FINANCIAL MARKET REVIEW

April 2023

BICM
Endeavour Education Excellence

Contents

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The BICM Financial Market Review provides analytical insights about the performance of the financial market in Bangladesh on a monthly basis.

Economy of Bangladesh

> **In FY 2022-23, the economy grew by 7.1% compared to 6.94% in previous fiscal year.**
> Amidst the continuous depreciation of BDT against USD, the Per Capita Income stood at $2793 and Per Capita GDP stood at $2687. The momentum of GDP also increased to $470.22 billion which is a positive motive for investment in the capital market of Bangladesh.

Key Economic Indicators at a Galance

Countries	Nominal GDP (USD in billion)	Real GDP Growth	Inflation Point to point (as of Jan, '23)	Currency Appreciaition/Depreciation against USD	Reserve (Billion US$)	Currency Exchange Rates (per USD)
Bangladesh	470.22	7.10%	8.78%	-0.99%	32.26	107.02
Emerging Economies						
India	3,821.00	8.70%	5.88%	-1.36%	578.78	82.18
China	17,300.00	3%	1.00%	-2.75%	3133	6.78
Developed Economies						
USA	23,618.00	2.90%	6.04%	0%	244	1
UK	3,080.00	1.90%	10.40%	-2.34%	113.88	0.81

Appreciation/Depreciation of Currencies against USD

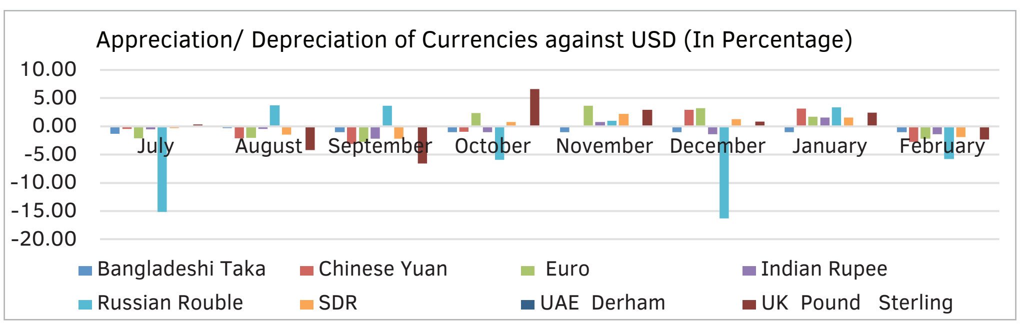


Figure 1: Appreciation or Depreciation of Different Currencies against USD

A visual tour of the key statistics

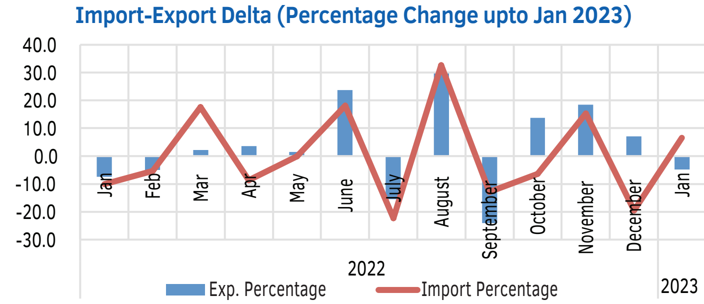


Figure 2: Import-Export Delta (Percentage Change up to Jan, 2023)

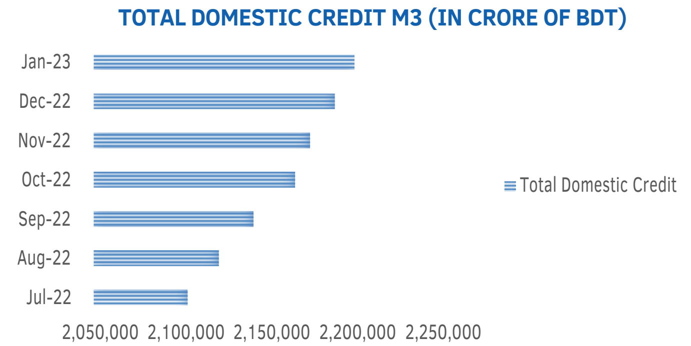


Figure 7: Total Domestic Credit

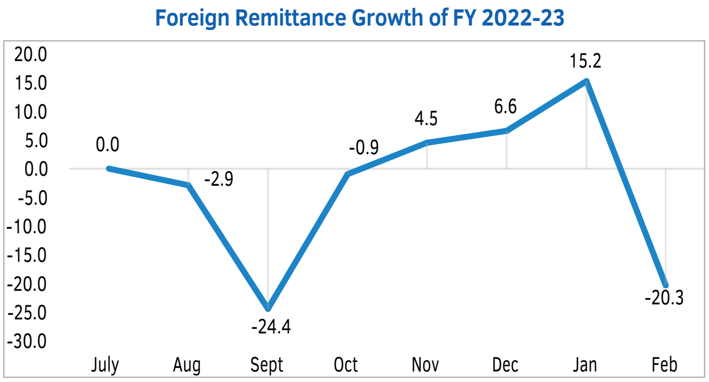


Figure 3: Foreign Remittance Growth of FY 2022-23

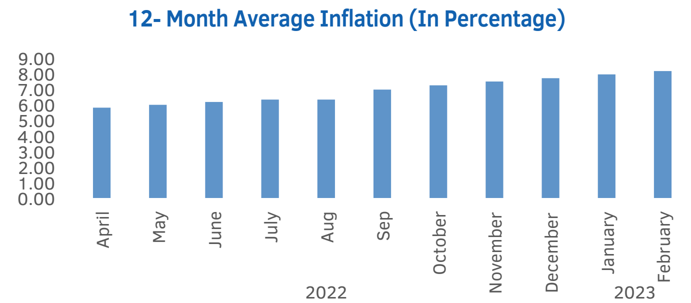


Figure 8: 12- Month Average Inflation (In Percentage)

