

Financial Market

8.01 Bangladesh Bank (BB) remained proactive during FY21 in ensuring financial stability along with adopting supportive steps for quick economic recovery from the adversities caused by the COVID-19 pandemic. BB's numerous initiatives concerned of easing liquidity access to the banking system, maintaining balanced and competitive foreign exchange rates, and further preserving financial markets' harmony with watchful monitoring and careful supervision. BB utilised necessary policy tools and undertook various measures throughout FY21 to ascertain abundant liquidity, well performing markets, and a sound financial system amidst the on-going devastating waves of the COVID-19 pandemic.

Market Highlights, FY21

- Broad-based economic recoveries from COVID-19 initiated with the onset of FY21 following supportive measures included BB's attempt to inject sufficient liquidity into the banking system by slashing down the cash reserve ratio (CRR) and repo rate from 5.5 percent to 4.0 percent and from 6.0 percent to 5.25 percent respectively during March-April 2020.
- BB further reduced its repo rate by 50 basis points in July 2020, from 5.25 percent to 4.75 percent for enhancing banks' accessibility into less expensive funds.
- To rationalise the policy rates' corridor, BB also slashed down the reverse repo rate by 75 basis points, from 4.75 percent to 4.0 percent in July 2020.
- To rationalise with the current interest rate regime, BB reduced the bank rate by 100 basis points to 4.0 percent in July 2020 from 5.0 percent, which was unchanged since 2003.
- As a result of policy relaxations, banks' excess liquidity increased, notably in FY21, and the drift escalated due to higher remittance inflows, upward deposit growth, and sluggish growth in loans and advances.
- With the presence of a liquidity glut and slow credit demand owing to the ongoing COVID-19 pandemic, interbank call money rates recorded a sharp decline from 5.01 percent in June 2020 to 2.25 percent in June 2021.
- BB intentionally refrained from carrying any liquidity sterilisation effort considering the pandemic situation and maintaining safe position of key anchoring variables both in monetary and credit sectors.
- To facilitate *Shariah* based financing, Bangladesh Government Investment *Sukuk* (BGIS) bond was issued for raising funds for 'Safe Water Supply for the Whole Country' project on 28 December 2020 with tenure of 5 years and two tranches each worth BDT 40.0 billion have already been issued for this purpose. BB acts as the Special Purpose Vehicle (SPV) of BGIS.
- Both bourses (DSE and CSE) remained buoyant aided through ease monetary condition with restoration of investors' confidence by favorable policies in FY21. The DSE broad index (DSEX) recorded 54.2 percent increase and stood at 6150.5 as of end FY21.

- BB's appropriate monitoring and close intervention in the foreign exchange market, including sale and purchase of USD, helped to maintain competitiveness of BDT against major currencies of the trade-partners alongside maintaining stability in the BDT-USD exchange rate in the foreign exchange market. As a result, the exchange rate of BDT-USD remained broadly stable in FY21 in spite of having appreciation pressure on the BDT due to an upsurge in remittance inflows and strong export earnings.
- Based on the surplus in the overall balance, the foreign exchange reserve rose to historically high level of USD 46.40 billion at the end of FY21, which could meet 6.9 months of import payments.

Market Overview

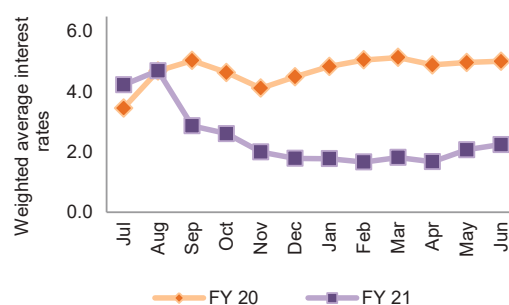
8.02 In terms of regulatory framework, the financial system of Bangladesh is comprised of three broad fragmented sectors, formal sector, semi-formal sector and informal sector. The formal financial sector consists of money market (the banking system, microcredit institutions, non-bank financial institutions and interbank foreign exchange market), the capital market (stock markets), the bond market and the insurance market. Operational activities of these institutions are governed by a number of regulators such as Bangladesh Bank (oversee banking system), Bangladesh Securities and Exchange Commission (oversee stock market operations), Insurance Development and Regulatory Authority (oversee insurance companies) and Microcredit Regulatory Authority (oversee micro credit institutions). The Ministry of Finance also has some oversight role in certain aspects.

Table 8.01 Volume of Trade and Weighted Average Interest Rates in Call Money Market

| Periods | Volume of trade (billion BDT) | Weighted average interest rates (%) | Volume of trade (billion BDT) | Weighted average interest rates (%) |
|----------------|-------------------------------|-------------------------------------|-------------------------------|-------------------------------------|
| | | | | |
| July | 1594.33 | 3.46 | 1758.93 | 4.23 |
| August | 795.05 | 4.69 | 1653.82 | 4.70 |
| September | 1159.19 | 5.04 | 1559.57 | 2.87 |
| October | 1656.88 | 4.64 | 730.01 | 2.61 |
| November | 1209.83 | 4.12 | 814.72 | 2.00 |
| December | 1071.08 | 4.50 | 961.73 | 1.79 |
| January | 1110.32 | 4.84 | 877.80 | 1.78 |
| February | 751.02 | 5.06 | 970.67 | 1.67 |
| March | 273.67 | 5.14 | 910.73 | 1.82 |
| April | 1267.61 | 4.89 | 789.83 | 1.68 |
| May | 1437.02 | 4.97 | 641.77 | 2.08 |
| June | 1887.01 | 5.01 | 679.43 | 2.25 |
| Average | 1184.42 | 4.70 | 1029.08 | 2.46 |

Source: Debt Management Department, Bangladesh Bank.

Chart 8.01 Movements of Call Money Rate



Source: Monetary Policy Department, Bangladesh Bank.

All these institutions play crucial role in the country's money and capital markets including government securities and foreign exchange market.

I. Money Market

Call Money Market Activities in FY21

8.03 BB meticulously used government debt management and open market operations (OMOs) tools on day-to-day basis to meet borrowing needs of the government and tracking the call money market for attaining

Table 8.02 Repo Auctions, FY21

| Total auctions held during the year | Tenor | Bids received | | Bids accepted | | Interest rate of the accepted bids (%) [®] |
|-------------------------------------|--------------|----------------|--------------------------|----------------|--------------------------|---|
| | | Number of bids | Face value (billion BDT) | Number of bids | Face value (billion BDT) | |
| 39 | 1-Day/3-Day | 163 | 76.93 | 163 | 76.93 | 4.75-5.25 |
| | 7-Day | 551 | 248.56 | 551 | 248.56 | 4.85-5.35 |
| | 14-Day | - | - | - | - | - |
| | 28-Day | 5 | 4.19 | 5 | 4.19 | 5.00-5.50 |
| | Total | 719 | 329.68 | 719 | 329.68 | 4.75-5.50* |

* Overall interest rate range of different tenors.

