

CHAPTER 5

MONETARY MANAGEMENT AND FINANCIAL MARKET DEVELOPMENT

[The monetary policy pursued during FY2015-16 aimed at providing adequate credit to productive sector in order to promote investment and attaining inclusive growth as well as limiting average inflation at tolerable level. The Monetary Policy Statement (MPS) for the second half of FY2015-16 set targets for broad money and reserve money growth at 15.0 percent and 14.3 percent respectively. However, at the end of June 2016, broad money and reserve money growth stood at 16.35 percent and 30.12 percent respectively. Growth in broad money increased due to mainly robust growth in net foreign assets (NFA). Private sector credit growth was 16.78 percent in FY2015-16, significantly higher than year-on-year growth of 13.19 percent of previous fiscal year above the target 14.8 percent set in the MPS. On the other hand, the interest rate spread decreased marginally to 4.85 percent at the end of June, 2016 from 4.87 percent of June, 2015. On the backdrop of falling inflation rate, repo and reverse repo rate were reduced by 50 basis points to 6.75 and 4.75 percent respectively to align policy rates with the market rates. Despite the subdued trend exhibited in major stock indicators during FY2015-16, however, both the capital markets did not experience sharp fall in stock prices.]

Monetary Policy and Monetary Management

The monetary policy stances for the first and second half of FY2015-16 highlight growth-supportive, inclusive and investment friendly cautious monetary stance to achieve desired economic growth keeping inflation at a tolerance level. Prolonged global growth slowdown accompanying low global inflation amply shows that very low inflation is as unhelpful for growth as is very high inflation; particularly so for developing economies where price levels of nontradeable goods are far below those in advanced economies. Bangladesh Bank would accordingly emphasise on stabilising CPI inflation around the current level rather than on driving it down much further.

The monetary policy statement (MPS) for the first half of FY2015-16 aimed to contain reserve money growth to 16.5 percent, broad money growth to 15.0 percent and private sector credit growth 14.3 percent (including foreign borrowing by local corporate) as programme targets by December, 2015. The year-on-year reserve money growth (15.14%) in December 2015 remained within the target, despite a surge in net foreign assets (NFA) of BB. While the net domestic assets (NDA) changes from (-)Tk.16,814.8 crore to (-)Tk.36,227.3 crore, arising from much lower credit demand of the Government from the central. Private sector credit growth (14.2%) well used up the space provided in the monetary programme.

In the MPS for the second half of FY2015-16, Bangladesh Bank aimed to contain reserve money growth to 14.3 percent, broad money growth to 15.0 percent and the private sector credit growth to 14.8 percent. However, at the end of June, 2016 reserve money growth was unprecedentedly higher the target due to Bangladesh Bank's absorption of excessive flow of foreign currency from the banking system. Likewise, the broad money growth exceeded by 1.43 percentage points from the programme targets. Moreover, private sector credit growth

exceeded by 1.76 percent points from the monetary programme target entailed improvement of investment climate.

Keeping aligned with the market rate, policy rates have been cut in the monetary policy stance for the second half of FY2015-16 in order to foster economic growth and investment. On the backdrop of falling inflation rate, repo and reverse repo rate were reduced by 50 basis points to 6.75 and 4.75 percent respectively to align policy rates with the market rates.

Money and Credit Situation

Trends in Monetary Aggregates

During FY2015-16, year-on-year growth of narrow money (M1) and reserve money (RM) increased sharply while broad money (M2) increased moderately as compared to the preceding fiscal year. Table 5.1 shows the trends in monetary aggregates since FY2009-10 to FY2015-16.

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

Indicator	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Narrow Money (M1)	32.46	17.18	6.42	12.65	14.60	13.53	32.10
Broad money (M2)	22.44	21.34	17.39	16.71	16.09	12.42	16.35
Reserve Money (RM)	18.16	21.03	8.99	15.02	15.46	14.33	30.12

Source: Bangladesh Bank

Narrow Money (M1)

Narrow money sharply increased by 32.10 percent during FY2015-16 as compared to an expansion of 13.53 percent in FY2014-15. During FY2015-16, the year-on-year growth of M1 was higher mainly due to significant increase both in currency notes and coins with the public as well as demand deposit.

Broad Money (M2)

The broad money (M2) increased by 16.35 percent during FY2015-16, significantly higher than 12.42 percent growth a year earlier. The components of broad money are narrow money and time deposit. Despite the marginal growth of time deposit (from 12.13 percent in FY2014-15 to 12.31 percent in FY2015-16), the robust growth of narrow money induced broad money to increase.

Table 5.2 shows money and credit situation and the composition of broad money over times. Figure 5.1 and Figure 5.2 show the year-on-year trend of composition of broad money and component of broad money respectively.

