

## CHAPTER 5

### MONETARY MANAGEMENT AND FINANCIAL MARKET DEVELOPMENT

*[Following the domestic and global economic trends, a cautious, investment and growth friendly monetary policy has been carried out in the current fiscal year like the previous fiscal year. The monetary policy aimed to keep average inflation down to 7.0 percent or below 6.5 percent in FY 2013-14 along with ensuring sufficient credit flow to the productive sectors. The Monetary Policy Statement (MPS) for the second half of FY 2013-14 set targets for broad money (M2) growth to 17.00 percent and private sector credit to 16.5 percent at the end of FY 2013-14. However, broad Money (M2) increased by 16.09 percent during FY2013-14, which was slightly lower than 16.71 percent growth a year earlier. Year-on-year growth in domestic credit was 11.57 percent during FY2013-14, slightly higher than 11.02 percent during FY2012-13. Private sector credit growth was 12.27 percent in FY2013-14, slightly higher than year-on-year growth of 10.85 percent of previous fiscal year. On the other hand, the interest rate spread increased to 5.31 percent at the end of June 2014 from 5.13 percent of June 2013. Besides this, importance is given to the financial inclusion process aimed to deliver financial products and services among the disadvantaged sections of society through mainstream financial institutions in easy ways. In FY 2013-14, both the price index and the market capitalisation of Dhaka Stock Exchange and Chittagong Stock Exchange have increased. “Demutualisation Act” has been enacted to restore the confidence of general investors in the capital market for its stable and smooth operation.]*

#### **Monetary Policy and Monetary Management**

In the backdrop of sharp growth of net foreign assets and tolerable inflation in FY2013-14, cautious, investment and growth friendly monetary policy was formulated for FY2014-15. The objective of the monetary policy was to keep average inflation down to 7.00 percent (base: 1995-96=100) or below 6.50 percent (base: 2005-06=100) along with ensuring sufficient credit flow to the productive sectors to achieve inclusive growth.

In the second half of FY2013-14 monetary policy stance, targets for reserve money and broad money growth were set at 16.2 percent and 17.0 percent respectively. Private sector credit growth was fixed at 16.5 percent, which was consistent with the targeted GDP growth and higher than the average growth rate of emerging Asian economies. Target for net foreign assets growth was adjusted upward from the earlier 8.4 percent to 10.0 percent due to sharp rise in net foreign assets. For this reason, target for net domestic assets growth was slightly cut down to 18.6 percent from earlier 19.0 percent. Bangladesh Banks's active involvement in the interbank money and foreign exchange market help maintain stability in exchange rate as well as interest rate. However, the increased liquidity in the banking system due to significant surge in Net Foreign Assets needed to be sterilised via reverse repo operation with consequent costs of Bangladesh Bank (BB). It was decided that banks should maintain Cash Reserve Requirement (CRR) separately from Statutory Liquidity Ratio (SLR) from February

01, 2014 in line with the Bank Companies (Amended) Act, 2013 aiming to implement the monetary policy effectively. The required SLR is 13.00 percent daily for conventional banks and 5.50 percent daily for Islamic Shariah-based banks of their total demand and time liabilities. Hence, in light of persisting inflationary pressures, Bangladesh Bank raised the CRR by 50 basis points to 6.50 percent from June 24, 2014.

Bangladesh Bank has made arrangement to ease monetary transmission channels for the effective application of monetary policy. Strengthening secondary market activities for public and private credit is one of the concern of FY2013-14 monetary policy. Supervision of Bangladesh Bank has been strengthened to establish institutional good governance including strong internal control of banks as a whole.

## **Money and Credit Situation**

### **Trends in Monetary Aggregates**

During FY2013-14, year-on-year growth of narrow money (M1) and reserve money increased significantly while broad money (M2) decreased marginally as compared to the preceding fiscal year. The increasing trend in growth of narrow money was largely due to sharp increase in demand deposit growth despite a slight decrease in currency notes and coins with the public. Besides, the increase in reserve money was largely attributed to the increase in net foreign asset. On the other hand, a slight decrease in time deposit growth has resulted in the slight decrease in broad money growth. Table 5.1 shows the trends in monetary aggregates since FY2006-07 to FY2013-14.

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

<b>Indicator</b>	<b>2006-07</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
Narrow Money (M1)	17.62	11.99	32.46	17.18	6.42	12.65	14.60
Broad money (M2)	17.06	19.17	22.44	21.34	17.39	16.71	16.09
Reserve Money (RM)	17.90	31.93	18.16	21.03	8.99	15.02	15.46

Source: Bangladesh Bank

### **Narrow Money (M1)**

Narrow money increased by 14.60 percent during FY2013-14 as compared to an expansion of 12.65 percent in FY2012-13. During FY2013-14, the year-on-year growth of M1 was higher mainly due to significant increase in demand deposit growth despite a slight decrease of currency notes and coins with the public. During FY2013-14, year-on-year growth of currency notes and coins with the public increased by 13.85 percent compared to the increase of 15.64 percent a year earlier. Similarly, demand deposit increased by 15.50 percent during FY2013-14, compared to the increase of 9.25 percent a year earlier.

### **Broad Money (M2)**

The Broad Money (M2) increased by 16.09 percent during FY2013-14, which was slightly lower than 16.71 percent growth a year earlier. During the period, time deposit increased by 16.48 percent against 17.80 percent growth of the previous fiscal year. Broad money increased to Tk.7,00,623.5crore at the end of June 2014 from Tk.6,03,505.40crore at the end of June 2013. Table 5.2, Figure 5.1 and 5.2 show the composition of Broad Money (M2) and credit and their movements over time.

**Table 5.2: Money and Credit**

Indicators	June, 2011	June, 2012	June, 2013	June, 2014
End period stock (In crore Taka)				
1. Net foreign assets of the banking system	70573.4	78818.7	113384.8	160056.6
2. Net domestic assets of the banking system	369946.6	438290.8	490120.6	540566.9
a. Domestic credit	430893.0	514972.5	571737.1	637906.2
a.1. Government sector (net) <sup>1</sup>	73227.9	91728.9	110124.6	117529.4
a.2. Public sector (other) <sup>1</sup>	16952.4	15342.1	9455.3	12736.9
a.3. Private sector <sup>1</sup>	340712.7	407901.5	452157.2	507639.9
b. Other assets (net)	-60946.4	-76681.7	-81616.5	-97339.3
3. Narrow money	103101.1	109721.4	123603.1	141645.1
a. Currency notes and coins with the public	54795.1	58417.1	67552.9	76908.4
b. Demand deposit <sup>2</sup>	48306.0	51304.3	56050.2	64736.7
4. Time deposit	337418.9	407388.1	479902.3	558978.4
5. Broad money [(1)+(2)] or [(3)+(4)]	440520.0	517109.5	603505.4	700623.5
Year-on-year percentage change (%)				
1. Net foreign assets of the banking system	5.26	11.68	43.86	41.16
2. Net domestic assets of the banking system	24.99	18.47	11.83	10.29
a. Domestic credit	27.55	19.51	11.02	11.57
a.1. Government sector (net)	34.98	25.26	20.05	6.72
a.2. Public sector (other)	32.30	-9.50	-38.37	34.71
a.3. Private sector	25.84	19.72	10.85	12.27
b. Other assets (net)	45.64	25.82	6.44	19.26
3. Narrow money	17.18	6.42	12.65	14.60
a. Currency notes and coins with the public	18.71	6.61	15.64	13.85
b. Demand deposit	15.48	6.21	9.25	15.50
4. Time deposit	22.68	20.74	17.80	16.48
5. Broad money	21.34	17.39	16.71	16.09

