

Financial Markets

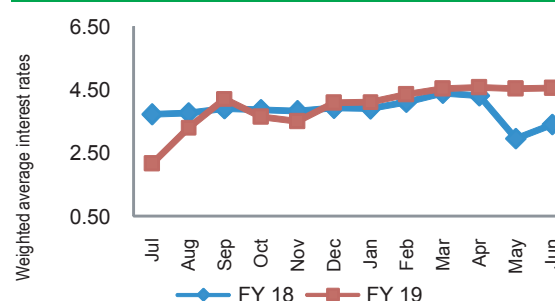
8.1 The purpose of financial markets in an economy is to efficiently allocate the flow of funds to the ultimate users by transferring from surplus units to deficit units. Financial markets consist of a number of institutions, corporations, government and individuals. At present the financial system of 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 FY19, the average volume of trade has slightly declined while weighted average interest rates in the call

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

Periods	FY18		FY19	
	Volume of trade (billion BDT)	Weighted average interest rates (%)	Volume of trade (billion BDT)	Weighted average interest rates (%)
July	1392.99	3.72	1306.15	2.17
August	1676.47	3.77	1582.95	3.31
September	1597.78	3.91	1623.26	4.22
October	1696.76	3.87	1441.34	3.65
November	1256.19	3.82	1393.83	3.50
December	1337.05	3.92	1296.75	4.09
January	1406.32	3.90	1365.60	4.12
February	1428.65	4.11	952.04	4.36
March	1649.76	4.40	1012.40	4.54
April	1247.58	4.31	719.10	4.57
May	1175.92	2.96	1129.68	4.54
June	1125.79	3.41	1085.87	4.55
Average	1415.94	3.84	1242.41	3.97

Source: Debt Management Department, Bangladesh Bank.

Chart 8.1 Movements of Call Money Rate



Source: Monetary Policy Department, Bangladesh Bank.

money market have marginally increased as compared to FY18. After reducing CRR by 1.0 percentage point, Bangladesh Bank maintained the Repo and Reverse Repo rates at 6.0 and 4.75 percent respectively. Consequently liquidity pressure appeared to have moderated as reflected in the behaviour of the call money rates ranging between 2.2-4.5 percent in FY19 (Table 8.1).

Table 8.2 Repo Auctions : FY19

Total number of auctions held during the year	Tenor	Bids received		Bids accepted		Interest rate of the accepted bids (%) [@]
		Number of bids	Face value (billion BDT)	Number of bids	Face value (billion BDT)	
97	1-Day/2-Day	469	828.01	469	828.01	6.00-9.00
	3-Day/7-Day	166	307.39	166	307.39	6.00-9.00
	Total	635	1135.40	635	1135.40	6.00-9.00*

* 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.

Money Market

Call Money Market Activities in FY19

8.2 The money market in Bangladesh comprising of banks and financial institutions experienced a moderate volatility in FY19. Addressing the demand of banks, BB, on day-to-day basis prudently used government debt management and open market operations (OMOs) tools termed as Repo, Reverse Repo, special Repo and Liquidity Support Facility (LSF) to the Primary Dealers (PDs) and non-PD banks against their holdings of eligible treasury bills and bonds in order to balance the call money market. BB's scrupulous policy measures help banks to maintain liquidity contributing stable weighted average interest rate in the call money market ranging from 2.2 percent to 4.5 percent (Table 8.1 and Chart 8.1). During FY19, the volume of interbank call money decreased by BDT 173.53 billion, which was 12.25 percent lower compared to that of FY18.

Repo Auctions Held in FY19

8.3 Bangladesh Bank usually conducts various types of Repo auctions to provide overnight liquidity facility to banks at a pre-determined policy rate as against the

collateral face value of government treasury bills and bonds to maintain their instant liquidity requirements. The rates of interest for Repo, Special Repo and LSF were 6.00 percent, 9.00 percent and 6.00 percent respectively in FY19 necessitate for financial market and boosting investment and to achieve broad objective of monetary policy.

8.4 A total of 97 Repo auctions were held during FY19. In all 635 bids for BDT 1135.40 billion were received of which all bids were accepted (Table 8.2). During FY18 total 5 bids for BDT 5.83 billion were received and all bids amounting to BDT 5.73 billion were accepted. The volume of accepted amounts increased by BDT 1129.67 billion during FY19. The interest rate against the accepted bids was ranging 6.00-9.00 percent per annum, which was 6.75 percent per annum in FY18. To fulfil special need for liquidity term Repo for 7, 14 and 28 days were introduced on 06 June, 2018. However, no bid was received against these instruments during FY19.

