

Financial Markets

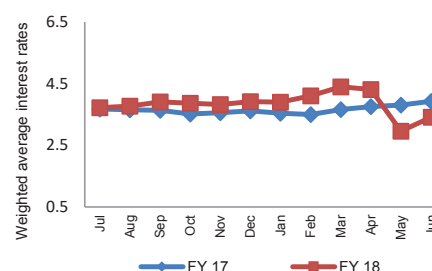
8.1 The financial system of Bangladesh is comprised of three broad fragmented sectors, Formal Sector, Semi-Formal Sector and the Informal Sector. The categorization is based on the extent of regulation in the sectors. The formal financial sector (financial market) is comprised of money market (comprising operations of the banking system, microcredit institutions, nonbank financial institutions and interbank foreign exchange market), the capital market (stock markets), bond market and the insurance market. Operational activities of these institutions in the formal financial sector are governed by a number of regulators such as Bangladesh Bank (banking system), Securities and Exchange Commission of Bangladesh (regulating the stock market operations), Insurance Regulatory Authority (for insurance institutions), and Microcredit Regulatory Authority (micro credit institutions). Ministry of Finance also has some oversight role in certain aspects. All these institutions play a crucial role in the country's money and capital markets including government securities and foreign exchange market. In FY18, the overall money market experienced a moderate liquidity pressure as evident from an upward movement in call money rate (Chart 8.1). In order to address the marginal liquidity crunch CRR was reduced from 6.50 percent to 5.50 percent with effect from April, 2018. For ensuring effective liquidity management the excess liquidity of the banking system was partly sterilization with cautious use of Bangladesh Bank Bills (tools of OMOs) which contribute moderate call money rate and balancing optimum inflation rate, real GDP growth and exchange rate.

Table 8.1 Volume of Trade and Weighted Average Interest Rates in Call Money Market

Periods	Volume of trade (billion BDT)	Weighted average interest rates (%)	Volume of trade (billion BDT)	Weighted average interest rates (%)
	FY17		FY18	
July	959.82	3.68	1392.99	3.72
August	1132.23	3.65	1676.47	3.77
September	1076.02	3.64	1597.78	3.91
October	998.26	3.52	1696.76	3.87
November	1037.34	3.56	1256.19	3.82
December	902.20	3.62	1337.05	3.92
January	1142.22	3.54	1406.32	3.90
February	1231.44	3.50	1428.65	4.11
March	1300.56	3.66	1649.76	4.40
April	1331.40	3.76	1247.58	4.31
May	1400.70	3.81	1175.92	2.96
June	1320.76	3.93	1125.79	3.41
Average	1152.75	3.66	1415.94	3.84

Source: Debt Management Department, Bangladesh Bank.

Chart 8.1 Movements in Call Money Rate



Source: Monetary Policy Department, Bangladesh Bank.

Money Market

Call Money Market Activities in FY18

8.2 The money market in Bangladesh comprising banks and financial institutions experienced a balanced growth path in FY18. BB prudently used open market operations (OMOs) tools termed as Repo, Reverse Repo special Repo and Liquidity Support Facility

Table 8.2 Repo Auctions-FY18

Total number of auctions held during the year	Tenor	Bids received		Bids accepted		Interest rate of the accepted bids (%) [®]
		Number of bids	Face value (in billion BDT)	Number of bids	Face value (in billion BDT)	
4	1-Day/2-Day	2	3.04	2	3.04	6.75
	3-Day/7-Day	3	2.79	3	2.69	6.75
	Total	5	5.83	5	5.73	6.75*

* Overall interest rate range of different tenors.

® The current rate of repo is 6.00 percent effective from 15 April, 2018.

Source: Monetary Policy Department, Bangladesh Bank.

(LSF) to the Primary Dealers (PDs) and non-PD banks against their holdings of eligible treasury bills and bonds for managing liquidity. BBs scrupulous policy measures such as operations of BB Bills dried the market liquidity contributing stable weighted average interest rate in the call money market. During FY18, moderate penetration in the average volume of transaction in the call money market is observed. During the same period call money rate ranging from 2.96 percent to 4.40 percent (Table 8.1 and Chart 8.1.) The volume of transaction in the call money market was high in the initial months with moderate growth in third quarter. Following prudent monetary policy BB revised its policy rates (repo rate) in the last quarter of FY18. However, the volume of transaction was relatively low in the last quarter keeping steady momentum in rates in FY18. The average volume of interbank call money increased by BDT 263.19 billion, which was 22.83 percent higher comparing that of FY17.

Repo Auctions held in FY18

8.3 Bangladesh Bank usually conducts various types of Repo auctions to provide overnight liquidity facility to banks at a pre-determined policy rate as against the collateral face value of government treasury bills and bonds to maintain their instant liquidity requirements. The interest rate of repo was reduced at 6.00 percent from 6.75 percent with effect from April, 2018. Moreover, to ease the liquidity conditions, BB increased available repo tenors to 7, 14 and 28 days. The rates of interest for Repo, Special Repo and LSF were 6.00 percent, 9.75 percent and 6.00 percent respectively in FY18. Reverse Repo rate was unchanged at 4.75 percent in FY18 signalling maintenance of floor rate on deposit contributing for real return and to achieve broad objective of monetary policy.

8.4 A total of 4 Repo auctions were held during FY18. In all 5 bids for BDT 5.83 billion were received of which all the bids amounting

Table 8.3 Auctions of Bangladesh Bank Bill-FY18

Tenor of bill	Bids offered		Bids accepted		Outstanding bills as of end June 2018 (in billion BDT)	Weighted average yield (WAR) range* (%)	
	Number	Face value (in billion BDT)	Number	Face value (in billion BDT)		FY17	FY18
7-Day	2670	7253.30	2433	6418.31	80.50	2.96-2.98	0.14-2.98
14-Day	487	2145.88	396	1856.06	7.45	2.50-2.98	0.10-2.98
30-Day	208	154.78	208	154.78	0.00	2.92-2.98	2.96-2.98
Total	3365	9553.96	3037	8429.15	87.95	2.50-2.98	0.10-2.98

Source: Monetary Policy Department, Bangladesh Bank.

