Financial Markets

6.1 Following the global financial crisis and economic downturn, financial sector stability is being monitored with heightened priority as a key requisite for macro ecomomic stability. In the Bangladesh economy with limited regulated openness in the external sector, the financial system remained free of contagion from toxic assets of markets in developed economies afflicted by the crisis. The banking sector remained stable and liquid during and after the global financial crisis; assessment and stress testing by an IMF FSAP update mission in Q1 FY10 reported positively on the resilience of the banking sector in Bangladesh; and the improvements in its capital base and other fundamentals. Recent measures adopted by BB in bolstering stability of the financial sector include mandatory implementation of the Basel-II capital regime (with standardised approach for credit and market risks, and basic indicators approach for operational risks) from 2010, with the attendant shoring up of risk management structures and practices that this will entail. Mandatory periodical stress testing routines in banking sector have also been introduced, to bring out early warnings about their vulnerabilities.

Money Market

Call Money Market-FY10

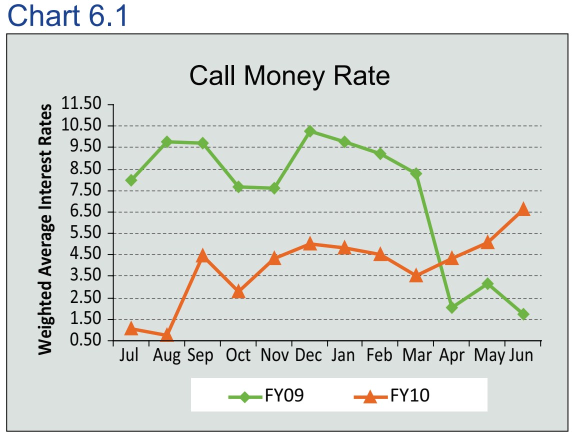
6.2 The banking sector remained stable and liquid throughout the year. Moreover, BB provided repo along with special liquidity support to the primary dealers against the holding of treasury bills and bonds in order to fine tune the liquidity situation. As a result, the weighted average interest rate in the call money market moved within the range of 0.74 percent to 6.62 percent during FY10 (Table 6.1 and Chart 6.1.) The weighted average interest rate ranged from 1.71 percent to 10.27 percent

Table 6.1 Volume of trade and weighted average interest rates in call money market

Periods	Volume of trade (billion Taka)	Weighted average interest rates (%)	Volume of trade (billion Taka)	Weighted average interest rates (%)
	FY09		FY10	
July	565.3	8.0	545.53	1.07
August	384.4	9.7	643.36	0.74
September	472.6	9.7	618.92	4.47
October	523.3	7.7	759.97	2.80
November	536.1	7.6	651.46	4.35
December	360.2	10.3	565.03	5.04
January	478.3	9.8	709.66	4.83
February	566.5	9.2	591.12	4.51
March	658.1	8.3	744.72	3.51
April	543.2	2.0	691.59	4.35
May	568.2	3.2	771.19	5.07
June	545.5	1.7	865.89	6.62
Average	**516.8**	**7.3**	**679.87**	**3.95**

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank

Chart 6.1



during FY09. During FY10, the average volume in the call money market increased to Taka 679.87 billion which was 31.55 percent higher than that of the FY09. Though the weighted average interest rate started with a very lower rate in the 1st quarter of the year ultimately both the valume of transaction and the weight average interest rate in the call money market showed a mixed trend during FY10.

Repo Auctions – FY10

6.3 A repo deal is one where eligible parties enter into a contract to borrow money at a pre-determined rate against the collateral of treasury bills and bonds. The repo injects money in the system and provides banks with necessary funds to maintain their liquidity. While pursuing a cautious monetary policy, Bangladesh Bank kept this window open for the banks to maintain the market liquidity at a desired level. In FY10, the banks were provided a reasonable amount of the repo funds through daily repo auction.

6.4 A total of 89 repo auctions were held during FY10. In all 367 bids for Taka 877.82 billion were received, of which 358 bids for a total of Taka 866.10 billion were accepted. During FY09 bids for Taka 2220.83 billion were received, of which Taka 1934.60 billion was accepted. The volume of accepted bids decreased by 44.77 percent during the FY10 (Table 6.2). The range of interest rate against the accepted bids was 4.50-8.50 percent per annum in FY10 against 8.50-8.75 percent per annum in the previous year.

Table 6.2 Repo auctions-FY10

Total No. of auctions held during the year	Tenor	Bids received		Bids accepted		Interest rates of the accepted bids (%)
		No. of bids	Face value (billion Taka)	No. of bids	Face value (billion Taka)	
89	1-Day/2-Day	246	720.14	246	714.27	4.50-8.50
	3-Day/7-Day	121	157.68	112	151.83	4.50-8.50
	Total	**367**	**877.82**	**358**	**866.10**	**4.50-8.50***

Source: Monetary Policy Department, Bangladesh Bank.

* Overall interest rates of different tenors.

Reverse Repo Auctions - FY 10

6.5 In the operation of reverse repo deal, money is taken away from the system. Bangladesh Bank uses the reverse repo auctions to maintain intended level of liquidity

Table 6.3 : Reverse Repo Auctions-FY10

Total No. of auctions held during the year	Tenor	Bids received		Bids accepted		Interest rates of the accepted bids (%)
		No. of bids	Face value (billion Taka)	No. of bids	Face value (billion Taka)	
135	1-Day/2-Day	339	755.81	271	510.27	2.50
	3-Day/7-Day	115	247.52	77	148.10	2.50
	Total	**454**	**1003.33**	**348**	**658.37**	**2.50***

Source: Monetary Policy Department, Bangladesh Bank.

* Overall range of the rates of different tenors

in the market and to keep up monetary aggregates on track. In FY10, only three-forths of the received bids were accepted to maintain liquidity position comfortable. A total of 135 daily reverse repo auctions were held in FY10. In all, 454 bids of 1-2 day and 3-7 day tenors for a total of Taka 1003.33 billion were received, of which 348 bids amounting to Taka 658.37 billion were accepted. During FY09, bids for Taka 887.21 billion were received, of which Taka 553.24 billion were accepted. Substantial volumes were seen in the reverse repo market during FY10. The rate of interest against the accepted bids was 2.50 percent per annum during FY10 (Table 6.3).

Bangladesh Bank Bill

6.6 Operations of 30-day Bangladesh Bank Bill revived again during FY10 as a tool of Open Market Operation (OMO) in order to maintain liquidity of the banking system more effectively. A total of 164 bids amounting to Taka116.42 billion were received, of which 123 bids amounting to Taka 89.57 billion were accepted. The weighted average yield-to-maturity against the accepted bids ranged from 0.93 percent to 2.55 percent (Table 6.4). It is mentionable that no auction was held in FY09.

