CHAPTER 5

MONETARY MANAGEMENT AND FINANCIAL MARKET DEVELOPMENT

Overall financial sector is one of the key sectors of the economy and it encompasses monetary policy, monetary management and financial market management. Ensuring effective monetary management and developing an efficient and reliable financial market are the prerequisites for achieving the goals of macroeconomic stability. Monetary policy should be geared towards maintaining low level of inflation and price stability, promoting low rate of interest in the banking system and channelling increasingly larger volume of financial resources to the productive sectors of an economy. In recent years, monetary policy is directed towards maintaining price stability, keeping money supply at the optimum level in the productive sectors of the economy as well as accelerating economic growth.

Monetary Policy and Monetary Management

Monetary policy of FY 2004-05 emphasised in channelling enhanced credit flow to the private sector with special attention to the supply of agricultural credit for recovering from the flood disaster for spurring GDP growth. In FY 2004-05, robust growth is observed in case of the private sector credit and import demand because of accommodative monetary policy pursued in previous years. A cautious and restrained monetary policy has been pursued from the middle of the current fiscal year to maintain price stability by restraining the robust growth rate of private sector credit. Various instruments like repo, reverse-repo, higher rate of treasury bills/bonds and higher rate of cash reserve requirement (which increased to 4.5 percent from 4 percent of demand and term deposits) are used to keep credit supply within a reasonable limit.

Money and Credit Situation

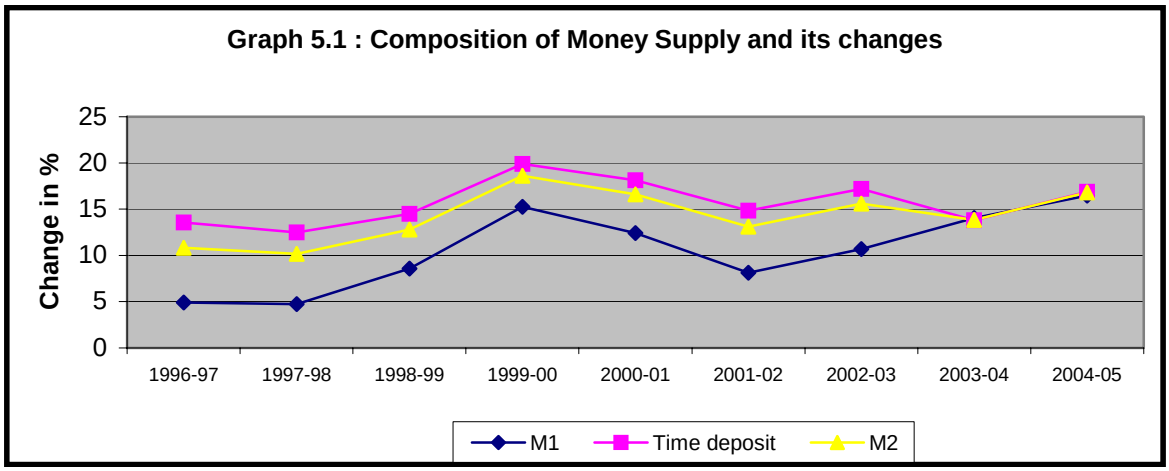
In FY 2004-05, a moderately expansionary monetary policy is observed. Up to June 2005 broad money (M2) increased by Tk. 21814.7 crore (16.8 percent) from that of the previous year. Broad money (M2) increased during the same period of the previous year by Tk.15779.3 crore (13.8 percent). During the period from July 2004 to June 2005 currency in circulation increased by 17.1 percent while demand deposit and time deposit showed an increase of 15.9 and 16.9 percent respectively from that of the last year (details in Table 5.1). The usage of broad money up to June 2005 indicates that credit to the public sector increased by Tk.3683.9 crore (16.8 percent) whereas credit to the private sector increased by Tk. 16104.7 crore (17 percent). At the same time, total domestic credit under banking system showed a growth rate of 17.5 percent. During the same period, net foreign assets (NFA) grew at a rate of 14.31 percent. Table 5.1 and graphs 5.1 and 5.2 show the composition of money supply and credit and their movements over time.