Table 8.4 Auctions of Government Treasury Bills-FY18

Tenor of bills	Bids offered		Bids accepted		Outstanding bills as of end June 2018 (in billion BDT)	Weighted average yield (WAR) range* (%)	
	Number	Face value (in billion BDT)	Number	Face value (in billion BDT)		FY17	FY18
91-Day	1460	869.26	424	262.40	123.00	2.85-4.91	0.73-4.71
182-Day	664	364.83	170	118.00	71.00	3.10-5.41	3.39-4.83
364-Day	462	208.90	167	65.47	75.00	3.48-5.89	2.94-4.80
Devolvement on BB				51.13			
Total	2586	1442.99	761	497.00	269.00	2.85-5.89	0.73-4.83

Source: Monetary Policy Department, Bangladesh Bank.

BDT 5.73 billion were accepted. During FY17 total 6 bids for BDT 1.16 billion were received and all bids were accepted. The volume of accepted amounts increased by BDT 4.57 billion during FY18 (Table 8.2). The interest rate against the accepted bids was 6.75 percent per annum, which was ranging 6.75-9.75 percent per annum in FY 17.

Reverse Repo Auctions held in FY 18

8.5 In line with the broad objective of monetary policy, Bangladesh Bank use Reverse Repo to mop up excess liquidity from the banks to keep the Reserve Money and Money Multiplier on track. In case of Reverse Repo, BB abstained from providing any collateral to the banks. In FY18, the interest rate of Reverse Repo (policy rate) was higher (4.75 percent) comparing BB Bills rate signalling the market to maintain floor rate on bank deposits due to buoyancy of liquidity. One bid for BDT 1.5 billion of daily Reverse Repo was held in FY18 but the bid was not accepted. During FY17 bids amounting BDT 84.60 billion were received but no bid was accepted. The interest rate of Reverse Repo was 4.75 percent per annum since 14 January, 2016.

Bangladesh Bank Bill Auctions held in FY18

8.6 In order to conduct effective management and sterilize liquidity of the banking system,

operations of 7-day and 14-day Bangladesh Bank Bill were introduced in April, 2016 and 30-day Bangladesh Bank Bill which revived in FY10 was also continued in FY18 as a tool of Open Market Operations (OMOs). With a view to maintaining stable interest rate and exchange rate, inflation and optimum return on bank deposits, Bangladesh Bank strongly used these instruments efficiently in FY18. The outcomes of Bangladesh Bank Bill auctions in FY18 are shown at Table-8.3.

Government Securities Market

Government Treasury Bills Auctions

8.7 Treasury bills and bonds are short-term and long-term debt instruments issued by Bangladesh Bank on behalf of the Government of Bangladesh. These are the indirect monetary instruments that the BB uses mainly for debt management purpose. The securities are issued through an auction process where the allotments are awarded to the bids which fill the notified issue amount ranging from the lowest to highest yield. Pro-rata partial allotments are made for bids at the cut-off-yield. The objectives of issuing these securities are two-fold. The first is to provide a mechanism for financing government budget deficit and secondly managing excess liquidity prevailing in the market. In FY18, a total of 20 Primary Dealers (PDs) banks worked as underwriters

Box 8.1 Mechanism for Ensuring Financial Stability in Bangladesh

The mechanism to ensure financial stability starts with identification and assessment of potential stability threats in the financial system. To this end, global and domestic macroeconomic conditions, key trends of financial institutions, financial markets, and financial infrastructure are extensively analyzed by Bangladesh Bank (BB) using various micro and macroprudential tools. After assessing the present conditions of the financial system and identifying imminent threats, BB uses prudential policy tools to protect the financial system against those threats. In general, microprudential initiatives are taken by various departments of BB to ensure safety and soundness of individual bank/ financial institutions while macroprudential instruments, usually initiated by Financial Stability Department (FSD), are used to achieve some specific goals which are critical for ensuring stability of the financial system.

