CHAPTER 5

MONETARY MANAGEMENT AND FINANCIAL MARKET DEVELOPMENT

Financial sector is one of the key sectors of the economy and it encompasses monetary policy, monetary management and financial market management. Ensuring effective monetary management and developing an efficient and reliable financial market are the prerequisites for achieving the goals of macroeconomic stability and economic growth.

Bangladesh economy been facing a range of challenges since FY2004-05 resulting from escalating price hike of petroleum and petroleum products including several other important commodities in international market and phasing out of MFA quotas,. To maintain macroeconomic stability against these odds, emphasis has been laid on enhancing economy's absorbtive capacity. By restraining the robust growth rate of private sector credit and to bring back balance of payment account at a sustainable level, accommodative monetary policy is being pursued since FY 2004-05. Various instruments like repo, reverse-repo, higher rate of treasury bills/bonds and higher rate of cash reserve requirement (CRR) and higher rate of statutory liquidity ratio (SLR) are used to fulfil the objectives of monetary policy.

Money and Credit Situation

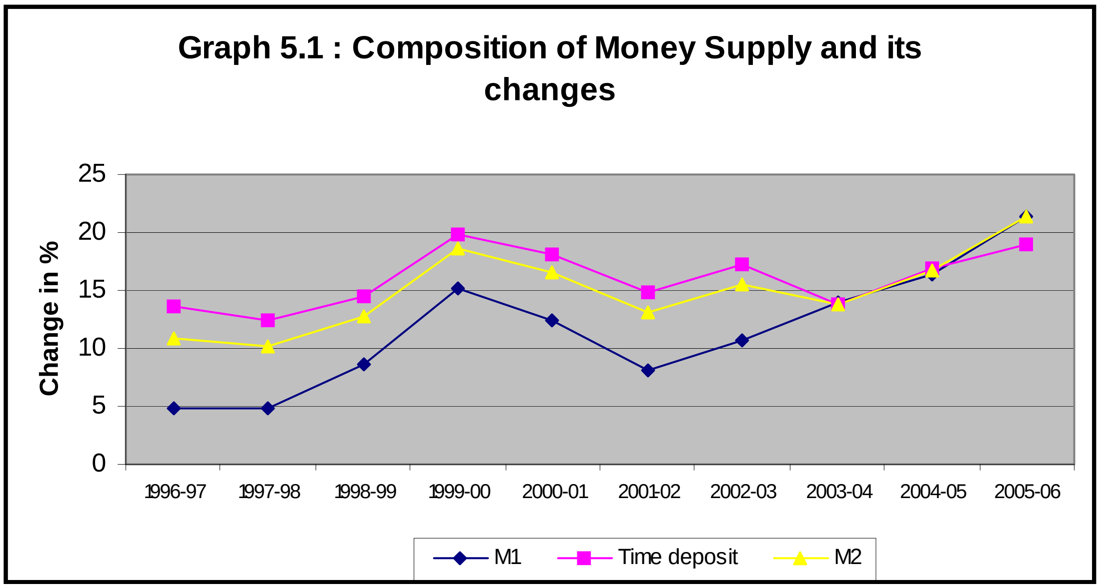
In FY 2005-06 broad money (M2) increased by Tk. 29568 crore (19.51 percent) from that of the previous year. Broad money (M2) increased during the same period of the previous year by Tk. 21815 crore (16.81 percent). Table 5.1, graph 5.1 and graph 5.2 show the composition of money supply and credit and their movements over time. During FY 2005-06, currency in circulation increased by 23.46 percent, while demand deposit and time deposit showed an increase of 19.05 and 18.94 percent respectively. The usage of broad money indicates that credit to the government sector (net), other public sector and private sector increased by 23.57, 34.91 and 18.27 percent respectively. Consequently, total domestic credit showed a growth of 20.45 percent in FY 2005-06.