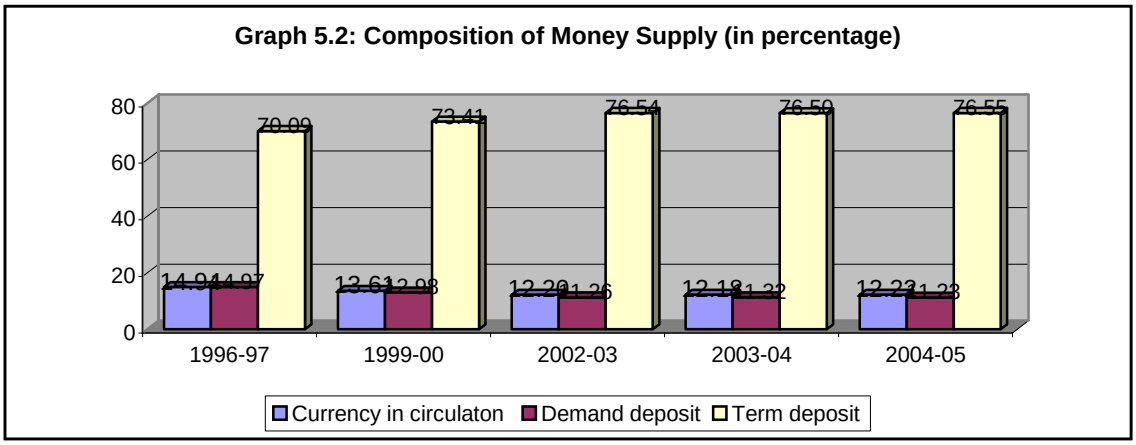
Table 5.1: Composition of Broad Money (M2) and its Trend Over Time

(Tk. in crore)

Particulars	June 2005	June 2004	June 2003	Change	
				2004-2005	2003-2004
1	2	3	4	5=2-3	6=3-4
1. Broad Money (M2) (a+b+c)	151588.5	129773.8	113994.5	+ 21814.7 (16.81)	+ 15779.3 (13.84)
a) Currency notes and coins with the public	18518.1	15811	13901.8	+ 2707.1 (17.12)	+ 1909.2 (13.73)
b) Demand deposit	17028	14689.2	12841.6	+ 2338.8 (15.92)	+ 1847.6 (14.39)
c) Time deposit	116042.4	99273.6	87251.1	+ 16768.8 (16.89)	+ 12022.5 (13.78)
2. Broad money (M2) (a+b)	151588.5	129773.8	113994.5	+ 21814.7 (16.81)	+ 15779.3 (13.84)
a) Net foreign assets of the banking system	18666.8	16330.3	14094	+ 2336.5 (14.31)	+ 2236.3 (15.87)
b) Net domestic assets of the banking system ((1)+(2))	132921.7	113443.5	99900.5	+ 19478.2 (17.17)	+ 13543 (13.56)
(1)Total domestic credit of the banking system (i+ii+iii)	147561	125551	109716.8	+ 22010 (17.53)	+ 15834.2 (14.43)
i) Government sector (net)	25632.7	21948.8	19279.7	+ 3683.9 (16.78)	+ 2669.1 (13.84)
ii) Public sector (other)	11189.1	8967.7	7543.5	+ 2221.4 (24.77)	+ 1424.2 (18.88)
iii) Private sector	110739.2	94634.5	82893.6	+ 16104.7 (17.02)	+ 11740.9 (14.16)
(2) Other assets (net)	-14639.3	-12107.5	-9816.3	-2531.8 (-20.91)	-2291.2 (-23.34)

Source: Bangladesh Bank





Reserve Money[1]

Auction of weekly T-bills/T-bonds is used to control reserve money. On the other hand, repo and reverse-repo are used for fine-tuning of weekly auctions of T-bills/T-bonds. During July 2004 - June 2005, reserve money grew by 12.53 percent (Tk.3290.9 crore) compared to the growth of 7.99 percent (Tk.1943.3 crore) during the same period of the previous year (Table 5.2). During July 2004 to June 2005, net growth rate of other public assets stood at negative 11.38 percent while the growth rates of domestic assets and foreign assets stood at 17.27 percent and 8.36 percent respectively. At the end of June 2004, the money multiplier was 4.94, which rose to 5.13 by the end of June 2005. At the end of June 2004, money/deposit ratio was static at 0.139. At the end of June 2004, the reserve/deposit ratio was 0.091, which decreased to 0.082 by the end of June 2005. Table 5.2 shows the composition of reserve money and its changes over time.

[1]Comprised of currency issued, balances of deposit money banks (DMBs) and other financial institution's deposit with the Bangladesh Bank.

