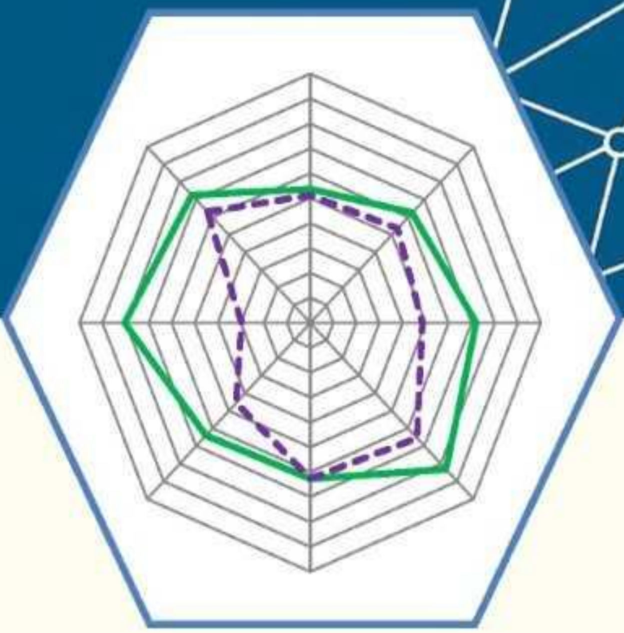
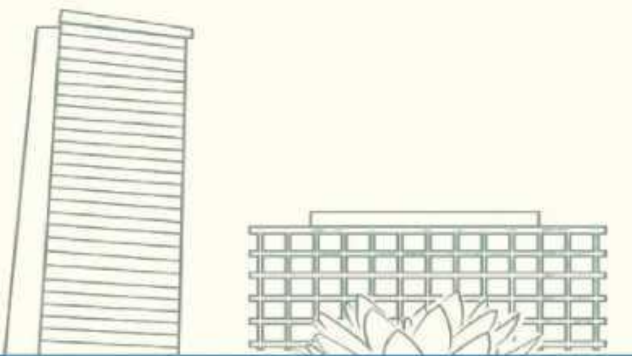
Financial Stability Report

2024 | Issue 15





Bangladesh Bank

- *This report is released in 2025 and is based on data and information available as of 31st December 2024, unless stated otherwise.*
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Financial Stability Report 2024

Issue 15

Financial Stability Department
Bangladesh Bank
(The Central Bank of Bangladesh)

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SME & Special Programmes Department
Statistics Department

Other Financial Sector Regulators

Bangladesh Securities and Exchange Commission
Insurance Development and Regulatory Authority
Microcredit Regulatory Authority

All Scheduled Banks of Bangladesh

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ACRONYMS

ACD	Agricultural Credit Department
AD	Authorized Dealer
ADR	Advance-to-Deposit Ratio
AGM	Annual General Meetings
ALS	Assured Liquidity Support
AML-CFT	Anti-Money Laundering and Countering the Financing of Terrorism
ATM	Automated Teller Machine
BACH	Bangladesh Automated Clearing House
BACPS	Bangladesh Automated Cheque Processing System
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BCBS	Basel Committee on Banking Supervision
BD	Bangladesh
BDT	Bangladesh Taka
BEFTN	Bangladesh Electronic Funds Transfer Network
BHBFC	Bangladesh House Building Finance Corporation
B/L	Bad and Loss
BOP	Balance of Payments
BPM6	Balance of Payments And International Investment Position Manual-Sixth Edition
BRPD	Banking Regulations and Policy Department
BS	Balance Sheet
BSBL	Bangladesh Samabaya Bank Limited
BSEC	Bangladesh Securities and Exchange Commission
BSRR	Bangladesh Systemic Risk Report
CAB	Current Account Balance
CAR	Capital Adequacy Ratio
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk
CCB	Capital Conservation Buffer
CDBL	Central Depository Bangladesh Limited
CEO	Chief Executive Officer
CET-1	Common Equity Tier 1
CFSI	Composite Financial Stability Index
CGD	Credit Guarantee Department
CIB	Credit Information Bureau
CIT	Cheque Imaging and Truncation
CMSME	Cottage, Micro, Small and Medium Enterprise
CPI	Consumer Price Index
CPMR	Crawling Peg Mid Rate
CRAR	Capital to Risk-weighted Assets Ratio
CRR	Cash Reserve Ratio
CRWA	Credit Risk-Weighted Assets
CSE	Chittagong Stock Exchange

CSR	Corporate Social Responsibility
CY	Calendar Year
DBU	Domestic Banking Unit
DF	Doubtful
DOS	Department of Off-site Supervision
DFIM	Department of Financial Institutions and Markets
DFS	Digital Financial Services
DID	Deposit Insurance Department
DIS	Deposit Insurance System
DITF	Deposit Insurance Trust Fund
DP	Depository Participants
DSE	Dhaka Stock Exchange
DSEX	DSE Broad Index
ECC	Export Cash Credit
ECL	Expected Credit Loss
ECAI	External Credit Assessment Institutions
EDF	Export Development Fund
ELA	Emergency Liquidity Assistance
EPS	Earnings Per Share
ERQ	Exporters' Retention Quota
ETF	Exchange Traded Fund
EU	European Union
FC	Foreign Currency
FC	Finance Company
FCBs	Foreign Commercial Banks
FDD	Foreign Demand Draft
FDI	Foreign Direct Investment
FDR	Fixed Deposit Receipt
FEOD	Foreign Exchange Operation Department.
FEPD	Foreign Exchange Policy Department
FOB	Free on Board
FRTMD	Forex Reserve and Treasury Management Department
FSD	Financial Stability Department
FSR	Financial Stability Report
FSV	Forced Sale Value
FTSE	The Financial Times Stock Exchange
FX	Foreign Exchange
FY	Fiscal Year
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GNPL	Gross Non-Performing Loan
GVA	Gross Value Added
HHI	Herfindahl-Hirschman Index
HV	High Value
IBFT	Internet Banking Fund Transfer
IBLF	Islamic Banks Liquidity Facility

ICAAP	Internal Capital Adequacy Assessment Process
ICB	Investment Corporation of Bangladesh
IDR	Investment to Deposit Ratio
IDRA	Insurance Development and Regulatory Authority
IIMS	Insurance Information Management System
IMF	International Monetary Fund
IPO	Initial Public Offering
IR	Insolvency Ratio
IRR	Interest Rate Risk
JBC	Jibon Bima Corporation
JVCA	Joint Ventures/Consortiums/Associations
LCR	Liquidity Coverage Ratio
L/C	Letter of Credit
LDC	Least Developed Countries
LTR	Loan against Trust Receipt
M2	Broad Money
MCR	Minimum Capital Requirement
MET	Monthly Economic Trends
MD	Managing Director
MFI	Microfinance Institution
MFS	Mobile Financial Services
MLS	Mudarabah Liquidity Support
MOU	Memorandum of Understanding
MPD	Monetary Policy Department
MRA	Microcredit Regulatory Authority
MRWA	Market Risk-Weighted Assets
MT	Mail Transfer
NASDAQ	National Association of Securities Dealers Automated Quotations
NBFI	Non-Bank Financial Institution
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NFC	Non-Financial Corporation
NFCD	Non-Resident Foreign Currency Deposit
NII	Net Interest Income
NIM	Net Interest Margin
NNII	Net Non-Interest Income
NNPL	Net Non-Performing Loan
NOP	Net Operating Profit
NPLs	Non-Performing Loans
NPSB	National Payment Switch Bangladesh
NRB	Non-Resident Bangladeshi
NSDP	National Summary Data Page
NFSR	Net Stable Funding Ratio
OBOs	Off-shore Banking Operations
OBS	Off-Balance Sheet
OBU	Off-shore Banking Unit

OLL	On-Lending Loans
OPEC	Organization of the Petroleum Exporting Countries
ORWA	Operational Risk-Weighted Assets
P2P	Person to Person
PCA	Prompt Corrective Action
PCBs	Private Commercial Banks
PD	Primary Dealers
P/E	Price-Earnings Ratio
PKSF	Palli Karma-Sahayak Foundation
PSD	Payment Systems Department
PSO	Payment System Operator
PSP	Payment Service Provider
QFSAR	Quarterly Financial Stability Assessment Report
QR	Quick Response
REER	Real Effective Exchange Rate
RFCD	Resident Foreign Currency Deposit Accounts
RM	Reserve Money
RMG	Ready-made Garments
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
RRR	Risk Retention Rate
RTGS	Real Time Gross Settlement
RV	Regular Value
RWA	Risk Weighted Assets
SB	Sonali Bank
SBC	Sadharon Bima Corporation
SDBs	Specialized Development Banks
SDF	Standing Deposit Facility
SFD	Sustainable Finance Department
SHQLA	Stock of High-Quality Liquid Assets
SLF	Standing Lending Facility
SLR	Statutory Liquidity Ratio
SLS	Special Liquidity Support
SMA	Special Mention Account
SMART	Six-Month Moving Average Rate of Treasury Bill
SME	Small and Medium Enterprise
SMEPD	Second Small and Medium-Sized Enterprise Development Project
SMESPD	SME & Special Programmes Department
SOCBs	State-owned Commercial Banks
SOFR	Secured Overnight Financing Rate
SREP	Supervisory Review Evaluation Process
SREUP	Support Safety Retrofits and Environmental Upgrades Programme
SRP	Supervisory Review Process
SS	Sub-Standard
S&P	Standard & Poor's

STED	Short-Term External Debt
TT	Telegraphic Transfer
TWS	Trader Work Station
T-bill	Treasury Bills
T-bonds	Treasury Bonds
UAE	United Arab Emirates
UBO	Ultimate Beneficial Owners
UK	United Kingdom
URSDL	Unclassified Rescheduled Loan
USA	United States of America
USD	US Dollar
VAT	Value Added Tax
WAR	Weighted Average Resilience
WEO	World Economic Outlook
WB	World Bank
WIR	Weighted Insolvency Ratio
WTI	West Texas Intermediate

EXECUTIVE SUMMARY

This report presents a comprehensive assessment of Bangladesh's financial system and its macroeconomic conditions in 2024. It evaluates the stability and resilience of financial institutions amid evolving domestic and global challenges, offering insights for policymakers, regulators, and market participants to take pre-emptive action in the face of emerging risks.

The global economy rebounded moderately in 2024, achieving a real GDP growth rate of 3.3 percent. Following a sequence of disruptive economic shocks, inflationary pressures eased globally, prompting central banks to pivot toward more neutral monetary stances. This policy shift led to improved investor confidence and modest recoveries across major stock markets. Nevertheless, the imposition of wide-ranging tariffs by the United States raised concerns over rising costs and potential disruptions to global trade, creating heightened uncertainty for export-dependent economies like Bangladesh.

Domestically, Bangladesh faced persistent inflation, with average inflation reaching 9.73 percent in FY24, up from the previous year. GDP growth slowed to 4.22 percent, reflecting both external demand headwinds and internal structural challenges. Credit growth from the banking sector rose by 9.8 percent year-on-year, while remittance inflows increased by 10.65 percent, providing some cushion to the external sector. However, exports and imports contracted, and the Bangladesh Taka depreciated by 9.09 percent, boosting export competitiveness but raising import costs. Foreign direct investment (FDI) declined by 11.83 percent, and total external debt stood at USD 103.41 billion, with short-term debt comprising 13.71 percent, or 53.06 percent of gross reserves—an indication of relatively sound debt-servicing ability.

The banking sector faced heightened stress in 2024, particularly regarding capital adequacy. The Capital to Risk-weighted Assets Ratio (CRAR) fell dramatically to 3.08 percent—far below the regulatory requirement—driven largely by weak capital positions in State-Owned Commercial Banks (SOCBs), Specialized Development Banks (SDBs), and Islamic Private Commercial Banks (PCBs). The Tier-1 capital ratio also declined sharply, while the overall leverage ratio plummeted to 0.30 percent, underscoring systemic fragility.

Liquidity remained broadly stable for most banks, although Islamic PCBs showed vulnerabilities. The Advance-Deposit Ratio (ADR) rose slightly to 81.55 percent, staying within regulatory limits. Call money rates climbed to 10.07 percent by December 2024, reflecting Bangladesh Bank's tighter monetary stance. Despite challenges, most banks maintained adequate Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), except Islamic PCBs and some SOCBs, which fell short of requirements.

Islamic banks were particularly affected, with CRAR plunging to -4.95 percent and non-performing loans (NPLs) rising to 23.18 percent. Their investment-to-deposit ratio (IDR) remained non-compliant, and growth in deposits, investments, and shareholder equity slowed. Despite relatively strong investment income, higher funding costs weighed on returns, reducing Return on Assets (ROA).

Risk-weighted assets (RWA) increased, particularly those linked to credit risk, while the share of rated exposures declined—necessitating higher capital buffers. *Though* Corporate sector's RWA exposure constituted 68.22 percent of total RWA, SME & retail portfolios showing higher RWA density than corporate sector. These trends point to elevated systemic credit risk.

Finance Companies or FCs (Non-bank financial institutions) continued to weaken in 2024. NPL ratios rose from 31.55 percent to 33.83 percent, while capital adequacy turned negative at -6.46 percent. The Return on Assets (ROA) deteriorated further, reaching -3.56 percent, indicating persistent operating losses. High NPLs have eroded profitability and capital, amplifying vulnerabilities across the sector.

Stress tests based on end-December 2024 data reveal increased sectoral vulnerabilities. The pre-shock CRAR of banks was already low at 3.08 percent and would fall further under credit or market shocks. Among these, the default of the two largest borrowers posed the most severe risk to capital adequacy, followed by collateral devaluation. Under a combined shock scenario, the CRAR could fall to -0.29 percent. Liquidity stress tests showed that most banks remained resilient, though Islamic and specialized banks exhibited liquidity shortfalls. In the case of FCs, stress testing revealed that only 14 out of 35 companies would withstand hypothetical shocks, indicating widespread vulnerability and potential systemic spillovers from continued deterioration.

Government borrowing through primary auctions rose substantially. Treasury bill issuances increased by 22.89 percent, while treasury bond sales surged by 40.67 percent. Yields on government securities rose across all tenures, raising borrowing costs.

To support financial institutions, Bangladesh Bank extended BDT 28.73 trillion in liquidity, mostly through Repo, Assured Liquidity Support (ALS), Islamic Bank Liquidity Facility (IBLF), and Special Liquidity Support (SLS). Conventional banks received over 93 percent of the total assistance, with Islamic banks availing the rest.

The stock market remained under pressure throughout 2024. The DSEX index fell by 16.49 percent to 5,216.44, and market capitalization declined by 15.14 percent at end-December 2024. The Price-to-Earnings (P/E) ratio dropped to 9.50 from 13.12. Although daily turnover rose by 9.32 percent, overall market activity was muted. Dividend yields improved to 4.05 percent. Importantly, banks' exposure to the capital market remained well below the regulatory ceilings, posing minimal systemic risk.

The year saw strong growth in digital financial services. Transactions through BEFTN, NPSB, internet banking, mobile financial services (MFS), and agent banking expanded rapidly. Enhancements to the BD-RTGS system facilitated smoother inter-Bank, inter-FC and bank to FC transfers. Inward remittances via agent banking also increased. In response to rising cybersecurity threats, Bangladesh Bank implemented tighter oversight and mandated stronger protective protocols for financial institutions.

The foreign exchange market faced significant challenges in 2024. The BDT weakened, while both FX assets and liabilities of banks declined as of end-December 2024. Contingent liabilities, however, rose. Trade activity increased as import restrictions were relaxed, but exports declined, widening the trade deficit. Despite rising remittances, the gross FX reserves fell to USD 21.39 billion (BPM6 basis) by year-end. The nominal exchange rate depreciated moderately, and the Real Effective Exchange Rate (REER) declined slightly. Bangladesh Bank intervened actively by buying and selling USD to stabilize the market. Despite lower reserves, the level remained sufficient to cover short-term external shocks.

The insurance sector showed mixed results. Life insurers accounted for the bulk of assets and premiums. While their return on investment improved, indicators like claims settlement and management expense ratios deteriorated. In non-life insurance, similar trends were observed. Nonetheless, the sector's limited exposure to the broader financial system minimizes its potential for systemic disruption.

The microfinance sector remained broadly stable, having a loan growth of 5.98 percent in FY24. However, the NPL rose by 66.30 percent, contributed to the rise of NPL ratio to 8.09 percent, warranting enhanced monitoring. Declines in ROA and ROE reflected higher credit costs. A consistent drop in the donation-to-equity ratio suggests increasing self-reliance. Yet, the sector remains highly concentrated, with a few top MFIs holding a disproportionate share of loans, savings, and members—underscoring the need for vigilant supervision.

Bangladesh Bank took several strategic steps to reinforce financial system resilience. The adoption of the Expected Credit Loss (ECL) framework for loan loss provisioning aims to align domestic standards with global best practices. Regulatory and monetary tools were also employed to counter inflation and maintain macroeconomic stability, with selective credit support directed toward key economic sectors.

Despite economic and financial pressures, Bangladesh's financial system exhibited moderate resilience in 2024. While GDP growth decelerated and inflation remained high, remittance inflows and policy interventions helped buffer the economy. However, rising non-performing loans, deteriorating capital buffers in banks and FCs, and heightened credit risks demand immediate reforms and stronger oversight. Continued vigilance, policy responsiveness, and institutional strengthening are crucial to preserving financial stability in the coming years.

CHAPTER 1 : MACROECONOMIC DEVELOPMENTS

In 2024, the global economy experienced a moderate recovery, supported by easing inflation and shifting toward more neutral monetary policies from central banks, especially in the U.S. and Europe. With global growth projected at 3.3 percent, central banks eased off the aggressive tightening observed in previous years. However, by late 2024 and into early 2025, escalating trade tensions between the U.S. and China reignited uncertainty, driving market volatility. While financial markets remained optimistic, concerns over geopolitical fragmentation, policy divergence, and potential trade disruptions increased the risk of future instability, threatening both price stability and investor confidence.

Amid the elevating inflationary pressure and a tightening liquidity environment in FY24, Bangladesh's GDP exhibited a growth of 4.22 percent, mainly contributed by the industry and service sectors. Both government borrowing from the banking system and private sector credit growth had a subdued rise. The sustained low credit-to-GDP gap suggests that there is no immediate threat to financial system stability stemming from credit flow to the private sector.

During FY24, the external sector of Bangladesh demonstrated moderate resilience, albeit the prevalence of a number of global and domestic macroeconomic challenges. The current account balance (CAB) deficit experienced a considerable improvement in FY24. There was a decline in both export and import payments, while wage earners' remittances saw a modest increase. The local currency continued to demonstrate notable depreciation in FY24, making exports more attractive and imports costlier. Moreover, net FDI inflows decreased by 11.83 percent in FY24, while the UK retained the highest FDI stock in Bangladesh. The external debt stock of Bangladesh increased to USD 103.41 billion at the end of FY24, and its growth escalated considerably compared to the previous fiscal year. However, the short-term external debt stood at 13.71 percent of total external debt at the end of FY24, pertaining to 53.06 percent of gross foreign exchange reserves, signifying Bangladesh's stable debt servicing capacity.

1.1 GLOBAL MACRO-ECONOMIC ENVIRONMENT

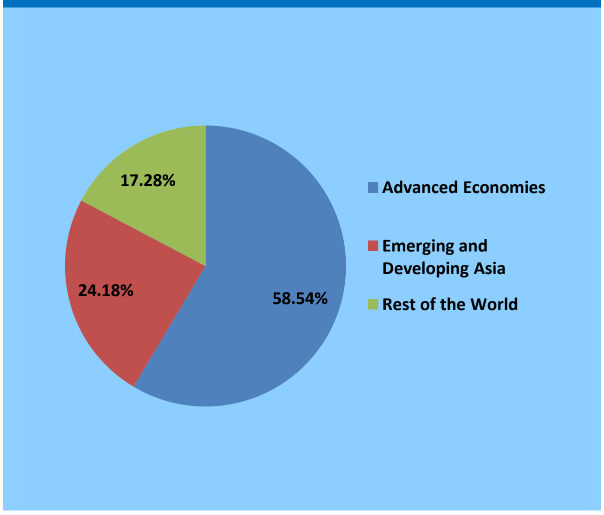
In 2024, the global macroeconomic environment was characterized by slower growth, easing inflation, and shifting monetary policies, with easing interest rate hikes by many central banks as inflationary pressures abated. Geopolitical tensions, particularly the ongoing Russia-Ukraine war and unrest in the Middle East, contributed to global uncertainty and volatility in oil prices. The global financial markets also exhibited notable improvement during 2024 as major stock indices showed notable gains, while 10-year government bond yields across major economies diverged, reflecting varied investor expectations. Nevertheless, the imposition of tariffs by the U.S. may further exacerbate trade disruptions, intensify supply chain challenges and increase costs for businesses globally. Looking toward 2025, the global economic outlook appears increasingly uncertain, with the potential for slower growth as the full impact of tariff-related trade disruptions takes hold. Ongoing concerns about inflation in certain regions, coupled with persistent geopolitical risks, may continue to dampen investor confidence and hinder trade activity. In summary, while 2024 saw a moderation in inflation and easing monetary policies, the global economy would face significant challenges in 2025. Trade tensions, geopolitical uncertainties, and inflationary pressures are poised to shape the economic landscape, requiring careful navigation by policymakers and businesses alike.

1.1.1 GLOBAL GROWTH SCENARIO AND OUTLOOK

The IMF's April 2025 World Economic Outlook (WEO) reported that global economic growth remained steady yet disappointing throughout 2024, with a similar outlook projected for 2025. However, the global environment has shifted markedly as governments reassess their policy priorities in response to a wave of new U.S. tariffs and potential retaliatory measures from their trading partners. This escalation of trade tension culminated at the beginning of April 2025, when the U.S. imposed near-universal tariffs, pushing effective tariff rates to levels not seen in a century. As a result, these developments have adverse consequences on global supply chains and economic stability, thereby the global growth projection for 2025 has been reduced to 2.8 percent.

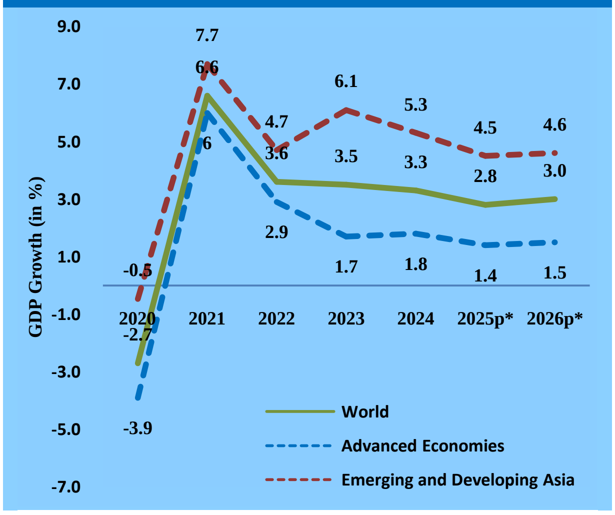
As of end-December 2024, global GDP increased by 3.87 percent compared to the preceding year and stood at USD 110.55 trillion. The share of advanced economies in global GDP rose by 0.12 percentage points and reached 58.54 percent. In contrast, the share of emerging and developing Asian economies declined by 0.11 percentage points, settling at 24.18 percent. The contribution from other countries remained largely unchanged at 17.28 percent (Chart 1.1). Real GDP growth in advanced economies edged up by 0.1 percentage point in 2024, reaching 1.8 percent. However, growth in this group is projected to slow in 2025 and 2026. Similarly, both emerging and developing Asia experienced a slight decline in real GDP growth during 2024, which was expected to see further deceleration over the next two years. Overall, real GDP of global economy grew at a stable rate of 3.3 percent in 2024 but is anticipated to weaken in both 2025 and 2026 and stand at 2.8 and 3.0 percent, respectively (Chart 1.2). This downward revision mainly reflects the adverse effects of heightened trade tensions, including imposition of multiple waves of tariffs on major trading partners by the USA, which have disrupted established trade relationships and supply chains.

CHART 1.1: WORLD GDP SHARE BY CATEGORIES OF ECONOMIES IN 2024



Sources: IMF, World Economic Outlook, April 2025.

CHART 1.2: WORLD GDP GROWTH

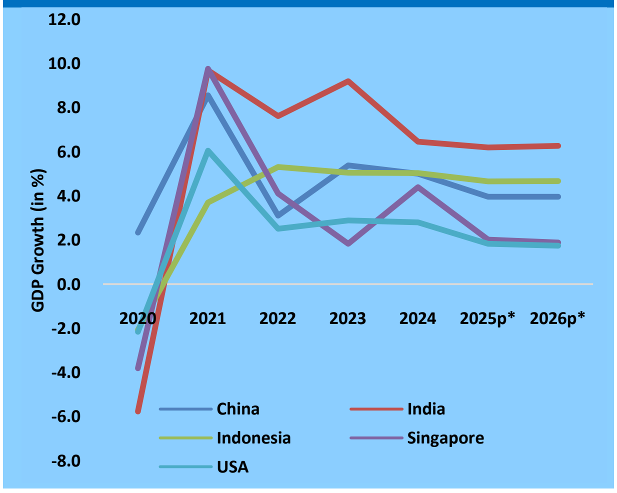


Note: p*- Projection.
Source: IMF, World Economic Outlook, April 2025.

After enduring an extended and unparalleled sequence of economic shocks for the last 3-4 years, the global economy began to stabilize throughout much of 2024, characterized by a modest growth trajectory and a continued decline in headline inflation. Following a rebound in 2023, Bangladesh's primary import partners, including China, India, Indonesia, Singapore and the United States (U.S.), exhibited reasonably consistent growth in 2024. However, if the United States tariff-induced trade tensions persist, many economies, along with Bangladesh’s primary import partner countries would face the risk of a prolonged slowdown, with reduced trade opportunities potentially hindering production/growth.

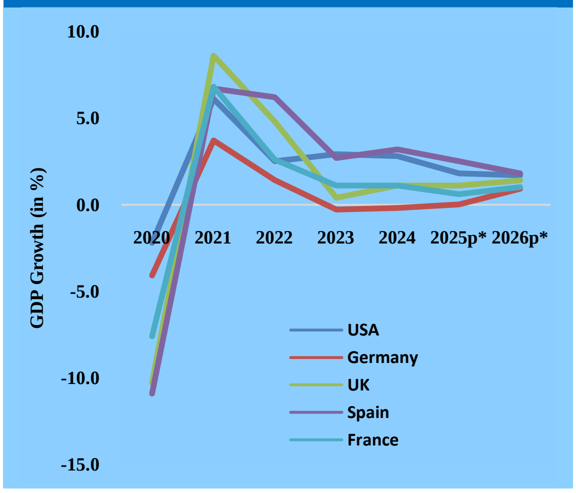
Consequently, several international institutions including the International Monetary Fund (IMF) have revised down these countries' GDP growth projections for 2025 and 2026 (Chart 1.3). Their economic downtrend might introduce significant uncertainties into Bangladesh's import landscape via triggering arise in associated costs in the coming days. In 2024, Bangladesh's top export destinations, i.e., the United States, Germany, the United Kingdom, Spain and France, experienced stable economic conditions. However, except Germany, France, and the United Kingdom, their growth outlook for 2025 and 2026 appears to be on a downward trajectory (Chart 1.4). Despite stable economic conditions in these countries in 2024, the downward trend in their growth outlook for 2025 and 2026 may pose challenges for Bangladesh's exports. However, the ongoing U.S.-China tariff war presents Bangladesh with a unique opportunity to strengthen its position in the global textile market. As U.S. brands and retailers consider relocating their sourcing strategies to avoid high tariffs on Chinese goods, Bangladesh can leverage its comparative advantages and explore market diversification.

CHART 1.3: GDP GROWTH OF TOP IMPORT ORIGINATING COUNTRIES



Note: p*- Projection.
Source: IMF, World Economic Outlook, April 2025.

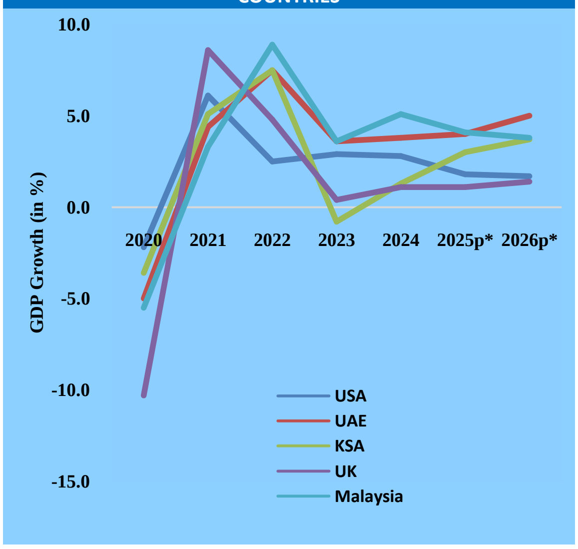
CHART 1.4: GDP GROWTH OF TOP EXPORT DESTINATION COUNTRIES



Note: p*- Projection.
Source: IMF, World Economic Outlook, April 2025.

The potential for wage earners' remittances to Bangladesh is closely tied to the economic growth of the countries from which these remittances originate. Major remittance-sourcing countries to Bangladesh, including the USA, UAE, Saudi Arabia (KSA), the United Kingdom (UK), and Malaysia, experienced more consistent and positive economic growth in the review period (Chart 1.5). Consistent economic growth in these countries is expected to lead to more overseas employment and a higher inflow of remittances into Bangladesh. However, some oil-producing nations are projected to see economic growth in 2025 and 2026, the pace may be slower than initially anticipated. This is attributed to a combination of limited oil production recovery and regional challenges that could impact overall economic performance.

CHART 1.5: GDP GROWTH OF TOP REMITTANCE SOURCING COUNTRIES

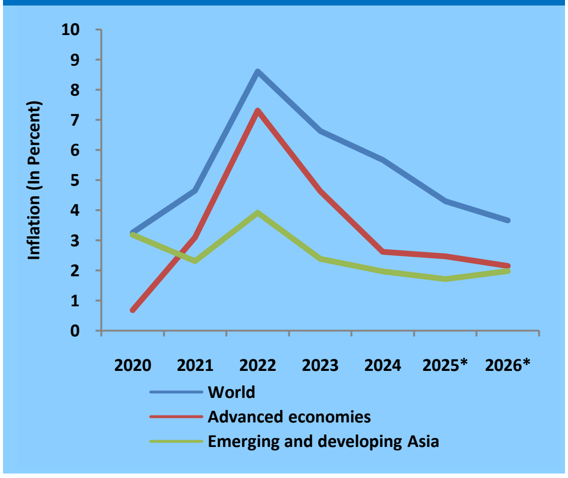


Note: p*- Projection.
Source: IMF, World Economic Outlook, April 2025.

1.1.2 Global Inflation

In 2024, global inflation showed clear signs of easing, though notable differences persisted between advanced and emerging economies. The IMF projected a decline in global inflation from 6.63 percent in 2023 to 5.67 percent in 2024, driven primarily by tighter monetary policies and more stable commodity prices. Inflation in advanced economies fell more sharply, reaching around 2.62 percent. In contrast, inflation in emerging and developing Asian economies declined gradually, from 2.38 percent in 2023 to 1.97 percent in 2024. Looking ahead, global inflation is expected to continue its downward trend, with the IMF forecasting a drop to 4.29 percent by the end of 2025 (Chart 1.6).

CHART 1.6: GLOBAL INFLATION TRENDS



Note: p*- Projection.
Source: IMF, World Economic Outlook, April 2025.

However, ongoing geopolitical tensions and global trade policy uncertainty may challenge this trajectory, potentially slowing progress toward price stability and impacting overall economic resilience.

1.1.3 Global Financial Market Environment

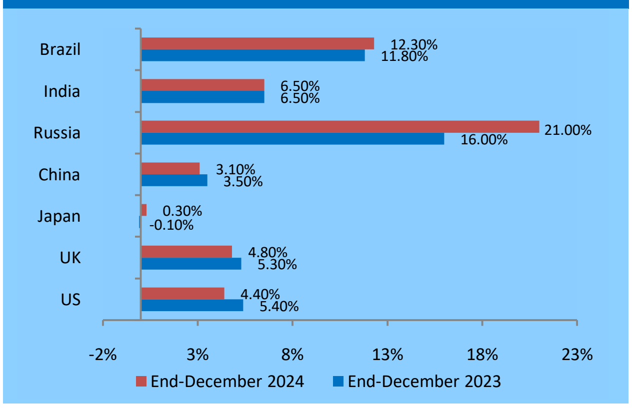
In 2024, global financial markets operated under a cautiously optimistic outlook, influenced by persistent geopolitical risks, evolving monetary strategies, and changing investor sentiment. As inflation showed signs of easing, many central banks began to retreat from the sharp interest rate hikes that were imposed in 2023 to rein in surging prices. The major stock indices posted substantial gains in 2024, while 10-year government bond yields across major economies diverged significantly, influenced by differing monetary policies, optimistic inflation expectations, and economic conditions. In contrast, 2024 experienced a volatile crude oil market with oil prices showing periods of sharp increases followed by declines throughout the year, and projections indicating a potential price decline in the coming year.

1.1.3.1 International Interest Rate Environment

In 2024, with global inflationary pressures easing somewhat, many central banks scaled back the swift and substantial interest rate hikes they had implemented in 2023 to combat soaring inflation.

In 2024, among advanced economies, the United States, the United Kingdom and China implemented moderate reductions in their policy interest rates, lowering them by 1.00, 0.50 and 0.40 percentage points, respectively, from their 2023 levels. On the other hand, for years, Japan's central bank kept its policy rate at -0.10 percent to stimulate economic growth and address deflationary pressures. However, it raised the rate to 0.10 percent in March 2024, followed by a further increase to 0.30 percent in August 2024 which sustained till the end of 2024.

CHART 1.7: POLICY RATES OF SELECTED CENTRAL BANKS



Source: Bank for International Settlements.

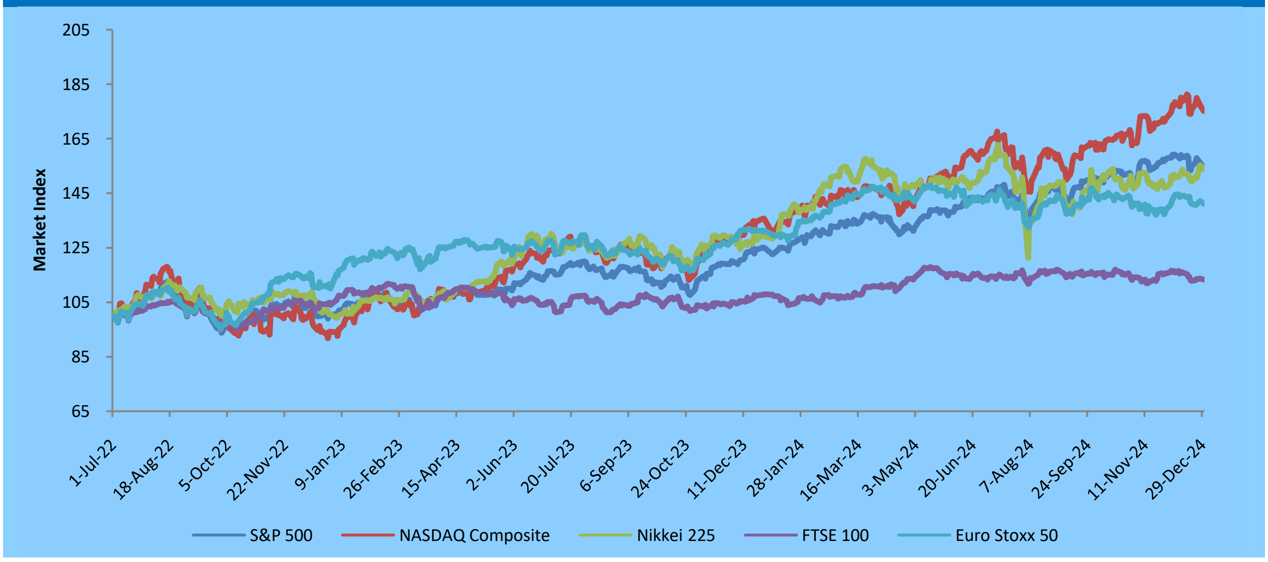
This gradual rate hike indicates Japan's careful approach to balancing economic growth while managing the risks of inflation and market instability. Among emerging and developing economies, Russia implemented a substantial policy rate hike of 5.00 percentage points, whereas India maintained its policy rate at the same level as in 2023 (Chart 1.7).

1.1.3.2 Development in Major Financial Markets

In 2024, global inflation which had elevated in the previous couple of years following the pandemic, began to ease steadily. This development led central banks, including the U.S. Federal Reserve and the European Central Bank, to shift away from the aggressive interest rate hikes seen in 2022 and 2023. The prospect of lower borrowing costs improved investor sentiment and helped fuel a broad-based rally in global equity markets. However, the positive momentum was tempered by ongoing geopolitical tensions, particularly the escalating U.S.-China trade disputes and the prolonged Russia-Ukraine war, which continued to pose risks to global supply chains and economic stability.

Despite these headwinds, major stock markets posted substantial gains by the end of 2024. Compared to the corresponding indices of the preceding year, the S&P 500 climbed 23.84 percent and the NASDAQ Composite advanced 29.81 percent, driven largely by tech stocks. Japan's Nikkei 225 rose 19.22 percent, the UK's FTSE 100 increased 5.01 percent, and the Euro Stoxx 50 gained 7.69 percent (Chart 1.8).

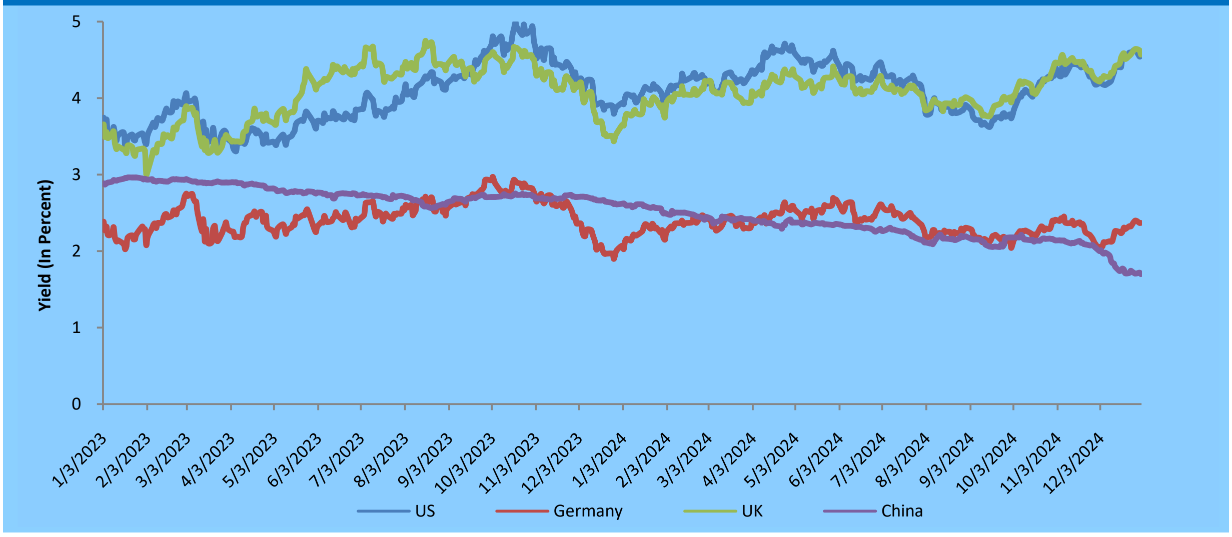
CHART 1.8: MOVEMENT OF MAJOR GLOBAL STOCK MARKET INDICES



Note: Base: 01 July 2022.
Source: Wall Street Journal.

In 2024, 10-year government bond yields across major advanced and emerging economies exhibited notable divergence, reflecting a mix of domestic economic conditions and global market trends. At end-December 2024, the U.S. 10-year treasury yield had increased by 70 basis points compared to the previous year, largely due to expectations of sustained restrictive monetary policy to control ongoing inflationary pressures. Germany and the UK also saw their 10-year yields rise by 36 and 103 basis points, respectively, over the same period. In contrast, China's 10-year bond yield dropped by 91 basis points, as investors anticipated further monetary easing from the regulatory authority of China to support the country's economic stability (Chart 1.9).

CHART 1.9: YIELD OF 10-YEAR GOVERNMENT BONDS OF MAJOR ECONOMIES



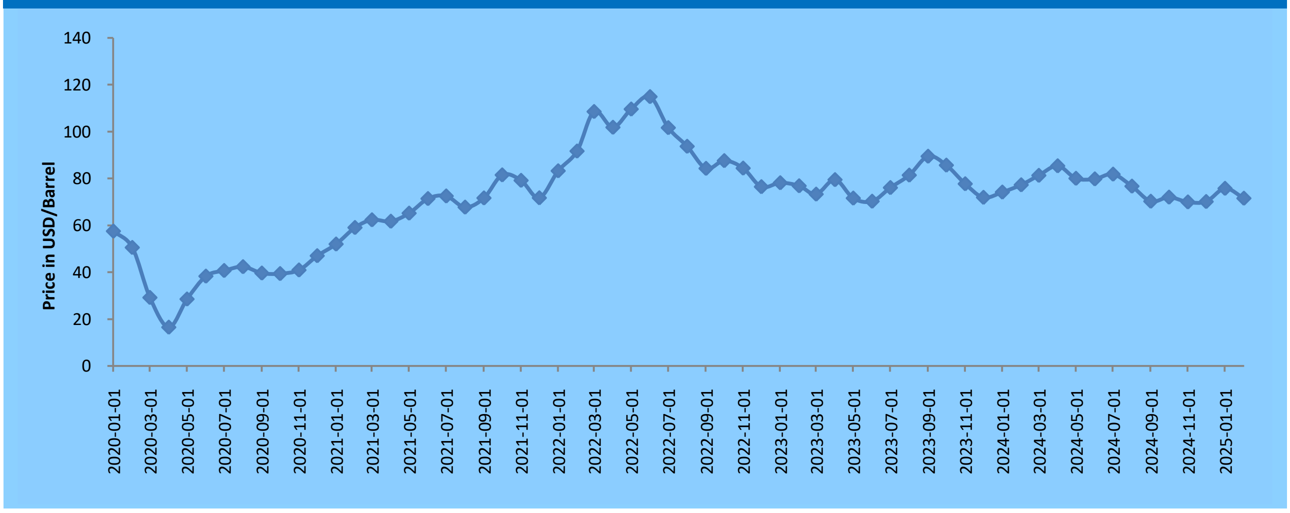
Source: Wall Street Journal.

1.1.3.3 Crude Oil Prices in International Market

Petroleum, oil, and lubricants (POL) play a vital role in the global energy landscape and exert a strong influence on international economic conditions. Fluctuations in oil prices have a direct impact on domestic inflation, primarily through their effect on production and transportation costs. As depicted in Chart 1.10, global crude oil prices have experienced significant volatility over the past four years, with a steeper-than-anticipated decline from their mid-2022 peak.

These price swings have largely stemmed from a complex mix of supply and demand dynamics, as well as geopolitical developments including OPEC+ production cuts, ongoing conflict in the Middle East, and slowing economic growth in major economies such as China and the United States. At the end of 2024, crude oil prices had fallen to USD 70.12 per barrel, down from USD 74.15 at the start of the year. Throughout the year, prices fluctuated considerably, reaching a peak of USD 85.35 per barrel on April 1, 2024. Despite the upward trend during the first quarter of 2024, the oil prices followed a rather downward trend throughout the rest of the year. Furthermore, the IMF, in its April 2025 outlook, projected that oil prices could decline by approximately 15.5 percent in 2025.

CHART 1.10: CRUDE OIL PRICE (WTI)*



*West Texas Intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing.
Source: Federal Reserve Economic Data. (https://fred.stlouisfed.org/series/DCOILWTICO) retrieved on May 07, 2025

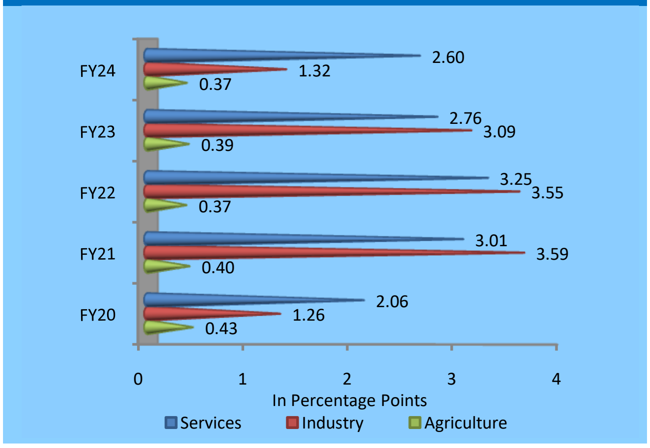
1. 2 DOMESTIC MACROECONOMIC DEVELOPMENT

The GDP of Bangladesh exhibited sluggish growth in FY24. The industry and service sectors positively contributed to the economy's growth, even while dealing with high inflation and political turmoil throughout the year. Borrowing from the banking system by both the government and the private sector increased at a moderate pace during the review period. The consistently low credit-to-GDP gap suggests that no immediate threat is apparent to the stability of the financial system arising from domestic credit flow to the private sector.

1.2.1 GDP GROWTH

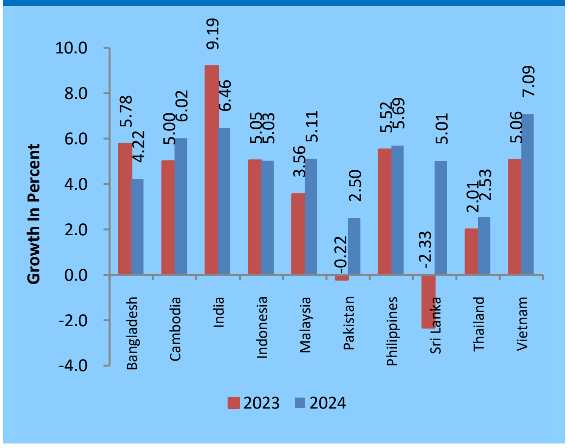
Bangladesh's economy experienced a slowdown in FY24[1] compared to the previous fiscal year. Along with persistent inflationary pressures and the continuous depreciation of the Bangladeshi Taka against the US Dollar, the economy faced political unrest in the latter half of 2024, further dampening growth. The country's GDP reached BDT 33,460.18 billion, with a growth rate of 4.22 percent in FY24. However, GDP growth rate (estimated) stood at 3.97 percent in FY25. The industry, service, and agriculture sectors experienced growth rates of 3.51 percent, 5.09 percent, and 3.30 percent, respectively, contributing 37.37 percent, 51.44 percent, and 11.19 percent to the GDP. Additionally, the economy recorded a Gross Value Added (GVA) of BDT 32,367.08 billion, with a growth rate of 4.29 percent in FY24. The industry and services sectors contributed 1.32 percentage points and 2.60 percentage points to the GVA growth, respectively, while the agriculture sector contributed a modest 0.37 percentage point (Chart 1.11). In 2024, Bangladesh's GDP growth ranked eighth among the selected Asian economies, a sharp decline from the second-highest GDP growth in 2023 (Chart 1.12).

CHART 1.11: GROSS VALUE ADDED (GVA) OF BANGLADESH



Source: BBS; Calculated by FSD, BB.

CHART 1.12: REAL GDP GROWTH OF SELECTED ASIAN ECONOMIES



Source: BBS; and IMF World Economic Outlook April 2025.

1.2.2 INFLATION

Bangladesh's domestic economy has faced persistent inflationary pressures over the last couple of years. At the end of FY24, the 12-month average general CPI inflation[2] reached 9.73 percent, with food inflation at 10.66 percent and non-food inflation at 8.86 percent. Compared to the end of FY23, general and food inflation increased by 0.71 percentage point and 1.95 percentage points, respectively, while non-food inflation decreased by 0.53 percentage point. At the end of Q2 FY25, the 12-month average general and food inflation stood at 10.34 percent, 11.33 percent, respectively and non-food inflation reached 9.41

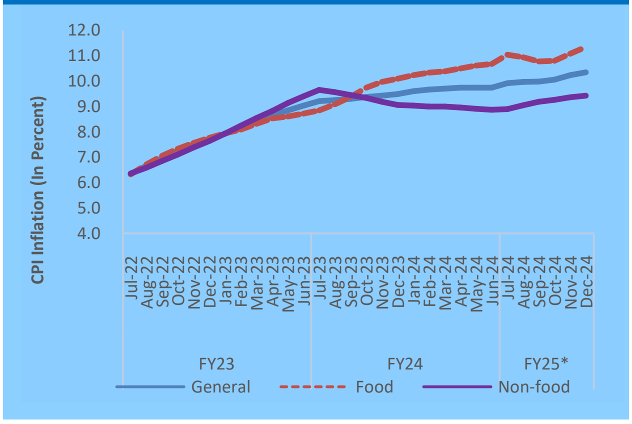
[1] FY Stands for Fiscal Year spanning from July to next June.

[2] Base index: FY2021-22 = 100

percent (Chart 1.13). However, at the end of FY25, the 12-month average general CPI inflation reached 10.03 percent.

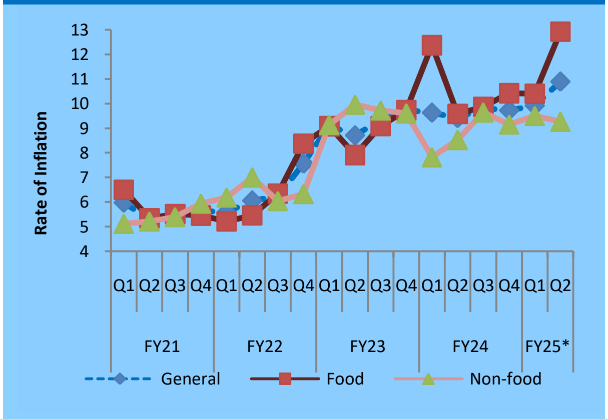
The point-to-point CPI inflation for general, food, and non-food items stood at 9.72 percent, 10.42 percent, and 9.15 percent, respectively, whereas the corresponding figures were 9.74 percent, 9.73 percent, and 9.60 percent at the close of FY23. By the end of Q2 FY25, the point-to-point inflation for general, food, and non-food items rose to 10.89 percent, 12.92 percent, and 9.26 percent, respectively (Chart 1.14).

CHART 1.13: 12-MONTH AVERAGE CPI INFLATION



Note: 12-month average food and non-food indices have been calculated after shifting base from FY06 to FY22
Source: BBS[4]. *FY25* indicates data up to the first half of FY25.*

CHART 1.14: END-QUARTER POINT-TO-POINT INFLATION AND ITS COMPONENTS.

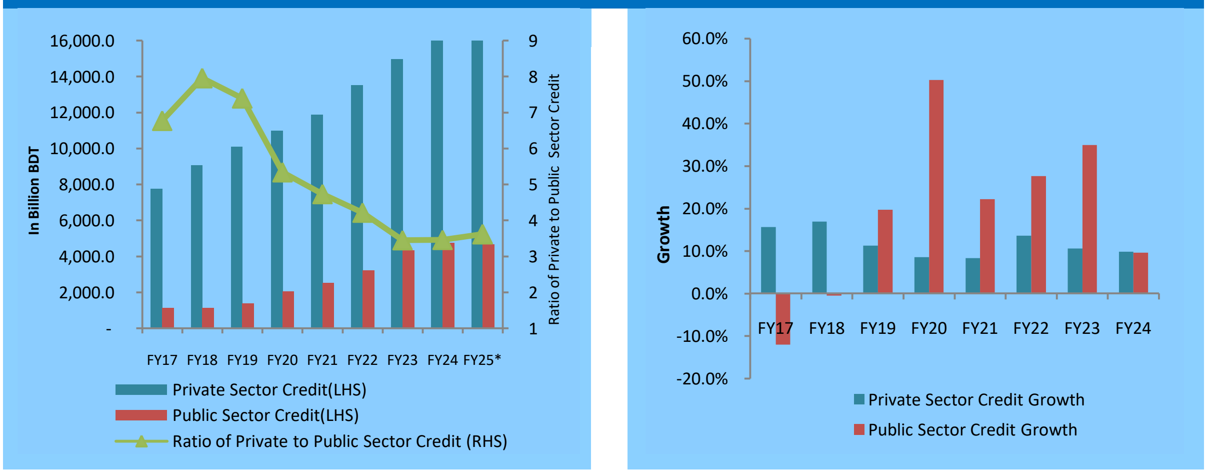


Source: BBS[3].

1.2.3 Domestic Credit from the Banking System

At the end of FY24, domestic credit extended by the banking system increased to BDT 21,155.25 billion, reflecting a 9.80 percent rise compared to FY23. Both private and public sectors experienced a moderate growth in FY24. Private sector credit experienced a 9.84 percent growth, reaching BDT 16,412.29 billion, while public sector credit[5] grew by 9.66 percent, reaching BDT 4,742.96 billion. Furthermore, following a consistent decline from FY18 to FY23, the ratio of private sector credit to public sector credit recorded a marginal increase, reaching 3.46 at the end of FY24 (Chart 1.15). However, the ratio rose further to 3.62 at the end of the first half of FY25.

CHART 1.15: DOMESTIC CREDIT FROM BANKING SYSTEM-COMPONENTS' SHARE AND GROWTH



FY25* indicates data up to first half of FY25.

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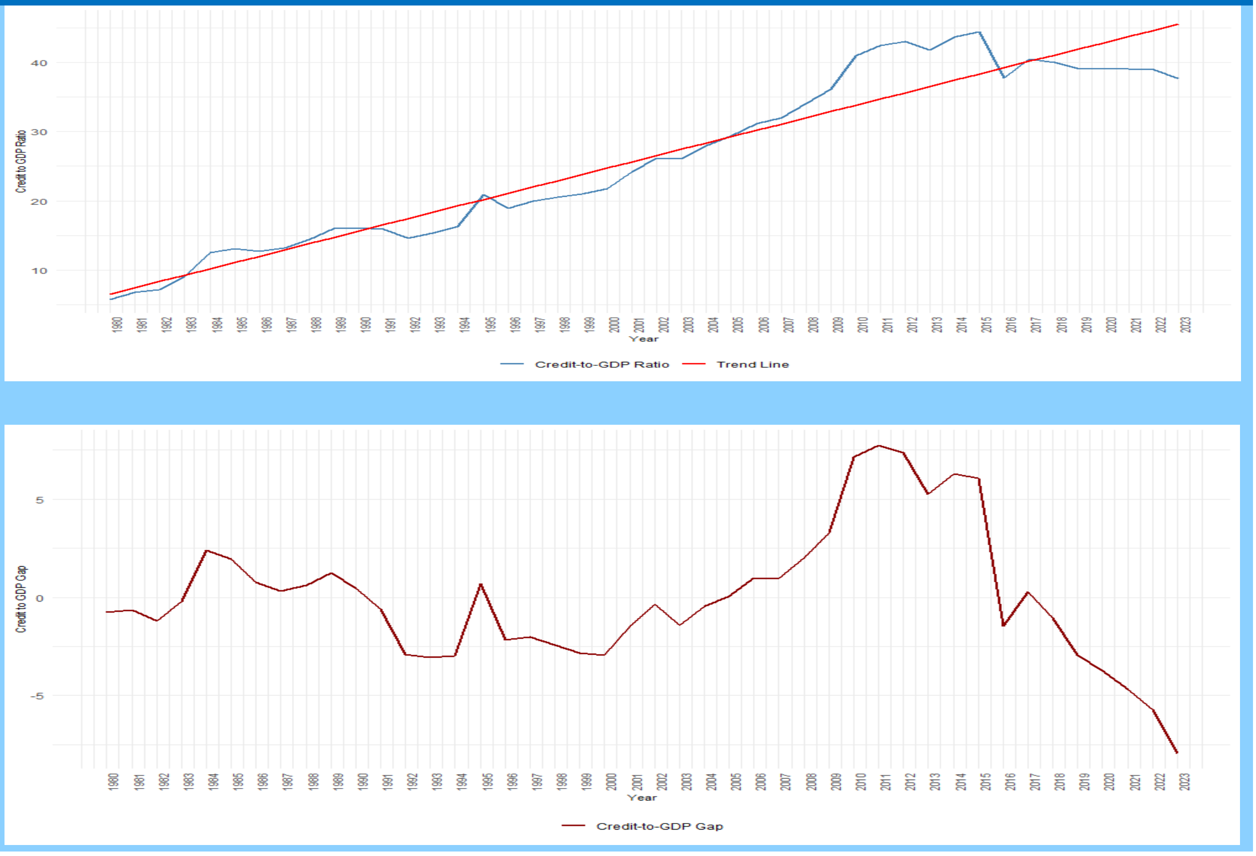
[3]As cited in Monthly Economic Trend, March, 2025, Statistics Department, BB.
[4]As cited in Monthly Economic Trend, March, 2025, Statistics Department, BB.
[5]Public sector credit = government net credit + other public sector credit.

Source: Statistics Department, BB as cited in Monthly Economic Trend (for both charts).

1.2.4 Private Sector Credit-to-GDP Gap

The private sector credit-to-GDP gap, evaluated using the Hodrick-Prescott Filter in accordance with the Basel Committee on Banking Supervision (BCBS) guidelines, indicates that Bangladesh's financial system did not experience significant credit expansion over GDP growth from 1980 to 2023. For most of this period, the gap remained relatively contained. In 2016, it turned negative and reached -1.46, which continued to remain negative till 2023, reaching -7.94. Despite these fluctuations, the consistently low credit-to-GDP gap indicates that there is no apparent threat to the stability of the financial system stemming from the flow of domestic credit to the private sector (Chart 1.16).

CHART 1.16: CREDIT-TO-GDP RATIO-ITS TREND AND THE GAP



Source: World Bank; Calculation : FSD.

1.3 EXTERNAL SECTOR DEVELOPMENTS

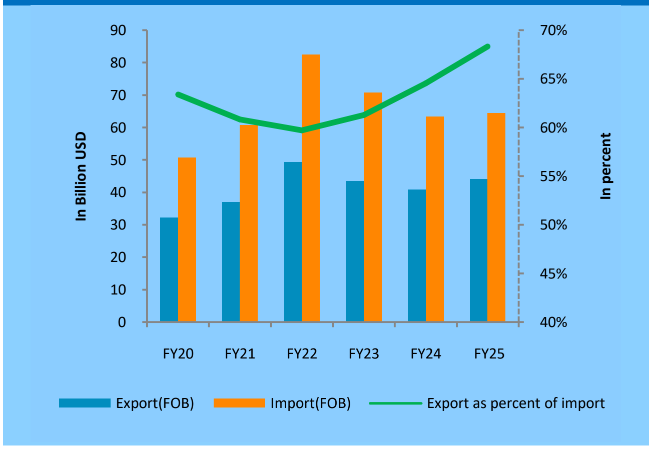
Considering the increasing global interconnectedness, the external sector of Bangladesh has emerged as a significant contributor to the country's sustained economic growth and overall development. During FY24, the external sector of Bangladesh showed moderate resilience. The current account balance (CAB) deficit exhibited a considerable improvement. There was a decline in both export and import payments, while remittances from wage earners saw a modest increase. Nevertheless, the Bangladeshi Taka (BDT) continued to depreciate against the US Dollar (USD) in FY24 due to an expanded demand-supply gap in the foreign exchange market. Foreign direct investment (FDI) inflows appeared to be stalled due to concerns regarding geopolitical tensions and the depreciation of the local currency. The external debt stock gradually increased, primarily driven by long-term public sector debt inflows, while short-term external debt experienced a substantial decline.

1.3.1 EXPORT AND IMPORT

Since FY20, both exports (FOB) and imports (FOB) demonstrated an upward trend up to FY22, then, experienced a declining trend in FY23 and FY24. During FY24, both exports (FOB) and imports (FOB) shrank by 5.89 percent and 10.61 percent, respectively compared to corresponding values those of FY23 and stood at USD 40.81 billion and USD 63.24 billion respectively (Chart 1.17). Although there was a trade deficit of USD 22.43 billion in FY24, it remained lower than that of the previous fiscal year (USD 27.38 billion in FY23).

Exports as a percentage of imports increased marginally in FY24 compared to that of the previous fiscal year, amid declining exports and imports. The ratio stood at 64.53 percent in FY24, which was 61.29 percent in FY23. The decline in imports could partly be attributed to BB's policy initiatives to discourage the import of luxury goods and increase vigilance over external trade. It is noteworthy that total exports (FOB), total imports (FOB) and Exports as a percentage of imports, in terms of provisional data, stood at USD 43.96 billion, USD 64.35 billion and 68.31 percent, respectively in FY25.

CHART 1.17: EXPORT AND IMPORT TREND OF BANGLADESH

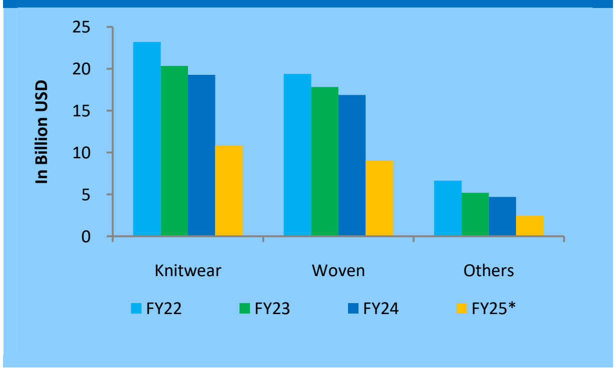


Sources: Statistics Department,BB and Export Promotion Bureau as cited in BB Quarterly.

The commodity-wise exports, demonstrated in Chart 1.18, exhibit that the knitwear continued to dominate the total exports, followed by the woven garments in the last three consecutive fiscal years. During FY24, knitwear and woven garments captured 47.21 percent and 41.32 percent of total exports, respectively, whereas other items accounted for only 11.47 percent of total exports. In comparison with FY23, the exports of knitwear, woven garments, and 'others' category declined by 5.35 percent, 5.37 percent, and 9.79 percent, respectively.

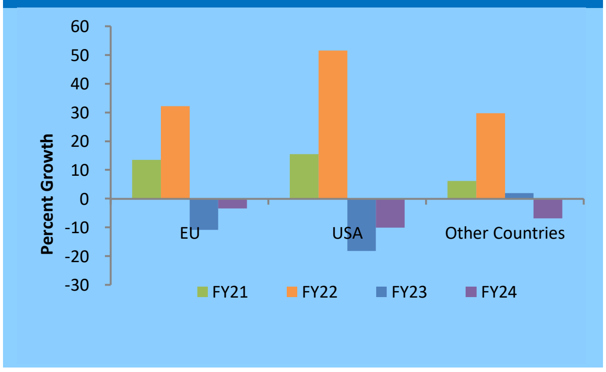
In the global context, the region-wise export growth of readymade garments (RMG) from Bangladesh illustrates that RMG exports to the European Union (EU) and USA declined by 3.46 percent and 10.13percent, respectively during FY24 (Chart 1.19). The exports of RMG to countries other than EU and USA also declined by 6.82 percent in FY24.

CHART 1.18: COMMODITY-WISE EXPORTS OF BANGLADESH



Note: FY25* indicates data up to the first half of FY25
Source: Export Promotion Bureau, Bangladesh as cited in BB Quarterly.

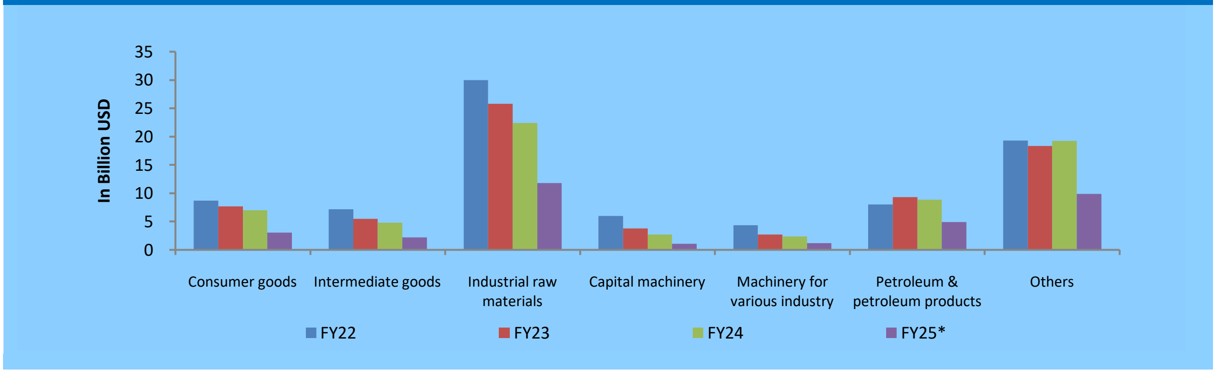
CHART 1.19: REGION-WISE EXPORTS GROWTH OF RMG



Source: Export Promotion Bureau, Bangladesh as cited in BB Quarterly.

During FY24, imports[6] in Bangladesh were dominated by industrial raw materials, followed mainly by petroleum and petroleum products as well as consumer goods. The imports of industrial raw materials captured 33.24 percent of total imports. However, the commodity-wise import of most categories declined in FY24 (Chart 1.20). During FY24, imports of capital machinery, industrial raw materials, and machinery for various industries declined by 27.97 percent, 12.99 percent and 13.26 percent, respectively. Besides, imports of consumer goods, intermediate goods and petroleum and petroleum products demonstrated a downturn by 8.66 percent, 12.40 percent and 4.87 percent, respectively, compared to those of the previous fiscal year.

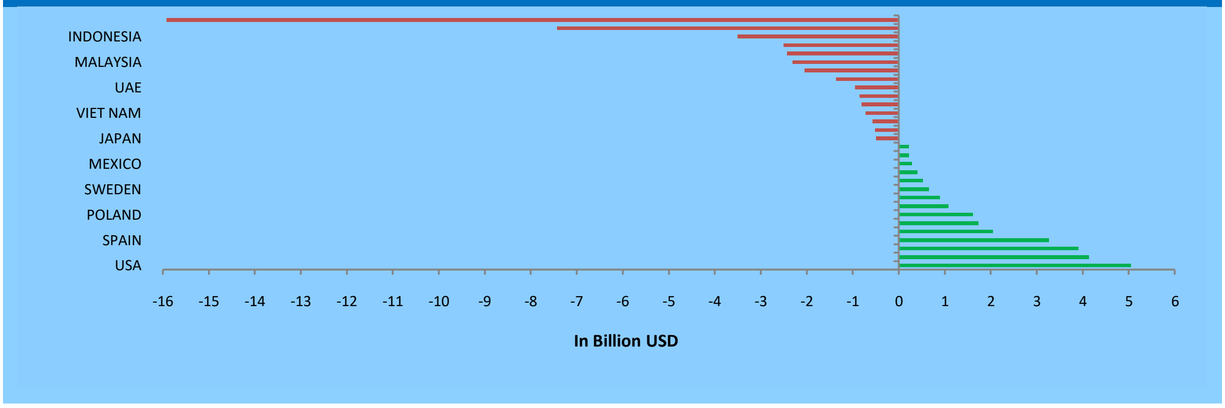
CHART 1.20: CATEGORY-WISE IMPORTS TREND OF BANGLADESH



Note: *FY25 indicates data up to the first half of FY25.
Sources: Foreign Exchange Operation Department, BB as cited in BB Quarterly.

Chart 1.21 presents the trade balance[7] of Bangladesh with major trading partners in FY24. Bangladesh had a sizeable trade deficit with China and India largely due to substantial imports from these two countries. Higher concentration on some specific countries for imports implies their strategic importance in the external sector of Bangladesh. The countries with which Bangladesh had a large trade surplus were the USA, the UK and Germany, underpinned mainly by RMG exports.

CHART 1.21: TRADE BALANCE WITH MAJOR TRADING PARTNERS OF BANGLADESH



Source: Statistics Department, BB.

1.3.2 REMITTANCE

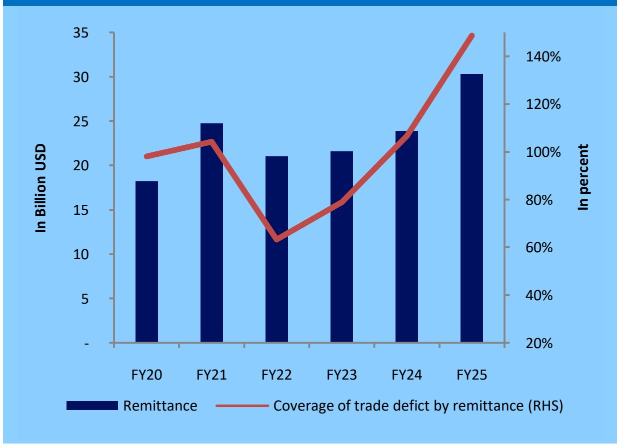
The wage earners' remittance plays a dominant role in stabilizing the external sector balance of Bangladesh as it contributes substantially to offsetting the trade deficit. After a slow growth in FY23 (2.75 percent), remittance inflows experienced a notable growth of 10.65 percent in FY24 and reached USD 23.91 billion. However, the total inflow of remittance reached USD 30.33 billion at the end of FY25 (Chart 1.22). Importantly, the share of the trade deficit covered by remittances surged significantly,

[6]Imports refer to import settlement.
[7]Trade Balance = Exports (FOB) - Import Payments.

reaching 106.60 percent in FY24 compared to 78.92 percent for the same period during FY23. It is worth mentioning that curbing imports through BB's recent policy initiatives, as well as encouraging remittance inflow through legitimate channels, helped to improve this scenario in FY24.

