

## Financial Markets

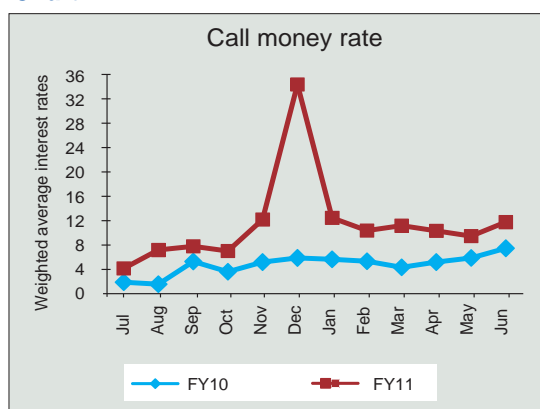
7.1 Bangladesh Bank (BB) remained proactive to ensure domestic resource mobilisation, generation of savings and investments in productive sectors so that country's most profitable and efficient projects are systematically and continuously directed to the most productive sources of future growth. To achieve greater efficiency, stability and transparency in the financial sector, the ongoing reform was continued in FY11. However, the short-term and long-term credit markets of the country experienced a tremendous growth in FY11 due to expansionary economic activities of the country. With the increased demand for domestic credit as the economy paced up to the expected buoyant economic growth coupled with heavy outflows for imports and other external payments, put the banks into liquidity pressure from December 2010. Moreover, unauthorised investment of the banks in the unproductive sector also played role to put the banks into liquidity pressure. Despite the uptrend in inflationary pressure Bangladesh Bank has been providing liquidity facility to the banks in respect of increased demand in the money market as well as taking supervisory and credit policies to rectify unbalanced lending practices in banks including monitoring and enforcing of prudent advance-deposit ratios and good forward looking liquidity management and of regulatory ceilings on capital market exposures, tightening loan monitoring requirements to discourage diversion of credit to unauthorised and unproductive uses. Lending interest rate caps imposed earlier in the backdrop of global slowdown

**Table 7.1 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 (%)
	FY10		FY11	
July	545.5	1.1	857.7	3.3
August	643.4	0.7	835.5	6.4
September	618.9	4.5	669.4	7.0
October	760.0	2.8	875.8	6.2
November	651.5	4.4	758.2	11.4
December	565.0	5.0	652.9	33.5
January	709.7	4.8	649.8	11.6
February	591.1	4.5	454.9	9.5
March	744.7	3.5	517.8	10.4
April	691.6	4.4	613.1	9.5
May	771.2	5.1	783.8	8.6
June	865.9	6.6	715.3	10.9
<b>Average</b>	<b>679.9</b>	<b>4.0</b>	<b>698.7</b>	<b>10.7</b>

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank

**Chart 7.1**



being no longer tenable in the changed context of high and rising demand, phase out of these caps was initiated in March 2011, starting with loans other than industrial term loans and loans for export, agriculture and essential imports.

## Money Market

### Call Money Market FY11

7.2 The banking sector remained steady throughout the year. Moreover, BB provided repo and special liquidity support to the primary dealers against the holding of treasury bills and bonds in order to fine tune the liquidity market situation. As a result, the weighted average interest rate in the call money market moved within the range of 3.3 percent to 33.5 percent during FY11 (Table-7.1 and chart 7.1.) which was ranged from 0.7 percent to 6.6 percent during FY10. During FY11 the average volume of trade in the call money market increased to Taka 698.7 billion which was 2.8 percent higher than that of FY10. The volume of transaction and the weighted average interest rate in the call money market showed mixed trend during FY11.

### Repo Auctions FY11

7.3 BB has been proactive in liquidity management through repo auctions. 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 FY11, the banks were provided a reasonable amount of the repo funds through daily repo auction. In order to achieve monetary policy objectives BB hiked 5 times the repo and reverse repo rate totally 225 basis points during FY11. Repo and reverse repo rate was fixed at 6.8 percent and 4.8 percent respectively as on end June 2011.

**Table 7.2 Repo auctions - FY11**

Total No. of auctions held during the year	Tenor	Bids received		Bids accepted		Interest rate of the accepted bids (%)
		No. of bids	Face value (billion Taka)	No. of bids	Face value (billion Taka)	
184	1-Day/2-Day	2937	26941.5	2915	6346.1	4.5-8.3
	3-Day/7-Day	827	7313.7	824	1686.0	4.5-8.8
	<b>Total</b>	<b>3764</b>	<b>34255.2</b>	<b>3739</b>	<b>8032.1</b>	<b>4.5-8.8*</b>

Source: Monetary Policy Department, Bangladesh Bank.  
\* Overall interest rates of different tenors.

7.4 A total of 184 repo auctions were held during FY11. In all, 3764 bids for Taka 34255.2 billion were received, of which 3739 bids for a total of Taka 8032.1 billion were accepted. During FY10 bids for Taka 877.8 billion were received, of which Taka 866.1 billion was accepted. The range of interest rate against the accepted bids was 4.5-8.8 percent per annum in FY11 as against 4.5-8.5 percent per annum in the previous year (Table 7.2).

