

## CHAPTER 5

### MONETARY MANAGEMENT AND FINANCIAL MARKET DEVELOPMENT

Financial sector is one of the key sectors of the economy and it encompasses monetary policy, monetary management and financial market management. Ensuring effective monetary management and developing an efficient and reliable financial market are the prerequisites for achieving the goals of macroeconomic stability and economic growth.

In order to achieve high and sustained GDP growth as well as to keep control over the expected demand pull inflation, cautious monetary policy was pursued in FY06. As inflation and domestic credit supply did not reduce at the expected level at the end of FY06, the Government opted to continue cautious monetary policy in FY07. In order to limit the growth rate of bank credit, the interest rate of reverse repo was enhanced as an effective instrument of monetary policy. At the same time, since October 2006, 30-day and 90-day Bangladesh Bank bills have been reintroduced, which is considered as a complementary of Statutory Liquidity Ratio (SLR) and an instrument of inter-bank repo. In FY07, the government debt management system has been changed under the supervision of Cash and Debt Management Committee (CDMC). As a result, a significant change has taken place in the operation of government debt management and monetary policy. The auction of treasury bills and bonds is conducted only to maintain government debt management. The monetary policy for FY07 had a positive impact on money supply and domestic credit expansion, which eventually helps to attain economic growth and contain inflation. Besides, the present monetary policy supports increase in net foreign assets and foreign exchange reserves.

#### **Money and Credit Situation**

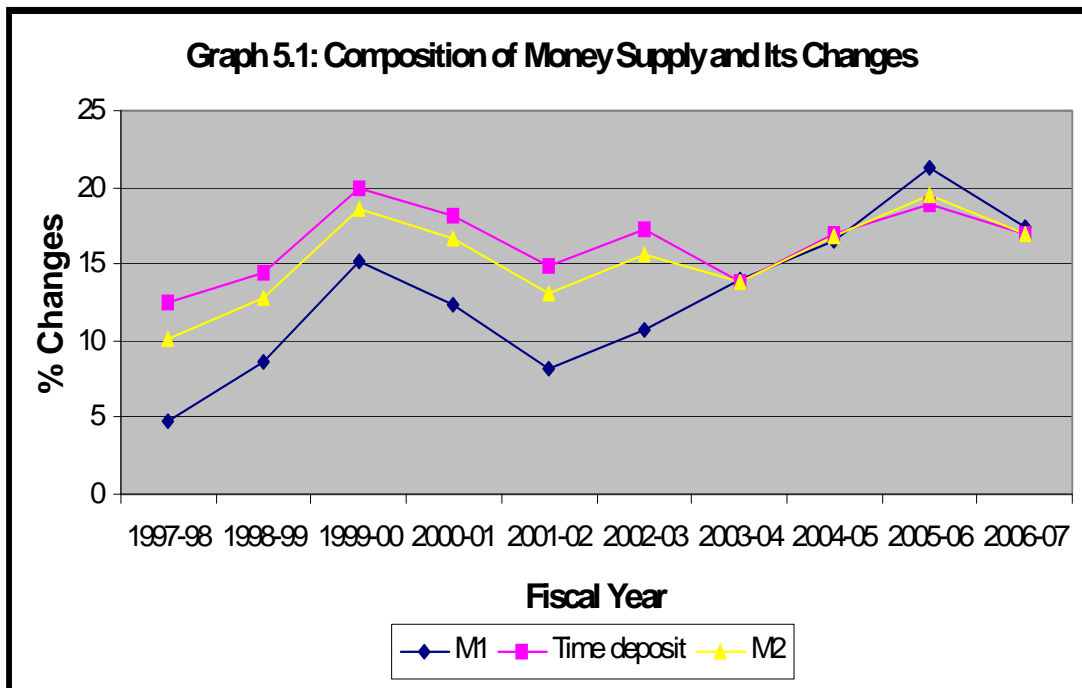
In FY 2006-07 broad money (M2) increased by Tk. 30830 crore (17.02 percent) than that of the previous year. Broad money (M2) increased by Tk. 29568 crore (19.51 percent) in FY06 than that of the previous year. Table 5.1, graph 5.1 and graph 5.2 show the composition of money supply and credit and their movements over time. During FY07, currency in circulation increased by 16.54 percent, while demand deposit and time deposit showed an increase of 18.42 and 16.89 percent respectively. The trend of broad money indicates that credit to the government sector (net), other public sector and private sector increased by 13.96, 15.25 and 15.12 percent respectively. Thus, total domestic credit showed a growth of 14.92 percent in FY2006-07.