**Source:** Bangladesh Bank

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

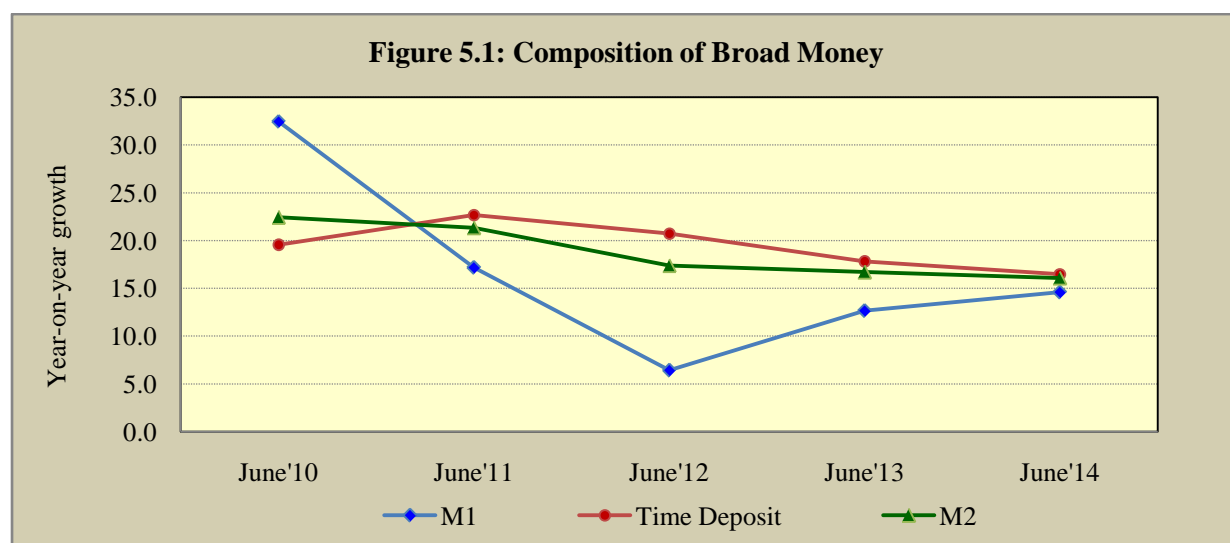
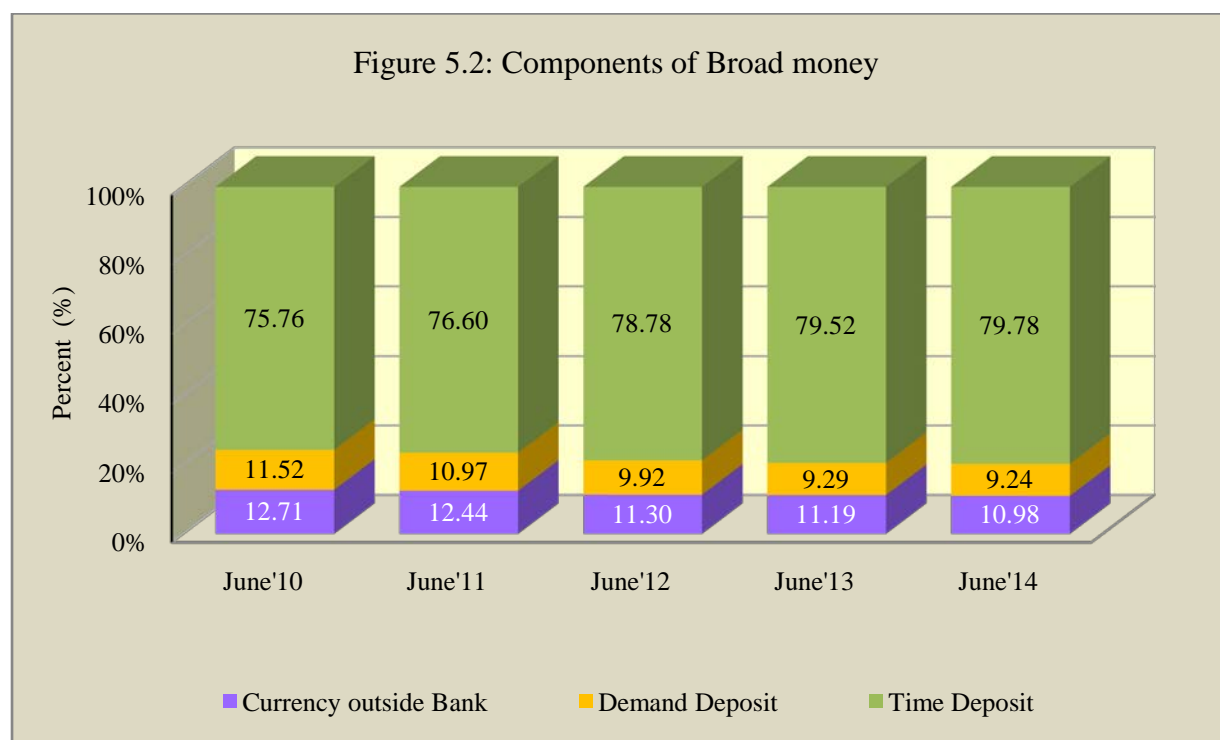


Figure 5.1 depicts the movement of broad money and its components. It reveals from the figure that, since FY2009-10 narrow money growth has been showing significant fluctuations while time deposit and broad money growth decreased steadily over time.

Figure 5.2 shows that the ratio of time deposits of Broad Money (M2) increased over time while currency outside banks and demand deposits ratios showed a decreasing trend from FY2010-11 to FY2013-14.



### Domestic Credit

Year-on-year growth in domestic credit was 11.57 percent during FY2013-14, slightly higher than 11.02 percent during FY2012-13. Sector-wise analysis of domestic credit indicates that the net credit to the Government sector increased by 6.72 percent at the end of June 2014 compared to the growth of 20.05 percent during the previous year. Private sector credit growth was 12.27 percent in FY2013-14, slightly higher than year-on-year growth of 10.85 percent of previous fiscal year.