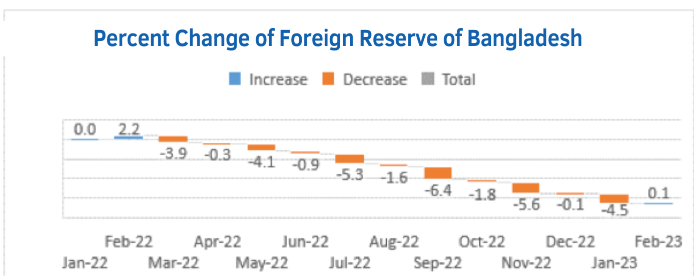


Figure 4: Percent Change of Foreign Reserve

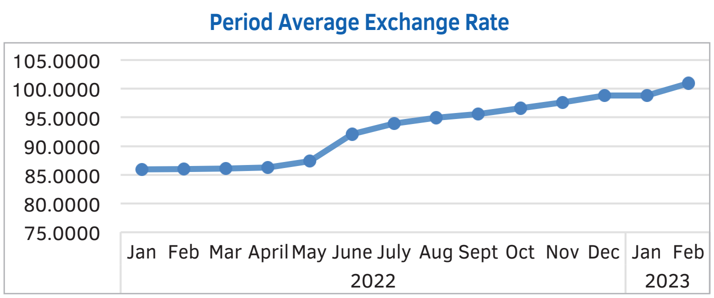


Figure 5: Period Average Exchange Rate of Bangladesh

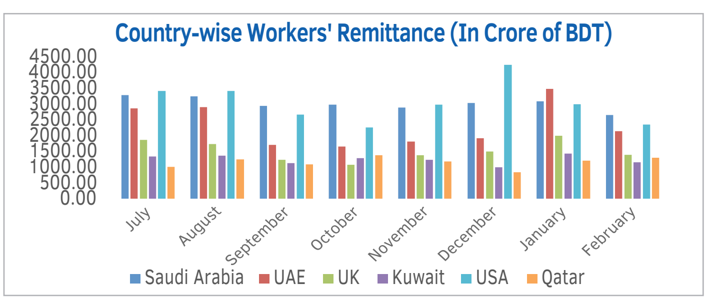


Figure 6: Country-wise Workers' Remittance

Numbers to Note

1. In Global Soft Power Index, the rank of Bangladesh's Brand Value is 508 billion dollars which has achieved 97th position in the world. Bangladesh has moved up 8 positions from last year where Bangladesh's position was 105 with Brand Value of 371 billion dollars.
2. BDT was found to be depreciating by 1.0% per USD while other big South Asian economies depreciated more against USD in this month.
3. Export growth was negative while import growth was very positive during the month which is apparently a bad indicator.
4. Foreign remittance growth decreased by 20% in March, 2023 compared to earlier month.
5. The reserve is now 32.26 billion USD which is almost equal to that of the previous month.
6. The average monthly exchange rate is now 101 Taka per USD that represents continuous depreciation over months.
7. The Debt-to-GDP percentage in 2021 was 21.8% which was19.5% in previous year.
8. The 12-month average inflation is 8.14% which was 7.9% in previous month.

Economic Challenges Ahead

1. According to Bangladesh Bank statistics, in 2021-2022, per capita foreign debt was $558 which was $482 in the previous fiscal year.
2. The gold price instability has the high potential to seize the market in the hands of some syndicates that may bring instability in the economy.
3. The exchange rate instability is still making the currency level macro-economic indicators vulnerable.
4. The Non-Performing Loans may shrink the scopes of improvement for the economy.
5. The rising inflation and increasing cost of commodities may turn on the switch of economic depression in Bangladesh unless tackled properly.

Data Source: Bangladesh Bank, IMF, WB & BBS

Capital Market

Capital Market Orchestrated Downward Movement Losing 8 Points in March

In March 2023, the market demonstrated a 0.13% decrease in the DSEX index compared to February 2023. The prices of the majority of issues increased

It is glaringly apparent by analyzing the capital market snapshot of March 2023 that the DSE market indices demonstrated a downward movement throughout the month alongwith a short positive trend in the first week of the month. The prices of the majority of issues increased compared to the previous month. Other indices have also decreased compared to those of February. During March, on an average only 195 issues advanced, 45 issues declined and the remaining 79 issues remained unchanged. The AD ratio compares the number of stocks that increased in value to the number of stocks that decreased in value. It is evident from the AD ratio of this month that the 20-trading day denoted a downtrend in the market throughout the month alongwith an increase during the first week of the month.

