CHAPTER 5

MONETARY MANAGEMENT AND FINANCIAL MARKET DEVELOPMENT

[In FY 2011-12, Bangladesh Bank maintained broadly a restrained monetary policy stance to contain inflation. On an annual basis, the broad money (M2) grew by 17.39 percent at the end of June 2012 against 21.34 percent growth at the end of June 2011. Domestic credit and private sector credit grew by 19.53 percent and 19.72 percent respectively in FY 2011-12 against 27.43 and 25.84 percent growth in FY 2010-11. Reserve money grew by 8.99 percent in FY 2011-12 against 21.03 percent in FY 2010-11. Although credit growth was brought down to stabilise inflation, BB ensured adequate credit flows to productive and priority sectors. Disbursement of industrial term loans stood at Tk.35278 crore in FY 2011-12 which was 44.06 percent higher than that of the previous fiscal year. The disbursement of SME loans increased by 28.41 percent to Tk.93,417.62 crore at the end of June 2012 as compared to Tk. 72,540.25 crore at the end of June 2011. In FY 2011-12, the capital market witnessed a massive correction before it stablised the price index and market capitalisation of the Dhaka Stock Exchange stood at 4,572.88 *and Tk. 2,49,116.29 crore at June end of FY 2011-12 respectively. Price Earnings (P/E) Ratio of Dhaka Stock Exchange declined to 12.53 on June 28, 2012 which was 16.55 on June 30, 2011.]*

Monetary Policy and Monetary Management

Bangladesh Bank (BB) pursued an accommodative monetary policy stance in previous years. However, following the global financial crisis had to be adjusted to respond to the changes in the global and domestic economic scenario. BB maintained a restrained monetary policy stance and rein in on money supply and credit growth in FY2011-12 in order to curb inflation which edged up to double digit due to a number of factors including the lagged effect of high domestic credit growth in previous year, transmission of global higher prices of essential commodities including food items and huge borrowing from the banking system to meet government expenditure. The monetary policy stance ensured adequate credit to private sectors for inclusive growth while bringing down inflation and balance of payment pressures. In particular, adequate credit flows to industry sector along with agriculture and SME sectors was ensured. BB raised repo and reverse repo rates twice by a total of 100 basis points to 7.75 and 5.75 respectively during FY 2011-12.

Money and Credit Situation

Trends in Monetary Aggregates

During FY2011-12, year-on-year growth in narrow money (M1) decreased sharply while broad money (M2) decreased marginally and reserve money (RM) also decreased significantly as compared to the preceding fiscal year. The deceleration in growth of narrow money was largely

on account of the sharp decrease in growth of both currency notes and coins with the public and demand deposit. Besides, slight decrease in time deposit growth resulted in marginal decrease in broad money growth. Moreover, the decrease in reserve money was largely attributable to the decrease in net domestic asset. Table 5.1 shows the trends in monetary aggregates since FY 2005-06 to FY 2011-12.

Table 5.1: Trends in Monetary Aggregates

(Year-on-Year Growth)

Indicator	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Narrow Money (M1)	20.47	17.62	18.23	11.99	32.46	17.18	6.42
Broad Money (M2)	19.3	17.06	17.63	19.17	22.44	21.34	17.39
Reserve Money (RM)	27.12	17.9	19.78	31.45	16.03	21.09	8.99

Source: Bangladesh Bank

Narrow Money (M1)

Narrow money increased by 6.42 percent during FY 2011-12 as compared to an expansion of 17.18 percent in FY 2010-11. During FY 2011-12, the year-on-year growth of M1 was lower mainly due to significant decrease in growth of both currency notes and coins with the public and demand deposit. During this period, year-on-year growth of currency notes and coins with the public increased by 6.61 percent compared to the increase of 18.71 percent a year earlier. Similarly, demand deposit increased by 6.21 percent during FY 2011-12, compared to the increase of 15.48 percent a year earlier.

Broad Money (M2)

The broad money increased by 17.39 percent during FY 2011-12, which was much lower than 21.34 percent growth a year earlier. During this period, time deposit increased by 20.74 percent against 22.68 percent growth of the previous fiscal year. The supply of broad money increased by Tk. 76,589.50 crore to Tk. 5,17,109.50 crore at the end of June 2012 from Tk. 4,40,520.00 crore at the end of June 2011. Table 5.2, 5.1 and 5.2 show the composition of money supply and credit and their movements over time.

