

CHAPTER FIVE

MONETARY MANAGEMENT AND FINANCIAL MARKET DEVELOPMENT

Monetary policy stance of Bangladesh Bank for FY 2021-22 is designed to contain the ongoing expansionary and accommodative mode supporting economic recovery process while maintaining appropriate cautions for overall price and financial stability. The purpose of this policy stance is to outline monetary and credit programme for FY 2021-22 based on the evolving internal and external macroeconomic and financial developments. The programmed growth of broad money (M2) was set at 15.0 percent and domestic credit growth 17.8 percent, which was consistent with the targeted GDP growth and CPI based average inflation. For FY 2021-22, growth of reserve money, net foreign assets (NFA) and net domestic assets (NDA) have been projected to 10.0 percent, 10.3 percent and 16.5 percent respectively. According to the latest available data, broad money, reserve money and domestic credit actually grew by 9.5 percent, 7.3 percent and 13.4 percent respectively in February 2022 compared to 13.4 percent, 19.9 percent and 8.8 percent respectively in the same month of the previous year. It is noted that, growth of broad money declined due to the sharp fall of the growth of net foreign assets (NFA) until February 2022. The annual growth of NFA of the banking system shrank by 0.5 percent in February 2022 from 30.4 percent in February 2021 due to negative trade balance and decreasing trend of workers' remittances. The growth of NDA stood at 12.7 percent at the end of February 2022 compared to 8.7 percent in the same month of the previous year. Following the current stance of expansionary fiscal policy of the government, especially for combating the COVID-19 fallout, the public and the private sector credit growth have been projected to be 32.5 percent and 14.8 percent respectively at the end of June 2022. However, the public and private sector credit experienced 28.1 percent and 10.9 percent annual growth respectively in February 2022 against the actual growth of 8.3 percent and 8.9 percent respectively in February 2021. The recent trends in weighted average lending and deposit rates show downward movement. The weighted average lending rate decreased to 7.10 percent at the end of February 2022 from 7.48 percent at the end of February 2021. Similarly, the deposit rate continuously decreased to 4.02 percent in February 2022 from 4.44 percent in February 2021. In FY 2021-22, both stock markets (Dhaka Stock Exchange and Chattogram Stock Exchange) noticed some volatility, however, both the price index and market capitalisation increased moderately. The market capitalisation and the broad index of DSE increased by 5.72 percent and 9.58 percent respectively at the end of February 2022 compared to the end of June 2021. Similarly, the market capitalisation and CSE All Share Price Index increased by 7.27 percent and 10.37 percent respectively, compared to the end of June 2021.

Bangladesh Bank's monetary policy stance for FY 2021-22 is designed to carry on with the ongoing expansionary and accommodative mode supporting economic recovery process while maintaining appropriate discretions for overall financial and price stability. The purpose of the MPS was to outline the monetary and credit program for FY 2021-22 based on the internal and external macroeconomic and financial developments.

The annual monetary programmes of Bangladesh Bank have been outlined to ensure enough rooms for money and credit growth to achieve the targeted nominal GDP growth. The broad money (M2) growth has been set based on the equation of exchange that accounts for the necessary adjustment after the consequences of the change of income velocity of money, and the target nominal GDP growth comprising the summation of targeted real GDP growth and inflation ceiling. Bangladesh Bank usually use its monetary policy

instruments along with its available open market operation tools to control reserve money (RM) growth impacting broad money growth and, thereby, influencing ultimate policy objectives.

Some monetary policy measures in line with the broad objectives of expansionary monetary policy stance for the current fiscal year have already been taken. To ensure the availability of less costly funds for banks and rationalising the policy rates' corridor (the gap between the repo and reverse repo rates), the repo and reverse repo interest rates have slashed down by 50 basis points and 75 basis points to 4.75 percent and 4.00 percent respectively with effect from 30 July 2020. These rates are unchanged in FY 2021-22.

The Bank Rate which remained unchanged for the last 17 years (since 2003) has also been slashed down by 100 basis points to 4.00 percent

to rationalise it with the current interest rate regime. CRR has been reduced from 5.5 percent to 4.0 percent for domestic banking operations, from 5.5 percent to 2.0 percent for offshore banking operations, and from 2.5 percent to 1.5 percent for financial institutions (FIs), which remain unchanged so far in FY 2021-22.

Money and Credit Situation

Growth Trends of Monetary Aggregates

At the end of February of FY 2021-22, the year-on-year growth of reserve money, broad money (M2) and narrow money (M1) stood at 7.25 percent, 9.45 percent and 12.47 percent respectively. The growth of broad money declined due to the sharp fall of the growth of net foreign assets (NFA) in February 2022. Table 5.1 shows the growth trends of monetary aggregates since FY 2015-16.

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

Indicator	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Feb'21	Feb'22
Narrow Money (M1)	32.10	13.01	6.17	7.22	20.11	14.49	19.19	12.47
Broad Money (M2)	16.35	10.88	9.24	9.88	12.64	13.62	13.35	9.45
Reserve Money (RM)	30.12	16.28	4.04	5.32	15.56	22.35	19.72	7.25

Source: Bangladesh Bank

Narrow Money (M1)

Narrow money (M1) increased by 14.49 percent during FY 2020-21, which was 20.11 percent in FY 2019-20. Up to February 2022 of FY 2021-22, M1 increased by 12.47 percent, which was 19.19 percent in the same period of the previous fiscal year. Of the components of the M1, the growth of currency notes and coins with the public and demand deposit have stood at 14.53 percent and 9.84 percent respectively up to February 2022, which was 14.53 percent and 25.71 percent respectively in the same period of the previous fiscal year.

Broad Money (M2)

Broad money (M2) stood at Tk. 15,60,895.3 crore in FY 2020-21 as compared to Tk. 13,73,735.1 crore of FY 2019-20. Up to February 2022 of FY 2021-22, M2 stood at Tk.16,20,936.7 crore by increasing (year-on-year) 9.45 percent as compared to 13.35 percent growth in the same period of the previous fiscal year. Time deposit increased (year-on-year) by 8.59 percent at the end of February 2022, which was 11.78 percent in the same period of the previous fiscal year.

Table 5.2 shows the movement and growth of the components of broad money (M2) and domestic credit. Figure 5.1 and Figure 5.2 show the growth of Broad Money and its components and percentage share of the components of Broad Money respectively.

Figure 5.1: Composition of Broad Money (Year-on-Year Percentage Change)

