

# **Financial Sector in Bangladesh**

## **1. Background**

The financial system in Bangladesh includes Bangladesh Bank (the Central Bank), scheduled banks, non-bank financial institutions, microfinance institutions (MFIs), insurance companies, co-operative banks, credit rating agencies and stock exchange. Among scheduled banks there are 4 nationalised commercial banks (NCBs), 5 state-owned specialised banks (SBs), 30 domestic private commercial banks (PCBs), 9 foreign commercial banks (FCBs) and 29 non-bank financial institutions (NBFIs) as of December 2006. However, *Rupali Bank*, an NCB is being sold to a foreign buyer, and once this transaction is completed, the country will have only 3 NCBs. Which are being corporatized. Over and above the institutions cited above, three development financial institutions namely House Building Finance Corporation (HBFC), Ansar-VDP Unnayan Bank and Karma Shangsthan Bank are operating in Bangladesh, all of which are state owned.

## **2. Central Bank and its Policies**

The objectives of the Bangladesh Bank (BB) is to formulate monetary policy which aims at supporting the highest sustainable output growth while maintaining price stability, adjusting smoothly to the internal and external shocks faced by the economy from time to time. Within this mandate, BB also supervises and regulates scheduled banks and non-bank financial institutions operating in Bangladesh. It maintains the traditional central banking roles of note issuance and the banker to the government and banks. Its prudential regulations include, among others, ensuring minimum capital requirements, applying limits on loan concentration and insider borrowing, and, providing guidelines for asset classification and income recognition. The Bangladesh Bank has the legal authority to impose penalties for non-compliance and also to intervene in the management of a bank if serious problems arise. It has the delegated authority of issuing policy directives regarding the foreign exchange regime.

## **3. Scheduled Banks**

Out of 6562 scheduled bank branches operating in the country, upto end December 2006 the NCBs operate 3384 branches, of which 2146 are in rural areas and 1238 are in urban areas; SBs have 1354 branches of which 1200 are in rural areas and 154 are in urban areas; PCBs have 1776 branches of which 488 are in rural areas and 1288 are in urban areas; and FCBs have 48 branches exclusively in urban areas. Out of 30 PCBs, six have been operating as Islamic banks. Besides these full-fledged Islamic banks, 10 conventional banks in the private sector have opened selected branches and Islamic banking counters respectively to deal with the Islamic banking business parallel to their conventional operations. NCBs owned 65.3 percent while PCBs, SBs and FCBs own 24.5, 6.6 and 3.6 percent respectively of total assets of the scheduled banks. Of the total deposits, NCBs' share stood at 38.8 percent while SBs, PCBs and FCBs shared 5.8, 48.7 and 6.8 percent respectively. Among PCBs, the Islamic Banks' share of deposits is 12.5 percent. On the other hand, NCBs disbursed 32.3 percent of total advances while SBs, PCBs and FCBs disbursed 9.3, 51.5 (of which 14.8 percent was disbursed by the Islamic Banks) and 6.9 percent respectively at the end of September 2006.

## **4. Non-Bank Financial Institutions (NBFIs)**

Non-Bank Financial Institutions are an important part of financial system in Bangladesh. NBFIs operations are regulated under the Financial Institutions Act, 1993. The NBFIs consist of investment, finance, leasing companies etc. There were 29 financial institutions operating in Bangladesh as of 31 December 2006. Of these one is government owned, 15 are local (private) and the other 13 are established under joint venture with foreign participation. Bangladesh Bank has introduced a policy for loan and lease classification and provisioning for NBFIs from December 2000 on a half-yearly basis. Among the 29 financial institutions, 12 have been listed in the stock exchanges up to 31 December 2006 to strengthen financial capability and the rest are under process to be listed in due course.