Table 5.2: Money and Credit

Indicators	June, 2009	June, 2010	June, 2011	June, 2012
	End period stock (In crore Taka)			
1. Net foreign assets of the banking system	47459.4	67073.7	70620.0	78860.3
2. Net domestic assets of the banking system	249040.6	295957.4	369900.0	438249.2
a. Domestic credit	288552.4	340213.6	433525.9	518214.2
a.1. Government sector (net)[1]	58185.2	54392.3	73436.1	91906.8
a.2. Public sector (other)[1]	12439.7	15060.7	19377.1	18405.9
a.3. Private sector[1]	217927.5	270760.6	340712.7	407901.5
b. Other assets (net)	-39511.8	-44256.2	-63625.9	-79965.0
3. Narrow money	66427.0	87988.3	103101.1	109721.4
a. Currency notes and coins with the public	36049.2	46157.1	54795.1	58417.1
b. Demand deposit[2]	30377.8	41831.2	48306.0	51304.3
4. Time deposit	230073.0	275042.8	337418.9	407388.1
5. Broad money [(1)+(2)] or [(3)+(4)]	296500.0	363031.1	440520.0	517109.5
	Year-on-Year Percentage Change (percent)			
1. Net foreign assets of the banking system	27.18	41.33	5.29	11.67
2. Net domestic assets of the banking system	17.76	18.84	24.98	18.48
a. Domestic credit	16.03	17.90	27.43	19.53
a.1. Government sector (net)	24.04	-6.52	35.01	25.15
a.2. Public sector (other)	6.94	21.07	28.66	-5.01

Indicators	June, 2009	June, 2010	June, 2011	June, 2012
a.3. Private sector	14.62	24.24	25.84	19.72
b. Other assets (net)	-6.21	12.01	43.77	25.68
3. Narrow money	11.99	32.46	17.18	6.42
a. Currency notes and coins with the public	10.28	28.04	18.71	6.61
b. Demand deposit	14.10	37.70	15.48	6.21
4. Time deposit	21.42	19.55	22.68	20.74
5. Broad money	19.17	22.44	21.34	17.39

Source: Bangladesh Bank

Note: 1. Including accrued interest, 2. Including deposits of other financial institutions and Government agencies

Graph 5.1 depicts the movement of broad money and its components. It reveals the fact that, since FY 2007-08, the narrow money growth has been showing significant fluctuations while time deposit and broad money growth are decreased slightly over time. Graph 5.2 shows that time deposit has increased over time while currency outside banks and demand deposits show fluctuations from FY 2007-08 to FY 2011-12.

Domestic Credit

Year-on-year growth in domestic credit was 19.53 percent during FY2011-12, much lower than 27.43 percent during FY2010-11. Sector-wise analysis of domestic credit indicates that the net credit to the government sector increased by 25.15 percent at the end of June 2012 compared to the growth of 35.01 percent during the previous year. Private sector credit growth was 19.72 percent in FY2011-12, much lower than year-on-year growth of 25.84 percent of previous fiscal year.

Reserve Money

In FY 2011-12, reserve money increased by 8.99 percent at the end of June 2012, as compared to 21.03 percent growth in the previous year. The growth of reserve money was mainly attributable to the increase in net foreign assets (NFA) of Bangladesh Bank by 12.35 percent. However, net domestic assets (NDA) of Bangladesh Bank increased by only 1.71 percent during the period. Bangladesh Bank's claims on other public sector, claims on government sector (net), claims on deposit money banks (DMBs), and non-bank depository corporations (NBDCs) increased by 39.26 percent, 18.70 percent, 21.60 percent and 14.47 percent respectively which eventually contributed to increase reserve money growth, while net other asset also increased by 39.21 percent. Table 5.3 shows the composition of reserve money and Table 5.4 shows the sources of reserve money and its changes over time.