### Reverse Repo Auctions FY11

7.5 Bangladesh Bank uses the reverse repo auctions to maintain intended level of liquidity in

the market and to keep up monetary aggregates on track. In FY11, reasonable amount of the received bids were accepted to maintain liquidity position comfortable. A total of 68 daily reverse repo auctions were held in FY11. In all, 240 bids of 1-2 day and 3-7 day tenors for a total of Taka 763.2 billion were received, of which 203 bids amounting to Taka 684.8 billion were accepted. During FY10 bids for Taka 1003.3 billion were received, of which Taka 658.4 billion were accepted. The interest rate range against the accepted bids was 2.5-3.5 percent per annum during FY11 (Table 7.3).

Table 7.3 Reverse repo auctions - FY11

Total No. of auctions held during the year	Tenor	Bids received		Bids accepted		Interest rate of the accepted bids (%)
		No. of bids	Face value (billion Taka)	No. of bids	Face value (billion Taka)	
68	1-Day/2 Day	198	636.9	184	613.3	2.5-3.5
	3-Day/7 Day	42	126.3	19	71.5	2.5-3.5
	<b>Total</b>	<b>240</b>	<b>763.2</b>	<b>203</b>	<b>684.8</b>	<b>2.5-3.5*</b>

Source: Monetary Policy Department, Bangladesh Bank.  
\* Overall range of the rates of different tenors.

### Bangladesh Bank Bill

7.6 Operations of Bangladesh Bank Bill revived again during FY09 and continued in FY11 as a tool of Open Market Operation (OMO) in order to maintain liquidity of the banking system more effectively. A total of 15 bids amounting to Taka 22.0 billion were received, of which 10 bids amounting to Taka 15.8 billion were accepted. The weighted average

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.

Table 7.4 Bangladesh Bank Bill - FY11

Tenor of bills	Bids received		Bids accepted		Outstanding bills as of end June 11 (billion Taka)	Yield range* (%)	
	No.	Face value (billion Taka)	No.	Face value (billion Taka)		FY10	FY11
30-Day	15	22.0	10	15.8	0.0	0.9-2.6	2.5-3.5

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

yield-to-maturity against the accepted bids ranged from 2.5 percent to 3.5 percent during FY11 (Table 7.4).

### Government Securities Market

#### Government Treasury Bills Auctions

7.7 Treasury bills and T-bonds are short-term and long term obligations issued by Bangladesh Bank on behalf of the government of Bangladesh. 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 auctions of 91-day, 182-day

7.8 The results of treasury bills auction in FY11 are summarised at Table-7.5. The auctions of 91-day, 182-day and 364-day 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 increased during FY11.

7.9 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 2011 depicted somewhat a moderate range than the yields as of end June 2010 (Table 7.5).

Table 7.5 Auctions of Government treasury bills - FY11

Tenor of bills	Bids offered		Bids accepted		Outstanding bills as of end June 11 (Billion Taka)	Yield range* (%)	
	No.	Face value (billion Taka)	No.	Face value (billion Taka)		FY10	FY11
91-Day	334	84.0	211	58.5	28.8	1.11-2.54	2.43-7.00
182-Day	345	76.7	223	54.4	43.3	3.36-4.04	3.49-7.25
364-Day	372	64.1	232	40.2	59.6	4.08-5.42	4.24-7.55
Devolvement to BB/PD				53.3			
<b>Total</b>	<b>1051</b>	<b>224.8</b>	<b>666</b>	<b>206.3</b>	<b>131.7</b>	<b>1.11-5.42</b>	<b>2.43-7.55</b>

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

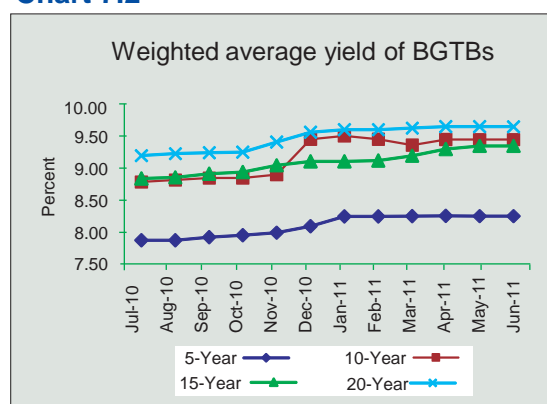
7.10 A total of 1051 bids amounting to Taka 224.8 billion were received, of which 666 bids amounting to Taka 206.3 billion (including Taka 53.3 billion as devolved amount) were accepted. The weighted average yield-to-maturity against the accepted bids ranged from 2.43 percent to 7.55 percent. In FY10 a total of 1476 bids amounting to Taka 417.0 billion were received, of which Taka 210.8 billion was accepted.

### Bangladesh Government Treasury Bonds (BGTBs) Auctions

7.11 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 FY11. A total of 742 bids for Taka 151.2 billion were received and 445 bids for Taka 142.7 billion were accepted, of which Taka 42.0 billion was devolved on BB/PDs. The amount of outstanding bonds stood at Taka 534.0 billion at end June 2011 as against Taka 396.3 billion at end June 2010. The outstanding amount of bonds at the end of June 2011 was 34.8 percent higher than that of the previous year.