Reverse Repo Auctions Held in FY19

8.5 In line with the broad objective of monetary policy, Bangladesh Bank use Reverse Repo to mop up excess liquidity

Table 8.3 Auctions of Bangladesh Bank Bills : FY19

Tenor of bill	Bids offered		Bids accepted		Outstanding bills as of end June 2019 (billion BDT)	Weighted average yield (WAR) range (%)	
	Number	Face value (billion BDT)	Number	Face value (billion BDT)		FY18	FY19
7-Day	343	1235.98	213	712.03	0.00	0.14-2.98	0.01-0.17
14-Day	48	84.60	27	51.55	0.00	0.10-2.98	0.02-0.10
30-Day	-	-	-	-	0.00	2.96-2.98	-
Total	391	1320.58	240	763.58	0.00	0.10-2.98	0.01-0.17

Source: Monetary Policy Department, Bangladesh Bank.

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 FY19, the interest rate of Reverse Repo (policy rate) was higher (4.75 percent) compared to BB Bills rate signalling the market to maintain floor rate on bank deposits. In FY19, no bid was received under Reverse Repo. During FY18, one bid for BDT 1.5 billion of daily Reverse Repo was held but the bid was not accepted. The interest rate of Reverse Repo was 4.75 percent per annum since 14 January, 2016.

Bangladesh Bank Bill Auctions Held in FY19

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 were also continued in FY19 as a tool of OMOs. With a view to maintaining stable interest rate and exchange rate, inflation and optimum return on bank deposits, Bangladesh Bank cautiously used these instruments with lower return for banks (institutional investors) in FY19. The outcomes of Bangladesh Bank Bill auctions in FY19 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

Table 8.4 Auctions of Government Treasury Bills : FY19

Tenor of bills	Bids offered		Bids accepted		Outstanding bills as of end June 2019 (billion BDT)	Weighted average yield (WAR) range (%)	
	Number	Face value (billion BDT)	Number	Face value (billion BDT)		FY18	FY19
14-Day	371	245.85	106	86.73	20.00	-	2.09-6.42
91-Day	2007	1003.43	546	283.16	148.00	0.73-4.71	0.55-6.97
182-Day	915	419.26	237	119.37	112.00	3.39-4.83	1.29-7.19
364-Day	1019	470.37	310	138.03	174.00	2.94-4.80	2.46-7.31
Devolvement on BB				293.71			
Total	4312	2138.91	1199	921.00	454.00	0.73-4.83	0.55-7.31

Source: Monetary Policy Department, Bangladesh Bank.

Table 8.5 Auctions of Bangladesh Government Treasury Bonds : FY19

Tenor of bonds	Bids offered		Bids accepted		Outstanding bonds as of end June 2019 (billion BDT)	The range of annual weighted average yield (%)
	Number	Face value (billion BDT)	Number	Face value (billion BDT)		
2-Year	560	236.11	211	73.44	145.00	3.3671-7.4100
Devolvement on BB				19.56		
3-Year FRTB	26	5.33	03	1.12	5.00	6.4998
Devolvement on BB				3.88		
5-Year	651	236.14	285	78.59	309.70	3.9995-8.0459
Devolvement on BB				15.41		
10-Year	641	216.16	210	57.71	557.64	6.9424-8.4186
Devolvement on BB				27.04		
15-Year	365	120.14	107	33.55	282.66	7.0925-8.7713
Devolvement on BB				10.45		
20-Year	462	144.36	144	37.69	252.87	7.9401-9.0849
Devolvement on BB				6.31		
Total	2705	958.24	960	364.75	1552.87	3.3671-9.0849*

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

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 FY19, a total of 21 Primary Dealers (PDs) banks acted as underwriters and market makers with commitments to bid in auctions. Apart from that, the auction committee may also devolve the unsubscribed amount to Bangladesh Bank/PD and non PD banks considering the auction rate, market timing and macroeconomic situation. In FY19, the auction committee devolved a good amount of money to BB curbing higher rate and

financing to the government at a lower cost and keeping momentum in the weekly valuations of Government Treasury Bills for held for trading (HFT) and calculating of book value of held to maturity (HTM) securities maintained for statutory liquidity requirement (SLR) purpose with amortisation.

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 FY19. The results of Treasury Bills auctions in FY19 are summarised at Table-8.4. The range of annual weighted average yields of most of the Treasury Bills increased in FY19 as compared to FY18 reflecting some-what liquidity tightness in the market.

8.9 Table 8.4 shows that a total of 4312 bids amounting to BDT 2138.91 billion were received of which 1199 bids amounting to BDT 921.00 billion (including BDT 293.71

Box 8.1 Money Market and Capital Market Nexus

The financial market encompasses both money market and capital market plays important role in the mobilization of financial resources for short and long term investment through financial intermediation. A developed, active, and efficient interbank market and the money market enhance the efficiency of central bank's monetary policy and the transmission of its impulses into the real sectors of an economy while capital market plays a crucial role in mobilizing longer term saving and channeling it into productive investments. However, money market and capital market operations are significantly interrelated with each other because of many corporations and financial institutions are active in both the markets. Although there has been an inverse relationship between money market interest rates and the stock prices, but virtually both market strives to cater the demand of each other for their smooth progress.