### Reserve Money

In FY2013-14, reserve money increased by 15.46 percent at the end of June 2014, as compared to 15.02 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 42.86 percent. However, Net Domestic Assets (NDA) of Bangladesh Bank decreased by 290.64 percent during the period. Claims on government sector (net), Non-bank Depository Corporations (NBDCs) increased by 2.21 percent. On the other hand, claims on Government sector (net), claims on Deposit Money Banks (DMBs) and claims on other public sector declined by 85.81 percent, 38.55 percent and 11.21 percent respectively. 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, 2011	June, 2012	June, 2013	June, 2014
<b>Period end stock (in crore Taka)</b>				
1. Currency issued	60526.9	64896.5	75372.3	85485.2
2. Balances of scheduled banks with BB	29007.7	32662.3	36803.4	43997.7
3. Reserves of other financial institutions with the BB	199.8	243.9	313.7	392.4
<b>4. Reserve Money [(1)+(2)+(3)]</b>	<b>89734.4</b>	<b>97802.7</b>	<b>112489.4</b>	<b>129875.3</b>
<b>Year-on-year percentage change (%)</b>				
1. Currency issued	19.94	7.22	16.14	13.42
2. Balances of scheduled banks with BB	23.61	12.60	12.68	19.55
3. Reserves of other financial institutions with the BB	-4.58	22.07	28.62	25.09
<b>4. Reserve Money</b>	<b>21.03</b>	<b>8.99</b>	<b>15.02</b>	<b>15.46</b>

Source: Bangladesh Bank

**Table 5.4: Reserve Money and Its Sources**

Particular	June, 2011	June, 2012	June, 2013	June, 2014
<b>Period end stock (In crore Taka)</b>				
1. Net foreign assets of BB	61342.1	68930.1	103246.0	147496.6
2. Net domestic assets of BB	28392.3	28872.6	9243.4	-17621.3
a. Domestic credit	54239.7	65262.9	42822.7	15595.2
a.1. Claims on Government sector (net)	31710.5	37854.9	27069.0	3840.6
a.2. Claims on other public sector	776.7	1181.9	1354.5	1202.7
a.3. BB's claims on DMBs	18608.8	22627.4	10219.0	6279.2
a.4. BB's claims on NBDCs	3143.7	3598.7	4180.2	4272.7
b. Other assets (net)	-25847.4	-36390.3	-33579.3	-33216.5
<b>3. Reserve Money [(1)+(2)]</b>	<b>89734.4</b>	<b>97802.7</b>	<b>112489.4</b>	<b>129875.3</b>
<b>Year-on-year percentage change (%)</b>				
1. Net foreign assets of BB	0.26	12.37	49.78	42.86
2. Net domestic assets of BB	119.05	1.69	-67.99	-290.64
a. Domestic credit	72.16	20.32	-34.38	-63.58
a.1. Claims on Government sector (net)	47.69	19.38	-28.49	-85.81
a.2. Claims on other public sector	-6.50	52.17	14.60	-11.21
a.3. BB's claims on DMBs	181.36	21.60	-54.84	-38.55
a.4. BB's claims on NBDCs	21.44	14.47	16.16	2.21
b. Other assets (net)	39.39	40.79	-7.72	-1.08
<b>3. Reserve Money</b>	<b>21.03</b>	<b>8.99</b>	<b>15.02</b>	<b>15.46</b>

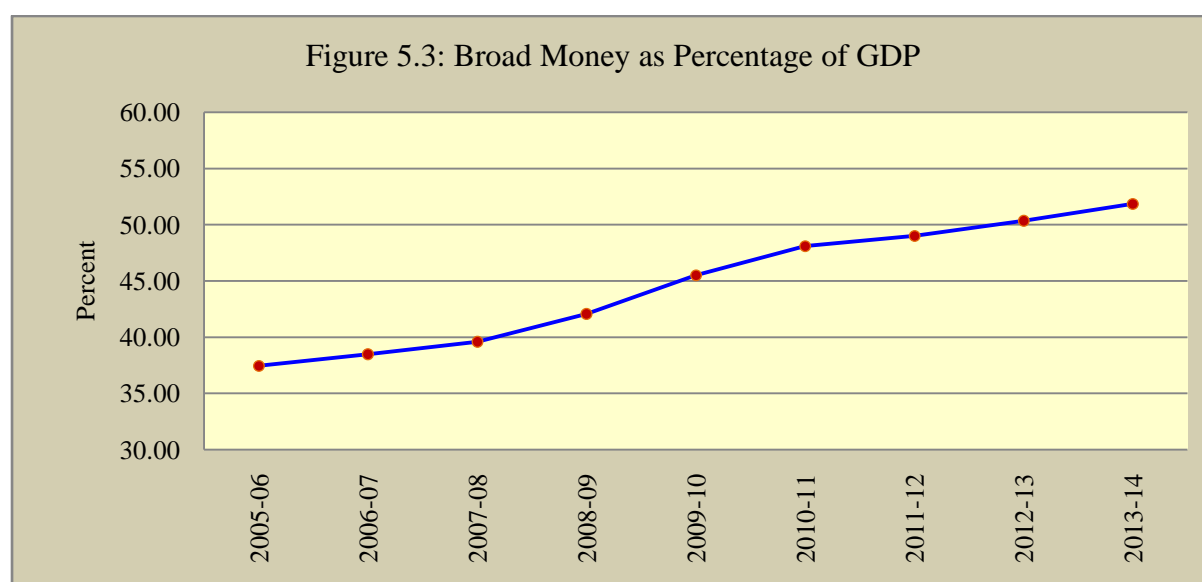
Source: Bangladesh Bank

## Money Multiplier

Money multiplier increased to 5.39 in FY2013-14 as compared to 5.36 at the end of FY2012-13. The ratios of money multiplier as reserve-deposit ratio slightly increased to 0.085 in FY2013-14 from 0.084 of FY2012-13 and currency-deposit ratio declined to 0.123 in FY2013-14 from 0.126 level of FY2012-13. The changes in these two behavioural ratios led to an increase in money multiplier.

## Income Velocity of Money

Income velocity of money decreased by 3.02 percent to 1.93 in FY2013-14 as compared to 1.99 at the end of FY2012-13 which was 2.45 percent lower than that of previous year. It is mentionable that the income velocity of money is gradually declining in the recent past years. Income velocity of money declined by 2.67 and 2.60 percent during FY2005-06 and FY2006-07 respectively. The gradual declining trend of income velocity of money is an indication of monetization in the economy of Bangladesh. Figure 5.3 shows the trends of broad money as a percent of GDP from FY2005-06 to FY2013-14.



