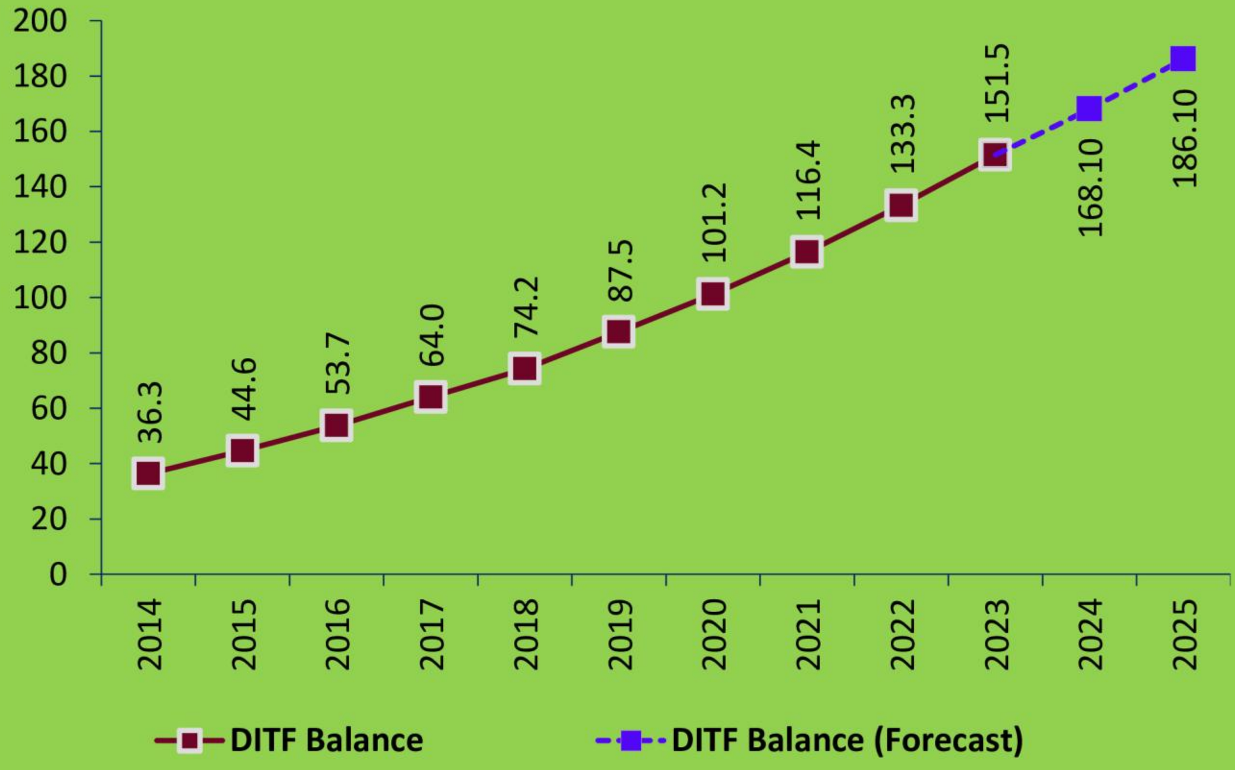
Financial Stability Report

2023|Issue 14



Bangladesh Bank

- *This report is released in 2024 and is based on data and information available as of 31st December 2023, unless stated otherwise.*
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Financial Stability Report 2023

Issue 14

Financial Stability Department

Bangladesh Bank

(The Central Bank of Bangladesh)

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Department of Off-site Supervision	Monetary Policy Department	
Deposit Insurance Department	Sustainable Finance Department	

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ACRONYMS

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
AGM	Annual General Meeting
AIIB	Asian Infrastructure Investment Bank
ALS	Assured Liquidity Support
AML-CFT	Anti-Money Laundering and Countering the Financing of Terrorism
ATDTL	Average Total Demand and Time Liabilities
ATM	Automated Teller Machine
BACH	Bangladesh Automated Clearing House
BACPS	Bangladesh Automated Cheque Processing System
BB	Bangladesh Bank
BBQ	Bangladesh Bank Quarterly
BBS	Bangladesh Bureau of Statistics
BCBS	Basel Committee on Banking Supervision
BD	Bangladesh
BDT	Bangladesh 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
BGTB	Bangladesh Government Treasury Bond
BHBFC	Bangladesh House Building Finance Corporation
BL	Bad and Loss
BO	Beneficiary Owner
BOP	Balance of Payments
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
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk
CBS	Core Banking Solution
CC	Cash Credit
CCB	Capital Conservation Buffer

CDBL	Central Depository Bangladesh Limited
CET-1	Common Equity Tier 1
CFSI	Composite Financial Stability Index
CGD	Credit Guarantee Department
CIT	Cheque Imaging and Truncation
CMSME	Cottage, Micro, Small and Medium Enterprise
COVID-19	Corona Virus Disease 2019
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
CRWA	Credit Risk-Weighted Assets
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
DP	Depository Participants
DSE	Dhaka Stock Exchange
DSEX	DSE Broad Index
ECC	Export Cash Credit
ECAI	External Credit Assessment Institutions
E-CAB	e-Commerce Association of Bangladesh (e-CAB)
ECRL	Emerging Credit Rating Ltd.
EDF	Export Development Fund
EFT	Electronic Fund Transfer
EM	Emerging Market
EMDEs	Emerging Market and Developing Economies
EPS	Earnings Per Share
ERQ	Exporters' Retention Quota
EU	European Union
EZs	Economic Zones
FATF	Financial Action Task Force
FC	Foreign Currency
FCBs	Foreign Commercial Banks
FDD	Foreign Demand Draft
FDI	Foreign Direct Investment

FDR	Fixed Deposit Receipt
FE/FX	Foreign Exchange
FEOD	Foreign Exchange Operation Department.
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
FTSE	The Financial Times Stock Exchange
FVI	Financial Vulnerability Index
FX	Foreign Exchange
FY	Fiscal Year
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GNPL	Gross Non-Performing Loan
GVA	Gross Value Added
HFT	Held-for-Trading
HHI	Herfindahl-Hirschman Index
HTM	Held-to-Maturities
HTPs	Hi-Tech Parks
HV	High Value
IBFT	Internet Banking Fund Transfer
IBLF	Islamic Banks Liquidity Facility
ICAAP	Internal Capital Adequacy Assessment Process
ICB	Investment Corporation of Bangladesh
ICRRS	Internal Credit Risk Rating System
IDR	Investment to Deposit Ratio
IDRA	Insurance Development and Regulatory Authority
IFC	International Finance Corporation
IMF	International Monetary Fund
IPO	Initial Public Offering
IR	Insolvency Ratio
IRR	Interest Rate Risk
ISAS	Institute of South Asian Studies
IT	Information Technology
ITES	Information Technology Enabled Services
JBC	Jibon Bima Corporation
KSA	Kingdom of Saudi Arabia
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
LC	Letter of Credit
LDC	Least Developed Countries

LHS	Left Hand Side
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
MFSPs	Mobile Financial Service Providers
MI	Market Infrastructure
MOU	Memorandum of Understanding
MPD	Monetary Policy Department
MPS	Monetary Policy Statements
MRA	Microcredit Regulatory Authority
MRWA	Market Risk-Weighted Assets
MT	Mail Transfer
NASDAQ	National Association of Securities Dealers Automated Quotations
NBFI	Non-Bank Financial Institution
NCRL	National Credit Rating Ltd.
NDA	Net Domestic Assets
NDDP	Neuro-Developmental Disabled Person
NFA	Net Foreign Assets
NFC	Non-Financial Corporation
NFCD	Non-Resident Foreign Currency Deposit
NII	Net Interest Income
NIM	Net Interest Margin
NNII	Net Non-Interest Income
NNPL	Net Non-Performing Loan
NOP	Net Operating Profit
NPL	Non-Performing Loan
NPSB	National Payment Switch Bangladesh
NSDP	National Summary Data Page
NFSR	Net Stable Funding Ratio
OBOs	Off-shore Banking Operations
OBS	Off-Balance Sheet
OBU	Off-shore Banking Unit
OD	Overdraft
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
ORWA	Operational Risk-Weighted Assets
OTC	Over the Counter
PC	Packing Credit
PCBs	Private Commercial Banks
PD	Primary Dealers

P/E	Price-Earnings Ratio
PKSF	Palli Karma-Sahayak Foundation
POL	Petroleum, Oil and Lubricants
POS	Point of Sale
PSD	Payment Systems Department
PSE	Public Sector Entities
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
RHS	Right Hand Side
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
SDBs	Specialized Development Banks
SDF	Standing Deposit Facility
SFD	Sustainable Finance Department
SHQLA	Stock of High-Quality Liquid Assets
SLF	Standing Lending Facility
SLR	Statutory Liquidity Ratio
SMA	Special Mention Account
SME	Small and Medium Enterprise
SMESPD	SME & Special Programmes Department
SOCBs	State-owned Commercial Banks
SOFR	Secured Overnight Financing Rate
SRP	Supervisory Review Process
SS	Sub-Standard
S&P	Standard & Poor's
STED	Short-Term External Debt
TR	Trust Receipt
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
WEO	World Economic Outlook
WB	World Bank
WIR	Weighted Insolvency Ratio
WTI	West Texas Intermediate

EXECUTIVE SUMMARY

This report provides an in-depth analysis on the key trends in the financial system of Bangladesh and broader macroeconomic landscape. Considering both global and domestic macroeconomic environments, along with the performance of banks and other financial intermediaries, the report is aimed at informing the stakeholders about the condition of the financial system stability of the country. It discusses potential risks and vulnerabilities within the domestic macro-financial system, as well as resilience thereof to various adverse events. The goal of the report is to enable stakeholders to adopt pre-emptive measures well before any shock event materializes.

During 2023, the global economy remained broadly stable, registering a real GDP growth of 3.2 percent, largely attributed to the tightening of monetary policy stance taken by central banks to counterbalance the heightened inflation. The speedy disinflation spurred global growth by boosting employment and income levels, complemented by heightened government expenditure and household consumption. Against this backdrop, consumer perception and investor confidence in global market improved. In 2023, major stock indices showed significant improvement, while the yields of 10-year government bonds in major economies experienced some decline. Additionally, crude oil prices reversed their upward trajectory from 2022 and were projected to decrease further in the near future. Furthermore, the growth outlook of major external trade partners of Bangladesh and remittance source countries appeared to be promising, signaling optimism for fostering sustainable growth in Bangladesh.

The GDP growth of Bangladesh stood at 5.78 percent in FY23, despite elevated inflationary pressures. The 12-month average inflation stood at 9.02 percent at the end of FY23, which was 2.87 percentage points higher than that of the previous fiscal year. The domestic credit from the banking system surged by 15.25 percent during FY23 compared to that of the preceding year. In the external sector front, Bangladesh exhibited a moderate level of resilience during FY23. In comparison with FY22, export (FOB) and wage earners' remittances increased by 6.27 percent and 2.8 percent respectively, while import (FOB) contracted by 15.76 percent. Eventually, deficit in current account balance (CAB) narrowed significantly in FY23. However, the Bangladesh Taka (BDT) depreciated by 11.84 percent in FY23, rendering exports more appealing while increasing the cost of imports. Furthermore, net FDI inflow experienced a decline of 6.98 percent in FY23; still, highest FDI stock was emanated from the USA. The total external debt of Bangladesh stood at USD 98.1 billion at the end of FY23, out of which 16.3 percent was short-term external debt (STED). Pertinently, STED of Bangladesh was equivalent to 51.4 percent of gross reserves, indicating the country’s high debt servicing capacity.

After experiencing a slow asset growth in 2021 and 2022, a notable asset growth was observed in the banking sector during the review period. With a moderate growth of 9.20 percent, total assets of the banking sector reached BDT 23,983.97 billion in 2023. Total loans and advances, holding the highest share of banking sector assets, grew by 9.75 percent, which was 3.70 percentage points lower than that of the preceding year. Net profit after taxes of the banking sector increased marginally compared to that of 2022. The return on equity (ROE) increased moderately while return on assets (ROA) decreased marginally compared to those of the preceding year. Total deposits in the banking sector, excluding inter-bank deposits, stood at BDT 17,641.1 billion, registering a growth of 10.1 percent at end-December 2023.

The asset quality of the banking sector slightly declined. At end-December 2023, gross NPL ratio of the banking sector reached 9.00 percent, up from 8.16 percent recorded in the previous year. The net NPL ratio recorded minor increase and reached to 0.59 percent at end-December 2023. The Trade and Commerce sector held 17.13 percent of total outstanding loan while NPL of this sector constituted 23.13 percent of total NPLs, thereby raising apprehension of concentration risk for the overall banking sector.

The banking sector's Capital to Risk-weighted Assets Ratio (CRAR) declined by 19 basis points while the Tier-1 capital ratio increased by 5 basis points in 2023, and both the ratios remained well above the respective regulatory requirements. The CRAR of the banking industry stood at 11.64 percent at end-December 2023, slightly declining from 11.83 percent of the preceding year. Noteworthy that banking sector's CRAR remained above the minimum regulatory requirement of 10.0 percent, largely due to the improved regulatory capital position of Foreign Commercial Banks (FCBs) amid decline in capital positions of State-Owned Commercial Banks (SOCBs), Specialized Development Banks (SDBs), and Private Commercial Banks (PCBs). In addition, the banking industry maintained a Capital Conservation Buffer (CCB) of 1.64 percent against the regulatory requirement of 2.50 percent in 2023. Moreover, the banking sector maintained a leverage ratio of 4.67 percent, much higher than the minimum regulatory requirement of 3.25 percent, mainly led by high leverage ratio of FCBs.

The liquidity situation in the banking industry remained broadly stable during 2023. The banking sector's Advance-to-Deposit Ratio (ADR) stayed below the admissible limit of 87 percent but showed steady upward progress after second quarter of 2023 and increased to 80.4 percent at end-December 2023 from 79.0 percent at end-December 2022. Call money rate showed a gradual declining trend up to August 2023 and thereafter peaked at 8.8 percent in December 2023. The rising call money rate in the last four months of 2023 was largely attributed to Bangladesh Bank's continued efforts of keeping tightened monetary policy stance on board for curbing the inflationary pressure. Furthermore, the banking industry maintained liquidity coverage ratio (LCR) and Net Stable Funding Ratio (NSFR) above the respective minimum regulatory requirements in 2023, except the PCBs (Islamic) cluster. Banking industry's stock of high-quality liquid assets showed a decline, primarily due to shrinkage in the stock of high-quality liquid assets of SOCBs and PCBs (Islamic) clusters.

The Islamic banks in Bangladesh demonstrated a mixed trend in 2023. The Islamic banks posted a better performance in terms of total deposit growth in 2023. However, the Islamic banks, on a cluster basis, registered lower growth in total assets, investments (advances), and shareholders' equity. Moreover, comparatively higher growth in total investments than the total deposits of Islamic banks significantly increased the Investment Deposit Ratio (IDR) of the cluster during the review year. In addition, the key capital-related indicators, overall asset quality, and profitability of the Islamic banking cluster slightly declined at end-December 2023. The Islamic banks were able to fulfill the regulatory requirement of NSFR; however, the cluster could not maintain the required LCR.

In 2023, the intensity of the banking sector's risks associated with the Risk-weighted Assets (RWA) decreased slightly compared to the same of the preceding year. RWA density ratio demonstrated a marginal improvement during the review year. RWA associated with credit risk showed relatively higher growth than the growth recorded in case of RWA originated from market and operational risks. The aggregate lending exposure of all banks to the corporate sector was 54.82 percent. Among the categorized ones, retail and SMEs sector had the highest RWA density ratio followed by corporate sector. Noteworthy that rated exposures as percentage of total exposure of the banking industry decreased slightly in the review period. This created the necessity for banks to keep more capital than the amount they maintained in the previous year. However, banking industry's overall CRAR was above the minimum regulatory requirement.

Stress test results, as of end-December 2023, revealed that both banking and FIs sector would remain moderately resilient to different shock scenarios. Among the prime risk factors, credit risk remained the most prominent in terms of its impact on the banks' capital adequacy. Results of the test indicate that default of top 03 borrowers would likely to have the most adverse impact on the banking sector's resilience in terms of capital adequacy, followed by an increase in NPLs of 3.0 percent. For both shocks, the CRAR of the banking sector would fall below the minimum regulatory requirement. However, the CRAR of the banking sector would stand above the minimum requirement for all shock scenarios of market risk, except the case of interest rate risk. In the event of combined shock, excluding default of top 03 borrowers and increase in NPLs of the highest outstanding sector, the CRAR of the banking industry would decline to 6.84 percent from pre-shock CRAR of 11.64 percent. On the other hand, the stress test results of the FIs sector revealed that 16 FIs out of 35 would remain resilient to specified shock scenarios at end-December 2023.

An increasing trend in the NPL ratio and the maintenance of extra loan loss provisions in 2023 largely impeded the income generation of the FIs sector. In 2023, total assets of the FIs sector exhibited an increase of 8.12 percent, mainly driven by an increase in investments and loans compared to that of the preceding year. Although the share of borrowings and deposits increased, equity declined compared to that of the previous year, which led to an increase FIs' liabilities to assets ratio. In the reporting year, the Capital Adequacy Ratio (CAR) of the FIs sector, in line with Basel II, experienced moderate decline compared to the position of the preceding year. However, the industry maintained reasonable liquidity in the review year.

The yield of treasury securities as well as the volume of government borrowings through primary auction increased notably in the review year. The primary issuance of short-term government T-bills increased by 67.74 percent in 2023 compared to the same of 2022 while the issuance of the long-term government T-bonds rose by 10.94 percent during the period. However, mandatory devolvement of the treasury securities declined marginally.

During 2023, the money market faced some liquidity strain, leading banks and FIs to avail considerable liquidity support from Bangladesh Bank. In the review year, liquidity assistance to banks and FIs from Bangladesh Bank increased by 111.15 percent compared to that of the previous year. The transactions volume in interbank repo and interbank call money market declined by 6.13 percent and 9.06 percent respectively compared to those of 2022 while the interest rate of those two markets remained considerably high.

The capital market demonstrated a mixed trend. The DSE index recorded a marginal increase while market turnover displayed a notable decline in 2023. In particular, the year 2023 started with a DSE broad index (DSEX) of 6,195.37 and market capitalization of BDT 7,602.65 billion, which ended up with 6,246.50 and BDT 7,808.50 billion respectively at end-December 2023. High government borrowings and better yields from alternative investments, among others, appeared to be two reasons behind the sluggishness of the capital market. The role of the banking sector remains crucial in the DSE as it has a sizable fraction of total market capitalization. Banks' capital market exposures, based on both solo and consolidated basis, decreased slightly in 2023 compared to the same of 2022 and remained well below the regulatory limit, indicating no major stability threat that may emanate from the banking sector in the form of stock price shock.

Volume of financial transactions through digital platforms increased notably. BB introduced a local currency card called "TakaPay" in November 2023 to reduce dependency on international card networks. Additionally, FIs are allowed to conduct FI to FI, and bank to FI transactions through BD-RTGS System. Compared to 2022, the amount and number of transactions through different types of digital platforms like BEFTN, NPSB, ATMs, debit cards, and internet banking increased significantly in 2023. At end-December 2023, Mobile Financial Services (MFS) transactions experienced substantial growth compared to that of the preceding year. The number and amount of agent banking transactions including deposit amount increased significantly, whereas inward foreign remittance through agent banking decreased compared to that of the previous year. Being a regulator, BB intensifies its monitoring and supervision efforts to mitigate cyber risks at both domestic and cross-border transaction levels and also instructs the banks and financial institutions to take adequate precautionary measures.

Foreign exchange (FX) market of Bangladesh demonstrated a moderate level of resilience in 2023 with a modest fluctuation in exchange rate. As of end-December 2023, total assets of the banking sector in FX decreased whereas liabilities and contingent liabilities increased compared to those of the preceding year. As Bangladesh Bank took various austerity measures for maintaining a reasonable level of foreign exchange reserves, both L/C opening and L/C settlement recorded notable decline during the review period. Consequently, trade deficit narrowed in 2023. However, wage earners' remittances slightly increased during the year. The real effective exchange rate (REER) and the nominal exchange rate (BDT against USD) depreciated during the review year, which appeared to have contributed to the enhancement of the export growth of the country. In 2023, BB purchased and sold a notable amount of USD in the domestic FX market to keep the nominal exchange rate as well as the FX market stable. At end-December 2023, the gross reserve position was USD 27.10 billion, deemed to be adequate to meet 5.1 months' import payments on a prospective basis. Noteworthy that the FX reserves, as per BPM6, was USD 21.87 billion at end-December 2023.

Insurance sector demonstrated a mixed trend in 2023. Life insurance companies held most of the assets and contributed to major part of gross premiums in the insurance sector. Among the key indicators of life and general insurance sectors, claims settlement ratio, investment to total assets ratio, and risk retention rate improved while management expense ratio, and return on investment deteriorated in the review year. Pertinently, due to its limited exposure to other sectors of the financial system, adverse shocks in the insurance sector may not pose any significant threat to the stability of the entire financial system.

MFI sector in Bangladesh was reasonably stable during FY23. This sector recorded a moderate growth in credit accompanied by a decline in NPL ratio as well as the amount of NPL during the review year. Though NPL ratio of this sector was lower than that of the banking and FIs sectors, close monitoring and surveillance are indispensable for keeping this sector sound and stable. Key profitability indicators of the MFI sector, ROA and ROE, increased moderately, largely attributable to improvement in asset quality and recovery of non-performing loans in FY23. Also, donation-to-equity ratio, i.e., dependency ratio, decreased in the last couple of years, indicating a substantial improvement in self-sustainability of the sector.

In the review year, Bangladesh Bank took several decisive policy measures to enhance resilience of the financial system. For example, BB introduced Prompt Corrective Action (PCA) Framework for banks, market-based interest rate system for loan/investment, bancassurance guidelines for banks, guidelines to establish digital banks in the review year. BB also continued facilitating priority sector lending to boost domestic production.

Overall, Bangladesh economy demonstrated a moderate level of resilience with steady GDP growth amidst global resurgence in 2023. The banking sector expanded moderately with a slight deterioration in asset quality and capital adequacy. Both the banking and FI sectors exhibited moderate level of resilience in terms of plausible stress scenarios. Financial markets remained moderately stable despite some sporadic liquidity stress and sluggishness in the stock market.

CHAPTER 1 : MACROECONOMIC DEVELOPMENTS

Amidst continued global challenges like supply chain disruptions and geopolitical tensions, the global economy remained mostly resilient owing to faster disinflation and stable economic growth. The soft landing of global economy has also been anticipated amid ongoing advancements in reducing inflationary pressures as well as fostering of business and household financing at reduced costs. The financial markets also reacted exuberantly in tandem with enhancing investors' confidence over central bank initiatives in transitioning away from the tighter monetary policy. However, divergence in disinflation process across regions and concurrent geopolitical tensions might exacerbate the price instability and impede the global growth prospect.

Despite facing elevated inflationary pressures, Bangladesh economy grew moderately supported mainly by robust growth in the industry and services sectors. Government borrowing from the banking system recorded a notable rise while private sector credit growth remained relatively subdued. The sustained low credit-to-GDP gap suggests that there is no immediate threat to the financial system stability stemming from credit flow to the private sector.

During FY23, the external sector of Bangladesh demonstrated moderate resilience albeit prevalence of a number of global and domestic macroeconomic challenges. The deficit in the current account balance narrowed significantly in FY23 mainly attributable to modest growth of export as well as wage earners' remittance coupled with declining import payments. The local currency continued to demonstrate depreciation in FY23, making exports more competitive and imports costlier. Moreover, net FDI inflows decreased by 6.98 percent in FY23 while the USA retained the highest FDI stock in Bangladesh. The external debt stock of Bangladesh increased to USD 98.1 billion at the end of FY23, although its growth declined considerably compared to the previous fiscal year. However, the short-term external debt stood at 16.3 percent of total external debt at the end of FY23 pertaining to 51.4 percent of gross foreign exchange reserves, signifying Bangladesh's stable debt servicing capacity.

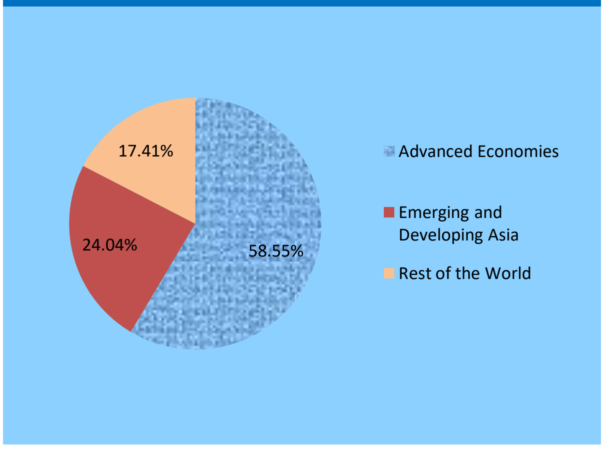
1.1 GLOBAL MACRO-ECONOMIC ENVIRONMENT

In 2023, the global economy demonstrated resilience by maintaining steady growth in the face of significant challenges, including supply chain disruptions, geopolitical tensions stemming from the Russia-Ukraine war, and substantial inflationary pressure. The central banks' tighter monetary policy actions, aimed at counterbalancing the inflationary pressure, proved to be effective in bringing the inflation within target. Global economic growth remained broadly stable in 2023 with growing employment and income level along with higher government expenditure and household consumption. The global financial markets also exhibited notable improvement during 2023. The major stock indices improved markedly in the review year while the yield of 10-year government bonds of major economies declined marginally. The price of crude oil declined from its peak of 2022 and remained moderately stable during 2023. Overall, the global economy appeared to be on the right track in continuing the disinflation process and achieving stable growth. Moreover, the growth outlook of major external trade partners and remittance source countries of Bangladesh seems to be promising, indicating greater growth prospect for Bangladesh economy in coming days.

1.1.1 GLOBAL GROWTH SCENARIO AND OUTLOOK

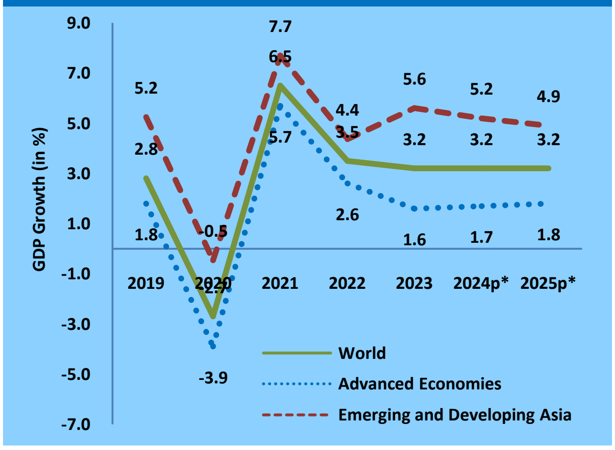
As reported by the IMF in their April 2024 World Economic Outlook (WEO), the growth of global economy remained stable in 2023 as inflation descended within target, thanks to the decisive monetary policy initiatives by central banks across countries and upgraded monetary policy frameworks implemented especially by the Emerging Market Economies (EMEs). Global economic growth was also supported by the steady growth in employment and income alongside expanded government spending and household consumption. At the end of December 2023, the world GDP[1] stood at USD 104.79 trillion, showing a slight increase from USD 100.66 trillion at end-December 2022. In comparison with 2022, the share of advanced economies in world GDP increased by 0.79 percentage point and reached at 58.55 percent in 2023, whereas the share of emerging and developing Asian countries decreased by 0.81 percentage point and stood at 24.04 percent for the same period. The contribution of other countries in world GDP exhibited no significant change, standing at 17.41 percent (Chart 1.1). The real GDP growth of advanced economies declined by 1.0 percentage point in 2023 compared to 2022 and stood at 1.6 percent, which is projected to record minor increase in 2024 and 2025. However, the Emerging and Developing Asia demonstrated a significant increase in real GDP growth during 2023 and projected to grow steadily in the next two years. Overall, the real GDP of global economy experienced a steady growth of 3.2 percent in 2023 which is projected to remain same in 2024 and 2025 (Chart 1.2).

CHART 1.1: GDP SHARE BY CATEGORIES OF ECONOMIES



Sources: IMF, World Economic Outlook, April 2024.

CHART 1.2: WORLD GDP GROWTH



Note: p*- Projection.
Source: IMF, World Economic Outlook, April 2024.

As the global economy has been poised to a soft landing amid steady growth outlook and declining headline inflation, developing economies like Bangladesh could benefit from both supply-side and demand-side implications. Despite some exceptions, the top import originating countries of Bangladesh have bounced back their growth trajectory in 2023 and are projected to maintain stable growth in 2024 and 2025 (Chart 1.3). Economic recovery in those countries might help Bangladesh in reducing uncertainties over imports and associated costs in coming days. However, the prolonged downturn in the Chinese real estate sector and its subsequent effects on its economy might pose some ambivalence as Bangladesh is mostly dependent on China for imports. The top export destination countries of Bangladesh except the USA, experienced weakened economic condition during 2023 but their growth outlook for 2024 and 2025 seem to be stable and promising (Chart 1.4). The growth perspective of those export destination countries could help Bangladesh in sustaining export growth and reducing balance in trade deficit. Furthermore, the ongoing economic recovery of the USA would help Bangladesh in expanding its export opportunities since the country is the top export destination of Bangladesh.

[1]At the current price.

CHART 1.3: GDP GROWTH OF TOP IMPORT ORIGINATING COUNTRIES

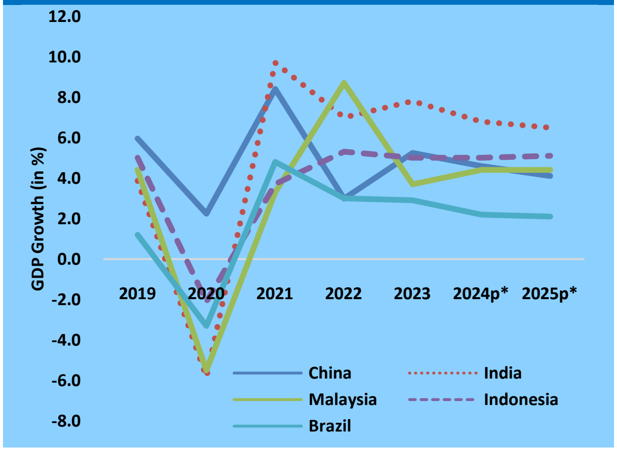
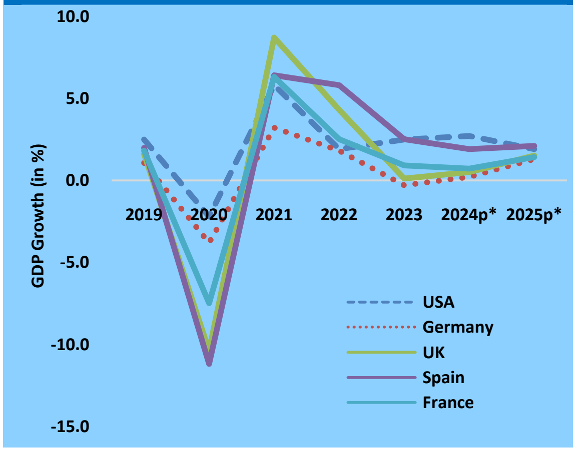


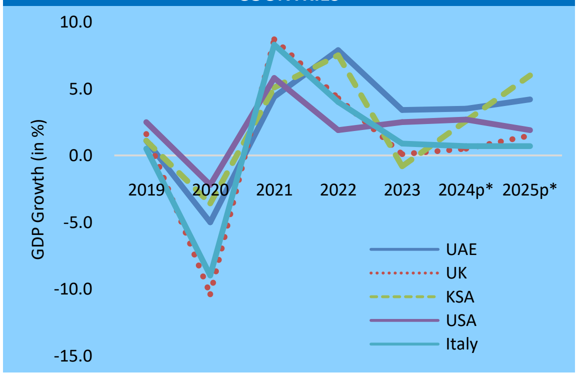
CHART 1.4: GDP GROWTH OF TOP EXPORT DESTINATION COUNTRIES



Note: p*- Projection.
Source: IMF, World Economic Outlook, April 2024.

The prospect of wage earners' remittance for Bangladesh is largely related to the growth perspective of the remittance source countries. Except the USA, the top remittance-source countries of Bangladesh, such as the UAE, the UK, the KSA and Italy experienced slower economic growth in the review year (Chart 1.5). However, better growth outlook for those countries for 2024 and 2025 would raise optimism for more overseas employment and remittance inflows into Bangladesh economy. Nevertheless, the geopolitical tensions in the Middle East may impede the economic recovery of the Gulf Cooperation Council (GCC) economies and pose downside risks for inward remittance.

CHART 1.5: GDP GROWTH OF TOP 5 REMITTANCE SOURCING COUNTRIES



Note: p*- Projection.
Source: IMF, World Economic Outlook, April 2024.

1.1.2 Global Financial Market Environment

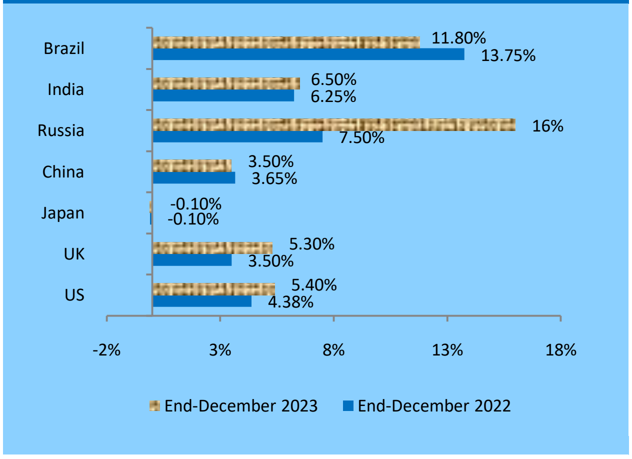
Despite challenges, the global financial market remained broadly stable towards the economic recovery worldwide with continued monetary and fiscal policy support. To contain the headline inflation within target, global central banks responded with extensive interest rate increases, particularly in advanced economies like the USA, the UK, and Russia. The major stock indices witnessed notable improvement in 2023, while the yield of 10-year government bonds of major economies experienced some downturn. Moreover, the crude oil price reversed back from its increasing trend in 2022 and projected to decline further in coming year. Overall, 2023 witnessed a multifaceted financial ecosystem poised for further transformation and adaptation to emerging challenges and opportunities.

1.1.2.1 International Interest Rate Environment

In 2023, a significant number of central banks implemented the most extensive and rapid interest rate increases, responding decisively to tackle escalating inflationary pressures.

Among advanced economies, USA and the UK raised their policy interest rates by substantial margins in 2023, with increases of 1.02 and 1.80 percentage points respectively compared to 2022 (Chart 1.6). Amongst the emerging countries, Russia increased their policy rate substantially by 8.50 percentage points whereas India followed suit by raising their policy rate marginally by 25 basis points to contain inflationary pressure. Conversely, Japan maintained its policy rate unchanged in the review year, while Brazil and China reduced their policy rates by 195 and 15 basis points respectively.

CHART 1.6: POLICY RATES OF SELECTED CENTRAL BANKS

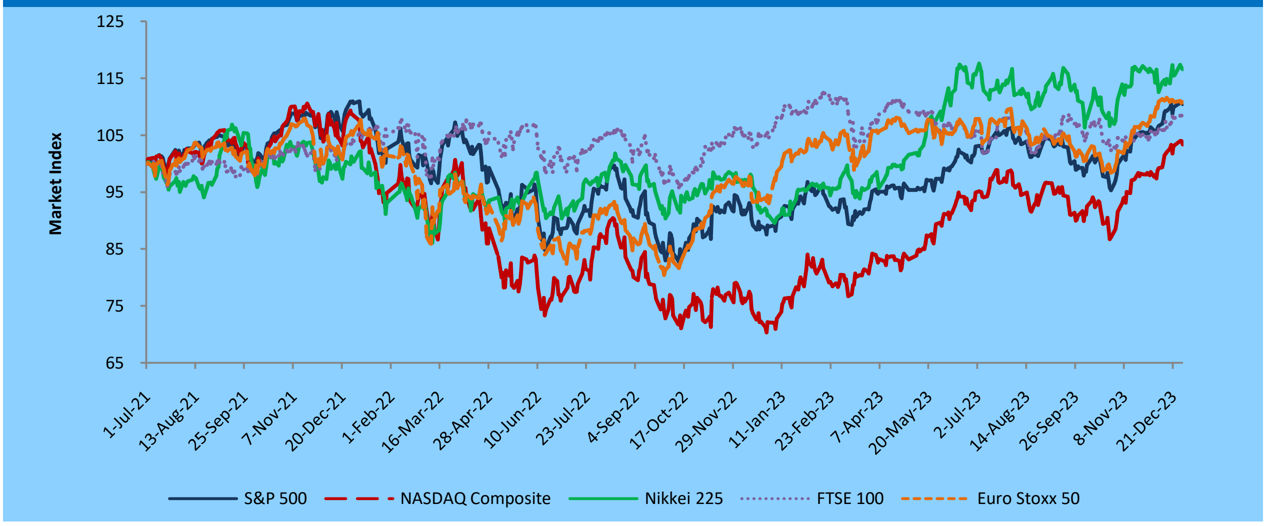


Source: Bank for International Settlements.

1.1.2.2 Development in Major Financial Markets

Equity prices made an uptick in the review year, largely driven by easing financial condition, rising asset values and elevated capital flows to emerging countries. Major stock indices such as S&P 500, NASDAQ Composite Index, Nikkei 225, FTSE 100, and Euro Stoxx 50 registered substantial increase in indices of 24.2, 43.4, 28.2, 3.8, and 19.2 percent respectively at the end of December 2023 compared to the same period of 2022 (Chart 1.7).

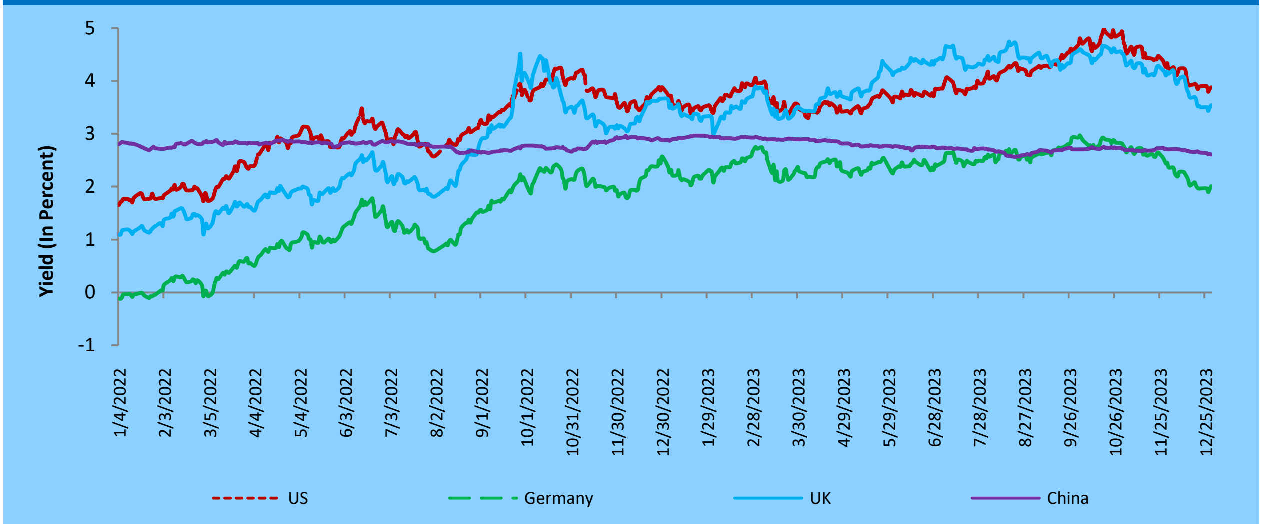
CHART 1.7: MOVEMENT OF MAJOR GLOBAL STOCK MARKET INDICES



Note: Base: 01 July 2021.
Source: Wall Street Journal.

In 2023, the yield of 10-year government bonds in major advanced and emerging market economies experienced some downturn amid expected short-term interest rate cuts coupled with reductions in term premiums. Albeit some fluctuations throughout the year, the yield of the United States 10-year government bond remained unchanged at end-December 2023 compared to that of end-December 2022. However, the bond yield of Germany, China and the United Kingdom decreased by 56, 27, and 13 basis points, respectively during the period (Chart 1.8). The downturn in yield rates in major economies may induce bondholders to sell the bond and those investors may be tempted to opt for alternative risky investments anticipating higher returns. Such investors would likely switch to other economies, including developing ones in a bid to achieve higher yields.

CHART 1.8: YIELD OF 10-YEAR GOVERNMENT BONDS OF MAJOR ECONOMIES

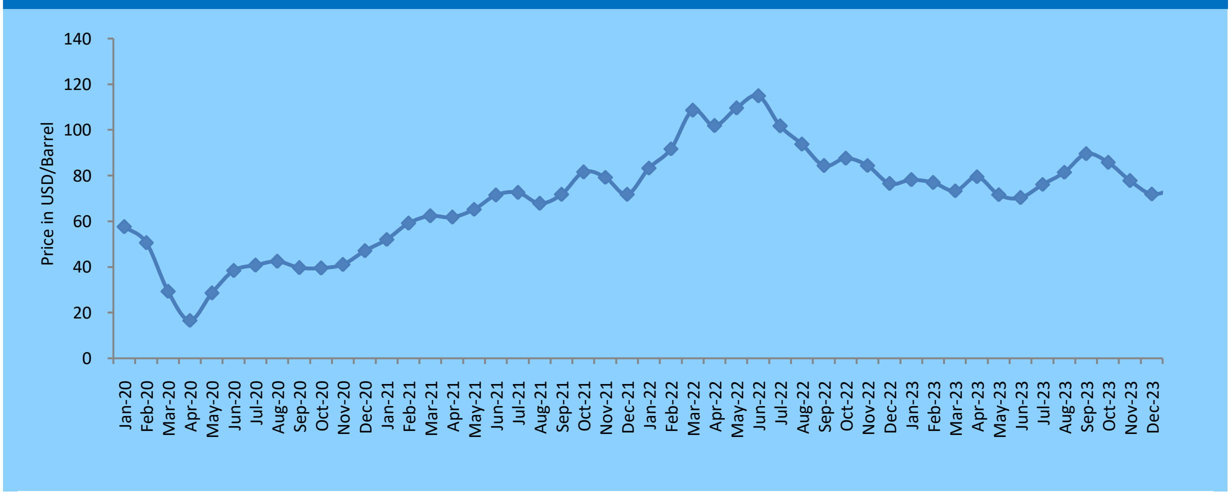


Source: Wall Street Journal.

1.1.2.3 Crude Oil Prices in International Market

Petroleum, oil, and lubricants (POL) are major drivers of global energy composition and have significant impact on the global economic dynamics. Moreover, fluctuations in oil prices play a significant role in driving domestic inflation, as production and transportation costs are largely contingent on oil prices. Chart 1.9 displays the global crude oil price movement in the last four years, which implies that the oil price fell more quickly than anticipated from its peak in mid-2022. The decline in oil price was partially attributable to increased production by non-OPEC countries, higher natural gas output, and elevated oil exports by Russia in non-Western-allied countries. At the end of 2023, the crude oil price declined to USD 71.90 per barrel from USD 78.12 at the beginning of the year. However, the price experienced some fluctuations throughout the year peaking at USD 89.43 per barrel on the first day of September 2023. Although the oil prices exhibited an upward trend in the first quarter of 2024, as per IMF projection, prices may decline by about 2.5 percent in 2024 in their April 2024 Outlook.

CHART 1.9: CRUDE OIL PRICE (WTI)*



Source: Federal Reserve Economic Data. (https://fred.stlouisfed.org/series/DCOILWTICO)

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

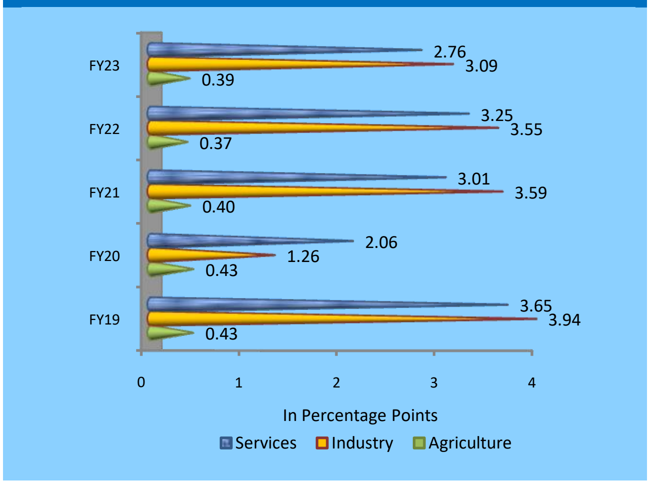
1. 2 DOMESTIC MACROECONOMIC DEVELOPMENT

The real GDP of Bangladesh demonstrated a growth rate of 5.78 percent in FY23. The industry and services sectors largely supported the growth amid prevalence of elevated inflation throughout the year. Government borrowing from the banking system increased notably during the period, whereas private sector's credit growth was relatively low. The persistent low credit-to-GDP gap suggests no possibility of immediate threat to the stability of the financial system arising from domestic credit flow to the private sector.

1.2.1 GDP GROWTH

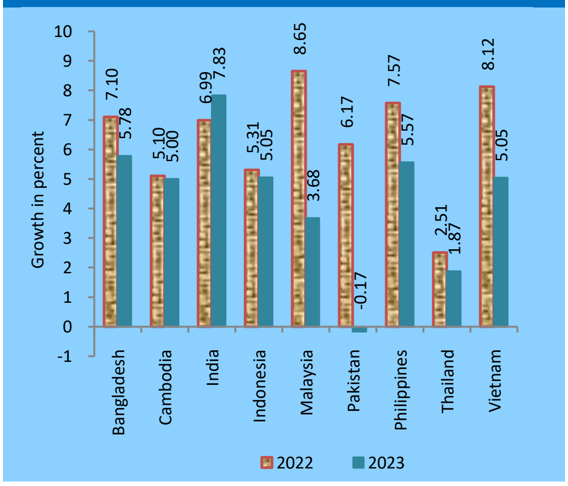
The economy of Bangladesh experienced moderate growth in FY23[2], supported by the robust expansion in the industry and services sectors in spite of a number of challenges, such as inflationary pressure, continuous depreciation of Bangladesh Taka (BDT) against the US Dollar, and decline in of foreign exchange reserves. The Government and Bangladesh Bank took various decisive actions to bolster the economy, which helped the country to record real GDP of BDT 32,104.33 billion and a growth rate of 5.78 percent in FY23. The industry, services, and agriculture sectors marked 8.37 percent, 5.37 percent, and 3.37 percent growth rates respectively on an individual basis; share of these sectors in GDP[3] were 37.65 percent, 51.05 percent, and 11.30 percent respectively. Additionally, the economy recorded a Gross Value Added (GVA) amounting BDT 31,035.19 billion with a growth rate of 6.25 percent in FY23. The industry and services sectors contributed approximately 3.09 percentage points and 2.77 percentage points to the GVA growth rate respectively, while the agriculture sector made a modest contribution of 0.39 percentage point (Chart 1.10). Among selected Asian economies, Bangladesh recorded the second highest GDP growth in 2023 (Chart 1.11).

CHART 1.10: GROSS VALUE ADDED (GVA) OF BANGLADESH



Source: BBS; Calculated by FSD.

CHART 1.11: REAL GDP GROWTH OF SELECTED ASIAN ECONOMIES



Source: BBS; and IMF World Economic Outlook April 2024.

1.2.2 INFLATION

Likewise the last year, Bangladesh economy continued to experience rising inflationary pressure during FY23. The 12-month average general CPI inflation (Base: FY2021-22 = 100) reached to 9.02 percent at end of FY23 while food and non-food inflation stood at 8.71 and 9.39 percent respectively; 2.87, 2.66 and 3.08 percentage points higher than the corresponding figures of end-FY22 with base year FY2005-06. At

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

[3]As per BBS data retrieved on 22 April 2024 from https://bbs.portal.gov.bd/sites/default/files/files/bbs.portal.gov.bd/page/057b0f3b_a9e8_4fde_b3a6_6daec3853586/GDP_2022-23_Final.pdf

the end of Q2FY24, the 12-month average general, food, and non-food inflation was 9.48 percent, 10.08 percent and 9.05 percent respectively with base year FY2021-22 (Chart 1.12).

The point-to-point CPI inflation for general, food and non-food items (Base: FY2021-22 = 100) rose to 9.74 percent, 9.73 percent and 9.60 percent respectively whereas the corresponding figures were 7.56 percent, 8.37 percent and 6.33 percent at the end of FY22 (Base: FY2005-06 = 100). At the end of Q2FY24, the point-to-point general, food and non-food inflation stood at 9.41, 9.58 and 8.52 percent with base year FY2021-22 (Chart 1.13).

CHART 1.12: 12-MONTH AVERAGE CPI INFLATION

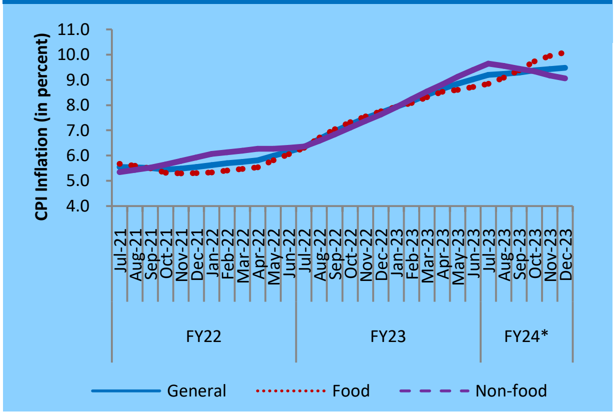
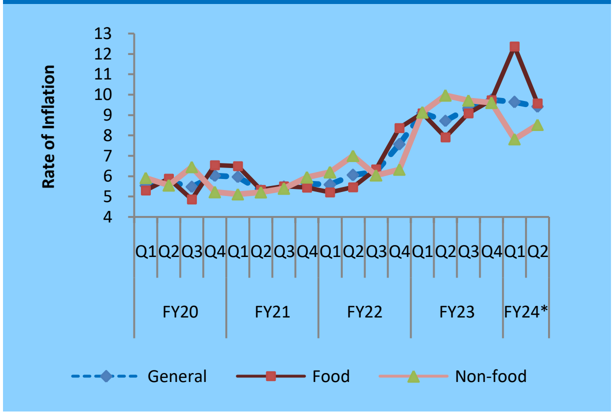


CHART 1.13: END-QUARTER POINT-TO-POINT INFLATION AND ITS COMPONENTS.

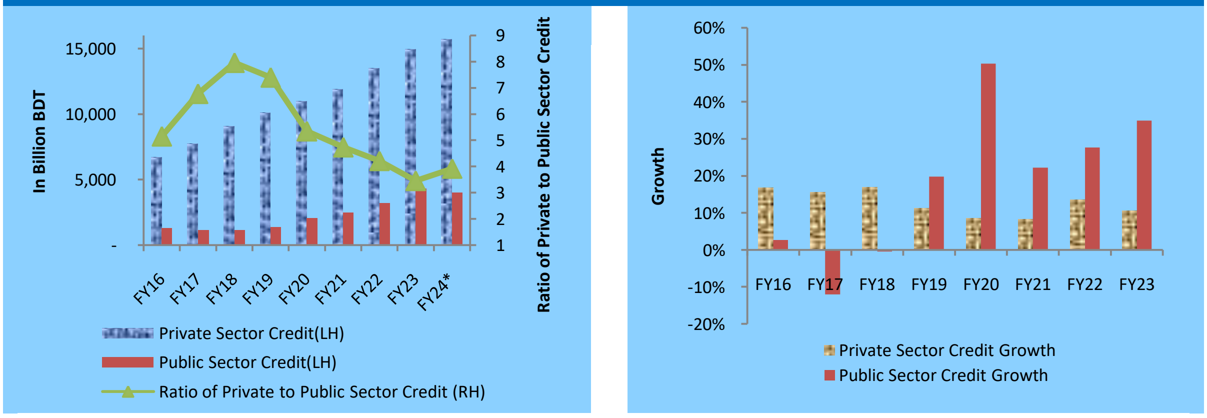


Note: Twelve month average food and non-food indices have been calculated after shifting base from FY06 to FY22
Source: BBS[4].

1.2.3 Domestic Credit from the Banking System

At the end of FY23, domestic credit by the banking system surged to BDT 19,267.69 billion, marking a notable increase of 15.25 percent from that of FY22. Amongst the total credit, private sector credit expanded by 10.58 percent, reaching BDT 14,942.55 billion, while public sector credit[5] soared by 34.94 percent and reached to BDT 4,325.15 billion. Moreover, the ratio of the private sector credit to the public sector credit declined to 3.45 at the end of FY23 (Chart 1.14).

CHART 1.14: DOMESTIC CREDIT FROM BANKING SYSTEM-COMPONENTS' SHARE AND GROWTH



Note: *FY24 indicates data upto first half of FY24.
Source: Statistics Department, BB as cited in Monthly Economic Trend (for both charts).

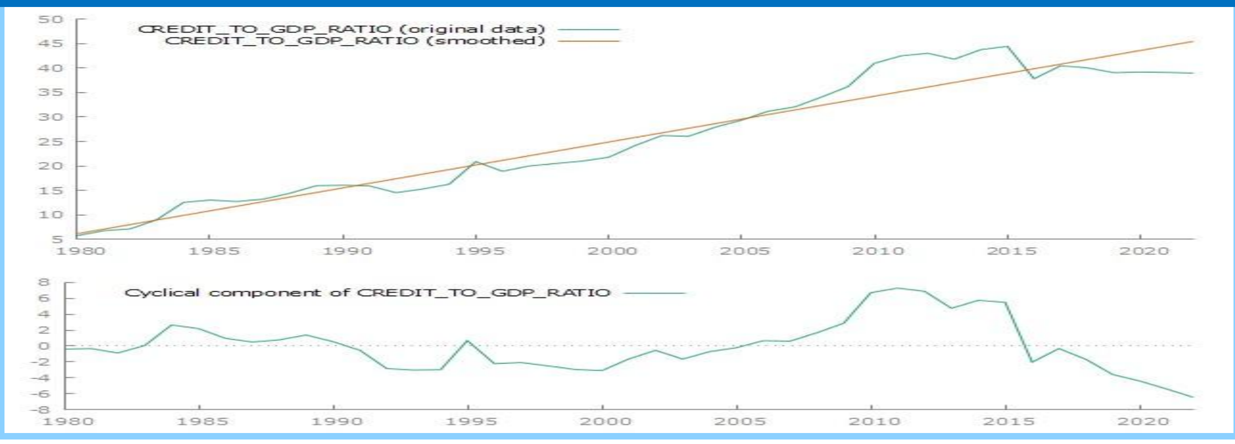
[4]As cited in Major Economic Indicators: Monthly Update, Volume 12/2023, December, 2023, Monetary Policy Department, BB.
[5]Public sector credit = government net credit + other public sector credit.

However, the ratio increased to 3.92 at the end of Q2FY24. The declining private sector credit growth compared to public sector credit growth may have a contractionary impact on domestic private investment.

1.2.4 CREDIT-TO-GDP GAP

The credit-to-GDP gap, assessed using the Hodrick-Prescott Filter method as per the Basel Committee on Banking Supervision (BCBS) guidelines, suggests no significant excessive credit expansion within Bangladesh during FY1980 to 2022. Throughout most of this period, the credit-to-GDP gap remained relatively subdued. In 2016, it turned negative and reached to -2.04, which continued to remain negative until 2022, reaching -6.47. Despite these fluctuations, the consistently low credit-to-GDP gap indicates that there is no apparent threat to the stability of the financial system stemming from the flow of domestic credit to the private sector (Chart 1.15).

CHART 1.15: CREDIT-TO-GDP RATIO-ITS TREND AND THE GAP



Source: World Bank; Calculation: FSD.

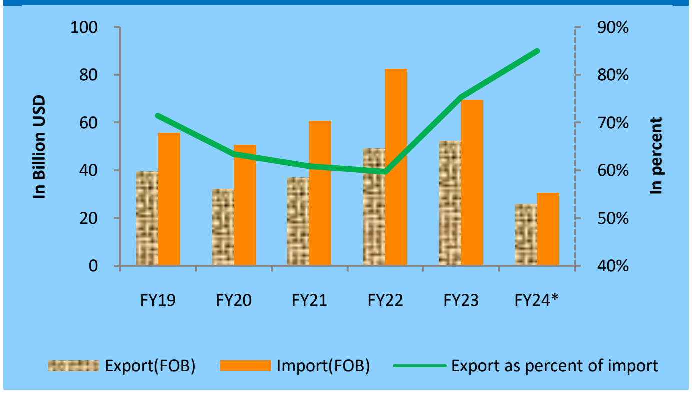
1.3 EXTERNAL SECTOR DEVELOPMENTS

Considering the growing global interconnectedness, the external sector of Bangladesh has become an important driver of sustained economic growth and overall development of the country. The external sector of Bangladesh remained moderately resilient during FY23. The deficit in current account balance (CAB) narrowed significantly, mainly attributable to modest growth of export as well as wage earners' remittances coupled with a decrease in import payments. However, the local currency (BDT) continued depreciation against the USD in FY23 amid widened demand-supply gap in the foreign exchange market. Inflow of foreign direct investment (FDI) appeared to remain stalled amid concerns over geopolitical tensions and depreciation of local currency. External debt stock increased gradually with dominance of long-term public sector debt inflows while short-term external debt declined notably.

1.3.1 Export and Import

Since FY20, exports (FOB) demonstrated shown an upward trend while imports (FOB) notably declined in FY23 after demonstrating an upward trend in the preceding three years (Chart 1.16). During FY23, exports (FOB) rose by 6.27 percent compared to that of FY22 and stood at USD 52.33 billion whereas imports (FOB) shrunk by 15.76 percent and stood at USD 69.50 billion during the period. Although there was a trade deficit of USD 17.2 billion in FY23, it remained lower than that of the previous fiscal year (USD 33.3 billion in FY22).

CHART 1.16: EXPORT AND IMPORT TREND OF BANGLADESH



Note: *FY24 indicates data upto first half of FY24.
Sources: Statistics Department,BB and Export Promotion Bureau as cited in BB Quarterly.

Amid modest export growth and declining imports, exports as percent of import increased in FY23 compared to that of the previous fiscal year. The ratio stood at 75.3 percent in FY23 which was 59.7 percent in FY22. The decline in imports could partly be attributed to BB's policy initiatives to discourage the import of luxury goods and increase vigilance over external trade. It is noteworthy that, total exports (FOB) and total imports (FOB) during the first half of FY24 were USD 25.99 billion and USD 30.58 billion respectively.

The commodity-wise exports, demonstrated in Chart 1.17, exhibit that the knitwear continued to dominate the total exports followed by the woven garments in the last three consecutive fiscal years. During FY23, knitwear and woven garments captured 49.17 percent and 40.61 percent of total exports respectively whereas other items accounted for only 10.22 percent of total exports. In comparison with FY22, the exports of knitwear and woven garments grew by 10.87 percent and 9.56 percent respectively while exports pertaining to 'others' category declined by 19.35 percent.

The region-wise exports growth of readymade garments (RMG) demonstrates that RMG exports to the European Union (EU) grew by 9.68 percent during FY23 while the same to the USA declined by 5.50 percent (Chart 1.18). The exports of RMG to the countries other than the EU and the USA continued to grow faster and recorded 33.65 percent growth in FY23.

CHART 1.17: COMMODITY-WISE EXPORTS OF BANGLADESH

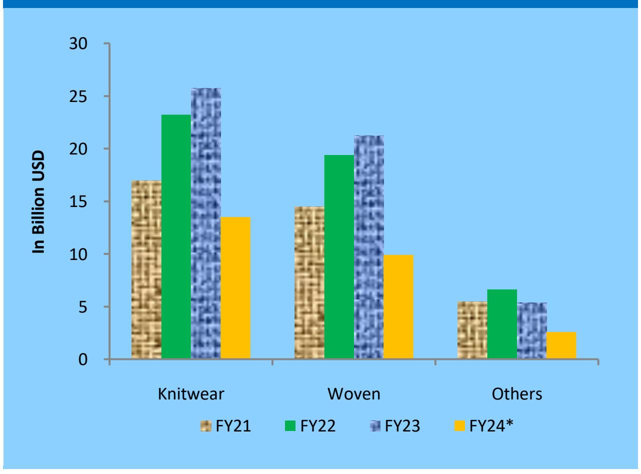
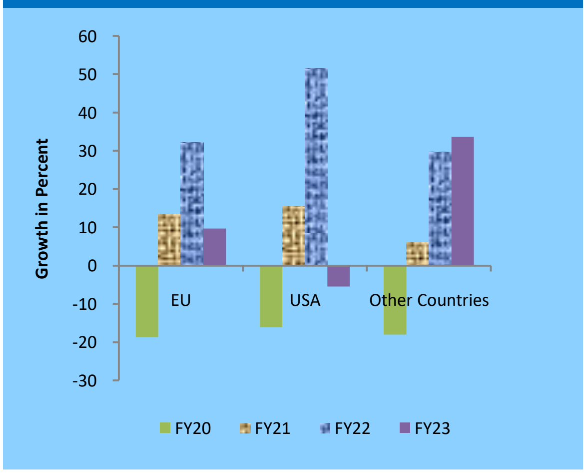


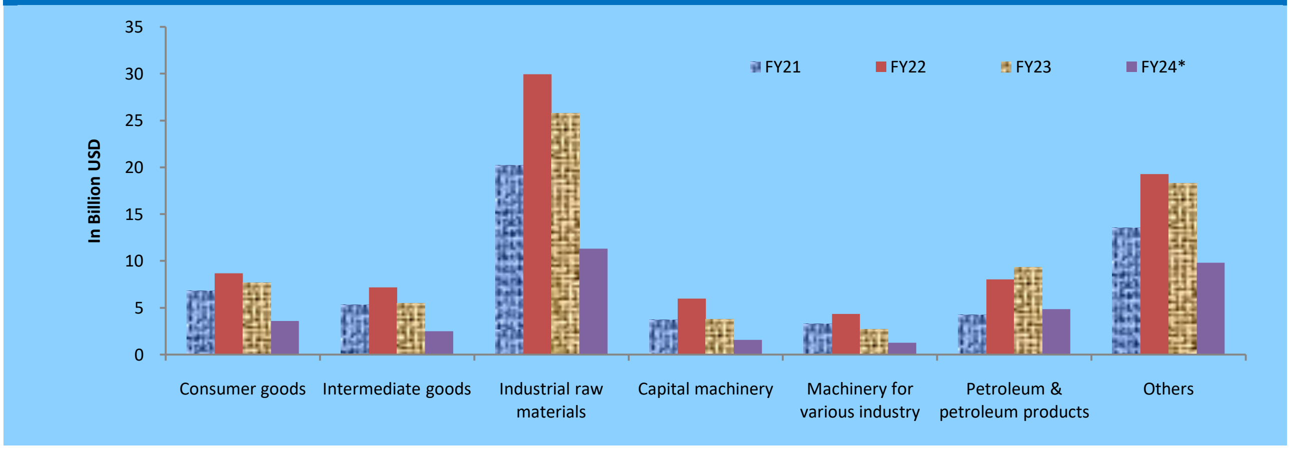
CHART 1.18: REGION-WISE EXPORTS GROWTH OF RMG



Note: *FY24 indicates data upto first half of FY24.
Source: Export Promotion Bureau, Bangladesh as cited in BB Quarterly (for both charts).

During FY23, imports[6] in Bangladesh dominated by industrial raw materials imports followed by the imports of other items, petroleum and petroleum products, and consumer goods. The imports of industrial raw materials captured 35.26 percent of total imports. However, the commodity-wise imports trend exhibit (Chart 1.19) that imports of each category declined in FY23 except petroleum and petroleum products. During FY23, imports of petroleum and petroleum products increased by 15.92 percent, while imports of industrial raw materials, capital machinery, and other items declined by 13.94 percent, 36.65 percent, and 4.95 percent respectively. Imports of consumer and intermediate goods also demonstrated a downturn by 11.35 percent and 23.68 percent respectively compared to those of the previous fiscal year.

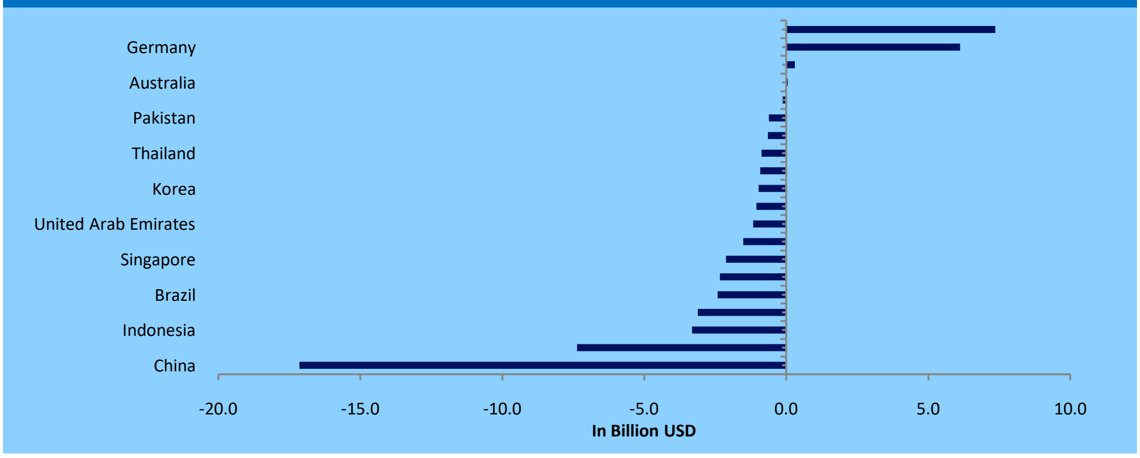
CHART 1.19: CATEGORY-WISE IMPORTS TREND OF BANGLADESH



Note: *FY24 indicates data upto first half of FY24.
Sources: Foreign Exchange Operation Department, BB as cited in BB Quarterly.

Chart 1.20 presents the trade balance[7] of Bangladesh with major trading partners in FY23. It depicts that Bangladesh had a sizeable trade deficit with China and India largely due to substantial imports from these two countries. Higher concentration on some specific countries for imports implies their strategic importance in the external sector of Bangladesh. The major countries with which Bangladesh had a trade surplus were the USA and Germany, underpinned mainly by RMG exports. Given any reduction in preferential treatment or elimination of trade term facilities due to graduating from an LDC to a developing economy, Bangladesh may have to face new challenges especially in terms of exports.

CHART 1.20: TRADE BALANCE WITH MAJOR TRADING PARTNERS OF BANGLADESH



Sources: Economic Data,BB and Export Promotion Bureau.

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

1.3.2 REMITTANCE

The wage earners' remittance plays a dominant role in stabilizing the external sector balance of Bangladesh as it contributes substantially to offsetting trade deficit. After a dip down during FY22, remittance inflows increased by 2.8 percent in FY23 compared to that of the previous fiscal year and reached USD 21.61 billion. Moreover, in FY24*, total inflow of remittance was USD 10.80 billion (Chart 1.21). Importantly, the share of the trade deficit covered by remittances surged significantly, reaching 125.92 percent in FY23 compared to 63.25 percent for the same during FY22. It is worth mentioning that, curbing imports with BB's recent policy initiatives as well as encouraging remittance inflow through legitimate channels helped recovering this scenario in FY23.