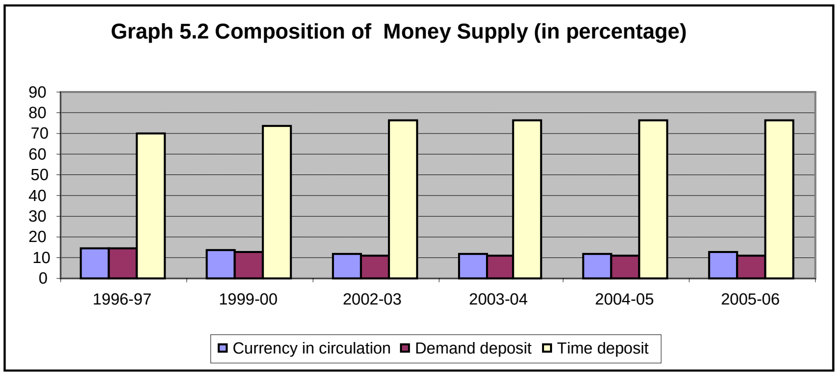
Table 5.1: Composition of Broad Money (M2) and its Trend Over Time

(Tk. in crore)

Particulars	June 2006	June 2005	June 2004	Change	
				2005/2006	2004/2005
1	2	3	4	5=2-3	6=3-4
1. Broad Money (M2) (a+b+c)	181156.10	151588.5	129773.8	+ 29567.60 (19.51)	+ 21814.70 (16.81)
a) Currency notes and coins with the public	22862.10	18518.1	15811	+ 4344.00 (23.46)	+ 2707.10 (17.12)
b) Demand deposit	20272.10	17028	14689.2	+ 3244.10 (19.05)	+ 2338.80 (15.92)
c) Time deposit	138021.90	116042.4	99273.6	+ 21979.50 (18.94)	+ 16768.80 (16.89)
2. Broad money (M2) (a+b)	181156.10	151588.5	129773.8	+ 29567.60 (19.51)	+ 21814.70 (16.81)
a) Net foreign assets of the banking system	22011.30	18666.8	16330.3	+ 3344.50 (17.92)	+ 2336.50 (14.31)
b) Net domestic assets of the banking system ((1)+(2))	159144.80	132921.7	113443.5	+ 26223.10 (19.73)	+ 19478.20 (17.17)
(1)Total domestic credit of the banking system (i+ii+iii)	177743.00	147561	125551.1	+ 30182.00 (20.45)	+ 22009.90 (17.53)
i) Government sector (net)	31674.10	25632.7	21948.8	+ 6041.40 (23.57)	+ 3683.90 (16.78)
ii) Public sector (other)	15095.60	11189.1	8967.7	+ 3906.50 (34.91)	+ 2221.40 (24.77)
iii) Private sector	130973.30	110739.2	94634.6	+ 20234.10 (18.27)	+ 16104.60 (17.02)
(2) Other assets (net)	-18598.20	-14639.3	-12107.6	-3958 (-27.04)	-2531.70 (-20.91)

Source: Bangladesh Bank





Reserve Money[1]

Of late reserve money is being used as an operating target in line with overall monetary projection, which is a part of accommodative monetary policy and liquidity management. Along with this, the auction of weekly T-bills/T-bonds is used to control reserve money. Table 5.2 shows the composition of reserve money and its changes over time.

Table 5.2: Reserve Money: composition and its changes over time

(Tk. in crore)

Particulars	June 2006	June 2005	June 2004	Change	
				2005/2006	2004/2005
1	2	3	4	5=2-3	6=3-4
1. Reserve money (a+b+c)	37863.20	29547.3	26256.4	+ 8315.90 (28.14)	+ 3290.90 (12.53)
a) Currency issued	24894.10	20327.9	17287.4	+ 4566.20 (22.46)	+ 3040.50 (17.59)
b) Balances of scheduled banks with BB	12436.60	9041.3	8892.4	+ 3395.30 (37.55)	148.90 (1.67)
c) Reserves of other financial institutions with the BB	532.50	178.1	76.6	+ 354.40 (198.99)	+ 101.50 (132.51)
2. Sources of change in Reserve Money (a+b)	37863.20	29547.3	26256.4	+ 8315.90 (28.14)	+ 3290.90 (12.53)
a) Net foreign assets of BB	19140.60	15126.7	13959.5	+ 4013.90 (26.54)	+ 1167.20 (8.36)
b) Net domestic assets of BB (i+ii)	18722.60	14420.6	12296.9	+ 4302.00 (17.27)	+ 2123.70 (17.27)
i. Domestic credit (a+b+c+d)	32474.10	22977.5	18947.2	+ 9496.60 (41.33)	+ 4030.30 (21.27)
a) Government sector (net)	25076.10	15724.3	11897.6	+ 9351.80 (59.47)	+ 3826.70 (32.16)
b) Public sector (other)	966.00	1055.6	1191.1	-89.60 (-8.49)	- 135.50 (-11.38)
c) BB's claims on DMBs	6346.30	6132.5	5852.1	+ 213.80 (3.49)	+ 280.40 (4.79)
d) BB's claims on other depository institutions	85.70	65.1	6.4	+ 20.60 (31.64)	- 58.70 (917.19)
ii. Other assets (net)	-13751.50	-8556.9	-6650.3	- 5194.60 (-60.71)	- 1906.60 (-28.67)

[1]Comprised of currency issued, balances of deposit money banks (DMBs) and other financial institutions' deposit with the Bangladesh Bank.