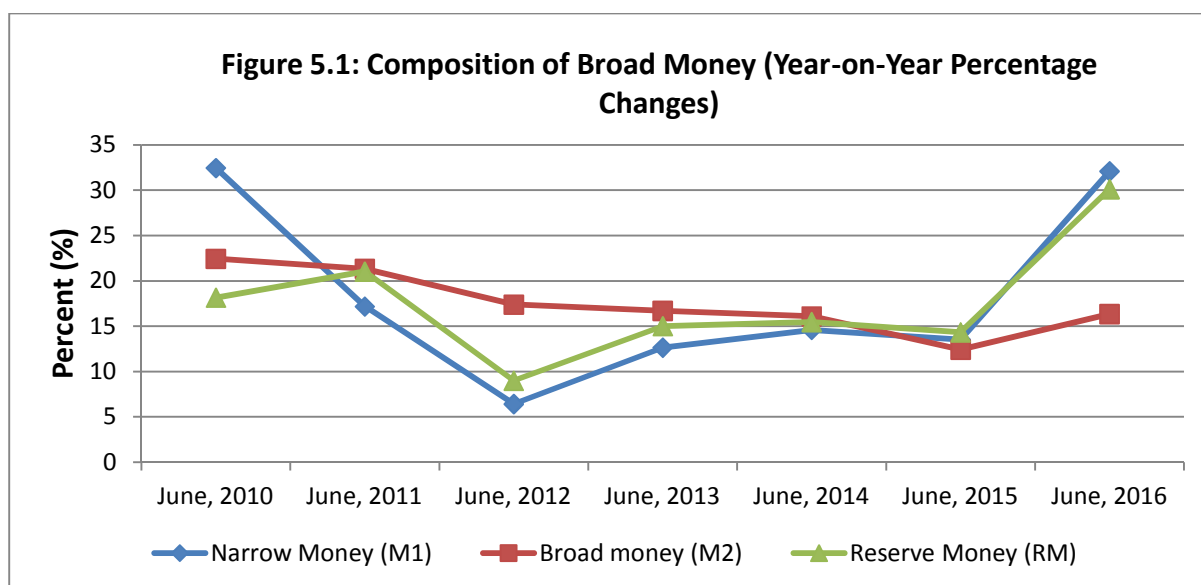


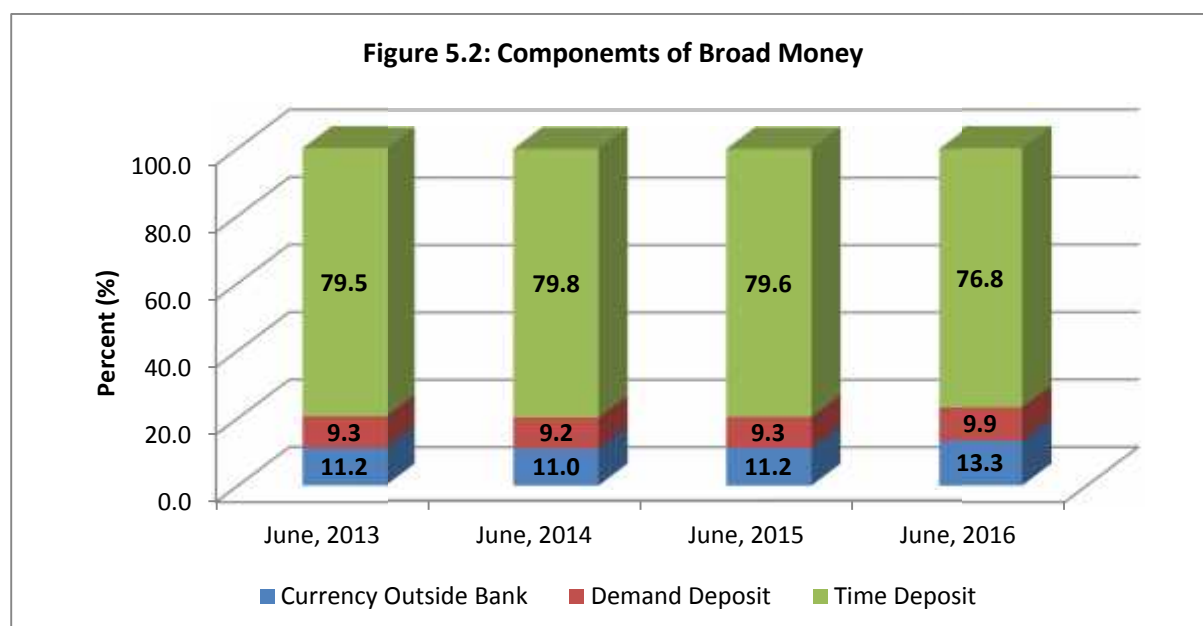
Table 5.2: Money and Credit

Indicators	June, 2013	June, 2014	June, 2015	June, 2016
End period stock (In crore Taka)				
1. Net foreign assets of the banking system	113384.8	160056.6	189228.8	233135.6
2. Net domestic assets of the banking system	490120.6	540566.9	598385.3	683242.3
a. Domestic credit	571737.1	637906.2	701526.5	801279.9
a.1. Government sector (net) ¹	110124.6	117529.4	110257.3	114219.5
a.2. Public sector (other) ¹	9455.3	12736.9	16669.8	16051.1
a.3. Private sector ¹	452157.2	507639.9	574599.4	671009.3
b. Other assets (net)	-81616.5	-97339.3	-103141.2	-118037.6
3. Narrow money	123603.1	141645.1	160814.2	212430.7
a. Currency notes and coins with the public	67552.9	76908.4	87940.8	122074.5
b. Demand deposit ²	56050.2	64736.7	72873.4	90356.2
4. Time deposit	479902.3	558978.4	626799.9	703947.2
5. Broad money [(1)+(2)] or [(3)+(4)]	603505.4	700623.5	787614.1	916377.9
Year-on-year percentage change (%)				
1. Net foreign assets of the banking system	43.86	41.16	18.23	23.20
2. Net domestic assets of the banking system	11.83	10.29	10.70	14.18
a. Domestic credit	11.02	11.57	9.97	14.22
a.1. Government sector (net)	20.05	6.72	-6.19	3.59
a.2. Public sector (other)	-38.37	34.71	30.88	-3.71
a.3. Private sector	10.85	12.27	13.19	16.78
b. Other assets (net)	6.44	19.26	5.96	14.44
3. Narrow money	12.65	14.60	13.53	32.10
a. Currency notes and coins with the public	15.64	13.85	14.34	38.81
b. Demand deposit	9.25	15.50	12.57	23.99
4. Time deposit	17.80	16.48	12.13	12.31
5. Broad money	16.71	16.09	12.42	16.35

Source: Bangladesh Bank

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

Figure 5.2 shows that the ratio of time deposits of broad money (M2) decreased at the end of FY2015-16 compared to the previous year while currency outside banks and demand deposits ratios increased during the same period of previous year.



Domestic Credit

Year-on-year growth in domestic credit was 14.22 percent in FY2015-16 compared to 9.97 percent growth in FY2014-15. Private sector credit growth was 16.78 percent in FY2015-16 from year-on-year growth of 13.19 percent of the previous fiscal year. Net credit to the Government sector increased by 3.59 percent at the end of June 2016 compared to 6.19 percent fall during the previous year. In FY2015-16, the credit to the Government sector (excluding others public sector) was 14.25 percent and private sector credit was 83.74 percent of total domestic credit respectively.

Reserve Money