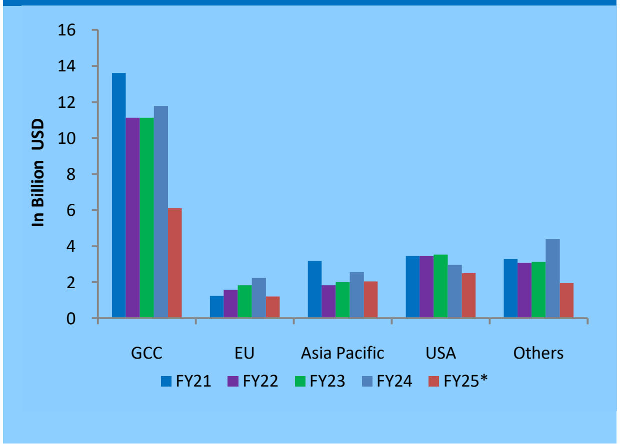
The Gulf Cooperation Council (GCC) countries continued to contribute the lion's share of total remittance inflows in Bangladesh. In addition, the USA maintained its 2nd position as usual with 12.39 percent of total inflows in FY24. Although remittance inflow increased slightly from the GCC countries, they surged notably in the cases of the EU and the Asia Pacific region. However, the remittance from the USA declined by 15.90 percent in FY24. The remittance inflows from those regions also displayed a buoyant trend during the first half of FY25 (Chart 1.23).

CHART 1.22: WAGE EARNERS' REMITTANCE INFLOW



Source: Statistics Department,BB as cited in BB Quarterly.

CHART 1.23: REGION-WISE REMITTANCE



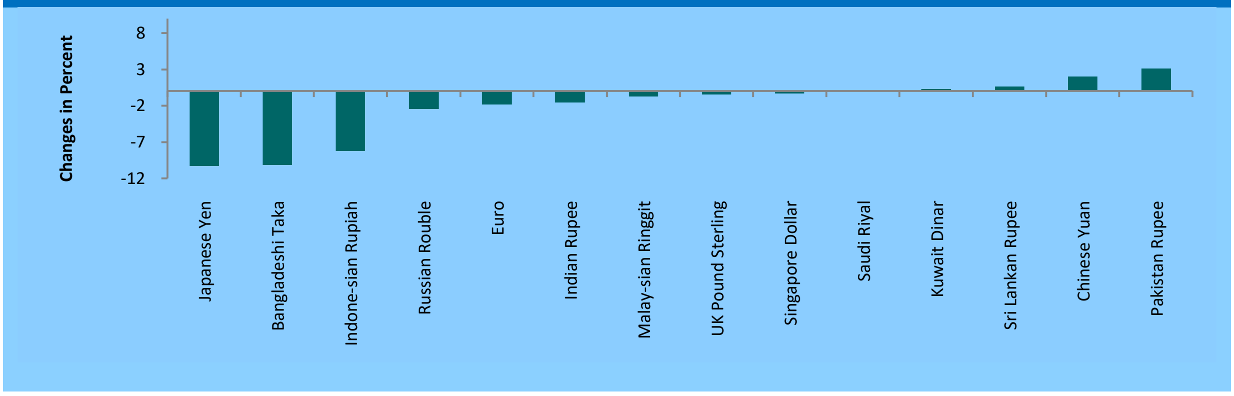
Note: *FY25 indicates data up to the first half of FY25.
Source: Statistics Department,BB as cited in BB Quarterly.

1.3.3 Exchange Rate Movement

In FY24, the movement of global currencies exhibited a diverse behavior as some notable currencies continued to depreciate against the US dollar while some currencies rebounded and became stronger (Chart 1.24). The Bangladeshi Taka (BDT) depreciated notably by 10.17 percent in FY24, making exports more attractive and imports costlier. The depreciation of the currencies of some import partner countries such as Indonesia, India and Japan might help Bangladesh by reducing import costs to some extent. However, appreciation of the Chinese Yuan, the highest import originating country of Bangladesh, might make imports costlier and elevate the domestic inflationary pressure.

Moreover, a relatively stronger position of the Euro compared to the BDT might enhance exports to the Euro zone, a major export destination of Bangladesh.

CHART 1.24: NOMINAL CHANGE IN SELECTED CURRENCIES AGAINST USD IN FY24

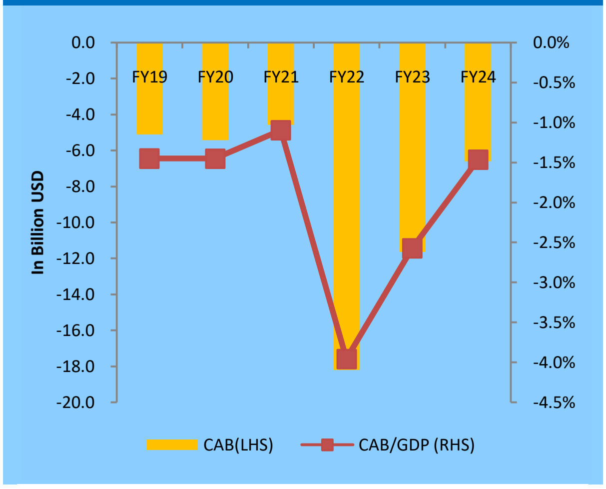


Source: Statistics Department, BB as cited in Monthly Economic Trend.

1.3.4 Current Account Balance

Although the Current Account Balance (CAB) of Bangladesh remained negative in the last six fiscal years, it improved significantly in FY24. Sizable exports, positive growth in remittance inflow and decline in import payments contributed to reduce the current account deficit from USD 11.63 billion in FY23 to USD 6.60 billion in FY24. Pertinently, the CAB-GDP ratio also improved substantially and stood at -1.47 percent in FY24 from -2.57 percent in FY23 (Chart 1.25). Moreover, at the end of FY25, Bangladesh witnessed positive CAB worth USD 0.149 billion (provisional), raising optimism about the country's external balance.

CHART 1.25: TREND OF CURRENT ACCOUNT BALANCE



Source: Statistics Department,BB as cited in BB Quarterly.

However, given the recent shifts in the global trade landscape and ongoing geopolitical tensions, the current trend of improvement may face a significant challenge pertaining to Bangladesh's overall balance of payments (BOP) and external sector throughout the fiscal year.

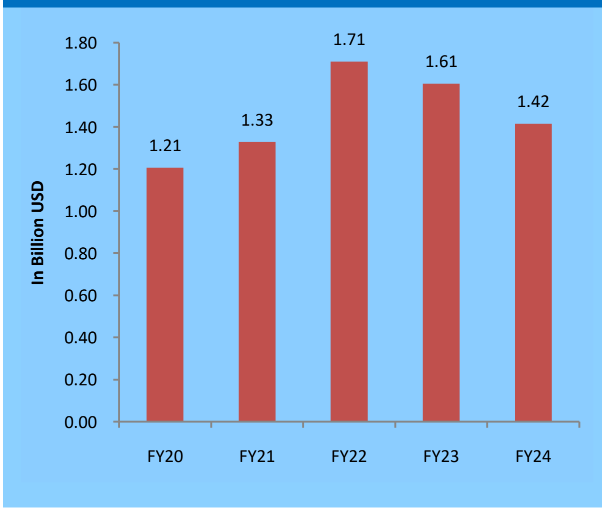
1.3.5 Capital Flow Movement

Capital investment from other countries plays a crucial role in developing economies like Bangladesh in filling the capital gap needed for improving productivity. Among other components, foreign direct investment (FDI) and external loans comprise the major portion of capital inflows in Bangladesh.

1.3.5.1 Foreign Direct Investment

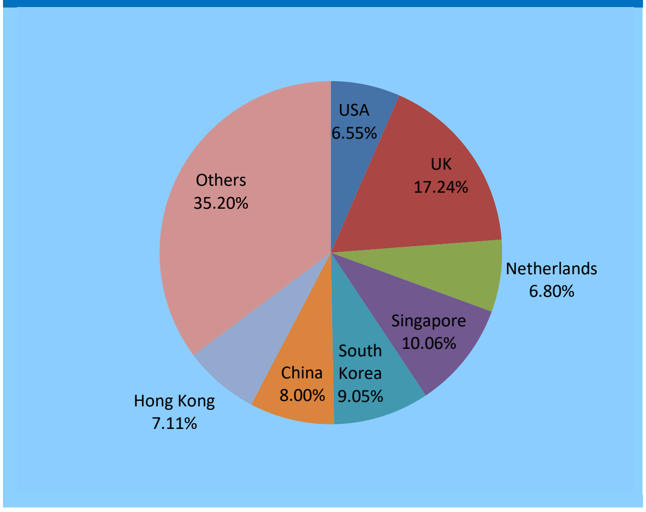
The net foreign direct investment (FDI) inflows stood at USD 1.42 billion in FY24, registering a decline of 11.83 percent from that of the previous fiscal year (Chart 1.26). Considering the country-wise distribution of FDI stock, the UK possesses the highest FDI stock in Bangladesh, followed by Singapore and South Korea (Chart 1.27).

CHART 1.26: NET FDI INFLOW



Source: Statistics Department,BB.

CHART 1.27: MAJOR COUNTRY-WISE FDI STOCK IN 2024*



*Country-wise FDI stock as on end-September 2024.
Source: Statistics Department,BB.

1.3.5.2 External Debt

Due to growing investment demand, the external debt stock of Bangladesh has continued to rise in recent years. The total external debt of Bangladesh stood at USD 103.41 billion at the end of FY24, which increased marginally to USD 103.64 billion at end-December 2024. However, external debt increased by 2.2 percentage points in FY24 compared to the preceding fiscal year (Chart 1.28). Notably, the short-term external debt declined by 11.59 percent in FY24 whereas the long-term external debt increased by 8.73 percent, indicating that the country appears to exhibit a heightened emphasis on long-term external indebtedness, which is a good sign from financial stability point of view.

CHART 1.28: TERM-WISE EXTERNAL DEBT STOCK

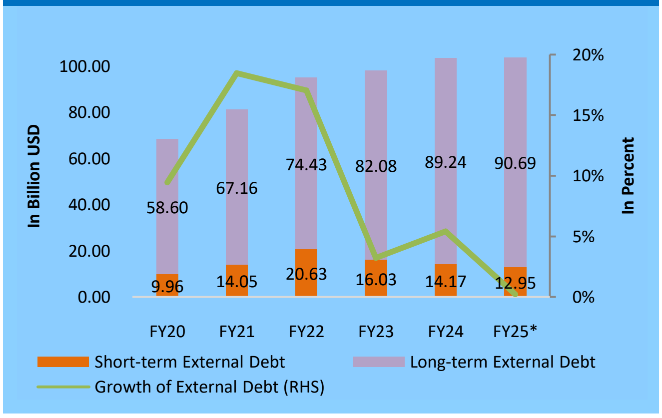
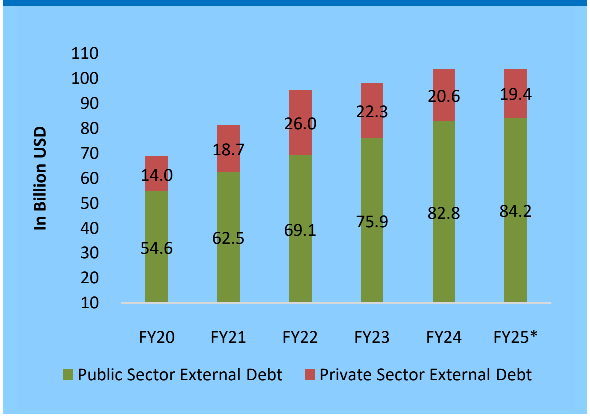


CHART 1.29: SECTOR-WISE EXTERNAL DEBT OF BANGLADESH

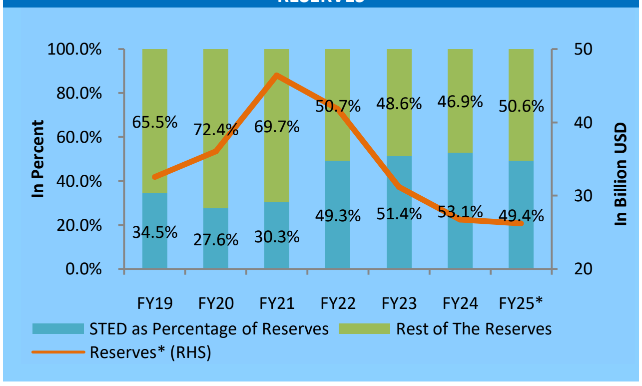


Note: *FY25 indicates data up to first half of FY25.
Source: NSDP, BB Economic Data (for both charts).

In terms of sector-wise decomposition of external debt, the private sector external debt decreased by 7.43 percent in FY24 and stood at USD 20.6 billion. In contrast, the public sector external debt continued the upward trend and increased by 9.17 percent in FY24, reaching USD 82.81 billion. Likewise, in FY24, private sector external debt continued to decline in the first half of FY25 while public sector external debt maintained its rising trend (Chart 1.29).

Despite a decline in the short-term external debt (STED) during FY24, the STED as a percentage of reserves[8] continued to increase, mainly stemming from a gradual decline in foreign exchange reserves (Chart 1.30). The STED increased to 53.06 percent of reserves at the end of FY24 compared to 51.38 percent of FY23. The ratio stood at 49.38 percent at the end of the first half of FY25. It is noteworthy that the gross foreign exchange reserves was USD 26.71 billion at the end of FY24 and USD 26.21 billion at end-December 2024.

CHART 1.30: SHORT-TERM EXTERNAL DEBT AS PERCENTAGE OF RESERVES



Note: *FY25 indicates data up to the first half of FY25.
Source: NSDP, BB Economic Data.

The gross inflow of external debt, comprised of public sector external debt and private sector external debt, was USD 5.72 billion in FY24 compared to USD 2.64 billion in FY23 (Table 1.1). It is noteworthy that the gross inflow of private sector external debt was negative (USD -1.65 billion), whereas the gross inflow of public sector external debt was USD 7.37 billion in FY24.

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[8]Reserves indicate gross foreign exchange reserves.

TABLE 1.1: YEAR-WISE GROSS INFLOW OF EXTERNAL DEBT

(Amount in Billion USD)

	FY20	FY21	FY22	FY23	FY24	FY25*
Public Sector External Debt						
Short-term	-0.79	0.89	0.66	-0.52	0.42	0.04
Long-term	6.93	7.03	5.96	6.85	6.96	1.36
Sub-total	6.14	7.92	6.61	6.33	7.37	1.40
Private Sector External Debt						
Short-term	-0.49	3.20	5.93	-4.10	-2.26	-1.27
Long-term	0.27	1.53	1.31	0.41	0.60	0.09
Sub-total	-0.22	4.73	7.23	-3.69	-1.65	-1.18
Total Inflow of External Debt	**5.92**	**12.66**	**13.85**	**2.64**	**5.72**	**0.23**

Note: *FY25 indicates data up to the first half of FY25.
Source: NSDP, BB Economic Data.

The economic development of Bangladesh has greatly benefited from external borrowing, which provides financing to meet the increasing demand for investments, particularly in infrastructure projects. Nevertheless, the growing external debt can pose risks, such as rising funding costs due to unfavorable changes in the exchange rate, unexpected tariffs imposed by major trading partner countries, and geopolitical tensions in the Middle East and Asia. Therefore, it is crucial to ensure the effective use of external debt to mitigate risks arising from the external sector.

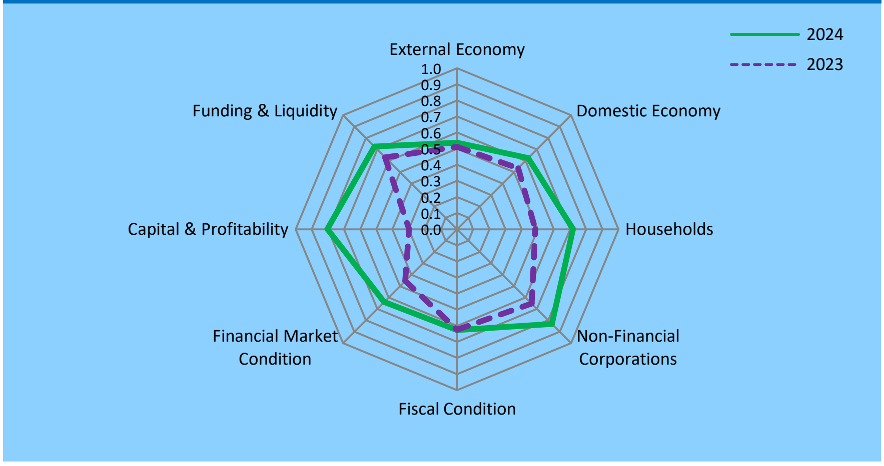
1.4 MAPPING FINANCIAL STABILITY

The financial stability map exhibits that in 2024, the components related to capital and profitability, households, financial market conditions, and non-financial corporation's experienced significant deterioration compared to 2023. Meanwhile, the external and domestic economic conditions, along with funding and liquidity, showed a moderate decline. In addition, the fiscal condition component showed a mild sign of stress in 2024.

As financial stability can be influenced through a range of channels, mapping the status of the key components is decisive. This is also vital because each financial crisis has had a unique impact on financial system stability, demanding the development of a wide-ranging framework to address all potential stability threats. In this context, the stability map for 2024 is analyzed to identify the potential stability threats to Bangladesh's macro-financial system using 8 (eight) broad components[9]: external economy, domestic economy, households, non-financial corporations, fiscal condition, financial market condition, capital and profitability, and funding and liquidity (Chart 1.31).

[9]i) External economy component consists of 7 sub-indicators: real GDP growth of major 10 trading partners, average inflation of top 10 countries from which Bangladesh imports, average unemployment rate in top 10 countries from which Bangladesh receives highest inward wage earners' remittances, international crude-oil price, 180 days Average SOFR rate at month end, current account deficit to GDP ratio, and reserve adequacy in months;(ii) Domestic economy component uses 4 sub-indicators, namely output gap, external debt to GDP, currency fluctuations, and consumer price index;(iii) Household component consists of 3 sub-indicators, namely, household debt to GDP, credit portfolio quality in household sector, and inward remittance to GDP ratio.; (iv) Non-financial corporations component covers 4 sub-indicators: NFC credit to GDP, NFC loans as proportion of banking sector loans, indebtedness of large NFCs, and credit portfolio quality of large NFCs; (v) Fiscal condition component uses 4 sub-indicators: Public debt to GDP, government budget deficit to GDP, sovereign risk premium, and tax revenue to GDP; (vi) Financial market consists of banking sector, financial institutions, Insurance sector, micro-credit sector, and capital market. Ten (10) different sub-indicators have been used to assess this component: asset concentration of D-SIBs, Gross NPL ratio in banks, RWA density ratio, banking sector resilience map score, deposit covered by DITF, asset quality of FIs, claim settlement ratio of Insurance sector, NPL ratio of MFIs, P/E ratio in DSE, and DSEX value;(vii) Capital and profitability component uses 4 indicators: CRAR, Tier I capital to RWA, NIM and ROA; and (viii) Funding and liquidity component uses 3 sub-indicators: ADR, LCR, and NSFR.

CHART 1.31: FINANCIAL STABILITY MAP (2023 AND 2024)



Source: Various publications of BB, IMF and WB; Compilation: FSD, BB.

Chart 1.1 illustrates the comparative financial stability condition of Bangladesh's macro-financial system in 2024 and 2023 using a stability map[10] which has been developed by following the global best practices along with considering the features of Bangladesh's financial system. In the stability map, several components such as households, non-financial corporations, financial market condition, capital and profitability and funding and liquidity revealed a remarkable outward shift in the risk scale. Among them, the condition of capital and profitability, households, financial market condition, and non-financial corporations components shifted moderately to riskier status in 2024. The external economy component appeared to be slightly risky in 2024 due to escalating trade tensions and unpredictable policy shifts in the global trade environment. On the other hand, a moderate deterioration in the domestic economy component was observed, mainly owing to increased inflation despite the positive output gap for the review period. The households component became more risky as the quality of credit portfolio to households got worsened. The non-financial corporations component observed to be comparatively riskier in 2024 for financial stability context due to increased leverage of all NFCs and deteriorated quality of credit portfolio of Top 50 NFCs. The fiscal condition can be considered as a concern owing to a reduction in the tax to GDP ratio and high sovereign risk premiums, despite reduced budget deficit to GDP and public debt to GDP. Financial market condition demonstrated a modest level of risk with declined asset quality in the banking, finance company (FC) and microfinance institution (MFI) sectors, and investors' negative sentiment about the capital market and insurance sector. In addition, capital and profitability component displayed highest upward shift in risk scale in 2024. Finally, the funding and liquidity showed prominent deterioration in 2024. The detailed component-wise analysis is explained below, while the scores are summarized in the Appendix.

External economy component: Amid a global economic slowdown, external economy faced several challenges such as heightened uncertainty driven by escalating trade tensions, geopolitical unrest and policy divergence in 2024. Regional disparities intensified, with several emerging economies experiencing higher sovereign borrowing costs and currency vulnerabilities. Despite these external pressures, several mitigating factors helped ease stress on Bangladesh's external economy. Improved labor market conditions in key remittance-source countries supported robust remittance inflows. Concurrently, lower inflation in major import partners, declining international oil prices provided relief for this component.

[10]It had been constructed using 8 components and 39 underlying indicators. Standardized scores for those indicators have been calculated using a formula: [Standardized Score = (x_i-min)/(max-min)] where maximum and minimum values are incorporated using time series data, and in some cases, by assigning appropriate threshold values. Threshold values are selected using judgment, economic logic and experience of other countries. The component scores are calculated using weighted average of the indicators and component scores are plotted in the map (in a scale of 0 to 1). The components closer to the origin have values close to zero indicating lower risk while components further from the origin indicates higher risk and have value closer to one.

These gains were reinforced by policy measures from Bangladesh Bank, including the adoption of a market-based exchange rate, net foreign exchange sales to manage excess demand, and strengthened import monitoring efforts. Nonetheless, downside risks persisted. A slowdown in real GDP growth among major export trading partners, a narrowing current account balance as a percentage of GDP, and continued depreciation of the domestic currency against the US dollar exerted upward pressure on domestic inflation and strained foreign exchange reserve adequacy. Taken together, these dynamics contributed to a minor elevation in external sector risk during the review year.

Domestic economy component: In 2024, the domestic economy faced heightened risks driven by elevated inflation due to the local currency's depreciation against the USD and increased import costs in general, despite a positive output gap. Public sector external debt increased significantly compared to that of private sector, while the exchange rate remained volatile. The economy grappled with imbalances in national dynamics, amplifying vulnerabilities. Exchange rate stabilization, inflation control, and domestic production maximization can play a vital role in mitigating these risks.

Households Component: In 2024, the household sector faced elevated credit risk compared to the previous year, reflecting a significant rise in non-performing loans (NPLs). While household credit to GDP declined and remittances grew positively, persistently high inflation likely weakened households' debt repayment capacity, contributing to deterioration in the credit portfolio. Overall, these trends nudged the household risk profile slightly further outward on the risk scale.

Non-financial corporations component: In 2024, risks to the financial system from non-financial corporations (NFCs) component rose significantly, driven by a considerable increase in non-performing loans (NPLs) among the top 50 NFCs and an increased leverage ratio across all NFCs. This was fueled by a rise in the credit-to-GDP ratio and an increased share of NFC loans in total banking sector credit. Overall, the risk from this component was notably higher in 2024 than that of 2023.

Fiscal condition component: In 2024, the fiscal condition exhibited minor signs of strain, primarily due to a surge in sovereign risk premium along with a slight reduction in tax revenue-to-GDP ratio. The increase in sovereign risk premiums elevated the cost of domestic and external borrowing, thereby intensifying fiscal management challenges. Moreover, decline in tax revenue to GDP ratio was also a challenging issue for fiscal management. Nonetheless, improvements were observed through a reduction in the budget deficit and public debt relative to GDP, indicating progress in fiscal consolidation efforts. Considering all these factors, the overall risk associated with the fiscal condition component showed a slight stressed position during the review year.

Financial market component: In 2024, the risk to financial market component increased significantly. The banking, finance company (FC), and microfinance institution (MFI) sectors all saw a considerable decline in asset quality. The capital market, as indicated by the DSE index, remained largely bearish, while the insurance sector experienced a slight drop in claims settlement, potentially affecting market confidence. The banking sector's resilience weakened due to heightened sensitivity shocks such as rising NPLs, defaults by the top three large borrowers, and a decline in the forced sale value (FSV) of collaterals. Collectively, these factors led to an outward shift in the financial market risk scale in 2024.

Capital and profitability component: In 2024, a considerable increase in non-performing loans (NPLs) forced a large number of banks to experience a notable decline in their return on assets (ROA), capital adequacy ratio (CAR) and Tier-1 capital ratio, contributing considerable downward shifts in both capital and profitability indicators, signaling heightened risk from this component in 2024.

Funding and liquidity component: In 2024, the liquidity scenario of the banking sector experienced a minor stress compared to 2023, which was reflected by increase in the advance to deposit ratio (ADR) and a plunge in the net stable funding ratio (NSFR) despite an improvement in the liquidity coverage ratio

(LCR). These changes reflected a modest outward shift in the risk scale of the funding and liquidity component, indicating minor liquidity stress.

In summary, the Financial Stability Map for 2024 reflects a notable deterioration in Bangladesh’s overall macro-financial condition. This weakening is primarily attributed to significant outward shifts in risk across several key components, including capital and profitability, household sector, financial market condition, and non-financial corporations. In addition, moderate increases in risk were observed in the external economy, domestic economy, and funding and liquidity components.

The status of these areas indicates rising vulnerabilities and elevated challenges for Bangladesh’s macro-financial condition. The findings highlight the urgency for targeted policy interventions aimed at promoting a stable and predictable trade environment, enhancing international cooperation, and addressing domestic structural imbalances and policy gaps. Strengthening these areas is critical for ensuring long-term internal and external economic resilience.

CHAPTER 2 : BANKING SECTOR'S PERFORMANCE

The banking sector of Bangladesh experienced moderate growth in assets. Deposit growth outpaced that of the previous year and effectively supported the rising demand for loans and advances. However, the asset quality deteriorated as the NPL increased during the year. The banking industry was unable to meet several key regulatory benchmarks, including the Capital to Risk-weighted Assets Ratio (CRAR), Tier-1 capital ratio, and leverage ratio. Specifically, the CRAR declined by 8.56 percentage points, while the Tier-1 capital ratio dropped by 7.96 percentage points. This substantial decline in CRAR fell short of the minimum regulatory requirement, primarily due to weak capital positions in State-Owned Commercial Banks (SOCBs), Specialized Development Banks (SDBs), and Private Commercial Banks (PCBs). Similarly, the leverage ratio across the sector remained significantly below the regulatory threshold, mainly due to negative leverage ratios in SDBs, SOCBs and Islamic PCBs. There was an increase in High-Quality Liquid Assets (HQLA) held by SOCBs, PCBs, although the (HQLA) of Islamic FCBs declined during the year.

2.1 FINANCIAL SYSTEM OF BANGLADESH

The financial system of Bangladesh is generally divided into three distinct segments based on the level of regulation and institutional structure: the formal sector, the semi-formal sector, and the informal sector. The formal sector is predominantly led by the banking industry and also encompasses Finance Companies (FCs), capital market participants, insurance companies, and Microfinance Institutions (MFIs), all of which are supervised by different regulatory authorities. The semi-formal sector consists of various specialized financial organizations such as the Bangladesh House Building Finance Corporation (BHBFC), Bangladesh Samabaya Bank Limited (BSBL), Investment Corporation of Bangladesh (ICB), Palli Karma-Sahayak Foundation (PKSF), Grameen Bank, numerous Non-Governmental Organizations (NGOs), cooperatives, and credit unions. These entities function under specific legal provisions and are regulated by various ministries or government agencies. In addition, Authorized Dealers (ADs), Mobile Financial Services (MFS) providers, and Payment Service Providers (PSPs) play specific roles in advancing the financial market, operating under the regulation and oversight of Bangladesh Bank. The informal sector primarily consists of private financial intermediaries that largely operate without formal regulatory supervision.

Bangladesh Bank (BB), as the regulatory authority for the country's money market, foreign exchange market, and payment and settlement systems, oversees and supervises the operations of all scheduled banks, Finance Companies (FCs), and payment systems. Currently, the financial sector in Bangladesh comprises 6 State-Owned Commercial Banks (SOCBs), 3 Specialized Banks (SDBs), and 43 Private Commercial Banks (PCBs) of which 33 follow conventional banking and 10 operate under Islami Shariah principles alongside 9 Foreign Commercial Banks (FCBs), **1** digital commercial bank [yet not granted permission for Commercial Operation] which is owned by individuals/private entities, and 35 Finance Companies (FCs). The capital market in Bangladesh consisting of two stock exchanges, namely the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE), is regulated and supervised by the Bangladesh Securities and Exchange Commission (BSEC). At present, the capital market includes 66 merchant banks, 456 brokers, 428 dealers, 25 custodian banks, 8 credit rating agencies, 30 fund managers, 67 asset management companies, and 286 trustees. Insurance companies and Microfinance Institutions (MFIs) fall under the regulatory oversight of the Insurance Development and Regulatory Authority (IDRA) and the Microcredit Regulatory Authority (MRA), respectively. Currently, 82 insurance companies and 724 registered MFIs are operating across the country. Co-operatives and credit unions are regulated by the Department of Co-operatives under the Ministry of Local Government, Rural

Development and Co-operatives. Additionally, the Ministry of Finance oversees several institutions such as the Bangladesh House Building Finance Corporation (BHBFC) and the Investment Corporation of Bangladesh (ICB). The structure of Bangladesh's financial system is detailed in Table 2.1.

<table>
<tr><th colspan="6">TABLE 2.1: FINANCIAL SYSTEM STRUCTURE OF BANGLADESH
(As of end-December 2024)</th></tr>
<tr><th></th><th></th><th>Financial Market Infrastructure</th><th>Institutions</th><th>Types and Numbers</th><th>Regulator</th></tr>
<tr><td rowspan="9">Financial System</td><td rowspan="6">Formal Sector</td><td rowspan="3">Money Market
Foreign Exchange Market
Payment and Settlement Systems</td><td>Banks</td><td>SOCBs (6)
SDBs (3)
PCBs (43)
FCBs (9)</td><td rowspan="3">Bangladesh Bank</td></tr>
<tr><td>FCs</td><td>Government Owned (3)
Others (32)</td></tr>
<tr><td>Others</td><td>ADs, Money changers, MFS providers, PSOs, PSPs, OPGSPs etc.</td></tr>
<tr><td>Capital Market</td><td>DSE
CSE
CDBL</td><td>Merchant banks (66)
Brokers (456)
Dealers (428)
Custodian banks (25)
Credit rating agencies (8)
Fund managers (30)
Asset management companies (67)
Trustees (286)</td><td>BSEC</td></tr>
<tr><td>Insurance Market</td><td>Life and Non-Life</td><td>Government Owned (2)
Others (80)</td><td>IDRA</td></tr>
<tr><td>Micro Credit Market</td><td>MFIs</td><td>MFIs (724)</td><td>MRA</td></tr>
<tr><td>Semi-formal Sector</td><td colspan="4">BHBFC, BSBL, ICB, PKSF, and Grameen Bank, NGOs, co-operatives and credit unions, discrete government programs, etc.</td></tr>
<tr><td colspan="5">Informal Sector</td></tr>
</table>

2.2 ASSET STRUCTURE OF THE BANKING SECTOR

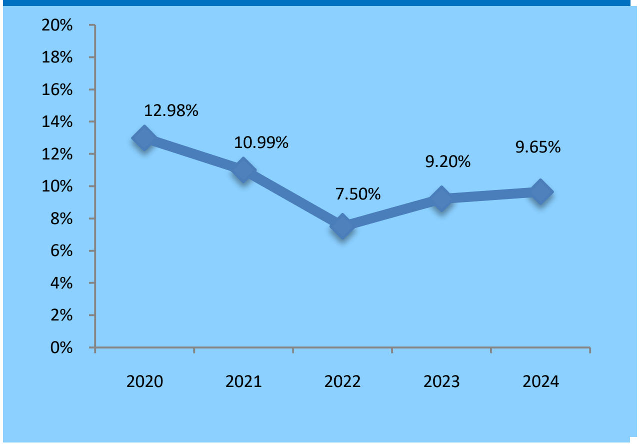
Likewise 2023, the banking sector recorded moderate growth in asset size in 2024, following a subdued growth during 2021 and 2022.

The total assets of the banking sector experienced a downward trend during 2021 and 2022, which reversed in 2023, following an upward trajectory aftermath (Chart 2.1). The total assets grew by 9.65 percent in 2024 compared to 2023, reaching BDT 26,297.75 billion.

Among the banking clusters, Private Commercial Banks (PCBs) achieved the highest asset growth of 11.46 percent followed by Specialized Development Banks (SDBs) and State-owned Commercial Banks (SOCBs) with 9.65 percent and 6.80 percent respectively.

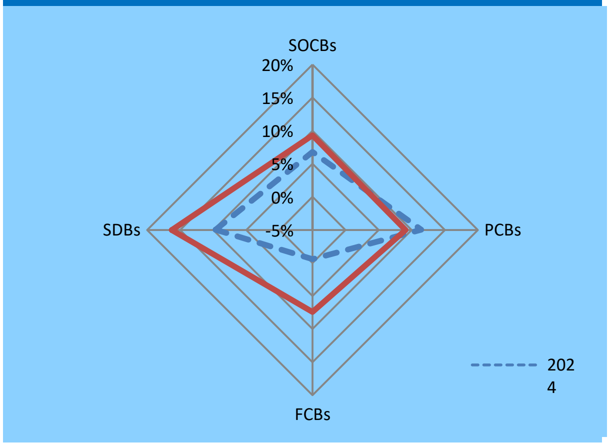
On the other hand, Foreign Commercial Banks (FCBs) registered a decline of 0.56 percent compared to 2023. Notably, only the PCBs showed an improvement in asset growth, with a 2.36 percentage points increase (Chart 2.2).

CHART 2.1: TOTAL ASSET GROWTH: ANNUAL BASIS



Source: DOS, BB; Compilation: FSD, BB.

CHART 2.2: ASSET GROWTH RATE OF BANKING CLUSTERS

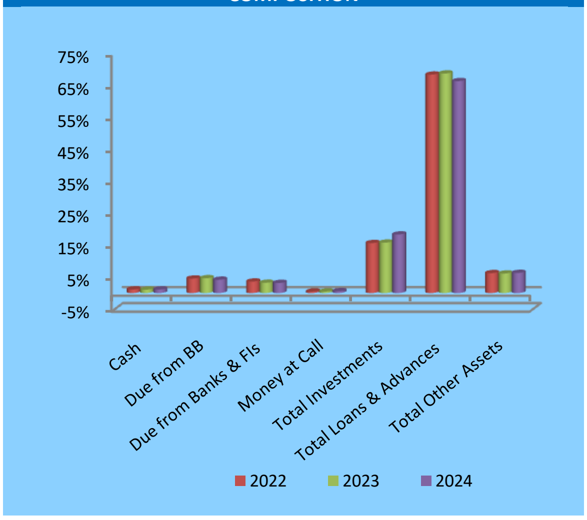


Source: DOS, BB; Compilation: FSD, BB.

In 2024, loans and advances held the largest share of the banking sector's total assets, followed by investments. Loans and advances made up 66.37 percent of total assets, down from 68.76 percent in 2023, while the share of investments increased to 18.33 percent in 2024 from 15.78 percent in the previous year (Chart 2.3).

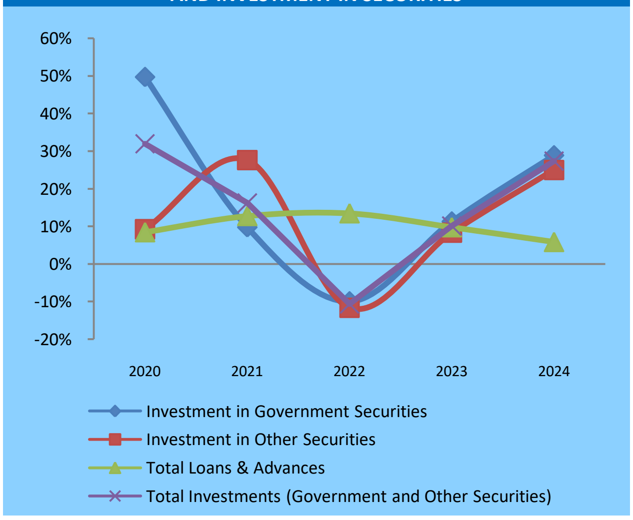
Loans and advances recorded a declining growth, while investment in government securities and other securities registered a significant acceleration in 2024 (Chart 2.4). Investments in government securities and investments in other securities increased by 28.85 percent and 25.01 percent compared to 11.26 percent and 8.32 percent, respectively, in the previous year. In contrast, loans and advances grew by 5.84 percent in 2024, a decline from 9.75 percent growth in 2023.

CHART 2.3: YEAR-WISE BANKING SECTOR ASSET COMPOSITION



Note: Other Assets includes Fixed Assets and Non-banking Assets.
Source: DOS, BB; compilation: FSD, BB.

CHART 2.4: YEAR-WISE GROWTH OF LOANS AND ADVANCES AND INVESTMENT IN SECURITIES



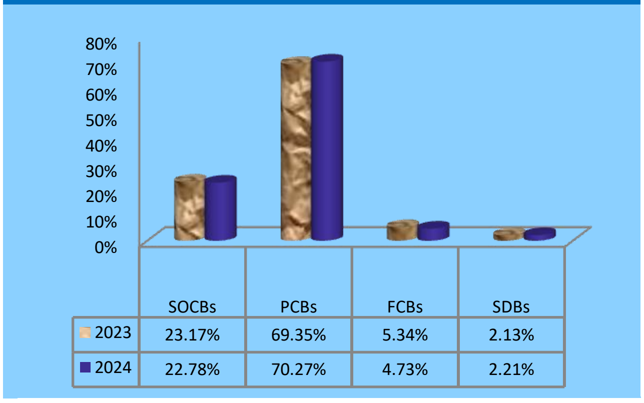
Source: DOS, BB; compilation: FSD, BB.

In 2024, among the banking clusters, PCBs retained the leading position in terms of its share in the industry's major earning assets (Chart 2.5). PCBs held 70.27 percent of the major earning assets, followed by SOCBs with 22.78 percent.

Compared to 2023, both PCBs and SDBs recorded slight increases in their shares of major earning assets, while SOCBs and FCBs experienced declines in 2024. In terms of the share of loans and advances in total assets, SDBs and PCBs held 78.26 percent and 70.07 percent, respectively. In contrast, SOCBs and FCBs posted lower shares, with loans and advances comprising 57.77 percent and 48.80 percent respectively, of their total assets.

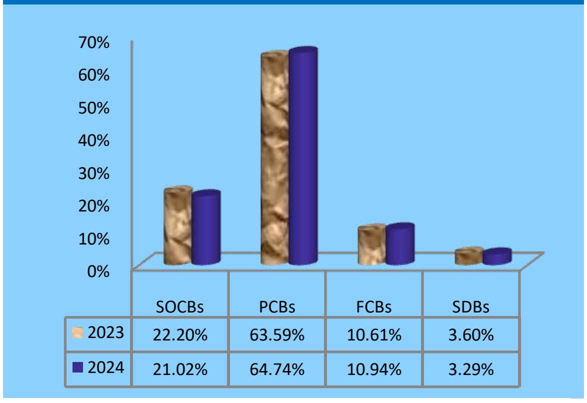
Chart 2.6 presents a comparative view of selected asset items namely Cash, Balance with Bangladesh Bank (BB), Balance with other banks and finance companies, and Money at call and short notice across different bank clusters for 2024 and 2023. The shares of these assets of PCBs and FCBs had increased by 1.15 and 0.33 percentage points, respectively, compared to the previous year. In contrast, the shares held by SDBs and SOCBs declined by 1.17 and 0.31 percentage points, respectively.

CHART 2.5: SHARE OF MAJOR EARNING ASSETS OF DIFFERENT CLUSTERS OF BANKS



Note: Major earning assets include total loans & advances, bill discounted and purchased and investments.
Source: DOS, BB; Compilation: FSD, BB.

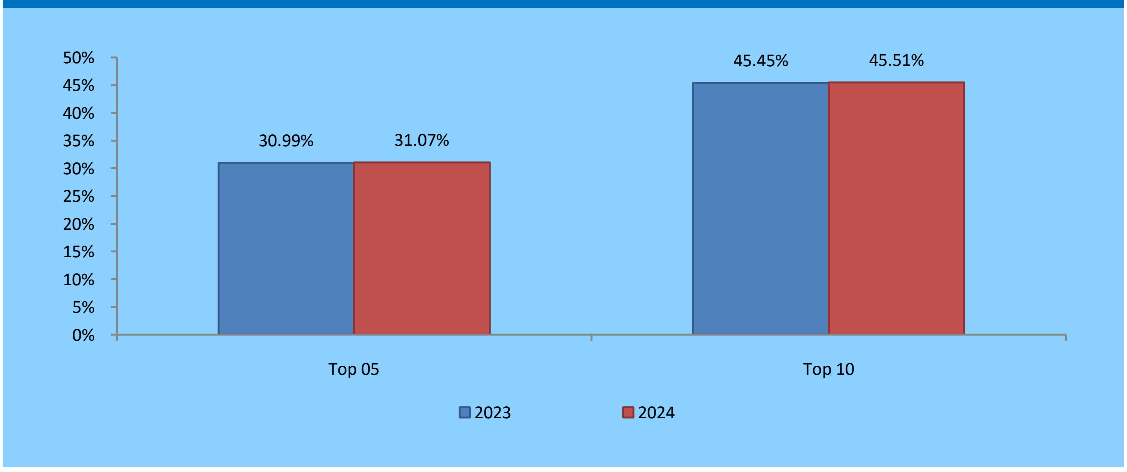
CHART 2.6: SHARE OF CASH, DUE FROM BB, OTHER BANKS & FCs AND MONEY AT CALL OF DIFFERENT CLUSTER OF BANKS



Source: DOS, BB; Compilation: FSD, BB.

The concentration of assets within a few banks increased marginally in 2024, along with an increase in sector-wise loan concentration compared to 2023.

CHART 2.7: ASSET CONCENTRATION IN TOP 5 AND TOP 10 BANKS BASED ON ASSET SIZE



Source: DOS, BB; Calculation: FSD, BB.

The concentration of assets among the top five and top ten banks stood at 31.07 percent and 45.51 percent, respectively, at the end of December 2024 slightly up from 30.99 percent and 45.45 percent at the end of December 2023 (Chart 2.7). The composition of the top ten banks in 2024 included five PCBs, four SOCBs, and one FCB.

In terms of sector-wise loan concentration, the Herfindahl-Hirschman Index (HHI[11]) score stood at 1,620.91 in 2024, indicating a moderate level of concentration. In contrast, the HHI score was 1,533.06 in 2023. Four sectors namely Large Industries, Wholesale and Retail Trade (CC, OD, etc.), Miscellaneous, and Import Financing (LIM, LTR etc.) each held double-digit shares of the total loan portfolio, with 30.53 percent, 17.76 percent, 11.77 percent, and 10.73 percent, respectively in 2024 (Table 2.2).

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[11] HHI Score below 1500 ≡ low-level concentration, 1500-2500 ≡ moderate concentration, and above 2500 ≡ high concentration as referred in https://www.investopedia.com/terms/h/hhi.asp; retrieved on 05 May, 2025.

This distribution closely mirrors the sectoral pattern observed in 2023. The significant share of loans to large industries (30.53 percent) suggests that banks maintained a strong focus on corporate lending.

TABLE 2.2: SECTOR-WISE LOAN CONCENTRATION IN 2024

(In Billion BDT)

SI.	Sectors	Amount[P]	Percent of Total Loans & Advances	HHI
1	Large Industries	5,137.34	30.53	931.91
2	Wholesale and Retail Trade (CC, OD etc.)	2,988.15	17.76	315.28
3	Miscellaneous	1,981.30	11.77	138.61
4	Import Financing (LIM, LTR, TR etc.)	1,805.54	10.73	115.11
5	Service Industries	1,047.33	6.22	38.73
6	Small and Medium Industries	933.87	5.55	30.79
7	Export Financing (PC, ECC etc)	748.58	4.45	19.79
8	Agriculture	689.86	4.10	16.80
9	Housing (Commercial) for Developer/Contractor	363.66	2.16	4.67
10	Other Construction	352.10	2.09	4.38
11	Housing (Residential) in Urban Area for Individual Person	332.88	1.98	3.91
12	Infrastructure Development (Road, Culvert, Bridge,Tower etc.)	96.14	0.57	0.33
13	House Renovation/Repairing/Extension	76.25	0.45	0.21
14	Air Transport	51.81	0.31	0.09
15	Lease Financing/Leasing	49.74	0.30	0.09
16	Fishing	48.46	0.29	0.08
17	Housing (Residential) in Rural Area for Individual Person	39.07	0.23	0.05
18	Road Transport (Excluding Personal Vehicle & Lease Finance)	35.93	0.21	0.05
19	Water Transport (Excluding Fishing Boats)	23.40	0.14	0.02
20	Procurement by Government	15.77	0.09	0.01
21	Cottage Industries/Micro Industries	11.07	0.07	0.00
22	Water-works	0.46	0.00	0.00
23	Forestry and Logging	0.06	0.00	0.00
24	Sanitary Services	0.00	0.00	0.00
	Total Loans and Advances	**16,828.78**	**100.00**	**1620.91**

Notes:
(i) P: Provisional;
(ii) The amount shown in the table excludes Interbank placement, Money at Call (lending), Bills Purchased and Discounted but OBU data included from quarter 31th December, 2024;
(iii) HHI: Herfindahl–Hirschman Index.
Source: Statistics Department, BB; Computation: FSD, BB.

2.3 NON-PERFORMING LOANS, PROVISIONS, WRITTEN-OFF LOANS AND ADVANCES IN THE BANKING SECTOR

The asset quality of the banking sector deteriorated notably in 2024, resulting mainly from an upturn in non-performing loans (NPLs[12]) of SOCBs and PCBs.

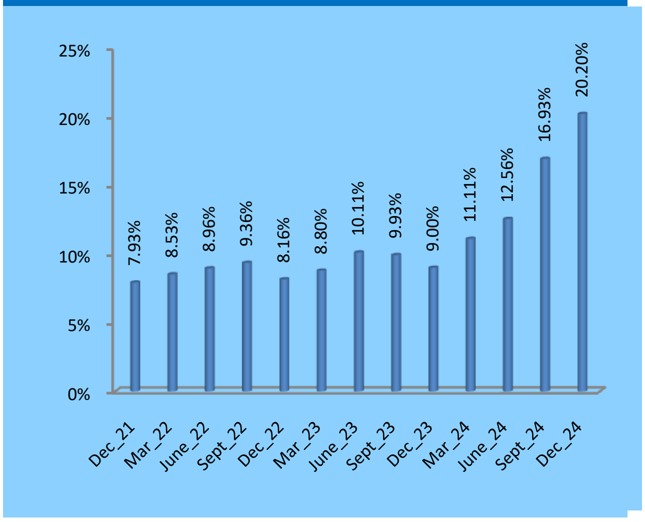
At the end of December 2024, the gross non-performing loans ratio of the banking sector gradually rose to 20.20 percent from 9.00 percent at the end of December, 2023 (Chart 2.8), marking an increase of 11.20 percentage points. Moreover, the gross NPL ratio further deteriorated and stood at 24.13 percent at end-March 2025. In absolute terms, gross NPLs surged by BDT 2,001.32 billion, reaching BDT 3,457.65 billion at the end of December 2024. Total outstanding loans and advances increased by BDT 937.13 billion and stood at BDT 17,114.02 billion.

[12]Total classified loans as a percentage of total loans and advances. Total loans and advances from both the Domestic Banking Unit (DBU) and Offshore Banking Unit (OBU) are considered in calculating the NPL ratio.

The sharp increase in NPLs indicates a decline in asset quality, likely caused by imprudent lending and weak oversight of loans and advances. The sluggish pace of NPL recovery has also contributed to the piling up of NPLs. Additionally, the Russia-Ukraine war, global tensions, local currency depreciation and other domestic economic challenges are straining business operations and reducing borrowers' repayment capacity, further accelerating the banking sector's NPLs in Bangladesh.

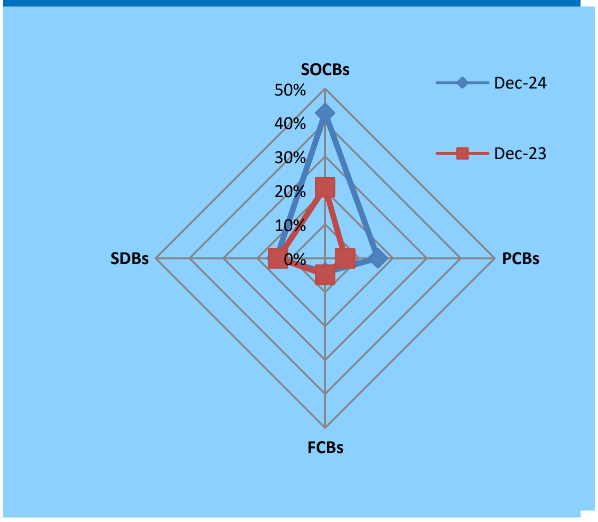
At the end of December 2024, the gross NPL ratio of SOCBs surged by 21.84 percentage points compared to the previous year, reaching to 42.83 percent (Chart 2.9). NPL ratios of PCBs and SDBs also increased to 15.60 percent and 14.37 percent, respectively. In contrast, asset quality improved for FCBs, with the gross NPL ratio declining by 0.69 percentage point to 4.13 percent at the year-end.

CHART 2.8: GROSS NPL RATIO OF THE BANKING INDUSTRY



Source: BRPD, BB; compilation: FSD, BB.

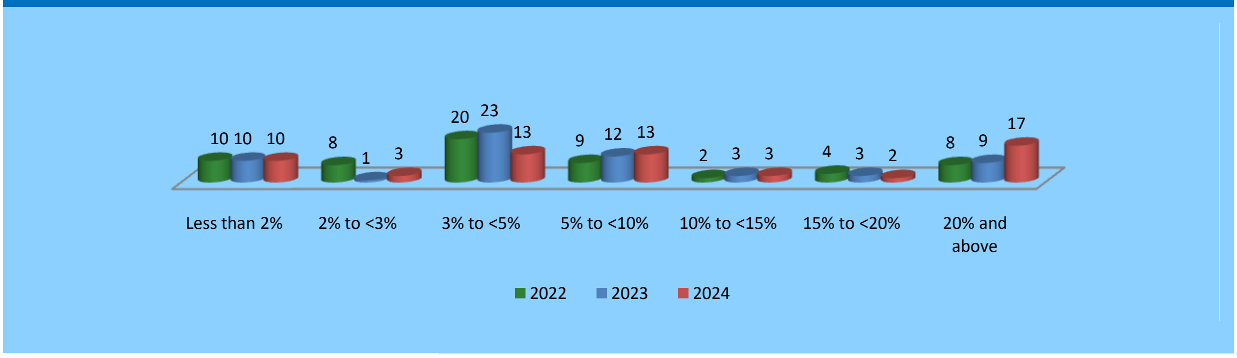
CHART 2.9: GROSS NPL RATIO OF BANKING CLUSTERS



Source: BRPD, BB; compilation: FSD, BB.

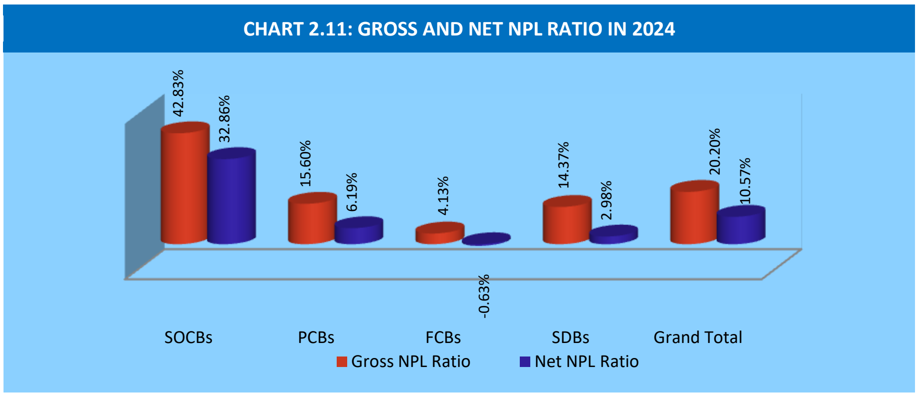
Notably, SOCBs and PCBs together accounted for the majority of the banking sector's total NPLs, holding 39.51 percent and 57.85 percent, respectively, as of end-December 2024. In comparison, FCBs and SDBs contributed with shares of 0.78 percent and 1.86 percent, respectively.

CHART 2.10: GROSS NPL RATIO OF BANKS INTO DIFFERENT BUCKETS



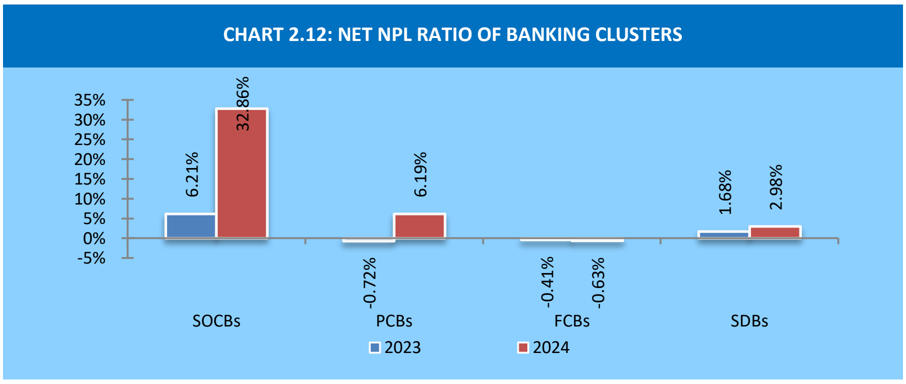
Source: BRPD, BB; Computation: FSD, BB.

The distribution of banks by gross NPL ratios is illustrated in Chart 2.10. In 2024, 26 banks maintained NPL ratios below 5 percent, a decline from 34 banks in 2023. At the end of December 2024, all FCBs except one and all PCBs except six reported single-digit NPL ratios. However, from a financial stability perspective, concerns arise as 17 banks comprising 5 SOCBs, 11 PCBs, and 1 FCB, recorded gross NPL ratios exceeding 20 percent out of a total of 61 banks Likewise, the net NPL ratio notably increased to 10.57 percent at end-December 2024 from 0.59 percent in the previous year (Chart 2.11).



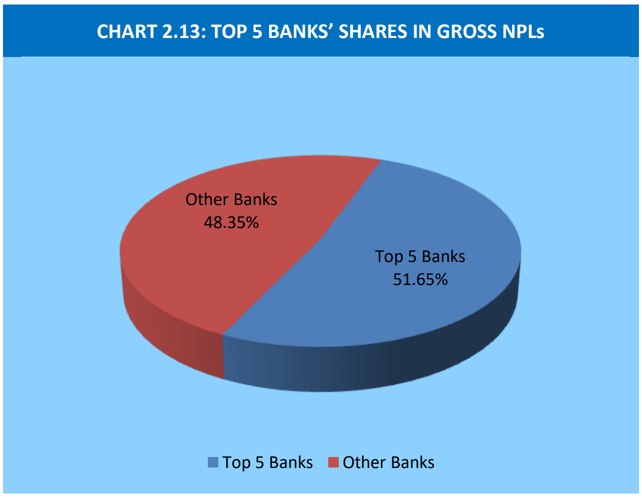
Source: BRPD, BB; compilation: FSD, BB.

The net NPL ratios for different bank clusters are revealed in Chart 2.12. The FCBs remained negative in their net NPL ratio in 2024 alike the preceding year. On the contrary, the net NPL condition of SOCBs, PCBs, and SDBs further deteriorated and stood at 32.86 percent, 6.19 percent and 2.98 percent, respectively.

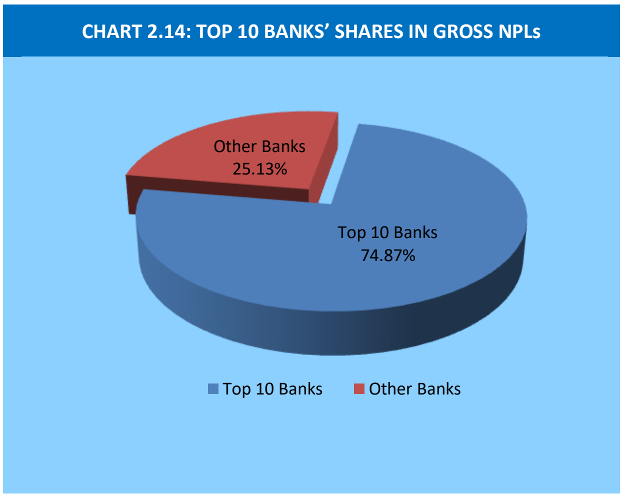


Source: BRPD, BB; compilation: FSD, BB.

As of end-December 2024, the top 5 and top 10 banks' gross NPLs (based on the volume of gross NPLs) stood at 51.65 percent and 74.87 percent respectively (Chart 2.13 and Chart 2.14), as opposed to 47.60 and 66.21 percent in 2023 respectively. In 2024, in terms of highest gross NPL size, the top 10 banks made up of 04 SOCBs, and 06 PCBs. On the other hand, in terms of gross NPL ratio, the top 10 banks consisted of 02 SOCBs, 07 PCBs, and 01 FCB.



Source: BRPD, BB; compilation: FSD, BB.



Source: BRPD, BB; compilation: FSD, BB.

In 2024, sector-wise NPL distribution showed that the Industrial (Manufacturing) sector had undergone the highest concentration of NPLs, followed by the Trade and Commerce sector.

Table 2.3 illustrates the concentration of NPLs across different sectors in 2024. The magnitude of NPL concentration was the highest in the Industrial (Manufacturing) sector, as the share of NPL was 49.43 percent. Certain sub-sectors within the Industrial (Manufacturing) sector, notably Shipbuilding and Ship breaking, Leather and Leather-based Industry, RMG and Textile recorded significantly high NPL ratios in 2024. The Shipbuilding and Ship breaking reported the highest gross NPL ratio at 39.17 percent, followed closely by Leather and Leather-based Industry at 38.77 percent. However, due to their relatively lower loan exposure and NPL concentration, these two sub-sectors are unlikely to pose systemic risks. In contrast, the RMG sub-sector, with a gross NPL ratio of 25.83 percent and higher loan exposure may create a systemic risk to the overall banking sector.

In 2024, the share of NPLs in the Trade and Commerce sector stood notably high at 25.51 percent compared to the 18.90 percent of total loans in this sector. Furthermore, the gross NPL ratio of this sector was 27.33. Since this sector possesses nearly one-fifth of total loans and advances in the banking sector, it's elevated NPL level could produce a significant risk to overall banking sector's stability.

TABLE 2.3: SECTOR-WISE NON-PERFORMING LOANS DISTRIBUTION (2024)

Sl. No.	Name of the Sectors	In Billion BDT		In Percent		
		Total Loans Outstanding	Gross NPL	Gross NPL Ratio	Share of Loans Extended	Share of NPLs
1	**Agriculture**	**669.58**	**73.57**	**10.99**	**3.91**	**2.12**
2	**Industrial (Manufacturing):**	**8,432.43**	**1,713.04**	**20.31**	**49.28**	**49.43**
2.1	RMG	1,882.71	486.38	*25.83*	11.00	14.04
2.2	Textile	1,491.71	365.20	*24.48*	8.72	10.54
2.3	Ship building and Ship breaking	205.06	80.31	*39.17*	1.20	2.32
2.4	Agro-Based Industry	1,189.21	170.21	14.31	6.95	4.91
2.5	Other Industries (Large Scale)	2,571.26	374.41	14.56	15.03	10.80
2.6	Other Industries (Small, Medium and Cottage)	661.51	162.59	24.58	3.87	4.69
2.7	Pharmaceutical Industry	282.00	16.18	5.74	1.65	0.47
2.8	Leather and Leather-based Industry	148.98	57.76	*38.77*	0.87	1.67
3	**Industrial (Services):**	**2,057.48**	**433.75**	**21.08**	**12.02**	**12.52**
3.1	Construction Loans	1,077.52	264.87	24.58	6.30	7.64
3.2	Transport and Communication	244.14	49.52	20.28	1.43	1.43
3.3	Other Service Industries	735.82	119.36	16.22	4.30	3.44
4	**Consumer Credit:**	**1,149.88**	**83.67**	**7.28**	**6.72**	**2.41**
4.1	Credit Card	112.60	13.20	11.72	0.66	0.38
4.2	Autos (Car) Loan	38.43	1.45	3.78	0.22	0.04
4.3	Housing Finance	343.61	40.75	11.86	2.01	1.18
4.4	Personal	655.25	28.27	4.32	3.83	0.82
5	**Trade and Commerce (Commercial Loans)**	***3,234.67***	***883.89***	***27.33***	***18.90***	***25.51***
6	**Credit to NBFI**	**91.82**	**11.57**	**12.60**	**0.54**	**0.33**
7	**Loans to Capital Market:**	**86.89**	**3.82**	**4.40**	**0.51**	**0.11**
7.1	Merchant Banks	44.02	2.77	6.30	0.26	0.08
7.2	Other than Merchant Banks	42.88	1.05	2.45	0.25	0.03
8	**Other Loans**	**1,388.63**	**262.17**	**18.88**	**8.12**	**7.57**
	Total	**17,111.38**	**3,465.47**	**20.25**	**100.00**	**100.00**

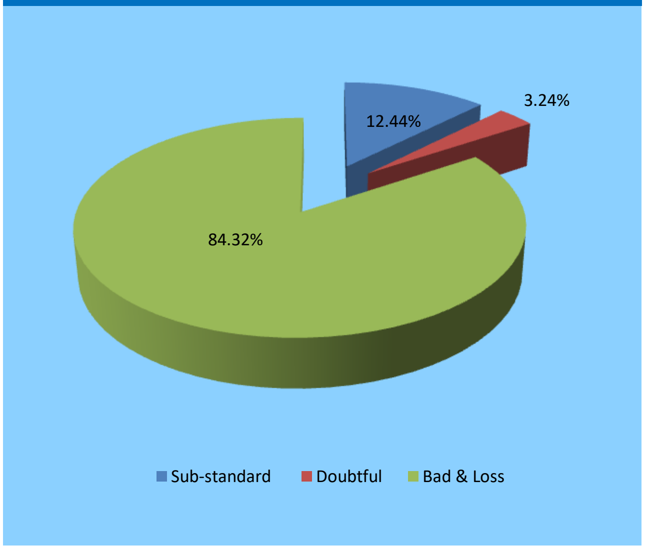
Source: DOS, BB; computation: FSD, BB.

Though the ratio of Bad and Loss (B/L) loans to gross non-performing loans (NPLs) remained almost same, the total volume of B/L loans stood more than double in 2024.

In 2024, the share of B/L loans in gross NPLs declined marginally to 84.32 percent from 87.06 percent in 2023 (Chart 2.15). Though this reflects a 2.74 percentage point decrease, the total volume of B/L loans in the banking sector rose sharply to BDT 2,915.38 billion-more than double the amount of BDT 1,267.82 billion recorded at the end of December 2023. The persistently high B/L loans ratio indicates that the largest portion of NPLs has the least possibility to be performing again and thus will continue to remain non-performing for further periods.

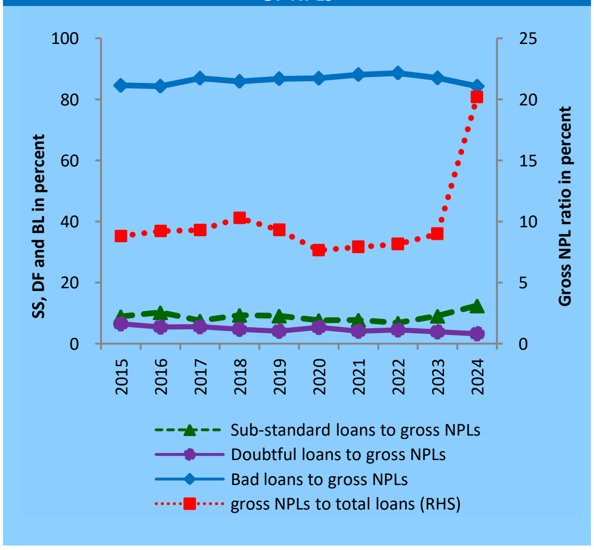
The remaining classified loan categories, Doubtful (DF) and Sub-standard (SS), accounted for 3.24 percent and 12.44 percent of total NPLs, respectively, in 2024, compared to 3.90 percent and 9.05 percent in 2023. Chart 2.16 illustrates that historically B/L loans have consistently comprised over 80 percent of total NPLs, highlighting the slow pace of recovery. This trend poses a significant challenge to banks as NPLs are non-earning assets and taxing on profitability and capital adequacy, as current regulations require higher level of provisioning for NPLs.

CHART 2.15: GROSS NPL COMPOSITION IN 2024



Source: BRPD, BB; computation: FSD, BB.

CHART 2.16: YEAR-WISE SHARES OF THE THREE CATEGORIES OF NPLs



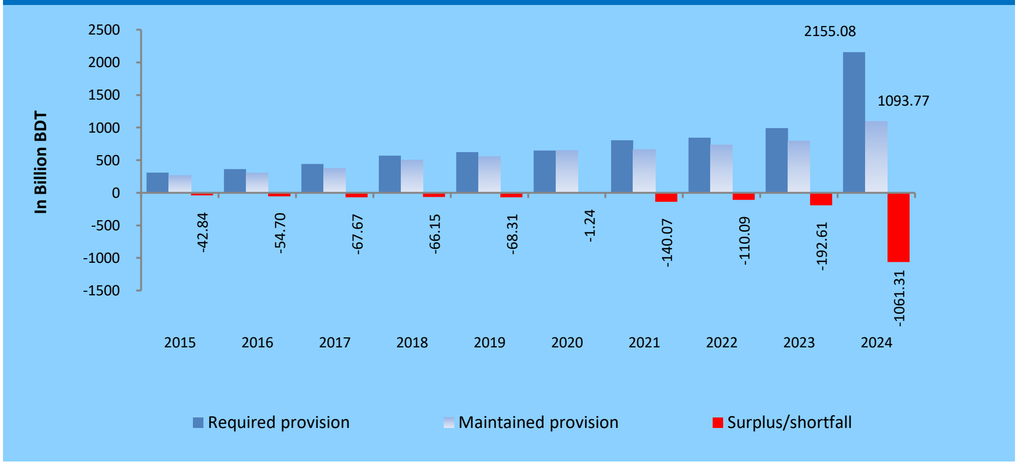
Source: BRPD, BB; computation: FSD, BB.

All the banks except eight PCBs, and five SOCBs enabled to maintain their loan-loss provisions in accordance with the regulatory requirement of BB in 2024.

The loan-loss provisioning situation in the banking sector got worsened in 2024 (Chart 2.17). The provision maintenance ratio fell sharply to 50.75 percent from 80.53 percent in 2023. As of end-December 2024, gross NPLs stood at BDT 3,457.65 billion, requiring BDT 2,155.08 billion in provisions. However, banks maintained only BDT 1,093.77 billion, resulting in a substantial provision shortfall of BDT 1,061.31 billion and thus the shortfall widened significantly by BDT 868.70 billion than the previous year. Although the total provisions held increased by 37.27 percent year-on-year, the gap between required and actual provisioning increased in the negative trajectory. Additionally, the ratio of maintained or actual provisions to gross NPLs declined from 54.71 percent in 2023 to 31.63 percent in 2024, highlighting a notable decline in maintained provision.

The banking clusters displayed a mixed performance in maintaining loan-loss provisions in 2024. The provision shortfall for SOCBs surged to BDT 579.66 billion, profusely up from BDT 100.84 billion in 2023. Similarly, PCBs' shortfall increased sharply to BDT 488.83 billion from BDT 100.30 billion. In contrast, FCBs and SDBs had a provision surplus during the year, though it slightly reduced. In 2024, the provision surplus of FCBs and SDBs declined to BDT 4.63 billion and BDT 2.56 billion from BDT 5.04 billion and BDT 3.49 billon respectively in 2023.

CHART 2.17: YEAR-WISE BANKING SECTOR LOAN LOSS PROVISIONS



Source: BRPD, BB; computation: FSD, BB.

Moreover, at the individual bank level, 8 PCBs and 5 SOCBs reported provision shortfalls in 2024. Among the four banking clusters, FCBs and SDBs maintained an aggregate provision surplus. Overall, the banking industry experienced a rise in both the total provision shortfall and the number of banks failing to meet the required provisioning during the year.

