. | Coke and refined petroleum products | 1.25 | 96.79 | 94.03 | 182.74 | 123.35 |
| 12. | Chemicals and chemical products | 3.67 | 77.49 | 92.6 | 104.04 | 100.78 |
| 13. | Pharmaceuticals and medicinal chemical | 8.23 | 290.98 | 319.26 | 424.30 | 528.19 |
| 14. | Rubber and plastic products | 1.56 | 292.69 | 338.14 | 359.79 | 411.93 |
| 15. | Other non-metallic mineral products | 7.12 | 182.78 | 258.34 | 341.85 | 381.85 |
| 16. | Basic metals | 3.15 | 187.13 | 202.85 | 174.04 | 185.27 |
| 17. | Fabricated metal products except machinery | 2.32 | 182.30 | 200.53 | 246.01 | 274.34 |
| 18. | Computer, electronic and optical products | 0.15 | 148.37 | 231.89 | 353.33 | 178.57 |
| 19. | Electrical equipment | 0.73 | 164.56 | 214.12 | 342.77 | 337.58 |
| 20. | Machinery and equipment n.e.c | 0.18 | 204.89 | 279.14 | 406.37 | 548.73 |
| 21. | Motor vehicles, trailers and semi trailers | 0.13 | 178.83 | 331.63 | 559.61 | 318.49 |
| 22. | Other transport equipment | 0.73 | 340.12 | 592.41 | 560.00 | 604.43 |
| 23. | Furniture | 0.88 | 116.35 | 132.02 | 151.44 | 184.81 |

^P Provisional

Source: Bangladesh Bureau of Statistics (BBS).

Table-IX Trends in 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) |
| 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 |
| 2010 | 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 |
| 2018 ^P | 1409.2 | 140.2 | 780.4 | 7.6 | 2337.4 |

^P Provisional

* 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 in 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) |
| 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 | 129.8 | 50.5 | 21.6 | 49.8 | 251.7 | 2520.3 | -525.4 | 2246.6 |
| 2018 ^P | 225.7 | 56.0 | 23.7 | 51.7 | 357.1 | 2532.5 | -552.2 | 2337.4 |

^P Provisional

Source: Statistics Department, Bangladesh Bank.

Table-XI Trends in 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 |
| 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 |
| 2018 | 204.1 | 1071.0 | 1275.1 | 2034.0 | 7131.9 | 9165.9 |
| Share in Percent | | | | | | |
| 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 |
| 2018 | 16.0 | 84.0 | 100 | 22.2 | 77.8 | 100 |

^{1/} Exclude inter-bank items.^{2/} Include government deposit.^{3/} Include wage earners' deposits.

Source: Statistics Department, Bangladesh Bank.

Table-XII Trends in Selected Statistics of Scheduled Banks

(Billion BDT)

| Particulars | 30 June 2011 | 30 June 2012 | 30 June 2013 | 30 June 2014 | 30 June 2015 | 30 June 2016 | 30 June 2017 | 30 June 2018 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 1. Bank deposits (exclude inter-bank items) | 4104.8 | 4900.4 | 5729.7 | 6625.7 | 7463.4 | 8496.3 | 9425.9 | 10441.5 |
| (A) Demand deposits | 481.1 | 510.6 | 557.4 | 643.4 | 723.8 | 897.6 | 1018.9 | 1132.2 |
| (B) Time deposits | 3374.2 | 4073.8 | 4799.0 | 5589.8 | 6268.0 | 7039.5 | 7760.0 | 8550.9 |
| (C) Restricted deposits | 0.3 | 0.2 | 0.8 | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 |
| (D) Government deposits | 249.2 | 315.7 | 372.5 | 392.2 | 471.2 | 558.7 | 646.5 | 757.9 |
| 2. Borrowings from the Bangladesh Bank | 178.3 | 216.6 | 94.4 | 55.3 | 48.2 | 183.9 | 243.9 | 323.3 |
| 3. Cash in tills | 57.3 | 64.8 | 78.2 | 85.8 | 102.1 | 102.3 | 137.3 | 140.2 |
| 4. Balances with the Bangladesh Bank including FCD | 384.0 | 472.4 | 453.4 | 558.5 | 568.5 | 672.9 | 815.9 | 871.6 |
| 5. Balances with other banks in Bangladesh | 104.3 | 120.2 | 159.4 | 168.8 | 159.3 | 206.6 | 285.8 | 444.3 |
| 6. Money at call and short notice | 29.4 | 57.4 | 53.0 | 49.9 | 25.3 | 51.7 | 65.4 | 46.7 |
| 7. Total investment @ | 754.3 | 967.3 | 1361.1 | 1698.8 | 1744.3 | 1798.7 | 1787.5 | 1848.0 |
| (A) Government securities & treasury bills * | 639.1 | 831.7 | 1208.1 | 1493.3 | 1524.2 | 1536.7 | 1476.5 | 1492.7 |
| (B) Others | 115.3 | 135.5 | 153.0 | 205.5 | 220.1 | 262.0 | 311.0 | 355.3 |
| 8. Bank credit (exclude inter-bank items and foreign bills) | 3409.3 | 4056.6 | 4372.0 | 4882.2 | 5533.4 | 6428.3 | 7456.1 | 8762.5 |
| (A) Advances in Bangladesh ** | 3198.9 | 3818.1 | 4172.9 | 4688.7 | 5333.1 | 6187.8 | 7166.6 | 8480.5 |
| (B) Inland bills purchased and discounted | 210.4 | 238.5 | 199.0 | 193.5 | 200.3 | 240.5 | 289.4 | 282.0 |
| 9. Credit/deposit ratio (excluding specialised banks) | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 | 0.8 | 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)

| | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|-------------------------------|------|------|------|------|------|------|------|------|
| 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* | | | | | | | | |
| 91-day | 5.6 | 5.7 | 8.4 | 6.9 | 5.4 | 3.9 | 3.8 | 3.9 |
| 182-day | 5.5 | 6.2 | 10.2 | 7.5 | 6.4 | 4.7 | 4.3 | 4.4 |
| 364-day | 6.2 | 6.2 | 10.4 | 8.0 | 6.8 | 5.2 | 4.5 | 4.6 |
| Call money rates* | | | | | | | | |
| Borrowing | 10.9 | 15.0 | 7.2 | 6.3 | 5.8 | 3.7 | 3.9 | 3.4 |
| Lending | 10.9 | 15.0 | 7.2 | 6.3 | 5.8 | 3.7 | 3.9 | 3.4 |
| Scheduled banks rates* | | | | | | | | |
| Deposits | 7.3 | 8.2 | 8.5 | 7.8 | 6.8 | 5.5 | 4.8 | 5.5 |
| Advances | 12.4 | 13.8 | 13.7 | 13.1 | 11.7 | 10.4 | 9.6 | 10.0 |

* Weighted average

Sources: Monetary Policy Department and Statistics Department, Bangladesh Bank.

Table-XIV Government Borrowing Position from the Banking System

(Billion BDT)

