

# OPPORTUNITIES AND IMPEDIMENTS OF BOND MARKET DEVELOPMENT IN BANGLADESH

## **A Dissertation by:**

Ripan Kumar Debnath  
MAGD 5  
ID 13372002

## **Supervised and Approved by:**

Dr. Nasiruddin Ahmed  
Faculty, IGS, BRAC University  
and  
Commissioner  
Anti Corruption Commission  
Bangladesh

## **Submitted to:**

Institute of Governance Studies  
BRAC University



**Institute of Governance Studies**  
**BRAC University**  
**Mohakhali, Dhaka**



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## Statement of the student

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Ripan Kumar Debnath  
MAGD 5  
ID 13372002

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Ripan Kumar Debnath  
MAGD 5  
ID 13372002

## ABSTRACT

The easiest way of collecting long-term fund for financing Government and non-Government projects is the issuing of bonds. Development of bond market in Bangladesh is the need of the hour as it provides alternative savings instruments for people and can promote higher investment and growth in the economy by mobilizing untapped resources. In addition it provides benchmarking for long-term lending and opportunity for diversifying financial institutions' portfolios.

The bond market in Bangladesh has been found very inefficient with respect to number of issues, volume of trade, number of participants, long-term yield curve, etc. In view of this, the present study has been undertaken aiming at exploring the potentiality of bond market development in Bangladesh, and identifying the problems that impedes the growth and development of bond market in Bangladesh. There are many factors in our economy to boost an effective bond market; some of the important factors are: consistent GDP growth rate, GoB budget deficit, significant role of private sector in credit disbursement, declining ability of state controlled banks to fund industrial loans, moderate inflation and exchange rate, huge fund of insurance companies, increasing investors confidence on the capital market, and benefits of bond market participants, etc. The study has found that the size of debt market in Bangladesh is very low as compared to other countries; has huge growth potentiality; and identified important impediments to the growth and development of bond market in Bangladesh such as large size of market lot of bonds, low interest rates of bonds, long term maturity of bonds, lack of strength of primary dealers, unaccountable trustees, default culture of the issuers, lack of corporate governance practices, dearth of expertise in credit rating, lack of awareness among the market participants and investors, high cost of trading in secondary markets, and no benchmark yield curve, etc. The study has suggested some important measures to overcome these constraints.

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## LIST OF ABBREVIATIONS

BB	: Bangladesh Bank
BSEC	: Bangladesh Securities and Exchange Commission
BGTBs	: Bangladesh Government Treasury Bonds
CSE	: Chittagong Stock Exchange
CDBL	: Central Depository Bangladesh Limited
DSE	: Dhaka Stock Exchange
DNS	: Directorate of National Savings
EU	: European Union
FCB	: Foreign Commercial Bank
GDP	: Gross Domestic Product
GoB	: Government of Bangladesh
ICB	: Investment Corporation of Bangladesh
IPDC	: Industrial Promotion and Development Company of Bangladesh Ltd.
IPO	: Initial Public Offering
IRD	: Internal Resources Division
MOF	: Ministry of Finance
NCB	: Nationalized Commercial Bank
NBFI	: Non-Bank Financial Institution
OTC	: Over The Counter
PCBs	: Private Commercial Banks
PDs	: Primary Dealers
SOCBs	: State Owned Commercial Banks
SLR	: Statutory Liquidity Requirement

## 1.0 INTRODUCTION

### 1.1 Background of the study

A sound, effective and efficient financial system can contribute in the economic development of a country. Financial market is mainly composed of - Money Market and Capital Market. These markets play interactive roles for the development of economy by formation of capital through mobilizing funds, industrialization of economy through supplying adequate funds.

To develop an effective capital market, it is pivotal to have wide array of investment opportunities, which attracts potential small investors. It should meet multifarious needs of different individuals. A fixed-income security like bond is one such investment, which provides opportunity for regular fixed income besides capital gain. A well-developed bond market is critical to ensure stability and efficiency of the financial market in a country. It can play a vital role in an economy by fulfilling the borrowing needs of the government, state-owned and private enterprises. When firms can raise funds by issuing bonds, they are less dependent on banks and it reduces vulnerabilities of the banking system. It also makes the financial market more competitive by generating market based interest rates and reduces excess dependence on the banking system.

The collapse of the capital market in Bangladesh in 1996-97 and 2010-11 had seriously affected the economy of the country in its effort to build a sustainable economy. The collapse was held due to the weak capital market structure in the country. Since 1996-97 the government has been taking steps for capital and money market reforms in the country. To that effect, a number of initiatives have been launched by the government; one of the most important initiatives is to introduce advanced financial instruments in the money and capital market. Bond is a debt instrument, fixed income security, and advanced financial instrument. Diversifying the investment in bond reduces the risks of investment.

### 1.2 Rationale of the study

“The financial sector of Bangladesh is characterized by the dominating presence of commercial banks, especially the Nationalized Commercial Banks (NCBs). Although, a paradigm shift in the degree of dominance has been observed of late with the emergence

of private commercial banks-traditional and shariah based banking, banking sector accounted for about 75% of the total financial system” (Jahur and Quadir 2010, p. 300).

The debt market is an integral part of financial market. It plays a complementary role in developing economy through allocation of funds to different deficit sectors. The debt market consists of money market, mortgage market, bond market and derivative market. Some bonds are capital market instruments. The overall debt market of Bangladesh is very small. “The size of domestic debt accounted for only 20% of the financial system. Bangladesh's bond market represents the 'smallest' in South Asia, accounting for only 12% of the country's gross domestic product (GDP). In South Asia, bonds account 34% of GDP, a World Bank report said. "It is surprising that Bangladesh, which is much larger than Nepal in terms of population, land area and other measures, has the smallest bond market in the region," the report added. Like in any other country, a well-developed tradable bond market is critical to ensuring stability and efficiency of the financial market in Bangladesh. An efficient bond market is important for managing public debt and bank liquidity and for efficient conduct of the monetary policy” (Jahur and Quadir 2010, p. 300). The bond market is playing a limited role in the economy of the country. Bangladesh should promote the bond market development to reduce risk in the capital market as well as to have an effective financial market. In view of this, this study has evaluated the present bond market scenario, its prospects, and impediments of bond market development in Bangladesh.

### **1.3 Problem Statement**

Generally bond is easily tradable in the secondary market. In Bangladesh the secondary bond market is not active. This study has tried to find out the major opportunities and impediments in bond market development and suggested the remedial to be taken for the development of bond market.

### **1.4 Objectives of the study**

The major objectives of this report are:

1. To explain the existing scenario of bond market in Bangladesh
2. To explore the opportunities of bond market in Bangladesh.
3. To identify and analyze the major impediments, and recommend for bond market development.

## 1.5 Research questions

- Q.1. What are the opportunities of bond market in Bangladesh?
- Q.2. What are the impediments in bond market development in Bangladesh?
- Q.3. How the impediments in bond market development may be overcome?

## 1.6 Scope of the study

This study has analyzed the role of regulators, issuers, investors, and financial intermediaries in issuing bonds; demand and supply sides in bond market; and macroeconomic factors affecting the bond market. Some of the officials from BSEC, stock exchanges, market participants related to bond market have been discussed to understand the opportunities and impediments of bond market development in Bangladesh. The study has mainly concentrated on the development of Bangladesh Government Treasury Bond (BGTB) and the corporate bond market.

The dissertation has focused on the data of the FY 2009-13 published in the reports of Ministry of Finance (MOF), Bangladesh Bank (BB), Bangladesh Securities and Exchange Commission (BSEC), and Dhaka Stock exchange Ltd. Data available in the internet on the bond markets in different countries has also been studied to prepare this report.

## 1.7 Methodology of the study

This report is mainly based on literature study and analysis of the issues related to bond market. Both the primary as well as the secondary sources of information has been used to prepare the report. The data has been collected from the following sources:

### **Primary source**

Discussion with the relevant officials of Bangladesh Bank (BB), Bangladesh Securities and Exchange Commission (BSEC), Dhaka Stock Exchange (DSE), Investment Corporation of Bangladesh (ICB), and other major stakeholders on the basis of a semi-structured questionnaire (**Annexure-1**).

### **Secondary source**

1. Periodical, Annual reports, Relevant files of BB, BSEC, ICB, DSE
2. In addition, materials such as newspapers and reviews of different authors have also been used.
3. Websites and books have been searched for information regarding the bond market.

## **1.8 Limitations of the study**

The study has suffered from certain limitation noted below:

1. Limited access to the official documents related to bond market.
2. Reluctance of the respective officials.
3. Time constraint for this dissertation.

## **1.9 Outline of the report**

Following the introduction, the second, third portion of this report will focus on literature review, some theoretical issues respectively. In the fourth, fifth, sixth portion, it will discuss the legal framework of bond market, analysis of bond market infrastructure, supply and demand factors in bond market respectively. The seventh portion will identify the major opportunities and impediments for bond market development in Bangladesh. The eighth portion is the conclusion and recommendations of this report.



## 2. LITERATURE REVIEW

### 2.1 Issues in bond market development

Bond market development is well established in the academic literatures, and a numbers of studies have been found recognizing its importance on the economy of Bangladesh (Jahur and Quadir 2010, IOSCO 2011, Mister 2012, Hossain 2012).

Jahur and Quadir (2010) have recognized that bond market acts as buffer of equity market. This market in Bangladesh has been found very inefficient with respect to number of issues, volume of trade, number of participants, long-term yield curve, interest rate policy etc. The study has found that the size of debt market of Bangladesh is very low as compared to other SAARC countries; has huge growth potentiality; and identified important impediments to the growth and development of bond market in Bangladesh such as risk and return factor, liquidity and government policy factor, issue management factor, investment policy factor, macro-economic and regulatory factor, and market and issue related factor. The study has suggested some important policy measures such as regulatory change, establishment of long-term yield curve, offering fiscal benefits, encouraging companies raising funds through corporate bond issues, keeping treasury rate low etc. for the development of bond market in Bangladesh.

IOSCO (2011) considers that a robust corporate bond market can act as a source of stability, particularly during periods of financial stress, where the freezing up of credit markets are common. The development of deep and liquid corporate bond markets will help to reduce reliance on bank financing and lead to greater diversification of the sources of funding across various asset classes. The corporate bond market also helps to reduce the risk of currency and funding mismatches, particularly for projects with long gestation periods. This has underscored the need for deeper and broader corporate bond markets in emerging markets (EMs) globally. The building of corporate bond markets is a challenging process and may take a considerable amount of time. Some key recommendations are: prioritizing the development of corporate bond markets as a strategic national agenda; improving market efficiency through broadening the range of primary offering methods, reducing the time for approval or registration of bond issues; enhancing market infrastructure and widening the investor base; developing a wider

range of instruments in the corporate bond market; strengthening investor protection which includes enhancing the quality and timeliness of disclosures by issuers, promoting trading and price transparency, strengthening surveillance and supervision, assessing the use of ratings; and adopting a conducive taxation framework.

Mister (2012) has reckoned that although there are a few bonds and debentures in our country, the market is very weak. This is due to problems in the political, macroeconomic and financial system; weakness in decision-making, law enforcement and financial market. Lack of sufficient information is another cause. In spite of this situation, Bangladesh has a good prospect. If government acts properly and makes accurate decisions, and take remedial measures of the mentioned problems properly, then more firms will be encouraged to issue stocks, bonds, and debentures. This will certainly help to improve a strong market for bonds and debentures.

Hossain (2012) believes that there are a lot of impediments to the development of bond market in Bangladesh. The bond market is still at a budding stage. It is attributed by a limited supply of debt instruments, especially long-term instruments. Consequently, the reliable benchmark for long-term bonds or debentures does not exist. The market is illiquid and trading is motionless. It is slowed down by the relatively high interest rate bearing risk-free national savings scheme, though interest has been reduced a little bit in recent years. In addition, the issuance process of bond is burdensome and costly, which becomes a disincentive to the development of effective bond market. Finally, the investor base has to be extended in parallel with a suitable investor education. Recommended measures must be undertaken for developing the bond market.

Suk and Bum (2008) studied the bond market development in Asia. They identified that the Asian bond markets are still very small compared to its GDP. Asian bond markets are still fragmented compared with other regional bond markets such as that of EU. Intra-regional portfolio investments in Asian bonds also remain insignificant. Furthermore, there are a number of constraints and hindering factors that impede bond market development in Asia. They have been identified some common major impediments to development of domestic bond market: (i) limited demand and supply of bond, (ii) lack of benchmark yield curves, (iii) inadequate market infrastructure.

## **2.2 Bond market as an alternative source of financing budget deficit**

Finance plays an increasingly important role in economic growth. In channelling savings to investment, the financial system contributes to economic performance through several channels – mobilising savings, allocating funds to their most productive uses, monitoring managers and transferring and sharing risks (WB 2001). In modern economies, disruptions in the flow of credit are detrimental to economic activity and lead to unemployment, cancelled investment plans and even recession. Capital account liberalisation and increasing globalisation add an international dimension for capital flows.

The development of bond markets might mitigate the adverse impact of financial crises or reduce the likelihood that a crisis will happen. The reasoning is that bond markets could provide an alternative source of financing if other financing channels, such as bank financing, dry up. Greenspan (2000) stressed the importance of having multiple avenues of financial intermediation, which served the United States well during the credit crunch of the late 1980s when bond markets substituted for the loss of bank financial intermediation in a banking system crisis related to the real estate cycle. This view has gained popularity in recent years, especially in the aftermath of the Asian financial crisis.

The experience of US bond markets during two banking crises - one resulting from the Latin American debt crisis in the 1980s and the other from the real estate crisis of 1990 - showed that bond markets can provide an alternative source of financing in a domestic setting. During these periods, the US banking sector suffered large losses that reduced its capital base drastically and severely curtailed its ability to lend. The ensuing liquidity crunch substantially reduced bank credit to US corporations. The US domestic bond markets, to varying degrees, functioned as alternative sources of financing for corporations when the banking sector was under stress (Greenspan 2000).

## **2.3 Factors affecting the bond market development**

There are some fundamental economic factors (variables) that have the effect (positive or negative) on the development of bond market in a country. Table-1 shows 14 fundamental variables and their relations on bond market development (Hossain 2012).

**Table-1: Variables and effects on development of bond market in an economy**

SI No.	Name of the variables	Relation	Nature of bond market development
1	Economic size measured in the size of GDP	Positively associated	Greater economic size to greater bond market development and smaller economic size leads to smaller bond market development.
2	Development stage of economy expressed in GDP Per capita	Positively associated	If economy is expanded to a higher degree in a country. It will increase the level of bond market development.
3	Natural openness: Measured in ratio of export to GDP	Merely associated	There is merely and strong relationship between the level of export and a country's bond market development.
4	Banking concentration: expressed in moral suasion to issue public placement	Negatively correlated	If the bans highly persuade the issuer in against of the public placements or their spread is so high. The bond market will not be developed.
5	Size of the banking system	Association of togetherness	As the presence of bank is needed to play the role of market, both these two should develop in a line.
6	Risk of investment environment measures in credit quality of issuer	Positively correlated	Issuer of higher credit quality means low amount risk for investor. As such high quality investment profile increases the degree of bond market development.
7	Level of interest rate	Negatively correlated	High interest rate tends to have depressing impact on issuance and poorly capitalized bond market.
8	Interest rate variability	Negatively correlated	High level of interest rate volatility in the fixed income securities market lends to lower bond market development.
9	Exchange rate regime	Positively associated	Countries with stable exchange rate are conducive to bond market development.