Table 5.3: Reserve Money and Its Components

Particular	June, 2009	June, 2010	June, 2011	June, 2012
	Period end stock (in crore Taka)			
1. Currency issued	39448.7	50465.4	60526.9	64896.5
2. Balances of scheduled banks with BB	29800.2	23468.0	29007.7	32662.3
3. Reserves of other financial institutions with the BB	141.2	209.4	199.8	243.9
4. Reserve Money [(1)+(2)+(3)]	**69390.1**	**74142.8**	**89734.4**	**97802.7**
	Year-on-Year Percentage Change (percent)			
1. Currency issued	10.66	27.93	19.94	7.22
2. Balances of scheduled banks with BB	74.94	-21.25	23.61	12.60
3. Reserves of other financial institutions with the BB	32.09	48.30	-4.58	22.07
4. Reserve Money	**31.45**	6.85	21.03	8.99

Source: Bangladesh Bank

Table 5.4: Reserve Money and Its Sources

Particular	June, 2009	June, 2010	June, 2011	June, 2012
	Period end stock (In crore Taka)			
1. Net foreign assets of BB	43244.9	61204.9	61388.7	68971.1
2. Net domestic assets of BB	26145.2	12937.9	28345.7	28831.6
a. Domestic credit	38632.4	32292.5	54539.9	65297.4
a.1. Claims on Government sector (net)	28955.5	22320.6	32049.7	38044.0
a.2. Claims on other public sector	808.1	830.7	737.7	1027.3
a.3. BB's claims on DMBs	6846.7	6613.9	18608.8	22627.4

Particular	June, 2009	June, 2010	June, 2011	June, 2012
a.4. BB's claims on NBDCs	2022.1	2527.3	3143.7	3598.7
b. Other assets (net)	-12487.2	-19354.6	-26194.2	-36465.8
3. Reserve Money [(1)+(2)]	**69390.1**	**74142.8**	**89734.4**	**97802.7**
	Year-on-Year Percentage Change (percent)			
1. Net foreign assets of BB	31.70	41.53	0.30	12.35
2. Net domestic assets of BB	31.03	-50.52	119.09	1.71
a. Domestic credit	7.53	-16.41	68.89	19.72
a.1. Claims on Government sector (net)	11.38	-22.91	43.59	18.70
a.2. Claims on other public sector	-10.10	2.80	-11.20	39.26
a.3. BB's claims on DMBs	-6.65	-3.40	181.36	21.60
a.4. BB's claims on NBDCs	19.17	24.98	24.39	14.47
b. Other assets (net)	21.83	55.00	35.34	39.21
3. Reserve Money	**31.45**	**6.85**	**21.03**	**8.99**

Source: Bangladesh Bank

Money Multiplier

Money multiplier increased to 5.29 in FY 2011-12 as compared to 4.90 at the end of FY2010-11. The two ratios of money multiplier as reserve-deposit ratio and currency-deposit ratio declined to 0.086 and 0.127 in FY 2011-12 from 0.091and 0.142 level of FY2010-11 respectively. The decline in these two behavioural ratios led to an increase in money multiplier. This explains the rather higher growth in broad money despite the subdued growth in reserve money.

Income Velocity of Money

The velocity of money reduced to 1.91 at the end of FY 2009-10 from 2.07 of FY 2008-09. The velocity of money further reduced to 1.79 in FY 2010-11. In the recent years, the velocity of money has been decreasing successively. In FY 2007-08, FY 2008-09, 2009-10 and 2010-11, the income velocity of money reduced by 6.13 5.48, 7.73 and 6.28 percent respectively. This downward trend represents the monetisation and financial deepening in the economy.

Rationalising the Rate of Interest/Charges

BB conducted its liquidity management operation with a view to bringing down inflation at tolerable level as well as attaining inclusive growth. To this end, BB raised repo and reverse repo rates twice by a total of 100 basis points to 7.75 and 5.75 respectively during FY 2011-12.

Banks in general are free to charge/fix their deposit and lending rates. However, the maximum cap of 7 percent interest rate on export credit has been fixed since January 10, 2004 by Bangladesh Bank to facilitate export earnings. Although cap on rate of interest on lending in all sectors other than pre-shipment export credit and agricultural loans has recently been withdrawn, banks need to exercise their freedom while fixing rate of interest on lending in a justified and rational manner. In this regard, banks are advised to limit the difference between lending rate and rate of interest on deposit or intermediation spread within lower single digit in different sectors other than high risk consumer credit (including credit card) and SME loans.

