

CHAPTER FIVE

MONETARY MANAGEMENT AND FINANCIAL MARKET DEVELOPMENT

A cautious contractionary monetary and credit programme has been formulated for FY 2022-23 to support the economic recovery process in the coming days as well as mitigate inflationary and exchange rate pressures. Reserve money growth has been set at 14.00 percent while the broad money growth ceiling has been set at 11.50 percent, consistent with the real GDP growth target and CPI-based average inflation ceiling. For FY 2022-23, growth of net foreign assets (NFA) and net domestic assets (NDA) have been projected by Bangladesh Bank to -11.9 percent and 17.9 percent respectively. According to the latest available data, broad money, reserve money and domestic credit actually grew by 8.77 percent, 8.71 percent and 15.58 percent respectively in February 2023 compared to 9.45 percent, 7.25 percent and 13.32 percent respectively in the same month of the previous year. It is noted that, growth of broad money declined due to the sharp fall of the growth of net foreign assets (NFA) until February 2023. The growth of NFA in the banking system decelerated further to -13.34 percent in February 2023 from 0.26 percent at the end of February 2022 due to negative trade balance and downward trend in remittances. The growth of NDA stood at 15.14 percent at the end of February 2023 compared to 12.43 percent in the same month of the previous year. Considering the necessary outlays for ongoing mega projects and the COVID-19 related stimulus packages of the Government, the public sector credit growth ceiling has been set at 37.66 percent for FY 2022-23. On the other hand, the private sector credit growth target has been set at 14.10 percent. However, the public and private sector credit experienced 33.87 percent and 12.14 percent annual growth respectively in February 2023 against the actual growth of 28.94 percent and 10.87 percent respectively in February 2022. The recent trends in weighted average lending and deposit rates show upward movement. The weighted average lending rate increased consistently and stood at 7.27 percent at the end of February 2023. At the same time, the weighted average deposit rate although declined a little and stood at 3.97 percent of end June 2022 from 4.02 percent of end February 2022, later it increased much and reached to 4.31 percent at end of February 2023. Broad Index (DSEX) of Dhaka Stock Exchange Limited was 6,376.94 points at the end of June 2022, which decreased by 2.51 percent to 6,216.95 points on 28 February 2023. The overall price index of Chattogram Stock Exchange was 18,727.51 points at the end of June 2022, which decreased by 2.14 percent to 18,326.02 points on 28 February 2023.

The FY 2022-23 monetary policy has been formulated in order to discourage unproductive financial flows to tame the demand-side pressures without circumventing the required flow of funds to the productive sectors easing supply-side conditions and supporting the country's long-term growth aspirations. Thus, the formulation of a contractionary cautious monetary and credit programme for FY 2022-23

is expected to support the economic recovery process in the

coming days as well as mitigate inflationary and exchange rate pressures. The last monetary and credit programmes were designed in line with the targeted real GDP growth and CPI inflation as outlined in the national budget for FY 2022-23.

To achieve monetary policy objectives, Bangladesh Bank (BB) has taken several policy

measures during July-December 2022 (the first half of FY 2022-23, H1FY 2022-23). Of these important measures are: increasing the repo rate from 5.75 percent to 6.00 percent, relaxing the lending rate cap for consumer loans, including credit cards, and removing specific floor for the deposit rate; providing all sorts of production enhancing supports in terms of refinancing/pre-financing lines for agriculture, Cottage, Micro, Small, and Medium Sized Enterprises (CMSMEs), import substitutes, and export-oriented industries; and continuing the financial support by providing enough refinance facilities to implement the Government's ongoing stimulus package as well as strengthening the economic activities and employment generation.

Reserve money growth has been set at 14.00 percent while the broad money growth ceiling has been set at 11.50 percent, consistent with the real GDP growth target and CPI-based average inflation ceiling. According to the latest available data, reserve money and broad money actually grew by 8.71 percent and 8.77 percent respectively in February 2023. Considering the necessary outlays for ongoing mega projects and the COVID-19 related stimulus packages of the Government, the public sector credit growth ceiling has been set at 37.66 percent for FY 2022-23. On the other hand, the private sector credit growth target has been set at 14.10 percent

for FY 2022-23, commensurate with BB's supply-side interventions to support required investment and employment generation for achieving targeted GDP growth (6.50 %). According to the latest available data, the public and the private sector credit growth stood at 33.87 percent and 12.14 percent respectively in February 2023. Based on the public and private sector credit expansion, the domestic credit growth has been set at 18.49 percent for FY 2022-23 and at the end of February 2023 it indeed stood at 15.58 percent. The target of NFA growth of the banking system for FY 2022-23 has been set to be in the negative territory by 11.90 percent as the overall BOP position is expected to remain in a deficit due mainly to adversity in the financial account sector despite prediction of improved inflows of inward remittances.

Money and Credit Situation

Growth Trends of Monetary Aggregates

At the end of February of FY 2022-23, the year-on-year growth of reserve money, broad money (M2) and narrow money (M1) stood at 8.71 percent, 8.77 percent and 17.62 percent respectively. Table 5.1 shows the growth trends of monetary aggregates.

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

Indicator	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Feb'22	Feb'23
Narrow Money (M1)	13.01	6.17	7.22	20.11	14.49	13.32	12.47	17.62
Broad Money (M2)	10.88	9.24	9.88	12.64	13.62	9.43	9.45	8.77
Reserve Money (RM)	16.28	4.04	5.32	15.56	22.35	-0.26	7.25	8.71

Source: Bangladesh Bank

Narrow Money (M1)

Narrow money (M1) increased by 13.32 percent during FY 2021-22, which was 14.49 percent in FY 2020-21. Up to February 2023 of FY 2022-23, M1 increased by 17.62 percent, which was 12.47 percent in the same period of the previous fiscal year. Of the components of the M1, the growth of currency notes and coins with the public and demand deposit have stood at 21.39 percent and 12.62 percent respectively up to February 2023, which was 14.53 percent and 9.84 percent respectively in the same period of the previous fiscal year.

Broad Money (M2)

Broad money (M2) stood at Tk. 17,08,122.2 crore in FY 2021-22 as compared to Tk. 15,60,895.3 crore of FY 2020-21. Up to February 2023 of FY 2022-23, M2 stood at Tk. 17,63,032.0 crore with a growth (year-on-year) of 8.77 percent as compared to 9.45 percent growth in the same period of the previous fiscal year. Time deposit increased (year-on-year) by 6.13 percent at the end of February 2023, which was 8.59 percent in the same period of the previous fiscal year. Table 5.2 shows the movement and growth of the components of broad money (M2) and domestic credit. Figure 5.1 and Figure 5.2 show the growth of Broad Money and its components and percentage share of the components of Broad Money respectively.

