

CHAPTER 5

MONETARY MANAGEMENT AND FINANCIAL MARKET DEVELOPMENT

Monetary policy of Bangladesh Bank is meant for channelling adequate domestic credit to the priority sectors to achieve the highest sustainable growth, overcoming unexpected domestic shocks and unfavourable external situation, and containing price inflation within the projected level. In FY2008-09, monetary and credit policy have been formulated on the basis of projected GDP growth and inflation where growth of broad money (M2) and reserve money (RM) are being applied as intermediate target and operating target respectively to attain the objectives of the policy. Repo and reverse-repo are used as monetary policy tools to meet the objectives of monetary policy.

The Government provided adequate fiscal and policy supports to meet the challenges arising from ongoing global financial crisis. It is assumed that it will take some time for the world economy to come back to normal trend. Because of the small amount of short-term external capital flows and limited openness of Bangladesh economy, there was no major negative impact of global financial crisis on Bangladesh economy. However, in the context of ongoing recession uncertainties are looming surrounding export growth, remittance flow, foreign aid/loan and foreign direct/portfolio investment in the coming months of the current fiscal year. However, in the backdrop of a little decline of export growth along with other possible risks, a 5.9 percent economic growth is achievable.

In order to take required precautionary measures against the adverse effect of global financial crisis on Bangladesh economy, a technical committee has been formed and a financial incentive package has been announced in the light of observation and recommendations made by the Taskforce constituted by the Government for this purpose. The incentive package over and above the fiscal support also includes policy support as well as administrative reforms plan. During April – June quarter of current fiscal year, a total of Tk. 3424.00 crore has been allocated to operationalise the incentive package which includes subsidy, agriculture credit and food safety net. Allocation for subsidy will be channelled to export, agriculture and electricity sub-sectors. In FY2008-09, under the proposed package, there will be an enhanced allocation of Tk. 1500.00 crore from Tk. 1050.00 crore for the agriculture sub-sector, Tk. 1200.00 crore from Tk. 600.00 crore for the electricity sub-sector and Tk. 1500.00 crore from Tk. 500.00 crore for agricultural credit recapitalisation. Increased financial assistance from the package will go to jute goods, leather and leather products, frozen shrimps and other fish exporters. Under this package cash incentives for jute goods, leather and leather products, frozen shrimps and other fish exporters will increase to 10 percent, 17.5 percent and 12.5 percent from 7.5 percent, 15 percent and 10 percent respectively. Besides, the following major steps have been taken by the Government:

- In order to simplify the disbursement process of export subsidy, steps have been taken to revise the existing policy which stipulates that after preliminary evaluation, 70 percent of subsidy will be released immediately and rest 30 percent after financial audit;
- Rescheduling loan down payment conditions of exporters and yarn producers have been made relaxed;
- Refinancing facility in favour of export credit through commercial banks has been arranged by the Bangladesh Bank;
- Steps have been taken to increase productivity by applying intensive cultivation technology and to attain the level of European Union standard in the frozen food sub-sector;
- Measures have been taken by Bangladesh Bank to protect export oriented industries which have become vulnerable due to current recession providing some opportunities on case-to-case basis evaluated by the banks and financial institutions;
- New initiatives have been taken to avoid sluggish and complex process of ADP approval procedures and the new process will come into effect from the beginning of new financial year;
- Strengthening adroitness of the relevant ministries to monitor and evaluate implementation progress of the projects regularly;
- Special care has been taken to maintain the level of investment in agriculture and rural development, energy, industry and infrastructure sub-sectors to strengthen export demand and to bring dynamism in investment;
- To strengthen financial structure of *Krishi Bank*, *RKUB*, *Karmasangsthan Bank*, a recapitalisation fund of Tk. 1,500.0 crore has been allocated. This will enable these financial institutions to provide more the agricultural credit to make the sector vibrant and strong;
- Allocation for SME fund has been increased to Tk. 600 crore from 500 crore and housing fund from Tk. 500 crore from 300 crore including an allocation of Tk. 400 crore for Investment Promotion and Financing Facilities (IPFF) under the supervision of Bangladesh Bank;
- In order to make Equity Entrepreneurship Fund (Tk. 300 crore) effective, agriculture and IT funds have been separated and after evaluation of existing obstacles to ensure its maximum utilisation, definite recommendations have been given to simplify guidelines.

In order to improve the standard of financial services Bangladesh Bank has automated clearing house by implementing a project titled 'Remittance and Payments Partnership' (RPP) under the financial assistance from the DFID, UK. To participate in automated cheque clearing system, cheque is being standardised for participating commercial banks and government institutions. A decision has been taken to start Automated Clearing House in coordination with Bangladesh Automated Cheque Processing System (BACPS) and Electronic Fund Transfer (EFT) by August 2009.