Source: Bangladesh Bank

Rationalising the Interest Rate

The government is encouraging banks and non-bank financial institutions to disburse more credit to the productive sectors of the economy for accelerated economic growth and poverty reduction by rationalising interest rates on loans.

Tables 5.3 and 5.4 depict the comparative changes in the interest rates of different loans and advances and deposits of 4 nationalised commercial banks (NCBs) and 5 specialised banks respectively for June 2006 against those of June 2002.

Table 5.3: Interest rates on various loans, advances and deposits – NCBs*

(In percent)

Types of Deposits/loans	Sonali Bank		Janata Bank		Agrani Bank		Rupali Bank	
	2002	2006	2002	2006	2002	2006	2002	2006
Interest rates on deposit								
Savings deposit	6.0	5.0	6.0	5.0-6.0	6.0	4.0	6.0	4.5
Fixed deposits								
3 months or above but less than 6 months	7.50	6.25	7.5	7.0	7.5	5.75	7.5	6.5
1 year and above but less than 2 years	8.25	7.0	8.25	7.75	8.25	6.50	8.25	7.25
Interest rates on loans								
Agriculture	12.0-16.0	10.0 - 12.0	12.0 - 14.0	2.0 - 10.0	12.0	8.0	12.0-14.0	9.0
Large and medium industries	9.0-13.0	12.0	10.0-12.0	10.0 - 12.5	10.0-12.0	12.5	10.0-12.0	12.5
Working capital	14.0	12.0	14.0	11.0 -13.0	14.0	13.0	14.0	12.5
Export	7.0-9.0	7.0	7.0-9.0	7.0	7.0-9.0	7.0	7.0-9.0	7.0
Other commercial loans	9.0-15.5	13.5	15.0	14.0	15.0	13.0	15.0 -16.0	13.5
Small industry	11.5-12.0	11.0	11.5	10.0-11.0	11.5-12.0	10.5	11.0-12.0	10.5
Others	11.0 - 15.5	10.0 -17.0	11.0 -15.5	5.0-17.0	11.0 -16.0	13.0	11.0 -15.5	10.0 -13.5

Source: Bangladesh Bank. June 2002 and June 2006.

Table 5.4: Interest rates on different loans, advances and deposits - Specialised Banks*

(In percent)

Particulars	BKB		BSB		RAKUB		BSRS		BASIC	
	2002	2006	2002	2006	2002	2006	2002	2006	2002	2006
Interest rates on deposits										
Savings deposit	6.5	4.0	6.0	4.0	6.5	4.0	6.25	4.5	7.0	5.0
Fixed deposits										
3 & above but less than 6 months	7.7.5	6.0	7.5	5.75	7.75	6.0	7.5	6.25	7.5	6.0
1 and above but less than 2 years	8.25	7.0	8.25	6.5	8.25	6.5	8.25	7.25-7.5	8.25	6.75
Interest rates on loans										
Agriculture	12.0-14.0	8.0	-	10.0	12.0-13.0	8.0	-	-	12.0	10.0
Large and medium industries	10.0-13.0	10.0	10.0-12.0	10.0	12.5	10.0	10.0-12.0	11.5	13.0	10.5
Working capital	11.25-15.0	11.0	14.0	10.0	14.5	10.0-13.0	14.0	12.0	12.0-14.	12.0
Export	7.0	7.0	7.0	7.0	7.0-9..0	7.0	7.0-9.0	7.0	7.0-10.0	7.0
Other commercial loans	10.0-15.0	12.0	15.0	13.5	15.0	14.0	15.0-16.0	12.0	15.0	14.0
Small industries	12-13.5	10.0	10.0	10.0	10-12.5	10.0	10.0	10.0	11.5-12.0	11.0
Others	5-17	10-12	13.5-16	10.0	10.0-15.	11.0-12.0	13.5-15.5	10.0	12.25-15.0	14.0

Source: Bangladesh Bank, BKB. June 2002 and June 2006.