The market lost points on maximum trading days of the month. Investment in the market decreased due to the panic among investors regarding political issues, instability in foreign exchange market, and industry specific stricken news. Increasing idiosyncratic events at the brokerage and asset management companies of the country burgeoned the panic. Investment in the market dropped due to investors' inertia to invest in stocks in fear of having their investment stuck for a long time. Institutional and eligible investors inhibited their exposure, causing many of the stocks to be on the floor price. The decrease in the flows of foreign remittances, the widening trade deficit, along with the free fall in foreign exchange reserves to $32 billion, have created a panic among investors to return to the capital market. Overall, 08 IPOs are in the pipeline to penetrate the market waiting for the approval from BSEC. Analyzing the returns of the world's major indices it is apparent that India, USA, and Japan all showed a positive return in March compared to that of Bangladesh, China, and the UK. Among them Japan's SSEC index had a positive return of 2.17% greater than any other country in comparison. In terms of global commodity future markets, sugar and gold gained the maximum value of 8.52% and 7.82% respectively. Natural gas, soybean and crude oil prices have decreased in the month of March.

The market PE ratio of the Dhaka Stock Exchange this month was 17.5 on an average. GENEXIL was in the top position based on turnover; LEGACYFOOT was the top gainer in terms of price increase whereas BENGALWLT was the top loser. In terms of sector return, Travel and Leisure sector, IT sector and Services sector performed well in this month. Aggregately, the average trade volume and the average trade value increased by 24.09% and 14.54% respectively along with a 0.15% decrease in the average market capitalization compared to the previous month. A piece of positive news this month for the economy of Bangladesh is that foreign remittance has increased by 2 billion USD after 6 months.

BSEC already has taken several actions to improve the market performance. Approval of two growth fund, BMSL national Housing Growth Fund and UCB Income Plus Fund with target size of Tk. 25 crore and Tk. 50 crore respectively is scintillating new hopes for the market development. The capital market regulator has also increased the capital market investment of Mutual Funds by 80% which was previously 60%. Though this month was not good for the investors, it is hoped that the positive reinforcements taken by the policymakers of Bangladesh and the increased participation of institutional investors will bring heydays for the capital market of Bangladesh.

DSE Market Indices

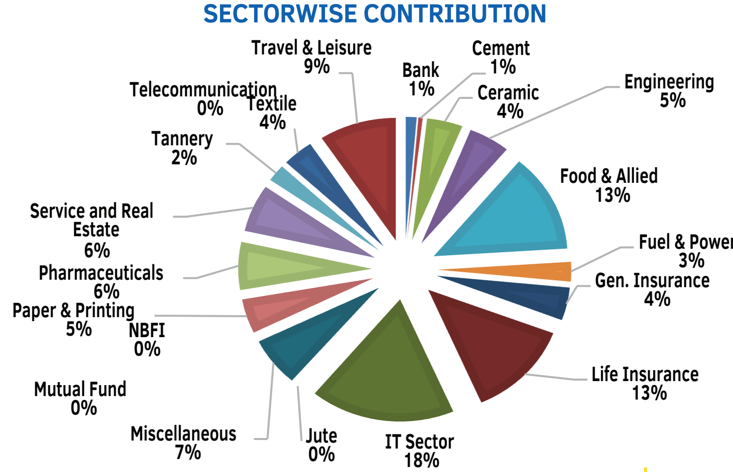
Index Name	1-Mar-23	30-Mar-23	Change	% Change
DSEX	6,214.69	6,206.80	-7.89	-0.13%
DSES	1,357.75	1,349.33	-8.42	-0.62%
DS30	2,218.35	2,209.44	-8.91	-0.40%
CDSET	1,219.91	1,209.83	-10.08	-0.83%
DSMEX	1,031.07	1,132.68	101.61	9.85%

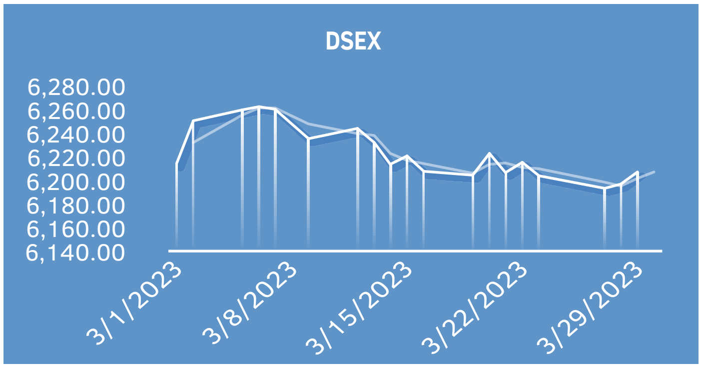
Scripts Movement (Monthly)	Advance	Decline	Unchanged
	195	45	79

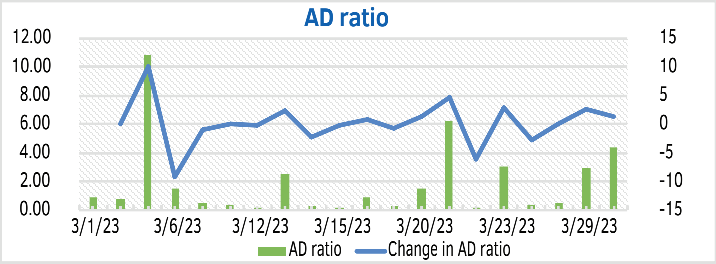
Market Aggregates

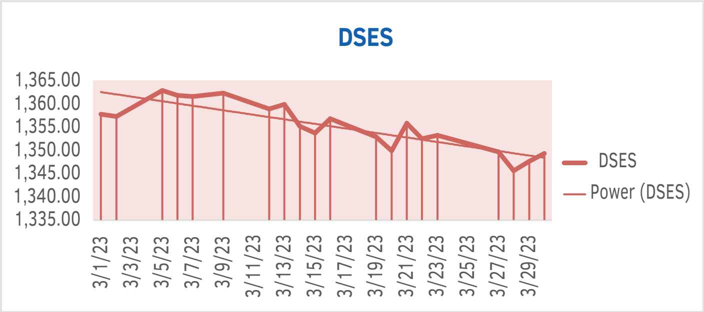
	30 Mar 2023	28 Feb 2023	Change	% Change
Average Market Capital (TK Million)	7,627,883.01	7,638,983.92	-11,100.91	-0.15%
Average Traded Value (TK Million)	4,703.21	4,106.06	597.15	14.54%
Average Number of Trades	94,894.00	82,870.57	12,023.43	14.51%
Average Trade Volume	69,073,201.55	55,664,525.04	13,408,676.51	24.09%