7.12 The coupon rate for the treasury bonds ranged from 7.88 percent to 9.65 percent in FY11. It was found that the coupon rates on all tenors of treasury bonds were increased during the last year. The movements of the weighted

Chart 7.2



average yield-to-maturity of all the treasury bonds are depicted in the chart 7.2.

7.13 It is mentionable that in FY10, bids for a total of Taka 218.5 billion were received and Taka 87.9 billion was accepted of which Taka 39.41 billion was devolved on BB/PDs. The overall weighted average yield-to-maturity ranged from 7.47 percent to 9.42 percent in FY10.

### Bangladesh Government Islamic Investment Bond (Islamic Bond)

7.14 The operations of 6-month, 1-year and 2-year Bangladesh Government Islamic Investment Bond (Islamic Bond) which introduced in FY05 continued in FY11. This Government Bond is operated in accordance with the rules of Islamic Shariah. As per the

**Table 7.6 Auctions of Bangladesh Government treasury bonds FY11**

Total No. of auctions held during the year	Tenor of bonds	Bids offered		Bids accepted		Outstanding bills as of end June 2011 (billion Taka)	Yield range * (%)
		No. of bids	Face value (billion Taka)	No. of bids	Face value (billion Taka)		
48	5-Year	192	55.2	117	36.6	198.5	7.88-8.26
	Devolvement to BB/PDs				15.9		
	10-Year	199	55.6	118	36.5	224.9	8.79-9.50
	Devolvement to BB/PDs				16.0		
	15-Year	165	20.7	105	15.0	62.3	8.84-9.35
	Devolvement to BB/PDs				5.2		
	20-Year	186	19.7	105	12.6	48.3	9.20-9.65
	Devolvement to BB/PDs				4.9		
<b>Total</b>		<b>742</b>	<b>151.2</b>	<b>445</b>	<b>142.7</b>	<b>534.0</b>	<b>7.88-9.65<sup>@</sup></b>

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

rules, Bangladeshi institutions, individuals and non-resident Bangladeshis who agree to share profit or loss in line with Islami Shariah may buy this bond. As of end June 2011 the total sale against this bond amounted to Taka 25.3 billion while balance of total amount of financing stood at Taka 22.8 billion and the net outstanding against the bond stood at Taka 2.5 billion. As of end June 2010 the total sale against this bond was Taka 23.4 billion against the balance of total financing of Taka 15.4 billion and the net outstanding of Taka 8.0 billion. The overall transaction of this bond are summarised in Table 7.7.

## Capital Market

### Investment Financing in Bangladesh: Moderate Role of Capital Market

7.15 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 short-term deposits.

7.16 The amount of industrial term loans disbursed by banks and financial institutions

**Table 7.7 Bangladesh Government Islamic investment Bond**

Particulars	(billion Taka)		
	FY09	FY10	FY11
i. Sale	16.4	23.4	25.3
ii. Financing	12.1	15.4	22.8
iii. Net outstanding	4.3	8.0	2.5

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank

**Table 7.8 Disbursement & recovery of industrial term loans of banks and financial institutions**

Particulars	(billion Taka)		
	FY10	FY11	% Change
i. Disbursement	258.7	321.6	24.3
ii. Recovery	189.8	250.2	31.8
iii. Outstanding (end June)	565.5	685.1	21.1

Source: Forex Reserve & Treasury Management Department, Bangladesh Bank

stood at Taka 321.6 billion, many-fold higher than the amount of Taka 27.9 billion raised by new capital issues through private placements and public offerings in the capital market in FY11. This indicates the overwhelming preference of bank finance in industrial investment financing. The outstanding balance of industrial term loans of banks and financial

institutions stood at Taka 685.1 billion as of end June 2011 was lower than Taka 2853.9 billion of market capitalisation of the securities listed in the Dhaka Stock Exchange (Tables 7.9). However, market capitalisation of the industries (manufacturing, services and miscellaneous) amounting to Taka 1176.4 billion was also higher than the outstanding level of industrial term loan financed by the banks and financial institutions.

7.17 The capital market plays a significant role in the economy as a source of long-term financing. Despite collapse of the capital markets elsewhere in the wake of recession, our capital market remained buoyant in this time. Recently, the market price of shares has been corrected in the backdrop of last two years' continuous rise in price-index and market capitalisation. Market capitalisation and share price index increased tremendously which displayed excessive boom in stock market during September-November 2010. The demand for new company's shares was also very high due mainly to increasing participation of more ordinary investors and excessive investment of merchant banks in the capital market. From the beginning of December 2010 market capitalisation and share price index decreased gradually and market was going to deep correction which continued up to the end of FY11 due mostly to adjustment of excessive investment by merchant banks for their risk minimisation and downturn level of investors' confidence. In such situation, transparency, strong supervision and consistent policies among market related authorities and restoration of investors' confidence by comprehensive investment policies may help the capital market stable. In this regard, some steps have already been taken to maintain market stability and to establish a transparent and vibrant capital market. Market monitoring has been made stronger. Loan-margin has been refixed. Book building method has been

changed. The Securities and Exchange Commission (SEC) has approved the prospectus of Taka 50 billion Bangladesh Fund, allowing its operator to collect Taka 35.0 billion from the stock market. ICB Asset Management Company is operating the Bangladesh Fund.