Table 5.2: Reserve Money: composition and its changes over time

(Tk. in crore)

Particulars	June 2005	June 2004	June 2003	Change	
				2004/2005	2003/2004
1	2	3	4	5=2-3	6=3-4
1. Reserve money (a+b+c)	29547.3	26256.4	24313.1	+ 3290.9 (12.53)	+ 1943.3 (7.99)
a) Currency issued	20327.9	17287.4	15382.3	+ 3040.5 (17.59)	+ 1945.1 (12.68)
b) Balances of scheduled banks with BB	9041.3	8892.4	8957.1	+ 148.9 (1.67)	-64.7 (-0.72)
c) Reserves of other financial institutions with the BB	178.1	76.6	13.7	+ 101.5 (132.51)	+ 62.9 (459.12)
2. Sources of change in Reserve Money (a+b)	29547.3	26256.4	2431.1	+ 3290.9 (12.53)	+ 1943.3 (7.99)
a) Net foreign assets of BB	15126.7	13959.5	12312.4	+ 1167.2 (8.36)	+ 1647.1 (13.38)
b) Net domestic assets of BB (i+ii)	14420.6	12296.9	12000.7	+ 2123.7 (17.27)	+ 296.20 (2.47)
i. Domestic credit (a+b+c+d)	22977.5	18947.2	16331.1	+ 4030.3 (21.27)	+ 2616.10 (16.02)
a) Government sector (net)	15724.3	11897.6	10244.6	+ 3826.7 (32.16)	+ 1653.00 (16.14)
b) Public sector (other)	1055.6	1191.1	1231.9	- 35.5 (-11.38)	- 40.8 (-3.31)
c) BB's claims on DMBs	6132.5	5852.1	4846.8	+ 280.4 (4.79)	+ 1005.3 (20.74)
d) BB's claims on other depository institutions	65.1	6.4	7.8	+ 58.7 (917.19)	- 1.4 (-17.95)
ii. Other assets (net)	-8556.9	-6650.3	-4330.4	- 1906.6 (-28.67)	- 2319.9 (-53.57)

Source: Bangladesh Bank

Rationalising the Interest Rate

The Government is encouraging banks and non-bank financial institutions to disburse more credit to the productive sectors of the economy for accelerated economic growth and poverty reduction by rationalising interest rate on loans.

Low deposit rates allowed banks to lower interest rates on loans. Whereas, in June 2001, the interest rate on agricultural loans charged by Sonali Bank was 12.5 to 13 percent, in June 2005 it came down to 8 to 9 percent. Interest rates of other nationalised banks showed similar pattern. Among nationalised specialised banks, interest rates on agricultural loans of Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RAKUB) in June 2001 were 12 to 14 percent and 14 percent respectively, in June 2005 it came down to 8 percent. Since 14 April 2004 (the first day of the Bengali year, 1411), BKB and RAKUB lowered their interest rates to 8 percent. For encouraging exports, nationalised specialised banks reduced their interest rates on export-oriented credit facilities from 10 percent in June 2001 to 7 percent in March 2004 and still this rate is prevailing. Similarly, interest rates for other loans and advances from nationalised commercial banks and specialised banks have also been reduced significantly. Tables 5.3 and 5.4

depict the comparative changes in the interest rates of different loans and advances and deposits of 4 nationalised commercial banks (NCBs) and 5 specialised banks respectively for June 2005 against those of June 2001.

Table 5.3: Interest rates on different loans and advances and deposits - NCBs

(In percent)

Types of Deposits/loans	Sonali Bank		Janata Bank		Agrani Bank		Rupali Bank	
	2001	2005	2001	2005	2001	2005	2001	2005
Interest rates on deposit								
Savings deposit	7	3.5	7.5	3.5	7.5	3.5	7.75	3.75
Fixed deposits								
3 months or above but less than 6 months	8.25	5.25	8.5	5.25	8.0	5.25	8.75	5.5
1 year and above but less than 2 years	8.75	6.0	9.0	6.0	8.75	6.0	9.0	6.25
Interest rates on loans								
Agriculture	12.5-13.0	8.0 - 9.0	11.0 - 14.5	8.0 - 10.0	13.5	8.0-10.0	13.0	9.0
Large and medium industries	10.0	11.0	13.0	9.0 - 11.0	13.0	10 - 12.25	13.5	11.25
Working capital	14.0	11.0	14.5	10.0 -11.0	15.5	11.0	14.5	11.5
Export	10.0	7.0	9.0	7.0	10.0	7.0	10.0	7.0
Other commercial loans	16.0	12.0	15.0	12.5	16.0	12.0	15.0 -18.0	12.0 -12.5
Small industries	13.0	10.0-10.5	11.5	10.0	11.5	10.5	11.0	10.0 -10.5
Others	12.0 - 18.0	10.0 -15.0	12.0 -15.0	12.5	11.0 -16.0	13.0	**15.0 -18.0**	10.0 -12.0

Source: Bangladesh Bank

Table 5.4: Interest rates on different loans and advances and deposits - Specialised Banks

(In percent)