| Sl. No. | Particulars | Objectives | Outstanding as on 30 June 17 | Outstanding as on 30 June 18 ^p |
|--|---|--|------------------------------|---|
| 1 | 2 | 3 | 4 | 5 |
| A. Bangladesh Bank | | | | |
| 1 | Ways and Means Advances | To increase Government cash balance | 30.16 | 40.00 |
| 2 | Overdraft | | 0.00 | 27.84 |
| 3 | Overdraft Block | | 56.85 | 41.85 |
| 4 | Devolvement | | 50.31 | 106.83 |
| | a) Treasury Bills | | 8.12 | 48.82 |
| | b) Treasury Bonds | | 42.20 | 58.01 |
| 5 | Government Currency Liabilities | | 20.26 | 20.26 |
| 6 | Accrued Interest R | | 1.08 | 1.12 |
| 7 | Government Deposits ^{o/(-)} | | -0.29 | -0.33 |
| 8 | BB's Balances of GLIB Fund (-) | | -30.00 | -13.01 |
| A. Total : (1 +...+ 8)* | | | 128.38 | 224.57 |
| B. Deposit Money Banks (DMBs) | | | | |
| 1. Government Treasury Bills | | | 235.19 | 212.32 |
| i) | Treasury Bills (Less than 1 year) | To increase Government cash balance | 235.19 | 212.32 |
| 2. Bangladesh Govt. Treasury Bonds (BGTB) | | | 997.58 | 1035.27 |
| i) | 2-years Bangladesh Govt. Treasury Bonds | To increase long-term investment of | 71.09 | 80.18 |
| ii) | 5-years Bangladesh Govt. Treasury Bonds | different banks, non-bank financial | 245.04 | 213.69 |
| iii) | 10-years Bangladesh Govt. Treasury Bonds | institutions and employees GF of | 387.76 | 397.36 |
| iv) | 15-years Bangladesh Govt. Treasury Bonds | different companies | 162.85 | 187.10 |
| v) | 20-years Bangladesh Govt. Treasury Bonds | | 130.86 | 156.93 |
| 3. Others Treasury Bonds | | | 119.98 | 108.25 |
| a) | 1 Year and above but less than 5 years (Specialized Bonds) | | 0.00 | 0.41 |
| i) | 3-Years interest free Frozen Food Treasury Bond 2021 ^{1/} | To repay the loan of Frozen Food Industries | 0.00 | 0.41 |
| b) | 5 Years and above (Specialized Bonds) | | 119.98 | 107.85 |
| i) | 7 & 10-years (BJMC&BTMC) interest free Treasury Bond- 2017 & 2020 ^{2/} | To repay the loan of BJMC & BTMC | 3.39 | 2.04 |
| ii) | 25-years (Jute) Treasury Bond-2018 bearing 5.0 percent interest ^{3/} | To compensate for the liquidation of jute sector credit | 0.30 | 0.15 |
| iii) | 25-years (Jute) Treasury Bond-2019 bearing | To compensate for the liquidation of jute sector credit | 0.20 | 0.10 |
| iv) | 25-years (Jute) Treasury Bond-2020 bearing 5.0 percent interest ^{4/} | To reimburse one-third of the debt due to jute mills' loan write-off by the private banks. | 0.09 | 0.06 |
| v) | 10-years to 15-years (BPC) Treasury Bond bearing 5.0 percent interest ^{5/} | To repay the loan of Bangladesh Petroleum Corporation | 29.23 | 28.23 |
| vi) | 6-years (BPC) Treasury Bond bearing 7.0 percent interest ^{6/} | To repay the loan of Bangladesh Petroleum Corporation | 9.50 | 0.00 |

Table-XIV (contd.) Government Borrowing Position from the Banking System

(Billion BDT)

| Sl. No. | Particulars | Objectives | Outstanding as on 30 June 17 | Outstanding as on 30 June 18 ^p |
|-----------|--|-------------------------------------|------------------------------|---|
| 1 | 2 | 3 | 4 | 5 |
| | vii) 9-years to 13-years BJMC Treasury Bond bearing 5.0 percent interest | To repay the loan of BJMC | 17.92 | 17.92 |
| | viii) 7-years SPTB-2020 bearing 7.0 percent interest | To increase Government cash balance | 20.00 | 20.00 |
| | 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) | | 1352.75 | 1355.84 |
| 5. | Prize Bond/Income Tax Bond | | 0.26 | 0.25 |
| 6. | Government's other Securities | | 0.04 | 0.05 |
| 7. | Advances to Food Ministry | | 2.91 | 8.44 |
| 8. | Advances to Other Ministries | | 16.58 | 15.83 |
| 9. | Advances to Auto./Semi-Autonomous Bodies | | 14.16 | 23.75 |
| 10. | Accrued Interest | | 34.53 | 21.21 |
| 11. | Deposits of Ministries and Departments (-) | | -266.30 | -311.62 |
| 12. | Deposits of Auto./Semi-Autonomous Bodies (-) | | -380.21 | -446.29 |
| 13. | SBs's Balances of GIIB Fund (i+ii) | | 28.17 | 10.54 |
| | i) Investment to GIIB Fund | | 82.76 | 91.54 |
| | ii) Borrowing from GIIB Fund (-) | | -54.60 | -81.01 |
| B. | Total : (4+...+13) | | 802.87 | 678.01 |
| | Grand Total : A+B | | 931.25 | 902.58 |

Notes: @/ Including other deposits.

* Including GIIB Fund

^p Provisional^{1/} 3-Years interest free Frozen Food Treasury Bond was issued on 25 June, 2018 with an amount of 40.5 crore^{2/} An amount of Tk. 135 crore was paid in January 2018 against the outstanding of Tk. 339 crore in June 2017^{3/} An amount of Tk. 14.8 crore was paid in November 2017 against the outstanding of Tk. 29.6 crore in June 2017^{4/} An amount of Tk. 2.7 crore was paid in July 2017 against the outstanding of Tk. 8.9 crore in June 2017^{5/} An amount of Tk. 100 crore was paid in September 2017 against the outstanding of Tk. 2922.5 crore in June 2017^{6/} An amount of Tk. 950 crore was paid in December 2017 against the outstanding of Tk. 950 crore in June 2017

Source: Debt Management Department and Statistics Department, Bangladesh Bank .

Table-XV Government Borrowing from other than Banks

(Billion BDT)

| Sl. No. | Particulars | FY17 | | | | FY18 | | | |
|------------------------|--|-------------------|---------------|---------------|-------------------|---------------|---------------|---------------|---------------|
| | | Sale | Repayment | | Net Sale | Sale | Repayment | | Net Sale |
| | | | Principal | Interest | | | Principal | Interest | |
| 1 | 2 | 3 | 4 | 5 | 6 = (3-4) | 7 | 8 | 9 | 10 = (7-8) |
| NSD Instruments | | | | | | | | | |
| 1. | Defence Savings Certificate | 0.00 | 0.02 | 0.03 | -0.02 | 0.00 | 0.01 | 0.01 | -0.01 |
| 2. | 5-year Bangladesh Savings Certificate | 65.64 | 15.33 | 5.53 | 50.31 | 57.79 | 24.74 | 9.49 | 33.05 |
| 3. | 3-year Savings Certificate | 0.00 | 0.00 | 0.00 | 0.00 | 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 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 6. | Family Savings Certificate | 278.04 | 68.28 | 77.89 | 209.76 | 257.44 | 88.49 | 95.89 | 168.95 |
| 7. | 3-month interest bearing Savings Certificate | 209.98 | 65.40 | 39.19 | 144.58 | 236.51 | 106.52 | 53.66 | 129.99 |
| 8. | Jamanat Savings Certificate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 9. | Pensioner Savings Certificate | 55.21 | 13.73 | 11.23 | 41.48 | 59.00 | 20.81 | 16.52 | 38.19 |
| 10. | Post Office Savings Bank | 127.14 | 60.10 | 18.54 | 67.04 | 152.82 | 77.09 | 16.04 | 75.73 |
| | a) General Account | 23.56 | 19.36 | 2.83 | 4.19 | 33.73 | 25.37 | 2.04 | 8.35 |
| | b) Fixed Account | 103.59 | 40.74 | 15.72 | 62.85 | 116.61 | 49.38 | 13.94 | 67.23 |
| | c) Bonus Account | 0.00 | 0.00 | 0.00 | 0.00 | 2.48 | 2.34 | 0.05 | 0.15 |
| 11. | Postal Life Insurance | 0.87 | 0.86 | 0.24 | 0.02 | 0.87 | 0.85 | 0.26 | 0.02 |
| 12. | Prize Bond | 0.82 | 0.40 | 0.20 | 0.42 | 0.72 | 0.36 | 0.27 | 0.36 |
| 13. | Wage Earners' Development Bond | 11.05 | 1.88 | 4.60 | 9.17 | 19.03 | 1.70 | 6.78 | 17.33 |
| 14. | 3-year National Investment Bond | 0.00 | 0.01 | 0.00 | -0.01 | 0.00 | 0.00 | 0.00 | 0.00 |
| 15. | USD Premium Bond | 0.15 | 0.25 | 0.16 | -0.10 | 0.24 | 0.22 | 0.24 | 0.02 |
| 16. | USD Investment Bond | 2.44 | 0.92 | 0.55 | 1.52 | 3.44 | 1.77 | 0.86 | 1.68 |
| 17. | Total : (1+...+16) | 751.35 | 227.17 | 158.17 | 524.17 | 787.85 | 322.54 | 200.02 | 465.30 |
| | | Outstanding as on | | Net | Outstanding as on | Net | | | |
| | | 30 June 2017 | | Changes | 30 June 2018 | Changes | | | |
| 18. | Govt. Treasury Bills/Bonds | | 253.65 | 12.72 | 263.26 | | 9.60 | | |
| i) | Government Treasury Bills | | 2.21 | -0.92 | 2.31 | | 0.10 | | |
| ii) | Bangladesh Govt. Treasury Bonds (BGTBs) | | 251.45 | 13.63 | 260.95 | | 9.50 | | |
| a) | 2-year Bangladesh Government Treasury Bonds | | 3.72 | -0.97 | 1.92 | | -1.79 | | |
| b) | 5-year Bangladesh Government Treasury Bonds | | 57.78 | -3.11 | 60.70 | | 2.92 | | |
| c) | 10-year Bangladesh Government Treasury Bonds | | 102.91 | 4.69 | 109.18 | | 6.26 | | |
| d) | 15-year Bangladesh Government Treasury Bonds | | 37.88 | 7.26 | 40.85 | | 2.97 | | |
| e) | 20-year Bangladesh Government Treasury Bonds | | 49.15 | 5.77 | 48.29 | | -0.86 | | |
| 19. | Total Non-bank Government Borrowing (net) : (17+18) | | | 536.89 | | | 474.91 | | |

Sources: National Savings Directorate, Debt Management Department, Bangladesh Bank.