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

(Tk. in crore)

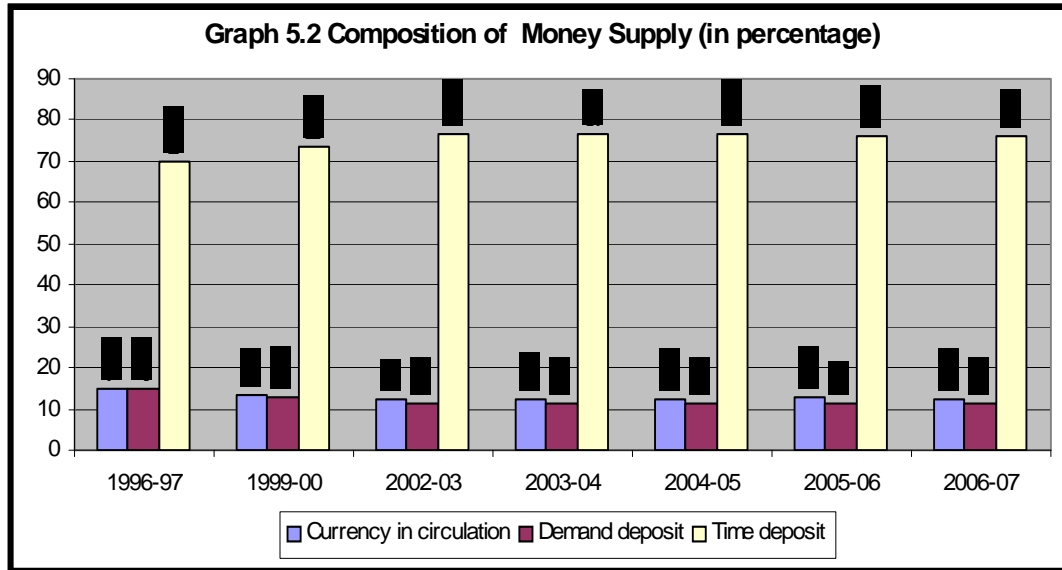
Particulars	June 2005	June 2006	June 2007	Change	
				2006/2007	2005/2006
1	2	3	4	5=4-3	6=3-2
1. Broad Money (M2) (a+b+c)	151588.50	181156.10	211986.20	+ 30830.10 (+17.02)	+ 29567.60 (19.51)
a) Currency notes and coins with the public	18518.10	22862.10	26643.80	+ 3781.70 (16.54)	+ 4344.00 (23.46)
b) Demand deposit	17028.00	20272.10	24006.20	+ 3734.10 (18.42)	+ 3244.10 (19.05)
c) Time deposit	116042.40	138021.90	161336.20	+ 23314.30 (16.89)	+ 21979.50 (18.94)
2. Broad money (M2) (a+b)	151588.50	181156.10	211986.20	+ 30830.10 (17.02)	+ 29567.60 (19.51)
a) Net foreign assets of the banking system	18666.80	22011.30	32888.40	+ 10877.10 (49.42)	+ 3344.50 (17.92)
b) Net domestic assets of the banking system ((1)+(2))	132921.70	159144.80	179097.80	+ 19953.00 (12.54)	+ 26223.10 (19.73)
(1) Total domestic credit of the banking system (i+ii+iii)	147561.00	177743.00	204267.60	+ 26524.60 (14.92)	+ 30182.00 (20.45)
i) Government sector (net)	25582.70	31674.10	36040.00	+ 4415.90 (13.96)	+ 6041.40 (23.62)
ii) Public sector (other)	11239.10	15145.60	17455.50	+ 2309.90 (15.25)	+ 3906.50 (34.76)
iii) Private sector	110739.20	130973.30	150772.10	+ 19798.80 (15.12)	+ 20234.10 (18.27)
(2) Other assets (net)	-14639.30	-18598.20	-25169.80	-6571.60 (-35.33)	-3958.90 (-27.04)

Source: Bangladesh Bank



## Reserve Money<sup>1</sup>

Of late reserve money is being used as an operating target in line with overall money projection, which is a part of accommodative monetary policy and liquidity management.



As a result of changing government debt management system, the role of Bangladesh Bank has changed to conduct monetary policy. Under this new system, BB has introduced 30-day and 90-day Bangladesh Bank Bills since October 2006 to operate its monetary policy. As a result, auction of weekly Bangladesh Bank bills is being used to control the level of reserve money and auction of repo and reverse repo is being used for fine tuning. In FY07, reserve money increased by Tk. 6692 crore (17.67 percent) than that of the previous fiscal year. Reserve money increased by Tk. 8316 crore (28.14 percent) during the same period of the previous year. At the same time, net other asset and Bangladesh bank's claims on deposit money banks (DMBs) decreased by 27.52 and 9.62 percent respectively, but BB's claims on other depository institutions, net government sector and other public sectors increased by 99.77, 3.41 and 2.28 percent respectively, which eventually contributed to increase reserve money growth. Money multiplier of M2 supply reached 4.758 at the end of June 2007 from 4.784 at the end of June 2006. During the same period, M2/deposit ratio decreased to 0.144 from 0.145 and reserve/deposit ratio increased to 0.094 from 0.092. Table 5.2 shows the composition of reserve money and its changes over time.

<sup>1</sup>Comprised of currency issued, balances of deposit money banks (DMBs) and other financial institutions' deposit with the Bangladesh Bank.