10	Law and order: international country risk level of corruption	Negatively correlated	Lower level of corruption leads to higher level of bond market development.
11	Legal system: measured in investor right index	Strongly associated	Stronger legal protection for investors: stronger bond market development and weaker legal protection gives weaker development.
12	Public sector funding	Positively associated	If the public sector bond market and private sector bond market work together, the overall bond market will be developed.
13	Regulatory enforcement: bureaucratic quality	Positively associated	High bureaucratic quality indicate that the country have good practice of disclosure principal, sanction and punishment for manipulation. This tends to develop the bond market more positively.
14	corporate governance and transparency: expressed in accounting standards	Positively associated	High accounting standard is essential for the development of bond market.

## 2.4 Bond market and efficiency in the economy

In the microeconomic context, arguments based on the theory of information asymmetries suggest that bond markets may improve efficiency in an economy and reduce vulnerability to financial crises (Herring and Chatusripitak 2000).

Bank loans and corporate bonds deal differently with information asymmetries. Banks take the credit risks away from the depositors and manage their risks by monitoring borrowers. Bond financing involves public investors taking on credit risks themselves. As a result, bond financing spreads the risks over a large group of diverse bondholders, much wider than bank financing could achieve. In addition, bond financing does not

involve maturity transformation, as investors are fully aware of the yields and time horizons of their investment. Bank financing, on the other hand, inevitably involves maturity transformation, as liabilities of banks are typically short-term in nature, while assets have longer maturities. The existence of a domestic bond market may also reduce the need to borrow abroad and so reduce potential currency mismatch. An economy with a well developed corporate bond market has stronger market discipline than one dominated by bank lending, as investors would require disclosure of information and transparency in corporate operations to protect their interest and reward strong performers with lower funding costs (Hakansson 1999).

A well developed debt market can also increase economic welfare as it complements other financial instruments to provide a full spectrum of investment vehicles whose payoffs across contingencies or states of nature cannot be easily replicated by other securities in the market. For example, certain classes of investors (such as pension funds and insurance companies) prefer to hold low risk debt instruments, with a stable income stream, which could not be provided by the equity market.

A well developed bond market also provides important benefits to the economy:

- It allows a more efficient allocation of savings as it matches the borrowers and savers directly.
- Hence it reduces the role of banks in the investment process, and reduces the amount of political interference in the allocation of credit since banks are subject to regulators such as the central bank.
- Bond markets allow borrowers to use capital that is tailored to their assets and operations.
- Economic benefit of long-term local bond markets is that they provide retail and institutional investors with several high-quality and liquid domestic saving vehicles.
- Bonds have many of the characteristics that allow savers to choose their risk and maturity, and to develop investment funds and pension funds.
- The issuance of government bonds will not only help to finance deficits but also to provide benchmark yield curve as reference on returns for other securities.

- A deep and liquid bond market can help to raise funds for the corporate sector.
- A deep and liquid bond market can address the asset-liability maturity mismatch facing banks and financial institutions in Bangladesh.
- It can facilitate the diversification of financial assets and risks overwhelmingly concentrated on bank credit.
- Well functioning government bond markets can strengthen the transmission and implementation of monetary policy instruments and enhance overall financial stability and competition.

## 2.5 Comparison with other economies

“The following table depicts the estimates of bond outstanding as a percentage of GDP for Asian economies. The size of Bangladesh bond market is very small in comparison to both developed market as well as some of the major emerging economies. Bangladesh bond market clearly has a long way to go” (FICCI, <http://www.dhakatribune.com/money/2014/jan/19>).

**Table-2: Size of bond market in % of GDP**

Date	Market	Bond market size (in % GDP)
March 2013	South Korea	126.2
March 2013	Malaysia	105.5
March 2013	Singapore	90.1
March 2013	Hongkong	69.2
March 2013	Japan	215
March 2013	Thailand	74.5
March 2013	China	46.1
March 2013	Philippines	37.1
March 2013	India	42.6
March 2013	Indonesia	13.7
Mid 2012	Bangladesh	12.0

## **2.6 ADB's initiative for bond market development in Bangladesh**

The government of Bangladesh embarked on a programme of meaningful reforms and partnered by the Asian Development Bank (ADB) under the Second Capital Markets Development Programme (CMDP2) in November 2012. Among different programs under CMDP2, one programs aims to promote bond markets to mobilize much-needed long term financing. This would serve to address the major development challenge, namely how to finance the looming infrastructure gap in the economy.

To develop a more liquid bond market and reliable yield curve, CMDP2 is supporting the development of an efficient primary dealer system through the fostering of a more competitive auction system. This is expected to support an improved price discovery process of treasury bills and bonds in line with the state of demand for these securities. CMDP2 also supports the corporate bond market by implementing a fast-track BSEC regulatory process for private placements that balances investor protection with the ease of approval. BSEC has already framed Private Placement Debt Issue Rules, 2012 to expedite the issuance of private placement debt. The government has withdrawn tax at source on the total income from bond sale in the National Budget for FY 2013-14.

## **2.7 About the present study**

The above literatures are based on the status of bond market, prospects, problems and policy recommendations for bond market development in Bangladesh and some other countries. These studies have highlighted only the macro level problems of bond market. Therefore, this report will focus on both micro and macro level issues for bond market development in Bangladesh.

Developing bond markets is more complicated than developing equity markets. Bond markets need supporting infrastructure. They operate best when they have stable money market and longer-term benchmarks. Bond markets simply cannot grow as quickly as equity markets, because investors need to be sure that issuers have the cash flow to make interest payments and redeem principal. Furthermore, bond markets need more sophisticated market participants. In this regard, to study the opportunities of bond market development in Bangladesh; this report will focus on the variables: GDP growth rate, budget deficit, money and credit situation, growth of broad money (M2), government and private sector credit situation, industrial term loans' situation, inflation



rate, exchange rate, assets and liabilities of insurance companies, capital market situation, and role of primary dealers' issuers, investors, and financial intermediaries, etc.

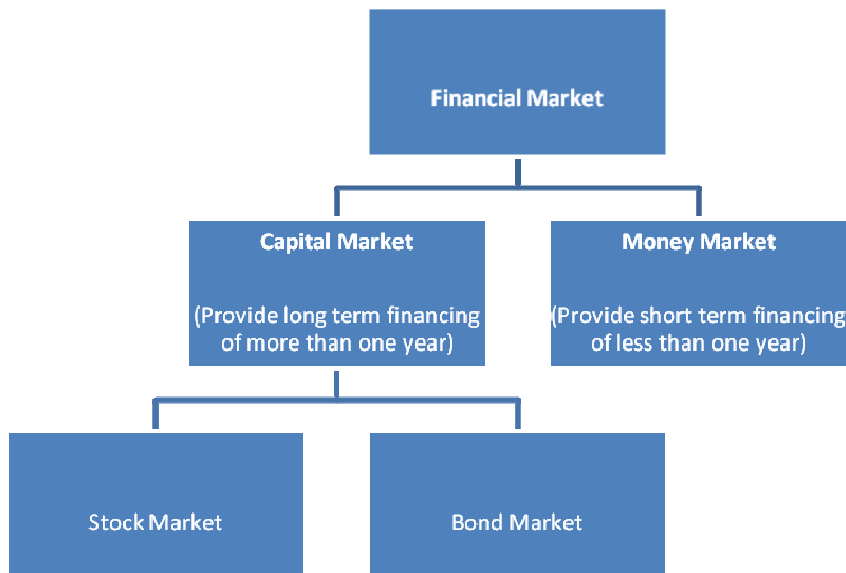
To find the impediments of bond market development in Bangladesh, this report will discuss the three broad categories: impediments for government bond market, impediments for corporate bond market, and common impediments for government and corporate bond market

## 3.0 SOME THEORETICAL ISSUES OF BOND MARKET

### 3.1 Financial market in Bangladesh

#### 3.1.1 Introduction

Financial markets act as a primary pillar supporting and stimulating economic growth and also in setting the velocity of growth. The markets help in allocating savings and deciding on the optimal use in the economic circuit. The markets in addition provide an avenue for raising capital mainly for the private sector, the government and also public sector units. Every capital market has distinctive characteristics, resulting from history, culture, and legal structure though gradually today they tend to operate on common ground with identical basic features. The structure of the financial market of Bangladesh has been shown in the following figure:



**Figure-1: Simplified form of financial market**

Bond market is a connected part of the financial market. Since the focus of this research is on bond markets, the discussion is restricted to bond markets.

#### 3.1.2 Money market

The money market of Bangladesh operates primarily around the country's central bank, the Bangladesh Bank, created under the Bangladesh Bank Order of 1972.

There are 52 scheduled banks of which 4 (four) State Owned Commercial Banks (SOCBs), 4(four) Specialized Banks, 35 Private Commercial Banks (PCBs), and 9 Foreign Commercial Banks (FCBs). Treasury bills, short-term central bank and government bonds, negotiable certificates of deposits, bankers' acceptances and commercial papers like the bills of exchange and promissory notes are money market instruments.

### **3.1.3 Capital market**

The capital market consists of two full-fledged automated stock exchanges namely Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). Bangladesh Securities and Exchange Commission (BSEC) is the regulator of the capital market. BSEC implements rules and regulations, monitors their implications to operate and develop the capital market. The market has Central Depository Bangladesh Limited (CDBL), the only Central Depository Company in Bangladesh that provides facilities for the settlement of transactions of dematerialized securities in CSE and DSE. The institutions like Investment Corporation of Bangladesh (ICB), 56 Merchant Banks, and 400 brokerage firms are mainly working in this market. Bangladesh Bank, as a central bank, has influence and also participation in this market.

## **3.2 The bond market**

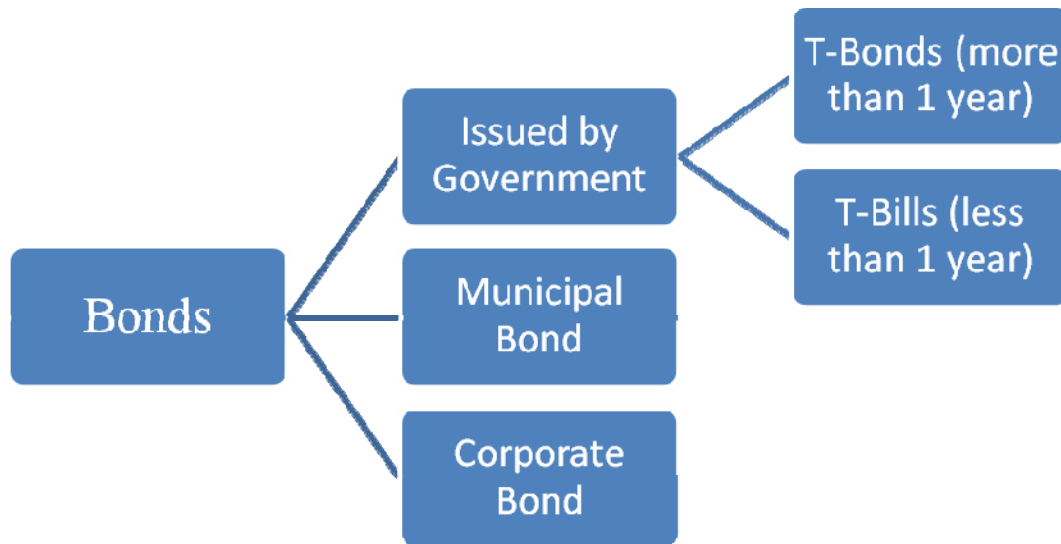
### **3.2.1 What is bond?**

**'Bond'** is a debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing. It is issued by government agencies or corporations or companies. Issuer of a bond is obligated to pay interest (coupon) periodically and the par value (principal) at maturity ([www.investorwords.com/521/bond.html](http://www.investorwords.com/521/bond.html)).

### **3.2.2 Classification of bonds**

#### **3.2.2.1 "On the basis of issuer**

A simple way to classify bonds is based on the different kind of the issuers. The three main issuers are government, governmental agencies, and corporations (figure-1).



**Figure-2: Major types of bonds**

- **Treasury bills-** short-term obligations issued by BB on behalf of the Government
- **Treasury bonds-** long term obligations issued by BB on behalf of the Government
- **Savings certificate-** issued by Directorate of National Savings
- **Municipal bonds-** issued by state and local government agencies like the City Corporation, Road and Transport Authority, Telecommunication Authority etc.
- **Corporate bonds-** issued by companies to raise capital. They are alternatives of issuing shares on the stock market (equity finance) and are forms of debt finance.

#### **3.2.2.2 On the basis of coupon**

- **Zero Coupon Bonds-** Zero Coupon Bonds are issued at a discount to their face value and at the time of maturity, the principal/face value is repaid to the holders. No interest (coupon) is paid to the holders and hence, there are no cash inflows in zero coupon bonds.
- **Floating Rate Bonds-** In some bonds, fixed coupon rate to be provided to the holders is not specified. Instead, the coupon rate keeps fluctuating from time to time, with reference to a benchmark rate. Such types of bonds are referred to as Floating Rate Bonds.

### 3.2.2.3 On the basis of principal repayment

- **Amortizing Bonds-** Amortizing Bonds are those types of bonds in which the borrower (issuer) repays the principal along with the coupon over the life of the bond.
- **Bonds with Sinking Fund Provisions-** Bonds with sinking fund provisions have a provision as per which the issuer is required to retire some amount of outstanding bonds every year” ([www.scribd.com/doc/95173460/Bond-Market-in-Bangladesh](http://www.scribd.com/doc/95173460/Bond-Market-in-Bangladesh), p. 2).

### 3.2.2.4 Sovereign and Diaspora Bond

Sovereign bond is a debt security issued by a national government within a given country and denominated in a foreign currency. The foreign currency used will most likely be a hard currency, and may represent significantly more risk to the bondholder ([www.investopedia.com](http://www.investopedia.com)).

Diaspora bond is a sovereign bond that targets investors that have emigrated to other countries and the relatives of those emigrants. For example, the government of Greece tries to sell a government bond to Americans of Greek origin ([www.nasdaq.com](http://www.nasdaq.com)).

### 3.2.3 “Features of Bonds

The key features of bond are as follows:

**Face value:** It is the amount on which interest is paid and normally which has to be repaid by the issuer at maturity. It is also called principal, nominal or par value.

- **Issue price:** It is the amount which buyers pay when the bonds are first issued. Generally, this value will be approximately equal to the face value. Thus the net amount which the issuer receives is the issue price minus issuance fees.
- **Maturity:** It is the date on which the issuers have to repay the principal amount. The issuers have no more obligations to the bond holders when they repay the principal amount at the maturity date. Usually bonds can be divided into three categories on the basis of maturity.