Money and Credit Situation

In FY2008-09, broad money (M2) increased by Tk. 47,705.0 crore (19.17 percent) over that of the previous year. This was increased by Tk. 37290.6 crore (17.63 percent) in FY2007-08 over that of the previous year. The supply of M2 was Tk. 248794.90 crore at the end of June 2008 and was increased to Tk. 296499.9 crore at the end of June 2009. Table 5.1 show the composition of money supply and credit and their movements over time. During FY2008-09, currency in circulation increased by 10.28 percent, while demand deposit and time deposit showed an increase of 14.10 and 21.42 percent respectively. During this fiscal year, total domestic credit of the banking system has increased by Tk. 39829.9 crore (16.02 percent) compared to the increase of Tk. 43004.7 crore (20.91 percent) in the previous fiscal year. Of late, credit to agriculture sector has been made mandatory for all private commercial banks and foreign banks by Bangladesh Bank to reduce pressure from unnecessary consumer loans (such as- gorgeous marriage ceremony, travel to foreign countries, consumer credit by using credit cards etc.). The trend of broad money supply indicates that credit to the government sector (net), and private sector increased by 24.04 and 14.62 percent respectively while credit to the other public sector increased by 6.55 percent.

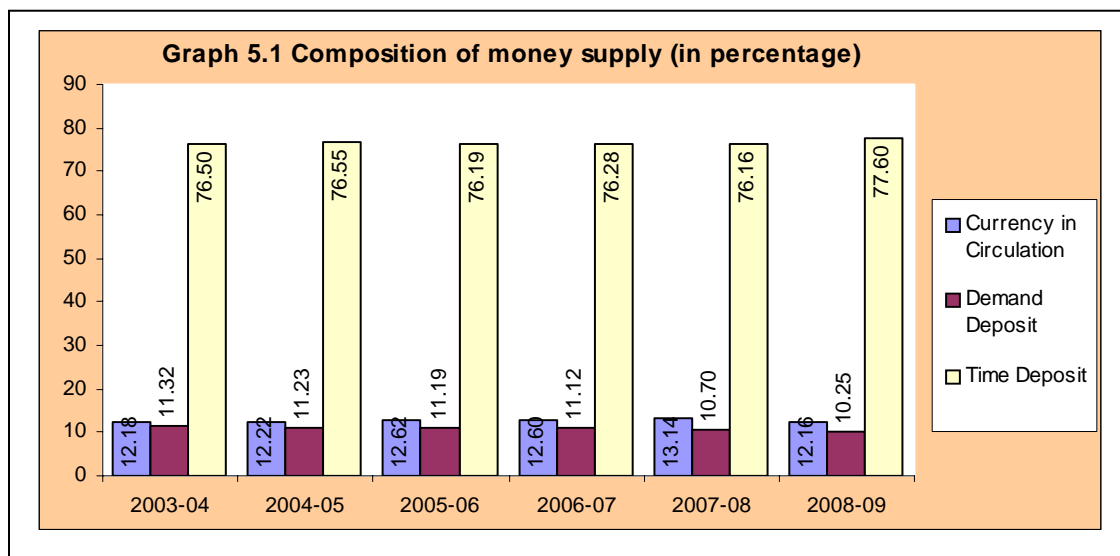
Table 5.1: Composition of Broad Money (M2) and its Trend over Time

(Tk. in crore)

Particulars	June 2007	June 2008	June 2009	Change	
				July –June 2008/2009	July –June 2007/2008
1	2	3	4	5=4-3	6=3-2
1. Broad Money (M2) Supply (a+b+c)	211504.30	248794.90	296499.90	47705.00 (+19.17)	37290.60 (+17.63)
a) Currency notes and coins with the public	26643.80	32689.90	36049.20	3359.30 (+10.28)	6046.10 (+22.69)
b) Demand deposit ¹	23524.30	26624.50	30377.70	3753.20 (+14.10)	3100.20 (+13.18)
c) Time deposit	161336.20	189480.50	230073.00	40592.50 (+21.42)	28144.30 (+17.44)
2. Source to change the Broad money (M2) (a+b)	211504.30	248794.90	296499.90	47705.00 (+19.17)	37290.60 (+17.63)
a) Net foreign assets of the banking system	32888.40	37845.40	47932.50	10087.10 (+26.65)	4957.00 (+15.07)
b) Net domestic assets of the banking system ((1)+(2))	178615.90	210949.50	248567.40	37617.90 (+17.83)	32333.60 (+18.10)
(1) Total domestic credit of the banking system ² (i+ii+iii)	205672.60	248677.30	288507.20	39829.90 (+16.02)	43004.70 (+20.91)
i) Government sector (net) ²	36040.00	46909.10	58185.10	11276.00 (+24.04)	10869.10 (+30.16)
ii) Public sector (other) ²	17455.50	11632.40	12394.70	762.30 (+6.55)	-5823.10 (-33.36)
iii) Private sector ²	152177.10	190135.80	217927.40	27791.60 (+14.62)	37958.70 (+24.94)
(2) Other assets (net)	-27056.70	-37727.80	-39939.80	-2212.00 (-5.86)	-10671.10 (+39.44)