Floating Exchange Rate

Bangladesh adopted floating exchange rate regime since 31 May 2003. Under this arrangement, the government does not interfere in the determination of exchange rate, but operates the monetary policy prudently for minimising extreme swings in exchange rate to avoid the adverse repercussion on the domestic economy. Detailed information regarding reserve situation and exchange rate has been presented in the Chapter 6 of this Review.

Financial Market Management

Financial market of an economy comprises the banking sector, other financial institutions and capital market. At present, there are 4 NCBs, 5 nationalised specialised Banks, 30 private commercial banks, 9 foreign commercial banks and 28 non-bank financial institutions, Investment Corporation of Bangladesh (ICB), House Building Finance Corporation (HBFC), Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) are working in the financial market of Bangladesh.

Banks and other financial institutions (OFIs) have been playing a key role in activating the financial sector that in turn infuses dynamism to the economy. Banks are engaged in upgrading the socio-economic status of the country by investing money to productive sectors. However, in the context of globalisation, emphasis has been laid on to the development of the financial market through banking sector. In order to uphold the role of banking sector in financial market development, the government has taken a range of measures, which include further deployment of bank branches and evaluation of their performance, classification of loans following international standards assessment of capital adequacy, determination of quality of assets and earning of impressive profit.

Banking Sector

The banking sector of Bangladesh comprises four categories of scheduled banks (NCBs, SBs, local PCBs and FCBs). In addition, one national co-operative bank, one Ansar-VDP Bank, one

Karmasangsthan Bank and one Grameen Bank and some non-scheduled banks are also in operation. Up to June 2006, 3773 branches of NCBs are operating in rural areas. In order to enhance the overall efficiency of NCBs, decisions have been taken to rationalise bank branches, and up to June 2006, 109 new branches were established and 2 existing branches were closed under the 'branch rationalisation programme'. Table 5.5 summarises the structure of the banking system in Bangladesh according to their categories.

Table 5.5: Structure of the Banking System in Bangladesh (up to June 2006)

Type of Banks	No.	No. of Branches	% of total asset	% of total deposit
NCBs	4	3389	34.31	38.90
SBs	5	1343	8.41	6.16
PCBs	30	1648	50.66	48.88
FCBs	09	45	6.62	6.06
Total	48	6425	100.00	100.00

Source: Bangladesh Bank.

Deployment of Bank Branches

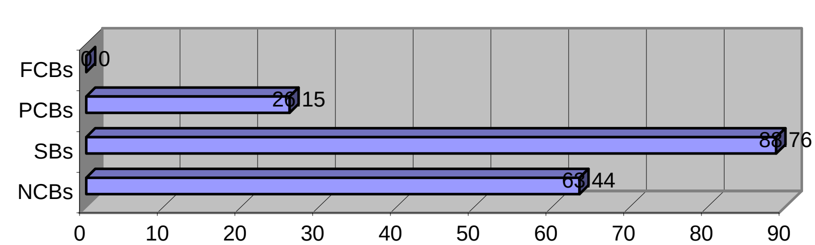
Although foreign banks and private banks show better performance according to different criteria such as capital adequacy, quality of assets and expenditure-income ratio, the common people throughout the country have far better access to NCBs and SBs because of their locations. Foreign banks do not have a single branch in any rural area of Bangladesh. Besides, though PCBs have branches outside the urban area, it is only 26.15 percent of their total number of branches. On the contrary, 63.44 percent and 88.76 percent of the total branches of NCBs and SBs are located in different sub-urban and rural areas of Bangladesh respectively.

Table 5.6: Distribution of Bank Branches in Different Regions (up to June 2006)

Type of Banks	No. of banks of its kind	No. of branches			As % of the total branches		
		Urban	Rural	Total	Urban	Rural	Total
NCBs	4	1239	2150	3389	36.56	63.44	100
SBs	5	151	1192	1343	11.24	88.76	100
PCBs	30	1214	431	1648	73.85	26.15	100
FCBs	9	41	0	45	100.00	0.00	100

Source: Bangladesh Bank.

Graph 5.3: Percentage of branches in the rural area by the category of banks



Non-Bank Financial Institutions

In the financial sector of Bangladesh, some non-bank financial institutions (NBFIs) are also making significant contribution towards financing various sectors like industry, commerce, house- building, ICT and others. As of June 2006, there are 28 licensed non-financial institutions operating in Bangladesh. The paid-up capital and reserve of these NBFIs as of June 2006, totalled up to Tk. 13.86 billion and up to May 2006, the investment of these institutions in different sectors of the economy amounted to Tk. 61.57 billion. Since December 2000, lending and leases extended by these NBFIs, like other scheduled banks, are subject to the classification and provisioning regulations. The goal of such initiative was to strengthen and revitalise these institutions through regular reviewing of the loan position as well as improving the recovery process. Up to December 2005, the ratio of classified loan of financial institutions stood at 6.07 percent and classified loan stood at 1.13 percent excluding net suspended interest and provisioning.