**Table 5.5: Income Velocity of Money**

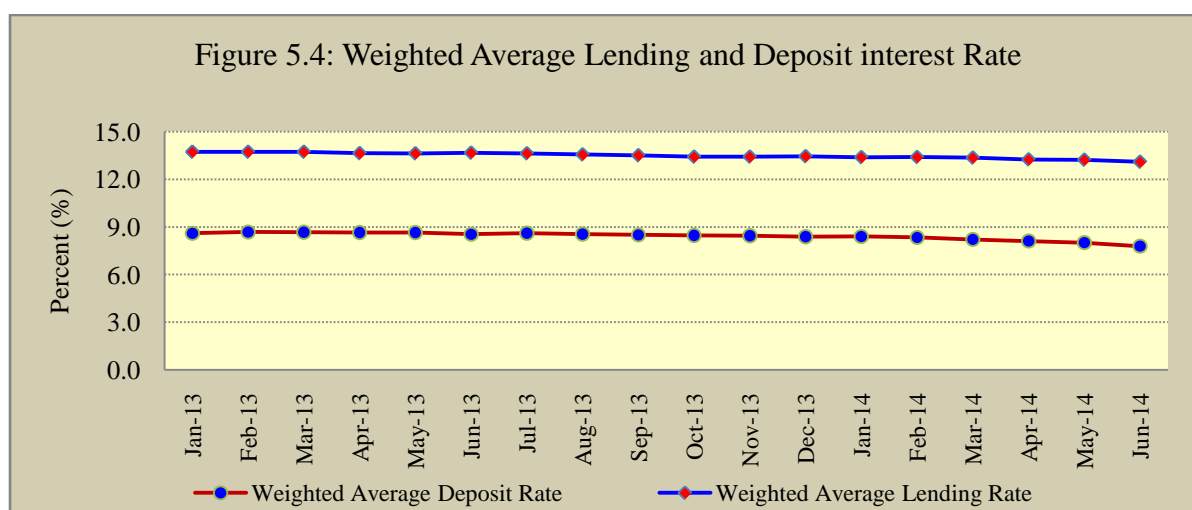
Fiscal Year	GDP (In billion taka)	Broad Money (In billion taka)	Broad Money As percent of GDP	GDP/M2
2005-06	4823.40	1806.74	37.46	2.67
2006-07	5498.00	2115.04	38.47	2.60
2007-08	6286.80	2487.95	39.57	2.53
2008-09	7050.70	2965.00	42.05	2.38
2009-10	7975.40	3630.31	45.52	2.20
2010-11	9158.30	4405.20	48.10	2.08
2011-12	10552.00	5171.09	49.01	2.04
2012-13	11989.20	6035.05	50.34	1.99
2013-14	13509.20	7006.23	51.86	1.93

**Source:** Bangladesh Bank

## Rationalising the Rate of Interest/Charges

Bangladesh Bank is continuously providing instructions to banks to take initiatives with a view to rationalizing the rate of interest through creating competitive environment among the banks. Banks are allowed to change their lending and deposit rates only once in a month. In case of changing lending and deposit rates, banks have to inform Bangladesh Bank immediately as well as upload their deposit and lending interest rates on their respective websites. In this regard, banks are advised to limit the difference between lending and deposit rates of interest or intermediation spread within lower single digit in different sectors other than high risk consumer credit (including credit card) and SME loans. Moreover, guidelines have been given to all banks to follow the housing finance credit-margin ratio 70:30 and rest of the loans (including motor-car loan) credit-margin ratio 30:70 under the consumer financing schemes.

The weighted average rate of interest on commercial lending decreased to 13.10 percent at the end of June 2014 from 13.67 percent end of June 2013. Similarly, the deposit rate decreased to 7.79 percent from 8.54 percent over the same period. However, the interest rate spread increased to 5.31 percent at the end of June 2014 from 5.13 percent of June 2013. Figure 5.4 shows the trends of weighted average lending and deposit interest rates from January 2013 to June 2014.



## Financial Market Management

Strong Financial Market plays an important role in saving-investment process to achieve higher economic growth of a country. Financial markets in Bangladesh consists of banks, non-bank financial institutions and stock market which include 4 State-Owned Commercial Banks (SCBs), 4 State-Owned Specialized Banks (SBs), 39 Private Commercial Banks (PCBs), 9 Foreign Banks (FCBs), 31 Non-Banking Financial Institutions (NBFIs). Besides, two state-owned financial institutions- Investment Corporation of Bangladesh (ICB) 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

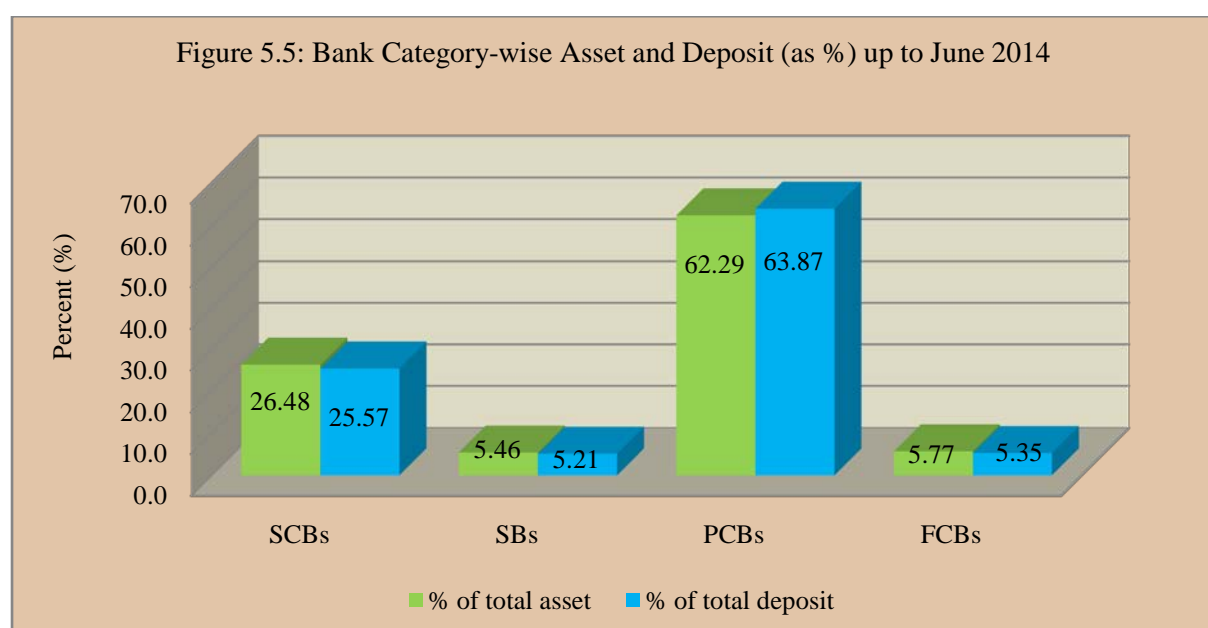
There are four types (state owned commercial banks, specialized banks, local private commercial banks and foreign banks) of scheduled banks in the banking sector of Bangladesh. As of June 2014, there are 56 scheduled banks operating through their 8794 branches in Bangladesh. Among them 3536 branches belong to state-owned commercial banks, 3692 branches to local private commercial banks, 70 branches to foreign commercial banks and 1496 branches to specialized banks. Apart from these banks, some non-scheduled banks (like *Ansar VDP Unnayan Bank*, *Shamobaya Bank*, *Karmasangsthan Bank*, *Grameen Bank*, *Jubilee Bank Ltd.* and *Probashi Kalayan Bank*) are also operating in the banking sector. The structure of banking system and share of total deposits and assets on the basis of types of banks are shown in Table 5.6 and Figure 5.4 respectively at the end of June, 2014.