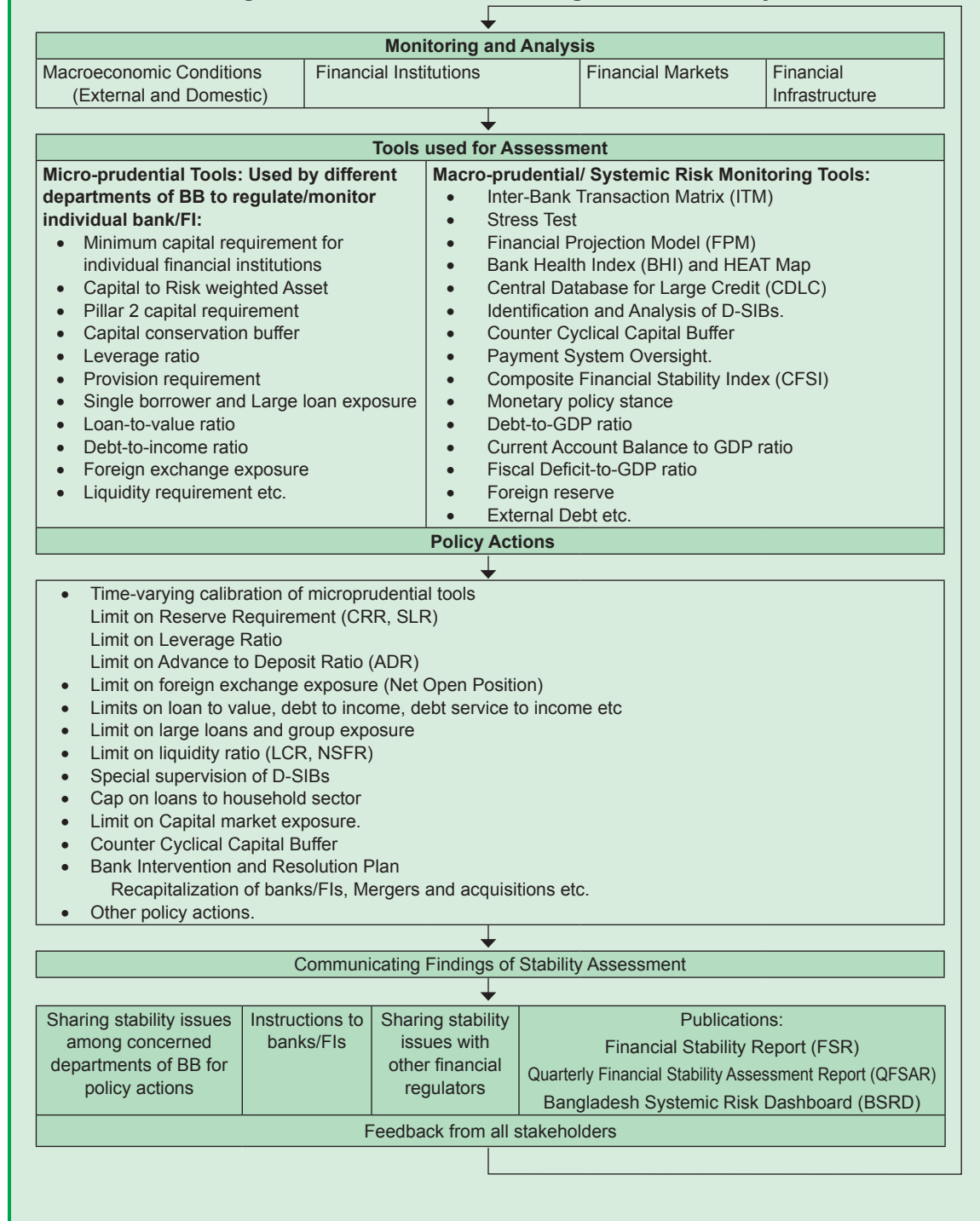
BB often alters reserve requirements and liquidity ratios to control money supply, credit growth and liquidity. Limit on advance-deposit (ADR) ratio and caps on various consumer financing schemes allow BB to prevent undesirable credit growth and excessive indebtedness of the household sector as these can trigger systemic crisis for the financial system. BB imposes prudential limit on investment in capital market from banks so that banking system does not overexposed to the capital market. Though BB has not introduced higher capital requirement for the Domestic Systemically Important Banks (D-SIBs) yet, still a number of departments of BB supervises these institutions in a coordinated manner to minimize the chance of triggering crisis from these institutions.

Countercyclical capital buffer has been introduced for taking measures against excessive credit growth to address pro-cyclicality of financial and business cycles. Inter-Bank Transaction Matrix (ITM) analyzes connectivity among all banks and financial institutions and is used to detect contagion risk among those institutions. Financial Projection Model (FPM) is used to project financial outlook of banking industry for the next 12 quarters based on historical analysis and a set of plausible assumptions. Bank Health Index is used to analyze the relative performance of banks in comparison with industry and peer group. Recently BB has started to analyze the indebtedness of large non-financial corporations (NFCs) and systemic implications from their failures. FSD also has formulated the identification methodology of D-SIBs and closely monitors them because failure of a D-SIB may entail high systemic consequences for the financial system. FSD also uses Composite Financial Stability Index to assess the long term performance of the banking industry.

What is more, BB conveys findings of its stability assessment among the related departments through internal noting/ reporting to adopt supervisory actions. Policy concerns are also shared with other financial sector regulators and top management of banks/ financial institutions. Moreover, BB keeps all other stakeholders informed about stability issues through various publications. The flagship publications of BB regarding financial stability are annual Financial Stability Report, Quarterly Financial Stability Assessment Report and Bangladesh Systemic Risk Dashboard. Lastly, BB regularly receives feedback from all stakeholders to review its financial stability stance to ensure stability of the financial system of Bangladesh.

A simplified framework of financial stability mechanism which is in practice at the moment has been shown in Figure 1.

Figure 1: Framework for ensuring financial stability



and market makers with commitments to bid in auctions. Apart from that, the auction committee may also devolve the unsubscribed amount to Bangladesh Bank/PD and non PD banks considering the auction rate, market timing and macroeconomic situation. In FY18, the auction committee devolved necessary amount of money to BB curbing higher rate and signalling effective rate to the market with a view to financing to the government at a lower cost and keeping momentum in the weekly valuations of Government Treasury Bills for held for trade (HFT) and held to maturity (HTM) of securities.

8.8 Weekly auctions of 91-day, 182-day and 364-day Treasury Bills were continued to use those as the main instruments for debt management of the government in FY18. The results of Treasury Bills auctions in FY18 are summarised in Table 8.4. The range of annual weighted average yields of most of the Treasury Bills decreased in FY18 as compared to FY17 due mainly to an existence of affluent liquidity in the market while government's borrowing from the banking system registered a very low position. Moreover, the higher amount

of maturity comparing accepted amount of Treasury Bills of different tenors resulted lower amount of outstanding as year on year basis.

8.9 A total of 2586 bids amounting to BDT 1442.99 billion were received of which 761 bids amounting to BDT 497.00 billion (including BDT 51.13 billion as devolved amount) were accepted in FY18. The weighted average yield-to-maturity against the accepted bids ranged from 0.73 percent to 4.83 percent. In FY17, a total of 2446 bids amounting to BDT 1562.76 billion were received of which BDT 505.00 billion (including BDT 14.68 billion as devolved amount) were accepted.