At end-December 2024, the outstanding balance of written-off loans stood at BDT 623.27 billion.

At the end of 2024, the cumulative amount of written-off loans in the banking sector reached BDT 815.78 billion, up from BDT 716.99 billion in the previous year. This figure was equivalent to 3.10 percent of the sector's on-balance sheet assets. Of the total written-off loans, banks were able to recover BDT 192.51 billion, leaving an adjusted outstanding balance of BDT 623.27 billion. Among the banking clusters, the outstanding written-off loan balances were BDT 183.60 billion for SOCBs, BDT 416.96 billion for PCBs, BDT 19.29 billion for FCBs, and BDT 3.42 billion for SDBs.

Box 2.1: Procedure of Writing off of Loans/Investments of Banks

During normal banking operations, some loans or investments may become non-performing and remain overdue for extended periods, thereby overstating the size of a bank's balance sheet. To uphold sound credit risk management practices consistent with global standards, such exposures shall be written off in accordance with Bangladesh Bank's directives. Each bank shall establish a dedicated 'Written-off Loan Recovery Unit' (or 'Written-off Investment Recovery Unit' in the case of Islamic banks), which must function under the direct supervision of the Managing Director/Chief Executive Officer.

Scheduled banks, as per **BRPD Circular No. 04/2024 (dated 18 February 2024)**, are required to write off defaulted loans/investments in accordance with specific procedures:

- Loans/investments classified as 'Bad and Loss' for two consecutive years are eligible for write-off. Additionally, banks may write off loans in the name of a deceased borrower or his/her sole proprietorship, regardless of classification, provided there is no earning successor in the latter case.
- Loans backed by mortgaged property may be written off if recovery attempts from both collateral sale and guarantors fail.
- Filing a case under the Money Loan Court Act, 2003 is mandatory before write-off, except for loans up to BDT 500,000 or those taken by deceased persons or sole proprietorship, where legal action is not required under the Act.
- Adequate loan loss provisions must be maintained before write-off, with any shortfall covered from current year's income. Partial write-offs are strictly prohibited.
- Prior approval of the Board of Directors, or the highest designated local authority in the case of foreign banks, is a mandatory requirement before any loan write-off is executed.
- Furthermore, pursuant to Section 28KA of the Bank Company Act, 1991 (as amended up to 2023), banks are obliged to continue recovery efforts even after write-off.
- Written-off exposures may be sold to asset management companies once functional, and proceeds must be recognized as income. Separate ledgers for written-off accounts must be maintained, and such accounts reported in financial statements (per Section 38 of the Bank Company Act, 1991) as well as to the Credit Information Bureau (CIB) under the 'BLW' category. Borrowers of written-off loans remain classified as defaulters in the CIB until full settlement.
- Written-off loans/investments cannot be rescheduled or restructured, although repayment schedules may be set if an exit plan exists.
- Loans obtained by directors (in their name or related entities) generally cannot be waived. In exceptional cases (e.g., death of a director-borrower), the Internal Audit Department must justify the proposal to the Board, supported by the Head of Internal Control and Compliance.Before effecting such write-offs, prior approval must be obtained from the BRPD of Bangladesh Bank, supported by relevant documents and minutes of the Board meeting. The decision of Bangladesh Bank in this respect shall be considered final.

2.4 RESCHEDULED ADVANCES

The total amount of rescheduled loans in the review year decreased compared to the preceding year. However, overall classification status of the rescheduled loans deteriorated.

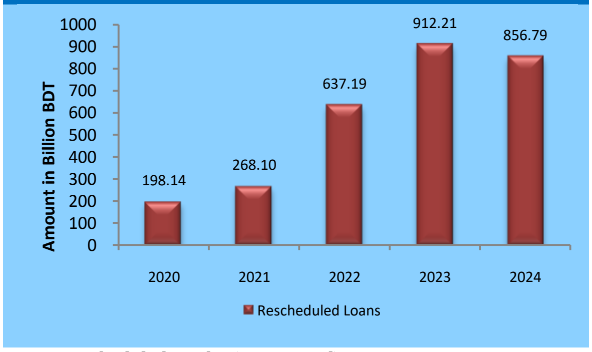
The banking sector's aggregate rescheduled loans in 2024 stood at BDT 856.79 billion. Although it was lower than that of the preceding year, the long-run upward trend is apparent. It is noteworthy that Bangladesh Bank promulgated a loan schedule and restructure policy[13] in 2022 in which banks were allowed to reschedule loans by taking lower down payment and granting a relatively longer tenure to the borrower for repayment of their debts compared to the earlier policy. Furthermore, banks were consented to reschedule particular special sectors' loans (such as ship building and cold storage related loan) for longer tenure[14].

TABLE 2.4: YEAR-WISE AMOUNT OF RESCHEDULED LOANS (LOANS RESCHEDULED IN A SINGLE YEAR)

Year	Amount (In Billion BDT)
2020	198.14
2021	268.10
2022	637.19
2023	912.21
2024	856.79

Source: Scheduled Banks (provisional); computation: FSD, BB.

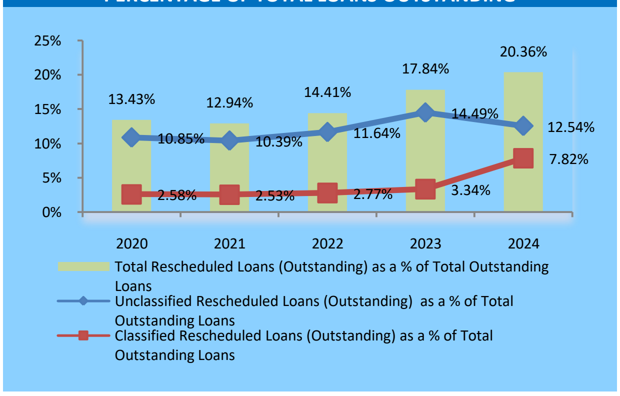
CHART 2.18: YEAR-WISE AMOUNT OF RESCHEDULED LOANS



Source: Scheduled Banks (provisional); computation: FSD, BB.

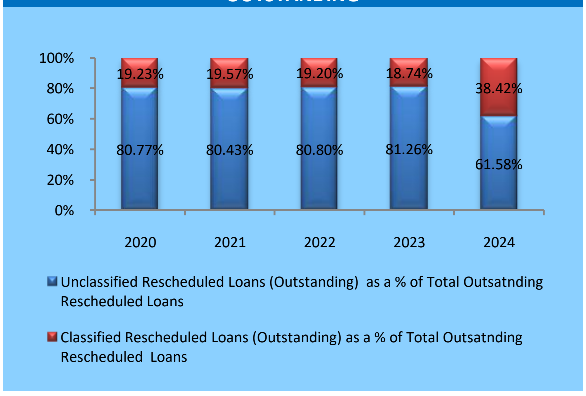
In 2024, the rescheduled loan ratio[15] increased by 2.52 percentage points compared to the preceding year. The classified rescheduled loans ratio and unclassified rescheduled loans ratio reached 7.82 and 12.54 percent, respectively (Chart 2.19). Classification status of outstanding rescheduled loans deteriorated in 2024 as unclassified portion decreased from above 80 percent to around 60 percent (Chart 2.20 and Table 2.5).

CHART 2.19: TOTAL RESCHEDULED LOANS OUTSTANDING AS A PERCENTAGE OF TOTAL LOANS OUTSTANDING



Source: Scheduled Banks (provisional); computation: FSD, BB.

CHART 2.20: COMPOSITION OF RESCHEDULED LOANS OUTSTANDING



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[13]BRPD Circular No. 16 dated 18 July 2022.

[14] BRPD Circular No. 12 dated 20 June 2023 and BRPD Circular No. 13 dated 13 July 2023.

[15]Rescheduled Loans Outstanding Ratio= Total Rescheduled Loans Outstanding to Total Loans Outstanding.
Classified Rescheduled Loan Ratio= Total Classified Rescheduled Loans Outstanding to Total Loans Outstanding,
Unclassified Rescheduled Loan Ratio= Total Unclassified Rescheduled Loans Outstanding to Total Loans Outstanding.

TABLE 2.5: COMPOSITION OF RESCHEDULED LOANS OUTSTANDING

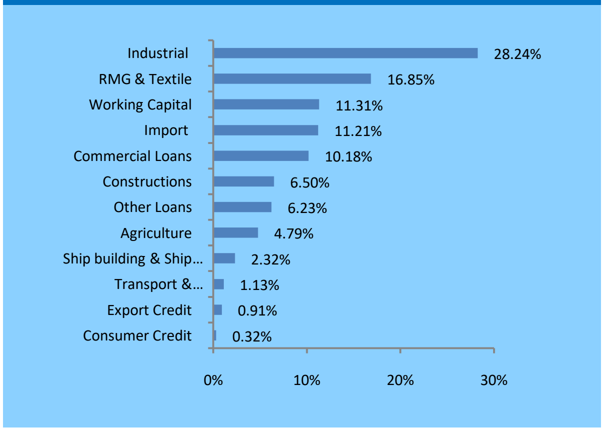
(Amount in Billion BDT)

Year	Total Rescheduled Loans Outstanding	Unclassified Rescheduled Loans Outstanding	Classified Rescheduled Loans Outstanding	Unclassified Rescheduled Loans to Total Rescheduled Loan Outstanding	Classified Rescheduled Loans to Total Rescheduled Loan Outstanding
2020	1,556.31	1,257.01	299.30	80.77%	19.23%
2021	1,684.01	1,354.39	329.62	80.43%	19.57%
2022	2,127.79	1,719.21	408.58	80.80%	19.20%
2023	2,885.41	2,344.81	540.60	81.26%	18.74%
2024	3,484.61	2,145.89	1,338.72	61.58%	38.42%

Source: Scheduled Banks (provisional); computation: FSD, BB.

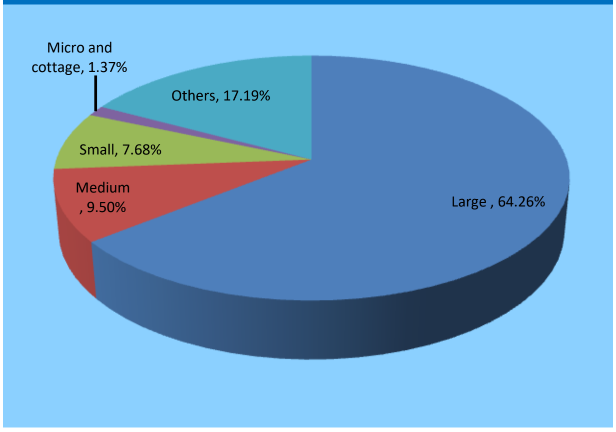
Setor-wise distribution shows Industrial and RMG & Textile sector held most of the outstanding rescheduled loans (Chart 2.21), whereas industry-wise data indicate large and other industries had the highest level of such loans (Chart 2.22).

CHART 2.21: SECTOR-WISE SHARE OF OUTSTANDING RESCHEDULED LOANS IN 2024



Source: Scheduled Banks (provisional); computation: FSD, BB.

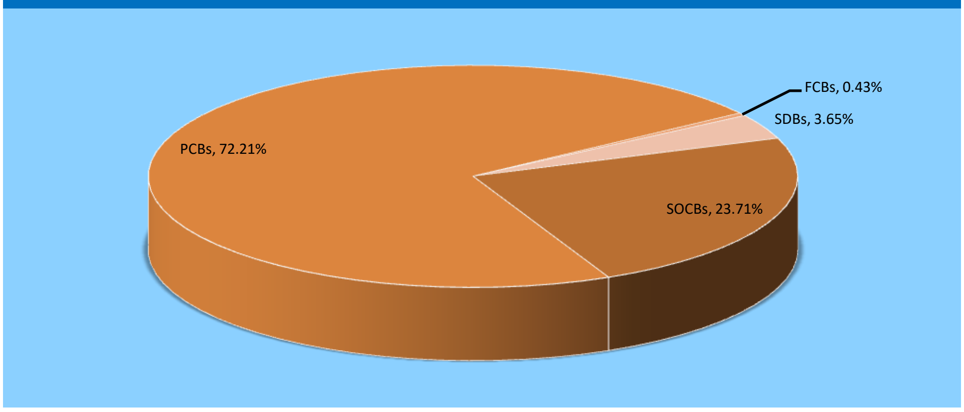
CHART 2.22: INDUSTRY WISE SHARE OF OUTSTANDING RESCHEDULED LOANS IN 2024



Source: Scheduled Banks (provisional); computation: FSD, BB.

Chart 2.23 exhibits that, as of end-December 2024, the PCBs held more than 70 percent of outstanding rescheduled loans in the banking industry followed by the SOCBs with 23.71 percent share. The share in rescheduled loans of different clusters of banks remained almost tantamount to that of the previous year.

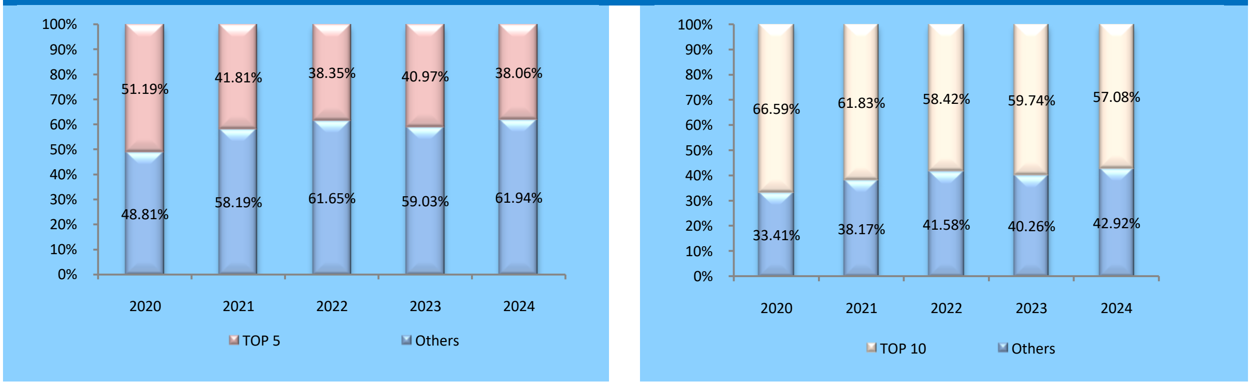
CHART 2.23: BANK CLUSTER-WISE COMPOSITION OF OUTSTANDING RESCHEDULED LOAN IN 2024



Source: Scheduled Banks (provisional); computation: FSD, BB.

Out of total outstanding rescheduled loans, the share of top 5 banks was 38.06 percents while the top 10 banks possessed 57.08 percents. The top 5 banks comprised of 03 (three) PCBs and 02 (two) SOCBs, whereas the top 10 banks included 03 (three) SOCBs and 07 (seven) PCBs (Chart 2.24).

CHART 2.24: SHARE OF TOP 5 AND TOP 10 BANKS IN OUTSTANDING RESCHEDULED LOANS



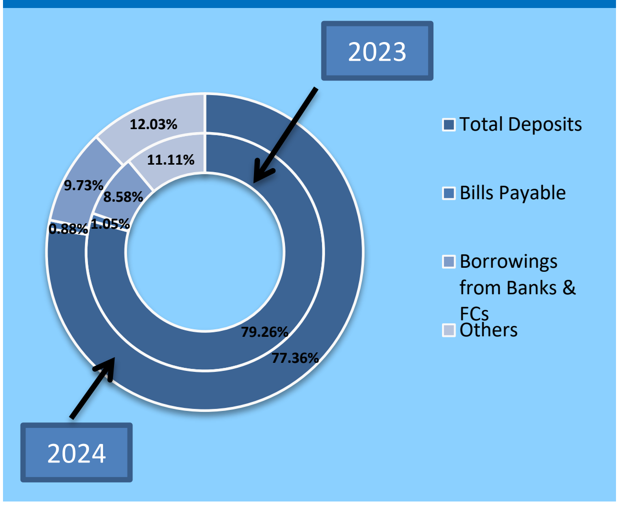
Source: Scheduled Banks (provisional); computation: FSD, BB.

2.5 LIABILITY STRUCTURE OF THE BANKING SECTOR

Deposits continued to be the primary component of the liability structure as usual. The growth in loans and advances as well as deposits slowed down a bit. However, the growth in deposits was higher than that of loans and advances.

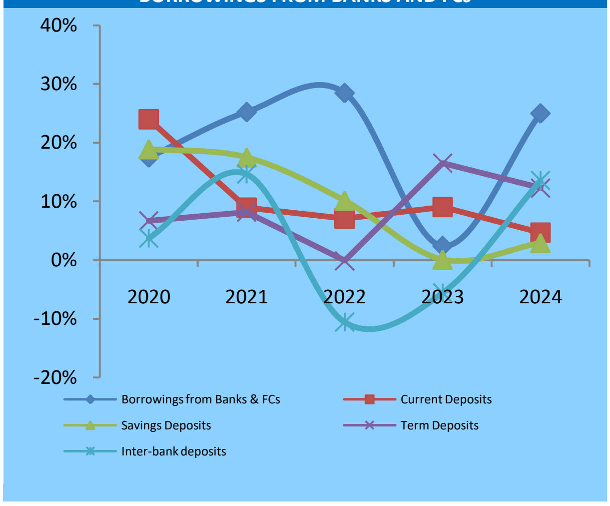
At end-December 2024, the total liabilities of the banking sector stood at BDT 24,983.24 billion. The total deposits, including inter-bank deposits, constituted 77.36 percent of total liabilities (Chart 2.25). The growth rate of the different segments of liabilities showed that borrowings from other banks recorded the highest growth of 24.99 percent. Likewise, savings, term and current deposits grew by 2.93 percent, 12.30 percent and 4.66 percent respectively while inter-bank deposits experienced a growth of 13.57 percent during the review period (Chart 2.26).

CHART 2.25: YEAR-WISE BANKING SECTOR LIABILITY STRUCTURE



Source: DOS, BB; compilation: FSD, BB.

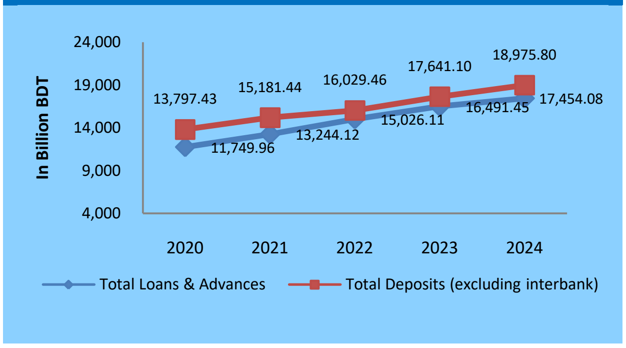
CHART 2.26: YEAR-WISE GROWTH OF DEPOSITS AND BORROWINGS FROM BANKS AND FCs



Source: DOS, BB; compilation: FSD, BB.

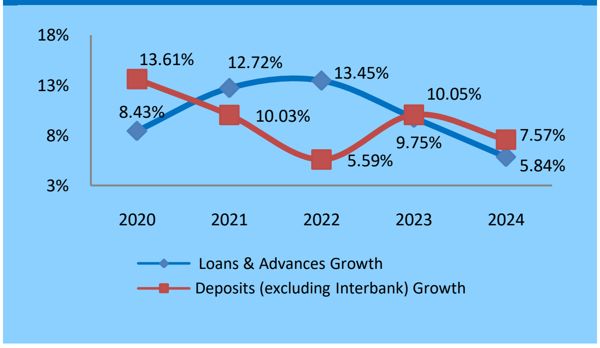
The banking sector as a whole appeared to have necessary deposits to meet the demand for loans and advances. The deposit growth, excluding inter-bank deposits, was higher than the loan growth in 2024. Total loans and advances stood at BDT 17,454.08 billion, registering a yearly growth of 5.84 percent. Total deposits reached BDT 18,975.80 billion with a growth rate of 7.57 percent (Charts 2.27 and 2.28).

CHART 2.27: LOANS AND DEPOSITS OUTSTANDING



Source: DOS, BB; compilation: FSD, BB.

CHART 2.28: YEAR-WISE LOANS AND DEPOSIT GROWTH

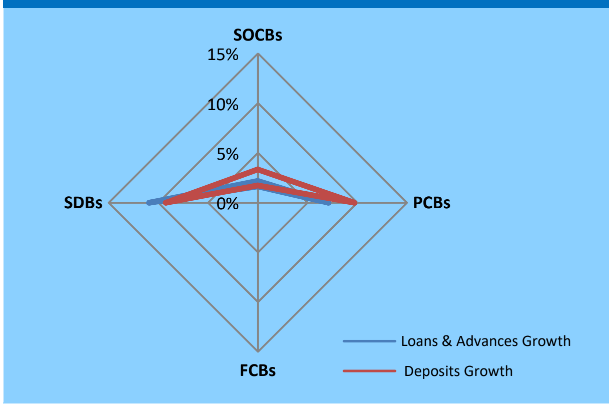


Source: DOS, BB; compilation: FSD, BB.

The comparative positions of deposit, excluding inter-bank deposit, and loan & advances growth of four banking clusters in 2024 are shown in Chart 2.29. The SOCBs and PCBs had higher deposit growth than their growth in loans and advances. In contrast, SDBs achieved higher growth in lending than their rise in deposits. However, FCBs experienced contraction in deposits and lending by 1.73 percent and 1.63 percent respectively in 2024.

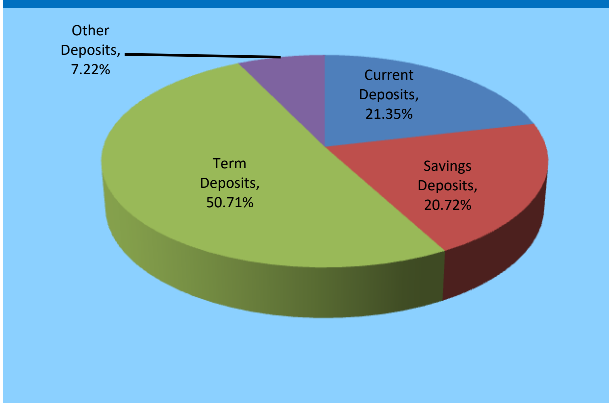
Term deposits constituted more than half of the total deposits. Moreover, its share increased to 50.71 percent in 2024 from 48.58 percent in 2023. A larger proportion of term deposits, though a bit costlier, provided the banks with a more stable source of funding and thus contributed to promoting funding stability for the banks. The shares of current deposits, savings deposits and other deposits were 21.35 percent, 20.72 percent, and 7.22 percent respectively in 2024 (Chart 2.30).

CHART 2.29: GROWTH OF LOANS & ADVANCES AND DEPOSITS (EXCLUDING INTER-BANK) BY BANK CLUSTERS IN 2024



Source: DOS, BB; compilation: FSD, BB.

CHART 2.30: BANKING SECTOR'S DEPOSIT (EXCLUDING INTER-BANK) SHARE BY TYPES OF ACCOUNTS IN 2024



Source: DOS, BB; compilation: FSD, BB.

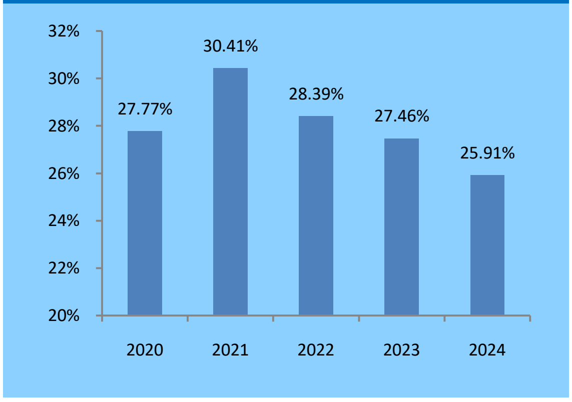
In the case of deposit concentration, top 5 deposit holding banks retained 31.26 percent of the banking sector's total deposits (excluding interbank) whereas top 10 banks held 46.70 percent of total deposits (Chart 2.31). Three (03) SOCBs and two (02) PCBs were ranked as the top 5 banks in terms of deposit holding. In the previous year, deposit concentrations in top 5 banks and top 10 banks were 32.20 percent and 46.33 percent respectively.

CHART 2.31: TOP 5 AND TOP 10 BANKS BASED ON SIZE OF DEPOSIT IN 2024

Source: DOS, BB; compilation: FSD, BB.

Off-Balance Sheet (OBS) exposures to on-balance sheet assets ratio decreased to 25.91 percent in 2024 from 27.46 percent in the previous year (Chart 2.32). The OBS exposures reached BDT 6,814.39 billion at the end of 2024, which was BDT 6,586.53 billion at the end of 2023. Although the amount of OBS exposures slightly increased in 2024, OBS to on-balance sheet assets ratio experienced a decline due to a relatively higher rise in on-balance sheet assets. Among the OBS items, acceptance experienced a decline of BDT 36.64 billion whereas Letter of Guarantee increased by BDT 143.25 billion in 2024.

CHART 2.32: OFF-BALANCE SHEET EXPOSURES TO ON-BALANCE SHEET ASSETS RATIO



Source: DOS, BB; compilation: FSD, BB.

2.6 BANKING SECTOR DEPOSIT SAFETY NET

As of end-December 2024, the Deposit Insurance Trust Fund (DITF) insured 91.25 percent of total depositors and 16.77 percent of total deposits across the banking system.

The deposit insurance system in Bangladesh is now being administered by the "Bank Amanat Bima Ain, 2000". In accordance with the stated Act, Bangladesh Bank (BB) is entrusted with operating Deposit Insurance Trust Fund (DITF). The Board of Directors of BB acts as the Trustee of the DITF. In case of winding up of an insured bank, BB will take necessary steps to pay each depositor of that bank, an amount equal to his/her deposits, not exceeding BDT 100,000 in line with the above mentioned Act. It is noteworthy that a draft ordinance, namely "Deposit Protection Ordinance, 2025," has been prepared and its enforcement is now under active consideration of the government after necessary adjustments and reviews of the related stakeholders. If it gets promulgated, the ordinance will replace "Bank Amanat Bima Ain, 2000". The proposed ordinance would raise the deposit insurance coverage limit from BDT 100,000 to BDT 200,000. The following table shows the recent position of DITF:

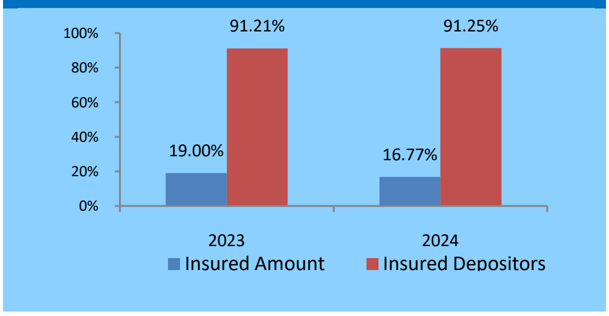
TABLE 2.6: DEPOSIT INSURANCE TRUST FUND

(In Billion BDT)

Particulars	2022	2023	2024
Insurable Deposits	13,217.94	13,999.98	15,114.80
Insurance Premium (during the year)	8.66	9.17	9.78
Deposit Insurance Trust Fund Balance	133.33	151.52	168.71

Source: DID, BB.

CHART 2.33: SAFETY NET ON BANKING SECTOR DEPOSITS



Source: DID, BB.

The insured amount[16] of total insurable deposits decreased and plunged to 16.77 percent in 2024 from 19.0 percent in 2023 (Chart 2.33). However, the deposit insurance system covers 91.25 percent of depositors in the entire banking system[17] with balances up to BDT 100,000, offering robust protection, particularly for small-scale depositors.

[16] The insured amount refers to the aggregate figure considering the deposits up to BDT 100,000 per depositor of each bank.
[17] Taking into account scheduled banks only

BOX 2.2: THE CAPACITY OF EXISTING DITF AND ITS FORECAST

The balance of accumulated Deposit Insurance Trust Fund (DITF) reached BDT 168.71 billion in the review period. DITF provided robust support to the depositors, with the capacity to cover liquidation of three (03) PCBs, which were chosen based on the highest Gross Non-Performing Loan (GNPL) ratio[18] in the banking industry (Chart B2.2.Y.1 and B2.2.Y.2). Liquidating these banks would require only 4.6 percent of the current DITF balance to pay for the insured deposits. In addition, the current DITF balance would remain sufficient in case the limit of insured deposit gets doubled to BDT 200,000 in the future.

CHART B 2.2.Y.1: UTILIZATION OF FUND FROM DITF TO LIQUIDATE THREE PRIVATE COMMERCIAL BANKS AT CURRENT INSURANCE LEVEL OF BDT 100,000

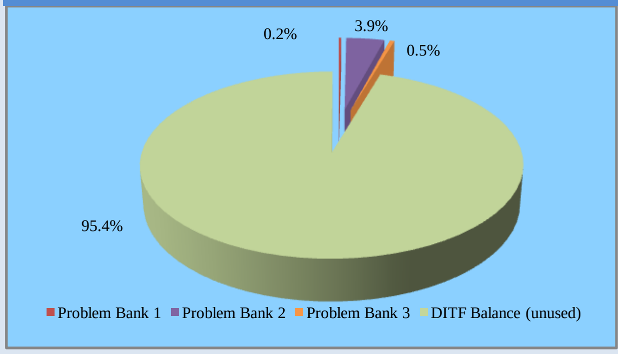
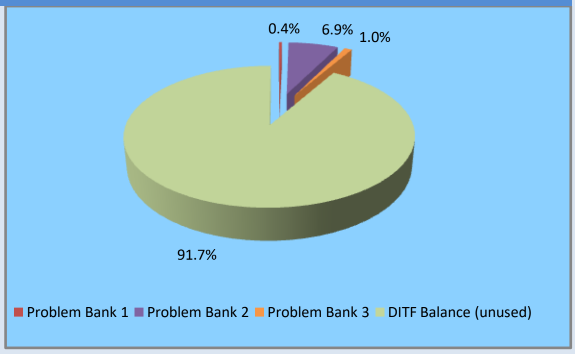


CHART B 2.2.Y.2: UTILIZATION OF FUND FROM DITF TO LIQUIDATE THREE PRIVATE COMMERCIAL BANKS AT INSURANCE LEVEL OF BDT 200,000



Source: DID, BB; Compilation: FSD, BB.

Chart B2.2.Y.3 illustrates that the present balance of DITF would be able to compensate insured deposits of small depositors (up to BDT 100,000 per depositor) of up to 25 small banks in the case of a series of banks' liquidation. Here, the banks are arranged in an ascending order of their corresponding deposit size, irrespective of the category. However, depositors of a significant number of banks may not be fully covered and compensated (hypothetical scenario) with the current balance of DITF due to the larger deposit bases of those banks. In addition, DITF can fully cover insured deposits of small depositors (up to 1lac) of one systemically important bank that has the largest amount of small deposits (BDT 134.10 billion) in case of its liquidation.

CHART B 2.2.Y.3: OPTIMUM NUMBER OF SMALL BANKS THAT CAN BE LIQUIDATED USING FUND FROM DITF

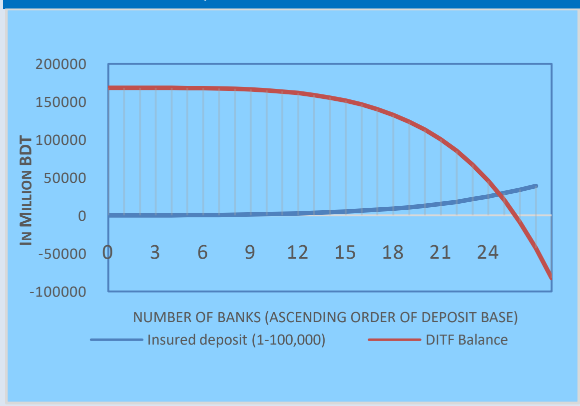
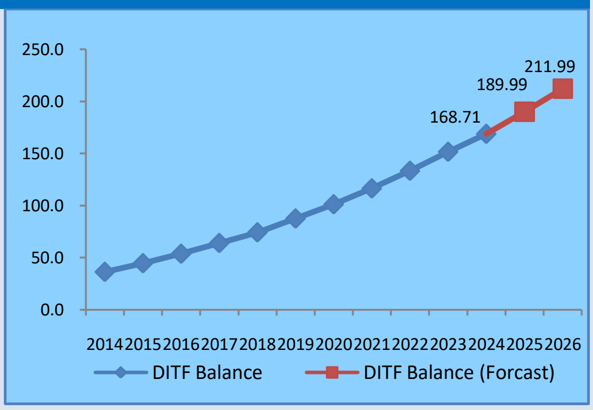


CHART B 2.2.Y.4: FORECAST OF DITF BALANCE (BILLION BDT)



Source: DID, BB; Compilation: FSD, BB.

After the inception of deposit insurance system in 1984, the DITF has steadily grown over time, reaching BDT 168.71 billion at end-December 2024. Assuming no bank failure and no requirement of fund for liquidation in the next 2 years, the DITF fund may reach over BDT 200 billion in 2026 (Chart B2.2.Y.4).

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[18]Gross NPL to Total Loans ratio.

2.7 BANKING SECTOR PROFITABILITY

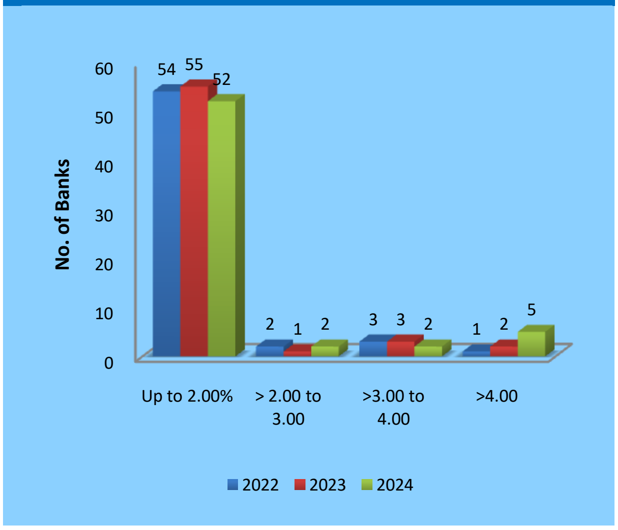
The banking sector's net profit[19] dropped significantly in 2024.

In the review year, the banking sector's net operating profit[20] increased significantly and stood at BDT 148.68 billion due to increase in interest and non-interest income. However, net profit decreased by 18.09 percent in 2024, owing to higher allocation for loan loss provisions and tax expenses. The total loan loss provisions maintained by the banks increased by BDT 80.44 billion in 2024, which was 73.51 percent higher from 2023.

The banking sector's return on equity (ROE) and return on assets (ROA) both declined marginally in 2024 compared to those of 2023. In addition, ROE and ROA further deteriorated at end-March 2025 and reached -3.99 and -0.18 percent respectively.

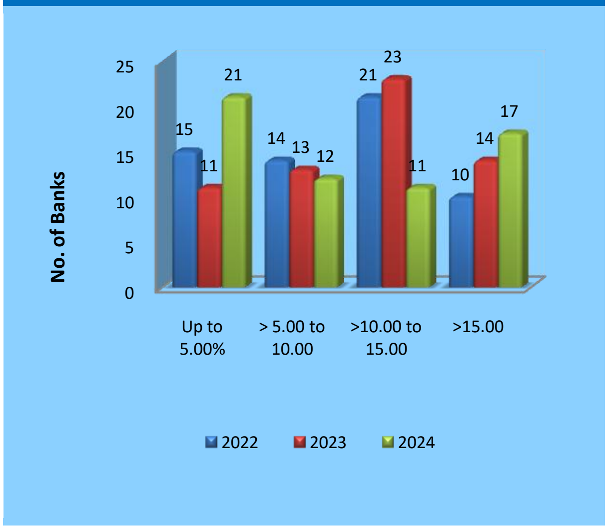
The banking sector's ROA reduced from 0.59 percent in 2023 to 0.43 percent in 2024. Similarly, ROE decreased to 8.70 percent from 10.54[R] percent in 2023, registering a decrease of 1.84 percentage points in 2024. Both ROA and ROE got decreased in the review year mainly due to deterioration of asset quality, maintaining higher loan loss provisions.

CHART 2.34: BANKING SECTOR RETURN ON ASSETS (ROA)



Source: DOS, BB; Compilation: FSD, BB.

CHART 2.35: BANKING SECTOR RETURN ON EQUITY (ROE)



Source: DOS, BB; Compilation: FSD, BB.

28 banks experienced an increase of ROA while 33 banks showed a decreasing trend at the end of 2024. In a similar vein, 29 banks recorded an improvement in ROE, while the same decreased for 32 banks in comparison to 2023. Out of 61 banks, 52 banks had ROA upto 2.0 percent (Chart 2.34) and 21 banks held ROE upto 5.0 percent (Chart 2.35).

The banking industry's overall Net Interest Margin (NIM)[21] reduced from 1.56 percent in 2023 to 1.26 percent in 2024.

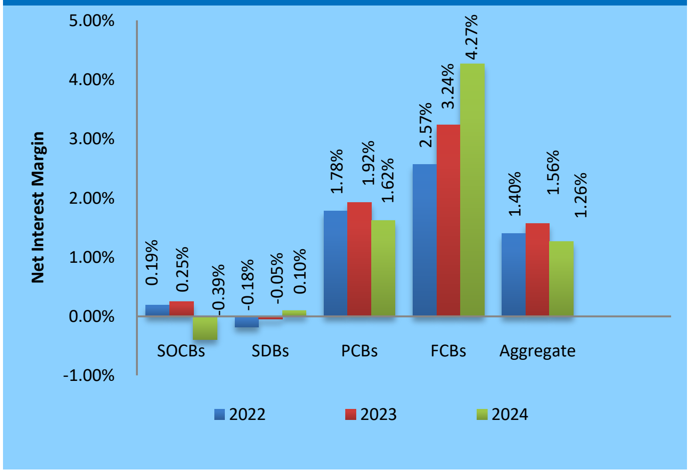
In comparison to the previous year, interest income and interest expenses grew by 24.05 percent and 37.73 percent, respectively in the review year. Besides, non-interest income and non-interest expenses increased

[19] Profit after provision and tax.
[20] Profit before provision and tax.
R= Revised.

[21] Net interest margin is a measure of the difference between the interest income generated and the amount of interest paid out to their depositors and lenders, relative to the amount of interest earning assets.

by 30.65 percent and 10.54 percent, respectively, which actually contributed to significant growth of net operating income.

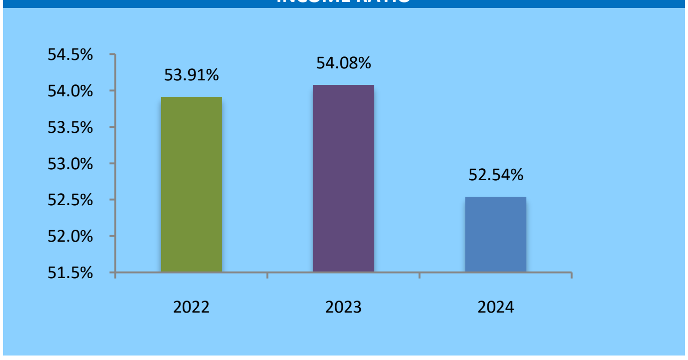
CHART 2.36: BANK CLUSTER-WISE NET INTEREST MARGIN (NIM)



Source: DOS, BB; Compilation: FSD, BB.

Net Interest Margin for the SDBs and FCBs increased while PCBs' and SOCBs' NIM declined in 2024. In particular, NIM of SOCBs stood at negative 0.39 percent, while that of PCBs reached 1.62 percent at the end of 2024. FCBs' NIM increased significantly by 1.03 percentage points and recorded 4.27 percent in 2024. Overall, NIM for the industry decreased by 0.30 percentage point and reached 1.26 percent (Chart 2.36).

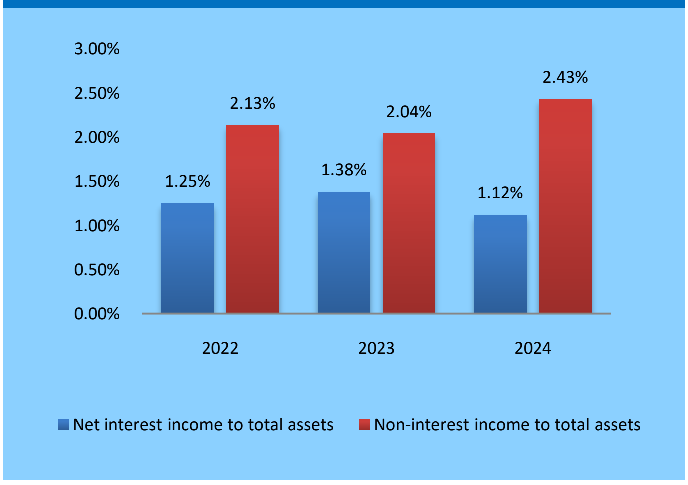
CHART 2.37: YEAR-WISE NON-INTEREST EXPENSE TO GROSS OPERATING INCOME RATIO



Source: DOS, BB; Compilation: FSD, BB.

In the evaluation period, non-interest expenses and gross operating income[22] rose by 10.54 percent and 13.77 percent, respectively. Hence, the ratio of non-interest expenses to gross operating income reduced by 1.54 percentage points and reached 52.54 percent in 2024 (Chart 2.37).

CHART 2.38: BANKING SECTOR'S INCOME OVER ASSET RATIO



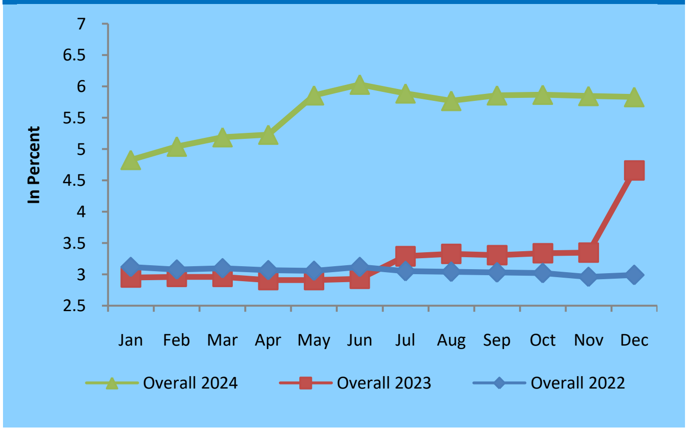
Source: DOS, BB; Compilation: FSD, BB.

The ratio of net interest income to total assets dropped from 1.38 percent in the previous year to 1.12 percent in the review year. On the other hand, non-interest income as a percentage of total assets increased by 0.39 percentage point and recorded at 2.43 percent in 2024, which was 2.04 percent in 2023 (Chart 2.38). It is evident that, in terms of absolute amount, net interest income decreased from 2023 to 2024, whereas non-interest income showed an upward trend.

[22] Gross operating income is the summation of net interest income and non-interest income.

The interest rate spread illustrated an increase of 1.17 percentage points at end-December 2024.

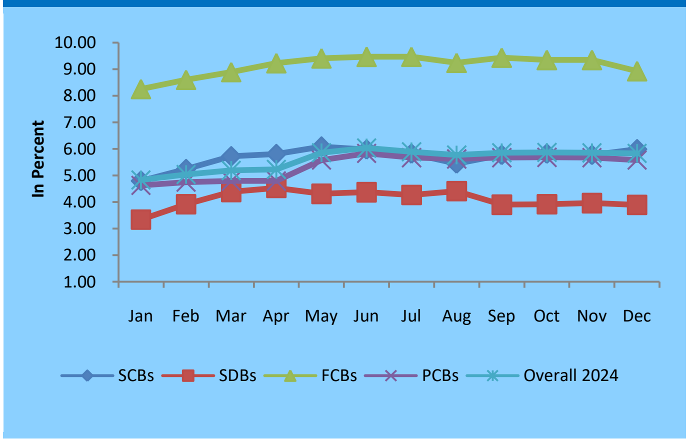
CHART 2.39: BANKING SECTOR MONTHLY WEIGHTED AVERAGE OVERALL INTEREST RATE & SPREAD



Source: DOS, BB; Compilation: FSD, BB.

At the end of December 2024, the weighted average lending rate increased to 11.84 percent from 9.36 percent at end-December 2023. Likewise, the weighted average deposit rate registered an increase from 4.70 percent to 6.01 percent over the same period. This led to an increase in the weighted average interest rate spread for banks from 4.66 percent at end-December 2023 to 5.83 percent at end-December 2024 (Chart 2.39).

CHART 2.40: BANKING SECTOR'S CLUSTER WISE MONTHLY WEIGHTED AVERAGE INTEREST RATE SPREAD



Source: DOS, BB; Compilation: FSD, BB.

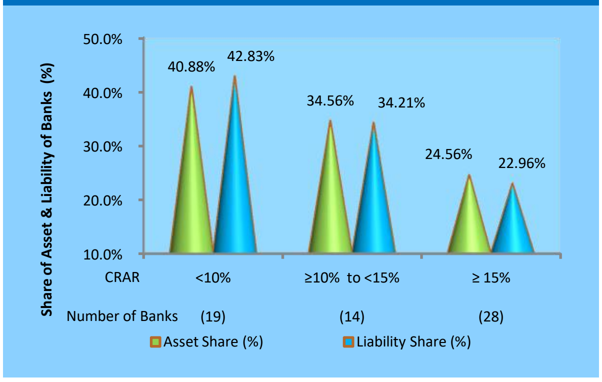
The weighted average interest rate spread of the banking sector was sustaining around 5.60 percent throughout the review year. Spreads of SCBs and PCBs were below 6.00 percent while the spread of SDBs remained around 4.0 percent. However, the spread of FCBs kept higher than those of other bank clusters due to lower interest rate on deposit and NPL rate along with relatively higher interest rate on consumer finance and credit card operations (Chart 2.40).

2.8 CAPITAL ADEQUACY

As of end-December 2024, the banking sector's Capital to Risk-weighted Asset Ratio (CRAR) and Tier-1 capital (going-concern capital) ratio declined by 8.56 and 7.96 percentage points, respectively, both falling below the regulatory minimums. The overall drop in CRAR was primarily driven by poorer capital positions in State-Owned Commercial Banks (SOCBs), Specialized Development Banks (SDBs), and a few of both conventional and Islamic Private Commercial Banks (PCBs). However, the banking sector's CRAR stood at 7.39 percent based on banks' audited financial statements.

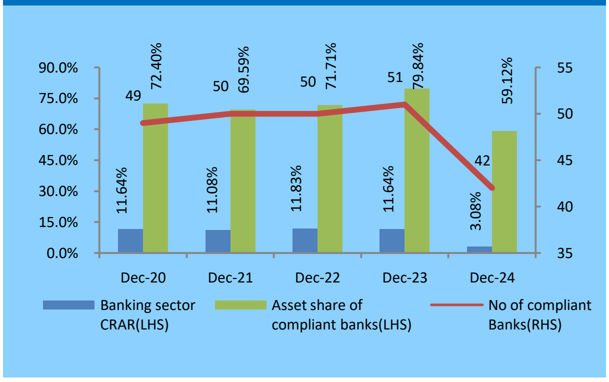
The banking industry's Capital to Risk-weighted Asset Ratio (CRAR) declined by 8.56 percentage points from 11.64 percent a year earlier and reached 3.08 percent at the end of December 2024. The CRAR falls significantly below the minimum regulatory requirement i.e. 10.00 percent of Risk-Weighted Assets (RWA) under the Basel III capital framework issued by Bangladesh Bank. By the end of December 2024, the number of CRAR-compliant banks dropped to 42. These compliant banks retained 59.12 percent of total assets and 57.17 percent of total liabilities of the banking sector. In contrast, non-compliant banks held 40.88 percent of the sector's total assets and 42.83 percent of total liabilities, indicating a 1.94 percentage points excess of liabilities over assets in this segment (Chart 2.41). Additionally, the asset share of CRAR-compliant banks declined by 20.72 percentage point compared to the previous year (Chart 2.42).

CHART 2.41: ASSET AND LIABILITY SHARE OF BANKS BY CRAR AT END-DECEMBER, 2024



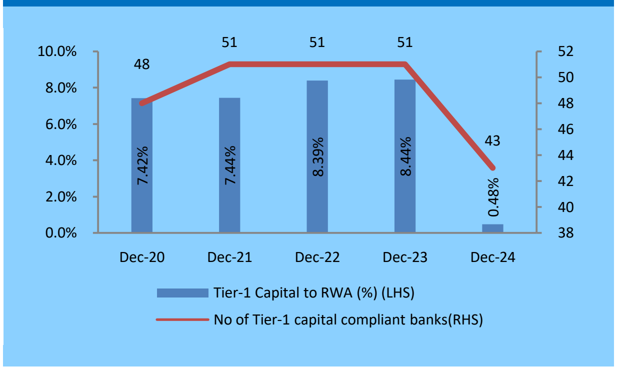
Source: DOS, BB; Compilation: FSD, BB.

CHART 2.42: YEAR-WISE CRAR, CRAR COMPLIANT BANKS AND THEIR ASSET SHARE



Source: DOS, BB; Compilation: FSD, BB.

CHART 2.43: YEAR-WISE TIER-1 CAPITAL RATIO OF BANKS

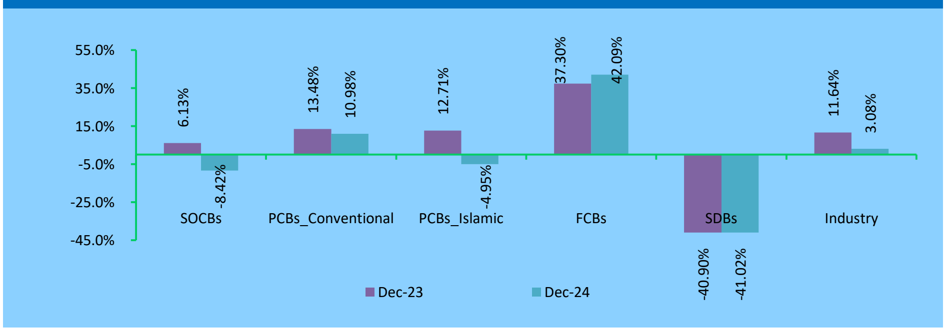


Source: DOS, BB; Compilation: FSD, BB.

The Tier-1 capital ratio, also known as going-concern capital ratio, of the banking sector decreased by 7.96 percentage points at end-December 2024 and appeared at 0.48 percent from 8.44 percent at end-December 2023, getting the level far below the minimum Tier-1 capital requirement of 6.00 percent in line with Basel III capital framework issued by BB in December 2014. The number of Tier-1 capital compliant banks decreased to 43 from 51 at end-December of the previous year (Chart 2.43).

Chart 2.44 provides a comparative analysis of CRAR across different banking clusters. At the end of December 2024, the CRARs of State-Owned Commercial Banks (SOCBs), Conventional Private Commercial Banks (PCBs), Islamic PCBs, and Specialized Development Banks (SDBs) declined by 14.55, 2.50, 17.66, and 0.12 percentage points, respectively bringing their CRARs to -8.42 percent, 10.98 percent, -4.95 percent, and -41.02 percent, respectively. In contrast, the CRAR of Foreign Commercial Banks (FCBs) increased by 4.79 percentage points during the period. Among the clusters, only FCBs maintained CRARs well above the minimum regulatory requirement, while conventional PCBs remained marginally above the minimum requirement. The significant deterioration of capital adequacy in SOCBs, Islamic PCBs, and SDBs highlights the need for intensified supervision and targeted measures to enhance their capital positions, thereby strengthening both their individual resilience and the overall stability of the banking sector.

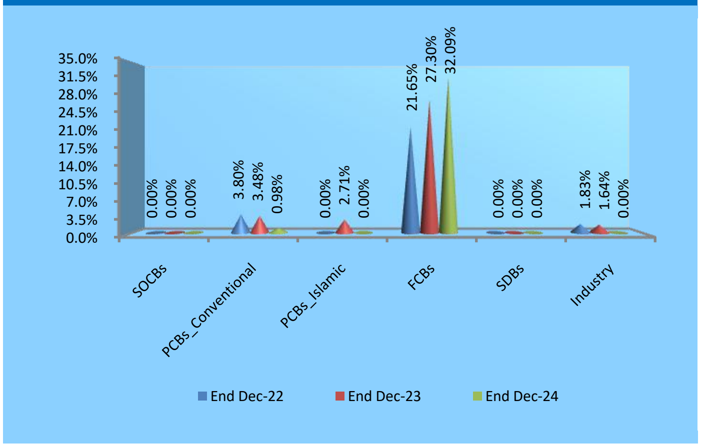
CHART 2.44: CRAR BY BANKING GROUP AT END-DECEMBER 2023 AND 2024



Source: DOS, BB; computation: FSD, BB.

Banks are required to maintain a Capital Conservation Buffer (CCB) of 2.50 percent of total risk-weighted assets in the form of common equity tier-1 (CET-1) capital in addition to the minimum regulatory capital requirement (CRAR) of 10.0 percent under the Basel III framework[23]. Against this requirement, the banking industry failed to maintain CCB as of end-December 2024 (Chart 2.45), which was 1.64 percent at end-December 2023.

CHART 2.45: CCB BY BANKING CLUSTERS AT END-DECEMBER 2022, 2023, AND 2024



Source: DOS, BB; Compilation: FSD, BB.

Except FCBs cluster, the remaining clusters failed to maintain the required CCB at end-December 2024 (Chart 2.45). However, out of 61, thirty eight (38) banks managed to maintain the required CCB in 2024 while forty seven (47) banks (out of 61) were CCB compliant in 2023. At end-December 2024, CCBs of FCBs increased by 4.79 percentage points and reached 32.09 percent.

Taking the cross-country scenario into account (Table 2.7), the capital adequacy of Bangladesh's banking sector was far lower compared to that of neighboring countries as of end-December 2024.

TABLE 2.7: COMPARISON OF CAPITAL ADEQUACY AMONG THE NEIGHBORING COUNTRIES.

Countries	CRAR (%)				
	2020	2021	2022	2023	2024
India	15.8*	16.6*	16.0*	16.8*	16.7*
Pakistan	18.6	16.7	16.6	19.7	20.6
Sri Lanka	17.1	16.5	16.2[R]	18.4[R]	18.4[P]
Bangladesh	11.6	11.08	11.83	11.64	3.08

* Data as of end-September, R-Revised, P-Provisional.

Source: Financial Stability Report (various issues), Reserve Bank of India; Financial Stability Report, December 2024, State Bank of Pakistan; Quarterly Compendium: Statistics of the Banking System (https://www.sbp.org.pk/ecodata/fsi.asp), Central Bank of Sri-Lanka (https://www.cbsl.gov.lk/en/statistics/statistical-tables/financial-sector); and DOS, BB.

2.9 LEVERAGE RATIO

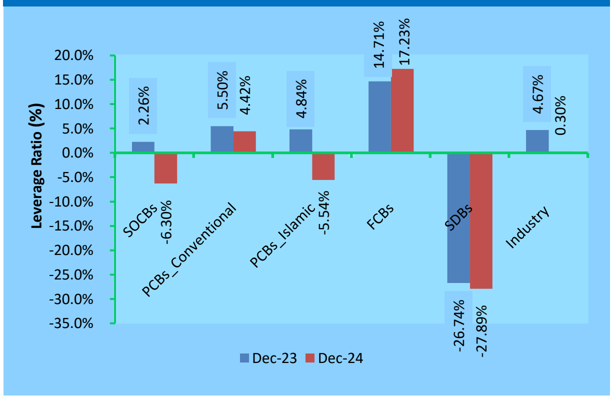
Except FCBs and Conventional PCBs clusters, the banking sector could not maintain a leverage ratio well above the minimum regulatory requirement in 2024.

As of end-December 2024, the banking sector reported a leverage ratio of just 0.30 percent—well below the regulatory minimum requirement of 3.50 percent and a sharp decline of 4.37 percentage points from 4.67 percent recorded at the end of 2023 (Chart 2.46). Among the banking clusters, Foreign Commercial Banks (FCBs) posted the highest leverage ratio at 17.23 percent, followed by Conventional PCBs at 4.42 percent. In contrast, Islamic PCBs recorded a negative leverage ratio of 5.54 percent, while State-Owned Commercial Banks (SOCBs) fell to -6.30 percent, from 2.26 percent in 2023. Specialized Development Banks (SDBs) exhibited the weakest performance with a leverage ratio of -27.89 percent. The persistently weak leverage positions of SOCBs, Islamic PCBs, and SDBs are a growing concern, as they significantly

[23]CCB requirement for banks in Bangladesh started from 2016 in a phased-in manner and full implementation commenced in 2019 with CCB requirement of 2.50 percent above the regulatory MCR of 10.00 percent.

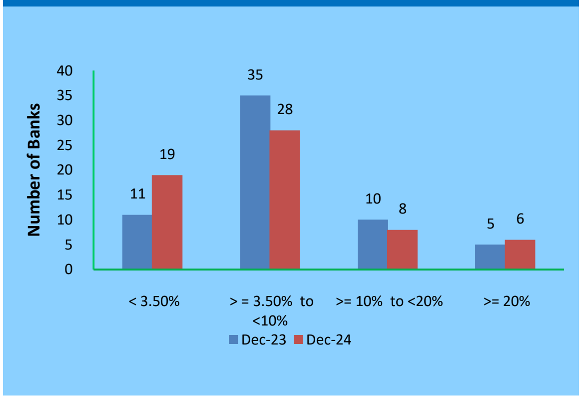
impair the sector's ability to absorb potential near-term shocks. The number of banks failed to meet the leverage ratio requirement rose to 19 in 2024, from 11 in 2023 (Chart 2.47).

CHART 2.46: YEAR-WISE LEVERAGE RATIO OF BANK CLUSTER



Source: DOS, BB; Calculation: FSD, BB.

CHART 2.47: YEAR-WISE DISTRIBUTION OF BANKS' LEVERAGE RATIO



Source: DOS, BB; Calculation: FSD, BB.

2.10 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

As a part of Pillar II of Basel III, the Internal Capital Adequacy Assessment Process (ICAAP) has already been implemented in Bangladesh. To ensure adequate capital, covering all material risks, banks evaluate their internal processes and strategies through ICAAP. BB reviews and evaluates banks' ICAAP reports and strategies during its Supervisory Review Evaluation Process (SREP) inspection. Bangladesh Bank also evaluates the degree to which a bank has a sound internal process to assess capital adequacy. The emphasis is given to the quality of the bank's risk management and controls. SRP-SREP dialogue stands for an exclusive meeting between the SREP team of BB and the SRP team of the bank. The objective of the dialogue is to determine the adequate level of capital needed for a bank by reviewing the ICAAP and strategies of the bank. *SRP-SREP Dialogue with the banks was finished in August 2024 for the base year 2022*. In the dialogue, different types of risk of banks were discussed based on their ICAAP report. Banks are advised to take necessary steps according to their risk types. Recent experience shows that the estimated additional capital requirement for residual risk rises mainly due to documentation errors. Besides, Strategic risks and core risk management are also concerns for the banks.

2.11 BANKING SECTOR LIQUIDITY

Except PCBs (Islamic) cluster, the liquidity outlook in the banking industry remained broadly stable during 2024. The rise in Stock of High Quality Liquid Assets (SHQLA) of banking industry was mainly contributed by the increase in SHQLA of the SOCBs and PCBs (Conventional) clusters.

Banking industry experienced squeezed liquidity condition after 1st half of 2024 as indicated by gradual increase of advance to deposit ratio and call money rate. Although the banking sector's ADR stayed below the admissible limit[24] of 87 percent, it gradually reached 81.55 percent at end-December 2024 from 80.38 percent at end-December 2023 (see Appendix). The call money rate recorded gradual upward trend after August and then reached at 10.04 percent in December 2024 (Chart 2.48). The rising call money rate in later four months of 2024 was largely attributed to Bangladesh Bank's continuous efforts to put tightened monetary policy stance in place by raising the policy (repo) rate with a view to mitigating inflationary pressure.

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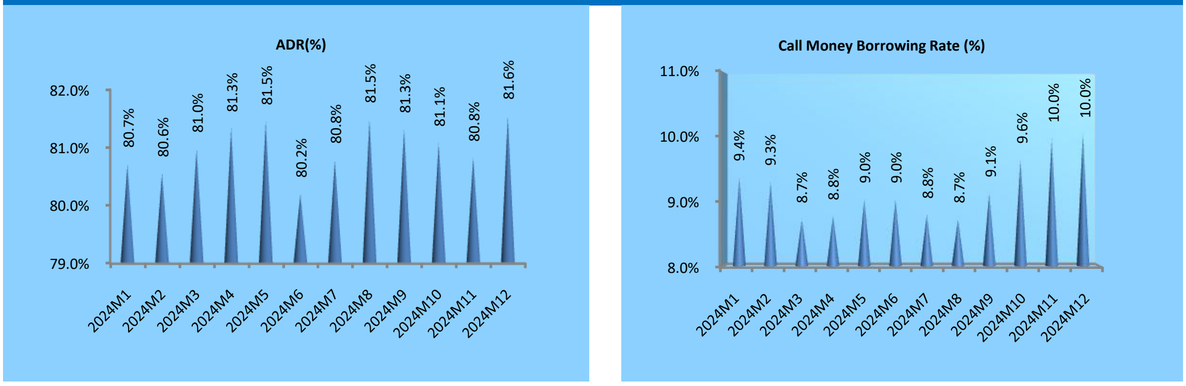
[24] In April 2020, banks were instructed to rationalize their ADR within maximum 87.0 percent for conventional banks and 92.0 percent for Islamic banks respectively (ref.: DOS Circular no.02 dated 12 April 2020).

CHART 2.48 : MONTHLY ADR AND CALL MONEY BORROWING RATE

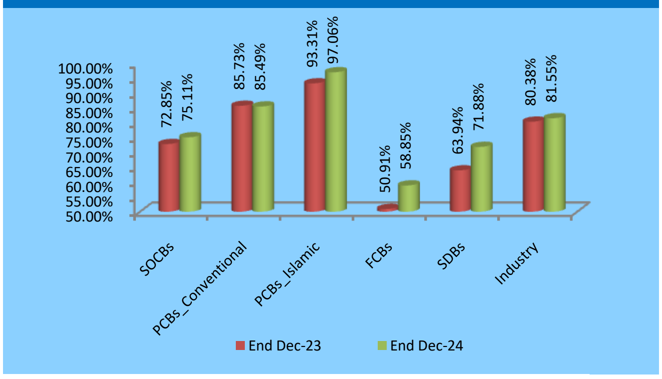


Source: DOS, BB.

Source: DMD, BB.

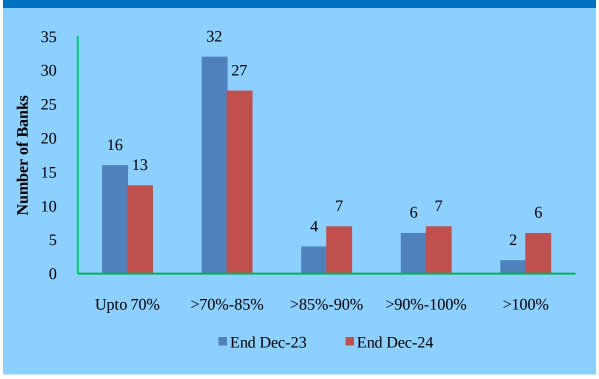
Despite a slight decline in conventional PCBs, the banking sector's ADR increased marginally in 2024 (Chart 2.49). Among the clusters, Islamic PCBs held the highest ADR of 97.06 percent in 2024, which was 5.06 percentage points higher than permissible limit for Islamic banks. In the case of SOCBs, FCBs, and SDBs, such upturns accounted for 2.26, 7.94 and 7.94 percentage points respectively. Along with the rise in ADR of the sector from 80.38 percent to 81.55 percent, number of banks with ADR of more than 90.0 percent increased to 13 (thirteen) from 8 (eight) in the same period as well (Chart 2.50).

CHART 2.49: BANKS' CLUSTER-WISE ADR



Source: DOS, BB.

CHART 2.50: DISTRIBUTION OF BANKS IN TERMS OF ADR

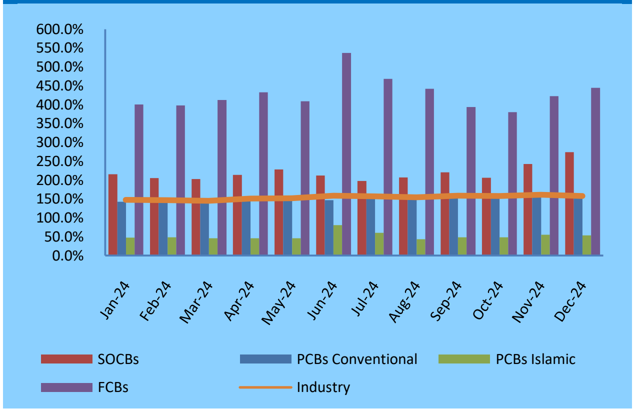


Source: DOS, BB.

In the review year, both the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) maintained by the banking industry was above their respective regulatory requirements (Charts 2.51 and 2.52). As of end-December 2024, the industry's LCR rose to 157.50 percent, from 147.69 percent at the same time in 2023. This level was sufficient to meet short-term obligations over a 30-day period under a hypothetical financial stress scenario.

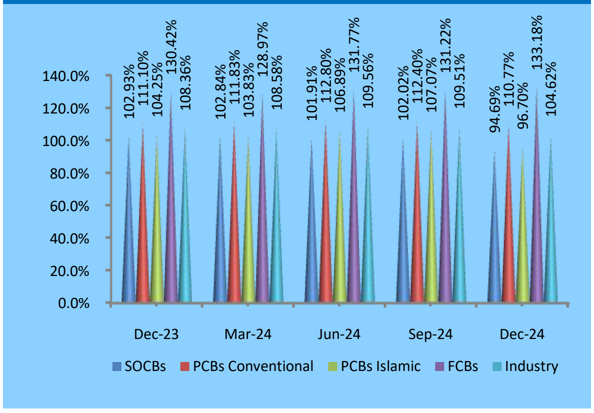
Among the banking clusters, Foreign Commercial Banks (FCBs) posted the highest LCR at 444.69 percent, followed by State-Owned Commercial Banks (SOCBs) at 273.93 percent and Conventional Private Commercial Banks (PCBs) at 158.38 percent. In contrast, Islamic PCBs failed to meet the LCR requirement, posing potential risks to their ability to fulfill short-term obligations. Meanwhile, the industry's NSFR declined by 3.74 percentage points, from 108.36 percent in December 2023 to 104.62 percent in December 2024. This decline was primarily driven by weaker performance of the SOCBs and Islamic PCBs clusters.

CHART 2.51: BANKS' CLUSTER-WISE MONTHLY LCR



Source: DOS, BB.

CHART 2.52: BANKS' CLUSTER-WISE QUARTERLY NSFR

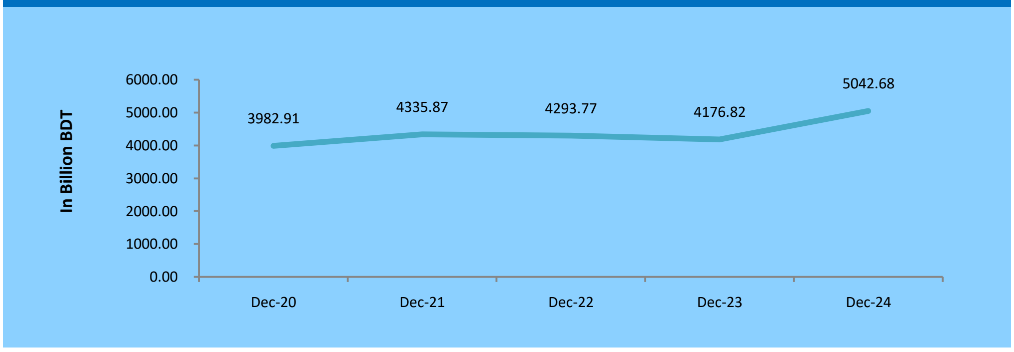


Source: DOS, BB.

NB: BDBL, BKB, PKB and RAKUB are exempted from maintaining regulatory LCR and NSFR.

Despite the weaker performance of SOCBs and Islamic PCBs clusters in meeting the regulatory requirements for liquidity ratios, the stock of high-quality liquid assets of the banking industry (SHQLA[25]), as illustrated in chart 2.53, showed a 20.73 percent increase in 2024. The banking sector's SHQLA rise was mainly attributed to the increase in SHQLA of the SOCBs and Conventional PCBs clusters (see Appendix XXVIII).

CHART 2.53: BANKING INDUSTRYS' STOCK OF HIGH QUALITY LIQUID ASSETS AT END-DECEMBER



Source: DOS, BB.

*Industry figure excludes BDBL, BKB, PKB and RAKUB as exempted from LCR & NSFR requirement.

2.12 PERFORMANCE OF LOCAL BANKS' BRANCHES OPERATING ABROAD

In 2024, the performance of Bangladeshi banks' overseas branches showed notable variations. Out of 61 banks, two state-owned commercial banks, namely Sonali Bank PLC, and Janata Bank PLC as well as one private commercial bank named AB Bank PLC have been operating with seven full-fledged branches in the UAE and India. Furthermore, two branches of Social Islami Bank PLC had been established in the UAE, but they were not in operations as on end-December 2024. Moreover, 21 Bangladeshi banks have been offering overseas banking services through 21 exchange houses particularly for remittance collection.