**Table 5.2: Reserve Money: Composition and its Changes over Time**

(Tk. in crore)

Particulars	June 2005	June 2006	June 2007	Change	
				2006/2007	2005/2006
1	2	3	4	5=4-3	6=3-2
<b>1. Reserve money (a+b+c)</b>	29547.30	37863.20	44555.00	6691.80	+ 8315.90
				(+17.67)	(28.14)
a) Currency issued	20327.90	24894.10	28787.40	3893.30	+ 4566.20
				(+15.64)	(22.46)
b) Balances of scheduled banks with BB	9041.30	12436.60	15224.00	2787.40	+ 3395.30
				(+22.41)	(37.55)
c) Reserves of other financial institutions with the BB	178.10	532.50	543.60	11.10	+ 354.40
				(+2.08)	(198.99)
<b>2. Sources of change in Reserve Money (a+b)</b>	29547.30	37863.20	44555.00	6691.80	+ 8315.90
				(+17.67)	(28.14)
a) Net foreign assets of BB	15126.70	19140.60	29265.60	10125.00	+ 4013.90
				(+52.90)	(26.54)
b) Net domestic assets of BB (i+ii)	14420.60	18722.60	15289.40	-3433.20	+ 4302.00
				(-18.34)	(29.83)
<b>i. Domestic credit (a+b+c+d)</b>	22959.60	32474.10	32825.90	351.80	+ 9496.60
				(+1.08)	(41.33)
a) Government sector (net)	15674.30	25026.10	25931.10	855.00	+ 9301.80
				(+3.41)	(59.16)
b) Public sector (other)	1087.70	1016.00	988.00	22.00	-39.60
				(+2.28)	(-3.75)
c) BB's claims on DMBs	6132.50	6346.30	5735.60	-610.70	+ 213.80
				(-9.62)	(3.49)
d) BB's claims on other depository institutions	65.10	85.70	171.20	85.50	+ 20.60
				(+99.77)	(31.64)
<b>ii. Other assets (net)</b>	-8539.00	-13751.50	-17536.50	-3785.00	- 5194.60
				(-27.52)	(-60.71)

Source: Bangladesh Bank

**Rationalising the Interest Rate**

The government is encouraging banks and non-bank financial institutions to disburse more credit to the productive sectors of the economy for attaining accelerated economic growth and poverty reduction by rationalising interest rates on loans. Currently, banks are free to determine interests on deposits and advances independently except for the advances on export sector.

Tables 5.3 and 5.4 depict the comparative changes in the interest rates of various loans and advances and deposits of 4 nationalised commercial banks (NCBs) and 5 specialised banks respectively for June 2007 against those of June 2002.

**Table 5.3: Interest Rates on Various Loans, Advances and Deposits – NCBs**

(In percent)

Types of Deposits/loans	Sonali Bank		Janata Bank		Agrani Bank		Rupali Bank	
	2002	2007	2002	2007	2002	2007	2002	2007
<b>Interest rates on deposit</b>								
Savings deposit	6.0	5.0-6.5	6.0	5.0-6.0	6.0	4.0	6.0	4.5
<b>Fixed deposits</b>								
3 months or above but less than 6 months	7.50	7.5	7.5	7.0	7.5	7.0-7.5	7.5	6.5
1 year and above but less than 2 years	8.25	8.25	8.25	7.75	8.25	8-8.5	8.25	7.25
<b>Interest rates on loans</b>								
Agriculture	12.0-16.0	2.0 - 12.5	12.0 - 14.0	2.0 - 10.0	12.0	8.0	12.0-14.0	9.0-9.5
Large and medium industries	9.0-13.0	12.5	10.0-12.0	11.0 - 12.5	10.0-12.0	13.0	10.0-12.0	12.5
Working capital	14.0	13.0	14.0	12.0 - 13.5	14.0	14.0	14.0	12.5
Export	7.0-9.0	7.0	7.0-9.0	7.0	7.0-9.0	7.0	7.0-9.0	7.0
Other commercial loans	9.0-15.5	14.0	15.0	14.0	15.0	14.5	15.0-16.0	13.5
Small industries	11.5-12.0	12.0-12.5	11.5	10.0-12.0	11.5-12.0	12.0	11.0-12.0	10.5-11.5
Others	11.0 - 15.5	13.0-17.0	11.0 - 15.5	5.0-17.0	11.0 - 16.0	14.0	11.0 - 15.5	10.0 - 13.5

Source: Bangladesh Bank. June 2002 and June 2007.

**Table 5.4: Interest Rates on Different Loans, Advances and Deposits - Specialised Banks**

(In percent)

Particulars	BKB		BSB		RAKUB		BSRS		BASIC	
	2002	2007	2002	2007	2002	2007	2002	2007	2002	2007
<b>Interest rates on deposits</b>										
Savings deposit	6.5	5.0	6.0	4.0	6.5	4.0	6.25	5.0	7.0	6.0
<b>Fixed deposits</b>										
3 months & above but less than 6 months	7.75	7.0	7.5	5.75	7.75	6.0	7.5	7.25	7.5	7.0
1 year and above but less than 2 years	8.25	7.75	8.25	6.5	8.25	6.5	8.25	8.0-8.25	8.25	7.75
<b>Interest rates on loans</b>										
Agriculture	12.0-14.0	8.0-9.0	-	10.0	12.0-13.0	8.0	-	-	12.0	10.0
Large and medium industries	10.0-13.0	11.5	10.0-12.0	10.0-12.0	12.5	12.0	10.0-12.0	10.0-12.5	13.0	11.5-13.5
Working capital	11.25-15.0	12.0	14.0	10.0-12.0	14.5	12.0-13.0	14.0	12.0	12.0-14.0	11.5-14.5
Export	7.0	7.0	7.0	7.0	7.0-9.0	7.0	7.0-9.0	7.0	7.0-10.0	7.0
Other commercial loans	10.0-15.0	12.0	15.0	13.5	15.0	14.0	15.0-16.0	12.0	15.0	14.5-15.0
Small industries	12-13.5	10.0-11.5	10.0	10.0-11.0	10-12.5	12.0	10.0	11.0	11.5-12.0	11.5-12.5
Others	5.0-17.0	11-12	13.5-16.0	10.0-14.5	10.0-15	11.0-12.0	13.5-15.5	11.0	12.25-15.0	15.0