Particulars	BKB		BSB		RAKUB		BSRS		BASIC	
	2001	2005	2001	2005	2001	2005	2001	2005	2001	2005
Interest rates on deposits										
Savings deposit	8.0	3.5	7.75	3.5	8.0	4.0	7.75	4.5	7.5	5.0
Fixed deposits										
3 & above but less than 6 months	8.5	5.5	8.5	5.25	8.5	6.0	8.5	6.25	8.5	6.0
1 and above but less than 2 years	9.0	6.25	9.0	6.0	9.0	6.5	9.0	7.0	9.0	6.75
Interest rates on loans										
Agriculture	12-14	8	-	10	14	8	-	-	13	9.0
Large and medium industries	9.5-15	9.0	13.5	9-11	13-16	10	13.5	9.0 -11.0	12-13	9.5 - 11.0
Working capital	14.0	9.0	15.5 -16.0	10-11	14-15	10.0-12.0	15.0	12.0	15.0	11.0
Export	10.0	7.0	10.0	7.0	10.0	7.0	10.0	7.0	10.0	7.0
Other commercial loans	15.5	11.0	16.0	12-12.5	15.0	14.0	15.5-16.0	12.0	16.0	12.0
Small industries	12-13.5	9.0	11.5	9-11	10-15	10	11.5	10	-	10.0
Others	10-16	10-11	14.5-18	10-14.5	11-18	11-12	15-16	10.0	14.5-15	12.0

Source: Bangladesh Bank, BKB

Stabilising the Exchange Rate

Bangladesh adopted floating exchange rate regime since 31 May 2003. Under this arrangement, the Government does not interfere in the determination of exchange rate, but operates the monetary policy prudently for minimising extreme swings in exchange rate to avoid the adverse repercussion on the domestic economy. The trend of exchange rate belies the apprehension that Taka may experience sudden and substantial depreciation against US dollar following the adoption of the floating exchange rate regime. The efficient management of the monetary sector and substantial flow of inward remittance specially contributed towards maintaining the stability of the exchange rate. Detailed information regarding reserve situation and exchange rate has been presented in the Chapter 6 of this Review.

The expected growth in the inward remittance was the result of several appropriate steps that encouraged the expatriates to send money through legal channel. Important among them are:

- Establishing exchange-houses in different countries;
- Delivering the money to recipients quickly; and
- Preventing money laundering.

Financial Market Management

Financial market of an economy comprises the banking sector, other financial institutions and capital market. At present, there are 4 NCBs, 5 nationalised specialised Banks, 30 private commercial banks, 10 foreign commercial banks and 28 non-bank financial institutions, Investment Corporation of Bangladesh (ICB), House Building Finance Corporation (HBFC), Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) are also working in the financial market of Bangladesh.

Banks and other financial institutions (OFIs) have been playing a key role in activating the financial sector that in turn infuses dynamism to the economy. Banks are engaged in upgrading the socio-economic status of the country by investing money to productive sectors. However, in the context of globalisation and operation of market economy these institutions are facing immense competition with regard to speedy transaction of financial intermediation and as such they are to provide their service as efficiently and effectively as possible. Given this scenario, importance has been attached to the development of the financial market through banking sector. In order to uphold the rule of banking sector in financial market development the Government has taken a range of measures which include further deployment of bank branches and evaluation of their performance, classification of loans following the international standards assessment of capital adequacy, determination of quality of assets and earning of impressive profit.

BANKING SECTOR

The banking sector of Bangladesh comprises four categories of scheduled banks. As of June 2005, 49 scheduled banks are operating in Bangladesh with a network of 6318 branches. NCBs, SBs, local PCBs and FCBs have 3388, 1334, 1557 and 39 branches respectively operating in different places. In addition, one national co-operative bank, one Ansar-VDP Bank, one Karmasangsthan Bank and one Grameen Bank and some non-scheduled banks are also in

operation. In order to enhance the overall efficiency of NCBs, decisions have been taken to rationalise bank branches, and up to June 2005, 91 new branches were established and 9 existing branches were closed under the 'branch rationalisation programme'. Table 5.5 summarises the structure of the banking system in Bangladesh according to their categories.

Table 5.5: Structure of the Banking System in Bangladesh (up to March 2005)

Type of Banks	No.	No. of Branches	% of total asset	% of total deposit
NCBs	4	3388	40.14	39.78
SBs	5	1334	7.73	7.22
PCBs	30	1557	42.67	47.18
FCBs	10	39	9.46	5.82
Total	49	6318	100	100

Source: Bangladesh Bank.

