



Assalamu alikum & Welcome

Current status & overview of the debt market in Bangladesh

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Introduction

- Bangladesh does not have a debt market
- without a money or debt securities market, the capital market in Bangladesh remains incomplete
- however, awareness is increasingly growing
- remedial steps are being contemplated by interested quarters and stakeholders



Structure of the Financial Market of Bangladesh

- 72.19%, of domestic savings is stacked in the form of term deposits with the commercial banks.
- nationalized Commercial Banks (NCBs) dominates the banking sector accounting for 54.55% of public deposits.
- fixed income securities including non-transferable instruments constitute 27.81% of domestic debt.
- corporate debentures are only less than 1% of the debt securities market.
- 20% of annual budget financed from internal debt in 199-2000



Heavily Burdened Banking Sector

- classified loans in the banking system stood at Tk 242.75 billion in June 2000
- classified loans as percentage of out-standing loan portfolio has improved to 39.70% from 41.11%
- banking sector fell short of the required provisioning by Tk 50.57 billion



Widening Fiscal Deficit

- persistent revenue shortfall is forcing the government to borrow resulting in increased debt-servicing liability
- 15% of the total budget is used in debt servicing costing Tk 56.29 billion in 1999-2000
- expenditure control appears to be almost impossible
- enhancing revenue earnings remain as the only option, including reforms in tax collection system and widening the VAT net



Lack of Diversified Financial Product Basket

- in Fixed Income Securities market, government issues constitute 99% share through treasury bills, bonds and savings schemes, leaving only 1% for corporate debentures
- out of all the FISs, only treasury bills and corporate debentures are transferable though transfers of treasury bills are not in practice.



High Risk-Free Interest Rates

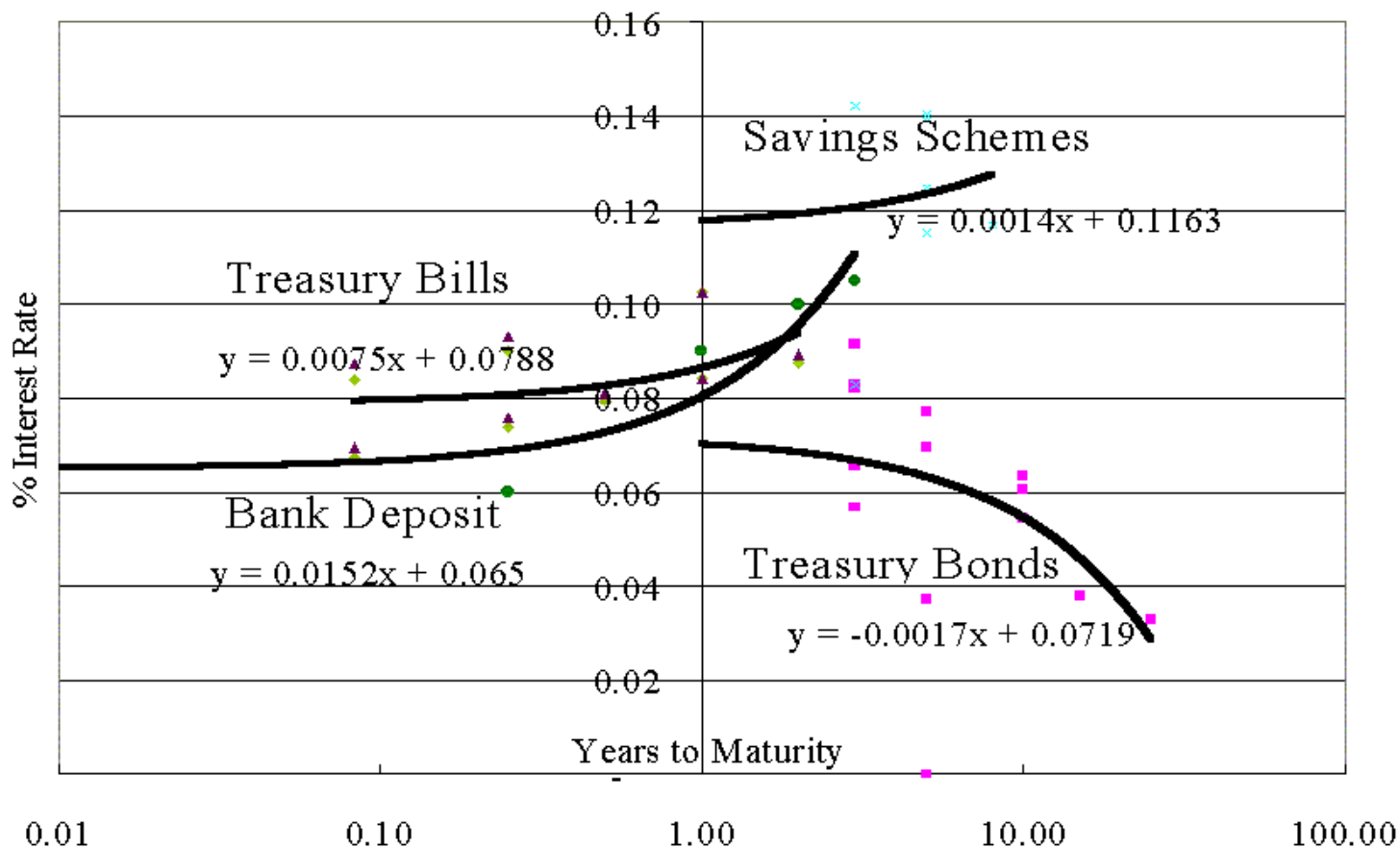
- Sovereign instruments carry high interests
 - higher commercial-bank borrowing rate
 - higher coupon in corporate debt issue
 - attractive sweeteners
 - rational structure and tenure