Source: Bangladesh Bank

1/ including deposits of other financial institutions and government agencies 2/ including accrued interest



Reserve Money¹

Reserve money is being used as an operating target in line with overall money projection, which is a part of accommodative monetary policy and liquidity management. In FY2008-09, reserve money increased by Tk. 16600.5 crore (31.45 percent) over that of the previous fiscal year. Reserve money increased by Tk. 8716.50 crore (19.78 percent) during the same period of the previous year. At the same time, despite BB's claims on deposit money banks (DMBs) and other government depository institutions decreased by 16.80 and 14.61 percent respectively, BB's claim on other depository institutions and government sector (net) increased by 19.17 percent and 11.38 percent respectively, and net foreign assets and net other assets increased by 31.04 percent and 14.00 percent respectively, which eventually contributed to increase reserve money growth. Money multiplier of M2 supply decreased to 4.273 at the end of June 2009 from 4.713 at the end of June 2008. During the same period, M2/deposit ratio decreased to 0.138 from 0.151 and reserve/deposit ratio increased to 0.128 from 0.093. Table 5.2 shows the composition of reserve money and its changes over time.

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

Table 5.2: Reserve Money: Composition and its Changes over Time

(Tk. in crore)

Particulars	June 2007	June 2008	June 2009	Change	
				2008/2009	2007/2008
1	2	3	4	5=4-3	6=3-2
1. Reserve money (a+b+c)	44073.10	52789.60	69390.10	16600.50	8716.50
				(+31.45)	(+19.78)
a) Currency issued	28787.40	35648.50	39448.70	3800.20	6861.10
				(+10.66)	(+23.83)
b) Balances of scheduled banks with BB	15224.00	17034.20	29800.00	12766.00	1810.20
				(+74.94)	(+11.89)
c) Reserves of other financial institutions with the BB	61.70	106.90	141.20	34.30	45.20
				(+32.09)	(+73.26)
2. Sources of change in Reserve Money (a+b)	44073.10	52789.60	69390.10	16600.50	8716.50
				(+31.45)	(+19.78)
a) Net foreign assets of BB	29265.60	33363.30	43718.00	10354.70	4097.70
				(+31.04)	(+14.00)
b) Net domestic assets of BB (i+ii)	14807.50	19426.30	25672.10	6245.80	4618.80
				(+32.15)	(+31.19)
i. Domestic credit (a+b+c+d)	34937.30	35974.70	37887.70	1913.00	1037.40
				(+5.32)	(+2.97)
a) Government sector (net)	25931.10	25997.30	28955.40	2958.10	66.20
				(+11.38)	(+0.26)
b) Public sector (other)	988.00	946.40	808.10	-138.30	-41.60
				(-14.61)	(-4.21)
c) BB's claims on DMBs	6442.10	7334.20	6102.10	-1232.10	892.10
				(-16.80)	(+13.85)
d) BB's claims on other depository institutions	1576.10	1696.80	2022.10	325.30	120.70
				(+19.17)	(+7.66)
ii. Other assets (net)	-20129.80	-16548.40	-12215.60	4332.80	3581.40
				(+26.18)	(+17.79)

Source: Bangladesh Bank**Rationalising the Interest Rate**

To face the challenges of existing world economic situation, interest rate for productive and other sectors have been reduced. Since 19 April 2009 Maximum 13 percent interest rate has been determined for loans to agriculture sector; term loan and current capital loan to large and medium industries; and loans to housing and trade financing sector. However, 7 percent interest rate for the advances made to the export sector; 2 percent interest rate for cultivating pulses, oilseed spices and maize will remain the same. Besides, commercial banks have been asked, on the basis of bank-client relationship, to reschedule loans without mandatory down-payment up to Sept 2009. This facility will be extended to the owners of the export sectors who are affected by the negative impact of international trade and also those who deal in frozen food, leather and leather goods, jute goods, textile (including spinning) and RMG. Moreover, to ensure the supply of essential goods and to keep prices of these essential goods at tolerable level in coming *Ramadan*, maximum interest rate of edible oil (both refined and non- refined), gram, pulses, peas, onion, spices, date and fruits has been set at 12 percent at import level from May 05, 2009. Tables 5.3 and 5.4 show the comparative changes in the interest rates of various loans and advances and deposits of 4 State-owned Commercial Banks (SCBs) and 5 specialised banks respectively between June 2008 and June 2009.

