

CHAPTER FIVE

MONETARY MANAGEMENT AND FINANCIAL MARKET DEVELOPMENT

The monetary policy pursued during FY2018-19 aimed at attaining expected economic growth and limiting inflation within tolerable level through emphasis on inclusive, investment and employment supportive and environment-friendly green initiatives. The monetary policy strategy for FY2018-19 was targeted to maintain an annual average inflation rate below 5.6 percent. To keep inflation within desired level the Monetary Policy Statement (MPS) for FY2018-19 set targets for broad money and reserve money growth at 12.0 percent and 7.0 percent respectively. However, at the end of February 2019, broad money and reserve money growth stood at 10.37 percent and 7.69 percent against 9.78 percent and 10.09 percent increase in the same month of the previous fiscal year respectively. At the end of February 2019, the growth of internal debt and private sector credit growth stood at 13.74 percent and 12.54 percent, respectively, against 14.22 percent and 18.49 percent at the same time of the previous year respectively. On the other hand, the interest rate spread slid down to 4.06 percent at the end of February 2019 from 4.37 percent of February 2018 due to the continuous rise in deposit rate and the continuous reduction in lending rate. The volume of the broad money is increasing gradually in the ratio of GDP, which stood at 51.57 percent at the end of FY2017-18. Besides emphasizing on financial inclusion a broad range of activities to bring a large number of financially excluded people under the umbrella of conventional financial services have been undertaken by the Government. In the FY2018-19, both stock markets (Dhaka Stock Exchange and Chattogram Stock Exchange) noticed some unrest, but overall both the price index and market capitalisation increased. For ensuring stable and smooth operation of the capital market and restoring the confidence of general investors several restructuring activities were carried out during this period.

Monetary Policy and Monetary Management

The monetary policy stances for FY2018-19 aimed at attaining price and macro-financial stability along with supporting domestic demand to promote economic growth, in tune with government's sustainable development agenda. Like previous years, Bangladesh Bank (BB) has put emphasis on inclusive, employment supportive and environment-

friendly green initiatives for attaining sustainable economic growth. In FY2018-19 Bangladesh Bank continued its focus on various macro-prudential measures including intensive surveillance on adherence to prescribed asset-liability management (ALM) and forex risk management guidelines along with the rationalisation of banks advance/deposit ratios to curb their over-exuberance in lending. As a whole, monetary and credit policies and programs pursued in

FY2018-19 and the ongoing implementation of macro-prudential policies are aimed at providing adequate supply of quality credit to support the government's growth and inflation targets, while promoting domestic and external financial stability amid the shifting global and domestic risk considerations.

The monetary policy stances for FY2018-19 was formulated with the target of keeping inflation below 5.6 percent as well as attaining GDP growth rate at 7.8 percent. Aided by favorable financing conditions and fiscal policy supports both public and private sector investments also expected to remain buoyant in FY2018-19. Supported by moderating food inflation, twelve month inflation followed a declining trend during July-February in FY2018-19, reached at 5.49 percent in February 2019 from 5.78 percent in June 2018, although non-food inflation remained uptrend due to steady rise in oil and commodity prices.

For FY2018-19, broad money (M_2), reserve money (RM) and net domestic assets (NDA) have been projected to annually increased by 12.0, 7.0 and 16.8 percent respectively; while, growth in net foreign assets (NFA) has been projected to declined by 3.4 percent. Most of the key monetary and credit aggregates remained below the programed paths during July to February in current fiscal year. Broad money growth stood at 10.37 percent in February 2019 over February 2018 against the programed level of 12.00 percent that can be attributed to high growth in NDA. NDA grew robustly at 13.42 percent in February

2019 over February 2018 owing to strong public sector credit growth, though private sector credit growth remained moderate. Moderate credit growth in private sector is the confluence of both demand and supply factors, including the base effect from a high growth in the previous year, liquidity impact from slow growth in net foreign assets, some rigidity in interest rate flexibility and a go slow policy of the investors in the pre-election time.

Despite food inflation being moderated, balancing both inflation and output risks, Bangladesh Bank has decided to keep repo and reverse repo rate unchanged at 6.00 and 4.75 percent respectively due to elevated inflation expectation, exchange rate pressure, and rising global interest rates. Reflecting the prevailing liquidity conditions and moderating credit demand, weighted average lending and deposit rates followed the downward trend in the period of July-February in FY2018-19. From the latest available data, weighted average lending and deposit rates stood at 9.49 and 5.34 percent respectively in February 2019 which were 9.95 and 5.50 percent respectively in June 2018.

Money and Credit Situation

Trends in Monetary Aggregates

At the end of February in FY2018-19, the year-on-year reserve money and narrow money (M_1) have decreased, however broad money (M_2) have increased compared to the same month of the previous fiscal year. Due

to significant decrease in the growth of currency notes and coins with the public as well as demand deposit, the year-on-year growth of M_1 declined in FY2017-18

compared to FY2016-17. Table 5.1 shows the growth trends in monetary aggregate from FY2012-13 to FY2018-19.

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

Indicator	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Feb'18	Feb'19
Narrow Money (M_1)	12.65	14.60	13.53	32.10	13.01	6.17	12.87	11.40
Broad money (M_2)	16.71	16.09	12.42	16.35	10.88	9.24	9.78	10.37
Reserve Money (RM)	15.02	15.46	14.33	30.12	16.28	4.04	10.09	7.69

Source: Bangladesh Bank.

