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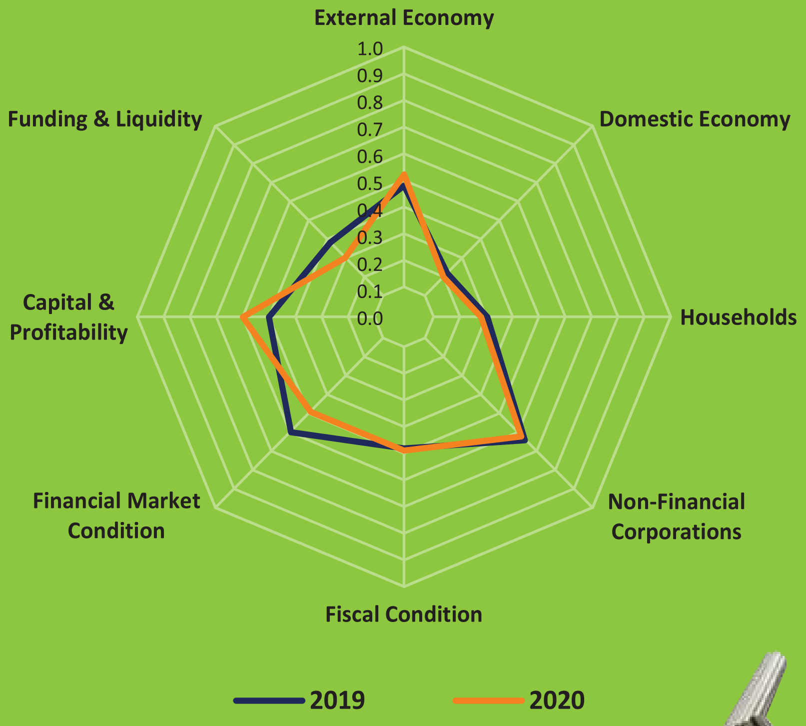

BANGLADESH BANK

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FINANCIAL STABILITY REPORT
2020

Financial Stability Department
Bangladesh Bank

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Message from the Governor

The global financial system experienced unprecedented challenges in the wake of COVID-19. Almost all affected countries faced tremendous strain in restoring economic activities towards sustained growth paths, attributable largely to recurrent lockdowns and mobility restriction, general holidays and various containment measures. In the backdrop of losing millions of lives and disrupted livelihoods, interruptions in global production networks and trades, and elevated uncertainties in business and investments, central banks and monetary authorities in different countries adopted a broad range of policy measures while governments in most countries declared various grants and sizeable stimulus packages to revive economic activities. Such extraordinary policy measures have eased financial conditions and helped the global economy to contain financial stability risk.

Many advanced economies have registered stronger-than-expected growth and faster recovery in recent months owing to expansionary policy measures as well as their rapid access to large-scale vaccination. For instance, China has already returned to the pre-COVID-19 level in the last quarter of 2020 while the US economy is gathering momentum to reach its pre-pandemic level in 2021. However, the progress is somewhat subdued in the Euro-zone while the oil-exporting countries are encountering major challenges amid the reduced demand for fuel since the subsequent waves of COVID-19 are striking around the world. Nevertheless, recovery of global economy seems to be largely dependent on proper policies on the distribution and implementation of the mass level vaccine along with prudent formulation of public policies-fiscal and monetary policies in particular.

Despite the drastic contraction of the global economy in 2020 due to COVID-19, Bangladesh economy remained reasonably resilient and stable with impressive economic growth compared to its peer countries. The agriculture sector remained least affected due to COVID-19 while the industrial and manufacturing sectors were affected notably in the early stage of the pandemic, but later gained momentum in the second and third quarters of 2020. Real GDP growth stood at 5.2 percent in FY20 while most countries faced economic contraction in 2020. Real GDP growth is projected to rise to 6.1 percent in FY21. General inflation remained well contained even at end 2020. The external sector recovered early with notable growth of remittance inflows, sustained export and also import growth. Current Account Balance entered into a positive territory by the end of FY20. Foreign exchange reserves recorded a new high of USD 43.17 billion, standing equivalent to nearly eight months of import payment. The banking sector has shown notable resilience to the unexpected shocks of the pandemic. Asset quality of the banking industry considerably improved compared to the preceding year. The solvency position of the banking industry as a whole improved notably compared to the pre-pandemic level. Financial institutions are expected to experience gradual recovery. The stock market has rebounded since the second half of the year 2020.

With a view to reviving economic activities and contain the adverse impact of the pandemic, the Government and Bangladesh Bank (BB) have undertaken all possible measures. The Government has declared various stimulus packages worth BDT 1.24 trillion up to December 2020 to support the various affected sectors. On the other hand, Bangladesh Bank promptly responded to the pandemic by introducing several refinance schemes and adopted a number of supportive policy measures. BB has eased the reserve requirements for scheduled banks and cut key policy rates. We have also raised the advance-to-deposit ratio (ADR) limit and relaxed loan classification policy, enhanced the size of the Export Development Fund to support manufacturer-exporters of the country. Moreover, we extended foreign exchange-related policy support to facilitate urgent imports of life-saving drugs and medical equipment related to the treatment of COVID-19. Besides, banks have been instructed to ensure smooth transactions through enhanced use of electronic banking platforms and mobile financial services for the payment of business obligations, wages, and allowances of the workforce of export-oriented industries.

Bangladesh Bank decided to establish a fund of EURO 200 million along with the existing USD 200 million in the Green Transformation fund. A "Credit Guarantee Scheme" has been introduced for the Cottage, Micro and Small enterprises that are facing difficulties to obtain loan/investment from banks and financial institutions not having adequate collateral. Bangladesh Bank also instructed the banks to allocate special budget for the health sector to tackle the deadly effects of the pandemic under the Corporate Social Responsibility (CSR) activity. In order to digitize and modernize the payments systems of the country, Bangladesh Bank has decided to introduce interoperability between banks and mobile financial services (MFS) providers.

Considering notable outcomes of the stimulus packages and also policy supports, we still feel there is no room to remain complacent. In order to ensure a growth supportive and stable financial sector, the stakeholders of the financial system need to take both preemptive and forward-looking measures in a timely fashion. In this perspective, I would like to remind all the stakeholders of the financial system that effort of the Government and ours alone may not suffice to repair the damage of the pandemic in full extent. Financial intermediaries as well as the associated regulators must remain vigilant about the ongoing course of the pandemic as well as policy measures taken or going to be taken in coming days.

The year 2021 would be both promising as well as challenging for us. While the advanced economies are expecting to regain, the recent wave of the pandemic in Bangladesh has put a sign of concern regarding the way the domestic economy would shape in 2021. We all realize now that COVID-19 has already exposed the low-income people with disproportionate income losses which may raise the inequality and poverty in the economy in future. Therefore, financial intermediaries need to redesign their lending strategy considering the new normal scenario. Employment generation should get significant priority while providing loans and advances and extending other financial services. CSR initiatives of the banks and FIs need to be revamped targeting hard hit strata of the people as well as healthcare sector of the country. Moreover, banks and FIs must ensure proper utilization of loans including those from COVID-19 related refinance schemes. Alongside, they also need to enhance their loan recovery initiatives as the economy starts recovering. What is more, as the exact extent and trajectory of COVID-19 is still uncertain, the stakeholders of the financial system should devise forward looking strategies to cope up with this new normal situation.

Finally, I hope that this report would be able to provide valuable insights to the stakeholders of the financial system about the downside risks as well as upside potentials amid the ongoing COVID-19 pandemic situation. I wish to register my appreciation for the diligent efforts of the Financial Stability Department in preparation of this report.

Fazle Kabir
Governor

Message from the Deputy Governor

COVID-19 has been leaving permanent footprint on the face of the global economy. However, relentless efforts of the authorities, apparent rise in awareness of the public, development and inoculation of COVID-19 vaccine effectively ushered rays of hope on inclusive recovery from the later part of CY20. Nevertheless, the upcoming extent of risk is still incomprehensible as subsequent waves of this deadly pandemic have been exasperating the endurance for many countries. In tandem with global infection scenario, Bangladesh has also been undergoing an unexpected second wave since the early March 2021 and consequently, prompted to adopt an array of containment measures, which may have exerted important bearing on economic recovery in recent months. Whatsoever, it could be reasonable to expect that the economy will get its momentum back once the pandemic will tone down.

Amid the gloomy economic progress around the world, macroeconomic situation of Bangladesh showed a considerable level of buoyancy, largely attributable to prudent steps taken by Bangladesh Bank and the Government. The real GDP growth of Bangladesh stood at 5.24 percent in FY20, notably higher than the growth achieved by many of its peers and neighbors. Resiliency in agriculture sector helped to maintain the price level stable. Country's foreign remittance inflow, dispelling all speculation, experienced remarkable growth and contributed to the buildup of record height of foreign exchange reserve. These external and domestic developments helped the country to propel the recovery path during this pandemic period which, in turn, paved the way of our financial system demonstrate level of stability during CY20. Substantial asset growth was observed in the banking sector and the quality of assets recorded further improvement. Besides, the liquidity of the banking sector was adequate to support the lending activities in the real economy. Unsurprisingly, pandemic-stricken economy caused the profitability of the banking sector to decline in CY20. However, capital to risk-weighted assets ratio of the banking sector remained at 11.6 percent in CY20, well above the minimum regulatory requirement of 10 percent. BB proactively addressed the liquidity challenges in the context of the pandemic and adjusted the Bank Rate, CRR, and Repo rate. Moreover, timely adoption of expansionary monetary policy provided positive signal to the market.

BB took prompt steps in implementing the stimulus packages of BDT 1.24 trillion declared by the Government through its conducive policy measures in credit and refinance facilities. For instance, BB instructed the banks to provide agricultural loans at a concessional rate of 4 percent. Also, the advance-to-deposit ratio (ADR) limit for banks was raised by 2 percentage points to allow them to extend credit facilities. Apart from these measures, BB advised the MFS providers to expand their operations and coverage to the un-banked people.

Despite notable resilience of the financial system in a pandemic setting, there are further rooms to strengthen it by turning on some adjustments in several areas. For instance, the declining growth of private sector credit needs to be revamped meticulously to maintain higher pace of GDP growth. Maintaining asset quality may remain a challenge for the banking sector in the near future as the recovery of different sectors might vary. Reinforcement of the FI sector's resilience is crucial as the downside risk of this sector might be the source of vulnerability and contagion in the financial system. Therefore, all the stakeholders need to work in a well-coordinated manner to overcome these challenges and to get back the economy in the accelerated trajectory.

Finally, I believe that this report will be able to provide the stakeholders a comprehensive understanding of the strengths, risks, and vulnerabilities of the financial system of the country and help them devise preemptive and forward-looking measures. I appreciate the diligent efforts and dedication of the officials of Financial Stability Department in preparing this report in a timely and befitting manner.

Abu Farah Md. Nasser
Deputy Governor

TABLE OF CONTENTS

LIST OF CHARTS

LIST OF TABLES

LIST OF BOXES

LIST OF APPENDICES

ACRONYMS

ACC	Anti Corruption Commission
ACD	Agricultural Credit Department
ACRL	Alpha Credit Rating Limited
ACRSL	ARGUS Credit Rating Services Ltd.
ACS	Automated Challan System
AD	Authorized Dealer
ADR	Advance-to-Deposit Ratio
ATDTL	Average Total Demand And Time Liabilities
ATM	Automated Teller Machine
BACH	Bangladesh Automated Clearing House
BACPS	Bangladesh Automated Cheque Processing System
BASIS	Bangladesh Association of Software & Information Services
BB	Bangladesh Bank
BBQ	Bangladesh Bank Quarterly
BB RG	Bangladesh Bank Risk Grade
BBS	Bangladesh Bureau of Statistics
BCBS	Basel Committee on Banking Supervision
BDT	Bangladeshi Taka
BDRAL	The Bangladesh Rating Agency Limited
BEFTN	Bangladesh Electronic Funds Transfer Network
BFIU	Bangladesh Financial Intelligence Unit
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BHBFC	Bangladesh House Building Finance Corporation
BKMEA	Bangladesh Knitwear Manufacturers and Exporters Association
BL	Bad and Loss
BO	Beneficiary Owner
BRPD	Banking Regulations and Policy Department
BS	Balance Sheet
BSBL	Bangladesh Samabaya Bank Limited
BSEC	Bangladesh Securities and Exchange Commission
BSI	Banking Soundness Index
BTMA	Bangladesh Textile Mills Association
CAB	Current Account Balance
CAR	Capital Adequacy Ratio
CBS	Core Banking System
CC	Cash Credit
CCB	Capital Conservation Buffer
CDBL	Central Depository Bangladesh Limited
CFSI	Composite Financial Stability Index
CMSME	Cottage, Micro, Small and Medium Enterprise
CPI	Consumer Price Index
CRAB	Credit Rating Agency of Bangladesh Ltd.
CRAR	Capital to Risk-weighted Assets Ratio

CRISL	Credit Rating Information and Services Limited
CRR	Cash Reserve Ratio
CRSDL	Classified Rescheduled Loan
CSE	Chittagong Stock Exchange
CSR	Corporate Social Responsibility
CY	Calendar Year
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
DMD	Debt Management Department
DNSB	Deferred Net Settlement Batches
DP	Depository Participants
DSE	Dhaka Stock Exchange
DSEX	DSE Broad Index
ECC	Export Cash Credit
ECAI	External Credit Assessment Institutions
ECRL	Emerging Credit Rating Ltd
EDF	Export Development Fund
EFT	Electronic Fund Transfer
EM	Emerging Market
EPS	Earnings per Share
ERQ	Exporters' Retention Quota
EU	European Union
FC	Foreign Currency
FCB	Foreign Commercial Bank
FDD	Foreign Demand Draft
FDI	Foreign Direct Investment
FDR	Fixed Deposit Receipt
FE/FX	Foreign Exchange
FEPD	Foreign Exchange Policy Department
FI	Financial Institution
FID	Financial Inclusion Department
FOB	Free On Board
FRTMD	Forex Reserve and Treasury Management Department
FSD	Financial Stability Department
FSR	Financial Stability Report
FSV	Forced Sale Value
FVI	Financial Vulnerability Index
FY	Fiscal Year
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product

GNPL	Gross Non-Performing Loan
GTF	Green Transformation Fund
GVA	Gross Value Added
GVC	Global Value Chain
HHI	Herfindahl-Hirschman Index
HV	High Value
IBFT	Internet Banking Fund Transfer
ICAAP	Internal Capital Adequacy Assessment Process
ICB	Investment Corporation of Bangladesh
IDR	Investment to Deposit Ratio
IDRA	Insurance Development and Regulatory Authority
IFC	International Finance Corporation
IMF	International Monetary Fund
IPO	Initial Public Offering
IRR	Interest Rate Risk
ISAS	Institute of South Asian Studies
IT	Information Technology
JBC	Jibon Bima Corporation
KSA	Kingdom of Saudi Arabia
KYC	Know Your Customer
LCAF	Letter Of Credit Authorization Form
LCR	Liquidity Coverage Ratio
LIBOR	London Inter-bank Offered Rate
LIM	Loan Against Imported Merchandise
LSF	Liquidity support facility
LTR	Loan against Trust Receipt
MCR	Minimum Capital Requirement
MET	Monthly Economic Trends
MFI	Microfinance Institution
MFS	Mobile Financial Services
MI	Market Infrastructure
MOU	Memorandum of Understanding
MPD	Monetary Policy Department
MRA	Microcredit Regulatory Authority
MRWA	Market Risk-Weighted Assets
MT	Mail Transfer
NCRL	National Credit Rating Ltd.
NBFI	Non-Bank Financial Institution
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NFC	Non-Financial Corporation
NFCD	Non-Resident Foreign Currency Deposit
NFSR	Net Stable Funding Ratio
NII	Net Interest Income
NIM	Net Interest Margin

NNII	Net Non-Interest Income
NNPL	Net Non-Performing Loan
NOP	Net Operating Profit
NPL	Non-Performing Loan
NPSB	National Payment Switch Bangladesh
NSDP	National Summary Data Page
NSFR	Net Stable Funding Ratio
OBO	Operation of Banks
OBS	Off-Balance Sheet
OBU	Off-shore Banking Unit
OD	Overdraft
OECD	Organization for Economic Co-operation and Development
ORWA	Operational Risk-Weighted Assets
OTC	Over the Counter
PC	Packing Credit
PCB	Private Commercial Bank
PCR	Polymerase Chain Reaction
P/E	Price-Earnings Ratio
PKSF	Palli Karma-Sahayak Foundation
POL	Petroleum, Oil and Lubricants
POS	Point of sale
PPP	Public Private Partnership
PSD	Payment Systems Department
PSE	Public Service Enterprise
PSO	Payment System Operator
PSP	Payment Service Provider
QFSAR	Quarterly Financial Stability Assessment Report
QR	Quick Response
RECI	Regional Economic Climate Index
REER	Real Effective Exchange Rate
REPO	Repurchase Agreement
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
RSDL	Rescheduled Loan
RTGS	Real Time Gross Settlement
RV	Regular Value
RWA	Risk Weighted Assets
SAARC	South Asian Association for Regional Cooperation
SB	Sonali Bank
SBC	Sadharon Bima Corporation

SOCB	State-owned Commercial Bank
SDB	Specialized Development Bank
SFD	Sustainable Finance Department
SLR	Statutory Liquidity Ratio
SMA	Special Mention Account
SME	Small and Medium Enterprise
SMESPD	SME & Special Programmes Department
SREP	Supervisory Review Evaluation Process
SREUP	Safety Retrofits and Environmental Upgrades
SS	Sub-Standard
STD	Short-Term External Debt
TT	Telegraphic Transfer
TWS	Trader Work Station
T-bill	Treasury Bill
T-bond	Treasury Bond
UAE	United Arab Emirates
UK	United Kingdom
URSDL	Unclassified Rescheduled Loan
USA	United States of America
USD	US Dollar
VAT	Value Added Tax
WAR	Weighted Average Resilience
WB	World Bank
WIR	Weighted Insolvency Ratio
WTI	West Texas Intermediate

EXECUTIVE SUMMARY

This report reveals the assessment of Bangladesh Bank on the resilience of the financial system of Bangladesh in withstanding risks and vulnerabilities, and the initiatives taken in the calendar year 2020 (CY20). Also, the report elucidates the structural trends and issues relating to developments and regulations of the financial sector which have bearing for the stability of the financial system of Bangladesh.

Global economy experienced a negative growth in 2020 primarily due to COVID-19 pandemic. Affected by the pandemic, almost all economies around the world experienced economic downturn attributable to disruptions in supply chain and suppressed global demand. Major trading partners of Bangladesh, such as China, USA and Europe, hit hard by the COVID-19 which eventually elevated risk for Bangladesh through external sector. Global interest rates were in downtrend throughout the year 2020. By the same token, the yield on all the major international 10-year government bonds shifted downward. Also, crude oil price marked a sharp decline in the first half of the year 2020 before demonstrating recovery in the second-half. Noteworthy, still the pandemic driven uncertainty has not faded away from the global economic horizon.

The domestic macroeconomic situation displayed reasonable level of resilience amidst the havoc of the deadly pandemic. Real GDP marked a slower growth of 5.24 percent during the fiscal year 2020 (FY20) primarily due to disruptions in domestic and external demand stemmed from the pandemic in the second half of the year. Similarly, domestic credit from the banking system also experienced the lower growth, partly due to subdued credit demand during the earlier phase of COVID-19 in Bangladesh. Moreover, inflation increased to 5.69 percent at end-December-2020, recording minor increase of 0.10 percentage point from that of the previous year, mainly due to rise in food inflation. In the external front, both export and import of the country observed notable decline attributable largely to the widespread disruptions in global production and distribution networks along-with marked decline in consumer demands. However, the foreign remittance inflow, despite the pandemic's browbeat, experienced a remarkable growth which eventually helped current account balance (CAB) to turnaround from the deficit to surplus. Besides, robust foreign remittance inflow helped BDT to get stronger against USD contrary to the indication of appreciated REER index. Gross foreign exchange reserves, recording an astounding 32 percent growth, stood at USD 43.2 billion at end-December 2020. Though it seems that the domestic economy has absorbed several dimensions of the COVID-19 shockwaves relatively well, the subsequent waves of the same across the globe might uncover some unidentified challenges for the domestic economy in the near future.

The banking sector recorded a substantial asset growth showing its buoyancy during the pandemic. The sector recorded a 13 percent asset growth in CY20 supported by a notable rise in deposit growth (13.6 percent). Loans and advances, the main component of the assets, experienced a moderate growth of 8.4 percent attributable to investment uncertainties amid the ongoing pandemic. Private commercial banks (PCBs) held the major portion (68.9 percent) of the earning assets of the banking industry which seems to be a good indication for the sector's stability since the performance of this banking group in asset management, in terms of asset quality, is better than other bank groups. Compared to CY19, the concentration of assets within the top five (5) and top ten (10) banks increased marginally in CY20. Sector-wise loan concentration risk also increased slightly during this year. Share of liquid assets of the PCBs in the industry increased fairly whereas the shares of the state-owned commercial banks (SOCBs) and foreign commercial banks (FCBs) declined moderately. In the liability side, current and savings deposits of the banking sector marked a considerable growth while term deposits experienced a sluggish growth compared to the previous year. Consequently, shares of term deposit, current deposits and savings deposits in total banking sector's deposit stood at 48.2 percent, 21.6 percent and 20.9 percent respectively in the review year.

Asset quality of the banking sector demonstrated further improvement in CY20. Net NPL ratio of the banking sector declined to -1.2 percent at end-December 2020 compared to 1.0 percent recorded at end-December 2019. Gross non-performing loan (NPL) ratio of the banking sector declined to 8.1 percent at end-December 2020 from 9.3 percent at end-December 2019, partially due to temporary relaxation in loan classification regulations in the review year. Nevertheless, maintaining improved asset quality in post-COVID-19 situation might remain a key challenge for the banking sector. However, the sector-wise NPL distributions did not indicate a higher concentration of NPL in any particular sector except the 'Trade and Commerce' in CY20. All banks except 11 maintained adequate loan-loss provisions as per the regulatory requirement of BB during the review year.

Capital to risk-weighted assets ratio (CRAR) of the banking sector remained stable in CY20. At end-December 2020, CRAR of the banking industry was 11.6 percent against the regulatory minimum requirement of 10 percent as advised in Basel III capital standard. Improved capital positions of PCBs and FCBs were advantageous to keep the overall CRAR of the banking industry stable in the review year. Banking industry maintained a Capital Conservation Buffer (CCB) of 1.4 percent against the regulatory requirement of 2.5 percent in CY20. However, PCBs and FCBs maintained both CRAR and CCB much above the regulatory requirement. Additionally, the banking sector maintained a leverage ratio well above the regulatory minimum requirement led mainly by the high leverage ratios of PCBs and FCBs.

Liquidity situation of the banking sector appeared to be easing in CY20. The banking sector liquidity demonstrated an uptrend in CY20 compared to the preceding year. The aggregate advance-to-deposit ratio (ADR) of the banking industry decreased to 72.7 percent at end-December 2020 from 77.3 percent at end-December 2019 as the growth of deposits (excluding interbank deposits) outpaced the growth of loans and advances during the review year. Call money rate hovered within 4 percent to 5 percent till August 2020 and then stayed below 3 percent till the end of the year. Nevertheless, the banking industry, as a whole, was able to maintain the Basel III liquidity metrics-liquidity coverage ratio (LCR) and net stable funding ratio (NSFR)-well above the regulatory requirement of 100 percent throughout the year.

Except the profit, Islamic Shari'ah based banks performed better in CY20 compared to CY19. Islamic banks experienced a steady growth in terms of assets, liabilities, deposits, investments (loans and advances), and shareholders' equity in CY20 compared to the previous year. As of end-December 2020, more than one-fifth of the banking sector assets were held by eight Islamic banks. Asset quality of the Islamic banks improved in the review year. CRAR of these banks stood at 12.7 percent. Their net profit after tax declined from that of the previous year but remained above the industry average. Besides, the Islamic banks maintained LCR and NSFR higher than the respective regulatory requirements.

Banking sector's overall risk exposures remained largely stable. In 2020, the overall risk of the banking sector, measured by the Risk-weighted assets (RWA) density ratio, decreased.

Credit risk weighted assets showed an improvement with respect to total asset growth. However, market risk, in spite of its small share in total banking sector risk, requires more attention as market RWA posted sizeable increase in CY20 compared to the previous year.

Banking and FIs sectors appeared to be broadly resilient against different stress scenarios during the review year. The stress test results indicate that the default of top large borrowers would likely to have the highest impact on the banking sector's resilience followed by the rise in NPLs. The significant amount of loan concentration among a few borrowers and considerable level of NPLs in some banks and FIs could pose noticeable risk to the overall financial stability. Strict compliance of the guidelines on large loan and single borrower exposure limit would be helpful in mitigating the risks on banks' exposure.

The rising trend in NPL, lower loan loss provision, decline in equities and profitability appear to pose some notable concerns for financial institutions (FIs) sector in CY20. During the review year, total assets of FIs grew slightly which was mainly attributable to a rise in FIs' borrowings. As a source of fund, share of borrowings increased considerably against a significant decrease in shares of equity. Accordingly, FIs' liabilities to assets ratio increased while aggregate capital adequacy ratio (CAR), in line with Basel II capital standard, decreased. Moreover, asset quality of FIs remained a key concern as classified loans and leases ratio increased considerably in the review year, leading to a marked decline in profitability.

Despite the initial impact of COVID-19, the major capital market indicators (i.e., index value, market capitalization and turnover) increased considerably in 2020 at the Dhaka Stock Exchange (DSE)-the prime bourse in Bangladesh-compared to those of the preceding year. Expansionary monetary policy, prudent management of pandemic, and BSEC's apt strategies helped the capital market to remain buoyant in the review year. The role of banking sector remained crucial in the DSE having third highest market capitalization. Though banking industry's exposure to capital market increased slightly, still it remained much below the allowable investment limit set by BB. As a result, it appears that under the current context equity price shock would not pose any notable stability threat to the banking sector in the near-term.

In December 2020, yield curves for both short-term Treasury bill and long-term Treasury bond exhibited a noticeable downward trend compared to those of December 2019 and June 2020. The downward trends in yield curve reflect lower cost of government's borrowing. Moreover, the higher decline in short-term yield than the long-term ones made the yield curve steeper indicating a higher maturity risk premium. Primarily, bond market in Bangladesh is dominated by government bond, activities of which are mostly based on primary auctions.

In 2020, the money market was largely stable and experienced a liquidity glut since August 2020. Up to August 2020, the money market was largely stable by remaining watchful and with the liquidity support from the central bank. Afterwards, from September to December 2020, the money market experienced a liquidity glut. During this time, call money rate, interbank repo rate, and treasury yield dropped noticeably, which could largely be attributed to expansionary monetary policy stance of the central bank and proactive management of the liquidity situation.

The financial infrastructure in Bangladesh continued to evolve for ensuring an efficient and safe payment and settlement system. During the review year, transactions through various payment platforms including the digital ones have increased significantly, indicating stakeholders' growing dependency and confidence on the efficiency and safety measures of the financial infrastructure. Besides, coverage of banks' online branches also enhanced in CY20. Expressly, SDBs had accelerated transformation from manual to online banking solution in the review year, covering 78.33 percent online banking facilities compared to 30.89 percent in CY19. During 2020, MFS experienced massive growth especially in person-to-person payments, disbursement of salary (mostly to RMG workers), utility bill payments and merchant payments. As automation in payment system may simultaneously pose cyber and operational risks, BB always remains vigilant over these issues to ensure a secured payment system. In CY20, the payment infrastructure appeared to have posed no systemic risk for the financial system of Bangladesh. Although a few cases of domestic frauds and forgeries were noticed, they could not exert any adverse effect on financial stability of the country.

The foreign exchange (FX) market was mostly stable during the review year. No abrupt volatility was observed in the FX turnover while FX net open position remained well below the approved limit of BB. In CY20, the interbank (local) FX turnover increased compared to that of CY19. FX assets and liabilities of banks and FX contingent liabilities showed an increasing trend in the review year. During the period, L/C opening decreased slightly while L/C settlement decreased considerably which resulted in untrammeled FX market. Moreover, record growth in wage earners' remittances, low import payment and increased external debt contributed to the buildup of a sizeable foreign exchange reserve. However, BB's intervention in the market through purchasing USD helped to manage the appreciation pressure on the nominal exchange value of BDT against USD. Gross FX appeared to be adequate in terms of import coverage and ability to withstand probable external shocks in the near future. Yet, real effective exchange rate (REER) index experienced further appreciation during this year. However, due to the limited exposure, banks' FX risks remained low during the review period.

Insurance sector experienced a slowdown during the review year which could largely be attributed to the COVID-19 pandemic. The insurance penetration ratio of the country declined in 2020 compared to that of the preceding year. Likewise, insurance density ratio also deteriorated which suggests that the large portion of the population remain outside the insurance coverage. Moreover, gross premiums in both life insurance and non-life insurance companies decreased as well. Importantly, asset size of the insurance sector increased during the review year, though as a percentage of GDP it remained low as well. Also, concentration of insurance business among the top companies warrants intensive supervision and monitoring because of their systemic importance in the insurance sector. In brief, due to its limited exposure to different financial sectors, adverse shocks in insurance sector may not appear to be a big concern for the entire financial system's stability.

During FY20, the overall performance of MFIs in Bangladesh was reasonably stable. Amidst the first wave of COVID-19 pandemic, microfinance sector continued growing and posing no major threat to the stability of the financial system of Bangladesh due to its small market share, low NPL ratio compared to banks, and COVID-19 related stimulus packages for the MFIs. Besides, donation to equity ratio remained stable in FY20 albeit decline in ROA and ROE during this period. All these helped the sector to remain sustainable. However, high degree of market dominance by the top MFIs warrants close monitoring for the stability of this sector.

Overall, in CY20, financial system of Bangladesh remained broadly resilient with reasonable level of stability despite the impact of the pandemic. However, uncertain aftershocks of COVID-19 pandemic might trigger some unanticipated challenges for the financial system of Bangladesh in the near future.

Chapter 1

MACROECONOMIC DEVELOPMENTS

After a considerable decline in CY19, the global economy experienced negative growth in CY20 largely due to COVID-19 pandemic. Indeed, the pandemic made a massive disruption in almost all sectors of the world economy leading to a record shrinkage in global output. Most of the trading partners of Bangladesh economy except China experienced negative growth in CY20, which elevated external sector risk of the country. However, global interest rates were in downtrend throughout CY20, owing mostly to considerable monetary easing offered by central banks and monetary authorities to alleviate the adverse impact of the pandemic. In tandem with the benchmark rate, the yields on all the major international 10-year government bonds shifted downward. Besides, albeit sharp decline in the first half of the review year, crude oil price recovered considerably in the second half. On the domestic front, GDP growth in FY20 recorded large decline due to depressed domestic and external demand owing to precipitating COVID-19 infection. Industry and service sectors accounted mostly for the unanticipated decline in GDP. Growth of total domestic credit from banking system in CY20 declined markedly with private sector credit growth slowing down further across its declining trend. The Credit-to-GDP Gap further narrowed in FY20, turned into negative, signifying no apparent sign of stability threat. At end-December 2020, the annual average headline inflation rose slightly owing to increase in food inflation.

In CY20, both export and import of the country dropped markedly, mainly due to the adverse shocks of COVID-19 pandemic in global supply and demand. However, inflow of foreign remittance, despite browbeat of the pandemic, experienced a remarkable growth which essentially helped the country's CAB to turn around from the deficit to surplus. Though REER index recorded minor appreciation suggesting the scope of domestic currency depreciation, in effect BDT became stronger against USD, which might be an issue to be dealt with prudently to maintain export competitiveness. Capital inflow through direct investment declined moderately in the review year compared to that of the preceding year, attributable to adverse impact of the pandemic across the globe. On the other hand, gross external debt experienced a 17.2 percent growth in CY20 and the ratio of gross external debt to GDP reached 21.4 percent which still seems to be less risky. However, private short-term foreign debt warrants a close vigilance as it might be a trigger point of potential external sector vulnerability. Regarding the external sector sustainability viewpoints, the import coverage elevated to 8 months in the review year against the common benchmark of 3 months, as foreign exchange reserve of Bangladesh posted a remarkable growth in CY20. Moreover, foreign exchange reserves are sufficient to meet around 400 percent of annual short-term debts.

This chapter also contains a financial stability map which depicts moderate level risk in a few components in CY20. Compared to CY19, the stability situation slightly deteriorated in the external economy and fiscal condition component while considerable deterioration took place in capital and profitability component. On the other hand, slight improvements took place in domestic economy, household, non-financial corporation while marked improvement was evident in financial market condition and funding and liquidity component.

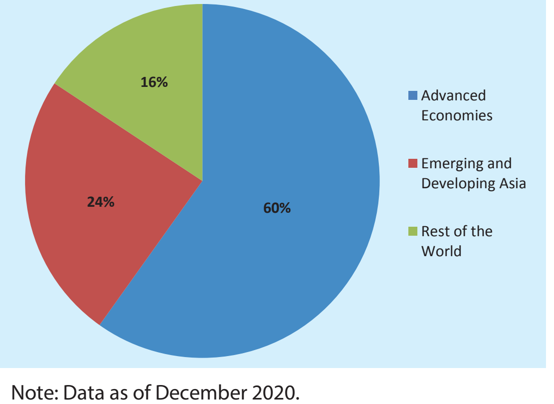
1.1 GLOBAL MACRO-FINANCIAL ENVIRONMENT

Global growth reached its lowest point in CY20 since 1961, mainly due to severe adverse impact of COVID-19. Worldwide suppressed economic activities, especially in the US, Euro area, India, and stressed condition in most of the emerging countries played a crucial role in persistent slowing of global growth. COVID-19 pandemic, coupled with ongoing US-China trade tension, considerably worsened the Global Value Chain (GVC) and weighed on the production and trade in countries integrated with the Chain. In response to weak economic condition, central banks and monetary authorities in different countries revised down their policy rates significantly and adopted some unconventional monetary measures to support the economic activities. For instance, US Federal Reserve significantly cut its policy rate to 0.25 percent from 0.75 percent as on 15 March 2020. 10-year sovereign treasury bond yields of US, EU, UK, and China showed declining trends during the first half of CY20. However, they were in uptrend during the second half of the year, giving a sign of positive market sentiment about the growth outlook. Indeed, somewhat weakening trend of COVID-19 infection supported by introduction of vaccine in the later part of the year showed some light of hope among the people, which helped to recover the world economic growth in the second half of CY20.

1.1.1 GLOBAL MACROECONOMIC ENVIRONMENT

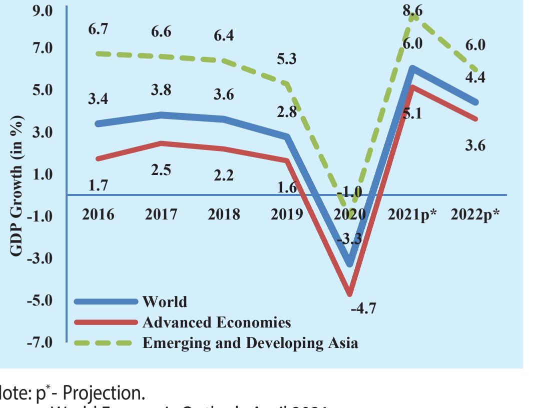
At the end of CY20, the world GDP (in current price) stood at USD 84.54 trillion. Noteworthy that, advanced economies had a 60 percent share in world GDP, whereas emerging and developing Asian countries had a 24 percent share, and the rest of the world had a 16 percent share (Chart 1.1). Global output growth, which has been witnessing a downward trend since 2017, fell to the record lowest in CY20, within six decades, in the face of pandemic, but is expected to be positive in CY21 (Chart 1.2). In CY20, widespread control measures in most of the countries, especially in larger economies due to COVID-19, led to substantial fall in global economic growth to -3.3 percent[1]. In particular, advanced economies, and economy of Emerging and Developing Asia shrank by 4.7 percent and 1.0 percent respectively.

CHART 1.1: SHARE OF WORLD GDP IN 2020



Note: Data as of December 2020.
Source: Data from World Economic Outlook, IMF, April 2021; FSD Staff Calculation.

CHART 1.2: WORLD GDP GROWTH



Note: p*- Projection.
Source: World Economic Outlook, April 2021.

Global growth has both supply-side and demand-side implications for Bangladesh. Data of FY20 reveal that the top 5 (five) sources of imports for Bangladesh were China, India, USA, Indonesia, and Japan. All of these countries except China experienced negative GDP growth in 2020, but they are projected to grow positively in 2021 and 2022 given the slowdown of pandemic (Chart 1.3). Economic recovery in major import originating countries as indicated by the projection would reduce uncertainties over imports and their associated cost.

[1] See IMF's World Economic Outlook, April 2021.

CHART 1.3: GDP GROWTH OF TOP IMPORT ORIGINATING COUNTRIES

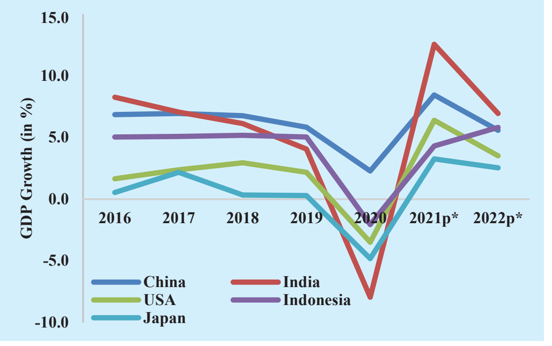
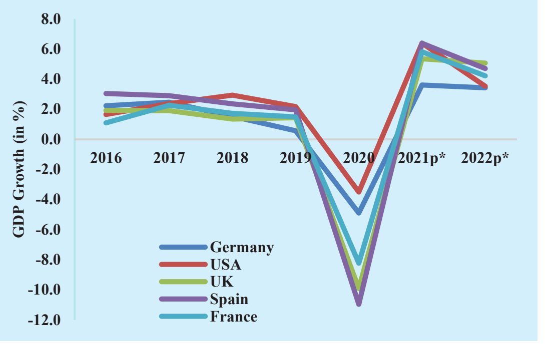


CHART 1.4: GDP GROWTH OF TOP EXPORT DESTINATION COUNTRIES

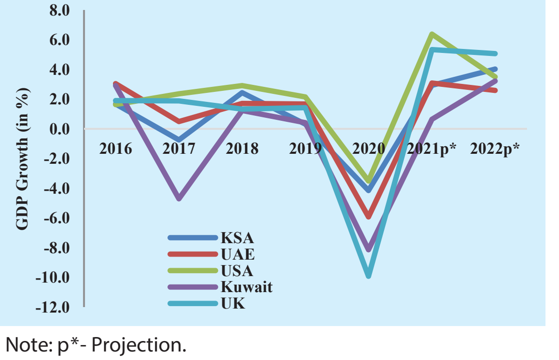


Note: p*- Projection.
Source: World Economic Outlook, April 2021.

On the other hand, the top 5 (five) export destinations for Bangladesh in FY20 were USA, Germany, UK, Spain, and France. All these countries experienced negative economic growth in CY20 (Chart 1.4). Economic fallout caused by COVID-19 in these countries in first half of CY20 was reflected in shrinking RMG export of Bangladesh. However, recovery in GDP growth of these countries as projected for CY21 and CY22 by the IMF would help Bangladesh to recoup her export growth.

Data of FY20 reveal that the top 5 (five) remittance sourcing countries for Bangladesh were KSA, UAE, USA, Kuwait, and UK. All of these countries experienced negative economic growth in CY20. Normalization of economic growth in these economies in CY21 and CY22, as per the IMF projection, could lower the downside risk to the Balance of Payments of Bangladesh (Chart 1.5).

CHART 1.5: GDP GROWTH OF TOP 5 REMITTANCE SOURCING COUNTRIES



Note: p*- Projection.
Source: World Economic Outlook, April 2021.

1.1.2 GLOBAL FINANCIAL MARKET ENVIRONMENT

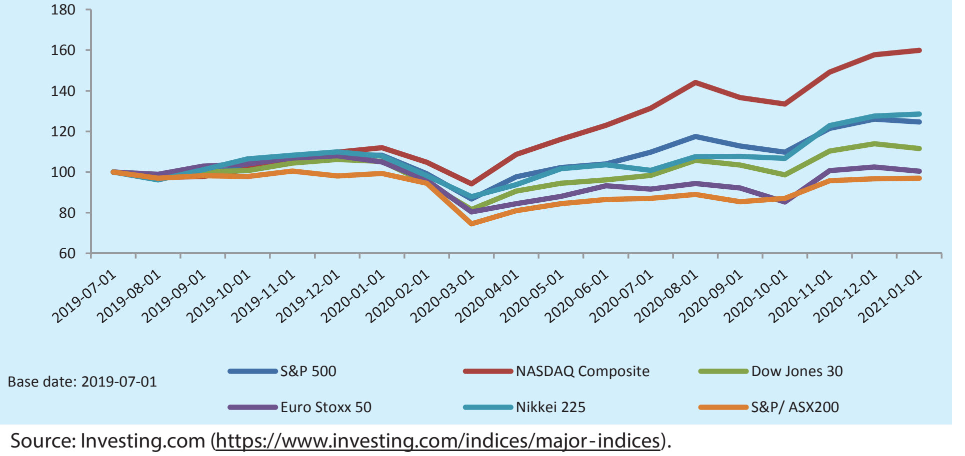
Vulnerabilities in the international financial system remained elevated in CY20 mainly due to rising global debt from monetary and financial stimulus packages implemented by respective authorities to support their economies and to meet enhanced medical expenditure because of the pandemic. The underlying global macro-financial conditions and geopolitical uncertainties posed substantial spillover risks to the emerging economies.

1.1.2.1 DEVELOPMENT IN MAJOR FINANCIAL MARKETS

The CY20 started with a steep fall in major stock indices, which continued till early March 2020, posted to the year lowest position, attributable largely to uncertainties posed by COVID-19. However, equity prices started to rebound from the late March 2020 and demonstrated substantial recovery in late 2020. During the year, S&P 500, NASDAQ, Dow Jones 30, and Japanese Nikkei 225 registered substantial increases of 15.1, 42.8, 6.1, and 19.2 percent respectively. However, Euro Stoxx 50, and Australian S&P/ASX 200 experienced little decrease of 4.4 and 2.3 percent respectively (Chart 1.6).

Prompt recovery measures and sizable stimulus packages by different governments with substantial monetary easing by the central banks, especially from US Fed sparked investor's expectations of a strong recovery, which led to optimistic valuation of equity market. The magnitude of interest rate cut instigated the investors to inject more money into stock with a persistent expectation of receiving higher returns. Furthermore, slow down of infection, high recovery rate of COVID-19 patients and development of vaccine bolstered market sentiment about strong recovery of global economy. In addition, tech giants continued to boom in the CY20, which drove the stock market up in the last half of the year.

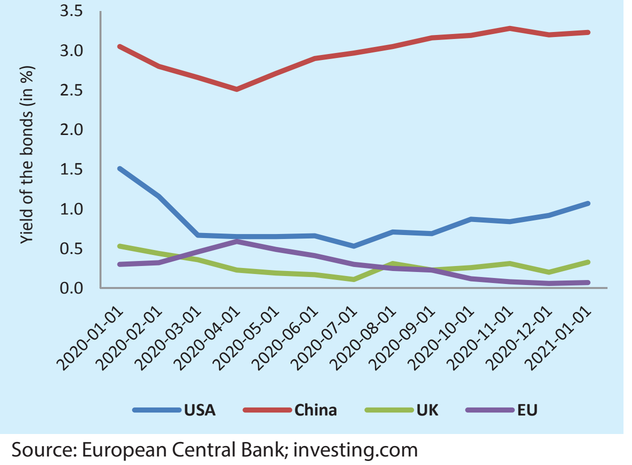
CHART 1.6: MOVEMENT OF MAJOR GLOBAL STOCK MARKET INDICES



Source: Investing.com (https://www.investing.com/indices/major-indices).

1.1.2.2 YIELD OF GOVERNMENT BOND OF MAJOR ECONOMIES

CHART 1.7: YIELD OF 10-YEAR GOVERNMENT BONDS OF MAJOR ECONOMIES



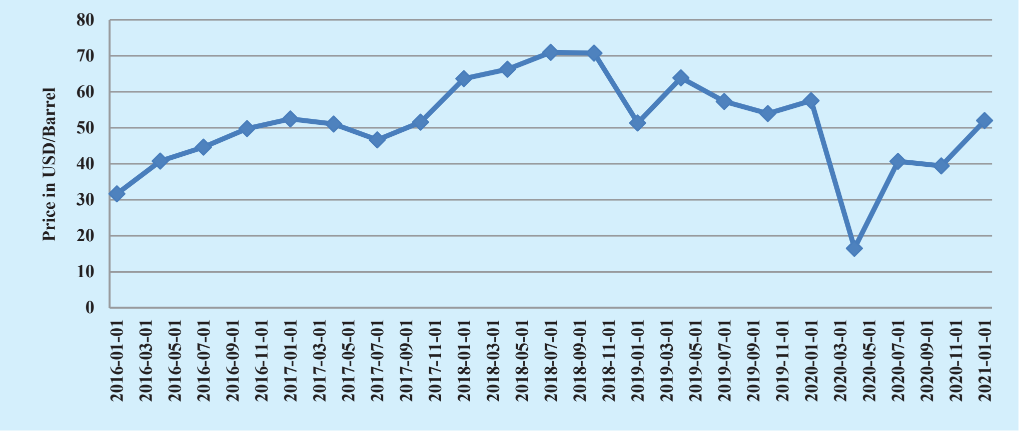
Source: European Central Bank; investing.com

The yield of the major international 10-year government bonds (USA, China, UK and EU) displayed downward trends during the first half of the CY20. However, the same started to rise in the second half of the year (Chart 1.7). It is noteworthy that, year-end yield rates of these bonds were lower than the opening yield rates of CY20, except the Chinese government bond. Indeed, falling benchmark interest rates drove bond prices to rise. Importantly, with falling interest rate, investors expecting higher return tempted to invest in non-investment grade corporate bond, increasing the debt of corporate sector to a riskier level.

1.1.2.3 CRUDE OIL PRICES IN INTERNATIONAL MARKET

POL (petroleum, oil and lubricants) is a significant import commodity, whose price movement considerably influences the import growth of the country. Oil price also acts as a significant driver of domestic inflation since the production and transportation cost largely depends on the oil price.

CHART 1.8: CRUDE OIL PRICE (WTI)*



Source: Federal Reserve Economic Data.
*West Texas intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing.

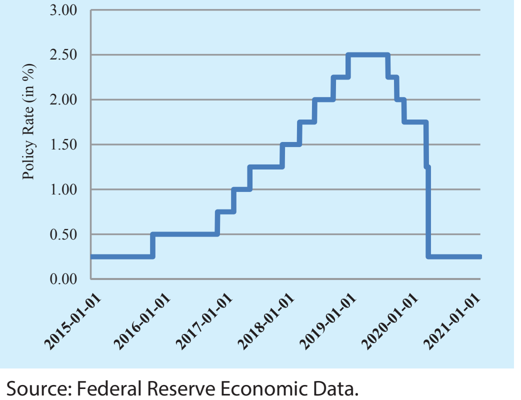
Chart 1.8 displays the global crude oil price movement in the last five years, which was broadly stable except the first half of CY20. With the onset of COVID-19, the price sharply fell by 71 percent in the first quarter of CY20. Oil price plummeted to USD 16.6 per barrel on the first day of April 2020 from USD 57.5 per barrel on the first day of January 2020. However, it started to recover from the second quarter and reached to USD 52 per barrel at the end of the year. Depressed oil price, in effect, reduced the import and production cost of local producer, which helped to absorb some inflationary pressure in the domestic economy of Bangladesh. On the other hand, it may represent some future implications on remittance from oil-dependent Gulf economies, though Bangladesh received steady flow of remittance during the fall of oil price.

1.1.2.4: INTERNATIONAL INTEREST RATE ENVIRONMENT

Low global interest rates make the debt more sustainable and help contain the rise in macroeconomic risks and market volatility.

As the domestic interest rate remains stable and the global interest rates are moving downwards (as highlighted in Chart 1.9 and Table 1.1), the widened interest rate differentials might draw capital from foreign investors searching for higher yield. Consequently, the exchange rate and foreign exchange reserve might be impacted favorably in the near-term due to exogenous interest rate shocks.

CHART 1.9: US FED FUNDS TARGET RANGE (UPPER LIMIT)



Source: Federal Reserve Economic Data.

TABLE 1.1: POLICY RATE CUTS IN COUNTRIES

Country	Rate (Dec. 20)	Direction	Previous Rate	Change Date
US	0.25%	↓	1.25%	15-Mar-20
China	3.85%	↓	4.05%	20-Apr-20
Australia	0.10%	↓	0.25%	04-Nov-20
S. Korea	0.50%	↓	0.75%	28-May-20
India	4.00%	↓	4.40%	22-May-20
Mexico	4.25%	↓	4.50%	25-Sep-20
England	0.10%	↓	0.25%	19-Mar-20

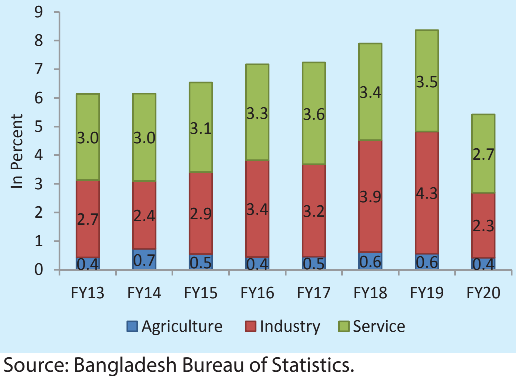
Source: Websites of respective central banks.

1. 2 DOMESTIC MACROECONOMIC DEVELOPMENT

1.2.1 GDP GROWTH

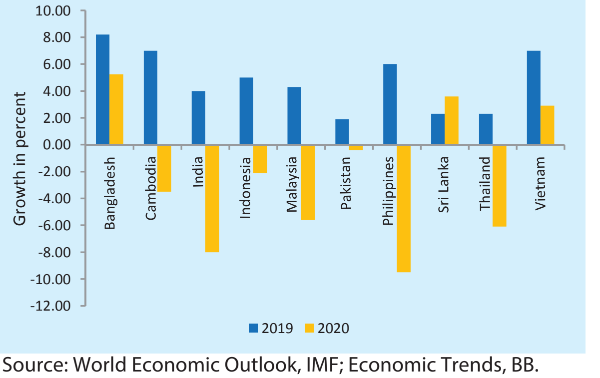
Due to COVID-19 pandemic, the economy of Bangladesh experienced enormous disruptions in almost all sectors, which led to unanticipated loss in GDP growth. With the introduction of various control measures taken to contain the Coronavirus infection, production activities of manufacturing industry and most segments of service sector experienced drastic fall. As a result, GDP growth declined by 2.9 percentage points in FY20 from that of FY19, ending up with 5.24 percent growth. Agriculture, industry and service sector growth fell by 0.8, 6.2 and 1.5 percentage points respectively in FY20 from 3.9, 12.7 and 6.8 percent in FY19. Chart 1.10 exhibits that service and industry sectors remained the significant value adding sectors to the economy in FY20. Quantitatively, agriculture, industry and service sector contributed 0.4, 2.3 and 2.7 percent respectively to the Gross Value Added (GVA) of Bangladesh in FY20. Importantly, as Chart 1.11 reveals, real GDP growth of Bangladesh remained the highest among its Asia-Pacific peers.

CHART 1.10: GROSS VALUE ADDED (GVA) OF BANGLADESH



Source: Bangladesh Bureau of Statistics.

CHART 1.11: GDP GROWTH OF SELECTED ASIAN ECONOMIES

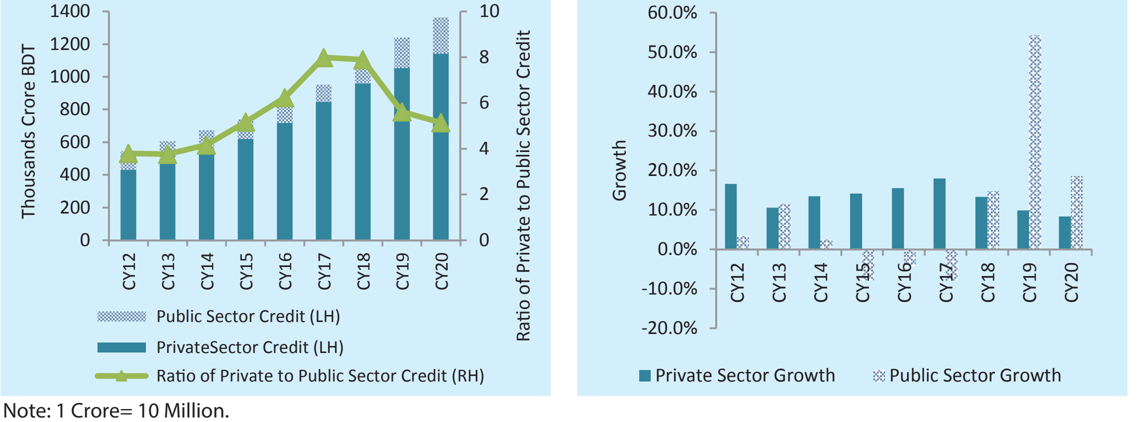


Source: World Economic Outlook, IMF; Economic Trends, BB.

1.2.2 DOMESTIC CREDIT FROM BANKING SYSTEM

In CY20, growth of domestic credit from the banking system declined considerably compared to the growth trend of last four years. Private sector credit growth tapered off as credit demand remained subdued during two-month long general holidays declared by the Government at the onset of COVID-19 to contain its widespread adverse impact. Further, weak domestic demand as well as uncertainties over new investment after the general holidays appeared to have impeded the recovery of private credit growth. In CY20, private sector credit grew by only 8.4 percent (Chart 1.12).

CHART 1.12: DOMESTIC CREDIT FROM BANKING SYSTEM-COMPONENTS' SHARE AND GROWTH



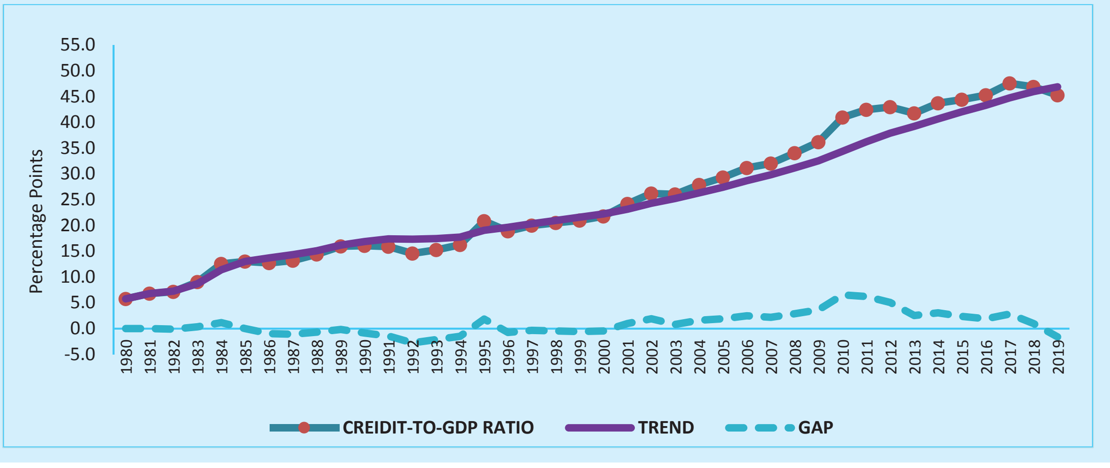
Note: 1 Crore= 10 Million.
Source: Monthly Economic Trend, BB.

However, public sector credit[2] growth remained high in CY20; albeit lower than that in CY19. Growth of public sector credit from the banking system was as high as 18.6 percent. Government borrowings from the banking system remained high in the first half of CY20 to finance the deficit attributable to reduced revenue collection and extended expenditure at the onset of COVID-19. In the second half of CY20, high inflow of foreign loans, increased sale of savings certificate and recovery in revenue collection eased the need of bank financing for the Government. It is noteworthy that the ratio of private sector credit to public sector credit came down to 5.1 in 2020 from 5.6 in 2019 (Chart 1.12).

1.2.3 CREDIT TO GDP GAP

The credit-to-GDP gap has been estimated using the Hodrick-Prescott filter approach following the guidance of the Basel Committee on Banking Supervision (BCBS)[3], which only relies on the Credit-to-GDP Ratio itself and does not take into account other variables, those may be relevant to the risks to financial stability. The estimated Credit-to-GDP Gap data implies no significant excessive credit growth in the financial system of Bangladesh during the period of FY1980-2019[4]. In most of the estimation period, the Credit-to-GDP Gap remained well below 5 percent except the period of FY2011 when it crossed the level of 5 percentage points. Furthermore, compared to FY18, the Credit-to-GDP Gap narrowed further in FY19, became negative, signifying no apparent sign of stability threat to the financial system stability evolving from domestic credit flow to the private sector (Chart 1.13).

CHART 1.13: CREDIT-TO-GDP RATIO-ITS TREND AND THE GAP



Source: Data from World Bank, FSD Staff Calculation.

1.2.4 INFLATION

The annual average CPI inflation (base: 2005-06=100) in Bangladesh stood at 5.69 percent at end-CY20, increasing by 0.10 percentage point from 5.59 percent at end-CY19 (Chart 1.14), mostly attributed to rise in food inflation.

During the period, the annual average food inflation rose to 5.77 percent at end-CY20 from 5.56 percent at end-CY19. Food price remained high largely in the second half of CY20 due to price hikes of rice, pulses, vegetables and spices accompanied by price recovery of commodities in

[2] Public sector credit consists of gross credit to government netting of government deposit held in the banking system plus other public sector credit.

[3] See Financial Stability Report 2018 of Bangladesh Bank for procedural details.

[4] Data for FY20 was not available till the preparation of the section.

international market. Rise in rice price driven by flood and cyclone Amphan played the dominant role in the rise of food inflation. However, annual average non-food inflation declined to 5.56 percent at end-CY20 from 6.64 percent at end-CY19. Lower consumer demand on clothing, footwear and household durables, due to pandemic-driven income shock and bearish oil price in international market, mainly contributed to decrease in non-food inflation.

Considering last 12-months' average, it is found that food inflation increased since June, 2020 while non-food inflation registered declining trend since May, 2020. The net effect on headline inflation seems to be stable, demonstrating no apparent stability risk from an inflationary point of view.

CHART 1.14: INFLATION AND ITS COMPONENTS

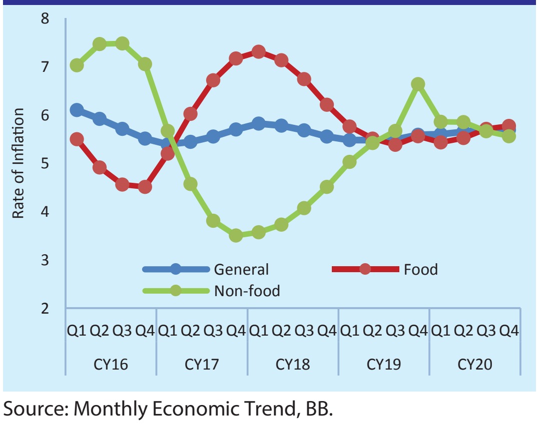
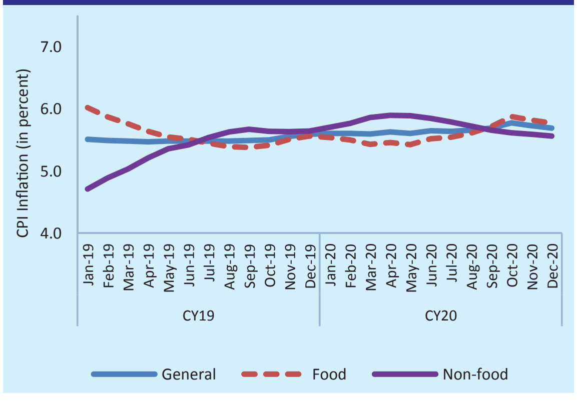


CHART 1.15: 12-MONTH AVERAGE CPI INFLATION



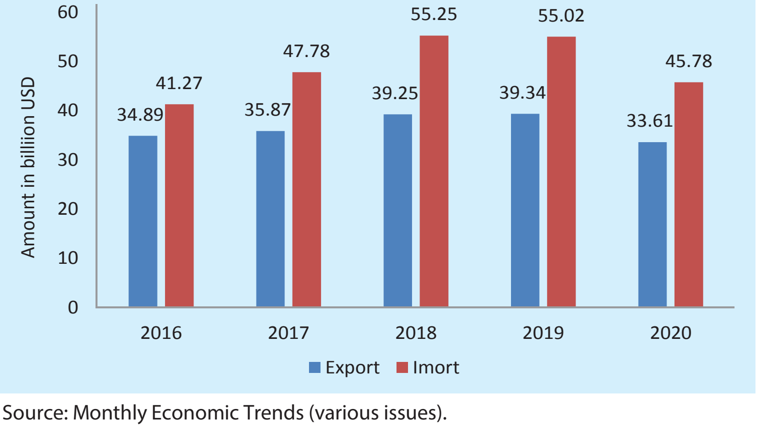
Source: Monthly Economic Trend, BB.

1.3 EXTERNAL SECTOR DEVELOPMENTS

1.3.1 EXPORTS AND IMPORTS

Both exports and imports were notably affected with the unprecedented global havoc of COVID-19 pandemic attributable largely to widespread disruptions in global production and distribution networks along with marked fall in consumer demands. Exports declined by 14.57 percent in CY20 and stood at USD 33.61 billion from USD 39.34 billion in CY19 (Chart 1.16). Imports, on the other hand, registered shrinkage of 16.79 percent in CY20 and dropped to USD 45.78 billion from USD 55.02 billion in CY19.

CHART 1.16: EXPORT AND IMPORT TREND OF BANGLADESH



Source: Monthly Economic Trends (various issues).

The export basket of Bangladesh predominantly comprises Readymade Garments (RMG), particularly, knitwear and woven garments. About 85 percent of goods exported from Bangladesh are RMG.

CHART 1.17: EXPORTS OF BANGLADESH

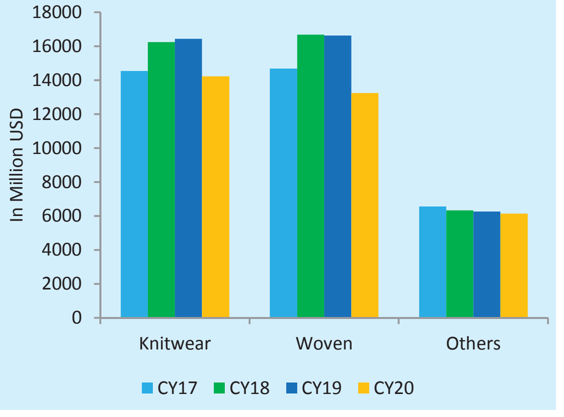
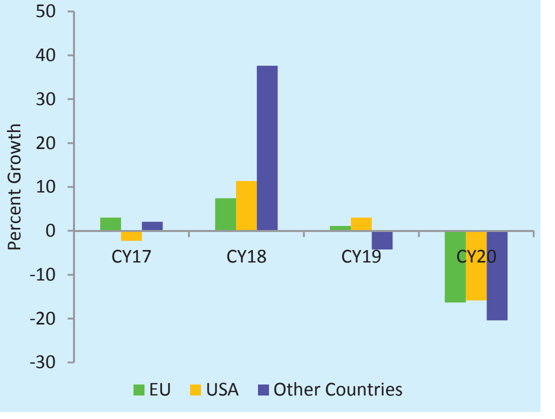


CHART 1.18: REGION-WISE EXPORT GROWTH OF RMG



Source: Various issues of Bangladesh Bank Quarterly.

Chart 1.17 depicts that total export has declined by 14.6 percent in CY20, primarily driven by slow growth of RMG export. In the RMG sector, exports of knitwear dripped by 13.5 percent while that of woven waned by 20.4 percent. Widespread disruption in global trade and commerce due to the COVID-19 pandemic affected both supply and demand-side factors of RMG. At the onset of COVID-19, RMG exporters started trailing orders from the affected bloc, which largely weighed down the steady growth of RMG exports experienced throughout the last decade. However, exports of other goods, as a whole, recorded a positive 10.9 percent growth in CY20. Chart 1.18 reveals the destination-wise distribution of RMG exports, which exhibits that in CY20, RMG lost export earnings notably from all key regions. RMG export in the EU, which captures the lion's share of the total market, fell by 16.3 percent while it slid down by 15.8 percent in the USA, the second-largest destination. In all other countries, it plunged by 20.4 percent.

Imports of Bangladesh also slowed markedly in the review year of CY20. Chart 1.19 depicts total imports from the top six import partners in the last five years. The main source-countries of import for Bangladesh are China, India, Singapore, Indonesia, Japan, and the USA. Imports from China, the largest import partner of Bangladesh, declined by 15.8 percent in FY20 while that from India, the second-largest source of imports, decreased by 24.2 percent. The fall in import growth from Singapore in FY20 is most notable, which witnessed about 45 percent decline. However, imports from the USA increased by almost 20 percent, though it was one of the most COVID-19 affected economies. Commodity-wise import scenario (Chart 1.20) reveals that imports of capital goods and intermediate goods were largely disrupted in CY20. Imports of capital goods, which enhance productive capacity of the economy, declined by almost 29 percent. This signals the extent of uncertainties faced by the entrepreneurs. In the review year, the imports of intermediate goods declined by 8.5 percent, which seems to be consistent with subdued economic activities in the country. On the other hand, the imports of food grains and consumer goods increased by 28.8 percent and 12.4 percent respectively.

CHART 1.19: IMPORTS OF BANGLADESH FROM MAJOR PARTNERS

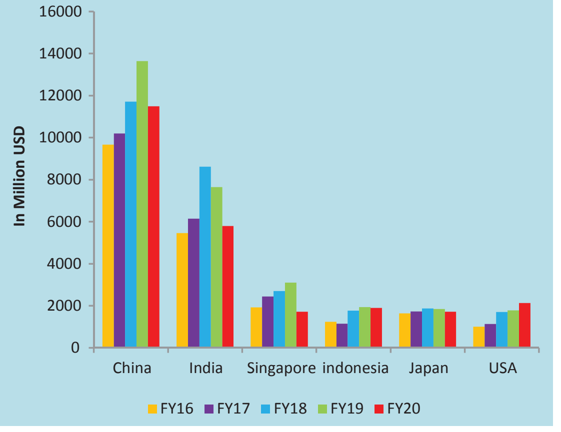
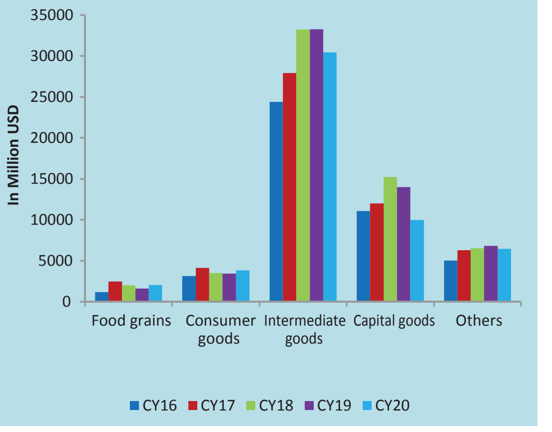


CHART 1.20: COMMODITY-WISE IMPORTS OF BANGLADESH



Source: Economic Data of BB Website; Various issues of Bangladesh Bank Quarterly.

1.3.2 REMITTANCE

Remittance plays a major role in the external sector's balance of Bangladesh. It largely contributed to the build-up of the foreign exchange reserves of the country over the years, thereby contributing towards the capital formation in foreign currency and stabilization of the exchange rate. Remittance inflows got momentum since 2017 and interestingly, despite economic fallout in major remittance source countries during the first half of CY20, it increased by 18.67 percent in CY20 to reach USD 21.74 billion from USD 18.32 billion in CY19 (Chart 1.21).

CHART 1.21: REMITTANCE INFLOWS

Source: Statistics Department, Bangladesh Bank.