**Table 5.6: Structure of the Banking System in Bangladesh  
(Up to June 2014)**

Type of Banks	No.	No. of Branches	Percent of total asset	Percent of total deposit
SCBs	4	3536	26.48	25.57
SBs	4	1496	5.46	5.21
PCBs	39	3692	62.29	63.87
FCBs	9	70	5.77	5.35
Total	56	8794	100	100

Source: Bangladesh Bank

Table 5.5 shows that, 62.29 percent of total assets and 63.87 percent of total deposits are handled by PCBs, about 26.48 percent of total assets and 25.57 percent of total deposits are handled by SCBs. The SBs have only 5.46 percent of total assets and 5.21 percent of total deposits though they are operating 1,496 branches across the country.



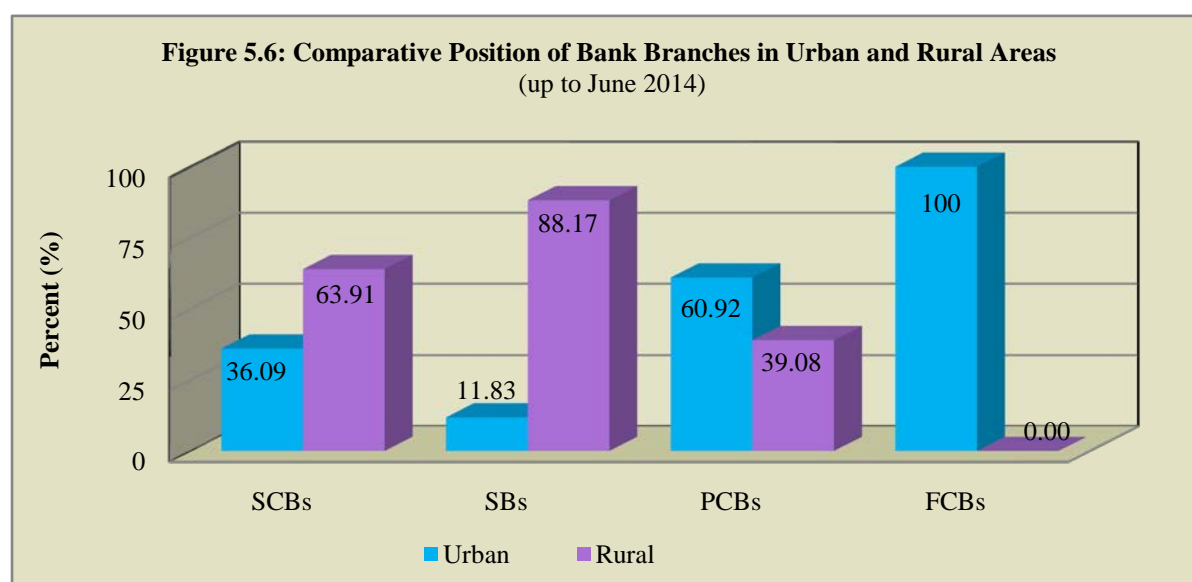


Among the total bank branches, 5,022 branches of scheduled banks are operating in the rural area. The state-owned commercial banks and specialized banks provide wider access to the mass people with their large network of bank branches. According to the latest information, up to June, 2014 there is no branch of foreign banks in the rural areas and only 39.08 percent of total local private bank branches are located in rural areas. On the other hand, 63.91 percent and 88.17 percent of total branches of state-owned commercial banks and specialized 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 5.7 and Figure 5.5.

**Table 5.7: Comparative Position of Bank Branches in Urban and Rural Areas  
(Up to June 2014)**

Type of Banks	No. of banks	No. of branches			percent of Total Branches		
		Urban	Rural	Total	Urban	Rural	Total
SCBs	4	1276	2260	3536	36.09	63.91	100
SBs	4	177	1319	1496	11.83	88.17	100
PCBs	39	2249	1443	3692	60.92	39.08	100
FCBs	9	70	0	70	100.00	0.00	100
Total	56	3772	5022	8794	42.89	57.11	100

Source: Bangladesh Bank.



The Return on Asset (ROA) remained same as 0.61 percent at the end of June 2013 and June 2014 which was 0.64 percent at the end of December 2012 (considering profit after provision & tax). On the other hand, the Return on Equity (ROE) decreased to 8.36 percent at the end of June 2014 from 9.70 percent at the end of June 2013. The gross NPL ratio to total loans of the banking system decreased from 11.91 percent at the end of June 2013 to 10.75 percent at the end of June 2014, which was 8.93 percent at the end of December 2013. Net NPL ratio to total loans of the banking system stood at 3.88 percent at the end of June 2014.

## **Implementation of Basel III**

Following the experiences of global financial meltdown in 2007-2009, Basel Committee on Banking Supervision (BCBS) issued *Basel III: A global regulatory framework for more resilient banks and banking systems* on December 2010 to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. The implementation processes of Basel III Regulation have been started from July 2014 with a Road Map. As a part of the initiatives, draft 'Guidelines on Risk Based Capital Adequacy [Revised Regulatory Capital Framework for Banks in Line with Basel III]' has already been published. Prior to this, BB conducted a Quantitative Impact Study (QIS) in preparation for planning a road map of Basel-III implementation in Bangladesh, which suggested that, Basel III Implementation is possible within the time frame of Bank for International Settlement (BIS). The Basel III regulations target greater resilience at the individual bank level and reduce the risk of system wide shocks by strengthening micro prudential regulation and supervision, and add a macro prudential cover that includes capital buffers. As per guidelines, banks in Bangladesh are calculating Risk Weighted Asset (RWA) as per standardised approach which requires credit worthiness of a bank. Counterparty will be assessed by eligible External Credit Assessment Institutions (ECAI) recognized by BB. In this regard, BB has already recognised 8ECAIs (Credit Rating Agencies) and has mapped their rating grades. An SME Rating Methodology has been published separately in this regard. From July 2011 banks in Bangladesh are required to maintain at least Minimum Capital Ratio (MCR) of 10 percent. In view of this the average Capital Adequacy Ratio (CAR) of the banks in Bangladesh was 11.52 percent at the end of December, 2013 while it declined to 10.68 percent at the end of June 2014.