Effective Yield

Treasury Bills	8.63%
Treasury Bonds	7.02%
Savings Schemes	11.49%
Private Securities (debentures, effective)	16.58%
Deposit (Weighted Average)	7.26%
Lending (Weighted Average)	13.98%

YIELD CURVES OF GOVERNMENT SECURITIES & BANK DEPOSIT





Lack of Institutions and Initiatives

- no product variation in the market
- fixed deposits and government savings schemes are traditional vehicles of investment
- only one private sector mutual fund exists
- 14 corporate debentures are listed with poor liquidity



Lack of Institutions and Initiatives contd...

- no money market mutual fund exits
- new Mutual Fund Rules of SEC bars money market Mutual Funds
- commercial paper and other money market instruments are non-existent



Poor Confidence on the Private Sector

- corporate debentures are in gross default
- no clear cut function and responsibilities of debenture trustees
- SEC has recently stepped into the matter as arbitrator



Government Borrowing through T-Bills Multiplying

- investment in treasury bills has grown 15.44x during 1995-2000.
- deposits registered a high growth while investment scope did not increase or diversify
- idle money with the banks found t-bills as best resort
- not open to general public



Treasury Bonds

- issued to meet issue-specific financial need of the government
- maturities range from 3 to 25 years
- not open to general public




Savings Certificates Attracting Huge Funds

- major source of fund for the government
- open-ended in nature
- gained enormous popularity among the middle income bracket due to its high interest rate
- pension and provident funds are main institutional investors in the savings schemes

1999-2000, Tk million

Treasury Bonds	Year to Maturity	Simple Interest Rate	Yield to Maturity	Year of Issue	Maturity	Balance Tkn
5% Income Tax Bond	-	-	-			247
15-year Special Treasury Bond	15	5%	3.80%	1990	2005	17,291
5% 15-year Treasury Bond 2008	15	5%	3.80%	1993	2008	5,000
5% 15-year Treasury Bond 2011	15	5%	3.80%	1994	2011	1,450
3-year (T&T) Treasury Bond 1999	3	6%	5.67%	1996	1999	-
3-year (T&T) Treasury Bond 1999	3	8.90%	8.21%	1996	1999	-
3-year (T&T) Treasury Bond 1999	3	10%	9.14%	1996	1999	-
25-year (Jite Sector) Treasury Bond 2018	25	5%	3.30%	1993	2018	4,314
25-year (Jite Sector) Treasury Bond 2019	25	5%	3.30%	1994	2019	2,992
25-year (Jite Sector) Treasury Bond 2020	25	5%	3.30%	1995	2020	555
7% 10-year (Jite Sector) Treasury Bond 2006	10	7%	5.45%	1996	2006	1,704
7% 10-year (Jite Sector) Treasury Bond 2005 & 2006	10	7%	5.45%	1996	2006	520
8.5% 10-year (BRS) Treasury Bond 2000	10	8.50%	6.35%	1997	2000	-
4% & 5% (Biman) Treasury Bond 2000	5	4%	3.71%	1995	2000	-
5-year (Biman) Treasury Bond 2002	5	8%	6.96%	1997	2002	150
5-year (Biman) Treasury Bond 2002	5	9%	7.71%	1997	2002	350
8% 5-year (Biman) Treasury Bond 2003	5	8%	6.96%	1998	2003	200
9% 5-year (Biman) Treasury Bond 2003	5	9%	7.71%	1998	2003	800
7% 3-year Autonomous Bodies' (Textile) Bank Loan Bond 2001	3	7%	6.56%	1998	2001	257
8% 10-year Bangladesh Shipping Corp. Loan Bond 2008	10	8%	6.05%	1998	2008	1,033
7% 10-year (Jite Sector) Treasury Bond 2005	10	7%	5.45%	1995	2005	19
9% 3-year (T&T) Treasury Bond 2002	3	9%	8.29%	1999	2002	1,480
7% 5-year Treasury Bond 2004	5	7%	0.00%	2000	2004	1,653
Total Treasury Bond (A)						40,015