Banks are allowed to differentiate interest rate up to a maximum of 3 percent considering comparative risk elements involved among borrowers in the same lending category. With progressive deregulation of interest rates, banks have been advised to announce the mid-rate of the limit (if any) for different sectors and they may change interest 1.5 percent more or less than the announced mid-rate on the basis of the comparative credit risk. In cases where the maximum interest rate has been fixed by Bangladesh Bank, banks shall report their own maximum cap. Banks have also been advised to upload their deposit and lending interest rates on their respective websites.

The weighted average rate of interest on commercial lending increased to 13.75 percent at the end of June 2012, from 12.42 percent at the end of June 2011 and the deposit rate increased to 8.15 percent from 7.27 percent over the same period. Thus the interest rate spread widen to 5.60 percent at the end of June 2012 from 5.15 percent at the end of June 2011. Graph 5.3 shows the trends of weighted average lending and deposit interest rates from January 2011 to June 2012.

Graph 5.3: Weighted Average Lending and Deposit interest Rate

Financial Market Management

Strong financial market plays an important role for achieving economic growth of a country. Financial market in Bangladesh basically consists of banks and non-bank financial institutions and stock market which include 4 state owned commercial banks (SCBs), 4 state-owned specialised banks (SBs), 30 private commercial banks (PCBs), 9 foreign banks (FCBs), 31 non-banking financial institutions (NFIs). Besides, two state-owned financial institutions- Investment Corporation of Bangladesh and House Building Finance Corporation (HBFC) and Dhaka Stock Exchange (DSE), Chittagong Stock Exchange (CSE) and several non-scheduled banks are also operating.

Banking Sector

There are four types of scheduled banks (state owned commercial banks, specialised banks, local private commercial banks and foreign commercial banks) in the banking sector of Bangladesh. As of June, 2012, 47 scheduled banks are operating their activities through a network of 8059 branches in Bangladesh. Among total bank branches, there are 3449 branches of state-owned commercial banks, 3130 branches of local private banks, 63 branches of foreign banks and 1417 branches of specialised banks. Beside these, some non-scheduled banks (like *Ansar VDP Unnayan* Bank, *Shamobaya Bank*, *Karmasangsthan* Bank, *Grameen* Bank, *Jubilee* Bank Ltd. and *Probashi Kalayan* Bank) are operating in the banking sector. The structure of banking system and its share of total deposits and assets at the end of June, 2012 on the basis of types of banks are shown in Table 5.5 and Graph 5.4 respectively.

Table 5.5: Structure of the Banking System in Bangladesh (up to June 2012)

Type of Banks	No.	No. of Branches	Percent of Total Asset	Percent of total Deposit
SCBs	4	3449	27.17	25.98
SBs	4	1417	5.66	4.91
PCBs	30	3130	60.82	62.81
FCBs	9	63	6.36	6.31
Total	47	8059	100	100

Source: Bangladesh Bank

Table 5.5 shows that, more than sixty percent of total assets as well as deposits are being handling by PCBs, about 27 percent of total assets and 26 percent of total deposits are captured

by SOCBs. While, the SBs have only 5.66 percent of total assets and they have got only 4.91 percent of total deposit though they have a network of 1417 branches all over the country.

Among the total bank branches as many as 4607 branches of scheduled banks are operating in the rural areas. The state-owned commercial banks and specialised banks are much more accessible because of wider branch network. According to the latest information up to June, 2012, there is no branch of foreign banks in the rural areas and only 36.93 percent of total local private banks' branches are located in rural areas. On the other hand, 63.84 percent and 88.14 percent of total branches of state-owned commercial banks and specialised banks respectively are located in the rural areas. Comparative position of bank branches in urban and rural areas and type of bank branches (in percent) in the rural areas are shown in Table 5.6 and Graph 5.5.

Table 5.6: Comparative Position of Bank Branches in Urban and Rural Areas (up to June 2012)

Type of Banks	No. of Banks	No. of Branches			Percent of Total Branches		
		Urban	Rural	Total	Urban	Rural	Total
SCBs	4	1247	2202	3449	36.16	63.84	100
SBs	4	168	1249	1417	11.86	88.14	100
PCBs	30	1974	1156	3130	63.07	36.93	100
FCBs	9	63	0	63	100.00	0.00	100
Total	47	3452	4607	8059	42.83	57.17	100

Source: Bangladesh Bank.