SECTORWISE CONTRIBUTION







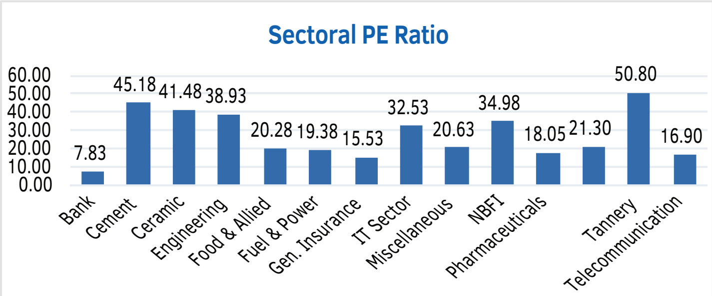


Performance comparison of World's Major Index

Country	Index Name	Return
China	SSEC	-1.12%
India	BSESENSEX	0.05%
USA	DOWJONES	1.41%
Japan	Nikkei 225	2.17%
UK	FTSE 250	-4.90%
Bangladesh	DSEX	-0.13%

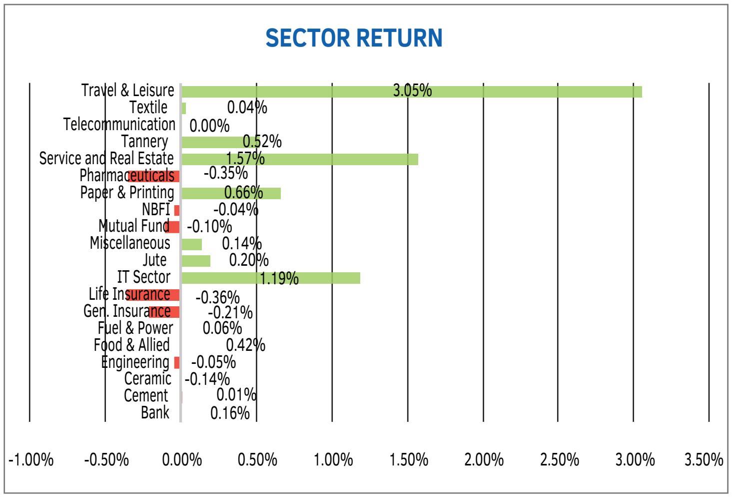
Top Gainer and Loser

Turnover				Gainer		Loser	
Sl	Stock	Turnover	Total (%)	Sl Stock	Return(%)	Sl Stock	Return(%)
1	GENEXIL	434.95	5.20%	1 LEGACYFOOT	69.20%	1 BENGALWLT	-29.98%
2	SEAPEARL	422.87	6.99%	2 RDFOOD	27.62%	2 BGIC	-19.51%
3	EHL	376.74	19.85%	3 INTECH	24.42%	3 ICICL	-16.62%
4	RUPALILIFE	355.1	1.09%	4 GEMINISEA	17.83%	4 ORIONINFU	-16.64%
5	BSC	328.74	-2.52%	5 CITYGENINS	17.00%	5 METROSPIN	-14.36%



Performance comparison of commodity futures

Commodity name	Return
SUGAR	8.54%
NATURAL GAS	-18.75%
COTTON	6.22%
SOYBEAN	-8.80%
GOLD	7.82%
CRUDEOIL	-2.13%



Money Market

School banking, a step towards financial inclusion, has witnessed sharp growth irrespective of gender.

Total deposits have increased by around 6.14 percent YoY as of January 2023, with demand deposits and time deposits growing by 11.57 and 5.43 percent respectively. [Table-01]

Total bank credits have scaled up by 8.56 percent annually. Advances of the banks grew by 13.89 percent whereas both Bills and Investments decreased by 5.23 and 8.72 percent respectively. [Table-01]

Table 1: Deposits Held in DMBs and Bank Credit

DepositsHeld in DMBs (Taka in Million)					
Items	Jan, 2023	Dec, 2022	Jan, 2022	Percentage Changes	
				Jan, 2023 over Dec, 2022	Jan, 2023 over Jan, 2022
Demand Deposits	1,794,830	1,837,414	1,608,703	-2.32	11.57
Time Deposits	13,082,883	13,054,277	12,408,836	0.22	5.43
Total	**14,877,713**	**14,891,691**	**14,017,539**	**-0.09**	**6.14**

Bank Credits (Taka in million)					
Items	Jan, 2023	Dec, 2022	Jan, 2022	Percentage Changes	
				Jan, 2023 over Dec, 2022	Jan, 2023 over Jan, 2022
Advances	14,105,059	14,116,520	12,384,337	-0.08	13.89
Bills (Import & Inlands)	325,465	295,445	343,429	10.16	-5.23
Investments	3,236,924	3,170,979	3,546,325	2.08	-8.72
Total	**17,667,448**	**17,582,944**	**16,274,091**	**0.48**	**8.56**

Notes: 1. Deposits exclude Interbank Deposits and Government Deposits, 2. Advances include Loans & Advance, Money at Call, Balances & R. Repo with NBFI's & Accrued Interest, 3. Investments include Treasury Bills, Treasury Bonds, Share & Securities with accrued interest.