Table 5.3: Interest Rates on Various Loans, Advances and Deposits – SCBs

(In percent)

Types of Deposits/loans	Sonali Bank		Janata Bank		Agrani Bank		Rupali Bank	
	June 2008	June 2009	June 2008	June 2009	June 2008	June 2009	June 2008	June 2009
Interest rates on deposit								
Savings deposit	5.0-6.5	5.0-6.5	5.0-6.0	5.0-6.0	4.0	4.0	4.5	4.5
Fixed deposits								
3 months or above but less than 6 months	7.5-8.0	8.5	7.0	7.0	7.0-7.5	8.0-8.5	6.5	7.5
1 year and above but less than 2 years	8.25-9.25	9.0	7.75	7.75	8.0-8.5	9.0-9.5	7.25	8.0
Interest rates on loans								
Agriculture	2.0 - 12.5	2.0 – 12.5	2.0 - 10.0	2.0 - 10.0	8.0	8.0	9.0-9.5	10.0
Large and medium industries	12.5	12.5	11.0 - 12.5	11.0 - 12.5	13.0	13.0	12.5	13.0
Working capital	13.0	13.0	12.0-13.5	12.0 -13.0	14.0	13.0	12.5	12.5-13.0
Export	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Other commercial loans	14.0	13.0	12.0-14.0	12.0-13.0	14.5	13.0	13.5	13.0
Small industries	12.0-12.5	12.0-12.5	10.0-12.0	10.0-12.0	12.0	8.0	10.5-11.5	12.0-12.5
Others	13.0 -17.0	13.0 -17.0	5.0-17.0	5.0-17.0	14.0	14.0	10.0 -13.5	11.0 -13.0

Source: Bangladesh Bank.

Table 5.4: Interest Rates on Different Loans, Advances and Deposits - Specialised Banks

(In percent)

Particulars	BKB		BSB		RAKUB		BSRS		BASIC	
	June 2008	June 2009	June 2008	June 2009	June 2008	June 2009	June 2008	June 2009	June 2008	June 2009
Interest rates on deposits										
Savings deposit	5.0-6.0	5.0-7.0	5.0	5.0	4.0	5.0-7.0	5.0	5.0	7.0	7.0
Fixed deposits										
3 months & above but less than 6 months	7.5	8.25	7.0	7.0	6.0	8.25	7.5-8.0	7.75-8.25	7.25	7.25
1 year and above but less than 2 years	8.5	8.75	7.75	7.75	6.5	8.75	8.25-8.75	8.5-9.25	8.0	8.0
Interest rates on loans										
Agriculture	8.0-9.0	10.0-11.0	10.0	10.0	8.0	8.0-12.0	-	-	10.0	10.0
Large and medium industries	12.5	12.50	11.5-12.5	11.5-12.5	12.0	12.0	10.0-12.5	11.5-12.5	11.5-13.5	13.0
Working capital	13.0	13.0	12.0-13.5	12.0-13.5	12.0-13.0	13.0	12.5	12.5	12.0-14.5	13.0
Export	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Other commercial loans	13.0	13.0	13.5	13.5	14.0	13.0	12.5	12.5	14.75	13.0
Small industries	12.0-12.5	12.0-12.5	10.0-11.0	10.0-11.0	12.0	12.0	11.5	11.5	11.5-12.5	11.5-12.5
Others	11-12	11-12	10.0-14.0	10.0-14.0	11.0-12.0	6.0-13.0	11.0	11.0	11.5-14.75	11.5-14.75

Source: Bangladesh Bank, BKB.

Financial Market Management

Financial market of an economy comprises the banking sector, other financial institutions and capital market. At present, 4 SCBs, 5 nationalised specialised banks, 30 private commercial

banks, 9 foreign commercial banks and 29 non-bank financial institutions, Investment Corporation of Bangladesh (ICB), Bangladesh House Building Finance Corporation (BHBFC), Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) are working in the financial market of Bangladesh.

Banking Sector

The banking sector of Bangladesh comprises four categories of scheduled banks (SCBs, 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 2009, 48 Scheduled Banks were operating with a network of 6936 branches. 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 2009)

Type of Banks	No.	No. of Branches	% of total asset*	% of total deposit*
SCBs	4	3387	30.66	26.84
SBs	5	1364	6.08	4.66
PCBs	30	2127	53.71	60.96
FCBs	09	58	9.55	7.55
Total	48	6936	100.00	100.00

Source: Bangladesh Bank. *Up to December 2008.

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 easy access to SCBs 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 beyond the urban areas, it is only 30.47 percent of their total number of branches. On the contrary, 63.39 percent and 88.49 percent of the total branches of SCBs and SBs are located in different sub-urban and rural areas of Bangladesh respectively. Table 5.6 summarises the region-wise distribution of bank branches in Bangladesh.

**Table 5.6: Distribution of Bank Branches in Different Regions
(up to June 2009)**

Type of Banks	No. of banks	No. of branches			As % of the total branches		
		Urban	Rural	Total	Urban	Rural	Total
SCBs	4	1240	2147	3387	36.61	63.39	100
SBs	5	157	1207	1364	11.51	88.49	100
PCBs	30	1479	648	2127	69.53	30.47	100
FCBs	9	58	--	58	100.00	--	100
Total	48	2934	4002	6936	42.30	57.70	100

Source: Bangladesh Bank.