- Short-term: bonds which have maturities between 1 to 5 years
  - Medium term: bonds which have maturities between 5 to 10 years
  - Long-term: bonds which have maturities more than 10 years.
- **Coupon:** It is the interest rate at which the issuer has to pay to the bond holders. Normally the rate is fixed throughout the life of the bond” (Hossain 2012, p. 6)

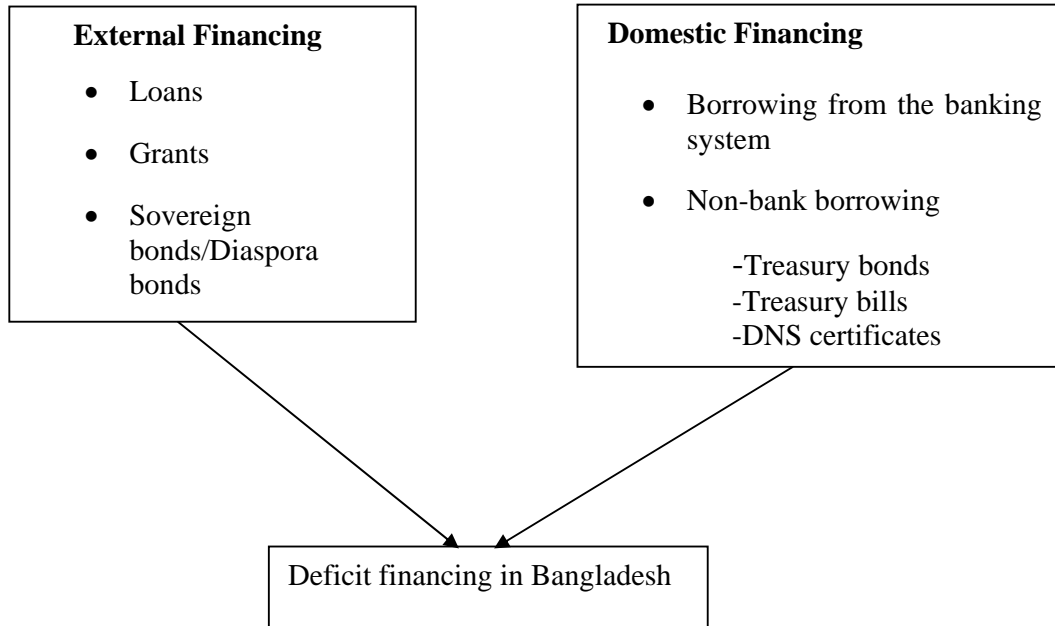
### **3.2.4 Yield curve**

“Yield curve is a curve showing several yields or interest rates across different contract lengths (2 months, 2 years, 20 years, etc.) for a similar debt contract. The curve shows the relation between the (level of) interest rate (or cost of borrowing) and the time to maturity, known as the "term", of the debt for a given borrower in a given currency" ([en.wikipedia.org/wiki/Yield curve](http://en.wikipedia.org/wiki/Yield_curve))

## **3.3 Theoretical/Analytical framework**

With the rise of financial liberalization and globalization over the last two decades, many emerging economies have had a manifold increase in their bond markets. The public and private sectors have both started to access bond markets to meet their investment and current expenditures.

Governments prefer to issue bonds in their own markets as an attractive alternative to traditional bank borrowing. In this new environment, governments turned increasingly to domestic bond markets to meet their budgetary deficits (Uppal 2011). This research has discussed the following factors in **Figure-3** influencing the bond market in Bangladesh:



**Figure-3: Factors influencing the bond market**

## 4.0 LEGAL FRAMEWORK OF BOND MARKET IN BANGLADESH

### 4.1 Laws concerning debt market

- 1) The Securities Act, 1920 and Public Debt Rules 1946- deal with Govt. securities.
- 2) Public Debt Act, 1944-deals with savings certificate (sanchayapatra), administered by DNS.
- 3) Securities and Exchange Commission (Public Issue) Rules, 2006-deals with public issue of debt securities, administered by BSEC.
- 4) Securities and Exchange Commission (Private Placement) Debt Securities Rules, 2012 – deals with private placement of debt securities, administered by BSEC.
- 5) Wage Earner Development Bond Rules, 1981; and US Dollar Premium Bond Rules, 2002-deal with the bonds issued for expatriate Bangladeshis, administered by DNS.
- 6) The Bangladesh Government Treasury Bond Rules, 2003- governs primary dealers and secondary market of bonds.

### 4.2 The regulators

Two most prominent regulators in the capital market of our country are the Bangladesh Bank (BB) and the Bangladesh Securities and Exchange Commission (BSEC). Directorate of National Savings (DNS) supervises the issuance of savings certificate (sanchayapatra), a debt instrument of the Government.

#### 4.2.1 Bangladesh Bank

Bangladesh Bank exerts its regulatory authority from the powers vested on them in the “Bank Company Act, 1991”, the “Financial Institutions Act, 2001” and from the “Bangladesh Bank Order 1972 (P.O 127 of 1972)”. BB regulates in the interest of investors and in the interest of financial market development, stability in the financial sector and economic development. BB is also the prudential regulator of financial institutions and as such determines roles that can be taken by financial institutions in relation to the sale of assets or issue, structuring, or investment in bond market by regulated bank and non-bank financial institutions.



Bangladesh Bank Order-1972, article 20 and Treasury rules-1998 (Appendix-1, Section-3) empowers Bangladesh Bank for the issue and management of Government securities. As per the above mentioned laws and regulations, Bangladesh Bank (BB) acts as the banker and debt manager to Government of Bangladesh (GOB).

#### **4.2.2 Bangladesh Securities and Exchange Commission**

The other regulatory body of the financial market, and the regulator in the securities market, is the Bangladesh Securities and Exchange Commission (BSEC). BSEC regulates the overall activities of the stock exchanges, brokers/dealers, merchant bankers, other market intermediaries, and listed companies' compliance of securities related laws. Securities and Exchange Ordinance, 1969 and Bangladesh Securities and Exchange Commission Act, 1993 confer authority on the BSEC to frame necessary rules and regulations for the capital market. As per the Ordinance, a stock exchange may, subject to the previous approval of BSEC make regulations consistent with the rules framed by BSEC.

#### **4.2.3 Directorate of National Savings**

Directorate of National Savings (DNS) is an attached department of Internal Resources Division (IRD) which works under the control and supervision of the Ministry of Finance (MOF). It was formed under the provision of Public Debt Act, 1944. Primary objective of the DNS is to motivate the people for investment in different saving instruments. As a government department all financial and administrative regulations are applicable to DNS. Although the IRD and the directorate is vested with reasonable authority, policy decisions regarding administration, procurement and setting of targets are taken at the MOF level.

### **4.3 BSEC's monitoring**

Mainly BSEC has two types of monitoring and takes necessary actions in this regard:

#### **4.3.1 Action by BSEC's own initiative**

BSEC in its regular monitoring activities sometimes finds non compliance of securities related laws. In case of debentures/equity shares BSEC finds non-payment of debenture instalments/dividend/bonus share/right share. Then BSEC takes actions

through different procedures like show cause, hearing and at last imposes penalties on the sponsors/directors of the company or another action or disposes the matter by issuing warning.

#### **4.3.2 Action on the basis of complaint**

BSEC often receives complaints against issuer companies and broker/dealer regarding non payment of debenture instalments/dividend/bonus share/right share and other matters. In most of the cases BSEC refers the copy of complaint to the respective company for comment under section 11(2) of the Securities and Exchange Ordinance, 1969. After getting the complaint some companies resolve the matter by settling the complainants' grievance. In case of failure to settle the complaint BSEC goes for enforcement/legal action against the company.

#### **4.4 BSEC's Legal Action**

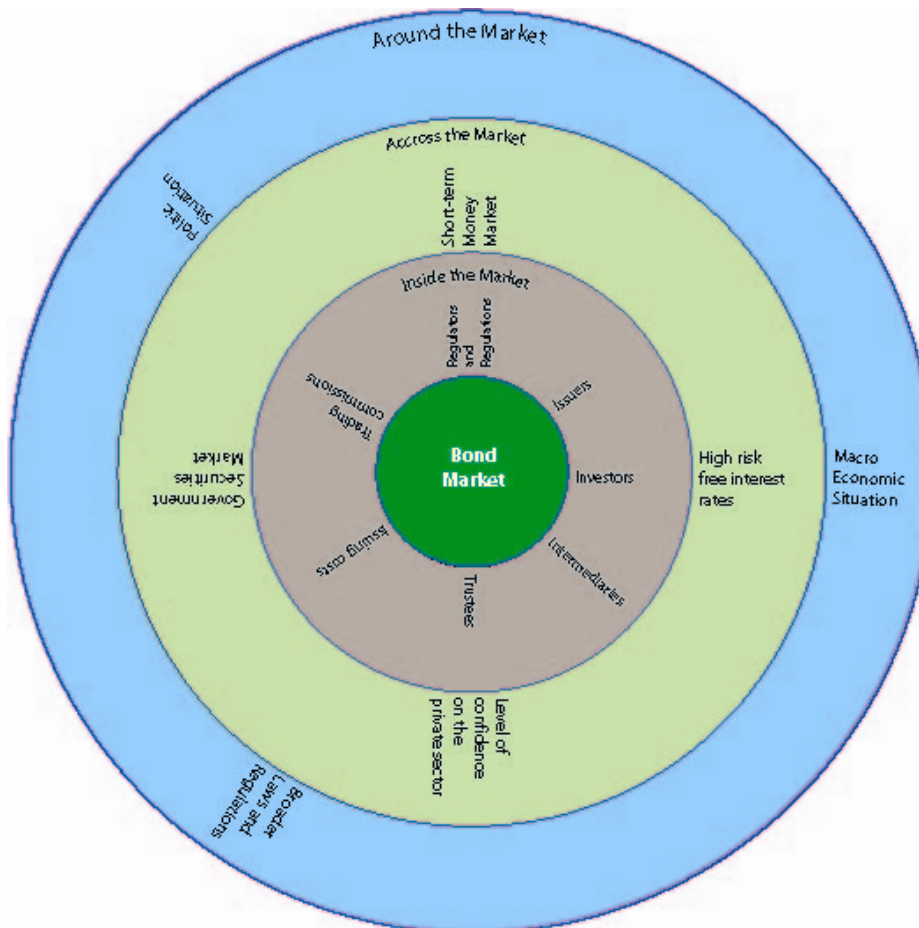
BSEC is authorized to take action in certain cases, strong antifraud laws are in place. Sections 17 and 18 of the Securities and Exchange Ordinance, 1969 fulfil this function. Section 17 prohibits a wide range of fraudulent acts in the purchase or sale of any security, including any act, practice or course of business that is a fraud or deceit, any false statement or omission of a material fact, various deceitful trading practices. Section 18 prohibits false or incorrect statements in any document required by the Ordinance. The documents include prospectus. Section 23 provides civil liability to persons lost for violations of section 17 and other laws. Section 24 provides criminal penalties, including imprisonment for up to five years. Both of these sections are enforced in the judicial system.

## 5.0 ANALYSIS OF BOND MARKET INFRASTRUCTURE

<sup>1</sup>The bond market infrastructure of Bangladesh can be discussed under three major areas:

- **Around the market**
- **Across the market**
- **Inside the market**

The bond market infrastructure has been shown in the following **Figure-4**:



### 5.1 Around the market

Here the main factors are the political situation, the macroeconomic situation, and the broader laws and regulations.

<sup>1</sup> Building Local Bond Markets *An Asian Perspective* (2000) International Finance Corporation

### 5.1.1 Political situation

- Bangladesh is a country with enormous potential to grow faster than any other least development countries (LDCs) of the world.
- An increasingly confrontational political environment always prevails in the country that hinders the policy formulation and implementation in the financial system.

### 5.1.2 Macroeconomic situation

- **GDP growth rate and inflation:** Bangladesh's macro economy was fairly strong throughout the last decade, with growth rates averaging a respectable 5%-7%, and inflation averaging a modest 4%–7%.
- **Savings and investment:** Estimated domestic savings slightly increased from 29.18 percent of GDP in FY 2011-12 to 29.51 percent of GDP in FY 2012-13. Investment in FY 2012-13 showed slightly downward trend and stood at 18.99 percent of GDP in FY 2012-13 from 20.04 percent of GDP in FY2011-12. But the share of public investment stood at 7.85 percent of GDP that was 6.50 percent in FY 2011-12.
- **Foreign exchange reserves:** The reserve has become more stable recently owing to impressive export performance, high remittances flow, and reduced imports. The gross reserve stood at US\$ 20 billion on April 2014, it is equivalent to foot import bills for six months with the money. As per the international standard, a country has to have enough foreign currency reserve to meet import costs for at least three months. The amount is the highest in Bangladesh's independent history.

### 5.1.3 Broader laws and regulations

The following certain omissions or drawbacks of the broader laws and regulations directly affect development of the bond market:

- First, for existing land law it is impossible to take land as collateral for bond issuance.
- Second, the existing law makes arbitration a cumbersome and slow process; moreover, foreign arbitration awards are not enforceable in Bangladesh.

- Third, Bangladesh’s laws represent a mixture of codified British common laws and legal principles from various religious heritages. Although the court system derives from a common law tradition, Bangladesh courts are limited in their ability to function effectively.

## 5.2 Across the market

### 5.2.1 Government securities market

- Government securities market in Bangladesh is small (**Annexure-2**), does not provide much of a yield curve to support a corporate bond market, and does not provide intermediaries with skills and a profit base to support the corporate bond market. Government issues long-term savings certificates at high interest rates and government bonds at low interest rate.
- “Treasury bills and bonds are short term and long term obligations issued by Bangladesh Bank on behalf of the Government of Bangladesh. These are the indirect monetary instruments that the BB uses for debt management purpose. The securities are issued through an auction process where the allotments are awarded to the bids which fill the notified issue amount ranging from the lowest to highest yield” (BB 2013).

### 5.2.2 Short-term money market

Money markets provide another foundation for bond markets. The money markets in Bangladesh are quite small. There is an interbank market, in which commercial banks borrow and lend to adjust their short positions. Normal maturities range from overnight to 30 days. Bangladesh also has a forward market for US dollars against taka, but only for short maturities. There is no commercial paper market.

### 5.2.3 High risk-free interest rates

- NSD certificates offer significantly higher rates than other government securities (T-bill, T-bond), which create a relatively high rate for risk-free government securities. This establishes a high benchmark rate for corporate fixed income securities, creating disincentive to invest in corporate securities.

- Government savings certificate rates are 2 to 3 percent higher compared with rates on other government paper, which creates a high benchmark interest rate floor for corporate securities.
- As government is the single biggest borrower in the domestic market, rates offered by different government instruments determine interest rates of commercial banks and corporate debt issues. Having the same level of risk, yield of the treasury bills and bonds at different maturities are comparatively much lower than that of the other instrument specially savings certificates. The violation of this fundamental norm impedes the enhancement of the bond market. The following Table-3 shows the interest rates of different instruments at different maturities.

**Table-3: Interest rates of different savings instruments**

As on March 31, 2014

T. Bills	T. Bonds	Sanchoy Patra	DPS	STD	Savings	FDR
30 days: 7.10-9.41%	2-Year: 10.95-10.98%	5-years: 13.19%	8.62% to 11.59%	3.00% to 6.00%	7.5%	
91 days: 8.13-11.40%	5-Year: 11.48-11.82%	3-years: 12.59%				11.50%
182 days: 9.83-11.42%	10-Year: 11.65-12.16%					11.50%
364 days: 10.13-11.54%	15-Year: 11.85-12.40%					11.75%
2 years-6.98%	20-Year: 12.12-12.48%					11.75%

#### **5.2.4 Poor confidence on the private sector**

The general investors' confidence on the private sector is still shaky. That is why government becomes successful in raising funds while the private sector is lagging behind. A few corporate debentures are in default without any legal or moral recourse to general investors. On the contrary, savings certificates with quarterly interest

payments have received tremendous response and proved to be quite effective. Lack of legal framework for issuing various securities by the private sector banks and corporate is also responsible for such a tilt in favor of the government.

### **5.3 Inside the market**

The important factors to consider inside the bond markets are regulators and regulations, market participants, and trustees.

#### **5.3.1 Regulators and regulations**

- In general, BB regulates the commercial banks and the NBFIs and their activities, while the BSEC regulates the two stock exchanges, and the capital market. In bond market Govt. Bonds are the main instruments, the presence of Corporate Bond is insignificant here. Though BSEC is the capital market regulator Bangladesh Bank regulates Govt. Bonds on behalf of Government.
- Although the BSEC requires listed companies to meet international standards on accounting and auditing, accounting information appears to be of doubtful in quality and reliability.