Table-XVI Trends in Balance of Payments*

(Million USD)

| Item | FY12 | FY13 | FY14 | FY15 | FY16 ^R | FY17 ^P | FY18 ^P |
|--|--------------|--------------|--------------|--------------|-------------------|-------------------|-------------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Trade balance | -9320 | -7009 | -6794 | -6965 | -6460 | -9472 | -18258 |
| Export f.o.b.(including EPZ) | 23989 | 26567 | 29777 | 30697 | 33441 | 34019 | 36205 |
| Of which : Readymade garments (RMG) | 19090 | 21516 | 24492 | 25491 | 28094 | 28150 | 30615 |
| Import f.o.b (including EPZ) | 33309 | 33576 | 36571 | 37662 | 39901 | 43491 | 54463 |
| Services | -3001 | -3162 | -4096 | -3186 | -2708 | -3288 | -4574 |
| Credit | 2694 | 2830 | 3115 | 3084 | 3523 | 3621 | 4539 |
| Debit | 5695 | 5992 | 7211 | 6270 | 6231 | 6909 | 9113 |
| Primary income | -1549 | -2369 | -2635 | -2252 | -1915 | -1870 | -2392 |
| Credit | 193 | 120 | 131 | 76 | 74 | 82 | 113 |
| Debit | 1742 | 2489 | 2766 | 2328 | 1989 | 1952 | 2505 |
| Of which : Official interest payments | 373 | 476 | 427 | 366 | 382 | 384 | 537 |
| Secondary income | 13423 | 14928 | 14934 | 15895 | 15345 | 13299 | 15444 |
| Official transfers | 106 | 97 | 83 | 75 | 67 | 59 | 49 |
| Private transfers | 13317 | 14831 | 14851 | 15820 | 15278 | 13240 | 15395 |
| of which: Workers' remittances | 12734 | 14338 | 14116 | 15170 | 14717 | 12769 | 14982 |
| Current account balance | -447 | 2388 | 1409 | 3492 | 4262 | -1331 | -9780 |
| Capital account | 482 | 629 | 598 | 496 | 464 | 400 | 292 |
| Capital transfers | 482 | 629 | 598 | 496 | 464 | 400 | 292 |
| Financial account | 1436 | 2770 | 2855 | 1267 | 944 | 4247 | 9076 |
| Foreign direct investment (gross inflows) [@] | --- | --- | --- | 2525 | 2502 | 3038 | 2798 |
| Of which: FDI net inflows | 1191 | 1726 | 1474 | 1172 | 1285 | 1653 | 1583 |
| Portfolio investment | 240 | 368 | 937 | 379 | 139 | 457 | 365 |
| Other investment | 5 | 676 | 444 | -284 | -480 | 2137 | 7128 |
| MLT loans (excluding suppliers credit) | 1539 | 2085 | 2404 | 2472 | 3033 | 3218 | 5785 |
| MLT amortization payments | 789 | 906 | 1018 | 910 | 849 | 895 | 1113 |
| Other long term loans (net) | 79 | -150 | 477 | -35 | -110 | -153 | 155 |
| Other short term loans (net) | 242 | -193 | -838 | -105 | -435 | 1030 | 1947 |
| Trade credit (net) | -1118 | -250 | -340 | -2508 | -2101 | -1185 | -1270 |
| Commercial Bank | 52 | 90 | -241 | 802 | -18 | 122 | 1624 |
| Assets | 443 | 396 | 898 | 86 | 347 | 178 | -260 |
| Liabilities | 495 | 486 | 657 | 888 | 329 | 300 | 1364 |
| Errors and omissions | -977 | -659 | 621 | -882 | -634 | -147 | -473 |
| Overall balance | 494 | 5128 | 5483 | 4373 | 5036 | 3169 | -885 |
| Reserve assets | -494 | -5128 | -5483 | -4373 | -5036 | -3169 | 885 |
| Bangladesh Bank | -494 | -5128 | -5483 | 4373 | 5036 | -3169 | 885 |
| Assets | 293 | 5196 | 5933 | 4249 | 5322 | 3208 | -661 |
| Liabilities | -201 | 68 | 450 | -124 | 286 | 39 | 224 |

^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.

Source: Statistics Department, Bangladesh Bank.

Table-XVII Trends in Category-wise Exports

(Million USD)

| Items | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 ^R | FY18 ^P |
|--|----------------|----------------|----------------|----------------|----------------|-------------------|-------------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| A. Frozen food | 598.4 | 543.8 | 638.2 | 568.1 | 535.8 | 526.45 | 508.43 |
| 1. Fish | 108.1 | 58.0 | 52.5 | 49.1 | 47.1 | 44.04 | 58.30 |
| 2. Shrimps | 471.7 | 454.9 | 550.2 | 509.7 | 448.6 | 446.04 | 408.71 |
| 3. Others | 18.6 | 30.9 | 35.6 | 9.2 | 40.1 | 36.37 | 41.42 |
| B. Agricultural products | 402.7 | 535.7 | 615.1 | 586.1 | 596.1 | 553.17 | 673.70 |
| 1. Vegetables | 77.4 | 110.3 | 147.6 | 103.2 | 104.3 | 81.03 | 77.98 |
| 2. Tobacco | 68.7 | 60.2 | 58.7 | 68.5 | 55.0 | 46.62 | 56.39 |
| 3. Cut flower | 50.5 | 41.4 | 39.3 | 11.4 | 4.7 | 0.08 | 0.09 |
| 4. Fruits | 57.2 | 71.9 | 61.8 | 38.5 | 20.2 | 2.69 | 2.24 |
| 5. Others | 148.9 | 251.9 | 307.7 | 364.5 | 411.8 | 422.75 | 537.00 |
| C. Manufactured products | 23300.8 | 25947.8 | 28923.4 | 30054.9 | 33125.4 | 33576.28 | 35486.04 |
| 1. Petroleum bi-products | 275.4 | 314 | 162.3 | 77.6 | 297.0 | 243.77 | 33.70 |
| 2. Chemical products | 103.0 | 93.0 | 93.2 | 111.9 | 123.7 | 139.99 | 150.72 |
| 3. Plastic products | 88.7 | 84.5 | 85.7 | 100.6 | 89.0 | 116.95 | 98.48 |
| 4. Leather & Leather products (Other than Leather Footwear) | 429.7 | 561.4 | 745.6 | 646.7 | 666.2 | 697.04 | 519.91 |
| 5. Cotton & cotton products | 113.0 | 125.0 | 115.6 | 107.04 | 102.76 | 109.49 | 124.85 |
| 6. Raw jute | 266.3 | 229.9 | 126.4 | 111.6 | 173.2 | 167.84 | 155.68 |
| 7. Jute goods | 701.1 | 800.7 | 698.1 | 757.0 | 746.4 | 794.58 | 869.87 |
| 8. Specialized textiles | 138.8 | 124.5 | 108.8 | 107.0 | 108.7 | 106.14 | 110.04 |
| 9. Knitwear | 9486.4 | 10475.9 | 12049.8 | 12426.8 | 13355.4 | 13757.25 | 15188.51 |
| 10. Woven garments | 9603.3 | 11039.9 | 12442.1 | 13064.6 | 14738.7 | 14392.59 | 15426.25 |
| 11. Home textile | 906.1 | 791.5 | 792.5 | 804.3 | 753.0 | 799.14 | 878.68 |
| 12. Footwear* | 335.5 | 419.3 | 550.1 | 673.3 | 714.0 | 777.84 | 809.69 |
| 13. Engineering products | 375.5 | 367.5 | 366.6 | 447.0 | 510.1 | 688.84 | 355.96 |
| 14. Others | 577.5 | 676.7 | 586.5 | 619.5 | 747.2 | 784.82 | 763.70 |
| Total (A+B+C) | 24301.9 | 27027.4 | 30186.6 | 31208.9 | 34257.2 | 34655.90 | 36668.17 |
| Of which exports from EPZ | 3425.5 | 3828.8 | 4480.27 | 4957.79 | 5439.33 | 5213.59 | 5785.26 |
| % of growth (compared to previous year) | 5.99% | 11.22% | 11.69% | 3.39% | 9.78% | 1.16% | 5.81% |

^R Revised, ^P Provisional

* Leather footwear also included in the total footwear.