Financing Agriculture, Industry and Commerce by Banks and Other FIs

To ensure adequate credit flow to agriculture and other rural economic activities, the government had a target of disbursing Tk. 5542.21 crore in FY 2005-06 through BKB, RAKUB, four NCBs, BRDB and Bangladesh Cooperative Bank Limited. Against this target, Tk. 5789.71 crore was disbursed up to June 2006, which is 16.80 percent higher than the amount disbursed in the same period of the previous year.

The government is encouraging small and medium enterprises (SMEs) along with large ones. Banks and other FIs are supporting this effort of the government by extending industrial credit and other necessary assistance to this sector. In FY2005-06, term loan disbursement in the industrial sector stood at Tk. 9419.03 crore, which is 8.21 percent higher than that of the same period of the previous year.

In addition to extending credit to agriculture, industry and trade, banks and other financial institutions are also providing credit, though at a limited scale, for undertaking poverty reduction programmes. More detailed information on agriculture, industry and poverty reduction has been presented in Chapter 7, 8 and 13 of this Review respectively.

BANKING, MONETARY AND CREDIT POLICY REFORMS

Legal Reforms

To expedite the settlement of disputes regarding loan recovery of financial institutions, the "Money Loan Court", 2003 *(Artha Rin Adalat, 2003)* has been made effective, and to strengthen the process of recovering defaulted loans, banks, under this Act, are now empowered to sell the collaterals without prior approval of the court. Effective application of this Act has started yielding encouraging results. As of December 2005, 94897 cases were filed, of which 49116 cases were settled accruing the recovery of Tk. 2380.72 crore against the claim of Tk. 21756.84 crore.

Reforms in Banking Sector

Reforms in the Bangladesh Bank

Implementation of "Central Bank Strengthening Project" is underway which is tasked to formulate and implement a prudent monetary policy, enhance the regulatory capability of Bangladesh Bank to supervise financial institutions, establish banking policies and regulations that conform to international standards and increase operational efficiency of Bangladesh Bank through computerisation.

Reforms in NCBs

With a view to monitoring overall performance of banks including capacity enhancing, bringing financial solvency, and increasing performance of NCBs as part of financial sector reform programmes, the following steps have been taken:

- NCBs have signed a Memorandum of Understanding (MOU) with the Bangladesh Bank to monitor overall performance, and four internationally reputed local auditing farms have audited the NCBs;
- As part of privatisation in the banking sector, Rupali Bank Ltd. is at the final stage of privatisation process;
- As part of the restructuring and modernising programme of the other three NCBs (Sonali, Janata and Agrani), a management team along with a Chief Executive has been appointed in the Agrani Bank in order to improve overall management capacity and financial condition. And a management support team has been appointed both at Sonali and Janata Bank to bring dynamism in the management and enhance efficiency.

Money and Financial Market Reforms

Measures have been taken to build the existing banking system to an international standard and to strengthen overall banking system of the country. Important among the initiatives taken in FY 2005-06 are as follows:

- Measures have been taken to provide new loan for rescheduling borrowers from February 16, 2006 considering payment of loan within one year or the full payment (which will occur earlier) under the following conditions:
    1. Defaulter borrowers, benefited by remission of interest payment, have to pay 15 percent according to the present rule. It will be calculated except rescheduled payment as agreed upon to get further loan facility;
    2. To take loan from another bank, borrowers have to submit NOC from the previous bank; and
    3. Exporter borrowers (those who are not intentionally defaulter) will be qualified to receive further loan facility after paying at least 7.5 percent of agreed amount.