Figure 5.1: Composition of Broad Money
(Year-on-Year Percentage Change)

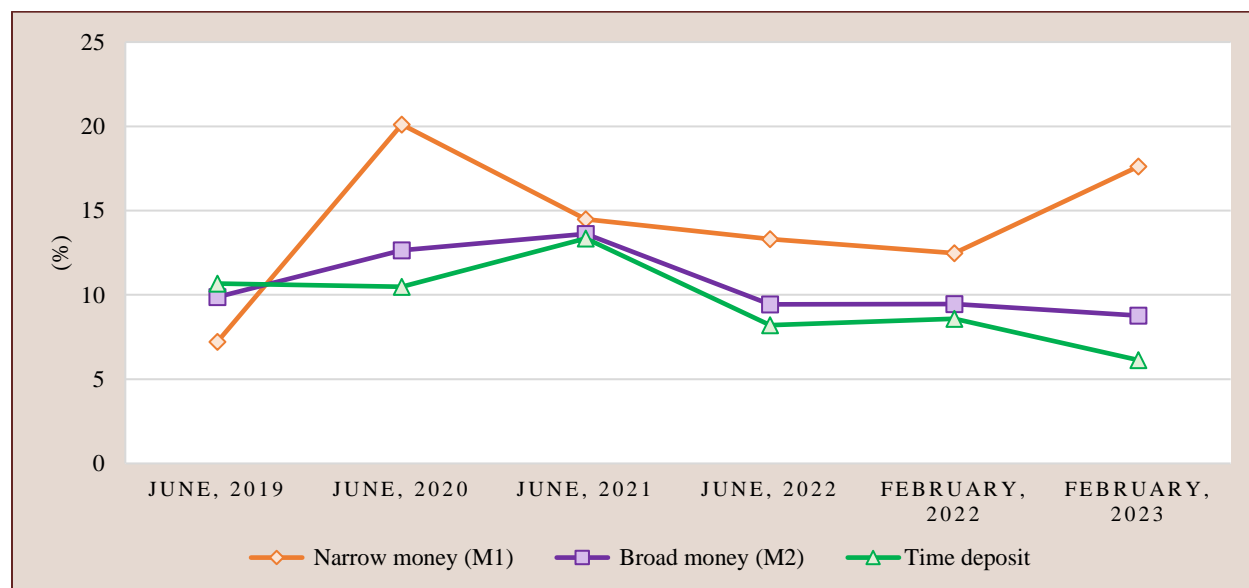
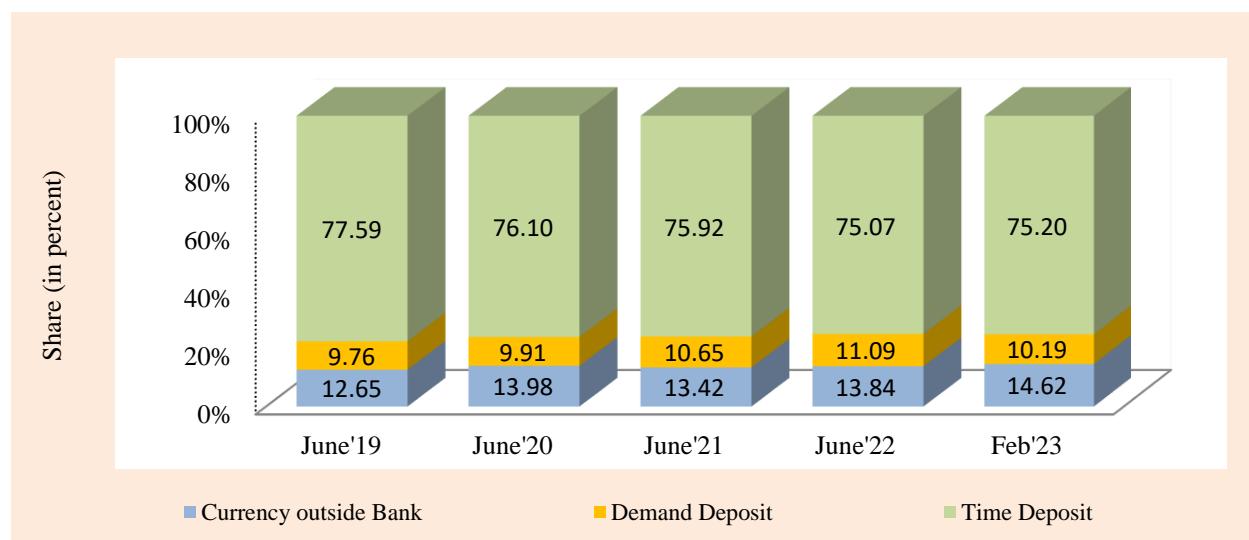


Table 5.2: Movement and Growth of the Components of M2 and Domestic Credit

Indicators	June 2019	June 2020	June 2021	June 2022	February 2022	February 2023
End period stock (In crore Taka)						
1. Net foreign assets of the banking system	272399.5	297336.2	382337.5	364298.8	362666.4	314276.0
2. Net domestic assets of the banking system	947212.0	1076398.9	1178557.8	1343823.4	1258270.3	1448756.0
a. Domestic credit	1146884.7	1307633.7	1439899.0	1671749.1	1546240.3	1787185.6
a.1. Government sector (net) ¹	113273.4	181150.7	221025.9	283314.6	231467.5	309866.6
a.2. Public sector (other) ¹	23355.6	29215.1	30017.8	37198.9	35916.9	43249.7
a.3. Private sector ¹	1010255.7	1097267.9	1188855.3	1351235.6	1278856	1434069
b. Other assets (net)	-199672.7	-231234.8	-261341.2	-327925.7	-287970.0	-338429.6
3. Narrow money	273293.4	328263.9	375828.7	425904.7	371773.7	437298.4
a. Currency notes and coins with the public	154287	192114.5	209517.7	236448.9	212270.2	257667.6
b. Demand deposit ²	119006.4	136149.4	166311	189455.8	159503.5	179630.8
4. Time deposit	946318.1	1045471.2	1185066.6	1282217.5	1249163.0	1325733.6
5. Broad money [(1)+(2)] or [(3)+(4)]	1219611.5	1373735.1	1560895.3	1708122.2	1620936.7	1763032.0
Year-on-year percentage change						
1. Net foreign assets of the banking system	2.92	9.15	28.59	-4.72	0.26	-13.34
2. Net domestic assets of the banking system	12.06	13.64	9.49	14.02	12.43	15.14
a. Domestic credit	12.26	14.02	10.11	16.10	13.32	15.58
a.1. Government sector (net)	19.37	59.92	22.01	28.18	28.94	33.87
a.2. Public sector (other)	21.64	25.09	2.75	23.92	14.09	20.42
a.3. Private sector	11.32	8.61	8.35	13.66	10.87	12.14
b. Other assets (net)	13.24	15.81	13.02	25.48	17.39	17.52
3. Narrow money	7.22	20.11	14.49	13.32	12.47	17.62
a. Currency notes and coins with the public	9.49	24.52	9.06	12.85	14.53	21.39
b. Demand deposit	4.41	14.41	22.15	13.92	9.84	12.62
4. Time deposit	10.67	10.48	13.35	8.20	8.59	6.13
5. Broad money	9.88	12.64	13.62	9.43	9.45	8.77

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

Figure 5.2: Percentage Share of the Compositions of Broad Money



Domestic Credit

The growth of domestic credit stood at 16.10 percent in FY 2021-22 which was 10.11 percent in FY 2020-21. Domestic credit increased (year-on-year) by 15.58 percent up to February 2023 of FY 2022-23, which is higher than 13.32 percent growth in the same period of the previous fiscal year. Of which private sector credit growth stood at 12.14 percent at the end of February 2023 against 10.87 percent in the same period of the previous fiscal year. The net credit to the government increased by 33.87 percent at the end of February 2023 which was increased by 28.94 percent in the same period of the previous year. At the end of February 2023, the share of government to total domestic credit stood at 17.34 percent. Private sector credit to total domestic credit stood at 80.24 percent which was 80.83 percent at the end June 2021.

Reserve Money

Reserve money stood at Tk. 3,47,162.1 crore at the end of FY 2021-22, which was Tk. 3,48,071.8 crore in FY 2020-21. Reserve money decreased by 0.26 percent in FY 2021-22 compared to 22.35 percent growth of the previous fiscal year. In FY 2022-23, reserve money increased by 8.71 percent up to February 2023 compared to the same period of the previous fiscal year and stood at Tk. 3,50,346.9 crore. On the other hand, net foreign assets decreased by 5.22 percent at the end of FY 2021-22 compared to the 28.27 percent growth at the end of previous fiscal year. In FY 2022-23, net foreign assets decreased by 18.53 percent up to February 2023 compared to the 1.34 percent increase in the same period of the previous fiscal year. Components and sources of reserve money and its changes over time have been shown in Table 5.3 and Table 5.4 respectively.