### **Capital Market Activities in FY11**

#### **Primary Issuance**

7.18 Nineteen companies raised new equity of Taka 27.9 billion in the capital market in FY11 higher than the Taka 18.2 billion raised by the twenty three companies in FY10. Of the new equity issued, Taka 7.6 billion raised through private placements and Taka 20.3 billion raised through public placements as against Taka 5.3 billion raised through private placements and Taka 13.0 billion through initial public offerings in FY10.

7.19 The volume of public offerings in FY11 was oversubscribed more than five times indicating the high demand of new securities in the primary market. Bonus shares valued at Taka 48.7 billion were issued in FY11 by one hundred fifty companies against retained profits, higher than the Taka 27.6 billion issued in FY10 by one hundred twenty one companies.

#### **Secondary Market Activities**

7.20 In market capitalisation excluding treasury bonds and debentures, the financial sector dominated with 49.2 percent share, followed by services and miscellaneous (26.2 percent), manufacturing (24.3 percent) and corporate bonds (0.3 percent) at end June FY11. Market capitalisation inclusive of new issues increased remarkably by 5.7 percent to Taka 2853.9\* billion or 36.2 percent of GDP at the end of FY11 from Taka 2700.7\* billion at the end of FY10 in Dhaka stock exchange (DSE), while in Chittagong stock exchange (CSE) it was decreased by 11.7 percent to Taka 2237.6 billion or 28.4 percent of GDP in FY11 (Table 7.9 and 7.10). In FY11, the amount of turnovers in the secondary market also increased by 27.1

percent and 48.2 percent respectively at DSE and CSE. In FY11, all-share price index in DSE and CSE decreased by 0.4 and 5.8 percent respectively. Day to day changes in price indices and market capitalisation in FY11 were mainly reflected by local conditions with a momentous response during the year under report (Chart 7.3).

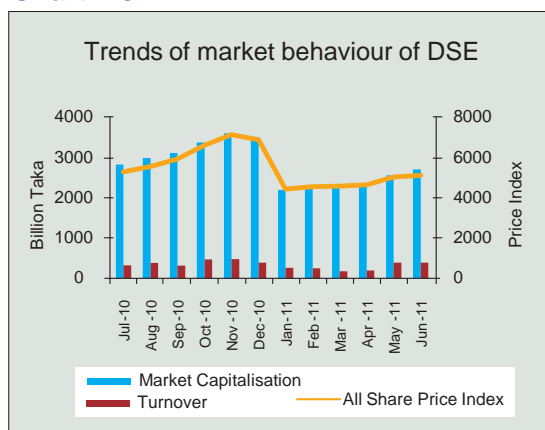
### Non-resident Portfolio Investment

7.21 Gross investment inflow in shares and securities of the stock exchanges by non-residents through Non-resident Investor Taka Account (NITA) stood at Taka 13.8 billion and gross outflow as repatriation of sale proceeds stood at Taka 16.7 billion in FY11 as against the gross investment inflow of Taka 5.8 billion and repatriation of sale proceeds of Taka 9.3 billion in FY10. From the beginning (April 1992) to till June 2011 the gross investment inflow stood at Taka 53.7 billion against gross outflow as repatriation of sale proceeds of Taka 60.6 billion.

### Activities of the ICB

7.22 Investment Corporation of Bangladesh (ICB) was established in a series of measures undertaken by the Government to accelerate the pace of industrialisation and develop a well organised and vibrant capital market particularly securities market in Bangladesh. 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

**Chart 7.3**



**Table 7.9 Dhaka Stock Exchange (DSE) activities**

Particulars	End June		
	FY09	FY10	FY11
i. No. of listed securities*	443	450	490
ii. Issued equity and debt*	457.9	607.3	806.8
iii. Equity through private			
placement & IPOs	5.9	18.2	27.9
iv. Market capitalisation	1241.3	2700.7	2853.9
v. Turnover in value	893.8	2563.5	3259.2
vi. Turnover in volume	5.8	10.1	19.7
vii. All-share Price Index	2520.2	5111.6	5093.2

Source: Dhaka Stock Exchange  
\* = including companies, mutual funds, debentures and Government Treasury Bonds.

**Table 7.10 Chittagong Stock Exchange (CSE) activities**

Particulars	End June		
	FY09	FY10	FY11
i. No. of listed securities*	246.0	232	220
ii. Issued equity and debt*	137.4	201.1	302.9
iii. Market capitalisation	961.7	2534.4	2237.6
iv. Turnover in value	109.3	217.1	321.7
v. Turnover in volume			
(no. in billion)	1.02	1.40	2.72
vi. All-share Price Index	10477.7	18116.1	17059.5

Source: Chittagong Stock Exchange  
\* = including companies, mutual funds and debentures.