Gulf Cooperation Council (GCC) countries historically account for the lion's share of remittance inflows in Bangladesh. The USA alone is the second most important source of remittance followed by the EU and the Asia Pacific countries. In CY20, the remittance growth from GCC countries slowed down marginally while inflows from the EU countries experienced a sharp decline (Chart 1.22). However, a relatively heavier flow of remittance from the USA and Asia Pacific region contributed to offsetting the slowdown of remittance from other regions. In CY20, remittance from the USA and Asia Pacific region has markedly increased by 41.8 percent and 34.7 percent respectively. Thanks to the remittance-related incentives offered by the Government, which can be seen not only as safeguards but also the driving force for inward remittance growth throughout the pandemic.

CHART 1.22: BLOC-WISE REMITTANCE GROWTH

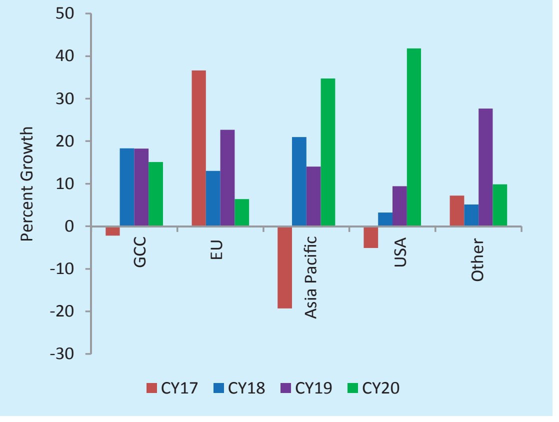
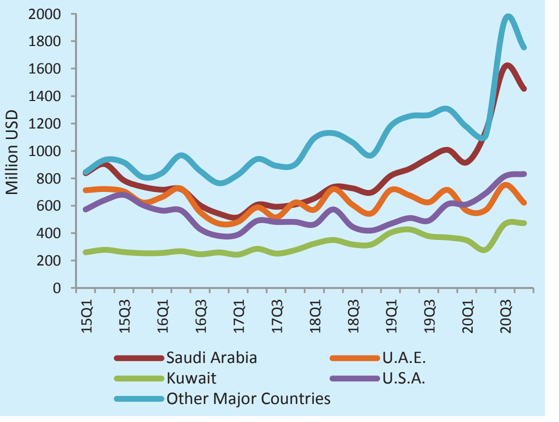


CHART 1.23: REMITTANCE FROM MAJOR COUNTRIES



Source: Various publications of Bangladesh Bank.

In quarterly breakdown, it is observed that remittance started growing substantially after June 2020 with the easing of COVID-19 infection in the source countries. Country-specific inward remittance from major sources (Chart 1.23) reveals that remittance in the third quarter of 2020 (July-September 2020) spiked with the gradual normalization of most economies. Remittance from the KSA, the largest country as a remittance source, had 41 percent quarter-to-quarter growth in this quarter, despite significant oil price drop and its bleak tourism sector. Remittance from the USA, however, showed persistent growth from the beginning of 2020. Also, remittances from UK, Qatar, Oman and Malaysia representing other major countries seem to be the steepest in the third quarter of 2020.

1.3.3 CURRENT ACCOUNT BALANCE (CAB)

Export, import, and remittance are the three main components of the CAB. CAB has remained in negative territory since CY17 given the predominance of imports in the net balance. CAB became positive in CY20, recording an amount of USD 1.08 billion equivalent to 0.33 percent of GDP (Chart 1.24). In the review year, both export and import faced a negative growth owing to the COVID-19 pandemic. Contrary to general concern, remittance grew remarkably in CY20 and gained higher growth than the previous calendar year, which contributed largely to CAB to be surplus even in the pandemic situation (Chart 1.25). However, a sizeable fall in the import of capital goods as pointed out in Section 1.3.1, and weaknesses prevailing in the global economy have the potential to crystallize some pockets of risks to the external sector of Bangladesh.

CHART 1.24: TRENDS OF CURRENT ACCOUNT BALANCE

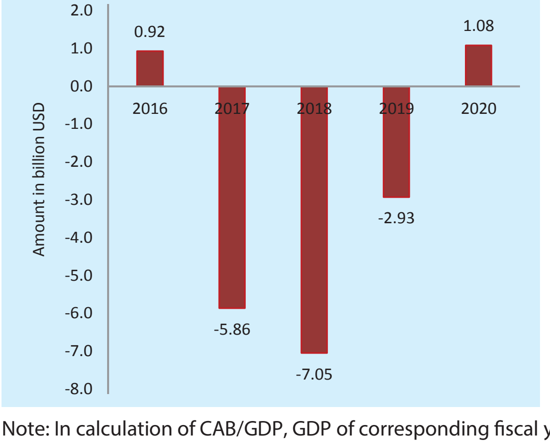
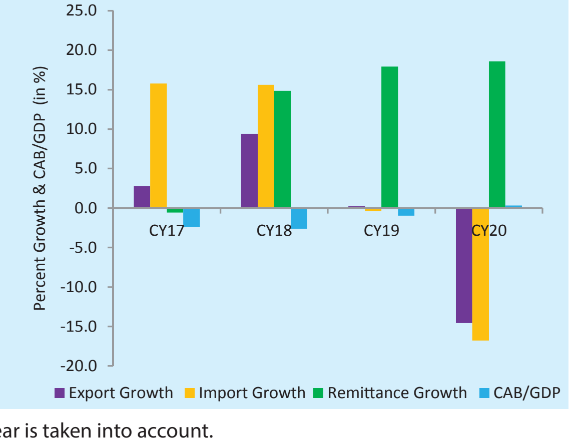


CHART 1.25: CURRENT ACCOUNT BALANCE-TO-GDP RATIO OF BANGLADESH



Note: In calculation of CAB/GDP, GDP of corresponding fiscal year is taken into account.
Source: Various publications and Economic Data of BB.

1.3.4 EXCHANGE RATE MOVEMENT

Chart 1.26 exhibits that REER index experienced further appreciation in CY20, indicating scope for depreciation of the domestic currency. Nominal exchange rate of BDT against USD also experienced slight appreciation during the review year. As a result of this, export competitiveness of the country might be lessening, particularly when most of the competing countries got their currency depreciating during the review year (see Chart 1.27). Import, on the other hand, might be comfortable due to stronger local currency. However, as Bangladesh imports approximately 25 percent of its import from China, appreciation of Chinese Yuan against USD might not be encouraging for Bangladesh economy.

CHART 1.26: EXCHANGE RATE INDICES

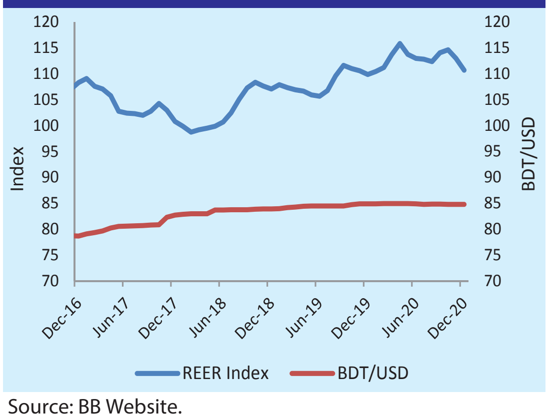
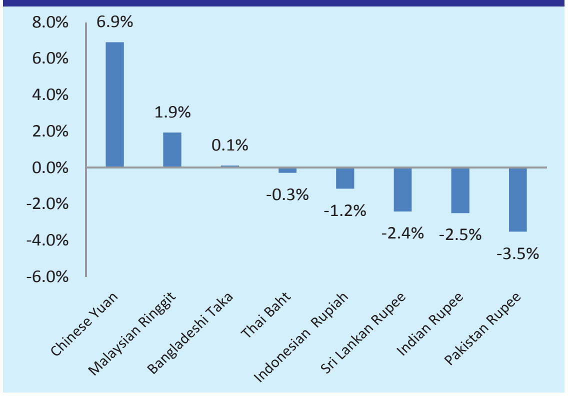


CHART 1.27: APP(+)/DEP(-) OF CURRENCY AGAINST USD IN 2020



Source: BB Website.

1.3.5 CAPITAL FLOW MOVEMENT

Foreign direct investment, foreign portfolio investment, foreign grants, and external debt are the main components of capital flow. Net FDI inflow in Bangladesh during FY20 was somewhat depressing, mainly attributable to ongoing COVID-19 pandemic across the globe. Chart 1.28 reveals that net FDI inflow dropped significantly in FY20. To turnaround this situation, interest rate, exchange rate, and other policies on foreign investment might be reevaluated.

Chart 1.29 shows that USA has the highest FDI stock in Bangladesh since 2015 followed by UK and South Korea. However, the shares of Netherland and Singapore in country's FDI stock have been increasing noticeably in recent years.

CHART 1.28: NET FDI INFLOW

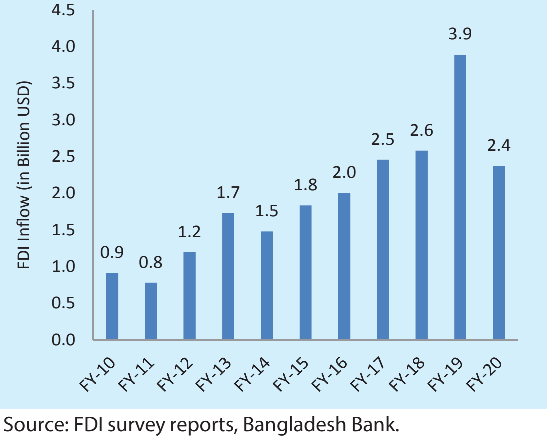
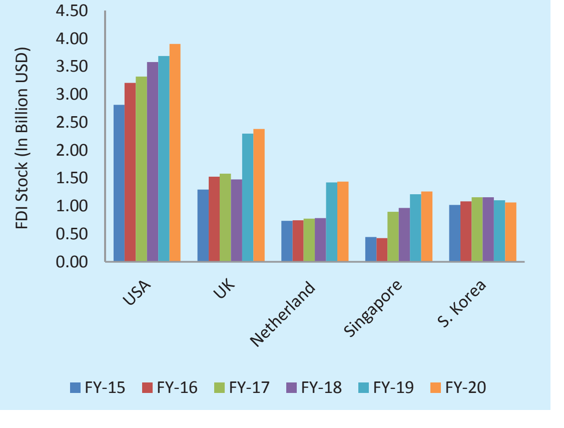


CHART 1.29: MAJOR COUNTRY-WISE FDI STOCK



Source: FDI survey reports, Bangladesh Bank.

1.3.6 EXTERNAL SECTOR DEBT

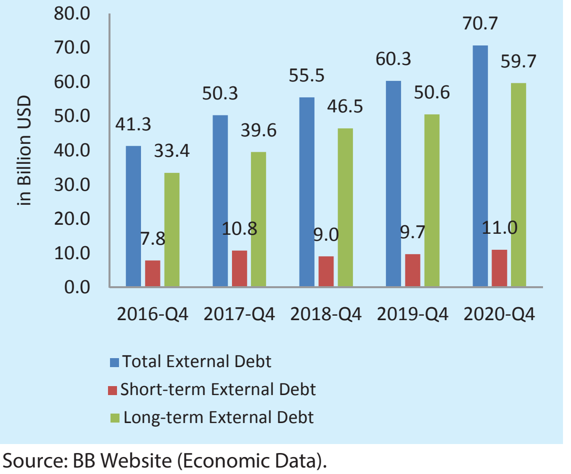
1.3.6.1 MAGNITUDE OF EXTERNAL DEBT

Though external debt is important for domestic growth of emerging economies like Bangladesh, excessive foreign debt might be burdensome to meet the growing debt servicing requirement and risky from the macro-financial stability perspective.

Chart 1.30 shows the increasing trend in external debt since 2016. Gross external debt of Bangladesh has reached to USD 70.7 billion in CY20, experienced 17.2 percent growth from the previous year. However, nearly 84.5 percent of total external debt (i.e., USD 59.7 billion) is long-term in nature, which is relatively less risky compared to short-term external debt. On the other hand, short-term external debt, amounting USD 11.0 billion in CY20, is about 15.5 percent of total external debt.

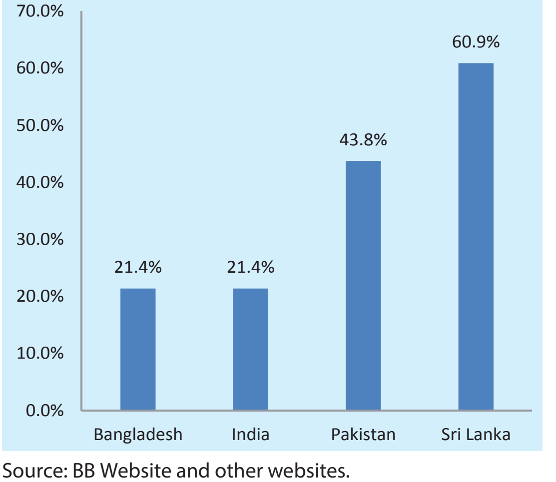
Furthermore, Chart 1.31 shows the external debt to GDP ratio of Bangladesh in CY20 was 21.4 percent, which seems to be low both in comparison with other SAARC countries and in terms of the international standard.

CHART 1.30: GROSS, SHORT AND LONG-TERM EXTERNAL DEBT



Source: BB Website (Economic Data).

CHART 1.31: EXTERNAL DEBT TO GDP RATIO IN NEIGHBORING COUNTRIES (CY20)

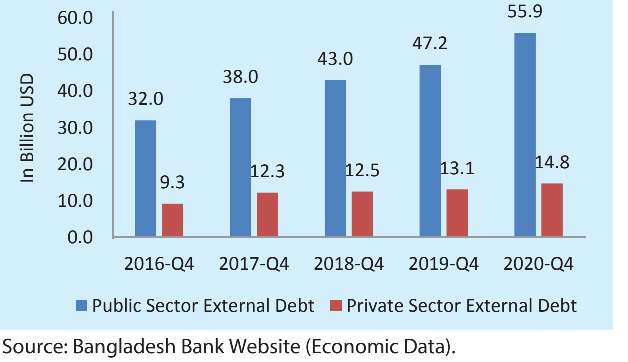


Source: BB Website and other websites.

1.3.6.2 NATURE OF EXTERNAL DEBT

Chart 1.32 reveals that the share of public sector external debt was 79.1 percent (i.e., USD 55.9 billion) in CY20. This seems relatively less risky since large portion of the public external debt is usually concessional loan rather than commercial one.

CHART 1.32: SECTOR-WISE EXTERNAL DEBT OF BANGLADESH



Source: Bangladesh Bank Website (Economic Data).

Moreover, it is a matter of comfort that about 97 percent of those public external debts are long-term in nature (Table 1.2), which are generally assumed as lesser risky than short-term external debt. On the other hand, private sector external debt, which comprised of 21 percent of total external debt (USD 14.8 billion), are largely short-term in nature and usually commercial loans which are considered to carry tangible risk. Currently, nearly 62.0 percent (USD 9.1 billion) of total private sector external debts are short-term in nature. This might warrant an extra caution as the rapid growth of short-term foreign debt is an early sign of potential external sector vulnerability.

TABLE 1.2: SHARE OF PUBLIC AND PRIVATE SECTORS, EXTERNAL DEBTS-BY SHORT-TERM AND LONG-TERM

Year	2016-Q4	2017-Q4	2018-Q4	2019-Q4	2020-Q4
Public Sector External Debt	100.0%	100.0%	100.0%	100.0%	100.0%
Short-term	5.2%	4.9%	4.1%	3.2%	3.3%
Long-term	94.8%	95.1%	95.9%	96.8%	96.7%
Public Sector External Debt	100.0%	100.0%	100.0%	100.0%	100.0%
Short-term	66.6%	72.4%	58.2%	62.6%	61.9%
Long-term	33.4%	27.6%	41.8%	37.4%	38.1%

Source: Bangladesh Bank Website (Economic Data).

1.3.7 DEBT SUSTAINABILITY AND EXTERNAL SECTOR'S STABILITY

While there is no commonly accepted framework for specifying the threshold levels for debt sustainability (in terms of foreign exchange liquidity) and stability indicators for external sector, several metrics and measures are widely used for such estimation.

Foreign exchange reserve is a crucial component of an economy to provide resilience against any unforeseen external shocks or emergencies. Therefore, it largely supports the debt sustainability and external sector's stability. Primarily, the foreign exchange reserve helps to meet up the growing import demands including capital goods. It provides confidence in meeting external obligations (i.e., short- and medium-term foreign debts), especially in adverse situations.

Table 1.3 highlights some key debt sustainability and external sector's stability indicators. It shows that trade balance remains around the range of 5 percent of GDP, which does not imply any near-term threat for the financial stability. CAB also improved in CY20 and remained 0.33 percent of GDP. Export to import ratio slightly increased in CY20 referring an improved (i.e., favorable) trade balance position. Another important external sector stability indicator is the number of months of imports, which a country can maintain with its existing level of FX reserve. Three months of import coverage is used as a benchmark. As the foreign exchange reserve of Bangladesh marked record growth in CY20, the import coverage elevated to 8 months in the review year from 5.5 months in the preceding year. Reserve remained 11 percent of GDP in FY20, which seems to be adequate for a faster growing economy like Bangladesh.

The Greenspan-Guidotti rule states that a 100 percent cover of Short-term external debt over a period of 12 months would indicate the adequacy of foreign reserve for Emerging Market (EM) economies. Table 1.3 shows that in CY20, the reserve was sufficient to meet around 400 percent of annual short-term debts. Total external debts still remained below 20 percent of GDP, which is considered as a comfortable state. Among the debts, short-term obligations declined to around 16 percent in CY20. Elasticity of short-term debt to GDP remained negative in FY20, which also refers to a safer indication. Share of public sector external debt to GDP stood at 16 percent in

CY20, slightly improved from CY19. FDI to external debt, however, decreased marginally from 29 percent in CY19 to 27 percent in CY20.

Overall, the external sector seems to have indication of a sustainable and stable outlook for Bangladesh.

TABLE 1.3: DEBT SUSTAINABILITY AND STABILITY INDICATORS FOR EXTERNAL SECTOR

	2016	2017	2018	2019	2020
Trade balance/GDP	-2.4%	-3.3%	-6.7%	-5.1%	-5.3%
CAB/GDP	1.6%	-0.8%	-3.5%	-1.3%	-1.2%
Export/Import	0.85	0.75	0.71	0.71	0.73
Reserve in months of prospective imports	9.1	6	5.2	5.5	8. 0
Reserve/Broad money	0.26	0.26	0.23	0.21	0.25
Reserve/GDP	0.14	0.14	0.12	0.11	0.11
Reserve/ST external debt	4.10	3.09	3.55	3.36	3.91
External Debt/GDP	0.18	0.18	0.20	0.20	0.20
ST external Debt/Total external debt	0.19	0.21	0.16	0.16	0.16
FDI/Total external debt	0.35	0.29	0.31	0.29	0.27
Public sector external debt/GDP	0.14	0.14	0.15	0.15	0.16
Growth of ST external debt/Growth of GDP		2.69	3.67	-0.68	-1.17

Note: For the ratio with GDP, fiscal year (end-June) based data are used for both variables.
Source: NSDP, Statistics Department, BB quarterly; FSD Staff Calculation.

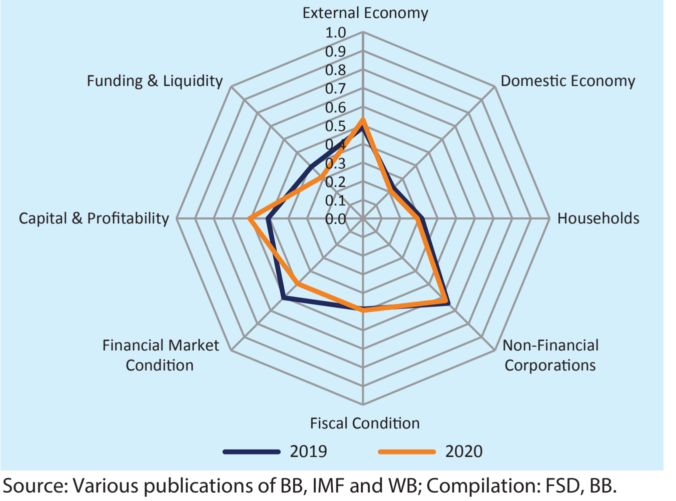
1.4 MAPPING FINANCIAL STABILITY

As financial stability could be affected through various channels, mapping the state of the components of financial stability has the utmost importance, particularly in the context of Bangladesh. This is also crucial because each financial crisis has affected financial system stability in its unique way and a comprehensive framework is therefore needed to cover all the possible stability threats. In the stated context, this section presents current stability map with an aim to analyze possible stability threats for Bangladesh macro-financial system taking into account 8 (eight) broad components[5]: external economy, domestic economy, households,

[5] i) External economy component consists of 7 sub-indicators: real GDP growth of major trading partners, average inflation of top 5 countries from which Bangladesh imports, average unemployment rate in countries from which Bangladesh receives highest inward wage earners' remittances, international crude-oil price, 3-months LIBOR rate, 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 corporation 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, and capital market. Eight (08) 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, 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.

non-financial corporations, fiscal condition, financial market condition, capital and profitability, and funding and liquidity (Chart 1.33).

CHART 1.33: FINANCIAL STABILITY MAP (2019 AND 2020)



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

Chart 1.33 depicts the comparative financial stability condition of Bangladesh's macro-financial system in CY19 and CY20 through a stability map. The map has been developed by following the global best practices taking into account the unique nature of Bangladesh's financial system[6]. The stability map depicts moderate level risk in a few components. Compared to 2019, the stability situation slightly deteriorated in the external economy and fiscal condition components while considerable deterioration took place in capital and profitability components. On the other hand, minor improvements took place in domestic economy, household, non-financial corporation and marked improvement was evident in financial market conditions, and funding and liquidity components. Though contraction of current account deficit, fall in oil price and strengthening of reserve position took place, massive output loss in major trading partners and rise in unemployment in top remittance-source countries caused the deterioration in external economy. In contrast, slight improvement in domestic economy was observed partly due to narrowing of output gap. Lower-level debt accompanied by improved credit quality and sustained debt servicing capacity backed by higher remittance seem to be prime reasons behind the improvement of household sector. NFC component, though improved slightly, remained one of the riskier factors for financial stability because of high concentration of bank exposure to large NFCs and high leverage of NFCs. Subdued revenue collection and increased healthcare, safety net expenditures after the onset of COVID-19 prompted the Government to borrow more to meet the fiscal deficit, causing minor worsening in fiscal condition. Financial market front came up with much improved position with sizeable fall in gross NPL in the banking sector bolstered by temporary relaxation in loan classification policy. However, prolonged stressed condition of borrowers may backlash the banking sector if prudent measures are not taken. Capital and profitability component exhibits a worsening scenario with bleaker profitability in CY20 and deterioration of Tier-1 capital base. In contrast, funding and liquidity component was found to be robust owing to central bank monetary easing.

[6] It contains 8 components and 37 indicators. Standardized scores for the 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 and indicate lower risk while components further from the origin indicate higher risk and have value closer to one.

The detailed component-wise analysis is explained below while the scores are summarized in Appendix XLIX.

External economy component: Unprecedented fall in real GDP growth of major trading partners coupled with significant rise in unemployment in top remittance-source countries increased the risk in external sector in CY20, despite high inward remittance and slow growth of import that favored the external balance straightforward. Substantial drop in oil price in the wake of COVID-19 pandemic weakened the oil-exporting economies, which was reflected in loss of employment in those countries. If oil price remained low in the long-run, it may raise stability concern for Bangladesh as it might shrink remittance inflow from the oil-exporting countries through exerting unemployment and income shocks. On the positive side, improvement in inflationary condition of import partners and reserve adequacy in terms of import coverage in CY20 might help improve the external sector resilience.

Domestic economy component: Though external debt, headline inflation and volatility in exchange rate rose in CY20 compared to CY19, domestic economy component remained largely stable from the financial stability point of view partly due to narrowing output gap. The COVID-19 pandemic yielded some imbalances in the domestic economy through distorting the demand-supply dynamics. Slowdown of the economy appears to be a concern if the economy struggled with self-correction in the face of ongoing pandemic.

Household Component: Lower household debt to GDP, better credit portfolio quality in the household sector, and higher remittance to GDP ratio on the back of policy support give the impression that this component remained less risky for the financial system of Bangladesh. Higher remittance inflow helped households to maintain their credit worthiness. However, rising unemployment in remittance-generating countries amid continuing COVID-19 and muted oil price may transmit risks to household sector.

Non-financial corporation component: The risk to the financial system from this component remained elevated due to high proportion of bank loans held by top NFCs[7] and a high debt-equity ratio of large NFCs.

Fiscal condition component: Rise in public debt, budget deficit and fall in tax collection in CY20 resulted in modest deterioration of this component. Increased expenditure and lower revenue collection on account of COVID-19 prompted the Government to increase its reliance on borrowing through treasury securities and national savings certificate. Episodes of COVID-19 infection appear to be a major concern as it may still create stress on budget balance.

Financial market component: Much of the improvement in financial market component in CY20 was largely due to marked fall in banks' gross NPL ratio. Further, reduction in risk-weighted asset density ratio and improvement in insurance coverage of deposits supported such improvement. On the backdrop of economic fallout fueled by COVID-19, BB continued relaxed loan classification policy until the end of CY20, which contributed to loan remaining regular. But there remains a pocket of risks that NPL may rise again if the borrowers get trapped in the financial burden for an extended period of time. Increase in asset concentration of D-SIBs, deterioration in asset quality of FIs, decrease in banking sector resilience under stress scenario and drop in equity prices in stock market were some gloomier developments in the financial market of Bangladesh, which have potential to affect financial system stability negatively.

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[7] In this study, Non-financial Corporation (NFC) mainly refers to large systemic borrowers who are engaged in non-financial business. FSD used discretion in determining the NFCs and the definition may differ from the official group definition used by BB.

Capital and profitability component: Despite improvement in overall capital base, weak profitability of the banking sector and deteriorated Tier-1 capital undermined this component from stability perspective. Moreover, capital gap to meet conservation buffer requirement remains as a concern for banking sector.

Funding and liquidity component: Banking sector vulnerabilities under COVID-19 stress seems to have been alleviated through notable improvement in liquidity condition. Advance-to-deposit ratio (ADR) and Liquidity Coverage Ratio (LCR) improved markedly with the support from BB cutting different policy rates and CRR in CY20. However, Net Stable Funding Ratio (NSFR) of the banking sector declined because available fund made up of longer-term liabilities, especially, growth of customers' fixed deposit slowed down in CY20.

In a nutshell, financial stability map highlights that macro-financial condition of Bangladesh was exposed to moderate level of risk in CY20. Prudent strategic move to create new overseas job for migrant workers, favorable tax policies for the affected sectors of the economy, better fiscal management in tandem with ongoing economic state, timely monetary and credit support from BB aiming to boost economic recovery in financial sector along with strong supervision to minimize misuse of fund are the some important factors that may contribute to safeguarding financial stability in the current scenario.

Chapter 2

BANKING SECTOR'S PERFORMANCE

The banking sector of Bangladesh appeared to remain cautious, yet resilient in CY20. The sector registered modest growth in assets compared to the preceding year, supported by a notable growth in deposit. Indeed, Bangladesh Bank's prudent policy measures and multiple refinance schemes for different economic sectors in the wake of COVID-19, notable inflows of foreign remittance, reduction in charges and fees on deposit products are some of the key drivers behind the marked deposit growth during this year. Asset quality of the sector recorded substantial improvement as both net as well as gross non-performing loan ratio notably declined compared to that of the preceding year. Nevertheless, proper end-use of the loan disbursed during this year under stimulus packages, close monitoring of the rescheduled loans and apt risk management would be the keys to sustain the asset quality in the coming years.

During the review year, provision maintenance ratio of the banking sector increased considerably compared to the preceding year, largely due to surplus provision maintained by the PCBs and FCBs. Capital to risk-weighted assets ratio (CRAR) of the industry remained well above the minimum regulatory requirement in line with Pillar I of Basel III capital framework, though the ratio demonstrate no noticeable change from the preceding year. Importantly, the banking sector maintained Basel III leverage ratio reasonably higher than the minimum regulatory requirement during the review year.

The banking sector witnessed an easing liquidity situation during CY20 as both advance-to-deposit ratio (ADR) and call money borrowing rate exhibited mostly a declining trend during the second half of the year. Also, the sector remained compliant in terms of Basel III liquidity metrics-Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Besides, both the conventional and Islamic Shari'ah based banks were able to maintain the minimum requirement of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) as of end-December 2020. However, key profitability indicators of the industry, ROA and ROE, decreased compared to those of the preceding year.

2.1 FINANCIAL SYSTEM OF BANGLADESH

The financial system of Bangladesh is broadly categorized into three different sectors based on the degree of regulation and organizational settings. These are the formal sector, semi-formal sector, and informal sector. The formal sector includes all institutions operating under structured regulatory frameworks, e.g., banks, financial institutions (FIs), insurance companies, capital market intermediaries, such as brokerage houses, merchant banks, etc., and microfinance institutions (MFIs). The semi-formal sector comprises of few specialized financial institutions which do not fall under the jurisdiction of financial sector regulators, rather they are regulated by their own Acts or legal framework under different ministries of the Government, e.g. Bangladesh House Building Finance Corporation (BHBFC), Bangladesh Samabaya Bank Limited (BSBL), Investment Corporation of Bangladesh (ICB), Palli Karma Sahayak Foundation (PKSF), Grameen Bank, Non-governmental Organizations (NGOs), different cooperatives & credit unions and discrete government programs. The informal sector refers to mainly the private intermediaries that are mostly unregulated.

Bangladesh Bank (BB), being the regulatory authority of the money market and foreign exchange market of the country, regulates and monitors the activities of all scheduled banks and financial institutions (FIs). Currently, there are 6 state-owned commercial banks (SOCBs), 3 specialized development banks (SDBs), 43 domestic private commercial banks (PCBs and Islamic banks)[8], 9 foreign commercial banks (FCBs), 5 non-scheduled banks, and 34 financial institutions (FIs) operating in Bangladesh. Bangladesh Securities and Exchange Commission (BSEC) regulates and supervises the capital market comprising of two stock exchanges - Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). The major capital market intermediaries are merchant banks, stockbrokers, dealers, security custodians, credit rating agencies, and asset management companies. At present, 63 merchant banks, 497 depository participants (stock dealers, brokers, and security custodians), 48 asset management companies are operating in the capital market of Bangladesh. Insurance companies and micro-finance institutions are supervised by the Insurance Development and Regulatory Authority (IDRA) and the Microcredit Regulatory Authority (MRA) respectively. At present, 79 insurance companies and 746 registered micro-finance institutions are functioning in Bangladesh. Cooperatives and credit unions are regulated by the Registrar of Cooperatives. Besides, the Ministry of Finance regulates Bangladesh House Building Finance Corporation (BHBFC) and Investment Corporation of Bangladesh (ICB). Table 2.1 demonstrates the financial system structure of Bangladesh.

TABLE 2.1: FINANCIAL SYSTEM STRUCTURE OF BANGLADESH

		Financial Market/Infrastructure	Institutions	Numbers	Regulator
Financial System	Formal Sector	Money Market Foreign Exchange Market Payment and Settlement Systems	Banks	SOCBs (6) PCBs (43) FCBs (9) SBs (3)	Bangladesh Bank
			FIs	Government-owned (3) Others (31)	
			Others	ADs, Money changers, MFS providers, PSOs, PSPs, OPGSPs etc.	
		Capital Market	DSE CSE CDBL	Merchant Banks (63) Credit Rating Companies (8) AMCs (48) DPs (497)	BSEC
		Insurance Market	Life Non-Life	Govt. Owned (2) Others (77)	IDRA
		Micro Credit Market	MFIs	MFI (746)	MRA
	Semi-formal Sector	BHBFC, PKSF, ICB, Samabay Bank & Grameen Bank, cooperatives and credit unions, Government Pension Scheme, Central Provident Fund, Private sector pension/gratuity funds, and discrete government programs, etc.			
	Informal Sector				

[8] Very recently, 3 new banks have been awarded license to operate banking business in Bangladesh.

2.2 ASSET STRUCTURE OF THE BANKING SECTOR

After a declining trend till CY18, banking sector experienced a modest growth of asset in CY19 and CY20 (11.8 percent and 13.0 percent respectively), primarily supported by acceleration in deposit growth rate.

The banking sector assets reached BDT 18,406.0 billion in CY20, registering a moderate growth of 13.0 percent from that of CY19 (Chart 2.1). Indeed, the asset growth showed an uptrend in CY20, like in CY19, after recording a steady deceleration in recent years. The primary reason for this growth can be attributed to elevated deposit growth.

Among the different banking clusters, SOCBs had higher asset growth compared to CY19 while the rate of growth slowed down in SDBs, FCBs and PCBs (Chart 2.2).Since the SOCBs accounted for 25.1 percent of the banking sector assets, the higher growth in SOCBs' assets (15.6 percent in CY20 compared to 7.1 percent in CY19) boosted the growth of industry asset in CY20 compared to that of CY19.

CHART 2.1: TOTAL ASSET GROWTH: YEAR OVER YEAR BASIS

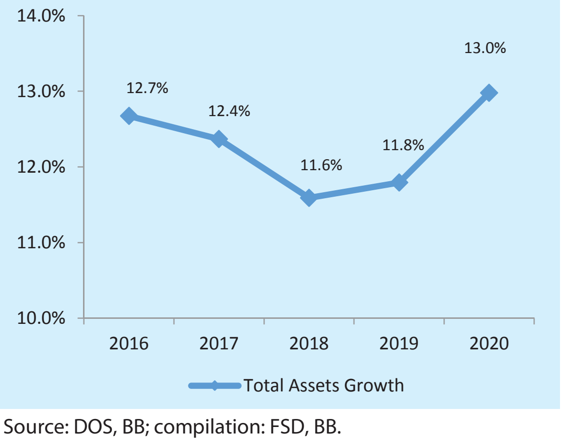
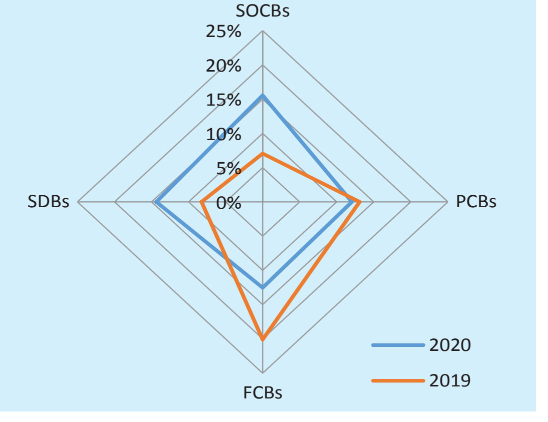


CHART 2.2: ASSET GROWTH OF BANKING CLUSTERS



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

Considering the asset structure in CY20, loans and advances constituted the highest share of banking sector assets followed by investment. Loans and advances accounted for 63.8 percent (compared to 66.5 percent in CY19) of total assets while investment constituted 18.0 percent (15.4 percent in CY19) as depicted in Chart 2.3.Chart 2.4 shows that growth of loans and advances moderated in CY20. Following high double-digit growths up to CY19, loans and advances grew by 8.4 percent in CY20 (11.9 percent in CY19). Demand-side constraints, lower import-based loan demand due to lower private sector investment in the wake of COVID-19, and the need to adjust the imbalance between deposit and loan growth in recent years, among others, might be some reasons behind the slowdown in loan growth in CY20. Though loans and advances remained the dominant asset type, the banking industry increased its exposure to investment in Government and other securities, which registered a marked growth of 32.0 percent in CY20 as opposed to 28.1 percent growth recorded in the preceding year. Particularly, investment in Government securities increased by around 49.7 percent in CY20 compared to the increment recorded in the previous year (44.3 percent). The Government's higher reliance on bank-based budget financing, safety and security along with liquidity offered by the instruments might have induced banks to invest heavily in these instruments. However, if these investments continue to soar in the future, there might be a possibility of crowding out effect.

CHART 2.3: YEAR-WISE BANKING SECTOR ASSET STRUCTURE

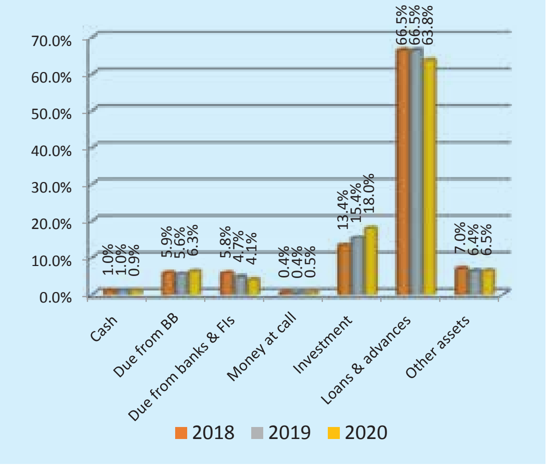
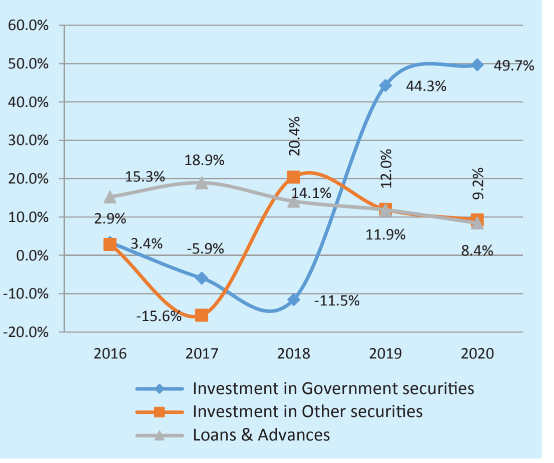


CHART 2.4: YEAR-WISE GROWTH OF LOANS AND ADVANCES AND INVESTMENT IN SECURITIES



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

Among different categories of banks, SDBs and PCBs had higher shares of loans and advances (80.2 and 70.2 percent respectively) in their asset mix while the SOCBs possessed the lowest proportion (48.0 percent).It can be noted that stringent MOUs with BB accompanied by high NPLs might have induced SOCBs to focus more on money market instruments rather than expanding loans and advances.

PCBs held a major proportion of earning assets, which might strengthen the stability of the banking sector through respective asset quality improvement. The overall liquidity situation of the PCBs also improved as their holding of liquid asset increased.

In CY20, the share of major earning assets[9] of SOCBs and SDBs demonstrated marginal increase, PCBs showed marginal decline while FCBs did not exhibit any change (Chart 2.5) compared to CY19 positions. The market shares of SOCBs increased by 90 basis points, the same of PCBs declined by almost same magnitude. However, PCBs still held the highest market share of the earning asset (around 69 percent), which reflects a positive sign for financial system stability as the PCBs managed better quality asset and higher capital to risk-weighted assets ratio compared to those of the SOCBs.

Chart 2.6 demonstrates the market shares of liquid assets of different categories of banks. As the chart shows, PCBs' share increased moderately whereas the share slightly declined for the SOCBs. In particular, PCBs' share increased by 1.2 percentage points, while the same of the SOCBs declined by 1.4 percentage points. The higher liquid asset holding should enable the PCBs to better manage their future liquidity issues amid the COVID-19 pandemic situation.

[9] Earning assets include loans and advances and investment. Liquid assets include cash, dues from BB, dues from banks and FIs and money at call and short notice.

CHART 2.5: SHARE OF EARNING ASSETS OF DIFFERENT CATEGORIES OF BANKS

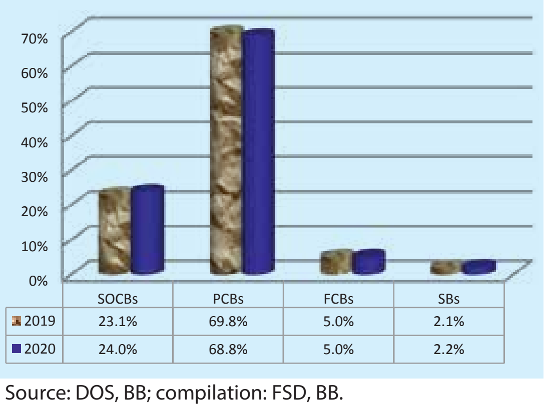
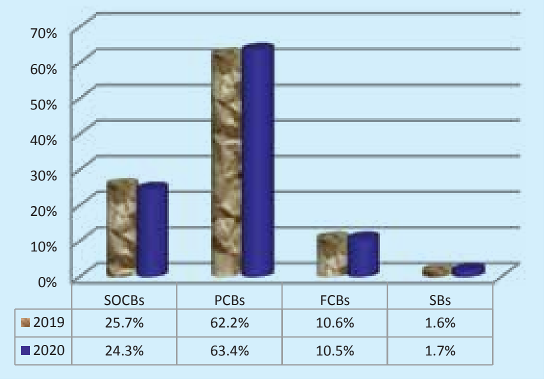


CHART 2.6: SHARE OF LIQUID ASSETS OF DIFFERENT CATEGORIES OF BANKS

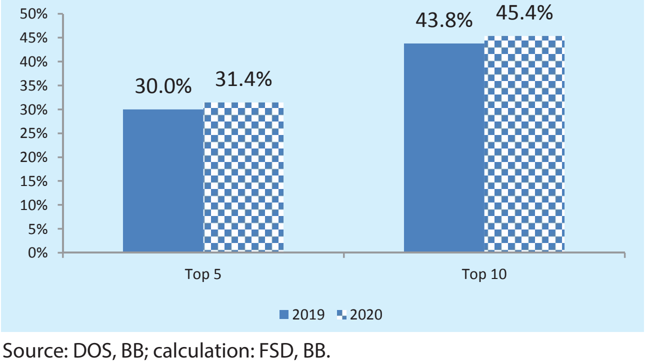


Source: DOS, BB; compilation: FSD, BB.

Compared to CY19, the concentration of assets within a few banks increased marginally in CY20, in tandem with increase in sector-wise loan concentration.

Chart 2.7 shows concentrations of assets within the top (5) five and top (10) ten banks, which were 31.4 percent and 45.4 percent respectively as of end-December 2020, compared to the corresponding figures of 30.0 percent and 43.8 percent at end-December 2019. In CY20, top five banks composed of four SOCBs and one PCB while top (10) ten comprised (6) six PCBs and (4) four SOCBs respectively. Pertinently, PCBs and SOCBs possessed 67.3 percent and 25.1 percent of total assets of the banking industry while the shares of FCBs and SDBs were only 5.5 and 2.2 percent respectively.

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



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

In case of sector-wise loan concentration, the calculated Herfindahl-Hirschman Index (HHI) of 1,430.4 points in CY20 indicates a marginal increase in concentration risk from CY19 when the value of index was 1429.1. In CY20, three sectors-Large Industries, Wholesale and Retail Trade (CC, OD etc.) and Miscellaneous-had double digit market share i.e., 27.1, 17.9 and 10.8 percent respectively while another sector verged on two digits. This scenario is very similar to that of CY19. High market share (27.1 percent) of large industries' loans indicates that banks were more engaged in disbursing corporate loans.

TABLE 2.2: SECTOR-WISE LOAN CONCENTRATION (CY20)

(Amount in billion BDT)

Sl.	Sector	Amount[P]	Percent of Total	HHI*
1	Large Industries	2975.46	27.14	736.67
2	Wholesale and Retail Trade (CC, OD etc.)	1957.42	17.86	318.81
3	Miscellaneous	1181.09	10.77	116.07
4	Import Financing (LIM, LTR, TR etc.)	1068.53	9.75	95.00
5	Small and Medium Industries	807.68	7.37	54.28
6	Service Industries	745.76	6.80	46.28
7	Export Financing (PC, ECC etc)	575.42	5.25	27.55
8	Agriculture	458.58	4.18	17.50
9	Housing (Residential) in Urban Area for Individual Person	259.76	2.37	5.61
10	Housing (Commercial): For Developer/Contractor	251.32	2.29	5.26
11	Other Construction	250.23	2.28	5.21
12	Infrastructure Development (Road, Culvert, Bridge, Tower etc.)	94.74	0.86	0.75
13	Air Transport	65.24	0.60	0.35
14	House Renovation/Repairing/Extension	64.99	0.59	0.35
15	Road Transport (Excluding Personal Vehicle & Lease Finance)	47.50	0.43	0.19
16	Lease Financing/Leasing	46.81	0.43	0.18
17	Fishing	45.75	0.42	0.17
18	Water Transport (Excluding Fishing Boats)	32.27	0.29	0.09
19	Housing (Residential) in Rural Area for Individual Person	22.26	0.20	0.04
20	Cottage Industries/Micro Industries	9.53	0.09	0.01
21	Procurement by Government	2.17	0.02	0.00
22	Water-works	0.11	0.00	0.00
23	Forestry and Logging	0.05	0.00	0.00
24	Sanitary Services	0.00	0.00	0.00
	Total loans and advances	10962.67	100.00	1430.37

Notes: (1) P: Provisional; (ii) Figures shown in the table excludes Inter bank, Money at call, Bills.
(iii) HHI = Herfindahl–Hirschman Index.
Source: Statistics Department, BB; computation: FSD, BB.

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

Asset quality improved during the latter part of CY20 as gross nonperforming loan (NPL) ratio showed a conspicuous drop driven by improvement in NPL position of SOCBs, PCBs and SDBs. However, maintaining asset quality amid the COVID-19 pandemic still seems to be a key challenge for the banking sector.

To address the adverse impact of COVID-19 on real sector as well as banking sector and to limit the procyclical impact of loan loss provisions as well as the regulatory capital requirement on lending, Bangladesh Bank instructed the scheduled banks not to change the Classification status of the Loans until December 31, 2020[10] that prevailed on 01 January 2020. However, if classification status of the loans improves, the same can be taken into account in due course. As a result, after a sharp decline in December'19 quarter, the gross NPL ratio[11] in the banking sector had no notable changes in December'20 quarter (Chart 2.8). The ratio reached 8.1 percent in CY20 from 9.3 percent in CY19. However, the amount of gross NPL decreased by BDT 60.5 billion and reached to BDT 882.8 billion in CY20. Despite the recent improvement, the proper monitoring of regular loans along with rescheduled loans amid the COVID-19 pandemic may appear to be a critical challenge for the banking industry. The expected sluggish business condition due to the Coronavirus outbreak could severely affect the debt–servicing capacity of the borrowers that may have adverse impact on future performance of the rescheduled as well as regular loans and could increase the industry NPL rate as well. Though BB has already extended necessary policy supports to help the borrowers/banks, the success of such policy supports in minimizing the impact of COVID-19 largely depends on how the borrowers efficiently use the policy support in withstanding the sock, waves of the pandemic.

[10] BRPD Circular No-17 dated September 28, 2020.

[11] Total classified loans as a percentage of total loans outstanding.

CHART 2.8: GROSS NPL OF BANKING INDUSTRY

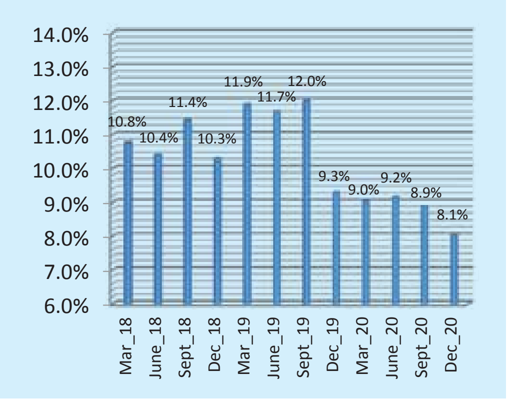
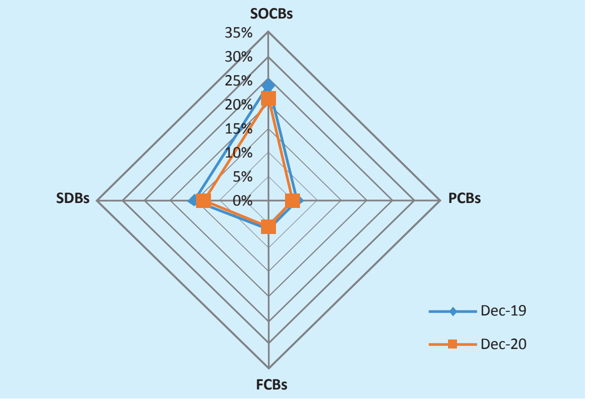


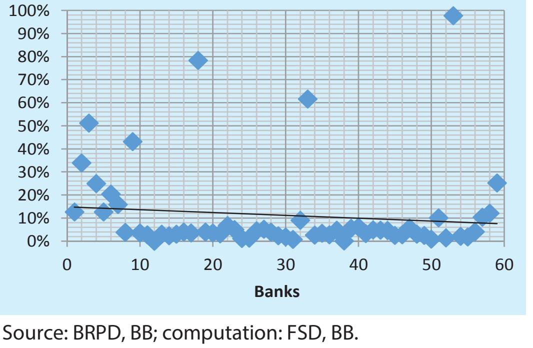
CHART 2.9: GROSS NPL OF BANKING CLUSTERS (DEC, 2019 AND DEC, 2020)



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

Considering gross NPL ratios of different categories of banks (Chart 2.9), the NPL ratio of SOCBs registered decline of 2.8 percentage points and reached to 21.0 percent at end-December 2020. SDBs also demonstrated some improvement as their NPL ratio dropped by 1.8 percentage points to reach 13.3 percent. Despite these improvements, the NPL ratios still remained high for both categories of banks especially for SOCBs, which affected the overall asset quality of the industry. It is mentionable that SOCBs held 47.9 percent of total NPL of banking industry, for SDBs the ratio was only 4.6 percent and for PCBs the ratio was 45.2 percent. Like SOCBs and SDBs, the NPL ratio of the PCBs also decreased by 1.0 percentage points and stood at 4.8 percent while the same for FCBs remained almost same at 5.7 percent at end-December 2020. Though the asset quality of the PCBs improved by only 1.0 percentage point, it was the main driving force for decline in overall NPL in CY20.

CHART 2.10: GROSS NPL RATIO OF INDIVIDUAL BANK (END-DECEMBER 2020)



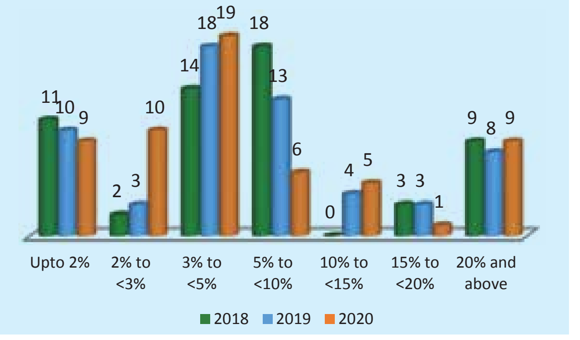
Source: BRPD, BB; computation: FSD, BB.

Chart 2.10 shows the gross NPL ratio of individual banks. Like CY19, the majority of the banks had single digit gross NPL ratio in CY20, which is a good sign for financial stability. Besides, higher NPL ratios in a few banks, did not appear to be a system-wide phenomenon.

Chart 2.11 presents the distribution of banks according to the magnitude of NPL ratios. During 2018-2020, total number of banks has increased to 59 from 57.[12] The distribution shows that, in CY20, number of banks having NPL ratio below 3.0 percent increased significantly. On the other hand, the number of banks with gross NPL ratios of 10.0 percent or above was 15 in CY20; unchanged compared to that in CY19. The number of banks having NPL ratio over 20.0 percent increased by one (01) indicating a relative deterioration in their asset quality. A total of 9 banks (4 SOCBs, 3 PCBs, 1 SDBs, and 1 FCB) had gross NPL ratio of 20 percent and above during CY20.

[12] Considering the availability of NPL data.

CHART 2.11: GROSS NPL RATIO OF BANKS INTO DIFFERENT BUCKETS

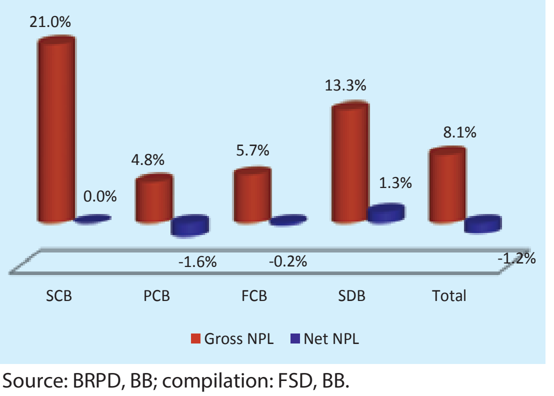


Source: BRPD, BB; Computation: FSD, BB.

It is observed that, in CY20, 38 banks maintained their NPL ratio below 5 percent, in CY19, the number was 31. All FCBs except 2 (two) and all the PCBs except 4 (four) recorded a single-digit gross NPL ratio as of December 2020. For the last couple of years, the banks having high NPL ratio could not bring down the ratio, which might pose concern for the financial system stability in future. The aftermath of COVID-19 pandemic might aggravate the situation in near future if not managed prudently. Bangladesh Bank along with other regulatory authorities has been working rigorously on this particular issue.

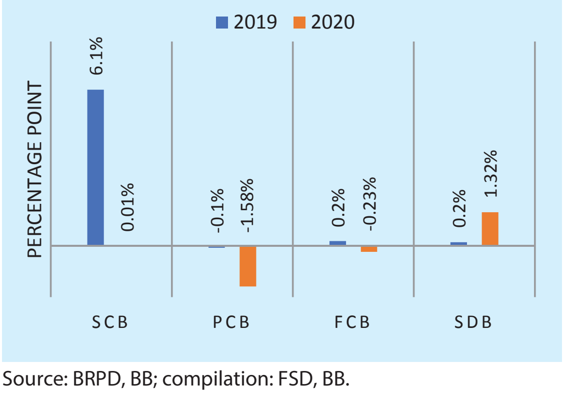
The net nonperforming loan (net NPL) ratio[13] declined to -1.2 percent at end-December 2020 compared to 1.0 percent recorded in the previous year mainly due to decline in gross NPLs and as well as increase in maintained provision required by Bangladesh Bank[14].

CHART 2.12: GROSS AND NET NPL RATIO IN CY20



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

CHART 2.13: NET NPL RATIO OF BANKING CLUSTERS (DEC,2019 AND DEC,2020)



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

Chart 2.12 illustrates that the industry net NPL ratio stood at -1.2 percent at end-December 2020 (1.0 percent at end-December 2019) after netting off both general and specific provision and interest suspense from gross NPL ratio of 8.1 percent. The significant decline in net NPL ratio indicates that banking system resilience improved in CY20 compared to the preceding year.

Chart 2.13 shows the changes in net NPL ratio of different categories of banks. Though the PCBs held the largest share of the industry assets, their net NPL ratio remained considerably low in CY20. FCBs also had very low net NPL ratio. These banks seem to be fairly resilient

[13] Net NPL ratio = (Gross NPLs - Loan-loss Provisions – Interest Suspense)/ (Total Loans Outstanding - Loan-loss Provisions – Interest Suspense).

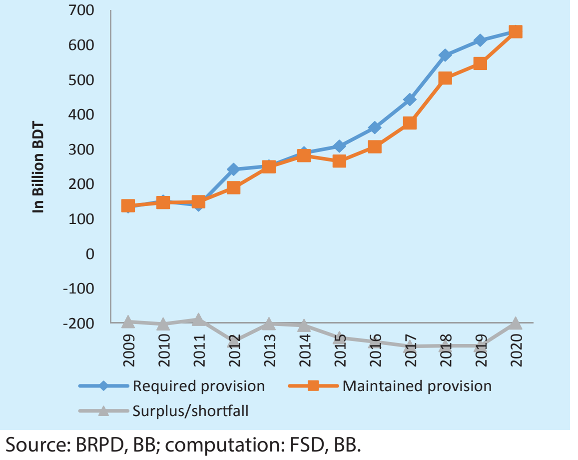
[14] BRPD Circular Letter No-56 dated December 10, 2020.

against any major stability threat originating from deterioration in their asset quality. SOCBs, on the other hand, was able to bring down their net NPL ratio almost closed to zero (0) percent. Like other clusters, the net NPL ratios in SBs also improved and declined to 1.3 percent. However, to improve their financial health and keep it stable, these banks need to bring down their gross NPLs to a manageable level by adopting good governance and better risk management practices.

In CY20, all banks except three SOCBs, two SDBs and six PCBs maintained loan-loss provisions as per the regulatory requirement of BB. Top 5 and top 10 banks held nearly 47.5 percent and 65.1 percent of NPLs respectively.

The gross NPLs decreased by BDT 60.5 billion from that of CY19 reach BDT 882.8 billion in CY20. These NPLs required banks to maintain cumulative provisions of BDT 639.0 billion as of end-December 2020, against which banks maintained provisions amounting to BDT 637.7 billion (Chart 2.14). The overall provision shortfall in the banking industry stood at BDT 1.3 billion. The maintained provision in CY20, however, was around BDT 91.1 billion higher than that of CY19. Consequently, the provision maintenance ratio increased from 89.1 percent in CY19 to 99.8 percent in CY20. Similarly, maintained provision to gross NPL ratio increased from 57.9 percent to 72.2 percent during the period under review.

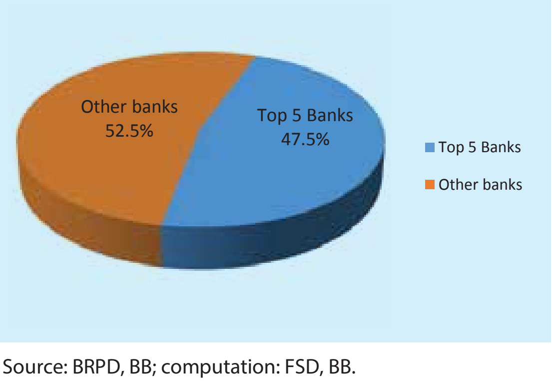
CHART 2.14: YEAR-WISE BANKING SECTOR LOAN LOSS PROVISIONS

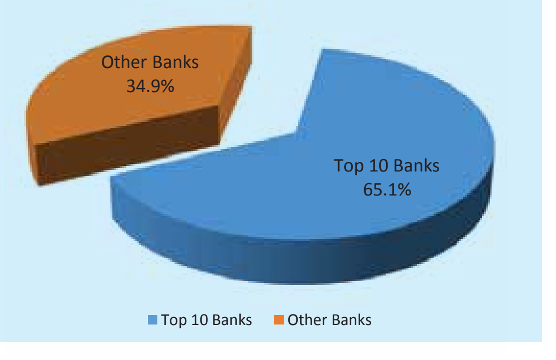


Source: BRPD, BB; computation: FSD, BB.

The improvement in the provision maintenance ratio is largely attributable to surplus provision maintained by PCBs and reduction in provision shortfall of the SOCBs. Still, the SOCBs experienced a provision shortfall of BDT 49.2 billion in CY20 (BDT 78.1 billion in CY19) and for SDBs, the shortfall was BDT 1.7 billion. Besides, 6 PCBs also had provision shortfall, though PCBs as a banking cluster had an aggregate provision surplus of BDT 46.0 billion in CY20. The provision shortfall of the banking industry decreased in terms of both aggregate amount and number of banks having shortfall in CY20 from that of CY19.

CHART 2.15: TOP 5 AND TOP 10 BANKS BY GROSS NPL SIZE





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

The gross NPLs concentration ratios (based on the size of gross NPLs) of the top 5 and top 10 banks were 47.5 and 65.1 percent respectively as of end-December 2020 against the corresponding figures of 45.8 and 63.3 percent in CY19. In CY20, in terms of NPL size, the top 10 banks comprised of five (5) SOCBs, four (4) PCBs, and one (1) SDB. In terms of gross NPL ratio, among the top 10 banks, four (4) were SOCBs, four (4) PCBs and one from both SDBs and FCBs.

In CY20, the sector-wise NPL distributions did not show much concentration of NPL in any particular sector except Trade and Commerce.

Table 2.3 shows a modest concentration of NPLs across different sectors of the economy in CY20. However, NPL concentration remained high in loans against Trade and Commerce sector. The share of NPL in this sector nearly (28.0 percent) was considerably high in comparison with the share of loans distributed in this sector (21.3 percent). Moreover, the gross NPL ratio of this sector was 2.5 percentage points higher than the industry NPL ratio. As loans in the Trade and Commerce sector occupied more than one-fifth of the banking sector loans and advances, this sector's loans need to be monitored intensively. Pertinently, high gross NPL ratio (18.4 percent) in the Ship-building and the Ship-breaking sector remained another major concern.

TABLE 2.3: SECTOR-WISE NONPERFORMING LOANS DISTRIBUTION (CY20) (AMOUNT IN BILLION BDT)

SL. NO.	NAME OF SECTOR	TOTAL LOANS OUTSTANDING	GROSS NPL	GROSS NPL RATIO	% SHARE OF LOANS EXTENDED TO A PARTICULAR SECTOR	% SHARE OF NPLs OF A PARTICULAR SECTOR
1	AGRICULTURE	466.9	44.65	9.56%	4.26%	5.06%
2	INDUSTRIAL (MANUFACTURING):					
2.1	RMG	1,308.49	114.51	8.75%	11.94%	12.98%
2.2	TEXTILE	950.89	74.72	7.86%	8.68%	8.47%
2.3	SHIP BUILDING AND SHIP BREAKING	169.81	31.18	18.36%	1.55%	3.53%
2.4	AGRO-BASED INDUSTRY	752.66	65.48	8.70%	6.87%	7.42%
2.5	OTHER INDUSTRIES (LARGE SCALE)	1,560.84	85.23	5.46%	14.25%	9.66%
2.6	OTHER INDUSTRIES (SMALL, MEDIUM AND COTTAGE)	447.89	54.24	12.11%	4.09%	6.15%
3	INDUSTRIAL (SERVICES):					
3.1	CONSTRUCTION LOANS	743.55	45.26	6.09%	6.79%	5.13%
3.2	TRANSPORT AND COMMUNICATION	212.15	18.28	8.62%	1.94%	2.07%
3.3	OTHER SERVICE INDUSTRIES	491.31	30.19	6.14%	4.48%	3.42%
4	CONSUMER CREDIT:					
4.1	CREDIT CARD	58.59	3.16	5.39%	0.53%	0.36%
4.2	AUTO (CAR) LOAN	22.05	0.45	2.04%	0.20%	0.05%
4.3	HOUSING FINANCE	189.55	8.53	4.50%	1.73%	0.97%
4.4	PERSONAL	358.43	7.06	1.97%	3.27%	0.80%
5	TRADE AND COMMERCE (COMMERCIAL LOANS)	2,330.56	247.00	10.60%	21.27%	27.99%
6	CREDIT TO NBFI	77.17	5.10	6.61%	0.70%	0.58%
7	LOANS TO CAPITAL MARKET	52.81	0.86	1.63%	0.48%	0.10%
8	OTHER LOANS	761.11	46.46	6.10%	6.95%	5.27%
	TOTAL	**10,954.80**	**882.36**	**8.05%**	**100%**	**100%**

Source: Scheduled Banks and DOS, BB; compilation: FSD, BB.

'Bad and Loss' category of loans to gross NPL ratio increased marginally in CY20 compared to that of CY19 and remained high in CY20.

In CY20, the percentage of Bad & Loss (B/L) loans to gross NPL increased to 86.9 percent compared to 86.8 percent in CY19. This high B/L loan ratio indicates that a major portion of the NPL has not been performing for a longer period. This legacy issue needs to be resolved for the improvement of the stability condition of the banking sector. The other two categories of classified loans, sub-standard (SS) and doubtful (DF) constituted 7.7 percent (9.1 percent in CY19) and 5.4 percent (4.1 percent in CY19) of the total NPL respectively as shown in Chart 2.16.

CHART 2.16: GROSS NPL COMPOSITION IN CY20

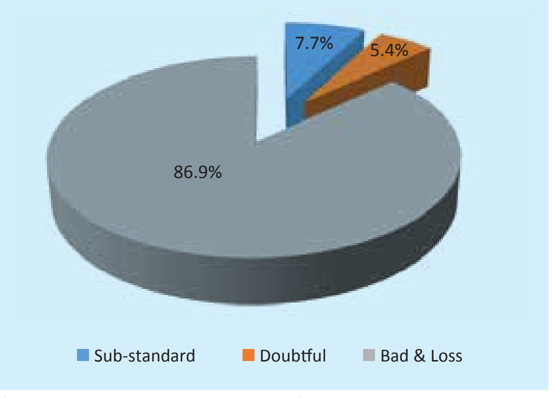
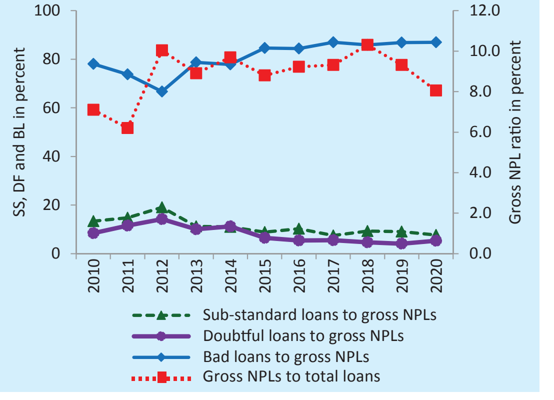


CHART 2.17: YEAR-WISE RATIOS OF THE THREE CATEGORIES OF NPLs



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

Chart 2.17 illustrates that the proportion of bad and loss (B/L) loans has been increasing since 2012 and remained above 80 percent of the gross NPL over the years, implying slow recovery from bad loans. Higher B/L loans adversely affect profitability and capital base of the banks since banks have to maintain 100 percent provision against such loans. The total B/L loan of the banking sector reached to BDT 767.5 billion in CY20 (BDT 818.8 billion in CY19). Though B/L loans decreased by BDT 51.3 billion in CY20, it still accounts for the major part of the NPLs which indicates that total NPL is mostly comprised of the worst category of classified assets.

BOX 2.1: PROCEDURE OF WRITING OFF OF LOANS/INVESTMENTS OF BANKS

During the normal course of business, some portion of loans/investments of banks might become non-performing and remain unadjusted for a longer period owing to various plausible risks. Those loans/investments may overstate the balance sheets by accumulating bad assets years together. Such exposures of banks are often required to be written off following standard procedures and internationally recognized norms.

Banks in Bangladesh are advised to write off their loans/investments complying with the prescribed policies[a] of Bangladesh Bank. As per the existing rules, a bank can write off only those loans/investments which have minimum chance of recovery and remained classified as 'Bad/Loss' at least for three years in a row and for which the bank has maintained 100 percent provision, by adjusting interest suspense from the outstanding balance. If the maintained provision against such loans/investments is not enough, the remaining provision must be ensured by debiting current year's income of the concerned bank. However, a bank cannot write off partial amount of the total loans/investments.

[a] BRP Circular No. 01/2019 dated 06 February 2019.

BOX 2.1: PROCEDURE OF WRITING OFF OF LOANS/INVESTMENTS OF BANKS (Contd.)

Importantly, prior to the writing off of the loans/investments, it is mandatory for banks to file lawsuits against the respective defaulters. However, if lawsuit is not mandatory under the provisions of Money Loan Court Act 2003, banks can write off any loans up to BDT 0.2 million without filing any lawsuit. Besides, writing off of the loans/investments must be approved by the board of directors of the concerned bank. Moreover, the amount of claim of the written off loans/investments will in no way vanish due to setting aside the loan/investment from the balance sheet of the bank.

Banks have to maintain a separate ledger for the written-off loan/investment accounts and need to report to their balance sheets in accordance with section 38 of the Bank Company Act, 1991. Albeit written-off, the respective borrower will be treated as a loan defaulter unless and until he/she repays the full liability of the concerned loan/investment. It is worth noting that written-off loans/investments cannot be rescheduled or restructured; however, if such loans/investments remain under any exit plan, the concerned bank may fix repayment periods.

The outstanding balance of written-off loans stood at BDT 441.53 billion at the end-December 2020.

Classified loans amounting BDT 568.45 billion were written-off from the banks' balance sheet till December 2020[15], which was BDT 560.2 billion at the end of CY19. The cumulative written-off amount roughly accounted for 3.1 percent of the banking sector's on-balance sheet assets at end-December 2020. However, out of the total written-off loans, banks have been able to recover BDT 126.9 billion till end-December, 2020 and thus the outstanding balance of written-off loans stood at BDT 441.53 billion out of which written-off loans of SOCBs, PCBs, FCBs, and SDBs account for BDT 174.83 billion, 252.59 billion, 10.36 billion and 3.75 billion respectively[16].