Table 5.3: Components of Reserve Money and their Changes

Particular	June, 2019	June, 2020	June, 2021	June, 2022	Feb, 2022	Feb, 2023
End Period (In Crore Tk.)						
1. Currency issued	170387.1	208094.1	226888.3	256182.8	232874.6	282494.8
2. Balances of scheduled banks with BB	75012.1	75768.3	120597	90382.9	88916.7	67254.8
3. Reserves of other financial institutions with the BB	788.5	621	586.5	596.4	493.8	597.3
4. Reserve Money [(1)+(2)+(3)]	246187.7	284483.4	348071.8	347162.1	322285.1	350346.9
Percentage Change (Year-on-year)						
1. Currency issued	2.43	22.13	9.03	12.91	14.50	21.31
2. Balances of scheduled banks with BB	7.30	1.01	59.17	-25.05	-7.91	-24.36
3. Reserves of other financial institutions with the BB	14.75	-21.24	-5.56	1.69	-11.62	20.96
4. Reserve Money	4.04	15.56	22.35	-0.26	7.25	8.71

Source: Bangladesh Bank

Table 5.4: Sources of Reserve Money and their Changes

Particular	June, 2019	June, 2020	June, 2021	June, 2022	Feb, 2022	Feb, 2023
End Period (In Crore Tk.)						
1. Net foreign assets of BB	257195.4	286040.9	366917.3	347757.7	351813.1	286636.7
2. Net domestic assets of BB	-11007.7	-1557.5	-18845.5	-595.6	-29528.0	63710.2
a. BB's Claims	43745.8	63776.4	45294.6	80375.4	32893.6	175505.9
a.1. Claims on Government sector (net)	31189	42117.1	17285.5	54930.0	8058.5	108685.3
a.2. Claims on other public sector	2380.4	2551.9	3218.1	3435.6	3485.2	3620.2
a.3. BB's claims on DMBs	5386.9	13764.9	18952.3	16073.9	15583.3	56269
a.4. BB's claims on NBDCs	4789.5	5342.5	5838.7	5935.9	5766.6	6931.4
b. Other assets (net)	-54753.5	-65333.9	-64140.1	-80971.0	-62421.6	-111795.7
3. Reserve Money [(1)+(2)]	246187.7	284483.4	348071.8	347162.1	322285.1	350346.9
Percentage Change (Year-on-year)						
1. Net foreign assets of BB	1.45	11.22	28.27	-5.22	1.34	-18.53
2. Net domestic assets of BB	-44.31	-85.85	1109.98	-96.84	-36.71	-315.76
a. Domestic credit	22.64	45.79	-28.98	77.45	104.55	433.56
a.1. Claims on Government sector (net)	38.17	35.04	-58.96	217.78	-171.21	1248.70
a.2. Claims on other public sector	0.53	7.20	26.11	6.76	9.50	3.87
a.3. BB's claims on DMBs	-3.50	155.53	37.69	-15.19	-17.29	261.09
a.4. BB's claims on NBDCs	-6.93	11.55	9.29	1.66	7.28	20.20
b. other assets (net)	-1.23	19.32	-1.83	26.24	-0.50	79.10
3. Reserve Money	5.32	15.56	22.35	-0.26	7.25	8.71

Source: Bangladesh Bank

Claims on government sector (net) increased by 217.78 percent in FY 2021-22 compared to 58.96 percent in FY 2020-21. Claims on deposit money banks (DMBs) decreased by 15.19 percent in FY 2021-22, which was increased by 37.69 percent in FY 2020-21. In FY 2022-23, claims on government sector (net) increased by 1,248.70 percent at the end of February 2023, which was decreased by 171.21 percent at the same period of the previous fiscal year. At the same period, claims on deposit money banks (DMBs) increased by 261.09 percent, which was decreased by 17.29 percent in the same period of the previous fiscal year. During this time, claims on other public sector increased by 3.87 percent, which was increased by 9.50 in the same period of the previous fiscal year.

Money Multiplier

Due to higher growth of broad money compared to reserve money growth, money multiplier increased to 4.920 in FY 2021-22 from 4.484 of FY 2020-21. During FY 2022-23, money multiplier stood at 5.032 at the end of February 2023. Ratios of money multiplier as reserve-deposit ratio and currency-deposit ratio stood at 0.062 and 0.171 respectively at the end of February 2023.

Income Velocity of Money

Income velocity of money increased to 2.33 in FY 2021-22 which was 2.26 at the end of FY 2020-21. The trends of income velocity of money and broad money as a percent of GDP have been shown in Table 5.5. The movement of broad money as percent of GDP has been shown in Figure 5.3.

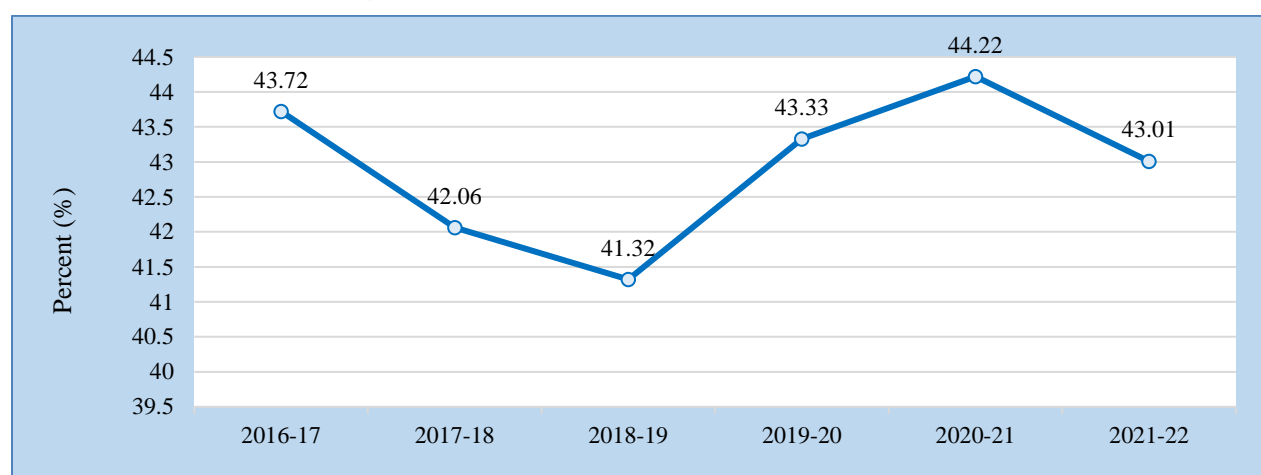
Table 5.5: Income Velocity of Money

(In billion Tk.)

FY	GDP (current market price) (in billion Taka)	Broad Money (In billion Taka)	Broad Money as percent of GDP	Income velocity of money (GDP/M2)
2016-17	23243.1	10160.8	2.29	43.72
2017-18	26392.5	11099.8	2.38	42.06
2018-19	29514.3	12196.1	2.42	41.32
2019-20	31704.7	13737.4	2.31	43.33
2020-21	35301.8	15609.0	2.26	44.22
2021-22	39717.2	17081.2	2.33	43.01

Source: Bangladesh Bank and BBS.