Reserve money stood at Tk.193,201 crore at the end of June 2016, up by 30.12 percent from the same period of the previous fiscal year. The growth of reserve money recorded 15.46 percent and 14.33 percent for the years FY2013-14 and FY2014-15 respectively. At the end of FY2015-16 net foreign assets of BB increased by 23.39 percent from 20.27 percent in FY2014-15. On the other hand, claims on Government sector (net) increased drastically to Tk.13,373.7 crore in FY2015-16 from Tk.810.5 crore in FY2014-15. Claims on deposit money banks (DMBs) increased by 6.45 percent and claims on other public sector declined by 6.72 percent in FY2015-16. 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, 2013	June, 2014	June, 2015	June, 2016
Period end stock (in crore Taka)				
1. Currency issued	75372.3	85485.2	98153.9	132305.2
2. Balances of scheduled banks with BB	36803.4	43997.7	49838.9	60299.0
3. Reserves of other financial institutions with the BB	313.7	392.4	489.2	597.1
4. Reserve Money [(1)+(2)+(3)]	112489.4	129875.3	148482.0	193201.3
Year-on-year percentage change (%)				
1. Currency issued	16.14	13.42	14.82	34.79
2. Balances of scheduled banks with BB	12.68	19.55	13.28	20.99
3. Reserves of other financial institutions with the BB	28.62	25.09	24.67	22.06
4. Reserve Money	15.02	15.46	14.33	30.12

Source: Bangladesh Bank

Table 5.4: Reserve Money and Its Sources

Particular	June, 2013	June, 2014	June, 2015	June, 2016
Period end stock (In crore Taka)				
1. Net foreign assets of BB	103246.0	147496.6	177401.3	218904.1
2. Net domestic assets of BB	9243.4	-17621.3	-28918.8	-25702.8
a. Domestic credit	42822.7	15595.2	13276.1	26380.7
a.1. Claims on Government sector (net)	27069.0	3840.6	810.5	13373.7
a.2. Claims on other public sector	1354.5	1202.7	2160.8	2015.5
a.3. BB's claims on DMBs	10219.0	6279.2	5659.2	6024.5
a.4. BB's claims on NBDCs	4180.2	4272.7	4645.6	4967.0
b. Other assets (net)	-33579.3	-33216.5	-42194.9	-52083.5
3. Reserve Money [(1)+(2)]	112489.4	129875.3	148482.5	193201.3
Year-on-year percentage change (%)				
1. Net foreign assets of BB	49.78	42.86	20.27	23.39
2. Net domestic assets of BB	-67.99	-290.64	64.11	-11.12
a. Domestic credit	-34.38	-63.58	-14.87	98.71
a.1. Claims on Government sector (net)	-28.49	-85.81	-78.90	1550.06
a.2. Claims on other public sector	14.60	-11.21	79.66	-6.72
a.3. BB's claims on DMBs	-54.84	-38.55	-9.87	6.45
a.4. BB's claims on NBDCs	16.16	2.21	8.73	6.92
b. Other assets (net)	-7.72	-1.08	27.03	23.44
3. Reserve Money	15.02	15.46	14.33	30.12

Source: Bangladesh Bank * provisional

Money Multiplier

Due to the higher growth of reserve money compared to the broad money, money multiplier decreased to 4.74 in FY2015-16 as compared to 5.30 of FY2014-15. The ratios of money multiplier as reserve-deposit ratio slightly increased to 0.092 in FY2015-16 from 0.089 of FY2014-15 and currency-deposit ratio increased to 0.154 in FY2015-16 from 0.126 of FY2014-15.