To comply with international best practices and to make the banks' capital more resilient as well as to build the banking industry more risk sensitive, shock absorbent and stable, Bangladesh Bank (BB) has introduced Basel II capital adequacy framework from January 2010 as regulatory compliance for banks. Under Basel-II, banks are required to take into account market and operational risks in addition to credit risk for calculating Minimum Capital Requirement (MCR). Moreover, necessary action has been taken to ensure public disclosure of information of banks' capital structure through market disclosure in addition to ensuring adequate capital through supervisory review process (SRP). BB has phased out three different levels of minimum Capital Adequacy Ratio (CAR) and Minimum Capital Requirement (MCR) at 8 percent up to June 2010, 9 percent up to June 2011 and 10 percent from July 2011 onward. The CAR of the banking system under Basel II was 11.31 percent at the end of June 2012 which was 9.75 percent at the end of June 2011.

The credit growth has gone upward due to expansion of financial activities stood at 18.75 percent at the end of June 2012. At the end of June 2012 the idle liquidity increased by 8.04 percent which was 6.73 percent at the end of June 2011 (considering government securities). Having 18.75 percent increases in the credit growth, income and profitability have increased in comparison to June 2011. The Return on Asset (ROA) declined to 1.16 percent at the end of June 2012 from 1.31 percent at the end of June 2011 (considering profit after provision and tax).

Non-bank Financial Institutions (NBFI)

As of 30 June, 2012, there are as many as 31 licensed non-bank financial institutions in the country. These banks have a network of 164 branches operating in Dhaka city and other regions of the country. Total paid up capital and reserve of these financial institutions stood at Tk.

5,682.46 crore as on 30 June, 2012, of which paid up capital is Tk. 2,933.41 crore. Total assets and deposits of the NBFIs are Tk. 30,900.21 crore and Tk. 12,423.89 crore respectively as on 30 June, 2012. Besides investing in industry, trade and housing sectors, NBFIs also invest in the stock market. The share of NBFIs in terms of investment in listed company was Tk. 1,416.36 crore as on 30 June 2012. NBFIs can borrow from the call money market up to 15 percent of their net assets. As on 30 June 2012, the total outstanding loan/leases, total amount of classified loan/leases and the rate of classified loan/leases of all the NBFIs stood at Tk. 22,782.46 crore, Tk. 1,456.76 crore and 6.39 percent respectively. To mitigate the probable risk and to adopt further prudential management, Basel accords are being implemented in the FIs from January 2012 as per the guidelines titled "*Prudential Guidelines on Capital Adequacy and Market Discipline for Financial Institutions".*

Banking, Monetary and Credit Policy Reforms

Legal Reforms

To expedite the settlement of disputes regarding loan recovery of banks and financial institutions, *Artha Rin Adalat Ain, 2003* has been made effective. In order 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 June 2012, a total of 1,16,241 cases were filed, of which 84,840 cases were settled accruing the recovery of Tk. 7,858.32 crore against the claim of Tk. 40,726.98 crore.

Reforms in the Banking Sector

Reforms in the Bangladesh Bank

Bangladesh Bank (BB) is implementing Central Bank Strengthening Project (CBSP) with the financial assistance from International Development Association (IDA). The project is intended to improve the efficiency of the central bank through functional reforms and large scale automation of its business process. It began its implementation in late 2003 and expected to be completed by April, 2013.