Figure 5.3: Movement of M2 as Percent of GDP

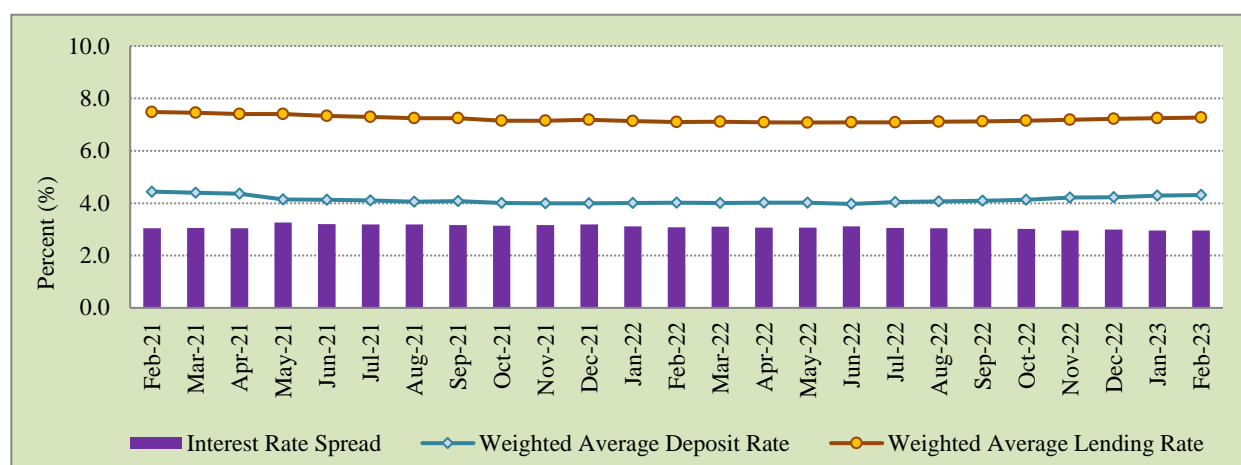


Rationalising the Rate of Interest/Charges

With a view to rationalising the rate of interest on deposit and lending through competitive environment among the banks, Bangladesh Bank has been continuing in providing instructions to banks on a regular basis for taking proper initiatives in FY 2022-23. In order to rationalise the rate of interest in other sectors including productive sector, banks are advised to limit the difference between lending and deposit rates or spread to below 4 percent except credit card and consumer credit. Besides, the maximum rate of interest/profit on unclassified loans/investment is set at 9 percent except credit card. The recent trends in weighted average lending and deposit rates show upward movement. The weighted average lending rate showed some constancy and reached to 7.09 percent at the end of June 2022 from 7.10 percent of end February 2022. After

that it increased consistently and stood at 7.27 percent at the end of February 2023. At the same time, the weighted average deposit rate although declined a little and stood at 3.97 percent of end June 2022 from 4.02 percent of end February 2022, later it increased much and reached to 4.31 percent at end of February 2023. Consequently, the interest rate spread between lending and deposit rate increased and reached to 3.12 percent at end June 2022 from 3.08 percent of end February 2022. The same decreased later and stood at 2.96 percent at end of February 2023. In enhancement of the market-based interest rate, increasing the policy rate several times by Bangladesh Bank and reduction of excess liquidity in the banking system have played significant role. The monthly trends of weighted average lending and deposit rates and the interest rate spread from February 2021 to February 2023 have been shown in Figure 5.4.

Figure 5.4: Weighted Average Deposit and Lending Interest Rate



Source: Bangladesh Bank.

Banking Sector

As on February 2023, there are 61 scheduled banks in Bangladesh. Among 61 scheduled banks, there are 6 state owned commercial banks, 3 specialized banks, 43 private commercial banks and 9 foreign commercial banks. In addition, 5 more non-scheduled banks are also operating.

These banks are: Ansar VDP Unnayan Bank, Karmasangsthan Bank, Grameen Bank, Jubilee Bank and Palli Shanchay Bank. As of February 2023, structure of the scheduled bank system by types of banks and their share in total deposits and assets (as of December 2022) are shown in Table 5.6.

Table 5.6: Structure of the Banking System in Bangladesh

(End February 2023)

Type of Banks	No. of Banks	No. of Branches			Percentage of Total Assets*	Percentage of Total Deposit*
		Urban	Rural	Total		
State-owned Commercial Banks (SOCBs)	6	1769	2054	3823	23.35	24.62
State-owned Specialised Banks (SBs)	3	301	1222	1523	2.19	2.65
Private Commercial Banks (PCBs)	43	3611	2137	5748	68.71	68.02
Foreign Commercial Banks (FCBs)	9	63	-	63	5.75	4.71
Total	61	5744	5413	11157	100	100

Source: Bangladesh Bank, *= as per December, 2022 data.

In Bangladesh, 61 scheduled banks are performing their banking business with 11,157 branches as on February 2023. Of these total bank branches, the number of urban and rural branches are 5,744 (51.48%) and 5,413 (48.52%) respectively. As on December 2022, of all the total assets of banking system, 68.71 percent and 23.35 percent are included to the PCBs and SOCBs respectively. As of December 2022, of

the total deposits of the banking system, 68.02 percent and 24.62 percent are belonged to the PCBs and SOCBs respectively.

Non-bank Financial Institutions (NBFIs)

As of February 2023, a total of 35 financial institutions are operating in 40 districts of the country through a total of 274 branches, of them 78 branches are located in Dhaka and the remaining 196 branches are located in 39

districts. As of December 2022, the paid-up capital and reserves of NBFIs stood at Tk. 13,081.82 crore; of this, the paid-up capital is Tk. 8,861.04 crore. As of December 2022, shareholders' equity of NBFIs stood at Tk. 6,077.43 crore, total assets at Tk. 92,001.40 crore and total deposits at Tk. 44,355.10 crore. As of December 2022, the total amount of loans/leases disbursed by NBFIs was Tk. 70,435.70 crore; of this, the total amount of classified loan was Tk. 16,821.49 crore which is 23.88 percent of the total loan/lease amount.

Bangladesh Bank issues various directives (guidelines, circulars and circular letters) from time to time to strengthen the management structure of financial institutions, ensure transparency, risk reduction and corporate good governance. As part of that, there are product guidelines for financial institutions, cost of funds or base rate determination method, guidelines on capital adequacy and market discipline, integrated risk management policy and directives on corporate governance. Some significant policy steps taken by Bangladesh Bank in FY 2022-23 are as follows: loan adjustment through one-time exit, simplifying the loan/lease/investment classification policy to facilitate customers affected by natural disaster including flood, rationalizing the rate of interest/profit on deposits and loans/leases/investments, determining the eligibility and suitability conditions of directors in the appointment of directors, preservation of information/documents in the loan files properly, customer service and complaint management policy, policy regarding imposition of fees/charges/commissions on various services, etc. Besides, for cash flow of individuals/organisations being adversely affected by long-term negative impact of corona and various out-of-control factors including the state of war in outside world, a master circular has also been issued regarding reschedule/ restructure of loans/leases/investments for proper management of classified loans.

Financial Inclusion

Financial inclusion is one of the tools for developing countries to move forward in the competitive global economic reality. With a view to building a sustainable economic infrastructure of the country and realising the importance of financial inclusion, Bangladesh Bank has been engaged in the exploration and promotion of innovative and successful policy initiatives to bring the financially excluded marginal population under the umbrella of financial inclusion. The major policy initiatives taken by Bangladesh Bank to promote financial inclusion are shown in Annexure 5.1.

Banking, Monetary and Credit Policy Reforms

Legal Reforms

To maintain uninterrupted supply of funds required for the continuity of power generation, Bangladesh Bank, in consultation with the government under the provision of section 121 of the Bank Company Act, 1991, issued notification through BRPD dated 26 July 2022, exempting banks from complying with provision of 26B (1) of the Bank Company Act, 1991 for the next 06 months in lending to the power sector for importing fuel and other raw materials. To maintain uninterrupted supply of funds required for the continuity of power generation, Bangladesh Bank, in consultation with the government under the provision of section 121 of the Bank Company Act, 1991, issued notification through BRPD circular dated 8 November 2022, exempting banks from complying with provision of 26B(1) of the Bank Company Act, 1991 for the next 5 years in lending to the coal-based power producers to meet up the expenses of purchase or import of coal and other raw materials used for setting up coal-based power plants and electricity generation.

