

CHAPTER 5

MONETARY MANAGEMENT AND FINANCIAL MARKET DEVELOPMENT

The monetary policy pursued during FY2016-17 aimed at limiting inflation within tolerable level and achieving desired economic growth through promoting investment. The monetary policy strategy for FY2016-17 was targeted to maintain an annual average inflation rate below 5.8 percent. To keep inflation within desired level the Monetary Policy Statement (MPS) for FY2016-17 set targets for broad money and reserve money growth at 15.5 percent and 14.0 percent respectively. However, at the end of June 2017 broad money and reserve money growth stood at 10.88 percent and 16.28 percent against 16.35 percent and 30.12 percent increase in FY2015-16 respectively. On the other hand, lending rate and deposit rate continued its falling trend and the intermediation spread slid down to 4.72 percent at the end of June 2017 from 4.85 percent at the end of the previous fiscal year. Besides, emphasising on financial inclusion a broad range of activities to bring a large number of financially excluded people under the umbrella of conventional financial services have been undertaken by the Government. Both the price index and market capitalisation of Dhaka Stock Exchange and Chittagong Stock Exchange stirred in upward direction in FY2016-17. For ensuring stable and smooth operation of the capital market and restoring the confidence of general investors several restructuring activities were carried out during this period.

Monetary Policy and Monetary Management

The monetary policy stances for the first and second half of FY2016-17 aimed at keeping inflation at a tolerable level and achieving desired economic growth and employment through adequate financing. The monetary policy stances for FY2016-17 were adopted with a view to achieving a GDP growth rate of 7.2 percent and maintaining an annual average inflation rate within 5.8 percent. In this pursuit, broad money and reserve money growth at the end of FY2016-17 were targeted at 15.5 percent and 14.0 percent respectively. During the concerned period broad money and reserve money grew by 10.88 percent and 16.28 percent against the

growth of 16.35 percent and 30.12 percent respectively in the preceding fiscal year. Growth in broad money declined mainly due to the slow growth in Net Foreign Assets (NFA) and substantial decrease in public sector credit. On the backdrop of robust import growth, slow export growth and shrinking remittances inflow the growth in NFA decreased to 14.40 percent from the previous year's growth of 23.20 percent.

Owing to the surge in the Government's earnings emanated from increased revenue income and high receipts from the net sale of national saving certificates the Government's borrowing from the banking system substantially declined in FY2016-17 resulting in slow growth of both domestic credit and

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net domestic assets of the banking system. On the other hand, credit to the private sector registered a growth of 15.66 percent as compared to the growth of 16.78 percent in the previous year. Private sector credit was slightly below the projected growth of 16.5 percent in FY2016-17. In the face of satisfactory domestic production, stable commodity prices in the international markets and prudent monetary policy year-on-year inflation slipped down to 5.44 percent at the end of FY2016-17, remained well below the targeted level of 5.8 percent.

Balancing the upside potentials and the risks the policy stances- repo and reverse repo rates were kept unchanged at 6.75 percent and 4.75 percent respectively in FY2016-17. Lower inflation rate, excess liquidity and healthier

competition in the banking system exerted a downward pressure on the interest rate of both deposit and lending during the period.

Money and Credit Situation

Trends in Monetary Aggregates

During FY2016-17, year-on-year growth of narrow money (M1) and reserve money (RM) decreased sharply while that of broad money (M2) declined moderately as compared to the preceding fiscal year. Though the credit to the Government sector declined during the reporting period, owing to the moderate increase in the private sector credit broad money increased but with a slower pace than the year before. Table 5.1 shows the trends in monetary aggregates from FY2010-11 to FY2016-17.

Table 5.1: Trends in Monetary Aggregates
(Year-on-year Growth)

Indicator	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Narrow Money (M1)	17.18	6.42	12.65	14.60	13.53	32.10	13.01
Broad money (M2)	21.34	17.39	16.71	16.09	12.42	16.35	10.88
Reserve Money (RM)	21.03	8.99	15.02	15.46	14.33	30.12	16.28

Source: Bangladesh Bank

Narrow Money (M1)

Narrow money increased by 13.01 percent during FY2016-17 as compared to an expansion of 32.10 percent in FY2015-16. This substantive decline in the year-on-year growth of M1 was mainly attributable to the significant decrease in the growth of both currency notes and coins with the public as well as demand deposit. During this period, currency notes and coins with the public increased by 12.66 percent compared to an

increase of 38.81 percent a year earlier. Similarly, demand deposit increased by 13.49 percent during FY2016-17 against an increase of 23.99 percent in the preceding fiscal year.

Broad Money (M2)

The broad money (M2) increased by 10.88 percent during FY2016-17, moderately lower than 16.35 percent growth of previous year. Broad money increased to Tk.10,16,076.10 crore at the end of June 2017 from Tk.9,16,377.90 crore at the end of the same

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month of 2016. Broad money comprises of narrow money and time deposit. Slow growth of both narrow money and time deposit was responsible for the slower growth of broad money compared to the previous year.

The money and credit situation of the country along with comparative statistics of the composition of broad money over time is

represented in Table 5.2, Figure 5.1 and Figure 5.2.

Figure 5.2 shows that the share of time deposits in broad money (M2) decreased slightly at the end of FY2016-17 compared to the previous fiscal year while currency outside banks' and demand deposit's shares increased marginally from that of the previous year.