base of investment, the ICML plays important role as underwriter of public issues of shares/debentures, portfolio manager, issue manager of investment account and placement services provider. Up to end of June 2011, the amount of net investment against the investors' accounts stood at Taka 9.7 billion while deposit received stood at Taka 5.1 billion. Besides, the investment in securities against its own portfolio stood at Taka 1.4 billion and the market value of the company's portfolio was Taka 1.4 billion as of end June 2011. The ICML provided underwriting assistance to the issues of shares/debentures of Taka 1.6 billion to 18 companies and performed the responsibilities of Taka 14.2 billion as issue manager of 16 companies. The IAMCL emerged as one of the fast expanding asset management company of the country. Up to end June 2011, the company floated eleven closed-ends and two open-end mutual funds and the net investment in the portfolios of the thirteen funds stood at Taka 11.4 billion and the market value of which stood at Taka 12.4 billion. Besides, an amount of Taka 0.9 billion has invested from its own portfolio which market value stood at Taka 1.0 billion as of end June 2011. The ISTCL emerged as the largest stockbroker in the country handling total turnover worth of Taka 358.1 billion in FY11 which was 7.8 percent of total turnover of both DSE and CSE. The ICB itself sold unit certificates amounting Taka 0.5 billion against repurchase of unit certificates amounting Taka 0.1 billion in FY11. In FY10 the ICB received deposits of Taka 0.53 billion and approved loans of Taka 3.8 billion in investment accounts of investors. Total commitments for investment by the ICB in FY11 stood at Taka 4.6 billion of which, pre-IPO placement of share stood at Taka 0.7 billion, purchase of preference share Taka 0.3 billion, investment in equity and bonds Taka 0.8 billion and Taka

0.4 billion respectively, purchase of debentures Taka 0.5 billion and bank guarantee Taka 2.0 billion. In FY11 the total amount of commitments was Taka 4.6 billion.

### **Scheduled Banks Investments in Capital Market Securities**

7.23 Holdings of capital market assets (equities, debentures) by scheduled banks

stood at Taka 139.5 billion as of end June 2011 against Taka 86.3 billion as of end June 2010. Outstanding advances of scheduled banks against shares and securities amounted to Taka 9.7 billion as of end June 2011, which was Taka 35.5 billion as of end June 2010.

### **Measures Supporting Capital Market Development**

7.24 The Securities and Exchange Commission (SEC) has taken the following important measures to strengthen capital market through build-up the confidence of the investors in capital market during FY11.

- Companies with Taka 300 million in minimum paid-up capital (with existing and proposed) will be allowed to go initial public offering (IPO).
- Stockbrokers will have to double their deposits against any additional trade exposure to the capital market.
- All stock brokers and merchant bankers/ portfolio managers are directed to stop advance financing to their clients for purchasing securities by misusing netting facilities, before selling securities from their clients' investment accounts and later, the value of securities sold is adjusted with the advance financed fund.



- According to the revised circuit breaker system, the price of a share cannot rise or fall by 10 percent on a single day which was 20 percent previously.
- According to the latest move, margin loan for mutual funds on retail investors for mutual funds will receive credit at the same 1:1.5 ratio as they get to buy equity securities. Previously ratio of margin loan for mutual funds was 1:1.
- Registered asset management companies are permitted to participate as eligible institutional investors, in the price discovery process, for determining indicative price as well as for bidding on account of specific mutual fund, under the book building method.
- A trust deed and registration of Taka 5 billion special propose fund has been approved.
- Steps have been taken to amend Book Building Method. Under new method, the offer price of a company's share will be no more than 15 price-earning (P/E) ratios, or must not exceed five times its net asset value per share or whichever is lowest.
- An initiative has been taken to frame Financial Report Act to maintain stability in the capital market.
- The government is considering a plan to establish a Financial Reporting Council to oversee the audit and accounting standards and their transparency.
- The task of amending company acts has already been started.
- Initiatives have been taken to amend SEC (Public Issue) rules, 2006 to avoid the misuse of book building method in the capital market.
- Steps have been taken to establish a separate Clearing & Settlement Company to settle stock exchange transactions within shortest possible time.
- Measures have been taken to make the regulatory structure of share market transparent according to international market.
- Proposals have been made to continue the existing tax exemption benefits on capital gain to investors.
- The investors are not mandated to produce Tax Identification Number (TIN).

7.25 The measures declared in the national budget of FY11 in support of capital market development included are as follows.

- A training institute on capital market named Bangladesh Institute of Capital Market (BICM) has been established to promote good governance among the investors, intermediaries and companies.
- In order to separate the ownership, management and trading of stock exchange, the process of demutualisation of DSE & CSE has been started.
- To develop surveillance capacity, required software in the Securities and Exchange Commission (SEC) is being installed.

### Credit Market

#### Advances of Scheduled Banks by Economic Purposes

7.26 Total advances of scheduled banks by economic purposes showed an upward trend during FY11 (Table 7.11). It stood at Taka 3212.9 billion at the end of June 2011, which was 24.8 percent higher than the total advances of Taka 2574.5 billion at the end of June 2010. In recent years, significant changes have been taken place in the trends in total bank advances classified by economic purposes. Of the total advances, transport and communication sector recorded a significant improvement by 43.5

percent followed by construction sector 33.0 percent, industry sector 29.1 percent, agriculture, fishing and forestry sector 26.3 percent, trade sector 25.2 percent, working capital financing 22.2 percent and other sectors 11.2 percent in FY11 compared to FY10. Sector-wise contribution of total advances shows that the trade sector plays the main role (37.9 percent) and industry sector plays the second role (21.8 percent), followed by advances for working capital financing (14.6 percent), construction (7.5 percent), agriculture, fishing and forestry (6.1 percent), transport and communication sector (1.6 percent) and other sectors (10.5 percent) in FY11. Sector-wise contribution of total advances is reported in Chart 7.4.