- Banks have been suggested to take effective measures against unauthorised transformation, publication and destruction of system to protect the interest of depositors by introducing IT and ensuring security in operating IT. To do this, BB has issued IT guidelines with minimum-security standard for its schedule banks.
- To strengthen discipline in providing loans and to improve loan classification guidelines at international standards, BB has introduced Special Mention Account (SMA) and decided to introduce provision of 5 percent of the outstanding interest on those loans to be kept under SMA.
- With a view to implementing risk-grading system, an integrated credit risk-grading manual prepared by BB has been forwarded to all schedule banks. In the light of this risk matrix, a high standard risk-grading system has been introduced based on the bank's business size and its nature.
- In order to apply fair value accounting on government securities and to encourage secondary trade, section 38 (4) of the Bank Company Act of 1991 has been amended as: securities, which are kept by bank companies in SLR form to be considered 'held to maturity'. By doing so, revaluation gain/loss will be added/deducted in the capital account. To fulfil SLR, excess securities will be considered as held for trading.
- An order has been issued to schedule banks for maintaining general provision such as (a) 2 percent for unclassified consumers' credit, housing credit and unclassified professional credit; and (b) 5 percent for all other unclassified consumers' credit.
- Advice has been given to determine chief executive officer's pay and allowances on the basis of (1) financial condition, working coverage, business size and earning capacity of the appointing institution, (2) candidate's quality, age, experiences and (3) allowances and payment made to personnel for holding similar position in other financial institutions/banks.
- Decision has been taken to allow minimum 6-monthly deposit for institutional deposit from July 19, 2005, considering traditional deposit system, which does not allow taking deposit less than 1 year.
- In order to maintain discipline in human resources and its utilisation, some parts of Article 18(g) of Financial Institution Act 1993 (such as money grabbing, corruption, fraudulent activities, employees who are terminated from their service on moral hazard ground etc. will not be considered to employ in any other FIs/banks) has been amended.
- Importance has been given to improve the risk management especially of NBFIs to maintain minimum standard in separation/classification of duties and responsibilities. In order to assist on-going development of FIs, the risks of FIs have been classified/categorised in 4 main

parts' such as (1) credit risk (2) asset liabilities/balance sheet risk (3) internal control and (4) maintenance.

- Financial Ordinance 53F of 1984 has been amended through Financial Act 2005. According to this Act, 10 percent income tax deduction at source from the interest or profit earned from banks, NBFIs, leasing companies, and housing financing companies from July 1, 2005 and onward.
- Institutions whose capital and reserve have reached Tk. 25 crore but not yet issued IPO, were ordered to issue IPO at least 5 crore by June 2006.
- All banks have taken initiative to introduce identity card for existing and newly opened account holders.
- With a view to averting money laundering, banks have been suggested to be sure about the nature of the respondent banks before providing correspondent banking service.
- To make the Money Laundering Prevention Act 2002 more effective, a revised draft of Money Laundering Prevention Act 2006 has been submitted for its approval.
- Banks have been instructed to report BB about excess cash transaction in order to limit cash transaction and identify the cash transaction involved in criminal activities.
- In order to create opportunity for reinvesting autonomously in savings deposit, Savings Deposit Rules 1977 has been amended (amendment up to June 30, 2002) as one can buy any kind of savings certificate up to Tk. 25 lakh and 50 lakh gradually in a single name. In joint names certificates Tk. 50 lakh and Tk. 1 crore can be bought.
- To simplify pension savings scheme, ‘Pensioner Savings Deposit Policy 2004’ has been amended. According to this policy, employees on LPR can buy savings certificates valued at best Tk. 30 lakh, which should comprise GPF and gratuity payment in a single name.
- BB has been given authority to direct (i) deducting tax at source in advance on the given interest of approved securities or discount, and (ii) at the same time submitting bids in auction of treasury bills/bonds. It is necessary to cut the value of mentioned securities along with deducting tax at source in advance on the given interest.

Capital Market

The level of development of the capital market is an indicator of the state of development of an economy. Private sector development has been given priority in Bangladesh. To achieve private sector-led growth objectives, it is necessary to make capital market more efficient.

The Securities and Exchange Commission (SEC) of Bangladesh was formed on June 8, 1993 under the 'Securities and Exchange Commission Act, 1993'. The principal responsibilities of the SEC include ensuring proper issuance of securities, safeguarding the interest of investors in the stock exchange, controlling the stock market and development of the capital market. Currently, two stock exchanges are operating in Bangladesh: Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). Both the stock exchanges are autonomous non-profit organisations.

Dhaka Stock Exchange

The number of securities (including mutual fund and debentures) listed with the DSE increased to 303 by June 2006 from that of June 2005. By the end of June 2006, the issued capital of listed securities stood at Tk. 8572.30 crore, which is 29.12 percent higher than what stood in June 2005.