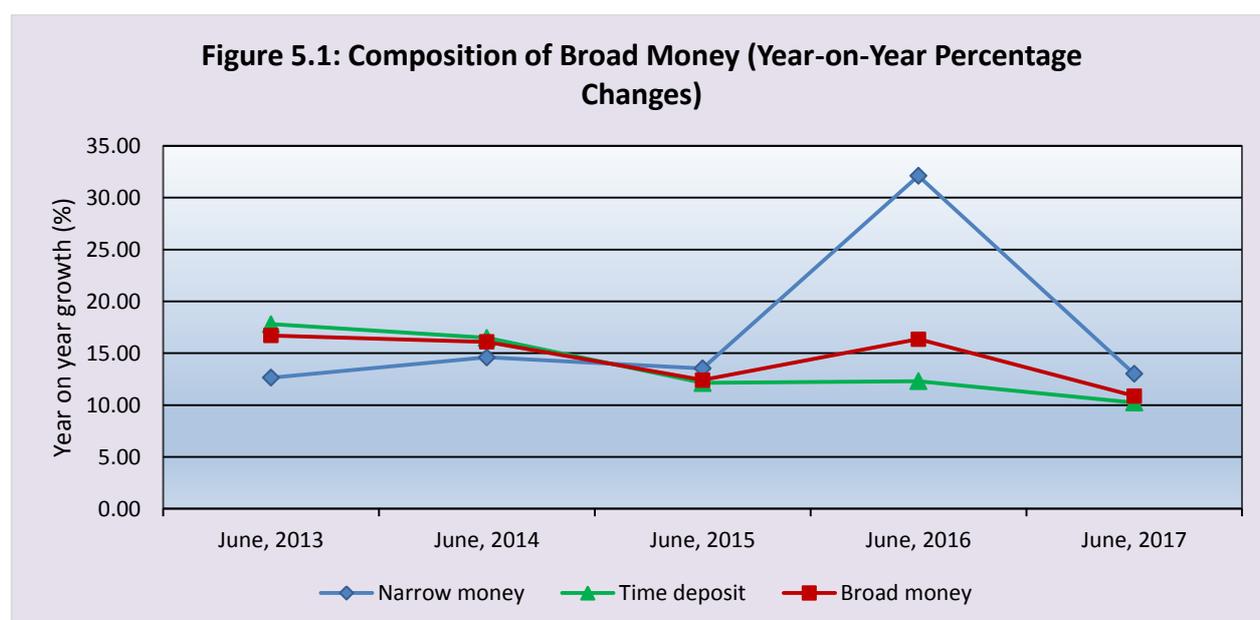


Table 5.2: Money and Credit

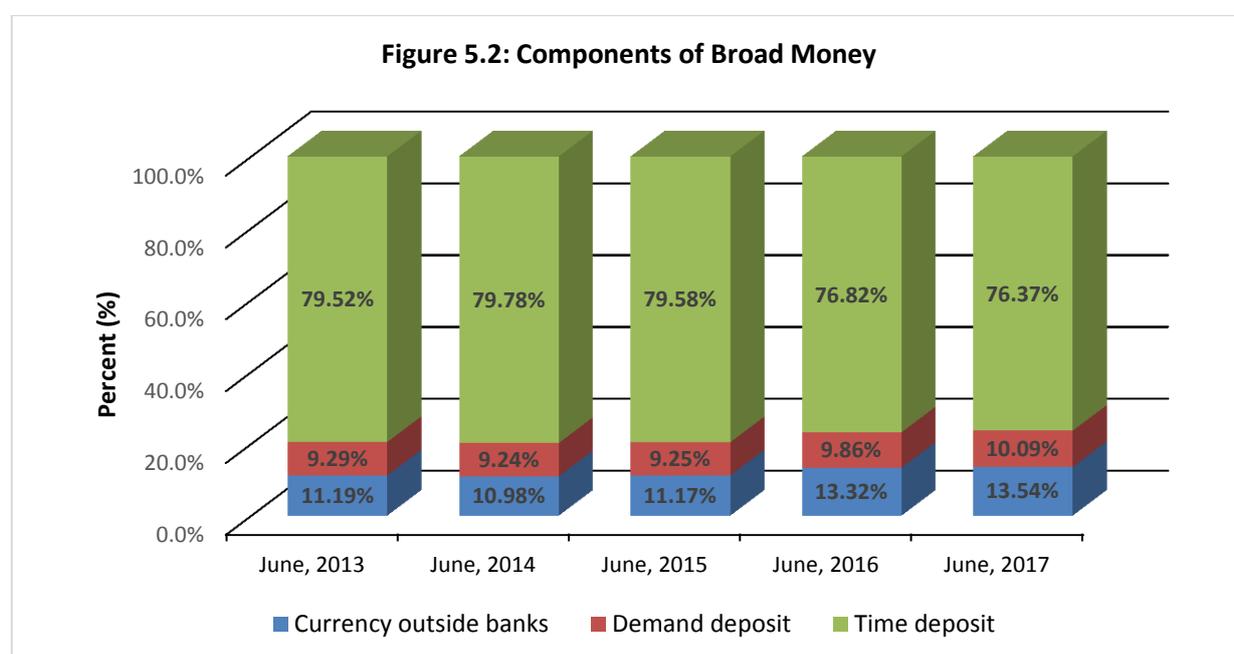
Indicators	June 2013	June 2014	June 2015	June 2016	June 2017
End period stock (In crore Taka)					
1. Net foreign assets of the banking system	113384.8	160056.6	189228.8	233135.6	266697.0
2. Net domestic assets of the banking system	490120.6	540566.9	598385.3	683242.3	749379.1
a. Domestic credit	571737.1	637906.2	701526.5	801280.0	890670.7
a.1. Government sector (net) ¹	110124.6	117529.4	110257.3	114219.6	97334.0
a.2. Public sector (other) ¹	9455.3	12736.9	16669.8	16051.1	17280.2
a.3. Private sector ¹	452157.2	507639.9	574599.4	671009.3	776056.5
b. Other assets (net)	-81616.5	-97339.3	-103141.2	-118037.70	-141291.6

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Indicators	June 2013	June 2014	June 2015	June 2016	June 2017
End period stock (In crore Taka)					
3. Narrow money	123603.1	141645.1	160814.2	212430.7	240078.5
a. Currency notes and coins with the public	67552.9	76908.4	87940.8	122074.5	137531.8
b. Demand deposit ²	56050.2	64736.7	72873.4	90356.2	102546.7
4. Time deposit	479902.3	558978.4	626799.9	703947.2	775997.6
5. Broad money [(1)+(2)] or [(3)+(4)]	603505.4	700623.5	787614.1	916377.9	1016076.1
Year-on-year percentage change (%)					
1. Net foreign assets of the banking system	43.86	41.16	18.23	23.20	14.40
2. Net domestic assets of the banking system	11.83	10.29	10.70	14.18	9.68
a. Domestic credit	11.02	11.57	9.97	14.22	11.16
a.1. Government sector (net)	20.05	6.72	-6.19	3.59	-14.78
a.2. Public sector (other)	-38.37	34.71	30.88	-3.71	7.66
a.3. Private sector	10.85	12.27	13.19	16.78	15.66
b. Other assets (net)	6.44	19.26	5.96	14.44	19.70
3. Narrow money	12.65	14.60	13.53	32.10	13.01
a. Currency notes and coins with the public	15.64	13.85	14.34	38.81	12.66
b. Demand deposit	9.25	15.50	12.57	23.99	13.49
4. Time deposit	17.80	16.48	12.13	12.31	10.24
5. Broad money	16.71	16.09	12.42	16.35	10.88

Source: Bangladesh Bank

Note: ¹ including accrued interest, ² including deposits of other financial institutions and government agencies



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Domestic Credit

Year-on-year growth in domestic credit was 11.16 percent in FY2016-17 which was 14.22 percent in the preceding year. Domestic credit growth was slower because of the repayment of outstanding loans instead of borrowing from the banking system by the Government owing to high revenue receipts from the net sale of national saving certificates in FY2016-17. Net credit to the Government fell by 14.78 percent at the end of June 2017 compared to 3.59 percent rise at the end of June 2016. Private sector credit growth was 15.66 percent in FY2016-17, slightly lower than the year-on-year growth of 16.78 percent in the earlier year. In FY2016-17, the credit

to the Government sector (excluding other public sector) was 10.93 percent and private sector credit was 87.13 percent of the total domestic credit respectively.