Income and expenditure of 48 scheduled banks operating in Bangladesh for 2007 and 2008 are shown in Table 5.7.

Table 5.7: Income and Expenditure of 48 Schedule Banks Operating in Bangladesh

(Tk. in million)

Name of the Banks	2007		2008		2009	
	Income	Expenditure	Income	Expenditure	Income	Expenditure
Sonali Bank Limited	14290	9865	26879	20460	14900	12300
Janata Bank Limited	18522	13560	20922	13919	11620	7560
Agrani Bank Limited	13681	8420	14981	8651	17215	10550
Rupali Bank Limited	10732	10369	5850	4705	3317	2692
Bangladesh Krishi Bank	4731	6504	6501	8467	7700	8390
Rajshahi Krishi Unnayan Bank	1940	2356	1975	2616	2348	2522
Bangladesh Shilpa Bank	894	396	861	536	709	585
Bangladesh Shilpa Rin Sangstha	305	139	360	146	402	218
BASIC Bank Ltd	3550	2459	5060	3526	2535	1816
Pubali Bank Ltd	7088	4336	9009	5563	4930	3227
Uttara Bank Ltd	5020	3554	6314	4008	5500	4200
Arab Bangladesh Bank Ltd	8487	5161	11485	7187	6637	4425
National Bank Ltd	7183	4968	8893	5769	7016	4644
The City Bank Ltd	5807	4551	6673	4918	3594	2972
Islami Bank Bangladesh Ltd	17699	13918	24230	17396	12722	9370
IFIC Bank Ltd	5196	3694	5526	3904	3056	1806
United Commercial Bank Ltd	6052	4034	7850	5301	4000	2800
ICB Islamic Bank Ltd	1199	2040	1073	835	60	20
Eastern Bank Ltd	5325	3454	7386	5001	4070	2700
NCC Bank Ltd	5269	3489	7418	5054	4422	3182
Prime Bank Ltd	4816	1559	5778	1931	3052	954
South East Bank Ltd	8670	5754	10503	7238	7793	6053
Dhaka Bank Ltd	7218	5208	9100	6567	6406	5005
Al-Arafah Islami Bank Ltd	2955	2199	4414	2841	3105	1925
Social Investment Bank Ltd	1194	972	1611	1190	3000	2400
Dutch Bangla Bank Ltd	6367	4929	7276	5340	4673	3569
Mercantile Bank Ltd	5561	4176	6878	5296	4900	3250
Standard Bank Ltd	3794	2859	4164	2696	3552	2792
One Bank Ltd	3587	2658	4293	3186	2530	1944
Exim Bank Ltd	6408	4490	11029	8359	7688	6554
Bangladesh Commerce Bank Ltd	939	969	1237	1205	1400	1320
Mutual Trust Bank Ltd	3650	2717	4636	3441	2500	2000
First Security Bank Ltd	2545	2416	5858	5668	3090	3070
The Premier Bank Ltd	4186	3183	5070	3797	5042	4082
Bank Asia Ltd	4959	3384	6631	4727	5640	4609
Trust Bank Ltd	1338	495	2006	754	2550	1830
Shahjalal Islami Bank Ltd	3589	2274	5285	3475	3400	2600
Jamuna Bank Ltd	3103	2279	4075	3034	2800	2067
BRAC Bank Ltd	6117	4172	10901	7727	597	309
Standard Chartered Bank Ltd.	9614	2746	11016	3322	5728	1585
Habib Bank Ltd.	488	370	639	512	328	282
State Bank of India	1122	701	1403	892	380	270
Commercial Bank of Ceylon Ltd.	1484	918	1823	1166	1004	677
National Bank of Pakistan	321	34	332	66	365	72
Citi Bank N A	2252	521	2848	567	1463	303
Woori Bank	644	284	572	244	200	75
HSBC Ltd.	4770	986	5859	1277	3129	659
Bank Al-Falah	1060	848	1191	1175	450	310

Source: Performances of Banks and Financial Institutions 2007-2008, Finance Division.

Non-Bank Financial Institutions

In the financial sector, the 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 2009, there are 29 licensed non-financial institutions operating in Bangladesh. The paid-up capital and reserve of these NBFIs as of December 2008, totalled up to Tk. 22.53 billion and investment of these institutions in different sectors of the economy amounted to Tk. 113.15 billion. Lending and leases extended by the 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 March 2009, the ratio of classified loan of financial institutions stood at 8.63 percent.