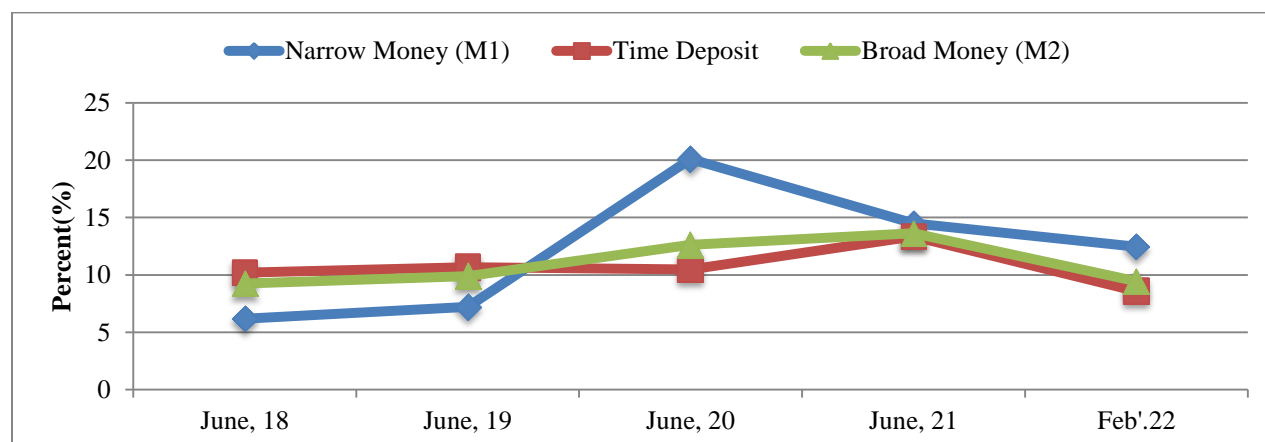
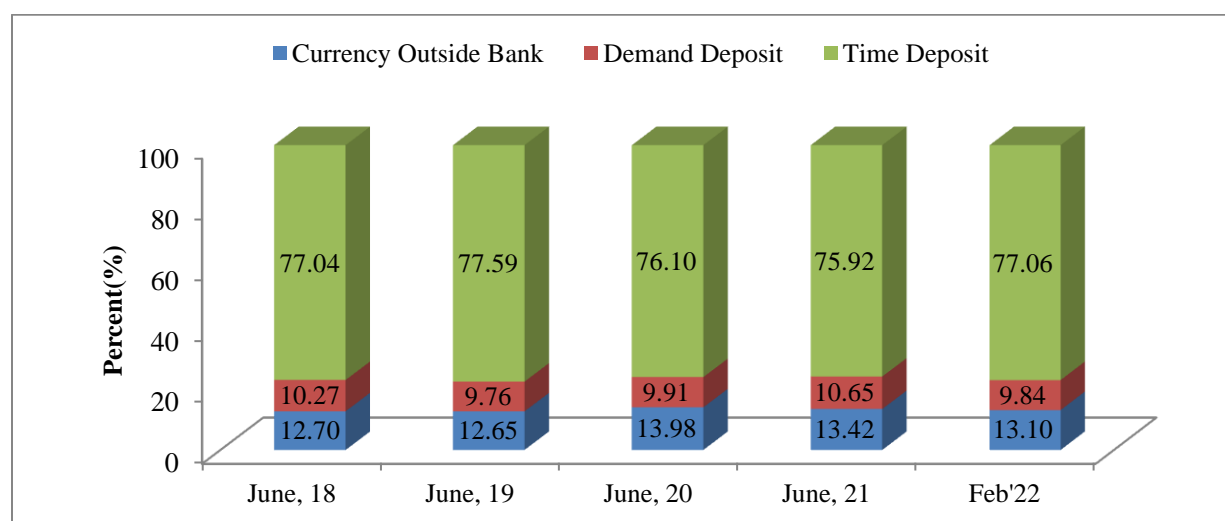


Table 5.2: Movement and Growth of the Components of M2 and Domestic Credit

Indicators	June, 2018	June, 2019	June, 2020	June, 2021	Feb, 2021	Feb, 2022
End period stock (In crore Taka)						
1. Net foreign assets of the banking system	264674.4	272399.5	297336.2	382337.5	361731.0	362666.4
2. Net domestic assets of the banking system	845306.6	947212.0	1076398.9	1178557.8	1119202.1	1258270.3
a. Domestic credit	1021626.6	1146884.7	1307633.7	1439899.0	1364504.2	1546240.3
a.1. Government sector (net) ¹	94895.1	113273.4	181150.7	221025.9	179511.5	231467.5
a.2. Public sector (other) ¹	19200.0	23355.6	29215.1	30017.8	31482.1	35916.9
a.3. Private sector ¹	907531.5	1010255.7	1097267.9	1188855.3	1153511	1278856
b. Other assets (net)	-176320.0	-199672.7	-231234.8	-261341.2	-245302.1	-287970.0
3. Narrow money	254893.7	273293.4	328263.9	375828.7	330549.9	371773.7
a. Currency notes and coins with the public	140917.5	154287	192114.5	209517.7	185332.8	212270.2
b. Demand deposit ²	113976.3	119006.4	136149.4	166311	145217.1	159503.5
4. Time deposit	855087.3	946318.1	1045471.2	1185066.6	1150383.2	1249163.0
5. Broad money [(1)+(2)] or [(3)+(4)]	1109981.0	1219611.5	1373735.1	1560895.3	1480933.1	1620936.7
Year-on-year percentage change (%)						
1. Net foreign assets of the banking system	-0.76	2.92	9.15	28.59	30.36	0.26
2. Net domestic assets of the banking system	12.80	12.06	13.64	9.49	8.76	12.43
a. Domestic credit	14.70	12.26	14.02	10.11	9.06	13.32
a.1. Government sector (net)	-2.51	19.37	59.92	22.01	10.64	28.94
a.2. Public sector (other)	11.11	21.64	25.09	2.75	4.82	14.09
a.3. Private sector	16.94	11.32	8.61	8.35	8.93	10.87
b. Other assets (net)	24.79	13.24	15.81	13.02	10.41	17.39
3. Narrow money	6.17	7.22	20.11	14.49	19.19	12.47
a. Currency notes and coins with the public	2.46	9.49	24.52	9.06	14.53	14.53
b. Demand deposit	11.15	4.41	14.41	22.15	25.71	9.84
4. Time deposit	10.19	10.67	10.48	13.35	11.78	8.59
5. Broad money	9.24	9.88	12.64	13.62	13.35	9.45

Source: Bangladesh Bank.

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

Figure 5.2: Percentage Share of the Compositions of Broad Money

Domestic Credit

The growth of domestic credit stood at 10.11 percent in FY 2020-21 which was 14.02 percent in FY 2019-20. Domestic credit increased (year-on-year) by 13.32 percent up to February 2022 of FY 2021-22, which is higher than 9.06 percent growth in the same period of the previous fiscal year. Of which private sector credit growth stood at 10.87 percent at the end of February 2022 against 8.93 percent in the same period of the previous fiscal year. The net credit to the government increased by 28.94 percent at the end of February 2022 which was increased by 10.64 percent in the same period of the previous year. At the end of February 2022, the share of government (excluding others public sector) to total domestic credit stood at 14.97 percent. Private sector credit to total domestic credit stood at 82.71 percent which was 82.57 percent at the end June 2021

Reserve Money

Reserve money stood at Tk. 3,48,071.8 crore at the end of FY 2020-21, which was Tk. 2,84,483.4 in FY 2019-20. Reserve money growth stood at 22.35 percent in FY 2020-21 compared to 15.56 percent of the previous fiscal year. In FY 2021-22, reserve money increased by 7.25 percent up to February 2022 compared to the same period of the previous fiscal year and stood at Tk. 3,22,285.1 crore. On the other hand, net foreign assets of BB increased by 28.27 percent at the end of FY 2020-21 compared to the 11.22 percent at the end of previous fiscal year. In FY 2021-22, net foreign assets of Bangladesh Bank increased by 1.34 percent up to February 2022 compared to the 33.34 percent increase in the same period of the previous fiscal year. Components and sources of reserve money and its changes over time have been shown in Table 5.3 and Table 5.4 respectively

Table 5.3: Components of Reserve Money and their Changes

Particular	June, 2018	June, 2019	June, 2020	June, 2021	Feb, 2021	Feb, 2022
End Period (In Crore Tk.)						
1. Currency issued	154940.5	170387.1	208094.1	226888.3	203381.8	232874.6
2. Balances of scheduled banks with BB	78043.4	75012.1	75768.3	120597	96552.9	88916.7
3. Reserves of other financial institutions with the BB	759.1	788.5	621.0	586.5	558.7	493.8
4. Reserve Money [(1)+(2)+(3)]	233743.0	246187.7	284483.4	348071.8	300493.4	322285.1

Particular	June, 2018	June, 2019	June, 2020	June, 2021	Feb, 2021	Feb, 2022
Percentage Change (Year-on-Year)						
1. Currency issued	2.43	9.97	22.13	9.03	16.07	14.50
2. Balances of scheduled banks with BB	7.30	-3.88	1.01	59.17	28.76	-7.91
3. Reserves of other financial institutions with the BB	14.75	3.87	-21.24	-5.56	-28.33	-11.62
4. Reserve Money	4.04	5.32	15.56	22.35	19.72	7.25