The main objectives of the project are:

1. Strengthening the legal framework of the banking sector
2. Reorganisation and Modernisation (Modernisation of Bangladesh Bank Training Academy-BBTA, BB Office Layout and Office Modernisation, Video Conferencing Facility along with Wireless Digital PA system, Automation, Human Resource Development etc.); and

3. Capacity Building

The activities that have been carried out up to June 2012 under this project are as follows:

- CBSP has already reviewed the existing laws such as Bangladesh Bank Order (BBO), Bank Companies Act (BCA) and Financial Institutions Act (FIA) and submitted its recommendations for necessary amendments to these acts. Bangladesh Bank authority has already reviewed the consistency of draft BBO, BCA and FIA prepared by the Legal Counsels. In order to build in-house capacity, the Law Department was restructured and officials of the Law Department along with the BB officials were trained under this component. In addition, a separate Law Library has been set up in that Department.
- The Law Department's objectives and key performance indicators have been set in a manner that they are perfectly aligned with the overall mission and vision of Bangladesh Bank. Moreover, some departments have been abolished; some new departments have been reformed to make the central bank dynamic.
- A network has already been established covering all branches of BB including its head office with a view to bringing all activities of BB's under the automation.
- The Enterprise Resource Planning (ERP) has already been implemented in BB's all branch offices including head office in order to enhance proper management of BB's human resources, financial resources and physical resources. The accounts, human resources and other resources management of BB can now be delivered accurately as the process has been automated by introducing software of international standard.
- In order to put in place a robust system to strengthen prevention of money laundering offences and to protect the foreign currency from illegal transfer to foreign country, BB has under the software, called goAML to capture the daily data of Suspicious Transaction Reporting(STR) and Cash Transaction Reporting (CTR).

Reforms in State Owned Commercial Banks

The overall progress of four state-owned commercial banks (*Sonali* Bank Ltd., *Janata* Bank Ltd., *Agrani* Bank Ltd. and *Rupali* Bank Ltd.) are monitored and reviewed under the MOU (Memorandum of Understanding) signed by the respective banks. Monetary penalty is imposed on SOBs if they violate the margin of net credit growth under MOU. Moreover, the MOU includes among others cap on credit growth over deposit, automation of banks branch, reduction of classified loan to 15 percent over the previous year, regular stress testing etc. Besides, the state of affairs of Bangladesh *Krishi* Bank (BKB) and *Rajshahi Krishi Unnayan* Bank have also been reviewed under the MOU signed in FY 2011-12.

Money and Financial Market Reforms

In order to build up a banking system of international standard and to strengthen, the overall banking system of the country, a number of initiatives have been taken in recent years. Some of the significant initiatives in FY 2011-12 are stated below:

- It has been decided that loan-margin ratio for fresh loans shall be maintained at 70:30 in the case of house building finance under consumer financing and 30:70 for all other consumer loans including motor car loans.
- With a view to consolidating capital base of commercial banks, a decision has been taken to realise adequate capital against credit, market and operational risks of banks under BASEL II accord.
- Banks can issue subordinated debt as hybrid capital instrument for inclusion in Regulatory Capital. Already 08 (Eight) banks have been permitted to issue subordinated debt.
- The banks that have subsidiaries i.e. merchant bank, securities brokerage have been instructed to make the financial statements on consolidated as well as solo basis for the purpose of calculating CAR. If it is prepared on solo basis, the deduction for such investments will be 50 percent from Tier-1 capital and 50 percent from Tier-2 capital. The assets representing the investments in subsidiary companies whose capital had been deducted from that of the parent bank would not be included in total assets for the purposes of computing the CAR.
- Guidelines on Supervisory Review Evaluation Process (SREP) have been issued (chapter 6 of RBCA) with a view to evaluating bank's SRP. As per the principles of Pillar 2 of Basel-II, every bank will prepare its own Supervisory Review Process document named as ICAAP in order to link capital adequacy with the level of risk management. Thus, banks will preserve adequate capital which will be more than MCR against their overall risk profile.
- In order to increase liquidity after preventing the loss resulted from Marking to Market based re-evaluation of Government treasury bills/bonds, instead of outright buy/sell the procedures will be treated as collateralised repo transactions for primary dealer banks who hold Government securities to simplify the liquidity support operation provided by Bangladesh Bank.
- In this case, decision has been taken that BB will apply a 15 percent and 5 percent margin on the Face Value of T-Bill and T-Bond respectively and provide the rest amount of the face value as Liquidity Support (LS).
- With a view to enhancing lending facility of banks through liquidity growth, the amount of investment in HTM (Held to Maturity) securities has been increased to 85 percent of easily exchangeable asset stock of respective month only for primary dealers of government securities.