Table 5.7: Trading Operation in Dhaka Stock Exchange

Calendar year/ month-end	No. of listed securities[a]	Initial Public Offering	Issued capital (in crore Tk.)	Market capitalisation (in crore Tk.)	Turnover (in crore Tk.)	Price index[b]
1995	201	24	1983.98	5651.81	638.00	835.00
1996	205	24	2305.24	16810.62	3013.30	2300.15
1997	222	12	2820.78	7130.16	1740.34	756.78
1998	228	6	2862.57	5025.40	3436.84	540.22
1999	232	11	2877.46	4478.12	3896.44	487.77
2001	249	11	3345.43	6522.28	3986.83	817.79
2002	260	8	3520.30	7126.20	3498.49	822.34
2003	267	14	4605.50	9758.70	1915.21	967.88
2006 (June)	303	-	8572.30	22530.00	300.05	1040.47

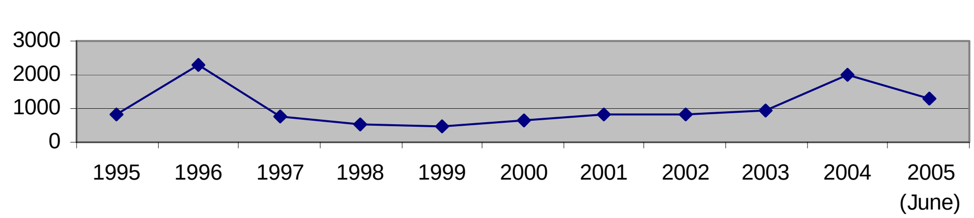
Source: *Dhaka Stock Exchange*

(a) Including mutual fund & debenture

(b) All share price index is calculated on weighted average method since November 24, 2001. Since December 9, 2003 all share price index is calculated on general share price index (excluding 'Z' group) by withdrawing weighted average method. The index base earlier was 100 for DSE.

Up to June 2006, market capitalisation of securities stood at Tk. 22530.00 crore. General share price index of the DSE stood at 1040.47 in June 2006, which was 1310.62 in June 2005.

Graph 5.4: Share price index in DSE



Chittagong Stock Exchange

The number of securities listed with the CSE reached 213 as of June 2006 from 198 as of June 2005. By the end of June 2006, the issued capital of listed securities stood at Tk. 6253.13 crore, which is 25.09 percent higher compared to that at the end of June 2005.

As of June 2006, market capitalisation of securities reached Tk. 19634.10 crore. General share price index of the CSE reached 2879.19 as on June 2006, which was 3347.09 on June 30, 2005.

Graph 5.5: Share price index for CSE

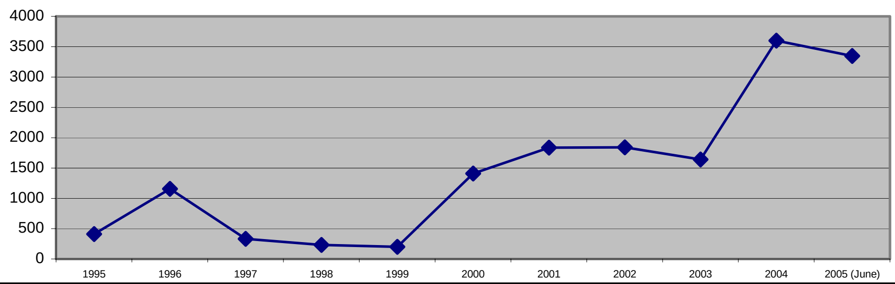


Table 5.8: Trading Operation in Chittagong Stock Exchange

Calendar year/ month-end	No. of listed securities	IPO[b]	Issued capital (in crore Tk.)	Market Capitalisation (in crore Tk.)	Turnover (in crore Tk.)	Price index[(c)]
1995	61		1036.80	2413.90	1.97	409.43
1996	117	16	1872.60	14704.30	608.90	1157.90
1997	141	19	2276.14	5283.23	854.51	332.98
1998	150	6	2418.03	4138.25	1403.60	232.80
1999	159	9	2508.09	3654.24	1153.79	197.83
2000	165	3	2726.60	5776.55	1293.38	1412.25
2001	177	9	2965.27	5636.35	1479.62	1836.87
2002	185	9	3107.99	6046.77	1358.61	1841.14
2003	199	10	4196.76	8531.23	668.86	1642.78
2004	195	3	4697.87	21501.08	1755.13	3597.70
2005	210	16	5551.93	21994.28	1404.27	3378.68
2006 (June)	213	-	6253.13	19634.10	144.90	2879.19

***Source:** Chittagong Stock Exchange*

(a) Including mutual fund & debenture

(b) Within the calendar year.