Source: Bangladesh Bank

Table 5.4: Sources of Reserve Money and their Changes

Particular	End Period (In Crore Tk.)					
	June, 2018	June, 2019	June, 2020	June, 2021	February, 2021	February, 2022
1. Net foreign assets of BB	253509.8	257195.4	286040.9	366917.3	347148.6	351813.1
2. Net domestic assets of BB	-19766.8	-11007.7	-1557.5	-18845.5	-46655.2	-29528.0
a. Domestic credit	35668.7	43745.8	63776.4	45294.6	16081.3	32893.6
a.1. Claims on Government sector (net)	22572.2	31189.0	42117.1	17285.5	-11316.8	8058.5
a.2. Claims on other public sector	2367.8	2380.4	2551.9	3218.1	3182.9	3485.2
a.3. BB's claims on DMBs	5582.5	5386.9	13764.9	18952.3	18839.9	15583.3
a.4. BB's claims on NBDCs	5146.2	4789.5	5342.5	5838.7	5375.3	5766.6
b. Other assets (net)	-55435.5	-54753.5	-65333.9	-64140.1	-62736.5	-62421.6
3. Reserve Money [(1)+(2)]	233743.0	246187.7	284483.4	348071.8	300493.4	322285.1
Percentage Change (Year-on-Year)						
1. Net foreign assets of BB	0.59	1.45	11.22	28.27	33.34	1.34
2. Net domestic assets of BB	-27.77	-44.31	-85.85	1109.98	398.73	-36.71
a. Domestic credit	41.73	22.64	45.79	-28.98	-66.65	104.55
a.1. Claims on Government sector (net)	73.93	38.17	35.04	-58.96	-142.98	-171.21
a.2. Claims on other public sector	9.73	0.53	7.20	26.11	23.61	9.50
a.3. BB's claims on DMBs	10.45	-3.50	155.53	37.69	30.47	-17.29
a.4. BB's claims on NBDCs	3.41	-6.93	11.55	9.29	10.17	7.28
b. Other assets (net)	5.52	-1.23	19.32	-1.83	8.96	-0.50
3. Reserve Money	4.04	5.32	15.56	22.35	19.72	7.25

Source: Bangladesh Bank

Claims on government sector (net) decreased by Tk. 24,831.6 crore in FY 2020-21 compared to Tk. 10,928.1 crore increase in FY 2019-20. Claims on deposit money banks (DMBs) increased by Tk. 5,187.4 in FY 2019-20, which was increased by Tk. 8,378.0 crore in FY 2019-20. In FY 2021-22, claims on government sector (net) increased by Tk. 19,375.3 crore at the end of February 2022, which was decreased by Tk. 37,645.9 crore at the same period of the previous fiscal year. At the same period, Claims on deposit money banks (DMBs) decreased by Tk. 3,256.6

crore, which was increased by Tk. 4,399.6 crore in the same period of the previous fiscal year. During this time, claims on other public sector increased by Tk. 302.3 crore, that was increased by Tk. 608.0 crore in the same period of the previous fiscal year.

Money Multiplier

Money multiplier is usually affected by the behaviour of banks, individuals as well as central bank which is reflected through change in reserve-deposit ratio and currency-deposit ratio.

Money multiplier decreased to 4.489 in FY 2020-21 as compared to 4.829 in FY 2019-20. As reserve-deposit ratio increased to 0.102 in FY 2020-21 from 0.078 in FY 2019-20 leading to decline money multiplier while currency-deposit ratio decreased to 0.155 in FY 2020-21 as compared to 0.163 in FY 2019-20. Relative strengths of the said two ratios helped to decrease money multiplier in FY 2020-21.

During FY 2021-22, money multiplier stood at 5.030 at the end of February 2022. Ratios of

money multiplier as reserve-deposit ratio and currency-deposit ratio stood at 0.078 and 0.151 respectively at the end of February 2022.

Income Velocity of Money

Income velocity of money declined to 2.26 in FY 2020-21 which was 2.31 at the end of FY 2019-20. The trends of income velocity of money and broad money as a percent of GDP have been shown in Table 5.5. The Movement of broad money as percent of GDP has been shown in Figure 5.3.

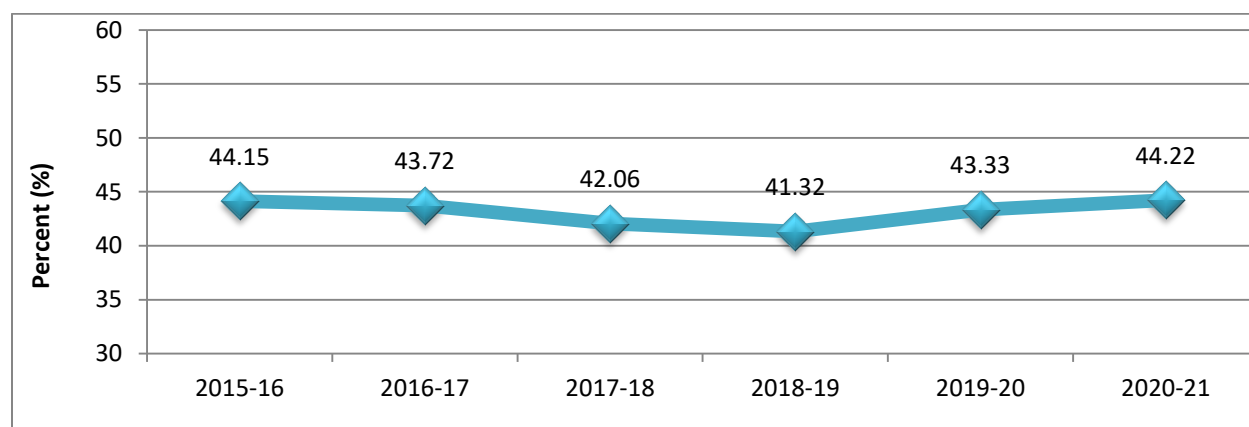
Table 5.5: Income Velocity of Money

(In billion Tk.)

FY	GDP (current market price) (in billion Taka)	Broad Money (in billion Taka)	Broad Money as percent of GDP	Income velocity of money (GDP/M2)
2015-16	20758.2	9163.8	2.27	44.15
2016-17	23243.1	10160.8	2.29	43.72
2017-18	26392.5	11099.8	2.38	42.06
2018-19	29514.3	12196.1	2.42	41.32
2019-20	31704.7	13737.4	2.31	43.33
2020-21	35301.8	15609.0	2.26	44.22

Source: Bangladesh Bank and BBS.

Figure 5.3: Movement of M2 as Percent of GDP



Rationalising the Rate of Interest/Charges

With a view to rationalising the rate of interest on deposit and lending through competitive environment among the banks, Bangladesh Bank has been continuing in providing instructions to banks on a regular basis for taking proper initiatives in FY 2021-22. In order to rationalise the rate of interest in other sectors including

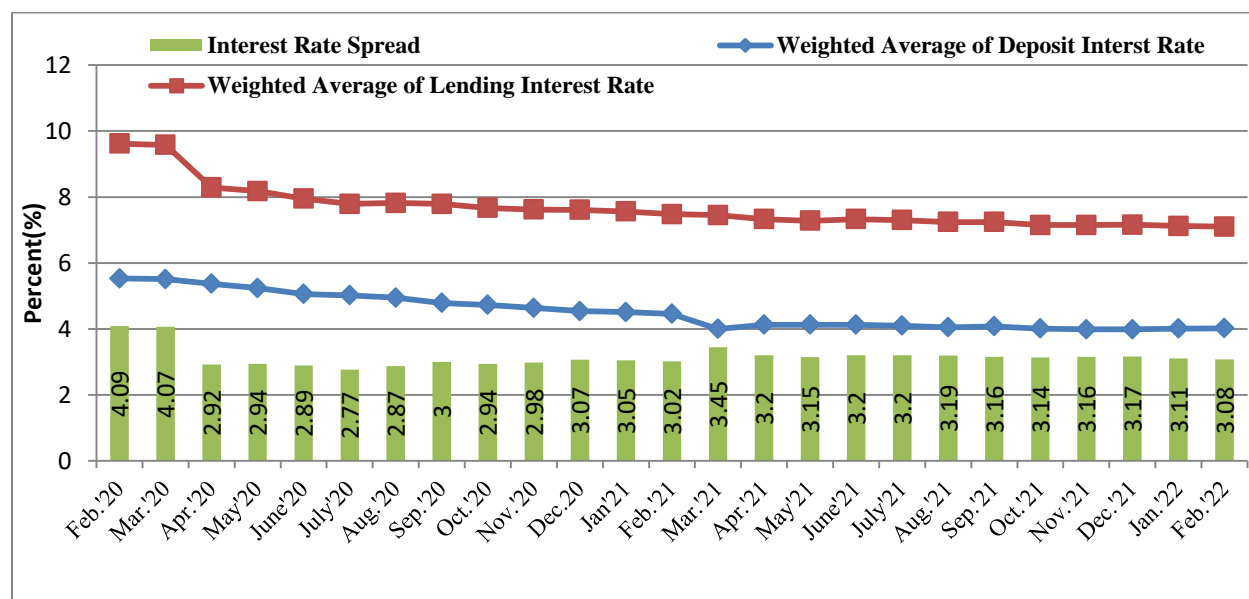
productive sector, banks are advised to limit the difference between lending and deposit rates or spread within lower single digit (under 4 %) except high-risk consumer credit (including credit card). Besides, the maximum rate of interest/profit on unclassified loans/investment is set at 9 percent except credit card.