CHART 1.21: WAGE EARNERS' REMITTANCE INFLOW

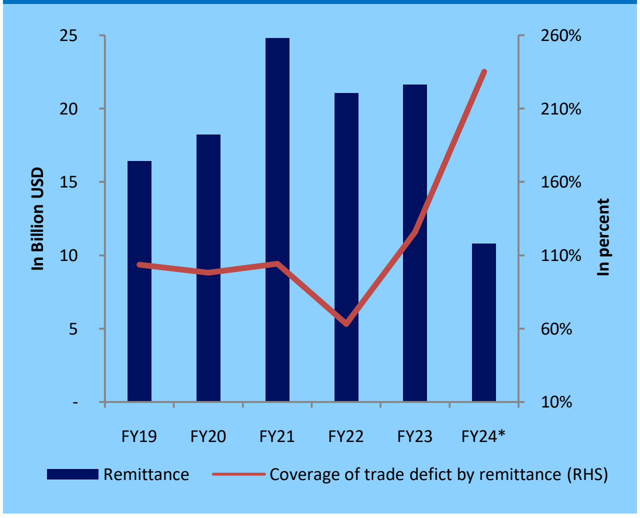
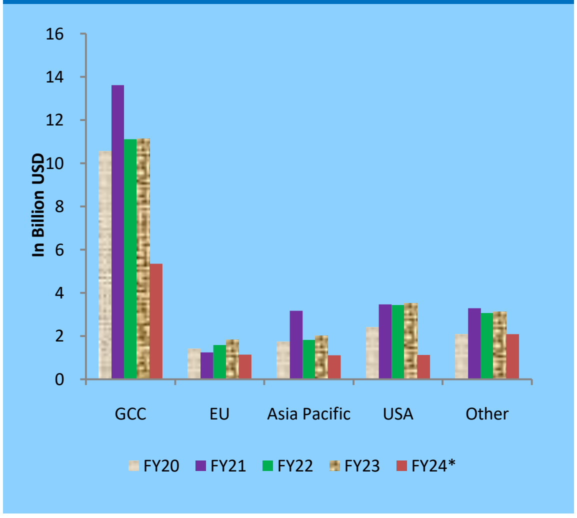


CHART 1.22: REGION-WISE REMITTANCE



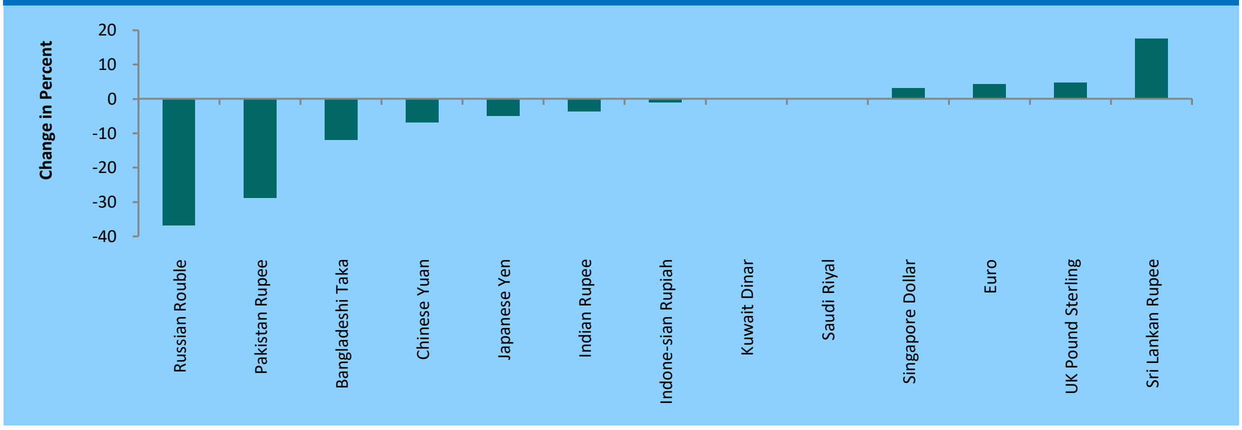
Note: *FY24 indicates data upto first half of FY24.
Source: Statistics Department,BB as cited in BB Quarterly (for both charts).

The Gulf Cooperation Council (GCC) countries continued to contribute the lion's share (51.5 percent in FY23) of remittance inflows in Bangladesh. The USA remained the second highest source of remittance with 16.3 percent of total inflows in FY23. Chart 1.22 demonstrates the region-wise remittance inflow in different fiscal years. During FY23, the remittance inflows from the GCC countries remained unchanged when compared with that of the previous fiscal year (posting a meager growth of 0.11 percent), whereas the same increased notably in the case of the EU and Asia Pacific region (16.2 percent and 9.9 percent growth respectively). The remittance from other countries also experienced positive growth in FY23.

1.3.3 EXCHANGE RATE MOVEMENT

In FY23, the movement of global currencies witnessed a diverse behavior as some notable currencies continued to depreciate against the US dollar while some currencies rebounded and become stronger. Bangladesh Taka (BDT) recorded notable depreciation (11.84 percent in FY23), making exports more attractive and imports costlier. Chart 1.23 represents the change in the nominal exchange rate to selected currencies against USD in FY23. The depreciation of the currencies of import partner countries like China, India and Japan might help Bangladesh in reducing import cost to some extent. Moreover, appreciation of Euro and UK Pound Sterling, the two major export destination countries of Bangladesh, might make exports to those countries more appealing.

CHART 1.23: NOMINAL CHANGE IN SELECTED CURRENCIES AGAINST USD IN FY23

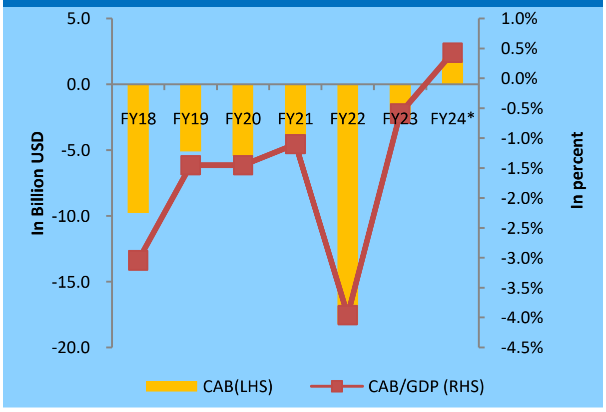


Source: Statistics Department, BB as cited in Monthly Economic Trend.

1.3.4 Current Account Balance

The Current Account Balance (CAB) of Bangladesh improved significantly in FY23 compared to that of the preceding years. Sizable exports, positive growth in remittance inflow and decline in import payments helped Bangladesh reduce the current account deficit to USD 2.66 billion in FY23 compared to the deficit of USD 18.2 billion in FY22 (Chart 1.24). Pertinently, CAB-GDP ratio also improved substantially stood at -0.59 percent in FY23 compared to -3.96 percent in FY22. Moreover, during the first two quarters of FY24, Bangladesh witnessed positive CAB worth USD 1.93 billion, raising optimism about the country's external balance.

CHART 1.24: TREND OF CURRENT ACCOUNT BALANCE



Note : *FY24 indicates data upto first half of FY24.
Source: Statistics Department,BB as cited in BB Quarterly.

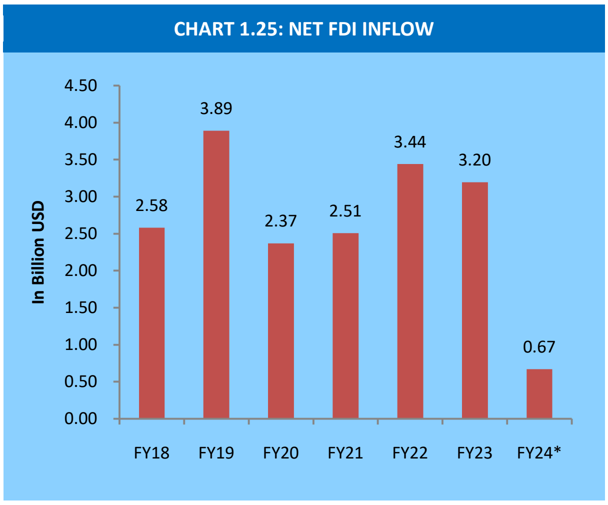
However, it might remain a crucial challenge for the overall balance of payments (BOP) and the external sector of Bangladesh to sustain this trend of improvement throughout the fiscal year.

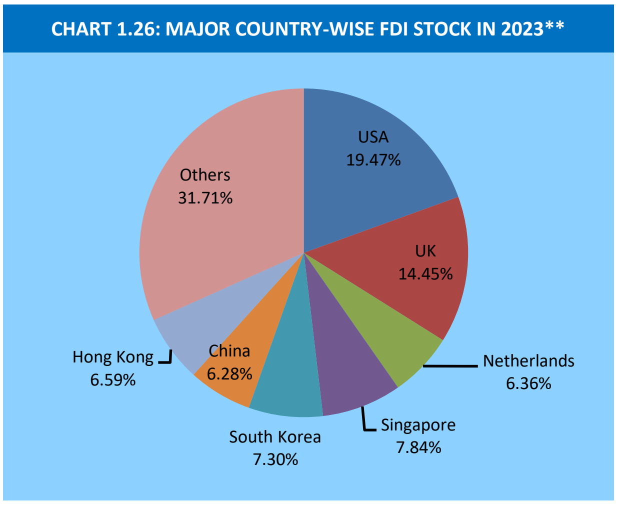
1.3.5 Capital Flow Movement

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

1.3.5.1 Foreign Direct Investment

The net foreign direct investment (FDI) inflows to Bangladesh stood at USD 3.20 billion in FY23, registering a decline of 6.98 percent from that of the preceding year. Chart 1.25 demonstrates the trend of net FDI inflows in recent years. It is observed that the net FDI inflows declined considerably in FY20, thereafter rebounded in FY21 and FY22, and fell somewhat again in FY23. The net FDI inflows in the first half of FY24 was USD 0.67 billion, indicating sluggish inflows in the current fiscal year. Based on the country-wise distribution of FDI stock, the USA continued to possess the highest FDI stock in Bangladesh followed by the UK and Singapore (Chart 1.26).

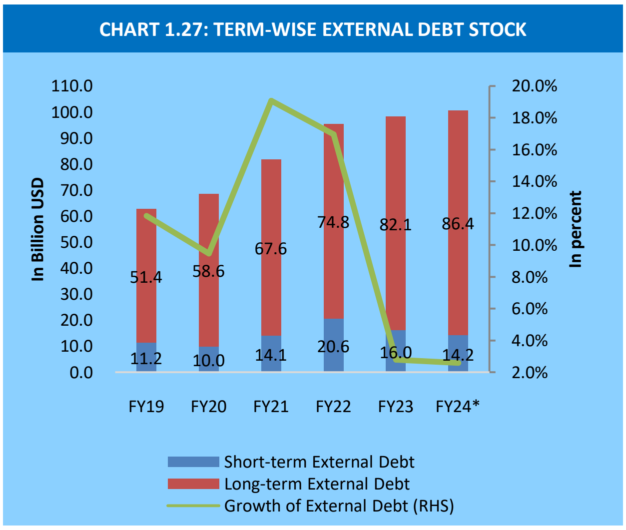


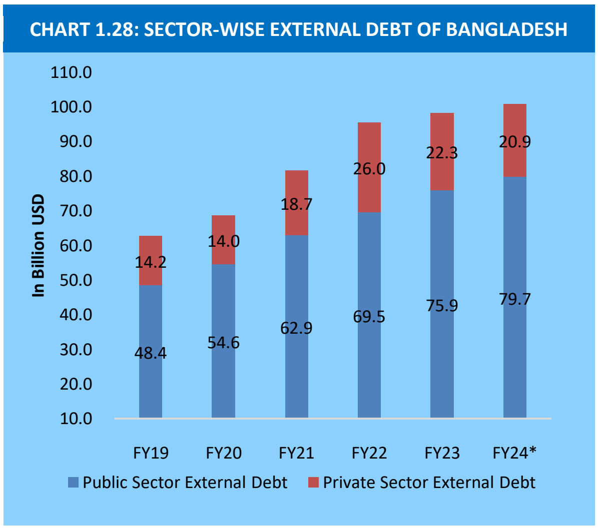


Notes: *FY24 indicates data upto first half of FY24.
**Country-wise FDI stock as on end-September 2023.
Source: Statistics Department,BB.

1.3.5.2 External Debt

Amid growing investment demand, the external debt stock of Bangladesh has continued to rise in recent years. The total external debt of Bangladesh stood at USD 98.1 billion at the end of FY23 which increased considerably to USD 100.6 billion at end-December 2023. However, the growth of external debt declined notably in FY23 and stood at 2.7 percent as opposed to 17.0 percent in the previous fiscal year (Chart 1.27). Importantly, the short-term external debt declined by 22.3 percent in FY23 while the long-term external debt increased by 9.8 percent, indicating that the country seems to be more focused on the long-term external debt. The short-term external debt continued to decline at end-December 2023 (first half of FY24), which is a good sign from financial stability point of view.



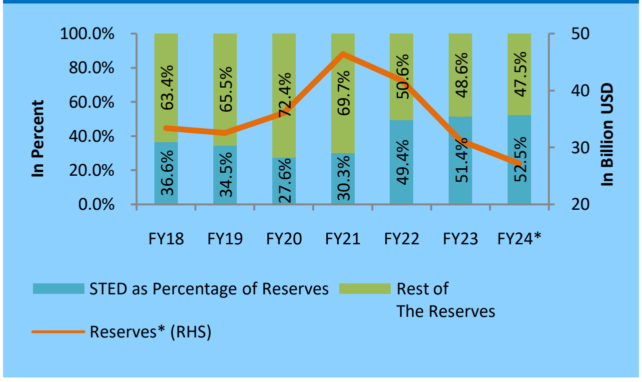


Note: *FY24 indicates data upto first half of FY24.
Source: NSDP, BB Economic Data (for both charts).

In the case of sector-wise decomposition of external debt, it is observed that the private sector external debt declined by 14.2 percent in FY23 and stood at USD 22.3 billion. In contrast, the public sector external debt continued the upward trend and increased by 9.2 percent in FY23, reaching USD 75.9 billion. Likewise FY23, the private sector external debt continued to decline in the first half of FY24 while public sector external debt continued its rising trend (Chart 1.28). The decline in private sector external debt could partly be attributed to the volatility in the foreign exchange market in recent periods.

Despite the decline in the short-term external debt (STED) during FY23 and the first half of FY24, the STED as percentage of reserves[8] continued to increase, mainly stemming from declining foreign exchange reserves (Chart 1.29). The STED increased to 51.4 percent of reserves at the end of FY23 compared to 49.4 percent of FY22. The ratio stood at 52.5 percent at the end of the first half of FY24. It is noteworthy that, the gross foreign exchange reserves was USD 31.20 billion at the end of FY23 and USD 27.13 billion at end-December 2023.

CHART 1.29: SHORT-TERM EXTERNAL DEBT AS PERCENTAGE OF RESERVES



Note: *FY24 indicates data upto first half of FY24.
Source: NSDP, BB Economic Data.

The gross inflow of external debt, comprised of public sector external debt and private sector external debt, was USD 2.65 billion in FY23 compared to USD 13.84 billion in FY22 (Table 1.1). It is noteworthy that, gross inflow of private sector external debt was negative (USD -3.69 billion) in FY23. However, the gross inflow of public sector external debt was USD 6.35 billion in FY23.

TABLE 1.1: YEAR-WISE GROSS INFLOW OF EXTERNAL DEBT

(Amount in Billion USD)

	FY19	FY20	FY21	FY22	FY23	FY24*
Public Sector External Debt						
Short-term	0.21	-0.79	0.91	0.65	-0.52	0.06
Long-term	6.17	6.93	7.42	5.95	6.86	3.78
Sub-total	6.38	6.14	8.33	6.60	6.34	3.84
Private Sector External Debt						
Short-term	-1.21	-0.49	3.20	5.93	-4.10	-1.86
Long-term	1.44	0.27	1.53	1.31	0.41	0.55
Sub-total	0.23	-0.22	4.73	7.24	-3.69	-1.31
Total Inflow of External Debt	**6.61**	**5.92**	**13.06**	**13.84**	**2.65**	**2.53**

Note: *FY24 indicates data upto first half of FY24.
Source: NSDP, BB Economic Data.

The economic growth of Bangladesh has been significantly aided by its external debt, which helps to finance the nation's growing need for investments especially for infrastructural projects. However, rising external debt may entail some risks of surging cost of funds due to adverse movement in the exchange rate and deterioration in the country's credit rating, especially when the bulk of the debt servicing will be warranted on the accumulated debt. Therefore, prudent and productive use of external debt must be ensured for minimizing the risk from the external sector front.

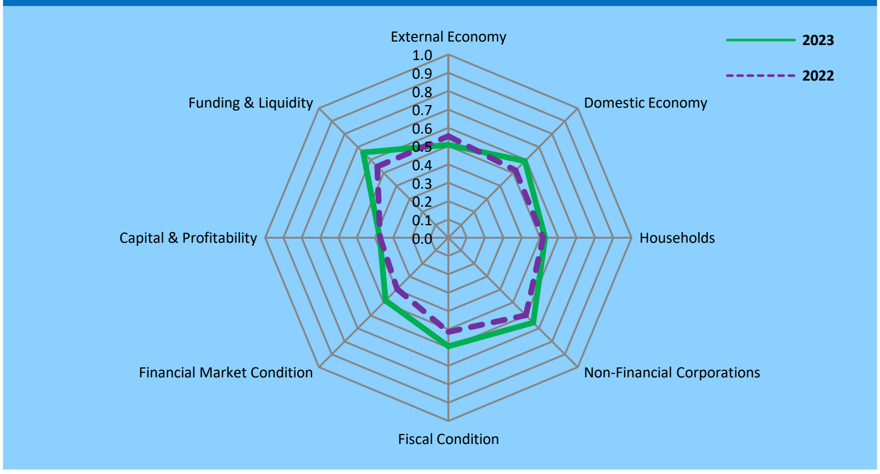
1.4 MAPPING FINANCIAL STABILITY

The financial stability map shows that the domestic economy, non-financial corporations, fiscal condition, financial market condition, and funding and liquidity components weakened notably while the condition of households, and capital and profitability component declined slightly in 2023 compared to the position of 2022. On the other hand, external economy component showed notable improvement from risk perspective.

[8]Reserves indicate gross foreign exchange reserves.

As financial stability can be influenced through a range of channels, mapping the state of the components of financial stability is critical. This is also important because each financial crisis has had a unique impact on financial system stability, necessitating the development of a wide-ranging framework to address all potential stability threats. In this context, the stability map for 2023 is presented to analyze potential stability threats to Bangladesh's macro-financial system using 08 (eight) broad components[9]: external economy, domestic economy, households, non-financial corporations, fiscal condition, financial market condition, capital and profitability, and funding and liquidity (Chart 1.29).

CHART 1.30: FINANCIAL STABILITY MAP (2022 AND 2023)



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

Chart 1.30 depicts the comparative financial stability condition of Bangladesh's macro-financial system in 2023 and 2022 using a stability map[10] which has been developed by following the global best practices considering the features of Bangladesh's financial system. The stability map depicts notable outward shift in the risk scale across various components, including the domestic economy, non-financial corporations, fiscal condition, financial market condition, and funding and liquidity. Among them, the condition of households and non-financial corporations component shifted in a little riskier direction in 2023. Compared to 2022, the stability situation in the external economy component improved slightly. Despite risks associated with foreign exchange reserves and higher SOFR rates, the external economy component appeared to be less risky in 2023. In contrast, a notable deterioration in the domestic economy component was observed, owing partially to increased inflation despite the positive output gap. In 2023, the households component became slightly riskier due to deteriorated quality of credit portfolio to households.

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[9]i) External economy component consists of 7 sub-indicators: real GDP growth of major trading partners, average inflation of top 6 countries from which Bangladesh imports, average unemployment rate in countries from which Bangladesh receives highest inward wage earners' remittances, international crude-oil price, 180 days Average SOFR rate at month end, current account deficit to GDP ratio, and reserve adequacy in months; (ii) Domestic economy component uses 4 sub-indicators, namely output gap, external debt to GDP, currency fluctuations, and consumer price index; (iii) Household component consists of 3 sub-indicators, namely, household debt to GDP, credit portfolio quality in household sector, and inward remittance to GDP ratio; (iv) Non-financial corporations component covers 4 sub-indicators: NFC credit to GDP, NFC loans as proportion of banking sector loans, indebtedness of large NFCs, and credit portfolio quality of large NFCs; (v) Fiscal condition component uses 4 sub-indicators: Public debt to GDP, government budget deficit to GDP, sovereign risk premium, and tax revenue to GDP; (vi) Financial market consists of banking sector, financial institutions, 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.

[10]It had been constructed using 8 components and 37 underlying indicators. Standardized scores for those indicators have been calculated using a formula: [Standardized Score = (x_i-min)/(max-min)] where maximum and minimum values are incorporated using time series data, and in some cases, by assigning appropriate threshold values. Threshold values are selected using judgment, economic logic and experience of other countries. The component scores are calculated using weighted average of the indicators and component scores are plotted in the map (in a scale of 0 to 1). The components closer to the origin have values close to zero indicating lower risk while components further from the origin indicates higher risk and have value closer to one.

The non-financial corporations component appeared to be comparatively riskier in 2023 for financial stability, attributable to increased leverage of the NFCs and deteriorated quality of credit portfolio to Top 50 NFCs. The fiscal condition appeared to be riskier, partly due to a decline in the tax revenue to GDP ratio, an increase in public debt to GDP, and high sovereign risk premiums, despite a reduced budget deficit to GDP ratio. Financial market condition showed a modest level of risk with declined asset quality in both the banking and financial institution (FI) sectors, and seemingly negative investor sentiment about the capital market. Capital and profitability component displayed minor downward changes in terms of the risk dimension in 2023. The funding and liquidity component exhibited notable deterioration in 2023. The detailed component-wise analysis is explained below, while the scores are summarized in the Appendix.

External economy component: In 2023, the external economy component experienced some easing as the global economy exhibited resilient growth and faster disinflation pointing towards favorable supply developments like fading of earlier energy price shocks, rebound in labor supply supported by strong immigration flows in many advanced economies. Besides, decisive monetary policy actions and improved monetary policy frameworks in emerging market economies have helped anchor inflation expectations despite geopolitical tension in some regions. Moreover, the improved current account balance had an easing effect on this component, owing to necessary policy support from Bangladesh Bank, such as market-based exchange rate determination, BB’s net sale of forex to meet excess demand, and enhanced import monitoring. On the contrary, external economy component experienced risks surfaced from higher Secured Overnight Financing Rate (SOFR) and gradual depreciation of local currency against the US dollar, which together pushed consumer prices higher by making imports costlier and weighing on domestic inflation, and reduced wage earners' remittances from top remittance-source countries leading to pressure on Bangladesh's foreign exchange reserve adequacy. These factors collectively contributed to the lower risks observed in the external economy component for 2023.

Domestic economy component: In 2023, despite a positive output gap, the domestic economy faced somewhat elevated risks as inflation rose considerably which could partly be attributable to rising import costs and depreciation of local currency against US dollar. Public sector external debt rose notably compared to private sector debt while the exchange rate remained volatile. The economy struggled to reconcile distorted dynamics, posing significant risks. Stabilizing the exchange rate, curbing inflation, and maximizing domestic production are vital to mitigate these risks.

Households Component: In 2023, the household sector exhibited higher credit risk compared to the previous year, as evidenced from a rise in non-performing loans (NPLs) within the household sector. Despite a reduction in household credit to GDP and positive growth in household remittances, persistently high inflation may have strained households' debt repayment capabilities, leading to deterioration in the household credit portfolio. In summary, these trends shifted the risk scale of household component towards minutely riskier toward outer periphery in 2023.

Non-financial corporations component: In 2023, the risk to the financial system from this component escalated significantly due to a substantial increase in non-performing loans (NPLs) among the top 50 NFCs, and elevated leverage ratio of NFCs despite a drop in NFCs’ credit to GDP ratio and top 50 NFCs loan shares to banking sector loans. Overall, the risk stemming from this component increased during 2023.

Fiscal condition component: In 2023, despite various fiscal measures taken by the Government to reduce the budget deficit to GDP ratio, the fiscal condition remained somewhat stressed due to a drop in tax revenue to GDP ratio, accompanied by a rise in public debt to GDP ratio and higher sovereign risk premiums that made external borrowing costlier, adding pressure to deficit management. Taking all these factors into account, the overall risk from the fiscal condition component slightly deteriorated in the review year.

Financial market component: In 2023, financial market condition demonstrated elevated risks. Both the banking and financial institution (FI) sectors experienced a decline in asset quality. The capital market, represented by the DSE index, remained mostly bearish as it experienced a decline. The banking sector seemed to be less resilient to sensitivity shocks like increase in NPL by 3 percent and default of top 3 large borrowers compared to the preceding year. These factors collectively contributed to the outward shift of risk scale for the financial market component in 2023.

Capital and profitability component: In 2023, net interest margin (NIM) and Tier-1 capital ratio of the banking sector demonstrated slight improvements compared to 2022. Conversely, banks saw a modest decline in their capital to risk-weighted assets ratio (CRAR) and return on assets (ROA) due to a rise in non-performing loans (NPLs). This led to notable downward shifts in both capital and profitability indicators, reflecting increased risk in 2023.

Funding and liquidity component: In 2023, the liquidity scenario of the banking sector experienced a notable tapering compared to that in 2022. This was demonstrated by the increase in the advance to deposit ratio (ADR), the continued drop in the liquidity coverage ratio (LCR), and the decline in the net stable funding ratio (NSFR). These adjustments reflect a significant outward movement in the risk scale of the funding and liquidity components indicating minor liquidity stress.

In a nutshell, the financial stability map indicates that the overall macro-financial condition of Bangladesh weakened somewhat in 2023. There had been a notable outward shift in the risk scale due to weaker performance of several components such as the domestic economy, funding and liquidity components, fiscal condition and financial market condition while slightly riskier shifts were observed in the households and non-financial corporations components. This signifies increased risks and challenges in these areas compared to the previous year, reflecting some deterioration in overall financial stability.

CHAPTER 2 : BANKING SECTOR'S PERFORMANCE

The banking sector of Bangladesh remained broadly stable in 2023. Aggregate assets of the sector recorded modest asset growth. The deposit growth was higher than that of the preceding year and appeared to be well supportive of meeting the increasing demand for loans and advances. However, the sector's asset quality slightly decreased during the review year. In 2023, the banking sector was able to maintain the minimum regulatory requirements of Capital to Risk-weighted Assets Ratio (CRAR), Tier-1 capital ratio, and leverage ratio. The sector's CRAR declined by 19 basis points while Tier-1 capital ratio increased by 5 basis points. CRAR remained above the minimum regulatory requirement, largely due to improved regulatory capital positions of Foreign Commercial Banks. Also, the banking sector maintained leverage ratio above the minimum regulatory requirement, attributable to higher leverage ratio maintained by FCBs. In 2023, the industry's liquidity remained above the minimum regulatory requirement, albeit a decline in the Liquidity Coverage Ratio (LCR) of Islamic Shari'ah-based PCBs and shrinkage in high-quality liquid assets of SOCBs and Islamic Shari'ah-based PCBs.

2.1 FINANCIAL SYSTEM OF BANGLADESH

The financial system of Bangladesh is categorized into three broad different sectors based on the degree of regulation and organizational settings. These are the formal sector, semi-formal sector, and informal sector. The banking industry dominates the formal sector, which also includes Non-Bank Financial Institutions (NBFIs), capital market intermediaries, insurance companies, and Micro-Finance Institutions (MFIs), each of which is regulated by separate authorities. The semi-formal sector is comprised of a few specialized financial institutions, 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 co-operatives and credit unions. These institutions are regulated by different ministries or organizations of the government under certain Acts or legal frameworks. Furthermore, Authorized Dealers (ADs), Mobile Financial Services (MFS) Providers, and Payment Service Providers (PSPs) perform designated roles in financial market development under the regulation and supervision of Bangladesh Bank. The informal sector refers mainly to the private intermediaries that remained mostly unregulated.

Bangladesh Bank (BB), being the regulatory authority of the money market, foreign exchange market, and payment and settlement systems of the country, regulates and monitors the activities of all the scheduled banks, Non-Bank Financial Institutions (NBFIs), and payment and settlement systems of the country. At present, there are 6 State-Owned Commercial Banks (SOCBs), 3 Specialized Development Banks (SDBs), 43 domestic Private Commercial Banks (PCBs) including 33 conventional and 10 Islamic Shari'ah-based banks, 9 Foreign Commercial Banks (FCBs), and 35 Non-Bank Financial Institutions (NBFIs) operating in Bangladesh. The capital market, comprising of two stock exchanges namely the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE), is regulated and supervised by Bangladesh Securities and Exchange Commission (BSEC). Currently, 67 merchant banks, 444 brokers, 421 dealers, 25 custodian banks, 8 credit rating agencies, 29 fund managers, 65 asset management companies and 269 trustees are operating in the capital market. Insurance companies and Micro-Finance Institutions (MFIs) are regulated and supervised by the Insurance Development and Regulatory Authority (IDRA) and the Microcredit Regulatory Authority (MRA) respectively. At present, 81 insurance companies and 727 registered MFIs are functioning in Bangladesh. The Department of Co-operatives under the Ministry of Local Government, Rural Development and Co-operatives regulates the co-operatives and credit unions. In addition, the Ministry of Finance regulates Bangladesh House Building Finance Corporation (BHBFC) and Investment Corporation of Bangladesh (ICB). Table 2.1 exhibits the financial system structure of Bangladesh.

<table>
<tr><th colspan="6">TABLE 2.1: FINANCIAL SYSTEM STRUCTURE OF BANGLADESH
(As of end-December 2023)</th></tr>
<tr><th></th><th></th><th>Financial Market and Infrastructure</th><th>Institutions</th><th>Types and Numbers</th><th>Regulator</th></tr>
<tr><td rowspan="8">Financial System</td><td rowspan="6">Formal Sector</td><td rowspan="3">Money Market
Foreign Exchange Market
Payment and Settlement Systems</td><td>Banks</td><td>SOCBs (6)
SDBs (3)
PCBs (43)
FCBs (9)</td><td rowspan="3">Bangladesh Bank</td></tr>
<tr><td>FIs</td><td>Government Owned (3)
Others (32)</td></tr>
<tr><td>Others</td><td>ADs, Money changers, MFS providers, PSOs, PSPs, OPGSPs etc.</td></tr>
<tr><td>Capital Market</td><td>DSE
CSE
CDBL</td><td>Merchant banks (67)
Brokers (444)
Dealers (421)
Custodian banks (25)
Credit rating agencies (8)
Fund managers (29)
Asset Management companies (65)
Trustees (269)</td><td>BSEC</td></tr>
<tr><td>Insurance Market</td><td>Life
Non-Life</td><td>Government Owned (2)
Others (79)</td><td>IDRA</td></tr>
<tr><td>Micro Credit Market</td><td>MFIs</td><td>MFIs (727)</td><td>MRA</td></tr>
<tr><td>Semi-formal Sector</td><td colspan="4">BHBFC, BSBL, ICB, PKSF, Grameen Bank, NGOs, co-operatives and credit unions, discrete government programs, etc.</td></tr>
<tr><td colspan="5">Informal Sector</td></tr>
</table>

2.2 ASSET STRUCTURE OF THE BANKING SECTOR

In 2023, the banking sector exhibited faster growth in asset size after recording slower growth in the year 2022.

In 2023, total assets of the banking sector demonstrated notably higher growth than that of 2022 (Chart 2.1). With a moderate growth of 9.20 percent compared to 2022, the total assets size of the banking industry reached to BDT 23,983.97 billion in 2023.

In the review year, amongst the four banking clusters, SDBs posted the highest asset growth of 16.29 percent while SOCBs, PCBs and FCBs registered asset growth of 9.30 percent, 9.10 percent, and 7.40 percent respectively compared to 2022. The asset growth of SDBs and SOCBs increased by 8.63 and 8.38 percentage points respectively. On the other hand, the FCBs and PCBs exhibited a slower asset growth in the reporting year compared to that of the preceding year (Chart 2.2).

CHART 2.1: TOTAL ASSET GROWTH: ANNUAL BASIS

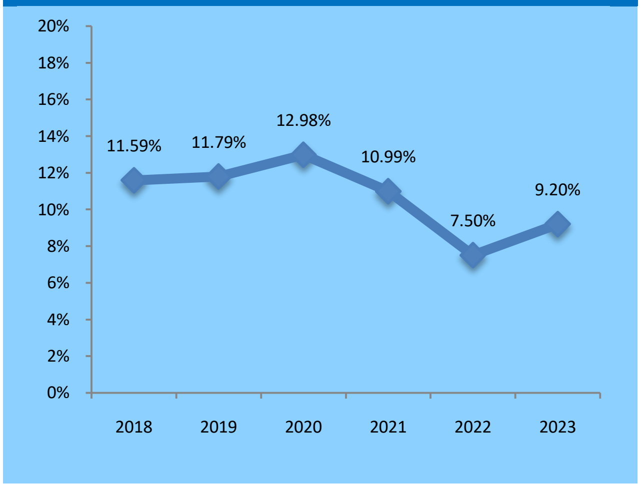
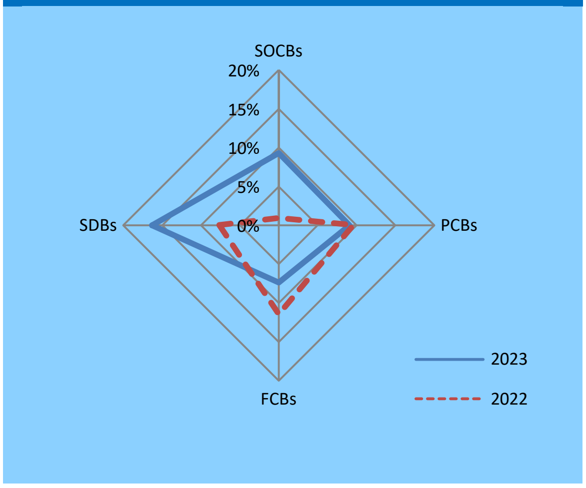


CHART 2.2: ASSET GROWTH OF BANKING CLUSTERS



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

In 2023, total loans and advances, captured the highest share in the banking sector assets, followed by total investment. Total loans and advances constituted 68.76 percent share, whereas total investment grabbed 15.78 percent of total assets, as shown in Chart 2.3. These shares were 68.42 percent and 15.65 percent respectively in 2022.

Although the growth of total loans and advances slowed down, the growth of investment in government and other securities elevated in 2023 (Chart 2.4). Investment in government securities and other securities experienced a growth rate of 11.26 and 8.32 percent respectively compared to the same of the preceding year. It is noteworthy that the growth of total loans and advances was 9.75 percent in 2023, as opposed to 13.45 percent in the preceding year.

CHART 2.3: YEAR-WISE BANKING SECTOR ASSET STRUCTURE

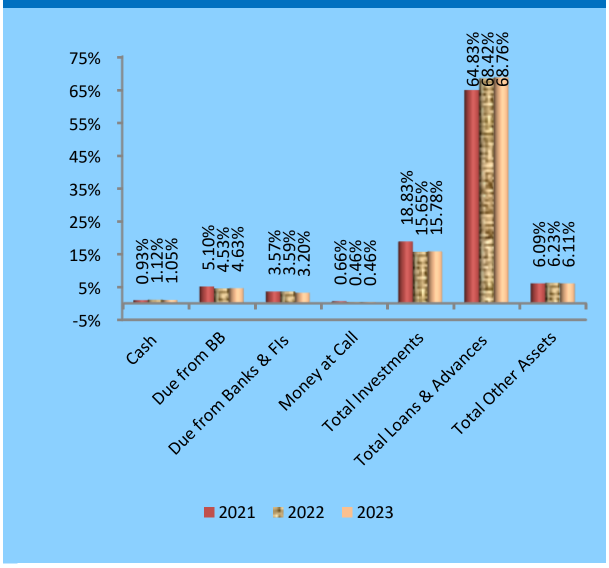
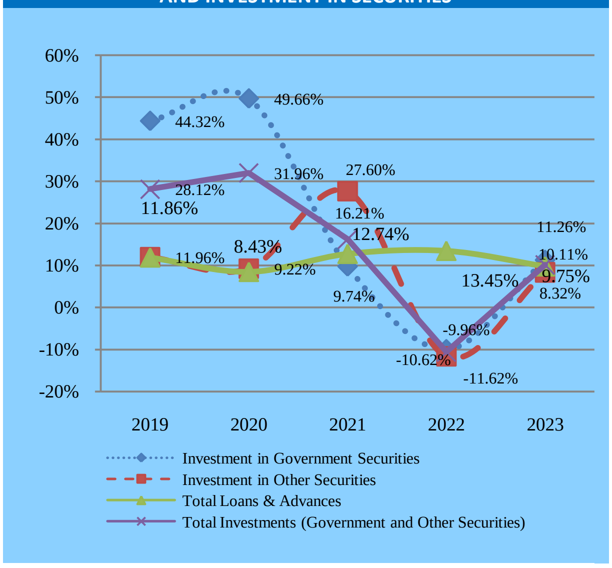


CHART 2.4: YEAR-WISE GROWTH OF LOANS AND ADVANCES AND INVESTMENT IN SECURITIES



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

In 2023, major earning assets of SOCBs, FCBs and SDBs as a percentage of aggregate earnings assets of the banking industry demonstrated a marginal upturn while that of PCBs showed a marginal decline compared to their respective positions in 2022 (Chart 2.5). PCBs held the maximum portion of earning assets (69.35 percent) while SOCBs had the second highest market share of the earning assets (23.17 percent). The share of loans and advances in total assets of SDBs and PCBs was 77.34 percent and 72.92 percent respectively, whereas this share of FCBs was 49.33 percent.

The comparative positions of several asset items of balance sheet like cash, due from BB (balance with BB), due from other banks and FIs (balance with other banks and FIs) and money at call of different categories of banks are shown in Chart 2.6. The chart depicts that, in 2023, shares of SDBs and SOCBs in these assets increased by 1.68 percentage points and 1.09 percentage points respectively while shares of PCBs and FCBs declined by 1.82 percentage points and 0.95 percentage point respectively compared to the previous year.

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

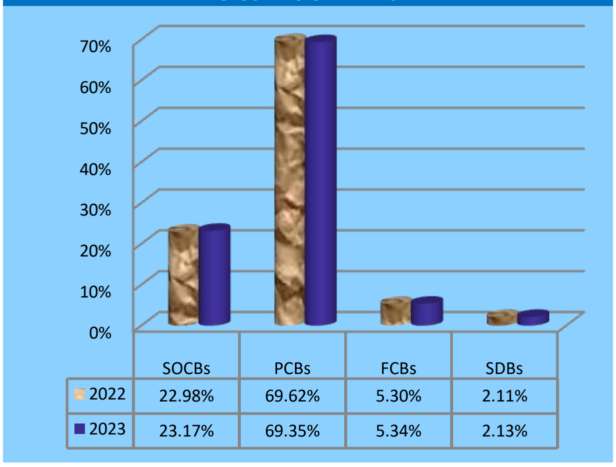
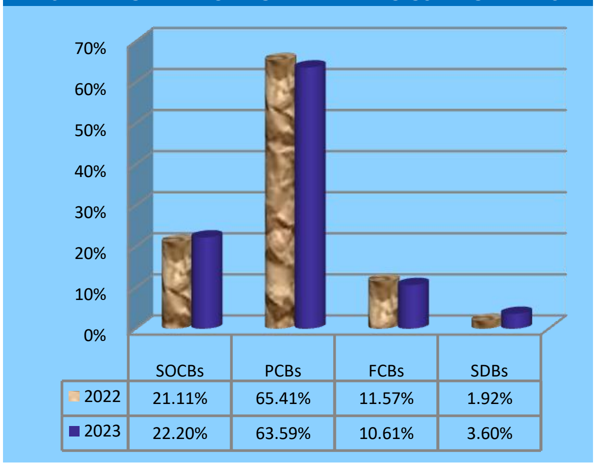


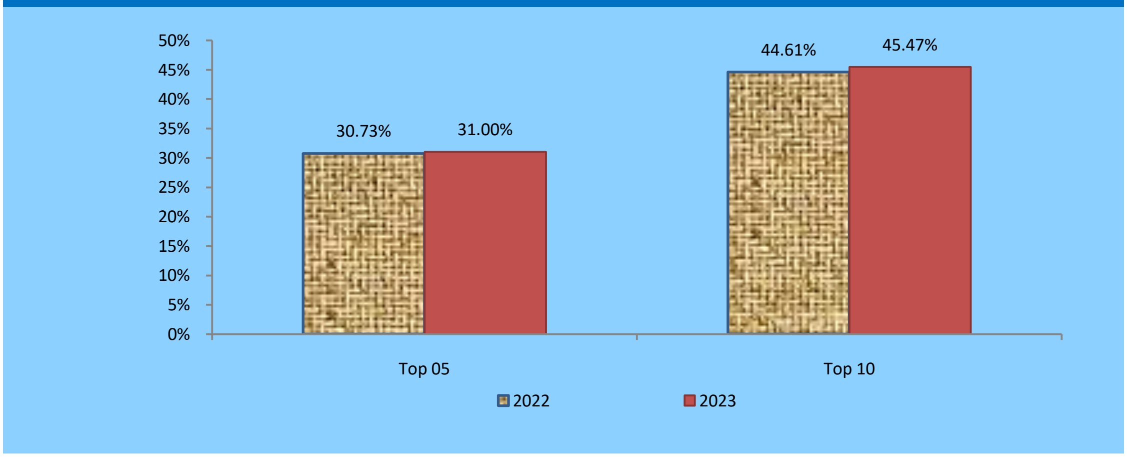
CHART 2.6: SHARE OF CASH, DUE FROM BB, OTHER BANKS & FIs AND MONEY AT CALL OF DIFFERENT CLUSTER OF BANKS



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

Compared to 2022, the concentration of assets within a few banks increased marginally in 2023, along with an increase in sector-wise loan concentration.

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



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

As demonstrated in Chart 2.7, the asset concentrations within the top five (05) and top ten (10) banks were 31.00 percent and 45.47 percent respectively at the end of December 2023, compared to 30.73 percent and 44.61 percent at end-December 2022. In 2023, the top ten (10) banks were composed of five (05) PCBs, four (04) SOCBs and one (01) FCB.

In the case of sector-wise loan concentration, the calculated score of the Herfindahl-Hirschman Index (HHI) was 1,533.06 in 2023, indicating a moderate level of concentration risk[11].

[11] HHI Score <1500 ≡ low-level concentration, 1500-2500 ≡ moderate concentration, and above 2500 ≡ high concentration as referred in https://www.investopedia.com/terms/h/hhi.asp; retrieved on 21 May 2024.

On the contrary, in 2022, the index illustrated a low level of concentration risk with a score of 1,437.21. In 2023, four sectors, namely Large Industries, Wholesale and Retail Trade (CC, OD, etc.), Miscellaneous and Import Financing (LIM, LTR, TR, etc.) had double-digit market shares, i.e., 28.21 percent, 19.10 percent, 11.93 percent and 10.14 percent respectively (Table 2.2), representing almost similar scenario compared to that of 2022. A higher market share of large industries' loans (28.21 percent) indicates that banks were focused on disbursing corporate loans.

TABLE 2.2: SECTOR-WISE LOAN CONCENTRATION IN 2023

(In Billion BDT)

SI.	Sector	Amount^{P}	Percent of Total	HHI*
1	Large Industries	4,340.90	28.21	795.80
2	Wholesale and Retail Trade (CC, OD etc.)	2,938.84	19.10	364.81
3	Miscellaneous	1,835.33	11.93	142.32
4	Import Financing (LIM, LTR, TR etc.)	1,559.93	10.14	102.82
5	Service Industries	920.40	5.98	35.76
6	Small and Medium Industries	856.97	5.57	31.02
7	Agriculture	731.90	4.76	22.66
8	Export Financing (PC, ECC etc.)	720.65	4.68	21.90
9	Housing (Residential) in Urban Area for Individual Person	373.60	2.43	5.90
10	Other Construction	344.75	2.24	5.02
11	Housing (Commercial): For Developer/Contractor	303.44	1.97	3.88
12	Infrastructure Development (Road, Culvert, Bridge, Tower etc.)	102.29	0.66	0.44
13	House Renovation/Repairing/Extension	73.19	0.48	0.23
14	Air Transport	54.07	0.35	0.12
15	Lease Financing/Leasing	49.67	0.32	0.10
16	Housing (Residential) in Rural Area for Individual Person	47.65	0.31	0.10
17	Fishing	44.00	0.29	0.08
18	Road Transport (Excluding Personal Vehicle and Lease Finance)	37.20	0.24	0.06
19	Water Transport (Excluding Fishing Boats)	21.31	0.14	0.02
20	Procurement by Government	18.95	0.12	0.01
21	Cottage Industries/Micro Industries	10.58	0.07	0.01
22	Water-works	0.55	0.00	0.00
23	Forestry and Logging	0.05	0.00	0.00
24	Sanitary Services	0.03	0.00	0.00
	Total Loans and Advances	**15,386.25**	**100.00**	**1,533.06**

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

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

The asset quality of the banking sector, in term of gross non-performing loan (NPL) ratio[12], slightly deteriorated in 2023. Also, the net NPL ratio[13] experienced an increase and reached to 0.59 percent from -0.08 percent in the preceding year.

At the end of December 2023, the banking sector's gross NPL ratio reached to 9.00 percent, recording a minor increase from 8.16 percent of the previous year (Chart 2.8). It is noteworthy that gross NPL in the banking sector increased by BDT 249.77 billion and reached to BDT 16,176.89 billion at end-December 2023, whereas the total outstanding loans and advances increased by BDT 1,399.00 billion. The asset quality of the banking sector might have deteriorated partly due to lack of oversight on regular and rescheduled or restructured loans and advances as well as slow progress in NPL recovery. Also, external problems like the ongoing Russia-Ukraine war, Israel-Palestine conflict, other global and domestic challenges may have impaired the borrowers' repayment capacity, which in turn might have translated into worsening in the asset quality of the overall banking sector.

CHART 2.8: GROSS NPL RATIO OF THE BANKING INDUSTRY

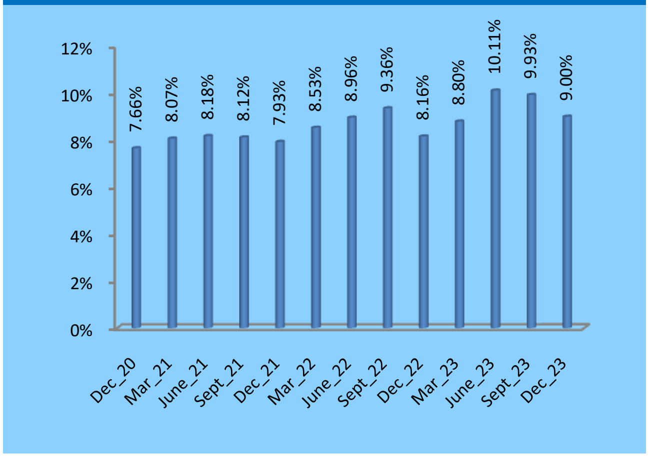
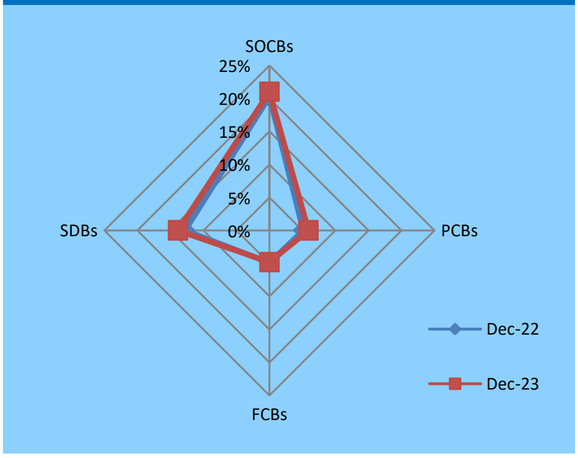


CHART 2.9: GROSS NPL RATIO OF BANKING CLUSTERS

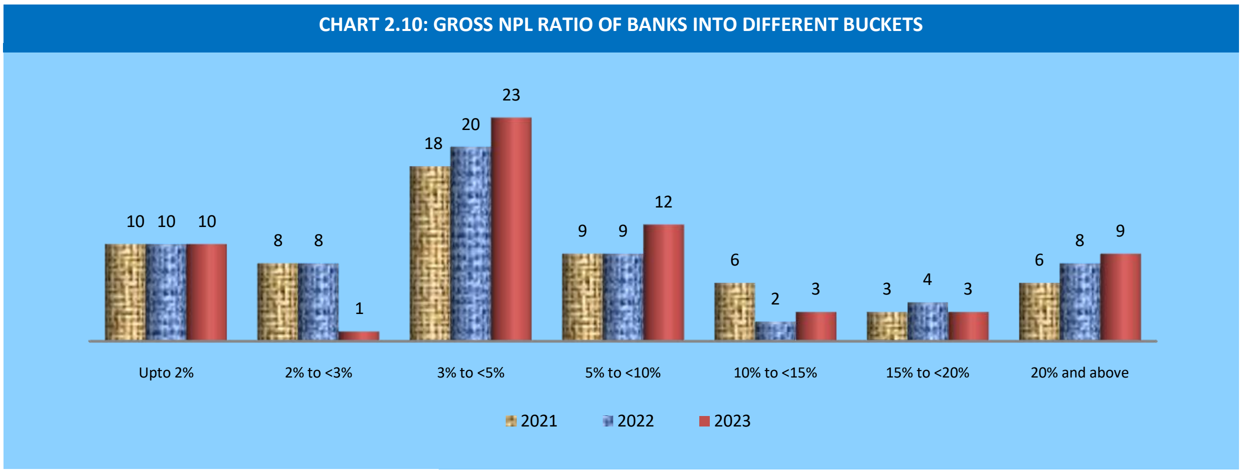


Source: BRPD, BB; compilation: FSD, BB.

Pertinently, the gross NPL ratio of SOCBs increased by 0.71 percentage point compared to that of end-December 2022 and reached to 20.99 percent at end-December 2023 (Chart 2.9). Contemporaneously, PCBs and SDBs exhibited an increase in the gross NPL ratio, reaching 5.93 percent and 13.87 percent respectively. On the other hand, asset quality of the FCBs improved during the reporting year, as evident from an overall decline in the NPL ratio of 0.09 percentage point to reach 4.82 percent at end-December 2023. It is worth mentioning that SOCBs and PCBs both held significant shares (45.17 percent and 48.74 percent respectively) of the total NPLs of the banking sector at end-December 2023 whereas, the shares of NPLs held by FCBs and SDBs were only 2.20 and 3.89 percent respectively.

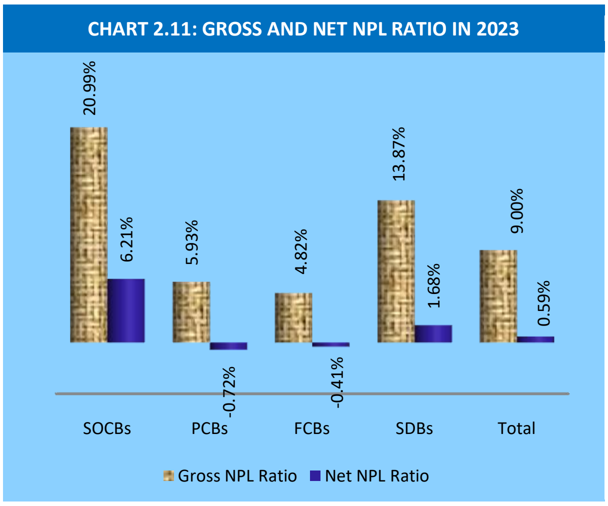
[12]Total classified loans as a percentage of total loans outstanding. Loans and Advances from both the Domestic Banking Unit (DBU) and Offshore Banking Unit (OBU) are considered in calculating the NPL ratio.

[13]Net NPL ratio or net non-performing loan ratio = (Gross NPLs – Loan Loss Provisions – Interest Suspense)/(Total Loans Outstanding-Loan Loss Provisions-Interest Suspense).

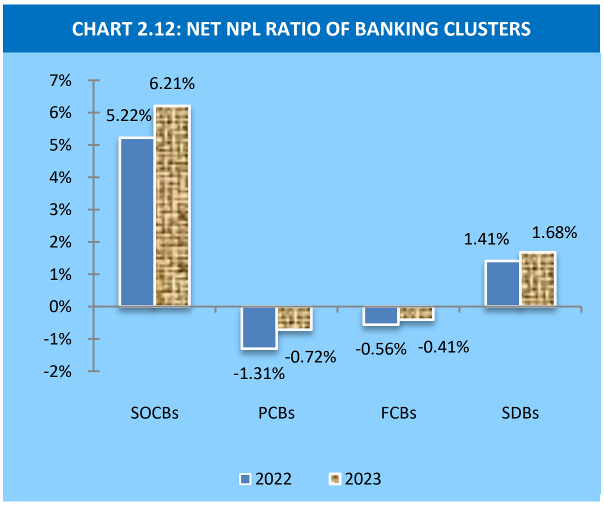


Source: BRPD, BB; Computation: FSD, BB.

The distribution of banks based on gross NPL ratios is presented in Chart 2.10. A total of 34 banks had their NPL ratios below 5 percent in 2023, in contrast to 38 in 2022. All FCBs except one and all PCBs except six recorded single-digit gross NPL ratios at end-December 2023. From the stability perspective, distress might arise from the fact that 9 banks (3 SOCBs, 4 PCBs, 1 FCB, and 1 SDB) out of 61 had more than 20 percent NPL ratio. Likewise, the net NPL ratio marginally increased to 0.59 percent at end-December 2023 from -0.08 percent in the previous year (Chart 2.11).



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



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

The net NPL ratios of different clusters of banks are shown in Chart 2.12. The PCBs, like the previous year, had negative net NPL ratio in 2023, despite holding the significant part of the banking industry's total assets. Also, FCBs had a negative net NPL ratio. These banks appeared to be resilient to a certain level of deterioration in their asset quality. On the contrary, the net NPL ratio of SOCBs and SDBs deteriorated further at the end of the review year; stood at 6.21 percent and 1.68 percent respectively.

As of end-December 2023, the top 5 and top 10 banks' gross NPLs (based on the volume of gross NPLs) stood at 47.60 percent and 66.21 percent of industry NPLs respectively (Chart 2.13 and Chart 2.14), as opposed to 45.97 and 64.75 percent in 2022 respectively. In 2023, in terms of highest gross NPL size, the top 10 banks made up of 05 SOCBs, 04 PCBs, and 01 SDB. However, in terms of gross NPL ratio, the top 10 banks consisted of 04 SOCBs, 04 PCBs, 01 FCB, and 01 SDB.

CHART 2.13: TOP 5 BANKS' (BY GROSS NPL SIZE) SHARES IN NPLs

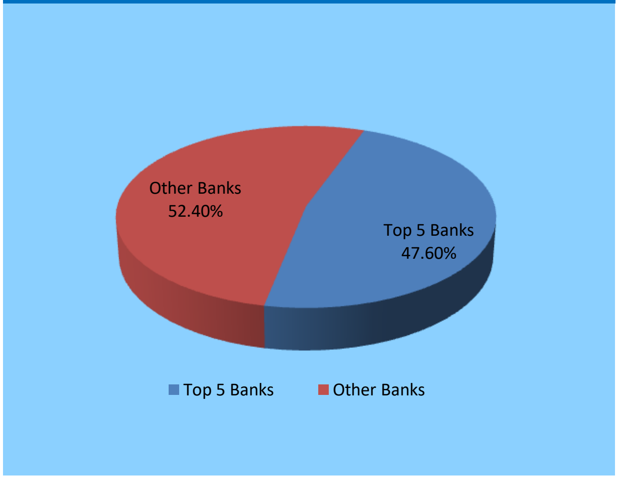
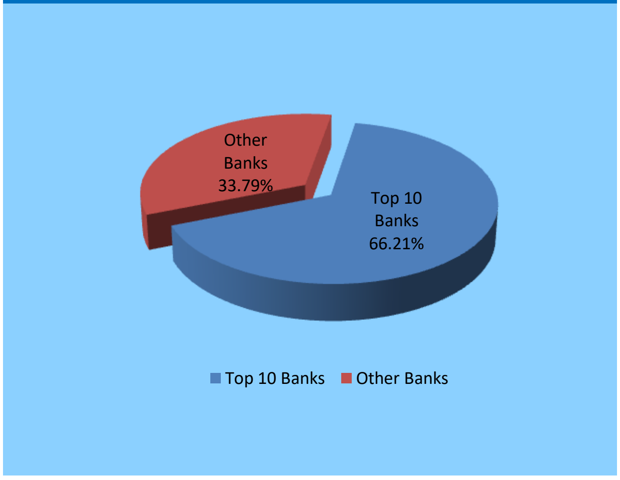


CHART 2.14: TOP 10 BANKS' (BY GROSS NPL SIZE) SHARES IN NPLs



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

Sector-wise NPL distributions showed that the Industrial (Manufacturing) sector had the highest concentration of NPLs followed by the Trade and Commerce sector, in 2023.

Table 2.3 shows the concentration of NPLs across different sectors in 2023. The magnitude of NPL concentration was the highest in the Industrial (Manufacturing) sector, as the share of NPL of the sector was 54.32 percent. Some specific sub-sectors of the Industrial (Manufacturing) sector, such as Leather and Leather-based Industry, Ship building and Ship breaking, and RMG experienced elevated NPL ratios in comparison with all the other sectors and sub-sectors. The leather and Leather-based Industry (a sub-sector of Manufacturing Industries) experienced the highest gross NPL ratio of 21.27 percent, followed by the Ship building and Ship breaking sub-sector with 17.78 percent of gross NPL ratio in 2023. However, considering the loan exposure share and NPL concentration, the asset quality of the Leather and Leather-based Industry and Ship building and Ship breaking sub-sector may not pose a significant stability threat to the overall system. On the other hand, the gross NPL ratio of RMG (13.88 percent) with relatively higher loan exposure and NPL concentration could become a significant driving factor for the asset quality of the Industrial (Manufacturing) sector and the banking industry as a whole.

The share of NPLs in the Trade and Commerce sector stood notably high at 23.13 percent compared to the 17.13 percent of total loans distributed to this sector. Furthermore, the gross NPL ratio of this sector exceeded the industry average by 3.13 percentage points in 2023. As the volume of loans outstanding in the Trade and Commerce sector was nearly one-sixth of the total loans outstanding in the banking sector, it could be a concern for the overall banking sector from the stability point of view.

TABLE 2.3: SECTOR-WISE NON-PERFORMING LOANS DISTRIBUTION (2023)

Sl. No.	Name of the Sectors	In Billion BDT		In Percent		
		Total Loans Outstanding	Gross NPL	Gross NPL Ratio	Share of Loans Extended	Share of NPLs
1	**Agriculture**	**613.52**	**42.46**	**6.92**	**4.10**	**3.18**
2	**Industrial (Manufacturing)**	**7,569.17**	**726.41**	**9.60**	**50.58**	**54.32**
2.1	RMG	1,635.99	227.02	13.88	10.93	16.98
2.2	Textile	1,302.01	153.44	11.79	8.70	11.47
2.3	Ship building and Ship breaking	200.92	35.73	17.78	1.34	2.67
24	Agro-Base Industry	1,156.00	85.59	7.40	7.73	6.40
2.5	Other Industries (Large Scale)	2,311.65	117.91	5.10	15.45	8.82

Sl. No.	Name of the Sectors	In Billion BDT		In Percent		
		Total Loans Outstanding	Gross NPL	Gross NPL Ratio	Share of Loans Extended	Share of NPLs
2.6	Other Industries (Small, Medium and Cottage)	633.05	72.90	11.52	4.23	5.45
2.7	Pharmaceutical Industry	197.13	5.65	2.87	1.32	0.42
2.8	Leather and Leather-based Industry	132.42	28.17	21.27	0.88	2.11
3	**Industrial (Services)**	**1,805.52**	**118.30**	**6.55**	**12.07**	**8.85**
3.1	Construction Loans	938.21	70.68	7.53	6.27	5.29
3.2	Transport and Communication	210.72	12.14	5.76	1.41	0.91
3.3	Other Service Industries	656.59	35.48	5.40	4.39	2.65
4	**Consumer Credit**	**1,009.38**	**33.25**	**3.29**	**6.74**	**2.49**
4.1	Credit Card	85.72	7.17	8.36	0.57	0.54
4.2	Autos (Car) Loan	28.73	0.39	1.35	0.19	0.03
4.3	Housing Finance	301.82	15.37	5.09	2.02	1.15
4.4	Personal	593.11	10.32	1.74	3.96	0.77
5	**Trade and Commerce (Commercial Loans)**	**2,562.71**	**309.32**	**12.07**	**17.13**	**23.13**
6	**Credit to NBFI**	**85.97**	**4.99**	**5.80**	**0.57**	**0.37**
7	**Loans to Capital Market**	**90.83**	**1.25**	**1.38**	**0.61**	**0.09**
7.1	Merchant Banks	52.65	0.75	1.43	0.35	0.05
7.2	Other than Merchant Banks	38.18	0.50	1.30	0.26	0.04
8	**Other Loans**	**1,227.55**	**101.24**	**8.25**	**8.20**	**7.57**
	Total	**14,964.65**	**1,337.22**	**8.94**	**100.00**	**100.00**

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

The significantly high ratio of Bad and Loss loan to gross NPL persisted in 2023, albeit a marginal decrease compared to that of 2022.

In 2023, the share of Bad and Loss (B/L) loans in gross NPL decreased to 87.06 percent (Chart 2.15) from 88.67 percent in 2022. Still, this high B/L loan ratio indicates that a significant chunk of the NPL has not been performing for a long period of time. At the end of December 2023, the banking sector's total B/L loans stood at BDT 1,267.82 billion, increased by 18.51 percent from BDT 1,069.82 billion of end-December 2022.

The other two categories of classified loans, sub-standard (SS) and doubtful (DF), constituted 9.05 percent and 3.90 percent in the review year, against 6.79 percent and 4.54 percent respectively recorded in 2022 (Chart 2.16). As Chart 2.16 shows, bad and loss (B/L) loans consistently remained higher than 80 percent over the years, which implies sluggish recovery process of B/L loans. Pertinently, higher B/L loans have the most negative impact on the banks' capital adequacy and profitability since 100 percent provision has to be maintained against such loans as per existing regulation.

CHART 2.15: GROSS NPL COMPOSITION IN 2023

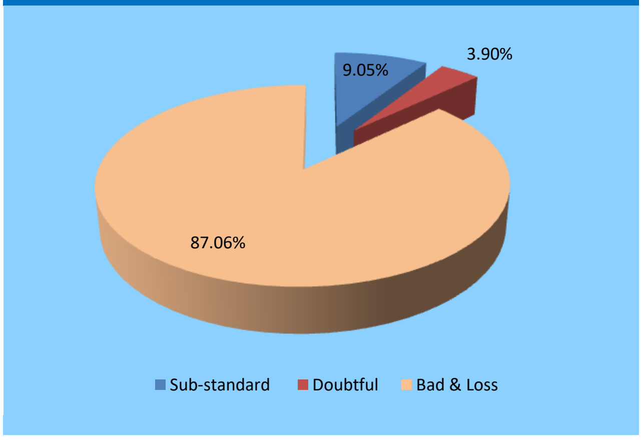
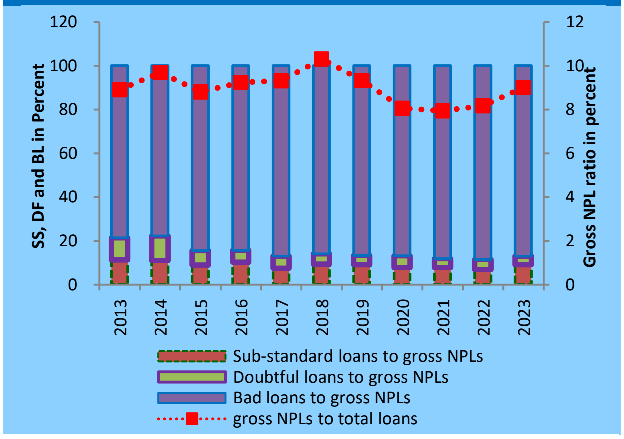


CHART 2.16: YEAR-WISE SHARES OF THE THREE CATEGORIES OF NPLs

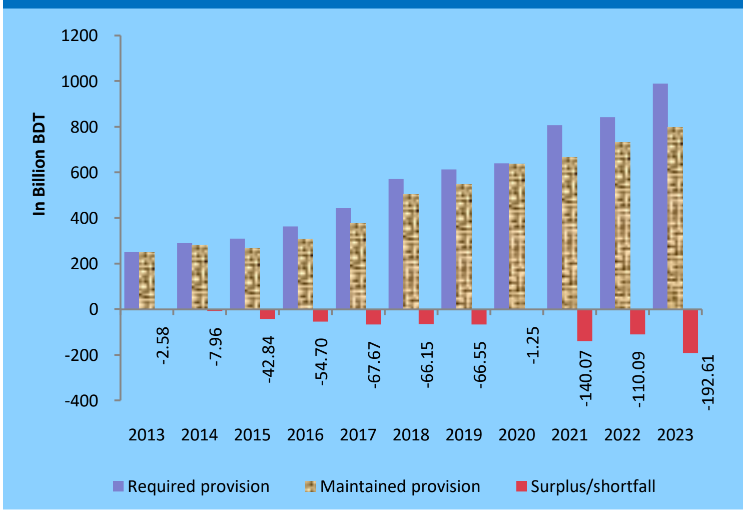


Source: BRPD, BB; computation: FSD, BB.

All the banks except three (03) PCBs, three (03) SOCBs and one (01) SDB kept their loan-loss provisions in accordance with the regulatory requirement of BB in 2023.

The loan-loss provision maintenance scenario recorded somewhat decline in 2023. The gross NPLs stood at BDT 1,456.33 billion at end-December 2023, generating a loan-loss provision requirement of BDT 989.41 billion. However, the amount of provision actually maintained by the banks was BDT 796.80 billion as shown in Chart 2.17. In comparison with the previous year, the provisions held by the banks got augmented by 8.93 percent in 2023. On the other hand, the overall provision shortfall increased from BDT 110.09 billion in 2022 to BDT 192.61 billion in 2023, indicating a degradation of loan status during the period. Also, the provision maintenance ratio declined to 80.53 percent in 2023 from 86.92 percent in 2022. Consequently, the ratio of maintained provision to gross NPL decreased from 60.63 percent in 2022 to 54.71 percent in 2023.

CHART 2.17: YEAR-WISE BANKING SECTOR LOAN LOSS PROVISIONS



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

The different clusters of the banking sector represented a mixed pattern in maintaining the loan loss provision. The provision shortfall of SOCBs rose from BDT 88.28 billion in 2022 to BDT 100.84 billion in 2023. Alike the SOCBs, the provision shortfall of PCBs increased from BDT 27.45 billion in 2022 to BDT 100.30 billion in 2023. Importantly, there was a provision surplus in FCBs and SDBs in the review year, with a marginal decline in FCBs (from BDT 5.60 billion in 2022 to BDT 5.04 in 2023) and a noticeable rise in SDBs (from BDT 0.09 billion in 2022 to BDT 3.49 billion in 2023).

Additionally, from the individual banks' perspective, 03 PCBs, 03 SOCBs and 01 SDB had provision shortfall. Among these three categories, only SDBs as a banking cluster had an aggregate provision surplus in 2023. The provision shortfall of the banking industry increased in terms of aggregate amount and decreased in terms of the number of banks in 2023 as opposed to what recorded in the previous year.

The outstanding balance of written-off loans stood at BDT 536.12 billion at end-December 2023.

The cumulative written-off loan amount stood at BDT 716.99 billion at the end of the review year[14], which was BDT 653.21 billion at the end of the preceding year. The cumulative written-off loan amount was equivalent to 2.99 percent of the banking sector's on-balance sheet assets at end-December 2023. Indeed, out of the total written-off loans, banks have been able to recover BDT 180.87 billion by end-December 2023 and thus the total adjusted outstanding balance of written-off loans reached at BDT 536.12 billion out of which the balance of SOCBs, PCBs, FCBs and SDBs stood at BDT 181.53 billion, BDT 338.24 billion, BDT 12.93 billion, and BDT 3.42 billion respectively[15].

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 for years. 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. According to the existing rules, a bank can write off only those loans/investments which have a minimum chance of recovery and remained classified as 'Bad/Loss' at least for three years. The concerned bank must have maintained 100 percent provision against that particular bad/loss loan/investment after adjusting interest suspense from the outstanding balance. If the maintained provision against such loans/investments is not enough, the additional required provision must be ensured by debiting current year's income of the concerned bank. However, a bank cannot write off any loan/investment partially.

Noteworthy that 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 loan up to BDT 0.2 million without filing any lawsuit. Besides, writing off the loans/investments must be approved by the board of directors of the related bank. After writing off, the same amount must be kept aside from the balance sheet figure. In addition, as per Section 28KA of Bank Company Act, 1991 (as amended up to 2023) there is no hindrance for retaining bank's claim and continuing legal steps in order to recover the written off loan.

Banks have to maintain a separate ledger for the written-off loan/investment accounts and make a footnote 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 the borrowing entity repays the full liability of the concerned loan/investment. Importantly, 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 schedules for those loans.

a- BRPD Circular No. 01/2019 dated 06 February 2019.

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

[15]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.

2.4 RESCHEDULED ADVANCES

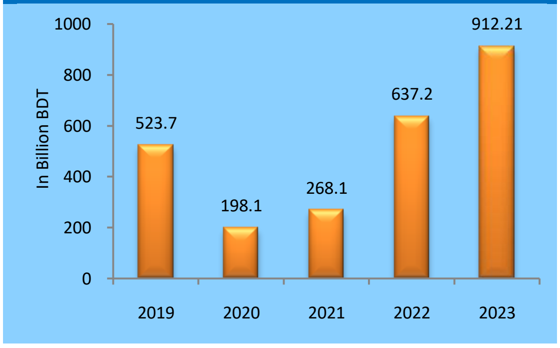
The total amount of loans rescheduled in the review year increased compared to that of the preceding year. However, most part of the rescheduled loans remained unclassified.

