

CHAPTER FIVE

MONETARY MANAGEMENT AND FINANCIAL MARKET DEVELOPMENT

Monetary policy stance and the money and credit programmes have been announced for FY 2020-21 with prime objectives of recovering the economy from the adversity of the COVID-19 pandemic and rehabilitation of the production capacity of the economy along with maintaining price stability and quality growth. The FY 2020-21 monetary programme primarily set to support 8.2 percent real GDP growth and containment of CPI based average inflation at 5.4 percent. Due to expanding outbreak of COVID-19 pandemic in declining domestic as well as global demand, downward revision of the growth target to 7.4 percent induced to lower the broad money growth target by 60 basis points to 15.0 percent, which was 15.6 percent previously. In February 2021, net foreign asset (NFA) increased (30.8 percent) substantially due to decreasing growth of imports payments and significantly increases of workers' remittances. The actual broad money increased by 13.4 percent in February 2021 over February 2020 mainly attributed from the sharp growth in NFA. Public sector credit experienced 8.3 percent growth in February 2021 against 69.7 percent growth in February 2020. Public sector credit growth decreased mainly due to much government's borrowing from national saving certificates. The private sector credit growth in February 2021 was far shorter (8.9 percent) than the target (14.8 percent) for FY 2020-21 mainly due to the slow economic activities resulted from Coronavirus impact. The recent trends in weighted average lending and deposit rates show downward movement. The weighted average lending rate decreased to 7.48 percent at the end of February 2021 from 9.62 percent of end February 2020. Similarly, the deposit rate continuously decreased to 4.46 percent in February 2021 from 5.53 percent from February 2020. Therefore, the spread declined to 3.02 percent at the end of February 2021 from 4.09 percent at the end of February 2020. With a view to building a sustainable economic infrastructure of the country the government 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. In FY 2020-21, both stock markets (Dhaka Stock Exchange and Chattogram Stock Exchange) noticed some volatility, however, both the price index and market capitalisation increased significantly. The market capitalisation and the broad index of DSE increased by 49.29 percent and 35.49 percent respectively at the end of February 2021 compared to end June 2020. Similarly, the market capitalisation and CSE All Share Price Index increased by 60 percent and 37.69 percent respectively, compared to end June 2020.

Monetary policy stance and the monetary and credit programs have been announced for FY 2020-21 with prime objectives of recovering the economy from the adversity of the COVID-19 pandemic and rehabilitation of the production capacity of the economy including restoration of the normal livelihoods of the people along with maintaining dual goals of price stability and quality growth. Therefore, the MPS for FY 2020-21 has adopted a strategy so that the adequate financing support would be available to all the

priority sectors like agriculture, cottage, micro, small and medium enterprises (CMSMEs), manufacturing industries and so on with the options of necessary adjustment to match the demand of the specific sectors where essential. Based on these considerations, Bangladesh Bank's monetary policy stance and monetary programmes for FY 2020-21 are essentially expansionary and accommodative for all growth support

Due to expanding outbreak of COVID-19 pandemic in Bangladesh from March 2020 and declining domestic as well as global demand, actual GDP growth is much lower than the target level and the CPI based general average inflation slightly surpasses the target level for FY 2019-20. The FY 2020-21 monetary programme primarily set to support 8.2 percent real GDP growth and containment of CPI based average inflation at 5.4 percent needs without impairing attainment of the targeted inflation containment.

The annual monetary programmes of Bangladesh Bank have been outlined making sure enough rooms for money and credit growth to sufficiently support the targeted nominal GDP growth. The broad money (M2) growth has been set based on the equation of exchange that accounts for the necessary adjustment in the change of the money velocity, and the target nominal GDP growth comprising the summation of target real GDP growth and inflation target ceiling. Bangladesh Bank would use its monetary policy instruments along with its available open market operation tools to control reserve money (RM) growth impacting broad money growth and, thereby, influencing ultimate policy objectives.

Bangladesh Bank has reviewed the FY 2020-21 monetary programmes in January 2021 and decided to revise the targets of some monetary aggregates including M2 and net foreign asset (NFA) growth. In the revised programme, the broad money growth target has been reduced by 60 basis points to 15.0 percent which was 15.6 percent previously, mainly to cope up with the recent slash down of GDP growth target (from 8.2 percent to 7.4 percent). The NFA growth target has been revised upward (from 5.8% to 20.1 percent) by considering the robust growth trend of inward remittances while the public sector credit growth has been revised slightly downward (from 44.4 percent to 31.7 percent) by considering its actual growth trend up to

December 2020. In February 2021, NFA increased (30.8%) substantially due to decreasing growth of imports payments and significantly increases of workers' remittances. The actual broad money increased by 13.4 percent in February 2021 over February 2020 mainly attributed from the sharp growth in NFA. Public sector credit experienced 8.3 percent growth in February 2021 against 69.7 percent growth in February 2020. Public sector credit growth decreased mainly due to much government's borrowing from national saving certificates. The private sector credit growth in February 2021 was far shorter (8.9 percent) than the target (14.8%) for FY 2020-21 mainly due to the slow economic activities resulted from Coronavirus impact.

Some monetary policy measures in line with the broad objectives of expansionary monetary policy stance for the current fiscal year have already been taken. To ensure the availability of less costly funds for banks and rationalising the policy rates' corridor (the gap between the repo and reverse repo rates), the repo and reverse repo interest rates have slashed down by 50 basis points and 75 basis points to 4.75 percent and 4.00 percent respectively with effect from 30 July 2020. However, 360-day repo facility with effect from 13 May 2020 is also introduced.

The Bank Rate which remained unchanged for the last 17 years (since 2003) has also been slashed down by 100 basis points to 4.00 percent to rationalize it with the current interest rate regime. CRR has been reduced from 5.5 percent to 4.0 percent for domestic banking operations, from 5.5 percent to 2.0 percent for offshore banking operations, and from 2.5 percent to 1.5 percent for financial institutions (FIs).

Money and Credit Situation

Growth Trends of Monetary Aggregates

At the end of February of FY 2020-21, the year-on-year growth of reserve money, broad money

(M2) and narrow money (M1) are 19.72 percent, 13.35 percent and 19.19 percent respectively. During the time period, 30.36 percent growth of

net foreign assets has contributed in the year-on-year growth of M2. Table 5.1 shows the growth trends of monetary aggregate since FY 2014-15.

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

Indicator	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Feb'20	Feb'21
Narrow Money (M1)	13.53	32.10	13.01	6.17	7.22	20.11	9.89	19.19
Broad Money (M2)	12.42	16.35	10.88	9.24	9.88	12.64	12.57	13.35
Reserve Money (RM)	14.33	30.12	16.28	4.04	5.32	15.56	10.69	19.72

Source: Bangladesh Bank

Narrow Money (M1)

Narrow money (M₁) increased by 20.11 percent during FY 2019-20, which is higher than 7.22 percent growth in FY 2018-19. Up to February 2021 of FY 2020-21, M1 increased by 19.19 percent, which is higher than 9.89 percent growth 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 14.53 percent and 25.71 percent respectively up to February 2021, which were 10.86 percent and 8.55 percent respectively in the same period of the previous fiscal year.