Bangladesh Government Treasury Bonds (BGTBs) Auctions

8.10 Treasury Bonds bearing half yearly interest coupons with tenors of 2-year, 5-year, 10-year, 15-year and 20-year are auctioned in every month following a pre-announced auction calendar prepared by Bangladesh Bank in consultation with the Ministry of Finance of the Government of the People's Republic of Bangladesh, considering liquidity situation and status of macroeconomic indicators. In order to improve liquidity and assets-

Table 8.5 Auctions of Bangladesh Government Treasury Bonds-FY18

Tenor of bonds	Bids offered		Bids accepted		Outstanding bonds as of end June 2018 (billion BDT)	Yield range* (%)
	Number	Face value (in billion BDT)	Number	Face value (in billion BDT)		
2-Year	429	202.46	143	58.14	100.50	3.4180-5.3274
Devolvement on BB				10.86		
5-Year	404	121.73	221	53.58	287.70	5.6317-5.9836
Devolvement on BB				3.42		
10-Year	499	149.86	249	63.87	518.49	6.7055-7.4140
Devolvement on BB				4.13		
15-Year	258	70.16	85	27.22	238.66	7.2363-8.1943
Devolvement on BB				2.78		
20-Year	274	70.47	133	25.21	208.87	7.8715-8.8178
Devolvement on BB				1.79		
Total	1864	614.68	831	251.00	1354.22	3.4180-8.8178*

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

liabilities matching, the auction of 2-year BGTB has started from May, 2013.

8.11 The BGTB auction committee determined cut-off coupon rate used for bond pricing. Banks are eligible to use Government Treasury Bills and BGTBs for Statutory Liquidity Requirement (SLR) purpose in the form of Held To Maturity (HTM) and Held For Trade (HFT). HTM securities are amortised in order to converge at face value and HFT securities are traded following marking to market norms. These bills and bonds are eligible for trading in the secondary market using MI module of Bangladesh Bank. Thirty two auctions of these instruments were held in FY18. A total of 1864 bids for BDT 614.66 billion were received and 831 bids for BDT 251.00 billion were accepted of which BDT 1.79 billion was devolved on BB. The amount of outstanding bonds was increased by 4.88 percent to BDT 1354.22 billion at the end of June 2018 from BDT 1291.22 billion at the end of June 2017.

8.12 The weighted average annual yield-to-maturity for the treasury bonds ranged from 3.4180 percent to 8.8178 percent in FY18. The summary of auctions of Bangladesh Government Treasury Bonds during FY18 is given at Table 8.5.

8.13 It is noted that in FY17, 1689 bids for a total of BDT 490.10 billion were received and BDT 151.00 billion was accepted of which BDT 0.48 billion was devolved on BB. The overall weighted average yield-to-maturity ranged from 4.2340 percent to 8.4400 percent in FY17.

Bangladesh Government Islamic Investment Bond (Islamic Bond)

8.14 Government issues bond as guarantee against the pool of funds formed by the Islamic banks and individuals in order to develop

Table 8.6 Bangladesh Government Islamic Investment Bond

Particulars	(in billion BDT)		
	FY 16	FY 17	FY 18
Sale	122.94	84.01	92.95
Financing	37.80	54.70	81.20
Net balance	85.14	29.31	11.75

Source: Motijheel Office, Bangladesh Bank.

money market for smooth liquidity management of Islamic banks. Virtually government does not borrow money from this sector. The return of the bonds depends on investment in line with the Islamic Shariah savings rate and other related factors reflected in the balance sheet of the respective Islamic bank. The operation of 6-month Bangladesh Government Islamic Investment Bond was introduced in FY04. As a new tool 3-month Bangladesh Government Islamic Investment Bond was introduced in January, 2015. Bangladesh Government Islamic Investment 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 accordance with Islamic Shariah may buy these bonds. As of end June 2018, the total sale against this bond amounted to BDT 92.95 billion while balance of total amount of financing stood at BDT 81.20 billion and net balance against the bond stood at BDT 11.75 billion. As of end June 2017, the total sale against this bond was BDT 84.01 billion against the balance of total financing of BDT 54.70 billion and net balance of BDT 29.31 billion. The sale amount of Islamic Bonds was increased in FY18 due to higher amount of financing demand by the Islamic banks. The overall transaction of this bond are summarised in Table 8.6.

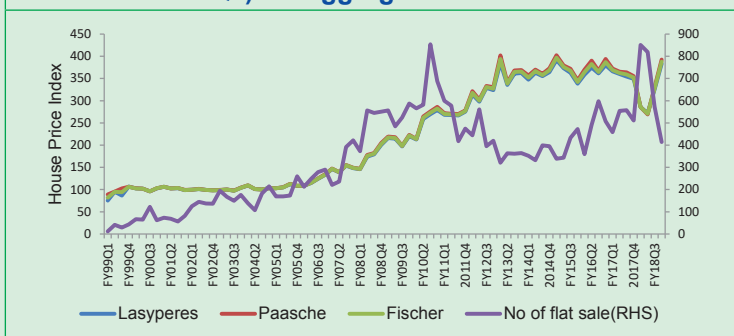
Box 8.2 Calculation of Housing Price Index (HPI) in Bangladesh

In recent years the nature of house price dynamics and their relationship with financial stability and monetary policy are highly concern among academics and policymakers. Policymakers need to identify the sources and nature of property price fluctuation in order to maintain price stability. Moreover, it is crucial for formulating monetary policy, financial regulatory purposes and financial stability. The Encouraged Set of Financial Soundness Indicators proposed by the IMF includes real estate prices, and the ratios of residential real estate loans and commercial real estate loans to total loans.

The house price affects the economy through three main channels. First, house prices affect private consumption through their impact on household wealth. Second, it affects housing investment and the construction industry, which tend to have relatively huge multiplier effect in the economy. Finally, these channels tend to be reinforced through the financial accelerator effect, as real estate use as collateral, thereby also affect the banks' balance sheet and their willingness to extend credit to the real economy. Therefore, in order to understand the price behavior of real estate market and its impact on the economy it is important to get a reliable estimate of house price movements.