Table 6.4 - Bangladesh Bank Bill-FY10

Tenor of bills	Bids offered		Bids accepted		Outstanding bills as of end June 2010	Yield range* (%)	
	No. of bids	Face value (billion Taka)	No. of bids	Face value (billion Taka)		FY09	FY10
30-Day	164	116.42	123	89.57	6.00	-	0.93-2.55

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

Government Securities Market

Government Treasury Bills Auctions

6.7 Treasury bills and bonds are short-term and long-term obligations issued by Bangladesh Bank on behalf of the government of Bangladesh. In the auction procedure, the securities are issued through a treasury style French Auction where the allotments are awarded to the bids which fill the notified issue amount starting from the lowest yield. Pro-rata partial allotments are made for bids at the cut-off-yield. 15 primary dealers (PDs) are acted as underwriters and market makers with commitments to bid in auctions. Weekly

Table 6.5 Auctions of government treasury bills – FY10

Tenor of bills	Bids offered		Bids accepted		Outstanding bills as of end June 2009	Yield range* (%)	
	No. of bids	Face value (billion Taka)	No. of bids	Face value (billion Taka)		FY09	FY10
91-Day	563	177.39	126	40.94	10.27	3.02-7.93	1.11-2.54
182-Day	393	111.01	88	37.58	27.05	4.24-8.16	3.36-4.04
364-Day	520	128.60	171	39.94	64.50	5.96-8.60	4.08-5.42
Devolvement to BB/PD				92.30			
Total	**1476**	**417.00**	**385**	**210.76**	**101.82**	**3.02-8.60**	**1.11-5.42**

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

auctions of 91-day, 182-day and 364-day treasury bills continued to be the main instruments for monetary policy management during the year under report. The objectives for issuing these securities are two-fold. The first is to provide a mechanism for financing government deficit at a low cost and to use as a mopping-up instrument of excess liquidity prevailing in the market.

6.8 The results of treasury bills auction in FY10 are summarised at Table-6.5. The auctions of 91-day, 182-day and 364-day's tenor bills were mostly over-subscribed with bids, whereas the volume of devolvement to Bangladesh Bank/PDs decreased. The cut-off-rate of most of the treasury bills decreased during FY10.

6.9 A total of 1476 bids amounting to Taka 417.00 billion were received, of which 385 bids amounting to Taka 210.76 billion (including Taka 92.30 billion as devolved amount) were accepted. The weighted average yield-to-maturity against the accepted bids ranged from 1.11 percent to 5.42 percent. In FY09, a total of 1395 bids amounting to Taka 436.58 billion were received, of which Taka 242.74 billion was accepted.

6.10 Depending on the liquidity conditions in the money market, the cut off yields of treasury bills of different maturities varied within wide ranges. The yields for various tenors as of end June 2010 depicted somewhat a very lower range (1.11-5.42 percent) than the yields as of end June 2009 (3.02-8.60percent) (Table 6.5).

Table 6.6 Auctions of Bangladesh Government Treasury Bonds – FY10

Total No. of auctions held during the year	Tenor of bonds	Bids offered		Bids accepted		Outstanding bills as of end June 2010	Yield range* (%)
		No. of bids	Face value (billion Taka)	No. of bids	Face value (billion Taka)		
48	5-Year	226	81.54	49	16.19	150.90	7.47-8.20
	Devolvement to Bangladesh Bank/PDs				19.21		
	10-Year	222	77.68	67	19.99	172.41	8.43-9.42
	Devolvement to Bangladesh Bank/PDs				10.11		
	15-Year	163	30.77	25	6.51	42.10	8.59-9.39
	Devolvement to Bangladesh Bank/PDs				6.29		
	20-Year	156	28.50	18	5.75	30.85	8.59-9.19
	Devolvement to Bangladesh Bank/PDs				3.80		
	Total	767	218.49	159	87.85	396.26	7.47-9.42@

Source : Monetary Policy Department, Bangladesh Bank
* Range of the weighted average annual yield of the accepted bids.
@ Overall range of treasury bonds of different terms

Bangladesh Government Treasury Bonds (BGTBs) Auctions

6.11 Treasury Bonds, bearing half yearly interest coupons, with tenors of 5-year, 10-year, 15-year and 20-year are auctioned in every month. 48 auctions of these instruments were held in FY10. A total of 767 bids for Taka 218.49 billion were received and 159 bids for Taka 87.85 billion were accepted, of which Taka 39.41 billion was devolved on BB/PDs. The amount of outstanding bonds stood at Taka 396.26 billion at the end of June 2010 as against Taka 314.83 billion at the end of June 2009. The outstanding amount of bonds at the end of FY10 was higher than 25.86 percent that of end of FY09.

6.12 The weighted average yield-to-maturity for the treasury bonds ranged from 7.47 percent to 9.41 percent in FY10. It was found that the yield rates on all tenors of treasury bonds were decreased sharply during the year under the report. The movements of the weighted average yield-to-maturity of all the treasury bonds are depicted in the chart 6.2.

6.13 It is mentionable that in FY09, bids for a total of Taka 239.96 billion were received, of which Taka 124.71 billion was accepted and Taka 55.98 billion was devolved on BB/PDs. The overall weighted average yield-to-maturity ranged from 9.20 percent to 13.07 percent in FY09.

Bangladesh Government Islamic Investment Bond (Islamic Bond)

6.14 The operations of 6-month, 1-year and 2-year Bangladesh Government Islamic Investment Bond (Islamic Bond) introduced in FY05 continued in FY10. This Government Bond is operated in accordance with the rules of Islamic Shariah. As per the rules, Bangladeshi institutions, individuals and non-resident Bangladeshis who agree to share profit or loss in line with Islamic Shariah may buy this bond. As of end June 2010 the total sale against this bond amounted to Taka 23.4 billion while balance of total amount of financing stood at Taka 15.4 billion and the net outstanding against the bond stood at Taka 8.0 billion. As of end June 2009 the total sale against this bond was Taka 16.4 billion against the balance of total financing of Taka 12.1 billion and the net outstanding of Taka 4.3 billion. The overall transaction of this bond are summarised in Table 6.7

Capital Market

Investment Financing in Bangladesh: Minor Role of Capital Market

6.15 The dominance of term loans in investment financing implies low equity stake and risk exposure of the owners, with disproportionately high incidence of risk on the lending banks and financial institutions, including liquidity risk arising from the funding of these long-term loans with typically shorter-term deposits.