## **5. Capital Market**

The capital market in Bangladesh is regulated and supervised by the Securities and Exchange Commission (SEC) under the SEC Act, 1993. The SEC so far has issued licenses to 27 non-bank institutions to participate in the capital market of which 19 institutions are Merchant Banker and Portfolio Manager while 7 are Issue Managers and 1 acts as Issue Manager and Underwriter. The Dhaka Stock Exchange (DSE), which was established as a public limited company in April 1954, and the Chittagong Stock Exchange (CSE), established in April 1995, dealing in the secondary capital market. As of end December 2006 the total number of enlisted securities with DSE stood at 310 of which 255 are listed companies, 13 mutual funds, 8 debentures and 34 treasury bonds. Recently, two power sector companies namely Dhaka Electric Supply Company (DESCO) and Power Grid Company of Bangladesh (PGCB) have been listed in the capital market under the newly introduced direct listing regulation. The Investment Corporation of Bangladesh (ICB) was established in 1976 with the objective of encouraging and broadening the base of industrial investment. ICB underwrites issues of securities, provides substantial bridge financing programs, and maintains investment accounts, floats and manages closed-end and open-end mutual funds and closed-end unit funds to ensure supply of securities as well as generating demand for securities. ICB also operates in both DSE and CSE as dealer. Some SBs, such as Bangladesh Shilpa Bank (BSB), Bangladesh Shilpa Rin Sangstha (BSRS), Bangladesh Small Industries and Commerce (BASIC) Bank Ltd. as well as NCBs and some foreign banks are engaged in long-term industrial financing.

## **6. Insurance**

The insurance sector is regulated by the Insurance Act, 1938 with regulatory oversight provided by the Controller of Insurance on authority under the Ministry of Commerce. A separate Insurance Regulatory Authority is being established. A total of 62 insurance companies have been operating in Bangladesh, of which 18 provide life insurance and 44 are in the general insurance field. Among the life insurance companies, except the state-owned Jiban Bima Corporation (GBC) foreign owned American Life Insurance Company (ALI CO), and the rest of the private. Among the general insurance companies, state-owned Shadharan Bima Corporation (SBC) is the most active in the insurance sector. A total of 31 insurance companies are listed in the capital market, of which 8 offer life insurances.

## **7. Microfinance Institutions (MFIs)**

MFIs in Bangladesh were left unregulated for a long time since their inception. The government, with the close cooperation of Bangladesh Bank, undertook efforts to establish a regulatory framework which culminated in the enactment of the Microcredit Regulatory Authority Act, 2006. An Executive Board consisting of eight members is responsible for executing the general and administrative tasks of the management. The Board consists of the Governor of Bangladesh Bank as *ex-officio* chairman, six government officials nominated by the government and one executive vice-president who serves as the member secretary of the board. The main responsibilities of the authority include issuance and cancellation of the license for microcredit, overseeing, supervising and facilitating the entire activities of MFIs.

In recognition of the robust poverty eradication via microfinance activities, the Grameen Bank and its founder, Dr. Muhammad Yunus have been awarded The 2006 Nobel Peace Prize. Now it has been recognised worldwide that microfinance can be easily adapted and thus replicated in diverse cultural and geographic locations all over the world. The member-owned Microfinance Institutions (MFIs) have an explicit social agenda to cater to the needs of the poorer sections of population, and have a particular focus toward rural women clients. Grameen Bank was established in 1983 under a special law with the initial support from the Bangladesh Bank. The typically landless borrowers of Grameen Bank mostly women, are owners of the bank and it is the pioneer organization of this type. Besides Grameen Bank, there are more than 1000 semi-formal institutions operating mostly in the rural sector of the country; of these, BRAC, ASA, and PROSHIKA are considered three largest NGO-MFIs.

## **8. Cooperative Banks**

In Bangladesh 119 cooperative banks are operating, of which 64 are central cooperative banks, 48 are land mortgage and rest 7 are other cooperative banks. The maximum share of total assets, 90 percent, is controlled by central cooperatives. Similarly the maximum share deposits (85 percent) and advances (90 percent) are likewise handled by the same central cooperatives.