

Financial Markets

8.1 Bangladesh Bank (BB) undertook several measures during FY20 in terms of liquidity management by easing access and transaction norms, and maintained stability in the foreign exchange market by keeping BDT-USD exchange rate competitive, while affirmed vigilant surveillances to secure the integrity of financial markets. BB has used its available policy tools to ensure adequate liquidity, normal functioning of the markets and the stability of the financial system in the face of the interruption caused by COVID-19.

Financial Market Highlights in FY20

- Slower deposit growth along with strong government borrowings from banks lead to some liquidity constraint in the banking system in FY20, while demand for liquidity increased substantially. Consequently call money market rate went through some upward pressure and picked up to 5.1 percent in March 2020 from 4.5 percent in December 2019.
- To improve the liquidity situation, BB set up a downward modification of its Cash Reserve Requirement (CRR) and repo rate from 5.5 percent to 5.0 percent and from 6.0 percent to 5.75 percent respectively in March 2020.
- In the backdrop of COVID-19 outbreak, BB further cut its CRR and repo rate from 5.0 percent to 4.0 percent and 5.75 percent to 5.25 percent respectively in April 2020, which lead to a significant rise in the liquidity in the banking system, despite a falling in deposit growth. Consequently call money market rate witnessed downward movement from April and onward in FY20. The reverse repo rate remained unchanged at 4.75 percent in FY20.
- BB has introduced 360 days term repo in FY20 to support the longer term liquidity needs in the money market.
- In FY20, BB announced to buy back government securities from the secondary market as some banks and NBFIs act as primary dealers of such securities to ease their liquidity.
- Substantial rise in liquidity in the banking system contributed to a decrease in the interest rate on most of the treasury bills and bonds of different maturities while the interest rates on longer term bonds remained mostly unchanged.
- BB's timely intervention in the foreign exchange market including purchase of USD from the market helped to maintain normal behavior in USD interbank market. Consequently exchange rate of BDT against USD remained broadly stable in FY20.

Overview of Financial Markets

8.2 Financial markets give strength to the economy by making finance available at the right place. In terms of regulatory framework, the financial system of Bangladesh is comprised of three broad fragmented sectors, Formal Sector, Semi-Formal Sector and the Informal Sector. The formal financial sector consists of

money market (banking system, microcredit institutions, non-bank financial institutions and interbank foreign exchange market), the capital market (stock markets), bond market and the insurance market. Operational activities of these institutions are governed by a number of regulators such as Bangladesh Bank (banking system), Bangladesh Securities and Exchange Commission (stock market operations), Insurance Development and Regulatory Authority (insurance companies) 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.

I. Money Market

Call Money Market Activities in FY20

8.3 The money market in Bangladesh experienced a moderate volatility in FY20. Addressing the demand of banks, on day-to-day basis, BB meticulously used government debt management and open market operations (OMOs) tools to balance the call money market. BB's scrupulous policy measures help banks to maintain liquidity contributing stable weighted average interest rate in the call money market ranging from 3.46 percent to 5.14 percent (Table 8.1 and Chart 8.1). During FY20, the volume of interbank call money decreased by BDT 57.99 billion, which was 4.67 percent lower comparing FY19.

Repo Auctions held in FY20

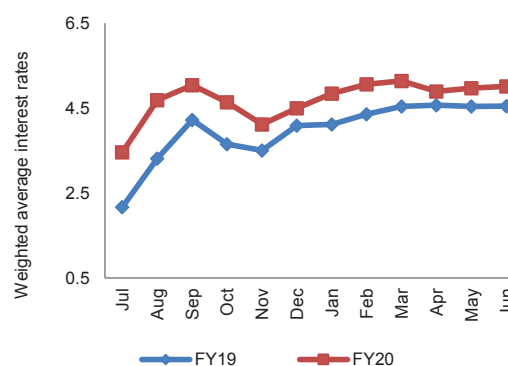
8.4 Bangladesh Bank usually conducts various types of Repo (overnight Repo, Term

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 (%)
	FY19		FY20	
July	1306.15	2.17	1594.33	3.46
August	1582.95	3.31	795.05	4.69
September	1623.26	4.22	1159.19	5.04
October	1441.34	3.65	1656.88	4.64
November	1393.83	3.50	1209.83	4.12
December	1296.75	4.09	1071.08	4.50
January	1365.60	4.12	1110.32	4.84
February	952.04	4.36	751.02	5.06
March	1012.40	4.54	273.67	5.14
April	719.10	4.57	1267.61	4.89
May	1129.68	4.54	1437.02	4.97
June	1085.87	4.55	1887.01	5.01
Average	1242.41	3.97	1184.42	4.70

Source: DMD, BB.

Chart 8.1 Movements in Call Money Rate



Source: MPD, BB.