#### **5.3.2 Market participants**

##### **5.3.2.1 Issuers**

- Bangladesh lacks a significant number of potential, good-quality issuers. Its economy is mainly agriculture based.
- Most private sector enterprises are small and owner-run, many are of “cottage size” which to date depends largely on short-term bank loans for financing. The new emerging large private enterprises could benefit from longer-term funding but are neither large enough nor well known enough to issue bonds.
- Bangladesh has a debenture market, to date only a small number of well-known issuers (**Annexure-3**) have used the market. The liquidity in those debentures at the stock exchange is very much insignificant. The investor community does not seem to find this market too attractive owing to weak disclosure by the issuers, which in turn reduces credibility and investor confidence.

### **5.3.2.2 Investors**

- On the investor side, few investors are sophisticated enough to think about investing in bonds.
- Of the few institutional investors that could support a bond market, most are either prevented from investing in corporate bonds by restrictive guidelines or are not professionally managed. The major institutional investors are the Investment Corporation of Bangladesh—a government-owned financial institution and the insurance companies.
- There are provident and pension funds, self-managed by public and private corporate entities, but none are professionally managed. The pension obligations of the government are not funded. The Trust Act, 1882 prohibits those funds from being invested in equities, corporate debentures, and private money market instruments.
- No protective laws are in effect to ensure that investors will get their dividend and capital back.

### **5.3.2.3 Intermediaries**

- Intermediaries in Bangladesh lack many of the skills needed to foster an active local corporate bond market.
- Commercial banks dominate the financial sector and not enough intermediaries are skilled in securities. Few are able to identify issuers and investors and bring them to the market.
- They provide little or no research analysis on industries or companies to encourage investment in the local debt market.
- There are 55 organizations got registration for conducting Merchant Banking operations, of them 30-35 are active in the market. Only ICB, the state owned enterprise performs all merchant banking activities. The operating merchant banks have very limited ability to conduct financial advisory and trustee services.

### **5.3.2.4 Primary dealers**

In order to issue Treasury bill, primary issue of bonds, and their trading in the secondary market, BB appointed the following twelve schedule banks and three non-bank financial institutions as primary dealers:



- The twelve PD banks are: Sonali Bank, Janata Bank, Agrani Bank, NCC Bank, Uttara Bank, Southeast Bank, Prime Bank, National Bank, AB Bank, Mercantile Bank, Mutual Trust Bank and Jamuna Bank (New Age, 18 March 2012).
- The three other PD NBFIs are: IPDC, Lanka-Bangla Finance and International Leasing and Financial Services Ltd. (New Age, 18 March 2012).

### **5.3.3 Trustees**

Generally it is the responsibility of the trustees of debentures to ensure the rights of the investors when issuing companies declines to honor obligations. But the system failed in some cases in this regard and regulations could not take the trustees to task for not taking effective action against noncompliant issuers. Trusteeship of debentures has in effect become all unaccountable and defunct institution.

### **5.3.4 Issuing costs**

**According to Rule-16 of the Securities and Exchange Commission (Public Issue) Rules, 2006, fees for public offering are as follows-**

**(1) The following fees shall be applicable for payment by the issuer company:**

- (i) Issue management fee: maximum 1% on the public offering amount or Tk. 20 lacs whichever is lower.
- (ii) Underwriting fee shall be calculated on 50% of public offer amount, and the said amount shall not exceed 1% on the amount underwritten.
- (iii) Bankers to the issue fee: maximum 0.1% on the amount collected against public offering applications.
- (iv) Fees to be paid to the stock exchange:
  - (a) Listing fee for ordinary shares:
    - i. Up to Tk. 10 crore of paid-up capital @ 0.25%.
    - ii. Above Tk. 10 crore of paid-up capital @ 0.15%.
  - (b) Listing fee for preferred shares and fixed income securities:
    - i. Up to Tk. 10 crore of size of the issue @ 0.25%.
    - ii. Above Tk. 10 crore of size of the issue @ 0.15%.

However, the total listing fee shall be minimum of Tk. 10,000 (ten thousand) and maximum of Tk. 20 lacs for each of the categories mentioned under sub-rule (1)(iv).

(v) Fees to BSEC:

(a) The issuer company shall pay Tk. 10,000 (non-refundable) as application fee along with the application for consent of the Commission to issue or offer of securities, by way of a pay order or demand draft issued in favor of the “Bangladesh Securities and Exchange Commission”; and

(b) Upon according of consent by the Commission to issue prospectus, the issuer company shall pay consent fee @ 0.15%, by way of a pay order or demand draft issued in favor of the “Bangladesh Securities and Exchange Commission”, on the amount of public offering.

(2) No seal commission shall be paid to any persons including the members of the stock exchanges.

### **5.3.5 High cost of trading in secondary markets**

As there are no debt trades taking place on the DSE or CSE, the present cost structure of trading equities on the DSE has been analyzed as a proxy to be compared across markets. It is found that the cost of trading equities range from 0.3% to 0.7% depending on the volume and the broker. This is very high compared to other markets in the region. Therefore, the cost structure for trading of debt securities need to be carefully examined prior to agreement, particularly keeping in mind that high costs would obviously deter the development of the market.

## 6.0 DEMAND AND SUPPLY FACTORS IN BOND MARKET OF BANGLADESH

A sound and well-functioning bond market requires some essential elements—or addressing the constraints—in supply and demand. The factors affecting the demand and supply sides of Bangladesh bond market has been discussed in the following (Sophastienphong, Mu, Saporito, 2007):

### 6.1 Demand side

In Bangladesh commercial banks and institutional investors—life insurance companies, pension and provident funds—are captive investors in government securities, a result of their need to comply with mandatory reserve requirements or investment restrictions. Public pension schemes dominate the pension fund industry, while the government-owned Investment Corporation of Bangladesh dominates the mutual fund industry. The Investment Corporation of Bangladesh, brought under the supervision of the Bangladesh Securities and Exchange Commission, also holds a large part of the shares on the Dhaka Stock Exchange. With few private institutional investors, the investor base remains undiversified, adversely affecting the development of the Bangladesh debt securities market. The demand side of bond market in Bangladesh has been shown in the following figure:

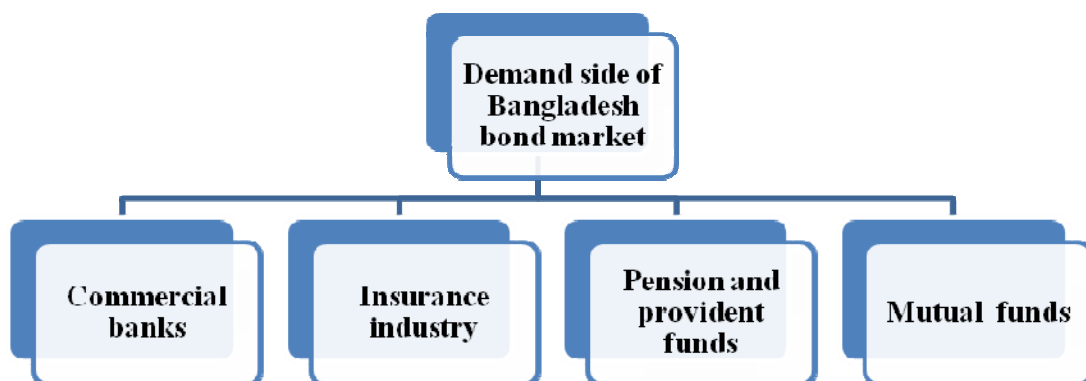


Figure-5: The demand sides of Bangladesh bond market

### **6.1.1 Commercial banks**

The statutory liquidity requirements for commercial banks are the biggest driver of demand for government securities. Banks must maintain liquidity reserves of 19 percent: 13 percent in eligible assets such as government securities and 6 percent in cash (BB 2013).

### **6.1.2 Insurance industry**

The insurance industry is a growing and potentially important institutional investor segment for government securities, with a strong appetite for longer-tenor bonds. The strongest potential source of demand is life insurance companies, which are required to maintain statutory reserves of 30 percent in cash, treasury bills, treasury bonds, and National Investment Bonds. While the general insurance sector appears to be stagnant, life insurance penetration has been increasing (Sophastienphong, Mu, Saporito, 2007).

### **6.1.3 Pension and provident funds**

In Bangladesh only 5–10 percent of workers, primarily civil servants, are covered by formal retirement plans. Civil servants participate in two types of retirement plans. The first is a non-contributory, defined-benefit scheme. The second is a contributory provident scheme, the General Provident Fund, which de-facto operates as an unfunded system: contributions deducted from workers' salaries are used to pay benefits, while the surplus is allocated to the budget. These schemes are required to invest 75 percent of their assets in government securities.

State-owned enterprises and nationalized commercial banks also offer retirement plans, though no consolidated data are available on these plans. Pension plans offered by financial institutions are negligible, but large private firms have established pension schemes for their employees. Companies offer both defined benefit and provident fund plans. These funds have traditionally invested in national savings certificates (Sophastienphong, Mu, Saporito, 2007).

### **6.1.4 Mutual funds**

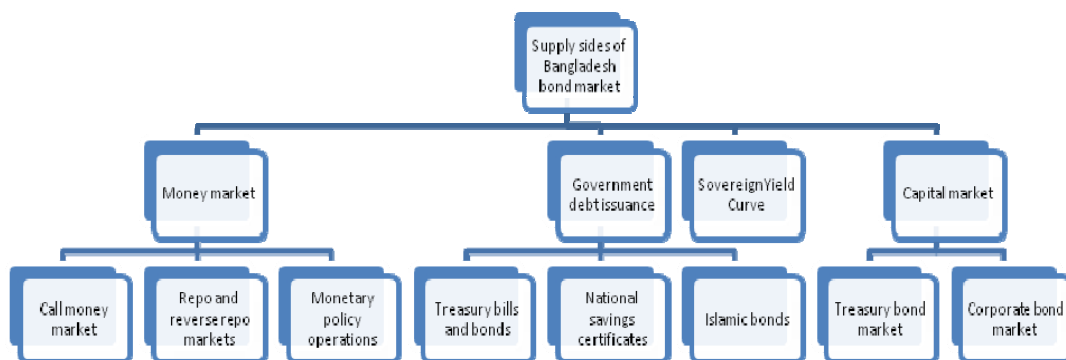
The mutual fund industry in Bangladesh remains poorly developed, perhaps because the capital market is still small and lacks an adequate number of good-quality

securities. By February 2014 there were 41 mutual funds, with a total market capitalization of Tk 40.804 billion (DSE, 2014).

Mutual funds in Bangladesh invest mainly in equities and corporate debentures. Recently neither mutual funds nor foreign investors have shown much interest in investing in government securities. The yields of government securities appear to be relatively low compared with market expectations. Indeed, the long end of the yield curve is falling steeply despite current high inflationary trends, reflecting investor demand and expectation of long-term stable inflation (Sophastienphong, Mu, Saporito, 2007).

## 6.2 Supply side

The slow growth of the Bangladesh debt securities market can be attributed in part to some important constraints on the supply side. The supply side of bond market in Bangladesh has been shown in the following figure:



**Figure-6: Supply sides of Bangladesh bond market**

### **6.2.1 Money market**

Bangladesh has yet to develop an active money market. Its money market consists mainly of a thin interbank market with sporadic trading in treasury bills. Trading of treasury bills in the secondary market is limited because these instruments, along with treasury bonds, make up the statutory liquidity reserve and are therefore generally held until maturity by commercial banks and other financial institutions. The only active secondary market is overnight call money market which is participated by the scheduled banks and FIs ([www.bb.org.bd](http://www.bb.org.bd)).

#### **6.2.1.1 Call money market**

A liquidity gap may arise because of a need to meet the regulatory cash reserve requirement or because of a sudden outflow of funds to meet liabilities. The call money rates are negotiated and tend to be seasonally volatile. Volatility tends to be especially high during Eid, the Muslim holiday marking the end of Ramadan, when there is a surge in deposit withdrawals and banks face immediate liquidity pressure.

“There is a direct and positive relationship between treasury bill rates and call money rates. When there is a seasonal cash shortage, banks rush to the call money market, and the rate peaks. Investors in treasury bills are naturally unlikely to make those instruments available unless offered higher yield rates. Bangladesh Bank monitors the day-to-day liquidity position and eases any substantial volatility in the call money market” (Sophastienphong, Mu, Saporito, 2007).

#### **6.2.1.2 Repo and reverse repo market**

A repo deal is one where primary dealers (PDs) and non- primary dealers make a contract to borrow money usually overnight at a pre-determined policy rate of BB against the collateral face value of Government treasury bills and bonds. The repo injects money in the system and provides banks necessary funds to maintain their very short term exposure (BB 2013).

During a reverse repo deal, BB absorbs ("mops up") liquidity from the banks. In case of reverse repo BB does not provide any collateral to the banks. It applies the reverse repo to maintain intended level of liquidity in the market and to maintain reserve money targets on track (BB 2013).

### 6.2.1.3 Monetary policy operation

Bangladesh Bank has maintained its restrained monetary policy stance since 15 December 2010. The Cash Reserve Requirement (CRR) for the scheduled banks with the Bangladesh Bank was fixed at 6.00 percent of their total demand and time liabilities. The Statutory Liquidity Ratio (SLR) for the scheduled banks, except banks operating under the Islamic Shariah and the specialized banks remained unchanged at 19.0 percent of their demand and time liabilities, excluding inter-bank items. The SLR for the Islamic banks remained unchanged at 11.50 percent. The specialized banks continued to remain exempt from maintaining the SLR (BB 2013).

### 6.2.2 Government debt issuance

The Bangladesh government raises funding through treasury bills, treasury bonds, and national savings certificates. The largest share comes from national savings certificates (Table-4).

**Table-4: Composition of domestic Government debt, Bangladesh, FY 2009–13 (Net sales)**

(Tk billions)

Fiscal year	NSD instruments	Treasury bills	Treasury bonds	Total
2009	36.38	2.99	19.40	58.77
2010	115.89	-1.87	10.18	124.20
2011	20.57	0.48	9.24	30.29
2012	4.78	-2.07	18.91	21.62
2013	7.71	-1.24	69.09	76.35

Source: BB, Annual Reports, 2009-2013

#### 6.2.2.1 Treasury bills and bonds

Treasury bills and bonds are short term and long term obligations issued by Bangladesh Bank on behalf of the Government of Bangladesh. These are the indirect monetary instruments that the BB uses for debt management purpose. The securities are issued through an auction process where the allotments are awarded to the bids which fill the notified issue amount ranging from the lowest to highest yield. Pro-rata partial allotments are made for bids at the cut-off-yield. For short term

borrowing up to 364 days, GoB uses Treasury Bills (T-Bills). Bangladesh Government Treasury Bonds (BGTB) are being used for borrowing for both medium and long term maturities ranging from 2 years up to 20 years (BB 2013).

#### 6.2.2.2 National savings certificates

The national savings scheme is aimed at mobilizing the savings of small investors and pensioners at attractive interest rates. Under the National Savings Directorate, formed under Public Debt Act, 1943, national savings certificates are sold through 9,000 post office branches and 3,300 commercial bank branches functioning as commission agents. Bangladesh Bank collects the sales proceeds and reimburses the seller at the time of encashment (redemption) (Kiatchai Sophastienphong, 2007). Government uses 3 to 5 years term savings certificates (Sanchaypotro) for the purpose of domestic borrowing from the public ([www.nationalsavings.gov.bd](http://www.nationalsavings.gov.bd)).

#### 6.2.2.3 Islamic bonds

The operations of 6-month, 1-year and 2-year Bangladesh Government Islamic Investment Bond (Islamic Bond) introduced in FY 2005. This Government Bond is operated in accordance with the rules of Islamic Shariah. As per the rules, Bangladeshi institutions, individuals and non-resident Bangladeshis who agree to share profit or loss in accordance to Islami Shariah may buy this bond. The overall transactions of this bond are summarized in Table-5.