Source: Bangladesh Bank, BKB. June 2002 and June 2007.

## **Floating Exchange Rate**

Bangladesh has adopted floating exchange rate regime since 31 May 2003. Under this arrangement, the government does not interfere in the determination of exchange rate, but operates the monetary policy prudently for minimising extreme swings in exchange rate to avoid the adverse repercussion on the domestic economy. Detailed information regarding reserve situation and exchange rate has been presented in the Chapter 6 of this Review.

## **Financial Market Management**

Financial market of an economy comprises the banking sector, other financial institutions and capital market. At present, 4 NCBs, 5 nationalised specialised banks, 30 private commercial banks, 9 foreign commercial banks and 29 non-bank financial institutions, Investment Corporation of Bangladesh (ICB), Bangladesh House Building Finance Corporation (BHBFC), Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) are working in the financial market of Bangladesh.

Banks and other financial institutions (OFIs) have been playing a key role in activating the financial sector that in turn infuses dynamism to the economy. Banks are engaged in upgrading the socio-economic status of the country by investing money to productive sectors. However, in the context of globalisation, importance has been given to the development of the financial market through banking sector. In order to uphold the rule of banking sector in financial market development, the government has taken a range of measures, which include further deployment of bank branches and evaluation of their performance, classification of loans following the international standards assessment of capital adequacy, determination of quality of assets and earning of impressive profit.

## **Banking Sector**

The banking sector of Bangladesh comprises four categories of scheduled banks (NCBs, SBs, local PCBs and FCBs). In addition, one national Co-operative Bank, one Ansar-VDP Bank, one Karmasangsthan Bank and one Grameen Bank and some non-scheduled banks are also in operation. Up to June 2007, 3383 branches of NCBs were operating in rural areas. In order to enhance the overall efficiency of NCBs, decisions have been taken to rationalise bank branches, and up to June 2007, 171 new branches were established and 6 existing branches were closed under the 'branch rationalisation programme'. Table 5.5 summarises the structure of the banking system in Bangladesh according to their categories.

**Table 5.5: Structure of the Banking System in Bangladesh (up to June 2007)**

Type of Banks	No.	No. of Branches	% of total asset	% of total deposit
NCBs	4	3383	36.54	35.36
SBs	5	1359	6.80	6.71
PCBs	30	1804	47.13	52.24
FCBs	09	50	9.53	5.69
Total	48	6596	100.00	100.00

Source: Bangladesh Bank.

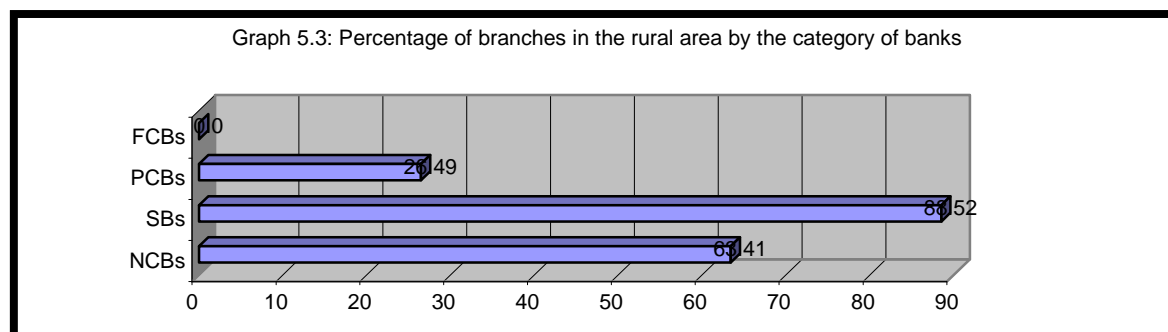
### Deployment of Bank Branches

Although foreign banks and private banks show better performance according to different criteria such as capital adequacy, quality of assets and expenditure-income ratio, the common people throughout the country have easy access to NCBs and SBs because of their locations. Foreign banks do not have a single branch in any rural area of Bangladesh. Besides, though PCBs have branches outside the urban area, it is only 27.49 percent of their total number of branches. On the contrary, 63.41 percent and 88.52 percent of the total branches of NCBs and SBs are located in different sub-urban and rural areas of Bangladesh respectively.