Income Velocity of Money

Income velocity of money is showing a declining trend for the last couple of years. This gradual declining trend of income velocity of money is an indication of monetisation in the

economy of Bangladesh. Table 5.5 shows the trends of income velocity of money and the broad money as a percent of GDP from FY2005-06 to FY2015-16.

Table 5.5: Income Velocity of Money

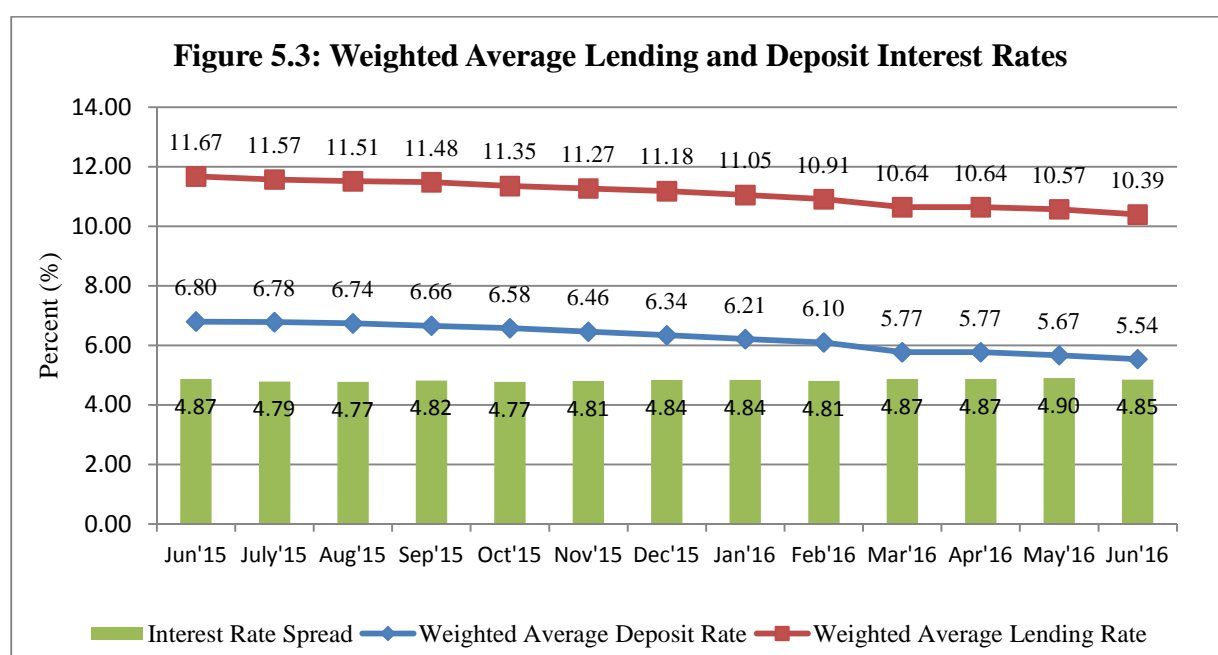
Fiscal Year	GDP (In billion taka)	Broad Money (In billion taka)	Broad Money (As percent of GDP)	Income Velocity of Money (GDP/M2)
2005-06	4823.40	1806.74	37.46	2.67
2006-07	5498.00	2115.04	38.47	2.60
2007-08	6286.80	2487.95	39.57	2.53
2008-09	7050.70	2965.00	42.05	2.38
2009-10	7975.40	3630.31	45.52	2.20
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	13436.74	7006.23	52.14	1.92
2014-15	15158.02	7876.14	51.96	1.92
2015-16	17328.64	9163.77	52.88	1.89

Source: Bangladesh Bank

The income velocity of money declined to 1.89 in FY2015-16, from 2.67 during FY2005-06, mainly, faster growth in broad money compared to the GDP at current market price. For this reason, income velocity of money decreased gradually and broad money as a percent of GDP increased. It is noted that, in FY2005-06 broad money as a percent of GDP was 37.46 percent which increased gradually to 52.88 percent in FY2015-16.

Rationalising the Rate of Interest

Bangladesh Bank's efforts continued to banks to take initiatives with a view to rationalising the rate of interest through creating competitive environment among the banks. Besides, banks are advised to limit the difference between lending and deposit rates or intermediation spread within lower single digit except high risk consumer credit (including credit card) and SME loans. Figure 5.3, the trends of weighted average lending and deposit interest rates from June, 2015 to June, 2016 shows that lending rate and deposit rate decreased gradually.



The weighted average lending rate of commercial banks decreased to 10.39 percent at the end of June, 2016 from 11.67 percent of end June, 2015. Similarly, the weighted average deposit rate decreased to 5.54 percent from 6.80 percent of the same period of previous year. The interest rate spread also decreased slightly to 4.85 percent at the end of June, 2016 from 4.47 percent of June, 2015.