The aggregate net profit of the overseas branches of three Bangladeshi banks stood at USD 5.96 million in 2024, recording a decrease of 36.56 percent in net profit compared to 2023.

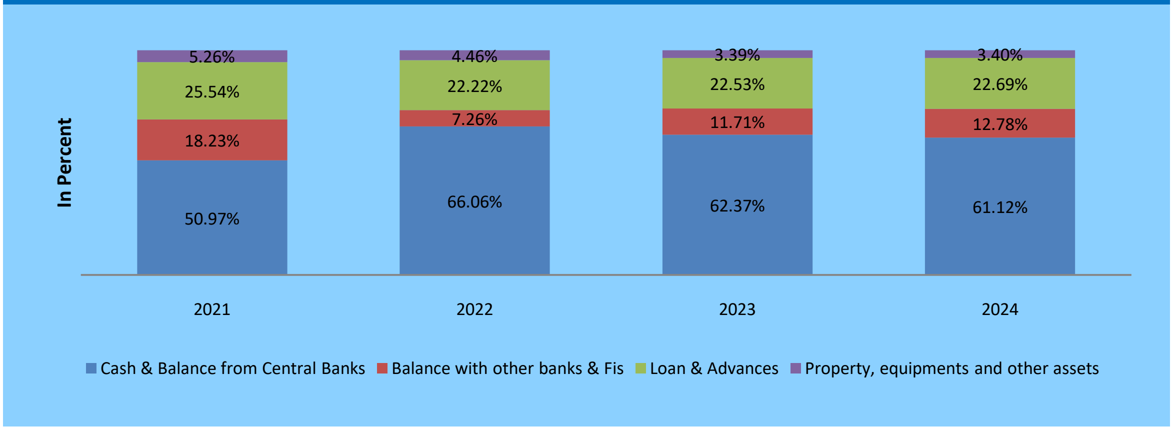
[25] SHQLA of banking industry includes Cash on hand (local and foreign currency), Balance with BB (local and foreign currency, excluding lien part) and un-encumbered approved securities (excluding lien part).

2.12.1 Assets Structure of Overseas Branches

At end-December 2024, the aggregate assets of the overseas Bangladeshi bank branches recorded a moderate decline compared to the previous year.

The total assets of the seven overseas branches amounted to USD 518.65 million (BDT 62.24 billion[26]) in 2024, which was USD 539.66 million in 2023, registering a decrease of 3.89 percent. The major portion of total assets was cash and balance with central banks (61.12 percent) followed by loans and advances (22.69 percent) at end-December 2024. However, loans and advances as well as balances with other banks and finance companies increased by 0.16 percentage point and 1.07 percentage points respectively, while cash reserves and balances with central banks declined by 1.25 percentage points in 2024 compared to 2023 (Chart 2.54).

CHART 2.54: ASSET COMPOSITION OF BANGLADESHI BANK BRANCHES OPERATING ABROAD



Source: Scheduled Banks (provisional); Compilation: FSD, BB.

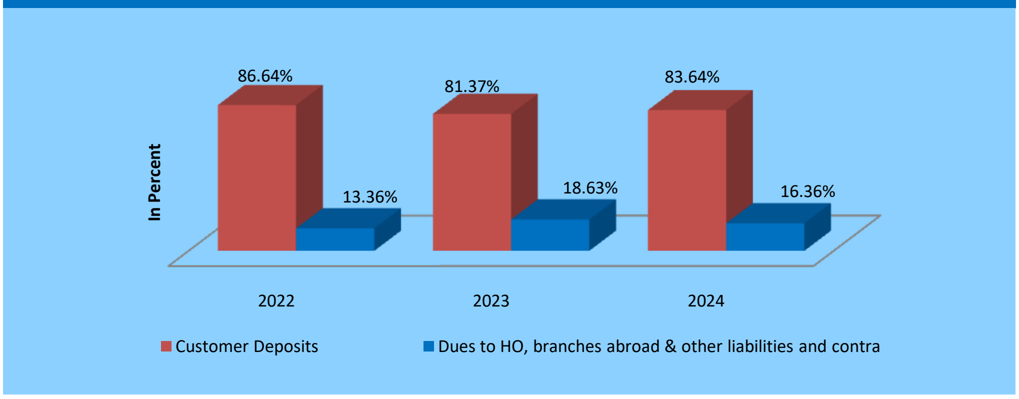
2. 12.2 Liabilities Structure of Overseas Branches

During the review year, total liabilities of the overseas branches decreased significantly compared to the previous year.

In 2024, total liabilities fell by 9.55 percent and stood at USD 414.78 million (BDT 49.77 billion), which was USD 458.58 million (BDT 50.39 billion) in 2023. Customer deposits, which constituted 83.64 percent (USD 346.92 million) of total liabilities, increased by 2.27 percentage points in 2024 (Chart 2.55).

At the same time, few other segments of total liabilities i.e., dues to HO, branches abroad, and other liabilities got reduced by 2.27 percent than the preceding year.

CHART 2.55: COMPOSITION OF LIABILITIES OF BANKS OPERATING ABROAD



Source: DOS, BB; Compilation: FSD, BB.

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[26] BDT is converted to USD with the exchange rate as on 31.12.2024, which is published in Monthly Economic Trend of BB.

2.12.3 OPERATIONAL PERFORMANCE OF OVERSEAS BRANCHES

In 2024, the net profit of overseas branches declined significantly compared to the previous year.

As of end-December 2024, the combined net profit of overseas branches of the three Bangladeshi banks was USD 5.96 million, recording a significant decline of 36.56 percent from the previous year. Consequently, the return on assets (ROA) decreased to 1.15 percent from 1.74 percent, which was attributable to the reduction in net profit during the review year.

2.12.4 RISKS FROM OVERSEAS BANKING OPERATION

The financial stability of overseas branches is influenced not only by the economic conditions in Bangladesh but also by those in the host countries. Although operations got continued without disruption throughout the year, strict compliance with the regulations of both home and host countries remains essential to mitigate potential risks.

As the market shares of overseas branches' in their parent banks' portfolio were very low, no significant financial stability threats were observed in 2024. Besides, these overseas branches were also incorporated under the Anti-Money Laundering and Countering the Financing of Terrorism (AML-CFT) framework to enhance regulatory compliance.

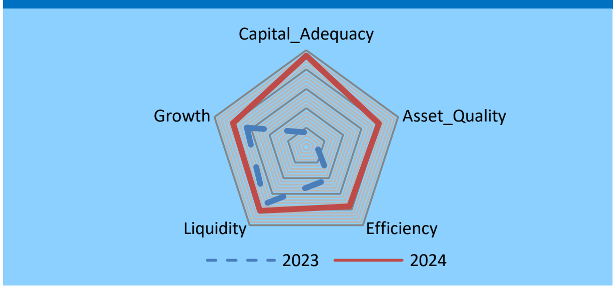
2.13 ISLAMIC BANKING

The Islamic banks, as a whole, exhibited better investment (loans and advances) income to total asset ratio in the review period, but observed a lower return on assets (ROA) due to high profit expense[27]. In addition, this cluster recorded lower growth in total investments, deposits, assets and shareholders' equity. Among the liquidity-related indicators, the investment deposit ratio (IDR) and the liquidity coverage ratio (LCR) of the Islamic banks further worsened and remained non-compliant during the review period. Moreover, this cluster failed to fulfill the regulatory requirement of net stable funding ratio (NSFR) for the first time at the end of December 2024. On top of that, capital-related indicators and overall asset quality of this cluster deteriorated considerably in the review year.

The Islamic banking cluster, along with the conventional banks, continues to play a vital role in mobilizing deposits and financing key sectors of the economy. This banking cluster is receiving growing attention for its 'equity-based and interest-free' banking philosophy since its inception in 1983. At end-December 2024, a total of 10 full-fledged Islamic banks with 1697 branches were operating in Bangladesh. In addition, 33 Islamic banking branches of 16 conventional banks and 815 Islamic banking windows of 19 conventional banks were providing Islamic banking services in the review period.

At end-December 2024, the performance of Islamic banks declined in terms of capital adequacy, assets quality, efficiency, liquidity, and growth indicators. Among them, capital adequacy and asset quality indicators of the Islamic banks deteriorated significantly compared to those of 2023. A notable decline in the CRAR largely led to the deterioration of capital adequacy, while significant increase in non-performing investment deteriorated the asset quality of Islamic banks during the review period (Chart 2.56 and appendix XLIX).

CHART 2.56: STABILITY MAP OF ISLAMIC BANKING



Notes: 1: Indicators' values lying away from the center refer to higher risk.
Source: DOS, BB; Computation: FSD, BB.

[27] Refers to cost of deposits.

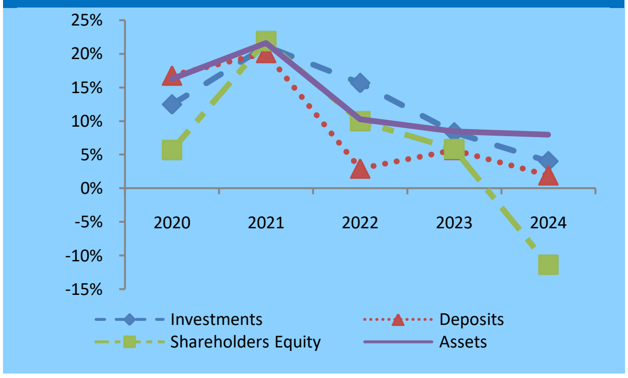
2.13.1 Growth and Market Share of Islamic Banks

Aggregate investments (loans and advances), deposits, and assets of Islamic banks exhibited a slower growth at end-December 2024. Moreover, total shareholders' equity showed negative growth in the reviewed period. Hence, the market share of Islamic banks in terms of total investment, deposits, shareholders' equity, and assets reduced compared to those of the previous year.

The growth of Islamic banks in terms of total investments, deposits, shareholders' equity, and assets showed a downward trend in the review year. At end-December 2024, the growth of aggregate investments, deposits, and total assets were 4.02 percent, 1.91 percent, and 7.98 percent, respectively against the corresponding figures of 8.29 percent, 5.69 percent, and 8.44 percent at end-December 2023. Moreover, the total shareholders' equity experienced a notable decline to -11.36 percent while the respective figure was 5.83 percent at end-December 2023 (Chart 2.57).

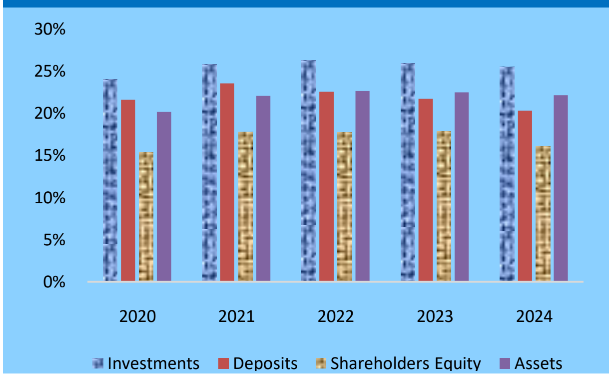
The aggregate market share of Islamic banks, excluding Islamic banking branches/windows of conventional banks, in terms of total investments, deposit, shareholders' equity, and assets decreased marginally at end-December 2024 compared to those of the preceding year. Compared to the overall market share of banking sector, the share of Islamic banks in terms of total investments, deposit, shareholders' equity, and asset dropped to 25.48 percent, 20.31 percent, 16.07 percent, and 22.13 percent, respectively at end-December 2024. These figures were 25.93 percent, 21.71 percent, 17.85 percent, and 22.47 percent, respectively at end-December 2023 (Chart 2.58).

CHART 2.57: TREND OF GROWTH OF ISLAMIC BANKS



Note: Excluding Islamic banking branches/windows of conventional banks. Source: DOS, BB; Computation: FSD, BB.

CHART 2.58: TREND OF MARKET SHARE OF ISLAMIC BANKS



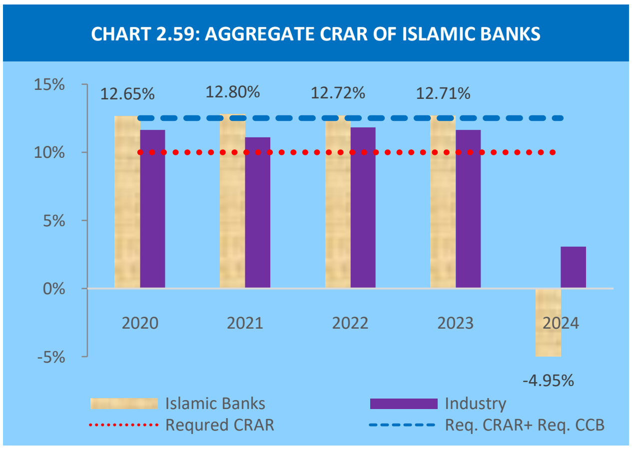
Source: DOS, BB; Computation: FSD, BB.

2.13.2 Capital Position of Islamic Banks

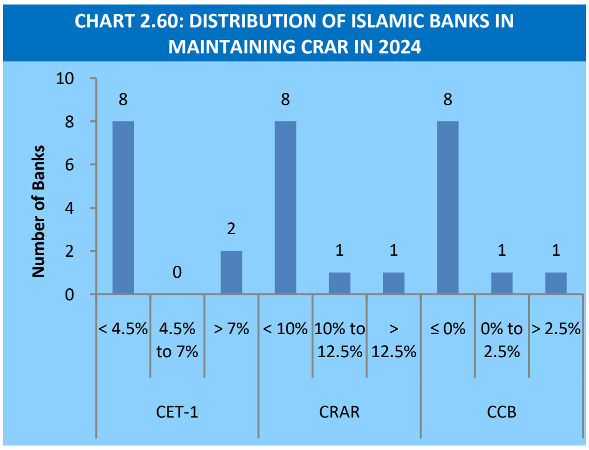
The Islamic banks, as a whole, failed to maintain the minimum regulatory requirements of capital to risk-weighted assets ratio (CRAR), the capital conservation buffer (CCB), and the leverage ratio at end-December 2024. The CRAR and leverage ratio dropped below zero at end-December 2024 from well complied ratios of the previous year. Out of ten Islamic banks, two were able to maintain the minimum required common equity tier-1 (CET-1) capital, CRAR and leverage ratios, while one was able to maintain the capital adequacy ratios.

At end-December 2024, aggregate maintained CRAR of the Islamic banks dropped significantly and reached -4.95 percent from 12.71 percent of end-December 2023 largely due to the sharp decline of capital adequacy of seven banks. Hence, the Islamic banks, as a whole, failed to maintain the capital adequacy ratios (Chart 2.59).

At end-December 2024, out of 10 (ten) Islamic banks, 2 (two) were able to maintain the minimum required common equity tier-1 (CET-1) capital as well as CRAR, while 1 (one) bank managed to maintain both CRAR and CCB requirements (Chart 2.60).

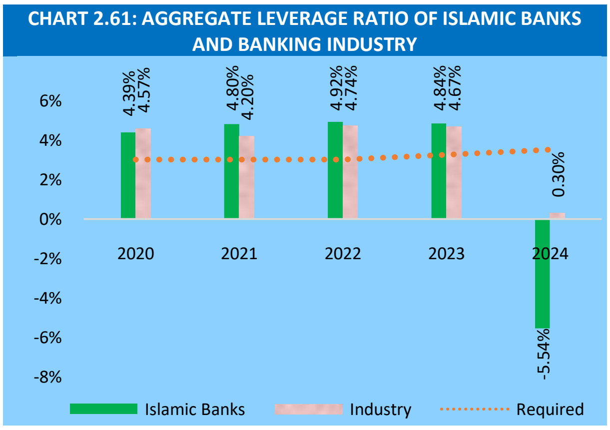


Note: Excluding Islamic banking branches/windows of conventional banks.
Source: DOS, BB; Computation: FSD, BB.

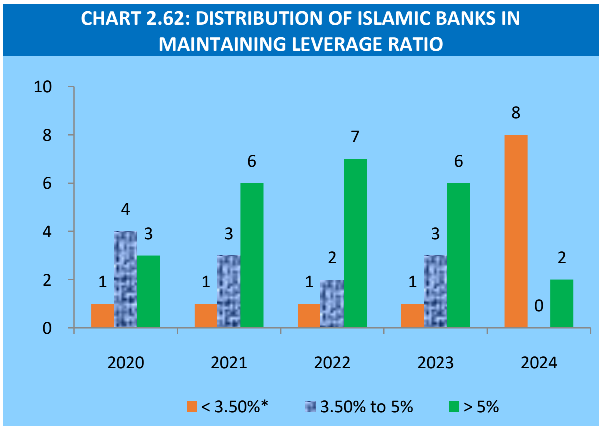


Source: DOS, BB; Computation: FSD, BB.

Besides the minimum required CRAR and CCB, banks also need to maintain a minimum leverage ratio of 3.50 percent to prevent build up excessive exposures. At end-December 2024, the leverage ratio of the Islamic banks considerably dropped to -5.54 percent from 4.84 percent of the previous year (Chart 2.61). A notable fall in Tier-1 capital of Islamic banks largely contributed to the shift in the leverage ratio to a negative trajectory. Indeed most of the Islamic banks (8 out of 10) were unable to maintain the minimum required leverage ratio of 3.50 percent at end-December 2024 (Chart 2.62).



Note: In line with Basel III, minimum required leverage ratio was 3.50 percent and 3.25 percent in 2024 and 2023, respectively, and it was 3.00 percent up to the year 2022.
Source: DOS, BB; Computation: FSD, BB.



Source: DOS, BB; Computation: FSD, BB.

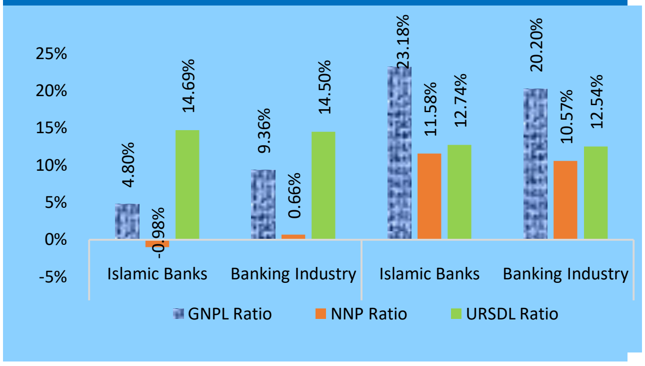
2.13.3 Asset Quality of Islamic Banks

Compared to the banking sector, performance of Islamic banks deteriorated in 2024 in terms of gross non-performing loan/investments (GNPL) ratio, and net non-performing loan/investments (NNPL) ratio. Distribution of the Islamic banks by GNPL, NNPL and URSDL also worsened in 2024.

The asset quality indicators of the Islamic banks, measured by GNPL, and NNPL, indicated inferior performance compared to the banking sector in 2024. At end-December 2024, the GNPL and NNPL ratios of the Islamic banks deteriorated noticeably and reached 23.18 percent and 11.58 percent, respectively. At the same time, the URSDL ratios of the Islamic banks decreased to 12.74 percent in 2024 from 14.69 percent in 2023 (Chart 2.63).

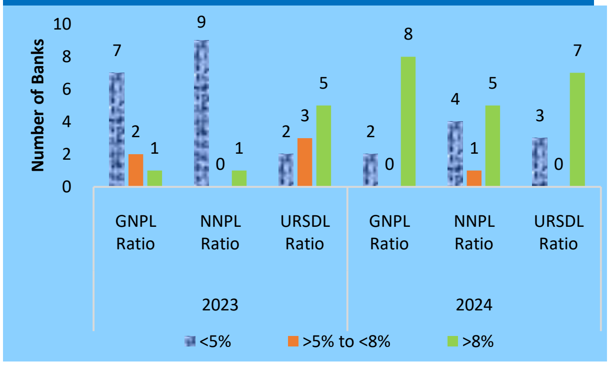
The distribution of banks for GNPL, NNPL and USRDL significantly weakened compared to the previous year since more banks fell under the upper percentage bucket (more than 8 percent) in 2024 (Chart 2.64).

CHART 2.63: GNPL, NNPL, AND URSDL RATIOS OF ISLAMIC BANKS



Source: BRPD, BB; Computation: FSD, BB.

CHART 2.64: DISTRIBUTION OF BANKS BY GNPL, NNPL, AND URSDL RATIOS



Source: BRPD, BB; Computation: FSD, BB.

2.13.4 Operational Efficiency of Islamic Banks

In spite of an improvement in investment (loans and advances) income to total assets in 2024, the aggregate return on assets (ROA) of the Islamic banks decreased significantly, which was mainly driven by higher profit expense.

The aggregate ROA of the Islamic banks declined considerably to 0.12 percent in 2024 from 0.51 percent in 2023. At end-December 2024, 6 (six) out of 10 (ten) Islamic banks earned higher ROA than the average ROA of Islamic banking cluster. In contrast, the ROA of 4 (four) Islamic banks was negative at the review year (Chart 2.65).

Despite an increase in the investment income ratio, the net investment income ratio of the Islamic banks declined, which indicates a higher deposit collection cost of the Islamic banks in 2024 compared to 2023. However, both non-investment income and net non-investment income ratios of the Islamic banks improved in the review year, which illustrate a higher income earned from commissions, fees, and Shari'ah-based bonds in 2024 compared to 2023. Provision and taxes to total assets ratio remained stable in the last two consecutive years (Chart 2.66).

CHART 2.65: TREND OF RETURN ON ASSET (ROA) OF ISLAMIC BANKS

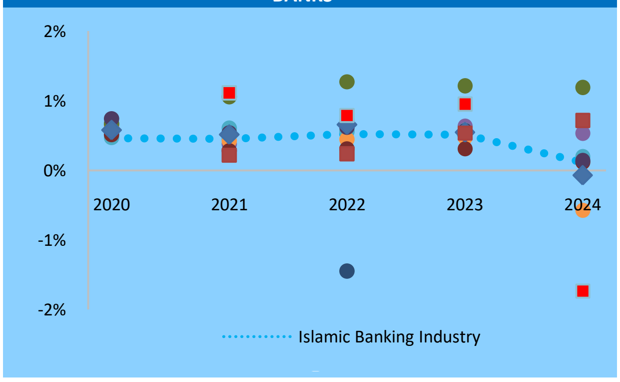
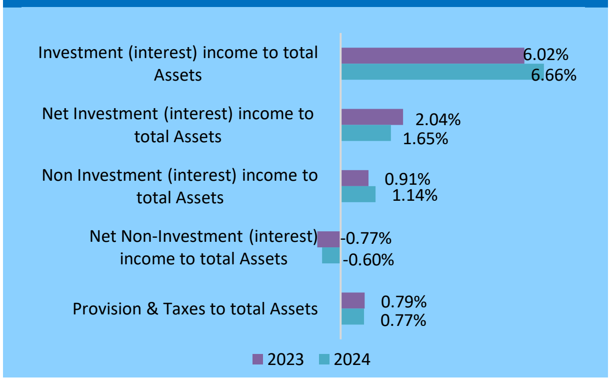


CHART 2.66: SELECTED RATIOS FOR ISLAMIC BANKS



Note: Excluding Islamic banking branches/windows of conventional bank.
Source: DOS, BB; Computation: FSD, BB.

Source: DOS, BB; Computation: FSD, BB.

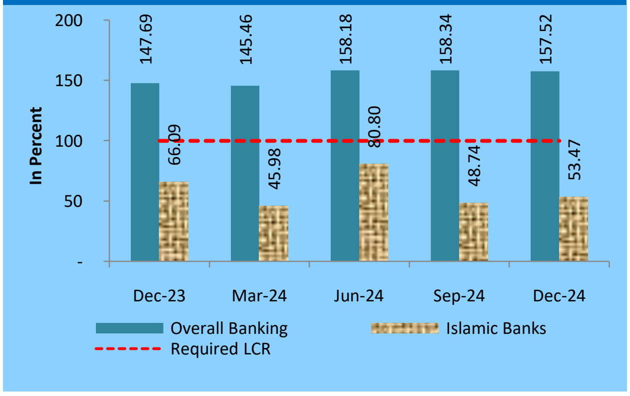
2.13.5 Liquidity Situation of Islamic Banks

According to the Basel III standard, the Islamic banking cluster failed to maintain the minimum required liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) at end-December 2024. Moreover, the investment-deposit ratio (IDR) of the Islamic banks increased further and remained above the regulatory limit.

At end-December 2024, the maintained LCR of the Islamic banking cluster declined by 12.62 percentage points and stood at 53.47 percent, which was much lower than the minimum regulatory requirement of 100 percent and the banking sector average of 157.52 percent (Chart 2.67).

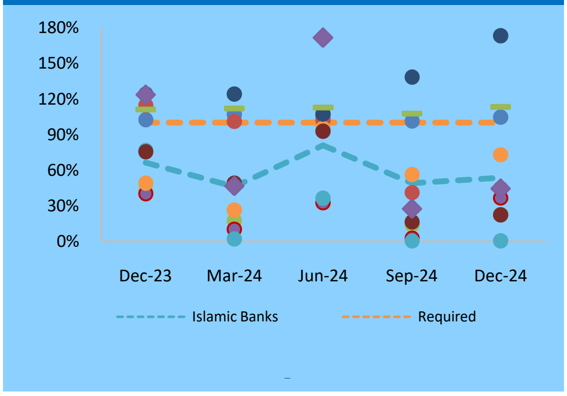
Along with decline in the maintained LCR of the Islamic banks, the number of compliant banks in terms of minimum regulatory requirements also decreased. At end-December 2024, only 3 (three) out of 10 (ten) Islamic banks managed to retain the regulatory requirement of LCR (Chart 2.68).

CHART 2.67: LCR MAINTAINED BY THE BANKING INDUSTRY AND ISLAMIC BANKS



Source: DOS, BB; Computation: FSD, BB.

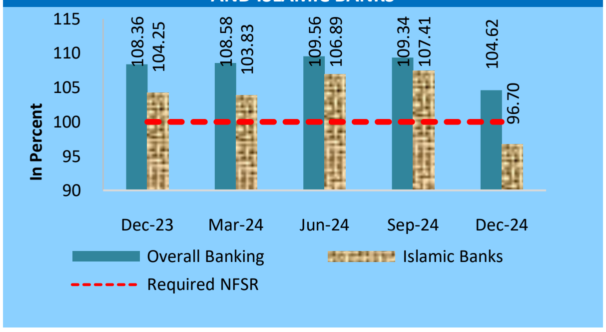
CHART 2.68: BANK-WISE LCR MAINTENANCE SCENARIO OF ISLAMIC BANKS



Source: DOS, BB; Computation: FSD, BB.

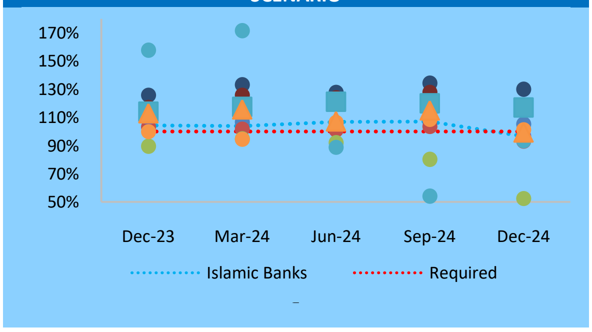
The Islamic banking cluster failed to maintain the regulatory threshold of NSFR at end-December 2024. The maintained NSFR of the Islamic banks was 96.70 percent, which was also lower than the banking sector average of 104.62 percent at the end of the review year (Chart 2.69). On top of that, 5 out of 10 Islamic banks were able to maintain the required NSFR at end-December 2024 (Chart 2.70).

CHART 2.69: NSFR MAINTAINED BY THE BANKING INDUSTRY AND ISLAMIC BANKS



Source: DOS, BB; Computation: FSD, BB.

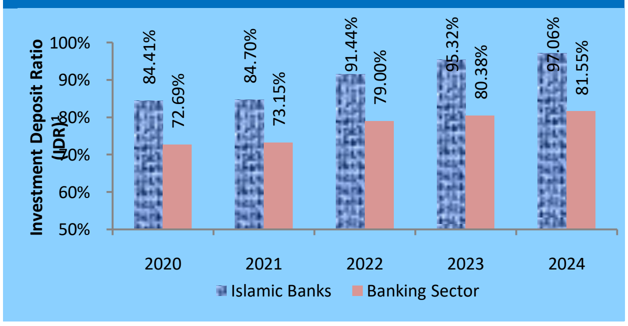
CHART 2.70: ISLAMIC BANK-WISE NSFR MAINTENANCE SCENARIO



Source: DOS, BB; Computation: FSD, BB.

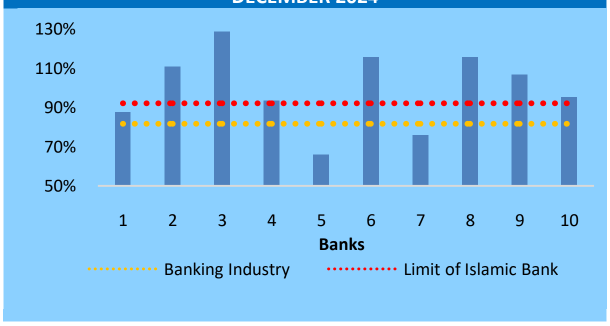
At end-December 2024, the investment (loans and advances) deposit ratio (IDR) of Islamic banks increased further and reached to 97.06 percent, which was much higher than the regulatory limit of 92.00 percent, however banking sector's advance-deposit ratio (ADR) was 81.55 percent (Chart 2.71). The IDR mainly increased due to higher investment growth (4.02 percent) compared to lower deposit growth (1.91 percent) during the review year. Consequently, 3 (three) out of 10 (ten) Islamic banks managed to keep the IDR within the permissible limit at end-December 2024 (Chart 2.72).

CHART 2.71: IDR OF ISLAMIC BANKS



Notes: 1. Including Islamic branches and windows of conventional banks.
Source: DOS, BB; Computation: FSD, BB.

CHART 2.72: DISTRIBUTION OF IDR OF ISLAMIC BANKS AT END-DECEMBER 2024

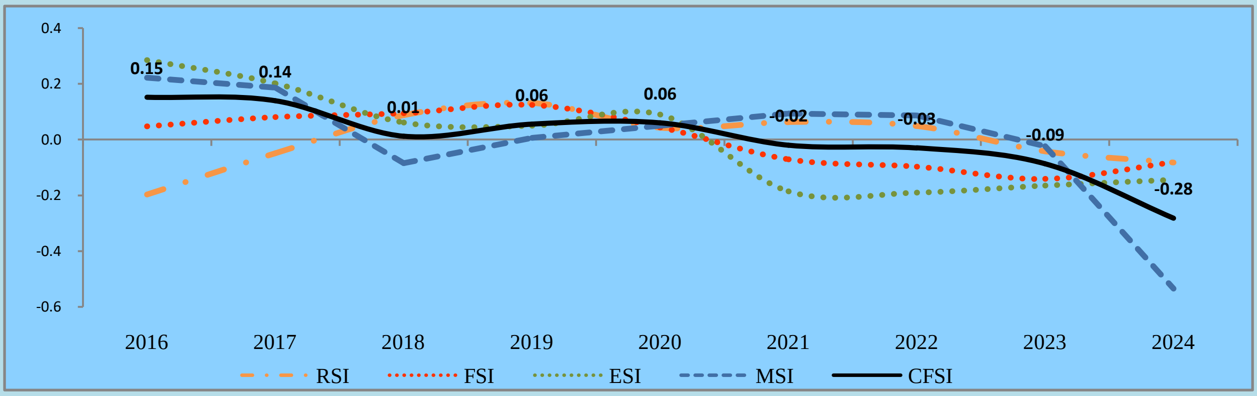


Source: DOS, BB; Computation: FSD, BB.

Box 2.3: Composite Financial Stability Index (CFSI): End-December 2024

The Composite Financial Stability Index (CFSI) measures the financial stability of an economy and monitors the potential build-up of systemic risks in the macro-financial system. It focuses on the economy's stability by dividing it into four key sectors: the real sector, fiscal sector, external sector, and financial and monetary sector. More specifically, this is a tool developed to measure volatility in the different sectors of the economy and their impact on the overall financial system. It is an aggregated form of nineteen different indicators under four sub-indices: the Real Sector Index (RSI), the Fiscal Sector Index (FSI), the External Sector Index (ESI), and the Financial and Monetary Sector Index (MSI). Using semi-annual/annual data, this index has been developed and updated regularly. In this current version, the movement of CFSI has been plotted for the period spanning December 2016 to December 2024.

CHART B2.3.1: COMPOSITE FINANCIAL STABILITY INDEX (CFSI)



The CFSI December 2024 reveals a substantial deterioration in financial stability compared to December 2023, as the index declined from -0.09 to -0.28 (Chart B2.3.1). In spite of minor improvements in the fiscal and external sectors, this deterioration, the largest negative shock to CFSI in recent years, occurred due to the upsetting performance of the financial and monetary sectors. The real sector showed signs of distress as well.

The downward movement of the financial and monetary sector accelerated due to sharp declines in several critical indicators mainly for the performing loan ratio deterioration to 79.8 percent from 90.6 percent, significant decrease of capital market returns (DSEX index moves to 5216.44 in 2024 from 6246.5 in 2023), and for sharp decline in CRAR to 3.1 percent from 11.6 percent. Concurrently, domestic credit growth decelerated to 9.1 percent from 11.9 percent, while the call money rate spiked to 9.2 percent from 6.7 percent, which contributed to the weakening of the CFSI.

In contrast, the external sector demonstrated modest resilience due to remarkable improvements in the current account balance aided by substantial remittance inflows and increased export competitiveness (measured through REER) following proactive measures taken by Bangladesh Bank and the Government. Meanwhile, the real sector's momentum was constrained by subdued GDP growth (3.3 percent from 5.0 percent), persistent inflationary pressure (10.9 percent from 9.4 percent), and declined industrial output (2.3 percent from 8.5 percent). The fiscal sector remained broadly stable, supported by balanced government borrowing, improved fiscal balance-to-GDP ratio, and enhanced tax revenue collection, indicating prudent fiscal management amidst macroeconomic headwinds.

CHAPTER 3 : BANKING SECTOR RISKS

Banking sector experienced increased risk, as indicated by the deterioration of the Risk-Weighted Assets (RWA) density ratio. RWA of credit risk grew at a faster rate in nominal terms compared to those of market and operational risks. Banks' total lending exposure to the corporate sector stood at 51.08 percent. Notably, the proportion of rated exposures within the total banking industry exposures decreased in the review period. As a result, banks were required to hold more capital compared to the previous year. Overall Capital to Risk-weighted Asset Ratio (CRAR) of the banking industry fell below the required threshold. This chapter discusses various risk factors related to the assets and capital allocation of the banking sector in accordance with BASEL III guidelines. For better analysis and understanding, banks are categorized into five different groups based on their inherent features, ownership structure, and business models. Table 3.1 demonstrates this categorization and the respective share of each category in the aggregate assets of the banking sector as of end-December 2024.

TABLE 3.1: GROUPING OF BANKS FOR RISK ANALYSIS

Bank group	Description of the group	Number of banks	Share of total banking sector assets
Group 1	Private commercial banks (Long-standing conventional banks)	21	43.72%
Group 2	State-owned and Private commercial banks under special attention[28]	11	25.29%
Group 3	Private commercial banks (Full-fledged Islamic banks)	9	22.10%
Group 4	Foreign commercial banks	9	5.13%
Group 5	Fourth-generation[29] private commercial banks	11	3.76%
Total		61	100.00%

Source: DOS, BB; Calculation: FSD, BB.

3.1 OVERALL RISK PROFILE

Table 3.2 presents risk-weighted assets (RWA) density ratios, illustrating the proportion of RWA to total assets, across different bank groups. Typically, banks with a higher density ratio are more exposed to risky assets. The RWA density ratio increased from 59.31 percent in 2023 to 62.61 percent in 2024. Among the defined categories, Groups 3 and 1 had a higher RWA density ratio, at 67.02 and 63.76 respectively. Notably, in 2024, the ratio rose substantially for Group 3.

TABLE 3.2: RISK-WEIGHTED ASSET DENSITY RATIO (BANK GROUPS)

In Percent

Banks Group	2020	2021	2022	2023	2024
Group 1	68.90	68.33	66.91	64.48	63.76
Group 2	51.90	53.61	57.22	56.90	59.72
Group 3	56.80	55.46	56.42	54.33	67.02
Group 4	59.70	59.11	50.90	48.53	49.85
Group 5	76.20	67.36	67.49	63.91	60.17
All Banks	61.60	61.11	61.17	59.31	62.61

Source: DOS, BB; Calculation: FSD, BB.

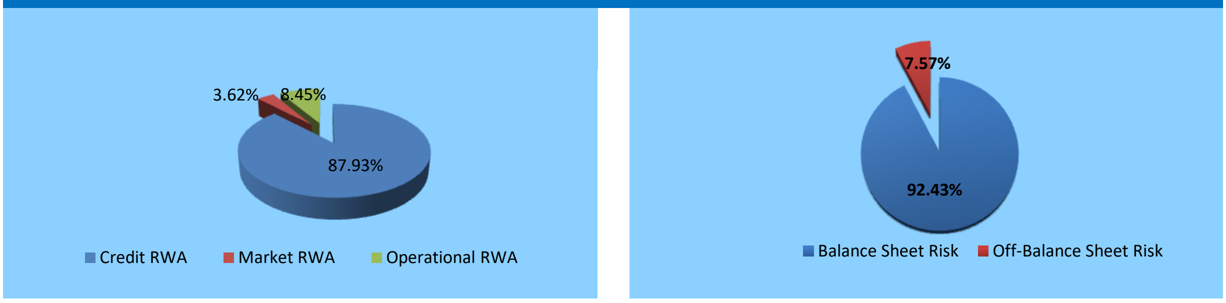
[28]Banks operating under Memorandum of Understanding (MOU) or Directives of Bangladesh Bank (DOBB).
[29]Banks granted license in 2013 onward to operate as scheduled banks in Bangladesh.

3.2 OVERALL RISK STRUCTURE

Under the BASEL III capital framework, banks' risk-weighted assets (RWAs) are primarily linked to credit, market and operational risks[30]. At end-December 2024, Credit Risk-Weighted Assets (CRWA) of the banking industry stood at BDT 14,478.73 billion, reflecting a 15.24 percent increase compared to those of end-December 2023. Operational Risk-Weighted Assets (ORWA) reached BDT 1,390.66 billion, marking a 13.94 percent increase from BDT 1,220.57 billion of end-December 2023. Market Risk-Weighted Assets (MRWA) experienced a substantial rise of 35.37 percent and stood at BDT 596.14 billion in 2024, up from 440.37 billion in the previous year. Meanwhile, the Capital to Risk-Weighted Asset Ratio (CRAR) of the banking sector declined sharply from 11.64 percent at end-December 2023 to 3.08 percent at end-December 2024, falling below the minimum regulatory capital requirement of 10.0 percent.

The RWA associated with the credit risk-weighted assets was 87.93 percent, whereas the market and operational risks were 3.62 percent and 8.45 percent respectively at end-December 2024. In the review period, credit risk-weighted assets and operational risk-weighted assets, as a ratio of total RWA, decreased by 0.39 and 0.13 percentage point respectively, whereas market risk-weighted assets as a ratio of total RWA, increased by 0.52 percentage point, compared to those of end-December 2023 (Chart 3.1). It is worth noting that 92.43 percent of the credit risk had emanated from balance sheet, i.e., funded exposures.

CHART 3.1: OVERALL RISK AND CREDIT RISK STRUCTURE



Source: DOS, BB; Calculation: FSD, BB.

3.3 CREDIT RISK STRUCTURE

As of end-December 2024, the top 5 banks held 23.53 percent of overall banking industry risk, while the top 10 banks accounted for 37.78 percent. Specifically, the credit risk of the top 5 banks made up 26.76 percent of the sector's overall credit risk, whereas the top 10 banks collectively represented 42.96 percent (Table 3.3). Though the concentration of credit risk within top 5 banks decreased by 0.67 percentage point, for top 10 banks the ratio increased by 0.46 percentage point, compared to that of end-December 2023.

TABLE 3.3: CREDIT RISK IN THE BANKNG INDUSTRY UNDER BASEL III (END-DECEMBER 2024)

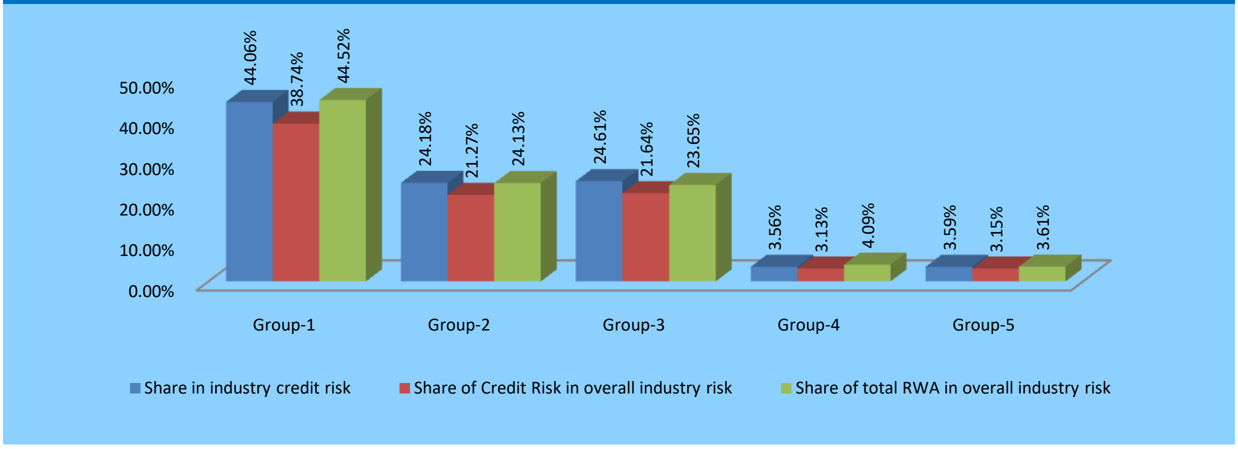
Year	Banks	Share in industry credit risk	Share in industry overall risk
2024	Top 5	26.76%	23.53%
	Top 10	42.96%	37.78%
	All Banks	100.00%	87.93%
2023	Top 5	27.43%	24.22%
	Top 10	42.50%	37.53%
	All Banks	100.00%	88.32%

Source: DOS, BB; Calculation: FSD, BB.

[30]**Credit risk** refers to the probability of loss (due to non-recovery) emanating from the credit extended, due to the non-fulfillment of contractual obligations arising from unwillingness or inability of the counterparty or for any other reason.
Market risk refers to the risk of loss in on-and off-balance sheet positions arising from movements in market prices.
Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Group 1 (21 banks), possessing 43.72 percent of total assets, contained about half of the industry credit risk (44.06 percent) and 38.74 percent of overall industry risk. However, Group 2 (11 banks) held 25.29 percent of the total assets but contained about one-fourth of the industry credit risk (24.18 percent) and 21.27 percent of the overall industry risk. Group 3 (9 banks), comprising of full-fledged Islamic banks, held 22.10 percent of the total assets, contained 24.61 percent of the industry credit risk and 21.64 percent of the overall industry risk (Table 3.1). Foreign commercial banks (Group 4) and fourth-generation private commercial banks (Group 5) shared 3.56 percent and 3.59 percent of the industry's credit risk respectively, while their share in overall industry risk was 3.13 percent and 3.15 percent (Chart 3.2).

CHART 3.2: CATEGORY-WISE DISSECTION OF CREDIT RISK IN THE BANKING SYSTEM (END-DECEMBER 2024)



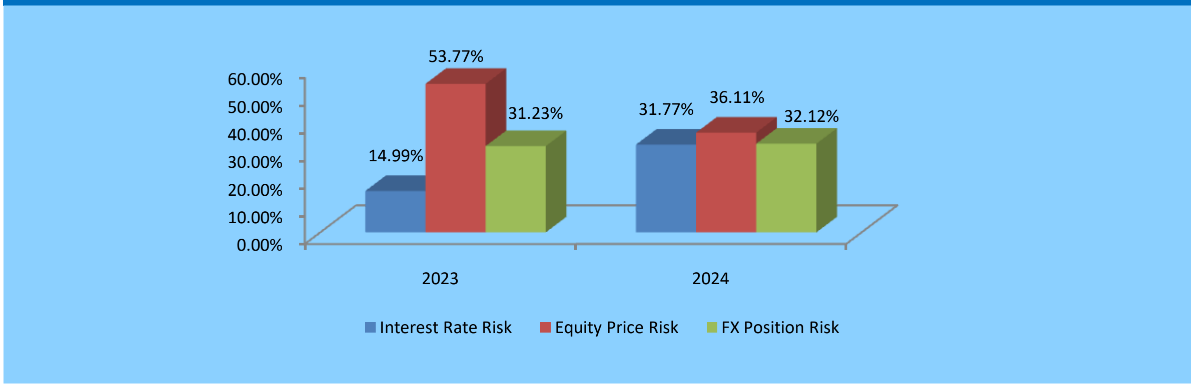
Source: DOS, BB; Calculation: FSD, BB.

3.4 MARKET RISK STRUCTURE

Under the Basel III framework, market risk refers to the potential losses that can occur in both on and off-balance sheet positions due to fluctuations in market prices. This includes risks associated with interest-sensitive instruments and equities in the trading book, as well as foreign exchange and commodity risks across the entire balance sheet (both in the banking and trading books).

Market risk accounted for a small share, i.e., 3.62 percent of the overall industry risk (Chart 3.2). Notably, the risk increased in terms of its share in the total banking sector's risk (3.10 percent in 2023). Moreover, the risk increased in terms of risk-weighted assets' nominal amount (35.37 percent increase in 2024). Within market risk, the share of equity price risk was 36.11 percent, while foreign exchange rate risk and interest rate risk contributed 32.12 percent and 31.77 percent respectively (Chart 3.4). Interest rate risk substantially increased in 2024, while equity price risk decreased compared to that of the preceding year. However, foreign exchange rate risk remains stable.

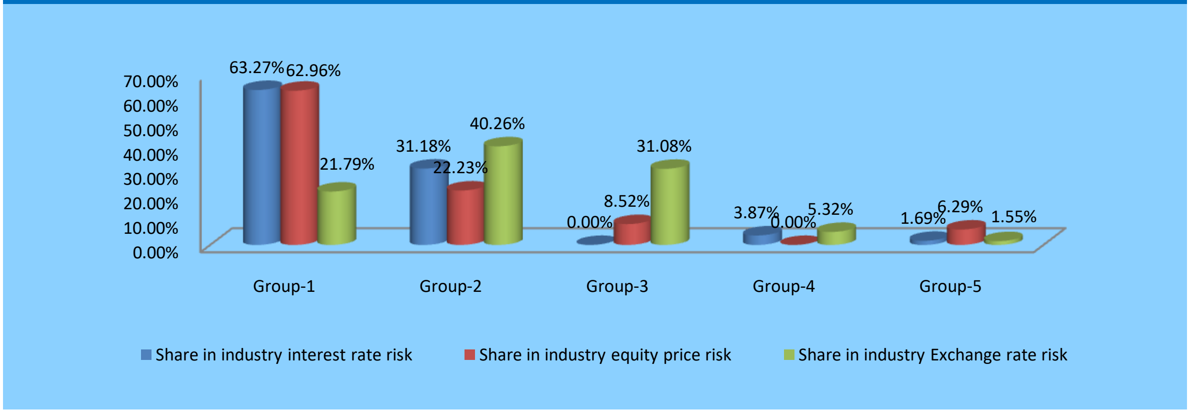
CHART 3.3: MARKET RISK COMPOSITION



Source: DOS, BB; Calculation: FSD, BB.

In terms of category-wise analysis, Groups 1 and 2 were jointly exposed to 94.45 percent of the total interest rate risk in the review period, which was 83.22 percent in 2023. The equity price risk of these two groups stood at 85.19 percent in 2024, compared to 82.30 percent in 2023. Furthermore, the banks under Groups 1 and 2 possessed 62.05 percent of the industry's total foreign exchange rate risks, which was 62.93 percent in the preceding year. In addition, Group 3, consisting of all the Islamic Shari'ah banks, possessed 31.08 percent of the industry exchange rate risks in 2024, indicating an increasing trend (28.08 percent in 2023). The banks under Groups 4 and 5, containing less than 10 percent of total assets, were found to be less exposed to market risk in the banking industry (Chart 3.4).

CHART 3.4: CATEGORY-WISE DISSECTION OF MARKET RISK IN THE BANKING SYSTEM (END-DECEMBER 2024)



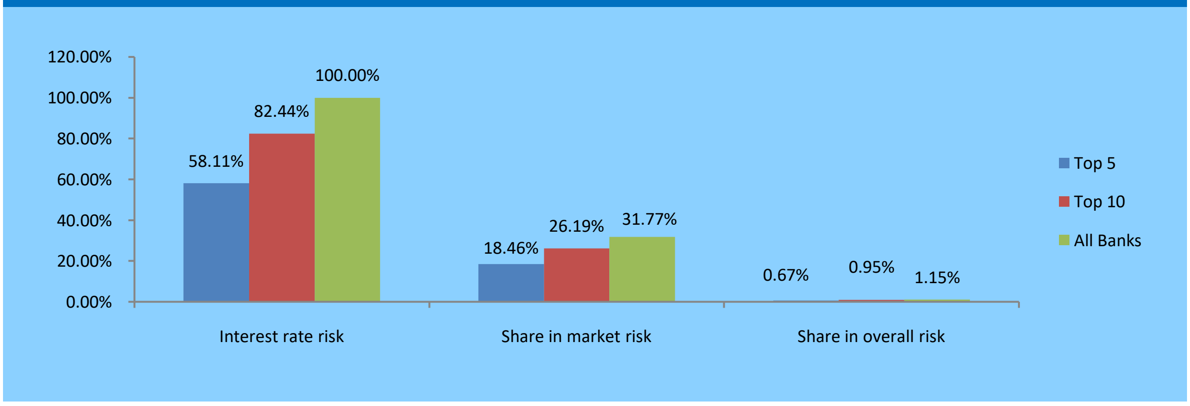
Source: DOS, BB; Calculation: FSD, BB.

3.4.1 Interest Rate Risk (IRR)

In 2024, the contribution of interest rate risk (IRR) in the banking system's total RWA was 1.15 percent, up from 0.46 percent in 2023. The RWA associated with IRR surged by 186.86 percent. Within the market risk, IRR constituted 31.77 percent of the market RWA in 2024, which was 14.99 percent in the previous year. Banking industry’s capital charge for interest rate risk amounted to BDT 6.6 billion in 2023; however, it substantially grew in the review period, reaching to BDT 18.94 billion.

In 2023, the interest rate risk of the top 5 banks accounted for 58.11 percent of the industry’s interest rate risk. When it came to capital charges for interest rate risk (IRR) in the banking system, one SOCB, and four conventional PCB were in the top 5. In the review period, interest rate risk contained 31.77 percent of the market risk of which top 10 banks held 26.19 percent. Interest rate RWA to industry's total RWA for top 5 banks elevated from 0.27 percent to 0.67 percent while the ratio rose from 0.37 percent to 0.95 percent for the top 10 banks compared to that of 2023. The IRR shares for the top 5 banks slightly fell while shares for top 10 banks rose. At the same time, their shares in market risk increased considerably in the review period, compared to the preceding period.

CHART 3.5: INTEREST RATE RISK IN THE BANKING SYSTEM (END-DECEMBER 2024)



Source: DOS, BB; Calculation: FSD, BB.

3.4.2 Equity Price Risk

The RWA assigned to equity price risk[31] constituted 1.31 percent of the total RWA of the banking system and 36.11 percent of the total market risk at end-December 2024. The banks' capital charge for equity price risk stood at BDT 21.53 billion at end-December 2024, compared to BDT 23.68 billion at end-December 2023.

The top 5 banks constituted 32.39 percent of industry equity price risk in 2024. Only one SOCB and four PCBs were ranked in the top 5 in terms of capital charges for equity price risk in the banking system. During the reviewed period, equity price risk contributed the highest portion (36.11 percent) of market risk. In comparison with 2023, the share of equity price RWA in the industry's total RWA decreased for both the top 5 banks (0.52 percent in 2023), and top 10 banks (0.90 percent in 2023) in 2024 (Table 3.4).

TABLE 3.4: EQUITY PRICE RISK IN THE BANKING SYSTEM (END-DECEMBER 2024)

Year	Banks	Equity Price risk	Share in market risk	Share in overall risk
2024	Top 5	32.39%	11.70%	0.42%
	Top 10	56.80%	20.51%	0.74%
	All Banks	100.00%	36.11%	1.31%
2023	Top 5	31.36%	16.86%	0.52%
	Top 10	54.08%	29.08%	0.90%
	All Banks	100.00%	53.77%	1.66%

Source: DOS, BB; Calculation: FSD, BB.

3.4.3 Exchange Rate Risk

The contribution of exchange rate risk[32] associated with RWA slightly increased both in market risk and in banking industry’s total RWA. RWA associated with exchange rate risk made up 1.16 percent of total RWA. Similarly, it accounted 32.12 percent of market risk, compared to 31.23 percent in the previous period. Bank’s capital charge reached to BDT 19.15 billion due to exchange rate risk, rising from BDT 13.75 billion previously.

In previous year, the top 5 and top 10 banks were exposed to 41.94 percent and 59.84 percent of the industry's exchange rate risk respectively. Their shares surged to 51.67 percent and 72.31 percent in 2024. It is observed that the share of exchange rate risk of the top 5 and top 10 banks experienced a rise in market risk, reaching 16.59 percent and 23.23 percent respectively. Similarly, shares of exchange rate risk in overall risk for the top 5 and top 10 banks increased compared to the same of 2023 (Table 3.5).

TABLE 3.5: EXCHANGE RATE RISK IN THE BANKING SYSTEM (END-DECEMBER 2024)

Year	Banks	Exchange rate risk	Share in market risk	Share in overall risk
2024	Top 5	51.67%	16.59%	0.60%
	Top 10	72.31%	23.23%	0.84%
	All Banks	100.00%	32.12%	1.16%
2023	Top 5	41.94%	13.10%	0.41%
	Top 10	59.84%	18.69%	0.58%
	All Banks	100.00%	31.23%	0.97%

Source: DOS, BB; Calculation: FSD, BB.

[31]Equity price risk is the potential risk of reduction in profitability or capital caused by adverse movements in the values of equity securities owned by the banks, whether traded or non-traded, or taken as collateral securities for credits extended by the bank. Equity risk, at its most basic and fundamental level, is the financial risk involved in holding equities in a particular investment.

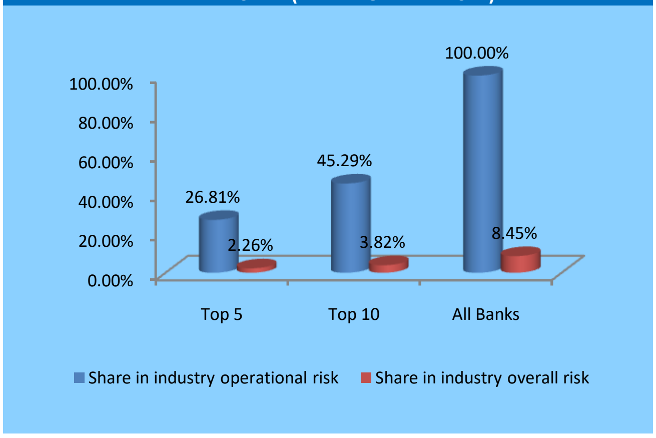
[32]Exchange rate risk refers to the variability of a firm's earnings or economic value due to changes in the exchange rate.

3.5 OPERATIONAL RISK

During the review period, the RWA associated with operational risk expanded compared to the previous period. The RWA related to operational risk accounted for 8.45 percent of the total RWA of the banking sector. A significant elevation in the required capital charge for operational risk was observed. The required capital charge for operational risk as of end-December 2024 amounted to BDT 139.07 billion, which was 13.93 percent higher than that of the preceding year.

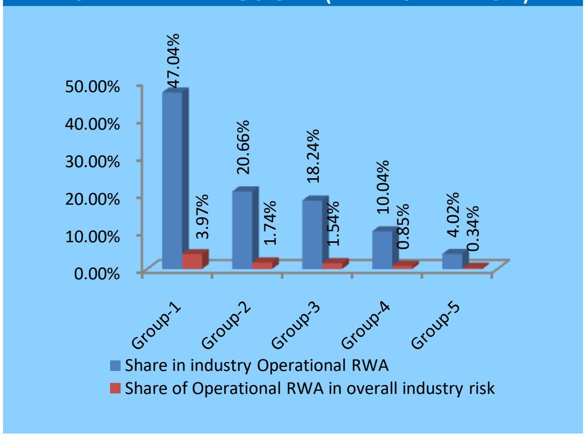
In 2024, the top 5 and top 10 banks were exposed to 26.81 and 45.29 percent, respectively, of the industry's operational risk, indicating a slight increase compared to the preceding year. Category-wise operational risk analysis revealed that the banks in Groups 1 and 2 were jointly exposed to 67.70 percent of the industry's operational risk (Chart 3.6). The share of operational risk in the overall industry risk marginally declined compared to 2023.

CHART 3.6: OPERATIONAL RISK IN THE BANKING INDUSTRY IN LINE WITH BASEL III(END-DECEMBER 2024)



Source: DOS, BB; Calculation: FSD, BB.

CHART 3.7: CATEGORY-WISE DISSECTION OF OPERATIONAL RISK IN THE BANKING SYSTEM(END-DECEMBER 2024)



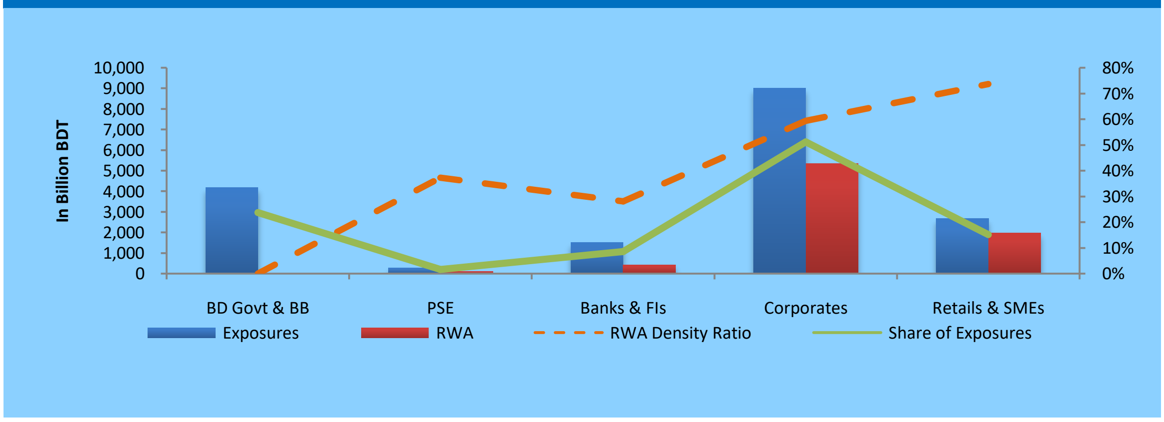
Source: DOS, BB; Calculation: FSD, BB.

3.6 SECTORAL EXPOSURES AND RISK

Banks' exposure to the corporate sector contracted to 51.08 percent at the end of December 2024, down from 54.82 percent. Government Securities and Balance with Bangladesh Bank accounted for 23.66 percent of the total exposures, while 15.10 percent was allocated to the Retail and SMEs sector (Chart 3.8).

Similar to the previous year, the Retail and SME sector exhibited the highest Risk-Weighted Asset (RWA) density ratio at 73.65 percent among all credit exposure sectors (Chart 3.8). According to the Basel Accords, higher risk weights are assigned to Retail and SME businesses because the loans in these categories are often extended for trading activities.

CHART 3.8: SECTORAL EXPOSURES OF BANKS AND RISKS (END-DECEMBER 2024)



Source: DOS, BB; Calculation: FSD, BB.

3.7 CREDIT RISK MITIGANTS

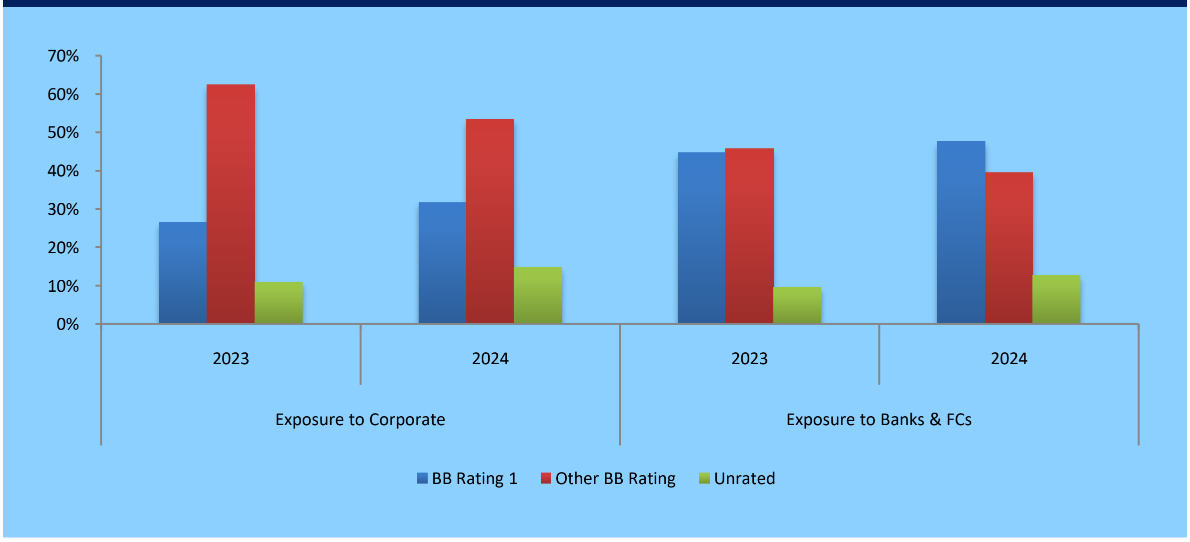
During the review period, the rated exposures to the corporate sector, as well as to banks and finance companies (FCs), showed a similar declining trend compared to the previous period. However, for the highest-rated exposures (BB Rating 1), growth has been observed in both the corporate sector and the banks and FCs sector (see Chart 3.9).

In Bangladesh, External Credit Assessment Institutions (ECAIs) evaluate banks' exposures to Non-Financial Corporations (NFCs) and other banks and FCs. This evaluation helps banks calculate the Risk-Weighted Assets (RWA) and minimum capital requirements needed to address credit risks in line with Basel principles. To minimize credit risks effectively, banks are encouraged to have more exposures rated by ECAIs, as unrated exposures are assigned higher risk weights. The better the ratings of these exposures, the less likely the banks are to face default risk or counterparty risk.

In 2024, the total exposure to the corporate sector decreased. However, total exposure to banks and FCs grew compared to that of 2023. At the end of December 2024, the total exposure to the corporate sector was BDT 9010.51 billion, recording a decrease of BDT 989.49 billion from that of the previous year. As shown in Chart 3.9, the overall rated exposure of the banking system to the corporate sector declined compared to that of 2023. The best-rated exposure in December 2024 was 31.74 percent, with a total rated exposure of 85.19 percent. In December 2024, BB Rating 1 for both the corporate sector and the banks and FCs sector rose by 5.18 percentage points and 2.99 percentage points, respectively. On the other hand, the other BB rating for both the corporate sector and the banks and FCs sector experienced a significant decline. The other BB rating for the corporate sector, and banks and FCs decreased by 9.0 percentage points and 6.18 percentage points respectively in 2024.

During the review period, total credit exposure to banks and FCs stood at BDT 1506.53 billion, which was BDT 87.83 billion higher than that of the previous year. As of December 2024, the overall rated exposure to banks and FCs substantially exceeded the total unrated exposure. In 2024, 47.65 percent of matured credit exposures to banks and FCs were acknowledged as BB Rating 1, representing 2.99 percentage points expansion from the position in 2023. However, the other BB-rated exposures to banks and FCs shrank by 6.18 percentage points in 2024 compared to 2023. The unrated exposure for both corporate, and Banks and FCs increased compared to the previous period. Unrated exposure for corporate sector experienced a surge of 3.79 percentage points and reached 14.81 percent in the recent period while the same for Banks and FCs saw an increase of 3.19 percentage points, reaching 12.82 percent in 2024.

CHART 3.9: BANKS' EXPOSURES TO CORPORATE AND BANKS & FCs



Source: DOS, BB; Calculation: FSD, BB.

CHAPTER 4 : FINANCE COMPANIES' PERFORMANCE

Finance companies (FCs) have notable impact on the economy since they play a crucial role in transferring funds to drive the manufacturing sector, employment generation, and economic growth. Financial services like SME financing, syndicated financing, term financing, equity financing, factoring, venture capital, and working capital financing are provided by FCs. Furthermore, FCs provide some distinctive services such as asset-based lending with a limited amount of collateral security requirements, particularly beneficial to new and potential businesses, mostly SMEs. In this way FCs contribute to the country's economy by invigorating business activities.

In Bangladesh, 35 FCs are operating their businesses as of end of December 2024. Of these FCs, 02 are fully state-owned, 01 is subsidiary of a state-owned commercial bank, 19 are privately-owned local companies, and the remaining 13 are joint venture companies with local and foreign sharing. Till the end of the review year, FCs rendered their business operations with a total of 272 branches throughout the country.

Both borrowings and deposits of FCs increased whereas equity eroded in 2024 compared to those of 2023. Indeed, it is alarming for the FC sector as the equity came down to negative. On the other hand, the share of total loans and leases increased during the period. Furthermore, the loans and leases of the FCs are mostly concentrated in the industrial sector. However, the concentration index measured by HHI reveals no moderate or high concentration in the sub-sectors under industrial sector. The escalating trend in the NPL ratio as well as loan loss provision caused a persistent decline in income of the FCs. Consequently, at end-December 2024, ROA recorded a notable decline to -3.56 percent from -1.81 percent at end-December 2023. In addition, the gradual decrease in the CAR may put in threat to the stability of the FC sector. Hence, corrective measures should be taken to improve the asset quality, profitability and capital adequacy of the FC sector.

4.1 PERFORMANCE OF FCs

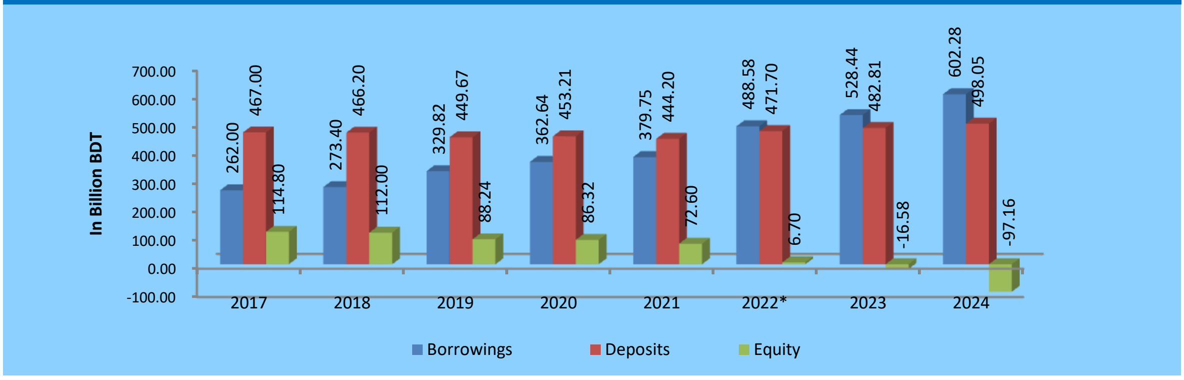
This chapter analyzes the performance of the FCs examining their sources of funds, assets composition, liability-asset ratio, asset quality, and profitability. Moreover, capital adequacy, and liquidity measures are also depicted in the subsequent sections.

4 .1.1 SOURCES OF FUND

FCs can raise funds from several sources that can be categorized broadly into Borrowings[33], Deposits and Equity. The different funding sources of the FCs are illustrated in Chart 4.1. Among the sources, borrowings, deposits, and equity were BDT 602.28 billion, BDT 498.05 billion, and BDT -97.16 billion as of end-December 2024. These values represent 60.04 percent, 49.65 percent and -9.69 percent of total liabilities and equities of the FCs respectively. These shares were 53.13 percent, 48.54 percent, and -1.67 percent of total liabilities and equities of the FCs respectively at end-December 2023. It is to be noted that borrowings and deposits increased by 13.97 percent and 3.16 percent respectively while equity registered a decline of BDT 80.58 billion in the review year compared to those of the previous year.

[33]Borrowings includes Borrowings from other banks & FCs and Other Liabilities.