Reserve Money

In FY2015-16 reserve money recorded a sharp growth of 30.12 percent. But in FY2016-17 reserve money encountered a moderate growth of 16.28 percent and increased to Tk.2,24,659.4 crore at the end of June 2017 from Tk.1,93,201.3 crore at the end of June 2016. Table 5.3 shows the composition of reserve money and Table 5.4 demonstrates the sources of reserve money and its changes over time.

Table 5.3: Reserve Money and Its Components

Particular	June 2013	June 2014	June 2015	June 2016	June 2017
Period end stock (in crore Taka)					
1. Currency issued	75372.3	85485.2	98153.9	132305.2	151265.2
2. Balances of scheduled banks with BB	36803.4	43997.7	49838.9	60299.0	72732.7
3. Reserves of other financial institutions with the BB	313.7	392.4	489.2	597.1	661.5
4. Reserve Money [(1)+(2)+(3)]	112489.4	129875.3	148482.0	193201.3	224659.4
Year-on-year percentage change (%)					
1. Currency issued	16.14	13.42	14.82	34.79	14.33
2. Balances of scheduled banks with BB	12.68	19.55	13.28	20.99	20.62
3. Reserves of other financial institutions with BB	28.62	25.09	24.67	22.06	10.79
4. Reserve Money	15.02	15.46	14.33	30.12	16.28

Source: Bangladesh Bank

Table 5.4: Reserve Money and Its Sources

Particular	June 2013	June 2014	June 2015	June 2016	June 2017
Period end stock (In crore Taka)					
1. Net foreign assets of BB	103246.0	147496.6	177401.3	218904.1	251326.9
2. Net domestic assets of BB	9243.4	-17621.3	-28918.8	-25702.8	-26667.5
a. Domestic credit	42822.7	15595.2	13276.1	26380.7	25171.7
a.1. Claims on Government sector (net)	27069.0	3840.6	810.5	13373.7	12978.2

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Particular	June 2013	June 2014	June 2015	June 2016	June 2017
a.2. Claims on other public sector	1354.5	1202.7	2160.8	2015.5	2157.80
a.3. BB's claims on DMBs	10219.0	6279.2	5659.2	6024.5	5056.9
a.4. BB's claims on NBDCs	4180.2	4272.7	4645.6	4967.0	4978.8
b. Other assets (net)	-33579.3	-33216.5	-42194.9	-52083.5	-51839.2
3. Reserve Money [(1)+(2)]	112489.4	129875.3	148482.5	193201.3	224659.40
Year-on-year percentage change (%)					
1. Net foreign assets of BB	49.78	42.86	20.27	23.39	14.81
2. Net domestic assets of BB	-67.99	-290.64	64.11	-11.12	3.75
a. Domestic credit	-34.38	-63.58	-14.87	98.71	-4.58
a.1. Claims on Government sector (net)	-28.49	-85.81	-78.90	1550.06	-2.96
a.2. Claims on other public sector	14.60	-11.21	79.66	-6.72	7.06
a.3. BB's claims on DMBs	-54.84	-38.55	-9.87	6.45	-16.06
a.4. BB's claims on NBDCs	16.16	2.21	8.73	6.92	0.24
b. Other assets (net)	-7.72	-1.08	27.03	23.44	-0.47
3. Reserve Money	15.02	15.46	14.33	30.12	16.28

Source: Bangladesh Bank

From Table 5.4 it is evident that at the end of FY2016-17 net foreign assets of BB increased by 14.81 percent which was 23.39 percent in FY2015-16. Claims on government sector (net) declined by Tk.395.5 crore in FY2016-17 whereas in the previous fiscal year the claim of BB on government sector (net) uplifted by Tk.12563.2 crore. During FY2016-17 Bangladesh Bank's claim on Deposit Money Banks (DMBs) declined by 16.06 percent against an increase of 6.45 percent a year earlier. On the other hand, claims on other public sector increased by 7.06 percent whereas in the previous fiscal year it fell by 6.72 percent.

Money Multiplier

Due to the higher growth of reserve money compared to the broad money, money

multiplier decreased to 4.52 in FY2016-17 from 4.74 in FY2015-16. Of the two behavioural ratios of money multiplier reserve-deposit ratio slightly increased to 0.103 from 0.092 and currency-deposit ratio increased to 0.157 from 0.154 in FY2016-17.

Income Velocity of Money

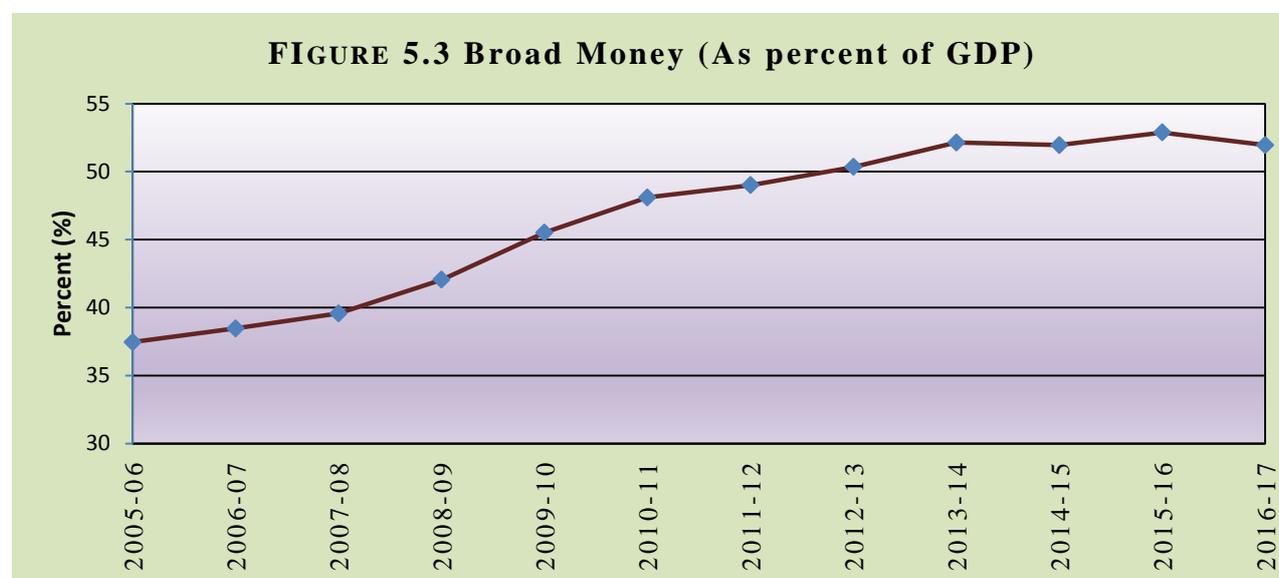
Income velocity of money is showing a declining trend over the last couple of years except slight rise in FY2016-17. The declining trend of income velocity of money in the previous years was an indication of monetisation of the economy of Bangladesh.