Reforms in State Owned Commercial Banks

Bangladesh Bank has been monitoring the overall performance of state-owned commercial banks (except Bangladesh Development Bank Ltd.) under Memorandum of Understanding (MOU) in FY 2022-23 like the previous years. Bangladesh Bank has set various terms and targets in MOU for banks to improve their efficiency in asset liability management, reduce classified loans, ensure recovery against classified loans, minimise operating expenses, provide digital banking services and to strengthen internal control system of banks. Apart from these, to improve the quality of assets of banks, some other conditions have been imposed in MOU in case of purchasing Foreign Documentary Bill (FDBP), creation of forced loan/PAD/demand loan and rescheduling of forced loan/PAD/demand loan in long term. In this context, the compliance of terms/conditions set in the MOU is regularly monitored by Bangladesh Bank.

Money and Financial Market Reforms

With a view to strengthening and updating the risk management activities of the banks in line with the changing environment, 'Risk Management Guidelines for Banks' introduced in 2012 has been revised. In order to ensure sound risk management practices in the banks, instructions regarding specifying roles and responsibilities of the Board of Directors, Board Risk Management Committee, Executive Risk Management Committee and Chief Risk Officer (CRO) along with restructuring the risk management framework of banks have been included in the said guideline. Besides, initiatives have been taken to establish a well-organised Risk Appetite Framework for balancing between the risks taken and business targets to be achieved by the banks. The implementation of Basel III has been shown in Annexure 5.2.

Steps to mitigate impacts of COVID-19 in the Money and Financial markets

- Overnight repo interest rate has been changed by Bangladesh Bank twice in FY 2022-23. Firstly, the repo rate was increased by 25 basis points and re-fixed at 5.75 percent from 5.50 percent on 2 October 2022. Later, the repo rate was increased again by 25 basis points and re-fixed at 6.00 percent from 5.75 percent on 16 January 2023.
- In order to rationalise policy interest corridor, the reverse repo rate has been revised by 25 basis points increase and re-fixed to 4.25 percent from the existing 4.00 percent, with effect from 16 January 2023.
- Ensuring proper liquidity management of *Shari'ah* based banks and to further strengthen the Islamic financial system, 14 days tenor liquidity facility named 'Islamic Banks Liquidity Facility (IBLF)' under the *Mudaraba* contract against *Sukuk* has been introduced on 5 December 2022.
- Besides, to meet the interim liquidity shortages of *Shari'ah* based banks, under the *Mudaraba* agreement against collateral of claims of banks on the government arising from subsidies or incentives to be received against special schemes/programs, 'Mudarabah Liquidity Support (MLS)' for 7, 14 and 28 days has been introduced on 05 February 2023.
- Bangladesh Bank, using own fund, structured a revolving refinance scheme worth Tk. 15,000.0 crore titled 'Refinance scheme for providing working capital loan/investment facilities in large industrial and service sector' to ensure liquidity supply in banks under the Government announced loan/investment facility worth Tk. 30,000.0 crore for the distressed industrial and service sector companies (except CMSME) due to breakout of COVID-19. Under this scheme,

43 banks and 8 non-bank financial institutions received refinance facility worth Tk. 10,959.02 crore as on February 2023.

- The financial institutions are directed to ensure the proper utilisation of the loans given under implementing financial incentive package announced by the government to deal with the crisis caused by COVID-19.

Development of Payments System

A safe and efficient payment system is crucial in maintaining financial stability and effective performance of the financial system. To establish a public interest oriented modern, effective and capital based payment system in the country and to ease ongoing financial transactions of the mass, Bangladesh Bank has implemented various reforms activities which have been shown in Annexure 5.3.

Presentation of Money Laundering and Combating Financing of Terrorism

Some of the activities taken by the Bangladesh Financial Intelligence Unit (BFIU) during FY 2021-22 in order to prevent of money laundering and combating financing of terrorism are shown in Annexure 5.4.

Capital Market

The Bangladesh Securities and Exchange Commission (BSEC) has taken a number of steps, including reform of laws and regulations, for the overall development of the capital market. Some of the activities undertaken by BSEC till February 2023 of FY 2022-23 are briefly mentioned below:

- Dhaka Stock Exchange Limited and Chittagong Stock Exchange PLC have launched a separate platform (SME Platform) in 2021 for the small capital companies to raise capital by issuing securities. With a view to modernising the transactions of SME institutions, BSEC has issued a Notification on 12th September 2022 regarding

Bangladesh Securities and Exchange Commission (Qualified Investor Offer by Small Capital Company) Rules, 2022.

- With a view to facilitating transfer of ownership of listed and unlisted companies, branding and exposure of companies, facilitating alternative investment vehicles for potential investors, BSEC has approved Dhaka Stock Exchange (Alternative Trading Board) Regulations, 2022 and accordingly on 04th January 2023 Alternative Trading Board was inaugurated.
- According to the instructions of the government, on 10 October 2022 the Treasury Bond (T-Bond) trading platform of government securities was launched by Dhaka Stock Exchange Limited and Chattogram Stock Exchange PLC.
- BSEC issued an Order on 15 November 2022 in relation to the transaction of listed securities by the clients of block market at 10 percent lower than the floor price under the existing circuit breaker system.
- Commission issued a Notification on 23 August 2022 regarding Bangladesh Securities and Exchange Commission (Securities Market *Shari'ah* Advisory Council) Rules, 2022.
- Commission issued a Notification on 22 September 2022 in order to amend the Depository (User) Regulations, 2003.
- Commission issued a Notification on 3 October 2022 in relation to the issuance of capital through bonus shares or stock dividend.
- Commission issued a Directive on 13 November 2022 regarding extension of time to fulfill the requirement of maintenance of minimum Net Worth by Merchant Bankers.
- Commission has issued a Notification on 28 December 2022 in respect to the Bangladesh Securities and Exchange Commission (Insider Trading) Rules, 2022.

- According to BSEC Directive it was instructed to pay the accrued interest of Consolidated Customers Accounts to the respective BO account holders on proportionate basis.

Capital Market Situation

Dhaka Stock Exchange Ltd (DSE)

The total number of listed securities has increased from 625 in June 2022 to 655 in February 28, 2023. On 28 February, 2023, total issued capital of all listed securities stands at Tk. 4,13,324.39 crore registering 171.64 percent

growth compared to 30 June, 2022. Total market capitalisation of all listed securities was Tk. 5,17,781.69 crore in June 30, 2022 which stands at Tk. 7,63,009.14 crore on February 28, 2023, representing 47.36 percent increase. DSE Broad Index (DSEX) has decreased from 6,376.94 points in June 2022 to 6,216.95 points in February 28, 2023, showing 2.51 percent decrease. The P/E ratio was 14.33 in February 2023 whereas it was 16.15 in February 2022. Details of Securities Turnover are below in the Table 5.7 and Figure 5.5.