2.4 RESCHEDULED ADVANCES

The amount of loans rescheduled in the review year has decreased as compared to the preceding year which could partly be attributed to BB's policy supports during the pandemic. However, the cumulative amount of total outstanding of rescheduled loans was still high compared to CY19. Intensive monitoring is warranted to ensure timely recovery of these loans and thus to lessen the pressure on the banking system.

In CY19, Bangladesh Bank, vide BRPD circular no. 05, dated 16 May 2019, has issued a special policy on loan rescheduling and a one-time exit policy to address the issue of the long-standing bad loans which were affected due to adverse circumstances. Besides, to address the adverse impact of COVID-19 pandemic on the real sector as well as banking sector, Bangladesh Bank has relaxed loan classification and recovery policy[17] in CY20 which permits the banks not to classify new as well as rescheduled loans since the onset of COVID-19. As a result, the amount of loans rescheduled has decreased in CY20.

[15] Source: BRPD, BB. Provisional data has been used.

[16] Despite the loans being written off, the legal procedures against the defaulted borrowers continue and initiative persist by the banks for successful recovery of those loans.

[17] BRPD Circular No. 17 dated 28 September 2020.

CHART 2.18: RESCHEDULED LOAN RATIO TREND

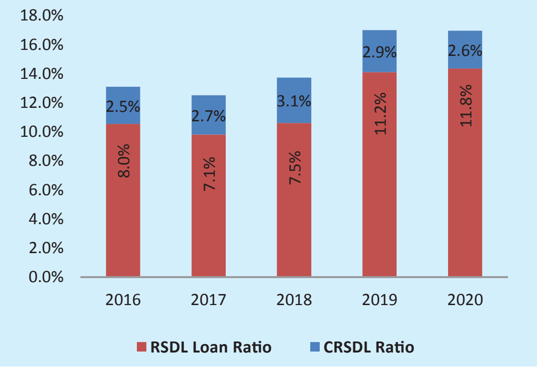
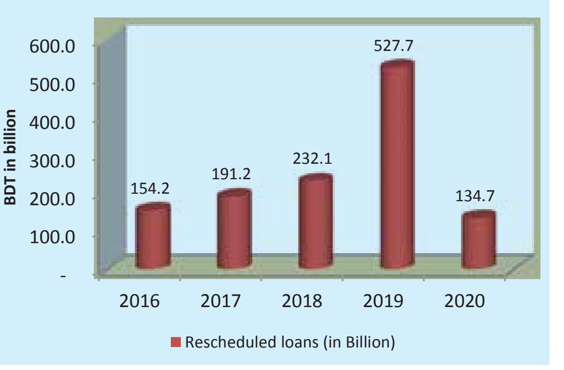


CHART 2.19: TREND OF RESCHEDULED LOAN



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

At the end-December 2020, the loans that had been rescheduled for at least once reached 14.4 percent of banking sector's total outstanding loans. Noteworthy that, 82.0 percent of that rescheduled loans remained unclassified. Chart 2.18 shows the trend of rescheduled loan ratio along with the portion of unclassified rescheduled loan (URSDL) ratio and the non-performing (or classified) rescheduled loan (CRSDL) ratio[18] of last five years. The graph reveals an upward trend of rescheduled loans in the banking system since 2017. In CY20, the total rescheduled loan ratio increased by 26 basis points from CY19. Notably, CRSDL decreased by 0.3 percentage point against the 0.6 percentage points increment observed in URSDL ratio during this review year.

Chart 2.19 shows the trend of classified loans, which were rescheduled in the past five years. In CY16, the total rescheduled loan was BDT 154.2 billion which stood at BDT 134.7 billion in CY20. Compared to CY19, rescheduled loans registered a decrease of 74.5 percent in CY20.

Chart 2.20 illustrates the sector-wise composition of rescheduled loans at end-December 2020. Rescheduled loans in the industrial sector (regardless of the size of the industries) were 31.1 percent while the percentage was 8.1 in the working capital category. RMG and textile sector accounted for 20.8 percent of the industry's rescheduled loans. Among the other loans categories, commercial loans, construction, other non-specified sectors (including ship-building and ship-breaking, transportation and communication and consumer credit, etc.) and foreign trade (export credit, import credit, and loans against trust receipts) shared 9.2 percent, 6.0 percent, 11.5 percent and 8.3 percent of the total rescheduled loans respectively.

CHART 2.20: SECTOR-WISE RESCHEDULED LOAN COMPOSITION

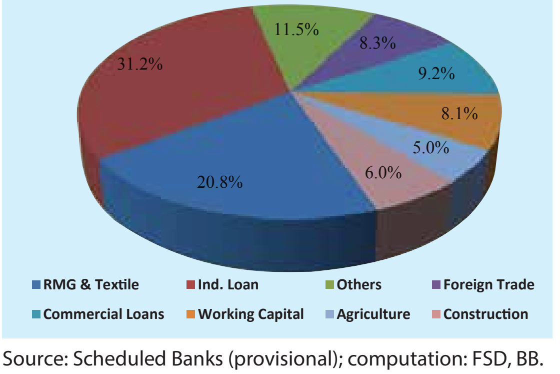
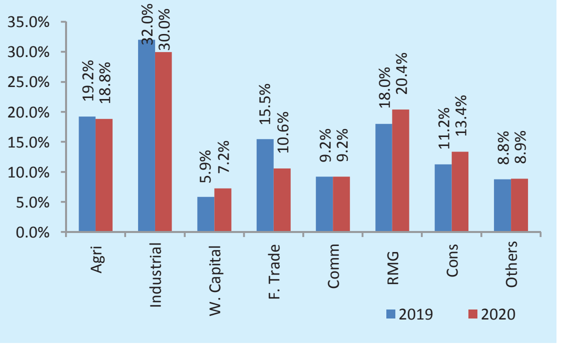


CHART 2.21: SECTOR-WISE RESCHEDULED LOAN RATIO



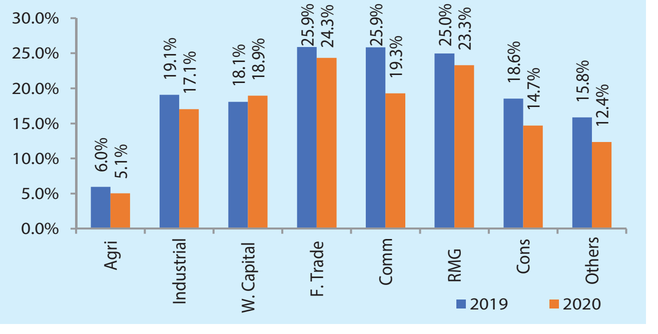
Source: Scheduled Banks (provisional); computation: FSD, BB.

[18] Rescheduled loan ratio= Total rescheduled loans to total loan outstanding; Unclassified loan ratio= total unclassified rescheduled loans to total loan outstanding; Classified loan ratio= total classified (non-performing) rescheduled loans to total loan outstanding.

The rescheduled loan ratio of the industrial sector ranked top among all the sectors (Chart 2.21) with 30.0 percent in CY20 followed by RMG, agricultural, construction and foreign trade sectors with 20.4, 18.8, 13.4 and 10.6 percent respectively. The rescheduled loan ratio in each of the remaining sectors was less than 10 percent.

Chart 2.22 demonstrates the sector-wise non-performing rescheduled loan ratio. Although 10.6 percent of foreign trade loans have been rescheduled, 24.3 percent of them remained non-performing. The non-performing rescheduled loans ratio of RMG, commercial, working capital, industrial and construction sectors were 23.3, 19.3, 18.9, 17.1 and 14.7 percent respectively. However, non-performing rescheduled loans in the agricultural sector was relatively lower (5.1 percent).

CHART 2.22: SECTOR-WISE NON-PERFORMING RESCHEDULED LOAN RATIO



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

Chart 2.23 exhibits the share of rescheduled loans to large, medium, small, and micro and cottage industries. As of December 2020, 61.0 percent of total rescheduled loans amounting to BDT 1016.1 billion was under large industries. Shares of medium, small, micro and cottage, and other industries were 14.3 percent, 8.3 percent, 2.1 percent and 14.2 percent respectively.

CHART 2.23: INDUSTRY-WISE RESCHEDULED LOAN COMPOSITION

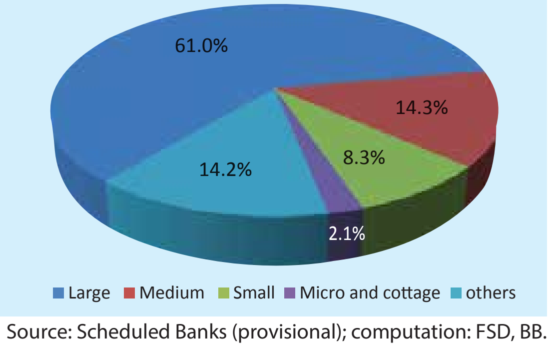
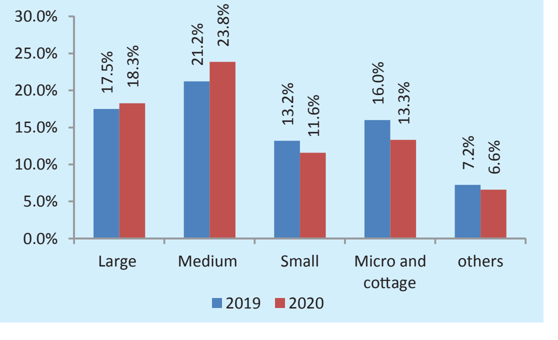


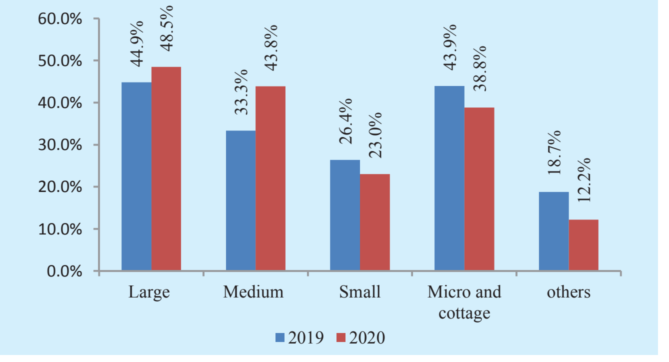
CHART 2.24: INDUSTRY-WISE RESCHEDULED LOAN RATIO



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

Chart 2.24 illustrates the industry-wise rescheduled loan ratio at end-December 2020. The highest rescheduled loan ratio was observed in medium industries with 23.8 percent followed by large, micro and cottage, small and other industries with 18.3, 13.3, 11.6, and 6.6 percent respectively. The ratios for large and medium were higher than the previous year while the ratios decreased for small, micro and cottage, and others industries in CY20.

CHART 2.25: INDUSTRY-WISE NON-PERFORMING RESCHEDULED LOAN RATIO



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

Chart 2.25 illustrates the industry-wise non-performing rescheduled loan ratio. Although only 18.3 percent of loans in large industries were rescheduled, 48.5 percent of these rescheduled loans remained non-performing. Non- performing rescheduled loans in medium industry was 43.8 percent followed by micro and cottage, small and other industries, which accounted for 38.8, 23.0, and 12.2 percent respectively.

At end-December 2020, PCBs possessed the highest amount of rescheduled loans, which accounted for 59.6 percent of total rescheduled loans of the banking industry. During the same period, shares of SOCBs, SDBs, and FCBs in industry's aggregate rescheduled loans were 35.6, 4.2, and 0.5 percent respectively (Chart 2.26).

CHART 2.26: BANK CLUSTER-WISE RESCHEDULED LOAN COMPOSITION

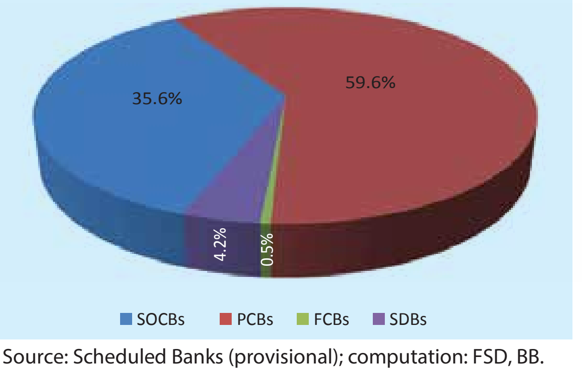
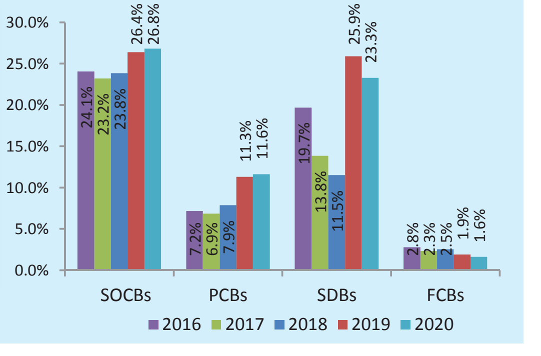


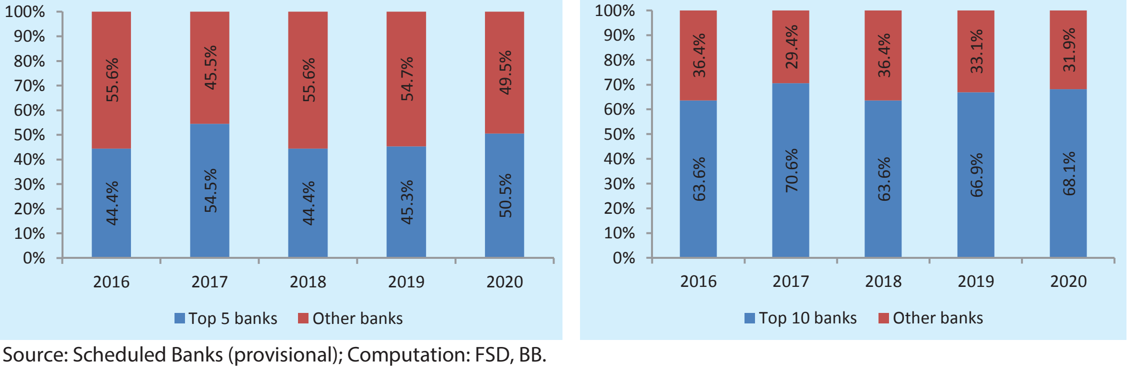
CHART 2.27: BANK CLUSTER-WISE RESCHEDULED LOAN RATIO



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

However, Chart 2.27 reveals that the SOCBs, at end-December 2020, ranked top with rescheduled loan ratio of 26.8 percent followed by SDBs with 23.3 percent. The ratios were 11.6 percent and 1.6 percent respectively for PCBs and FCBs. This ratio increased for all bank clusters except FCBs and SBs in 2020.

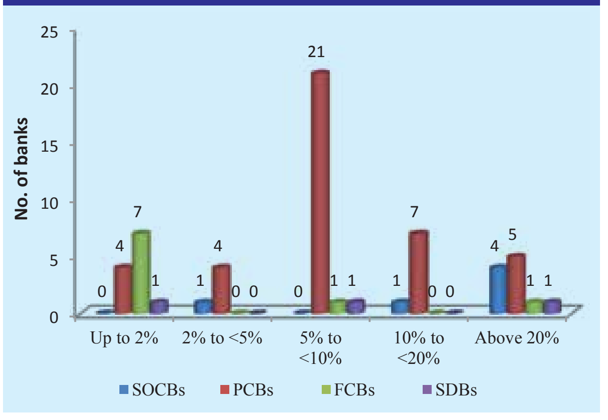
CHART 2.28: TOP 5 AND TOP 10 BANKS BY RESCHEDULED LOAN SIZE



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

Chart 2.28 highlights the concentration of outstanding rescheduled loans among the top 5 and top 10 banks. At end-December 2020, the top 5 banks held 50.5 percent of total outstanding rescheduled loans, while share of the top 10 banks was 68.1 percent. The top 5 banks comprised of two SOCBs and three PCBs and the top 10 banks included three SOCBs, six PCBs, and one SDB.

CHART 2.29: DISTRIBUTION OF BANKS BY RESCHEDULED LOAN RATIO



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

Chart 2.29 shows the distribution of banks by rescheduled loan ratio. The rescheduled loan ratio was between 5 to 10 percent for 23 banks of which 21 banks are PCBs. The ratio was within two percent for 12 banks, comprised of four PCBs, seven FCBs and one SDB. In CY20, 40 banks had rescheduled loans ratio below 10.0 percent and 19 banks had it above 10 percent ratio. However, in CY19, 39 banks had this ratio below 10 percent and 20 banks had it above 10 percent ratio.

Loan rescheduling, in accordance with BB's policies and guidelines, aims to facilitate distressed borrowers to sustain during their critical times. The ultimate objective is to provide the borrowers (assumed to have the potential) with the opportunity to revive and regain their earning capability. Despite the essence of prudent loan management, the accumulation of rescheduled loans in the banking system may eventually create pressure on the profitability and solvency of the banks. Therefore, rigorous monitoring and implementation of stringent measures for recovery of loans has utmost importance in minimizing downside risks in the entire banking system.

2.5 LIABILITY STRUCTURE OF THE BANKING SECTOR

At end-December 2020, the deposit growth rate (13.6 percent) exceeded the loan growth rate (8.4 percent) and the Off-balance sheet (OBS) to On-Balance sheet asset ratio decreased to 27.8 percent. To keep pace with the growth momentum and to ensure sustainable growth, banks should utilize their increased deposit base and extend credit to the thriving private sector.

At end-December 2020, the total liabilities of the banking sector stood at BDT 17,312.3 billion. Deposits, the major portion of total liabilities of the banking sector, grew steadily over the last couple of years. At end-December 2020, total deposits increased by 13.4 percent (11.3 percent in CY19). However, after netting off interbank deposit, deposit growth stood at 13.6 percent. Interbank deposit growth picked up marginally in CY20. BB's various policy supports and sizeable refinance schemes, reduction in CRR along with strong foreign remittance growth, and reduction in service charges on deposit products, among others, were some of the key reasons behind the rise in deposit growth during the review period amidst the COVID-19 pandemic. However, higher deposit growth provides banks with options for greater asset growth and also provides banks with enough cushions to manage their liquidity.

The share of total deposits to total liabilities at end-December 2020 stood at 81.5 percent which was 81.6 percent in CY19 (Chart 2. 30).

CHART 2.30: YEAR-WISE BANKING SECTOR LIABILITY STRUCTURE

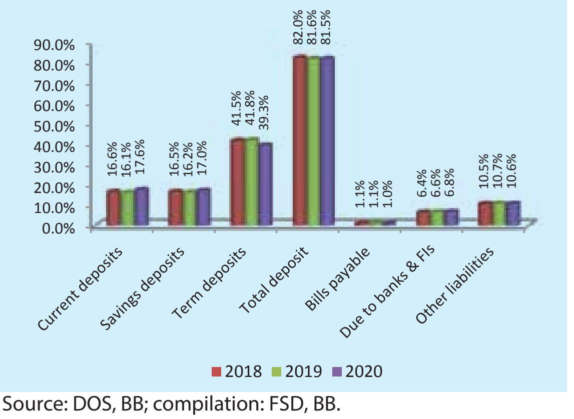
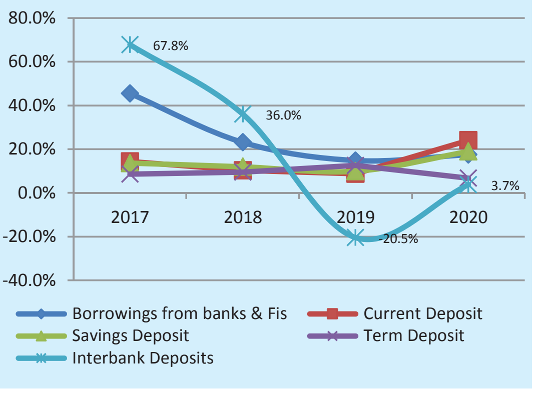


CHART 2.31: YEAR-WISE GROWTH OF DEPOSITS AND BORROWINGS FROM BANKS AND FIS (UPDATED CHART)



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

Among the various deposit categories, current deposits recorded the highest growth of 24.0 percent in CY20 (8.8 percent in CY19) while savings and term deposits grew by 18.9 percent (9.9 percent in CY19) and 6.7 percent (12.6 percent in CY19) respectively (Chart 2.31). Borrowings from banks and FIs grew by 17.5 percent (14.8 percent in CY19) whereas interbank deposit increased by 3.7 percent (-20.5 percent in CY19). It is also notable that all the major deposit segments surpassed the previous year's (CY19) growth except the growth in term deposits. Lower rate on term deposits may be the reason behind the slow growth in term deposits. As most of the banks had enough liquidity to finance their day-to-day operations, some of the banks invested the excess fund with other banks which resulted in positive growth in interbank deposits after a sharp fall in CY19. To promote investment and to continue the growth momentum in the country, banks should continue to strive for higher deposit collection at an affordable rate to support adequate credit supply and to avoid credit rationing in the future.

The deposit growth rate (excluding interbank deposits) exceeded the loan growth rate, which showed the positive gap between outstanding deposits and loans in CY20.

At end-December 2020, deposit growth (excluding interbank) stood at 13.6 percent, exceeded the loans growth (8.4 percent) like the CY19 (Chart 2.32). As a result, the gap between outstanding deposit and loans widened considerably to BDT 2,047.5 billion in CY20 from BDT 1,307.4 billion in CY19 (Chart 2.33). This improved liquidity scenario indicates that banking system had a reasonable amount of liquid fund to fulfill the growing loan demand. However, even with higher deposit growth, the loan growth of 8.4 percent indicates cautious stance of the banks. The slower loan growth could also be attributed to the sluggishness in overall investments in the country caused by outbreak of the COVID-19. In order to maintain profitability and utilize their extra liquidity, banks opted for secured alternative, i.e., increased investment in government securities. However, to keep pace with the growth momentum and to ensure sustainable growth, banks need to utilize their increased deposit base and ensure smooth credit flow to the thriving private sector.

CHART 2.32: YEAR-WISE LOANS AND DEPOSIT GROWTH

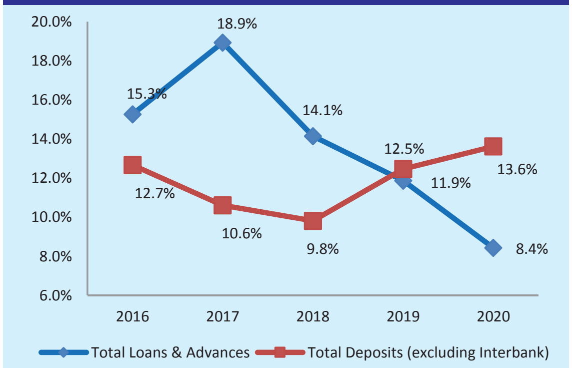
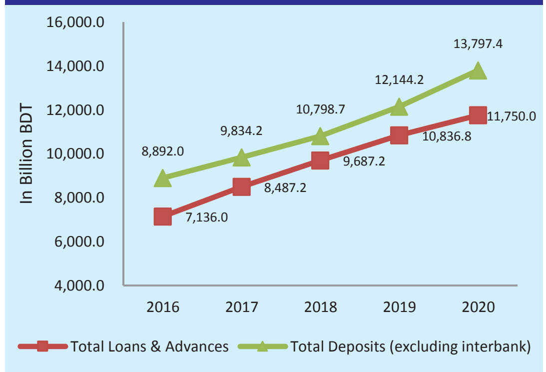
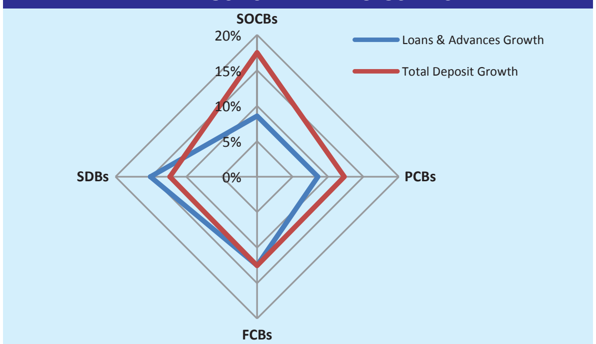


CHART 2.33: LOANS AND DEPOSITS OUTSTANDING



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

CHART 2.34: GROWTH OF LOANS AND ADVANCES AND DEPOSITS BY BANK CLUSTERS

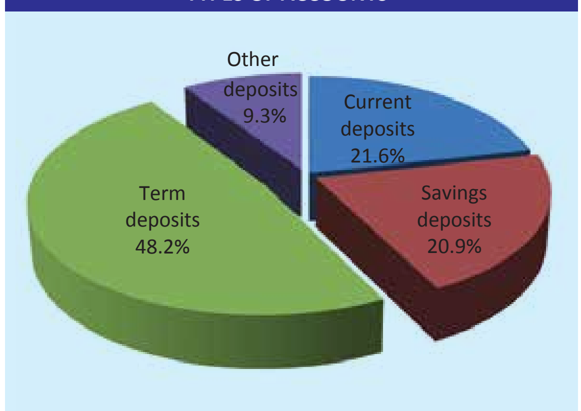


Source: DOS, BB; computation: FSD, BB.

Chart 2.34 compares the deposit and loan growth of four banking clusters in CY20. Only SDBs had lower deposit growth than loan growth, whereas other clusters had substantially higher deposit growth compared to loan growth. It seems that sluggish private investment caused by the ongoing pandemic and various containment measures relating the pandemic led to lower demand for loans and higher tendency to save.

At end-December 2020, the share of different kinds of deposits remained almost similar to those of CY19 (Chart 2.35). Term deposits constituted almost half of the total deposits. Its share decreased slightly to 48.2 percent in CY20 (51.2 percent in CY19). This might be due to lower interest rates provided by the banks compared to previous years. Shares of current deposits, savings deposits and other deposits were 21.6 percent, 20.9 percent and 9.4 percent respectively. Higher proportion of term deposits provides banks with more stable source of funding, thereby promoting financial stability.

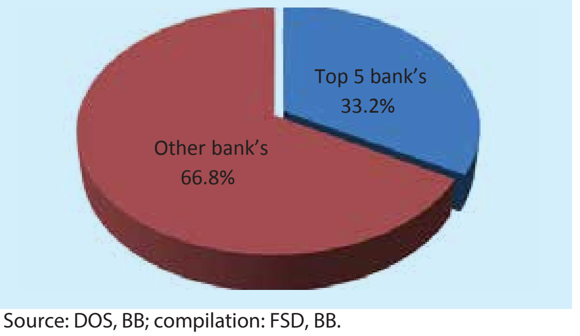
CHART 2.35: BANKING SECTOR'S DEPOSIT SHARE BY TYPES OF ACCOUNTS

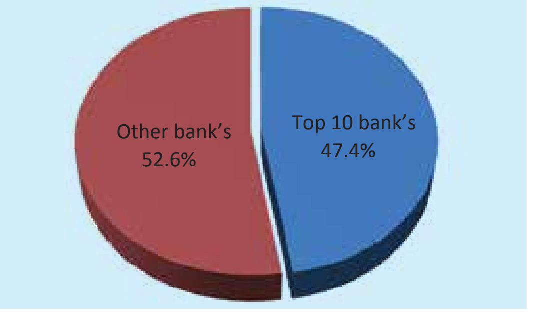


Source: DOS, BB; compilation: FSD, BB.

Concentration of deposits (excluding interbank) in the top five (5) and top ten (10) banks in CY20 increased compared to CY19 (Chart 2.36). These banks accounted for 33.2 percent and 47.4 percent of total deposits respectively during CY20, compared to 31.4 percent and 45.3 percent in CY19. Four (4) SOCBs and one (1) PCB were listed as the top five (5) in terms of deposit holding.

CHART 2.36: TOP 5 AND TOP 10 BANKS BASED ON SIZE OF DEPOSIT



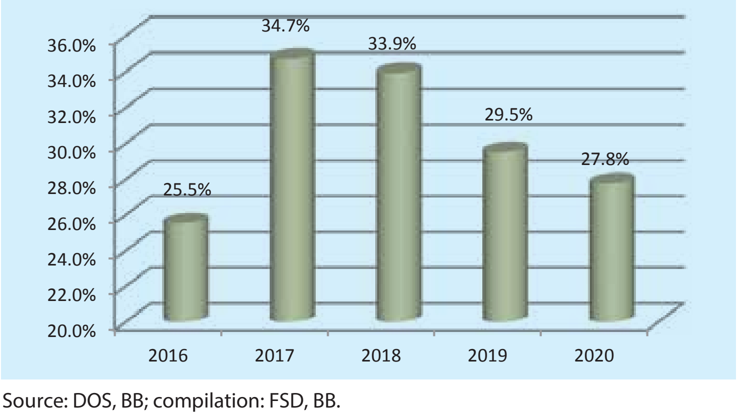


Source: DOS, BB; compilation: FSD, BB.

The off-balance sheet (OBS) asset to on-balance sheet asset ratio decreased in CY20 compared to that of the preceding year, which could be partly attributed to negative import growth in the review year. Lower OBS exposure might reduce the liquidity risk.

Financial stability risk might arise from off-balance sheet items as well, if it is not monitored properly. The aggregate balance of OBS items was on an increasing trend. The balance was BDT 5,111.9 billion at the end of CY20, which was BDT 4,808.0 billion at the end of CY19. But the OBS to on-balance sheet asset ratio demonstrated the decreasing trend since CY18. This ratio stood at 27.8 percent in CY20 which was 29.5 percent in CY19 (Chart 2.37).

CHART 2.37: OFF-BALANCE SHEET ASSET TO ON-BALANCE SHEET ASSET RATIO



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

Chart 2.37 exhibits that OBS exposures to the total asset ratio of the banking sector was a bit higher in CY17 and CY18, primarily due to rise in import financing. However, as the ratio declined notably in CY19 and CY20, the risks from OBS items seemed to be lower.

2.6 BANKING SECTOR DEPOSIT SAFETY NET

As per the existing law, every depositor will get an insurance coverage equal to the amount of his/her deposit but not exceeding BDT 100,000 in case of winding up of a bank. Under this coverage 91.0 percent of the total depositors are fully insured. However, 23.9 percent of the total deposits of the entire banking system are insured under Deposit Insurance Trust Fund (DITF) at end-December 2020.

Deposit insurance system (DIS) plays a crucial role in maintenance of financial stability by protecting depositors' interest, particularly small depositors have safety net of their deposits in case of closure or liquidation of a bank. It also helps to reduce the probability of bank runs by increasing public confidence in the banking system. The deposit insurance system in Bangladesh is now being administered by the "Bank Amanat Bima Ain, 2000". In accordance to the Act, Bangladesh Bank (BB) is authorized to carry out a fund called Deposit Insurance Trust Fund (DITF) and the Board of Directors of BB acts as the Trustee Board of the DITF. This fund is formed mainly with the premiums from its member banks and income accrued from investing it in different government securities. All the scheduled banks are members of this scheme and their premium rate is determined on the basis of their health. Under the existing deposit safety net program, maximum BDT 100,000 of each depositor is guaranteed in case of liquidation of a bank. In order to provide more protection to depositor's interest, a draft law named "Amanat Surakkha Ain" has been prepared and sent to the Ministry of Finance for finalization. In the draft law, a proposal for deposit insurance coverage limit from BDT 100,000 to BDT 200,000 along with inclusion of Non-Bank Financial Institutions (FIs) under the umbrella of DIS have been suggested.

The amount at the DITF reached BDT 101.15 billion at end-December 2020 which was almost double of the end-December 2016 and 15.6 percent higher than that of end-December 2019 (Table 2.4). Despite having steady progression of premium collection and investment income, the existing balance of DITF stood only 0.89 percent of the total deposits of the banking system at end-December 2020. The recent position of DITF is shown below:

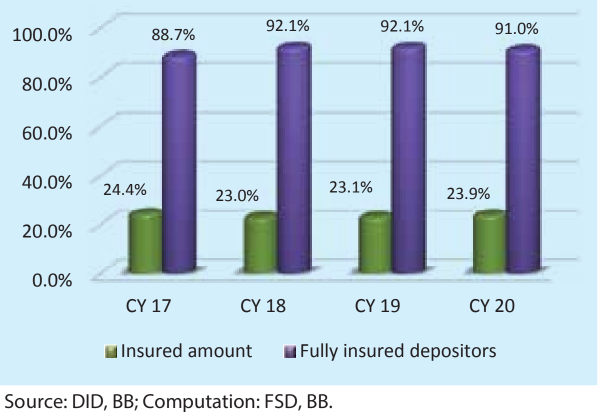
TABLE 2.4: DEPOSIT INSURANCE TRUST FUND AND ITS COMPOSITION

(Amount in Billion BDT)

Particulars	2016	2017	2018	2019	2020
Insurable Deposits	7918.17	8334.27	9051.76	10164.92	11343.97
Insurance Premium (during the year)	4.6	5.07	5.49	6.01	6.79
Deposit Insurance Trust Fund Balance	**53.74**	**64.02**	**74.28**	**87.48**	**101.15**
i. Investment	53.73	63.98	74.24	87.42	99.69
ii. Cash	0.0086	0.042	0.041	0.053	1.46

Source: DID, BB.

CHART 2.38: SAFETY NET ON BANKING SECTOR DEPOSITS

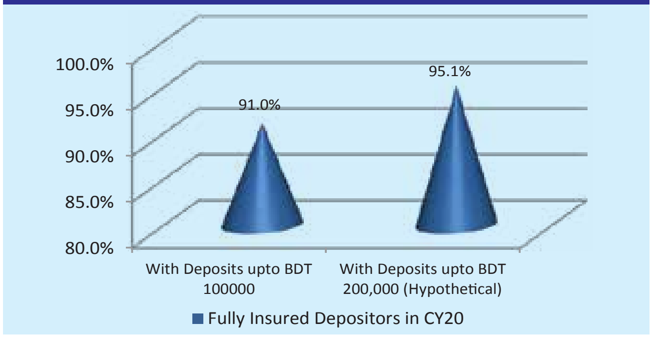


Source: DID, BB; Computation: FSD, BB.

The scenario of deposit safety net is illustrated in Chart 2.38. The insured amount[19] of total insurable deposits has increased slightly from 23.1 percent in CY19 to 23.9 percent in CY20. The insurable deposits with the banks grew 11.6 percent in CY20 whereas the growth was 12.3 percent in CY19. Importantly, 91.0 percent of the total depositors (depositors with deposit amount up to BDT 100,000) of the entire banking system are fully insured within this deposit insurance system which indicates a comprehensive deposit safety net for the small depositors.

[19] The insured amount refers to the aggregate figure considering the deposits up to BDT 100,000 per depositor of each bank.

CHART 2.39: PROTECTION OF DEPOSITORS ON ENHANCEMENT OF INSURED DEPOSIT COVERAGE LEVEL



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

Chart 2.39 shows the coverage of fully insured depositors considering the relevant existing and proposed Act. The percentage of fully insured depositors may increase to 95.1 percent of the total depositors if the deposit insurance coverage limit of per depositor is extended from BDT 100,000 to BDT 200,000.

Financial system in Bangladesh is mainly dominated by the banking sector. Under the deposit safety net program in Bangladesh, majority of the depositors (91 percent) are fully insured. However, it is expected that proposed Act will play a great role to enhance the deposit safety net program and thereby contribute to financial stability.

BOX 2.2: THE CAPACITY OF EXISTING DITF AND ITS FORECAST

The capacity of the DITF seems to be adequate in single bank liquidation. Chart B2.Y.1 and B2.Y.2 illustrate that the fund from the DITF will be enough to liquidate three PCBs chosen based on the highest gross non-performing loan (GNPL) ratio[20] in the banking industry at end-December 2020. Under the current insured deposit level using only 3.2 percent of the current balance. The current balance will also be sufficient if the insured deposit level is doubled.

Chart B2.2.1: Utilization of fund from DITF to liquidate three private commercial banks at current insurance level of BDT 100,000.

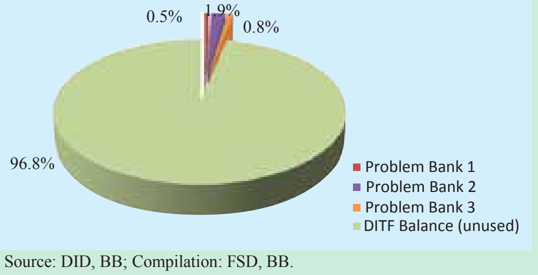
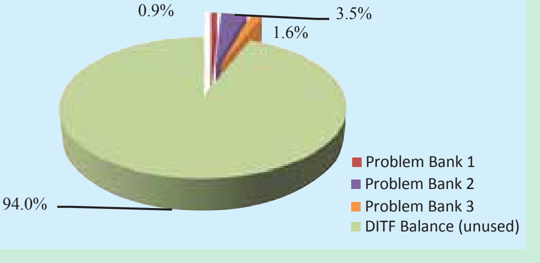


Chart B2.2.2: Utilization of fund from DITF to liquidate three private commercial banks at insurance level of BDT 200,000.



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

Chart B2.Y.3 illustrates that the DITF can compensate up to 35 small banks' insured deposits (up to BDT 100,000 per depositor) in the case of either single bank liquidation or a series of banks' liquidation. Here, the banks are arranged in an ascending order of their corresponding deposit size, irrespective of the category. However, a significant number of banks' depositors may not be fully compensated (hypothetical scenario) with the current balance of DITF due to the larger deposit bases of those banks.

Chart B2.2.3: Optimum number of small banks can be liquidated using fund from DITF.

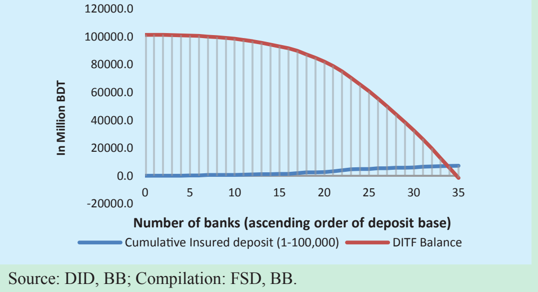
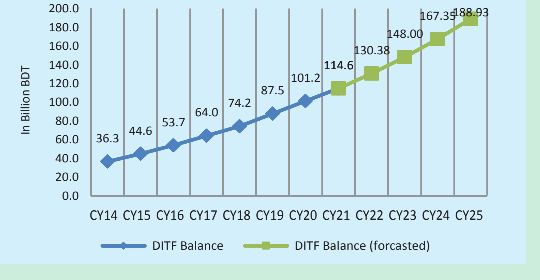


Chart B2.2.4: Forecasted Depositors' Safety Net in next 5 years (Billion BDT)



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

It worth mentioning that there is no history of bank liquidation in Bangladesh. After the incorporation of deposit insurance system in 1984, the DITF has grown over time, exceeding BDT 101.15 billion at end-December 2020. Assuming no bank failure and no requirement of fund for liquidation in next 5 years, the fund may reach BDT 189 billion in 2025.

[20] Gross NPL to total loans ratio.

2.7 BANKING SECTOR PROFITABILITY

Net profit after taxes of the banking sector declined in CY20 as compared to that of CY19.

Banking sector's operating profit[21] stood at BDT 256.1 billion in CY20 from BDT 278.4 billion in CY19, recording a 8.0 percent reduction from the previous year. Net profit decreased by 33.2 percent from BDT 69.8 billion in CY19 to BDT 46.6 billion in CY20. Though total non-interest income increased by 24.5 percent (i.e., BDT 73.5 billion), the net income decreased mainly due to reduction in interest income by 9.4 percent (i.e., BDT 93.84 billion) despite the improvement in asset quality in this review year. Ceiling on interest rate[22], adverse economic situation due to COVID-19 pandemic along with the restriction on charging interest on interest accrued[23] during COVID-19 period might be some key reasons of such reduction in interest income of the banks.

ROA and ROE of the banking industry decreased in CY20 as compared to those of CY19.

Both Return on Assets (ROA) and Return on Equity (ROE) of the banking industry declined in the review period. Despite the improvement in asset quality along with 13.0 percent growth in total assets, the net income decreased which led the ROA and ROE to fall down in the review period. The ROA of banking sector declined to 0.3 percent in CY20 from 0.4 percent in CY19 while the ROE declined to 4.3 percent from 6.8 percent in CY19.

CHART 2.40: BANKING SECTOR RETURN ON ASSET (ROA)

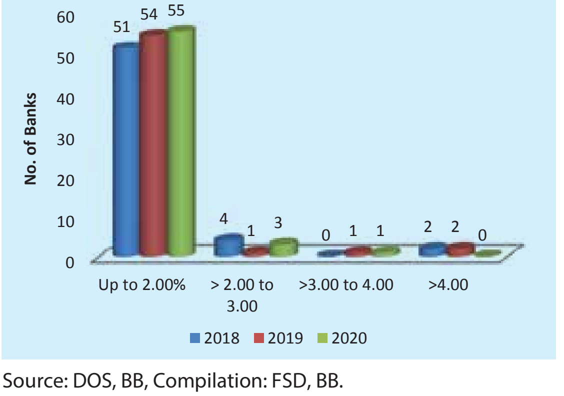
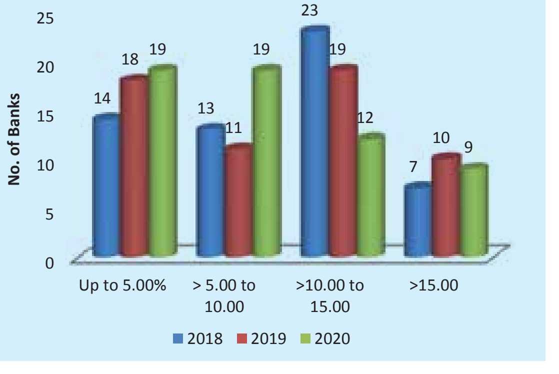


CHART 2.41: BANKING SECTOR RETURN ON EQUITY (ROE)



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

In the review year, ROA of 27 banks increased while it declined in 32 banks. Similarly, ROE also increased in 27 banks while it declined in 32 banks. Notably, 93.2 percent of the banks had ROA below 2.0 percent (Chart 2.40) and 64.4 percent of the banks had ROE below 10 percent (Chart 2.41).

In CY20, the overall Net Interest Margin[24] of the banking industry decreased to 1.4 percent from 2.1 percent in CY19.

Total interest income decreased substantially by 9.4 percent whereas the interest expense decreased marginally by 0.8 percent in CY20. On the other hand, non-interest income increased by 24.5 percent in the review year compared to the preceding year primarily driven by the rising investment income due to rapid accumulation of investment in the government securities.

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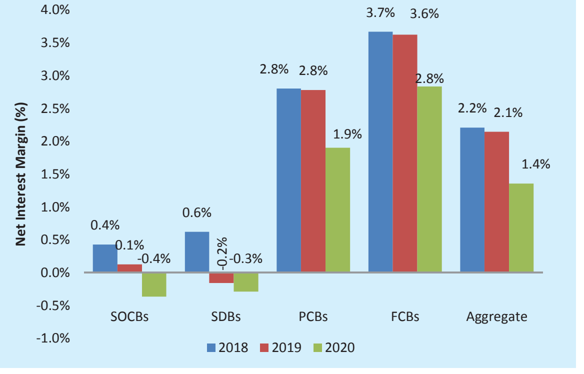
[21] profit before provision and tax.

[22] BRPD Circular No-3, Dated February 24, 2020.

[23] BRPD Circular No-17, Dated September 28, 2020.

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

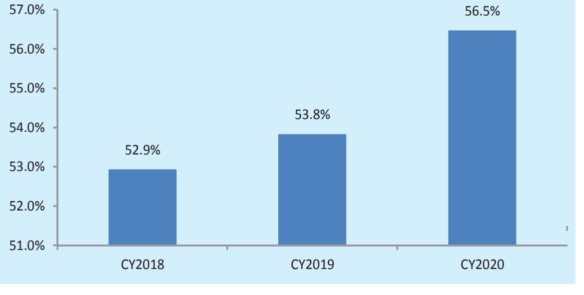
CHART 2.42: NET INTEREST MARGIN BY BANK GROUPS



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

The SOCBs experienced negative NIM in CY20 after having a positive NIM in CY19 whereas SDBs' NIM was negative for two consecutive years. The NIM of PCBs declined to 1.9 percent which was 2.8 percent in CY19. The NIM of FCBs also decreased for the second consecutive years and stood at 2.8 percent in CY20 (Chart 2.42). It is worth mentioning that the interest income for FCBs was much higher compared to their interest expense, whereas the interest income from loans barely exceeded interest expense on deposits for the SOCBs and SDBs. In aggregate, the industry's NIM stood at 1.4 percent in CY20 as compared to 2.1 percent in CY19.

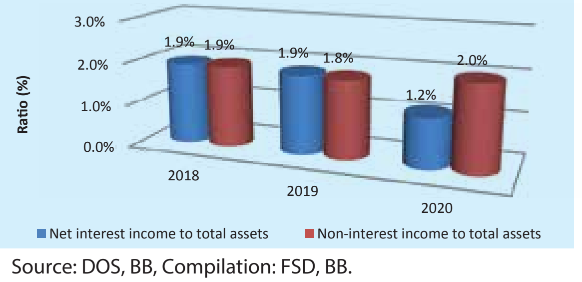
CHART 2.43: NON-INTEREST EXPENSE TO GROSS OPERATING INCOME RATIO



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

The ratio of non-interest operating expense to gross operating income[25] registered an increase of 2.7 percentage points from 53.8 percent in CY19 to 56.5 percent in CY20 (Chart 2.43). Although the growth in operating income decreased to 2.4 percent, non-interest expenses grew by 2.3 percent in review year.

CHART 2.44: BANKING SECTOR INCOME BY SOURCES



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

The ratio of net interest income to total assets decreased by 70 basis points in CY20 as compared to CY19. However, the ratio of non-interest income to total assets increased by 20 basis points from 1.8 percent in CY19 to 2.0 percent in CY20 (Chart 2.44).

[25] Gross Operating Income=Net Interest Income + Non-interest Income.

The interest rate spread narrowed by 90 basis points at end-December 2020 compared to that of end-December 2019.

The weighted average lending rate decreased from 9.7 percent in December 2019 to 7.6 percent in December 2020 while the weighted average deposit rate recorded a decrease from 5.7 percent to 4.5 percent during this period[26]. As a result, the weighted average interest rate spread for the banks narrowed from 4.0 percent in December 2019 to 3.1 percent in December 2020 (Chart 2.45).

CHART 2.45: BANKING SECTOR MONTHLY WEIGHTED AVERAGE OVERALL INTEREST RATE SPREAD

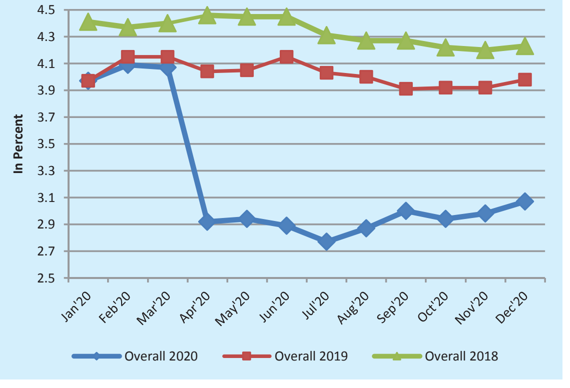
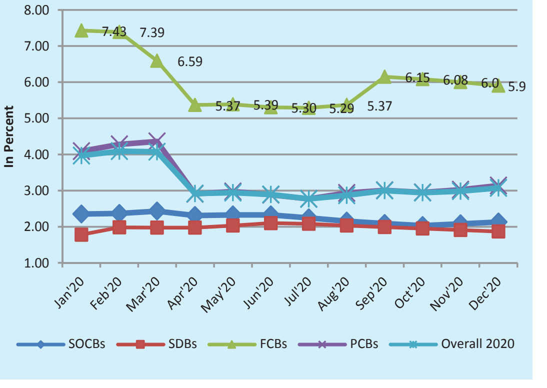


CHART 2.46: BANK CATEGORY-WISE MONTHLY WEIGHTED AVERAGE INTEREST RATE SPREAD FOR CY20



Source: Statistics Department, BB.

Chart 2.46 illustrates interest rate spreads for different categories of banks. As the Chart shows, the weighted average interest rate spread of the banking sector was hovering around 3.0 percent since the onset of COVID pandemic in Bangladesh. Spreads of SOCBs and SDBs were well below 3.0 percent while the spread of PCBs remained around 3.0 percent. The spread of FCBs continued to remain higher than other bank clusters as they were extending consumer finance and credit card operation with higher interest rate.

2.8 CAPITAL ADEQUACY

Although Tier-1 capital ratio[27] of the banking industry decreased slightly, capital to risk-weighted assets ratio (CRAR) remained unchanged at end-December 2020 like the previous period, yet remained well above the regulatory requirement. Improved capital position of PCBs and FCBs helped to keep overall CRAR of the industry steady during this period. Specially, increased income from government securities along with very small change in required specific provision due to temporary relaxation in loan classification policy resulted in higher net income which, in turn, increased capital base of PCBs and FCBs despite the decrease in interest income from loans. However, during this period, capital position of the SOCBs and SDBs deteriorated further and stayed below the minimum regulatory standard.

CRAR of the banking industry remained steady at 11.6 percent at end-December 2020 likewise to that of the previous period. Nevertheless, it was above the regulatory minimum capital requirement of 10.0 percent in line with the Basel III capital framework. The additional CRAR provides further resilience to banking sector to withstand the endogenous or

[26] The spread is generally a combination of many factors, such as, the level of competition in the banking sector, the amount of stressed loan, the managerial efficiency of financial intermediation process, and so on. Spread can fluctuate over time because of the overall level of interest-rate risk in the sector and movements in market interest rates.

[27] Refers to Tier-1 capital to risk-weighted assets ratio.

exogenous shocks. At end-December 2020, the number of CRAR-compliant banks increased to 49 from 48 of end-December 2019 as the CRAR of Probashi Kallyan Bank[28] entered into this list in the review period. Currently, 49 banks maintaining a CRAR of 10.0 percent or higher as of end-December 2020 constitute 72.4 percent share of total assets of the banking system (Chart 2.47). The asset share of the CRAR-compliant banks was slightly higher at 73.0 percent at end-December, 2019 (Chart 2.48). It depicts that the growth of total assets, and deposits of CRAR-non-compliant banks increased at a higher rate than those of the CRAR-compliant banking groups in CY20.

CHART 2.47: ASSET SHARE OF BANKS BY CRAR AT END-DEC 2020

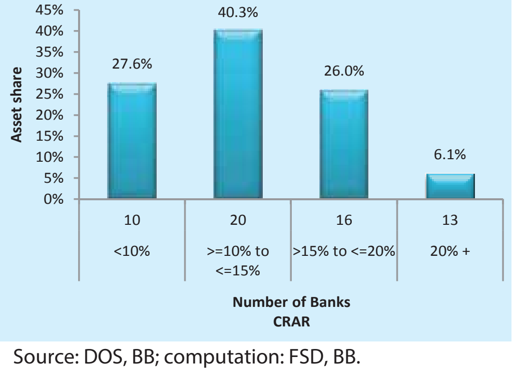
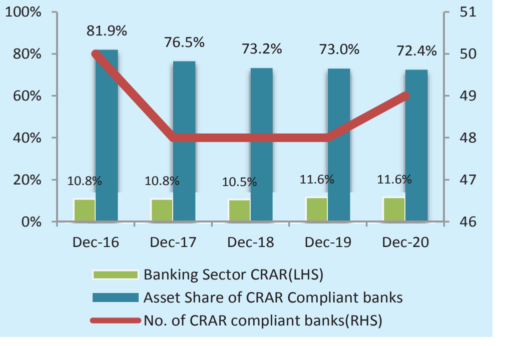
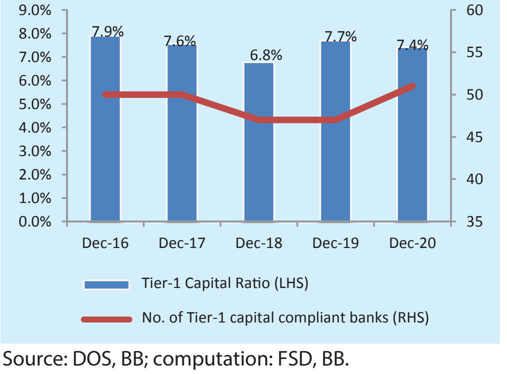


CHART 2.48: YEAR-WISE CRAR, CRAR COMPLIANT BANKS AND THEIR ASSET SHARE



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

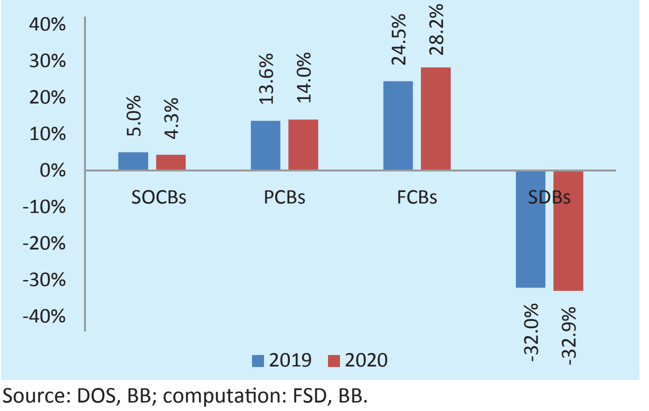
CHART 2.49: YEAR-WISE TIER-1 CAPITAL RATIO OF BANKS



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

Though the CRAR remain the same, the Tier-1 capital ratio, the core component of CRAR, of the banking sector declined marginally at end-December 2020 as the net income of the banking sector declined compared to previous year. Though decreased to 7.4 percent from 7.7 percent at end-December 2019, still the Tier-1 capital ratio was well above the regulatory minimum requirement of 6.0 percent as recommended by Basel Committee on Banking Supervision (BCBS). The number of Tier-1 capital compliant banks increased to 48 compared to 47 at the preceding period.

CHART 2.50: CRAR BY BANKING GROUP AT END-DEC 2019 AND 2020



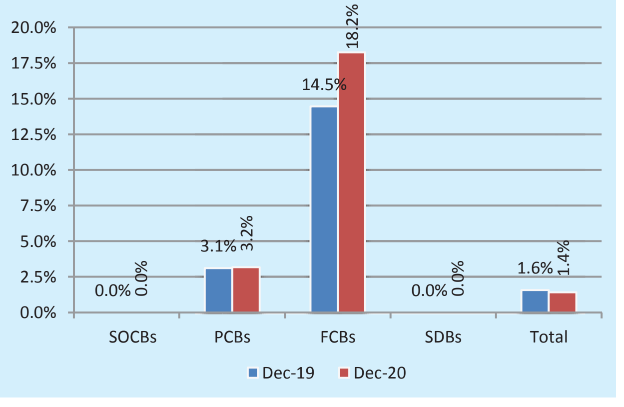
Source: DOS, BB; computation: FSD, BB.

Chart 2.50 presents a comparative analysis of CRAR of different banking groups. CRARs of SOCBs decreased by 70 basis points (bps) and that of PCBs increased by 40 bps from end-December 2019 and reached to 4.3 percent and 14.0 percent respectively at end-December 2020. Besides, the CRAR of FCBs increased considerably while the CRAR of SDBs deteriorated further and remained in negative territory. It is evident that the improved capital base of the PCBs and FCBs helped to sustain a healthy CRAR for the banking industry.

[28] Probashi Kallyan Bank has been scheduled as a specialized bank vide BB circular letter no. 16 dated July 30, 2018.

In line with the Basel III framework[29], banks are required to maintain a Capital Conservation Buffer (CCB) of 2.5 percent against the total risk-weighted assets in the form of common equity tier-1 (CET-1) capital above the regulatory MCR of 10.0 percent. Against this regulatory requirement, the banking industry maintained a CCB of 1.4 percent as of end-December 2020 (Chart 2.51). It was 1.6 percent at end-December 2019. Cluster-wise, SOCBs and SBs drew down the industry's CCB in the current period. However, during the review period, 40 out of 59 banks maintained the minimum required CCB while at end-December 2019, the number was 38 out of 58 banks.

CHART 2.51: CCB BY BANKING GROUP AT END-DEC 2019 AND 2020



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

Chart 2.51 shows that PCBs and FCBs maintained CCB above the minimum requirement as of end-December 2020. CCBs of both PCBs and FCBs increased at end-December 2020 and reached at 3.2 percent and 18.2 percent respectively. However, SOCBs and SDBs could not maintain CCB as they could not even meet MCR of 10.0 percent as cluster.

Taking the cross-country scenario into account (Table 2.5), the capital adequacy of Bangladesh's banking sector remained low compared to the ratios of neighboring countries as of end-December 2020.

TABLE 2.5: COMPARISON OF CAPITAL ADEQUACY OF THE NEIGHBORING COUNTRIES

Countries	CRAR (%)				
	2016	2017	2018	2019	2020
India	13.3*	13.9*	13.7*	15.1*	15.8*
Pakistan	16.2	15.8	16.2	17.0	18.6
Sri Lanka	15.6	15.2	15.1	16.5	16.5
Bangladesh	10.8	10.8	10.5	11.6	11.6

* Data as of end-September

Source: Financial Stability Report (various issues), Reserve Bank of India; Quarterly Compendium: Statistics of the Banking System, December 2020, State Bank of Pakistan; Soundness Indicators – Quarterly Financial Information, Central Bank of Sri Lanka; and DOS, BB.

2.9 LEVERAGE RATIO

Although all the banking groups experienced downward trend in leverage ratios[30], banking sector, as a whole, maintained a leverage ratio well above the regulatory minimum requirement led mainly by high leverage ratios of PCBs and FCBs. This indicates a better resilience of the banking sector to withstand probable systemic risks in future. However, weaker capital base of SOCBs remains a concern from financial stability's perspective.

[29] CCB requirement for banks in Bangladesh started from early 2016 in a phased-in manner and full implementation commenced in early 2019 with CCB requirement of 2.5 percent above the regulatory MCR of 10.0 percent.

[30] Leverage ratio = (Tier-1 capital after related deductions)/ (Total exposure after related deductions).

In order to restrict the build-up of excessive on- and off-balance sheet leverage in the banking system, the Basel III framework introduced a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital framework. Banking sector maintained a leverage ratio of 4.2 percent at end-December 2020 against the regulatory minimum requirement of 3.0 percent, which is 0.4 percentage point lower than 4.6 percent maintained at end-December 2019 (Chart 2.52). Most importantly, all the banking groups experienced declines in leverage ratios with respect to those of end-December 2019. FCBs maintained the highest leverage ratio of 12.7 percent followed by PCBs of 5.5 percent in the review year. SOCBs' leverage ratio was on the downward trend which stood at 0.6 percent compared to 1.2 percent recorded at end-December 2019; the ratio remained well below the minimum requirement at the end of the review period. Since SOCBs account for substantial banking sector exposures, their weaker leverage ratio raises concern for financial stability. Pertinently, the number of non-compliant banks in terms of leverage ratio remained identical in the review period (Chart 2.53).

CHART 2.52: YEAR-WISE LEVERAGE RATIO OF BANKS

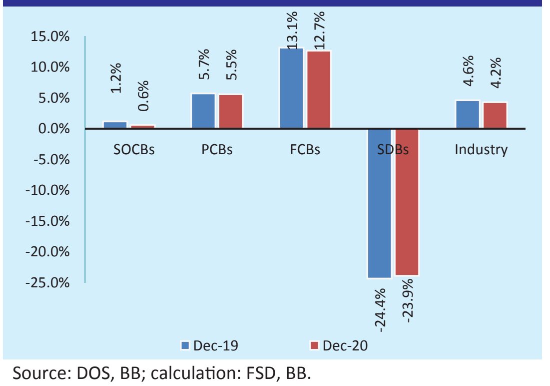
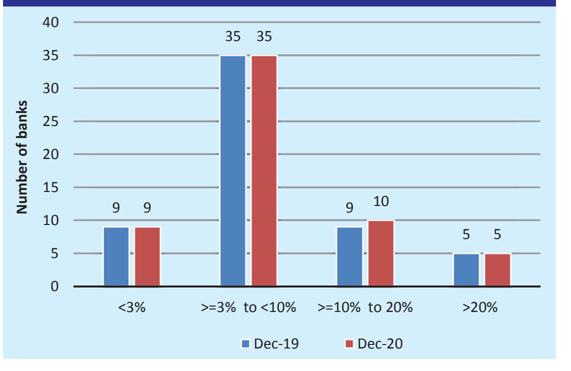


CHART 2.53: YEAR-WISE DISTRIBUTION OF BANKS' LEVERAGE RATIO



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

2.10 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

Bangladesh Bank (BB) is working for implementation of Internal Capital Adequacy Assessment Process (ICAAP)[31] along with the commercial banks as a step towards implementation of Pillar 2 of Basel III. BB advised the banks with a process document in 2014 to help evaluating their respective internal processes and strategies to ensure capital adequacy for covering all material risks. All schedule banks are instructed to prepare ICAAP reports annually and submit the same to BB along with supplementary documents while BB reviews and evaluates banks' ICAAP and associated strategies. Under ICAAP, banks need to calculate capital charges against various risks under Pillar II, e.g. residual risk, concentration risk, liquidity risk, reputation risk, strategic risk, settlement risk, appraisal of core risk management, environmental and climate change risk and other material risks. If a bank fails to produce their own ICAAP backed by proper evidence and rigorous review of their internal risk management process, BB applies prudence to meet up their pillar 2 requirement. BB also uses the information and observations found during SREP inspection conducted by the inspection departments of BB. Based on the ICAAP reports and SREP inspection as of December 2018; a series of bilateral meeting took place with 12 banks in between March 05, 2020 and March 19, 2020. Meetings with other 45 banks could not take place due to COVID-19 pandemic.

[31] ICAAP includes regulations of a bank's own supervisory review of its capital positions aiming to reveal whether it has prudent risk management and sufficient capital to cover its overall risk profile.

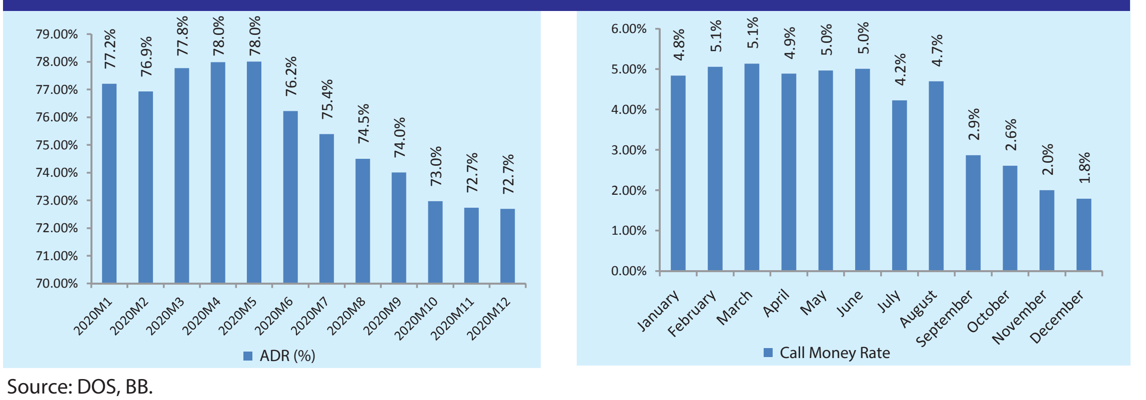
As per last ICAAP observation (base year 2018), 13 out of 57 banks were undercapitalized in terms of total capital requirement calculated under pillar I and pillar II of the Basel III accord. Moreover, with the experience of the last three years' meetings (base year of 2016, 2017 and 2018 respectively) with banks, it was found that the estimated additional capital requirement for residual risk was arisen mainly due to documentation error which constituted the highest among the pillar II risks. Apart from that, strategic risks and appraisal of core risks management were the other foremost concerns for the banks.

2.11 BANKING SECTOR LIQUIDITY

The liquidity situation in the banking industry appeared to be easing during CY20.

The banking sector's liquidity demonstrated an upward trend in CY20 compared to the preceding year as evident from the movement in the advance-to-deposit ratio (ADR) and call money borrowing rate. The ADR of the banking industry in aggregate decreased to 72.7 percent at end-December 2020 from 77.3 percent at end-December 2019 as the growth of deposits (excluding interbank deposits) outpaced the growth of loans and advances during the review year. Though up to May 2020, the ratio demonstrated an upward trend but after that it started declining and remained well below the allowable limit[32] set by BB till December 2020.

CHART 2.54 : MONTHLY ADR AND CALL MONEY BORROWING RATE



Source: DOS, BB.

As Chart 2.54 depicts, call money rate in the banking sector hovered within 4.0 percent to 5.0 percent till August 2020 and declined below 3.0 percent thereafter till the end of the year. In CY19, the rate ranged within 4.0 to 5.0 percent and remained in this band throughout the year. However, in CY20, as the liquidity started to increase primarily due to the reduction in CRR and high inflow of remittances, the call money rate started to fall and hit the lowest among last three years.

CHART 2.55: BANKS' CLUSTER-WISE ADR

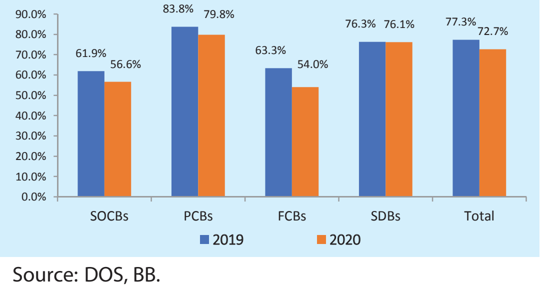
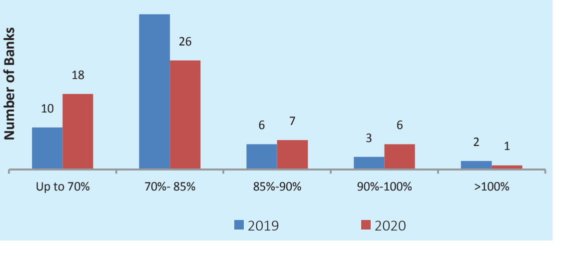


CHART 2.56: DISTRIBUTION OF BANKS IN TERMS OF ADR



Source: DOS, BB.

[32] Banks were instructed in April 2020 to rationalize their ADR within maximum 87.0 percent for conventional banks and 92.0 percent for Islamic Shari'ah based banks respectively (ref.: DOS Circular no.02 dated 12 April 2020).

Chart 2.55 exhibits that ADRs of all bank clusters decreased notably except the SDBs, ADR of which remained mostly unchanged. Among the clusters, PCBs maintained the highest ADR as usual. However, their ADR decreased by 4.0 percentage points in CY20 compared to that of the preceding year. In case of SOCBs and FCBs, such decline accounted for 5.3 and 9.3 percentage points respectively as the deposits growth in those cluster was much more prominent than the rests. Despite the plummet in overall ADR, the number of banks maintaining ADR more than 90.0 percent and above has increased to 7 (seven) in CY20 from 5 (five) in CY19 (chart 2.56).

Besides, all banking clusters as well as the industry as a whole maintained liquidity coverage ratio (LCR[33]) and net stable funding ratio (NSFR[34]) above the regulatory minimum requirement[35] throughout the CY20 (Chart 2.57 and 2.58). The industry average of LCR increased from 200.5 percent at end-December 2019 to 224.8 percent at end-December 2020 indicating sufficient liquidity in meeting up the short-term obligations for next 30 calendar days under hypothetical financial stress scenario. Among different clusters, SOCBs maintained the LCR of 360.0 percent on average throughout the CY20. On the other hand, the NSFR of the banking industry has slightly decreased from 111.2 percent at end-December 2019 to 110.1 percent at end-December 2020.

CHART 2.57: BANKS' CLUSTER-WISE MONTHLY LCR

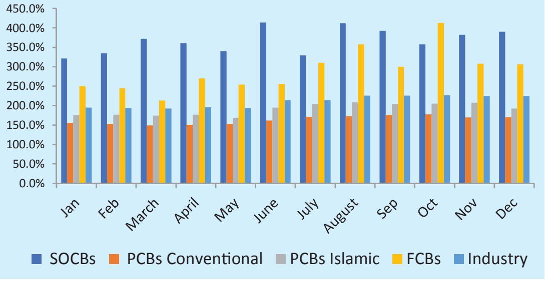
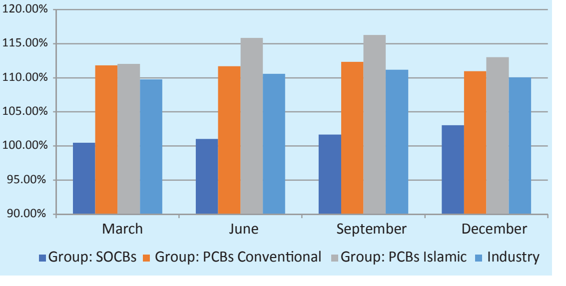


CHART 2.58: BANKS' CLUSTER-WISE QUARTERLY NSFR



Source: DOS, BB.