® The current rate of overnight repo was 4.75 percent effective from 30 July 2020 which was previously 5.25 percent effective from 12 April 2020.

Source: Monetary Policy Department, Bangladesh Bank.

policy objectives. During FY21, BB's relaxations of monetary policy measures assisted banks to maintain surplus liquidity, contributed to decline weighted average interest rate in the call money market ranging from 1.67 percent to 4.70 percent in FY21 from a range of 3.46 percent to 5.14 percent in FY20 (Table 8.1 and Chart 8.1). During FY21, monthly average trade volume in the interbank call money market also decreased by BDT 155.34 billion which indicates 13.1 percent reduction of average trade volume compared to the previous year, demonstrating existence of ample liquidity in the money market.

Repo Auctions held in FY21

8.04 BB usually conducts various types of Repo [overnight Repo, term Repo, Liquidity Support Facility (LSF) and special Repo] auctions on overnight or periodical basis to provide liquidity facility to banks at pre-determined and auction based rates as against the collaterals like face value of government treasury bills, bonds and Bangladesh Bank bills to maintain banks' liquidity requirements. The rates of interest for

overnight Repo, term Repo and LSF were 4.75 percent, 5.50 percent and 4.75 percent respectively in FY21 to necessitate for financial market and boosting investment and to achieve broad objective of monetary policy.

8.05 Under repo programme, the repayment duration is between 1-day to 360-day. To fulfil periodical need of liquidity term repo for 7, 14 and 28 days were introduced on 06 June 2018. Additionally, 360 days term repo was introduced on 13 May 2020 to support the longer term liquidity need, though no bid was received against this instrument in FY21. Term repo rate is fixed through auction taking into account overnight repo rate as benchmark. A total of 39 repo auctions were held during FY21. All 719 bids for BDT 329.68 billion were received and accepted (Table 8.02). In FY20, a total of 5841 bids for BDT 5478.44 billion were received and accepted. The volume of accepted amounts was decreased by BDT 5148.76 billion during FY21. The interest rate against the accepted bids was ranging between 4.75-5.50 percent per annum, which was 5.25-9.00 percent per annum in FY20.

Table 8.03 Reverse repo Auctions, FY21

| Total auctions held during the year | Tenor | Bids received | | Bids accepted | | Interest rate of the accepted bids (%) [®] |
|-------------------------------------|--------------|----------------|--------------------------|----------------|--------------------------|---|
| | | Number of bids | Face value (billion BDT) | Number of bids | Face value (billion BDT) | |
| 1 | 1-Day/2-Day | 1 | 6.20 | - | - | - |
| | 3-Day/7-Day | - | - | - | - | - |
| | Total | 1 | 6.20 | - | - | - |

® The current rate of reverse repo was 4.00 percent effective from 30 July 2020 which was previously 4.75 percent effective from 14 January 2016.

Source: Monetary Policy Department, Bangladesh Bank.

Table 8.04 Auctions of Government Treasury Bills, FY21

| Tenor of bills | Bids offered | | Bids accepted | | Outstanding bills as of end June 2021 (billion BDT) | Weighted average yield (WAR) range (%) | |
|-------------------|--------------|--------------------------|---------------|--------------------------|---|--|------------------|
| | Number | Face value (billion BDT) | Number | Face value (billion BDT) | | FY20 | FY21 |
| 14-Day | - | - | - | - | 0.00 | 4.92-7.52 | - |
| 91-Day | 1803 | 1691.37 | 441 | 538.85 | 112.50 | 5.51-7.92 | 0.35-5.40 |
| 182-Day | 1188 | 907.06 | 309 | 273.00 | 121.00 | 6.66-8.56 | 0.58-6.15 |
| 364-Day | 1268 | 914.08 | 368 | 287.50 | 287.50 | 7.19-8.70 | 1.03-6.44 |
| Devolvement on BB | - | - | - | 25.65 | - | - | - |
| Total | 4259 | 3512.51 | 1118 | 1125.00 | 521.00 | 4.92-8.70 | 0.35-6.44 |

Source: Monetary Policy Department, Bangladesh Bank.

Reverse Repo Auctions Held in FY21

8.06 In line with the broad objective of monetary policy, BB sometimes uses reverse repo auction to mop up liquidity from the banks to keep the reserve money and money multiplier on track and for influencing interest rate in the money market. In FY21, the interest rate of reverse repo (policy rate) was 4.00 percent signalling the market to maintain reasonable interest rate on bank deposits for protecting the marginal savers. Only one reverse repo auction was held during FY21 where only one bid for BDT 6.20 billion was received but not accepted (Table 8.03).

Auction of Bangladesh Bank Bill

8.07 To conduct effective monetary management and sterilise liquidity of the banking system, operations of the 7-day and 14-day Bangladesh Bank Bills were introduced in April 2016 alongside the earlier introduced 30-day Bangladesh Bank Bill. BB meticulously uses Bangladesh Bank Bill considering overall liquidity situation of the economy. However, no auction of BB Bill was held in FY21.

Government Securities

Auction of Government Treasury Bills

8.08 Treasury bills (T-bills) and bonds are short-term and long-term debt instruments issued by BB on behalf of the government of Bangladesh.

These are the indirect monetary instruments that BB uses mainly for debt management purposes. The securities are issued through an auction process where allotments are awarded to the bids which fill the notified issue amount ranging from the lowest to highest yield. Pro-rata partial allotments are made for bids at the cut-off-yield. The objectives of issuing these securities are two-fold. The first is to provide a mechanism for financing the government's budget deficit and the second is to manage excess liquidity prevailing in the money market.

8.09 In FY21, a total of 21 primary dealers (PDs) banks acted as underwriters and market makers with their commitments to bid in auctions, though as per norms, auction committee constituted for the bills and bonds may devolve any unsubscribed amount to BB/PD and non PD banks considering the auction rate, market timing, macroeconomic and liquidity situation of banks.