The banking sector's rescheduled loans in 2023 were BDT 912.21 billion, which was higher than that of the preceding year (Table 2.4). In 2022, Bangladesh Bank introduced a temporary and somewhat lenient policy[16] on loan rescheduling allowing banks to reschedule loans by taking reduced down payment and granting a relatively longer tenure to the borrower for repayment. Banks were also allowed to frame their own policy to reschedule loans based on the parameters set by the Bangladesh Bank earlier. The stated policy might have contributed to the increase in rescheduling of loans in 2023. Furthermore, banks were allowed to reschedule loans of particular sectors (such as ship building and cold storage related loan) for longer tenure[17].

TABLE 2.4: YEAR-WISE AMOUNT OF RESCHEDULED LOANS (LOANS RESCHEDULED DURING THE YEAR)

Year	Amount (In Billion BDT)
2019	523.7
2020	198.1
2021	268.1
2022	637.2
2023	912.21

CHART 2.18: YEAR-WISE AMOUNT OF RESCHEDULED LOANS



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

The rescheduled loan ratio (RSDL)[18] reached to 17.8 percent in 2023 from 14.4 percent in 2022. The classified rescheduled loans ratio (CRSDL) and unclassified rescheduled loans ratio (URSDL) stood at 3.3 percent and 14.5 percent respectively in 2023 compared to 2.8 percents and 11.6 percents in 2022 (Chart 2.19). It is worth noting that more than 80 percent of total outstanding rescheduled loans remained unclassified in 2023 (Chart 2.20 and Table 2.5).

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

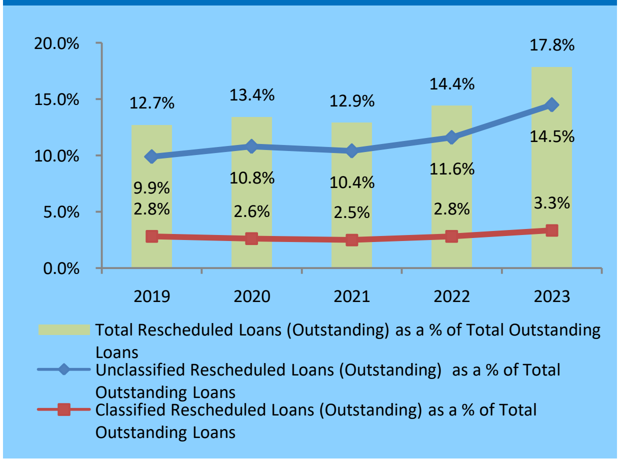
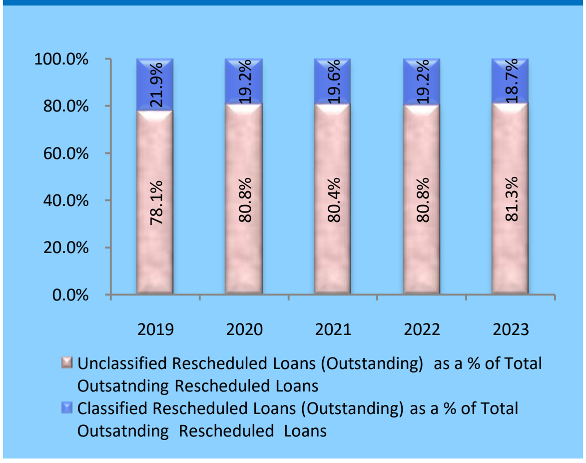


CHART 2.20: COMPOSITION OF RESCHEDULED LOANS OUTSTANDING



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

[16]BRPD Circular No. 16, dated 18 July 2022.
[17]BRPD Circular No. 12, dated 20 June 2023; and BRPD Circular No. 13, dated 13 July 2023.
[18]Rescheduled Loans Outstanding (RSDL) Ratio=Total Rescheduled Loans Outstanding to Total Loans Outstanding.
Classified Rescheduled Loan (CRSDL) Ratio=Total Classified Rescheduled Loans Outstanding to Total Loans Outstanding.
Unclassified Rescheduled Loan (URSDL) Ratio=Total Unclassified Rescheduled Loans Outstanding to Total Loans Outstanding.

TABLE 2.5: COMPOSITION OF RESCHEDULED LOANS OUTSTANDING

(Amount in Billion BDT)

Year	Total Rescheduled Loans Outstanding	Unclassified Rescheduled Loans Outstanding	Classified Rescheduled Loans Outstanding	Unclassified Rescheduled Loans to Total Rescheduled Loan Outstanding	Classified Rescheduled Loans to Total Rescheduled Loan Outstanding
2019	1,362.3[R]	1,063.5	298.8	78.1%	21.9%
2020	1,556.3	1,257.0	299.3	80.8%	19.2%
2021	1,683.9[R]	1,354.3	329.6	80.4%	19.6%
2022	2,127.8	1,719.2	408.6	80.8%	19.2%
2023	2,885.4	2,344.8	540.6	81.3%	18.7%

Note: Year indicates calendar year.
Source: Scheduled Banks (provisional); computation: FSD, BB.

Chart 2.21 illustrates the sector-wise share of rescheduled loans outstanding at end-December 2023. Most of the outstanding rescheduled loans pertained to industrial, RMG and textile sector, and working capital with 26.4 percent, 20.9 percent and 11.3 percent of the total outstanding rescheduled loans respectively.

In Chart 2.22, industry-wise data shows that 64.8 percent of outstanding rescheduled loans belonged to the large industries. 10.5 percent and 15 percent were disbursed in the medium industries and other industries respectively (Chart 2.22).

CHART 2.21: SECTOR-WISE SHARE OF OUTSTANDING RESCHEDULED LOANS IN 2023

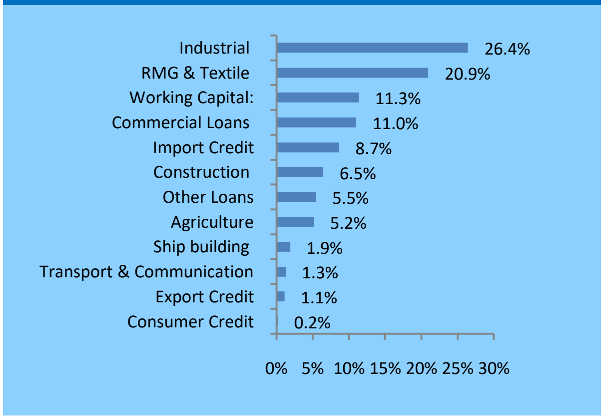
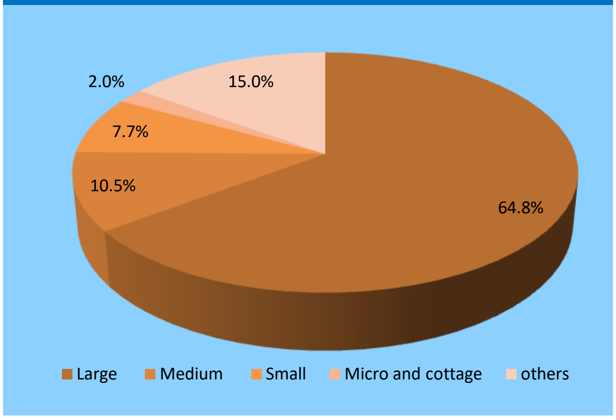


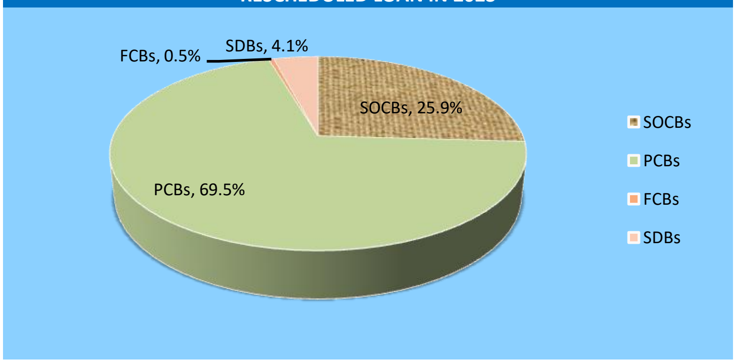
CHART 2.22: INDUSTRY WISE SHARE OF OUTSTANDING RESCHEDULED LOANS IN 2023



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

Chart 2.23 exhibits that, as of end-2023, the PCBs held more than two-thirds of rescheduled loans outstanding in the banking industry followed by SOCBs with around one-fourth of the total. The share in rescheduled loans of different clusters of banks remained almost tantamount to that of the previous year.

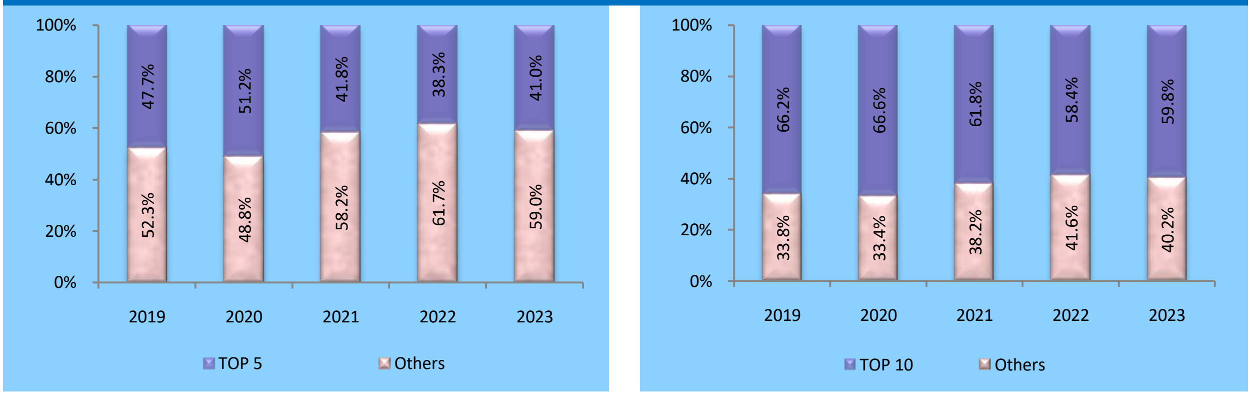
CHART 2.23: BANK CLUSTER-WISE COMPOSITION OF OUTSTANDING RESCHEDULED LOAN IN 2023



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

Out of total outstanding rescheduled loans, the share of top 5 banks was 41.0 percents while the top 10 banks possessed 59.8 percents (Chart 2.24). The top 5 banks comprised of 04 (four) PCBs and 01 (one) SOCB, whereas the top 10 banks included 03 (three) SOCBs, 06 (six) PCBs, and 01(one) SDB.

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



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

2.5 LIABILITY STRUCTURE OF THE BANKING SECTOR

Deposit remained the dominant part of the liability structure as usual. At end-2023, deposit growth increased and it was deemed to be enough to support the increased demand for loans and advances.

At end-December 2023, the total liabilities, excluding equity, of the banking sector stood at BDT 22,648.8 billion. The total deposits, including inter-bank deposits, constituted 79.3 percent of total liabilities (Chart 2.25). The growth rate of the different segments of liabilities showed that term deposit recorded the highest growth of 16.5 percent while inter-bank deposits shrank by 5.6 percent. Likewise, current deposits and borrowings from other banks grew by 9.0 and 2.4 percent respectively. In addition, savings deposits experienced a marginal growth of 0.1 percent during the review period (Chart 2.26).

CHART 2.25: YEAR-WISE BANKING SECTOR LIABILITY STRUCTURE

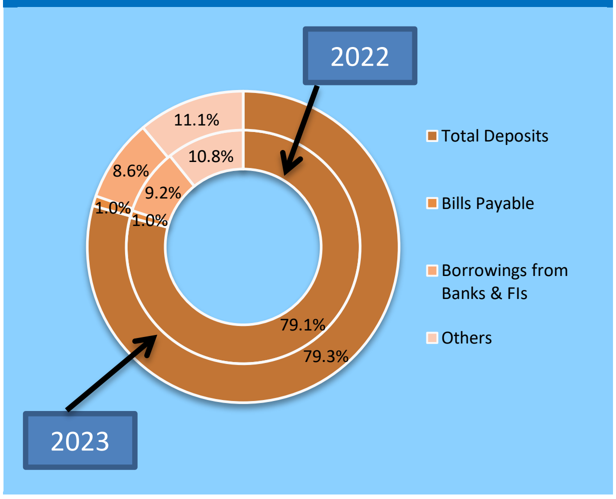
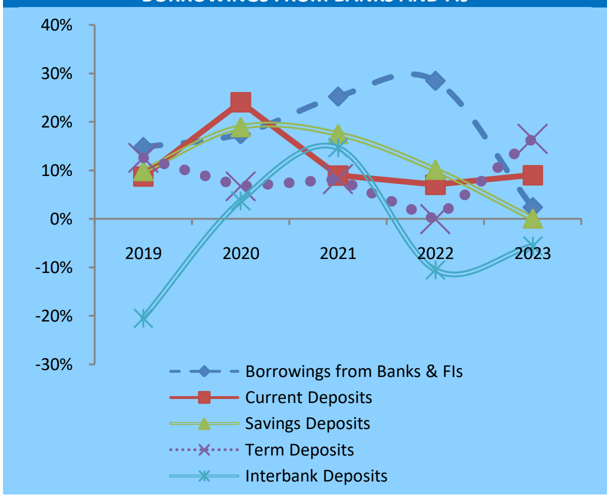


CHART 2.26: YEAR-WISE GROWTH OF DEPOSITS AND BORROWINGS FROM BANKS AND FIs



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

The banks appeared to have necessary deposit in meeting the demand of the loans and advances. The deposit growth, excluding inter-bank deposit, was higher than the loan growth in 2023. Total loans and advances stood at BDT 16,491.4 billion, registering a yearly growth of 9.8 percent. Total deposits reached BDT 17,641.1 billion with a growth rate of 10.1 percent (Charts 2.27 and 2.28).

CHART 2.27: LOANS AND DEPOSITS OUTSTANDING

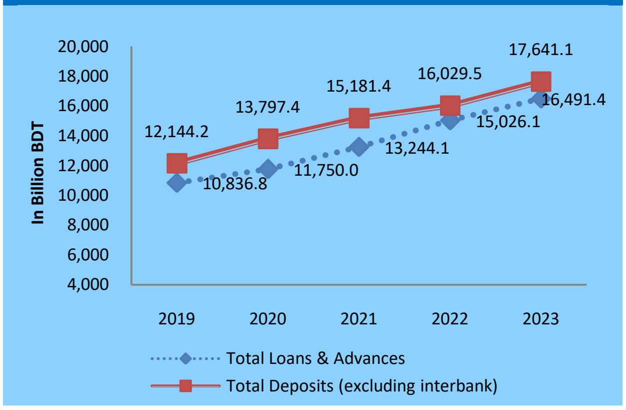
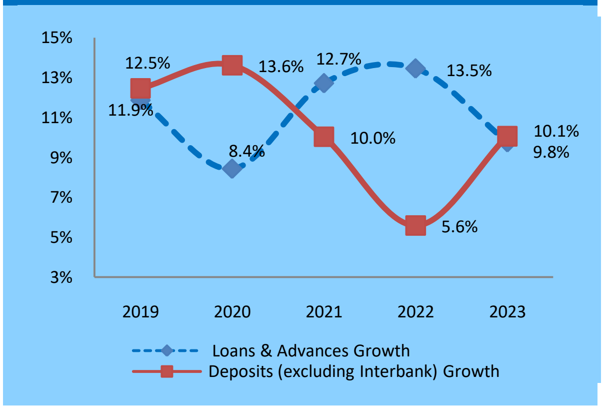


CHART 2.28: YEAR-WISE LOANS AND DEPOSIT GROWTH



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

The comparative positions of deposit, excluding inter-bank deposit, and loan growth of four banking clusters in 2023 are shown in Chart 2.29. The FCBs, SDBs, and PCBs had higher deposit growth than their growth in loans and advances. In contrast, SOCBs attained higher growth in lending than their rise in deposits.

The composition of total deposits at end-December 2023 is depicted in Chart 2.30. Term deposits constituted almost half of the total deposits. Moreover, its share increased moderately to 48.6 percent in 2023 from 45.9 percent in 2022. A larger proportion of term deposits provided the banks with a more stable source of funding and thus contributed to promoting funding stability for the banks. Shares of current deposits, savings deposits, and other deposits were 21.9 percent, 21.7 percent, and 7.8 percent respectively in 2023.

CHART 2.29: GROWTH OF LOANS & ADVANCES AND DEPOSITS (EXCLUDING INTER-BANK) BY BANK CLUSTERS IN 2023

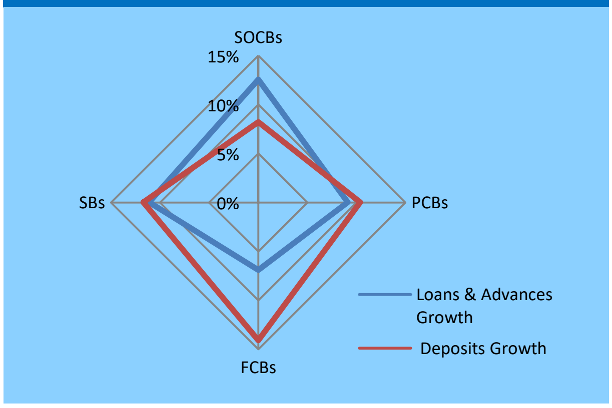
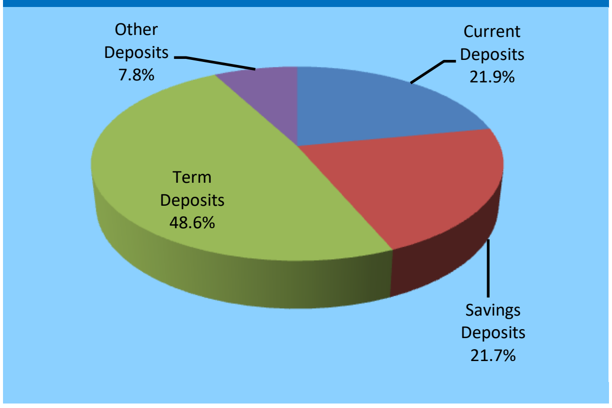


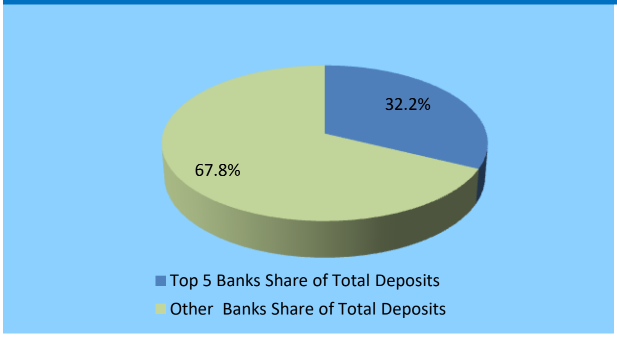
CHART 2.30: BANKING SECTOR'S DEPOSIT (EXCLUDING INTER-BANK) SHARE BY TYPES OF ACCOUNTS IN 2023

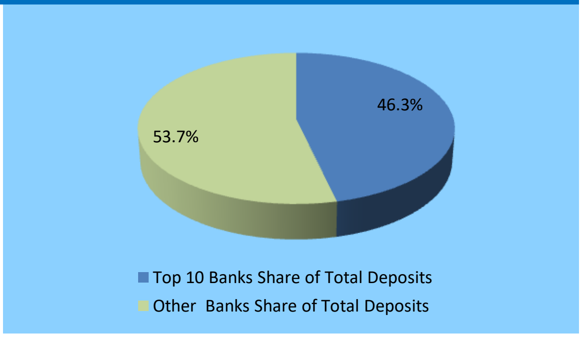


Source: DOS, BB; compilation: FSD, BB.

In the case of deposits concentration, top 5 deposit holding banks retained 32.2 percent of total deposits (excluding interbank) whereas top 10 banks possessed 46.3 percent of total deposits (Chart 2.31). Four (04) SOCBs and one (01) PCB were ranked as the top 5 in terms of deposit holding. In the previous year, concentrations of deposits in top 5 banks and top 10 banks were 32.7 percent and 46.4 percent respectively.

CHART 2.31: TOP 5 AND TOP 10 BANKS BASED ON SIZE OF DEPOSIT IN 2023

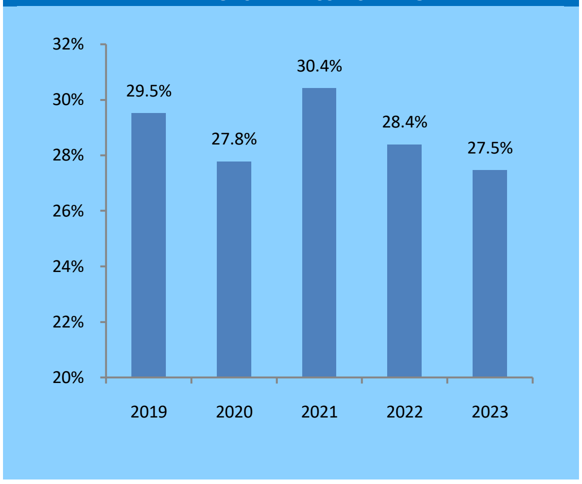




Source: DOS, BB; compilation: FSD, BB.

Off-Balance Sheet (OBS) exposures to on-balance sheet assets ratio decreased to 27.5 percent in 2023 from 28.4 percent in the previous year (Chart 2.32). The OBS exposures reached to BDT 6,586.5 billion at the end of 2023, which was BDT 6,234.9 billion at the end of 2022. Although the amount of OBS exposures slightly increased in 2023 compared to that of 2022, OBS to on-balance sheet assets ratio experienced somewhat decline due to relatively higher rise in on-balance sheet assets. Among the OBS items, acceptance experienced a decline of BDT 127.35 billion whereas other items increased by BDT 260.1 billion in 2023.

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



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

2.6 BANKING SECTOR DEPOSIT SAFETY NET

91.2 percent of the total depositors and 19.0 percent of the total deposits of the entire banking system remained insured under Deposit Insurance Trust Fund as of end-December 2023.

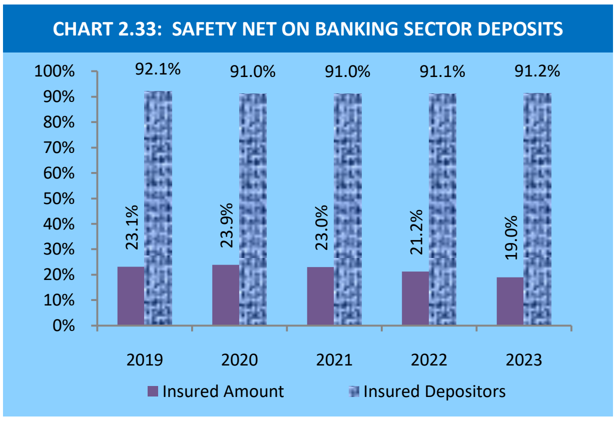
The deposit insurance system in Bangladesh is now being administered by the “Bank Amanat Bima Ain, 2000”. In accordance with the stated Act, Bangladesh Bank (BB) is entrusted with operating Deposit Insurance Trust Fund (DITF). The Board of Directors of BB acts as the Trustee of the DITF. In case of winding up of an insured bank, BB will take necessary steps to pay each depositor of that bank an amount equal to his/her deposits, not exceeding BDT 100,000 in line with the aforementioned Act. The following table shows the recent position of DITF.

TABLE 2.6: DEPOSIT INSURANCE TRUST FUND

(In Billion BDT)

Particulars	2021	2022	2023
Insurable Deposits	12,379.20	13,217.94	13,999.98
Insurance Premium (during the year)	7.93	8.66	9.17
Deposit Insurance Trust Fund Balance	116.39	133.33	151.52

Source: DID, BB.



Source: DID, BB.

The scenario of deposit safety net is illustrated in Chart 2.33. The insured amount[19] of total insurable deposits decreased slightly from 21.2 percents in 2022 to 19.0 percents in 2023. Importantly, 91.2 percent of the total depositors (depositors with deposit amount up to BDT 100,000) of the entire banking system[20] are insured within this deposit insurance system, which provides a comprehensive deposit safety net especially 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.
[20] Taking into account scheduled banks only.

Box 2.2: The Capacity of Existing DITF and its Forecast

As of end-December 2023, the balance of accumulated Deposit Insurance Trust Fund (DITF) stood at BDT 151.52 billion. The present capacity of the DITF appears to be adequate for the liquidation of any single bank. Chart B2.2.Y.1 and B2.2.Y.2 illustrate that the fund of the DITF, accumulated up to end-December 2023, will be enough to liquidate three (03) PCBs chosen based on the highest Gross Non-Performing Loan (GNPL) ratio[21] in the banking industry. Only 5.9 percent of the current DITF balance would be required to pay for the insured deposit. The current DITF balance would also remain sufficient in case the limit of insured deposit gets doubled to BDT 200,000 in future.

Chart B 2.2.Y.1: Utilization of Fund from DITF to Liquidate Three Private Commercial Banks at Current Insurance Level of BDT 100,000

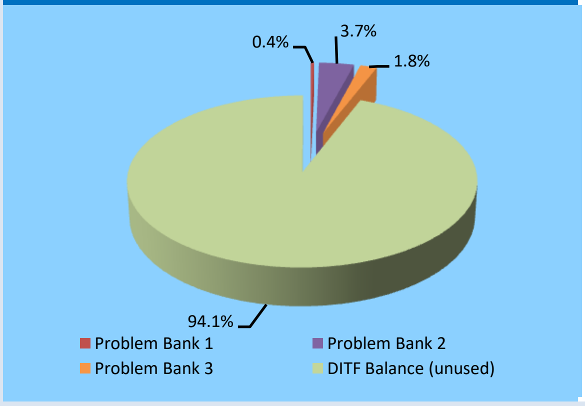
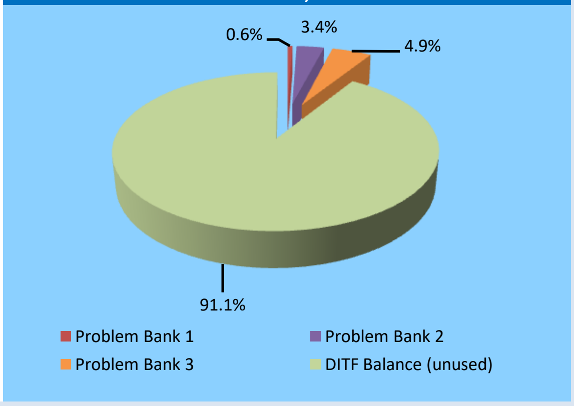


Chart B 2.2.Y.2: Utilization of Fund from DITF to Liquidate Three Private Commercial Banks at Insurance Level of BDT 200,000



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

Chart B2.2.Y.3 illustrates that the present balance of DITF would be able to compensate insured deposits (up to BDT 100,000 per depositor) of up to 23 small banks in the case of a series of banks' liquidation. Here, the banks are arranged in an ascending order of their corresponding deposit size, irrespective of the category. However, depositors of a significant number of banks may not be fully covered and compensated (hypothetical scenario) with the current balance of DITF due to the larger deposit bases of those banks.

Chart B 2.2.Y.3: Optimum Number of Small Banks that Can Be Liquidated Using Fund from DITF

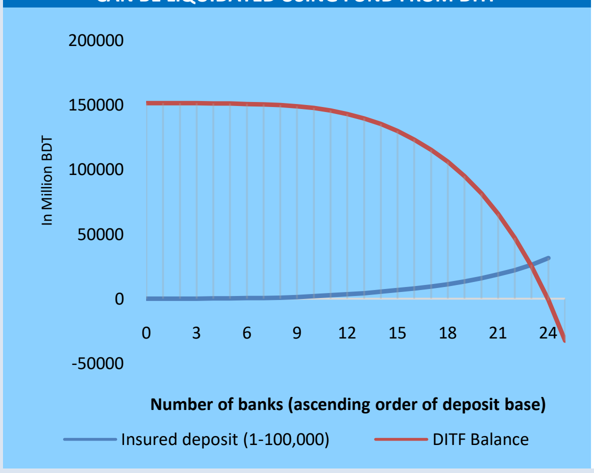
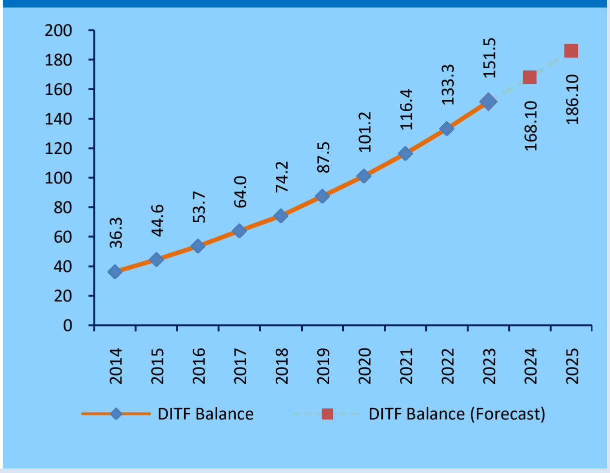


Chart B 2.2.Y.4: Forecast of DITF Balance (Billion BDT)



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

After the inception of deposit insurance system in 1984, the DITF has steadily grown over time, reached to BDT 151.52 billion at end-December 2023. Assuming no bank failure and no requirement of fund for liquidation in next 2 years, the DITF fund may reach to over BDT 186 billion in 2025 (Chart B2.2.Y.4).

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[21]Gross NPL to Total Loans ratio.

2.7 BANKING SECTOR PROFITABILITY

Net profit after taxes of the banking sector increased marginally in 2023 compared to that of 2022.

In 2023, the banking sector registered a 10.00 percent rise in operating profit[22] that stood at BDT 376.43 billion, up from BDT 342.22 billion in 2022. Despite a 20.63 percent increase in net interest income, net operating income of the banking sector experienced a decline of 32.95 percent compared to that of 2022, mainly due to a sizeable upsurge in non-interest expenses in 2023. Consequently, net profit[23] experienced a moderate increase of 4.32 percent to reach at BDT 148.41 billion in 2023, from BDT 142.26 billion in 2022. Additionally, allocation for loan loss expenses or provisions grew by 24.83 percent and stood at BDT 109.44 billion in 2023, in contrast to BDT 87.67 billion in 2022.

In 2023, return on equity of the banking sector increased moderately while return on assets decreased marginally compared to those of 2022.

The return on assets (ROA) of the banking sector dwindled and stood at 0.59 percent in 2023 from 0.62 percent in 2022. Conversely, return on equity (ROE) saw an improvement and reached 11.12 percent from 10.70 percent in 2022, marking a minor increase over the previous year. Total assets of the banking sector recorded a growth of 9.20 percent than that of the previous year, which contributed to reduction of ROA in 2023. Additionally, larger allocation for loan loss expenses in accordance with the regulatory requirement of BB, as mentioned earlier, exerted a negative impact on net profit and ROA as well.

CHART 2.34: BANKING SECTOR RETURN ON ASSETS (ROA)

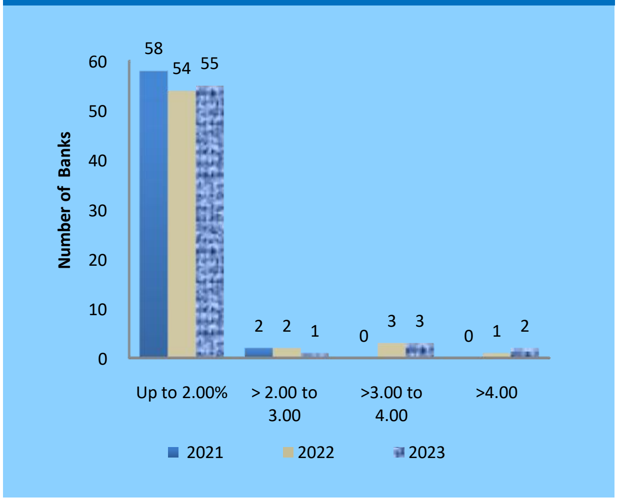
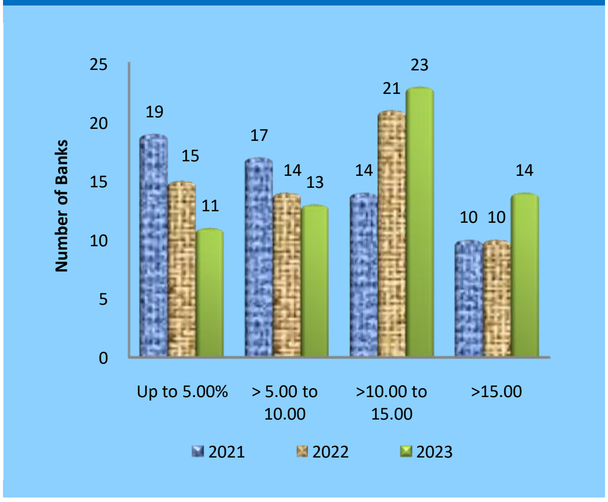


CHART 2.35: BANKING SECTOR RETURN ON EQUITY (ROE)



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

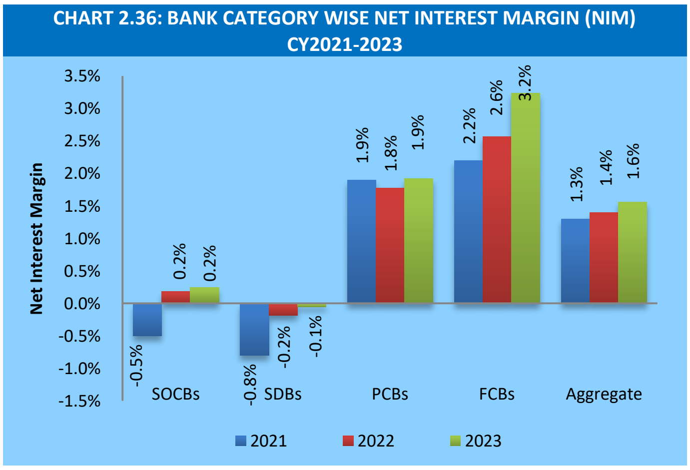
At end-December 2023, ROA of 36 banks had an upturn, while the same declined of 25 banks. Similarly, the ROE of 34 banks increased while the same of 27 banks decreased compared to the position of 2022. Noteworthy that, 90.16 percent of the banks had ROA up to 2.0 percent (Chart 2.34) and 39.34 percent held ROE up to 10.0 percent (Chart 2.35).

[22]Profit before provision and tax.

[23]Profit after provision and tax.

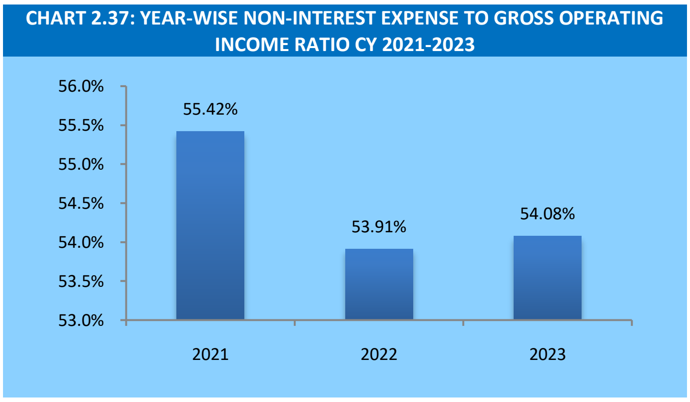
In 2023, the overall Net Interest Margin[24] of the banking sector increased to 1.6 percent from 1.2 percent in 2022.

In the review year, interest income and interest expenses recorded increases of 22.50 percent and 23.25 percent respectively compared to the corresponding amount of the preceding year. Likewise, non-interest income and non-interest expenses grew by 4.39 percent and 10.72 percent respectively. The higher growth rate of non-interest expense over non-interest income led to 32.95 percent decrease in net operating income compared to the same of the preceding year.



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

In 2023, the SOCBs, PCBs, and FCBs registered a marginal increase in net interest margin (NIM) compared to 2022. On the other hand, NIM of SDBs remained almost unchanged with negative value like previous two consecutive years. Among the banking clusters, NIM of FCBs recorded a significant increase to 3.2 percent in 2023 from 2.6 percent in 2022. In aggregate, the industry's NIM also increased and stood at 1.6 percent in 2023 compared to 1.4 percent in 2022.

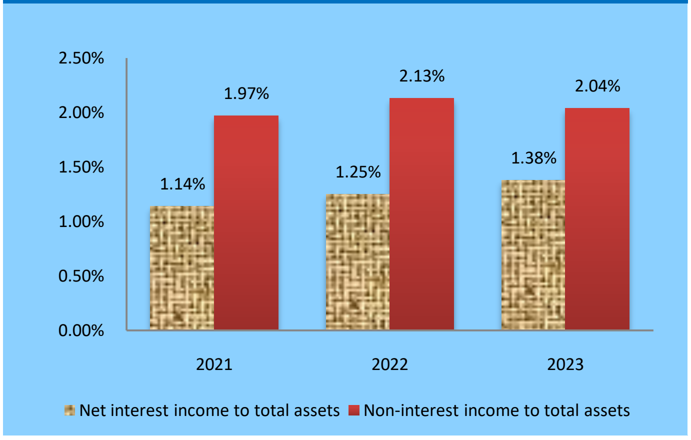


Source: DOS, BB; Compilation: FSD, BB.

During the assessment period, non-interest expenses and gross operating income[25] increased by 10.72 percent and 10.39 percent respectively. Nevertheless, the ratio of non-interest expenses or operating expenses to gross operating income experienced a 0.17 percentage point increase and stood at 54.08 percent in 2023 from 53.91 percent in 2022 (Chart 2.37).

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

CHART 2.38: BANKING SECTOR INCOME BY SOURCES

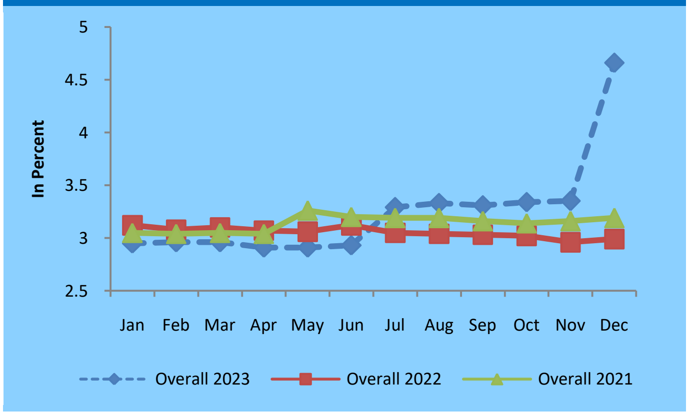


Source: DOS, BB; Compilation: FSD, BB.

Chart 2.38 reveals that the ratio of net interest income to total assets increased to 1.38 percent in the review year from 1.25 percent in the preceding year. Conversely, non-interest income to total assets declined and stood at 2.04 percent in 2023, which was 2.13 percent in 2022. It is noteworthy that, from 2022 to 2023, net interest income demonstrated an increase while non-interest income moved downward in terms of absolute amount.

The interest rate spread demonstrated a hefty upturn of 1.67 percentage points at end-December 2023 in contrast to that of end-December 2022.

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



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

The weighted average lending rate rose from 7.22 percent at end-December 2022 to 9.36 percent at end-December 2023. Similarly, over the same period, the weighted average deposit rate increased as well, rising from 4.23 percent to 4.70 percent. Consequently, as shown in Chart 2.39, the weighted average interest rate spread for banks rose from 2.99 percent in December 2022 to 4.66 percent in December 2023.

2.8 CAPITAL ADEQUACY

The banking industry's Capital to Risk-weighted Assets Ratio (CRAR) declined by 19 basis points while Tier-1 capital ratio, also known as core capital ratio, increased by 5 basis points at the end of December 2023. Both the ratios remained above the regulatory requirement. The industry's overall CRAR was above the minimum regulatory requirements despite a decline in capital position of SOCBs, SDBs, and PCBs, attributable to a significant increase in FCBs' CRAR during the review year. Except the weaker leverage ratios of SOCBs and SDBs, banking sector as a whole maintained a leverage ratio well above the regulatory minimum requirement, owing primarily to the elevated leverage ratios of FCBs. The liquidity situation in the banking industry remained broadly stable.

The banking industry's CRAR fell by 19 basis points to 11.64 percent at the end of December 2023, down from 11.83 percent of the preceding year. However, it exceeded the minimum regulatory capital requirement of 10.0 percent of Risk Weighted Assets (RWA) under the Basel III capital framework. The number of CRAR-compliant banks increased to 51 as of end-December 2023. Furthermore, at end-December 2023, these 51 banks held 79.84 percent of total assets and 78.48 percent of total liabilities in the banking system (Charts 2.40 and 2.41). At end-December 2023, the asset share of CRAR-compliant banks increased by 8.13 percentage points from that of the previous year.

CHART 2.40: YEAR-WISE CRAR, CRAR COMPLIANT BANKS, AND THEIR ASSET SHARE

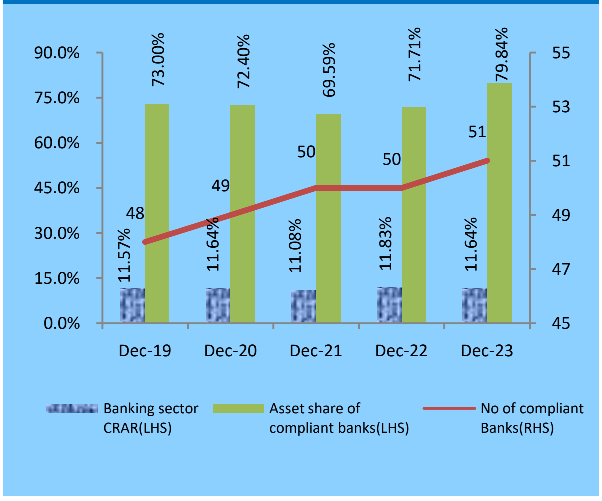
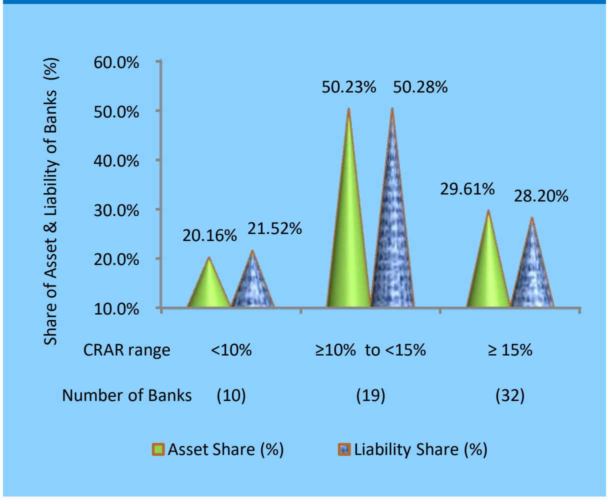
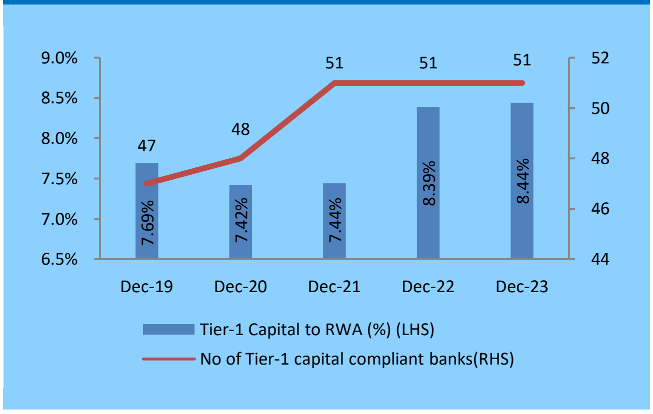


CHART 2.41: ASSET AND LIABILITY SHARE OF BANKS BY CRAR AT END-DECEMBER 2023



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

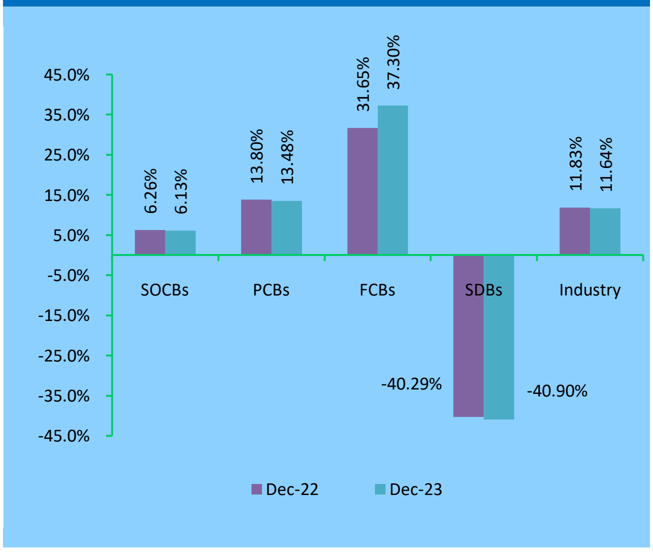
CHART 2.42: YEAR-WISE TIER-1 CAPITAL RATIO OF BANKS



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

The Tier-1 capital ratio of the banking sector, also known as core capital ratio, increased marginally by 5 basis points at end-December 2023 and reached at 8.44 percent from 8.39 percent at end-December 2022, recording the level further above the respective regulatory minimum requirement of 6.0 percent in line with Basel III capital framework issued by BB in December 2014. The number of Tier-1 capital compliant banks remained unchanged at 51 for last three consecutive years.

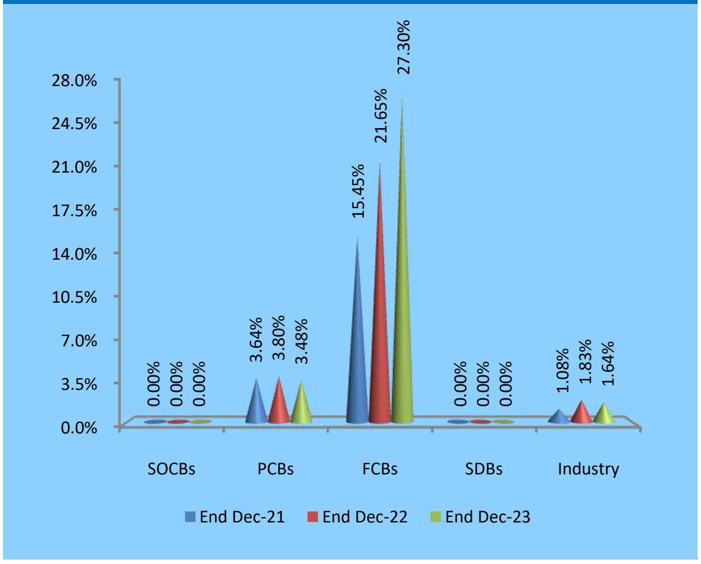
CHART 2.43: CRAR BY BANKING GROUP AT END-DECEMBER 2022 AND 2023



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

Chart 2.43 presents a comparative picture of CRAR of different banking clusters. CRARs of SOCBs, PCBs and SDBs decreased by 13 basis points (bps), 32 bps, and 61 bps and reached 6.13 percent, 13.48 percent, and negative 40.90 percent respectively whereas CRAR of FCBs increased by 565 basis points, i.e., 5.65 percentage points, at end-December 2023. Among the clusters, only PCBs and FCBs had CRAR well above the minimum regulatory requirement. SOCBs and SDBs cluster banks need to be brought under intensive supervision for making gradual improvement in their capital adequacy and strengthening resilience of the banking system in turn.

CHART 2.44: CCB BY BANKING CLUSTERS AT END-DECEMBER 2021, 2022, AND 2023



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

Although PCBs and FCBs maintained the CCB well above the minimum regulatory requirement, SOCBs and SDBs drew down the industry's CCB at end-December 2023 (Chart 2.44). However, out of 61, forty-seven (47) banks maintained the minimum required CCB in 2023 while forty-four (44) banks (out of 60) were CCB compliant in 2022. At end-December 2023, CCBs of FCBs increased and reached 27.30 percent whereas that of PCBs experienced a moderate decline and stood at 3.48 percent. SOCBs and SDBs could not maintain CCB as they could not fulfill the MCR of 10.0 percent.

Taking the cross-country scenario into account (Table 2.7), the capital adequacy of Bangladesh's banking sector was lower compared to that of neighboring countries as of end-December 2023.

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

Countries	CRAR (%)				
	2019	**2020**	**2021**	**2022**	**2023**
India	15.1*	15.8*	16.6*	16.0*	16.8*
Pakistan	17.0	18.6	16.7	16.6	19.7
Sri Lanka	17.2	17.1	16.5	15.3	16.9[P]
Bangladesh	11.6	11.6	11.08	11.83	11.64

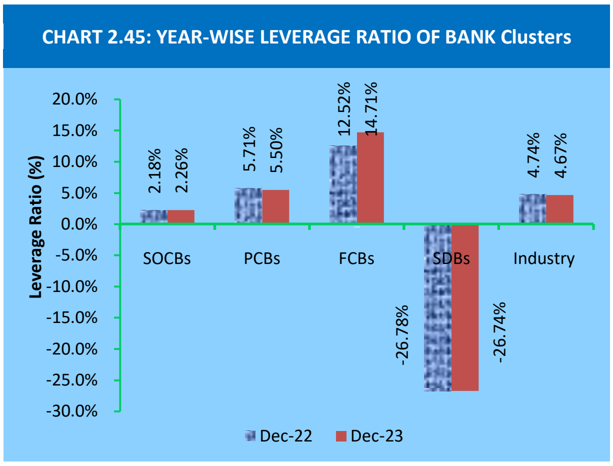
* Data as of end-September, P-Provisional.

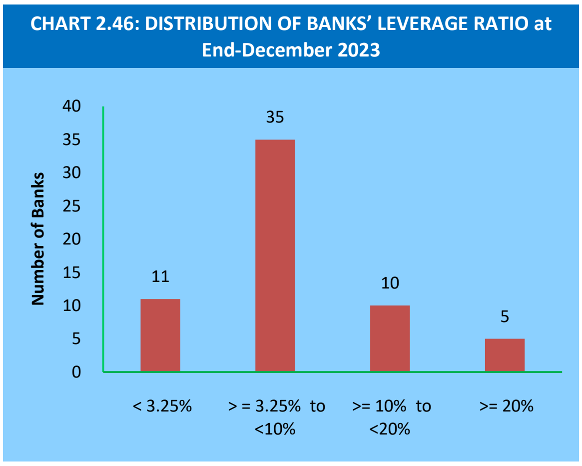
Source: Financial Stability Report (various issues), Reserve Bank of India; Financial Stability Report, December 2023, State Bank of Pakistan; Quarterly Compendium: Statistics of the Banking System (https://www.sbp.org.pk/ecodata/fsi.asp), Central Bank of Sri-Lanka (https://www.cbsl.gov.lk/en/statistics/statistical-tables/financial-sector); and DOS, BB.

2.9 LEVERAGE RATIO

Except SOCBs and SDBs, the banking sector as a whole maintained a leverage ratio well above the minimum regulatory requirement, primarily owing to the elevated leverage ratios of FCBs.

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 in order to limit the accumulation of excessive on- and off-balance sheet leverage in the banking system. Against the minimum regulatory requirement of 3.25 percent, the banking sector maintained a leverage ratio of 4.67 percent at end-December 2023, which was 0.07 percentage point lower than 4.74 percent recorded at end-December 2022 (Chart 2.45). FCBs had the highest leverage ratio of 14.71 percent followed by PCBs with 5.50 percent in the review year. SOCBs' leverage ratio rose but still remained below 3 percent and stood at 2.26 percent, which was 2.18 percent at end-December 2022, while SDBs had negative 26.74 percent leverage ratio. The lower leverage ratios of SOCBs and SDBs appear to be a matter of concern for the banking sector as a whole since it will fade their ability to withstand any potential near-term adverse shock. In 2023, the number of non-compliant banks in terms of leverage ratio increased to 11 from 9 in 2022 (Chart 2.46).





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

2.10 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

In order to ensure smooth functioning of Pillar II of Basel III, Bangladesh Bank is working for the implementation of Internal Capital Adequacy Assessment Process (ICAAP) in Bangladesh. To ensure adequate capital covering all material risks, banks evaluate their internal processes and strategies through ICAAP. SRP-SREP dialogue stands for an exclusive meeting between the Supervisory Review Evaluation Process (SREP) team of BB and Supervisory Review Process (SRP) team of the bank to determine the adequate level of capital and the quality of capital needed for a bank by reviewing the ICAAP and the risk management and control strategies of the bank. SRP-SREP dialogue with the banks for the base year 2021 was completed in October 2023. In the dialogue, the risks of different types of banks were discussed based on their ICAAP reports. The banks were advised to take necessary steps according to their risks profile. Recent experience has revealed that the estimated additional capital requirement for residual risks rises mainly due to documentation error. Besides, strategic risks and core risks management are also concerns for the banks.

2.11 BANKING SECTOR LIQUIDITY

The liquidity situation in the banking industry remained broadly stable during 2023. The decline in banking industry's Short-term High Quality Liquid Assets (SHQLA), except that of the PCBs (Islamic) cluster, was partially attributable to the decline in SHQLA of the SOCBs and PCBs (Islamic) clusters.

The banking industry experienced somewhat stressed liquidity condition after second quarter of 2023 as indicated by gradual increase in Advance-to-Deposit Ratio (ADR) and call money borrowing rate. Chart 2.47 depicts that the banking sector's ADR stayed below the admissible limit[26] of 87 percent but demonstrated a burgeoning progress after second quarter of 2023. Pertinently, albeit lying below the admissible limit, ADR reached 80.4 percent at end-December 2023 from 79.0 percent at end-December 2022. Month-wise ADR demonstrated a downward trend up to eight months and then took an upward trend for the rest four months in 2023. Call money borrowing rate showed gradual declining trend very similar to ADR up to August 2023 and then peaked at 8.8 percent in December 2023 (Chart 2.47). The rising call money borrowing rate in last four months of 2023 was largely attributed to Bangladesh Bank's continuous effort to put tightened monetary policy stance in place by raising the policy (repo) rate with a view to curbing the inflationary pressure.

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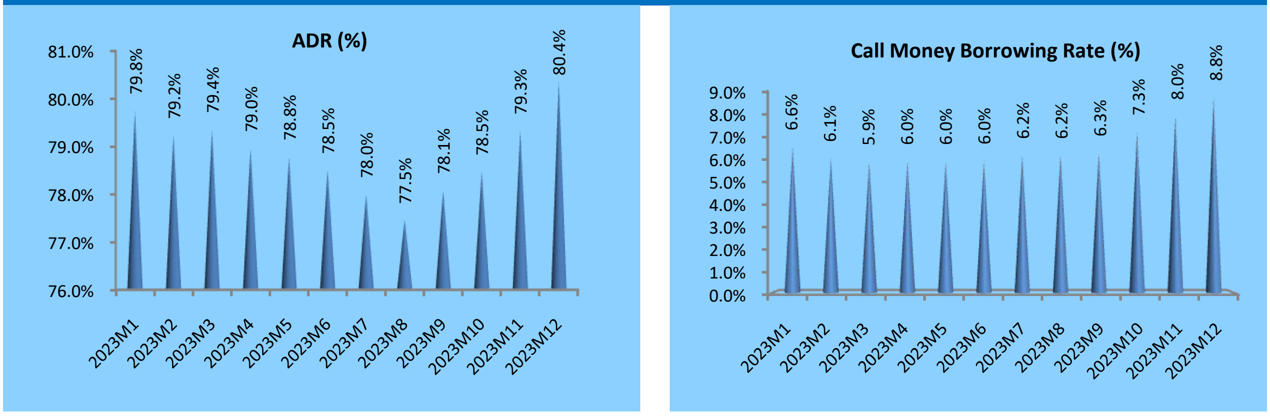
[26]Banks were instructed in April 2020 to rationalize their ADR within maximum 87.0 percent for conventional banks and 92.0 percent for Islamic Shari'ah based banks respectively (ref.: DOS Circular no.02 dated 12 April 2020).

CHART 2.47 : MONTHLY ADR AND CALL MONEY BORROWING RATE



Source: DOS, BB. Source: DMD, BB.

Chart 2.48 exhibits that ADRs of three bank clusters increased at end-December 2023. ADR of SDBs registered a decline of 11.82 percentage points to reach at 63.94 percent in 2023 from 75.76 percent in 2022. Among the clusters, PCBs held the highest ADR of 85.73 percent in 2023 compared to that of the preceding year. In the case of SOCBs and FCBs, ADR recorded increases of 3.85 and 0.01 percentage points respectively compared to the position of the preceding year. Importantly, ADR of the banking industry increased to 80.38 percent in 2023 from 79.00 percent in 2022; number of banks with ADR of 90.00 percent or higher decreased to 8 (eight) from 9 (nine) during the period (Chart 2.49).

CHART 2.48: BANKS' CLUSTER-WISE ADR

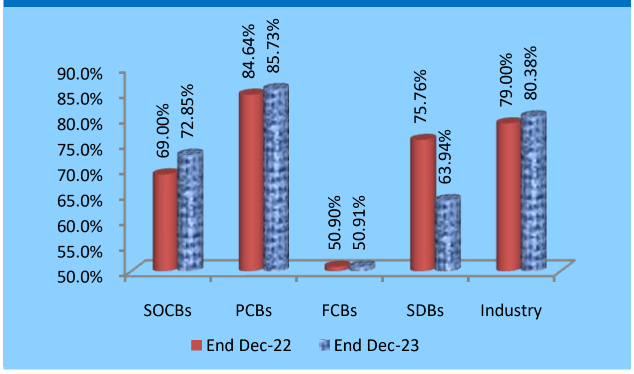
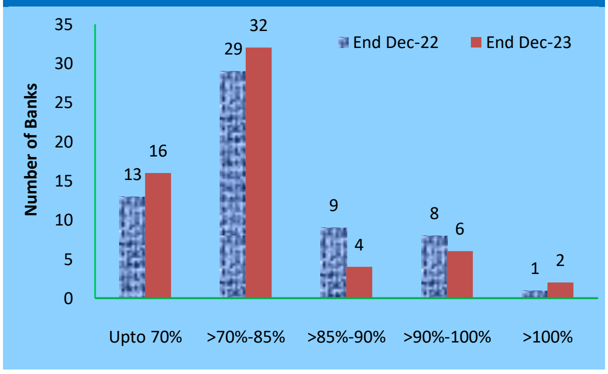


CHART 2.49: DISTRIBUTION OF BANKS IN TERMS OF ADR



Source: DOS, BB.

The industry as a whole and all banking clusters except PCBs (Islamic) maintained the liquidity coverage ratio (LCR[27]) while all the banking clusters maintained the net stable funding ratio (NSFR[28]) above the minimum regulatory requirement[29] throughout the review year (Chart 2.50 and 2.51). At end-December 2023, the LCR of the banking industry decreased and stood at 147.69 percent from 153.97 percent at end-December 2022. However, under a hypothetical financial stress scenario, this 147.69 percent LCR was sufficient to meet the short-term obligations for the next 30 calendar days. FCBs maintained the highest LCR among the bank clusters, posting 393.15 percent at end-December 2023, followed by SOCBs with 218.68 percent and PCBs (Conventional) with 139.23 percent, while PCBs (Islamic) fell short of the required LCR level. On the other hand, the NSFR of the banking industry decreased by 1.86 percentage points and stood at 108.36 percent at end-December 2023, which was 110.22 percent at end-December 2022.

[27]. LCR measures a bank's need for liquid assets in a stressed environment over the next 30 calendar days.

[28]. NSFR measures a bank's need for liquid assets in a stressed environment over one year period.

[29]. Minimum requirement: ≥100 percent for LCR; >100 percent for NSFR.

CHART 2.50: BANKS' CLUSTER-WISE MONTHLY LCR

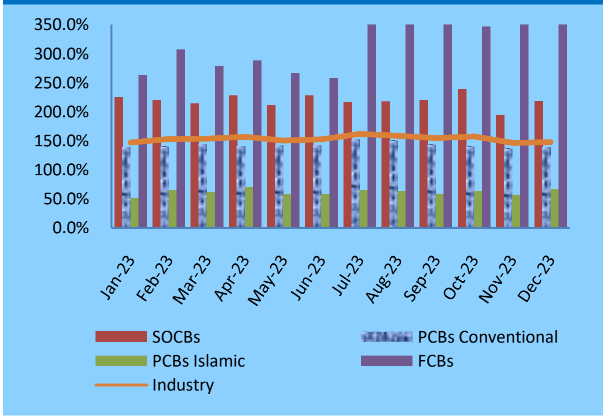
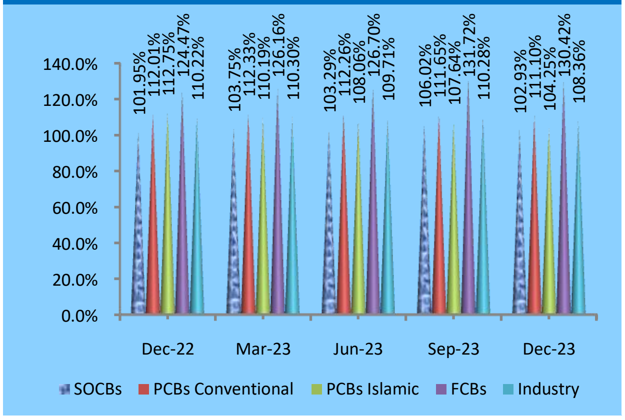


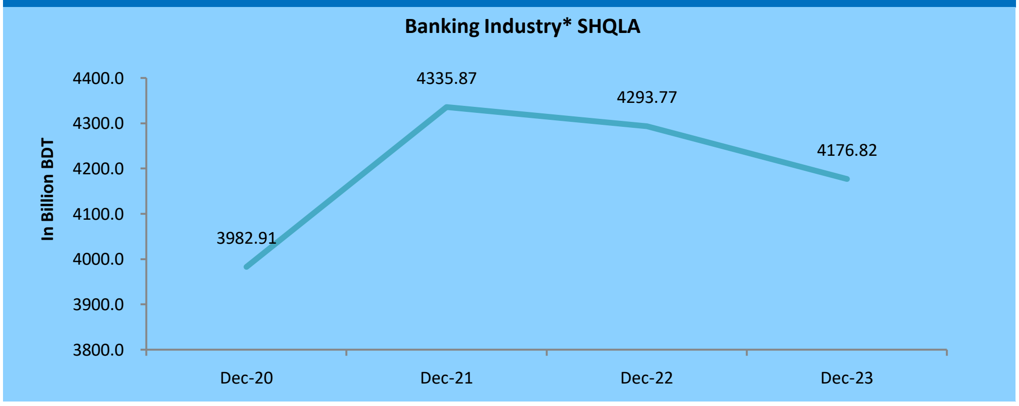
CHART 2.51: BANKS' CLUSTER-WISE QUARTERLY NSFR



Source: DOS, BB.
NB:SDBs (BDBL, BKB, PKB and RAKUB) are exempted from maintaining regulatory LCR and NSFR.

Furthermore, the banking industry was able to maintain the minimum required Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) at end-December 2023. Although the banking industry met the regulatory requirements of liquidity ratios, there was a minor liquidity risk concern, as illustrated in Chart 2.52, as evident from a 2.72 percent or BDT 116.95 billion decline in SHQLA[30] in 2023. The decline in banking industry's SHQLA was partially due to decline in SHQLA of the SOCBs and PCBs (Islamic) clusters.

CHART 2.52: BANKING INDUSTRYS' STOCK OF HIGH QUALITY LIQUID ASSETS AT END-DECEMBER



Source: DOS, BB.
*Industry figure excludes BDBL, BKB, PKB and RAKUB (SDBs) as exempted from LCR & NSFR requirement.

2.12 PERFORMANCE OF LOCAL BANKS' BRANCHES OPERATING ABROAD

In 2023, the performance of overseas branches of Bangladeshi banks experienced some fluctuations. Two state-owned commercial banks (SOCBs) namely Sonali Bank PLC and Janata Bank PLC along with one private commercial bank (PCB) named AB Bank PLC have been operating with a total of seven (07) full-fledged overseas branches across various locations in the UAE and India. Additionally, Social Islami Bank PLC has two branches in the UAE, although they are yet to commence operations. On the contrary, 21 Bangladeshi banks have been facilitating overseas banking services for foreign remittance collection and other activities through 24 exchange houses, 5 representative offices, and 6 subsidiary companies abroad, as of end-2023.

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

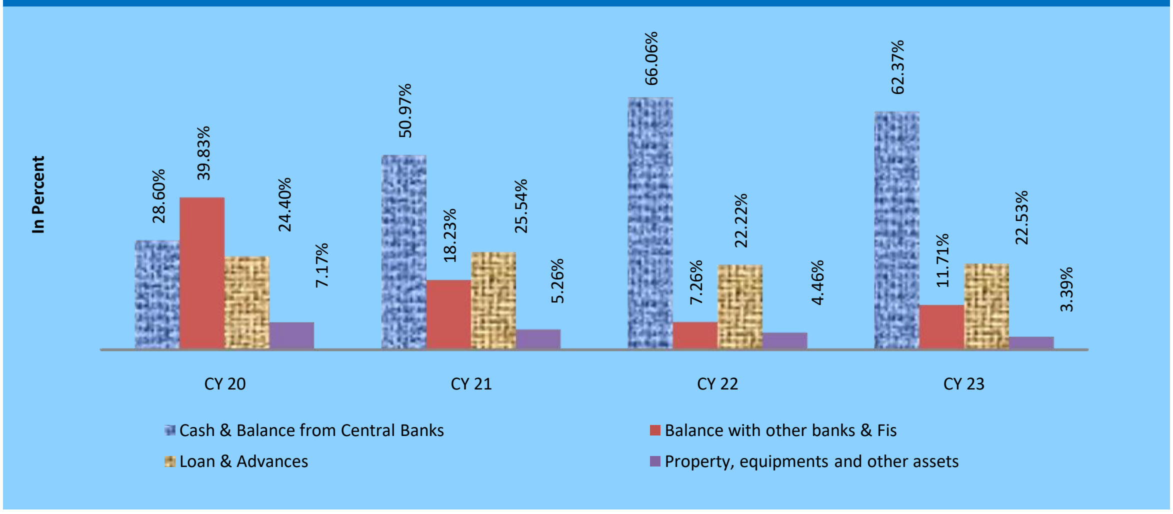
In 2023, the net profit of the overseas branches of 3 (three) banks was USD 9.40 million, which was USD 4.10 million higher than that of 2022. In the review year, the customer deposits of overseas branches increased by 8.58 percent and reached USD 373.13 million from USD 343.64 million in the previous year. Besides, loans and advances of overseas branches decreased by USD 2.07 million and stood at USD 96.15 million in 2023.

2.12.1 Assets Structure of Overseas Branches

In 2023, branches of Bangladeshi banks operating abroad registered a moderate increase in their total assets compared to those of the preceding year.

Chart 2.53 illustrates the asset composition of Bangladeshi bank branches operating abroad. In 2023, the aggregate assets of 7 overseas branches amounted to USD 539.66 million[31], or approximately BDT 59.30 billion, constituting 0.25 percent of the total assets (USD 218.25 billion) of the banking industry in Bangladesh. It is noteworthy that overseas branches experienced a significant increase of 97.05 percent in balances held with other banks and financial institutions and reached USD 63.17 million in 2023. Cash reserves and balances held with the central bank also saw an uptick of 15.29 percent, totaling USD 336.59 million. However, loans and advances were USD 96.15 million at end-December 2023, slightly down from USD 98.22 million at end-December 2022. Furthermore, the value of property, equipment, and other assets decreased by 7.09 percent and stood at USD 18.31 million. Overall, the total assets of these overseas branches in 2023 increased by 16.35 percent compared to that of 2022**.**

CHART 2.53: CHANGE IN ASSET COMPOSITION OF BANGLADESHI BANK BRANCHES OPERATING ABROAD



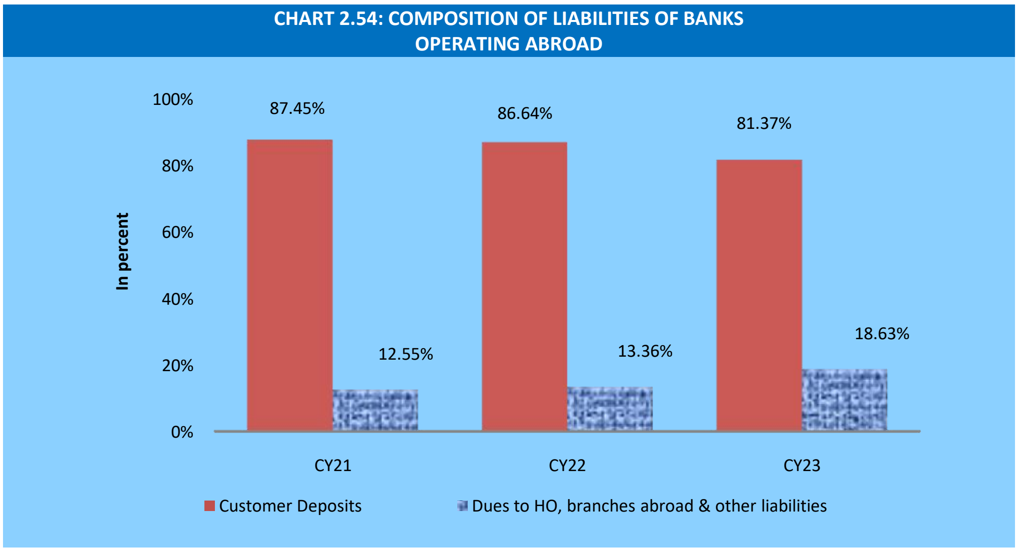
Source: DOS, BB; Compilation: FSD, BB.