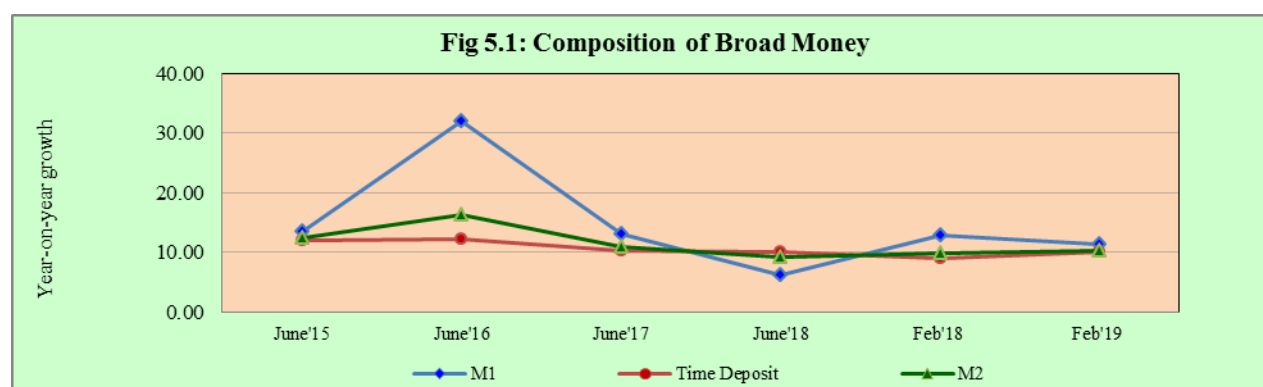
Narrow Money (M_1)

Narrow money (M_1) growth stood at 6.17 percent during FY2017-18, which is lower than 13.01 percent growth in FY2016-17. Up to February 2019, growth of M_1 decreased by 11.40 percent, which was 12.87 percent in the same month of the previous fiscal year. Up to February 2019, the growth of currency notes and coins with the public and demand deposit, two components of the M_1 have stood at 13.73 percent and 8.35 percent respectively, which were lower than the growth of 14.08 percent and 11.33 percent in the same month of the previous fiscal year.

Broad Money (M_2)

Broad money (M_2) stood at Tk.11,09,981.00 crore during FY2017-18, which was Tk.10,16,076.10 crore during FY2016-17. Up

to February 2019, M_2 increased by 10.37 percent, which is higher than 9.78 percent growth in the same month of the previous fiscal year. Narrow money (M_1) and time deposit are two components of the M_2 . Up to February 2019, time deposit increased by 10.08 percent, which is higher than 8.96 percent growth in the same month of the previous fiscal year. Table 5.2 shows the movement and growth of the components of broad money (M_2) 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.



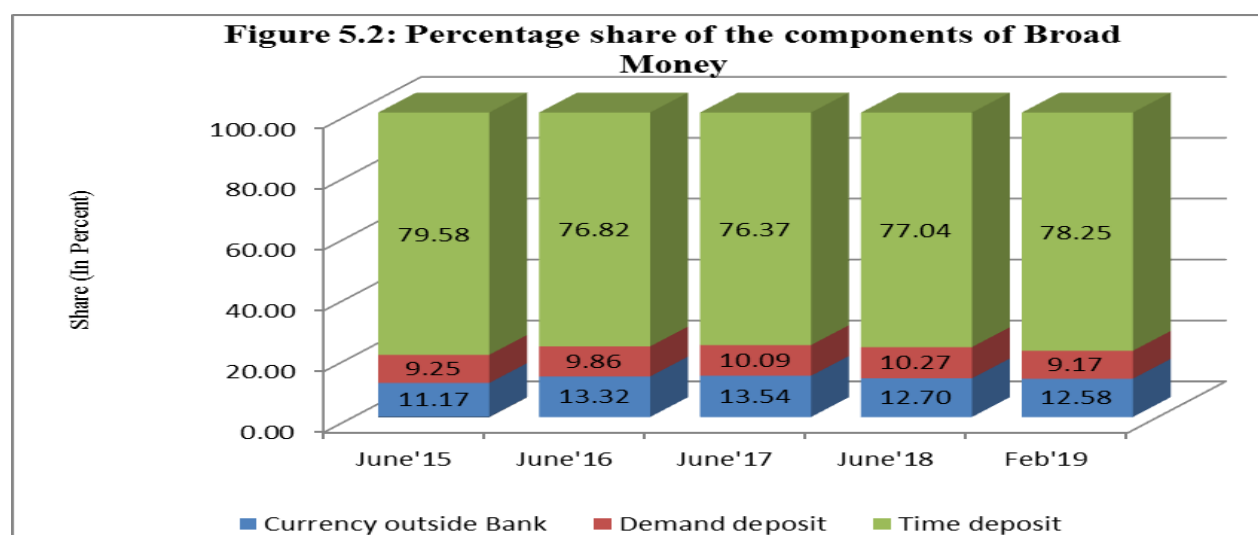
Source: Bangladesh Bank.

Table 5.2: Money and Credit

Indicators	June 2015	June 2016	June 2017	June 2018	Feb'18	Feb'19
End period stock (In crore Taka)						
1. Net foreign assets of the banking system	189228.8	233135.6	266697.0	264674.4	262356.9	265441.4
2. Net domestic assets of the banking system	598384.9	683242.3	749379.1	845306.6	789189.9	895131.4
a. Domestic credit	701526.5	801280.1	890670.2	1021626.6	955852.9	1087163.2
a.1. Government sector (net) ¹	110257.3	114219.6	97333.5	94895.1	75069.3	92946.2
a.2. Public sector (other) ¹	16669.8	16051.1	17280.2	19200.0	18558.8	23868.3
a.3. Private sector ¹	574599.4	671009.3	776056.5	907531.5	862224.8	970348.7
b. Other assets (net)	-103141.2	-118037.8	-141291.1	-176320.0	-166663.0	-192031.8
3. Narrow money	160813.8	212430.7	240078.5	254893.7	226545.8	252373.9
a. Currency notes and coins with the public	87940.8	122074.5	137531.8	140917.5	128338.1	145963.0
b. Demand deposit ²	72873.0	90356.2	102546.7	113976.2	98207.7	106410.9
4. Time deposit	626799.9	703947.2	775997.6	855087.3	825001.0	908198.9
5. Broad money [(1)+(2)] or [(3)+(4)]	787613.7	916377.9	1016076.1	1109981.0	1051546.8	1160572.8
Year-on-year percentage change						
1. Net foreign assets of the banking system	18.23	23.20	14.40	-0.76	3.90	1.18
2. Net domestic assets of the banking system	10.70	14.18	9.68	12.80	11.88	13.42
a. Domestic credit	9.97	14.22	11.16	14.70	14.22	13.74
a.1. Government sector (net)	-6.19	3.59	-14.78	-2.51	-19.73	23.81
a.2. Public sector (other)	30.88	-3.71	7.66	11.11	18.56	28.61
a.3. Private sector	13.19	16.78	15.66	16.94	18.49	12.54
b. Other assets (net)	5.96	14.44	19.70	24.79	26.75	15.22
3. Narrow money	13.53	32.10	13.01	6.17	12.87	11.40
a. Currency notes and coins with the public	14.34	38.81	12.66	2.46	14.08	13.73
b. Demand deposit	12.57	23.99	13.49	11.15	11.33	8.35
4. Time deposit	12.13	12.31	10.24	10.19	8.96	10.08
5. Broad money	12.42	16.35	10.88	9.24	9.78	10.37

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

Source: Bangladesh Bank.