In order to gauge the price movement in the real estate market, Bangladesh Bank (BB) has undertaken a study to construct a housing price index (HPI). The study uses secondary data for the period FY99-FY18 from the mortgage lending by Delta Brac Housing Corporations Limited (DBH). Bangladesh Bank calculated the house price index in different weighted average methods on quarterly basis. According to BB's calculation, the price movements reveal that price increased rapidly during FY06-FY12. The price was more or less stable during FY13-FY17 and slightly declined during FY17Q4-FY18Q2 (Chart-1) may be due to most of the developer decreased flat price about 15-20 percent to boost up the sale of flat. However, it started to increase after FY18Q2 due to rising price of construction materials specially, price of rods and cement have risen significantly.

Chart-1 Movements of Flat Sale and HPI in Different Weighted Average Methods (Base period 2004Q1) on Aggregate Level



Source: Delta Brac Housing Corporations Limited; Authors' calculation.

Capital Market

Capital Market Activities in FY18

8.15 Bangladesh Bank played a proactive role to stabilize the capital markets since the major debacle of 2010. In the exploration of economic advancement of the country, DSE

is considered as the steersman of enrichment. Bangladesh Securities and Exchange Commission (BSEC) has approved Chinese Consortium Shenzhen Stock Exchange (SZSE) and Shanghai Stock Exchange (SSE) as a strategic partner of DSE held on May 2018. Moreover, Dhaka Stock Exchange Limited

becomes a partner exchange of the United Nations Sustainable Stock Exchanges (SSE) initiatives on June 07, 2018.

8.16 Chart 8.2 shows that Dhaka Stock Exchange (DSE) broad index and the market capitalisation of DSE were increasing during July-November in FY18. However, both the index and the market capitalisation were decreasing during December-June in FY18. The DSEX and the market capitalisation increased to 6306.9 and BDT 4241.5 billion respectively at the end of November 2017 from 5656.1 and BDT 3801.0 billion in June 2017. The index and the market capitalisation came down to 5405.5 and BDT 3847.3 respectively at the end of FY18 (Chart 8.2).

Primary Issuance

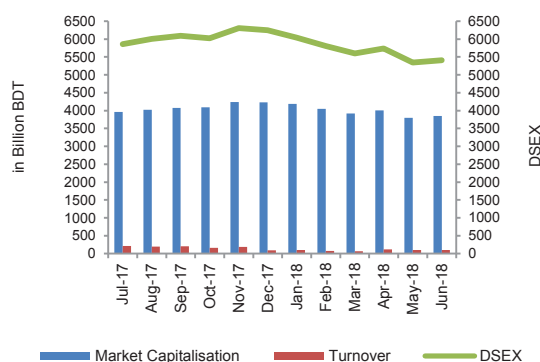
8.17 Nine companies have collected new equity of BDT 0.2 billion from the capital market through public placements in FY18, which was lower than BDT 0.4 billion collected by the 9 companies in FY17. In FY17, equity issued through private and public placements were BDT 0.1 billion and BDT 0.3 billion respectively.

8.18 The volume of public offerings was oversubscribed, more than 21 times in FY18, indicating a shortage of new securities in the primary market. Bonus shares worth BDT 42.8 billion were issued in FY18 by 148 companies against retained profits. This was higher than BDT 19.0 billion issued by 117 companies in FY17. On the other hand, right shares worth BDT 3.3 billion were issued in FY18 by three companies which were lower than BDT 8.6 billion issued by four companies in FY17.

Secondary Market Activities

8.19 As percentage of market capitalisation,

Chart 8.2 Trends in Market Behaviour of DSE in FY18



Source: Dhaka Stock Exchange.

secondary market are dominated by the manufacturing sector with 39.3 percent share followed by services and miscellaneous sector (34.1 percent), financial sector (26.4 percent) and corporate bonds (0.1 percent) at the end of FY18. In the DSE, market capitalisation inclusive of new issues increased by 1.2 percent to BDT 3847.3 billion, at the end of FY18 from BDT 3801.0 billion at the end of FY17 (Table 8.7) which is 17.2 percent of GDP (at current market price). In case of the CSE, it was also increased by only 0.33 percent to BDT 3123.5 billion at the end of FY18 which is 14.0 percent of GDP (at current market price). Amount of turnovers in the secondary market at DSE and CSE have decreased by 11.7 percent and 6.9 percent respectively in FY18 compared to FY17. DSE broad index (DSEX) also have decreased by 4.4 percent to 5405.46 while CSE all-share price index have increased by 6.3 percent to 16558.32 in FY18 (Table 8.7 and 8.8).

Non-Resident Portfolio Investment

8.20 Gross investment inflow in shares and securities of the stock exchanges by non-

residents through Non-resident Investors' BDT Account (NITA) increased to BDT 65.4 billion in FY18 from BDT 64.0 billion in FY17. On the other hand, gross investment outflow as repatriation of sale proceeds has increased to BDT 59.5 billion in FY18 from BDT 46.7 billion in FY17. From the beginning (April 1992) to June 2018, the gross investment inflow stood at BDT 350.6 billion against gross outflow of BDT 276.8 billion as repatriation of sale proceeds.

Activities of the Investment Corporation of Bangladesh

8.21 The Investment Corporation of Bangladesh (ICB) was established with aim at accelerating the pace of industrialisation and developing a well organised and vibrant capital market particularly securities market in Bangladesh. ICB's activities on capital market development programme have been expanded through the formation and operation of the three subsidiary companies namely the ICB Capital Management Ltd (ICML), the ICB Asset Management Company Ltd. (IAMCL) and the ICB Securities Trading Company Ltd. (ISTCL). During FY18, total investment against the investors' accounts stood at BDT 10.6 billion while deposit received stood at BDT 0.9 billion.

8.22 During FY18, the ICML provided underwriting assistance to the issues of shares and debentures of BDT 0.5 billion to 5 companies and performed the responsibilities of issue manager of 13 companies of BDT 5.0 billion.