(c) All share price index is calculated on weighted average method since 24 November, 2001. The index base was 1000 for CSE from the year 2000. The index base earlier was 100 for DSE. Since December 9, 2003 all share price index is calculated on general share price index (excluding 'Z' group) by withdrawing weighted average method.

Reform Initiatives in the Capital Market

The Government is making efforts to develop the reliability and efficiency of stock exchanges as investment market. The Securities and Exchange Commission (SEC) continues to carry out its regulatory reform activities in a bid to develop and protect investors' interest by establishing fairness and transparency in the capital market. A brief description of the major reforms undertaken in the capital market during FY 2005-06 is given below:

New Investment in the Capital Market

An amount of Tk. 69.56 crore was invested in the capital market during July 2005 to June 2006 through IPO of five companies.

Mandatory Opening of Beneficiary Owners' (BO) Account and Central Depository System (CDS)

SEC has made it mandatory to open beneficiary owners' (BO) account before applying for shares floated through IPO. Central Depository of Bangladesh Ltd has been operational since December 23, 2005. Up to June 2006, investors opened 7.19 lakh beneficiaries' owners (BO) accounts with Central Depository Bangladesh Ltd. and 100 companies were brought under the CDS. The market capitalization of the said companies accounts for 85 percent of total market capitalization of all the securities listed with DSE on the said date. After the introduction of CDS, transparency in securities issuance, trading and settlement have increased significantly and settlement period of securities transactions has been reduced by a day.

Reduction of Initial Public Offering (IPO) Floatation Cost

SEC has taken a decision to reduce the cost of floating primary shares by about 50 percent of the existing cost to encourage more companies to float securities through IPO in the capital market.

Training Programmes for Members of Authorised Representatives of Stock Exchanges

SEC has organised a training programme covering securities laws, rules/regulations and central depository system for the representatives of Dhaka Stock Exchange and Chittagong Stock Exchange.

Investors' Education Programme

SEC conducted investors' education programme twice a month between July 2005 and June 2006 except January 2006 when one such programme was held. The programme includes topics like regulatory framework, securities transactions, investment procedure, surveillance system and central depository system

Off-Loading of Government Owned Shares

Currently, there is a dearth of securities having good fundamentals in capital market. As a result, when there is a rise in demand price, or securities listed on exchanges show an unusual upward trend, the market becomes volatile. As corrective measures, the government has taken the following decisions:

- Off-loading a percentage of existing shares of state-owned companies through direct listing of securities with stock exchanges and issuance of new shares of securities of state-owned companies through public offering. In this process initially companies under oil, gas, power and communication sectors will have to off-load/issue shares;
- State-owned companies will have to collect at least 25 percent of the total size of its bond/debenture issue from capital market reducing dependency on commercial bank borrowing;
- While sanctioning large loans commercial banks will have to follow a debt-equity ratio with a precondition of raising a certain percentage of equity from the capital market by companies that intend to borrow from commercial banks; and
- Private limited companies in which the government has share holding shall have to be converted into public limited companies and thereafter government shares have to be off-loaded through the capital market.

Implementation of the aforesaid decisions has already been started. It is expected that the outcome of the decisions will have favourable impact on the capital market.

New Act, Rules, Notification

The Commission has replaced the Public Issue Rules, 1998 and the Rights Issue Rules, 1998 through amendment of the Securities and Exchange Commission (Public Issue) Rules, 2006 and the Securities and Exchange Commission (Rights Issue) Rules, 2006 to encourage companies to raise capital through public issue.

Mandatory Requirements of Raising Capital by Limited Companies from the Capital Market

In order to increase supply of securities in the capital market, the Commission has imposed a condition to the effect that private limited companies whose paid-up capital exceeded or will have exceeded Tk. 40 crore must convert itself into a public limited company, and public limited companies whose paid-up capital exceeded or will have exceeded Tk. 50 crore at a given point of time must raise 30 percent of further issue of capital through offering of securities.

Direct Listing Regulation

To facilitate the companies, having good fundamentals, to off-load a part of their existing shares through the capital market, and also to enable investors to have more options to invest in wide array of companies in different sectors, both Dhaka and Chittagong Stock Exchange with the approval of the Commission have issued Dhaka/Chittagong Stock Exchange Direct Listing Regulation 2006.

SEC issued ‘Corporate Governance Guidelines’ on 'comply or explain' basis to elevate corporate governance scenario in Bangladesh. Moreover, SEC has established a ‘Securities Training Institute’ and has taken initiative to set up a ‘Financial Reporting Council’.