Financing Agriculture, Industry and Commerce by Banks and Other Financial Institutions

One of the main objectives of the present government is to achieve self-sufficiency in food. In recognition of the role of agriculture and rural sector in the overall socio-economic development of the country, emphasis has been laid on agriculture and rural credit disbursement through banks and non-bank financial institutions in the current fiscal year. In order to speed up the disbursement of agriculture credit at subsistence level, steps have been taken to include all private commercial banks and scheduled banks under agricultural credit disbursement programme. In tandem with this, a simplified new guidelines for disbursement of agricultural credit has been prepared. Apart from agricultural credit disbursement, commercial banks and Bangladesh *Krishi* Bank are operating micro-credit programme to eradicate poverty. To ensure adequate credit flow to agriculture and other rural economic activities, the government had a target of disbursing Tk. 9379.23 crore in FY2008-09 through BKB, RAKUB, four SCBs, BRDB and Bangladesh Cooperative Bank Limited. Against this target, Tk. 9284.46 crore was disbursed up to June 2009. During the same period, the recovery of agriculture credit stood at Tk. 8377.62 crore.

The government is encouraging small and medium enterprises (SMEs) along with the large scale industries. Banks and other financial institutions are extending industrial credits and other necessary assistance to this sector. Up to March 2009 of FY2008-09, term loan disbursement and recovery in the industrial sector stood at Tk. 46153.17 crore and 38137.02 crore, which are 7.01 and 27.34 percent higher than those of the same period of the previous year respectively.

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. Detailed information on agriculture, industry and poverty reduction has been presented in Chapters 7, 8 and 13 of this review respectively.

Microfinance

To ensure transparency and accountability of the institutions operating micro-credit programmes in Bangladesh, the Government established a regulatory authority along with a Micro-Credit Regulatory Authority Act 2006, which came into effect from August 27, 2006. Currently, Micro Credit Regulatory Authority is working on the regulations under this Act. Some of the important functions of the Authority are: (i) to provide certificates among micro-credit institutions, which are engaged in alleviation of poverty and ensuring welfare of the poor; (ii) to preserve information on newly established micro-credit institutions/ branches, (iii) to conduct audit, (iv) to analyse and monitor field level activities and (v) to arrange training for them as and when necessary.

BANKING, MONETARY AND CREDIT POLICY REFORMS

Legal Reforms

To expedite the settlement of disputes regarding loan recovery of financial institutions, the Money Loan Court Act, 2003 (*Artha Rin Adalat Ain, 2003*) has been made effective. In order to strengthen the process of recovering default 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 June 2009, 106932 cases were filed, of which 69922 cases were settled accruing the recovery of Tk. 4674.03 crore against the claim of Tk. 30444.56 crore.

Reforms in the Banking Sector

Reforms in the Bangladesh Bank

Implementation of "Central Bank Strengthening Project" at a cost of US\$ 55.60 million funded by IDA is underway (started in 2003 and expected to be completed by 2011) 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 enhancement, bringing capital adequacy, and improving performance of SCBs as part of financial sector reform programmes, the following steps have been taken:

- To review the progress of NCBs (Agrani Bank Ltd., Janata Bank Ltd. and Sonali Bank Ltd.) in 2009 same as 2008, preparation of Memorandum of Understanding (MoU) 2009 has been completed;
- To follow the "Transitional Plan" prepared by the above mentioned NCBs;
- In order to meet the deficiency in capital, re-prepare the Recapitalisation and Progressive Five Year Development Plan by the Rupali Bank Ltd. under the guidance of Ministry of Finance is underway;

Reforms in PCBs

- Restructuring of Oriental Bank Ltd. has been completed and it has started its activities being renamed as ICB Islamic Bank Ltd.

Money and Financial Market Reforms

Steps have been taken to build the existing banking system to international standards and also to strengthen the overall banking system of the country. Important among the initiatives taken in FY2008-09 are as follows:

- , A decision has been taken to appoint two directors (on the basis of eligibility and quality) among the depositors for a period of 3 years with the approval of BB in line with the spirit and objective of clause 15(5) under the section 120 of the Bank Companies Act 1991;
- Bangladesh Bank is providing continuous support in matters relating to credit disbursement to the productive and priority sectors (e.g., SMEs, agriculture, low-price housing construction) and to discourage abnormal growth of non-productive large consumer credits;
- To strengthen the financial base, required capital and reserve funds of the bank companies have been increased to Tk. 400 crore of which minimum recovered capital increased to Tk. 200 crore within a period of 3 years starting from August 2008;
- Bank companies have been suggested To collect required capital by the banks holding back the net profit after tax and issuing IPO or right shares, if applicable from August 2008;
- In case of failure to meet the deficit of capital and reserve requirements within the indicative timeframe (3 years from August 2008), the relevant bank-companies or financial institutions will be asked to merge with other bank-companies or financial institutions;
- To strengthen capital base and to maintain risk-based capital, prospectus prepared in the light of Basel-II Guidelines, has been supplied to the banks, and accordingly a decision has been taken to preserve minimum regulatory capital against the market and performance risk of the excessive credit and also there is a suggestion to preserve capital against the other risks besides these risks;
- Issuance of guidelines titled “Guidelines on Risk Based Capital Adequacy for Banks” (revised regulatory capital framework in line with Basel-II) in order to implement Basel-II Accord from December 2008;
- Preparing guidelines relating to approval of external credit rating agencies to follow standardised approach under Basel-II;
- With a view to bringing discipline in rescheduling loan/lease account, loan/lease will be considered for the first time for rescheduling if at least fifteen percent of expired instalment or ten percent of total overdue whichever is less, is paid in cash. For the second time rescheduling this ratio will be thirty percent of expired instalment or twenty percent of total overdue whichever is less.
- Besides, loan/lease will be considered in respect of rescheduling more than two times, if at least fifty percent of expired instalment or thirty percent of total overdue whichever is less, is paid in cash.