Repo, Liquidity Support Facility (LSF) and special Repo) auctions to provide overnight liquidity facility to banks at a pre-determined and auction based rates as against the collateral market and face value of government treasury bills, bonds and Bangladesh Bank Bills to maintain their liquidity requirements. The rates of interest for overnight Repo, Special Repo and LSF were 5.25 percent, 8.25 percent and 5.25 percent respectively in FY20 necessitate

Table 8.2 Repo Auctions - FY20

Total number of auctions held during the year	Tenor	Bids received		Bids accepted		Interest rate of the accepted bids (%) [®]
		Number of bids	Face value (billion BDT)	Number of bids	Face value (billion BDT)	
171	1-Day/3-Day	4206	4373.00	4206	4373.00	5.25-9.00
	7-Day	1414	899.82	1414	899.82	5.35-6.25
	14-Day	79	59.65	79	59.65	5.50-6.00
	28-Day	142	145.97	142	145.97	5.50-6.00
	Total	5841	5478.44	5841	5478.44	5.25-9.00*

* Overall interest rate range of different tenors.

[®] The current rate of overnight repo is 4.75 percent effective from 30 July, 2020 which was previously 5.25 percent effective from 12 April, 2020.

Source: MPD, BB.

for financial market and boosting investment and to achieve broad objective of monetary policy.

Under repo programme, the repayment duration is between 1-day to 360-days as per BB regulations. To fulfil periodical need of liquidity term repo for 7, 14 and 28 days were introduced on June 06, 2018. Additionally, 360 days term repo was introduced on May 13, 2020 to support the longer term liquidity need, though no bid was received against this instrument in FY20. Term repo rate is fixed through auction competitive bids taking into account overnight repo rate as benchmark. A total of 171 Repo auctions were held during FY20. In all 5841 bids for BDT 5478.44 billion were received of which all bids were accepted (Table 8.2). During FY19 total 635 bids for BDT 1135.40 billion were received and all bids were accepted. The volume of accepted amounts increased by BDT 4343.04 billion during FY20. The interest rate against the accepted bids was ranging 5.25-9.00 percent per annum, which was 6.00-9.00 percent per annum in FY19.

Reverse Repo Auctions held in FY20

8.5 In line with the broad objective of monetary policy, Bangladesh Bank uses Reverse Repo to mop up excess liquidity from the banks to keep the Reserve Money and Money Multiplier on track impacting currency, reserves and deposits. In case of Reverse Repo, BB abstained from providing any collateral to the banks. In FY20, the interest rate of Reverse Repo (policy rate) was higher (4.75 percent) comparing BB Bills rate (Table-8.4) signalling the market to maintain reasonable interest rate on bank deposits protecting the marginal savers. A total of 09 reverse repo auctions were held during FY20. A total of 10 bids for BDT 21.80 billion were received but no bid was accepted under reverse repo during FY20 (Table 8.3).

Bangladesh Bank Bill Auctions held in FY20

8.6 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-

Table 8.3 Reverse Repo Auctions - FY20

Total auctions held during the year	Tenor	Bids received		Bids accepted		Interest rate of the accepted bids (%) [®]
		Number of bids	Face value (billion BDT)	Number of bids	Face value (billion BDT)	
9	1-Day/2-Day	9	17.20	-	-	-
	3-Day/7-Day	1	4.60	-	-	-
	Total	10	21.80	-	-	-

[®] The current rate of reverse repo is 4.00 percent effective from 30 July, 2020 which was previously 4.75 percent effective from 14 January, 2016.
Source: MPD, BB.

Table 8.4 Auctions of Bangladesh Bank Bill - FY20

Tenor of bill	Bids offered		Bids accepted		Outstanding bills as of end June 2020 (billion BDT)	Weighted average yield (WAR) range (%)	
	Number	Face value (billion BDT)	Number	Face value (billion BDT)		FY19	FY20
7-Day	18	21.50	2	1.50	0.00	0.01-0.17	2.96
14-Day	3	1.55	-	-	0.00	0.02-0.10	-
30-Day	-	-	-	-	0.00	-	-
Total	21	23.05	2	1.50	0.00	0.01-0.17	2.96

Source: MPD, BB.

day Bangladesh Bank Bill which was revived in FY10 were continued in FY20 as a tool of OMOs. Among 7-day, 14-day and 30-day Bangladesh Bank Bills, BB meticulously only used 7-day Bangladesh Bank Bill considering the overall liquidity of the economy and 2 bids of 7-day Bangladesh Bank bill were accepted in FY20. With a view to maintaining stable interest rate, exchange rate, inflation and optimum return on bank deposits, Bangladesh Bank cautiously used the selective 7-day BB Bill as a tool of OMOs with lower return for banks (institutional investors) in FY20. The outcomes of Bangladesh Bank Bill auctions in FY20 are shown at Table-8.4.

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 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 one is to provide a mechanism for financing Government budget deficit and the second one for managing excess liquidity prevailing in the market. In FY20, a total of 22 Primary Dealers (PDs) banks acted as underwriters 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,

Table 8.5 Auctions of Government Treasury Bills - FY20

Tenor of bills	Bids offered		Bids accepted		Outstanding bills as of end June 2020 (billion BDT)	Weighted average yield (WAR) range (%)	
	Number	Face value (billion BDT)	Number	Face value (billion BDT)		FY19	FY20
14-Day	356	319.21	98	100.10	0.00	2.09-6.42	4.92-7.52
91-Day	2607	1129.34	1058	482.81	122.00	0.55-6.97	5.51-7.92
182-Day	1733	760.38	696	313.51	185.00	1.29-7.19	6.66-8.56
364-Day	1620	710.05	664	304.34	355.00	2.46-7.31	7.19-8.70
Devolvement on BB				302.24			
Total	6316	2918.98	2516	1503.00	662.00	0.55-7.31	4.92-8.70

Source: MPD, BB.