Compared to previous month, Call money rates in March witnessed downward sloping with monthly average of 6.03 percent. [Figure-20] The nominal lending and deposit rate have an average rate of 7.13 percent and 4.09 percentage respectively. [Figure-21]

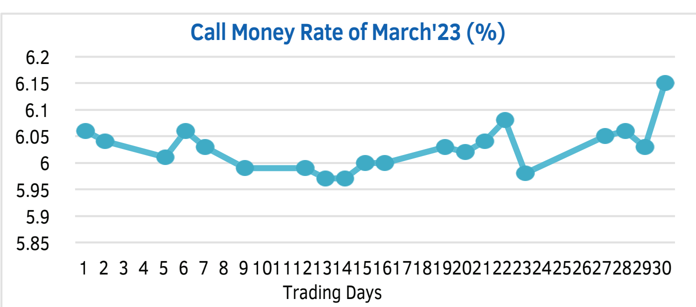


Figure 20: Call Money Rate of March

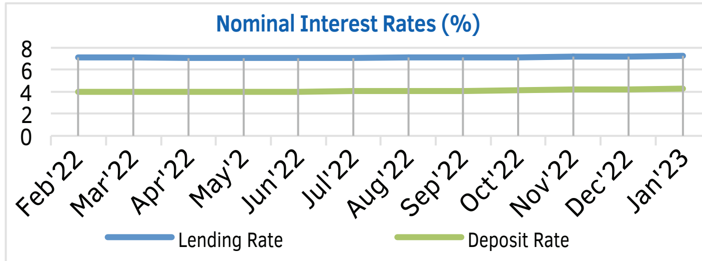


Figure 21: Nominal Interest Rates

Sector-wise advances disbursed by banks has been plotted where Trade & Commerce sector has been given the most 34.91 percentage as of December 2022 [Figure-22]. Both cost of funds and adjusted cost of funds remained high with average of 6.61 and 7.57 percent respectively in January 2023 [Figure-23].

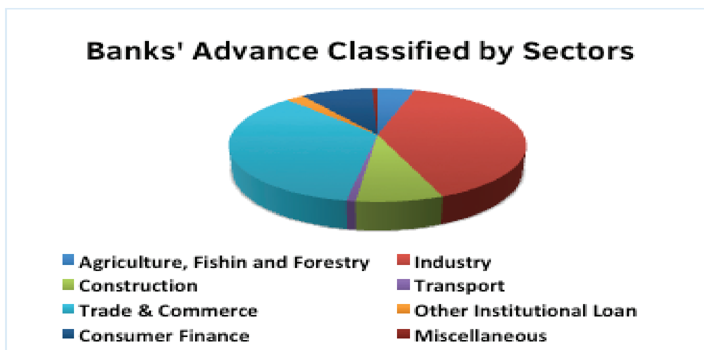


Figure 22: Bank' Advance Classified by Sectors

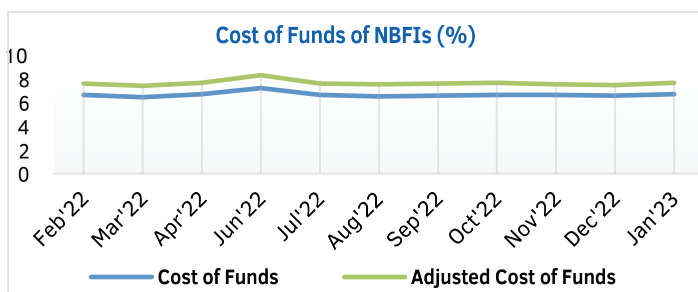


Figure 23: Cost of Funds of NBFI

Private sector credit growth stepped downward to 12.62 percentage as of January 2023. [Figure-24]. Government borrowing from banks continued to soar to 34,590 crores as of January 2023 [Figure-06].

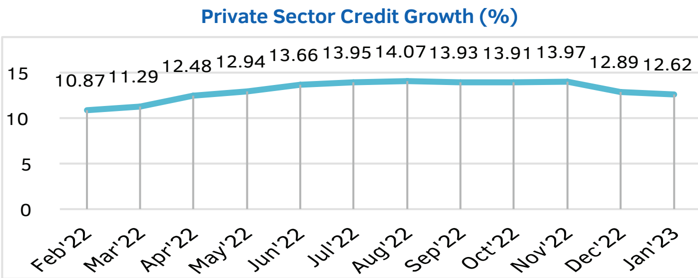


Figure 24: Private Sector Credit Growth

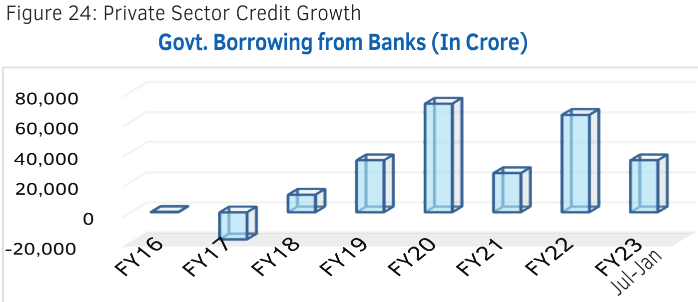


Figure 25: Govt. Borrowing from Banks

As of March 2023, the yields on T-Bills with terms of 91, 181 and 364 days were 6.35, 7.05 and 7.49 percent respectively. [Figure-26]. The yields on the 2, 5, 10, 15 and 20 year T-Bonds hit 8.03, 8.20, 8.45, 8.7 and 8.80 percent respectively. [Figure-27].