2. 12.2 Liabilities Structure of Overseas Branches

In the review year, the overseas branches recorded a considerable increase in total liabilities compared to the same of the preceding year.

In 2023, total liabilities of the overseas branches of Bangladeshi banks experienced a notable growth of 15.62 percent and stood at USD 458.58 million or BDT 50.39 billion from USD 396.63 million or BDT 36.88 billion in 2022. Customer deposits, comprising 81.37 percent of the total liabilities (Chart 2.54), grew by 8.58 percent and reached at USD 373.13 million. Meanwhile, other liabilities surged by 61.25 percent in 2023 and stood at USD 85.45 million or nearly BDT 9.39 billion.

[31]BDT is converted to USD with the exchange rate prevailed on 31 December 2023, which was published in Monthly Economic Trend of BB (USD 1.00 = BDT 109.89).



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

2.12.3 OPERATIONAL PERFORMANCE OF OVERSEAS BRANCHES

In 2023, the net profit of the overseas branches increased considerably compared to that of the preceding year.

At end-December 2023, the aggregate net profit of the overseas branches of three Bangladeshi banks amounted to USD 9.40 million, marking a significant increase of 77.37 percent compared to that of end-December 2022. However, ROA increased to 1.74 percent from 1.14 percent mainly due to the outpacing growth rate of net profit over total assets in the review period. Overseas branches of Janata Bank PLC, having operation in the UAE, registered an ROA of 1.52 percent in 2023. Likewise, AB Bank PLC and Sonali Bank PLC operating in India recorded an ROA of 3.98 percent and 2.16 percent respectively in 2023.

2.12.4 RISKS FROM OVERSEAS BANKING OPERATION

The financial stability of overseas branches hinges not solely on the economic condition of Bangladesh but also on the conditions prevailing in the host country. Even though the overseas branches are operating seamlessly, it is necessary to ensure that the branches comply with the regulations enforced by the regulators of both the home and host country to ignore any potential risk.

There were no notable financial stability issues emanated from overseas branches in 2023, as they constituted a minor portion of their parent banks' overall balance sheet exposures. Furthermore, these branches were also incorporated into the Anti-Money Laundering and Countering the Financing of Terrorism (AML-CFT) regime to enhance their compliance practices.

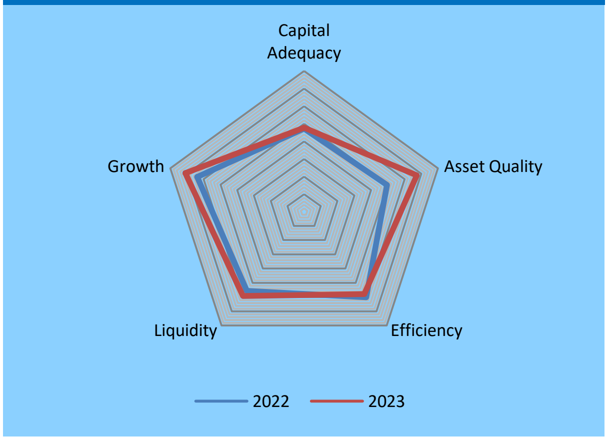
2.13 ISLAMIC BANKING

The Islamic banks in Bangladesh, as a whole, demonstrated better performance in terms of total deposit growth in 2023. However, the banks recorded lower growth in total assets, investments (advances), and shareholders' equity. Besides, the investment deposit ratio (IDR) increased moderately due to higher growth in total investments compared to the total deposits. The Islamic banking cluster, as a whole, was able to fulfill the regulatory requirement of net stable funding ratio (NSFR); however, the cluster could not maintain the required liquidity coverage ratio (LCR). In addition, capital-related indicators, overall asset quality, and profitability of the Islamic banks recorded deterioration during the review period.

The Islamic banking system in Bangladesh, along with the conventional banks, plays a crucial role in mobilizing deposits and financing key sectors of the economy. Since its inception in 1983, this Shari'ah-based banking system is very popular for its *'equity-based and (fixed) interest-free'* banking philosophy. At end-December 2023, a total of 10 (ten) full-fledged Islamic banks with 1,570 branches and 952 sub-branches were operating in Bangladesh. Besides, 16 (sixteen) conventional banks were providing Islamic banking services through 603 Islamic banking branches/windows.

Chart 2.55 illustrates the spider-web diagram of Islamic banks in terms of various stability indicators, namely capital adequacy, assets quality, efficiency, liquidity, and growth. In 2023, the performance of Islamic banks improved marginally in terms of efficiency indicator compared to that of 2022. This improvement was mainly attributable to the improvement in return on assets (ROA) and net non-interest income (NNII). On the contrary, asset quality, growth, capital adequacy, and liquidity indicators of the Islamic banks declined somewhat at end-December 2023. The increase in non-performing and rescheduled investment ratios largely led to the deterioration of asset quality, while the growth indicator declined due to slower growth of assets, investments, and equity of the Islamic banks during 2023.

CHART 2.55: STABILITY MAP OF ISLAMIC BANKING



Notes: 1: Indicators' values lying away from the center refer to higher risk.
2: Excluding Islamic banking branches/windows of conventional banks.
Source: DOS, BB; Computation: FSD, BB.

2.13.1 Growth and Market Share of Islamic Banks

Except deposits, aggregate investments (loans and advances), shareholders' equity, and assets of Islamic banks posted a slower growth at end-December 2023. As a result, the market share of Islamic banks declined in terms of total investment, assets and deposits compared to those of the previous year.

The growth of Islamic banks in terms of total investments, shareholders' equity, and assets experienced a downward trend in the review year. At end-December 2023, the growth of aggregate investments, shareholders' equity and total assets decreased to 8.3 percent, 5.8 percent, and 8.4 percent respectively. These figures were 15.6 percent, 10.0 percent, and 10.3 percent respectively at end-December 2022. It is noteworthy that total deposits increased to 5.7 percent from 2.9 percent at end-December 2022 (Chart 2.56).

The aggregate market share of Islamic banks, excluding Islamic banking branches/windows of conventional banks, increased slightly while the market share of total investments, total deposit, and total assets decreased marginally at end-December 2023 compared to those of the preceding period. The share of Islamic banks' aggregate shareholders' equity extended to 17.8 percent at end-December 2023 compared to 17.7 percent at end-December 2022. Compared to the overall market share of banking industry, the share of Islamic banks in terms of total asset, total investments, and total deposit reached at 22.5 percent, 25.9 percent, and 21.7 percent respectively at end-December 2023 against the corresponding figures of 22.6 percent, 26.3 percent, and 22.6 percent respectively at end-December 2022 (Chart 2.57).

CHART 2.56: TREND OF GROWTH OF ISLAMIC BANKS

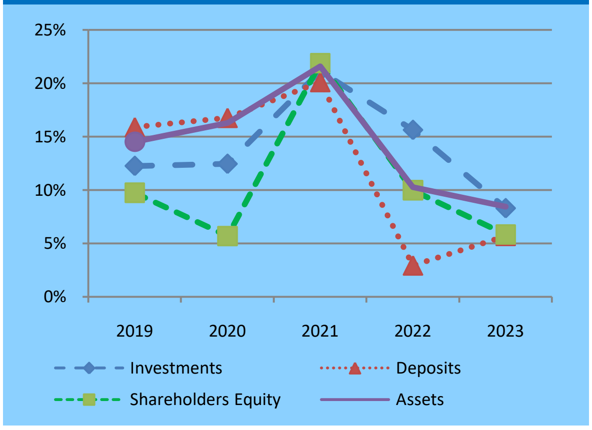
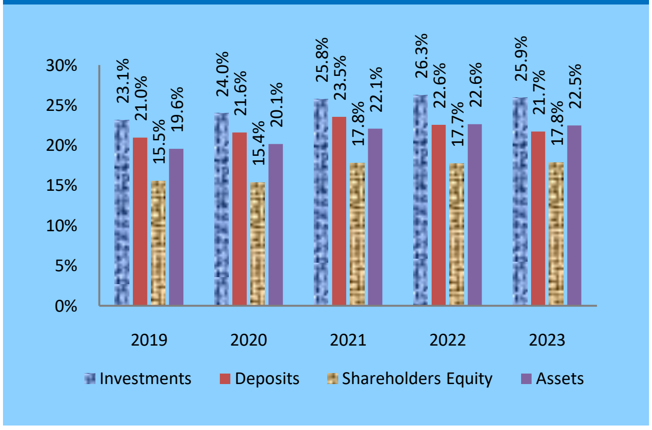


CHART 2.57: TREND OF MARKET SHARE OF ISLAMIC BANKS



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

2.13.2 Capital Position of Islamic Banks

The Islamic banks, as a cluster, was able to maintain the minimum regulatory requirements of capital to risk-weighted assets ratio (CRAR), the capital conservation buffer (CCB), and the leverage ratio at end-December 2023. The CRAR remained almost unchanged in 2023 compared to that of the previous year. Out of 10 Islamic banks, 9 were able to maintain the minimum required CRAR and leverage ratios, while 7 were able to maintain the minimum required CRAR with CCB.

The aggregate maintained CRAR of the Islamic banks (12.7 percent) remained stable in the review period compared to the previous year. Moreover, CRAR with CCB was well above the required level of 12.5 percent. It is worth noting that, CRAR of the Islamic banking cluster was higher than the CRAR of the banking sector in the last five years including the review year (Chart 2.58).

In 2023, out of 10 (ten) Islamic banks, 9 (nine) were able to maintain the minimum required common equity tier-1 (CET-1) capital while 7 (seven) were able to maintain CRAR plus CCB requirements (Chart 2.59). However, 1 (one) Islamic bank could not maintain any of the three stated requirements.

CHART 2.58: AGGREGATE CRAR OF ISLAMIC BANKS

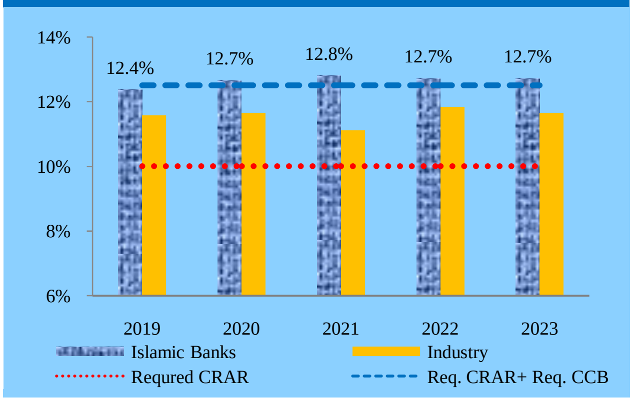
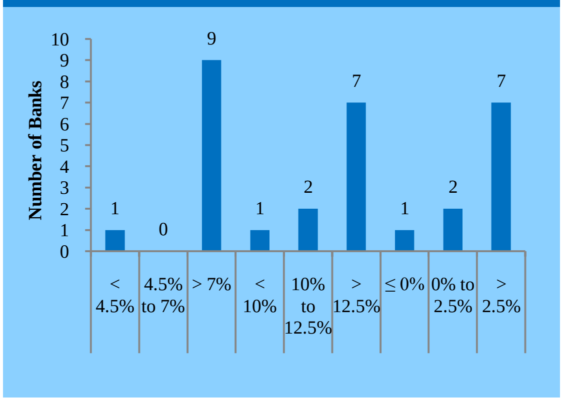


CHART 2.59: DISTRIBUTION OF ISLAMIC BANKS IN MAINTAINING CRAR IN 2023



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

In addition to the minimum required CRAR plus capital conservation buffer, a bank also needs to maintain a minimum leverage ratio of 3.25 percent to prevent build up excessive on- and off-balance sheet exposures. At end-December 2023, the leverage ratio of the Islamic banks slightly reduced to 4.8 percent from 4.9 percent at end-December 2022 (Chart 2.60). Higher increase in on-balance sheet exposures compared to increase in Tier-1 capital of Islamic banks mainly contributed to the slight decline in the leverage ratio. It is worth noting that the leverage ratio of the Islamic banks was higher than that of the banking sector in 2023 as in the previous year.

Chart 2.61 shows the trend of distribution of leverage ratio of Islamic banks. The leverage ratio of Islamic banks decreased slightly to 4.8 percent in 2023 from 4.9 percent in 2022, but most of the Islamic banks (9 out of 10) were able to maintain the minimum required leverage ratio of 3.25 percent at end-December 2023.

CHART 2.60: AGGREGATE LEVERAGE RATIO OF ISLAMIC BANKS AND BANKING INDUSTRY

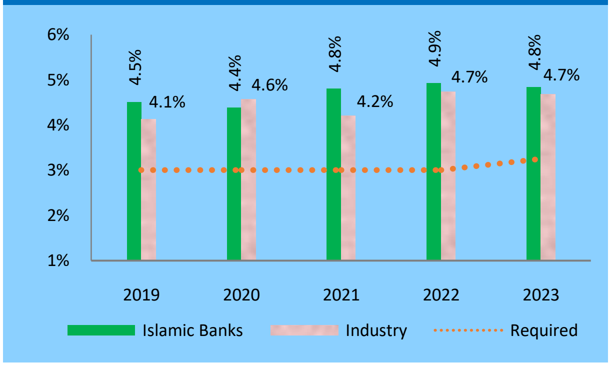
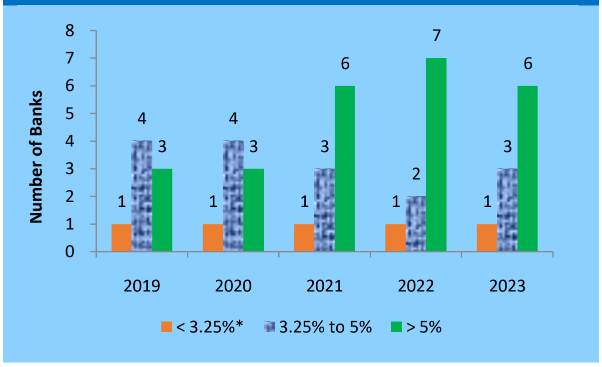


CHART 2.61: DISTRIBUTION OF ISLAMIC BANKS IN MAINTAINING LEVERAGE RATIO



Note: Minimum required leverage ratio was 3.25 percent in 2023, and 3.0 percent before the year, in line with Basel III.
Source: DOS, BB; Computation: FSD, BB.

2.13.3 Asset Quality of Islamic Banks

Compared to the banking industry, performance of Islamic banks remained well in 2023 in terms of gross non-performing investments (GNPL) ratio and net non-performing investments (NNPL) ratio. Also, distribution of the Islamic banks by GNPL, and NNPL ratios remained same in both 2023 and 2022. However, the distribution of the Islamic banks by Unclassified Rescheduled Loan/Investment (URSDL) ratio slightly improved in 2023 compared to 2022.

The asset quality indicators of the Islamic banks, measured by GNPL and NNPL ratios, indicated their better performance compared to the banking industry in both 2022 and 2023. GNPL and NNPL ratios reached 4.8 percent and -0.1 percent respectively at end-December 2023 (Chart 2.62). However, GNPL and URSDL ratios of the Islamic banks deteriorated in 2023 compared to those of 2022.

The distribution of banks for GNPL and NNPL in all three categories remained unchanged in both the review and the preceding year. However, the distribution of banks by URSDL improved somewhat in 2023 compared to 2022 since more banks fell under the lower percentage bucket (less than 5 percent) in 2023 (Chart 2.63).

CHART 2.62: GNPL, NNPL, AND URSDL RATIOS OF ISLAMIC BANKS

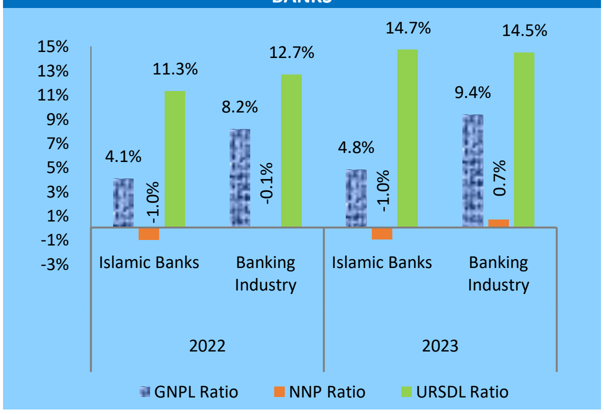
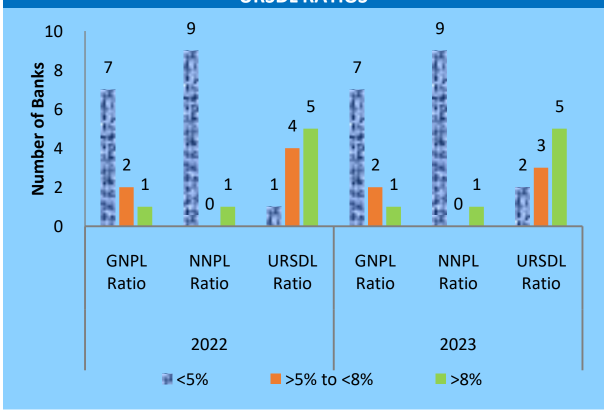


CHART 2.63: DISTRIBUTION OF BANKS BY GNPL, NNPL, AND URSDL RATIOS



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

2.13.4 Operational Efficiency of Islamic Banks

Despite an improvement in investment income (profit income) to total assets in 2023, the aggregate return on assets (ROA) of the Islamic banks declined slightly, which was mainly driven by fall in the non-investment income, and lower growth of investment income compared to asset growth.

The aggregate ROA of the Islamic banks fell marginally to 0.51 percent in 2023 from 0.52 percent in 2022. At end-December 2023, 7 (seven) out of 10 (ten) Islamic banks earned higher ROA than the average ROA of Islamic banking industry. On the other hand, the ROA of 1(one) Islamic bank was negative in 2023 (Chart 2.64).

At end-December 2023, investment income (interest income) and net investment income (net interest income) ratios of Islamic banks increased compared to those of the previous year (Chart 2.65). In contrast, the non-investment income and net non-investment income ratios of the Islamic banks declined slightly in the review year, which indicate a lower income earned from commissions, fees, and Shari'ah-based bonds in 2023 compared to 2022. Provision and taxes to total assets remained constant both in 2022 and 2023.

CHART 2.64: TREND OF RETURN ON ASSET (ROA) OF ISLAMIC BANKS

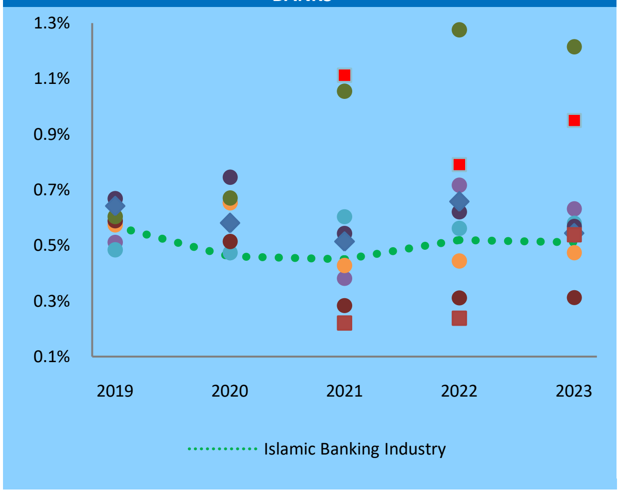
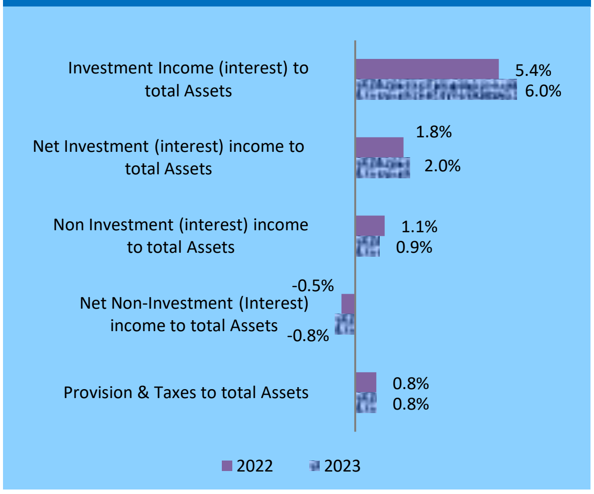


CHART 2.65: SELECTED RATIOS FOR ISLAMIC BANKS



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

2.13.5 Liquidity Situation of Islamic Banks

In line with the Basel III standard, the Islamic banking industry was able to maintain the minimum required net stable funding ratio (NSFR), but could not fulfill the liquidity coverage ratio (LCR) requirement at end-December 2023. Moreover, the investment-deposit ratio (IDR) of the Islamic banks was above the regulatory limit at end-December 2023.

At end-December 2023, the maintained LCR of the Islamic banks, as a whole, declined considerably and stood at 66.1 percent, which was notably lower than the minimum regulatory requirement of 100 percent and the industry average of 147.7 percent (Chart 2.66).

Although the Islamic banking cluster could not uphold the minimum required LCR, 5 (five) out of 10 (ten) Islamic banks managed to retain the regulatory requirement of LCR at end-December 2023 (Chart 2.67).

CHART 2.66: LCR MAINTAINED BY THE BANKING INDUSTRY AND ISLAMIC BANKS

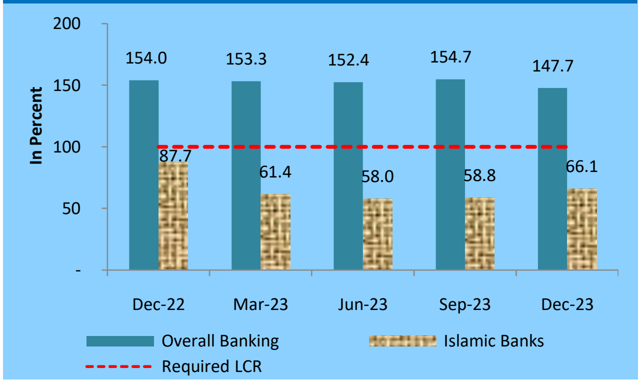
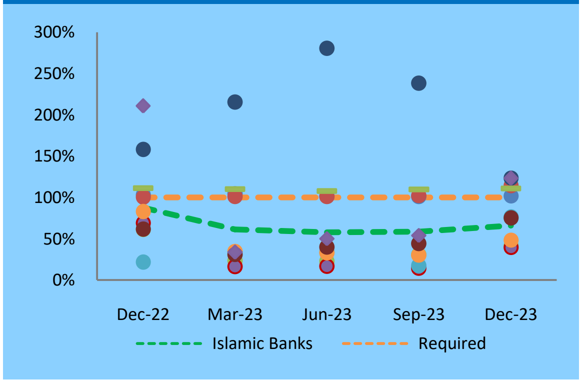


CHART 2.67: BANK-WISE LCR MAINTENANCE SCENARIO OF ISLAMIC BANKS



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

The Islamic banks, as a cluster, was able to maintain the NSFR of 104.3 percent**,** against the regulatory requirement of 'above 100 percent', somewhat lower than the banking industry average of 108.4 percent at the end of the review year (Chart 2.68). Moreover, this ratio of Islamic banks declined by 8.5 percentage points at end-December 2023 compared to the same period in the previous year. However, all the Islamic banks, except one, were able to maintain the required NSFR of 'more than 100 percent' at end-December 2023 (Chart 2.69).

CHART 2.68: NSFR MAINTAINED BY THE BANKING INDUSTRY AND ISLAMIC BANKS

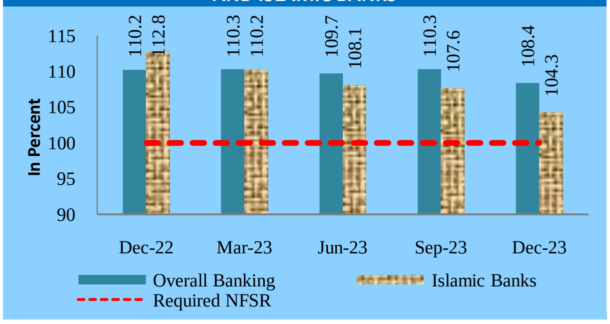
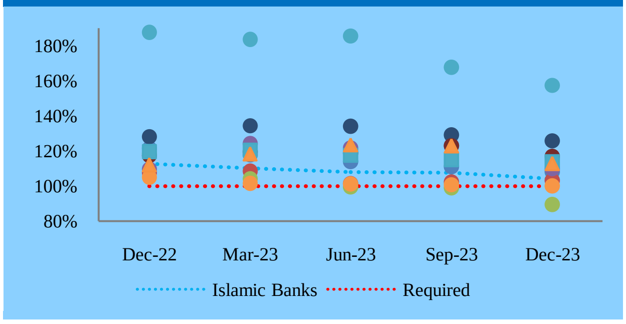


CHART 2.69: ISLAMIC BANK-WISE NSFR MAINTENANCE SCENARIO



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

At end-December 2023, the investment (advance) deposit ratio (IDR) of Islamic banks increased notably and reached 95.3 percent, which was higher than the regulatory limit of 92.0 percent (Chart 2.70). Higher investment growth (8.3 percent) compared to lower deposit growth (5.7 percent) during the review year was mainly responsible for this notable rise in IDR. However, 6 (six) Islamic banks were able to keep the IDR within the permissible limit at end-December 2023 (Chart 2.71).

CHART 2.70: IDR OF ISLAMIC BANKS

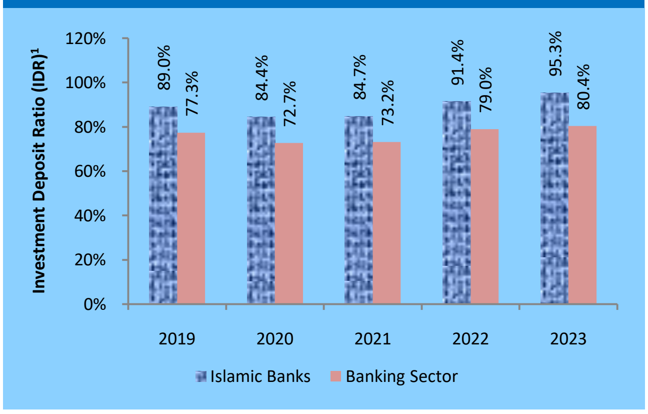
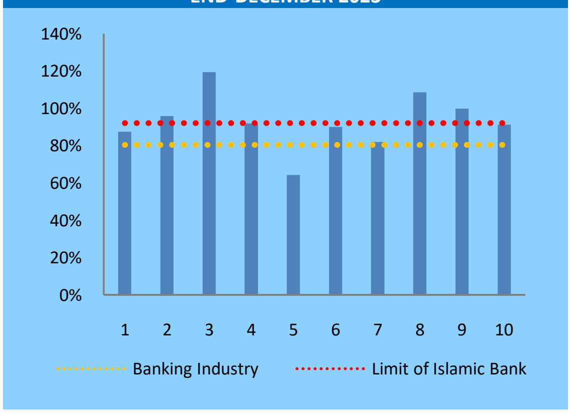


CHART 2.71: DISTRIBUTION OF IDR OF ISLAMIC BANKS AT END-DECEMBER 2023

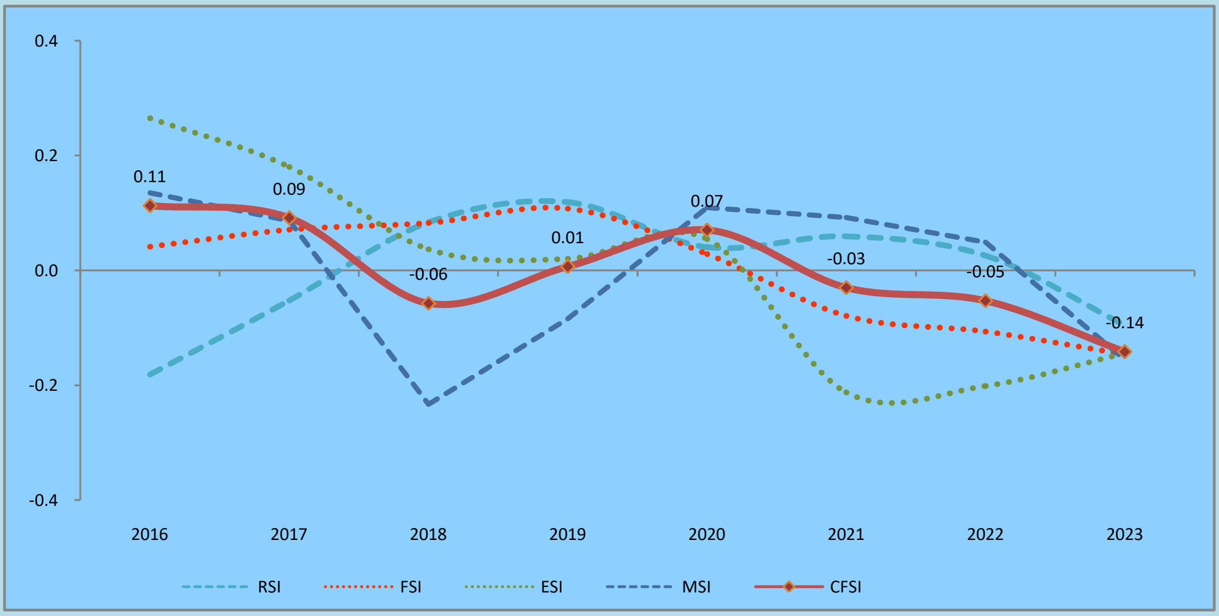


Notes: 1. Excluding Islamic branches and Windows of conventional banks.
Source: DOS, BB; Computation: FSD, BB.

Box 2.3: Composite Financial Stability Index (CFSI): End-December 2023

The composite financial stability index (CFSI)[32] is used to measure the financial stability condition of Bangladesh's economy as well as to monitor the build-up of any systemic risk(s) in the macro-financial system of the country. Particularly, this tool has been developed to measure the volatility in different sectors of the economy and their impact on the overall financial system. This index is an aggregate form of nineteen different indicators under four sub-indices, namely, Real Sector Index (RSI), Fiscal Sector Index (FSI), External Sector Index (ESI), and the Financial and Monetary Sector Index (MSI). Applying annual data, the movement of CFSI has been plotted for the period 2016 to 2023. (CHART B2.3.1)

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



The evolution of CFSI, as shown in CHART B2.3.1, demonstrates that the financial system of Bangladesh was in a downward trend at end-December 2023 compared to that of end-December 2022, partly attributable to the subdued performance of the financial and monetary sector, and real sector. The fiscal sector portrayed a slight downward trend whereas the external sector was in an upward trend during the review period. A significant rise in call money rate (6.7 percent in 2023 compared to 4.7 percent in 2022) caused the financial and monetary sector to decline mostly compared to the position of end-December 2022. A marked improvement in the current account balance induced the improvement in the external sector, which was subject to stress emanating partially from the scenario of the external debt and declining trend in foreign currency reserve. However, the external sector was in a better position in the review period mainly due to several austere measures taken by Bangladesh Bank and the Government. Despite moderate GDP growth and industrial production (measured through quantum index of industrial production) growth, higher inflation appeared to have served as an impediment to moving the real sector upward. Increases in government borrowing and tax revenue have helped the fiscal sector to remain mostly stable.

[32]For methodological details, see Nayn, M. Z., & Siddiqui, M. S. (2014). Measuring Financial Stability: The Composition of an Aggregate Fiancial Stabilty Index for Bangladesh. *Bank Parikrama, xxxix, Nos, 3 & 4, September & December*, 109-134.

CHAPTER 3 : BANKING SECTOR RISKS

Banking sector risk, measured by the Risk-Weighted Assets (RWA) density ratio, demonstrated an improvement in 2023. RWA of credit risk in nominal amount showed relatively higher growth than those of market and operational risks. The aggregate lending exposure of all banks to the corporate sector was 54.82 percent. It is mentionable that rated exposures as percentage of total exposure of the banking industry decreased slightly in the review period. Therefore, banks were required to keep more capital than they had in the previous year. Overall Capital to Risk-weighted Asset Ratio (CRAR) of the banking industry was over the relevant threshold. Various risk aspects relating to the assets and respective allocation of the capital of the banking sector according to BASEL III are discussed in this chapter. For better analysis and understanding, banks are categorized into five different groups based on their inherent features, ownership structure, and business models. Table 3.1 demonstrates this categorization and the respective share of each category in the aggregate assets of the banking sector as of end-December 2023.

TABLE 3.1: GROUPING OF BANKS FOR RISK ANALYSIS

Bank group	Description of the group	Number of banks	Share of total banking sector assets
Group 1	Private commercial banks (Long-standing conventional banks)	21	42.09%
Group 2	State-owned and Private commercial banks under special attention[33]	11	25.97%
Group 3	Private commercial banks (Full-fledged Islamic banks)	9	22.43%
Group 4	Foreign commercial banks	9	5.66%
Group 5	Fourth-generation[34] private commercial banks	11	3.85%
Total		61	100.00%

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

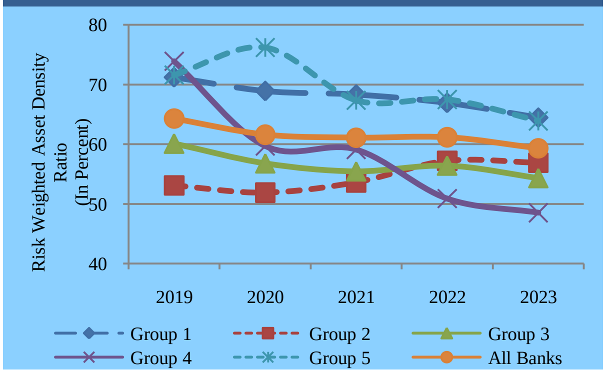
3.1 OVERALL RISK PROFILE

Table 3.2 displays the risk-weighted assets (RWA) density ratios, the proportion of RWA to total assets, for various bank groups. Chart 3.1 shows the trend in the ratios for the years 2019-2023[35]. Generally, banks with a higher density ratio have greater exposure to riskier assets. The RWA density ratio registered some decline from 61.17 percent in 2022 to 59.31 percent in 2023. Among the defined categories, Groups 1 and 5 had a higher RWA density ratio. However, in 2023, the ratio dropped for every category.

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

In Percent					
Banks Group	**2019**	**2020**	**2021**	**2022**	**2023**
Group 1	71.20	68.90	68.33	66.91	64.48
Group 2	53.10	51.90	53.61	57.22	56.90
Group 3	60.10	56.80	55.46	56.42	54.33
Group 4	73.90	59.70	59.11	50.90	48.53
Group 5	71.60	76.20	67.36	67.49	63.91
All Banks	64.30	61.60	61.11	61.17	59.31

CHART 3.1: TRENDS OF RISK-WEIGHTED ASSET DENSITY RATIO



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

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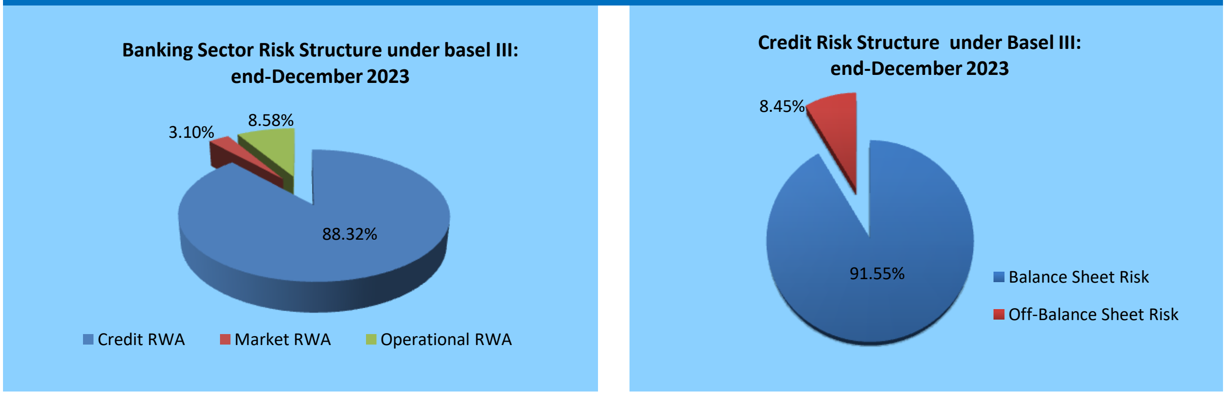
[33]Banks operating under Memorandum of Understanding (MOU) or Directives of Bangladesh Bank (DOBB).
[34]Banks granted license in 2013 onward to operate as scheduled banks in Bangladesh.
[37]The RWA density ratio is a simple and quick measure of weighted average relative risk of a bank's on- and off-balance sheet exposures.

3.2 OVERALL RISK STRUCTURE

As per the BASEL III capital framework, banks' RWAs are broadly attributed to credit, market and operational risks[36]. At end-December 2023, Credit Risk-Weighted Assets (CRWA) of the banking industry was BDT 12,563.89 billion, which was 6.02 percent higher than those of end-December 2022. Operational Risk-Weighted Assets (ORWA) stood at BDT 1,220.57 billion, a 9.00 percent increase from BDT 1,119.76 billion at end-December 2022. On the contrary, Market Risk-Weighted Assets (MRWA) decreased by 4.98 percent and stood at BDT 440.37 billion in 2023. The CRAR of the banking sector decreased from 11.83 percent at end-December 2022 to 11.64 percent at end-December 2023, still the ratio was above the minimum regulatory capital requirement of 10.0 percent.

The RWA associated with the credit risk-weighted assets was 88.32 percent, whereas the market and operational risks were 3.10 percent and 8.58 percent respectively at end-December 2023. In the review period, credit risk-weighted assets and operational risk-weighted assets, as a ratio of total RWA, increased by 0.11 and 0.25 percentage point respectively, whereas market risk-weighted assets as a ratio of total RWA, decreased by 0.35 percentage point, compared to that of end-December 2022 (Chart 3.2). It is worth noting that 91.55 percent of the credit risk had emanated from balance sheet exposures.

CHART 3.2: OVERALL RISK AND CREDIT RISK STRUCTURE



Source: Department of Off-site Supervision; Calculation: FSD, Bangladesh Bank

3.3 CREDIT RISK STRUCTURE

In terms of overall banking industry risk, the shares of credit risks for top 5 and top 10 banks were 24.22 percent and 37.53 percent respectively. The credit risk of top 5 banks accounted for 27.43 percent of the total credit risk of the banking system, whereas 42.50 percent of credit risk pertained to top 10 banks at end-December 2023 (Table 3.3). The concentration of credit risk within top 5 and top 10 banks increased by 1.33 percentage points and 1.32 percentage points respectively, compared to that of end-December 2022.

TABLE 3.3: CREDIT RISK IN THE BANKNG INDUSTRY UNDER BASEL III (END-DECEMBER 2023)

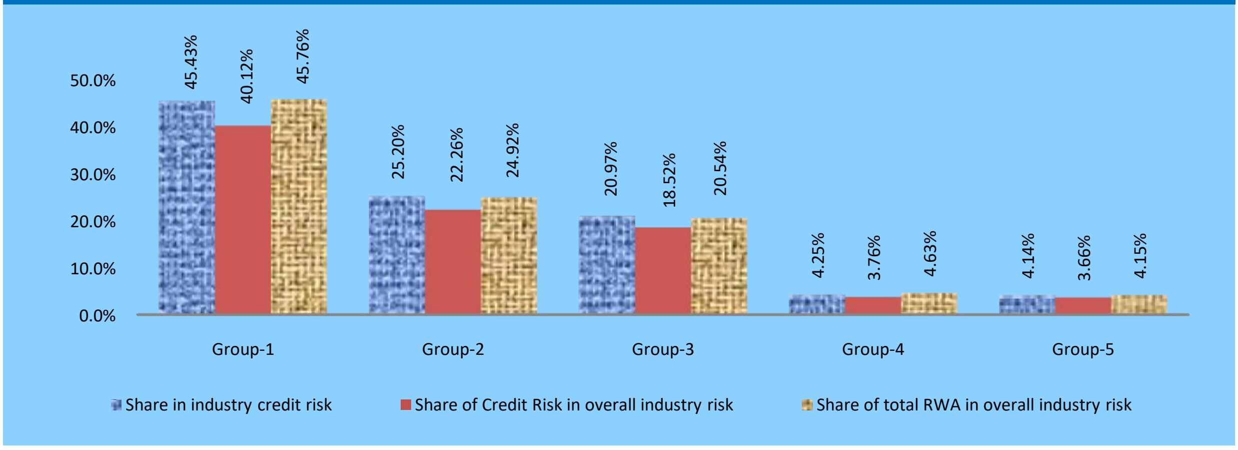
Banks	Share in industry credit risk	Share in industry overall risk
Top 5	27.43%	24.22%
Top 10	42.50%	37.53%
All Banks	100.00%	88.32%

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

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

The group-wise credit risk analysis exposed that the industry's credit risk remained focused mostly on Groups 1 and 2. The total share of these two groups covered 70.68 percent of industry credit risk in the review year. Group 1 (21 banks), possessing 42.09 percent of total assets, contained about half of the industry credit risk (45.43 percent) and 45.76 percent of overall industry risk. However, Group 2 (11 banks) held 25.97 percent of the total assets but contained about one-fifth of the industry credit risk (25.20 percent) and 24.92 percent of the overall industry risk. Group 3 (9 banks), comprising of full-fledged Islamic banks, held 22.43 percent of the total assets, contained 20.97 percent of the industry credit risk and 20.54 percent of the overall industry risk (Table 3.1). Foreign commercial banks (Group 4) and fourth-generation private commercial banks (Group 5) shared 4.25 percent and 4.14 percent of the industry's credit risk respectively, while their share in overall industry risk was 4.63 percent and 4.15 percent (Chart 3.3).

CHART 3.3: CATEGORY-WISE DISSECTION OF CREDIT RISK IN THE BANKING SYSTEM (END-DECEMBER 2023)



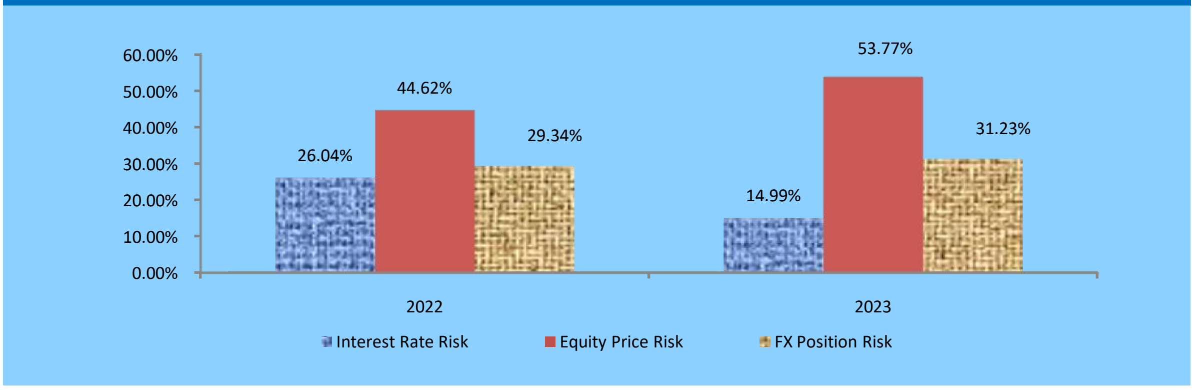
Source: Department of Off-site Supervision, Calculation: FSD, Bangladesh Bank.

3.4 MARKET RISK STRUCTURE

According to the Basel III framework, market risk is the risk of losses in on and off-balance sheet positions arising from movements in market prices. Market risk positions are risks pertaining to interest-related instruments and equities in the trading book; and foreign exchange risk and commodity risk throughout the book (both in the banking and trading books).

The composition of different types of market risks in banks as of end-December 2022 and end-December 2023 is illustrated in Chart 3.4. Market risk accounted for a small share, i.e., 3.10 percent of the overall industry risk (Chart 3.2). Notably, the risk decreased in terms of its share in the total banking sector's risk (3.45 percent in 2022). Moreover, the risk decreased in terms of risk-weighted assets' nominal amount (4.98 percent decrease in 2023). Within market risk, the share of equity price risk was more than half, i.e., 53.77 percent, while foreign exchange rate risk and interest rate risk contributed 31.23 percent and 14.99 percent respectively (Chart 3.4). Although interest rate risk decreased in 2023, foreign exchange risk and equity price risk increased compared to those of the preceding year.

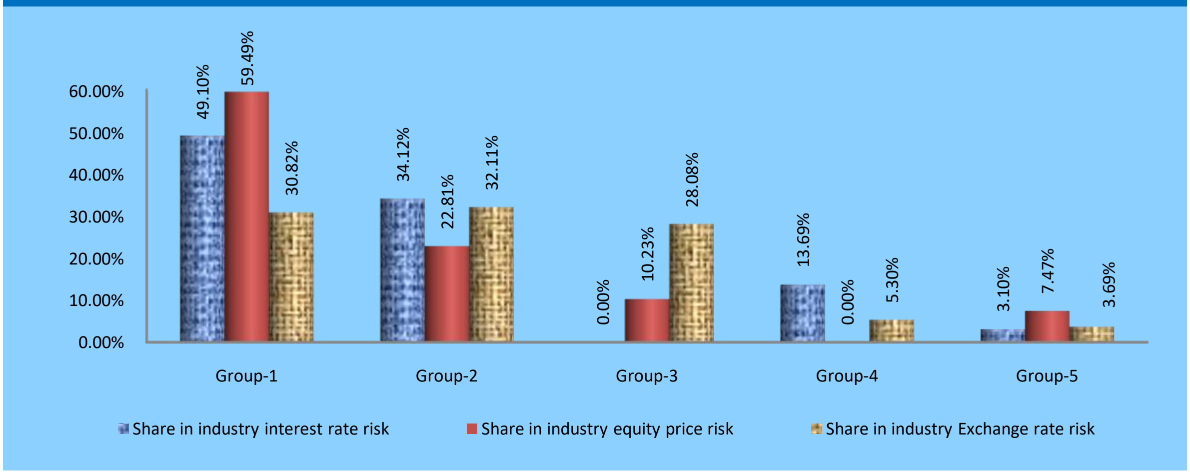
CHART 3.4: MARKET RISK COMPOSITION



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

In terms of category-wise analysis, Groups 1 and 2 were jointly exposed to 83.22 percent of the total interest rate risk in the review period, which was 89.57 percent in 2022. The equity price risk of these two groups stood at 82.30 percent in 2023, compared to 81.07 percent in 2022. Furthermore, the banks under Groups 1 and 2 possessed 62.93 percent of the industry's total foreign exchange rate risks, a notable decrease from 75.12 percent in the preceding year. In addition, Group 3, consisting of all the Islamic Shari'ah banks, possessed 28.08 percent of the exchange rate risks in 2023, indicating an increasing trend (18.85 percent in 2022). The banks under Groups 4 and 5, containing less than 10 percent of total assets, were found to be less exposed to market risk in the banking industry (Chart 3.5).

CHART 3.5: CATEGORY-WISE DISSECTION OF MARKET RISK IN THE BANKING SYSTEM (END-DECEMBER 2023)



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

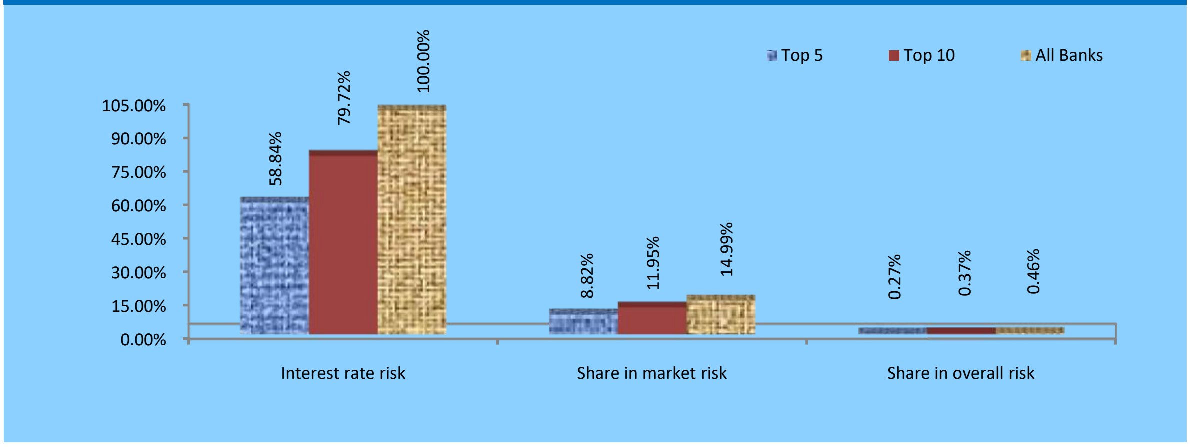
3.4.1 Interest Rate Risk (IRR)

Interest rate risk (IRR) made up 0.46 percent of the banking system's total RWA in 2023, compared to 0.90 percent in 2022. Compared to the preceding year, the RWA linked to interest rate risk dropped by 45.29 percent. IRR contributed 14.99 percent of the market RWA in 2023, which was 26.04 percent in 2022. The banks' capital charge for interest rate risk was BDT 6.6 billion in 2023, as opposed to BDT 12.07 billion registered in 2022.

In 2023, the interest rate risk of the top 5 banks accounted for 58.84 percent of the interest rate risk in the industry. When it came to capital charges for interest rate risk (IRR) in the banking system, two SOCBs, two conventional PCBs, and one foreign conventional PCB were in the top 5. In the review period, interest rate risk contained 14.99 percent of the market risk of which top 10 banks held 11.95 percent. Interest rate RWA to industry's total RWA for top 5 banks decreased from 0.57 percent to 0.27 percent while the proportion decreased from 0.71 percent to 0.37 percent for the top 10 banks compared to that of

2022. The IRR shares for the top 5 banks decreased and top 10 banks slightly increased while their shares in market risk decreased in the review period, compared to the preceding period (Chart 3.6).

CHART 3.6: INTEREST RATE RISK IN THE BANKING SYSTEM (END-DECEMBER 2023)



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

3.4.2 Equity Price Risk

The RWA assigned to equity price risk[37] constituted 1.66 percent of the total RWA of the banking system and 53.77 percent of the total market risk at end-December 2023. The banks' capital charge for equity price risk stood at BDT 23.68 billion at end-December 2023, compared to BDT 20.68 billion at end-December 2022.

The top 5 banks constituted 31.36 percent of industry equity price risk in 2023. 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 the review period, equity price risk contributed the highest portion (53.77 percent) of market risk. In comparison with 2022, the share of equity price RWA in the industry's total RWA increased for both the top 5 banks (0.50 percent in 2022), and top 10 banks (0.84 percent in 2022) in 2023 (Table 3.4).

TABLE 3.4: EQUITY PRICE RISK IN THE BANKING SYSTEM (END-DECEMBER 2023)

Banks	Equity Price risk	Share in market risk	Share in overall risk
Top 5	31.36%	16.86%	0.52%
Top 10	54.08%	29.08%	0.90%
All Banks	100.00%	53.77%	1.66%

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

3.4.3 Exchange Rate Risk

The RWA associated with exchange rate risk[38] accounted for 0.97 percent of the banking industry's total RWA, while its share in market risk was 31.23 percent in 2023. Due to exchange rate risk, the banks' capital charge increased to BDT 13.75 billion at end-December 2023 from BDT 13.60 billion of the previous period.

In 2023, the top 5 and top 10 banks were exposed to 41.94 percent and 59.84 percent of the industry's exchange rate risk; the corresponding figures were 43.81 percent and 67.96 percent in 2022. It is mentionable that the portion of exchange rate risk in market risk for the top 5 banks surged, whereas overall risk declined in 2023. On the contrary, shares of exchange rate risk in market risk and overall risk for top 10 banks decreased compared to the same of 2022 (Table 3.5).

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[37]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.
[38]Exchange rate risk refers to the variability of a firm's earnings or economic value due to changes in the exchange rate.

TABLE 3.5: EXCHANGE RATE RISK IN THE BANKING SYSTEM (END-DECEMBER 2023)

Banks	Exchange rate risk	Share in market risk	Share in overall risk
Top 5	41.94%	13.10%	0.41%
Top 10	59.84%	18.69%	0.58%
All Banks	100.00%	31.23%	0.97%

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

3.5 OPERATIONAL RISK

At end-December 2023, the RWA associated with operational risk was 8.58 percent of the total RWA of the banking sector. The required capital charge for operational risk as of end-December 2023 was BDT 122.06 billion, which was 9.01 percent higher than that of the preceding year.

In 2023, the top 5 and top 10 banks were exposed to 26.01 and 43.54 percent respectively of the industry's operational risk, indicating a marginal change (decrease) compared to the preceding year (Chart 3.7).

The category-wise operational risk analysis revealed that the banks in Groups 1 and 2 were jointly exposed to 69.08 percent of the industry's operational risk (Chart 3.8). The shares of operational risk in the overall industry risk for the bank groups increased compared to 2022.

CHART 3.7: OPERATIONAL RISK IN THE BANKING INDUSTRY IN LINE WITH BASEL III

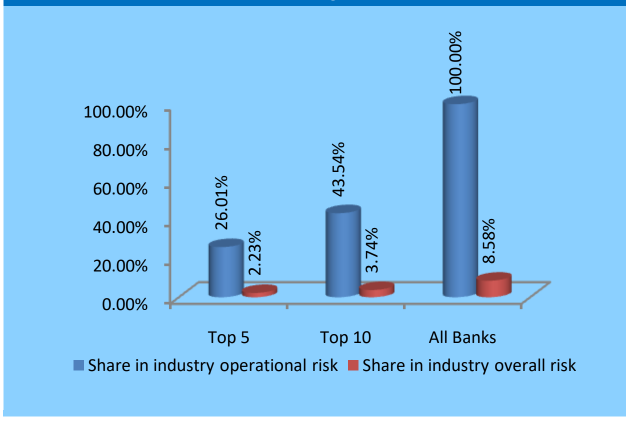
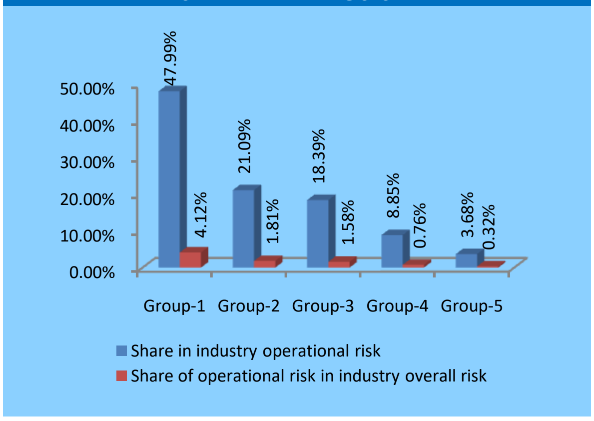


CHART 3.8: CATEGORY-WISE DISSECTION OF OPERATIONAL RISK IN THE BANKING SYSTEM



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

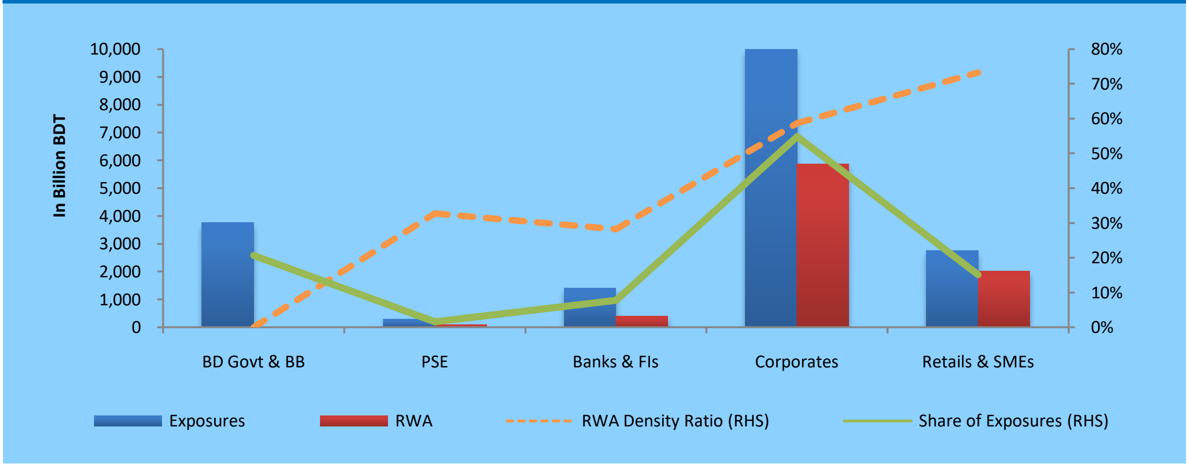
3.6 SECTORAL EXPOSURES AND RISK

At end-December 2023, banks' exposure to the corporate sector stood at 54.82 percent. Government Securities and Balance with Bangladesh Bank accounted for 20.68 percent of the total exposures, while 15.13 percent allocated to the Retail and SMEs sector (Chart 3.9).

The Retail and SMEs sector had the highest RWA density ratio of 73.25 percent among the sectors' credit exposures. This was due to the fact that retail and SME loans were mainly distributed for trading purposes, where higher risk weights were assigned to such businesses as per Basel accords.

In 2023, the RWA density ratio for corporate exposures was 58.70 percent, whereas the ratio for placement and lending to banks and financial institutions was 28.19 percent (Chart 3.9).

CHART 3.9: SECTORAL EXPOSURES OF BANKS AND RISKS (END-DECEMBER 2023)



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

3.7 CREDIT RISK MITIGANTS

In the review period, the rated exposures to the corporate sector as well as to banks and financial institutions (FIs) decreased. In the case of best-rated exposures (BB Rating 1), the corporate sector experienced an increase, while banks and FIs sector experienced a decline (Chart 3.10).

In Bangladesh, External Credit Assessment Institutions (ECAIs) appraise banks' exposures to Non-Financial Corporation (NFCs) and other banks and financial institutions which help banks calculate the RWA and minimum capital requirements against the credit risks in accordance with Basel principles. In order to minimize the credit risks effectively, banks are encouraged to bring more exposures under the ECAIs' rating, since the higher risk weights are applied to unrated exposures. The better the ratings of the exposures the less likely the banks are exposed to default risk or counterparty risk.

In 2023, the total exposure to the corporate sector, and banks and FIs grew compared to those of 2022. At end-December 2023, the total exposure to the corporate sector was BDT 10,000.00 billion, recording an increase of BDT 864.36 billion from that of the previous year. The overall rated exposure of the banking system to the corporate sector declined, as shown in Chart 3.10. The best-rated exposure in December 2023 was 26.56 percent, with a total rated exposure of 88.98 percent. In December 2023, BB Rating 1 for the corporate sector rose by 0.55 percentage point and declined by 8.93 percentage points for the banks and FIs sector compared to that December 2022. In comparison with 2022, the other BB rating for the corporate sector recorded a decline of 1.35 percentage points, while the banks and FIs sector experienced an increase of 6.64 percentage points in 2023.

Total credit exposure to banks and FIs was BDT 1,418.70 billion, which was BDT 48.55 billion lower than that of the previous year. The overall rated exposure to banks and FIs was significantly higher than the total unrated exposure. In 2023, 44.66 percent of matured credit exposures to banks and FIs was acknowledged as BB Rating 1, representing 8.93 percentage points decrease from the position in 2022. However, the other BB-rated exposures to banks and FIs increased by 6.64 percentage points in 2023 compared to 2022.

CHART 3.10: BANKS' EXPOSURES TO CORPORATE AND BANKS & FIs

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

CHAPTER 4 : BANK AND FI RESILIENCE

Bangladesh Bank (BB) conducts quarterly stress tests on banks and FIs to assess their resilience under different plausible shock scenarios. This hypothetical test is used as a risk management tool to advise the banks and FIs to take preemptive measures with respect to capital maintenance and liquidity management against any potential adverse economic and financial scenarios. This chapter analyzes the results of stress tests on individual banks and FIs as well as the banking and FI sectors as a whole based on the data as of end-December 2023. Stress test results demonstrate that both sectors would remain moderately resilient to different shock scenarios.

4.1 BANKING SECTOR RESILIENCE

Stress test on banks is conducted through sensitivity analysis, considering the impacts of minor shock scenarios for credit risk, market risk, and liquidity risk. Under each shock scenario, the after-shock Capital to Risk-weighted Assets Ratio (CRAR) is compared with the minimum regulatory requirement of 10 (ten) percent along-with Capital Conservation Buffer (CCB) of 2.5 percent as per Basel III capital framework.

At end-December 2023, in the pre-shock scenario, 10 scheduled banks out of 61 could not maintain the minimum required CRAR of 10 percent. Furthermore, additional 4 banks were not able to maintain the CCB of 2.50 percent with an existing CRAR of 10 percent. Table 4.1 shows the distribution of banks in accordance with the CRAR the banks were retaining in the pre-shock scenario.

TABLE 4.1 : CAPITAL ADEQUACY SCENARIO OF THE BANKING SECTOR BEFORE ANY SHOCK

CRAR	Number of Banks
< 10.00%	10
≥ 10.00% but < 12.50%	04
≥ 12.50% but < 15.00%	15
≥ 15.00% but < 20.00%	18
≥20.00%	14

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

4.1.1 SENSITIVITY TO CREDIT RISK

The sensitivity analysis of the banking sector's credit portfolio reveals that the sector is moderately resilient in terms of capital adequacy. The banking sector, as a whole, would be able to maintain the minimum required CRAR of 10 percent for all of the credit risk-related shocks except the shock of a 3 percent increase in NPLs and default of the top 3 borrowers. Furthermore, in addition to the existing 10 under-capitalized banks of the before-shock scenario, 5 and 16 banks would not be able to maintain the minimum required CRAR for the shocks of 3 percent increase in NPLs and default of top 3 borrowers respectively.

A sensitivity test for credit risk has been conducted to ascertain the impact of different shocks on banks' capital adequacy position. Table 4.2 indicates banking sectors' after-shock CRAR for different credit shock scenarios, which demonstrated a notable deterioration in the banking sector's resilience compared to the previous year. However, the banking sector, as a whole, would be able to maintain the minimum required regulatory capital of 10 percent for different types of credit shocks apart from the shocks of a 3 percent increase in NPLs and the default of top 3 borrowers.

TABLE 4.2 : CAPITAL ADEQUACY SCENARIO OF THE BANKING SECTOR FOR CREDIT RISK

(In Percent)

DESCRIPTION	DECEMBER 2021	DECEMBER 2022	DECEMBER 2023
Required minimum CRAR	10.00	10.00	10.00
Pre-shock CRAR	11.06	11.83	11.64
After-Shock CRAR of different Credit Risks			
Increase in NPLs by 3%	9.41	9.82	9.46
Default of top 3 borrowers	7.42[R]	8.86[R]	7.50
Negative shift in the NPLs categories by 5%	10.43	11.09	10.77
Decrease in the forced sale value (FSV) of mortgaged collateral by 10%	10.53	11.17	10.97
Performing loans of the highest exposed sector directly downgraded to bad/loss category by 3%	10.89	11.62	11.20

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

Chart 4.1 indicates the number of banks, which would fail to maintain the minimum required CRAR of 10 percent due to the probable impact of different shocks induced by credit risk. In addition to the existing 10 under-capitalized banks of the before-shock scenario, 16 banks would become non-compliant in maintaining the minimum required CRAR for the default of the top 3 borrowers of each bank. Besides, another 5 banks would become non-compliant for the shock of a 3 percent increase in NPLs.

Chart 4.2 shows the number of banks, which would fail to sustain the CCB of 2.50 percent with an existing CRAR of 10 percent due to different shocks of credit risks. In this case, additional 27 and 13 banks would not be able to retain minimum capital requirement with CCB (i.e., 12.50 percent) for the shocks of default of the top 3 borrowers and increase in the NPLs by 3 percent respectively. Hence, the stress test results indicate that the highest number of banks would fail to maintain the minimum required CRAR in the event of default of top large borrowers, followed by an increase in NPLs.

CHART 4.1: NUMBER OF NON-COMPLIANT BANKS IN TERMS OF CRAR

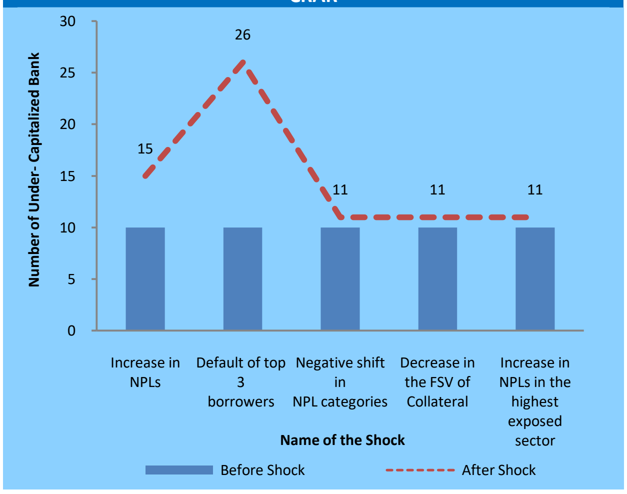
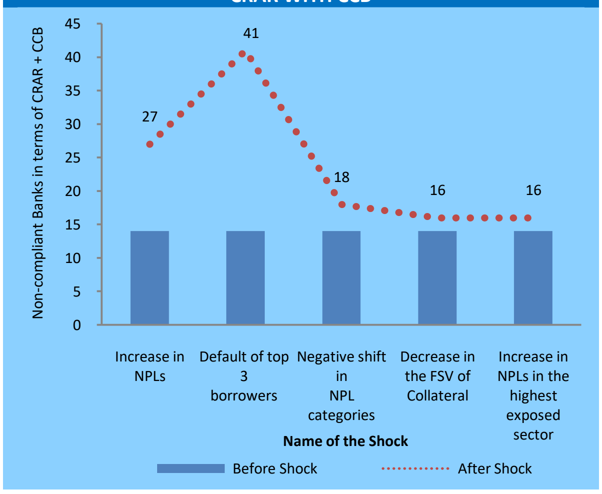


CHART 4.2: NUMBER OF NON-COMPLIANT BANKS IN TERMS OF CRAR WITH CCB



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

The following subsections describe the details of the credit shocks and the associated results:

a) If 3 percent increase in NPLs materialized, the banking sector would face a significant impact on its solvency at end-December 2023. Table 4.2 indicates that the banking sector's CRAR would have declined to 9.46 percent from the existing level of 11.64 percent for a 3 percent increase in NPLs. Under this stress scenario, additional 05 banks would appear as non-compliant in maintaining the minimum capital requirement of 10 percent (Chart 4.3). Moreover, a significant number of banks would experience a notable decline in the CRAR for this shock. In particular, more than 2.50 percentage points decline in the CRAR would be experienced by 08 banks, which was higher than that of the previous year (Chart 4.4).