Source: Bangladesh Bank.

Domestic Credit

The growth of domestic credit stood at 14.70 percent in FY2017-18 compared to 11.16 percent in FY2016-17. Up to February 2019, domestic credit increased by 13.74 percent, which is lower than 14.22 percent growth in the same month of the previous fiscal year. Of which private sector credit growth stood at 12.54 percent in February 2019 against 18.49 percent in the same month of the previous fiscal year. The net credit to the government increased by 23.21 percent at the end of February 2019 compared to 19.73 percent decrease in same month of the previous year. At the end of February 2019, the share of government (excluding others public sector) and private sector credit to total domestic credit stood at 8.55 percent and 89.26 percent respectively.

Reserve Money

In FY2017-18 Reserve money stood at Tk.2,33,743 crore, which was Tk.2,24,659 crore in FY2016-17. Reserve money growth was 4.04 percent in FY2017-18 compared to the 16.28 percent in FY2016-17. Up to February 2019, reserve money increased by 7.69 percent compared to the 10.09 percent increment in the same month of the previous fiscal year. On the other hand, at the end of FY2017-18, net foreign assets of Bangladesh Bank increased by 0.59 percent compared to the 15.14 percent at the end of previous fiscal year. Up to February 2019, the net foreign assets of Bangladesh Bank decreased by 1.28 percent compared to the 5.57 percent increment in the same month 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: Reserve Money and Its Components

	June 2015	June 2016	June 2017	June 2018	Feb'18	Feb'19
At the end of the period (in crore Taka)						
1. Currency issued	98153.9	132304.9	151265.2	154940.5	141121.4	158935.6
2. Balances of scheduled banks with BB	49838.9	60299.0	72732.7	78043.4	68679.6	67134.0
3. Reserves of other financial institutions with the BB	489.2	597.1	661.5	759.1	748.4	673.0
4. Reserve Money [(1)+(2)+(3)]	148482.0	193201.0	224659.4	233743.0	210549.4	226742.6
Percentage Change (Year-on-year)						
1. Currency issued	14.82	34.79	14.33	2.43	14.26	12.62
2. Balances of scheduled banks with BB	13.28	20.99	20.62	7.30	2.35	-2.25
3. Reserves of other financial institutions with the BB	24.67	22.06	10.79	14.75	16.96	-10.07
4. Reserve Money	14.33	30.12	16.28	4.04	10.09	7.69

Source: Bangladesh Bank.

Table 5.4: Reserve Money and Its Sources

	June 2015	June 2016	June 2017	June 2018	Feb'18	Feb'19
At the end of the period (in crore Taka)						
1. Net foreign assets of BB	177393.7	21888.4	252027.0	253509.8	253570.7	250320.8
2. Net domestic assets of BB	-28911.7	-25688.4	-27367.6	-19766.8	-43021.3	-23578.2
a. Domestic credit	13276.1	26380.7	25166.5	35668.7	19202.6	26807.3
a.1. Claims on Government sector (net)	810.5	13373.7	12977.7	22572.2	7078.4	13370.8
a.2. Claims on other public sector	2160.8	2015.5	2157.8	2367.8	2211.1	2352.6
a.3. BB's claims on DMBs	5659.2	6024.4	5054.4	5582.5	4992.4	6300.3
a.4. BB's claims on NBDCs	4645.6	4966.9	4976.6	5146.2	4920.7	4783.6
b. Other assets (net)	-42194.9	-52068.9	-52534.1	-55435.5	-62223.9	-50385.5
3. Reserve Money [(1)+(2)]	148482.0	193201.0	224659.4	233743.0	210549.4	226742.6
Percentage Change (Year-on-year)						
1. Net foreign assets of BB	20.27	23.39	15.13	0.59	5.57	-1.28
2. Net domestic assets of BB	64.11	-11.12	6.48	-27.77	-12.09	-45.19
a. Domestic credit	-14.87	98.71	-4.60	41.73	69.36	39.60
a.1. Claims on Government sector (net)	-78.90	1550.06	-2.96	73.93	-1605.08	88.90
a.2. Claims on other public sector	79.66	-6.72	7.06	9.73	18.16	6.40
a.3. BB's claims on DMBs	-9.87	6.45	-16.10	10.45	-2.06	26.20
a.4. BB's claims on NBDCs	8.73	6.92	0.20	3.41	1.67	-2.79
b. Other assets (net)	27.03	23.44	0.87	5.52	3.23	-19.03
3. Reserve Money	14.33	30.12	16.28	4.04	10.09	7.69

Source: Bangladesh Bank.

At the end of February 2019, claims on government sector (net) increased by Tk.6,292.40 crore compared to Tk.7,548.70 crore increase in the same month of the previous fiscal year. At the same time, Claims on deposit money banks (DMBs) increased by Tk.1,307.90 crore compared to Tk.105.10 crore decrease in the same month of the previous fiscal year. Claims on other public sector increased by Tk.141.50 crore compared to Tk.339.80 crore increase in the same month of the previous fiscal year.

Money Multiplier

Money multiplier increased to 4.75 in FY2017-18 as compared to 4.52 in FY2016-17 due to higher growth of broad money

compared to reserve money. At the end of February 2019, money multiplier stood at 4.994. At the same time, the ratios of money multiplier as reserve-deposit ratio stood to 0.081 and currency-deposit ratio stood to 0.144.