Chart 6.2

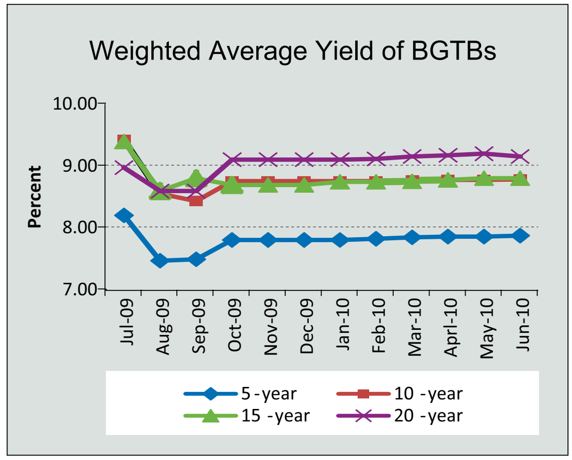


Table 6.7 Bangladesh Government Islamic Investment Bond

(billion Taka)

Particulars	FY08	FY09	FY10
i. Sale	15.6	16.4	23.4
ii. Financing	15.5	12.1	15.4
iii. Net outstanding	0.1	4.3	8.0

Source: Monetary Policy Department, Bangladesh Bank

Table 6.8 Disbursement & recovery of Industrial term loans by banks and financial institutions

(billion Taka)

Particulars	FY08	FY09	FY10
i. Disbursement	201.5	199.8	258.7
ii. Recovery	136.2	162.9	189.8
iii. Outstanding (end June)	400.9	478.1	565.5

Source: SME and Special Programs Department, Bangladesh Bank

6.16 The amount of industrial term loans disbursed by banks and financial institutions stood at Taka 258.7 billion, many-fold higher than the amount of Taka 18.2 billion raised by new capital issues through private placements and public offerings in the capital market in FY10. This indicates the overwhelming preference of bank finance in industrial investment financing. The Taka 565.5 billion outstanding balances of industrial term loans by banks and financial institutions as of end

June 2010 was lower than the Taka 2700.7 billion market capitalisation of the securities listed in the Dhaka Stock Exchange (DSE) (Table 6.9). However, market capitalisation of the industries (manufacturing, services and miscellaneous) amounting to Taka 1211.83 billion was also higher than the outstanding level of industrial term loan financed by the banks and financial institutions.

6.17 The capital market plays a significant role in the economy as a source of long-term financing. Despite the global financial crisis, Bangladesh capital market has been flourished during FY10. Market capitalisation and share price index had increased tremendously which displayed excessive boom in stock market. The demand for new company's shares was also very high. But due to comprehensive policy support and time-bound implementation combined with satisfactory level of investors' confidence, country's capital market observed expected level of progress. It cannot be denied that given the growing number of ordinary investors in capital markets, limited supply of securities and investors' expectation for more profit at times makes the market volatile. Nevertheless, various steps have been taken to maintain market stability and to establish a transparent and vibrant capital market while deepening it. Market monitoring has been made stronger. Loan-margin has been refixed. Rules regarding the alternative evaluation procedure of shares i.e. Book Building method have been issued. Over-the-counter (OTC) market has been introduced in DSE to transact securities of de-listed companies. Off-loading of shares of 26 state-owned companies has been under process. The shares of 51 companies have been delisted during FY10. A plan has been adopted to establish an institute titled 'Bangladesh Institute of Capital Market' to improve the institutional governance by enhancing capacity of investors, intermediaries and companies.

Table 6.9 Dhaka Stock Exchange (DSE) activities

(billion Taka)

Particulars	End June		
	FY08	FY09	FY10
i. No. of listed securities*	378	443	450
ii. Issued equity and debt* (billion Taka)	284.4	457.9	607.3
iii. Equity through private placement & IPOs (billion Taka)	5.2	5.9	18.2
iv. Market capitalisation (billion Taka)	931.0	1241.3	2700.7
v. Turnover in value (billion Taka)	543.3	893.8	2563.5
vi. Turnover in volume (no. in billion)	3.8	7.5	10.1
vii. All-share Price Index	2588.0	2520.2	5111.6

Source : Dhaka Stock Exchange

* = including companies, mutual funds, debentures and Government Treasury Bonds.

Table 6.10 Chittagong Stock Exchange (CSE) Activities

(billion Taka)

Particulars	End June		
	FY08	FY09	FY10
i. No. of listed securities*	231	246	232
ii. Issued equity and debt* (billion Taka)	102.2	260.7	206.8
iii. Market capitalisation (billion Taka)	776.1	975.0	2241.8
iv. Turnover in value (billion Taka)	80.2	125.2	217.1
v. Turnover in volume (no. in billion)	0.7	1.2	1.4
vi. All-share Price Index	9050.6	10477.7	18116.1

Source: Chittagong Stock Exchange

* = including companies, mutual funds and debentures.

Capital Market Activities in FY10

Primary Issuance

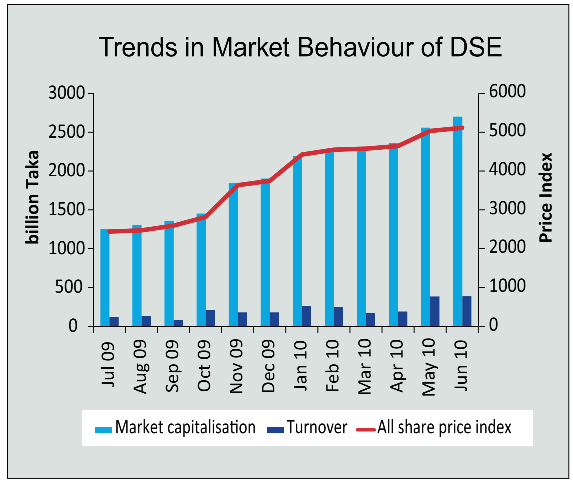
6.18 Twenty three companies (including three direct listing companies) raised new equity of Taka 18.2 billion in the capital market in FY10, higher than the Taka 5.9 billion raised by the sixteen companies in FY09. Of the new equity issued, Taka 5.3 billion raised through private placements and Taka 12.9 billion raised through public placements against Taka 0.9 billion raised through private placements and Taka 5.0 billion through initial public offerings (IPO) in FY09.

6.19 The volume of public offerings in FY10 was oversubscribed more than nine times indicating the high demand of new securities in the primary market. Bonus shares valued at Taka 27.6 billion were issued in FY10 by one hundred and twenty one companies against retained profits, higher than the Taka 16.2 billion issued in FY09 by ninety one companies.