**Table-5: Transactions of Bangladesh Government Islamic Investment Bond**  
(billion Taka)

Particulars	2009	2010	2011	2012	2013
Sale	16.4	23.4	25.3	22.8	2.5
Financing	12.1	15.4	31.48	31.26	0.22
Net outstanding	4.3	8.0	107.13	67.78	39.35

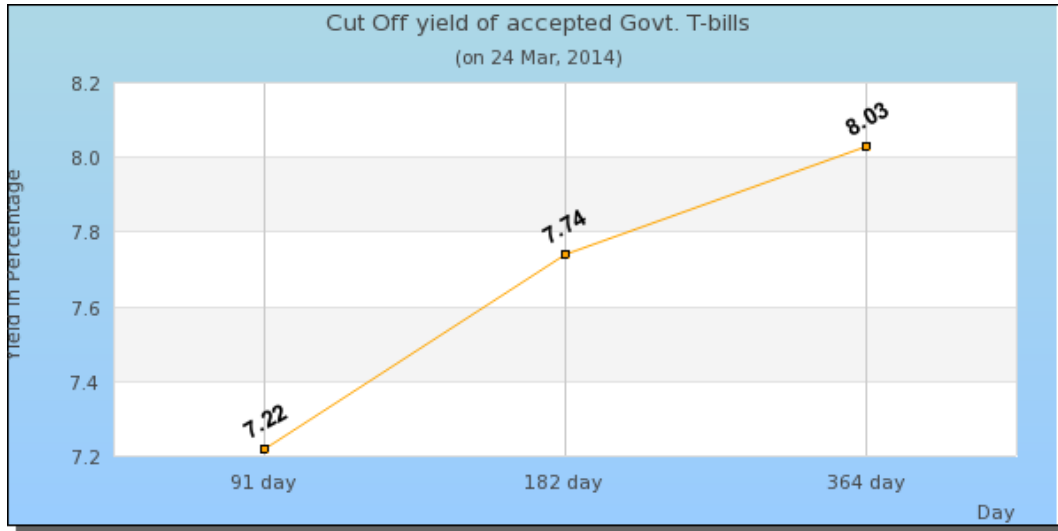
Source: BB, Annual Reports, 2009-2013



### 6.2.3 Sovereign Yield Curve

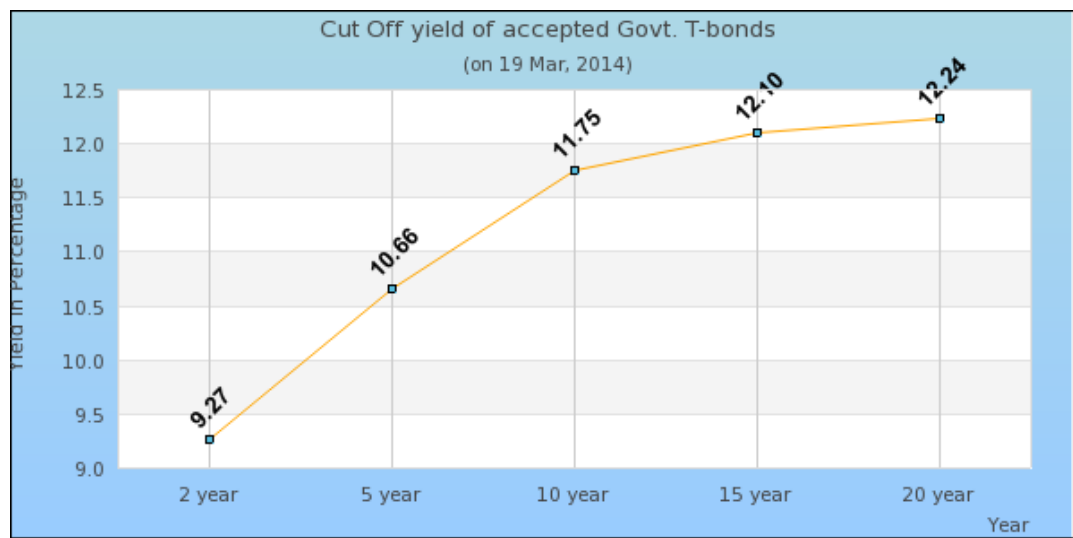
At present there exists no benchmark yield curve. Without benchmarks in place, all other fixed-income instruments, including corporate bonds, have lacked a pricing base.

**Graph-1: Weighted average Yield of Treasury Bills based on auction of 24 March 2014**



Source: [www.bb.org.bd](http://www.bb.org.bd)

**Graph-2: Weighted average Yield of BGTB based on auction of 19 March 2014 Bangladesh**



Source: [www.bb.org.bd](http://www.bb.org.bd)

The government is now issuing, on a regular schedule, benchmark treasury bonds with maturities of 2, 5, 10, 15, and 20 years. Figure 2.2 and 2.3 show the yield curve reflecting prices in primary auctions of treasury bills and treasury bonds.

## **6.2.4 Capital market**

### **6.2.4.1 Treasury bond market**

The treasury bonds issued by the Bangladesh Bank on behalf of the Government are listed in the Dhaka Stock Exchange Ltd.

### **6.2.4.2 Corporate bond market**

The corporate bond market in Bangladesh remains at a nascent stage, with a shallow debenture market. In 1987–2005 only 17 debentures were issued through public offerings. The eight debentures still outstanding in 2014 had an issue value of only \$2 million. The corporate bond market faces important constraints—but also a potential for growth in bank and infrastructure bonds that could spark its development.

#### **Constraints on corporate bond market development**

The market suffers from lack of issuers as well as investors. Much of this has to do with excessive dependence on bank credit: corporate borrowers find it easier to access credit from banks than to comply with the governance standards required for raising funds through the bond market or to meet the disclosure requirements for listings on one of the exchanges. For the debentures that are listed on an exchange, liquidity is insignificant because of the small number of investors and their buy-and-hold mentality—but also because of the inferior quality of the instruments.

Market development has also been constrained by high costs. Given the traditionally high interest rates, borrowing on a long-term basis is prohibitively costly for issuers. And while the high interest rates stifle supply, they also reduce demand for long-term securities as a result of investor uncertainty. The following table shows that the bond issuance cost in Bangladesh is higher as compared to India and Nepal.

**Table-6: Cost of Bond Issuance, Selected South Asian countries (Sophasienphong, Mu, Saporito, 2007)**

(percentage of issue size)

Item	Bangladesh	India	Nepal	Pakistan	Sri Lanka
BSEC registration fee	0.155	0.004	0.225	—	0.211
Publication of prospectus	0.100	----	0.013	1.021	—
Printing of prospectus and applications	0.150	----	0.001	—	0.145
Printing of certificates; post issue expenses; postage	0.500	----	0.003	—	0.728
Listing fee	0.400	0.004	0.075	0.070	0.025
Annual stock exchange fee	—	—	0.025	0.500	—
Issue manager or underwriter	0.150	0.120	0.100	3.800	0.750
Trustee fee	0.050	0.01–0.05	0.025	—	0.100
Credit rating; bankers; legal and audit	0.200	0.05–0.10	0.040	0.750	0.550
Central depository fees	0.242	0.002	—	0.299	—
Broker commission	—	0.01–0.15	0.200	1.000	0.250
Registrar and share transfer fee	—	—	—	—	—
Underwriting fee	—	—	—	—	—
Total cost	1.947	0.233	0.707	7.439	2.744

**Note:** The size of the bond issue is assumed to be Tk. 200 million in the local currency  
Fees for different services may be negotiable.

---- = Negligible. — = Not available.

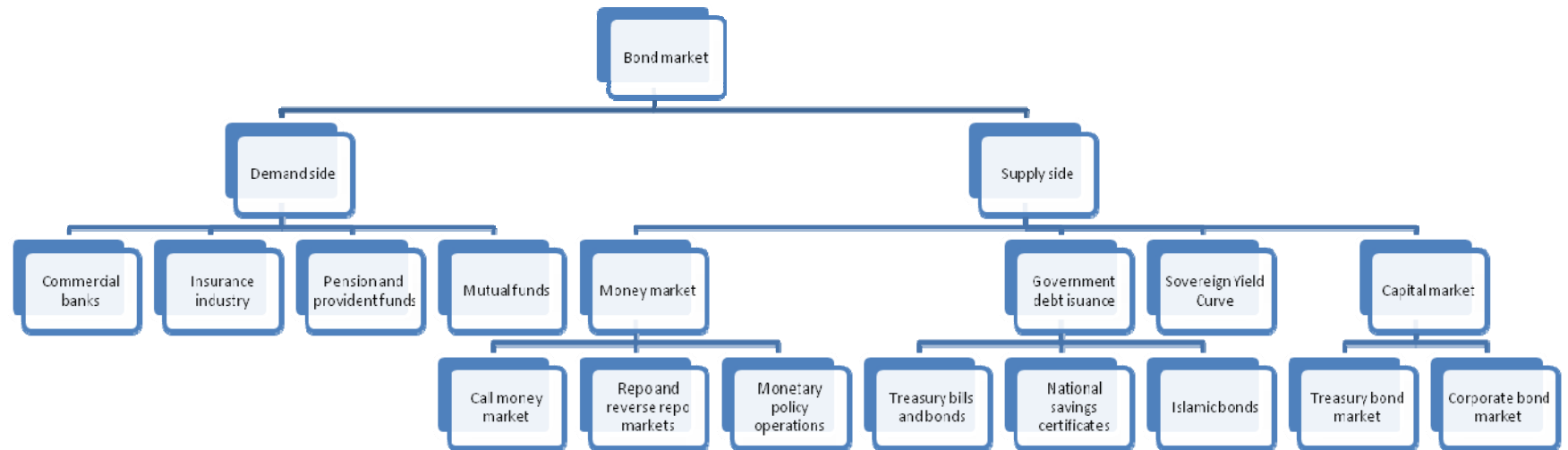
On the investor side a big factor is poor confidence in issuers, the market, and the legal and regulatory framework—a result of a failure by issuers to meet contractual payment terms, a failure by trustees to enforce debenture holders’ rights, and a failure by market regulators to discipline firms listed on the exchanges for not complying with the contractual terms of the debentures issued (out of fear of the potential impact on individual issuers and overall market capitalization).

Some efforts have been made to improve conditions to promote investor confidence and participation, including household (retail) participation. But weaknesses persist, constraining liquidity and demand.

### **6.3 Bringing the demand and supply sides together**

The factors involved in the demand and supply side of Bangladesh bond market has been shown in the following figure:

**Figure-7: Demand and supply sides of Bangladesh bond market**



## 7.0 MAJOR OPPORTUNITIES AND IMPEDIMENTS FOR BOND MARKET DEVELOPMENT IN BANGLADESH

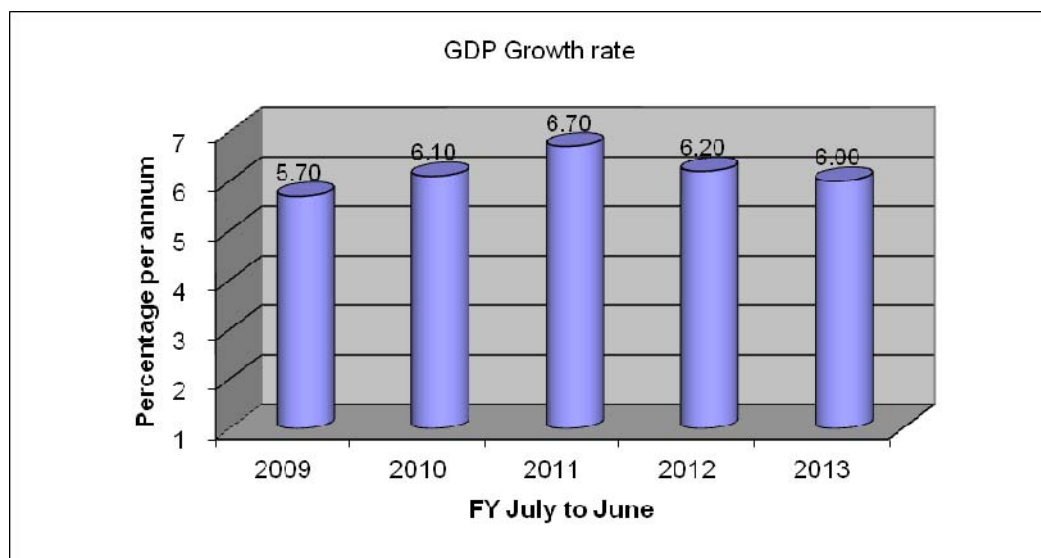
### 7.1 Major opportunities for bond market development in Bangladesh

The financial sector of Bangladesh is characterized by a strong presence of commercial banks, especially state-owned ones. Most of the available savings are held by banks in the form of deposits and channeled for investment through lending. However, there are many factors in our economy to boost an effective bond market; some of the important factors are discussed here.

#### 7.1.1 The economy performs well under stress

The economy of Bangladesh has grown around 6 percent in GDP over the last few years in the face of many challenges like political instability, poor infrastructure, corruption, insufficient power supplies, and slow implementation of economic reforms.

**Graph-3**

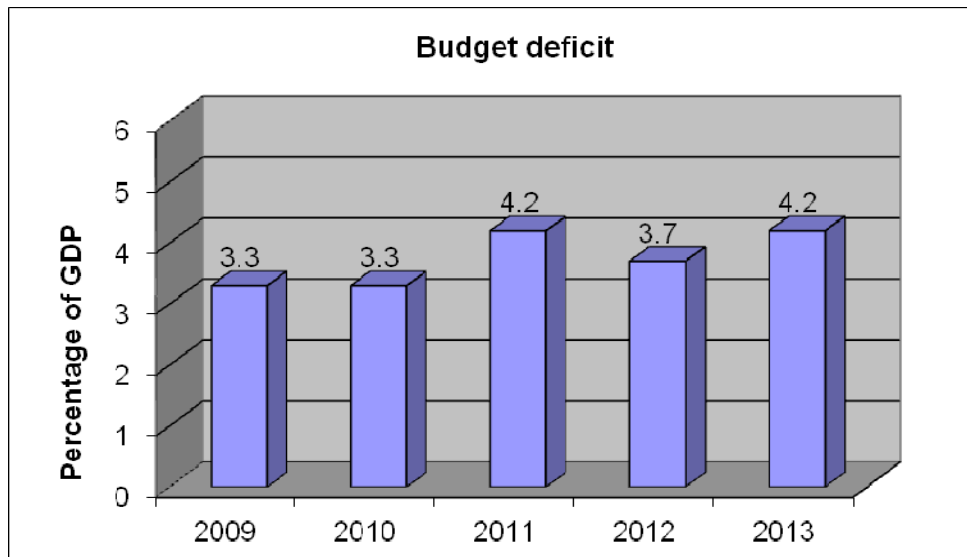


**Source:** BB, Annual Report, 2012-2013

### 7.1.2 Financing budget deficit is a challenging task

As of many developing nations, Bangladesh is faced with a difficult task of managing its public finance. The total expenditures of GoB have consistently surpassed its revenues and resulted in budget deficits. Generally, the need for financing budgetary shortfalls through non-banking sources gives rise to the development of a government securities market as the first step in the development of a comprehensive debt market. Bangladesh has continuously been faced with annual budget deficits of around 3 to 4 percent of GDP in the last few years.