Broad Money (M2)

Broad money (M2) increased by 12.64 percent to Tk. 13,73,735.1 crore in FY 2019-20 as compare to Tk. 12,19,611.5 crore of FY 2018-19. Year-on-year growth of M2 stood at 13.35 percent up to February 2021 and M2 stood at Tk. 14,80,933.1 crore. M2 growth was 12.57 percent in the same period of the previous fiscal year. Time deposit increased (year-on-year) by 11.78 percent at the end of February 2021, which was 13.32 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)

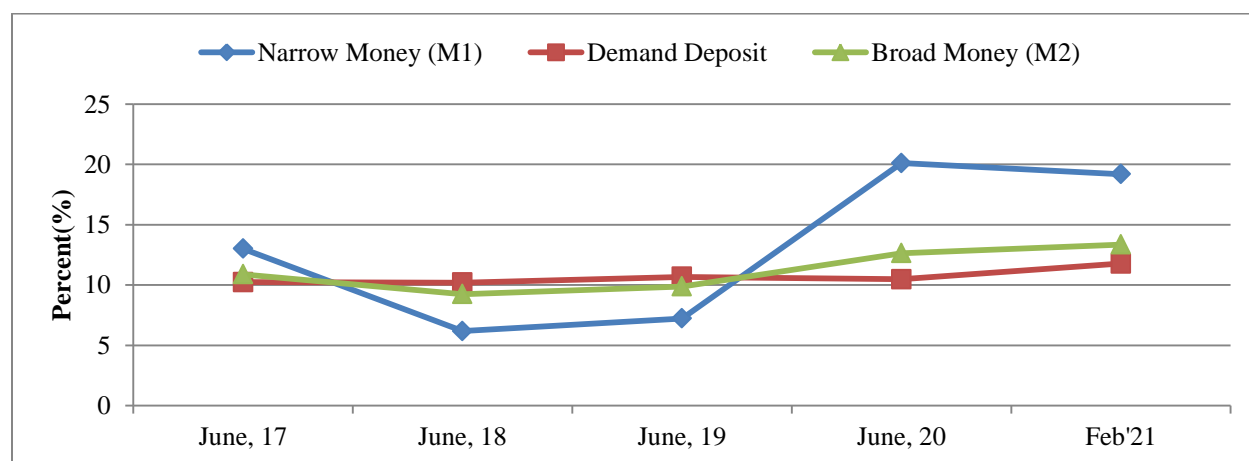
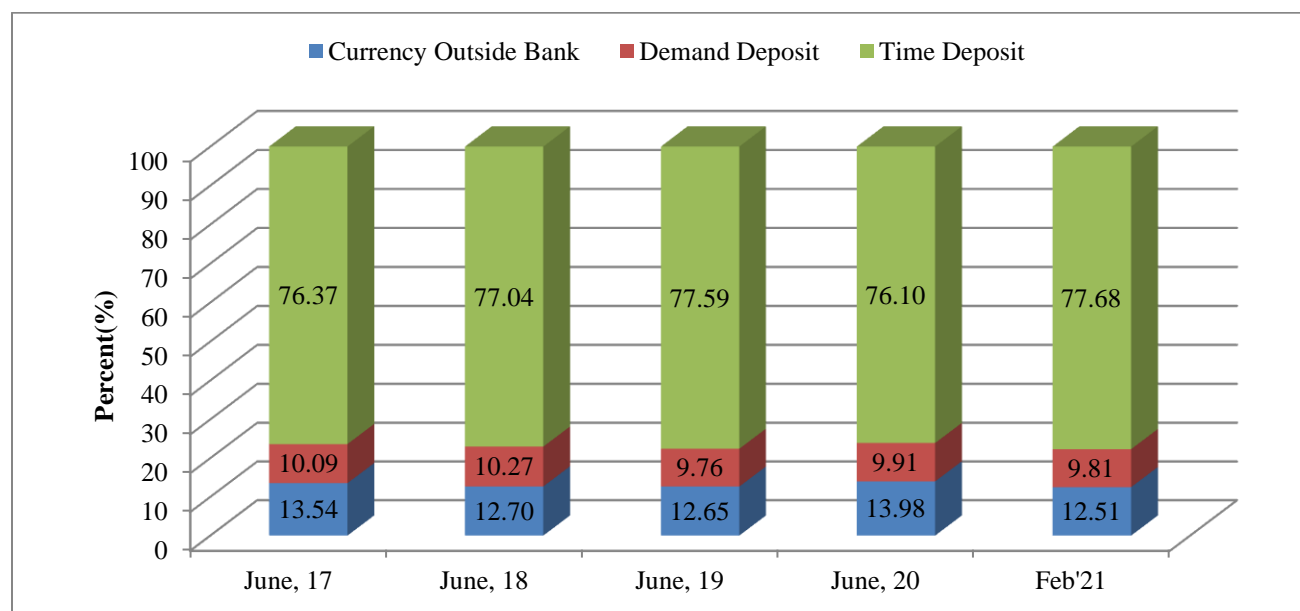


Table 5.2: Movement and Growth of the Components of M2 and Domestic Credit

Indicators	June, 2017	June,2018	June,2019	June, 2020	Feb. 2020	Feb. 2021
End period stock (In crore Taka)						
1. Net foreign assets of the banking system	266697.0	264674.4	272399.5	297336.2	277486.5	361731
2. Net domestic assets of the banking system	749379.1	845306.6	947212.0	1076398.9	1029010.3	1119202.1
a. Domestic credit	890670.2	1021626.6	1146884.7	1307633.7	1251174.6	1364504.2
a.1. Government sector (net) ¹	97333.5	94895.1	113273.4	181150.7	162241.6	179511.5
a.2. Public sector (other) ¹	17280.2	19200.0	23355.6	29215.1	30033.6	31482.1
a.3. Private sector ¹	776056.5	907531.5	1010255.7	1097267.9	1058899.4	1153510.6
b. Other assets (net)	-141291.1	-176320.0	-199672.7	-231234.8	-222164.3	-245302.1
3. Narrow money	240078.5	254893.7	273293.4	328263.9	277333.7	330549.9
a. Currency notes and coins with the public	137531.8	140917.5	154287	192114.5	161820.5	185332.8
b. Demand deposit ²	102546.7	113976.3	119006.4	136149.4	115513.2	145217.1
4. Time deposit	775997.6	855087.3	946318.1	1045471.2	1029163.1	1150383.2
5. Broad money [(1)+(2)] or [(3)+(4)]	1016076.1	1109981.0	1219611.5	1373735.1	1306496.8	1480933.1
Year-on-year percentage change						
1. Net foreign assets of the banking system	14.40	-0.76	2.92	9.15	4.54	30.36
2. Net domestic assets of the banking system	9.68	12.80	12.06	13.64	14.96	8.76
a. Domestic credit	11.16	14.70	12.26	14.02	15.09	9.06
a.1. Government sector (net)	-14.78	-2.51	19.37	59.92	74.55	10.64
a.2. Public sector (other)	7.66	11.11	21.64	25.09	25.83	4.82
a.3. Private sector	15.66	16.94	11.32	8.61	9.13	8.93
b. Other assets (net)	19.70	24.79	13.24	15.81	15.69	10.41
3. Narrow money	13.01	6.17	7.22	20.11	9.89	19.19
a. Currency notes and coins with the public	12.66	2.46	9.49	24.52	10.86	14.53
b. Demand deposit	13.49	11.15	4.41	14.41	8.55	25.71
4. Time deposit	10.24	10.19	10.67	10.48	13.32	11.78
5. Broad money	10.88	9.24	9.88	12.64	12.57	13.35

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 14.02 percent in FY 2019-20 compared to 12.26 percent in FY 2018-19. Domestic credit increased (year-on-year) by 9.06 percent up to February 2021 of FY 2020-21, which is lower than 15.09 percent growth in the same period of the previous fiscal year. Of which private sector credit growth stood at 8.93 percent at the end of February 2021 against 9.13 percent in the same period of the previous fiscal year. The net credit to the government increased by 10.64 percent at the end of February 2021 which was increased by 74.55 percent in same period of the previous year. At the end of February 2021, the share of government (excluding others public sector) to total domestic credit stood at 13.16 percent. Private sector credit to total domestic credit stood at 84.54 percent which was 83.91 percent at the end June 2020.