1999-2000, Tk million

Treasury Bills	Simple Interest Rate	Yield to Maturity	Balance
28 Days Treasury Bill	6.75%	6.96%	28,850
91 Days Treasury Bill	7.38%	7.59%	120
182 Days Treasury Bill	7.94%	8.10%	10,060
364 Days Treasury Bill	8.43%	8.43%	19,770
2 Year Treasury Bill	8.75%	8.94%	17,649
Total Treasury Bills (B)			76,449

1999-2000, Tk million

<i>Savings Certificates</i>	<i>Simple Interest Rate</i>	<i>Effective Interest Rate</i>	<i>Year of Issue</i>	<i>Raised during the year</i>	<i>Repaid During the year</i>	<i>Balance</i>
<i>6-year Bonus Savings Certificate</i>	22.00%		closed	-	6	63
<i>3-year Savings Certificate</i>	15.00%		closed	-	9	1,103
<i>8-year Defense Savings Certificate</i>	17.75%	11.68%	1976	18,417	5,357	68,157
<i>5-year Bangladesh Savings Certificate</i>	14.50%	11.52%	1977	3,281	6,132	17,771
<i>6-month Interval Profit based Savings Certificate</i>	13.50%	13.96%	1997	1,954	524	12,660
<i>3-month Interval Profit based Savings Certificate</i>	13.50%	14.20%	1998	15,054	1,303	25,851
<i>5-year Family Savings Certificate</i>	13.20%	14.03%	1997	3,479	644	9,581
<i>Wage Earners' Development Bond</i>	16.00%	12.47%	1981	2,057	1,023	9,203
<i>3-year National Investment Bond</i>	9.00%	8.29%	1992	2,092	391	4,862
<i>Bangladesh Prize Bond</i>				441	364	1,704
<i>Post Office Savings Bank</i>				9,614	8,327	18,795
<i>Jamanat Savings Certificate</i>				6	-	6
Total Savings Certificates (C)				56,395	24,081	169,755
Total of All Outstanding (A+ B+ C)						286,219



Debentures, the only form of private FIS

- traded with exchanges with poor liquidity
- the first issue came in 1988 by Beximco Pharmaceuticals
- only public debt-raising instrument for corporate houses
- interest rate ranges from 14 to 17% nominal
- no dedicated rule for issuing corporate debt
- trustees are not functioning up to the mark in absence of adequate legal framework

<i>Debenture</i>	<i>Floated in</i>	<i>Coupon %</i>	<i>FV</i>	<i>Current FV</i>	<i>Mode</i>	<i>Maturity</i>	<i>Amount Raised (Tk)</i>	<i>Current Amount (Tk)</i>
<i>Beximco Pharma</i>							24,000,000	
<i>BCIL</i>	1993						20,000,000	
<i>Eastern Housing</i>	1994				10% Conv.		900,000,000	Matured
<i>Beximco Textile</i>	1995	14	2,500	1,605	100%	10	240,000,000	136,896,000
<i>Beximco Knitting</i>	1994	14	3,000	1,196	20% Conv.	10	300,000,000	102,400,000
<i>Beximco Fisheries</i>	1994	14	3,000	1,500	100%	10	120,000,000	51,427,200
<i>Beximco Synthetics</i>	1993	14	2,500	889	100%	9	375,000,000	133,350,000
<i>Beximco Infusions</i>	1992	17	1,500	100	100%	8	43,654,000	2,910,400
<i>Bangladesh Zipper</i>	1995	14	2,500	600	20% Conv.	6	40,000,000	6,400,000
<i>Beximco Denim</i>	1995	14	2,500	1,605	100%	10	300,000,000	175,440,000
<i>Bd. Luggage</i>	1996	14	2,500	1,750	20% Conv.	9	150,000,000	75,000,000
<i>Aramit Cement</i>	1998	14	2,500	2,000	20% Conv.	9	1,125,000,000	90,000,000
<i>Bd. Welding</i>	1999	15	2,500	2,500	20% Conv.	5	20,000,000	20,000,000
<i>BEXIMCO Ltd</i>	1989	17	2,500	-	100%	8	100,000,000	Matured
				<i>Total</i>			<i>3757654000</i>	