The recent trends in weighted average lending and deposit rates show downward movement. The weighted average lending rate of commercial banks decreased continuously and stood at 7.15 percent at the end of November 2021 from 7.48 percent of end February 2021. After enhancing a little at end December 2021, the weighted average lending rate again decreased and stood at 7.10 percent at the end of February 2022. Similarly, the deposit rate showed continuous decreasing trend up to August 2021 from 4.44 percent of February 2021. Though increased little bit in September 2021, actually the deposit rate exhibited diminishing trends and stood at 4.02 percent at end of February 2022. The interest rate

spread between lending and deposit rate showed sudden increase in May 2021 and reached to 3.26 percent from 3.04 percent at end of February 2021. Later having continuous declining trends, the interest rate spread stood at 3.08 percent at the end of February 2022.

The reduction in market-based interest rates has been due to the increase in excess liquidity available to banks and the reduction in interest rates, bank rate and refinancing scheme policies adopted by Bangladesh Bank has played a significant role. The monthly trends of weighted average lending and deposit rates and the interest rate spread from February 2020 to February 2022 have been shown in Figure 5.4.

Figure 5.4: Weighted Average Deposit and Lending Interest Rate



Source: Bangladesh Bank

Banking Sector

As on February 2022, there are 61 scheduled banks in Bangladesh. Among these scheduled banks, there are 6 state owned commercial banks, 3 specialized banks, 43 private commercial banks and 9 foreign commercial banks. In addition, 5 more non-scheduled banks are also operating.

These banks are: *Ansar VDP Unnayan Bank*, *Karmasangsthan Bank*, *Grameen Bank*, *Jubilee Bank* and *Palli Shanchay Bank*. As of February 2022, structure of the scheduled bank system by types of banks and as of December 2021, their share in total deposits and assets are shown in Table 5.6.

**Table 5.6: Structure of the Banking System in Bangladesh
(End February 2022)**

Type of Banks	No. of Banks	No. of Branches			Percentage of Total Assets*	Percentage of Total Deposit*
		Urban	Rural	Total		
State-owned Commercial Banks (SOCBs)	6	1765	2045	3810	24.87	26.29
State-owned Specialised Banks (SBs)	3	293	1219	1512	2.18	2.71
Private Commercial Banks (PCBs)	43	3501	2050	5551	67.40	66.77
Foreign Commercial Banks (FCBs)	9	65	0	65	5.55	4.23
Total	61	5624	5314	10938	100.00	100.00

Source: Bangladesh Bank, *= as per December, 2021 data.

In Bangladesh, 61 scheduled banks are performing their banking business with 10,938 branches as of February 2022. Of these total bank branches, the number of urban and rural branches are 5,624 (51.42%) and 5,314 (48.58%) respectively.

As of December 2021, of all the total assets of banking system, 67.40 percent and 24.87 percent are included to the PCBs and SOCBs respectively. As of December 2021, of the total deposits of the banking system, 66.77 percent and 26.29 percent are included into the PCBs and SOCBs respectively.

Non-bank Financial Institutions (NBFIs)

As of February 2022, total 35 licensed non-bank financial institutions (NBFIs) are functioning with network of 286 branches spreading over 37 districts. Among those branches, 97 are set up in Dhaka and the rest 189 are located in 36 districts. As of December 2021, total paid up capital and reserve of these financial institutions stood at Tk. 12,030.27 crore of which paid up capital was Tk. 8,560.64 crore. At that period, shareholder's equity of financial institutions stood at Tk. 7,260.04 crore, total asset was Tk. 89,655.65 crore, total deposit was Tk. 44,420.32 crore, total outstanding loan/lease was Tk. 67,354.22 crore and total classified loan/lease stood at Tk. 13,016.59 crore which is 19.33 percent of the total loan/lease.

Apart from industrial, commercial and housing sectors, these institutions also invest in the country's capital market through subsidiary companies. To strengthen the Non-Bank Financial Management Structure, to ensure transparency and minimise risk of financial institutions and to bring corporate good governance, various measures (guidelines, circulars and circular letters) have been taken at different times by Bangladesh Bank. As part of these, product guidelines, cost of fund or base rate system, good governance related policies have been introduced. Among the policies taken by Bangladesh Bank in 2021, the noteworthy are: master circular for classification, provisioning & rescheduling of loan/lease/advance; circular on one time exit plan, investment in share market and special provision for ship building industry and so on.

Financial Inclusion

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 shown in Annexure 5.1.

Banking, Monetary and Credit Policy Reforms

Reforms in the Bangladesh Bank

The Financial Sector Support Project (FSSP) has been implemented by Bangladesh Bank with the assistance of International Development Association (IDA) to improve financial market infrastructure, regulatory and oversight capacity of Bangladesh Bank and access to long term financing for manufacturing sector in Bangladesh for ensuring stability and greater resilience of the financial sector. The salient feature of the project is shown in Annexure 5.2.

Legal Reforms

A 10 member high-level Committee headed by a Deputy Governor of Bangladesh Bank, has been formed to review the 5 banking related laws, namely, (1) The Bank Companies' Act, 1991, (2) The Money Loan Court Act, 2003, (3) The Financial Institutions Act, 1993 (Proposed 'The Finance Companies Act, 2020), (4) The Negotiable Instrument Act, 1881, and (5) The Insolvency Act, 1997 to address the prevailing scenario of default loans of banks and NBFIs. The five acts stated above have already been reviewed by the committee and recommendations have been sent to the Financial Institutions Division of Ministry of Finance in the form of Draft Bill. Banker's Books Evidence Act, 2021 is passed on 27 November 2021. It has been enacted with effect from 7 December 2021 and Bankers' Books Evidence Act, 1891 has been repealed.

Reforms in State Owned Commercial Banks

Bangladesh Bank has signed Memorandum of Understanding (MOU) with the State Owned Commercial Banks (Except Basic Bank Limited and Bangladesh Development Bank Limited) in FY 2020-21 as similar to the previous year. Under the MoU instructions have been given to the SOCBs to ensure efficiency in asset-liability management, reduce the NPLs, ensure cash recovery against NPLs, control the operational

expenses, reduce high cost deposit to the desired level, ensure digital banking services as well as to enforce the internal control and compliance system within the banks. To improve asset quality certain conditions have been imposed in current MoU for example, purchasing FDBP (Foreign Documentary Bills Purchase), creating of forced loan/PAD/Demand loan and their rescheduling for long period by the banks. In addition, Bangladesh Bank has also been regularly monitoring the activities of SOCBs in achieving the targets of MoU, compliance of conditions as well as overall implementation status of MoU.

Money and Financial Market Reforms

With a view to strengthening and updating the risk management activities of the banks in line with the changing environment, 'Risk Management Guidelines for Banks' introduced in 2012 has been revised. In order to ensure sound risk management practices in the banks, instructions regarding specifying roles and responsibilities of the Board of Directors, Board Risk Management Committee, Executive Risk Management Committee and Chief Risk Officer (CRO) along with restructuring the risk management framework of banks have been included in the said guideline. Besides, initiatives have been taken to establish a well-organized Risk Appetite Framework for balancing between the risks taken and business targets to be achieved by the banks. The implementation of Basel III has been shown in Annexure 5.3.

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

- The existing bank rate has been reduced by 100 basis points and re-fixed at 4.00 percent from 5.00 percent. The maintenance of CRR by the scheduled banks (except Islami shariah based banks) has been reduced to 4.00 percent on bi-weekly average basis with a provision of minimum 3.50 percent on a

daily basis from 5.00 percent on bi-weekly average basis and 4.50 percent on a daily basis.