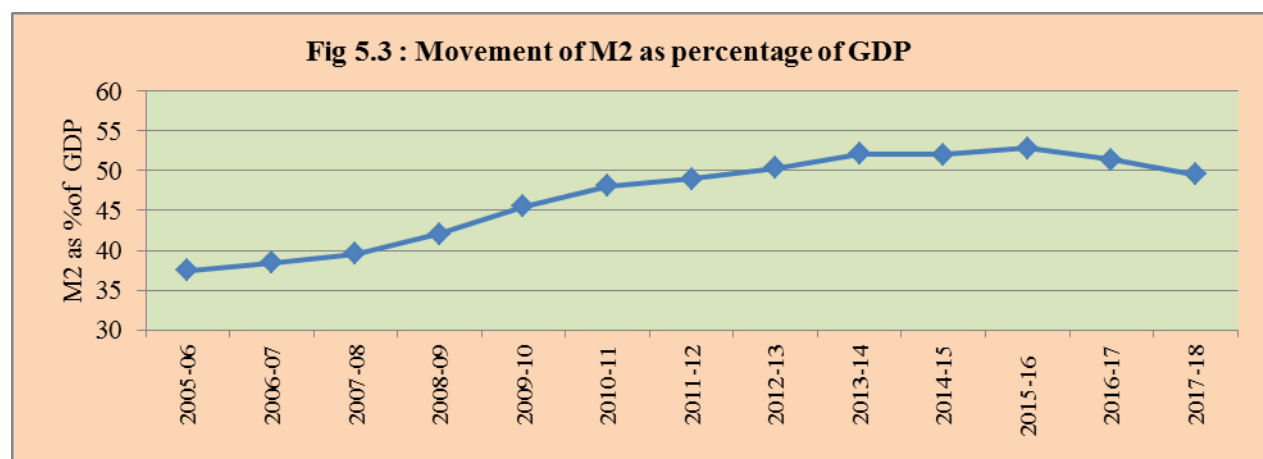
Income Velocity of Money

Income velocity of money is showing a declining trend over the decades excluding a hardly increase from 1.94 in FY2016-17 to 2.03 in FY2017-18. Table 5.5 shows the trends of income velocity of money and broad money as a percent of GDP from FY2005-06 to FY2017-18. Movement of broad money as a percent of GDP has been shown in Figure 5.3.

Table 5.5: Income Velocity of Money

FY	GDP (in billion Tk.)	Broad Money (in billion Tk.)	Broad Money (as percent of GDP)	Income velocity of money (GDP/M2)
2005-06	4823.40	1806.74	37.46	2.67
2006-07	5498.00	2115.04	38.47	2.60
2007-08	6286.80	2487.95	39.57	2.53
2008-09	7050.70	2965.00	42.05	2.38
2009-10	7975.40	3630.31	45.52	2.20
2010-11	9158.30	4405.20	48.10	2.08
2011-12	10552.00	5171.09	49.01	2.04
2012-13	11989.20	6035.05	50.34	1.99
2013-14	13436.74	7006.23	52.14	1.92
2014-15	15158.02	7876.14	51.96	1.92
2015-16	17328.64	9163.78	52.88	1.89
2016-17	19758.15	10160.80	51.43	1.94
2017-18	22504.79	11099.78	51.57	2.03

Source: Bangladesh Bank and BBS.

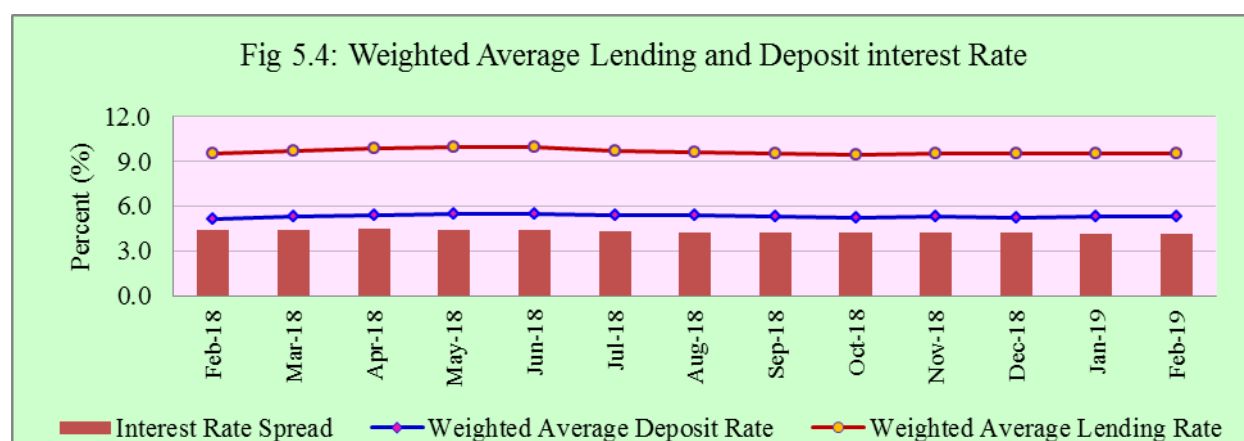


Source: Bangladesh Bank

Rationalising the Rate of Interest

With a view to rationalising the rate of interest on deposit and lending through competitive environment among the banks, Bangladesh Bank has giving instructions to banks on regular basis for taking proper initiatives. Besides, 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) and SME loans. Recently the interest rates of loans and deposits has been observed the mixed trend. The weighted

average lending rate of commercial banks decreased to 9.49 percent at the end of February 2019 from 9.55 percent of end February 2018. On the other hand, the deposit rate increased to 5.34 percent in February 2019 from 5.18 percent in the same period of previous year. The interest rate spread decreased to 4.06 percent at the end of February 2019 from 4.37 percent of February 2018 as well. Figure 5.4 shows the trend of weighted average interest rates on lending and deposit rates from February 2018 to February 2019.



Source: Bangladesh Bank.

Financial Market Management

Financial market in Bangladesh basically consists of banks, non-bank financial institutions and stock market which include State Owned Commercial Banks (SOCBs), State Owned Specialised Banks (SBs), Private Commercial Banks (PCBs), Foreign Commercial Banks (FCBs), Non-Bank Financial Institutions (NBFIs), Investment Corporation of Bangladesh (ICB), House Building Finance Corporation (HBFC) and Bangladesh Securities and Exchange Commission (BSEC).