Financial Sector Management

Banking Sector

Four types of scheduled banks operating in the banking sector in Bangladesh such as state owned commercial banks (SOCBs), specialised banks (SBs), local private commercial banks (PCBs) and foreign banks (FBs). As of June, 2016, there are 56 scheduled banks among them 6 state owned commercial banks (including BASIC Bank and Bangladesh Development Bank Ltd), 2 specialised banks, 39 local private commercial banks and 9 foreign commercial banks. Apart from these banks, 6 non-scheduled banks such as *Ansar VDP Unnayan Bank*, *Shamobaya Bank*, *Karmasangsthan Bank*, *Grameen Bank*, *Jubilee Bank Ltd.* and *Probashi Kalayan Bank* are also operating in the banking sector in Bangladesh. 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.

**Table 5.6: Structure of the Banking System in Bangladesh
(End June 2016)**

Type of Banks	No. of Banks				Percent of Total Asset	Percent of Total Deposit
		Urban (%)	Rural (%)	Total (%)		
SCBs	6	1370 (37.03%)	2330 (62.97%)	3700 (39.14%)	27.53	28.43
SBs	2	110 (7.82%)	1297 (92.18%)	1407 (14.88%)	2.82	2.85
PCBs	39	2538 (59.42%)	1733 (40.58%)	4271 (45.18%)	64.50	64.26
FCBs	9	75 (100.00%)	0 (0.00)	75 (0.79%)	5.15	4.46
Total	56	4093 (43.30%)	5360 (56.70%)	9453 (100.00%)	100.00	100.00

Source: Bangladesh Bank

In Bangladesh as on June, 2016, the 56 scheduled banks are performing their banking business with their 9,453 branches. The rural portion is 5,360 (56.70%) and urban portion is 4,093 (43.30%) of total number of branches. Branches of state-owned commercial banks are 2,330 (62.97%) in rural area and 1,370 (37.03%) in urban, specialised banks have 1,297 (92.18%) branches in rural area and 110 (7.82%) in urban areas, private commercial banks have 1,733 (40.58%) branches in rural area and 2,538 (59.42%) in urban area and foreign commercial banks are operating through only 75 urban branches.

The PCBs covers 64.50 percent of total assets and 64.26 percent of total deposits . While SCBs covers 27.53 percent of total assets and 28.43 percent of total deposits. The SBs have only 2.82 percent of total assets and 2.85 percent of total deposits. The FCBs are operating 5.15 percent of total assets and 4.46 percent of total deposit of the banking system of the country.

Non-bank Financial Institutions (NBFIs)

Currently 33 licensed non-bank financial institutions are functioning in the country. These NBFIs have a wide network of 223 branches and they are operating in Dhaka city along with other regions of the country. Total paid up capital and reserve of these financial institutions stood at Tk.10,137.19 crore as on 30 June, 2016. The total loan/leases, total amount of classified loan/leases and the rate of classified loan/leases of all the NBFIs stood at Tk.49,857.07 crore, Tk.1,978.58 crore and 9.04 percent respectively.

Bangladesh Bank supervises and monitors the activities of NBFIs. During FY2015-16 the 'Integrated Risk Management Guidelines for Financial Institutions' has been issued by BB. The main objectives of this guidelines are to strengthen the overall risk management framework in a systemic way; establish better risk management culture within the institutions; promote the inclusive risk management approach within the FIs; and introduce some techniques in managing (identifying, measuring, monitoring and mitigating) all possible risks under formal organisational set up and with standard policies and procedures.

Besides, in order to set some regulations regarding commercial paper the 'Guidelines on Commercial Paper for Financial Institutions' has been introduced. Financial Institutions are allowed to be involved in commercial paper as investor, issuer, guarantor, and Issuing and Paying Agent by fulfilling the terms and conditions as mentioned in the guidelines.

Financial Inclusion

Bangladesh Bank has taken various dynamic initiatives to provide access to financial services to financially excluded people. In particular, it has extended formal banking services to less privileged people in urban and rural areas. Bangladesh Bank has identified the target group of people (farmers, hardcore poor, beneficiary under the social security programme, freedom fighters, small life insurance policy holder, city corporation cleaning workers, food and livelihood security programme, national service programme, physically challenged persons, distressed rehabilitation, RMG workers, street working children and school students) and advised to banks for opening No-Frill Accounts (NFAs) to the target group people.

Banks have opened up accounts under NFAs, 89.16 lakh for farmers by deposited Tk.10 on each, 2.01 lakh for freedom fighters, 40.01 lakh for beneficiaries under social security program, 0.67 lakh for small life insurance policy holder and 29.04 lakh for others with a total of around 1.60 crore accounts up to March, 2016.

School Banking

As a part of broadening and deepening of financial inclusion and also to encourage school students for savings, to orientate them with banking literary and modern banking technology, school banking activities were initiated in 2010. Any school student under age of 18 can open school banking account through parents or legal guardian by depositing minimum Taka 100. Up to June, 2016, number of school banking accounts stood at 1.07 lakh with the outstanding balance of Tk.827.66 crore by 56 commercial banks.