Both the money market and capital market passed through some-what a stress situation in FY19 due mainly to apprehension of political uncertainty in the Parliamentary election year. A confluence of factors including subdued inflows of foreign portfolio investment (FPI) and a siphoning way of household saving into high interest rate bearing Government's National Saving Certificates (NSCs) attributed to the lackluster scenario of liquidity situation both in the money and capital market in FY19, though with the introduction of some modification on issuance procedure along with imposition of an additional tax on interest income of NSCs-liquidity situation in the money market is gradually being improved in the recent months.

Bangladesh Bank (BB) remains supportive of the much-needed shift of the non-financial corporate long-term financing sources, away from the banking system and toward the stock and bond markets for a balanced growth of the financial system. As a result, BB is continuously being acted together with the sector regulator BSEC and the Ministry of finance for the development of capital market. Bangladesh Bank introduced a refinance scheme of BDT 900 crore for protecting the interest of small investors and is now providing liquidity support to banks through special repo (repurchase agreement) window at six percent interest for 28-day to maximum six months to raise their portfolio investments in the capital market subject to maintaining regulatory limit. Furthermore, Bangladesh Bank has increased banks' investment limit in the capital market by eliminating banks' investments in unlisted securities (such as equity, non-convertible cumulative preference share, non-convertible bond, debenture and open-ended mutual funds) from their capital market exposure limit. BB has also created a room for banks to invest in alternative investment funds, special purpose vehicles (SPV), or any other similar project-specific fund which is expected to facilitate financing of infrastructure projects through bonds instead of bank loans. With the gradual improvement of liquidity in the money market and an increased inflow of foreign portfolio investment, the capital market is expected to attain its desired rhythm in 2020 while a continued improvement in governance, appropriate use of technology and timely dissemination of information disclosure to the investors can uplift it into a new dimension.

billion as devolved amount) were accepted in FY19. The weighted average yield-to-maturity against the accepted bids was ranged from 0.55 percent to 7.31 percent. In FY18, a total of 2586 bids amounting to BDT 1442.99 billion were received of which BDT 497.00 billion (including BDT 51.13 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. To improve liquidity and assets-liabilities matching, the auction of 2-year BGTB had 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 Trading (HFT). HTM securities are amortised in order to converge at face value and HFT securities are traded following marking to market norms. This bills and bonds are eligible for trading in the secondary market using MI module of Bangladesh Bank. A total of 2705 bids for BDT 958.24 billion were received and 960 bids for BDT 364.75 billion were accepted of which BDT 82.65 billion was devolved on BB. The amount of outstanding bonds was increased by BDT 198.65 billion or 14.67 percent to BDT 1552.87 billion at the end of June 2019 from BDT 1354.22 billion at the end of June 2018 (Table - 8.5).

8.12 The weighted average annual yield-to-maturity for the treasury bonds ranged from 3.3671 percent to 9.0849 percent in FY19. The summary of auctions of Bangladesh Government Treasury Bonds during FY19 is given at Table 8.5. It is noted that in FY18, 1864 bids for a total of BDT 614.68 billion were received and BDT 251.00 billion was accepted of which BDT

Table 8.6 Bangladesh Government Islamic Investment Bond (In billion BDT)

Particulars	FY 17	FY 18	FY 19
Sale	84.01	92.95	107.11
Financing	54.70	81.20	84.80
Net balance	29.31	11.75	22.31

Source: Motijheel office, Bangladesh Bank.

22.98 billion was devolved on BB. The overall weighted average yield-to-maturity ranged from 3.4180 percent to 8.8178 percent in FY18.

8.13 Allowing the variability of interest rate and diversity of market for the first time in FY19 Government with collaboration of BB has introduced 03-Year Floating Rate Treasury Bond (FRTB) as on 25 March, 2019. FRTB will encourage robust bond pricing mechanism allowing secondary bond market development in Bangladesh.

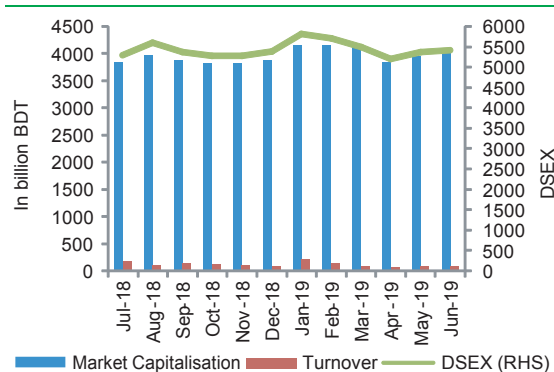
8.14 91-Days BCR (Bangladesh Compounded Rate) is a reference rate, which will be primarily used to set the rate of floating rate instruments of government. It is a daily rate based on the cut-off yield of 91-Days Treasury Bills auction announced by the Central Bank on its website daily. 91-Days BCR is a compound rate calculated from the average interest rate of 91-Day Treasury Bills summing the previous 91-Days. The interest rate on the FRTB will be determined calculating the BCR and adding a spread (mark-up) set by the lenders. Both individuals and institutional investors are eligible to purchase and hold the FRTBs. According to the mood of operations resident and non-resident investors can purchase the FRTB using particular bank accounts. The

non-resident can transfer interest (coupon) and resale or redemption proceeds abroad in foreign currency.