Banking Sector

As on February 2019, there are 59 scheduled banks in Bangladesh. Among which there are 6 state owned commercial banks, 3 specialised banks, 41 local private commercial banks and 9 foreign commercial banks. Apart from, 5 non-scheduled banks such as Palli Shanchay Bank, Ansar VDP Unnayan Bank, Karmasangsthan Bank, Grameen Bank and Jubilee Bank Ltd. are also operating in the banking sector in Bangladesh. Structure of the banking system and their share in total deposits and assets by types of banks are shown in Table 5.6.

Table 5.6: Structure of the Banking System in Bangladesh

Type of Banks	No. of Banks	No. of Branches			Percentage of Total Assets	Percentage of Total Deposit*
		Urban	Rural	Total		
SCBs	6	1762	1990	3752	25.61	25.99
SBs	3	350	1125	1475	2.22	2.57
PCBs	41	3182	1905	5087	67.04	66.54
FCBs	9	68	0	68	5.13	4.90
Total	59	5362	5020	10382	100	100

Source: Bangladesh Bank.*Up to December 2018.

Non-bank Financial Institutions (NBFIs)

Non-Bank Financial Institutions (NBFIs) are playing a significant role in providing funding in different sectors like industrial, commercial, housing, transportation and IT sectors of the country. At present 34 licensed non-bank financial institutions are working in the country. These NBFIs have a wide network through 271 branches and they are operating in Dhaka city along with other

districts of the country. Total paid up capital and reserve of these financial institutions stood at Tk.11,560.63 crore as on December 2018. Of which paid up capital, total asset and total deposit were Tk.8,443.36 crore, Tk.95,716.32 crore and Tk.48,211.60 crore, respectively. Total outstanding loan/lease was Tk.68,844.76 crore and total classified loan/lease stood at Tk.5,464.25 crore (7.94 percent of total loan/lease). To ensure transparency and minimise risk of financial

institutions various measures (e.g. guidelines, circulars and circular letters etc) have been taken at different times. In FY2017-18 a circular on ‘Schedule of Fee/Charges/Commission for Financial Institutions’ has been issued to protect the customer interest and bring uniformity in the schedule of fee/charges/commission charged by the financial institutions against the loan/lease accounts. Another crucial decision of the mentioned period was introducing ‘Integrity Award Guidelines for Financial Institutions’.

Financial Inclusion

In recent times, financial inclusion seems to be the most willful 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:

1. Bangladesh Bank has issued various circulars 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. In FY2015-16, Bangladesh Bank has instructed all the

commercial banks operating in Bangladesh to open TK.10 bank accounts of the inhabitants of the former enclaves, which have been included in the map of Bangladesh. With the initiatives of Bangladesh Bank the number of these account reached to 1.90 crore at the end of December 2018.

2. Bangladesh Bank has relaxed the regulations for opening the Tk.10 special accounts of the street and working children, which was introduced in 2014 to make these children financially independent, safeguard their hard earned money and secure their future.
3. 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, Bangladesh Bank 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.
4. In order to create a dynamic, interactive, and online database for the remittance senders, Bangladesh Bank has taken an initiative to collect the information of Non-Resident Bangladeshis (NRBs).
5. Bangladesh Bank (BB) has taken a number of effective measures to spread and ensure financial literacy among the country people. BB conducted financial

literacy campaign among school going children throughout the country. BB also organized ‘School Banking Conferences’ and ‘School Banking Fair’ in different parts of Bangladesh.

6. BB is implementing a number of quantifiable as well as qualitative targets on financial inclusion. Bangladesh Bank is preparing a Comprehensive ‘National Financial Inclusion Strategy’ in collaboration with the Ministry of Finance and other related organizations.
7. BB is working with a new project named ‘Second Small and Medium Sized Enterprise Development Project (SMEDP-2)’ jointly funded by ADB and GoB. Under this project credit facilities are being provided to small and women entrepreneurs residing outside of Dhaka and Chittagong Metropolitan Area Which will enhance the scope of access to finance for these groups.

Banking, Monetary and Credit Policy Reforms

Reforms in Bangladesh Bank

With a view to improving 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 project will be implemented through following three major components over the project term:

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. 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 Bangladesh Bank to migrate to a risk-based approach to supervision to discharge its responsibilities to ensure a safe and sound banking system. Technical support will also be provided by appointing national and international individual advisor/consultant(s) or firm(s) to help building the system and develop the capacity to review and strengthen prudential regulations in future.

3. Supporting Long Term Finance

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 US\$273.84 million has been sanctioned from which US\$202.34 million has been disbursed till February 2019.

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

Legal Reforms

The Bank Company Act, 1991 (Amended up to 2013) have been partially changed through the enactment of the Bank Company (Amendment) Act, 2018 on 28 January 2018. Other than this, Bangladesh Bank has re-determined the standard of educational qualification of the Chief Executive of the bank in case of his/her appointment in the bank.

The Artha Rin Adalat Ain, 2003 has been enforced for the purpose of quick disposal of suits related to loan recovery of scheduled Banks and Non-bank Financial Institutions. This Act was last amended in 2010. As per the provision of chapter of the Artha Rin Adalat Ain, 2003, all scheduled banks have already been instructed to accelerate the loan recovery process through Alternative Dispute Resolution (ADR). In addition, banks are being given necessary instructions from time to time to dispose the suits more quickly through ADR process. A Guideline (Guidelines on External Audit of Banks) has also been drafted jointly by Bangladesh Bank and Ministry of Finance based on Bank

Company Act 1991, Financial Reporting Act-2015 and the Basel Committee.

Reforms in State Owned Commercial Banks

The state owned commercial banks (except Bangladesh Development Bank Ltd) are being monitored under the MoU in FY2018-19 similar to previous years. Under the MoU signed with Sonali, Janata, Agrani, Rupali and Basic Bank Ltd along with a view to improving the quality of asset management, ensuring the efficiency of liability management, controlling the operational expenses, improving the quality of risk management and internal control system, reduce high cost deposit (term deposit) to the desired level. Under the latest MoU certain conditions have been imposed in purchasing FDBP (Foreign Direct Bill of Purchase) and in creating forced loan/PAD/Demand loan by the banks to improve the asset quality of the banks. Bangladesh Bank has also been regularly monitoring the implementation status of MoU against the certain targets fixed up therein.