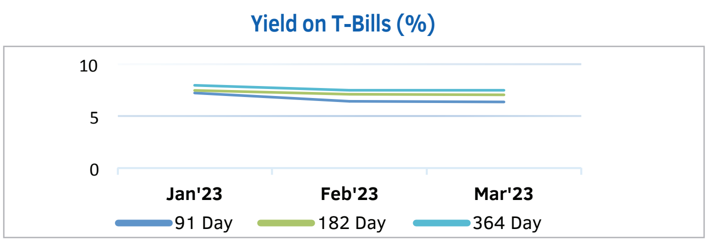


Figure 26: Yields on T-Bills

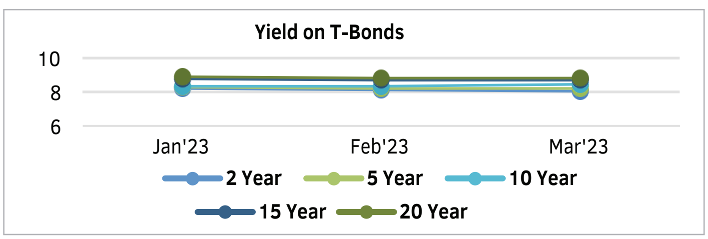


Figure 27: Yields on T-Bonds

Trends in Financial Inclusion and Digital Finance Statistics

As of January 2023, there were around 6.43 million internet banking subscribers, which is an increase of 36.81 percent year over year. [Figure-28]. The number of MFS users remained buoyant and reached at around 194.13 million, with a 10.13% yearly growth. [Figure-29].

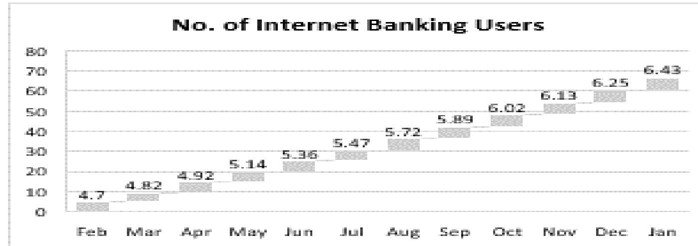


Figure 28: Number of Internet Banking Users

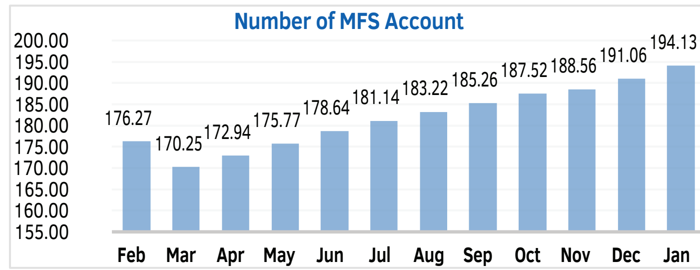


Figure 29: Number of MFS Accounts

As part of financial inclusion, number of school banking accounts continued to grow with 1.72 and 1.49 million male and female accounts respectively [Figure-30]. Except utility bill payment, all other transactions through agent banking witnessed sharp year on year growth as of January 2023 [Figure 31].

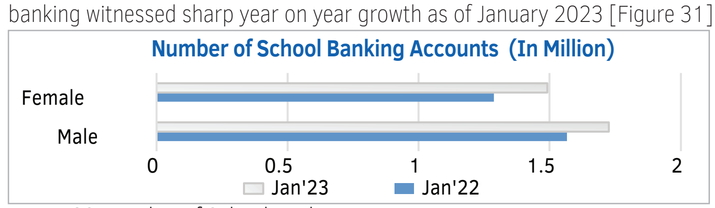


Figure 30: Number of School Banking Accounts

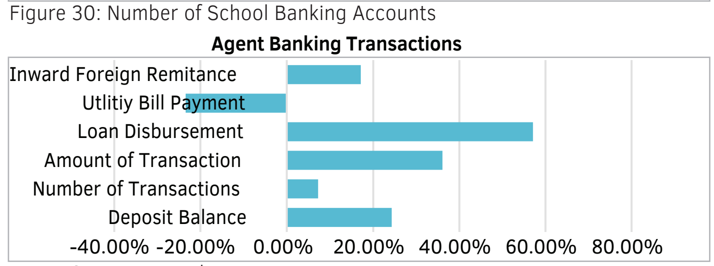


Figure 31: Agent Banking Transactions

Key Takeaways

> Banks' deposits have begun to rise as a result of customers starting to deposit the money, they had withdrawn from the banks during the past three months. Moreover, the withdrawal of deposit floor has benefitted the customers to park their money in banks at comparatively higher rates.