Reserve Money

Reserve money stood at Tk. 284483.4 crore at the end of FY 2019-20, which was Tk. 246187.7 in FY 2018-19. Reserve money growth stood at 15.56 percent in FY 2019-20 compared to 5.32 percent of the previous fiscal year. In FY 2020-21, reserve money increased by 19.72 percent up to February 2021 compared to the same period of

the previous fiscal year and stood at Tk. 300493.4 crore. On the other hand, net foreign assets of BB increased by 11.22 percent at the end of FY 2019-20 compared to the 1.45 percent at the end of previous fiscal year. In FY 2020-21, net foreign assets of BB increased by 33.34 percent up to February 2021 compared to the 4.00 percent decrease in the same period of the previous fiscal year.

Claims on government sector (net) increased by Tk. 10928.1 crore in FY 2019-20 compared to Tk. 8616.8 crore in FY 2018-19. Claims on deposit money banks (DMBs) increased by Tk. 8378.0 in FY 2019-20, which was decreased by Tk. 195.6 crore in FY 2018-19. In FY 2019-20, claims on government sector (net) decreased by Tk. 37645.9 crore at the end of February 2021, which was increased by Tk. 12958.3 crore at the same period of the previous fiscal year. At the same period, Claims on deposit money banks (DMBs) increased by Tk. 4399.6 crore, which was increased by Tk. 8140.0 crore in the same period of the previous fiscal year. During this time, claims on other public sector increased by Tk. 608.0 crore, that was increased by Tk. 222.3 crore 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	End Period (In Crore Tk.)					
	June, 2017	June, 2018	June, 2019	June, 2020	Feb. 2020	Feb. 2021
1. Currency issued	151265.2	154940.5	170387.1	208094.1	175222.6	203381.8
2. Balances of scheduled banks with BB	72732.7	78043.4	75012.1	75768.3	74986.5	96552.9
3. Reserves of other financial institutions with the BB	661.5	759.1	788.5	621.0	779.5	558.7
4. Reserve Money [(1)+(2)+(3)]	224659.4	233743.0	246187.7	284483.4	250988.6	300493.4
	Percentage Change (Year-on-Year)					
1. Currency issued	14.33	2.43	9.97	22.13	10.25	16.07
2. Balances of scheduled banks with BB	20.62	7.30	-3.88	1.01	11.7	28.76
3. Reserves of other financial institutions with the BB	10.79	14.75	3.87	-21.24	15.82	-28.33
4. Reserve Money	16.28	4.04	5.32	15.56	10.69	19.72

Source: Bangladesh Bank

Table 5.4: Sources of Reserve Money and their Changes

Particular	End Period (In Crore Tk.)					
	June, 2017	June, 2018	June, 2019	June, 2020	February, 2020	February, 2021
1. Net foreign assets of BB	252027.0	253509.8	257195.4	286040.9	260343.4	347148.6
2. Net domestic assets of BB	-27367.6	-19766.8	-11007.7	-1557.5	-9354.8	-46655.2
a. Domestic credit	25166.5	35668.7	43745.8	63776.4	48223.6	16081.3
a.1. Claims on Government sector (net)	12977.7	22572.2	31189.0	42117.1	26329.1	-11316.8
a.2. Claims on other public sector	2157.8	2367.8	2380.4	2551.9	2574.9	3182.9
a.3. BB's claims on DMBs	5054.4	5582.5	5386.9	13764.9	14440.3	18839.9
a.4. BB's claims on NBDCs	4976.6	5146.2	4789.5	5342.5	4879.3	5375.3
b. Other assets (net)	-52534.1	-55435.5	-54753.5	-65333.9	-57578.4	-62736.5
3. Reserve Money [(1)+(2)]	224659.4	233743.0	246187.7	284483.4	250988.6	300493.4
Percentage Change (Year-on-Year)						
1. Net foreign assets of BB	15.14	0.59	1.45	11.22	4.0	33.34
2. Net domestic assets of BB	6.54	-27.77	-44.31	-85.85	-60.32	398.73
a. Domestic credit	-4.60	41.73	22.64	45.79	79.89	-66.65
a.1. Claims on Government sector (net)	-2.96	73.93	38.17	35.04	96.91	-142.98
a.2. Claims on other public sector	7.06	9.73	0.53	7.20	9.45	23.61
a.3. BB's claims on DMBs	-16.10	10.45	-3.50	155.53	129.2	30.47
a.4. BB's claims on NBDCs	0.20	3.41	-6.93	11.55	2	10.17
b. Other assets (net)	0.89	5.52	-1.23	19.32	14.28	8.96
3. Reserve Money	16.28	4.04	5.32	15.56	10.69	19.72

Source: Bangladesh Bank

Money Multiplier

Money multiplier decreased to 4.829 in FY 2019-20 as compared to 4.954 of FY 2018-19 due to lower growth of broad money compared to reserve money. During FY 2020-21, money multiplier stood at 4.928 at the end of February 2021. Ratios of money multiplier as reserve-deposit ratio and currency-deposit ratio stood at 0.089 and 0.143 respectively at the end of February 2021.

Income Velocity of Money

Income velocity of money declined to 2.04 in FY 2019-20 which was 2.08 at the end of FY 2018-19. 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

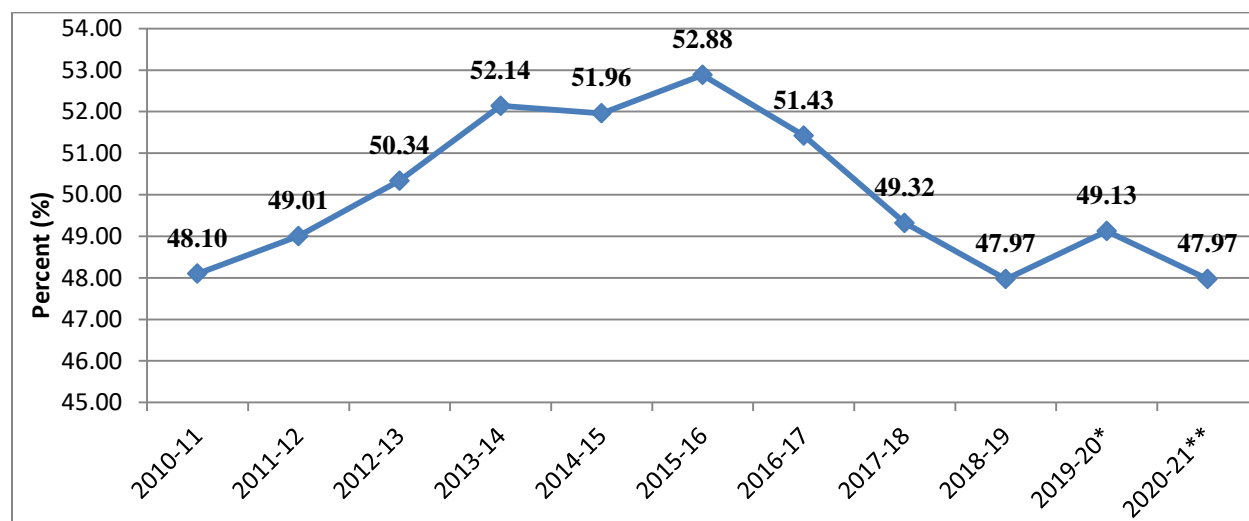
FY	GDP (current market price) (in billion Taka)	Broad Money (in billion Taka)	Broad Money as percent of GDP	(In billion Tk.)
				Income velocity of money (GDP/M2)
2010-11	9158.30	4405.20	48.10	2.08
2011-12	10552.00	5171.09	49.01	2.04
2012-13	11989.20	6035.05	50.34	1.99
2013-14	13436.74	7006.23	52.14	1.92
2014-15	15158.02	7876.14	51.96	1.92
2015-16	17328.64	9163.78	52.88	1.89

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	19758.15	10160.80	51.43	1.94
2017-18	22504.79	11099.78	49.32	2.03
2018-19	25424.83	12196.12	47.97	2.08
2019-20*	27963.78	13737.4	49.13	2.04
2020-21**	30873.33	14809.3	47.97	2.08

Source: Bangladesh Bank and BBS.