### Industrial Term Loans by Banks and Financial Institutions

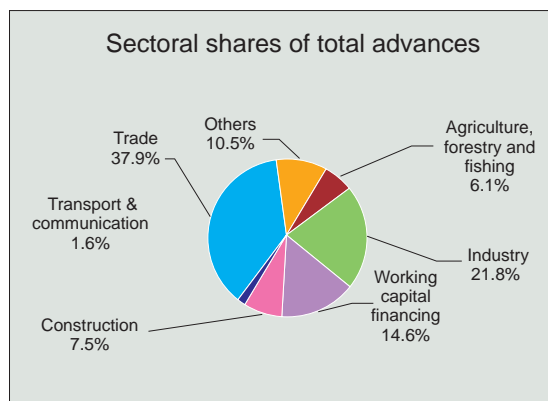
7.27 Disbursement of industrial term loans by banks and financial institutions increased by 24.3 percent to Taka 321.6 billion in FY11. The recoveries also increased by 31.8 percent to Taka 250.2 billion in FY11. The outstanding balance showed a positive growth of 21.2 percent to Taka 685.1 billion as of end June 2011. However, the overdue increased slightly by 0.9 percent and as a percent of outstanding declined to 9.5 percent of end June 2011 (Table 7.12).

**Table 7.11 Advances of scheduled banks by economic purposes**

Sector	Sector		% Change
	FY10	FY11 <sup>P</sup>	
1. Agriculture, forestry and fishing	155.7	196.6	26.3
2. Industry	542.7	700.5	29.1
3. Working capital financing	385.2	470.6	22.2
4. Construction	181.9	241.9	33.0
5. Transport & communication	35.2	50.5	43.5
6. Trade	971.7	1216.8	25.2
7. Others	302.1	336	11.2
<b>Grand Total</b>	<b>2574.5</b>	<b>3212.9</b>	<b>24.8</b>

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

**Chart 7.4**



**Table 7.12 Industrial term loans of banks and financial institutions**

Lender	Disbursement		Recovery		Outstanding		Overdue		Overdue as % of outstanding	
	FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11
i. SCBs	13.4	48.7	10.9	22.7	111.1	140.9	30.9	30.7	27.8	21.8
ii. PCBs	203.9	216.1	135.5	175.7	331.4	408.7	21.4	21.9	6.5	5.4
iii. Foreign banks	6.9	11.5	7.4	16.3	19.1	15.1	0.4	0.4	2.1	2.6
iv. Specialised banks (BDBL, BKB, RAKUB, BASIC)	5.9	9.9	6.7	6.6	26.5	32.6	6.5	6.0	24.5	18.4
v. Financial institutions	28.6	35.4	29.3	28.8	77.3	87.9	5.0	5.9	6.5	6.7
<b>Total</b>	<b>258.8</b>	<b>321.6</b>	<b>189.8</b>	<b>250.2</b>	<b>565.4</b>	<b>685.1</b>	<b>64.3</b>	<b>64.9</b>	<b>11.4</b>	<b>9.5</b>

Source: SME and Special Programmes Department, Bangladesh Bank.

7.28 PCBs had 59.7 percent shares of the total Taka 685.1 billion outstanding loans as of end June 2011, making them major players in industrial term loans (Table 7.12 and Chart 7.5). Though four SCBs and four state-owned specialised banks together had 25.3 percent shares of outstanding loans, but with very high levels of overdue loans, their actual role in current lending is quite minor, they disbursed only Taka 58.6 billion (18.2 percent) out of total Taka 321.6 billion in FY11. In relation to disbursement, private commercial banks had the major share holders (Taka 216.1 billion) in FY11, followed by SCBs (48.7 billion), financial institutions (Taka 35.4 billion), foreign banks (Taka 11.5 billion) and state-owned four specialised banks (Taka 9.9 billion).

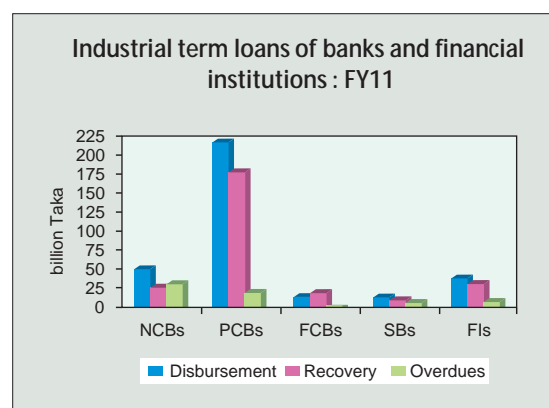
7.29 The foreign banks had very low overdue loans as percent of outstanding loan (2.6 percent) at the end of June 2011. These were also low for private commercial banks (5.4 percent) and financial institutions (6.7 percent). Overdue loans as percent of outstanding loan for SCBs and the state-owned specialised banks were very high (21.8 percent and 18.4 percent respectively) at the end of June 2011.