Table 5.5 shows the trends of income velocity of money and the broad money as percent of GDP from FY2010-11 to FY2016-17. Figure 5.3 illustrates the trends of broad money as percent of GDP from FY2005-06 to FY2016-17.

Table 5.5: Income Velocity of Money

Fiscal Year	GDP (In billion taka)	Broad Money (In billion taka)	Broad Money (As percent of GDP)	Income Velocity of Money (GDP/M2)
2010-11	9158.30	4405.20	48.10	2.08
2011-12	10552.00	5171.09	49.01	2.04
2012-13	11989.20	6035.05	50.34	1.99
2013-14	13436.74	7006.23	52.14	1.92
2014-15	15158.02	7876.14	51.96	1.92
2015-16	17328.64	9163.77	52.88	1.89
2016-17	19758.2	10160.76	51.43	1.94

Source: Bangladesh Bank



Through gradual decline from 2.08 in FY2010-11 the income velocity of money declined to 1.89 in FY2015-16 but defying the previous trend it rose to 1.94 at the end of June 2017. Slower growth in broad money compared to the GDP at current market price mainly contributed to such rise of income velocity of money in FY2016-17.

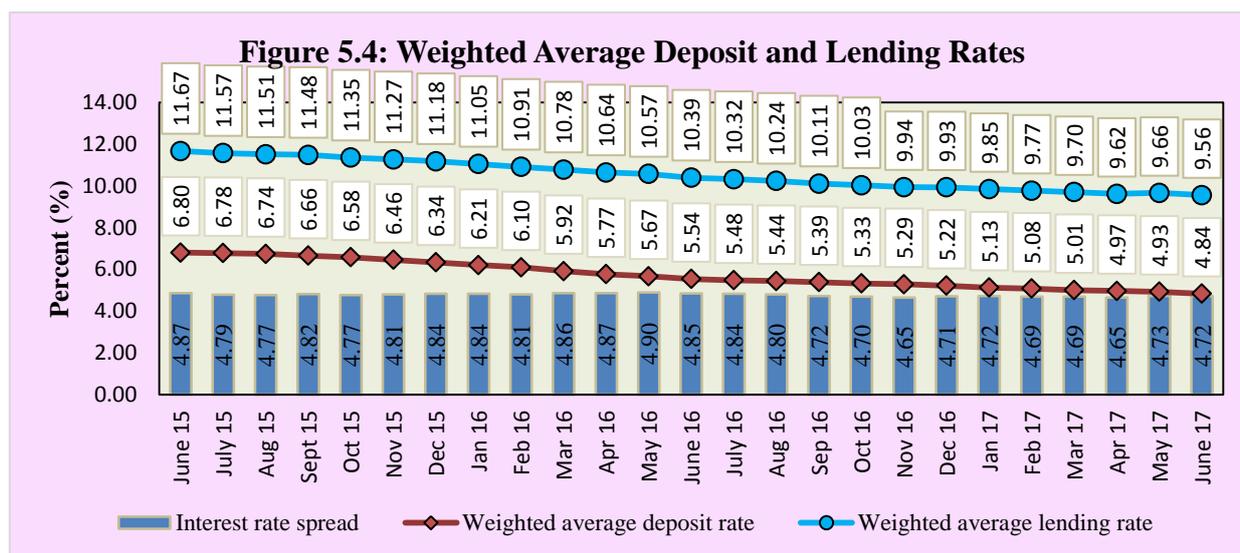
Rationalising the Rate of Interest

Bangladesh Bank is continuing its efforts to rationalise the rate of interest by creating competitive environment among the banks. Banks are advised to limit the difference between lending and deposit rates or intermediation spread within lower single digit except the high risk consumer credit (including credit card) and SME loans. In recent years lending rate and deposit rate

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have shown a gradual decline. The weighted average lending rate of commercial banks decreased to 10.39 percent at the end of June 2016 from 11.67 percent of at the end of June 2015. It further decreased to 9.56 percent at the end of June 2017. Similarly, the weighted average deposit rate was 6.80 percent at the end of June 2015, which reduced to 5.54 percent at the end of June

2016 and it further reduced to 4.84 percent at the end of June 2017. The interest rate spread decreased slightly to 4.72 percent at the end of FY2016-17 from 4.85 percent at the end of preceding fiscal year. Figure 5.4 shows the trend of weighted average lending and deposit interest rates from June 2015 to June 2017.



Financial Market Management

Financial market in Bangladesh basically consists of banks, non-bank financial institutions and stock market which include State Owned Commercial Banks (SOCBs), State Owned Specialised Banks (SBs), Private Commercial Banks (PCBs), Foreign Commercial Banks (FCBs), Non-Bank Financial Institutions (NBFIs), Investment Corporation of Bangladesh (ICB), House Building Finance Corporation (HBFC) and Bangladesh Securities and Exchange Commission (BSEC).

Banking Sector

As on June 2017, as many as 57 scheduled banks are operating in Bangladesh of which 6 are state owned commercial banks, 2 are specialised banks, 40 are local private commercial banks and 9 are foreign commercial banks. Apart from these, 6 non-scheduled banks such as Bangladesh *Palli Shanchay* Bank, *Ansar VDP Unnayan* Bank, *Karmasangsthan* Bank, *Grameen* Bank, *Jubilee* Bank Ltd. and *Probashi Kalayan* Bank are operating in the banking sector of Bangladesh. The structure of banking system and share of total deposits and assets

according to the type of banks are presented in Table 5.6.