Table 8.6 Auctions of Bangladesh Government Treasury Bonds-FY20

Tenor of bonds	Bids offered		Bids accepted		Outstanding bonds as of end June 2020 (billion BDT)	The range of annual weighted average yield (%)
	Number	Face value (billion BDT)	Number	Face value (billion BDT)		
2-Year	1192	470.65	416	177.70	302.00	7.4753-8.5656
Devovement on BB				34.30		
3-Year	26	5.33	03	1.12	5.00	6.4998
Devovement on BB				3.88		
5-Year	1238	450.36	515	169.82	461.50	8.0317-9.1269
Devovement on BB				38.18		
10-Year	1096	375.36	535	141.73	723.15	8.4703-9.2638
Devovement on BB				53.27		
15-Year	628	261.31	218	51.83	350.16	8.6877-9.4989
Devovement on BB				15.67		
20-Year	638	173.53	242	57.89	326.37	8.9047-9.7381
Devovement on BB				15.61		
Total	4818	1736.54	1929	761.00	2168.18	6.4998-9.7381*

* Range of the weighted average annual yield of the accepted bids.

Source: MPD, BB.

macroeconomic and liquidity situation of banks. In FY20, the auction committee devolved a good amount of money to BB curbing higher rate and financing the government at a lower cost and keeping momentum in the weekly valuations of Government Treasury Bills for held for trade (HFT) and calculating of book value of held to maturity (HTM) securities maintained for Statutory Liquidity Requirement (SLR) purpose with amortization.

8.8 Weekly auctions of 14-Day, 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 FY20. The results of Treasury Bills auctions in FY20 are summarised at Table-8.5. The range of annual weighted average yields of most of the Treasury Bills increased in FY20 as compared to FY19 reflecting liquidity tightness in the market. A total of 6316 bids amounting to BDT 2918.98 billion were received of which 2516 bids amounting to BDT 1503.00 billion (including BDT 302.24 billion as devolved

amount) were accepted in FY20. The weighted average yield-to-maturity against the accepted bids was ranged from 4.92 percent to 8.70 percent. In FY19, a total of 4312 bids amounting to BDT 2138.91 billion were received, of which BDT 921.00 billion (including BDT 293.71 billion as devolved amount) were accepted.

Bangladesh Government Treasury Bonds (BGTBs) Auctions

8.9 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. The BGTB auction committee determined cut-off coupon rate used for bond pricing. Banks are eligible to use Government Treasury Bills and BGTBs for 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. This bills and bonds are eligible for trading in the secondary market using MI module of Bangladesh Bank.

8.10 A total of 4818 bids for BDT 1736.54 billion were received and 1929 bids for BDT 761.00 billion were accepted, of which BDT 160.91 billion was devolved on BB. The amount of outstanding bonds was increased by BDT 615.31 billion or 39.62 percent to BDT 2168.18 billion at the end of June 2020 from BDT 1552.87 billion at the end of June 2019. The weighted average annual yield-to-maturity for the treasury bonds ranged from 6.4998 percent to 9.7381 percent in FY20. The summary of auctions of Bangladesh Government Treasury Bonds during FY20 is given in Table 8.6.

Floating Rate Treasury Bond (FRTB)

8.11 Allowing the variability of interest rate and diversity of market for the first time in FY19 the Government with collaboration of BB has introduced 03-Year Floating Rate Treasury Bond (FRTB) as on 25 March, 2019. FRTB will encourage robust bond pricing mechanism allowing secondary bond market development in Bangladesh. Both individuals and institutional investors are eligible to purchase and hold the FRTBs. According to the mood of operations resident and non-resident investors can purchase the FRTB using particular bank accounts. The non-resident can transfer interest (coupon) and resale or redemption proceeds abroad in foreign currency.

8.12 91-Days BCR is primarily used to set the rate of floating rate instruments of government. It is a daily rate based on the

Table 8.7 Bangladesh Government Islamic Investment Bond

Particulars	(billion BDT)		
	FY 18	FY 19	FY 20
Sale	92.95	107.11	131.88
Financing	81.20	84.80	67.82
Net balance	11.75	22.31	64.06

Source: Motijheel Office, BB.

cut-off yield of 91-Days Treasury Bills auction announced by BB on its website daily. 91-Days BCR is a compound rate calculated from the average interest rate of 91-Day Treasury Bills summing the previous 91-Days. Capturing the volatility, the interest rate on the FRTB is determined calculating the BCR and adding a spread (mark-up) set by the lenders.