Bangladesh Government Islamic Investment Bond (Islamic Bond)

8.15 Government provides guarantee against the Bangladesh Government Islamic Investment Bond (BGII) pool of funds formed by the Islamic banks and individuals in order to develop money market in Islamic banking sector. Virtually government does not borrow money from this sector. The return of the bonds depends on 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 BGII was introduced in FY04. As a new tool 3-month BGII was introduced in January, 2015. The auction of 1-year and 2-year Islamic Bonds have been suspended since January 2015. Currently 3-month and 6-month maturity BGII are 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 2019, the total sale against this bond amounted to BDT 107.11 billion while balance of total amount of financing stood at BDT 84.80 billion and net balance against the BGII stood at BDT 22.31 billion. As of end June 2018, the total sale against BGII was BDT 92.95 billion and the financing was BDT 81.20 billion and net balance of BDT 11.75 billion. The sale amount of BGII was

Chart 8.2 Trends in Market Behaviour of DSE



Source: Dhaka Stock Exchange.

increased by 15.2 percent in FY19 compared to that of FY18. The amount of net balance was also increased in FY19 compared to FY18 due mainly to higher amount of supply of funds by the Islamic banks. The overall transaction of BGII are summarised in Table 8.6.

Capital Market

Capital Market Activities in FY19

8.16 Capital market is considered the second largest segment of financial system in the country. The market has immense potentials for industrialization, development of infrastructure in particular and economic growth in general. The market comprised of Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE), where DSE is pioneering in the exploration of economic advancement of the country. Bangladesh Bank has been playing proactive role to steady functioning and development of the market as well. DSE introduced the DSE-SME platform on 30 April 2019 through which the SMEs will get the opportunity to fulfil its capital requirement. A guideline on 'Sustainable Report for Sustainable

Development' for listed companies in Bangladesh has been published by the Netherlands based Global Report Initiative (GRI) and DSE on 28 March 2019. Moreover, DSE and Colombo Stock Exchange Limited have signed a Memorandum of Understanding (MoU) on 28 March 2019 for formalizing collaborative efforts directed at mutual development.

8.17 Chart 8.2 shows that Dhaka Stock Exchange (DSE) broad index and the market capitalisation of DSE were increasing during July-August in FY19. However, both the index and the market capitalisation were decreasing during September-December of FY19. The DSEX and the market capitalisation increased to 5600.64 and BDT 3962.26 billion respectively at the end of August 2018 from 5405.46 and BDT 3847.35 billion in June 2018. With some ups and downs, the index and the market capitalisation stood at 5421.62 and BDT 3998.16 respectively at the end of FY19 (Table-8.7).

Primary Issuance

8.18 Fifteen companies have collected new equity of BDT 4.2 billion from the capital market through public placements in FY19, which was much higher than BDT 0.2 billion collected by the 9 companies in FY18. In FY19, equity issued through private and public placements were BDT 0.4 billion and BDT 3.8 billion respectively.

8.19 The volume of public offerings was oversubscribed, more than 25 times in FY19, indicating a shortage of new

Table 8.7 Activities of Dhaka Stock Exchange (DSE)

Particulars	End June		
	FY17	FY18	FY19
No. of listed securities*	563	572	584
Issued equity and debt* (billion BDT)	1165.5	1219.7	1268.6
Equity through private placement & IPOs (billion BDT)	0.5	0.2	4.2
Market capitalisation (billion BDT)	3801.0	3847.3	3998.2
Turnover in value (billion BDT)	1805.2	1590.9	1459.7
Turnover in volume (no. in billion)	54.4	45.8	36.9
DSE Broad Index (DSEX) [@]	5656.1	5405.5	5421.6

* Including companies, mutual funds, debentures and Government Treasury Bonds.

@ DSE introduced the benchmark DSE broad index (DSEX) designed and developed by S&P Dow Jones from January 2013.

Source: Dhaka Stock Exchange.

Table 8.8 Activities of Chittagong Stock Exchange (CSE)

Particulars	End June		
	FY17	FY18	FY19
No. of listed securities*	303	312	326
Issued equity and debt* (billion BDT)	606.6	656.9	712.9
Market capitalisation (billion BDT)	3113.2	3123.5	3293.3
Turnover in value (billion BDT)	118.1	109.9	84.8
Turnover in volume (no. in billion)	4.0	3.5	2.5
All-share Price Index	15580.4	16558.3	16634.2

* Including companies, mutual funds and debentures.

Source: Chittagong Stock Exchange

securities in the primary market. Bonus shares worth BDT 31.4 billion were issued in FY19 by 150 companies against retained profits. This was lower than BDT 42.8 billion issued by 148 companies in FY18. On the other hand, no right shares were issued in FY19 which were BDT 3.3 billion issued by three companies in FY18.