CHART 4.3: CHANGES IN DISTRIBUTION OF NUMBER OF BANKS FOR INCREASE IN NPLs

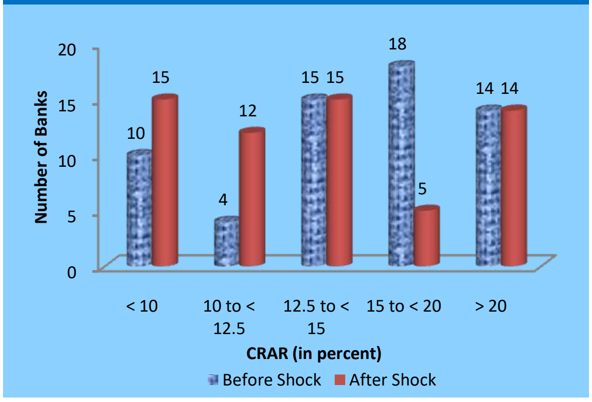
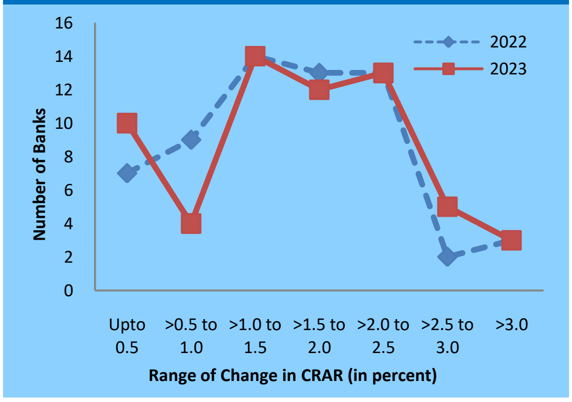


CHART 4.4: CHANGES IN CRAR FOR INCREASE IN NPLs



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

b) The default of the top 3 borrowers, i.e., stress test on the banks' credit concentration, indicates a significant impact on the capital adequacy ratios of individual banks as well as the banking sector as a whole. The banking sector's CRAR would have declined to 7.50 percent from the pre-shock level of 11.64 percent for the default of the top 3 borrowers at end-December 2023 (Table 4.2). Under this stress scenario, additional 16 banks would become non-compliant in maintaining the minimum required CRAR (Chart 4.5). In addition, a significant number of banks would experience a notable decline in the CRAR for this shock. In particular, more than 05 percentage points decline would take place in the CRAR of 23 banks, higher than the number of banks in the previous year (Chart 4.6).

CHART 4.5: CHANGES IN DISTRIBUTION OF NUMBER OF BANKS FOR DEFAULT OF TOP 3 BORROWERS

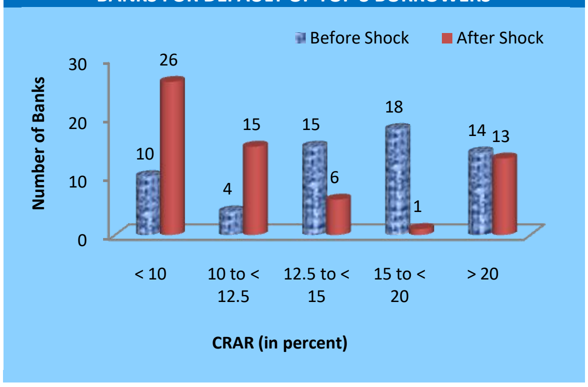
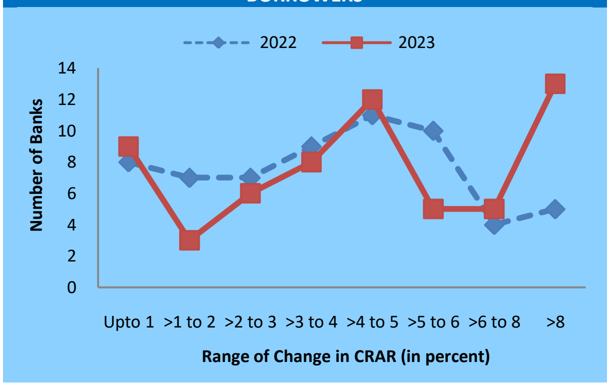


CHART 4.6: CHANGES IN CRAR FOR DEFAULT OF TOP 3 BORROWERS



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

c) Stress test results of other credit risk-related shocks namely negative shift in NPL categories, fall in the forced sale value (FSV) of mortgaged collateral, and increase in NPLs in the highest exposed sector would not have any notable impact on the capital adequacy ratio of the banking sector. For the above-mentioned shocks, the banking sector would remain compliant in terms of the minimum required capital of 10 percent (Table 4.2). However, additional 01 bank would fail to maintain the minimum required CRAR for all of the above-mentioned credit risk-related shocks (Chart 4.1).

4.1.2 SENSITIVITY TO MARKET RISK

The banking sector was found to be fairly resilient in terms of different market risk-related shocks, namely interest rate, exchange rate, and equity price. The banking sector, as a whole, would remain compliant in maintaining the minimum required CRAR of 10 percent under different types of market risk. Nevertheless, additional 02 banks would become non-compliant in maintaining the minimum CRAR for a

01 percent change in interest rate. Moreover, additional 01 bank would not be able to conserve the minimum required CRAR for both the changes in foreign exchange rate by 5 percent and fall in equity prices by 10 percent (Table 4.3).

TABLE 4.3 : CAPITAL ADEQUACY SCENARIO OF THE BANKING SECTOR FOR MARKET

(In Percent)

Description	December 2023	
	CRAR	Number of non-compliant banks due to shocks
Required minimum CRAR	10.00	
Pre-shock CRAR	11.64	
After-Shock CRAR of different Market Risks		
Change in interest rate by 1%	10.93	02
Change in exchange rate by 5%	11.57	01
Fall in equity prices by 10%	11.35	01

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

4.1.3 IMPACT OF COMBINED STRESS TEST

In case of combined shock, i.e., *aggregate of shock results of increase in NPLs, fall in the FSV of mortgaged collateral, negative shift in NPL categories, interest rate shock, exchange rate shock, and equity price shock*, the banking sector's CRAR would likely to decrease to 6.84 percent from the pre-stock level of 11.64 percent (Table 4.4).

TABLE 4.4 : STRESS TEST RESULT OF COMBINED SHOCK

(In Percent)

Pre-shock Scenario	Required Minimum CRAR	Maintained CRAR
Banking System	10.00	11.64
Stress Scenario		After-Shock CRAR
Combined Minor Shock		6.84

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

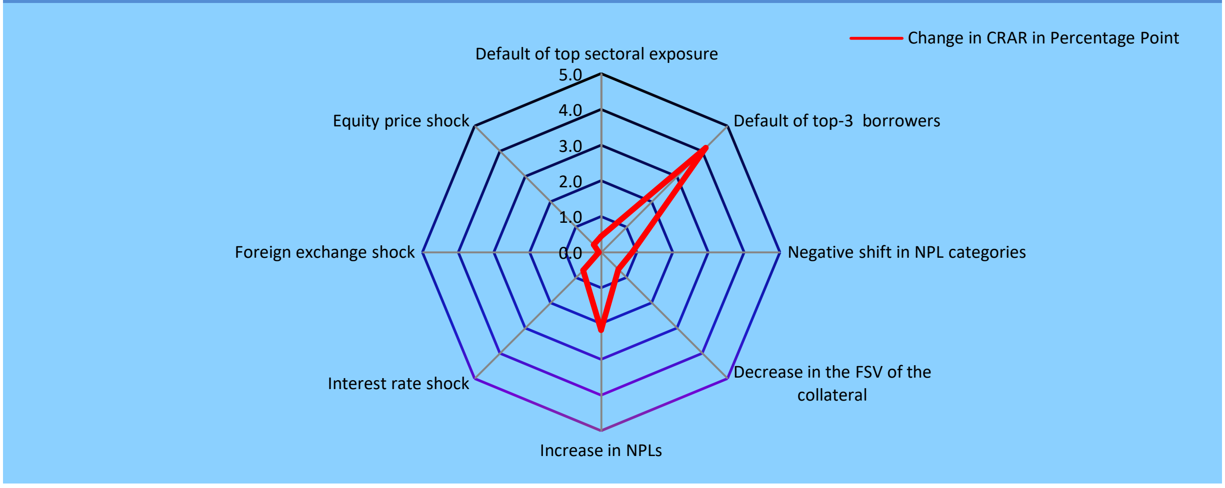
4.1.4 LIQUIDITY SHOCK

The liquidity stress test examines the ability of a bank as well as the banking sector to withstand a liquidity run caused by excessive withdrawal of demand and time deposits both in local and foreign currency. A bank is considered to be adequately liquid if it can survive for 5 consecutive business days under a stressed condition. At end-December 2023, all individual banks as well as the banking sector would likely to remain resilient against the liquidity stress scenario of 2 percent excess withdrawal of deposits in addition to normal withdrawal.

4.1.5 BANKING SECTOR RESILIENCE AT A GLANCE

During the review period, the banking sector appeared to be resilient in maintaining minimum regulatory requirements for most of the credit and market shock scenarios. However, the banking sector would likely to become vulnerable due to the increase in NPLs and default of the top borrowers-related shock scenarios (Chart 4.7). The stress test results also indicate that credit risk would pose a major risk for the banking sector in terms of its impact on the CRAR.

CHART 4.7: BANKING SECTOR RESILIENCE IN DIFFERENT SHOCK SCENARIOS



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

4.2 RESILIENCE OF THE FINANCIAL INSTITUTIONS

The financial institutions (FIs) sector would remain moderately resilient in stressed situations. The stress test results on FIs reveal that 16 out of 35 FIs would remain resilient under stress scenarios.

FIs are mainly vulnerable to different types of credit risks, e.g. increase in NPLs, downward shift in NPL categories, increase in NPLs due to the default of top 2 sectors' loans, and increase in NPLs due to the default of top large borrowers. Generally, the Infection Ratio (NPL to loan ratio) is taken into account as the main measure to ascertain the sensitivity of the different types of credit risk. Then the Insolvency Ratio (IR) of an FI is calculated based on the Infection Ratio. To derive the Weighted Insolvency Ratio (WIR), 50.0 percent, 30.0 percent, and 20.0 percent weights are given on after-shock IR in respect of minor, moderate, and major level shocks respectively.

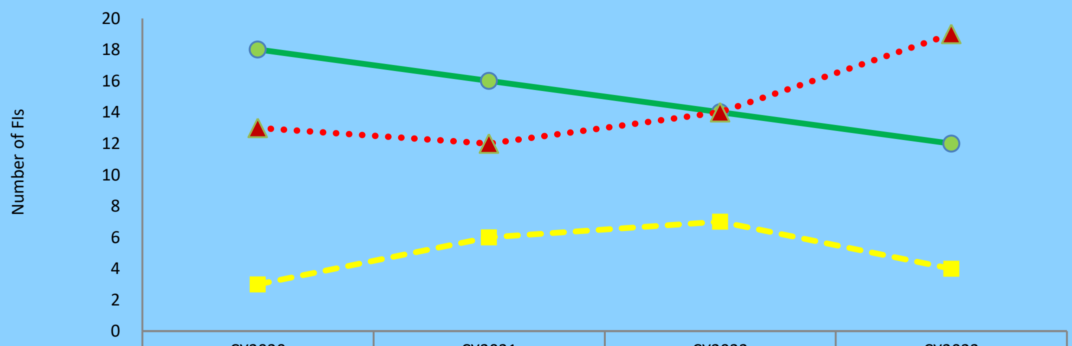
At the same time, resilience levels of the FIs to interest rate, credit, and equity price shocks are set with the minimum Capital Adequacy Ratio (CAR). Besides, the resilience level for liquidity shock is measured by the asset-liability maturity mismatches in the different time buckets. Subsequently, the Weighted Average Resilience (WAR) of 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 on a scale of 1 to 5 (best to worst) grades, which are then used to determine the three zones of WAR (A or B or C) and WIR (1or 2 or 3). 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)[39].

At end-December 2023, the stress test results of FIs indicate that 12 out of 35 FIs were in Sound condition and 4 were in Moderate condition (Chart 4.8). Hence, 16 FIs would have performed as resilient institutions as of end-December 2023. On the other hand, rest 19 would have performed as Weak institutions during the same period, from stress testing standpoint.

[39]According to DFIM Circular Letter No.09, dated 21 December 2020, the overall rating category of FIs has been revised to ***Sound***, ***Moderate,*** and ***Weak*** from the previous rating of ***Green***, ***Yellow***, and **Red**.

CHART 4.8: STRESS TESTS ON FINANCIAL INSTITUTIONS



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

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

CHAPTER 5 : FINANCIAL INSTITUTIONS' PERFORMANCE

Financial institutions (FIs) play a pivotal role in transferring funds to spur the production sector, employment generation, and economic growth, all of which have notable impact on the economy. A range of financial services such as factoring, SME financing, syndicating financing, equity financing, term financing, merchant banking, venture capital, and working capital financing are provided by FIs. Additionally, FIs provide some unique services like asset-based lending with a limited amount of collateral security requirements, which is especially beneficial to new and potential businesses, particularly SMEs, and sales and service-related delivery. FIs thus contribute to the country's economy by stimulating business activities.

In Bangladesh, 35 FIs are operating their businesses as of end-December 2023. Among them, 03 (three) are fully government-owned, 19 (nineteen) privately-owned local companies, and the remaining 13 (thirteen) jointly established institutions with local and foreign participation. During the assessment year, FIs rendered their business operations with a total of 270 branches throughout the country.

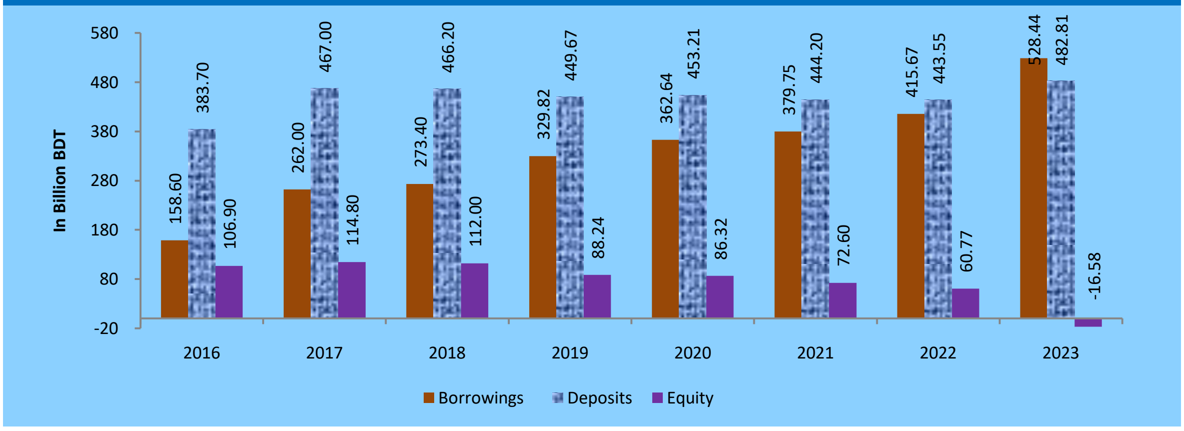
5.1 PERFORMANCE OF FIs

Together with the on-site inspection, Bangladesh Bank uses several off-site tools like stress testing and CAMELS rating to evaluate the performances of FIs. The CAMELS rating system includes six broad performance indicators: capital adequacy, asset quality, management efficiency, earnings, liquidity, and sensitivity to market risk. This chapter analyses the performance of the FIs depending on their sources of funds, assets composition, liability-asset ratio, asset quality, and profitability. In addition, capital adequacy, and liquidity measures are depicted in the final sections.

5.1.1 SOURCES OF FUND

FIs can raise funds from several sources such as share capital, bonds, borrowings from banks, other FIs and foreign sponsors, term deposits, money at call, and placement from banks and other FIs for their business operations. The different funding sources of the FIs are illustrated in Chart 5.1. Among the sources, borrowings, deposits, and equity were BDT 528.44 billion, BDT 482.81 billion, and BDT -16.58 billion representing 53.13 percent, 48.54 percent and -1.67 percent of total liabilities and equities of the FIs, as of end-December 2023. These shares were 45.18 percent, 48.21 percent, and 6.61 percent respectively at end-December 2022. It is noteworthy that borrowings and deposits increased by 27.13 percent and 8.85 percent respectively while equity registered a decline of 127.29 percent in the review year compared to those of the preceding year.

CHART 5.1: FIs' SOURCES OF FUNDS



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

5.1.2 ASSETS COMPOSITION

Asset structure of FIs includes cash in hand, balance with BB, balance with other banks and FIs, money at call and short notice (lending), investment in government securities, other investments, loans and leases, fixed assets, other assets, and non-financial assets. Among the different components of assets, investments and loans increased in 2023 in contrast to those of the preceding year (Chart 5.2). The total assets of the FIs reached BDT 994.66 billion at end-December 2023 with an increase of 8.12 percent from the previous year. As of end-December of the review year, the share of loans and leases to total assets was 74.09 percent, which was 72.42 percent at end-December 2022. Cash, balance with BB, balance with other banks and FIs, money at call collectively held 14.30 percent of total assets in the reporting year, registering a decline of 1.85 percentage points compared to the position at end-December 2022. Likewise, loans accounted for 68.04 percent of total assets at end-December 2023, which was 4.72 percentage points higher compared to the same of end-December 2022. Investments, leases, and all other assets (including fixed and non-financial assets) constituted 4.84 percent, 6.05 percent, and 6.78 percent of total assets in 2023 respectively. In addition, fixed assets and non-financial assets decreased by 91.54 percent and 90.31 percent respectively in the reporting year. FIs' total assets to GDP[40] ratio increased slightly to 3.10 percent in 2023 from 3.03 percent in the previous year (Chart 5.3).

CHART 5.2: FIs' ASSET COMPOSITION

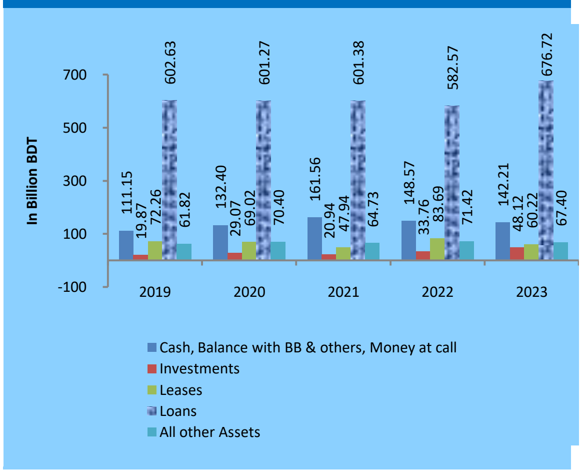
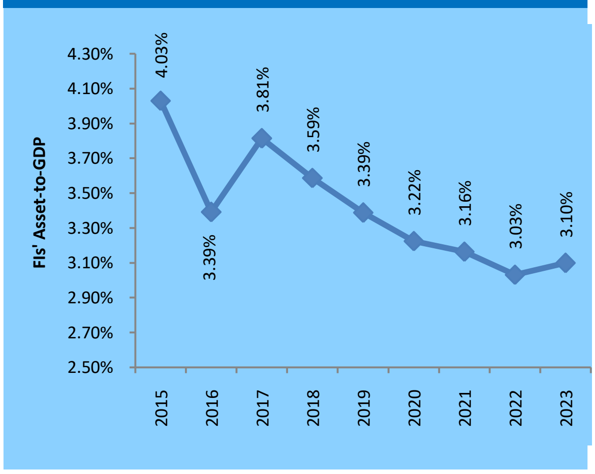


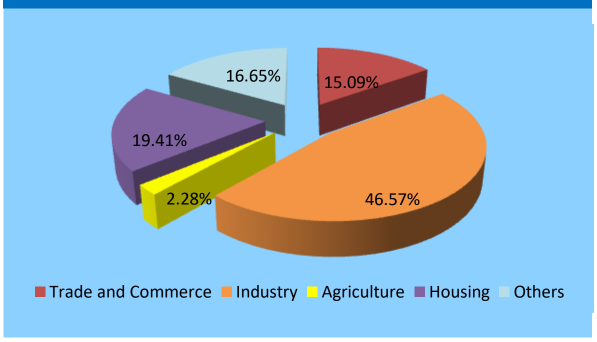
CHART 5.3: FIs' TOTAL ASSETS TO GDP RATIO



Source: Department of Financial Institutions and Markets, Bangladesh Bank; Bangladesh Bureau of Statistics (Cited in Monthly Economic Trends, BB).

5.1.3 SECTOR-WISE CONCENTRATION OF LOANS AND LEASES

CHART 5.4: FIs' SECTOR-WISE SHARE



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

The loans and leases of FIs are mostly concentrated in the industry sector followed by housing, others, and trade and commerce sector. The industry sector grabbed 46.57 percent of loans and leases of FIs at end-December 2023 while the housing, others, and trade and commerce sectors shared 19.41 percent, 16.65 percent and 15.09 percent respectively (Chart 5.4). The agriculture sector held only 2.28 percent of loans and leases of FIs during the period.

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

Table 5.1 displays FIs' loans and leases in different sub-sectors pertaining to the industry sector as of end-December 2023. The aggregate value of the Herfindahl-Hirschman Index (HHI) was 974.77 at end-December 2023, indicating a low-level of concentration[41] among different sub-sectors of the Industry sector. Amongst the Industry sub-sectors, FIs' loans and leases were concentrated notably in the two foremost sub-sectors, namely the 'power, gas, petroleum, water and sanitary' sub-sector and the 'garments and knitwear' sub-sector, accounting for 17.66 percent and 12.97 percent of total loans and leases in the industry sector respectively.

TABLE 5.1: FIs' LOANS AND LEASES IN SUB-SECTORS OF INDUSTRY SECTOR AS OF END-DECEMBER 2023

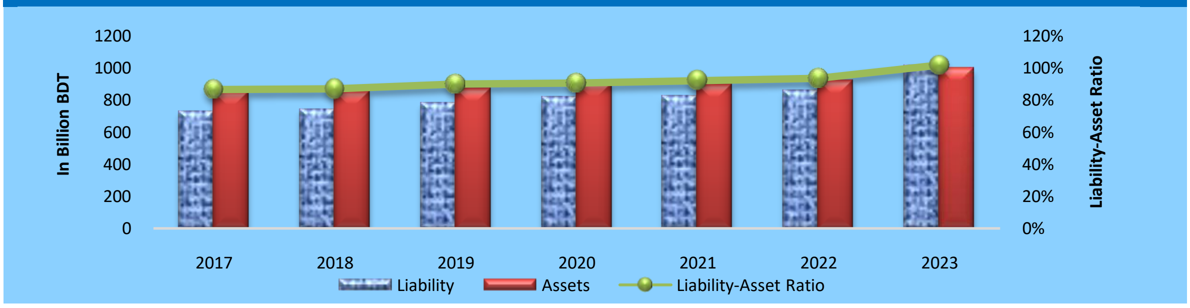
Sl. No	Sub-sector of Industry Sector	Amount in Billion BDT	Share Percentage	HHI
A)	Garments and Knitwear	44.52	12.97%	168.25
B)	Textiles	40.91	11.92%	142.09
C)	Food Production, Processing & Rice Mills	25.78	7.51%	56.40
D)	Jute and Jute products	2.61	0.76%	0.58
E)	Plastic & Rubber Industry	9.10	2.65%	7.02
F)	Leather and Leather goods	4.44	1.29%	1.67
G)	Iron, Steel and Engineering	35.51	10.35%	107.12
H)	Pharmaceuticals and Chemicals	19.45	5.67%	32.15
I)	Cement and Allied Industry	21.60	6.29%	39.56
J)	Paper, Packaging, Printing, Publishing & Allied Industry	11.49	3.35%	11.22
K)	Wood, Furniture & Fixture	3.17	0.92%	0.85
L)	Glass, Glassware & Ceramic Industry	8.11	2.36%	5.57
M)	Ship Manufacturing & Breaking	5.29	1.54%	2.37
N)	Electronics & Electrical Products	7.57	2.21%	4.88
O)	Power, Gas, Petroleum, Water & Sanitary	60.62	17.66%	311.88
P)	Transport and Aviation	26.63	7.76%	60.22
Q)	Others	16.44	4.79%	22.94
	Industry Total	**343.24**	**100.00%**	**974.77**

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

5.1.4 LIABILITY-ASSET RATIO

Since 2017, the liability-asset ratio of the FIs sector has been experiencing some fluctuations with a smaller industry equity contribution (Chart 5.5). At end-December 2023, the liability-asset ratio rose to 101.67 percent, which was 8.27 percentage points higher than that of the previous year.

CHART 5.5: LIABILITY-ASSET RATIO OF FI INDUSTRY



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

[41] HHI Score 1500 ≡ low-level concentration, 1500-2500 ≡ moderate concentration, and above 2500 ≡ high concentration as referred in https://www.investopedia.com/terms/h/hhi.asp; retrieved on 21 May, 2024.

5.1.5 ASSET QUALITY

Aggregate non-performing loans and leases of the FIs increased to BDT 215.67 billion at end-December 2023 from BDT 168.21 billion at end-December 2022. The proportion of outstanding non-performing loans and leases to total non-performing loans and leases, i.e., NPL ratio, increased to 29.27 percent in 2023 from 23.88 percent in the previous year (Chart 5.6). Out of 35 FIs, 18 had their NPL ratio higher than FI sector's overall NPL ratio, whereas only 06 FIs were able to maintain their NPL ratio below 05 percent. The industry recorded a provision shortfall of BDT 16.84 billion in 2023 against the required provisions of BDT 140.21 billion (Chart 5.7). Additionally, the provision coverage ratio against all non-performing loans and leases rose to 57.20 percent at end-December 2023 from 53.68 percent at end-December 2022.

CHART 5.6: NPL RATIO OF FI SECTOR

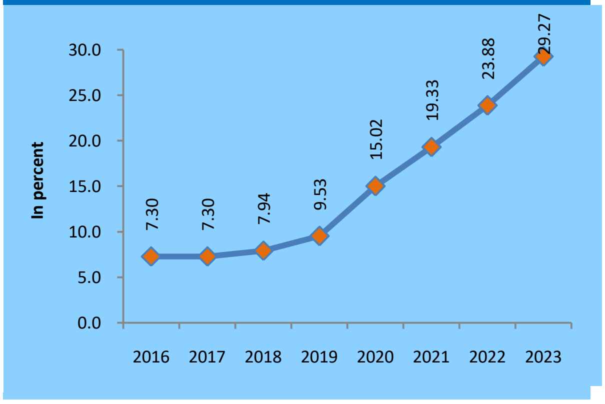
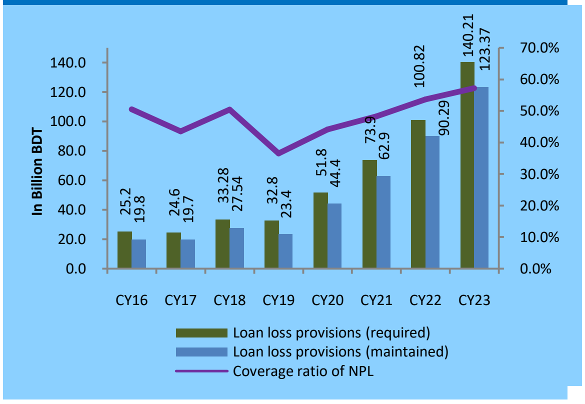


CHART 5.7: FIs' LOAN LOSS PROVISIONING



Note: 1. Provisional data were used for 2023.

2. NPL refers to classified loans and leases of the FI sector.

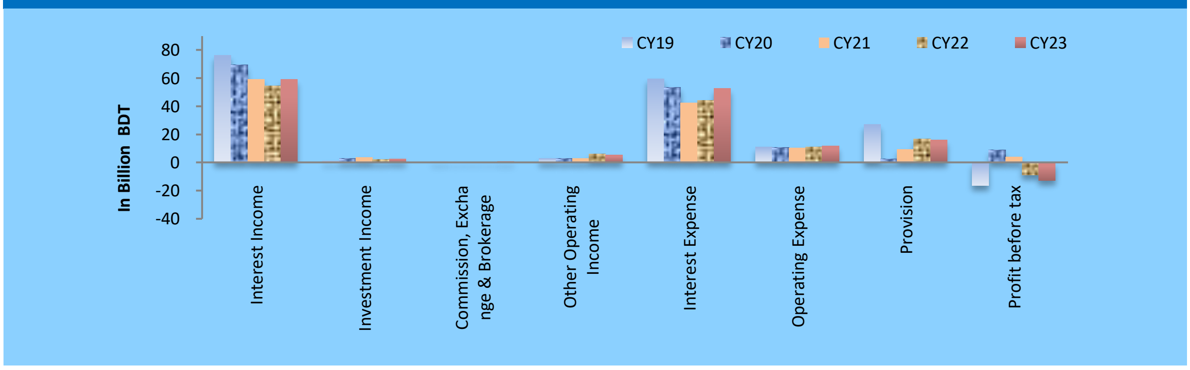
Source: Department of Financial Institutions and Markets, Bangladesh Bank.

5.1.6 PROFITABILITY

High NPLs exerted considerable negative impact on the overall profitability of the FIs as of end-December 2023, which led to overall negative profit before taxes of the industry. In the review year, the FI sector as a whole incurred a loss of BDT 12.84 billion, a BDT 4.00 billion more from the preceding year (Chart 5.8). Moreover, other operating income decreased by 13.37 percent during the period.

At end-December 2023, net profit after tax declined further compared to that of end-December 2022, indicating a challenging situation for the sector. As a result, compared to 2022, Return on Assets (ROA) of the sector experienced a significant decline. The ROA stood at -1.81 percent at end-December 2023, which was -1.27 percent at end-December 2022. The FI sector's net loss after tax was BDT 18.03 billion, while total shareholders' equity was BDT -16.58 billion at end-December 2023.

CHART 5.8: FIs' TREND OF INCOME AND EXPENSE

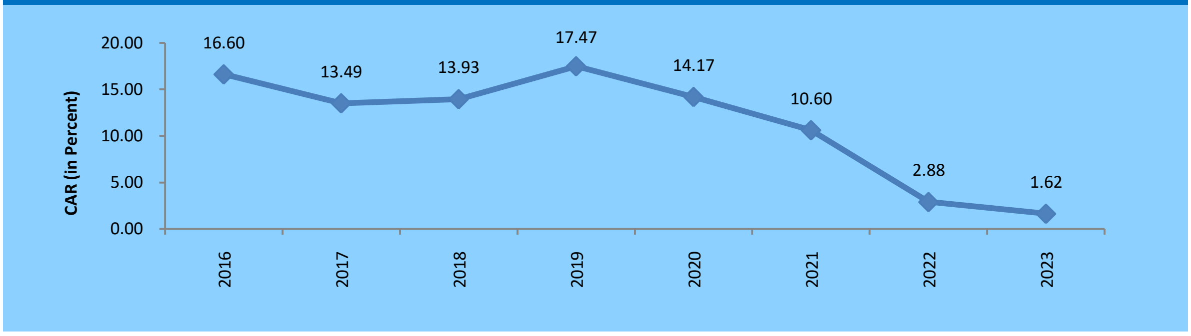


Source: Department of Financial Institutions and Markets, Bangladesh Bank.

5.2 CAPITAL ADEQUACY

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

CHART 5.9: FIs' CAPITAL ADEQUACY RATIO (CAR)

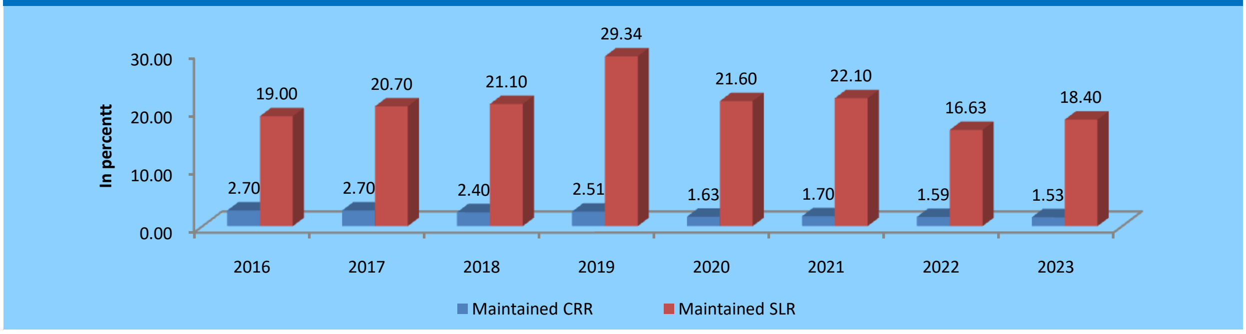


Source: Department of Financial Institutions and Markets, Bangladesh Bank.

5.3 LIQUIDITY

The level of CRR and SLR maintained by FIs are considered to be the key indications of measuring industry liquidity. At end-December 2023, the FIs sector maintained 1.53 percent of CRR and 18.40 percent of SLR. While CRR declined by 0.06 percentage point compared to that of end-December 2022, SLR improved by 1.77 percentage points. Nevertheless, both the ratios remained within the comfort zone[42] (Chart 5.10).

CHART 5.10: FIs' CRR and SLR at End-December



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

The overall analysis illustrates that both borrowings and deposits of FIs increased whereas equity decreased in 2023 compared to those of 2022. As the equity of the FI sector came down to negative figure, it is a matter of concern for the FI industry. In contrast, the share of loans and leases increased during the period. Moreover, the loans and leases of the FIs are mostly concentrated in few sub-sectors under the industry sector. However, the concentration index measured by HHI reveals the absence of moderate or high concentration in the Industry sub-sectors. The burgeoning trend in the NPL ratio and booking of extra loan loss provisions led to a worsening condition in income generation of the FIs. As a result, at end-December 2023, ROA recorded a notable decline to -1.81 percent from -1.27 percent at end-December 2022. Moreover, the gradual decrease in the CAR may pose a threat to the stability of the FI sector. Therefore, proper attention appears to be necessary for improving asset quality, profitability and capital adequacy of the FI sector.

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

CHAPTER 6 : MONEY AND CAPITAL MARKET

Financial markets of Bangladesh experienced somewhat stressed liquidity condition in 2023 which prompted Bangladesh Bank to provide banks and financial institutions with considerable liquidity support to keep the system sufficiently stable. The transactions in the interbank repo and call money market declined in the review year while the interest rate of those markets remained notably high. Compared to 2022, the Government borrowing through primary auction in both money and bond markets as well as secondary trading of government securities increased considerably during 2023 while mandatory devolvement of treasury securities declined marginally. The cost of Government borrowing increased notably as the yield of treasury bills and bonds over the maturities increased in the review year. The capital market remained largely sluggish in 2023, characterized by a mixed trend in the DSE index and a significant decline in turnover. High government borrowing and better yields from alternative investments, among others, were the causes of the sluggishness of the capital market.

6.1 MONEY MARKET

The financial system availed a significant amount of liquidity support from Bangladesh Bank in the review year. The Government borrowing from the banking system also increased notably during 2023. Besides, the turnover in both inter-bank repo and call money markets decreased in the review year, although the cost of funds in those markets remained considerably high. Nevertheless, there was no use of Bangladesh Bank (BB) bills throughout the review year.

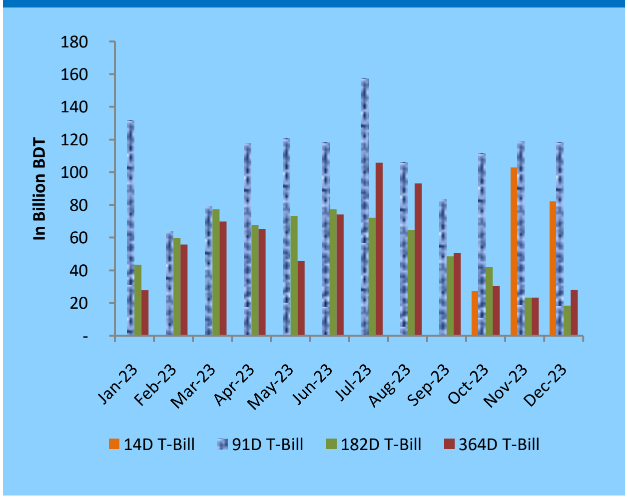
6.1.1 GOVERNMENT TREASURY BILLS (T-BILLS) AND BANGLADESH BANK (BB) BILLS

The primary issuance of government treasury bills increased notably in the review year amid higher demand for public financing. However, the banking system retained low excess reserve and thereby no instance of using BB bills was observed in 2023.

The Government issued treasury bills (T-bills) of different maturities worth BDT 2,876.28 billion in 2023, which was 67.74 percent higher than that of the previous year. A decline in the sale of the National Savings Certificates (NSC) might be attributed to the higher T-bill issuance in the review year.

In 2023, T-bills with maturities of 14 days, 91 days, 182 days, and 364 days, worth BDT 212.44 billion, BDT 1,326.50 billion, BDT 667.85 billion, and BDT 669.49 billion respectively was issued through auction sales (Chart 6.1). Amongst different maturities, 91-day T-bill remained the dominant instrument covering with 46.12 percent of the total issuance of treasury bills. The issuance of 14-day T-bill was observed only in the fourth quarter of 2023 whereas other T-bills were issued throughout the year. The month-wise issuance of T-bills illustrates that the Government borrowing through treasury bills was highest in the month of July amounting BDT 335.21 billion and the lowest in the month of February amounting BDT 179.59 billion.

CHART 6.1: VOLUME OF T-BILLS ISSUANCE IN 2023



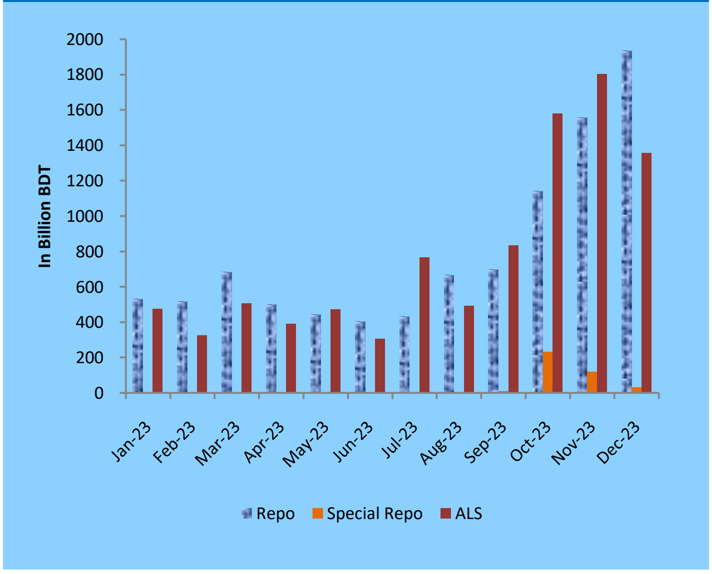
Source: DMD, BB.

The banking system experienced a declining trend of excess foreign reserves in the review year, partly attributable to Bangladesh Bank's intervention in the foreign exchange market through selling of US dollars to banks. As a result, the banking system was not heaving with excess liquidity and hence the issuance of BB bills was not required for sterilization purposes.

6.1.2 Repo with Bangladesh Bank

In 2023, Bangladesh Bank provided banks and financial institutions (FIs) with a sizable amount of liquidity mainly in the form of Repo and Assured Liquidity Support (ALS).

CHART 6.2: MONTHLY TURNOVER OF REPO, SPECIAL REPO AND ALS IN 2023

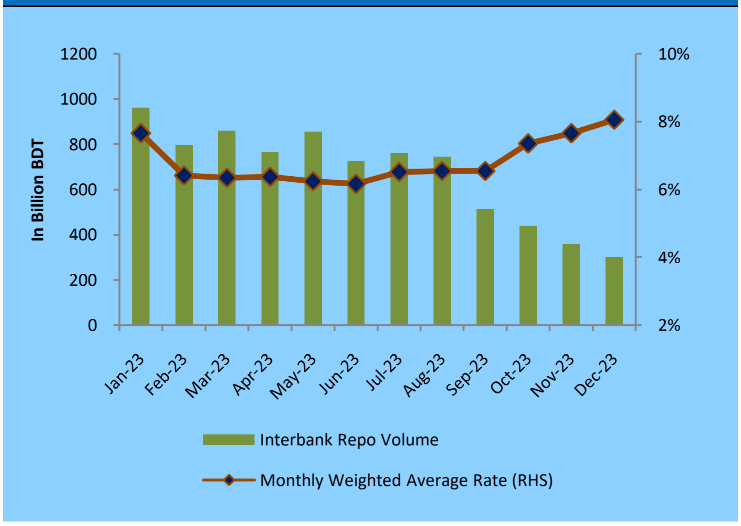


Source: DMD, BB.

The liquidity assistance by Bangladesh Bank in the financial system increased by 111.15 percent in the review year compared to that of the previous year. In 2023, banks and non-bank financial institutions took liquidity support amounting BDT 19,226.04 billion from BB, out of which 49.46 percent and 48.46 percent was availed through Repo and Assured Liquidity Support (ALS) respectively. Use of special repo was only 2.08 percent whereas there was no instance of using reverse repo in the review year. The month-wise turnover demonstrates that the aggregate monthly volume of Repo, Special Repo, and ALS was highest in November 2023 amounting BDT 3,479.30 billion and lowest in June amounting BDT 712.63 billion (Chart 6.2). Besides, the highest volume of Repo, Special Repo and ALS was in the months of December, October and November with BDT 1,934.03 billion, BDT 233.53 billion and BDT 1,802.84 billion respectively.

6.1.3 Interbank Repo

CHART 6.3: INTERBANK REPO TURNOVER AND INTERBANK REPO RATE IN 2023



Source: DMD, BB.

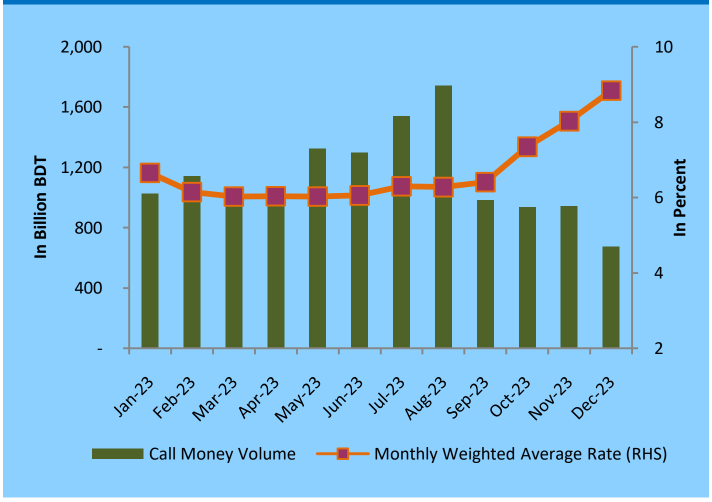
Interbank repo transactions declined in the review year although the repo rates remained considerably high.

The total interbank repo turnover declined by 6.13 percent in 2023 and reached BDT 8,075.34 billion compared to BDT 8,602.53 billion in 2022. In the review year, the month-wise turnover of interbank repo exhibited a downward trend with some fluctuations. The monthly volume of interbank repo remained highest in January 2023 with BDT 961.51 billion which turned into the lowest in December 2023 with BDT 302.51 billion (Chart 6.3). On the other hand, the monthly weighted average interbank repo rate experienced a declining trend till the first half of 2023 but exhibited an upward trend in the second half of the year and elevated to 8.05 percent in December 2023. The declining volume of transactions with a high rate indicates the rising demand of interbank repo with truncated supply.

6.1.4 INTERBANK CALL MONEY MARKET

The turnover of interbank call money[43] declined in the review year compared to 2022, while the call money rate elevated considerably at the end of 2023.

CHART 6.4: CALL MONEY BORROWING VOLUME AND MONTHLY WEIGHTED AVERAGE CALL MONEY RATE IN 2023



Source: DMD, BB.

The total volume of call money borrowing declined by 9.06 percent in 2023 than that of the previous year. The aggregate volume of call money was BDT 13,753.74 billion in the review year. However, the weighted average call money rate increased to 8.84 percent in December 2023 which was 5.80 percent in December 2022. Chart 6.4 demonstrates the monthly turnover of call money and corresponding weighted average interest rates during 2023. The monthly volume of call money experienced an upward trend till August 2023 with some fluctuations but declined afterward till the end of 2023. The highest volume of call money transactions was recorded in August 2023 amounting BDT 1,743.34 billion and the lowest volume was in December 2023 amounting BDT 675.18 billion. The monthly weighted average call money rate experienced a slow downward trend till May 2023 but showed an upward trend later which continued till the end of 2023. The declining turnover with high rate signifies the higher demand of call money with a shortened surplus fund in the financial system.

6.2 BOND MARKET

The bond market of Bangladesh, primarily dominated by government bonds and mostly based on primary auctions, was more active in 2023. The issuance of T-bonds with different maturities increased in the review year while the sale of government securities by mandatory devolvement declined slightly. Moreover, the secondary market of government securities was more active in the review year as the volume of secondary trading recorded a notable increase.

TABLE 6.1: VOLUME OF T-BONDS AUCTION SALES IN 2023

Tenure	Volume (In Billion BDT)	Share of Total Auction Sales (In Percent)
2 Y T-Bonds	309.66	36.4%
5 Y T-Bonds	296.51	34.9%
10 Y T-Bonds	179.15	21.1%
15 Y T-Bonds	32.84	3.9%
20 Y T-Bonds	31.02	3.7%
Total	**849.18**	**100%**

Source: DMD, BB.

The Government borrowing through the issuance of long-term Treasury bonds of different maturities increased by 10.94 percent in the review year than that of the previous year. In 2023, the aggregate auction sale of T-bonds was BDT 849.18 billion, of which 71.40 percent bond was issued within five years of maturity (Table 6.1). Amongst different maturities, issuance of 2-year bonds possessed the highest share (36.4 percent) whereas 20-year bond possessed the lowest share (3.7 percent) in the review year. The Government's tendency in issuing low-tenured bonds signifies that the investors would remain less sensitive to future changes in the interest rate

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

of the bond market. In 2023, the issuance of treasury bonds of all maturities was highest in the month of March 2023 with BDT 100.00 billion and the lowest in the month of October 2023 with BDT 29.08 billion.

For rationalizing the yield of treasury securities and maintaining adequate fund flow for the Government, mandatory devolvement of BDT 888.81 billion took place in the review year, which is 3.68 percent less than that of the previous year. In 2023, the entire mandatory devolvement (100 percent) of treasury securities was done on Bangladesh Bank that continued till August 2023 and no devolvement was required in the last four months of the year (Chart 6.5). The mandatory devolvement on Primary Dealers (PD) could not take place that might be due to insufficient surplus liquidity in the financial system. Notably, the highest devolvement of BDT 160.65 billion was made in the month of April 2023.

CHART 6.5: VOLUME OF TREASURY SECURITIES AUCTION SALES – MANDATORY DEVOLVEMENT, 2023

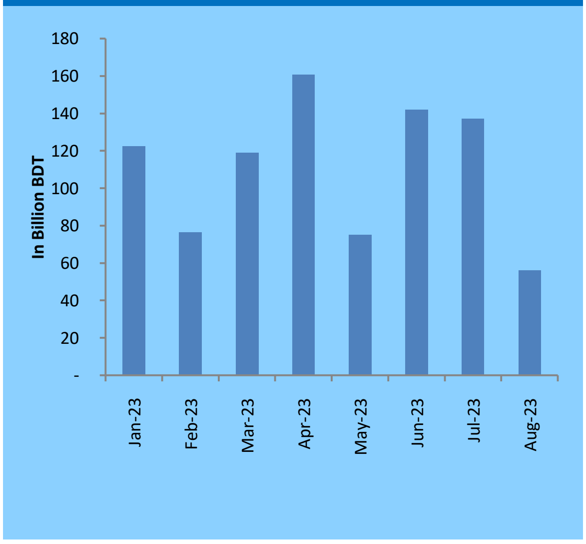
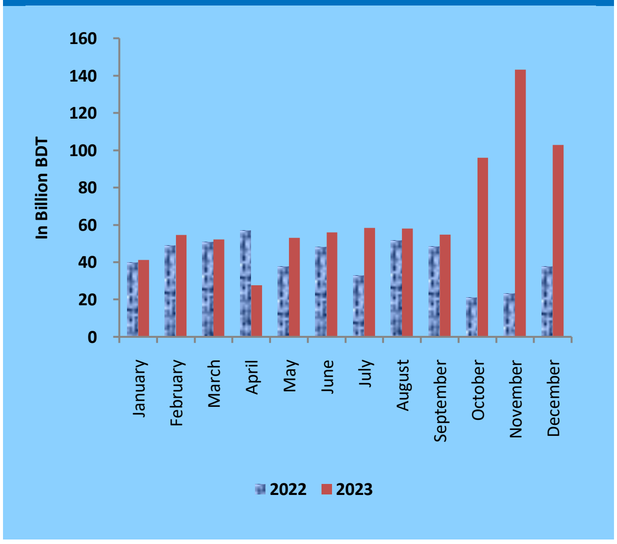


CHART 6.6: MONTHLY VOLUME OF SECONDARY TRADE 2023



Source: DMD, BB.

The secondary market for treasury securities appeared to be more active in the review year compared to the previous year. In 2023, a total of BDT 798.04 billion of government securities was traded in the secondary market which was 60.07 percent higher than that of the previous year. The month-wise turnover of secondary trade in 2023, demonstrated in Chart 6.6, indicates that the highest volume of monthly trading took place in November 2023 with BDT 143.17 billion while the lowest volume was recorded in April 2023 with BDT 27.70 billion.

In 2023, 99.89 percent of the secondary trading was made using the BB system (Over-the-Counter and Trader Work Station mechanism) whereas the remaining 0.11 percent was traded using the stock exchange platform[44].

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

Box 6.1: Yield Curve

The Treasury auction yields in December 2023 were considerably higher for all maturities compared to those of December 2022 and June 2023. Consequently, the treasury auction yield curve shifted up notably in December 2023 for both the short-term treasury bills and long-term treasury bonds. The upward shifting of the yield curves was larger without significant differences in maturities and thus made the curves flattening. The increasing cost of government borrowing is reflected in this upward shift in the yield curves.

Chart B6.1.1: Treasury Bill Yield Curve

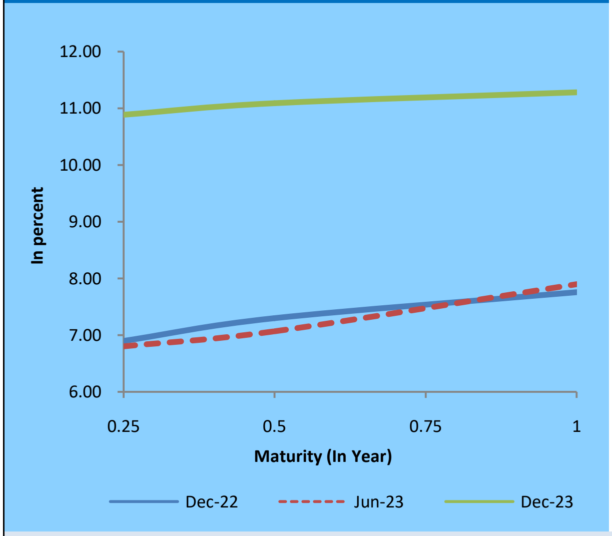
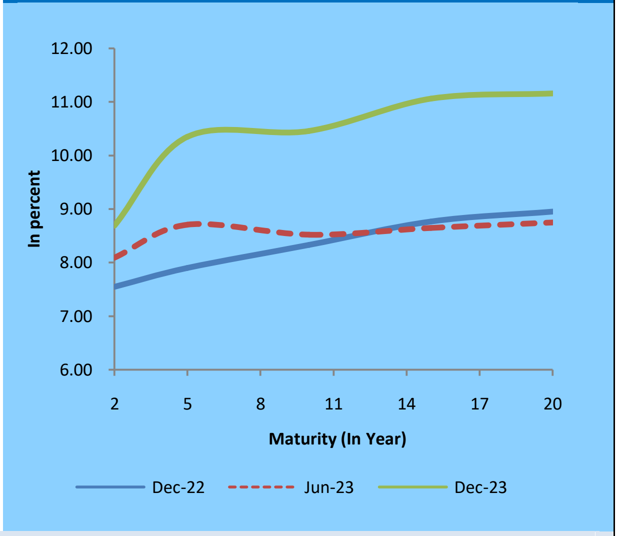


Chart B6.1.2: Treasury Bond Yield Curve[45]



Source: Major Economic Indicators, January 2024 Issue, BB.

A flattening yield curve, in general, represents an early indication of slow economic growth and a lower predicted inflation rate. However, in the absence of a vibrant secondary bond market, such a primary market yield curve indicator may be implausible.

6.3 CAPITAL MARKET

According to the main indicators, which included the index, daily average turnover, and P/E ratio, the capital market of Bangladesh was sluggish during the year 2023. The DSE Broad Index (DSEX) grew by 0.64 percent in 2023 compared to 2022. In addition, the DSE's market capitalization increased by 2.62 percent while the daily average turnover decreased by 44.04 percent. At the same time, the dividend yield dropped to 3.46 percent in 2023 from 3.93 percent in the previous year.

6.3.1 Major Index and Market Capitalization

The DSE broad index (DSEX) demonstrated a mixed trend throughout the review year. It started the year with a bullish trend, had a negative slide until April 2023, then displayed an overall upward trend until late July 2023, and thereafter had a downward trend until November 2023. Uncertainty in the business environment due to the Russia-Ukraine war and Israel-Palestine conflict, and other internal factors largely expedited the downtrend in the DSE indices. The DSEX saw a notable peak at 6,367.42 on July 16, 2023, whereas the lowest value 6,177.88 was observed on January 02, 2023. The market capitalization exhibited an overall upward trend with some fluctuations throughout the year and on July 30, 2023, it had a

[45]For 10-Year bond, no auction took place in May 2023 and June 2023 and due to which yield of April 2023 has been used as yield of June 2023. For 15-Year and 20-Year bonds, no auction took place places in June 2023 and hence yield of May 2023 has been used as yield of June 2023.

significant increase. At the beginning of 2023, the market capitalization was BDT 7,602.65 billion, which increased to BDT 7,808.50 billion at the end of 2023 (Chart 6.7).

The different patterns of the opening, highest, lowest, and closing indexes in Chart 6.8 show the attitudes and actions of the investors. The small green candlestick indicates that the stock price of the market did not fluctuate much during the period, i.e., the bullish doji star market would have insignificant confidence among the investors. The difference between the highest and lowest index of DSEX was 34.91 in the review year, which is quite little compared to the previous years (1,125.18 in 2022).

CHART 6.7: DSEX INDEX AND MARKET CAPITALIZATION IN 2023

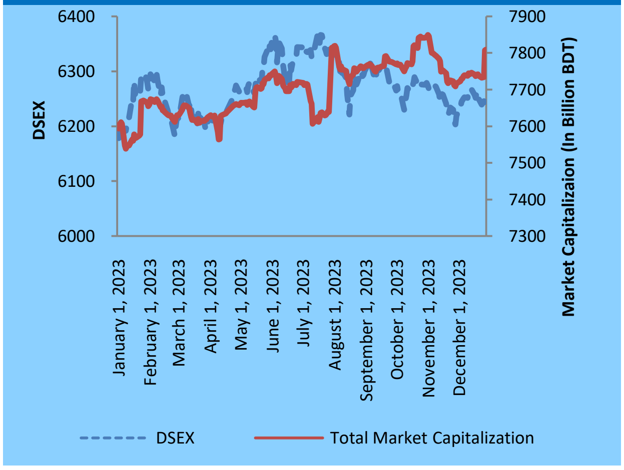
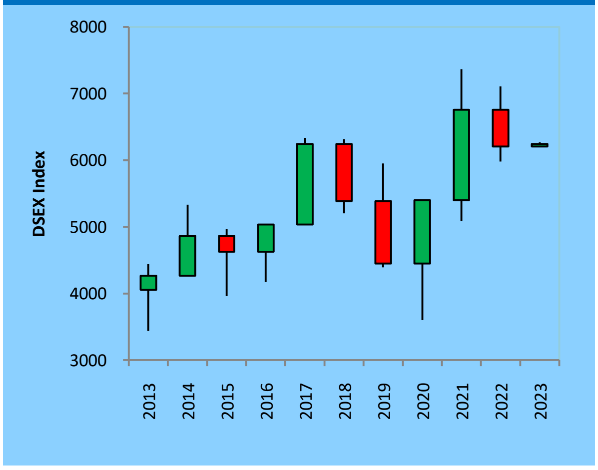
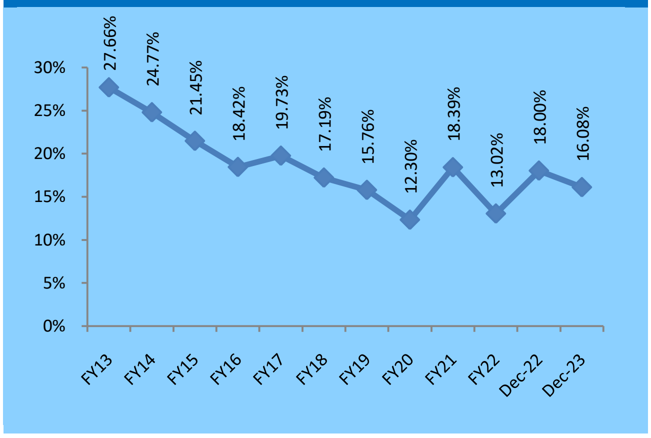


CHART 6.8: DSEX (2013 TO 2023)



Source: DSE.

CHART 6.9: MARKET CAPITALIZATION-TO-GDP RATIO



Source: BBS QGDP for Oct-Dec 2022 and Oct-Dec 2023; DSE Monthly Review, December 2023.

The ratio of total market capitalization to GDP[46] is a crucial measure for understanding the strength of a nation's capital market. Chart 6.9 shows the market capitalization to GDP ratio of DSE till December 2023. The chart indicates that the market capitalization to GDP ratio dropped to 16.08 percent in December 2023 from 18.00 percent in December 2022. It is noteworthy that with the listing of 250 government securities on the trading platform, the market capitalization increased significantly, and the ratio spiked to 18.00 percent at end-December 2022.

6.3.2 Daily Average Turnover

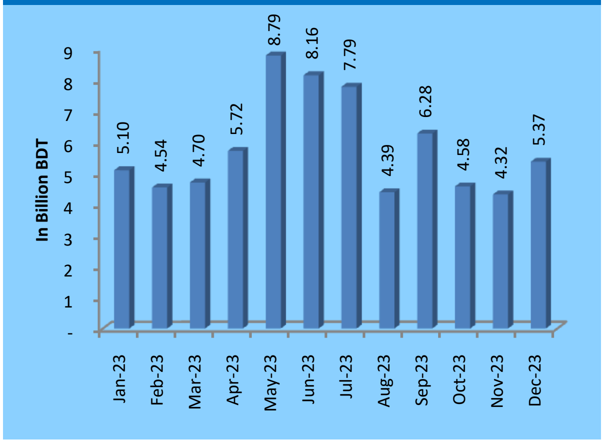
Daily average turnover is one of the key components used to measure capital market liquidity for signaling investors' preference for the market. In 2023, the DSE market appeared to have experienced less liquidity as the daily average turnover declined by 39.79 percent in the review year compared to the same of the preceding year. According to Chart 6.10, the daily average turnover declined significantly from BDT 9.60 billion in 2022 to BDT 5.78 billion in 2023, indicating a substantial decline in market liquidity. Chart 6.11 shows the month-wise liquidity situation of the DSE during 2023. It shows that the daily average turnover demonstrated general declining trend during the second half of the year, with some

[46] Market capitalization ratios for December 2022 (revised) and December 2023 were calculated considering quarterly GDP published by BBS.

exceptions. The highest daily average turnover was recorded in May 2023, while November 2023 experienced the lowest daily average turnover.

CHART 6.10: YEAR-WISE DAILY AVERAGE TURNOVER

CHART 6.11: MONTH-WISE DAILY AVERAGE TURNOVER IN 2023



Source: DSE.

6.3.3 Market Capitalization Decomposition

In terms of market capitalization, the manufacturing sector led the Bangladesh capital market, followed by the service and miscellaneous sectors. The sectoral shares of market capitalization in 2022 and 2023 are shown in Charts 6.12 and 6.13 respectively.

CHART 6.12: DECOMPOSITION OF MARKET CAPITALIZATION (DECEMBER-2022)

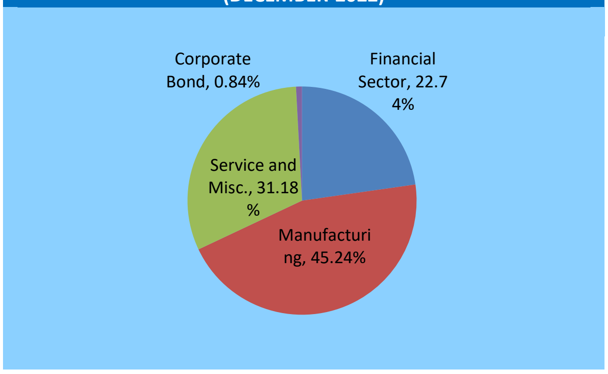
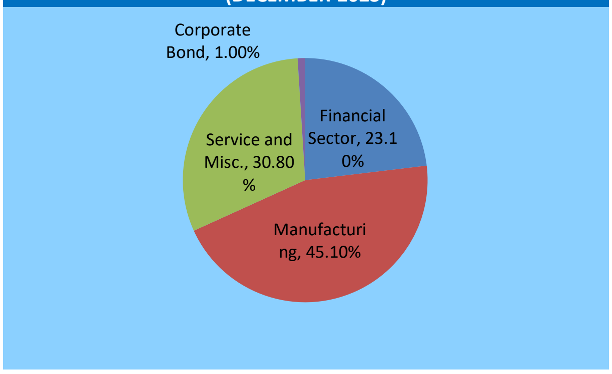


CHART 6.13: DECOMPOSITION OF MARKET CAPITALIZATION (DECEMBER-2023)



Source: DSE.

With the dominance in total market capitalization, the manufacturing sector's market capitalization slightly decreased to 45.10 percent in 2023 from 45.24 percent in 2022. The dominance of the manufacturing sector was mainly supported by sub-sectors like pharmaceuticals and chemicals (15.89 percent), engineering (11.71 percent), and food and allied products (8.63 percent).

The service and miscellaneous sector's market capitalization share decreased slightly in 2023 compared to that in 2022. The sub-sectors that made the most contributions to this sector were telecommunication (12.78 percent), fuel and power (9.83 percent), and miscellaneous (5.12 percent).

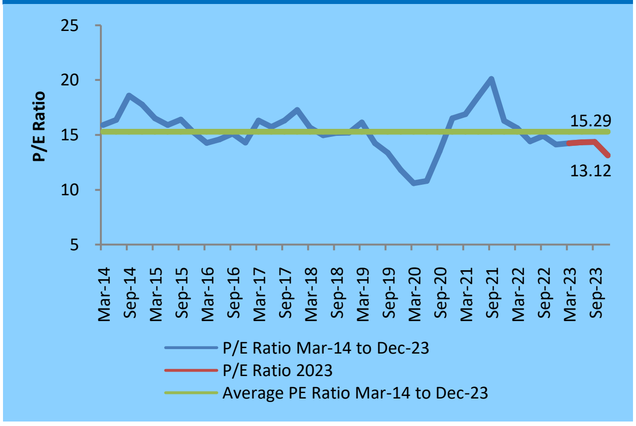
The financial sector's market capitalization share increased in 2023 compared to 2022. This sector was mainly dominated by the banking sub-sector, which contributed 15.12 percent of total market capitalization. Interestingly, corporate bond's share in total market capitalization in the DSE was negligible, although it rose from 0.84 percent in 2022 to 1.00 percent in 2023.

6.3.4 Price-Earnings (P/E) Ratio

At end-December 2023, the weighted average price-earnings (P/E[47]) ratio of DSE was 7.02 percent lower that of the end-December 2022. Chart 6.14 shows the trend of quarterly overall weighted average P/E ratio of the DSE since March 2014. The market P/E ratio showed a growing tendency from March 2020 to September 2021, thereafter, it demonstrated a mostly declining trend till end-December 2023.

At the end-December 2023, the overall weighted average P/E ratio of the DSE stood at 13.12, down from 14.11 at end-December 2022.

CHART 6.14: MARKET PRICE-EARNINGS RATIO



Source: DSE.

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

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

Source: DSE Monthly Review, December 2023.

A total of BDT 19.73 billion in capital raised in the DSE during the review year through IPOs, right shares, and bonus shares. Chart 6.15 shows the trend of stock at DSE by issuing such securities since 2019. Bonus shares accounted for 81.45 percent of total capital in 2023, followed by IPOs pertaining to 18.55 percent. However, no right share was issued during the review year. Despite generating BDT 19.73 billion in capital, 2023 had a 32.49 percent fall compared to 2022[48].

6.3.6 Dividend and Yield

In 2023, 240 of the DSE-listed companies declared cash dividends, while 42 companies declared stock dividends. 64 companies did not declare any dividends, of which 32 skipped their Annual General Meetings (AGM) in 2023[49]. The dividend declaration status of DSE-listed companies for the last five years is displayed in Table 6.2. The table shows an increasing trend in cash dividend declarations except for 2023 as the number of companies declared cash dividend was 240 in 2023, as opposed to 265 in 2022.

[47]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.

[48]Some data of 2022 have been revised in DSE Monthly Review, December 2023.

[49]DSE Monthly Review, December 2023.

TABLE 6.2: COMPARISON OF DIVIDEND AND YIELD (2019-2023)

Particulars	2019	2020	2021	2022	2023
Number of companies declared cash dividend	213	237	261	265	240
Number of companies declared stock dividend	132	94	56	57	42
Number of companies which did not declare any dividend	29	46	63	43	64
Yield (%)	5.03	3.16	4.07	3.93	3.46

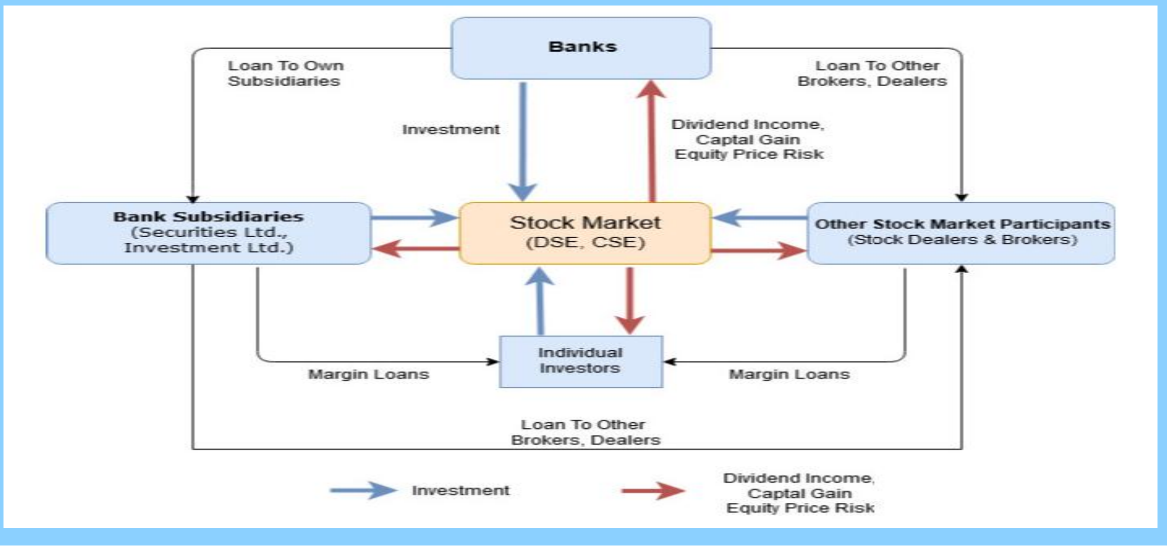
Source: DSE Monthly Review, December 2023.

The dividend yield declined to 3.46 percent in 2023, compared to 3.93 percent in 2022. Regular dividend payments by the companies [50] are essential for attracting investors and maintaining stability in the capital market. Compared to the alternative investments such as Treasury Bills and Bonds, National Savings Certificates or Term Deposit rates from banks and NBFIs, the dividend yield of investing in DSE was lower in 2023. It is also mentionable that, with the exception of 2021, the dividend yield has been on a general declining over the last few years.

6.3.7 Interlink Between Banking Sector and Stock Market

From a financial stability perspective, the relationship between the capital market and the banking industry is crucial. The interlinkage of banks and the capital market is depicted in Chart 6.16. With the investments in the capital market, both individual banks and their subsidiaries together made an interlinkage between the banking sector and the stock market.

CHART 6.16: SCHEMATIC VIEW OF INTERLINKAGE BETWEEN BANKS AND CAPITAL MARKET



Source: QFSAR Issue-18, FSD, BB.

Banks' solo basis capital market investment takes the form of shares, mutual funds, and placements. In addition, loans to stock dealers and other parties for merchant banking and brokerage operations and loans to own subsidiaries are also taken into account for calculating banks' solo-basis investment in the capital market. For calculating banks' consolidated exposure, investment in shares, mutual funds, placement shares, and margin or bridge loans by subsidiary companies of the banks are taken into account with banks' solo-basis investment exposures. The banks' primary profits from capital market investments are capital gains, dividends, and interest income from margin loans. Banks are also bearing high risk on the share price of the capital market. As a result, banks may be significantly impacted by the capital market's performance and incur losses on their investments because greater capital market exposure carries a bigger

[50] As dividend yield is the most vital indicator of returns.

risk. The banks' capital market exposures both solo and consolidated basis increased slightly in 2023, as shown in Chart 6.17 and Chart 6.18. The exposures remain much below the statutory limit[51], which indicates that the banking industry may not experience an immediate stability issue with the changes of stock price. The revised calculation of market exposure[52] of banks, which excluded Bonds, Debentures, and Islamic Shari'ah-based Instruments for calculating market exposure, may have resulted in a decrease of 1.03 percentage points for solo and 1.34 percentage points for consolidated basis in the banking industry's market exposure from June 2023 to September 2023.