Source : Export Promotion Bureau.

Table-XVIII Trends in Category-wise Imports

(Million USD)

| Items | FY13 | FY14 | FY15 | FY16 | FY17 ^R | FY18 ^P |
|--|----------------|----------------|----------------|----------------|-------------------|-------------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| A. Food Grains | 576.6 | 906.2 | 1490.6 | 1061.8 | 1286.4 | 3098.8 |
| 1. Rice | 15.7 | 102.8 | 508.0 | 112.8 | 89.3 | 1604.5 |
| 2. Wheat | 560.9 | 803.4 | 982.6 | 949.0 | 1197.1 | 1494.3 |
| B. Other Commodities | 36713.2 | 39710.2 | 39213.1 | 42060.7 | 45718.8 | 55766.5 |
| 1. Milk & cream | 230.1 | 280.3 | 277.2 | 216.0 | 253.6 | 321.7 |
| 2. Spices | 78.8 | 107.0 | 182.4 | 199.6 | 268.9 | 282.4 |
| 3. Oil seeds | 358 | 453.6 | 374 | 534.1 | 432.4 | 571.1 |
| 4. Edible oil | 3016.9 | 2946.3 | 923.8 | 1450.0 | 1625.6 | 1863.2 |
| 5. Pulses (all sorts) | 485.9 | 318.6 | 434.3 | 479.9 | 671.4 | 433.9 |
| 6. Sugar | 779.5 | 852.2 | 788.7 | 656.4 | 988.5 | 913.0 |
| 7. Clinker | 569.3 | 633.2 | 638.4 | 573.9 | 643.8 | 765.7 |
| 8. Crude petroleum | 60.7 | 72.3 | 316.0 | 385.8 | 477.6 | 365.2 |
| 9. POL | 3005.5 | 3371.5 | 2075.7 | 2275.4 | 2897.6 | 3652.3 |
| 10. Chemicals | 1411.6 | 1577.5 | 1723.7 | 1853.1 | 1975.5 | 2315.0 |
| 11. Pharmaceutical products | 197.5 | 210.8 | 136.9 | 237.2 | 245.6 | 252.7 |
| 12. Fertiliser | 1265.2 | 940.9 | 1338.9 | 1116.9 | 737.4 | 1005.6 |
| 13. Dyeing and tanning materials | 445.3 | 543.1 | 599.0 | 586.7 | 606.7 | 695.0 |
| 14. Plastics and rubber articles thereof | 1577.3 | 1822.2 | 2052.3 | 1951.1 | 2220.3 | 2525.1 |
| 15. Raw cotton | 2255.4 | 2464.3 | 2295.5 | 2244.9 | 2528.9 | 3235.4 |
| 16. Yarn | 1675.4 | 1816.9 | 1851.2 | 1968.7 | 1971.8 | 2351.0 |
| 17. Textile & textile articles thereof | 5071.1 | 5360.5 | 5742.0 | 6220.5 | 6038.0 | 6859.5 |
| 18. Staple fibre | 877.9 | 1010.1 | 1078.0 | 1018.1 | 1016.6 | 1179.7 |
| 19. Iron, steel & other base metals | 2865.2 | 2899.4 | 3265.0 | 3235.7 | 3771.0 | 4831.9 |
| 20. Capital machinery | 2250.0 | 2819.1 | 3320.5 | 3555.5 | 3816.8 | 5462.4 |
| 21. Others | 8236.6 | 9210.4 | 9799.5 | 11301.2 | 12530.8 | 15884.7 |
| Total Imports c.i.f. | 37289.8 | 40616.4 | 40703.7 | 43122.5 | 47005.2 | 58865.3 |
| Total Imports f.o.b. | 33576.0 | 36571.0 | 37662.0 | 39901.0 | 43491.0 | 54463.2 |
| Of Which Import by EPZ | 2444.7 | 3077.0 | 3138.1 | 3286.9 | 3190.7 | 3756.0 |

^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 | FY17 | | | FY18 | | | % Changes during FY18 over FY17 | | |
|---|-------------------|-------------------|--|-------------------|-------------------|--|---------------------------------|-------------------|--|
| | Fresh LCs opening | Settlement of LCs | Outstanding LCs at the end of the year | Fresh LCs opening | Settlement of LCs | Outstanding LCs at the end of the year | Fresh LCs opening | Settlement of LCs | Outstanding LCs at the end of the year |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| A. Consumer goods | 6076.2 | 5023.2 | 2278.2 | 8,166.4 | 7,577.0 | 2,346.8 | 34.4 | 50.8 | 3.0 |
| % of Total | 12.6 | 11.4 | 10.1 | 11.8 | 14.7 | 6.1 | | | |
| a) Food grains (rice & wheat) | 1478.6 | 1147.7 | 521.1 | 3,609.2 | 3,004.0 | 810.8 | 144.1 | 161.7 | 55.6 |
| b) Other than food grain | 4597.6 | 3875.4 | 1757.1 | 4,557.2 | 4,573.0 | 1,536.0 | -0.9 | 18.0 | -12.6 |
| B. Intermediate goods | 3974.1 | 3721.4 | 1688.2 | 4,745.6 | 4,112.3 | 1,993.8 | 19.4 | 10.5 | 18.1 |
| % of Total | 8.3 | 8.4 | 7.5 | 6.8 | 8.0 | 5.2 | | | |
| C. Industrial raw materials | 17725.9 | 16220.0 | 6537.7 | 19,824.7 | 18,224.1 | 7,491.3 | 11.8 | 12.4 | 14.6 |
| % of Total | 36.8 | 36.6 | 29.0 | 37.3 | 39.8 | 35.1 | | | |
| D. Petroleum and Petroleum products | 2573.0 | 2522.2 | 544.2 | 3,933.8 | 3,346.9 | 978.8 | 52.9 | 32.7 | 79.9 |
| % of Total | 5.4 | 5.7 | 2.4 | 5.7 | 6.5 | 2.5 | | | |
| E. Capital machinery | 5308.2 | 4854.6 | 6055.4 | 6,473.5 | 5,157.8 | 7,018.3 | 22.0 | 6.2 | 15.9 |
| % of Total | 11.0 | 11.0 | 26.8 | 9.3 | 10.0 | 18.3 | | | |
| F. Machinery for miscellaneous industry | 4950.0 | 4617.0 | 1937.1 | 5,846.7 | 4,977.7 | 2,696.6 | 18.1 | 7.8 | 39.2 |
| % of Total | 10.3 | 10.4 | 8.6 | 8.4 | 9.7 | 7.0 | | | |
| G. Others | 7518.7 | 7314.4 | 3515.3 | 20,430.5 | 8,134.8 | 15,930.1 | 171.7 | 11.2 | 353.2 |
| % of Total | 15.6 | 16.5 | 15.6 | 29.4 | 15.8 | 41.4 | | | |
| Total : | 48125.9 | 44272.8 | 22556.2 | 69,421.1 | 51,530.6 | 38,455.8 | 44.2 | 16.4 | 70.5 |
| Of which, back to back LCs | 7673.4 | 7014.2 | 2650.5 | 8,456.7 | 7,765.9 | 3,074.3 | 10.2 | 10.7 | 16.0 |

Source: Foreign Exchange Operation Department, Bangladesh Bank.