8.10 Weekly auctions of 91-day, 182-day and 364-day treasury bills were continued to use as the main instruments for debt management of the government in FY21. The results of treasury bills auctions in FY21 are summarised at Table-8.04. The range of annual weighted average yields of most of the treasury bills decreased in FY21 as compared to FY20, reflecting somewhat liquidity surplus in the market.

Table 8.05 Auctions of Bangladesh Government Treasury Bonds, FY21

| Tenor of bills | Bids offered | | Bids accepted | | Outstanding bills as of end June 2021 (billion BDT) | Weighted average yield (WAR) range (%) |
|-------------------|--------------|--------------------------|---------------|--------------------------|---|--|
| | Number | Face value (billion BDT) | Number | Face value (billion BDT) | | |
| 2-Year | 1139 | 831.36 | 256 | 218.92 | 440.00 | 2.4391-6.3855 |
| Devolvement on BB | | | | 9.08 | | |
| 3-Year FRTB | - | - | | | 5.00 | - |
| Devolvement on BB | | | | | | |
| 5-Year | 1026 | 660.58 | 337 | 215.00 | 566.50 | 3.8430-6.9297 |
| Devolvement on BB | | | | | | |
| 10-Year | 1201 | 702.00 | 414 | 185.00 | 865.65 | 5.3773-7.8717 |
| Devolvement on BB | | | | 10.00 | | |
| 15-Year | 479 | 257.71 | 138 | 59.27 | 416.16 | 5.6468-7.9584 |
| Devolvement on BB | | | | 6.73 | | |
| 20-Year | 606 | 318.08 | 133 | 51.52 | 385.87 | 6.0600-8.1324 |
| Devolvement on BB | | | | 7.98 | | |

* Range of the weighted average annual yield of the accepted bids.
Source: Monetary Policy Department, Bangladesh Bank.

8.11 A total of 4259 bids amounting to BDT 3512.51 billion were received, of which 1118 bids amounting to BDT 1125.00 billion (including BDT 25.65 billion devolvement on BB) were accepted in FY21. The weighted average yield-to-maturity against the accepted bids was ranged from 0.35 percent to 6.44 percent. In FY20, a total of 6316 bids amounting to BDT 2918.98 billion were received, of which BDT 1503.00 billion (including devolved amount of BDT 302.24 billion to BB) were accepted.

Auction of Bangladesh Government Treasury Bonds (BGTBs)

8.12 Considering liquidity and macroeconomic situation, treasury bonds bearing half yearly coupon rates with tenors of 2-year, 5-year, 10-year, 15-year and 20-year are auctioned in every month as per predetermined time schedule. Banks are eligible to use BGTBs for SLR purposes in the form of held to maturity (HTM). HTM securities are amortised in order to converge at face value and held for trade (HFT) securities are traded following mark to market norms. Both T-bills and bonds are eligible for trading in the secondary market using the MI module of BB.

8.13 A total of 4451 bids for BGTBs worth BDT 2769.73 billion were received and 1278 bids for BDT 763.50 billion were accepted, of which BDT 33.79 billion was devolved on BB. The outstanding amount of bonds was increased by BDT 511.00 billion or 23.57 percent to BDT 2679.18 billion at the end of June 2021 from BDT 2168.18 billion at the end of June 2020. The weighted average annual yield-to-maturity for the treasury bonds ranged from 2.4391 percent to 8.1324 percent in FY21. The auction summary of BGTBs during FY21 is given in Table 8.05.

Auction of Floating Rate Treasury Bond (FRTB)

8.14 Allowing the variability of interest rate and diversity of market, a 3-Year Floating Rate Treasury Bond (FRTB) was introduced for the first time on 25 March 2019 for establishing a robust bond pricing mechanism and allowing secondary bond market development in Bangladesh. Both individuals and institutional investors are eligible to purchase and hold the FRTBs. According to the modes of operations, resident and non-resident investors can purchase the FRTB using particular bank accounts. The non-resident can transfer

interest (coupon) and resale or redemption proceeds abroad in foreign currency. However, no auction of the FRTB was held in FY21 and outstanding balance of the previously issued bond stood at BDT 5.0 billion at the end of June 2021.

8.15 91-Days Bangladesh Compounded Rate (BCR) is primarily used to set the rate of floating rate instruments of the government. It is a daily rate based on the cut-off yield of 91-Day Treasury Bills auction announced by BB on its website. The 91-Day BCR is a compound rate calculated by averaging the interest rate of the previous 91-Day Treasury Bills. Capturing the volatility, the interest rate on the FRTB is determined for calculating the BCR and adding a spread (mark-up) set by the lenders. At the end of June 2021, 91-Day BCR was 0.69 percent.

Government Islamic Securities

Bangladesh Government Islamic Investment Bond (Islamic Bond)

8.16 The government provides guarantee against the Bangladesh Government Islamic Investment Bond (BGIIB) pool of funds formed by the Islamic banks and individuals in order to develop money market for the Islamic banking sector. The return of the bonds depends on investment in line with the Islamic *Shariah*-based savings rate and other related factors reflected in the balance sheet of the respective Islamic banks which borrowed money from this fund. The operation of 6-month BGIIB was introduced in FY04. Later on 3-month BGIIB was introduced in January, 2015. The auctions of 1-year and 2-year Islamic bonds have been suspended since January 2015. Later on 3-month BGIIB was introduced in January 2015.

Table 8.06 Bangladesh Government Islamic Investment Bond

| Particulars | (Billion BDT) | | |
|-------------|---------------|--------|--------|
| | FY 19 | FY 20 | FY 21 |
| Sale | 107.11 | 131.88 | 170.21 |
| Financing | 84.80 | 67.82 | 12.74 |
| Net balance | 22.31 | 64.06 | 157.47 |

Source: Motijheel office, Bangladesh Bank.

Currently, 3-month and 6-month maturity BGIIBs are operated in accordance with the rules of Islamic *Shariah*. As per rules, Bangladeshi institutions, individuals and non-resident Bangladeshis who agree to share profit or loss in accordance with Islamic *Shariah* may buy these bonds.

8.17 As of end June 2021, the total sale of BGIIB amounted to BDT 170.21 billion, while total amount of financing stood at BDT 12.74 billion, and its net balance stood at BDT 157.47 billion. As of end June 2020, the total sale, financing and net balance were BDT 131.88 billion, BDT 67.82 billion, and BDT 64.06 billion respectively. The overall transaction of BGIIB is summarised in Table 8.06.