In addition, both conventional and Islamic Shari'ah based banks were able to maintain the minimum Cash Reserve Ratio (CRR) as of end-December 2020. Both types of banks were also compliant in fulfilling the Statutory Liquidity Ratio (SLR) of 13.0 percent and 5.5 percent respectively.

2.12 PERFORMANCE OF BRANCHES OF LOCAL BANKS OPERATING ABROAD

Among the Bangladeshi banks, two SOCBs and one PCB have extended their international banking services through operating 7 full-fledged overseas branches in different locations of the UAE and India. The operating performance as well as asset and liability situation of these branches deteriorated due to the ongoing pandemic. Apart from overseas branch banking, 22 Bangladeshi banks are providing foreign remittances, and trade and investment related services through exchange houses, representative offices and subsidiary companies abroad.

The cumulative net profit of the overseas branches in CY20 was USD 9.2 million which was USD 4.3 million lower than the previous year. The ongoing pandemic situation, since the beginning of 2020, has heavily affected the international trade and migrant employment

[33] LCR measures a bank's need for liquid assets in a stressed environment over the next 30 calendar days.
[34] NSFR measures a bank's need for liquid assets in a stressed environment over one year period.
[35] Minimum requirement: 100 percent for LCR; greater than 100 percent for NSFR.

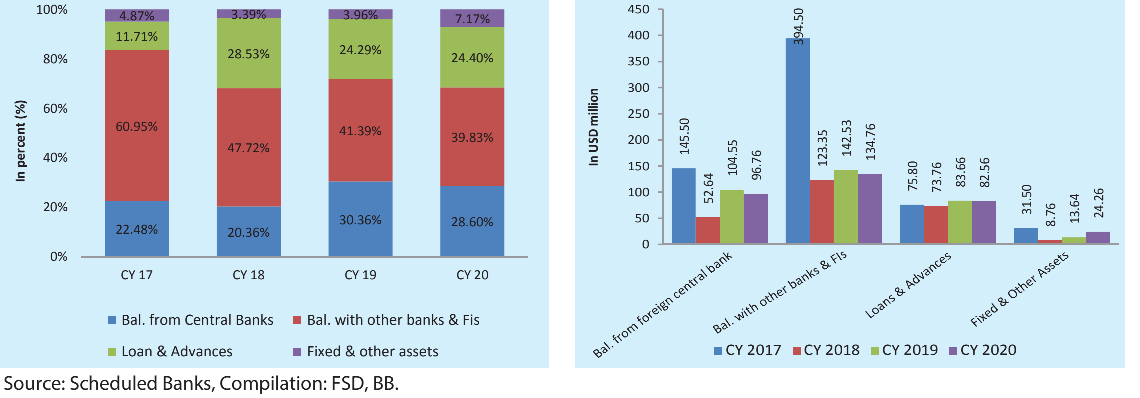
scenario which seemed to lead this downward performance of the overseas branches in CY20. In this review year, the customer deposit by overseas branches declined by 17.7 percent and stood to USD 223.3 million from USD 271.1 million of the previous year. Besides, loans and advances in CY20 stood at USD 82.6 million which was USD 1.1 million lower than the previous year.

2.12.1 ASSETS STRUCTURE OF OVERSEAS BRANCHES

Bangladeshi bank branches operating overseas observed a moderate decrease in total assets in CY20 than that of the previous year.

The accumulated asset of the overseas branches in CY20 was USD 338.3 million[36] or BDT 28.7 billion, which accounted for 0.2 percent of the total asset of the banking industry of Bangladesh. In CY20, the total asset of these overseas branches was 1.7 percent lower than the previous year. A slight reduction of 7.4 percent and 5.5 percent respectively in cash and balance from respective foreign central banks, and balance with other banks and FIs along with a notable escalation of USD 10.6 million in property, equipment and other assets have been observed in CY20.

CHART 2.59: CHANGE IN ASSET COMPOSITION OF BANK BRANCHES OPERATING IN ABROAD

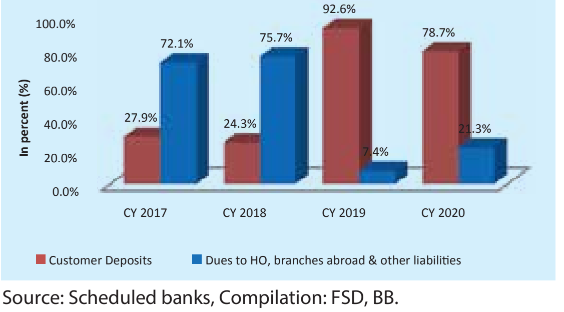


Source: Scheduled Banks, Compilation: FSD, BB.

2. 12.2 LIABILITIES STRUCTURE OF OVERSEAS BRANCHES

Total liabilities of the overseas branches decreased slightly in CY20 in comparison with CY19.

CHART 2.60: LIABILITIES COMPOSITION OF BANKS IN OPERATING IN ABROAD



Source: Scheduled banks, Compilation: FSD, BB.

Total liability of the overseas branches of Bangladeshi banks was USD 283.7 million in CY20 which was USD 9.2 million lower than the previous year. Customers' deposits, which consists of 78.7 percent of total liability in the review year was slashed by 17.6 percent equivalent to USD 47.7 million. However, the aggregated dues to head offices, branches abroad and other liabilities of these branches were almost tripled in the review year and stood at USD 60.4 million.

[36] Balances denominated in foreign currencies is translated into USD and recorded at the exchange rate as on 30 December 2020 from the January 2021 issue of Monthly Economic Trend, Bangladesh Bank.

2.12.3 PROFITABILITY OF OVERSEAS BRANCHES

The aggregate net profit of the overseas branches decreased in CY20 compared to CY19.

The aggregated net profit from the overseas branches during the review year is USD 4.3 million which is 53 percent lower than that of the previous calendar year. This significant reduction in net profit has led to decline the ROA of this banking segment during the review period. The ROA was 1.3 percent in CY20, which was 2.7 percent in CY19. The overseas branch operation in the UAE constitutes almost 83 percent of the total overseas profit.

2.12.4 RISKS FROM OVERSEAS BANKING OPERATION

Despite the moderate performance of the overseas branches, continuous monitoring is required to ensure that these branches are properly complying with the regulations imposed by the regulatory authority of both home and host countries.

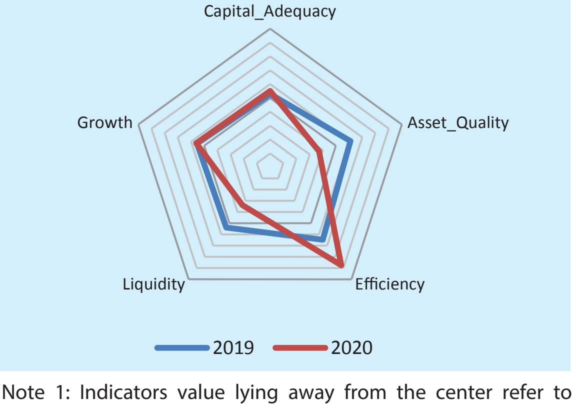
Operation of overseas bank branches is generally exposed to various risks including non-compliance to laws and regulations of host countries and changing macro-financial conditions of those countries. Any materialization of such risks can put significant stress on overseas branches' financial positions and may affect the parent banks' financial states. However, as of December 2020, the overall banking and financial activities of the overseas branches were not sizeable enough to create any systemic risks on the accounts of their parent banks in Bangladesh.

2.13 ISLAMIC BANKING

Islamic banking in Bangladesh has been attaining marked growth and strong market demand over the period. The Shari'ah-based banking system is receiving growing attention with its 'equity-based and interest-free' banking philosophy. Besides, this segment of banking industry has been able to increase its market share over time through innovation and product diversification. Currently, a total of 8 (eight) full-fledged islamic banks with 1311 branches are operating in the banking sector of Bangladesh (as of end-December, 2020). Besides, 9 (nine) conventional banks operating 19 islamic banking branches and 14 conventional banks operating 198 islamic banking windows are providing islamic banking services.

Chart 2.61 shows the snapshot of overall performance of islamic Banks in terms of capital adequacy, asset quality, efficiency, liquidity and growth indicators of last two years. Compared to CY19, the performance of islamic Banks in CY20 improved in terms of asset quality and liquidity indicators. Growth in total assets especially in investments and increased surplus provision contributed to decreasing gross non-performing investments (i.e., NPL in common term) and net NPL ratio respectively; thereby improving the asset quality indicator of this sector. Liquidity situation improved as stock of high quality liquid assets in terms of total net cash outflows over the next 30 calendar days

CHART 2.61: PERFORMANCE MAP OF ISLAMIC BANKING END-DECEMBER 2020



Note 1: Indicators value lying away from the center refer to higher risk.
Note 2: Excluding islamic banking branches/windows of conventional banks.
Source: DOS, BB; computation: FSD, BB.

increased while the advance-to-deposit (ADR) ratio decreased. Nonetheless, reduction in investment income and non-investment income caused ROA to fall which drove down the efficiency parameter compared to CY19[37].

Though CRAR showed an upward trend in CY20, decline in leverage ratio kept the capital adequacy indicator almost in the same position of the map as observed in CY19. On the other hand, slow growth in capital or shareholders' equity compared to investments, deposits, and total led the growth indicator to remain almost in same point found in FY19.

2.13.1 GROWTH OF ISLAMIC BANKING

Except in profit, islamic banks experienced a steady growth in terms of assets, liabilities, deposits, investments (loans and advances)[38], and shareholders' equity in CY20 compared to the previous year.

Islamic banking growth parameters are presented in terms of total investments (loans and advances), deposit, liabilities, assets, net profit, and shareholders' equity as illustrated in Charts 2.62 and 2.63.

CHART 2.62: TRENDS OF ISLAMIC BANKING INVESTMENT, DEPOSITS, LIABILITIES, AND ASSETS

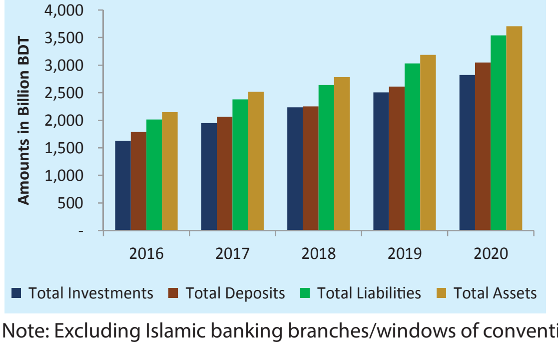
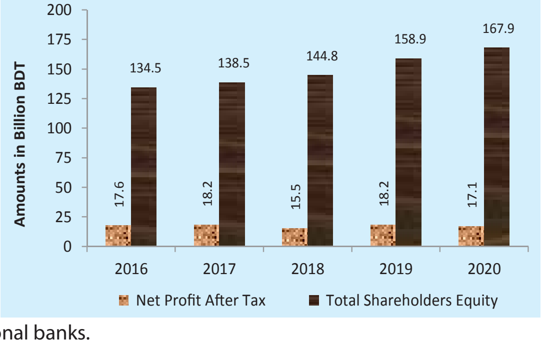


CHART 2.63: TRENDS OF ISLAMIC BANKING NET PROFIT AND EQUITY



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

In CY20, islamic banks' investments (loans and advances) grew by 12.5 percent (12.3 percent in CY19), deposit increased by 16.8 percent (15.9 percent in CY19), liabilities grew by 16.8 percent (14.8 percent in CY19), shareholders' equity increased by 5.7 percent (10.1 percent in CY19) and the overall assets increased by 16.3 percent (14.5 percent in CY 19). However, net profit decreased by 6.0 percent in CY20. Compared to the overall banking industry, higher growth was observed in islamic banks in terms of investments, deposits and total assets.

2.13.2 MARKET SHARE OF ISLAMIC BANKS

As of end-December 2020, more than one-fifth of the banking sector assets were held by eight islamic banks. Out of 8(eight) islamic banks, top 4(four) banks jointly held 14.7 percent of total assets of the banking sector.

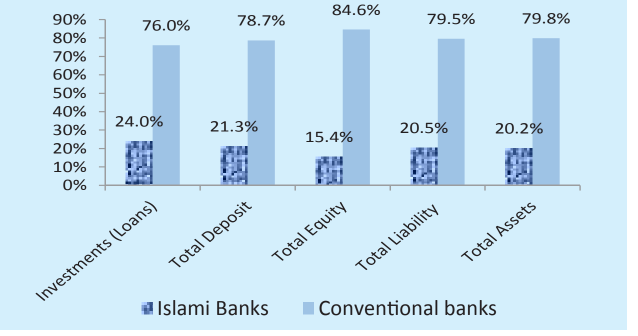
Chart 2.64 shows the aggregate market share of islamic banks in terms of total investments, deposits, liabilities, equity, and total assets.

The aggregate market share of islamic banks in CY20 (excluding Islamic banking branches/windows of conventional banks) has been increased compared to those in CY19. At

[37] Plausible reasons for reduction in investment and non-investment incomes are explained in section 2.13.5 in details.
[38] According to Islamic Shari'ah based banking loans and advances are termed as investment.

end-December 2020, islamic banks possessed 20.2 percent (19.6 percent in CY19) of total assets, 21.3 percent (20.6 percent in CY19) of total deposits and 20.5 percent (19.8 percent in CY19) of total liabilities of the overall banking system. Share of investments (loans and advances) was 24.0 percent, experiencing a slight increase compared to CY19 while the share of equity marginally declined from 15.6 percent in CY19 to15.4 percent in CY20.

CHART 2.64: MARKET SHARE OF ISLAMIC BANKS AND THE CONVENTIONAL BANKS IN CY20



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

2.13.3 CAPITAL POSITION OF ISLAMIC BANKS

Under the Basel-III risk-based capital adequacy framework of Bangladesh, the minimum requirement of Capital to Risk-weighted Assets Ratio (CRAR) is 10 percent. At the end of CY20, the aggregate CRAR of the islamic banks reached to 12.7 percent from 12.4 percent in CY19.

CHART 2.65: AGGREGATE CRAR OF ISLAMIC BANKS

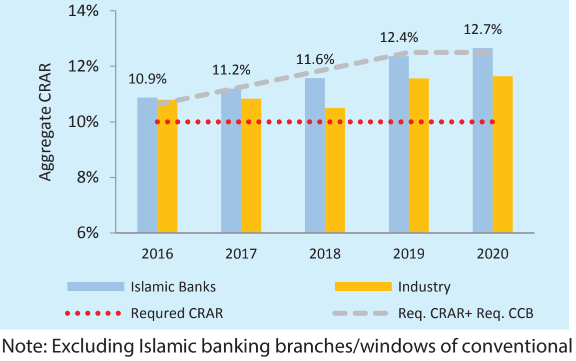
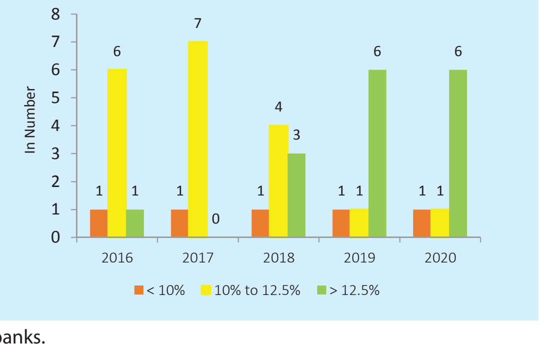


CHART 2.66: DISTRIBUTION OF ISLAMIC BANKS IN MAINTAINING CRAR



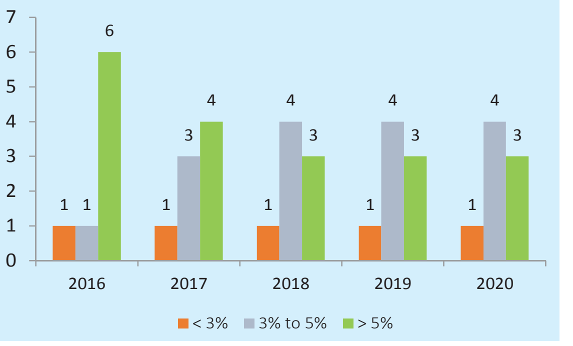
Note: Excluding Islamic banking branches/windows of conventional banks.
Source: DOS, BB; computation: FSD, BB.

Chart 2.65 presents the historical trend of aggregate CRAR of islamic banks along with the banking industry from CY16 to CY20. The aggregate ratio has been gradually improving and showing an upward trend.

Chart 2.66 shows the number of banks maintained the CRAR in different ranges. In CY20, 1(one) out of 8(eight) islamic banks maintained CRAR between 10 to 12.5 percent while 6(six) banks had more than 12.5 percent, enabling them to maintain 10 percent MCR and 2.5 percent CCB together. However, the CRAR of only 1(one) Islamic bank remained below the MCR of 10.0 percent since long and currently operating under a reconstruction scheme.

CHART 2.67: AGGREGATE LEVERAGE RATIO OF ISLAMIC BANKS

CHART 2.68: DISTRIBUTION OF ISLAMIC BANKS IN MAINTAINING LEVERAGE RATIO



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

Chart 2.67 presents trend of the aggregate leverage ratio of islamic banks[39]. The leverage ratio of islamic banks declined marginally to 4.2 percent in CY20 from 4.4 percent in CY19, but it remained over the minimum requirement of 3.0 percent. However, the number of islamic banks maintaining the leverage ratio at or above the required level remained the same as in the last three years (Chart 2.68).

2.13.4 ASSET QUALITY OF ISLAMIC BANKS

Islamic banks showed a better performance compared to the conventional banks in terms of both classified investments to total investments ratio and net classified investments to total investment ratio in CY20. However, the unclassified rescheduled investment to total investments ratio increased slightly in CY20 from the previous year.

Chart 2.69 demonstrates comparison on gross classified investments (GNPL), net classified Loans/investments (NNPL) and unclassified rescheduled loans/investments (URSDL) from CY19 to CY20 within islamic banks and between islamic banks and banking industry. All the three indicators, GNPL ratio, NNPL ratio, and URSDL ratio showed better performance of islamic banks as they remained below the industry level in both periods. The GNPL and NNPL ratios of Islamic banks declined in CY20 from the previous period while the URSDL ratio increased during the same period.

CHART 2.69: CLASSIFIED INVESTMENT, NET CLASSIFIED INVESTMENT AND RESCHEDULED LOAN (CY19 & CY20)

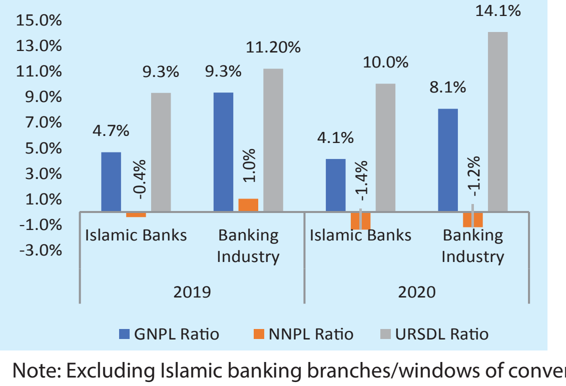
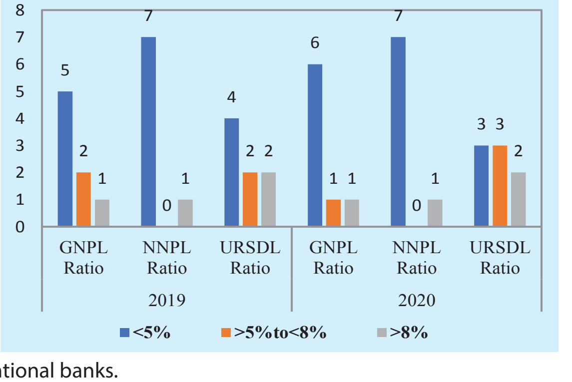


CHART 2.70: DISTRIBUTION OF ISLAMIC BANKS BY GNPL NNPL AND URSDL RATIO (CY19 & CY20)



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

[39] The leverage ratio is as important as CRAR since CRAR is a risk-weighted measure and leverage ratio is a non-risk-weighted measure. The leverage ratio is introduced in Basel III to reduce the built up of excessive leverage which was an underlying cause of great financial crisis. The overall leverage ratio used here to indicate whether the excessive leverage is being built up by Islamic Banks compared to banking industry. The distribution of the ratio is used to show whether the distribution is symmetrical or positive or negatively skewed.

Chart 2.70 shows the distribution of GNPL ratio, NNPL ratio and URSDL ratio of Islamic banks in the last two years. It shows that in CY20, 6(six) out of 8(eight) banks had GNPL ratio below 5.0 percent, rest 2(two) banks had GNPL ratio of more than 5.0 percent. In CY19, the number was five in less than 5 percent category and three in more than 5 percent category. For NNPL ratio, seven banks were able to maintain the NNPL ratio below 5.0 percent in both years. In CY19, four banks had their URSDL ratio more than 5.0 percent while in CY20, the number has increased to five.

2.13.5 PROFITABILITY OF ISLAMIC BANKS

Though the return on assets (ROA) and return on equity (ROE) of islamic banks were higher than the industry average, both have declined in the review year compared to the previous year as income from investments and non-interest income declined and interest and non-interest expenses increased.

Alongside the overall banking sector's profitability, the net income of islamic banking cluster has also been affected by COVID-19 pandemic and decreased by 6.3 percent in CY20 while it had an 17.3 percent increase in CY19. They could not mobilize normal credit recovery due to regulatory relaxation in loan recovery during the COVID period, which might lower their profit from reinvestment of otherwise recovered loan.

The chart 2.71 shows the comparative illustration of ROAs of Islamic banks and banking industry of last five years. Though cyclical in nature, ROAs of islamic banks and banking industry are gradually declining since 2016, which is a matter of concern. In 2019, the islamic banks contributed 23.9 percent of total industry net income (profits). In 2020 such contribution increased to 32.4 percent. However, the ROA of the islamic banks declined to 0.5 percent in 2020 from 0.6 percent in 2019.

CHART 2.71: ISLAMIC BANKING SECTOR RETURN ON ASSET (ROA)

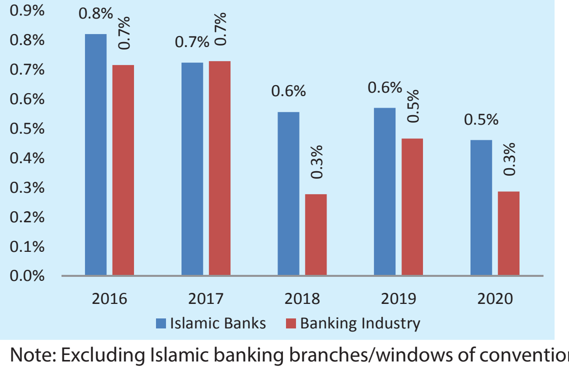
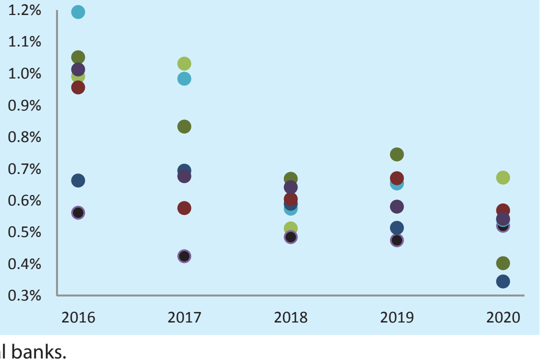
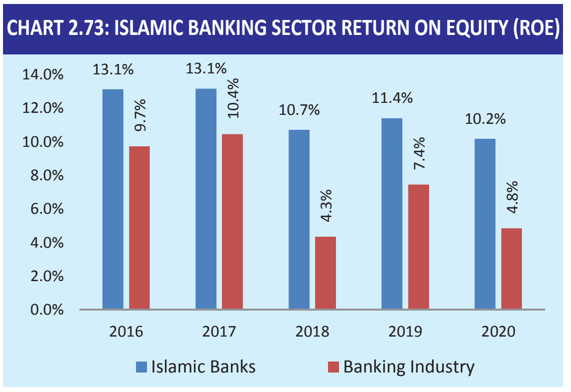


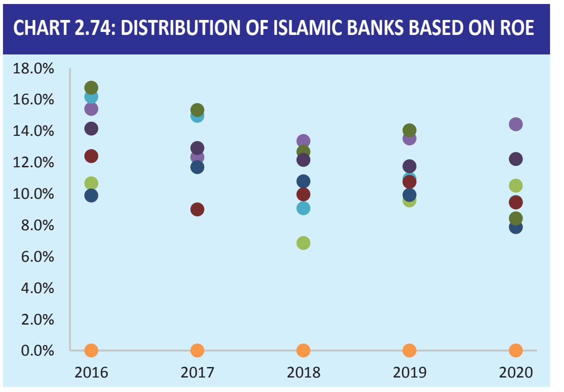
CHART 2.72: DISTRIBUTION OF ISLAMIC BANKS BY ROA



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

Chart 2.72 demonstrates the distribution of bank-wise ROA of islamic banking cluster. Out of 8 (eight) islamic banks, 3 (three) banks were able to make modest increase in their ROA in the review year while 4 (four) banks experienced a decline in this parameter and the rest one failed to generate any profit in 2020.





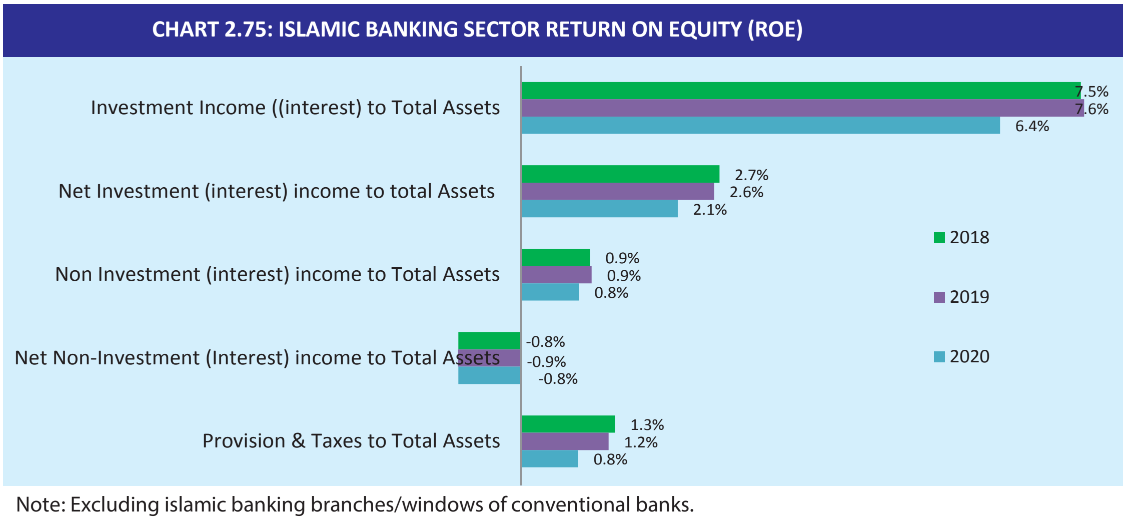
Note: Excluding Islamic banking branches/windows of conventional banks.
Source: DOS, BB; computation: FSD, BB.

Like ROA, the ROE of the islamic banking sector also declined in 2020 (Chart 2.73). In CY19, the ROE of islamic banking sector was 11.4 percent whereas in CY20, such return declined by 120 basis points and reached to 10.2 percent. However, compared to ROE of the banking industry, ROE of islamic banks remained relatively stable.

In the review year, ROE of only 3 (three) islamic banks have increased while 4 (four) banks faced deterioration in this parameter. The rest one failed to generate any profit against their equity (Chart 2.74).

Chart 2.75 shows the components of islami banks' income which gives some insight on declining ROA and ROE in the review year. From the chart, it has been observed that the investment income to total assets and non-investment income to total assets both declined compared to those of the previous year. Net investment (interest) income to total assets also declined, highlighting narrower investment income spread compared to previous year. This might be due to ceiling on investment income (interest income) given by Bangladesh Bank from April, 2020[40].

On the other hand, non-investment income to total assets ratio of islamic banks was only 0.8 percent as compared with the industry average of 1.8 percent, representing a lower income from off-balance sheet (OBS) transactions, services, and fee based incomes.



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

[40] Please refer to BRPD circular No. 03, dated February 24, 2020.

2.13.6 ISLAMIC BANKS' LIQUIDITY

In CY20, islamic banks maintained adequate liquidity to meet up their regulatory requirements of Cash Reserve Ratio (CRR) and Statutory Liquidity Requirement (SLR). They also kept Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) in line with Basel III standard. In addition, IDR (ADR) is also found within the regulatory limit.

As per the section 36(1) of Bangladesh Bank Order, 1972 (amended in 2003), every scheduled bank has to maintain a certain portion of their demand and time liabilities with the Bangladesh Bank. The rate is determined based on the objective of monetary policy pursued by Bangladesh bank from time-to-time. To ensure sufficient liquidity in the money market during the current pandemic, Bangladesh Bank has decreased the Cash Reserve Ratio (CRR) to 3.5 percent on daily basis and 4.0 percent on bi-weekly basis in 2020[41]. In this review year, islamic banks consistently maintained (on daily basis) CRR to 3.48 percent.

Islamic banks also maintained SLR, as a requirement of Section 33, sub-section 2 of Bank Company Act 1991, amended in 2013, at 5.5 percent in the review year. It is mentionable that islamic banks are allowed to maintain their statutory liquidity requirement (SLR)[42] at a concessional rate compared to that of the conventional banks, as Shari'ah-compliant SLR eligible instruments are not widely available in the market.

In addition to maintaining CRR and SLR as regulatory requirements, banks have to maintain two additional liquidity ratios known as Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), recommended by Basel committee under the Basel III guideline to ensure sufficient liquidity in meeting their short-term and long-term obligations respectively. Under the LCR, bank has to maintain an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for 30 calendar days under hypothetical financial stress scenario. The value of this ratio must be at least 100.0 percent, meaning that the stock of high-quality assets maintained by bank must be at least as large as the expected total net cash outflows over the 30-days stress period. On the other hand, The NSFR aims to limit over-reliance on short-term wholesale funding during times of abundant market liquidity and encourage better assessment of liquidity risk across all on- and off-balance sheet items. The minimum acceptable value of this ratio is 100 percent, indicating that available stable funding should be at least equal to required stable funding.

Chart 2.76 shows that islamic banks were able to maintain the minimum required level of LCR throughout the reporting period. Islamic banks maintained LCR of 192.7 percent, a bit lower than the industry average of 224.8 percent in 2020. However, LCR of islami banks at end-CY20 improved significantly compared to that of at end-CY19.

[41] BB has re-fixed the CRR at 3.5 percent on daily basis and 4 Percent on bi-weekly average basis effective from 9th April 2020 (MPD Circular No. 03, dated 9th April 2020).

[42] Refer to MPD Circular No. 02, dated-10/12/2013, and MPD Circular No. 01, dated-23/06/2014.

CHART 2.76: LCR MAINTAINED BY CONVENTIONAL BANKS AND ISLAMIC BANKS

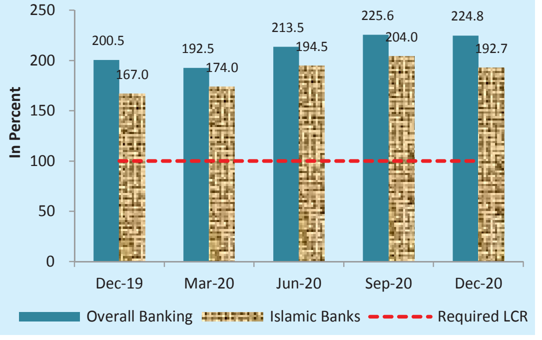
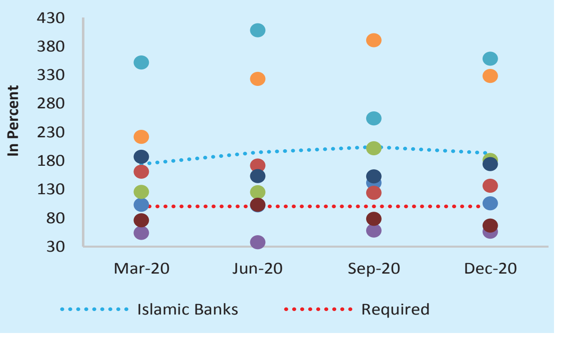


CHART 2.77: ISLAMIC BANK-WISE LCR MAINTENANCE SCENARIO



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

The Chart 2.77 shows the distribution of Islamic banks in terms of maintaining the LCR in last four quarters. Out of eight Islamic banks, six banks maintained more than 100.0 percent of LCR.

CHART 2.78: NSFR MAINTAINED BY CONVENTIONAL BANKS AND ISLAMIC BANKS

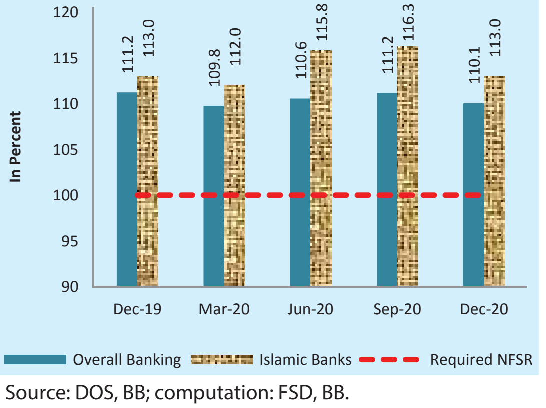
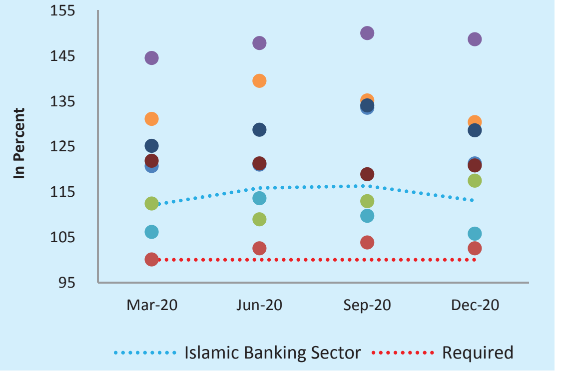


CHART 2.79: ISLAMIC BANK-WISE NSFR MAINTENANCE SCENARIO



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

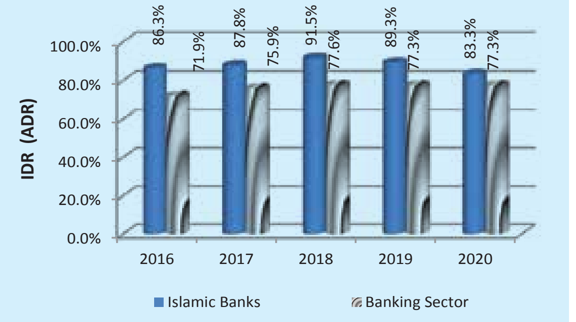
In case of NSFR (Chart 2.78), islamic banks were able to maintain 113.0 percent, which is higher than the industry average of 110.1 percent in the review year. However, compared to NSFR at end-CY19, no notable change was found in NSFR at end-CY20.

Chat 2.77 demonstrates that number of islamic banks along with their trend in maintaining NSFR. Out of 8 (eight) banks, only 1 (one) bank failed to maintain the ratio at required level. It is also mentionable that 5 (five) banks were able to maintain the ratio above the average value of islami banks cluster.

The aggregate Investment-Deposit Ratio (IDR) of islamic banks was 83.3 percent at end-CY20 against the permissible level of 92.0 percent. It was 89.31 percent at end-CY19.

Chart 2.80 demonstrates that the IDR of the islamic banks was 83.3 percent, which was higher than that of the overall banking industry. It is mentionable that islamic banks are allowed to accommodate more investment than conventional banks as they have the advantage to maintain relatively lower amount of SLR.

CHART 2.80: IDR (ADR) OF ISLAMIC BANKING AND THE OVERALL BANKING SECTOR



(Excluding Islamic branch & Windows of conventional banks)
Source: DOS, BB; computation: FSD, BB.

CHART 2.81: DISTRIBUTION OF ADR (IDR) OF ISLAMIC BANKS

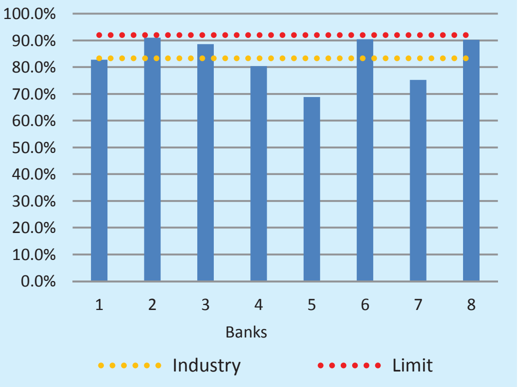


Chart 2.81 shows the distribution of IDR (ADR) of islamic banks at end-CY20, which suggests that no islamic bank has crossed the permissible level of IDR (ADR) in the review year.

2.13.7 REMITTANCE MOBILIZATION BY THE ISLAMIC BANKS

Islamic banks in Bangladesh collected and mobilized 32.4 percent of the total wage earners' remittances during CY20. However, such remittance collection is highly concentrated as one islamic bank alone mobilized 24.6 percent of total inward remittances received by whole banking sector and 75.9 percent of total inward remittances received by all islamic banks.

Like conventional banks, islamic banks also play an important role in channeling foreign remittance to the local beneficiaries across the country. In CY20, the total inward foreign remittance was BDT 1,845.0 billion, of which BDT 597.5 billion was collected and distributed by the islamic banks. During the period, the total remittances collected and distributed by banking sectors increased to 19.4 percent. For islamic banks, such growth was 34.1 percent (Chart 2.82).

CHART 2.82: SHARE OF REMITTANCES COLLECTED BY THE ISLAMIC BANKS

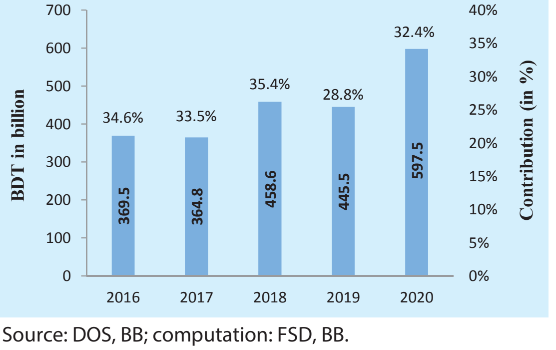
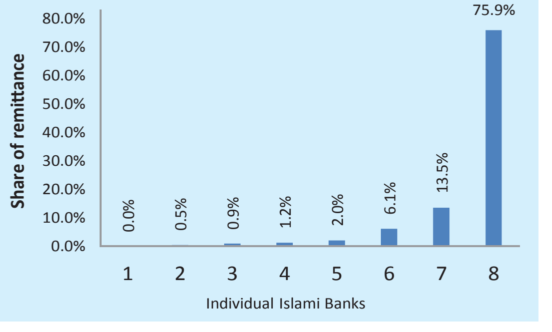


CHART 2.83: REMITTANCES COLLECTION BY INDIVIDUAL ISLAMIC BANK IN 2020



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

Chart 2.83 shows that out of 8 (eight) islamic banks, only one islamic bank collected and mobilized 75.9 percent of total inward remittances received by all islamic banks together. The 3 (three) largest recipients of remittance were able to collect more than 95.0 percent together and the remaining 5 (five) banks received less than 5.0 percent jointly (Chart 2.83).

2.14 PERFORMANCE OF NEW BANKS

As of end-December 2020, the market share of 12 new banks, with respect to total banking industry assets, reached 4.9 percent. Loans and advances constituted 69.2 percent of assets of these banks. The Gross NPL ratio decreased from 9.5 percent in CY19 to 7.8 percent during the review year.

A total of 12 new private banks entered into the banking system during 2013-20. Out of those, one (01) is offering Shari'ah-based banking, another one (01) is providing specialized banking services and the other ten (10) are providing conventional banking services. At end-December 2020, the aggregate assets of these banks accounted for 4.9 percent of the total banking industry assets while the same was 4.8 percent at end-December 2019. The share of loans and advances of the new banks rose to 5.4 percent of the overall industry's loans and advances at end-December 2020 which was 5.1 percent at the end of the preceding year. Loans and advances constituted the largest proportion of assets of these banks and the proportion was comparatively higher than the banking industry as a whole. At end-December 2020, loans and advances constituted 69.2 percent of the total assets of these banks, which was 71.7 percent at end-December 2019. This ratio was 63.8 percent for the overall banking industry in 2020.

The quality of assets of these banks at end-December 2020 appeared to be better as their gross NPL ratio was lower (7.8 percent) compared to the industry NPL ratio of 8.1 percent. The gross NPL ratios of these banks and the banking industry as a whole were 9.5 percent and 9.3 percent respectively at end-December 2019.

All the new banks except one have successfully maintained the required provisions at end-December 2020. The ratio of provision maintained by the new banks to their required provision was 100.1 percent whereas the same for the industry was 99.8 percent as at end-December 2020.

CHART 2.84: COMPARISON OF ROA AND ROE IN 2020

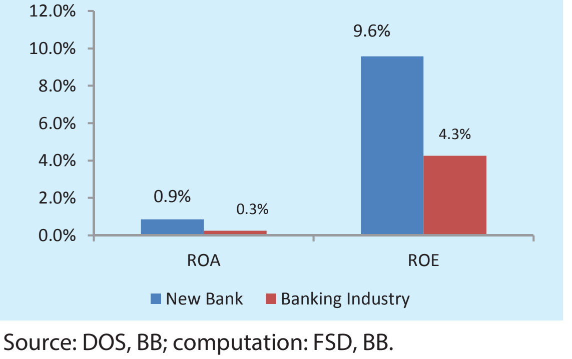
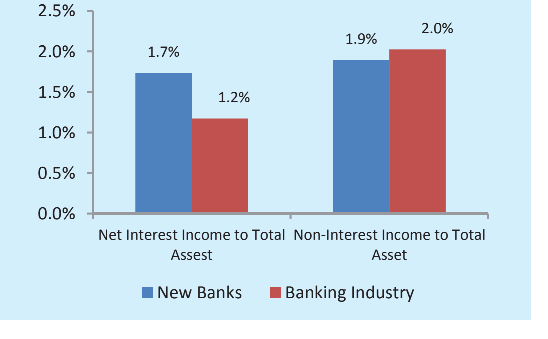


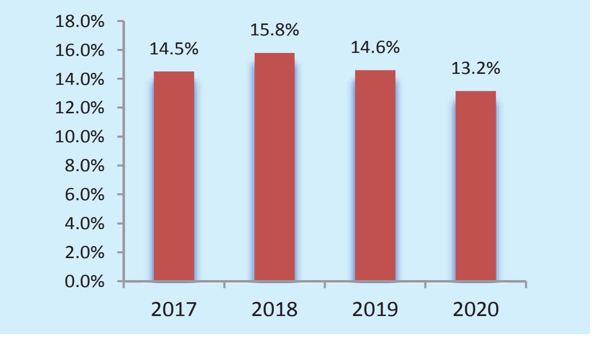
CHART 2.85: COMPARISON BY SOURCES OF INCOME IN 2020



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

It appears from Chart 2.84 that the ROA of the new banks (0.9 percent) was much higher than that of the banking industry (0.3 percent) in CY20. Except one (01) bank, the profitability trend of new banks was in a good condition. The ROE of new banks increased from 2.10 percent in CY19 to 9.6 percent in CY20, which was much higher than the industry ROE of 4.3 percent. The net interest income to total assets of the new banks was higher whereas non-interest income to total assets was lower than the industry average (Chart 2.85).

CHART 2.86: CRAR OF NEW BANKS



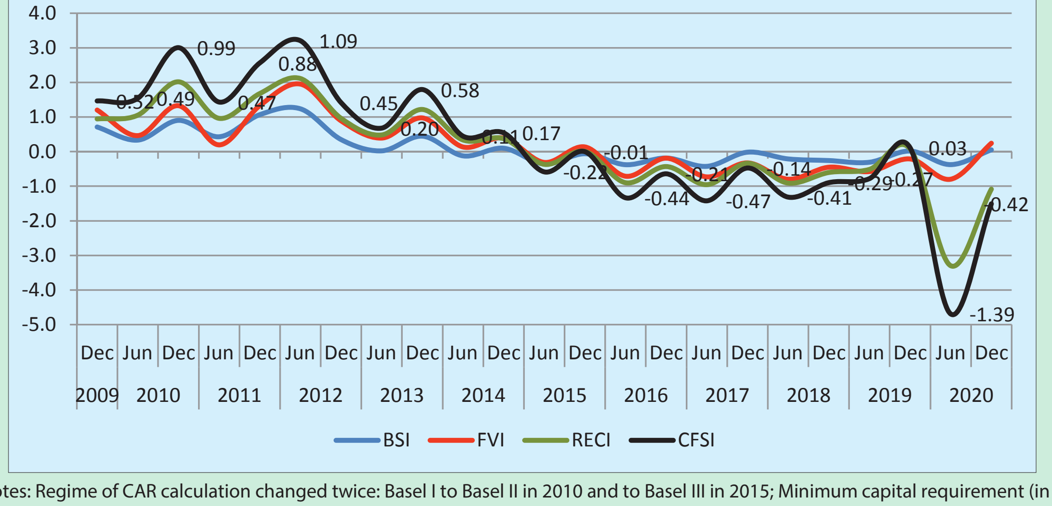
Source: DOS, BB; computation : FSD, BB.

In CY20, the capital to risk-weighted assets ratio (CRAR) of the new banks (13.2 percent) was higher than the industry CRAR (11.6%) and also higher than that of other categories of banks except foreign banks operating in the industry (Chart 2.86). It is to be mentioned here that all the new banks except one have been successful in maintaining the minimum required CRAR.

BOX 2.3: COMPOSITE FINANCIAL STABILITY INDEX (CFSI): DECEMBER 2020

Composite financial stability index (CFSI)[43] is used to measure the stability situation of a financial system as well as to monitor build up of systemic risk in the macro-financial system. More specifically, this is a tool developed to measure the volatility in the overall financial system. It is an aggregated form of eighteen different indicators under three sub-indices–Banking Soundness Index (BSI), Financial Vulnerability Index (FVI), and Regional Economic Climate Index (RECI)[44]. Using semi-annual data, this index has been updated regularly on a half-yearly basis. In this current version, movement of CFSI has been plotted for the period spanning December 2009 to December 2020[45].

CHART B2.3: COMPOSITE FINANCIAL STABILITY INDEX (CFSI)



Notes: Regime of CAR calculation changed twice: Basel I to Basel II in 2010 and to Basel III in 2015; Minimum capital requirement (in amount) for banks increased (BDT 2 billion in 2007 and BDT 4 billion in 2011); From June 2013, base year of CPI changed (from 1995-96=100 to 2005-06=100).

[43] See FSR 2017 (pp. 46-47) for methodology used to prepare CFSI.

[44] See FSR 2019 (pp. 147-148) in Appendix L for the list of indicators used in CFSI.

[45] See FSR 2017 (pp. 46-47) for discussions before December 2009.

BOX 2.3: COMPOSITE FINANCIAL STABILITY INDEX (CFSI): DECEMBER 2020 (Contd.)

The CFSI shows that the financial system of Bangladesh at end-December 2020 had a downward trend as opposed to a stable trend observed for the period from June 2015 to December 2019. The CFSI turned around in December 2020 compared to June 2020 due to strong measures by the Government of Bangladesh as well Bangladesh Bank to uplift the economy during COVID-19 pandemic. Consequently, BSI and FVI showed positive impacts and CFSI is still below zero line due to negative economic growth and negative CPI inflation of major trading partners of Bangladesh in the second half of 2020, BSI demonstrated its stable trend whereas FVI increased mainly due to surplus current account balances as well as normalcy in general price index. Government's large scale stimulus packages along with BB's policy supports like special refinance schemes, liquidity easing, liberal loan classifications etc. to reduce the adverse impacts of COVID-19 outbreak helped economic activities to rebound gradually after the initial shock, which facilitated to attain a notable real GDP growth, surpassing the forecasts of IMF and World Bank. Moreover, due to COVID-19 pandemic, the growth of import is lower than that of export from major trading partners of Bangladesh which is reflected in RECI and thus increased current account balance. Nevertheless, notable inflow of wage earners' remittance, long-term foreign loans from development partners along with BB's support to keep the foreign exchange market stable. Though BSI and FVI did not fluctuate significantly and RECI belonged to the below zero line, the overall CFSI still showed the negative impact during the review year. This may create a risk to our economy from the external sector which could be minimized by diversifying products lines and destinations. The banking sector has some challenges about non-performing loan but by increasing recovery against non-performing loan and also strengthening the BB's monitoring, the risk to financial sector stability may be minimized in future.

Chapter 3

BANKING SECTOR RISKS

Banks need meticulous monitoring and estimating of their credit risk, market risk and operational risk as per the Basel III framework with the diversified nature of this business and gradual expansion of services over the years. In 2020, the overall risk of the banking sector, measured by the risk-weighted assets (RWA) density ratio, demonstrated a downward trend creating an opportunity to expand banks' intermediation activities by using various risk management tools. It would help to accelerate economic growth and recovery during the pandemic. RWA of market risk showed a comparatively higher rise than those of credit and operational risk, but the relative share of RWA of market risk is less significant. The rise in market risk may be minimized by selecting a less risky pool of assets both in local and foreign currency. Apart from these, banks are always careful in matching their assets with liabilities by applying fixed interest rates, and by discouraging speculative deals. Cumulatively, all the banks have 49.28 percent lending exposure in the corporate sector and rated exposures were increased for the corporate sector in 2020. For this, banks got the flexibility to maintain lower capital compared to that of the previous year. Presently the overall capital to risk-weighted asset ratio (CRAR) of the banking sector stood at 11.64 percent (required level 10 percent) and this existing level of CRAR would be adequate to withstand any insolvency risk in the future.

Various risk aspects relating to the assets and respective allocation of the capital of the banking sector in Bangladesh are discussed in this chapter. For better analysis and understanding, banks are categorized into five different groups based on their inherent features, and risk perspectives in terms of credit, market and operational risks. Table 3.1 demonstrates the categorization of banks and each category's share in total banking sector assets as of December 2020.

TABLE 3.1: GROUPING OF BANKS FOR RISK ANALYSIS

Bank Group	Description of the group	Number of banks	Share in total banking sector assets (in percent)
Group 1	Private commercial banks (Long-standing conventional banks)	22	43.2%
Group 2	State-owned and Private commercial banks under special attention[46]	10	27.5%
Group 3	Private commercial banks (Full-fledged Islamic banks)	7	20.1%
Group 4	Foreign commercial banks	9	5.5%
Group 5	Fourth-generation[47] private commercial banks	10	3.7%

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

3.1 OVERALL RISK PROFILE OF THE BANKING SECTOR

Table 3.2 and Chart 3.1 show the trend in risk-weighted assets (RWA) density ratio, the ratio of RWA to total assets, of different groups of banks during the period 2015-2020[48]. It is mentionable that the higher density ratio reflects that banks are exposed to more risky assets. The industry's RWA density ratio has decreased from 64.3 percent in 2019 to 61.6 percent in 2020. Among the specified groups, Group 1, 4 and 5 have a higher RWA density ratio (Table 3.2). The ratio increased for Group 5 while it decreased for the rest of the groups in 2020.

[46] Banks operating under memorandum of understanding (MOU) or Directives of Bangladesh Bank (DOBB).

[47] Banks granted license in 2013 onward to operate as scheduled banks in Bangladesh.

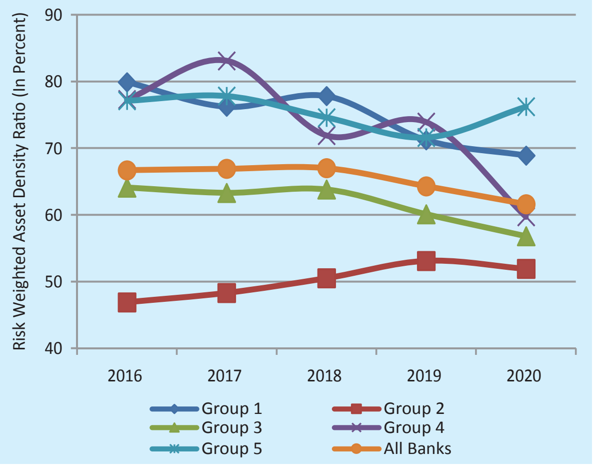
[48] The RWA density ratio is a simple and quick measure of weighted average relative risk of a bank's on- and off-balance sheet exposures.

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

(In Percent)

Banks Group	2015	2016	2017	2018	2019	2020
Group 1	80.1	79.9	76.2	77.8	71.2	68.9
Group 2	49.3	46.9	48.3	50.5	53.1	51.9
Group 3	63.1	64.1	63.3	63.8	60.1	56.8
Group 4	78.3	77.3	83.1	71.9	73.9	59.7
Group 5	78.3	77.1	77.8	74.6	71.6	76.2
All Banks	67.4	66.7	66.9	67.0	64.3	61.6

CHART 3.1: TRENDS OF RISK-WEIGHTED ASSET DENSITY RATIO



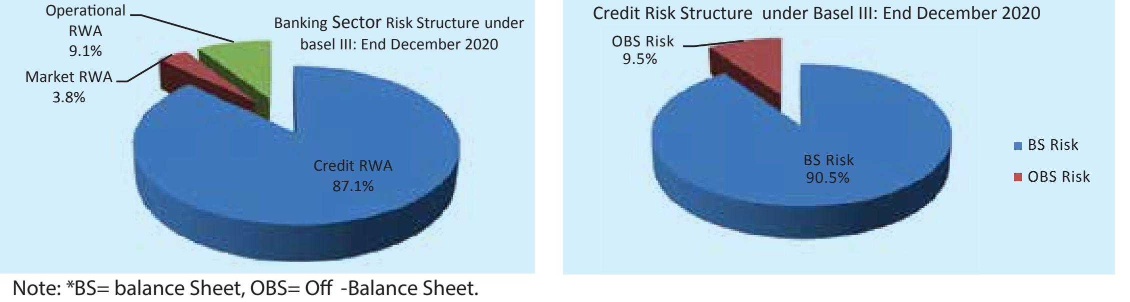
Source: Data-DOS; Calculation-Financial Stability Department (FSD), Bangladesh Bank.

3.2 OVERALL RISK STRUCTURE IN BANKS

As per Basel III, banks' RWAs are broadly attributed to credit, operational and market risks[49]. Credit Risk-Weighted Assets (CRWA) amount to BDT 9,869.07 billion in 2020, which is 6.83 percent higher than that of 2019. Operational Risk-Weighted Assets (ORWA) also increased from BDT 956.50 billion to BDT 1030.50 billion, i.e., by 7.74 percent during this period. However, Market Risk-Weighted Assets (MRWA) increased by 55.14 percent and stood at BDT 426.89 billion in 2020. The CRAR of the banking industry also increased from 11.57 percent at the end-December 2019 to 11.64 percent at the end-December 2020, which was above the minimum capital requirement (MCR) of 10.0 percent.

Chart 3.2 shows the share of RWA attributed to credit, operational and market risks. The credit risk-weighted asset was 87.1 percent of the total RWA of the banking system as of December 2020, whereas the RWA associated with the market and operational risks were 3.8 and 9.1 percent respectively. The chart also shows that 90.5 percent of the credit risk was derived from balance sheet exposures. In 2020, RWA for credit risk and operational risk as a ratio of total RWA decreased by 1.1 and 0.1 percentage points respectively. But market risk increased as a ratio of total RWA by 1.2 percentage points.

CHART 3.2: OVERALL RISK AND CREDIT RISK STRUCTURE



Note: *BS= balance Sheet, OBS= Off -Balance Sheet.
Source: Department of Off-site Supervision, Bangladesh Bank.

[49] **Credit risk** can be defined as the probability of loss (due to non-recovery) emanating from the credit extended, as a result of the non-fulfillment of contractual obligations arising from unwillingness or inability of the counter-party or for any other reason.
Market risk can be defined as the risk of loss in on-and off-balance sheet positions arising from movements in market prices.
Operational Risk can be defined as 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 reputation risk.

3.3 CREDIT RISK STRUCTURE IN BANKS

In 2020, the credit risk of top 5 banks accounted for 25.6 percent of the total credit risk of the banking system, while about 40.4 percent of credit risk was held by the top 10 banks (Table 3.3). The concentration of credit risk within the top 5 banks increased by 0.6 percentage points compared with 2019. The share of credit risk of top 5 banks in terms of overall industry risk was 22.3 percent in 2020 compared to 22.0 percent in 2019.

TABLE 3.3: CREDIT RISK IN THE BANKING INDUSTRY UNDER BASEL III (END-DECEMBER 2020)

Banks	Share in industry credit risk	Share in industry overall risk
Top 5	25.6%	22.3%
Top 10	40.4%	35.2%
All banks	100.0%	87.1%

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

The group-wise analysis of credit risk (Table 3.4) reveals that the industry's credit risk is mostly concentrated in Group 1 and Group 2. The combined shares of these two groups are 71 percent of industry credit risk and 61.9 percent of aggregate industry risk. Group 1 (22 banks), possessing 43.2 percent of total assets, contained about half of the industry credit risk (48.5 percent) and 48.3 percent of overall industry risk. Group 2 (10 banks), on the other hand, holding 27.5 percent of the assets but containing about one-fifth of the industry credit risk (22.5 percent) and 23.3 percent of the overall industry risk. Full-fledged Islamic banks, foreign commercial banks and fourth-generation domestic private banks respectively shared 19.3, 5.2, and 4.6 percent in the industry's credit risk.

TABLE 3.4: GROUP-WISE DISSECTION OF CREDIT RISK IN THE BANKING SYSTEM (END-DECEMBER 2020)

Bank Group	Share in industry's credit risk	Share in overall industry risk	Share of total RWA in overall industry risk[1]
Group 1	48.5%	42.3%	48.3%
Group 2	22.5%	19.6%	23.3%
Group 3	19.3%	16.8%	18.6%
Group 4	5.2%	4.5%	5.3%
Group 5	4.6%	4.0%	4.5%
Total	100.0%	87.1%	100.0%

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

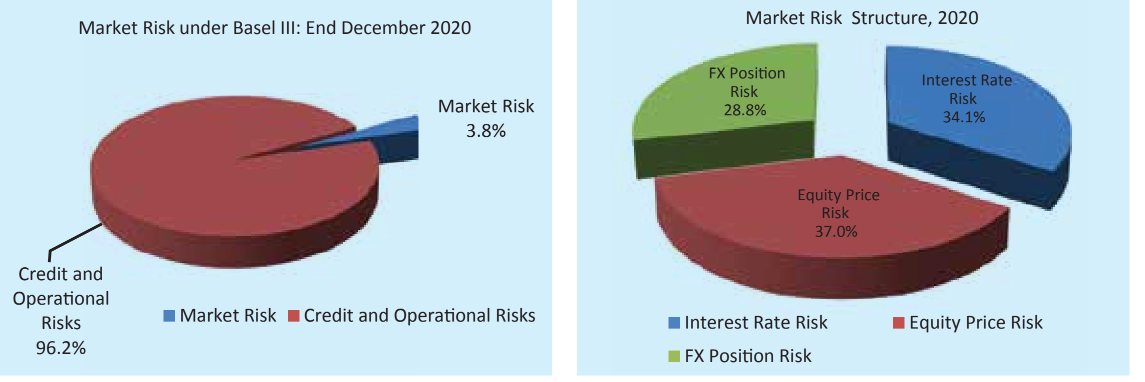
3.4 MARKET RISK STRUCTURE IN BANKS

According to the Basel III framework, market risks are mainly attributed to the risks pertaining to interest rate and price-sensitive instruments and equities in the trading book, foreign exchange risk and commodity risk in both the trading and banking book. Market risks, therefore, comprise of interest rate, equity price, and exchange rate risk.

Chart 3.3 illustrates overall market risk as well as the composition of different types of market risks in banks. Market risk has a small share, i.e., 3.8 percent of the total banking sector's risks (left panel). Notably, this risk has increased both in terms of its share in the total banking sector's risk (2.6 percent in 2019) and also in risk-weighted assets' nominal amount (55.2 percent increase in 2020). Within market risk, the share of equity price risk was maximum, i.e., 37.0 percent while foreign exchange rate risk and interest rate risk contributed 28.8 percent and 34.1 percent respectively (right panel).

[50] Total risk includes credit risk, market risk and operational risk.

CHART 3.3: MARKET RISK COMPOSITION



Source: Data-DOS; Calculation-FSD.

Table 3.5 demonstrates that banks in the categories of Group 1 and Group 2 were jointly exposed to 85.8 percent of the total interest rate risk in the segment of market risk in 2020, which was 82.2 percent in 2019. The equity price risk of these two groups stood at 87.5 percent in 2020 as compared to 86.7 percent in 2019. Moreover, the banks under Group 1 and Group 2 possess 77.8 percent of the industry's total foreign exchange rate risks- a notable increase from 58.8 percent in the previous year. However, Group 3, consisting of all the Islamic banks, possessed 15.8 percent of the exchange rate risks in 2020, indicating a declining trend after 2019 which was 23.9 percent.

TABLE 3.5: GROUP-WISE DISSECTION OF MARKET RISK IN THE BANKING SYSTEM

Banks	Share in industry interest rate risk	Share in industry equity price risk	Share in industry Exchange rate risk
Group 1	46.9%	58.4%	30.1%
Group 2	38.9%	29.1%	47.7%
Group 3	0.0%	9.6%	15.8%
Group 4	3.4%	0.0%	3.9%
Group 5	10.9%	2.8%	2.4%
Total	100.0%	100.0%	100.0%

Source: Data-DOS; Calculation-FSD.

The banks under Group 4 and Group 5 consisting of nine foreign banks and ten fourth-generation commercial banks respectively (combined industry share of which are less than 10 percent in terms of assets) were found to be less exposed to market risk in the banking system.

3.4.1 INTEREST RATE RISK (IRR)

The share of interest rate risk (IRR)[51] in the total RWA of the banking system increased slightly from 0.65 percent in 2019 to 1.3 percent in 2020. The RWA associated with interest rate risk also increased by 114.7 percent from the previous year. However, IRR contributed 34.1 percent of the market RWA in 2020, which was 24.7 percent in the previous year. The banks' capital charge for interest rate risk was BDT 14.56 billion in 2020, which was BDT 6.8 billion in 2019.

Table 3.6 shows that the top 5 banks' interest rate risk constituted 54.4 percent of industry interest rate risk in 2020. Two SOCBs, three conventional PCBs are ranked in the top 5 in terms

[51] Interest rate risk can be defined as potential risk to interest sensitive assets and liabilities of a bank's on- and off-balance sheet items arising out of adverse or volatile movements in market interest rate.

of capital charges for IRR in the banking system. In comparison to 2019, interest rate RWA to industry's total RWA for both top 5 banks and top 10 banks decreased in 2020. The IRR shares for the top 5 banks and top 10 banks decreased in 2020 while their shares in market risk as well as in overall risk increased in 2020, compared to corresponding figures of 2019.

TABLE 3.6: INTEREST RATE RISK IN THE BANKING SYSTEM

Banks	Interest rate risk	Share in market risk	Share in overall risk
Top 5	54.4%	18.6%	0.7%
Top 10	74.0%	25.2%	1.0%
All Banks	100.0%	34.1%	1.3%

Source: Data-DOS; Calculation-FSD.

3.4.2 EQUITY PRICE RISK

The RWA assigned to equity price risk[52] constituted 1.4 percent of the total RWA of the banking system and 37 percent of the total market risk as of December 2020. The banks' capital charge for equity price risk was BDT 15.81 billion at the end of December 2020, which is almost 3.5 billion higher than the previous year (12.3 billion in 2019).

TABLE 3.7: EQUITY PRICE RISK IN THE BANKING SYSTEM

Banks	Equity price risk	Share in market risk	Share in overall risk
Top 5	35.0%	13.0%	0.5%
Top 10	58.2%	21.6%	0.8%
All Banks	100.0%	37.0%	1.4%

Source: Data-DOS; Calculation-FSD.

Table 3.7 shows that the top 5 banks constituted 35 percent of industry equity price risk in 2020. Two SOCBs and three PCBs were ranked in the top 5 in terms of capital charges for equity price risk in the banking system. In comparison with 2019, the share of equity price RWA in the industry's total RWA marginally increased for top 5 banks (from 0.44 percent to 0.50 percent) as well as for top 10 banks (from 0.73 percent to 0.80 percent) in 2020.

3.4.3 EXCHANGE RATE RISK

The RWA assigned to exchange rate risk[53] constituted 1.1 percent of the total RWA of the banking system while the share was 28.8 percent of the aggregate market risk as of December 2020. The banks' capital charge for exchange rate risk increased to BDT 12.3 billion at the end-December 2020 from 8.4 billion at the end-December 2019.

Table 3.8 shows that the top 5 and top 10 banks were exposed to 53.6 and 70.1 percent respectively of the industry's exchange rate risk in 2020. The shares were lower at 37.7 percent and 56.7 percent in 2019. Shares of exchange rate risk in market risk as well as overall risk for the top 5 banks and top 10 banks increased in 2020 as compared to the previous year.

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[52] 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.

[53] Exchange rate risk can be defined as the variability of a firm's earnings or economic value due to changes in the exchange rate.

TABLE 3.8: EXCHANGE RATE RISK IN THE BANKING SYSTEM

Banks	Exchange rate risk	Share in market risk	Share in overall risk
Top 5	53.6%	15.5%	1.3%
Top 10	70.1%	20.2%	0.8%
All Banks	100.0%	28.8%	1.1%

Source: Data-DOS; Calculation-FSD.

3.5 OPERATIONAL RISK

As mentioned earlier, the RWA assigned to operational risk[54] was 9.1 percent of the total RWA of the banking industry at end-December 2020. The required capital charge for operational risk as of December 2020 was BDT 103.05 billion, which was 7.4 billion higher than that of the previous year.

TABLE 3.9: OPERATIONAL RISK UNDER BASEL III IN THE BANKING INDUSTRY

Banks	Share in industry operational risk	Share in industry overall risk
Top 5	27.9%	2.5%
Top 10	44.7%	4.1%
All Banks	100.0%	9.1%

Source: Data-DOS; Calculation-FSD.

Table 3.9 reveals that the top 5 and top 10 banks were exposed to 27.9 and 44.7 percent respectively of the industry's operational risk in 2020. These shares were almost similar in the previous year.

TABLE 3.10: GROUP-WISE DISSECTION OF OPERATIONAL RISK IN THE BANKING SYSTEM

Banks	Share in industry operational risk	Share in overall industry risk
Group 1	47.11%	4.29%
Group 2	24.91%	2.27%
Group 3	16.06%	1.46%
Group 4	7.98%	0.73%
Group 5	3.95%	0.36%
Total	100.00%	9.10%

Table 3.10 depicts the group-wise operational risk in 2020. It reveals that banks in the categories of Group 1 and Group 2 are jointly exposed to 72 percent of the industry's operational risk. The shares of operational risk in the overall industry risk for the bank groups remained almost the same as that of 2019.

3.6 SECTORAL EXPOSURES AND RISK

Table 3.11 shows that banks have 49.28 percent lending exposure in the corporate sector. Around 23 percent of total asset's claim is on the Government securities and balance with Bangladesh Bank while 18.66 percent of the credit is supplied to the Retail and SMEs sector.

[54] Operational Risk can be defined as 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 reputation risk.

TABLE 3.11: SECTORAL EXPOSURES OF BANKS AND RISKS (END-DECEMBER 2020)

Sector/Borrower	Sectoral Exposures of Credit (In Billion BDT)	Share of Exposure	Total RWA (In Billion BDT)	RWA Density Ratio[1]
Government & BB	3212.67	23.08%	0.00	0.0%
PSE	112.34	0.81%	32.52	28.9%
Banks & FIs	1136.89	8.17%	313.42	27.6%
Corporate	6859.42	49.28%	4473.28	65.2%
Retails & SMEs	2597.27	18.66%	1943.58	74.8%

Source: Data-DOS; Calculation-FSD.