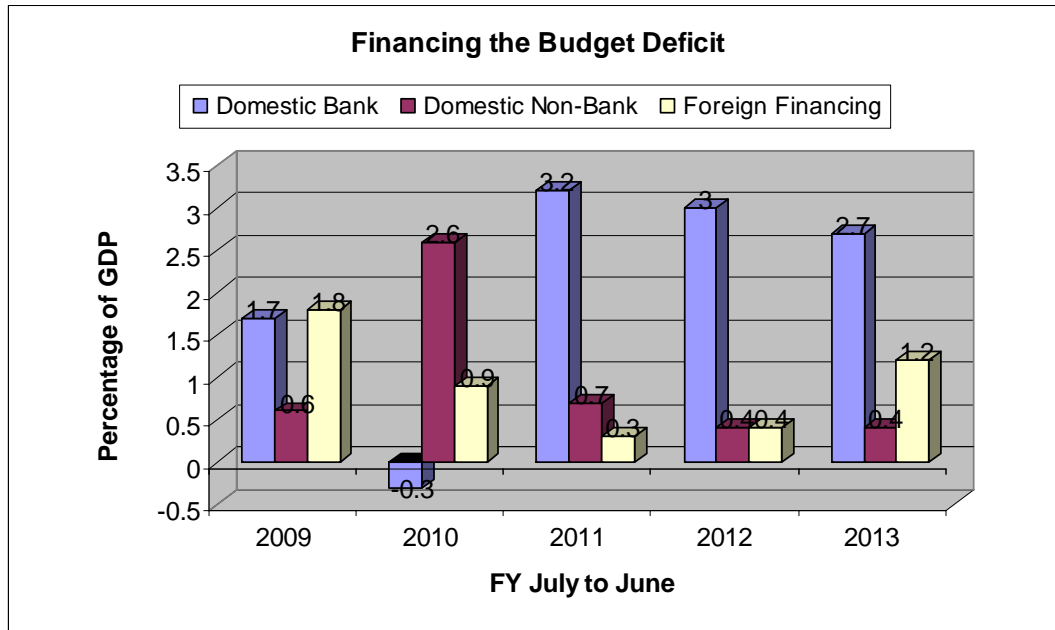
**Graph-4**



**Source:** BB, Annual Report, 2012-2013

GoB has been turning to more domestic borrowing to meet the shortfall. Graph-5 demonstrates this shift in sources where the emphasis on domestic bank borrowing.

**Graph-5**



Source: BB, Annual Report, 2012-2013

### 7.1.3 Monetary policy targets are being achieved

The monetary policy objectives of Bangladesh Bank are to maintain the growth of broad money [M2] at levels consistent with real output growth, moderate and stable inflation along with improving the net foreign asset holdings. With the fiscal policy objective of a lower budget deficit and accommodating greater participation of the private sector in driving economic growth, credit to public sector has become tighter while accommodating greater access to credit for the private sector. Table-7 depicts the monetary program for 2009-2013 as presented by Bangladesh Bank where credit to public and private sectors both have an increasing trend.



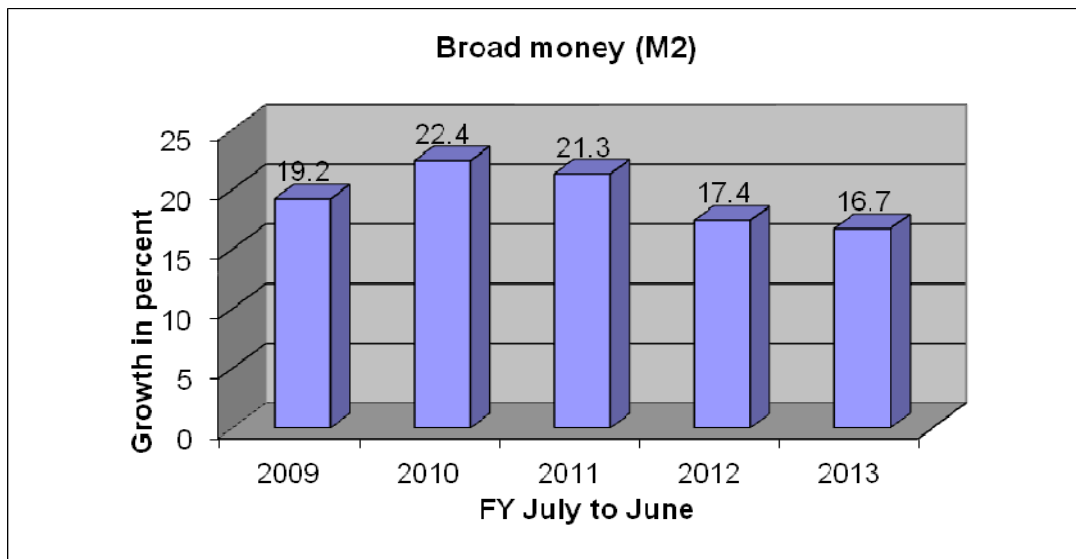
**Table-7: Money and Credit situation**

(Growth in percent)

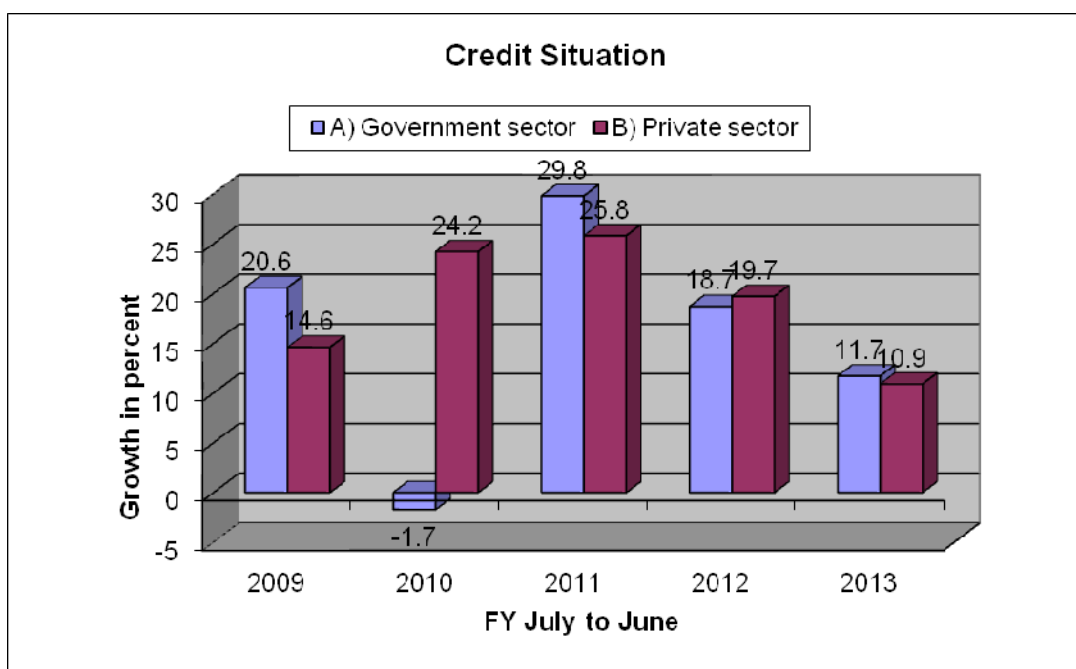
	Year				
	2009	2010	2011	2012	2013
1. Broad money (M2)	19.2	22.4	21.3	17.4	16.7
2. Total domestic credit	16.0	17.9	26.7	19.5	11.0
A) Government sector	20.6	-1.7	29.8	18.7	11.7
B) Private sector	14.6	24.2	25.8	19.7	10.9

Source: BB, Annual Report, 2012-2013

**Graph-6**



**Graph-7**



#### **7.1.4 State controlled Banks ability to fund industrial term loans is declining**

The ability of the state controlled banks to fund long term industrial facilities are becoming difficult when in fact industrialists are looking to the banking system for funds for development related projects. Graph-8 provides an overview of the spread of disbursements of term loans by NCBs for the years 2009-2013. In the background of already inadequate funds by the state control institutions for the development drive, the need for alternative funding mechanisms through a well developed debt market is clearly evident.

#### **7.1.5 Private commercial banks are in the topmost position in disbursement of industrial term loan**

Table 8 and Graph-8 provides an overview of the spread of disbursements of term loans by different banks and Non Bank Financial Institutions [NBFI] for FY 2009-13. Here, it is clear that PCBs hold the topmost position in disbursement of loan. PCBs collect their funds mainly from household savers and business units offering low interest rate (effective rate-maximum 11.50%) in the time deposits, but they offer loan to the industrial sector charging high interest rate (14 -16%). The

industrial sector can collect fund by issuing bonds and it will get wide response from the investors as they will get higher return than bank deposits. The depositors get return from banks after a stipulated period, but in case of tradable bond it is possible to make liquidation at any time through market mechanism.

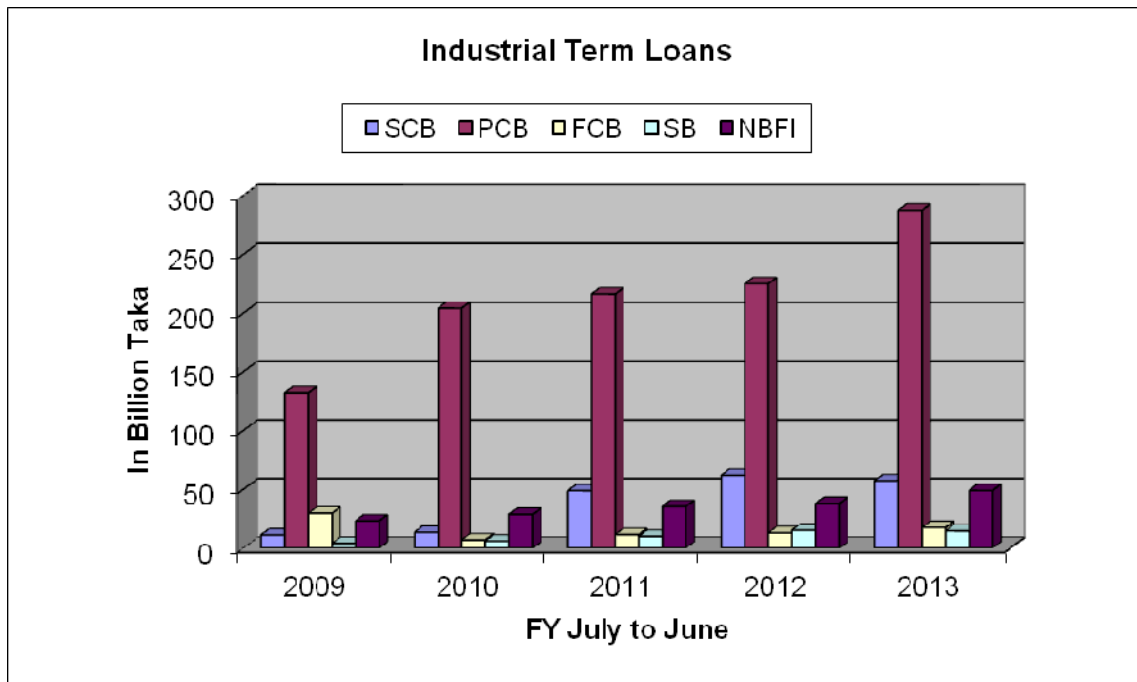
**Table-8: Industrial term loans of banks and financial institutions  
FY 2009-13 (as on June 30)**

In Billion Tk.

Lender	Disbursed				
	2009	2010	2011	2012	2013
SCBs	11.1	13.4	48.7	61.8	57.2
PCBs	132.0	203.9	216.1	224.9	287.2
FCBs	29.6	6.9	11.5	12.9	17.5
Specialized banks (BDBL, BKB, RAKUB, BASIC)	4.0	5.9	9.9	15.2	14.6
Non Bank Financial Institutions	23.1	28.6	35.3	38.0	48.8
<b>Total</b>	<b>199.8</b>	<b>258.7</b>	<b>321.6</b>	<b>352.8</b>	<b>425.3</b>

Source: BB, Annual Reports for 2009-2013

**Graph-8**



**Note:**

- SCB State -owned Commercial Banks
- PCB Private Commercial Bank
- FCB Foreign Commercial Bank
- SB Specialized Bank
- NBFI Non-Bank Financial Institution

**7.1.6 Moderate inflation rate and exchange rate**

Bangladesh has been experiencing a moderate inflation rate among other South Asian countries during the last few years mainly due to higher international prices of oil and other commodities. The moderate inflation rate is in favor of the development of bond market. The value of BTK has however depreciated gradually from BTK 68.8 to 79.9 per USD during the last five years.

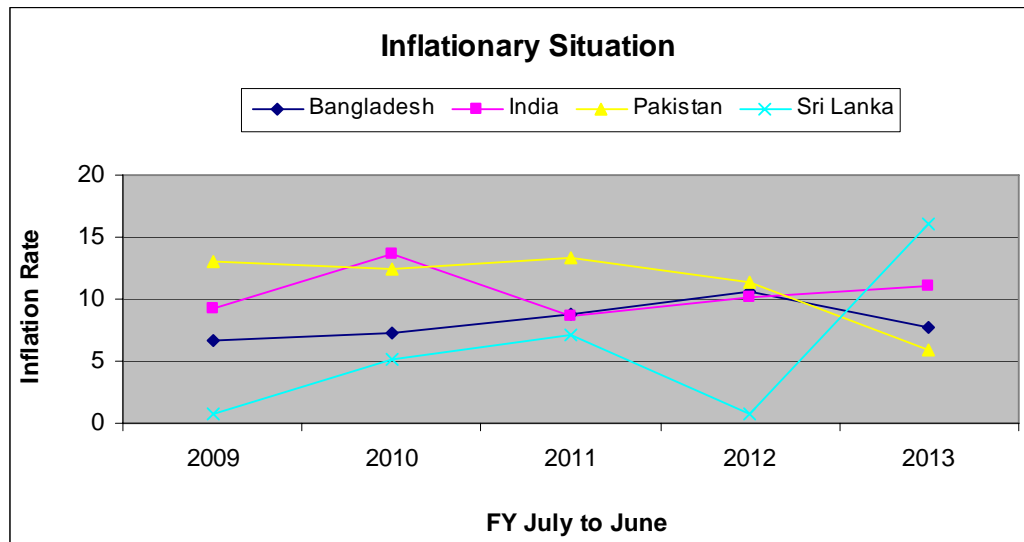
**Table-9: Inflationary situation- FY 2009-2013 (as on June 30)**

(Percentage changes in consumer prices)

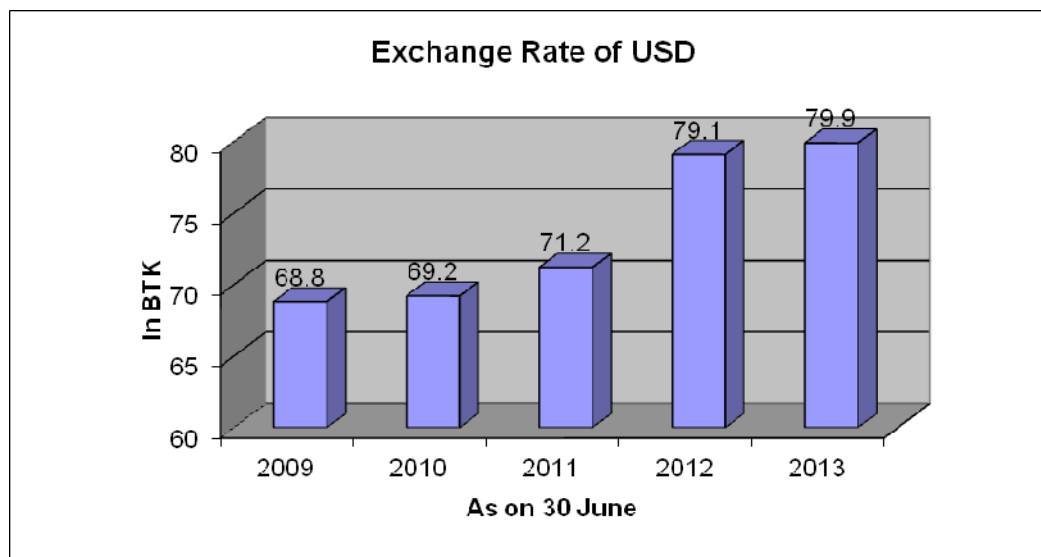
Country	2009	2010	2011	2012	2013
Bangladesh	6.7	7.3	8.8	10.6	7.7
India	9.3	13.7	8.6	10.1	11.1
Pakistan	13.1	12.5	13.3	11.3	5.9
Sri Lanka	0.8	5.1	7.1	0.7	16.0

Source: BB, Annual Report, 2012-2013

**Graph-9**



**Graph-10**



**Source:** BB, Annual Reports for 2012-2013

#### **7.1.7 Insurance companies have severe asset and liability mismatch**

Bangladesh has 62 insurance companies owned both by GoB and the private sector. Of these, 43 are general insurance companies while the remaining 19 are life companies ([www.idra.org.bd](http://www.idra.org.bd)).