**Table 5.6: Distribution of Bank Branches in Different Regions (up to June 2007)**

Type of Banks	No. of banks of its kind	No. of branches			As % of the total branches		
		Urban	Rural	Total	Urban	Rural	Total
NCBs	4	1238	2145	3383	36.59	63.41	100
SBs	5	156	1203	1359	11.48	88.52	100
PCBs	30	1308	496	1804	72.51	27.49	100
FCBs	9	50	--	50	100.00	--	100
<b>Total</b>	<b>48</b>	<b>2752</b>	<b>3844</b>	<b>6596</b>	<b>41.72</b>	<b>58.28</b>	<b>100</b>

Source: Bangladesh Bank.



Income and expenditure of 48 scheduled banks operating in Bangladesh for 2005 and 2006 are shown in Table 5.7.

**Table 5.7: Income and Expenditure of 48 Schedule Banks Operating in Bangladesh**

(Tk. in million)

Name of the Banks	2005		2006	
	Income	Expenditure	Income	Expenditure
Sonali Bank	19864	15900	23130	20125
Janata Bank	13148	9847	16272	12059
<u>Agrani Bank</u>	10597	8457	12331	8749
<u>Rupali Bank</u>	4759	3948	4838	4583
Bangladesh Krishi Bank	3923	5767	4731	6504
Rajshahi Krishi Unnayan Bank	1603	1970	1736	2157
Bangladesh Shilpa Bank	722	941	713	378
Bangladesh Shilpa Rin Sangstha	222	192	302	196
BASIC Bank Ltd	2229	1355	2870	1700
Pubali Bank Ltd	4436	3063	5494	3684
Uttara Bank Ltd	4265	2650	4435	3153
Arab Bangladesh Bank Ltd	3149	2394	5030	3503
National Bank Ltd	4201	3351	5729	4582
The City Bank Ltd	3477	2228	5217	3723
Islami Bank Bangladesh Ltd	10587	8424	14038	11130
IFIC Bank Ltd	2672	2123	3688	2825
United Commercial Bank Ltd	3188	2036	4118	2766
The Oriental Bank Ltd	2047	2620	1683	2846
Eastern Bank Ltd	2957	1901	4271	2883
NCC Bank Ltd	2932	1914	3913	2645
Prime Bank Ltd	6542	4880	6934	4808
South East Bank Ltd	4690	3216	6766	4703
Dhaka Bank Ltd	3636	2783	5457	4264
Al-Arafah Islami Bank Ltd	1453	904	2172	1203
Social Investment Bank Ltd	1922	1709	2229	1933
Dutch Bangla Bank Ltd	3435	2495	5181	4101
Mercantile Bank Ltd	3473	2505	4631	3453
Standard Bank Ltd	1602	986	2206	1473
One Bank Ltd	2007	1520	2886	2211
Exim Bank Ltd	3433	2258	4968	3589
Bangladesh Commerce Bank Ltd	239	123	578	479
Mutual Trust Bank Ltd	2136	1468	2994	2024
First Security Bank Ltd	2019	1894	1921	1718
The Premier Bank Ltd	2864	1965	3622	2680
Bank Asia Ltd	2525	1724	3774	2702
Trust Bank Ltd	511	215	852	305
Shahjalal Bank Ltd	1621	1119	2570	1725
Jamuna Bank Ltd	1727	1307	2750	2049
BRAC Bank Ltd	2030	1838	3711	3377
Standard Chartered Bank	6478	1987	8400	2298
Habib Bank	208	115	334	142
State Bank of India	511	265	828	527
Commercial Bank of Ceylon Ltd.	1031	572	1256	716
National Bank of Pakistan	467	269	613	362
Citi Bank N A	1481	303	2128	450
Woori Bank	554	175	724	278
HSBC	2632	699	3673	788
Bank Al-Falah	146	114	590	493

**Source:** Performances of Banks and Financial Institutions 2006-2007, Finance Division.

## **Non-Bank Financial Institutions**

In the financial sector of Bangladesh, the non-bank financial institutions (NBFIs) are also making significant contribution towards financing various sectors like industry, commerce, house-building, ICT and others. As of June 2007, there are 29 licensed non-financial institutions operating in Bangladesh. The paid-up capital and reserve of these NBFIs as of December 2006, totalled up to Tk. 16.80 billion and up to March 2007, the investment of these institutions in different sectors of the economy amounted to Tk. 73.13 billion. Since December 2000, lending and leases extended by these NBFIs, like other scheduled banks, are subject to the classification and provisioning regulations. The goal of such initiative was to strengthen and revitalise these institutions through regular reviewing of the loan position as well as improving the recovery process. Up to March 2007, the ratio of classified loan of financial institutions stood at 7.34 percent and classified loan stood at 1.65 percent excluding net suspended interest and provisioning.

## **Financing Agriculture, Industry and Commerce by Banks and Other FIs**

To ensure adequate credit flow to agriculture and other rural economic activities, the government had a target of disbursing Tk. 6351.30 crore in FY 2006-07 through BKB, RAKUB, four NCBs, BRDB and Bangladesh Cooperative Bank Limited. Against this targeted amount, Tk. 5292.51 crore was disbursed up to June 2007. During the same period, recovery of agriculture credit stood at Tk. 4676.00 crore.

The government is encouraging small and medium enterprises (SMEs) along with large ones. Banks and other financial institutions are supporting this effort of the government by extending industrial credit and other necessary assistance to this sector. In FY2006-07, term loan disbursement in the industrial sector stood at Tk. 44046.10 crore, which is 15.61 percent higher than that of the same period of the previous year.