Secondary Market Activities

6.20 In market capitalisation excluding treasury bonds, the financial sector dominated with 46.6 percent share, followed by services and miscellaneous (32.2 percent), manufacturing (21.1 percent), and corporate bonds (0.2 percent) at the end of June 2010. Market capitalisation inclusive of new issues increased remarkably by 117.6 percent to Taka 2700.7 billion or 39.1 percent of GDP at the end of June 2010 from Taka 1241.3 billion at the end of June 2009 in DSE, while in Chittagong Stock Exchange (CSE) it was increased by 129.9 percent to Taka 2241.8 billion or 32.5 percent of GDP in FY10 (Table 6.9 and 6.10). In FY10, the amount of turnovers in the secondary market also increased by 186.8 percent and 73.4 percent respectively at DSE and CSE. In FY10, all-share price index in DSE increased by 102.8 percent while in CSE increased by 72.9 percent. Day-to-day changes in price indices and market capitalisation in FY10 were mainly reflected by local, conditions with a momentous response during the year under report (Chart 6.3).

Chart 6.3



Non-resident Portfolio Investment

6.21 Gross investment inflow in shares and securities of the stock exchanges by non-residents through Non-resident Investor Taka Account (NITA) stood at Taka 5.8 billion and gross outflow as repatriation of sale proceeds stood at Taka 9.2 billion in FY10 against the gross investment inflow of Taka 3.8 billion and repatriation of sale proceeds of Taka 12.7 billion in FY09. From the beginning (April 1992) to till June 2010 the gross investment inflow stood at Taka 39.9 billion against gross outflow as repatriation of sale proceeds of Taka 43.9 billion.

Activities of the ICB

6.22 The government has undertaken a series of measures to accelerate the pace of industrialisation and develop a well organised and vibrant capital market particularly securities market in Bangladesh through the enactment of the Investment Corporation of Bangladesh (ICB). ICB caters to the need of institutional support to meet the equity gap of the industrial enterprises. The scope of ICB's capital market development programme activities has been expanded through the formation and operation of the three subsidiaries of ICB namely the ICB Capital Management Ltd (ICML), the ICB Asset Management Company Ltd. (IAMCL) and the ICB Securities Trading Company Ltd. (ISTCL). In order to help mobilise savings, encourage and broaden the base of investment, the ICML plays important roles as underwriter of public

Box 6.1

Developments of Capital Market in Bangladesh.

Regulator of Bangladesh Capital Market

The regulatory institution of Bangladesh capital market, the Securities and Exchange Commission (SEC) has been established on 8 June 1993 through the enactment of the Securities and Exchange Commission Act, 1993 with a view to ensuring proper issuance of securities, protection of the interest of investors in shares and securities, and overall developments of Bangladesh capital markets. The Commission is a statutory body and attached to the Ministry of Finance, Government of the People’s Republic of Bangladesh.

Stock Exchanges

Bangladesh has two main bourses, Dhaka Stock Exchange Limited (DSE) and Chittagong Stock Exchange Limited (CSE). The two exchanges are non-profitable and self-regulated private sector entities. Trading is conducted by Computerised Automated Trading System in both exchanges through Beneficiary Ownership (BO) Account in the Central Depository System (CDS).

Bubble and Bust Episode in 1996

The Bangladesh capital market landscape showed a bubble and bust episode in 1996. During the 1996's bubble episode the benchmark price barometer of DSE, General Price Index (DGEN) increased by 139.3 percent during 1991-1995 and stood at 834.7 at the end of 1995. It recorded a remarkable increase of 337 percent in 1996 compare to the index of 1995. From the beginning 1996, stock prices of DSE become move to bubble pressure and from July 1996 DGENI grew at much more accelerated rate and reached to its peak level at 3648.7 on 5 November 1996 increased by 280.5 percent from the index of 959.1 of end June 1996. Late that day most of the company's share prices slumped directly. The bubble bust and market crashed at that time. During one year the DGEN lost 2892 points. Form then to end 2003, the capital market of Bangladesh was in historical level with the price index below 800.

Developments of Bangladesh Capital Market

Presently, Bangladesh capital market has achieved phenomenal growth in size, depth and maturity. All indicators of capital market showed an increasing trend during last couple of years. Increased investors' participation, demand for stocks is pumping to price hike in the market. Resulted that, the stock prices run bullish (Figure 6.1). Other indicators of the capital market also recorded a significant growth. Market capitalisation of DSE, a remarkably increased during last three years that reflected in the ratios of market capitalisation to the country's GDP at current market price. The ratio of market capitalisation of DSE to GDP rose to 39.1 percent in end FY10 from 5.2 percent in FY06 and from 2.3 percent of FY00. Except 13.1 percent of 1996's bubble, the ratio was almost in horizontal level with around below 3 percent up to FY04.

After the 1996's bubble and bust, for a momentum market returned into the sunny days in the beginning of last quarter FY04 by crossing the index 1100 marked point. After ten years of capital market crashed in 1996, the DSE General Index (DGEN) crossed 3000 marked point in December 2007 for second time. Since the third quarter of FY09, the DGEN gained sharply and it jumped to 5367.1 in end January 2010 increased by 2356.8 points or 78.3 percent from the index of end June 2009. The DGEN climbed to 6153.7 in end FY10 from the index of 3010.3 in end FY09 increased by 104.4 percent.

The market capitalisation of DSE almost three times increased during last three years. Market capitalisation stood at Taka 2700.7 billion at the end of FY10 increased by 190.1 percent from Taka 931.0

Box 6.1

Developments of Capital Market in Bangladesh. *(Contd.)*

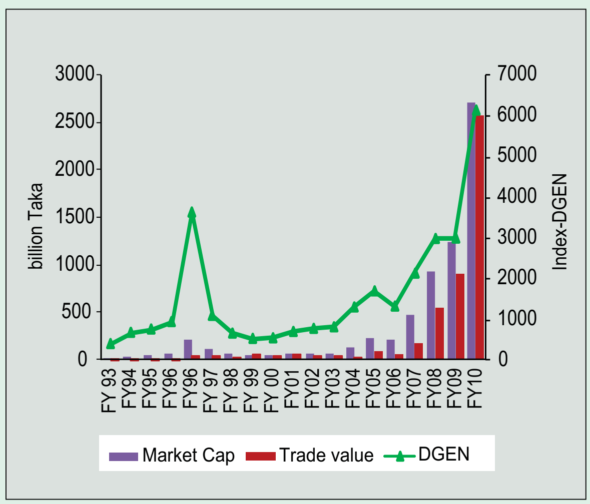
billion of end FY08. The market capitalisation recorded an increase of Taka 2475.6 billion during FY05-10. The market capitalisation of DSE was below Taka 75.0 billion during FY90 to FY03 except Taka 218.4 billion in November 1996.