7.30 Since BKB and RAKUB are agriculture sector lenders, they have insignificant role in industrial term lending.

### Measures for Strengthening Term Lending Practices

7.31 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

**Chart 7.5**



loan defaulters, stringent restrictions on lending to directors and their connected interests. Several measures were undertaken 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 FY11 were:

- Direct loan facilities disbursed by any bank company to the individual or institution or joint-institution should not be above 15 percent of their total capital.
- In order to prevent speculative holdings fifty percent margin requirement on all consumer financing was made mandatory from December 2010.
- A directive has been given to the banks to bring down their credit/deposit ratio to 85.0 and 90.0 for Islamic Shariah-based banks within 30 June 2011.
- Bangladesh bank has initiated necessary corrective and preventive supervisory steps against lending discipline lapses in banks leading to loan diversion into unauthorised uses. Banks are also advised to continue their regular monitoring

to ensure the proper utilisation of the loan/investment as stipulated in the loan application.

- With a view to compliance surveillance on permitted ceiling of holding of capital market assets by banks with reporting instructions and supervisory arrangements, the general provisioning requirement on bank loans against stock and shares has increased doubled to two percent from October 2010.
- A fund has been formed to spread and expand the facilities of 'The Re-finance Scheme for the SME Sector' patronised by ADB with the amount of USD 95.0 million in which USD 76.0 million is given by ADB under the Small and Medium Enterprise Development Project (SMEDP) to Bangladesh Bank and the rest of amount is given by the Government of Bangladesh. Banks and financial institutions which are eligible to finance in SME sectors will get the re-financing facility under this fund with some conditions.
- With a view to strengthening financial position of women BB is providing other special facilities along with refinance facility to women entrepreneurs under SME refinance scheme. In this connection, group-wise SME loan disbursement arrangement has been introduced to make credit easier for women entrepreneurs. Lower limit of loan for a single woman entrepreneur has been set at Taka 50,000. However, provision has been made for women entrepreneurs requiring loan less than Taka 50,000 in such a way that they can apply for SME loan by forming a group for equivalent amount of Taka 50,000 or more.

### **Broadening of Fund Base for Industrial Term Lending**

7.32 Dependence of banks on short-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 long-term funds for small and medium scale industrial lending under some special schemes and programmes by Bangladesh Bank in FY11 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 upto end June 2011.
- 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 this 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 2011, a total of Taka 12.4 billion refinance facilities have been provided to 43 banks and non-bank financial institutions against 13869 enterprises.
- Under the Enterprises Growth and Bank Modernisation Programme (EGBMP), the Government of Bangladesh has provided USD 10 million including an additional fund of USD 10 million from the World Bank's IDA Wing to refinance SME sectors. Till now Taka 1.2 billion has been received against the said agreement for refinancing. Up to June 2011, a total of

Taka 3.13 billion refinance facilities has been provided to 32 banks and financial institutions as term loan against 3160 small and medium sector 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 3.4 billion refinance facilities have been provided to 16 banks and financial institutions against 3264 small and medium sector enterprises up to June 2011.

It is mentionable that for high demand, all the recovery amount of the loan of the above schemes will be used as revolving fund for refinance the SME sectors. Up to June 2011, a total of Taka 20.6 billion refinance facilities have been provided to different banks and financial institutions against 22082 small and medium sector enterprises from aforesaid funds.

- Bangladesh Bank (BB) has been implementing a project named "Investment Promotion & Financing Facility (IPFF) Project" on behalf of Finance Division, Ministry of Finance as per Administration Agreements (AA) signed on 21 August 2006 (for 1st phase) and on 7 July 2010 (for second phase) between BB and Finance Division. IPFF is an on-lending based Technical Assistance (TA) project to supplement the resource 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. 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.

- One of the main features of the project in the second phase is that at least 25 percent cost of any approved project is to be borne by the entrepreneurs' own sources as equity and at least 15 percent of the project cost is to be borne by the PFI. The remaining 60 percent may be financed by IPFF. The PFIs are supposed to bear all the commercial risks associated with debt financing. As per agreement total cost of the project was USD 60.00 million with 5 years tenure starting from January 2007 to December, 2011. IPFF has disbursed 100 percent of its on-lending component within 4th year of the project. Resultantly additional fund of USD 307.00 million (IDA USD 257.00 million and GoB USD 50.00 million) was sanctioned for extending the tenure of the project up to December 2014.

IPFF consists of 2 (two) components: 1) Infrastructure Development Lending Component and 2) Technical Assistance (TA) component. In the first phase of IPFF total cost of the project was USD 60.00 million (BDT 418.14 crore) where IDA provided USD 50.00 million (USD 2.50 million for TA & USD 47.50 million for On-

lending) as soft loan and GoB counterpart fund was USD 10.00 million (for on-lending only). In the second phase, total project cost has increased to USD 367.00 million (Taka 25.73 billion) where IDA is providing an additional soft loan of USD 257.00 million (USD 7.00 million for TA & USD 250.00 million for On-lending) and GoB will provide additional USD 50.0 million (for On-lending only).

It is worth mentioning here that IPFF has been able to disburse 100 percent (Taka 4.22 billion equivalent to USD 57.50 million) of its on-lending component to 7 small power plants having capacity of 178 MW within 4th year of the project tenure. In the first phase and so far, Taka 186.8 million has been disbursed under the new credit.