- The removal of lending rate ceiling from July will give the banks room to adjust their lending rate up to 3 percent of reference rate which is six-month moving average rate for treasury bills. Thus, the lending rate may shoot upward.
- The call money rate of March has witnessed downward trend compared to February. This signals the improvement of liquidity crisis condition in the money market.
- Trade & Commerce and Industry sector witnessed the largest advance disbursed by the banks, essential for the development of the country.
- Cost of Funds for Non-Bank Financial Institutions (NBFIs) remained high as they need to rely on call money market for funds.
- Private sector credit growth has been the lowest in nine months resulting from falling import and tight liquidity condition in banking sector.
- Government borrowing from banks continued to rise. According to experts, this may create a crowding-out situation in banking sector.
- The purview of financial transactions is no longer within brick and mortar as evidenced by the growth of internet banking users and number of Mobile Financial Service (MFS) accounts.
- School banking, a step towards financial inclusion, has witnessed sharp growth irrespective of gender.
- Agent banking plays a vital role in mobilizing the banking services to the remotest areas of the county as evidenced by the types of transactions conducted by the marginal people.

Source: Bangladesh Bank Website

Md. Yousuf Ali

Market-based Financial System

A balanced and efficient approach towards growth

Insights

"Market-based financial system allows the borrowers to collect financing directly from the investors through security issuance. It has an upper hand over a bank-based financial system due to some specific factors. Systematic risk is minimized in a market-based financial system. The characteristics of demand and supply sides participants are better matched here. Empirical evidence shows that a market-based financial system is better suited for infrastructure and SME financing. Countries such as Korea, Turkey, Mexico, etc. have been working tremendously to reap the benefits of a market-based financial system. Bangladesh is also striving towards 'Vision 2041'. The steps taken by the related authorities to improve the financial ecosystem of the country are very commendable. Further integrated support from all the stakeholders will allow a market-based financial system to thrive. It may be considered a cardinal factor in assisting the rapid and transformational change the country will experience over the next two decades, as described by the Perspective Plan of Bangladesh 2021-2041."

A financial market can be considered a vehicle for channeling funds from the excess side to the deficit side. Generally, people save money after spending. This additional money somehow goes into the hands of the people or entities who need that money to produce more valuable goods or services. Research studies have shown that the financial sector of a country develops and becomes larger as the country gets richer. Participation of financial intermediaries increases with the national wealth. As income level increases, stock markets expand rapidly compared to banks.

The participants of a financial market can be broadly categorized as governments, central banks, commercial banks, investment banks, asset management companies, brokerage companies, insurance companies, exchanges, private corporations, etc. Depending on the dominance of a group of participants over the whole financial market, an economy can be considered either bank-based or market-based.

In a bank-based financial system, people and entities invest their savings in banks, and the banks in turn supply that money to the demand side including both private and public sectors. Some of the widely known bank-based economies are Germany, Greece, Spain, Ireland, etc.

In a market-based economy, both corporations and the public sector raise funds from the open market by selling securities directly to investors. The USA, UK, Sweden, France, Denmark, etc. mostly have market-based financial systems.

Some differentiating factors between market-based and bank-based financial systems:

Systematic risk: The bank-based financial system increases systematic risk. On the flip side, the market-based financial system decreases systematic risk (Bats and Houben, 2017). Banks are prone to more systematic risk due to some inherent nature of the system itself. Banks are business organizations with significant financial leverage. The proportion of borrowed funds is very high compared to the own capital size of banks. As a result, banks enjoy higher returns when the overall economy is in a good shape. However, when the economy turns bad, the banks experience a massive decline in the value of their investments. At that moment, banks need to raise additional capital, reduce the balance sheet size, or opt for low-risk investments.

People of the whole world understood the reality of this basic equation after the global financial crisis of 2007-2008. After the crisis, bank-based economies especially EU countries observed a significant deterioration in bank lending. To reinforce their capital position, EU banks had to reduce the size of their balance sheets (Wiel, Zhang and Kalara, 2019). This had a hammering effect on cross-border dealings. In the US, bank-to-market financing ratio started to decline gradually since 2009. Similar situation was observed in the case of Germany.

Asset-liability mismatch: The concern of asset-liability mismatch of banks is not unknown to anyone. If the duration of the bank assets doesn't match that of the liabilities, danger prevails over the whole banking system. Several months back, veteran Indian economist Dr. Pronab Sen (Former Principal Economic Advisor, Planning Commission) said that the Indian banking system is prone to a massive asset-liability mismatch. He added that the average tenure of bank assets was about 9 years, and that of bank liability was about 2.5 years (www.business-standard.com, 2022). It can be related to the Indian banks' loan portfolio of 70% working capital loan, 20% retail loan, and 10% term loan financing about 20 years bank. Currently, the portfolio composition has changed to 45% term loan, and 35% working capital financing. When faced with an acute crisis, banks of a country flock to the central bank. And the central bank provides the necessary funds even if it needs to print money for that. This may abate the possibility of a bank run in short term. But this additional liquidity often creates inflationary pressure.

Infrastructure financing: According to a study conducted by BIBM (Bangladesh Institute of Bank Management) in 2020, about 91% of the banks don't feel comfortable financing long-term projects (The Financial Express, 2020). The lack of long-term funding sources is a major challenge for the banks in this regard. Most of the banks in Bangladesh doesn't follow specific policy or guideline regarding infrastructure financing. About two-thirds of the infrastructure financing provided by the banks are considered project financing.

To smoothen the project financing schemes, the BIBM study suggested the proliferation of capital market instruments. Capital market instruments can be designed in line with the specific requirements of the borrowers and lenders. For example, countries like Malaysia, Bahrain, Saudi Arabia, etc. have a huge market of shariah-compliant Islamic debt instruments.