Secondary Market Activities

8.20 As percentage of market capitalisation, secondary market are dominated by the manufacturing sector with 39.2 percent share followed by services and miscellaneous sector (35.8 percent), financial

Box 8.2 Current Status of Financial Stability in Bangladesh

Financial system of Bangladesh remains reasonably stable throughout the FY2019, attributable broadly to the stable macroeconomic situation and improved resilience of the banking and financial institutions sectors. Real sector demonstrated moderate level of stability in this fiscal year compared to the preceding fiscal year. For instance, real GDP recorded a marked growth of 8.1 percent; a 20 basis points increase from that of FY18. During the period, general inflation, on a 12-month average basis, remained well contained to 5.5 percent recording minor decline from 5.8 percent of end-June 2018. Likewise, food inflation registered notable decline, though moderate rise in non-food inflation was observed.

External sector was also stable. A slowdown in import payments along with higher inflow of wage earners' remittances and notable rise in export receipt considerably improved the current account balance as well as overall balance of payment in FY19. Importantly, international reserve stood at USD 32.7 billion at end-June 2019, which is adequate for meeting more than five months' imports at current context. Nominal exchange value of Bangladesh Taka against US dollar depreciated further to help maintain the country's export competitiveness.

Like real and external sectors, financial sector also appears to be stable. At end-FY19, asset quality of the banking sector, measured by net non-performing loan (NPL) ratio, improved compared to the position of end-June 2018, though gross NPL ratio registered a minor increase. Moreover, banking sector remains reasonably capitalized. Capital to risk weighted asset ratio (CRAR) of the banking sector experienced a moderate increase compared to end-FY18 and stood at 11.7 percent at end-June 2019. Notably, the minimum regulatory CRAR requirement of the banks was 10.0 percent for FY19. More importantly, majority of the banks (31 banks out of 57) were able to maintain the minimum capital conservation buffer of 2.5 percent in line with the Basel III capital framework. Furthermore, Advance-to-Deposit Ratio (ADR) of the banking industry was below the regulatory cap. However, one downside risk is that profitability of the banking sector recorded minor deterioration during the period.

The FIs sector, on an aggregate basis, remained well compliant in terms of capital adequacy. As of end-FY19, capital adequacy ratio (CAR), in line with the Basel II, stood at 16.8¹ percent at end-June 2019, much higher than the minimum regulatory capital requirement of 10.0 percent. Moreover, the FIs sector remained compliant in terms of cash reserve ratio (CRR) and statutory liquidity ratio (SLR). However, the ROA and ROE of the sector slightly declined to 0.2 percent and 1.8 percent respectively from those of end-June 2018. Also, asset quality of the FIs sector, measured by gross NPL ratio recorded minor deterioration.

Stress testing results depict that both the banking and FIs sector would remain moderately resilient to different level of shock scenarios. However, the banking sector appeared to be vulnerable to default of top 3(three) large borrowers.

Although capital market remained in a bearish trend in terms of market capitalization, price earnings ratio and the major indices of both bourses, capital market exposure of the banking sector was much below the regulatory maximum limit indicating no apparent threat to financial system stability.

The current financial system stability could also be attributed to a number of policy initiatives taken by Bangladesh Bank in recent time. Some notable ones are revision in loan classification and provisioning policy for banks, instructions to banks for providing incentives to good borrowers, issuance of loan/lease/investment write-off policy for financial institutions, instructions regarding investment in non-listed securities and investment in special purpose vehicle, alternative investment fund or similar fund/funds by scheduled banks, implementation of national savings scheme online management system and modifications in various foreign exchange regulations.

¹ Excluding People's Leasing and Financial Services Ltd.

sector (25.7 percent) and corporate bonds (0.1 percent) at the end of FY19. In the DSE, market capitalisation inclusive of new issues increased by 3.9 percent to BDT 3998.2 billion, at the end of FY19 from BDT 3847.3 billion at the end of FY18 (Table 8.7) which is 15.8 percent of GDP (at current market price). In case of the CSE, it was also increased by only 5.4 percent to BDT 3293.3 billion at the end of FY19 which is 13.0 percent of GDP (at current market price). Amount of turnovers in the secondary market at DSE and CSE have decreased by 8.2 percent and 22.8 percent respectively in FY19 compared to FY18. DSE broad index (DSEX) has increased by 0.3 percent to 5421.6 while CSE all-share price index has increased by 0.5 percent to 16634.2 in FY19 (Table 8.7 and Table 8.8).

Non-resident Portfolio Investment

8.21 Gross investment inflow in shares and securities of the stock exchanges by non-residents through Non-resident Investors' BDT Account (NITA) decreased to BDT 55.8 billion in FY19 from BDT 65.4 billion in FY18. On the other hand, gross investment outflow as repatriation of sale proceeds and dividend of share/securities has decreased to BDT 48.8 billion in FY19 from BDT 59.5 billion in FY18. From the beginning (April 1992) to June 2019, the gross investment inflow stood at BDT 406.4 billion against gross outflow of BDT 325.6 billion as repatriation of sale proceeds.