## **Financial Inclusion**

The goal of financial inclusion is to ease delivery of financial products and services among the disadvantaged sections of society through mainstream financial institutions. Bangladesh Bank has taken various initiatives to bring the huge number of financially excluded people under former financial services to create sustainable socio-economic structure of the country. These initiatives include directives to banks for opening NFAs (No-frill accounts) for Farmers, Freedom Fighters, and Beneficiaries under Social Security Programme, Small Life Insurance Policy Holder, Hardcore poor beneficiary workers etc. and others. BB has created opportunity of banking not only for adults, for minors like as school students. Banks have opened up NFAs 9,690,274 for farmers, 1,65,112 for freedom fighters, 3,115,762 for beneficiaries under social security program, 15414 for small life insurance policy holder and 1,057,932 for others including Tk.10 accounts with a total of 14,044,494 accounts under these heads upto June 2014.

## **Non-bank Financial Institutions (NBFI)**

Non-bank financial institutions are playing significant roles in providing finances to the industrial, commercial, housing, transportation and information technology sectors of the country. As of June 2014, 31-licensed non-bank financial institutions are working in the country. These financial Institutions have a network of 183 branches operating in various regions of the country. Total paid up capital and reserve of these financial institutions stood at

Tk.9,370.49crore up to June 2014 of which paid up capital is Tk.5,703.87crore. Total assets and deposits of the NBFIs are Tk.50,056.39crore and Tk.23,643.52crore respectively up to June 2014. Besides investing in industry, trade and housing sectors, NBFIs also invest in the stock market. NBFIs total investment in listed company was Tk.1,633.45crore up to June 2014. 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.34,168.39crore, Tk.1,849.09 crore and 5.41 percent respectively up to June 2014.

## **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. Effective application of this Act has started yielding encouraging results. As of June 2014, 1,30,036 cases were filed, of which 1,17,402 cases were settled accruing the recovery of Tk.9,673.59 crore against the claim of Tk.60,212.46 crore.

### **Reforms in the Banking Sector**

#### **Reforms in the Bangladesh Bank**

The Central Bank Strengthening Project (CBSP) has been implemented to address the functional reorganization and modernisation of Bangladesh Bank.

Implementation status of different components of CBSP for FY 2013-14 is as follows:

- A modern and IT based system has been implemented to analyse Suspicious Transaction Report (STR) and Cash Transaction Report (CTR) in FIU.
- National Payment Switch of Bangladesh (NPSB) has been established in line with the National Policy on Information and Communication Technology 2009. So far 18 scheduled banks are connected with the switch.
- Mobile Banking operation has been introduced which has been facilitating easy and faster distribution of local and foreign remittance, and ensuring ease of payment of different utility bills and government grants etc.
- The Enterprise Resources Planning (ERP) has been implemented with a view to execute integrated accounting and managing financial assets, human resources and other physical assets automatically and accurately.

#### **Reforms in State Owned Commercial Banks**

State-owned Commercial Banks (SCBs) are now ensuring increases due to compliance with the new loan-provisioning regulations of Bangladesh Bank which follow international standards. With a view to improving credit-management of SCBs, Bangladesh Bank is monitoring the credit policy compliance and internal control. In December 2013, the Government has provided Tk.4,100crore to the SCBs as recapitalisation. In the meantime, classified loan of SCBs has been reduced substantially. With the help of the recapitalisation from the Government and reduction in classified loan, the SCBs except *Sonali Bank Ltd.* have overcome the capital shortfall as prescribed in *BASEL II* upto December, 2013. It is

mentionable that, the performances of SCBs (*Sonali, Janata, Agrani and Rupali*), BKB and RAKUB are being reviewed under the Memorandum of Understanding (MoU).

### **Money and Financial Market Reforms**

With goals to reform the money and financial markets, to building up a banking system of international standard, and to prop up and strengthen the overall banking sector of the country a number of initiatives have been taken during FY2013-14 as given below:

- Financial Stability Report is being published regularly in order to produce the overall scenario about the trends and nature of financial sector and stability of the financial system among the stockholders. Four reports have already been published from 2010 to 2013.
- In order to reduce the systematic risk, highly vulnerable institutions are being identified and advance signals are being provided through the review of financial statements of the banks by operating stress-testing programme.
- Inter-banks transactions are being analyzed and reviewed regularly through the *Interbank Transaction Matrix*.
- To develop a method on *Domestic Systematically Important Bank (DSIB)* recognition for Bangladesh financial system following the international standard and work of special strategy preparation for supervisions of such banks are going on.
- In order to reduce unwanted credit growth during the period of economic growth acceleration and introduction of effective measures to resist *Pro-cyclicality* in the financial system by utilizing *Counter Cyclical Capital Buffer* credit flow during the economic slump is on the process.
- In order to rating SME customers, SME Rating Methodology has been issued by modifying the SME Rating related parts following the amended 'Guidelines on Risk Based Capital Adequacy (RBCA)'.
- In order to pay salaries and allowances of RMG workers through bank accounts, labours are announced to be able to open their own bank account by depositing one hundred taka (Taka 100) against their national ID card and ID card issued by the factories they are working.
- Risk-based inspections are tripping in light of the guidelines issued by Bangladesh Bank in several risk fronts (Asset-Liability Management, Credit Risk Management, Internal Control & Compliance, Information Communication Technology, Small Enterprise Financing and Consumer Financing).
- Branch based information of banks are being collected monthly by an Integrated Supervision Software.
- It has been decided that banking or financial institutions having MI Module account for Treasury Bonds/Bills transactions can collect and preserve Treasury Bonds/Bills in the primary auction for their individual or institutional customers by opening Business Partner ID (BP ID) and can purchase and sell them on the secondary market through Over The Counter (OTC) Trade/Trader Work Station (TWS) system.

- For facilitating the investment in BGTBs by foreign investors the section 2(ii)(a) of the notification 'Issuance and Re-issuance of Government Treasury Bonds' published on 24 June 2007 has been amended as follows: the rule 2(ii) (a) The purchase is made with funds from a Non-Resident Foreign Currency Account (NFCA) or a Non-Resident Investors Taka Account (NITA) with a bank in Bangladesh in the name of the purchaser.
- The banks which have separate Pension/Provident Funds or similar other funds registered with National Board of Revenue (NBR) must ensure to invest in Securities according to the Company Act 1994 and the Trust Act, 1882 within 30 June 2015.