8.23 The IAMCL emerged as one of the fast expanding asset management company of the country. The company has floated 9 closed-end and 13 open-end mutual funds up to end June 2018. Besides, the company has floated various regular and special types of mutual

Table 8.7 Activities of Dhaka Stock Exchange (DSE)

Particulars	End June		
	FY16	FY17	FY18
No. of listed securities*	559	563	572
Issued equity and debt* (billion BDT)	1127.4	1165.5	1219.7
Equity through private placement & IPOs (billion BDT)	4.3	0.5	0.2
Market capitalisation (billion BDT)	3185.7	3801.0	3847.3
Turnover in value (billion BDT)	1072.5	1805.2	1590.9
Turnover in volume (no. in billion)	29.0	54.4	45.8
DSE Broad Index (DSEX)@	4507.6	5656.1	5405.5

* Including companies, mutual funds, debentures and Government Treasury Bonds.

@ DSE introduced the benchmark DSE broad index (DSEX) designed and developed by S&P Dow Jones from January 2013.

Source: Dhaka Stock Exchange.

Table 8.8 Activities of Chittagong Stock Exchange (CSE)

Particulars	End June		
	FY16	FY17	FY18
No. of listed securities*	298	303	312
Issued equity and debt* (billion BDT)	566.1	606.6	656.9
Market capitalisation (billion BDT)	2506.1	3113.2	3123.5
Turnover in value (billion BDT)	78.1	118.1	109.9
Turnover in volume (no. in billion)	2.5	4.0	3.5
All-share Price Index	13802.6	15580.4	16558.3

* Including companies, mutual funds and debentures.

Source: Chittagong Stock Exchange

funds as well. The net investment in portfolios of the twenty-two mutual funds of the company stood at BDT 17.4 billion in FY18.

8.24 The ISTCL emerged as the largest stockbroker in the country with total turnover of BDT 154.7 billion in FY18 which was 10.0 percent of total turnover of both DSE and CSE. The parent ICB itself sold unit certificates amounting BDT 3.7 billion against repurchase of unit certificates amounting BDT 1.2 billion in FY18. The deposit received and loans approved by the ICB stood at BDT 0.9 billion and BDT 8.9 billion in investment accounts of investors in FY18. Total commitments for investment made by the ICB in FY18, stood at BDT 8.4 billion of which investment in equity was BDT 2.1 billion

and purchase of debentures was BDT 0.06 billion. The total amount of commitments was BDT 48.3 billion in FY17.

Scheduled Banks Investments in Capital Market Securities

8.25 Holdings of capital market assets (equities, debentures) excluding investment on Bangladesh Government Islamic Investment Bond (BGIIIB) by the scheduled banks stood at BDT 338.4 billion at the end of June 2018 as against BDT 286.0 billion at the end of June 2017. Outstanding advances of the scheduled banks against shares and securities amounted to BDT 36.6 billion at the end of June 2018, which was BDT 34.1 billion at the same period of the previous year.

Measures Supporting Capital Market Development

88.26 The Bangladesh Securities and Exchange Commission (BSEC) has taken several measures to protect investors' interest and strengthened the capital market during FY18. Some of the important measures are given below:

- In order to enhance the investment with multi asset trading, the investors' confidence and help remove the liquidity crisis from the market DSE, CSE and CDBL jointly working together to form Clearing and Settlement Company in line with the Bangladesh Securities and Exchange Commission (Clearing and Settlement) Rules, 2017.
- DSE has made a draft of Over the Counter Bulletin Board Regulation 2017 and submitted to BSEC in order to create opportunity of transacting the shares of

Table 8.9 Advances of Scheduled Banks by Economic Purposes

Sector	(in billion BDT)		
	End June		
	FY17	FY18 ^P	% change
Agriculture, forestry and fishing	377.8	440.2	16.5
Industry	1293.9	1585.5	22.5
Working capital financing	1477.9	1811.2	22.6
Construction	652.5	797.8	22.3
Transport & communication	50.9	73.2	43.8
Trade	2584.1	2882.4	11.5
Others	779.7	879.8	12.8
Grand Total	7216.9	8470.1	17.4

^P Provisional

Source: Statistics Department, Bangladesh Bank.

non-listed companies by the OTC market.

- With a view to achieving sustainable development the post demutualized DSE is working to launch Exchange Traded Fund (ETF) to bring product diversity in the capital market.
- In line with the amendment of Bangladesh Securities and Exchange Commission (Public Issue) Rules, 2015, the IPO bidding process has been started through Electronic Subscription System (ESS) from September 05, 2017.

Credit Market

Scheduled Banks' Advances by Economic Purposes

8.27 The advances of scheduled banks by economic purposes showed an upward trend during FY18 (Table 8.9). Total amount of advances stood at BDT 8470.1 billion at the end of June 2018 which was 17.4 percent higher than the amount of BDT 7216.9 billion at the end of June 2017. In recent years, significant changes have been viewed in the trends in total bank advances classified by economic purpose. Of the total advances, transports and communication sector recorded a significant improvement by 43.8 percent

followed by working capital financing (22.6 percent), industrial sector (22.5 percent), construction sector (22.3 percent), agriculture, fishing & forestry (16.5 percent), trade (11.5 percent), and other sectors (12.8 percent) in FY18 compared to that of FY17.

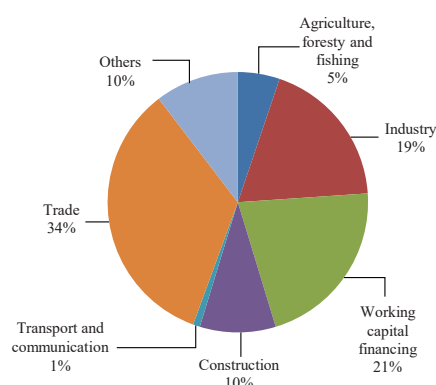
8.28 Sector-wise contributions of total advances show that the trade sector played the leading role (34.0 percent) followed by working capital financing (21.0 percent), advances for industry (19.0 percent), construction (10.0 percent), agriculture, fishing and forestry (5.0 percent), transport and communication (1.0 percent) and other sectors (10.0 percent) in FY18. Sector-wise contributions of total advances are reported in Chart 8.3.