Bangladesh Government Investment Sukuk (BGIS)

8.18 Government has introduced the Bangladesh Government Investment *Sukuk* (BGIS) bond for the first time on 8 October 2020 with a tenor of 5 year. A total amount of BDT 80.0 billion has already been issued for raising funds to develop an infrastructure project named 'Safe Water Supply for the Whole Country'. There are usually three parties involved in an Islamic *Sukuk* termed as originator, special purpose vehicle (SPV) and investors. The Finance Division, Ministry of Finance is the originator and BB acts as the SPV of the BGIS. Rent (profit) to be paid on semi-annual basis, and investors will receive profit at 4.69 percent on their total investment in the already issued *Sukuk* bond which is fixed

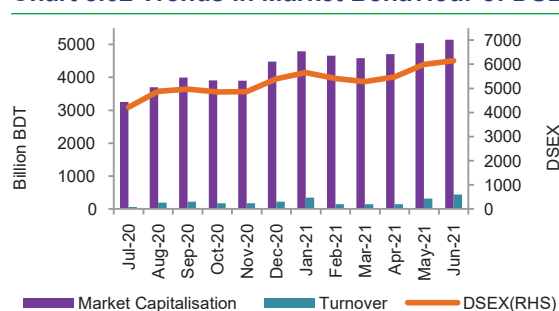
by BB based on the rate of 6 month BGIIB. According to the existing rules, the *Shariah*-based Islamic banks, NBFIs and insurance companies are eligible to receive 70 percent of the *Sukuk* certificate, while the conventional banks and other NBFIs are entitled to receive 15 percent of the bond. Besides, 10 percent of BGIS is sanctioned for Islamic branches and windows of conventional banks, whereas the remaining 5 percent is for individual investors. The *Sukuk* certificates held by banks and NBFIs on their own account also qualify as approved securities for the SLR purpose.

8.19 The first auction for issuing BDT 40.0 billion *Ijarah Sukuk* held on 28 December 2020 received oversubscribed response amounting BDT 151.53 billion while the second auction for issuing BDT 40.0 billion held on 09 June 2021 received oversubscribed response amounting BDT 327.26 billion. The highly oversubscribed responses reflect the participant's interest in *Sukuk* bonds indicating a bright prospect of this bond which can properly be used in the coming days especially for the implementation of the infrastructure projects of the government.

NRB Savings Bond

8.20 Government has introduced 3 types of NRB savings bonds, namely Wage Earner Development Bond (WEDB), US Dollar Investment Bond (DIB) and US Dollar Premium Bond (DPB) with a view to encouraging the wage earners and non-resident Bangladeshi (NRB) people to boost up investment and increasing the remittance inflow. Target groups for WEDB (maturity 5 years, available in the denomination of BDT and interest rate 12 percent in BDT) are general Bangladeshi wage earners or Bangladeshi nationals who gainfully employed abroad.

Chart 8.02 Trends in Market Behaviour of DSE



Source: Dhaka Stock Exchange.

8.21 On the contrary, target groups for DIB (maturity 3 years, available in the denomination of USD and interest rate 6.5 percent in USD) and DPB (maturity 3 years, available in the denomination of USD and interest rate 7.5 percent in BDT) are non-resident Bangladeshi people holding a non-resident account (F.C Account). By selling NRB savings bonds, the government raises funds to cover the budget deficit and encourages wage earners and non-resident Bangladeshi people to invest their hard-earned remittances in productive sectors. Remittance inflow invested in NRB savings bonds increased by 0.91 percent in FY21.

II. Capital Market

Capital Market Activities in FY21

8.22 The Capital market is regarded as the second largest segment of the financial system in Bangladesh economy. It plays a notable role in the financial market by supplying funds for long-term investment plans and development projects that contribute to accelerate the economic growth. The market is comprised of the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE) and their ancillaries, where the DSE is pioneering in the exploration of economic advancement throughout the country. The instruments in these exchanges are equity securities (shares),

debentures and corporate bonds. The regulatory body of the capital market is the Bangladesh Securities and Exchange Commission (BSEC). BB as the regulator of the banking sector has also been playing a supporting role to smooth functioning and steady development of the market as well. In the capital market, DSE initiated the issuance of new 'Trading Right Entitlement Certificate' to eligible institutions to conduct securities transactions, pursuant to provisions of relevant laws, schemes, rules and regulations.

8.23 Chart 8.02 shows an increasing trend of Dhaka Stock Exchange (DSE) broad index and the market capitalisation of the DSE during July-September in FY21. However, the index decreased in October but mounted sharply from November to January. Whereas, the market capitalisation fell out little during October-November, but enhanced sharply from December to January. After the first half of FY21, the DSE index and the market capitalisation stood at 5402.07 and BDT 4482.3 billion respectively. During February-March, both the index and market capitalisation experienced a declining trend. Afterwards, the index and market capitalisation experienced a steady upward trend during April-June. At the end of FY21, the index and the market capitalisation reached to 6150.48 and BDT 5142.82 billion respectively following the upward drifting (Chart 8.02).

Primary Issuance

8.24 Fifteen companies have collected new equity of BDT 9.3 billion from the capital market through public placements in FY21, which was much less amounting to BDT 3.0 billion collected by 5 companies in FY20. No new equity was issued through private placements both in FY21 and FY20. The volume of public offerings was oversubscribed, more than 10 times

Table 8.07 Activities of Dhaka Stock Exchange (DSE)

| | End June | | |
|--|----------|---------|---------|
| | FY19 | FY20 | FY21 |
| No. of listed securities* | 584 | 589 | 609 |
| Issued equity and debt* (billion BDT) | 1268.6 | 1299.8 | 1397.3 |
| Equity through private placement and IPOs (billion BDT) | 4.2 | 3.0 | 9.3 |
| Market capitalisation (billion BDT) | 3998.2 | 3119.7 | 5142.8 |
| Turnover in value (billion BDT) | 1459.7 | 780.4 | 2547.0 |
| Turnover in volume (no. in billion) | 36.9 | 26.0 | 83.6 |
| DSE Broad Index (DSEX)® | 5421.62 | 3989.09 | 6150.48 |

* Including mutual funds and debentures.

® DSE introduced the benchmark DSE Broad Index (DSEX) as per 'DSE Bangladesh Index Methodology' designed and developed by S and P Dow Jones Indices with effect from January 28, 2013.

Source: Dhaka Stock Exchange.