**Table 5.6: Structure of the Banking System in Bangladesh
(End June 2017)**

Type of Banks	No. of Banks	No of Branches			Percent of Total Asset	Percent of Total Deposit
		Urban (%)	Rural (%)	Total (%)		
SOCBs	6	1372 (36.95%)	2341 (63.05%)	3713 (100%)	27.0	27.71
SBs	2	110 (7.82%)	1297 (92.18%)	1407 (100%)	2.53	2.77
PCBs	40	2666 (58.87%)	1863 (41.13%)	4529 (100%)	65.76	65.29
FCBs	9	71 (100.00%)	0 (0.00)	71 (100%)	4.71	4.23
Total	57	4219 (43.41%)	5501 (56.59%)	9720 (100.00%)	100.00	100.00

Source: Bangladesh Bank

Table 5.6 shows that as on June 2017, 57 scheduled banks with 9,720 branches are performing their banking business in Bangladesh of which the numbers of urban and rural branches are 4,219 and 5,501 respectively. Around 65.76 percent of total assets and 65.29 percent of total deposits are being handled by PCBs. On the other hand, SOCBs covers 27.00 percent of total assets and 27.71 percent of total deposits.

Non-bank Financial Institutions (NBFIs)

Non-bank financial institutions are playing vital roles in providing finances to the industrial, commercial, housing, transportation and information technology sectors of the country. At present 34 licensed non-bank financial institutions are functioning in the country with a wide network of 246 branches spreading over various regions of the country. As on 30 June 2017 total paid up capital and reserve of these financial institutions stood at Tk.10,962.69 crore of which paid up capital was Tk.7,419.82 crore and total deposit was Tk.41,885.08 crore. At the end of the same

period, total outstanding loan/lease of the same stood at Tk.57,986.50 crore. Besides, investing in industry, trade and housing sectors NBFIs also invest in capital market. At the end of June 2017 total investment of NBFIs in capital market amounted to Tk.1,989.83 crore.

To ensure transparency and control risks various measures are being undertaken for the improvement of NBFIs. To standardise the products and services and enhance their managerial efficiency a ‘Guidelines on Products and Services of Financial Institutions in Bangladesh’ has been issued. In addition, a ‘Guidelines on the Base Rate system for Non-Bank Financial Institutions’ has been issued to establish transparency in service price determination and ensure healthy competition among them. In the light of this guideline the Cost of Fund Index of financial institutions has been uploaded in the website of Bangladesh Bank (BB), which is being updated on monthly basis. Besides, to give proper direction and adopt appropriate measures for improving the condition of weak and distressed financial

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institutions ‘Guidelines on Early Warning System for Weak and Problem Financial Institutions’ has been formulated. Moreover, ‘Diagnostic Review Report (DRR)’ is being prepared on the basis of the annual audited statements for the prudent monitoring of their activities and risks inherent in financial process. To reduce the dependency on call money recently a circular obligating the NBFIs to borrow from call money market on the basis of ‘Equity’ rather than prevailing ‘Net Assets’ has been issued by BB. Further, to develop and broaden money market and widen the options for investments ‘Guidelines on Commercial Paper for financial institutions’ has been issued where the role and qualification of Financial Institutions required to be involved in commercial paper issues as investor, issuer, guarantor and issuing and paying agent are clearly specified.

Financial Inclusion

Bangladesh Bank (BB) has taken various dynamic initiatives to bring a large number of financially excluded people under the umbrella of conventional financial services. These initiatives include-

- BB has extended formal banking services to the less privileged people of both urban and rural areas. BB has identified the target group of people and advised the banks for opening no-frill accounts (widely known as Taka 10 Accounts) for them. Under these initiatives, BB has advised all scheduled banks to open taka 10 bank accounts for the inhabitants of the 111 former enclaves that were included in the map

of Bangladesh in 2016. The number of accounts under this scheme reached approximately 1.68 crore in March 2017.

- Under the refinance scheme of Tk.200 crore of Bangladesh Bank credit facilities have been extended to the small/marginal/landless farmers, low income professionals who are the victims of natural disasters and marginal businessmen. Currently 39 banks are providing loan facilities under this scheme. Up to June 2017 approximately Tk.53.82 crore loan has been disbursed to the targeted people through this arrangement.
- To provide affordable banking services to the unprivileged, underserved and poor segment of the population especially people from the geographically remote locations, agent banking services as an alternative delivery channel was introduced in June 2014. Till June 2017, 17 banks have been permitted to provide agent banking services, of which 13 have already started their operation. The numbers of agents and their outlets have been increased to 1,847 and 3,224 respectively at the end of June 2017 from 1,646 and 2,601 in December 2016. During this period, the number of accounts increased by 60.30 percent to 872.87 thousand.

School Banking

As a part of broadening and deepening of financial inclusion, also for encouraging school students for savings and orientating them to banking literary and modern banking

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technology, school banking activities were initiated in 2010. Any school student under age of 18 can open school banking account through parents or legal guardian by depositing a minimum amount of Tk.100. Up to March 2017, the number of school banking accounts reached 1.37 million with an outstanding balance of Tk.11.00 billion.

Banking, Monetary and Credit Policy Reforms

Some reform initiatives relating to banking, monetary and credit policy taken during FY2016-17 are briefly described below:

Reforms in Bangladesh Bank

To improve financial market infrastructures, regulatory and supervisory capacity of the central bank and extend long term financing to the manufacturing sector of the country the ‘Financial Sector Support Project (FSSP)’ is being implemented with the assistance of International Development Association (IDA) for ensuring stability and greater resilience of the financial sector. The total approved cost of the project is Tk.2,751 crore (US\$350 million), of which IDA will provide Tk.2,358 crore (US\$300 million) and Bangladesh Bank will provide Tk.393 crore (US\$50 million). The project will be implemented through three major components during 1 July 2015 to 31 March 2021. The components are as follows:

1. Strengthening Financial Market Infrastructure

This component aims to further improve financial IT infrastructure of the country with a particular focus on: (a) uplifting the existing electronic payments system to international standards through developing

payment and settlement system; (b) expanding and modernising Credit Information Bureau (CIB) through the inclusion of credit information of the microfinance sector and the enhancement of reliability of credit reporting system; (c) ensuring safety and integrity of the financial systems by strengthening the structure of Bangladesh Financial Intelligence Unit (BFIU) and interlinking it with other related financial organisations (d) strengthening the IT Governance and IT management of BB to lay a robust and secured financial platform for sustainable and advanced financial markets.

2. Strengthening Regulatory and Supervisory Capacity

Under this project several initiatives will be undertaken for the proper implementation of Basel III within the defined time frame and harmonising financial market regulations with the international standards. The project will provide technical assistance towards the development and adoption of the comprehensive risk-based integrated approach to banking regulation and supervision. Currently, rules based approach is in place to regulate and supervise the banking system. But the risk based approach will evolve the supervisory process towards one which will be more anticipatory. This component will help BB to migrate to a risk-based approach of supervision to ensure a safe and sound banking system.