These insurance companies [especially life insurance] have long-terms funds [25 years] to invest. However, there are only a few options, particularly the 2, 5, 10, 15, and 20 year T-Bonds without a secondary market and thus without an exit mechanism and hardly anything else to switch to ([www.bb.org.bd](http://www.bb.org.bd)). Investing in these securities mean having to lock into maturity which is not in the best interest of the insurance companies and provident funds. Furthermore, as per section 2(2)(ii) of The Insurance Act 1938, 30 percent of all life funds have to be invested in GoB securities. The other side of the coin is where commercial banks need long term funds, but don't have access to the same and therefore borrow short term to lend long term. Existence of secondary market of bonds can help insurance companies and commercial banks in investment and collection of funds respectively.

### **7.1.8 Capital market plays minor role in investment finance**

In Bangladesh, as compared to other developing countries in the region, the capital market is lagging far behind the banking sector in raising investment funds. Some of the Public Limited Companies raise funds through the capital market. Excessive reliance on the banking system is not conducive to create a stable financial system. In Bangladesh, close to 85 percent of all investment facilities are funded through the banking system (BB 2012-13). This is yet another compelling reason for the establishment of the debt market.

### **7.1.9 Investor confidence in stock markets are improving**

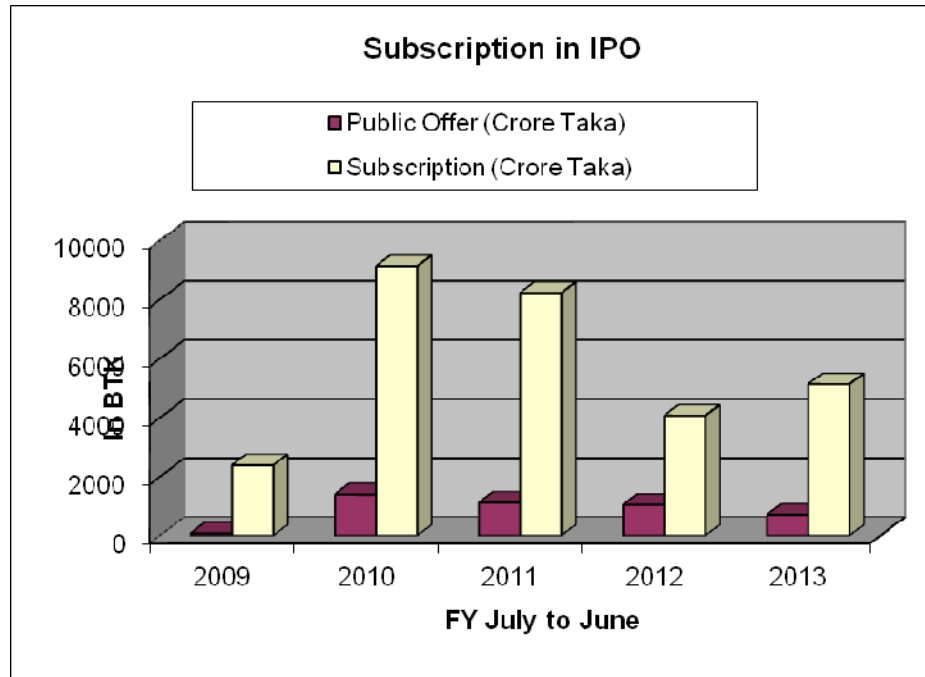
With improved regulation and supervision of public companies by the Bangladesh Securities and Exchange Commission [BSEC], it seems to have infused a greater sense of confidence among investors, particularly on new capital issues. This reflects in the gradual trend of increasing in IPO subscriptions (Table-10) in capital market in year to year.

**Table-10: Subscription in IPO  
FY: 2009-2013 (As on 30 June)**

Years	No. of Issues	Public Offer (Crore Taka)	Subscription (Crore Taka)	Oversubscription Times
2009	7	82.00	2389.29	29.14
2010	10	1,398.92	9,125.96	6.52
2011	6	1,122.40	8,225.32	7.33
2012	11	1,047.38	4,067.58	3.88
2013	13	708.90	5130.19	7.24

**Source:** BSEC, Annual Reports, 2009-13

**Graph-11**



**Source:** BSEC, Annual reports, 2009-13

#### **7.1.10 BB's obligations on the primary dealers**

From August 2012, BB introduced new underwriting obligations for 12 PD banks and mandatory allocation for 25 non PD banks in auction of Government Treasury Bills and Bonds. According to this auction procedure, the 12 PD banks will assume 60 percent and 25 non PD banks will assume 40 percent of the unsubscribed amount of auction in proportion to their total demand and time liabilities (TDTL). Among the notified amount for the 12 PD banks, 50 percent will be distributed according to TDTL and the rest 50 percent will be distributed equally (BB, 2012-13).

#### **7.1.11 "Benefits of bond market for market participants**

A vibrant broad based bond market benefits all market participants to a varying degrees depending on professional expertise, policies and strategies being adopted by them. This has a positive effect on the development of economy on the one hand; and enables market participants to exploit the opportunities available in the market and thereby accomplishing their objectives on the other hand. Following benefits can be harvested by the bond market participants:

#### **7.1.11.1 Benefits for issuers**

Following benefits can be derived by the issuers from issuing bonds in the capital market:

- a) Raising funds without collateral for long term.
- b) Lower cost of debt and thereby lowering cost of capital for the firm.
- c) Lower effective rate of interest for not being able to be compounded.
- d) No change in interest rate with the increase in inflation rate.
- e) Reduces tax burden since interest is shown as a charge.
- f) Protecting firms from the exposition to the market volatility.
- g) Exploiting benefits from uncertainty in bond market through issue of diverse types of bonds/debenture.

#### **7.1.11.2 Benefits of investors**

Investors can harvest following benefits from investment in corporate bonds as compared to other similar securities of money and debt markets:

- a) Pays higher interest rates than savings.
- b) Offers safe return of principal.
- c) Have less volatility than the stock market.
- d) Offers regular income.
- e) Requires smaller initial investment.
- f) Highly liquid.
- g) Interest received is exempted from payment of tax up to certain limit.
- h) Building blocks by entering into derivative contracts-FRAs, Caps, Collar and Floor, Interest rate futures etc.

#### **7.1.11.3 Benefits of intermediaries**

Intermediaries being integral part of the capital market can get benefited from the issue management of bonds in the following ways:

- a) Large spread can be exploited.
- b) High commission/fees.
- c) Phenomenal growth opportunities.
- d) Cut down policy of commercial lending brings opportunity for broadening bond market base.



e) Encouragement of bond market through fiscal effect and lowering interest rate in the money market.

f) Large gap between demand for funds and supply of funds” (Jahur and Quadir 2010, p. 305-306).

### **7.1.12 Prospective sectors for issuing bonds**

Major potential sectors in the economy for issuing bonds are as follows:

#### **7.1.12.1 Infrastructure, railway and international Network**

The country is located in a strategically important juncture of Asia having potentials of becoming the passage for Trans-Asian Road and Railway network. Besides, the location of Chittagong is strategically important for serving South East China, Eastern India, Northern Myanmar and Thailand. Constructions of hotels, motels are important for infrastructure development.

#### **7.1.12.2 Sea port**

The sea ports are the major entry and exit points for local and international business. Chittagong Sea Port and Mongla Sea Port require renovation works for increasing facilities for local and foreign investors. In response of growing international business the construction of Chittagong Mega Sea Port has become an important issue, and the construction of this port is under active consideration of government where private sector led investment is considered to be the basis of implementation.

#### **7.1.12.3 Housing finance**

Although there are a significant number of hurdles to overcome, this sector has suitable size, potential to deliver economic benefits and risk management mechanisms to the banking sector.

#### **7.1.12.4 Financial institutions**

This sector has assets like secured loan, micro credit, credit cards receivables, hire-purchase receivables, non performing loans (NPL), SME lending, In case of leasing company-lease rentals of auto, equipment and machineries and for insurance company- insurance premium receivable.

#### **7.1.12.5 Pharmaceuticals**

Due to WTO provisions Bangladesh is probably the only country having established capacity to expand market through export of pharmaceutical products. The existing companies also need huge investment for expanding their plants to meet growing demand.

#### **7.1.12.6 Agro-based investment**

To meet demand of fast growing textile sector, raw cotton import is also growing fast. There are opportunities for developing high quality cotton belts on commercial basis in the northern region, ample growth potential exists. Fruits and flower processing for export purpose possesses huge potentials. Fisheries-especially sea food processing, poultry farming, dairy farming for domestic and export market is also growing pretty fast.

#### **7.1.12.7 City Corporation**

It has assets tax receivables, amusement park etc.

## **7.2 Analysis of major impediments for bond market development in Bangladesh**

In Chapter 5 and 6 many impediments to bond market development have been found while analyzing the bond market infrastructure, and supply and demand factors of bond market in Bangladesh. Moreover, some officials of the BB, BSEC, DSE, IDLC and Beximco working on the bonds have been discussed on the bond market in Bangladesh. They have some opinions regarding the constraints of bond market development in Bangladesh. On the basis of their opinions and analysis in the aforesaid chapters, the major impediments have been summarized below in three broad categories- impediments for government bond market, impediments for corporate bond market, and common impediments for government and corporate bond market:

### **7.2.1 Impediments for government bond market development**

#### **7.2.1.1 Large size of market lot**

At present market lot of government bond is Tk. 100,000 or multiple of Tk. 100,000. The existing market lot may be the right size for institutional investors but for

individuals that is quite large in size. At present market lot of most of the securities that are traded on the stock exchange is Tk. 5000 this enables even the small investors to easily transact.

#### **7.2.1.2 Government bonds are not issued at market interest rates**

At present Govt. bonds are issued at rates that are substantially lower than the rate of interest of similar maturities offered by commercial banks or DNS. Unless bonds are issued at rates that do not have bearing with market interest rate, both institutional and retail investors would hardly invest in Govt. bonds beyond the regulatory compulsions.

#### **7.2.1.3 Long time maturity of bonds**

At present the maturity period of Bond are 2, 5, 10, 15, 20 years. Long time maturity discourages the investors to invest in bonds.

#### **7.2.1.4 Lack of strength of primary dealers**

There are 15 government bond primary dealers. They often suffer from liquidity crisis and cannot invest in the market.

#### **7.2.1.5 Secondary market transactions of Government bonds outside the stock exchange**

At present, the government bonds are traded on Over-the-Counter (OTC) basis. Anybody may buy or sell it from or to the bank and financial institutions who maintains current account with Bangladesh Bank. So for transaction of government bonds there are no requirements of going to the stock exchange. Although it is common practice in other jurisdictions, for the sake of popularization, prohibition of secondary transactions of government bonds outside the stock exchange could be considered.

### **7.2.2 Impediments for corporate bond market development**

#### **7.2.2.1 Unaccountable trustees**

Generally it is the responsibility of the Trustees of debenture to ensure the rights of the investors when issuing companies fail to honor obligations. But the system failed

in some cases and in this regard the regulations could not take the Trustees to task for not taking effective action against noncompliant issuers.

#### **7.2.2.2 Default culture erode confidence**

An overwhelming number of publicly traded debentures issued by corporate houses (like Beximco and Doel groups) through IPOs failed to service the interest coupon and principal payment obligations in time. There are instances where the regulators, trustees failed to play effective roles. Because of these irregularities, there persists a general lack of confidence among investors in listed debentures.

#### **7.2.2.3 Lack of corporate governance practices**

In Bangladesh most of the entrepreneurs are 1<sup>st</sup> generation businessmen. Businesses are mostly run by the family members; management and ownership are not dispersed. Moreover, concept of corporate governance is new to them. The centralism of management among the same family members may create serious difficulty, especially in absence of the key decision maker in the family.

#### **7.2.2.4 Dearth of expertise in credit rating**

At present eight credit rating companies have been operating in Bangladesh. Debt issues, issue of IPO shares and rights shares are required to be rated by a rating company. However, there is dearth of expertise in the existing companies. Moreover, at BSEC there is lacking as to how these CRCs' compliance should be ensured, without quality rating bond market cannot be developed.

### **7.2.3 Common impediments for government and corporate bond market development**

#### **7.2.3.1 Market participants and investors are not aware of the intricacy and benefits of fixed income securities trading.**

At present the players in both money and capital market are not adequately conversant with the trading and pricing aspects of the debt securities. To develop a vibrant debt market it is important that both the investors and market players are adequately acquainted with the intricacies of the trading and pricing mechanism of debt securities. To broad-base the ownership of debt securities, it is of paramount

importance to widen the awareness of the products and their features. To that end the BB, BSEC and stock exchanges can organize training programs.

#### **7.2.3.2 High cost of trading in secondary markets**

It is found that the cost of trading of securities in the stock exchanges range from 0.3% to 0.7% depending on the volume and the broker. This is very high compared to other markets in the region.

#### **7.2.3.3 There is no benchmark yield curve**

At present there exists no benchmark yield curve. In order to develop short term secondary market, development of short term yield curve would certainly help to develop medium term corporate and government debt market. In addition to that it would create a benchmark for floating rate notes and derivative securities.

#### **7.2.3.4 No separate trading platform for fixed income securities**

Although Govt. bonds have now been listed with the stock exchanges, yet there is no separate trading platform. Moreover, the broker, dealer and stock exchange personnel do not have expertise in trading these bonds.

## **8.0 CONCLUSION AND RECOMMENDATIONS**

### **8.1 CONCLUSION**

Bond Market is an integral part of the financial market of a country. It provides a medium for distribution of loanable funds among institutions, which perform this function by selling these securities. It can contribute a lot to a developing country like Bangladesh. Though the bond market of Bangladesh is very prospective, it is beset with numerous problems. If concrete remedial measures are taken, then this could pave the path for a well-functioning bond market.

After the collapse of the capital market in Bangladesh in 1996-97 and 2010-11, the development of domestic bond markets is increasingly seen as one of the key requirements to strengthen the financial sector of the country and to reduce the vulnerabilities to future financial crises. The development of bond markets will help to channel the country's high savings into effective use, especially in the development of the economy by deficit financing both in the public and private sectors. It can change the existing bank-oriented financial system to a multilayered system, where capital markets can complement bank financing.

### **8.2 RECOMMENDATIONS FOR BOND MARKET DEVELOPMENT IN BANGLADESH**

In Chapter 5, 6 and 7 many impediments to bond market development have been analyzed. On the basis of the problems identified in these chapters and discussion with the bond market official, the following recommendations have been suggested in three broad categories- measures for government bond market, measures for corporate bond market, and common measures for government and corporate bond market:

#### **8.2.1 Measures for government bond market development**

- (1) For uniformity and ease of transaction of small investors the market lot of bonds could be lowered to Tk. 5000 or at most Tk. 10,000.
- (2) Government bonds interest rates should be consistent with bank's interest rates.