Table 3.11 also reveals that among the sectors, the Retail and SMEs sector's credit exposures have the highest RWA Density Ratio of 74.8 percent, because almost all the retail and SME loans are provided for trading purpose, where collateral securities are minimum and higher risk weights are assigned for such businesses as per Basel norms. Corporate lending exposures have an RWA Density Ratio of 65.2 percent while the placement and lending to Banks and FIs have a lower RWA Density Ratio of 27.6 percent in 2020.

3.7 CREDIT RISK MITIGANTS

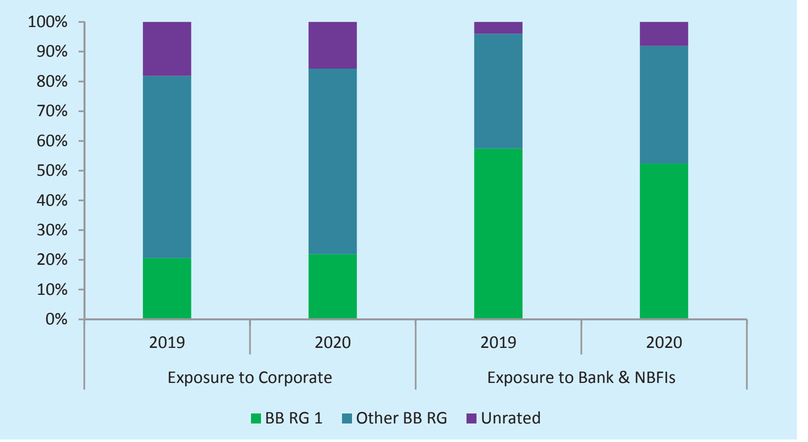
The rated exposures increased for the corporate sector but decreased for banks and financial institutions (FIs) in 2020. More specifically, the percentage of best-rated exposures (BB RG 1) increased for the corporate sector but decreased for the banks and FIs.

In Bangladesh, banks' exposures to non-financial corporations (NFCs) and other banks and financial institutions are rated by External Credit Assessment Institutions (ECAIs) to determine the RWA and minimum capital requirements against the credit risks as per Basel norms. The higher risk weights are allocated for unrated exposures, therefore, banks are encouraged to bring more exposures under ECAIs' rating for mitigating the credit risks effectively. The better the ratings of the exposures, the less likely the banks are exposed to default risk/counterparty risk. Chart 3.4 shows the rated and unrated exposures to NFCs and banks and FIs in 2019 and 2020.

The total exposure of the banking system to the corporate sector increased, but exposure to banks and NBFIs decreased in December 2020 compared to that of December 2019. The overall exposure to the corporate sector was BDT 6,859.42 billion at the end-December 2020, recording an increase of BDT 570.41 billion from the exposure in 2019. It is evident from Chart 3.4 that the overall rated exposure of the banking system to corporate sectors remained almost same. In December 2020, the total rated exposure was 84.35 percent, and overall, the best-rated exposure was 21.90 percent.

[55] RWA Density Ratio = Exposures of Credit / RWA.

CHART 3.4: BANKS' EXPOSURES TO CORPORATE AND BANKS & NBFIs



Source: Data-DOS, Calculation-FSD.

Within the rated exposure, best-rated exposure (BB RG 1) increased by 1.4 percentage points and other BB RGs also increased by 1.1 percentage points in December 2020 compared to those of December 2019. The overall credit exposure to banks and FIs was BDT 1,136.89 billion in December 2020, which was BDT 146.41 billion less than the exposure in December 2019. Chart 3.4 suggests that the total rated exposures to banks and FIs are notably high despite a slight decline in 2020. In 2020, 52.3 percent of matured credit exposures to banks and FIs received BB RG1, rendering a 5.1 percentage point decrease from 57.4 percent in 2019. However, the other BB-rated exposures to banks and FIs picked up by 1.03 percentage points in 2020 compared to 2019.

Chapter 4

BANK AND FI RESILIENCE

Bangladesh Bank (BB) conducts quarterly stress tests on banks and FIs to ascertain their resilience throughout the year under different plausible shock scenarios. This hypothetical test is used as a risk management tool to instruct banks/FIs for taking safety measures in respect of capital maintenance and liquidity management against any adverse economic and financial condition in future. This chapter analyzes the results of stress tests on banks and FIs as well as banking and FI sector based on the data as of end-December 2020. Stress test results depict that both the banking and FIs sector would remain moderately resilient to different shock scenarios.

4.1 BANKING SECTOR RESILIENCE

Stress test on bank is conducted through sensitivity analysis, incorporating impacts of the minor shock scenario for credit risk, market risk and liquidity risk. Under each scenario, the after-shock Capital to Risk-weighted Assets Ratio (CRAR) is compared with the minimum regulatory requirement of 10 (ten) percent[56] with Capital Conservation Buffer (CCB) of 2.5 percent. Hence, particular attention is paid to credit risk, which contributes to the major risk for the banking sector of Bangladesh.

At end-December 2020, in the pre-shock scenario, 48 scheduled banks out of 58 were found compliant and appeared to be resilient in maintaining the minimum regulatory requirement of CRAR of 10 percent, while the remaining 10 banks found non-resilient in maintaining the minimum regulatory requirement after adjustment of cumulative loss and provision shortfall. In addition, under Basel III capital accord, maintaining CCB of 2.50 percent with existing CRAR of 10 percent, 44 banks were found resilient. Table 4.1 depicts the CRAR level of banks at pre-shock scenario.

TABLE 4.1 : CAPITAL ADEQUACY SCENARIO OF THE BANKING SECTOR

CRAR (%)	Number of Banks
< 10%	10
≥ 10% but < 12.50%	4
≥ 12.50%	44

4.1.1 STRESS ON CAPITAL DUE TO CREDIT RISK

a) Sensitivity test for credit risk have been conducted to assess the impact of different shocks on banks' capital adequacy position. The proposed capital position has been ascertained by applying the shock of 3 percent increase in gross NPL[57] ratio. The increase of NPL is a concern for credit risk, adversely impact on risk weighted assets and banks are required to maintain additional capital to absorb credit risk. The existing and after-shock CRAR are exhibited in Table 4.2. As per Table 4.2, the banking sector's CRAR would have declined to the level of 10.12 percent from existing level of 11.57 percent. Under this stress scenario, 3 out of 48 compliant banks might become non-compliant in maintaining minimum capital adequacy requirement (10%).

[56] The results are based on the unaudited data for the calendar year ended at December 2020.

[57] NPL (Non-performing loan) means aggregate of loans in the substandard, doubtful, and bad/loss category.

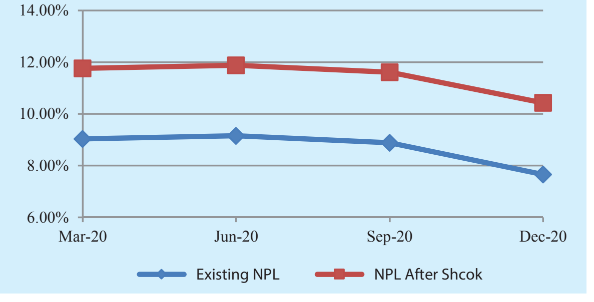
TABLE 4.2 : STRESS TEST FOR CREDIT RISK: INCREASE IN NPLS

(In Percent)

Pre-shock Scenario	Gross NPL Ratio	Required Minimum CRAR	Maintained CRAR
Banking System	7.66	10.00	11.57
Stress Scenario			
	Gross NPL Ratio	**Required Minimum CRAR**	**After-shock CRAR**
Minor Shock: Increase in NPLs by 3%	10.43	10.00	10.12

Source: FSD, BB.

CHART 4.1: PROBABLE NPL RATIO AFTER MINOR SHOCK



Source: FSD, BB .

In Chart 4.1, existing NPL ratios of 4 quarters of CY20 are illustrated with a blue solid line whereas the red line shows the stressed NPL ratio under 3% increase in NPLs scenario applicable for the same period. Under the minor shock scenario, the banking sector's gross NPL ratio of December 2020 is likely to rise to the level of 10.43 percent from the existing level of 7.66 percent. The rise of NPL negatively affected the overall capital adequacy position of the banking sector.

b) The second test has been conducted on credit concentration risk of banks to examine the effect on capital adequacy in case of bank-wise default of the top 3 large individual/group borrowers (Table 4.3). Minor shock result depicts that the capital adequacy of the banking system would decrease to 9.53 percent from existing 11.57 percent, while 17 out of 48 compliant banks would likely become non-compliant in maintaining minimum capital adequacy requirement (10%).

TABLE 4.3 : STRESS TEST FOR CREDIT RISK: DEFAULT OF TOP LARGE BORROWERS

(In Percent)

Pre-Shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.57
Stress Scenario		**After-Shock CRAR**
Minor Shock: Default of top 3 large borrowers		9.53

Source: FSD, BB.

c) The third test has been conducted on the sectoral concentration of credit risk of banks to examine the effect on capital adequacy in case of an additional percentage of the highest exposed sector's loans directly downgraded to bad/loss (Table 4.4). If an additional 3 percent of the highest exposed sector's loans directly downgraded to bad/loss, the banking sector's CRAR would likely to decrease to 11.43 percent from existing 11.57 percent. Under this stress scenario, only 1 out of 48 compliant banks would likely become non-compliant in maintaining minimum capital adequacy requirement (10%).

TABLE 4.4 : STRESS TEST FOR CREDIT RISK: INCREASE IN NPLS OF THE HIGHEST EXPOSED SECTOR

(In Percent)

Pre-shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.57
Stress Scenario		**After-Shock CRAR**
Minor Shock: 3% of performing loans of highest exposed sector directly downgraded to bad/loss		11.43

Source: FSD, BB.

d) The fourth test (Table 4.5) deals with the fall in the forced sale value (FSV) of mortgaged collateral. Minor shock has been applied on the FSV of mortgaged collateral assuming its value would decline by 10 percent under minor stress scenario. Shock result depicts small impact on banking sector's CRAR and no bank would become non-compliant to maintain minimum capital requirement.

TABLE 4.5 : STRESS TEST FOR CREDIT RISK: FALL IN THE FSV OF MORTGAGED COLLATERAL

(In Percent)

Pre-Shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.57
Stress Scenario		**After-Shock CRAR**
Minor Shock: 10% fall in the forced sale value (FSV) of mortgaged collateral		11.07

Source: FSD, BB.

e) The fifth test (Table 4.6) assumes negative shifts in the existing NPL categories, due to some adverse economic events for the banks, which might result in additional provision requirement. For the minor shock scenario, 5 percent of the substandard loans downgraded to doubtful, and 5 percent of the doubtful loans downgraded to the bad/loss category. Shock result depicts that the capital adequacy of the banking system would decrease to 10.97 percent from existing 11.57 percent, while only 1 out of 48 compliant banks would likely become non-compliant in maintaining minimum capital adequacy requirement (10%).

TABLE 4.6 : STRESS TEST FOR CREDIT RISK: NEGATIVE SHIFT IN NPL CATEGORIES

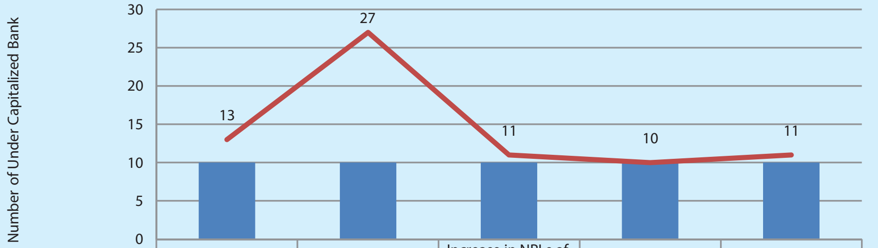
(In Percent)

Pre-Shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.57
Stress Scenario		**After-Shock CRAR**
Minor Shock: 5% negative shift in the NPLs categories		10.97

Source: FSD, BB.

f) The stress test results indicate that the credit risk is the major risk for the banks in terms of its impact on CRAR. The sensitivity analysis on the banking sector's credit portfolio and its impact on capital adequacy reveals that the sector is moderately resilient with different types of credit shocks except shock for the default of top 3 borrowers (Chart 4.2 and 4.3). When the shock is applied for the default of the top 3 borrowers on the data of end-December 2020, along with the 10 under capitalized banks, additional 17 banks would become non-compliant in maintaining the minimum required capital (10%). Besides, additional 3 banks would become non-compliant for 3% increase in NPLs. Similarly, if the CCB requirement is considered, additional 12 and 11 banks would not be able to maintain minimum capital requirement with CCB (12.50%) for the shocks of increase in NPLs by 3% and default of top 3 large borrowers respectively (Chart 4.3). Hence, the stress test results identify that the default of top large borrowers is likely to have the highest impact on the banking sectors' resilience in terms of capital, which is followed by the increase in NPLs.

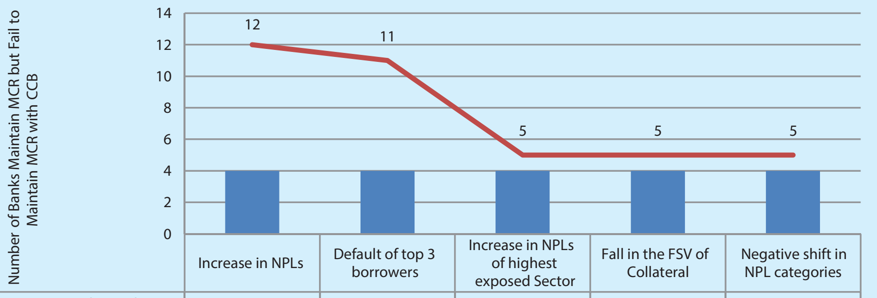
CHART 4.2: STRESS TESTS: MINOR SHOCK ON DIFFERENT CREDIT RISK FACTORS



	Increase in NPLs	Default of top 3 borrowers	Increase in NPLs of highest exposed Sector	Fall in the FSV of Collateral	Negative shift in NPL categories
Before Shock Failure in Maintaining MCR	10	10	10	10	10
Failure in Maintaining MCR under Stress	13	27	11	10	11

Note: MCR- Minimum Required Capital.
Source: FSD, BB.

CHART 4.3: STRESS TESTS: MINOR SHOCK ON DIFFERENT CREDIT RISK FACTORS (WITH CCB)



	Increase in NPLs	Default of top 3 borrowers	Increase in NPLs of highest exposed Sector	Fall in the FSV of Collateral	Negative shift in NPL categories
Before Shock Maintaining MCR but Failure in Maintaining MCR with CCB	4	4	4	4	4
Maintaining MCR but Failure in Maintaining MCR with CCB under Stress	12	11	5	5	5

Source:FSD, BB.

4.1.2 LIQUIDITY RISK MANAGEMENT

The liquidity stress test[58] considers excessive[59] withdrawal of demand and time deposits both in local and foreign currency. A bank is considered to be adequately-liquid if it can survive (after maintaining SLR[60]) for 5 consecutive business days under a stressed situation. Standardized shocks are 2, 4 and 6 percent withdrawal of deposits, in excess of bank's normal withdrawal of deposit. At end-December 2020, the banking sector as a whole would remain resilient against liquidity stress scenarios of 2, 4 and 6 percent additional withdrawal of deposits.

4.1.3 SENSITIVITY TO MARKET RISK

The banking sector is found to be fairly resilient in terms of different market shocks[61]. This sector, as a whole, would remain compliant in maintaining the minimum capital requirement under the minor level shock on the interest rate, exchange rate and equity price (Table 4.7, 4.8 and 4.9). More importantly, no bank would become non-compliant to maintain minimum capital requirement for market shocks scenarios.

[58] A liquidity stress test shows how many days a bank and the banking sector would be able to survive in a situation of liquidity drain without resorting to liquidity from outside (other banks, financial institutions or central bank).
[59] Higher than usual.
[60] SLR= Statutory Liquidity Requirement.
[61] Market risk shocks: Interest rate, exchange rate and equity price movements.

TABLE 4.7 : STRESS TEST: INTEREST RATE RISK

(In Percent)

Pre-Shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.57
Stress Scenario		**After-Shock CRAR**
Minor Shock: 1% increase in interest rate		11.02

Source: FSD, BB

TABLE 4.8 : STRESS TEST: EXCHANGE RATE RISK

(In Percent)

Pre-Shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.57
Stress Scenario		**After-Shock CRAR**
Minor Shock: Currency appreciation/depreciation by 5%		11.53

Source: FSD, BB.

TABLE 4.9 : STRESS TEST: EQUITY PRICE RISK4.1.4 CALCULATION OF COMBINED STRESS TEST

(In Percent)

Pre-Shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.57
Stress Scenario		**After-Shock CRAR**
Minor Shock: Fall in the equity prices by 10%		11.31

Source: FSD, BB.

4.1.4 CALCULATION OF COMBINED STRESS TEST

In case of combined shock (Summation of shock results of Increase in NPLs, Fall in the FSV of Collateral, Negative Shift in NPL categories, Interest Rate Shock, FX Currency Shock and Equity Price Shock), the banking sector's CRAR would likely to decrease to 8.15 percent from existing 11.57 percent as per Table 4.10.

TABLE 4.10 : STRESS TEST: COMBINED SHOCK

(In Percent)

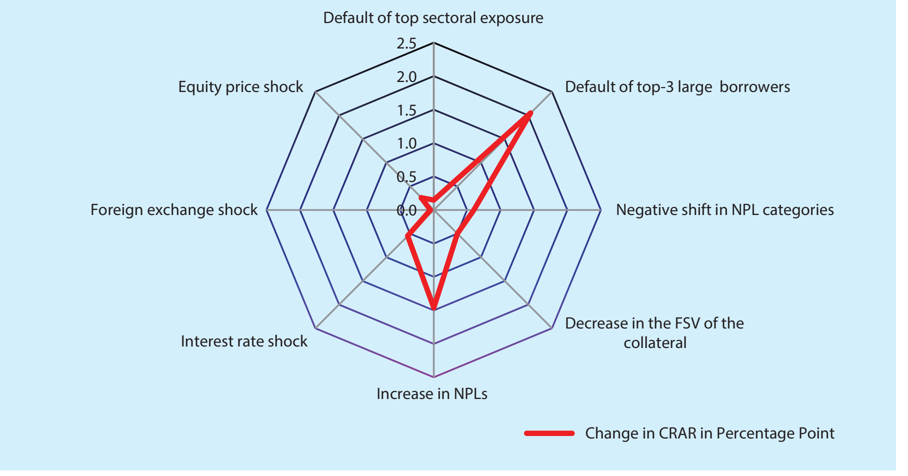
Pre-shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.57
Stress Scenario		**After-Shock CRAR**
Combined Minor Shock		8.15

Source: FSD, BB.

4.1.5 BANKING SECTOR RESILIENCE AT A GLANCE

The banking sector seems to be resilient in maintaining minimum regulatory requirements in all specified types of minor level credit related shocks scenarios except for credit concentration risk. However, most of the banks, as well as the banking system, would also likely to remain resilient against interest rate, exchange rate, equity price, and liquidity stress scenarios (Chart 4.4).

CHART 4.4: BANKING SECTOR RESILIENCE IN DIFFERENT SHOCK SCENERIOS (AT MINOR LEVEL SHOCK)



Source: FSD, BB.

4.2 RESILIENCE OF THE FINANCIAL INSTITUTIONS

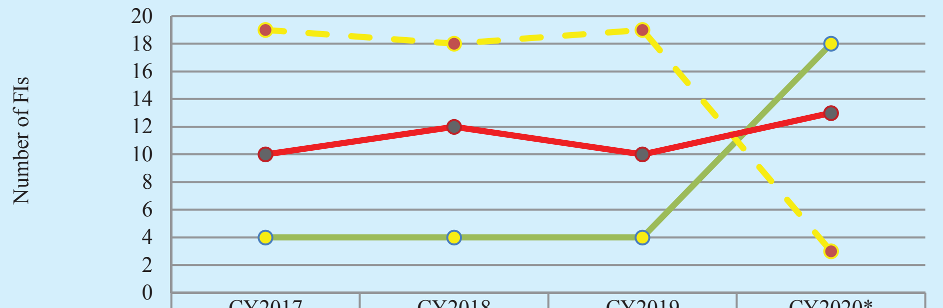
A stress test on the financial institutions (FIs) is conducted to assess the resilience on a standalone as well as a system-wide basis with different shock scenarios for credit risk, interest rate risk, equity price risk and liquidity risk.

FIs are mainly concern for different types of credit risk. Generally, NPL to loan ratio, known as Infection Ratio, is taken as the main measure for ascertaining the sensitivity of the different segments of credit risk. The four areas of credit risk stress test, namely: increase in NPL, Downward shift in all categories (except BL), Increase in NPL due to shifting of all loan disbursed in 2 sectors under B/L category and Increase in NPL due to all loan outstanding of top large borrowers turned in B/L category. If the regulatory capital of the FIs completely erodes to the zero level due to deterioration of NPL level is called the Critical Infection Ratio. The ratio of Infection Ratio to the Critical Infection Ratio is used to calculate the Insolvency Ratio (IR). The IR is used to identify the percentage of FIs moving towards insolvency. To derive the Weighted Insolvency Ratio (WIR), the weights for 50.0 percent, 30.0 percent and 20.0 percent are given on after-shock IR in respect of minor, moderate and major level shocks respectively.

On the other hand, resilience levels for interest rate, credit and equity price shocks of the FIs are set with the minimum Capital Adequacy Ratio (CAR). Whereas, resilience level for liquidity shock is measured by the asset-liability maturity bucket. In the stress test it is checked whether an FI has an adequate capital base and adequate liquidity after the shock impact. Then the Weighted Average Resilience (WAR) of FI 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.

Both the WAR and WIR of FIs are measured in a scale of 1 to 5 (best to worst) grades. Then WAR is categorized as either A (for grade 1) or B (for grade 2 and 3) or C (for grade 4 and 5) zone and WIR is categorized as either 1 (for grade 1) or 2 (for grade 2 and 3) or 3 (for grade 4 and 5) zone. Finally, the WAR-WIR Matrix expresses the overall financial strength and resilience of an FI as either Sound (for WAR-WIR Matrix A1, A2) or Moderate (for WAR-WIR Matrix A3, B1, B2) or Weak (for WAR-WIR Matrix B3, C1, C2, C3)[62].

CHART 4.5: STRESS TESTS ON FINANCIAL INSTITUTIONS



	CY2017	CY2018	CY2019	CY2020*
Green/Sound	4	4	4	18
Yellow/Moderate	19	18	19	3
Red/Weak	10	12	10	13

* According to DFIM Circular Letter No.09, Dated 21/12/2020, the overall rating category of FIs changed to Sound, Moderate and Weak.
Source: DFIM, BB.

FIs Stress test results, based on the data as of end-December 2020, reveal that 18 out of 34 FIs are in Sound condition and 3 FIs are in Moderate condition. Hence, 21 FIs would have performed as resilient institutions during October-December 2020 quarter. On the other hand, 13 out of 34 FIs are in Weak condition during the same period. Overall, a majority of the FIs would remain resilient in the appearance of different shock scenarios.

The combined results of stress tests for banks depict that the capital adequacy of the banking system would decrease to 8.15 percent from the existing 11.57 percent. In addition, results of FIs stress test reveal that, 21 out of 34 FIs would likely to become resilient under stress. Hence, the banking and FIs systems would remain moderately resilient to different shock scenarios. However, the significant amount of loans concentrated among few borrowers and considerable level of NPL in some banks and FIs could pose risk to the overall financial stability. Strict compliance of the guideline on large loan/single borrower exposure would be helpful in reducing risks on banks' exposure to large corporate or to a specific group, specific sector or specific region. Moreover, the impact of continuing COVID-19 outbreak is another potential threat to the stability of the financial system. The different policy initiative, as well as incentive measures so far taken by the central bank and the government, could prevent or mitigate systemic risk to cope with the COVID-19 pandemic in the upcoming days.

[62] According to DFIM Circular Letter No.09, dated 21/12/2020, the overall rating category of FIs revised to Sound, Moderate and Weak. Previously both WAR and WIR categorized as Green, Yellow and Red zone. Then the WAR-WIR matrix also expressed overall rating of FIs as Green (GG), Yellow (GY, YG, YY, RY) and Red (GR, YR, RY, RR).

Chapter 5

FINANCIAL INSTITUTIONS' PERFORMANCE

The rising trend in NPL and loan loss provision attributable to poor governance and major irregularities by a few FIs have been continuing from the previous years. Alongside, the adverse impact of COVID-19 has largely affected the profitability and impacted the industry's overall equity by a 23.2 percent decline in CY20. The overall capital adequacy ratio (CAR) of this industry lies at 14.2 percent- still above the regulatory minimum requirement of 10 percent. Bangladesh Bank, in this context, has reinforced tight supervision and stern measures in the form of various regulatory actions to improve the situation over time.

5.1 PERFORMANCE OF FIs

Alongside the banks, Financial Institutions (FIs) have also been playing a crucial role in the financial system of Bangladesh. FI industry has been complementing the system through providing a few specialized financial services including the lease financing in Bangladesh. Presently, FIs are also operating their businesses in term financing, syndicated financing, bridge financing, SME financing, equity financing, merchant banking, and venture capital, etc.

As of end-December 2020, 34 FIs were operating in Bangladesh with one under the liquidation process. Out of the total 34 FIs, 3 (three) are fully government-owned, 19 (nineteen) are privately-owned local companies and the remaining 12 (twelve) are established jointly under local and foreign participation. As of end-December 2020, a total of 277 branches of FIs were in operation.

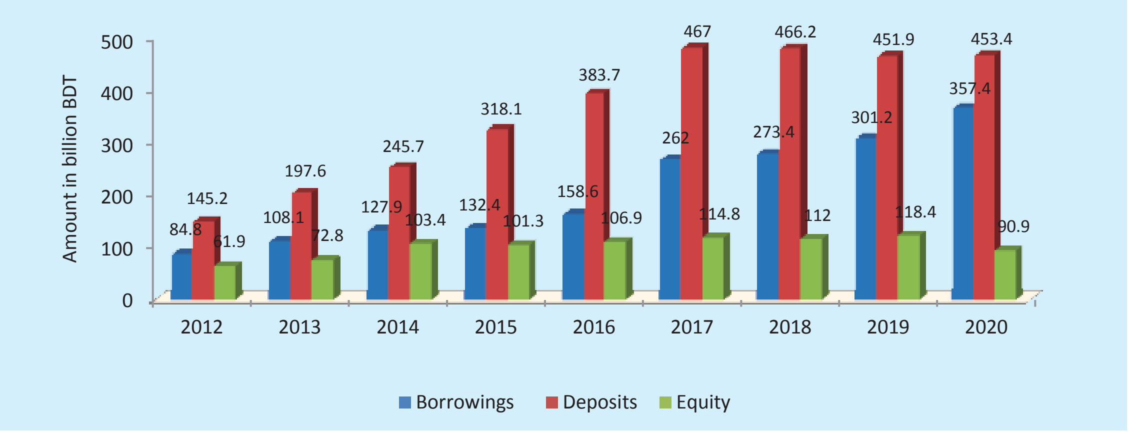
Bangladesh Bank evaluates the performance of FIs through its various on-site and off-site tools time-to-time. FIs are also assessed under the CAMELS rating system with six broad performance indicators: capital adequacy, asset quality, management efficiency, earnings, liquidity, and sensitivity to market risk. The following sub-sections analyze the performance of the FIs based on their sources of funds, asset composition and quality, asset-liability ratio, and profitability. Capital adequacy and liquidity measures are also analyzed in the final sections.

5.1.1 SOURCES OF FUND

The sources of funds for FIs comprise of share capital, bond, borrowing from banks, other financial institutions and foreign sponsors, term deposits, money at call, placement from banks and other FIs. As of end-December 2020, deposits, borrowings, and equity constituted BDT 453.4 billion, BDT 357.4 billion, and BDT 90.9 billion respectively equivalent to 50.3 percent, 39.6 percent, and 10.1 percent of total funds respectively. These shares were 51.9 percent, 34.5 percent, and 13.6 percent respectively at end-December 2019.

In terms of volume, borrowings and deposits of FIs increased by 18.66 percent and 0.33 percent respectively while the equity declined by 23.23 percent in CY20 as compared with those of the CY19.

CHART 5.1: FIs' BORROWINGS, DEPOSITS AND EQUITY TREND



Source: Department of Financial Institutions and Markets, Bangladesh Bank.

5.1.2 ASSETS COMPOSITION

At end-CY20, aggregate assets of the FI industry reached BDT 901.74 billion registering an increase of 3.47 percent from that of CY19. The share of loans and leases to total assets was 74.4 percent as of end-December 2020, which was 77.2 percent as of end-December 2019. The cash balance possessed 0.9 percent of the total asset as of end-December 2020. Other components such as investments and all other assets (including fixed and non-financial assets) were 3.2 percent and 21.6 percent of total assets respectively in CY20. Increased share of all other assets is attributed to 3 percent increase in fixed assets and 16 percent increase in other financial assets in CY20.

FIs' total assets to GDP ratio[63] accounted for 3.2 percent in 2020 which was 3.4 percent in the previous calendar year (Chart 5.3).

CHART 5.2: FIs' ASSET COMPOSITION

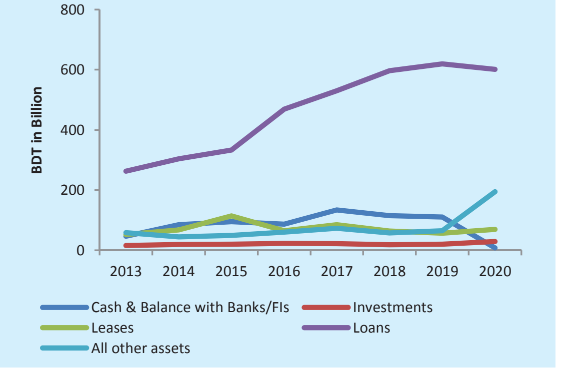
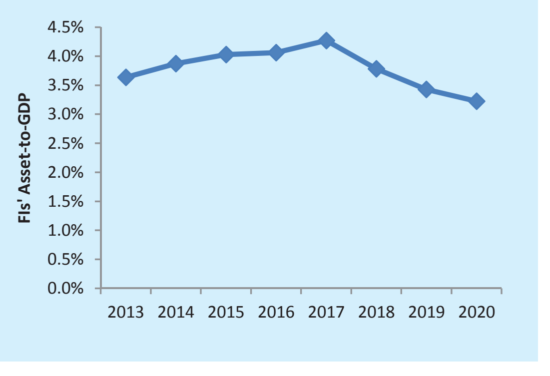


CHART 5.3: FIs' TOTAL ASSET TO GDP RATIO



Source: Department of Financial Institutions and Markets, Bangladesh Bank.

[63] December basis Assets and June basis GDP figures have been used for the calculation of total Asset to GDP ratio.

TABLE 5.1: FIs' SECTOR-WISE LOANS AND LEASES AS OF END DECEMBER 2020				
SL	**Major sectors**	**Amount (in billion BDT)**	**Percent**	**HHI***
1	Trade and Commerce	92.2	13.6%	185.6
2	Industry:			
	A) Garments and Knitwear	40.4	6.0%	35.5
	B) Textile	31.3	4.6%	21.3
	C) Jute and Jute-Products	3.4	0.5%	0.3
	D) Food Production and Processing	28.7	4.2%	17.9
	E) Plastic Industry	7.0	1.0%	1.1
	F) Leather and Leather-Goods	2.7	0.4%	0.2
	G) Iron, Steel and Engineering	32.8	4.8%	23.5
	H) Pharmaceuticals and Chemicals	16.9	2.5%	6.2
	I) Cement and Allied Industry	16.6	2.4%	6.0
	J) Telecommunication and IT	12.0	1.8%	3.2
	K) Paper, Printing, and Packaging	11.4	1.7%	2.9
	L) Glass, Glassware and Ceramic Industry	7.0	1.0%	1.1
	M) Ship Manufacturing Industry	4.5	0.7%	0.4
	N) Electronics and Electrical Products	9.0	1.3%	1.8
	O) Power, Gas, Water, and Sanitary	71.4	10.5%	111.2
	P) Transport and Aviation	26.4	3.9%	15.2
3	Agriculture	16.8	2.5%	6.2
4	Housing	128.0	18.9%	357.7
5	Others			
	A) Merchant Banking	21.8	3.2%	10.3
	B) Margin Loan	8.0	1.2%	1.4
	C) Others	88.8	13.1%	171.8
	TOTAL	677.1	100.0%	980.6

* Herfindahl-Hirschman Index (HHI).
Source: Department of Financial Institutions and Markets, Bangladesh Bank.

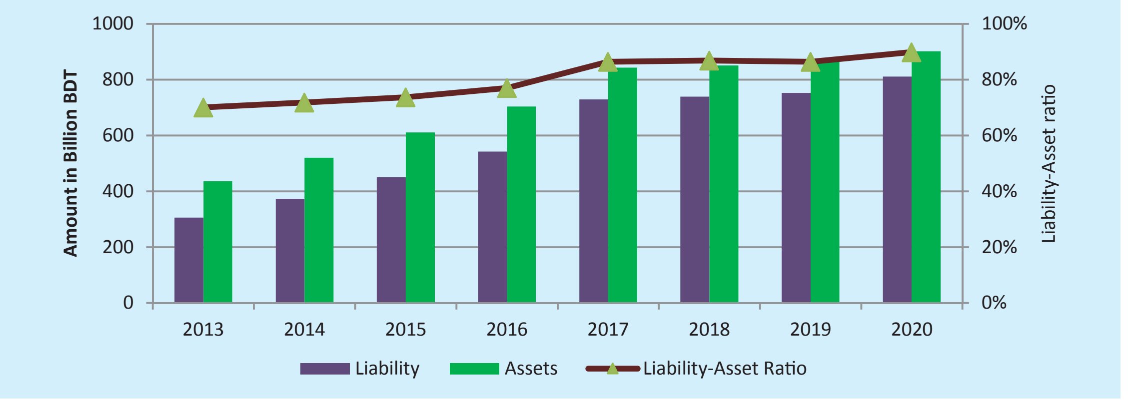
The Herfindahl-Hirschman Index (HHI) indicates that FIs' loans and leases were competitive[64] during CY20. The aggregate value of the index as shown in Table 5.1 was 981 at the end of December 2020 while it was 963 in 2019. FIs' loans and leases were concentrated in the two major sectors namely the housing sector and trade and commerce sector, which accounts for 18.9 percent and 13.6 percent of total loans and leases respectively.

5.1.3 LIABILITY-ASSET RATIO

The liability-asset ratio reached 89.9 percent at end-CY20, 3.5 percentage points higher than 86.4 percent recorded in CY19. The liability-asset ratio of the FIs is considerably high, indicating the lesser contribution of equity.

[64] HHI lying below 1500 points indicates 'competitive' concentration revealing that the sectors are fairly treated in terms of credit distribution by the FIs and no significant monopolistic distribution is evident.

CHART 5.4: LIABILITY-ASSET RATIO OF FI INDUSTRY



Source: Department of Financial Institutions and Markets, Bangladesh Bank.

5.1.4 ASSET QUALITY

Asset quality of the FIs has weakened in CY20 as the total non-performing loans and leases rose to BDT 100.5 billion from BDT 64.0 billion in CY19. Eventually, the ratio of non-performing loans and leases to total loans and leases jumped from 9.5 percent in CY19 to 15.0 percent in CY20. Such marked rise in NPL ratio has largely been resulted due to the regulatory reviews and adjustments on some of the FIs' loan portfolios. Nine (09) FIs had their NPL ratio higher than 15 percent; 12 FIs had the ratio over 10 percent while 15 FIs were able to maintain their NPL ratio below 5 percent. During CY20, the loan loss provisions amounting to BDT 44.4 billion was maintained by FIs against a requirement of BDT 51.8 billion, representing a coverage ratio of 44.12 percent of total non-performing loans and leases, 7.6 percentage points higher than the coverage ratio registered in CY19. 6 FIs, out of 34, could not maintain the required provision, which eventually led to a provision shortfall of BDT 7.4 billion for the industry. The shortfall was BDT 9.4 billion at end-December 2019.

CHART 5.5: FIs' CLASSIFIED LOANS AND LEASES

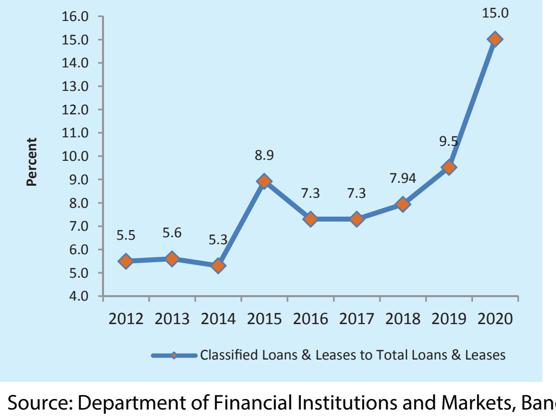
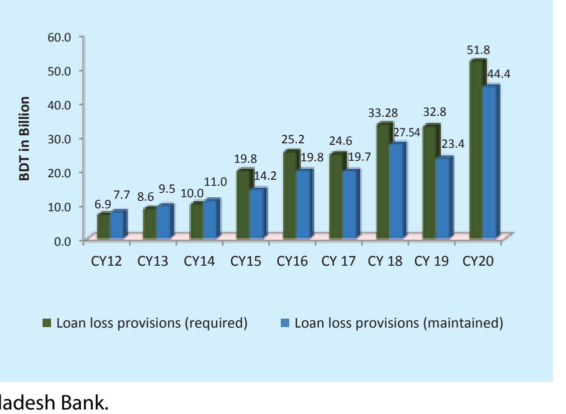


CHART 5.6: FIs' LOAN LOSS PROVISIONING



Source: Department of Financial Institutions and Markets, Bangladesh Bank.

5.1.5 PROFITABILITY

Due to high NPLs, the overall profitability of the FIs as of December 2020 was largely affected as compared to that of 2019. In CY20, profit before taxes was amounting to BDT 8.8 billion; a notable decline of 38 percent compared with that of BDT 14.1 billion in CY19[65]. This decrease

[65] Some data of the previous year were reviewed by DFIM.

can be attributable to a 38 percent (equivalent to BDT 9.72 billion) decline in net interest income in CY20, although there was a 252 percent increase in investment income in this calender year. At the same time, other operating income decreased by 15 percent, and maintained loan loss provisions increased by 89 percent compared with those of the previous year. Profit after tax amounted to BDT 3.56 billion in CY20, substantially lower than that of BDT 9.05 billion in CY19. Consequently, the key profitability measures such as return on assets (ROA) and return on equity (ROE) declined sharply from the preceding year. The ROA and the ROE were 0.4 percent and 3.9 percent respectively at end-December 2020.

CHART 5.7: FIs' TREND OF INCOME AND EXPENSE

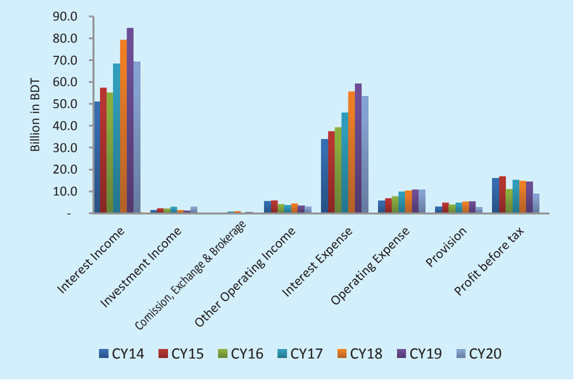
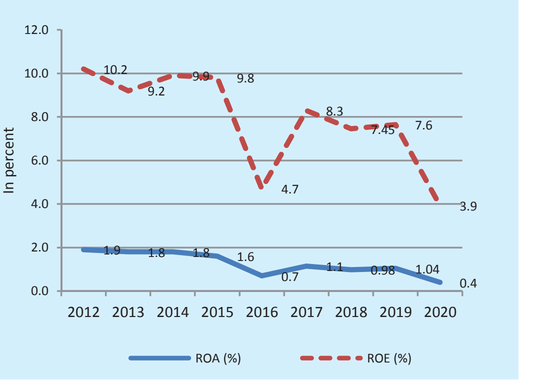


CHART 5.8: FIs' PROFITABILITY TREND

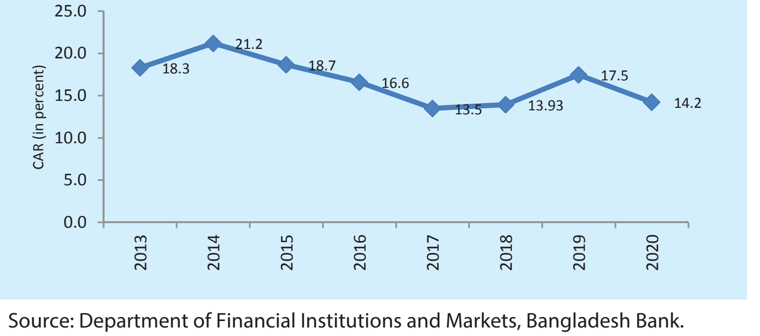


Source: Department of Financial Institutions and Markets, Bangladesh Bank.

5.2 CAPITAL ADEQUACY

The minimum capital adequacy ratio (CAR) for the FIs is 10 percent as per the Basel II standard. The CAR of the FIs was 14.2 percent at end-December 2020 (provisional), moderately lower as compared to 17.5 percent recorded at end-December 2019. Yet, the industry's CAR remains higher than the required threshold level.

Chart 5.9: FIs' CAPITAL ADEQUACY RATIO (CAR)



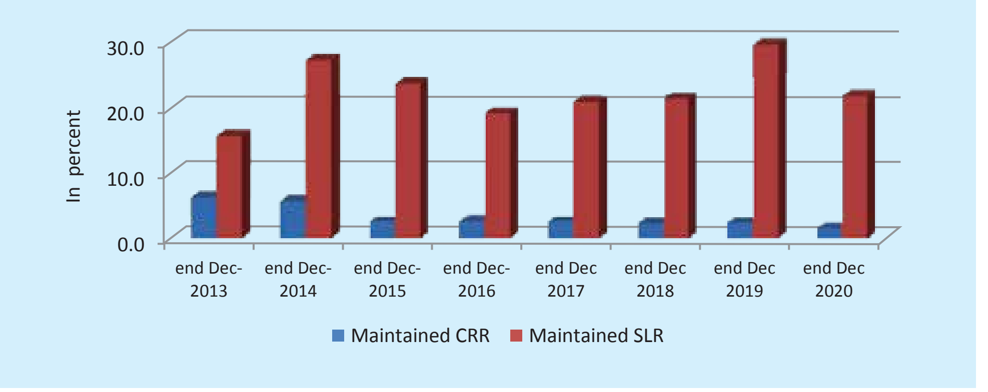
Source: Department of Financial Institutions and Markets, Bangladesh Bank.

5.3 LIQUIDITY

The extents of CRR and SLR maintained by the FIs are considered as key indicators of liquidity in the industry. Chart 5.10 illustrates that the maintenance of CRR and SLR had been increasing throughout the 2016-2019 period. At end-December 2019, the FIs sector maintained a 2.5 percent of CRR and 29.3 percent of SLR. However, they declined to 1.6 percent and 21.6 percent respectively at end-December 2020 but remained in the comfort zone[66].

[66] The minimum requirements for CRR and SLR are 1 percent and 5 percent respectively (vide DFIM circular no. 03/2020).

CHART 5.10: FIs' CRR AND SLR



Source: Department of Financial Institutions and Markets, Bangladesh Bank.

Overall analysis shows that the borrowing of FIs markedly increased in CY20 compared to CY19 whereas the size of equity declined. Deposit increased marginally during this period. Besides, the loans slightly decreased by 3 percent while the lease financing and investments have increased by 21 percent and 15 percent respectively from the previous year. As the NPL ratio has increased, the loan-loss provisioning also increased substantially, which led the profitability of the FIs to a decline in CY20 as compared to CY19. It may seem to be a matter of concern from the stability point of view. The overall CAR of FIs remained adequate as per regulatory standards despite the subdued status of some FIs which need meticulous attention. The liquidity position of the FIs also appeared to be quite stable during the period under review. Bangladesh Bank, nevertheless, remains vigilant in continuous monitoring of the performance of the FIs and undertakes necessary regulatory measures to minimize the risks, improve the financial conditions, and strengthen good governance in the industry by using its prudence and timely guidance.

Chapter 6

MONEY AND CAPITAL MARKET

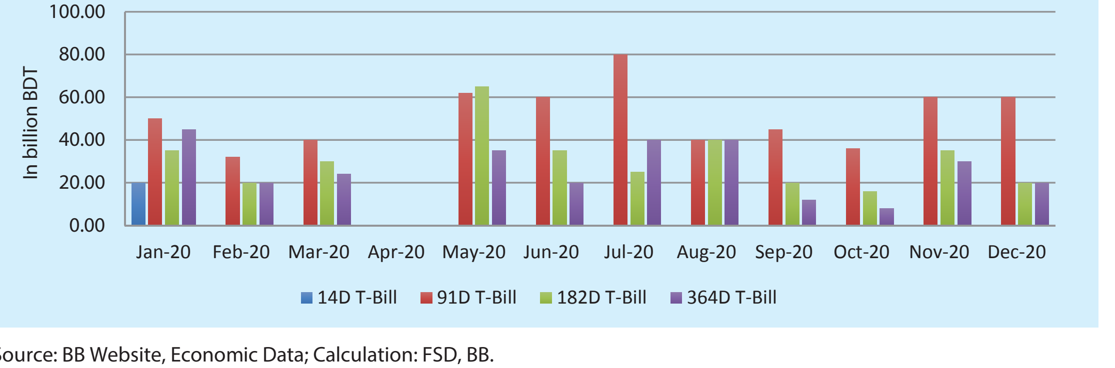
The money and capital market of Bangladesh experienced a two-phased growth trajectory during CY20. In the first phase, up to August 2020, moderate liquidity state was observed amid the pandemic. During this time, the money market was largely stable through remaining watchful and aligning with the central bank policies. However, the capital market remained relatively bearish during the first quarter and stable from April to August 2020. At the later stage, from September to December 2020, the money and capital market experienced a liquidity glut. During this time, call money rate, interbank repo rate, and treasury yield curve dropped sharply and there was little dependence on the central bank's intervention. Alongside, the capital market experienced a higher turnover with upward trend of index and market capitalization. Primarily, BB's expansionary monetary policy and proactive liquidity management during the pandemic helped the markets to turnaround a quicker recovery.

6.1 MONEY MARKET

In 2020, the primary issuance of government treasury bills of different maturities was BDT 1220.00 billion in aggregate. However, there was no instance of the use of BB Bill in 2020[67]. Issuance of T-bills in 2020 comprised of 46 percent of 91-days T-bill, 28 percent of 182-days T-bills, and 24 percent of 364-days T-bills.

Chart 6.1 exhibits the month-wise issuance of primary T-bills for each maturity during 2020. T-bills worth of BDT 20.0 billion, BDT 565.0 billion, BDT 341.0 billion, and BDT 294.0 billion with maturities of 14, 91, 182, and 364 days respectively were issued throughout the year. No issuance of T-bill was observed in the month of April-2020 whereas May-2020 observed the highest issuance of T-bills amounting to BDT 162 billion. A random pattern was observed in the volume of T-bill issuance suggesting that the Government's demand for funds did not follow any cyclical or seasonal pattern in 2020.

CHART 6.1: VOLUME OF T-BILLS ISSUANCE IN 2020



Source: BB Website, Economic Data; Calculation: FSD, BB.

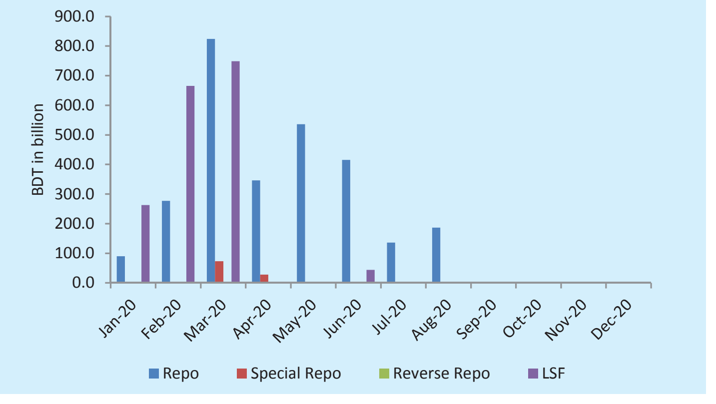
[67] 07 and 14-day BB bills were introduced in April 2016 mainly for sterilization purpose. (DMD Circular No. 03, dated 05 April 2016).

6.1.1 REPO WITH BANGLADESH BANK

Repo and LSF from Bangladesh Bank were availed to a sizable extent during CY20.

On the verge of expected liquidity tightening in March 2020 due to the COVID-19 pandemic, Bangladesh Bank proactively managed the liquidity situation of the financial system[68]. Consequently, banks and financial institutions (FIs) availed Repo facility worth BDT 2813.0 billion and special repo worth BDT 101.0 billion from BB in the review year. The month-wise repo volume in Chart 6.2 depicts that the money market had a noticeable dependency on the central bank for liquidity till August 2020 while it was highest in March 2020. Moreover, during March and April 2020, special repo was also availed by the banks and NBFIs in addition to the repo.

CHART 6.2: MONTHLY TURNOVER OF REPO, SPECIAL REPO,LSF, AND REVERSE REPO IN 2020



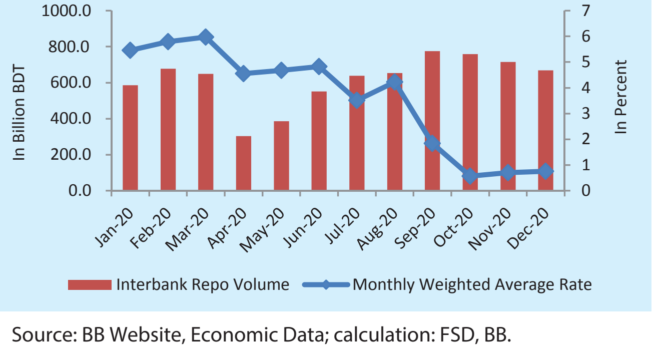
Source: DMD & BB Website.

Besides, BB also provides a substantial amount of liquidity support facility (LSF) to the financial institutions, particularly during the first quarter of 2020. Downward trend of both interbank repo rate and call money rate supported by the easing of liquidity condition of the market explain much of the reason behind the declining demands for repo, special repo and LSF after August 2020 as shown in Chart 6.2.

6.1.2 INTERBANK REPO

Interbank Repo rate drastically declined after August 2020 whereas repo volume moderately increased in September 2020 and stayed almost at the same level for the remaining period of 2020[69].

CHART 6.3: INTERBANK REPO TURNOVER AND INTER BANK REPO RATE IN 2020



Source: BB Website, Economic Data; calculation: FSD, BB.

The volume of interbank repo transactions in 2020 was BDT 7359.4 billion. The month-wise interbank repo volume, illustrated in Chart 6.3, shows the market was slowed down during the months of April-May 2020, which could be partially attributed to COVID-19. Moreover, the interbank repo rate also experienced moderate fluctuations throughout the first two quarters of the year followed by a noticeable declining wave and reached at 0.75 percent in December 2020.

[68] Repo rate was set to 5.75 percent from 6 percent on 23 March 2020 vide MPD Circular No.02, 5.25 percent from 5.75 percent on 09 April vide MPD Circular No.04, 2020 and 4.75 percent from 5.25 percent on 29 July, 2020 vide MPD Circular No.05.

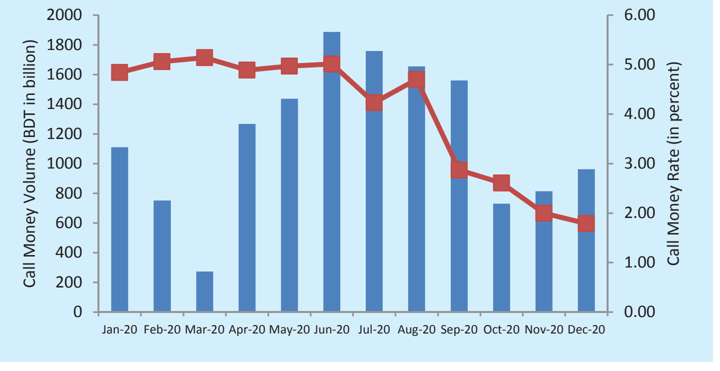
[69] Monthly weighted average interbank repo rate.

6.1.3 INTERBANK CALL MONEY AND INTERBANK DEPOSIT MARKET[70]

The call money rate was reasonably stable till August 2020 with a gradual slow down since September 2020.

Chart 6.4 shows the month-wise call money borrowing volume along with the average call money rate. It shows that call money borrowing volume was lowest in March-2020 when COVID-19 first hit the country. However, the call money rate hovered around 5 percent at that time. After that, from April to August 2020, the volume remained high with almost the same rate.

CHART 6.4: CALL BORROWING VOLUME AND MONTHLY WEIGHTED AVERAGE CALL MONEY RATE IN 2020



Source: DMD and BB Website.

Finally, from September 2020, the call money rate continued to fall sharply with a relatively lower amount of borrowing. In December 2020, the call money rate stood at 1.8 percent. Indeed, BB has injected enough liquidity earlier in the market to tackle COVID-19 shocks due to which demand for funds in the call money market at the later part of the year remained slim and hence, the rate fell sharply.

6.2 BOND MARKET

A dynamic and active bond market is crucial for the better supplement as well as management of banks' liquidity, government debt, and monetary policy. Besides, a vibrant bond market strengthens financial stability by effectively tackling the maturity mismatch problem of bank-based financing. In Bangladesh, the bond market is primarily dominated by government bonds with low product variations while the activities are mostly based on the primary auction.

In 2020, treasury bonds (T-Bond) worth BDT 860.5 billion were issued. Table 6.1 presents the volume of treasury bonds sold in 2020 for different maturities. The table demonstrates the higher auction sales for bonds with shorter maturity in the review year. Issuances of 2-year Treasury bonds were highest in 2020 as they captured 30 percent of the total auction sales. Treasury bond issuance was lowest (BDT 28 billion) in March 2020 whereas it was highest (BDT 100 billion) in July 2020.

TABLE 6.1: VOLUME OF T-BONDS AUCTION SALES IN 2020

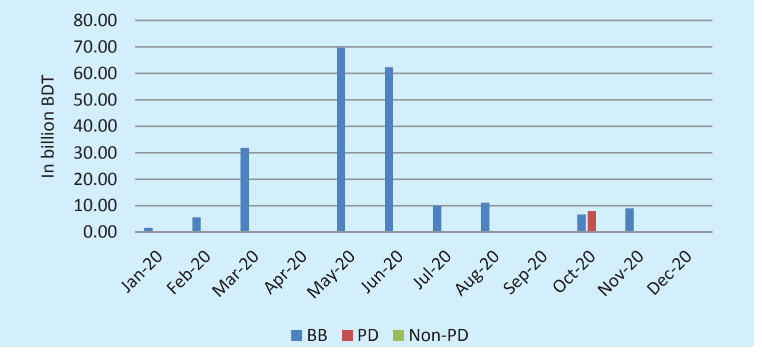
Tenure	Volume (BDT in Billion)	% of Total Auction Sales
2Y T -Bonds	257.0	29.9%
5Y T -Bonds	245.0	28.5%
10Y T -Bonds	220.0	25.6%
15Y T -Bonds	66.5	7.7%
20Y T -Bonds	72.0	8.4%
Total	**860.5**	**100%**

Source: BB Website.

[70] Interbank call money only includes exposures of scheduled banks and FIs with each other. Assets or liabilities with non-scheduled financial institutions are excluded from this discussion.

Chart 6.5 exhibits the mandatory devolvement of treasury securities in auction sales during the review year. Mainly, devolvement took place on Bangladesh Bank in 2020 except for one instance in October 2020 where it was on PDs.

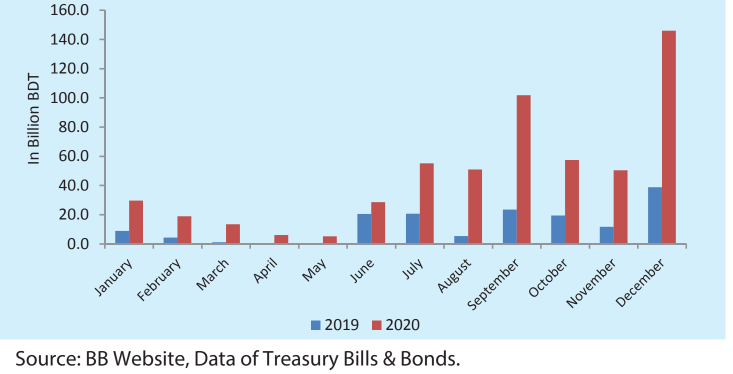
CHART 6.5: VOLUME OF TREASURY SECURITIES AUCTION SALES – MANDATORY DEVOLVEMENT, 2020



Source: BB Website, Treasury Bills/Bonds Auctions. Calculation: FSD, BB.

Higher devolvement was mainly observed in March, May, and June whereas no devolvement was observed during April, September, and December in the review year. Usually, heavy government demands before the end of fiscal year pull up the Treasury securities rate and, therefore, higher devolvement took place to rationalize that.

CHART 6.6: MONTHLY VOLUME OF SECONDARY TRADE



Source: BB Website, Data of Treasury Bills & Bonds.

Chart 6.6 depicts that the monthly volume of secondary trade increased momentarily in 2020 as compared to 2019. The secondary market for T-bonds was more active in 2020 than in 2019. Trading volume across months, however, exhibited almost similar pattern in both calendar years as more trade took place in the second half of the years.

Also, likewise 2019, December in 2020 observed the highest secondary trading volume. Mainly, the Over-the-Counter (OTC) mechanism of Market Infrastructure (MI) module (an automated auction and trading platform for the government securities) was used for secondary trading. The volume of secondary trade using the Trader Work Station (TWS) mechanism was insignificant.

BOX 6.1: YIELD CURVE

The treasury auction yields in December 2020 were considerably lower for all maturities compared to those of December 2019 and June 2020. Consequently, the treasury auction yield curve in December 2020 went down both in the short-and long-term compared to those of December 2019 and June 2020 yield curves. This downward yield curve reflects the lower cost of government borrowing. Moreover, short-term yield declined more than the long-term yield, which made the yield curve steeper indicating a higher maturity risk premium.

Chart B6.1.1 Treasury Bill Yield Curve

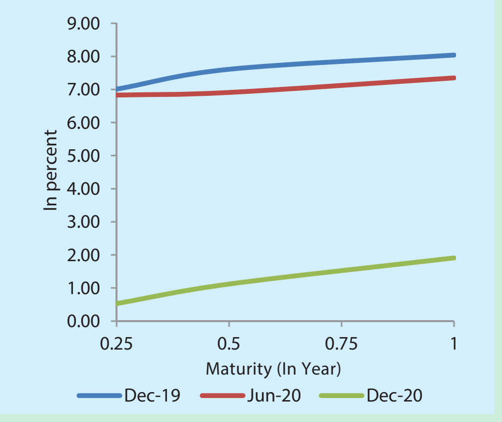
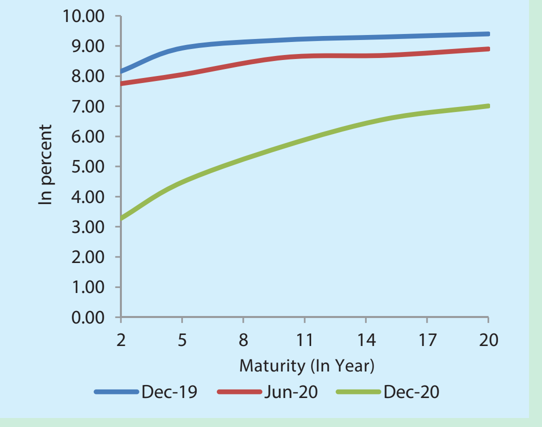


Chart B6.1.2 Treasury Bond Yield Curve



Source: Major Economic Indicators, January 2021 Issue, BB.

Usually, a steeper yield curve indicates stronger economic activities and higher expected inflation. However, in the absence of a vibrant secondary bond market, such indication from the primary market yield curve may not be reasonably conceivable.

6.3 CAPITAL MARKET

The capital market in Bangladesh was bullish in CY20 as has been evident from movements in major market indicators such as index value, market capitalization, daily average turnover, increase in capital, and P/E ratio in the Dhaka Stock Exchange (DSE)-the prime bourse in Bangladesh. Despite the effect of COVID-19, expansionary monetary policy, Government's stimulus packages, prudent management of pandemic, and BSEC's strategies have helped the market to remain buoyant.

The DSE Broad Index (DSEX) increased by 21.3 percent in 2020. The market capitalization of DSE increased by 32.0 percent. The daily average turnover increased to BDT 6.5 billion in 2020 from BDT 4.5 billion in 2019. Moreover, capital raised from the market during 2020 through IPO, right share and stock dividends increased by BDT 80.1 billion in CY20 which was considerably higher than the BDT 49.5 billion of the previous year.

6.3.1 MAJOR INDEX AND MARKET CAPITALIZATION

Chart 6.7 shows that after the slight initial increase in February 2020, DSEX nosedived in March 2020 mainly due to uncertainty arising from the COVID-19 pandemic. After reopening[71], DSEX remained at a low level till August 2020 as investors remained cautious in their investment decisions. After that, DSEX got momentum and reached to 5402.07 at the end-December 2020, and thereby, gained 949.1 index points during this year. The market capitalization of DSE followed similar movements during the review year and reached BDT 4,482.3 billion at the end of 2020 from BDT 3,395.5 billion of end-2019. The rising index

[71] DSE remained closed from March 25, 2020 to May 30, 2020 due to general holydays declared by the government to fight off the Covid-19 pandemic.

coupled with the increased market capitalization indicates the bullish capital market during the review year.

Chart 6.8 exhibits the candlestick chart for the DSEX Index which reveals the investors' sentiments and behaviors from the different patterns of the opening index, highest index, lowest index, and closing index. Long green candle in 2020 is indicating investors' bullish sentiment about the market. Notably, the gap between the highest and lowest value of DSEX was maximum in 2020 since its inception in 2013.

CHART 6.7: DSEX INDEX AND MARKET CAPITALIZATION IN 2020

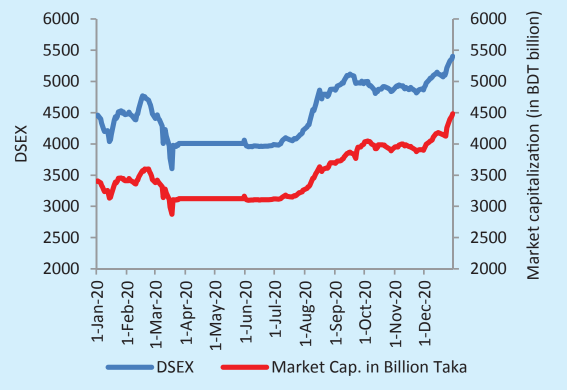
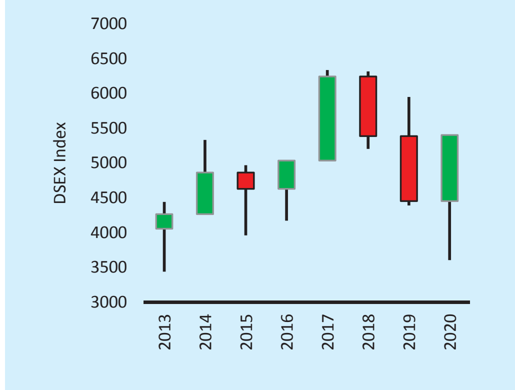
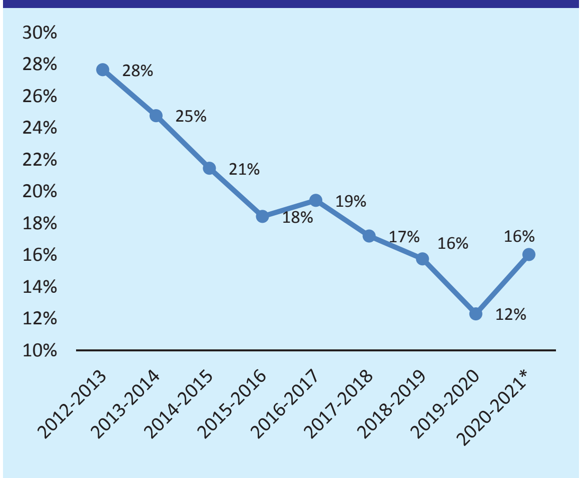


CHART 6.8: DSEX (CY-2013 TO CY-2020)



Source: DSE.

CHART 6.9: MARKET CAPITALIZATION TO GDP RATIO



Source: DSE Monthly Review, December 2020.
* The GDP of FY 2019-20 is considered for the calculation of the market capitalization ratio in December 2020.

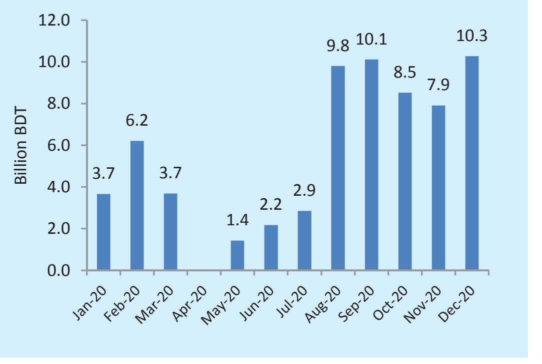
Total market capitalization as a percentage of GDP is a vital indicator that indicates the extent of deepening of a country's capital market. Chart 6.9 shows that the market capitalization-to-GDP ratio is gradually declining which refers to the diminishing contribution of the capital market towards the economic growth in Bangladesh. Further, in the review year, the sharp decline of market capitalization to GDP ratio from 16 percent in June 2019 to 12 percent in June 2020 was largely owing to the pandemic effect. However, the year-end (CY20) market capitalization to GDP ratio seems to be optimistic. More high-quality stocks should be promoted and listed to provide additional depth into this market so that it could not only facilitate the long-term financing demand but also ensure a strong footing for the financial stability of Bangladesh.

6.3.2 DAILY AVERAGE TURNOVER

Capital market liquidity is another important factor as investors prefer higher liquidity in the market. Chart 6.10 shows the trend in daily average turnover since 2013. It exhibits that the daily average turnover increased to BDT 6.5 billion in 2020 from 4.8 billion in 2019 reflecting a significant increase in liquidity into the market. Further, Chart 6.11 shows the month-wise liquidity condition of the DSE during the pandemic-hit 2020. It depicts the dire condition of market liquidity persisted from April to July 2020, i.e., during the early COVID-19 period in the country. However, after the initial panic of the pandemic, the month-wise daily average turnover was increasing from August to December 2020.

CHART 6.10: YEAR-WISE DAILY AVERAGE TURNOVER

CHART 6.11: MONTH-WISE DAILY AVERAGE TURNOVER OF 2020



Source: DSE.

6.3.3 MARKET CAPITALIZATION DECOMPOSITION

Charts 6.12 and 6.13 demonstrate the sectoral share in market capitalization in 2019 and 2020 respectively. The usual dominance of the manufacturing sector in the market capitalization has been further enhanced in 2020 capturing 42.6 percent share from 37.7 percent in 2019. The key reasons for such an increase were the strong growth in market capitalization of pharmaceuticals and chemicals, engineering, food, and allied, textile and cement industries.

Shares of service and miscellaneous sectors slightly decreased, though the same retained the second largest market share. The market share of this sector decreased to 33.9 percent in 2020 from 34.1 percent in 2019. Despite a decline in the share of market capitalization, telecommunication, fuel and power, mutual funds and miscellaneous industry of "service and miscellaneous" sectors experienced considerable growth in market capitalization in 2020. Moreover, the contribution of the financial sector in total market capitalization decreased markedly in 2020 as it stood at 23.4 percent in 2020 from 28.0 percent from 2019. However, banks, financial institutions, and the insurance industry have experienced positive growths in their respective market capitalization.