Capital Market

Capital market plays a significant role in the economy as a source of long term financing. An efficient and transparent capital market contributes to industrialisation and economic development of any country. Security and Exchange Commission (SEC) was established in June 1993 under the 'Securities and Exchange Commission Act, 1993' as a regulator of capital market of Bangladesh in order to create an efficient, transparent and accountable capital market. The commission ensures the proper compliance of capital market related laws, rules and regulations by the issuer companies, stock exchanges and by the various intermediary institutions and persons related with capital market.

Market capitalisation and share price index has changed significantly in recent years due to various market related initiatives of the Commission. The Government has also started off-loading state-owned companies' shares. As a result, confidence on capital market of local and foreign investors has increased. The commission has strengthened its surveillance on securities transactions and supervision on market intermediaries so that market operates in transparent manner. The following steps have been taken to streamline the capital market during FY2008-09:

New Investment in the Capital Markets

During Fy 2008-09, the Commission allowed 7 companies to raise Tk. 82.0 crore (including premium) as capital through Initial Public Offering (IPO). The subscription money received against the said companies was Tk. 2389.29 crore, which was 29.14 times higher than the amount of public issues.

Direct Listing

The following companies have been listed on the stock exchanges under the Dhaka/Chittagong Stock Exchange (Direct Listing) Regulations, 2006 during the period. The detailed information of the companies is furnished below:

Sl. No.	Name of the Company	Date of Issuance of Documents	Trade Commenced on	Number of Shares Offloaded	Total Face Value of Shares offloaded (Tk. in Million)
1	Titas Gas Transmission & Distribution Co. Ltd.	21.5.08	2.7.08	21411728	2141.17
2	ACI Formulations Ltd.	6.10.08	18.11.08	8987500	89.87
3	Shinepukur Ceramics Ltd.	5.10.08	18.11.08	35011800	350.12

Central Depository Systems (CDS)

Up to June 2009, 1414781 BO Accounts were activated under Central Depository Bangladesh Ltd. and the number of companies under CDBL raised to 179. After introduction of CDS, transparency in securities issuance, trading and settlement has enhanced significantly and settlement period of securities transactions has also reduced.

Approval of Trustees

During the same period, the Commission approved the following companies to act as trustees of Proposed Secured Zero Coupon Bond:

Name of the Bond	Approved Name of the Trustee
Secured Zero Coupon Bond of Malancha Holdings Ltd.	IDLC Finance Ltd.
Secured Zero Coupon Bond of Uttara Finance and Investment Ltd.	Bangladesh General Insurance Co. Ltd.
Subordinate Convertible Bonds as Tier 2 Capital of Dhaka Bank Limited	Eastern Bank Limited
Non-convertible Zero Coupon Bond of United Leasing Co. Ltd.	Investment Corporation of Bangladesh
BRAC Micro-credit Securitisation Trust-2008	Eastern Bank Limited
ACI 20% Convertible Zero Coupon Bond	Industrial and Infrastructure Development Finance Company Limited

Asset Management Company

During FY2008-09, the Commission issued 3 asset management company registration certificates in favour of Race Management Private Company Ltd., Bangladesh Shilpa Rin Shangstha (BSRS) and VIPB Asset Management Company Ltd. as per Security and Exchange Commission (Mutual Fund) Regulation, 2001.

Mutual Fund

The Commission approved the prospectus offering Prime Finance First Mutual Fund worth Tk. 20 crore through initial public offering (IPO) under Security and Exchange Commission (Mutual Fund) Regulation, 2001.

Training Programme

The Commission, in association with the Dhaka and Chittagong Stock Exchanges arranged training for 967 authorized representatives of the members of the stock exchanges. The Commission conducts on a regular basis Investors' Education Programme at SEC premise throughout the year for creating awareness among the general investors of capital and securities markets. During FY 2008-09, a total of 540 investors participated in the education programme.

Enforcement Actions

The Commission took 164 enforcement actions against the issuers and other market intermediaries during FY 2008-09 who failed to comply with the securities related rules.

Introducing Book Building Method

As an alternative IPO valuation method, the book building method was introduced in Bangladesh capital market for the first time through a notification issued on 11 March 2009. This will attract private companies with good track record and sound fundamentals to raise capital from the market, where issuer may get better price of their shares depending on institutional demand for the shares.