The power plants which have been financed under IPFF are Doreen Power House and Technologies Limited (three power plants 22MW each), Doreen Power Generation System Limited (11MW), Regent Power (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 generating power and contributing to the national grid.

### **Equity and Entrepreneurship Fund (EEF)**

7.33 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 maintained by the Bangladesh Bank. An agreement has been signed on 1 June 2009 between Bangladesh Bank (BB) and Investment Corporation of Bangladesh (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 12.3 billion has been released to the fund by the Government out of total budgetary allocation of Taka 21.0 billion in different fiscal years. Up to 30 June 2011 with the project cost of Taka 35.2 billion, a total of 820 projects (including 771 agro-based/food processing projects and 49 IT projects) got EEF sanction at different stages of disbursement. Cumulative equity disbursement stood at Taka 5.9 billion at the end of FY11 against total fund disbursement of Taka 12.3 billion from the Government. Till now 24 (twenty four) EEF supported companies availed share buy-back facilities partially or fully to the tune of Taka 0.7 billion. So far three EEF supported projects have paid dividend to the tune of Taka 0.05 million to EEF.

### **Housing Finance**

7.34 Total housing loans from banks and non-bank financial institutions as of end June 2011 amounted to Taka 280.2 billion (Table 7.13), which was 8.2 percent of total credit to the private sector.

7.35 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 7.13) with the largest share of Taka 147.6 billion in outstanding housing loans as of end June 2011. The SCBs have the second largest share of Taka 52.7 billion and other banks Taka 20.0 billion in outstanding housing loans as of end June 2011. Besides, two private sector specialised housing finance companies also provide a significant amount

of housing loan. They provide fund for their operations by taking long-term deposits including some contractual deposit schemes.

7.36 The state owned House Building Finance Corporation (HBFC) has the third largest share of Taka 25.3 billion in outstanding housing loans as of end June 2011. 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 was 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 instalments, 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 FY10 and FY11 Taka 2.3 billion and Taka 2.2 billion were disbursed out of recoveries of Taka 4.0 billion and Taka 4.1 billion respectively.

7.37 The Grameen Bank provides housing loans to its members in rural areas. Some NGOs also have small involvement in lending to housing. Out of these funds, Grihayan Tahbil created by the GoB which provides housing loan to the NGOs at the rate of 1.0 percent simple interest because of providing housing credit to the rural poor at the rate of 5.0 percent simple interest. As of June 2011, the Grihayan Tahbil has been released Taka 1.3 billion against allocation of Taka 2.1 billion

**Table 7.13 Outstanding housing loans**

Lenders	(billion Taka)		
	Outstanding as of end June		
	FY09	FY10	FY11 <sup>P</sup>
<b>a. Specialised housing</b>			
<b>finance providers</b>			
i) HBFC	25.0	25.1	25.3
ii) Delta-Brac Housing			
Finance	12.9	17.4	20.7
iii) National Housing			
Finance	2.0	2.4	2.5
<b>b. Banks</b>	<b>123.7</b>	<b>162.5</b>	<b>220.3</b>
i) PCBs	74.9	99.0	147.6
ii) SCBs	36.8	48.1	52.7
iii) Other banks (foreign			
and specialised)	11.9	15.3	20.0
<b>c. Other financial institutions</b>	<b>7.2</b>	<b>9.2</b>	<b>11.3</b>
<b>d. Micro-credit lenders</b>			
Grameen Bank	0.2	0.2	0.1
<b>Total</b>	<b>171.0</b>	<b>216.7</b>	<b>280.2</b>
Sources: Department of Financial Institutions and Markets, Statistics Department, Bangladesh Bank and Grameen Bank. P= provisional.			

through 464 NGOs under rural housing programme which have covered 444 upazilas of 64 districts of the country and 50,252 houses have already been constructed. In addition, for the target people those are adversely affected by different natural calamities, Taka 0.1 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 of June 2011, recovery rate is 88.0 percent. Since its beginning in FY98, the Tahbil received an amount of Taka 1.6 billion from the GoB up to end of June 2011.

### Foreign Exchange Market

7.38 Bangladesh floated its exchange rate for Taka with effect from 31 May 2003. Under this exchange rate regime, exchange rate is being determined on the basis of demand and supply of the respective currencies.

Authorised Dealer banks are now free to set their own rates for inter-bank and customer transactions. However, in order to maintain stability in the foreign exchange market Bangladesh Bank remains vigilant over the developments in the foreign exchange market by closely monitoring buying and selling of foreign exchanges.

7.39 Despite hefty growth in exports (41.7 percent) and comparatively lower growth in wage earners remittances (6.0 percent), Bangladesh Taka witnessed 6.34 percent depreciation against US dollar in FY11 mainly due to higher import demand. The overall

41.8 percent growth in imports compared to the previous year because of acceleration in domestic investment activities (which in turn caused huge foreign exchange demand for import of capital goods) and import of food items has widened the trade gap and caused depreciation of Taka against USD.

7.40 The weighted average inter-bank rate stood at Taka 74.15 per USD as of 30 June 2011 against 69.45 as of 30 June 2010. However Bangladesh Bank continued its role in the foreign exchange market in line with its monetary policy goal to ensure stability in the market.