* Provisional, ** GDP: Estimated, M2: Up to February 2021

Figure 5.3: Movement of M2 as Percent of GDP



Rationalising the Rate of Interest/Charges

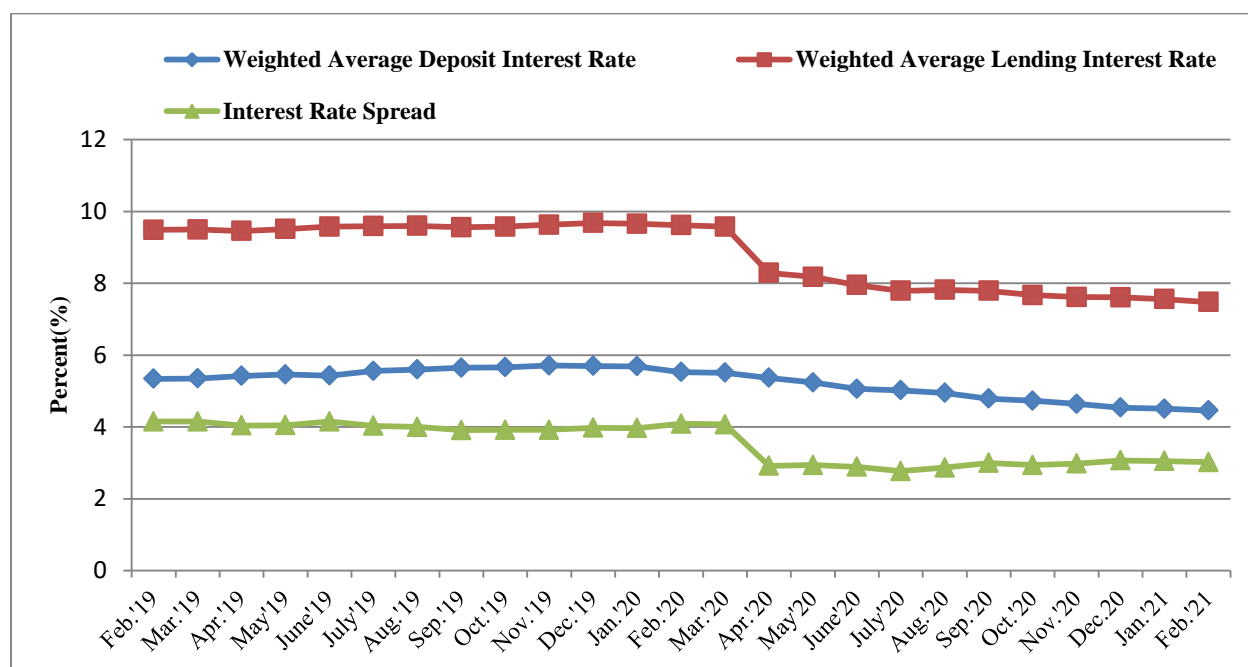
With a view to rationalising the rate of interest on deposit and lending through competitive environment among the banks, Bangladesh Bank has been continuing in providing instructions to banks on a regular basis for taking proper initiatives in FY21. In order to rationalize the rate of interest in other sectors including productive sector, banks are advised to limit the difference between lending and deposit rates or spread within lower single digit except high-risk consumer credit (including credit card). Besides, the maximum rate of interest/profit on unclassified loans/investment is set at single digit except credit card.

The recent trends in weighted average lending and deposit rates show downward movement.

The weighted average lending rate of commercial banks decreased continuously and stood at 7.79 percent at the end of July 2020 from 9.62 percent of end February 2020. The weighted average lending rate increased a little but having a declining trend lending rate stood at 7.48 percent at the end of February 2021 from 7.79 percent of end September 2020. Similarly, the deposit rate continuously decreased to 4.46 percent in February 2021 from 5.53 percent in the same period of previous year. The interest rate spread was 4.09 percent and 4.07 percent respectively in February 2020 and March 2020. The interest rate spread decreased much to 2.92 percent at the end of April 2020 from 4.07 percent of March 2020. After that, the spread declined a little and then increased time to time and stood at 3.02 percent at the end of February 2021. The trends of

weighted average lending and deposit rates and the interest rate spread from February 2019 to February 2021 have been shown in Figure 5.4.

Figure 5.4: Weighted Average Deposit and Lending Interest Rate



Financial Market Management

Banking Sector

As on February 2021, there are 61 scheduled banks in Bangladesh. Among 61 scheduled banks, there are 6 state owned commercial banks, 3 specialised 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 2021, structure of the scheduled bank system by types of banks and as of December 2020, their share in total deposits and assets are shown in Table 5.6.

Table 5.6: Structure of the Banking System in Bangladesh (End February 2021)

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	1761	2038	3799	25.08	25.53
State-owned Specialised Banks (SBs)	3	285	1214	1499	2.18	2.44
Private Commercial Banks (PCBs)	43	3424	1973	5397	67.25	67.59
Foreign Commercial Banks (FCBs)	9	67	0	67	5.49	4.44
Total	61	5537	5225	10762	100.00	100.00

Source: Bangladesh Bank, *= as per December, 2020 data.

In Bangladesh, 61 scheduled banks are performing their banking business with 10,762 branches as on February 2021. Of these total bank branches, the number of urban and rural branches are 5,537 (51.5%) and 5,225 (48.6%) respectively. According to the Bank group and region-wise bank branches, the number of urban and rural branches of SOCBs are 1,761 (46.4%) and 2,038 (53.6%), in case of PCBs the number of urban and rural branches are 3,424 (63.4%) and 1,973 (36.6%), the number of urban and rural branches of SBs are 285 (19.0%) and 1,214 (81.0%) and the branch number of foreign banks' is 67 which is located into Urban areas only. As on December 2020, of all the total assets of banking system, 67.25 percent and 25.08 percent are included to the PCBs and SOCBs respectively. As of December 2020, of the total deposits of the banking system, 67.59 percent and 25.53 percent are included into the PCBs and SCBs respectively.

Non-bank Financial Institutions (NBFIs)

Non-Bank Financial Institutions (NBFIs) are playing a significant role in the areas of financing in industry, trade, housing, transportation, and information technology (IT) of the country. As on February 2021, 34 licensed non-bank financial institutions (NBFIs) are functioning in the country with a wide network of 276 branches spreading over 37 districts. Among those, 94 are set up in Dhaka district and the rest 182 are located in 36 districts across the country. As on December 2020, total paid up capital and reserve of these financial institutions stood at Tk. 12,187.31 crore of which paid up capital was Tk. 8,575.78 crore. At present, the shareholders' equity of financial institutions stood at Tk. 9,088.22 crore, total asset was Tk. 90,173.78 crore, total deposit was Tk. 45,343.09 crore, total outstanding loan/lease was Tk. 67,016.00 crore and total classified loan/lease stood at TK 10,053.58 crore which is 15.02 percent of the total loan/lease.