Bangladesh Government Islamic Investment Bond (Islamic Bond)

8.13 Government provides guarantee against the Bangladesh Government Islamic Investment Bond (BGIIIB) pool of funds formed by the Islamic banks and individuals in order to develop money market in Islamic banking sector. 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 BGIIIB was introduced in FY04. Further, 3-month BGIIIB was introduced in January, 2015. The auction of 1-year and 2-year Islamic Bonds have been suspended since January 2015. Currently, 3-month and 6-month maturity BGIIIBs are operated in accordance with the rules of Islamic Shariah. As per rules, Bangladeshi institutions, individuals and non-resident Bangladeshis who agree to share profit or loss in accordance with

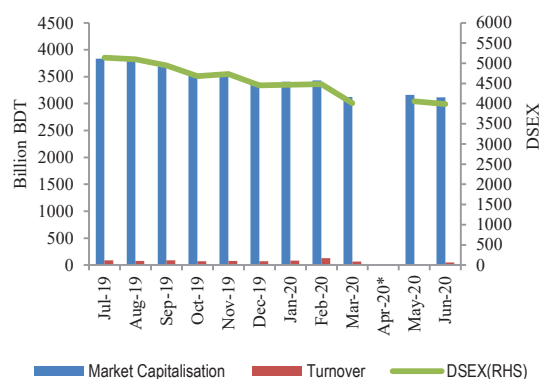
Islamic Shariah may buy these bonds. As of end June 2020, the total sale against this bond amounted to BDT 131.88 billion while balance of total amount of financing stood at BDT 67.82 billion and net balance against the BGIIB stood at BDT 64.06 billion. As of end June 2019, the total sale against BGIIB was BDT 107.11 billion and the financing was BDT 84.80 billion and net balance of BDT 22.31 billion. The sale amount of BGIIB was increased in FY20. The amount of net balance was also increased in FY20 comparing FY19 due mainly to higher amount of supply and demand of funds by the Islamic banks. The overall transaction of BGIIBs are summarised in Table 8.7.

NRB Savings Bond

8.14 The Government had introduced 03 types of NRB Savings Bond namely, Wage Earner Development Bond (WEDB), US Dollar Investment Bond (DIB) and US Dollar Premium Bond (DPB) with a view to encouraging the wage earners and Non-Resident Bangladeshi (NRB) people to invest and increasing the remittance inflow. Target groups for WEDB (Maturity 5 years, available in the denomination of BDT and interest rate 12.0 percent in BDT) are general Bangladeshi wage earners or Bangladeshi nationals who are gainfully employed in abroad.

8.15 On the contrary, Target groups for DIB (Maturity 3 years, available in the denomination of USD and interest rate 6.5 percent in USD) and DPB (Maturity 3 years, available in the denomination of USD and interest rate 7.5 percent in BDT) are Non-Resident Bangladeshi people holding a Non-Resident Account (F.C Account). By selling NRB Savings Bond, the Government raises fund for covering up budget deficit and encourages wage earners and

Chart 8.2 Trends in Market Behaviour of DSE



*= data not available.

Source: Dhaka Stock Exchange.

Non-Resident Bangladeshi people to invest hard-earned remittance in productive sector. In FY20, remittance inflow invested in NRB Savings Bond is 1.05 percent.

II. Capital Market

Capital Market Activities in FY20

8.16 Capital market is considered the second largest segment of financial system in the country. It plays significant role in the economy by providing funds for the long term investment and development which contributes to economic growth. The market comprised of Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE), where DSE is pioneering in the exploration of economic advancement of the country. The instruments in these exchanges are equity securities (shares), debentures and corporate bonds. The regulator body of capital market is Bangladesh Securities and Exchange Commission (BSEC). Bangladesh Bank has been playing proactive role also to steady functioning and development of the market as well. In collaboration with DSE, third and final workshop of technical series titled 'Practical tips for preparing your

next report: Bringing it all together' under Global Report Initiative (GRI) conducted on 22 January 2020. Moreover, DSE and Shenzhen Stock Exchange jointly designed, developed and launched CNI-DSE Select Index (CDSET) on 30 December 2019. Chart 8.2 shows that Dhaka Stock Exchange (DSE) broad index and the market capitalisation of DSE were decreasing during July-December in FY20. However, both the index and the market capitalisation were increasing during January-February, but had decreased in March. During May-June, the index and market capitalisation showed declining trend. The DSE index and the market capitalisation decreased to 4452.93 and BDT 3395.51 billion respectively at the end of December 2019. Having with a downward trend, the index and the market capitalisation stood at 3989.1 and BDT 3119.7 billion respectively at the end of FY20 (Table 8.8).

Primary Issuance

8.17 Five companies have collected new equity of BDT 3.0 billion from the capital market through public placements in FY20, which was much higher amounting BDT 4.2 billion collected by the 15 companies in FY19. In FY20, no new equity issued through private placements, that was BDT 0.4 billion in FY19. The volume of public offerings was oversubscribed, more than 06 times in FY20, indicating a shortage of new securities in the primary market. Bonus shares worth of BDT 18.3 billion were issued in FY20 by 95 companies against retained profits. This was lower than BDT 31.4 billion issued by 150 companies in FY19. On the other hand, right shares amounting to BDT 2.1 billion issued by two companies in FY20 whereas, no right shares were issued in FY19.