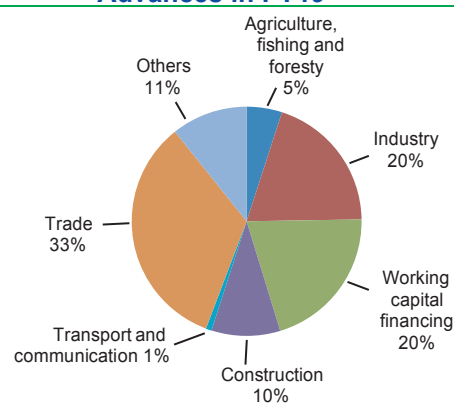
Table 8.9 Advances of Scheduled Banks by Economic Purposes (In billion BDT)

Sector	End June		
	FY18	FY19 ^P	% change
Agriculture, fishing and forestry	429.1	475.0	10.7
Industry	1593.8	1878.5	17.9
Working capital financing	1827.1	1953.2	6.9
Construction	786.8	922.5	17.2
Transport & communication	73.6	77.1	4.8
Trade	2887.0	3185.9	10.4
Others	872.7	1022.3	17.1
Grand Total	8470.2	9514.5	12.3

^P Provisional

Source: Statistics Department, Bangladesh Bank.

Chart 8.3 Sectoral Shares of Total Advances in FY19



Source: Statistics Department, Bangladesh Bank.

Activities of the Investment Corporation of Bangladesh

8.22 The Investment Corporation of Bangladesh (ICB) was established with the aim of 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

Table 8.10 Industrial Term Loans of Banks and Financial Institutions

(In billion BDT)

Lender	Disbursement		Recovery		Outstanding		Overdue		Overdue as % of outstanding	
	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19
SCBs	26.3	27.1	56.0	56.6	411.5	473.2	129.9	225.6	31.6	47.7
PCBs	528.9	615.4	553.9	606.9	1304.5	1583.8	166.5	160.0	12.8	10.1
Foreign banks	21.2	27.6	13.5	14.8	32.7	66.9	2.7	2.5	8.3	3.7
Specialised banks (BKB, RAKUB)	10.5	9.7	12.0	7.1	12.6	16.2	6.2	4.7	49.2	29.0
Financial institutions	120.8	128.7	68.8	80.3	267.2	298.2	29.0	30.4	10.9	10.2
Total	707.7	808.5	704.2	765.7	2028.5	2438.3	334.3	423.2	16.5	17.4

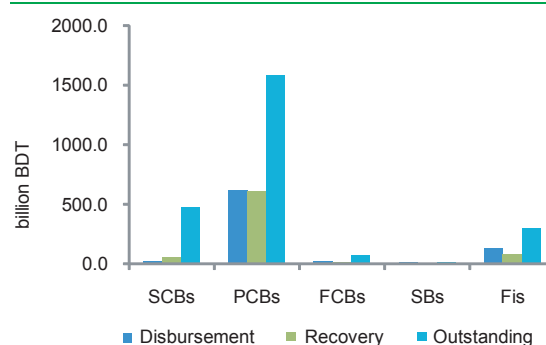
Source: SME and Special Programmes Department, Bangladesh Bank.

(ICML); the ICB Asset Management Company Ltd. (IAMCL) and the ICB Securities Trading Company Ltd. (ISTCL). During FY19, total investment against the investors' accounts stood at BDT 7.4 billion while deposit received stood at BDT 0.7 billion.

8.23 During FY19, the ICML provided underwriting assistance to the issues of shares and debentures of BDT 0.6 billion to 05 companies and performed the responsibilities of issue manager of 08 companies of BDT 14.0 billion.

8.24 The IAMCL emerged as one of the fast expanding asset management companies of the country. The company has floated 9 closed-end and 14 open-end mutual funds up to end June 2019. Besides, the company has floated various regular and special types of mutual funds as well. The net investment in portfolios of the 23 mutual funds of the company stood at BDT 7.6 billion in FY19.

8.25 The ISTCL emerged as the largest stock broker with Depository Participant

Chart 8.4 Industrial Term Loans of Banks and Financial Institutions in FY19

Source: SME & Special Programmes Department, Bangladesh Bank.

(DP) Services in the country as well as total turnover of BDT 112.0 billion in FY19 which was 7.3 percent of total turnover of both DSE and CSE. The parent ICB itself sold unit certificates amounting to BDT 4.4 billion against repurchase of unit certificates amounting to BDT 1.1 billion in FY19. The deposit received and loans approved by the ICB stood at BDT 0.7 billion and BDT 7.4 billion in investment accounts of investors in FY19. Total commitments for investment made by the ICB in FY19, stood at BDT 15.6 billion of which investment in equity was BDT 0.4 billion. The total amount of commitments was BDT 37.4 billion in FY18.