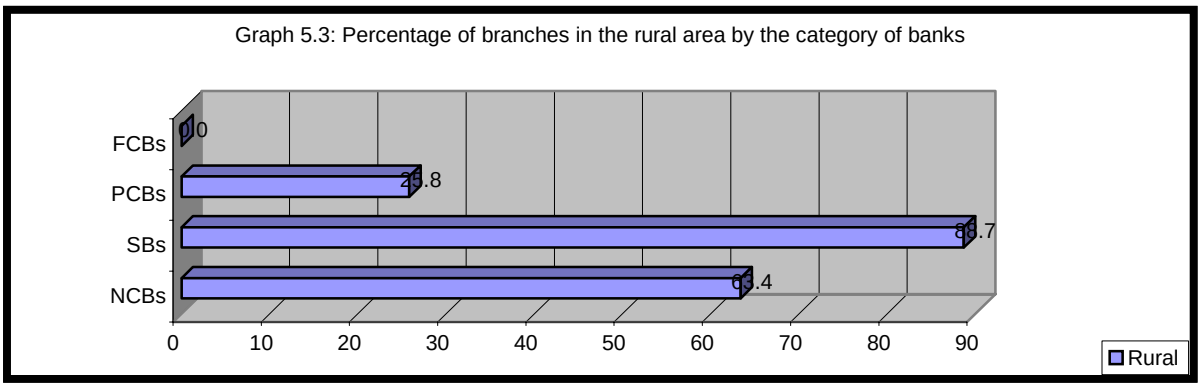
Deployment of Bank Branches

Although foreign banks and private banks show better performance according to different criteria such as capital adequacy, quality of assets and expenditure-income ratio, the common people throughout the country have far better access to NCBs and SBs because of their present locations. Foreign banks do not have a single branch in any rural area of Bangladesh. Besides, though PCBs have branches outside the urban area, it is only 25.82 percent of their total number of branches. On the contrary, 63.37 percent and 88.68 percent of the total branches of NCBs and SBs are located in different sub-urban and rural areas of Bangladesh respectively.

Table 5.6: Distribution of Bank Branches in Different Regions

Type of Banks	**No. of banks of its kind**	**No. of branches**			**As % of the total branches**		
		Urban	Rural	Total	Urban	Rural	Total
NCBs	4	1241	2147	3388	36.69	63.37	100
SBs	5	151	1183	134	11.32	88.68	100
PCBs	30	1155	402	1557	74.18	25.82	100
FCBs	10	39	0	39	100.00	0.00	100

Source: Bangladesh Bank.



Non-Bank Financial Institutions

In the financial sector of Bangladesh, some non-bank financial institutions (NBFIs) are also making significant contribution towards financing various sectors like industry, commerce, house- building, ICT and others. As of June 2005, there are 28 licensed non-financial institutions operating in Bangladesh. The paid-up capital and reserve of these NBFIs as of June, 2005 totals up to Tk.12.97 billion. At the same time, the investment of these institutions in different sectors of the economy amounts to Tk. 60.91 billion. Since December 2000, lending and leases extended by these NBFIs, like other scheduled banks, are subject to the classification and provisioning regulations. The goal of such initiative was to strengthen and revitalise these institutions through regular reviewing of the loan position as well as improving the recovery process. Up to June 2005, the ratio of classified loan of financial institutions stood at 6.81 percent and classified loan stood at 1.43 percent excluding net suspended interest and provisioning.

Financing Agriculture, Industry and Commerce by Banks and Other FIs

Agriculture sector and its activities in rural areas play a very crucial role in the overall socio-economic development of Bangladesh. The Government in a bid to enhance agricultural output continues its agricultural credit schemes through NCBs and SBs. To ensure adequate credit flow to agriculture and other rural economic activities, the Government had a target of disbursing Tk. 5537.91 crore in FY 2004-05 through BKB, RAKUB, four NCBs, BRDB and Bangladesh Cooperative Bank Limited, which is 26.46 percent higher than that of the previous year. Against this targeted amount, Tk. 4956.78 crore was disbursed up to June 2005, which is 22.44 percent higher than the amount disbursed in the previous year.

Industrialisation is one of the most important strategies for achieving the desired pace of development in Bangladesh. The Government is encouraging small and medium enterprises (SMEs) along with large ones. Banks and other FIs are supporting this effort of the Government by extending industrial credit and other necessary assistance to this sector. In FY2004-05, term loan disbursement in the industrial sector stood at Tk. 8704.52 crore, which is 30.39 percent higher than that of the same period of the previous year.

In addition to extending credit to agriculture, industry and trade, banks and other FIs are also providing credit, though at a limited scale, for undertaking poverty reduction programmes. Detailed information on poverty reduction has been presented in Chapter 13 of this Review.

BANKING, MONETARY AND CREDIT POLICY REFORMS

Legal Reforms

In FY 2002-03, Bangladesh Bank Order (Amendment) 2003, Bank Company (Amendment) Act 2003 and Bangladesh Bank's (Nationalisation) Order (Amendment) Act, 2003 were introduced. By enacting Bangladesh Bank Order (Amendment) Act 2003, the central bank has been empowered with increased autonomy. Amendment of the Bank Company Act, 1991 contributes towards better protection of the interest of the bank-management and customers. Through the

introduction of the Bangladesh Bank's (Nationalisation) Order (Amendment) Act, 2003, capital reserve requirement for NCBs is now administered according to the Bank Company Act. Besides, this amendment requires the Government to consult the Bangladesh Bank in appointing or/and dismissing Managing Directors and Deputy Managing Directors of NCBs. These reforms are expected to bring internal good governance in the banking sector as well as enhance efficiency and make the banking sector stronger and more dynamic.