Table 8.8 Activities of Dhaka Stock Exchange (DSE)

Particulars	End June		
	FY18	FY19	FY20
No. of listed securities*	572	584	589
Issued equity and debt* (billion BDT)	1219.7	1268.6	1299.8
Equity through private placement & IPOs (billion BDT)	0.2	4.2	3.0
Market capitalisation (billion BDT)	3847.3	3998.2	3119.7
Turnover in value (billion BDT)	1590.9	1459.7	780.4
Turnover in volume (no. in billion)	45.8	36.9	26.0
DSE Broad Index (DSEX)®	5405.5	5421.6	3989.1

* Including companies, mutual funds, debentures

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

Source: Dhaka Stock Exchange.

Table 8.9 Activities of Chittagong Stock Exchange (CSE)

Particulars	End June		
	FY18	FY19	FY20
No. of listed securities*	312	326	331
Issued equity and debt* (billion BDT)	656.9	712.9	735.9
Market capitalisation (billion BDT)	3123.5	3293.3	2447.6
Turnover in value (billion BDT)	109.9	84.8	53.1
Turnover in volume (no. in billion)	3.5	2.5	1.7
All-share Price Index	16558.3	16634.2	11332.6

* Including companies, mutual funds and debentures.

Source: Chittagong Stock Exchange

Secondary Market Activities

8.18 As percentage of market capitalisation, secondary market are dominated by the manufacturing sector with 39.8 percent share followed by services and miscellaneous sector (34.2 percent), financial sector (25.9 percent) and bonds (0.2 percent) at the end of FY20. In the DSE, market capitalisation decreased by 22.0 percent to BDT 3119.7 billion at the end of FY20 from BDT 3998.2 billion at the end of FY19 (Table 8.8) which is 11.2 percent of GDP (at current market price). In case of the CSE, it also decreased by only 25.7 percent to BDT 2447.6 billion at the end of FY20 which is 8.8 percent of GDP (at current market price). Amount of turnovers in the secondary

market at DSE and CSE have decreased by 46.5 percent and 37.4 percent respectively in FY20 as compared to FY19. DSE broad index (DSEX) have decreased by 26.4 percent to 3989.1 while CSE all-share price index have decreased by 31.9 percent to 11332.6 in FY20 (Table 8.8 and Table 8.9).

Non-Resident Portfolio Investment

8.19 Gross investment inflow in shares and securities of the companies listed with the stock exchanges by non-residents through Non-Resident Investor's Taka Account (NITA) decreased to BDT 51.3 billion in FY20 from BDT 55.8 billion in FY19. On the other hand, gross outflow as sale proceeds and dividend of share/securities has decreased to BDT 39.8 billion in FY20 from BDT 48.8 billion in FY19. From the beginning (April 1992) to June 2020, the gross portfolio investment inflow stood at BDT 445.9 billion against gross outflow of BDT 365.4 billion as sale proceeds and dividend.

Activities of the Investment Corporation of Bangladesh

8.20 The Investment Corporation of Bangladesh (ICB) was established with the aim of 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 ICB Capital Management Ltd (ICML), ICB Asset Management Company Ltd. (IAMCL) and ICB Securities Trading Company Ltd. (ISTCL).

8.21 During FY20, the ICML provided underwriting assistance to the issues of

shares and debentures of BDT 0.2 billion to 05 companies and performed the responsibilities of issue manager of 08 companies of BDT 2.4 billion. The IAMCL emerged as one of the fast expanding asset management companies of the country. The company has floated 9 closed-end and 14 open-ended mutual funds up to end June 2020. Besides, the company has floated various regular and special types of mutual funds as well. The net investment in portfolios of the 23 mutual funds of the company stood at BDT 3.9 billion in FY20. The ISTCL emerged as the largest stock broker with Depository Participant (DP) Services in the country as well as total turnover of BDT 96.6 billion in FY20 which was 11.6 percent of total turnover of both DSE and CSE.

8.22 The parent ICB itself sold unit certificates amounting to BDT 3.1 billion against repurchase of unit certificates amounting to BDT 1.5 billion in FY20. Total investment against the investors' accounts stood at BDT 3.8 billion while deposit received stood at BDT 0.9 billion in FY20. The loans approved by the ICB stood at BDT 4.0 billion in investment accounts of investors in FY20. Total commitments for investment made by the ICB in FY20, stood at BDT 5.3 billion of which investment in equity was BDT 0.5 billion. The total amount of commitments was BDT 15.6 billion in FY19.

Scheduled Banks Investments in Capital Market Securities

8.23 Holdings of capital market assets (equities, debentures) excluding investment on Government Treasury Bills/Bonds and Bangladesh Government Islamic Investment Bond (BGIIB) by the scheduled banks stood at BDT 480.7 billion at the end of June 2020 as

against BDT 446.9 billion at the end of June 2019. Outstanding advances of the scheduled banks against shares and securities amounted to BDT 54.4 billion at the end of June 2020, which was BDT 44.0 billion at the same period of the previous year.