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

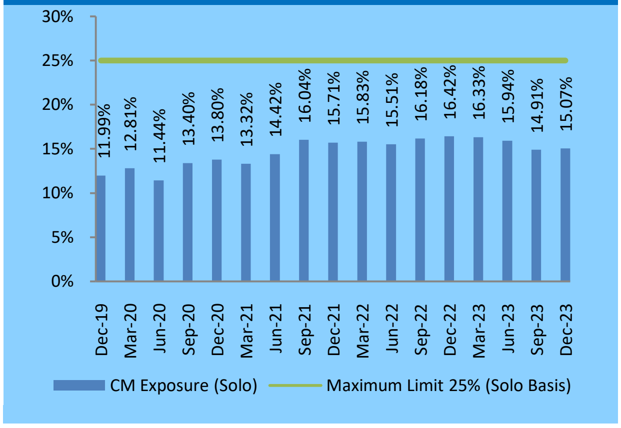
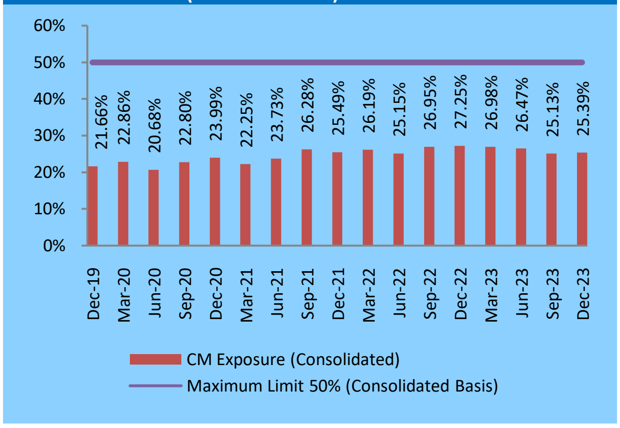


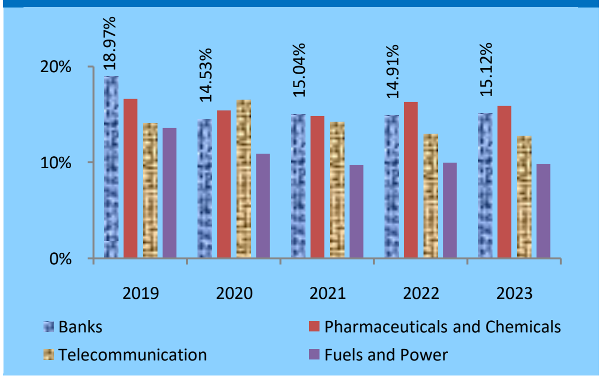
CHART 6.18: TREND IN CAPITAL MARKET EXPOSURES (CONSOLIDATED) OF BANKS



Source: DOS, BB.

Banks, capturing the major share of market capitalization in DSE, become one of the major sectors. Among 61 scheduled commercial banks 33, PCBs and 1 SOCB are listed in the DSE. In the last five years, almost 15 percent of market capitalization of DSE, on an average, was captured by the listed scheduled commercial banks. The market capitalizations of four major sectors of DSE for the last five years are shown in Chart 6.19. In 2023, the banking industry held the second-largest share of market capitalization, following the pharmaceutical and chemical industries.

CHART 6.19: MAJOR SECTORS' MARKET CAPITALIZATION IN DSE



Source: DSE Monthly Review, December 2023.

The market capitalizations of four major sectors of DSE for the last five years are shown in Chart 6.19. In 2023, the banking industry held the second-largest share of market capitalization, following the pharmaceutical and chemical industries. The banking industry's market capitalization share increased somewhat, from 14.91 percent in 2022 to 15.12 percent in 2023. The banking industry still holds a sizeable portion of the entire capital market, despite having an overall declining trend in the last five years.

Since the banking industry holds a considerable portion of the capital markets, any stress in the industry could have a negative impact on the capital market. In the event of any decline in banks' share prices, the market capitalization as well as the index can experience significant decline.

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[51] The maximum allowable limit for 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 a solo basis and consolidated basis respectively.

[52] The calculation of market exposure has been revised by DOS circular No. 02, dated: August 31, 2023.

CHAPTER 7 : FINANCIAL INFRASTRUCTURE

Financial infrastructure of Bangladesh is demonstrating gradual transformation in tandem with economic growth. Bangladesh Bank has been playing a pivotal role to provide necessary guidance and policy support in introducing modern payment platforms and tools to minimize any domestic or cross-border risk that may lead to systemic shock to the financial system. Indeed, financial infrastructure in Bangladesh is deeply reliant on sophisticated technology. Hence, any malfunction or disruption to the financial infrastructure due to inefficient use of technology could hit the base of financial markets and may create systemic risk and economic turbulence.

To encourage smooth functioning of the financial markets, through diligent effort and vigilance, Bangladesh Bank has developed a modern, automated payment infrastructure that facilitates the thriving economy. This infrastructure, including National Payment Switch Bangladesh (NPSB), Bangladesh Automated Cheque Processing System (BACPS), Bangladesh Electronic Funds Transfer Network (BEFTN), Real-Time Gross Settlement (RTGS), and Interoperable Digital Transaction Platform (Binimoy), is designed to enhance electronic transaction and payment systems. At the same time, Bangladesh Bank has issued licenses to the commercial entities to operate Mobile Financial Services (MFS), Payment Service Provider (PSP) and Payment System Operator (PSO) which are playing a very crucial role for the enhancement of payment services for the customers.

7.1 ELECTRONIC BANKING OPERATIONS

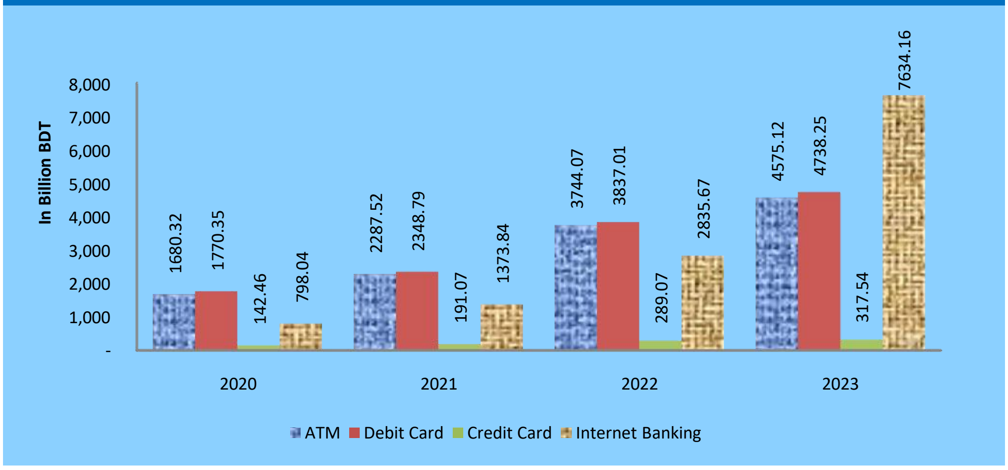
Electronic banking service provides an opportunity to the users to avail banking services such as transferring of funds through exchanging electronic messages instead of using paper-based instruments like cash, cheque, or other forms. Payment methods in banking services are being optimized gradually, which would allow individuals to go one step further, since banking platforms dominate in the transfer of money or funding requirements of the vast majority of people. With the help of electronic banking operations, banks will be able to reach at the doorsteps of the clients. By mitigating settlement risks with automated payment and settlement systems, Bangladesh Bank attempts to strengthen the financial stability. As of end-December 2023, 100 percent of the bank branches provided online banking services in Bangladesh (Table 7.1).

TABLE 7.1: ONLINE BANKING SCENARIOS AS OF END-DECEMBER 2023

Type of Bank	Number of ATMs	Total Branches	Number of Branches with Online Coverage	Percent of Online Branches
SOCBs	465	3835	3835	100
SDBs	16	1541	1541	100
PCBs	12851	5845	5845	100
FCBs	104	63	63	100
Total	13436	11284	11284	100

Sources: Statistics Department, BB.

CHART 7.1: TOTAL VOLUME OF ELECTRONIC BANKING TRANSACTIONS



Source: Payment Systems Department (PSD), BB.

Chart 7.1 shows that the volume of all types of electronic banking transactions continued upward progress during 2020 to 2023. In the review period, CY23, growth of transactions volume through internet banking stepped up significantly among other types of electronic banking transactions.

7.2 NATIONAL PAYMENT SWITCH BANGLADESH

In order to facilitate interbank electronic payments originating from different channels like Automated Teller Machines (ATM), Point of Sales (POS), Internet etc., Bangladesh Bank introduced National Payment Switch Bangladesh (NPSB) in 2012. Out of 61 scheduled banks, currently 57 are connected to NPSB for their ATM transactions while 55 are connected to settle their POS transactions through NPSB. Moreover, Internet Banking Fund Transfer (IBFT) through NPSB has started in November 2017 in which 51 banks are now connected. In January 2021, Bangladesh Bank issued guidelines to promote QR code-based payments through NPSB. Now people are able to complete their payments through banking/MFS apps with the help of QR code. Currently 34 banks, 3 MFS, and 1 PSP are using Bangla QR (NPSB standard QR) for payments. The number and volume of the interbank ATM, POS, IBFT and QR-based transactions through NPSB are growing gradually.

In the review period, 111.31 million transactions amounting BDT 2091.73 billion were settled through NPSB recording a growth of 53.60 percent and 114.77 percent in terms of number of transactions and amount of payments respectively[53].

7.3 BANGLADESH AUTOMATED CLEARING HOUSE

Bangladesh Automated Clearing House (BACH) is the first automated national payment and settlement system in Bangladesh. Introduced in 2010, BACH has proved its significance in country's payment and settlement system over last thirteen years by reducing time and risks of payment and settlement in the country. BACH consists of two payment system components, one is automation of the paper-based Cheque clearing system, which is known as the Bangladesh Automated Cheque Processing System (BACPS), and the other inter-bank electronic funds transfer system which has been named the Bangladesh Electronic Funds Transfer Network (BEFTN). BACPS and BEFTN systems operate in batch processing and Deferred Net Settlement (DNS) mode. The BACH system receives transactions (through instruments or instructions) from the member banks and these transaction files are processed and settled at a pre-fixed time.

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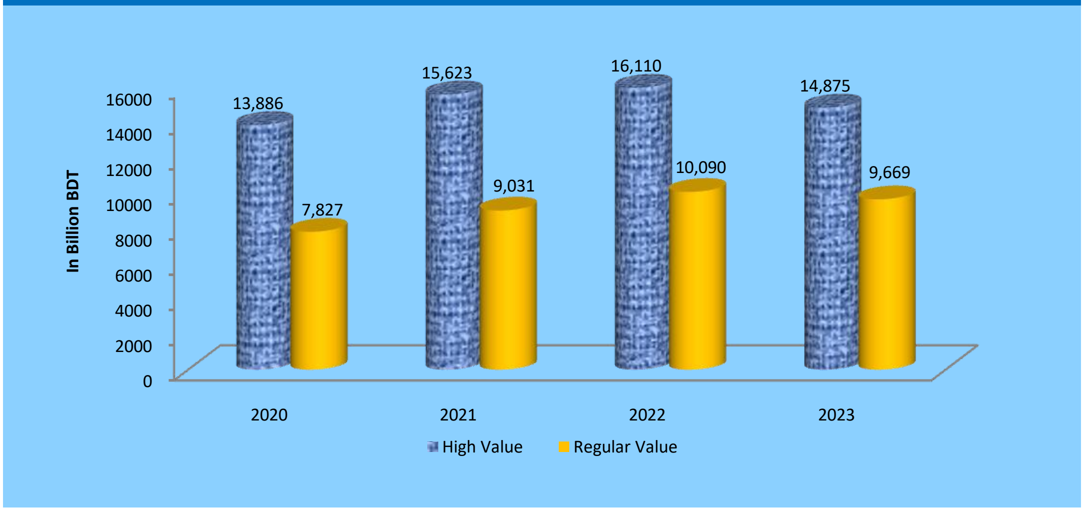
[53]NPSB data of 2023 includes Bangla QR code-based number of transactions and amount of transactions.

7.3.1 Bangladesh Automated Cheque Processing System

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 made it possible to bring the whole country under single clearing umbrella. BACPS operation is performed by following the 'Bangladesh Automated Cheque Processing System (BACPS) V2.0 Operating Rules and Procedures'. Bangladesh Automated Cheque Processing System (BACPS) has two clearing sessions including High Value for Cheque amounting BDT 0.50 million and above, and Regular Value for any amount. During the review period, about 2.39 million High Value and about 19.34 billion Regular Value cheques were cleared through BACPS and their amount was BDT 14,875.20 billion and BDT 9,669.12 billion respectively.

In 2023, the amount of High Value and Regular Value transactions decreased by 7.66 percent and 4.17 percent respectively compared to those of the preceding year.

Chart 7.2: Automated Cheque Clearing Operations During 2020-2023



Source: Payment Systems Department (PSD), BB.

7.3.2 Bangladesh Electronic Funds Transfer Network

The 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. 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 are settled through Electronic Fund Transfer (EFT) credits while utility bill payments, loan repayments, insurance premiums, corporate to corporate payments are accommodated in EFT debits. Charges are not applicable on customer for sending or receiving money through BEFTN which is a faster and efficient alternative to paper-based clearing and settlement system. The clearing and settlement of EFT are being executed through Nikash-BEFTN software which has been developed by Bangladesh Bank and made functional since 12 November 2023 under three sessions in a day.

During the review period, about 242 million EFT credit and about 6 million EFT debit transactions were settled through BEFTN and respective amounts were BDT 6282.30 billion and BDT 1564.85 billion.

7.4 REAL TIME GROSS SETTLEMENT SYSTEM

As part of inclusive digitalization initiative, Bangladesh Bank launched Real Time Gross Settlement (BD-RTGS) system in 2015 to facilitate safe, secured and efficient interbank payment system. This mechanism has opened a new horizon in the payment ecosystem, accommodating instant settlement of large value and time critical payments in the country. As an electronic settlement, it ensures transfer of funds from one account of a bank to that of another bank on a real-time and on gross basis[54]. It is worth noting that, besides customers' transaction, BD-RTGS System is facilitating Financial Institutions transactions, Inland foreign currency transactions, Customs Duty e-Payments, VAT e-Payments and other important Government Payments. The minimum limit of a transaction is BDT 100,000 (one hundred thousand) whereas there is no limit in case of government payments and inland foreign currency transactions. Currently, NBFIs are allowed to conduct FI to FI and bank to FI transactions through BD-RTGS System.

In 2023, a total of 9,464,325 transactions of local currencies valuing BDT 60,853.37 billion, and 706,751 transactions of foreign currencies valuing USD 21,622 million have been settled through BD-RTGS System. 5 new NBFIs and 177 new branches of different banks have been added to BD-RTGS system. Thus, a total of 11,470 online branches of 60 scheduled commercial banks and 19 NBFIs are currently connected to this system.

7.5 MOBILE FINANCIAL SERVICES

To bring the unbanked under payment ecosystem, Mobile Financial Services (MFS) was introduced in 2011. Currently, 9 banks and 3 subsidiary companies and 1 digital financial service provider (Nagad) are providing MFS as an alternative payment channel in the financial sector. MFS providers are expanding their areas of function through agents/bank branches/ATMs/mobile operator outlets and facilitating person-to-person transactions (from one registered mobile account to other registered mobile account), person-to-business transactions (such as utility bill and tax payment), business-to-person transactions (such as salary disbursements by corporate/industrial mills/offices), inward remittance disbursement, payment of various incentives/allowance provided by the government, merchant payments and other transactions including micro-finance and insurances premium payment. Moreover, labor-based small entrepreneurs, micro-merchants, marginal retail merchants, service providers, and social-media entrepreneurs have been facilitated to open a 'Personal Retail MFS Account' beside their personal MFS account.

As of December 2023, the total number of MFS agents is 1.72 million whereas the number of registered clients is 220.50 million, and the number of active clients is about 83.70 million. In 2023, a total amount of BDT 13,529.40 billion was transacted through MFS in around 6,161.00 million transactions.

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[54]Real-time refers to transactions that do not need any waiting period. Transactions are settled as soon as they are executed.

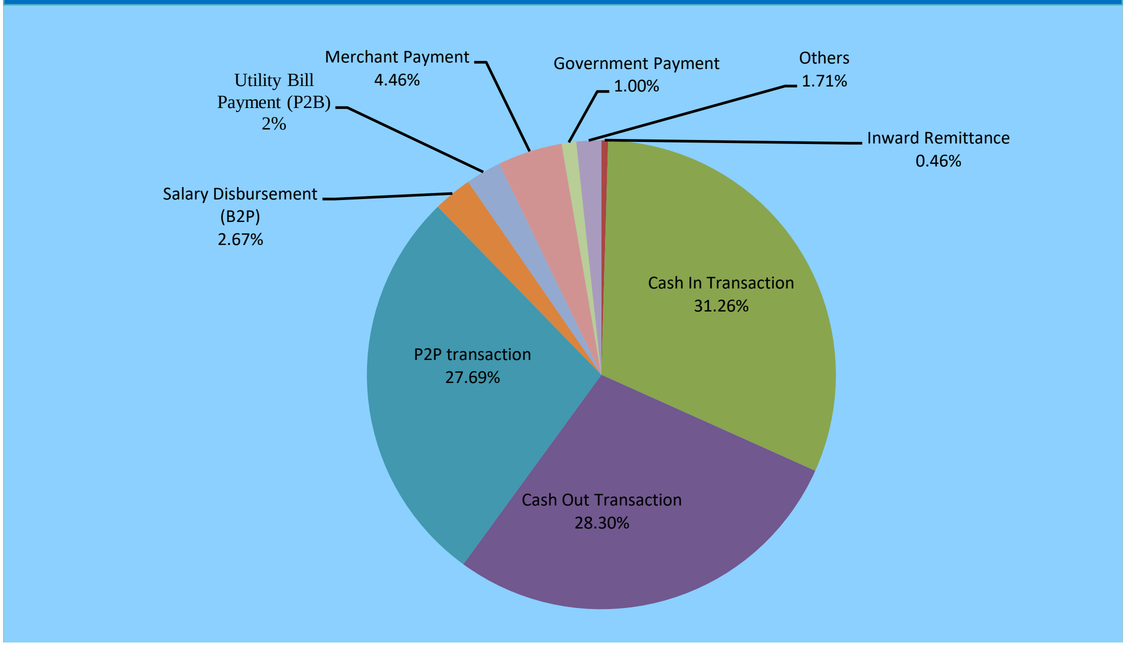
The growth of transactions amount through MFS is depicted in Table 7.2.

TABLE 7.2: THE GROWTH OF TRANSACTION AMOUNT THROUGH MFS IN 2023			
			(In Billion BDT)
Category	**2022**	**2023**	**Growth**
Inward Remittance	38.00	62.70	65.00%
Cash In Transaction	3086.00	4230.70	37.09%
Cash Out Transaction	2826.00	3831.30	35.57%
Person to Person transaction (P2P)	2866.00	3747.90	30.77%
Salary Disbursement (B2P)	346.00	361.40	4.45%
Utility Bill Payment (P2B)	208.00	331.00	59.13%
Merchant Payment	365.00	603.40	65.32%
Government Payment	81.90	136.00	66.06%
Others	342.00	231.50	-32.31%
Total	**10158.90**	**13535.90**	**33.24%**

Source: Payment Systems Department (PSD), BB.

Table 7.2 shows that, at end-December 2023, all the segments of MFS transactions experienced substantial growth compared to the preceding year. The growth of government payment, merchant payment, inward remittance, and utility bill payment through MFS were 66.06 percent, 65.32 percent, 65.00 percent, and 59.13 percent respectively. However, other segments like cash-in transaction, cash out transaction and person to person transaction also achieved satisfactory growth in 2023.

CHART 7.3: CATEGORY-WISE SHARE OF TRANSACTIONS OF MFS IN 2023



Source: Payment Systems Department (PSD), BB.

It appears from Chart 7.3 that cash in, cash out, and person to person (P2P) transactions together occupied 87.25 percent share of total MFS transactions in 2023 which indicates that people utilize MFS mostly as a cash transfer service. Among different categories of MFS, the highest amount took place in 'Cash In' (31.26 percent) followed by 'Cash Out' transactions (28.30 percent) in the review year.

CHART 7.4: GROWTH OF MFS DURING 2021-2023

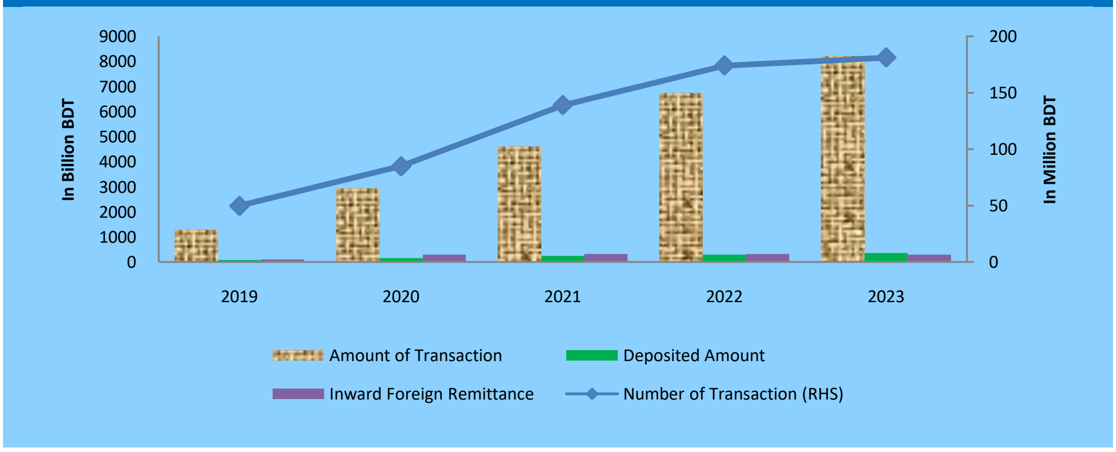
Source: Payment Systems Department (PSD), BB.

Chart 7.4 portrays that, in 2023, all key aspects of MFS had positive growth. Among all categories of MFS, the highest growth recorded in number of active accounts (45.82 percent) followed by volume of transactions (33.18 percent) in 2023 but agents and registered clients category recorded negative growth compared to 2022.

7.6 AGENT BANKING ACTIVITIES

To make financial services available for the unbanked, underserved and poor segments of the population, especially those from the geographically dispersed locations, Bangladesh Bank introduced agent banking in Bangladesh in 2013. Through using agent banking facilities clients can deposit their savings, take loans, receive foreign remittances, pay utility bills, taxes and get government social safety net benefits. This new form of banking service is playing a key role in extending financial inclusion in Bangladesh. As part of "Cost Leadership Strategy", banks are motivated towards establishing agent banking instead of traditional branches because it reduces operational cost and at the same time brings banking services to the lowest administrative unit of Bangladesh, i.e., at the Thana level. Up to December 2023, Bangladesh Bank has permitted 31 banks for operating Agent Banking activities through 21,601 outlets operated by 15,757 agents. At end-December 2023, around 21.42 million accounts were opened through agent banking, out of which 10.62 million were female accounts.

CHART 7.5: TRANSACTIONS THROUGH AGENT BANKING DURING 2019-2023



Source: Statistics Department, BB.

Chart 7.5 demonstrates that number of agent banking transactions, amount of transactions, and amount of deposit had been growing progressively during 2019-2023. At end-December 2023, the total amount of deposit, inward foreign remittance and transaction amount through agent banking stood at BDT 359.02

billion, BDT 289.70 billion, and BDT 8,206.90 billion respectively. The amount of transactions and deposit amount increased significantly by 21.93 percent and 20.93 percent respectively in 2023 whereas inward foreign remittance decreased by 9.47 percent in 2023 compared to the corresponding figures of the previous year.

7.7 PAYMENT SYSTEM OVERSIGHT

Payment system oversight comprises specialized monitoring of payment, clearing, and settlement systems carried out by central banks across the globe. It extends to the regulation of non-bank payment entities such as Mobile Financial Services (MFS), Payment Service Providers (PSPs), and Payment System Operators (PSOs) within the jurisdiction. Bangladesh Bank is dedicated to ensuring the safety, security, and efficiency of payment systems through continuous monitoring and evaluation as well as implementing policy adjustments as necessary. Effective oversight serves to stabilize financial infrastructure by recognizing and appropriately managing risks associated with payment systems. In accordance with the payment systems' oversight framework, Bangladesh Bank concentrates on the following activities:

a) Gathering on-site and off-site data from systems and participants concerning daily operations, financial flows, transaction patterns, risk exposures, risk management protocols, contingency plans, disruptions, and disputes for ongoing monitoring.
b) Verifying compliance of systems and participants with relevant rules and regulations, identifying any discrepancies, and offering recommendations with regular follow-up.
c) Assessing weaknesses within systems, participants, or schemes and pinpointing areas requiring enhancements or intervention from Bangladesh Bank.
d) Analyzing trends in systems and participant data to determine market share and prioritize segments for monitoring.
e) Facilitating 'Self-Assessment' exercises for systems and participants based on regulatory requirements and international standards.

7.8 POTENTIAL RISKS TO PAYMENT SYSTEMS OF BANGLADESH

In this era of digital transformation customers increasingly demand secure and efficient payment platforms to process their transactions swiftly. To keep pace with this transformation, payment systems of Bangladesh are rapidly advancing through technological innovation where security remains a paramount concern. Bangladesh Bank intensifies its monitoring and supervision efforts to mitigate cyber security risks at both domestic and cross-border transaction levels, while also pursuing banks and financial institutions to implement adequate precautionary measures. Despite these endeavors, some sporadic incidents of fraud and forgery occurred through various channels during the review period posing no significant threat to the stability of the financial system.

CHAPTER 8 : FOREIGN EXCHANGE MARKET

During the review year, foreign exchange (FX) market of Bangladesh demonstrated a moderate level of steadiness with a modest wavering of exchange rate. The Bangladesh Taka (BDT) against the US Dollar (USD) recorded a notable depreciation. The real effective exchange rate (REER) also depreciated marginally. As of end-December 2023, assets of the banking sector in FX decreased whereas liabilities and contingent liabilities increased compared to those of the preceding year. During the review period, both L/C opening and L/C settlement registered a significant decline largely due to the central bank's various measures for maintaining a desired level of foreign exchange reserves. Besides, wage earners' remittances slightly increased in the assessment period. In 2023, Bangladesh Bank (BB) sold a notable amount of US Dollar (USD) in the domestic FX market with a view to keeping the nominal exchange rate as well as the FX market stable. BB also purchased a mentionable amount of USD from the local market. The gross foreign exchange reserves at end-December-2023, USD 27.13 billion, appeared to be adequate in terms of import coverage and capability of withstanding plausible shocks from the external sector. It is noteworthy that the FX reserve as per BPM6 was USD 21.87 billion at end-December 2023.

8.1 FOREIGN EXCHANGE ASSETS, LIABILITIES, AND CONTINGENT LIABILITIES

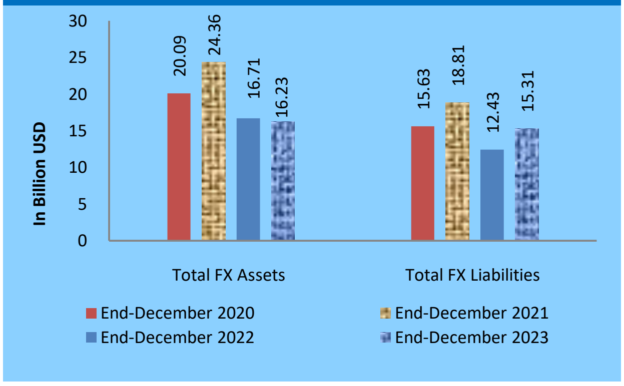
At end-December 2023, foreign exchange (FX) assets exhibited a slight decline whereas FX liabilities and contingent liabilities rose moderately compared to those of end-December 2022. However, FX assets and liabilities consisted of only 7.44 percent and 7.43 percent of total banking sector assets and liabilities respectively in 2023, indicating no immediate threat in the financial system.

At end-December 2023, banks' total FX assets decreased by 2.85 percent and stood at USD 16.23 billion from USD 16.71 billion at end-December 2022 (Chart 8.1). Although all of the debit balance in Nostro accounts namely cash holdings, BB FC clearing account, foreign currency bills purchased, investment in off-shore banking units (OBUs) increased in 2023, FX assets declined slightly due to a significant decrease in other assets.

On the other hand, a few segments of FX denominated liabilities like exporters' retention quota (ERQ), foreign demand draft (FDD), telegraphic transfer (TT), and mail transfer (MT) payable decreased moderately, whereas credit balances in Nostro accounts, back-to-back letter of credits (L/Cs), foreign currency (FC) accounts, non-resident foreign currency deposit (NFCD), and resident foreign currency deposit (RFCD) exhibited a significant increase in 2023 compared to the position of the previous year (Chart 8.1). That is why, FX liabilities grew by 23.18 percent and reached USD 15.31 billion from USD 12.43 billion at end-December 2022.

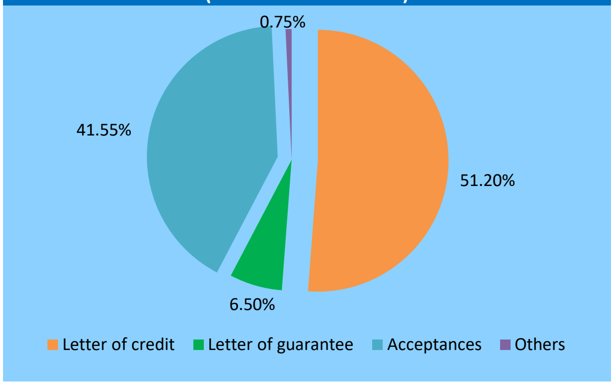
At end-December 2023, two major items of FX contingent liabilities namely L/Cs and acceptances in FC together constituted more than 90 percent of total contingent liabilities (Chart 8.2). As L/Cs, letter of guarantees, and acceptances increased, FX contingent liabilities of the banking sector increased by 25.41 percent and stood at USD 74.02 billion at end-December 2023 which was USD 59.02 billion at end-December 2022. The notable increase in FX contingent liabilities was mainly attributed to the increase of all the segments of liabilities which indicates a higher pressure on foreign currency (FC) to meet probable future payment obligations.

CHART 8.1: YEAR-WISE GROSS FX ASSETS AND LIABILITIES



Source: FEPD, BB.

CHART 8.2: COMPONENTS OF FX CONTINGENT LIABILITIES (END-DECEMBER 2023)



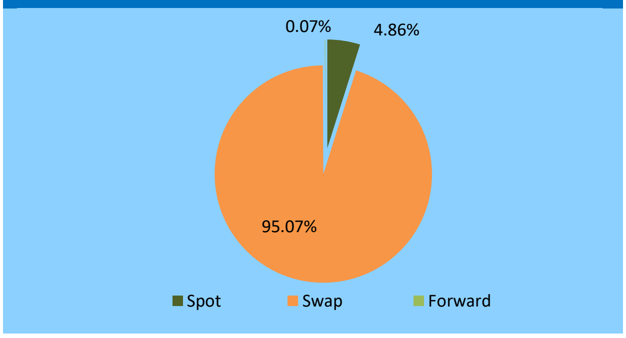
Source: FEPD, BB.

8.2 INTERBANK (LOCAL) FX TURNOVER

Interbank (local) FX turnover, led by swap transactions, decreased by 39.54 percent and recorded as USD 22.40 billion in 2023.

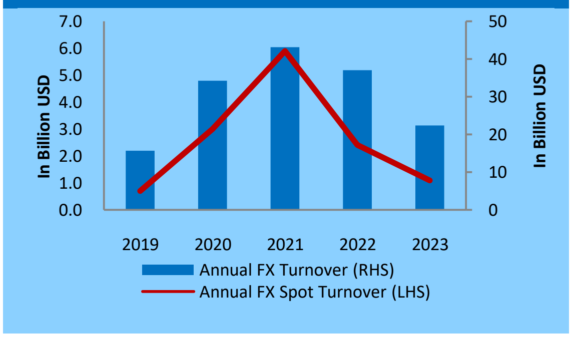
The swap transactions in interbank (local) FX market continued its dominance with 95.07 percent share followed by spot transactions with 4.86 percent share in 2023 (Chart 8.3). The reason behind this dominance is more flexibility of swap transactions in FX liquidity management. In 2023, both annual FX turnover and annual FX spot turnover decreased notably compared to those of the previous period and stood at USD 22.40 billion and USD 1.09 billion respectively (Chart 8.4).

CHART 8.3: COMPONENTS OF INTERBANK FX TURNOVER (2023)



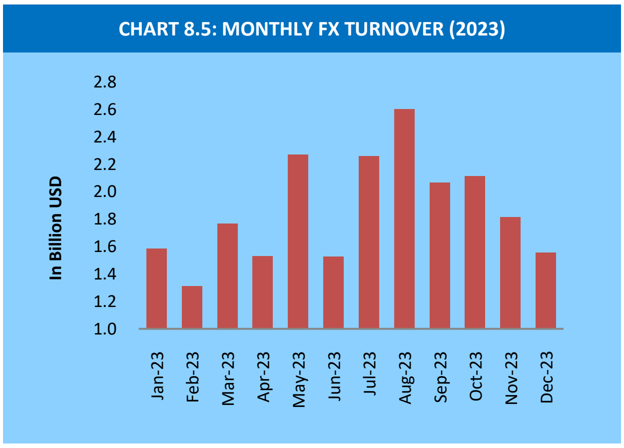
Source: FRTMD, BB.

CHART 8.4: ANNUAL FX AND FX SPOT TURNOVER

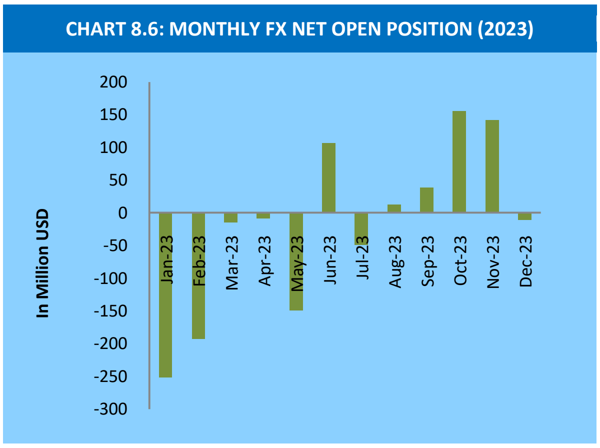


Source: FRTMD, BB.

The monthly average turnover of interbank (local) FX transactions was USD 1.87 billion in 2023, which was USD 3.09 billion in 2022. In addition, volume of monthly FX turnover fluctuated throughout the review year and showed a decreasing trend in the last two months of 2023 (Chart 8.5). The overall FX net open position was USD -11.28 million at end-December 2023 compared to USD -142.90 million at end-December 2022. The highest balance of USD 156.04 million was recorded at end-October 2023, while the lowest balance of USD -251.88 million was registered at end-January 2023 (Chart 8.6).



Source: FRTMD, BB.

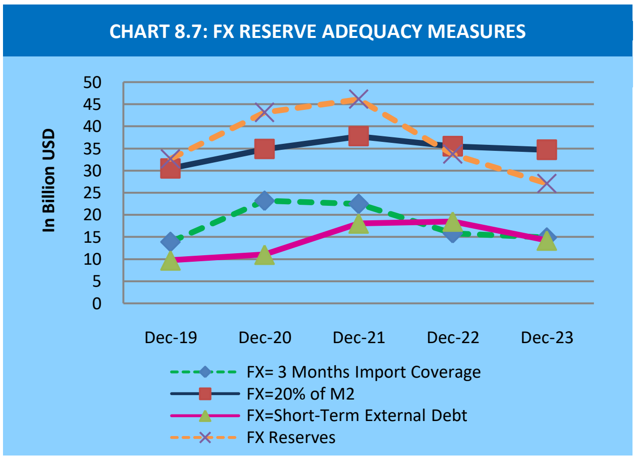


Source: FEPD, BB.

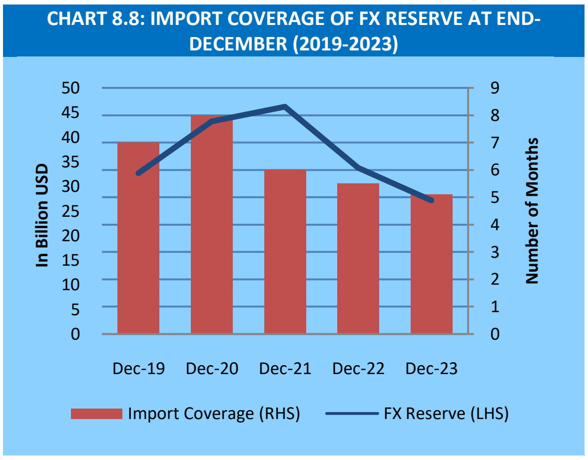
8.3 ADEQUACY OF FX RESERVES

At end-December 2023, gross foreign exchange reserve of Bangladesh stood at USD 27.13 billion which was deemed to be adequate to withstand plausible adverse shock from external sector front. Besides, as per BPM6, foreign exchange reserve was USD 21.87 billion in the review period.

Adequacy of FX reserves is an important factor while analyzing an economy's resiliency to soak up unexpected external vulnerabilities and shocks[55]. The gross foreign exchange reserves declined by 19.61 percent from USD 33.75 billion at end-December 2022 to USD 27.13 billion at end-December 2023 (Chart 8.7). This decline in FX reserves is partly attributable to Bangladesh Bank's attempt to secure availability of USD for import payments and address the need of USD in the local market. Although FX reserves decreased at end-December 2023, it was adequate to meet up around 5.1 months' import of goods on prospective basis (Chart 8.8).

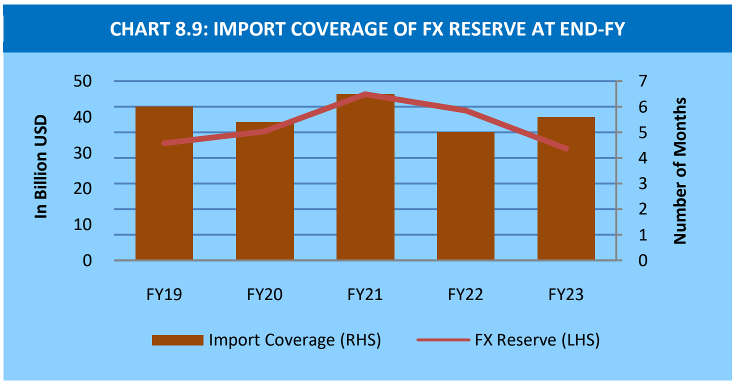


Source: MET; NSDP, BB website; Calculation: FSD.



Source: Statistics Department, BB.

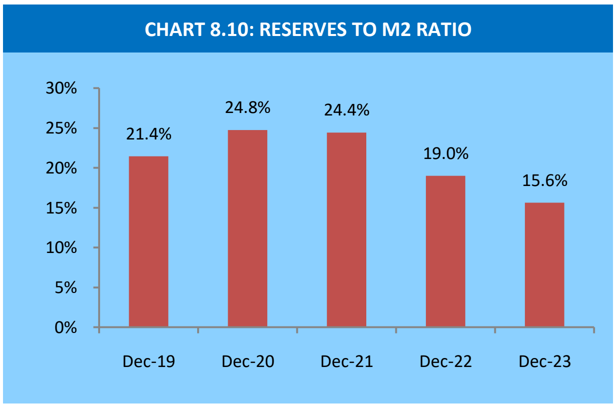
[55]Among the different benchmarks for measuring FX reserve adequacy, three mostly used benchmarks are: (i) sufficient FX reserve to cover at least three months' import payments, (ii) reserves equal to 20 percent of M2, and (iii) reserves sufficient to cover external debt becoming due within 12 months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



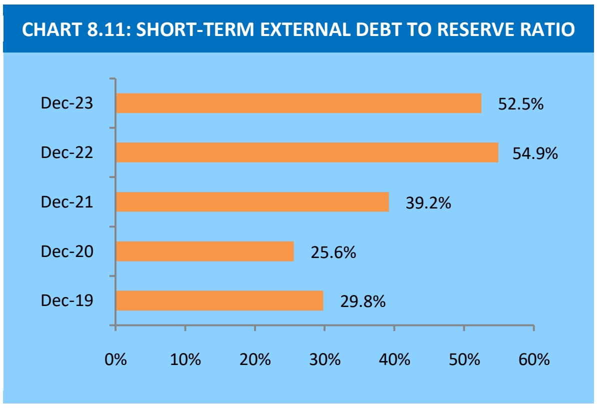
Source: Bangladesh Bank Quarterly, December 2023, BB.

It is noteworthy that FX reserve was USD 31.20 billion at the end of FY23 which was sufficient to cover around 5.6 months' import of goods on prospective basis (Chart 8.9). Importantly, FX reserves and nominal exchange rate may experience significant challenges in the near future because of continuous hike of commodity prices in the global markets as well as prolonged global geopolitical tensions.

In terms of reserves to M2 (broad money) criteria, Bangladesh had a considerable shortfall in the required level of reserves. The ratio of reserves to M2 was 15.6 percent at end-December 2023, notably lower than the acceptable benchmark of 20 percent (Chart 8.10). On the other hand, the ratio of short-term external debt (STED) to FX reserves fell to 52.5 percent in the review period from 54.90 percent in 2022, largely due to the decline in short-term external debt. Importantly, capacity of the FX reserves to cover this short-term external debt remained robust (Chart 8.11).



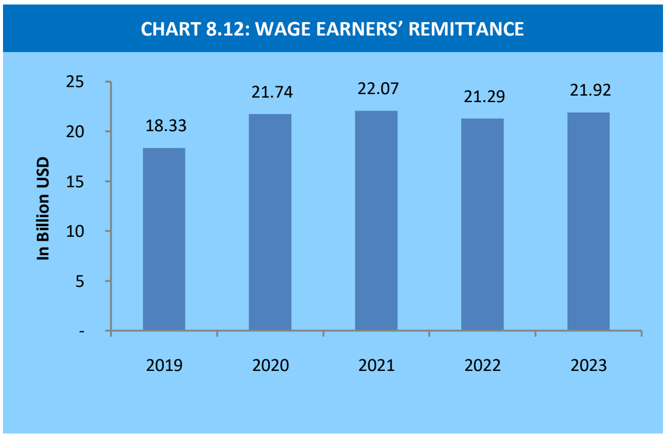
Source: MET; NSDP, BB website; Calculation:FSD



Source: NSDP, BB website.

8.4 WAGE EARNERS' REMITTANCE

Wage earners' remittance was almost static in the last couple of years despite its marginal increase in 2023.

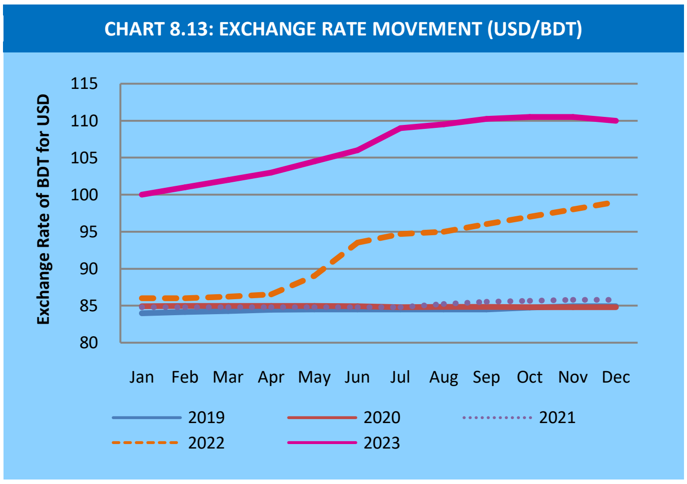


Source: NSDP, BB Website.

The remittance inflow grew by USD 0.63 billion (2.96 percent) and reached to USD 21.92 billion in 2023 from USD 21.29 billion in 2022 (Chart 8.12). The highest amount of remittance (USD 2.20 billion) inflow was recorded in June 2023 while the lowest amount (USD 1.33 billion) was registered in September 2023. Pertinently, Bangladesh Bank along with Government continued to undertake a lot of initiatives to enhance the remittance inflow through formal banking channel.

8.5 EXCHANGE RATE MOVEMENT

Nominal exchange rate recorded a moderate level of depreciation throughout the review year.

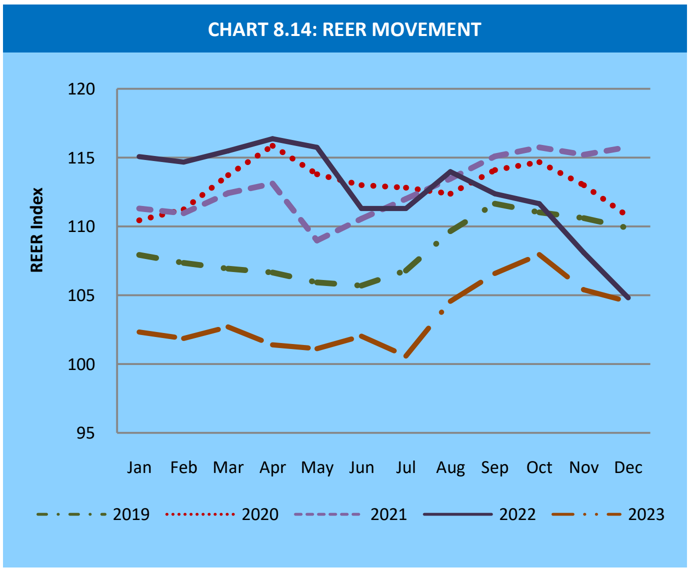


Source: Monthly Economic Trend, BB.

The FX market showed an ascending drive in the nominal exchange rate with the depreciation of 11.11 percent in the assessment year. The monthly average nominal exchange rate of USD to BDT experienced a slow rising trend since the beginning of the year 2023. The maximum exchange rate (BDT 110.50 per USD) was recorded both at end-October 2023 and end-November 2023 while the lowest (BDT 100.00 per USD) took place at end-January 2023 (Chart 8.13).

8.6 MOVEMENT OF REAL EFFECTIVE EXCHANGE RATE (REER)

Real effective exchange rate (REER) index experienced a mild fluctuation throughout the review year and slightly decreased at end-December 2023 compared to end-December 2022.



Source: Monetary Policy Department, BB.

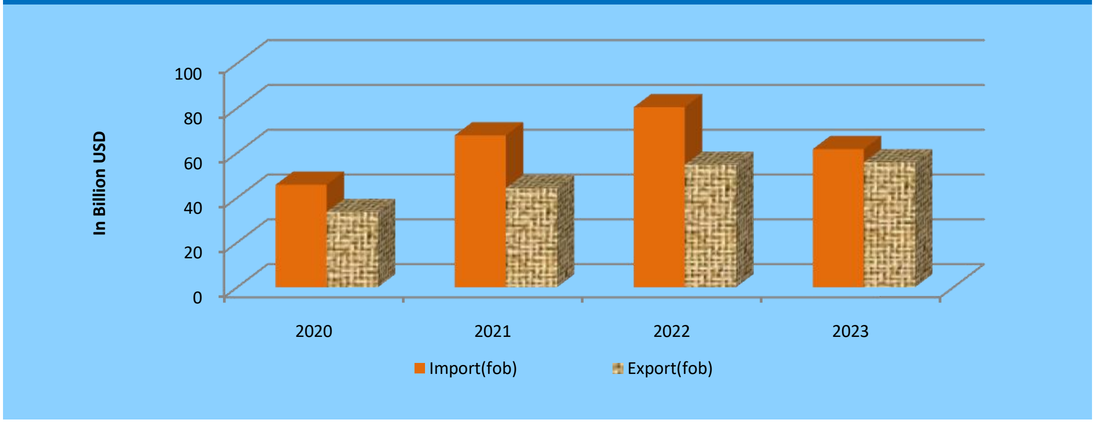
After three consecutive years (2019-2021) of appreciation, REER index registered a depreciation of 9.46 percent in 2022. With the similar trend, the index posted a slight depreciation of 0.27 percent in 2023 from that of the previous year. The index steadily oscillated from January to July, 2023 and then started to increase with a fluctuating trend and reached to 104.53 at the end of the review year (Chart 8.14). This slight depreciation in the index value is likely to be reassuring for production and export growth whereas importers may face some inconvenience.

8.7 TREND OF FOREIGN TRADE

In conformity with the historical trend, import volume exceeded export volume in 2023, but the trade deficit decreased in the review year compared to that of the previous year.

After recording increase in three consecutive years (2020-2022), import declined by 23.27 percent and stood at USD 61.70 billion in 2023 from USD 80.41 billion in 2022 (Chart 8.15). On the other hand, export showed a rising trend in 2023 which was similar to those of the previous years (2020-2022). In the review year, export volume recorded USD 55.79 billion with a minor rise of 1.99 percent from USD 54.70 billion in 2022. In 2023, trade deficit reduced to USD 5.91 billion from USD 25.71 billion in 2022.

CHART 8.15: TREND OF FOREIGN TRADE



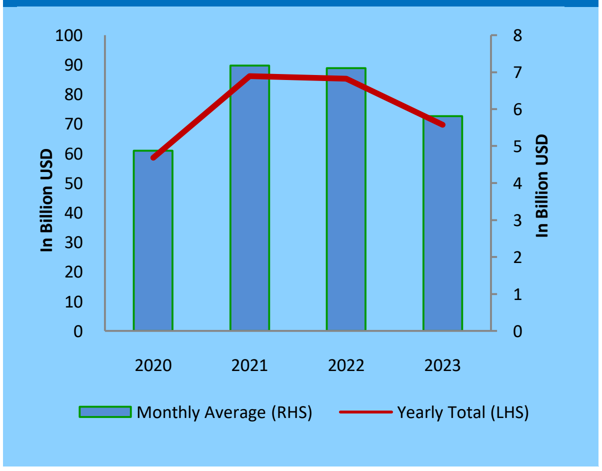
Source: Monthly Economic Trend, BB.

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

Both L/C opening and L/C settlement decreased significantly in the review year due to restrictions on import of luxurious commodities by BB.

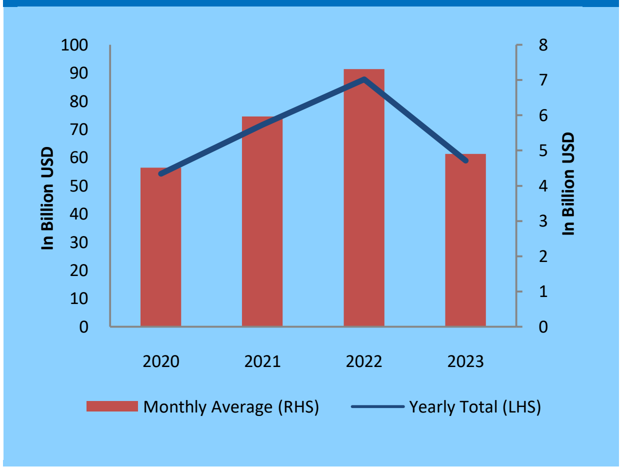
The L/C opening for import dwindled notably by 18.25 percent and reached at USD 69.72 billion in 2023 from USD 85.28 billion in 2022 (Chart 8.16). On the other hand, the L/C settlement dropped markedly by 32.94 percent and stood at USD 58.82 billion in 2023 from USD 87.71 billion in 2022 (Chart 8.17). This decline in import L/Cs could partly be attributed to the initiatives taken by BB for curbing the imports of non-essential and luxurious items towards retaining a reasonable level of foreign exchange reserve.

CHART 8.16: IMPORT L/C OPENING



Source: FEOD, BB.

CHART 8.17: IMPORT L/C SETTLEMENT

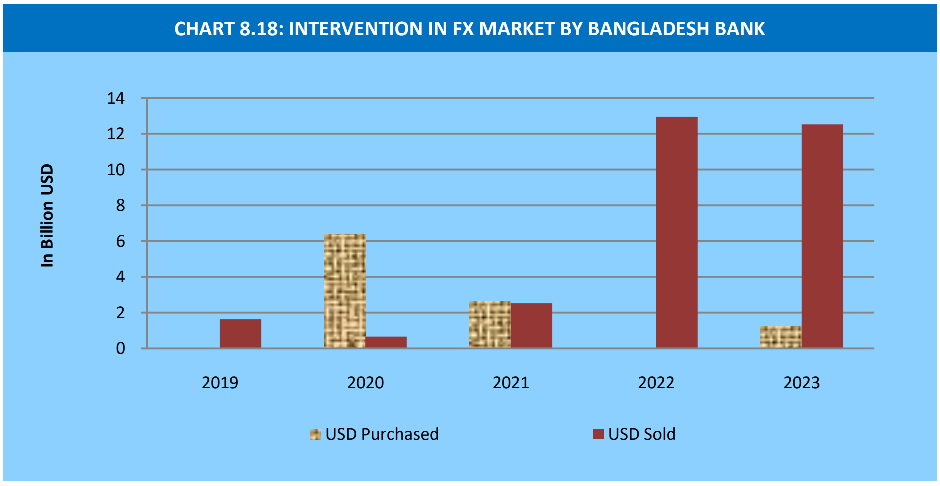


Source: FEOD, BB.

8.9 INTERVENTION IN FX MARKET BY BB

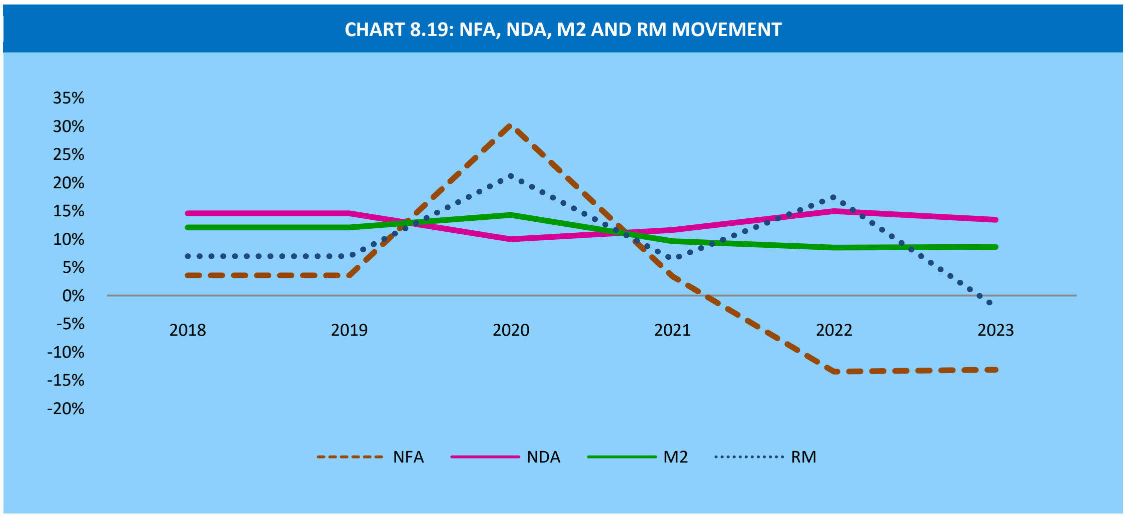
With a view to managing the FX market liquidity, Bangladesh Bank purchased USD 1.24 billion and sold USD 12.51 billion in 2023.

In order to maintain the exchange rate stability and also to ensure enough liquidity in the FX market, Bangladesh Bank injected notable amount of USD in the local market during the review year. In particular, BB purchased USD 1.24 billion from the local market and sold USD 12.51 billion, resulting in a net sale of USD 11.27 billion in 2023 (Chart 8.18). Indeed, higher import payments, lower export receipts as well as lower inward foreign remittances created pressures from the demand side in foreign exchange market.



Source: FRTMD, BB.

Several factors like exchange rate impulsiveness, and higher import payments resulted in a subsequent decline in growing trajectory of net foreign assets (NFA) in 2023. The growth of NFA was -13.13 percent which was -13.48 percent in 2022. Reserve Money (RM) also experienced a lower growth of -2.03 percent in 2023 compared to 17.41 percent growth recorded in 2022. Net Domestic Asset (NDA) registered a moderate growth of 13.42 percent in 2023 which was 14.95 percent in 2022. Broad Money (M2) recorded an increase of 8.60 percent, marginally lower than the target level of 9.5 percent in 2023 (Chart 8.19).



Source: Monthly Economic Trend, BB.

CHAPTER 9 : INSURANCE SECTOR IN BANGLADESH

Insurance protects against uncertainties and potential financial losses by managing and transferring risks. It also facilitates financial intermediation. Moreover, insurance coverage against possible losses acts as an insulator, particularly during crises. As such, prudent risk management by insurance businesses contributes to financial stability.

The insurance sector is connected with other components of the financial system, such as the bond market, banks and FIs, and the capital market. Unlike banks and many other financial institutions, insurance companies, particularly life insurance, accumulate long-term liabilities which make them less prone to liquidity risk. Therefore, they can invest in long-term assets such as bonds, fixed deposit receipts, and equities. These investments channel necessary funds into the economy; ensuring economic growth, and providing liquidity and stability in the financial system. Therefore, prudent investment decisions are important; otherwise, the insurance sector would become vulnerable and may transmit risks to other interconnected sectors of the economy.

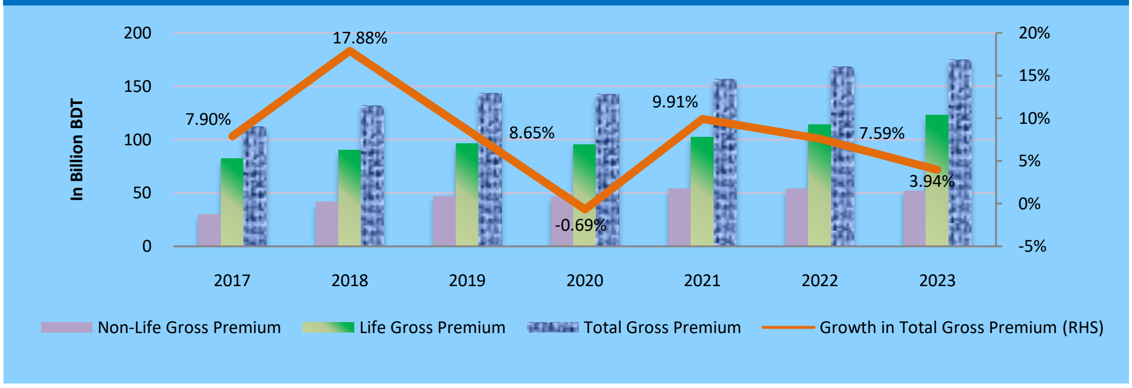
Currently, 35 life insurance companies including a foreign company and a public sector company, and 46 general (non-life) insurance companies including a public sector company are operating in Bangladesh. Insurance Development and Regulatory Authority (IDRA), established in 2010, regulates and supervises the insurance sector in Bangladesh.

Insurance penetration ratio and insurance density ratio, two main indicators of measuring development in insurance, remained low in Bangladesh in 2023[56] *despite significant increases in both total gross premium and total assets of the insurance sector. Other key indicators of the insurance sector demonstrated mixed trend during the review year. The insurance sector remained highly concentrated within a few companies and is interconnected with other financial markets. Therefore, continuous monitoring and supervision are essential to maintain the stability of the financial system.*

9.1 PREMIUM GROWTH AND ASSET SIZE

Both total gross premium and total assets of the insurance sector increased during the review year. Life insurance companies held about two-thirds of the total gross premium and total assets.

CHART 9.1: TREND IN GROSS PREMIUM AND ITS GROWTH



Source: IDRA; Calculation: FSD, BB.

Chart 9.1 exhibits the trend in gross premium of the insurance industry in Bangladesh. Total gross premium of Insurance sector reached to BDT 174.78 billion in 2023 from BDT 168.15 billion in 2022,

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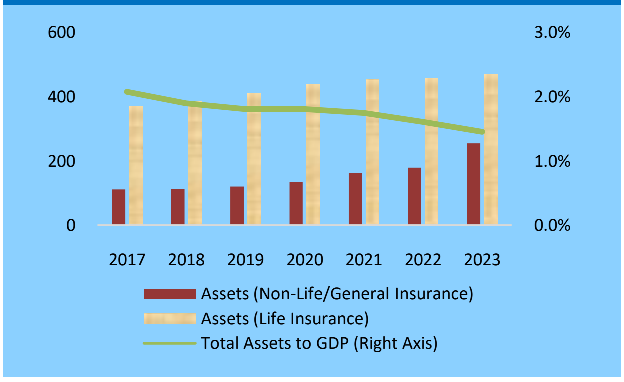
[56]The analysis of insurance sector for 2023 was based on the unaudited statements of the insurance companies which were provided by IDRA. Some data of 2022 are revised (denoted as [R]).

registering an increase of 3.94 percent. It is noteworthy that the life insurance companies contributed 70.22 percent of the total gross premium of the insurance industry in 2023.

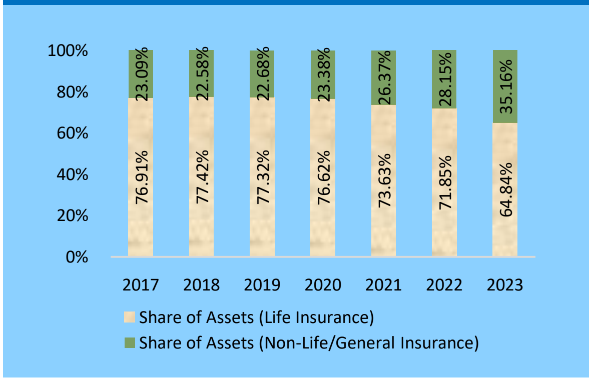
Chart 9.2 exhibits the trend in insurance sector's assets (in amount and relative to GDP) from 2017 to 2023. In 2023, assets of life insurance and non-life (general) insurance companies stood at BDT 470.55 billion and BDT 255.17 billion respectively compared to BDT 457.15 billion and BDT 179.14 billion respectively in the preceding year. Overall, total assets of insurance sector increased by 14.06 percent from that of 2022 and stood at BDT 725.73 billion in 2023. Despite this overall growth, insurance sector's total assets to GDP slightly declined to 1.45 percent in 2023 compared to 1.60 percent in the preceding year. Noteworthy, assets of the life insurance companies constituted 64.84 percent of the total assets of the insurance sector in 2023. However, assets of the non-life insurance companies increased its share in total assets to 35.16 percent in 2023 from 28.15 percent in 2022 (Chart 9.3).

CHART 9.2: TREND IN INSURANCE SECTOR ASSETS



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

CHART 9.3: BREAKDOWN OF TOTAL ASSETS BY TYPE OF COMPANIES

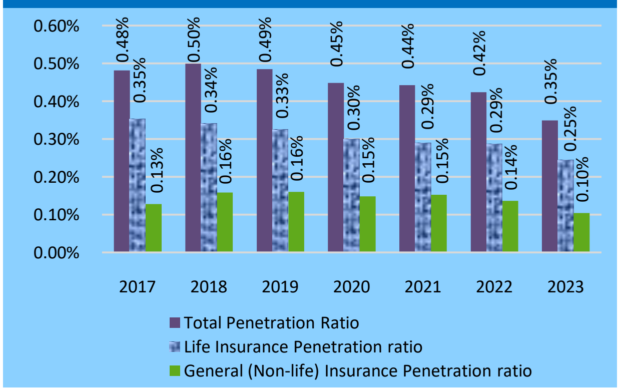


Source: IDRA; Calculation: FSD, BB.

9.2 INSURANCE SECTOR DEVELOPMENT: PENETRATION AND DENSITY

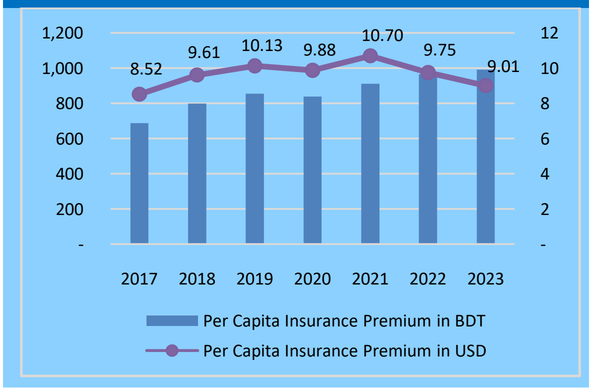
Insurance penetration ratio[57] continued to decrease while insurance density ratio[58] reflected mixed performance in 2023.

CHART 9.4: INSURANCE PENETRATION RATIO



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

CHART 9.5: INSURANCE DENSITY RATIO



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

The advancement of the insurance sector in an economy can be measured by the ratio of gross insurance premium in a particular year to the GDP, known as insurance penetration ratio. Chart 9.4 shows downward trend in insurance penetration ratio in Bangladesh during 2017-2023. The penetration ratio was

[57]Gross insurance premium in a particular year to GDP.

[58]Average per capita spending on gross insurance premium.

0.35 percent in 2023, which was 0.42 percent in the preceding year. Relatively slower growth of insurance premium compared to GDP growth resulted in a downward penetration ratio.

The insurance density ratio, i.e., average per capita spending on gross insurance premium of the country is low as majority of people in Bangladesh remain outside the insurance coverage, partially due to lower savings rate and lack of financial literacy. In BDT, the ratio increased to 990.80 in 2023 from 965.06 in 2022, while in USD the ratio was 9.01 and 9.75[R] in 2023 and 2022 respectively (Chart 9.5). The depreciation of BDT against the USD was the main reason for the lower per capita gross insurance premium in USD in 2023 compared to 2022.

9.3 KEY INDICATORS OF GENERAL INSURANCE SECTOR

Key indicators of general insurance sector showed mixed performance during the review year. Claims settlement ratio, management expense ratio, investment to total assets ratio increased while return on investment and risk retention rate declined compared to that of the previous year.

Table 9.1 demonstrates some key indicators of general insurance companies in Bangladesh. The claims settlement ratio[59] increased to 41.35 percent, 7.91 percentage points higher than that of 2022. Generally, higher claims settlement ratio contributes positively to the reliability of the insurance provider. Investment to total assets ratio increased slightly to 47.92 percent, which was 47.40 percent in 2022. Moreover, risk retention rate (RRR) of general insurance sector decreased to 52.93 percent in 2023 compared to 55.10 percent in the preceding year, indicating comparatively lower risk sharing among the insurance companies. However, management expense ratio of general insurance companies increased to 50.26 percent in the review year from 42.24 percent in 2022. Return on investment (ROI) decreased to 4.50 percent in 2023 compared to the previous year's 5.65 percent, which resulted in an overall decrease in profitability.

TABLE 9.1: KEY INDICATORS-GENERAL/NON-LIFE INSURANCE

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

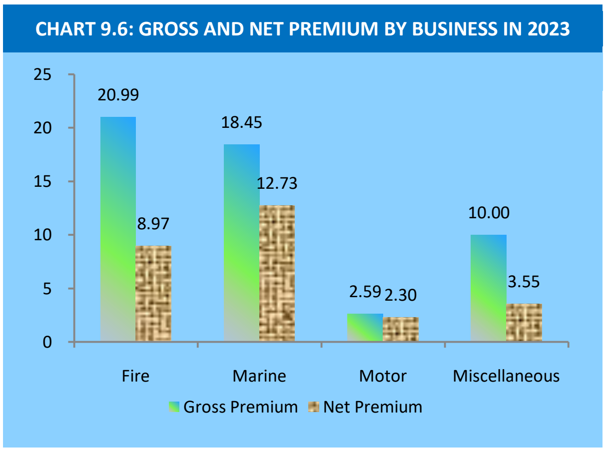
Source: IDRA, Calculation: FSD, BB.

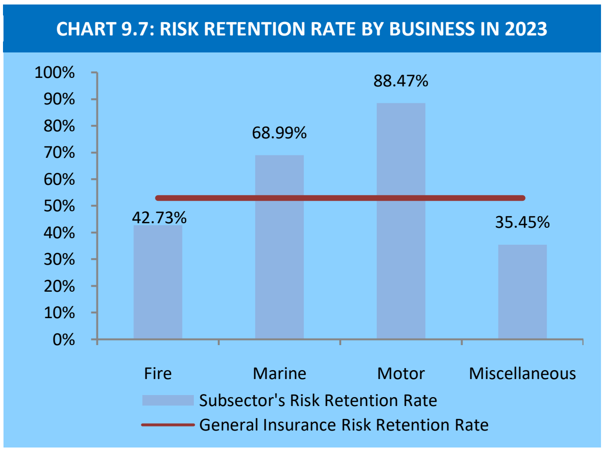
9.4 COMPARISON AMONG DIFFERENT CATEGORIES OF GENERAL INSURANCE

Gross and net insurance premium diverged across different business types of general insurance sector in 2023 due to difference in risk retention rate.