Banking, Monetary and Credit Policy Reforms

Some reforms initiatives have been taken during FY2015-16 are briefly describe bellow:

Reforms in the Bangladesh Bank

The Financial Sector Support Project (FSSP) is being implemented with the assistance of International Development Association (IDA) to improve financial market infrastructure, regulatory and oversight capacity of Bangladesh Bank and access to long term financing for manufacturing sector in Bangladesh for ensuring stability and greater resilience of the financial sector. The total approved project cost is US\$350.00 million of which IDA will provide US\$300.00 million and Bangladesh Bank will provide US\$50.00 million. The project has been commenced on 1 July 2015 and will end on 31 March 2021.

The project will be implemented through three major components over the project term. The components are: (i) developing key financial market infrastructure through benchmarking with international best practices, (ii) strengthening the capacity of the regulator to comply with international standards and accords on banking sector supervision and regulation and (iii) serving as a catalyst for developing a financial market in long-term finance market segment.

On successful implementation of the project, it is expected that the IT infrastructure of the financial market will be strengthened, the regulatory and supervisory capacity of the central bank will migrate to more advanced level and an additional production capacity will be created which will result in increase of real output in the country.

Reforms in State Owned Commercial Banks

State owned commercial banks are being reviewed under Memorandum of Understanding (MOU). To enhance the standard of credit management and internal control system, a special inspection on internal control and compliance system of four state-owned commercial banks (*Sonali Bank Ltd.*, *Janata Bank Ltd.*, *Agrani Bank Ltd.* and *Rupali Bank Ltd.*) was conducted from Bangladesh Bank. Government has already provided Tk.1,200 crore to BASIC Bank Ltd. in December, 2015 as recapitalisation. On the other hand, two specialised banks (*Bangladesh Krishi Bank* and *Rajshahi Krishi Unnayan Bank*) are also being reviewed under the MOU of FY2015-16.

Money and Financial Market Reforms

With goals to reform the money and financial markets, to build 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 in FY2015-16 are given below:

- To reinforce the monitoring of liquidity measurement and management of the banks, two liquidity coverage measurement namely 'Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)' have been introduced.
- To make risk management system of the banks more resilient and updated, a new reporting format namely 'Comprehensive Risk Management Reporting (CRMR)' has been introduced. Besides, to monitor the risk management activities more closely, banks have been instructed to submit Risk Management Report and meeting minutes of Risk Management Committee to Bangladesh Bank on monthly basis instead of quarterly basis.

- To reinforce the importance of risk management activities and to establish a sound risk management culture in the banks, it has been decided to consider the high and critical score in comprehensive risk management rating as negative indicator, along with others, while giving approval/NOC to banks for branch expansion, AD license, dividend declaration, etc.
- 12 Core Financial Soundness Indicators (FSI) and 9 Encouraged FSIs as on December, 2015 have been prepared and the uploading process of these on IMF recommended website is in process. By compiling data according to the IMF prepared template, the present position of financial indicators of the banking sector will be known. A comparative analysis of FSI data will be helpful to make a decision in the policy level and the process of supervision mechanism will be more vibrant.
- In order to quick disposal of all suits related to loan recovery of financial institutions *Artha Rin Adalat Ain*, 2003 has been enacted and as per Section 12 of the said act, banks have been bestowed with the power to sell the securities kept with them against loans and advances without prior approval of court. As a result, recovery of overdue loans has been strengthened.

Box 5.1: Implementation of Basel III

To cope up with the international best practices and to make the banks more shock absorbent and to promote a more resilient banking sector, roadmap/guidelines and action plan for implementing revised regulatory capital requirement framework Basel III had been started as a regulatory compliance. Capital requirements under the guidelines will be fully implemented by January 2020 that has been started from January, 2015 phase by phase. Banks have to maintain minimum capital requirements according to the following rate under Basel III:

1. *Common Equity Tier-1 capital will be at least 4.5 percent of the total Risk Weighted Assets (RWA).*
2. *Tier-1 capital will be at least 6.0 percent of the total RWA. It indicates that additional Tier-1 capital will be maximum 1.5 percent of the total RWA.*
3. *Minimum CRAR (Capital to Risk Weighted Asset Ratio) will be 10 percent of the total RWA. Accordingly, Tier-2 capital will be maximum 4.0 percent of the total RWA.*
4. *Banks will have to maintain 2.5 percent of the total RWA as Capital Conservation Buffer (CCB) in the form of Common Equity Tier-1 Capital (CET1) in addition to CRAR.*
5. *Maximum 5.00 percent of Deferred Tax Assets (DTA) that has been derived from specific provision maintained against classified loan can be treated as Common Equity Tier-1 (CET-1) capital under Basel III. All other DTAs that have been derived from other sources should be adjusted with Common Equity Tier-1 (CET-1) capital.*
6. *As per BRPD Circular no. 5, dated 31 May 2016, the entire general provision maintained against unclassified loans and advances as per regulations will be considered as capital under Tier-2.*

Under Basel III, CRAR of scheduled banks in Bangladesh was 10.62 percent for the quarter January-March 2016.

Development of Payment System

To establish a public interest oriented modern payment system in Bangladesh some initiatives such as-formalise the 'Strategy Paper for Bangladesh Bank' payment system, establishment of 'Bangladesh Automated Clearing House (BACH)' and manage its overall activities, approval of Mobile Financial Services and appropriate oversight, development of 'National Payment Switch' and to establish e-payment system, formalise the rules and regulatory infrastructure related to payment system, start Electronic Fund Transfer (EFT) activities, accelerate remittance flow and implementing Real Time Gross Settlement (RTGS) have already been undertaken.