Stock market activity in terms of market turnover of all stocks in DSE during a day also recorded a remarkable upward trend during last three years. In DSE a total of 10.1 billion shares and debentures worth of Taka 2564.1 billion were traded in FY10 against 5.8 billion shares and debentures valued of Taka 893.8 billion in FY09. In FY10, the daily average turnover was Taka 11.0 billion against 41.5 million shares and securities traded in DSE. The daily average trade value was Taka 0.7 billion in FY07. In FY01, the market turnover was Taka 49.0 billion and was Taka 35.4 billion in FY97. In recent year's record level of market turnover showed the increasing trend of investors' participation in the market.

When the recent past global recession has adversely affected the world capital market, sustained rise of price index and daily average turnover of Bangladesh capital market could be seen a positive sign for Bangladesh economy. Investment by foreigners in DSE increased during last three years. In FY10, the foreign trade turnover was Taka 18.7 billion (0.7 percent of total turnover in DSE) which was 57.9 percent higher than previous year. Foreign trade was Taka 9.9 billion (6.0 percent of total turnover) in FY07 and was Taka 3.4 billion (9.7 percent of total turnover) in FY97.

At the beginning of recent bull run, Bangladesh capital market was fairly underpriced in terms of Price Earnings Ratio (PER). The market weighted PER of DSE was 11 to 18 during FY04-FY07. PER became to bigger from beginning of FY09 as the acceleration of price index. The PER reached to its peak level at 30.6 in February 2010 from 18.4 of end June 2009. The high PER indicates that the market is highly overpriced and overheated. The strong demand from the retail investors, not matched by a corresponding increase in supply of stocks, has caused the PER to rise beyond rational levels. In terms of any measure, Bangladesh capital market is overheated during last couple of years as supply shocks.

Figure 6.1: Market developments of DSE



The capital market developments and its sustainability depend on market fundamentals at least in the medium term, and the fundamental strength of the market essentially comes from financial strength of the listed companies. Also, strong regulatory environment created and maintained by the regulatory bodies and participation of institutional investors and professional market analysts help orderly market operations. The market witnessed that last few years many fundamental companies with strong financial strength have been listed in the market. The main regulatory body SEC and the Government of Bangladesh and others related regulatory authorities have continued their all efforts to develop the Bangladesh capital market that reflected in the market trends. The Bangladesh capital market is now maturing gradually in terms of depth and breathe and approaching to more shock resistant operational mode.

issues of shares/debentures, portfolio manager, issue manager of investment account and placement services provider. Up to end June 2010, the net investment made against the investors' accounts stood at Taka 10.7 billion while deposit received stood at Taka 4.6 billion. Besides, the investment made in securities of 153 companies against its own portfolio stood at Taka 0.6 billion and the market value of the company's portfolio was Taka 0.9 billion as on end June 2010. The ICML provided underwriting assistance to the issues of shares/debentures of Taka 4.3 billion to 83 companies and performed the responsibilities of Taka 29.6 billion as issue manager of 52 companies. The IAMCL emerged as one of the fast expanding asset management company of the country. Up to end June 2010, the company floated ten closed-ends and two open-end mutual funds and the net investment in the portfolios of the twelve funds stood at Taka 6.7 billion and the market value stood at Taka 9.7 billion. Besides, an investment of Taka 0.7 billion has made from its own portfolio and the market value of which stood at Taka 1.0 billion as on end June 2010. The ISTCL emerged as the largest stockbroker in the country handling total turnover worth Taka 227.6 billion in FY10 which was 8.2 percent of total turnover of both DSE and CSE. The parent ICB itself sold unit certificates amounting Taka 0.4 billion against repurchase of unit certificates amounting Taka 0.1 billion in FY10. In FY10 the ICB received deposits of Taka 0.51 billion and approved loans of Taka 3.7 billion in investment accounts of investors. The volume of securities traded in FY10 by the ICB were Taka 55.8 billion against Taka 54.2 billion traded in FY09. Total commitments for investment made by the ICB in FY10 stood at Taka 3.0 billion of which, pre-IPO placement of share and debenture stood at Taka 0.2 billion and Taka 0.3 billion respectively, purchase of preference share Taka 0.5 billion, investment in equity and bonds Taka 0.1 billion and Taka 0.1 billion, purchase of debentures Taka 0.5 billion and lease financing Taka 1.3 billion. In FY09 the total amount of commitments was Taka 5.5 billion.

Scheduled Banks Investments in Capital Market Securities

6.23 Holdings of capital market assets (equities, debentures) by scheduled banks stood at Taka 86.7 billion as of end June 2010 against Taka 53.2 billion as of end June 2009. Outstanding advances of scheduled banks against shares and securities amounted to Taka 39.07 billion as of end June 2010, which was Taka 18.9 billion as of end June 2009.

Measures Supporting Capital Market Development

6.24 The Securities and Exchange Commission (SEC) undertook several measures to strengthen capital market through build-up the confidence of the investors in capital market during FY10:

- For the benefits of investors and capital market, Dhaka Stock Exchange (DSE) is advised to provide over-the-counter (OTC) facility to the issuers, which have been delisted by the exchange, excluding those securities which have been delisted upon application by the issuers concerned.
- For the benefits of the investors, deposit refund money is made directly into unsuccessful IPO applicants' bank account.
- Stock Exchanges are advised that a stock broker can open maximum 15 branches and offices within one kilometer periphery of the main office.

- For investment decision and for avoidance of confusion, all listed companies are advised for making the detailed quarterly financial statements available in their website.
- Maturing of all closed-end mutual funds has been fixed. According to this directive no mutual fund shall have maturity for more than 10 years. However, the close-end mutual funds which have already passed 10 years after launching are allowed to continue a little more but must retire within 31 December 2011.
- Banks, other financial institutions and insurers are advised to form separate subsidiary companies to run brokerage and dealer activities. The subsidiaries must be formed by 31 March 2010.
- New criteria for margin loans for mutual funds have been set. According to the new criteria, the funds that will trade 7.5 percent higher than their latest net asset value (NAV) will not qualify for the loans.
- In order to increase the supply of shares mandatory provision has been made for companies having paid-up capital more than Taka 0.50 billion must apply for IPO to off-load shares in the capital market.
- To cool down the stock market margin loan criteria has been reset. According to the new criteria investors are not entitled to get margin loan to buy equity shares exceeding P/E ratio 40. Previously it was at 50.
- Refixation of annual maintenance fee on each beneficiary owner (BO) account to Taka 500 from Taka 300.