In Bangladesh, services of general insurance are categorized as fire, marine, motor, and miscellaneous insurance. Chart 9.6 illustrates the category-wise gross and net premium in 2023. The chart demonstrates that fire insurance was the highest source of gross premium in 2023, 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 9.7 shows the risk retention rate by business category. It exhibits that risk retention rate differs in different insurance categories. Risk retention was highest for motor (88.47 percent) followed by marine (68.99 percent), fire insurance (42.73 percent) and miscellaneous (35.45 percent). Noteworthy that the overall risk retention rate for the general insurance was 52.93 percent in 2023.

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





Source: IDRA; Calculation: FSD, BB.

9.5 KEY INDICATORS OF LIFE INSURANCE SECTOR

In 2023, most of the important indicators of life insurance sector remained same in comparison with that of the previous year, except claims settlement ratio which recorded notable improvement.

Table 9.2 presents some key indicators of life insurance companies in Bangladesh for 2022 and 2023. Claims settlement ratio of life insurance companies increased by 5.46 percentage points to reach 72.43 percent in 2023, offering enhanced credibility and reliability of the life insurance companies, which is encouraging for the life insurance policy-holders. Risk retention rate decreased slightly to 99.34 percent in 2023 compared to 99.48 percent in 2022. The smaller size of life insurance policies in Bangladesh is one of the main impediments in attracting foreign reinsurers, which may have caused such a high retention rate. Moreover, investment to total assets ratio of life insurance companies improved marginally to 83.12 percent in 2023. However, return on investment was slightly lower (7.21 percent) than that of the previous year (7.39 percent). Noteworthy that management expense ratio of life insurance companies increased slightly to 32.63 percent in the review year.

TABLE 9.2: KEY INDICATORS-LIFE INSURANCE

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

Note: R=Revised.
Source: IDRA; Calculation: FSD, BB.

9.6 CONCENTRATION IN INSURANCE SECTOR

Insurance sector remained highly concentrated both in terms of asset size and gross premium.

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 premium. In case of general insurance sector, assets and gross premiums were concentrated into a single public sector insurance company. Since insurance market is highly concentrated into top five insurers, these companies warrant close monitoring and supervision as they might create systemic risk.

TABLE 9.3: CONCENTRATION OF ASSET AND GROSS PREMIUM IN INSURANCE COMPANIES IN 2023

Concentration in Life Insurance		
	Asset Size	Gross Premium
Total sector (In billion BDT)	470.55	122.73
Top 5 insurance companies (In billion BDT)	360.67	76.10
Concentration in top five companies	76.65%	62.01%
Concentration in Jibon Bima Corporation (JBC)*	6.02%	6.44%
Concentration in General Insurance		
	Asset Size	Gross Premium
Total sector (In billion BDT)	255.17	52.04
Top 5 insurance companies (In billion BDT)	174.48	23.53
Concentration in top five companies	68.38%	45.21%
Concentration in Sadharon Bima Corporation (SBC)*	25.83%	18.63%

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

9.7 INTERCONNECTEDNESS BETWEEN INSURANCE AND OTHER SECTORS

Insurance sector is highly interconnected with banks and financial institutions, capital market and bond market through its investment. Any stress on those markets may have adverse impact on the insurance market.

Investment portfolio of life and general insurance companies are exhibited in Chart 9.8 and Chart 9.9 respectively. Government Bonds captured major portion of investment portfolio of life insurance followed by FDR with banks and FIs, other investments, real estate and capital market (Chart 9.8). On the contrary, investment portfolio of general insurance companies shows greater weight in FDR followed by capital market, real estate and government bonds (Chart 9.9).

CHART 9.8: INVESTMENT PORTFOLIO OF LIFE INSURANCE COMPANIES

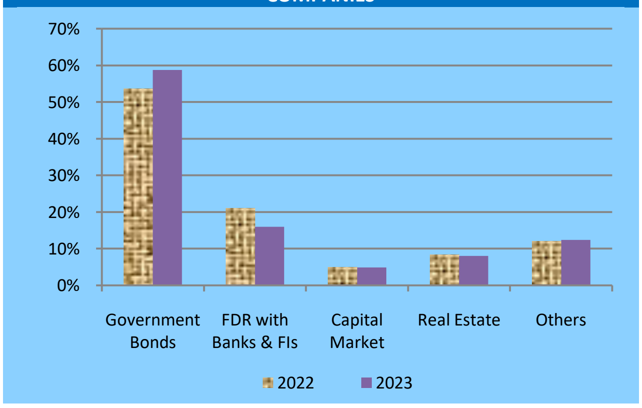
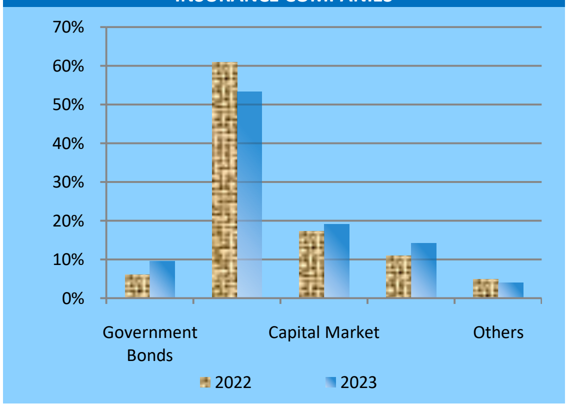
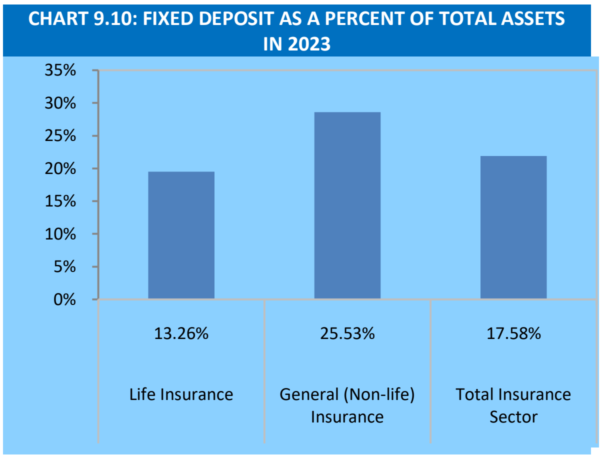


CHART 9.9: INVESTMENT PORTFOLIO OF GENERAL INSURANCE COMPANIES

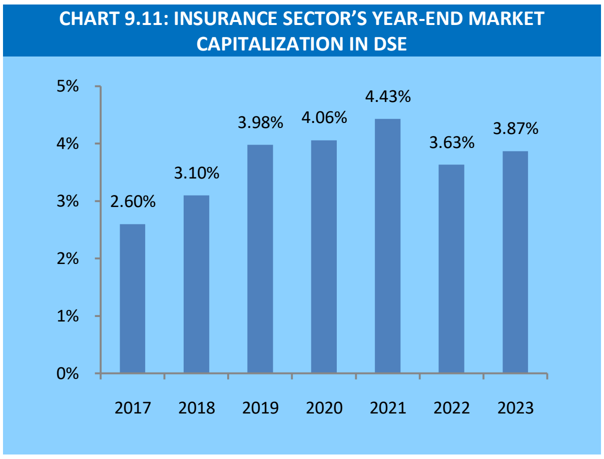


Source: IDRA; Calculation: FSD, BB.

Insurance companies earn a large portion of their interest income by maintaining fixed deposits with banks and FIs. 17.58 percent of the total assets of the insurance sector was deposited at banks and financial institutions as fixed deposit in 2023 (Chart 9.10), which is equivalent to only 1.49 percent of the total fixed deposits held with the banking sector in 2023. So, sudden and unexpected withdrawal of fixed deposits by insurance companies may not pose any significant risk to the banking sector. Conversely, any stress in the banking and financial institution sectors could adversely affect the insurance sector as a substantial portion of their assets would be affected.



Source: IDRA; Calculation: FSD, BB.



Source: DSE; Calculation: FSD, BB.

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 insurance sector's investment. But stress on insurance market may have limited impact on the stock market as aggregate market capitalization of the listed insurance companies in Dhaka Stock Exchange (DSE) was only 3.87 percent in 2023 (Chart 9.11).

CHAPTER 10 : MICROFINANCE INSTITUTIONS (MFIs)

Microfinance Institutions (MFIs) are playing an indispensable role in Bangladesh, particularly in addressing the issues in regard to financial inclusion and poverty alleviation by providing loans and other required supports to the marginalized people through various income generating activities. The microfinance sector in Bangladesh is regulated by Microcredit Regulatory Authority (MRA), which oversees the operations of MFIs to ensure compliance with regulatory standards and consumer protection measures. During FY23, a total of 731 MFIs through their 25,366 branches were rendering microfinance and other services to more than 40 million people of the country. Since its establishment, MRA has been working for the betterment and sustainable development of the microfinance sector by formulating and implementing laws, regulations, circulars, and monitoring the sector through on-site and off-site supervision as well as developing human resources through various trainings, workshops etc. Soundness of microfinance sector is crucial in promoting financial stability of the country.

10.1 ACTIVITIES OF MICROFINANCE INSTITUTIONS (MFIs)

Microfinance Institutions (MFIs) in Bangladesh conduct their activities in providing financial services particularly to the unbanked and underprivileged population. MFIs offer small loans, loans without collateral, agricultural loans, seasonal loans, loans for disaster management, and various saving schemes for the members.

In FY23, this sector provided financial services to 40.86 million individuals and micro enterprises in the country, an enhancement of 6.77 percent from the figure of FY22. In this period, number of the branches increased by 7.62 percent whereas the number of employees decreased by 0.34 percent compared to those of FY22 (Chart 10.1). A decreasing trend in number of licensed MFIs was observed during the last three consecutive financial years (FY21 to FY23) while the licenses of 11 MFIs were cancelled in FY23 due to non-compliance issues.

During FY23, outstanding balances of loans and savings of this sector stood at BDT 1,504.18 billion and BDT 620.55 billion respectively, which were 21.17 percent and 25.05 percent higher than those of FY22 (Chart 10.2).

CHART 10. 1: NUMBER OF LICENSED INSTITUTIONS, BRANCHES, EMPLOYEES AND MEMBERS

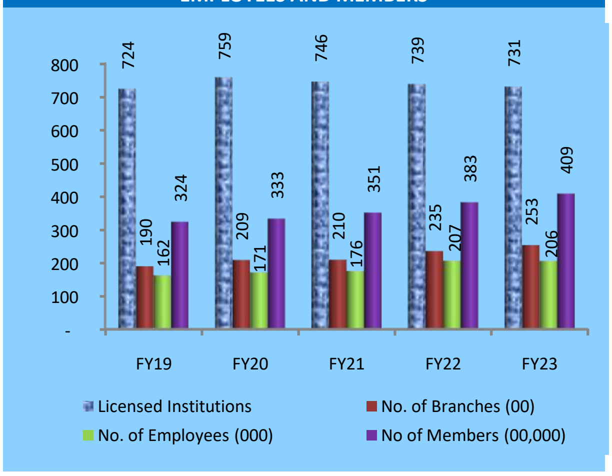
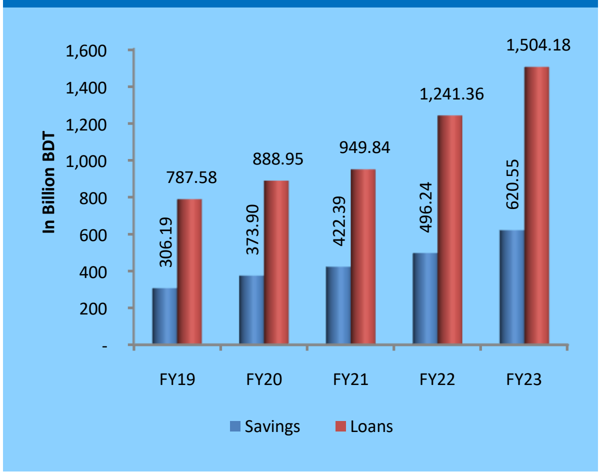


CHART 10. 2: SAVINGS AND LOANS SCENARIO OF MFIs



Source: Microcredit Regulatory Authority.

The number of borrowers and members of MFIs had been burgeoning throughout FY19 to FY23. In particular, these numbers rose by 1.69 million and 2.59 million respectively in FY23 compared to the preceding year (Chart 10.3). On the other hand, the borrowers-to-members ratio declined by 0.80 percentage point and stood at 77.17 percent in FY23 (Chart 10.4).

CHART 10. 3: TREND OF SECTOR OUTREACH

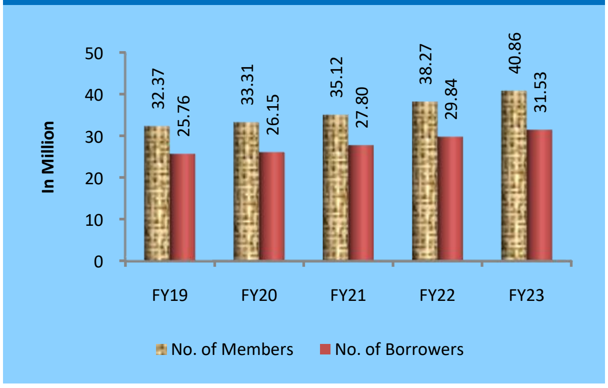
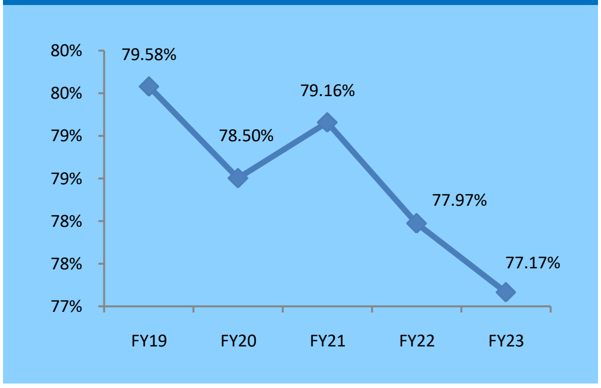


CHART 10. 4: BORROWERS-TO-MEMBERS RATIO



Source: Microcredit Regulatory Authority; Calculation: FSD

The average loans and savings per institution demonstrated a rising trend over the last five financial years. In FY23, the stated indicators increased by BDT 377.92 million (22.50 percent) and BDT 177.40 million (26.42 percent) respectively compared to those of the preceding year (Chart 10.5).

The growth in loans and savings per MFI branch also exhibited similar trend during the review period. In particular, the average loans and savings per branch was BDT 59.37 million and BDT 24.49 million respectively in FY23, which were 12.60 percent and 16.20 percent higher than those of FY22 (Chart 10.6).

CHART 10. 5: AVERAGE LOANS AND SAVINGS PER INSTITUTION

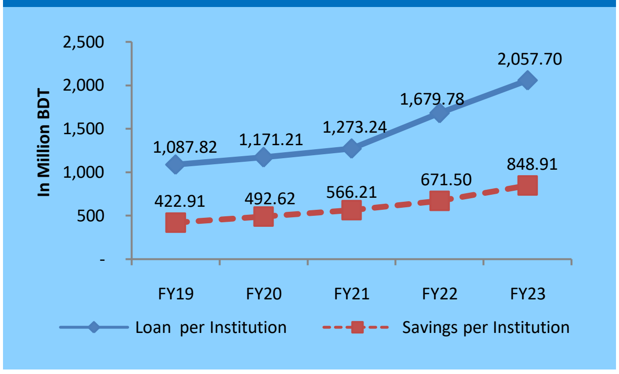
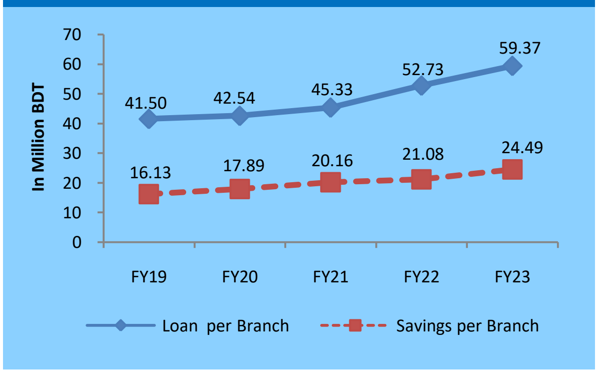


CHART 10. 6: AVERAGE LOANS AND SAVINGS PER BRANCH



Source: Microcredit Regulatory Authority; Calculation: FSD.

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

CHART 10. 7: AVERAGE LOAN PER BORROWER AND SAVINGS PER MEMBER

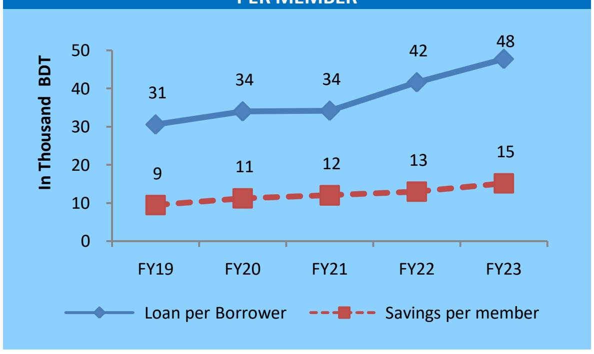
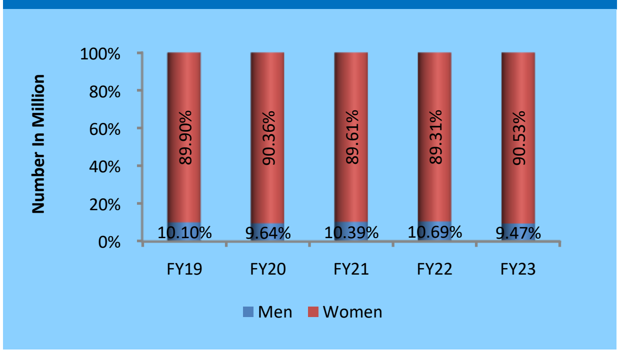


CHART 10. 8: STRUCTURE OF MEMBERSHIP



Source: Microcredit Regulatory Authority; Calculation: FSD.

The MFI sector is mostly dominated by female members (90.53 percent), and their number recorded a growth of 8.22 percent in FY23 compared to FY22 (Chart 10.8). The number of male members reached at 3.87 million, posting a decrease of 5.38 percent from that of FY22. The proportion of male members declined by 1.22 percentage points in FY23.

In FY23, out of 36.99 million female members, 28.49 million (77.02 percent) took credit facilities from respective MFIs. In contrast, out of 3.87 million male members, 3.04 million (78.55 percent) availed credit facilities from the concerned MFIs. These figures indicate that, in aggregate, female participation in getting access to microcredit was noticeably higher than their male counterpart.

10.2 LOAN STRUCTURE

In FY23, outstanding loans lying in the ranges of up to BDT 50,000; BDT 50,001 to 100,000; BDT 100,001 to 300,000, and above BDT 300,000 constituted 26.79 percent, 29.73 percent, 27.67 percent, and 15.81 percent respectively (Chart 10.9).

The proportionate share of outstanding loans given under the segment of up to BDT 50,000 declined by 5.83 percentage points in FY23. On the other hand, the proportionate shares of outstanding loans ranging from BDT 50,001 to 1,00,000; BDT 100,001 to 300,000; and above BDT 3,00,000 increased by 1.04 percentage points, 3.05 percentage points, and 1.73 percentage points respectively (Chart 10.10). Contraction in demand for smaller amount of credits, and rising demand for larger amount of microcredit especially in the rural areas reflects the improvement of socio-economic scenario of the economy over the years.

CHART 10. 9: OUTSTANDING LOAN SHARE IN FY23

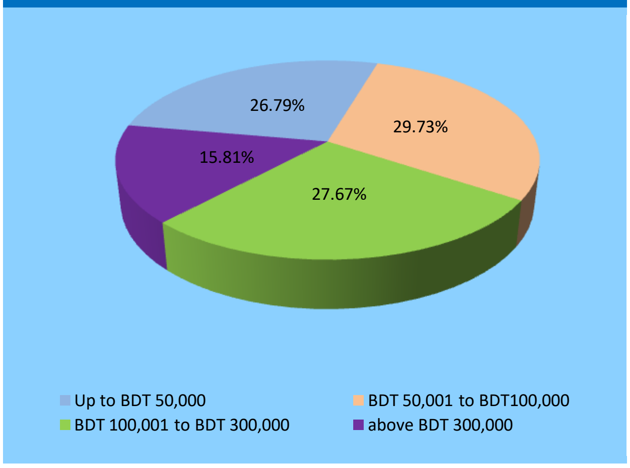
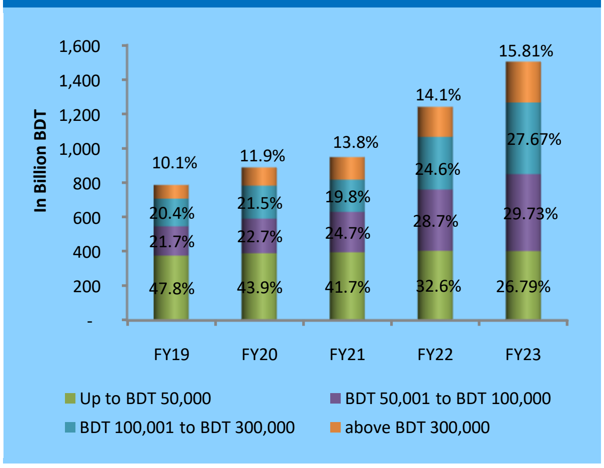
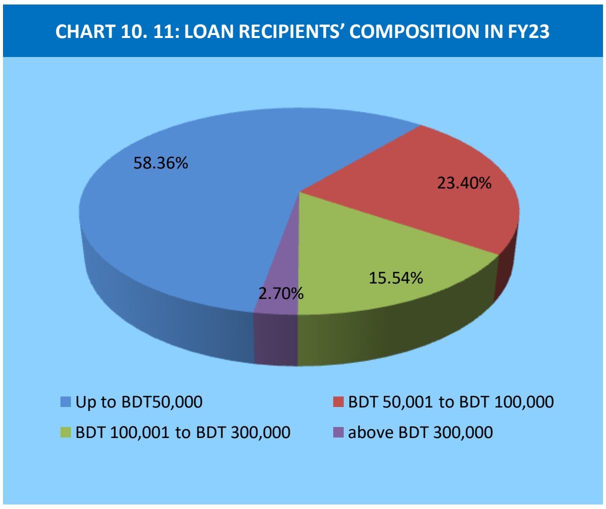


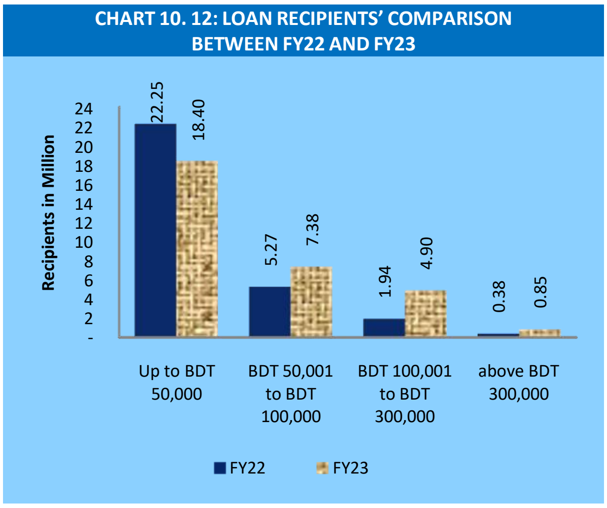
CHART 10. 10: OUTSTANDING LOAN STRUCTURAL TREND



Source: Microcredit Regulatory Authority; Calculation: FSD.

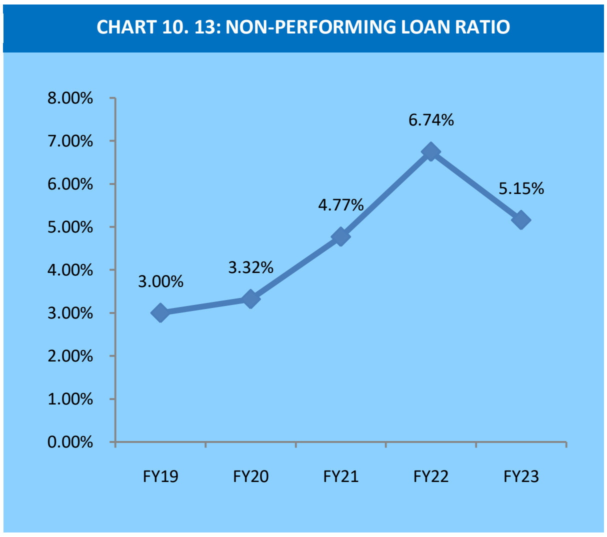
In FY23, proportionate shares of loan recipients in the segments of up to BDT 50,000; BDT 50,001 to 100,000; BDT 100,001 to 300,000 and above BDT 300,000 stood at 58.36 percent, 23.40 percent, 15.54 percent and 2.70 percent respectively (Chart 10.11). Out of 31.53 million, 18.40 million members took loans lying in the range of up to BDT 50,000, which was 17.30 percent lower than that of FY22. In comparison with FY22, the number of members who availed loans in the ranges of BDT 50,001 to 100,000, BDT 1,00,001 to 3,00,000 and above BDT 3,00,000 increased to 7.38 million (40.04 percent), 4.90 million (152.58 percent), and 0.85 million (123.68 percent) respectively (Chart 10.12). These indicators reveal that demand for larger amount of microcredit is increasing gradually.

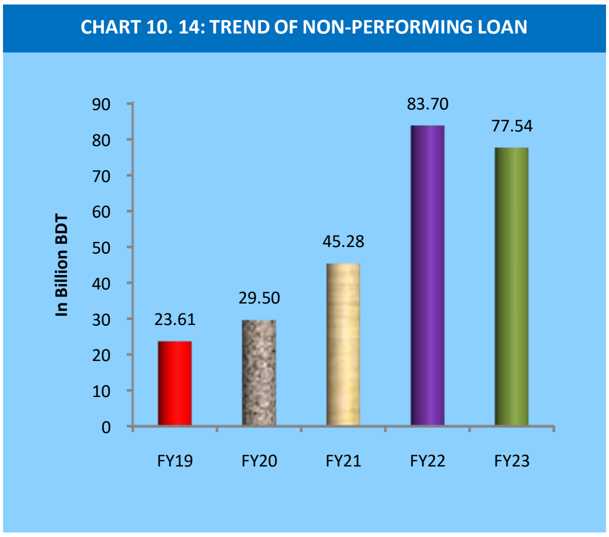




Source: Microcredit Regulatory Authority; Calculation: FSD.

After demonstrating an increasing trend over the last four financial years (FY19 to FY22), non-performing loan (NPL) ratio of the MFI sector decreased to 5.15 percent in FY23 (Chart 10.13). Total NPL amount of the sector stood at BDT 77.54 billion in FY23, which was BDT 6.16 billion lower than that of FY22 (Chart 10.14). In particular, total outstanding loans in the MFI sector rose by 21.17 percent whereas NPL ratio decreased by 7.36 percent in FY23 compared to that of FY22. Although NPL ratio of the MFI sector recorded moderate decline in the review year and was considerably below from that of the banking and FIs sectors, close monitoring and surveillance is necessary for maintaining soundness and stability of this sector in the near future.





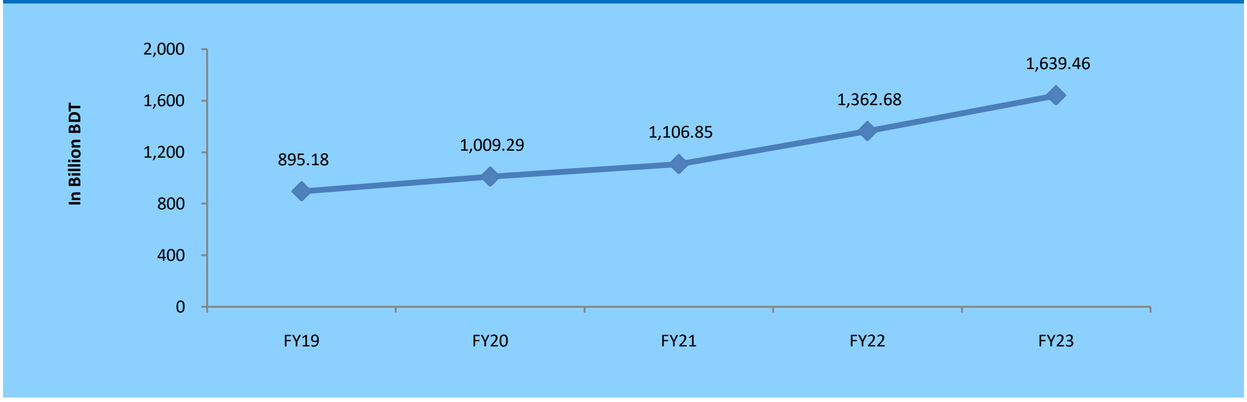
Source: Microcredit Regulatory Authority; Calculation: FSD.

10.3 SOURCES OF FUNDS AND ITS COMPOSITION

Aggregate fund of the MFIs was BDT 1,639.46 billion at end-FY23, which was 20.31 percent higher than that of end-FY22 (Chart 10.15). This rise in fund was mainly due to notable increase in members' savings by 25.05 percent, own capital by 25.99 percent, loans from commercial banks by 15.61 percent, loans from PKSF by 23.52 percent, and donor fund by 6.26 percent. The total fund[60] of MFIs sector rose by 83.14 percent during the last five fiscal years.

[60] The total fund of MFIs sector rose by 83.14 percent during the last five fiscal years.

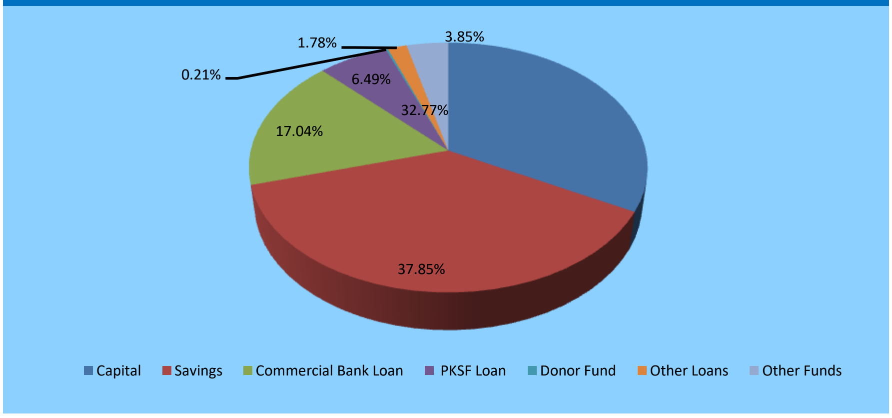
CHART 10. 15: TOTAL FUNDS OF MFIs



Source: Microcredit Regulatory Authority; Calculation: FSD

More than three-fourth of the total funds consisted of the three major segments of MFI sector in FY23. In particular, savings from members, capital and loans from commercial banks constituted 37.85 percent, 32.77 percent, and 17.04 percent of total fund of the MFIs respectively (Chart 10.16). Though the funds obtained from the donors slightly increased in FY23, its share in total fund was insignificant (0.21 percent) like the previous year, which illustrates that MFIs have now become almost self-reliant.

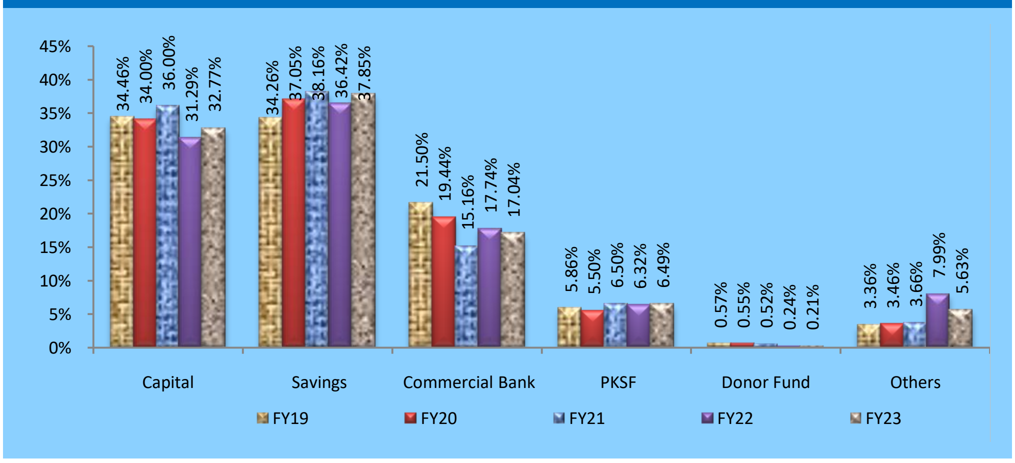
CHART 10. 16: SOURCES OF FUND IN FY23



Source: Microcredit Regulatory Authority; Calculation: FSD.

It is mentionable that contribution of capital as a source of fund slightly increased from 31.29 percent in FY22 to 32.77 percent in FY23. Similarly, contribution of member savings rose from 36.42 percent to 37.85 percent whereas share of loans from commercial banks reduced marginally from 17.74 percent to 17.04 percent during the same period (Chart 10.17).

CHART 10. 17: TREND OF SOURCES OF FUND (FY19-FY23)



Source: Microcredit Regulatory Authority; Calculation: FSD.

10.4 OPERATIONAL SUSTAINABILITY OF MFIs

Return on assets (ROA) and return on equity (ROE) are two major indicators of operational sustainability of financial institutions. In FY23, ROA and ROE of MFIs were 5.07 percent and 14.67 percent, whereas the corresponding figures were 2.89 percent and 11.75 percent in FY22, indicating an increase of ROA and ROE by 2.18 percentage points and 2.92 percentage points respectively (Chart 10.18). Notably, the increase in ROA and ROE of the MFIs sector could largely be attributed to improvement in asset quality and recovery of non-performing loans in FY23. On the other hand, donation-to-equity ratio (dependency ratio) of this sector was in a persistent trend during the last five consecutive financial years, which is indeed an indication of the strong improvement in self-sustainability of this sector (Chart 10.19).

CHART 10. 18: OPERATIONAL SUSTAINABILITY

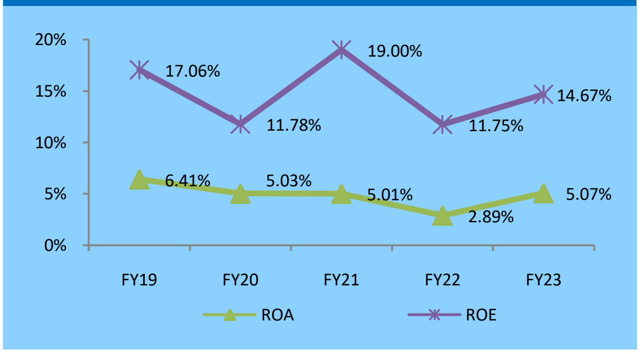
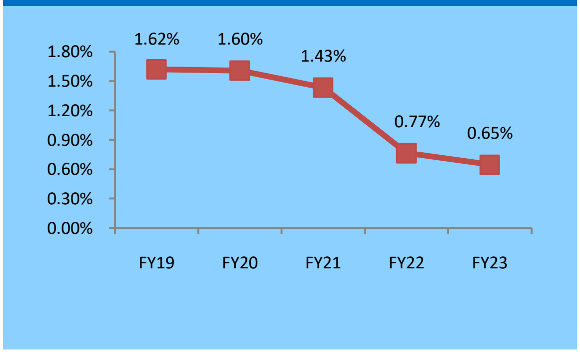


CHART 10. 19: FINANCIAL DEPENDENCY



Source: Microcredit Regulatory Authority.

Though the amount of donated funds increased slightly in FY23, the rises in equity from retained earnings and members' savings were substantial, which are necessary 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 provided financial services to 60.69 percent of total members and these MFIs mobilized 69.30 percent of total savings of the members. Likewise, 67.03 percent of the total outstanding loans pertained to these MFIs as of end-FY23 (Chart 10.20). For top 20 MFIs, the corresponding values were 69.79 percent, 78.45 percent, and 76.95 percent respectively (Chart 10.21).

CHART10. 20: CONCENTRATION OF MFI SECTOR IN TERMS OF LOANS, SAVINGS AND MEMBERS HELD BY TOP 10 IN FY23

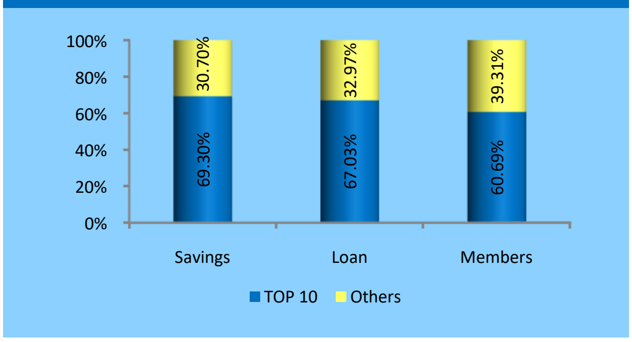
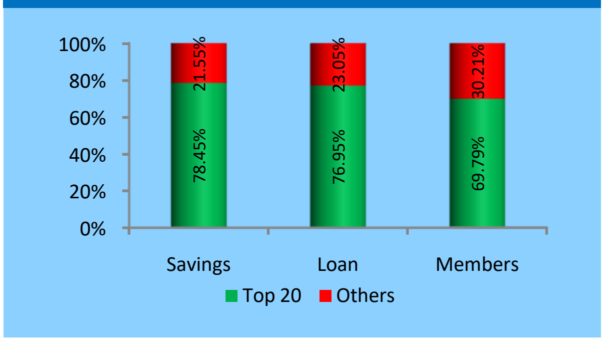


CHART 10. 21: CONCENTRATION OF MFI SECTOR IN TERMS OF LOANS, SAVINGS AND MEMBERS HELD BY TOP 20 IN FY23



Source: Microcredit Regulatory Authority; Calculation: FSD.

The overall performance of MFIs in Bangladesh appeared to be stable during FY23. Though defaulted loan ratio of the MFI sector was lower compared to that of banking and FI sector during the review year, it requires special attention for a stable and sound microfinance sector. The e-regulatory system has been launched by MRA with the aim of ensuring transparency and accountability of microfinance sector where MFIs can directly report their information on monthly, half-yearly, and annual basis.

CHAPTER 11 : DEVELOPMENTS IN THE FINANCIAL SYSTEM

In 2023, Bangladesh has experienced a number of challenges like high inflationary and exchange rate pressures, erosion of foreign exchange reserves, high non-performing loan etc. To address these challenges, Government as well as Bangladesh Bank and other financial regulators have taken different measures. Some notable ones are mentioned below:

11.1 ASSESSMENT OF FINANCIAL STABILITY BY BANGLADESH BANK

During the review year, Bangladesh Bank revealed the major trends in the financial system of Bangladesh, as well as strengths, risks and vulnerabilities therein, through annual Financial Stability Report (FSR) and Quarterly Financial Stability Assessment Report (QFSAR). Besides, trends in key qualitative and quantitative indicators of systemic risks in the context of Bangladesh financial system have been made public through a seminal publication, titled Bangladesh Systemic Risk Dashboard (BSRD).

11.2 REGULATIONS AND POLICIES FOR BANKING SECTOR

A) ESTABLISHMENT OF EXPORT FACILITATION PRE-FINANCE FUND (EFPF)

To protect the export sector from prevailing adverse global economic conditions, an export facilitation pre-finance fund worth BDT 100 billion has been formed. The exporters and local manufacturers or suppliers could use the pre-finance fund to import production related raw materials through back-to-back letter of credit. Scheduled banks of the country under participation agreement with BRPD can avail the fund for making disbursement therefrom. *[Ref: BRPD Circular No. 01, Date: 01 January, 2023]*

B) GUIDELINES ON CLOUD COMPUTING

With a view to maintaining the overall sustainability in the financial sector, Bangladesh bank has issued a guideline on cloud computing to mitigate cyber risks and ensure proper due diligence of financial institutions while using cloud computing. All financial institutions have to take necessary measures for securing the cloud and on-premises environment. *[Ref: BRPD Circular No. 05, Date: 16 March, 2023]*

C) POLICY ON OFF-BALANCE SHEET (OBS) EXPOSURE

To strengthen risk management of escalating OBS business operations of banks and thereby enhancing the stability of the banking sector further, BB has issued a circular with some instructions. *[Ref: BRPD Circular No. 06, Date: 25 April, 2023]*

D) DISPLAYING BANGLADESH BANK'S HOTLINE NUMBER

To expedite the digital banking activities, smart telephonic communications, improved banking services, and quick resolution of complaints are to be ensured. In this context, BB has instructed the banks to display Bangladesh Bank's Hotline number (16236) along with the bank's own hotline number at a visible place. *[Ref: BRPD Circular No. 07, Date: 09 May, 2023]*

F) INTRODUCING MARKET BASED INTEREST RATE SYSTEM FOR LOAN/INVESTMENT

In order to continue the trend of the overall economy including industry and commerce and to ensure efficient credit management, policies have been formulated with the aim of introducing market based interest rate system for loans distributed by scheduled banks. In this case, a reference rate called SMART (Six Months Moving Average Rate of Treasury Bill) will be determined by Bangladesh Bank based on the market interest of 182 days Treasury Bill. Scheduled banks are allowed to add highest 2-3 percent margin with the SMART index to determine the final lending rate. *[Ref: BRPD Circular No. 09, Date: 19 June, 2023]*

G) GUIDELINE ON ICT SECURITY

Through BRPD Circular No. 09, dated 17 September 2015, a ‘Guideline on ICT Security for banks and Non-Bank Financial Institutions’ had been issued. During the review year, the document has been revised and expanded with title ‘Guideline on ICT Security–Version 4.0’. The updated document has been made available to the website of Bangladesh Bank. *[Ref: BRPD Circular No. 10, Date: 19 June, 2023]*

H) IMPLEMENTATION OF ARTICLE 15(10) OF BANK-COMPANY (AMENDMENT) ACT, 2023

To ensure good governance in the banking industry, Bank Company Act 1991 (amended up to 2018) has been amended in 2023. As per sub-section 15 (10) of the amended Act, a maximum of 3 (three) members of a family can serve at a time as directors in the board of a bank company. *[Ref: BRPD Circular No. 14, Date: 26 July, 2023]*

I) INTEREST/PROFIT RATE OF LOAN/INVESTMENT FOR EXPORT FINANCING

In the context of adverse global economic conditions, the market-based interest rate system for pre-shipment export credit has been introduced towards making the export-oriented industrial establishments more resilient to shocks as well as to continuing the ongoing trend in the development and expansion of the country's export-oriented industries. *[Ref: BRPD Circular Letter No. 27, Date: 27 July, 2023]*

J) BANCASSURANCE-A NEW ACTIVITY OF BANKS

Bancassurance has been recognized as a permissible activity through a Gazette Notification of Government of the People’s Republic of Bangladesh, bearing Reference Number-BRPD(D-1)/UBPS/ 761/2023-10722 dated 12 December 2023. It is expected that banks and insurance companies operating in Bangladesh shall be benefitted through this new business initiative for boosting their commission-based income with their joint collaboration taking no additional risk at their ends. By this Gazette Notification scheduled banks have been permitted to sale and perform marketing of insurance products as corporate agent of insurance companies. *[Ref: BRPD Circular No. 10722, Date: 12 December, 2023]*

K) BANCASSURANCE GUIDELINES FOR BANKS

To provide a regulatory and supervisory framework for banks for Bancassurance, increase insurance penetration by allowing banks to distribute insurance products using their networks and customers, increase outreach of the banking and insurance services and promote financial inclusion within a safe and sound financial system environment, promote social security and sustainability through insurance coverage by enhancing consumer protection, and to provide one stop service for Bancassurance, Bangladesh Bank has issued a guideline named Bancassurance Guidelines for Banks. *[Ref: BRPD Circular No. 18, Date: 20 December, 2023]*

L) PROMPT CORRECTIVE ACTION (PCA) FRAMEWORK

Bangladesh Bank has issued Prompt Corrective Action (PCA) Framework vide BRPD Circular no. 17; dated 05 December 2023 with the objective of enabling regulatory/supervisory intervention at an appropriate time. The PCA Framework requires a bank and the bank’s board of directors to carry out prescribed corrective actions to restore the bank’s deteriorated financial and operational conditions to a normal state within a reasonable time. *[Ref: BRPD Circular No. 17, Date: 05 December, 2023]*

M) COLLATERAL VALUATION FIRM/COMPANY ENLISTMENT POLICY

Proper and trustworthy valuation of collateral security is inevitable for proper management of credit risk, maintaining credit discipline, recovery of classified loan, write off, accounting of non banking assets, loan rescheduling and calculating required provision against credit. To facilitate all these issues, Bangladesh

Bank has issued collateral valuation firm/company enlistment policy. *[Ref: BRPD Circular No. 6, Date: 28 November, 2023]*

11.3 POLICIES FOR NON-BANK FINANCIAL INSTITUTIONS (NBFIs)

A) APPOINTMENT AND MANAGEMENT OF HUMAN RESOURCES IN NBFIs

With an aim to ensuring good governance in financial institutions, recruiting qualified, honest and efficient human resources with transparency and carrying out management activities, Department of Financial Institutions and Markets has issued necessary instructions for all Non-Bank Financial Institutions. *[Ref: DFIM Circular No.06, Date: 13 June, 2023]*

B) GUIDELINE ON ICT SECURITY, VERSION 4.0

Revised Guidelines on ICT Security for banks and Non-Bank Financial Institutions' had been issued by Department of Financial Institutions and Markets. The revised document has been expanded into 'Guideline on ICT Security–Version 4.0' and the updated Guidelines are available on the website of Bangladesh Bank www.bb.org.bd. *[Ref: DFIM Circular No. 08, Date: 13 July, 2023]*

C) ENACTMENT OF THE FINANCE COMPANIES ACT 2023

Financial sector resilience is critical in an ever evolving world. Bangladesh recognizes the necessity of an effective finance company act to its economic growth. The latest Finance Companies Act 2023 (Act no. 59 of 2023) highlights the nation's commitment to financial stability and inclusivity. To address financial sector changes, the Finance Companies Act 1993 was repealed and The Finance Companies Act 2023 was enacted on 13 November 2023. The new legislation seeks to increase regulatory oversight, encourage transparency, and protect financial institutions' integrity. *[Ref: DFIM Circular No.13, Date: 23 November, 2023]*

D) GUIDELINES ON CORE BUSINESS SOLUTION FEATURES AND CONTROLS FOR NON-BANK FINANCIAL INSTITUTIONS

Department of Financial Institutes and Markets issued guidelines named Guidelines on Core Business Solution Features and Controls for Non-Bank Financial Institutions in September 2023 in a collaborative approach to guide the Financial Institutions in Bangladesh to maintain minimum required features and controls in their Core Banking Solutions (CBS) and other related business solutions so that the FIs can comply with most stakeholders' requirements. *[Ref: DFIM Circular No.12, Date: 16 November, 2023]*

11.4 DEVELOPMENTS IN AGRICULTURE AND RURAL CREDIT

A) CREDIT DISBURSEMENT UNDER AGRICULTURAL AND RURAL CREDIT POLICY AND PROGRAM

In Agricultural and Rural Credit Policy and Program for the financial year 2022-2023, BB instructed the banks to find out the new farmers eligible for credit facilities and ensure credit for them on priority basis. BB also stated that farmers from same family can avail loan facilities separately. *[Ref: ACD Circular Letter No.01, Date: 01 January, 2023]*

B) CONTRACTUAL RECRUITMENT OF MANPOWER FOR AGRICULTURAL CREDIT IN BANKS

To support the desired agricultural production in the country, increase credit flow/investment in favor of farmers, poverty alleviation, and improve the standard of living of the people in rural areas, the 'Agricultural and Rural Credit Policy and Program for the financial year 2022-2023' has been formulated. By disbursing loans through the bank's network, farmers can take loans at relatively low interest rates and it is easier to maintain the quality of loans through monitoring. In line with this, a decision has been taken to hire experienced manpower working in NGOs/MFIs in the bank on a contractual basis. *[Ref: ACD Circular No.01, Date: 22 June, 2023]*

C) AGRICULTURAL AND RURAL CREDIT POLICY AND PROGRAM FOR THE FINANCIAL YEAR 2023-2024

To achieve Government's three prime objectives of sustainable development goals (SDGs) i.e. eradication of poverty, ensure safe and nutritious food and develop rural economy through a plenty of credit disbursement in the rural area, Bangladesh Bank has published the annual Agricultural and Rural Credit Policy and Program for the financial year 2023-2024.

In the context of present global economic situation, to ensure food security of the people and develop a sustainable agricultural credit system, there are some new inclusions in the current Agriculture Credit policy. Some of the important new inclusions are-increasing the minimum disbursement ratio from 30 percent to 50 percent of individual bank's target through its own networks and disbursing minimum 13 percent of the target in fisheries sector and 15 percent of the target in livestock sector.

The Bangladesh Bank Agricultural Development Common Fund (BBADCF) has been created to utilize the undisbursed amount of credit target by the banks in the agricultural sector. Banks that fail to achieve the target of disbursing agricultural and rural loans will have to deposit an amount equal to the undisbursed portion of the target in this fund. BB will pay interest at the rate of 2 percent on the deposited money. *[Ref: ACD Circular No. 02, Date: 06 August, 2023]*

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

A) CONVERSION OF REFINANCE SCHEME AMOUNTING BDT 250 BILLION TO PRE-FINANCE SCHEME

Recently due to the sale of foreign currency by Bangladesh Bank, a large amount of local currency is being deposited in the central bank from the banking sector. As a result, banks are facing liquidity stress, which is impeding credit flow to the CMSMEs, a priority sector of the Government. Considering this, BB with the aim of increasing credit flow to the CMSME sector, has formed a refinance scheme of BDT 250 billion. *[Ref: SMESPD Circular letter No. 02, Date: 31 January, 2023]*

B) ADDITIONAL REFINANCE FUND FOR COVID-19 AFFECTED COTTAGE, MICRO, SMALL AND MEDIUM ENTERPRISES (CMSME) SECTOR UNDER 'COVID-19 EMERGENCY AND CRISIS RESPONSE FACILITY PROJECT (CECRFP, L0415-A)' FUNDED BY ASIAN INFRASTRUCTURE INVESTMENT BANK (AIIB)

With a view to supporting credit expansion and liquidity constraints of CMSMEs brought on by the COVID-19, a refinance scheme titled “COVID-19 Emergency and Crisis Response Facility Project (CECRFP)” is being implemented by Bangladesh Bank with the financial support from Asian Infrastructure Investment Bank (AIIB). Under this Project, the participating financial institutions (PFIs) are availing additional refinance up to 50 percent of their lending against working capital loans/investment only. To make the fund available for renovation and decoration of existing infrastructure and purchase of short to mid-term asset for the CMSEs, it has been decided to extend the refinance facility to the PFIs against term loan/investment up to three years to CMSEs from the date of SMESPD Circular No. 09/2021. *[Ref: SMESPD Circular letter No. 03, Date: 16 February, 2023]*

C) RENAMING THE 'SMALL ENTERPRISE REFINANCE SCHEME' AND AUGMENTATION OF FUNDS

The name of the ‘Small Enterprise Refinance Scheme’, financed by Bangladesh Bank, has been changed to ‘Small Enterprise Refinance Scheme for Women Entrepreneurs’ and the fund size has been raised from BDT 15 to BDT 30 billion. *[Ref: SMESPD Circular Letter No. 06, Date: 25 June, 2023]*

D) CREDIT GUARANTEE FOR AGRI-PRODUCT PROCESSING SECTOR AND WOMEN ENTREPRENEURS

Credit Guarantee for Women Entrepreneurs under BDT 30 billion Refinance Scheme (SMESPD Circular letter No. 06 dated: 25 June 2023) and Credit Guarantee for Agri-product Processing Sector under BDT 14 billion Refinance Scheme (SMESPD Circular letter No. 10 dated: 01 October 2023) have been introduced by Credit Guarantee Department of Bangladesh Bank. *[Ref: SMESPD Circular Letter No. 10, Date: 08 November, 2023]*

11.6 DEVELOPMENTS IN FOREIGN EXCHANGE REGULATIONS/TRANSACTIONS

A) INWARD REMITTANCE-DECLARATION ON FORM-C

It has been decided that authorized dealers (ADs) in foreign exchange may receive Form-C through electronic means to facilitate smooth remittance transactions. In this context, ADs are required to have secured electronic communication channels, preferably designated ‘app’ for Form-C under internet banking network with customers. *[Ref: FE Circular No.01, Date: 01 February, 2023]*

B) RETENTION QUOTA ACCOUNTS FOR EXPORT OF SOFTWARE, ICT AND OTHER SERVICES

In order to facilitate ICT companies, freelancers and other cross-border service providers in bringing their income in foreign currency into the country, ADs are advised to provide exporters’ retention quota (ERQ) account services to serve exporters so as to enable them to carry out remittance transactions from these accounts. ADs are also advised to issue international credit/debit/prepaid cards for nominated officials of the companies, and freelancers against the balances held in their ERQ accounts for online payments abroad against bonafide requirements. Non-ADs providing banking services to freelancers will arrange aforementioned services with nearby ADs. *[Ref: FE Circular Letter No.02, Date: 05 February, 2023]*

C) REALIZATION OF EXPORT PROCEEDS

To bring discipline in realization of export proceeds, it has been decided to initiate appropriate measures in cases where export proceeds are not realized within prescribed period. In cases of delayed realization, ADs shall apply prevailing exchange rate for encashment into BDT but shall make payments to exporters applying the rate on the date at which the export proceeds should have been realized as per regulatory instructions. *[Ref: FE Circular No.04, Date: 06 March, 2023]*

D) CEILING AGAINST BORROWING FROM EXPORT DEVELOPMENT FUND (EDF)

To bring a wider range of customers for EDF loans, it has been decided to reset the ceiling to USD 10.00 million from USD 15.00 million for input procurements under back-to-back L/Cs (BBLCs) against relevant export orders. *[Ref: FE Circular No.06, Date: 09 April, 2023]*

E) MAINTENANCE OF FOREIGN CURRENCY (FC) ACCOUNTS FOR FOREIGN INVESTMENT

To facilitate transactional needs in foreign exchange, it has been decided that ADs may retain foreign currency sent by foreign investors to invest in Bangladesh. In this context, ADs may open FC accounts in the names of local companies that will issue shares in compliance with regulatory instructions. *[Ref: FE Circular No.10, Date: 21 June, 2023]*

F) EXTENSION OF USANCE PERIOD AGAINST IMPORTS OF INDUSTRIAL RAW MATERIALS

To facilitate trade transactions, it has been decided to extend usance period to 360 days from 180 days for imports of industrial raw materials including back to back imports, and imports of agricultural implements and chemical fertilizers under supplier's/buyer's credit as per paragraph 33(a)(ii) and 33(a)(iv), chapter 7 of the Guidelines for Foreign Exchange Transactions-2018, Vol.-1. As usual, the extended usance period will not be applicable for imports under EDF loans. *[Ref: FE Circular No. 11, Date: 26 June, 2023]*

G) EXPORT SUBSIDY/CASH INCENTIVE FOR THE FINANCIAL YEAR 2023-2024

To encourage the country's export trade, the government has decided to provide export incentives/cash assistance against the export of 43 products shipped from 01 July 2023 to 30 June 2024 for the financial year 2023-2024. *[Ref: FE Circular No. 13, Date: 24 August, 2023]*

H) INWARD WAGE EARNERS' REMITTANCES BY LICENSED PAYMENT SERVICE PROVIDERS (PSPs)

To bring wider flexibility in inward remittance collection, licensed Payment Service Providers (PSPs) are now authorized to repatriate wage earners' remittance in association with internationally recognized online payment gateway service providers (OPGSPs)/banks/digital wallets/card schemes and/or aggregators abroad (hereinafter referred to as approved/licensed foreign payment service providers, foreign PSPs). *[Ref: FE Circular Letter No. 11, Date: 19 September, 2023]*

I) REINSTATEMENT OF LIMITS OF EXPORTERS' RETENTION QUOTA (ERQ) ACCOUNTS

Concerning paragraph 27, chapter 13 of the Guidelines for Foreign Exchange Transactions-2018, Vol.1 (GFET), it has been decided to reinstate the retention limit out of realized export proceeds of Exporters' Retention Quota Accounts (ERQ) to 7.5 percent, 30 percent, and 35 percent from 15 percent, 60 percent, and 70 percent respectively. *[Ref: FE Circular No. 15, Date: 24 September, 2023]*

J) FORWARD SALE AND PURCHASE IN FOREIGN EXCHANGE

On the subject of paragraph 8, chapter 4 of Guidelines for Foreign Exchange Transactions-2018, Vol-1 and its subsequent circular(s), it has been decided that ADs may apply forward premium not exceeding SMART + 5 percent per annum with declared spot rates for forward dealings with customers and/or relevant counterparties. *[Ref: FE Circular No. 16, Date: 24 September, 2023]*

K) POLICY ON MAINTAINING FC ACCOUNTS BY RESIDENT BANGLADESHIS AND OTHERS WITH OFFSHORE BANKING OPERATIONS

Foreign Exchange Policy Department of BB has issued instructions regarding maintaining FC accounts by resident Bangladeshis and others with Offshore Banking Operations with a view to boosting the Off-shore Banking Operations (OBOs). To facilitate the said operations in a wider scale, it has been decided that persons resident outside Bangladesh without limiting to non-resident Bangladeshi nationals, persons of Bangladeshi origin, foreign nationals, companies/firms registered and operating abroad, foreign institutional investors may open and maintain FC accounts in approved foreign currency with OBOs. It has also been decided that OBOs may maintain FC accounts termed as International Banking (IB) accounts in the name of resident Bangladeshi individuals and corporate entities including Type-A, Type-B and Type-C industrial enterprises operating in EPZs/EZs/HTPs having bonafide relations with non-residents. *[Ref: FE Circular No. 19, Date: 29 November, 2023]*

11.7 PROGRESS IN PAYMENT SYSTEMS

A) CARD-BASED TRANSACTION THROUGH CONTACTLESS PAYMENT SERVICE BY USING NEAR FIELD COMMUNICATION (NFC) TECHNOLOGY

To facilitate the growth and market needs of digital transactions and to encourage the general public towards it, BB has issued a circular to make NFC technology based contactless transactions easier and more effective. *[Ref: PSD Circular No.01, Date: 01 February, 2023]*

B) ENHANCED BANGLA QR CODE BASED TRANSACTION IN THE COUNTRY

To augment payment through Bangla Quick Response (QR) code, BB has instructed banks/financial institutions to replace 'Proprietary QR' code with 'Bangla QR' code. By promoting this uniform digital payment method, BB is encouraging interoperable digital transactions which will help establish Cashless Bangladesh. *[Ref: PSD Circular Letter. 01, Date: 08 February, 2023]*

C) REGARDING GUIDELINES FOR MERCHANT ACQUIRING AND ESCROW SERVICES, 2023

A specific management policy titled "Merchant Acquiring and Escrow Service Policy, 2023" has been formulated to encourage digital commerce and payment activities in the country as well as ensure greater transparency and accountability of the overall activities related to it, including protecting customer interests. *[Ref: PSD Circular No. 10, Date: 26 September, 2023]*

D) LIMIT OF CREDITING FOREIGN REMITTANCE BY BANKS DIRECTLY TO BENEFICIARY'S MFS ACCOUNTS INCREASED

Limit of crediting foreign remittance by banks directly to beneficiary's Mobile Financial Services (MFS) accounts has been increased to facilitate the disbursement of remittance to end users by a circular issued by Payment Systems Department of BB. *[Ref: PSD Circular No. 13, Date: 06 December, 2023]*

E) MOBILE FINANCIAL SERVICES ACCOUNTS FOR THE YOUTH AGED BETWEEN 14 TO 18 YEARS

Banks have been instructed to open Mobile Financial Services (MFS) accounts for the youth aged between 14 to 18 years to bring the youths under digital payment ecosystem. It will also facilitate the building of a cashless society. *[Ref: PSD Circular No. 12, Date: 03 October, 2023]*

F) DEVELOPMENT OF THE NIKASH-BEFTN SOFTWARE

The clearing and settlement of Electronic Funds Transfer (EFT) is being executed through Nikash-BEFTN software from 12 November 2023 under three sessions in a day. The Nikash-BEFTN software has been developed by own capacity of Bangladesh Bank. *[Ref: PSD Circular Letter No. 06, Date: 08 November, 2023]*

11.8 POLICY AND ACTIONS TAKEN ON DEBT MANAGEMENT

A) GUIDELINES FOR SHARI'AH COMPLIANT MUDARABAH LIQUIDITY SUPPORT (MLS)

With a view to ensuring financial stability and the resilience of Islamic Shari'ah banks, Bangladesh Bank has introduced a new Shari'ah compliant financial instrument, namely, 'Mudarabah Liquidity Support (MLS)' for the Islamic Banking system in Bangladesh. This liquidity support may be used as one of the possible contingency measures for meeting interim liquidity shortages in exceptional circumstances. *[Ref: DMD Circular No.02, Date: 05 February, 2023]*

B) GUIDELINES ON THE SECONDARY TRADING OF GOVERNMENT SECURITIES, 2023

To expand and activate the secondary market of government securities, the Market Infrastructure (MI) Module of Bangladesh Bank as well as the trading platform of the country's stock exchanges (Dhaka and Chittagong Stock Exchange) has been chosen to carry out the trading activities of the government securities smoothly. *[Ref: DMD Circular No. 03, Date: 06 June, 2023]*

11.9 POLICIES FOR SUSTAINABLE FINANCE

A) REFINANCE SCHEME FOR ENVIRONMENT FRIENDLY PRODUCTS/PROJECTS/ INITIATIVES

A Refinance scheme for Green Products/Projects/Initiatives has been launched by Sustainable Finance Department to accelerate the financing of eco-friendly products/projects/initiatives. Given the increasing demand for financing environment-friendly products/projects/initiatives, the existing range of refinancing-related products/projects/initiatives of the said scheme has been redefined. *[Ref: SFD Circular No. 02, Date: 30 August, 2023]*

B) SUSTAINABILITY RATING OF BANKS AND FINANCIAL INSTITUTIONS

Bangladesh Bank has issued a circular regarding Sustainability Rating of banks and financial institutions (FIs). This Rating will determine the performance of the banks and FIs' in line with the instructions of Sustainable Finance Policy. Sustainability Rating of the banks and FIs will be measured in the following year based on the annual data finalized in December of the previous year and name of the top listed banks and FIs will be published in BB website every year depending on this Sustainability Rating. *[Ref: SFD Circular No. 04, Date: 22 October, 2023]*

C) GUIDELINE ON SUSTAINABILITY AND CLIMATE-RELATED FINANCIAL DISCLOSURE

Guideline on Sustainability and Climate-related Financial Disclosure was issued by Sustainable Finance Department of Bangladesh Bank. Recognizing the significance of Sustainability reporting among stakeholders, investors and development partners, Bangladesh Bank has made the decision to introduce a policy for the financial sector, aligning with Task Force on Climate-related Financial Disclosures (TCFD) recommendations. The policy intends to guide Sustainability and Climate-related Financial Disclosure. Bangladesh Bank has issued this guideline for banks and finance companies on disclosures for the sustainability and climate-related risks based on IFRS S1 (Sustainability-related financial disclosures) and IFRS S2 (Climate related Disclosures) in phases starting from 2024. *[Ref: SFD Circular No. 06, Date: 26 December, 2023]*

D) SUSTAINABLE FINANCE POLICY FOR BANKS AND FINANCIAL INSTITUTIONS

Bangladesh Bank issued Circular regarding Sustainable Finance Policy for banks and FIs. This policy has been designed to establish a framework prioritizing key initiatives that are aligned with sustainability objectives across environmental, social, economic, and governance dimensions in accordance with various national and international frameworks. BB, as a pioneer financial regulatory body, has been addressing sustainability issues in its policies and regulations and guide banks and FIs to accommodate Environmental, Social and Governance (ESG) issues in their financing portfolio. *[Ref: SFD Circular No. 03, Date: 22 October, 2023]*

11.10 DEVELOPMENT IN CREDIT INFORMATION

CREDIT INFORMATION SYSTEM (CIS)

The newly developed Credit Information System (CIS) started its live operation on September 17, 2023 with a new feature of updating classification status of a loan due to adjustment, rescheduling, renewal, enhancement, restructuring or any other reasons at real-time basis. The new borrowers can also be reported in CIB database at real-time as a result of launching this new system. A circular letter has been issued instructing data uploading procedures in new CIS postponing the previous instructions. *[Ref: CIB Circular Letter No. 01, Date: 14 December, 2023]*

11.11 DEVELOPMENT IN FINANCIAL INCLUSION

ENHANCEMENT OF FUND UNDER REFINANCE SCHEME FOR DIGITAL NANO LOAN

The amount of the revolving refinancing scheme fund has been increased from BDT one (01) billion to BDT five (05) billion to accelerate the progress of building a prosperous Bangladesh by increasing the demand for digital microcredit, expanding financial inclusion, and encouraging the marginal population to get used to digital transactions. *[Ref: FID Circular Letter No. 01, Date: 16 July, 2023]*

11.12 DEVELOPMENT IN OFF-SITE SUPERVISION

A) POLICY REGARDING INVESTMENT IN CAPITAL MARKET BY THE SCHEDULED BANKS

According to the amendment brought in 2023 in section 26A of the Bank-Company Act, 1991, bonds, debentures, and Islamic Shari'ah-based instruments will not be included in the investment portfolio specified for the exposure limit. *[Ref: DOS Circular No. 02, Date: 31 August, 2023]*

B) MARK-TO-MARKET BASED REVALUATION OF TREASURY BILL AND BOND OF BANKS

To establish an effective secondary market of government securities, Primary Dealer (PD) banks are playing an important role. To boost trading of government securities in secondary market and to make a vibrant secondary government security market, instructions have been given to banks related to Mark-to-Market based revaluation of Held for Trading (HFT) and Held to Maturity (HTM) securities of banks. For this purpose Department of Off-site Supervision has issued a circular letter on Market based revaluation of Treasury Bills and Bonds held by the banks. *[Ref: DOS Circular No. 27, Date: 04 December, 2023]*

11.13 DEVELOPMENT IN MONETARY POLICY

A) RE-FIXATION OF REPO AND REVERSE REPO INTEREST RATES OF BANGLADESH BANK

The overnight repo rate of Bangladesh Bank has been increased by 25 basis points to 6.00 percent from existing 5.75 percent per annum and the reverse repo rate has also been increased by 25 basis points from 4.00 percent to 4.25 percent per annum. *[Ref: MPD Circular No.01, Date: 15 January, 2023]*

B) INTRODUCING INTEREST RATE CORRIDOR (IRC)

With a view to facilitating the progress of the domestic economy and considering the greater effectiveness of monetary policy transmission channels, a decision was taken in the 59th meeting of the Monetary Policy Committee held on 11 June 2023 to introduce a 'Policy Interest Corridor' in Bangladesh Bank. *[Ref: MPD Circular No. 02, Date: 20 June, 2023]*

C) POLICY RATE INCREASED TO COMBAT INFLATIONARY PRESSURE

The Monetary Policy Department (MPD) of BB has issued the following circulars to curb the inflationary pressure in the economy:

i) On 04 October, 2023, MPD issued circular no. 03/2023 where relevant interest rate of Interest Rate Corridor (IRC) has been increased by 75 basis points (bps) as Policy rate. Overnight repo rate, Standing Lending Facility (SLF) and Standing Deposit Facility (SDF) increased to 7.25 percent, 9.25 percent and 5.25 percent from 6.50 percent, 8.50 percent and 4.50 percent respectively.

ii) On 26 November, 2023, with the MPD circular no. 04/2023, rates of IRC were further increased by 50 bps as such Policy Rate, SLF and SDF increased to 7.75 percent, 9.75 percent and 5.75 percent from 7.25 percent, 9.25 percent, and 5.75 percent respectively.