3. Supporting Long Term Finance to Productive Sector

In order to uphold growth through up-gradation of technology and production lines

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and improved compliance with the international standards on social and environmental practices, a demand for long term financing in the productive sector exists in the country. Therefore, the prime aspect of this project is to provide long term funds, especially in foreign currency, which will be channeled through BB to the Participating Financial Institutions (PFIs) based on some pre-defined criteria of lending. The fund will be available, on demand, to the manufacturing enterprises for setting up new ventures, expansion and/or modernisation of existing one, procuring capital machineries and equipment and catering other essentials. Required technical assistance will also be extended to the PFIs and the borrowers. Already PFI agreements have been signed with 31 commercial banks and a total of US\$192.83 million loan has been sanctioned, of which US\$100.09 million has been disbursed till June 2017.

Legal Reforms

To expedite the settlement of disputes related to loan recovery of banks and financial institutions, banks are already advised to speed up the recovery of the defaulted loan and to resolve the legal cases quickly through Alternative Dispute Resolution (ADR) in accordance with the *Artha Rin Adalat Ain*, 2003 (as amended in 2010). In this context banks are provided necessary consultations/instructions from time to time. In the light of the section 38, 39, 39(*ka*), 39(*Kha*) and 40 of the Bank Company Act, 1991 (as amended in 2013) a ‘Guidelines on External Audit of Banks’ has been prepared

jointly by Bangladesh Bank and the Ministry of Finance.

Reforms in State Owned Commercial Banks

State owned commercial banks (except BDBL) are being monitored under Memorandum of Understanding (MoU) as it was done in the previous years. In order to improve the quality of credit management and strengthen the internal control system of the four state-owned commercial banks (*Sonali Bank Ltd.*, *Janata Bank Ltd.*, *Agrani Bank Ltd.* and *Rupali Bank Ltd.*) necessary instructions are being provided by Bangladesh Bank for ensuring proper implementation of the ‘Internal Control and Compliance’ of the respective banks. The implementation status of the same is also being monitored continually. On the other hand, monitoring of two specialised banks (*Bangladesh Krishi Bank* and *Rajshahi Krishi Unnyan Bank*) is also being carried out under MoU for FY2016-17.

Money and Financial Market Reforms

With a goal of developing a banking system of international standard through competitive management and stabilising and strengthening the financial base of the overall banking system, a number of initiatives including restructuring of money and financial market have been taken by Bangladesh Bank in FY2015-16. In continuation to that following measures have been undertaken in FY2016-17:

- Through the newly introduced liquidity indicators namely ‘Liquidity Coverage Ratio (LCR)’ and ‘Net Stable Funding

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Ratio (NSFR)', which have been introduced in light of Basel-III, the liquidity status of the banks is regularly being monitored.

- To make banking risk management system more resilient and updated, a new reporting format namely 'Comprehensive Risk Management Reporting (CRMR)' has been introduced, in light of which the risk management system of the banks is being monitored. Besides, in conformity with the changes in the banking system the 'Risk Management Guidelines for Banks' is being reviewed.
- As part of strengthening the internal audit system in Bangladesh regular monitoring of fraud/forgery in the light of Self-Assessment of Antifraud Internal Control is being carried out. Reviewing of it is at final stage.

Development of Payment System

To establish a modern payment system in Bangladesh some initiatives such as formalisation of the 'Strategy Paper for Bangladesh Bank' payment system, establishment and management of 'Bangladesh Automated Clearing House (BACH)', approval and appropriate monitoring of Mobile Financial Services, improvement of 'National Payment Switch' and initiatives to establish e-payment system, formalisation of the rules and regulatory infrastructure related to payment system, introduction of Electronic Fund Transfer (EFT) activities, measures to accelerate

remittance flow and implementation of Real Term Gross Settlement (RTGS) have already been undertaken.

To expand the usage of mobile technology as an Alternative Payment Channel in banking sector, 29 banks have been permitted to carry out mobile based financial services. Among them 19 banks have started delivering Mobile Financial Services following the guidelines of Bangladesh Bank. 17 banks are continuing their activities of inward remittance distribution, financial transaction through agent/bank branch/ATM/ mobile operator outlet, bill payment by individuals to commercial entity (such as utility bill payment), payment by commercial institutions (for example, to pay salary or wages in corporate/industrial mills/offices), payment to individuals by the Government (for instances, elderly allowances, allowances to freedom fighters), payment to the Government by individuals (such as, tax payment), person to person transfer (from one registered mobile account to other registered mobile account) and other transactions such as microfinance, overdrawn facilities, insurances premium, etc. Under the Mobile Financial Services, up to June 2017 total number of agents and registered clients reached 7,58,570 lakh and 537.03 lakh respectively, of which the approximate number of active accounts was 274 lakh. With an amount of Tk.30,008.53 crore a total of 18,19,32,951 transactions took place in June 2017 giving an average transaction of Tk.1,000.28 crore each day.

Box 5.1: Implementation of Basel III

The Bangladesh Bank issued a revised guidelines on capital adequacy titled "Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for Banks in line with Basel III)" in December 2014 and adopted a roadmap with an action plan to implement this guideline phase by phase over a time frame of January 2015 to January 2020 . As per the guideline scheduled banks in Bangladesh have to maintain minimum capital in relation to their risk profile, determine their strategies against their potential risks and preserve adequate liquidity to address any unexpected risk in future. The main objectives of this policy are to promote a more shock absorbent and more resilient banking sector and to prepare banks to deal with any economic or financial crisis arising in the banking sector in future. Under this policy banks have to maintain sufficient capital buffer against various risks. In addition to increase the quality of capital, Basel III increases the level of capital that banks must hold. As per the guideline of Bangladesh Bank, banks are expected to maintain a minimum total capital ratio of 10.00 percent, where Tier-1 capital should be at least 6.00 percent. Under Basel III, banks will have to build up additional capital conservation buffer of 0.625 percent in 2016 which will end up at 2.50 percent in 2019. In order to provide protection to banks during the crisis banks must compulsorily maintain their respective buffer. For example, if the Common Equity Tier-1(CET1) ratio of a bank is between 5.125 to 5.75, then the bank need to retain 80 percent of its income in the next financial year, which means that the bank will not be able to distribute more than 20 percent of its after tax income as bonus or dividends. Also, the new capital adequacy ratio under Basel-III should be preserved at the following rates:

1. Tier 1 capital will be at least 6.0 percent of the total Risk Weighted Asset (RWA). Hence, Tier 2 capital can be admitted maximum up to 4.0 percent of the total RWA or 88.89 percent of CET1, whichever is higher;
2. CET1 capital will be at least 4.5 percent of the total risk based assets. Maximum 5% of Deferred Tax Assets (DTA) created by specific provision to be maintained against classified loan will be treated as Common Equity Tier-1(CET-1) Capital while calculating CET-1 Capital of banks as per Basel-III guideline. But deferred tax assets that come from other sources should be adjusted with CET-1 Capital in the same way as before;
3. The entire general provision maintained against unclassified loans and advances as per regulations will be considered as capital under Tier-2.