CHART 4.1: FCs' SOURCES OF FUND

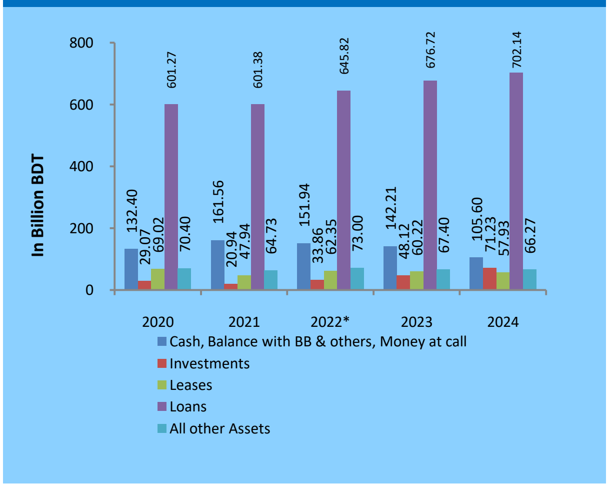


*Revised
Source: DFIM, BB.

4.1.2 ASSETS COMPOSITION

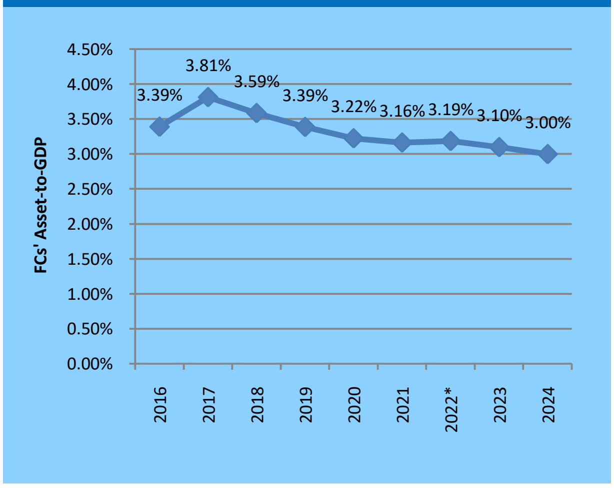
Among the different components of FCs' assets, investments (investment in govt. securities and other investments) and loans increased in 2024 in contrast to those of the preceding year (Chart 4.2). The total assets of the FCs reached BDT 1003.17 billion at end-December 2024 with an increase of 0.86 percent from the previous year. As of end-December of the review year, the share of loans and leases to total assets was 75.77 percent, which was 74.09 percent at end-December 2023. Cash, balance with BB, balance with other banks and FCs, money at call and short notice collectively held 10.53 percent of total assets in the review year, registering a decline of 3.77 percentage points compared to the position at end-December 2023. Similarly, loans, accounted for 69.99 percent of total assets at end-December 2024, was 1.95 percentage points higher compared to the same of end-December 2023. Investments, leases, and all other assets (including fixed and non-financial assets) constituted 7.10 percent, 5.77 percent, and 6.61 percent of total assets in 2024 respectively. Additionally, fixed assets and non-financial assets decreased by 0.22 percent and 0.63 percent respectively in the review year compared to those of 2023. FCs' total assets to GDP[34] ratio decreased slightly to 3.00 percent in 2024 from 3.10 percent in the previous year (Chart 4.3).

CHART 4.2: FCs' ASSET COMPOSITION



*Revised
Source: DFIM, BB; Bangladesh Bureau of Statistics (Cited in Monthly Economic Trends, BB).

CHART 4.3: FCs' TOTAL ASSETS TO GDP RATIO

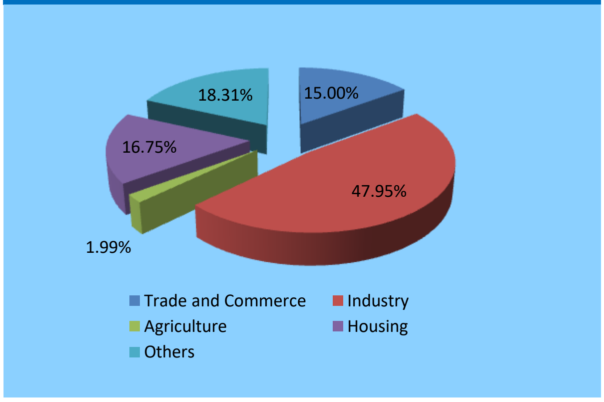


*Revised
Source: DFIM, BB; Bangladesh Bureau of Statistics (Cited in Monthly Economic Trends, BB).

[34] GDP is the Gross Domestic Product of Bangladesh at constant market price (Base: 2015-16) and June based yearly GDP figure is used.

4.1.3 SECTOR-WISE CONCENTRATION OF LOANS AND LEASES

CHART 4.4: CONCENTRATION OF LOANS AND LEASES



Source: DFIM, BB.

The loans and leases of FCs are mostly concentrated in the industry sector followed by housing, and trade and commerce sector. The industry sector grabbed 47.95 percent of total loans and leases at end-December 2024 while housing, and trade and commerce sectors shared 16.75 percent and 15.00 percent respectively (Chart 4.4). The agriculture sector held only 1.99 percent of loans and leases of FCs during the period.

Table 4.1 displays FCs' loans and leases in different sub-sectors pertaining to the Industry sector as of end-December 2024. The aggregate value of the Herfindahl-Hirschman Index (HHI)[35]was 1045 at end-December 2024, demonstrating a low-level of concentration among different sub-sectors of the Industry sector. Amongst the Industry sub-sectors, FCs' loans and leases were concentrated particularly in the two foremost sub-sectors, namely the 'Power, Gas, Petroleum, Water and Sanitary' and the 'Garments and Knitwear', accounting for 19.54 percent and 12.80 percent of total loans and leases in the Industry sector respectively.

TABLE 4.1: FCs' LOANS AND LEASES IN SUB-SECTORS OF INDUSTRY SECTOR AS OF END-DECEMBER 2024

Sl. No	Sub-sector of Industry Sector	Amount in Billion BDT	Share Percentage	HHI*
A)	Garments and Knitwear	47.25	12.80%	169
B)	Textiles	42.29	11.45%	121
C)	Food Production, Processing & Rice Mills	27.85	7.54%	64
D)	Jute and Jute products	2.79	0.76%	1
E)	Plastic & Rubber Industry	8.26	2.24%	4
F)	Leather and Leather goods	3.61	0.98%	1
G)	Iron, Steel and Engineering	36.92	10.00%	100
H)	Pharmaceuticals and Chemicals	20.79	5.63%	36
I)	Cement and Allied Industry	23.72	6.43%	36
J)	Paper, Packaging, Printing, Publishing & Allied Industry	11.06	2.99%	9
K)	Wood, Furniture & Fixture	3.45	0.93%	1
L)	Glass, Glassware & Ceramic Industry	9.28	2.51%	9
M)	Ship Manufacturing & Breaking	5.33	1.44%	1
N)	Electronics & Electrical Products	7.83	2.12%	4
O)	Power, Gas, Petroleum, Water & Sanitary	72.13	19.54%	400
P)	Transport and Aviation	29.00	7.86%	64
Q)	Others	17.64	4.78%	25
	Industry Sector Total	**369.20**	**100.00%**	**1045**

Note: * - Herfindahl-Hirschman Index (HHI).
Source: DFIM, BB.

[35]HHI Score below 1500 ≡ low-level concentration, 1500-2500 ≡ moderate concentration, and above 2500 ≡ high concentration as referred in https://www.investopedia.com/terms/h/hhi.asp; retrieved on 05 May, 2025.

4.1.4 LIABILITY-ASSET RATIO

Since 2018, the liability-asset ratio of the FCs has been experiencing an upward trend reflecting a continued erosion of sector's equity. At end-December 2024, negative equity contributed to the rise of liability-asset ratio to 109.69 percent, which was 101.67 percent in the preceding year (Chart 4.5).

CHART 4.5: LIABILITY-ASSET RATIO OF FC INDUSTRY

*Revised
Source: DFIM, BB.

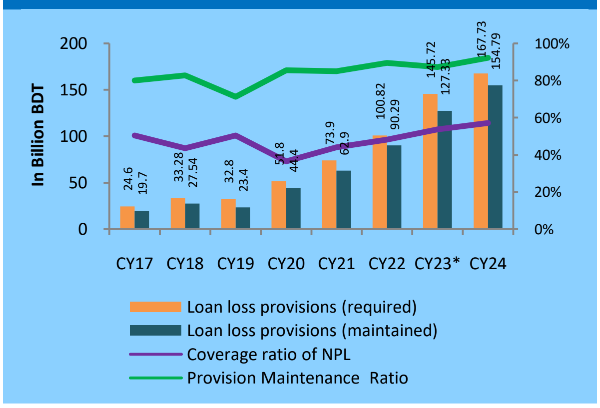
4.1.5 ASSET QUALITY

Total non-performing loans and leases (NPL) of the FCs increased to BDT 260.38 billion at end-December 2024 from BDT 232.09 billion at end-December 2023. The proportion of total non-performing loans and leases to total outstanding loans and leases, i.e., aggregate NPL ratio, increased to 33.83 percent in 2024 from 31.55 percent in the previous year (Chart 4.6). Out of 35 FCs, 20 had their NPL ratio higher than the sector's aggregate NPL ratio, whereas only 05 FCs were able to maintain their NPL ratio below 05 percent. The FC sector recorded a provision shortfall of BDT 12.94 billion in 2024 against the required provisions of BDT 167.73 billion (Chart 4.7). Furthermore, the provision coverage ratio against all non-performing loans and leases rose to 59.45 percent at end-December 2024 from 57.20 percent at end-December 2023. Provision Maintenance Ratio stood at 92.28 percent at end-December 2024, which was 87.38 percent at the end of previous year.

CHART 4.6: NPL RATIO OF FC SECTOR

*Revised
Note: NPL refers to classified loans and leases.
Source: DFIM, BB.

CHART 4.7: FCs' LOAN LOSS PROVISIONING



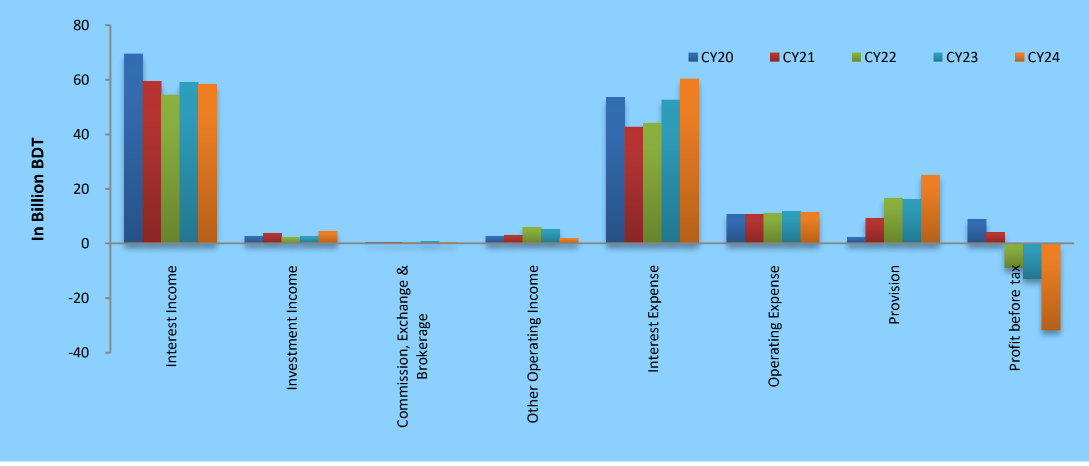
*Revised
Note: NPL refers to classified loans and leases.
Source: DFIM, BB.

4.1.6 PROFITABILITY

Persistently growing NPLs caused considerable negative impact on the overall profitability of the FCs as of end-December 2024, leading to overall negative profit before taxes of the sector. In the review year, the FC sector incurred a net loss of BDT 35.55 billion which was BDT 17.52 billion more than the preceding year (Chart 4.8). Moreover, other operating income decreased by 61.61 percent at the end of the review period compared to that of the previous year.

At end-December 2024, net profit after tax declined further compared to that of end-December 2023, signifying a challenging situation for the sector. Compared to 2023, Return on Assets (ROA) of the FC sector declined and stood at -3.56 percent at end-December 2024, which was -1.81 percent at end-December 2023. The FC sector's net loss after tax was BDT 35.55 billion during the review year, whereas total shareholders' equity was BDT -97.16 billion at end-December 2024.

CHART 4.8: FCs' TREND OF INCOME AND EXPENSE



Source: DFIM, BB.

4.2 CAPITAL ADEQUACY

Capital adequacy ratio (CAR) of the FC sector has been on a declining trend for a number of consecutive years and reached to 1.62 percent at end-December 2023, notably lower than the minimum regulatory requirement of 10 percent, in line with Basel II framework.

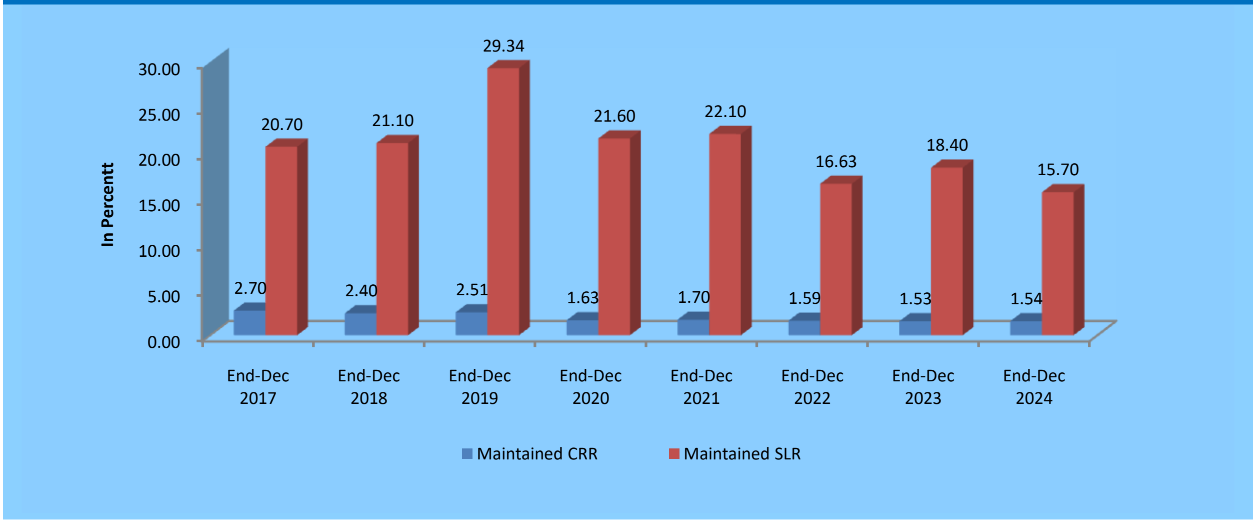
CHART 4.9: FCs' CAPITAL ADEQUACY RATIO (CAR)

*Provisional
Source: DFIM, BB.

4.3 LIQUIDITY

For measuring FC sector's liquidity, the level of CRR and SLR maintained by FCs are considered as the major indications. At end-December 2024, CRR maintained by the FC sector was 1.54 percent and SLR maintained was 15.70 percent. At end-December 2024 SLR declined by 2.70 percentage points compared to that of end-December 2023, while CRR improved by 0.01 percentage point. Nonetheless, both the ratios prevail above the minimum requirements[36] (Chart 4.10).

CHART 4.10: FCS' CRR AND SLR AT END-DECEMBER



Source: DFIM, BB.

[36]The minimum requirements for CRR and SLR are 1.5 percent and 5 percent (2.5 percent for non-deposit taker) respectively as per DFIM circular no. 03/2020.

CHAPTER 5 : BANK AND FC RESILIENCE

Bangladesh Bank (BB) conducts quarterly stress tests on banks and finance companies (FCs) to assess their resilience under different plausible shock scenarios. This hypothetical test is a useful risk management tool for letting the banks and FCs to take preemptive measures with respect to capital maintenance and liquidity management against any probable adverse economic and financial condition. This chapter analyzes the results of stress tests on banks and FCs as well as the banking and FC sectors based on the data as of end-December 2024. Results of the test indicate that both sectors may become more vulnerable due to different shock scenarios.

5.1 BANKING SECTOR RESILIENCE

Stress test on individual banks as well as the banking sector is conducted through sensitivity analysis, considering the impacts of minor shock scenarios for credit risk, market risk, operational risk, and liquidity risk. Under each shock scenario, the after-shock capital to risk-weighted assets ratio (CRAR) is compared with the minimum regulatory requirement of 10 percent along with capital conservation buffer (CCB) of 2.5 percent as per Basel III capital framework.

At end-December 2024, in the pre-shock scenario, the number of non-compliant banks in terms of maintaining the minimum required CRAR of 10 percent was 19, which was only 10 at the end of the previous year. Furthermore, additional 4 banks were not able to maintain the CCB of 2.50 percent with an existing CRAR of 10 percent. Table 5.1 exhibits the distributions of banks in accordance with CRAR of the banks that were retained in the before-shock scenario.

TABLE 5.1 : CAPITAL ADEQUACY SCENARIO OF THE BANKING SECTOR BEFORE ANY SHOCK

CRAR (Solo)	Number of Banks	
	December 2023	**December 2024**
< 10.00%	10	19
≥ 10.00% but < 12.50%	04	04
≥ 12.50% but < 15.00%	15	10
≥ 15.00% but < 20.00%	18	14
≥20.00%	14	14
Total	**61**	**61**

Source: DOS, BB; Compilation: FSD, BB.

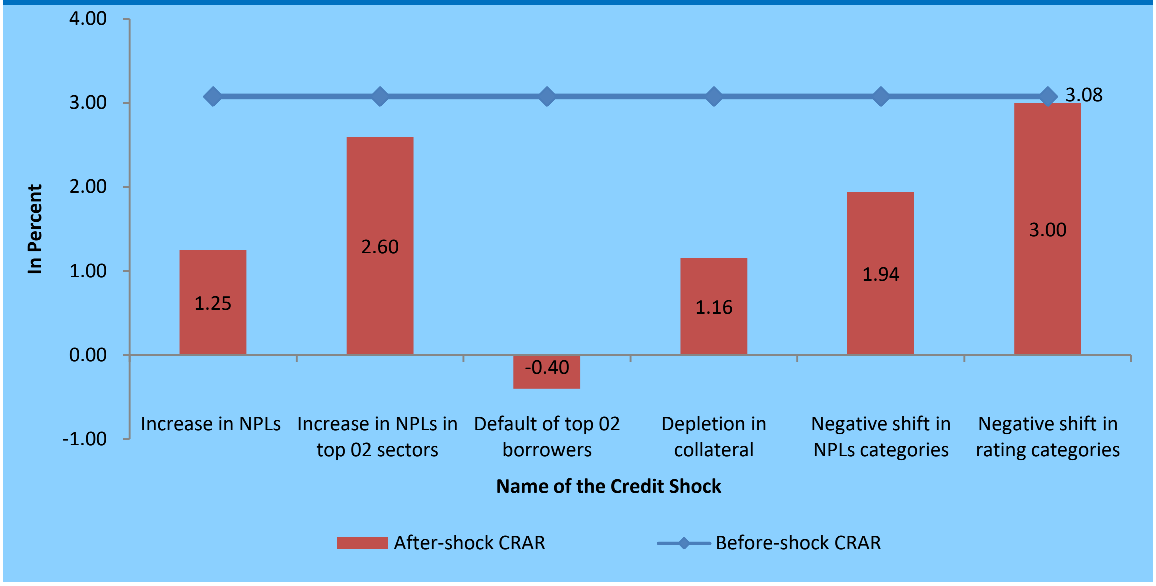
5.1.1 SENSITIVITY TO CREDIT RISK

The sensitivity analysis of the banking sector's credit portfolio reveals that the sector would encounter severe adverse effects in terms of capital adequacy. Among different credit risk-related shocks, the shock namely default of top 02 borrowers is likely to have the highest adverse impact on the banking sectors' resilience. Furthermore, in addition to the existing 19 under-capitalized banks of the before-shock scenario, additional 5 banks would not be able to maintain the minimum required CRAR for the aforementioned shock.

A sensitivity test for different credit risk-related shocks has been conducted to assess their impact on banks' capital adequacy position. Chart 5.1 delineates the before-shock and after-shock CRAR of the banking sector for different credit shock scenarios. At end-December 2024, the before-shock CRAR of the banking sector was only 3.08 percent, which was further deteriorated due to different credit risk-related shocks.

The figure indicates that the shock namely default of the top 02 borrowers is likely to have the highest adverse impact on the banking sectors' resilience in terms of capital adequacy, which is followed by depletion in eligible collateral by 30 percent and increase in non-performing loans (NPLs) by 3 percent.

CHART 5.1: CHANGE IN THE BANKING SECTOR'S CRAR DUE TO DIFFERENT CREDIT SHOCK AT END-DECEMBER 2024

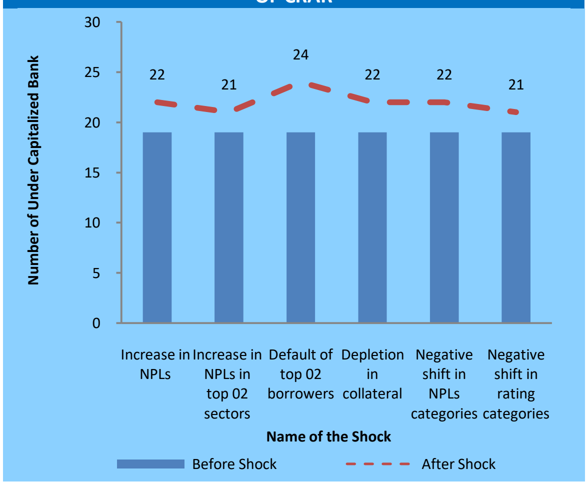


Source: Data from banks; Compilation: FSD, BB.

Chart 5.2 depicts the number of banks, which would fail to maintain the minimum required CRAR due to the likely impact of different credit risk-related shocks. The figure shows that 5 banks, in addition to the existing 19 under-capitalized banks of the before-shock scenario, would become non-compliant in maintaining the minimum required CRAR for default of the top 2 borrowers of each bank. Besides, another 3 banks would become non-compliant for a 3 percent increase in NPLs, 30 percent depletion in eligible collateral, and 10 percent negative shift in NPLs categories.

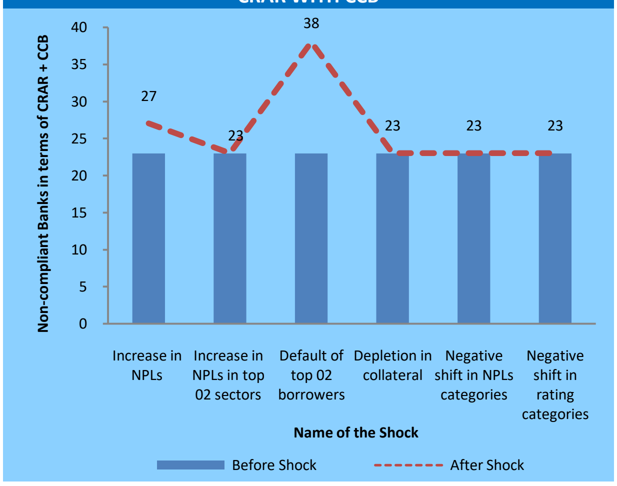
Chart 5.3 shows the number of banks, which would fail to maintain the CCB of 2.50 percent with an existing CRAR of 10 percent due to different shocks of credit risks. In this case, additional 15 banks would not be able to maintain the minimum capital requirement with CCB (12.50 percent) for the shock of default of the top 02 borrowers, followed by an increase in NPLs by 3 percent.

CHART 5.2: NUMBER OF NON-COMPLIANT BANKS IN TERMS OF CRAR



Source: Data from banks; Compilation: FSD, BB.

CHART 5.3: NUMBER OF NON-COMPLIANT BANKS IN TERMS OF CRAR WITH CCB

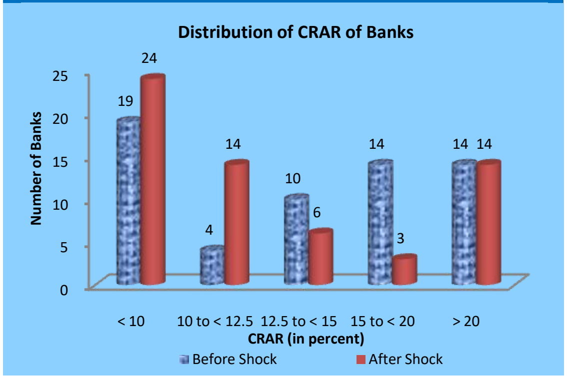


Source: Data from banks; Compilation: FSD, BB.

The details of the credit shocks and the associated results are described in the following subsections:

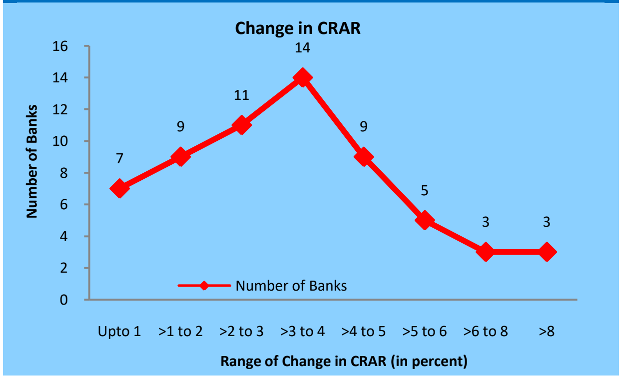
a) Stress test on banks' credit concentration, considering the default of the top 02 borrowers, indicates a significant impact on the capital adequacy ratio of individual bank as well as the banking sector as a whole. The banking sector's CRAR would have declined to -0.40 percent from the pre-shock level of 3.08 percent for the default of the top 02 borrowers at end-December 2024 (Chart 5.1). Under this stress scenario, additional 5 banks would become non-compliant in maintaining the minimum required CRAR (Chart 5.4). Moreover, a significant number of banks would experience a notable decline in the CRAR for this shock. In particular, 20 banks would experience more than 4 percentage points decline in the CRAR for this credit risk-related shock (Chart 5.5).

CHART 5.4: CHANGES IN DISTRIBUTION OF NUMBER OF BANKS FOR INCREASE IN NPLs



Source: Data from banks; Compilation: FSD, BB.

CHART 5.5: CHANGES IN CRAR FOR INCREASE IN NPLs



Source: Data from banks; Compilation: FSD, BB.

b) Stress test results of other credit risk-related shocks namely increase in NPLs, depletion in collateral, and negative shift in the NPLs categories also indicate a notable adverse impact on the capital adequacy ratio of the banking sector (Chart 5.1). For each of the above-mentioned shocks, additional 3 banks would fail to maintain the minimum required CRAR (Chart 5.2).

c) Shocks related to increase in NPLs in the top 02 sectors or negative shift in rating categories would not have any significant adverse impact on the capital adequacy ratio of the banking sector (Chart 5.1). However, additional 2 banks would fail to maintain the minimum required CRAR for each of the above-mentioned credit risk-related shocks (Chart 5.2).

5.1.2 SENSITIVITY TO MARKET RISK

At end-December 2024, stress test results of different market risk-related shocks, namely interest rate, exchange rate, and equity price show insignificant impact on the capital adequacy ratio of the banking sector. Nevertheless, additional 2 banks would become non-compliant in maintaining the minimum CRAR for aforementioned market risk-related shocks (Table 5.2).

TABLE 5.2 : CAPITAL ADEQUACY SCENARIO OF THE BANKING SECTOR DUE TO DIFFERENT MARKET RISK-RELATED SHOCKS

(In Percent)

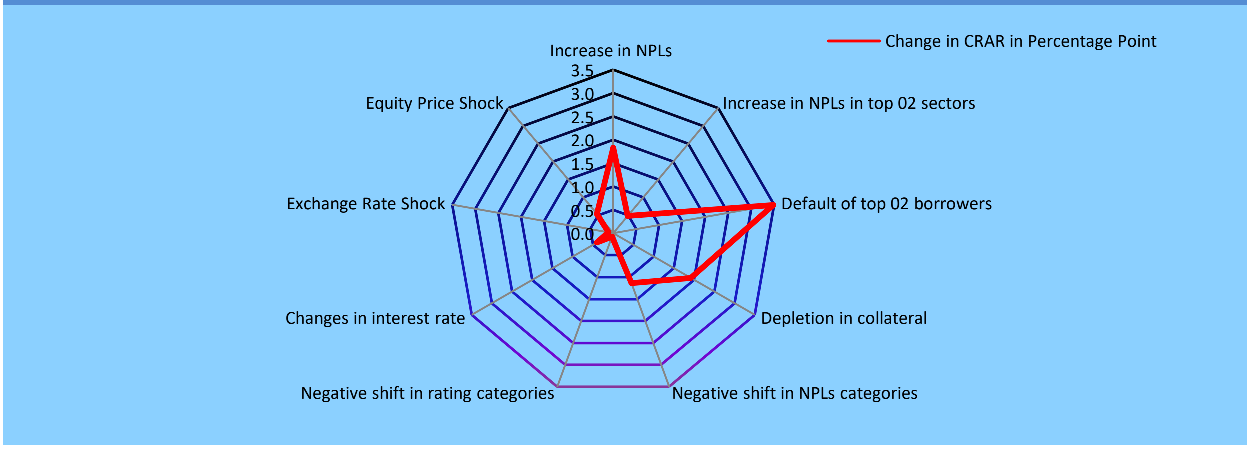
Description	December 2024	
	CRAR	Number of additional banks would fail to maintain the minimum required CRAR due to Shock
Required minimum CRAR	10.00	
Before-shock CRAR	3.08	
After-Shock CRAR		
Change in interest rate by 2%	2.68	02
Change in exchange rate by 20%	2.98	02
Fall in equity prices by 30%	2.53	02

Source: Data from banks; Calculation: FSD, BB.

5.1.3 SUMMARY OF THE BANKING SECTOR RESILIENCE IN TERMS OF CRAR

During the review period, the before-shock CRAR of the banking sector was only 3.08 percent, which is much lower than the minimum regulatory requirement of 10 percent. Stress test results indicate that the capital adequacy ratio of the banking sector further deteriorated due to different credit and market risk-related shocks. The stress test results also indicate that credit risk would pose a major risk for the banking sector in terms of its impact on the CRAR. On top of that, a credit risk-related shock namely default of the top 02 borrowers would likely have highest adverse impact on the banking sector resilience (Chart 5.6).

CHART 5.6: BANKING SECTOR RESILIENCE IN DIFFERENT CREDIT AND MARKET RISK-RELATED SHOCKS



Source: Data from banks; Compilation: FSD, BB.

5.1.4 IMPACT OF COMBINED STRESS TEST

In case of combined shock, i.e., *aggregate of the results of all credit risk and market risk-related shocks by applying different weights on the changes in CRAR due to different shocks*, the banking sector's CRAR would likely decrease to -0.29 percent from the before-stock level of 3.08 percent (Table 5.3).

TABLE 5.3 : STRESS TEST RESULT OF COMBINED SHOCK

(In Percent)

Pre-shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	3.08
Stressed Scenario		**After-Shock CRAR**
Combined Minor Shock		-0.29

Source: Data from banks; Calculation: FSD, BB.

5.1.5 IMPACT OF CLIMATE SHOCK

If 3 percent of the climate-vulnerable loans of all banks were directly downgraded to the bad and loss category, the banking sector would require maintaining additional provisions of BDT 107.24 billion.

5.1.6 LIQUIDITY SHOCK

a) The liquidity stress test examines the ability of a bank as well as the banking sector to withstand a liquidity run caused by excessive withdrawal of demand and time deposits both in local and foreign currency. A bank is considered to be adequately liquid if it can survive for 5 consecutive business days under a stressed condition (2 percent, 3 percent, 4 percent, 5 percent, and 6 percent withdrawal in addition to the bank's normal withdrawal for day 1, day 2, day 3, day 4, and day 5, respectively). At end-December 2024, the banking sector would remain resilient against the stated liquidity stress scenario, but the Islamic and the specialized banking sector would not be able to maintain the required liquidity. Moreover, 19 scheduled banks would not be able to withstand the stated liquidity stress test.

b) In case of complete deposit withdrawal by the top 10 depositors of each bank, the liquid assets to total assets ratio of the banking sector would reduce to 19.15 percent, a 6.41 percentage point decline from the before-shock scenario.

c) If a 5 percent haircut applied to government securities and net cash outflows increased by 5 percent, the liquidity coverage ratio (LCR) of the banking sector would decline to 144.50 percent from 157.52 percent of the before-shock scenario. As a result of this stress test, 4 additional banks would fail to maintain the minimum required LCR (≥100 percent).

5.2 RESILIENCE OF THE FINANCE COMPANIES

The resilience capacity of the finance companies (FCs) in stressed situations further deteriorated at end-December 2024. The stress test results on FCs reveal that 14 out of 35 FCs would remain resilient under stress scenarios.

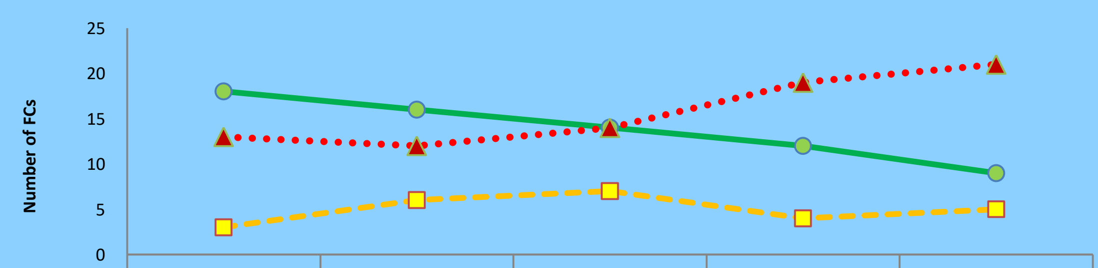
Resilience levels of the FCs to interest rate, credit, and equity price shocks are set with the minimum capital adequacy ratio (CAR). Besides, the resilience level for liquidity shock is measured by the asset-liability maturity mismatches in the different time buckets. Subsequently, the weighted average resilience (WAR) of an FC is calculated based on the weights of 10.0 percent for interest rate, 60.0 percent for credit, 10.0 percent for equity price, and 20.0 percent for liquidity irrespective of three levels of shock scenarios.

At the same time, the insolvency ratio (IR) of an FC is calculated based on the infection ratio[37]. To derive the weighted insolvency ratio (WIR), 50.0 percent, 30.0 percent, and 20.0 percent weights are given on after-shock IR with respect to minor, moderate, and major level shocks respectively.

Both the WAR and WIR of FCs are measured on a scale of 1 to 5 (best to worst) grades, which are then used to determine the three zones of WA R (A, B, or C) and WIR (1, 2, or 3). Finally, the WAR-WIR matrix expresses the overall financial strength and resilience of an FC as Sound, Moderate, or Weak.

At end-December 2024, the stress test results of FCs indicate that 9 out of 35 FCs were in Sound condition and 5 were in Moderate condition (Chart 5.7). Hence, only 14 FCs would perform as resilient. The remaining 21 FCs would perform as Weak institutions during the review period, from stress testing standpoint.

CHART 5.7: STRESS TESTS ON FINANCE COMPANIES



	CY2020	CY2021	CY2022	CY2023	CY2024
Sound	18	16	14	12	9
Moderate	3	6	7	4	5
Weak	13	12	14	19	21

Source: DFIM, BB; Compilation: FSD, BB.

[37] Infection ratio refers to NPLs to loan ratio.

CHAPTER 6 : MONEY AND CAPITAL MARKET

In 2024, financial markets of Bangladesh faced liquidity stress, enforcing Bangladesh Bank to extend liquidity support for keeping the banking system stable. During the year, transactions in the interbank repo and call money markets declined, although interest rates in these markets stayed relatively high. Government borrowing through primary auctions in both the money and bond markets, along with secondary trading of government securities, rose significantly in the review year compared to 2023. Despite this, Bangladesh Bank withdrew BDT 27.34 billion from the banking system by issuing BB bills, while banks deposited BDT 1.36 trillion with the central bank under the Standing Deposit Facility (SDF) in the review period.

The capital market of Bangladesh exhibited a persistent bearish trend throughout the year. The declining in DSEX index, reduced market capitalization and the low P/E ratio indicated broad-based investor pessimism. The rising inflation, increasing external debts, and a volatile foreign exchange market could partly be attributed lowering the investor confidence and thereby resulting downturn in the market. High government borrowing and better yields from alternative investments, among others, were the causes of the sluggishness of the capital market.

6.1 MONEY MARKET

The financial system availed a significant amount of liquidity support from the Bangladesh Bank in the review year. The Government of Bangladesh borrowed heavily through issuing treasury security during 2024. However, the turnover in both inter-bank repo and call money markets decreased in the review year, and the cost of funds from these markets remained considerably high.

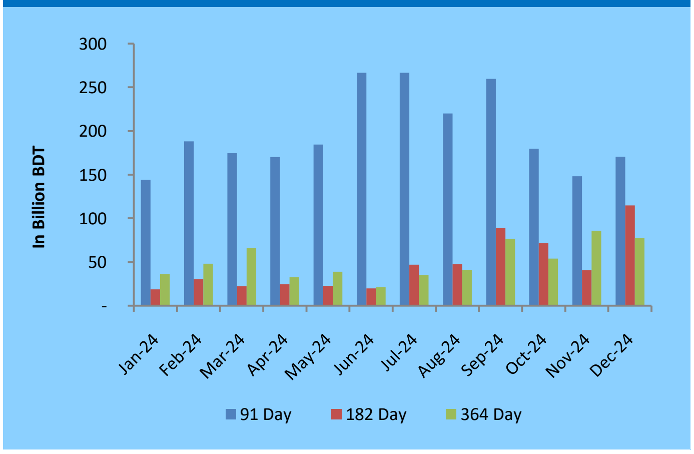
6.1.1 Government Treasury Bills (T-Bills) and Bangladesh Bank (BB) bills

The volume of primary issuance of government treasury bills increased notably in the review year. On the other hand, a few banks deposited an insignificant amount using BB bills in 2024.

The Government issued treasury bills (T-bills) of different maturities worth BDT 3.53 trillion in 2024, which was 22.89 percent higher than that of the previous year.

In 2024, T-bills worth BDT 2,373.11 billion, BDT 548.33 billion, and BDT 613.28 billion were issued with maturities of 91 days, 182 days, and 364 days, respectively, through auction sales (Chart 6.1). Amongst different maturities, 91-day bills, covering 67.14 percent of the total issuance, remained the dominant instrument of treasury bills. The month-wise issuance of T-bills portrayed that the Government borrowing through treasury bills was highest in the month of September and the lowest in the month of January, amounting to BDT 424.99 billion and BDT 199.41 billion respectively.

CHART 6.1: VOLUME OF T-BILLS ISSUANCE IN 2024



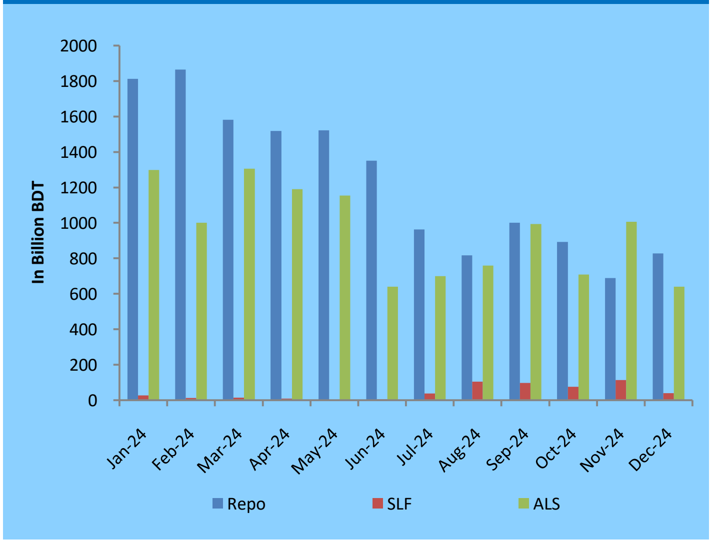
Source: DMD, BB.

To absorb excess liquidity from the system, Bangladesh Bank presently offers bills of 7, 14, 30, 90 and 180 days. However, during the review year, it issued BB bills only worth BDT 27.34 billion consisting of 30 and 90 days bills.

6.1.2 Liquidity Support By Bangladesh Bank

In 2024, Bangladesh Bank provided a total of BDT 28.73 trillion liquidity supports to the banking system, mainly in the form of Repo, Assured Liquidity Support (ALS), Islamic Bank Liquidity Facility (IBLF), and Special Liquidity Support (SLS).

CHART 6.2: MONTHLY TURNOVER OF REPO, SLF AND ALS IN 2024

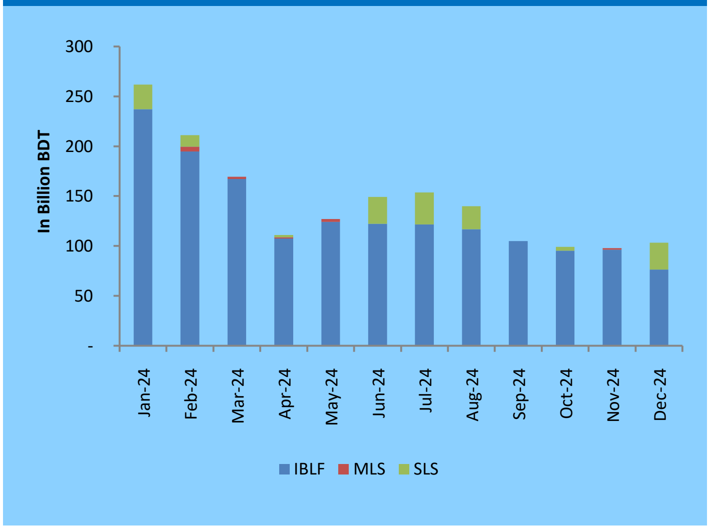


Source: DMD, BB.

In 2024, the conventional banks and finance companies took liquidity support of BDT 26.77 trillion from BB, 39.26 percent higher than that of the previous year. Out of the total amount, 55.43 percent and 42.57 percent was availed through Repo and Assured Liquidity Support (ALS) respectively. Use of special repo was only 2.00 percent. The month-wise turnover demonstrates that BB's liquidity support was the highest in January 2024 amounting to BDT 3.14 trillion and the lowest in December amounting to BDT 1.51 trillion (Chart 6.2). Overall, liquidity support through Repo, ALS and Standing Lending Facility (SLF)[38] was higher during the initial months of the review year, which eventually declined during the end of the year. However, banks deposited BDT 1.36 trillion to BB in the form of Standing Deposit Facility (SDF)[39] in the review year.

Islamic Banks availed a total of BDT 1.73 trillion liquidity supports from BB during 2024 in the form of Islamic Bank Liquidity Facility (IBLF), Mudarabah Liquidity Support (MLS) and Special Liquidity Support (SLS). Amongst these three instruments, 90.47 percent of the total liquidity support was given in the form of IBLF to this cluster of banks, while only 8.77 percent was provided as SLS. The use of MLS was negligible in the review year. The month-wise turnover demonstrates that BB's liquidity support to Islamic Banks was the highest in January amounting to BDT 261.92 billion and the lowest in November with an amount of BDT 97.74 billion (Chart 6.3).

CHART 6.3: MONTHLY TURNOVER OF IBLF, MLS AND SLS IN 2024



Source: DMD, BB.

Amongst the total liquidity support to the banking system through regular instruments, 93.94 percent was availed by conventional banks and 6.06 percent was availed by Islamic Banks. Six (06) banks had availed Emergency Liquidity Assistance (ELA) from BB in 2024 amounting to BDT 225 billion during the year.

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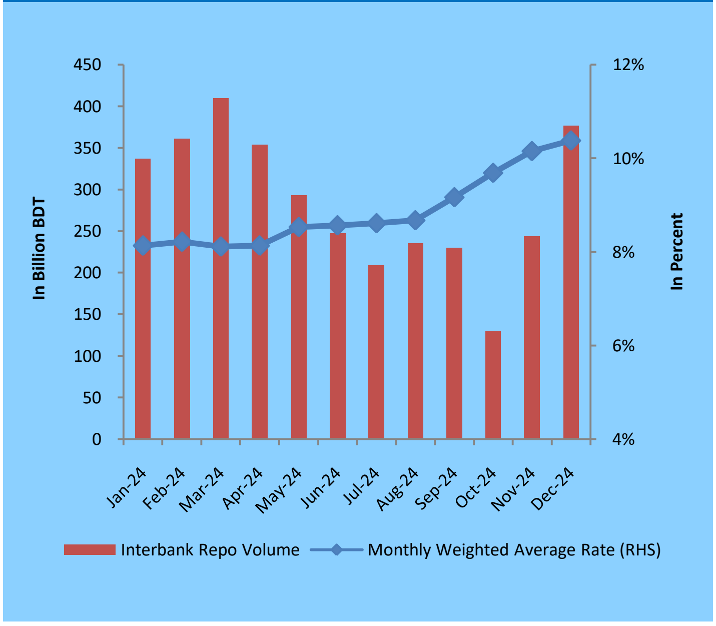
[38] Before 1 July, 2023 SLF was termed as special repo.

[39] Before 1 July, 2023 SDF was termed as reverse repo.

6.1.3 INTERBANK REPO

CHART 6.4: INTERBANK REPO TURNOVER AND INTERBANK REPO RATE IN 2024



Source: DMD, BB.

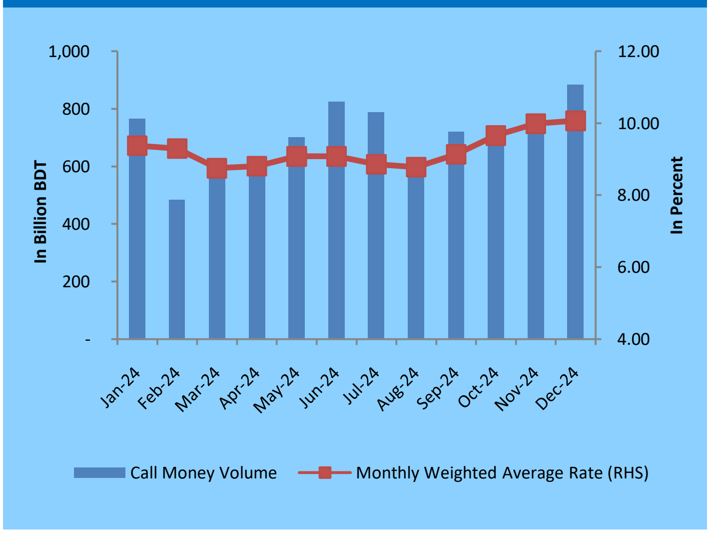
Interbank repo transactions declined significantly in the review year although the repo rates remained considerably high.

The total interbank repo turnover in 2024 was BDT 3.43 trillion, registering a decline of 57.54 percent compared to the preceding year. In the review year, the month-wise turnover of interbank repo exhibited a downward trend with some fluctuations, except December 2024 (Chart 6.4). However, the monthly weighted average interbank repo rate experienced an upward trend especially in the second half of 2024 and elevated to 10.38 percent in December 2024. The higher interbank repo rate throughout 2024 could be attributed to tighter monetary policy stance by the BB.

6.1.4 INTERBANK CALL MONEY MARKET

The interbank call money[40] turnover declined in the review year compared to 2023, while the call money rate remained elevated throughout the year.

CHART 6.5: CALL MONEY BORROWING VOLUME AND MONTHLY WEIGHTED AVERAGE CALL MONEY RATE IN 2024



Source: DMD, BB.

The aggregate volume of call money was BDT 8.45 trillion in the review year, registering a decline of 38.54 percent compared to that of the previous year. However, the weighted average call money rate increased to 10.07 percent in December 2024, which was 8.84 percent in December 2023. Chart 6.5 demonstrates the monthly turnover of call money and corresponding weighted average interest rates during 2024. The monthly volume of call money demonstrated an overall upward trend throughout 2024. The highest volume of call money transactions was recorded in December 2024 amounting to BDT 884.54 billion and the lowest volume was in February 2024 with an amount of BDT 483.72 billion. The elevated monthly weighted average call money rate aligned with the BB's tighter monetary policy stance, which aimed to curb money supply in the economy in order to restrain inflation.

[40]Interbank call money only includes exposures of scheduled banks and FCs with each other. It excludes assets or liabilities with non-scheduled financial institutions from this discussion.

6.2 BOND MARKET

The bond market of Bangladesh, primarily dominated by government bonds and mostly based on primary auctions, was more active in 2024. The issuance of T-bonds with different maturities increased in the review year, though there was no instance of mandatory devolvement. Moreover, the secondary market of government securities was more vibrant in the review year as the volume of secondary trades recorded a notable increase.

The Government borrowing through the issuance of long-term Treasury bonds of different maturities increased by 40.67 percent in the review year than that of the previous year. In 2024, the aggregate auction sale of T-bonds was BDT 1.19 trillion (Table 6.1). Amongst different maturities, the bonds with 2 years maturity was the highest with 29.37 percent of total issuance while the 5 year bond came next with 26.30 percent share in the review year. The Government's stance in issuing low-tenured bonds signifies that the investors would remain less sensitive to future changes in the interest rate of the bond market.

TABLE 6.1: VOLUME OF T-BONDS AUCTION SALES IN 2024

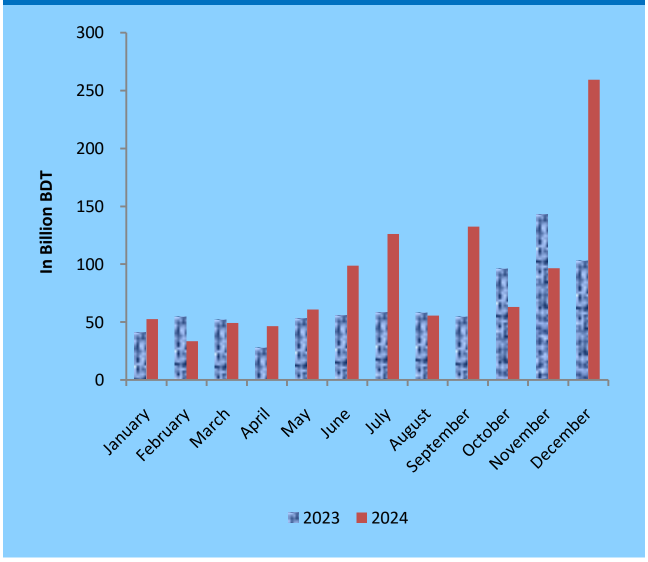
Tenure	Volume (In Billion BDT)	Share of Total Auction Sales (In Percent)
2 Y T-Bonds	350.89	29.37
3 Y T-Bonds	12.30	1.03
5 Y T-Bonds	314.16	26.30
10 Y T-Bonds	264.75	22.16
15 Y T-Bonds	107.44	8.99
20 Y T-Bonds	145.03	12.14
Total	**1,194.57**	100.00

Source: DMD, BB.

The secondary market for treasury securities was more vibrant in the review year compared to the previous year. In 2024, a total of BDT 1.07 trillion of government securities was traded in the secondary market, 34.63 percent higher than that of the previous year. The month-wise turnover of secondary trade in 2024 demonstrates that trade volume accelerated in the latter half of the year and peaked in December (Chart 6.6).

In 2024, 99.86 percent of the secondary trading was made using the BB system (Over-the-Counter and Trader Work Station mechanism) whereas the remaining 0.14 percent was traded using the stock exchange platform[41].

CHART 6.6: MONTHLY VOLUME OF SECONDARY TRADE 2024



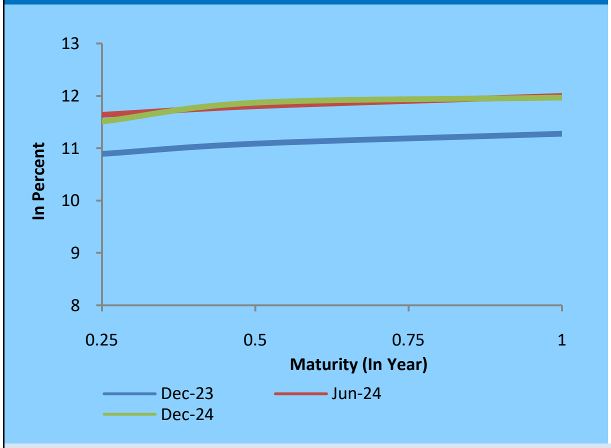
Source: DMD, BB.

[41]Trading of government securities in Stock Exchange platform has been included in 2023.

Box 6.1: Yield Curve

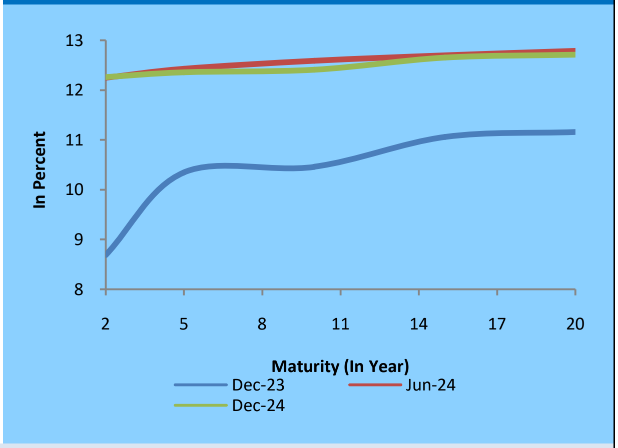
The Treasury auction yields in December 2024 were considerably higher for all maturities compared to those of December 2023. Consequently, the treasury auction yield curve shifted up notably and remained elevated in December 2024 for both the short-term treasury bills and long-term treasury bonds. The increasing cost of government borrowing is reflected in this upward shift in the yield curves.

Chart B6.1.1: Treasury Bill Yield Curve



Source: Major Economic Indicators, January 2025 Issue, BB.

Chart B6.1.2: Treasury Bond Yield Curve



Source: Major Economic Indicators, January 2025 Issue, BB.

The elevated short and long term rates indicate that there is apprehension that the inflationary pressure may persist. The expectations are that the monetary tightening would continue alongside high policy rate. The high long term rates indicate that the government has to improve its fiscal capacity to service higher future debt obligations.

6.3 CAPITAL MARKET

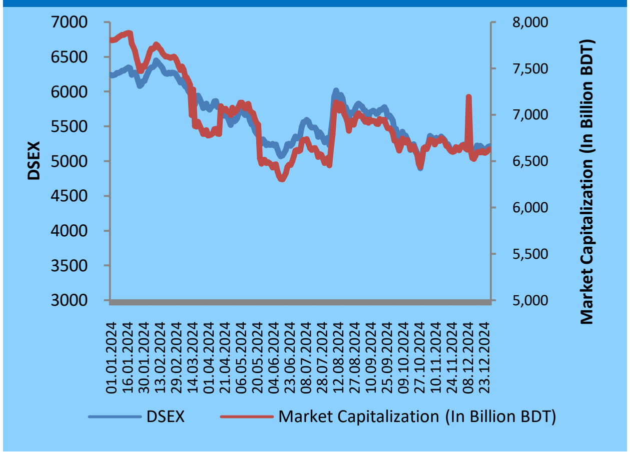
The capital market of Bangladesh experienced significant challenges during 2024, characterized by declining DSEX index, reduced market capitalization, low P/E ratio, and lower investor confidence, which contributed to a bearish market sentiment. The DSE Broad Index (DSEX) and the DSE's market capitalization decreased by 16.49 percent and 15.14 percent, respectively compared to the preceding year. In addition, the market P/E ratio decreased to 9.5 from 13.12 in 2023. Although the daily average turnover increased by 9.32 percent, the amount remained relatively low. However, the dividend yield elevated to 4.05 percent in 2024 from 3.46 percent in the previous year.

6.3.1 Major Index and Market Capitalization

The capital market of Bangladesh experienced bearish trend in the review year characterized by a downward capital market index with declining market capitalization. The benchmark index of DSE, DSEX, exhibited an overall downward trend during 2024. The index closed at 5,216.44 points on 30 December 2024, over thousand points down than that of at end-December 2023. The rising inflation, increasing external debts, and a volatile foreign exchange market could partly be attributed to lowering the investor confidence and thereby resulting downturn in the market. The market capitalization also exhibited an overall downward trend with some fluctuations throughout the year. At the beginning of 2024, the market capitalization was BDT 7,808.23 billion, that increased to BDT 7,884.49 billion on 17 January 2024, and reached its lowest at BDT 6,303.49 billion on 12 June 2024, while the year ended with market capitalization of BDT 6,626.20 billion (Chart 6.7).

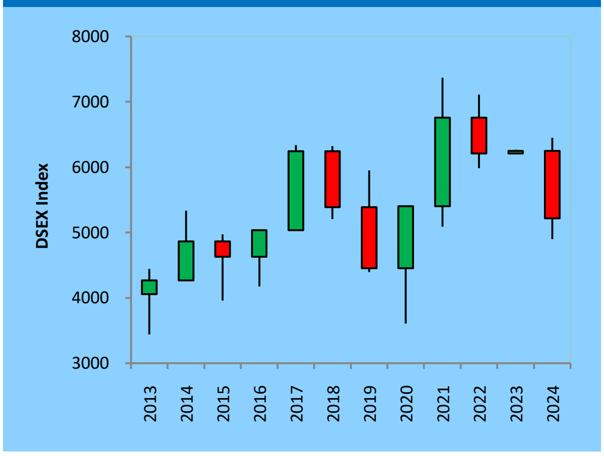
The different patterns of the opening, highest, lowest, and closing indices shown in Chart 6.8 illustrate the attitudes and actions of the investors. The long upper wick suggests early-year optimism or resistance, while the significant drop shows strong bearish sentiment in 2024. The large red candle body (open > close) confirms that sellers dominated the year, closing the market with a 16.49 percent annual fall. The difference between the highest and lowest index of DSEX was 1548.54 in the review year, which was significantly higher compared to the previous year (34.91 in 2023).

CHART 6.7: DSEX INDEX AND MARKET CAPITALIZATION IN 2024



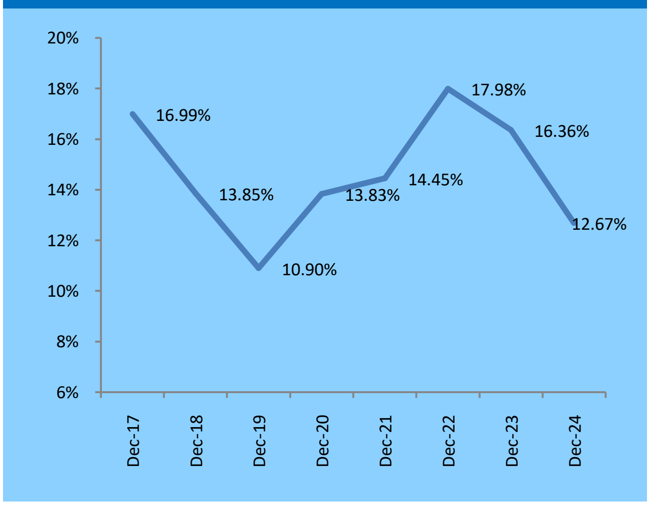
Source: DSE.

CHART 6.8: DSEX (2013 TO 2024)



Source: DSE.

CHART 6.9: MARKET CAPITALIZATION-TO-GDP RATIO



Source: BBS QGDP and DSE Monthly Review, December 2024.

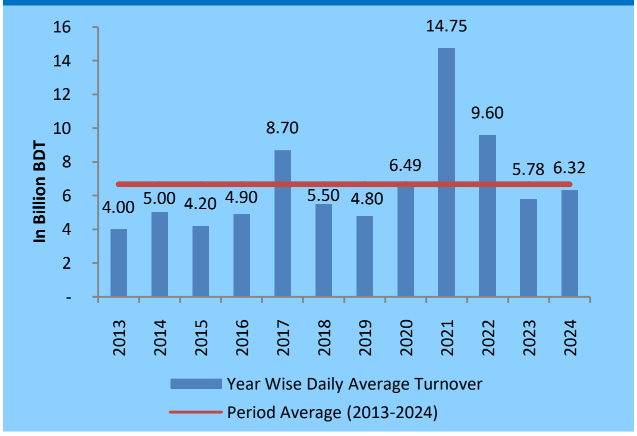
The ratio of total market capitalization to GDP[42] is a crucial measure for indicating the size of the capital market relative to the country's economy. A higher ratio suggests a more developed and active equity market, often linked to better capital allocation and corporate financing. Chart 6.9 shows the market capitalization to GDP ratio of DSE till December 2024. The chart indicates that the market capitalization to GDP ratio dropped to 12.67 percent in December 2024 from 16.36 percent in December 2023. A declining ratio could be attributed to market underperformance, weak investor confidence, or slack macroeconomic situations.

6.3.2 Daily Average Turnover

Daily average turnover is one of the key components used to measure capital market liquidity. Year-wise daily average turnover, as depicted in Chart 6.10, was the highest in 2021, and then exhibited notable decline in 2022 and 2023, while it increased moderately in the review year. In 2024, the daily average turnover of the DSE stood at BDT 6.32 billion, 9.32 percent higher than the previous year. However, the daily average turnover of 2024 remained relatively low compared to the period average turnover (2013 to 2024). Chart 6.11 shows the month-wise liquidity situation of the DSE during 2024. It shows that the daily average turnover fluctuated throughout the year and remained volatile in terms of liquidity. In 2024, the turnover peaked in February and reached the lowest in December.

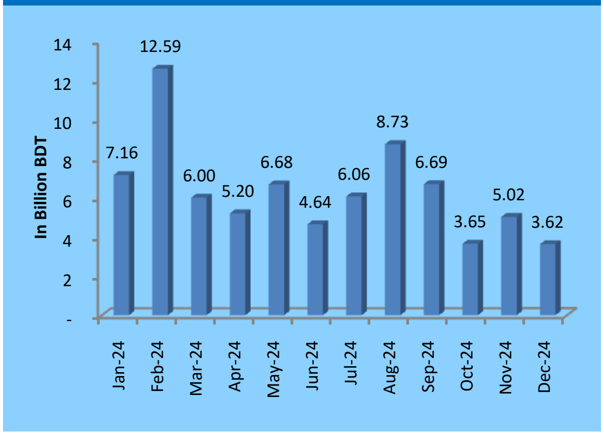
[42] Market capitalization to GDP ratios were calculated considering quarterly nominal GDP published by BBS.

CHART 6.10: YEAR-WISE DAILY AVERAGE TURNOVER



Source: DSE.

CHART 6.11: MONTH-WISE DAILY AVERAGE TURNOVER IN 2024

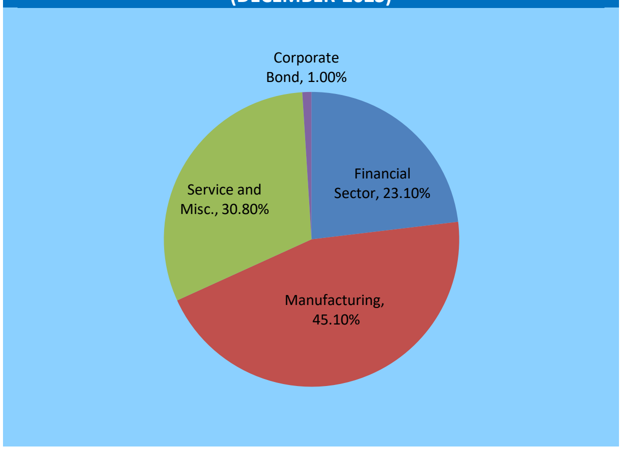


Source: DSE.

6.3.3 Market Capitalization Decomposition

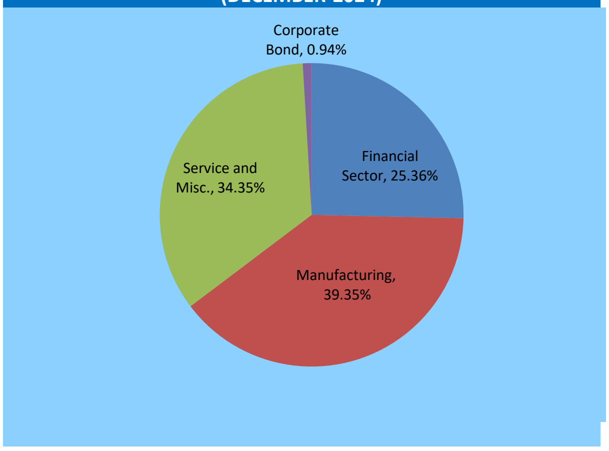
In terms of market capitalization, the manufacturing sector continued to lead the Bangladesh's capital market, followed by the service and miscellaneous sector. The sectoral shares of market capitalization in 2023 and 2024 are shown in Charts 6.12 and 6.13, respectively.

CHART 6.12: DECOMPOSITION OF MARKET CAPITALIZATION (DECEMBER-2023)



Source: DSE.

CHART 6.13: DECOMPOSITION OF MARKET CAPITALIZATION (DECEMBER-2024)



Source: DSE.

Although the manufacturing sector dominated the market capitalization of DSE, its share decreased by 5.75 percentage points in 2024 compared to 2023. The dominance of the manufacturing sector was mainly supported by sub-sectors like pharmaceuticals and chemicals, food and allied products, and engineering with 15.49 percent, 8.69 percent and 7.79 percent of total market capitalization, respectively.

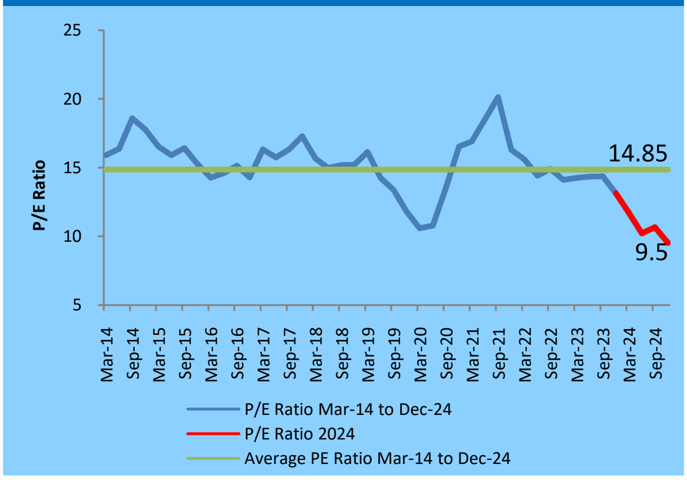
The share of service and miscellaneous sector in market capitalization increased by 3.55 percentage points in 2024 compared to that of 2023. The sub-sectors that made the most contributions to this sector are telecommunication, fuel and power, and miscellaneous with 16.81 percent, 8.12 percent and 6.38 percent of total market capitalization, respectively.

In addition, the share of financial sector in market capitalization increased by 2.26 percentage points in 2024 compared to 2023. This sector was dominated mainly by the banking sub-sector, which contributed 18.70 percent of total market capitalization. However, corporate bond's share in total market capitalization in the DSE was negligible and it declined from 1.00 percent in 2023 to 0.94 percent in 2024.

6.3.4 Price-Earnings (P/E) Ratio

The weighted average price-earnings (P/E[43]) ratio of DSE continued to decline in last three consecutive years. At end-December 2024, the market P/E ratio of DSE declined by 3.62 percentage points compared to end-December 2023 and stood at 9.50, which was the lowest in last 10 years. Chart 6.14 shows the trend of quarterly average P/E ratio of the DSE since March 2014. The market P/E ratio showed a growing tendency from March 2020 to September 2021, thereafter, it demonstrated mostly a declining trend till end-December 2024.

CHART 6.14: MARKET PRICE-EARNINGS RATIO

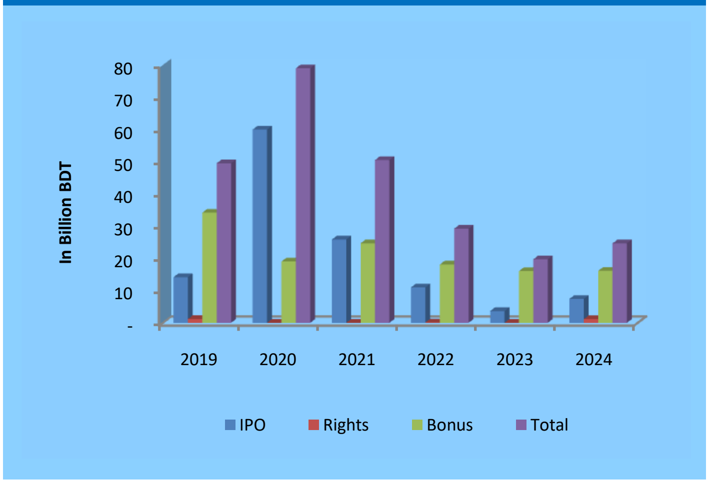


Source: DSE.

A low P/E ratio might suggest that the stock or overall market is undervalued relative to its earnings or reflect low investor confidence in future earnings growth.

6.3.5 Initial Public Offering (IPO), Rights Share, and Bonus Share

CHART 6.15: IPO, RIGHTS SHARES AND BONUS SHARES AT DSE



Source: DSE Monthly Review, December 2024.

Despite bearish market situation in 2024, the total capital generated in the DSE through IPOs, rights shares, and bonus shares increased notably by 25.02 percent compared to the previous year. A total of BDT 24.67 billion capital was raised in the DSE during 2024 through the aforementioned securities. Chart 6.15 shows the trend of stocks at DSE by issuing such securities since 2019. Amongst total capital raised in 2024, bonus shares accounted for 65.38 percent, followed by IPOs and rights share pertaining to 30.04 percent and 4.58 percent, respectively.