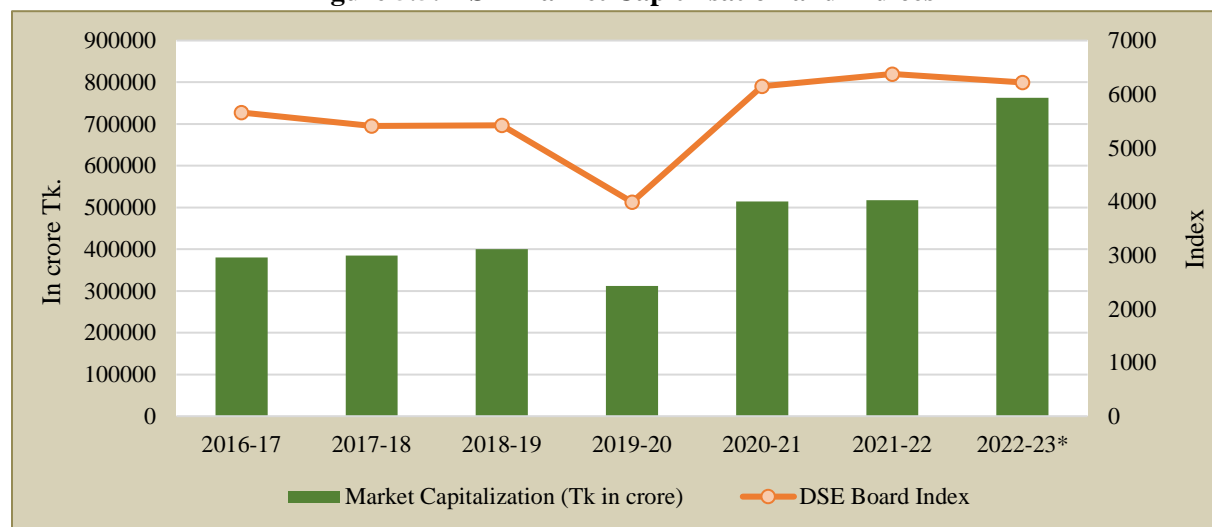
Table 5.7: Securities Trading Information of Dhaka Stock Exchange

Year/Month End	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 Board Index
2016-17	563	9	116551.08	380100.10	180522.21	5656.05
2017-18	572	11	121966.51	384734.78	159085.19	5405.46
2018-19	584	15	126857.48	399816.38	145965.54	5421.62
2019-20	589	5	129981.40	311966.98	78042.78	3989.09
2020-21	609	15	139734.40	514282.13	254697.04	6150.48
2021-22	625	16	152159.28	517781.69	318607.02	6376.94
2022-23*	655	6	413324.39	763009.14	138242.76	6216.95

Source: Dhaka Stock Exchange Ltd, * Up to February, 2023, ** No. of IPOs based on trading date

*** Issued Capital & Market Capital increased in FY 2022-23 since new government treasury bond's trading started from October, 2022.

Figure 5.5: DSE Market Capitalisation and Indices



* Up to February, 2023.

Chattogram Stock Exchange (CSE)

The number of securities listed on Chattogram Stock Exchange increased from 381 in June 2022 to 630 on 28 February 2023. Issued capital of all securities stood at Tk. 4,14,084.70 crore as on 28 February 2023, which is 304.63 percent higher than Tk. 1,02,335.70 crore as on 30 June 2022. The market capitalisation of all securities of CSE

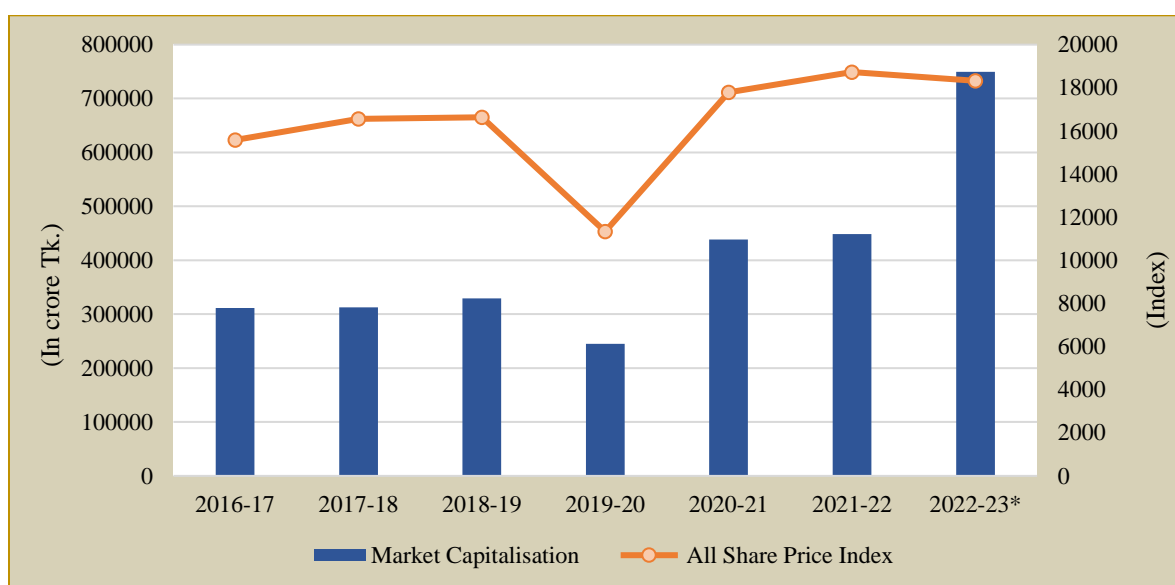
as on 30th June 2022 was Tk. 4,48,415.93 crore, which increased by 67.15 percent to Tk. 7,49,540.50 crore at the end of trading on 28th February 2023. The CSE All Share Price Index was 18,727.51 points at the end of June 2022, which decreased by 2.14 percent to 18,326.02 points on 28 February 2023. Details of securities turnover are shown below in the Table 5.8 and Figure 5.6.

Table 5.8: Securities Trading Information of Chattogram Stock Exchange

Year	No. of listed Securities	Number of IPO	Issued Capital (Tk. in crore)	Market Capitalisation (Tk. in crore)	Total Turnover value of All Securities (Tk. in crore)	CSE All Share Price Index
2016-17	303	9	60657.21	311324.29	11807.53	15580.37
2017-18	312	12	65405.91	312352.17	10985.06	16558.50
2018-19	326	16	71289.43	329330.28	8480.01	16634.21
2019-20	332	4	73589.76	244756.71	5307.82	11332.58
2020-21	348	14	83365.26	438365.33	11691.38	17795.04
2021-22	381	12	102335.71	448415.94	12069.82	18727.51
2022-23*	630	8	414084.71	749540.50	3902.95	18326.02

Source: CSE * Up to February 2023.

Figure 5.6: CSE Market Capitalisation and All Share Price Index



* Up to February 2023.

Annex: 5.1 Financial Inclusion

Financial inclusion seems to be the most prominent tool to ensure inclusive and sustainable economic development in the world. With a view to building a sustainable economic infrastructure of the country and realising the importance of financial inclusion, Bangladesh Bank has been engaged in the exploration and promotion of innovative and successful policy initiatives to bring the financially excluded marginal population under the umbrella of financial inclusion. The major policy initiatives taken by Bangladesh Bank to promote financial inclusion are as follows:

- To include the under-privileged and financially excluded population in the formal banking services, Bangladesh Bank has taken initiatives to open bank account with minimum deposit of Tk.10/50/100 for the people from various classes and professions such as farmers, hardcore poor, cleaners of city corporation, workers of small shoe and leather factory, ready-made garments workers, physically and sight challenged persons. Banks have also been instructed to open Tk.10 bank accounts for the inhabitants of the 111 former enclaves that were included in the map of Bangladesh. Bangladesh Bank has also instructed all the banks to operate these accounts without any service charges. With the initiatives of Bangladesh Bank the number of these account reached to 2.95 crore at the end of December 2022.
- With a view to facilitate the farmers for keeping their Tk.10 account effective by providing credit under minimum conditions, the fund size of the revolving refinance fund worth of Tk. 200 crore has been enhanced to Tk. 500 crore by Bangladesh Bank from its own source. Small, marginal, and landless farmers are the main target groups of this refinance scheme. Clients can borrow maximum Tk. 5.00 lac individually and Tk. 20.00 lac through a group from this fund. About Tk. 634.25 crore has been disbursed under Tk. 200 crore and Tk. 500 crore scheme up to December 2022.
- Bangladesh Bank has relaxed the regulations for opening the Tk. 10 special accounts for the street and working children, which was introduced in 2014 to make these people financially independent, to safeguard their hard-earned money and secure their future. Now, if the biological parents of these children are available, then the account can be operated by the joint signature of the street children and their father/mother. In that case, the overall transaction should be under close supervision of the nominated NGO official. The number of these accounts and the balance of these accounts stood at 30,898 and Tk. 45.52 lakh respectively up to December 2022.
- In accordance with the continuous financial inclusion program, Bangladesh Bank has introduced agent banking to provide a safe and affordable channel for banking services throughout the country to the non-privileged, underserved population especially from rural areas where traditional banking services are not possible to be served profitably. To ensure the proper expansion of agent banking, Bangladesh Bank issued comprehensive guidelines in September 2017. As of December 2022, 31 banks have got approval from BB to provide agent banking services and they have started their operations. Up to December 2022, agent banking services have been provided through 1.75 crore bank accounts opened by 20,736 outlets of 15,126 agents of those 31 banks.