Capital Market

The capital markets of Bangladesh were in a bullish trend during the period of global financial crisis, but massive correction in these markets took place afterwards. The market capitalisation of the Dhaka Stock Exchange (DSE) declined to Tk. 2,89,116.29 crore at the end of June 2012 from 2,85,389.22 crore at the end of June, 2011. During this period, the DSE general index decreased by 25.24 percent from 6,117.23 to 4,572.88.

The Government has taken a number of initiatives to address the turmoil of the capital market and regain the public confidence. Steps have already been taken to identify the problems of the book building method and to make correction of the system. In order to separate the ownership, management and trading of stock exchange, the process of demutualisation in Dhaka and Chittagong Stock Exchanges has begun. New provision has been made regarding the augmentation of capital through private and public placement for the private and public limited companies. Necessary refinement and correction have been made in the Merchant Banker & Portfolio Manager Regulation to ensure further transparency, accountability and expeditious functions of the merchant banks. A compulsion for the sponsors and the directors of the listed companies has also been made to hold 30 percent and 2 percent of shares of the company respectively. It is expected that that these initiatives will bring back stability in the capital market.

Market Situation

Dhaka Stock Exchange (DSE)

In June 2012, the number of listed securities in DSE stood at 511 which was 490 in June 2011. The total turnover of DSE from January to June, 2012 is Tk. 51,302.19 crore. Due to downtrend of the market, market capitalisation of DSE went down to Tk. 2,49,116.29 crore in June, 2012 which was Tk. 2,85,389.22 crore in June 2011. DSE's all share price index has also declined due to the same reason and reached 4,572.88 which was 6,117.23 in December 2011.

Table 5.7: Trading Operation in Dhaka Stock Exchange

Year/month end	No. of listed securities (with mutual funds & bonds)	IPO	Issued capital (crore Taka)	Market Capitalization (crore Taka)	Turnover Value (crore Taka)	All share price index
2006	310	12	11,843.70	31,544.62	6,506.93	1,609.51
2007	350	14	21,447.00	74,219.59	32,282.01	3,017.21
2008	412	12	37,215.60	104,379.90	66,796.47	2,795.34

Year/month end	No. of listed securities (with mutual funds & bonds)	IPO	Issued capital (crore Taka)	Market Capitalization (crore Taka)	Turnover Value (crore Taka)	All share price index
2009	415	18	52,209.90	190,322.81	147,530.08	4,535.53
2010	445	18	66,435.97	350,800.58	400,991.27	8,290.41
2011	501	14	87,890.50	261,673.05	156,091.21	5,257.61
June-11	490	7	80,936.70	285,389.22	90,248.26	6,117.23
June-12	511	9	93,362.96	249,116.29	51,302.19	4,572.88

Source: Dhaka Stock Exchange

Graph 5.6 : DSE Market Capitalization and DSE General Index

Chittagong Stock Exchange (CSE)

In June 2012, the number of listed securities in CSE stood at 251 which was 241 in 2011. The total turnover of CSE from January to June, 2012 is Tk. 5,890.63 crore. Due to downtrend of the market, the market capitalisation of CSE dipped to Tk. 1,87,153.29 crore in June, 2012 which was Tk. 1,97,242.3 crore in December 2011. CSE's all share price index also declined due to the same reason and reached 13,736.42 which was 14,480.4 in December 2011.

Table 5.8: Trading Operation in Chittagong Stock Exchange

Year/month end	No. of listed securities (with mutual funds & bonds)	IPO	Issued capital (crore Taka)	Market Capitalization (crore Taka)	Turnover Value (crore Taka)	All share price index
2005	201	16	5,551.9	21,994.3	1,404.3	3,378.7
2006	213	6	6,937.9	27,051.1	1,589.3	3,724.4
2007	227	13	8,917.4	61,258.0	5,259.0	7,657.1
2008	238	12	12,160.3	80,768.4	9,980.4	8,692.8
2009	217	18	15,512.5	147,080.7	16,256.3	13,181.4
2010	232	18	20,111.56	253,439.3	21,520	18,116.1
2011	241	6	32,212.9	197,242.3	18,633.7	14,880.4
2012 (June)	251	6	37,522.02	187,153.3	5,890.63	13,736.42

Source: Chittagong Stock Exchange

Graph 5.7 : CSE Market Capitalization and CSE General Index