- Financial institutions which accept time deposit are allowed to maintain 1.5 percent CRR on bi-weekly weighted average basis. And this reserve cannot anyhow be less than one percent on daily average basis.
- To implement the announced stimulus packages for the COVID-19 pandemic and maintaining enough liquidity in the money market, Bangladesh Bank has introduced 360 day special repurchase agreement (REPO) facility to avail credit directly from the central bank. The existing Repo and Reverse Repo rates of interest of Bangladesh Bank have been reduced by 50 basis points and 75 basis points respectively and re-fixed at 4.75 percent and 4.00 percent respectively on 30 July 2020.

Development of Payments System

A safe and efficient payment system is crucial in maintaining financial stability and effective performance of the financial system. To establish a public interest oriented modern, effective and capital based payment system in the country and to ease ongoing financial transactions of the mass, Bangladesh Bank has implemented various reforms activities which have been shown in Annexure 5.4.

Presentation of Money Laundering and Combating Financing of Terrorism

Some of the activities taken by the Bangladesh Financial Intelligence Unit (BFIU) during FY 2021-22 in order to prevent of money laundering and combating financing of terrorism are shown in Annexure 5.5.

Capital Market

The Bangladesh Securities and Exchange Commission (BSEC) has taken a number of steps, including reform of laws and regulations, for the overall development of the capital market. Some

of the activities undertaken by BSEC till February 2022 of FY 2021-22 are briefly mentioned below:

- Commission issued a notification on July 19, 2021, inserting some new clauses regarding submission of banker's certificate, raising of paid-up capital and making some amendments regarding distribution of securities under fixed price method and book building method to the Bangladesh Securities and Exchange Commission (Public Issue) Rules, 2015.
- Commission issued a directive on August 12, 2021, to the merchant bankers and portfolio managers making amendments regarding the maximum margin loan limit linking it to the stock exchange's market.
- Commission issued a directive on September 13, 2021, giving certain directions regarding professional team of a trustee, exposure limit of trustee etc. to ensure effective governance of the trustee of any debt securities or Islamic *Shariah* based securities including *Sukuk* in addition to requirements of Bangladesh Securities and Exchange Commission (Debt Securities) Rules, 2021. This directive has been issued for the interest of investors and development of securities market.
- Commission issued a notification on September 16, 2021 to the stock exchange(s), the companies trading at the Over-the-Counter (OTC) market, issuer company listed and to be listed with Small Capital Platform and Alternative Trading Board of the stock exchange(s) with regard to shifting/migration of the company, trading, clearing and settlement, money adjustment, margin, circuit breaker in connection with Small Capital Platform and Alternative Trading Board of the stock exchange(s).
- Commission issued a directive on 15 November, 2021. By the directive the Commission instructed the TREC (Trading Right Entitlement Certificate) holders of the

stock exchanges that they will be able to extend credit facilities at 1:0.80 basis, that is 80 percent of the client's margin/deposit, to their approved clients for any individual stock having price-earnings ratio (P/E) up to 40 under the Margin Rules, 1999.

- Commission issued a directive on December 26, 2021 imposing some restrictions on margin loan facilities for purchasing any security under Z-category. Restrictions are as follows: no stock broker shall provide margin loan facilities to purchase any newly listed security for the first 30 trading days from the date of commencement of trading after listing. In case of up gradation of any security from Z-category, margin loan facilities may be provided to purchase such securities after 7 trading days from the date of such up gradation.
- Amendments in The Bangladesh Securities and Exchange Commission (Market Maker) Rules, 2017 were updated till August 24, 2021.
- Amendments in The Bangladesh Securities and Exchange Commission (Asset-Backed Security Issue) Rules, 2004 were updated till August 24, 2021.
- Amendments in The Bangladesh Securities and Exchange Commission Depository (Practical) Regulations, 2003 were updated till August 22, 2021.
- Amendments in The Bangladesh Securities and Exchange Commission Depository Regulations, 2000, were updated till August 22, 2021.
- Commission issued a notification on dated 30 June, 2021 amending the amounts of different types of fees and its submission method in the Securities and Exchange Commission (Merchant Banker and Portfolio Manager) Rules, 1996, Securities and Exchange Commission (Stock-Dealer, Stock-Broker and Authorised Representative) Rules, 2000, Securities and Exchange

Commission (Mutual Fund) Rules, 2001, Securities and Exchange Commission (Security Custodial Services) Rules, 2003, Securities and Exchange Commission (Asset Backed Security Issue) Rules, 2004, Bangladesh Securities and Exchange Commission (Market Maker) Rules, 2017 and Bangladesh Securities and Exchange Commission (Clearing and Settlement) Rules, 2017.

Bangladesh capital market regulator BSEC is working to develop the Bond Market in order to build a diversified and stable capital market in Bangladesh. To attract investors to invest in bond, BSEC started to give consent to issue different types of Bonds including *Sukuk* bond which is a *Shariah* based green bond. *Sukuk* bond is being used to finance the climate and environment friendly project. The first corporate *Sukuk* was approved on 8 July 2021, which started transactions on 13 January 2022. In addition, on 2 May 2021, the Commission approved the issuance of the first green bond to two microfinance institutions.

Capital Market Situation

At the beginning of FY 2021-22, the price index of both Dhaka and Chattogram stock markets showed increasing trend. However, from the second quarter of the financial year, some volatility was observed in the price index. The summary of trading of Dhaka Stock Exchange (DSE) and Chattogram Stock Exchange (CSE) are described below:

Dhaka Stock Exchange Ltd (DSE)

The number of listed securities of Dhaka Stock Exchange Limited increased from 609 in June 2021 to 622 on 28 February 2022. The total amount of issued capital of all securities as on 28 February 2022 stood at Tk. 150,535.50 crore, which is 7.73 percent higher than it was on 30 June 2021. As on June 30, 2021, the market capitalisation of all securities of Dhaka Stock

Exchange Limited stood at Tk.5,14,282.13 crore, which increased by 5.72 percent and stood at Tk. 543,719.25 crore at the end of trading on 28 February 2022. The Broad Index (DSEX) of Dhaka Stock Exchange Limited stood at 6,150.48 points at the end of June 2021 which increased by 9.58 percent on 26 February 2022 and stood at

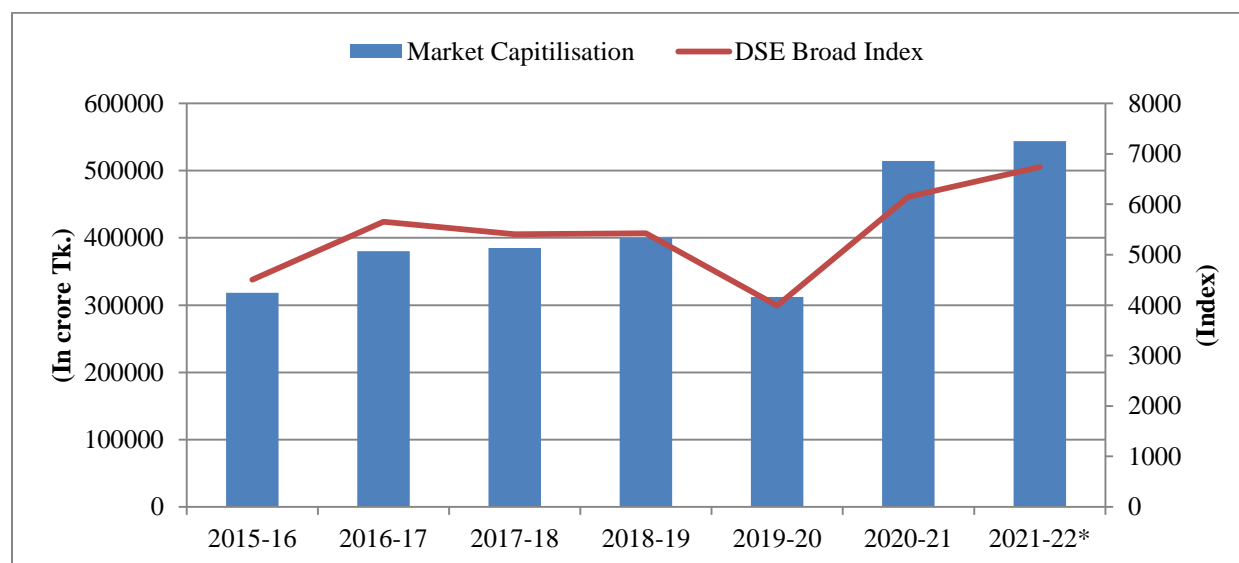
6,739.45 points. The Price-Earning (P/E) ratio stood at 16.15 at the end of February 2022, which was 17.41 at the end of February 2021. Details of Securities Turnover are below in the Table 5.7 and Figure 5.5.