Apart from industrial, commercial and housing sectors, these companies also invest in the country's capital market. To strengthen the Non-Bank Financial Management Structure, to ensure transparency and minimise risk of financial institutions and in order to bring corporate good governance, various measures (guidelines, circulars and circular letters) have been taken at different times by Bangladesh Bank. As part of these, guidelines on products and services, base rate system, early warning system, commercial paper, Code of Conduct etc. have been introduced. In this connection, a number of measures were taken by Bangladesh Bank in 2020. Among these the noteworthy policies are: suitable and modified existing commercial paper and stress testing guidelines for financial institutions. It may be mentioned that in the year 2020, Bangladesh Bank has issued license to a new financial institution named Strategic Finance and Investment Limited.

Like elsewhere across the globe, the COVID-19 pandemic has brought uncertainties in financial and economic sector in Bangladesh. Bangladesh Bank has taken several policy measures to mitigate the impacts of COVID-19 on financial institutions and their clients. Some of those policies are: keeping classification status of loan/lease/advance unchanged from January to December 2020, lowering the Cash Reserve Requirement (CRR) from 2.50 percent to 1.50 percent on bi-weekly basis and from 2.0 percent to 1.0 percent on daily basis, restructuring and short term loan renewal facilities on easy terms and conditions. Furthermore, Bangladesh Bank facilitates interest rate subsidy and refinance scheme for pandemic affected clients of Financial Institutions under the government stimulus packages for lending working capital in industries and service sector.

Financial Inclusion

In recent times, 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:

- Bangladesh Bank has issued various circulars from time to time to open bank account (popularly known as Tk. 10 bank account) with a minimum deposit of Tk. 10 to include the under-privileged and financially excluded population in the formal banking services. Bangladesh Bank has also instructed all the banks to operate these accounts without any service charges or any minimum balance requirements. People from various classes and professions such as farmers, hardcore poor, workers of City Corporation, shoe & leather, and RMG, physically challenged persons, beneficiary under the social security programme and freedom fighters along with other financially excluded groups are included in this category. With the initiatives the number of these account reached to 2.25 crore at the end of December 2020.
- With a view to facilitate the farmers for keeping their Tk10 account effective by providing credit under minimum conditions, Bangladesh Bank has created a revolving refinance fund worth of Tk. 200 crore from its own source. Small, marginal, and landless farmers are the main target groups of this refinance scheme. Clients can borrow maximum Tk.50,000 individually and Tk.5,00,000 through a group from this fund. About Tk.193.03 crore has been disbursed under this scheme up to 03 February 2021.
- 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 this population 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. The number of these accounts and the balance of these accounts stood at 10,648 and Tk.0.41 crore respectively up to December 2020.

- With a view to providing a safe, secured, and sound alternative delivery channel for banking services to the non-privileged, underserved population especially from geographically remote location, BB has introduced Agent Banking in June 2014. Through Agent Banking, it becomes easy to provide affordable banking services for the non-privileged, underserved and poor segment of population especially from geographically remote location. As of December 2018, 21 Banks have received approval from BB to provide agent banking services whereas 19 banks out of them have started operation. As of December 2020, 28 Banks have received approval from BB to provide agent banking services whereas 26 banks out of them have started their operations. Up to December 2020, Agent banking services have been provided through 96,43,163 bank accounts opened by 15,977 outlets of 11,925 agents of that 26 banks.
- Foreign remittance sent by Non-Resident Bangladeshis (NRBs) generates significant contribution to the economic development of Bangladesh. In order to create a dynamic, interactive, and online database for the remittance senders, BB has taken an initiative to collect the information of NRBs. Any NRB can open an account in this database through Bangladesh Bank website and upload his/her information. This database will play as a communication platform for

Bangladesh Bank and NRBs as well. For Bangladesh Bank, this database helps to promote and uphold investment information arranged for NRBs by government, to create awareness on proper remittance channel and method, important financial or economic moves of government in which NRBs can participate. They can submit complaint, query or feedback through this database. They also use this database to link between themselves and search other NRBs according to country, profession, etc.

- Alliance for Financial Inclusion (AFI) is a worldwide network for financial inclusion policy makers to facilitate the access of quality financial services for the poor. More than 100 central banks and regulatory institutions of different countries throughout the world are members of this organisation. Bangladesh Bank is a principal member of AFI since 2009. Governor of Bangladesh Bank was one of the esteemed members of the AFI Board of Directors (BoD) since 2016 and was the Chair of AFI BoD from 2017 to September 2019. Bangladesh Bank has achieved AFI Policy Award in 2014 and AFI Member Zone Award in 2015 for its contribution in Financial Inclusion. In addition, Bangladesh Bank has been selected as Financial Inclusion Ambassador of AFI during GPF in 2019 in Kigali, Rwanda for its outstanding contribution and commitment in gender inclusion.
- To extend credit to the low-income professionals, farmers and holders of small/marginal businesses in the rural areas through Microfinance Institutions (MFIs) to enable them in reviving their income generating activities, a revolving Refinance Scheme of Tk. 3,000 crore for the COVID-19 affected low-income professionals. Farmers and holders of small/marginal businesses has been formed by Bangladesh Bank on 20 April 2020. Under this Scheme, MFIs are

disbursing credit to the end-users at a maximum rate of 9 percent per annum. MFIs are getting finance from the banks at 3.5 percent per annum. Bangladesh Bank is providing refinance to the banks at 1 percent per annum. 75 percent of the funds are to be provided as microcredit and 25 percent of the scheme are to be provided to the micro entrepreneurs. Women, persons belong to under-privileged groups, returnee migrants are getting priority in getting loan under this Scheme. The ceilings for individual microcredit and micro entrepreneur are Tk. 75,000 and Tk. 10,00,000 respectively. For group based lending, the minimum size of the group is 5 members and the loan limits are Tk. 3,00,000 and Tk. 30,00,000 respectively for microcredit and micro entrepreneurs. 42 scheduled banks including 8 state owned bank have signed on participation agreement with Bangladesh Bank to disburse credit under this Refinance Scheme. Up to February, 2021, 31 banks has approved Tk. 2,230.04 crore in favor of 141 Micro-finance Institutions of which Tk. 1431.89 crore has been disbursed. 28 Banks has claimed refinance of Tk. 987.76 crore. Upon thorough examination Tk. 821.99 crore has been refinanced in favor of 25 banks. 2,03,740 low-income professionals, farmers, holders of small and marginal businesses across 64 districts has received the loan under this refinance scheme. Among these borrowers 92.43 percent are female while 7.57 percent are male.

School Banking

Bangladesh Bank has introduced School Banking for the students less than 18 years of age with a view to promote savings habit from the childhood and acquainting them with the banking services and technology. Under this agenda, Financial Literacy Programmes are being organised throughout the country following the

Lead Bank model under Bangladesh Bank's monitoring and supervision. School banking conferences have been started from 2016 and financial literacy related video documentaries, presentations, quiz programmes and different cultural programs are being arranged through these conferences with a view to disseminating financial literacy. Up to December 2020, 26,90,550 school banking accounts have been opened whereas total amount of Tk. 1,950.86 Crore has been deposited in these accounts.

Banking, Monetary and Credit Policy Reforms

Reforms in the Bangladesh Bank

With a view 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 Financial Sector Support Project (FSSP) is being implemented with the assistance of International Development Association (IDA). The salient feature of the project is shown in Annex-5.2.

Legal Reforms

The presence of outsiders, employees of the banks except when called by the board or its committee, and shareholders have been prohibited in the meeting of board of directors and of its committees vide BRPD circular letter no. 55 dated 12 November 2020. In line with the amendment made in the company law in 2020, banks have been notified regarding exemption of compulsory use of company common seal by issuing BRPD Circular Letter No. 57 dated 15 December 2020. Directors, managing director or chief executives and officials two tiers below the rank of managing director or chief executive of the banks have been advised to submit their own and family related business information to the board of directors on annual basis vide BRPD circular letter no. 02 dated 21 January 2021.