In addition to extending credit to agriculture, industry and trade, banks and other financial institutions are also providing credit, though at a limited scale, for undertaking poverty reduction programmes. Detailed information on agriculture, industry and poverty reduction has been presented in Chapters 7, 8 and 13 of this Review respectively.

## **Microfinance**

For ensuring transparency and accountability among institutions operating micro-credit programmes in Bangladesh, the government established a regulatory authority along with a Micro-Credit Regulatory Authority Act 2006, which came into effect from August 27, 2006. Currently, Micro Credit Regulatory Authority is working to assist its Board of Directors including the preparation of regulations under this Act. Some of the important functions of the Authority are: (i) to provide certificates among micro-credit institutions, which are engaged in alleviation of poverty and ensuring of welfare of the poor; (ii) to preserve information about newly established

micro-credit institutions/ branches, audit, analyse and monitoring field level activities and (iii) to arrange training for them when and where it is deemed necessary.

## **BANKING, MONETARY AND CREDIT POLICY REFORMS**

### **Legal Reforms**

To expedite the settlement of disputes regarding loan recovery of financial institutions, the "Money Loan Court", 2003 (*Artha Rin Adalat, 2003*) has been made effective. In order to strengthen the process of recovering defaulted loans, banks, under this Act, are now empowered to sell the collaterals without prior approval of the court. Effective application of this Act has started yielding encouraging results. As of June 2007, 100718 cases were filed, of which 58994 cases were settled accruing the recovery of Tk. 3195.81 crore against the claim of Tk. 26070.78 crore.

### **Reforms in the Banking Sector**

#### **Reforms in the Bangladesh Bank**

Implementation of "Central Bank Strengthening Project" is underway which is tasked to formulate and implement a prudent monetary policy, enhance the regulatory capability of Bangladesh Bank to supervise financial institutions, establish banking policies and regulations that conform to international standards and increase operational efficiency of Bangladesh Bank through computerisation. A Policy Analysis Unit has been established in Research Division of Bangladesh Bank under this project, in order to conduct high level research activities on macroeconomics including monetary policy and central banking along with increasing the efficiency of policy reviewing capacity.

#### **Reforms in NCBs**

With a view to monitoring overall performance of banks including capacity enhancing, bringing financial solvency, and increasing performance of NCBs as part of financial sector reform programmes, the following steps have been taken:

- A draft Memorandum of Articles of Association has been finalised for 3 NCBs to transfer them as 3 Public Limited Companies.
- Four NCBs have signed a Memorandum of Understanding (MOU) with the Bangladesh Bank to monitor overall performance;
- Decision has been made to privatise Rupali Bank and to do this, a Financial Adviser has been appointed and according to rule, Privatisation Commission has been engaged and sale & purchase agreement has been finalised;

- Internationally reputed four local audit firms have been appointed to find out the asset quality appropriately and meanwhile, they have audited their auditing tasks;
- Management of Agrani Bank has been given to a consulting firm and management consultants have been appointed in 8 core banking areas by the consulting firm. As a result of performance of this bank has improved considerably.
- Management teams appointed for Sonali and Janata Banks have started working.

### **Money and Financial Market Reforms**

Measures have been taken to build the existing banking system to an international standard and also to strengthen the overall banking system of the country. Important among the initiatives taken in FY 2006-07 are as follows:

- In order to reach at par with the international level, a master circular has been circulated by incorporating existing loan classifying policy and loan provisioning policy. In the circular the limit of short-term micro-credit has been raised from Tk. 10,000.00 to Tk. 25,000.00. To ensure transparency in the offshore banking operation, a number of directions have been provided. Financial institutions are also required to submit information in new system.
- To protect the interests of potential investors, depositors, creditors and also to put in place an evaluation system, it has been made mandatory to collect funds through IPOs banks and to have ratings by a reputed credit rating agency along with publication of their annual and half-yearly reports.
- To determine capital adequacy, general provision (1% of unclassified loans), an element of supplementary capital, will be replaced by general provision maintained against unclassified loans. In order to expand the base of large bank credit, in extending loan facilities against the guarantee given by AAA rated multilateral development banks (MDBs) will be exempted from large bank credit policy. Claims by such banks will be brought under the risk-weighted asset system in determining capital adequacy.
- To avoid risks for banks in their banking transactions like issuing pay order, TT, DD etc., effective, accountable and strict internal control systems have been introduced.
- The government has taken measures to protect the depositors of the Oriental Bank Ltd., who have already faced a huge capital and provisioning deficit, huge classified loan, ineffective management and strong liquidity shortage. For ensuring appropriate banking system and bringing back people's confidence in the banking system, the government has suspended the Board of Directors of the Oriental Bank Ltd. and at the same time, appointed a high level

Bangladesh Bank official to assume the power and responsibility of the Managing Director as per Bank Company Act 1991, Article 77(2) of subject to certain conditions.