Measures Supporting Capital Market Development in FY20

8.24 Bangladesh Securities and Exchange Commission (BSEC) has taken several measures to safeguard investors' interest, ensured compliance of securities laws and maintained coordination during FY20. Some of the important measures are cited below:

- BSEC introduced online report submission system for market intermediaries and launched Customer Complaint Address Module (CCAM) and External Data Request Processing (EDRP) for speedy resolution and delivery of information.
- BSEC and ADB jointly organized 4 daylong Seminar titled 'Regional Seminar on Financial Literacy and Investor Protection'.
- In order to risk reduction of stock exchange transactions, Central Counter Party Bangladesh Limited (CCBL), has been established for clearing and settlement.
- The period from 26 March, 2020 to 30 May, 2020 has been excluded for all capital market related organizations in counting time for complying securities related obligation to BSEC or stock exchanges due except declaration of price sensitive information by issuing a directive dated June 02, 2020.
- BSEC has taken initiative to hire an experienced Digital Transformation Consultant for modern digital transformation in the capital market.
- BSEC directed both the stock exchange markets to collect fast integrated data and to start submission and distribution activities on the online platform.
- Workshops have conducted on integrity, innovation, anti-money laundering and reform of capital market related various laws and formulation of new rules.

III. Credit Market

Scheduled Banks' Advances by Economic Purposes

8.25 The advances of scheduled banks by economic purposes showed an upward trend during FY20 (Table 8.10). Total amount of advances stood at BDT 10486.9 billion at the end of June 2020 which was 10.2 percent higher than the amount of BDT 9514.5 billion at the end of June 2019. In recent years, major changes have been viewed in the trends in total bank advances classified by economic purpose. Of the total advances, transport sector recorded a leading growth by 86.3 percent followed by working capital financing (13.5 percent), industrial sector (12.8 percent), trade and commerce (11.4 percent) and agriculture, fishing and forestry (5.6 percent) in FY20 compared to that of FY19. Construction sector showed low improvement by 2.7 percent only, whereas, others sector depicted negative increment of 1.6 percent in FY20.

8.26 Sector-wise contributions of total advances show that the trade and commerce sector played the leading role (33.7 percent)

followed by working capital financing (21.3 percent), advances for industry (20.6 percent), others sector (9.5 percent), construction (9.0 percent), agriculture, fishing and forestry (4.6 percent) and transport (1.3 percent) in FY20. Sector-wise contributions of total advances are shown in Chart 8.3.

Industrial Term Loans of Banks and Financial Institutions

8.27 Disbursement of industrial term loans by banks and financial institutions decreased by 8.2 percent to BDT 742.6 billion in FY20. The recoveries also decreased by 8.9 percent to BDT 697.2 billion in FY20. The outstanding balance showed a positive growth of 13.7 percent and stood at BDT 2773.5 billion as of end June 2020. However, the overdue increased by 1.3 percent in FY20 and as percentage of outstanding loans decreased to 15.5 as of end June 2020 (Table 8.11).

8.28 Private commercial banks (PCBs) had the major shares (65.3 percent) in the total outstanding loans amounting to BDT 2773.5 billion as of end June 2020, making them major players in industrial term lending (Table 8.11 and Chart 8.4). Though six SCBs and two specialised banks together had 20.8 percent shares of outstanding loans, with very high levels of overdue loans, their actual role in current lending was quite minor, as they disbursed only BDT 77.8 billion (10.5 percent) out of total disbursed loans amounting to BDT 742.6 billion in FY20. In case of disbursement, PCBs had the major amount (BDT 579.6 billion) in FY20, followed by SCBs (BDT 75.2 billion), financial institutions (BDT 43.3 billion), foreign banks (BDT 41.9 billion) and specialised banks (BDT 2.6 billion).

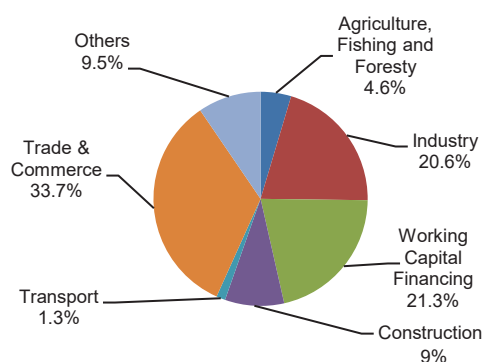
Table 8.10 Advances of Scheduled Banks by Economic Purposes (billion BDT)

Sector	End June		
	FY19	FY20 ^P	% change
Agriculture, Fishing and Forestry	457.9	483.6	5.6
Industry	1913.6	2159.6	12.8
Working Capital Financing	1963.0	2228.7	13.5
Construction	912.1	936.7	2.7
Transport	76.0	141.6	86.3
Trade & Commerce	3175.9	3537.4	11.4
Others	1016.0	999.4	-1.6
Grand Total	9514.5	10486.9	10.2

^P Provisional

Source: SD, BB.

Chart 8.3 Sector-wise Shares of Total Advances in FY20



Source: SD, BB.