Scheduled banks are preparing capital adequacy reports/statements in the light of Basel-III from 31 March 2015 from which it is evident that the Capital to Risk Weighted Asset Ratio (CRAR) in the banking sector declined slightly to 10.68 percent at the end of March 2017 from 10.84 percent in December 2015.

Prevention of Money Laundering and Financing of Terrorism

Major initiatives undertaken to prevent money laundering and terrorism financing are given below:

- In FY2015-16, Bangladesh has gone through the 3rd round Mutual Evaluation

(ME) process conducted by Asia Pacific Group on Money Laundering (APG). After the completion of 3rd round evaluation process the Mutual Evaluation Report (MER) on Bangladesh was approved on 7 August 2016 during the 19th annual meeting of the APG held in San Diego, California, USA. While

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recognising Bangladesh's activities in preventing money laundering, terrorism and terrorist financing as of international standards, the report identified Bangladesh as a compliant country and subsequently the APG and its 41 members acknowledged Bangladesh as one of the powerful countries in the Asia region. Bangladesh Financial Intelligence Unit (BFIU) played the role of chief coordinator in the said mutual evaluation process.

- In order to exchange information related to money laundering and terrorist financing Bangladesh Financial Intelligence Unit (BFIU) signed 51 Memorandum of Understandings (MoUs) with FIUs of other countries till June 2017. 8 of them were signed in FY2016-17 with Suriname, Canada, Cyprus, Portugal, Finland, Egypt, Poland and Iceland.
- For preventing money laundering and combating financing of terrorism all scheduled banks have been instructed by BFIU to have utmost awareness so that no person/entity could abuse the banking channel to assist the terrorists/terrorist organizations. Moreover, BFIU conducted several on-site inspections to examine the compliance status of the banks.
- Due to the changes in the legal framework and international standards, BFIU revised Uniform Account Opening Form for all scheduled banks which was circulated on 16 January 2017. The revised form includes a format for Know Your Customer (KYC), transaction profile, customer's risk grading and account opening information. Besides, BFIU has drafted Uniform Account Opening Form for all Insurance Companies which is going to be circulated within a short span of time.
- BFIU along with all stakeholders conducted ML & TF risk assessment on Mobile Financial Services of Bangladesh. Moreover, BFIU with the technical assistance of the World Bank conducted risk assessment on Financial Inclusion Product like School Banking, 10 Taka Farmer's Account and Account for Street Children.
- BFIU has continued its effort to create awareness among the officials of different reporting organisations. It has encouraged the banks to conduct a number of training programmes for their officials on Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) in 56 districts and extended its support to make the programme successful.
- For prevention of money laundering (ML), combating terrorist financing (TF) and proliferation financing (PF), BFIU, as the central agency of the country in this regard, has been maintaining continued engagement with all the international bodies such as APG, Egmont Group, FATF and BIMSTEC to boost international efforts in this arena. Bangladesh actively participated in various international initiatives undertaken by these organizations and other foreign FIUs in FY2016-17. Furthermore, being the main coordinating

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agency for the prevention of ML, TF and PF, BFIU actively participated in a number of local conferences/ meetings/ workshops arranged by other government agencies.

Capital Market

Development and Reform Activities of the Capital Market

Bangladesh Securities and Exchange Commission (BSEC) prepares drafts of capital market related acts, formulates rules and regulations, ensure proper implementation and compliance of those by issuers, stock exchanges, intermediary persons or institutions related with capital market. Some of the major reforms undertaken by BSEC in FY2016-17 are as follows:

Promulgation and Amendment of Necessary Laws and Rules

- Formulation of the Bangladesh Securities and Exchange Commission (Exchange Traded Fund) Rules, 2016;
- Formulation of the Bangladesh Securities and Exchange Commission (Qualified Investor Offer by Small Capital Companies) Rules, 2016;
- Formulation of the Bangladesh Securities and Exchange Commission (Development of Investors Education and Training) Rules, 2016;
- Amendment of the Depository (User) Regulations, 2003;
- Formulation of the Bangladesh Securities and Exchange Commission (Market Maker) Rules, 2017;
- Formulation of the Bangladesh

Securities and Exchange Commission (Clearing and Settlement) Rules, 2017;

- Amendment of the Bangladesh Securities and Exchange Commission (Public Issue) Rules, 2015.

Reforms for Maintaining Stability and Transparency of the Capital Market

To stabilise the capital market and levitate the confidence among investors it is extremely essential to increase supply of securities, raise institutional investors and ensure transparency and accountability among all parties associated with capital market. Bangladesh Securities and Exchange Commission (BSEC) has taken the following steps in this connection during FY2016-17:

- Issuing order regarding dissemination of price sensitive information, which was published in the Bangladesh Gazette on 15 February 2016;
- Issuing a gazette notification on 24 November 2016 exempting the Public Private Partnership (PPP) companies from the obligations of taking approval of the Commission as well as becoming public limited company and being enlisted in stock exchanges for capital raising.
- Started activity for establishment of a separate clearing and settlement company for settlement of transactions in stock exchanges and small cap platform in the stock exchanges to facilitate capital raising and transaction of shares of Small and Medium Enterprise (SME). In this respect, the Commission issued a notification in the Bangladesh Gazette on 27 October

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2016 regarding the Bangladesh Securities and Exchange Commission (Qualified Investor Offer by Small Capital Companies) Rules, 2016.

- Disbursing a total of Tk.642.09 crore from the fund particularly created under special incentive scheme to support the affected small traders in stock markets and recovering Tk.511.79 crore as on 30 June 2017.
- Participating in various campaign including TVC, brochure, booklet and website as a part of financial literacy initiative and establishing the Financial Literacy Department at BSEC for its full implementation. By this time, financial literacy activities in divisional towns have been started, with the first one being held in Khulna on 07 April 2017.
- Under instruction of the Commission, Central Depository Bangladesh Limited (CDBL) has introduced sending of SMS alert to BO account holder at free of cost for any debit/credit transaction in it.

Market Situation

Dhaka Stock Exchange (DSE) Ltd

The number of listed securities (including mutual funds and debenture) of Dhaka Stock Exchange (DSE) increased from 559 at the end of FY2015-16 to 563 at the end of FY2016-17. At the end of June 2017, total issued capital of all listed securities stood at Tk.1,16,551.08 crore, up by 3.38 percent from Tk.1,12,741.00 crore at the end of previous fiscal year. Total market capitalisation of all listed securities was Tk.3,18,574.93 crore in June 2016 which increased to Tk.3,80,100.10 crore in June 2017 representing an increase of 19.31 percent.