A high-level committee headed by a Deputy Governor of Bangladesh Bank, has been formed to review the 5 banking related laws, namely, (1) The Bank Companies' Act, 1991, (2) The Money Loan Court Act, 2003, (3) The Financial Institutions Act, 1993 (Proposed 'The Finance Companies Act, 2020), (4) The Negotiable Instrument Act, 1881, and (5) The Insolvency Act, 1997 to address the prevailing scenario of default loans of banks and NBFIs. The committee comprises 10 officials from Bangladesh Bank and Financial Institutions Divisions of Ministry of Finance. The five acts stated above have already been reviewed by the committee and recommendations have been sent to the Financial Institutions Division of Ministry of Finance in the form of draft bill. International best practices, good governance in banking sector and pragmatic problems have been taken into considerations while reviewing the above acts with a view to uphold the corporate governance and discipline in the financial sector of Bangladesh.

Reforms in State Owned Commercial Banks

Bangladesh Bank has signed Memorandum of Understanding (MOU) with the State Owned Commercial Banks (Except Basic Bank Limited and Bangladesh Development Bank Limited) in FY 2020-21 as similar to the previous year. Under the MoU instructions have been given to the SOCBs to ensure efficiency in asset-liability management, reduce the NPLs, ensure cash recovery against NPLs, control the operational expenses, reduce high cost deposit to the desired level, ensure digital banking services as well as to enforce the internal control and compliance system within the banks. To improve asset quality certain conditions have been imposed in current MoU for example, purchasing FDBP (Foreign Documentary Bills Purchase), creating of forced loan/PAD/Demand loan and their rescheduling for long period by the banks. In addition, Bangladesh Bank has also been regularly monitoring the activities of SOCBs in

achieving the targets of MoU, Compliance of conditions as well as overall implementation status of MoU.

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-organized Risk Appetite Framework for balancing between the risks taken and business targets to be achieved by the banks.

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

- The existing bank rate has been reduced by 100 basis points and re-fixed at 4.00 percent from 5.00 percent. The maintenance of CRR by the scheduled banks (except Islami shariah based banks) has been reduced to 4.00 percent on bi-weekly average basis with a provision of minimum 3.50 percent on a daily basis from 5.00 percent on bi-weekly average basis and 4.50 percent on a daily basis.
- Financial institutions which accept time deposit are allowed to maintain 1.5 percent CRR on bi-weekly weighted average basis. And this reserve cannot anyhow be less than one percent on daily average basis.
- To implement the announced stimulus packages for the COVID-19 pandemic and maintaining enough liquidity in the money market, Bangladesh Bank has introduced 360

day special repurchase agreement (REPO) facility to avail credit directly from the central bank. The existing Repo and Reverse Repo rates of interest of Bangladesh Bank have been reduced by 50 basis points and 75 basis points respectively and re-fixed at 4.75 percent and 4.00 percent respectively on 30 July 2020.

Development of Payment 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 three interoperable payment platforms for retail payments segment such as Bangladesh Automated Cheque Processing System (BACPS), Bangladesh Electronic Funds Transfer Network (BEFTN) and National Payment Switch Bangladesh (NPSB) for banked population. In addition, for the large-value payments segment, Bangladesh Real Time Gross Settlement (BD-RTGS) System has been established to settle high value transactions in local and foreign currencies on a real-time basis. At present, the check presented from any part of the country can be disposed within 24 hours in BACPS payment system. On the other hand, the BEFTN system deals with various types of credit transfers, such as salary allowances, foreign and domestic remittances, social security, principal payment and profit of savings certificates, company dividends, retirement benefits could be settle through EFT credits while at the same time utility bill payment, loan repayments, insurance premiums, corporate to corporate payments could be accommodated in EFT debits. In addition, debit and credit card customers are instantly enjoying 24/7 ATM or POS transaction facility through NPSB. In FY21 (December, 2020), BACPS handled about Tk 7.59 lakh crore

through high value checks and about Tk 4.17 lakh crore through regular value checks. During the same period, transactions amounting to about Tk 22.48 thousands crore were settled in the BEFTN system on debit transactions and about Tk 1.65 lakh crore on credit transactions. In the current FY21 (up to December, 2020), about Tk. 16.2 thousand crore has been transacted through NPSB system and about Tk. 9.63 lakh crore has been settled in BD-RTGS.

As an Alternative Payment Channels, 13 banks and 2 subsidiaries companies of two banks are providing Mobile Financial Services (MFS) through mobile phone technology. These service providers are continuing their activities of inward remittance disbursement, transaction/bill payment through agent/bank branch/ATM/mobile operator outlet, utility bill payment, payment of wage, payment of miserable, widow, elderly allowances, allowances of freedom fighter, individuals transactions, microfinance disbursement and insurances premium. Non-bank payment service providers are also providing similar and financial services to customers like banks. As on December 2020, the total number of agents under Mobile Financial Services was 10,58,897 and the number of registered clients was about 9.9 crore, of which the number of active accounts was about Tk. 3.20 crore. In December, 2020, the average daily turnover was about Tk. 1.8 thousand crore.

Bangladesh Bank has issued licenses as Payment Systems Operator (PSO) to various organizations as Payment Gateway and Payment Aggregator to deal with e-commerce or online shopping, which play a vital role by providing unparalleled services.

Activities of payment systems to combat the outbreak of Covid-19

Amid the COVID-19 pandemic, existing payment system and digital payment systems like MFS played a crucial role to run the economy

well, especially when maintaining physical distance and staying home was inevitable.

- To ensure economic security of the workers of export oriented industry, the cash assistance announced by government for about 0.5 crore marginalized families was directly disbursed to the workers MFS account. The MFS providers were instructed to open new MFS wallets for the workers who do not have a bank account or wallet. The cash-out charge to cash-out the salaries were reduced to 0.8 percent from 1.85 percent.
- Daily necessities and medicine selling small merchants were enabled to use their personal bank accounts and/or MFS wallets for such business transactions and the transaction charges were waived. In addition, person-to-person transaction limit through mobile wallets was enhanced from Tk. 75 thousand to Tk. 2 lakh for purchasing the emergency food/daily necessities and medicine and cash Out charges have become free up to Tk. 1 thousand per day.
- To keep payments for essential services, medical services, social safety net payments, and government payments uninterrupted during the COVID-19 related general holidays, interbank cheque transfer and Electronic Funds Transfer Network were kept open. Instructions were also issued to the financial institutions to ensure the security of ICT infrastructure, system, database, and also to stay alert against financial fraud related to COVID-19.

Steps taken for the Prevention of Money Laundering and Combating Financing of Terrorism

- The 4th Follow-Up Report of Mutual Evaluation, which was completed in 2016 to evaluate measures to prevent money laundering and terrorist financing in

Bangladesh Economic Review 2021

Bangladesh, was published in November, 2020. In that Follow-Up Report, Asia Pacific Group on Money Laundering (APG) has upgraded Bangladesh's rating on FATF Recommendation No. 28 (Regulation and Supervision of DNFBPs) from Partially Compliant (PC) to Largely Compliant (LC) and Recommendation 33 (Statistics) from Partially Compliant (PC) to Compliant (C).