11.14 DEVELOPMENT IN FOREIGN EXCHAGE INVESTMENT

A) ISSUANCE OF NO OBJECTION CERTIFICATE (NOC) IN FAVOR OF BRANCH, LIAISON, REPRESENTATIVE, PROJECT OFFICE OF FOREIGN COMPANIES

Foreign Exchange Investment Department has issued circular on issuance of No Objection Certificate (NOC) in favor of Branch, Liaison, Representative, Project office of foreign companies and notification of closure of Bank Accounts. To facilitate smoother transactions of the stated entities, ADs shall have to adhere to the instructions mentioned in the circular. *[Ref: FEID Circular No. 01, Date: 13 December, 2023]*

B) OPENING AND OPERATIONS OF NON-RESIDENT INVESTOR'S TAKA ACCOUNTS (NITAS) THROUGH ONLINE INTERACTIVE WEB PLATFORM OF ADs BY NON-RESIDENT BANGLADESHIS (NRBs)

To promote further foreign investment in Bangladesh, referring to paragraph 24, chapter 14 of Guidelines for Foreign Exchange Transactions-2018, Vol-1 (GFET) and other relevant circulars, Bangladesh Bank advised Authorized Dealers (ADs) to develop online interactive web platform for enabling Non-resident Bangladeshis to open Non-resident Investor's Taka Accounts in Bangladesh. *[Ref: FEID Circular Letter No. 05, Date: 10 August, 2023]*

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

In 2023, the Bangladesh Securities and Exchange Commission (BSEC) issued a total of 25 new laws, rules, regulations or their amendments, orders, directives, and notifications to regulate and ensure trading discipline in the market. Some of the key initiatives are as follows:

A) The BSEC issued Directive No. BSEC/CMRRCD/2021-396/52/Administration/140 dated 30 January 2023 regarding issuance of rules named Bangladesh Securities and Exchange Commission (prohibition of insider trading). *(Gazette notification no. BSEC/CMRRCD/2021-396/52/Admin/140 dated: 28 December 2022)*;

B) The BSEC amended the Bangladesh Securities and Exchange Commission (Securities Market Shari'ah Advisory Council) Rules, 2022 [Updated up to last amendment of 10 April 2023] vide BSEC notification no. BSEC/CMRRCD/2009-193/56/Admin/142 dated: 20 March 2023 for ensuring proper issuance of Islamic Shari'ah-based securities and protection of investors' interest in such securities in light of Islamic Shari'ah as well as development of Islamic capital market in Bangladesh;

C) In the interest of investors in securities and for the development of the securities market, certain direction has been issued to the Dhaka Stock Exchange (DSE), Chittagong Stock Exchange (CSE), Central Depository Bangladesh Ltd. (CDBL), stock brokers, stock dealers, depository participants, and other capital market intermediaries with regard to participation, through the platform of the stock exchange, in the primary auction of Bangladesh Government Treasury Bond, i.e., Government Securities vide Directive no. BSEC/CMRRCD/2021-394/63 date: 22 June 2023;

D) In the interest of investors and for the development of commodity derivatives market, the Bangladesh Securities and Exchange Commission (Commodity Exchange) Rules, 2023 was issued vide notification no. BSEC/CMRRCD/2009-193/65/PRD/147 dated 02 October 2023.These rules shall be applicable for the commodity exchange and related participants for providing physical facilities or systems whether electronic or otherwise for trading, clearing and settlement of commodity derivatives contract;

E) In the interest of investors and capital market, role and responsibility of independent director of the issuer of the listed securities or companies was ascertained by order number BSEC/CMRRCD/2023-429/67 dated: 18 October 2023;

F) BSEC issued Directive no. BSEC/CMRRCD/2009-193/71 dated 17 December 2023 in order to improve market participation by ensuring the active role of the asset manager or fund manager. As per the directive, the asset manager or fund manager of any mutual fund, exchange traded fund or alternative investment fund as well as every asset manager company, either registered as an asset manager or fund manager, shall have to operate at least one mutual fund or a scheme of a mutual fund or any type of collective investment scheme under its management, as applicable, within 03(three) years from date of registration as an asset manager or fund manager, or within 01(one) year from the date of the directive, whichever comes later;

G) BSEC signed an Exchange of Letter (EoL) for mutual cooperation with Financial Services Agency (FSA), Japan in a bilateral meeting on 25 April 2023 and the stated EoL was exchanged on 27 April 2023;

H) Necessary steps have been taken to launch the transaction of Islamic Shari'ah based Sukuk. Meanwhile, a green sukuk of BDT 30 billion approved by the commission has completed its withdrawal through public issue;

I) The Securities and Exchange Commission (Private Placement of Debt Securities) Rules, 2012 were repealed and new (Debt Securities) Rules, 2012 were framed by the Commission in order to provide opportunities for raising capital by issuance of debt securities and Islamic Shari'ah-based securities or Sukuk through private placements and public offerings as well as to establish a strong bond market;

J) The BSEC has amended The Bangladesh Securities and Exchange Commission (Public Issue) Rules, 2015 in order to facilitate the Asset Management Companies who have Exchange Traded Funds (ETFs), under their management with 1 percent quota in every IPO.

11.16 EVELOPMENTS IN MICRO CREDIT OPERATIONS

A) CREDIT INFORMATION BUREAU FOR MICROFINANCE SECTOR (MF-CIB)

Like banking sector, with the support of Bangladesh Bank, MRA is establishing a Credit Information Bureau (CIB) for the microfinance sector. MFIs will send information of about (i.e.,40.80 million) clients to the CIB system. Successful launch of the CIB system will make it the second largest CIB in the world. As data analytics and credit assessment mechanisms converge, this initiative has the potential to mitigate risk and promote responsible lending, aligning strongly with the objectives of a digitized and data-focused economy. Now, the authority's dedicated CIB section is running the final trial and test phase and it is expected to come into force very soon.

B) E-PAYMENT SYSTEM

In tandem with the broader governmental drive towards a paperless economy, MRA has taken the decision to launch an e-payment system to simplify the method of financial transactions. Consequently, the authority's 731 certified institutions will be able to submit their annual fees, certification fees, and other charges online. To facilitate the e-payment system, The Microcredit Regulatory Authority and Sonali Bank PLC signed an E-Payment Agreement in May, 2023.

11.17 DEVELOPMENTS IN INSURANCE SECTOR

A number of initiatives were taken for the development of the insurance sector in 2023. Some notable ones are as follows:

A. The Insurance Development and Regulatory Authority (IDRA) had issued corporate governance guidelines for ensuring transparency and accountability in insurance business to keep insurers under surveillance and safeguard policyholders' interests. Insurers are required to form at least five committees each under provision of the guidelines to ensure good governance in the industry meant for securing interests of clients and also mobilizing capital. The committees are audit committee, nomination and remuneration committee (NRC), investment committee, risk-management committee, policyholder protection, and compliance committee;

B. The IDRA had issued Regulatory Sandbox Guidelines-2023 for maintaining a balance among the orderly development of the insurance sector and the protection of the interests of insurance customers and to involve the information technology sector in insurance services. Under the regulatory sandbox, insurers and various Insurtech/Start up organizations will create opportunities for bringing new products or services which will play an important role in the qualitative development of the insurance industry and the formation of a technology-based insurance industry;

C. The IDRA published a set of guidelines on 19 December 2023, which outlined the appointment of corporate agents by commercial banks for partnering with insurance companies. This follows a previous circular on the matter by the Bangladesh Bank. The new guideline titled 'Corporate Agent (bancassurance) Guideline - 2023' allows banks to directly sell insurance products to their customers;

D. The claim settlement rate in the insurance sector of Bangladesh has increased by more than 4(four) percentage points within the span of a single year although the ratio has remained far below the global average. The claim settlement rate stood at 65.19 percent in 2023, as opposed to 61.16 percent in the preceding year;

E. Since the formation of IDRA, 10 rules and 20 regulations have been promulgated. At present, 05 rules and regulations have been drafted which are at various stages of finalization;

F. Tariff cost has been reduced for doing business in non-life sector;

G. All the companies have to establish separate actuarial department with full time actuarial staff;

H. In 2023, to enhance professionalism in the insurance sector, one (01) participant has been awarded scholarship under IDRA, SBC and JBC sponsorship, to study M.Sc in Actuarial Science at the City University, UK.

APPENDIX

APPENDIX I: WORLD GDP GROWTH

In percent

Particulars	2018	2019	2020	2021	2022	2023	2024p*	2025p*
World	3.6	2.8	-2.7	6.5	3.5	3.2	3.2	3.2
Advanced Economies	2.3	1.8	-3.9	5.7	2.6	1.6	1.7	1.8
Emerging and Developing Asia	6.4	5.2	-0.5	7.7	4.4	5.6	5.2	4.9

Note: p* = Projection.
Source: World Economic Outlook, April 2024.

APPENDIX II: GDP GROWTH OF TOP IMPORT ORIGINATING COUNTRIES

In percent

Country Name	2018	2019	2020	2021	2022	2023	2024p*	2025p*
People's Republic of China	6.8	6.0	2.2	8.4	3.0	5.2	4.6	4.1
India	6.5	3.9	-5.8	9.7	7.0	7.8	6.8	6.5
Malaysia	4.8	4.4	-5.5	3.3	8.7	3.7	4.4	4.4
Indonesia	5.2	5.0	-2.1	3.7	5.3	5.0	5.0	5.1
Brazil	1.8	1.2	-3.3	4.8	3.0	2.9	2.2	2.1

Note: p* = Projection
Source: World Economic Outlook, April 2024.

APPENDIX III: GDP GROWTH OF TOP EXPORT DESTINATION COUNTRIES

In percent

Country Name	2018	2019	2020	2021	2022	2023	2024p*	2025p*
USA	3.0	2.5	-2.2	5.8	1.9	2.5	2.7	1.9
Germany	1.0	1.1	-3.8	3.2	1.8	-0.3	0.2	1.3
UK	1.4	1.6	-10.4	8.7	4.3	0.1	0.5	1.5
Spain	2.3	2.0	-11.2	6.4	5.8	2.5	1.9	2.1
France	1.9	1.8	-7.5	6.3	2.5	0.9	0.7	1.4

Note: p* = Projection
Source: World Economic Outlook, April 2024.

APPENDIX IV: GDP GROWTH OF TOP REMITTANCES GENERATING COUNTRIES

In percent

Country Name	2018	2019	2020	2021	2022	2023	2024p*	2025p*
UAE	1.3	1.1	-5.0	4.4	7.9	3.4	3.5	4.2
UK	1.4	1.6	-10.4	8.7	4.3	0.1	0.5	1.5
KSA	3.2	1.1	-3.6	5.1	7.5	-0.8	2.6	6.0
USA	3.0	2.5	-2.2	5.8	1.9	2.5	2.7	1.9
Italy	0.9	0.5	-9.0	8.3	4.0	0.9	0.7	0.7

Note: p* = Projection
Source: World Economic Outlook, April 2024.

APPENDIX V: GROSS VALUE ADDED (GVA) AND GDP OF BANGLADESH AT CONSTANT PRICE					
					Amount in billion BDT
Sectors	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**
Agriculture	3,084.00	3,189.50	3,290.75	3,391.25	3,505.59
Industry	8,590.04	8,900.23	9,815.81	10,783.22	11,685.49
Service	12,877.44	13,383.89	14,151.08	15,036.46	15,844.11
Total GVA at constant price	24,551.48	25,473.62	27,257.64	29,210.94	31,035.19
GVA growth rate (%)	8.01	3.76	7.00	7.17	6.25
GDP at constant price	25,617.36	26,500.65	28,339.44	30,351.50	32,104.33
GDP growth rate (%)	7.88	3.45	6.94	7.10	5.78

Source: Bangladesh Bureau of Statistics.

APPENDIX VI: DOMESTIC CREDIT						
						Amount in billion BDT
Year	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24***
Domestic credit to the private sector	10,102.56	10,972.71	11,888.55	13,512.36	14,942.55	15,706.70
Domestic credit to the public sector	1,366.29	2,053.64	2,510.44	3,205.13	4,325.15	4,005.52
						In Percent
Growth of Domestic Credit to the private sector	11.32	8.61	8.35	13.66	10.58	5.11
Growth of Domestic Credit to the public sector	19.75	50.31	22.24	27.67	34.94	-7.39

Notes: (1) Domestic Credit to the Private Sector refers to the credit provided to the private sector by the banking system.(2) Domestic Credit to the Public Sector refers to the credit provided to the public sector by the banking system.

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

*FY24 indicates data upto first half of FY24.

APPENDIX VII: BANKING SECTOR AGGREGATE BALANCE SHEET						
	(Amount in billion BDT)				*Change (%)*	
Particulars	**2020**	**2021**	**2022**	**2023**	**2021 to 2022**	**2022 to 2023**
Property & Assets						
Cash in Hand (including FC)	164.7	189.5	246.4	251.4	30.0	2.0
Balance with BB & SB (including FC)	1,159.9	1,042.3	995.8	1,111.1	(4.5)	11.6
Balance with other Banks & FIs	746.2	729.0	788.8	767.7	8.2	(2.7)
Money at Call & Short Notice	83.9	133.9	100.1	111.5	(25.2)	11.4
Investments						
Government	2,110.7	2,316.4	2,085.7	2320.6	(10.0)	11.3
Others	1,198.9	1,529.8	1,352.1	1,464.6	(11.6)	8.3
Total Investment	**3,309.6**	**3,846.1**	**3,437.8**	**3,785.2**	**(10.6)**	**10.1**
Loans & Advances						
Loans, CC, OD etc.	11,239.9	12,522.4	14,320.2	15,675.3	14.4	9.5
Bills purchased & Discounted	510.7	721.7	705.9	816.1	(2.2)	15.6

Appendix VII: Banking Sector Aggregate Balance Sheet (Cont'd)						
	(Amount in billion BDT)				*Change (%)*	
Particulars	**2020**	**2021**	**2022**	**2023**	**2021 to 2022**	**2022 to 2023**
Total Loans & Advances	**11,750.0**	**13,244.1**	**15,026.1**	**16491.4**	**13.5**	**9.8**
Fixed Assets	266.9	280.6	289.6	294.1	3.2	1.6
Other Assets	920.4	959.9	1,073.9	1,155.4	11.9	7.6
Non-banking Assets	4.5	3.9	3.9	16.1	0.0	312.8
Total Assets	**18,406.0**	**20,429.3**	**21,962.4**	**23,984.0**	**7.5**	**9.2**

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

Appendix VIII: Banking Sector Aggregate Share of Assets						
						(Amount in billion BDT)
Particulars	**2021**	**% of Total Assets**	**2022**	**% of Total Assets**	**2023**	**% of Total Assets**
Property & Assets						
Cash in Hand (including FC)	189.5	0.9	246.4	1.1	251.4	1.0
Balance with BB & SB (including FC)	1,042.3	5.1	995.8	4.5	1,111.1	4.6
Balance with other Banks & FIs	729.0	3.6	788.8	3.6	767.7	3.2
Money at Call & Short Notice	133.9	0.7	100.1	0.5	111.5	0.5
Investments						
Government	2,316.4	11.3	2085.7	9.5	2320.6	9.7
Others	1,529.8	7.5	1352.1	6.2	1,464.6	6.1
Total Investment	**3,846.1**	**18.8**	**3437.8**	**15.7**	**3,785.2**	**15.8**
Loans & Advances						
Loans, CC, OD etc.	12,522.4	61.3	14320.2	65.2	15,675.3	65.4
Bills purchased & Discounted	721.7	3.5	705.9	3.2	816.1	3.4
Total Loans & Advances	**13,244.1**	**64.8**	**15026.1**	**68.4**	**16491.4**	**68.8**
Fixed Assets	280.6	1.4	289.6	1.3	294.1	1.2
Other Assets	959.9	4.7	1073.9	4.9	1,155.4	4.8
Non-banking Assets	3.9	0.02	**3.9**	0.02	16.1	0.07
Total Assets	**20,429.3**	**100.0**	**21,962.4**	**100.0**	**23,984.0**	**100.0**

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

Appendix IX: Banking Sector Aggregate Share of Liabilities						
						(Amount in billion BDT)
Particulars	**2021**	**% of Total Liabilities**	**2022**	**% of Total Liabilities**	**2023**	**% of Total Liabilities**
Liabilities						
Borrowings from other Banks/FIs/Agents	**1,477.9**	**7.7**	**1,898.7**	**9.2**	**1,944.2**	**8.6**
Deposits & Other Accounts:						
Current Deposit	3,317.1	17.2	3,550.7	17.2	3,870.7	17.1
Savings Deposit	3,463.7	18.0	3,815.5	18.4	3,819.3	16.9
Fixed/Term Deposit	7,360.8	38.2	7,354.0	35.5	8,569.4	37.8
Inter-bank Deposit	366.7	1.9	328.0	1.6	309.7	1.4
Other Deposits	1039.9	5.4	1309.3	6.3	1,381.7	6.1
Total Deposit	**15,548.2**	**80.6**	**16,357.5**	**79.1**	**17,950.8**	**79.3**
Bills Payable	**193.6**	**1.0**	**206.6**	**1.0**	**236.96**	**1.0**
Other Liabilities	2,059.4	10.7	2,229.1	10.8	2,516.88	11.1
Total Liabilities	**19,279.1**	**100.0**	**20,691.9**	**100.0**	**22,648.85**	**100.0**

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

Appendix X: Banking Sector Aggregate Income Statement						
Particulars	*(Amount in billion BDT)*				*Change (%)*	
	2020	**2021**	**2022**	**2023**	**2021 to 2022**	**2022 to 2023**
Interest Income	907.8	870.6	965.4	1,182.6	10.9	22.50
Less: Interest Expense	692.4	638.2	691.1	851.8	8.3	23.25
Net Interest Income	215.4	232.4	274.3	330.9	18.0	20.63
Non-Interest/Investment Income	373.0	402.5	468.2	488.8	16.3	4.40
Total Income	588.4	634.9	742.5	819.6	16.9	10.38
Operating Expenses	332.3	352.9	400.3	443.2	13.4	10.72
Profit before Provision	256.1	282.1	342.2	376.4	21.3	9.99
Total Provision	126.0	152.9	87.7	109.4	(42.7)	24.74
Profit before Taxes	130.1	129.2	254.5	267.0	97.1	4.91
Provision for Taxation	83.4	78.9	112.3	118.6	42.2	5.61
Profit after Taxation/Net Profit	46.6	50.2	142.3	148.4	183.3	4.29

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

Appendix XI: Interbank Repo Volume, Interbank Repo Rate and Call Money Rate				
Month	**Interbank Repo Volume (in billion BDT)**	**Interbank Repo Rate (%)**	**Call Money Volume (in billion BDT)**	**Call Money Rate (%)**
January-23	961.51	7.65%	1,027.74	6.66
February-23	794.32	6.41%	1,142.34	6.15
March-23	858.94	6.34%	1,075.96	6.03
April-23	764.41	6.37%	1,054.82	6.04
May-23	855.57	6.24%	1,324.87	6.03
June-23	725.38	6.16%	1,300.34	6.06
July-23	759.68	6.51%	1,541.51	6.3
August-23	744.15	6.54%	1,743.34	6.28
September-23	511.52	6.54%	984.61	6.41
October-23	438.60	7.35%	937.96	7.35
November-23	358.73	7.65%	945.08	8.03
December-23	302.51	8.05%	675.18	8.84

Source: DMD, BB.

Appendix XII: Yields on Treasury Securities					
Securities	**December, 2021**	**June, 2022**	**December, 2022**	**June, 2023**	**December, 2023**
91 Day T-Bill	2.36	5.94	6.90	6.80	10.89
182 Day T-Bill	3.19	6.44	7.30	7.07	11.09
364 Day T-Bill	3.44	6.62	7.76	7.90	11.28
2 Years T-Bond	4.68	7.21	7.55	8.09	8.69
5 Years T-Bond	6.41	7.80	7.9	8.71	10.35
10 Years T-Bond	7.38	8.03	8.33	8.52*	10.46
15 Years T-Bond	7.77	8.27	8.77	8.65**	11.06
20 Years T-Bond	7.87	8.48	8.95	8.75**	11.16

*June 23 10 year bond rate= April 23 10 year bond rate
**June 2023 15 year & 20 year bond rate= May 2023 15 year & 20 year bond rate
As no auction taken place in June 23 for those bond
Source: Major Economic Indicators, Different Issue, BB.

Appendix XIII: Monthly Turnover of BB's Liquidity support (In Billion BDT)					
Particulars	**Repo**	**Special Repo**	**ALS**	**Reverse Repo**	**Total**
Jan-23	531.47	0.18	475.06	0.00	1006.71
Feb-23	517.75	0.07	326.21	0.00	844.03
Mar-23	682.90	1.24	507.05	0.00	1191.19
Apr-23	499.33	0.36	393.02	0.00	892.71
May-23	443.55	0.00	472.63	0.00	916.18
Jun-23	405.92	0.00	306.70	0.00	712.63
Jul-23	433.64	0.50	767.00	0.00	1201.15
Aug-23	666.50	0.00	493.80	0.00	1160.30
Sep-23	698.61	11.30	834.15	0.00	1544.06
Oct-23	1140.28	233.53	1580.66	0.00	2954.47
Nov-23	1555.63	120.83	1802.84	0.00	3479.30
Dec-23	1934.03	32.24	1357.04	0.00	3323.31
Total	**9509.63**	**400.25**	**9316.16**	**0.00**	**19226.04**

Source: DMD, BB.

Appendix XIV: Equity Market Development			
Quarter-end	**DSEX Index**	**Market Capitalization (in billion BDT)**	**Market P/E ratio**
Dec-22	6206.81	7609.37	14.11
Mar-23	6206.80	7623.66	14.24
Jun-23	6344.09	7720.78	14.34
Sep-23	6284.63	7774.75	14.36
Dec-23	6246.50	7808.50	13.12

Source: Dhaka Stock Exchange Website

Appendix XV: Year-Wise Movement of DSEX Index				
Year	**Opening Index**	**Highest Index**	**Lowest Index**	**Closing Index**
2013	4,055.91	4,439.60	3,438.90	4,266.55
2014	4,266.55	5,334.04	4,286.15	4,864.96
2015	4,864.96	4,969.73	3,959.74	4,629.64
2016	4,629.64	5,036.05	4,171.41	5,036.05
2017	5,036.05	6,336.88	5,083.89	6,244.52
2018	6,244.52	6,318.27	5,204.36	5,385.64
2019	5,385.64	5,950.01	4,390.67	4,452.93
2020	4,452.93	5,402.07	3,603.95	5,402.07
2021	5,402.07	7,368.00	5,088.99	6,756.66
2022	6,853.14	7,105.69	5,980.51	6,206.81
2023	6,206.81	6,266.85	6,231.94	6,246.50

Source: DSE.

Appendix XVI: Market Capitalization to GDP Ratio of DSE	
Year	**Ratio**
FY13	27.66%
FY14	24.77%
FY15	21.45%
FY16	18.42%
FY17	19.73%
FY18	17.19%
FY19	15.76%
FY20	12.30%
FY21	18.39%
FY22	13.02%
Dec-22	18.00%
Dec-23	16.08%

Source: DSE; BBS; Calculation: FSD, BB.

Appendix XVII: Sectoral Market Capitalization of DSE			
Broad Sector	**Sector**	**Market Capitalization (in billion BDT)**	
		2022	**2023**
Financial Sector	Banks	666.62	686.51
	Financial Institutions	188.02	186.94
	Insurance	162.42	175.68
Manufacturing	Food and Allied Products	378.60	391.93
	Pharmaceuticals and Chemicals	728.30	721.48
	Textile Industries	170.68	171.73
	Engineering	525.29	531.89
	Ceramic	32.59	32.12
	Tannery	32.67	34.81
	Paper and Printing	40.02	38.89
	Jute Industries	3.63	4.03
	Cement Industries	111.07	121.41
Service and Miscellaneous	Mutual Funds	38.53	41.47
	Fuel and Power	446.24	446.45
	Services and Real Estate	27.12	27.51
	IT-Sector	39.35	38.04
	Telecommunication	580.23	580.23
	Travel & Leisure	43.29	32.49
	Miscellaneous	219.43	232.51
Bond	Corporate Bond	37.59	45.20
Total		**4,471.72**	**4,541.31**

Source: Dhaka Stock Exchange Website.

Appendix XVIII: Capital Market Exposure of Banks (In percent)		
Month	**Solo Basis**	**Consolidated Basis**
Dec-18	16.80	28.10
Mar-19	16.70	27.50
Jun-19	14.40	24.70
Sep-19	13.60	23.00
Dec-19	11.99	21.66
Mar-20	12.81	22.86
Jun-20	11.44	20.68
Sep-20	13.40	22.80
Dec-20	13.80	23.99
Mar-21	13.32	22.25
Jun-21	14.42	23.73
Sep-21	16.04	26.28
Dec-21	15.71	25.49
Mar-22	15.83	26.19
Jun-22	15.51	25.15
Sep-22	16.18	26.95
Dec-22	16.42	27.25
Mar-23	16.33	26.98
Jun-23	15.94	26.47
Sep-23	14.91	25.13
Dec-23	15.07	25.39

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

Appendix XIX: Banking Sector Selected Ratios					
					(In percent)
Ratios	**2019**	**2020**	**2021**	**2022**	**2023**
ROA	0.5	0.3	0.3	0.62	0.59
ROE	7.4	4.3	4.4	10.7	11.12
Net Interest Margin	2.1	1.1	1.3	1.2	1.6
Interest Income to Total Assets	6.1	4.9	4.3	4.39	4.93
Net- Interest Income to Total Assets	1.9	1.2	1.1	1.24	1.38
Non-Interest Income to Total Assets	1.8	2	2	2.13	2.04
Non-interest Expense to Gross Operating Income	52.8	55.1	55.6	53.91	54.08
CRAR	11.6	14.4	11.1	11.83	11.64
Tier-1 Capital to RWA ratio	7.7	9.7	7.4	8.39	8.44
Gross NPL to Total Loans Outstanding	9.3	8.1	7.9	8.16	9
Gross NPL to Capital	92.1	80.7	74.6	75.91	87.93
Maintained Provision to Gross NPL	57.9	72.2	64.5	60.62	54.71

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

Appendix XX: Banking Sector ROA and ROE					
ROA (%)	Number of Banks		ROE (%)	Number of Banks	
	2022	2023		2022	2023
Up to 2.0	54	55	**Up to 5.0**	15	11
> 2.0 to 3.0	2	1	**> 5.0 to 10.0**	14	13
>3.0to 4.0	3	3	**>10.0 to 15.0**	21	23
>4.0	1	2	**>15.0**	10	14

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

Appendix XXI: Banking Sector Month-wise Deposit and Advance Rate (2023)			
			(In percent)
Month	**Deposit Rate**	**Advance Rate**	**Overall Spread**
January	4.29	7.24	2.95
February	4.31	7.27	2.96
March	4.35	7.31	2.96
April	4.38	7.29	2.91
May	4.41	7.32	2.91
June	4.38	7.31	2.93
July	4.46	7.75	3.29
August	4.52	7.85	3.33
September	4.52	7.83	3.31
October	4.55	7.89	3.34
November	4.64	7.99	3.35
December	4.7	9.36	4.66

Source: Bangladesh Bank Website.

Appendix XXII: Banking Sector Capital to Risk-Weighted Assets ratio (CRAR) - Solo Basis (2023)	
Range	**Number of Banks**
<10%	10
>=10% to <15%	19
>=15% to <20%	18
>=20%	14
Total	61

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

Appendix XXIII: Banking Sector Year-wise ADR at end-December	
	(In percent)
Year	**Advance-Deposit Ratio (ADR)**
2018	77.6
2019	77.3
2020	72.7
2021	73.2
2022	79.0
2023	80.4

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

Appendix XXIV: Banking Sector ADR (2023)	
Range	**Number of Banks**
Up to 70%	16
> 70% to 85%	32
> 85% to 90%	4
>90% to 100%	6
>100%	2
Total	60

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

Appendix XXV: Year-wise Banking Sector LCR and NSFR at end-December		
		(In percent)
Year	**LCR**	**NSFR**
2018	173.3	109.4
2019	200.5	111.2
2020	224.8	110.1
2021	193.6	110.1
2022	154.0	110.2
2023	147.7	108.4

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

Appendix XXVI: Banking Sector Leverage ratio - Solo BASIS (2023)	
Range	Number of Banks
< 3.25%	11
> = 3.25% to <10%	35
>= 10% to <20%	10
>= 20%	5
Total	61

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

Appendix XXVII: Banking Industry's SHQLA at end-December			
			(In billion BDT)
Clusters\Years	**2021**	**2022**	**2023**
SOCBs	1585.0	1560.8	1281.7
PCBs Conventional	1814.9	1800.5	2035.9
PCBs Islamic	654.1	625.9	445.8
FCBs	281.9	306.5	413.4
Banking Industry*	4335.9	4293.8	4176.8
Banking Industry's SHQLA Growth	-	-0.97%	-2.72%

*Industry figure excludes BDBL, BKB, PKB and RAKUB as they exempted from LCR and NSFR requirement.
Source: Department of Off-site Supervision, Bangladesh Bank.

APPENDIX XXVIII: OVERSEAS BRANCHES' AGGREGATE SHARE OF ASSETS AND LIABILITIES									
(Amount in million USD)									
Asset Components	**2022**	**Share of Total Assets in 2022**	**2023**	**Share of Total Assets in 2023**	**Liability Components**	**2022**	**Share of Total Liabilities**	**2023**	**Share of Total Liabilities**
Cash & Balance from Central Banks	291.96	66.06%	336.59	62.37%	**Customer Deposits**	343.64	86.64%	373.13	81.37%
Balance with other Banks & FIs	32.06	7.26%	63.17	11.71%	**Dues to head office & branches abroad & other liabilities**	52.99	13.36%	85.45	18.63%
Loans & Advances	98.22	22.22%	96.15	17.82%	**Total Liabilities**	396.63	100.00%	458.58	100.00%
Property & Equipment and other assets	19.70	4.46%	11.94	2.21%	**Capital/ Equity**	67.20	-	81.08	-
Total Assets	463.83	-	539.66	-	**Total Liabilities & Equities**	463.83	-	539.66	-

Source: Scheduled banks of Bangladesh.

APPENDIX XXIX: FIs' AGGREGATE BALANCE SHEET AT END-DECEMBER					
(Amount in billion BDT)					
Items	**2019**	**2020**	**2021**	**2022**	**2023**
Property & Assets:					
Cash in hand	0.03	0.01	0.01	0.02	0.03
Balance with other banks & FIs	110.4	131.32	160.12	138.99	139.85
Money at call and short notice	0.7	1.07	1.43	9.55	2.33
Investment in Government securities	1.0	7.40	1.11	11.80	25.89
Other investments	18.9	21.67	19.83	21.96	22.23
Total loans and leases	674.8	670.30	649.32	666.26	736.94
Fixed assets	14.2	14.76	14.45	16.70	14.13
Other assets	46.5	54.17	48.90	53.27	51.63
Non-financial assets	1.2	1.47	1.38	1.45	1.63
Total assets	**867.7**	**902.16**	**896.56**	**920.00**	**994.66**
Liabilities & Equity:					
Borrowing from other banks & FIs	198.3	210.60	229.64	250.44	282.31
Deposits	449.7	453.21	444.20	443.55	482.81
Other liabilities	131.5	152.03	150.11	165.23	246.12
Total liabilities	**779.5**	**815.84**	**823.96**	**859.22**	**1011.24**
Shareholders' Equity (Capital)	**88.2**	**86.32**	**72.60**	**60.77**	**-16.58**
Total liabilities & shareholders' equity	**867.7**	**902.16**	**896.56**	**920.00**	**994.66**

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

Appendix XXX: FIs' Aggregate Income Statement					
					(Amount in billion BDT)
Items	**2019**	**2020**	**2021**	**2022**	**2023**
Interest Income	76.1	68.89	59.4	54.52	59.01
Less: Interest expense	59.5	53.66	42.7	44.06	52.64
Net interest income (Net II)	**16.6**	**15.23**	**16.7**	**10.47**	**6.37**
Investment income	1.1	2.80	3.7	2.16	2.64
Add: Commission, exchange and brokerage	0.8	0.51	0.6	0.48	0.82
Add: Other operating income	3.0	2.75	2.9	6.01	5.21
Non-interest income (Non II)	**4.9**	**6.06**	**7.2**	**8.65**	**8.67**
Total operating income (Net II+ Non II)	**21.5**	**21.28**	**23.9**	**19.12**	**15.04**
Operating expenses	11.1	10.68	10.5	11.19	11.78
Profit before provisions	**10.4**	**10.60**	**13.4**	**7.93**	**3.26**
Total provisions	26.9	7.29	9.3	16.78	16.10
Profit before taxes	**(16.5)**	**3.31**	**4.1**	**(8.85)**	**(12.84)**
Tax provisions	5.7	5.03	6.1	2.87	5.19
Net profit after taxes	**(22.2)**	**(1.72)**	**(2.0)**	**(11.72)**	**(18.03)**

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

Appendix XXXI: FIs' Liquidity Position at End-December					
					(Amount in billion BDT)
Items	**2019**	**2020**	**2021**	**2022**	**2023**
Total liabilities (for SLR Calculations)	483.9	500.1	527.9	559.06	570.00
Total term deposits (for CRR Calculations)	309.8	324.2	347.2	358.02	355.24
Industry CRR(required)	7.7	4.9	5.2	5.37	5.33
Industry CRR(maintained)	7.5	5.7	6.0	5.69	5.43
Industry SLR(required)	21.7	22.6	23.8	25.15	25.25
Industry SLR(maintained)	90.9	108.0	116.4	92.97	104.87

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

Appendix XXXII: FIs' Other Information at End-December					
					(Amount in billion BDT)
Items	**2019**	**2020**	**2021**	**2022**	**2023**
Tier-I Capital	113.3	89.90	78.69	6.50	(1.81)
Tier-II Capital	13.3	13.50	13.37	12.76	12.69
Total Capital	**126.6**	**103.40**	**92.06**	**19.26**	**10.88**
Classified loans & leases	64.0	100.5	130.2	168.21	215.67
Loan loss provisions (required)	32.8	51.8	73.9	100.82	140.21
Loan loss provisions (maintained)	23.4	44.4	62.9	90.30	123.37
Loan loss provisions (surplus/shortfall)	**(9.4)**	**(7.4)**	**(11.0)**	**(10.53)**	**(16.84)**
Number of Government-owned FIs	3	3	3	3	3
Number of local FIs	18	18	19	19	19

APPENDIX XXXII: FIs' OTHER INFORMATION AT END-DECEMBER

(Amount in billion BDT)

Number of FIs under foreign joint venture	12	12	13	13	13
Total number of FIs	**33**	**33**	**35**	**35**	**35**
Number of branches	**276**	**277**	**303**	**274**	**270**

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

APPENDIX XXXIII: FIs' SUMMARY PERFORMANCE INDICATORS

(In percent)

Indicators	**2019**	**2020**	**2021**	**2022**	**2023**
Profitability & Efficiency:					
Return on Assets (ROA)	1.5	(0.19)	(0.23)	(1.27)	(1.81)
Net Interest Margin (NIM)	2.5	1.69	1.87	1.14	0.73
Asset Quality:					
Classified Loans and Leases to Total Loans and Leases	9.5	15.03	19.33	23.88	29.27[P]
Capital Adequacy:					
Capital Adequacy Ratio (CAR)	17.5	14.17	12.90	2.88	1.62
Liquidity:					
SLR maintained	18.8	21.60	22.10	16.63	18.40
CRR maintained	2.5	1.63	1.70	1.59	1.53

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

APPENDIX XXXIV: FIs' Sector-wise Distribution of Loans and Leases

(Shares in percentage)

Major Sectors	**2021**	**2022**	**2023**
Trade and Commerce	13.12	14.83	15.09
Industry	46.26	44.88	46.57
Agriculture	2.34	2.31	2.28
Housing	18.74	18.81	19.41
Others	19.53	19.17	16.65
Grand Total	100.00	100.00	100.00

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

APPENDIX XXXV: AUTOMATED CHEQUE CLEARING OPERATIONS

Category	**2021**		**2022**		**2023**	
	Number in Million	**Amount in Billion BDT**	**Number in Million**	**Amount in Billion BDT**	**Number in Million**	**Amount in Billion BDT**
High Value (HV)	2.31	15,623	2.52	16,110	2.39	14,875
Regular Value (RV)	18.50	9,031	20.00	10,090	19.34	9,669

Source: Payment Systems Department (PSD), BB.

Appendix XXXVI: The Status Of Mobile Financial Services (MFS)				
Particulars	**2020**	**2021**	**2022**	**2023**
Number of Banks authorized for MFS	15	13	13	13
Number of Banks in operation for MFS	14	10	13	13
Number of Agents (in millions)	1.06	1.12	1.55	1.72
Number of registered clients (in millions)	99.3	111.5	190.8	220.5
Number of active accounts (in millions)	32.3	41.1	57.4	83.7
Number of total transactions (in millions)	3172	3837	4736	6161
Volume of total transaction (in billion BDT)	**5616**	**7701**	**10159**	**13529**

Source: Payment Systems Department, BB

Appendix XXXVII: Agent Banking Operation During 2019-2023						
						Amount in Billion BDT
Year	**Number of Agents**	**Number of Account (In million)**	**Deposited Amount**	**Number of Transactions (In million)**	**Amount of Transaction**	**Inward Foreign Remittance**
2019	7914	5.26	74.98	49.80	1290.82	96.23
2020	11932	9.65	156.02	84.85	2930.39	295.36
2021	13951	14.05	239.60	138.97	4609.86	323.46
2022	15226	17.48	296.87	173.99	6730.57	320.02
2023	15757	21.42	359.02	181.09	8206.90	289.70

Source: Statistics Department, BB.

Appendix XXXVIII: Volume of Electronic Banking Transactions				
				Amount in billion BDT
Year	**2020**	**2021**	**2022**	**2023**
ATM	1,680.32	2,287.52	3,744.07	4,575.12
Debit Card	1,770.35	2,348.79	3,837.01	4,738.25
Credit Card	142.46	191.07	289.07	317.54
Internet Banking	798.04	1,373.84	2,835.67	7,634.16

Source: Payment Systems Department, BB

Appendix XXXIX: Banking Sector Assets, Deposits and NPL Concentration (2023)				
				(Amount in billion BDT)
Assets	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount (in billion BDT)	7,432.78	16,551.19	10,900.24	13,083.73
Share (%)	31.00%	69.00%	45.47%	54.53%
Deposit*	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount (in billion BDT)	5,680.6	11,960.5	8,172.5	9,468.6
Share (%)	32.2%	67.8%	46.3%	53.7%
NPL	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount (in billion BDT)	693.20	763.13	964.26	492.08
Share (%)	47.60%	52.40%	66.21%	33.79%

*Excluding interbank deposits.
Source: Department of Off-site Supervision and Banking Regulation and Policy Department, Bangladesh Bank;

Appendix XL: Banking Sector Loan Loss Provisions			
			(Amount in billion BDT)
Year	**Required Provision**	**Provision Maintained**	**Surplus/(Shortfall)**
2014	289.61	281.65	-7.96
2015	308.94	266.10	-42.84
2016	362.08	307.38	-54.70
2017	442.95	375.28	-67.67
2018	570.44	504.29	-66.15
2019	623.35	555.04	-68.31
2020	648.02	646.78	-1.24
2021	806.54	666.47	-140.07
2022	841.57	731.48	-110.09
2023	989.41	796.80	-192.61

Source: Banking Regulation and Policy Department, Bangladesh Bank.

Appendix XLI: Banking Sector Year-wise Gross NPL Ratio and Its Composition				
				(In percent)
Year	**Gross NPL Ratio**	**Share of Sub-Standard Loans to Gross NPL**	**Share of Doubtful Loans to Gross NPL**	**Share of Bad Loans to Gross NPL**
2012	10.0	19.1	14.2	66.7
2013	8.90	11.20	10.10	78.70
2014	9.69	11.00	11.20	77.80
2015	8.80	8.90	6.50	84.60
2016	9.23	10.22	5.42	84.36
2017	9.31	7.50	5.50	87.00
2018	10.30	9.35	4.72	85.93
2019	9.32	9.10	4.10	86.80
2020	7.66	7.67	5.33	87.00
2021	7.93	7.77	4.06	88.17
2022	8.16	6.79	4.54	88.67
2023	9.00	9.04	3.90	87.06

Source: Banking Regulation and Policy Department, Bangladesh Bank.

Appendix XLII: Microcredit Finance Sector						
Particulars		**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
1	**Total Number of Licensed Institutions**	724	759	746	739	731
2	**Number of Branches**	18,977	20,898	20,955	23,543	25,336
3	**Number of Employees**	162,175	171,110	175,741	206,713	206,000
4	**Number of Members (In million)**	32.37	33.31	35.12	38.27	40.86
5	**Number of Borrowers (In million)**	25.76	26.15	27.8	29.84	31.53
6	**Outstanding loans by licensed institutions (In billion BDT)**					
	Top 10 MFIs	562.51	639.7	657.89	834.05	1008.21
	Top 20 MFIs	622.35	707.03	737.42	954.15	1157.54
7	**Outstanding Saving Balance of the licensed institutions (In billion BDT)**					
	Top 10 MFIs	215.56	269.1	304.21	344.56	430.02

Appendix XLII: Microcredit Finance Sector						
	Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
	Top 20 MFIs	239.03	297.88	334.82	387.50	486.84
8	Return on Asset (ROA)	6.41%	5.03%	5.01%	2.89%	5.07%
9	Return on Equity (ROE)	17.06%	11.78%	19.00%	11.75%	14.67%
10	Amount of Outstanding Loan (In billion BDT)					
	Up to 50,000 Taka	376.48	390.41	395.70	404.96	403.04
	50001 Taka to 1,00,000 Taka	170.67	201.73	234.94	356.06	447.15
	1,00,001 Taka to 3,00,000 Taka	160.94	190.75	187.70	305.54	416.15
	3,00,001 Taka and Above	79.50	106.05	131.50	174.80	237.84
	Total Amount of Outstanding Loan	787.58	888.64	949.84	1,241.36	1,504.18
11	Defaulted Loan (In Million BDT)	23,612.79	29,512.29	45,285.47	83,700.12	77,540.00
12	Particulars of Loan Recipients' of MFIs (In million)					
	Up to 50,000 Taka	20.84	19.45	20.72	22.25	18.40
	50001 Taka to 1,00,000 Taka	3.46	4.27	4.91	5.27	7.38
	1,00,001 Taka to 3,00,000 Taka	1.22	1.15	1.76	1.94	4.90
	3,00,001 Taka and Above	0.24	0.32	0.41	0.38	0.85
	Total Number of loan recipients	25.76	25.18	27.80	29.84	31.53
13	Average Loan per Recipient	30,562.52	35,299.09	34,162.41	41,740.72	47,708.39

Source: Microcredit Regulatory Authority.

Appendix XLIII: Islamic Banks' Aggregate Balance Sheet As of 31 December						
Particulars	*(Amount in billion BDT)*				Growth in 2022(%)	Growth in 2023(%)
	2020	2021	2022	2023		
Property & Assets						
Cash in Hand (including FC)	32.4	41.7	52.3	60.9	25.2	16.6
Balance with BB and SB (including FC)	339.7	385.2	257.2	257.6	(33.2)	0.2
Balance with other Banks and FIs	145.6	162.8	196.2	176.1	20.5	(10.2)
Money at Call and Short Notice	14.3	18.3	8.0	8.3	(56.4)	3.4
Investments						
Government	91.0	134.7	109.8	127.6	(18.5)	16.2
Others	119.4	171.7	170.3	177.2	(0.8)	4.1
Total Investments	**210.4**	**306.4**	**280.1**	**304.8**	**(8.6)**	**8.8**
Investments & Advances						
Investments & Advances	2,696.2	3,282.2	3,739.8	4,026.2	13.9	7.7
Bills Purchased and Discounted	122.6	132.5	208.7	249.7	57.6	19.6
Total Investments and Advances	**2,818.8**	**3,414.7**	**3,948.5**	**4,275.9**	**15.6**	**8.3**
Fixed Assets	44.6	55.7	56.3	53.7	1.1	(4.7)
Other Assets	100.9	122.4	171.1	251.9	39.8	47.2
Non-banking Assets	0.9	0.9	0.9	0.9	-	(0.1)
Total Assets	**3,707.6**	**4,508.0**	**4,970.7**	**5,390.2**	**10.3**	**8.4**
Liabilities						
Borrowings from other Banks/FIs/Agents	201.4	285.4	579.0	678.1	102.8	17.1
Deposits & Other Accounts						
Current Deposit	312.3	411.0	412.3	471.2	0.3	14.3
Savings Deposit	583.8	766.9	802.5	773.6	4.6	(3.6)
Fixed/Term Deposit	1,720.5	2,015.6	2,002.4	2,223.7	(0.7)	11.1
Interbank Deposit	109.2	114.3	152.7	151.9	33.5	(0.5)

Appendix XLIII: Islamic Banks' Aggregate Balance Sheet As of 31 December						
Particulars	*(Amount in billion BDT)*				**Growth in 2022(%)**	**Growth in 2023(%)**
	2020	**2021**	**2022**	**2023**		
Other Deposit	321.3	352.4	397.6	361.3	12.8	(9.1)
Total Deposits	**3,047.1**	**3,660.4**	**3,767.3**	**3,981.7**	**2.9**	**5.7**
Bills Payable	23.3	31.3	37.5	48.7	19.7	30.0
Other Liabilities	267.7	326.2	361.8	443.3	10.9	22.5
Total Liabilities	**3,539.6**	**4,303.3**	**4,745.5**	**5,151.9**	**10.3**	**8.6**
Capital/Shareholder's Equity	167.9	204.7	225.1	238.3	10.0	5.8
Total Liabilities & Shareholder's Equity	**3,707.6**	**4,508.0**	**4,970.7**	**5,390.2**	**10.3**	**8.4**
Off-balance Sheet Items	**623.9**	**774.9**	**807.2**	**775.8**	**4.2**	**(3.9)**

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

Appendix XLIV: Islamic Banks' Aggregate Income Statement						
Particulars	*(Amount in billion BDT)*				**Growth in 2022 (%)**	**Growth in 2023 (%)**
	2020	**2021**	**2022**	**2023**		
Profit Income	238.6	248.57	266.28	324.6	7.1	21.9
Less: Profit Expenses	160.7	160.02	176.96	214.3	10.6	21.1
Net Profit Income	77.9	88.56	89.32	110.2	0.9	23.4
Non-Profit/Investment Income	28.8	35.56	54.69	49.0	53.8	(10.4)
Total Income	**106.7**	**124.11**	**144.01**	**159.2**	**16.0**	**10.6**
Operating Expenses	60.2	69.41	80.36	90.3	15.8	12.3
Profit before Provision	46.5	54.71	63.65	69.0	16.3	8.4
Total Provision	**11.3**	**13.71**	**13.34**	**14.9**	**(2.7)**	**11.7**
Profit before Taxes	35.2	41.00	50.31	54.1	22.7	7.5
Provision for Taxation	18.1	20.71	24.49	26.5	18.3	8.3
Profit after Taxation (i.e., Net Profit)	**17.1**	**20.29**	**25.82**	**27.6**	**27.2**	**6.7**

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

Appendix XLV: Share of Islamic Banks in the Banking Sector (2023)			
			(Amount in billion BDT)
Particulars	**All Banks**	**Islamic Banks**	**Share of Islamic Banks (%)**
Property & Assets			
Cash in hand	251.4	60.9	24.2
Due from BB and other banks/FIs	1,878.8	433.8	23.1
Money at Call and Short Notice	111.5	8.3	7.4
Investments in securities	3,785.2	304.8	8.1
Investments (Loans and advances)	16,491.4	4,275.9	25.9
Fixed Assets	294.1	53.7	18.3
Other Assets	1,155.4	251.9	21.8
Non-Banking Assets	16.1	0.9	5.7
Total Assets	**23,984.0**	**5,390.2**	**22.5**
Liabilities			
Due to financial institutions	1,944.2	678.1	34.9
Total deposits	17,950.8	3,981.7	22.2
Bills Payable	237.0	48.7	20.6

APPENDIX XLV: SHARE OF ISLAMIC BANKS IN THE BANKING SECTOR (2023)

(Amount in billion BDT)

Other liabilities	2,516.9	443.3	17.6
Total Liabilities	**22,648.8**	**5,151.9**	**22.7**
Capital/Shareholder's Equity	**1,335.1**	**238.3**	**17.8**
Total Liabilities & Shareholder's Equity	**23,984.0**	**5,390.2**	**22.5**
Off-balance Sheet Items	**6,586.5**	**775.8**	**11.8**

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

APPENDIX XLVI: SELECTED RATIOS OF ISLAMIC BANKS AND THE BANKING SECTOR (2023)

(In percent)

Ratio	Overall Banking Sector	Islamic Banking Sector
ROA	0.6	0.5
ROE	11.1	11.6
Net Profit Margin	1.6	2.3
Profit (Interest) Income to Total Assets	4.9	6.0
Net-profit (Interest) Income to Total Assets	1.4	2.0
Non-Profit (Interest) Income to Total Assets	2.0	0.9
Investment (Advance)-Deposit Ratio	80.4	95.3
CRAR	11.6	12.7
Classified Investment (Advances) to Investments	9.4	4.8
Classified Investment (Advances) to Capital	107.8	81.7

Source: Department of Off-site Supervision, and Banking Regulation and Policy Department, Bangladesh Bank.
*Data on ICB Islamic Bank Ltd. is excluded for Islamic Banking Sector.

APPENDIX XLVII: ISLAMIC BANKS' CRAR (2023)

CRAR	Number of Islamic Banks
Below 10%	1
10% to 12.5%	2
>12.5%	7
Total	**10**

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

APPENDIX XLVIII: ISLAMIC BANKS' LEVERAGE RATIO (2023)

Leverage ratio	Number of Islamic Banks
Below 3%	1
3% to 5%	3
>5%	6
Total	**10**

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

APPENDIX XLIX: METHODOLOGY OF PERFORMANCE MAP OF ISLAMIC BANKS

The performance map presents an overall assessment of changes in underlying conditions and risk factors measured through five composite indices namely growth, asset quality, profitability, liquidity and efficiency during a period. The ratios used for constructing each composite index are showing in Table 1.

Table 1: Ratios used for constructing the Performance map of Islamic Banks

Dimension	Ratios		
Capital Adequacy	CRAR	CCB Ratio	Leverage Ratio
Asset Quality	GNPL Ratio	NNPL Ratio	URSDL Ratio
Efficiency	ROA ratio	NII Ratio	NNII Ratio
Liquidity	LCR	NSFR	IDR
Growth	Growth in total Assets, Investments, Deposits, and Shareholders' Equity		Growth in market share in terms of total Assets, Investments, Deposits, and Shareholders' Equity

Each composite index takes values between zero and 1, where a higher value means the risk in that dimension is high. Therefore, an increase in the value of the index in any particular dimension indicates an increase in risk in that dimension for that period as compared to other periods. Each index is normalized by using the following formula:

$$\frac{X_t - \min(X_t)}{\max(X_t) - \min(X_t)}$$

Where, X_t is the value of the ratio at time t. A composite index of each dimension is calculated as a weighted average of normalized ratios used for that dimension where the weights are based on subjective judgment.

APPENDIX L: FOREIGN EXCHANGE (FX) ASSETS AT END-DECEMBER

Amount in million USD

Period	Debit Balance in Nostro A/c	BB Clearing Account	Investment in OBU	Cash holding	FC Bills Purchased	Others	Total
2020	1911.12	1573.13	3082.29	50.79	1128.14	12345.22	**20090.69**
2021	1910.65	689.22	3485.65	28.86	1858.90	16388.92	**24362.20**
2022	2370.02	783.05	3130.78	14.38	1495.81	8914.27	**16708.31**
2023	2387.28	1115.41	3757.43	27.83	1590.18	7353.45	**16231.58**

Source: Foreign Exchange Policy Department, Bangladesh Bank.

APPENDIX LI: FOREIGN EXCHANGE (FX) LIABILITIES AT END-DECEMBER

In Million USD

Period	Credit balance in Nostro A/c	NFCD	RFCD	ERQ	FC A/c	FDD, TT, MT payable	Back-to-Back L/Cs	Others	Total
2020	145.58	50.76	111.46	548.97	1790.32	37.63	2205.96	10739	**15629.68**
2021	142.44	56.92	105.24	666.38	1950.25	37.24	2482.22	13374.34	**18815.03**
2022	203.83	112.48	138.67	486.96	2284.3	19.26	2584.06	6598.27	**12427.83**
2023	319.17	143.56	143.28	422.45	2364.55	15.32	2759.59	9140.75	**15308.67**

Source: Foreign Exchange Policy Department, Bangladesh Bank.

Appendix LII: Foreign Exchange (FX) Contingent Liabilities at End-December					
					Amounts in million USD
Period	**Letter of credit**	**Letter of guarantee**	**Acceptances**	**Others**	**Total**
2020	31141.22	4635.85	14870.87	316.36	**50964.3**
2021	41551.93	5542.00	20145.49	107.43	**67346.86**
2022	35714.74	4702.98	18238.44	364.69	**59020.85**
2023	37894.53	4812.85	30755.53	552.29	**74015.2**
Growth in 2023	6.10%	2.34%	68.63%	51.44%	**25.41%**
Component in 2023	51.20%	6.50%	41.55%	0.75%	**100.00%**

Source: Foreign Exchange Policy Department, Bangladesh Bank.

Appendix LIII: Interbank FX Turnover by Components									
Amount in million USD									
Period	**Spot**			**Swap**			**Forward**		
	USD	**Non-USD**	**Total**	**USD**	**Non-USD**	**Total**	**USD**	**Non-USD**	**Total**
Total 2022	668.77	1740.64	2409.41	34495.31	2.00	34497.31	42.50	104.98	**147.48**
Jan-23	66.33	46.75	113.08	1472.95	0.00	1472.95	0.00	0.00	**0.00**
Feb-23	74.24	27.35	101.59	1207.80	0.00	1207.80	2.00	0.00	**2.00**
Mar-23	77.88	0.00	77.88	1688.50	0.00	1688.50	0.00	0.20	**0.20**
Apr-23	62.00	2.72	64.72	1464.50	0.00	1464.50	0.00	0.00	**0.00**
May-23	72.29	0.00	72.29	2197.00	0.00	2197.00	0.00	0.00	**0.00**
Jun-23	108.81	0.00	108.81	1416.10	0.00	1416.10	2.00	0.00	**2.00**
Jul-23	150.31	0.00	150.31	2110.40	0.00	2110.40	0.00	0.00	**0.00**
Aug-23	29.63	0.00	29.63	2571.60	0.00	2571.60	0.00	0.00	**0.00**
Sep-23	116.82	0.00	116.82	1945.10	0.00	1945.10	4.00	0.00	**4.00**
Oct-23	82.99	0.00	82.99	2024.80	0.00	2024.80	7.20	0.00	**7.20**
Nov-23	61.33	0.00	61.33	1752.10	0.00	1752.10	0.00	0.00	**0.00**
Dec-23	109.44	0.00	109.44	1446.90	0.00	1446.90	0.00	0.00	**0.00**
Total 2023	**1012.07**	**76.82**	**1088.89**	**21297.75**	**0**	**21297.75**	**15.2**	**0.2**	**15.4**
Growth in 2023	**51.33%**	**-95.59%**	**-54.81%**	**-38.26%**	**-100.00%**	**-38.26%**	**-64.24%**	**-99.81%**	**-89.56**

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank.

Appendix LIV: Annual FX Turnover					
					Amount in billion USD
Particulars	**2019**	**2020**	**2021**	**2022**	**2023**
Annual FX Spot Turnover	0.70	3.00	5.90	2.41	1.09
Annual FX Turnover	15.70	34.25	43.10	37.05	22.40

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank.

Appendix LV: monthly FX Turnover													
Amount in billion USD													
Particulars	**Jan-23**	**Feb-23**	**Mar-23**	**Apr-23**	**May-23**	**Jun-23**	**Jul-23**	**Aug-23**	**Sep-23**	**Oct-23**	**Nov-23**	**Dec-23**	**Total**
FX Turnover	1.59	1.31	1.77	1.53	2.27	1.53	2.26	2.60	2.07	2.11	1.81	1.56	**22.40**

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank.

APPENDIX LVI: NET OPEN POSITION IN FX AT END-DECEMBER

Amount in million USD

Period	Total of the Net Long Position	Total of the Net Short Position	Overall Net Exchange Position	Total
End-December 2021	1167.89	-142.04	1025.85	**2051.7**
End-December 2022	618.96	-761.86	-142.90	**-285.8**
Jan-23	658.85	-910.730	-251.88	**-503.76**
Feb-23	672.08	-865.33	-193.25	**-386.50**
Mar-23	648.61	-663.31	-14.7	**-29.40**
Apr-23	651.10	-659.87	-8.76	**-17.52**
May-23	652.78	-802.43	-149.65	**-299.30**
Jun-23	878.73	-771.70	107.03	**214.06**
Jul-23	747.53	-796.05	-48.52	**-97.04**
Aug-23	800.16	-787.40	12.76	**25.52**
Sep-23	876.01	-837.07	38.94	**77.88**
Oct-23	895.27	-739.24	156.04	**312.08**
Nov-23	902.120	-760.64	141.56	**283.12**
Dec-23	734.94	-746.21	-11.28	**-22.56**

Source: Foreign Exchange Policy Department, Bangladesh Bank.

APPENDIX LVII: ANNUAL GROWTH OF NDA, NFA, M2, RM

Particulars	2018	2019	2020	2021	2022	2023
NFA	0.26%	3.56%	30.22%	3.41%	-13.48%	-13.13%
NDA	12.46%	14.56%	9.94%	11.57%	14.95%	13.42%
M2	9.41%	12.04%	14.23%	9.60%	8.47%	8.60%
RM	8.15%	6.93%	21.18%	6.45%	17.41%	-2.03%

Source: Major Economic Indicators, Bangladesh Bank.

APPENDIX LVIII: FX RESERVE ADEQUACY

Amount in billion USD

Particulars	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Import in the month of December	4.66	4.64	7.50	5.23	4.96
Import Coverage (Prospective)	5.5	5.5	6.0	5.5	5.1
Gross FX Reserve	32.70	43.20	46.20	33.70	27.13
FX Reserve as per BPM6	-	-	-	-	21.87
M2	152.47	174.37	188.89	187.74	173.56
Reserves/M2	21.4%	24.8%	24.4%	18.0%	15.6%
STED/Reserve	29.8%	25.5%	39.2%	54.9%	52.5%
FX= 3 Months Import Coverage	13.98	13.92	22.50	15.74	14.88
FX=20% of M2	30.49	34.87	37.78	37.55	34.71
FX=Short-Term External Debt	9.74	10.99	18.09	18.53	14.23
Estimated FX Reserves (applying the benchmarks)	54.21	59.78	78.37	71.82	63.82

Source: Statistics Department, Bangladesh Bank.

APPENDIX LIX: WAGE EARNERS' REMITTANCE

Amount in billion USD

Particulars	2019	2020	2021	2022	2023
Total	18.33	21.74	22.07	21.29	21.92
Growth (in percent)	17.96%	18.60%	1.52%	-3.55%	2.97%

Source: Statistics Department, Bangladesh Bank.

APPENDIX LX: EXCHANGE RATE MOVEMENT

BDT per USD

Period	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2019	84.0	84.2	84.3	84.5	84.5	84.5	84.5	84.5	84.5	84.8	84.9	84.9
2020	84.9	85.0	85.0	85.0	85.0	84.9	84.8	84.8	84.8	84.8	84.8	84.8
2021	84.8	84.8	84.8	84.8	84.8	84.8	84.8	85.2	85.5	85.7	85.8	85.8
2022	86.0	86.0	86.2	86.5	89.0	93.5	94.7	95.0	96.0	97.0	98.0	99.0
2023	100.0	101.0	102.0	103.0	104.5	106.0	109.0	109.5	110.3	110.5	110.5	110.0

Source: Statistics Department, Bangladesh Bank.

APPENDIX LXI: REER MOVEMENT (INDEX)

Period	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2019	107.92	107.34	106.92	106.66	105.94	105.70	106.79	109.64	111.66	111.03	110.6	109.89
2020	110.45	111.23	113.71	115.86	113.78	112.99	112.82	112.38	114.10	114.67	113.00	110.73
2021	111.29	110.94	112.41	113.12	108.97	110.55	112	113.47	115.08	115.75	115.21	115.76
2022	115.06	114.67	115.49	116.38	115.74	111.3	111.31	113.97	112.36	111.66	108.09	104.81
2023	102.33	101.86	102.69	101.4	101.12	102.03	100.57	104.56	106.57	107.95	105.39	104.53

Source: Monetary Policy Department, Bangladesh Bank.

APPENDIX LXII: IMPORT LETTER OF CREDIT (L/C)

Amount in billion USD

Item	CY 2020	CY 2021	CY 2022	CY 2023
Opening L/C	55.81	86.18	85.28	69.72
(Growth)	-	54%	-1%	-18%
Settlement L/C	46.79	71.56	87.71	58.82
(Growth)	-	53%	23%	-33%
Outstanding Contingent Liabilities of Import L/C	9.02	14.61	-2.43	10.9

Source: Foreign Exchange Operation Department, Bangladesh Bank.

APPENDIX LXIII: INTERVENTION IN FX MARKET BY BB (CY2016-CY2023)

Amount in billion USD

End- December	2016	2017	2018	2019	2020	2021	2022	2023
USD Purchased	3.32	0.05	0.00	0.00	6.37	2.66	0.00	1.24
USD Sold	0.01	1.23	2.37	1.62	0.66	2.52	12.94	12.51

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank.

APPENDIX LXIV: INTERVENTION IN FX MARKET BY BB (CY2023)

Amount in million USD

Months	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
USD Purchased	0.00	0.00	10.50	39.50	20.50	122.50	100.00	0.00	0.00	0.00	101.00	849.45
USD Sold	1221.80	924.26	979.03	850.90	909.55	891.80	1147.60	1154.50	966.61	1198.63	1300.05	970.10

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank.

APPENDIX *LXV*: LIST OF INDICATORS USED TO PREPARE CFSI FOR END-DECEMBER 2023

Category	**Indicator**	
Real Sector Index (RSI)	GDP growth rate	RSI1
	Agricultural Production	RSI2
	Quantum Index of Production	RSI3
	Inflation	RSI4
	Domestic Credit to GDP	RSI5
Fiscal Sector Index (FSI)	Fiscal balance to GDP	FSI1
	Government debt to GDP	FSI2
	Tax Revenue to GDP	FSI3
External Sector Index (ESI)	External debt to GDP ratio	ESI1
	Reserve to External Debt	ESI2
	Current Account Balance to GDP	ESI3
	Real effective exchange rate (REER)	ESI4
	Net international investment position (NIIP)	ESI5
Monetary and Financial Sector Index (MFI)	Domestic Credit Growth	MFI1
	Performing Loan Ratio	MFI2
	CRAR	MFI3
	ROA	MFI4
	Capital Market return	MFI5
	Call money rate	MFI6

Appendix LXVI: Financial Stability MAP

Components	Major Indicators	Standardized Scores (0 to 1 Scale) 2022[62]	Standardized Scores (0 to 1 Scale) 2023	Change w.r.t. 2022	Latest Value of the indicator[61]	Comment
External Economy	Trading partners' real GDP growth (export weighted)	0.203	0.355	↑	1.23 percent for 2023	Reverse ratio[63] = 1- standardized score
	Import Weighted average Inflation (In countries from which Bangladesh makes highest import)	0.498	0.282	↓	2.43 percent for 2023	-
	Weighted average unemployment rate (Source countries with highest inward remittance for Bangladesh)	0.549	0.508	↓	3.57 percent for 2023	-
	International Oil Price	0.900	0.688	↓	$85.41/barrel in March 2024. Oil price increased after December 2023.	
	180 days Average SOFR rate at month end	0.311	0.657	↑	5.389 percent in June 2024. This rate increased after December 2023.	
	Current account deficit to GDP	0.540	0.320	↓	0.248 percent in December 2023.	Reverse ratio.
	Reserve Adequacy (Import coverage in months)	0.678	0.730	↑	5.1 months in March 2024.	Reverse ratio.
	Overall component Score	**0.532**	**0.490**	↓	-	-
Domestic Economy	Output gap	0.300	0.400	↑	2.07 percent for December 2023.	-
	External debt to GDP	0.844	0.846	↑	21.60 percent in 2022-23 and 20.70 percent in 2021-22.	-
	Exchange rate fluctuations (REER)	0.554	0.445	↓	104.53 for December 2023 and 106.18 for April 2024.	-
	Inflation	0.495	0.707	↑	9.41 in December 2023 and 9.81 in March 2024.	-
	Overall component Score	**0.518**	**0.590**	↑	-	-

[61]The cut-off date for latest value of any indicator is 31 December, 2023. Updated values after that date have been used in explaining future outlook of the stability map but not in constructing the map.

[62]Some indicators for 2022 have been re-estimated. In some cases, threshold values used for standardizing the indicators have also been modified from the previous publication (FSR-2022).

[63]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.

FINANCIAL STABILITY MAP (CONT'D)						
Components	**Major Indicators**	**Standardized Scores (0 to 1 Scale)**		**Change w.r.t. 2022**	**Latest Value of the indicator**	**Comment**
		2022	**2023**			
Households	Household borrowing to GDP	0.780	0.767	↓	5.82 percent for 2023.	-
	Household Credit quality (H.H NPL to H.H Loans)	0.276	0.327	↑	5.09 percent for 2023.	-
	Inward Remittance to GDP	0.497	0.492	↓	5.29 percent for 2023.	Reverse ratio.
	Overall component Score	**0.517**	**0.528**	↑	-	-
Non-Financial Corporation	All NFCs' credit to GDP	0.994	0.925	↓	26.3 percent in December 2023.	-
	Top 50-NFCs' loans to Banking Sector Loans	0.879	0.869	↓	17.6 percent in December 2023.	-
	D/E ratio of All NFCs	0.364	0.484	↑	113 percent in December 2023.	-
	Credit portfolio quality of Top 50 NFCs	0.159	0.341	↑	7.94 percent in December 2023.	-
	Overall component Score	**0.599**	**0.655**	↑	-	-
Fiscal Condition	Public debt to GDP	0.161	0.511	↑	36.34 percent in December 2023.	-
	Sovereign Risk Premium	0. 526	0. 556	↑	-2.67 percent in December 2023.	-
	Govt. budget balance to GDP	0.546	0.457	↓	4.49 percent for 2023.	-
	Tax revenue to GDP	0.770	0.794	↑	7.64 percent in December 2023.	Reverse ratio
	Overall component Score	**0.513**	**0.591**	↑	-	-
Financial Market Condition	Asset Concentration of top 3 D-SIBs to Industry Assets	0.275	0.276	↑	27.57 percent in December 2023.	-
	Gross NPL of Banking Sector	0.058	0.082	↑	9.00 percent in December 2023.	-
	RWA density ratio	0.612	0.593	↓	59.31 percent in December 2023.	-
	Banking Sector resilience map	0.790	1.174	↑	1.174 in December 2023.	-
	Deposit covered by DITF	0.788	0.810	↑	19.00 percent in December 2023.	Reverse ratio.
	NPL of FIs	0.739	0.979	↑	29.27 percent in December 2023.	-

Financial Stability MAP (Cont'd.)						
Components	**Major Indicators**	**Standardized Scores (0 to 1 Scale)**		**Change w.r.t. 2022**	**Latest Value of the indicator**	**Comment**
		2022	2023			
Financial Market Condition	Price Earnings Ratio	0.630	0.734	↑	13.12 in December 2023 and 10.99 in April 2024.	Reverse ratio used up to a certain level. Weights for FI and capital market indicators are finalized using their proportional size in the financial system (Bank + FI + Capital Market)
	DSEX	0.275	0.294	↑	6,246.50 points in December 2023 and 5,584.65 points in April 2024.	Reverse ratio.
	Overall component Score	**0.394**	**0.466**	↑	-	-
Capital & Profitability	CRAR	0.268	0.344	↑	11.64 percent in December 2023.	Reverse ratio
	Tier1	0.035	0.000	↓	8.44 percent in December 2023.	Reverse ratio
	NIM	0.548	0.498	↓	2.74 percent in December 2023.	Reverse ratio
	ROA	0.639	0.656	↑	0.59 percent in December 2023.	Reverse ratio
	Overall component Score	**0.372**	**0.375**	↑	-	-
Funding & Liquidity	ADR	0.870	1.000	↑	80.38 percent in December 2023.	-
	LCR	0.574	0.623	↑	147.69 percent in December 2023.	Reverse ratio
	NSFR	0.195	0.342	↑	108.36 percent in December 2023.	Reverse ratio
	Overall component Score	**0.549**	**0.659**	↑	-	-

Note: w.r.t. denotes 'with respect to'.

This report is prepared by Financial Stability Department, Bangladesh Bank, Head Office, Motijheel, Dhaka-1000, Bangladesh.

The report is released in 2024 and is based on data and information available as of 31st December 2023, unless stated otherwise.

The report can be accessed through internet at https://www.bb.org.bd/en/index.php/publication/publictn/0/37

Feedback on the report may be given to gm.fsd@bb.org.bd.