There are numerous examples where market-based financing products facilitated large-scale infrastructure funding needs. The Securities Commission Malaysia found that infrastructure project companies can easily get the needed funding by listing their equity on the stock exchange. In 1995, the commission introduced IPC (Infrastructure Project Corporation) listing framework to facilitate the process hugely benefitting the infrastructure sector in Malaysia (Market-Based Long-Term Financing Solutions for SMEs and Infrastructure, 2014).

SME financing: In certain economies within Europe, SMEs' dependency on bank financing has made businesses vulnerable. In conjunction with bank financing, SMEs can benefit greatly by tapping into the resources of other institutional and retail investors. By securitizing SME loans, banks can transfer the risk to other investors in the market. This will help SMEs to enjoy a higher amount of capital flow, as well as various types of willing investors to indirectly invest in SMEs.

Since 2000, the amount of European SME securitization has increased at an impressive pace. Also, the proportion of SME securitization as a percentage of total issuance is on a rising trend (Opportunities and Constraints of Market-Based Financing for SMEs, 2015). Along with securitization, covered bonds, small cap bonds, etc. are highly beneficial for SMEs, ensuring a priority claim for the investors. These market-based financial instruments are successfully contributing to the growth of the SME ecosystem in the European region.

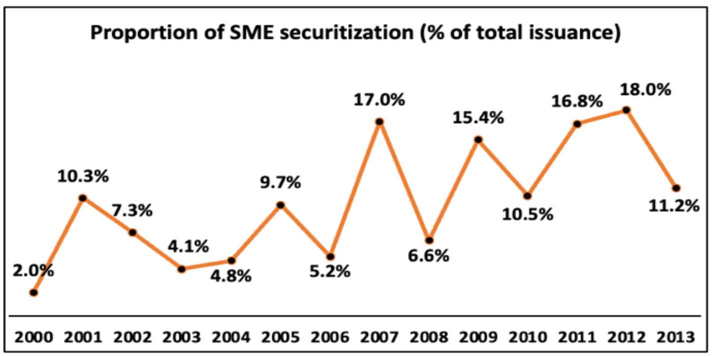


Figure: European SME securitization issuance.

Source: (Author's calculation).

As per IFC (International Finance Corporation) and McKinsey & Company, the gap in formal SME credit was about USD 700 to USD 850 million in 2010 (Shinozaki, 2014). This was about a quarter of the total formal SME credit outstanding in developing countries. In a report, ADB (Asian Development Bank) suggested that diversification from conventional bank-led financing is needed to reduce the supply-demand gap in SMEs in emerging Asian countries. Alongside, ADB stressed the burgeoning of capital market financing for SMEs.

Country case study:

Korea: The restructuring of the Korean financial system happened after the Asian Financial Crisis in 1997. The then govt. identified that fund-raising through the securities market is a potential way out of the crisis. However, for the system to work properly, the govt. stressed improving the corporate governance of the business organizations. IMF (International Monetary Fund) also underscored the inefficiency of the banking system is a major catalyst of the country's currency crisis. A framework laid out in late 2004 allowed pension funds to invest in the stock market. The FSCMA (Financial Investment Services and Capital Markets Act) of 2009 created a revolutionary change in the Korean capital market. New financial products were created as a result. Korean stock market capitalization almost doubled in late 2000s compared to early 2000s. Compared to early 2000s, private credit by deposit money banks and other financial institutions decreased in late 2000s (Market-Based Financing in Emerging Market Countries, 2015). On the contrary, stock market capitalization increased significantly during the period.

Turkey: Turkey is a bank-dominated economy. In 2014, the loan-to-GDP ratio of the country was about 70%. However, the government is very keen on fostering a market-based financial system. Turkey implemented a new capital market law in 2012 to uphold its capital market at global standards. The country found a lack of proper financial literacy a major challenge in developing its newly energized capital market.

Mexico: Mexico being an emerging economy undertook major transformations in its financial system. The previously bank-based economy of Mexico now has a domestic debt market of humongous size. The country's capital market is mostly composed of debts. Also, innovative financial products such as Capital Development Certificates, Infrastructure & Real Estate Trusts, etc. have become very popular. However, the business ecosystem in Mexico has several challenges. The family-owned businesses are fearful of losing control of the companies. The Mexican Stock Exchange undertook programs to promote the issuance of debt by medium-sized companies. This shows the enthusiasm of the govt. and related entities to promote the market-based financing ecosystem.

Market-based financial system supporting the growth trajectory of Bangladesh:

As of December 2022, the total market capitalization of DSE was BDT 7,609.4 billion including equity and debt securities. It is about 19.1% of the GDP. DMBs' (Deposit Money Banks) credit excluding inter-bank amount was BDT 17,582.9 billion. It is about 44.3% of the GDP. The bank-based financial system is dominant in Bangladesh. The country can run faster toward achieving its potential by focusing more on building a large-scale market-based financial system. The expansion of a market-based financial system in the country will reduce the systematic risk within the economy, supports both public and private sector financing, and ease up pressure from the stressed banking system. Over time, numerous measures taken by the government and relevant authorities have upheld the image of the country in the global financial ecosystem. Launching of SME platform, Alternative Trading Board, secondary trading of government securities, etc. is being recognized by the global players as significant milestones. With the continuing support from the government and regulatory authorities, the corporate governance system is bound to improve. Walking firmly through the path, Bangladesh will obviously attain its visions for the long term.

Each of these platforms has its own strengths and weaknesses, and the choice of which one to use depends on the specific needs and requirements of the user or organization.

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