- After the publication of 4th Follow-Up Report, out of 40 recommendations of FATF, Bangladesh has achieved 9 Compliant, 27 Largely Compliant and 4 Partially Compliant ratings. It is noted that Bangladesh has no Non-Compliant (NC) rating out of FATF 40 recommendations.
- In FY21 (up to February, 2021), Bangladesh Financial Intelligence Unit (BFIU) received 1,33,58,646 nos. cash transaction reports (CTR) from various banks and non-bank financial institutions. During the period BFIU also received 3,302 nos. Suspicious Transaction/Activity Reports (STR/SAR) from various reporting organizations. The received STRs/SARs has been reviewed by the BFIU and forwarded to the concerned law enforcement agencies for investigation and other necessary action where applicable.
- BFIU has continued its effort to increase the capacity and awareness of the officials of banks, other reporting organizations, law enforcement agencies and other relevant regulators and supervisors on combating money laundering and terrorist financing. Furthermore, BFIU has jointly organised various webinar/virtual meetings on prevention of money laundering and terrorist financing with different organisations.

Capital Market

Recent notable reforms and amendment of securities laws, rules and regulation and notable activities performed by Bangladesh Security and

Exchange Commission (BSEC) are given below:

- On 22 June 2020, the Commission directed both the stock exchanges to collect fast integrated data and to start submission and distribution activities on the online platform by applying the digital Bangladesh Philosophy. This system would ensure listing related compliances by issuer companies such as application, shareholding reporting, declaration, corporate action, financial disclosure, publication, providing price sensitive information, resolving grievances and other compliances.
- With a view to ensure good governance, transparency and betterment of the Z category Company, BSEC issued a Notification on 01 September, 2020 imposing different conditions regarding buy, sale, transfer, transmission and pledge of securities by directors, board reconstitution, appointment or nomination of observer, appointment of auditors etc.
- For ensuring transparency BSEC issued a Notification on 06 September 2020 regarding financial statement of mutual fund and asset management company.
- Bangladesh Security and Exchange Commission (Trading Rights Entitlement Certificate) rule 2020 has been made on 12 November 2020.
- In order to encourage the opening of digital BO accounts through online, BSEC issued a Notification on 13 December 2020 regarding setting up of booth within the country up to the union level and abroad also.
- BSEC issued a Notification on 28 December 2020 showing exit plan procedure to those financially weak companies who failed to declare dividend or whose commercial operations are closed subject to payment to the investors. The Commission made

substantial progress in the appointment of listed companies' Independent Directors, in the restructuring of Nomination and Remuneration Committee (NRC) and Audit Committee of Corporate Bond and in the enforcement of Corporate Governance Code for the listed companies.

- BSEC issued a Notification on 14 January 2021 instructing to form a fund named 'Capital Market Stabilisation Fund' with undistributed portion of the declared dividend by the listed companies upholding the investors claim.

Capital Market Situation

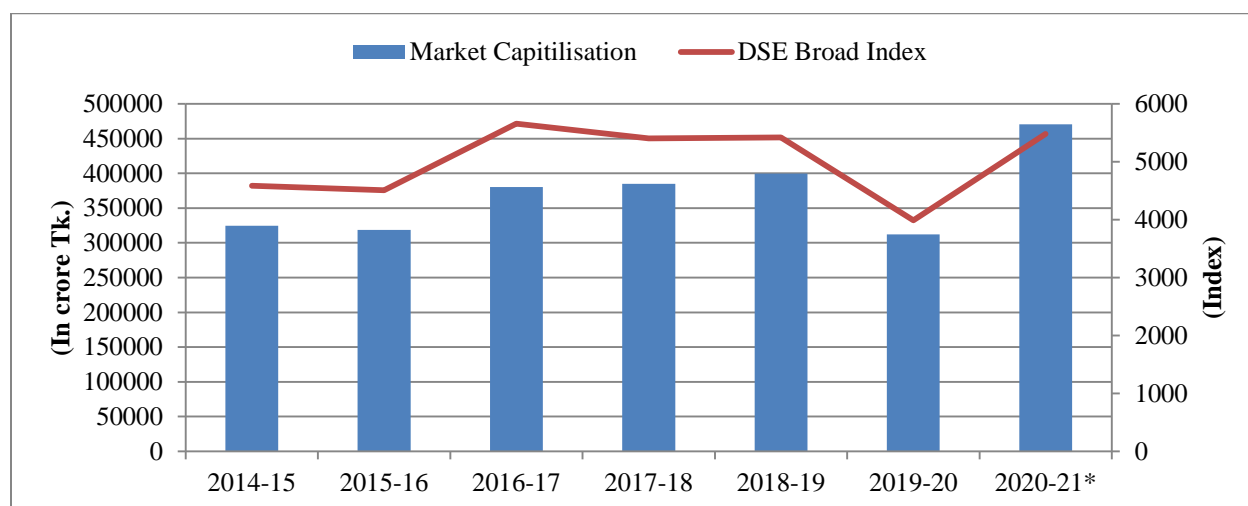
Dhaka Stock Exchange Ltd (DSE): In DSE total number of listed securities has increased from 589 in June 2020 to 604 in April 2021. At the end of April 2021, total issued capital of all listed securities stands at Tk. 138,728.20 crore, which was 6.3 percent growth from June 30, 2020. Total Market Capitalisation of all listed securities was Tk. 311,966.98 crore in June 2020, which stands at Tk. 470712.80 crore in April 2021, representing 50.89 percent increased. DSE Broad Index has increased from 3,989.09 points in June 2020 to 5,479.62 points in April 2021, representing 37.37 percent increase.

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 Capitalization (Tk in crore)	Securities Traded in Value (Tk in crore)	DSE Board Index **
2014-15	555	16	109,195	324,730	112,351	4,583.11
2015-16	559	11	112,741	318,574	107,246	4,507.58
2016-17	563	9	116,551	380,100	180,522	5,656.05
2017-18	572	11	121,966	384,734	159,085	5,405.46
2018-19	584	15	126,857	399,816	145,965	5,421.62
2019-20	589	5	129,981	311,966	78,042	3,989.09
2020-21*	604	10	138728	470713	14377	5479.62

Source: Dhaka Stock Exchange Ltd. * Up to April 2021

Figure 5.5: DSE Market Capitalisation and Indices



* Up to April 2021

Chittagong Stock Exchange (CSE)

At the end of February 2021, the total number of listed securities in Chittagong Stock Exchange is 341. At 28th February 2021, issued capital of all securities is 806,749.69 million BDT which was more than 10% from June 2020. Towards the end

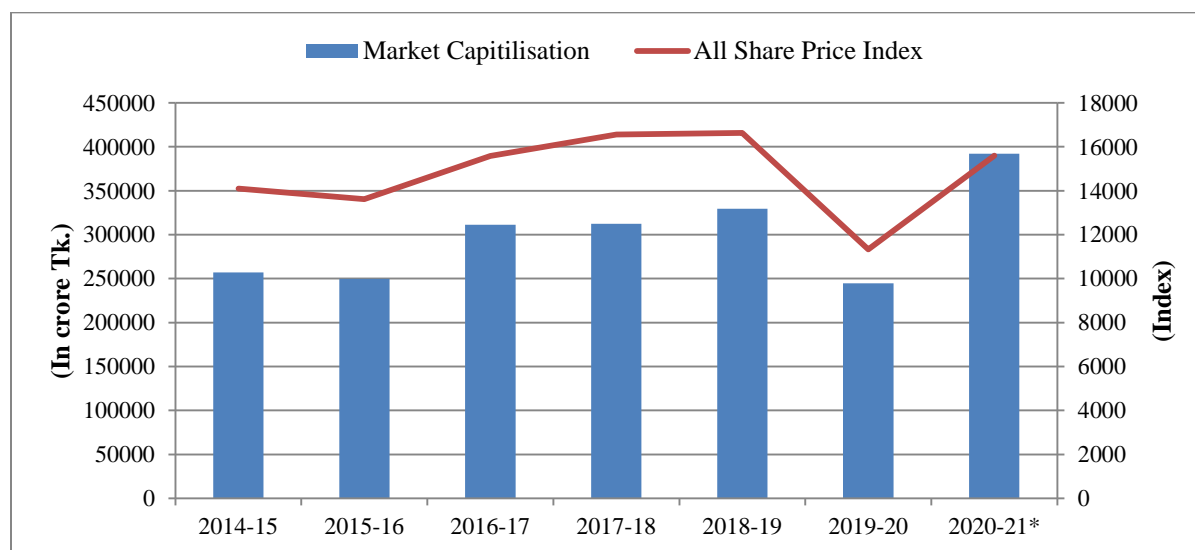
of 28th February 2021, Market Capitalization of CSE 3919.44 Billion BDT which was increased 60% from the last fiscal year. CSE All Share Price Index was 15,742.96 at the end of 28th February 2021 which was 11,332.58 in the end of June 2020. Details of Securities Turnover are below in the Table 5.8 and Figure 5.5.