Table 5.7: Securities Trading Information of Dhaka Stock Exchange

Year/Month End	No. of Listed Securities (Including Mutual Funds & Debentures)	No. of IPOs	Issued Capital (Tk in crore)	Market Capitalization (Tk in crore)	Securities Traded in Value (Tk in crore)	DSE Board Index *
2015-16	559	11	112,741	318,574	107,246	4,507.58
2016-17	563	9	116,551	380,100	180,522	5,656.05
2017-18	572	11	121,966	384,734	159,085	5,405.46
2018-19	584	15	126,857	399,816	145,965	5,421.62
2019-20	589	5	129,981	311,966	78,042	3,989.09
2020-21	609	15	139,734	514,282	254,697	6,150.48
2021-22*	622	11	150,536	543,719	255,555	6,739.45

Source: Dhaka Stock Exchange Ltd. * Up to February, 2022

Figure 5.5: DSE Market Capitalisation and Indices



Chattogram Stock Exchange (CSE)

At the end of February 2022, the total number of listed securities in Chattogram Stock Exchange is 374. At 28th February 2022, issued capital of all securities is 994,323.84 million BDT which was more than 19% from June 2021. Towards the end

of 28th February 2022, Market Capitalisation of CSE 4,702.55 billion BDT which was increased 7 percent from the last fiscal year. CSE All Share Price Index was 19,641.25 at the end of 28th February 2022 which was 17,795.04 in the end of June 2021. Price Earnings (P/E) ratio in CSE

slightly decreased to 17.09 at the end of February, 2022 which 16.70 at the end of February 2021. On the other hand, the yield slightly increased to 3.76 at the end of February

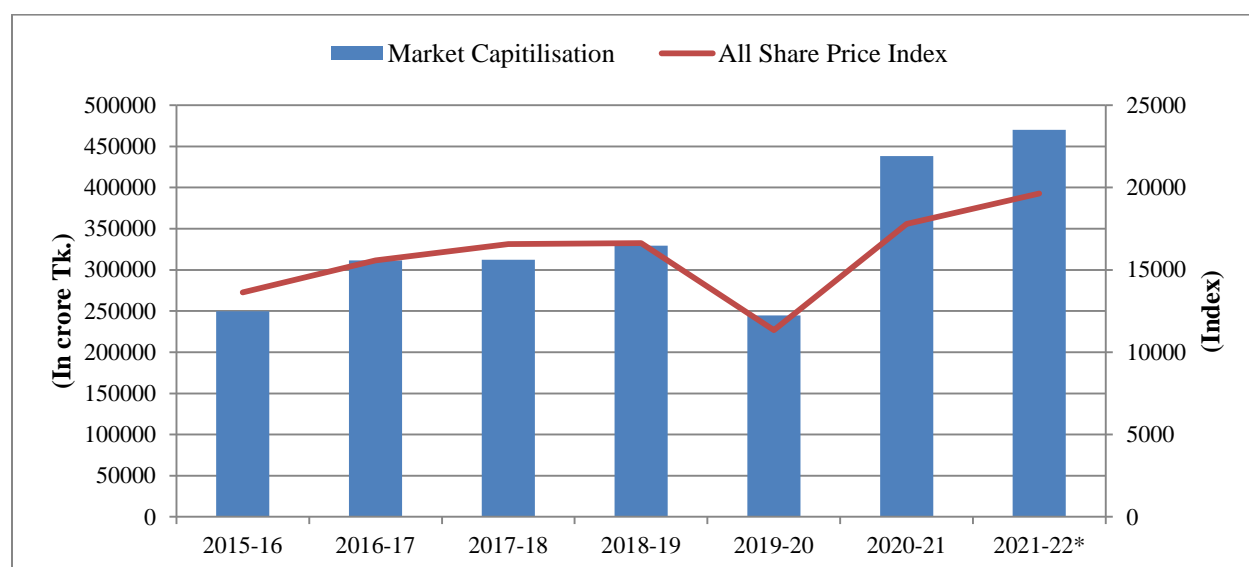
2022 which was 3.63 at the end of January 2022 and it was 2.99 at the end of February 2021. Details of Securities Turnover are shown below in the Table 5.8 and Figure 5.6.

Table 5.8: Securities Trading Information of Chattogram Stock Exchange

Year	Total number of listed Securities	Number of IPO	Issued Capital (In Million BDT)	Market Capitalization (In Million BDT)	Total Turnover value of All Securities (In Million BDT)	CSE All Share Price Index
2015-16	298	11	566,073.01	2,496,848.91	77,471.60	13,623.07
2016-17	303	9	606,572.10	3,113,242.90	118,075.27	15,580.37
2017-18	312	12	654,059.10	3,123,521.70	109,850.60	16,558.50
2018-19	326	16	712,894.30	3,293,302.81	84,800.13	16,634.21
2019-20	332	4	735,897.62	2,447,567.13	53,078.17	11,332.58
2020-21	348	14	833,652.60	4,383,653.30	116,913.81	17,795.04
2021-22*	374	12	994,323.84	4,702,550.65	96,692.49	19,641.25

Source: CSE * Up to February 2022

Figure 5.6: CSE Market Capitalisation and All Share Price Index



**Annex. 5.1
Financial Inclusion**

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:

- To include the under-privileged and financially excluded population in the formal banking services, BB has taken initiatives to open bank account with minimum deposit of Tk.10/50/100 for the People from various classes and professions such as farmers, hardcore poor, cleaners of city corporation, workers of small shoe and leather factory, ready-made garments workers, physically & sight challenged persons. Banks have also been instructed to open Tk.10 bank accounts for the inhabitants of the 111 former enclaves that were included in the map of Bangladesh. BB has also instructed all the banks to operate these accounts without any service charges. With the initiatives of Bangladesh Bank the number of these account reached to 2.73 crore at the end of December 2021.
- With a view to facilitating the farmers to keep their Tk. 10 accounts effective by providing credit under minimum conditions, the fund size of the revolving refinance fund worth of Tk. 200 crore has been enhanced to Tk. 500 crore by Bangladesh Bank from its own source. Small, marginal, and landless farmers are the main target groups of this refinance scheme. Clients can borrow maximum Tk. 5,00,000 individually and Tk. 20,00,000 through a group from this fund. About Tk. 247.34 crore has been disbursed under this scheme up to February 2022.
- Bangladesh Bank has relaxed the regulations for opening the Tk.10 special accounts for the street and working children, which was introduced in 2014 to make this population financially independent, to safeguard their hard earned money and secure their future. Now if the biological parents of these children are available, then the account can be operated by the joint signature of the street children and their father/mother. In that case, the overall transaction should be under close supervision of the nominated NGO official. The number of these accounts and the balance of these accounts stood at 19,405 and Tk. 0.40 crore respectively up to December 2021.
- In accordance with the continuous financial inclusion program, Bangladesh Bank has introduced agent banking to provide a safe and affordable channel for banking services throughout the country to the non-privileged, under served population, especially from rural areas where traditional banking services are not possible to be served profitably. To ensure the proper expansion of agent banking, Bangladesh Bank issued comprehensive guidelines in September 2017. As of December 2021, 29 banks have got approval from BB to provide agent banking services and they have started their operations. Up to December 2021, agent banking services have been provided through 1,40,47,491 bank accounts opened by 19,247 outlets of 13,952 agents of that 29 banks.
- Bangladesh Bank has started 'Remittance Award' since 2013 to acknowledge the contributions of NRBs and to motivate expatriates for sending more remittance through regular banking channel. A total of 168 individuals and 31 institutions in different categories have been awarded in the period of 2013 to 2018. In the year of 2019, 27 remitters (08 general professionals, 10 specialist professionals

and 09 businessmen), 03 non-resident Bangladeshi owned exchange houses and 05 commercial banks were awarded with ‘Bangladesh Bank Remittance Award 2018’.