Industrial Term Loans of Banks and Financial Institutions

8.29 Disbursement of industrial term loans by banks and financial institutions increased by 13.9 percent to BDT 707.7 billion in FY18. The recoveries also increased by 34.7 percent to BDT 701.9 billion in FY18. The outstanding balance showed a positive growth of 18.6 percent and stood at BDT 2028.4 billion as of end June 2018. However, the overdue increased by 32.3 percent in FY18 and as percentage of outstanding loans increased to 16.5 as of end June 2018 (Table 8.10).

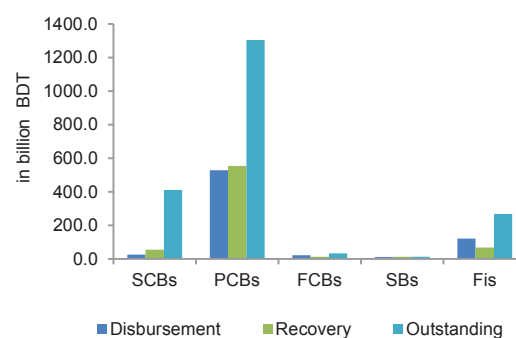
8.30 Private commercial banks (PCBs) had the major shares (64.3 percent) in the total outstanding loans amounting to BDT 2028.4 billion as of end June 2018, making them major players in industrial term lending (Table 8.10 and Chart 8.4). Though six SCBs and two specialised banks together had 20.9 percent shares of outstanding loans, with very high levels of overdue loans, their actual role

Chart 8.3 Sectoral Shares of total Advances in FY18



Source: Statistics Department, Bangladesh Bank.

Chart 8.4 Industrial Term Loans of Banks and Financial Institutions in FY18



Source: SME & SPD, Bangladesh Bank.

in current lending was quite minor, as they disbursed only BDT 36.8 billion (5.2 percent) out of total disbursed loans amounting to BDT 707.7 billion in FY18. In case of disbursement, PCBs had the major amount (BDT 528.9 billion) in FY18, followed by financial institutions (BDT 120.8 billion), SCBs (BDT 26.3 billion), foreign banks (BDT 21.2 billion) and specialised banks (BDT 10.5 billion).

8.31 The foreign banks had very low overdue loans (8.2 percent of outstanding) as of end June 2018. Overdue loans were also lower in financial institutions (10.9 percent) and private

Table 8.10 Industrial Term Loans of Banks and Financial Institutions

(in billion BDT)

Lender	Disbursement		Recovery		Outstanding		Overdue		Overdue as % of outstanding	
	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18
SCBs	42.9	26.3	44.2	56.0	331.1	411.5	90.2	129.9	27.3	31.6
PCBs	465.3	528.9	391.4	553.9	1122.4	1304.5	134.0	166.5	11.9	12.8
Foreign banks	13.5	21.2	11.7	13.5	22.7	32.7	2.7	2.7	11.7	8.2
Specialised banks (BKB, RAKUB)	6.4	10.5	5.4	12.0	15.2	12.6	4.9	6.2	32.1	49.1
Financial institutions	93.4	120.8	68.3	68.8	218.5	267.2	20.9	29.0	9.5	10.9
Total	621.6	707.7	520.9	701.9	1709.9	2028.4	252.6	334.3	14.8	16.5

Source: SME and Special Programmes Department, Bangladesh Bank.

commercial banks (12.8 percent). Overdue loans of the specialised banks and the SCBs were very high (49.1 percent and 31.6 percent respectively) as of end June 2018. Since two specialised banks— BKB and RAKUB are basically agriculture sector lenders, their role in industrial term lending is insignificant.

Investment Promotion and Financing Facility Project II (IPFF II)

8.32 Investment Promotion and Financial Facility II Project (IPFF II) (July, 2017-June, 2022), a follow-up project of Investment Promotion and Financial Facility (IPFF) Project, has been taken up by the Government of Bangladesh (with the financial support of the World Bank) with a view to creating a sustainable platform for long-term financing in infrastructure and further strengthening skills and abilities of the private sector to fill up the substantial infrastructure gap in Bangladesh.

8.33 The estimated cost of IPFF II project is USD 416.70 million (IDA USD 356.7 million and the Government of Bangladesh USD 60.0 million). The eligible sectors for financing under IPFF II Project will include power, port development, environmental, industrial & solid waste management, highways & expressways,

airports, water supply & distribution, industrial estates & parks, social sector and information technology. Technical Assistance (TA) Component will be utilized in hiring consultants, capacity building for key stakeholders. Public-Private Partnership (PPP) Authority and Bangladesh Infrastructure Finance Fund Limited (BIFFL) would be among the project beneficiaries, receiving substantial TA support.

Equity and Entrepreneurship Fund (EEF)

8.34 Equity and Entrepreneurship Fund (EEF) was formed by the Government with budgetary allocation of BDT 1.0 billion in FY01 to encourage investments in risky but prospective agro-based/food processing and IT sector projects. Under an agreement signed between Bangladesh Bank (BB) and Investment Corporation of Bangladesh (ICB), ICB is now performing the operational activities of EEF while EEF Unit of Bangladesh Bank is doing the activities relating to policy formulation, fund management and performance monitoring.

8.35 So far BDT 22.3 billion has been released to the fund in different fiscal years. Up to 30 June 2018 with the project cost of BDT 78.5 billion, a total of 2063 projects (including 1923 agro-based/food processing projects and 140

IT projects) got EEF sanction at different stages of disbursement involving EEF support of BDT 36.8 billion. Cumulative equity disbursement stood at BDT 15.3 billion at the end of FY18 against total fund disbursement of BDT 22.3 billion from the Government. Till now 295 EEF supported companies availed share buy-back facilities partially or fully to the tune of BDT 3.0 billion. Employment opportunity has been created for 54,000 people in the EEF assisted projects. World class software developed by EEF assisted ICT projects are being used in the domestic market and these are also being exported. Rural infrastructures have also been developed due to implementation of the EEF agro-based projects.