### **Development of Payment System**

- Bangladesh Automated Clearing House (BACH) has been established in order to ensure creation of a speedier, more effective and user friendly transaction settlement system in the country. Live operation of CITS (Cheque Imaging and Truncation System) based Bangladesh Automated Cheque Processing System (BACPS) has started from October 7, 2010. From October 25, 2011 onward BACPS is able to clear high value cheques in t+0 days and regular cheques in t+1 day. At present around 1,877,857 regular and around 124,314 high value cheques and other instruments are cleared per month through BACPS. Total amount of regular value instruments cleared is approximately Tk.448 billion and it is approximately Tk.659 billion for high value instruments per month.
- Out of 56 banks, 53 banks have already started online banking to install Core Banking Solution (CBS) and establish inter-branch connectivity network in order to expedite the expansion of online banking services.
- Union Information and Services Centers (UISC), established countrywide, are providing agency service i.e., mobile financial services and limited banking services to those people in the distant rural areas who have no bank account as well as access to the bank.
- In order to facilitate interbank electronic payments originating from different delivery channels, e.g., Automated Teller Machines (ATM), Point of Sales (POS), Internet, Mobile Applications, etc, Bangladesh Bank has started implementation of National Payment Switch of Bangladesh (NPSB) . NPSB has been launched on 27 December 2012 and inter-bank ATM transactions of eighteen banks are being settled through NPSB. Other banks are also likely to join NPSB very shortly. Initiatives have also been taken to establish and implement the Real Time Gross Settlement (RTGS) which will settle the interbank gross transactions in real time.
- In order to ensure the use of mobile technology as alternative payment channel in the banking sector, 28 banks have been licensed. Up to June 2014, total number of registered customers of Mobile Financial Services is about 1.67 crore, total number of agents is about 4,14,170 and total transaction value is about Tk.85.23 billion per month.

## **Prevention of Money Laundering and Financing of Terrorism**

Major AML/CFT initiatives taken by BFIU are given below:

- Bangladesh Financial Intelligence Unit has signed 25 Memorandum of Understanding (MoU) so far, among them 11 MoU have been signed in FY 2013-14 (with FIU of Argentina, Denmark, UK, Trinidad & Tobago, Belgium, Saudi Arabia, Peru, India, Arabia, Turkey And Albania).
- BFIU has achieved the membership of EGMONT group in the Egmont plenary held during 1-5 July, 2013 in Sun City, South Africa.
- The on-site visit by Asia-Pacific Regional Review Group (APRRG) has been conducted on Bangladesh during 24-25 November 2013 to get rid of International Cooperation Review Group (ICRG) process of Financial Action Task Force (FATF). Subsequently, on February 13, 2014 in the plenary meeting of Financial Action Task Force (FATF) in Paris, France, it was unanimously decided that AML/CFT regime of Bangladesh has achieved the international standards and as a result, Bangladesh has got rid of the ICRG process. Bangladesh's getting out from the list of risky countries will not only result in increased prestige to international arena, but also reduce the cost of international business activities.
- All the reporting agencies have started to submit online reporting of Cash Transaction Report (CTR) and Suspicious Transaction Report (STR) through goAML software procured from United Nations Office on Drugs and Crime (UNODC).
- Bangladesh Financial Intelligence Unit has continued its effort to create awareness among the bank officials;
- Anti-Terrorism (Amendment) Act, 2013, 'Guidelines on Prevention of Money laundering and Combating Financing of Terrorism for Designated Non- Financial Businesses and Professions', 'Guidelines on Prevention of Money Laundering and Terrorist Financing for NPO/NGO Sector', and 'Instructions to be followed for compliance of Freezing Accounts of listed Individuals or Institutions and Other Issues under the Sanction List of Different Resolutions of United Nations Security Council' have been promulgated.

## **Capital Market**

### **Demutualisation of Stock Exchange**

National Parliament has passed Exchange Demutualisation Act, 2013 on May 02, 2013 in order to enhance corporate governance, protect the interest of investors and formulate rules in this connection. As a result, both of the stock exchanges have been demutualized on November 21, 2013. As per Exchanges Demutualization Act, 2013, Demutualisation Scheme have been prepared and published in Gazette. Demutualisation has separated ownership of stock exchange from its management and achieved global standard of its operation.

### **IOSCO "A" Category Membership**

In 22 December, 2013 the Commission signed the MOU with International Organisation of Securities Commissions (IOSCO), and upgraded itself to "A" category membership from "B"

category membership. This has enlightened the image of Bangladesh in international arena and created opportunity of growth of foreign investment in the country.

### **Recent Important Reforms of the BSEC**

To stabilise capital market, raising confidence of investors, increasing supply of securities, increasing institutional investor's base and raising transparency and accountability at all corners are highly necessary. During 2013-14, the Commission has taken following steps in this connection:

- Securities and Exchange Commission (Private Placement of Debt Securities) Rules, 2012 was published in Bangladesh Gazette to develop the Bond Market.
- Securities and Exchange Commission (Mutual Fund) Rules, 2001 has been amended to strengthen mutual fund sector and attract the investors.
- An international standard surveillance software has been installed at BSEC in order to find out manipulations and irregularities quickly and take necessary remedy promptly in securities market with a view to strengthening market monitoring and supervision.
- A Special Tribunal has been formed to settle down relevant court cases.
- Maintaining reserve for 20 per cent quota of every public issue from 2012 to June 30, 2014 for affected and identified small investors bearing both the margin and non-margin loan a/c (BO) of concern stock broker-dealer, merchant bank under DSE and CSE.
- Taka 900 crore is allotted as assistance by the Government to implement the suggestion of the special committee formed in order to protect the interest of small investors in capital market. The allotment was arranged to disburse by Investment Corporation of Bangladesh (ICB), of which, primarily refinancing activities of 300 crore taka is going on.
- Arrangement made for speedy payment of commission to foreign brokerage firm's with the help of Bangladesh Bank, through submission of essential documents/paper in case of foreign institutional investors. It motivates the foreign portfolio managers to invest there more.
- BSEC has introduced 10- year master plan to develop the capital market and protect investors interest.
- Merchant bank and subsidiary companies can raise 51 percent fund from parent company and the rest from another source.
- To ensure access to information for investors, academicians and policy maker, BSEC opened Equity Research Publication. The Commission promulgated Bangladesh Securities and Exchange Commission (Research Analysis) Rules, 2013.
- BSEC issued a notification on mandatory compliance of corporate governance guide lines in case of right share issue.

- Corporate Finance Department was established in each stock exchange to ensure institutional good governance of listed companies.
- BSEC issued a notification on asset valuation guidelines for companies willing to apply for IPO.
- A committee has been formed consisting of Ministry of Finance, Bangladesh Bank, BSEC, DSE and CSE to cooperate and to coordinate each other in respect of regular discussion/ monitor on capital market position in order to ensure stable capital market and protect investor interest.
- BSEC issued an order on conversion of close end mutual fund to open end mutual fund.
- BSEC introduced Guidelines on Implementation of the BSEC's New Market Surveillance System to operate newly installed "Instant watch Market surveillance system.