6.25 The measures declared in the national budget for FY10 in support of capital market development included:

- Stress on funding resources from capital market rather than borrowing from banking system. Emphasis has been given on making the capital market enable to play in mobilising long-term capital.
- Plan to increase the number of mutual funds, merchant banking license to financial institutions.
- Initiative to off-load shares of government owned companies and also involvement of reliable market intermediaries in the capital market.
- Setting up of Bangladesh Institute of Capital Market to train the investors and the officials working in the intermediaries agencies.
- Steps to enhance the capacity of Securities and Exchange Commission (SEC).
- Reduction of corporate tax rate for mobile phone operators to 37.5 percent subject to the condition that they will listed in the stock exchange as a publicly traded company and at least 10 percent share of the company's paid-up capital will transferred (of which Pre-IPO placement cannot exceed 5 percent).
- Imposition of 3.0 percent tax on the premium value of shares of the company that will float in the market or sell new shares.

Credit Market

Advances of Scheduled Banks by Economic Purposes

6.26 Total advances of scheduled banks by economic purposes showed an upward trend during FY10 (Table 6.11). Total advances of scheduled banks by economic purposes stood at Taka 2574.4^{p} billion at the end of June 2010

p = provisional

which is 23.1 percent higher than the total advances of Taka 2090.5 billion at the end of June 2009. In recent years, significant changes have been taken place in the trends in total bank advances classified by economic purpose. Of the total advances, trade sector recorded the significant improvement by 31.2 percent followed by construction sector 26.3 percent, industry sector 20.3 percent, agriculture, fishing and forestry sector 13.3 percent, working capital financing 8.0 percent and other sectors by 34.3 percent in FY10 compared to FY09. On the other hand, transport and communication sector declined by 0.8 percent in FY10 compared to FY09. Sector-wise contribution of total advances shows that the trade sector plays the main role (37.7 percent) and industry sector plays the second fiddle (21.1 percent), followed by advances for working capital financing (15.0 percent), construction (7.1 percent), agriculture, fishing and forestry (6.0 percent), transport and communication sector (1.4 percent) and other sectors (11.7 percent) in FY10. Sector-wise contribution of total advances is reported in Chart 6.4.

Industrial Term Loans of Banks and Financial Institutions

6.27 Disbursement of industrial term loans by banks and financial institutions increased by 29.5 percent to Taka 258.7 billion. The recoveries also increased by 16.5 percent to Taka 189.8 billion in FY10. The outstanding balance showed a positive growth of 18.3 percent as of end June 2010. However, the overdue decreased by 3.2 percent in FY10 and as a percent of outstanding also declined to 11.4 as of end June 2010 (Table 6.11).

6.28 The four SCBs and five state-owned specialised banks together had Taka 137.6 billion (24.3 percent) shares of the total Taka 565.5 billion outstanding loans as of end June 2010,

Chart 6.4

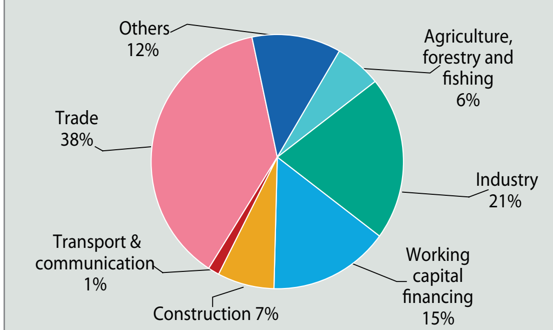


Table 6.11 Advances of scheduled banks by economic purposes

(billion Taka)

Particulars	End June		
	FY08	FY09	FY10P
1. Agriculture, forestry and fishing	122.3	137.5	155.8
2. Industry	368.6	451.3	542.9
3. Working capital financing	328.3	356.7	385.2
4. Construction	116.7	143.9	181.7
5. Transport & communication	39.5	35.8	35.5
6. Trade	640.5	740.5	971.5
7. Others	199.5	224.8	301.9
Grand Total	**1815.5**	**2090.5**	**2574.4**

Source : Statistics Department, Bangladesh Bank.
P=Provisional.

making them major players in industrial term lending (Table 6.12 and Chart 6.5). However, with very high levels of overdue loans, their actual role in current lending is quite minor, they disbursed only Taka 19.3 billion (7.5 percent) out of total Taka 258.7 billion in FY10. Of the total disbursement, private commercial banks were the major share holders (Taka 203.9 billion) in FY10, followed by financial institutions (Taka 28.6 billion), SCBs (13.4 billion), foreign banks (Taka 6.9 billion) and state-owned five specialised bank (Taka 5.9 billion).

6.29 The foreign banks had very low overdue loans (2.1 percent) as of end June 2010. These were low also for financial institutions and private

Table 6.12 Industrial term loans of banks and financial institutions

(billion Taka)

Lender	Disbursement		Recovery		Outstanding		Overdue		Overdue as % of outstanding	
	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY10
i. SCBs	11.1	13.4	12.5	10.9	100.1	111.1	30.1	30.9	30.1	27.8
ii. PCBs	132.0	203.9	92.7	135.5	268.8	331.5	23.9	21.4	8.9	6.5
iii. Foreign banks	29.6	6.9	29.3	7.4	17.3	19.1	0.6	0.4	3.5	2.1
iv. Specialised banks (BSB, BSRS, BKB, RAKUB, BASIC)	4.0	5.9	4.3	6.7	24.7	26.5	7.1	6.5	28.7	24.5
v. Financial institutions	23.1	28.6	24.1	29.3	67.2	77.3	4.6	5.0	6.8	6.5
Total	**199.8**	**258.7**	**162.9**	**189.8**	**478.1**	**565.5**	**66.3**	**64.2**	**13.9**	**11.4**

Source : Agricultural and Special Studies Department, Bangladesh Bank.

commercial banks (6.5 percent). Overdue loans of the SCBs and the state-owned specialised banks were very high (27.8 percent and 24.5 percent) respectively as of end June 2010.

6.30 Since BKB and RAKUB are agriculture sector lenders, they have insignificant role in industrial term lending. The specialised industrial sector lenders with extremely high overdue have concentrated in the recent years on recovery rather than fresh term lending.