6.3.6 Dividend and Yield

Among the DSE-listed companies, 252 declared cash dividend, and 38 declared stock dividend, while 45 companies did not announce any dividend, of which 44 skipped their Annual General Meetings (AGM) in 2024[44]. The dividend declaration status of DSE-listed companies for the last five years is displayed in Table 6.2. The table shows that the number of companies having declared cash dividend increased in 2024 compared to 2023.

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[43]The current market price of the stock divided by its earnings per share (EPS) is known as the price-earnings (P/E) ratio which shows how much investors are paying for each unit of earnings.

[44]DSE Monthly Review, December 2024.

TABLE 6.2: COMPARISON OF DIVIDEND AND YIELD (2020-2024)

Particulars	2020	2021	2022	2023	2024
Number of companies declared cash dividend	237	261	265	240	252
Number of companies declared stock dividend	94	56	57	42	38
Number of companies which did not declare any dividend	46	63	43	64	45
Yield (%)	3.16	4.07	3.93	3.46	4.05

Source: DSE Monthly Review, December 2024.

The dividend yield increased by 0.59 percentage point in 2024 and stood at 4.05 percent, compared to 3.46 percent in 2023. In comparison with the alternative investments such as Treasury Bills and Bonds, National Savings Certificates or Term Deposit rates from banks and NBFIs, the dividend yield of investing in DSE was lower in 2024.

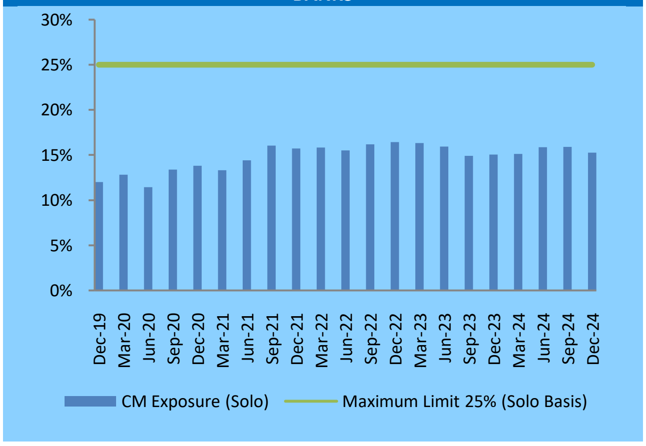
6.3.7 Interlink Between Banking Sector and Stock Market

From a financial stability perspective, the relationship between the capital market and the banking industry is crucial. With the investments in the capital market, both individual banks and their subsidiaries together made an inter-link between the banking sector and the stock market.

Usually, banks' earnings from capital market investments are capital gains and dividends. Banks may be significantly impacted by the capital market's performance and incur losses on their investments as greater capital market exposure carries higher risk.

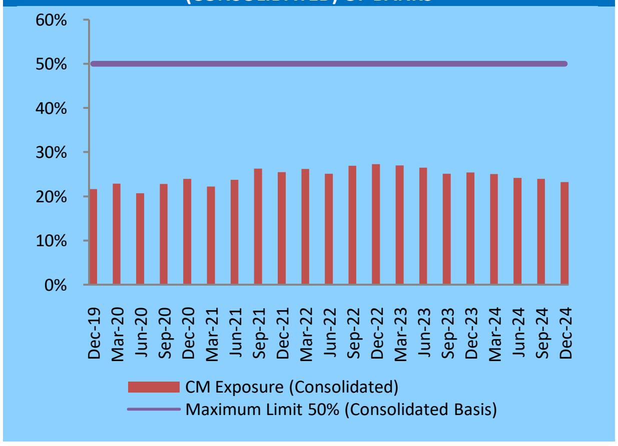
Capital market exposures of banks, in solo basis, increased by 21 basis points, while in consolidated basis, it decreased by 216 basis points as on 31 December 2024, as shown in Chart 6.16 and Chart 6.17. The exposures remained much below the regulatory limit[45], which indicated that the banking industry would not experience an immediate stability issue due to adverse changes of stock price.

CHART 6.16: TREND OF CAPITAL MARKET EXPOSURES (SOLO) OF BANKS



Source: DOS, BB.

CHART 6.17: TREND OF CAPITAL MARKET EXPOSURES (CONSOLIDATED) OF BANKS



Source: DOS, BB.

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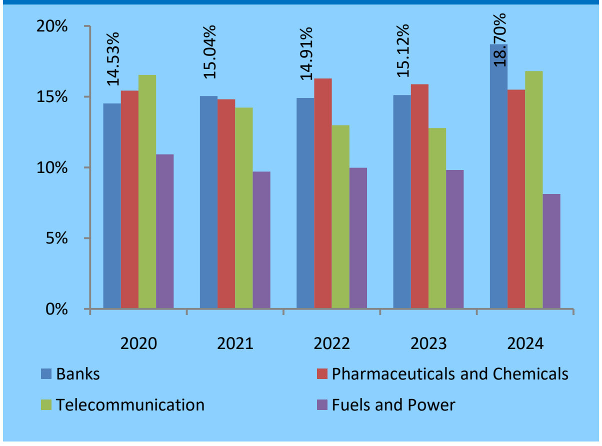
[45]The maximum allowable limit for investment in the capital market is 25 percent and 50 percent of the prescribed components of capital (sum of paid-up capital, statutory reserve, retained earnings, and share premium) on a solo basis and consolidated basis respectively.

Based on the market capitalization, banks appeared as one of the major sectors. Among 61 scheduled commercial banks, 35 PCBs and 1 SOCB are listed in the DSE. The share of banking sector to DSE market capitalization increased notably in 2024 and stood at 18.70 percent, from 15.12 percent in 2023. The share of four major sectors to DSE market capitalization for the last five years is shown in Chart 6.18. In 2024, the banking industry held the highest share of market capitalization, followed by the Telecommunication sector, and Pharmaceuticals and Chemicals sector.

CHART 6.18: MAJOR SECTORS' MARKET CAPITALIZATION IN DSE



Source: DSE Monthly Review, December 2024.

Since the banking sector contributes considerably to market capitalization, any stress in this sector could have a negative impact on the capital market. In the event of any decline in banks' share prices, the market capitalization as well as the index may experience significant decline.

CHAPTER 7 : FINANCIAL INFRASTRUCTURE

To cope up with the developing trajectory of the country's broader economy with its growth targets, Bangladesh Bank, has steadily enhanced its financial infrastructure to support sustainable development, poverty reduction, and private sector expansion. Additionally, the central bank has been playing a pivotal role in shaping the financial ecosystem by providing strategic guidance and policy support, particularly in the adoption of modern payment systems aimed at mitigating both domestic and cross-border risks. Bangladesh Bank has made sustained efforts over the past decade to build a robust, automated, and technology-driven payment ecosystem that underpins the country's dynamic economy. The payment ecosystem aims to promote secure, efficient, and inclusive electronic payments across the country. Moreover, Bangladesh Bank has taken progressive steps to expand digital financial services by licensing commercial entities to operate Mobile Financial Services (MFS), Payment Service Providers (PSPs), and Payment System Operators (PSOs). These entities have significantly enhanced the accessibility and quality of payment services, and are playing a crucial role in the financial inclusion agenda and in supporting the country's transition toward a cashless economy.

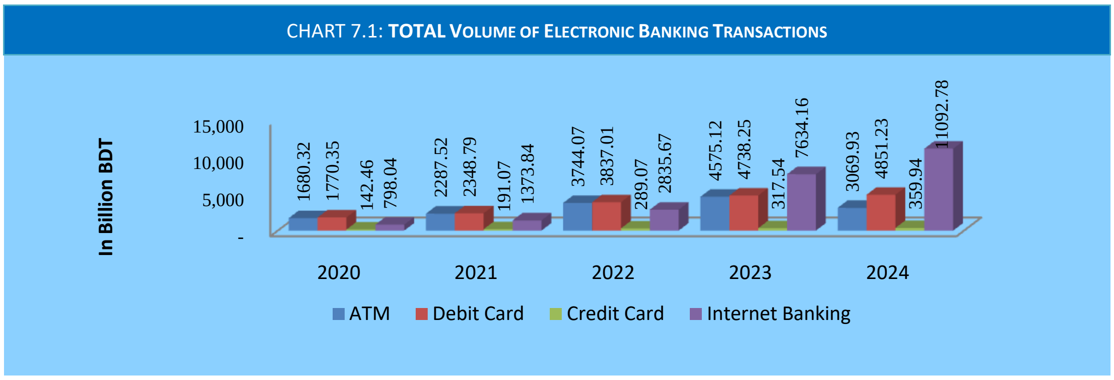
7.1 ELECTRONIC BANKING OPERATIONS

Electronic banking offers a wide range of banking services beside traditional paper-based instruments and other physical forms of payment. As Bangladesh is graduating from the LDC group, the optimization of modern payment methods within the banking sector will be crucial in advancing financial services. Through electronic banking operations, banks are increasingly able to reach clients at their doorsteps, enhance accessibility and convenience. Moreover, by mitigating settlement risks through the implementation of automated payment and settlement systems, Bangladesh Bank continues to work towards strengthening the overall stability of the financial system. As of end-December 2024, 100 percent of bank branches in Bangladesh was capable of providing online banking services (Table: 7.1), marking a significant milestone for the banking industry. This achievement represents a major step toward realizing the goal of "cashless" Bangladesh as well.

TABLE 7.1: ONLINE BANKING SCENARIOS AS OF END-DECEMBER 2024

Bank Cluster	Number of ATMs	Total Branches	Number of Branches with Online Coverage	Percent of Online Branches
SOCBs	493	3,843	3,843	100
SDBs	17	1,543	1,543	100
PCBs	12,244	5,913	5,913	100
FCBs	105	63	63	100
Total	12,859	11,362	11,362	

Sources: Statistics Department, BB.



Source: PSD, BB.

Chart 7.1 illustrates a consistent upward trend in the volume of all types of electronic banking transactions except ATM from 2020 to 2024. In 2024, there was a remarkable increase in the transaction volume through internet banking compared to other forms of electronic banking.

7.2 NATIONAL PAYMENT SWITCH BANGLADESH

Bangladesh Bank established the National Payment Switch Bangladesh (NPSB) as a common platform to streamline interbank electronic payments in the country. At end-December 2024, 57 out of 61 scheduled banks are connected to NPSB for ATM transactions, while 55 banks use the platform for settling POS transactions. Additionally, 51 banks are currently participating in Internet Banking Fund Transfers (IBFT) via NPSB. Bangla QR, a uniform QR specifications introduced by Bangladesh Bank, has been used by 41 banks, 7 Mobile Financial Services (MFS), 2 Payment Service Providers (PSPs), and 1 Payment System Operator (PSO) for payments through NPSB. The number and volume of interbank transactions, including ATM, POS, IBFT, and QR-based payments, are growing steadily through NPSB.

During the review period, 145.91 million transactions amounting BDT 3292.94 billion were settled through the NPSB, reflecting growth rates of 31.07 percent in the number of transactions and 57.43 percent in the total value of payments compared to previous year.

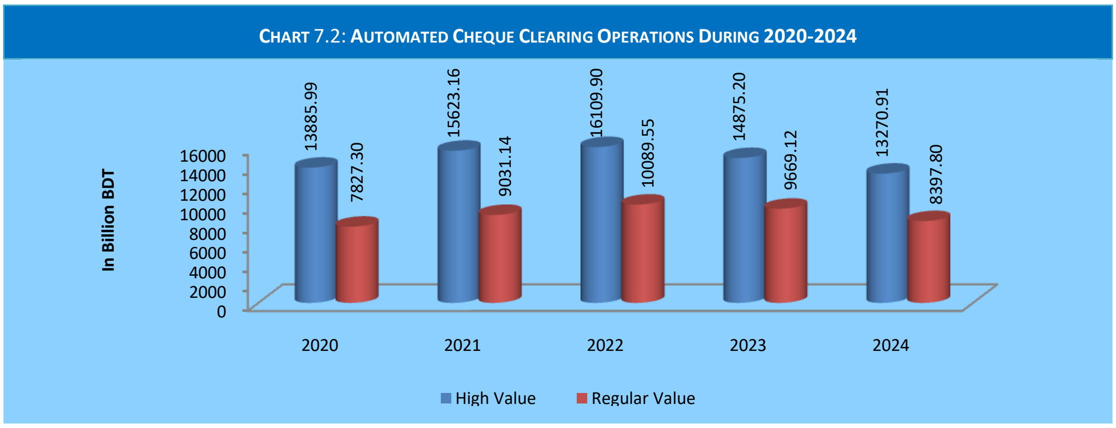
7.3 BANGLADESH AUTOMATED CLEARING HOUSE

Bangladesh Automated Clearing House (BACH) is the first automated national payment and settlement system in Bangladesh. It has significantly improved the efficiency and security of country's payment and settlement system over the years. BACH comprises two components: the Bangladesh Automated Cheque Processing System (BACPS), which digitizes the traditional cheque clearing process, and the Bangladesh Electronic Funds Transfer Network (BEFTN), which facilitates electronic inter-bank fund transfers. 61 scheduled banks operating in Bangladesh are members of the Automated Clearing House.

7.3.1 BANGLADESH AUTOMATED CHEQUE PROCESSING SYSTEM

Bangladesh Automated Cheque Processing System (BACPS), country's sole advanced cheque clearing platform, uses Cheque Imaging and Truncation (CIT) technology, enabling the electronic submission and settlement of cheques, pay orders, and dividend or refund warrants. This digital processing method has unified cheque clearing across the nation under a single system. BACPS operates on a batch processing basis, with transactions submitted by banks throughout the day being processed and settled at designated times. The system conducts two clearing sessions daily: one for High Value (HV) cheques—those worth BDT 0.50 million or more—and another for Regular Value (RV) cheques. Currently, the HV clearing session has a presentment deadline of 12:00 PM and a return cut-off at 3:00 PM, while the RV session has a presentment cut-off at 12:30 PM and a return cut-off at 5:00 PM. In 2024, BACPS processed an average of 9,328 high-value cheques and 75,383 regular-value cheques per business day, with transaction volumes reaching BDT 55.29 billion and BDT 34.99 billion respectively.

In 2024, the amount of High Value and Regular Value transactions decreased by 10.79 percent and 13.15 percent respectively compared to those of the previous year (Chart 7.2).



Source: PSD, BB.

7.3.2 Bangladesh Electronic Funds Transfer Network

Bangladesh Electronic Funds Transfer Network (BEFTN) serves as a centralized processing and delivery system for the electronic distribution and settlement of credit and debit transactions among participating banks. A wide range of credit transfers, including salary payments, foreign and domestic remittances, social safety net disbursements, interest and principal payments of Sanchayapatra (savings certificates), company dividends, and retirement benefits are processed through EFT credits. On the other hand, utility bill payments, loan repayments, insurance premiums, and corporate-to-corporate transactions are handled through EFT debits. Currently, Nikash-BEFTN, an upgraded software introduced to enhance operational efficiency, has been conducting three sessions daily for the purpose of clearing and settlement of EFT transactions.

During the review period, approximately 261.37 million EFT credit transactions and 7.11 million EFT debit transactions were settled through BEFTN, with total transaction values amounting to BDT 7869.73 billion and BDT 1647.69 billion, respectively.

7.4 REAL TIME GROSS SETTLEMENT SYSTEM

Real Time Gross Settlement (BD-RTGS) mechanism has opened a new horizon in the payment ecosystem, accommodating instant settlement of large value and time critical payments in the country. The minimum limit of a transaction is BDT 100,000 (One hundred thousand) whereas there is no limit in case of government payments and inland foreign currency transactions. Currently, FCs are allowed to conduct FC to FC and bank to FC transactions through BD-RTGS System.

In 2024, a total of 10.17 million transactions of local currency valuing BDT 50,010.82 billion, and 0.79 million of foreign currency transactions valuing USD 32,896 million were settled through BD-RTGS System. A total of 11,556 online branches of 60 scheduled commercial banks and 19 FCs are currently connected to this system.

7.5 MOBILE FINANCIAL SERVICES

Since the introduction of MFS in 2011 in Bangladesh, it has experienced a robust growth in number of account holders, volume and amount of transactions. Currently, 9 banks and 3 subsidiary companies of banks and 1 digital financial service providers of the Bangladesh Post Office, Nagad are providing Mobile Financial Services (MFS) as an alternative payment channel in the financial sector. MFS providers are facilitating person to person transactions, person to business transactions, business to person transactions, inward remittance disbursement, payment of various incentives/allowance provided by the government, merchant payments and other transactions including micro-finance and insurances premium payment. Moreover, many micro and small entrepreneurs in individual level and sellers use MFS channel for easy and fast payment. Labor-based small entrepreneurs, micro-merchants, marginal retail merchants, service providers, and social-media entrepreneurs have been facilitated to open a 'Personal Retail MFS Account' beside their personal MFS account.

As of December 2024, the total number of Mobile Financial Services (MFS) agents, registered clients, and active clients were 1.83 million, 238.60 million, and 88.80 million respectively. A total amount of around 670 million transactions were transacted valuing BDT 1647.30 billion in the review year. The average transaction volume was approximately BDT 53 billion through almost 21.6 million transactions.

TABLE 7.2: THE GROWTH OF TRANSACTION AMOUNT THROUGH MFS IN 2024

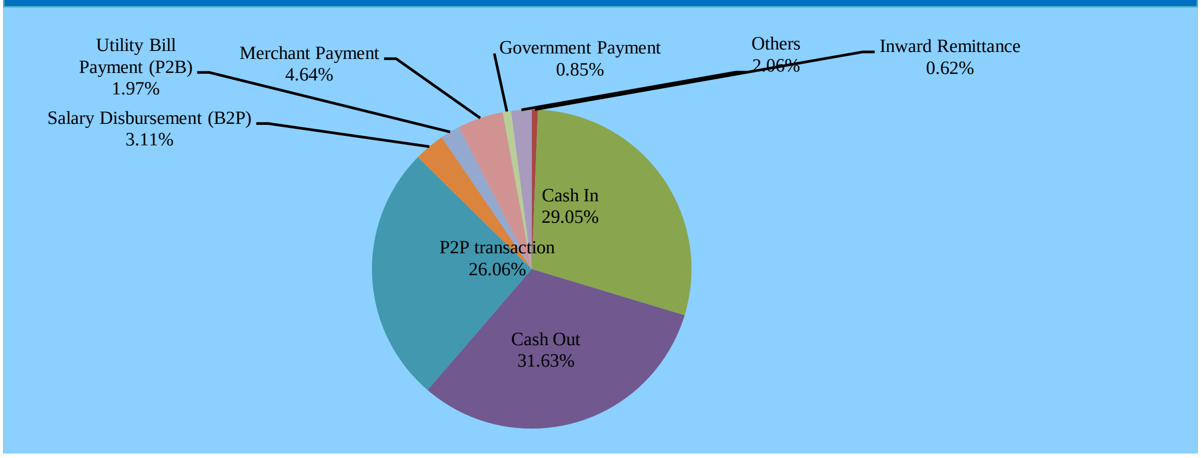
(In Billion BDT)

Category	2023	2024	Growth
Inward Remittance	62.64	107.86	72.19%
Cash In Transaction	4,230.00	5,062.00	19.67%
Cash Out Transaction	3,824.00	5,511.00	44.12%
Person to Person transaction (P2P)	3,747.00	4,541.00	21.19%
Salary Disbursement (B2P)	361.00	542.00	50.14%
Utility Bill Payment (P2B)	365.00	344.00	-5.75%
Merchant Payment	599.00	808.00	34.89%
Government Payment	136.00	148.00	8.82%
Others	231.00	359.00	55.41%
Total	13,555.64	17,422.86	28.53%

Source: PSD, BB.

Table 7.2 shows that all the segments of MFS transactions, except utility bill payment, experienced a substantial growth at end-December 2024 compared to the preceding year. The growth of government payment, merchant payment, inward remittance and salary disbursement through MFS were 8.82 percent, 34.89 percent, 72.19 percent and 50.14 percent, respectively. However, other segments like cash-in transaction, cash out transaction and person to person transaction also achieved satisfactory growth in 2024.

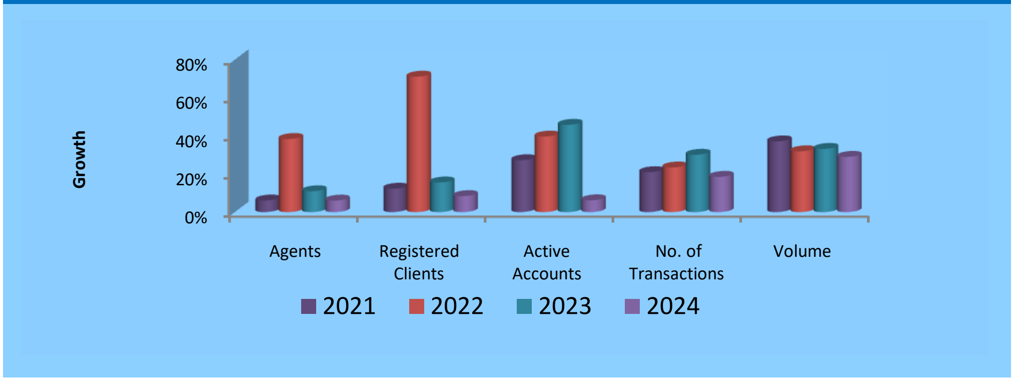
CHART 7.3: CATEGORY-WISE SHARE OF TRANSACTIONS OF MFS IN 2024



Source: PSD, BB.

It appears from Chart 7.3 that cash in, cash out, and person to person (P2P) transactions together occupied 86.74 percent share of total MFS transactions in 2024, which indicated that people utilized MFS mostly as a cash transfer service. Among different categories of MFS, the highest amount took place in 'Cash Out' (31.63 percent) followed by 'Cash In' transactions (29.05 percent) in the review year.

CHART 7.4: GROWTH OF MFS DURING 2021-2024



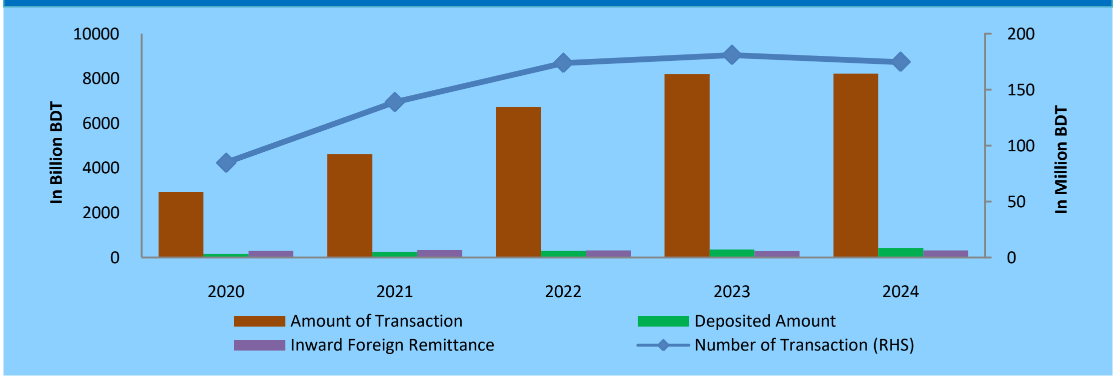
Source: PSD, BB.

Chart 7.4 portrays that, in 2024, all key aspects of MFS had positive growth. It also shows that among all categories of MFS, the highest growth recorded in volume of transaction (28.99 percent) followed by number of transactions (18.50 percent) in 2024 but growth of all categories declined compared to that of preceding period.

7.6 AGENT BANKING ACTIVITIES

Bangladesh Bank introduced agent banking in 2013, to enhance financial inclusion for the unbanked, underserved, and economically disadvantaged populations especially those in remote and geographically isolated areas. As part of its Cost Leadership Strategy, banks have increasingly embraced agent banking as a more cost-effective alternative to traditional branches. This approach not only reduces operational costs but also brings banking services closer to the grassroots level. By the end of December 2024, Bangladesh Bank had authorized 31 banks to operate agent banking services through a network of 21,248 outlets, staffed by 16,019 agents. As of December 2024, approximately 24.08 million accounts had been opened through agent banking, with 11.91 million of these accounts belonging to female clients.

CHART 7.5: TRANSACTIONS THROUGH AGENT BANKING DURING 2020-2024



Source: Statistics Department, BB.

Chart 7.5 exhibits a steady growth in the number of agent banking transactions (except 3.40 percent reduction in 2024), transaction volume, and deposit amount from 2020 to 2024. At the end of December 2024, the total deposit amount, inward foreign remittances, and transaction volume through agent banking reached at BDT 417.59 billion, BDT 307.57 billion, and BDT 8,219.34 billion, respectively. Compared to the previous year, transaction volume, deposit amount, and inward foreign remittances increased by 0.15 percent, 16.31 percent, and 6.17 percent, respectively.

7.7 Some other initiatives to foster digital payment

Bangladesh Bank, with a view to fostering digital payments among mass population, has been issuing license to Payment Service Providers (PSP) and Payment System Operator (PSO). These service providers along with scheduled banks are contributing rapid growth of digital payments in Bangladesh.

At present, 13 (thirteen) Mobile Financial Service (MFS) Providers, 8 (eight) Payment Service Providers (PSP) and 10 (ten) Payment System Operator (PSO) along with 6 (six) scheduled Banks are providing payment gateways services.

7.8 PAYMENT SYSTEMS OVERSIGHT

Payment Systems Oversight, a specialized supervisory function carried out by central banks worldwide, including Bangladesh Bank, aimed at ensuring the safety, security, and efficiency of both existing and planned payment, clearing, and settlement systems. This oversight extends to non-bank entities such as Mobile Financial Services (MFS), Payment Service Providers (PSPs), and Payment System Operators (PSOs). Through continuous monitoring, evaluation, and necessary policy adjustments, Payment Systems oversight helps manage risks and promotes stability, efficiency, and soundness in the national payment ecosystem. Therefore, it focuses on the following activities:

a) Collecting both onsite and off-site data from systems and participants to monitor operations, financial activities, risks, disruptions, and dispute management.
b) Assessing the compliance of systems and participants with rules and regulations, identifying violations, recommending corrections and ensuring follow-up implementation.
c) Identifying weaknesses in systems, participants, or schemes and highlighting areas that require improvement or intervention by Bangladesh Bank.
d) Conducting trend analysis of data from systems and participants, calculating their market share to prioritize segments for focused monitoring.
e) Promoting self-assessments by systems and participants to ensure compliance with regulatory expectations and international standards.

7.9 Potential Risks and Mitigation initiatives to Payment Systems of Bangladesh

With the acceleration of digital transformation, demand for fast, secure, and reliable payment systems to facilitate transactions with ease and confidence is increasing from consumers end. While this system continues to evolve, it also faces a growing array of risks, including cyber threats, outdated technologies, operational disruptions, digital fraud, third-party dependencies, regulatory gaps, settlement inefficiencies, declining consumer trust, and shortages of skilled personnel.

As the primary regulatory authority, Bangladesh Bank plays a pivotal role in safeguarding the resilience and integrity of the payment ecosystem. Through the issuance of comprehensive guidelines, enforcement of compliance standards, and encouragement of innovation, such as regulatory sandboxes and modernized policies, Bangladesh Bank ensures that the system adapts to emerging challenges. Its leadership in strengthening cyber security, enhancing institutional capacity, and fostering a culture of innovation is crucial in maintaining public confidence and steering the nation toward a secure, inclusive, and technologically advanced payment system.

CHAPTER 8 : FOREIGN EXCHANGE MARKET

In 2024, Bangladesh's foreign exchange (FX) market experienced numerous challenges. Over the course of the year, the Bangladeshi Taka (BDT) underwent moderate depreciation, particularly against the US dollar (USD). The real effective exchange rate (REER) confronted moderate level of fluctuations around the year. As of end-December 2024, the banking sector's FX assets and FX liabilities decreased, although contingent liabilities increased compared to the previous year. During the review period, both L/C openings and L/C settlements registered an increase, attributable to BB's policy measures relaxing restrictions on the imports of luxury and non-essential goods. Foreign remittance inflows from wage earners remained significantly elevated. To safeguard the value of the BDT as well as to ensure stability in the FX market, Bangladesh Bank (BB) proactively intervened in the FX market by engaging in USD purchases and sales. During the year, BB's gross foreign exchange reserves stood at USD 26.21 billion, which were adequate in terms of global standard of import coverage and capable of enduring probable external blows in the near future. However, as per BPM6 of the IMF, the FX reserves were USD 21.39 billion at end-December 2024.

8.1 FOREIGN EXCHANGE ASSETS, LIABILITIES, AND CONTINGENT LIABILITIES

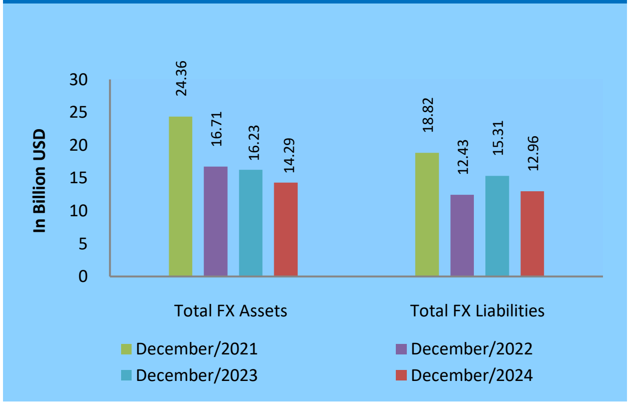
At end-December 2024, both the foreign exchange (FX) assets and liabilities exhibited a moderate decrease. At the same time, FX contingent liabilities increased moderately compared to end-December 2023. However, FX assets and liabilities consisted of only 6.52 percent and 6.23 percent of total banking sector assets and liabilities, respectively, posing no imminent threat to the financial system.

At end-December 2024, banks' total FX assets decreased by 11.97 percent and stood at USD 14.29 billion from USD 16.23 billion at end-December 2023 (Chart 8.1). Although the debit balances in the Nostro account and cash holding increased in 2024, a decrease in the BB clearing account and investment in OBU caused the overall decline in the FX assets in the review year.

A few FX denominated liabilities segments, like non-resident foreign currency deposit (NFCD), resident foreign currency deposit (RFCD), exporters' retention quota (ERQ), foreign demand draft (FDD) payable, telegraphic transfer (TT) payable, mail transfer (MT) payable, and payment against back to back letters of credit showed a moderate increase, whereas credit balances in Nostro account, foreign currency (FC) accounts and other liabilities exhibited significant decrease in 2024 compared to the previous year. Total FX liabilities dropped to USD 12.96 billion from USD 15.31 billion, recording a decline of 15.31 percent at end-December 2024 (Chart 8.1).

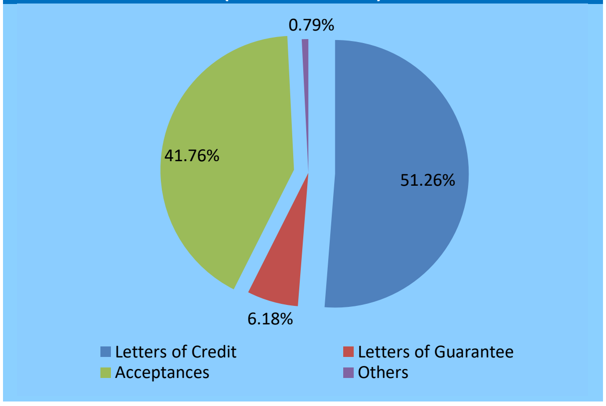
FX contingent liabilities of the banking sector rose by 6.33 percent and reached USD 78.70 billion at end-December 2024 from USD 74.02 billion at end-December 2023 due to an increase in L/Cs, letters of guarantee, and acceptances given on behalf of customers. Two major segments of FX contingent liabilities, namely L/Cs and acceptances in FC, together held more than 90 percent of total contingent liabilities (Chart 8.2). The moderate increase in FX contingent liabilities might pose a pressure on foreign currency (FC) to meet probable future payment obligations.

CHART 8.1: YEAR-WISE GROSS FX ASSETS AND LIABILITIES



Source: FEPD, BB.

CHART 8.2: COMPONENTS OF FX CONTINGENT LIABILITIES (DECEMBER 2024)



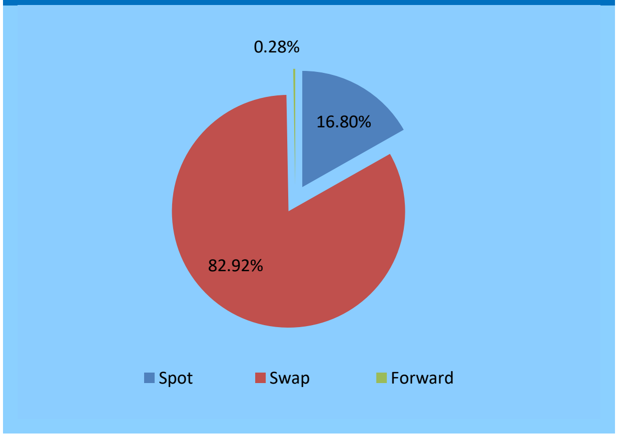
Source: FEPD, BB.

8.2 INTERBANK (LOCAL) FX TURNOVER

Interbank (local) FX turnover increased by 3.28 percent and reached USD 23.14 billion in 2024, where most of the transactions were done by swap.

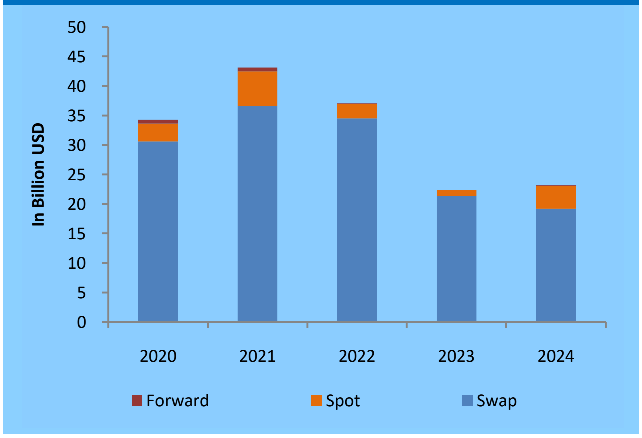
The swap transactions retained their dominance in the interbank (local) FX market with 82.92 percent market share, followed by spot transactions with 16.80 percent market share in 2024 (Chart 8.3). Having more flexibility in swap transactions in FX liquidity management is the cause of this dominance. However, compared to the previous year, FX swap turnover decreased by 9.92 percent and stood at USD 19.19 billion, whereas FX spot turnover increased markedly by 256.89 percent and reached USD 3.89 billion in 2024 (Chart 8.4).

CHART 8.3: COMPONENTS OF INTERBANK FX TURNOVER (2024)



Source: FRTMD, BB.

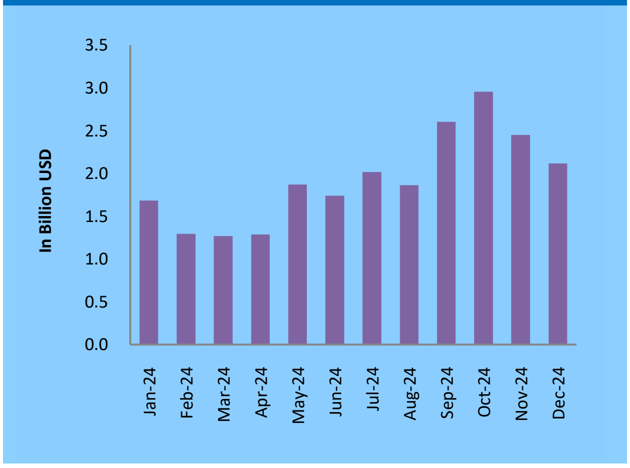
CHART 8.4: FORWARD, SWAP AND SPOT TURNOVER



Source: FRTMD, BB.

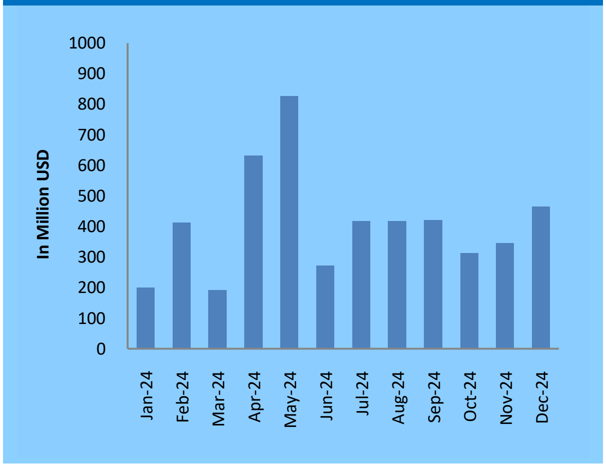
The monthly average turnover of interbank (local) FX transactions was USD 1.93 billion in 2024, which was USD 1.87 billion in 2023. Despite some fluctuations throughout the review period, FX turnover volume exhibited an increasing trend (Chart 8.5). The overall FX net open position was USD 465.28 million at end-December 2024, up from USD -11.28 million at end-December 2023. The highest balance was recorded at end-May 2024, reaching USD 827.34 million while the lowest balance was USD 192.70 million at end-March 2024 (Chart 8.6).

CHART 8.5: MONTHLY FX TURNOVER (2024)



Source: FRTMD, BB.

CHART 8.6: MONTHLY FX NET OPEN POSITION (2024)



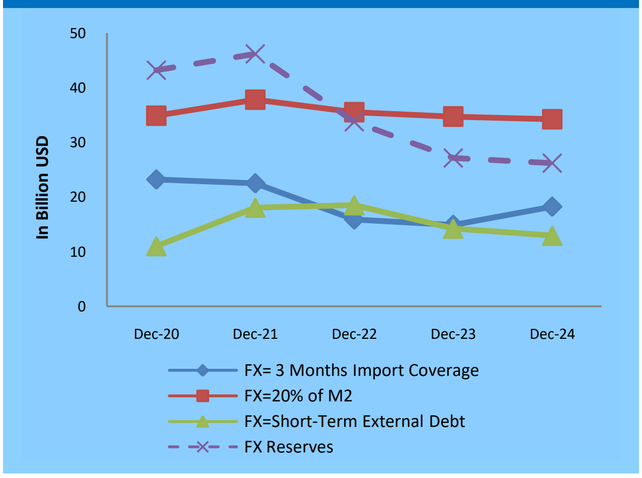
Source: FEPD, BB.

8.3 ADEQUACY OF FX RESERVES

At end-December 2024, the gross foreign exchange reserves of Bangladesh stood at USD 26.21 billion, sufficient to cover more than four months' import payments. It is worth mentioning that, as per BPM6, the foreign exchange reserves were USD 21.39 billion. Notably, both the gross foreign exchange reserves and foreign exchange reserves as per BPM6 increased and stood at USD 31.72 and 26.71 billion, respectively at end-June 2025.

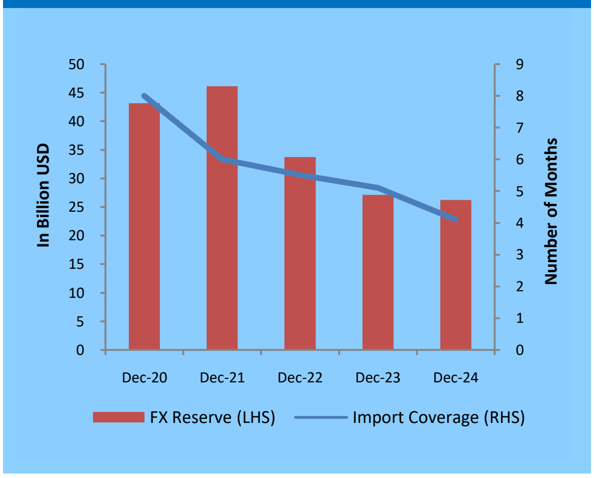
Adequacy of FX reserves[46] is a vital factor while analyzing an economy's resilience to absorb unexpected external vulnerabilities and shocks. At the end of 2024, the gross foreign exchange reserves were USD 26.21 billion, 3.37 percent lower than end-December 2023 (Chart 8.7). Bangladesh Bank's initiatives to ensure the availability of USD for import payment settlements and to ease the USD shortage in the domestic market are the primary reasons behind the decline in reserves. However, the gross FX reserves were sufficient to cover around 4.1 months' import payments on a prospective basis (Chart 8.8). Bangladesh's foreign currency reserves and exchange rate stability could be vulnerable in the near future, if global geopolitical conflicts and tariff disputes persist.

CHART 8.7: FX RESERVE ADEQUACY MEASURES



Source: MET; NSDP, BB website; Calculation: FSD, BB.

CHART 8.8: IMPORT COVERAGE OF FX RESERVE

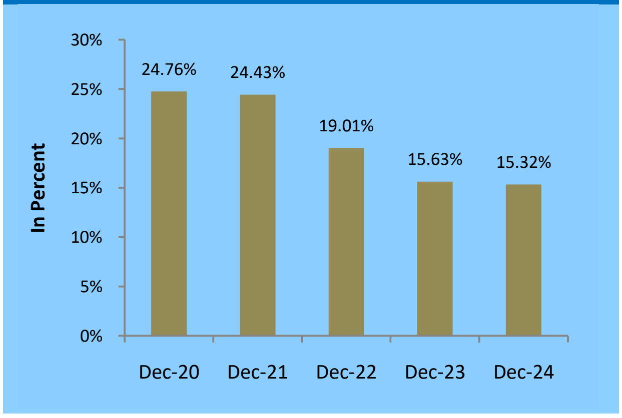


Source: Statistics Department, BB.

46 Among the different benchmarks for measuring FX reserves adequacy, three mostly used benchmarks are: (i) sufficient FX reserve to cover at least three months' import payments, (ii) reserves equal to 20 percent of M2, and (iii) reserves sufficient to cover external debt becoming due within 12 months (short-term external debt). For details, see Islam, M.S. (2009), "An Economic Analysis of Bangladesh's Foreign Exchange Reserves", ISAS Working Paper No. 85, Singapore, September.

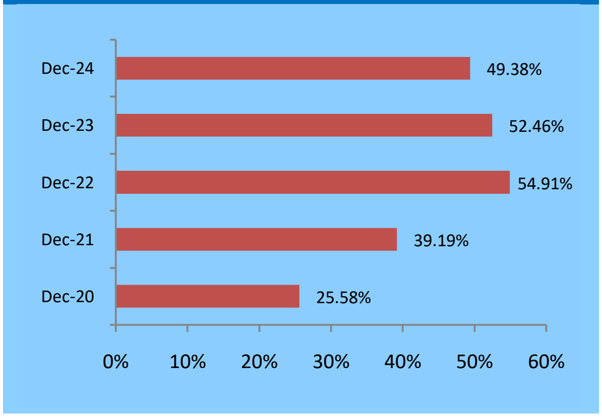
In the review year, FX reserve adequacy against various benchmarks exhibited a mixed trend. In terms of FX reserves to M2 (broad money) criteria, Bangladesh had a sizeable shortfall of the required level of reserves. The ratio of reserves to M2 was 15.32 percent in 2024, much lower than the benchmark of 20 percent (Chart 8.9). In contrast, the ratio of short-term external debt (STED) to FX reserves fell to 49.38 percent in the review period from 52.46 percent in 2023, because of sharp decline in STED compared to reserves, demonstrating an improvement in terms of capability of the FX reserves to meet up short-term external debt (Chart 8.10).

CHART 8.9: RESERVES TO M2 RATIO



Source: MET; NSDP, BB website; Calculation:FSD, BB.

CHART 8.10: SHORT-TERM EXTERNAL DEBT TO RESERVE RATIO



Source: NSDP, BB website.

8.4 WAGE EARNERS' REMITTANCE

After several years of stagnation, wage earners' remittance inflow registered a significant growth in 2024.

The wage earners' remittance inflow increased by 22.68 percent and reached USD 26.89 billion in 2024 (Chart 8.11). December 2024 experienced the highest amount of remittance inflow, USD 2.64 billion, while July 2024 experienced the lowest amount, USD 1.91 billion, in the review year.

CHART 8.11: WAGE EARNERS' REMITTANCE

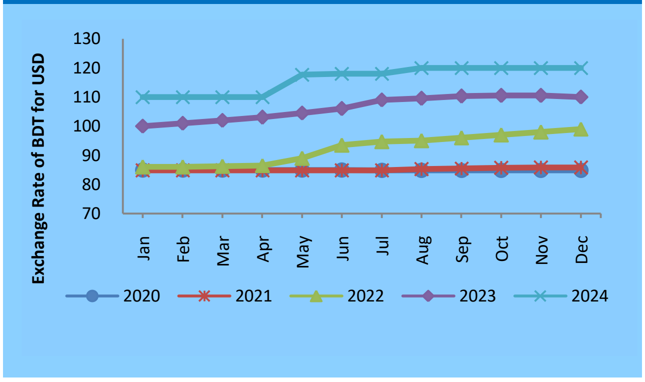
Source: NSDP, BB Website.

The steady increase in wage earners' remittances appears to be a direct outcome of the government's continued efforts to enhance the skills of migrant workers and improve their working conditions. Moreover, BB's initiatives to encourage remittance inflow through formal banking channels also had a positive impact. It is worth mentioning that inward remittances help maintain stability in the FX market, thereby promoting resilience to external vulnerabilities

8.5 EXCHANGE RATE MOVEMENT

The nominal exchange rate registered a moderate level of depreciation throughout the year.

CHART 8.12: EXCHANGE RATE MOVEMENT (USD/BDT)



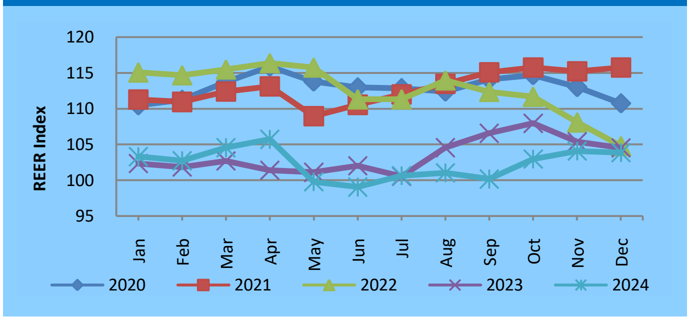
Source: Monthly Economic Trend, BB.

The nominal exchange rate of the BDT in the FX market (USD/BDT) showed a rising trend, with BDT experiencing a depreciation of 9.09 percent in the year 2024. The monthly average nominal exchange rate of USD to BDT experienced an ascending movement since May 2024. The maximum exchange rate (BDT 120.00 per USD) was recorded from August 2024 to December 2024, while the lowest (BDT 110.00 per USD) was registered from January 2024 to April 2024 (Chart 8.12).

8.6 MOVEMENT OF REAL EFFECTIVE EXCHANGE RATE (REER)

The Real Effective Exchange Rate (REER) index experienced some variations throughout the review year.

CHART 8.13: REER MOVEMENT



Source: MPD, BB.

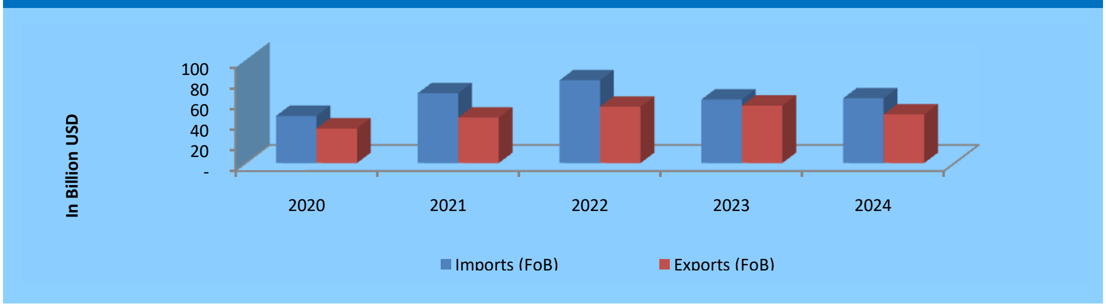
The REER index registered a decrease in 2024, like the previous two successive years. The index slightly oscillated throughout the year and reached 103.85 at the end of the review year (Chart 8.13). This slight decline in the index value is likely to be supportive for manufacturing and export growth, whereas imports may become costlier.

8.7 TREND OF FOREIGN TRADE

Following the historical trend, imports surpassed exports again in 2024, alongside a widening trade deficit in the review year compared to the previous year.

After a decline in the previous year, imports increased by 1.97 percent and stood at USD 62.92 billion in 2024 from USD 61.70 billion in 2023 (Chart 8.14). On the other hand, after experiencing growth for several years, exports decreased in 2024 and registered at USD 47.25 billion, with a significant fall of 15.31 percent from USD 55.79 billion in 2023. Consequently, the trade deficit increased to USD 15.67 billion in 2024 from USD 5.92 billion in 2023.

CHART 8.14: TREND OF FOREIGN TRADE



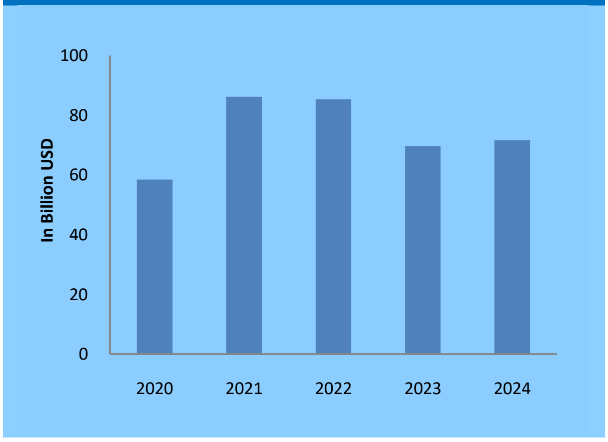
Source: Monthly Economic Trend, BB.

8.8 OPENING AND SETTLEMENT OF LETTER OF CREDIT (L/C)

Both the L/C opening and L/C settlement registered an increase in the review year due to the relaxation of restrictions on imports.

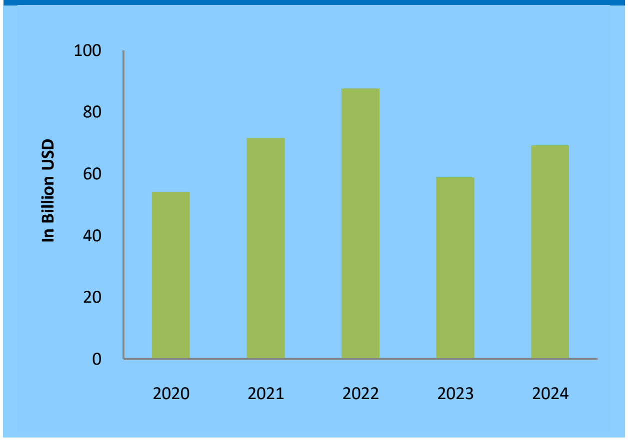
The L/C opening reached USD 71.65 billion in 2024, increasing moderately by 2.76 percent from USD 69.72 billion in 2023 (Chart 8.15). At the same time, the L/C settlement reached USD 69.18 billion in 2024, rising notably by 17.62 percent from USD 58.82 billion in 2023 (Chart 8.16). Easing the strict control measures taken by Bangladesh Bank to limit the imports of non-essential and luxury items can be attributed to this noticeable rise in both L/C opening and L/C settlement.

CHART 8.15: YEARLY L/C OPENING



Source: FEOD, BB.

CHART 8.16: YEARLY L/C SETTLEMENT



Source: FEOD, BB.

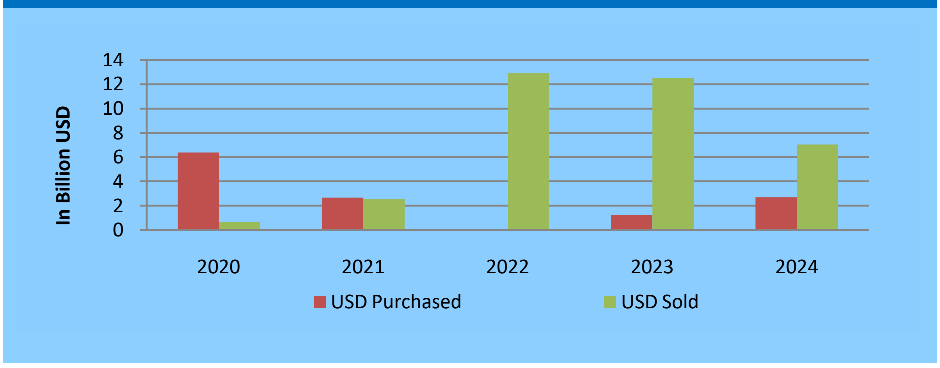
8.9 INTERVENTION IN THE FX MARKET BY BB

With a view to stabilizing the FX market, Bangladesh Bank purchased USD 2.69 billion and sold USD 7.05 billion in 2024.

The supply and demand of foreign currency usually determine the foreign exchange rate. However, to ensure exchange rate stability, control commodity prices, particularly those of the daily essentials, along with safeguarding the broader economy, the central bank often deems it necessary to intervene in the foreign exchange market.

BB purchased USD 2.69 billion and sold USD 7.05 billion in the local market, resulting in a net sale of USD 4.36 billion (Chart 8.17). Though the inward wage earners remittances increased compared to the previous year, higher import payments and lower export receipts created pressures in the foreign exchange market. Hence, to prevent currency fluctuations and ensure sufficient liquidity in the FX market, Bangladesh Bank injected a substantial amount of foreign currency into the local market.

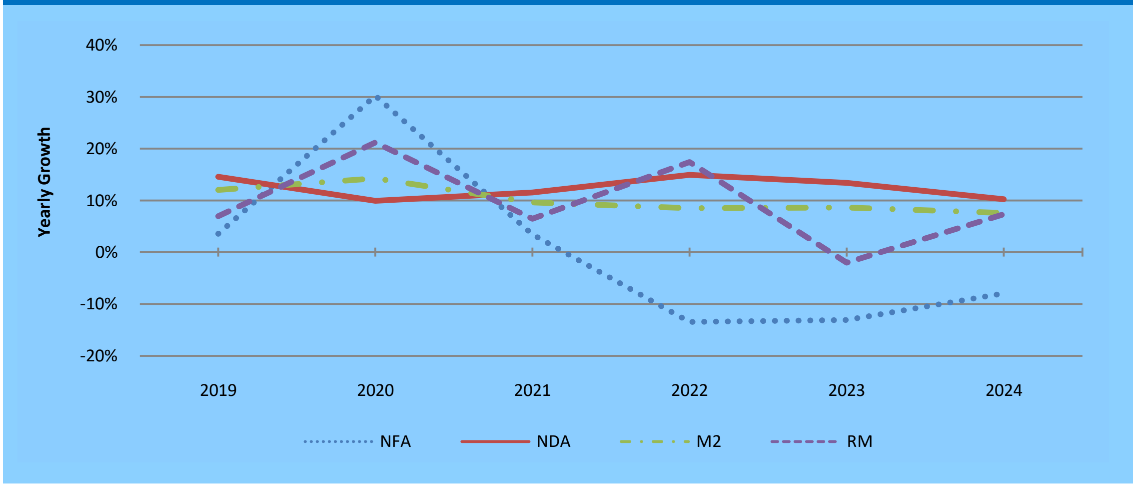
CHART 8.17: INTERVENTION IN FX MARKET BY BANGLADESH BANK



Source: FRTMD, BB.

Multiple factors, including exchange rate volatility and elevated import expenses, have resulted in a decrease in the net foreign assets (NFA) in 2024. The reported growth of NFA was negative 8.00 percent, which was negative 13.13 percent in 2023 (Chart 8.18). In contrast, Reserve Money (RM) recorded a moderate growth of 7.30 percent in 2024 from negative 2.03 percent in 2023. Net Domestic Asset (NDA) registered a moderate growth of 10.22 percent in 2024, which was 13.42 percent in 2023. Broad Money (M2) recorded an increase of 7.57 percent in the review year, which was 8.60 percent in 2023 (Chart 8.18).

CHART 8.18: NFA, NDA, M2 AND RM MOVEMENT



Source: Monthly Economic Trend, BB.

CHAPTER 9 : INSURANCE SECTOR IN BANGLADESH

Insurance serves to protect policyholders by managing and transferring risks associated with uncertain and potential financial losses incurred upon the insured. It also provides financial intermediation services, channeling funds from surplus units to deficit units. Moreover, when the policyholders face insurable risks, insurance coverage may shield them. Consequently, robust risk management by insurers plays a pivotal role in maintaining financial resilience and stability.

The insurance sector is connected with other segments of the financial system, such as the bond market, banks and Finance Companies (FCs), and the capital market. Unlike banks and finance companies, insurance companies, particularly life insurance companies, accumulate long-term liabilities, which make them less vulnerable to liquidity risk. So, they are able to invest in long-term assets like bonds, fixed deposit receipts, and equities. These investment mediums ensure economic growth, provide liquidity support and bolster stability of the financial system. The insurance sector would be exposed and may create risks to other interconnected sectors of the economy, if the investment decisions are not prudent.

Despite improvements in both total gross premium and total assets of the insurance sector, insurance penetration ratio and insurance density ratio, two key indicators of measuring performance of insurance sector, demonstrated a downward trend in 2024[47]*. In addition, other key indicators such as claims settlement ratio and investment to total asset ratio exhibited mixed performance in the review period. The insurance sector remained highly concentrated within a few companies and is interconnected with financial system. Hence, vigilant monitoring and oversight are crucial to ensure a robust and resilient financial system.*

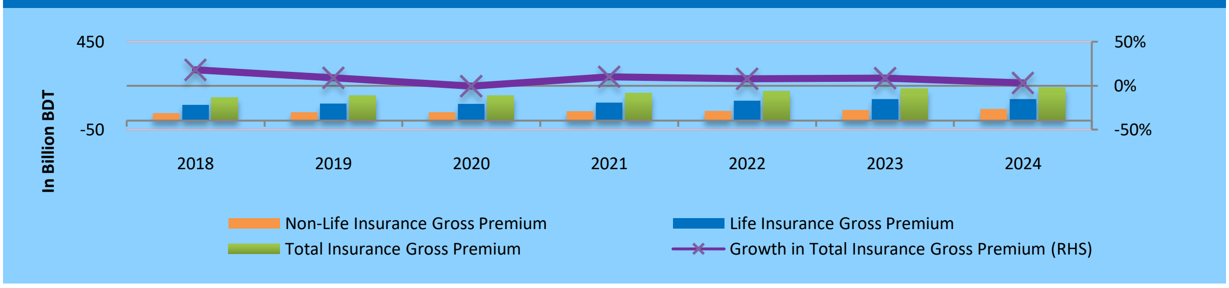
Presently, 36 life insurance companies, including a foreign company and a public sector company and 46 non-life insurance companies, including a public sector company, are operating in Bangladesh. The Insurance Development and Regulatory Authority (IDRA), established in 2010, is the regulatory and supervisory body of the insurance sector in Bangladesh.

9.1 PREMIUM GROWTH AND ASSET SIZE

Moderate growth was observed in both total gross premium and total assets of the insurance sector during the review year. Life insurance companies held about two-thirds of the total gross premium and total assets.

Likewise the preceding year, total gross premium of insurance sector followed a similar pattern in 2024. It increased to BDT 187.68 billion from BDT 182.27[R] billion, registering a growth of 2.97 percent (Chart 9.1). Life insurance companies possessed the lion's share (65.36 percent) of the total gross premium of the insurance sector.

CHART 9.1: TREND IN GROSS PREMIUM AND ITS GROWTH



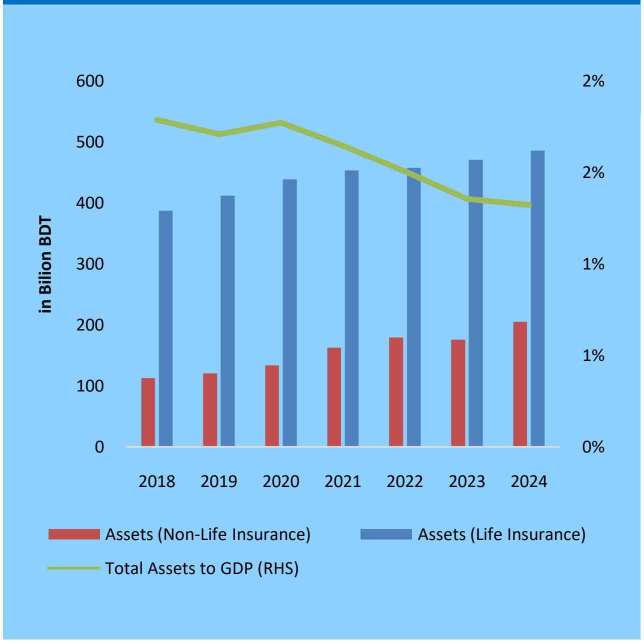
Source: IDRA; Calculation: FSD, BB.

[47] The analysis of the insurance sector for 2024 was based on the unaudited statements of the insurance companies, which were provided by IDRA.

[R] Revised

Assets of both non-life insurance and life insurance have been growing over time; however, insurance sector's total assets-to-GDP ratio is showing a decreasing pattern. Insurance sector's assets have shown an upward trend since 2018 in absolute terms but shown a downward trend since 2020 relative to GDP (Chart 9.2). In 2024, assets of life insurance and non-life insurance companies were recorded at BDT 485.60 billion and BDT 205.30 billion, up from BDT 470.55 billion and BDT 175.91[R] billion, respectively in the preceding year. Total assets of insurance sector grew by 6.87 percent and reached BDT 690.90 billion. It is noteworthy that the insurance sector's total assets-to-GDP ratio continued to move downward in 2024 as well, decreased to 1.32 percent from 1.35 percent in 2023. Assets of the life insurance companies constituted 70.29 percent of total assets of the insurance sector in 2024. However, the share of the non-life insurance companies' assets increased to 29.71 percent in 2024 from 27.21 percent in 2023 (Chart 9.3).

CHART 9.2: TREND IN INSURANCE SECTOR ASSETS



Note: Calculation based on GDP Base Year 2015-2016.
Source: IDRA; Calculation: FSD, BB.

CHART 9.3: SHARE IN TOTAL ASSETS BY TYPES OF INSURANCE COMPANIES

Source: IDRA; Calculation: FSD, BB.

9.2 INSURANCE SECTOR DEVELOPMENT: PENETRATION AND DENSITY

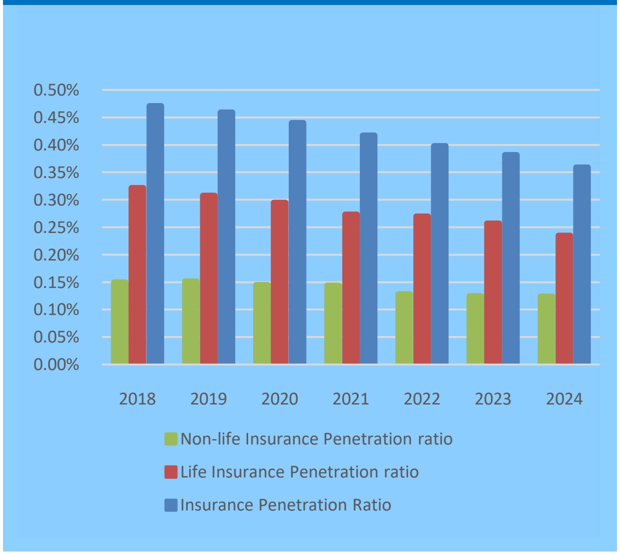
Both insurance penetration ratio[48] and insurance density ratio[49] showed weak performance in 2024.

The insurance penetration ratio is considered as one of the most significant factors of insurance sector advancement. Since 2018, a steady decline has been observed in insurance penetration ratio (Chart 9.4).

During the review period, insurance penetration ratio stood at 0.36 percent, which was 0.38[R] percent in the preceding period. Insurance premium growth failed to keep pace with GDP growth, resulting in a diminishing penetration ratio.

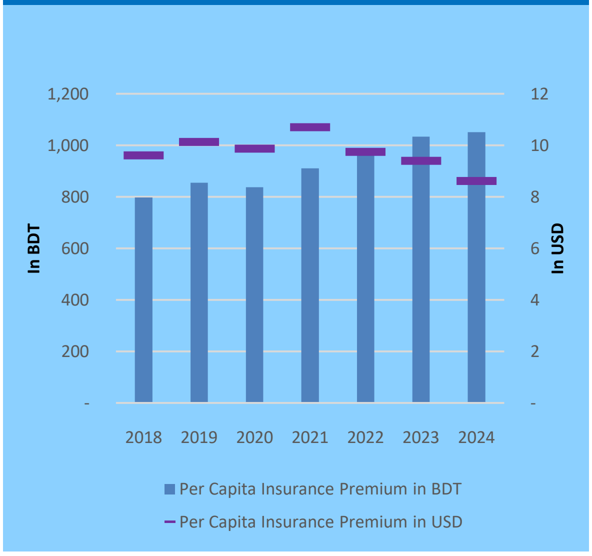
[R] Revised
[48] Gross insurance premium in a particular year to GDP.
[49] Average per capita spending on gross insurance premium.

CHART 9.4: INSURANCE PENETRATION RATIO



Note: Calculation based on GDP (Base Year 2015-2016).
Source: IDRA, Calculation: FSD, BB.

CHART 9.5: INSURANCE DENSITY RATIO



Sources: i) IDRA; ii) Monthly Economic Trends, BB; iii) Statistical Yearbook of Bangladesh 2021, BBS; and iv) Population and Housing Census 2022, BBS.
Calculation: FSD, BB.

The insurance density ratio, calculated as average per capita spending on gross insurance premium of the country, was low as the majority of people in Bangladesh remain outside the insurance coverage, mainly due to lower savings rates, higher complexity in insurance claims and lack of financial literacy. However, the density ratio increased to BDT 1,051.52 in 2024 from BDT 1,033.47[R] in 2023. Although the density ratio increased slightly in BDT, it decreased in the USD, down from USD 9.40[R] to USD 8.62, due to the depreciation of the BDT against the USD (Chart 9.5).

9.3 KEY INDICATORS OF NON-LIFE INSURANCE SECTOR

In the review period, non-life insurance companies exhibited mixed performance. These companies performed well in terms of return on investment, management expense ratio, and investment-to-total assets ratio. However, further deterioration was observed in claim settlement ratio and risk retention rate.

A higher claims settlement ratio boosts policyholders' confidence and improves the reputation of the insurance providers. The claims settlement ratio[50] contracted significantly to 33.74 percent, down 7.61 percentage points from the preceding period. It was also observed that investment-to-total assets ratio experienced a sizeable growth and reached 58.18 percent, which was 47.92 percent in 2023. Furthermore, management expense ratio of non-life insurance companies shrank substantially. The ratio was 50.26 percent in 2023 and plunged to 30.15 percent in 2024. Return on investment, another major indicator, rose to 6.27 percent in 2024, up from 4.50 percent in 2023, indicating an overall increase in profitability (Table 9.1). However, risk retention rate of the non-life insurance sector marginally increased, indicating relatively higher risk sharing among the insurance companies.

[R] Revised
[50] Claims settlement ratio (CSR) means the percent of claims settled by the insurance providers in a year out of the total claims.

TABLE 9.1: KEY INDICATORS OF NON-LIFE INSURANCE SECTOR

Indicators	2022	2023	2024
Claims Settlement Ratio	33.44%	41.35%	33.74%
Management Expense Ratio	42.24%	50.26%	30.15%
Return on Investment	5.65%	4.50%	6.27%
Investment-to-Total Assets Ratio	47.40%	47.92%	58.18%
Risk Retention Rate	55.10%	52.93%	54.74%

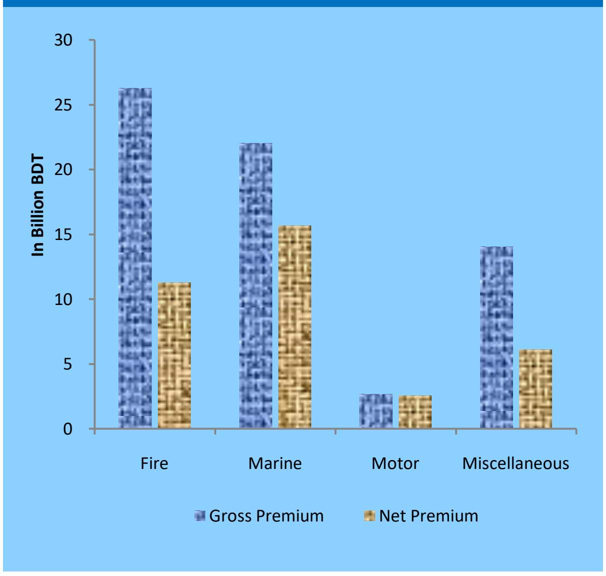
Source: IDRA, Calculation: FSD, BB.

9.4 COMPARISON AMONG DIFFERENT CATEGORIES OF NON-LIFE INSURANCE

Across different business types, gross and net premium experienced a range of variations in 2024 due to different risk retention rates of categories.