Prevention of Money Laundering and Financing of Terrorism

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

- In order to share information related to prevention of money laundering and terrorist financing till June 2016, Bangladesh Financial Intelligence Unit (BFIU) has signed 43 Memorandum of Understanding (MoU) with FIUs of other countries, where 8 of them have been signed in FY2015-16. Those countries are-Australia, China, Jordan, Lebanon, Kazakhstan, Nigeria, Uzbekistan and Macao.
- National Strategy for Preventing Money Laundering and Combating Financing of Terrorism during 2015-2017 has been formulated on the basis of Money Laundering and Terrorist Financing Risk and Vulnerabilities Assessment Report. The strategy document identifies the particular action plans for all the ministries, divisions and agencies to develop an effective anti money laundering and combating financing of terrorism regime in Bangladesh.
- In FY2015-16, Bangladesh has gone through the 3rd round Mutual Evaluation (ME) process conducted by Asia Pacific Group on Money Laundering (APG). The Mutual Evaluation process has been completed successfully with the effective coordination among various ministries, divisions and agencies of the Government. The Mutual Evaluation Report (MER) will be presented in the upcoming 19th annual meeting of the group.
- The Money Laundering Prevention (Amendment) Act, 2015 has been promulgated on 26 November, 2015 to further strengthen the legal structure of anti money laundering and combating financing of terrorism regime in Bangladesh. BFIU has been mandated as the national central agency in Bangladesh to prevent money laundering and terrorist financing.

Capital Market

Development and Reform Activities of the Capital Market

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

Promulgation and Amendment of Necessary Laws and Rules

- The Commission published notification in Bangladesh gazette on June 22, 2015 regarding promulgation of Bangladesh Securities and Exchange Commission (Alternative Investment) Rules, 2015.
- The Commission published notification in Bangladesh gazette on October 13, 2015 regarding ammendment of Bangladesh Securities and Exchange Commission (Private Placement of Debt Securities) Rules, 2012.
- The Commission published notification in Bangladesh gazette on December 31, 2015 regarding promulgation of Bangladesh Securities and Exchange Commission (Public Issue) Rules, 2015.
- The Commission published notification in Bangladesh gazette on July 12, 2015 regarding promulgation of Dhaka Stock Exchange (Listing) Regulation, 2015.
- The Commission published notification in Bangladesh gazette on July 12, 2015 regarding promulgation of Chittagong Stock Exchange (Listing) Regulation, 2015.
- The Commission issued order on May 13, 2015 regarding circuit breaker on highest-lowest level of price up down for daily transaction of listed securities.
- The Commission issued directive on May 14, 2015 regarding operation of customer account maintained in stock broker for issuer companies or mutual fund.
- The Commission published notification in Bangladesh gazette on June 30, 2015 regarding waiver for foreign owned companies and foreign investment joint venture companies to become public limited company and listed company.
- The Commission issued directive on June 30, 2015 regarding provisioning for loss at investment in mutual fund.
- The Commission issued guideline on July 08, 2015 regarding conversion of close-end mutual fund to open-end mutual fund.
- The Commission issued order on February 15, 2016 regarding supply of issuer companies' price sensitive information.
- The Commission issued a guideline for financial derivatives on June 20, 2016.

Reforms for Maintaining Stability and Transparency of the Capital Market

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. Bangladesh Securities and Exchange Commission (BSEC) has taken the following steps in this connection during FY2015-16:

- Establishment of a special tribunal for speedy resolution of capital market related cases, and commencement of judiciary activities.
- Construction of BSEC's own office building at Agargaon, Dhaka for its official accommodation.
- Establishment of a training center in BSEC to train investors on various topics related to capital market.
- Started activity for establishment of a separate clearing and settlement company for settlement of transactions in stock exchanges.
- Started activity for establishment of a separate Small Cap Platform for Small and Medium Enterprises (SME) in order to raise capital from capital market and trade in stock exchanges.
- Formation of a fund of Tk.900 crore in order to support the affected small traders in stock markets.
- Formation of a committee consisting of four members for development of financial literacy in the country.
- Conversion of close-end mutual fund into open-end mutual fund has been started.
- Issuance of 3 licenses of Fund Managers for capital investment (Alternative Investment) in prospective companies after analysing companies' future trend.
- Implementation of demutualisation scheme effectively to ensure separation of trading right from ownership and management, and establishment of corporate governance in stock exchanges through demutualisation.

Market Situation

Dhaka Stock Exchange (DSE) Ltd

The number of listed securities (including mutual funds and debenture) of Dhaka Stock Exchange (DSE) increased from 555 at the end of FY2014-15 to 559 at the end of FY2015-16. At the end of June, 2016, total issued capital and debentures stands at Tk.112,741.00 crore up by 3.25 percent from Tk.109,195 crore for the same period of previous fiscal year. The market capitalisation of all shares of the listed securities stood at Tk.318,574.93 crore (18.38% of GDP) at the end of FY2015-16, down from Tk.324,730.63 crore (21.42% of GDP) during the same period of previous year.