Table 8.08 Activities of Chittagong Stock Exchange (CSE)

| Particulars | End June | | |
|--|----------|----------|---------|
| | FY19 | FY20 | FY21 |
| No. of listed securities* | 326 | 331 | 348 |
| Issued equity and debt* (billion BDT) | 712.9 | 735.9 | 833.7 |
| Market capitalisation (billion BDT) | 3293.3 | 2447.6 | 4383.7 |
| Turnover in value (billion BDT) | 84.8 | 53.1 | 116.9 |
| Turnover in volume (no. in billion) | 2.5 | 1.7 | 4.1 |
| All-share Price Index (CASPI) | 16634.21 | 11332.59 | 17795.0 |

* Including mutual funds and debentures.

Source: Chittagong Stock Exchange.

in FY21, indicating a shortage of new securities in the primary market. Bonus shares worth BDT 30.1 billion were declared by 105 listed companies against retained profits in FY21. This was much higher than BDT 18.3 billion issued by 95 companies in FY20. On the other hand, right shares amounting to BDT 0.5 billion were issued by two companies in FY21, which was BDT 2.1 billion issued by two companies in FY20. One company with issued capital of BDT 8.3 billion was delisted in FY21, but no company was delisted in FY20.

Secondary Market Activities

8.25 As percentage of market capitalisation, the secondary market was dominated by the manufacturing sector with 42.07 percent share followed by the services and miscellaneous sector (32.9 percent), the financial sector (24.3 percent) and bonds (0.1 percent) at the end of FY21. In DSE, market capitalisation increased by 64.8 percent to BDT 5142.8 billion at the end of FY21 from BDT 3119.7 billion at the end of FY20 (Table 8.07) which was 14.57 percent of GDP (at current market price). In case of CSE, it also increased by 79.1 percent to BDT 4383.7 billion at the end of FY21 which was 12.41 percent of GDP (at current market price). Amount of turnovers in the secondary market at DSE and CSE enormously increased by 226.4 percent and 120.2 percent respectively in FY21 as compared to FY20. DSE broad index (DSEX) enhanced by 54.2 percent to 6150.48 while CSE all-share price index (CASPI) enhanced by 57.1 percent to 17795.0 in FY21 (Table 8.07 and 8.08).

Non-Resident Portfolio Investment

8.26 Gross investment inflow in shares and securities of the companies listed with the stock exchanges by non-residents through Non-Resident Investor's Taka Account (NITA) decreased to BDT 29.2 billion in FY21 from BDT 51.3 billion in FY20. On the other hand, gross outflow as sale proceeds and dividends of shares and securities increased to BDT 86.0 billion in FY21 from BDT 39.8 billion in FY20. From the beginning (April 1992) to June 2021, the gross portfolio investment inflow stood at BDT 487.0 billion against gross outflow of BDT 451.4 billion as sale proceeds and dividends.

Investment Corporation of Bangladesh

8.27 The Investment Corporation of Bangladesh (ICB) was established with the aim of accelerating the pace of industrialisation and developing a well-organised and vibrant capital market, particularly in the securities market, in Bangladesh. ICB is playing a significant role in developing the capital market through portfolio management. ICB's activities in the development programme have been expanded through the formation and operation of three subsidiary companies namely ICB Capital Management Ltd. (ICML), ICB Asset Management Company Ltd. (IAMCL) and ICB Securities Trading Company Ltd. (ISTCL).

8.28 During FY21, the ICML provided underwriting assistance for the issues of shares and debentures amounting to BDT 0.3 billion to 4 companies and performed the responsibilities of issue manager for 6 companies amounting to BDT 7.9 billion. IAMCL has emerged as one of the fast expanding asset management companies, having floated 9 closed-end and 15 open-ended mutual funds as of end June 2021. Besides, the company has floated various regular and special types of mutual funds as well. The net investment in portfolios of the 24 mutual funds of the company stood at BDT 8.2 billion in FY21. The ISTCL emerged as the largest stockbroker with depository participant (DP) services in the country. The total turnover of ISTCL amounted to BDT 208.0 billion in FY21, which was 7.8 percent of total turnover of both DSE and CSE.

8.29 The ICB itself sold unit certificates amounting to BDT 3.1 billion against the repurchase of unit certificates amounting to BDT 0.8 billion in FY21. Total investment against the investors' accounts stood at BDT 12.4 billion,

while deposit received stood at BDT 1.1 billion in FY21. The loans approved by the ICB stood at BDT 11.2 billion in investment accounts of investors in FY21. Total commitments for investment made by ICB in FY21 stood at BDT 3.7 billion; of which, investment in equity was BDT 1.2 billion. The total amount of commitments was BDT 5.3 billion in FY20.

Scheduled Banks' Investments in Capital Market Securities

8.30 Holdings of capital market assets (equities, debentures), excluding investment in Government Treasury Bills/Bonds and Bangladesh Government Islamic Investment Bond (BGIIIB) by the scheduled banks stood at BDT 546.1 billion at the end of June 2021 as against BDT 480.7 billion at the end of June 2020. Outstanding advances of the scheduled banks against shares and securities amounted to BDT 67.8 billion at the end of June 2021, which was BDT 51.0 billion at the same period of the previous year.

Measures Supporting Capital Market Development in FY21

8.31 Bangladesh Securities and Exchange Commission (BSEC) has taken several measures to safeguard investors' interest, ensured compliance of securities laws and maintained coordination during FY21. Some of the important measures are given below:

- BSEC has introduced Independent Director's online database portal for the listed companies, and adopted advanced information technology system for easing departmental work as well as preserving data.
- BSEC issued a directive dated 03 May 2021 regarding extension of time for submission of

financial statements/ application/ other documents due to government declared lock down under the COVID-19 pandemic situation.