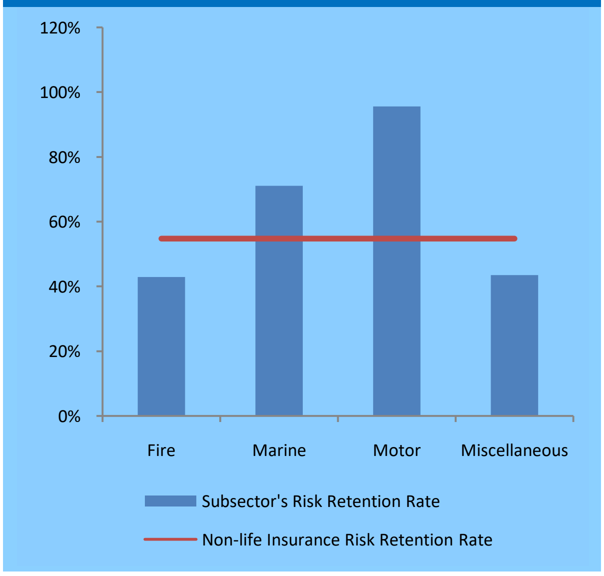
Non-life insurance covers fire, marine, motor, and miscellaneous insurance in Bangladesh. The largest source of gross premium in 2024 was attributed to fire insurance, followed by marine, miscellaneous and motor insurance, but in the net premium category, marine insurance took the top position, followed by fire, miscellaneous and motor (Chart 9.6). Risk retention rates varied across different categories (Chart 9.7). It is noteworthy that the overall risk retention rate for non-life insurance was 54.74 percent in 2024. Among the subsectors, motor insurance registered the highest risk retention rate at 95.60 percent, followed by marine (71.07 percent), fire (42.92 percent) and miscellaneous (43.47 percent).

CHART 9.6: GROSS AND NET PREMIUM BY BUSINESS IN 2024



Source: IDRA; Calculation: FSD, BB.

CHART 9.7: RISK RETENTION RATE BY BUSINESS IN 2024



Source: IDRA; Calculation: FSD, BB.

9.5 KEY INDICATORS OF LIFE INSURANCE SECTOR

Most of the key indicators of life insurance companies remained unchanged, except for claims settlement ratio and risk retention rate, which experienced a considerable deterioration.

In 2024, the claims settlement ratio of life insurance companies declined by 6.16 percentage points and stood at 66.27 percent, while management expense ratio increased to 35.56 percent from 32.63 percent in the preceding year. Investment-to-total assets ratio of life insurance companies decreased marginally; however, return on investment grew by 0.75 percentage points, reaching 7.96 percent, up from 7.21 percent in 2023. Risk retention rate declined considerably and settled at 93.41 percent in 2024 compared to 99.34 percent in 2023 (Table 9.2).

TABLE 9.2: KEY INDICATORS OF LIFE INSURANCE

Indicators	2022	2023	2024
Claims Settlement Ratio	66.97%	72.43%	66.27%
Management Expense Ratio	32.52%	32.63%	35.56%
Return on Investment	7.39%	7.21%	7.96%
Investment-to-Total Assets Ratio	83.11%	83.12%	83.00%
Risk Retention Rate	99.48%	99.34%	93.41%

Source: IDRA; Calculation: FSD, BB.

9.6 CONCENTRATION IN INSURANCE SECTOR

The insurance sector demonstrated a high degree of concentration, in terms of assets and gross premium, due to the dominance of few companies in the market.

It is observed that insurance sector demonstrates a high level of concentration, as the top five companies account for the lion's share of assets and gross premium (Table 9.3). A single government entity in insurance sector, Sadharon Bima Corporation (SBC), held 42.17 percent of the non-life insurance assets while possessed 27.10 percent of the non-life insurance sector's gross premium. As insurance sector is considerably concentrated in the top five insurers, it may be exposed to systemic risk. Close monitoring and supervision are recommended for these companies to ensure better industry stability.

TABLE 9.3: CONCENTRATION OF ASSETS AND GROSS PREMIUM IN INSURANCE COMPANIES IN 2024

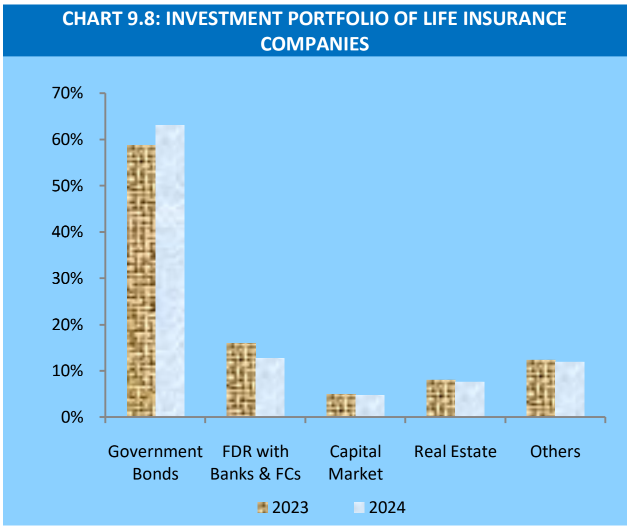
Concentration in Life Insurance		
	Asset Size	**Gross Premium**
Total sector (In billion BDT)	485.60	122.66
Top 5 insurance companies (In billion BDT)	373.57	80.03
Concentration in top 5 companies	76.93%	65.25%
Concentration in Jibon Bima Corporation (JBC)*	6.45%	7.01%
Concentration in Non-Life Insurance		
	Asset Size	**Gross Premium**
Total sector (In billion BDT)	205.30	64.90
Top 5 insurance companies (In billion BDT)	128.65	36.42
Concentration in top 5 companies	62.67%	56.02%
Concentration in Sadharon Bima Corporation (SBC)*	42.17%	27.10%

Note: * Public sector insurance companies.
Source: IDRA; Calculation: FSD, BB.

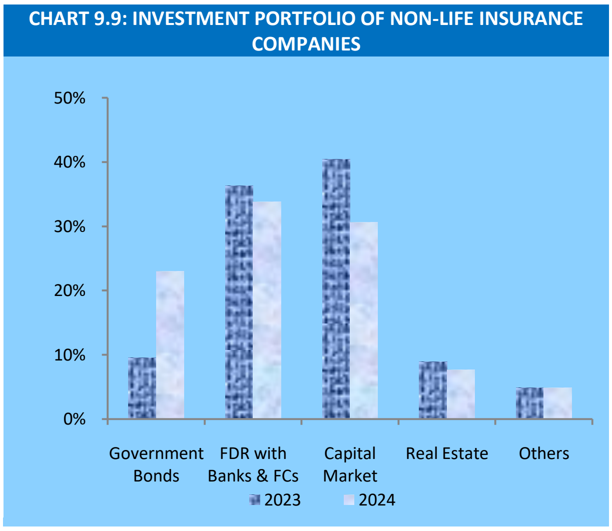
9.7 INTERCONNECTEDNESS BETWEEN INSURANCE AND OTHER SECTORS

Through its investment, the insurance sector is closely linked to banks and finance companies, capital market and bond market, making it significantly vulnerable in case of any unfavorable incident materialized in those markets.

Life insurance companies invested their major portion in government bonds, which was 63.09 percent of their total investment. The remaining portion was allocated to fixed deposit receipt (FDR) with banks and FCs, other investments, real estate and capital markets (Chart 9.8). Conversely, non-life insurance companies prioritized FDR and capital markets as their primary investment mode, followed by government bonds and others (Chart 9.9).

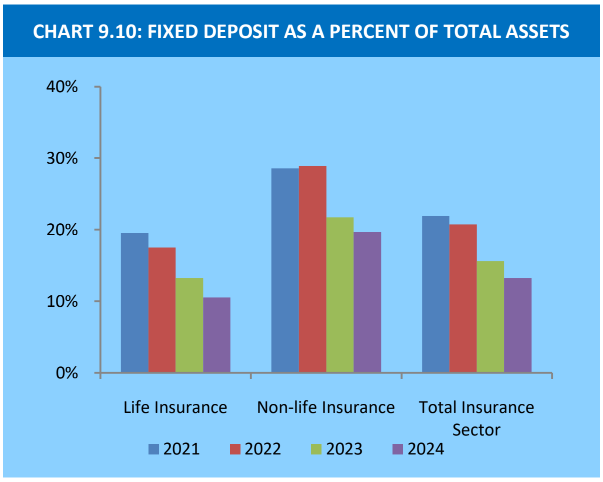


Source: IDRA; Calculation: FSD, BB.

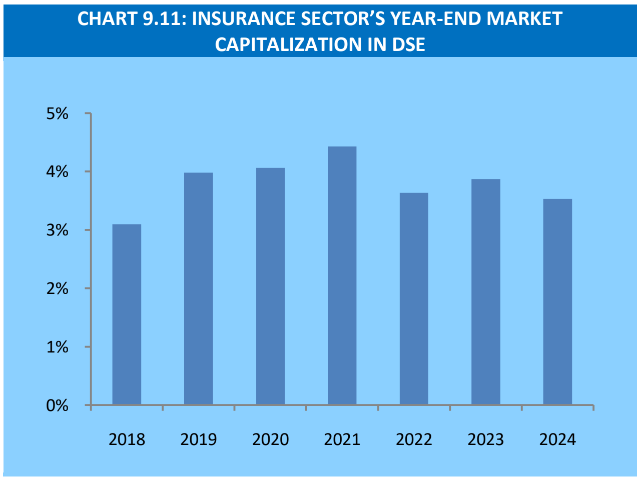


Source: IDRA; Calculation: FSD, BB.

Although fixed deposit with banks and FCs is one of the major sources of income for insurance companies, insurance sector's fixed deposit contracted in recent years and stood at 13.25 percent in 2024 from 15.57[R] percent in 2023 (Chart 9.10). Indeed, the sector's fixed deposits were equivalent to only 0.95 percent of the total fixed deposits held with the banking sector. Hence, sudden and unexpected withdrawal of fixed deposits by insurance companies may not create significant threat to the banking sector. On the other hand, any stress in the banking and finance companies could have a negative impact on the insurance sector, as a significant portion of its assets would be affected.



Source: IDRA; Calculation: FSD, BB.



Source: DSE.

Insurance companies are moderately exposed to equity price risk as 10.59 percent of their total investments are placed in the capital market. Thus, the insurance sector's investment might be strained due to the weak performance of the capital market. On the other hand, the aggregate market capitalization of the listed insurance companies in the Dhaka Stock Exchange (DSE) further declined to 3.53 percent in 2024 from 3.87 percent in 2023, revealing a limited impact on the capital market (Chart 9.11).

[R] Revised

CHAPTER 10 : MICROFINANCE INSTITUTIONS (MFIs)

Microfinance Institutions (MFIs) play a vital role in Bangladesh by promoting financial inclusion and poverty alleviation through extending loans and ancillary support to marginalized populations engaged in various income-generating activities. The microfinance sector operates under the aegis of the Microcredit Regulatory Authority (MRA), which ensures regulatory compliance and safeguards consumer interest. In the fiscal year 2024, a total of 724 MFIs, operating through 26,071 branches, delivered microfinance and related services to over 41 million individuals across the country. Since its inception, the MRA has remained committed to advancing and sustaining the development of the microfinance sector by enacting and enforcing laws, regulations, and directives. This includes rigorous monitoring through both onsite and offsite inspections, as well as strengthening institutional capacity through targeted training programs and workshops. The resilience of the microfinance sector remains crucial for maintaining overall financial stability of the economy.

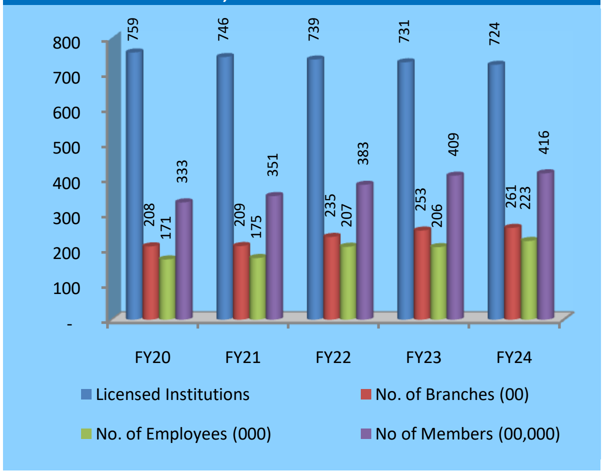
10.1 ACTIVITIES OF MICROFINANCE INSTITUTIONS (MFIs)

Microfinance Institutions (MFIs) in Bangladesh engage in endeavors predominantly aimed at delivering financial services to the unbanked and economically marginalized sectors of the population. These MFIs provide a variety of financial products, including microloans, unsecured loans, agricultural financing, seasonal loans, funds for disaster mitigation, and a range of savings schemes for their constituents.

In FY24, this sector has catered financial services to 41.56 million individuals and microenterprises, reflecting a 1.71 percent augmentation from FY23. Concurrently, there had been a 2.90 percent increase in the number of operational branches and an 8.48 percent rise in personnel compared to the preceding fiscal year (Chart 10.1). However, a declining trajectory in the number of licensed MFIs had been observed over the past four consecutive fiscal years (FY21 to FY24), culminating in the cancellation of licenses for seven MFIs in FY24 due to non-compliance infractions.

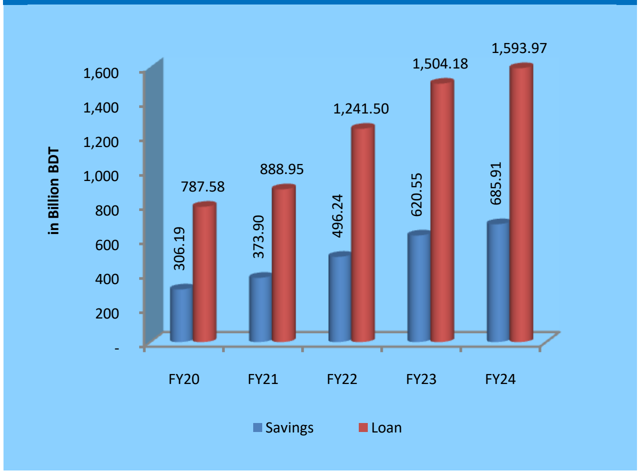
During FY24, the outstanding loan balances and savings within this sector were recorded at BDT 1594.10 billion and BDT 685.91 billion respectively, representing increases of 5.98 percent and 10.53 percent compared to FY23 (Chart 10.2).

CHART 10.1: NUMBER OF LICENSED INSTITUTIONS, BRANCHES,EMPLOYEES AND MEMBERS



Source: MRA.

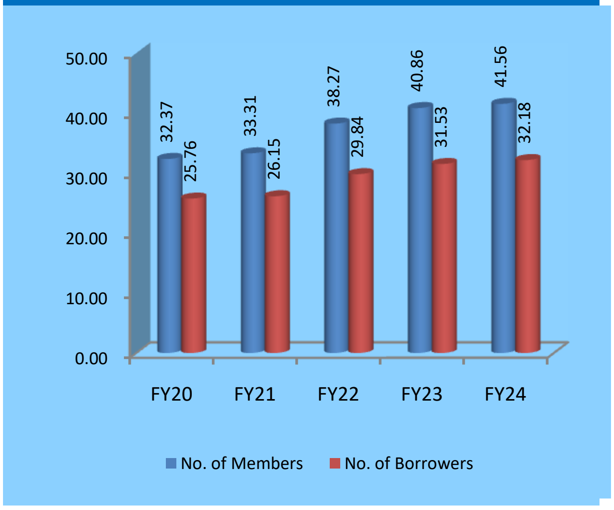
CHART 10.2: SAVINGS AND LOANS SCENARIO OF MFIS SECTOR



Source: MRA.

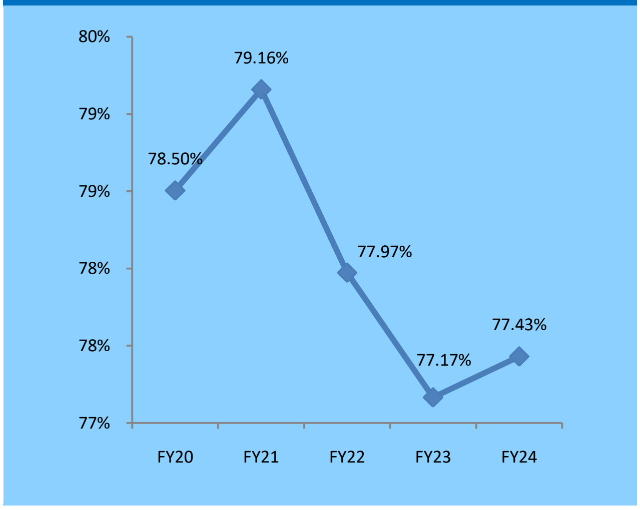
Throughout the fiscal years 2020 to 2024, the demographic of borrowers and members associated with Microfinance Institutions (MFIs) had exhibited a notable upward trajectory. During FY24, these figures augmented by 0.65 million and 0.70 million, respectively, in comparison with the antecedent fiscal year (Chart 10.3). After a continuous decline in the ratio of borrowers to members at previous two consecutive financial years, the ratio experienced a nominal increase of 0.26 percentage point in FY24 (Chart 10.4).

CHART 10.3 TREND OF SECTOR OUTREACH



Source: MRA; Calculation: FSD, BB.

CHART 10.4: BORROWERS-TO-MEMBERS RATIO

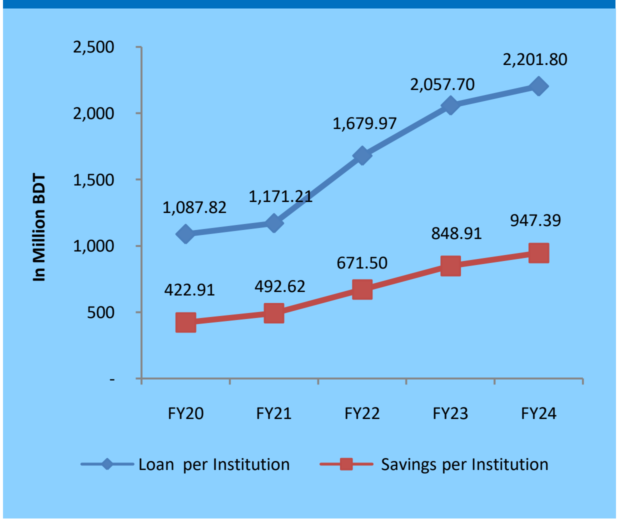


Source: MRA; Calculation: FSD, BB.

The average loans and savings per institution increased gradually over the last five fiscal years. In FY24, they increased by 7.00 percent and 11.60 percent respectively compared to those of the preceding fiscal year (Chart 10.5).

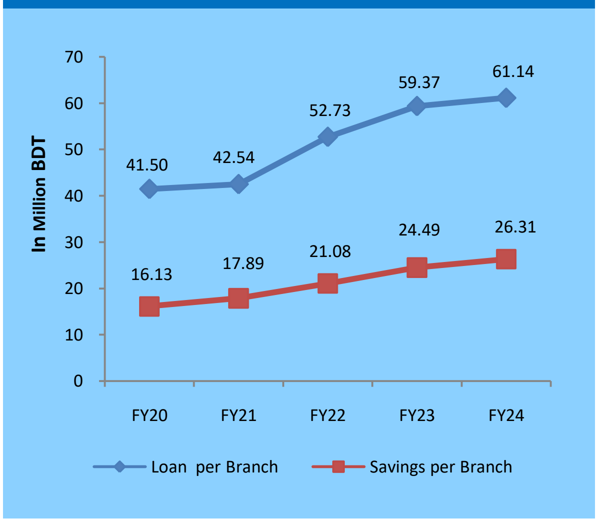
Likewise, the growth in loans and savings per MFI branch exhibited similar trend during the review period. In particular, the average loans and savings per branch were BDT 61.14 million and BDT 26.31 million respectively in FY24, which were 2.98 percent and 7.42 percent higher than those of FY23 (Chart 10.6).

CHART 10.5: AVERAGE LOANS AND SAVINGS PER INSTITUTION



Source: MRA; Calculation: FSD, BB.

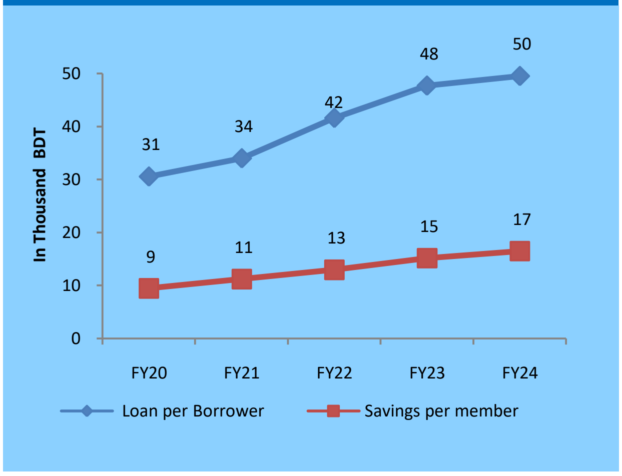
CHART 10.6: AVERAGE LOANS AND SAVINGS PER BRANCH



Source: MRA; Calculation: FSD, BB.

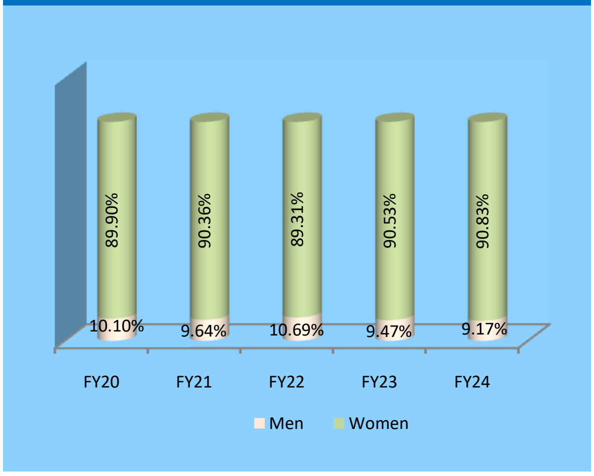
Average size of loans and savings per borrower and per member experienced an upward trend in the last five financial years. In FY23, the average of loans per borrower was 14.68 percent higher than that of the previous financial year. Likewise, the average savings per member was 17.12 percent higher than that of the preceding fiscal year (Chart 10.7).

CHART 10.7: AVERAGE LOANS PER BORROWER AND SAVINGS PER MEMBER



Source: MRA; Calculation: FSD, BB.

CHART 10.8: STRUCTURE OF MEMBERSHIP



Source: MRA; Calculation: FSD, BB..

The MFI sector is mostly dominated by female members (90.83 percent), and their number is increasing steadily, experiencing a 2.05 percent growth in FY24 compared to FY23 (Chart 10.8). The number of male members appeared at 3.81 million, a decrement of 1.55 percent from the preceding year. The proportion of male membership got reduced by 0.30 percentage points in FY24.

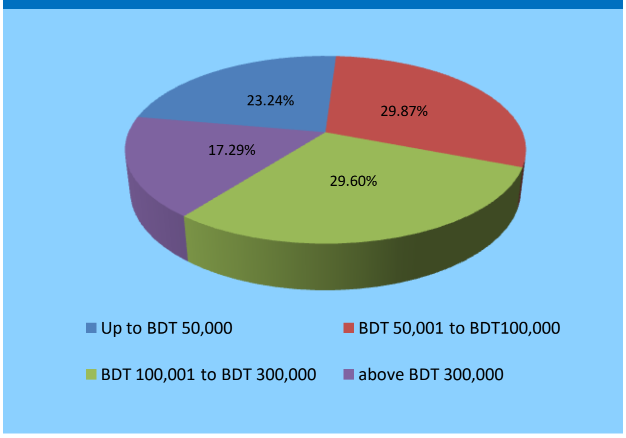
In FY24, out of 37.75 million, 29.21 million female members (77.38 percent) and out of 3.81 million, 2.96 million male members (77.69 percent) were found to avail credit facilities from the MFIs. This engagement rate indicated that, in aggregate, female participation in getting access to microcredit was noticeably higher than their male counterpart.

10.2 LOAN STRUCTURE

In FY24, outstanding loans lying in the ranges of up to BDT 50,000; BDT 50,001 to 100,000; BDT 100,001 to 300,000 and above BDT 300,000 constituted 23.24 percent, 29.87 percent, 29.60 percent, and 17.29 percent shares, respectively (Chart 10.9).

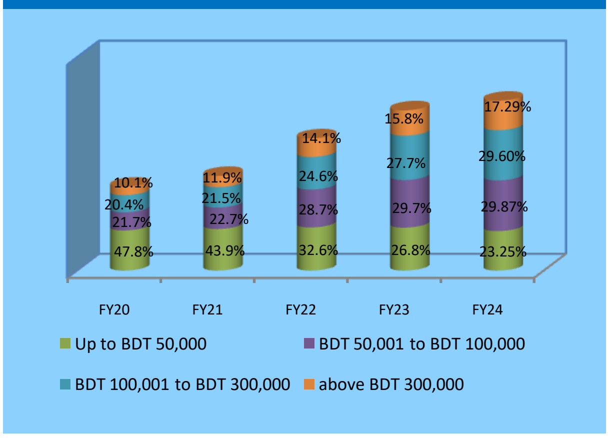
The proportionate share of outstanding loans given under the segment of up to BDT 50,000 declined by 3.55 percentage points in FY24. On the other hand, the proportionate shares of outstanding loans ranging from BDT 50,001 to 1,00,000; BDT 100,001 to 300,000; and above BDT 3,00,000 increased by 0.14 percentage points, 1.93 percentage points, and 1.48 percentage points, respectively (Chart 10.10). A bit shrinkage of outstanding amount of small credits, and rising demand for larger amount of microcredit especially in the rural areas reflects the relative affluence and affordability of the borrowers and thus improvement of socio-economic scenario of the economy over the years.

CHART 10.9: OUTSTANDING LOAN SHARE IN FY24



Source: MRA; Calculation: FSD, BB.

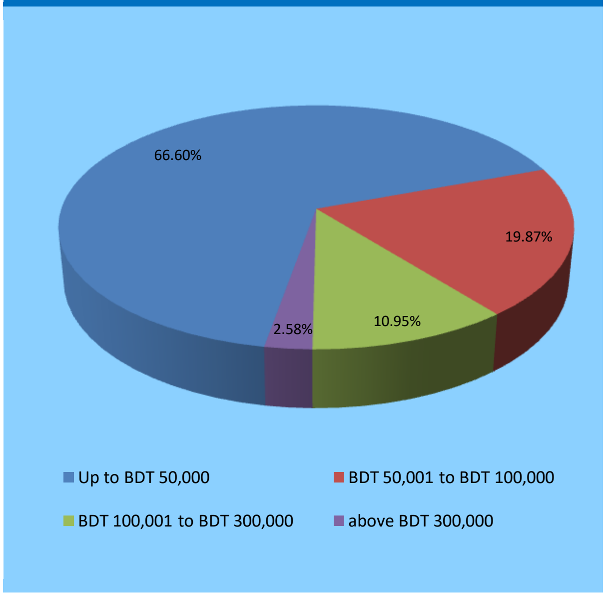
CHART 10.10: OUTSTANDING LOAN STRUCTURAL TREND



Source: MRA; Calculation: FSD, BB.

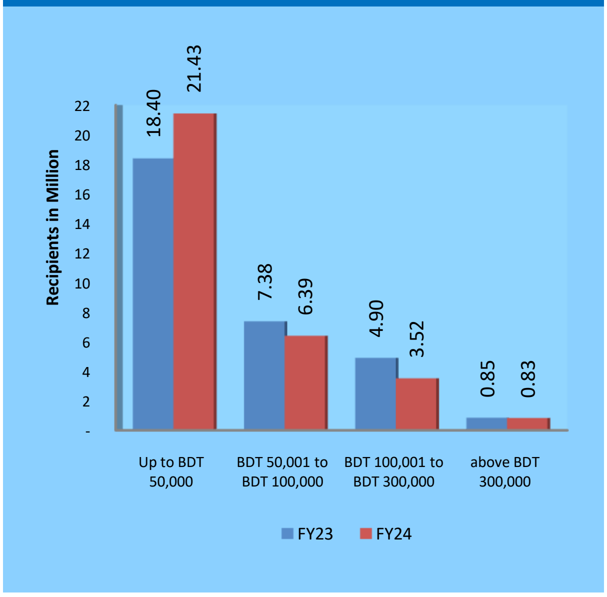
In FY24, proportionate shares of loan recipients in the segments of up to BDT 50,000; BDT 50,001 to 100,000; BDT 100,001 to 300,000 and above BDT 300,000 stood at 66.60 percent, 19.87 percent, 10.95 percent and 2.58 percent respectively (Chart 10.11). Out of 32.18 million, 21.43 million members in FY24 took loans lying in the range of up to BDT 50,000, which was 16.46 percent higher than that of FY23. Conversely, in comparison with FY23, the number of members who got loans in the ranges of BDT 50,001 to 100,000, BDT 1,00,001 to 3,00,000 and above BDT 3,00,000 got decreased by 13.35 percent, 28.07 percent and 2.46 percent respectively and reached to 6.39 million, 3.52 million, and 0.83 million (Chart 10.12). These indicators reveal that number of recipients or borrowers for smaller amount of microcredit is increasing gradually.

CHART 10.11: LOAN RECIPIENTS' COMPOSITION IN FY24



Source: MRA; Calculation: FSD, BB.

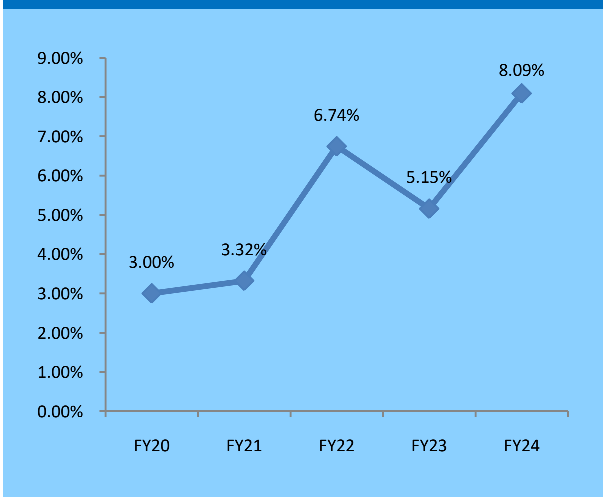
CHART 10.12 LOAN RECIPIENTS COMPARISON BETWEEN FY23 AND FY24



Source: MRA; Calculation: FSD, BB.

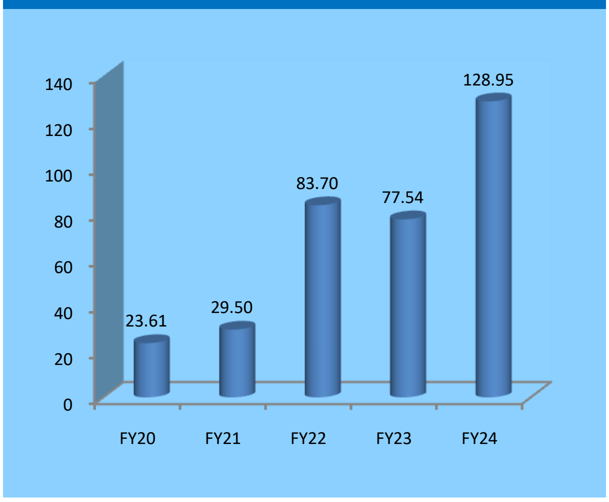
After having observed an fluctuating trend over the last five fiscal years (FY20 to FY24), non-performing loan (NPL) ratio of MFI sector increased noticeably and reached 8.09 percent in FY24 (Chart 10.13). Total NPL stood at BDT 128.95 billion in FY24, which was BDT 51.41 billion or 66.30 percent higher than that of FY23 (Chart 10.14). Particularly, total outstanding loans in MFIs sector rose by 5.98 percent where NPL ratio increased by 2.93 percentage points in FY24 compared to that of FY23. Close monitoring and surveillance is indispensable for maintaining soundness and stability of this sector in the near future.

CHART 10.13: NON-PERFORMING LOAN RATIO



Source: MRA; Calculation: FSD, BB.

CHART 10.14: TREND OF NON-PERFORMING LOAN

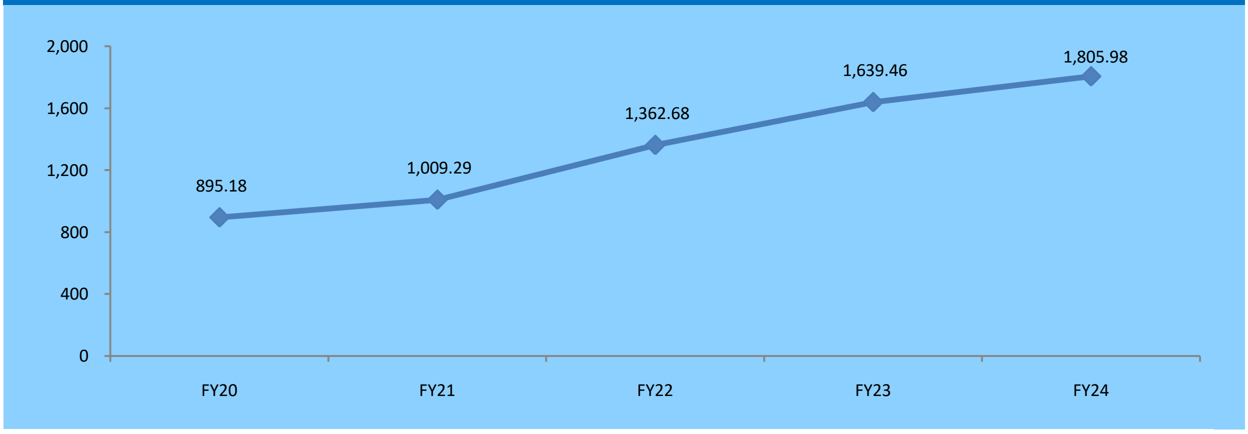


Source: MRA; Calculation: FSD, BB.

10.3 SOURCES OF FUNDS AND ITS COMPOSITION

Aggregate fund of MFIs was BDT 1805.98 billion at end FY24, which was 10.16 percent higher than that of FY23 (Chart 10.15). This expansion of fund was mainly due to a notable increase in members' savings by 10.54 percent, own capital by 14.29 percent, other loans by 163.47 percent, loans from PKSF by 9.55 percent and donor fund by 12.95 percent from FY23.

CHART 10.15:TOTAL FUND OF MFIs

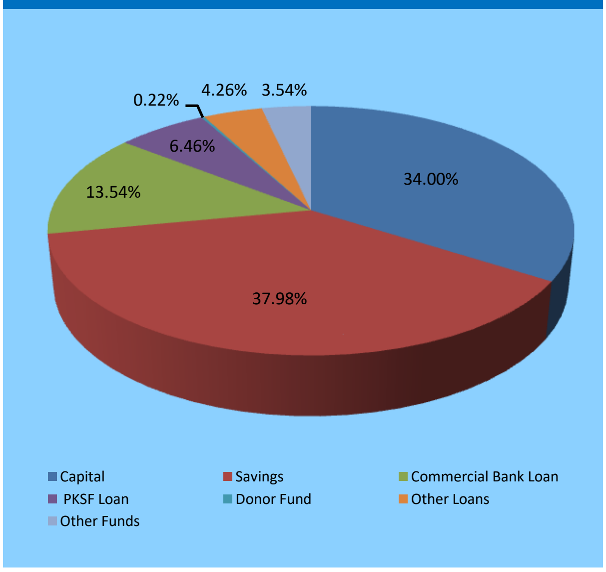


Source: MRA; Calculation: FSD, BB.

More than three-fourth of the total funds consisted of the three major segments of MFI sector in FY24. In particular, savings from members, capital and loans from commercial banks constituted 37.98 percent, 34.00 percent and 13.54 percent of total fund of the MFIs, respectively (Chart 10.16). Though the funds obtained from the donors slightly increased in FY24, its share in total fund was insignificant (0.22 percent) alike the previous year, which illustrates that MFIs have now become almost self-reliant.

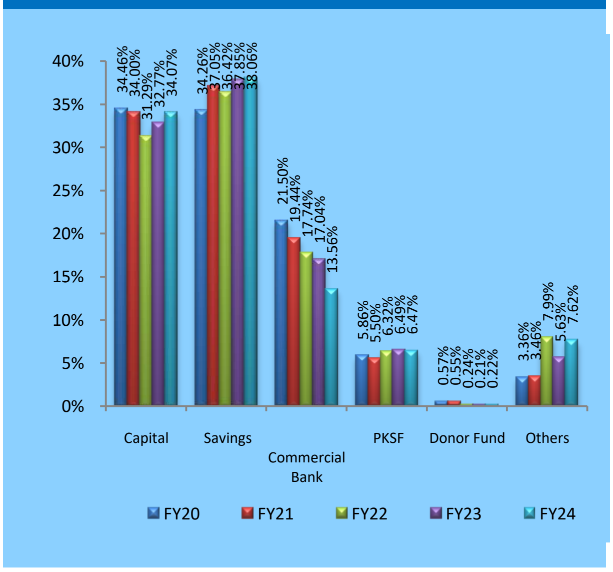
It is noteworthy that contribution of capital as a source of fund slightly increased from 32.77 percent in FY23 to 34.07 percent in FY24. Similarly, contribution of member savings rose from 37.85 percent to 38.06 percent. On the other hand, loans from commercial banks reduced from 17.04 percent to 13.56 percent during the same period. (Chart 10.17).

CHART 10.16: SOURCES OF FUND IN FY24



Source: MRA; Calculation: FSD, BB.

CHART 10.17: TREND OF SOURCES OF FUND (FY20-FY24)



Source: MRA; Calculation: FSD, BB.

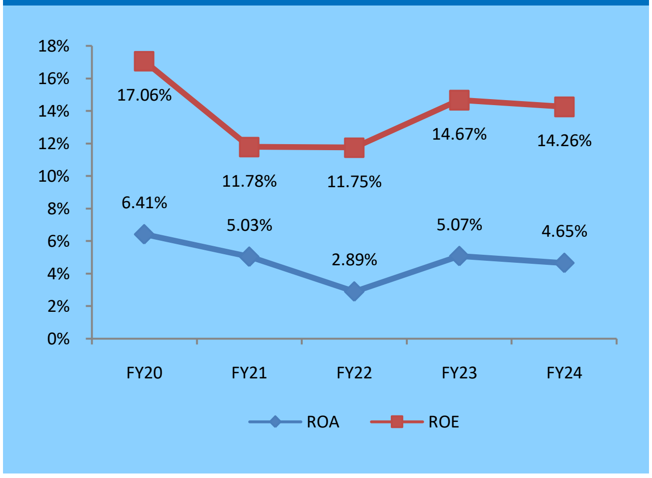
10.4 OPERATIONAL SUSTAINABILITY OF MFIs

Although Donors' fund increased in FY24, there was a more substantial rise in equity from retained earnings and members' savings. This growth was essential for ensuring the sector's long-term sustainability and enhancing its ability to withstand potential financial shocks.

Return on assets (ROA) and return on equity (ROE) are two major indicators of operational sustainability of financial institutions. In FY24, ROA and ROE of MFIs were 4.65 percent and 14.26 percent, where the corresponding values were 5.07 percent and 14.67 percent in FY23, respectively (Chart10.18). It is noted that the decrease in ROA and ROE of MFIs sector could largely be attributed to less recovery of non-performing loans in FY24.

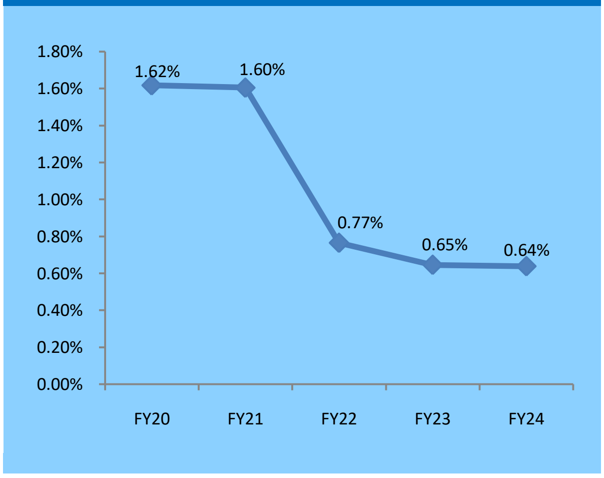
On the other hand, a decreasing trend was getting continued in donation-to-equity ratio (dependency ratio) of this sector since FY22, which was indeed an indication of the strong improvement in self-sustainability of this sector (Chart 10.19).

CHART 10.18: OPERATIONAL SUSTAINABILITY



Source: MRA.

CHART 10.19: FINANCIAL DEPENDENCY



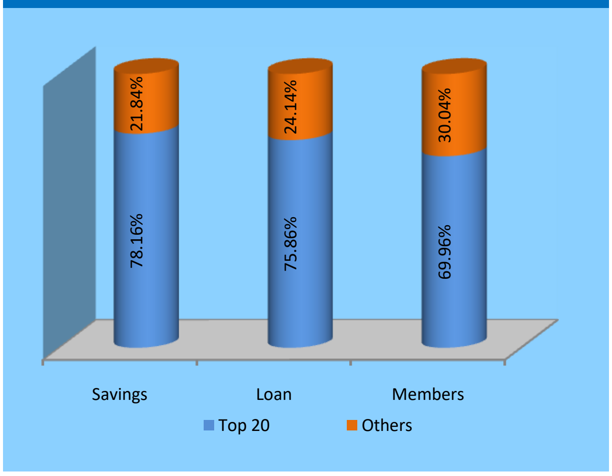
Source: MRA.

The microfinance sector is highly concentrated in terms of loans, savings, and a large number of members within a small number of institutions. The top 10 MFIs provided financial services to 59.93 percent of total members and these MFIs mobilized 68.07 percent of total savings of the members. Likewise, 65.08 percent of the total outstanding loans pertained to these MFIs as of end-FY24 (Chart 10.20). For top 20 MFIs, the corresponding values were 69.96 percent, 78.16 percent, and 75.86 percent respectively (Chart 10.21).

CHART 10.20: CONCENTRATION OF MFI SECTOR IN TERMS OF LOANS, SAVINGS AND MEMBERS HELD BY TOP 10 IN FY24

Source: MRA; Calculation: FSD, BB.

CHART 10.21: CONCENTRATION OF MFI SECTOR IN TERMS OF LOANS, SAVINGS AND MEMBERS HELD BY TOP 20 IN FY24



Source: MRA; Calculation: FSD, BB.

The overall performance of MFIs in Bangladesh was moderately stable during FY24. Although the defaulted loan ratio in the microfinance sector remains lower particularly in consideration of that of the banking and finance companies sector during the review year, it has risen at a faster pace since FY23. This trend calls for close monitoring to maintain a stable and resilient microfinance environment. To enhance transparency and accountability, the Microcredit Regulatory Authority (MRA) has introduced an e-regulatory system, enabling MFIs to submit reports digitally on a monthly, half-yearly, and annual basis. Additionally, to address the issue of overlapping individual loans, the MRA launched the Microfinance Credit Information Bureau (MF-CIB) in February 2024. This initiative is expected to reduce credit risk and encourage responsible lending practices. It aligns with the broader goals of building a digital, data-driven economy and supports various government development strategies.

CHAPTER 11 : DEVELOPMENTS IN THE FINANCIAL SYSTEM

In 2024, Bangladesh continued to grapple with persistent challenges, including elevated inflation, pressure on the exchange rate, and a rising trend in non-performing loans. The situation was further exacerbated by domestic disturbances in the middle of the year, placing additional stress on the economy. In response to the government, Bangladesh Bank and other financial regulators undertook a range of measures to address these issues. Key initiatives are outlined below:

11.1 ASSESSMENT OF FINANCIAL STABILITY BY BANGLADESH BANK

Throughout the review year, the Financial Stability Department (FSD) of Bangladesh Bank conducted comprehensive analysis of the country's financial system, highlighting key trends, strengths, risks, and vulnerabilities through its annual Financial Stability Report (FSR) and the Quarterly Financial Stability Assessment Reports (QFSARs). Furthermore, Bangladesh Systemic Risk Report (BSRR) served as a seminal publication, presenting vital qualitative and quantitative indicators of systemic risks within the nation's financial landscape.

11.2 REGULATIONS AND POLICIES FOR BANKING SECTOR

A) FORMATION OF THE BOARD OF DIRECTOORS AND THE DUTIES AND RESPONSIBILITIES OF THE DIRECTORS OF A BANK COMPANY

A circular has been issued by Bangladesh Bank to follow the guideline relating to the constitution of the Board of Directors of a bank company and the duties and responsibilities of the Directors. According to the guideline, the Board of Directors will have a maximum of 20 members of which minimum three members must be independent directors. If the board has less than 20 members, at least two independent directors are mandatory. Besides, maximum three members from a family can hold the directorship of a bank company at the same time. Minimum age of a bank director will be 30 years with at least 10 years of management, business, or professional experience. Willful loan defaulters and tax evaders will be considered ineligible for directorship.*[Ref: BRPD Circular No. 02, Date: February 11, 2024]*

B) APPOINTMENT OF 'INDEPENDENT DIRECTORS' IN BANKING COMPANIES AND THEIR DUTIES AND RESPONSIBILITIES AS WELL AS REMUNERATIONS

Bangladesh Bank has issued a policy related to the appointment of 'Independent Directors' in bank companies and their duties, responsibilities as well as remunerations to ensure good governance in banking sector. Board of Directors will have at least 03 (Three) independent directors (at least 02 independent directors if total directors are less than 20) and must be aged within the range of 45 to 75 years. The independent directors should have minimum 10 years of management, business or professional experience along with no history of tax default or bankruptcy as declared by a court. Moreover, independent directors must not have any real interest or visible interest in any bank or with any person associated with bank at any given time. *[Ref: BRPD Circular No. 03, Date: February 14, 2024]*

C) POLICY ON LOAN/INVESTMENT WRITE-OFF AND FORMATION OF WRITTEN-OFF LOAN RECOVERY UNIT AND ITS FUNCTIONS

BB has issued a policy with a roadmap to reduce defaulted loans and ensure good governance in the banking sector. According to the policy, 5 percent of the recovered amount against the written-off loans will be distributed to the respective recovery officers as an incentive where maximum 10 percent of the distributable amount will be received by the managing director/chief executive officer of the bank. The written-off loan cannot be rescheduled. The repayment schedule for written-off loans can be determined only under the exit plan. The written-off loan recovery unit should be formed within 15 days of issuance of the policy and sufficient officers will be deployed within 30 days of formation of the unit. *[Ref: BRPD Circular No. 04, Date: February 18, 2024]*

D) POLICY ON APPOINTMENT AND RESPONSIBILITIES OF THE MANAGING DIRECTOR (MD)/CHIEF EXECUTIVE OFFICER (CEO) OF A BANK COMPANY

A detailed guideline has been issued by BB regarding the appointment and responsibilities of the Managing Director (MD)/Chief Executive Officer (CEO) of a bank company. The proposed MD/CEO must have at least 20 years of banking experience. The age range for eligible candidates has been set between 45 and 65 years and the tenure will be three years. Appointment, reappointment or dismissal of a MD/CEO requires approval from Bangladesh Bank. *[Ref: BRPD Circular No. 05, Date: February 27, 2024]*

E) A COMMITTEE OF BANGLADESH BANK ON EVALUATION OF ELIGIBILITY AND SUITABILITY BEFORE APPOINTMENT/REAPPOINTMENT TO THE POST OF MANAGING DIRECTOR OR CHIEF EXECUTIVE OFFICER OF A BANK COMPANY

Bangladesh Bank has formed a four member evaluation committee for bank companies other than specialized banks to assess the eligibility and suitability before appointment or reappointment to the post of managing director or CEO with a view to ensuring good governance in the management of banks and to protect the interests of the depositors. The Deputy Governor in charge of BRPD will lead the committee while two Executive Directors in charge of BRPD, DOS and Director from BRPD (Division-2) will be the members. *[Ref: BRPD Circular Letter No. 12, Date: March 03, 2024]*

F) REGARDING IDENTIFICATION AND FINALIZATION OF WILLFUL DEFAULTERS AND ACTION TO BE TAKEN AGAINST THEM

Bangladesh Bank has issued a circular to form a “Willful Loan Defaulters Unit” to identify willful defaulters and take necessary action against them in order to reduce non performing loan and to restore credit discipline in the banking sector. If a borrower turns into a loan defaulter, the bank's unit must identify whether the borrower was a willful loan defaulter or not within 30 days. To impose restrictions on foreign travel, getting trade license and registration for a company, BB will send the list of willful defaulters to the concerned government agencies. If a bank doesn’t comply with these instructions, BB will impose a fine of BDT 5 million to BDT 10 million on the bank. *[Ref: BRPD Circular No. 06, Date: March 12, 2024]*

G) PROVIDING LOAN FACILITIES TO ANY BORROWER OF A GROUP IF A BORROWER OF THE SAME GROUP IS NOT WILLFUL DEFAULTER

Bangladesh Bank has issued a circular allowing banks to provide loans to borrowers within a group, as long as any defaulting person, institution, or company is proved not to be a willful defaulter and if there exists reasonable causes for failure to repay the loan, other institutions or companies within that group will be considered for loan facilities with prior approval from the BB. *[Ref: BRPD Circular No. 07, Date: 3 April, 2024]*

H) GUIDELINES TO BE FOLLOWED FOR AMALGAMATION OF BANKS

Bangladesh Bank issued a circular with guidelines for bank amalgamation. According to the guidelines, board members and top executives of merging banks cannot hold positions in the acquiring entity. Additionally, no employees of the merged entity will be fired up to three years of the takeover. The guidelines follow the Prompt Corrective Action (PCA) framework issued on December 5, 2023. *[Ref: BRPD Circular No. 08, Date: 4 April, 2024]*

I) INTEREST/PROFIT RATE OF LOAN/INVESTMENT

Bangladesh Bank has withdrawn the SMART-based interest rate system and introduced a fully market-based rate determined by banker-customer relationships. Banks will declare sector-specific rates on loans and rates may vary by 1 percent based on customer risk profiles. Penal interest on overdue loans is capped at 1.5 percent, and no excess service charges are allowed. Islamic banks will follow the same instructions for determining profit rates for their investment. *[Ref: BRPD Circular No. 10, Date: 8 May, 2024]*

J) REGARDING REPAYMENT PROCEDURE OF TERM LOAN

Bangladesh Bank has introduced a new directive to ease the repayment of industrial term loan and housing finance following the withdrawal of the SMART rate, leading to increased interest rates and higher EMIs. Banks must reschedule installments for unclassified loans without raising repayment amounts, subject to customers' written application. *[Ref: BRPD Circular Letter No. 29, Date: 25 June, 2024]*

K) EXIT POLICY FOR RECOVERY/SETTLEMENT OF LOANS

Bangladesh Bank has issued a circular which provides a structured approach to banks for recovery of defaulted loans. According to the policy, borrowers must deposit in cash at least 10 percent of outstanding loan to qualify for this facility, whereas bank will settle the facility within 60 days from the time of application. It is noteworthy that there will be no change in the quality of the loan untill it is fully repaid. Banks have also been instructed to develop their own policies in line with the policies and derectives of BB. Islamic banks will follow the same instructions for recovery of regular and defaulted loans/investments. *[Ref: BRPD Circular No. 13, Date: 08 July, 2024]*

L) CASH MARGIN FOR IMPORT L/C

Bangladesh Bank has issued a circular letter stating that the cash margin for opening import LC will be determined based on the banker-customer relationship. This instruction will be applied to all products, except for certain luxury goods and domestically produced import substitutes goods. However, a 100 percent cash margin is required for the import of goods such as motor vehicles, cosmetics, electrical and electronic items, gold and jewellery etc.*[Ref: BRPD Circular Letter No. 41, Date: 05 September, 2024]*

M) MASTER CIRCULAR ON LOAN CLASSIFICATION AND PROVISIONING

To implement the International Financial Reporting Standard 9 (IFRS 9) and ensure adherence to international best practices, Bangladesh Bank plans to maintain Expected Credit Loss (ECL) methodology-based provisioning system for banks and thus a master circular has been issued on loan classification and provisioning, which will come into effect from 01 April 2025. Based on the objective criteria, the entire loan for all categories will be classified as Sub-Standard (SS) if the past due/overdue is greater than or equal to 3 months but less than 6 months, Doubtful (DF) for greater than or equal to 6 months but less than 12 months and Bad/Loss for greater than or equal to 12 months. Besides, banks will maintain 1 percent general provision of loan outstanding for STD-0, STD-1, STD-2 and 5 percent for special mention account (SMA). For specific provision, the base for provision for SS, DF and B/L will be 20 percent, 50 percent and 100 percent, respectively. *[Ref: BRPD Circular No. 15, Date: 27 November, 2024]*

N) IDENTIFICATION OF ULTIMATE BENEFICIAL OWNERS (UBOS) AND DISCLOSURE OF OWNERSHIP STRUCTURE OF BANKS

Lack of transparency in bank ownership structures complicates the identification of beneficial owners, the evaluation of owner suitability, the verification of capital quality, and the recognition of related parties. To improve this situation, Bangladesh Bank has issued a circular with guidelines, aimed at identifying and authenticating ultimate beneficial owners, thereby enhancing transparency in banks' ownership. Under this guidelines, Bangladesh Bank will maintain a database on ultimate beneficial ownership (UBO) information, which will be used to identify bank-related persons and entities, calculation of single borrower exposure, large loans, significant shareholding, and prior checking before issuing license, appointment of director, etc.*[Ref: BRPD Circular No. 16, Date: 01 December, 2024]*

O) RATIONALIZATION OF INTEREST/PROFIT RATE ON CREDIT CARD

To promote effective credit risk management and align with the increasing policy rate and banks' funding costs, Bangladesh Bank has decided to cap the maximum interest rate on credit card at 25 percent. Banks must set their credit card interest rates within this limit, depending on credit demand and the availability of loanable funds. *[Ref: BRPD Circular Letter No. 52, Date: 01 December, 2024]*

P) PRUDENTIAL REGULATIONS FOR CONSUMER FINANCING (REGULATION FOR AUTO LOANS)

Under the Prudential Regulations for Consumer Financing, banks shall not allow auto loans (including insurance) exceeding BDT 6 million per individual. In addition to that, the financing facility of automobiles will be provided with a maximum debt-to-equity ratio of 60:40. However, in case of purchasing hybrid or electric cars, the financing facility will be offered with a maximum debt-to-equity ratio of 70:30. *[Ref: BRPD Circular Letter No. 59, Date: 31 December, 2024]*

11.3 POLICIES FOR FINANCE COMPANIES (FCS)

A) FORMATION OF THE BOARD OF DIRECTORS OF THE FINANCE COMPANY AS WELL AS THE DUTIES AND RESPONSIBILITIES OF THE DIRECTORS

Finance companies were advised to follow the instructions given by Bangladesh Bank on the formation of the board of directors and the policy regarding the duties and responsibilities of the directors. As per the policies, the maximum number of board of directors would be 15 whereas independent directors would be at least two. Duration of finance companies' board of directors would be 3 years and the minimum age of directors will be 30 years. *[Ref: DFIM Circular No. 01, Date: February 29, 2024]*

B) APPOINTMENT OF "INDEPENDENT DIRECTORS" IN FINANCE COMPANIES AND THEIR DUTIES, RESPONSIBILITIES AND REMUNERATIONS

To protect the interest of depositors and general shareholders, Bangladesh Bank has issued a policy for appointing independent directors in finance companies. According to the guidelines, there would be maximum 15 directors including at least two independent directors. The age limit of independent directors will be 45 to 75 years, having at least 10 years of management, business or professional experience. The monthly remuneration of an independent director will be fixed at BDT 50,000 considering their own capacity and maximum BDT 10,000 per meeting will be applicable as honorarium for attending each Board/auxiliary committee meeting of the finance company. *[Ref: DFIM Circular No. 02, Date: March 13, 2024]*

C) APPOINTMENT AND RESPONSIBILITIES OF THE MANAGING DIRECTOR (MD)/CHIEF EXECUTIVE OFFICER (CEO) OF A FINANCE COMPANY

Bangladesh Bank issued a detailed guideline related to the appointment of MDs/CEOs for FCs. Individuals who are involved in financial crime, fraud-forgery or convicted by a criminal court are not eligible for the post of managing director or chief executive officer of FCs. To be an MD/CEO, the educational qualification will be at least master's degree, having 20 years of experience in related field and maximum age limit will be 62 years.*[Ref: DFIM Circular No. 03, Date: March 25, 2024]*

D) INTEREST/PROFIT RATE OF LOAN/LEASE/INVESTMENT AND DEPOSIT

With the aim of establishing a fully market-based interest/profit rate for loans, leases, investments and deposits in finance companies, and in alignment with international best practices, Bangladesh Bank has decided to withdraw the SMART (Six-Month Moving Average Rate of Treasury Bill) based interest rate system. Regarding this, a circular has been issued by BB, detailing the directives for implementing the market-driven interest rates for finance companies. Under this circular, interest/profit rates for loans, leases, investments, and deposits will be determined by the demand for credit and the availability of loanable funds. *[Ref: DFIM Circular No. 05, Date: 06 October, 2024]*

E) REVISION OF MASTER CIRCULAR ON LOAN/LEASE CLASSIFICATION AND PROVISIONING

To promote investments in Cottage, Micro, Small, and Medium Enterprises (CMSMEs) and enhance the flow of credit and investments with the target of increasing employment , Bangladesh Bank has revised subsections 3.5a(4) and 3.5b of the Master Circular on loan and lease classification and provisioning in finance companies issued on 26 July 2021. Henceforth, a provision of 5 percent will be applicable for Special Mention Account (SMA) after deducting interest suspense from outstanding loans/leases and for CMSME loans, it will be 0.25 percent. Additionally, the specific provisions for CMSME classified loans/leases as Sub-standard, Doubtful, and Bad/Loss will be set at 5 percent, 20 percent, and 100 percent, respectively and for other loans/leases, the corresponding rates will be 20 percent, 50 percent, and 100 percent, respectively. *[Ref: DFIM Circular Letter No. 37, Date: 04 December, 2024]*

11.4 DEVELOPMENTS IN AGRICULTURE AND RURAL CREDIT

AGRICULTURAL AND RURAL CREDIT POLICY AND PROGRAM FOR THE FY 2024-2025

Bangladesh Bank has issued Agricultural and Rural Credit Policy and Program for FY 2024-2025 to ensure consistent credit flow to farmers and marginalized communities. The initiative focuses on increasing agricultural productivity, generating employment opportunities, and alleviating poverty through improved rural financing. The agricultural credit target for the scheduled banks is set at BDT 380 billion for the FY 2024-2025 which is 8.57 percent higher than that of the previous fiscal year. *[Ref: ACD Circular No. 01, Date: 29August, 2024]*

11.5 DEVELOPMENTS IN COTTAGE, MICRO, SMALL AND MEDIUM ENTERPRISE (CMSME) FINANCING

A) RE-FIXING INTEREST RATE ON PRE-FINANCE FACILITY UNDER SREUP

Bangladesh Bank has reset the interest rate for the pre-finance facility under the Support Safety Retrofits and Environmental Upgrades Programme (SREUP) to a maximum of 7 percent annually. Existing sub-loans will continue at 5 percent, while PFIs will pay at 4.5 percent to Bangladesh Bank for new On-Lending Loans (OLL), with a 2.5 percent margin for PFIs. Investment grants will be provided on a 'first come, first served' basis. *[Ref: SMESPD Circular Letter No. 01, Date: 16 April, 2024]*

B) GUARANTEE FEE AGAINST CREDIT GUARANTEE FACILITIES TO COTTAGE, MICRO, SMALL & MEDIUM ENTERPRISES (CMSMES) AND FINANCIAL INCLUSION SECTOR

To address the need to make credit guarantee facilities more cost-effective and accessible to entrepreneurs, Bangladesh Bank has reduced fees payable against credit guarantee facility for entrepreneurs in CMSMEs and financial inclusion sectors. Banks or finance companies participating in the scheme are required to pay a guarantee fee at the rate of 0.50 percent for the first year of the loan. However, after the end of the first year and subject to the validity of the guarantee, the fee payable for the following years has been reduced to 0.25 percent.*[Ref: CGD Circular Letter No. 01, Date: 01 July, 2024]*

C) REVOLVING FUND FOR CMSMES UNDER SECOND SMALL AND MEDIUM SIZED ENTERPRISE DEVELOPMENT PROJECT (SMEDP-2)

In order to foster the growth of the CMSME sector and improve financial inclusion, a revolving refinancing fund has been introduced under the Second, Small and Medium-Sized Enterprise Development Project (SMEDP-2). Bangladesh Bank has issued a circular detailing policy guidelines for providing refinancing benefits to banks and finance companies to facilitate financing to cottage, micro, small and medium industries. *[Ref: SMEDP-2 Circular No.01, Date: 05 September, 2024.]*

11.6 DEVELOPMENTS IN FOREIGN EXCHANGE REGULATIONS/TRANSACTIONS

A) INTEREST RATE CEILING FOR SHORT TERM PERMISSIBLE TRADE FINANCE IN FOREIGN EXCHANGE

BB has decided to set all-in-cost ceiling per annum with mark-up of 4.00 percent over benchmark rate, e.g. SOFR, Euribor etc., applicable to the relevant foreign currency against short term permissible trade finance to facilitate the foreign trade finance in line with the global market trend and interest rate scenario. *[Ref: FE Circular No. 04, Date: February 01, 2024]*

B) CURRENCY SWAP BETWEEN BANGLADESH BANK AND COMMERCIAL BANKS

A circular has been issued regarding currency swap between Bangladesh Bank and commercial banks in view of the local foreign exchange market dynamics. According to the circular, BDT will be sold in exchange of approved foreign currencies at the spot rate for both conventional and Islamic commercial banks. Foreign Exchange Reserve and Treasury Management Department (FRTMD) of BB will set the counterparty limit of currency swap. In that case, a minimum of USD 5 million or its equivalent BDT can be swapped, whereas each deal shall be multiples of 1.00 million of the foreign currency with a tenor of 7 to 90 days. *[Ref: FE Circular No. 06, Date: February 15, 2024]*

C) RELAXATION OF REGULATORY REQUIREMENT IN OFFSHORE BANKING OPERATIONS

To facilitate the offshore banking operations, BB has taken decision that banks are not required to maintain any Cash Reserve Ratio (CRR) with Bangladesh Bank for offshore banking operations. BB also decided that, Offshore Banking Operations (OBOs) are allowed to place funds to their Domestic Banking Units (DBUs) without limiting to settle the import payment of capital machinery, industrial raw materials, imports by the government and other permissible payment obligations as per prevailing foreign exchange rules and regulations. *[Ref: FE Circular No. 07, Date: February 29, 2024]*

D) SETTLEMENT OF IMPORT AND EXPORT TRANSACTIONS THROUGH COUNTER-TRADE ARRANGEMENTS

In order to increase opportunities for the settlement of trade payments, BB has decided that Bangladeshi parties (exporters/importers/traders) may voluntarily enter into counter-trade arrangements with counterparts abroad for settlement of import payments into Bangladesh against proceeds of goods exported from Bangladesh. Banks may open and maintain Escrow accounts in relevant approved currency, with intimation to Bangladesh Bank, in the name of foreign counterparts or jointly with Bangladeshi parties, to execute the settlement of payments, which are not applicable for the mechanism of ACU (Asian Clearing Union) payments. *[Ref: FE Circular No. 08, Date: March 10, 2024]*

E) OFFSHORE BANKING ACT, 2024 (ACT NO. 2 OF 2024) CIRCULATION

The Offshore Banking Act, 2024 (Act No. 2 of 2024) has been passed by the Bangladesh Parliament and duly published in Bangladesh Gazette on March 14, 2024 to regulate offshore banking operations in Bangladesh and also to enhance the country's reserves of foreign currency, with provisions for tax exemptions on profits made by foreigners in offshore banking units and allowing depositors to withdraw funds freely. *[Ref: FE Circular letter No. 01, Date: March 18, 2024]*

F) INTRODUCTION OF CRAWLING PEG EXCHANGE RATE SYSTEM

A Crawling Peg Exchange Rate System for spot purchases and sales of USD has been introduced by BB. Under this system, Crawling Peg Mid Rate (CPMR) has been set at BDT 117.00 per USD allowing scheduled banks to purchase and sell US dollars freely around the CPMR with their customers and in interbank deals. *[Ref: FE Circular No. 09, Date: 08 May, 2024]*

G) REGARDING CASH INCENTIVE AGAINST EXPORT OF LEATHER GOODS

Along with 100 percent export-oriented companies, banks are instructed to provide cash incentives to the manufacturers produced export leather goods at their own companies. *[Ref: FE Circular Letter No. 08, Date: 30 May, 2024]*

H) FUND TRANSFER FROM DOMESTIC BANKING TO OFFSHORE BANKING OPERATIONS

Offshore Banking Operations (OBOs) have been permitted to borrow funds from their Domestic Banking Units (DBUs) up to 30 percent of their regulatory capital to facilitate their operations (OBOs) and keeping their business uninterrupted. *[Ref: FE Circular Letter No.13, Date: 20 August, 2024.]*

I) INTEREST RATE ON BORROWING FROM EXPORT DEVELOPMENT FUND (EDF)

Considering the global market trends, it has been decided that interest rate on EDF loans to ADs will be charged by Bangladesh Bank at Secured Overnight Financing Rate (SOFR)+0.5 percent per annum, while ADs will charge to manufacturer-exporters at SOFR+1.50 percent per annum. *[Ref: FE Circular No.15, Date: 1 September, 2024.]*

J) TAKA LOANS TO NON-RESIDENT BANGLADESHI (NRBS) WORKING ABROAD

To widen the financing facilities, Bangladesh Bank has decided that banks can extend housing finance up to BDT 1 million to non-resident Bangladeshis who are regular remitters through official channels. *[Ref: FE Circular No. 18, Date: 02 October, 2024]*

K) RELEASE OF FOREIGN CURRENCY AGAINST PRIVATE TRAVEL ENTITLEMENTS BY LICENSED MONEY CHANGERS

BB has issued a circular where Licensed Money Changers are allowed to release maximum USD 2,000 or equivalent in the form of cash to sell Foreign Currency notes, coins and TCs to an outgoing resident Bangladeshi national against annual private travel entitlement. With regards to Hajj Pilgrimage, Licensed Money Changers are permitted to exercise the instructions issued for releasing foreign currency in terms of Hajj Policy of the Government. *[Ref: FE Circular No. 31, Date: 19 November, 2024]*

L) EXCHANGE RATE MANAGEMENT REGIME

BB has decided with a circular that banks are allowed to purchase and sell foreign currency from/to their customers and other dealers at freely negotiated rates. Additionally, BB has launched a new foreign exchange intervention strategy to ensure the smooth functioning of existing exchange rate regime with a view to stepping towards full exchange rate flexibility in near-term. *[Ref: FE Circular No. 38, Date: 31 December, 2024]*

11.7 PROGRESS IN PAYMENT SYSTEMS

PAYMENT AND SETTLEMENT SYSTEM ACT, 2024

The "Payment and Settlement System Act, 2024" (Act No. 9 of 2024) has been enacted in view of mitigating the risks associated with financial transactions, clearing and settlement of money and payments through effective supervision and control, and protecting the interests of customers. The Act was published in the Bangladesh Gazette on July 4, 2024. *[Ref: PSD Circular Letter No.09, Date: 01 August, 2024.]*

11.8 POLICY AND ACTIONS TAKEN ON DEBT MANAGEMENT

A) SELECTION OF BENCHMARK FOR GOVERNMENT SECURITIES AND TWO-WAY PRICE QUOTING

Bangladesh Bank has issued a circular to valuate Treasury bond on market basis as well as accommodate it with international best practices, aiming to build up an active secondary bond market in the country. A total of 30 treasury bonds, categorized into 6 groups based on remaining maturity, will be considered as benchmark securities, and primary dealers (PD) will be required to provide two-way price quotes for these securities. The maximum bid-ask yield spread will be 0.80 percent (80 basis points) for all benchmark bonds. *[Ref: DMD Circular No. 3, Date: 31 October, 2024]*

B) INTRODUCTION OF 90 AND 180 DAYS BANGLADESH BANK BILL

With a view to implementing monetary policy efficiently and making liquidity management more effective, Bangladesh Bank has decided to introduce 90-day and 180-day tenure Bangladesh Bank Bills in addition to the existing 7-day, 14-day, and 30-day bills. *[Ref: DMD Circular Letter No. 14, Date: 27 November, 2024]*

11.9 POLICIES FOR SUSTAINABLE FINANCE

SETTING AND ACHIEVING ENVIRONMENTAL-FRIENDLY FINANCING AND SUSTAINABLE FINANCING TARGETS

Each scheduled bank and finance company will set annual targets for environmental-friendly financing and sustainable financing at the beginning of each calendar year. Banks and finance companies must ensure the minimum target as 5 percent of net outstanding loans and advances for environmental-friendly financing and 40 percent of net outstanding loans and advances for sustainable financing after adjusting employee loans, classified loans, and credit card loans from total outstanding loans and advances as of December 31 of the preceding year. However, the target for the relevant year will never be lower than that of the previous year. The achievement of those targets will be considered for the evaluation of CAMELS Ratings and Sustainability Rating of banks and finance companies. *[Ref: SFD Circular No. 02, Date: 06 November, 2024]*

11.10 DEVELOPMENT IN CREDIT INFORMATION

REGARDING SUBMISSION OF INFORMATION RELATED TO WILLFUL DEFAULTER IN CIB DATABASE

Bangladesh Bank (BB) has issued a circular with instructions towards banks and finance companies to submit information related to willful defaulters in the Credit Information Bureau (CIB) database in real time from 1 July, 2024.*[Ref: CIB Circular No. 01, Date: 21 May, 2024]*

11.11 DEVELOPMENT IN FINANCIAL INCLUSION

REFINANCING SCHEME FOR MARGINAL/LANDLESS FARMERS, LOW INCOME PROFESSIONALS, SCHOOL BANKING ACCOUNT HOLDERS AND SMALL BUSINESSMEN WITH TK.10/50/100 ACCOUNT HOLDERS

Bangladesh Bank has issued a circular letter announcing an increase in the funds for the refinancing scheme targeting marginal/landless farmers, low-income professionals, school banking account holders, and small entrepreneurs with BDT 10/50/100 account holders. To promote financial inclusion for marginalized communities, the revolving refinancing scheme fund has been raised from BDT 5 billion to BDT 7.5 billion on which 25 percent of total loans under this scheme shall be allocated to female borrowers/entrepreneurs. *[Ref: FID Circular Letter No. 01, Date: 29 September, 2024]*

11.12 DEVELOPMENT IN MONETARY POLICY

RE-DETERMINATION OF THE POLICY INTEREST RATE CORRIDOR

BB has decided to continue a contractionary monetary policy until achieving the targeted level of inflation. Thus, BB has raised the overnight repo rate by 50 basis points to 10.00 percent from 9.5 percent. Besides, to ensure more effective liquidity management of the banks, the upper limit of the policy interest rate corridor for the Standing Liquidity Facility (SLF) has been raised by 50 basis points to 11.50 percent while the lower limit for the Statutory Deposit Facility (SDF) has been raised by 50 basis points to 8.50 percent. *[Ref: MPD Circular No. 05, Date: 22 October, 2024]*

11.13 DEVELOPMENT IN FOREIGN EXCHANGE INVESTMENT

GUIDELINES FOR OPERATIONS OF BUSINESS IN BANGLADESH BY JOINT VENTURES/CONSORTIUMS/ASSOCIATIONS (JVCA) HAVING FOREIGN PARTNER(S)

It is mandatory for non-residents, resident foreign nationals, or companies not incorporated in Bangladesh to report to Bangladesh Bank when establishing a branch office, liaison office, representative office, or any place of business in Bangladesh involving trading activity or of a commercial or industrial nature. Bangladesh Bank has issued guidelines in order to ensure transparency and accountability in reporting activities and cross-border transactions, preparation of financials, transactions with branch offices, outward profit remittances, tax payments, and return submissions for JVCAs. *[Ref: FEID Circular No. 02, Date: 20 November, 2024]*

11.14 DEVELOPMENT IN ANALYSIS OF FINANCIAL STABILITY

REVISED GUIDELINE ON STRESS TESTING

Recognizing the growing importance and evolving role of stress testing, as well as the need to align with international best practices, Bangladesh Bank has issued revised guidelines on stress testing. These updated guidelines incorporate changes to credit risk, market risk, and operational risk shock scenarios, and also introduce considerations for climate risk and various aspects of liquidity risk. In accordance with the revised guidelines, banks are required to conduct stress testing exercises and submit reports on a quarterly basis, effective from December 2024. *[Ref: FSD Circular No. 01, Date: 30 December, 2024]*

11.15 LAWS/ ORDER/ NOTIFICATION/ DIRECTIVE/ GUIDELINE ISSUED BY BANGLADESH SECURITIES AND EXCHANGE COMMISSION (BSEC)

Key initiatives of Bangladesh Securities and Exchange Commission (BSEC), aimed at regulating the market and maintaining trading discipline, in the fiscal year 2023–24 are furnished below:

A) In the financial year 2023-2024, new investments of BDT 5.66 billion were made in 04 issuer companies through Initial Public Offer, BDT 1.13 billion through 02 rights issues, and BDT 7.06 billion was invested in 22 companies through bonus issues. During this period, the Commission approved the increase in paid-up capital of BDT 120.22 billion, BDT 0.15 billion and BDT 113.55 billion through 23 private limited companies, 3 qualified investors and 16 public limited companies respectively.