Measures for Strengthening Term Lending Practices

6.31 The persistent high levels of overdue term loans have received intensive corrective attention of the authorities. Amongst the salient measures adopted over the past several years were the stricter income recognition and provisioning standards for banks in line with international best practices, prohibition of new credit accommodation to loan defaulters, stringent restrictions on lending to directors and their connected interests. Substantial measures to strengthen term lending practices initiated in the previous years under the continuous process of financial sector reforms. Among the new preventive and curative initiatives to strengthen term lending practices taken in FY10 were:

- Banks are advised to operate merchant banking activities by constituting separate legal entity i.e., subsidiary company to protect the interest of the depositors. To constitute subsidiary company, existing rules have to be abode by the banks for their compliance.
- Re-financing facility which is provided by Bangladesh Bank will not only be applicable for scheduled banks but also for the financial institutions of the country subject to the financing under the Refinancing Scheme over the Solar Energy, the Bio-gas and the Effluent Treatment Plant sectors.
- To ensure balanced industrial development and for easy access of small & medium industrial entrepreneurs to the institutional loans under the “Refinancing scheme for small entrepreneur” initiated by the Bangladesh Bank. The lower limit of loan under the scheme refixed at Taka 50,000.
- For extra fund for EEF projects, the entrepreneurs should have to apply for getting NOC for working capital to the EEF division of Investment Corporation of Bangladesh (ICB) through the project evaluated bank/financial institution.

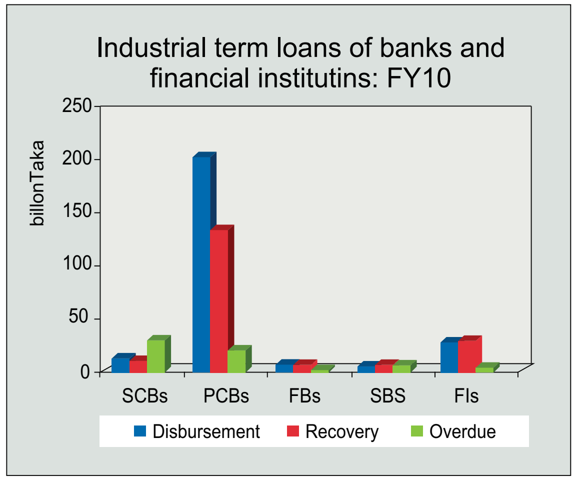
Entrepreneurs should mortgage their own assets/share of EEF project that held by them subject to NOC of ICB for collecting more working capital for the project. Others terms and conditions of EEF guidelines will remain unchanged.

Broadening of Fund Base for Industrial Term Lending

6.32 Dependence of banks on shorter-term deposit resources for funding long-term industrial loans increases their liquidity risks. Providing refinance facilities to banks and financial institutions for broadening the base of longer-term funds for small and medium scale industrial lending under some special schemes and programs taken by Bangladesh Bank in FY10 were:

- BB initiated a 100 percent refinance scheme of Taka 1.0 billion out of its own fund at bank rate against term loans for agro-processing industries in rural areas from FY01. Under this project Taka 1.3 billion has been disbursed till end June 2010.
- BB has introduced a refinance scheme named Small Enterprise Fund (SEF) of Taka 6.0 billion out of its own fund for supporting the development of small enterprises of the country. Under the scheme refinance facilities was extended for the banks and non-bank financial institutions at bank rate against their financing for development of small entrepreneurs, usually left out by the formal sector financing. Up to June 2010, a total of Taka 10.4 billion refinance facilities have been provided to 40 banks and non-bank financial institutions against 10988 enterprises.
- Under the Enterprises Growth and Bank Modernisation Programme (EGBMP), Government of Bangladesh has provided USD 10 million including an additional fund of USD 10 million from the World Bank's IDA

Chart 6.5



wing to refinance SME sectors. Till now Bangladeshi Taka 1.2 billion has been received against the said agreement for refinancing. Up to June 2010, a total of Taka 2.7 billion refinance facilities have been provided to 30 banks and financial institutions as term loan against 2773 small and medium scale enterprises.

- For another refinancing project Asian Development Bank has provided USD 30 million under a Loan Agreement with the Government of Bangladesh to develop the SME sector. Out of this fund, a total of Taka 3.3 billion refinance facilities have been provided to 16 banks and financial institutions against 3264 small and medium scale enterprises up to June 2010.

  It is mentionable that for high demand, all the recovery amount of the loan of the above schemes will be used as revolving way for refinance the SME sectors. Up to June 2010, a total of Taka 16.48 billion refinance facilities have been provided to different banks and financial institutions against 17025 small and medium scale enterprises from aforesaid funds.

- Bangladesh Bank (BB) has implemented a project named "Investment Promotion and Financing Facility (IPFF) on behalf of

Finance Division, Ministry of Finance as per Administration Agreement signed on 21 August 2006 between BB and Finance Division. IPFF is a 5-year term (January 2007-December 2011) on-lending based Technical Assistance (TA) project to supplement the resources of the Bangladesh financial markets, to provide term finance for infrastructure and other investment projects beyond the capacity of local financial institutions and to promote the role of private sector entrepreneurs in the development of capital projects, specially infrastructure. IPFF consists of two (2) components: 1) Infrastructure Development Lending Component and 2) Technical Assistance (TA) component. Total estimated cost of the project is Taka 4.2 billion (USD 60.0 million). The International Development Association (IDA) is providing USD 50.0 million (USD 47.5 million for on-lending component and USD 2.5 million for TA component) as soft loan under a Financing Agreement signed between IDA and GoB on 1 June 2006. GoB is providing USD 10.0 million (Taka 0.7 billion) as counterpart fund for on-lending component. Under IPFF, government-approved private infrastructure development projects, implemented on Public-Private Partnership (PPP) basis are being financed through selected participating financial institutions (PFIs). The eligible sectors for financing under IPFF are power generation, transmission, distribution and services, port development (sea, river and land), environmental, industrial and solid waste management, highways and expressways including flyovers, water supply and distribution, sewerage and drainage, industrial estates and park development etc. However, power sector has been given the highest priority. One of the main features of the project is that at least 30 percent cost of any approved project should be borne by the entrepreneurs' own sources and maximum 70 percent is provided as debt financing; out of which at least 20 percent should be provided by the PFIs and the rest 80 percent is financed from IPFF. PFIs are supposed to bear all the commercial risks associated with debt financing. It is to mention here that a total of Taka 3.9 billion (97 percent) has been utilised out of Taka 4.0 billion (USD 57.50 million) for financing 7 small power plants having a capacity of 178 MW within the 3rd year of the project tenure. So, the World Bank has come forward for providing another USD 257 million in favor of IPFF. A Financing Agreement has already been signed between GOB and the IDA in this regard with a provision of extension of the project up to 2014. The power plants which have been financed under IPFF are Doreen Power House and Technologies Limited (Three power plants 22 MW each), Doreen Power Generation and System Limited (11MW), Regent Power Limited (22MW) and Two power plants of United Power (one in Chittagong EPZ with a capacity of 44 MW and the other in Dhaka EPZ with a capacity of 35 MW). All the power plants are contributing power to the national grid.