‘Improvement of Capital Market Governance Programme’ Project

To strengthen surveillance system and to improve the governance of Bangladesh capital market, a project named ‘Improvement of Capital Market Governance Program’ funded by the Asian Development Bank (ADB) and Government of Bangladesh has been launched since July 2006.

Formation of BICM

To educate the investors, intermediary institutions and to improve the corporate governance in the listed companies the Commission, in association with other stakeholders, has established a securities training institute named “Bangladesh Institute of 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

Table 5.8: Comparative Statement of Dhaka Stock Exchange

Indicators	As on 30 th June 2008	As on 30 th June 2009	% Increasing
Total number of listed securities	378	443	17.19
Total Issued Capital of all listed securities (Tk. in crore)	28,438	45,794	61.03
Total Market Capitalization of all listed securities (Tk. in crore)	96,480	1,24,134	28.66
All Share Price Index	2588.03	2520.20	-2.62

Source: Dhaka Stock Exchange.

**All share price index is calculated on General Share Price Index (excluding ‘Z’ group) by withdrawing weighted average method from 9 December, 2003. The index base earlier was 100 for DSE. The DSE reintroduced All Share Price Index on March 28, 2005.*

The number of securities (including mutual fund and debentures) listed with the DSE increased to 443 by June 2009 from 378 of June 2008. By the end of June 2009, the issued capital of listed securities stood at Tk. 45,794.0 crore, which is 61.03 percent higher than that of June 2008. Up to June 2009, market capitalisation of securities stood at Tk. 1,24,134.0 crore. General share price index of the DSE stood at 2520.20 in June 2009, which was 2588.03 in June 2008.

Table 5.9: 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
2000	241	7	3119.20	6292.40	4036.48	642.68
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
2004	256	2	4953.20	22492.30	5318.11	1971.31
2005	286	22	7031.30	23307.50	6483.48	1275.05
2006	310	12	11843.70	32336.80	6506.93	1321.39
2007	350	14	21447.00	75395.00	32282.01	2535.96
2008	412	12	37215.60	105953.00	66796.47	2309.35
2009						
January	416	4	37470.50	101613.60	6586.50	2196.96
February	416	-	37487.90	99933.00	5735.62	2144.29
March	432	1	41602.40	101705.70	9554.02	2033.30
April	431	1	41892.00	106241.00	9237.09	2119.85
May	431	1	42366.60	106241.00	10312.67	2146.72
June	443	-	45794.00	124134.00	15077.94	2520.15

Source: Dhaka Stock Exchange.

*All share price index is calculated on weighted average method from 24 November, 2001. The index base earlier was 100 for DSE.

*All share price index is calculated on General Share Price Index (excluding 'Z' group) by withdrawing weighted average method from 9 December, 2003. The index base earlier was 100 for DSE. The DSE reintroduced All Share Price Index on March 28, 2005.

Chittagong Stock Exchange

Table 5.10: Comparative Statement of Chittagong Stock Exchange

Indicators	As on 30 th June 2008	As on 30 th June 2009	% increased
Total number of listed securities	231	245	6.06
Total Issued Capital of all listed securities (Tk. in crore)	10,222	14,247	39.37
Total Market Capitalization of all listed securities (Tk. in crore)	77,774.30	97,495	25.36
All Share Price Index	9050.56	10477.67	15.77

Source: Chittagong Stock Exchange.

*All share price index is calculated on General Share Price Index (excluding 'Z' group) by withdrawing weighted average method from 9 December, 2003. The index base was 1000 for CSE from the year 2000. Previously it was 100.

The number of securities listed with the CSE reached 245 as of June 2009 from 231 as of June 2008. By the end of June 2009, the issued capital of listed securities stood at Tk. 14,247.00 crore which is 39.37 percent higher compared to that at the end of June 2008. As of June 2009, market capitalisation of securities reached Tk. 97,495.00 crore. General share price index of the CSE reached 10,477.67 as on June 2009, which was 9,050.56 on June 30, 2008.

Table 5.11: 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	213	6	6937.84	27051.07	1589.31	3724.39
2007	227	13	8917.39	61258.00	5259.03	7657.06
2008	238		12160.32	80768.40	9980.37	8692.75
2009						
January	242	4	12825.00	77536.00	998.99	8146.01
February	242		12855.90	75582.70	796.10	7870.63
March	243	1	13344.90	72854.40	1178.42	7578.30
April	244	1	13682.80	78704.80	1248.13	8227.85
May	245	1	14154.10	81655.50	1225.75	8758.99
June	245		14247.00	97495.00	2053.95	10477.67

Source: Chittagong Stock Exchange.

*All share price index is calculated on weighted average method from 24 November, 2001. The index base was 1000 for CSE from the year 2000. Previously it was 100.

*All share price index is calculated on General Share Price Index (excluding 'Z' group) by withdrawing weighted average method from 9 December, 2003. The index base was 1000 for CSE from the year 2000. Previously it was 100