## Market Condition

### Dhaka Stock Exchange Ltd (DSE)

The total number of listed securities has increased from 525 in June 2013 to 536 in June 2014. At the end of June 2014 total issued capital of all listed securities stands at Tk. 1,03,207.64crore, which was Tk. 98,358.97 crore in June 2013, registering 4.92 percent growth. Total market capitalisation of all listed securities was Tk. 2,53,024.60crore in June 2013, which stands at Tk. 2,94,320.23 crore in June 2014, representing 16.32 percent increase.

**Table 5.8: Securities Trading Information of Dhaka Stock Exchange**

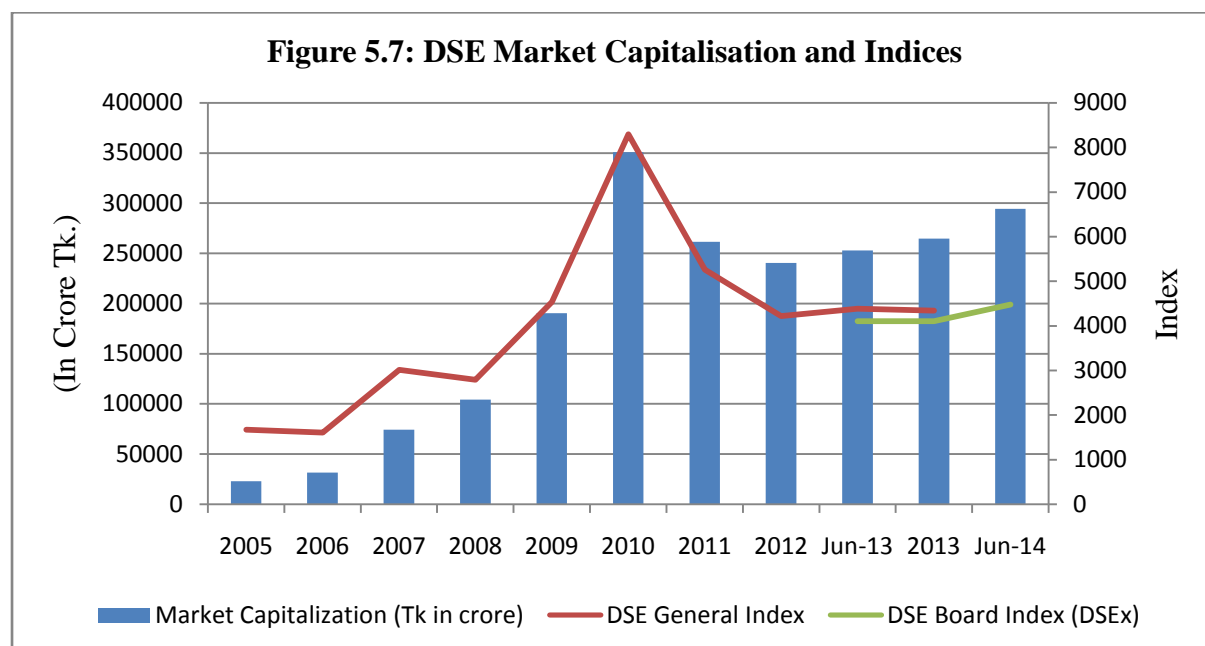
End of Period	No. of Listed Securities (Including Mutual Funds & Debentures)	No. of IPOs	Issued Capital (Tk in crore)	Market Capitalization (Tk in crore)	Securities Traded in Value (Tk in crore)	DSE General index*	DSE Board Index (DSEx)**
2005	286	17	7,031.30	22,857.49	6,486.36	1677.35	
2006	310	7	11,843.70	31,544.62	6,507.91	1609.51	
2007	350	14	21,447.22	74,219.59	32,286.71	3017.21	
2008	412	12	37,215.57	104,379.90	66,796.48	2795.34	
2009	415	18	52,212.94	190,322.81	147,530.09	4535.53	
2010	445	18	66,645.97	350,800.58	400,991.27	8290.41	
2011	501	14	87,890.51	261,673.05	156,091.21	5257.61	
2012	515	17	94,987.57	240,355.56	100,108.49	4219.31	
2013	529	12	99,993.67	264,779.08	95,274.21	4,342.31	4,266.55
June-2013	525	12	98,358.97	253,024.60	85,708.97	4,385.77	4,104.65
June 2014	536	10	103,207.64	294,320.23	54,168.30	-	4,480.52

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

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



DSE introduced its new index benchmark; DSE board Index (DSEX) on January 28, 2013 where the first day closing was 4,090.47 points. DSEX has increased from 4,266.65 points in June 2013 to 4,480.52 points in June 2014, showing 9.16 percent up. Figure 5.7 below shows the trend of DSE market capitalization, DSE general index and DSE broad index.



## Chittagong Stock Exchange Limited

In June 2014 the number of listed securities in CSE stands at 276 in June 2014 which was 266 in June 2013. Issued capital of all the listed securities increased by 9.83 percent in June 2014 standing at Tk 47,072.19 which was Tk 42,856.43 in June 2013. Market capitalisation of CSE has also increased by 19.06 percent and stands at Tk. 2,28,667.88crore in June, 2014 which was Tk. 1,91,989.06crore in June 2013. CSE All Share Price Index reached at 13,766.23 in June, 2014 increasing 8.07 percent from June 2013.

**Table 5.9: Securities Trading Information of Chittagong Stock Exchange**

End of Period	No. of listed securities (with MF& Bonds)	IPO	Issued capital (Crore Taka)	Market Capitalization (crore Taka)	Turnover Value (Crore Taka)	CSE All Share Price Index
2005	210	16	5,551.90	21,994.30	1,404.30	3,378.70
2006	213	6	6,937.90	27,051.10	1,589.30	3,724.40
2007	227	13	8,917.40	61,258.00	5,259.00	7,657.10
2008	238	12	12,160.30	80,768.40	9,980.40	8,692.80
2009	217	18	15,512.50	147,080.70	16,256.30	13,181.40
2010	232	18	20,111.56	253,439.30	21,520.40	18,116.10
2011	241	6	32,212.90	197,242.30	18,633.70	14,880.40
2012	251	6	37,522.02	187,153.29	5,890.63	13,736.42
2013	269	17	43,750.96	202,326.13	9,903.75	13,202.94
June, 2013	266	14	42,856.43	191,989.06	10198.71	12,738.23
June, 2014	276	7	47,072.19	228,667.88	4,713.34	13,766.23

Source: Chittagong Stock Exchange

The following Figure shows the comparison between CSE Market Capitalisation and CSE All Share Price Index from December 2005 to June 2014.