- Bangladesh Bank introduces School Banking for the students less than 18 years of age with a view to crafting saving habit from the childhood and acquainting them with the banking services and technology. Under this agenda, Financial Literacy Programs are being organized throughout the country following the Lead Bank model under Bangladesh Bank’s monitoring and supervision. School banking conferences have been started from 2016. Financial literacy related video documentaries, presentations, quiz programs and cultural programs are being arranged through these conferences with a view to disseminating financial literacy.
- Alliance for Financial Inclusion (AFI) is a worldwide network for financial inclusion policy makers to facilitate the access of quality financial services for the poor. More than 100 central banks and regulatory institutions of different countries throughout the world are members of this organization. Bangladesh Bank is a principal member of AFI since 2009. Governor of Bangladesh Bank was one of the esteemed members of the AFI Board of Directors (BoD) since 2016 and was the Chair of AFI BoD from 2017 to September 2019. Bangladesh Bank alongside other AFI members are committed and implementing the policy goals regarding financial inclusion under the Maya Declaration Commitment initiated in the Global Policy Forum (GPF) held in Maya, Mexico in 2011. Bangladesh Bank continued its effort to include the financially excluded people countrywide by committing new goals and achieving the previous goals under The Maya Declaration. Under this endeavour, Bangladesh Bank is formulating the National Financial Inclusion Strategy in association with the Ministry of Finance of the Government of Bangladesh and other stakeholders. Bangladesh Bank has achieved AFI Policy Award in 2014 and AFI Member Zone Award in 2015 for its contribution in Financial Inclusion. In addition, Bangladesh Bank has been selected as Financial Inclusion Ambassador of AFI during GPF in 2019 in Kigali, Rwanda for its outstanding contribution and commitment in gender inclusion.
- To develop a financial literacy guidelines for increasing financial literacy among the people, produce financial literacy content for website and produce animated financial literacy videos, Bangladesh Bank has undertaken a project financed by Alliance for Financial Inclusion (AFI) named as Striving for a Financially Literate Society. This project will be implemented by June 2022.
- To generate the acceptability of transferable or movable assets through reformation of eligible collateral and consequently, to widen the periphery of eligible assets, Bangladesh Bank, Ministry of Finance and International Finance Corporation (IFC) of World Bank Group have been jointly undertaken a project named ‘Secured lending and movable collateral reform in Bangladesh’.
- To extend credit to the low-income professionals, farmers & holders of small/marginal businesses in the rural areas through Microfinance Institutions (MFIs) to enable them in reviving their income generating activities, a revolving Refinance Scheme of Tk. 3,000 crore for the COVID-19 affected low-income professionals, farmers & holders of small/marginal businesses has been formed by Bangladesh Bank on 20 April 2020. As per revised directives issued on 28 October 2021 vide FID Circular No: 02/2021, this facility is being disbursed through Micro Finance Institutions (MFIs) as well as by the branches and sub-branches of scheduled banks enabling the fund to be accessible by the target population at the grassroots levels. The scheme provides the end users with the facility to borrow at a maximum of 7 percent interest rates from the banks and at 9 percent interest rate from the MFIs. On the other hand, Bangladesh Bank will charge 0.5 percent interest to the banks while the banks will charge 3.0 percent interest to the MFIs. As of 28 February 2022, more than 0.50 million targeted people has availed the credit facility worth of Tk. 2,375 crore through this scheme. Among the beneficiaries of the scheme around 90.0 percent are women.

Annex 5.2
Reforms in the Bangladesh Bank

The Financial Sector Support Project (FSSP) has been implemented by Bangladesh Bank with the assistance of International Development Association (IDA) during 01 July 2015 to 31 March 2021 to improve financial market infrastructure, regulatory and oversight capacity of Bangladesh Bank and access to long term financing for manufacturing sector in Bangladesh for ensuring stability and greater resilience of the financial sector. The total approved project cost is US\$ 350.00 million of which IDA will provide US\$ 300.00 million and Bangladesh Bank will provide US\$ 50.00 million.

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

Specific objectives of these components are as follows:

1. Strengthening Financial Market Infrastructure

This component aimed 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 and thereby leading to safety and integrity of the financial systems, and (d) strengthening the IT Governance and IT management of the Bangladesh Bank to lay a robust and secured financial platform for advanced financial market. Necessary capacity building and knowledge transfer initiatives have been taken to make the officials of the central bank and its associated organizations to embrace the new technologies and align their regular functions with the technology based new processes. Four consultants have been recruited and 09 IT packages have been procured under this component. One main data center in BB head office and one near data center at Bangladesh Bank Training Academy, Mirpur have been built. A Disaster Recovery Center has been constructed at BB Rajshahi Office.

2. Strengthening Regulatory and Supervisory Capacity

The project provided technical assistance towards the development and adoption of the comprehensive risk-based integrated approach to banking regulation and supervision, including 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 helped BB to migrate to a risk-based approach to supervision to discharge its responsibilities to ensure a safe and sound banking system. A Bank Supervision Specialist firm was appointed in June, 2019 to help Bangladesh Bank in pursuing and achieving financial sector stability and ensuring a safe and sound banking system. The firm has completed its tenure on December 2020 and has given several recommendations to introduce an effective Risk-based Supervision (RBS) in line with Basel Committee on Banking Supervision (BCBS) recommendations. With these recommendations BB can conduct a thorough review of supervisory effectiveness based on micro and macro financial risks faced by

banks. Meantime, the firm has conducted several workshops/trainings on Risk-based Supervision (RBS) to train the Bangladesh Bank officials.

3. Supporting Long Term Finance

One of the deficiencies of the current financial market structure is inadequate sources of long term fund to meet the demand of the productive sector of the country. As a result, the financing need for long term investments are met with relatively shorter maturity funds creating maturity mismatch both at banks and investors book. Hence there is a demand for long term financing for the manufacturing sectors for maintaining growth through up-gradation of technology and production lines and improve compliance with the international standards on social and environmental practices. This prime component of the project has provided 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 was 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 has extended 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. A total of US\$ 275.26 million has been disbursed to 56 firms. Besides, an Environmental Regulations Compliance Specialist and a Long Term Project Financing Advisor have completed their tenure.

Annex 5.3
Implementation of Basel III

Towards building a robust and risk resilient banking system, Basel-III capital and liquidity standards aligned with the international best practices getting momentum in the banking sector of Bangladesh. Bangladesh starts implementation of Basel III with a transitional arrangement from January 1, 2015 and fully implemented at the end of December 2019. In this regard, Bangladesh Bank issued a comprehensive guideline and declared a road map with a phase-in action plan for implementation of BASEL III in December 2014. The aim of implementing Basel-III is to increase resilience of the banks and the banking sector and prepare the banks and banking system to survive in the financial and economic crisis. Banks in Bangladesh need to maintain an adequate level of capital requirement in addition of a minimum capital requirement considering their risk profile.

Basel III increases not only the level of capital but also the quality of capital. Banks need to maintain a minimum capital ratio of 10.00 percent, out of which 6.0 percent as Tier-1 capital. Under Basel III, banks also maintaining a Capital Conservation Buffer (CCB) in addition of minimum capital requirement. This buffer started with 0.625 percent from 2016 and ended up with 2.50 percent in December 2019. The macroprudential aspects of Basel III especially counter cyclical capital buffer to protect the banking sector from periods of excess credit growth is yet to be introduced.

Aiming a leaf forward towards Internal Ratings Based (IRB) Approach, Bangladesh Bank issued circular regarding ‘Guidelines on Internal Credit Risk Rating System (ICRRS)’ and prepared different ‘financial models’ for banks for better managing credit risk internally. ICRRS has been exempted for the loans extended under stimulus packages for Covid-19 pandemic. Beside this, banks are allowed to perform Credit Risk Rating of their client for the year 2021 considering financial statement of year 2019 or 2020. In addition to this, the measurement criteria for quantitative and qualitative indicators are revised.