Impediments in Developing an Active Debt Market

- high-yielding government instruments hindering private sector bond issue
- non-transferability of the most of the existing debt instruments is another big impediment
- lack of awareness and confidence on new debt products in the market, as well as with the Regulators
- lack of expertise and innovativeness and absence of institutions in bringing variations in debt products
- a comprehensive legal framework and a policy guideline for liberalizing the debt sector are yet to be formulated



Impediments as per Earlier Studies

- weak governance institutions
- overlapping role of the SEC and Bangladesh Bank
- out-crowding effect from bad loan situation and fiscal deficit of the government
- dominance of NCBs
- insignificant non-banking sector
- absence of arbitration institutions
- absence of unsecured bonds



Impediments as per Earlier Studies

contd...

- want of trained and experienced professionals
- no Credit Rating agency
- few research and information institutions
- no secondary trading of government debt instruments
- inferior and unscientific interest rate structure
- no interest from intermediaries
- no SEC guidelines on FIS



Road Map to Bond Market Development

- rationalization of the Interest Rate Structure whereby the Government borrows at the lowest possible rate
- establish benchmarking and long-term Yield Curve.
- provide a Legal Framework of user friendly Rules & Regulations
- develop a system of issuance of future Sovereign Papers as Tradable and Transferable Securities.
- fund future infrastructure projects through issuance of Government and Private Bonds.



Road Map to Bond Market Development

contd...

- lower Registration and Issue cost
- create independent Credit Rating Agencies.
- develop and strengthen market intermediaries like dealers, investment analysts, investment/ merchant bankers' etc.
- facilitate education process of market participants
- unbundle pension and insurance funds and establish Money Market Mutual Funds.
- allow Investment Grade Corporate Bonds and Debentures to form part of SLR of Banks.



Road Map to Bond Market Development

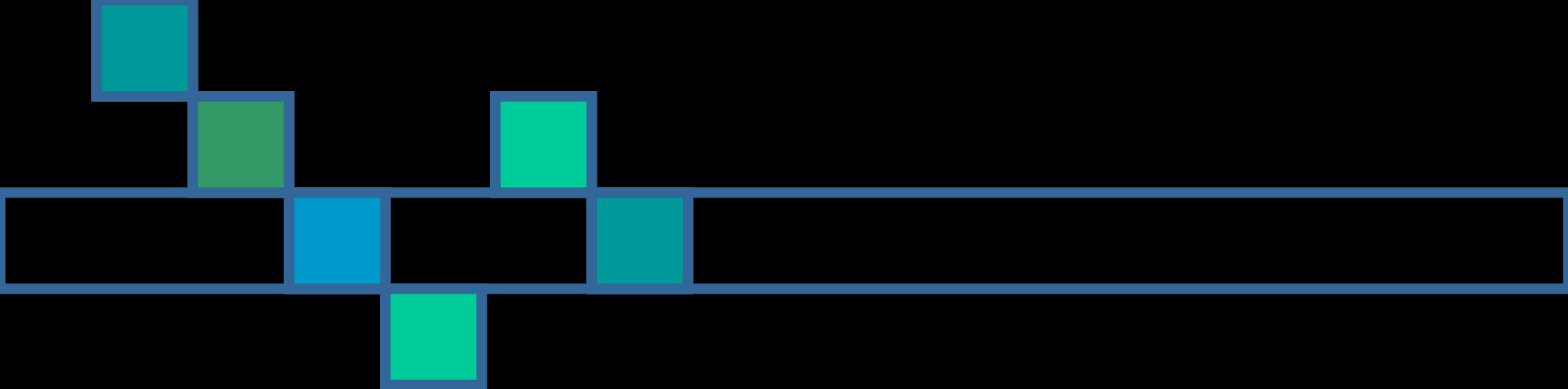
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- facilitate Securitization and issuance of Asset Backed Securities and Collateralized Loan Obligations with the backing of multilateral agencies and development of Money Market instruments.
- establish Central Depository and Electronic Settlement and Registration System.
- upgrade Accounting and Disclosure Standards as well as Foreclosure Laws.



Proposed Debt Issues & Agenda for NBFIs

- CBSF has been established at Bangladesh Bank
- AIMS of Bangladesh is structuring the securitized debt issue of BRAC micro-credit receivables
- few leasing companies are contemplating asset securitization
- Agrani Bank Industrial Bonds has been well received by investors
- SEC is reportedly formulating regulations
- multi-lateral agencies like WB, IFC and ADB are assisting in this regard
- the awareness level has improved considerably



**Thank you
for your time**