8.29 The foreign banks had very low overdue loans (3.2 percent of outstanding) as of end June 2020. Overdue loans were also lower in private commercial banks (11.3 percent) and financial institutions (16.9 percent). Overdue loans of the SCBs and the specialised banks were very high (29.5 percent and 32.3 percent respectively) as of end June 2020. 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 II (IPFF II) Project

8.30 Bangladesh Bank, on behalf of the Finance Division of Ministry of Finance, has

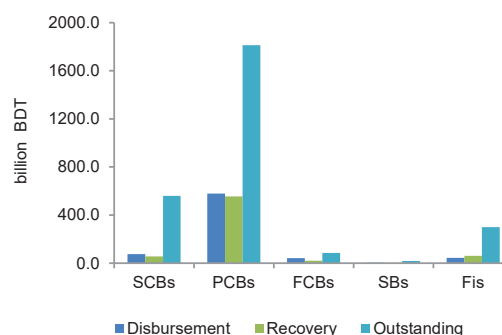
Table 8.11 Industrial Term Loans of Banks and Financial Institutions

(billion BDT)

Lender	Disbursement		Recovery		Outstanding		Overdue		Overdue as % of outstanding	
	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
SCBs	27.1	75.2	56.6	57.0	473.2	559.4	225.6	165.3	47.7	29.5
PCBs	615.4	579.6	606.9	554.7	1583.8	1812.3	160.0	204.3	10.1	11.3
Foreign banks	27.6	41.9	14.8	21.3	66.9	84.2	2.5	2.7	3.7	3.2
Specialised banks (BKB, RAKUB)	9.7	2.6	7.1	2.2	16.2	18.1	4.7	5.8	29.0	32.3
Financial institutions	128.7	43.3	80.3	62.0	298.2	299.5	30.4	50.6	10.2	16.9
Total	808.5	742.6	765.7	697.2	2438.3	2773.5	423.2	428.7	17.4	15.5

Source: SME&SPD, BB

been implementing Investment Promotion and Financial Facility II (IPFF II) Project (July, 2017-June, 2022), co-financed by Government of Bangladesh and the World Bank, with a view to promoting private sector led infrastructure development and enhancing capacities of participating Banks and NBFIs in response to fill up the continuous demand for long term financing in infrastructure sector. Under the on-lending component of the IPFF II project, long term infrastructure financing facility is being extended against infrastructure projects in eligible sectors like power generation, port development, water supply and sewerage, economic zones, Information and Communication Technology, health and education. 12 Banks and 5 NBFIs have been enlisted as Participating Financial Institution (PFI) up to June 2020. In on-lending component, USD 5.0 million and BDT 0.5 billion and BDT 2.8 billion have been disbursed to the sub-project Bangladesh Technosity Limited at Bangabandhu HiTech City in Kaliakair, Gazipur and Meghna Industrial Economic Zone Limited (MIEZL) in Narayanganj respectively. Technical Assistance (TA) Component is being utilized to provide IPFF II project's operating expenses and consultancy services of Public-Private

Chart 8.4 Industrial Term Loans of Banks and Financial Institutions in FY20

Source: SME&SPD, BB.

Partnership (PPP) Authority and Bangladesh Infrastructure Finance Fund Limited (BIFFL) for enhancing and building the capacity of the stakeholders.

Equity and Entrepreneurship Fund (EEF)/ Entrepreneurship Support Fund (ESF)

8.31 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 innovative agro-based/food processing and ICT industries. Later the honorable Finance Minister has approved a loan based policy with heading 'Entrepreneurship Support Fund (ESF)'

instead of equity model. The reformed policy is conducive to secure government money. On the other hand, entrepreneurs will get the loan at 2 percent simple interest rate with grace period of 4 years and relaxed condition. EOI (Expression of Interest) for the fund has been receiving since 12 August, 2018 under newly reformed policy in food processing & agro-based and ICT sectors. The number of EOI received up to June 30, 2020 against food processing & agro-based and ICT sector is 3443 and 19 respectively. As per the sub-agency agreement signed between Bangladesh Bank (BB) and Investment Corporation of Bangladesh (ICB) on June 1, 2009 regarding the transfer of operational activities of EEF and another sub-agency agreement related to ESF signed on the 20th May, 2019 between Bangladesh Bank and ICB, ICB is now performing the operational activities of EEF and ESF while EEF Unit of Bangladesh Bank is performing the activities relating to policy formulation, fund management and performance monitoring.

8.32 Up to 30 June 2020, a total of 2063 projects (including 1923 agro-based/food processing projects involving EEF support of BDT 34.6 billion and 140 ICT projects involving EEF support of BDT 2.2 billion) got EEF Sanction. Cumulative disbursement of EEF assistance stood at BDT 14.7 billion in 1027 food processing and agro-based projects and BDT 1.3 billion in 104 ICT projects at the end of June, 2020. So far, a total of 349 agro based companies and 66 ICT companies have bought back shares amounting to BDT 3.3 billion and BDT 0.3 billion respectively. Employment opportunity has been created for 55,000 people in the EEF assisted projects. Rural infrastructures have also been developed as a

result of implementation of the EEF agro-based projects. World class software developed by EEF assisted ICT projects are being used in the domestic market and these are also being exported.

Housing Finance

8.33 Total outstanding of housing loans from banks and financial institutions as of end June 2020 amounted to BDT 930.3 billion (Table 8.12), which was 8.5 percent of total credit to the private sector. In recent years, major changes have taken place in total housing loan portfolios. Private banks with ample deposit resources have expanded their housing loan activities. These banks had the dominant position (Table 8.12) with the largest amount of BDT 489.3 billion in outstanding housing loans as of end June 2020. The SCBs had the second highest amount of BDT 242.0 billion and other banks had BDT 40.6 billion in total outstanding of housing loans as of end June 2020. 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.