Table-XX Trends in Foreign Exchange Reserves

| Year (End June) | Total reserves | |
|--------------------|----------------|-------------|
| | million BDT | million USD |
| 1 | 2 | 3 |
| 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 |
| 2018 | 2,758,082 | 32,943 |

Source : Accounts & Budgeting Department, Bangladesh Bank.

Table-XXI Trends in BDT-USD Exchange Rates (period average)

| Year | BDT per USD |
|------|-------------|
| 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 |
| FY18 | 82.10 |

Source: Statistics Department, Bangladesh Bank.

Table-XXII Trends in Country-wise Workers Remittances

(Million USD)

| Countries | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY18 as % of Total |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | |
| Saudi Arabia | 3684.36 | 3829.45 | 3118.88 | 3345.23 | 2955.55 | 2267.22 | 2591.58 | 17.30 |
| UAE | 2404.78 | 2829.40 | 2684.86 | 2823.77 | 2711.74 | 2093.54 | 2429.96 | 16.22 |
| USA | 1498.46 | 1859.76 | 2323.32 | 2380.19 | 2424.32 | 1688.86 | 1997.95 | 13.34 |
| Kuwait | 1190.14 | 1186.93 | 1106.88 | 1077.78 | 1039.95 | 1033.31 | 1199.7 | 8.01 |
| Malaysia | 847.49 | 997.43 | 1064.68 | 1381.53 | 1337.14 | 1103.62 | 1107.21 | 7.39 |
| UK | 987.46 | 991.59 | 901.23 | 812.34 | 863.28 | 808.16 | 1106.01 | 7.38 |
| Oman | 400.93 | 610.11 | 701.08 | 915.26 | 909.65 | 897.71 | 958.19 | 6.40 |
| Qatar | 335.26 | 286.89 | 257.53 | 310.15 | 435.61 | 576.02 | 844.06 | 5.63 |
| Italy | 244.75 | 233.23 | 269.59 | 260.16 | 351.31 | 510.78 | 662.22 | 4.42 |
| Bahrain | 298.46 | 361.70 | 459.39 | 554.34 | 489.99 | 437.14 | 541.62 | 3.62 |
| Singapore | 311.46 | 498.79 | 429.11 | 443.44 | 387.24 | 300.99 | 330.16 | 2.20 |
| South Africa | 2.76 | 3.20 | 2.18 | 4.25 | 22.57 | 85.12 | 153.15 | 1.02 |
| France | 25.99 | 52.79 | 146.52 | 194.67 | 157.91 | 104.8 | 134.4 | 0.90 |
| Lebanon | 64.30 | 60.52 | 60.12 | 66.40 | 82.92 | 103.86 | 115.72 | 0.77 |
| Jordan | 8.49 | 15.72 | 26.39 | 44.96 | 56.74 | 91.02 | 111.16 | 0.74 |
| South Korea | 30.05 | 61.77 | 58.58 | 60.38 | 64.78 | 80.65 | 96.29 | 0.64 |
| Canada | 58.12 | 56.47 | 53.89 | 58.68 | 55.10 | 49.54 | 57.56 | 0.38 |
| Australia | 53.27 | 60.91 | 54.38 | 61.84 | 69.15 | 52.03 | 56.56 | 0.38 |
| Iraq | 24.04 | 27.09 | 24.33 | 39.66 | 56.98 | 68.9 | 52.21 | 0.35 |
| Mauritius | 19.21 | 22.72 | 26.41 | 31.02 | 43.51 | 42.21 | 46.73 | 0.31 |
| Other countries | 353.66 | 414.66 | 458.97 | 450.85 | 415.72 | 373.97 | 389.25 | 2.60 |
| Total | 12843.44 | 14461.13 | 14228.32 | 15316.90 | 14931.16 | 12769.45 | 14981.69 | 100.00 |

Sources : Upto FY16: Foreign Exchange Policy Department, Bangladesh Bank.

From FY17: Statistics Department, Bangladesh Bank.

Table-XXIII List of Scheduled Banks

(As on 30 June 2018)

| Banks | Date of Commencement | Remarks |
|--|----------------------|---|
| 1. State Owned/ government controlled banks (6+2=8) | | |
| 1.1. State Owned Commercial Banks (6) | | |
| Sonali Bank Ltd. | 16/12/1971 | Till 15/11/2007 was Sonali Bank. |
| Janata Bank Ltd. | 26/03/1972 | Till 15/11/2007 was Janata Bank. |
| Agrani Bank Ltd. | 26/03/1972 | Till 15/11/2007 was Agrani Bank.. |
| Rupali Bank Ltd. | 26/03/1972 | Till 14/12/1986 was Rupali Bank. |
| Bangladesh Development Bank Ltd. | 31/10/1972 | Bangladesh Shilpa Rin Sangstha was merged with Bangladesh Development Bank Ltd. in 03/01/2010 |
| Basic Bank Ltd. | 21/01/1989 | - |
| 1.2. Specialized Banks (2) | | |
| Bangladesh Krishi Bank | 31/03/1973 | Before 01/04/1973 was Agricultural Development Bank of BD. |
| Rajshahi Krishi Unnayan Bank | 15/03/1987 | - |
| 2. Private Commercial Banks (40) | | |
| AB Bank Ltd. | 12/04/1982 | - |
| National Bank Ltd. | 23/03/1983 | - |
| The City Bank Ltd. | 27/03/1983 | - |
| Islami Bank Bangladesh Ltd. | 30/03/1983 | - |
| IFIC Bank Ltd. | 24/06/1983 | - |
| United Commercial Bank Ltd. | 29/06/1983 | - |
| Uttara Bank Ltd. | 15/09/1983 | From 28/01/1965 was Eastern Banking Corporation, then from 1971 to 1983 was Uttara Bank. |
| Pubali Bank Ltd. | 24/01/1985 | From 19/05/1959 was The Eastern Mercantile Bank Ltd., then from 26/03/1972 to 1985 was Pubali Bank. |
| ICB Islamic Bank Ltd. | 20/05/1987 | Till 1988 was Al-Baraka Bangladesh Bank Ltd., then till 28/04/2008 was Oriental Bank Ltd. |
| Eastern Bank Ltd. | 16/08/1992 | - |
| National Credit And Commerce Bank Ltd. | 17/05/1993 | - |
| Prime Bank Ltd. | 17/04/1995 | - |
| Southeast Bank Ltd. | 25/05/1995 | - |
| Dhaka Bank Ltd. | 05/07/1995 | - |
| Al-Arafah Islami Bank Ltd. | 27/09/1995 | - |
| Social Islami Bank Ltd. | 22/11/1995 | - |
| Dutch-Bangla Bank Ltd. | 03/03/1996 | - |
| Bangladesh Commerce Bank Ltd. | 16/09/1998 | - |

Table-XXIII (contd.) List of Scheduled Banks

(As on 30 June 2018)

| Banks | Date of Commencement | Remarks |
|--|----------------------|---|
| Mercantile Bank Ltd. | 02/06/1999 | - |
| Standard Bank Ltd. | 03/06/1999 | - |
| One Bank Ltd. | 14/07/1999 | - |
| EXIM Bank Ltd. | 03/08/1999 | Converted into Islami Bank in July, 2004. |
| Mutual Trust Bank Ltd. | 24/10/1999 | - |
| First Security Islami Bank Ltd. | 25/10/1999 | Converted into Islami Bank in 2009. |
| The Premier Bank Ltd. | 26/10/1999 | - |
| Bank Asia Ltd. | 27/11/1999 | - |
| Trust Bank Ltd. | 29/11/1999 | - |
| Jamuna Bank Ltd. | 25/04/2001 | - |
| Shahajalal Islami Bank Ltd. | 10/05/2001 | - |
| BRAC Bank Ltd. | 01/07/2001 | - |
| Union Bank Ltd. | 01/03/2013 | - |
| Midland Bank Ltd. | 09/04/2013 | - |
| NRB Commercial Bank Ltd. | 18/04/2013 | - |
| SBAC Bank Ltd. | 28/04/2013 | - |
| Meghna Bank Ltd. | 09/05/2013 | - |
| The Farmers Bank Ltd. | 03/06/2013 | - |
| NRB Bank Ltd. | 04/08/2013 | - |
| NRB Global Bank Ltd. | 09/09/2013 | - |
| Modhumoti Bank Ltd. | 19/09/2013 | - |
| Shimanto Bank Ltd. | 21/07/2016 | - |
| 3. Foreign Commercial Banks (9) | | |
| Standard Chartered Bank | 13/05/1972 | From 12/06/1965 was Chartered Bank. |
| State Bank of India | 05/05/1975 | - |
| Habib Bank Ltd. | 03/06/1976 | - |
| National Bank of Pakistan | 18/04/1994 | - |
| Citi Bank N.A. | 24/06/1995 | - |
| Woori Bank | 21/09/1996 | - |
| The HSBC Ltd. | 17/12/1996 | - |
| Commercial Bank of Ceylon PLC | 06/11/2003 | - |
| Bank Alfalah Ltd. | 24/04/2005 | - |