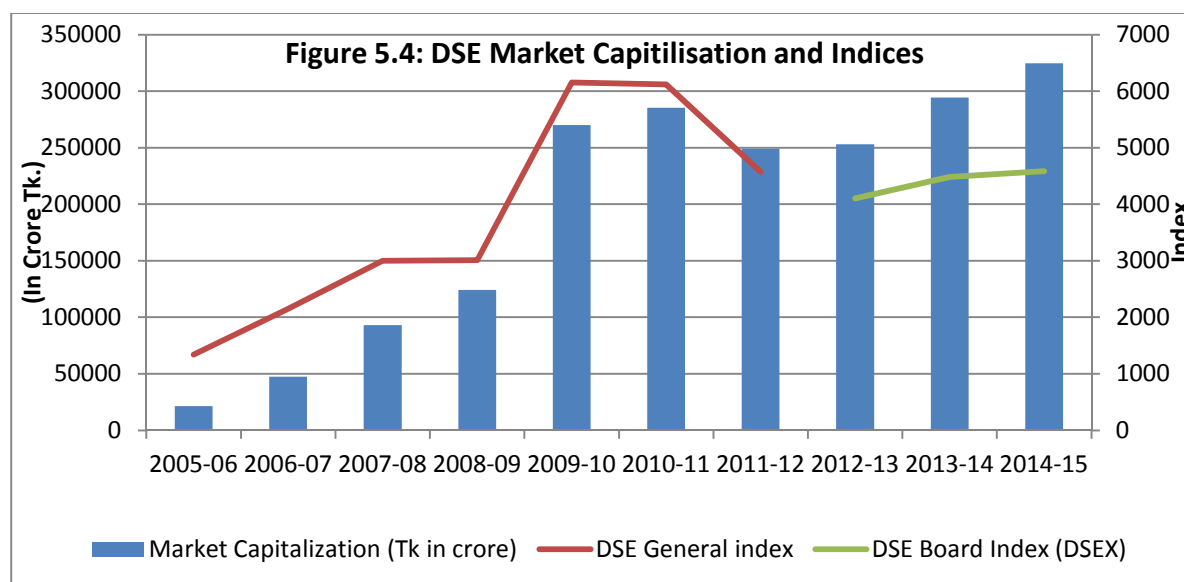
Table 5.7: Securities Trading Information of Dhaka Stock Exchange

End of Period	No. of Listed Securities (Including Mutual Funds & Debentures)	No. of IPOs	Issued Capital (Tk in crore)	Market Capitalisation (Tk in crore)	Securities Traded in Value (Tk in crore)	DSE General index*	DSE Board Index (DSEx)**
2005-06	303	18	8572.26	21542.19	4600.82	1339.53	-
2006-07	325	10	16427.93	47585.54	16467.16	2149.32	-
2007-08	378	13	28437.97	93102.52	54328.6	3000.5	-
2008-09	443	17	45794.4	124133.9	89378.92	3010.26	-
2009-10	450	23	60726.29	270074.46	256349.86	6153.68	-
2010-11	490	19	80683.91	285389.22	325915.26	6117.23	-
2011-12	511	15	93362.96	249161.29	117145.14	4572.88	-
2012-13	525	15	98358.97	253024.6	85708.97	-	4104.65
2013-14	536	13	103207.64	294320.23	112539.84	-	4480.52
2014-15	555	16	109195.35	324730.63	112351.95	-	4583.11
2015-16	559	10	112741.00	318574.96	107246.07	-	4507.58

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.

The DSE Broad Index (DSEx) decreased by 1.65 percentage points from 4583.11 points at the end of FY2014-15 to 4507.58 points at the end of FY2015-16.



Chittagong Stock Exchange (CSE) Limited

The number of listed securities (including mutual funds and bonds) of Chittagong Stock Exchange (CSE) increased from 292 in FY2014-15 to 298 in FY2015-16. The issued capital increased by 12.92 percent from Tk.50,131 crore to Tk.56,608 crore during the same period. Market capitalisation of CSE at the end of FY2015-16 stood at Tk.249,684.89 crore (14.41%

of GDP), down by 5.33 percent compared to market capitalisation of Tk.2,37,042.13 crore (15.64% of GDP) at the end of FY2014-15.

Table 5.8: 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
2005-06	213	19	6375.02	19555.17	1143.91	2879.19
2006-07	219	10	8225.17	39926.82	3437.74	5194.76
2007-08	231	14	10314.08	77774.28	8016.21	9050.56
2008-09	246	18	14246.55	97494.82	12518.25	10477.67
2009-10	232	23	20677.39	224176.78	21711.23	18,116.05
2010-11	220	19	30155.33	225977.78	32168.23	17,059.53
2011-12	251	15	37527.49	187817.14	13485.49	13,736.42
2012-13	266	15	42338.09	191907.03	10198.52	12,738.23
2013-14	276	13	47083.97	228667.87	10218.27	13,766.23
2014-15	292	20	50130.63	237042.13	9648.00	14,097.17
2015-16	298	11	56607.60	249684.89	7747.16	13623.07

Source: Chittagong Stock Exchange

CSE All Share Price Index reached at 13,623.07 points in June, 2016 decreasing by 3.36 percent from June, 2015.