- Through the adoption of Finance Bill 2006, which has added Article 53AAA to Income Tax Ordinance 1984, the government has introduced 3 percent source tax on the billing system using credit card deductible at source.
- In the revised bank branch expansion policy private banks will have to submit their annual plan relating to branch expansion to Bangladesh Bank by November of the previous year instead of the former practice of 60 days before the opening of a branch.
- An elaborate policy has been formulated on merger/ amalgamation of banks and financial institutions.
- A unified system (one year=360 days) has been introduced for calculating interests on deposits and loans/leases by financial institutions.
- To encourage infrastructure development by private sector entrepreneurs, Bangladesh Bank is implementing a project titled “Investment Promotion and Financing Facility (IPFF)” (except local financial institutions). This project aims at providing long-term financial assistance for infrastructure development projects and creating value addition in the domestic financial market.

### **Capital Market**

The level of development of the capital market is an indicator of the state of development of an economy. To achieve private sector-led growth objective, it is necessary to make capital market more efficient. As a capital market watchdog, the Securities and Exchange Commission (SEC) of Bangladesh was formed on June 8, 1993 under the 'Securities and Exchange Commission Act, 1993'. The principal responsibilities of the SEC include ensuring proper issuance of securities, safeguarding the interest of investors in the stock exchange, controlling the stock market and development of the capital market. Currently, two stock exchanges are operating in Bangladesh: Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). Both the stock exchanges are autonomous non-profit organisations.

### **Dhaka Stock Exchange**

The number of securities (including mutual fund and debentures) listed with the DSE increased to 325 by June 2007 from 303 of June 2006. By the end of June 2007, the issued capital of listed securities stood at Tk. 16427.90 crore, which is 91.64 percent higher than that of June 2006.

**Table 5.8: Trading Operation in Dhaka Stock Exchange**

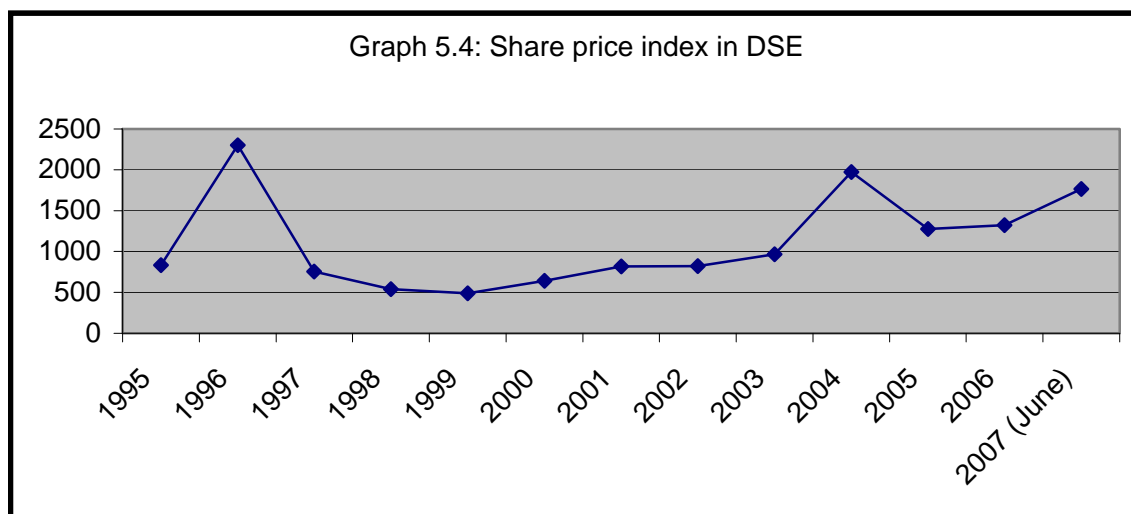
Calendar year/ month-end	No. of listed securities <sup>(a)</sup>	Initial Public Offering	Issued capital (in crore Tk.)	Market capitalisation (in crore Tk.)	Turnover (in crore Tk.)	Price index <sup>(b)</sup>
1995	201	24	1983.98	5651.81	638.00	835.00
1996	205	24	2305.24	16810.62	3013.30	2300.15
1997	222	12	2820.78	7130.16	1740.34	756.78
1998	228	6	2862.57	5025.40	3436.84	540.22
1999	232	11	2877.46	4478.12	3896.44	487.77
2000	241	7	3119.20	6292.40	4036.48	642.68
2001	249	11	3345.43	6522.28	3986.83	817.79
2002	260	8	3520.30	7126.20	3498.49	822.34
2003	267	14	4605.50	9758.70	1915.21	967.88
2004	256	2	4953.20	22492.30	5318.11	1971.31
2005	286	22	7031.30	23307.50	6483.48	1275.05
2006	310	12	11843.70	32336.80	6506.93	1321.39
2007 (June)	325	-	16427.90	47585.50	3091.01	1764.18