Table 5.8: Securities Trading Information of Chittagong Stock Exchange

Year	Total number of listed Securities	Number of IPO	Issued Capital (In Million BDT)	Market Capitalization (In Million BDT)	Total Turnover value of All Securities (In Million BDT)	CSE All Share Price Index
2014-15	292	20	501,306.30	2,571,464.01	96,480.01	14,097.17
2015-16	298	11	566,073.01	2,496,848.91	77,471.60	13,623.07
2016-17	303	9	606,572.10	3,113,242.90	118,075.27	15,580.37
2017-18	312	12	654,059.10	3,123,521.70	109,850.60	16,558.50
2018-19	326	16	712,894.30	3,293,302.81	84,800.13	16,634.21
2019-20	332	4	735,897.62	2,447,567.13	53,078.17	11,332.58
2020-21*	341	13	806,749.69	3,919,444.86	62,022.50	15,603.80

Source: CSE * Up to February 2021

Figure 5.6: CSE Market Capitalisation and All Share Price Index



* Up to February 2021

**Annex. 5.1
Reforms in the Bangladesh Bank**

With a view 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 Financial Sector Support Project (FSSP) is being implemented with the assistance of International Development Association (IDA). The total approved project cost is USD 350.00 million of which IDA will provide USD 300.00 million and Bangladesh Bank will provide USD 50.00 million. The project was commenced on 01 July 2015 and will end on 30 June 2021.

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

Specific objectives of these components are as follows:

1. Strengthening Financial Market Infrastructure

This component aims to improve financial IT infrastructure of the country further, especially focusing on: (a) development of Payment and Settlement System to ensure a large scale shift to electronic payments in Bangladesh, specially of the Government payments, (b) expanding and modernizing Credit Information Bureau (CIB) by including credit information of the Microfinance Sector and increasing reliability of credit reporting system, (c) strengthening the systems of BFIU by integrating with systems of other stakeholders thereby leading to safety and integrity of the financial systems and (d) strengthening the IT Governance and IT management of the Bangladesh Bank to lay a robust and secured financial platform for advanced financial market. Necessary capacity building and knowledge transfer initiatives will also be taken to make the officials of the central bank and its associated organizations to embrace the new technologies and align their regular functions with the technology based new processes. Till February 2021, 04 consultants have been recruited and 09 IT packages have been procured under this component. One main data center in BB head office and one near data center at Bangladesh Bank Training Academy, Mirpur have been built. A Disaster Recovery Center is under construction at BB Rajshahi Office.

2. Strengthening Regulatory and Supervisory Capacity

The project expects to provide technical assistance towards the development and adoption of the comprehensive risk-based integrated approach to banking regulation and supervision, which would include related documentation and training. Currently, Rules based approach is in place to regulate and supervise the banking system. However, the risk-based approach evolves the supervisory process toward one that is more anticipatory. This component will help BB to migrate to a risk-based approach to supervision to discharge its responsibilities to ensure a safe and sound banking system. A Bank Supervision Specialist firm was appointed in June, 2019 to help Bangladesh Bank in pursuing and achieving financial sector stability and ensuring a safe and sound banking system. The firm has completed its tenure on December 2020 and has given several recommendations to introduce an effective Risk-based Supervision (RBS) in line with Basel Committee on Banking Supervision (BCBS) recommendations.

With these recommendations BB can conduct a thorough review of supervisory effectiveness based on micro and macro financial risks faced by banks. Meantime, the firm has conducted several workshops/trainings on Risk-based Supervision (RBS) to train the Bangladesh Bank officials.

3. Supporting Long Term Finance

One of the deficiencies of the current financial market structure is inadequate sources of long term fund to meet the demand of the productive sector of the country. As a result, the financing need for long term investments are met with relatively shorter maturity funds creating maturity mismatch both at banks and investors book. Hence there is a demand for long term financing for the manufacturing sectors for maintaining growth through up-gradation of technology and production lines and improve compliance with the international standards on social and environmental practices. This prime component of the project will provide long term funds, especially in US Dollar, which would be channeled by BB to eligible participating financial institutions (PFIs) based on eligibility criteria for lending. The fund will be available, on demand, to the manufacturing enterprises for procurement of capital machineries, equipment and other needs of the industry for setting up of new firm, expansion and/or up-gradation. The project would extend technical assistance to support PFIs to build appraisal skills (including on assessing safeguards risks) and to funded borrowers. The PFI agreement has been signed with 31 scheduled banks and USD 299.10 million has been sanctioned from which USD 271.03 million has been disbursed till February 2021. Besides, an Environmental Regulations Compliance Specialist and a Long Term Project Financing Advisor have completed their tenure.

Upon 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.

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 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 6.0 percent as Tier-1 capital. Under Basel III, banks also maintaining a Capital Conservation Buffer (CCB) in addition of minimum capital requirement. This buffer started with 0.625 percent from 2016 and ended up with 2.50 percent in December 2019. The macroprudential 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.

Aiming a leaf forward towards Internal Ratings Based (IRB) Approach, Bangladesh Bank issued circular regarding ‘Guidelines on Internal Credit Risk Rating System (ICRRS)’ and prepared different ‘financial models’ for banks for better managing credit risk internally. ICRRS has been exempted for the loans extended under stimulus packages. However, Quantitative and Qualitative parameters of ICRRS have been revised in February 2021.

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 2020, Capital to Risk-weighted Asset Ratio (CRAR) of the banking industry stood at 11.64 percent while Common Equity Tier 1 (CET1) was 7.30 percent which accomplished Basel III capital adequacy requirements. However, at individual level, 10 out of 59 banks were not able to maintain CET1 and minimum capital requirements, i.e. CRAR at required level.

As a step towards implementation of Pillar II of Basel III, Bangladesh Bank is working for implementation of Internal Capital Adequacy Assessment Process (ICAAP) in Bangladesh. Banks evaluate their internal processes and strategies to ensure adequate capital covering all material risks through ICAAP. Bangladesh Bank reviews and evaluates banks’ ICAAP reports and their strategies during its Supervisory Review Evaluation Process (SREP) inspection. Based ICAAP reports and SREP inspection as of December 2018; a series of bilateral meeting took place with 12 banks in between March 05, 2020 and March 19, 2020. Meetings with other 45 banks could not ground due to COVID-19 pandemic.

As per last year observation (base year 2018), 13 out of 57 banks were undercapitalized in terms of total capital needed under pillar I and pillar II of Basel III accord. Moreover, with the experience of the last three years meetings (base year of 2015, 2016 and 2017 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