To expedite the settlement of disputes regarding loan recovery of financial institutions, the "Money Loan Court", 2003 *(Artha Rin Adalat, 2003)* has been made effective. Moreover, steps have been taken to implement the recommendations of the "Committee for Non-performing Loan" gradually to accelerate recovery of non-performing loans (NPLs). To strengthen the process of recovering defaulted loans, banks, under this Act, are now empowered to sell the collaterals without prior approval of the court. Effective application of this Act has started yielding encouraging results. As of June 2005, 92989 cases were filed, of which 45633 cases were settled accruing the recovery of Tk. 3485.48 crore against the claim of Tk. 20867.02 crore. Steps have also been taken to rationalise and merge the losing branches of NCBs gradually. These initiatives have already started yielding desired results. Improvements like these are also reducing the expenditure-income ratio of relevant banks.

Reforms in Banking Sector

Reforms in the Bangladesh Bank

Implementation of "Central Bank Strengthening Project" is underway which is tasked to formulate and implement a prudent monetary policy, enhance the regulatory capability of Bangladesh Bank to supervise financial institutions, establish banking policies and regulations that conform to international standards and increase operational efficiency of Bangladesh Bank through computerisation.

Reforms in NCBs

- Signing a Memorandum of Understanding (MOU) by NCBs with Bangladesh Bank to monitor overall performance;
- Four internationally reputed auditing firms have audited the asset quality of banks;
- As part of the reform programme, steps have been taken to hand over Rupali Bank to private management. To implement the initiatives a Financial Advisor has already been appointed;
- A management team along with a Chief Executive has been appointed in the Agrani Bank;
- A management support team has been appointed in Sonali Bank, and
- Appointment of a management support team in the Janata Bank is in process.

Money and Financial Market Reforms

Measures have been taken to build the existing banking system on an international standard. Important among the initiatives taken in the current fiscal year are as follows:

- Continuous credit, demand loan and part of the term loan, which will expire within 90 days or more will be kept in the Special Mention Account in order to bring the status of the classified

loan to international standard. Moreover, interest accrued on that loan will be kept in Income Account instead of Interest Suspense Account.

- Decision has been taken to prepare financial statements on accrual basis by keeping due provision on bank deposits.
- It has also been decided to establish a 'Complaint Centre' in the head office of each commercial bank under the direct supervision of the chief executive of the respective bank for resolving irregularities.
- In order to simplify the write-off policy (with prior approval of Bangladesh Bank), decision has been taken to write off loan on case by case basis before filling a suit in the court.
- In order to infuse dynamism in Islamic banking system, interest-free Sariah basis, profit-motive 'Bangladesh Government Islamic Investment Bond' (BGIIB) was introduced from September 2004. This newly introduced Islamic bond has created an opportunity for investing the excess liquidity of Islamic banks into profit-oriented sectors.
- Interest rate for national savings schemes and upper limit of the investment have been rationalised for making adjustment with downward trend of commercial banks' interest rates (both deposit and lending). As complementary to this, a special 'Pensioner Saving Scheme' for pension-holders, who have retired from services in Government, semi-Government, autonomous, semi-autonomous bodies, has been introduced.
- Prudential Guidelines for Consumer Financing and Small Enterprise Financing by scheduled commercial banks have been prepared.
- In order to comply with the monetary policy regarding excess liquidity management, CRR has been increased to 4.5 percent from 4.0 percent of total demand and term deposits and it is in operation since March 1, 2005. For other financial institutions, this rate is kept unchanged at 2.5 percent level. But it has been decided that from December 2004, financial institutions will keep the CRR at the rate of 2.5 percent on daily basis and it will not fall below 2.0 percent on any day.
- As a step towards reducing excessive dependence of financial institutions on call money gradually, the volume of credit taken by licensed financial institutions from call money market has been determined with a maximum of 15 percent of their net assets, which is effective from July 1, 2005. It has also been decided that if the volume of call money already taken by some financial institutions exceeds 15 percent of their net assets, this will have to be brought down to 15 percent of their net assets by June 30, 2005.

Capital Market

The level of development of the capital market is an indicator of the state of development of an economy. The capital market plays a very important role in the private sector development. Though private sector development is accorded priority in Bangladesh, the capital market is yet to attain the credibility as an efficient and appropriate place for investment. Its contribution to the overall economic development is still limited.