Money and Financial Market Reforms

In order to improve the standards of existing banks of Bangladesh to international level through competitive management and to stabilise and strengthen the financial base of the overall banking system, a number of initiatives including restructuring of money and financial market have been taken by Bangladesh Bank and the implementation of the same is going on.

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

Development of Payment System

To establish a public interest oriented modern payment system in Bangladesh some initiatives such as - formalise the ‘Strategy Paper for Bangladesh Bank’ payment system, establishment of ‘Bangladesh Automated Clearing House (BACH)’ and manage its overall activities, approval of Mobile Financial Services and appropriate oversight, development of ‘National Payment Switch’ and to establish e-payment system, formalize the rules and regulatory infrastructure related to payment system, start Electronic Fund

Transfer (EFT) activities, accelerate remittance flow and implementing Real Time Gross Settlement System (RTGS) have been undertaken.

Under the Mobile Financial Services- the total number of agents stood at 8,98,996 up to January 2019 and the number of registered clients stood at 6.73 crore out of which the number of active accounts was about 3.34 crore. In January 2019, a total amount of Tk.34.63 thousand crore was transacted through 21.47 crore transactions. The amount of average daily transaction was Tk.1.12 thousand crore.

With a view to paying the bill of online marketing, 37 banks are providing internet banking service to the clients. The amount of average daily transaction through internet banking was Tk.93.18 crore. Through e-commerce, the amount of average daily internal and disbursement of local currency against foreign remittance were Tk.4.5 crore and Tk.1.85 crore respectively.

Prevention of Money Laundering and Combating Financing of Terrorism

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

- Financial Institution Division of Ministry of Finance, on behalf of the Bangladesh government, has issued Money Laundering Prevention Rules 2019 .
- In the 2nd Follow-up Report of Mutual Evaluation of Bangladesh, APG has upgraded the FATF recommendation 19

(Higher-risk countries) from Partially Compliant (PC) to Largely Compliant (LC).

- BFIU has issued a circular by amending the wire transfer related section of BFIU Circular no. 19.
- BFIU has issued necessary instructions regarding internal control of financial groups, foreign branches and subsidiaries and information exchange among the reporting organisations.
- BFIU has issued two circular letters for the scheduled banks and non bank financial institutions with necessary instructions on ensuring the confidentiality of information related to money laundering and terrorist financing.
- BFIU has issued the guidance notes for the reporting organisations on 'Suspicious Transaction Reporting', 'Beneficial Owner', 'Politically Exposed Persons and 'Combating Terrorist Financing and Proliferation Financing of Weapons of Mass Destruction'.
- BFIU has signed 68 Memorandum of Understanding (MoU) with Financial Intelligence Units (FIUs) of different countries for exchanging information related to money laundering and terrorist financing till February 2019.
- BFIU has continued its effort to arrange capacity building programs on combating money laundering and terrorist financing

for enhancing the awareness of the officials of reporting organizations including banks.

- BFIU is maintaining liaison and coordination with different international

agencies like APG, EGMONT Group, FATF and BIMSTEC to strengthen the international endeavor of combating money laundering and terrorist financing.

Box 5.1: Implementation of Basel III

Basel-III has been introduced in the banking sector of Bangladesh with a view to establishing a robust, risk resilient banking industry as well as aligning with the international best practices. Implementation of Basel III has been started with a transitional arrangement starting from January 1, 2015 and will be completed by December 2019. In this context, Bangladesh Bank (BB) issued a comprehensive guideline in December 2014 and declared a road map with an action plan of the phase-in arrangements for the implementation of such. The main objective of Basel-III is to increase stability and risk resilient of the banking sector and give the banks individual and collective strengths to survive in the financial and economic crises situation. Scheduled banks in Bangladesh form a strategy to maintain minimum capital in relation to their risk profile and to maintain it to an adequate level.

Basel III increases the level of capital that banks must hold in addition to increasing the quality of capital. Banks are expected to maintain a minimum capital ratio of 10.00 percent, where 6.00 percent is to be maintained as Tier-1 capital. Under Basel III, banks will have to build up additional Capital Conservation Buffer. Maintenance of capital conservation buffer has started from 0.625 percent in 2016 and will end up at 2.50 percent in 2019. The macro prudential aspects of Basel III are largely enshrined in the capital buffers, it is intended to protect the banking sector from periods of excess credit growth.

Banks have been submitting capital adequacy statements following new Basel III accord from the quarter ended in March 2015. It is evident that at the end of September 2018, CRAR of the banking industry stood at 10.89 percent while CET1 was 7.50 percent which accomplished Basel III capital adequacy requirements. However, at individual level, 7 and 9 banks out of 57 banks had failed to maintain CET1 and minimum capital requirements, i.e CRAR respectively.

As a step towards implementation of Pillar II of Basel III, BB is working for implementation of Internal Capital Adequacy Assessment Process (ICAAP) Bangladesh. Banks evaluate their internal processes and strategies to ensure adequate capital resources covering all material risks through ICAAP reports. BB reviews and evaluates banks' ICAAP and their strategies using information and observations found during Supervisory Review Evaluation Process (SREP) inspection. Based on the findings of ICAAP reports and SREP inspection as on December 2017; a series of bilateral meeting with the banks has been started on January 21, 2019 and expected to be completed by April, 2019.

Capital Market

Development and Reform Activities of the Capital Market

An efficient, transparent and fair capital market plays an important role in industrialisation and economic development of a country. Bangladesh Securities and Exchange Commission (BSEC) was established to develop such a fair and accountable capital market. The following are the main missions:

- Protecting the interest of investors in securities
- Developing the capital and securities markets and
- Making rules on securities related matter or ancillary thereto.

The commission carries out all its activities to meet purposes of the securities law. Major activities of the commission are listed below:

- Approval of issuance of securities
- Formulation of rules and regulations
- Protection of investors through market monitoring and surveillance, corporate governance, enforcement actions and investors education programme etc
- Enforcement actions for violations of securities law
- Regulation of capital market and its intermediaries
- Conducting research and publishing information.

Promulgation and Amendment of Necessary Laws and Rules

- Formulation of Corporate Governance Code, 2018 to ensure corporate governance for the listed companies of

stock exchanges .