**Source:** Dhaka Stock Exchange

(a) Including mutual fund and debenture

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

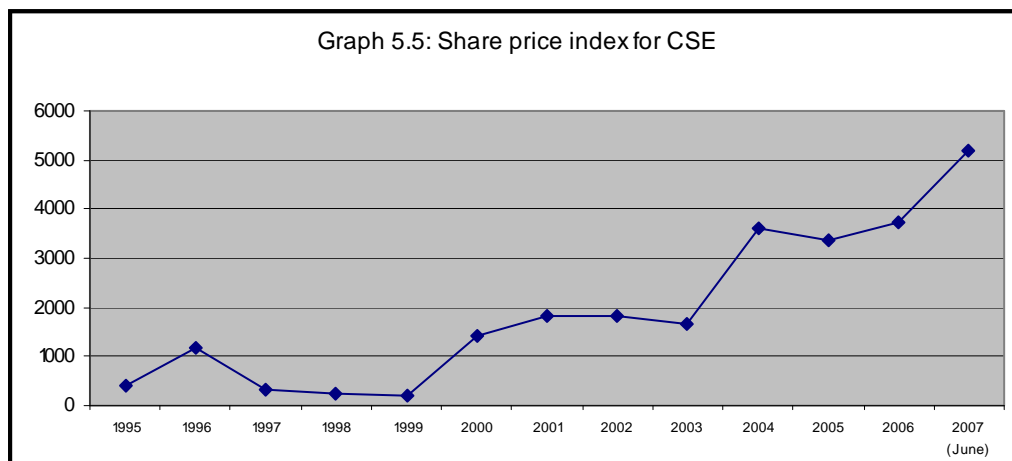
Up to June 2007, market capitalisation of securities stood at Tk. 47585.50 crore. General share price index of the DSE stood at 1764.18 in June 2007, which was 1040.47 in June 2006.



## Chittagong Stock Exchange

The number of securities listed with the CSE reached 219 as of June 2007 from 213 as of June 2006. By the end of June 2007, the issued capital of listed securities stood at Tk. 8103.29 crore, which is 29.59 percent higher compared to that at the end of June 2006.

As of June 2007, market capitalisation of securities reached Tk. 39849.90 crore. General share price index of the CSE reached 5194.77 as on June 2007, which was 2879.19 on June 30, 2006.



**Table 5.9: Trading Operation in Chittagong Stock Exchange**

Calendar year/ month-end	No. of listed securities	IPO <sup>b</sup>	Issued capital (in crore Tk.)	Market Capitalisation (in crore Tk.)	Turnover (in crore Tk.)	Price index <sup>(c)</sup>
1995	61		1036.80	2413.90	1.97	409.43
1996	117	16	1872.60	14704.30	608.90	1157.90
1997	141	19	2276.14	5283.23	854.51	332.98
1998	150	6	2418.03	4138.25	1403.60	232.80
1999	159	9	2508.09	3654.24	1153.79	197.83
2000	165	3	2726.60	5776.55	1293.38	1412.25
2001	177	9	2965.27	5636.35	1479.62	1836.87
2002	185	9	3107.99	6046.77	1358.61	1841.14
2003	199	10	4196.76	8531.23	668.86	1642.78
2004	195	3	4697.87	21501.08	1755.13	3597.70
2005	210	16	5551.93	21994.28	1404.27	3378.68
2006	213	6	6937.84	27051.07	1589.31	3724.39
2007 (June)	219	-	8103.29	39849.90	522.28	5194.77

*Source: Chittagong Stock Exchange*

(a) Including mutual fund & debenture

(b) Within the calendar year.

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

## **Reform Initiatives in the Capital Market**

The Securities and Exchange Commission (SEC) continues to carry out its regulatory reform activities in a bid to develop and protect investors' interest by establishing transparency in the capital market. A brief description of the major reforms undertaken in the capital market during FY 2006-07 is given below:

### **New Investment in the Capital Market**

An amount of Tk. 321.71 crore was invested in the capital market during FY 2006-07 through IPO of ten companies.

### **Mandatory Opening of Beneficiary Owners' (BO) Account and Central Depository System (CDS)**

SEC has made it mandatory to open beneficiary owners' (BO) account before applying for shares floated through IPO. Central Depository of Bangladesh Ltd has been operational since December 23, 2005. Up to June 2007, investors opened 13.85 lakh beneficiary owners (BO) accounts with Central Depository Bangladesh Ltd. and 121 companies were brought under the CDS. After the introduction of CDS, transparency in securities issuance, trading and settlement have increased significantly and settlement period of securities transactions has been reduced by a day.

### **'N' Category Company Introduced**

A new category named 'N' was introduced on the stock exchanges for newly listed companies that did not hold annual general meeting from the date of listing.

### **Improvement of Capital Market Governance Programme**

The SEC has taken up a project titled 'Improvement of Capital Market Governance Programme' to improve the governance scenario of the capital market. The project has already started functioning.

### **Formation of Financial Reporting Council (FRC) and Bangladesh Institute of Capital Market (BICM)**

The government has taken initiatives to set up an oversight body named 'Financial Reporting Council' to ensure on time preparation of financial statements by the issuers reflecting true state of financial affairs of issuer companies and also to ensure objective auditing International Standard on Auditing. Besides, to educate investors, intermediary institutions and to improve the corporate governance in the listed companies, the Commission, in association with other stakeholders, is going to establish a securities training institute titled 'Bangladesh Institute of Capital Market' which is now at its final stage.

### **Enforcement Action**

From FY 2006-07, the SEC took 174 enforcement actions against issuers and other market intermediaries, who failed to comply with security related rules.

### **Training Programmes for Members of Authorised Representatives of Stock Exchanges**

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