Source: Banking Regulation and Policy Department, BB

Table-XXIV List of Financial Institutions*

(As on 30 June 2018)

A. State-owned financial institutions**Sole owner**

1. Agrani SME Financing Company Limited
2. Bangladesh Infrastructure Finance Fund Limited
3. Infrastructure Development Company Limited

Joint Venture with foreign government

1. Bay leasing & Investment Limited
2. CAPM Venture Capital & Finance Limited

B. Private financial institutions

1. Bangladesh Finance & Investment Company Limited
2. Bangladesh Industrial Finance Company Limited
3. Bay leasing & Investment Limited
4. CAPM Venture Capital & Finance Limited
5. Delta Brac Housing Finance Corporation Limited
6. Fareast Finance & Investment Limited
7. FAS Finance & Investment Limited
8. First Finance Limited
9. GSP Finance Company (Bangladesh) Limited
10. Hajj Finance Company Limited
11. IDLC Finance Limited
12. Industrial & Infrastructure Development Finance Company Limited
13. International Leasing & Financial Services Limited
14. IPDC Finance Limited
15. Islamic Finance & Investment Limited
16. Lanka Bangla Finance Limited
17. Lankan Alliance
18. Meridian Finance and Investment Limited
19. MIDAS Financing Limited
20. National Finance Limited
21. National Housing Finance & Investment Limited
22. Peoples Leasing & Financial Services Limited
23. Phoenix Finance & Investment Limited
24. Premier Leasing & Finance Limited
25. Prime Finance & Investment Limited
26. Reliance Finance Limited
27. Union Capital Limited
28. United Finance Limited
29. Uttara Finance & Investment Limited

* Licensed by the Bangladesh Bank under Financial Institutions Act, 1993.

Note: Ranked alphabetically.

Source: Department of Financial Institutions and Market, BB.

Appendix-4

Banking Performance Indicators

(Table: I-XIII)

Table-I Banking System Structure

(billion BDT)

| Bank type | 2018 (June) | | | | | |
|--------------|-----------------|--------------------|-----------------|--------------------------|----------------|-------------------|
| | Number of banks | Number of branches | Total assets | Share of industry assets | Deposits | Share of deposits |
| SCBs | 6 | 3721 | 3379.52 | 25.88 | 2700.63 | 27.35 |
| DFIs | 2 | 1407 | 317.59 | 2.43 | 273.32 | 2.77 |
| PCBs | 40 | 4758 | 8758.30 | 67.07 | 6508.19 | 65.91 |
| FCBs | 9 | 69 | 603.86 | 4.62 | 392.75 | 3.98 |
| Total | 57 | 9955 | 13059.26 | 100 | 9874.89 | 100 |

Source: Bangladesh Bank

Table-II Capital to Risk Weighted Assets Ratio by Type of Banks

(Percent)

| Banks type | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 June |
|--------------|------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| SCBs | 8.9 | 11.7 | 8.1 | 10.8 | 8.26 | 6.35 | 5.86 | 5.04 | 2.0 |
| DFIs | -7.3 | -4.5 | -7.8 | -9.7 | -17.3 | -31.95 | -33.67 | -35.45 | -31.86 |
| PCBs | 10.1 | 11.5 | 11.4 | 12.6 | 12.5 | 12.38 | 12.36 | 12.52 | 12.24 |
| FCBs | 15.6 | 21.0 | 20.6 | 20.2 | 22.6 | 25.60 | 25.37 | 24.90 | 22.97 |
| Total | 9.3 | 11.4 | 10.5 | 11.5 | 11.3 | 10.84 | 10.80 | 10.83 | 10.00 |

Source: Bangladesh Bank

Table-III NPL Ratios by Type of Banks

(Percent)

| Bank type | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 June |
|--------------|------------|------------|-------------|------------|-------------|-------------|-------------|-------------|--------------|
| SCBs | 15.7 | 11.3 | 23.9 | 19.8 | 22.23 | 21.46 | 25.05 | 26.52 | 28.24 |
| DFIs | 24.2 | 24.6 | 26.8 | 26.8 | 32.81 | 23.24 | 26.02 | 23.39 | 21.68 |
| PCBs | 3.2 | 2.9 | 4.6 | 4.5 | 4.98 | 4.85 | 4.58 | 4.87 | 6.01 |
| FCBs | 3.0 | 3.0 | 3.5 | 5.5 | 7.30 | 7.77 | 9.56 | 7.04 | 6.66 |
| Total | 7.3 | 6.1 | 10.0 | 8.9 | 9.69 | 8.79 | 9.23 | 9.31 | 10.41 |

Source: Bangladesh Bank

Table-IV Ratio of Net NPL to Total Loans by Type of Banks

| (Percent) | | | | | | | | | |
|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Bank type | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 June |
| SCBs | 1.9 | -0.3 | 12.8 | 1.7 | 6.1 | 9.2 | 11.1 | 11.2 | 11.7 |
| DFIs | 16.0 | 17.0 | 20.4 | 19.7 | 25.5 | 6.9 | 10.5 | 9.7 | 7.4 |
| PCBs | 0.00 | 0.2 | 0.9 | 0.6 | 0.8 | 0.6 | 0.1 | 0.2 | 0.8 |
| FCBs | -1.7 | -1.8 | -0.9 | -0.4 | -0.9 | -0.2 | 1.9 | 0.7 | 0.8 |
| Total | 1.3 | 0.7 | 4.4 | 2.0 | 2.7 | 2.3 | 2.3 | 2.2 | 2.7 |

Source: Bangladesh Bank

Table-V Amount of NPLs

| (billion BDT) | | | | | | | | | |
|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Bank type | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 June |
| SCBs | 107.6 | 91.7 | 215.2 | 166.1 | 227.6 | 272.8 | 310.3 | 373.3 | 428.5 |
| DFIs | 49.7 | 56.5 | 73.3 | 83.6 | 72.6 | 49.7 | 56.8 | 54.3 | 52.4 |
| PCBs | 64.3 | 72.0 | 130.4 | 143.1 | 184.3 | 253.3 | 230.6 | 294.0 | 389.8 |
| FCBs | 5.5 | 6.3 | 8.5 | 13.0 | 17.1 | 18.2 | 24.1 | 21.5 | 22.7 |
| Total | 227.1 | 226.4 | 427.3 | 405.8 | 501.6 | 594.1 | 621.8 | 743.0 | 893.4 |

Source: Bangladesh Bank

Table-VI Required Provision and Provision Maintained-All Banks

| (billion BDT) | | | | | | | | | |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-----------|
| All Banks | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 June |
| Amount of NPLs | 227.1 | 226.4 | 427.3 | 405.8 | 501.6 | 594.1 | 621.7 | 743.0 | 893.4 |
| Required Provision | 149.2 | 148.2 | 242.4 | 252.4 | 289.6 | 308.9 | 362.1 | 443.0 | 528.8 |
| Provision maintained | 142.3 | 152.7 | 189.8 | 249.8 | 281.6 | 266.1 | 307.4 | 375.3 | 448.9 |
| Excess(+)/Shortfall(-) | -6.9 | 4.6 | -52.6 | -2.6 | -7.9 | -42.8 | -54.7 | -67.7 | -79.9 |
| Provision maintenance ratio (%) | 95.4 | 103.0 | 78.3 | 99.0 | 97.2 | 86.1 | 84.9 | 84.7 | 84.9 |