- To create awareness among investors regarding financial literacy and investment in capital market, 'World Investor Week-2020' has been observed from 5 October 2020 to 11 October 2020 following the declaration of IOSCO.
- BSEC accomplished preliminary inquiries by management executives and some shareholder directors on potential money laundering of six listed companies as of 31 December 2020.
- To attract foreign and NRB investors, Bangladesh Capital Market Road Show was organized as well as digital booth and online BO account opening system were introduced in Dubai from 9 to 12 February 2021.
- BSEC had taken initiative regarding appointment of listed companies' Independent Directors, restructuring of Nomination and Remuneration Committee (NRC) and Audit Committee of Corporate Bond and enforcement of Corporate Governance Code for the listed companies.
- A views exchange meeting regarding capital market was held between BSEC and the representatives of BB on 15 March 2021.
- For smooth performing of the market BSEC issued some set of rules in FY21, which were: 'BSEC (Trading Right Entitlement Certificate) Rules, 2020', 'Securities and Exchange Rules, 2020', 'BSEC (Debt

Securities) Rules, 2021', and 'BSEC (Capital Market Stabilisation Fund) Rules, 2021'

III. Credit Market

Scheduled Banks' Advances by Economic Purposes

8.32 The advances of scheduled banks by economic purposes showed an upward trend in FY21 (Table 8.09). Total amount of advances stood at BDT 11371.0 billion at the end of June 2021 which was 8.4 percent higher than the amount of BDT 10486.9 billion at the end of June 2020. In recent years, major changes have been observed in the trends of total bank advances classified by economic purpose. Of the total advances, major growth increments were identified in agriculture, fishing and forestry sector (10.9 percent), industrial sector (9.8 percent), trade and commerce (8.8 percent) and working capital financing (6.3 percent) in FY21 compared to that of FY20. The most notable aspect of the situation is that others sector had a leading growth by 14.8 percent in FY21. On the other hand, the construction sector showed low improvement by 2.5 percent only, whereas, the transport sector depicted a negative increment of 2.7 percent in FY21.

8.33 Sector-wise contributions of total advances show that the trade and commerce sector played the leading role (33.8 percent) followed by working capital financing (20.9 percent), advances for industry (20.8 percent), others sector (10.1 percent), construction (8.4 percent), agriculture, fishing and forestry (4.7 percent) and transport (1.2 percent) in FY21. Sector-wise contributions to total advances are depicted in Chart 8.03.

Table 8.09 Advances of Scheduled Banks by Economic Purposes (Billion BDT)

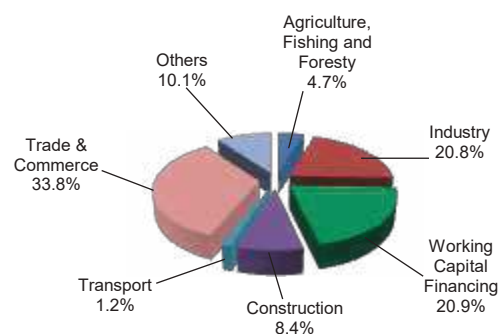
| Sector | End June | | |
|-----------------------------------|----------|-------------------|----------|
| | FY20 | FY21 ^P | % change |
| Agriculture, Fishing and Forestry | 483.4 | 536.2 | 10.9 |
| Industry | 2157.8 | 2369.8 | 9.8 |
| Working Capital Financing* | 2233.4 | 2373.4 | 6.3 |
| Construction | 936.2 | 959.8 | 2.5 |
| Transport | 141.0 | 137.2 | -2.7 |
| Trade and Commerce | 3536.0 | 3847.9 | 8.8 |
| Others | 999.2 | 1146.8 | 14.8 |
| Grand Total | 10486.9 | 11371.0 | 8.4 |

* Excluding export and import financing.

^P Provisional.

Source: Statistics Department, Bangladesh Bank.

Chart 8.03 Sector-wise Shares of Total Advances in FY21



Source: Statistics Department, Bangladesh Bank.

Industrial Term Loans of Banks and Financial Institutions

8.34 Disbursement of industrial term loans by banks and financial institutions decreased by 7.4 percent to BDT 687.7 billion in FY21 compared to FY20 due mainly to the pandemic situation. The recoveries also decreased by 16.1 percent to BDT 584.9 billion in FY21. However, the outstanding balance of the industrial term loans showed a positive growth of 13.7 percent and stood at BDT 3152.9 billion as of end June 2021 compared to end June 2020 due mainly decline of recovery and for increasing overdue loans owing from the COVID-19 pandemic. The overdue loans increased by 30.3 percent in FY21

Table 8.10 Industrial Term Loans of Banks and Financial Institutions

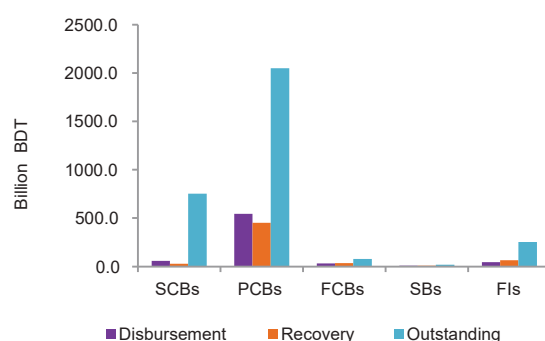
| Lender | (Billion BDT) | | | | | | | | | |
|-----------------------------------|---------------|--------------|--------------|--------------|---------------|---------------|--------------|--------------|-----------------------------|-------------|
| | Disbursement | | Recovery | | Outstanding | | Overdue | | Overdue as % of outstanding | |
| | FY20 | FY21 | FY20 | FY21 | FY20 | FY21 | FY20 | FY21 | FY20 | FY21 |
| SCBs | 75.2 | 57.2 | 57.0 | 27.4 | 559.4 | 752.5 | 165.3 | 263.3 | 29.5 | 35.0 |
| PCBs | 579.6 | 545.5 | 554.7 | 450.7 | 1812.3 | 2050.0 | 204.3 | 234.1 | 11.3 | 11.4 |
| Foreign banks | 41.9 | 32.0 | 21.3 | 33.7 | 84.2 | 78.8 | 2.7 | 2.3 | 3.2 | 3.0 |
| Specialised banks (BKB, RAKUB) | 2.6 | 8.1 | 2.2 | 9.9 | 18.1 | 17.5 | 5.8 | 7.7 | 32.3 | 44.2 |
| Financial institutions | 43.3 | 44.9 | 62.0 | 63.2 | 299.5 | 254.1 | 50.6 | 50.9 | 16.9 | 20.0 |
| Total | 742.6 | 687.7 | 697.2 | 584.9 | 2773.5 | 3152.9 | 428.7 | 558.4 | 15.5 | 17.7 |

Source: SME and Special Programmes Department, Bangladesh Bank.

and overdue as percentage of outstanding also enhanced to 17.7 as of end June 2021 (Table 8.10).