The DSE Broad Index (DSEEx) increased by 25.48 percent from 4507.58 points at the end of FY2015-16 to 5,656.05 points at the end of FY2016-17. DSE Broad Index (DSEEx), which was introduced on 28 January 2013 reached its highest value at 5,656.05 in 29 June 2017.

Table 5.7: Securities Trading Information of Dhaka Stock Exchange

End of Period	No. of Listed Securities (Including Mutual Funds & Debentures)	No. of IPOs	Issued Capital (Tk in crore)	Market Capitalisation (Tk in crore)	Securities Traded in Value (Tk in crore)	DSE General index*	DSE Board Index (DSEEx)**
2005-06	303	18	8572.26	21542.19	4600.82	1339.53	-
2006-07	325	10	16427.93	47585.54	16467.16	2149.32	-
2007-08	378	13	28437.97	93102.52	54328.6	3000.5	-
2008-09	443	17	45794.4	124133.9	89378.92	3010.26	-
2009-10	450	23	60726.29	270074.46	256349.86	6153.68	-
2010-11	490	19	80683.91	285389.22	325915.26	6117.23	-

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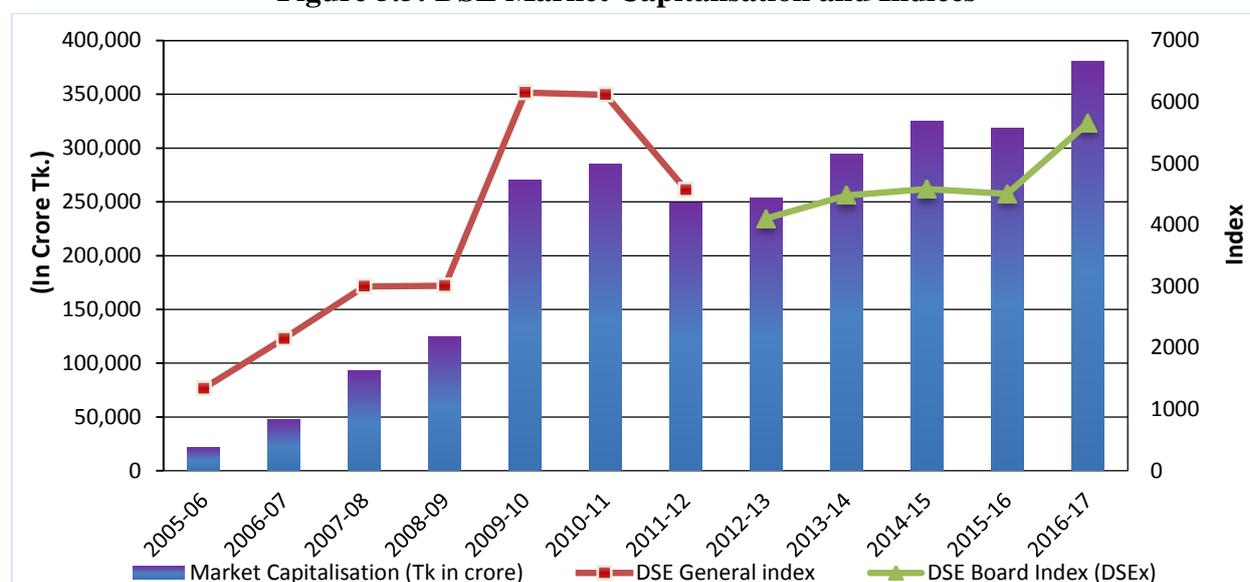
End of Period	No. of Listed Securities (Including Mutual Funds & Debentures)	No. of IPOs	Issued Capital (Tk in crore)	Market Capitalisation (Tk in crore)	Securities Traded in Value (Tk in crore)	DSE General index*	DSE Board Index (DSEx)**
2011-12	511	15	93362.96	249161.29	117145.14	4572.88	-
2012-13	525	15	98358.97	253024.6	85708.97	-	4104.65
2013-14	536	13	103207.64	294320.23	112539.84	-	4480.52
2014-15	555	16	109195.35	324730.63	112351.95	-	4583.11
2015-16	559	11	112741.00	318574.96	107246.07	-	4507.58
2016-17	563	9	116551.08	380100.10	180522.21	-	5656.05

Source: Dhaka Stock Exchange

Note: * Stop displaying DSE General Index (DGEN) in DSE website from 01 August 2013.

** DSE introduced new index benchmark DSE broad index (DSEx) on 28 January 2013 as per "DSE Bangladesh Index Methodology" designed and developed by S&P Dow Jones Indices.

Figure 5.5: DSE Market Capitalisation and Indices



Chittagong Stock Exchange (CSE) Limited

The number of listed securities (including mutual funds and bonds) of Chittagong Stock Exchange (CSE) increased from 298 in FY2015-16 to 303 in FY2016-17. The issued capital increased by 7.15 percent from Tk. 56,607.60 crore to Tk.60,657.21 crore during the same period. Market capitalisation of CSE at the end of FY2016-17 stood at

Tk.3,11,324.29 crore, up by 24.68 percent compared to the market capitalisation of Tk.2,49,684.89 crore at the end of FY2015-16. CSE All Share Price Index reached 15,580.37 points in June 2017, up by 14.37 percent from June 2016. Table 5.8 and Figure 5.6 show the trend of CSE market capitalisation, CSE general index and securities turnover.

Table 5.8: Securities Trading Information of Chittagong Stock Exchange

End of Period	No. of Listed Securities (with MF& Bonds)	IPO	Issued Capital (Tk in crore)	Market Capitalisation (Tk in crore)	Turnover Value (Tk in crore)	CSE All Share Price Index
2005-06	213	19	6375.02	19555.17	1143.91	2879.19
2006-07	219	10	8225.17	39926.82	3437.74	5194.76
2007-08	231	14	10314.08	77774.28	8016.21	9050.56
2008-09	246	18	14246.55	97494.82	12518.25	10477.67
2009-10	232	23	20677.39	224176.78	21711.23	18,116.05
2010-11	220	19	30155.33	225977.78	32168.23	17,059.53
2011-12	251	15	37527.49	187817.14	13485.49	13,736.42
2012-13	266	15	42338.09	191907.03	10198.52	12,738.23
2013-14	276	13	47083.97	229772.82	10218.27	13,766.23
2014-15	292	20	50130.63	257146.40	9648.00	14,097.17
2015-16	298	11	56607.60	249684.89	7747.16	13623.07
2016-17	303	09	60657.21	311324.29	11807.52	15580.37

Source: Chittagong Stock Exchange