CHART 6.12: DECOMPOSITION OF MCAP (DEC- 2019)

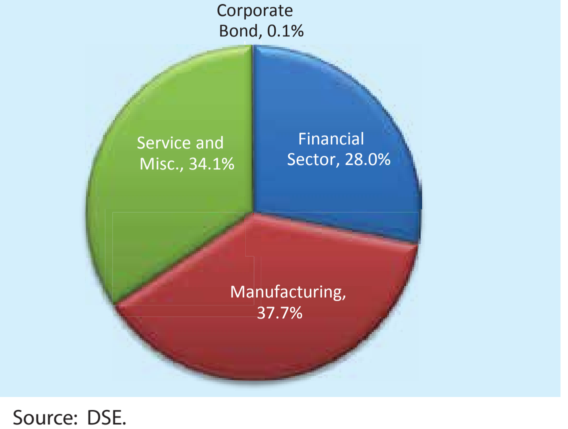
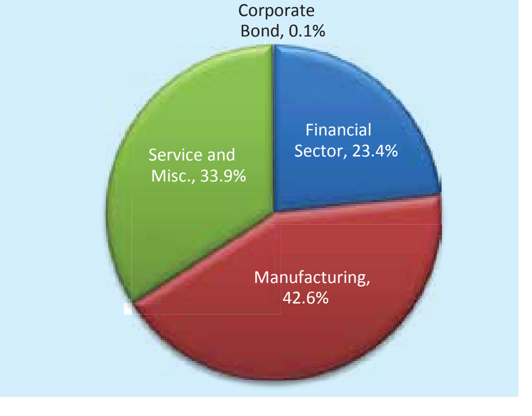


CHART 6.13: DECOMPOSITION OF MCAP (DEC- 2020)

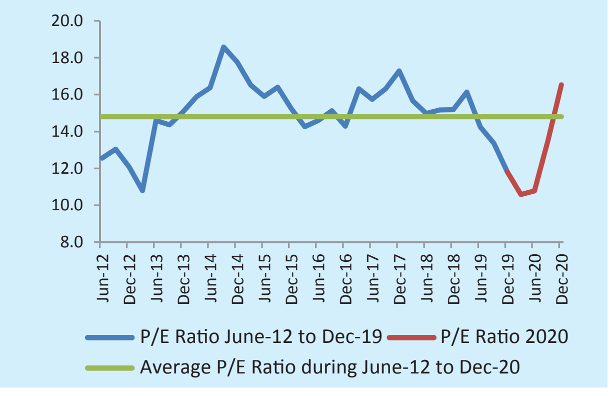


Source: DSE.

6.3.4 PRICE-EARNINGS (P/E) RATIO

The overall weighted average price-earnings (P/E)[72] ratio of the DSE, since June-2012, was the lowest (10.60) in March 2020, when COVID-19 initially hit the country.

CHART 6.14: MARKET PRICE EARNINGS RATIO



Source: DSE.

However, within a very short time, the market P/E took a reverse turn and reached 16.5 in December 2020. This quick turnaround in market P/E ratio might suggest that investors' initial panic about the pandemic was subsided and they were rather optimistic about the future growth of the listed companies. However, investors and other stakeholders need to be meticulous about any irrational exuberance as the market P/E ratio in 2020 lies above the long-run average of P/E ratio.

6.3.5 INITIAL PUBLIC OFFERING (IPO), RIGHT SHARE AND BONUS SHARE

CHART 6.15: CAPITAL INCREASED BY THE SECURITIES TRADED AT DSE

Source: DSE Monthly Review, December 2020.

An increase in initial public offerings (IPOs) deepens the stock market through increasing market capitalization. Chart 6.15 shows the trend in the increase in capital resulting from IPOs, right shares, and bonus shares. In the review year, the capital increase was largely driven by an increased volume of IPOs. Overall, the capital increased by BDT 80.1 billion in CY20 which was considerably higher than the previous year amounting to BDT 49.5 billion.

6.3.6 DIVIDEND AND YIELD

Table 6.2 shows the number of companies that declared cash dividends was increased to 237 in CY20 from 213 in CY19. On the other hand, the number of companies which declared stock dividend was declined to 94 in CY20 from 132 in the previous year. Also, the number of companies that did not declare any dividend was increased to 46 in CY20 from 29 in CY19.

[72] 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.

TABLE 6.2: COMPARISON OF DIVIDEND AND YIELD (2017-2020)

Particulars	2017	2018	2019	2020
No. of companies declared cash dividend	187	179	213	237
No. of companies declared stock dividend	142	154	132	94
No. of companies which did not declare any dividend	36	28	29	46
Yield (%)	3.25	3.58	5.03	3.16

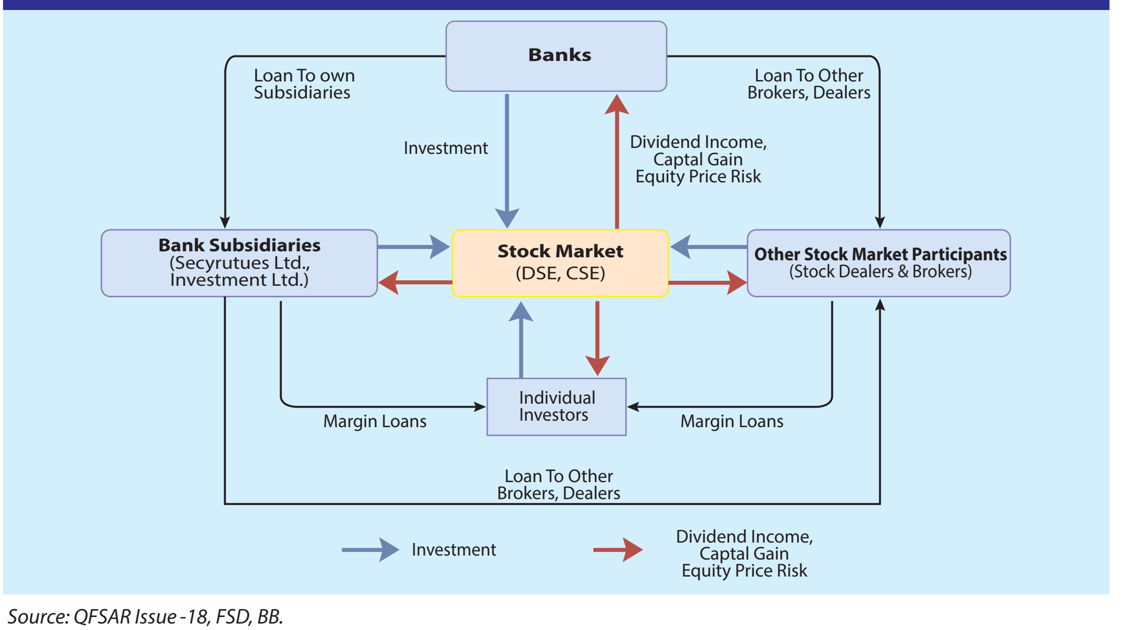
Source: DSE Monthly Review, December 2020.

Dividend yield decreased to 3.16 percent from 5.03 percent in CY19. Since dividend yield is one of the important indicators of returns for the investors, regular dividend payment by the companies is crucial for attracting investors and attaining a sound capital market. However, the dividend yield in the stock market is lower than the returns of other alternative investments, for example, the rate of Sanchayapatra or the fixed deposit rate of banks and NBFIs.

6.3.7 INTERLINK BETWEEN BANKING SECTOR AND STOCK MARKET

The linkage between the banking sector and the stock market is crucial from the financial stability viewpoint. Chart 6.16 shows how banks and capital markets are inter-linked. Inter-linkages may arise from the banks' investment in the capital market on a solo (only bank) as well as the consolidated basis (i.e., banks along with their subsidiaries). Banks' solo-basis investment in the capital market constitutes their investment in shares, mutual funds, bonds/debentures, and placements. Additionally, loans to own subsidiaries in the capital market, loans to others for merchant banking and brokerage activities, loans to stock dealers are also considered as banks' solo-basis investment exposures. For consolidated exposure, investment in shares, mutual funds, bonds/debentures, placement shares, and margin/bridge loans by subsidiary companies of the bank are taken into account.

CHART 6.16: SCHEMATIC VIEW OF INTER-LINKAGE BETWEEN BANKS AND CAPITAL MARKET



Source: QFSAR Issue -18, FSD, BB.

Generally, dividend, interest income, and capital gain are the main earnings of the banks from such investment at the cost of bearing equity price risk. So, the performance of the capital market may have a considerable impact on the banks as banks may incur losses from their investment exposures and the risk is higher for higher exposure in the capital market.

Charts 6.17 and 6.18 show that during the review year, banks' capital market exposures (both solo and consolidated) slightly increased except June 2020 quarter. However, the capital market exposure of banks remained well below the regulatory limit[73] which indicates that equity price shock may not pose any major stability threat to the banking sector in the near-term.

CHART 6.17: TREND IN CAPITAL MARKET EXPOSURES (SOLO) OF BANKS

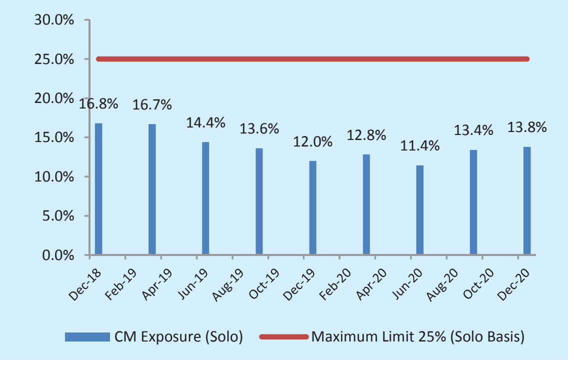
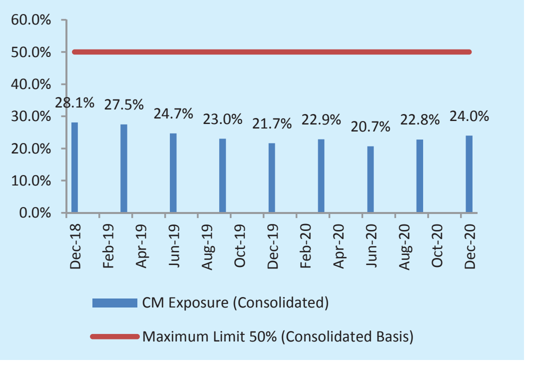


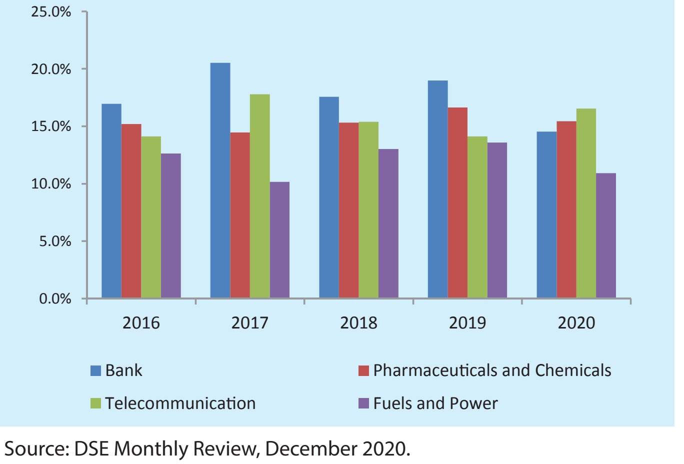
CHART 6.18: TREND IN CAPITAL MARKET EXPOSURES (CONSOLIDATED) OF BANKS



Source: DOS.

There is another perspective of this inter-linkage. As most private commercial banks (PCBs) are listed in the DSE and the banking sector comprises one of the largest segments in this market, the performance of those listed banks (for instance, measured by CRAR, NPL, ROA, or ROE) may significantly influence the overall outcome (e.g., index, market capitalization) of the capital market through their share price channel. Chart 6.19 shows the market capitalization of four major sectors in DSE over the last five years.

CHART 6.19: MAJOR SECTORS' MARKET CAPITALIZATION IN DSE



Source: DSE Monthly Review, December 2020.

The chart 6.19 depicts that the banking sector held the highest market capitalization from 2016 to 2019 reflecting the dominance of the banking sector in DSE. However, the share declined to 14.5 percent of market capitalization in 2020 as the telecommunication sector took the highest share in this calender year. Still, the higher share of the banking sector in the stock market elucidates that any stress on the banking sector may adversely affect the market through a contagion effect. Both market capitalization and index may fall sharply due to the fall in the bank's share price.

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

Chapter 7

FINANCIAL INFRASTRUCTURE

Financial infrastructure facilitates effective operation of financial intermediaries. It promotes financial market's growth as well as boost up fair competition, which leads to efficient allocation of funds and creates more options for customers to diversify their portfolio in a judicious manner. In such a way, the financial infrastructure acts to improve the efficiency of the financial system and protect the rights of both investors and creditors, and thereby promotes financial stability. As a regulator of the financial system of Bangladesh, Bangladesh Bank has been working relentlessly for introducing state-of-the-art payment platforms and instruments to avoid any domestic or cross border risk that may lead to systemic shock to the financial system. Modern financial infrastructure is heavily technology based. To foster smooth functioning of the financial markets, BB has established several sophisticated payment system platforms with innovative technologies consistent with the global standards. BB is also enhancing its supervision for the smooth functioning of financial infrastructure through formulation of effective regulations and ensuring compliance culture among concerned stakeholders.

7.1 ELECTRONIC BANKING OPERATIONS

Banks are the pioneer in introducing digitalization services in banking system of Bangladesh. This digitalization approach has considerably enabled banks to reach customers in numerous ways and cater for banking services at ease. The banking industry in Bangladesh has gone through massive transformation from manual to electronic banking for the last two decades. Both depth and breadth of the banking industry have widened manifold through this transformation. Indeed, banks have automated their branch network, developed corporate intranet system, digitized internal communication, and introduced Core Banking System (CBS) to deliver internet banking, online banking and e-payment gateway and also have smoothened transaction process by using electronic payment and settlement systems that eventually helped to increase country's economic activities to a greater extent.

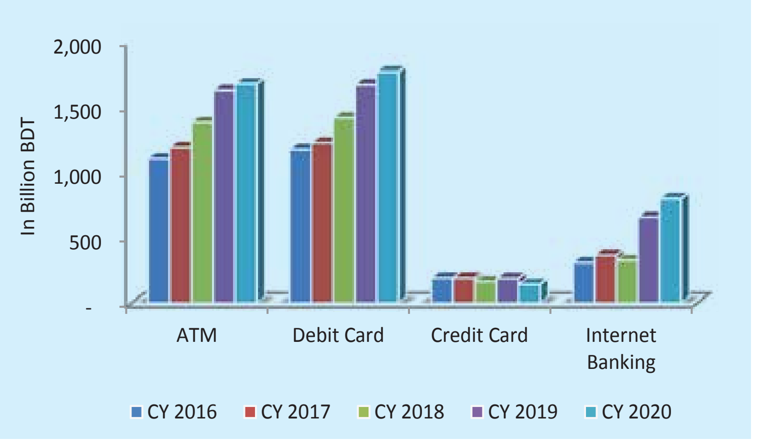
At the end of CY20, 99.10 percent of the bank branches of SOCBs and 99.65 percent of bank branches of PCBs have extended their online banking coverage (Table 7.1). The online coverage of SBs has also increased significantly and stood at 78.33 percent at end-CY20, which was only 30.89 percent at end-CY19. The FCBs has brought 100 percent of their branches under online coverage. Presumably, massive transformation from manual to online banking solution has implication for enhancing productivity and efficiency of the banking industry. In the last year, 90 percent of total bank branches provided online banking services, which reached to 96.28 percent at the end of CY20. This progressive development suggests that 100 percent of bank branches are going to be online in the near future. This will be a great milestone for the banking industry as this may be able to ensure faster banking services to meet the demand of today's digital society.

During the review period, BDT 814.56 billion of fund has been transacted through internet banking platforms which was 29 percent higher than that of the preceding year.

TABLE 7.1: ONLINE BANKING SCENARIO				As of December, 2020
Type of Bank	No. of ATMs	No. of Total Branches	No. of Branches with Online Coverage	Percent of Online Branches
SOCBs	261	3,793	3,721	98.10%
SDBs	6	1,421	1,113	78.33%
PCBs	8,563	5,442	5,423	99.65%
FCBs	137	66	66	100.00%
Total	**8,967**	**10.722**	**10,323**	**96.28%**

Source: Sustainable Finance Department, BB.

CHART 7.1: TOTAL VOLUME OF ELECTRONIC BANKING TRANSACTION



Source: Payment Systems Department (PSD), BB.

Chart 7.1 illustrates that both ATMs and debit card have much higher and almost similar level of transaction volume, compared to credit card and internet banking. In fact, most of the ATM transactions are operated through debit card, only a very small portion of ATM withdrawal is done through credit card. Other prominent uses of debit and credit card are for payment by POS machine and online banking. It is mentionable that all the platforms of electronic banking have recorded a mild growth except credit card. In case of credit card, transaction volume decreased by 25 percent in CY20 than that of CY19.

7.2 NATIONAL PAYMENT SWITCH BANGLADESH (NPSB)

In December 2012, Bangladesh Bank introduced NPSB to facilitate interbank electronic payments originating from different channels like Automated Teller Machines (ATM), Point of Sales (POS) and Internet Banking Fund Transfer (IBFT). Currently 53 banks are connected to NPSB for their ATM transactions, while 52 banks are connected to settle their POS transactions through NPSB. Moreover, Internet Banking Fund Transfer service through NPSB was started in November 2017 where 25 banks are now connected. Recently, Bangladesh Bank has introduced uniform QR specifications termed as 'Bangla QR' to promote QR code-based payments through NPSB as a safety measure against cyber threat. The number and volume of the interbank ATM, POS, and Internet Banking Fund Transfer transactions through NPSB has been growing gradually.

Approximately 33.33 million transactions amounting BDT 309.08 billion had been settled through NPSB in CY20 recording a growth of 12.46 percent and 15.81 percent in the number of transactions and amount of payments respectively.

7.3 BANGLADESH AUTOMATED CLEARING HOUSE (BACH)

BACH is the first major milestone of BB towards digitalizing the payments landscape of the country. It is an automated inter-bank clearing facility for retail payments that clears both paper and instruction-based payments via Bangladesh Automated Cheque Processing System (BACPS) and Bangladesh Electronic Funds Transfer Network (BEFTN). Both the systems operate in batch processing mode; transactions received from the banks during the day are processed at a pre-fixed time and settled through a single multilateral netting figure on respective bank's clearing account maintained with BB.

7.3.1 BANGLADESH AUTOMATED CHEQUE PROCESSING SYSTEM (BACPS)

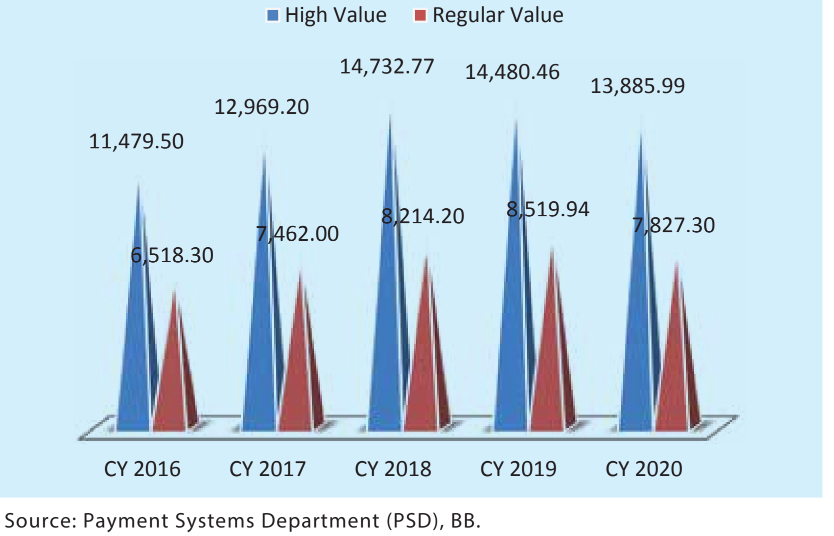
BACPS uses the Cheque Imaging and Truncation (CIT) technology for clearing of paper-based instruments (i.e., cheque, pay order, dividend, and refund warrants etc.) electronically. This electronic cheque presentment technique has made possible to bring the whole country under single clearing umbrella. BACPS operation is governed by the 'Bangladesh Automated Cheque Processing System (BACPS) V2.0 operating Rules and Procedures'.

BACPS has two clearing sessions, namely, (i) High Value (Cheque amount BDT 5.00 lac and above); and (ii) Regular Value (any amount below BDT 5.00 lac).

During the CY20, more than 2 million High Value and nearly 17 million Regular Value cheques were cleared through BACPS, and the respective amounts were BDT 13,885.99 billion and BDT 7,827.29 billion respectively.

After continuous increasing trend for the last 4 years, both High Value and Regular Value cheque processing activities decreased slightly during the review year (Chart 7.2). Various containment measures such as general holidays, limited banking hours and opening of business centers for a shorter period to mitigate the adverse impact of COVID-19 might be the primary reasons for this temporary downtrend.

CHART 7.2: AUTOMATED CHEQUE CLEARING OPERATIONS (In Billion BDT)



Source: Payment Systems Department (PSD), BB.

7.3.2 BANGLADESH ELECTRONIC FUNDS TRANSFER NETWORK (BEFTN)

Bangladesh Electronic Funds Transfer Network (BEFTN) operates as a processing and delivery center for the distribution and settlement of electronic credit and debit transactions among all participating banks. This Network operates in a real-time batch processing mode. A wide range of credit transfers such as salary payment, foreign and domestic remittances, social safety net payments, interest, and principal payment of Sanchayapatra, company dividends, retirement benefits etc. are settled through EFT credits, while utility bill payments, loan repayments, insurance premiums, corporate to corporate payments are accommodated by EFT debits. BEFTN is a faster and efficient alternative of paper-based clearing and settlement system. Recently an upgraded version of Bangladesh Electronic Funds Transfer Network (BEFTN) module has been launched which facilitates settlement of electronic fund transfer twice in a day.

In CY20, 66 million EFT credit and about 4 million EFT debit transactions were settled through BEFTN, and its amount was BDT 3,177.50 billion and BDT 353.85 billion respectively.

7.4 REAL TIME GROSS SETTLEMENT (RTGS) SYSTEM

To facilitate safe, secured, and efficient interbank payment system, Bangladesh Bank launched Real Time Gross Settlement System (BD-RTGS) on 29 October 2015 as part of its inclusive digitalization initiative. BD-RTGS opened a new horizon in the payment ecosystem, accommodating instant settlement of large value and time critical payments in the country. RTGS is an electronic settlement system where transfer of funds takes place between two banks on a real-time and on gross basis. Real-time refers transactions that do not need any waiting period. Transactions are settled as soon as they are executed. Pertinently, minimum limit of a transaction is BDT 1,00,000, whereas there is no limit in case of government payment.

Currently, RTGS system is operating only in local currency inside the country. Replacing paper-based transaction system, RTGS is becoming more popular day by day. ***It is worthwhile to mention that more than 10,100 online branches of 56 scheduled banks are currently connected to this system. In the year 2020, the total number and amount of transactions was 2.45 million and BDT 14,620 billion respectively.***

The system is currently allowed to handle lots of lucrative features including VAT Online Payment, Customs Duty E-Payment, Automated Challan System (ACS) etc. Beside these individual interbank transactions, there is an option to settle all other Deferred Net Settlement Batches (DNSB) such as BACPS, BEFTN or NPSB through RTGS system. BD-RTGS is also linked to BB Core Banking Solution. Bangladesh Bank has provided a participating module to the entire schedule banks for seamless communication between BB-RTGS and the participants. RTGS system brought an immense change in the financial sector and established an epoch-making example in the arena of Bangladesh economy.

7.5 MOBILE FINANCIAL SERVICES (MFS)

To build Bangladesh as a digitally advanced nation with the enhancement of financial inclusion, the Mobile Financial Services (MFS) was introduced in 2011. During the last few years, the country has witnessed an impressive growth of MFS and now 13 banks and 2 subsidiary companies are providing financial services based on mobile based technology as an alternative payment channel in the banking sector. These MFS providers are extending their activities through disbursement of remittance, cash in/out facilities using mobile phone accounts through agents/bank branches/ATMs/mobile operators' outlets, person to business payments, Government to person payments, utility bill payment etc. The growth of transactions through MFS is portrayed in Table 7.2 below:

TABLE 7.2: THE GROWTH OF TRANSACTIONS THROUGH MFS

(In Million BDT)

Category	CY19	CY20	Growth
Inward Remittance	3,151.90	3,272.30	3.82%
Cash In Transaction	1,613,367.30	1,734,667.30	7.52%
Cash Out Transaction	1,541,195.70	1,544,495.70	0.21%
P2P Transaction	890,089.40	1,698,289.40	90.80%
Salary Disbursement (B2P)	101,888.30	131,888.30	29.44%
Utility Bill Payment (P2B)	50,234.50	83,434.50	66.09%
	54,595.90	104,505.90	91.42%
Government Payment	19,741.00	41,441.00	109.92%
Others	70,635.30	70635.30	0.0%
Total	**43,44,899.30**	**5,412,629.70**	**24.57%**

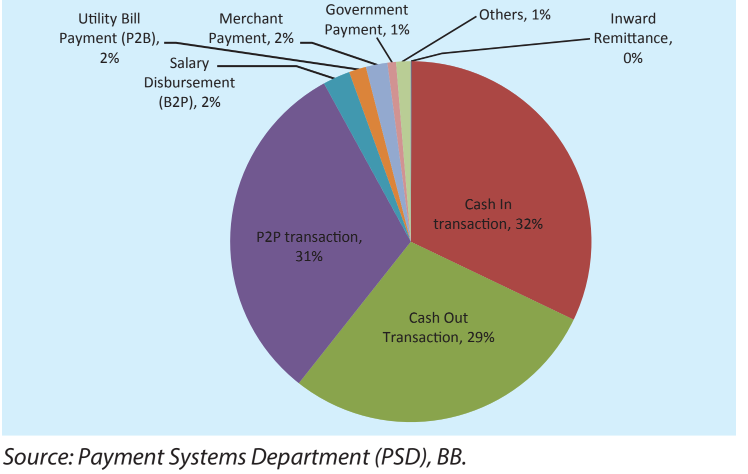
Source: Payment Systems Department (PSD), BB.

Government payment showed massive growth (109.92 percent) in CY20. The growth of P2P transaction was 90.80 percent. Merchant payment, utility bill payment and disbursement of salary have attained satisfactory growth during CY20.

As of December 20, the total number of MFS agents is 10,58,897 and the number of registered clients is 99.36 million, out of which the number of active accounts is about 32.3 million. At the same time, total amount of BDT 570 billion was transacted through MFS by 300 million transactions. At present, the average daily transaction volume through MFS is about BDT 18 billion. Both the client base and agents network increased gradually during the review year.

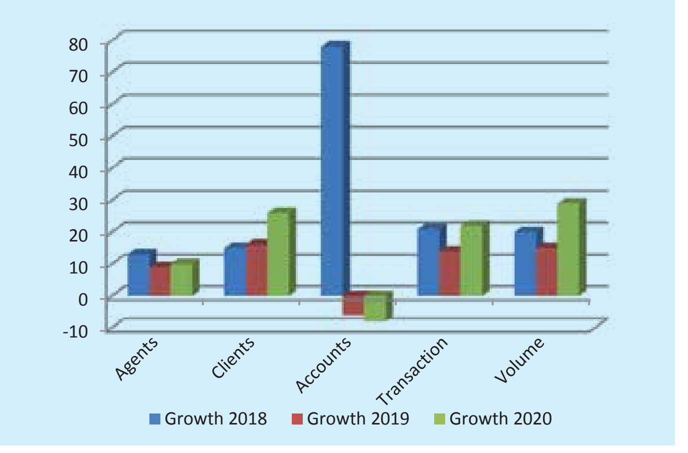
In CY 20, share of Cash-In transactions, person-to-person payments, utility bill payments and merchant payments increased (Chart 7.3). However, the highest share of transactions took place in 'Cash In' (32 percent) followed by 'P2P (31 percent) against their corresponding figures of 37.13 percent and 20.49 percent in CY19.

CHART 7.3: CATEGORY-WISE SHARE OF TRANSACTIONS OF MFS IN CY20



Source: Payment Systems Department (PSD), BB.

CHART 7.4: GROWTH OF MFS



Source: Payment Systems Department (PSD), BB.

Chart 7.4 depicts that in CY20, except the number of accounts, all other aspects of MFS had positive growth compared to CY19.

To foster digital payment service, BB also issued licenses to Payment System Operators (PSO) and Payment Service Providers (PSP). Presently, five (5) non-bank institutions are facilitating e-commerce and inter-bank card-based transactions. On the other hand, two (2) non-bank institutions provide e-wallet under PSP license. Customers or merchants can perform all types of digital transactions through this e-wallet. To ensure the ease of customers to send money from one MFS account to another MFS account/bank account/card/payment service provider/merchant payment, establishment of MFS interoperability is currently under process.

7.6 CENTRAL DEPOSITORY SYSTEM

Central Depository System (CDS), operated by Central Depository Bangladesh Limited (CDBL), is a major financial market infrastructure. Engaged in operations of capital market of Bangladesh, it assists listed companies in handling of script-less delivery, settlement, and transfer of ownership of securities through the computerized book-entry system. The agents of CDBL, which extend depository services, are called Depository Participants (DPs).

At end-December 2020, there were 354 full-fledged DPs, 4 full-fledged exchange DPs, 99 custodian DPs and 44 treasury DPs registered under CDBL. In addition, 450 issuers have got International Securities Identification Numbers (ISINs) from CDBL. The number of active BO accounts as of end-December 2020 was around 3.36 million.

7.7 PAYMENT SYSTEM OVERSIGHT

Payment systems oversight is a specialized activity undertaken by the central banks around the globe for effective supervision of their Payment, Clearing and Settlement Systems. In the domestic context, Bangladesh Bank (BB) also has payment systems oversight framework to achieve the objectives of ensuring safety and efficiency of its payment systems by monitoring and assessing existing and planned payment systems and applying policy changes as and when necessary. To strengthen and streamline its oversight activities, BB worked closely with different stakeholders and came up with “Payment Systems Oversight Policy Framework-2019”, which has been duly approved and enforced with effect from January 2019.

This Policy Framework is facilitating effective oversight of payment systems, instruments, procedures and all the related parties having licensed from BB. As per the Payment Systems Oversight Framework, Bangladesh Bank monitors the activities of payment systems and market participants by collecting off-site data and information and also performs on-site inspection as well. The area of oversight is also being extended to review the legal and regulatory framework of existing payment systems, setting standards, ensuring fair access, protecting consumer rights, etc. As a part of oversight, individual Operational Risk Framework of payment platforms has been enforced. Assessment is done using various analytical tools and on the basis of collected data; potential risks are identified, and reports are prepared accordingly. Various measures have been taken so far for the betterment of the payment ecosystem.

7.8 INITIATIVES TAKEN DURING CY20

Amid the COVID-19 pandemic, Payment System and Digital Finance Access played a crucial role to run the economy well, especially when maintaining physical distance and staying home became inevitable. During the pandemic, Bangladesh Bank has issued different directives and performed various actions in the arena of payment systems as a part of restoring the economic activities of the country. These are briefly mentioned below:

(a) Government stimulus package for salary and allowances of Garment workers was directly disbursed to their Mobile wallets accounts. Also, cash assistance declared by honorable Prime Minister for 5 (five) million marginal families was disbursed directly to the beneficiaries' mobile accounts. To make these initiatives successful, 2.2 million new mobile accounts (most of which are female) were opened. The cash-out charge for the workers' salaries were reduced to 0.8 percent from 1.85 percent.

(b) Person-to-person transaction limit through mobile wallets was enhanced from BDT 75,000 to BDT 2,00,000 for purchasing the emergency food/daily necessities and medicine. Cash Out charges have been made free for up to BDT 1,000 per day. Charges were eliminated for the seller of the emergency food/daily necessities and medicines. Near Field Communication (NFC) card transaction limit (for NFC payments) has been enhanced from BDT 3,000 to BDT 5,000 per transaction.

(c) E-Commerce and M-Commerce: Bangladesh has been experiencing a surge in E-commerce in recent times especially since the beginning of lockdown in late March 2020 due to COVID-19 pandemic. At present, the most prevalent type of E-commerce in the country is Business to Consumer (B2C). However, Consumer to Consumer (C2C) and Business to Business (B2B) are still at an early stage. Unlike many countries, a large part of E-commerce consists of small social media based micro merchant services.

M-commerce, which is basically E-commerce through mobile devices, is the largest part of E-commerce in the country. Cheap smart devices, easily accessible mobile data and popular mobile payment platforms have created the ideal combination to choose mobile devices over computers. M-commerce not only help make easy retail purchases, but also makes commercial transactions like online banking and bill payments successful.

Bangladesh Bank has been gradually developing the payment infrastructure to create enabling environment for E-commerce. It has recently introduced "Personal Retail Account" where the smallest retailers (both off and on-line) can have a bank/mobile account to receive consumer payments as well as make their own merchant payments. On the other hand, Bangladesh Bank is contemplating a policy on escrow system which may enhance protection of consumers' rights at grass root level. With the right policy and infrastructure, this sector has the potential to make a real impact on the economy of the country.

Bangladesh Bank remained vigilant during CY20 to ensure the security of the entire payment system. As a part of effective payment system oversight, Bangladesh Bank has taken several measures and created awareness among banks/FIs/MFS providers and stakeholders including customers to stop digital frauds in the systems. The respective stakeholders were appeared to remain careful in performing transactions through digital payment platform and strengthened their cyber security activities at the transaction levels. The occurrence of frauds by using payment system was insignificant and loss involved thereto was also negligible. In short, no major threat to financial stability arose from payment systems infrastructure during CY20.

Chapter 8

FOREIGN EXCHANGE MARKET

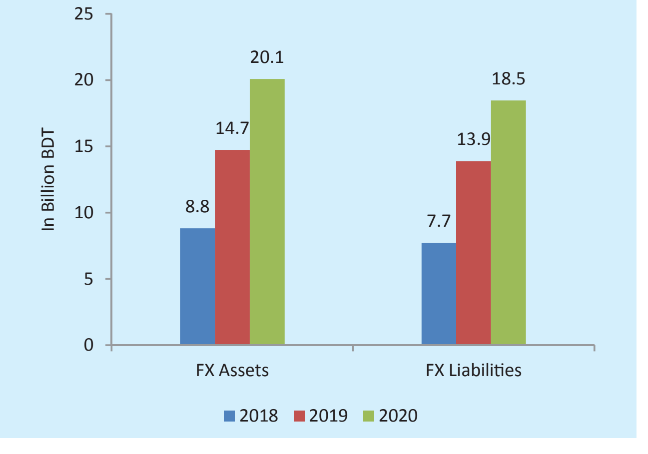
Foreign exchange (FX) market of Bangladesh remained stable in CY20. The increasing trend of FX assets and liabilities as well as FX off-balance sheet items of banks was continued during the year. The interbank (local) FX turnover also increased compared to that of CY19. During the review period, L/C opening decreased slightly, and L/C settlement decreased substantially, thereby mitigating the pressure on FX market. Besides, record growth in wage earners' remittances, low import payment and increased external debt were the catalyst in raising the foreign exchange reserve. However, BB's prudent intervention in the market, through purchasing USD, helped to stabilize the nominal exchange value of BDT against USD. As a result, gross FX reserves hit the new record and appeared to be strong enough to withstand probable external shocks in the foreseeable future. Furthermore, movement of real effective exchange rate (REER) index was less volatile with a mild appreciation during the year.

8.1 FOREIGN EXCHANGE ASSETS AND LIABILITIES

FX denominated assets and liabilities constituted around 9.6 and 8.9 percent of total banking sector assets and liabilities respectively in CY20. Due to the limited exposure, FX turnover of banks remained in comfort zone during the review period.

FX denominated assets of the banking sector are mainly composed of cash holdings, BB clearing account, debit balance in Nostro accounts, foreign currency bills purchased, investment in off-shore banking units (OBUs) and others. At end-December 2020, banks' total FX assets increased by 36.4 percent and stood at USD 20.1 billion from USD 14.7 billion at end-December 2019 (Chart 8.1).

Chart 8.1: Year-wise Fx Assets And Liabilities



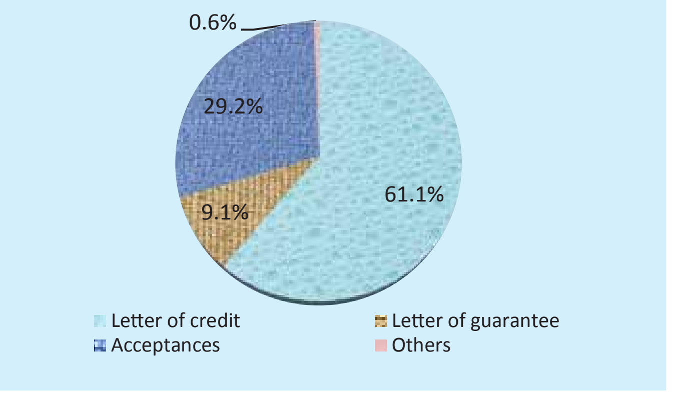
Sources: FEPD, BB.

On the other hand, FX denominated liabilities are mainly composed of credit balances in Nostro accounts, back-to-back L/Cs fund awaiting for remittance, balances in customer accounts (such as, non-resident foreign currency deposit (NFCD), resident foreign currency deposit (RFCD), exporters' retention quota (ERQ), FC accounts, foreign demand draft (FDD), telegraphic transfer (TT) and mail transfer (MT payables). Pertinently, FX liabilities recorded 33.1 percent increase from USD 13.9 billion at end-December 2019 to USD 18.5 billion at end-December 2020. (Chart 8.1)

8.2 FOREIGN EXCHANGE CONTINGENT LIABILITIES

Off-balance sheet items denominated in FX decreased in CY20 compared to that of CY19.

Chart 8.2: Components Of Fx Contingent Liabilities (End-december 2020)



Source: FEPD, BB (Data for April and May 2020 were not available)[74].

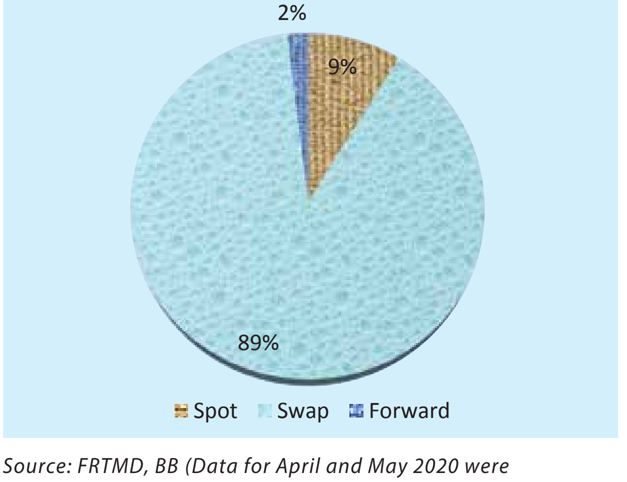
FX denominated off-balance sheet items, which is a dominant portion of total banking sector off-balance sheet exposures, decreased from USD 56.8 billion at end-December 2019 to USD 50.9 billion at end-December 2020. FX off-balance sheet items were composed of four major accounts: letter of credits (L/Cs), letter of guarantees, acceptances and others. These four components accounted for 61.1 percent, 9.1 percent, 29.2 percent and 0.6 respectively in CY20. Decline in the value of FX off-balance sheet items in foreign currency implies lesser need of foreign currency for future payments, which may contribute to future stability in the foreign exchange market.

8.3 INTERBANK (LOCAL) FX TURNOVER

Interbank (local) FX turnover, led by swap transactions, was recorded at USD 34.48 billion in CY20. Both FX turnover and FX net open position increased in the second half of the CY20. FX net open position remained well below the approved limit of BB.

Interbank (local) FX market has been dominated by swap transactions since 2015. This is due to the fact that swap transactions provided the market participants more flexibility in FX liquidity risk management.

CHART 8.3: COMPONENTS OF INTERBANK FX TURNOVER (CY20)



Source: FRTMD, BB (Data for April and May 2020 were not available).

In CY20, 89 percent of total interbank (local) FX turnover was represented by swap transactions followed by 9 percent spot transactions and 2 percent forward transactions (Chart 8.3). More than 98 percent of these transactions were executed in USD. Compared to CY19, swap transactions increased by 112 percent, while forward transactions decreased by 30 percent in CY20.

[74] Due to countrywide general holidays to limit the spread of COVID-19, some data like contingent liabilities, Net Open Position, Interbank FX turnover were not available and related analyses were prepared based on the available data.

Total interbank (local) FX turnover increased from USD 15.71 billion in CY19 to USD 34.48 billion in CY20, recording an increase of 119.48 percent. The monthly average (for 10 months) turnover of interbank (local) FX transactions was USD 3.45 billion in CY20, which was USD 1.33 billion in CY19 (Chart 8.4). The monthly FX turnover showed an increasing trend during CY20 (Chart 8.5).

CHART 8.4: ANNUAL FX TURNOVER

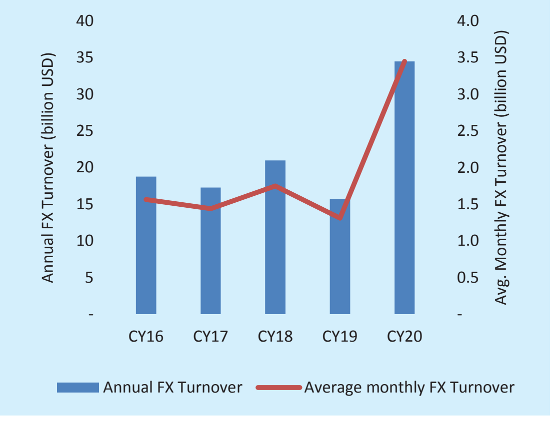
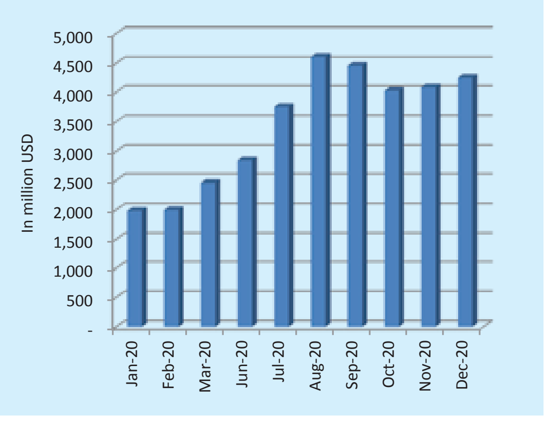


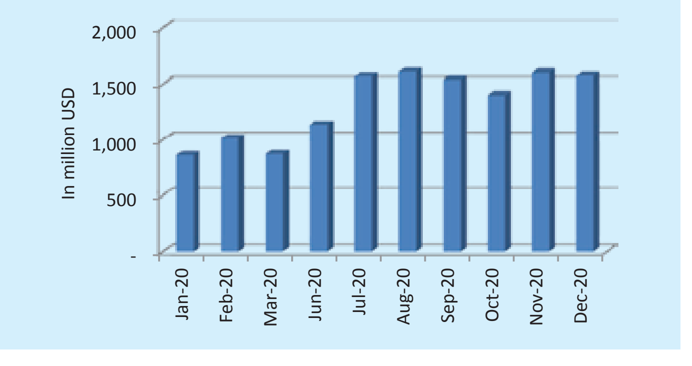
CHART 8.5: MONTHLY FX TURNOVER (CY20)



Source: FRTMD, BB (Data for April and May 2020 were not available).

The overall FX net open position was USD 1.57 billion at end-December 2020 as compared to USD 0.87 billion at end-December 2019. The highest balance of USD 1.61 billion was recorded at end-August 2020, while the lowest balance of USD 0.86 billion was observed at end-January 2020. However, it remained well below the approved limit[75] set by Bangladesh Bank.

CHART 8.6: FX NET OPEN POSITION (CY20)



Source: FEPD, BB (Data for April and May 2020 were not available).

8.4 ADEQUACY OF FX RESERVES

Gross FX reserves of Bangladesh stood at USD 42.97 billion at end-December 2020. This amount is well above the international benchmarks in terms of reserve adequacy and deemed to be sufficient to withstand probable external shocks in the foreseeable future.

[75] Approved limit of NOP is currently 20 percent of Tier-1 and Tier-2 capital.

Adequacy of FX reserves is an important parameter in assessing an economy's ability to absorb external shocks[76].

The gross FX reserves increased by 32.1 percent from USD 32.7 billion at end-December 2019 to USD 43.2 billion at end-December 2020. The reserves are sufficient to cover 8 months' import payments (Chart 8.7), which is much higher than the international benchmark of meeting three months' import payments. Also, in terms of reserves to M2 (broad money) criteria[77], Bangladesh has been positioning above the reference level of reserves. Chart 8.8 shows that reserves to M2 ratio increased by 3.4 percentage points in CY20 to register at 24.8 percent.

CHART 8.7: IMPORT COVERAGE OF FX RESERVE

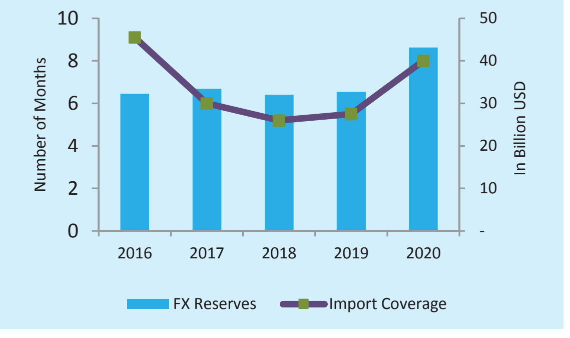


CHART 8.8: RESERVES TO M2 RATIO

Source: NSDP, BB Website; Statistics Department, BB.

In terms of short-term external debt (STD) to FX reserves criteria, which suggests a ratio less than 100 percent as safe, Bangladesh remained in comfortable zone as only 25.5 percent of the reserves is required to cover the external debts becoming due in next 12 months (Chart 8.9). Although STD has grew in CY20, even a higher growth of FX reserves may help to increase resilience against the shocks from short-term external debt.

CHART 8.9: SHORT-TERM EXTERNAL DEBT TO RESERVE RATIO

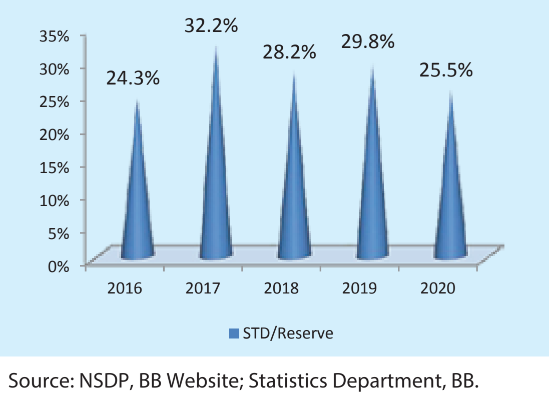
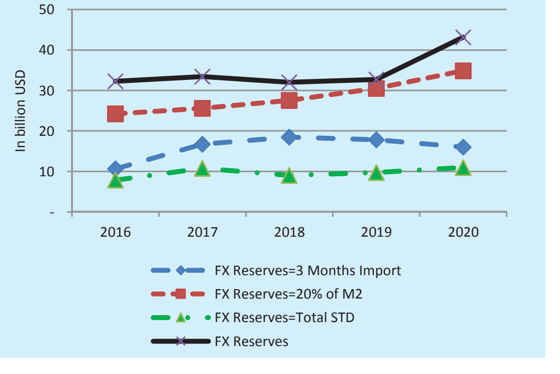


CHART 8.10: RESERVES ADEQUACY MEASURES FOR BANGLADESH



Source: NSDP, BB Website; Statistics Department, BB.

[76] There are different benchmarks for measuring FX reserve adequacy; however, assessing reserve adequacy based on a single indicator may not ensure a country's resilience against foreign exchange shock. Three mostly used international benchmarks are: (i) import coverage of FX reserve, (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). Considering these benchmarks, the reserve adequacy position of Bangladesh has been examined. For details see Islam, M.S. (2009), "An Economic Analysis of Bangladesh's Foreign Exchange Reserves", ISAS Working Paper No. 85, Singapore, September.

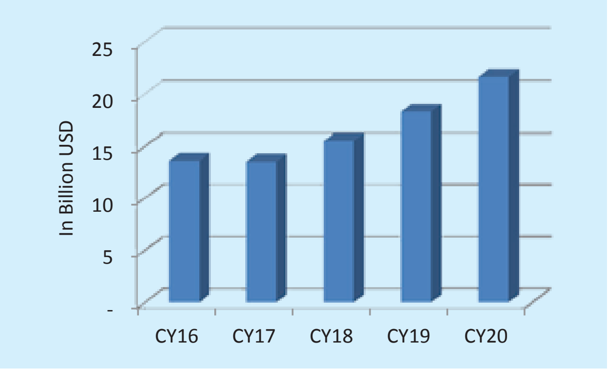
[77] This indicates an economy's ability to withstand external shocks and ensure convertibility of local currency.

As Chart 8.10 indicates FX reserve of Bangladesh appeared to be adequate in terms of each of the three individual benchmarks of reserve adequacy. This implies that financial system of Bangladesh is expected to remain resilient to probable external sector vulnerabilities.

8.5 WAGE EARNERS' REMITTANCE

Wage earners' remittance recorded a new peak in CY20 providing stability in the FX market.

CHART 8.11: WAGE EARNERS' REMITTANCE



Source: Monthly Economic Trend, BB.

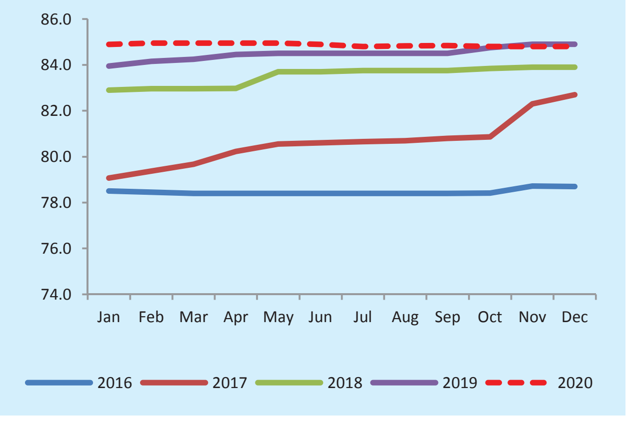
The remittance inflow increased markedly from USD 18.3 billion in CY19 to USD 21.7 billion in CY20. Record amount of remittance inflow in the review year helped maintain stability in the supply side of the FX market, thereby strengthening resilience to external shocks.

8.6 EXCHANGE RATE MOVEMENT

Nominal exchange rate was largely stable throughout the review year.

Nominal exchange rate was mostly stable in CY20 even with an appreciation of 0.12 percent as opposed to 1.2 percent and 1.6 percent depreciations recorded in CY19 and CY18 respectively. Increased stock of FX reserve supported by record amount of remittance inflow helped to maintain the stability in the nominal exchange rate in CY20.

CHART 8.12: EXCHANGE RATE MOVEMENT (BDT/USD)



Source: Monthly Economic Trend, BB.

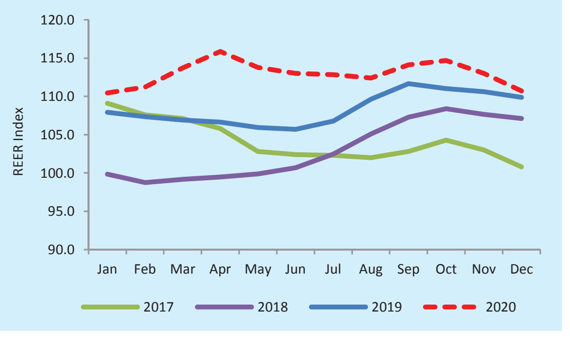
Chart 8.12 shows that the monthly average nominal BDT/USD exchange rate (dotted line) remained almost stable throughout the CY20. The maximum exchange rate (BDT 84.95 per USD) was recorded during February to May 2020 while the minimum (BDT 84.80 per USD) was recorded in November 2020.

8.7 MOVEMENT OF REAL EFFECTIVE EXCHANGE RATE (REER)

Real effective exchange rate (REER) experienced mild appreciation amid some fluctuations in CY20.

Chart 8.13 shows the trend of REER movement in CY20 (dotted line) along with those of last three calendar years. REER[78] index registered an appreciation of 0.76 percent during the review year. The index steadily increased during the first quarter and peaked at 115.86. Subsequently, it started decreasing and reached 110.73 at the end of the year.

CHART 8.13: REER MOVEMENT



Source: Monetary Policy Department, BB.

Movement of REER was less volatile in the last four years, as the standard deviation of REER was 1.61 in CY20, while it was 2.10, 3.82 and 2.61 in CY19, CY18 and CY17 respectively. However, appreciation of REER in the last two years might have impacted the efficiency of export competitiveness with the neighboring countries.

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

Both L/C opening and L/C settlement decreased in the review year due to COVID-19 pandemic.

CHART 8.14: L/C OPENING

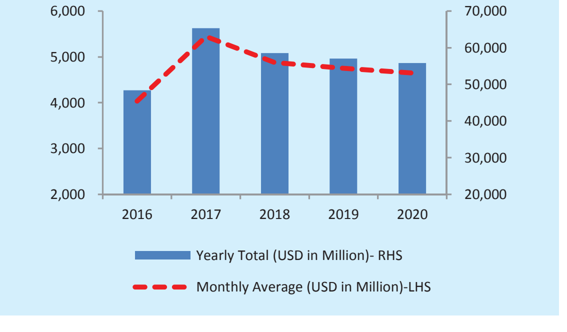
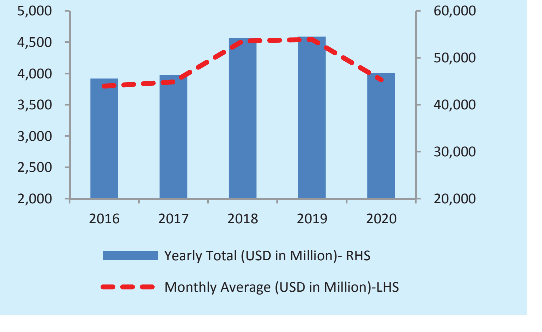


CHART 8.15: L/C SETTLEMENT



Source: Major Economic Indicators, BB.

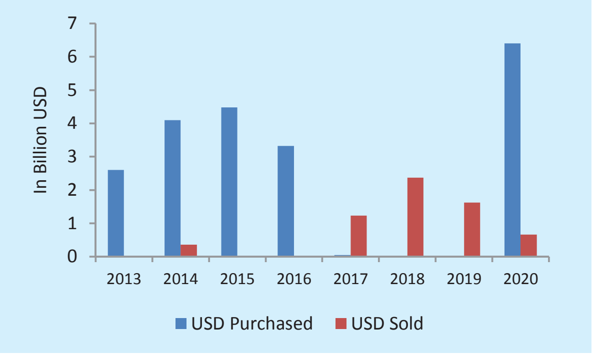
The L/C opening for import decreased from USD 57.0 billion in CY19 to USD 55.8 billion in CY20, registering a decline of 2.1 percent during the review year. The L/C settlement also decreased by 14.3 percent and recorded at USD 46.7 billion in CY20 from USD 54.5 billion in CY19. Decrease in L/C settlement eased some pressure on the demand for USD.

[78] REER index is a combination of 15 currencies in a basket with the base year set at 2015-16=100; it is a measure that adjusts the nominal exchange rate for differences in domestic inflation and those of the country's main trading partners.

8.9 INTERVENTION IN FX MARKET BY BB

Bangladesh Bank purchased USD 6.4 billion from the FX market and sold USD 0.66 billion thereto in CY20.

CHART 8.16: INTERVENTION IN FX MARKET BY BANGLADESH BANK

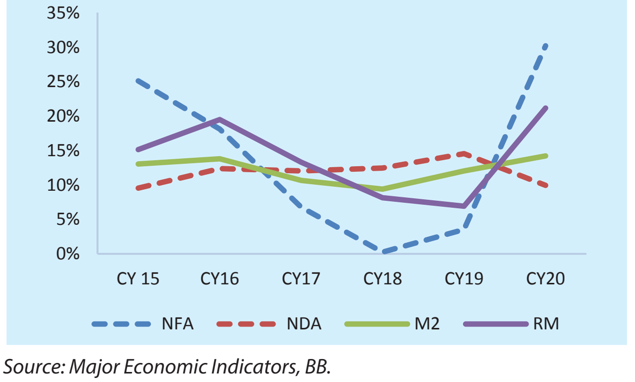


Source: FRTMD, BB.

In the floating exchange rate regime, Bangladesh Bank occasionally intervenes into the foreign exchange market to maintain the exchange rate stability when it deems necessary. During the review year, the central bank purchased USD 6.4 billion from the market and sold USD 0.66 billion, resulting in a net purchase of USD 5.74 billion, whereas it only sold USD in the last two years (Chart 8.16). To stabilize the exchange rate, BB mopped up significant amount of foreign currencies expanded as result of strong inflow of wage earners' remittances, increased external debt along with less L/C settlements in CY20.

Because of this intervention by BB, more liquidity was added in the financial system of Bangladesh. As Chart 8.17 shows, Net Foreign Assets (NFA) increased significantly by 30.2 percent in CY20.

CHART 8.17: NDA, NFA, RM AND M2 MOVEMENT



Source: Major Economic Indicators, BB.

Due to substantial growth of NFA, Reserve Money (RM) registered a higher than average growth (21.2 percent) despite a moderate growth (9.4 percent) in Net Domestic Asset (NDA), the other source of RM. Broad Money (M2) recorded an increase of 14.2 percent, marginally higher than target level of 14 percent.

Chapter 9

INSURANCE SECTOR IN BANGLADESH

Being an integral part of the financial system, insurance sector is vital for the financial stability of the country. This sector plays a significant role by providing insurance to domestic as well as rapidly expanding international businesses. Since the economy of Bangladesh is being increasingly integrated with the world economy through international trade and commerce, this sector appears to get more attention over the years. On the domestic front, insurance sector is one of the major suppliers of fund in local deposit market, fixed income securities market and stock market. Poor performance of this sector may create vulnerability and therefore, has implication for the stability of these inter-linked and inter-dependent markets. On the other hand, the role of fund mobilization in financial intermediation as well as risk insulation by the insurers promotes stability in the financial system of Bangladesh. Hence, proper facilitation and intensive monitoring of the insurance sector has utmost importance from financial stability point of view.

Mentionable that business of insurance companies is quite different from that of banks and other financial institutions. An important difference between banking and insurance lies in the balance sheet structure. Generally, the average maturity of life insurance companies' liabilities is longer than that of their assets. It makes them less vulnerable to customer runs, while provides the opportunity to invest in long-term instruments of banks and equity market. Therefore, investment behavior of insurance sector and its soundness should receive notable attention since insurance not only protects policyholders but also contributes to the stability of financial system as a whole.

In general, insurers in Bangladesh diverse their products in the form of life insurance, general insurance, reinsurance, micro-insurance, and Takaful or Islami insurances with different schemes and endowments. At present, 32 life insurance companies (including a foreign company and a public company) and 46 general (non-life) insurance companies (including a public company) are doing business in Bangladesh. Insurance Development and Regulatory Authority (IDRA) is solely responsible for the regulation and supervision of the insurance industry.

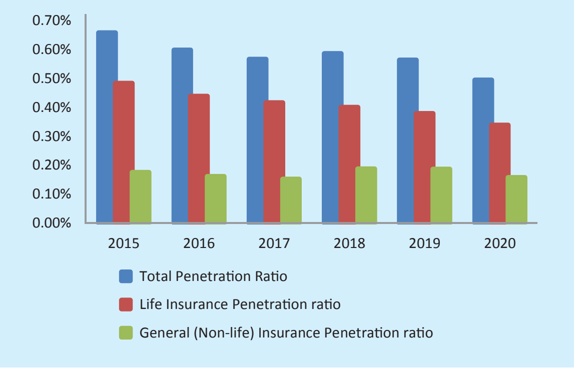
9.1 INSURANCE SECTOR DEVELOPMENT: PENETRATION AND DENSITY

Insurance penetration ratio is considered to measure the level of development of insurance sector in Bangladesh. The ratio of insurance premium underwritten in a particular year to GDP is used to estimate the insurance penetration ratio. Chart 9.1 shows the trend in insurance premium as a share of GDP in Bangladesh during 2015-2020. The insurance penetration ratio declined to 0.5 percent in CY20 from 0.56 percent in CY19. Moreover, the decreasing trend is observed for both non-life and life insurance companies. Non-life and life insurance penetration ratio declined to 0.16 percent and 0.34 percent in CY20 from 0.18 percent and 0.38 percent respectively from the previous year. The reduction in penetration ratio was higher for life insurance companies compared to non-life insurance companies.

Moreover, the overall penetration ratio (0.50 percent) of the sector in CY20 appeared to be low compared to other neighboring countries. Insurance density or per capita premium is calculated as the ratio of total premiums to total population, which indicates the average level of insurance coverage of mass people. The insurance density ratio decreased to USD 9.7 in

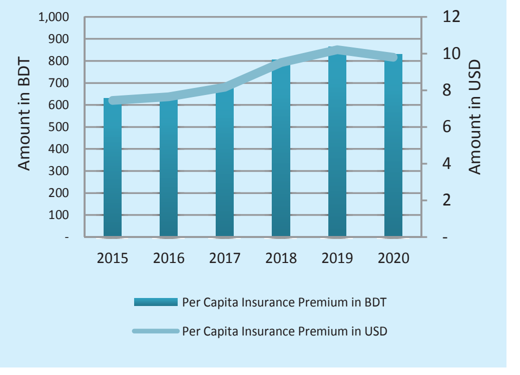
CY20 from USD 10.2 in CY19 (Chart 9.2), which was also low compared to other South-Asian countries. The slow growth of insurance premium compared to GDP growth resulted in downward trend in insurance penetration ratio. On the other hand, the insurance density ratio is low as majority of people in Bangladesh remain outside the insurance coverage due to its less popularity to the mass segments of the country.

CHART 9.1: INSURANCE PENETRATION



Sources: IDRA, FSD calculations.

CHART 9.2: INSURANCE DENSITY RATIO



Source: IDRA, Population Census BBS, FSD calculations.

9.2 PREMIUM GROWTH AND ASSET SIZE

Chart 9.3 exhibits the trend in gross premium (in terms of both amount and percent) of the insurance industry in Bangladesh. It shows that gross premiums of insurance companies declined slightly in CY20 compared to CY19. In CY20, gross premiums of life insurance and non-life insurance stood at BDT 95.0 billion and BDT 44.0 billion respectively compared to the same of BDT 96.0 billion and BDT 47.2 billion in 2019. Noteworthy, the life insurance companies contributed approximately 68 percent of the total gross premium in CY20. Overall, total gross premium in insurance sector decreased by 2.9 percent in CY20 largely due to the impact of ongoing pandemic.

CHART 9.3: TREND IN GROSS PREMIUM AND ITS GROWTH

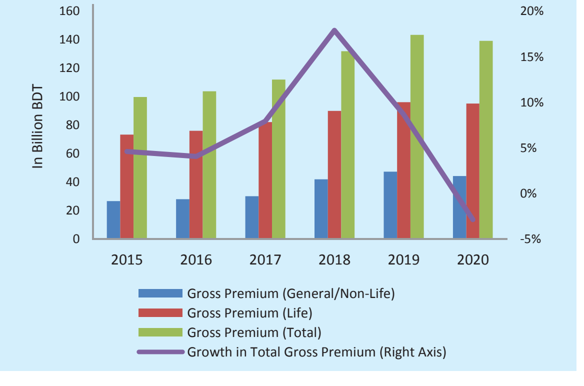
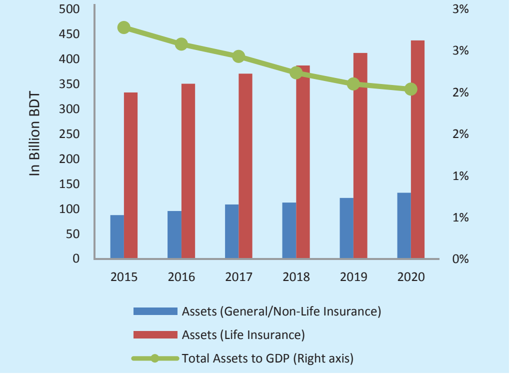


CHART 9.4: TREND IN INSURANCE SECTOR ASSET



Source: IDRA, FSD calculations.

Chart 9.4 exhibits trend in insurance sector's assets from CY15 to CY20. In CY20, assets of life insurance and non-life insurance stood at BDT 436.7 billion and BDT 132.3 billion respectively compared to BDT 411.8 billion and BDT 122 billion respectively in the preceding year. Overall, total assets of insurance sector grew by 6.6 percent in CY20 to stand at BDT 569 billion. Noteworthy, assets of the life insurance companies constituted more than three fourth of the total assets of the insurance sector in 2020 (Chart 9.5).

CHART 9.5: SHARE OF INSURANCE SECTOR'S TOTAL ASSET

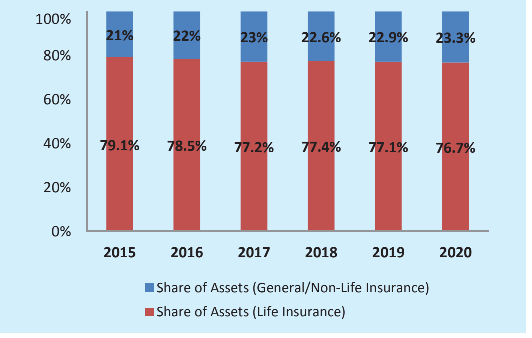
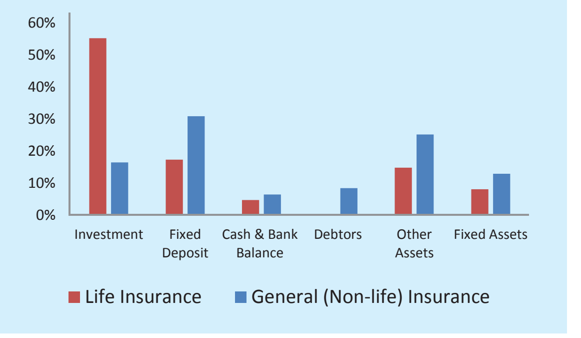


CHART 9.6: ASSET STRUCTURE OF LIFE AND GENERAL INSURANCE COMPANIES (CY-20)



Source: IDRA, FSD calculations.

Chart 9.6 illustrates the asset concentration of the life and general (non-life) insurance companies in CY20. Investment was the largest asset class with 55.1 percent share in the total assets of life insurance sector followed by fixed deposit, other assets, fixed assets, cash and bank balance, and debtors with shares of 17.3 percent, 14.7 percent, 8.0 percent, 4.6 percent, and 0.2 percent respectively. It is worth noting that fixed deposit held the top position with 30.9 percent share in total assets of general (non-life) insurance companies followed by other assets, investment, fixed assets, debtors and cash and bank balance with shares of 25.1 percent, 16.4 percent, 12.9 percent, 8.4 percent, and 6.4 percent respectively.

9.3 PERFORMANCE AND SOUNDNESS OF GENERAL INSURANCE SECTOR

Table 9.1 demonstrates the major performance and soundness indicators of general insurance companies in Bangladesh for CY19 and CY20. Profitability indicators showed mixed performance in general insurance sector. Claims ratio[79] decreased in CY20 compared to that of the previous year. Moreover, commission ratio and management expense ratio have also decreased in CY20 than those of the previous year, which eventually contributed positively to the profitability. The return on assets (ROA), return on investment (ROI) and return on equity (ROE) indicate an improvement in the profitability of the insurance sector in CY20 compared to the previous year.

Leverage indicators show lower leverage in the sector during the review year. Gross premium to equity ratio was also lower. Moreover, decline in total assets to equity ratio in CY20 indicates lower financial leverage. Mentionable that risk retention rate (RRR) of general insurance sector stood at 58.6 percent in CY20, increased from the preceding year (55.2 percent). Thus, risk sharing among the insurance companies decreased, which might be a concern from financial stability point of view.

[79] Claims ratio calculated as claims paid as a percentage of gross premium.