- Bangladesh Bank has started ‘Remittance Award’ since 2013 to acknowledge the contributions of NRBs and to motivate expatriates for sending more remittance through regular banking channel. A total of 221 individuals and 45 institutions in different categories have been awarded in the period of 2013 to 2020. In the year of 2021, 26 remitters (7 general professionals, 10 specialist professionals and 09 businessmen), 03 non-resident Bangladeshi owned exchange houses and 04 commercial banks were awarded with ‘Bangladesh Bank Remittance Award 2019’, and 27 remitters (12 general professionals, 10 specialist professionals and 05 businessmen), 03 non-resident Bangladeshi owned exchange houses and 04 commercial banks were awarded with ‘Bangladesh Bank Remittance Award 2020’.
- Bangladesh Bank introduces school banking for the students less than 18 years of age with a view to crafting saving habit from the childhood and acquainting them with the banking services and technology. Under this agenda, financial literacy programs are being organized throughout the country following the Lead Bank model under Bangladesh Bank’s monitoring and supervision. School banking conferences have been started from 2016. Financial literacy related video documentaries, presentations, quiz programmes and cultural programmes are being arranged through these conferences with a view to disseminating financial literacy.
- Alliance for Financial Inclusion (AFI) is a policy leadership alliance owned and led by member central banks and financial regulatory institutions with the common objective of advancing financial inclusion at the country, regional and international levels. 84 institutions from 76 countries are working members of AFI. Bangladesh Bank is representing as a principal member in this Alliance from June, 2009 and Governor of Bangladesh Bank performed as vice chair from 2016 and as chair of AFI Board of Directors from April, 2018 to September 2019 successfully. At present, 2 Executive Director level officials of Bangladesh Bank are representing in i) *AFI Gender Inclusive Finance Committee (GIFC)* and ii) *AFI Intergovernmental Organization Special Committee (IGOSC)* of AFI Board. From the very beginning, Bangladesh is considered as pioneer of financial inclusion in AFI network. As a member of AFI, Bangladesh Bank signed in Maya Declaration on 11 September 2014 and commits goals regarding financial inclusion. Till now, Bangladesh Bank has committed 69 goals, already 47 of which are completed successfully. Bangladesh Bank has been declared as *Regional Champion of Financial Inclusion* of Asia region in ‘2022 Maya Declaration Progress Report’ for considerable advancement in Maya Declaration Commitments.
- To increase financial literacy of people, Bangladesh Bank has completed Striving for a Financially Literate Society project financed by AFI. Under this project the following three initiatives have been implemented: Developing Financial Literacy guidelines designed for Banks and Financial Institution to deploy financial literacy, Producing Financial Literacy content and website aimed at different segments of people, and producing short animated financial literacy videos for better dissemination of financial literacy among the mass.
- With a view to overcoming the possible negative impacts of the COVID-19 pandemic, Bangladesh Bank has formed a refinance fund worth Tk. 3000.0 crore (revolving) on 20 April 2020 for low-income professionals, farmers, micro/small businesses. As per revised directives issued on 28 October 2021 vide FID Circular No: 02/2021, this facility is being disbursed through Micro

Finance Institutions (MFIs) as well as by the branches and sub-branches of scheduled banks enabling the fund to be accessible by the target population at the grassroots levels. The scheme provides the end users with the facility to borrow at a maximum of 7 percent interest rates from the banks and at 9 percent interest rate from the MFIs. On the other hand, Bangladesh Bank will charge 0.5 percent interest to the banks while the banks will charge 3.0 percent interest to the MFIs. As of February 2023, more than 6.5 lakh targeted people has availed the credit facility worth of Tk. 3,763.64 crore through this scheme. Among them, 87.54 percent are female.

- Attaining the targets of Digital Bangladesh with expanding inclusive economic growth, and prioritizing the need of unbanked and marginal people, Bangladesh Bank has introduced a refinance scheme of Tk. 100.0 crore named ‘Refinance Scheme for Digital Nano Loan’ in June 2022 to provide Nano Loan/Investment digitally at minimal interest/profit. Under this scheme, low income, unbanked and marginal people can get credit facilities from Tk. 500 to Tk. 50,000 without any paper documents and any collateral within very short time for a period of 6 months maximum using digital platforms (MFS, mobile apps, e-wallet and e-banking, etc.). Consumers can be charged the highest 9 percent interest/profit against this loan and Bangladesh Bank provides refinance to the covenanted banks at 1 percent interest. As of December 2022, 45,003 beneficiaries have received credit facilities amounting Tk. 46.15 crore under this refinance scheme.

Annex: 5.2

Implementation of Basel III

Towards building a robust and risk resilient banking system, Basel-III capital and liquidity standards aligned with the international best practices getting momentum in the banking sector of Bangladesh. Bangladesh starts implementation of Basel III with a transitional arrangement from January 1, 2015 and fully implemented at the end of December 2019. In this regard, Bangladesh Bank (BB) issued a comprehensive guideline and declared a road map with a phase-in action plan for implementation of BASEL III in December 2014. The aim of implementing Basel-III is to increase resilience of the banks and the banking sector and prepare the banks and banking system to survive in the financial and economic crisis. Banks in Bangladesh need to maintain an adequate level of capital requirement in addition of a minimum capital requirement considering their risk profile.

Basel III increases not only the level of capital but also the quality of capital. Banks need to maintain a minimum capital ratio of 10.00 percent, out of which 6.00 percent as Tier-1 capital. Under Basel III, banks also maintaining a Capital Conservation Buffer (CCB) in addition of minimum capital requirement (MCR). CCB started with 0.625 percent from 2016 and ended up with 2.50 percent in December 2019. At present Banks are instructed to maintain 2.50 percent CCB. The macro prudential aspects of Basel III especially counter cyclical capital buffer to protect the banking sector from periods of excess credit growth is yet to be introduced. On December 2022, 44 banks were able to maintain minimum CCB ratio (2.5%).

Aiming a leap forward towards IRB Approach, Bangladesh Bank issued a ‘Guidelines on Internal Credit Risk Rating System (ICRRS)’ and prepared different ‘financial models’ for banks for better managing credit risk internally. Considering COVID-19 pandemic and its consequent effect, Service/Manufacturing sector were exempted from ICRRS rating for getting bank loan/investment facilities under the government stimulus package in 2020. Due to COVID-19 impact, the score for ICRRS’ being ‘Unacceptable’ has been reduced to 55 percent from 60 percent.

Capital adequacy reporting under Basel III accord starts from the first quarter ended in March 2015. It is evident that at the end of December 2022, Capital to Risk-weighted Asset Ratio (CRAR) of the banking industry stood at 11.83 percent while Common Equity Tier 1 (CET1) was 7.73 percent which accomplished Basel III capital adequacy requirements. However, at individual level, 50 out of 61 banks were able to maintain minimum capital requirements, i.e., 10% CRAR and 53 banks were able to maintain CET1 at required level.