8.35 Private commercial banks (PCBs) had the major shares (65.0 percent) in the total outstanding loans of BDT 3152.9 billion as of end June 2021, making them leading players in industrial term lending (Table 8.10 and Chart 8.04). Though six SCBs and two specialised banks (BKB and RAKUB) together had 24.4 percent shares of outstanding loans, with very high levels of overdue loans, their actual role in current lending was quite minor, as they disbursed only BDT 65.3 billion (9.5 percent) out of total disbursed loans of BDT 687.7 billion in FY21. In terms of disbursement, PCBs had the major amount (BDT 545.5 billion) in FY21, followed by SCBs (BDT 57.2 billion), financial institutions (BDT 44.9 billion), foreign banks (BDT 32.0 billion) and specialised banks (BDT 8.1 billion).

8.36 Foreign banks had comparatively very less overdue loans (3.0 percent of outstanding) as of end June 2021. Overdue loans were also lower in private commercial banks (11.4 percent) and financial institutions (20.0 percent) than that of the SCBs (35.0 percent) and SBs (44.2 percent) as of end June 2021. However, since the two specialised banks—BKB and RAKUB are basically working

Chart 8.04 Industrial Term Loans of Banks and Financial Institutions in FY21

Source: SME and Special Programmes Department, Bangladesh Bank.

as agriculture sector lenders, their role in industrial term lending is very insignificant.

Investment Promotion and Financing Facility II (IPFF II) Project

8.37 On behalf of Finance Division of Ministry of Finance, BB is implementing Investment Promotion and Financial Facility II (IPFF II) Project (July, 2017-June, 2022), co-financed by the government of Bangladesh and the World Bank, with a view to promoting private sector-led long-term infrastructure financing and building capacities of participating banks, NBFIs and other stakeholders of infrastructure sector. Under on-lending component of IPFF II project, long-term infrastructure financing facility is being extended against infrastructure projects in

eligible sectors like power generation, port development, water supply and sewerage, economic zones, information, industrial and solid waste management, communication technology and health and education.

8.38 So far, 13 private commercial banks and 6 NBFIs have been enlisted as Participating Financial Institutions (PFIs). During FY21, BDT 4.09 billion (equivalent to USD 48.2 million) was disbursed under the project's on-lending component for financing two sub-projects namely Karnafuly Dry Dock Limited (KDDL) and Summit Communications limited. In FY20, BDT 3.76 billion (equivalent to USD 44.39 million) was disbursed against financing two sub-projects namely Bangladesh Technosity Limited and Meghna Industrial Economic Zone Limited. On the other hand, technical assistance (TA) component is being utilised to enhance and build capacity of the stakeholders. As a part of this, around 214 officials of different ministries, agencies and organisations have been trained under IPFF II project up to 30 June 2021.

Entrepreneurship Support Fund (ESF)

8.39 Equity and Entrepreneurship Fund (EEF) was formed by the government with budgetary allocation of BDT 1.0 billion in FY01 to encourage investments in risky but innovative agro-based/food processing and ICT industries, assigning management responsibilities to BB as government's agent. Later in 2018, the honourable Finance Minister approved a loan based policy with heading 'Entrepreneurship Support Fund (ESF)' instead of equity model. The current revised policy is conducive to secure government money and at the same time potential entrepreneurs may get the loan at 2 percent simple interest rate with a

grace period of 4 years. Expression of Interest (EOI) for the fund has been receiving since 12 August 2018 under the revised policy. The number of EOI received upto 30 June 2021 against food processing and agro-based and ICT sectors were 4203 and 19 respectively, of which 53 food processing and agro-based EOI got loan sanction of BDT 1.1 billion.

8.40 As per the sub-agency agreement signed between BB and ICB on 1 June 2009 regarding the transfer of operational activities of EEF and another sub-agency agreement related to ESF signed on 20 May, 2019 between BB and ICB, ICB is now conducting operational activities of EEF/ESF while the respective unit of the Bangladesh Bank is overseeing the activities relating to policy formulation, fund management and performance monitoring.

8.41 Up to 30 June 2021, a total of 2063 projects (including 1923 food processing and agro-based projects worth BDT 34.6 billion and 104 ICT projects worth BDT 2.2 billion) have received financial support from the EEF/ESF. Cumulative disbursement of the fund stood at BDT 14.8 billion in 929 food processing and agro-based projects and BDT 1.3 billion in 104 ICT projects as of end June 2021. So far, a total of 381 agro based companies and 65 ICT companies had bought back shares amounting to BDT 3.5 billion and BDT 0.4 billion respectively. So far, employment opportunity has been created for 55,500 people by this fund assisted projects. Rural infrastructures have also been developed as a result of implementation of the agro-based projects that received financial support from this fund. World class software developed by the fund assisted ICT projects are being used in domestic market and these are also being exported.

Housing Finance

8.42 Total outstanding of housing loans of banks and financial institutions as of end June 2021 amounted to BDT 971.8 billion (Table 8.11), which was 8.2 percent of total credit to the private sector. In recent years, major changes have taken place in total housing loan portfolios. Private banks with ample deposit resources have expanded their housing loan activities. These banks had the dominant position (Table 8.11) with the largest amount of BDT 529.8 billion outstanding housing loans as of end June 2021. The SCBs had the second highest amount of BDT 237.8 billion and other banks had BDT 44.2 billion outstanding of housing loans as of end June 2021. Besides, two private sector specialised housing finance companies also provide a significant amount of loans. They supply funds for their operations by taking long-term deposits including some contractual deposit schemes.

8.43 The state-owned Bangladesh House Building Finance Corporation (BHBFC) had an amount of BDT 37.0 billion outstanding housing loans as of end June 2021. The sources of the Corporation's fund are paid-up capital provided by the government and the proceeds as received by selling government guaranteed interest bearing debentures to different organisations. The second mode of funding has been unavailable in recent years. In the past, the BHBFC funded its housing loans by issuing low interest debentures bought by the SCBs and Bangladesh Bank. The BHBFC has been constrained to rely on recoveries of past loans for new lending after defraying operating and debt servicing costs. Consequently, its new lending amount has declined. In FY20 and FY21, BDT 4.2 billion and BDT 5.1 billion were disbursed out of recoveries of

Table 8.11 Outstanding Housing Loans

| Lenders | (Billion BDT) | | |
|--|----------------------------|--------------|-------------------|
| | Outstanding as of end June | | |
| | FY19 | FY20 | FY21 ^P |
| a. Specialised housing | | | |
| finance providers | 88.6 | 90.8 | 93.6 |
| i. BHBFC | 32.6 | 34.7 | 37.0 |
| ii. Delta-Brac Housing Finance | 43.9 | 43.2 | 43.4 |
| iii. National Housing Finance and Investment limited | 12.1 | 12.9 | 13.2 |
| b. Banks | 735.7 | 772.3 | 811.8 |
| i. PCBs | 489.1 | 489.6 | 529.8 |
| ii. SCBs | 211.2 | 242.1 | 237.8 |
| iii. Other banks (foreign and specialised) | 35.4 | 40.6 | 44.2 |
| c. Other financial institutions | 68.5 | 68.0 | 65.6 |
| d. Micro-credit lenders | | | |
| Grameen Bank | 1.1 | 1.0 | 0.8 |
| Total | 893.9 | 932.1 | 971.8 |

^P Provisional.