8.34 The state-owned House Building Finance Corporation (HBFC) had an amount of BDT 33.3 billion in outstanding housing loans as of end June 2020. 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 FY19 and FY20, BDT 4.3 billion and BDT 4.2 billion were disbursed out of recoveries of BDT 5.3 billion and BDT 4.6 billion respectively.

8.35 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 stretching from 3 to 10 years. Up to June 2020, the Grihayan Tahobil has been released BDT 3.5 billion through 616 NGOs for rural housing programme which have covered 404 upazilas of 64 districts of the country and 84050 houses have already been constructed. As of end of June 2020, Tahobil has recovered BDT 2.3 billion against the total recoverable amount of BDT 2.4 billion and the recovery rate is 96.8 percent.

8.36 Under Grihayan Tahobil Schemes of constructing dormitories/women hostels, a 12 storied women hostel has been constructed at Ashulia, Savar, Dhaka with the collaboration and supervision of the Department of Women Affairs at the cost of BDT 0.2 billion. Now, this dormitory is ready to provide residential facilities to 744 women workers. In addition, an agreement between Grihayan Tahobil and BEPZA has already been signed for the construction of a dormitory for female workers working in Mongla EPZ at the cost of BDT 0.2 billion.

8.37 Besides, Grihayan Tahobil has initiated for enhancing loan facilities to the member companies of BGMEA to build hostels/

Table 8.12 Outstanding Housing Loans

(billion BDT)

Lenders	Outstanding as of end June		
	FY18	FY19	FY20 ^P
a. Specialised housing finance providers	83.6	88.5	89.4
i. HBFC	31.0	32.5	33.3
ii. Delta-Brac Housing Finance	42.2	43.9	43.2
iii. National Housing Finance and Investment limited	10.4	12.1	12.9
b. Banks	675.7	735.7	771.9
i. PCBs	473.8	489.1	489.3
ii. SCBs	176.7	211.2	242.0
iii. Other banks (foreign and specialised)	25.2	35.4	40.6
c. Other financial institutions	60.9	68.5	68.0
d. Micro-credit lenders			
Grameen Bank	0.7	1.1	1.0
Total	820.9	893.8	930.3

^P Provisional.

Sources: DFIM and SD, BB; HBFC and Grameen Bank.

dormitories for the poor garments workers. Moreover, Grihayan Tahobil has sanctioned BDT 0.02 billion in favour of the project Ghore Fera Karmosuchi implementing by Bangladesh Krishi Bank and the first instalment of BDT 0.01 billion has already been released. Grihayan Tahobil has sanctioned BDT 0.3 billion for the construction of labor hostel/dormitories by the Department of Labor in the area of Kalur Ghat, Chattogram and Bander, Narayanganj. 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, Aila, etc.

IV. Foreign Exchange Market

8.38 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. Bangladesh Bank is empowered by

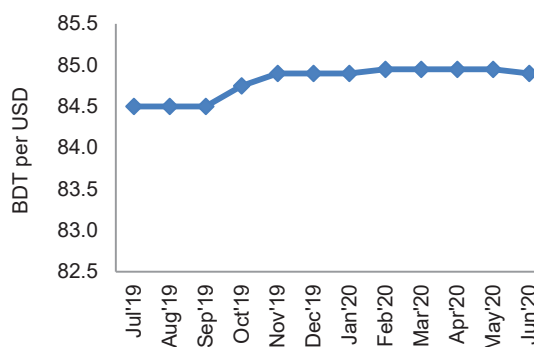
the Foreign Exchange Regulation Act of 1947 to regulate the foreign exchange regime. It, however, does not operate directly and instead, regularly watches activities in the market and intervenes, if necessary, through commercial banks. From time to time it issues guidelines for market participants in 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.

8.39 The inter-bank foreign exchange market is an important segment of the foreign exchange market. It is a wholesale market through which most currency transactions are channeled. 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.

Exchange Rate

8.40 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. Exchange rate stood at BDT 84.90 as of end June 2020 compared to BDT 84.50 as of end June 2019 (Chart 8.5). In FY20, exchange rate depreciated by 0.47 percent compared to 0.89 percent depreciation in FY19.

Chart 8.5 BDT-USD Exchange Rates (month end) in FY20



Source: MPD, BB

Foreign Exchange Reserves

8.41 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. BB's gross foreign reserves comprises major currencies (G-7), gold and Special Drawing Rights (SDR). 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. Foreign Exchange Reserves stood at USD 36.04 billion in FY20, which was USD 32.72 billion in FY19. The current Foreign Exchange Reserves is sufficient to pay import liability of 7.87 months.

8.42 Bangladesh Bank closely monitors the foreign exchange market to avoid undue volatility in the exchange rate. To facilitate the foreign exchange liquidity and ensure stability and smooth market activities, BB sold USD 0.84 billion and purchased USD 0.88 billion in local inter-bank market in FY20.