Housing Finance

8.36 Total outstanding of housing loans from banks and financial institutions as of end June 2018 amounted to BDT 815.2 billion (Table 8.11), which was 9.6 percent of total credit to the private sector. In recent years, significant changes have taken place in total housing loan portfolios. Private banks with ample deposit resources have been expanding their housing loan portfolios. These banks had the dominant market position (Table 8.11) with the largest amount of BDT 476.0 billion in outstanding housing loans as of end June 2018. The SCBs had the second largest amount of BDT 166.1 billion and other banks had BDT 22.9 billion in total outstanding of housing loans as of end June 2018. Besides, two private sector specialised housing finance companies also provide a significant amount of loans. They supply fund for their operations by taking long term deposits including some contractual deposit schemes.

8.37 The state-owned House Building Finance Corporation (HBFC) had an amount

Table 8.11 Outstanding Housing Loans

(in billion BDT)

Lenders	Outstanding as of end June		
	FY16	FY17	FY18 ^P
a. Specialised housing finance providers	71.1	77.9	82.8
i. HBFC	30.1	29.9	30.1
ii. Delta-Brac Housing Finance	33.4	39.1	42.3
iii. National Housing Finance	7.6	8.9	10.4
b. Banks	449.5	533.2	665.0
i. PCBs	309.2	372.8	476.0
ii. SCBs	119.3	140.4	166.1
iii. Other banks (foreign and specialised)	21.0	20.0	22.9
c. Other financial institutions	51.9	63.8	66.7
d. Micro-credit lenders			
Grameen Bank	-0.01	0.2	0.7
Total	572.5	675.1	815.2

^P Provisional.

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

of BDT 30.1 billion in outstanding housing loans as of end June 2018. The sources of Corporation's fund are paid-up capital provided 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 low interest debentures bought by the SCBs and Bangladesh Bank. 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 amount has declined. In FY17 and FY18, BDT 2.8 billion and BDT 3.6 billion were disbursed out of recoveries of BDT 5.4 billion and BDT 5.1 billion respectively.

8.38 Grihayan Tahobil created by the Government of Bangladesh, provides housing loan to the NGOs at the minimum rate of 1.5 percent simple interest who in turn provides

housing credit to the rural poor at the rate of 5.5 percent simple interest for a recovery period up to 10 years. Up to June 2018, the Grihayan Tahobil has been released BDT 2.9 billion through 616 NGOs for rural housing programme which have covered 404 upazilas of 64 districts of the country and 75444 houses have already been constructed. As of end of June 2018, Tahobil has recovered BDT 1.7 billion against the total recoverable amount of BDT 1.8 billion and recovery rate is 97.6 percent.

8.39 In addition, a 12 storied women hostel has been constructed at Ashulia, Savar, Dhaka under the supervision of the Department of Women Affairs. For this project so far BDT 0.2 billion is released against the sanctioned amount of BDT 0.3 billion. A total of 744 women workers will avail the residence facility. Besides, Grihayan Tahobil has initiated for enhancing loan facilities to the member companies of BGMEA and BEPZA to build hostels/dormitories for the poor workers. Moreover, Grihayan Tahobil has sanctioned BDT 0.02 billion in favour of the project Ghore Fera Karmosuchi to be implemented by Bangladesh Krishi Bank. Grihayan Tahobil has also undertaken a plan to build houses for the Tea Garden workers of the country who are the most deprived segment of the society and this project will be implemented by the Ministry of Social Welfare. Apart from the housing loan activities Grihayan Tahobil disbursed BDT 0.1 billion as a grant to the poor people who are affected by natural calamities like Sidr, Ila, etc.

Foreign Exchange Market

8.40 Foreign Exchange Market plays an important role by facilitating international trade and financial transactions. The players in the foreign exchange market of Bangladesh are the Bangladesh Bank, authorized dealers,

and customers. The Bangladesh Bank is empowered by the Foreign Exchange Regulation Act of 1947 to regulate the foreign exchange regime. It, however, does not operate directly and instead, regularly watches activities in the market and intervenes, if necessary, through commercial banks. From time to time it issues guidelines for market participants in the light of the country's monetary policy stance, foreign exchange reserve position, balance of payments, and overall macro-economic situation. The phenomenal growth of inter-bank transactions was due mainly to relaxation of exchange control regulations and expansion of the activities of the Bangladesh Foreign Exchange Dealers Association (BAFEDA) formed on 12 August 1993.

8.41 The interbank foreign exchange market is an important segment of the foreign exchange market. It is a wholesale market through which most currency transactions are channelled. It is mainly used for trading among bankers. The three main components of the interbank market are: the spot market, the forward market and future market.

8.42 Foreign Exchange Reserves is another significant part for stabilizing foreign exchange market. Foreign exchange reserves are the foreign assets held or controlled by the central banks. The reserves are generally used to finance the balance of payments imbalances or to control exchange rates. It is an important indicator for gauging an economies' ability to absorb external shock.

8.43 Bangladesh Bank (BB) introduced floating exchange rate since 2003. Under the managed floating exchange rate regime, banks are free to set their own rates for inter-bank

and customer transactions. Bangladesh Bank may purchase and sell US dollar as and when it deems necessary to maintain stability in the foreign exchange market.

8.44 In FY18, exchange rate depreciated by 3.7 percent due to higher demand for dollar following the declining trend of net foreign assets and high import growth. Exchange rate stood at BDT 82.1 as of end June 2018 compared to BDT 79.1 as of end June 2017 (period average). The large import bill has also

put an adverse impact on foreign exchange reserves. In FY18 Foreign Exchange Reserves stood at USD 32.9 billion which was USD 33.5 billion in FY17. On the other hand, the country's current account is already facing huge deficits for the higher import payments and it widened of 3.3 percent of GDP.

8.45 Bangladesh Bank closely monitors the foreign exchange market to avoid undue volatility in the exchange rate. To facilitate the foreign exchange liquidity, BB sold USD 2.31 billion in domestic inter-bank market in FY18.