Source: Bangladesh Bank

Table-VII Comparative Position of Provision Adequacy

| (billion BDT) | | | | | | |
|---------------|---------------------------------|-------|-------|-------|-------|--|
| Year | Items | SCBs | SBs | 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 | Required provision | 216.9 | 26.1 | 184.3 | 15.6 | |
| | Provision maintained | 134.3 | 26.2 | 198.2 | 16.5 | |
| | Provision maintenance ratio (%) | 61.9 | 100.4 | 107.5 | 105.8 | |
| 2018 June | Required provision | 252.9 | 25.0 | 234.6 | 16.2 | |
| | Provision maintained | 162.0 | 27.9 | 242.0 | 16.9 | |
| | Provision maintenance ratio (%) | 64.1 | 111.6 | 103.2 | 104.3 | |

Source: Bangladesh Bank

Table-VIII Writing-off Bad Debts in Different Banks Categories

(billion BDT)

| Bank type | 30 June 10 | 30 June 11 | 30 June 12 | 30 June 13 | 30 June 14 | 30 June 15 | 30 June 16 | 30 June 17 | 31 Dec 17 |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| SCBs | 70.5 | 82.4 | 72.9 | 107.2 | 154.8 | 210.3 | 220.4 | 224.4 | 226.2 |
| DFIs | 31.8 | 32.0 | 24.5 | 32.6 | 34.2 | 5.6 | 5.6 | 5.6 | 5.6 |
| PCBs | 69.6 | 77.1 | 64.9 | 109.7 | 127.7 | 155.5 | 189.4 | 216.7 | 239.9 |
| FCBs | 2.1 | 2.4 | 2.6 | 3.7 | 4.4 | 5.1 | 7.2 | 8.6 | 10.3 |
| Total | 174.0 | 193.9 | 164.9 | 253.3 | 321.1 | 376.5 | 423.2 | 455.3 | 482.0 |

Source: Bangladesh Bank

Table-IX Expenditure-Income Ratio by Type of Banks

(Percent)

| Bank types | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 June |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|
| SCBs | 80.7 | 62.7 | 73.2 | 84.1 | 84.1 | 84.5 | 90.2 | 81.30 | 83.9 |
| DFIs | 87.8 | 88.6 | 91.2 | 94.8 | 99.5 | 113.9 | 137.8 | 124.00 | 149.9 |
| PCBs | 67.6 | 71.7 | 76.0 | 77.9 | 75.8 | 75.5 | 73.5 | 73.78 | 78.4 |
| FCBs | 64.7 | 47.3 | 49.6 | 50.4 | 46.8 | 47.0 | 45.7 | 46.55 | 44.3 |
| Total | 70.8 | 68.6 | 74.0 | 77.8 | 76.1 | 76.3 | 76.6 | 74.69 | 80.3 |

Source: Bangladesh Bank

Table-X Profitability Ratios by Types of Banks

(Percent)

| Bank types | Return on assets (ROA) | | | | | | | | | Return on equity (ROE) | | | | | | | | |
|------------|------------------------|------|-------|-------|-------|-------|-------|-------|-----------|------------------------|------|--------|-------|--------|-------|--------|-------|-----------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 June | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 June |
| SCBs | 1.1 | 1.3 | -0.56 | 0.59 | -0.55 | -0.04 | -0.16 | 0.21 | -0.68 | 18.4 | 19.7 | -11.87 | 10.93 | -13.46 | -1.47 | -6.02 | 3.45 | -12.29 |
| DFIs | 0.2 | 0.1 | 0.06 | -0.40 | -0.68 | -1.15 | -2.80 | -0.62 | -1.62 | -3.2 | -0.9 | -1.06 | -5.81 | -5.97 | -5.79 | -13.88 | -3.07 | -8.44 |
| PCBs | 2.1 | 1.6 | 0.92 | 0.95 | 0.99 | 1.00 | 1.03 | 0.89 | 0.57 | 20.9 | 15.7 | 10.17 | 9.76 | 10.26 | 10.75 | 11.09 | 12.01 | 8.19 |
| FCBs | 2.9 | 3.2 | 3.27 | 2.98 | 3.38 | 2.92 | 2.56 | 2.24 | 2.75 | 17.0 | 16.6 | 17.29 | 16.93 | 17.67 | 14.59 | 13.08 | 11.31 | 13.65 |
| Total | 1.8 | 1.5 | 0.64 | 0.90 | 0.64 | 0.77 | 0.68 | 0.74 | 0.29 | 21.0 | 17.0 | 8.20 | 11.10 | 8.09 | 10.51 | 9.42 | 10.60 | 4.44 |

Source: Bangladesh Bank

Table-XI Net Interest Margin by Types of Banks

| Bank types | (percent) | | | | | | | |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 June |
| SCBs | 3.66 | 1.18 | -0.32 | 1.96 | 1.62 | 1.75 | 1.98 | 2.13 |
| DFIs | 3.70 | 2.92 | 1.98 | 1.50 | 1.43 | 0.76 | 2.05 | 0.86 |
| PCBs | 3.19 | 3.06 | 2.77 | 4.11 | 3.85 | 3.89 | 3.52 | 3.52 |
| FCBs | 5.57 | 5.56 | 3.73 | 5.98 | 6.08 | 4.99 | 4.35 | 4.64 |
| Total | 3.48 | 2.79 | 2.02 | 3.56 | 3.28 | 3.27 | 3.13 | 3.18 |

Source: Bangladesh Bank

Table-XII Liquidity Ratio by Type of Banks (SLR)

| Bank types | (percent) | | | | | | | | |
|--------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 June |
| SCBs | 27.2 | 31.3 | 29.2 | 44.3 | 42.0 | 41.39 | 40.02 | 30.37 | 31.66 |
| DFIs | 21.3 | 6.9 | 12.0 | 15.3 | 6.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| PCBs | 21.5 | 23.5 | 26.3 | 28.0 | 28.2 | 19.69 | 17.83 | 14.80 | 21.5 |
| FCBs | 32.1 | 34.1 | 37.5 | 46.2 | 56.9 | 51.78 | 48.23 | 43.82 | 46.78 |
| Total | 23.0 | 25.4 | 27.1 | 32.5 | 32.7 | 26.52 | 24.85 | 19.86 | 20.29 |

Source: Bangladesh Bank

Table-XIII Branch, Deposit and Advance in the Banking System-Rural and Urban

| Year | Number of branch ¹ | | | Deposit ² | | | Advance ² | | |
|-------------------|-------------------------------|-------|-------|----------------------|--------|---------|----------------------|--------|--------|
| | Rural | Urban | Total | Rural | Urban | Total | Rural | Urban | Total |
| | (billion BDT) | | | | | | | | |
| 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 | 5334 | 4063 | 9397 | 1575.1 | 6364.7 | 7939.8 | 571.3 | 5227.3 | 5798.6 |
| 2016 | 5466 | 4188 | 9654 | 1843.9 | 7150.3 | 8994.1 | 680.0 | 6006.6 | 6686.6 |
| 2017 | 5624 | 4331 | 9955 | 2028.7 | 7837.0 | 9865.7 | 839.8 | 7087.0 | 7926.8 |
| 2018 ^P | 4890 | 5224 | 10114 | 2142.8 | 8223.6 | 10366.4 | 863.1 | 7607.1 | 8470.2 |

^P Provisional data as of end June. (Some of rural areas has upgraded to urban areas, as a result number of urban branches has exceeded the number of rural branches.)

Sources: ¹ Banking Regulation and Policy Department, ² Statistics Department, BB.

Appendix-5

Bangladesh Bank Library: New Dimension of Information Service

Bangladesh Bank Library (BBL) has emerged as one of the specialized libraries in the country keeping up with the modern technology. The BBL began its journey in 1962 with the name 'State Bank of Pakistan Library'. In 1971, Bangladesh made its appearance in the world map as a sovereign independent state by sacrificing millions of lives in liberation war. After that, the then 'State Bank of Pakistan' was renamed as 'Bangladesh Bank' to play the role of central bank of the country. The library has had a rebirth as 'Bangladesh Bank Library (BBL)' in line with the spirit of liberation war.

Role of BBL in Economy of the Country

Bangladesh Bank plays a key role in developing and stabilizing economy of Bangladesh. BBL act as the central hub as well as cultural centre through acquisition, preservation and dissemination of knowledge. There is a huge collection of books and e-books published on economics, banking, finance, central bank, monetary policy, international trade and so on to facilitate research works on Bangladesh economy. Besides, a lot of journal papers and research articles related with the economic development is also preserved here for the researchers.