- Formulation of the Bangladesh Securities and Exchange Commission (Substantial Share Acquisition, Takeover and Control) Rules, 2018.
- Bangladesh Securities and Exchange Commission (Qualified Investor Offer by Small Capital Company) Rules, 2018.

Reforms for Maintaining Stability and Transparency of the Capital Market

For the interest of a stable capital market and raising confidence among the investors, it is necessary to increase supply of shares, institutional investors and also to ensure transparency and accountability in activities of all the capital market stack holders. Bangladesh Securities and Exchange Commission has taken some significant steps in FY2018-19 for ensuring transparency and accountability along with long term stability in capital market, notables among them are as follows:

- The Silver Jubilee of the Bangladesh Securities and Exchange Commission (BSEC) inaugurated on 12 September 2018. To highlight the importance of the capital market and awareness among investors, Commission arranged a series of functions along with seminar of Corporate Governance among the listed companies representatives and seminars on awareness by the Stock Exchanges and CDBL as well.
- IOSCO announced October 01-07, 2018 as the 'World Investor Week 2018' to create awareness among the investors on investment protection and education. Commission arranged series of activities

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- to promote awareness about investor protection and education such as rally, seminar, workshops symposiums, publication, mementos and TV talk show.
- The Commission has created opportunity to refix close-end mutual fund's tenure up to 20 year.
 - The Commission has exempted 100 percent foreign owned companies from taking permission to raise capital up to Tk.100.00 crore.
 - A directive has been issued by the Commission regarding provision against investment in mutual fund by a merchant banker, as a result of the investment in the mutual fund, unit average cost of the close-end-fund is lower than or equal to fair value and unit average cost of the open-end fund is lower than or equal to the repurchase price / surrender value no provision, if more than provision is required.
 - The Commission has approved capital raising to 08 companies for Tk.409.00 crore through IPO, 79 private companies for Tk.4,907.00 crore, 48 public ltd companies for Tk.7,304.00 crore and 20 companies for Tk.12,150.00 crore through bonds and debentures.
 - The Commission has approved fund withdrawal for Tk.325.00 crore of 09 mutual fund mutual funds and Tk.50.00 crore of an alternate fund.
 - The Commission taken enforcement action for violation of securities laws against 168 issuer companies, intermediaries, 35 of them are fined and 143 are warned.
 - The commission issued registration certificates to 01 stock dealer, 02 stock brokers, 156 authorized representatives of DSE and 04 stock dealers, 53 authorized representatives of CSE. Besides, 01 merchant banker, 01 Asset manager, 05 depository participants, 14 trustees, 03 fund manager's registration certificates has also been issued.
 - Government has extended incentive scheme for the small investors affected in the capital market till 31December 2019. Already the fund has fully distributed. Simultaneously, IPO quata for those affected investors has also been extended up to 30 June 2019.

Market Situation

Dhaka Stock Exchange (DSE) Ltd

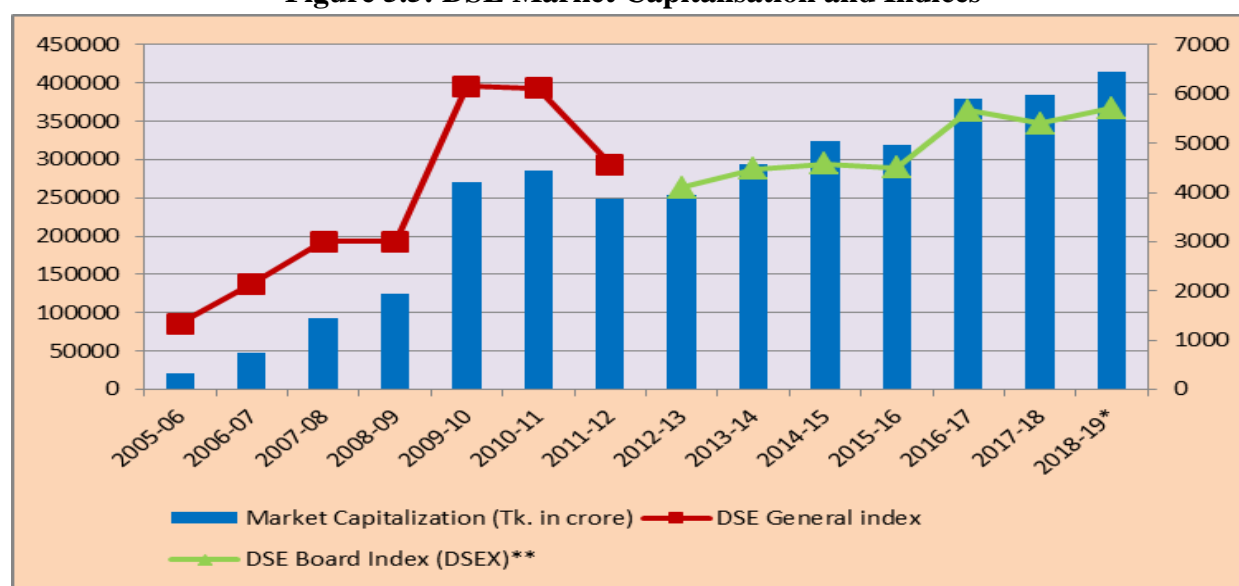
The number of listed securities (including mutual funds and debenture) of Dhaka Stock Exchange (DSE) has increased from 572 in June 2018 to 580 in February 2019. At the end of February 2019 total issued capital of all listed securities stood at Tk.1,24,634.53 crore, up by 2.19 percent from Tk.1,21,966.50 crore at the end of previous fiscal year. Total market capitalization of all listed securities was Tk.3,84,734.77 crore in June 2018, which increased to Tk.4,15,073.77 crore in February 2019, representing an increase of 7.89 percent. The DSE Broad Index (DSEI) increased by 5.67 percent from 5,405.46 points at the end of FY2017-18 to 5,711.83 points at the end of February 2019.