Scheduled Banks Investments in Capital Market Securities

8.26 Holdings of capital market assets (equities, debentures) excluding investment on Government Treasury Bills/Bonds and Bangladesh Government Islamic Investment Bond (BGIB) by the scheduled banks stood at BDT 446.9 billion at the end of June 2019 as against BDT 338.4 billion at the end of June 2018. Outstanding advances of the scheduled banks against shares and securities amounted to BDT 43.5 billion at the end of June 2019, which was BDT 35.4 billion at the same period of the previous year.

Measures Supporting Capital Market Development

8.27 The Bangladesh Securities and Exchange Commission (BSEC) has taken several measures to protect investors' interest and strengthened the capital market during FY19. Some of the important measures are given below:

- In order to create awareness among the investors on investment protection and education, International Organization of Securities Commissions (IOSCO) announced October 04-11, 2018 as the "World Investor Week 2018" programme. In line with this BSEC has also arranged series of programmes to promote awareness of investor protection and education.
- To promote the market situation the BSEC has organized "Investor and

Entrepreneurship Conference and Investment Education Fair" in divisional cities.

- The Government incentive scheme for the small investors affected in the capital market has been extended till December 31, 2019. By that time the fund was fully distributed. Simultaneously, IPO quota for those affected investors has been extended up to 30 June 2019.
- The BSEC has exempted all issuers or companies other than the listed equity securities from the obligation to get approval for raising capital through equity securities.
- The BSEC has created opportunity to refix close-end mutual fund's tenure up to 20 year through issuance of order.
- To achieve sustainable development of the market the BSEC has made some necessary rules in FY19 such as, Short-Sale Rules, 2019; Risk Based Capital Adequacy Rules, 2019; Exchange Traded Derivatives Rules, 2019 and Investment Sukuk Rules, 2019.

Credit Market

Scheduled Banks' Advances by Economic Purposes

8.28 The advances of scheduled banks by economic purposes showed an upward trend during FY19 (Table 8.9). Total amount of advances stood at BDT 9514.5 billion at the end of June 2019 which was 12.3 percent higher than the amount of BDT 8470.2 billion

at the end of June 2018. In recent years, significant changes have been viewed in the trends in total bank advances classified by economic purpose. Of the total advances, industrial sector recorded a significant improvement by 17.9 percent followed by construction sector (17.2 percent), other sector (17.1 percent), agriculture, fishing & forestry (10.7 percent), trade (10.4 percent), working capital financing (6.9 percent) and transports and communication sector (4.8 percent) in FY19 compared to that of FY18.

8.29 Sector-wise contributions of total advances show that the trade sector played the leading role (33.0 percent) followed by working capital financing (20.0 percent), advances for industry (20.0 percent), other sector (11.0 percent), construction (10.0 percent), agriculture, fishing and forestry (5.0 percent) and transport and communication (1.0 percent) in FY19. Sector-wise contributions of total advances are reported in Chart 8.3.

Industrial Term Loans of Banks and Financial Institutions

8.30 Disbursement of industrial term loans by banks and financial institutions increased by 14.2 percent to BDT 808.5 billion in FY19. The recoveries also increased by 8.7 percent to BDT 765.7 billion in FY19. The outstanding balance showed a positive growth of 20.2 percent and stood at BDT 2438.3 billion as of end June 2019. However, the overdue increased by 26.6 percent in FY19 and as percentage of

Table 8.11 Outstanding Housing Loans

(In billion BDT)

Lenders	Outstanding as of end June		
	FY1 7	FY1 8	FY1 9 ^P
a. Specialised housing finance providers	77.2	76.1	88.0
i. HBFC	29.9	31.0	32.5
ii. Delta -Brac Housing Finance	39.1	37.1	43.9
iii. National Housing Finance and Investment limited	8.2	8.0	11.6
b. Banks	533.2	675.7	738.9
i. PCBs	372.8	473.8	491.6
ii. SCBs	140.4	176.7	211.9
iii. Other banks (foreign and specialised)	20.0	25.2	35.4
c. Other financial institutions	55.3	50.0	74.0
d. Micro -credit lenders			
Grameen Bank	0.3	0.7	1.1
Total	666.0	802.5	902.0

P Provisional.

Sources: Department of Financial Institutions and Markets, Statistics Department, Bangladesh Bank, House Building Finance Corporation and Grameen Bank.

outstanding loans increased to 17.4 as of end June 2019 (Table 8.10).

8.31 Private commercial banks (PCBs) had the major shares (65.0 percent) in the total outstanding loans amounting to BDT 2438.3 billion as of end June 2019, making them major players in industrial term lending (Table 8.10 and Chart 8.4). Though six SCBs and two specialised banks together had 20.1 percent shares of outstanding loans, with very high levels of overdue loans, their actual role in current lending was quite minor, as they disbursed only BDT 36.8 billion (4.6 percent) out of total disbursed loans amounting to BDT 808.5 billion in FY19. In case of disbursement, PCBs had the major amount (BDT 615.4 billion) in FY19, followed by financial institutions (BDT 128.7 billion), foreign banks (BDT 27.6 billion), SCBs (BDT 27.1 billion) and specialised banks (BDT 9.7 billion).