Sources: Department of Financial Institutions and Markets, Statistics Department, Bangladesh Bank; Bangladesh House Building Finance Corporation and Grameen Bank.

BDT 4.8 billion and BDT 5.7 billion respectively. To prevent the impact of global COVID-19 outbreak, BHBFC has taken several measures such as, extension of special equity loan, rescheduling of facility, etc.

8.44 *Grihayan Tahobil* created by the government of Bangladesh, provides housing loan to the NGOs at a the minimum rate of 1.5 percent simple interest for disbursing housing credit to the rural poor at 5.5 percent simple interest for a recovery period stretching from 1 to 7 years. Up to June 2021, the *Grihayan Tahobil* has released BDT 4.2 billion among 616 NGOs for rural housing programme covering 404 upazilas of 64 districts of the country and 88493 houses have already been constructed. As of end of June 2021, the *Tahobil* also recovered BDT 2.6 billion against the total recoverable amount of BDT 2.9 billion which indicates 90.2 percent recovery.

8.45 Under *Grihayan Tahobil* schemes of constructing dormitories/women hostels for female industrial workers, a 12 storied women

hostel has been constructed at Ashulia, Savar, Dhaka with the collaboration and supervision of the Department of Women Affairs at the cost of BDT 0.2 billion. Now, this dormitory is ready to provide residential facilities to 744 women workers. In addition, an agreement between *Grihayan Tahobil* and BEPZA has already been signed for the construction of a dormitory for female workers in Mongla EPZ at the cost of BDT 0.3 billion.

8.46 Besides, *Grihayan Tahobil* has initiated for enhancing loan facilities to the member companies of BGMEA to build hostels/dormitories for poor garments workers. Moreover, *Grihayan Tahobil* has sanctioned BDT 0.02 billion in favour of the project *Ghore Fera Karmosuchi* implementing by Bangladesh Krishi Bank and the first instalment of BDT 0.01 billion has already been released. *Grihayan Tahobil* has also sanctioned BDT 0.3 billion for the construction of labor hostels/dormitories by the Department of Labour in the area of Kalur Ghat, Chattogram and Bandar, Narayanganj. Apart from the housing loan activities, *Grihayan Tahobil* disbursed BDT 0.3 billion as a grant to the people who are affected by natural calamities like *Sidr, Aila, Amfans*, River erosion, etc.

IV. Foreign Exchange Market

8.47 Foreign exchange market plays an important role by facilitating international trade and financial transactions. The players in the foreign exchange market of Bangladesh are the BB, authorized dealers, and customers. The BB is empowered by the Foreign Exchange Regulation Act of 1947 to regulate the foreign exchange regime. It, however, does not operate directly and instead, regularly watches activities in the market and intervenes, if

necessary, through commercial banks. From time to time it issues guidelines for market participants in the light of the country's monetary policy stance, foreign exchange reserve position, balance of payments, and overall macro-economic situation. The phenomenal growth of inter-bank transactions occurred in the recent years due mainly to gradual relaxation of exchange control regulations and expansion of the activities of the Bangladesh Foreign Exchange Dealers Association (BAFEDA) formed on 12 August 1993. The inter-bank foreign exchange market is an important segment of the foreign exchange market. It is a wholesale market through which most currency transactions are channeled within the banks. The three main components of the inter-bank market are: the spot market, the forward market and future market.

Exchange Rate

8.48 BB introduced floating exchange rate since 2003. Under this regime, banks are free to set their own rates for inter-bank and customer transactions. BB may purchase and sell US dollar as and when it deems necessary to maintain stability in the foreign exchange market. In FY21, exchange rate of BDT-USD remained broadly stable with some sort of appreciation pressure on BDT due to upsurge in remittance inflows and strong export growth. However, exchange rate stood at BDT 84.81 as of end June 2021 compared to BDT 84.78 as of end June 2020 (Chart 8.05) which indicates that exchange rate marginally depreciated by 0.04 percent in FY21 against 0.47 percent depreciation in FY20.

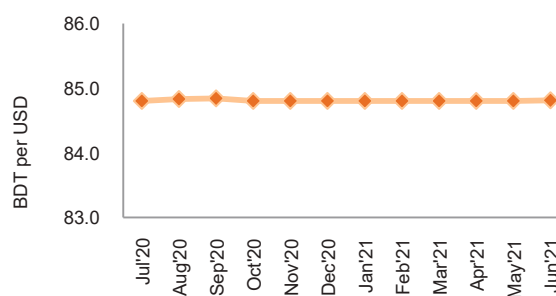
8.49 Bangladesh Bank closely monitors the foreign exchange market to avoid undue

volatility in the exchange rate. To facilitate smooth functioning in the foreign exchange market and for ensuring stability, BB sold USD 0.24 billion and purchased USD 7.94 billion in local inter-bank market in FY21 which helped in avoiding undue appreciation pressure and induced in reaching country's foreign exchange reserves to a new height.

Foreign Exchange Reserves

8.50 Foreign exchange reserves is another significant part for stabilizing foreign exchange market. Foreign exchange reserves are the foreign assets held or controlled by the central banks. BB's gross foreign reserves comprises of major currencies (G-7), gold and Special Drawing Rights (SDR). The reserves are generally used to finance the balance of payments related obligations or to control exchange rates. It is an important indicator for gauging an economy's ability to absorb external shocks. Based on a handsome surplus in overall balance of BoP, foreign exchange reserves rose to a historically high level of USD 46.40 billion in FY21 from USD 36.04 billion in FY20. The current level of foreign exchange reserves is sufficient to cover nearly 7 months of import bills which is now bolstering foreign investors' confidence to the growing Bangladesh economy.

Chart 8.05 BDT-USD Exchange Rates (end month) in FY21



Source: Monetary Policy Department, Bangladesh Bank.