SRP-SREP Dialogue which is another major part of Pillar II Implementation process could not ground for the base year 2019 due to COVID-19 pandemic. For the base year 2020, SRP-SREP Meeting with the banks has finished in August 2022 and the meeting for the year of 2021 will be started soon. With the experience of the last three years completed meetings (base year of 2017, 2018 and 2020 respectively) with banks, it was found that the estimated additional capital requirement for residual risk was arisen mainly due to documentation error which was the highest among the pillar II risks. Apart from that, strategic risks and appraisal of core risks management were the other foremost concerns for the banks.

Annex: 5.3

Development of Payment System

A safe and efficient payment system is crucial in maintaining stability and effectiveness of the financial system. To establish payment system supportive for capital formation and facilitating transactions and settlement services for mass engaged in banking services, Bangladesh Bank has been operating four interoperable payment platforms named Bangladesh Automated Cheque Processing System (BACPS), Bangladesh Electronic Funds Transfer Network (BEFTN), National Payment Switch Bangladesh (NPSB), and Interoperable Digital Transactions Platform (IDTP). Moreover, for the large-value payments segment, Bangladesh Real Time Gross Settlement (BD-RTGS) System has been established to settle high value (Tk. 100,000 equivalent and above) transactions on a real-time basis. During July-February 2023 of FY 2022-23, BACPS handled about Tk. 8.88 lakh crore through high value checks and around Tk. 4.35 lakh crore through regular value checks. During the same period, BEFTN settled approximately Tk. 6.22 lakh crore through electronically credit and debit items. During July-February 2023 of FY23, about Tk. 85.83 thousand crore has been transacted through NPSB system and about Tk. 36.44 lakh crore has been settled in BD-RTGS.

Applying mobile technology, nine banks and three subsidiary companies of banks and one financial service provider of the Bangladesh Postal Department (*Nagad*) are providing financial services, namely Mobile Financial Services (MFS). Beside payment by individuals, merchant payment through MFS is quickly gaining popularity among the customers. As of January 2023, the total number of MFS agents is 15,69,111 and the number of registered clients is approximately 19.41 crore out of which the number of active accounts is about 5.73 crore. In that period, the average daily transaction volume through MFS was about Tk. 3.24 thousand crore.

Till date, Bangladesh Bank has issued licenses to eight companies, of them seven PSOs act for settlement of transactions in e-commerce or online buying and selling, which are playing an important role in the advancement of e-commerce by providing Payment Gateway and Payment Aggregator services. Besides, PSP licenses have been issued to five non-bank companies for providing e-wallet services. To make the benefits of modern payment system more accessible to the public, Bangladesh Bank has published guidelines for handling payment based on White Label ATM and Merchant Acquiring Services (WLAMA) and 'Bangla QR' code. In addition, to promote labor-intensive micro/floating entrepreneurs, small and micro traders, marginal sellers and service providers, Bangladesh Bank has released the opportunity to open 'Personal Retail Accounts' with minimal paperwork. To ensure discipline and consumer protection in the e-commerce market, Bangladesh Bank has also introduced escrow system for online shopping from the market in addition to advance payment. Moreover, Interoperable Digital Transactions Platform (IDTP) named as '*Binimoy*' aimed at bridging between the various partners in the payment system has started functioning from 13 November of 2022 after official inauguration. As a result, customers will be able to receive all digital payment services under one API (Application Processing Interface). With the growing demand for digital innovation and the technological excellence of financial services, Bangladesh Bank launched the Regulatory Fintech Facilitation Office (RFFO) in August 2020.

Annex 5.4

Prevention of Money Laundering

During FY 2022-23 (till February 2023) Bangladesh Financial Intelligence Unit (BFIU) has taken significant initiatives for preventing money laundering and financing of terrorism and proliferation and thus helped to manage the risks and ensure stability of the financial sector to bolster the growth of our economy. Some of these initiatives are mentioned below:

- BFIU issued circular on 27 July 2022, which replaced the requirements of attestation of customer's documents by respective Bangladeshi embassies while opening account in the scheduled banks by Non-Resident Bangladeshis (NRBs).
- In the current fiscal year, BFIU received 2,56,52,620 no. of Cash Transaction Report (CTR) from the banks and non-bank financial institutions and 8198 Suspicious Transaction/Activity Report (STR/SAR) from the reporting organizations (ROs). In addition, BFIU received 154 complaints from different sources.
- By analyzing STR/SARs submitted by ROs and complaints received from different sources, BFIU prepared 40 intelligence reports and disseminated these to law enforcement agencies (LEAs) for investigation and taking necessary action.
- BFIU conducted total 140 regular inspections including 100 inspections on banks, 17 inspections on financial institutions, 17 inspections on money changers, 06 inspections on mobile financial service (MFS) providers and 26 special inspections on ROs over the period. Besides, BFIU exchanged 285 money laundering / terrorism financing related information with the LEAs.
- BFIU received 16 requests from the foreign FIUs for money laundering (ML), terrorism financing (TF) and proliferation financing (PF) related information and provided the information accordingly. BFIU also made 52 requests to the FIUs of different countries/ jurisdictions and disseminated the received responses to the concerned authority/appropriate LEAs.
- BFIU signed Memorandum of Understanding (MoU) with the Financial Intelligence Unit of Guernsey on 12 July 2022. With this, BFIU has signed total 79 MoUs with the FIUs of different countries/jurisdictions.
- BFIU and International Monetary Fund (IMF) are working together to strengthen the risk-based AML/CFT supervisory framework of Bangladesh. In this connection, IMF conducted an onsite mission at BFIU during January 23-25, 2023 to discuss further scope of development in Bangladesh's AML/CFT regime.
- BFIU is working relentlessly to curb ML risk arising from online gaming/bating, crypto currency transactions, and unauthorized foreign exchange trading activities. BFIU identified 497 websites, 212 face book pages and 120 mobile apps that are facilitating online gaming/bating, unauthorized foreign exchange trading etc. in Bangladesh and disseminated their information to relevant LEAs for taking necessary actions.
- To stabilize the volatile foreign exchange market, BFIU provided awareness building trainings on AML/CFT to 229 Money Exchange houses. Special team formed with BFIU, CID and Bangladesh

Bank officials conducted special drive-in unauthorized Money Exchange houses and seized local and foreign currency worth Tk. 2.00 crore and 14 people had been arrested for being involved with unauthorized Money Exchange business.

- BFIU has held a series of meetings with MFS providers, including LEAs to prevent the use of MFS platform in digital hundi process. Approximately 5,766 suspected MFS agent account information has been sent to LEAs which have been identified through various selective indicators. A total of 6,967 MFS account transactions have been frozen by BFIU on the basis of suspicion of involvement in illegal hundi activities as on February 2023.
- BFIU provided necessary secretarial support to arrange the 26th and 27th meeting of the National Coordination Committee on AML/CFT where Honorable Finance Minister presided over the meeting. These two meetings ended with some important decisions to bolster the AML/CFT regime, which are Cybercrime and Pornography as predicate offence in MLPA, 2012, initiative to amend the Public Gambling Act, 1867, approving strategy for recovering money siphoned to different countries along with Swiss banks, approving guidelines on Recovery of Laundered Money: Legal Framework and Strategic Process etc.
- For prevention of money laundering (ML) and combating terrorist financing (TF) and proliferation financing (PF), BFIU has been maintaining continued engagement with all the international bodies such as APG, Egmont Group, FATF, BIMSTEC, UNODC, World Bank and IMF. Bangladesh actively participated in various international initiatives undertaken by these organizations and other foreign FIUs in the current fiscal year.