B) To enhance the supply of securities and strengthen its role in share trading, the Commission has approved 4 stock brokers, 4 stock dealers, 8 asset management companies, 31 trustees for debt securities issues, 5 depository participants, 02 trustees, 04 fund managers, 1 securities custodian, 02 alternative investment trustees, 01 market maker, 01 commodity, 276 digital booths and issued 254 authorized representative registration certificates in the capital market.

C) 594 investigations/inquiries/inspections have been conducted to uncover irregularities in financial reports and financial activities of the companies and special auditors have been appointed in 4 companies.

D) In the financial year 2023-2024, the first Exchange Traded Fund (ETF) in the history of the capital market of Bangladesh named “LB Multi Asset Income ETF” was approved, with Lanka Bangla Asset Management Limited acting as the asset manager.

E) To safeguard investors' money and shares in the capital market, track the flow of funds, and comply with Section 6(1) of the Securities and Exchange Rules, 2020, the Commission instructed 43 commercial banks to halt cash withdrawals from consolidated customer accounts.

F) Supervision of compliance with the rules and regulations regarding board meetings, annual general meetings, special general meetings, e-voting of 316 listed companies.

G) Steps are underway to launch derivative instruments such as futures and options. Additionally, Chittagong Stock Exchange Ltd. has already established a Commodity Exchange.

11.16 DEVELOPMENTS IN MICRO CREDIT OPERATIONS

QR CODE SYSTEM FOR CERTIFICATE VERIFICATION

In order to address the issue of verifying certificates, Microcredit Regulatory Authority (MRA) has undertaken to provide certificates with QR codes. The incorporation of QR codes in certificate issuance exemplifies a fusion of technology and security. This innovation streamlines the verification process, enhancing trust and reliability in the microfinance sector.

11.17 DEVELOPMENTS IN INSURANCE SECTOR

In 2024, Insurance Development and Regulatory Authority (IDRA) intensified its regulatory, developmental and supervisory activities to strengthen the insurance sector and enhance its contribution to financial stability. Some of the notable activities are:

A) IDRA has launched a digital ecosystem called 'Insurance Information Management System (IIMS)'. In this system, an SMS will be sent to the insured's mobile phone urging them to deposit premiums and another SMS will also be sent to confirm the premium deposit. Through this technology, approximately 35 types of information are currently being stored, including customer identities, insurance policy term and details of premiums deposited.

B) IDRA has taken various notable steps to develop a business-friendly insurance sector which include Risk Based Supervision Framework 2024, Insurance Claims Management Guidelines 2024, Insurance Customer Protection Guidelines 2024, and Authority Research Guidelines 2025.

APPENDIX

Appendix I: World GDP Growth							
							In percent
Particulars	**2020**	**2021**	**2022**	**2023**	**2024p**	**2025p***	**2026p***
World	-2.7	6.6	3.6	3.5	3.3	2.8	3.0
Advanced Economies	-3.9	6.0	2.9	1.7	1.8	1.4	1.5
Emerging and Developing Asia	-0.5	7.7	4.7	6.1	5.3	4.5	4.6

Note: p* = Projection, p= Provision.
Source: World Economic Outlook, April 2025.

Appendix II: GDP Growth of Top Import Originating Countries							
							In percent
Country Name	**2020**	**2021**	**2022**	**2023**	**2024p**	**2025p***	**2026p***
China	2.3	8.6	3.1	5.4	5.0	4.0	4.0
India	-5.8	9.7	7.6	9.2	6.5	6.2	6.3
Indonesia	-2.1	3.7	5.3	5.0	5.0	4.7	4.7
Singapore	-3.8	9.8	4.1	1.8	4.4	2.0	1.9
USA	-2.2	6.1	2.5	2.9	2.8	1.8	1.7

Note: p* = Projection, p= Provision.
Source: World Economic Outlook, April 2025.

Appendix III: GDP Growth of Top Export Destination Countries							
							In percent
Country Name	**2020**	**2021**	**2022**	**2023**	**2024***	**2025***	**2026***
USA	-2.2	6.1	2.5	2.9	2.8	1.8	1.7
Germany	-4.1	3.7	1.4	-0.3	-0.2	-0.1	0.9
UK	-10.3	8.6	4.8	0.4	1.1	1.1	1.4
Spain	-10.9	6.7	6.2	2.7	3.2	2.5	1.8
France	-7.6	6.8	2.6	1.1	1.1	0.6	1.0

Note: p* = Projection, p= Provision.
Source: World Economic Outlook, April 2025.

Appendix IV: GDP Growth of Top Remittances Generating Countries							
							In percent
Country Name	**2020**	**2021**	**2022**	**2023**	**2024p**	**2025p***	**2026p***
USA	-2.2	6.1	2.5	2.9	2.8	1.8	1.7
UAE	-5.0	4.4	7.5	3.6	3.8	4.0	5.0
KSA	-3.6	5.1	7.5	-0.8	1.3	3.0	3.7
UK	-10.3	8.6	4.8	0.4	1.1	1.1	1.4
Malaysia	-5.5	3.3	8.9	3.6	5.1	4.1	3.8

Note: p* = Projection, p= Provision.
Source: World Economic Outlook, April 2025.

Appendix V: Gross Value Added (GVA) and GDP of Bangladesh at Constant Price					
Amount in Billion BDT					
Sectors	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**
Agriculture	3,189.50	3,290.75	3,391.25	3,505.59	3,621.41
Industry	8,900.23	9,815.81	10,783.22	11,685.49	12,095.21
Service	13,383.89	14,151.08	15,036.46	15,844.11	16,650.46
Total GVA at constant price	25,473.62	27,257.64	29,210.94	31,035.19	32,367.08
GVA growth rate (%)	3.76	7.00	7.17	6.25	4.29
GDP at constant price	26,500.65	28,339.44	30,351.50	32,104.33	33,460.18
GDP growth rate (%)	3.45	6.94	7.10	5.78	4.22

Source: Bangladesh Bureau of Statistics (BBS).

Appendix VI: Domestic Credit						
Amount in Billion BDT						
Particulars	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25***
Domestic credit to the private sector	10,972.71	11,888.55	13,512.36	14,942.55	16,412.29	16,852.71
Domestic credit to the public sector	2,053.64	2,510.44	3,205.13	4,325.15	4,742.96	4,659.03
In Percent						
Growth of Domestic Credit to the private sector	8.61	8.35	13.66	10.58	9.84	2.68
Growth of Domestic Credit to the public sector	50.31	22.24	27.67	34.94	9.66	-1.77

Notes: (1) Domestic Credit to the Private Sector refers to the credit provided to the private sector by the banking system.
(2) Domestic Credit to the Public Sector refers to the credit provided to the public sector by the banking system.
Source: Statistics Department, BB as cited in Monthly Economic Trend.
*FY25 indicates data upto first half of FY25.

Appendix VII: Banking Sector Aggregate Balance Sheet at end-December						
	(Amount in Billion BDT)				*Change (%)*	
Particulars	**2021**	**2022**	**2023**	**2024**	**2022 to 2023**	**2023 to 2024**
Property & Assets						
Cash in Hand (including FC)	189.50	246.40	251.40	290.74	2.03	15.65
Balance with BB & SB (including FC)	1042.30	995.80	1111.10	1095.93	11.58	-1.37
Balance with other Banks & FIs	729.00	788.80	767.70	827.62	-2.67	7.81
Money at Call & Short Notice	133.90	100.10	111.50	151.86	11.39	36.20
Investments						
Government	2316.40	2085.70	2320.60	2990.01	11.26	28.85
Others	1529.80	1352.10	1464.60	1830.82	8.32	25.00
Total Investment	**3846.10**	**3437.80**	**3785.20**	**4820.82**	**10.11**	**27.36**
Loans & Advances						
Loans, CC, OD etc.	12522.40	14320.20	15675.30	16771.40	9.46	6.99
Bills purchased & Discounted	721.70	705.90	816.10	682.67	15.61	-16.35

APPENDIX VII: BANKING SECTOR AGGREGATE BALANCE SHEET AT END-DECEMBER (CONT'D)						
	(Amount in Billion BDT)				*Change (%)*	
Particulars	**2021**	**2022**	**2023**	**2024**	**2022 to 2023**	**2023 to 2024**
Total Loans & Advances	**13244.10**	**15026.10**	**16491.40**	**17454.08**	**9.75**	**5.84**
Fixed Assets	280.60	289.60	294.10	301.52	1.55	2.52
Other Assets	959.90	1073.90	1155.40	1334.14	7.59	15.47
Non-banking Assets	3.90	3.90	16.10	21.04	312.82	30.66
Total Assets	**20429.30**	**21962.40**	**23984.00**	**26297.75**	**9.20**	**9.65**

Source: DOS, BB.

APPENDIX VIII: BANKING SECTOR AGGREGATE SHARE OF ASSETS						
						(Amount in Billion BDT)
Particulars	**2022**	**% of Total Assets**	**2023**	**% of Total Assets**	**2024**	**% of Total Assets**
Property & Assets						
Cash in Hand (including FC)	246.40	1.12	251.4	1.05	290.74	1.11
Balance with BB & SB (including FC)	995.80	4.53	1,111.10	4.63	1095.93	4.17
Balance with other Banks & FIs	788.80	3.59	767.7	3.20	827.62	3.15
Money at Call & Short Notice	100.10	0.46	111.5	0.46	151.86	0.58
Investments						
Government	2085.70	9.50	2320.6	9.68	2990.01	11.37
Others	1352.10	6.16	1,464.60	6.11	1830.82	6.96
Total Investment	**3437.80**	**15.65**	**3,785.20**	**15.78**	**4820.82**	**18.33**
Loans & Advances						
Loans, CC, OD etc.	14320.20	65.20	15,675.30	65.36	16771.40	63.78
Bills purchased & Discounted	705.90	3.21	816.1	3.40	682.67	2.60
Total Loans & Advances	**15026.10**	**68.42**	**16491.4**	**68.76**	**17454.08**	**66.37**
Fixed Assets	289.60	1.32	294.1	1.23	301.52	1.15
Other Assets	1073.90	4.89	1,155.40	4.82	1334.14	5.07
Non-banking Assets	**3.90**	0.02	16.1	0.07	21.04	0.08
Total Assets	**21962.40**	**100.00**	**23,984.00**	**100.00**	**26,297.75**	**100.00**

Source: DOS, BB.

APPENDIX IX: BANKING SECTOR AGGREGATE SHARE OF LIABILITIES						
						(Amount in Billion BDT)
Particulars	**2022**	**% of Total Liabilities**	**2023**	**% of Total Liabilities**	**2024**	**% of Total Liabilities**
Liabilities						
Borrowings from other Banks/FIs/Agents	1,898.69	9.18	1,944.22	8.58	2,430.14	9.73
Deposits & Other Accounts:						
Current Deposit	3,550.64	17.16	3,870.63	17.09	4,051.04	16.22
Savings Deposit	3,815.44	18.44	3,819.29	16.86	3,931.14	15.74
Fixed/Term Deposit	7,353.98	35.54	8,569.31	37.84	9,623.25	38.52
Inter-bank Deposit	328.03	1.59	309.68	1.37	351.71	1.41
Other Deposits	1309.34	6.33	1,381.74	6.10	1,370.36	5.49
Total Deposit	**16,357.48**	**79.05**	**17,950.77**	**79.26**	**19,327.51**	**77.36**

Appendix IX: Banking Sector Aggregate Share of Liabilities (Cont'd)						
(Amount in Billion BDT)						
Particulars	**2022**	**% of Total Liabilities**	**2023**	**% of Total Liabilities**	**2024**	**% of Total Liabilities**
Bills Payable	206.59	1.00	236.96	1.05	219.82	0.88
Other Liabilities	2,229.14	10.77	2,516.88	11.11	3,005.8	12.03
Total Liabilities	**20,691.91**	**100.0**	**22,648.85**	**100.0**	**24,983.24**	**100**

Source: DOS, BB.

Appendix X: Banking Sector Assets, Deposits & NPL Concentration (2024)				
(Amount in Billion BDT)				
Assets*	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount (in Billion BDT)	8170.76	18126.99	11967.22	14330.53
Share (%)	31.07%	68.93%	45.51%	54.49%
Deposit**	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount (in Billion BDT)	5,932.36	13,043.44	8,861.15	10,114.64
Share (%)	31.26%	68.74%	46.70%	53.30%
NPL***	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount (in Billion BDT)	1,785.78	1,671.87	2,588.63	869.02
Share (%)	51.65%	48.35%	74.87%	25.13%

Source: DOS, BB & BRPD, BB;

* Based on assets in descending order;
**Based on deposits in descending order excluding interbank deposits;
***Based on nonperforming loans in descending order.

Appendix XI: Banking Sector Aggregate Income Statement						
Particulars	*(Amount in Billion BDT)*				*Change (%)*	
	2021	**2022**	**2023**	**2024**	**2022 to 2023**	**2023 to 2024**
Interest Income	870.6	965.4	1,182.60	1,467.01	22.50	24.05
Less: Interest Expense	638.2	691.1	851.8	1,173.10	23.25	37.72
Net Interest Income	232.4	274.3	330.9	293.91	20.63	-11.18
Non-Interest/Investment Income	402.5	468.2	488.8	638.61	4.40	30.65
Total Income	634.9	742.5	819.6	932.53	10.38	13.78
Operating Expenses	352.9	400.3	443.2	489.93	10.72	10.54
Profit before Provision	282.1	342.2	376.4	442.60	9.99	17.59
Total Provision	152.9	87.7	109.4	189.88	24.74	73.57
Profit before Taxes	129.2	254.5	267	252.72	4.91	-5.35
Provision for Taxation	78.9	112.3	118.6	131.14	5.61	10.57
Profit after Taxation/Net Profit	50.2	142.3	148.4	121.58	4.29	-18.07

Source: DOS, BB.

Appendix XII: Interbank Repo Volume, Interbank Repo Rate and Call Money Rate				
Month	**Interbank Repo Volume (in Billion BDT)**	**Interbank Repo Rate (%)**	**Call Money Volume (in Billion BDT)**	**Call Money Rate (%)**
January-24	336.85	8.13%	766.13	9.38
February-24	361.11	8.22%	483.72	9.30
March-24	409.63	8.11%	576.27	8.75
April-24	354.27	8.13%	621.87	8.81
May-24	293.52	8.53%	701.95	9.08
June-24	247.66	8.56%	825.64	9.08
July-24	209.20	8.61%	789.49	8.86
August-24	235.69	8.68%	606.38	8.78
September-24	229.83	9.17%	720.51	9.14
October-24	130.32	9.69%	720.56	9.66
November-24	244.15	10.15%	756.44	9.99
December-24	376.81	10.38%	884.54	10.07

Source: DMD, BB.

Appendix XIII: Yields on Treasury Securities					
Securities	**December, 2022**	**June, 2023**	**December, 2023**	**June, 2024**	**December, 2024**
91 Day T-Bill	6.90	6.80	10.89	11.64	11.51
182 Day T-Bill	7.30	7.07	11.09	11.8	11.87
364 Day T-Bill	7.76	7.90	11.28	12	11.97
2 Years T-Bond	7.55	8.09	8.69	12.25	12.26
5 Years T-Bond	7.9	8.71	10.35	12.43	12.36
10 Years T-Bond	8.33	8.52*	10.46	12.59	12.41
15 Years T-Bond	8.77	8.65**	11.06	12.70	12.65
20 Years T-Bond	8.95	8.75**	11.16	12.79	12.71

*June 23 10 year bond rate= April 23 10 year bond rate
**June 2023 15 year & 20 year bond rate= May 2023 15 year & 20 year bond rate as no auction taken place in June 23 for those bond
Source: Major Economic Indicators, Different Issue, BB.

Appendix XIV: Monthly Turnover of BB's Liquidity support								
								Amount in Billion BDT
Months	**Conventional Banks and FCs**				**Islamic Banks**			
	Repo	**SLF**	**ALS**	**Total**	**IBLF**	**MLS**	**SLS**	**Total**
Jan-24	1812.37	27.77	1299.09	3139.23	237.10	-	24.82	261.92
Feb-24	1864.10	12.07	1001.44	2877.61	194.61	4.95	11.58	211.13
Mar-24	1581.67	15.11	1305.76	2902.54	167.04	2.50	-	169.54
Apr-24	1518.81	8.30	1191.09	2718.2	107.42	1.30	2.18	110.90
May-24	1522.80	0.00	1154.93	2677.73	124.23	2.85	-	127.08
Jun-24	1350.66	4.81	639.56	1995.03	122.17	-	26.93	149.10
Jul-24	962.31	37.45	699.55	1699.31	121.48	-	32.29	153.77
Aug-24	816.68	105.01	758.70	1680.39	116.83	-	22.90	139.73
Sep-24	1000.61	96.79	992.86	2090.26	104.86	-	-	104.86
Oct-24	892.93	75.43	708.05	1676.41	95.34	-	3.94	99.28
Nov-24	688.53	114.10	1005.57	1808.2	96.19	1.55	-	97.74
Dec-24	828.36	38.98	641.11	1508.45	76.49	-	26.93	103.42

Source: DMD, BB.

APPENDIX XV: EQUITY MARKET DEVELOPMENT			
Quarter-end	**DSEX Index**	**Market Capitalization *(in Billion BDT)***	**Market P/E ratio**
Dec-23	6246.50	7808.50	13.12
Mar-24	5829.70	6833.04	11.73
Jun-24	5328.40	6621.56	10.22
Sep-24	5624.50	6834.12	10.66
Dec-24	5216.44	6626.20	9.50

Source: DSE Website

APPENDIX XVI: YEAR-WISE MOVEMENT OF DSEX INDEX				
Year	**Opening Index**	**Highest Index**	**Lowest Index**	**Closing Index**
2016	4,629.64	5,036.05	4,171.41	5,036.05
2017	5,036.05	6,336.88	5,083.89	6,244.52
2018	6,244.52	6,318.27	5,204.36	5,385.64
2019	5,385.64	5,950.01	4,390.67	4,452.93
2020	4,452.93	5,402.07	3,603.95	5,402.07
2021	5,402.07	7,368.00	5,088.99	6,756.66
2022	6,756.66	7,105.69	5,980.51	6,206.81
2023	6,206.81	6,266.85	6,231.94	6,246.50
2024	6,246.50	6447.07	4898.53	5216.44

Source: DSE

APPENDIX XVII: MARKET CAPITALIZATION TO GDP RATIO OF DSE	
Year	**Ratio**
Dec-17	16.99%
Dec-18	13.85%
Dec-19	10.90%
Dec-20	13.83%
Dec-21	14.45%
Dec-22	17.98%
Dec-23	16.36%
Dec-24	12.67%

Source: BBS QGDP and DSE Monthly Review, December 2024; Calculation: FSD, BB.

APPENDIX XVIII: SECTORAL MARKET CAPITALIZATION OF DSE			
Broad Sector	**Sector**	**Market Capitalization *(In Billion BDT)***	
		2023	**2024**
Financial Sector	Banks	686.51	676.45
	Financial Institutions	186.94	113.23
	Insurance	175.68	127.76
Manufacturing	Food and Allied Products	391.93	314.30
	Pharmaceuticals and Chemicals	721.48	560.31
	Textile Industries	171.73	113.87
	Engineering	531.89	281.71
	Ceramic	32.12	16.11
	Tannery	34.81	22.51
	Paper and Printing	38.89	18.06
	Jute Industries	4.03	3.18
	Cement Industries	121.41	93.28

Appendix XVIII: Sectoral Market Capitalization of DSE (Cont'd)			
Broad Sector	**Sector**	**Market Capitalization *(In Billion BDT)***	
		2023	**2024**
Service and Miscellaneous	Mutual Funds	41.47	27.73
	Fuel and Power	446.45	293.67
	Services and Real Estate	27.51	17.48
	IT-Sector	38.04	26.31
	Telecommunication	580.23	608.10
	Travel & Leisure	32.49	38.27
	Miscellaneous	232.51	230.94
Bond	Corporate Bond	45.20	34.06
Total		**4,541.31**	**3617.31**

Source: DSE Website.

Appendix XIX: Capital Market Exposure of Banks (In Percent)		
Month	**Solo Basis**	**Consolidated Basis**
Mar-21	13.32	22.25
Jun-21	14.42	23.73
Sep-21	16.04	26.28
Dec-21	15.71	25.49
Mar-22	15.83	26.19
Jun-22	15.51	25.15
Sep-22	16.18	26.95
Dec-22	16.42	27.25
Mar-23	16.33	26.98
Jun-23	15.94	26.47
Sep-23	14.91	25.13
Dec-23	15.07	25.39
Mar-24	15.12	25.05
Jun-24	15.86	24.15
Sep-24	15.90	23.96
Dec-24	15.28	23.23

Source: DOS, BB.

Appendix XX: Banking Sector Selected Ratios					
(In percent)					
Ratio	**2020**	**2021**	**2022**	**2023**	**2024**
ROA	0.30	0.30	0.62	0.59	0.43
ROE	4.30	4.40	10.70	10.54[R]	8.70
Net Interest Margin	1.10	1.30	1.20	1.60	1.30
Interest Income to Total Assets	4.90	4.30	4.39	4.93	5.58
Net- Interest Income to Total Assets	1.20	1.10	1.24	1.38	1.12
Non-Interest Income to Total Assets	2.00	1.97	2.13	2.04	2.43
Non-interest Expense to Gross Operating Income	55.10	55.60	53.91	54.08	52.54

Note: R= Revised.
Source: Source: DOS, BB and BRPD, BB.

Appendix XXI: Banking Sector ROA and ROE					
ROA (%)	**Number of Banks**		**ROE (%)**	**Number of Banks**	
	2023	**2024**		**2023**	**2024**
Up to 2.0	55	52	**Up to 5.0**	11	21
> 2.0 to 3.0	1	2	**> 5.0 to 10.0**	13	12
>3.0to 4.0	3	2	**>10.0 to 15.0**	23	11
>4.0	2	5	**>15.0**	14	17

Source: DOS, BB.

Appendix XXII: Banking Sector Month-wise Deposit and loans & Advance Rate (2024)			
			(In percent)
Month	**Deposit Rate**	**Loans & Advance Rate**	**Overall Spread**
January	4.92	9.75	4.83
February	5.01	10.05	5.04
March	5.17	10.36	5.19
April	5.30	10.53	5.23
May	5.42	11.28	5.86
June	5.49	11.52	6.03
July	5.68	11.57	5.89
August	5.76	11.53	5.77
September	5.84	11.70	5.86
October	5.90	11.77	5.87
November	5.99	11.84	5.85
December	6.01	11.84	5.83

Source: Bangladesh Bank Website

Appendix XXIII: Banking Sector Capital to Risk-Weighted Assets ratio (CRAR) - Solo Basis (2024)	
Range	**Number of Banks**
<10%	19
≥ 10% to <15%	14
≥ 15% to <20%	14
≥ 20%	14
Total	61

Source: DOS, BB.

Appendix XXIV: Banking Sector Year-wise ADR at end-December	
	(In percent)
Year	**Advance-Deposit Ratio (ADR)**
2020	**72.69**
2021	**73.15**
2022	**79.00**
2023	**80.38**
2024	**81.55**

Source: DOS, BB.

Appendix XXV: Banking Sector ADR (2024)	
Range	**Number of Banks**
Up to 70%	**13**
> 70% to 85%	**27**
> 85% to 90%	**7**
>90% to 100%	**7**
>100%	**6**
Total	**60**

Source: DOS, BB.

Appendix XXVI: Year-wise Banking Sector LCR and NSFR at end-December		
		(In percent)
Year	**LCR**	**NSFR**
2020	224.80	110.10
2021	193.60	110.13
2022	153.97	110.22
2023	147.69	108.36
2024	157.52	104.62

Source: DOS, BB.

Appendix XXVII: Banking Sector Leverage ratio - Solo BASIS (2024)	
Range	**Number of Banks**
< 3.50%	**19**
≥ 3.50% to <10%	**28**
≥ 10% to <20%	**8**
≥ 20%	**6**
Total	**61**

Source: DOS, BB.

Appendix XXVIII: Banking Industry's SHQLA at end-December				
				(Amount in Billion BDT)
Clusters\Years	**2021**	**2022**	**2023**	**2024**
SOCBs	1585.01	1560.84	1281.74	1520.65
PCBs Conventional	1814.93	1800.46	2035.86	2642.73
PCBs Islamic	654.05	625.92	445.80	473.99
FCBs	281.88	306.54	413.41	405.30
Banking Industry*	4335.87	4293.77	4176.82	5042.68
Change in Percent	8.86%	-0.97%	-2.72%	20.73%

Source: DOS, BB.

*Industry figure excludes BDBL, BKB, PKB and RAKUB (SDBs) as exempted from LCR & NSFR requirement.

APPENDIX XXIX: OVERSEAS BRANCHES' AGGREGATE SHARE OF ASSETS AND LIABILITIES									
(Amount in Million USD)									
Asset Components	**2023**	**Share of Total Assets in 2023**	**2024**	**Share of Total Assets in 2024**	**Liability Components**	**2023**	**Share of Total Liabilities in 2023**	**2024**	**Share of Total Liabilitie s in 2024**
Cash & Balance with Central Banks	336.59	62.37%	317.01	61.12%	**Customer Deposits**	373.13	81.37%	346.92	83.64%
Balance with other Banks & FCs	63.17	11.71%	66.31	12.78%	**Dues to head office & branches abroad & other liabilities**	85.45	18.63%	67.86	16.36%
Loans & Advances	121.58	22.53%	117.68	22.69%	**Total Liabilities**	458.58	-	414.78	-
Property & Equipment and other assets	18.31	3.39%	17.65	3.40%	**Capital/ Equity**	81.08	-	103.87	-
Total Assets	539.65	-	518.65	-	**Total Liabilities & Equities**	539.65	-	518.65	-

Source: Scheduled banks of Bangladesh.

APPENDIX XXX: FCs' AGGREGATE BALANCE SHEET AT END-DECEMBER					
(Amount in Billion BDT)					
Items	**2020**	**2021**	**2022[R]**	**2023**	**2024**
Property & Assets:					
Cash in hand	**0.01**	**0.01**	**0.02**	**0.03**	**0.01**
Balance with BB, other banks & FCs	131.32	160.12	141.76	139.85	103.11
Money at call and short notice	**1.07**	**1.43**	**10.15**	**2.33**	**2.48**
Investment in Government securities	7.40	1.11	11.80	25.89	49.08
Other investments	**21.67**	**19.83**	**22.06**	**22.23**	**22.15**
Total loans and leases	670.30	649.32	708.17	736.94	760.06
Fixed assets	**14.76**	**14.45**	**16.00**	**14.13**	**14.10**
Other assets	54.17	48.90	55.55	51.64	50.55
Non-financial assets	**1.47**	**1.38**	**1.45**	**1.63**	**1.62**
Total assets	**902.16**	**896.56**	**966.97**	**994.66**	**1003.17**
Liabilities & Equity:					
Borrowing from other banks & FCs	**210.60**	**229.64**	**263.53**	**282.31**	**289.16**
Deposits	453.21	444.20	471.70	482.81	498.05
Other liabilities	**152.03**	**150.11**	**225.05**	**246.13**	**313.12**
Total liabilities	815.84	823.96	960.27	1011.24	1100.33
Shareholders' Equity (Capital)	**86.32**	**72.60**	**6.70**	**(16.58)**	**(97.16)**
Total liabilities & shareholders' equity	**902.16**	**896.56**	**966.97**	**994.66**	**1003.17**

R-Revised
Source: DFIM, BB.

Appendix XXXI: FCs' Aggregate Income Statement					
(Amount in Billion BDT)					
Items	**2020**	**2021**	**2022R**	**2023**	**2024**
Interest Income	**68.89**	**59.4**	**57.87**	**59.01**	**58.33**
Less: Interest expense	(53.66)	(42.7)	47.81	52.64	60.37
Net interest income (Net II)	**15.22**	**16.7**	**10.06**	**6.37**	**(2.03)**
Investment income	2.80	3.7	2.20	2.64	4.64
Add: Commission, exchange and brokerage	**0.51**	**0.6**	**0.64**	**0.82**	**0.49**
Add: Other operating income	2.75	2.9	6.44	5.21	2.00
Non-interest income (Non-II)	**6.06**	**7.2**	**9.28**	**8.67**	**7.13**
Total operating income (Net II + Non-II)	21.28	23.9	19.33	15.04	5.10
Operating expenses	**(10.68)**	**(10.5)**	**12.82**	**11.78**	**11.60**
Profit before provisions	10.60	13.4	6.52	3.26	(6.50)
Total provisions	**(7.29)**	**(9.3)**	**33.88**	**16.09**	**25.17**
Profit before taxes	3.31	4.1	(27.36)	(12.84)	(31.66)
Tax provisions	**(5.03)**	**(6.1)**	**3.68**	**5.19**	**3.88**
Net profit after taxes	**(1.72)**	**(2.0)**	**(31.04)**	**(18.03)**	**(35.55)**

R-Revised
Source: DFIM, BB.

Appendix XXXII: FCs' Liquidity Position at End-December					
(Amount in Billion BDT)					
Items	**2020**	**2021**	**2022R**	**2023**	**2024**
Total liabilities	500.1	527.9	559.06	570.00	623.46
Total term deposits	**324.2**	**347.2**	**358.02**	**355.24**	**369.72**
Industry CRR(required)	4.9	5.2	5.37	5.33	5.55
Industry CRR(maintained)	**5.7**	**6.0**	**5.69**	**5.43**	**5.71**
Industry SLR(required)	22.6	23.8	25.15	25.25	27.41
Industry SLR(maintained)	**108.0**	**116.4**	**92.97**	**104.87**	**97.86**

Source: DFIM, BB.

Appendix XXXIII: FCs' Other Information at end-December					
(Amount in Billion BDT)					
Items	**2020**	**2021**	**2022R**	**2023**	**2024**
Tier-I Capital	89.90	78.69	6.50	(1.81)	(56.29)
Tier-II Capital	13.50	13.37	12.76	12.69	11.71
Total Capital	103.40	92.06	19.26	10.88	(44.58)
Classified loans & leases	100.5	130.2	168.21	232.09R	260.38
Loan loss provisions (required)	51.8	73.9	100.82	145.72R	167.73
Loan loss provisions (maintained)/Actual Provision	44.4	62.9	90.30	127.33R	154.79
Loan loss provisions (surplus/shortfall)	**(7.4)**	**(11.0)**	**(10.53)**	**(18.39R)**	**(12.94)**

Appendix XXXIII: FCs' Other Information at end-December (Cont'd)					
					(Amount in Billion BDT)
Number of State-owned FCs	3	3	3	3	3
Number of local FCs	18	19	19	19	19
Number of FCs under foreign joint venture	12	13	13	13	13
Total number of FCs	**33**	**35**	**35**	**35**	**35**
Number of branches	277	303	274	270	272

R-Revised
Source: DFIM, BB, BB and BB Annual Report.

Appendix XXXIV: FCs' Summary Performance Indicators					
					(In percent)
Indicators	**2020**	**2021**	**2022[R]**	**2023**	**2024**
Profitability & Efficiency:					
Return on Assets (ROA)	(0.19)	(0.23)	(3.21[R])	(1.81)	(3.56)
Return on Equity (ROE)	(1.99)	(2.79)	(463.51[R])	108.72	66.37
Net Interest Margin (NIM)	1.69	1.87	1.14	0.73	-0.27
Asset Quality:					
Classified Loans and Leases to Total Loans and Leases	15.03	19.33	23.88	31.55R	33.83
Capital Adequacy:					
Capital Adequacy Ratio (CAR)	14.17	12.90	2.88	1.62	-6.46
Liquidity:					
SLR maintained	21.60	22.10	16.63	18.40	15.70
CRR maintained	1.63	1.70	1.59	1.53	1.54

R-Revised
Source: DFIM, BB.

Appendix XXXV: FCs' Sector-wise Distribution of Loans and Leases			
			(Shares in percentage)
Major Sectors	**2022**	**2023**	**2024**
Trade and Commerce	14.83	15.09	15.00
Industry	44.88	46.57	47.95
Agriculture	2.31	2.28	1.99
Housing	18.81	19.41	16.75
Others	19.16	16.64	18.31
Grand Total	100.00	100.00	100.00

Source: DFIM, BB.

Appendix XXXVI: Automated Cheque Clearing Operations						
Category	**2022**		**2023**		**2024**	
	Number in Million	**Amount in Billion BDT**	**Number in Million**	**Amount in Billion BDT**	**Number in Million**	**Amount in Billion BDT**
High Value (HV)	2.52	16,110	2.39	14,875	2.23	13,271
Regular Value (RV)	20.00	10,090	19.34	9,669	18.10	8,398

Source: PSD, BB.

APPENDIX XXXVII: THE STATUS OF MOBILE FINANCIAL SERVICES (MFS)				
				Amount in Billion BDT
Particulars	2021	2022	2023	2024
Number of Banks authorized for MFS	13	13	13	13
Number of Banks in operation for MFS	10	13	13	13
Number of Agents (In Millions)	1.12	1.55	1.72	1.83
Number of registered clients (In Millions)	111.5	190.8	220.5	238.67
Number of active accounts (In Millions)	41.1	57.4	83.7	88.88
Number of total transactions (In Millions)	3,837	4,736	6,161	7,301
Volume of total transaction (In Billion BDT)	**7,701**	**10,159**	**13,529**	**17,452**

Source: PSD, BB.

APPENDIX XXXVIII: AGENT BANKING OPERATION DURING 2020-2024						
						Amount in Billion BDT
Year	**Number of Agents**	**Number of Account (In Million)**	**Deposited Amount**	**Number of Transactions (In Million)**	**Amount of Transaction**	**Inward Foreign Remittance**
2020	11,932	9.65	156.02	84.85	2,930.39	295.36
2021	13,951	14.05	239.60	138.97	4,609.86	323.46
2022	15,226	17.48	296.87	173.99	6,730.57	320.02
2023	15,757	21.42	359.02	181.09	8,206.90	289.70
2024	16,019	24.08	417.59	174.93	8,219.34	307.57

Source: Statistics Department, BB.

APPENDIX XXXIX: VOLUME OF ELECTRONIC BANKING TRANSACTIONS				
				Amount in Billion BDT
Year	**2021**	**2022**	**2023**	**2024**
ATM	2,287.52	3,744.07	4,575.12	3,069.93
Debit Card	2,348.79	3,837.01	4,738.25	4,851.23
Credit Card	191.07	289.07	317.54	359.94
Internet Banking	1,373.84	2,835.67	7,634.16	11,092.78

Source: PSD, BB

APPENDIX XL: BANKING SECTOR LOAN LOSS PROVISIONS			
			(Amount in Billion BDT)
Year	**Required Provision**	**Provision Maintained**	**Surplus/Shortfall**
2020	648.02	646.78	-1.24
2021	806.54	666.47	-140.07
2022	841.57	731.48	-110.09
2023	989.41	796.80	-192.61
2024	2155.08	1093.77	-1061.31

Source: BRPD, BB.

APPENDIX XLI: BANKING SECTOR YEAR-WISE GROSS NPL RATIO AND ITS COMPOSITION				
				(In percent)
Year	**Gross NPL Ratio**	**Share of Sub-Standard Loans to Gross NPL**	**Share of Doubtful Loans to Gross NPL**	**Share of Bad Loans to Gross NPL**
2020	7.66	7.67	5.33	86.94
2021	7.93	7.77	4.06	88.17
2022	8.16	6.79	4.54	88.67
2023	9.00	9.05	3.90	87.06
2024	20.20	12.44	3.24	84.32

Source: BRPD, BB.

APPENDIX XLII: MICROCREDIT FINANCE SECTOR						
Particulars		**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**
1	**Total Number of Licensed Institutions**	759	746	739	731	724
2	**Number of Branches**	20,898	20,955	23,543	25,336	26,071
3	**Number of Employees**	171,110	175,741	206,713	206,000	223,459
4	**Number of Members (In Million)**	33.31	35.12	38.27	40.86	41.56
5	**Number of Borrowers (In Million)**	26.15	27.8	29.84	31.53	32.18
6	**Outstanding loans by licensed institutions (In Billion BDT)**					
	Top 10 MFIs	639.7	657.89	834.05	1,008.21	1,037.50
	Top 20 MFIs	707.03	737.42	954.15	1,157.54	1,209.22
7	**Outstanding Saving Balance of the licensed institutions (In Billion BDT)**					
	Top 10 MFIs	269.1	304.21	344.56	430.02	466.91
	Top 20 MFIs	297.88	334.82	387.50	486.84	536.13
8	**Return on Asset (ROA)**	5.03%	5.01%	2.89%	5.07%	4.65%
9	**Return on Equity (ROE)**	11.78%	19.00%	11.75%	14.67%	14.26%
10	**Amount of Outstanding Loan (In Billion BDT)**					
	Up to 50,000 Taka	390.41	395.70	404.96	403.04	370.57
	50001 Taka to 1,00,000 Taka	201.73	234.94	356.06	447.15	476.13
	1,00,001 Taka to 3,00,000 Taka	190.75	187.70	305.54	416.15	471.78
	3,00,001 Taka and Above	106.05	131.50	174.80	237.84	275.62
	Total Amount of Outstanding Loan	888.64	949.84	1,241.36	1,504.18	1,594.10
11	**Total Amount of Loan Disbursed (BDT in Billion)**	1,362.75	1,512.09	1,918.80	2,493.02	2,615.40
12	**Total Amount of Loan Recover**	1,329.88	1,397.12	1,652.69	1,753.68	2,494.56

Appendix XLII: Microcredit Finance Sector						
Particulars		2019-20	2020-21	2021-22	2022-23	2023-24
	(BDT in Billion)					
13	**Defaulted Loan (In Million BDT)**	29,512.29	45,285.47	83,700.12	77,540.00	128,946.15
14	**Particulars of Loan Recipients' of MFIs (In Millions)**					
	Particulars	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**
	Up to 50,000 Taka	19.45	20.72	22.25	18.40	21.43
	50001 Taka to 1,00,000 Taka	4.27	4.91	5.27	7.38	6.39
	1,00,001 Taka to 3,00,000 Taka	1.15	1.76	1.94	4.90	3.52
	3,00,001 Taka and Above	0.32	0.41	0.38	0.85	0.83
	Total Number of loan recipients	25.18	27.80	29.84	31.53	32.18
15	**Average Loan per Recipient**	35,299.09	34,162.41	41,740.72	47,708.39	49,538.91

Source: MRA.

Appendix XLIII: Islamic Banks' Aggregate Balance Sheet						
Particulars	(Amount in Billion BDT)				Change (%) 2022 to 2023	Change (%) 2023 to 2024
	2021	**2022**	**2023**	**2024**		
Property & Assets						
Cash in Hand (including FC)	41.7	52.3	60.9	53.5	16.6	(12.1)
Balance with BB and SB (including FC)	385.2	257.2	257.6	234.8	0.2	(8.9)
Balance with other Banks and FIs	162.8	196.2	176.1	211.2	(10.2)	19.9
Money at Call and Short Notice	18.3	8.0	8.3	7.0	3.4	(15.8)
Investments						
Government	134.7	109.8	127.6	131.5	16.2	3.1
Others	171.6	170.3	177.3	291.4	4.1	64.4
Total Investments	306.4	280.1	304.8	422.9	8.8	38.7
Investments & Advances						
Investments & Advances	3,282.2	3,739.8	4,026.2	4,334.1	7.7	7.6
Bills Purchased and Discounted	132.4	208.7	249.7	113.6	19.6	(54.5)
Total Investments and Advances	3,414.7	3,948.5	4,275.9	4,447.7	8.3	4.0
Fixed Assets	55.7	56.3	53.7	53.2	(4.7)	(0.9)
Other Assets	122.4	171.1	251.9	388.8	47.2	54.3
Non-banking Assets	0.9	0.9	0.9	0.9	(0.1)	(1.4)
Total Assets	4,508.0	4,970.7	5,390.2	5,820.1	8.4	8.0
Liabilities						
Borrowings from other Banks/FIs/Agents	285.4	579.0	678.1	956.9	17.1	41.1
Deposits & Other Accounts						
Current Deposit	411.0	412.3	471.2	427.8	14.3	(9.2)
Savings Deposit	766.9	802.5	773.6	751.2	(3.6)	(2.9)
Fixed/Term Deposit	2,015.6	2,002.4	2,223.7	2,319.9	11.1	4.3
Interbank Deposit	114.3	152.6	151.9	204.4	(0.5)	34.6
Other Deposit	352.5	397.5	361.4	354.4	(9.1)	(1.9)
Total Deposits	3,660.4	3,767.3	3,981.7	4,057.7	5.7	1.9
Bills Payable	31.3	37.5	48.7	41.0	30.0	(15.8)
Other Liabilities	326.2	361.8	443.3	553.2	22.5	24.8
Total Liabilities	4,303.3	4,745.5	5,151.9	5,608.9	8.6	8.9
Capital/Shareholder's Equity	204.7	225.1	238.3	211.2	5.8	(11.4)
Total Liabilities & Shareholder's Equity	4,508.0	4,970.7	5,390.2	5,820.1	8.4	8.0
Off-balance Sheet Items	774.9	807.2	775.8	848.2	(3.9)	9.3

Source: DOS, BB.

Appendix XLIV: Islamic Banks' Aggregate Income Statement						
Particulars	**(Amount in Billion BDT)**				Change (%) 2022 to 2023	Change (%) 2023 to 2024
	2021	**2022**	**2023**	**2024**		
Profit Income	248.6	266.3	324.6	387.5	21.9	19.4
Less: Profit Expenses	160.0	177.0	214.3	291.6	21.1	36.0
Net Profit Income	**88.6**	**89.3**	**110.2**	**96.0**	**23.4**	**(12.9)**
Non-Profit/Investment Income	35.6	54.7	49.0	66.3	(10.4)	35.3
Total Income	**124.1**	**144.0**	**159.2**	**162.3**	**10.6**	**1.9**
Operating Expenses	69.4	80.4	90.3	101.3	12.3	12.3
Profit before Provision	**54.7**	**63.6**	**69.0**	**61.0**	**8.4**	**(11.6)**
Total Provision	13.7	13.3	14.9	38.2	11.7	156.3
Profit before Taxes	**41.0**	**50.3**	**54.1**	**22.8**	**7.5**	**(57.9)**
Provision for Taxation	20.7	24.5	26.5	16.1	8.3	(39.4)
Profit after Taxation (i.e., Net Profit)	**20.3**	**25.8**	**27.6**	**6.7**	**6.7**	**(75.7)**

Source: DOS, BB.

Appendix XLV: Share of Islamic Banks in the Banking Sector (End-December, 2024)			
			(Amount in Billion BDT)
Particulars	**All Banks**	**Islamic Banks**	**Share of Islamic Banks (%)**
Property & Assets			
Cash in hand	**290.7**	**53.5**	**18.4**
Due from BB and other banks/FIs	1,923.6	446.0	23.2
Money at Call and Short Notice	**151.9**	**7.0**	**4.6**
Investments in securities	4,820.8	422.9	8.8
Investments (Loans and advances)	**17,454.1**	**4,447.7**	**25.5**
Fixed Assets	301.5	53.2	17.6
Other Assets	**1,334.1**	**388.8**	**29.1**
Non-Banking Assets	21.0	0.9	4.3
Total Assets	**26,297.7**	**5,820.1**	**22.1**
Liabilities			
Due to financial institutions	**2,430.1**	**956.9**	**39.4**
Deposits	18,975.8	3,853.3	20.3
Inter-bank deposit	**351.7**	**204.4**	**58.1**
Bills Payable	219.8	41.0	18.7
Other liabilities	**3,005.8**	**553.2**	**18.4**
Capital/Shareholder's Equity	1,314.5	211.2	16.1
Total Liabilities & Shareholder's Equity	**26,297.8**	**5,820.1**	**22.1**
Off-balance Sheet Items	6,814.4	848.2	12.4

Source: DOS, BB.

APPENDIX XLVI: SELECTED RATIOS OF ISLAMIC BANKS AND THE BANKING SECTOR (2024)

(In percent)

Ratio	Overall Banking Sector	Islamic Banking Sector
ROA	0.43	0.12
ROE	**8.70**	**3.18**
Net Profit Margin	1.30	1.89
Profit (Interest) Income to Total Assets	**5.58**	**6.66**
Net-profit (Interest) Income to Total Assets	1.12	1.65
Non-Profit (Interest) Income to Total Assets	**2.43**	**1.14**
Investment (Advance)-Deposit Ratio	81.55	97.06
CRAR	**3.08**	**-4.95**
Leverage Ratio	0.30	-5.54
Classified Investment (Advances) to Investments	**20.20**	**23.18**
Classified Investment (Advances) to Capital	263.04	489.46

Source: DOS, BB and BRPD, BB.

APPENDIX XLVII: ISLAMIC BANKS' CRAR (2024)

CRAR	Number of Islamic Banks
Below 10%	8
10% to 12.5%	1
>12.5%	1
Total	**10**

Source: DOS, BB.

APPENDIX XLVIII: ISLAMIC BANKS' LEVERAGE RATIO (2024)

Leverage ratio	Number of Islamic Banks
Below 3.5%	8
3.5% to 5%	0
>5%	2
Total	**10**

Source: DOS, BB.

APPENDIX XLIX: METHODOLOGY OF PERFORMANCE MAP OF ISLAMIC BANKS

The performance map presents an overall assessment of changes in underlying conditions and risk factors measured through five composite indices namely growth, asset quality, profitability, liquidity and efficiency during a period. The ratios used for constructing each composite index are showing in Table 1.

TABLE 1: RATIOS USED FOR CONSTRUCTING THE PERFORMANCE MAP OF ISLAMIC BANKS

Dimension	Ratios		
Capital Adequacy	CRAR	CCB Ratio	Leverage Ratio
Asset Quality	GNPL Ratio	NNPL Ratio	URSDL Ratio
Efficiency	ROA ratio	NII Ratio	NNII Ratio
Liquidity	LCR	NSFR	IDR
Efficiency	Growth in total Assets, Investments, Deposits, and Shareholders' Equity	Growth in market share in terms of total Assets, Investments, Deposits, and Shareholders' Equity	

Each composite index takes values between zero and 1, where a higher value means the risk in that dimension is high. Therefore, an increase in the value of the index in any particular dimension indicates an increase in risk in that dimension for that period as compared to other periods. Each index is normalized by using the following formula:

$$\frac{X_t - \min(X_t)}{\max(X_t) - \min(X_t)}$$

Where, X_t is the value of the ratio at time t. A composite index of each dimension is calculated as a weighted average of normalized ratios used for that dimension where the weights are based on subjective judgment.

APPENDIX L: FOREIGN EXCHANGE (FX) ASSETS OF THE BANKING INDUSTRY AT END-DECEMBER

Amount in Million USD

Period	Debit Balance in Nostro A/c	BB Clearing Account	Investment in OBU	Cash holding	FC Bills Purchased	Others	Total
2021	1,910.65	689.22	3,485.65	28.86	1,858.90	16,388.92	**24,362.20**
2022	2,370.02	783.05	3,130.78	14.38	1,495.81	8,914.27	**16,708.31**
2023	2,387.28	1,115.41	3,757.43	27.83	1,590.18	7,353.45	**16,231.58**
2024	2,611.91	831.61	2,386.58	46.78	1,589.70	6,822.11	**14,288.69**

Source: FEPD, BB.

APPENDIX LI: FOREIGN EXCHANGE (FX) LIABILITIES OF THE BANKING INDUSTRY AT END-DECEMBER

Amount in Million USD

Period	Credit balance in Nostro A/C	NFCD	RFCD	ERQ	FC A/C	FDD, TT, MT payable	Back-to-Back L/Cs	Others	Total
2021	142.44	56.92	105.24	666.38	1950.25	37.24	2,482.22	13,374.34	**18,815.03**
2022	203.83	112.48	138.67	486.96	2284.30	19.26	2,584.06	6,598.27	**12,427.83**
2023	319.17	143.56	143.28	422.45	2364.55	15.32	2,759.59	9,140.75	**15,308.67**
2024	240.66	151.70	145.77	658.37	2297.16	17.56	3,002.20	6,451.54	**12,964.96**

Source: FEPD, BB.

APPENDIX LII: FOREIGN EXCHANGE (FX) CONTINGENT LIABILITIES OF THE BANKING INDUSTRY AT END-DECEMBER

Amount in Million USD

Period	Letter of credit	Letter of guarantee	Acceptances	Others	Total
2021	41,551.93	5,542.00	20,145.49	107.43	**67,346.86**
2022	35,714.74	4,702.98	18,238.44	364.69	**59,020.85**
2023	37,894.53	4,812.85	30,755.53	552.29	**74,015.2**
2024	40,338.05	4,867.53	32,868.51	625.42	**78,699.51**
Growth in 2024	6.45%	1.14%	6.87%	13.24%	**6.33%**
Contribution in 2024 (% of total)	51.26%	6.18%	41.76%	0.79%	-

Source: FEPD, BB.

APPENDIX LIII: INTERBANK FX TURNOVER BY COMPONENTS

Amount in Million USD

Period	Spot			Swap			Forward		
	USD	Non-USD	Total	USD	Non-USD	Total	USD	Non-USD	Total
Total 2023	1,012.07	76.82	1,088.89	21,297.75	0.00	21,297.75	15.20	0.20	15.40
Jan-24	54.91	0.00	54.91	1629.45	0.00	1629.45	0.00	0.00	0.00
Feb-24	99.13	0.08	99.21	1192.50	0.00	1192.50	1.00	0.00	1.00
Mar-24	117.33	0.00	117.33	1143.20	0.00	1143.20	6.80	0.00	6.80
Apr-24	130.84	0.00	130.84	1151.10	0.00	1151.10	4.20	0.00	4.20
May-24	595.77	12.73	608.5	1251.80	0.00	1251.80	8.00	0.00	8.00
Jun-24	436.14	0.00	436.14	1302.50	0.00	1302.50	0.60	0.00	0.60
Jul-24	353.5	16.25	369.75	1646.60	0.00	1646.60	0.00	0.00	0.00
Aug-24	337.99	72.13	410.12	1421.30	0.00	1421.30	22.50	6.90	29.40
Sep-24	469.66	211.87	681.53	1913.20	0.00	1913.20	8.00	0.00	8.00
Oct-24	112.76	546.31	659.07	2288.58	0.00	2288.58	2.00	3.10	5.10
Nov-24	155.97	65.73	221.7	2226.80	0.00	2226.80	1.00	0.00	1.00
Dec-24	97.04	0.00	97.04	2019.00	0.00	2019.00	1.50	0.00	1.50
Total 2024	**2,961.04**	**925.1**	**3,886.14**	**19,186.03**	**0.00**	**19,186.03**	**55.60**	**10.00**	**65.60**
Growth in 2024	**192.57%**	**1104.24%**	**256.89%**	**-9.92%**	**0.00%**	**-9.92%**	**265.79%**	**4900.00%**	**325.97%**

Source: FRTMD, BB.

APPENDIX LIV: ANNUAL INTERBANK FX TURNOVER

Amount in Billion USD

Particulars	2020	2021	2022	2023	2024
Annual FX Spot Turnover	2.97	5.91	2.40	1.09	3.89
Annual FX Swap Turnover	30.61	36.56	34.50	21.30	19.19
Annual FX Forward Turnover	0.67	0.63	0.15	0.02	0.07
Annual FX Turnover	34.25	43.10	37.05	22.40	23.14

Source: FRTMD, BB.

APPENDIX LV: MONTHLY INTERBANK FX TURNOVER

Amount in Billion USD

Particulars	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Total
FX Turnover	1.68	1.29	1.27	1.29	1.87	1.74	2.02	1.86	2.60	2.95	2.45	2.12	**23.14**

Source: FRTMD, BB.

APPENDIX LVI: NET OPEN POSITION IN FX AT END-DECEMBER			
			Amount in Million USD
Period	**Total of the Net Long Position**	**Total of the Net Short Position**	**Overall Net Exchange Position**
December 2022	618.96	-761.86	-142.90
December 2023	734.94	-746.21	-11.28
Jan-24	839.67	-639.35	200.32
Feb-24	930.65	-518.20	412.46
Mar-24	780.08	-587.38	192.70
Apr-24	923.41	-292.05	631.35
May-24	1,059.80	-232.46	827.34
Jun-24	860.80	-588.09	272.70
Jul-24	931.79	-514.03	417.76
Aug-24	918.24	-500.65	417.59
Sep-24	941.72	-520.89	420.83
Oct-24	938.86	-625.47	313.39
Nov-24	1,023.16	-677.38	345.78
Dec-24	958.86	-493.58	465.28

Source: FRTMD, BB.

APPENDIX LVII: ANNUAL GROWTH OF NDA, NFA, M2, RM					
Particulars	**2020**	**2021**	**2022**	**2023**	**2024**
NFA	30.22%	3.41%	-13.48%	-13.13%	-8.00%
NDA	9.94%	11.57%	14.95%	13.42%	10.22%
M2	14.23%	9.60%	8.47%	8.60%	7.57%
RM	21.18%	6.45%	17.41%	-2.03%	7.30%

Source: Monthly Economic Trend, BB.

APPENDIX LVIII: FX RESERVES ADEQUACY				
				Amount in Billion USD
Particulars	**Dec-21**	**Dec-22**	**Dec-23**	**Dec-24**
Import in the month of December	7.50	5.29[R]	4.96	6.08
Import Coverage (Prospective)	6.0	5.5	5.1	4.1
Gross FX Reserve	46.15[R]	33.75[R]	27.13	26.21
FX Reserve as per BPM6	-	-	21.87	21.39
M2	188.89	177.57[R]	173.56	171.14
Reserves/M2	24.43%[R]	19.01%[R]	15.63%[R]	15.32%
STED/Reserve	39.19%[R]	54.91%[R]	52.46%[R]	49.38%
Required FX Reserves = 3 Months Import Coverage	22.50	15.86[R]	14.88	18.23
Required FX Reserves = 20% of M2	37.78	35.51[R]	34.71	34.23
Required FX Reserves = Short-Term External Debt	18.09	18.53	14.23	12.95

[R]= Revised;
Source: MET; NSDP, BB Website.

Appendix LIX: Inward Wage Earners' Remittance

Amount in Billion USD

Particulars	2020	2021	2022	2023	2024
Total	21.74	22.07	21.29	21.92	26.89
Growth (in percent)	18.60%	1.52%	-3.55%	2.97%	22.68%

Source: NSDP, BB Website.

Appendix LX: Exchange Rate Movement

BDT per USD

Period	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	84.90	84.95[R]	84.95[R]	84.95[R]	84.95[R]	84.90	84.80	84.83	84.84	84.80	84.80	84.80
2021	84.80	84.80	84.80	84.80	84.80	84.80	84.80	85.20	85.50	85.67	85.80	85.80
2022	86.00	86.00	86.20	86.50	89.00	93.50	94.70	95.00	96.00	97.00	98.00	99.00
2023	100.00	101.00	102.00	103.00	104.50	106.00	109.00	109.50	110.25[R]	110.50	110.50	110.00
2024	110.00	110.00	110.00	110.00	117.70	118.00	118.00	120.00	120.00	120.00	120.00	120.00

R: Revised;
Source: Monthly Economic Trend, BB.

Appendix LXI: REER Movement (INDEX)

Period	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	110.45	111.23	113.71	115.86	113.78	112.99	112.82	112.38	114.10	114.67	113.00	110.73
2021	111.29	110.94	112.41	113.12	108.97	110.55	112.00	113.47	115.08	115.75	115.21	115.76
2022	115.06	114.67	115.49	116.38	115.74	111.3	111.31	113.97	112.36	111.66	108.09	104.81
2023	102.33	101.86	102.69	101.4	101.12	102.03	100.57	104.56	106.57	107.95	105.39	104.53
2024	103.30	102.72	104.56	105.72	99.79	99.06	100.66	101.05	100.17	102.96	104.10	103.85

Source: MPD, BB.

Appendix LXII: Import Letter of Credit (L/C)

Item	2021	2022	2023	2024
Opening L/C	86.18	85.28	69.72	71.65
(Growth)	-	-1.04%[R]	-18.25%[R]	2.76
Settlement L/C	71.56	87.71	58.82	69.18
(Growth)	-	22.57%[R]	-32.94%[R]	17.62%
Outstanding Contingent Liabilities of Import L/Cs	14.61	-2.43	10.90	2.47

R: Revised;
Source: FEOD, BB.

Appendix LXIII: Intervention In FX Market By BB

Particulars	2020	2021	2022	2023	2024
USD Purchased	6.37	2.66	0.00	1.24	2.69
USD Sold	0.66	2.52	12.94	12.51	7.05

Source: FRTMD, BB.

Appendix LXIV: Intervention In FX Market By BB (CY2024)												
Amount in Million USD												
Particulars	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
USD Purchased	250.00	413.81	973.65	101.00	106.00	488.00	105.00	10.00	88.50	47.22	48.50	59.00
USD Sold	1603.40	943.94	1105.73	1657.50	638.79	112.00	678.60	170.00	111.00	20.00	0.00	7.00

Source: FRTMD, BB.

Appendix LXV: Selected Balance Sheet Items of Insurance Sector						
(Amount in Billion BDT)						
Particulars		**2020**	**2021**	**2022**	**2023**	**2024**
Non-Life Insurance	Gross Premium	46.92	53.96	54.13	59.53	65.02
	Investment	68.39	79.14	84.92	105.25	119.44
Life Insurance	Gross Premium	95.28	102.33	114.02	122.73	122.66
	Investment	366.66	380.41	379.92	391.11	403.04

Source: IDRA, BB.

Appendix LXVI: Selected Indicators of Insurance Sector					
Particulars	**2020**	**2021**	**2022**	**2023**	**2024**
Per Capita Insurance Premium (in BDT)	837.42	910.33	965.06	1,033.47[R]	1,051.52
Insurance Penetration Ratio	0.44%	0.42%	0.40%	0.38%	0.36%
Assets to GDP Ratio	1.77%	1.64%	1.51%	1.35%	1.32%
Market Capitalization in DSE	4.06%	4.43%	3.63%	3.87%	3.53%

R-Revised
Source: IDRA, BB.

Appendix LXVII: List of Indicators Used to Prepare CFSI	
Category	**Indicator**
Real Sector Index (RSI)	GDP growth rate
	Agricultural Production
	Quantum Index of Production
	Inflation
	Domestic Credit to GDP
Fiscal Sector Index (FSI)	Fiscal balance to GDP
	Government debt to GDP
	Tax Revenue to GDP
External Sector Index (ESI)	External debt to GDP ratio
	Reserve to External Debt
	Current Account Balance to GDP
	Real effective exchange rate (REER)
	Net international investment position (NIIP)
Monetary and Financial Sector Index (MFI)	Domestic Credit Growth
	Performing Loan Ratio
	CRAR
	ROA
	Capital Market return
	Call money rate

APPENDIX LXVIII: FINANCIAL STABILITY MAP FOR 2024

Components	Major Indicators	Standardized Scores (0 to 1 Scale) 2023[55]	Standardized Scores (0 to 1 Scale) 2024	Change w.r.t. 2023	Latest Value of the indicator[54]	Comment
External Economy	Trading partners' real GDP growth (export weighted)	0.327	0.342	↑	1.38 percent for 2024	Reverse ratio[56]= 1- standardized score
	Import Weighted average Inflation (In countries from which Bangladesh makes highest import)	0.311	0.162	↓	1.48 percent for 2024	-
	Weighted average unemployment rate (Source countries with highest inward remittance for Bangladesh)	0.500	0.484	↓	3.40 percent for 2024	-
	International Oil Price	0.688	0.665	↓	$72.73/barrel in March/2025. Oil price decreased after December/2024.	
	180 days Average SOFR rate at month end	0.864	0.988	↑	4.41 percent in April 2025. This rate decreased after December 2024.	
	Current account deficit to GDP	0.342	0.431	↑	0.079 percent in December/2024.	Reverse ratio.
	Reserve Adequacy (Import coverage in months)	0.730	0.858	↑	4.10 months in December/2024 and 4.4 months in March/2025.	Reverse ratio.
	Overall component Score	**0.512**	**0.537**	↑	-	-
Domestic Economy	Output gap	0.200	0.400	↑	1.82 percent for December/2024.	-
	External debt to GDP	0.871	0.881	↑	22.60 percent in 2023-24 and 21.70 percent in 2022-23.	-
	Exchange rate fluctuations (REER)	0.445	0.432	↓	103.85 in December/2024 and 101.90 for March/2025.	-
	Inflation	0.707	0.807	↑	10.89 in Dec/2024 and 9.17 in April/2025.	-

54 The cut-off date for latest value of any indicator is 31st December, 2024. Updated values after that date have been used in explaining future outlook of the stability map but not in constructing the map.

55 Some indicators for 2023 have been re-estimated. In some cases, threshold values used for standardizing the indicators have also been modified from the previous publication (FSR-2023).

56 Reverse ratio is used when higher value of an indicator is desirable for financial stability. The reverse ratio ensures that higher values of such indicators are placed closer to the origin of the stability map. Final standardized scores are stated in the appendix after converting the original scores using the reverse ratio.

Appendix LXVIII: Financial Stability MAP for 2024

Components	Major Indicators	Standardized Scores (0 to 1 Scale)		Change w.r.t. 2023	Latest Value of the indicator[54]	Comment
	Overall component Score	**0.535**	**0.625**	↑	-	-
Households	Household borrowing to GDP	0.767	0.709	↓	5.38 percent for 2024.	-
	Household Credit quality (H.H NPL to H.H Loans)	0.198	1.000	↑	11.86 percent for 2024.	-
	Inward Remittance to GDP	0.492	0.457	↓	5.66 percent for 2024.	Reverse ratio.
	Overall component Score	**0.485**	**0.719**	↑	-	-
Non-Financial Corporation	All NFC's credit to GDP	0.925	0.948	↑	26.9 percent in December/2024.	-
	Top 50-NFC's loans to Banking Sector Loans	0.869	0.984	↑	20.0 percent in December/2024.	-
	D/E ratio of All NFCs	0.484	0.493	↑	115 percent in December/2024.	-
	Credit portfolio quality of Top 50 NFC's	0.341	0.903	↑	21.01 percent in December/2024.	-
	Overall component Score	**0.655**	**0.832**	↑	-	-
Fiscal Condition	Public debt to GDP	0.511	0.505	↓	36.30 percent in December/2023.	-
	Sovereign Risk Premium	0.729	0.842	↑	-2.47 percent in December/2024.	-
	Govt. budget balance to GDP	0.457	0.299	↓	4.01 percent for 2023-2024.	-
	Tax revenue to GDP	0.794	0.858	↑	7.32 percent in December/2024.	Reverse ratio
	Overall component Score	**0.626**	**0.627**	↑	-	-
Financial Market Condition	Asset Concentration of top 3 D-SIBs to Industry Assets	0.276	0.273	↓	27.33 percent in December/2024.	-
	Gross NPL of Banking Sector	0.082	0.402	↑	20.20 percent in December/2024.	-
	RWA density ratio	0.593	0.626	↑	62.61 percent in December/2024.	-
	Banking Sector resilience map	1.174	1.236	↑	1.236 in December/2024.	-
	Deposit covered by DITF	0.810	0.990	↑	17.34 percent in December/2024.	Reverse ratio.
	NPL of FIs	0.779	0.940	↑	33.83 percent in December/2024.	-

Appendix LXIX: Financial Stability MAP for 2024 (Contd.)						
Components	**Major Indicators**	**Standardized Scores (0 to 1 Scale)**		**Change w.r.t. 2023**	**Latest Value of the indicator**	**Comment**
		2023	2024			
Financial Market Condition	Claim settlement ratio of Insurance sector (life + Nonlife)	0.600	0.685	↑	62.52 percent in December/2024.	Reverse ratio.
	NPL ratio of MFIs	0.492	1.000	↑	8.09 percent in December/2024.	-
	Price Earnings Ratio	0.659	1.000	↑	9.50 times in December/2024 and 9.51 in January/2025.	Reverse ratio used up to a certain level. Weights for FI and capital market indicators are finalized using their proportional size in the financial system (Bank + FI + Capital Market)
	DSEX	0.294	0.442	↑	5216.44 points in December/2024 and 4917.92 points in April/2025.	Reverse ratio.
	Overall component Score	**0.455**	**0.657**	↑	-	-
Capital & Profitability	CRAR	0.034	1.000	↑	3.08 percent in December/2024.	Reverse ratio
	TIER 1	0.000	1.000	↑	0.48 percent in December/2024.	Reverse ratio
	NIM	0.498	0.469	↓	2.90 percent in December/2024.	Reverse ratio
	ROA	0.656	0.749	↑	0.43 percent in December/2024.	Reverse ratio
	Overall component Score	**0.297**	**0.805**	↑	-	-
Funding & Liquidity	ADR	0.918	0.987	↑	81.17 percent in December/2024.	-
	LCR	0.623	0.546	↓	157.52 percent in December/2024.	Reverse ratio
	NSFR	0.342	0.636	↑	104.62 percent in December/2024.	Reverse ratio
	Overall component Score	**0.631**	**0.726**	↑	-	-