TABLE 9.1: PERFORMANCE AND SOUNDNESS INDICATORS-GENERAL/ NON-LIFE INSURANCE

Profitability	2019	2020
Claims Ratio [1]	28.3%	25.0%
Commission Ratio [2]	25.9%	25.0%
Management Expense Ratio [3]	46.3%	45.5%
ROA [4]	4.1%	5.85%
ROE [4]	9.0%	9.92%
ROI [4]	7.4%	7.8%
Leverage	**2019**	**2020**
Gross Premium to Equity Ratio	69.8%	61.1%
Total Assets to Equity Ratio	2.2	1.7
Reinsurance	**2019**	**2020**
Risk Retention Rate [5]	55.2%	58.6%

1. Claims paid as a percentage of gross premium.
2. Agency Commission as a percentage of net premium.
3. Management expense as a percentage of net premium.
4. ROA, ROE & ROI have been calculated based on 39 general insurance companies (in 2019) and 37 companies (in 2020) out of 46.
5. Net premium as a percentage of gross premium

Source: IDRA, FSD calculations.

9.4 COMPARISON AMONG DIFFERENT CATEGORIES OF GENERAL INSURANCE

In Bangladesh, services of general insurance are categorized as fire, marine, motor, and miscellaneous insurance. Chart 9.7 illustrates the category-wise gross and net premium in CY20. The Chart shows that fire insurance was the highest source of gross premium in CY20, followed by marine, miscellaneous and motor insurance. However, marine insurance took the top position based on the net premium followed by fire, miscellaneous and motor. Chart 9.8 shows the risk retention rate by business category. It exhibits that risk retention rate differs in different insurance categories. Reinsurance was mostly used for motor (93%) followed by marine, miscellaneous and fire insurance.

CHART 9.7: GROSS AND NET PREMIUM BY BUSINESS

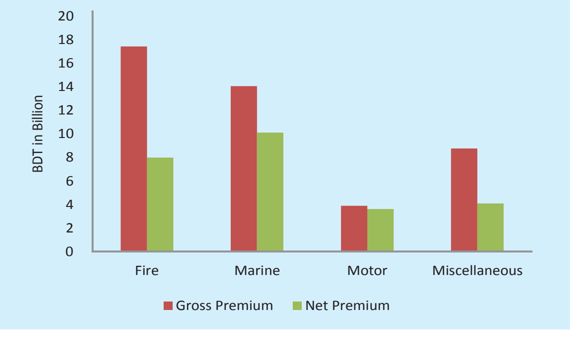
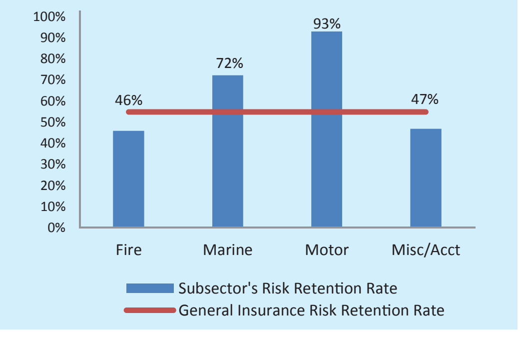


CHART 9.8: RISK RETENTION RATE BY BUSINESS



Source: IDRA, FSD calculations.

Chart 9.9 presents the ratios of claims paid to gross premium ratios and underwriting profit to net premium[80] of general insurance by business type. The Chart shows that marine and motor insurance paid lower claims as a percentage of gross premium in CY20 compared to that of fire and miscellaneous insurance. On the other hand, underwriting profit to net premium was highest for motor insurance in CY20 followed by marine, miscellaneous and fire insurance. The share of underwriting profit by business category is exhibited in Chart 9.10. The chart depicts that the marine insurance had the largest share of underwriting profit, 57 percent of total underwriting premium while motor, fire and miscellaneous insurance captured 22 percent, 12 percent and 9 percent share respectively.

CHART 9.9: CLAIMS PAID & UNDERWRITING BY BUSINESS (CY20)

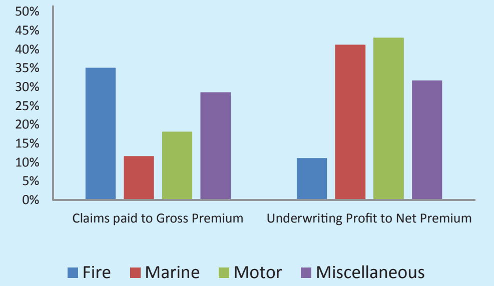
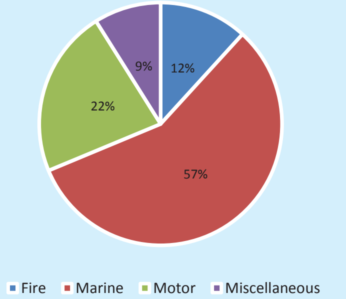


CHART 9.10: UNDERWRITING PROFIT BY BUSINESS (CY20)



Source: IDRA, FSD Calculation

9.5 PERFORMANCE AND SOUNDNESS OF LIFE INSURANCE SECTOR

Table 9.2 represents some major performance and soundness indicators of life insurance companies in Bangladesh for CY19 and CY20. Overall, life insurance companies' claims ratio increased in CY20 whereas management expense ratio decreased in the review year compared to the preceding year. Therefore, combined ratio remained stable (102 percent in both CY20 and CY19). The excessive combined ratio (more than 100 percent) warrants a regular analysis and monitoring of insurers' financial performance and assessments of their risk by the regulators.

TABLE 9.2: PERFORMANCE AND SOUNDNESS INDICATORS-LIFE INSURANCE

Profitability	2019	2020
Claims Ratio	68.1%	70.9%
Management Expense Ratio[1]	33.9%	31.1%
Combined Ratio	102%	102%
Capital & Investment[2]		
Capital to Asset Ratio	2.5%	2.4%
Investment to Total Assets Ratio	50.4%	55.1%
Return on Investment (ROI)	8.3%	7.7%
Investment, interest, dividend and other income to Net Premium Ratio	43.7%	42.7%

[1] Management Expense ratio contains commission paid and other operating expense.
[2] Calculation is based on 32 (out of 33) life insurance companies due to data unavailability.

Source: IDRA, FSD calculations.

[80] Calculation is based on 43 (out of 46) general insurance companies.

The capital to asset ratio in Table 9.2 demonstrates that, capital of life insurance companies relative to their assets is reasonably low. In this case, the additional capital buffer is needed to mitigate unforeseen losses. This ratio also decreased marginally in CY20. Investment, the principal asset item of the balance sheet of life insurance companies, increased considerably as a percentage of total assets in CY20, but return on Investment (ROI) declined in CY20. It is also evident that investment, interest, dividend and other income as a percentage of net premium declined in CY20.

9.6 CONCENTRATION IN INSURANCE SECTOR

Table 9.3 demonstrates that both the general and life insurance sectors were highly concentrated among Top 5 companies in terms of asset size and gross premiums. Especially, in general insurance sector, assets and gross premiums are concentrated into a single public sector insurance company-Sadharan Bima Corporation. However, as insurance sector for both life and general is highly concentrated into top five companies, these companies warrant rigorous monitoring by IDRA as they might pose systemic risks.

TABLE 9.3: CONCENTRATION OF ASSET AND PREMIUM IN INSURANCE COMPANIES (CY20)

Concentration in Life Insurance		
	Asset Size	**Gross Premium**
Total sector (BDT in billions)	436.74	95.0
Top 5 insurance companies' (BDT in billions)	340.3	63.0
Concentration in top five companies	77.9%	66.3%
Concentration in Jibon BimaCorporation (JBC)*	5.42%	6.31%
Concentration in General Insurance		
	Asset Size	**Gross Premium**
Total sector (BDT in billions)	132.3	44.0
Top 5 insurance companies' (BDT in billions)	73.1	21.9
Concentration in top five companies	55.3%	49.8%
Concentration in Sadharon Bima Corporation (SBC)*	30.7%	23.1%

*Jibon Bima Corporation (JBC) and Sadharon Bima Corporation (SBC) are the public sector insurance companies and lead the life insurance and general insurance respectively.

Source: IDRA, FSD Calculation.

9.7 INTERCONNECTEDNESS BETWEEN INSURANCE AND OTHER SECTORS

Investment portfolio of life and general insurance companies are exhibited in Chart 9.11 and Chart 9.12 respectively. Government Bonds captured major portion of investment portfolio of life insurance followed by investment in FDR, real estate and capital market (Chart 9.11). On the contrary, investment portfolio of general insurance companies' shows greater weight in FDR followed by capital market and real estate (Chart 9.12).

CHART 9.11: INVESTMENT PORTFOLIO OF LIFE INSURANCE

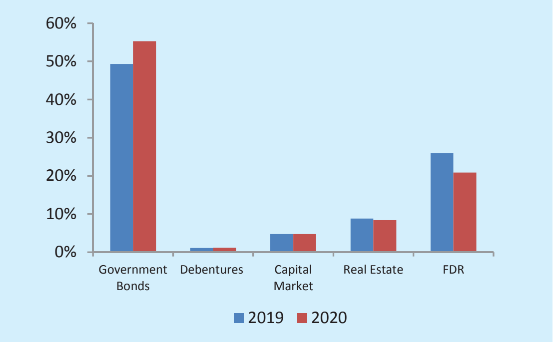
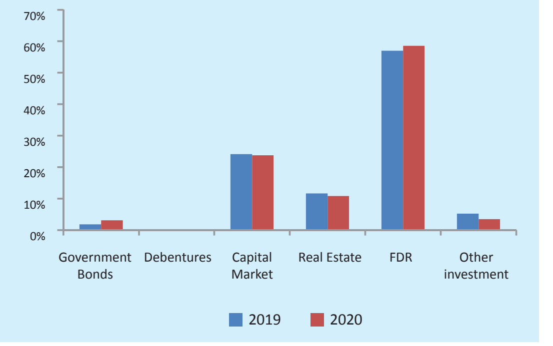


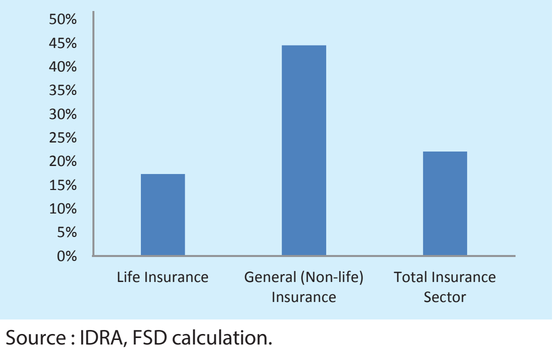
CHART 9.12: INVESTMENT PORTFOLIO OF GENERAL INSURANCE



Source : IDRA, FSD calculation.

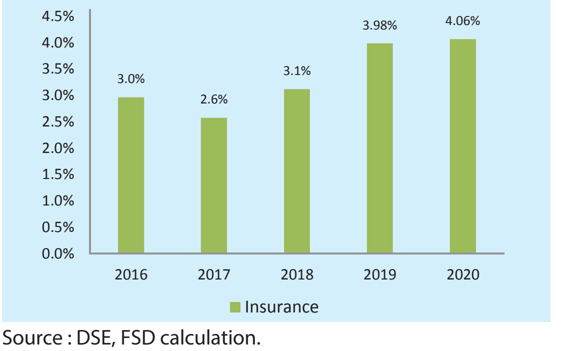
Insurance companies earn a large portion of their interest income by maintaining fixed deposits with banks and FIs. In CY20, fixed deposit registered the highest percentage of total assets for general (non-life) insurance companies while it took the second highest percentage of total assets for life insurance companies. Around 22 percent of the total assets of the insurance sector was deposited to banks and financial institutions as fixed deposit in CY20 (Chart 9.13) which is equivalent to only 2.51 percent of the total fixed deposits held with the banking sector in 2020. So, unexpected withdrawal of fixed deposits by the insurance companies may not emanate any substantial risk for the banking sector. On the contrary, any crisis in the banking and FI sectors could create adverse shock on insurance sector as the significant portion of their assets will be affected by that. As a consequence, it may create huge pressure on the insurance companies to meet their obligation in due time.

CHART 9.13: FIXED DEPOSIT AS A PERCENT OF TOTAL ASSETS (CY-20)



Source : IDRA, FSD calculation.

CHART 9.14: INSURANCE SECTOR'S YEAR-END MARKET CAPITALIZATION IN DSE



Source : DSE, FSD calculation.

Similarly, investment in share market by the insurance companies is exposed to equity price risk. So, poor performance of stock market may put stress on the insurance sector's investment sourced from premium, reserve fund and other sources. But any stress on insurance market will have limited impact on the stock market as market capitalization of insurance sector in Dhaka Stock Exchange (DSE) was 4.06 percent in CY20 (Chart 9.14).

Moreover, the newly formulated Insurance Corporation Act 2019 is comprised of the provisions from both the Bima Act 2010 and the Insurance Development and Regulatory Authority Act, 2010. One of the most significant changes made in the new law is to increase the ceiling of authorized and paid-up capital for both Jibon Bima Corporation and Sadharan Bima Corporation. The provisions regarding insurance of government property as well as eligibility criteria of board of directors have also been updated.

Performance of the insurance sector was sluggish in the review year. Despite a marginal growth in total assets, gross premium in both life and general insurance declined in CY20. Increasing trend of claims in life insurance and reduction in net premium during CY20 impacted the profitability. Regulatory reforms, better corporate governance, sustainable cost management strategies, diversifying business portfolios, digitalization, one stop customer service and introduction of innovative insurance products (focusing agriculture, health, safety, convenience, education) may support the growth of the industry and eventually promote financial stability.

Chapter 10

MICROFINANCE INSTITUTIONS (MFIs)

Microfinance institutions (MFIs) play a pivotal role in the socio-economic development of Bangladesh by providing financial services to the poor segment of households, especially the women. Microcredit Regulatory Authority (MRA) with the continuous support of the Government of Bangladesh regulates and supervises the major microcredit programs in Bangladesh. In FY20, this sector provided financial services to 33.3 million members through 759 licensed institutions. Amidst the first wave of COVID-19 pandemic, microfinance sector maintained notable growth showing its resilience to withstand adverse shock. Considering its small market share and comparatively low NPL ratio partly owing to COVID-19 related stimulus package, the sector did not pose any major threat for financial stability of the country.

10.1 OUTLOOK OF MICROFINANCE SECTOR

The microfinance sector in Bangladesh has reached the grassroots level and its success is acclaimed globally. The major financial services of MFIs are general microcredit for small-scale self-employment-based activities, micro-enterprise loans, loans for ultra-poor, agricultural loans, seasonal loans, loans for disaster management and savings facility for the members.

In FY20, through 759 licensed institutions, this sector provided financial services to 33.3 million individuals and micro enterprises, an increase of 2.8 percent from FY19. In this period, the number of employees and branches increased by 5.5 percent and 10.0 percent respectively compared to those of FY19. Although total number of MFIs is still same compared to FY16 after passing the last five years (FY16 to FY20), the number of members of this sector has increased by 5.5 million during this period (Table 10.1 and Chart 10.1).

TABLE 10.1: SELECTED INDICATORS OF MICROFINANCE SERVICES

Sl. No.	Indicators	FY16	FY17	FY18	FY19	FY20^P	Growth based on FY19
1	Number of licensed institutions	759.0	700.0	706.0	724.0	759.0	4.8%
2	Number of branches (thousand)	16.3	17.1	18.1	19.0	20.9	10.0%
3	Number of employees (thousand)	125.0	137.6	152.5	162.2	171.1	5.5%
4	Number of members (millions)	27.8	29.9	31.1	32.4	33.3	2.8%
5	Number of borrowers (millions)	23.1	24.8	25.7	25.8	26.2	1.6%
6	Outstanding loans (billion BDT)	458.2	581.6	671.2	787.6	889.0	12.9%
7	Outstanding loans in top 20 institutions (billion BDT)	348.0	478.0	528.3	564.7	707.0	25.2%
8	Savings balance held in the licensed institutions (billion BDT)	168.7	216.1	262.4	306.2	374.0	22.1%
9	Savings balance held in top 20 institutions (billion BDT)	136.0	171.4	206.8	239.0	294.8	23.3%

Note: P = Provisional.
Source: Microcredit Regulatory Authority; Calculation: FSD (includes rounded up figures).

At end-FY20, outstanding balances of loans and savings of this sector stood at BDT 888.90 billion and BDT 373.9.0 billion respectively, which are 12.9 percent and 22.1 percent higher than those of FY19 (Chart 10.2).

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

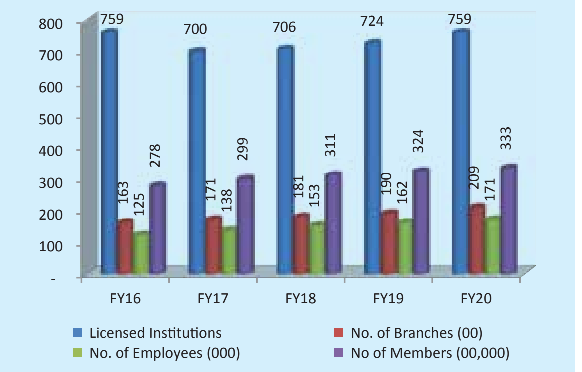
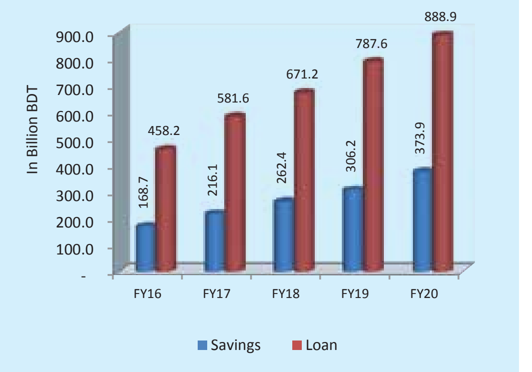


CHART 10.2: SAVINGS AND LOAN SCENARIO OF MFIs SECTOR



Source: Microcredit Regulatory Authority; Calculation: FSD.

Chart 10.3 demonstrates that the numbers of both borrowers and members of MFIs have been steadily increasing over time. In particular, the number of borrowers and members have increased by 0.40 million and 0.9 million respectively in FY20 from the preceding fiscal year.

The borrowers-to-members ratio showed a declining trend in the last five fiscal year. In FY20, the ratio was 78.5 percent which is 108 basis points lower than that of the previous fiscal year (Chart 10.4). The fall in sector outreach might be a result of lower MFI activities due to the COVID-19 pandemic in the second half of FY20.

CHART 10.3: TREND OF SECTOR OUTREACH

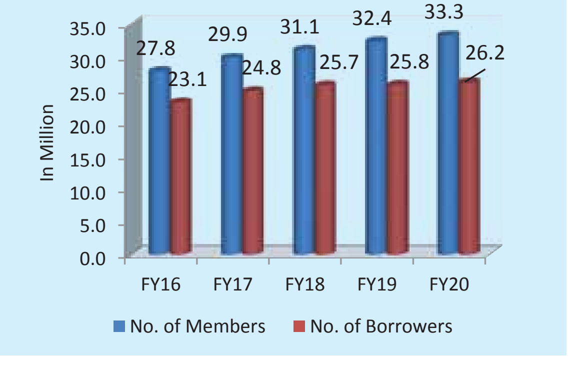
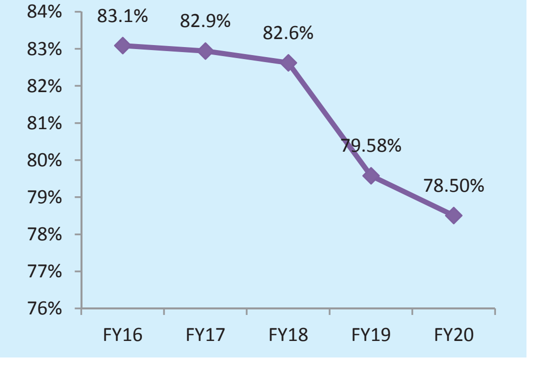


CHART 10.4: BORROWERS-TO-MEMBERS RATIO



Source: Microcredit Regulatory Authority; Calculation: FSD.

The average loans and average savings per institution showed an increasing trend over the last five fiscal years. The average loans and average savings per institution increased by 7.7 percent and 16.5 percent respectively during FY20 from the corresponding figures of the preceding year (Chart 10.5).

Similar trend was witnessed for per branch's growth of loans and savings. In particular, the average loans and savings per branch were BDT 42.5 million and BDT 17.9 million respectively, which were 2.5 percent and 10.9 percent higher than the corresponding figures of FY19 (Chart 10.6).

CHART 10.5: AVERAGE LOANS AND SAVINGS PER INSTITUTION

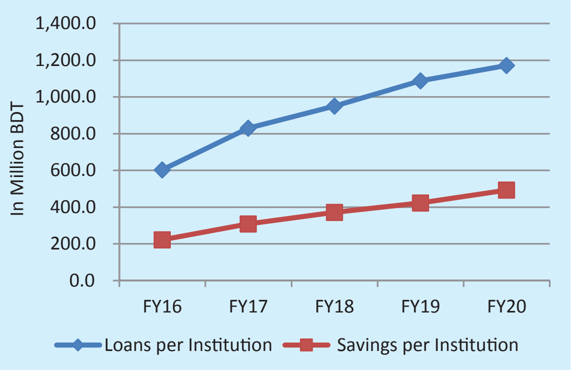
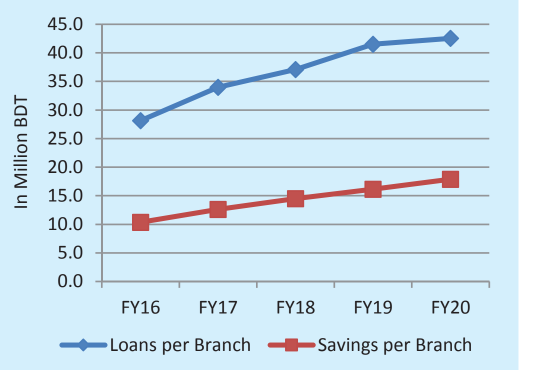


CHART 10.6: AVERAGE LOANS AND SAVINGS PER BRANCH



Source: Microcredit Regulatory Authority; Calculation: FSD.

Chart 10.7 portrays an upward trend in average size of loans and savings per borrower and per member in the last five fiscal years. In FY20, the average loan per borrower was 11.2 percent higher than the previous fiscal year. Likewise, the average savings per member was 18.7 percent higher than the previous reporting period.

CHART 10.7: AVERAGE LOAN PER BORROWER AND SAVINGS PER MEMBER

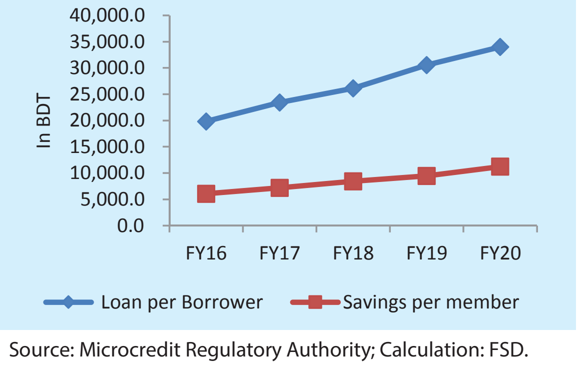
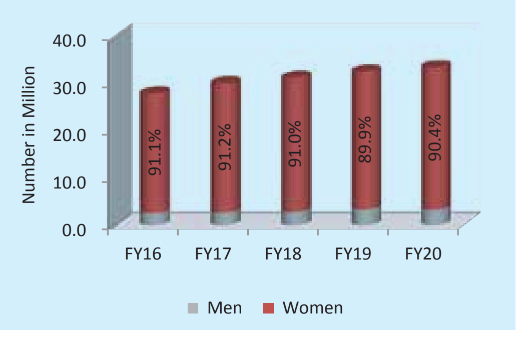


CHART 10.8: STRUCTURE OF MEMBERSHIP



Source: Microcredit Regulatory Authority; Calculation: FSD.

Chart 10.8 shows that MFI sector is mostly dominated by female members, and their number is increasing steadily with 3.4 percent growth in FY20 compared to FY19. The number of male members has reached to 3.2 million, a decrease of 1.8 percent from the preceding year. The proportion of male members has decreased by 0.5 percentage point in FY20.

Presently, out of 30.1 million, 23.5 million female members (78.1 percent) and out of 3.21 million, 2.65 million male members (82.55 percent) are availing credit facilities from MFIs. These figures indicate that, in aggregate, female participation in getting access to microcredit is considerably higher than their male counterpart.

10.2 LOAN STRUCTURE

Chart 10.9 shows the distribution of outstanding loans in different loan sizes. In FY20, disbursed loans in the ranges of BDT up to 10,000; BDT 10,001 to 30,000; BDT 30,001 to 50,000; BDT 50,001 to 100,000; BDT 100,001 to 300,000, and above BDT 300,000 represented 2.6 percent, 18.6 percent, 22.7 percent, 22.7 percent, 21.5 percent and 11.9 percent respectively.

Chart 10.10 shows that the proportionate shares of total loans given in the ranges of BDT up to 10,000 and BDT 10,001 to 30,000 decreased by 1.7 percentage points and 2.9 percentage points respectively in FY20 compared to those of FY19. On the other hand, the total loans provided in the ranges of BDT 30,001 to 50,000; BDT 50,001 to 1,00,000; BDT 1,00,001 to 3,00,000; and above BDT 3,00,000 increased by 0.7 percentage point, 1 percentage point, 1.1 percentage points and 1.8 percentage points respectively. Indeed, larger size of loans indicates the higher growth of loans outstanding.

CHART 10.9: OUTSTANDING LOAN STRUCTURE IN FY20

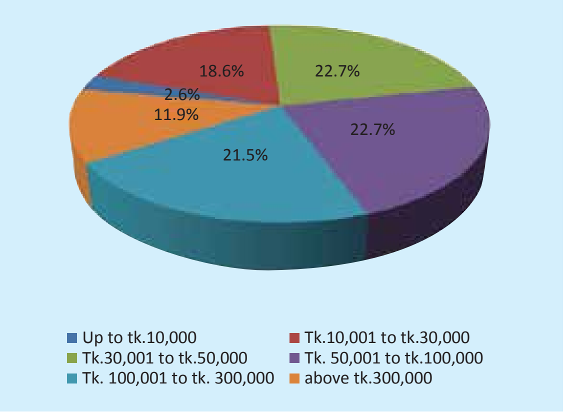
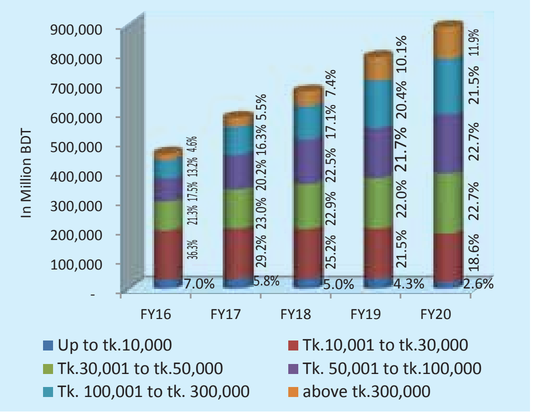


CHART 10.10: OUTSTANDING LOAN STRUCTURAL TREND



Source: Microcredit Regulatory Authority; Calculation: FSD.

Chart 10.11 shows the trend in the number of members' borrowing loans in different loan sizes. In FY20, 16.1 million members (6.9 percent lower than that of FY19) availed loans in the range of BDT 10,001 to 50,000 and this segment constituted 63.9 percent of total borrowers. Moreover, in comparison with FY19, the number of members' borrowing in the ranges up to BDT 10,000; BDT 10,001 to 30,000; and BDT 1,00,001 to 3,00,000 decreased by 4.6 percent, 11.6 percent and 5.7 percent respectively during FY20 (Chart 10.12). On the other hand, members' borrowing increased by 1.4 percent, 23.4 percent and 32.3 percent in the ranges of BDT 30,001 to 50,000; BDT 50,001 to 1,00,000; and above BDT 3,00,000 respectively during this period. These indicators reveal that households' demand for higher amount of microcredit is increasing over the years.

CHART 10.11: LOAN RECIPIENTS' COMPOSITION IN FY20

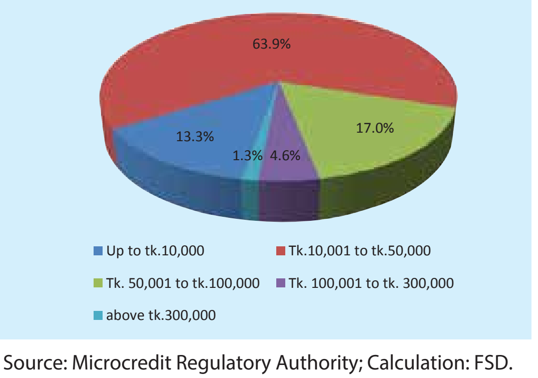
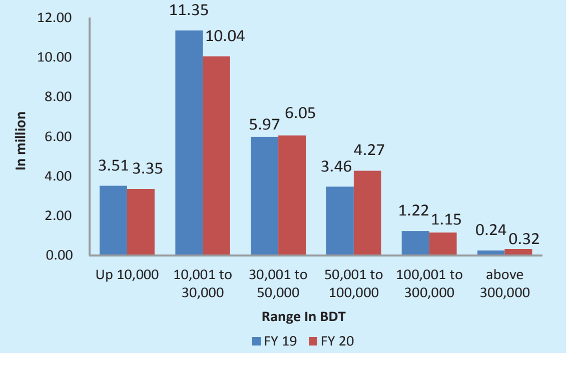


CHART 10.12: LOAN RECIPIENTS' COMPARISON BETWEEN FY19 AND FY20



Source: Microcredit Regulatory Authority; Calculation: FSD.

In FY20, non-performing loan (NPL) ratio of the MFIs sector stood at 3.3 percent (Chart 10.13). Although the ratio is moderately low compared to the NPL ratio of the banking and FIs sectors, increasing trend of the same during the last couple of years appears to get close attention. In FY20, total amount of non-performing loan was BDT 29.5 billion, which is BDT 5.9

billion higher than that of FY19 (Chart 10.14). Notably, in FY20, total outstanding loan in MFIs sector has increased by 12.9 percent while the NPL ratio has increased by 0.3 percentage point compared to FY19. Due to the increasing trend in the NPL ratio, adequate measures are required for keeping the sector sound and stable in the near future.

CHART 10.13: NON-PERFORMING LOAN RATIO

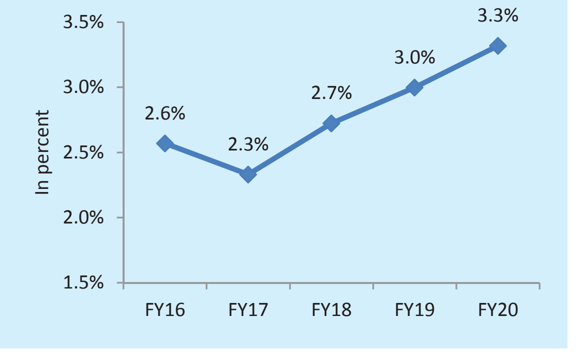


CHART 10.14: TREND OF NON-PERFORMING LOAN

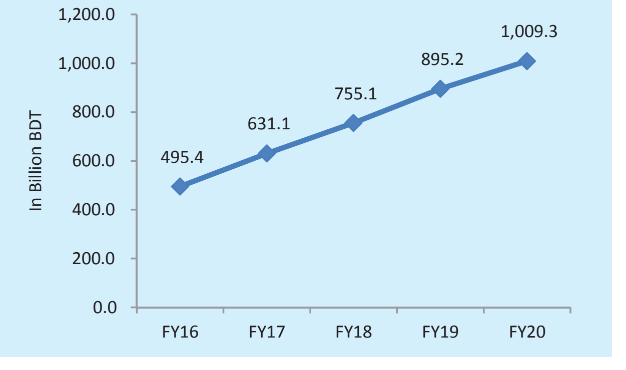
Source: Microcredit Regulatory Authority; Calculation: FSD.

10.3 SOURCES OF FUNDS AND ITS COMPOSITION

Chart 10.15 indicates that aggregate fund of MFIs was BDT 1,009.3 billion at end FY20, which was 12.7 percent higher than that of FY19. This expansion was mainly due to (i) increase in MFIs' equity (up by 11.4 percent from FY19); (ii) significant increase in savings of the members of MFIs (up by 22.1 percent from FY19); (iii) increase in loans from PKSF (up by 6.0 percent from FY19); and (iv) increase in loans from commercial banks (up by 2.1 percent from FY19).

The total fund[81] of MFIs sector has increased by more than double during the last five fiscal years. During this period, the MFIs sector enjoyed an average growth of 20 percent approximately in total funds collection and it is still growing significantly (12.7 percent growth was registered in reporting year compared with previous year).

CHART 10.15: TOTAL FUND OF MFIs



Source: Microcredit Regulatory Authority; Calculation: FSD.

In FY20, equity, savings from members and loans from commercial banks constituted 34.2, 37.2 and 19.5 percent of total funding of the MFIs respectively. Loans from PKSF, donors' fund, other loans and other sources constituted 5.5 percent, 0.6 percent, 1.3 percent and 1.7 percent respectively (Chart 10.16). Marginal contribution (0.6 percent) of donors in MFIs' Fund demonstrates that once donor-dependent MFIs have now become almost self-reliant.

[81] The total fund mainly comprises MFIs' own capital, savings, loans from commercial banks, loans from PKSF, donors' fund, loans from government and others' loans.

Chart 10.17 demonstrates the contribution of capital as a source of funds slightly decreased to 34.2 percent in FY20 from 34.6 percent in FY19. During the same period, the contribution of member savings increased to 37.2 percent from 34.4 percent. However, the contribution of loans from commercial banks in FY20 decreased slightly to 19.5 percent from 21.6 percent in the previous period.

CHART 10.16: MAJOR SOURCES OF FUND IN FY20

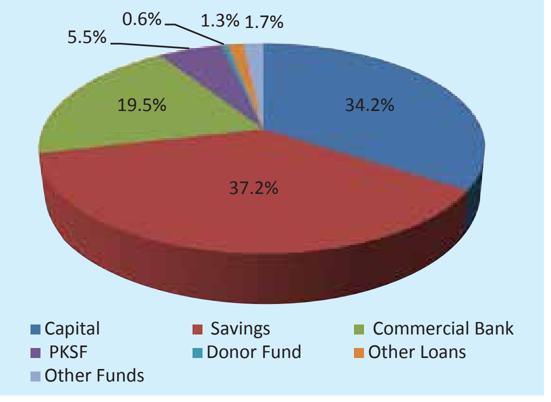
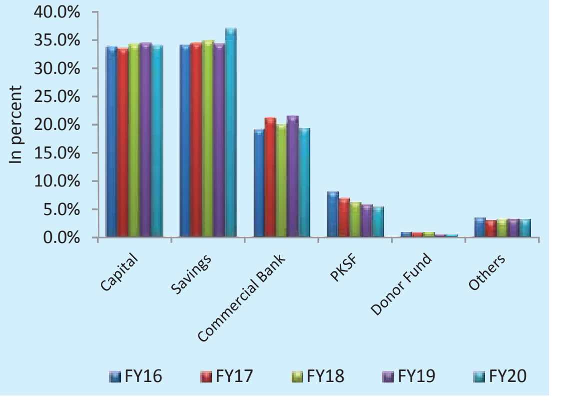


CHART 10.17: TREND OF MAJOR SOURCES OF FUND



Source: Microcredit Regulatory Authority; Calculation: FSD.

10.4 FINANCIAL SUSTAINABILITY OF MFIs

Return on assets (ROA) and return on equity (ROE) are two major indicators of operational sustainability of financial institutions. In FY20, ROA of MFIs decreased marginally to 5.0 percent from corresponding figure of 6.4 percent in FY19. ROE followed the same trend and decreased considerably to 11.8 percent in FY20 compared to the preceding period's figure of 17.1 percent (Chart 10.18). Notably, ROE of MFIs sector decreased due to sizeable increase of equity (BDT 35.2 billion).

Albeit some decline in operating efficiency, donation-to-equity ratio (dependency ratio) remained stable in FY20 compared to that of FY19 which indicates strong improvement in self-sustainability of this sector (Chart 10.19).

CHART 10.18: OPERATIONAL SUSTAINABILITY

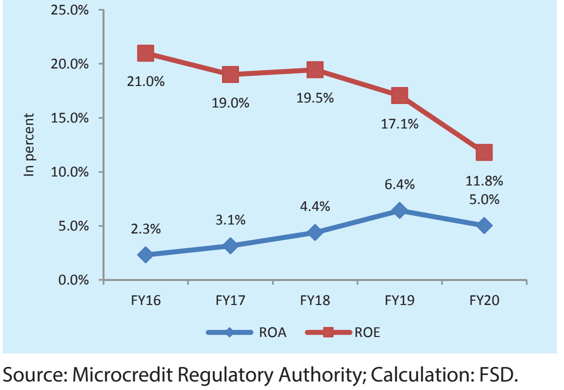
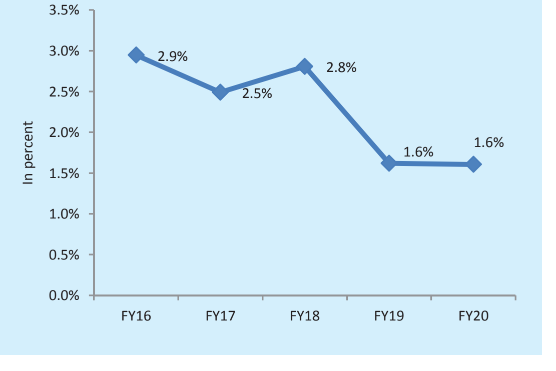


CHART 10.19: FINANCIAL DEPENDENCY



Source: Microcredit Regulatory Authority; Calculation: FSD.

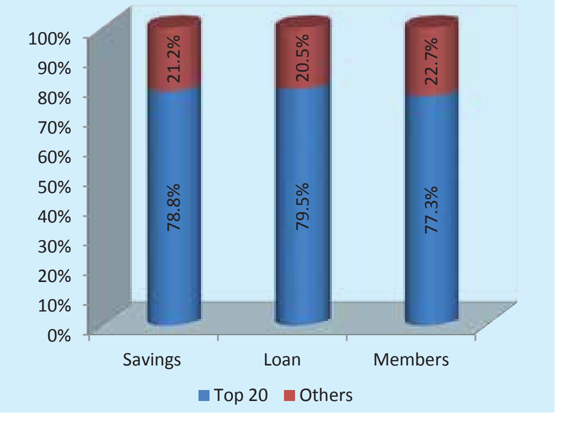
The amount of donated funds slightly increased in FY20, but the equity increased from retained earnings and members' savings were substantial, which are necessitated for the long-term sustainability of this sector, and for withstanding any financial shocks.

The microfinance sector is highly concentrated in terms of loans, savings and number of members in a small number of institutions. The top 10 MFIs mobilized 71.97 percent of total savings of the members, while 71.96 percent of the MFI sector's outstanding loans pertained to them as of end FY20. They provided financial services to 73.3 percent of total members of MFIs (Chart 10.20). For top 20 MFIs, the corresponding figures are 78.8, 79.5 and 77.3 percent respectively (Chart 10.21).

The high degree of market dominance by the top MFIs indicate that their financing activities need to be monitored closely, otherwise deterioration of their performance may pose a threat to the stability of this sector.

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

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



Source: Microcredit Regulatory Authority; Calculation: FSD.

MFI sector in Bangladesh was reasonably stable during FY20. During the review year, the MFI sector did not pose any significant threat to the financial stability of the country. Although NPL ratio of the sector compared to banking sector is fairly low, it has been increasing during the last couple of years. For a stable and sound microfinance sector, increasing trend in NPL ratio deserves special attention. The demand for microfinance is increasing day by day. Since a large number of micro finance institutions are working in providing credit to the marginal people, a borrower might take opportunity to borrow fund from multiple MFIs. If the borrower selection and their credit needs are not made prudently, overlapping of loans of borrowers may create credit trap in the long run, which may raise the sector's NPL ratio further. A structured Credit Information Bureau (CIB) for MFIs and a technology-based monitoring system may be helpful in reducing these problems.

The whole world including Bangladesh is passing a critical situation due to prolonged shutdown of major economic activities caused by the COVID-19 pandemic. In an attempt to revive livelihood of poor households by providing financial support, Bangladesh Bank, upon declaration of the Government, has formed a refinance scheme of BDT 30 billion for low-income professionals, marginal farmers and micro-enterprises out of its own fund, which would be disbursed through the MFIs subject to fulfillment of terms and conditions with maximum 9 percent interest rate at borrower level. The MRA took measures for facilitating implementation of the stated scheme quickly. Now, close monitoring and intensive supervision are required for ensuring proper end-use of the loan disbursed under the stated package.

Chapter 11

DEVELOPMENTS IN THE FINANCIAL SYSTEM

During the COVID-19 pandemic, the Government along with the Bangladesh Bank and other financial regulators came up with a series of policy supports and incentive packages to revive the economy and to maintain soundness of the financial system. Some notable initiatives are mentioned below:

11.1 ASSESSMENT OF FINANCIAL STABILITY BY BANGLADESH BANK

Financial Stability Department (FSD) of Bangladesh Bank (BB) has pointed out the major strengths, risks and vulnerabilities of the financial system of Bangladesh throughout the year 2020 and has disseminated these to stakeholders through Financial Stability Report (FSR) and Quarterly Financial Stability Assessment Report (QFSAR). In addition, FSD has published a special report titled "Economic and Financial Stability Implications of COVID-19: Bangladesh Bank and Government's Policy Responses" by focusing on the impact of COVID-19 on different sectors of Bangladesh economy with implications of those for financial stability. The seminal publication has also discussed the incentive and policy measures of Bangladesh Bank and the Government and has made some suggestions towards mitigating various challenges posed by the pandemic.

11.2 REGULATIONS AND POLICIES FOR BANKING SECTOR

A) RATIONALIZATION OF RATE OF INTEREST/PROFIT OF LOANS/INVESTMENTS

For rationalizing the rate of interest/profit of all unclassified loans/investments except credit card loans, Bangladesh Bank has advised banks vide BRPD circular no. 03 dated 24 February 2020 to set interest rate at maximum 9 percent. Besides, banks have been instructed to postpone deducting any charges except maximum 2 percent penal interest/profit on the overdue amount. However, the rate of interest/profit for pre-shipment export credit remains unchanged at the prevailing 7 percent.

B) LOAN RESCHEDULING AND ONE TIME EXIT POLICY

Bangladesh Bank, vide BRPD circular letter no. 07 dated 19 March 2020, has advised banks to classify their loans under rescheduled and one time exit policy as Special Mention Account (SMA) category. The required provision for those loans should be calculated based on their classification status as on 31 December 2018. Banks have been instructed to maintain 50 percent of the required provision as 'General Provision' and the rest amount as 'Specific Provision'. In addition, banks have been advised to stop transferring the maintained provision to income account unless any recovery of loans is made.

C) STIMULUS PACKAGE FOR EXPORT ORIENTED INDUSTRIES

The Government of Bangladesh announced BDT 50 billion emergency incentive package for payment of three months (April-June 2020) equivalent salaries and allowances to workers and staffs of active export-oriented industries. In line with this, Bangladesh Bank issued guidelines vide BRPD circular no. 07 dated 02 April 2020. Banks disbursed this interest free loan at 2 percent service charge. Later, the Government declared additional BDT 30 billion for them to pay salaries and allowances to workers and staffs for the month of July 2020.

D) SIMPLIFICATION OF IMPORT OF ESSENTIAL CHILD FOOD

The margin of L/Cs for importing baby foods was reduced to 5 percent considering the possibility of its supply crisis during the pandemic as per BRPD circular letter no.12 dated 04 April 2020.

E) STIMULUS PACKAGE FOR LARGE INDUSTRIES AND SERVICE SECTORS

Bangladesh government stimulus package of BDT 300 billion[82] for working capital to large industries and service sectors was enhanced to BDT 400 billion vide BRPD circular letter no. 53 dated 29 October 2020. The 50 percent funding of this working capital loan are designed to be sourced from banks and NBFIs, whereas rest from the refinance scheme[83] of Bangladesh Bank. The banks and NBFIs were advised to provide the loan based on banker-customer relationship at 9 percent interest rate where the Government would subsidize 4.5 percent interest and the borrower would pay the rest. The interest rate for the refinance scheme was set at 4 percent.

F) REFINANCE SCHEME FOR PRE- SHIPMENT CREDIT

Bangladesh Bank, vide BRPD Circular No. 09 dated 13 April 2020, launched a revolving "Pre-Shipment Credit Refinance Scheme" of BDT 50 billion for accelerating the country's economy by providing pre-shipment export credit to the export-oriented industries. Under this scheme, banks can provide loans at a maximum interest rate of 6 percent and get 100 percent refinance from the Bangladesh Bank at 3 percent rate of interest.

G) TRANSFER OF INTEREST INCOME TO BLOCKED ACCOUNT

Bangladesh Bank instructed the banks, vide BRPD circular no. 11 dated 03 May 2020 and BRPD circular letter no. 23 dated 04 May 2020, to transfer the interest/profit accrued on loans/investments on the balance of 31 March 2020 for the period of 01 April 2020 to 31 May 2020 to interest-free blocked account for mitigating the adverse business condition stemming from the COVID-19 pandemic. Moreover, BB advised banks not to transfer the interest to their earnings. Later, BB issued instructions vide BRPD circular no. 12 dated 10 June 2020 regarding the interest waiver to the customers for the month of April and May 2020 as on balance of 31 March 2020. The borrowers are allowed full interest waiver facility up to BDT 0.1 million, 2 percent interest waiver for the credit above BDT 0.1 million to BDT 1 million and 1 percent interest waiver for the credit above BDT 1 million. Admissible amount of interest waiver for each borrower was maximum BDT 1.2 million. The Government would reimburse the waived amount to banks through BB as interest subsidy.

H) REVISED POLICY FOR OFFSHORE BANKING OPERATION OF THE BANKS

With a view to reducing the cost of fund and making the operation of Offshore Banking Unit (OBU) more attractive, Bangladesh Bank amended its previous circular by issuing BRPD Circular Letter No. 31 dated 18 June 2020 regarding the policy for Offshore Banking Operation of banks (OBO). For OBO, banks are required to maintain minimum 2 percent Cash Reserve Ratio (CRR) with Bangladesh Bank on bi-weekly average basis with a provision of minimum 1.5 percent on daily basis of the average total demand and time liabilities (ATDTL) of OBO, effective from 01 July 2020. Moreover, banks can transfer up to 30 percent of their total regulatory capital to OBU, which was 20 percent previously. Under the revised guidelines, OBUs are allowed to lend the juristic persons not resident in Bangladesh upon compliance with relevant requirements.

[82] BRPD Circular No. 8 dated 12.04.2020.
[83] BRPD Circular No. 10 dated 23.04.2020.

I) FIXING RATE OF INTEREST/PROFIT ON CREDIT CARD

To preserve the rights of the customers and to ensure market discipline, banks were instructed vide BRPD circular letter no. 47 dated 24 September 2020 to charge interest/profit on credit card at a rate not exceeding 20 percent and to charge it from the next day of the due date of bill payment on the unpaid bill amount. On the other hand, cardholders are allowed to withdraw maximum of 50 percent of their credit card limit as cash. Banks were instructed to charge late payment fee only once for a bill paid after the due date.

J) DETERMINATION OF RISK WEIGHT ON INVESTMENTS IN VARIOUS SECTORS UNDER ALTERNATIVE INVESTMENT

To encourage alternative investment in Bangladesh, BB has revised risk weight from 150 percent to 100 percent for investment under alternative investment (Private Equity, Impact Fund etc.) including venture capital. This will remain effective till 30 September 2022 as per BRPD circular letter no. 48 dated 29 September 2020.

K) PROVISIONING AGAINST CONSUMER LOAN

Bangladesh Bank, vide BRPD circular letter no. 52 dated 20 October 2020, advised banks to maintain 2 percent general provision instead of 5 percent set previously against unclassified loans of all categories under consumer financing excluding home financing to meet up the emerging demand of consumer loan and to encourage banks' participation in this segment. In case of house finance, the required rate of general provision remains same (i.e. 1 percent) as before.

L) LOAN CLASSIFICATION AND PROVISIONING

Under BRPD circular no.17 dated 28 September 2020 and subsequent circular letter no. 56 dated 10 December 2020, Bangladesh Bank allowed banks not to degrade the prevailing status of loans/investments till 31 December 2020 based on classification status on 1 January 2020 considering the lower debt servicing capacity of the borrowers during the pandemic. Banks were asked to impose or realize no penal or excess interest or fee from the borrowers during this period. However, BB kept options for banks to receive installments from the borrowers who were willing to pay and to upgrade their classification status according to the existing rules. BB instructed the banks to transfer accrued interest/profit to income account after approval from competent authority of the bank and to maintain prescribed provisions against the loans/investments. Banks have been advised to maintain 1 percent extra provision for all unclassified loans (including SMA) while finalizing accounts for the year ended 31 December 2020.

M) PROVIDING LOAN AND CREDIT CARD FACILITIES TO IT FREELANCERS HAVING VIRTUAL ID CARDS

In order to flourish the freelancing sector and increase foreign currency earnings, Bangladesh Bank has instructed all scheduled banks vide BRPD circular no. 19 dated 27 December 2020 to provide credit facilities and credit cards to virtual ID cardholder IT freelancers subject to compliance with banking laws and regulations.

11.3 POLICIES FOR NON- BANK FINANCIAL INSTITUTIONS (NBFIs)

A) REVISED GUIDELINES ON COMMERCIAL PAPER (CP):

BB, vide DFIM circular letter no. 02 dated 27 February 2020, has revised the "Guidelines on Commercial Paper (CP) for Financial Institutions" to introduce some best practices and set standards that facilitate efficient dealing of CP.

B) CLASSIFICATION OF LOAN/LEASE/ADVANCE

Considering the economic disruptions caused by the COVID-19 pandemic, BB directed the NBFIs vide DFIM circular letter no. 06 dated 01 November 2020 not to change the current status of loans/leases/advances as of 01 January 2020 till 31 December 2020 and during the period, the respective borrower is not treated as default.

C) EXTENSION OF TERM TO MATURITY OF TERM LOANS AND LEASES FOR FINANCIAL INSTITUTIONS

In the context of pandemic situation, BB issued instructions, vide DFIM circular letter no. 04 dated 09 August 2020, regarding the extension of maturity of the term loan/leases of FIs which is set at maximum 50 percent of the remaining time to maturity of the loan/leases.

D) REVISION OF 'GUIDELINES ON STRESS TESTING FOR NON-BANKING FINANCIAL INSTITUTIONS

Bangladesh Bank revised some parts of the "Guidelines on Stress Testing for NBFIs" vide DFIM circular letter no. 09 dated 21 December 2020.

11.4 CHANGES IN MONETARY POLICY

With a view to expediting recovery of the Coronavirus pandemic-hit economy through ensuring available less costly funds for banks and NBFIs and speeding up their efforts to implement the Government–announced stimulus packages timely, the Bangladesh Bank cut the following key policy rates along with declaration of the expansionary monetary policy for FY21:

A) CASH RESERVE RATIO (CRR) FOR BANKS AND NBFIs:

Cash Reserve Ratio (CRR) for all scheduled banks was reduced from 5 percent to 4.5 percent (daily basis) and from 5.5 percent to 5 percent (bi-weekly average basis)[84]on 23 March 2020, with a further reduction to 3.5 percent and 4 percent respectively vide MPD circular no. 3 dated 09 April 2020, effective from 15 April 2020. BB also reduced the CRR of Non-Bank Financial Institutions (NBFIs) by one percentage point for supplying additional liquidity in the economy. Now the NBFIs are allowed, vide DFIM circular no. 03 dated 21 June 2020, to maintain 1.50 percent on bi-weekly basis and at least 1.0 percent daily on their demand and time liabilities as CRR.

B) REPURCHASE AGREEMENT (REPO)

REPO rate was reduced three times during the CY20. Initially it was reduced to 5.75 percent from the existing 6 percent[85]. It was further reduced to 5.25 percent[86]. Later it was reduced to 4.75 percent vide MPD circular no. 05 dated 29 July 2020.

C) REVERSE REPO

Reverse REPO was reduced to 4 percent from 4.75 percent through MPD circular no. 05 dated 29 July 2020 for rationalizing the policy rates' corridor (the gap between the REPO and reverse REPO rates).

[84] MPD circular No. 1 dated 23.03.2020.
[85] MPD circular No. 02 dated 23.03.2020.
[86] MPD circular No. 04 dated 09.04.2020.

D) BANK RATE

Bank rate was fixed at 4 percent from the existing 5 percent after 17 years vide MPD circular no. 06 dated 29 July 2020 for rationalizing bank rate with the current interest rate regime.

E) MONETARY POLICY STATEMENT FOR THE FISCAL YEAR 2020-2021

On 29 July 2020, BB unveiled an 'expansionary and accommodative' monetary policy for the FY21 for reinstating economic activities to normalcy and keeping the inflation level under control. Targets for private sector and public sector credit growth were set at 14.8 percent and 44.4 percent respectively.

11.5 DEVELOPMENTS IN AGRICULTURAL AND RURAL CREDIT

A) REFINANCE SCHEME FOR AGRICULTURE SECTOR

Bangladesh Bank, vide ACD circular no. 01 dated 13 April 2020, formed a refinance scheme of BDT 50 billion from its own fund for horticulture, fisheries, poultry, dairy and livestock to minimize the impact of COVID-19 and to revive the agricultural activities as well as the economy of the country. Under the scheme, the farmers/farms get credit at 4 percent interest rate from the banks and the banks get refinance at 1 percent interest rate from BB.

B) AGRICULTURAL LOAN AT CONCESSIONAL INTEREST RATE

In order to ensure enhanced production and supply of food grains amid the COVID-19 pandemic, Bangladesh Bank issued ACD circular no. 02 dated 27 April 2020 for lowering the interest rate of agricultural loan for all crops and grains at borrower level to 4 percent from 9 percent effective from 01 April 2020 to 30 June 2021. Bangladesh Bank subsidizes the remaining 5 percent interest to banks.

C) AGRICULTURAL AND RURAL CREDIT POLICY AND PROGRAM FOR THE FY21-22

In line with the Government's agricultural policy and for dealing with the impacts of Coronavirus on the rural economy, BB, vide ACD Circular No. 03 dated 22 July 2020, declared the agricultural and rural credit policy and program of BDT 262.92 billion for the FY21 which is 8.99 percent higher than the previous fiscal year's credit program.

D) AGRICULTURAL LOAN FACILITY FOR THE FLOOD AFFECTED FARMERS

BB advised the scheduled banks vide ACD circular no. 04 dated 23 July 2020 for providing agricultural loan facilities to the flood-affected farmers whose crops were damaged by the floods in different districts. BB also instructed the banks for the postponement of collection of agricultural loan, rescheduling those with easy down payment and stop the legal procedure against collection of defaulted loan.

E) STRENGTHENING AGRICULTURAL LOAN DISBURSEMENT AMONG THE THREE HILL TRACT PEOPLE

BB instructed banks vide ACD circular letter no. 01 dated 29 July 2020 to enhance agricultural credit to farmers (both general and jhum farmers) working in Chattogram hill tract areas (Khagrachari, Rangamati, Bandarban). Banks were also instructed to open account of jhum farmers at BDT 10, disburse loan at 4 percent interest for the cultivation of ginger, turmeric, black pepper, cassia leaf etc.

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

A) FINANCIAL INCENTIVE PACKAGE FOR COTTAGE, MICRO, SMALL AND MEDIUM ENTERPRISE (CMSME) SECTOR

The Government announced stimulus package of BDT 200 billion for the CMSME sector of Bangladesh during the pandemic which is distributed by the banks and NBFIs as a loan (SMESPD circular no. 01 dated 13 April 2020). The 50 percent loan is provided from the own source of banks and NBFIs at 9 percent interest rate of which entrepreneurs are required to pay 4 percent and the rest 5 percent is reimbursed by the Government as interest subsidy. The rest 50 percent of the fund is provided from the refinance scheme of BB[87]. BB refinances their disbursed loan at 4 percent interest rate.

B) EXPANSION OF VARIOUS REFINANCE SCHEMES OF COTTAGE, MICRO, SMALL AND MEDIUM ENTERPRISES (CMSME) SECTOR

BB, vide SMESPD circular letter no. 02 dated 07 May 2020, has enhanced the fund size of the three refinancing schemes from its own source along with relaxation of interest rate and conditions for patronizing and aiding the Coronavirus hit Cottage, Micro, Small and Medium Enterprises (CMSMEs). The size of the “Small Enterprise Refinance Scheme”, the “Refinance Scheme for Setting up Agro-based Product Processing Industries in Rural Areas” and the “Refinance Scheme for New Entrepreneurs in Cottage, Micro and Small Enterprise Sector” have been increased from BDT 8.5 billion to BDT 15 billion, from BDT 7 billion to BDT 14 billion and from BDT 0.50 billion to BDT 1 billion respectively. Under these schemes, banks and financial institutions get loans at 3 percent interest rate from BB and distribute them among the borrowers at 7 percent interest rate.

C) CREDIT GUARANTEE SCHEME FOR COTTAGE, MICRO AND SMALL ENTERPRISES

The Credit guarantee Scheme (CGS) of BDT 20 billion has been set up by Bangladesh Bank vide SMESPD circular no. 03 dated 27 July 2020 for the Cottage, Micro and Small enterprises (CMS) that are facing difficulties to obtain loan/investment from banks and NBFIs due to inadequate collateral. Subsequently, a manual of Credit Guarantee Scheme has been published[88]. The disbursed amount from the stimulus package of BDT 200 billion for the CMSME sector is covered under this scheme. Subject to having adequate funds, participating banks and financial institutions get maximum 30 percent portfolio guarantee cap against their stipulated portfolio limit for working capital loans/investment in CMS sector. Under the said portfolio guarantee cap, a single entrepreneur or borrower/investor get up to a maximum of eighty (80) percent guarantee coverage. Regardless of the existing limit for loan/investment, the amount of loan/investment facility for guarantee under the scheme is a minimum of BDT 0.20 million and a maximum of BDT 5 million.

D) LOAN CLASSIFICATION AND PROVISIONING FOR COTTAGE, MICRO AND SMALL CREDITS UNDER CMSME

The Loan classification and provisioning policy for Cottage, Micro, Small and Medium Enterprises (CMSME) was relaxed vide BRPD circular no. 16 dated 21 July 2020 to encourage bank lending in this sector.

[87] SMESPD Circular No. 02 dated 26.04.2020.
[88] SMESPD Circular No.-04 Dated 03/11/2020.

E) PRE-FINANCE CREDIT FACILITY UNDER SUPPORT SAFETY RETROFITS AND ENVIRONMENTAL UPGRADES IN THE BANGLADESH READY-MADE GARMENTS SECTOR PROJECT (SREUP)

Pre-finance credit facility is offered to eligible RMG factories vide SMESPD circular letter no. 15 dated 19 November 2020 under social upgradation of SREUP for improving the safety/healthy/hygienic facility of workers and workplace environment to overcome the COVID-19 pandemic situation.

11.7 DEVELOPMENTS IN FOREIGN EXCHANGE REGULATIONS/TRANSACTIONS

A) SPECIAL EXPORT SUBSIDY TO RMG/ TEXTILE SECTOR

BB instructed all Authorized Dealers (ADs) vide FE circular no. 01 dated 07 January 2020 for giving special cash incentive to readymade garments (RMG)/textile sector in line with the Government decision. Exporters of readymade garments (RMG)/textile products (including terry towel and specialized textile) would get 1 percent cash incentive on net FOB value against their export.

B) FOREIGN EXCHANGE TRANSACTIONS FOR IT/SOFTWARE FIRMS

Bangladesh Bank, vide FE circular no. 02 dated 13 January 2020, enhanced the limit of outward remittance to USD 40,000 from USD 30,000 including international card facility up to USD 8,000 for IT/Software firms who are members of BASIS to meet their bona fide business expenses in a calendar year.

C) EXPORT SUBSIDY AGAINST EXPORT OF RICE

BB decided through FE circular no. 05 dated 30 January 2020 that 15 percent export subsidy would be provided to rice exporters for the fiscal year 2019-2020. To get the subsidy, they must process rice in their local firms by collecting domestically produced paddy.

D) IMPORT AND EXPORT OF CURRENCY NOTES

Bangladesh Bank, vide FE circular no. 06 dated 03 February 2020, enhanced the limit of both foreign currency brought in without declaration to the Customs Authorities and taken out while proceeding abroad by a concerned person from USD 5,000 or its equivalent to USD 10,000 or its equivalent.

E) ENHANCEMENT OF LOAN LIMIT FROM EXPORT DEVELOPMENT FUND (EDF)

The limit of foreign currency financing to manufacturer-exporters for input procurement was enhanced from USD 15 million to USD 20 million for member mills of BKMEA (Ref: FE circular no. 09 dated 25 February 2020).

F) ADVANCE PAYMENT AGAINST IMPORTS OF LIFE SAVING DRUGS ETC

ADs were allowed to effect advance payment up to USD 500,000 or equivalent other foreign currency without repayment guarantee for import of Coronavirus related life-saving drugs, medical kits/equipment and other essential medical items till 30 September 2020 (Ref: FE circular no. 15 dated 23 March 2020).

G) IMPORT OF INDUSTRIAL RAW MATERIALS – EXTENSION OF USANCE PERIOD

For minimizing the COVID-19 pandemic related disruptions to input imports by industrial importers, the ADs were allowed to extend the usance period up to a maximum of 360 days instead of prevailing 180 days depending on the actual needs of their concerned clients (Ref: FE circular no. 16 dated 23 March 2020).

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

To facilitate export trade during the COVID-19 pandemic, Bangladesh Bank reduced the interest rate on borrowing from Export Development Fund (EDF). As per FE circular no. 18 dated 07 April 2020, interest rate on EDF loan facilities to ADs by BB was 1.00 percent per annum (pa), while manufacturer-exporters were charged 2.00 percent pa by ADs. The interest rate chargeable to eligible borrowers was further reduced to 1.75 percent pa till 31 March 2021. In accordance, ADs will pay interest payments to Bangladesh Bank at 0.75 percent pa; the remainder 1 percent pa as before is retained by ADs as their interest income[89].

I) REFINANCING FOR IMPORTS AGAINST USANCE BACK-TO-BACK L/Cs

For facilitating exporters in minimizing COVID-19 pandemic related disruptions, ADs, vide FE circular no. 19 dated 12 April 2020, are allowed to seek refinancing facilities from Export Development Fund (EDF) for settlement of import payments against back-to-back L/Cs under suppliers/buyers credit depending on the actual situation for which extension of usance period/refinancing for extendable tenure was not available. The tenure of refinancing facilities will not exceed 180 days (maximum). Interest rate and other instructions regarding EDF loan are also applicable for this refinancing facilities.

J) INTRODUCTION OF EURO IN GREEN TRANSFORMATION FUND(GTF)

BB, vide FE circular no. 20 dated 15April 2020, introduced EUR0 200 (two hundred) million Green Transformation Fund (GTF) along with the existing USD 200 (two hundred) million to set up environment friendly manufacturing infrastructure. Financing on long term basis (5 to 10 years) from GTF in Euro is admissible to all manufacturing industrial enterprises for importing of environment friendly and energy efficient/green capital machinery and accessories.

K) WORKING CAPITAL LOANS FROM ABROAD BY FOREIGN OWNED/CONTROLLED COMPANIES

As an effort to alleviate disruptions induced by the COVID-19 pandemic, all foreign owned/controlled companies operating in Bangladesh were allowed, vide FE circular letter no. 19 dated 03 May 2020, access to short-term working capital loans, with tenure of one-year and extendable to another one year, from their parent companies/shareholders abroad for ease of payment of 3-month wages and salary to staffs regardless of their length of engagement in manufacturing or services output activities. This facility remained valid till 31 December 2020 vide FE circular letter no. 28 dated 29 July 2020.

L) CASH INCENTIVES AGAINST REMITTANCE SENT IN LEGITIMATE WAY

Expatriate Bangladeshis, vide FE circular letter no. 20 dated 12 May 2020, were granted 2 percent incentives on remittance up to USD 5,000 requiring them to show no paper while for remittance more than USD 5,000, necessary papers required to be submitted within 2 months instead of previous 15 days.

[89] FE circular no. 47, dated 28 October 2020.

M) ENHANCEMENT OF LOAN LIMIT FROM EXPORT DEVELOPMENT FUND (EDF)

BB enhanced the refinancing loan limit from USD 25 million to USD 30 million from EDF by the ADs against their foreign currency financing to member mills of BGMEA and BTMA for input procurement vide FE circular no. 21 dated 17 May 2020.

N) ISSUANCE OF LETTER OF CREDITS (L/Cs) WITH REALIZATION CLAUSE

For facilitating export trade during the COVID-19 pandemic, opening of back-to-back L/Cs or usance L/Cs for input procurement were allowed with realization clause along with some provisions by the ADs on behalf of the exporters operating outside specialized zones. [Ref.: FE circular letter no. 22 dated 11 June 2020]

O) DISCOUNTING OF DIRECT AND DEEMED EXPORT BILLS IN FOREIGN EXCHANGE OUT OF OWN SOURCES

ADs were allowed vide FE circular no. 23 dated 21 June 2020 to discount usance export (direct and deemed) bills in foreign exchange from their own sources to facilitate smooth transactions, provided that the fund is not committed for otherwise use.

P) EXPORT UNDER OPEN ACCOUNT CREDIT TERMS AGAINST PAYMENT UNDERTAKING/ PAYMENT RISK COVERAGE WITH OPTION OF EARLY PAYMENT ARRANGEMENT ON NON-RECOURSE BASIS

For facilitating exporters' access to financing easily, ADs are allowed vide FE circular no. 25, dated 30 June 2020 to ship goods on sales contracts in favour of exporters under open account credit terms within the statutory period, if otherwise not extended, from the date of shipment, subject to compliance with several instructions under FE guidelines.

Q) TRANSACTIONS RELATING TO FOREIGN DIRECT INVESTMENT IN BANGLADESH

For bringing smooth operations relating to foreign investment in Bangladesh, dividends payable to foreign shareholders were allowed to be credited to their FC accounts maintained in Bangladesh, subject to observance of relevant instructions. [Ref.: FE circular no. 26, dated 07 July 2020]

R) EXPORT SUBSIDY AGAINST THE EXPORT OF LIGHT ENGINEERING PRODUCTS IN ADVANCE TT

BB, vide FE circular no. 27 dated 14 July 2020, allowed light engineering industry to get subsidy against export proceeds through advance TT.

S) ACCESS TO FINANCE FROM DOMESTIC SOURCES AGAINST OVERSEAS GUARANTEES

As per FE circular letter no. 26 dated 21 July 2020, banks/NBFIs are allowed to extend admissible BDT finance against overseas guarantees (preferable bank guarantee/standby letters of credit) to resident companies irrespective of ownership/controlling status subject to adherence to all applicable credit and prudential norms and observance of relevant conditions.

T) OUTWARD REMITTANCES ON ACCOUNT OF SHIPMENT TRACKING CHARGES

ADs are allowed vide FE circular no. 31 dated 26 July 2020 to send remittances on account of shipment tracking charges subject to observance of necessary due diligence.

U) DEPOSIT PRODUCTS FOR NON- RESIDENT BANGLADESHIS (NRBs) WORKING ABROAD

To encourage NRBs in saving their hard-earned income in Bangladesh, ADs are advised vide FE circular no. 32, dated 9 August 2020 to introduce deposit products in BDT for NRBs.

V) INVESTMENT IN 'OPEN-END MUTUAL FUND' BY NON-RESIDENT INVESTORS (FOREIGNERS AND NRBs) THROUGH NITAs

To enhance the scope for foreign portfolio investment in stock market, balances held in Non-resident Investor's Taka Accounts (NITAs) can be used to purchase units of open-end mutual funds as 'over the counter (OTC) products' subject to compliance with relevant instructions. [Ref.: FE circular no. 33, dated 20 August 2020]

W) EXPORT SUBSIDY FOR SME IN TEXTILE/RMG SECTORS

Export-oriented SMEs which use both local and foreign fabric/textile in their exported products are allowed, vide FE circular no. 35 dated 25 August 2020, to get cash subsidy on local value addition subject to addition of minimum 30 percent local value.

X) REPATRIATION OF ROYALTY, TECHNICAL KNOW-HOW AND TECHNICAL ASSISTANCE FEES OF INDUSTRIAL ENTERPRISES IN DOMESTIC PROCESSING AREAS (DPAs) OF ECONOMIC ZONES (EZs)

For facilitating transactions of meeting foreign payment obligation, ADs are allowed, on behalf of industrial enterprises in DPAs of EZs, to effect outward remittance on account of royalty, technical know-how and technical assistance fees from taka account subject to compliance with the instructions vide FE circular no. 41 dated 4 October 2020.