BBL as a Patron to the History, Civilization and Culture

As a patron to the history, civilization and culture, BBL collects and preserves all the renowned books/articles on history, arts and literature published in Bangladesh. Moreover, BBL collects and preserves books/articles published from outside Bangladesh on the history, arts and literature related to Bangladesh.

BBL Collection in the Spirit of Language Movement and Liberation War

It all started in 1952 through language movement to have established Bangladesh as a sovereign independent country. In the course of time, the movement gained momentum and came into fruition giving birth a country through 6-point movement, uprising of 1969 and finally liberation war of 1971. Numerous books based on these continuous movements and the liberation war have been kept separately in BBL as a special corner named 'Liberation War Corner'.

Having started its journey rendering traditional library services since 1962, BBL has started providing some of its services in automated manner from 2003. After persistent efforts from the officials and employees working in the library and with the help of the Bangladesh Bank's IT Operation and Communication Department (IT OCD), a new dimension has been added to the library in 2012 resulting in Bangladesh Bank e-Library, which has been gradually transforming into a full-fledged e-Library. To make this happen, the BBL has been divided into four sections.

1. Library Section

'Circulation Desk' works as the focal point for the BBL. Besides issuing and returning library materials through e-Library system, issue and return service is being provided over telephone and email as well.

This section provides services such as reference, catalogue search, re-issue, sending overdue

notification, inter-library loan as well as receives users' requisitions to facilitate book selection. From purchasing a book through classifying them to shelving is also done by this section. Library section also provides users with various types of reference services. Moreover, this section provides SDI (Selective Dissemination of Information) service analyzing users' profile according to their needs. This section also completes the task of informing the readers about the new collection through e-mail, Intranet, 'Bangladesh Bank Porikroma' as well as Bank's website.

2. Documentation Section

Documentation section of BBL collects and preserves all the reports and publications from ministry of finance, planning ministry and Bangladesh Bureau of Statistics (BBS) as well as foreign central banks, various financial institutes reports, 4 daily newspapers since 1962, Bangladesh gazettes since 1971 and other reports related with our national economy. This section also collects reports from various national and international research organizations such as BIDS, World Bank, IMF, other central banks of the world, United Nations, etc. At present, documentation section is collecting 35 national newspapers including the top daily newspapers of the country and 3 popular and international newspapers. The Documentation section is currently subscribing e-Journals of more than 25,000 titles through 'Bangladesh INASP-PERI Consortium (BIPC)' and has been able to prepare a rich collection of e-books and e-journals. Additionally, to facilitate research on topics related to Islamic Finance, this section subscribe e-Resource of 'International Center for Education in Islamic Finance (INCEIF)' under The Global University of Islamic Finance'. Documentation section is also rendering Intranet based 'e-News clipping' service. Library personnel clipped news on daily basis related to Bangladesh Bank, other banks and financial institutions, budgets, national and international economies, capital market, agriculture, various development projects, inflation and the like sectors from the national and international daily newspapers, whereby, any officials and employee can have a look at important news sitting right on his/ her own desk.

3. Institutional Repository or Archive Section

To provide services to the present and future users from a focal point or repository, this section of BBL naming itself as 'Institutional Repository or Archive Section' since 2012 collects and permanently preserves all the publications, research reports, circulars, rules-regulations, policies, guidelines, press releases, advertisements, notices and other important documents of the Bangladesh Bank. Although the activities of this section are new, it plays a leading role in building the BBL as a 'Green Library'. In addition to this, while implementing e-Noting for the whole Bangladesh Bank, soft documents of this section can be used as a reference. Users can consult these documents seeking proper permission. Important notes, contracts, technical reports and rare information from all departments and offices of Bangladesh Bank having future reference value are also preserved in this section. Besides, this section collects and preserves softcopy of reports collected from higher education and training, research report, journal articles and other training equipment obtained from home and abroad by the officials of the Bangladesh Bank.

4. Audio-visual, Language and Cyber Section

This section of BBL has been developed with documentary, photographs and historically accredited collections on Bangladesh Bank, National and International Politics and banking sector. Documentaries and significant video footage and awareness advertisements from Bangladesh Bank as well as from various commercial banks of Bangladesh, historical documentaries and films on Bangladesh liberation war, language movement and uprising of 1969 can be found in this section. Besides these, song, drama and film on liberation war, Oscar winning and classical movies and videos related to bank and economy and video-based child education materials also added new dimensions to the library. Currently there are about 600 CDs and DVDs under this section. Apart from this, the video footage of budget speeches from 2005-2006 to the current year (2018-2019) has already been preserved in this section. There is a 'Language Corner' in this section containing various educational resources (IELTS, GRE, TOEFL) to develop English and other languages of the world.

In the cyber section of the library, special services have been provided to the retired officers and employees of Bangladesh Bank by providing facilities of Internet and Intranet use. Moreover, this section of BBL ensures access to the Internet services to all types of users.

Other Services and Facilities

In order to facilitate the users, collections of BBL has been classified based on an international standard, 'Dewey Decimal Classification (DDC)'. As a result, it has been possible to organize homogeneous books at one place in the library so that the reader can choose their books very easily according to their similarities.

After classifying the books in the library, 'Radio Frequency Identification (RFID)' tags are attached to each resource for security purposes. As a result, library users can issue their favorite books themselves through 'self-check kiosks'. Short biography with photographs of all the governors and deputy governors of Bangladesh Bank, photographs of various rewarded officials of Bangladesh Bank, different branch offices of the bank, recent activities, documentaries on various currency preserved in the money museum are displayed through 5 Signages and 7 kiosks. From different branch offices of the Bangladesh Bank, employees and officers can access the BBL portal, know about the collection of the branch office library as well as borrow the demanded books from the Head Office library through respective branch offices using Intranet.

Today's children would become leader tomorrow. In order to build and nourish intellects among children, BBL also preserves children's books in its collections. Children of Bangladesh Bank officials and employees can study their favorite books from the collection at their leisure period. These children's books are arranged in a separate shelf called 'Child Corner', which introduces the children of the bank's officials and employees to a broad horizon. Apart from these books, there is a collection of many religious books and scholarly works on different religions. Books written by different governors are kept in a separate shelf, known as 'Governor Shelf'. Besides, books written

by other officials of Bangladesh Bank are kept in 'BB Writers' Shelf.

In order to provide tranquil environment for the study of high officials of the bank, there is a 'Executive Corner' in BBL. Governor, deputy governors and executive directors of Bangladesh Bank, senior officials of the Government of Bangladesh get the opportunity to study here. Besides, there are arrangements for reader corners in BBL to facilitate the study of general readers.

There is a 'Discussion Room' in BBL to facilitate user discussion on contemporary issues. There is a 'projection room' where library users and officials can share their views through presentation. In the Projection Room, various programs like 'Library Orientation program', 'Book Review Program' are arranged to increase the efficiency of the user community.

To facilitate tranquil research environment, 6-study carrels have been established. In each study carrel, the researchers can easily find necessary books and material as well as computer and internet access. BBL has distributed free books and magazines among the officials and employees of Bangladesh Bank through 'Book Donation Program'. By doing this, the library has been given a special status to everyone in the bank.

'Book Review Program' organized by the library has represented it with a new dimension to the officials and employees of Bangladesh Bank. The library has created the opportunity to culture a particular book among the reader-folk through book review program. On the one hand, this initiative has made readers interested in reading books, on the other hand, reader community is being able to understand the messages of that particular book without even reading it.

Today, BBL is able to fulfill the expectations of people in providing services. Bangladesh Bank Library officials are committed to make the library known in the world as a specialized digital library in coming days.

List of Major Publications of Bangladesh Bank

ANNUAL

1. Annual Report (Bengali)
2. Annual Report (English)
3. Financial Stability Report
4. BFIU Annual Report
5. Export Receipts*
6. Import Payments*
7. Balance of Payments*

HALF YEARLY

1. Foreign Direct Investment in Bangladesh
2. Monetary Policy Statement*

QUARTERLY

1. Scheduled Bank Statistics*
2. Bangladesh Bank Quarterly
3. Quarterly Financial Stability Assessment Report

MONTHLY

1. Economic Trends
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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General Manager, Research Department of Bangladesh Bank may be contacted for all sorts of correspondence relating to Annual Report. Phone: 9530167; email: awwal.sarker@bb.org.bd.

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