(3) Bond maturities should be diversified between one year and seven years as to give investors with different maturity profiles-the option of purchasing debentures with different maturities.

In order to make long-term investment more attractive, issuers may find it useful to increase the coupon rate as years go by, e.g. 12% in the first year, 13% in the second year, 14% in the third year and so on. Such increasing coupon rate methods will be useful, especially if the investor is given the right to call for redemption of the bonds at the end of each year so that he may choose to hold them to enjoy a higher coupon rate.

(4) The secondary market in government bonds and securities should be activated and operationalised. The absence of such market is causing liquidity problem for the existing PDs, causing liquidity problem due to deployment of their funds in such instrument. Other effective measures should be taken to strengthen the primary dealers.

(5) Secondary transactions of government bonds should be restricted on stock exchanges only for a vibrant bond market.

### **8.2.2 Measures for corporate bond market development**

(1) Necessary policy should be formulated to make trustees accountable in case of default of the issuers.

(2) The regulators should undertake effective mechanism to realize the dues in case of default of the issuers. If requires, the existing law should be amended to ensure rapid disposal of any default case which will boost investors' confidence on the market.

(3) Corporate governance practices are necessary for smooth functioning of a company. Significant training should be provided to the issuers, particularly, who serve in the board. Accordingly, they should be imparted training on best corporate governance practices and corporate social responsibility.

(4) Expertise of the credit rating companies and regulators has to be developed.

### **8.2.3 Some common measures for government and corporate bond market development**

(1) The BB, BSEC, and stock exchanges should develop and strengthen market intermediaries like dealers, investment analysts, investment/ merchant bankers' etc. Necessary measures should be taken to facilitate education process of market participants, including the investors and issuers, for the awareness about bond market.

(2) The total cost structure for issuance, listing and trading of debt securities is higher in Bangladesh as compared to the neighboring countries India and Nepal (Chapter-6, Table-6). This cost needs to be lowered.

(3) In order to develop secondary market, development of benchmark yield curve is necessary.

(4) Separate trading platform in the stock exchanges for fixed income securities should be undertaken.

(5) Developing a system of issuance of Sovereign or Diaspora bonds to attract non-resident Bangladeshis to invest in bonds is necessary.



***Questionnaire***  
***On***  
**“Opportunities and Impediments of Bond Market  
Development in Bangladesh”**

*The purpose of this survey is to understand the prospects of the Bangladesh bond market and identify the possible obstacles to its development and suggestions for overcoming those obstacles. Please feel free to opine on this questionnaire if you have a useful insight into the subject matter.*

***The Respondent***

***Date:***

1. Name:
2. Designation:
3. Organization:
4. Year of experiences on the subject matter:

- Q.1. Why will the people like to invest in bonds?
- Q.2. Do you think bond market development is important for emerging market economies like Bangladesh?
- Q.3. What are the opportunities of bond market in Bangladesh?
- Q.4. What are the key impediments to the bond market development in Bangladesh?
- Q.5. What are your suggestions for bond market development in Bangladesh?

Thank you for your valuable time and learned opinion

**Listed treasury bonds in DSE**

<b>Serial No.</b>	<b>Securities</b>	<b>Issuance Date</b>
1	5 Years BGT Bonds	21.07.2010
2	5 Years BGT Bonds	18.08.2010
3	10 Years 8.5% BGT Bond	10.01.2007
4	10 Years BGT Bond	02.01.2008
5	10 Years BGT Bond	07.01.2009
6	10 years BGT Bond	05.01.2011
7	10 Years 8.5% BGT Bond	09.02.2004
8	10 Years 8.5% BGT Bond	07.02.2005
9	10 Years 8.5% BGT Bond	13.02.2006
10	10 Years 8.5% BGT Bond	07.02.2007
11	10 Years BGT Bond	06.02.2008
12	10 Years BGT Bond	04.02.2009
13	10 years BGT Bond	03.02.2010
14	10 years BGT Bond	02.02.2011
15	10 Years 8.5% BGT Bond	07.03.2007
16	10 Years BGT Bond	05.03.2008
17	10 Years BGT Bond	04.03.2009
18	10 years BGT Bond	03.03.2010
19	10 years BGT Bond	02.03.2011
20	10 Years 8.5% BGT Bond	05.04.2004
21	10 Years 8.5% BGT Bond	04.04.2005
22	10 Years 8.5% BGT Bond	10.04.2006
23	10 Years BGT Bond	02.04.2008

24	10 Years BGT Bond	08.04.2009
25	10 years BGT Bond	07.04.2010
26	10 years BGT Bond	06.04.2011
27	10 Years BGT Bond	09.05.2007
28	10 Years BGT Bond	07.05.2008
29	10 Years BGT Bond	06.05.2009
30	10 years BGT Bond	05.05.2010
31	10 years BGT Bond	04.05.2011
32	10 Years 8.5% BGT Bond	07.06.2004
33	10 Years 8.5% BGT Bond	06.06.2005
34	10 Years 8.5% BGT Bond	12.06.2006
35	10 Years BGT Bond	06.06.2007
36	10 Years BGT Bond	04.06.2008
37	10 Years BGT Bond	03.06.2009
38	10 Years BGT Bond	02.06.2010
39	10 years BGT Bond	08.06.2011
40	10 Years BGT Bond	04.07.2007
41	10 Year BGT Bond	02.07.2008
42	10 Years BGT Bond	08.07.2009
43	10 Years BGT Bond	07.07.2010
44	10 Years BGT Bond	13.07.2011
45	10 Years 8.5% BGT Bond	02.08.2004
46	10 Years 8.5% BGT Bond	07.08.2006
47	10 Years BGT Bond	08.08.2007
48	10 years BGT Bond	06.08.2008
49	10 years BGT Bond	05.08.2009

50	10 years BGT Bond	04.08.2010
51	10 years BGT Bond	10.08.2011
52	10 Years 8.5% BGT Bond	06.09.2006
53	10 Years BGT Bond	05.09.2007
54	10 Years BGT Bond	03.09.2008
55	10 Years BGT Bond	02.09.2009
56	10 Years BGT Bond	08.09.2010
57	10 Years BGT Bond	14.09.2011
58	10 Years 8.5% BGT Bond	04.10.2004
59	10 Years 8.5% BGT Bond	04.10.2006
60	10 Years BGT Bond Issued	03.10.2007
61	10 Years BGT Bond Issued	08.10.2008
62	10 Years BGT Bond Issued	07.10.2009
63	10 Years 8.5% BGT Bond	08.11.2006
64	10 Years BGT Bond	08.11.2007
65	10 Years BGT Bond	05.11.2008
66	10 Years BGT Bond	03.11.2010
67	10 Years 8.5% BGT Bond	29.12.2003
68	10 Years 8.5% BGT Bond	06.12.2004
69	10 Years 8.5% BGT Bond	12.12.2005
70	10 Years 8.5% BGT Bond	06.12.2006
71	10 Years BGT Bond	05.12.2007
72	10 Years BGT Bond	03.12.2008
73	10 Years BGT Bond	02.12.2009
74	10 Years BGT Bond	08.12.2010
75	15 Years BGT Bond	09.01.2008

76	15 Years BGT Bond	14.01.2009
77	15 Years BGT Bond	13.01.2010
78	15 Years BGT Bond	13.02.2008
79	15 Years BGT Bond	11.02.2009
80	15 years BGT Bond	10.02.2010
81	15 years BGT Bond	09.02.2011
82	15 years BGT Bond	12.03.2008
83	15 years BGT Bond	11.03.2009
84	15 years BGT Bond	10.03.2010
85	15 years BGT Bond	09.03.2011
86	15 years BGT Bond	09.04.2008
87	15 years BGT Bond	15.04.2009
88	15 years BGT Bond	15.04.2010
89	15 years BGT Bond	13.04.2011
90	15 Years BGT Bond	14.05.2008
91	15 Years BGT Bond	13.05.2009
92	15 Years BGT Bond	12.05.2010
93	15 Years BGT Bond	11.05.2011
94	15 Years BGT Bond	11.06.2008
95	15 Years BGT Bond	10.06.2009
96	15 Years BGT Bond	09.06.2010
97	15 Years BGT Bond	15.06.2011
98	15 Years BGT Bond	11.07.2007
99	15 Years BGT Bond	09.07.2008
100	15 Years BGT Bond	15.07.2009
101	15 Years BGT Bond	14.07.2010

102	15 Years BGT Bond	15.08.2007
103	15 Years BGT Bond	13.08.2008
104	15 Years BGT Bond	12.08.2009
105	15 Years BGT Bond	11.08.2010
106	15 Years BGT Bond	17.08.2011
107	15 Years BGT Bond	12.09.2007
108	15 Years BGT Bond	10.09.2008
109	15 Years BGT Bond	09.09.2009
110	15 years BGT Bond	15.09.2010
111	15 years BGT Bond	21.09.2011
112	15 years BGT Bond	11.10.2007
113	15 years BGT Bond	15.10.2008
114	15 years BGT Bond	14.10.2009
115	15 years BGT Bond	13.10.2010
116	15 years BGT Bond	14.11.2007
117	15 years BGT Bond	12.11.2008
118	15 years BGT Bond	10.11.2010
119	15 years BGT Bond	12.12.2007
120	15 Years BGT Bond	11.12.2008
121	15 Years BGT Bond	09.12.2009
122	15 Years BGT Bond	15.12.2010
123	20 Years BGT Bond	23.01.2008
124	20 Years BGT Bond	28.01.2009
125	20 Years BGT Bond	26.01.2011
126	20 Years BGT Bond	27.02.2008
127	20 Years BGT Bond	25.02.2009

128	20 Years BGT Bond	24.02.2010
129	20 Years BGT Bond	23.02.2011
130	20 Years BGT Bond	27.03.2008
131	20 Years BGT Bond	25.03.2009
132	20 Years BGT Bond	24.03.2010
133	20 Years BGT Bond	23.04.2008
134	20 Years BGT Bond	29.04.2009
135	20 Years BGT Bond	28.04.2010
136	20 Years BGT Bond	27.04.2011
137	20 Years BGT Bond	28.05.2008
138	20 Years BGT Bond	26.05.2010
139	20 Years BGT Bond	25.05.2011
140	20 Years BGT Bond	25.06.2008
141	20 Years BGT Bond	24.06.2009
142	20 Years BGT Bond	23.06.2010
143	20 Years BGT Bond	29.06.2011
144	20 Years BGT Bond	25.07.2007
145	20 Years BGT Bond	23.07.2008
146	20 Years BGT Bond	29.07.2009
147	20 Years BGT Bond	29.07.2010
148	20 Years BGT Bond	27.07.2011
149	20 Years BGT Bond	29.08.2007
150	20 Years BGT Bond	27.08.2008
151	20 Years BGT Bond	26.08.2009
152	20 Years BGT Bond	25.08.2010
153	20 Years BGT Bond	24.08.2011

154	20 Years BGT Bond	26.09.2007
155	20 Years BGT Bond	24.09.2008
156	20 Years BGT Bond	29.09.2010
157	20 Years BGT Bond	28.09.2011
158	20 Years BGT Bond	24.10.2007
159	20 Years BGT Bond	29.10.2008
160	20 Years BGT Bond	28.10.2009
161	20 Years BGT Bond	27.10.2010
162	20 Years BGT Bond	28.11.2007
163	20 Years BGT Bond	26.11.2008
164	20 Years BGT Bond	24.11.2010
165	20 Years BGT Bond	26.12.2008
166	20 Years BGT Bond	24.12.2008
167	20 Years BGT Bond	23.12.2009
168	20 Years BGT Bond	29.12.2010
169	5 Years 7.5% BGT Bond	24.01.2007
170	5 years BGT Bond	16.01.2008
171	5 years BGT Bond	21.01.2009
172	5 years BGT Bond	20.01.2010
173	5 years BGT Bond	19.01.2011
174	5 Years 7.5% BGT Bond	22.02.2007
175	5 Years BGT Bond	20.02.2008
176	5 Years BGT Bond	18.02.2009
177	5 Years BGT Bond	17.02.2010
178	5 Years BGT Bond	17.02.2011
179	5 Years BGT Bond	19.03.2008



180	5 Years BGT Bond	18.03.2009
181	5 Years BGT Bond	18.03.2010
182	5 Years BGT Bond	16.03.2011
183	5 Years 7.5% BGT Bond	18.04.2007
184	5 Years BGT Bond	22.04.2009
185	5 Years BGT Bond	21.04.2010
186	5 Years BGT Bond	20.04.2011
187	5 Years BGT Bond	20.05.2009
188	5 Years BGT Bond	18.05.2011
189	5 Years BGT Bond	18.06.2008
190	5 Years BGT Bond	16.06.2010
191	5 Years BGT Bond	22.06.11
192	5 Years BGT Bond	18.07.2007
193	5 Years BGT Bond	16.07.2008
194	5 Years BGT Bond	22.07.2009
195	5 Years BGT Bond	06.07.2011
196	5 Year 7.5% BGT Bond	07.08.2006
197	5 years BGT Bond	22.08.2007
198	5 years BGT Bond	20.08.2008
199	5 years BGT Bond	19.08.2009
200	5 years BGT Bond	03.08.11
201	5 Years 7.5% BGT Bond	20.09.2006
202	5 Years BGT Bond	19.09.2007
203	5 Years BGT Bond	17.09.2008
204	5 Years BGT Bond	16.09.2009
205	5 Years BGT Bond	22.09.2010

206	5 Years BGT Bond	07.09.2011
207	5 Years 7.5% BGT Bond	18.10.2006
208	5 Years BGT Bond	17.10.2007
209	5 Years BGT Bond	22.10.2008
210	5 Years BGT Bond	21.10.2009
211	5 Years BGT Bond	20.10.2010
212	5 Years 7.5% BGT Bond	22.11.2006
213	5 Years BGT Bond	21.11.2007
214	5 Years BGT Bond	19.11.2008
215	5 Years BGT Bond	18.11.2009
216	5 Years BGT Bond	21.11.2010
217	5 Years 7.5% BGT Bond	20.12.2006
218	5 Years BGT Bond	19.12.2007
219	5 Years BGT Bond	17.12.2008
220	5 Years BGT Bond	17.12.2009
221	5 Years BGT Bond	22.12.2010

**Source: DSE website**

**Issue of corporate debt securities in Bangladesh**

Sl. No.	Securities	Year of issue	Features	Size (BDT million)
1	X 17% Beximco Pharma Debenture	1988	20% Convertible	40
2	X 17% Beximco limited Debenture	1989		60
3	X 17% Beximco Infusion Debenture	1992		45
4	X 17% Bangladesh Chemical Debenture	1993	20% Convertible	20
5	X 17% Beximco Synthetic Debenture	1993		375
6	17% Beximco Knitting Debenture	1994	20% Convertible	240
7	17% Beximco Fisheries Debenture	1994		120
8	X 15% Eastern Housing Debenture	1994	10% Convertible	800
9	14% Beximco Textile Debenture	1995		250
10	14% BD Zipper Debenture	1995	20% Convertible	40
11	14% Beximco Denims Debenture	1995		300
12	14% BD Luggage Debenture	1996	20% Convertible	150
13	14% Aramit Cement Debenture	1998	20% Convertible	110
14	15% BD Welding Electrodes Debenture	1999		20
15	IBBL Mudaraba Perpetual Bond	2007	Profit Sharing	3,000
16	ACI Zero Coupon Bond	2010	20% Convertible	1,070
17	Sub Bonds Of BRAC Bank Ltd	2011	25% Convertible	3,000

**Note:** × marked debentures are not available at present, Source: DSE

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