Equity and Entrepreneurship Fund (EEF)

6.33 Equity and Entrepreneurship Fund (EEF) was formed by the Government in FY01 through budgetary allocation of Taka 1.0 billion to encourage investments in the risky but prospective agro-based/food processing and IT sector projects. The fund is maintaining by the Bangladesh Bank. It is mentioned that as per Government decision, an agreement has been signed on 1 June 2009 between Bangladesh Bank (BB) and ICB regarding the transfer of operational activities of EEF. Under this agreement ICB is now performing the operational activities of EEF while EEF Unit of Bangladesh Bank is doing the activities relating to policy making, fund management and performance monitoring. So far Taka 9.3 billion has been released to the fund by the Government out of total budgetary allocation of Taka 18.0 billion in different fiscal years. Up to 30 June 2010 with the project cost of Taka 19.8 billion, a total of 347 projects (including 299 agro-based/food processing projects, and 48 IT projects) got EEF sanction at different stages of disbursement. Cumulative equity disbursement stood at Taka 5.3 billion at the end of FY10 against total fund disbursement of Taka 9.3 billion from the Government. Till now 17 (seventeen) EEF supported companies availed share buy-back facilities partially or fully to the tune of Taka 0.4 billion. So far 3 (three) EEF supported projects have paid dividend to the tune of Taka 0.05 billion to EEF.

Housing Finance

6.34 Total housing loans from banks and financial institutions as of end June 2010 amounted to Taka 219.4[P] billion (Table 6.13), which was 8.1 percent of total credit to the private sector.

6.35 In recent years, significant changes have been taking place in total housing loan portfolios. Of the total, private sector banks with ample deposit resources have been expanding their housing loan portfolios, and now have dominant market position (Table 6.13) with the largest share of Taka 99.2 billion in outstanding housing loans as of end June 2010. The SCBs have the second largest share of Taka 48.1 billion and other banks Taka 15.3 billion in outstanding housing loans as of end June 2010. Besides, two private sector specialised housing finance companies also provide a significant amount of loan. They supply fund for their operations by taking long-term deposits including some contractual deposit schemes.

p = provisional

Table 6.13 Outstanding housing loans

(billion Taka)

Lenders	Outstanding as of end June		
	FY08	FY09	FY10[P]
a. Specialised housing finance providers	35.1	38.9	45.5
i) HBFC	24.4	25.0	25.6
ii) Delta-Brac Housing Finance	9.0	12.2	17.7
iii) National Housing Finance	1.7	1.7	2.2
b. Banks	101.0	123.6	162.6
i) PCBs	50.8	74.9	99.2
ii) SCBs	33.6	36.8	48.1
iii) Other banks (foreign and specialised)	16.6	11.9	15.3
c. Other financial institutions	0.2	5.3	11.1
d. Micro-credit lenders			
Grameen Bank	0.2	0.2	0.2
Total	**136.5**	**168.0**	**219.4**

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

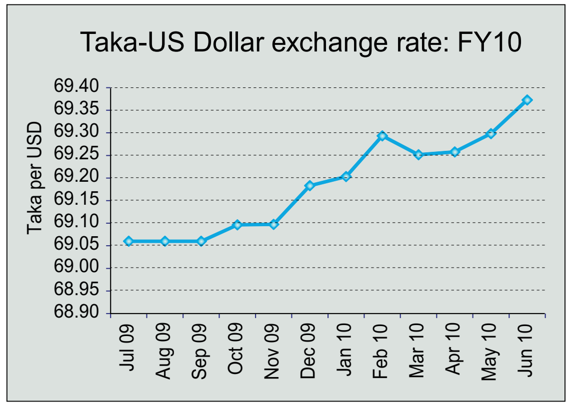
6.36 The state owned House Building Finance Corporation (HBFC) has the third largest share of Taka 25.6 billion in outstanding housing loans as of end June 2010. The sources of Corporation's fund are paid-up capital by the government and the proceeds as received by selling government guaranteed interest bearing debentures to different organisations. The second mode of funding has been unavailable in recent years. In the past the HBFC funded its housing loans by issuing of low interest debentures bought by the SCBs and the Bangladesh Bank. Though in FY04, the corporation got approval from the government to sell debenture amounting Taka 1.0 billion, but till today it could not sell them. So, sufficient surplus cash fund could not be generated from the Corporation's own cash in-flow after payments of debenture installments, government debts, operational expenses and income tax. The HBFC has been constrained to rely on recoveries of past loans for new lending after defraying operating and debt servicing costs. Consequently, its new lending has been small. In FY09 and FY10 Taka 2.4 billion and Taka 2.3 billion respectively were disbursed out of recoveries of Taka 3.6 billion and Taka 4.0 billion respectively.

6.37 The Grameen Bank provides housing loans to its members in rural areas. Some NGOs also have small involvement in lending to housing. Out of funds, *Grihayan Tahbil* created by the government of Bangladesh, which provides housing loan to the NGOs at the rate of 1.0 percent simple interest who in turn provides housing credit to the rural poor at the rate of 5.0 percent simple interest. As on June 2010, the *Grihayan Tahbil* has been released Taka 1.2 billion against allocation of Taka 2.1 billion through 464 NGOs for rural housing programme which have covered 400 upazilas of 64 districts of the country and 48,406 houses have already been constructed. In addition, for the target people those are adversely affected by different natural calamities, Taka 0.11 billion has been released as grant as per decision by the authority concerned. So far the *Tahbil* has recovered Taka 0.9 billion against the total recoverable amount of Taka 1.0 billion. As on June 2010, recovery rate is 89.0 percent. Since its beginning in FY98, the *Tahbil* received an amount of Taka 1.6 billion from the GoB up to end of June 2010.

Exchange Rate

6.38 The foreign exchange market was almost stable during the FY10. Despite global financial meltdown, adequate supply of liquidity in the foreign exchange market remained in the FY10 like the preceding year.

Chart 6.6



Reflecting the market conditions the exchange rate of BDT against USD was almost stable throughout the year with some depreciation of acceptable extend. Receipts of ever highest wage earners' remittances and moderate growth in export earnings contributed the foreign exchange market to remain calm in the wake of global recession. However, the timely measures of Bangladesh Bank in the face of ample forex liquidity helped to contain the stability of the per value of local currency to ensure the export competitiveness of Bangladeshi products.

6.39 Bangladesh Taka depreciated moderately against US dollar in the FY10 posting only 0.67 percent raising the exchange rate to Taka 69.52 at the end of the year compared to the exchange rate from Taka 69.06 at the beginning of the year. During the first quarter of FY10 exchange rate was almost unchanged. Exchange rate experienced downward trends depreciating the local currency only by 0.28 percent from Taka 69.06 to Taka 69.29 during October-February period of FY10. During the rest period of the year local currency depreciated very slightly without showing any significant volatility.