Y) IMPORT OF GOLD JEWELLERY

The import of gold jewelry is required to be executed by Authorized Gold Dealers (AGDs) within the purview of the Gold Policy, 2018. [Ref.: FE circular no. 46, dated 21 October 2020]

Z) BUSINESS-TO-CONSUMER EXPORT THROUGH SALES ORDERS RECEIVED ON INTERNET

To bring wider scope for Business-to-consumer export, ADs are instructed vide FE circular no. 52 dated 21 December 2020, to allow such exports of each sale on e-Commerce website up to USD 500 or equivalent under cash on delivery/payment on shipment terms.

11.8 PROGRESS IN PAYMENT SYSTEMS

A) ENSURING ACCESS TO INFORMATION OF THE TRANSACTION THROUGH MFS AND PROVIDING NECESSARY ASSISTANCE

All MFS providers were advised through PSD circular letter no. 02 dated 09 February 2020 to provide detailed information of digital money receipts of every cash in/out of the MFS accounts as required by the Anti Corruption Commission (ACC) for enquiry/investigation and to ensure real time information of the MFS customers and transactions from the data warehouse. They are also advised to take proper steps to create awareness to prevent unusual transactions through multiple accounts.

B) TO RESTRAIN FROM GIVING BANKING SERVICES TO UNAUTHORIZED INSTITUTIONS THAT PROVIDES PAYMENT SERVICES AS PSP/PSO

Bangladesh Bank instructed all the scheduled banks/Mobile Financial Service (MFS) Providers/Payment Service Providers (PSP)/Payment System Operators (PSO), vide PSD circular no. 01 dated 05 March 2020, to refrain from operating custodian account, trust-cum-settlement account or providing other forms of banking services in favour of institutions dealing with mobile/electronic wallets, serving as PSOs or providing other forms of payment services without getting license from Bangladesh Bank.

C) CONTINUATION OF UNINTERRUPTED BANKING AND PAYMENT SERVICES

BB instructed all banks, MFS, PSP vide PSD circular no. 02 dated 19 March 2020 to ensure uninterrupted banking and payment services during the COVID-19 pandemic. Preparation of business continuity plan, availability of money supply for smooth transaction, encouragement of electronic fund transfer for ensuring proper monitoring and cyber security and health issues, enhancement of daily/monthly transaction limit, waiver of different charges etc. are some of the major instructions to be duly complied with.

D) GUIDELINES FOR WHITE LABEL ATM AND MARCHANT ACQUIRING SERVICES

To spread ATM (Automated Teller Machine) and POS (Point of Sales) services in the rural part of the country, BB allowed non-bank private sector entities for setting up necessary infrastructure for providing services to the customers of banks, MFSs, PSPs and any other institutions as approved by BB. In this connection, BB issued "Guidelines for White Label ATM and Merchant Acquiring Services" vide PSD circular no. 5 dated 31 May 2020.

E) REFIXING THE TRANSACTION LIMIT OF INTERNET BANKING FUND TRANSFER THROUGH NPSB

BB, vide PSD circular letter no. 11 dated 6 September 2020, enhanced the transaction limit of internet banking fund transfer through National Payment Switch Bangladesh (NPSB). In case of a person, the maximum limit of daily transaction, each transaction and number of transactions in a day have been set at BDT 5,00,000; BDT 1,00,000; and 10 respectively while the same for an institution have been fixed at BDT 10,00,000; BDT 2,00,000; and 20 respectively.

F) INTEROPERABILITY BETWEEN BANKS AND MFS PROVIDERS THROUGH NATIONAL PAYMENT SWITCH BANGLADESH (NPSB)

For digitizing and modernizing the payment systems of Bangladesh and decreasing the dependency on cash transactions, BB, vide PSD circular no. 7 dated 22 October 2020, has introduced interoperable transaction between banks and MFS providers through NPSB. Charge for fund transfer between two MFS providers is set at 0.80 percent of the transaction amount. In case of fund transfer from bank account to MFS account and vice versa, MFS providers are instructed to provide charge to the respective bank at 0.45 percent of the transaction amount.

G) BANGLADESH ELECTRONIC FUNDS TRANSFER NETWORK (BEFTN) OPERATING RULES

Bangladesh Electronic Funds Transfer Network (BEFTN) Operating Rules has been reviewed further with a view to facilitating the banks in implementing the guidelines in line with the upgraded BACH-II system. All scheduled banks participating in Bangladesh Automated Clearing House (BACH) is advised vide PSD circular no. 8 dated 28 October 2020 to follow the newly adopted "BEFTN Operating Rules Version 2.0".

H) INTRODUCTION OF PERSONAL RETAIL ACCOUNTS

Bangladesh Bank issued rules vide PSD circular no. 9 dated 16 November 2020 to open personal retail accounts for small/floating entrepreneurs, service providers engaged in marginal professions and for sellers/service providers using the social media with an aim to digitize and institutionalize the retail transactions at mass level.

11.9 DEVELOPMENTS IN OFF-SITE SUPERVISION

A) CREATION OF SPECIAL FUND FOR CAPITAL MARKET AND FORMULATION OF INVESTMENT POLICY

In an attempt to ease the liquidity crunch in the stock market, Bangladesh Bank instructed all scheduled banks vide DOS Circular no. 1 dated 10 February 2020 to form a special fund of BDT 2.0 billion for investment in the stock market by their own portfolio or their stock market subsidiaries (merchant banks and dealer licensed brokerage houses) and other merchant banks and brokerage houses (dealer).They are allowed to form the fund with their own resources/fund received from BB through repo/refinancing mechanism. Such investments will not be included in the bank's capital market exposures and no provision will be required to maintain for these. This facility will remain valid till February 2025.

B) CHANGE IN ADVANCE-DEPOSIT RATIO (ADR) AND INVESTMENT-DEPOSIT RATIO (IDR) OF BANKS

BB, vide DOS circular no. 2 dated 12 April 2020, increased the Advance-Deposit Ratio (ADR) for conventional banks to 87 percent from 85 percent and Investment-Deposit Ratio (IDR) for Islamic banks to 92 percent from 90 percent effective from 15 April 2020. This enhancement aims to facilitate banks in the implementation of various stimulus packages taken to revive the economy from the deadly effects of the COVID-19 by increasing their capacity of credit supply.

C) RESTRICTION ON DIVIDEND DISTRIBUTION

BB instructed the banks vide DOS Circular no. 03 dated 11 May 2020 not to distribute cash dividend of the year 2019 before 30 September 2020 for preserving their liquidity health through enhancing capital amidst the Coronavirus pandemic. In this connection, a guideline for dividend distribution has been issued by BB. Later, BB relaxed the rules for the individual investors to protect their interest allowing dividend distribution to them before 30 September 2020[90].

11.10 POLICY AND ACTIONS TAKEN ON DEBT MANAGEMENT

A) TRANSACTION OF GOVERNMENT SECURITIES:

To ease liquidity condition of all scheduled banks and NBFIs, BB allowed them to sell excess government securities to BB after maintaining their required Statutory Liquidity Reserves (SLR) vide DMD Circular no. 01 dated 22 March 2020.

B) INTRODUCTION OF TERM (360 DAYS) REPO

BB introduced a special REPO with tenure of 360 days vide DMD Circular no. 2 dated 13 May 2020 to match with the higher period of loans under different stimulus packages.

C) INTRODUCTION OF SUKUK

In order to open an investment window for the investors who are not interested or not in a position to invest in the interest-bearing T-bills, bonds and other government securities, Ministry of Finance issued "Bangladesh Government Investment Sukuk Guidelines, 2020" on 08 October 2020 through a gazette notification and subsequently, BB circulated this vide DMD Circular no. 05 dated 21 October 2020.

[90] DOS Circular Letter no. 19 dated 07.06.2020.

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

BB issued guideline for determining benchmark treasury bonds from existing multiple terms treasury bonds vide DMD Circular no. 6 dated 10 November 2020. Thirty bonds in six classes have been selected as benchmark securities. To determine the secondary market-based yield, all primary dealers have been instructed to quote two-way price through increasing transaction of benchmark securities. It facilitates to make the government securities market a vibrant one and to build market based effective yield curve in due course.

11.11 POLICIES FOR SUSTAINABLE FINANCE

A) REFINANCE SCHEME FOR ENVIRONMENT FRIENDLY PRODUCTS/ INITIATIVES/PROJECTS

The amount of fund under refinance scheme for environment friendly product, initiatives and project have been increased to BDT 4.0 billion from BDT 2.0 billion vide SFD circular No. 02 dated 30 April 2020 considering the increasing demand. In line with this, the area of the product, initiatives and projects have also been increased quantitatively and qualitatively.

B) ALLOCATION OF CSR BUDGET FOR HEALTH SECTOR

BB instructed the banks through SFD circular letter no. 03 dated 16 June 2020 to spend 60 percent of their CSR fund for health sector to tackle the deadly effects of the COVID-19 pandemic. In addition, they were advised to extend cooperation by donating important medical equipment such as PCR machines, ventilators and oxygen cylinders as well as personal protective gears for health professionals and even take necessary steps to extend this co-operation at district level.

C) GUIDANCE NOTE FOR ON-LENDING/REFINANCING UNDER GREEN TRANSFORMATION FUND (GTF)

A "Guidance Note" has been issued through SFD circular No. 04 dated 28 July 2020 for endorsing 'green transformation' of machines and accessories under Green Transformation Fund (GTF). It is used by all Participatory Financial Institutions (PFIs) for availing on-lending/refinancing facility from this fund.

D) SUSTAINABLE FINANCE POLICY FOR BANKS AND FINANCIAL INSTITUTIONS

In line with Government's global commitment for sustainability, BB issued 'Sustainable Finance Policy' for banks and financial institutions vide SFD circular No. 5 on 30 December 2020.

E) METHODOLOGY OF SUSTAINABILITY RATING FOR BANKS AND FINANCIAL INSTITUTIONS

BB, vide SFD circular No. 06 dated 31 December 2020, issues a detailed Methodology of Sustainability Rating for banks and financial institutions (FIs) to evaluate the performance of banks and FIs in implementation of instructions stipulated in the 'Sustainable Finance Policy' annually. This rating includes their performance in four major components: (i) Sustainable Finance Indicators, (ii) CSR Activities, (iii) Green Refinance; and (iv) Core Banking Sustainability.

11.12 INITIATIVES FOR FINANCIAL INCLUSION

REFINANCE SCHEME FOR THE COVID-19 AFFECTED LOW INCOME PROFESSIONALS, FARMERS AND SMALL BUSINESSES

BB launched a refinance scheme of BDT 30 billion to generate sufficient income for the COVID-19 affected low income professionals, farmers and micro/small businesses vide FID Circular No. 01 dated 20 April 2020. This facility is being implemented through Micro Finance Institutions (MFIs). Banks get the fund from BB at 1 percent interest, while they lend it to MFIs at 3.5 percent and finally MFIs disburse loan to the affected groups at maximum 9 percent interest.

11.13 BFIU'S INITIATIVES TO MAINTAIN THE STABILITY OF THE FINANCIAL SYSTEM

A) GUIDELINES ON "ELECTRONIC KNOW YOUR CUSTOMER" (E-KYC)

Bangladesh Financial Intelligence Unit (BFIU), vide BFIU circular no. 25 dated 08 January 2020, issued a "Guidelines on Electronic Know Your Customer (e-KYC)" for all of the financial market participants including banks, FIs, capital market intermediaries, insurance companies, MFS, DFS and other companies licensed by BB for enhancing their service capacity by reducing cost and time and to achieve steady business growth. This initiative aims to assist prevention of money laundering and terrorist financing.

B) INSTRUCTIONS TO PREVENT MONEY LAUNDERING, TERRORIST FINANCING AND PROLIFERATION FINANCING

In line with the Money Laundering Prevention Act, 2012 and Anti Terrorism Act, 2009, BFIU has issued a set of directives for all scheduled banks vide BFIU circular no. 26 dated 16 June 2020 for preventing the money laundering, terrorist financing and proliferation financing.

C) SIGNING MOU WITH DIFFERENT COUNTRIES

During the year 2020, BFIU has signed Memorandum of Understanding (MoU) with 5 Financial Intelligence Units (FIUs) of different countries. With these 5 MoUs, BFIU has completed signing total 77 MoUs with the FIUs of different countries till date. These MoUs have facilitated sharing of information related to money laundering and terrorist financing with other FIUs around the world.

11.14 DEVELOPMENT IN CREDIT INFORMATION

A) INITIATIVE TO ALLOW BORROWERS TO HAVE THEIR OWN CIB REPORT

In order to allow borrowers (individuals and institutions) to have their own CIB report, an initiative has been taken to amend chapter IV of Bangladesh Bank Order, 1972. A draft of chapter IV has been prepared by incorporating some sub-articles to the chapter IV. Besides, amendment of some existing sub-articles has also been proposed. After taking legal opinion, the draft has been sent to the Ministry of Finance for further necessary actions.

B) INITIATIVE TO DEVELOP A COLLATERAL INFORMATION SYSTEM

CIB has started developing a Collateral Information System to prepare a Collateral Database of immovable assets (Land, Flat, Building and Capital Machineries). In this database, information on collateral that is mortgaged against sanctioned loans/advances of banks/non-bank financial institutions (NBFIs) will be stored. The main purpose of developing such a system is to prevent fraud/forgery arising from mortgaging unlawfully the same property against new loans sanctioned by banks/FIs.

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

The BSEC issued a number of securities laws/order/notification/directive/guideline during the year 2020. Some of the key initiatives are as follows:

i An instruction was issued on 19 March 2020 regarding fixation of floor price and the lowest limit of circuit breaker of any listed security in the stock market. Floor price and the lowest limit of circuit breaker would be the average of the closing prices of five preceding trading days from 19 March 2020 for that security.

ii For submitting monthly reports by merchant banker, institutional broker, asset manager, custodian and credit rating companies to the BSEC through their websites, the BSEC has introduced an online report submission platform.

iii On 22 June 2020, the BSEC advised both Stock Exchanges to launch an integrated online data-gathering, information submission and dissemination platform following the philosophy of "Digital Bangladesh" to ensure listing related compliances of issuer companies such as applications, shareholding reports, declarations, corporate actions, financial disclosures, publication, price sensitive information submission, complaint settlement and other compliances.

iv On 01 September 2020, the BSEC issued directive stipulating some restrictions on "Z" category companies listed in the Stock Exchange regarding buy, sell, transfer and transmission of directors' share, reconstruction of Board, appointment or selection of Observer, appointment of Auditor etc.

v BSEC issued a directive on 06 September 2020 with an aim to enhance transparency in the disclosure of financial reports of mutual fund and asset management companies.

vi A directive was issued determining maximum limit of margin loan on 21 September 2020.

vii On 10 December 2020, a decision was taken to appoint 02 (two) independent directors in the Board of Directors of a listed company, which would fail to comply with the directives of maintaining minimum 30 percent of joint shareholding by sponsor(s)/director(s).

viii To encourage the opening of digital BO account up to Union Parishad within the country and establishing digital booth outside the country, a directive was issued on 13 December 2020.

ix On 28 December 2020, the BSEC issued a directive on an exit plan for de-listing companies from the stock exchanges, which are failed to pay dividend due to weak financial base or are not in commercial operation, subject to payment of dues to general investors by those companies.

11.16 DEVELOPMENTS IN MICRO CREDIT OPERATIONS

Microcredit Regulatory Authority (MRA) has taken different measures for development in micro credit operations during the year 2020. Some of the key initiatives are as follows:

- i The rate of service charge of the microfinance was reset to maximum 24 percent instead of maximum 27 percent.
- ii For preventing the poor borrowers from the adverse situations caused by the pandemic, MRA suspended all kinds of loan collection and loan classification. MFIs were also directed to continue loan disbursement, repayment of savings and remittance services to their clients during the pandemic.
- iii During the pandemic period, MFIs were advised to avoid conventional group meetings/yard meetings as well as provide services at the customer level using digital platforms as much as possible.
- iv A Monitoring Cell of nine (9) members headed by a Director was formed to supervise the COVID-19 situation of the microfinance sector round the clock.
- v In order to combat COVID-19 situation, MRA also advised MFIs to conduct various social activities including distribution of various medical supplies and relief, free health care and awareness programs among the poor people including the affected clients with their own fund.

11.17 DEVELOPMENTS IN INSURANCE SECTOR

The Insurance Development and Regulatory Authority (IDRA) took different initiatives during the year 2020 towards forming an inclusive insurance sector:

- i First March would be performed in each year as "National Insurance Day" to increase awareness among mass people regarding insurance. Honorable Prime Minister inaugurated the first National Insurance Day at Bangabandhu International Conference Centre on 01 March 2020.
- ii In order to promote the actuarial profession, IDRA in co-ordination with the FID made a plan and a fund of BDT 10 million was allocated in the budget of FY21.
- iii In order to protect agriculture from adverse impact of climate change, initiatives were taken to introduce crop insurance which will facilitate to ensure farmer's financial security and food safety of the country.
- iv Initiatives were taken for digitalization in insurance sector.
- v "Bangladesh Insurance Sector Development Project" for BDT 6320 million was under implementation with the assistance of Government and the World Bank.
- vi Considering the COVID-19 situation, the insurers were advised to extend grace period of re-newer premium payment date, allow customer to avail re-insurance facility without charging late fee as well as not closing their policy.

APPENDIX

Appendix-I: World GDP Growth

(In percentage)

SL No.	Particulars	2016	2017	2018	2019	2020	2021p*	2022p*
1	World	3.4	3.8	3.6	2.8	-3.3	6.0	4.4
2	Advanced Economies	1.7	2.5	2.2	1.6	-4.7	5.1	3.6
3	Emerging and Developing Asia	6.7	6.6	6.4	5.3	-1.0	8.6	6.0

Source: World Economic Outlook, April 2021.
Note: p* = Projection.

Appendix-II: GDP growth of Top 5 Import Originating Countries

(In percentage)

SL No.	Name of Country	2016	2017	2018	2019	2020	2021p*	2022p*
1	China	6.8	6.9	6.8	5.8	2.3	8.4	5.6
2	India	8.3	7.0	6.1	4.0	-8.0	12.5	6.9
3	USA	1.6	2.4	2.9	2.2	-3.5	6.4	3.5
4	Indonesia	5.0	5.1	5.2	5.0	-2.1	4.3	5.8
5	Japan	0.5	2.2	0.3	0.3	-4.8	3.3	2.5

Source: World economic outlook, April 2021.
Note: p* = Projection.

Appendix-III: GDP growth of Top 5 Export Destination Countries

(In percentage)

SL No.	Name of Country	2016	2017	2018	2019	2020	2021p*	2022p*
1	USA	1.6	2.4	2.9	2.2	-3.5	6.4	3.5
2	Germany	2.2	2.5	1.5	0.6	-4.9	3.6	3.4
3	UK	1.9	1.9	1.3	1.4	-9.9	5.3	5.1
4	Spain	3.0	2.9	2.4	2.0	-11.0	6.4	4.7
5	France	1.1	2.3	1.7	1.5	-8.2	5.8	4.2

Source: World economic outlook, April 2021.
Note: p* = Projection.

Appendix-IV: GDP growth of Top 5 Remittance Generating Countries

(In percentage)

SL No.	Name of Country	2016	2017	2018	2019	2020	2021p*	2022p*
1	KSA	1.7	-0.7	2.4	0.3	-4.1	2.9	4.0
2	UAE	3.1	0.5	1.7	1.7	-5.9	3.1	2.6
3	USA	1.6	2.4	2.9	2.2	-3.5	6.4	3.5
4	Kuwait	2.9	-4.7	1.2	0.4	-8.1	0.7	3.2
5	UK	1.9	1.9	1.3	1.4	-9.9	5.3	5.1

Source: World economic outlook, April 2021.
Note: p* = Projection.

Appendix-V: Yield of 10-year government bond of major economies

(In percent)

Month	USA	China	UK	EU
Jan'20	1.51	3.05	0.53	0.30
Feb'20	1.16	2.80	0.44	0.32
Mar'20	0.67	2.66	0.36	0.46
Apr'20	0.65	2.51	0.23	0.59
May'20	0.65	2.71	0.19	0.49
June'20	0.66	2.90	0.17	0.41
July'20	0.53	2.97	0.11	0.30
Aug'20	0.71	3.05	0.31	0.25
Sep'20	0.69	3.16	0.23	0.23
Oct'20	0.87	3.19	0.26	0.12
Nov'20	0.84	3.28	0.31	0.08
Dec'20	0.92	3.20	0.20	0.06

Source: European Central bank, Bank of England and investing.com.

Appendix VI: Gross Value Added (GVA) of Bangladesh at constant price

In Billion BDT

Sectors	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Agriculture	1,225.7	1,266.5	1,301.8	1,340.5	1,396.6	1,451.4	1,496.4
Industry	2,195.7	2,408.0	2,675.1	2,948.7	3,304.3	3,722.9	3,964.2
Service	4,008.4	4,240.9	4,505.8	4,807.3	5,114.4	5,461.3	5,751.8
Total GVA at constant price	7,429.8	7,915.4	8,482.7	9,096.5	9,815.3	10,635.6	11,212.5
GVA growth rate	6.2	6.5	7.2	7.2	7.9	8.4	5.4

Source: Bangladesh Bureau of Statistics.

Appendix VII: Domestic Credit

(in Billion BDT)

Year	CY15	CY16	CY17	CY18	CY19	CY20
Domestic Credit to the Private Sector	6,205.1	7,170.2	8,460.9	9,588.5	10,531.5	11,413.0
Domestic Credit to the Public Sector	1,201.4	1,150.2	1,059.0	1,215.0	1,874.5	2,222.7
						(In Percentage)
Growth of Domestic Credit to the Private	14.2	15.6	18.0	13.3	9.8	8.4
Growth of Domestic Credit to the Public Sector	-7.8	-4.3	-7.9	14.7	54.3	18.6

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: Monthly Economic Trend, BB (Various issues).

Appendix VIII: Workers' Remittance by Major Countries					
					In Million USD
Quarters	**Saudi Arabia**	**U.A.E.**	**Kuwait**	**U.S.A.**	**Other Major Countries***
2014Q1	844.5	707.2	275.5	609.0	747.1
2014Q2	796.6	695.3	284.4	607.8	795.8
2014Q3	848.2	723.6	284.5	648.4	883.0
2014Q4	756.3	660.1	255.6	518.6	756.5
2015Q1	837.1	712.7	259.7	572.5	845.5
2015Q2	903.5	721.5	277.9	640.5	934.0
2015Q3	785.2	704.3	261.6	678.7	915.8
2015Q4	737.7	623.1	253.4	604.9	808.2
2016Q1	716.3	662.6	254.9	564.2	837.7
2016Q2	720.9	725.0	268.0	566.0	967.7
2016Q3	603.6	554.7	245.8	430.1	854.4
2016Q4	541.4	468.9	259.0	379.6	764.0
2017Q1	515.1	482.4	243.3	389.2	826.8
2017Q2	607.1	587.5	285.2	490.1	940.3
2017Q3	592.0	514.7	250.7	481.1	891.0
2017Q4	609.4	623.5	276.3	481.0	901.8
2018Q1	653.4	570.9	322.9	463.3	1093.6
2018Q2	736.8	720.9	349.9	572.5	1129.1
2018Q3	726.8	606.9	317.1	446.3	1061.8
2018Q4	696.4	544.3	317.2	419.0	967.6
2019Q1	817.8	714.4	402.5	467.6	1180.9
2019Q2	869.5	674.8	426.5	509.9	1253.0
2019Q3	947.3	624.7	377.8	490.3	1261.2
2019Q4	1007.2	714.9	367.8	611.5	1306.3
2020Q1	916.4	563.92	347.4	610.2	1173.6
2020Q2	1144.3	569.0	279.3	691.4	1115.2
2020Q3	1614.1	751.5	466.4	815.2	1955.9
2020Q4	1453.1	621.7	473.0	831.3	1754.5
***Consists of U.K, Qatar, Oman, and Malaysia.**					

Source: Statistics Department, BB, Remittance Earnings (Quarterly Publication), BB (Various issues).

Appendix IX: Banking Sector Aggregate Balance Sheet

Particulars	(Amount in Billion BDT)				Change (%)	
	2017	2018R	2019R	2020	2018 to 2019	2019 to 2020
Property & Assets						
Cash in Hand (including FC)	117.6	139.9	161.6	164.7	15.5	1.9
Balance with BB & SB (including FC)	833.1	858.4	916.6	1,159.9	6.8	26.5
Balance with other Banks & FIs	684.7	852.0	765.5	746.2	(10.2)	(2.5)
Money at Call & Short Notice	71.5	62.1	60.3	83.9	(3.0)	39.1
Investments						
Government	1,104.7	977.2	1,410.3	2,110.7	44.3	49.7
Others	814.2	980.2	1,097.7	1,198.9	12.0	9.2
Total Investment	**1,918.9**	**1,957.3**	**2,508.0**	**3,309.6**	**28.1**	32.0
Loans & Advances						
Loans, CC, OD etc.	8,050.8	9,229.0	10,312.8	11,239.9	11.7	9.0
Bills purchased & Discounted	436.4	458.2	523.9	510.7	14.3	(2.5)
Total Loans & Advances	**8,487.2**	**9,687.2**	**10,836.8**	**11,750.0**	**11.9**	**8.4**
Fixed Assets	226.7	228.9	237.8	266.9	3.9	12.2
Other Assets	715.8	783.2	800.2	920.4	2.2	15.0
Non-banking Assets	3.7	3.9	4.7	4.5	21.5	(5.5)
Total Assets	**13,059.3**	**14,572.9**	**16,291.5**	**18,406.0**	**11.8**	**13.0**
Liabilities						
Borrowings from other Banks/FIs/Agents	711.1	875.2	1004.7	1,180.3	14.8	17.5
Deposits & Other Accounts:						
Current Deposit	2,048.1	2,257.9	2,455.4	3,044.9	9.9	24.0
Savings Deposit	2,015.1	2,255.4	2,478.2	2,947.5	9.9	18.9
Fixed/Term Deposit	5,174.2	5,664.5	6,376.4	6,804.1	12.6	6.7
Inter-bank Deposit	285.1	387.8	308.4	319.9	(20.5)	3.7
Other Deposits	596.9	620.9	834.1	1,001.0	34.3	20.0
Total Deposit	**10,119**	**11,186.5**	**12,452.6**	**14,117.3**	**11.3**	**13.4**
Bills Payable	138.0	145.9	174.3	177.7	19.4	2.0
Other Liabilities	1,180.6	1,434.3	1,637.0	1,837.0	14.1	12.2
Total Liabilities	**12,148.9**	**13,641.9**	**15,268.6**	17,312.3	**11.9**	13.4
Capital/Shareholders' Equity	910.3	931.0	1022.9	1,093.7	9.9	6.9
Total Liabilities & Shareholders' Equity	**13,059.3**	**14,572.9**	**16,291.5**	**18,406.0**	**11.8**	13.0
Off-balance Sheet Items	4,535.5	4,940.6	4,807.9	5,111.9	(2.7)	6.3

Source: Department of Off-site Supervision, Bangladesh Bank.
Note: R-Revised.

Appendix X: Banking Sector Aggregate Share of Assets						
						(Amount in Billion BDT)
Particulars	**2018**	**% of Total Assets**	**2019**	**% of Total Assets**	**2020**	**% of Total Assets**
Property & Assets						
Cash in Hand (including FC)	139.9	1.0	161.6	1.0	164.7	0.9
Balance with BB & SB (including FC)	858.4	5.9	916.6	5.6	1,159.9	6.3
Balance with other Banks & FIs	852.0	5.8	765.5	4.7	746.2	4.1
Money at Call & Short Notice	62.1	0.4	60.3	0.4	83.9	0.5
Investments						
Government	977.2	6.7	1,410.3	8.7	2,110.7	11.5
Others	980.2	6.7	1,097.7	6.7	1,198.9	6.5
Total Investments	**1,957.3**	**13.4**	**2,508.0**	**15.4**	**3,309.6**	**18.0**
Loans & Advances						
Loans, CC, OD etc.	9,229.0	63.3	10,312.8	63.3	11,239.2	61.1
Bills purchased & Discounted	458.2	3.1	523.9	3.2	510.7	2.8
Total Loans and Advances	**9,687.2**	**66.5**	**10,836.8**	**66.5**	**11,750.0**	**63.8**
Fixed Assets	228.9	1.6	237.8	1.5	266.9	1.5
Other Assets	783.2	5.4	800.2	4.9	920.4	5.0
Non-banking Assets	3.9	0.0	4.7	0.0	4.5	0.0
Total Assets	**14,572.9**	**100.0**	**16,291.5**	**100.0**	**18,406.0**	**100.0**

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

Appendix XI: Banking Sector Aggregate Share of Liabilities						
						(Amount in Billion BDT)
Particulars	**2018**	**% of Total Liabilities**	**2019**	**% of Total Liabilities**	**2020**	**% of Total Liabilities**
Liabilities						
Borrowings from other Banks/FIs/Agents	875.2	6.4	1004.7	6.6	1,180.3	6.8
Deposits & Other Accounts:						
Current Deposit	2,257.9	16.6	2,455.4	16.1	3,044.8	17.6
Savings Deposit	2,255.4	16.5	2,478.2	16.2	2,947.5	17.0
Fixed/Term Deposit	5,664.5	41.6	6,376.4	41.8	6,804.1	39.3
Inter-bank Deposit	387.8	2.8	308.4	2.0	319.9	1.8
Other Deposits	620.9	4.6	834.1	5.5	1,001.0	5.8
Total Deposit	**11,186.5**	**82.0**	**12,452.6**	**81.6**	**14,117.3**	**81.5**
Bills Payable	145.9	1.1	174.3	1.1	177.7	1.0
Other Liabilities	1,434.3	10.5	1,637.0	10.7	1,837.0	10.6
Total Liabilities	**13,641.9**	100.0	**15,268.6**	100.0	**17,312.3**	100.0

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

Appendix XII: Banking Sector Aggregate Income Statement

Particulars	(Amount in Billion BDT)				Change (%)	
	2017	2018	2019	2020	2018 to 2019	2019 to 2020
Interest Income	706.1	871.1	1001.7	907.8	15.0	-9.4
Less: Interest Expense	480.5	593.7	698.1	692.4	17.6	-0.8
Net Interest Income	225.6	277.4	303.6	215.4	9.5	-29.1
Non-Interest/Investment Income	292.4	279.0	299.5	373.0	7.3	24.5
Total Income	518.0	556.4	603.1	588.4	8.4	-2.4
Operating Expenses	271.5	294.5	324.7	332.3	10.2	2.3
Profit before Provision	246.5	261.9	278.4	256.1	6.3	-8.0
Total Provision	73.6	146.2	114.8	126.0	-21.5	9.8
Profit before Taxes	172.9	115.7	163.7	130.1	41.5	-20.5
Provision for Taxation	77.8	79.8	93.9	83.4	17.7	-11.1
Profit after Taxation/Net Profit	96.5	35.9	69.8	46.6	94.3	-33.2

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

Appendix XIII: Banking Sector Assets, Deposits & NPL Concentration (CY20)

(Amount in Billion BDT)

Assets*	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount (in billion BDT)	5,780.7	12,625.3	8,346.6	10,059.4
Share (%)	31.4%	68.6%	45.3%	54.7%
Deposit**	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount (in billion BDT)	4,583.4	9,214.0	6,543.0	7,254.4
Share (%)	33.2%	66.8%	47.4%	52.6%
NPL***	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount (in billion BDT)	419.3	463.6	574.8	308.0
Share (%)	47.5%	52.5%	65.1%	34.9%

Source: Department of Off-site Supervision & Banking Regulation and Policy Department, Bangladesh Bank.
* Based on assets in descending order; **Based on deposits in descending order excluding interbank deposits;
***Based on nonperforming loans in descending order.

Appendix XIV: Banking Sector Loan Loss Provisions

(Amount in Billion BDT)

Year	Required Provision	Provision Maintained	Surplus/(Shortfall)
2013	252.4	249.8	(2.6)
2014	289.6	281.6	(8.0)
2015	308.9	266.1	(42.8)
2016	362.1	307.4	(54.7)
2017	443.0	375.3	(67.7)
2018	570.4	504.3	(66.1)
2019	613.1	546.6	(66.5)
2020	639.0	637.7	(1.3)

Source: Banking Regulation and Policy Department, Bangladesh Bank.

Appendix XV: Banking Sector Year-wise Gross NPL Ratio & Its Composition

(In percentage)

Year	Gross NPL to Total Loans Outstanding	Sub-Standard Loans to Gross NPL	Doubtful Loans to Gross NPL	Bad Loans to Gross NPL
2010	7.1	13.4	8.4	78.1
2011	6.2	14.8	11.5	73.8
2012	10.0	19.1	14.2	66.7
2013	8.9	11.2	10.1	78.7
2014	9.7	11.0	11.2	77.8
2015	8.8	8.9	6.5	84.6
2016	9.2	10.2	5.4	84.4
2017	9.3	7.5	5.5	87.0
2018	10.3	9.4	4.7	85.9
2019	9.3	9.1	4.1	86.8
2020	8.1	7.7	5.4	86.9

Source: Banking Regulation and Policy Department, Bangladesh Bank.

Appendix XVI: Banking sector NPL Composition (CY20)

(Amount in Billion BDT)

Particulars	Amount		% of Gross NPL	
	CY19	**CY20**	**CY19**	**CY20**
Sub-Standard	85.8	68.0	9.4	7.7
Doubtful	38.7	47.3	4.7	5.4
Bad & Loss	818.8	767.6	85.9	86.9
Total	**943.3**	**882.8**	**100.0**	**100.0**

Source: Banking Regulation and Policy Department, Bangladesh Bank.

Appendix XVII: Banking Sector Deposits Breakdown excluding Interbank Deposit (CY20)

(Amount in Billion BDT)

Current deposits	3,044.9	22.1%
Savings deposits	2,947.5	21.4%
Term deposits	6,804.1	49.3%
Other Deposits	1,001.0	7.3%
Total deposit	**13,797.4**	**100.0%**

Data Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix XVIII: Banking Sector Selected Ratios

(In percentage)

Ratio	CY16	CY17	CY18	CY19	CY20
ROA	0.7	0.7	0.3	0.5	0.3
ROE	9.7	10.4	4.4	7.4	4.3
Net Interest Margin	1.9	2.0	2.2	2.1	1.1
Interest Income to Total Assets	5.5	5.4	5.9	6.1	4.9
Net- Interest Income to Total Assets	1.5	1.7	1.9	1.9	1.2
Non-Interest Income to Total Assets	2.4	2.2	1.9	1.8	2.0
Non-interest Expense to Gross Operating Income	53.3	52.4	52.0	52.8	55.1
CRAR	10.8	10.8	10.5	11.6	14.4
Tier-1 Capital to RWA ratio	7.9	7.6	6.8	7.7	9.7
Gross NPL to Total Loans Outstanding	9.2	9.3	10.3	9.3	8.1
Gross NPL to Capital	74.2	81.6	101.4	92.1	80.7
Maintained Provision to Gross NPL	49.4	50.5	53.7	57.9	72.2

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

Appendix XIX: Banking Sector ROA & ROE

ROA (%)	Number of Banks		ROE (%)	Number of Banks	
	2019	**2020**		**2019**	**2020**
Up to 2.0	54	55	**Up to 5.0**	18	19
> 2.0 to 3.0	1	3	**> 5.0 to 10.0**	11	19
>3.0to 4.0	1	1	**>10.0 to 15.0**	19	12
>4.0	2	0	**>15.0**	10	9

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

Appendix XX: Banking Sector Capital to Risk-Weighted Assets ratio (CRAR) - Solo Basis (CY20)

Range	Number of Banks
<10%	*10*
>=10% to 15%	*21*
>15% to 20%	*15*
>20%	*13*
Total	**59**

Appendix XXI: Banking Sector Year-wise ADR at end-December

(In percentage)

Year	Advance-Deposit Ratio (ADR)
2016	71.9
2017	75.9
2018	77.6
2019	77.3
2020	72.7

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

Appendix XXII: Banking Sector ADR (CY20)	
Range	**Number of Banks**
Up to 70%	18
> 70% to 85%	26
> 85% to 90%	7
>90% to 100%	6
>100%	1
Total	**58**

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

Appendix XXIII: Year-wise Banking Sector LCR and NSFR at end-December		
		(In percentage)
Year	**LCR**	**NSFR**
2016	197.6	109.3
2017	174.9	107.5
2018	173.3	109.4
2019	200.5	111.2
2020	224.8	110.1

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

Appendix XXIV: Banking Sector Leverage ratio - Solo BASIS (CY20)	
Range	Number of Banks
<3%	09
>=3% to 10%	35
> 10% to 20%	10
>20%	05
Total	**59**

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

APPENDIX XXV: ISLAMIC BANKS' AGGREGATE BALANCE SHEET						
Particulars	*(Amount in billion BDT)*				Change (%) 2018 to 2019	Change (%) 2019 to 2020
	2017	2018	2019	2020		
Property & Assets						
Cash in Hand (including FC)	24.8	27.0	29.6	32.4	9.6	9.5
Balance with BB and SB (including FC)	206.4	162.2	199.4	339.7	22.9	70.4
Balance with other Banks and FIs	111.1	124.9	160.3	145.6	28.3	(9.2)
Money at Call and Short Notice	0.5	0	0	14.3	-	∞
Investments						
Government	49.4	49.6	76.0	91.0	53.2	19.7
Others	58.8	69.8	92.9	119.4	33.1	28.6
Total Investments	**108.2**	**119.4**	**168.9**	**210.4**	**41.5**	**24.6**
Investments & Advances						
Investments & Advances	1819.2	2117.8	2397.2	2696.2	13.2	12.5
Bills Purchased and Discounted	129.8	115.1	109.5	122.5	(4.9)	11.9
Total Investments and Advances	1949.0	2232.9	2506.7	2818.8	12.3	12.4
Fixed Assets	35.9	37.3	43.6	44.6	16.9	2.3
Other Assets	82.4	79.5	79.1	100.9	(0.5)	27.5
Non-banking Assets	1.1	1.1	1.1	0.9	0.0	(16.8)
Total Assets	**2519.4**	**2784.4**	**3188.8**	**3,707.6**	**14.5**	**16.3**
Liabilities						
Borrowings from other Banks/FIs/Agents	139.2	182.0	172.2	201.4	(5.4)	17.0
Deposits & Other Accounts						
Current Deposit	118.4	118.3	250.1	312.3	111.4	24.9
Savings Deposit	378.2	437.1	478.1	583.8	9.4	22.1
Fixed/Term Deposit	1303.3	1375.4	1503.8	1,720.5	9.3	14.4
Interbank Deposit	71.9	116.3	105.8	109.2	(9.0)	3.2
Other Deposit	191.7	204.8	271.3	321.3	32.5	18.4
Total Deposits	**2063.5**	**2251.9**	**2609.1**	**3,047.1**	**15.9**	**16.8**
Bills Payable	20.8	18.0	26.2	23.3	45.6	(11.0)
Other Liabilities	157.4	187.7	222.0	267.7	18.3	20.6
Total Liabilities	**2380.9**	**2639.6**	**3029.4**	**3,539.6**	**14.8**	**16.8**
Capital/Shareholder's Equity	**138.5**	**144.8**	**159.4**	**167.9**	**10.1**	**5.4**
Total Liabilities & Shareholder's Equity	**2519.4**	**2784.4**	**3188.8**	**3,707.6**	**14.5**	**16.3**
Off-balance Sheet Items	**507.9**	**523.9**	**580.7**	**623.9**	**10.8**	**7.4**

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

Appendix XXVI: Islamic Banks' Aggregate Income Statement

Particulars	*(Amount in billion BDT)*				Change (%) 2018 to 2019	Change (%) 2019 to 2020
	2017	**2018**	**2019**	**2020**		
Profit Income	159.8	209.5	241.4	238.6	15.2	(1.1)
Less: Profit Expenses	98.2	135.4	158.7	160.7	17.2	1.3
Net Profit Income	**65.3**	**74.1**	**82.7**	**77.9**	11.6	**(5.8)**
Non-Profit/Investment Income	24.3	25.7	30.2	28.8	17.5	(4.7)
Total Income	**89.6**	**99.9**	**112.8**	**106.7**	12.9	**(5.4)**
Operating Expenses	44.0	49.4	57.3	60.2	16.0	5.1
Profit before Provision	**45.6**	**50.5**	**55.5**	**46.5**	9.9	**(16.3)**
Total Provision	10.4	15.6	16.7	11.3	7.1	(32.5)
Profit before Taxes	**35.2**	**34.9**	**38.8**	**35.2**	**11.2**	**(9.2)**
Provision for Taxation	17.0	19.4	20.7	18.2	6.7	(12.3)
Profit after Taxation (i.e. Net Profit)	**18.2**	**15.5**	**18.2**	**17.1**	**17.4**	**(6.2)**

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

Appendix XXVII: Share of Islamic Banks in the Banking Sector (CY20)

(Amount in Billion BDT)

Particulars	All Banks	Islamic Banks	Share of Islamic Banks (%)
Property & Assets			
Cash in hand	164.7	32.4	19.7
Due from BB and other banks/FIs	1,906.0	485.3	25.5
Money at Call and Short Notice	83.9	14.3	17.0
Investments in securities	3,309.6	210.4	6.4
Investments (Loans and advances)	11,750.0	2,818.8	24.0
Fixed Assets	266.9	44.6	16.7
Other Assets	920.4	100.9	11.0
Non-Banking Assets	4.5	0.9	20.5
Total Assets	**18,406.0**	**3,707.6**	**20.1**
Liabilities			
Due to financial institutions	1,180.3	201.4	17.1
Total deposits	14,117.3	3,047.1	21.6
Bills Payable	177.7	23.3	13.1
Other liabilities	1,837.0	267.7	14.6
Total Liabilities	**17,312.3**	**3,539.6**	**20.4**
Capital/Shareholder's Equity	**1,093.7**	**167.9**	**15.4**
Total Liabilities & Shareholder's Equity	**18,406.0**	**3,707.6**	**20.1**
Off-balance Sheet Items	**5,111.9**	**623.9**	**12.2**

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

Appendix XXVIII: Selected Ratios of Islamic Banks and the Banking Sector (CY20)

(In percentage)

Ratio	Overall Banking Sector	Islamic Banking Sector
ROA	0.3	0.5
ROE	4.3	10.2
Net Profit Margin	1.4	2.4
Profit (Interest) Income to Total Assets	4.9	6.4
Net-profit (Interest) Income to Total Assets	1.2	2.1
Non-Profit (Interest) Income to Total Assets	2.0	0.8
Investment (Advance)-Deposit Ratio	81.4	83.3
CRAR	11.6	12.7
Classified Investment (Advances) to Investments	8.1	4.1
Classified Investment (Advances) to Capital	80.7	67.2

*Data on ICB Islamic Bank Ltd. is excluded for Islamic Banking Sector.
Source: Department of Off-site Supervision, and Banking Regulation and Policy Department, Bangladesh Bank.

Appendix XXIX: Islamic Banks' CRAR (CY20)

CRAR	Number of Islamic Banks
Below 10%	1
10% to 12.5%	1
>12.5%	6
Total	**8**

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

Appendix XXX: Islamic Banks' Leverage Ratio (CY20)

Leverage ratio	Number of Islamic Banks
Below 3%	1
3% to 5%	4
>5%	3

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

Appendix XXXI: Islamic Bank's Investment (Advance)-Deposit Ratio (as of end-December 2020)

(Amount in Billion BDT)

Items	Islamic Banks	Islamic Branches/Windows	Islamic Banking Sector
Deposits (Excluding Interbank)	3,016.6	191.3	3,207.9
Investments* (Excluding Interbank)	2,725.2	146.2	2,871.4
IDR	84.4	67.3	83.3

*Credits are termed as investments in Islamic Banking.
Source: Department of Off-site Supervision, Bangladesh Bank.

Appendix XXXII: 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 shown in Table 1.

Table 1: Ratios used for constructing the Performance map of Islamic Banks

Dimension	Ratio		
Growth	Growth in investments, Deposits, Equity and Total Assets		Change in Market share in terms of investments, Deposits, Equity and Total Assets
Capital Adequacy	CRAR	CCB Ratio	Leverage Ratio
Asset Quality	GNPL Ratio	NNPL Ratio	RSDL Ratio
Efficiency	ROA ratio	NIM Ratio	NNII Ratio
Liquidity	LCR	NSFR	IDR

Each composite index takes values between zero and 1where 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 XXXIII: Overseas Branches' Aggregate Share of Assets & Liabilities

(Amount in million USD)

Assets	CY19	% of Total Assets	CY20	% of Total Assets	Liabilities	CY19	% of Total Liabilities	CY20	% of Total Liabilities
Cash and Balance from Central Banks	104.5	30.4	96.8	28.6	Customer Deposits	271.1	92.6	223.3	78.7
Balance with other Banks and FIs	142.5	41.4	134.8	39.8	Dues to head office and branches abroad and other liabilities	21.8	7.4	60.4	21.3
Loans and Advances	83.7	24.3	82.6	24.4	Total Liabilities	292.9	100.0	283.7	100.0
Property and Equipment and other assets	13.6	4.0	24.3	7.2	Capital/ Equity	51.5	-	54.63	-
Total Assets	344.4 [R]		338.4		Total Liabilities & Equity		344.4		338.4

Source: Scheduled Banks of Bangladesh.
R= Revised.

Appendix XXXIV: FIs' Aggregate Balance Sheet

(Amount in Billion BDT)

Items	CY16	CY17	CY18	CY19	CY20
Property & Assets:					
Cash in hand	0.02	0.02	0.02	0.03	0.01
Balance with other banks and FIs	86.7	133.6	115.1[R]	110.9	131.4
Money at call and short notice	1.4	0.4	0.8	0.7	1.07
Investment in Government securities	1.5	0.5	0.5	1.0	7.4
Other investments	21.4	21.7	17.7[R]	18.8[R]	21.7
Total loans and leases	534.2	614.6	660.5[R]	676.3[R]	670.2
Fixed assets	10.3	11.5	12.1[R]	13.7	14.1
Other assets	49.2	59.2	41.5[R]	46.0	53.7
Non-financial assets	0.7	2.5	3.3[R]	4.2[R]	2.3
Total assets	**715.0**	**843.9**	**851.6[R]**	**871.5**	**901.7**
Liabilities & Equity:					
Borrowing from other banks and FIs	158.7	185.8	182.7[R]	198.1	210.0
Deposits	383.7	467.1	466.3[R]	451.9	453.4
Other liabilities	65.9	76.2	90.7[R]	103.1	147.4
Total liabilities	608.3	729.1	739.7[R]	753.1	810.8
Shareholders' equity (capital)	106.8	114.8	111.9[R]	118.4	90.9
Total liabilities and shareholders' equity	**715.0**	**843.9**	**851.6[R]**	**871.5**	**901.7**

Source: Department of Financial Institutions and Markets, Bangladesh Bank.
R= Revised.

Appendix XXXV: FIs' Aggregate Income Statement

(Amount in Billion BDT)

Items	CY16	CY17	CY18	CY19	CY20
Interest income	**55.1**	**68.5**	**79.4**	**84.9**	**69.4**
Less: Interest expense	(39.2)	(45.8)	(55.7)	(56.2)	(53.5)
Net interest income (Net II)	**15.9**	**22.8**	**23.7**	**28.7**	**15.9**
Investment income	1.8	2.7	1.2	0.8	2.8
Add: Commission, exchange and brokerage	0.2	0.5	0.7	0.4	0.4
Add: Other operating income	3.9	3.3	4.2	3.1	2.7
Non-interest income (Non-II)	**5.9**	**6.5**	**6.1**	**4.3**	**5.9**
Total operating income (Net II + Non II)	**21.8**	**29.3**	**29.8**	**33.0**	**21.8**
Operating expenses	(7.5)	(9.7)	(10.1)	(10.6)	(10.6)
Profit before provisions	**14.3**	**19.7**	**19.7**	**22.4**	**11.2**
Total provisions	(3.6)	(4.6)	(5.1)	(5.2)	(2.4)
Profit before taxes	**10.7**	**15.1**	**14.6**	**17.2**	**8.8**
Tax provisions	(5.6)	(5.6)	(6.3)	(4.4)	(2.4)
Net profit after taxes	**5.1**	**9.5**	**8.3**	**12.8**	**6.4**

Source: Department of Financial Institutions and Markets, Bangladesh Bank.

Appendix XXXVI: FIs' Liquidity Position

(Amount in Billion BDT)

Items	End-Dec 2016	End-Dec 2017	End-Dec 2018	End-Dec 2019	End-Dec 2020
Total liabilities	342.8	394.5	451.1	483.9	500.1
Total term deposits	232.2	260.5	296.9	309.8	324.2
Industry CRR (required)	5.8	6.5	7.4	7.7	4.9
Industry CRR (maintained)	6.2	7.1	7.1	7.5	5.7
Industry SLR (required)	15.5	18.0	20.5	21.7	22.6
Industry SLR (maintained)	64.9	81.5	94.9	90.9	108.0

Source: Department of Financial Institutions and Markets, Bangladesh Bank.

Appendix XXXVII: FIs' Other Information

(Amount in Billion BDT)

Items	CY16	CY17	CY18	CY19	CY20
Tier-I Capital	91.3	87.3	92.6	113.3	89.4
Tier-II Capital	9.7	11.0	13.2	13.3	13.4
Total Capital	101.0	98.3	105.8	126.6	102.8
Classified loans & leases	39.2	45.2	54.6	64.0	100.5
Loan loss provisions (required)	25.2	24.6	33.3	32.8	51.8
Loan loss provisions (maintained)	19.8	19.7	27.5	23.4	44.4
Loan loss provision (surplus/shortfall)	**(5.4)**	**(4.9)**	**(5.8)**	**(9.4)**	**(7.4)**
Number of Government-owned FIs	3	3	3	3	3
Number of local FIs	19	19	19	18	18
Number of FIs under foreign joint venture	11	12	12	12	12
Total number of FIs	**33**	**34**	**34**	**33**	**33**
Number of branches	224	254	269	276	277

Source: Department of Financial Institutions and Markets, Bangladesh Bank.

Appendix XXXVIII: FIs' Summary Performance Indicators

(In percentage)

Indicators	CY16	CY17	CY18	CY19	CY20
Profitability & Efficiency:					
Return on Assets (ROA)	0.7	1.1	1.0[R]	1.5	0.4
Return on Equity (ROE)	4.7	8.3	7.4	10.8	3.9
Net Interest Margin (NIM)	2.4	2.9	3.2[R]	3.7	2.4
Asset Quality:					
Classified Loans and Leases to Total Loans and Leases	7.3	7.3	7.9	9.5	15.0
Capital Adequacy:					
Capital Adequacy Ratio (CAR)	16.6	13.5	13.9	17.5	14.2
Liquidity:					
SLR maintained	19.0	20.7	21.1	18.8	21.6
CRR maintained	2.7	2.7	2.4	2.5	1.6

Source: Department of Financial Institutions and Markets, Bangladesh Bank.
R= Revised.

Appendix XXXIX: FIs' Sector-wise Distribution of Loans and Leases

(Shares in percentage)

Sectors	CY16	CY17	CY18	CY19	CY20
Trade and Commerce	17.1	13.5	15.3	13.9	13.6
Housing	16.8	15.0	19.2	19.3	18.9
Power, Gas, Water and Sanitary Service	9.5	7.9	8.8	9.7	10.5
Textile	4.9	4.0	4.9	4.5	4.6
Iron, Steel and Engineering	5.4	5.2	5.1	5.0	4.8
Transport & Aviation	4.2	8.9	4.0	4.3	3.9
Food Production and Processing Industry	4.8	3.6	4.3	4.0	4.2
Garments and Knitwear	4.5	4.8	4.7	5.2	6.0
Margin Loan	2.4	1.7	2.0	2.3	1.2
Merchant Banking	4.4	3.3	3.7	3.4	3.2
Agriculture	2.0	2.6	3.1	2.3	2.8
Others (including other sectors with minor share)	24.0	29.5	24.9	26.1	26.3

Source: Department of Financial Institutions and Markets, Bangladesh Bank.

Appendix XL: Interbank Repo Volume, Interbank Repo Rate and Call Money Rate

Month	Interbank Repo Volume (in billion BDT)	Interbank Repo Rate (%)	Call Money Rate (%)
January 2020	586.5	5.5	4.8
February 2020	676.9	5.8	5.1
March 2020	648.9	6.0	5.1
April 2020	303.1	4.6	4.9
May 2020	385.4	4.7	5.0
June 2020	550.8	4.8	5.0
July 2020	638.1	3.5	4.2
August 2020	653.2	4.2	4.7
September 2020	775.0	1.8	2.9
October 2020	758.0	0.6	2.6
November 2020	714.8	0.7	2.0
December 2020	668.8	0.8	1.8

Source: Bangladesh Bank Website, Economic Data.

Appendix XLI: Yields on Treasury Securities

Securities	December 2019	June 2020	December 2020
91 Day T-Bill	7.0%	6.8%	0.5%
182 Day T-Bill	7.6%	6.9%	1.1%
364 Day T-Bill	8.0%	7.4%	1.9%
2 Years T-Bond	8.2%	7.8%	3.3%
5 Years T-Bond	8.9%	8.1%	4.5%
10 Years T-Bond	9.2%	8.6%	5.7%
15 Years T-Bond	9.3%	8.7%	6.6%
20 Years T-Bond	9.4%	8.9%	7.0%

Source: Major Economic Indicators, February 2020 Issue, Bangladesh Bank.

Appendix XLII: Equity Market Development			
Quarter-end	**DSEX Index**	**Market Capitalization (in billion BDT)**	**Market P/E ratio**
Mar-20	4008.3	3122.4	10.6
Jun-20	3989.1	3119.7	10.8
Sep-20	4963.3	3996.4	13.5
Dec-20	5402.7	4482.3	16.5

Source: Dhaka Stock Exchange Website.

Appendix XLIII: Automated Cheque Clearing Operations						
Category	**CY18**		**CY19**		**CY20**	
	Number (in thousands)	**Amount in billion BDT**	**Number (in thousands)**	**Amount in billion BDT**	**Number (in thousands)**	**Amount in billion BDT**
High Value (HV)	2,414.6	14,732.77	2,401.0	14,480.5	2,055.0	13,886.0
Regular Value (RV)	20,849.2	8,214.20	20,362.0	8,519.9	16,668.0	7,827.3

Source: Payment Systems Department, Bangladesh Bank.

Appendix XLIV: Volume of Electronic Banking Transactions				
				(Amount in Billion BDT)
Year	**Using ATM**	**Using Debit Card**	**Using Credit Card**	**Internet Banking**
2018	1,385.3	1,420.8	142.5	324.7
2019	1,629.9	1671.2	134.4	658.8
2020	1,728.6	1770.4	119.2	796.1

Source: Statistics Department, Bangladesh Bank.

Appendix XLV: Comparative Scenario of Mobile Financial Services (MFS) in last 3 years			
Particulars	**2018**	**2019**	**2020**
Number of agents	886,473	971,620	1,058,897
No. of Banks authorized for MFS	18	16	15
No. of Banks in operation for MFS	17	15	14
Number of registered clients (in millions)	67.5	78.6	99.3
Number of active accounts (in millions)	37.3	35.1	32.3
Number of total transactions (in millions)	2,273	2,589.5	3,172
Volume of total transaction (in billion BDT)	3,789	4,344.9	5,616

Source: Payment Systems Department, Bangladesh Bank.

Appendix XLVI: Banking Sector Month-wise Deposit & Advance Rate (CY20)

(in percentage)

Month	Deposit Rate	Advance Rate	Overall Spread
January	5.69	9.66	3.97
February	5.53	9.62	4.09
March	5.51	9.58	4.07
April	5.37	8.29	2.92
May	5.24	8.18	2.94
June	5.06	7.95	2.89
July	5.02	7.79	2.77
August	4.95	7.82	2.87
September	4.79	7.79	3.00
October	4.73	7.67	2.94
November	4.64	7.62	2.98
December	4.54	7.61	3.07

Source: Bangladesh Bank Website.

Appendix XLVII: External Credit Assessment Institutions (ECAIs)

Sl. No.	Rating Companies	Subsidiary/Technical Partner of	Date of Issuance of Registration Certificate
1.	Credit Rating Information and Services Ltd (CRISL)	Rating Agency Malaysia Berhad	28/08/2002
2.	Credit Rating Agency of Bangladesh Ltd. (CRAB)	ICRA Limited of India	24/02/2004
3.	Emerging Credit Rating Ltd. (ECRL)	Malaysian Rating Corporation Berhad	22/06/2010
4.	National Credit Rating Ltd. (NCRL)	The Pakistan Credit Rating Agency Ltd	22/06/2010
5.	ARGUS Credit Rating Services Ltd. (ACRSL)	DP Information Group, Singapore.	21/07/2011
6.	WASO Credit Rating Company (BD) Limited	Financial Intelligence Services Ltd.	15/02/2012
7.	Alpha Credit Rating Limited (ACRL)	Istanbul International Rating Services Inc.	20/02/2012
8.	The Bangladesh Rating Agency Limited (BDRAL)	Dun & Bradstreet South Asia Middle East Ltd.	07/03/2012

Appendix XLVIII: Microcredit Finance Sector						
Sl No.	**Particulars**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
1	Total Number of Licensed institutions	759	700	706	724	759
2	Number of Branches	16,282	17120	18088	18,977	20,898
3	Number of Employees	124,992	137607	152506	162,175	171,110
4	Number of Members (in Millions)	27.8	29.9	31.1	32.4	33.3
5	Number of Borrowers (in Millions)	23.1	24.8	25.7	25.8	26.2
6	Outstanding loan by licensed institutions (in Billions)	458.2	581.6	671.2	787.6	889.0
7	Outstanding loan by Top 20 institutions (in Billions)	348.0	478.0	528.3	564.7	707.0
8	Outstanding saving Balance of the licensed institutions (in Billions)	168.7	216.8	263.0	306.2	373.9
9	Outstanding saving Balance Held in Top 20 (in Billions)	136.0	171.4	206.8	239.0	294.8
10	**Particulars of Outstanding Loan (BDT in Billion)**					
	Up to 4,000 Taka	5.0	5.7	7.3	7.8	3.2
	Up to 4,000 Taka to 10,000 Taka	27.3	27.9	25.9	25.9	20.0
	Up to 10001 Taka to 30,000 Taka	166.3	170.0	169.2	169.6	165.3
	Up to 3,0001 Taka to 50,000 Taka	97.7	133.7	153.7	173.2	201.9
	50001 Taka to 1,00,000 Taka	80.2	117.6	150.8	170.7	201.7
	1,00,001 Taka to 3,00,000 Taka	60.6	94.8	114.6	160.9	190.8
	3,00,001 Taka and Above	21.2	31.8	49.6	79.5	106.1
11	**Total Number of loan recipients (BDT in Millions)**					
	Up to 4,000 Taka	1.1	1.1	1.0	0.9	0.8
	Up to 4,000 Taka to 10,000 Taka	4.1	3.8	3.3	2.6	2.6
	Up to 10001 Taka to 30,000 Taka	12.2	11.9	11.5	11.4	10.0
	Up to 3,0001 Taka to 50,000 Taka	3.5	4.7	5.5	6.0	6.1
	50001 Taka to 1,00,000 Taka	1.6	2.4	3.1	3.5	4.3
12	1,00,001 Taka to 3,00,000 Taka	0.6	0.8	1.0	1.2	1.2
13	3,00,001 Taka and Above	0.1	0.1	0.2	0.2	0.3

Note: R-Revised.

Source: Microcredit Regulatory Authority.

Appendix XLIX: Financial Stability MAP						
Components	**Major Indicators**	**Standardized Scores (0 to 1 Scale)**		**Change with respect to 2019**	**Latest Value of the indicator**	**Comment**
		2019[91]	**2020**			
External Economy	Trading partners' real GDP growth (export weighted)	0.137	1.000	↑	(6.7) percent	Reverse ratio[92]. Score = 1- standardized score
	Import Weighted average Inflation (In countries from which Bangladesh makes highest import)	0.453	0.358	↓	3.0 percent	
	Weighted average unemployment rate (Source countries with highest inward remittance for Bangladesh)	0.555	1.000	↑	6.9 percent	
	International Oil Price	0.474	0.235	↓	$65.4/barrel. Oil price increased in early 2021.	
	3-months LIBOR rate	0.821	0.222	↓	0.3 percent in M9/2020	
	Current account deficit to GDP	0.610	0.487	↓	0.1 percent in Q4/2020	
	Reserve Adequacy (Import coverage in months)	0.610	0.269	↓	11.3 months	Reverse ratio.
	Overall component Score	0.4882	0.5293	↑		
Domestic Economy	Output gap	0.30	0.10	↓	0.2 percent	
	External debt to GDP	0.197	0.201	↑	20.1 percent	
	Exchange rate fluctuations (REER)	0.187	0.278	↑	110.7	REER value
	Inflation	0.237	0.261	↑	5.3 percent	Point to Point for end CY20
	Overall component Score	0.2302	0.2098	↓		
Households	Household borrowing to GDP	0.111	0.109	↓	6.5 percent	
	Household Credit quality (H.H NPL to H.H Loans)	0.245	0.201	↓	2.4 percent	
	Inward Remittance to GDP	0.582	0.557	↓	13.3 percent at end-FY20. Reverse ratio.	
	Overall component Score	0.3153	0.2916	↓		

[91] Some indicators for 2019 have been re-estimated. In some cases, threshold values used for standardizing the indicators have also been modified from the previous publication (FSR-2018).

[92] 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 XLIX: Financial Stability MAP (Contd.)						
Components	Major Indicators	Standardized Scores (0 to 1 Scale)		Change with respect to 2019	Latest Value of the indicator[93]	Comment
		2019	2020			
Non-Financial Corporation	NFC credit to GDP	0.516	0.542	↑	72.0 percent using FY20 GDP	
	NFC loans to Banking Sector Loans	0.785	0.738	↓	18.5 percent	
	D/E ratio of large NFCs	0.938	0.952	↑	214.3 percent	
	Credit portfolio quality	0.342	0.271	↓	6.8 percent	
	Overall component Score	0.6450	0.6258	↓		
Fiscal Condition	Public debt to GDP	0.397	0.467	↑	39.6 percent	
	Sovereign Risk Premium	0.560	0.481	↓	0.5 percent	
	Govt. budget balance to GDP	0.263	0.294	↑	5.4 percent	
	Tax revenue to GDP	0.724	0.734	↑	9.6 percent	Reverse ratio
	Overall component Score	0.4861	0.4942	↑		
Financial Market	Asset Concentration of top 3 D-SIBs to Industry Assets	0.217	0.272	↑	27.2 percent	
	Gross NPL of Banking Sector	0.765	0.399	↓	8.1 percent	
	RWA density ratio	0.654	0.635	↓	61.5 percent	
	Banking Sector resilience map	0.288	0.349	↑	0.7 out of 2	
	Deposit covered by DITF	0.769	0.761	↓	23.9 percent	Reverse ratio
	NPL FIs	0.398	0.766	↑	15.0 percent	Weights for FI and capital market indicators are finalized using their proportional size in the financial system (Bank + FI + Capital Market)
	Price Earnings Ratio	0.676	0.718	↑	16.5 times. Reverse ratio up to a certain level	
	DSEX	0.462	0.532	↑	5402.1 points	Reverse ratio
	Overall component Score	0.6018	0.4965	↓		

[93] The cut-off date for latest value of any indicator is 31st December, 2020. Updated values after that date, have been used in explaining future outlook of the stability map but not in constructing the map. For some indicators, where end-December, 2020 data are not available at the time of index preparation, data from earlier period have been used.

Appendix XLIX: Financial Stability MAP (Contd.)						
Components	Major Indicators	Standardized Scores (0 to 1 Scale)		Change with respect to 2019	Latest Value of the indicator	Comment
		2019	2020			
Capital & Profitability	CRAR	0.373	0.344	↓	11.6 percent	Reverse ratio
	TIER 1	0.330	0.482	↑	7.4 percent	Reverse ratio
	NIM	0.608	0.752	↑	1.4 percent	Reverse ratio
	ROA	0.726	0.853	↑	0.3 percent	Reverse ratio
	Overall component Score	0.5093	0.6076	↑		
Funding & Liquidity	ADR	0.678	0.620	↓	72.7 percent	
	LCR	0.374	0.128	↓	224.8 percent	Reverse ratio
	NSFR	0.114	0.182	↑	110.1 percent	Reverse ratio
	Overall component Score	0.3916	0.3130	↓		

Appendix L: List of Indicators Used to Prepare CFSI				
Category	**Indicator**		**Interpretation**	**Data Source**
Banking Soundness Index (BSI)				
Capital adequacy	Capital to risk-weighted assets ratio (CRAR)	BS1	Indicates banks' strength to absorb unexpected losses. Higher CRAR implies better health of the bank concerned.	DOS
Asset quality	Gross NPL ratio	BS2	Indicates problems with asset quality in the loan portfolio and the degree of credit risk.	BRPD
Liquidity	Credit to deposit ratio (CDR)	BS3	Indicates banks' ability to finance lending with deposits. A high ratio reflects that banks are borrowing to lend thereby raising the funding cost and impacting profitability.	Monthly Economic Trends (MET)
	Weighted interest rate spread	BS4	Higher spread leads to higher liquidity as well as more probability of higher profitability. Lower spread also indicates higher market competition.	MET
Profitability	Return on assets (ROA)	BS5	Measures banks' efficiency in using its assets	DOS
	Return on equity (ROE)	BS6	Measures banks' efficiency in using its capital	
	Net interest margin (NIM)	BS7	Higher ratio implies higher ability to absorb losses; also indicates banks with high capital requiring lesser deposits to finance lending.	
Financial Vulnerability Index (FVI)				
External Sector	Current account balance to GDP ratio	FV1	Indicates vulnerability on the external sector of the economy if the deficit widens. A large current account deficit means an equivalent capital account surplus. The funds flowing in may be contributing to the economy overheating and asset price booms by financing speculative asset purchases. It also precipitates probability of currency depreciation.	MET & Bangladesh Bureau of Statistics (BBS)
	Ratio of M2 to foreign exchange reserves	FV2	Indicates the extent to which banking system liabilities are backed by international reserves; measures the ability	MET

Appendix L: List of Indicators Used to Prepare CFSI (Contd.)				
Category	**Indicator**		**Interpretation**	**Data Source**
			to withhold external shocks and ensures the convertibility of the local currency.	
	Real effective exchange rate (REER)	FV3	Indicates export competitiveness of an economy.	Monetary Policy Department (MPD)
Financial Sector	M2 multiplier (broad money, M2/Reserve money, RM)	FV4	Measures how much an increase of base money leads to the expansion of money supply through the banking system. A high and increasing M2 multiplier may be indicative of over-borrowing and accompanied deterioration in asset quality.	MET
	Domestic credit to GDP ratio	FV5	A high value can indicate overheating and excess risk taking if it's too high. A low ratio may be indicative of credit constraints and a possibility of credit crunch in the near future.	MET
	General stock price index movement (DSE)	FV6	Indicates investors' confidence in an economy as well as potential vulnerability of the economy when stock prices go out of line from the fundamentals.	MET
Real Sector	Fiscal balance to GDP ratio	FV7	Indicates the stress imposed by government borrowing; high fiscal deficit raises interest rates and impacts repayment capacity if not supported by high economic growth. It could also leave the country exposed to inflation if the deficit is monetised by the Central Bank.	Bangladesh Bank Quarterly (BBQ)
	CPI inflation	FV8	Indicates overheating of the economy from a mismatch between aggregate demand and supply situation of an economy.	MET
	Global petroleum price	FV9	When the price of petroleum goes up, Bangladesh economy experience pressure in the foreign exchange market to	World Bank

Appendix L: List of Indicators Used to Prepare CFSI (Contd.)				
Category	**Indicator**		**Interpretation**	**Data Source**
			meet additional demand for foreign exchange.	
Regional Economic Climate Index (RECI)				
Exports	Weighted average GDP growth of major export partners (USA, UK, Canada, Germany, Italy, France, Spain)	RE1	A high GDP growth rate in the major export partners implies better export prospects for Bangladesh.	OECD, Singapore Department of Statistics & Bank Negara Malaysia
Imports	Weighted average CPI inflation of major import partners (China, India, Japan, Korea, Malaysia, Singapore)	RE2	Higher inflation in major import countries would be likely to translate into higher import payments for Bangladesh as well as higher domestic inflation.	

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