Table 5.7: Securities Trading Information of Dhaka Stock Exchange

End of Period	No. of Listed Securities (Including Mutual Funds & Debentures)	No. of IPOs	Issued Capital (Tk. in crore)	Market Capitalisation (Tk. in crore)	Securities Traded in Value (Tk. in crore)	DSE General index	DSE Board Index (DSEX)**
2005-06	303	18	8572.26	21542.19	4600.82	1339.53	
2006-07	325	10	16427.93	47585.54	16467.16	2149.32	
2007-08	378	13	28437.97	93102.52	54328.60	3000.50	
2008-09	443	17	45794.40	124133.90	89378.92	3010.26	
2009-10	450	23	60726.29	270074.46	256349.86	6153.68	
2010-11	490	19	80683.91	285389.22	325915.26	6117.23	
2011-12	511	15	93362.96	249161.29	117145.14	4572.88	
2012-13	525	15	98358.97	253024.60	85708.97		4104.65
2013-14	536	13	103,207.64	294320.23	112539.84		4480.52
2014-15	555	16	109195.35	324730.63	112351.95		4583.11
2015-16	559	11	112741.00	318574.93	107246.07		4507.58
2016-17	563	9	116551.08	380100.10	180522.21		5656.05
2017-18	572	11	121966.51	384734.78	159085.19		5405.46
2018-19*	580	10	124634.54	415073.76	114226.05		5711.83

Source: Dhaka Stock Exchange

Note: * February 2019 ** Stop displaying DSE General Index (DGEN) in DSE website from 01 August 2013. *** DSE introduced new index benchmark DSE broad index (DSEX) on 28 January 2013 as per 'DSE Bangladesh Index Methodology' designed and developed by S&P Dow Jones Indices.

Figure 5.5: DSE Market Capitalisation and Indices

Source: Dhaka Stock Exchange.

Chattogram Stock Exchange (CSE) Limited

The number of listed securities (including mutual funds and bonds) of Chattogram Stock Exchange (CSE) increased from 312 in June 2018 to 323 in February 2019. The issued capital increased by 4.29 percent from Tk.65,405.91 crore in June 2018 to Tk.68,214.13 crore in February 2019. Market capitalisation of CSE at the end of February

2019 stood at Tk.3,43,200.99 crore, up by 9.88 percent compared to the market capitalisation of Tk.3,12,352.17 crore at the end of FY2017-18. CSE All Share Price Index was 16,558.50 in June 2018, which increased by 5.53 percent and reached 17,473.48 points at the end of February 2019. Table 5.8 and Figure 5.6 show the trend of CSE Market Capitalisation, CSE General Index and Securities Turnover.

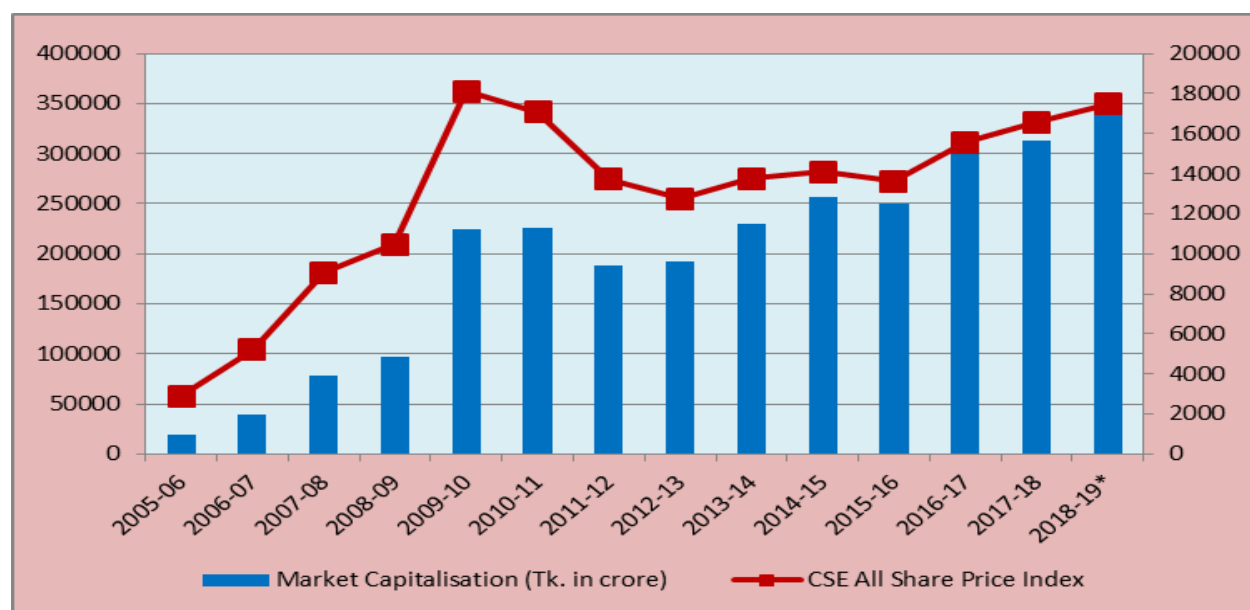
Table 5.8: Securities Trading Information of Chattogram Stock Exchange

End of Period	No. of Listed Securities (with MF& Bonds)	IPO	Issued Capital (Tk. in crore)	Market Capitalisation (Tk. in crore)	Turnover Value (Tk. in crore)	CSE All Share Price Index
2005-06	213	19	6375.02	19555.17	1143.91	2879.19
2006-07	219	10	8225.17	39926.82	3437.74	5194.76
2007-08	231	14	10314.08	77774.28	8016.21	9050.56
2008-09	246	18	14246.55	97494.82	12518.25	10477.67
2009-10	232	23	20677.39	224176.78	21711.23	18116.05
2010-11	220	19	30155.33	225977.78	32168.23	17059.53
2011-12	251	15	37527.49	187817.14	13485.49	13736.42
2012-13	266	15	42338.09	191907.03	10198.52	12738.23
2013-14	276	13	47083.97	229772.82	10218.27	13766.23
2014-15	292	20	50130.63	257146.40	9648.00	14097.17
2015-16	298	11	56607.60	249684.89	7747.16	13623.07
2016-17	303	09	60657.21	311324.29	11807.52	15580.37
2017-18	312	12	65405.91	312352.17	10985.06	16558.50
2018-19*	323	10	68214.13	343200.99	63226.95	17473.48

Source: Chattogram Stock Exchange.

Note: *Up to February 2019

Figure 5.6: CSE Market Capitalisation and All Share Price Index



Source: Chattogram Stock Exchange. * February 2019