The Securities and Exchange Commission (SEC) of Bangladesh was formed on June 8, 2003 under the 'Securities and Exchange Commission Act, 1993'. The principal responsibilities of the SEC include ensuring proper issuance of securities, safeguarding the interest of investors in the

stock exchange, controlling the stock market and development of the capital market. The Commission is at work to carry out these responsibilities as well as performing other activities as defined in the Act. However, relative to the volume of national income and need for investment, the contribution of capital market is negligible. Currently two stock exchanges are operating in Bangladesh: Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). Both the stock exchanges are autonomous non-profit organisations.

Dhaka Stock Exchange

The number of securities (including mutual fund and debentures) listed with the DSE increased to 277 by June 2005 from that of June 2004. By the end of June 2005, the issued capital of listed securities stood at Tk. 6639.19 crore, which is 35.65 percent higher than that of June 2004.

Table 5.7: Trading Operation in Dhaka Stock Exchange

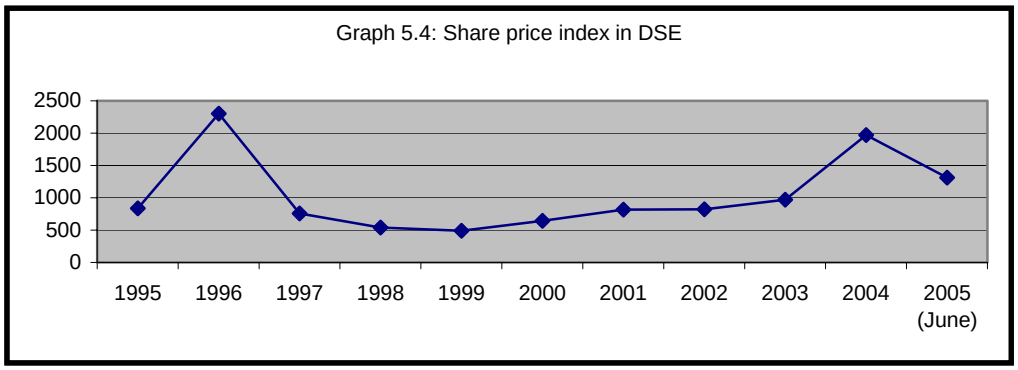
Calendar year/ month-end	No. of listed securities[(a)]	IPO	Issued capital (in crore Tk.)	Market Capitalisation (in crore Tk.)	Turnover (in crore Tk.)	Price index[(b)]
1995	201	24	1983.98	5651.81	638.00	835.00
1996	205	24	2305.24	16810.62	3013.30	2300.15
1997	222	12	2820.78	7130.16	1740.34	756.78
1998	228	6	2862.57	5025.40	3436.84	540.22
1999	232	11	2877.46	4478.12	3896.44	487.77
2000	241	7	3119.20	6292.40	4036.48	642.68
2001	249	11	3345.43	6522.28	3986.83	817.79
2002	260	8	3520.30	7126.20	3498.49	822.34
2003	267	14	4605.50	9758.70	1915.21	967.88
2004	256	2	4953.20	22492.30	5318.11	1971.31
2005 (June)	277	-	6639.19	22461.10	580.76	1310.62

Source: Dhaka Stock Exchange

(a) Including mutual fund & debenture

(b) All share price index is calculated on weighted average method since November 24, 2001. Since December 9, 2003 all share price index is calculated on general share price index (excluding 'Z' group) by withdrawing weighted average method. The index base earlier was 100 for DSE.

Up to June 2005, market capitalisation of securities stood at Tk. 22461.10 crore. General share price index of the DSE stood at 1310.62 in June 2005, which was 1318.92 on June 2004.



Chittagong Stock Exchange

The number of securities listed with the CSE reached 198 as of June 2005 from 195 as of June 2004. By the end of June 2005, the issued capital of listed securities stood at Tk. 4998.84 crore, which is 6.41 percent higher compared to that at end of June 2004.

As of June 2005, market capitalisation of securities reached Tk. 20213.90 crore. General share price index of the CSE reached 3347.09 as on June 2005, which was 2329.46 on June 30, 2004.