8.32 The foreign banks had very low overdue loans (3.7 percent of outstanding) as of end June 2019. Overdue loans were also lower in private commercial banks (10.1 percent) and financial institutions (10.2 percent). Overdue loans of the SCBs and the specialised banks were very high (47.7 percent and 29.0 percent respectively) as of end June 2019. 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 II (IPFF II) Project

8.33 Investment Promotion and Financial Facility II (IPFF II) Project (July, 2017-June, 2022), a follow-on 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.

8.34 The estimated cost of IPFF II project is USD 416.7 million (IDA USD 356.7 million and the Government of Bangladesh USD 60.0 million). The eligible sectors for financing under IPFF II Project 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 is being utilized in procuring consultants and building capacity of the key stakeholders i.e. Public-Private Partnership (PPP) Authority and Bangladesh Infrastructure Finance Fund Limited (BIFFL), etc.

Equity and Entrepreneurship Fund (EEF)/ Entrepreneurship Support Fund (ESF)

8.35 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 innovative agro-based/food processing and ICT industries. Later the honorable Finance Minister has approved a loan based policy with heading 'Entrepreneurship Support Fund (ESF)' instead of equity model. The reformed policy is conducive to secure government money. On the other hand, entrepreneurs will get the loan at 2% simple interest rate with a grace period of 4 years and relaxed condition. Under an agreement signed between Bangladesh Bank (BB) and Investment Corporation of Bangladesh (ICB), ICB is now performing the operational activities of EEF and ESF while EEF Unit of Bangladesh Bank is performing the activities relating to policy formulation, fund management and performance monitoring.

8.36 Up to 30 June 2019 with the project cost of BDT 78.5 billion, a total of 2063 projects (including 1923 agro-based/food processing projects involving EEF support of BDT 34.6 billion and 140 ICT projects involving EEF support of BDT 2.2 billion) got

EEF Sanction. Cumulative disbursement of EEF assistance stood at BDT 14.5 billion in 912 food processing and agro-based projects and BDT 1.3 billion in 103 ICT projects at the end of June, 2019. So far, a total of 297 agro based companies and 56 ICT companies have bought back shares amounting to BDT 3.4 billion and BDT 0.3 billion respectively. Employment opportunity has been created for 55,000 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

8.37 Total outstanding of housing loans from banks and financial institutions as of end June 2019 amounted to BDT 902.0 billion (Table 8.11), which was 8.9 percent of total credit to the private sector. In recent years, significant changes have been 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 491.6 billion in outstanding housing loans as of end June 2019. The SCBs had the second largest amount of BDT 211.9 billion and other banks had BDT 35.4 billion in total outstanding of housing loans as of end June 2019. 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.

8.38 The state-owned House Building Finance Corporation (HBFC) had an amount of BDT 32.5 billion in outstanding housing loans as of end June 2019. 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 FY18 and FY19, BDT 3.7 billion and BDT 4.3 billion were disbursed out of recoveries of BDT 5.1 billion and BDT 5.3 billion respectively.

8.39 *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 stretching from 3 to 10 years. Up to June 2019, the *Grihayan Tahobil* has been released BDT 3.2 billion through 616 NGOs for rural housing programme which have covered 404 upazilas of 64 districts of the country and 79805 houses have already been constructed. As of end of June 2019,

Tahobil has recovered BDT 2.0 billion against the total recoverable amount of BDT 2.1 billion and recovery rate is 96.2 percent.

8.40 Under *Grihayan Tahobil* Schemes of constructing dormitories/women hostels, a 12 storied women hostel has been constructed at Ashulia, Savar, Dhaka with the collaboration and supervision of the Department of Women Affairs at the cost of BDT 0.2 billion. Now, this dormitory is ready to provide residential facilities to 744 women workers. In addition, an agreement between *Grihayan Tahobil* and BEPZA has been signed for construction of a dormitory for female workers working in Mongla EPZ at the cost of BDT 0.2 billion.

8.41 Besides, *Grihayan Tahobil* has initiated for enhancing loan facilities to the member companies of BGMEA to build hostels/dormitories for the poor garments 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 and the first instalment of BDT 0.01 billion has already been released. *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*, *Aila*, etc.

Foreign Exchange Market

8.42 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.

8.43 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 the future market.

8.44 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.

8.45 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.

8.46 Exchange rate stood at BDT 84.03 in FY19 compared to BDT 82.10 in FY18 (period average). In FY19, exchange rate depreciated by 2.3 percent compared to 3.6 percent in FY18. Foreign Exchange Reserves stood at USD 32.72 billion in FY19, which was USD 32.94 billion in FY18. The current Foreign Exchange Reserves is sufficient to pay import liability of 6.3 months.

8.47 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 2.34 billion in domestic inter-bank market in FY19.