Capital adequacy reporting under Basel III accord starts from the first quarter ended in March 2015. It is evident that at the end of December 2021, Capital to Risk-weighted Asset Ratio (CRAR) of the banking industry stood at 11.78 percent while Common Equity Tier 1 (CET1) was 7.29 percent which accomplished Basel III capital adequacy requirements. However, at individual level, 10 out of 60 banks were not able to maintain CET1 and minimum capital requirements, i.e. CRAR at required level.

As a step towards implementation of Pillar II of Basel III, Bangladesh Bank is working for implementation of Internal Capital Adequacy Assessment Process (ICAAP) in Bangladesh. Banks evaluate their internal processes and strategies to ensure adequate capital covering all material risks through ICAAP. Bangladesh Bank reviews and evaluates banks’ ICAAP reports and their strategies during its Supervisory Review Evaluation Process (SREP) inspection.

SRP-SREP Dialogue for last two years, which is another major part of Pillar II Implementation process, could not ground due to COVID-19 pandemic. Initiatives have already been taken for Pillar II Implantation this year. Moreover, with the experience of the last three years completed meetings (base year of 2016, 2017 and 2018 respectively) with banks, it was found that the estimated additional capital requirement for residual risk was arisen mainly due to documentation error which was the highest among the pillar II risks. Apart from that, strategic risks and appraisal of core risks management were the other foremost concerns for the banks.

Annex. 5.4
Development of Payment System

A safe and efficient payment system is crucial in maintaining financial stability and effective performance of the financial system. To establish a public interest oriented modern, effective and capital based payment system in the country and to ease ongoing financial transactions of the mass, Bangladesh Bank has implemented three interoperable payment platforms for retail payments segment such as Bangladesh Automated Cheque Processing System (BACPS), Bangladesh Electronic Funds Transfer Network (BEFTN), and National Payment Switch Bangladesh (NPSB) for banked population. In addition, for the large-value payments segment, Bangladesh Real Time Gross Settlement (BD-RTGS) System has been established to settle high value transactions in local and foreign currencies on a real-time basis. At present, the check presented from any part of the country can be disposed within 24 hours in BACPS payment system. On the other hand, the BEFTN system deals with various types of credit transfers, such as salary allowances, foreign and domestic remittances, social security, principal payment and profit of savings certificates, company dividends, retirement benefits could be settle through EFT credits while at the same time utility bill payment, loan repayments, insurance premiums, corporate to corporate payments could be accommodated in EFT debits. In addition, debit and credit card customers are instantly enjoying 24/7 ATM or POS transaction facility through NPSB. In FY 2021-22 (up to December, 2021), BACPS handled about Tk. 7.86 lakh crore through high value checks and about Tk. 4.32 lakh crore through regular value checks. During the same period, transactions amounting to about Tk. 2.77 lakh crore were settled in the BEFTN system on debit and credit transactions. In the current FY 2021-22 (up to December, 2021), about Tk. 29.06 thousand crore has been transacted through NPSB system and about Tk. 13.55 lakh crore has been settled in BD-RTGS.

As an Alternative Payment Channel, 9 banks and 2 subsidiaries companies of 3 banks are providing Mobile Financial Services (MFS) through mobile phone technology. These service providers are continuing their activities of inward remittance disbursement, transaction/bill payment through agent/bank branch/ATM/mobile operator outlet, utility bill payment, payment of wage, payment of miserable, widow, elderly allowances, allowances of freedom fighter, individuals transactions, microfinance disbursement and insurances premium. Non-bank payment service providers are also providing similar financial services to customers like banks. As on December 2021, the total number of agents under Mobile Financial Services was 11,23,113 and the number of registered clients was about 11.15 crore, of which the number of active accounts was about Tk. 4.11 crore. In December, 2021, the average daily turnover was about Tk. 2.30 thousand crore.

Bangladesh Bank has issued licenses as Payment Systems Operator (PSO) to 6 organisations as Payment Gateway and Payment Aggregator to deal with e-commerce or online shopping, which play a vital role by providing services in the advancement of e-commerce. Besides, PSP licenses have been issued to 5 non-bank companies for providing e-wallet services. In order to make the benefits of modern payment system more accessible to the public, Bangladesh Bank has published guidelines for handling payment based on White Label ATM and Merchant Acquiring Services (WLAMA) and 'Bangla QR' code in the country. In addition, to promote labor-intensive micro/floating entrepreneurs, small and micro traders, marginal sellers and service providers, Bangladesh Bank has released the opportunity to open 'Personal Retail Accounts' with minimal paperwork. To ensure discipline and consumer protection in the e-commerce market, Bangladesh Bank has also introduced escrow system for online shopping from the market in addition to advance payment. Moreover, almost all preparations have been made for the implementation of Interoperable Digital Transactions Platform (IDTP) aimed at bridging the gap between the various partners in the payment system. Once IDTP is implemented, through this platform, customers will be able to receive all digital payment services under one API (Application Processing Interface).

Annex 5.5
Prevention of Money Laundering

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

- As a special measure to prevent trade based money laundering, BFIU has instructed all the scheduled banks not to establish relationship with Shell Bank through its letter (no. BFIU (Policy-2)-5/2021-394 dated 10 February, 2021).
- In FY 2020-21 (upto February, 2022) BFIU received 2,32,17,315 nos. Cash Transaction Report (CTR) from the banks and non-bank financial institutions. During the period BFIU also received 5312 nos. Suspicious Transaction/Activity Report (STR/SAR) from the reporting organizations. BFIU analyzed the received STRs/SARs and disseminated to the relevant law enforcement agencies for investigation and necessary action, where necessary.
- The BFIU has signed Memorandum of Understanding (MoU) with the Financial Intelligence Unit of United Arab Emirates (UAE) in March 2021. With this, BFIU has signed total 78 (Seventy Eight) MoUs with the FIUs of different countries/jurisdictions. These MoUs extend the horizon of sharing of information related to money laundering, terrorist financing and proliferation financing.
- To enhance the cooperation and exchange of information relating to Money Laundering (ML), and Terrorist Financing (TF), the BFIU signed Memorandum of Understanding (MoU) with the Insurance Development and Regulatory Authority (IDRA) on 31 March 2021.
- BFIU has continued its effort to increase the capacity and awareness of the officials of banks, other reporting organizations, law enforcement agencies and other relevant regulators and supervisors on combating money laundering and terrorist financing. Furthermore, BFIU participated in various local conferences/symposia/workshops organized by different organizations.
- On the basis of Technical Assistance/Capacity Development demand of BFIU and IMF's current scope of providing TA/CD, IMF conducted a Virtual Scoping Mission during 25th-28th October, 2021 for getting overview on AML/CFT supervisory framework of Bangladesh. Based on findings of that mission, IMF is expecting to start a TA project for BFIU on AML/CFT supervision of banking sector in 2022 for strengthening AML/CFT regime of Bangladesh.
- For prevention of money laundering (ML) and combating terrorist financing (TF) and proliferation financing (PF) BFIU has been maintaining continued engagement with all the international bodies such as APG, Egmont Group, FATF, BIMSTEC, UNODC, UNCAC, World Bank and IMF to boost international efforts in this arena. Bangladesh actively participated in various international initiatives undertaken by these organizations and other foreign FIUs in FY 2021-2022. Furthermore, as the main coordinating agency for prevention of ML, TF and PF, BFIU actively participated in a number of local conference/meeting/workshops arranged by other government agencies.
- The BFIU is performing to meet the core objectives of Money Laundering Prevention Act, 2012 and Anti Terrorism Act, 2009 and working hand in hand with the international community to upgrade the AML/CFT regime of Bangladesh which will ensure financial stability and sustainable economic growth. During the COVID-19 pandemic, Bangladesh like the other economies has also experienced a significant expansion of digital platforms and the e-commerce industry.
- Surfacing the name of e-commerce, multi-level marketing (MLM) and microcredit businesses, allegations of embezzlement and financial fraud has also expanded inimically. BFIU has successfully conducted several in-depth analyses on financial transactions of such alleged companies. Based on the recommendation of BFIU's intelligence report, the government has taken various steps to discipline this sector.