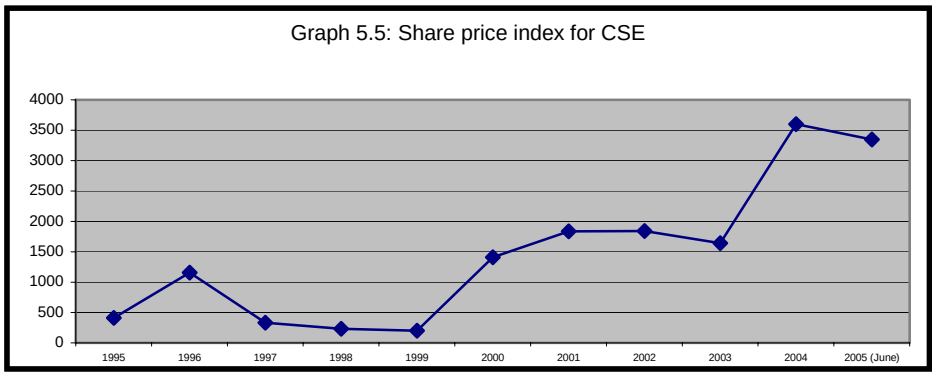


Table 5.8: Trading Operation in Chittagong Stock Exchange

Calendar year/ month-end	No. of listed securities	IPO[b]	Issued capital (in crore Tk.)	Market Capitalisation (in crore Tk.)	Turnover (in crore Tk.)	Price index[(c)]
1995	61		1036.80	2413.90	1.97	409.43
1996	117	16	1872.60	14704.30	608.90	1157.90
1997	141	19	2276.14	5283.23	854.51	332.98
1998	150	6	2418.03	4138.25	1403.60	232.80
1999	159	9	2508.09	3654.24	1153.79	197.83
2000	165	3	2726.60	5776.55	1293.38	1412.25
2001	177	9	2965.27	5636.35	1479.62	1836.87
2002	185	9	3107.99	6046.77	1358.61	1841.14
2003	199	10	4196.76	8531.23	668.86	1642.78
2004	195	3	4697.87	21501.08	1755.13	3597.70
2005 (June)	198	-	4998.84	20213.90	131.01	3347.09

Source: Chittagong Stock Exchange

(a) Including mutual fund & debenture

(b) Within the calendar year.

(c) All share price index is calculated on weighted average method since 24 November, 2001. The index base was 1000 for CSE from the year 2000. The index base earlier was 100 for DSE. Since December 9, 2003 all share price index is calculated on general share price index (excluding 'Z' group) by withdrawing weighted average method.

Reform Initiatives in the Capital Market

The Government is making efforts to develop the reliability and efficiency of stock exchanges as investment market. The Securities and Exchange Commission (SEC) continues to carry out its regulatory reform activities in a bid to develop and protect investors' interest by establishing fairness and transparency in the capital market. A brief description of the major reforms undertaken in the capital market during FY 2004-05 is given below:

Suspending Brokers' Credit Facility and enhancing Members' Trade Margin Requirements

SEC suspended credit facility by brokers to their clients to control excess liquidity in the capital market. The Commission also took decision to increase members' existing margin requirements.

Reduction of IPO Floatation Cost

SEC has taken a decision to reduce the cost of floating primary shares by about 50 percent of the existing cost to encourage more companies to float securities through Initial Public Offerings (IPO) in the capital market.

Mandatory Opening of Beneficiary Owners' (BO) Account

SEC has made it mandatory to open beneficiary owners' (BO) account before applying for shares floated through IPO.

Issuance of Mutual Fund Registration Certificates

The Commission issued registration certificates to the following two mutual funds as per Securities and Exchange Commission (Mutual Fund) Rules, 2001:

a. A close-end mutual fund titled 'ICB AMCL Islamic Mutual Fund ' issued on 24 August 2004; and

b. An open-end mutual fund titled 'ICB AMCL Pension-Holder Unit Fund' issued on 15 September 2004.

Approval of Prospectus of ICB AMCL Islamic Mutual Fund and ICB AMCL Pension-Holder Unit Fund

The Commission approved the prospectus of ICB AMCL Islamic Mutual Fund for Tk. 7.00 crore on September 9, 2004 and that of ICB AMCL Pension-Holder Unit Fund for Tk. 9.00 crore on September 18, 2004.

Renaming IPO Department

SEC has renamed IPO Department as Capital Issue Department. The name was changed because the said department, apart from IPO, deals with rights issue and accord consent to public and private limited companies for capital withdrawal.

New Investment in the Capital Market

An amount of Tk. 33.36 crore was invested in the capital market during July 2004 to March 2005 through IPO of five companies.

Training Programmes for Members of Authorised Representatives of Stock Exchanges

SEC organised a training programme covering securities laws, rules/regulations and central depository system for the representatives of Dhaka Stock Exchange and Chittagong Stock Exchange.

Investors' Education Programme

SEC conducted investors' education programme twice a month between December 2004 and March 2005. The course included topics like regulatory framework; securities transactions, investment procedure, surveillance system and central depository system

Establishment of Over-the-Counter (OTC) at CSE

The functions of Over-the-Counter (OTC) market at CSE were inaugurated in July 2004. It is expected that the functions of OTC would be able to protect investors' interest and be helpful to expand the scope for development of small and medium scale industries in the country.